

Year ahead good, not great

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AUSTRALIA'S market economists say there will be no double-dip recession here. *The Age* half-yearly economic survey finds they are expecting a year of something like normal growth, falling unemployment - and rising interest rates. They are also forecasting that the Australian dollar will stay around current levels over coming months, but share prices will rebound to the levels they were at over the summer months. The survey, taken this week, asked 19 economists from banks, universities, employer groups and other institutions for their forecasts for the new financial year, as well as their opinions on some key issues. With one exception, the survey found a strong consensus that the economy is heading for growth around long-term average levels. In all, 18 of the 19 economists submitted forecasts ranging from 2.6 per cent to 4.1 per cent, with an average of 3.25 per cent. The average matches Treasury's forecast for 2010-11, but is somewhat less than the Reserve Bank's more bullish forecast in May of 3.5 per cent. But the three university economists in our panel are far less optimistic than those in the markets. Monash University economist Jakob Madsen sees Australia falling victim to a double-dip global recession, which will also drag down the US, share values and the world economy in general. Dr Madsen predicts unemployment will rise over the second half of 2010, and the Reserve Bank will deliver three interest rate cuts to prop up demand. His traditional partner in pessimism, University of Western Sydney economist Steve Keen, also sees the world heading for a double-dip recession, but with Australia insulated somewhat by Chinese demand and federal stimulus. Dr Keen, best known for his as yet-unrealised forecast that Australian house prices will fall 40 per cent, is predicting growth to remain stuck in third gear, with GDP growing in the new financial year by 2.7 per cent, despite rising unemployment. The third academic on the panel, Melbourne University macro-economist Neville Norman, also sees the economy remaining stuck in third, rather than accelerating into fourth, as Treasury and the Reserve are forecasting. And that's a worry, because at this time last year Dr Norman proved the most accurate forecaster on the panel. Last year he was the bull of the group. This year he is relatively bearish, predicting gross domestic product to grow just 2.6 per cent in the year ahead. He sees global growth stagnating, and inflation rebounding to 3.5 per cent by December - pushing up bond yields and forcing the Reserve to throw in another three rate rises on to a sluggish economy. The optimist of the group is Richard Gibbs, chief economist of Macquarie Group. He also sees bond yields rising, but along with interest rates, stock prices, and the dollar - but driven by a rapid acceleration of growth rather than inflation. Mr Gibbs predicts the economy will grow by 4.1 per cent over 2010-11, roughly double its growth rate in 2009-10. The world economy would also shrug off the double-dip fears and the debt crisis to chalk up 4.3 per cent growth over 2010. But in his scenario, too, the Reserve responds by pushing interest rates up another two notches by Christmas. Indeed, while the financial markets are now punting on no interest rate rises before 2012, the market economists are unanimous in predicting that rates will rise before Christmas - and the only division is on whether there will be just one rise or two. One good reason why is that they expect inflation to inch back up, to the edge of the Reserve Bank's target range

or beyond. Of the 18 who forecast inflation over 2010, 14 predict the number will have a 3 in front of it. Similarly, all the market economists predict a strong rebound in the share market, on average to just under 5000 points on the S&P/ASX 200 Index by the end of the year. University and industry economists are more wary, though all but Dr Keen and Dr Madsen expect stocks to rise. Virtually all our panel expects bond yields to rise from their present lows, with most tipping them to end the year somewhere in the high 5s. There is also a general consensus that the dollar will rise from current levels, as markets shake off their fear of a double-dip slump. Half the panel predicts the dollar will be at least US90¢ by the end of the year, although no one is bold enough to predict it will reach parity. Only the three university economists see unemployment rising significantly. Five think it will remain around current levels, while the rest see it ebbing down to about 5 per cent or less by the end of the year. Several also expect the federal budget to come in a bit better than Treasury has forecast - a pretty safe bet, since the forecasts are designed to be beaten, unless there is a recession. Former Treasury number cruncher Alan Oster, now chief economist at NAB, predicts it will come in at \$35 billion, as against the Treasury forecast of \$41 billion.