

AUSTRALIA AND THE FINANCIAL CRISIS: HOW DEEP WILL THE RECESSION BE?

Prof. Bob Gregory and Prof. Peter Sheehan
15 April 2009

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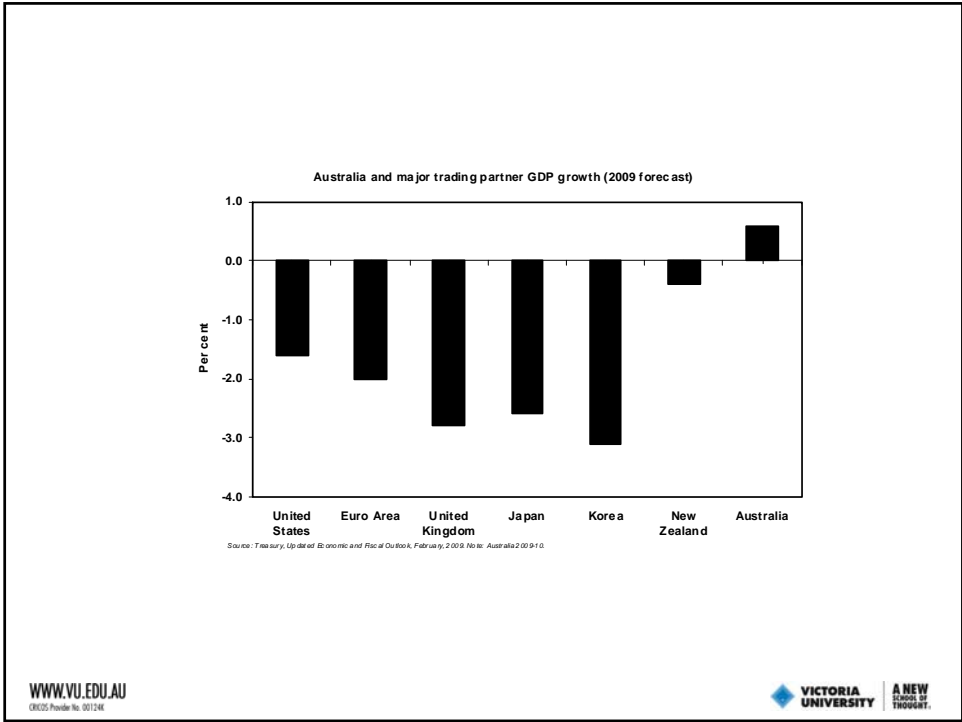
IMF World Economic Outlook
GDP (percent change)

	28 January 2009		2009 Forecast		
	2007	2008	Nov 2008*	Jan 2009*	Mar 2009*
World Output	5.2	3.4	2.2	0.5	-0.75
United States	2.0	1.1	-0.7	-1.6	-2.6
Euro Area	2.6	1.0	-0.5	-2.0	-3.2
Japan	2.4	-0.3	-0.2	-2.6	-5.8
New Industrialized Asia	5.6	2.1			
China	13.0	9.0	9.7	6.7	

* Forecast date

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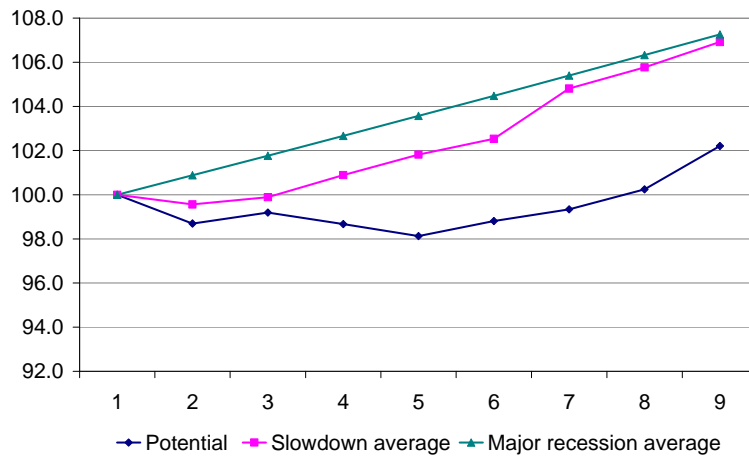


Treasury Actual Outcomes and Forecasts

	Actual 2007/8	Forecasts 2008/9			2009/10
		Budget May	MYEFO Nov	UEFO Feb	
Growth Rates					
GDP	3.70	2.75	2.00	1.00	0.75
Unemployment	4.30	4.75	5.00	5.50	7.00
Private demand	5.20	4.00	2.50	0.75	-2.50
Public demand	4.70	3.00	3.50	5.50	7.25
Current account	-6.00	-5.00	-4.50	-3.75	-5.50
Employment	2.50	0.75	0.50	-0.25	0.00

