



Australian Government
The Treasury

TSY/AU

JOINT ECONOMIC FORECASTING GROUP REPORT

ECONOMIC OUTLOOK FOR
2018-19 and 2019-20

September 2018¹

¹ This report is based on domestic and international data released up to 3 October 2018.

1. Economic conditions have evolved broadly in line with the 2018-19 Budget forecasts. The outlook for real GDP growth is unchanged, with growth forecast to be 3 per cent in both 2018-19 and 2019-20 (see Table 1). But there have been some changes to the outlook for components of GDP, particularly in 2018-19. Upgrades to the forecasts for growth in public final demand and new business investment have been broadly offset by weaker growth in dwelling investment and consumption, as well as a downgrade to the contribution from net exports, partly reflecting a downgrade to rural exports as a result of the drought.
2. Global economic growth remains relatively strong, but the global economy is less synchronised than it was in 2017. Forecasts for both global economic growth and major trading partner growth are unchanged since Budget, despite modest downgrades to the growth outlook for both the US and China. Downside risks have increased, most notably with regard to trade tensions and emerging economy debt. Other risks include financial market volatility and a faster than-expected tightening of monetary policy in advanced economies.
3. Real GDP grew by 2.9 per cent in 2017-18, slightly above the 2¾ per cent growth forecast in the 2018-19 Budget. Growth in consumption, public final demand and non-mining business investment was stronger than expected, while the detraction from dwelling and mining investment was smaller than expected. Despite continued growth in mining and services exports, net exports detracted from growth, partly as a result of an increase in capital imports, linked to the strong growth in business investment.
4. Household consumption is forecast to grow by 2½ per cent in 2018-19 and 3 per cent in 2019-20, supported by a gradual pick-up in wage growth and continued growth in employment. The ¼ of a percentage point downgrade to household consumption growth in 2018-19 since Budget reflects the anticipated impact of the reclassification of some expenditure from household consumption to public consumption as a result of changes to child care support payments, which came into effect on 2 July 2018.²
5. Dwelling investment is forecast to grow by ½ of a per cent in 2018-19 and to fall by 2 per cent in 2019-20. Although these growth rates are weaker than were forecast at Budget, they reflect an unwinding of strength seen in the second half of 2017-18, with the level of dwelling investment still expected to be about the same at the end of the forecast period as was forecast at Budget.
6. New business investment is forecast to grow by 3½ per cent in 2018-19 and by 5 per cent in 2019-20, a little faster than was forecast at Budget. This reflects an upgrade to the outlook for both mining and non-mining business investment.
7. Public final demand is forecast to grow by 4¼ per cent in 2018-19 and by 2¾ per cent in 2019-20, a little faster than was forecast at Budget. The upgrade to public final demand reflects recent outcomes, as well as updated information on State and Territory expenditure from their budget updates and the anticipated impact of the reclassification of some expenditure from household consumption to public consumption as a result of changes to child care support payments.
8. Net exports are forecast to detract ¼ of a percentage point from growth in 2018-19 and to make no contribution in 2019-20. This is a downgrade of ½ of a percentage point in 2018-19, reflecting the expected impact of the drought on rural exports and slower growth in non-rural commodity exports following a period of temporary strength in late 2017-18. Import growth is also expected to be stronger than forecast at Budget.
9. Dry seasonal conditions across south-east Australia and well-below-average rainfall across much of New South Wales and Queensland mean that farm production and rural exports will be lower than forecast at Budget. The detraction from GDP is expected to be less than what was observed in 2002-03 and 2006-07, when there were more severe drought conditions over a greater part of the country. Weather conditions continue to evolve and the forecasts remain dependent on timely rain through spring.
10. Nominal GDP grew by 4.7 per cent in 2017-18, which was stronger than the 2018-19 Budget forecast of 4¼ per cent. The higher-than-expected result was primarily driven by stronger-than-expected real GDP growth and prices for key commodities remained elevated since the 2018-19 Budget. Reflecting new assumptions for commodity prices, the terms of trade are forecast to be higher in 2018-19 compared with the 2018-19 Budget, but then fall by more in 2019-20. As a result, nominal GDP is forecast to grow by 4¾ per cent in 2018-19 and 4¼ per cent in 2019-20.

