

# **ECONOMIC OUTLOOK FOR 2010-11, 2011-12 AND 2012-13**

**MARCH 2011**

(THIS REPORT INCORPORATES DOMESTIC AND INTERNATIONAL DATA RELEASED UP TO  
22 MARCH 2011)

<b>Overview .....</b>	<b>3</b>
<b>Outlook for the domestic economy.....</b>	<b>7</b>
<i>Household consumption .....</i>	<i>7</i>
<i>Dwelling investment .....</i>	<i>8</i>
<i>Business investment .....</i>	<i>8</i>
<i>Public final demand.....</i>	<i>9</i>
<i>Exports, imports and the current account deficit .....</i>	<i>10</i>
<i>Employment, wages and inflation .....</i>	<i>12</i>
<b>Box 1: Impact of Floods and Cyclone Yasi.....</b>	<b>14</b>
<b>Outlook for the international economy .....</b>	<b>15</b>
<i>World outlook and risks.....</i>	<i>15</i>
<i>Country summaries.....</i>	<i>16</i>
<b>Attachment: Nominal GDP .....</b>	<b>19</b>

## OVERVIEW

The recent natural disasters in Australia, Japan and (to a more limited extent) New Zealand, will weigh on Australia's economic growth in the first half of 2011, but the negative impacts are expected to be temporary. The medium-term outlook for the Australian economy has strengthened since December JIEFG, driven by the resources sector. Global prices for Australia's bulk commodity exports have risen, pushing the terms of trade to record highs, and forecast growth in resources investment and non-rural commodity exports has increased. Strength in the broader economy depends in part on the extent to which the resources boom supports growth in other sectors and whether households remain as cautious in their spending behaviour. With real GDP growth expected to be above-trend in 2011-12 and 2012-13, the economy is expected to reach full employment and capacity pressures are likely to emerge in some sectors, putting pressure on inflation. The key risks are international, with recent events in Japan, the Middle East and Northern Africa adding to existing fragilities.

**Table 1: Key Domestic Forecasts – March compared with December**

	2009-10	2010-11		2011-12		2012-13	
	Outcome (a)	December	March	December	March	December	March
Real GDP (b)	2.3	3	2 1/4	3 3/4	4 1/4	3 1/4	3 3/4
Nominal GDP (b)	2.3	8 1/4	8 1/4	6	6 1/2	5 1/2	5 3/4
Unemployment rate (c)	5.2	5	5	4 3/4	4 3/4	4 3/4	4 1/2
Employment (d)	2.4	2 3/4	2 3/4	2	2	1 1/2	1 3/4
CPI (d)	3.1	2 3/4	3	3	2 3/4	3	3
Underlying inflation (d)	2.7	2 3/4	2 1/2	2 3/4	2 3/4	3	3
WPI (d)	3.0	3 3/4	4	4	4	4	4 1/4
Terms of trade (b)	-4.4	16 1/4	19 3/4	- 3/4	- 1/2	-2 3/4	-2 3/4

(a) Calculated using original data except for employment, the unemployment rate and WPI.

(b) Year average.

(c) June quarter.

(d) Through-the-year growth rate to the June quarter.

The global economic recovery appears to be gaining traction, but the balance of risks is on the downside. The near-term growth prospects for advanced economies, most notably the United States, are improving and emerging economies, China in particular, are continuing to provide impetus to global growth. However, the nuclear crisis in Japan and unrest in the Middle East and North Africa have added an additional layer of uncertainty to the outlook, compounding existing fragilities arising from the sovereign debt problems in the euro area periphery and the potential for a policy misstep in emerging market economies as they act to curb inflationary pressures. Therefore, while the central forecasts for global and major trading partner (MTP) growth have been upgraded by a ¼ to ½ of a percentage point across the forecast horizon since the December JIEFG, the downside risks remain significant.

Australia's economic growth is forecast to strengthen from 2¼ per cent in 2010-11 to above-trend growth of 4¼ per cent in 2011-12 and 3¾ per cent in 2012-13. In 2010-11, this is a downgrade of ¾ of a percentage point since the December JIEFG, reflecting the negative impact of the recent natural disasters in Australia and Japan on Australia's non-rural commodity exports (see Box 1), and recent weaker-than-anticipated household demand. Real GDP growth has been upgraded by ½ of a percentage point in both 2011-12 and 2012-13, driven by stronger forecast growth in resources investment and non-rural commodity exports, and boosted by the resumption of activity and commencement of reconstruction after the floods and cyclones. Forecast growth in nominal GDP is unchanged in 2010-11, but higher in 2011-12 and 2012-13. The factors driving the nominal GDP growth forecasts are detailed in the Attachment.

The pace of economic growth slowed in the second half of 2010, weighed down by a number of factors, including the withdrawal of fiscal and monetary policy stimulus, the appreciation of the Australian dollar, adverse weather conditions towards the end of the year, heightened consumer caution and a continuation of difficult credit conditions for some businesses (particularly medium-sized firms). In addition to these factors, the recent natural disasters in Australia, Japan and (to a lesser extent) New Zealand will also weigh on Australia's economic growth in early-2011, with real GDP likely to have contracted in the March quarter.

Notwithstanding these headwinds, Australia's medium-term economic outlook has strengthened since the December JIEFG, driven by the resources sector. Prices of Australia's bulk commodity exports have increased since December JIEFG, driven by a combination of short-term factors (such as the Queensland floods) and signs that increased global supply will come on line more gradually than previously anticipated. The pipeline of resources investment has also increased, with the \$US16 billion Gladstone LNG project receiving final investment approval in mid-January and Rio Tinto announcing plans to further expand iron ore operations in the Pilbara. The strength of investment plans in the resources sector is evident in the most recent CAPEX survey, which suggests around 50 per cent growth in mining investment in 2010-11 and around 90 per cent growth in 2011-12 (based on 5 year realisation ratios). Investment in mine and transport infrastructure is driving strong growth in export capacity. Therefore, abstracting from disruptions due to the recent natural disasters forecast growth in non-rural commodity exports has been revised up across the forecast horizon.

Business surveys suggest that conditions outside of the resources sector are at around the long-run average. However, profits growth was weak outside of the mining sector through 2010, with both survey data and liaison suggesting that the strong Australian dollar is weighing on the manufacturing and tourism industries, while subdued consumer spending is weighing on retailing. Access to finance also remains difficult, particularly for medium-sized firms that are too large to utilise residential property as collateral, but too small to access credit markets directly. The CAPEX survey suggests that, outside the mining sector and related industries, firms remain cautious in their investment plans.

Household incomes and wealth are rising, the labour market is strong and consumer confidence is at its long-run average. In the past, these conditions have been associated with solid growth in household consumption. However, in the wake of the global financial crisis and the associated loss of financial wealth, households remain cautious in their spending decisions, instead taking advantage of solid growth in disposable incomes to increase savings and consolidate their balance sheets. This is a positive development in the medium-term as it will improve the resilience of the household sector to shocks. However, the implication for the near-term forecasts is that a continuation of cautious household spending behaviour and reluctance to take on new debt will weigh on both household consumption and dwelling investment. The current forecasts are for a gradual strengthening of household consumption growth over the forecast period, reaching the trend rate in 2012-13. The forecasts imply that the household saving ratio will decline only slightly, from around 10 per cent currently to around 9 per cent in 2012-13.

Housing finance and approvals data have weakened in recent months, with Victorian medium and high density construction the only market showing signs of growth. Therefore, the already weak near-term forecasts for new dwelling investment have been revised down further since the December JIEFG. Looking ahead, the forecasts are for a gradual pick up in dwelling investment over the forecast horizon, balancing a favourable labour market outlook with lower net international migration, household caution in taking on new debt and the assumption that mortgage interest rates will rise in line with the expectations of market economists (a 50 basis point rise over the next year). Housing affordability and supply-side constraints, including skilled labour shortages, difficulties in the planning and approval process and land supply issues, are also likely to weigh on the growth of private dwelling investment.

