ECONOMIC OUTLOOK FOR 2008-09, 2009-10 AND 2010-11

JUNE 2009

(THIS REPORT INCORPORATES DOMESTIC AND INTERNATIONAL DATA RELEASED UP TO 24 JUNE 2009)

OVERVIEW

The June round forecasts for the Australian economy are slightly more optimistic than Budget. The stronger than expected GDP growth outcome in the March quarter has pushed up our growth forecast for 2008-09, but a recession is still expected in 2009-10, albeit a slightly less severe one. In line with the stronger economy, the unemployment rate is now forecast to peak a little lower, at 8 per cent.

The world economy remains fragile, with the first quarter of 2009 recording even worse outcomes in many advanced economies than the record declines the previous quarter. However, the outlook for some emerging economies has improved slightly since Budget. While many advanced economies are in deep recession, there are signs that the global economy may be stabilising.

World GDP is expected to contract by 1½ per cent in 2009 before a modest recovery begins in 2010, unchanged from Budget. However, major trading partner growth has been revised down by ¼ of a percentage point from Budget to a decline of 2¼ per cent in 2009, reflecting downgrades to Japan and other east Asia, but is expected to recover at a slightly stronger pace in 2010.

Data on the Australian economy have been more positive than expected at Budget but the additional volatility at this time suggests these results should be interpreted with caution. GDP grew by 0.4 per cent in the March quarter, a 0.8 percentage point turn-around from that expected at Budget. The labour market has also held up better than expected, with the unemployment rate now unlikely to reach 6 per cent by June 2009 as forecast at Budget. And while the outlook for the global economy remains broadly unchanged, the better than expected performance of China and India translates into an improved outlook for exports. Exports held up better than expected in the March quarter and appear likely to do so again in June. We continue to expect a decline in export volumes but there is a possibility that exports of coal and iron ore will hold up better than forecast.

GDP growth forecasts for Australia have been revised up to growth of ¾ per cent in 2008-09 and a more moderate decline of ¼ per cent in 2009-10, up from a decline of ½ per cent at Budget. The outlook for 2010-11 remains unchanged, with the economy expected to begin a modest recover in that year, growing by 2¼ per cent.

Table 1: Key Domestic Forecasts – June compared with Budget

	2007-08	2008-09		2009-10		2010-11	
	Outcome (a)	Budget	June	Budget	June	Budget	June
Real GDP (b)	3.7	0	3/4	- 1/2	- 1/4	2 1/4	2 1/4
Nominal GDP (b)	8.2	5 3/4	6 1/4	-1 1/2	-1 1/4	3 3/4	4
Employment (b)	2.6	1	1	-1 1/2	-1	- 1/4	- 1/4
Unemployment rate (d)	4.2	6	5 3/4	8 1/4	7 3/4	8 1/2	8
CPI (c)	4.5	1 3/4	1 3/4	1 3/4	1 3/4	1 1/2	1 1/2
Underlying inflation (c)	4.4	3 1/4	3 3/4	1 3/4	1 3/4	1 1/2	1 1/2
WPI (b)	4.2	4 1/4	4	3 1/2	3 1/2	3 1/4	3 1/4
Terms of trade (b)	5.2	8 3/4	7 1/4	-13 1/4	-12 1/2	0	0

(a) Calculated using original data.

(b) Year average

(c) Through the year growth rate to the June quarter.

(d) June quarter

Source: ABS Cat. No. 5206.0, 6345.0, 6401.0, 6202.0 and Treasury.

Business investment contracted in the March quarter in line with Budget expectations, although the pipeline of work for commercial property projects is holding up slightly better than expected at Budget. Having peaked as a share the economy, business investment is still expected to fall significantly, by 17 per cent in 2009-10, a slight improvement from Budget.

The Government's cash payments to households and sharply lower interest rates have lent much needed support to households affected by sharp declines in household wealth and fears of impending job losses. The boost to household incomes and consumption growth experienced in the December quarter gathered pace in the March quarter, with household consumption growing by 0.6 per cent, the best performance since the March quarter 2008. While underlying consumption is expected to remain very weak over 2009-10 as household's focus on rebuilding savings, policy actions already in place will continue to support consumption over the next 6 months.

The forecasts for the public sector are little changed from Budget. They are driven by the stimulus packages announced since October last year and are a key source of growth in 2009-10. As at Budget, slippage of spending profiles remains the key risk to public sector forecasts and a risk to GDP growth in 2009-10.

