

Investment surge could force rates up

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VICTORIA is at the centre of an investment surge so big that it has confounded all forecasts and provided the strongest indication yet that Australia is on the verge of a sustained economic recovery.

Business investment surged 3.3 per cent in the three months to the end of June, nearly all of it accounted for by an astonishing 20 per cent rise in Victoria.

Private capital expenditure in Victoria is now at its highest on record, even after adjusting for inflation.

The figures will feed into next week's national accounts for the June quarter, with economists upgrading their growth predictions. Given that there was slight growth in the March quarter, it now seems likely that Australia will emerge from the global financial crisis having avoided going into technical recession — two successive quarters of contraction.

The surprising rebound in investment has also increased the possibility of an interest rate rise before the end of the year.

Private forecasters had been expecting a nationwide collapse in investment of 8 per cent over the June quarter, and the federal budget had forecast a further collapse of 18.5 per cent this financial year.

James McIntyre of the Commonwealth Bank hailed the

GOING UP, GOING DOWN

Business capital expenditure,
June quarter (\$million)

Victoria	▲ \$802
Western Australia	▲ \$445
Tasmania	▲ \$57
South Australia	▼ \$16
NSW	▼ \$40
Northern Territory	▼ \$303
Queensland	▼ \$407

Victoria-centred recovery in investment as a "nail in the coffin" of the Treasury's budget forecast of an 8.5 per cent unemployment rate.

"Investment has gone from being our Achilles heel to the best foot we can put forward," he said.

ICAP Securities economist Adam Carr said until recently business investment had been the weakest link in the Australian economic story.

"It's not looking so weak any more, and this is during a period of significant uncertainty," he declared. "If the worst of the global financial crisis doesn't induce a significant drop in investment, I don't think a global recovery will."

The Australian Bureau of Statistics survey took place before last week's announcement of the giant \$50 billion liquefied natural gas export agreement with China, and before recent strong news on construction and retail spend-

ing, suggesting that further upgrades in investment spending are on the way.

Late yesterday Westpac upgraded its estimate of June quarter economic growth from 0.4 per cent to 0.7 per cent. JPMorgan upgraded its estimate to 1 per cent.

Deutsche Bank's Tony Meer credited budget tax breaks for investment for the turnaround saying, "This is just further evidence, if any is needed, that policy has worked exactly as was planned and hoped."

The Commonwealth Bank's James McIntyre raised the prospect of the surge in investment being too strong, saying it was "coming as the impact of the Government's infrastructure stimulus package is only beginning to be felt".

David De Garis, of the National Australia Bank, said even the Reserve Bank's most recent optimistic economic forecasts looked outdated. "If there is a larger-than-expected GDP outcome next week, then the timetable for interest rate hikes may well be dragged forward," he said, adding that a rise before the end of the year looked "increasingly likely".

Markets are pricing in an even-money chance of a rate rise in November, followed by others to take the cash rate from 3 per cent to 5 per cent by the end of next year.

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