Public final demand is expected to weaken over the forecast period, reflecting the withdrawal of fiscal stimulus and the fiscal consolidation plans of the Commonwealth and State governments. Since the December JIEFG, the public final demand forecasts have been updated to reflect state mid-year budget

reviews and information available on the Commonwealth budget in the lead up to ERC, suggesting higher public final demand in 2010-11 and 2011-12 and a larger decline in 2012-13. The withdrawal of the Commonwealth Government's fiscal stimulus package is still expected to detract around 1 percentage point from economic growth in 2010-11 and  $\frac{1}{2}$  of a percentage point in 2011-12.

Net exports are expected to detract from growth across the forecast horizon; however, the outlook has improved since the December JIEG. Imports are expected to grow strongly, driven by the high import content of resources investment (around two-thirds of resources investment is imported) and the strong Australian dollar. In addition to the stronger forecast growth in non-rural commodity exports described above, the outlook for rural exports has improved, with the recent rains improving the availability of irrigation water and subsoil moisture. However, growth in exports of manufactures and services is still expected to be weak, weighed down by the high exchange rate and increasing competition for labour and capital from the booming resources sector.

The terms of trade forecasts have been upgraded since December JIEG and are now expected to increase by  $1\frac{3}{4}$  per cent in 2010-11, before declining  $\frac{1}{2}$  a per cent in 2011-12 and  $2\frac{3}{4}$  per cent in 2012-13. Combined with stronger exports growth, this has led to an improvement in the forecast trade and current account balances, with the current account deficit now forecast to reach  $3\frac{1}{4}$  per cent of GDP in 2011-12 and  $4\frac{3}{4}$  per cent in 2012-13.

While growth in activity softened towards the end of the year, the labour market remained strong, with employment growing at well above the trend rate, labour force participation increasing to record levels and the unemployment rate declining to around 5 per cent. While employment and participation have fallen in early 2011, this can be attributed to likely temporary declines in Queensland in the aftermath of the floods and Cyclone Yasi, with labour demand indicators (including recent job advertisements data) pointing to a rebound in the coming months. Employment growth is expected to remain solid over the forecast horizon and labour force participation is expected to increase gradually, driven by an expected continuation of the trend increase in participation of older age cohorts. The unemployment rate is expected to decline gradually, from 5 per cent in June 2010 to  $4\frac{3}{4}$  per cent in June 2012 and  $4\frac{1}{2}$  per cent in 2013, consistent with full employment.

Underlying inflation has fallen over recent quarters, consistent with the weakness of household demand and appreciation of the exchange rate. However, wages growth has accelerated more rapidly than previously anticipated, with an increase in private sector wages driving growth in the Wage Price Index to above its trend rate in the December quarter. With the economy forecast to soon grow at an above-trend rate, the unemployment rate expected to decline to around the NAIRU and wages growth forecast to rise gradually over the forecast period, underlying inflation is expected to increase from  $2\frac{1}{2}$  per cent at June 2011 to  $2\frac{3}{4}$  per cent in June 2012 and 3 per cent in June 2013. Headline inflation will be higher in the short-term due to the impact of the floods and Cyclone Yasi on fruit and vegetable prices, the recent increase in fuel prices and continued increases in utilities and other administered prices, remaining at around the top of the inflation target band across the forecast horizon. With the economy expected to approach capacity, inflation risks remain on the upside.

The most prominent risks to Australia's growth outlook arise from fragilities in the global economy. While gaining traction, the global economic recovery is highly vulnerable to another negative shock, with the nuclear situation in Japan and civil unrest in North Africa and the Middle East compounding existing fragilities. There are also a number of domestic risks. The importance of the resources sector to the economic outlook and the lumpiness of mining-related investment raise the risk that economic growth could be volatile from quarter to quarter. The structural adjustment in the economy as the mining sector expands and places strains on other sectors is a source of further uncertainty in the forecasts. Australia's high and volatile terms of trade also continues to present risks to the forecasts, with the downside risks more significant the further bulk commodity prices are away from marginal extraction costs.

**Table 2 – Domestic economy forecasts**

	Outcomes (a)				Forecasts				Outcomes (b)				Forecasts			
	Year average								Through the year							
	2009-10	2010-11	2011-12	2012-13	June 2010	June 2011	June 2012	June 2013	June 2010	June 2011	June 2012	June 2013	June 2010	June 2011	June 2012	June 2013
<b>Panel A - Demand and output(c)</b>																
Household consumption	2.1	3	3 1/4	3 1/2	2.6	2 3/4	3 1/4	3 3/4								
Private investment																
Dwellings	2.1	2 1/2	1 1/2	3	11.3	- 1/2	2 1/2	3								
Total business investment(d)	-4.9	4 1/2	16 1/2	14 1/2	-1.7	10 1/2	17	13 1/2								
Non-dwelling construction(d)	-8.2	8	18 1/2	17 1/2	-3.6	10	23	14 1/2								
Machinery and equipment(d)	-4.8	2	18	14	-2.6	14 1/2	15	15								
Private final demand(d)	0.7	3	5 3/4	6	2.1	3 3/4	6 1/4	6								
Public final demand(d)	7.0	4 1/4	3/4	-1 1/4	10.8	1 1/4	3/4	-2 1/2								
Total final demand	2.1	3 1/4	4 1/2	4 1/2	4.1	3 1/4	5	4								
Change in inventories(e)	0.3	0	0	0	na	na	na	na								
Gross national expenditure	2.4	3 1/4	4 1/2	4 1/2	4.7	3 1/4	5	4								
Exports of goods and services	5.2	4	7 1/2	5 1/2	8.5	4 1/2	4	7 1/2								
Imports of goods and services	4.9	9	9 1/2	8 1/2	17.7	5 1/2	10 1/2	8								
Net exports(e)	0.1	-1	- 1/2	- 3/4	-1.7	- 1/4	-1 3/4	- 1/4								
Gross domestic product	2.3	2 1/4	4 1/4	3 3/4	3.2	2 1/4	3 3/4	4								
Non-farm product	2.3	2	4 1/4	3 3/4	3.2	2 3/4	2 3/4	4 3/4								
Farm product	1.5	13	1	-3	7.1	-20	65	-29								
Nominal gross domestic product	2.3	8 1/4	6 1/2	5 3/4	8.7	7 3/4	4 1/4	6 1/4								
<b>Panel B - Other selected economic measures</b>																
External accounts																
Terms of trade	-4.4	19 3/4	- 1/2	-2 3/4	19.9	13 1/2	-8 1/4	-1 3/4								
Current account balance																
\$billion	-53.2	-25 1/2	-50	-73 3/4	na	na	na	na								
Percentage of GDP(f)	-4.1	-1 3/4	-3 1/4	-4 3/4	-1.3	- 3/4	-4 1/4	-5								
Labour market																
Employment (labour force survey basis)	1.4	3	2	1 3/4	2.4	2 3/4	2	1 3/4								
Unemployment rate (per cent)(g)	5.5	5	4 3/4	4 3/4	5.2	5	4 3/4	4 1/2								
Participation rate (per cent)(g)	65.3	65 3/4	66	66	65.3	66	66	66								
Prices and wages																
Consumer Price Index (original)																
- headline	2.3	3	3	3	3.1	3	2 3/4	3								
- underlying	3.2	2 1/4	2 3/4	2 3/4	2.7	2 1/2	2 3/4	3								
Gross non-farm product deflator	0.2	6	2 1/4	2	5.5	5 1/4	1	2								
Wage Price Index	3.1	3 3/4	4	4 1/4	3.0	4	4	4 1/4								

(a) Calculated using original data unless otherwise specified.

(b) Calculated using seasonally adjusted data unless otherwise specified.

(c) Chain volume measure, except for nominal GDP.

