

**Title: Macroeconomic Performance of Australia**

**Name:**

**Course Title:**

**University:**

**Date:**

### **Abstract**

Australian economy is currently growing at a very slow pace. After twenty four years of uninterrupted economic growth, the economy becomes weak and feeble. Australia has lost remarkable record of economic progress largely because of China's slowdown. The falling commodity prices also play a major role. Australia was blessed with abundant supply of mineral resources. It was one of the leading exporters of minerals and agricultural products, but the sluggish demand from China and the falling commodity prices have hardly hit the commodity based economy like Australia. The unemployment rate is rising especially in the manufacturing sector in Australia. In order to boost the economic activity, Australian government and RBA put sincere efforts and implement necessary fiscal and monetary policies. But the current policies fail to bring the macroeconomic stability and attain full employment. This report analyzed the primary indicators of the economy and assessed the outlook of the economy as gloomy. RBA must change the policy directions and the economy must focus on non-resource sectors to accelerate the economic growth.

**Introduction:**

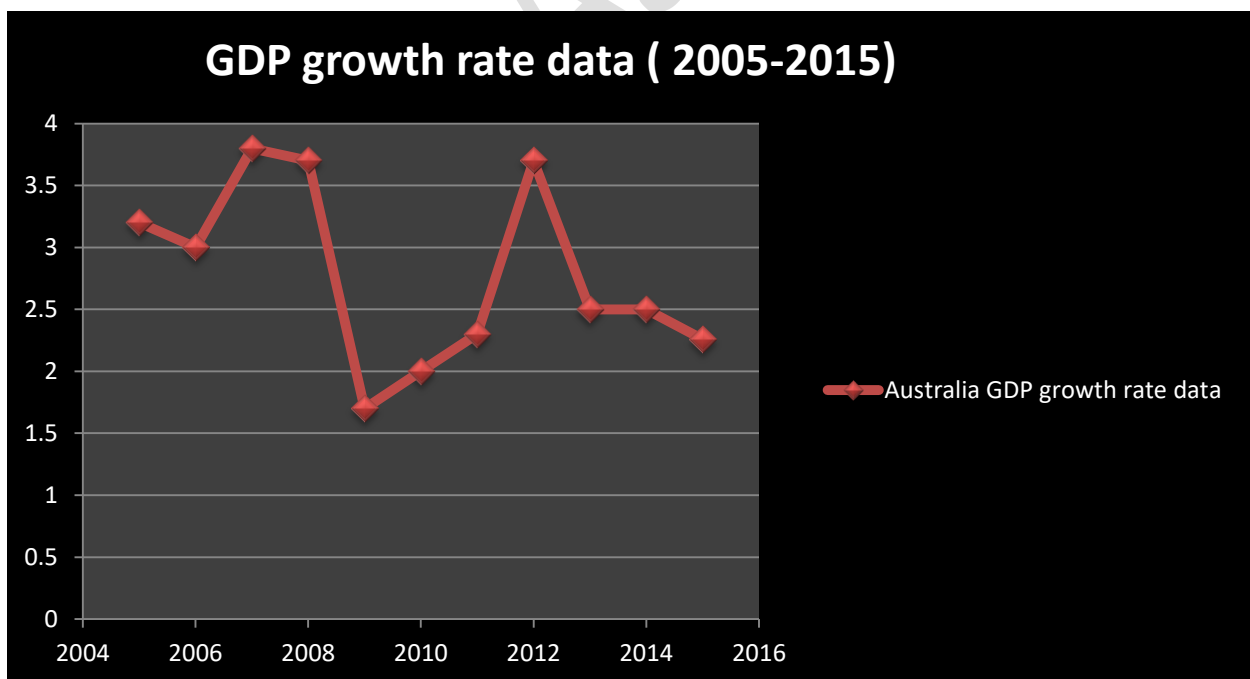
Australia was often called the lucky country but the country is now running out of luck. The economy is now undergoing huge structural transformation. Australia has demonstrated significant economic progress during the last two decades. Economists believe good management as well as good luck favored Australia to reach to such an economic height. But the luck is running out today. Australia was one of the major exporters of mineral resources like coal and iron ore. Mining investment was at peak and the expansion of output from giant mines in Western Australia has made the export figure healthier. China was the largest export market for Australia. The economic woes in china have hardly hit Australia's exports and their domestic earnings. Australia is the only developed country where the unemployment is rising. The wage growth as well as the productivity growth is lagging significantly. As an immediate impact, the standard of living is slipping down. The economy is desperately looking forward to diversify the key drivers of economic growth.

