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**Treasurer**  
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## OECD SEES A STRENGTHENING AUSTRALIAN ECONOMY

The OECD's latest *Economic Outlook* presents a positive outlook for the Australian economy, with economic growth over the next two years expected to accelerate.

The OECD forecasts Australia's real GDP to grow by 2.6 per cent in 2006, before picking up to 3.0 per cent in 2007 and 3.4 per cent in 2008. The OECD notes that GDP growth in 2007 will be 'held back' by the effect of the drought. The forecasts incorporate some rebalancing of growth with increasing export volumes offsetting an expected easing in domestic demand. In line with strengthening exports and strong foreign demand, the OECD expects the current account deficit to narrow.

The OECD expects Australia's strong labour market performance to continue, with the unemployment rate forecast to remain well below the OECD average. Reflecting the impact of high energy prices and fruit prices, the OECD predicts that inflation will peak in 2006, before easing in 2007 to average around 2.8 per cent, within the Reserve Bank's inflation band.

In the OECD's recent *Economic Survey of the Australian Economy* the OECD noted that Australia's 'recent macroeconomic performance continues to be impressive' and that 'living standards have steadily improved since the beginning of the 1990s and now surpass all G7 countries except the United States'.

In terms of economic activity across the OECD area more broadly, the *Economic Outlook* notes that while there will be some rebalancing, growth is expected to remain robust in the near-term, aided by falling oil prices, buoyant emerging economies and supportive financial conditions. After growing by 2.7 per cent in 2005, growth across the OECD area is projected to increase to 3.2 per cent in 2006 before easing to 2.5 per cent in 2007. The positive outlook is expected to be supported by growth in the euro area, which is showing signs of an increasingly stable recovery, and growth in Japan where the economy's expansion is set to continue in 2007, albeit at a slightly slower pace. Although growth in the US has slowed due to a weakening housing market, the OECD expects this will be temporary and predicts healthy growth will soon resume.

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