

## AUSTRALIA

Economic growth is projected to increase gradually and reach almost 3% by 2018. The drag on growth from declining resource-sector investment will fade and gathering momentum outside the resource sector will support wage and employment growth, thus boosting consumer spending. Tightening labour and product markets will bring inflation up from current low levels.

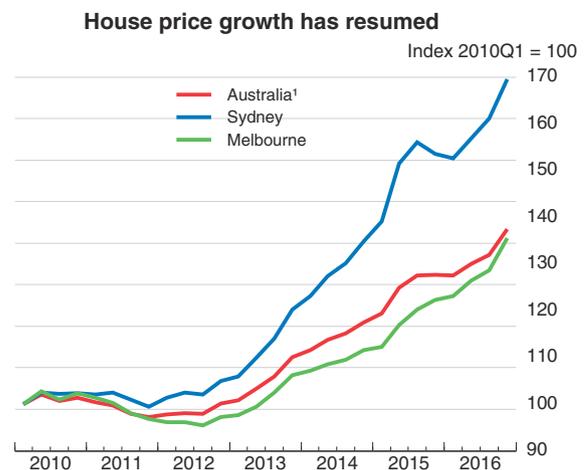
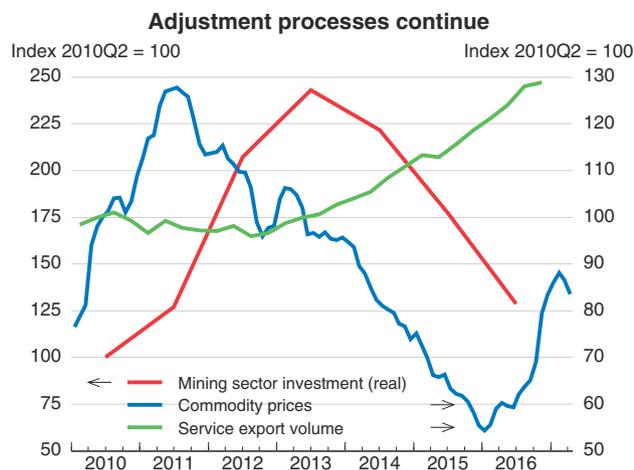
The central bank is projected to start increasing its policy rate towards the end of 2017, as growth improves and consumer price inflation moves towards its 2-3% target band. Higher interest rates will relieve some of the pressure on the booming housing market, although the risks posed by possible overheating still call for enhanced macro-prudential policies. In the event of an unexpected downturn, fiscal policy should be used to support activity. Given the good fiscal position, projects with high rates of return should be pursued.

Australia is distant from major world markets but is nevertheless well integrated into global markets. Sound policies have helped. In particular, Australia's immigration and visa systems have been critical to demographic and economic development. However, there is room for a more business-friendly tax mix. Also, inequality needs to be contained, including that linked to globalisation, in particular through enhancing labour-market skills and providing better paths for disadvantaged people to get jobs.

### Activity is picking up

In the resource sector, the cutbacks in investment are coming to an end and the rebound in iron-ore and coal prices has boosted business income and tax revenues. Also, new liquefied-natural-gas (LNG) production is coming on stream. There are signs of a pick-up in investment outside the resource sector. However, employment, household incomes, consumption and prices continue to grow relatively slowly. Furthermore, poor weather has disrupted commodity exports and the commodity-price rebound appears to have ended. House prices in some markets, already very high, are still rising fast despite macro-prudential tightening.

### Australia



1. Weighted average of eight capital cities.

Source: Australian Bureau of Statistics; and Reserve Bank of Australia.

