



Australian Government

The Treasury

# JOINT ECONOMIC FORECASTING GROUP REPORT

ECONOMIC OUTLOOK FOR  
2016-17, 2017-18 and 2018-19

December 2016

This report incorporates domestic and international data released up to 31 January 2017.

1. The economic outlook is broadly unchanged from the 2016-17 Mid-Year Economic and Fiscal Outlook (MYEFO). The economy continues to transition from the investment phase to the production phase of the mining boom, with growth expected to increase as the drag from mining investment dissipates. Real GDP is forecast to grow by 2 per cent in 2016-17 and 2½ per cent in 2017-18 (see Table 1).
2. Major trading partner growth remains forecast to be 4 per cent in 2017 and 2018. Since the MYEFO, there have been signs of a more positive outlook for the global economy, which is consistent with this forecast. Growth in China remains solid, US activity has improved after subdued growth in the first half of 2016, revisions to Japanese growth have revealed activity has been stronger than previously estimated, and India and the ASEAN-5 economies continue to grow solidly.
3. Since the MYEFO, there have been significant movements in commodity prices. The (Malaysian Tapis) oil price assumption is US\$57 per barrel, compared with US\$49 per barrel in the MYEFO. The iron ore price is assumed to decline from its recent average of US\$75 per tonne FOB through the June and September quarters of 2017 to reach US\$60 per tonne FOB in the December quarter 2017. This compares with a MYEFO assumption that the iron ore price would decline from US\$68 per tonne through the March and June quarters of 2017 to reach a level of US\$55 per tonne FOB in the September quarter 2017.
4. Reflecting the higher assumptions for iron ore and oil prices, the terms of trade are forecast to rise by 15½ per cent in 2016-17, up from 14 per cent in the MYEFO. The terms of trade remain forecast to fall by 3½ per cent in 2017-18. As a result, nominal GDP growth is now forecast to grow by 6 per cent in 2016-17, up from 5½ per cent in the MYEFO, and remains forecast to grow by 3½ per cent in 2017-18.
5. This JIEG Report includes 2018-19 as a forecast year for the first time. Real GDP is forecast to grow by 3 per cent in 2018-19 with a smaller drag from the decline in mining investment and growth expected in non-mining business investment. Household consumption and net exports are also expected to make solid contributions to growth. LNG exports are expected to continue their ramp-up during 2018-19, with all the major LNG investment projects scheduled to be completed in 2017-18. Dwelling investment is expected to fall slightly, following its strong expansion over recent years, as the current pipeline of construction is completed.
6. Ongoing moderate growth in labour costs and a pick-up in real GDP growth are expected to support solid employment growth, with the unemployment rate forecast to be 5½ per cent in the June quarter 2019. Wages are forecast to grow by 2½ per cent through the year to the June quarter of 2019, while headline consumer price inflation is forecast to be 2½ per cent. Nominal GDP growth is expected to be 4½ per cent in 2018-19 as the terms of trade continue to fall.
7. There are a number of uncertainties for the forecasts. While there are early signs of a more positive outlook for the global economy, a number of risks remain. It is difficult to gauge the impact of the new US Administration's policies on the US economy, with trade measures having the potential to impact global growth. Of particular importance to Australia will be how any trade measures impact China. High levels of debt and overcapacity in some sectors also remain a risk to the Chinese economy and the authorities continue to face the policy challenge of balancing support for the real economy and maintaining exchange rate stability.
8. Domestically, there are risks around the momentum in household consumption as well as uncertainty around dwelling investment, with a significant number of medium-to-high density dwellings due for completion over the forecast horizon. Household consumption has grown at a lower average rate since the global financial crisis, with lower labour income growth. The rates of consumption growth in this environment may be particularly sensitive to conditions in the labour market. The timing and pace of the recovery in non-mining business investment also remains a risk to the domestic outlook, with indicators remaining mixed. Commodity prices are a key uncertainty for the nominal economy, while weak inflation and wage growth pose downside risks.

**Table 1: Domestic economy forecasts**

	2015-16	2016-17	2017-18	2018-19
<i>Per cent</i> <sup>(a)</sup>	Outcomes <sup>(b)</sup>	Dec-JEFG	Dec-JEFG	Dec-JEFG
<b>Gross Domestic Product</b>				
<b>Real gross domestic product</b>	<b>2.7</b>	<b>2</b>	<b>2 3/4</b>	<b>3</b>
Consumption	2.9	2 3/4	3	3
Dwelling investment	10.8	4 1/2	1/2	-2
Total business investment <sup>(c)</sup>	-10.4	-6	0	3
Mining investment	-27.5	-21	-12	-2
Non-mining investment	1.2	1 1/2	4 1/2	4 1/2
Private final demand <sup>(c)</sup>	0.8	1	2 1/2	2 3/4
Public final demand <sup>(c)</sup>	3.4	3	2 1/4	2 3/4
Change in inventories <sup>(d)</sup>	-0.1	0	0	0
Gross national expenditure	1.3	1 3/4	2 1/4	2 3/4
Exports	6.7	5 1/2	5	4
Imports	-0.3	2	3	3
Net exports <sup>(d)</sup>	1.4	3/4	1/2	1/4
<b>Nominal gross domestic product</b>	<b>2.3</b>	<b>6</b>	<b>3 3/4</b>	<b>4 1/4</b>
<b>Prices and wages</b>				
Consumer price index <sup>(g)</sup>	1.0	1 3/4	2	2 1/4
Wage price index <sup>(e)</sup>	2.1	2 1/4	2 1/2	2 3/4
GDP deflator	-0.3	4	3/4	1 1/4
<b>Labour market</b>				
Participation rate <sup>(f)</sup>	64.8	64 1/2	64 1/2	64 1/2
Employment <sup>(e)</sup>	1.9	1 1/4	1 1/2	1 3/4
Unemployment rate <sup>(f)</sup>	5.7	5 1/2	5 1/2	5 1/4
<b>Balance of payments</b>				
Terms of trade	-10.2	15 3/4	-3 3/4	-3 1/2
Current account balance (% of GDP)	-4.5	- 3/4	-1 1/2	-2 1/4
<b>Other</b>				
Household savings ratio	6.7	6 1/4	5 1/4	4 1/4
<b>External factors</b>				
Major trading partner growth <sup>(h)</sup>	4.0	3 3/4	4	4
Iron ore (\$US/t, FOB) <sup>(i)</sup>	51	75	60	60
Metallurgical coal (\$US/t, FOB) <sup>(i)</sup>	91	200	120	120
Thermal coal (\$US/t, FOB) <sup>(i)</sup>	51	62	62	62
<b>Assumptions</b>				
Exchange rate (AUD/USD) <sup>(i)</sup>	75	76	76	76
Trade weighted index (TWI) <sup>(i)</sup>	63	66	66	66
Oil price (Tapis) (\$US/barrel) <sup>(i)</sup>	47	57	57	57
Cash rate (per cent) <sup>(i)</sup>	1.84	1.50	1.67	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 from the public sector to the private sector.

(d) Percentage point contribution to growth in GDP.

(e) Seasonally adjusted, through-the-year growth rate to the June quarter. Year average in projections.

(f) Seasonally adjusted rate for the June quarter.

(g) Through-the-year growth rate to the June quarter.

(h) Reported in calendar years (i.e. 2015-16 = 2015).

(i) Level for the June quarter.

(j) Iron ore prices are assumed to fall from US\$75 per tonne through the June and September quarters 2017 to reach US\$60 per tonne in the December quarter 2017.

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