

**ICT Focus on setting the scene:
The Australian Economy:
2008/9 to 2020**

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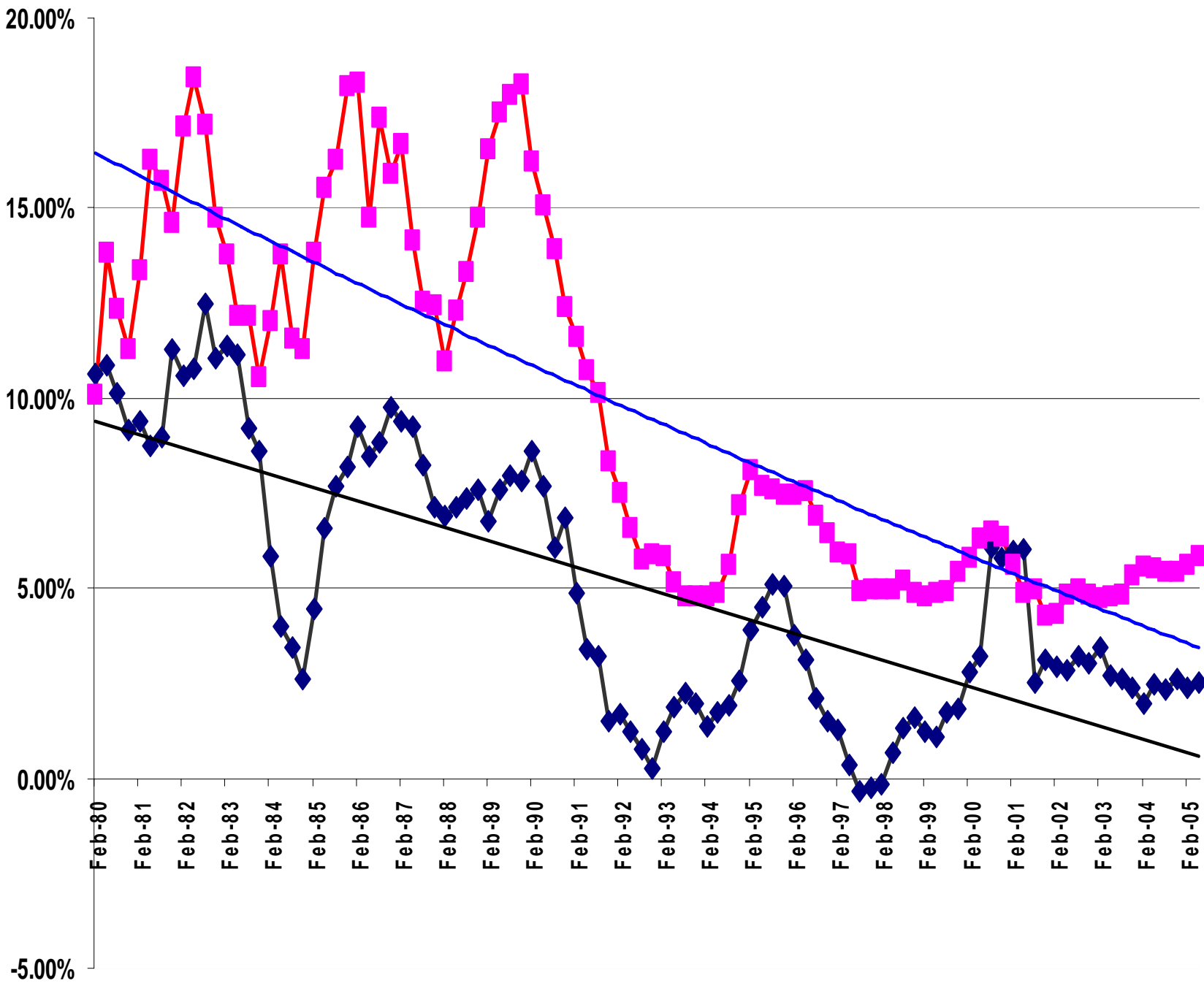
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The World Scene as at June 2008

- USA sub prime and recession prospects deepen day by day, depressing business confidence; elections looming
- China and India still surging: some other too; but inflation uplifted in both to high levels
- Oil price surging – past \$120us a barrel
- Coal prices even more
- World tension points remain
- World economic growth remains above 4%

Australian Economic Backdrop

- Economic Growth holding at 3.5-4%
- CPI inflation testing at 4%+
- Recent interest rate rises destined to slow
- Housing prices slowing – Perth especially
- Biggest inter-generational wealth transfer
- Manufacturing share of GDP dips under 10%
- Drought not over yet
- Environmental pressures strengthening



Biggest Business Economic Questions

- How/Will US subprime/downturn infect us?
- Will the rate rises work? What next?
- How did the May 13 Budget cope/turn out?
- Will the growth generators (Chindia) sustain?
- Are we ready for the likely socio-demographic progression to 2010? Will it matter?

