

# Budget 2022: Examining the Economic Outlook

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# The Economic Outlook

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**Table 2.1: Domestic economy – detailed forecasts<sup>(a)</sup>**

	Outcomes	Forecasts		
	2020-21	2021-22	2022-23	2023-24
<b>Real gross domestic product</b>	<b>1.5</b>	<b>4 1/4</b>	<b>3 1/2</b>	<b>2 1/2</b>
Household consumption	1.0	3 1/2	5 3/4	3 3/4
Dwelling investment	3.2	5	3 1/2	- 1/2
Total business investment <sup>(b)</sup>	-1.5	5 1/2	9	1
<i>By industry</i>				
Mining investment	-1.4	1/2	9 1/2	1 1/2
Non-mining investment	-1.5	7	9	1
Private final demand <sup>(b)</sup>	1.2	4 1/4	5 3/4	2 3/4
Public final demand <sup>(b)</sup>	5.8	7 1/4	1 1/4	1 1/2
Change in inventories <sup>(c)</sup>	0.7	- 1/2	1/2	1/4
Gross national expenditure	3.2	4 1/2	5	2 3/4
Exports of goods and services	-8.3	2	5	6
Imports of goods and services	-2.8	4 1/2	12 1/2	7
Net exports <sup>(c)</sup>	-1.4	- 1/2	-1 1/2	- 1/4
Nominal gross domestic product	4.4	10 3/4	1/2	3
<b>Prices and wages</b>				
Consumer price index <sup>(d)</sup>	3.8	4 1/4	3	2 3/4
Wage price index <sup>(d)</sup>	1.7	2 3/4	3 1/4	3 1/4
GDP deflator	2.9	6 1/2	-3	1/2
<b>Labour market</b>				
Participation rate (per cent) <sup>(e)</sup>	66.2	66 1/2	66 1/2	66 1/2
Employment <sup>(e)</sup>	6.5	2 3/4	1 1/2	1 1/2
Unemployment rate (per cent) <sup>(e)</sup>	5.1	4	3 3/4	3 3/4
<b>Balance of payments</b>				
Terms of trade <sup>(f)</sup>	10.4	11	-21 1/4	-8 3/4
Current account balance (per cent of GDP)	3.3	3 3/4	-3 1/4	-6
Net Overseas Migration <sup>(g)</sup>	-89,900	41,000	180,000	213,000

