

## **OPENING STATEMENT - RECENT ECONOMIC DEVELOPMENTS**

Thank you Chair.

For the benefit of the Committee, I commenced as Secretary on 15 January this year.

I would like to make some brief observations on the state of the economy.

As you know, the outlook for the global economy remains weak. The IMF has once again downgraded its outlook for global growth and now expects growth of 3.5 per cent in 2015 and 3.7 percent in 2016. A better than expected outlook for the US economy combined with the expansionary impacts of lower oil prices have not been sufficient to offset a significant deterioration in the outlook for the Euro area and China. Downside risks remain, including the threat of renewed turbulence in Europe from the evolving situation with Greece, and ongoing geopolitical tensions.

An important bright spot is the US economy, which is now performing strongly across a wide range of indicators. Output is becoming increasingly broad-based, the labour market continues to strengthen and confidence has risen to high levels. Accordingly, the US Federal Reserve has shifted its focus to the normalisation of interest rates from near zero levels.

By contrast, the European Central Bank is about to embark on a large quantitative easing program to support growth and address persistently weak inflation. Similarly, the Bank of Japan continues to provide significant monetary stimulus.

The outlook for China's growth was downgraded at the December 2014-15 Mid-Year Economic and Fiscal Outlook to reflect its ongoing transition to more moderate but sustainable growth. Recent Chinese data support this revised outlook, although there are concerns about the extent to which China's economy is slowing. This has seen the authorities further ease monetary policy.

Turning to Australia, economic growth is expected to remain at below trend rates in the near term. The transition away from resources investment to broader-based sources of growth is occurring. But it is occurring slowly, being constrained by weak domestic and global demand and weak confidence. On the positive side, the reduction in oil prices, the fall in the Australian dollar over the past couple of months and the recent easing of monetary policy

should support consumption and demand, particularly in export-oriented and import-competing sectors.

The outlook for non-mining business investment is perhaps the greatest source of uncertainty with firms remaining reluctant to invest. The next ABS Capex Survey, which will be released tomorrow, will provide the first estimate of firms' own investment intentions for 2015-16, and will be an important input into our forecasts in the lead up to Budget.

The residential property sector continues to grow strongly. Authorities are closely monitoring investor activity, including the effectiveness of measures introduced by APRA in December 2014 to limit risky lending practices. Notwithstanding the significant gains to household wealth, household consumption has been growing a little below trend.

Labour market developments and households' confidence levels will be key to the outlook for consumption. While the unemployment rate has been slowly trending higher and job vacancy indicators continue to improve, ongoing subdued wage growth is assisting adjustments in the labour market.

With subdued wage growth and key commodity prices (iron ore, metallurgical coal, and thermal coal) still under pressure from high supply and subdued global demand, nominal GDP growth is expected to remain weak.

In summary, recent economic developments have been broadly consistent with the view presented at the Mid-Year Economic and Fiscal Outlook in December and we are, as always, continuing to carefully monitor the outlook.

That said, things could change. We live in a volatile world and we cannot rule out changes to the economy in the near-term. We will be in a better position to renew our thoughts on the outlook when the national accounts are released next Wednesday, 4 March.

**Senate Economics Legislation Committee**  
**Additional Estimates 2014-15, 25 & 26 Feb 2015**

**Tabled Document**

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