(d) Excluding second-hand asset sales from the public sector to the private sector.

(e) Percentage point contribution to growth in GDP.

(f) The outcomes and forecasts in the final four columns are the percentage of GDP in the June quarter in 2010, 2011, 2012 & 2013 respectively.

(g) The outcomes and forecasts in the final four columns are the rate in the June quarter in 2010, 2011, 2012 & 2013 respectively.

Note: The forecasts for the domestic economy are underpinned by several technical assumptions. The exchange rate is assumed to remain around its level at the time the forecasts were prepared, with a trade-weighted index of around 74 and a \$US exchange rate of around \$1. Domestic interest rates are assumed to rise, in line with market expectations. World oil prices (Tapis) are assumed to remain around \$US117 per barrel. The farm sector forecasts are based on average seasonal conditions over the remainder of the forecast period.

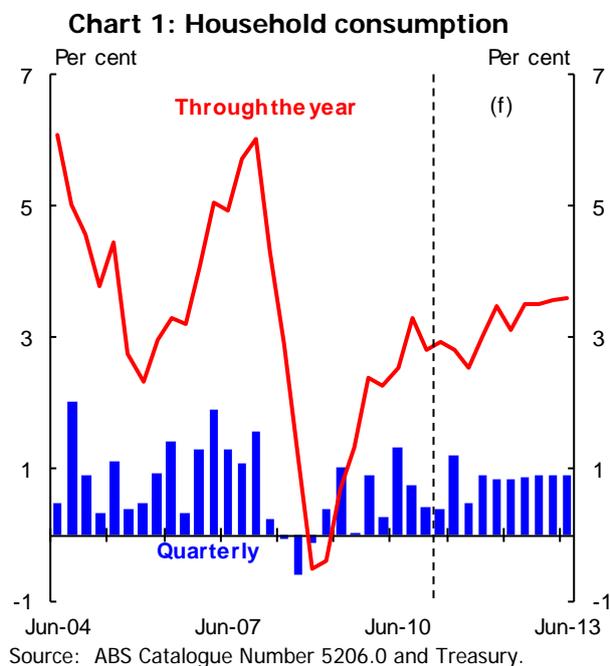
Source: ABS Cat. No. 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.

## OUTLOOK FOR THE DOMESTIC ECONOMY

Australia's economic growth is forecast to strengthen from 2¼ per cent in 2010-11 to above-trend growth of 4¼ per cent in 2011-12 and 3¾ per cent in 2012-13. The forecast for 2010-11 has been downgraded by ¾ of a percentage point since the December JIEG, reflecting the impact of the recent floods and cyclones (see Box 1) and weakness in household demand. Stronger growth in resources investment and non-rural commodity exports underpins higher forecast growth in real GDP in both 2011-12 and 2012-13.

### Household consumption

Household consumption is forecast to grow by 3 per cent in 2010-11, 3¼ per cent in 2011-12 and 3½ per cent in 2012-13. For 2010-11, this is a downgrade of ¼ of a percentage point since the December JIEG, reflecting a weaker than expected December quarter outcome and a continuation of soft retail trade and passenger motor vehicle sales in the March quarter.

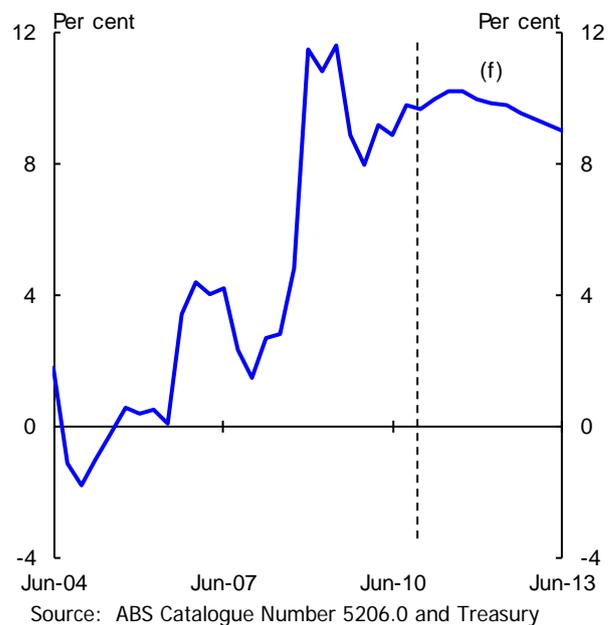


Recent household consumption growth has been weak, particularly in the context of a strong labour market, solid growth in household disposable incomes and the

continued (albeit gradual) recovery of net wealth following the global financial crisis.

Compared with the experience of the last decade, households are allocating a greater proportion of income to saving and paying down debt at an accelerated rate. The household saving ratio, which was negative in the mid-2000s, rose to 10 per cent during the GFC and has remained broadly stable since. The pace of household credit growth has slowed markedly, a higher proportion of households are ahead in their mortgage repayments and more individuals are paying off their credit cards before the end of each month.

**Chart 2: Household saving ratio**



There are several possible explanations for the evident change in household behaviour, including: the uncertainty created by the GFC, loss of financial wealth and increased realisation that elevated debt levels can leave consumers exposed to shocks; the need to save more from current income to compensate for expected slower growth in savings through capital gains; and increases in some visible consumer prices such as utilities and petrol.

Household balance sheet consolidation is a positive development in the medium-term as it will improve the resilience of the household sector to shocks. However, the implication for the forecasts is that a continuation of cautious household spending behaviour and reluctance

to take on debt will weigh on both household consumption and dwelling investment. Therefore, a key question for the forecasts is whether this change in consumer behaviour will persist, or whether stronger household finances will provide the basis for an acceleration of household consumption during the forecast horizon in the context of a favourable economic outlook.

The current forecasts chart a middle-ground, suggesting both upside and downside risks. The forecasts are for a gradual strengthening of household consumption growth over the forecast period, reaching the trend rate in 2012-13. The implication is a slight decline in the household saving ratio over the forecast period, from around 10 per cent currently to around 9 per cent in 2012-13.

### Dwelling investment

The near-term outlook for dwelling investment has weakened since December JIEFG. Dwelling investment is forecast to grow 2½ per cent in 2010-11 (unchanged from December JIEFG), 1½ per cent in 2011-12 (2 per cent at December JIEFG) and 3 per cent in 2012-13 (up from 2 per cent at December JIEFG).

Dwelling investment fell in the second half of 2010, broadly in line with the forecasts at December JIEFG. The only states to record higher investment in the second half of 2010 were Victoria and New South Wales, driven by strong growth in medium and high density construction.

Leading indicators point to further near-term weakness in dwelling investment, with falls in the number of approvals for private houses only partly offset by continued growth in medium-density approvals in Victoria.

Looking ahead, business liaison suggests that medium and high density construction in Victoria is expected to ease from current record levels. Reconstruction after the floods and cyclone Yasi will provide some support to an otherwise soft Queensland market, but the impact on the national-level forecasts is at the margin.

The forecasts are for a gradual pick up in dwelling investment growth, balancing a favourable labour market outlook with lower net international migration, household caution in taking on new debt and the assumption that mortgage interest rates will rise in line with market expectations. Housing affordability and supply-side constraints, including skilled labour shortages, difficulties in the planning and approval process and land supply issues, are also likely to continue to constrain the growth of private dwelling investment.