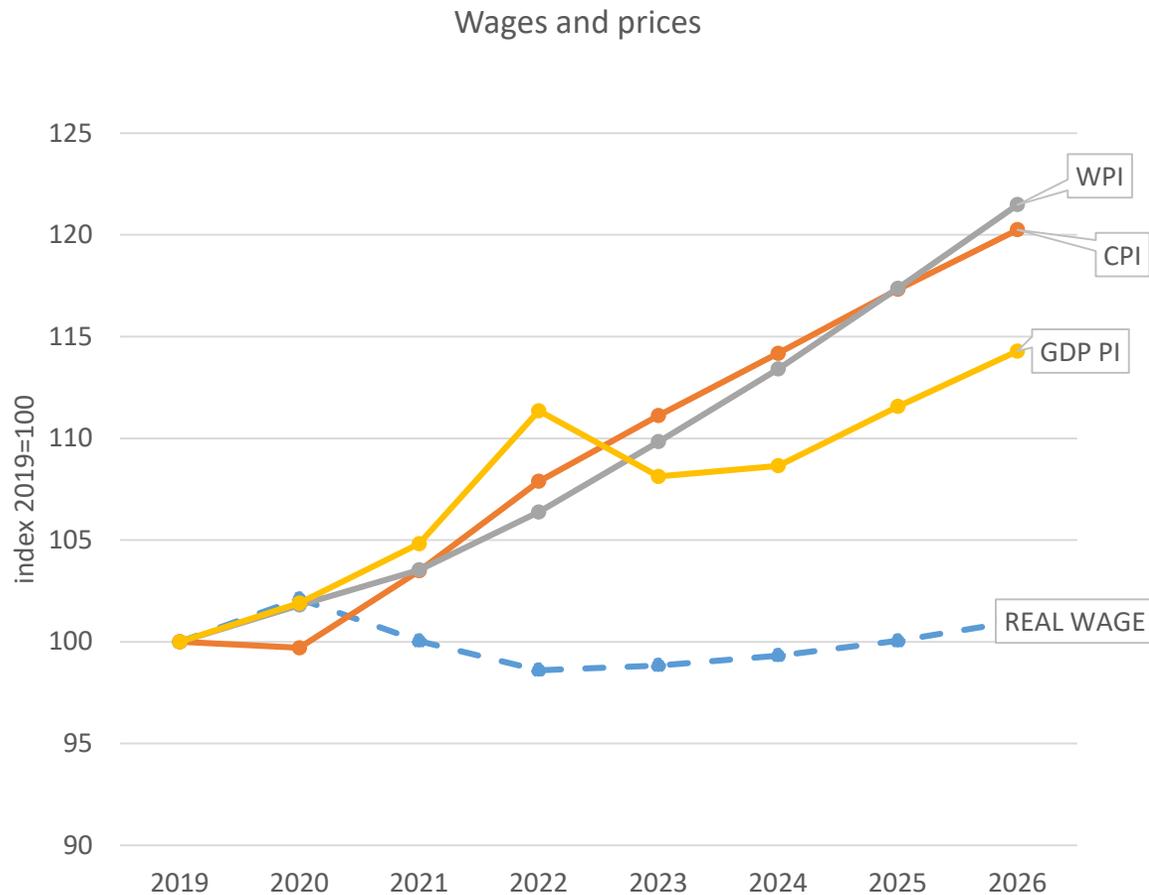
- What does it reveal about underlying structural change?
- Approach
  - Vic-Uni CGE model up to and including Dec 2021 National Accounts
  - Budget forecasts imposed on model
  - Model solves for structural change
- Overall, a plausible and consistent set of forecasts

# Employment



- W-shaped coronacession
  - 2020: Unemployment rate up and participation rate down
  - 2021: Unemployment down and participation down
- Rapid recovery forecast
  - Unemployment now very low and forecast to go lower
  - Unemployment remains low after migration returns to normal

