



Backing Australians in our transitioning economy

National Press Club

17 February 2016

The Hon Scott Morrison MP
Treasurer

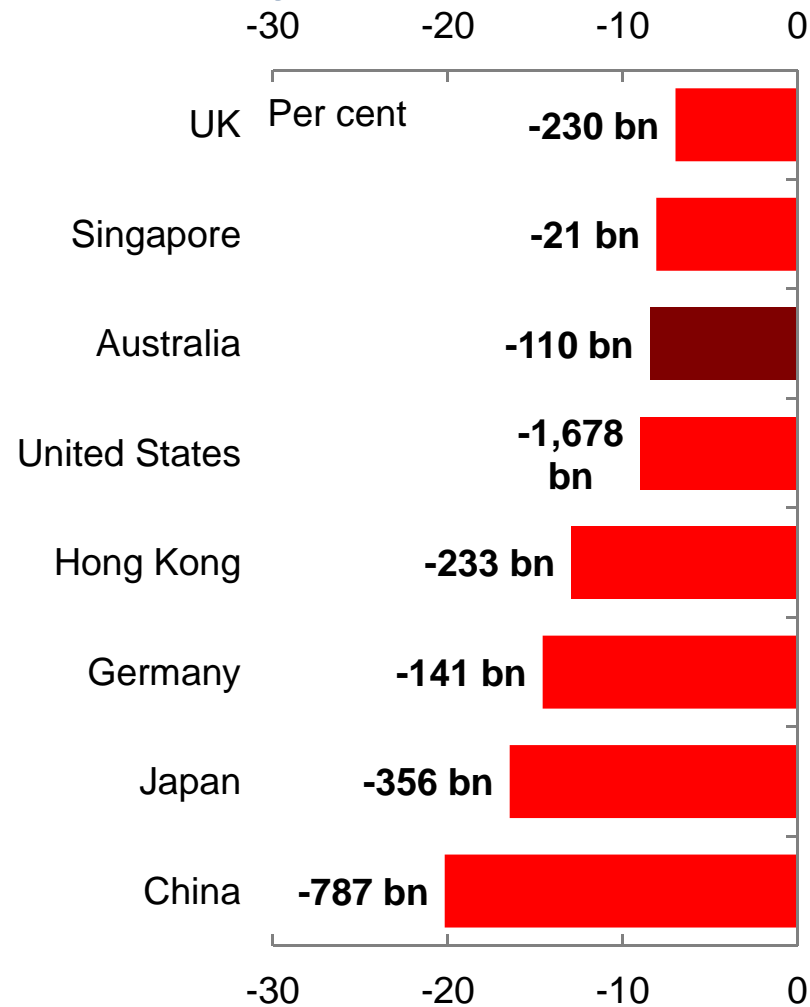


These are uncertain times for the global economy

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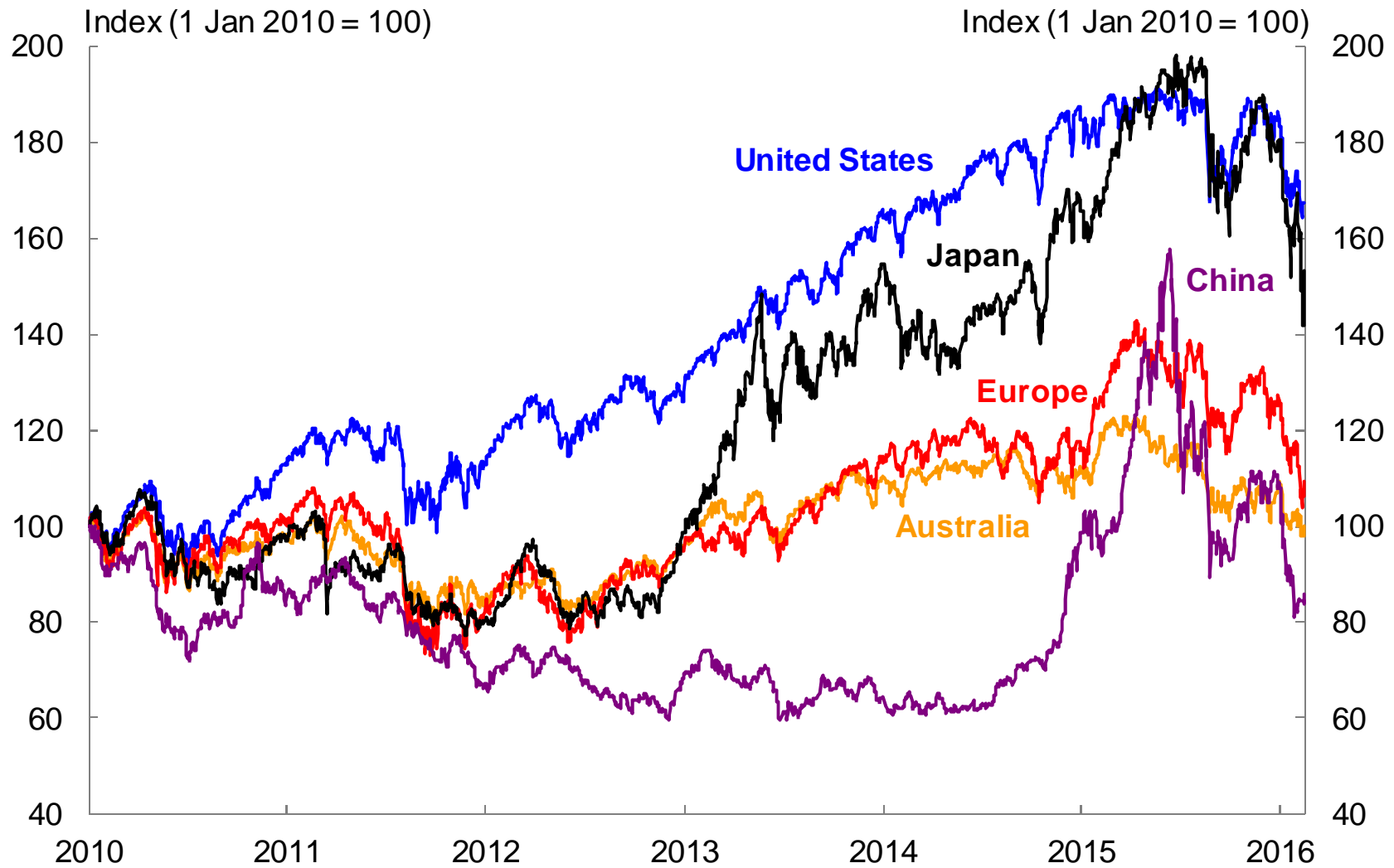
Markets have been volatile recently

Equity markets in 2016



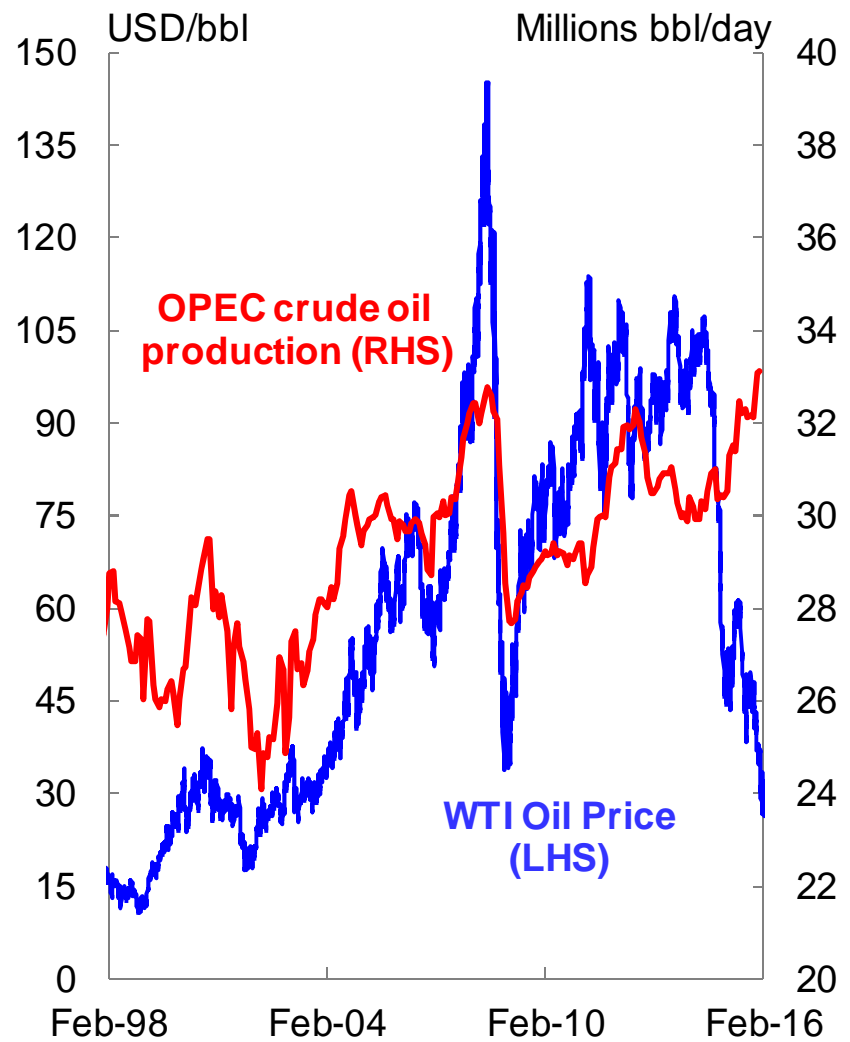
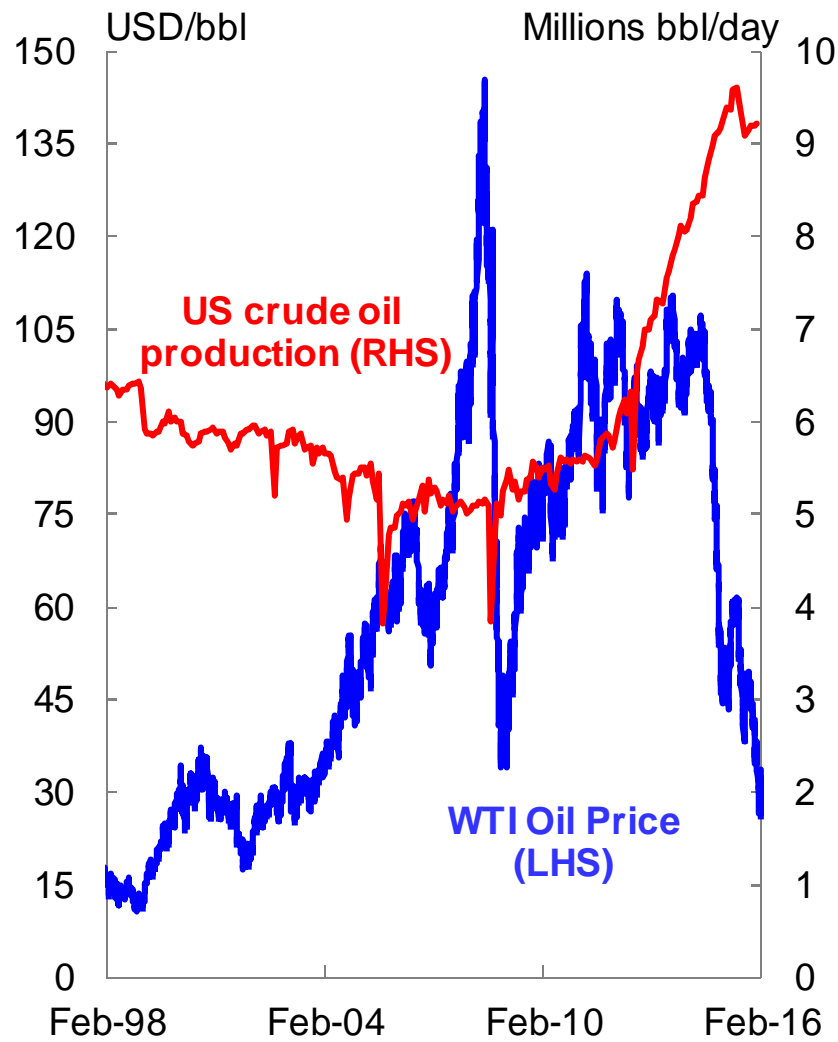
Note: Falls in value are expressed in US dollars. Percentage changes calculated in national currencies.
Source: Bloomberg.

Major economies' share price indices



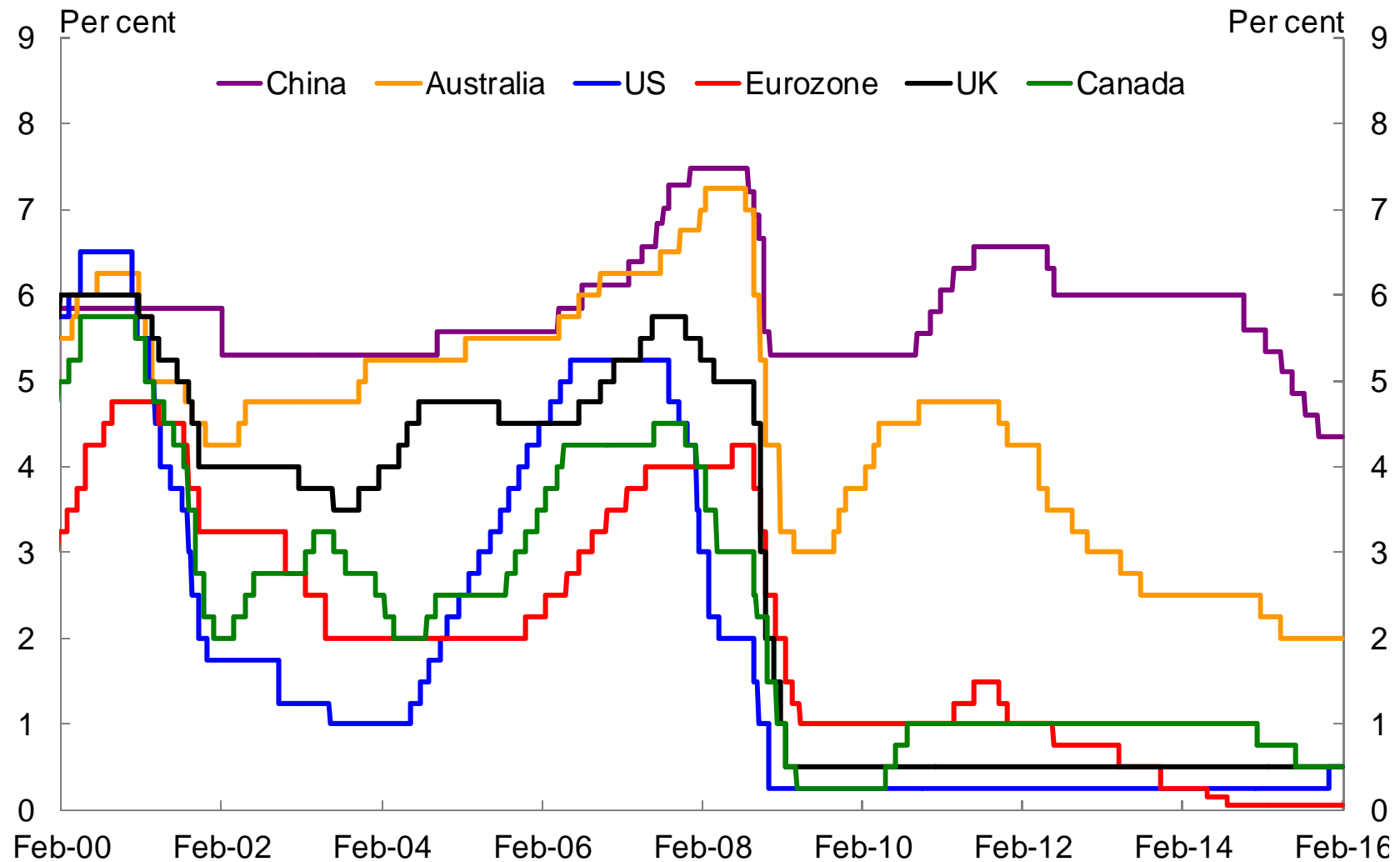
Source: Bloomberg.