Partial data in the dwelling sector are pointing to a turnaround in the sector as expected at Budget with a recovery likely to begin in the second half of 2009. Dwelling investment is particularly responsive to low interest rates and the other fundamentals of the sector remain solid, (limited supply combined with strong population growth and high rents). The Governments FHOB has resulted in a large number of first home buyers entering the market. The broader investor market remains cautious but strong fundamentals combined with encouraging recent leading indicators suggest a recovery in dwelling investment will begin in the second half of 2009. Importantly, these same factors are acting to support house prices although more sustained declines in prices remain a key risk to these forecasts.

The usual risks associated with economic forecasting have been amplified in the current environment by large swings in key aggregates and the divergence of growth measures published by the ABS. The divergence in the published measures of GDP growth in the December quarter increased further in the March quarter, with estimates ranging from a decline of 0.9 per cent for GDP(P) to an increase of 1.1 per cent for GDP(E). Given the sharply shifting base, shorter term forecasts are subject to even greater uncertainty.

On balance, the economic news appears to be improving and while international and domestic measures of confidence remain low, they have improved. However, given volatility in the economic data at present and likely further adjustments in exports and business investment, Australia still has some difficult economic terrain to navigate.

Table 2: Domestic economy forecasts[(a)]

	Outcomes (b)	Forecasts					
	Year average	Year average			Through the year		
	2007-08	2008-09	2009-10	2010-11	June 2009	June 2010	June 2011
Panel A - Demand and output(c)							
Household consumption	3.7	1 1/4	1/4	2	1 3/4	- 1/4	2 1/2
Private investment							
Dwellings	1.6	-2 1/2	1/2	12	-9 1/2	11	11 1/2
Total business investment(d)	14.2	4	-17	3	-10	-11 1/2	11
Non-dwelling construction(d)	11.4	5	-21	2 1/2	-6 1/2	-17	14
Machinery and equipment(d)	16.0	1 1/2	-17 1/2	4	-16	-9 1/2	11 1/2
Private final demand(d)	5.5	1 1/4	-3 1/4	3	-2	-1 3/4	5
Public final demand(d)	4.6	4 1/2	7 1/2	-1 3/4	5 3/4	4	-2 1/2
Total final demand	5.3	2	- 3/4	1 3/4	- 1/4	- 1/4	3 1/4
Change in inventories(e)							
Private non-farm	0.2	-1 1/4	1/4	3/4	-1 1/4	3/4	3/4
Farm and public authorities(f)	0.0	- 1/4	1/4	0	0	0	0
Gross national expenditure	5.5	3/4	- 1/2	2 1/2	-1 1/4	1/4	4
Exports of goods and services	4.1	2	-2 1/2	4	- 1/2	-2	6
Imports of goods and services	12.9	-2 1/2	-4 1/2	6 1/2	-12 1/2	2	8 1/2
Net exports(e)	-2.0	1	1/2	- 1/2	3	- 3/4	- 3/4
Gross domestic product	3.7	3/4	- 1/4	2 1/4	0	1/4	3
Non-farm product	3.6	1/2	- 1/4	2 1/4	- 1/2	1/4	3
Farm product	7.1	17	1	0	23	0	0
Nominal gross domestic product	8.2	6 1/4	-1 1/4	4	1/4	1 1/2	4 1/2
Panel B - Other selected economic measures							
External accounts							
Terms of trade	5.2	7 1/4	-12 1/2	0	-11 1/2	-2 1/4	-1
Current account balance							
$billion	-70.6	-30 1/2	-55 1/2	-66 1/4	na	na	na
Percentage of GDP	-6.2	-2 1/2	-4 3/4	-5 1/4	-3 1/4	-5	-5 3/4
Labour market							
Employment (labour force survey basis)	2.6	1	-1	- 1/4	1/4	-1 1/2	3/4
Unemployment rate (per cent)(g)	4.2	5	7	8	5 3/4	7 3/4	8
Participation rate (per cent)(g)	65.4	65 1/2	65	64 1/2	65 1/2	64 3/4	64 1/4
Prices and wages							
Consumer Price Index (h)							
- headline	4.5	3 1/4	1 3/4	1 1/2	1 3/4	1 3/4	1 1/2
- underlying	4.4	4 1/4	2 1/2	1 1/2	3 3/4	1 3/4	1 1/2
Gross non-farm product deflator	4.3	5 3/4	-1	1 3/4	3/4	1 1/2	1 1/2
Wage Price Index	4.2	4	3 1/2	3 1/4	3 3/4	3 1/4	3 1/4

(a) Percentage change on preceding year unless otherwise indicated.
(b) Calculated using original data.
(c) Chain volume measure.
(d) Excluding second-hand asset sales from the public sector to the private sector, and adjusted for the privatisation of Telstra.
(e) Percentage point contribution to growth in GDP.
(f) For presentation purposes, changes in inventories held by privatised marketing authorities are included with the inventories of the farm sector and public marketing authorities.
(g) The estimates in the final three columns are the forecast rates in the June quarter in 2009, 2010 & 2011 respectively.
(h) Through the year growth rate to the June quarter for 2007-08.
Source: Australian Bureau of Statistics (ABS) Cat. No. 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.

