ECONOMICS STATISTCS

KEY INDICATORS

	Latest	Date	12 months ago
Economic Growth	2.6%	June 13	3.7%
Unemployment	5.6%	Sep 13	5.5%
Participation Rate	65.9%	Sep 13	65.4%
Inflation	2.2%	Sep 13	1.2%
Underlying Inflation	2.4%	June 13	2.2%
CPI (2011-12 = 100)	104.0	Sep 13	
Household Savings Ratio	10.8%	June 13	10.5%
RBA Cash Rate	2.5%	Oct 13	3.25%
Current Account	-$9.4bn	June 13	-$11.1bn
CAD % of GDP)	-2.4%	June 13	-3.0%
BOGS	-$0.02bn	June 13	-$2.4bn
Net PY (% of GDP)	-2.3%	June 13	-2.3%
NFL (% of GDP)	54.1%	June 13	56.4%
NFD (% of GDP)	50.4%	June 13	49.7%
NFE (% of GDP)	3.6%	June 13	6.6%
Terms of Trade	91.5	June 13	96.1
Trade Weighted Index	71.2	Sep 13	76.1
Wage Price Index	2.9%	June 13	3.7%
Exchange Rate	This changes every day so just remember to check it on the day or the night before ☺		

- Slowing *economic growth* reflects the softening of the Australian economy as the effects of the end of the investment phase of the mining boom begins to affect the economy. One aspect of this has been weak consumption which is reflected in the slight increase in the underlying inflation, falling wage price index (representing weak business confidence) and a slight increase in the household savings ratio (suggesting a slight propensity for households to save).
- *Unemployment* has increased in the 12 months. However this has been due in part to the increase in the participation rate rather job losses. Thus monetary policy was loosened (compared to 12 months ago) and is at a level that is lower than during the GFC. Overall this indicates a weaker Australian economy compared to 12 months ago.
- Australia's *external position* has changed due to the impact of the end of the investment phase of the mining boom. Australia's CAD has improved based on:
  - → Investment in mining over the last few years has allowed mineral exports to increase significantly. Despite falling terms of trade this allowed the BOGS to be balanced.
  - → Slowing down in foreign investment as seen through the fall in net foreign liabilities meant that debt servicing was also lower, leading to a stable net primary income.
  - → However net foreign debt has increased representing a fall in foreign equity investment which forced Australian firms to borrow instead to expand.
- While the Australian dollar has depreciated significantly over the 12 months, it has remained strong at $0.96. The depreciation at the beginning of 2013 was due to falling demand from Chinese firms for Australian commodities. This was represented by falling terms of trade. The dollar fell from a high of $1.05 to $0.95 in a matter of a few months. Recently however the Australian dollar has again appreciated not due to increased Chinese demand but rather due to uncertainty in the US particularly with its debt ceiling problem. This has caused speculators to invest in the Australian dollar once more, which has the effect of appreciating the AUD. This then has a negative effect on external position since the higher AUD has made exports internationally uncompetitive once more.

- The Australian dollar appreciated to $0.99US in 2009-2012 which helped to bring the BOGS into surplus
- Australia's international competitiveness declined seen in 2011 when the BOGS and CAD started to fall into deeper deficit
- The AUD peaked at $US1.10 in July 2011 and has largely remained above parity until 2013
- The mining/resource industry's contribution to total goods exported from Australia increased from 37% in 2006-2007 to 55% in 2010-2011 (8.5% of GDP), while the manufacturing industry fell from 51% to 34%
- Australia's mining industry is 83% foreign-owned, therefore huge profits go overseas
- The mining industry has contributed to 7.5% of GDP in investment and recently reached a record of $260bn
- Economic growth has slowed by more than expected in the first quarter this year with mining states suffering the most; NT contracted by 10.2%
- Petrol prices soared by 7.6 per cent in the September quarter. International travel rose by 6.1 per cent, electricity by 4.4 per cent and property rates and charged by 7.9 per cent. Water and sewerage grew by 9.9 per cent while domestic travel prices increased by 3.5 per cent. *(Sep 2013)*

Key indicator forecasts

- Terms of trade (predicted by 27 economists) predicted to fall by 5% by 2014 as opposed to the treasury whom predict 0.8%
- Economic growth to lower to 2.2% by next year
- Unemployment to peak at 6.5% next year
- Business investment from 6.5% to 1.5%

LABOUR BUDGET FIGURES (TREASURER: SWAN)

	2012 – 13	2013 – 14
Fiscal Balance	-$20.3bn	
Underlying Cash Balance	-$19.4bn	-$18.0bn
Revenue	$360.0bn	$387.7bn
Expenditure	$381.4bn	$398.3bn

<u>Major initiatives in expenditure:</u>

Education	➢ $9.8bn over next six years – to improve Australia's stagnating numeracy and literacy rates ➢ $1.1bn into early childhood education ➢ $2.5bn + saved: changed payment structures for fees, scholarships and deductions for university students
Health	➢ $64.6bn investment into health funding ◊ $14.3bn contributed to DisabilityCare
Infrastructure	➢ $24bn over next four years – in order to improve roads and transport ◊ $1.8bn Sydney Motorways, NSW ◊ $4.1bn Bruce Highway QLD ◊ $3bn Melbourne Metro, VIC
Savings	➢ $4.9bn over five years - for scrapping the Baby Bonus as of March 1, 2014 and not proceeding with Family Tax Benefit A ➢ Up to $1.7bn saved – through Australians paying more out-of-pocket Medicare costs ➢ Superannuation contributions increased from 9% to 9.25% of income as of July 1, 2013 (to fund DisabilityCare) ➢ Total projected savings of $43bn over the next 4 years
Others	➢ $1bn for A Plan for Australian Jobs – allows for job creation and diversification ➢ $777m on Closing the Gap initiatives for Indigenous Australians