The supply response to low oil prices



Source: Bloomberg.

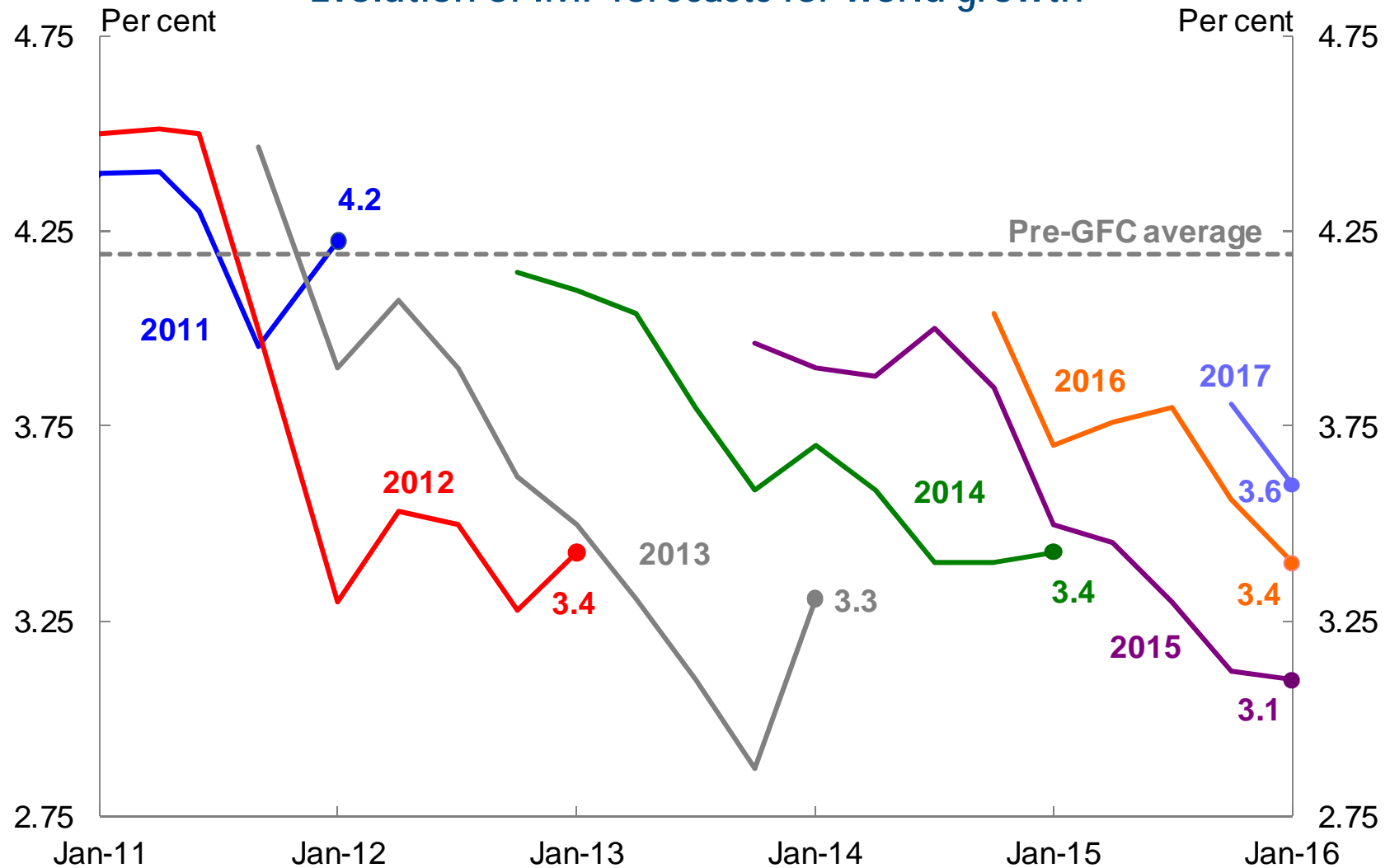
Cheap money has become the new normal



Note: Japan is not shown. Its main policy rate has generally been near zero for so long it is largely indistinguishable from the X axis.
Source: Bloomberg.

Global growth downgrades

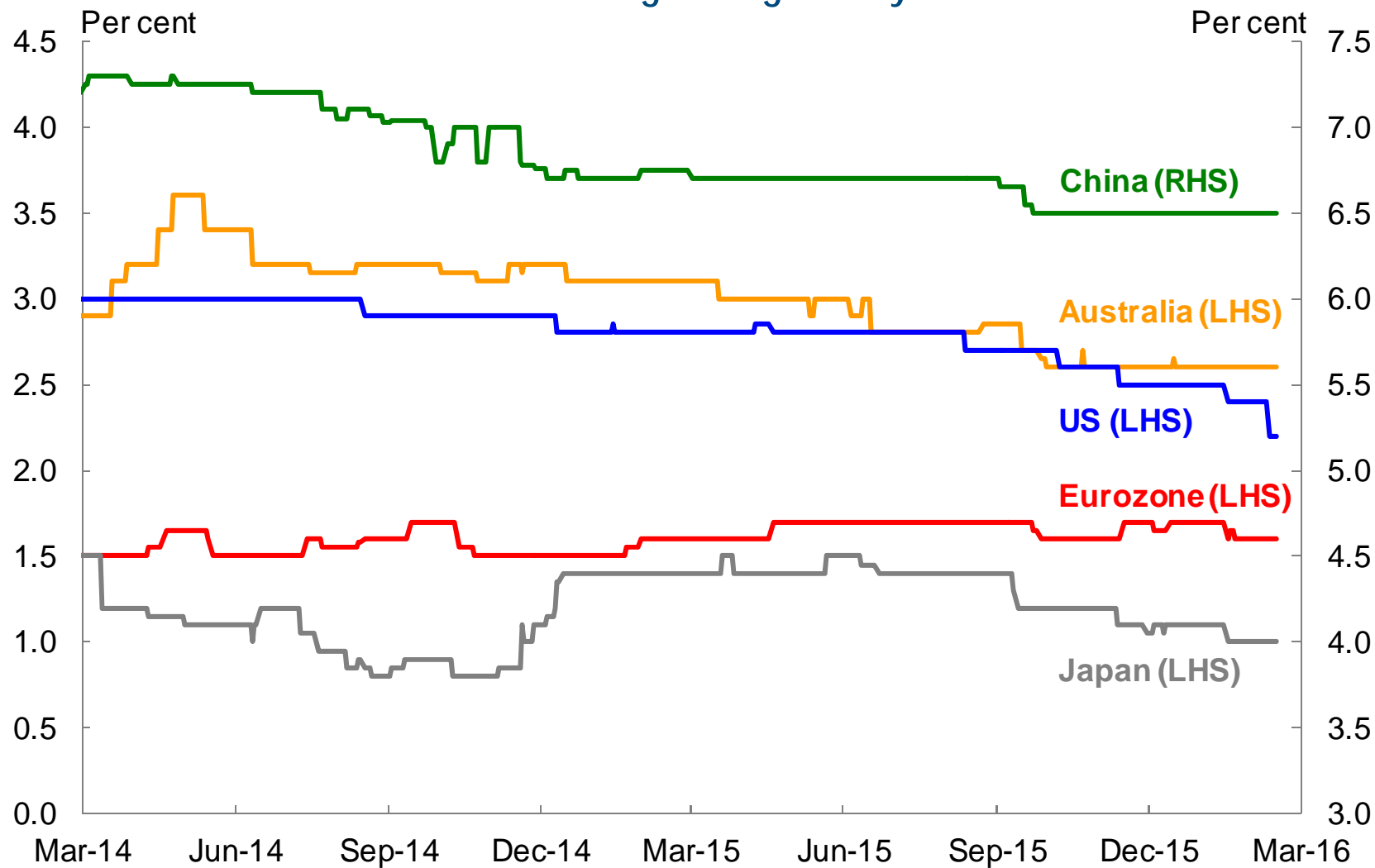
Evolution of IMF forecasts for world growth



Note: Each line represents forecasts for a particular calendar year.
Source: IMF World Economic Outlook (multiple updates).

Market forecasts for GDP growth in 2016

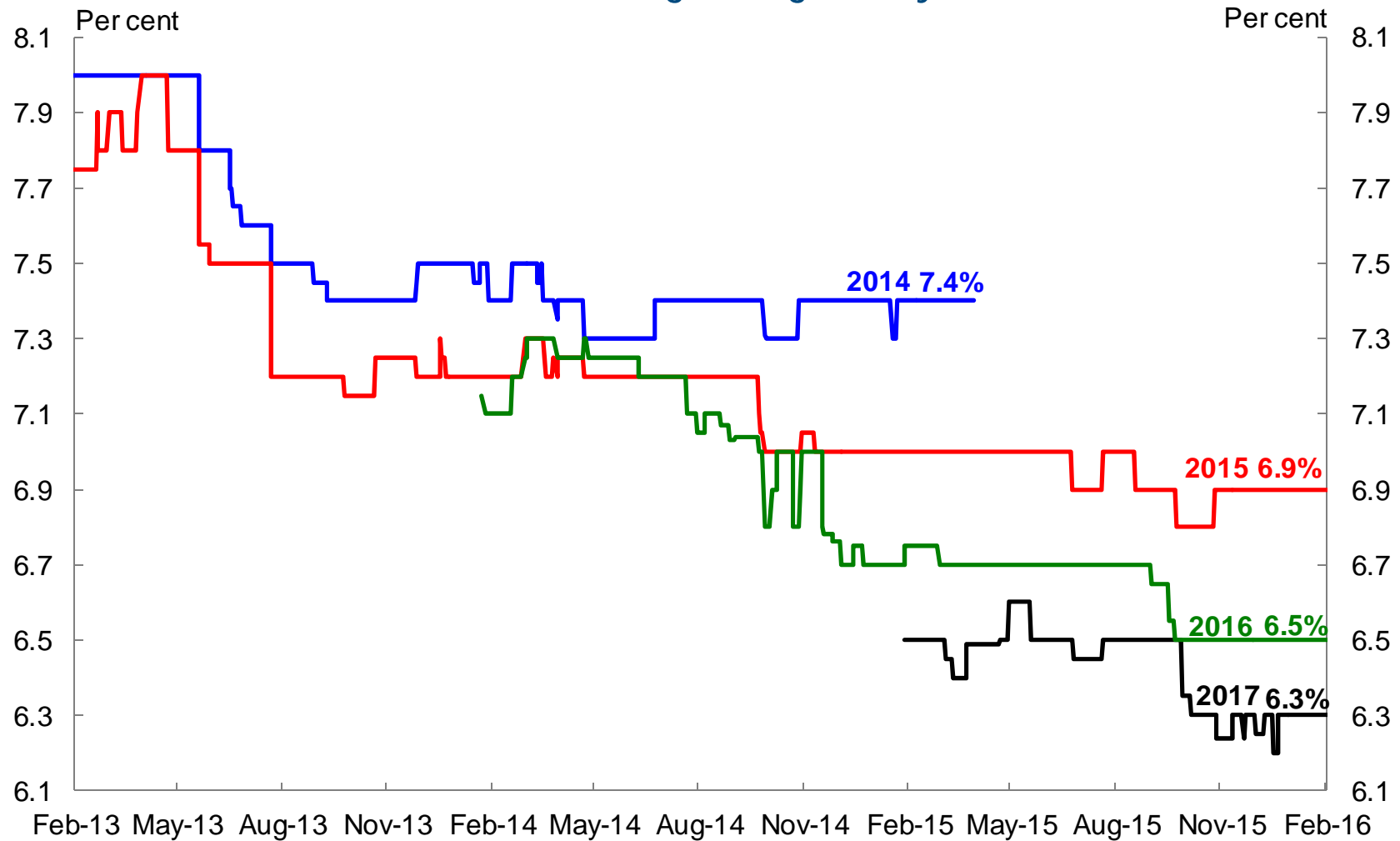
Bloomberg rolling survey



Source: Bloomberg.

