Australian Government
The Treasury

TSY/AU

JOINT ECONOMIC FORECASTING GROUP REPORT

ECONOMIC OUTLOOK FOR
2017-18, 2018-19 and 2019-20

March 2018

1. Since the December 2017 JEFG, the near-term economic outlook has been upgraded, with the economy expected to grow at a solid pace as the drag on growth from falling mining investment reaches completion. Real GDP is forecast to grow by 2¾ per cent in 2017-18 before picking up to 3 per cent in both 2018-19 and 2019-20 (see Table 1).

2. The upgrade to real GDP growth in 2017-18, from 2½ per cent at the December 2017 JEFG, largely reflects stronger-than-expected outcomes for consumption, business investment and public final demand in the December quarter. Partially offsetting the increase in real GDP growth in 2017-18 are downgrades to dwelling investment and the contribution from net exports.

3. Overall the outlook for the global economy remains positive. Global GDP is forecast to grow by 3¾ per cent in each of 2018, 2019 and 2020. Of particular importance to Australia, our major trading partner GDP growth is expected to outpace global GDP growth. Major trading partner GDP growth is forecast to be 4¼ per cent in each of 2018, 2019 and 2020.

4. Bulk commodity prices have remained elevated since the December 2017 JEFG. The iron ore spot price is assumed to be US$55 per tonne throughout the forecast period. The metallurgical coal spot price is assumed to fall from a recent average of US$223 per tonne[1] through the June and September quarters of 2018 to reach US$120 per tonne in the December quarter 2018. The thermal coal spot price is assumed to be US$85 per tonne throughout the forecast period. Oil prices and the exchange rate are lower than the December 2017 JEFG assumption. The oil price assumption (Malaysian Tapis) is US$67 per barrel and the exchange rate is assumed to be 78 US cents and 63 on a trade-weighted basis (TWI).

5. Reflecting the new assumptions for commodity prices, the terms of trade are forecast to be higher in the near term compared with the December 2017 JEFG but then fall by slightly more in 2019-20. As a result, nominal GDP is forecast to grow by 4¼ per cent in 2017-18, 3¾ per cent in 2018-19 and 4½ per cent in 2019-20.

6. Household consumption is forecast to grow by 2¾ per cent in 2017-18, 2018-19 and 2019-20. Consumption growth in 2017-18 has been revised up by ½ of a percentage point since the December 2017 JEFG, in line with recent actuals (including revisions). As has occurred over the past few years, consumption is expected to grow faster than household income over the forecast period, resulting in a further decline in the household saving rate.

7. Dwelling investment is forecast to fall by 3 per cent in 2017-18, reflecting recent weak outcomes that followed softness in approvals in late 2016. Dwelling investment is forecast to rise slightly by 1½ per cent in 2018-19 with no further growth in 2019-20. The elevated level of dwelling investment will be supported by the strong pipeline of work to be done and strength in approvals since mid-2017.

8. Total new private business investment is forecast to grow by 4½ per cent in 2017-18, 3 per cent in 2018-19 and 4½ per cent in 2019-20. The near-term upgrade to growth reflects strength in non-mining business investment in recent quarters, in line with survey measures of business conditions as well as evidence that increasing infrastructure investment in the public sector is having positive spillovers to investment in the private sector. Growth in non-mining investment is expected to continue to offset falls in mining investment over the next few years.

9. Net exports are expected to detract ½ of a percentage point from GDP growth in 2017-18, reflecting strong outcomes for imports across the first half of the year. Rural commodity exports are also expected to detract from GDP growth as they return to more usual levels following a recent period of favourable weather conditions and record output. Resource exports are expected to continue to

[1] S&P Global Platts

grow solidly as the last of Australia's liquefied natural gas (LNG) projects under construction come online, though exports growth moderates in 2019-20 as the big boost to production growth from the mining investment boom is completed. Services exports are expected to grow solidly through the forecast horizon. Growth in import volumes is expected to ease from the strong growth in 2017-18, as import-intensive investment in Australia's large-scale mining projects winds down.

10. The labour market is expected to be supported by solid growth in domestic demand. Following very strong employment growth over the second half of 2017, employment growth is forecast to be 2¾ per cent over the year to June 2018, easing to 1½ per cent in 2018-19 and 2019-20. The participation rate has also been upgraded in line with recent actuals, while the forecast is for the unemployment rate to continue to gradually decline.