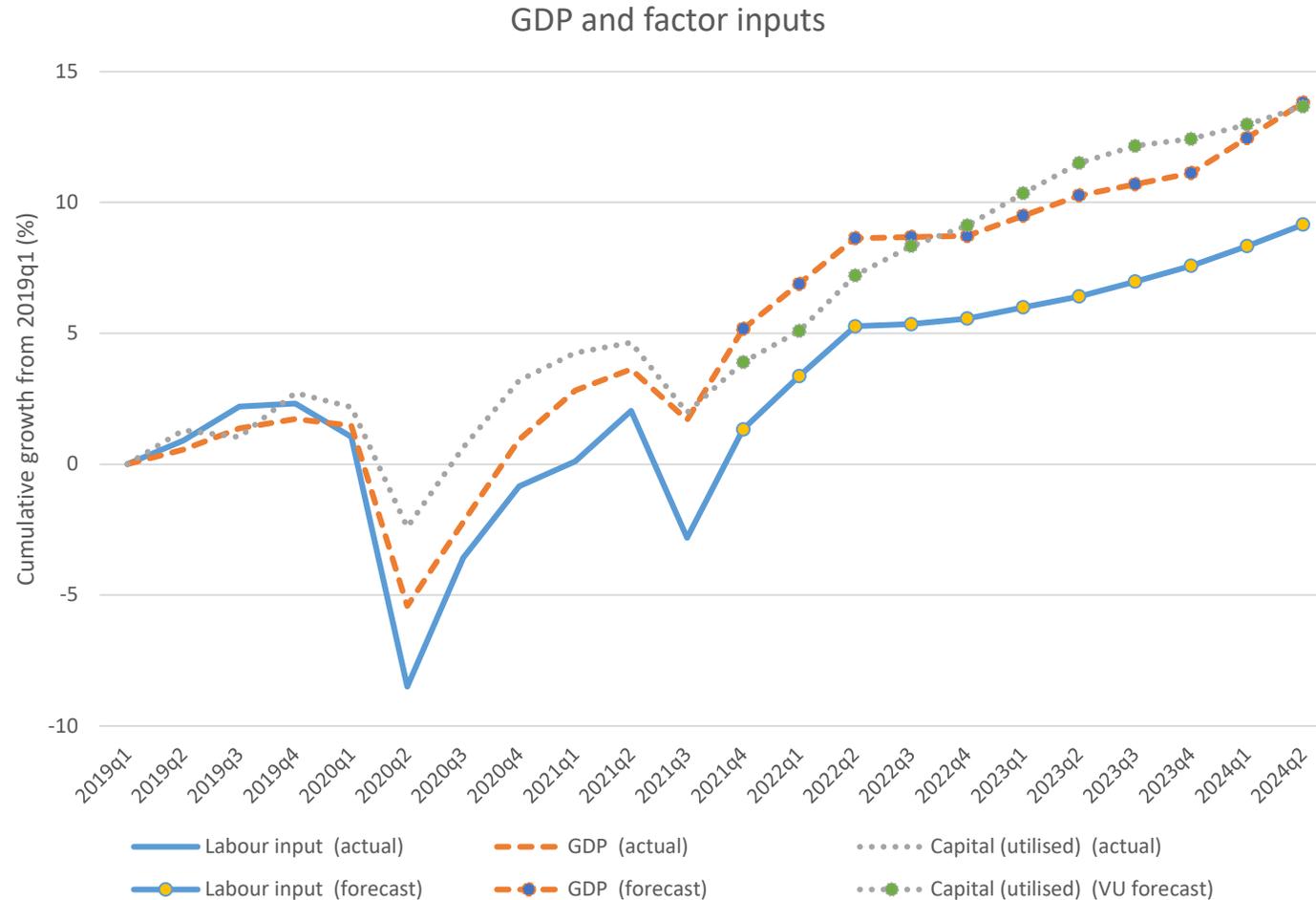
# Wages and prices



Source: Commonwealth Budget 2022-23

- In 2021, consumer prices grew faster than wages, wiping out all real wage gains of the previous year
- Real wages forecast to fall further in 2022
- Slow growth to 2026 does not return wage to 2020 levels
- Even this may not eventuate if unemployment doesn't hit the 3.75% forecast and stay there
- Underemployment may emerge
- WPI growth is steady despite variation in GDP price index
  - Implications for profits?
  - Implications for investment?

