

Forecasting Reference Group (FRG) Consultation Conclusion



2024 Economic forecast

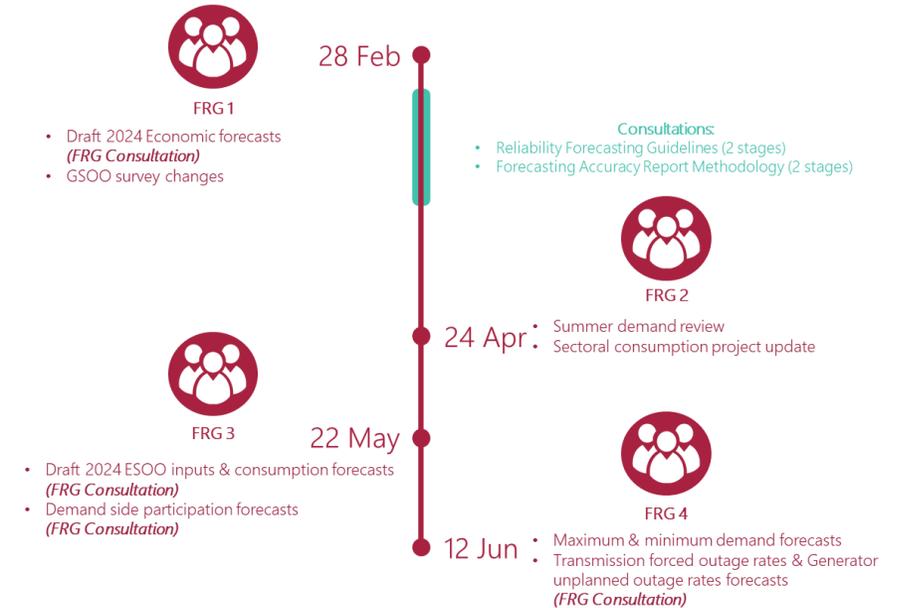
24 April 2024



These slides summarise feedback and actions from the FRG Consultation on the economics forecasts presented to the FRG in February 2024

Timing	Relevant topic	Responsible
28 Feb 2024	Draft 2024 economic forecasts FRG presentation	AEMO, Deloitte Access Economics (DAE), FRG
13 Mar 2024	FRG Consultation submissions close	FRG
Today, 24 Apr	FRG Consultation Conclusion	AEMO
Aug 2024	<ul style="list-style-type: none"> DAE report publication 2024 ESOO publication 	AEMO

DRAFT FRG Forward plan Jan – Jun 2024



FRG feedback incorporated into 2024 economic forecasts

February meeting actions

#	STAKEHOLDER	FEEDBACK	IMPACT
1.	Ron Logan (Shell)	Historical Forecast Accuracy	Table A.1. is provided in DAE’s final report. It shows DAE’s forecast historical forecast accuracy since 2011. This table is also attached at the end of this slide pack.
2.	Judy Hunter (Western Power)	2023 Western Australia (WA) Forecasts	2023 forecast comparison for WA has been included as an addendum to DAE’s revised presentation pack.
3.	Ron Logan (Shell)	Clarifying exogenous inputs and assumptions	Exogenous and endogenous inputs and assumptions are explained in DAE’s final report, wherever relevant.

Feedback incorporated into 2024 economic forecasts

FRG Consultation submission



#	STAKEHOLDER	FEEDBACK	IMPACT
4.	Chayan Gunendran (Collgar)	<ul style="list-style-type: none">Over the last few decades, the Productivity Commission (& RBA, albeit indirectly) have noted the increase in population has resulted in decrease in productivity. Access to supply of labour (exception was during COVID-era due to demand > supply of labour) into the market requires less capital investment (investment in capital would increase productivity, as witnessed in other markets).Federal and state (& household) debts are high. Noting your assessment that most migration tends to favour Victoria/Melbourne and NSW/Sydney, it would still be a challenge for these capital cities to take on much more debt (given their current debt levels) to accommodate growth towards 39 million, without malinvestments increasing significantly (all major infrastructure projects would cost more than the returns). Therefore, your optimism of growth in Victoria (& Queensland) would be helped with more details.Compounding these factors would be the growth of services, which are less productive.	<p>DAE has responded to this feedback as below:</p> <p>The long-term average productivity growth rate used in the forecasts is informed by the assumptions for trend productivity in Treasury's Intergenerational Report. Additionally, the model accounts for the effects of climate change on long term labour productivity. Population forecasts are guided by the Australian Bureau of Statistics' latest population projections. While weak productivity growth is expected to erode the potential long term growth rate of the economy, population growth is likely to provide some degree of counterbalance. In 2023, for instance, rapid population growth overlapped weak productivity growth.</p> <p>These forces largely counterbalanced to keep the Australian economy growing due to strong labour force participation. Long term forecasts presented in the report reflect data-driven assumptions around productivity and population. Historical patterns of distribution of Australia's population and economic output among states and territories is assumed to hold steady.</p> <p>Considering DAE's response, the forecasts remain unadjusted.</p>

Feedback incorporated into 2024 economic forecasts

FRG Consultation submission

#	STAKEHOLDER	FEEDBACK	IMPACT
5.	Chayan Gunendran (Collgar)	What is the evidence for your slide whereby you state increase in population would increase productivity (relationship is negatively correlated as evidenced over the last few decades)?	<p>DAE has responded to this feedback as below:</p> <p>The relationship between population growth and long-term average labour productivity measured as average output per worker is not conclusive. Any correlation between the two is driven by changes in the participation rate which is also influenced by factors such as the composition of migration flows and demographics.</p> <p>In this regard, skilled migration tends to boost productivity within a sector, however, broader trend productivity in the economy might continue to slow due to factors such as a growing non-market services sector where productivity growth is harder to generate.</p> <p>Considering DAE's response, the forecasts remain unadjusted.</p>

Deloitte Access Economics' historical forecast accuracy

Table A.1 below compares Deloitte Access Economics' forecast accuracy for annual GDP growth in Australia to the consensus forecast accuracy for growth in the same year. Forecasts made in January of each year are considered for comparison. Deviations of each forecast from the actual annual GDP growth rate for a given calendar year is shown. The data indicates that Deloitte Access Economics' forecasts have been closer, on average, to actual GDP growth than consensus forecasts. Deloitte Access Economics' historical consistency in better forecast accuracy is also evident.

Table A.1: Forecast accuracy comparison

Year	Actual Annual GDP growth	Forecast deviation	
		Deloitte Access Economics	Consensus
2011	2.77%	0.03%	0.33%
2012	3.80%	0.20%	0.40%
2013	2.23%	0.27%	0.37%
2014	2.59%	0.01%	0.11%
2015	2.35%	0.05%	0.35%
2016	2.72%	0.82%	0.12%
2017	2.42%	0.12%	0.08%
2018	2.85%	0.05%	0.15%
2019	1.82%	0.98%	0.88%
2020	-2.13%	4.23%	4.83%
2021	5.55%	1.15%	2.05%
2022	3.81%	0.21%	0.01%
2023	2.06%	0.33%	0.26%
Average	2.53%	0.65%	0.77%

Source: Australian Bureau of Statistics (2023), Consensus Economics, Deloitte Access Economics

- Note: This table is subject to potential changes or revisions from AEMO's review which will be reflected in DAE's final report to be released in August 2024.



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