OUTLOOK FOR THE DOMESTIC ECONOMY

The forecasts for the domestic economy are underpinned by several technical assumptions. The exchange rate is assumed to remain around levels observed at the time of writing (a trade-weighted index of around 64 and a $US exchange rate of around 80c). Interest rates are assumed to remain broadly flat, in line with market expectations. World oil prices (Tapis) are assumed to remain at around $US 72 per barrel. The farm sector forecasts are based on an assumed return to average seasonal conditions over the forecasting period.

Household consumption

While still weak, the outlook for household consumption has strengthened since Budget. Consumer confidence has been bolstered following recent deep cuts to mortgage interest rates and the Government's Economic Security Strategy and the Nation Building and Jobs Plan (NBJP), which have add around $19.7 billion to household incomes.

Following an earlier fall of around 50 per cent in share market values and a moderate fall in house prices, these markets have stabilised in recent months arresting the sharp declines in household wealth. This has also improved consumer confidence.

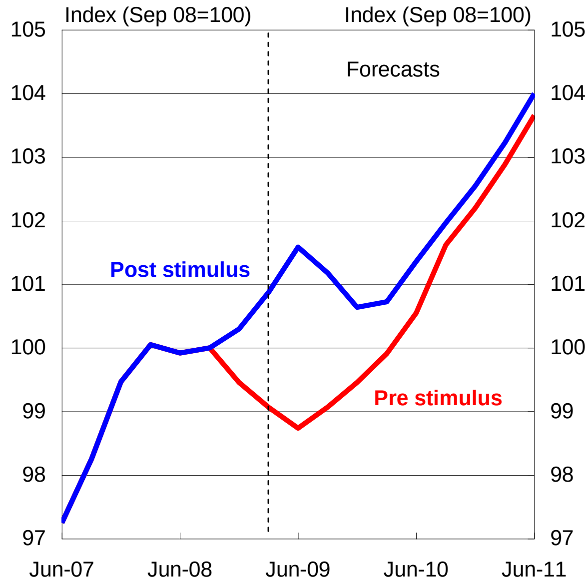
Household consumption grew by a solid 0.6 per cent in the March quarter while the December quarter outcome was revised up slightly. Retail sales figures for April suggest consumption spending will remain around current levels in the June quarter.

Nonetheless, the continuing impact of the global recession, rising unemployment and previous falls in wealth are expected to weigh on consumption growth over the forecast horizon. Consumption will also weaken as the effects of temporary cash payments subside.

Forecasts for household consumption in 2009-10 have been revised up from a ¼ per cent decline at Budget to growth of ¼ per cent.

Household consumption is expected to grow by 2 per cent in 2010-11, up from 1 ¾ per cent at Budget.

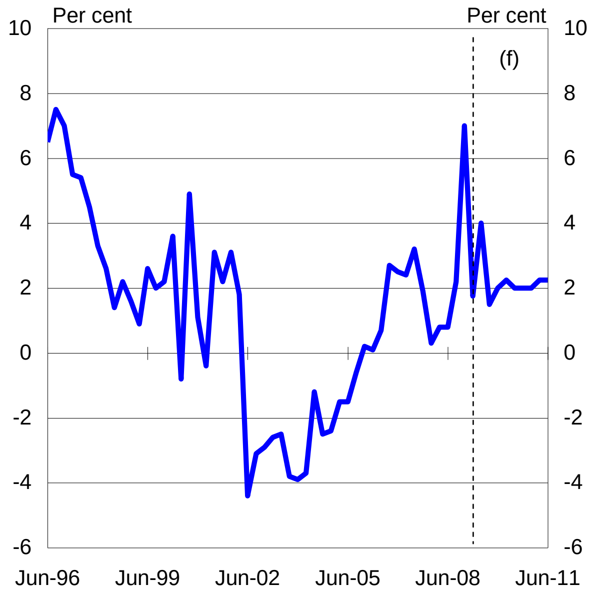
Chart 1: Real consumption



Source: ABS Catalogue Number 5206.0 and Treasury.