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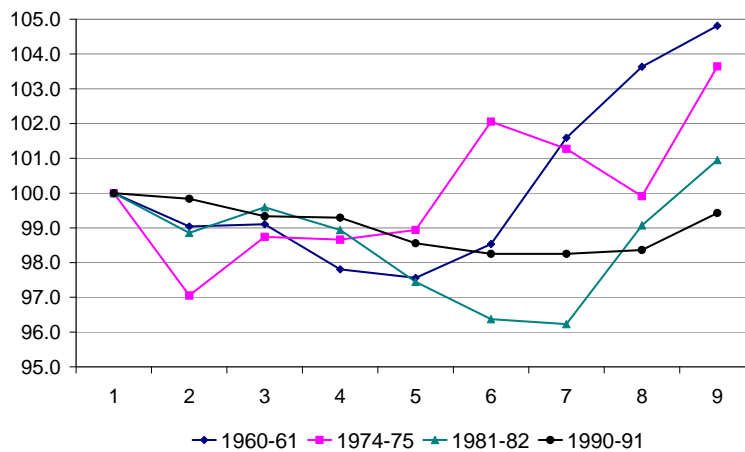
Chart 1. Major recessions in Australia since 1960, key characteristics and current differences



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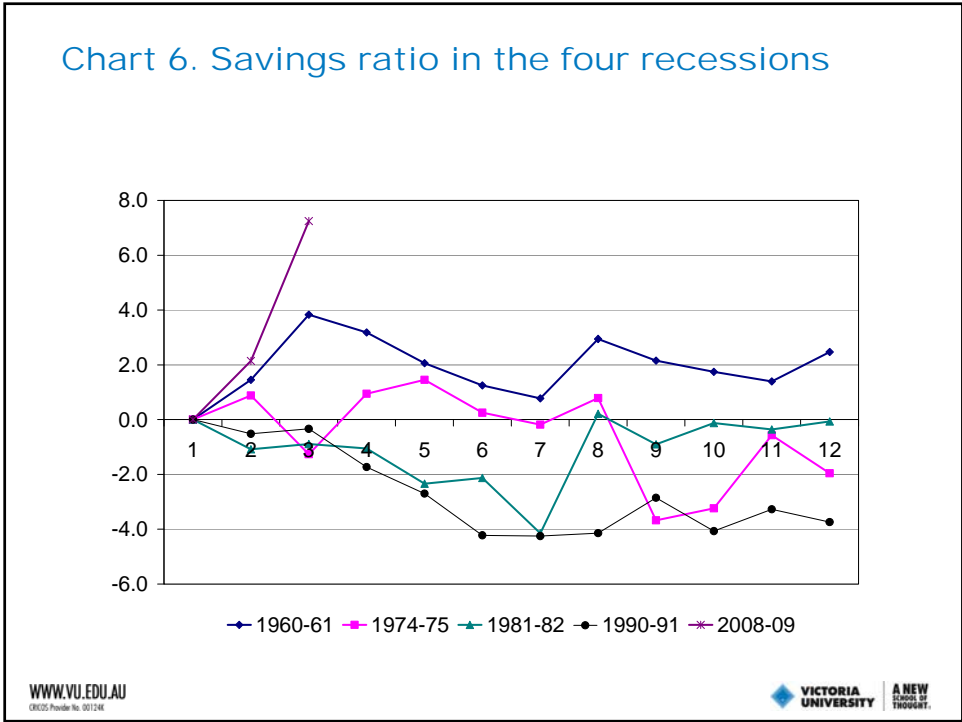
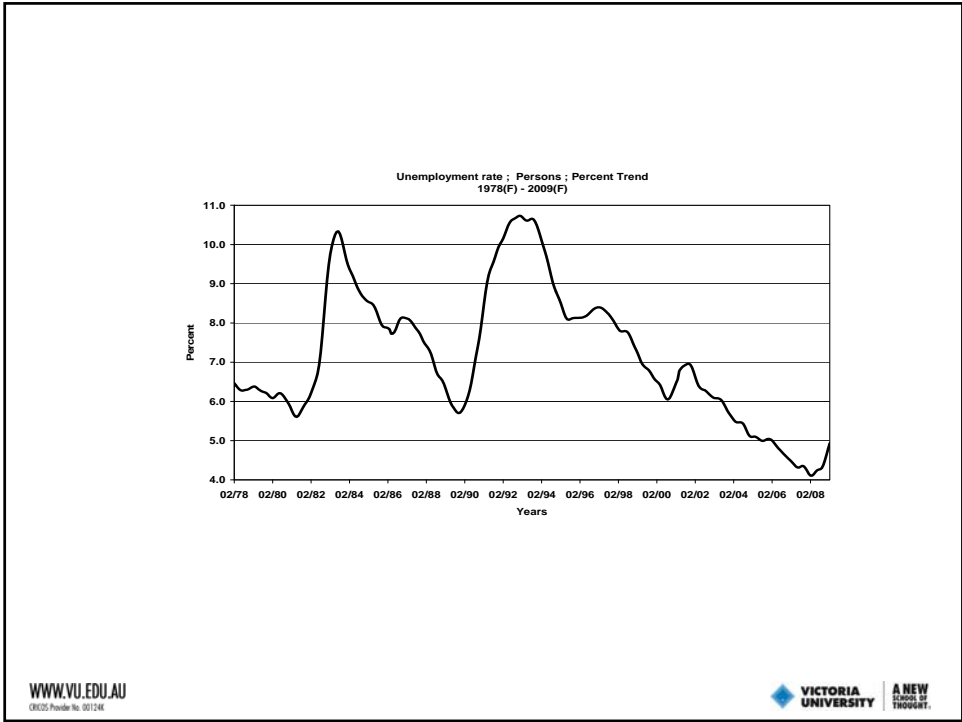
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Chart 2. GDP in major recessions (quarters relative to base quarter)