The economic health of any economy can be assessed with the help of analyzing the key macroeconomic indicators. This report takes into account four major economic indicators in order to have a broader economic outlook of the economy. The four indicators are: real GDP growth rate, unemployment rate, inflation rate and the terms of trade. The primary objective of this report is to gain a deep insight of Australian economy and their performance. The report further puts an attempt to review the policy response of Australian government and RBA to combat the current economic challenges.

Let us collect and analyze the data for key macroeconomic indicators:

### 1. Real GDP growth rate:

GDP growth rate data	
Year	Australia GDP growth rate data
2005	3.2
2006	3
2007	3.8
2008	3.7
2009	1.7
2010	2
2011	2.3
2012	3.7
2013	2.5
2014	2.5
2015	2.26

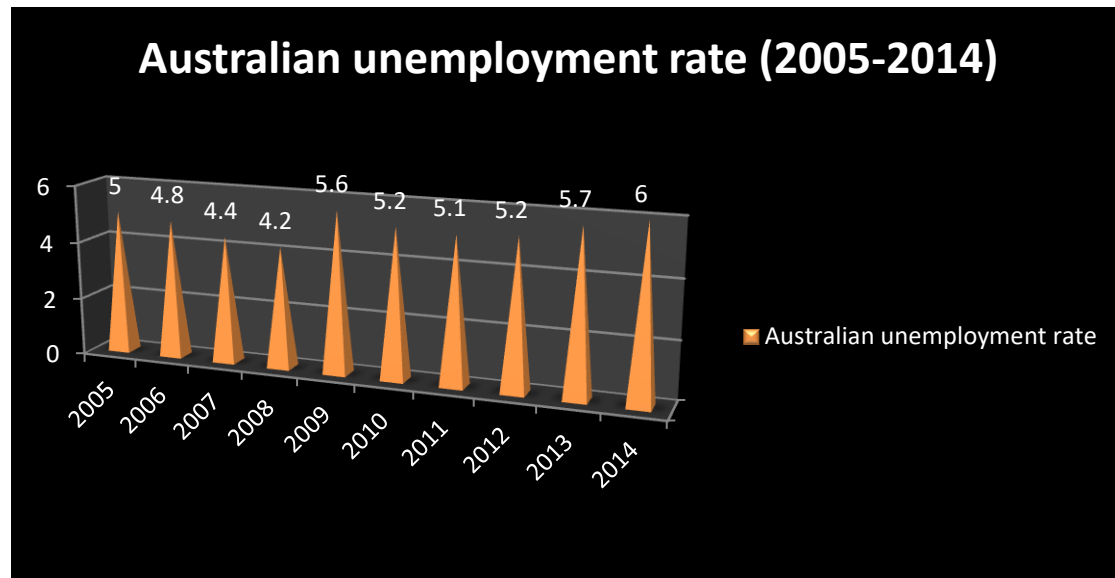


Source: <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries?display=default>

After 24 years of uninterrupted growth, world's one of the biggest economy is now experiencing an economic slowdown. The officially published data indicates that the economy is almost stalled – the current growth rate of the economy is really disappointing. While the economy like US is growing at a solid pace, the resource rich nation is moving at a very slow pace. Decade long mining investment boom have a downfall on one hand and lower export prices have reduced the export revenue on the other (the economic Times, 2015).

## 2. Unemployment rate:

Unemployment Total ( % of Total labor force)	
Year	Australian unemployment rate
2005	5
2006	4.8
2007	4.4
2008	4.2
2009	5.6
2010	5.2
2011	5.1
2012	5.2
2013	5.7
2014	6



