

## Australian Energy Market Operator

Long term economic scenario forecasts

## Purpose

The purpose of this engagement is to provide long term economic forecasts for four scenarios specified by the Australian Energy Market Operator.

These forecasts serve as key inputs to AEMO's energy demand forecasts and the Electricity and Gas Statement of Opportunities.



## Key findings

- In the neutral scenario, short term growth prospects remain positive across all states and territories, while longer term growth will slow as population ages.
- The Australian economy is expected to be 86% bigger than it's current size by 2041.
  - Western Australia is expected to grow the fastest and Tasmania the slowest.
- The scenarios suggest it is prudent to plan around a band of +/-14% change in GDP by 2041.
- The impact on real household disposable income is greater than the impact on real GDP across all scenarios suggesting that residential demand may be one to watch in the long term.
- The commodity driven strong scenario sees the largest impact on industrial production industries in the short term.

# Overview of macroeconomic scenarios

## Neutral

The central outcome for the Australian economy. The short term economic outlook is driven by public expenditure and a low Australian dollar. Longer term trends are shaped by population and productivity growth.

### Key assumptions

- Most likely path for the Australian economy
- ABS population growth assumptions anchor the forecasts
- Longer term economic growth depends on population and productivity growth

## Weak

Countries shy away from global engagement resulting in less efficient allocation of resources. Global and domestic economic growth decline relative to the neutral scenario with lower productivity, trade and migration.

### Key assumptions

- Increase/decrease in world GDP growth informed by the US Energy Information Administration (EIA)
- Lesser impact on world industrial production
- Increase/decrease in population growth across all states and territories based on ABS population projections
- Rise/fall in labour productivity

## Strong

Successful implementation of long term structural reforms to increase trade in goods and services as well as movement of people across borders. The impact of these reforms is an increase in trade, productivity and migration.

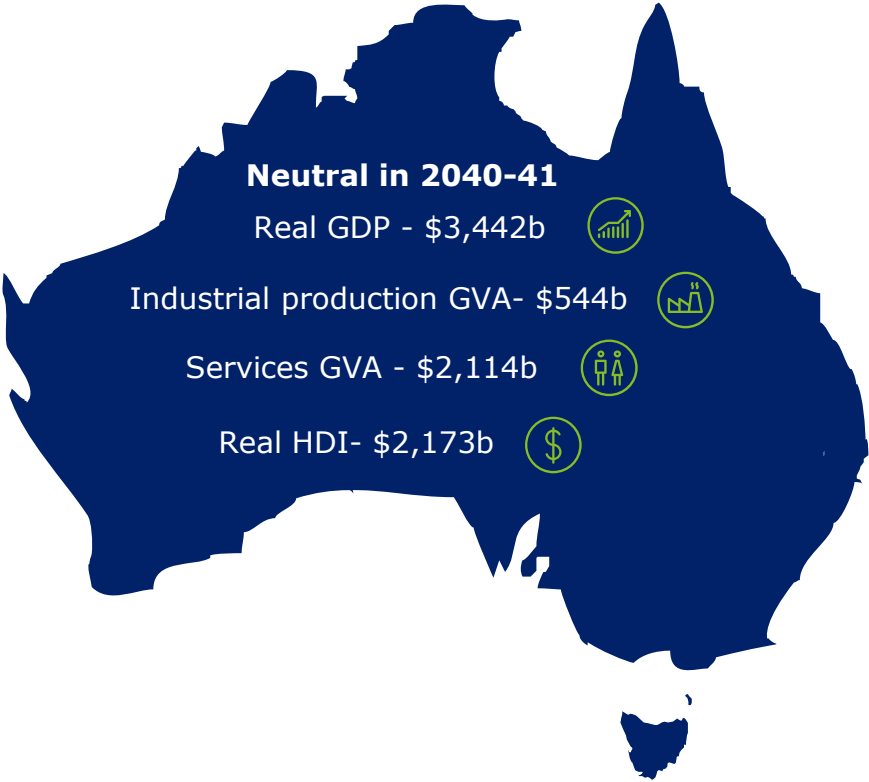
## Commodity strong

The commodity-driven strong scenario is driven by faster than expected growth in the Chinese economy due to increased fiscal stimulus on infrastructure, higher than what is assumed in the neutral scenario. There is an increase in the demand and price of Australian commodity exports which boosts terms of trade and economic growth in the short term.