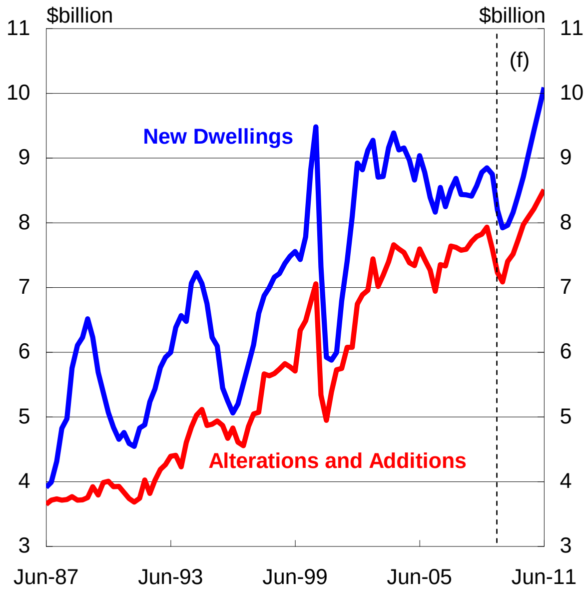
Households have been rebuilding saving in response to sharp declines in household wealth. The household saving ratio spiked in the December quarter following the initial ESS payments. It fell back in the March quarter but is again expected to spike in the June quarter when the majority of the NBJP payments are made.

Chart 2: Household saving ratio



Source: ABS Catalogue Number 5206.0 and Treasury.

Chart 3: Dwelling investment (real)



Source: ABS Catalogue Number 5206.0 and Treasury.

Dwelling investment

Dwelling investment is showing signs of a recovery towards the end of the year with support from lower interest rates and the First Home Owners Boost. The forecasts are largely unchanged from Budget although the timing of the recovery has been brought forward a little.

New dwelling investment is now expected to fall by 1½ per cent in 2009-10 compared to a 4 per cent fall in the Budget. Investment in alterations and additions is expected to grow by 2½ per cent in 2009-10.

New dwelling investment and alterations and additions fell broadly in line with Budget forecasts in the December and March quarters of 2008-09. While building approvals in the March quarter 2009 hit their lowest level since June 2001, more recent leading indicators suggest the sector may have troughed. Housing finance for constructing new dwellings and building approvals point to the start of a recovery in new dwelling investment towards the end of 2009.

Fundamentals in the sector remain strong. Low mortgage interest rates, robust population growth and high rental yields, are all pointing towards a moderate recovery towards the end of 2009 that gathers pace into 2010-11.

Recent house prices measures suggest that house prices have stabilised in early 2009 after falling only moderately over 2008. House prices are assumed to remain at close to their current levels over 2009-10. There is some uncertainty regarding future movements in house prices which is a key risk to the forecasts.

The Budget forecast of continuing strong growth in dwelling investment over 2010-11 remains unchanged, with forecast growth of 15 per cent in new dwellings, reflecting a strong underlying demand for new residential buildings and 8½ per cent growth in alterations and additions. The positive fundamentals are assumed to support house prices over the forecast horizon.

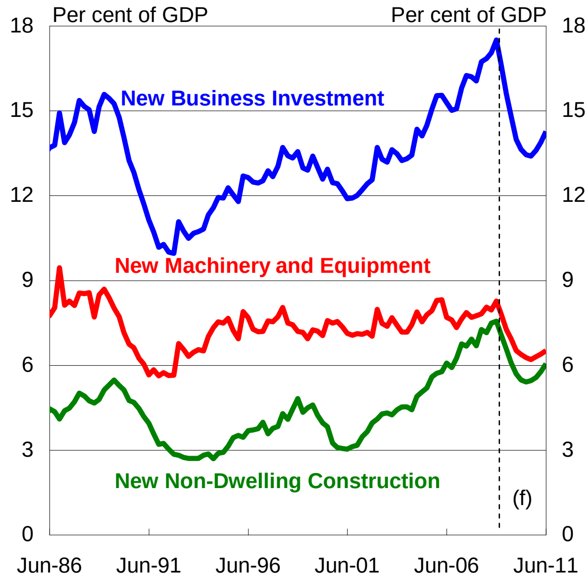
The risks identified at the time of the Budget are still present. Tighter credit conditions constraining activity particularly in medium density dwellings and a potential for further weakness in sentiment due to a rise of unemployment could impact on house prices and investment.

Business investment

New business investment is expected to increase by 4 per cent in 2008-09. However, the weak global and domestic economic outlook is expected to lead to a significant deterioration in business investment over the forecast horizon, with a fall of 17 per cent expected in 2009-10 before a modest recovery of 3 per cent in 2010-11, marginally stronger than at Budget.

Business conditions and sentiment appear to have stabilised, albeit at low levels, over recent months in contrast to the sharp falls experienced in late 2008 and early 2009. Despite this, the majority of business surveys have consistently shown weaker investment intentions over the next year, particularly in the industries outside the mining sector. The marginally improved forecasts for 2009-10 reflect the stabilisation of business conditions and an industry perception that the outlook may not significantly deteriorate further.

Chart 4: Business investment to GDP ratio (nominal)



Source: ABS Cat. No. 5206.0 and Treasury.