**Chart 3: Dwelling investment**



### Business investment

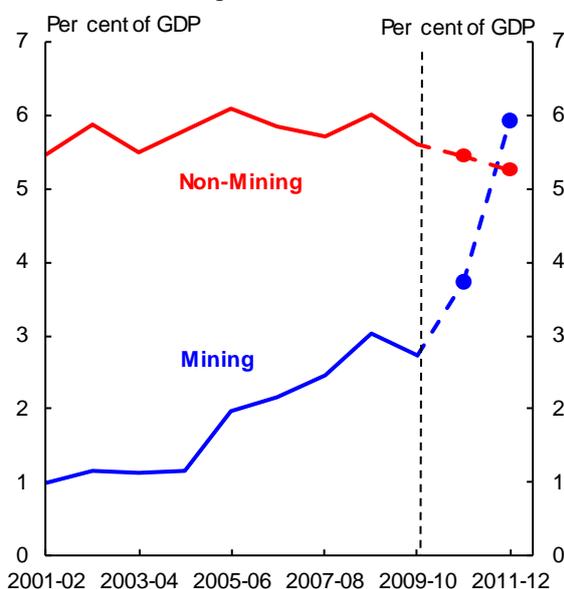
The outlook for business investment has strengthened since the December round. While the December quarter result was weaker than expected, the pipeline of resources investment has increased and the recent CAPEX survey has reaffirmed expectations of strong growth in investment through the remainder of 2010-11 and into 2011-12.

**New business investment** is forecast to grow by a slightly weaker 4½ per cent in 2010-11, reflecting the soft December quarter result. However, growth in 2011-12 and 2012-13 is expected to be stronger at 16½ per cent and 14½ per cent. Strong growth over coming years is underpinned by record capital expenditure intentions in the mining industry. This is expected to drive business investment

to new highs as a proportion of GDP by the end of the forecast horizon (Chart 4).

In recent months, survey measures of business conditions and business confidence have fluctuated following natural disasters in Queensland, Victoria and parts of New South Wales. However, they remain around long-run averages and investment intentions in the resources sector have remained strong. Business surveys continue to highlight stark differences in the performance of industries across the economy, with mining and related sectors strong, while exchange rate exposed industries such as tourism and some parts of manufacturing are much weaker.

**Chart 4: CAPEX intentions**  
(Based on long-run realisation ratios)



Source: ABS Catalogue Number 5625.0 and Treasury.

Investment in **new machinery and equipment** rose in the December quarter for only the second time in the past 2½ years, with underlying investment appearing to have found a base after the GFC and the bring-forward associated with the Small Business and General Business Tax Offset. The latest CAPEX survey estimate for 2010-11 implies a strong bounce back during the rest of this year as businesses seek to rebuild their capital stock. Machinery and equipment investment is expected to grow by 2 per cent in 2010-11, 18 per cent in 2011-12 and 14 per cent in 2012-13, led by mining related activity and necessary maintenance and replacement spending.

Despite the weak result in the December quarter, the surge in **new engineering construction** investment is now well underway. The 0.8 per cent decline in the December quarter followed 14 per cent growth over the preceding two quarters. Recent CAPEX data demonstrate the strength of expected upcoming mining investment, which will be predominantly focused on engineering construction activity. Since the December round, a couple of new projects have been added to the investment pipeline and Santos' US\$16 billion Gladstone LNG project has received a positive final investment decision. Engineering construction investment is expected to grow strongly, by 16 per cent in 2010-11, 27½ per cent in 2011-12 and 22 per cent in 2012-13.

Investment in **new non-residential building** declined during the second half of 2010 as activity under the Building the Education Revolution wound down. New building investment is now forecast to fall by 3½ per cent in 2010-11. However, underlying conditions in the sector appear to have stabilised, with building approvals recording moderate growth over recent quarters and vacancy rates finally turning down. Growth in new building investment is forecast to strengthen from 2½ per cent in 2011-12 to 8 per cent in 2012-13. Growth is expected to be driven largely by the office market, consistent with forecasts for continued strong growth in employment and industry forecasts for a pickup in office supply.

### Public final demand

Public final demand is expected to weaken over the forecast period, reflecting the withdrawal of fiscal stimulus and the fiscal consolidation plans of the Commonwealth and State governments. After peaking at 7 per cent growth in 2009-10, public final demand is expected to grow by 4¼ per cent in 2010-11, ¾ of a per cent in 2011-12, and fall by 1¼ per cent in 2012-13.

Since the December JIEG, the public final demand forecasts have been updated to reflect state government mid-year budget reviews and information on the Commonwealth

government budget available in the lead up to ERC, suggesting higher public expenditure in 2010-11 and 2011-12 and a decline in 2012-13. The main driver is higher state and local expenditure in the near-term, including rebuilding infrastructure damaged by floods and cyclones, and a downward revision to forecast growth in Commonwealth consumption and investment in 2012-13.

The withdrawal of the Government's fiscal stimulus continued to detract from growth in the December quarter, and further detractions are expected over the remainder of 2010-11 and in 2011-12. The withdrawal of the stimulus is expected to detract around 1 percentage point from GDP growth in 2010-11 and ½ of a percentage point in 2011-12.

### Exports, imports and the current account deficit

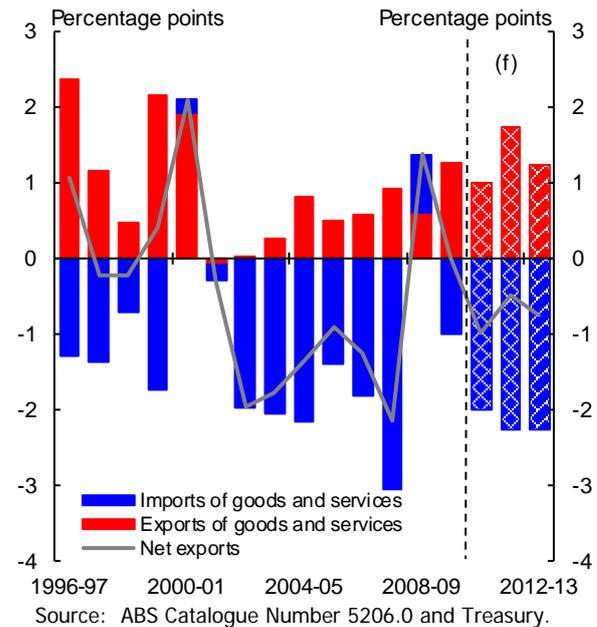
**Net exports** are expected to detract 1 percentage point from GDP growth in 2010-11. This is larger than the ½ a percentage point deduction forecast at December JIEG, reflecting temporary weakness in bulk commodity exports and importation of replacement goods following the floods and Cyclone Yasi in early-2011. Investment in mine and transport infrastructure is forecast to drive stronger growth in both exports and capital imports over the remainder of the forecast horizon. Net exports are expected to detract ½ of a percentage point from growth in 2011-12 (down from ¼ of a percentage point at December JIEG) and a further ¾ of a percentage point in 2012-13 (down from 1¼ per cent at December JIEG).

**Total exports** are expected to increase by 4 per cent in 2010-11, 7½ per cent in 2011-12 and 5½ per cent in 2012-13.

**Rural exports** are expected to increase significantly in 2010-11 (but weaker than expected at December), increasing by 13½ per cent, before declining by 1½ per cent in 2011-12 and increasing by 3½ per cent in 2012-13. The growth in export volumes in 2010-11 reflects an increase in winter crop production relative to 2009-10, notwithstanding crop losses due to recent heavy flooding across the eastern states. It is expected that the major impact of flooding will

be a significant downgrade of crop quality. The increased availability of irrigation water and improved subsoil moisture is likely to boost summer crop production, raising forecast production and exports in 2011-12. Higher production in 2011-12 is expected to flow through to increased export volumes in 2012-13, despite lower expected farm production in that year.

