



Australia in 2006

And Beyond



An essential guide for planning and risk management

Drivers of the next big population movement – and the destinations

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There are many threats to business success but in late 2005 there seems to be more than usual to worry about. There is the spectre of terrorism, the danger of a bird flu pandemic, and the threat of damaging weather intensified by global warming. And what are the chances of a further costly rise in oil prices? These are in addition to the usual risks such as rising interest rates, economic recession, and a stock market crash. Politically, a continued weak opposition brings risks – and what political disruptions would follow if John Howard decided to retire as Prime Minister?

These issues and more are addressed in **Australia in 2006**. The main components of **Australia in 2006** are:

- Economic forecasts
 - Including GDP and its components, housing, interest rates, and house prices;
- Consumer spending forecasts
 - Including retail sales and new vehicles sales
- Births forecasts
 - By broad age group of mother
- Assessment of risk factors
 - Including economic recession, stockmarket crash, Asian bird flu, petrol prices, global warming, and terrorism
- Potential impacts on business confidence
- Implications for media, retail, and other industries

Our forecasts have achieved a consistent track record for accuracy and our extensive tracking of the consumer pulse provides insight into consumer priorities and behaviour in 2006. We have drawn on a diverse range of analysis and opinion in evaluating risk factors.

Our forecasting models quantify the impacts, including lagged effects, of factors such as interest rates and petrol prices on activity. We also apply analytical techniques to evaluate the trajectory of global warming and the likelihood that other events will occur, such as further rises in the price of oil.

But some things are hard to predict with any certainty – economists almost never correctly predict an economic recession or even a slowdown.

In his book “The Wisdom of Crowds”, James Surowiecki makes a compelling case that if you want to make a correct decision then large numbers of ordinary people can provide better advice than a small number of experts.

Surowiecki shows that if you ask a large enough sample of diverse, independent people to make a prediction or estimate a probability, and then average those estimates, the errors each individual makes in coming up with an answer will cancel themselves out. Each persons guess has two components: information and error (or signal and noise). The process of averaging tends to cancel out the errors, leaving the information.

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On the other hand, small groups of experts tend not to have a diversity of opinion and nor have they necessarily come to their opinions independently. Nor do experts always provide information in a useful form. For example, experts might say that it is inevitable that H5N1 avian influenza will mutate into a form that can be spread between humans – but they can't say when and won't provide a probability that it will happen in 2006. Thus, it is hard for business and government planners to know the relative likelihood that the biggest threat in 2006 will be bird flu, a terrorism attack, an economic recession, or John Howard retiring from politics.

We have tapped into the wisdom of the masses in two ways. We have sought the opinions of a small number of intelligent, experienced, and independent laypersons about the likelihood of disrupting events such as terrorism occurring in Australia in 2006 and beyond. And we have surveyed 500 adults selected at random (nationally representative telephone sample) about their opinions on the likelihood of various events happening in 2006.

We do not claim that these findings represent a highly accurate estimate of the probability that certain events will occur in 2006, but the relative probabilities are a basis for risk management. That is, they can assist decision makers to form opinions on the most likely risks, which they can combine with impact analysis to allocate resources to mitigate potential damage.

The opinions of consumers are important in another way. They provide insight into what consumers are expecting to happen. For example, they will lead to the next big population movement and this information indicates where the destinations will be. The opinions will not only be a factor influencing their behaviour - it will also indicate perceived risks which they will expect governments and businesses to address.

Consumer expectations concerning future interest rates and house prices, at least in a directional sense, have been tracked by foreseechange for some time and have been shown to have some predictive power. We have also tracked measures of willingness to spend and perceived financial wellbeing for some time and these have statistically significant predictive power in relation to retail sales. The October 2005 readings of these measures are contained in **Australia in 2006**.

We have also asked consumers to rate 21 issues on the basis of how concerned they expect to be about them in the future. This provides insight into the context within which consumers are making their purchasing, investment, employment, and political decisions. Many of these issues were also rated in a 2002 foreseechange survey and this is a basis for understanding the changing consumer mindset.

Finally, we have asked consumers how they expect their lifestyle to change in 2006 on a battery of seven activities. This, along with the other consumer opinions presented, will provide a basis for developing ideas about the opportunities and threats presented by 2006.

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Australia in 2006 costs only \$200 (including GST). An order form accompanies this document. An investment of only \$200 will substantially improve your planning and risk management in 2006 and beyond.

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“Nelson is one of Australia’s most respected forecasters of consumer behaviour and spending patterns. Why is he respected? Because most of his forecasts come true”.
Neil Shoebridge, Business Review Weekly, November 13-19 2003, page 62.

“Congratulations on being eerily close again.” Nick Senior, General Manager,
Subaru.

“I have just gone through this presentation and found it to be absolutely brilliant”.
Peter Tomlinson, former MD of Saga Radio, referring to our presentation to the 2005
Baby Boomer and Seniors Marketing Conference.