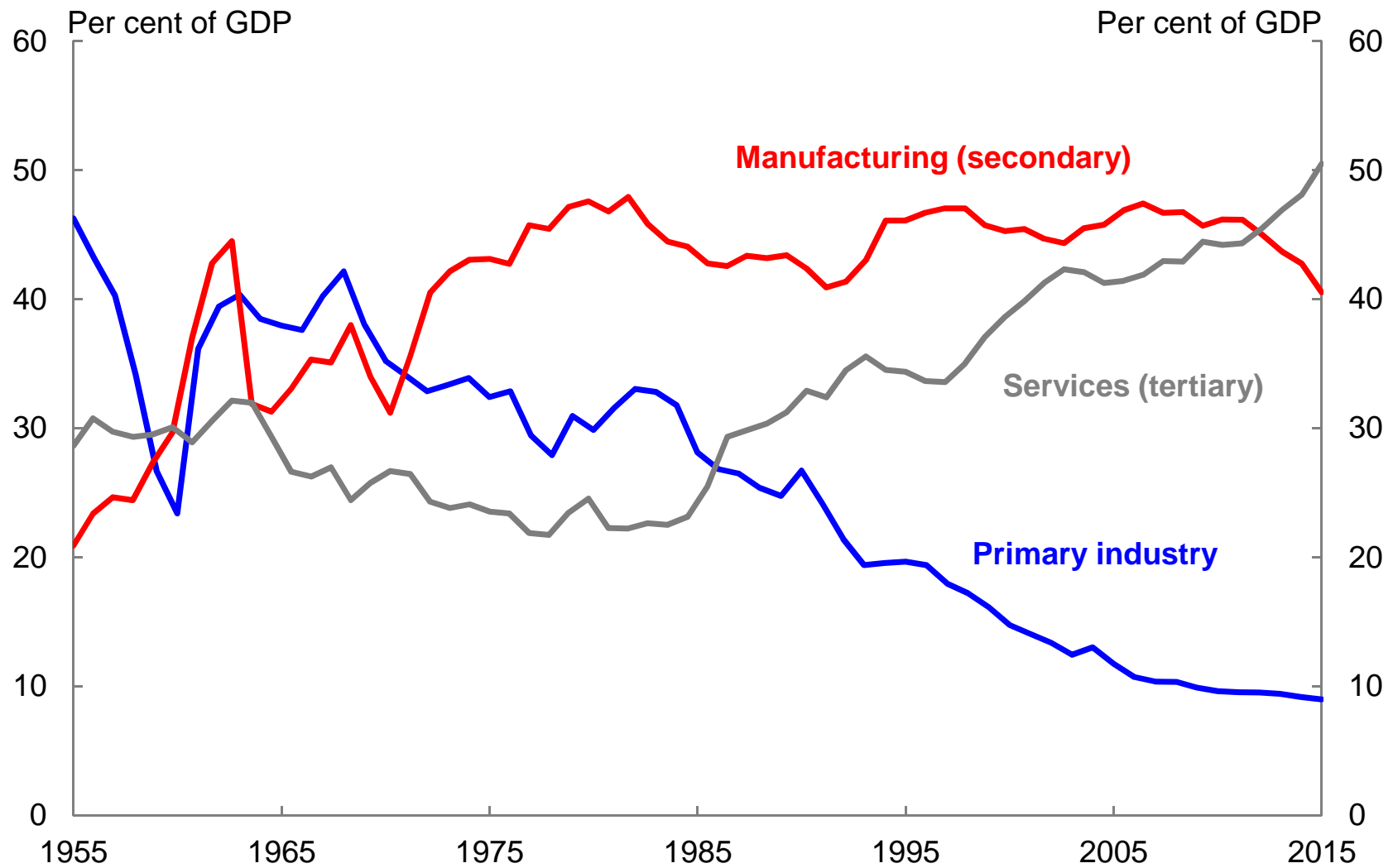
The slowdown in China is no surprise

Bloomberg rolling survey



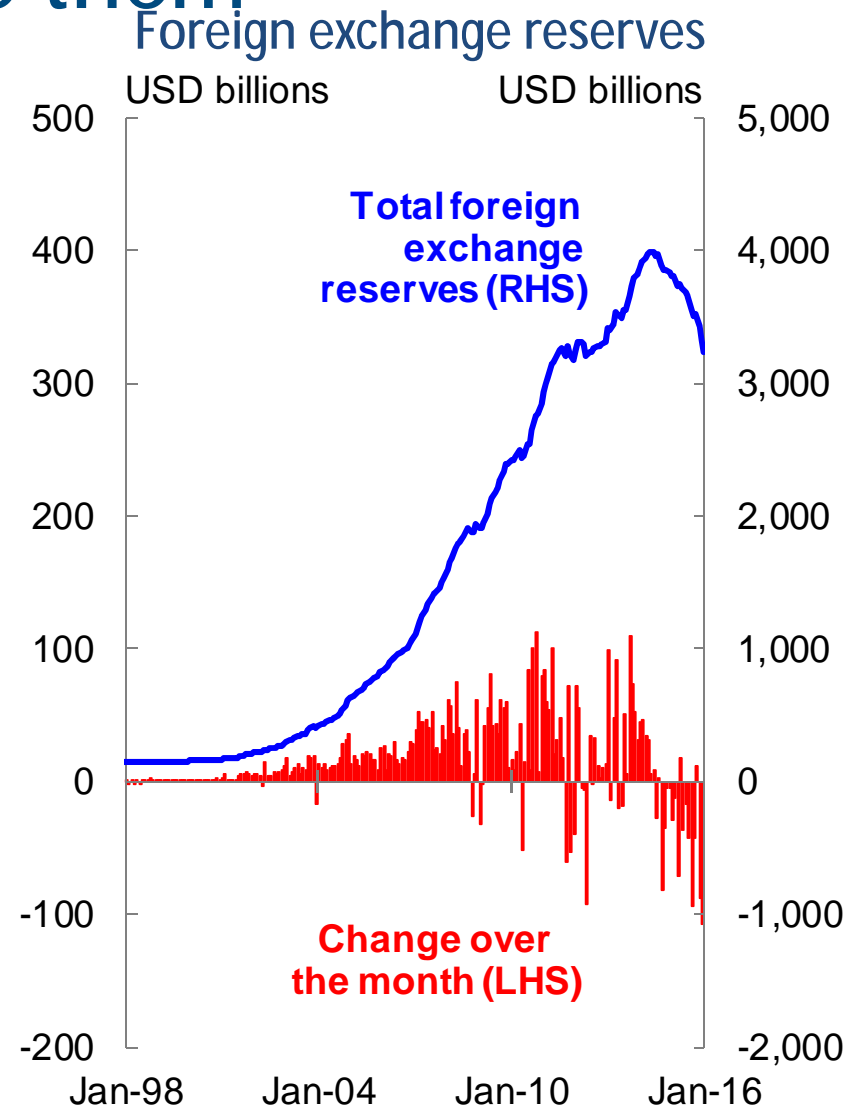
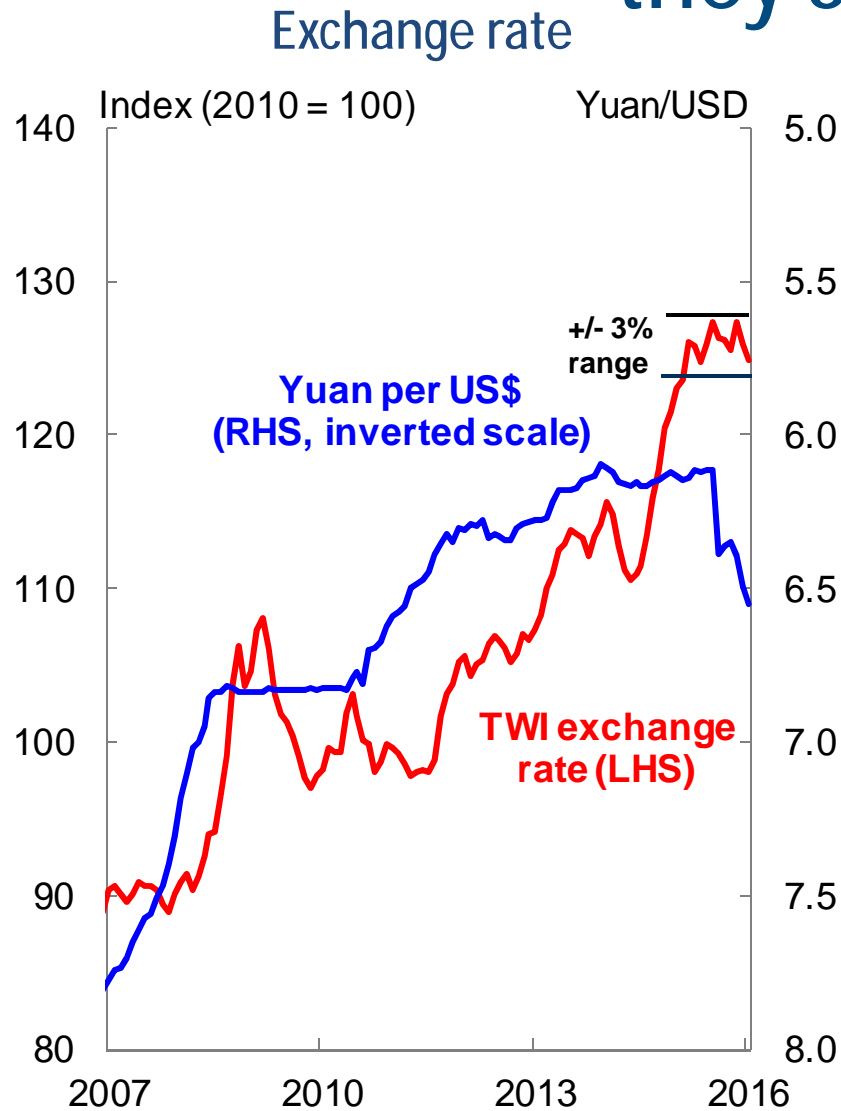
Source: Bloomberg.

China's economy is transitioning



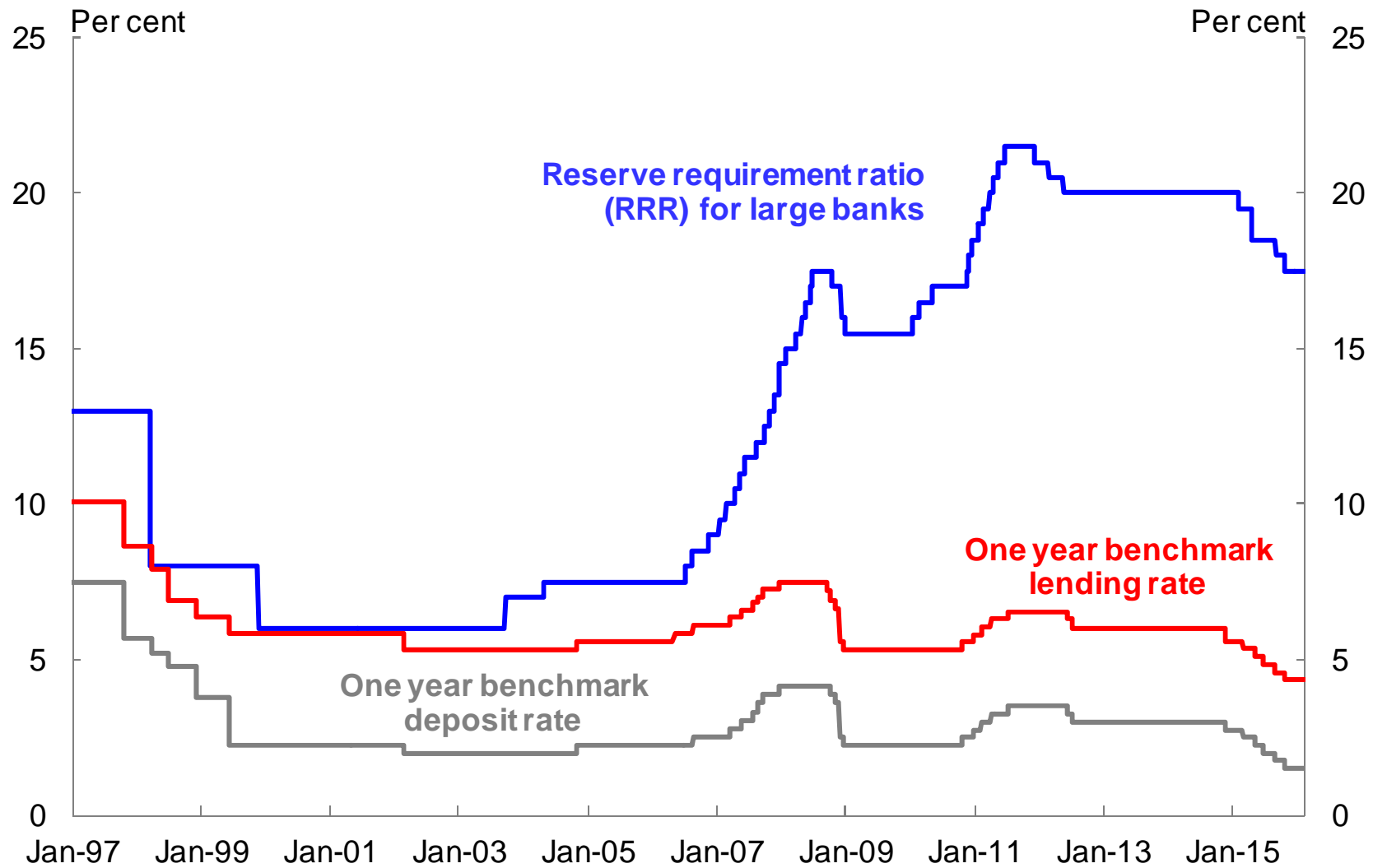
Source: CEIC China Database.

China is seeking to deal with their problems as they see them



Source: Bloomberg.

China has more options than most



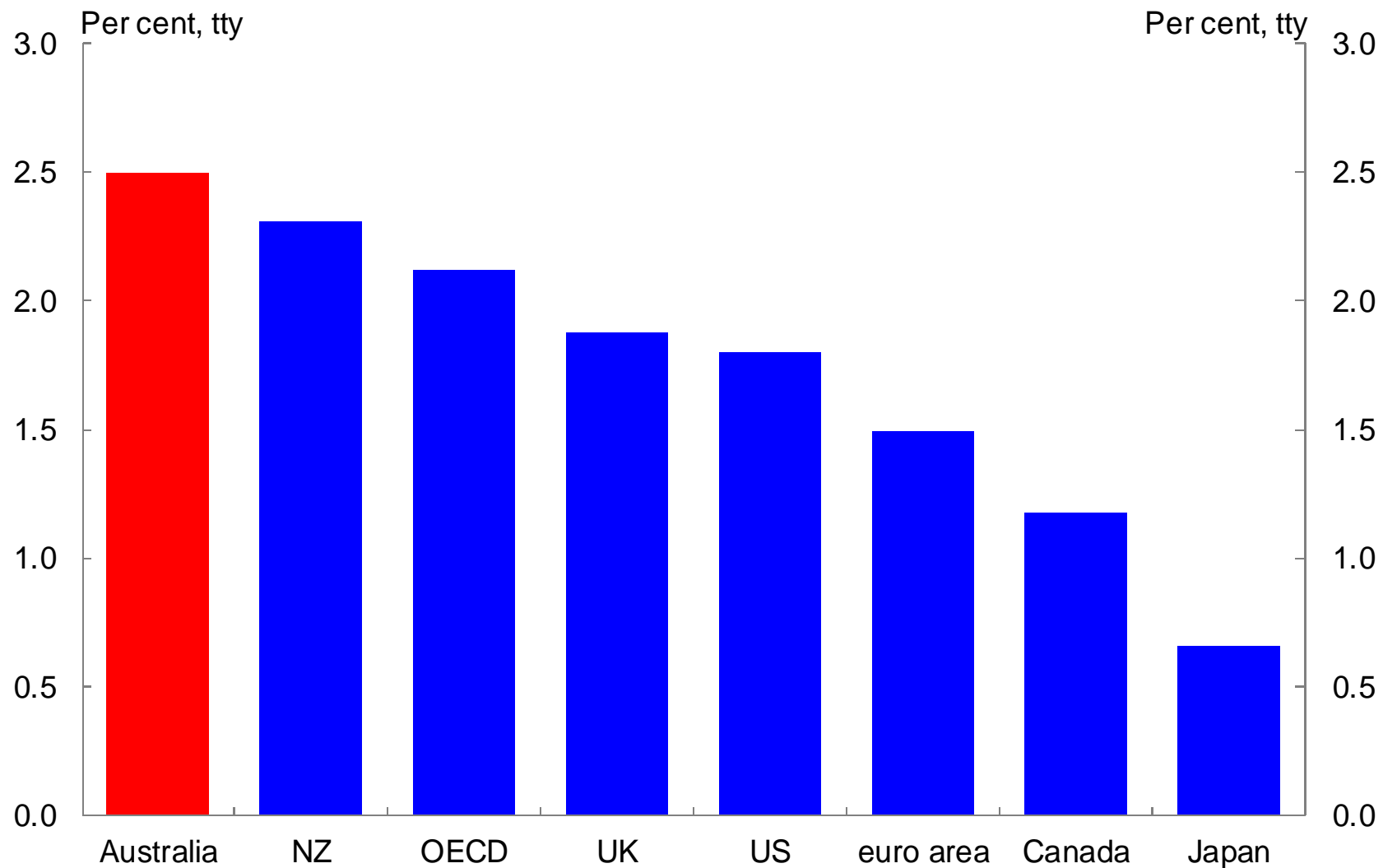
Source: Bloomberg.