Investment in **new machinery and equipment** is slightly weaker than the Budget forecasts as the result of a weaker CAPEX result. Investment is expected to increase by 1½ per cent in 2008-09, followed by a decrease of 17½ per cent in 2009-10. A modest recovery is expected to commence in 2010-11.

The second estimate of CAPEX investment intentions for 2009-10 implies negative investment growth with particular weakness in the construction, wholesale and transport and storage sectors. In 2010-11, investment in new machinery and equipment is expected to grow by 4 per cent, as corporate profits improve following a recovery in domestic and world economies.

New engineering construction investment is expected to increase by 11½ per cent in 2008-09, followed by a decrease of 15 per cent in 2009-10 before growing by 5 per cent in 2010-11. The forecasts for 2008-09 are stronger than Budget forecasts, reflecting a stronger-than-expected outcome for the March quarter, as well as an upward revision to the December quarter, and the pipeline of existing work flowing through to investment in the next few quarters. The recovery in 2010-11 is based on an expectation of a few high value projects in the oil and gas sector commencing work later in 2010.

Significant projects that are expected to commence in the forecast period include Gorgon Joint Venture, Inpex Alpha LNG Ichthys, and Woodside LNG Browse Basin. However, there remains a significant risk of delays or cancellations to mining projects in light of lower commodity prices and to projects that are facing difficulty in securing financing.

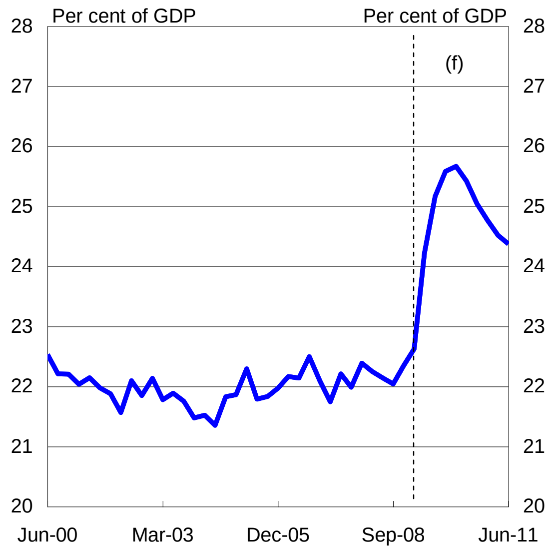
Non-residential buildings investment is expected to fall by 1 per cent in 2008-09 and by 27 per cent in 2009-10. The fall in investment is expected to be less abrupt but more protracted than at Budget as a result of some momentum from current projects and a slight improvement in approvals during the March quarter 2009. However, tighter credit conditions, increasing unemployment and weaker consumption are expected to weigh heavily on activity particularly in the office, warehouse and retail markets.

Public final demand

New public final demand is expected to increase by 7½ per cent in 2009-10 and fall by 1¾ per cent in 2010-11. The forecasts are little changed from Budget and are driven by the stimulus packages announced since October last year.

Total new public investment is expected to grow by 22½ per cent in 2009-10, the largest increase on record. Very strong State and Local investment and solid Commonwealth investment are driving the growth. However, slippage in public spending remains a risk.

Chart 5: Nominal public expenditure



Source: ABS Catalogue Number 5206.0 and Treasury.

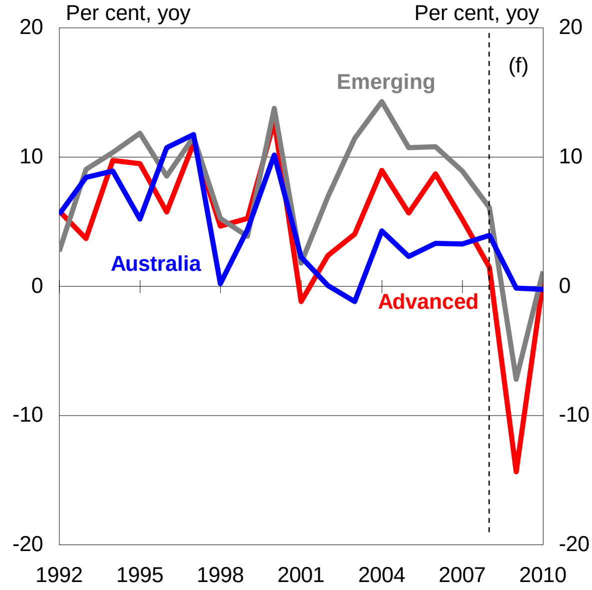
Exports, imports and the current account deficit

The forecast for the trade balance is unchanged from Budget in 2009-10. A widening in the trade deficit is expected in 2010-11, as domestic demand for imports strengthens ahead of a recovery in global demand.

