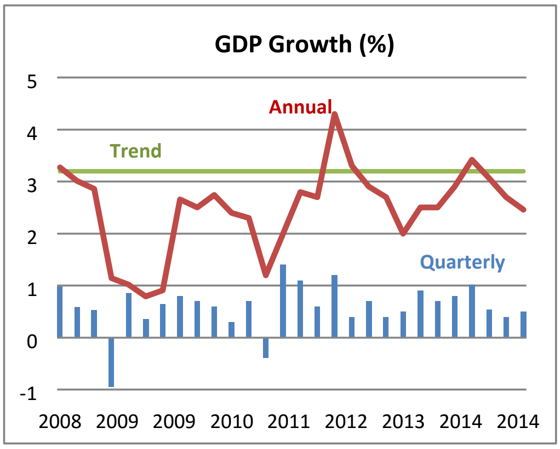
This publication was archived on 4 July 2016

This article is no longer current. Please refer to Overseas Business Risk - Australia

UNCLASSIFIED

AUSTRALIA: ECONOMIC UPDATE – DECEMBER QUARTER 2014

GDP grew 0.5% in the December quarter to record annual economic growth of 2.5% in 2014. Growth has slipped over the past six months after running close to the trend rate of 3% in mid 2014.



On the production side, mining, healthcare and financial services were yet again the leading sectors contributing to growth, continuing a strong pattern of recent years. On the expenditure side, net exports was again the healthy contributor as the structural uplift in mining production continues, the payoff from the massive mining investment boom of recent years. Housing construction and household spending also made healthy contributions.

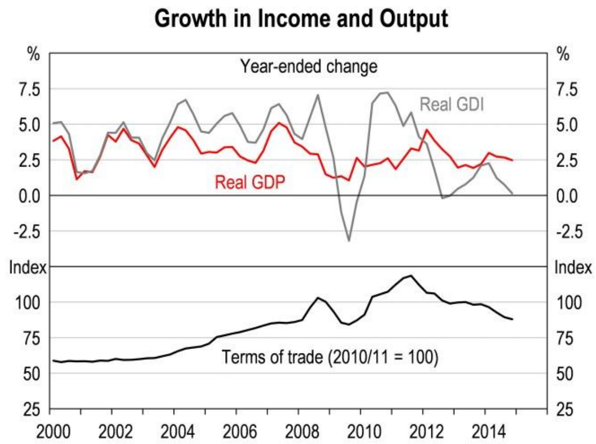
Government expenditure is flat as state and federal governments continue fiscal restraint. Business investment drags on growth: mining investment continues to fall back from record highs while weak **business investment** across the rest of the economy, which had been showing signs of life in the second half of 2014, looks set to fall further in the first half of 2015 on latest surveys.

The desired transition from mining-led growth to the wider economy is underway but slow and patchy. **Unemployment rose to 6.4%** in January, the highest rate in 13 years, while core **inflation is contained at 2.2%.** A **lower currency** is yet to see much positive impact. However, with the currency, petrol prices and interest rates all lower than in 2014, the growth slowdown this year should be limited.

This publication was archived on 4 July 2016

This article is no longer current. Please refer to Overseas Business Risk - Australia

The economy still has an income problem – while the real GDP measure of growth at 2.5% is respectable, **real gross domestic income grew just 0.1%** last year. Further falls in commodity prices continue to curb the revenue gain from Australia's vast and rising resource export volumes. The much-watched **terms of trade fell** another 1.7% in the last quarter to be 10.7% lower than a year ago and around 25% below their 2011 peak. Both **wages and company profits fell** in the last quarter with real wage growth close to zero over the last year.

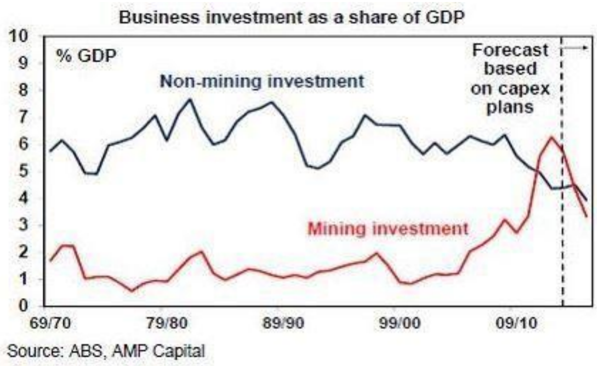


The **Australian dollar has fallen 17%** against the greenback since mid 2014 to be at US$0.78. The falls are welcome, helping offset the falling prices of iron ore and coal commodities in US dollars. The **current account deficit is 2.4%** of GDP, improving in the December quarter on both the trade and income balances.

UNCLASSIFIED

UNCLASSIFIED

State by state, the pronounced two-speed economy of 2012 is reversing. The leading mining states of Western Australia and Queensland are seeing growth rates fall as the mining investment boom tails off, and south-eastern states led by New South Wales are overtaking. Their growth rates are lifting on the back of strong and rising housing construction levels and healthy retail sectors, both boosted by low interest rates.



The government released the fourth five-yearly **intergenerational report (IGR)** which looks ahead 40 years to inform long-term budget direction based on forecast changes to population, workforce participation and productivity. The 2015 report forecasts average annual economic growth falling from 3.1% over the last 40 years to 2.8% by 2055 as the population ages and the workforce participation rate falls from 64.6% to 62.4%. Population is forecast to grow at 1.3% over the next 40 years. **Productivity growth** was 2.2% per annum in the 1990s but that has slipped to 1.5%. The IGR underscores the need for structural repair of the budget to bring revenue and expenditure back into line, with rising spending on health, social services and education projected. The report also concludes that “reforms to enhance productivity over the next 40 years will be crucial if we are to achieve the growth in living standards we have enjoyed since the mid-1970s”. Treasurer Hockey used the forward looking document to raise pressure on the Senate and opposition to pass blocked budget measures. A fiscal scenario showing that the current set of budget measures, including those stalled in the Senate, would produce surpluses of 1% of GDP by the late 2020s compared to deficits worsening to 6% of GDP by 2055 if they were not passed.

The government proposed **tighter review thresholds for foreign investment** in the agricultural sector which will mean Treasurer Hockey must approve any purchase of farming land by a private investor that would take a foreign entity’s total holding above $15m (£7.5m). Agribusinesses will be subject to a $55m threshold per individual purchase. These thresholds compare to $252m for private businesses in other sectors and $1.1bn with some FTA partners. All purchases of business, land and property by foreign state-owned enterprises (SOEs) remain subject to review. A national register of foreign ownership of agricultural land will be established. A new fee regime would charge all foreign investors application fees to cover costs of review: $10,000 for every $1 million in value for rural land and new residential properties and $25,000 for most business purchases. The proposals are open for public consultation briefly until 20 March.