The Australian economy is growing and transitioning

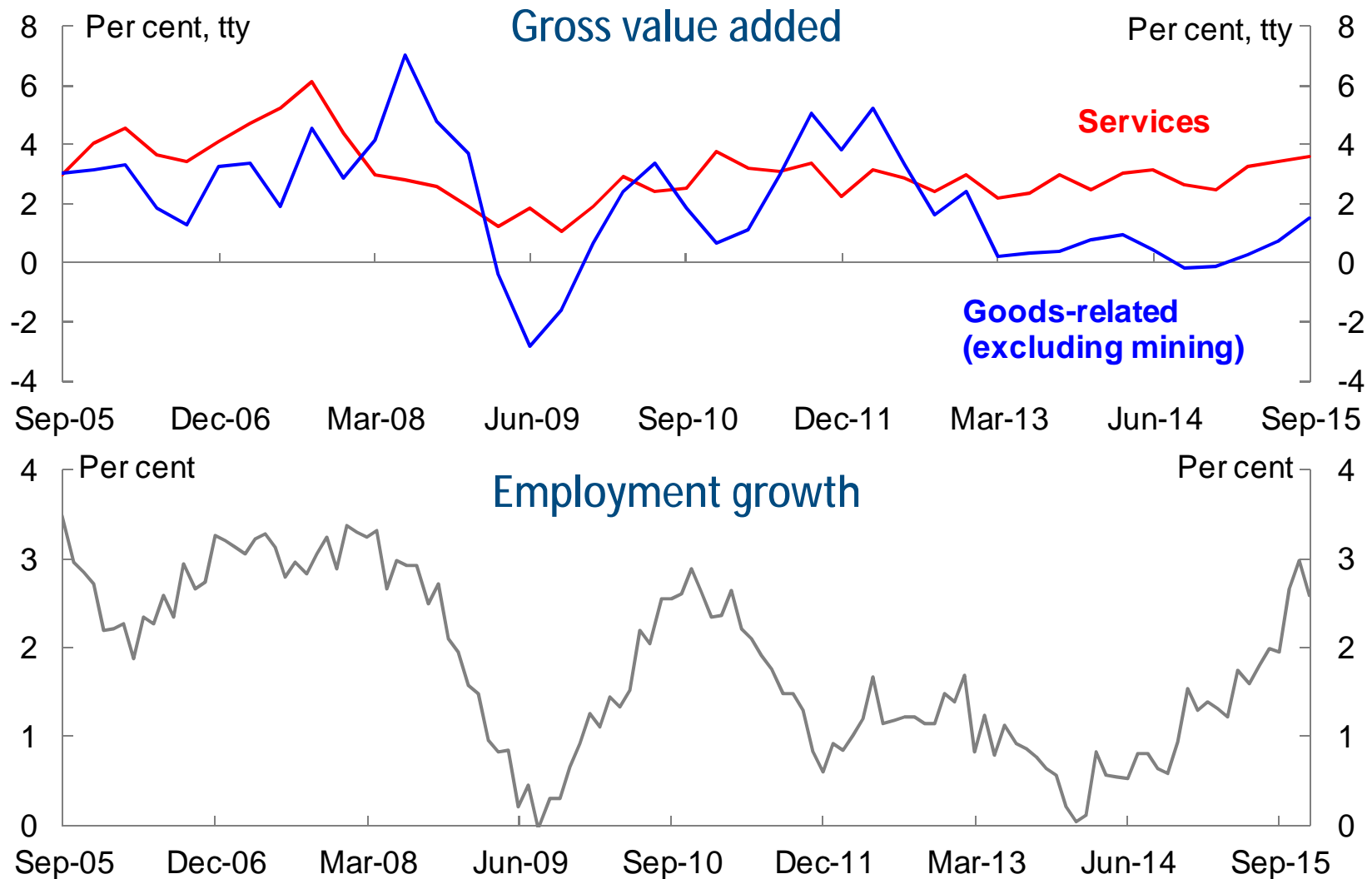
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Australia's economic growth ranks well in the world



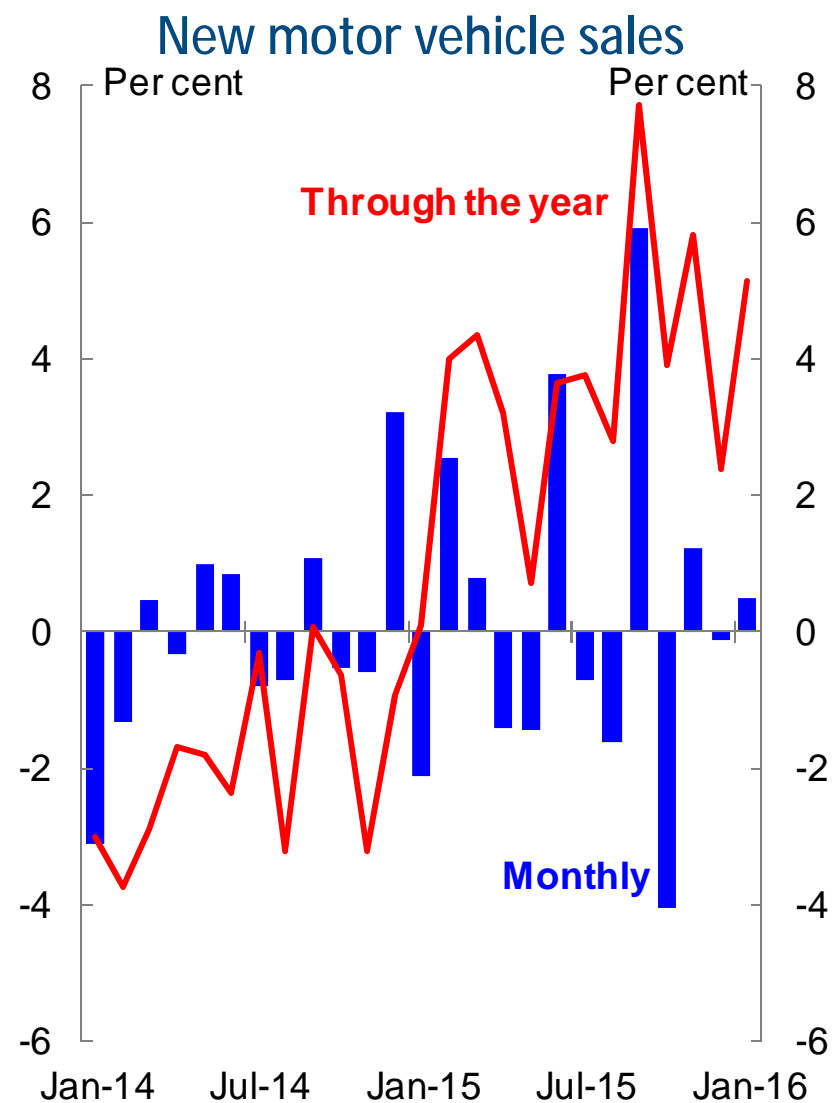
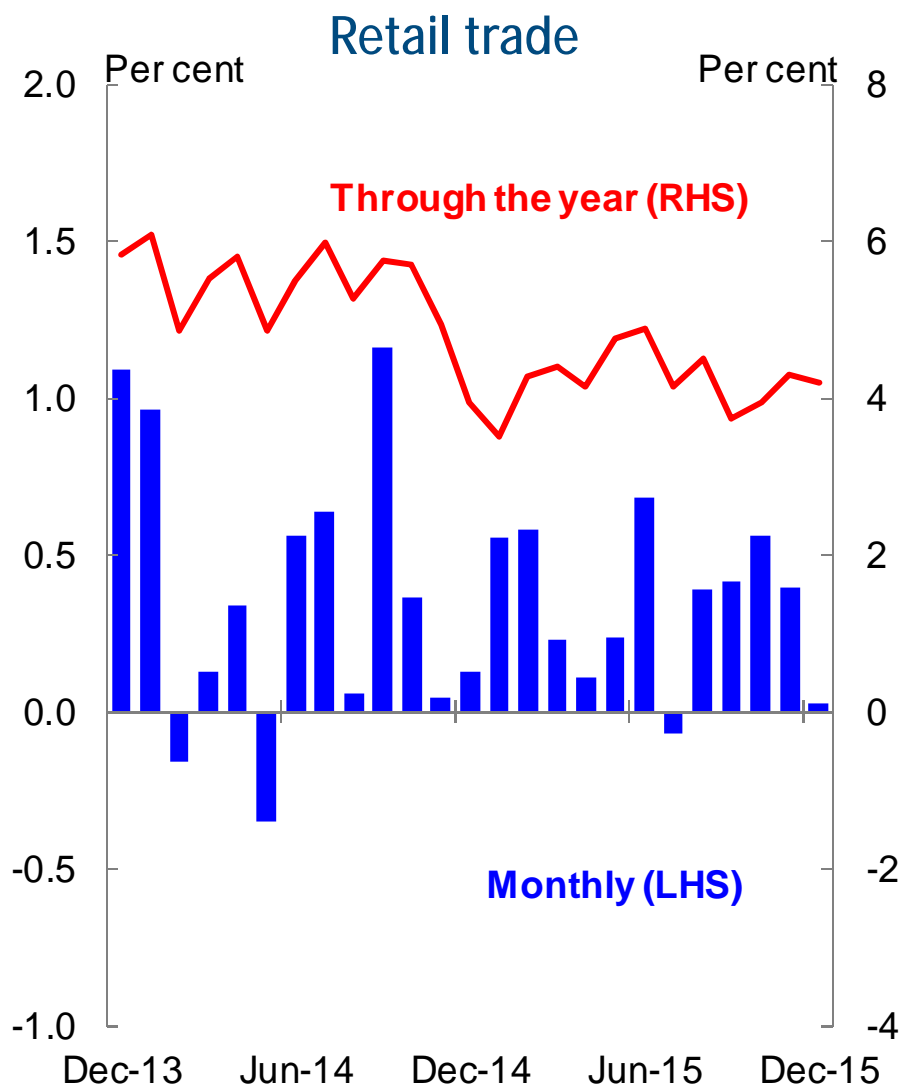
Note: Through the year data to the latest quarter. Australia, New Zealand, Canada and the OECD are for the September quarter, the others are for the December quarter.
Source: National Statistical Agencies and Thomson Reuters Datastream.

Our economic transition is well underway



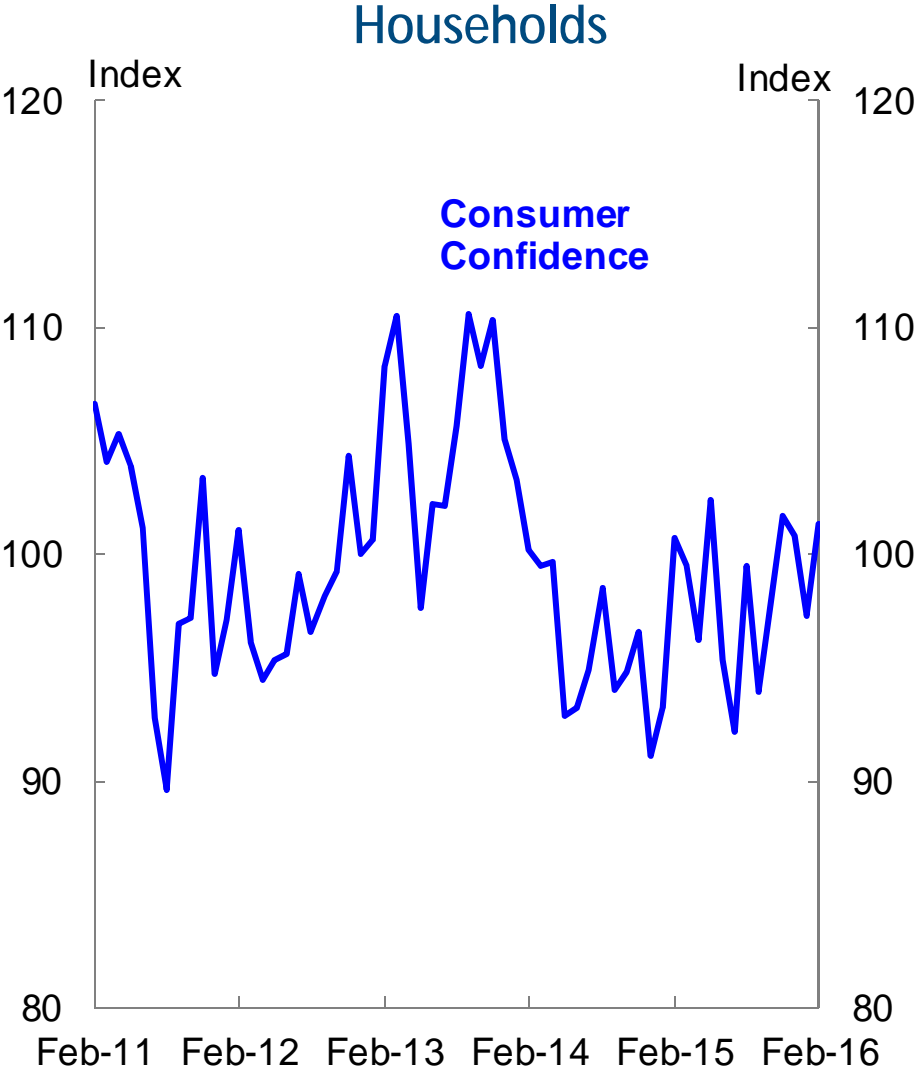
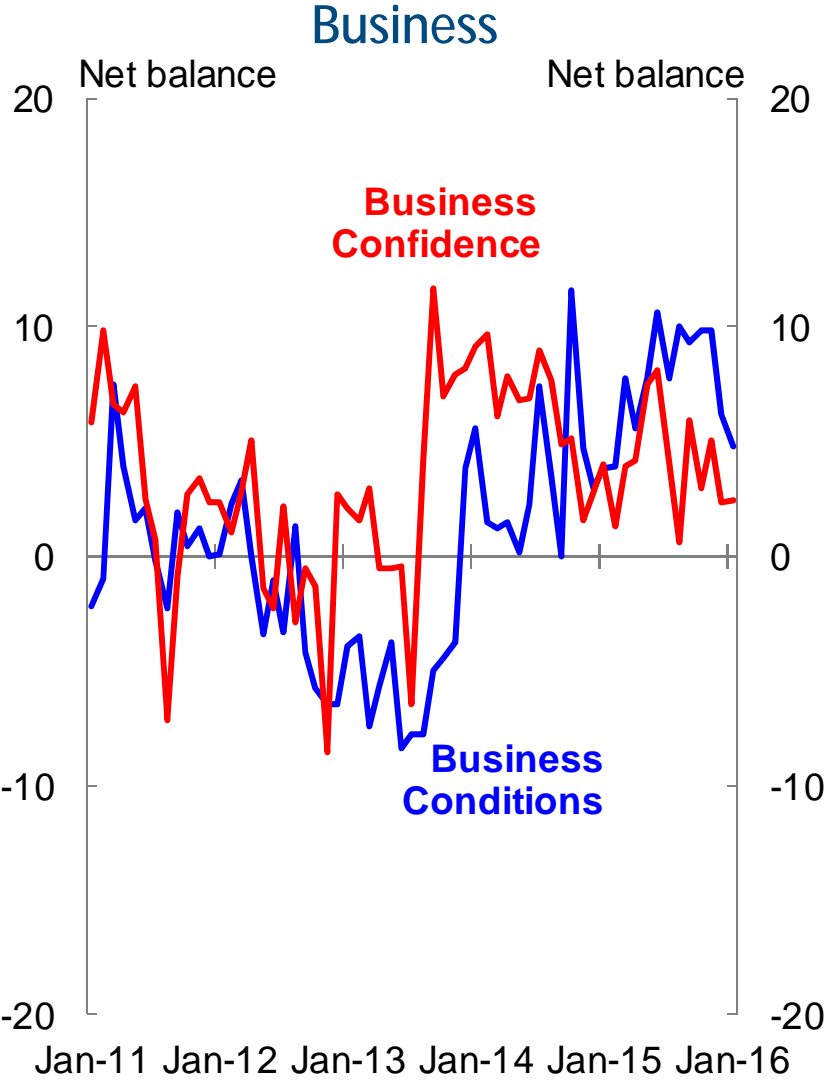
Note: Source: ABS Cat. No. 5206.0 and 6202.0.