Net exports are expected to contribute ½ of a percentage point to GDP growth in 2009-10 due to a significant fall in import volumes as the domestic economy weakens, though this is partially offset by a fall in export volumes. Net exports are expected to detract ½ of a percentage point from growth in 2010-11 as import volumes recover more quickly than export volumes.

Exports represent a potential weakness looking forward. However, substantial falls in exports have not yet eventuated, with exports holding up relatively well in the March quarter. Additionally, stronger demand from China could present some upside risk to our non-rural commodity export forecasts.

Chart 6: Export growth comparison



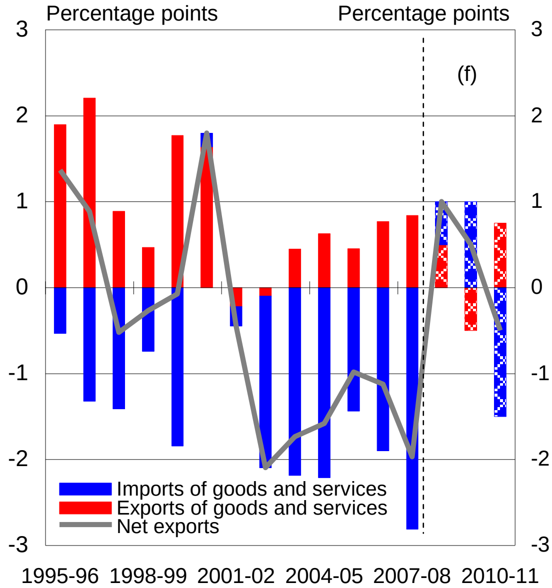
Source: IMF and Treasury.

Export volumes are expected to be stronger than forecast at Budget, falling by 2½ per cent as global demand contracts. Modest growth of 4 per cent is expected in 2010-11, reflecting a recovery in the global economy.

Non-rural commodities are now expected to grow by 5 per cent in 2008-09 and fall by 3 per cent in 2009-10. Volumes are still expected to recover strongly in 2010-11.

The collapse in global demand for raw materials has been sudden and dramatic, and producers have cut production sharply. Expected demand from key coal markets such as South Korea, Japan and Taiwan continues to be revised downwards. In contrast to this, Chinese commodity demand has continued to hold up, driven by inventory restocking and demand related to the Chinese government's stimulus package. Furthermore, lower prices and safety issues have induced some Chinese iron ore and coal mines to close, leading some Chinese steel producers to switch to lower-cost Australian coal and iron ore.

Chart 7: Import/Export contribution



Source: ABS Catalogue Numbers 5206.0 , 5302.0 and Treasury.

Farm production is expected to increase by 17 per cent in 2008-09, higher than at Budget due to an estimated larger crop harvest. Summer crop production in 2008-09 is estimated to be higher than the Budget forecast. This will flow through to **rural exports**, which are expected to grow by 10 per cent in 2008-09.

Lower world growth and a higher Australian dollar are expected to weigh on **elaborately transformed manufactures** (ETM) and **services exports**. ETM exports are expected to contract by 10 per cent in 2009-10, a more severe contraction than forecast at Budget. A particularly acute decline for car exports is driving this outcome.

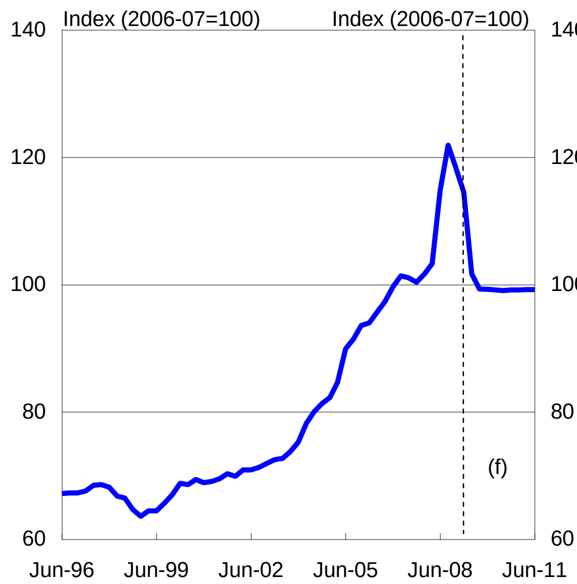
Services exports are forecast to fall by 4½ per cent in 2009-10, unchanged from the budget forecast. A moderate recovery in both ETMs and services is anticipated in 2010-11 as global demand strengthens.

Imports of goods and services are expected to fall by 4½ per cent in 2009-10. This is slightly higher than forecast at Budget, reflecting a stronger forecast for domestic demand. Imports are expected to increase by 6½ per cent in 2010-11.