## Australia: Demand, output and prices

	2013	2014	2015	2016	2017	2018
	Current prices AUD billion	Percentage changes, volume (2014/2015 prices)				
<b>GDP at market prices</b>	1 559.7	2.8	2.4	2.4	2.5	2.9
Private consumption	855.6	2.8	2.7	2.7	2.6	2.9
Government consumption	280.9	0.9	3.5	3.9	1.9	2.0
Gross fixed capital formation	431.5	-1.9	-3.1	-2.5	0.4	1.5
Final domestic demand	1 567.9	1.2	1.3	1.6	1.9	2.4
Stockbuilding <sup>1</sup>	- 0.4	0.1	0.0	0.1	0.1	0.0
Total domestic demand	1 567.5	1.2	1.3	1.7	2.1	2.4
Exports of goods and services	318.4	6.9	5.8	7.6	6.7	7.2
Imports of goods and services	326.2	-1.1	1.8	0.4	3.5	3.7
Net exports <sup>1</sup>	- 7.8	1.6	0.8	1.4	0.6	0.8
<i>Memorandum items</i>						
GDP deflator	—	0.2	-0.6	1.1	2.6	1.6
Consumer price index	—	2.5	1.5	1.3	2.0	2.0
Private consumption deflator	—	2.0	1.5	1.0	1.6	2.0
Unemployment rate	—	6.1	6.1	5.7	5.6	5.4
Household saving ratio, net <sup>2</sup>	—	9.0	7.1	6.2	5.6	4.8
General government financial balance <sup>3</sup>	—	-2.1	-1.5	-2.0	-1.6	-1.2
General government gross debt <sup>3</sup>	—	42.1	44.2	46.6	46.9	46.0
Current account balance <sup>3</sup>	—	-2.9	-4.8	-2.6	-1.2	-1.0

1. Contributions to changes in real GDP, actual amount in the first column.

2. As a percentage of disposable income.

3. As a percentage of GDP.

Source: OECD Economic Outlook 101 database.

StatLink  <http://dx.doi.org/10.1787/888933505695>

### Monetary and fiscal support can be gradually withdrawn as activity strengthens

Monetary policy remains highly supportive, with the policy rate at 1.50% since August 2016. Policy tightening is projected to begin towards the end of 2017 with output recovery. The tighter policy stance will ease pressures on house prices, and will forestall the build-up of other financial distortions that can accompany a sustained low-interest-rate environment. High house prices and household debt still pose macroeconomic and financial risks, which call for continued use of macro-prudential tools.

Public debt in relation to GDP has risen somewhat in recent years, but remains low and is projected to start falling given the government's proposed budget aims for annual fiscal consolidation of around ½ percentage point of GDP in 2017 and 2018. This pace of consolidation is broadly appropriate given projected growth. Still, the strong fiscal position provides room for a more gradual fiscal consolidation or even an expansion should economic activity weaken unexpectedly.

Improvements to framework conditions for businesses plus measures to combat social exclusion are needed to facilitate continued benefit from trade and globalisation. Positive progress on these fronts includes the *National Innovation and Science Agenda* (a wide-ranging package to boost innovation), reductions in corporate tax rates, pension-tax reforms that will provide greater support for low-income households, and a new approach to support the vulnerable. However, as recommended in the *OECD Economic Survey of Australia*, there

is scope for further tax reforms that make greater use of efficient tax bases, such as the Goods and Services Tax and land tax. Visa programmes for migrant workers and citizenship conditions are being tightened. Care should be taken to ensure that these policies do not compromise Australia's access to the global talent pool.

***The gradual recovery in output growth will continue***

Economic growth is projected to gain strength this year and reach almost 3% in 2018. The recovery in mining investment, new LNG production, and continued rebalancing towards non-mining sectors will drive the gradual pick-up of overall activity. Continued monetary policy support will ease this transition. Employment growth should pick up, supporting household consumption growth. Rising output will move inflation up from currently low levels.

Developments in commodity markets, particularly those linked to the Chinese economy, remain an important source of income and growth, but also of uncertainty and risk. The single largest domestic risk remains the possibility of a large fall in house prices, which could reduce household wealth and consumption, and damage the construction sector, leading to significant job losses.