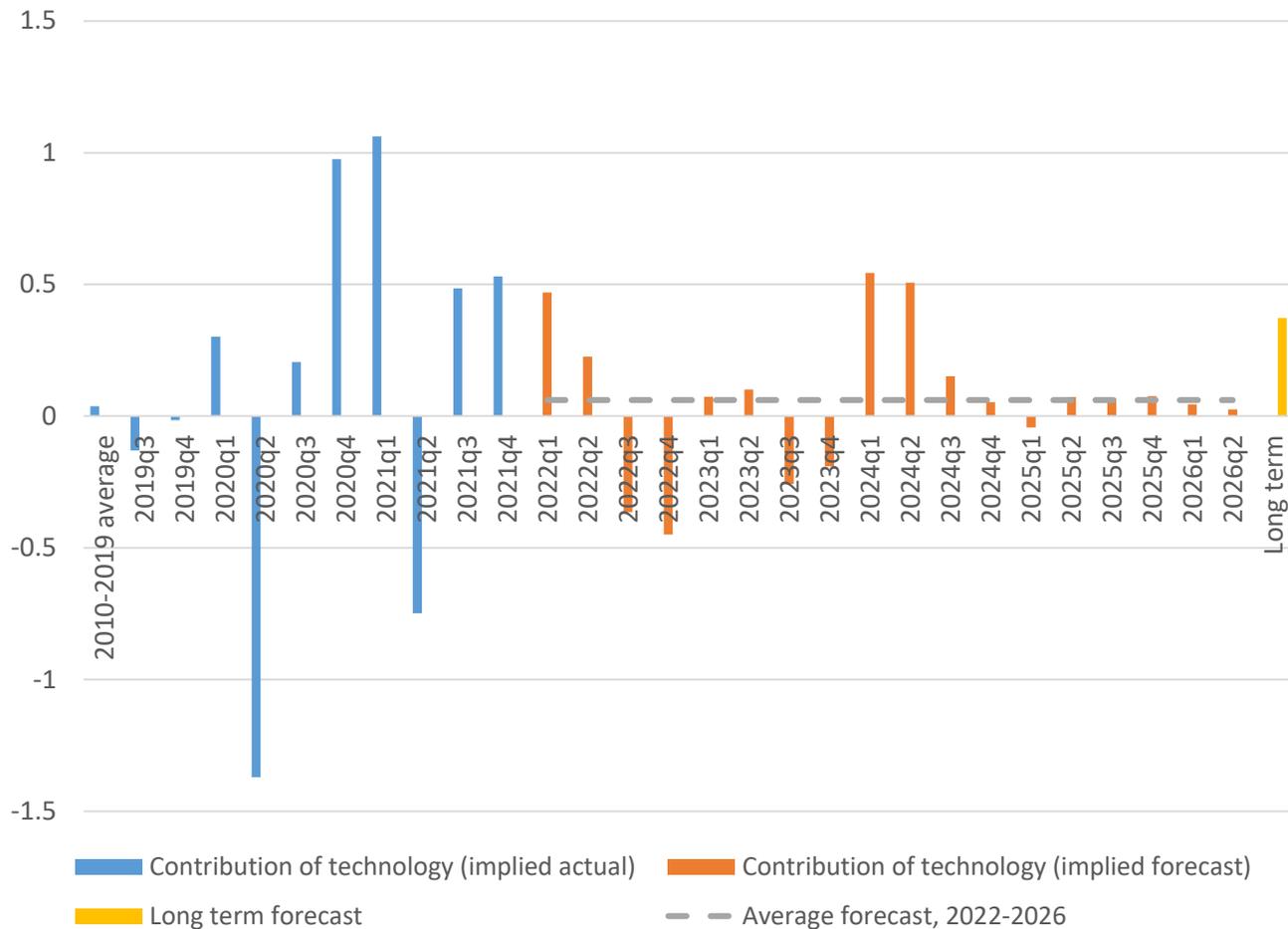
# GDP



- Clear double-dip coronacession
- 2021 dip in labour input due to low hours per worker
  - Low unemployment
- In the forecast period, GDP and capital track together and above labour
  - Productivity and investment both play a role