The **terms of trade** are forecast to decrease by 12½ per cent in 2009-10, a smaller fall than at Budget. Recent contract negotiations indicate that contract prices for the major bulk commodities have fallen in line with Budget expectations. Other non-rural prices are expected to fall slightly more than at Budget, reflecting the weaker world outlook and the higher exchange rate. Rural export prices are forecast to fall further than at Budget in 2009-10, due to weaker global demand and a stronger Australian dollar.

Import prices are also expected to be lower, in part due to declining world inflation for manufactured goods. The terms of trade are assumed to be flat in 2010-11, but the difficulty in forecasting commodity prices out this far means there remains the risk of further changes in commodity prices in either direction.

Chart 8: Terms of trade

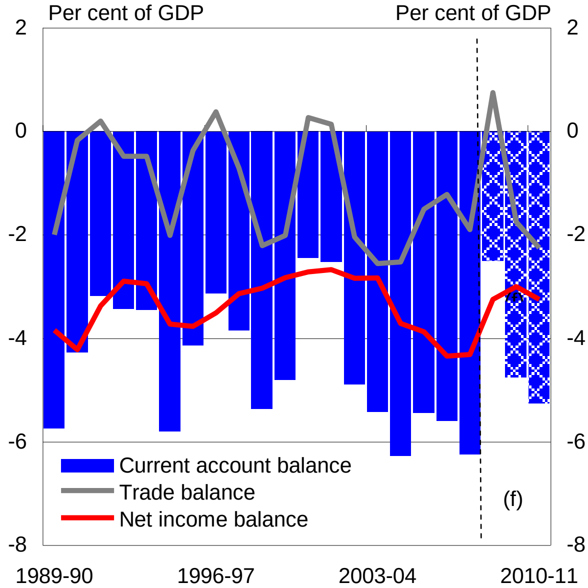


Source: ABS Catalogue Number 5302.0 and Treasury.

The forecast for the **current account deficit** (CAD) has narrowed since Budget, at 4¾ per cent of GDP in 2009-10, and to 5¼ per cent in 2010-11. This reflects an expected rise in both the **net income deficit** (NID) and trade deficit. From a savings and investment perspective, gross investment is forecast to decline as a share of GDP over the forecast horizon, before picking up slightly in 2010-11. The forecast for gross savings shows a rise in 2008-09 as households rebuild savings, before declining in 2009-10 as corporate savings fall in line with reduced profitability.

The public sector is expected to move further into a significant deficit position.

Chart 9: Current account balance



Source: ABS Catalogue Numbers 5206.0, 5302.0 and Treasury

Employment, wages and inflation

Labour market

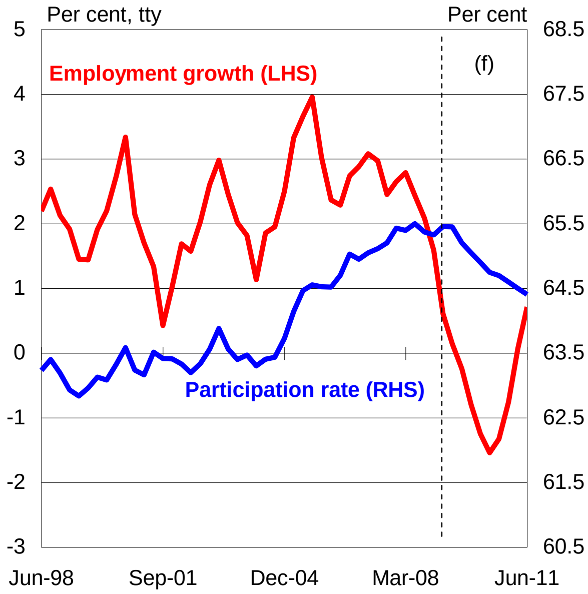
The labour market has remained more resilient than expected at Budget, consistent with stronger growth outcomes. The unemployment rate is now expected to peak at around 8 per cent, down from 8½ per cent at Budget. This still represents a significant deterioration in the labour market over the forecast horizon.

Employment growth is expected to be flat through the year to the June quarter 2009, slightly stronger than the ¼ per cent contraction published at Budget. Employment is anticipated to contract by 1½ per cent through the year to the June quarter 2010, in line with Budget. This equates to a less severe fall in employment than previous downturns. A broad-based, albeit weak, recovery in the economy expected for 2010-11 will support employment growth, resulting in employment increasing by ¾ per cent through the year to the June quarter 2011.

Weakness in employment and solid growth in the labour force is expected to result in a higher unemployment rate.