Consumption has been strong



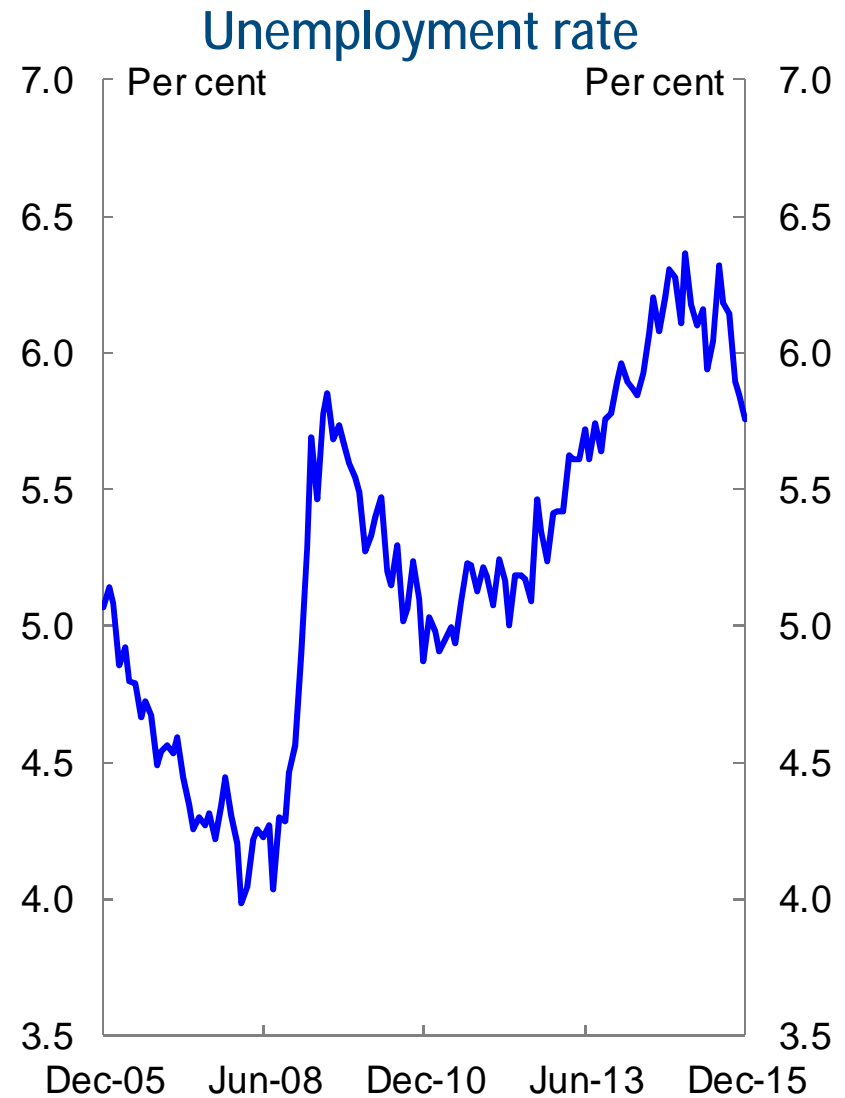
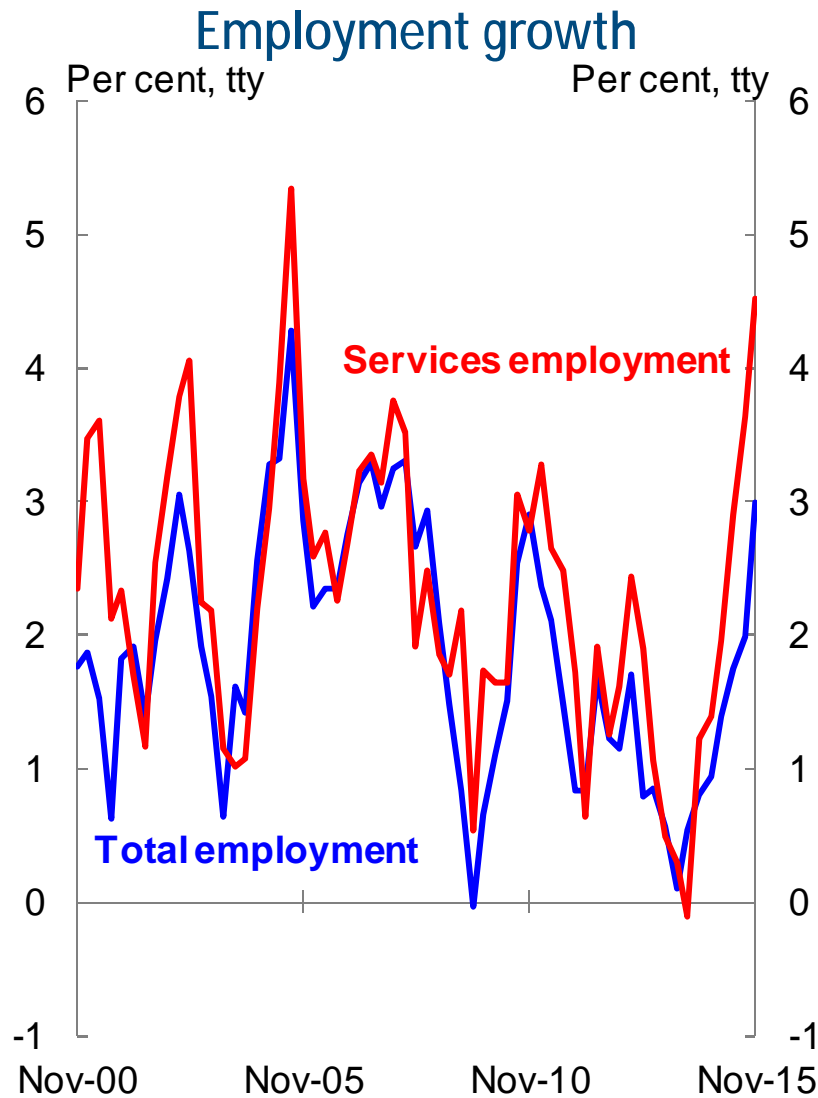
Source: ABS Cat. No. 8501.0 and 9314.0

Conditions and confidence are positive



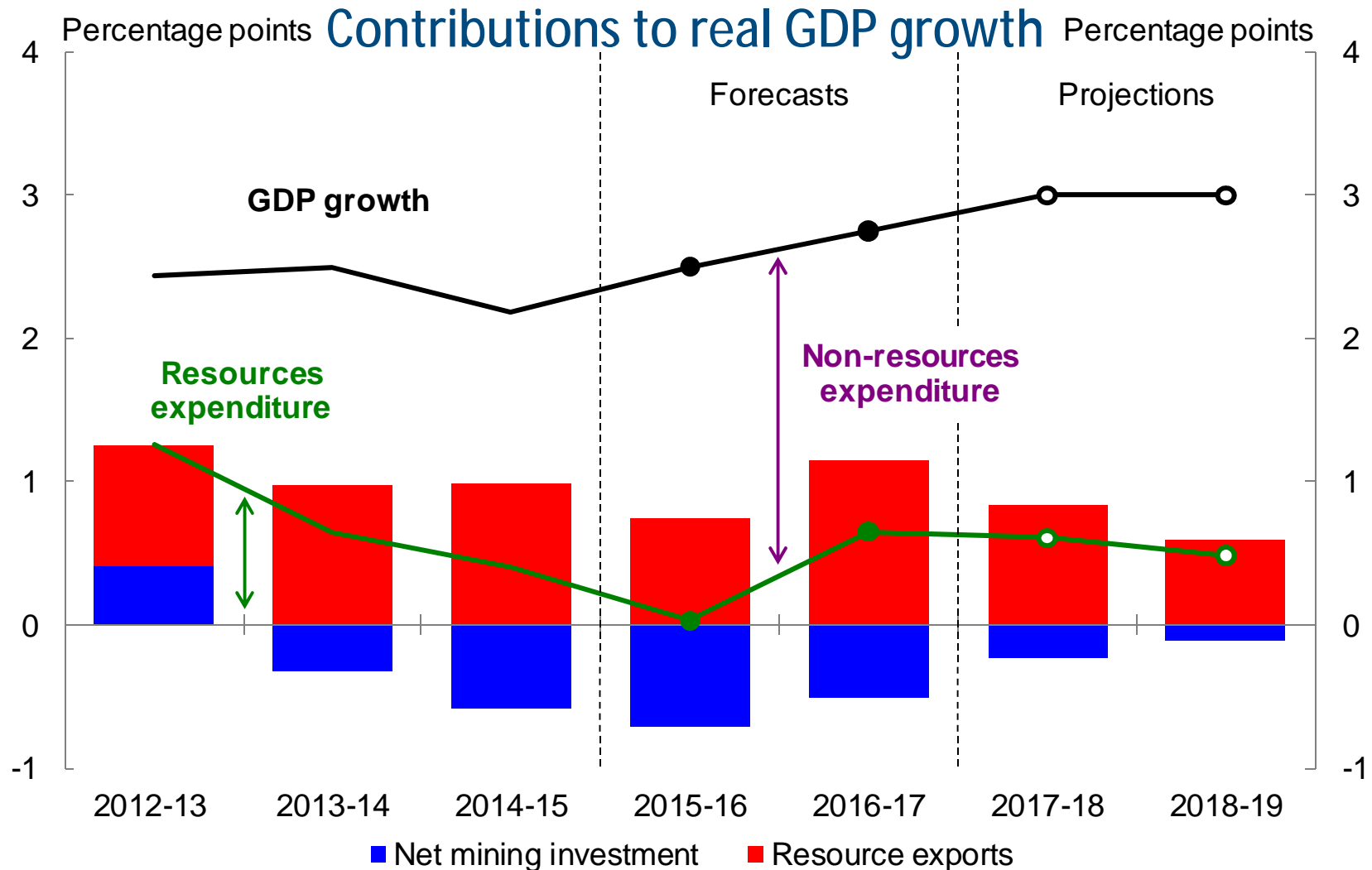
Source: NAB Monthly Business Survey and Westpac-Melbourne Institute Consumer Sentiment Index

Our labour market is strong



Source: ABS Cat. No. 6202.0 and 6291.0.55.003.

Backing our transition is critical for jobs and growth



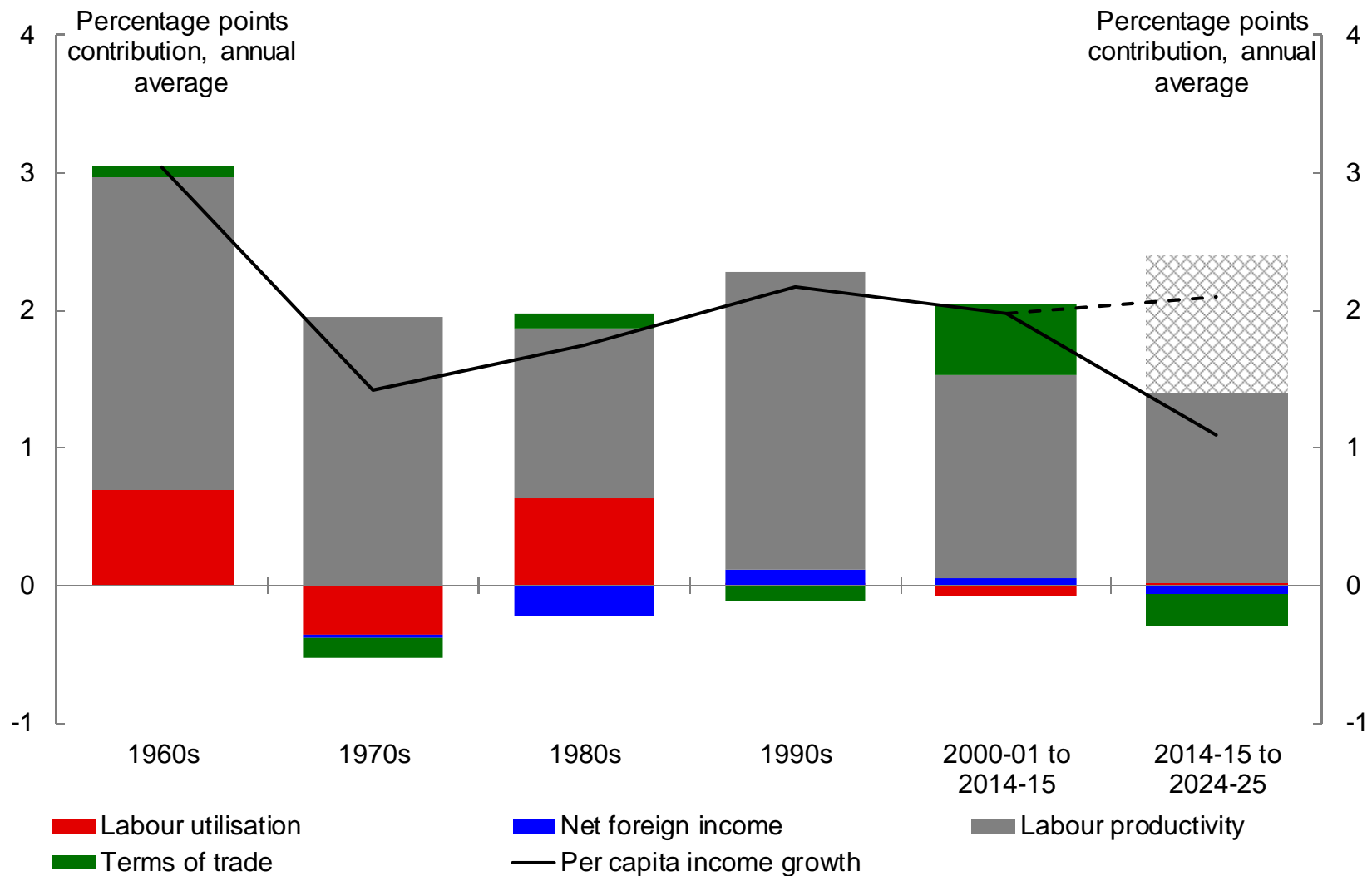
Note: Assumes that resources investment has an import share of 50 per cent.
 Source: ABS Cat. No. 5204.0, 5206.0, 5302.0, BREE and Treasury.