### Key assumptions

- Strong global GDP growth
- Short term boost to world industrial production
- Increased population growth especially in mining areas in the short run
- Rise in labour productivity

# Macroeconomic results

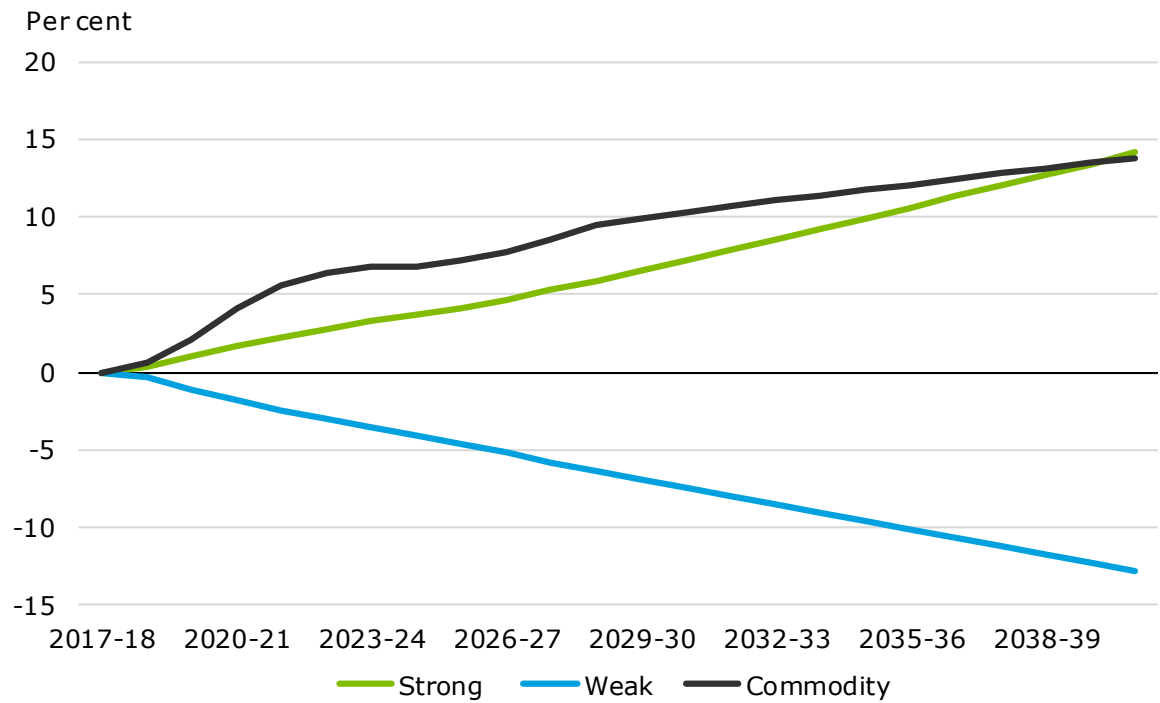


## Alternative scenarios in 2040-41 (% from neutral)

		Weak	Strong	Commodity strong
Real GDP		12.8% smaller	14.2% larger	13.8% larger
Industrial production GVA		11.5% smaller	12.1% larger	19.8% larger
Services GVA		13.3% smaller	14.2% larger	11.4% larger
Real HDI		19.2% smaller	26.2% larger	35.8% larger
Most affected		QLD, VIC, NSW	QLD, VIC, NSW	WA