**Chart 5: Net exports – contribution to GDP growth**

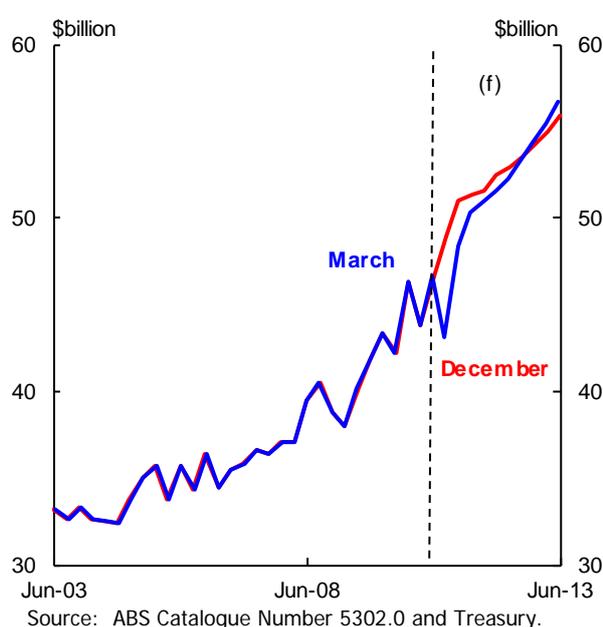


**Non-rural commodity exports** are expected to increase strongly over the forecast period, as ongoing expansions to mine and infrastructure capacity allow for greater export volumes. Growth is expected to be 4½ per cent in 2010-11, followed by 12½ per cent and 7 per cent in 2011-12 and 2012-13.

The forecast for 2010-11 is slightly higher than at December, largely reflecting a significant increase in non-rural exports for the December quarter, specifically iron ore. Thus far in the March quarter, the adverse weather experienced in Queensland's key coal mining regions has resulted in a significant decrease in coal exports. However, the impact is expected to be temporary, with coal production and exports are expected to return to levels forecast prior to the floods in the September quarter. The recent earthquake and tsunami will also reduce Japanese demand for Australia's non-rural commodity exports in the near-term.

However, the negative impact on prices and volumes is again expected to be temporary, with reconstruction likely to add to demand for steel-making inputs over the medium-term (e.g. iron ore and metallurgical coal) and any switching of power generation away from nuclear likely to support demand for thermal coal and LNG. More generally over the forecast period, ongoing strong demand from India and China, as well as expansions to mine and infrastructure capacity are expected to underpin strong growth in export volumes.

**Chart 6: Non-rural commodity export volumes**



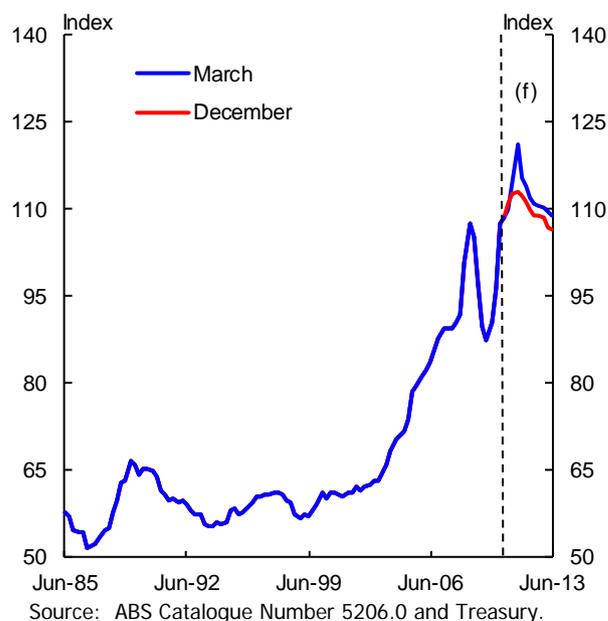
The outlook for exports of **elaborately transformed manufactures (ETMs)** is weaker than at December, with volumes growth expected to be adversely affected by the higher exchange rate. ETMs exports are expected to grow by 1 per cent in 2010-11, 2½ per cent in 2011-12 and 4 per cent in 2012-13.

For **services**, declines in student commencements during 2010 forewarn of continued weakness in Australia's education-related exports. This reflects reduced demand from key markets in China and India due in large part to more stringent student visa requirements. Tourism exports are also weak, in part, due to the strong dollar. Services exports are expected to fall by ½ of a percentage point in both 2010-11 and 2011-12

before growing by a weak 1½ per cent in 2012-13.

**Import** volumes are expected to increase strongly over the forecast period, supported by the high exchange rate and driven by capital equipment imports for the resources sector – particularly, for the construction of major LNG projects. With the re-profiling of forecast investment in machinery and equipment, the forecast growth in import volumes is stronger in 2010-11 (at 9 per cent) and 2011-12 (at 9½ per cent), but slightly weaker in 2012-13 (at 8½ per cent) compared with the December forecasts. In level terms, the forecasts for import volumes are stronger in all years compared with the December forecasts.

**Chart 7: Terms of Trade (2008-09 = 100)**



The forecasts for **terms of trade** growth are higher than at December, reflecting increases in bulk commodity prices. The terms of trade are expected to rise by 19¾ per cent in 2010-11, reaching record levels. High commodity prices are resulting in substantial investment in the resources sector, and as the supply comes on line, we expect the terms of trade to decline by ½ a percentage point in 2011-12 and a further 2¾ per cent in 2012-13. However, unexpected delays to some resource projects – largely overseas – have resulted in new supply being delayed, with the result that prices are expected to remain higher for longer. In addition, rail-related infrastructure bottlenecks

in Queensland and New South Wales are expected to hamper coal exports, even while mine and port capacity expand. Events in Japan have seen spot prices decline, but it is still too early to determine the price impact over the medium term.

The **current account deficit** is expected to narrow sharply in 2010-11 to 1¾ per cent of GDP (the lowest in three decades) – with the trade balance moving into surplus and only partly offset by a wider net income deficit. Thereafter, the current account deficit is expected to widen to 3¾ per cent of GDP in 2011-12 and 4¾ per cent of GDP in 2012-13, reflecting a narrowing of the trade surplus and a wider net income deficit.

The **trade balance** is expected to reach a surplus of 2½ per cent of GDP in 2010-11, driven by increased prices and volumes of non-rural commodity exports, and then narrow to 2 per cent of GDP in 2011-12, and 1 per cent of GDP in 2012-13 – with prices for non-rural commodities declining slightly, and import volumes continuing to increase strongly.

The **net income** deficit is expected to widen in 2010-11 and 2011-12, with a considerable proportion of the increased income from non-rural commodity exports flowing to foreign investors (in Australia’s resources sector). The net income deficit is expected to widen to 4¼ per cent of GDP in 2010-11 and 5½ per cent of GDP in both 2011-12 and 2012-13.

### Employment, wages and inflation

The labour market is expected to strengthen further over the forecast horizon. With a strong outlook for the Australian economy, the labour market is expected to return to full employment during the forecast horizon.

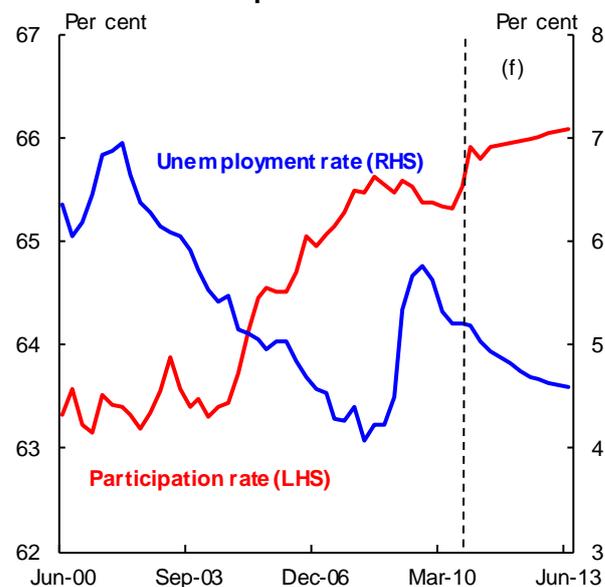
Forecasts for **employment growth** are broadly unchanged in 2010-11 and 2011-12. While employment and the participation rate have declined in early 2011, this can be attributed to falls in Queensland in the aftermath of the floods and Cyclone Yasi. However, this is expected to be temporary, with labour demand indicators (including recent job advertisements

data) pointing to a rebound in the coming months. Employment forecasts have been upgraded slightly in 2012-13 in line with higher expected economic growth.