Major initiatives in revenue:

Direct Tax	➢ Individuals income tax - $175.4bn ➢ Tightening of corporate tax loopholes – save up to $4.2bn over four years
Indirect Tax	➢ GST - $15.9bn for 2013/14
Others	➢ Tobacco tax – 7% increase for every pack of 25 cigarettes in the first half of 2014 ➢ Carbon tax – reduced from $29 to $12.10 per tonne ➢ Medicare Levy – increased from 1.5% to 2% (to pay for national disability scheme)

Changes indicated by Liberal

- **Paid Parental Leave Scheme**
  - 26 weeks' pay at the mother's full wage, meaning a woman on the average female full-time salary of $65,000 a year would receive $1250 a week. There is no means test, but no mother can get more than $75,000 - six months of a $150,000-a-year salary.
  - Fathers would be eligible for two of the 26 weeks at full pay.
  - Half of this will be funded by a 1.5 per cent levy for companies which earn more than $5 million a year (Starting 2015)

- **Infrastructure**
  - $19 billion to accelerate projects such as the East-West Link in Victoria, the M4 East in NSW, and the Bruce Highway in Queensland.
  - Not proceeding with Melbourne's metro rail, Perth's urban rail, and a number of other rail projects supported by Labor

- **Environment**
  - Labor: reduce carbon emissions by 5 per cent below 2000 levels by 2020, with their original carbon pricing policy to shift to an emissions trading scheme in July 2014. Under the ETS a cap would be placed on carbon emissions, with permits available to companies that produce carbon. Businesses reducing their emissions could sell their permits to others requiring them. The Australian ETS would also be linked to the European Union's ETS.
  - Liberal: scrap carbon pricing scheme and ETS, instead proposing a $3 billion direct action plan where companies could bid for funding to assist in reducing their emissions below 'business-as-usual' levels

- **Other**
  - Debt limit for Commonwealth Government securities to be lifted to $500 billion – forecasted that debt will soon peak at $370 billion
  - "The federal government is giving the Reserve Bank of Australia $8.8 billion to strengthen its ability to implement monetary policy and foreign exchange operations." (From Yahoo).
  - "Projected to be $30.1 billion in the Treasury's pre-election fiscal and economic outlook, the 2013-14 deficit would now jump to $38.9 billion without any further changes." (From SMH)

CHINA

Open Door Policy 1978/SEZs

- Cheap labour, low tax rates, ease of access to the world economy
- Exports grew from 10% in 1978 to 39.7% in 2012; worth 180.2 billion USD in June 2012 (World Bank)

Environment and inequality

- In 2006: overtook US as the world's largest carbon gas emitter with 5 of 10 most polluted cities in the world (New York Times, June 20 2007)
- HDI: 0.404 in 1980 to 0.667 in 2011 (International Human Development Indicators)
- Life expectancy raised from 36.3 years in 1960 to 74.5 in 2012 (worldlifeexpectancy.com)
- Richest 10% of population controlling 56% of income (Income Disparity of China and its Policy Implications, Fuzhi Cheng, 2007)
- Most recent 5 Year Plan (2011 – 2015)

Pegged/Managed Exchange Rate

- Under equilibrium value by 48% (Big Mac Index)
- 2005, WTO lobbied for shift to managed floating system

GFC (2007/08)

- Annual GDP growth declined from 13% to 6.1% by the first quarter of 2009, CPI sagged to -1.8% in July
- Closing over 57000 firms, short term unemployment
- Stimulus package worth 585 billion USD in 2008 (The Economist 2008) – expansionary policy
- Reported strong growth rate of 8.7% by end of 2009
- As the world economy recovered inflation in different countries began to rise from the second half of 2010. Due to soaring commodities prices (Remember that Australia's TOT once upon a time reached historic highs in this sphere) China's CPI growth reached 6.5% - most likely caused by imported inflation.
- China tightened monetary policy
- By December 2011, China's CPI growth was contained, dropping to 4.1% whilst the economy grew at a very strong growth rate of 9.2%

EUROZONE CRISIS (2011/12)

- 40% decrease in trade with EU
- China's growth rate slowed and inflation dropped reflected by CPI drop from 3.4% to 3% in April and May 2012 respectively
- China adopted an aggressive loosening in its monetary policy
- First quarter of 2011, China's GDP grew by 8.1% year on year while, in May 2012, China's CPI inflation dropped to 3%

NOW

- China is now promoting structural change from exporting to being consumption driven leading to fluctuations of the Chinese YUAN (higher Yuan → increase in export prices → less internationally competitive)
- Thus labour resources' will begin to shift to other industries/sectors
- In 2012, consumption contributed for 35% of China's GDP growth. China has reduced its dependence on external demand as its trade surplus has fallen from 8% in 2007 to 2% in 2011 of its GDP
- Growth rates slowed to below the minimum sustainable rate of 7.5% causing unemployment to drop from 4.3% in April 2009 to 4% in April 2011
- However in the medium term (now) we see China's growth has picked up once again above 7.5% - a sustainable rate of growth that allows it to be more resistant against external shock

IMPORTANT PAST STATISTICS

- Moving to the floating exchange rate in 1983 caused the over-valued Australian dollar to depreciate immensely in the short-run to 0.6840 US cents in 1985
- BOGS surplus of 200 million in 1980 to a trade deficit of -780 million in 1982
- BOGS surplus in 2009 and between 2010-2012(200-2500 (2011) million)
- BOGS reached a record low of -$3700 in 2008