Some Future Snapshots

	2008	2020
Population	21.32m	26.44m
%aged 65+	14.2%	16.1%
% Gen X	4.5%	4.6%
% Gen Y	4.1%	4.6%
Manufg% GDP	11%	8.5%

MedHsePrice:	01-March-2008	30-June-2009	30-June-2020
Australia	\$443k	\$455k	\$1061k
Sydney	\$538k	\$560k	\$1380k
Perth	\$455k	\$460k	\$1040k
Melbourne	\$431k	\$460k	\$1310k
Canberra	\$425k	\$450k	\$1020k
Brisbane	\$383k	\$410k	\$920k
Adelaide	\$320k	\$360k	\$780k
Hobart	\$317k	\$330k	\$740k

Snapshots of Economic Growth

EcoGrowth	Aust	World	China
Av to 2020	3.5%	5%	8%
Latest	4.30%	5.50%	11.60%
Naughties	2.70%	5.10%	9.90%
Nineties	3.40%	4.90%	8.80%

More on subprimes..

- Proportion of SP loans foreclosed 9 months after issuance: 2002: 6.1%, 2003:3.0%; 2004:2.9%, 2005: 4.1%; 2006: 9.5%; 2007 (nn est) 12%
- Main default basis: undocumented loan collateral.
- Knock-on effects: institutions (HSBC, JPMC, ML), individual investors; wealth and confidence effects. Implications beyond US – Australia? Confined but not zero.

Long-term scene

- Oz Pop rise to 26m in 2020, 28m 2051: Increasing % alone/unmarried/childless/renting/unaligned to an industry
- Productivity growth not rising over 2%pa .. unless
- China driving world growth – and ours!
- PITS will still dominate taxes, because ..

Some other questions not asked often enough in scene setting

- How do you/your business LOOK AHEAD?
- How do you judge forecasts? Yours and others?
- If your planning processes were properly audited, how could you validate them?
- Is your performance evaluation rigorously comparable, over time and with others?

Forecasting Tips

- 1. Focus and collect – ABS great: not everything
- 2. Do MLOs (most likely outcomes); GIVE REASONS/METHODS
- 3. Do deviations – now you're risk managing: Consider formalising/ Modelling
- 4. Evaluate: are your forecasts/looking-ahead processes performing for you?

Strategic Deviations

- China booms or busts. Probabilities. Effects; US/subprime concerns magnify in intensity and coverage
- Ruddnomics goes beserk : Risk – size of majority. Restraints: one-termers, Senate.
- Wages/IR scene blows out. Risk – shortages, ALP in power, boom conditions, resentment.
- Drought/weather-climate conditions worsen

Famous Forecasting Flops

- 1. Napoleon and Hitler – same place
- 2. Lucky (Senator Al) Langdon
- 3. Vernon BOP crisis 1965-75
- 4. Flamboyant Freddie (Laker)
- 5. Joh and Johnnie
- 6. Aussie FX 2000/01 – again from 2007

Budget Review 2008

- Why a budget look - when so many have already forgotten it?
- Great example of looking ahead
- Gives latest official economic outlook
- Reveals techniques

- And tricks!

First Budget 1996 and 2008

	Costello 1996	Swan 2008
Total Tax	\$ 125 bn.	\$299.2bn
% to GDP	24.3%	24.3%
Total Outlays	\$ 135.8 bn.	\$292.5bn.
% to GDP	26.4%	23.8%

Economic Forecasts

- Bullish; no American Recession
- China (10-12%) and India (7-9%) continue to go gangbusters
- World slows from 5% growth to 4% growth, similar to Australia's growth Resource prices Rocket – coal especially
- CAD still around 6% GDP
- Wage index at 4.25% questionable

Middle-Income earner

<u>Yr Ended:</u>	<u>Income</u>	<u>Tax</u>	<u>ATR</u>
2008	\$100k	\$28.6k	28.60%
2009	\$110k	\$31.2k	28.40%
2010	\$121k	\$35.15k	29.10%
2011	\$133.1k	\$39.2k	29.50%

