OPENING STATEMENT - RECENT ECONOMIC DEVELOPMENTS

Recent domestic economic developments have been broadly consistent with the outlook presented in the Budget. But the global economy has had a disappointing start to 2014, and key commodity prices have fallen more sharply than we and other forecasters have expected.

It's fair to say that the global recovery has been softer than had been predicted. In their most recent statement on the global economy, the IMF downgraded their forecast for world economic growth in 2014 to 3.3 per cent, from 3.6 per cent 6 months earlier. Global growth is still expected to pick up in 2015, but the risks clearly remain tilted to the downside. These risks have generated some volatility in global financial markets over the past couple of weeks, with markets questioning whether growth will be strong enough to justify the increasingly elevated equity values seen recently.

China's GDP grew 7.3 per cent through-the-year to the September quarter this year, compared with 7.8 per cent growth to the same quarter last year. The most recent weakness looks to stem largely from the property market. Despite this, the growth target of 'around 7.5 per cent' is likely to be met, supported by policy stimulus and improving external demand. More moderate growth is likely in the years ahead as authorities continue to pursue market-based reforms and shift away from investment-led growth. However, there will be a delicate balancing act between pursuing these long-term reforms and providing support to the economy amid current cyclical weakness.

The United States economy contracted in the March quarter following severe winter weather. This looks to have been a temporary setback though, with a strong and broad-based rebound in the June quarter. Fundamentals remain supportive of strong growth in the United States, with household balance sheets substantially repaired, labour market conditions improving and business investment increasing. In addition, the fiscal policy drag and fiscal uncertainty that marked last year has abated.

In the euro area, the recovery remains especially weak, uneven and fragile, losing whatever momentum it might have had at the start of the year. Persistent, very low inflation and continued weak growth has led the European Central Bank to announce further monetary policy easing measures. In Japan a clear read on the economy has been made difficult by timing effects around the consumption tax increase in April this year. This saw a large 'bring-forward' of consumption in the March quarter, followed by a larger-than-expected contraction in the June quarter. Well-known, longer-term structural challenges remain in both the Euro area and Japan.

Of course, one of the key objectives of Australia's G20 Presidency has been to strengthen this global outlook and increase economic resilience. A key commitment has been the ambition to lift G20 growth by an additional 2 per cent over five years, through structural reforms and infrastructure policies. As at the time of the Cairns meeting last month, countries had brought forward measures that achieved 90 per cent of this goal, or 1.8 per cent. The key now is to ensure implementation so these gains are realised. My colleague, Barry Sterland, can speak in more detail if you wish on the G20 agenda.

Back in Australia, recent economic developments have supported the view presented at Budget that the economy will grow at a slightly-below-trend pace before growth in the non-mining sectors starts to pick up.

The latest National Accounts showed real GDP growth easing to 0.5 per cent in the June quarter after growing by a strong 1.1 per cent in the March quarter. New business investment continued to detract from growth as resources investment unwinds from its peak. Dwelling investment and household consumption have continued to support growth.

Corporate profits fell in the June quarter, mainly due to the impact of the decline in non-rural bulk commodity prices like iron ore and coal. Iron ore prices, in US dollars, have fallen 40 per cent since the beginning of 2014 and around 20 per cent since Budget.

The large decline in iron ore prices mainly reflects strong growth in world supply, notably from mining companies in Australia. However, a subdued global economy and risks around China's growth outlook also appears to be weighing on prices.

The fall in non-rural bulk commodity prices has reduced growth in nominal GDP, with no growth recorded in June quarter.

Still, the outlook for the economy remains positive. Growth in commodity export volumes is looking especially strong. And, to some extent, the depreciation of the exchange rate will cushion the economy against the effect of the weaker commodity prices, supporting growth in export-oriented sectors, and easing conditions in import-competing sectors.

Non-mining business conditions and confidence have been positive over much of this year. The most recent ABS CAPEX survey provides some tentative signs that the much-anticipated recovery of investment in the non-mining sector is starting to take place.

Growth in household consumption has been a bit below average over the first half of this year. Retail trade and consumer sentiment measures released since the month of June suggest that growth in the September quarter could continue to be below trend. Household consumption growth will need to strengthen further to support the transition to broader-based growth.

Activity in the dwelling sector has continued to pick up, with house prices, building approvals, and credit for new dwellings all pointing to a continued recovery. The pick-up in the housing sector is an important transmission channel for monetary policy, boosting household wealth and ultimately consumption.

Still, while recent house price growth has been supported by fundamental demand and supply factors, there is a risk that speculative demand in some pockets of the market could amplify the property price cycle. In this regard, investor activity appears to be particularly pronounced, with investor housing finance increasing by 27.6 per cent through the year to August.

As foreshadowed at Budget, conditions in the labour market remain subdued. While there is some uncertainty surrounding recent ABS labour force statistics, the unemployment rate remains elevated - hovering at around 6 per cent since the start of this year and the participation rate has remained relatively low. As a result, it could be some time before we see economic growth that is sufficient to bring about a sustained fall in the unemployment rate.

Consistent with overall spare capacity in the labour market, wage growth has been weak. The Wage Price Index rose by 2.6 per cent over the year to the June quarter. This was well below its 10-year average growth rate of 3.6 per cent and represents the weakest through-the-year growth since the start of the series in 1997. This slowing in wage growth is an important mechanism for supporting employment until growth in the non-mining sectors strengthens sufficiently. Consistent with this weak wage growth, inflationary pressures are expected to remain contained, notwithstanding some upward pressure from the depreciation of the exchange rate on the prices of tradable goods. The CPI release this morning reaffirms this view with through-the-year inflation falling to 2.3 per cent. This quarter's result does, in part, reflect the effect of repealing the carbon tax.