The need for productivity,
innovation and incentive in our
economy has never been more
important

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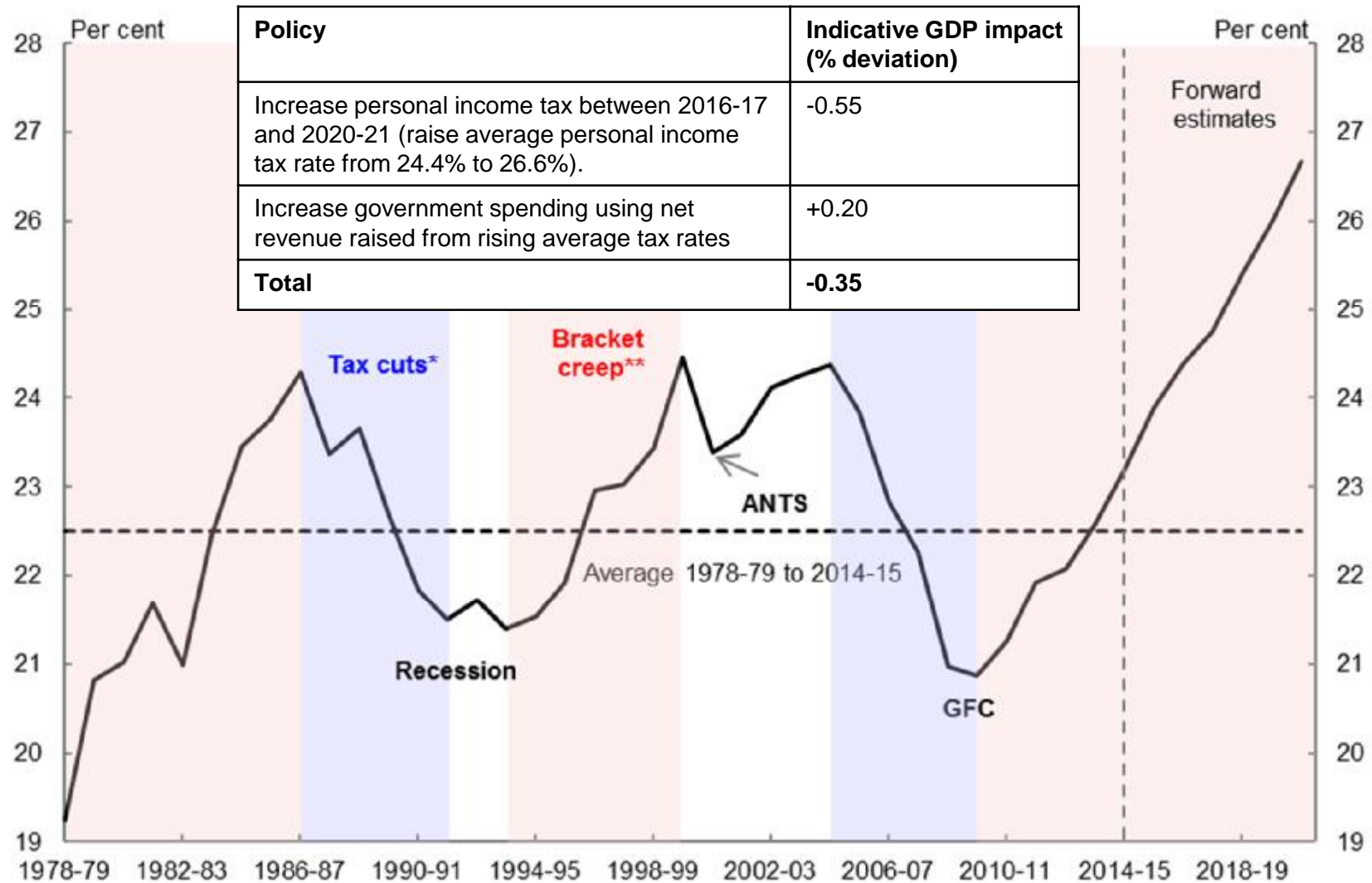
Sources of growth in real national income per person



Note: The hatched area represents the additional labour productivity required to achieve long run average growth in real gross national income per capita. Source: ABS Cat. No. 5206.0 and Treasury.

Tax and spend is no plan for jobs and growth

Individual's average tax rate



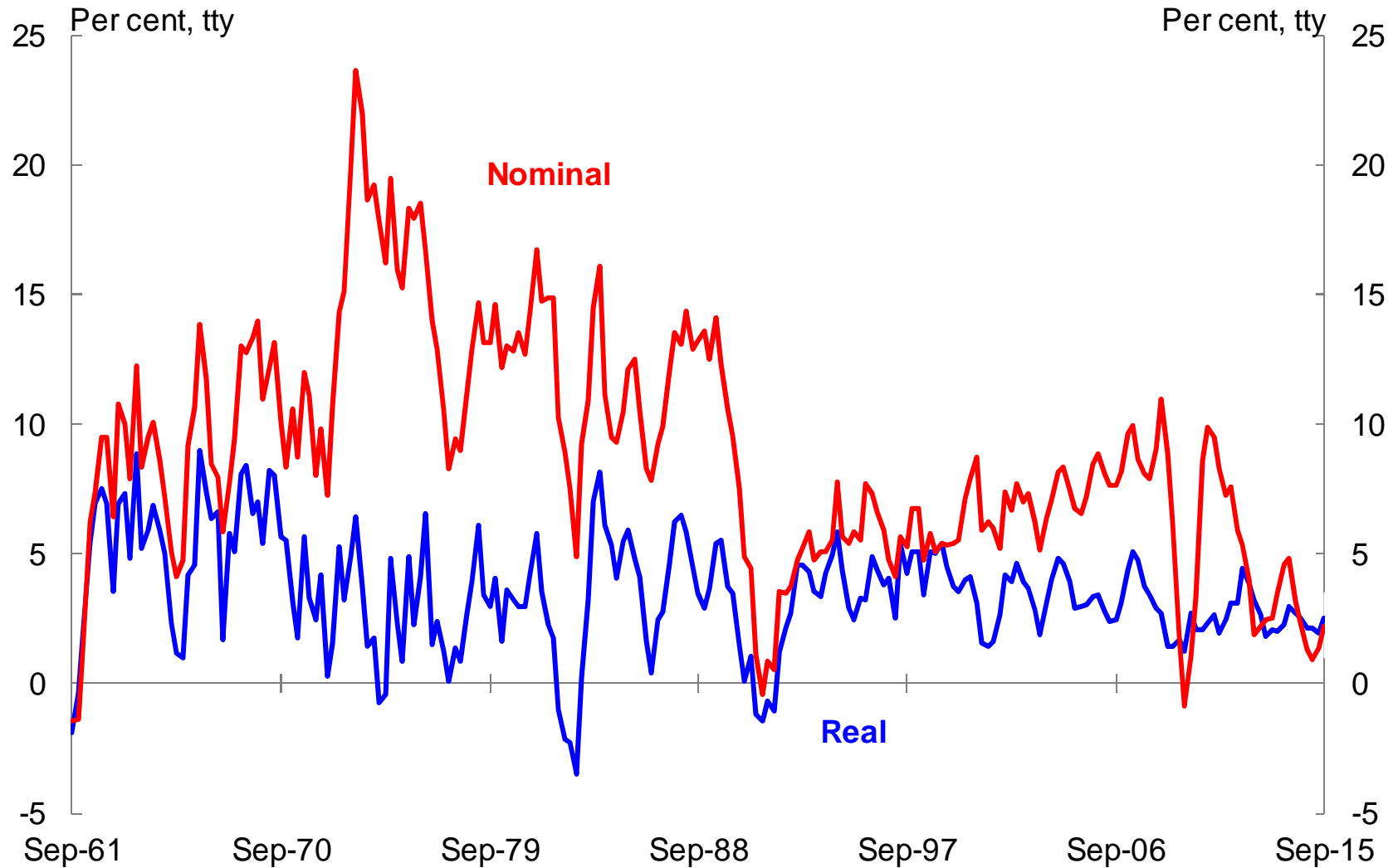
Note: Individual's average tax rate (income year basis) * Major periods of declining average individuals' tax rate primarily reflecting the impact of tax cuts. ** Major periods of rising average individuals' tax rate primarily reflecting the impact of bracket creep. Source: Treasury



We will achieve a surplus when
expenditure is less than revenue

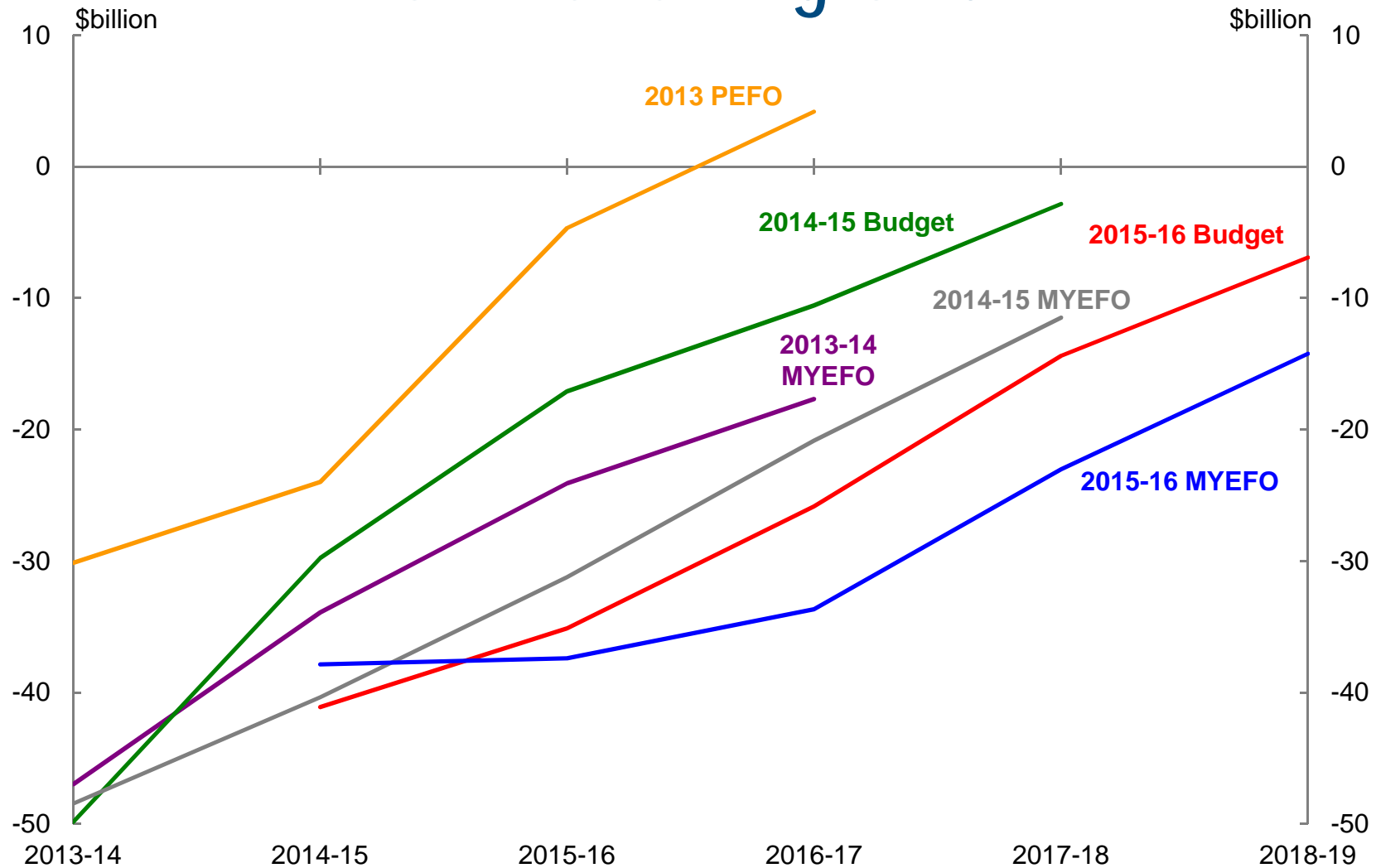
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Real and nominal growth have converged