11. The forecast for the Consumer Price Index and the Wage Price Index also remains unchanged from the December 2017 JEFG. While the labour market has experienced broad-based improvements, wage growth remains subdued. As the unemployment rate falls, wage growth is forecast to pick up to 2¼ per cent through the year to the June quarter 2018, 2¾ per cent through the year to the June quarter 2019 and 3¼ per cent through the year to the June quarter 2020. Consumer price inflation also remains subdued, reflecting subdued wage growth, ongoing competition among retailers and subdued rental price growth. Inflation is expected to rise gradually over the forecast horizon as economic growth accelerates and wage growth picks up. Through-the-year growth in consumer prices is forecast to be 2 per cent in the June quarter 2018, 2¼ per cent in the June quarter 2019 and 2½ per cent in the June quarter 2020.

12. There are a number of risks around both the international and domestic forecasts. In terms of the global outlook, growth could exceed forecasts in some key economies, including in the United States from expansionary fiscal policy. In contrast, downside risks include geopolitical uncertainty and recent moves towards trade protectionism and a faster-than-expected tightening of monetary policy.

13. In terms of the domestic outlook there are both upside and downside risks. For consumption there is a risk that continued subdued income growth may result in slower consumption growth than forecast; however, on the upside, stronger labour market conditions could result in stronger consumption growth. For dwelling investment, delays between a project being approved and commenced could provide a downside risk, while non-mining business investment could be stronger or weaker than expected. Commodity prices remain a key uncertainty for the nominal economy, while weaker-than-expected inflation and wage growth pose downside risks.

Table 1: Domestic economy forecasts

Per cent(a)	2016-17 Outcomes(b)	2017-18 Mar-JEFG	2018-19 Mar-JEFG	2019-20 Mar-JEFG
Gross Domestic Product				
Real gross domestic product	**2.1**	**2 3/4**	**3**	**3**
Household consumption	2.6	2 3/4	2 3/4	2 3/4
Dwelling investment	2.8	-3	1 1/2	0
Total business investment(c)	-4.0	4 1/2	3	4 1/2
Mining investment	-24.2	-11	-7	3 1/2
Non-mining investment	6.1	10 1/2	5 1/2	5
Private final demand(c)	1.4	2 1/2	2 1/2	3
Public final demand(c)	5.1	4 3/4	3	2 3/4
Change in inventories(d)	0.1	- 1/4	0	0
Gross national expenditure	2.4	3	2 3/4	3
Exports of goods and services	5.5	2 1/2	4	2 1/2
Imports of goods and services	4.9	5	2	2 1/2
Net exports(d)	0.0	- 1/2	1/4	0
Nominal gross domestic product	**5.9**	**4 1/4**	**3 3/4**	**4 1/2**
Prices and wages				
Consumer price index(e)	1.9	2	2 1/4	2 1/2
Wage price index(f)	1.9	2 1/4	2 3/4	3 1/4
GDP deflator	3.8	1 1/2	1/2	1 1/2
Labour market				
Participation rate (per cent)(g)	65.0	65 3/4	65 1/2	65 1/2
Employment(f)	1.9	2 3/4	1 1/2	1 1/2
Unemployment rate (per cent)(g)	5.6	5 1/2	5 1/4	5 1/4
Balance of payments				
Terms of trade	14.4	1 1/2	-5 1/2	-2 1/2
Current account balance (per cent of GDP)	-2.1	-2 1/4	-2 3/4	-3 1/4
Other				
Household savings ratio	3.8	3	2 1/4	1 3/4
External factors				
Major trading partner growth(h)	4.5	4 1/4	4 1/4	4 1/4
Iron ore ($US/t, FOB)(i)	57	55	55	55
Metallurgical coal ($US/t, FOB)(i)	190	197	120	120
Thermal coal ($US/t, FOB)(i)	80	85	85	85
Assumptions				
Exchange rate (AUD/USD)(i)	75	78	78	78
Trade weighted index (TWI)(i)	65	63	63	63
Oil price (Tapis) ($US/barrel)(i)	51	67	67	67
Cash rate (per cent)(i)	1.50	1.50	1.75	1.75

(a) Percentage change on preceding year unless otherwise indicated.
(b) Calculated using original data unless otherwise indicated.
(c) Excluding second-hand asset sales.
(d) Percentage point contribution to growth in GDP.
(e) Through-the-year growth rate to the June quarter.
(f) Seasonally adjusted, through-the-year growth rate to the June quarter.
(g) Seasonally adjusted rate for the June quarter.
(h) Report in calendar years (i.e. 2017-18 = 2018).
(i) Level in the June quarter.

Source: ABS cat. no. 5204.0, 5206.0, 5302.0, 6202.0, 6345.0, 64010, unpublished ABS data and Treasury.