**Employment growth** is forecast to be 2¾ per cent through-the-year to the June quarter of 2011, 2 per cent through-the-year to the June quarter of 2012 and 1¾ per cent through-the-year to the June quarter of 2013.

The **unemployment rate** is now expected to decline to 4¾ per cent in the June quarter of 2012, before falling to 4½ per cent in the June quarter of 2013 – consistent with full employment. This is occurring despite a slight upward revision in the forecast participation rate, which is expected to slowly rise to 66 per cent in the June quarter of 2013, reflecting the expected continuation of the trend increase in the participation rate of the 55+ age cohort.

**Chart 8: Unemployment and Participation rates**

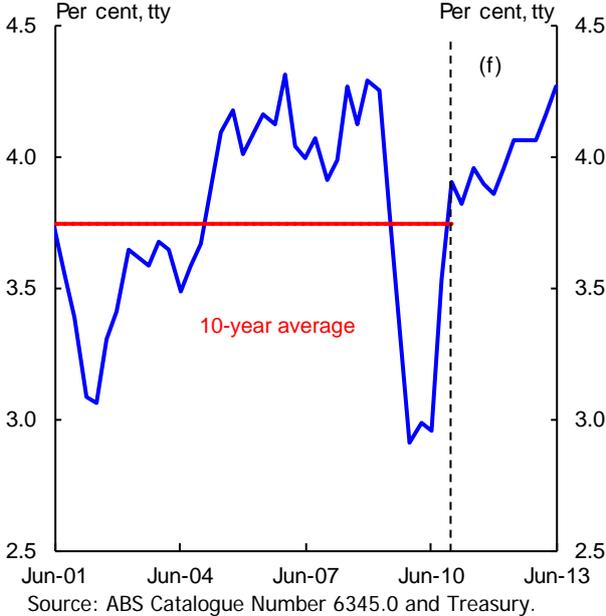


Source: ABS Catalogue Number 6202.0 and Treasury.

The **Wage Price Index** is expected to grow by 4 per cent through-the-year to the June quarters of 2011 and 2012, and by 4¼ per cent through-the-year to the June quarter of 2013. Wages growth has accelerated more rapidly than previously anticipated, with an increase in private sector wages driving growth in the Wage Price Index to above its trend rate in the December quarter. The forecasts reflect an expectation that aggregate wages growth will

increase gradually as the labour market tightens. Growth in aggregate wages is expected to mask considerable divergences between industries, with resource-related industries likely to continue to experience much stronger wages growth than other sectors.

**Chart 9: Wage Price Index growth**

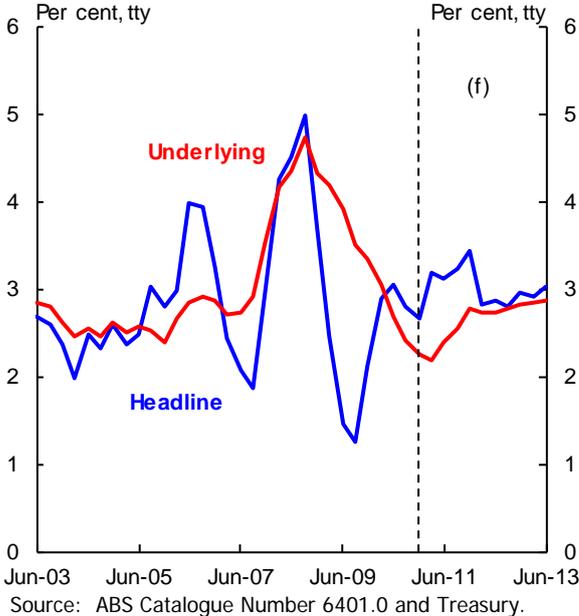


**Headline** and **underlying** measures of inflation continued to moderate in the December quarter. Weakness in the quarter was broad based, with over half of the items in the CPI basket declining in price. Inflation is expected to rebound sharply in the March quarter, reflecting the impact of flooding, Cyclone Yasi and high oil prices. While this surge is expected to be short-lived, with the unemployment rate falling within the estimated NAIRU band, and with ongoing

increases in administered prices, headline inflation is expected to be at around the top of the target band over the forecast period.

**Underlying inflation** is expected to be 2½ per cent through-the-year to the June quarter of 2011 before rising to 2¾ per cent through-the-year to the June quarter of 2012, and 3 per cent through-the-year to the June quarter of 2013. **Headline inflation** is expected to be 3 per cent through-the-year to the June quarter of 2011, 2¾ per cent through-the-year to June quarter of 2012 and 3 per cent through-the-year to June quarter of 2013 (Chart 10). With the economy expected to be operating at around capacity, inflation risks remain on the upside.

**Chart 10: Inflation**



## **BOX 1: IMPACT OF FLOODS AND CYCLONE YASI**

The widespread flooding in eastern Australia and Cyclone Yasi have had a significant impact on the near-term economic forecasts, although these disasters have not materially affected the economic outlook beyond the next couple of quarters.

It is anticipated that the direct impact of the disasters will be largely confined to the first half of 2011, with disruptions to coal production, and destruction and damage to agriculture expected to reduce real GDP growth in 2010-11 by  $\frac{1}{2}$  of a percentage point, and lead to temporary price rises for affected commodities. In 2011-12, reconstruction and the resumption of economic activity are expected to add around  $\frac{1}{4}$  of a percentage point to GDP growth.

The largest impact on the real economy will be from reduced coal production in Queensland, with production losses now estimated to be around 22 million tonnes (or \$6 billion) – largely occurring in the March quarter. Floodwaters covered and damaged key rail lines, and filled a large number of coal pits. While much of the affected rail infrastructure is now fully operational, ongoing de-watering of coal mines will mean that mine production in the affected region is unlikely to return to full capacity for a few months. The impact on export earnings is expected to be ameliorated by higher world prices – particularly for metallurgical coal. With Queensland being the world's largest supplier of metallurgical coal, the floods saw a very sharp increase in metallurgical coal spot prices amid expectations of a fall in global supply in an already-tight global market. As a result, contract prices for metallurgical coal in the June quarter are expected to be around 50 per cent higher than for the previous quarter. Coal prices are expected to return to around pre-flood levels after the affected production capacity comes back on line, currently expected in the September quarter.

For agriculture, the floods and Cyclone Yasi led to significant losses and quality downgrades to a range of crops – with the total impact estimated to be \$1.9 billion (with Queensland accounting for the majority of this). The floods affected cotton, sugar cane, fruit, vegetables and grains, while Cyclone Yasi destroyed a significant portion of the region's (and the country's) banana plantations and also affected other tropical fruits and sugar cane. Production losses have led to what is expected to be temporary price rises for a number of fruit and vegetable items. It is anticipated that these price rises will lead to an increase in March quarter headline inflation of between  $\frac{1}{2}$  and  $\frac{3}{4}$  of a per cent, with increased banana prices being the major contributor. Around two-thirds of this increase is expected to be unwound in the June quarter – consistent with the impact of previous flood and cyclone events.

The floods and Cyclone Yasi destroyed or damaged a substantial amount of public, business and household assets, the replacement of which will add to GDP growth – mainly in 2011-12. A key risk to the broader economy associated with the reconstruction and repair of assets is the availability of skilled labour in an economy that is expected to reach full employment over the next two years. While the Queensland economy and construction industry have some spare capacity, reconstruction will occur at a time when Queensland's mining sector is increasing investment and the broader Australian economy is expected to face capacity constraints. Thus, capacity constraints may emerge sooner than would otherwise be the case.