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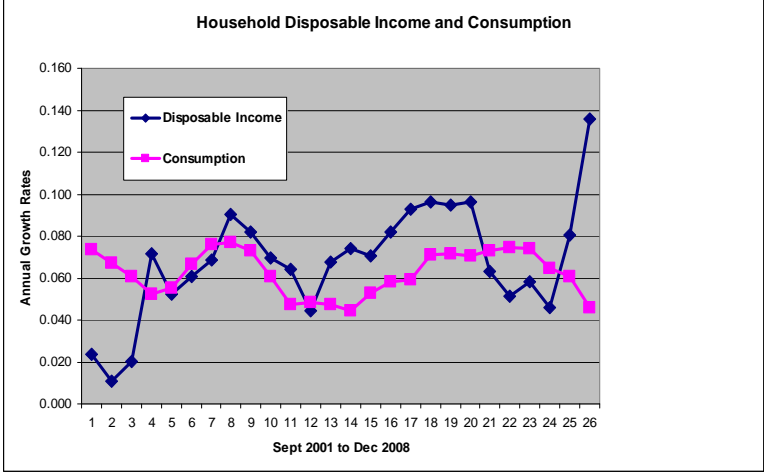


Chart 8. Interest payable plus savings, as a share of household disposable income

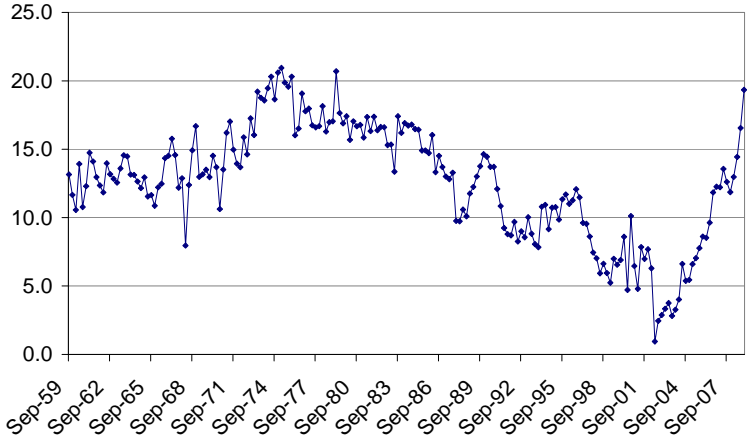
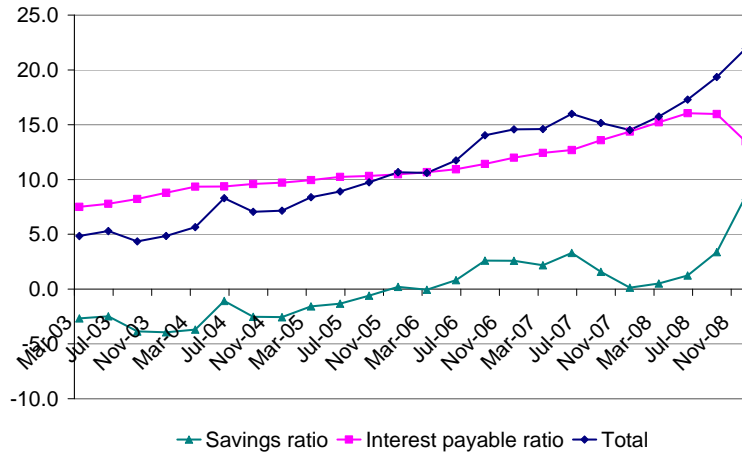


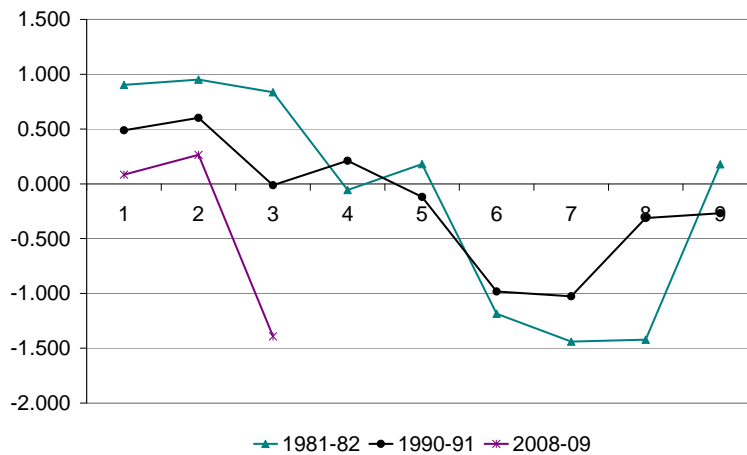
Chart 9. Interest payable and savings, as a share of household disposable income



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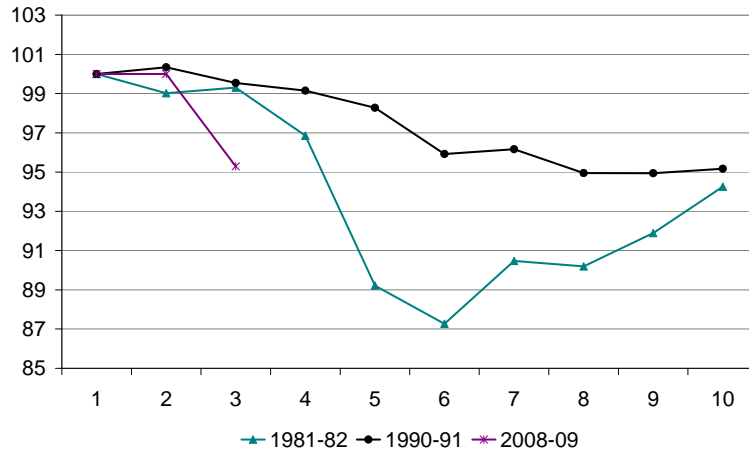
Chart 4. Change in inventories, quarters from the peak (share of GDP, seasonally adjusted chain volume measures)



