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Media Release

Embargoed until 11am

27 May 2011

Is 4 % growth probable or only possible?

The May issue of the *Melbourne Institute Monthly Bulletin of Economic Trends* presents the Macroeconomics team's quarterly forecasts of the Australian economy. This issue is again a cautionary tale for the outlook of the Australian economy.

According to Dr. Edda Claus, "We rely on a series of econometric models for our forecasts. Keeping with this approach we forecasted that Australia would steer clear of a recession during the GFC and forecasted only moderate rises in the unemployment rate during the crisis. We continue to rely on our econometric models and our forecasts are again putting us at odds with others'.

Two points in particular put us at odds. First, while we expect a robust rebound in business investment we do not expect growth rates to be close to historical highs. Second, we have a more moderate outlook for the labour market as we see disturbing developments in the labour market."

She added, "We view a rise in the target cash rate at the RBA's June policy meeting as a possible pre-emptive strike to keep a lid on domestic inflation. While we continue to forecast at least two rate rises, we are mindful of the fact that consumer confidence remains weak, and global financial conditions are still problematic."

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