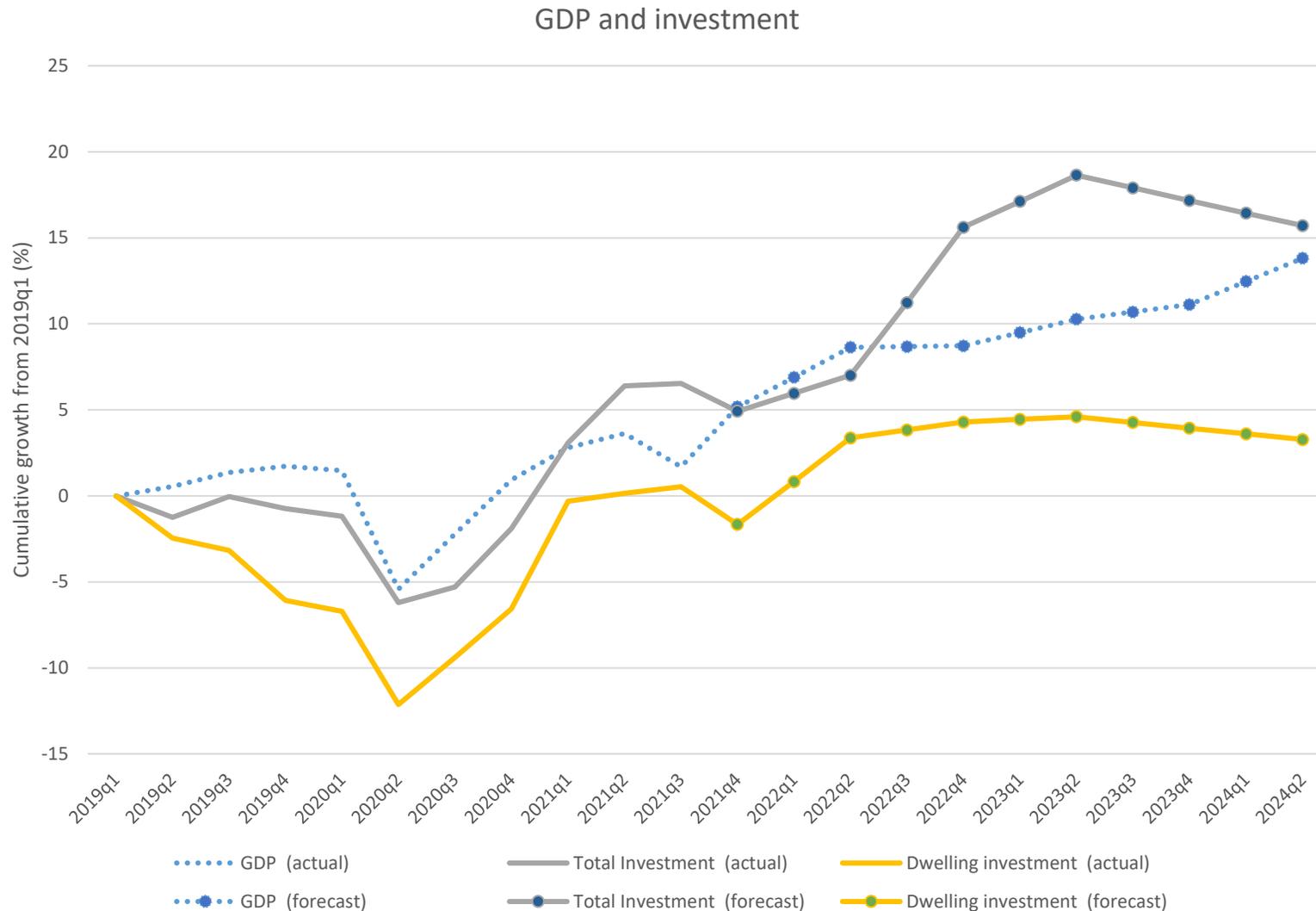
# Contribution of productivity

Quarterly contribution of productivity to growth



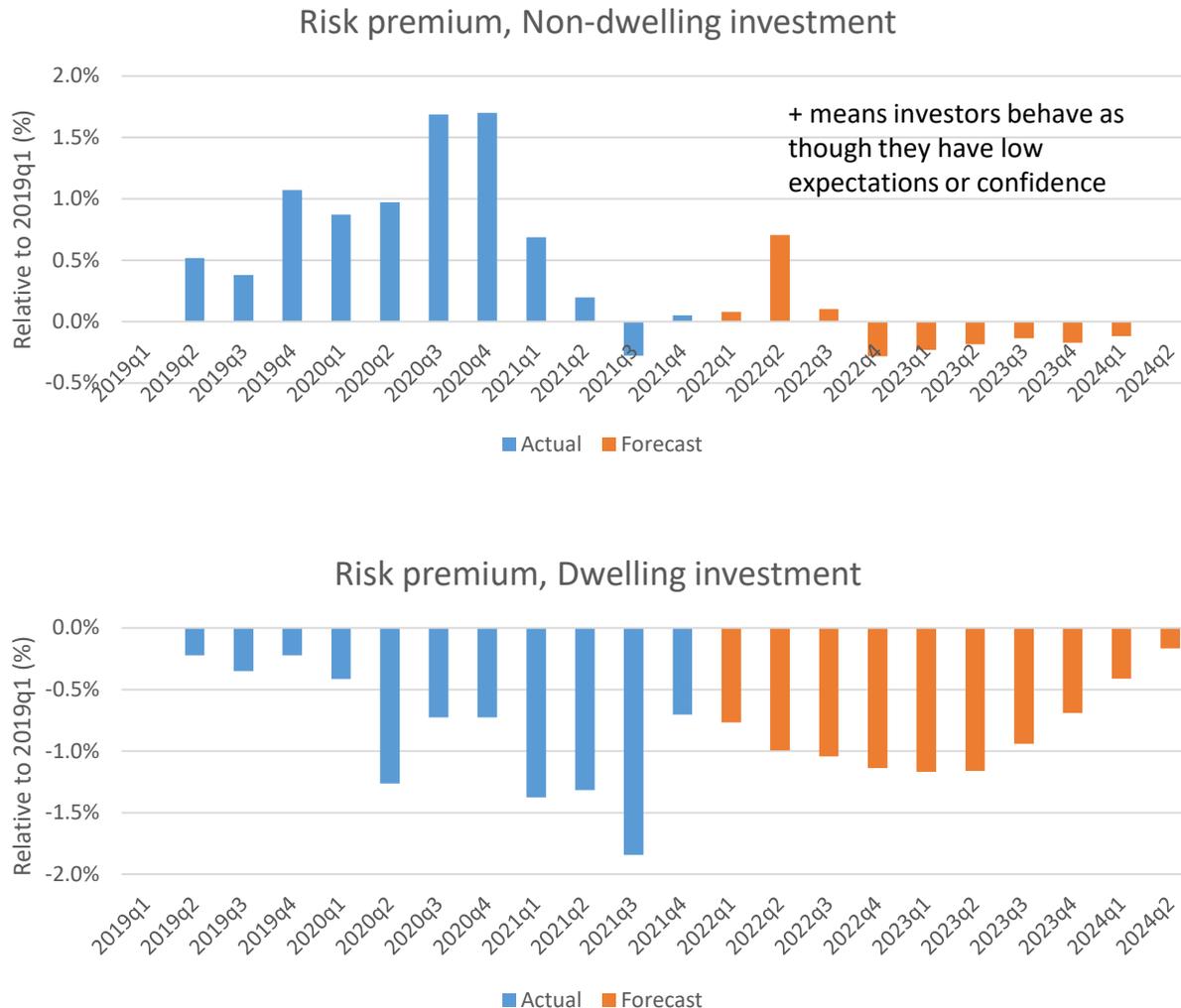
- Multi-factor productivity: increase in output not accounted for by employment or capital inputs
- 2010-2019 average quarterly contribution = 0.04%
- 2020q2 – a large fall, followed by strong gains making up for lost ground
  - Similar in 2021q2
- Forward estimates and medium term projections – realistic at around 0.06% average quarterly contribution
- Long term contribution to growth is 0.37% quarterly
  - Based on 30-year average, a period that includes the 1990's heyday
  - 1990's prove this is possible but productivity improvements must be actively sought