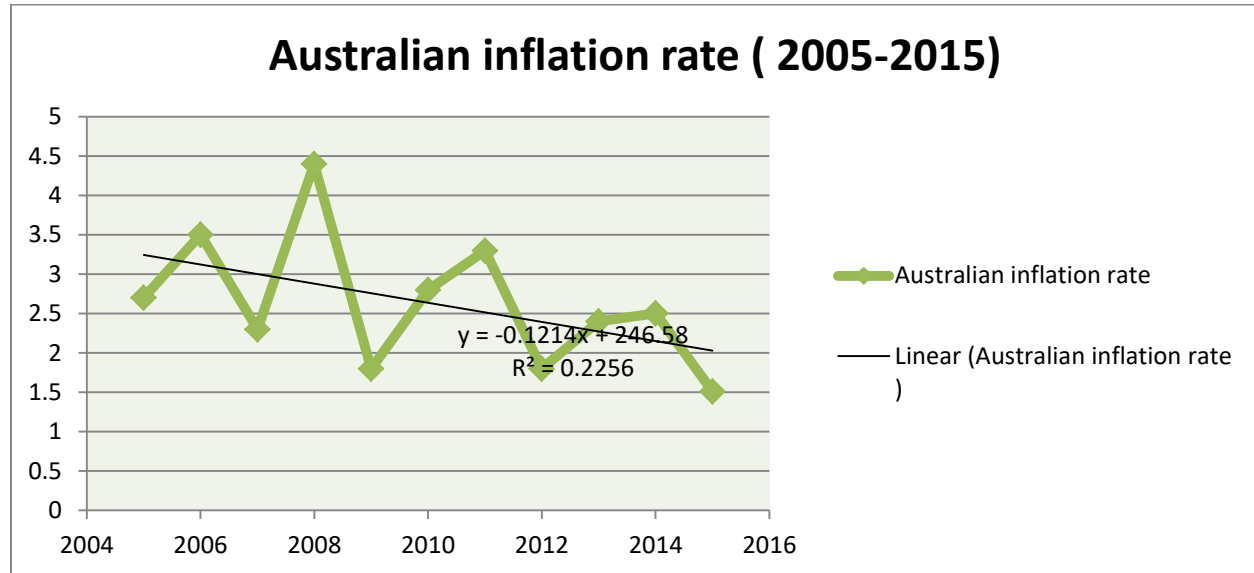
Source: <http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=AU>

Unemployment rate is considered as one of the primary indicator to assess the labor market performance of the economy. Unemployment rate currently pose a huge economic challenge to Australia. According to the officially data published by Australian Bureau of statistics, the unemployment rate has reached to more than 6%, highest during the last 13 years. Australia is identified as the only developed economy where unemployment rate is increasing. Consumer confidence as well as business confidence is squeezing due to weak wage growth (Farrer M, 2015).

### 3. Inflation rate:

Year	Australian inflation rate
2005	2.7
2006	3.5
2007	2.3
2008	4.4
2009	1.8
2010	2.8
2011	3.3
2012	1.8

<b>2013</b>	2.4
<b>2014</b>	2.5
<b>2015</b>	1.51

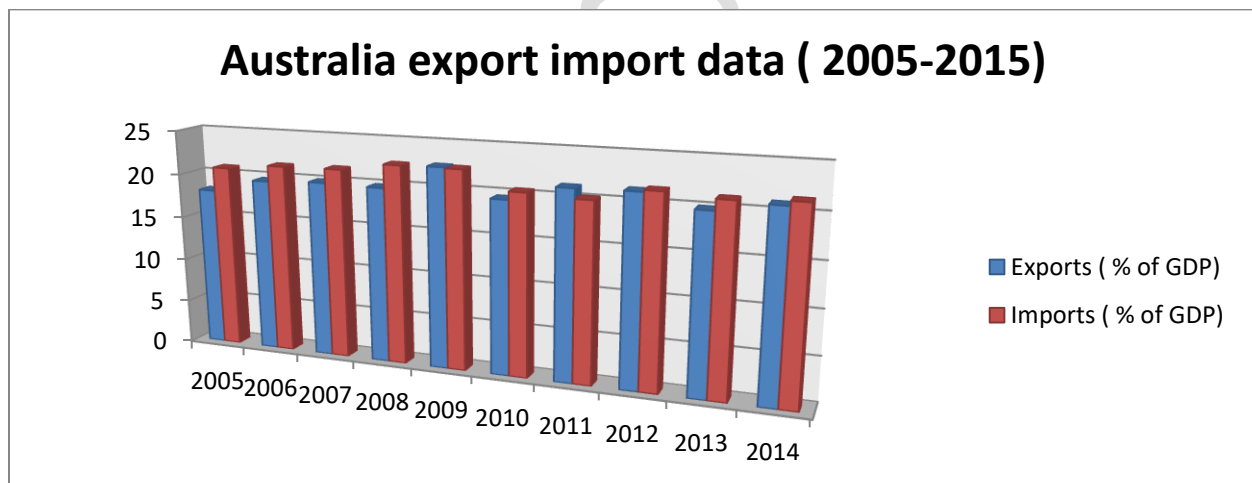


Source: <http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG/countries?display=default>

We have drawn the trend line for the inflation rate of Australia that clearly shows a downward trend. A persistent fall in oil price and the falling global commodity price largely accounted for this downward trend. RBA has kept the target level for inflation at 2-3% level but failed to keep the price stability. The inflation rate has come down below the target level which is not a positive sign for a healthy economy. RBA and Australian government must address the issue of low inflation and accordingly change the policy directives with strong focus on more fiscal stimulus. (Mitchell B. 2016).

