

Economic overview

Matthew Howden and Kirk Zammit



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Global economic growth is assumed to be 3% in 2019 and 3.4% in 2020.

- Elevated political uncertainty and trade disputes have reduced global economic growth prospects.
- Economic growth in Australia's major agricultural export markets has been particularly affected, and downside risks have increased.
- The Australian dollar is assumed to average US68 cents in 2019–20.

Global economic outlook

Global economic growth is assumed to be 3.0% in 2019, the slowest rate of growth since 2009, before increasing to 3.4% in 2020. This assumed recovery is fragile and subject to substantial downside risks.

Growth in GDP per person across Australia's 10 largest agricultural export markets has also been revised down. It is assumed to be 3.6% in 2020, well below the 10-year average of 4%. However, income growth in Australia's main export markets remains above other regions and the global average.

These assumptions have been revised down since [Agricultural commodities: September quarter 2019](#), and largely reflect the

identified downside risks of the China–US trade dispute on international trade, manufacturing and business investment materialising. This has been particularly evident in some of Australia's largest agricultural export markets, including Japan, Malaysia, the Republic of Korea and Singapore.

Furthermore, an escalation in tensions between Japan and the Republic of Korea, and ongoing civil unrest in Hong Kong, have increased the downside risks to economic growth in the region. Further afield, geopolitical tensions and conflict in the Middle-East, ongoing uncertainty around Brexit and an increase in political unrest in South America are key downside risks to global economic growth in 2020.

These risks to the global economic outlook are sources of uncertainty for Australian agriculture because of their potential to affect market prices, export demand and Australia's competitiveness in world markets.

Despite these challenges, the underlying economic drivers of demand remain relatively favourable in several of Australia's key export markets. In Japan and the United States, labour markets are tight and wages have been increasing, giving consumers greater capacity to purchase imported food products. In China, authorities have introduced stimulus to support infrastructure investment and household consumption. Recent reductions to US interest rates have also provided room for central banks in developing economies to lower interest rates to support economic activity and stimulate consumption.

Overall, demand for Australian agricultural exports is being supported by strong population growth and the westernisation of diets in Asia. A

shortfall in global protein production because of African swine fever is increasing demand even further for Australian livestock and livestock product exports.

Australian economy

In 2018–19 the Australian economy grew by 2%, and is assumed to grow by 2.25% in 2019–20. Recent tax cuts and an easing in monetary policy should provide some support to economic activity. However, subdued household consumption is a key risk to growth in 2019–20.

The Australian dollar is assumed to average US68 cents in 2019–20, down by 12% from US77 cents in 2017–18. This has been driven by a faster decline in Australian interest rates compared with other advanced economies. The current high level of uncertainty and weaker global growth prospects have also contributed to the fall in the Australian dollar.



Key macroeconomic assumptions

	unit	2017	2018	2019 a	2020 a
Economic growth					
World b	%	3.8	3.6	3.0	3.2
Advanced economies	%	2.5	2.3	1.7	1.7
United States	%	2.4	2.9	2.4	2.1
Japan	%	1.9	0.8	0.9	0.5
Eurozone	%	2.5	1.9	1.2	1.4
Germany	%	2.5	1.5	0.5	1.2
France	%	2.3	1.7	1.2	1.3
Italy	%	1.7	0.9	0.0	0.5
United Kingdom	%	1.8	1.4	1.2	1.4
Korea, Rep. of	%	3.2	2.7	2.0	2.2
New Zealand	%	2.6	2.8	2.5	2.7
Singapore	%	3.7	3.1	0.5	1.0
Taiwan	%	3.1	2.6	2.0	1.9
Emerging and developing economies	%	4.8	4.5	3.7	4.3
Emerging Asia	%	6.6	6.4	5.8	5.8
South-East Asia c	%	5.3	5.2	4.8	4.9
China d	%	6.8	6.6	6.1	5.8
India	%	6.9	7.4	6.5	7.0
Latin America	%	1.2	1.0	0.2	1.8
Middle East and Central Asia	%	2.3	1.9	0.9	2.9
Eastern Europe	%	3.9	3.1	1.8	2.5
Russian Federation	%	1.6	2.3	1.1	1.9
Ukraine	%	2.5	3.3	3.0	3.0
GDP per person e					
Advanced economies	%	2.0	1.8	1.3	1.3
Emerging and developing economies	%	3.5	3.4	2.9	3.5
Emerging Asia	%	5.5	5.5	5.0	5.2
South-East Asia c	%	4.2	4.1	3.8	4.1
United States					
Inflation	%	2.1	2.4	1.7	2.2
US prime rate g	%	4.1	4.9	4.2	4.2
Australia	unit	2016–17	2017–18	2018–19 a	2019–20 a
Economic growth	%	2.4	2.9	2.0	2.3
Inflation	%	1.7	1.9	1.6	1.9
Interest rates h	%	3.7	3.7	3.8	3.0
Australian exchange rates					
A\$/US\$	US\$	0.75	0.78	0.72	0.68
TWI for A\$ i	index	64.8	64.5	61.5	59.2

a ABARES assumption. b Weighted using 2018 purchasing-power-parity valuation of country gross domestic product by the IMF. c Indonesia, Malaysia, the Philippines, Thailand and Vietnam. d Excludes Hong Kong. e Expressed in purchasing-power-parity. g Commercial bank prime lending rates in the United States. h Large business weighted-average variable rate on credit outstanding. i Base: May 1970 = 100.

Sources: ABARES; ABS; Indian Ministry of Statistics and Programme Implementation; IMF; RBA; US Bureau of Labor Statistics; US Federal Reserve