## OUTLOOK FOR THE INTERNATIONAL ECONOMY

**Table 1: International GDP growth forecasts<sup>(a)</sup>**

	2010	2011		2012	
	Actual	Dec JIEFG	Mar JIEFG	Dec JIEFG	Mar JIEFG
United States	2.9	2 1/4	3 1/4	2 1/2	3
Euro Area	1.7	1 1/4	1 1/2	1 1/4	1 1/2
Japan	3.9	1 1/4	1/4	1 1/4	2 1/2
China	10.3	8 3/4	9 1/2	9	9
India	10.7	8 3/4	8 3/4	8 3/4	8 1/4
Other East Asia (b)	7.6	5	5	5 1/2	5
Major Trading Partners	6.6	4 1/4	4 1/2	4 1/2	5
World	4.9	4	4 1/2	4 1/4	4 1/2

(a) Calculations for World, euro area and other East Asia growth rates use GDP weights based on purchasing power parity (PPP). Calculations for Major Trading Partners 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.

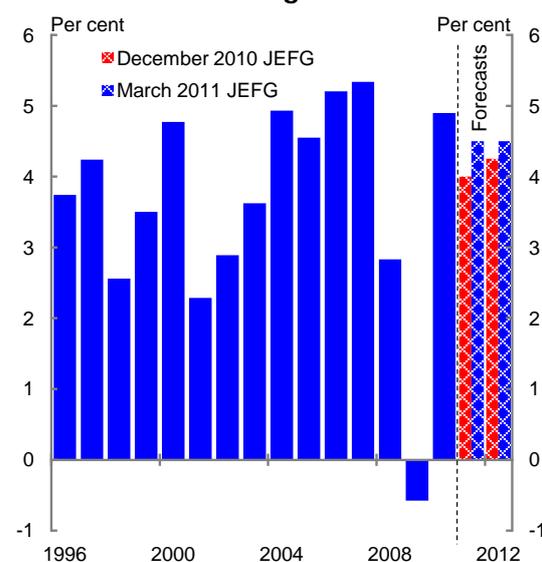
### World outlook and risks

The global economic recovery appears to be gaining traction, although recent events in Japan and in the Middle East and North African region have added to existing risks facing the global economy. The near-term growth prospects for advanced economies, most notably the United States, are improving and emerging economies, China in particular, are continuing to provide impetus.

After growing by 5 per cent in 2010, the **global growth** forecast for 2011 has been revised up to 4½ per cent (Table 1 and Chart 1). This largely reflects substantial growth upgrades to the US and China. The growth forecast for Australia's **major trading partners** in 2011 has been revised up also to 4½ per cent. This revision reflects both the stronger outlook for key major trading partners and updated export weights to include a larger share for fast growing China.

Emerging economies are forecast to moderate and grow at more sustainable rates over the forecast period but will continue to lead the global expansion.

**Chart 1: World GDP growth**



Source: IMF and Treasury.

Global growth is forecast to be 4½ per cent in 2012, the same forecast pace as 2011, with a number of economies easing to around trend rates of growth. A notable exception is the euro area, where fiscal consolidation and structural impediments will continue to weigh on growth prospects.

Despite the improvement in the global outlook, the balance of risks remains on the downside.

There is a risk that the impact of the 11 March Japanese earthquake, tsunami and nuclear crisis will persist for longer and impact on the global recovery more than currently expected. While Japan's economic influence is not as significant as 20 years ago, it remains a key player in the global supply chain for manufactured goods, potentially transmitting the domestic economic impact globally.

Another emerging risk is the unrest in the Middle East and North Africa, which has pushed oil prices to 2½-year highs, and could escalate and spread to major oil exporters such as Saudi Arabia. If this were to occur it would cause a major disruption to global oil production, leading to an extended period of very high oil prices, with negative consequences for global growth.

The ongoing European sovereign debt crisis and the impact from Japan's earthquake, tsunami and nuclear crisis are stretching the financial capacity of European and Japanese governments. While in the US the fractious debate around raising the legislated debt ceiling highlights how difficult it will be to address the longer term fiscal outlook.

There remains the potential for the sovereign debt problems in the euro area periphery to affect the broader European financial sector with the risks of contagion beyond Europe. EU authorities attempted to address some of this uncertainty by announcing reforms to its crisis resolution mechanisms in May. However, while generally well received by markets, the reforms as they stand do not address the debt problems of the euro area periphery or the underlying uncompetitiveness of peripheral economies. As a result, the potential for escalation of the crisis persists.

Another significant risk to global growth is the inflation pressures being encountered in emerging economies. Real interest rates are either negative or only slightly positive in a number of fast growing economies in emerging East Asia. This implies that authorities in these economies are 'behind the curve' in their monetary policy settings. As they try to catch up, there is the risk of a policy mis-step and a more severe slowdown than intended.

Given emerging Asia's role as a major driver of the global recovery, a severe slowing in the region's growth would have major implications for global growth prospects.

While the balance of risks is still to the downside, one significant upside risk remains. That is of a rapid improvement in sentiment and a subsequent surge in investment and activity more broadly, sourced from lending out of the substantial levels of liquidity sitting idle with banks and corporates, particularly in the US but also in Japan. A continuation of the recovery in equity markets will also reduce some of the need for deleveraging. The recent improvement in the US outlook makes this upside risk more plausible, while the reconstruction could encourage Japanese corporates to loosen their purse-strings.

## Country summaries

The outlook for the **United States** has improved significantly since December JIEFG. Following improved outcomes and the announcement of further fiscal support, the US forecast for 2011 has been revised up to 3¼ per cent, from 2¼ per cent at December JIEFG. As the impact of fiscal stimulus fades, growth is expected to moderate to 3 per cent in 2012, up from 2½ per cent at December JIEFG.

The upgrades to US growth reflect expectations that both consumer spending and business investment will pick up solidly, in part as a result of announced fiscal support – a combination of a deferral of income tax rate increases, payroll tax cuts, the extension of unemployment benefits and incentives to boost business investment. In addition, monthly data outcomes have continued to demonstrate an improvement in domestic demand, with forward indicators suggesting strong rises in industrial production, corporate profits showing continued strength and consumer and small business confidence rising. The US unemployment rate has fallen nearly one percentage point in the three months to February 2011, to dip below 9 per cent for the first time since April 2009.

Despite this significant improvement in the US growth outlook, unemployment is expected to

remain significantly above pre-crisis levels over the forecast period and the housing sector is expected to remain depressed.

Key downside risks to US growth include: weak jobs growth resulting from discouraged worker effects (payroll employment has, thus far, been positive, but modest) and the potential for an extended period of high oil prices, which would dampen consumer demand.

**China's** economy is expected to grow by 9½ per cent in 2011 (up from 8¾ per cent at December JIEG) and 9 per cent in 2012. The upward revision in 2011 reflects the stronger-than-expected growth outcome in the December quarter 2010 and strong growth in industrial production and investment.

The drivers of growth for the past two years – industrial production, loan growth and investment – are expected to moderate in the second half of 2011 as the Government attempts to engineer a moderation to address accelerating inflation and excess liquidity. Efforts to move to a slower pace of growth will be the focus of policy makers in 2011. Domestic demand is expected to make a stronger contribution to growth, while net exports will make a small positive contribution in 2011 and 2012, as they did in 2010.

Risks to growth largely depend on the effectiveness of the Government's response to inflationary pressures, excess liquidity and the persistence of strong price growth in the property sector. Since the second half of 2010, Chinese authorities have introduced a range of measures aimed at controlling food price inflation and reducing excess liquidity. Since mid-November 2010, the reserve requirement ratio has been raised by 300 basis points and benchmark interest rates have been increased by 75 basis points. The Government has also released stockpiles of food onto the market. Inflation is expected to remain elevated in the first half of 2011 (and is expected to exceed the annual inflation target of 4 per cent), and tightening measures are expected to continue, including further interest rate increases. A stronger-than-expected recovery in the US and advanced economies generally provide some upside risks to growth.