#### 4. Export – Import data:

Exports and imports of goods and services ( % of GDP)		
AUSTRALIA		
Year	Exports ( % of GDP)	Imports ( % of GDP)
2005	18.1	20.8
2006	19.6	21.4
2007	19.9	21.5
2008	19.8	22.4
2009	22.5	22.4
2010	19.5	20.4
2011	21.2	20.1
2012	21.3	21.5
2013	19.9	21.1
2014	20.9	21.4



Source: <http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS/countries?page=2&display=default>

The terms of trade data has shown a significant fall in the recent years. As the economy opens up to the global market it has reduced the import tariff substantially. While the import tariff was as high as 30% level, gradually it came down to only 5%. Due to fall in import tariff, the market



is flooded with cheap products. Imports have significantly increased while the weak demand from China has hardly hit Australia's exports. China's slow down provides clear indication that Australia' export demand will remain weak at least in the short term.

Recently the consumers in china developed the taste and preference for Australia's raw milk and the dairy industry has started to export the fresh milk to China. On the onset of falling exports of mining and agricultural output, the service exports of Australia have shown a boost in the recent times. Australia has obtained a comparative advantage in the service industry: tourism, higher education and health care are the key service exports of Australia that helps to increase Australia's exports. There is a surge in demand for Australia's service industries in emerging economies of Asia and the demand is expected to remain strong in the coming years. Tourism and higher education has outpaced the iron ore exports and become the biggest foreign income earners. (Pascoe M 2015).

**Policy response:**

RBA is responsible to formulate and implement the monetary policy response suitable to the economic environment of the economy. In order to stimulate the aggregate demand of the economy, RBA has cut the interest rate for few times. RBA has kept the target inflation level at 2-3% and has kept the target level unchanged in recent year.

Glenn Stevens, RBA government has announced a further slash in cash rate by 25 basis points and bring the interest rate to a record low level of 1.5%. He confirmed that developments of housing market dominate RBA's decision to cut the cash rate. The board has carefully considered the housing market developments while taking such an important decision. The key aim is to stimulate housing credit growth. Moving forward, RBA is predicted to diversify the policy response and implement the policy reforms to bring price stability and restore full employment level of output ( Janda M, 2016)

## **Recommendations and Conclusions**

Australia is currently facing several economic challenges. The drastic fall in demand for exports due to china's slow down, falling commodity prices, tepid job growth, acute crisis in manufacturing sector, complete shutdown of automobile production, consistent fall in the value of Australian dollar against USD are some of major challenges to be worth mentioned. While the manufacturing industry and the automobile industry have very bleak future in Australia, the service sector is growing at an accelerating pace. The devaluation of dollar help to boost Australian exports, Chinese travelers is finding it less expensive to explore the beauty of Australia than before. Tourism industry is booming and China becomes the largest market with huge potential. Today service sector constitutes a major share (approximately 68%) of Australian GDP. On the positive side, the housing prices in Sydney and other metropolitan cities are rising at a rapid pace (Palmer D. 2016).

Actually economic contraction in china plays the pivotal role in hurting Australian economy. Since the country was over dependent on china for its export demand, China's slowdown has put the economy more vulnerable to economic shock. Iron ore has seen the largest price decline in 2015. But the supportive monetary policy of RBA and the weak dollar is expected to of set the downside factors. It has been predicted that commodity exporter economy like Australia will observe a fall in foreign earning and a drag on economic growth but the suitable policy response and the currency depreciation might offer some cushion. According to Professor Fabrizio Carmignani of Griffith University, the future outlook for Australia remains fragile despite some improvements in the domestic service sectors. He further advocates that Australian government must consider with sincere concern the consequences of tightening the fiscal policy in the upcoming budget. Economic expansion in US may provide some economic benefits to Australian tourism industry. But Australian government must reduce fear and uncertainty from the mind of the people and ensure to boost their confidence on the political process. Political climate has significance to economic risk in Australia (Westerman H & Creagh S , 2015).

**Word count: 1613**

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