



TREASURER'S ECONOMIC NOTE

Welcome to the latest edition of my economic note. After spending the beginning of last week in Melbourne and Canberra, I then travelled to Adelaide to join the Prime Minister and other Cabinet colleagues for one of our regular Community Cabinets. Wednesday's event was held at Norwood Morialta High School in Magill, and provided a great opportunity to get into some detailed discussions with locals on important economic issues.

Education Tax Refund

I know many mums and dads with school-age children will be feeling the pinch right about now as kids prepare to return to school for the start of a new year. The Government understands the extra financial pressure that back-to-school costs put on Australian families, which is why we introduced our \$4.4 billion [Education Tax Refund](#) in our first year in office. This initiative helps to take some of the pressure off family budgets by providing parents with refunds of up to \$375 per primary school student and \$750 per secondary school student. Eligible families can get 50 per cent back on a range of school education expenses, including stationery and school textbooks, laptops and home computers, computer-related equipment like printers and USB flash drives, and home internet connections. The [Deputy Prime Minister Julia Gillard and I](#) want to remind families to make sure they keep their receipts for these types of education expenses so they can take advantage of the tax refund. For an eligible family with two kids in high school and one in primary school, it could potentially mean a refund of almost \$2000 on education expenses.

Building Activity

The ABS released detailed [building activity figures](#) last week with breakdowns listing the amount of education work both 'done' and 'commenced' in the September quarter of last year. The data clearly shows the vital support provided by our [Building the Education Revolution](#) program for construction activity and jobs during this critical period, with the value of education work done increasing by 58.6 per cent in the September quarter. Without this impact, the value of non-residential building work done – which fell by 0.2 per cent in the quarter and was 5.9 per cent lower through the year – would have been dramatically lower, which of course in practical terms means fewer Australians in jobs. The figures also show the pipeline of activity that has been created by Building the Education Revolution projects. The value of education work commenced increased by a staggering 416 per cent in the September quarter – rising from \$1.0 billion to \$5.3 billion.

Consumer Confidence

As I've been saying for some time, the impact of our fiscal stimulus has been greater than the sum of its parts. The pipeline of activity that has been put in place by our infrastructure investments is giving businesses the confidence to keep workers on and consumers the confidence to keep spending. We saw further evidence of the impact of stimulus on consumer confidence with the latest readings from the [Westpac-Melbourne Institute Survey of Consumer Sentiment](#). It showed that consumer sentiment rose by 5.6 per cent in January and is now 46.4 per cent higher than its level in October 2008, prior to the announcement of our first fiscal stimulus package. [Westpac Chief Economist Bill Evans](#) described January's increase of 5.6 per cent as "a very strong result". He said "it is likely that the most important fillip to confidence in the month was the continuation of positive surprises on the employment situation. ... Supporting the importance of the jobs market in buoying confidence we note that over the course of 2009 the Westpac-Melbourne Institute measure of how households assess their job security has improved substantially."

World Bank

Last week's [Global Economic Prospects](#) report from the World Bank noted that the worst phase of the global crisis is now largely in the past. It's certainly encouraging to see the global economy appears to be moving towards recovery – which is more evidence of the combined impacts of stimulus measures around the world.

It's also welcome news that Australia has outperformed every major advanced economy, and we're confident but not complacent. The World Bank cautioned that "many challenges remain and much uncertainty continues to cloud the outlook." It explained that "the depth of the recession has left the global economy seriously wounded. Even as profitability returns to many of the firms that were at the heart of the crisis, industrial production and trade levels have yet to regain their pre-crisis levels, and unemployment has reached double digits in many countries and continues to rise. Given the depth of the crisis and the continued need for restructuring in the global banking system, the recovery is expected to be relatively weak." The World Bank concluded that "the depth of the recession means that even though growth has returned, countries and individuals will continue to feel the pain of the crisis for years to come."

Chinese GDP

We received news on Thursday that the Chinese economy grew by 10.7 per cent through the year to the December quarter 2009, after recording growth of 9.1 per cent through the year to the September quarter. Chinese GDP was 8.7 per cent higher in 2009 compared to 2008 which was the weakest calendar-year growth since 2002 and lower than China's long-run average annual growth rate of 10 per cent. The key reason for China's rebound since recording growth of 6.2 per cent through the year to the March quarter is the Chinese Government's strong monetary and fiscal stimulus, with growth largely driven by investment along with a solid contribution from consumption. China's latest GDP outcome is welcome news for Australian exporters, who've had a rough time during the global recession. [International trade price indexes](#) released by the ABS on Friday showed that export prices fell by 32.7 per cent over the 12 months to the December quarter 2009. This is the biggest through the year fall in the history of the series, which dates back to 1974.

Australia's Future

Over the past week Prime Minister Kevin Rudd has given speeches on Australia's future in every corner of the country, explaining that he is optimistic, but not complacent, about Australia's future and describing the new decade as "Australia's Building Decade". Travelling to Melbourne, Hobart, Adelaide, Perth, Darwin and Brisbane and now today in Sydney, the PM has talked about the central role that [productivity growth](#) must play in building Australia's future economic growth, why it is crucial that as a nation we sustain [fiscal discipline](#) as we confront the long-term challenge of an ageing population, the importance of building [advanced 21st century infrastructure](#) and having a highly-skilled workforce if we are to move to a higher productivity growth path, and our determination to tackle social exclusion and remove barriers to work so we can increase levels of workforce participation and counter the effects of the ageing of the population. The [Australian Chamber of Commerce and Industry](#), the [Australian Industry Group](#) and the [Business Council of Australia](#) have all come out in support of the PM's message about the importance of improving long-term productivity growth. As the Prime Minister said earlier in the week, this is all about "giving workers and businesses the skills, infrastructure and positive business environment to work smarter."

With Australia Day just a couple of days away, I'm really looking forward to the opportunity to celebrate what makes this country great. Australia has outperformed virtually every advanced economy during the global recession, and that is in large part due to the way Australians have pulled together and got behind economic stimulus. We've faced some big challenges over the past year-and-a-bit, and Australians have shown the rest of the world just what we're made of. We're going to need that type of community effort during the years ahead as we confront the challenges outlined in the Intergenerational Report I'll be releasing in the next week or so.

Wayne Swan

Treasurer of Australia

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