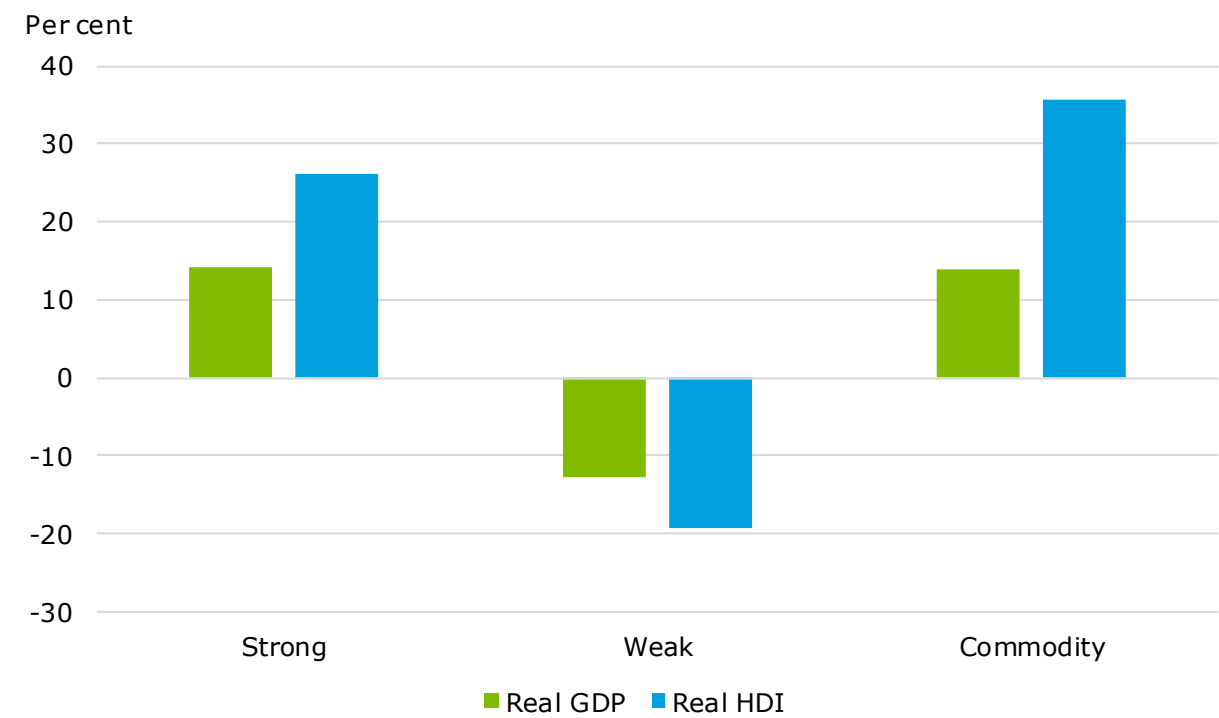
# Macroeconomic results

Chart 1: Real GDP relative to baseline in scenarios



Source: ABS Cat No. 3220.0, 5206.0, 5220.0; Deloitte Access Economics.

Chart 2: Real HDI and GDP levels in 2040/41 for all scenarios relative to baseline



Source: ABS Cat No. 3220.0, 5206.0, 5220.0; Deloitte Access Economics.

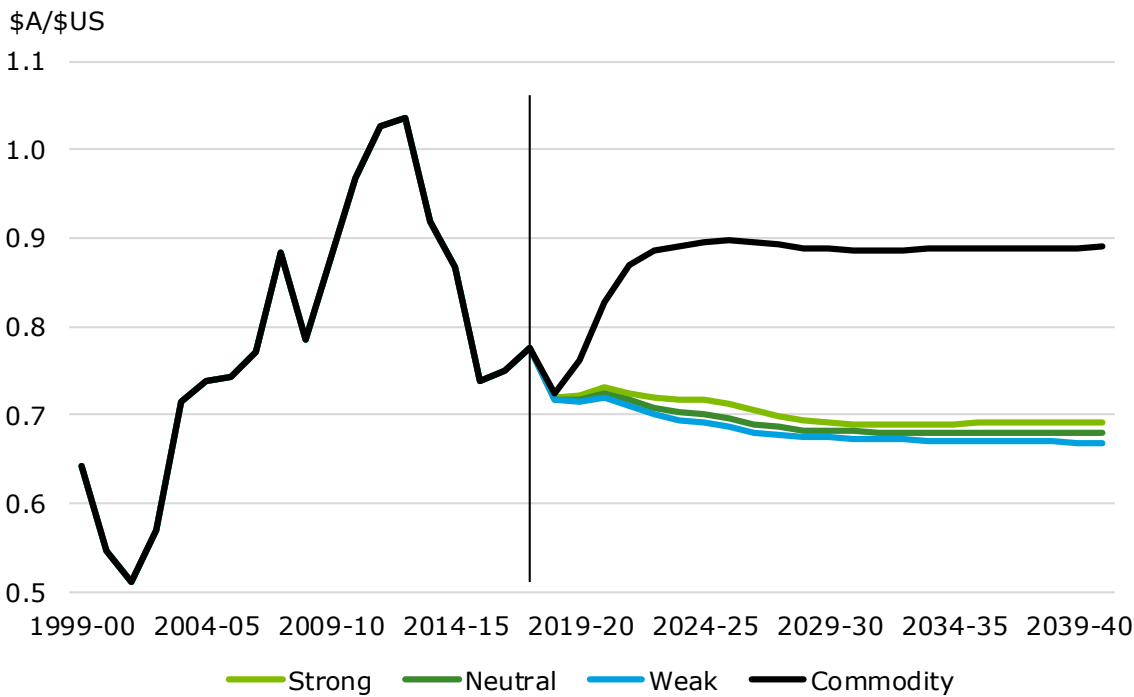
# Macroeconomic results

Chart 3: Services and industrial production GVA in 2040-41 relative to baseline



Source: ABS Cat No. 3220.0, 5206.0, 5220.0; Deloitte Access Economics.

Chart 4: \$A/\$US exchange rate scenarios



Source: ABS Cat No. 3220.0, 5206.0, 5220.0; Deloitte Access Economics.

Note: First forecast period is 2018-19.

Q&A





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