Economic Impact of the Budget

- 2% surplus is mildly contractionary; would be more without distributional shifts
- Price push from insurance, car, housing
- Public service will be trimmed
- Solar converters?
- Some defection from private health

Performance Evaluation: Using economics

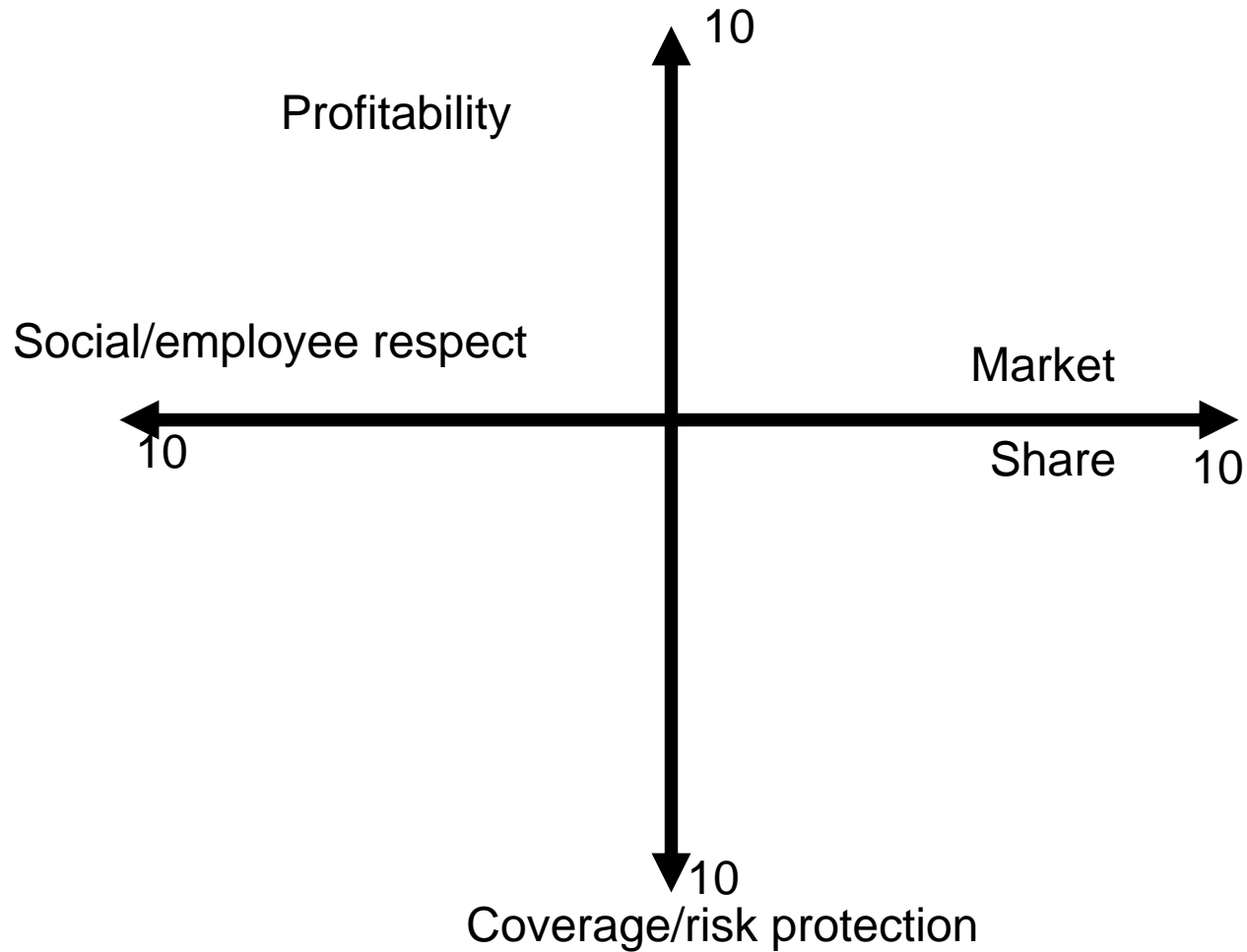
Forecasting Errors

- Predict a series, P_t ; Confront it with actual after-the-event data A_t ; Define the errors: $E_t = (P_t - A_t)$
- Problems: (1) Perfect forecasting and big errors that average out both have $Av.E_t = 0$
- Solution: square E_t , form RMSPE, Theil, VCE's
- (2) Can't wait that long; (3) Good forecasts lead to corrective actions that make them wrong