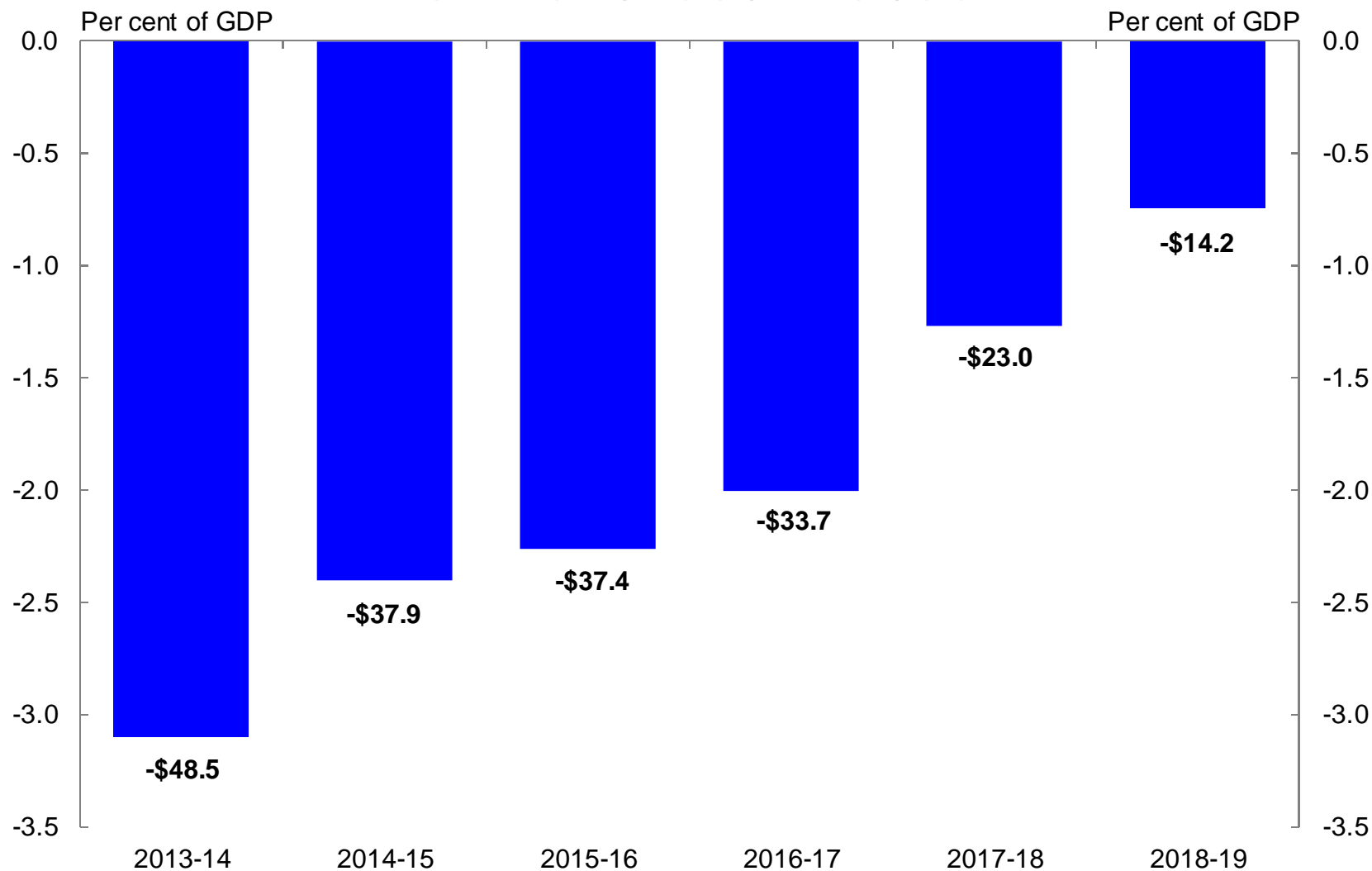
Source: ABS Cat. No. 5206.0

The UCB has been revised down due to lower nominal GDP growth



Note: Underlying cash balance as reported at each fiscal update since the 2013 PEFO.
Source: PEFO, Budget and MYEFO papers.

The deficit is forecast to reduce over the forward estimates

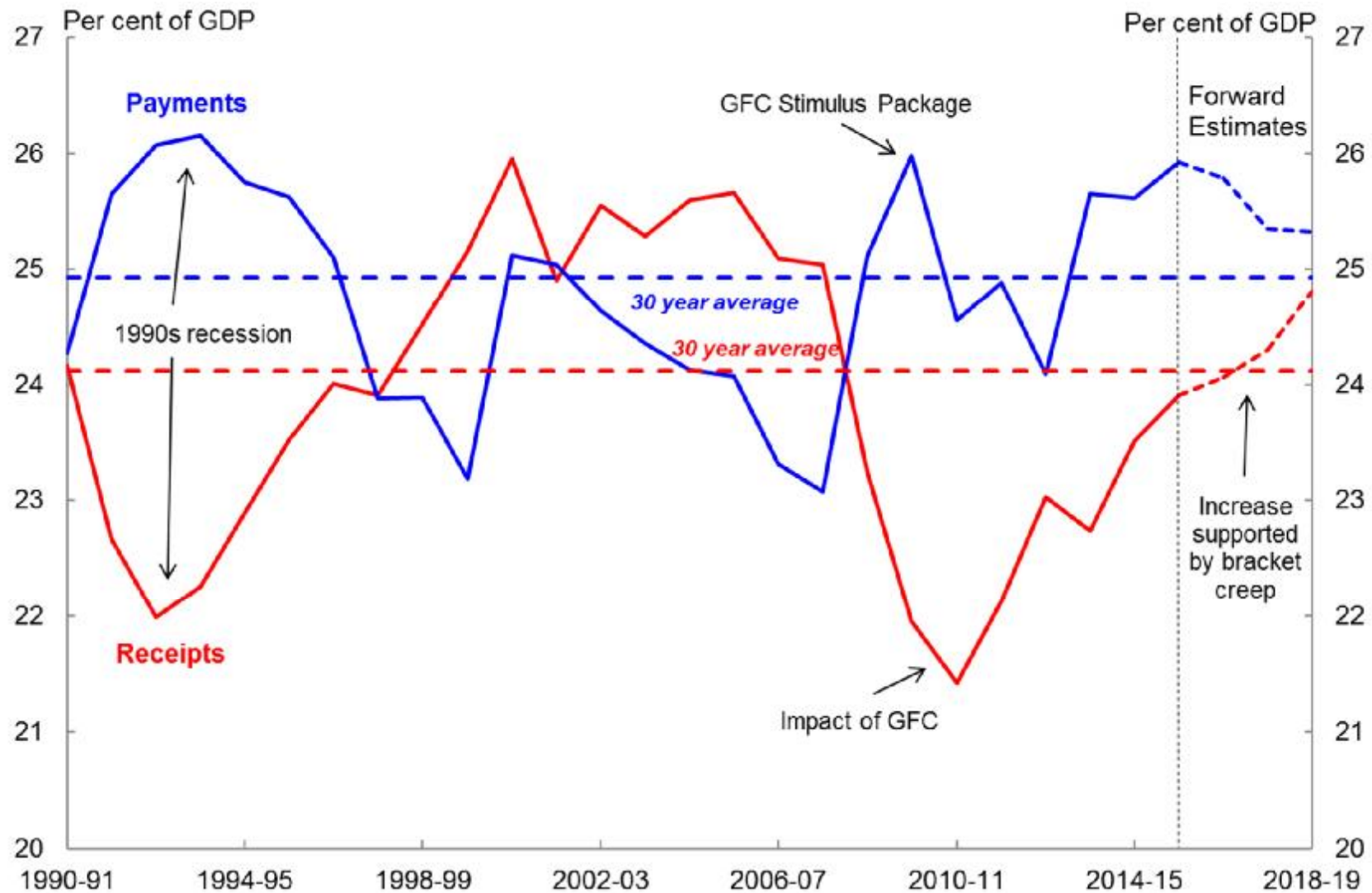


Note: Underlying cash balance as reported at 2015-16 MYEFO.
Source: 2015-16 MYEFO.

Nominal GDP has fallen since PEFO due to weakening commodity prices and low wage growth

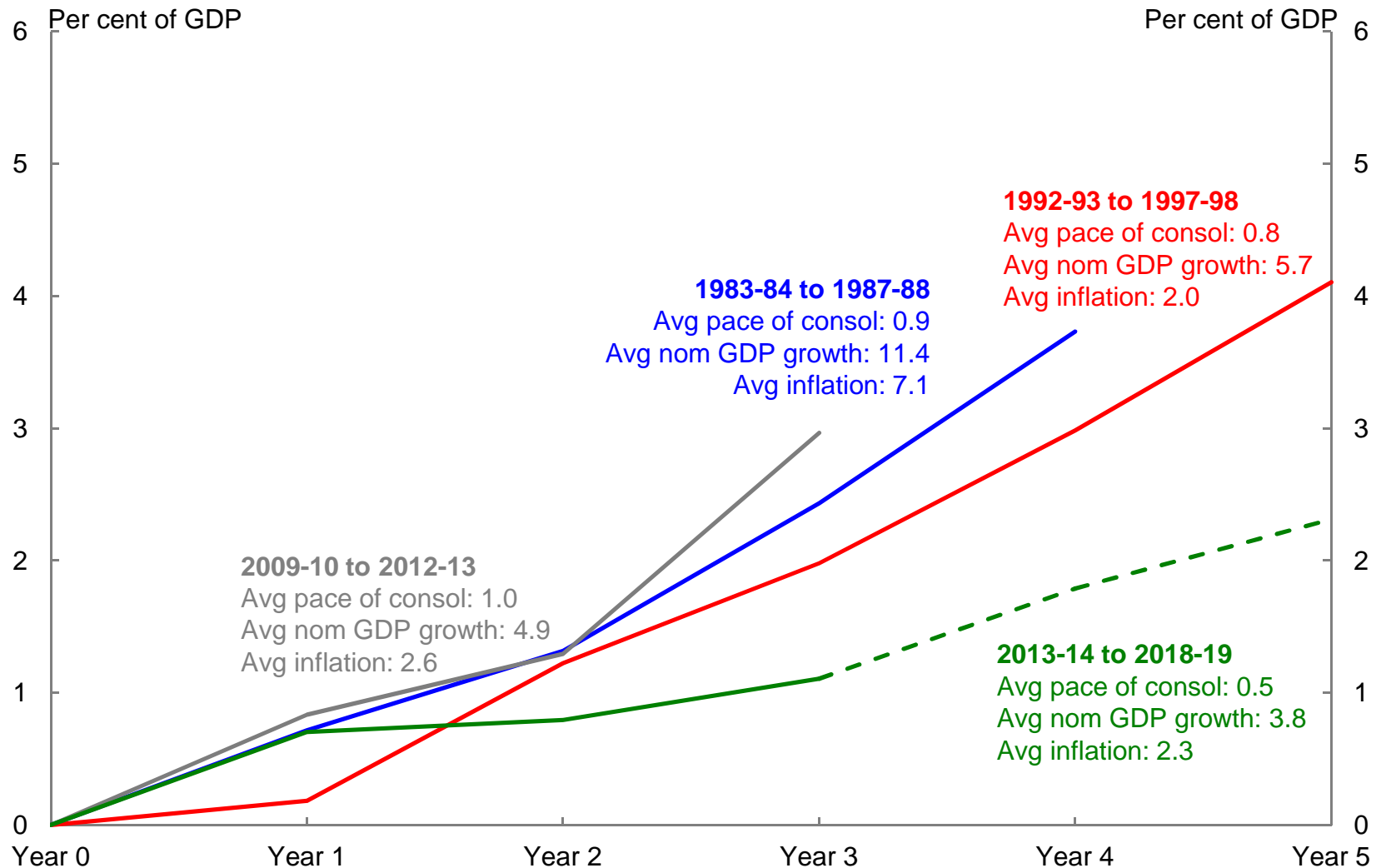
	2013 PEFO	2013-14 MYEFO	2014-15 Budget	2014-15 MYEFO	2015-16 Budget	2015-16 MYEFO
Economic Forecasts (%)						
Real GDP Growth	3	3	3	3	2 3/4	2 1/2
Nominal GDP Growth	5 1/4	4 3/4	4 3/4	4 1/2	3 1/4	2 3/4
Unemployment Rate	5	6 1/4	6 1/4	6 1/2	6 1/2	6
Employment Growth	1 1/2	1 1/2	1 1/2	1 3/4	1 1/2	2
Inflation	2 1/2	2 1/2	2 1/2	2 1/2	2 1/2	2
Fiscal Estimates (\$bn)						
Underlying cash balance	-4.7	-24.1	-17.1	-31.2	-35.1	-37.4
Receipts	423.4	409.1	410.4	403.4	398.0	394.9
Payments	424.9	430.0	424.2	431.1	429.8	428.3
Fiscal Balance	1.8	-18.8	-12.2	-27.2	-33.0	-35.8
Revenue	433.3	417.4	419.6	411.7	405.4	401.0
Expenses	430.9	436.0	431.1	436.5	434.5	432.2
Net Debt	219.0	259.1	246.4	279.6	285.8	278.8

We need to focus on spending



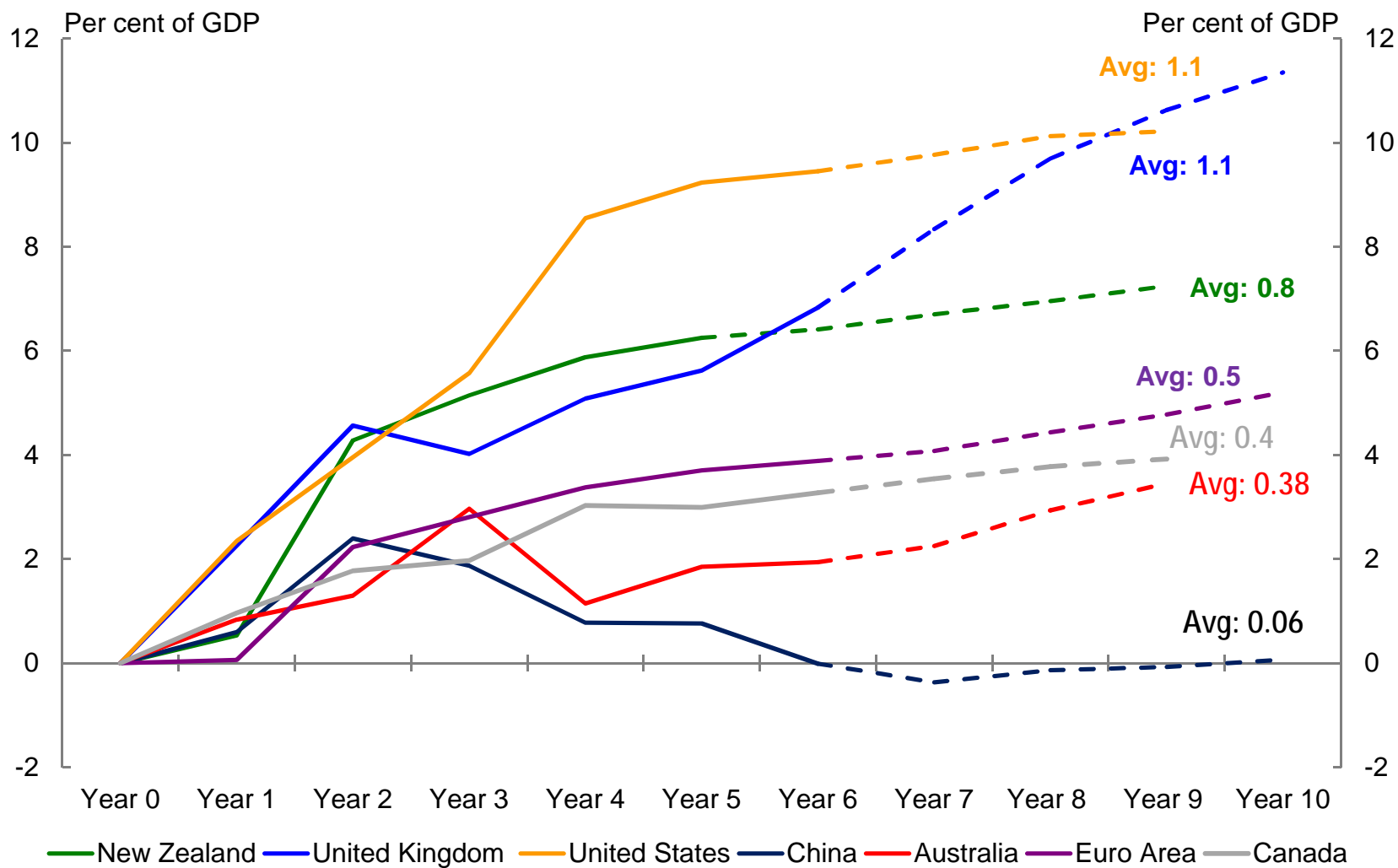
Source: 2015-16 MYEFO.

