

IT'S been 18 months since the small subprime spot fire broke out in a distant part of the global forest and raced to the farthest reaches. Now governments around the world are desperately seeking to douse the flames, but it will be some time before this blaze is brought under control.

Respondents to *The Age's* half-yearly economic survey warn that in 2009 the wildfires will continue to burn: a global recession is on the cards, a quarter of a million more Australians will be in job queues, and plummeting commodity prices will sap export income. Meanwhile, the federal budget will plunge into deficit, sharemarkets will flatline — until midyear, at least — and the Australian dollar will stay out of favour with global investors.

There are few voices of optimism for the first half of the year, but come the latter part, some are expecting circumstances to improve. But it will not be until 2010 that the worst of the fires are extinguished and the slow process of regeneration can begin.

Along with providing their forecasts for key economic indicators for 2009, the 21 pundits who took part have also provided some commentary on the economic trends for the year ahead.

### **Growth and jobs**

"The next 12 months will be rough for the Australian economy," said AMP Capital's Shane Oliver, who forecast 0.5 per cent growth. "We will start to feel the pain as the economy slides into recession, if it hasn't already, driven by the slump in commodity prices and export demand, reduced confidence and wealth and, of course, tighter credit conditions."

More bullish was Commonwealth Bank's Michael Blythe, whose 1.5 per cent growth forecast was inspired by the view that the local economy was better placed than most to deal with the fallout from the global financial crisis.

"The stimulus from the commodities boom is still flowing through. The Aussie dollar is playing its usual buffering role. Housing has some protection courtesy of a demographically driven lift in demand," he said.

While the survey does not give a clear answer to the question of whether Australia will avoid the two consecutive quarters of economic contraction to meet the technical definition of a recession, the consensus seems to be that Australia will avoid that fate. But as Mr Blythe notes, "unfortunately, it will feel like a recession for some".

Chief among those will be the additional 250,000 people who are forecast to find themselves out of work come the end of the year under the 6.4 per cent unemployment rate forecast. This outlook is far gloomier than the 5 per cent predicted by the Federal Government, and is likely to precipitate an even tougher job market in 2010.

"The unemployment rate is likely heading for a peak somewhere between 7 per cent and 9 per cent in 2010," Dr Oliver says. The upper end of that prediction will have more than 1 million Australians out of work, exceeding the number of job-seekers at the depths of recession in the early 1990s.

The expectation of a rise in unemployment will put further pressure on the economy as profligacy gives way to a new-found thrift.

"Consumers will remain guarded about job security and the likely further deterioration of their wealth, ensuring weak spending despite the significant boost to household incomes, which has come already," said Westpac's Bill Evans.

For ANZ's Saul Eslake, unemployment acts as a more meaningful measure of recession, with the increase of at least 1.5 percentage points in the next 12 months putting Australia over that threshold.

But Australia is forecast to fare better than the rest of the world. Global growth is predicted to slump to just 1.4 per cent — well below the International Monetary Fund's 3 per cent recession threshold — with the US economy receding 1.6 per cent. China is still some distance from returning to the double-digit growth that has turbocharged its economy in recent years, and is expected to slow to 6.7 per cent this year.

### **Prices, interest rates and shares**

AFTER six years blowing up the interest rates balloon, the Reserve Bank has let much of the air out in just four months. But unlike other central banks around the world, the RBA finds there's still some oxygen left inside. Survey respondents expect a 50 to 75 basis point cut to interest rates early in the new year, with total cuts for the first half to total between 100 and 125 basis points.

But the cuts would come to a halt in June, with the official cash rate to stay on hold with rates at about 3 per cent.

The willingness to continue cutting rates comes from the strong conviction that the so-called inflation genie has been put back in the bottle. By year's end, inflation should be well inside the Reserve Bank's preferred 2 to 3 per cent range: the average forecast is 2.7 per cent, down from the most recent reading of 5 per cent.

Expectations of a rebound in the second half of the year are seen in predictions on movement in the Australian sharemarket. Until midyear, the market is expected to be at a virtual standstill, with the average prediction pointing to a 0.5 per cent rise in the benchmark S&P/ASX 200 Index. But for the back half of the year, a 10 per cent rise in shares is on the cards, giving some relief to patient investors.

In a sign of just how far things have fallen, if the year-end prediction of 4108 points comes to pass, it will still be 40 per cent off the all-time high in November 2007.

Unusually, given the closeness with which the Australian sharemarket followed Wall Street last year, local second-half optimism is not matched with a positive view on the prospects for foreign markets. The US market is expected to inch forward while in Britain the market is forecast to grow just 3 per cent. Japanese stocks are expected to fare worse, with negative returns forecast.

### **Trade**

AUSTRALIA is set to lose one significant factor that has cushioned it from the full impact of the global financial crisis. Tumbling commodity prices mean Australia's terms of trade — the price paid for exports compared with imports — is forecast to turn sharply southward. In the year to September, the terms of trade improved 20.6 per cent, but during 2009 the surveyed economists predict it will fall 11.9 per cent.

The Australian Industry Group's Heather Ridout warns that the slowdown in emerging economies will "entrench a significant decline in global commodity prices".

The unwillingness of major institutions to lend to each other has put renewed focus on company debt levels, and the same attention is now being paid to national debt levels. Australia's net foreign debt is predicted to grow another \$56 billion to \$712 billion. Meanwhile, the current account deficit is projected to blow out \$51 billion, which Peter Brain from the National Institute for Economic and Industry Research warns could have dire consequences.

"Australia will learn the high cost of sustained 5 per cent-plus current account deficits over the last quarter century," Dr Brain said, because it will limit the ability of government to push for growth.

The Australian dollar is forecast to move sideways against the yen and the US dollar, but gain slightly against the euro. Austrade's Tim Harcourt says the depreciated currency could ease the impact of a global slowdown. "The lower Australian dollar will assist the nominal competitiveness of exporters and the relative attractiveness of Australia as a target for foreign direct investment."

The strengthened position of exports sits alongside falling oil prices as one of the few causes for optimism. But the zeitgeist seems to be captured by Dr Brain's tip for the year ahead: "Australia will become a more grumpy place."