# Investment



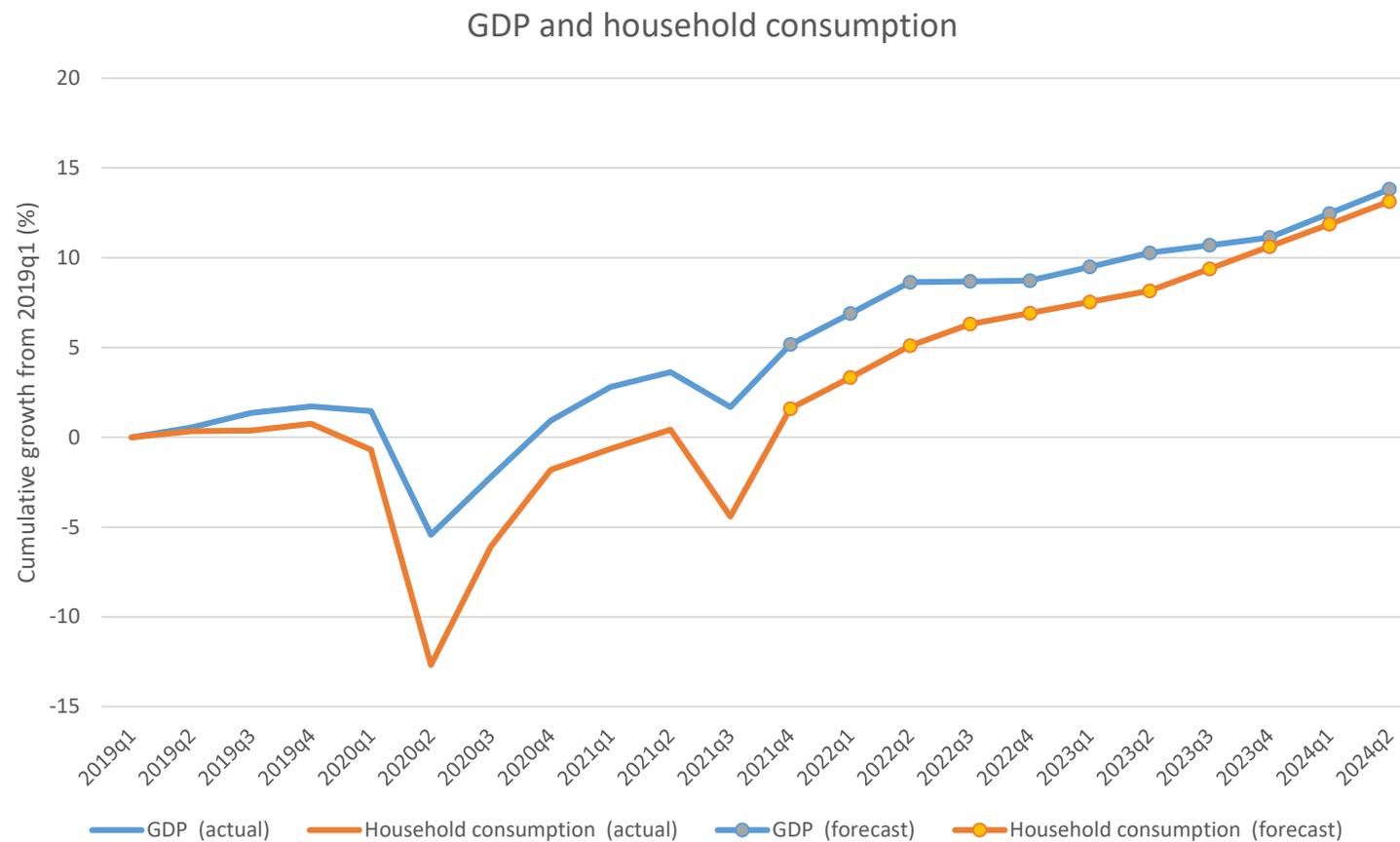
- Very strong increase in investment forecast in 2022-23
  - Because of this, productivity does not need to make a big contribution to growth
  - What would it take?
- Dwelling investment forecast flat
  - Flipside of policies bringing forward dwelling investment in 2020-21

# Investor confidence



- Premium indicates how much extra return investors require in order to supply funds
  - Positive indicates lower confidence (higher return required)
  - Non-dwelling premium shifting to slightly higher confidence (than 2019 level) in forecast period
  - Dwelling investment displays high confidence, gradually falling in 2023-24
    - Possible crowding out from business investment

