



Australian Government

The Treasury

JOINT ECONOMIC FORECASTING GROUP REPORT

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

December 2017

This report incorporates domestic and international data released up to 6 February 2018.

1. The economic outlook is broadly unchanged from the 2017-18 Mid-Year Economic and Fiscal Outlook (MYEFO). The economy is 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 2½ per cent in 2017-18 and 3 per cent in 2018-19 (see Table 1). The forecasts for employment growth and the participation rate have been upgraded to reflect recent strong labour force data, while the forecast for the unemployment rate remains unchanged compared with the MYEFO.
2. The outlook for the global economy continues to improve. A number of major economies including Japan and the euro area have performed better than expected since the MYEFO and the US tax reform package has been a significant development. The size of the reform exceeded expectations, resulting in an upgrade to the US GDP growth forecast. Significant support for consumption and business investment is expected, particularly in the short term as the economy adjusts to the new settings. World GDP is forecast to grow by 3¾ per cent in 2018, 2019 and 2020. This is a slight upgrade to the 2018 forecast which was 3½ per cent at the MYEFO. Major trading partner growth is forecast to be 4¼ per cent in 2018, 2019 and 2020 – this is ¼ of a percentage point higher in 2018 and 2019 compared with the MYEFO.
3. Bulk commodity prices have also remained elevated since the MYEFO. Oil prices and the exchange rate are also higher than the MYEFO assumption. The iron ore price is assumed to fall through the March and June quarters of 2018 to reach US\$55 per tonne in the September quarter 2018. The metallurgical coal price is assumed to fall through the March and June quarters of 2018 to reach US\$120 per tonne in the September quarter 2018. The thermal coal price is assumed to be flat at US\$85 per tonne. The oil price assumption (Malaysian Tapis) is US\$70 per barrel and the exchange rate assumption is 79 US cents and a TWI of 65.
4. Reflecting the new assumption for iron ore prices, the terms of trade are forecast to be slightly higher in the near-term compared with the MYEFO but then fall by slightly more in 2018-19 with the phase-down in the iron ore price assumption. As a result, nominal GDP is forecast to grow by 3¾ per cent in both 2017-18 and 2018-19, up from 3½ per cent and down from 4 per cent respectively, compared with the MYEFO.
5. This JIEG Report includes 2019-20 as a forecast year for the first time. Real GDP is forecast to grow by 3 per cent in 2019-20, with support from business investment, as the drag from mining investment reaches completion. Support to growth is also expected from household consumption, public final demand and exports. Dwelling investment is expected to fall slightly, following its strong expansion over recent years.
6. Above-trend real GDP growth is expected to support solid employment growth, with the unemployment rate forecast to be 5¼ per cent in the June quarter 2020. Wages are forecast to grow by 3¼ per cent through the year to the June quarter of 2020, while headline consumer price inflation is forecast to be 2½ per cent. Nominal GDP growth is expected to be 4¾ per cent in 2019-20.
7. There are a number of uncertainties for both the international and domestic forecasts. While current adjustments to US monetary policy have been anticipated by markets, faster-than-expected tightening in US monetary policy could lead to tighter financial conditions and disruptions in markets. High levels of debt in some euro area countries could also pose a risk. In China, the main challenge will be progressing structural reforms needed to sustain growth while managing the risks associated with continued debt accumulation and excess capacity in parts of the economy. More broadly, geopolitical risks remain elevated, including in the Middle East and on the Korean peninsula.
8. There are both upside and downside risks to the domestic forecasts. The outlook for business investment appears to be firming, however growth in non-mining business investment has not broadened across all industries. Household consumption growth has slowed over the past year and there is a risk that continued subdued income growth may result in slower consumption growth than forecast. However, stronger labour market conditions than forecast could provide an upside risk to consumption growth. Commodity prices are a key uncertainty for the nominal economy, while weak inflation and wage growth pose downside risks.

Table 1: Domestic economy forecasts

Per cent ^(a)	2016-17	2017-18	2018-19	2019-20
	Outcomes ^(b)	Dec-JEFG		
Gross Domestic Product				
Real gross domestic product	2.0	2 1/2	3	3
Household consumption	2.4	2 1/4	2 3/4	2 3/4
Dw elling investment	2.6	-1 1/2	-1 1/2	- 1/2
Total business investment ^(c)	-4.0	2	3	4 1/2
Mining investment	-24.2	-8	-3	-2
Non-mining investment	6.0	5	5	5
Private final demand ^(c)	1.3	1 3/4	2 1/2	2 3/4
Public final demand ^(c)	5.0	4	3	2 3/4
Change in inventories ^(d)	0.1	0	0	0
Gross national expenditure	2.2	2 1/2	2 3/4	2 3/4
Exports of goods and services	5.4	3	4	3
Imports of goods and services	4.8	3	2 1/2	2
Net exports ^(d)	0.0	0	1/4	1/4
Nominal gross domestic product	5.8	3 3/4	3 3/4	4 3/4
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	3.7	1 1/4	3/4	1 3/4
Labour market				
Participation rate (per cent) ^(g)	65.0	65 1/4	65	65
Employment ^(f)	1.9	2 1/4	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	14.5	0	-6 1/4	-1 3/4
Current account balance (per cent of GDP)	-1.9	-2	-2 1/2	-2 1/2
Other				
Household savings ratio	4.1	3 1/4	1 1/2	1/2
External factors				
Major trading partner growth ^(h)	4.0	4 1/2	4 1/4	4 1/4
Iron ore (\$US/t, FOB) ^(i,j)	57	59	55	55
Metallurgical coal (\$US/t, FOB) ⁽ⁱ⁾	190	151	120	120
Thermal coal (\$US/t, FOB) ⁽ⁱ⁾	77	85	85	85
Assumptions				
Exchange rate (AUD/USD) ⁽ⁱ⁾	75	79	79	79
Trade w eighted index (TWI) ⁽ⁱ⁾	65	65	65	65
Oil price (Tapis) (\$US/barrel) ⁽ⁱ⁾	51	70	70	70
Cash rate (per cent) ⁽ⁱ⁾	1.50	1.50	2.00	2.00

(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 for the June quarter.

Source: ABS cat. no. 5204.0, 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.