

JOINT ECONOMIC FORECASTING GROUP REPORT

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

December 2015

This report incorporates domestic and international data released up to 29 January 2016.

1. The economic outlook is broadly unchanged from the 2015-16 Mid-Year Economic and Fiscal Outlook (MYEFO). The transition to broader-based growth is underway, with household consumption, dwelling investment and exports expected to support near term economic activity. Real GDP is forecast to grow by 2½ per cent in 2015-16 and 2¾ per cent in 2016-17 (see Table 1).
2. No change has been made to the forecast for major trading partner growth of 4 per cent in 2016 and 2017 since MYEFO. However downside risks to the international outlook have increased, with concerns over China’s growth prospects sparking volatility in financial markets. There have also been significant falls in oil prices. While the oil price declines largely reflect supply-side factors, financial markets appear to have reacted to the falling price as though it is a barometer of global demand.
3. The forecasts for 2015-16 and 2016-17 have been updated to reflect a lower oil price than was assumed at MYEFO. World oil prices (Malaysian Tapis) are now assumed to remain at $US32 a barrel, down from $US43 at MYEFO. The US dollar exchange rate has been revised down slightly to 70 cents from 72 cents at MYEFO.
4. A supply-driven fall in oil prices is expected to support global and domestic economic growth. Australia is currently a net importer of oil and petroleum products, so Australian households and businesses will benefit from lower fuel prices. However, current financial market volatility is likely to have an offsetting influence in both the global and domestic economies, including through its effects on business and consumer confidence. The forecasts for real GDP and its expenditure-side components are unchanged from MYEFO.
5. As Australia’s production of liquefied natural gas (LNG) increases, lower oil prices are forecast to weigh more heavily on aggregate export prices. As a result, the terms of trade are now expected to decline further in 2016-17 than forecast at MYEFO and nominal GDP is expected to grow at a slightly slower rate.
	1. The terms of trade are forecast to fall by 3 per cent in 2016-17, down from a forecast fall of 2¼ per cent at MYEFO. In line with this downgrade, nominal GDP is now forecast to grow at 4¼ per cent in 2016-17, down from 4½ per cent at MYEFO.
6. The December JEFG Report includes 2017-18 as a forecast year for the first time. Real GDP growth is forecast to strengthen to 3 per cent in 2017-18. Net exports are forecast to continue to make a strong contribution to growth and private final demand is expected to improve.
	1. LNG production is forecast to ramp up in 2017-18, fuelling continued strength in exports. Consumption growth is expected to remain at 3 per cent in 2017-18, supported by solid employment growth. Mining investment is forecast to continue to fall in 2017-18 reflecting the wind down of LNG projects. Non-mining business investment is expected to strengthen in 2017-18 as domestic demand gathers pace, while growth in dwelling investment is expected to ease further from its strong forecast rate of expansion in 2015‑16.
7. Ongoing moderate growth in labour costs is expected to support solid employment growth in 2017-18, reducing the unemployment rate to 5¾ per cent by the June quarter of 2018. Wages are forecast to grow by 2¾ per cent through the year to the June quarter of 2018, while headline consumer inflation is forecast to be 2½ per cent.
8. 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, and the terms of trade stabilise. However, as a result of the downward revisions to the terms of trade, the level of nominal GDP is expected to be lower than forecast at MYEFO.
9. The key risks around the forecasts are largely unchanged from those identified at MYEFO. The scale and timing of the pickup in non-mining investment is still a major source of uncertainty. In addition, there remain risks around momentum in consumer spending and changes in housing market conditions could have an impact on household wealth and confidence. Uncertainty around the global outlook could unnerve households, eroding confidence and causing people to save more. Continued financial market volatility could make consumers and businesses more cautious as it elevates risks to the international outlook. This carries the potential to further weigh on consumption and investment.

**Table 1: Domestic economy forecasts**