The current pace of consolidation is measured



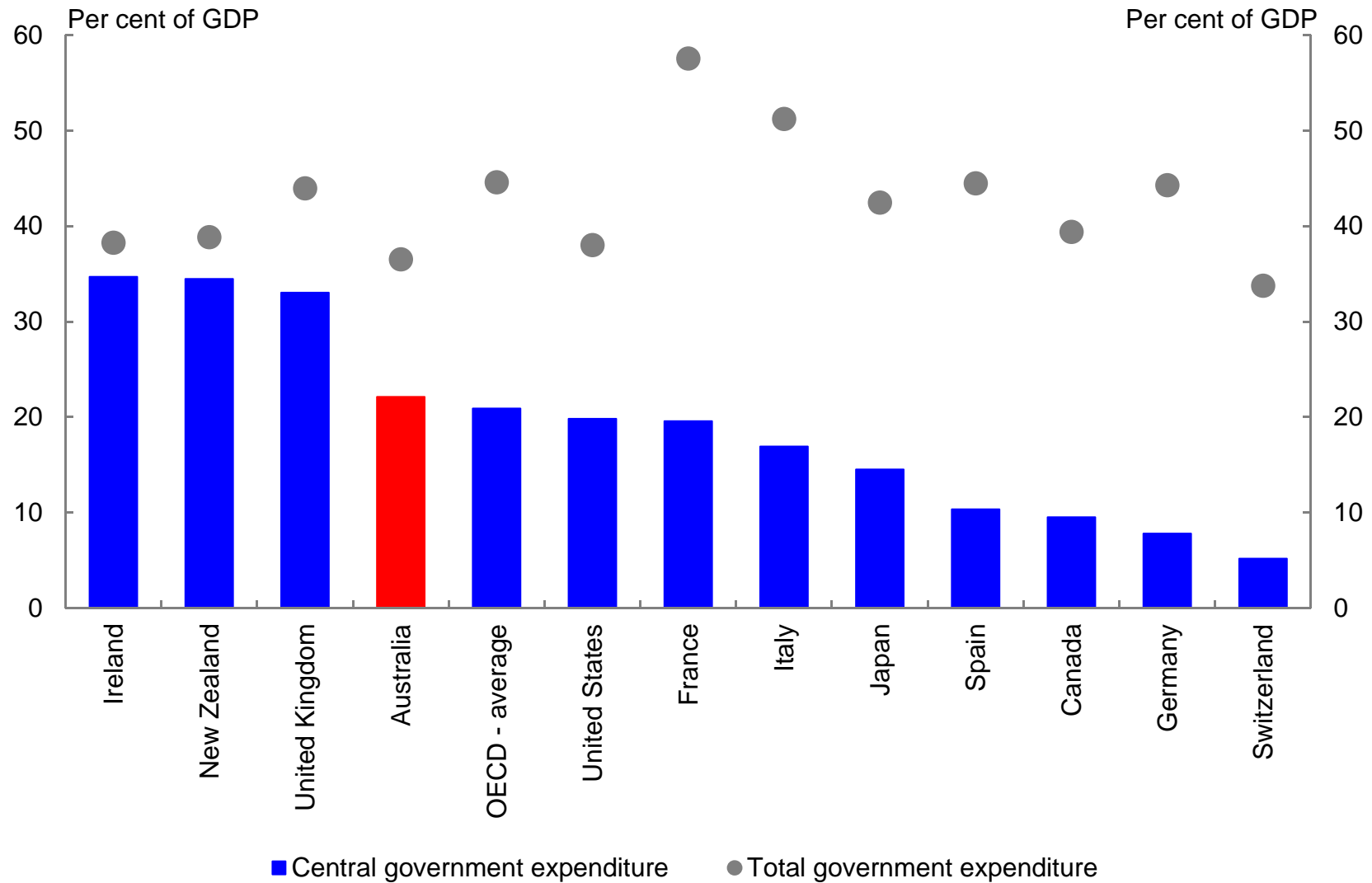
Note: The pace of consolidation is the improvement in the UCB in each financial year, as a proportion of GDP. The starting year of each period of historical consolidation reflects the year the UCB starts to improve. Dashes denote forecasts. Source: 2015-16 MYEFO. 29

Cumulative pace of consolidation since the GFC



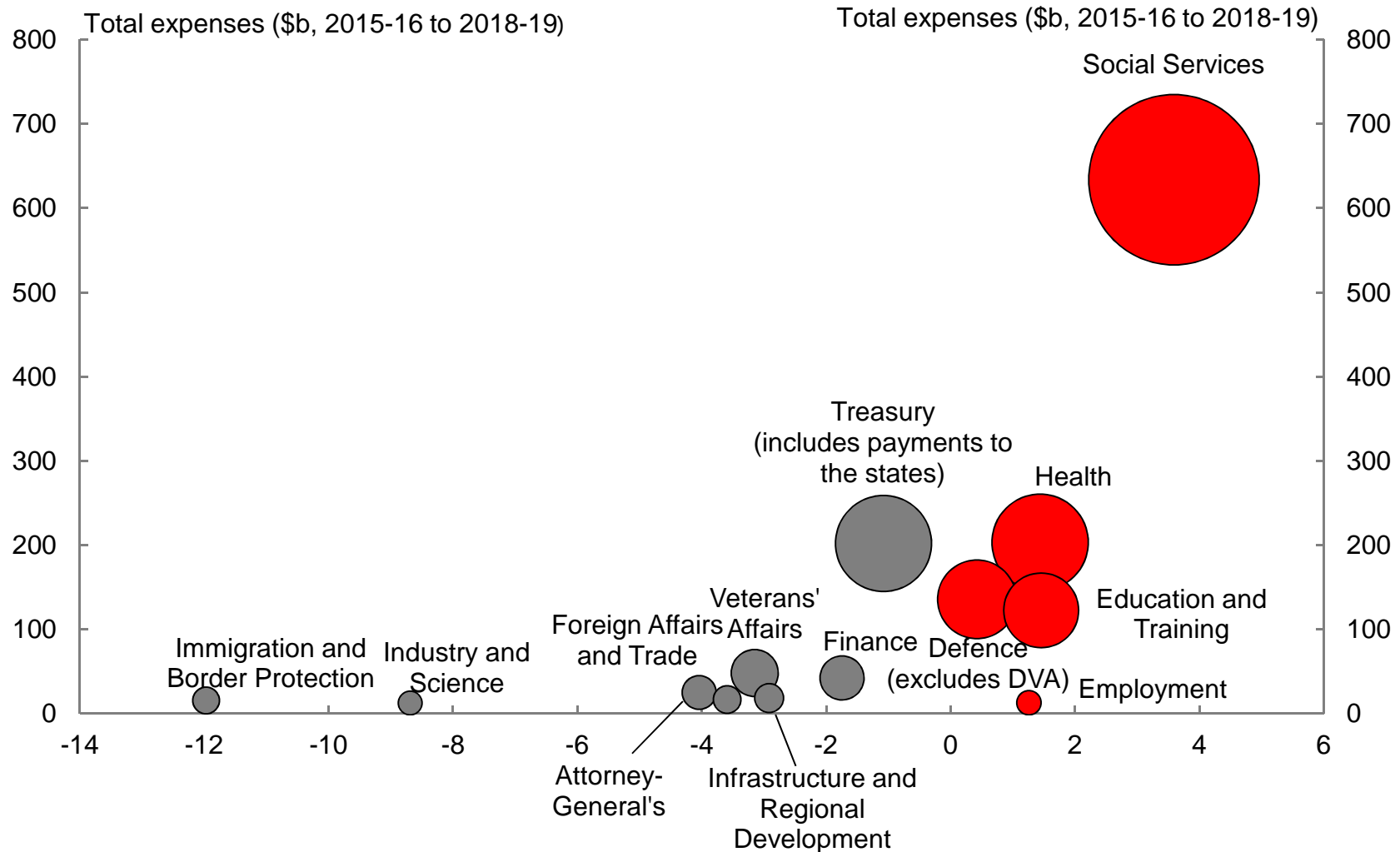
Source: October 2015 IMF Fiscal Monitor and 2015 16 MYEFO. Notes: Each consolidation period begins when the primary balance of the relevant country starts to improve (as a per cent of GDP) after the GFC, rather than in a constant year. Averages reflect the average per annum improvement in the UCB over the relevant period. Dashes denote forecasts.

Size of government in 2014



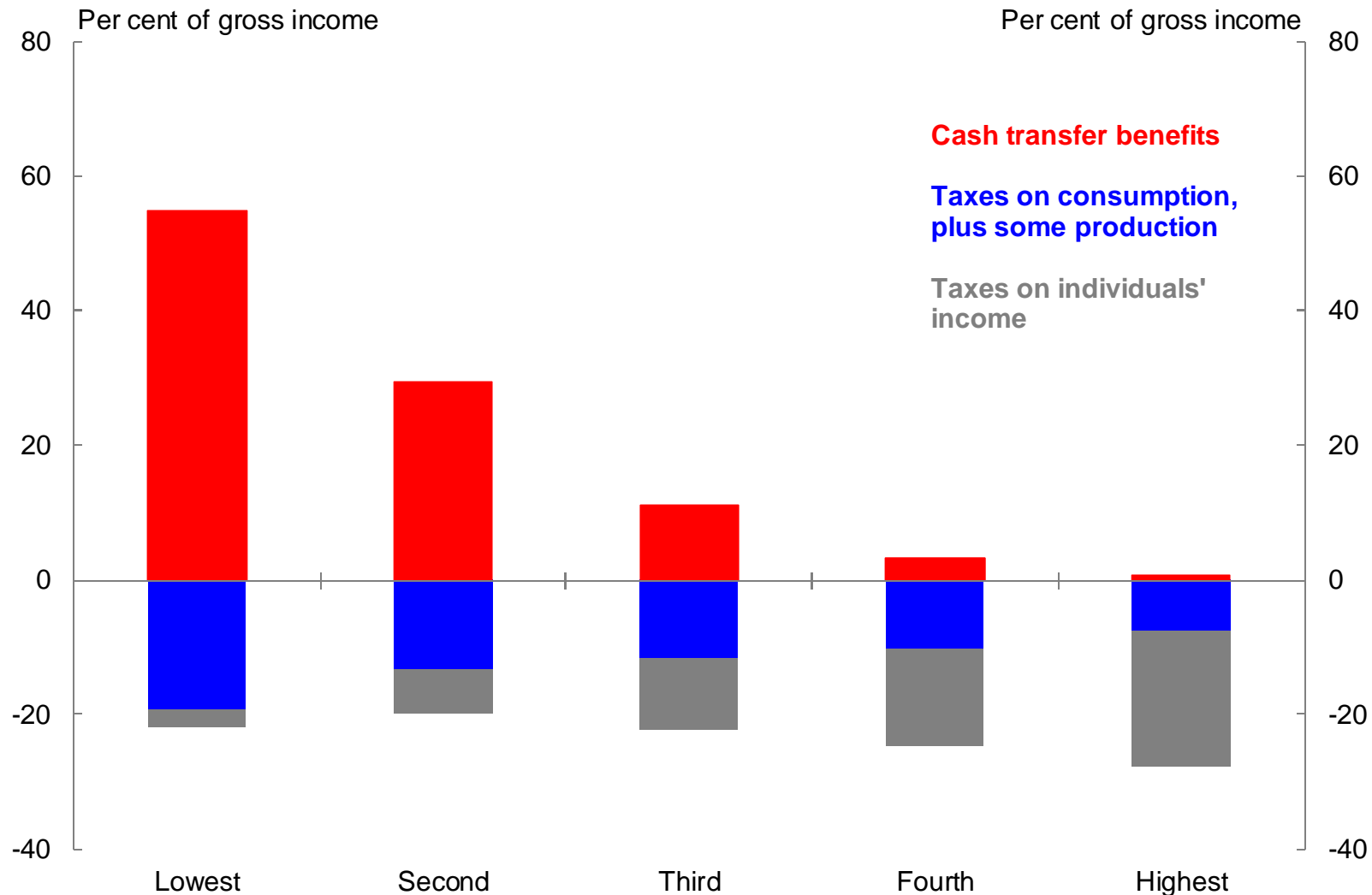
Source: OECD. Data for 2014. Australia, Japan and New Zealand data extrapolates central government expenditure as a percentage of total expenditure from 2013 and use OECD estimates of total government expenditure as a share of GDP. Australia, the US, Spain, Canada and Germany are federal countries. Central government expenditure does not include expenditure by social security systems.

Spending must be fit for purpose



Note: Portfolios with total expenses of less than \$10 billion over the period 2015-16 to 2018-19 are not included in the chart. Expenses in the Treasury portfolio exclude General Revenue Assistance to the States and Territories and Commonwealth Debt Management interest payments (i.e. GST and PDI). Treasury portfolio includes payments to the states. Expense estimates for some portfolios have been adjusted to take into account the effects of machinery of government changes in 2014-15. Source: 2015-16 Budget. 32

Transfer payments and taxes by household income quintile, 2009-10



Note: Taxes on income individuals income tax plus the Medicare levy and Medicare levy surcharge. Taxes on production include taxes payable on goods and services; taxes and duties on imports; and taxes on the ownership or use of land; buildings or other assets used in production or on labour (but not taxes on corporate profits or other business income). Transfer payments and taxes are expressed as a percentage of household gross income, which is before income tax and includes social assistance benefits received in cash. Household quintiles are defined according to equivalised disposable household income. Source: Re:Think Discussion Paper.



Backing Australians who are working, saving and investing to transition our economy is central to our plan for jobs and growth

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