# Household spending



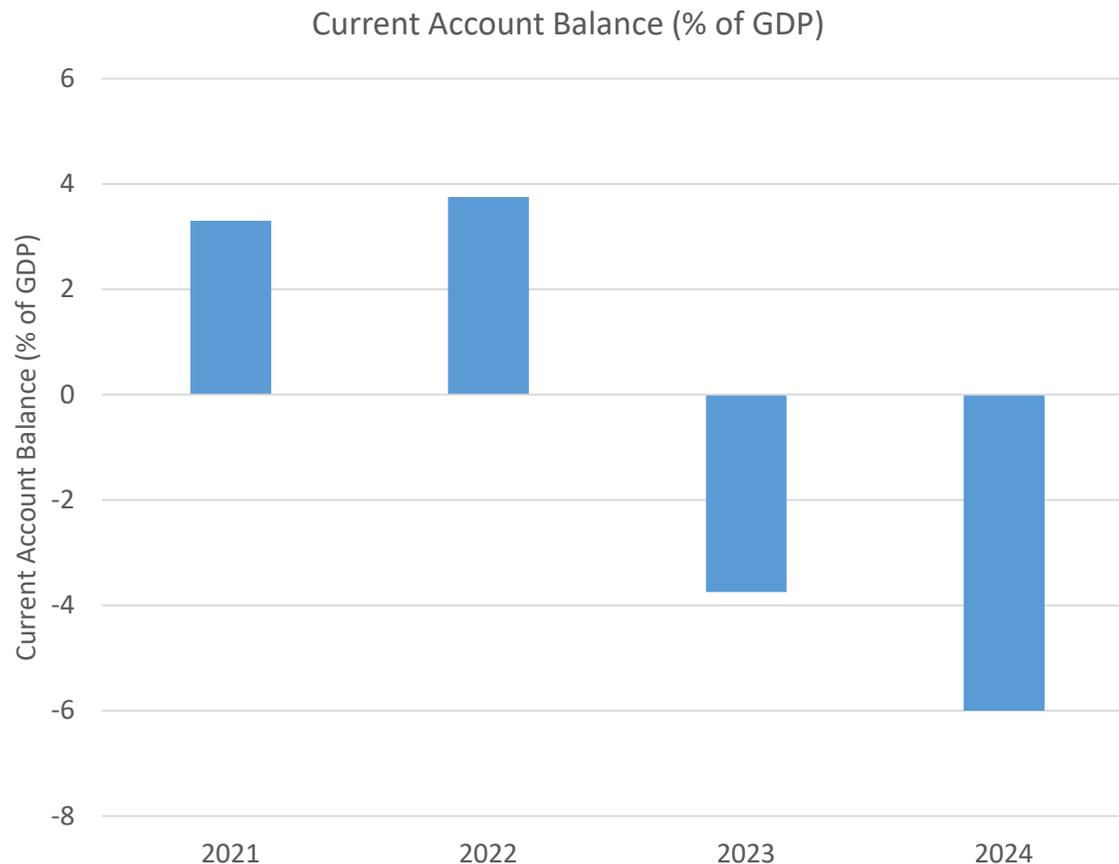
- Y-on-y forecast household spending outpaces GDP as household spending catches up after making the most adjustment due to Covid

# Terms of trade



- Decline is forecast sharper than mid-teens
- Will drag on household purchasing power
  - Strong growth in hh consumption over this period necessarily driven by strong dissaving

# Current account balance



- Current account balance returning to deficit in 2022-23
- Indicates confidence in Australia as an attractive investment destination

# Overall

- Optimistic but reasonable set of forecasts
- Low unemployment to be the “new normal”, but
  - Low wage growth
  - Low hours, underemployment?
- Investor confidence underpins strong near-term growth
- 1990’s-era productivity growth underpins medium to long term growth
  - How will it be achieved?