

Australia

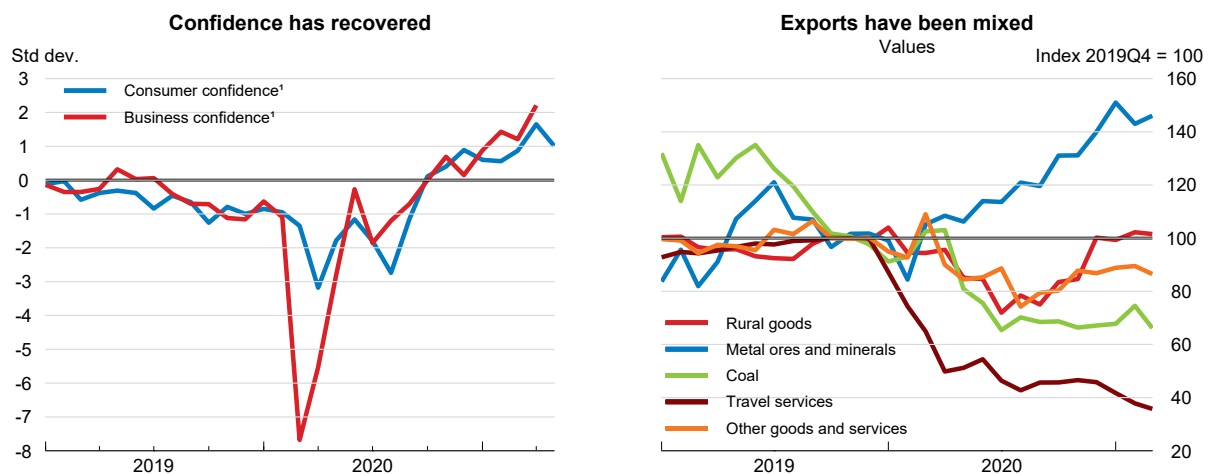
GDP is projected to grow by 5.1% in 2021 and 3.4% in 2022, driven by domestic demand. Confidence is high and labour demand is strong. Rising incomes and a declining saving rate will support consumption. The unemployment rate will fall further. Nonetheless, restrictions continue to constrain some parts of the economy and insolvencies will rise from their current low levels. Until widespread vaccination is achieved, outbreaks may necessitate further restrictions.

The extraordinary fiscal stimulus of 2020 has begun to unwind but fiscal policy is still supportive. Monetary policy will remain accommodative. Policymakers should act early to provide more support if downside risks show signs of materialising. Facilitating the geographical mobility of workers across states would help the necessary reallocation of resources. Co-ordination across governments will also be important to limit the rebound of greenhouse gas emissions and to progress towards the decarbonisation objectives of the Paris Accord.

Virus outbreaks were successfully contained

The number of active COVID-19 cases has been negligible thanks to strict quarantine measures and responsive testing and tracing systems. Small outbreaks have led to short localised lockdowns and some state border closures. These have caused disruption but with relatively low economic cost. Many restrictions curtailing capacity have been lifted but international borders remain closed. Vaccinations began in February, with widespread vaccination expected by end-2021.

Australia



1. Confidence is normalised over the period since 1997.
Source: Refinitiv.

StatLink  <https://stat.link/67r48h>

Australia: Demand, output and prices

	2017	2018	2019	2020	2021	2022
	Current prices AUD billion	Percentage changes, volume (2018/2019 prices)				
Australia						
GDP at market prices	1 806.8	2.9	1.9	-2.5	5.1	3.4
Private consumption	1 020.3	2.5	1.2	-5.8	7.0	4.5
Government consumption	336.1	4.3	5.7	7.1	4.4	1.4
Gross fixed capital formation	437.2	2.3	-2.6	-3.0	9.7	4.4
Final domestic demand	1 793.6	2.8	1.1	-2.5	7.1	3.8
Stockbuilding ¹	4.1	0.1	-0.3	-0.2	-0.4	0.0
Total domestic demand	1 797.7	2.9	0.8	-2.8	6.7	3.8
Exports of goods and services	387.0	5.1	3.1	-10.2	1.4	4.6
Imports of goods and services	377.9	4.2	-1.3	-13.1	9.5	6.8
Net exports ¹	9.1	0.2	1.0	0.3	-1.4	-0.2
<i>Memorandum items</i>						
GDP deflator	—	2.3	3.2	1.1	3.1	1.6
Consumer price index	—	1.9	1.6	0.9	2.0	1.7
Core inflation index ²	—	1.7	1.6	1.3	1.9	1.6
Unemployment rate (% of labour force)	—	5.3	5.2	6.5	5.5	5.0
Household saving ratio, net (% of disposable income)	—	4.2	4.9	15.6	10.8	8.2
General government financial balance (% of GDP)	—	-0.1	-0.5	-12.3	-6.6	-5.2
General government gross debt (% of GDP)	—	43.5	45.9	65.4	67.7	70.8
Current account balance (% of GDP)	—	-2.1	0.6	2.5	2.6	1.9

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 109 database.