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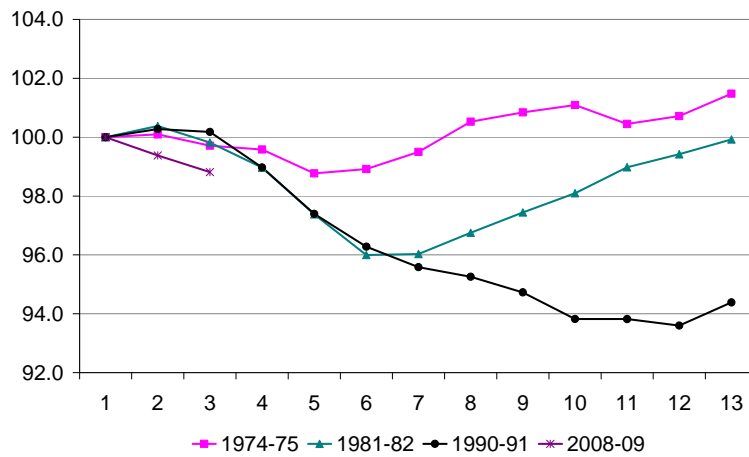
Chart 5. Manufacturing value added



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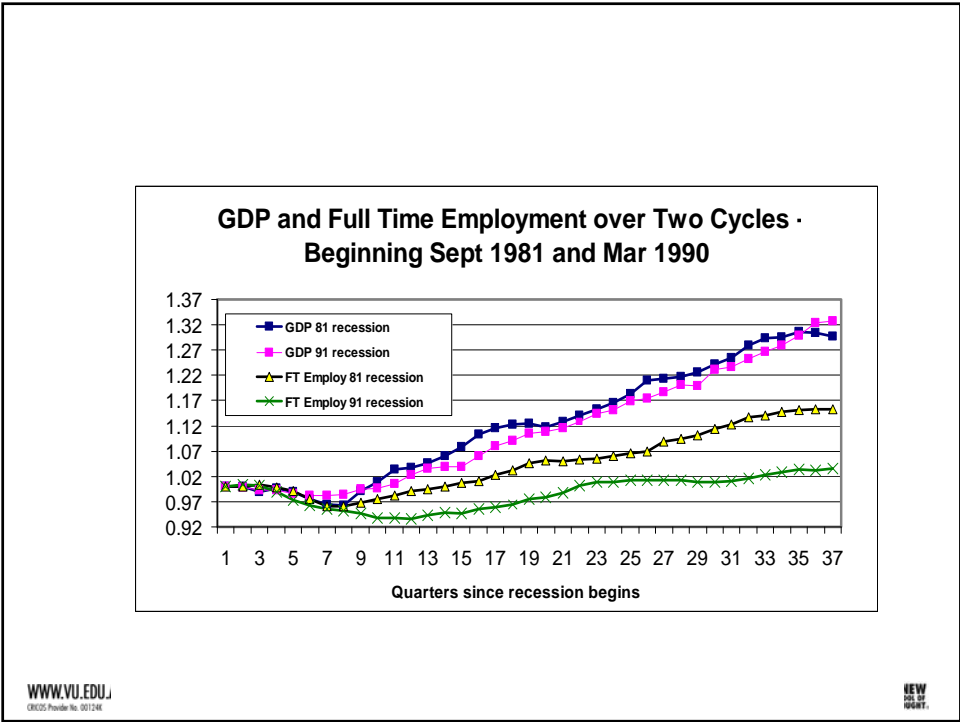