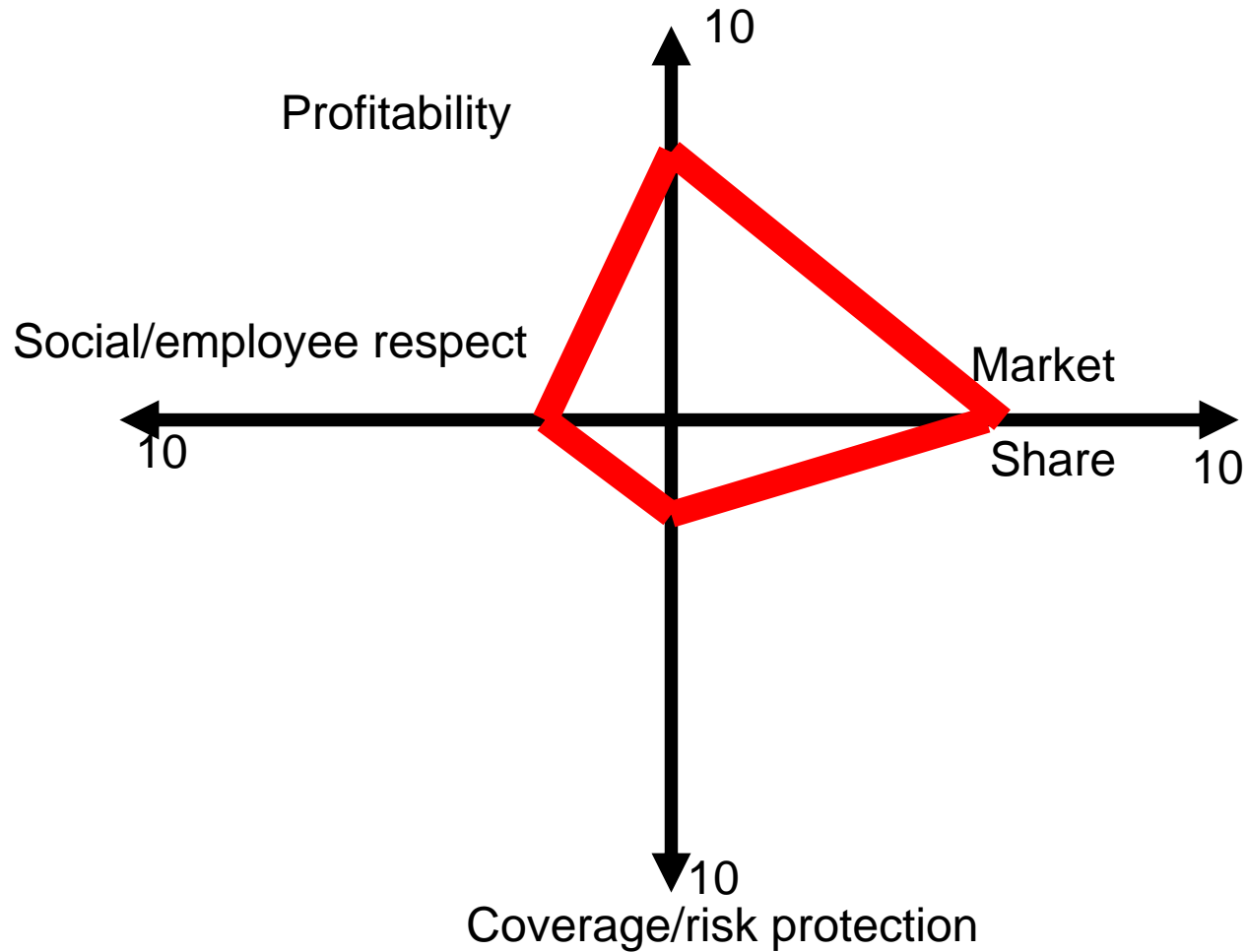
Measuring “Performance”