The **Japanese** economy grew 3.9 per cent in 2010 – a rate faster than any other G7 economy, but it slowed towards the end of 2010. Prior to the 11 March earthquake and tsunami the economy was expected to return to a moderate recovery path with underlying deflationary pressures remaining entrenched. In the absence of a deterioration of the nuclear crisis, the negative impact on the Japanese economy from the earthquake should be most keenly felt in the June quarter 2011. Rebuilding activity is likely to support a recovery in the second half of 2011 and into 2012. Longer term, Japan's fiscal position will be further undermined by the costs associated with the recovery phase. Overall, the Japanese economy is expected to grow by a ¼ per cent in 2011 and 2½ per cent in 2012.

The **Indian** economy has recently been growing above trend as it recovers from the global financial crisis. After growing by 10.7 per cent in 2010, the Indian economy is forecast to grow by 8¾ per cent in 2011 and 8¼ per cent in 2012. The moderation for 2011 is in part a result of an expected slowing of growth in industrial production in the first half of 2011. A tightening of monetary policy is likely during 2011, generating a further moderation of growth in 2012.

Underlying economic momentum in the **euro area** has increased since December JIEG. The multi-speed recovery is expected to continue, with increasing private sector demand in the core economies offsetting weakness in the peripheral countries. Strong business confidence is likely to sustain the recovery in domestic consumption, while the ongoing global recovery will support exports. However, the outlook remains highly uncertain due to elevated tensions in financial markets arising from the sovereign debt crisis and rising commodity prices. After recording growth of 1.7 per cent in 2010, euro area GDP is forecast to expand 1½ per cent in both 2011 and 2012.

The **United Kingdom** economy showed signs of strong growth in the middle of 2010. However, adverse weather conditions contributed to the economy contracting 0.5 per cent in the December quarter. Looking forward, the recovery is expected to be

protracted, as growth is held back by the Government's fiscal austerity measures, high inflation and rising unemployment. After modest growth of 1.3 per cent in 2010, GDP is forecast to grow 1¾ per cent in 2011 before stronger growth of 2¼ per cent in 2012.

The **Newly Industrialised Economies (NIEs)** have rebounded strongly from the global economic downturn and growth is projected to continue, albeit at a slower pace. Improving global conditions and surging export growth have helped the stronger-than-expected recovery. However, emerging inflationary pressures are likely to invoke contractionary monetary policy responses, slightly moderating future growth prospects. Real GDP is expected to grow by 4½ per cent in 2011 and 4¾ per cent in 2012.

Economic activity in the **ASEAN-5** rebounded strongly in 2010 with GDP growing by 6.9 per cent, supported by strong domestic demand and a rebound in exports which propelled economies such as Thailand, the Philippines and Malaysia to their strongest growth rates in recent years. However, economic activity is now returning to more

sustainable levels, with trade, industrial production and domestic demand all moderating over recent months.

Key risks to the region include inflation driven by high food prices and volatile capital flows, with Vietnam appearing to be the most vulnerable. Nevertheless, the policy environment remains largely accommodative and will be supported by significant investment in the region particularly in Indonesia and Malaysia. Growth in the region is forecast to moderate to 5¾ per cent in both 2011 and 2012.

The **New Zealand** recovery moderated in the second half of 2010, with the economy narrowly avoiding a technical recession. The recovery is expected to be further hampered by the February 2011 Canterbury earthquake, which caused extensive damage in the region. Despite rising commodity prices and strong demand for New Zealand's main exports, private consumption has remained weak in recent quarters as households exercise restraint and rebuild their savings. Real GDP grew 1.5 per cent in 2010 and is forecast to grow by 1¼ per cent in 2011, and 2¾ per cent in 2012.

## ATTACHMENT: NOMINAL GDP

Compared with the December JIEFG, forecast nominal GDP growth is unchanged in 2010-11,  $\frac{1}{2}$  of a per cent stronger in 2011-12 and  $\frac{1}{4}$  of a per cent stronger in 2012-13. In 2010-11, weaker forecast growth in real GDP is offset by higher forecast growth in the terms of trade. From 2011-12, real GDP growth and terms of trade forecasts have both been revised up, underpinning stronger growth in nominal GDP.

Nominal GDP is expected to grow by  $8\frac{1}{4}$  per cent in 2010-11, unchanged from the December forecast. Expected real GDP growth in 2010-11, at  $2\frac{1}{4}$  per cent, is lower by  $\frac{3}{4}$  of a per cent than the December JIEFG estimate, largely reflecting the impact of natural disasters in early 2011 on non-rural commodity exports and weaker-than-anticipated household demand. This is offset by a stronger forecast rise in the GDP deflator, with prices expected to rise 6 per cent in 2010-11, some  $\frac{3}{4}$  of a per cent more than the December JIEFG forecast. The stronger price growth is driven by a higher forecast terms of trade, with the index now forecast to rise  $19\frac{3}{4}$  per cent, compared with  $16\frac{1}{4}$  per cent at December JIEFG, consistent with recent movements in bulk commodity prices.

Nominal GDP is forecast to rise by  $6\frac{1}{2}$  per cent in 2011-12, higher than the December estimate of 6 per cent. Real GDP is expected to grow by  $4\frac{1}{4}$  per cent in 2011-12, somewhat faster than the December forecast of  $3\frac{3}{4}$  per cent, reflecting the resumption of activity following the adverse weather events in early 2011 and stronger forecast growth in resources investment and non-rural commodity exports. The GDP deflator is forecast to rise by  $2\frac{1}{4}$  per cent in 2011-12, unchanged from the December JIEFG, reflecting little change in the outlook for domestic prices and a lower forecast decline in the terms of trade, which are now expected to fall by  $\frac{1}{2}$  of a per cent, compared with a fall of  $\frac{3}{4}$  of a per cent at December.

Nominal GDP growth has been revised up by  $\frac{1}{4}$  of a per cent, to  $5\frac{3}{4}$  per cent in 2012-13. Since the December JIEFG, forecast real GDP growth for 2012-13 has been upgraded to  $3\frac{3}{4}$  per cent from  $3\frac{1}{4}$  per cent previously, again reflecting stronger forecast growth in resources investment and non-rural commodity exports. However, growth in the GDP deflator is forecast to be weaker, at 2 per cent compared with  $2\frac{1}{4}$  per cent in December. The reduction in forecast price growth is due to weaker domestic price growth, with the terms of trade still expected to fall by  $2\frac{3}{4}$  per cent.

Overall, the revisions to forecast nominal GDP growth add around \$8 billion to the level of nominal GDP over the first three years of the estimates, and \$24 billion over the five years of the forward estimates. These revisions have also added around \$12 billion to GDP at factor cost over the first three years and \$29 billion over the five year period.

The share of income going to profits has increased since the December JIEFG at the expense of the wages share, primarily due to the most recent outcome.

Growth in compensation of employees in 2010-11 is now  $7\frac{1}{2}$  per cent, down from  $8\frac{1}{4}$  per cent at December following weak wages growth in the December quarter national accounts, while in 2011-12 growth is now expected to be  $7\frac{1}{4}$  per cent, down from  $7\frac{1}{2}$  per cent. In 2012-13, growth in compensation of employees is expected to be higher than the December round at  $6\frac{1}{2}$  per cent, up from  $6\frac{1}{4}$  per cent.

Growth in corporate Gross Operating Surplus (GOS) has been revised up in each of the three forecast years. Corporate GOS is expected to grow by 12 per cent in 2010-11, up from the December forecast of 10 per cent, due to a stronger-than-anticipated December quarter outcome and strong expected growth in mining profits, consistent with the strength in commodity prices. In 2011-12, corporate GOS is expected to grow  $5\frac{3}{4}$  per cent, up from 4 per cent at December, driven by the faster growth of real GDP. In 2012-13, corporate GOS is expected to grow  $4\frac{1}{4}$  per cent, more strongly than the  $3\frac{1}{2}$  per cent at the December round.