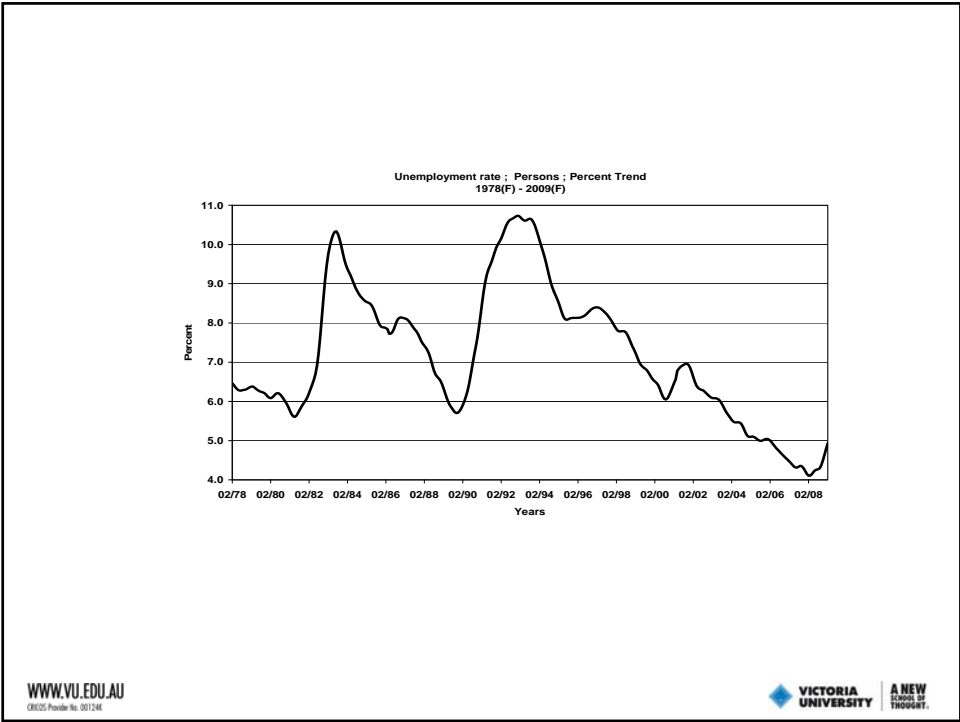
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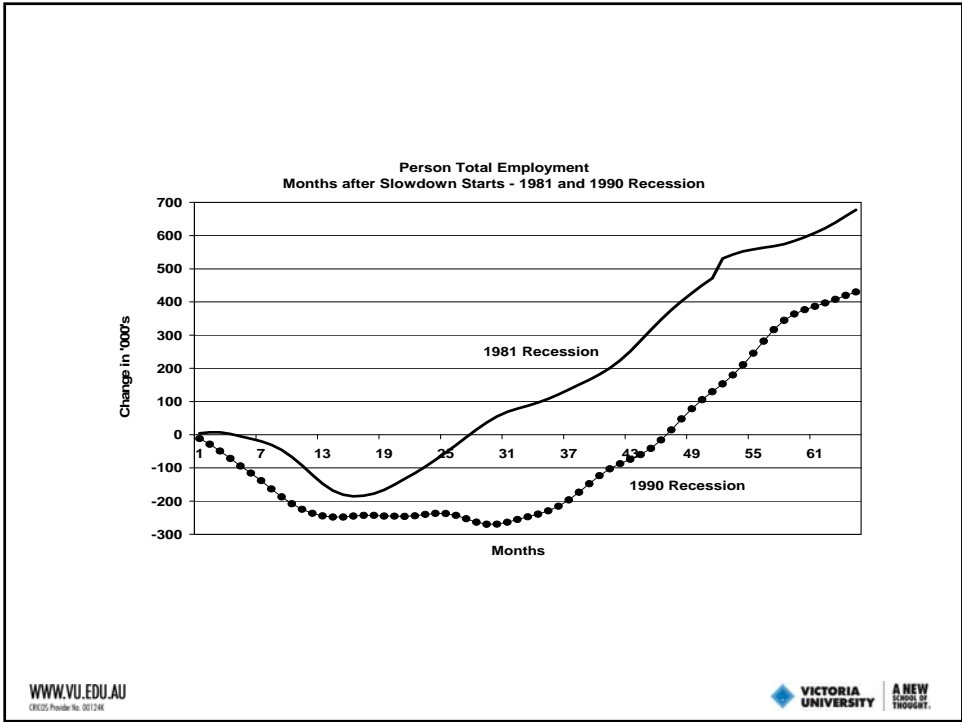
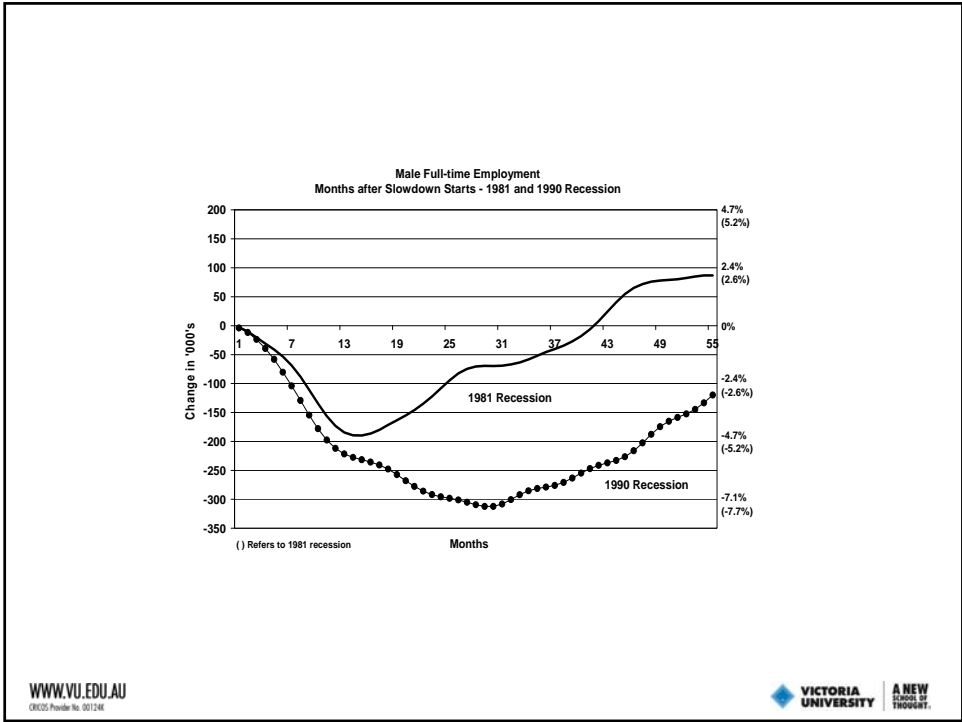
Chart 7. Full-time employment in four recessions