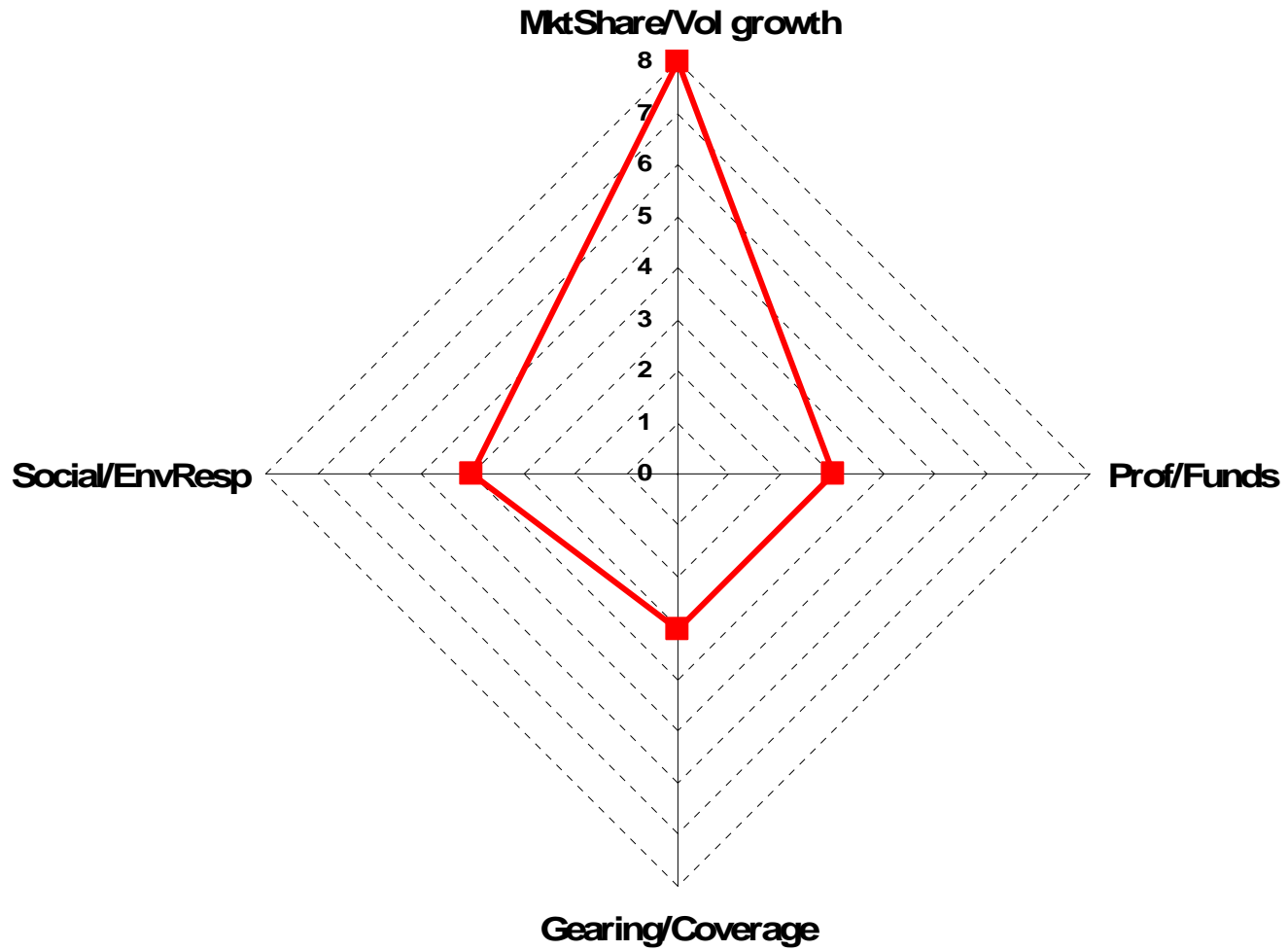
- Define what the goals/attributes/criteria are, and try to measure them
- Combine multiple goals, especially if you can measure them conformably – eg./10
- Present the results in a clear and meaningful way, relevant to further actions
- Discuss and change actions/behaviour

