

JOINT ECONOMIC FORECASTING GROUP REPORT

ECONOMIC OUTLOOK FOR
2015-16, 2016-17 and 2017-18

March 2016

This report incorporates domestic and international data released up to 23 March 2016.

1. The economic outlook remains broadly in line with the December 2015 JEFG. The December quarter 2015 National Accounts confirmed the economy is transitioning to broader-based growth, with household consumption, dwelling investment and exports supporting economic activity. Real GDP is forecast to grow by 2¾ per cent in 2015-16, up from 2½ per cent in the December JEFG report, due to somewhat stronger-than-expected growth in both consumption and export volumes in the second half of 2015. Real GDP growth is forecast to be 2¾ per cent in 2016-17 and 3 per cent in 2017-18, unchanged from the December JEFG report (see Table 1).
2. Major trading partner growth continues to be forecast to be 4 per cent per year over the forecast horizon. There remain downside risks to the international outlook, with the world economy continuing to struggle to regain sustained momentum. China is expected to support near-term growth, but still has a rebalancing task ahead. In addition, any heightened uncertainty about China’s growth prospects would be expected to weigh on global sentiment.
3. The forecasts have been updated to reflect higher commodity prices than were assumed in the December JEFG report. The price of iron ore, which increased by around 40 per cent from January to March, is assumed to be $US49 per tonne, up from $US39 per tonne in the December JEFG report. The price of oil (Malaysian Tapis) is now assumed to remain at $US35 a barrel, up from $US32 in the December JEFG report. The Australian dollar is assumed to be US 71 cents, up from US 70 cents in the December JEFG report.
4. While the price of oil stabilised from its lows at the start of the 2016, it remains well below its average level over the past few years. Australia is currently a net importer of oil and petroleum products and low oil prices are expected to support domestic economic growth in the near term as Australian households and businesses benefit from low fuel prices. However, as Australia’s production of liquefied natural gas (LNG) increases, low oil prices are forecast to weigh on aggregate export prices.
5. The fall in the terms of trade over the forecast period is expected to be less steep than in the December JEFG report, largely due to the higher assumptions for bulk commodity prices. The terms of trade are forecast to fall by 8½ per cent in 2015-16 and rise by ¼ per cent in 2016-17, compared with falls of 10½ per cent in 2015-16 and 3 per cent in 2016-17 in the December JEFG report.
6. Real household consumption is expected to grow at a solid pace over the forecast horizon, supported by a gradual decline in the household savings ratio. In the near term, consumption is forecast to increase by 3 per cent in 2015-16, up from 2¾ per cent in the December JEFG report. In contrast, the near term forecasts for business investment have been downgraded slightly since the December JEFG report following weaker capital expenditure projections by non-mining firms. As previously forecast, dwelling investment growth is expected to ease in 2016-17 and 2017-18 after strong expected growth in 2015‑16. LNG production is expected to ramp up across the forecast horizon, fuelling continued strength in exports.
7. Continued moderate growth in labour costs is expected to support solid employment growth over the forecast years, reducing the unemployment rate to 5¾ per cent by the June quarter of 2018. In through-the-year terms, wage growth (as measured by the Wage Price Index) has been downgraded from 2½ to 2¼ per cent in the June quarter 2016 and from 2¾ to 2½ per cent in the June quarter 2017. Headline consumer price inflation has also been downgraded slightly in the near term, but is forecast to return to 2½ per cent by the June quarter 2018, unchanged from the December JEFG report.
8. Nominal GDP growth is forecast to increase from 2¾ per cent in 2015-16 to 4½ per cent in 2016-17. Nominal GDP growth is expected to pick up to 5 per cent in 2017-18 as stronger growth in output volumes combines with faster domestic price growth. Forecast nominal GDP growth is higher by a ¼ percentage point in 2016-17 compared to the December JEFG report, with the higher terms of trade more than offsetting weaker domestic price inflation.
9. The key risks around the forecasts remain similar to those identified in the December JEFG report. The international outlook and the scale and timing of the pickup in non-mining investment are still major sources of uncertainty, and uncertainty around the pace of decline in the household savings ratio poses a risk to the rate of consumption growth. In addition, there is a risk that the exchange rate continues to strengthen, weighing on the contribution to growth from Australia’s net exports of goods and services. Whether the recent lift in commodity prices will be sustained also represents a key risk to nominal GDP growth.

**Table 1: Domestic economy forecasts**

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