Although the participation rate is expected to decline, in the near term there is expected to be some support to participation from older workers remaining in the workforce in reaction to adverse wealth effects. As such, the participation rate is expected to remain at high levels at 65½ per cent in the June quarter 2009, before declining gradually over the next two years to 64¾ per cent in the June quarter 2010 and 64½ per cent by the June quarter 2011.

Chart 10: Employment Growth and Participation Rate



Source: ABS Catalogue Number 6202.0 and Treasury.

Wages

The outlook remains broadly unchanged from Budget, with wages growth expected to slow in line with a weakening labour market.

Wage outcomes since Budget show that slowing demand for labour is beginning to exert a downward influence on wages growth, with growth in the WPI moderating in the March quarter, though still remaining elevated in through the year terms.

The National Accounts measure of average weekly earnings fell sharply in the March quarter, partly reflecting a fall in average hours worked. The fall in average hours worked indicates that employers are cutting back employees' hours in response to weakening demand for their outputs, a trend that is also reflected in the rising share of part-time employment seen over the past year.

Prices

Inflation forecasts are broadly unchanged from Budget. Both headline and underlying inflation are forecast to ease over the forecast period.

The inflationary pressures from higher oil prices and a smaller output gap relative to Budget are expected to be balanced by lower wage growth and import prices.

Both headline and underlying inflation are expected to be 1¾ per cent through the year to the June quarter 2010 and 1½ per cent through the year to the June quarter 2011. The WPI is expected to grow by 3¼ per cent through the year to the June quarters of 2010 and 2011, unchanged from Budget.

JUNE 2009 INFORMAL ROUND: OUTLOOK FOR THE INTERNATIONAL ECONOMY

Table 1: International GDP growth forecasts[(a)]

	2008	2009		2010		2011	
	Actual	Budget	June	Budget	June	Budget	June
United States	1.1	-3	-3	1/4	1/4	1 3/4	1 3/4
Euro Area	0.6	-4	-4 3/4	0	0	1 1/4	1 1/4
Japan	-0.7	-6	-6 3/4	1/2	1 1/2	3/4	3/4
China	9.0	6 1/4	6 3/4	8	8 1/4	8 1/2	8 1/2
India	7.5	4	4 3/4	4 3/4	5 1/4	5 3/4	6 1/4
Other East Asia [(b)]	2.6	-3 1/2	-4 1/4	2 1/2	2	3 1/2	3 1/4
Major Trading Partners	2.7	-2	-2 1/4	2 1/2	2 3/4	3 1/4	3 1/4
World	3.2	-1 1/2	-1 1/2	2 1/4	2 1/4	3 1/2	3 1/2

(a) Calculations for World and euro area growth rates use GDP weights based on purchasing power parity (PPP). Calculations for Major Trading Partners and Other East Asia use export trade weights.
(b) Other East Asia is: Korea, Taiwan, Hong Kong, Singapore, Indonesia, Malaysia, Thailand, Vietnam and the Philippines.
Source: National statistical publications, IMF and Treasury.

World outlook and risks

The outlook for a severe contraction in the world economy in 2009 remains unchanged since Budget. World GDP is forecast to contract by 1½ per cent in 2009, before a modest recovery to growth of 2¼ per cent takes hold in 2010.

While the prospects for the world as a whole remain unchanged, the composition of growth amongst trading partners has changed, with a slightly worse contraction of 2¼ per cent now forecast for major trading partner GDP in 2009, followed by a firmer rebound of 2¾ per cent in 2010.

Recent **US** partial data have generally been 'less bad', consistent with expectations for the contraction in US economic activity to moderate over 2009 before a modest recovery in 2010. As a result, US forecasts remain unchanged since Budget.

In contrast, forecasts for the more trade-exposed economies of the euro area, **Japan** and Other East Asia have been revised ¾ of a percentage point lower in 2009 in the face of weaker-than-expected outturns since Budget.

The outlook for **China** has improved since Budget, with stronger-than-expected outturns for domestic demand, particularly fixed asset investment and credit growth, offsetting weaker export data. As a result, forecasts for Chinese growth have been revised ½ a percentage point higher in 2009 and ¼ of a percentage point higher in 2010.

Growth forecasts for **India** have also been revised higher, in light of stronger-than-expected March quarter GDP data.

The Budget forecasts were predicated on a degree of stability returning to financial markets. Recent indicators suggest this assumption is holding. Consistent with this, earlier concerns about potential catastrophic tail risks associated with the global financial crisis have diminished.

Policymakers are now increasingly turning their attention to exit strategies, with concerns centring on potential policy missteps as extraordinary interventions are unwound in future. For example, it is possible that necessary, but premature, fiscal consolidation could stifle the expected recovery toward the end of the forecast horizon.

Moreover, the extent to which household balance sheets are repaired and the risk of deflation becoming entrenched in Asia will be key factors affecting the global economy in 2010.