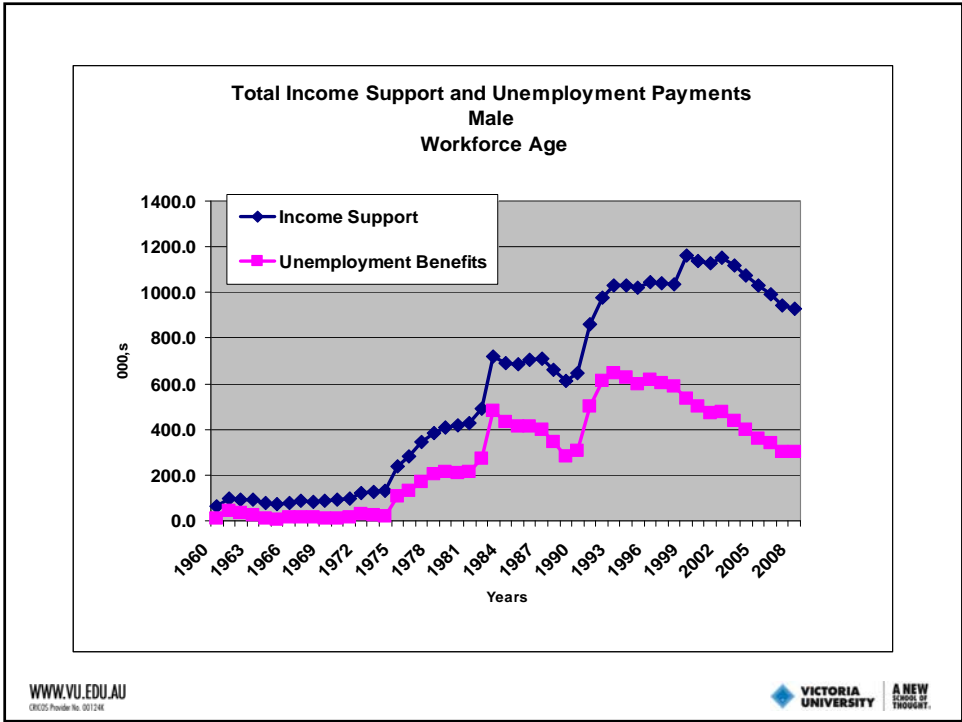
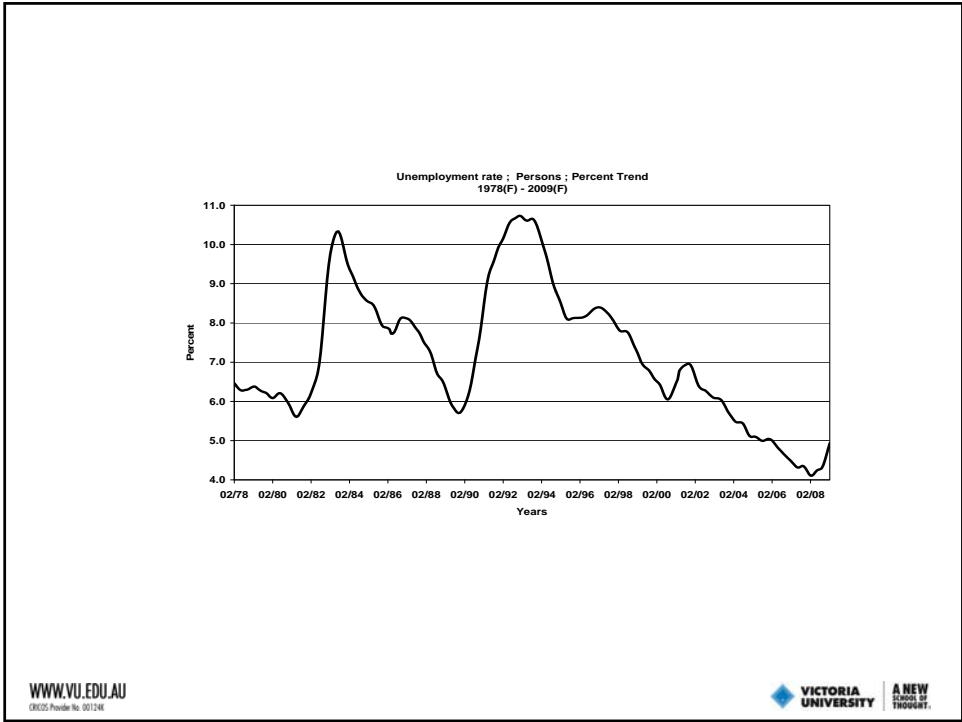