² These forecasts were prepared based on information Treasury had at the time that the changes to child care support payments in July 2018 would lead to a shift in activity between household consumption and public consumption.

11. 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 through the December quarter of 2018 and the March quarter of 2019 to reach US\$120 per tonne in the June quarter 2019. The thermal coal spot price is assumed to be US\$93 per tonne throughout the forecast period. The exchange rate is lower than the 2018-19 Budget assumption and is assumed to be 73 US cents and 63 on a trade-weighted basis (TWI). The oil price is higher than the 2018-19 Budget assumption and is assumed to be US\$76 per barrel (Malaysian Tapis).
12. Labour market conditions have been strong, with almost 350,000 jobs created in 2017-18. Employment grew by 2.7 per cent through the year to the June quarter 2018 and the unemployment rate was 5.4 per cent in the June quarter 2018, both consistent with the 2018-19 Budget forecasts. Reflecting stronger labour market outcomes so far in 2018-19, the forecast for employment growth has been upgraded by $\frac{1}{4}$ of a percentage point to $1\frac{3}{4}$ per cent through the year to the June quarter of 2019. The unemployment rate is unchanged from Budget and is forecast to be $5\frac{1}{4}$ per cent in the June quarters of 2019 and 2020.
13. Wage and consumer price growth have each been slightly downgraded, by $\frac{1}{4}$ of a percentage point through the year to the June quarters of 2019 and 2020. While wage and consumer price growth through the year to the June quarter 2018 were consistent with the 2018-19 Budget forecasts, recent momentum has been a little weaker than would usually be expected at this stage of the economic cycle. The child care policy changes are also expected to result in a weaker CPI in the September quarter 2018, due to the impact on out-of-pocket child care costs. Wage growth and inflation are expected to pick up as spare capacity in the economy is absorbed.

Table: Domestic economy forecasts

Per cent ^(a)	2017-18	2018-19	2019-20
	Outcomes ^(b)	Sep-JEFG	
Gross Domestic Product			
Real gross domestic product	2.9	3	3
Household consumption	3.0	2 1/2	3
Dw elling investment	-0.5	1/2	-2
Total business investment ^(c)	6.0	3 1/2	5
Mining investment	-7.9	-4 1/2	3
Non-mining investment	11.0	6	5 1/2
Private final demand ^(c)	3.1	2 1/2	3
Public final demand ^(c)	4.9	4 1/4	2 3/4
Change in inventories ^(d)	0.0	0	0
Gross national expenditure	3.5	3	3
Exports of goods and services	3.4	2	3 1/2
Imports of goods and services	6.9	3	3
Net exports ^(d)	-0.8	- 1/4	0
Nominal gross domestic product	4.7	4 3/4	4 1/4
Prices and wages			
Consumer price index ^(e)	2.1	2	2 1/4
Wage price index ^(f)	2.1	2 1/2	3
GDP deflator	1.7	1 1/2	1 1/4
Labour market			
Participation rate (per cent) ^(g)	65.6	65 1/2	65 1/2
Employment ^(f)	2.7	1 3/4	1 1/2
Unemployment rate (per cent) ^(g)	5.4	5 1/4	5 1/4
Balance of payments			
Terms of trade	1.9	- 3/4	-3 1/2
Current account balance (per cent of GDP)	-2.9	-3 1/4	-3 3/4
Other			
Household savings ratio	1.9	3/4	1/2
External factors			
Major trading partner growth ^(h)	4.6	4 1/4	4 1/4
Iron ore (\$US/t, FOB) ⁽ⁱ⁾	58	55	55
Metallurgical coal (\$US/t, FOB) ⁽ⁱ⁾	190	120	120
Thermal coal (\$US/t, FOB) ⁽ⁱ⁾	80	93	93
Assumptions			
Exchange rate (AUD/USD) ⁽ⁱ⁾	76	73	73
Trade w eighted index (TWI) ⁽ⁱ⁾	63	62	62
Oil price (Tapis) (\$US/barrel) ⁽ⁱ⁾	76	76	76
Cash rate (per cent) ⁽ⁱ⁾	1.50	1.50	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) Reported in calendar years (i.e. 2017-18 = 2017).

(i) Level in the June quarter.

Source: ABS cat. no. 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.