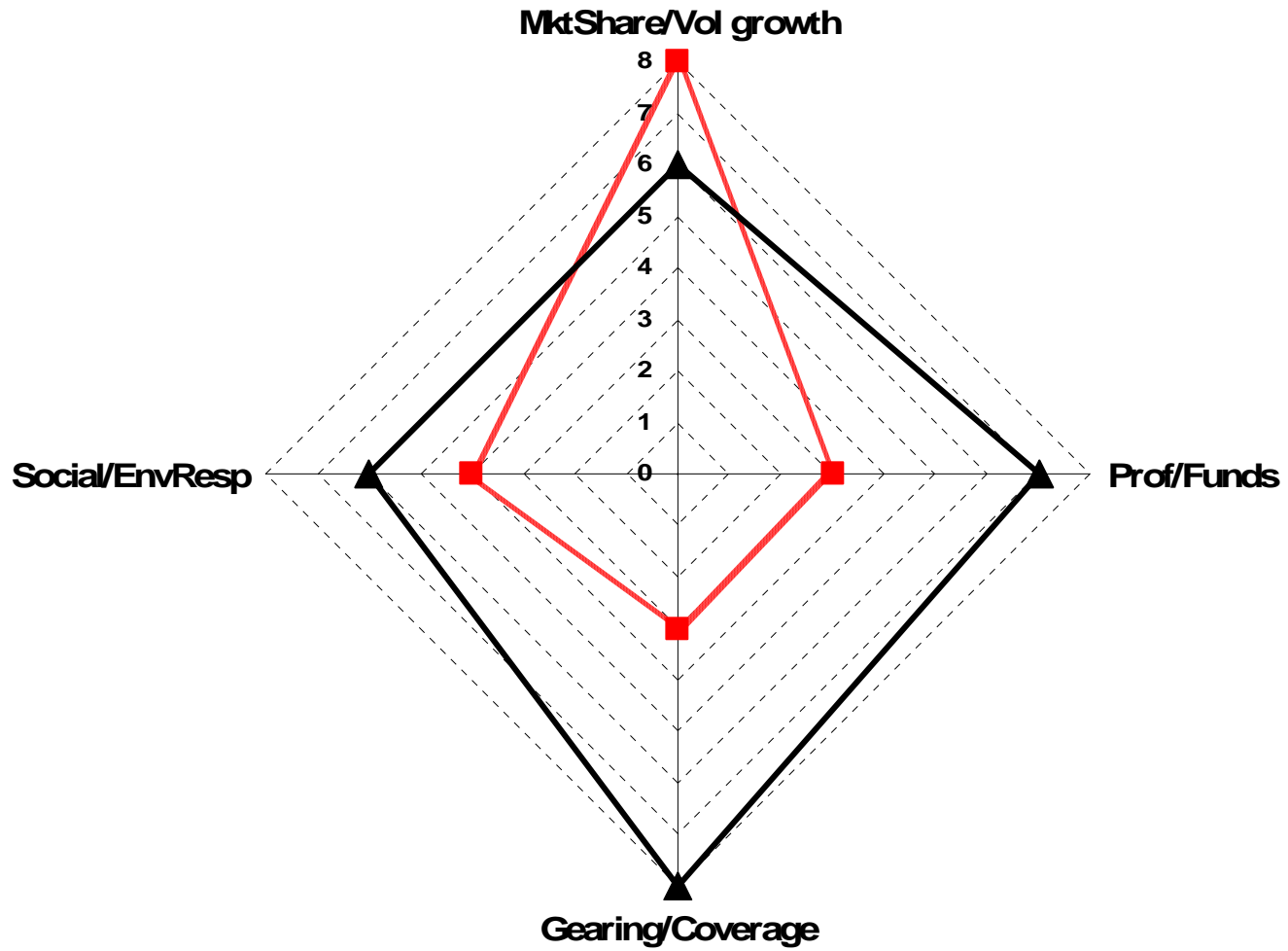
Performance Radars



Performance Radars





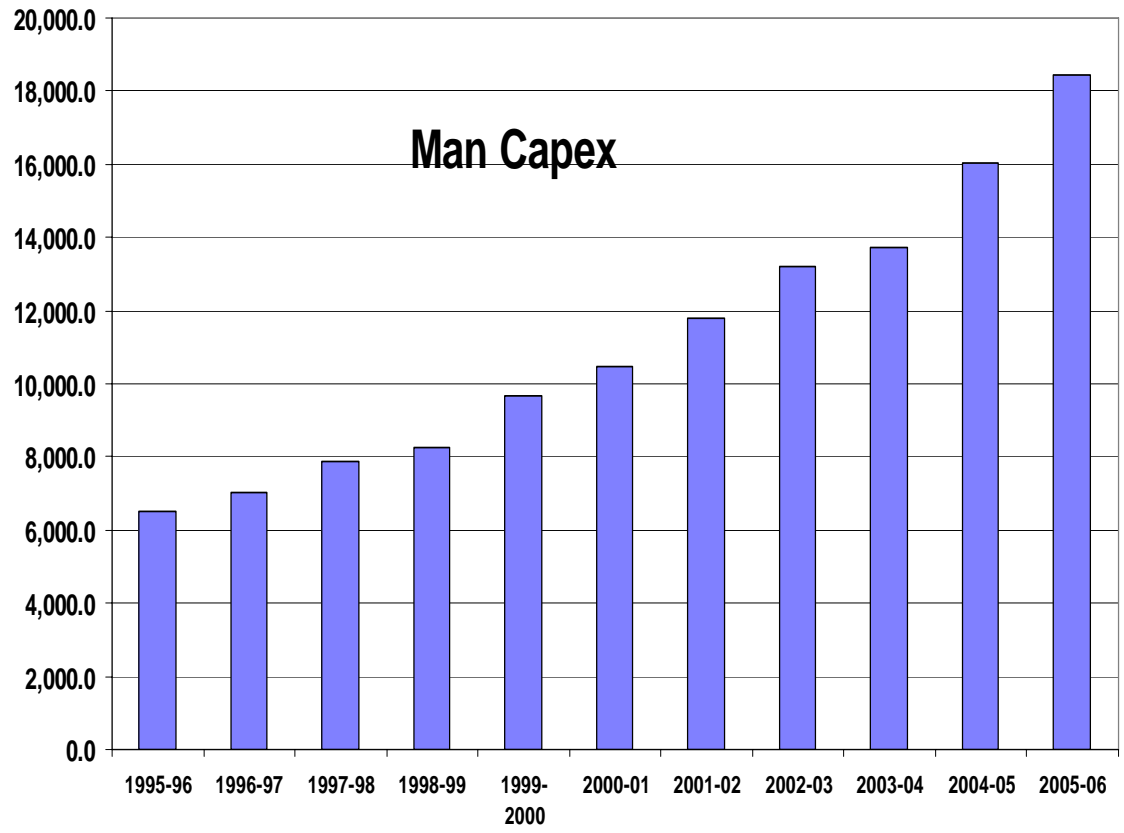


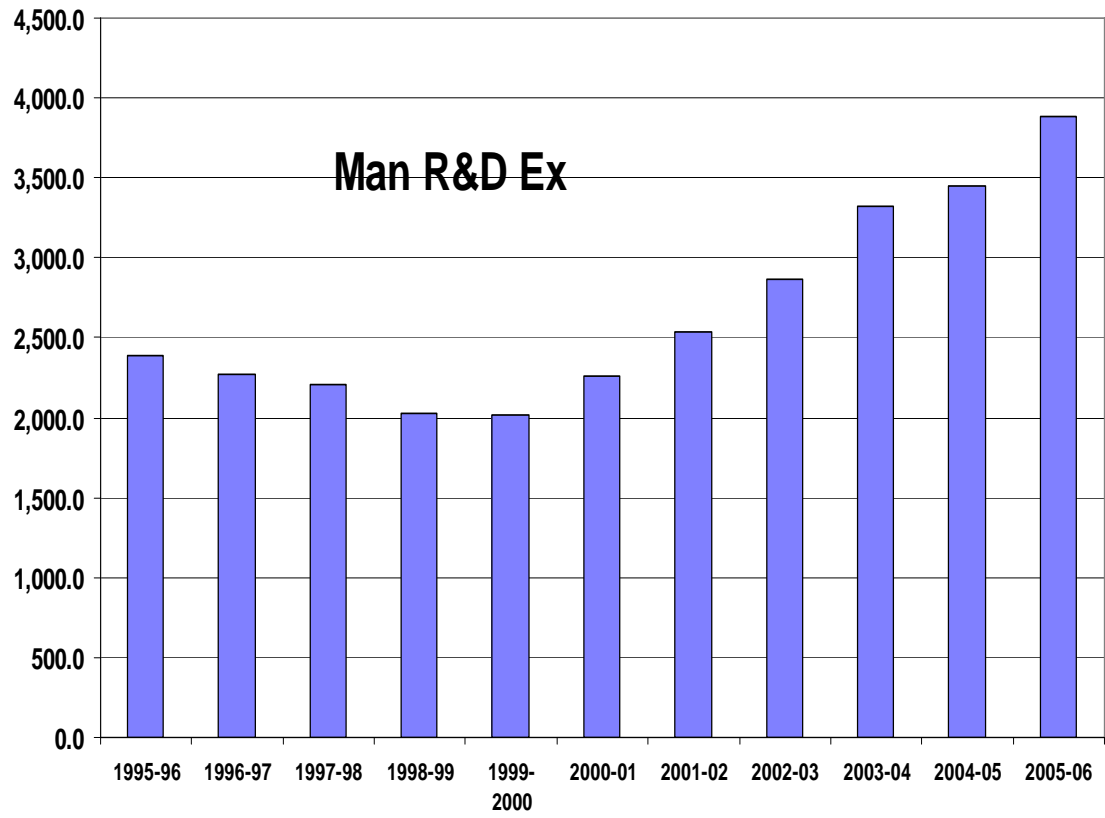
Forecast: Core Polec Outlook

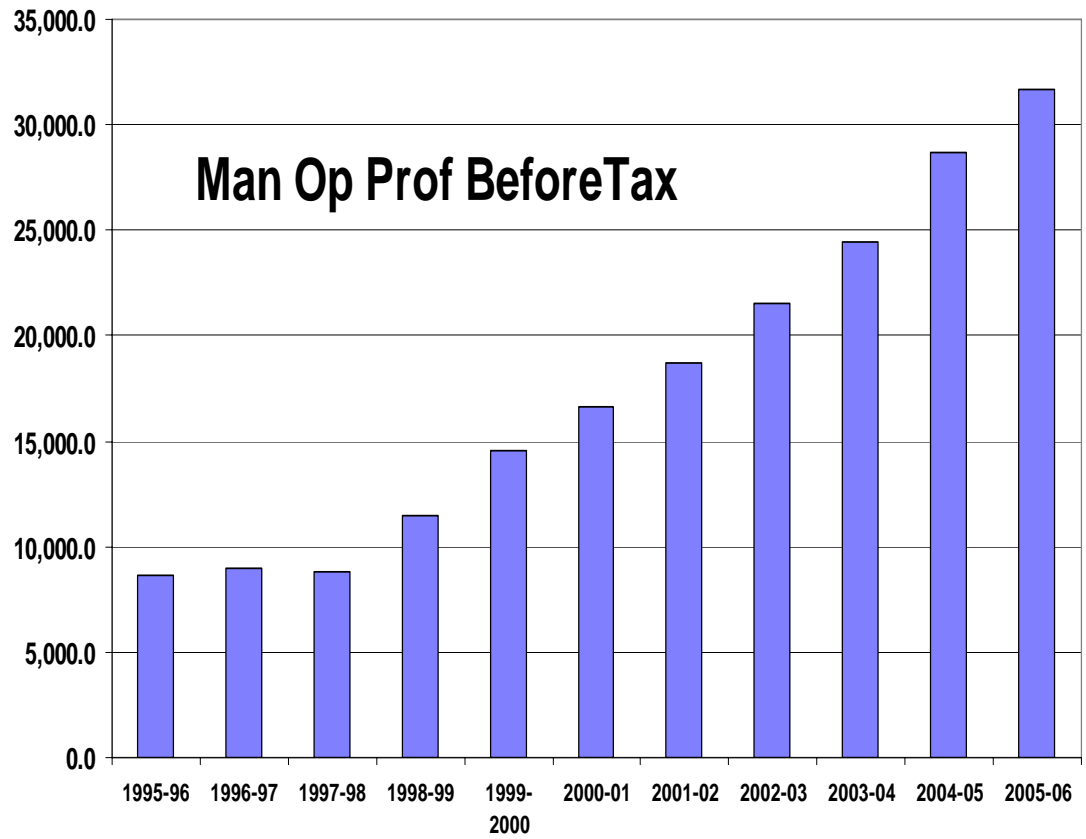
- Continued 3-4% growth with little prospect of a recession
- Continued contained wages growth, despite prosperity and higher profits
- Continued sound economic policy
- Rising productivity and living standards – save fore the housing issue
- Excellent backdrop for ANZ Manufacturing

Strategic Industry Backdrop

- ANZ Manufacturing share: 1960, 32%
- 1990: 17%; 2006: 11%
- Drivers: (a) demand trends – Engel’s law; (b) competition from lower-cost sources; © policy trends – incl. CAFTA.
- Reality and Prospect: significant fall in GDP share, jobs; no specific rectifying policy given or in prospect; FX surge...







Four ICT business-relevant Economic Trends to 2020

- 1. Rapid growth in need to quantify economic and business plans and outlooks
- 2. Rising % electronic transactions
- 3. Tripling of green-based (aged) business compliance costs as a % of business profits
- 4. Rapid growth in need to quantify business performance. {4A Rapid growth in TBS}

TBS 1972-2042