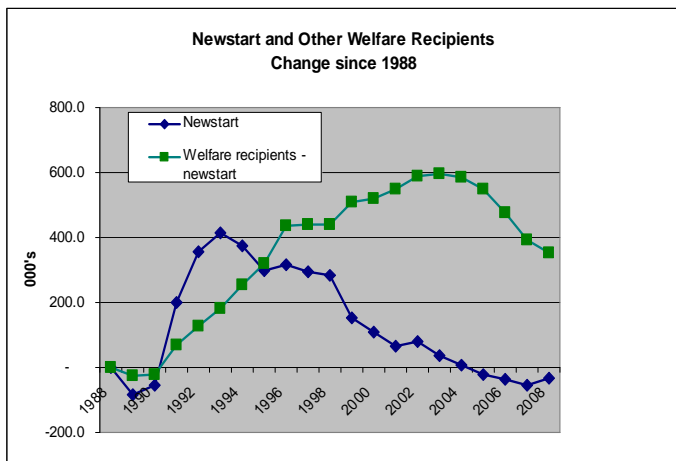
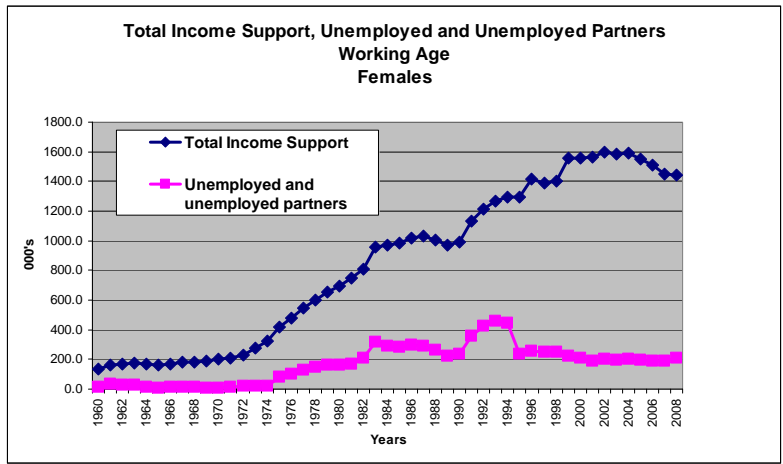
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Some Notes on DSP Duration

- Take males on DSP at August 1996, aged between 20 and 53 years
- Remember this is not inflow so they were on DSP before 1996
- Average age in 1996 is 42 years
- How long are they on DSP over the next 11 years?

- 70 per cent are there for more than 10.9 of the eleven years
- Average stay about 10 years
- The average age is now 53 so on average another 12 years to go before the age pension
- Why is disability so permanent?
- Will denying access make a difference
- Note that the age group chosen for this analysis says this is not really a pre-retirement group
- There were 160,000 males in the 20-53 DSP group

- NewStart males selected at August 1996
- There are 461,000
- Average age 30 years
- Remember the sample is the stock so they could have been there since 1990?
- 30 per cent, 138,000 spend more than five of the next eleven years on NewStart – some may have gone to another program

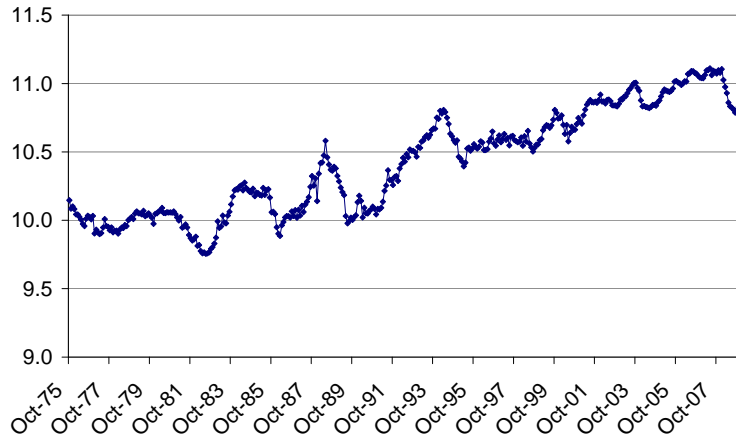


The End

Appendix

- The future Investment path is crucial further down the track but very hard to pick

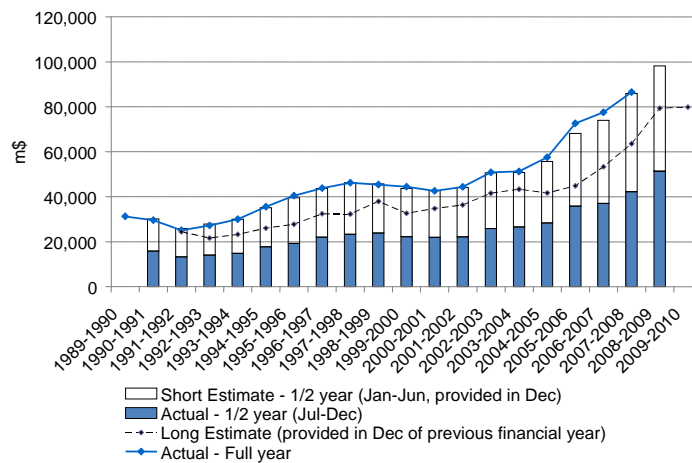
Chart 10. Lending for housing, total number of new dwelling commitments (log scale)



