



TRANSCRIPT

ACCI CHIEF EXECUTIVE PETER ANDERSON ON ABC TV'S "LATELINE BUSINESS" PROGRAM - 2 SEPTEMBER 2009 - ECONOMIC STIMULUS

Economy defies global downturn

TICKY FULLERTON, PRESENTER: The Australian economy has defied the global downturn and completed its 18th consecutive year of growth.

While the result was better than expected, Australia's prospects remain finely balanced. That's leading to a wide range of views about what policymakers should do next.

Neal Woolrich reports.

NEAL WOOLRICH, REPORTER: The Ashes are lost and along with it some national pride but Australians can at least console themselves with one of the best performing economies in the developed world.

The Bureau of Statistics says gross domestic product grew by 0.6 per cent in both the June quarter and the year to June. Increases in farm and government inventories added 0.6 points to growth. Household consumption contributed 0.5 per cent.

The biggest drags on growth were reductions in non-farm inventories and a fall in net exports.

WARREN HOGAN, ANZ: The composition was very encouraging. We're seeing the composition of growth shift from net exports driving growth in this economy, to underlying demand being quite strong.

The previous two quarters, all the growth came from, essentially a plunge in imports.

NEAL WOOLRICH: The GDP figures did nothing to turn around a dark day on the share market. However, the Australian dollar gained around 1 cent against the US dollar in afternoon trade, in expectation of tighter monetary policy.

PROFESSOR NEVILLE NORMAN, MELBOURNE UNIVERSITY: It won't be long now before the Reserve Bank starts to move on those interest rates and, after all, our governor has been very fair in warning that the rates where they are were emergency rates and they will have to go up.

NEAL WOOLRICH: And the surprisingly resilient GDP figures now have analysts revising their expectations on a number of other fronts.

The Treasury forecasts that unemployment could peak at 8.25 per cent is now at the pessimistic end of market expectations, even though demand for labour remains soft. And economists are tipping the Government's Budget deficit this financial year should be much lower than the \$57 billion forecast in May.

WARREN HOGAN: Essentially ever since the May Budget the data is as surprised on the upside. So the Budget deficit will be much smaller than what the Government had projected. I think that does take some of the heat off the Government around trying to bring that deficit down.

NEAL WOOLRICH: Professor Neville Norman argues the Government should now consider withdrawing some of its stimulus programs, even though that may dampen demand.

PROFESSOR NEVILLE NORMAN: It's not a risk, it's a necessity. That is probably what we need to do. I don't think they need to do it just immediately but the evidence is now gaining that they've got to get ready for this and things like schools program and so on it's unfair just to cancel contracts and they won't.

NEAL WOOLRICH: While private business investment also rose strongly in the June quarter, industry groups are urging the Government to proceed with caution before winding back assistance packages.

PETER ANDERSON, ACCI: Much of the growth has occurred in areas where the Government's stimulus package has had a direct impact. What that tells us is that there is still some underlying fragility in the Australian economy.

WARREN HOGAN: The stimulus program that's going to dominate spending over the next couple of years is related to longer-term infrastructure project, it's related to investment in the economy and that's sorely needed. It certainly should rule out any further direct fiscal stimulus such as the cash handouts. That is inappropriate now.

NEAL WOOLRICH: Warren Hogan says demand may soften as government stimulus programs wind down but it's unlikely the economy will go backwards. He believes a sustained recovery is now more assured but it's only likely to be slow and gradual.