StatLink  <https://stat.link/on19dp>

Activity has rebounded, but the recovery remains uneven

Low case numbers and rising economic activity have driven consumer and business confidence higher. Insolvencies have remained low due to policy support and the rebound in overall activity. Total hours worked have returned to pre-pandemic levels and the unemployment rate has eased to 5½ per cent. Job vacancies surged in early 2021, including in the hospitality sector, which has not yet recovered. Housing market activity picked up further, with growth in housing credit and building approvals. Reliance on the JobKeeper wage subsidy and the unemployment benefit supplement – key planks of government support – had receded by March when the measures ended; they benefited an estimated 9% of the population on average in the first three months of 2021. International border closures continue to depress tourism and education exports, while some other exports, such as coal, have been dented by trade tensions with China and the exchange rate appreciation. Nonetheless, iron ore exports are booming in nominal terms. Rising commodity prices together with the exchange rate appreciation have boosted the terms of trade.

Fiscal policy support is unwinding

Targeted support was provided following the end of the wage subsidy and benefit supplement, including support for aviation and tourism. The unemployment benefit rate was also modestly increased. In May, the federal budget introduced further measures to buttress the recovery and improve inclusiveness, such as tax relief extensions for low and middle-income individuals and businesses, further support for job seekers and increased spending on health, aged care, the national disability insurance scheme, childcare and infrastructure. The central bank has maintained its interest rate targets at 0.1%. In February, it announced

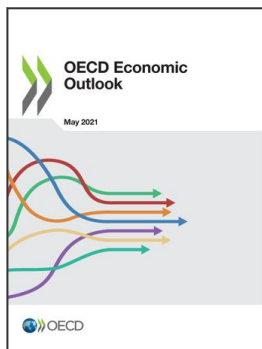
that it would expand its bond-buying programme by A\$100 billion. Its balance sheet is still comparatively small, at around 20% of GDP.

Domestic demand will drive growth

GDP growth is projected to rebound, with growth of 5.1% in 2021 and 3.4% in 2022. Household consumption growth will remain high, supported by the strong labour market, substantial liquidity buffers, wealth effects from higher housing prices and declining saving rates, offsetting the end of the wage subsidy and benefit supplement. In 2021, investment growth is being driven by public investment and higher private investment induced by government incentives as well as lower borrowing rates. However, some of these effects will fade. The exchange rate appreciation, trade tensions and travel restrictions will continue to weigh on exports. Inflation will initially decline in year-ended terms as transitory factors pass, notably the effects of earlier policy measures and recent fuel price increases, but will increase thereafter as spare capacity is eroded. A downside risk is that the unwinding of government support is more disruptive than anticipated, denting confidence and private demand. The vaccine rollout represents a risk in both directions. On the downside, without widespread vaccination, the economy is vulnerable to a sizeable outbreak and accompanying restrictions, and delays to skilled immigration could crimp growth. A resolution of trade tensions would boost exports.

Policies should remain supportive and focus on enabling reallocation

Monetary policy should remain accommodative given projections for inflation to remain below the 2-3% target band. Further fiscal support and bond purchases may be needed if the recovery falters or inflation undershoots. Additional targeted support may also be needed where international border closures and remaining physical distancing restrictions have the largest impact. Tackling barriers to labour reallocation would strengthen the recovery. Legislating automatic mutual recognition of occupational licenses across jurisdictions would boost labour mobility between states. More states and territories should replace taxes and fees on property transactions with a recurrent land tax to promote mobility and more efficient property use. Policymakers should also limit the rebound of greenhouse gas emissions accompanying the recovery. Further increasing renewable energy, boosting take-up of electric vehicles, and improving co-ordination of climate policies across governments – including better interconnection of electricity grids – would help progress towards the Paris Accord decarbonisation objectives.



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