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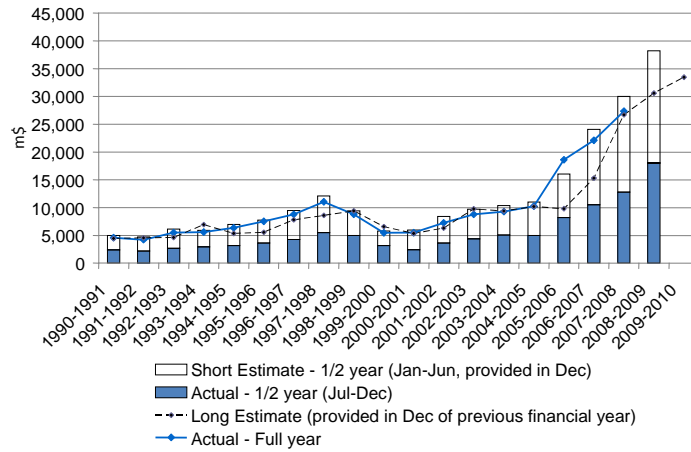
Chart 11. Australian total new private capital expenditure, actual and estimated



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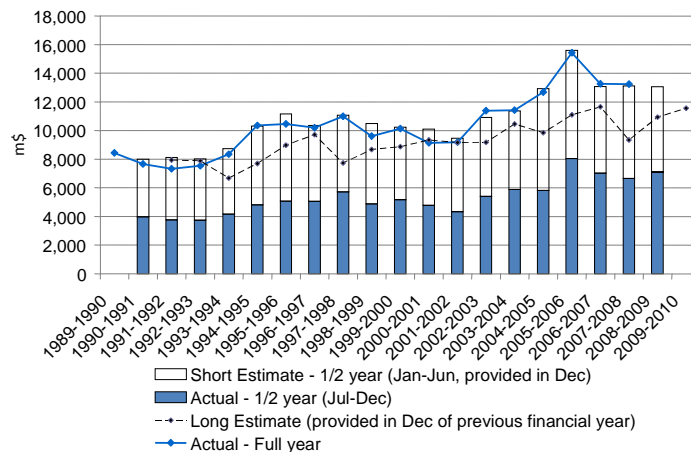
Chart 12. Australian (all states) mining private capital expenditure, actual and estimated



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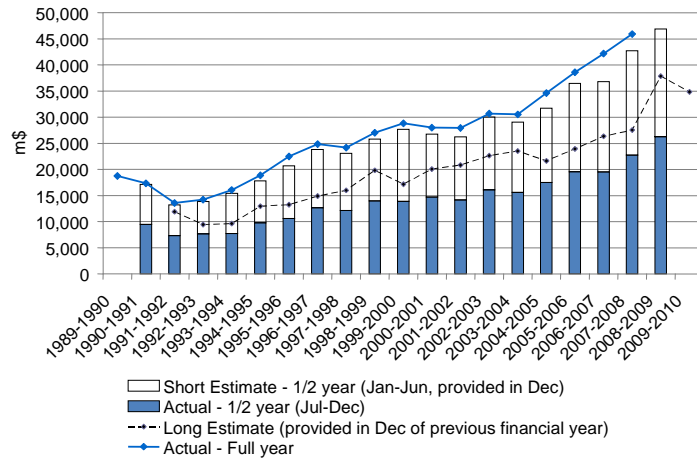
Chart 13. Australian manufacturing private capital expenditure, actual and estimated



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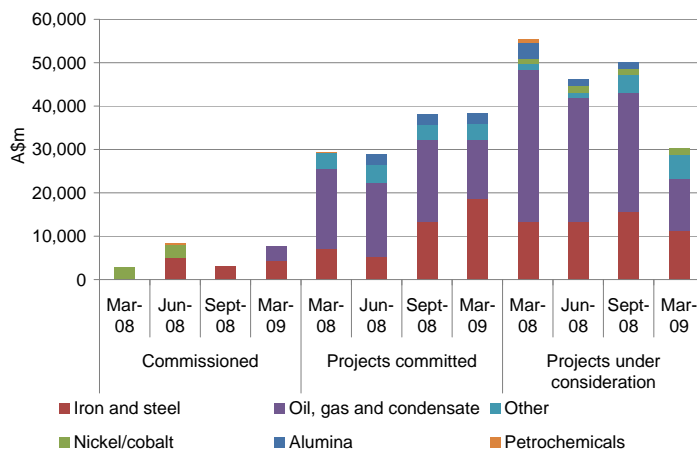
Chart 14. Australian "other selected industries" new private capital expenditure, actual and estimated



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Chart 15. Project status for significant resource projects in WA



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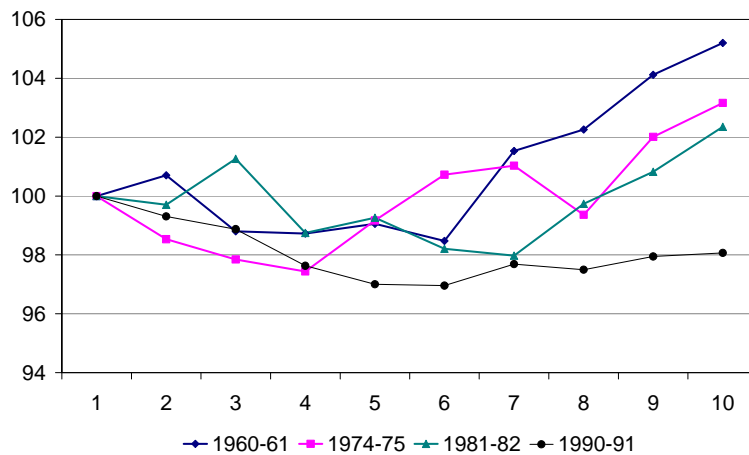
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Chart 3. Real domestic demand in four cycles



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