AUSTRALIA

Robust economic growth is set to continue. New capacity coming on stream in the resource sector will support exports and business investment will pick up. Growth of wages and prices will rise gradually, while the unemployment rate will edge lower. Output growth will moderate slightly in 2020 as capacity constraints tighten, export-market growth slows and households become less willing to draw down savings to fuel consumption.

Monetary policy tightening will be required as the pick-up in wages and prices gathers pace. Risks from the housing market and high household indebtedness warrant continued vigilance. The government is projected to reach a budget surplus in 2019, giving sufficient room to support activity and protect the incomes of vulnerable groups in the event of an unexpected downturn.

Domestic and external demand underpin growth

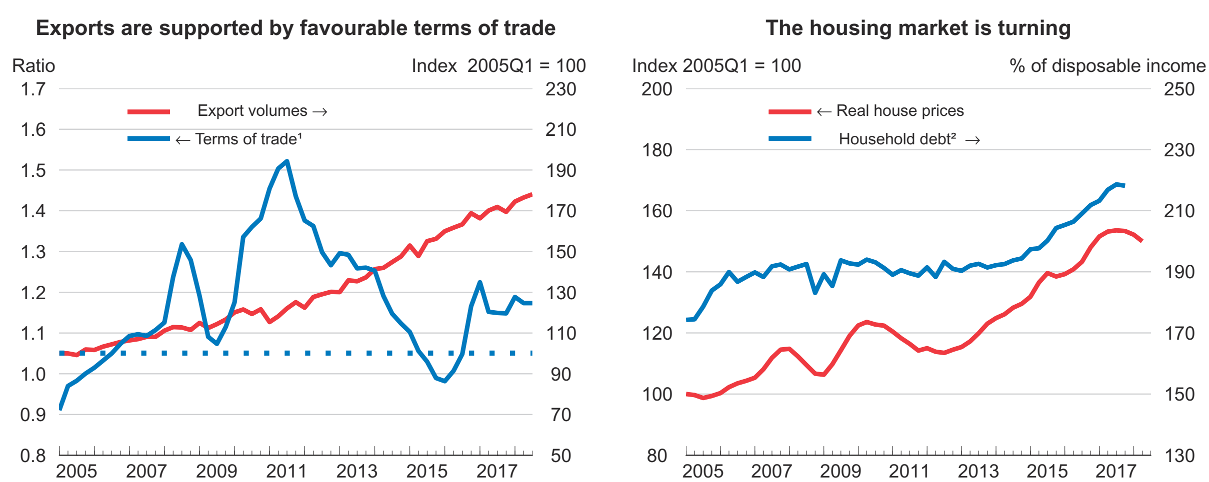
Favourable terms of trade and additional resource exports are supporting the economy. The drag from falling mining investment is coming to end, while other forms of business investment are picking up, partly fuelled by public infrastructure investment. Rising employment is boosting incomes and consumption.

The unemployment rate has reached its lowest level in five years and labour participation has risen to levels last seen during the mining investment boom. Nevertheless, under-employment measures indicate that a significant share of part-time workers would like to work longer hours, suggesting remaining labour market slack. Wage rates have not picked up significantly, and inflation has remained subdued.

Policy support for demand can be withdrawn gradually

Monetary policy remains supportive: the policy rate has been unchanged at 1.5% for more than two years. Withdrawal of stimulus will begin in the coming two years as wage

Australia



1. Terms of trade is the ratio between export and import prices. The dotted line represents the 20-year average of the terms of trade.
2. Household liabilities as percentage of net household disposable income.

Source: OECD Economic Outlook 104 database; and OECD Analytical House Price database.

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Australia: **Demand, output and prices**

	2015	2016	2017	2018	2019	2020
	Current prices AUD billion	Percentage changes, volume (2015/2016 prices)				
GDP at market prices	1 638.1	2.6	2.2	3.1	2.9	2.6
Private consumption	949.3	2.9	2.7	2.5	2.1	1.7
Government consumption	300.7	4.1	3.7	4.4	3.2	2.8
Gross fixed capital formation	420.7	-2.2	3.4	3.4	4.0	2.9
Final domestic demand	1 670.6	1.8	3.1	3.1	2.8	2.2
Stockbuilding[1]	4.8	0.1	-0.1	0.0	0.0	0.0
Total domestic demand	1 675.4	1.9	3.0	3.1	2.7	2.2
Exports of goods and services	323.1	6.8	3.7	4.6	4.1	3.8
Imports of goods and services	360.4	0.5	7.8	5.6	6.1	4.9
Net exports[1]	- 37.3	1.2	-0.9	-0.2	-0.4	-0.2
Memorandum items						
GDP deflator	_	1.2	3.4	1.5	1.1	1.4
Consumer price index	_	1.3	2.0	2.0	2.1	2.4
Core inflation index[2]	_	1.5	1.7	1.6	2.0	2.4
Unemployment rate (% of labour force)	_	5.7	5.6	5.4	5.3	5.1
Household saving ratio, net (% of disposable income)	_	4.9	2.8	2.2	2.2	2.1
General government financial balance (% of GDP)	_	-1.5	-0.6	-0.1	0.2	0.5
General government gross debt (% of GDP)	_	42.7	43.6	42.0	39.8	39.8
Current account balance (% of GDP)	_	-3.3	-2.6	-2.9	-3.3	-3.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 104 database.

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and price growth pick up further and as continued output growth tightens the labour market.

House prices have started to decline and housing credit growth has eased, but household indebtedness remains high. Regulators have taken steps to limit the growth of investor lending and have discouraged loans with high loan-to-value ratios. The banking sector is well capitalised and indicators of household financial stress are low, although some areas – mining regions in particular – remain a concern. Given the potential financial and macroeconomic risks, supervisors should remain vigilant.

The government debt-to-GDP ratio has risen in recent years, but remains relatively low. Furthermore, it is projected to start falling given the federal government's commitment for a deficit reduction of around ½ percentage point of GDP per year over the four-year budget horizon. Budget plans envisage reductions in personal taxation over the short and medium term being financed with strong revenues from economic growth, as well as expenditure control and measures to combat tax avoidance and evasion. Efforts to reduce fiscal imbalances are important. However, the priority on combatting socio-economic exclusion, for instance through education reform and improved support for job seekers, should be maintained.

Growth will remain robust

Economic growth is projected to continue at a robust pace, with a slight moderation in 2020 due to slowing global growth and capacity constraints. Exports and investment will support growth. Household consumption growth will slow, as households become less willing to draw down savings amid falling house prices and tightening financial conditions. Drought in the farming sector will likely have a modest negative effect on growth. Inflation will pick up only gradually and the unemployment rate will fall further. Global commodity markets remain an important source of income gains and growth, but also of uncertainty and risk, particularly through exposure to any slowdown and rebalancing in China. High indebtedness of households remains a risk. Unexpectedly large corrections in house prices could reduce household wealth and consumption, and impact the construction sector.