

Macroeconomic Outlook for the Australian Economy

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Abstract

This paper gives macroeconomic outlook for the current Australian economy. In Australia, the importance of an improved and expanded manufacturing sector is well known in securing the future. And also it is well known in Australia that Australian manufacturing sector has been declining since the 25 per cent across-the board tariff cut in 1974 and that the decline has accelerated dramatically during this recession for the recent years. It is imaged that, by the end of the decade, Australian "industrial base" will have disappeared. However, it is not true. Australian manufacturing industry has been already restructured, and Australian economy has gradually recovered.

Introduction

Over the last fifteen years, Australia's image as a lucky country has been replaced, at home and abroad, by a growing sense of Australia's economic vulnerability in the face of trends and development in the international economy system. In Australia, the importance of an improved and expanded manufacturing sector is well known in securing the future. And also it is well known in Australia that Australian manufacturing sector has been declining since the 25 per cent across-the board tariff cut in 1974 and that the decline has accelerated dramatically during this recession for the recent years. It is imaged that, by the end of the decade, Australian "industrial base" will have disappeared. However, it is not true. Australian manufacturing industry has been already restructured, and

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Australian economy has gradually recovered. In this article, we present recent macroeconomic outlook for the Australian Economy.

The sections are organized in the following manner. Section 2 gives some characteristics of Australian economy in the traditional view. Section 3 argues current economy and tries to draw the macroeconomic outlook for the Australian economy.

Australian Economy in Traditional View

Encel (1976, p318) has summarized Australia's situation as following seven headings.

- (1) A plantation or colonial economy;
- (2) A high level of dependence on government, through public enterprise, regulation, protection and incentives;
- (3) A high level of overseas investment and ownership;
- (4) The dependence of prosperity on export income from primary products, i. e. farm products and minerals;
- (5) A high standard of living, protected by a wide variety of politico-legal devices;
- (6) Industrial activity characterised by small and medium-sized enterprises;
- (7) A high level of concentration of ownership and control of industry and finance;

1)

Beside these, we can add three further items as follows.

- (8) Shortage of the labour force in the several stages of economic development;

One of the largest Australian economic restrictions can be described as following inequality. There are a lot of resources, some capitals and only limited labours.

$$\text{Resource} > \text{Capital} > \text{Labour}$$

- (9) Predominantly service-oriented economy;

From the beginning of the 20th century, as industrialization has been not enough developed, Australia's share of manufacturing in GDP is among the lowest of all industrial countries. Australia has the largest share of employment in services among the industrial countries with the exception of Canada and the US. The tertiary or service industry is mainly composed of retail trade, whole-sale and community service.

- (10) Australia may be characterized as being physically located in Asia, but still European in spirit.

Under this environment, the Australian government needs to manage the economy. The widely accepted principle responsibilities are external balance, price stability, full employment consistent with major economic policy objectives and creation of economic

1) See Cochrane (1980) ch.1, Caves *et al.* (1984) ch.2, and Findlay *et al.* (1988)

climate conducive to foreign investment.

Australian Economy in Current View

Current Economy

In the last ten years Australia has suffered a high rate of unemployment, a sharp decline in real wage, a high level of net foreign debt, and for GDP, relatively high percentage of the current account deficit in the balance of payments.

In OECD countries, a rapid rise in rates of inflation in the early eighties. However, while inflation in most countries declined significantly after 1980, it has not done so in Australia. In 1990-91, the annual inflation rate was still more than 10 percent, higher than Australia's main trading partners. The high inflation made Australian average wage devaluated. Unemployment rate has kept a high standard in these countries except Japan. The reason is that as the result of established industries in older industrial nations meeting more intense competition from newly industrializing economies using more productive technologies and often employing lower-cost labour. The rise of these new economies in the Pacific region like Taiwan, South Korea, Hong-Kong and Singapore has caused hard competition for Australian manufactures at home and overseas.

It is well known that Australia will face difficult short- and medium-term macroeconomic problems. In the short term, economic growth is unlikely to be sufficient

Table 1 Economic Conditions in Selected Nations
Unemployment Rate (percentage of labour force)

	1975	1978	1981	1984	1987	1988	1989
Australia	4.5	6.1	5.6	8.5	7.8	6.8	5.7
Canada	6.9	8.3	7.5	11.2	8.8	7.7	7.5
Japan*	1.9	2.2	2.2	2.7	2.8	2.5	2.3
U. S.	8.3	5.9	7.5	7.4	6.1	5.4	5.2

*Japanese unemployment rates are always a slightly underestimated because of their different method to estimate.

Average wage at US\$ adjusted by CPI in every country (CPI is 1985=100.0)

	1975	1978	1981	1984	1987	1988	1989
Australia	23982	21481	21490	17355	13367	14084	—
Canada	24676	21885	21391	19208	19781	22037	—
Japan	11584	19239	17356	15751	34262	34552	—
U. S.	24554	25254	23631	24208	24944	25389	—

Source: Calculated from the data in Australian Economic Statistics

to absorb the wage increases in the Australia's labour force. The unemployment rate by the end of 1991-92 became more than 10 per cent, up from 6.4 per cent at the end of 1989-90 by the Government announcement. In the medium term, it is said Australian economy must improve its international competitiveness.

Such Australia's economic difficulties have been expressed by structural weakness in the economy, whose existence have been highlighted by the recession and the struggle for

Table 2 GDP, GNE and Balance of Payments
GDP and GNE at Constant Price (\$ million, average 1984/85)

	1977	1978	1981	1984	1987	1989	1990
GDP	162868	173075	192462	203522	228357	248931	257382
DNE	167290	174510	196596	207105	227254	258633	266341

Total Private Expenditure to Gross Fixed Capital at Constant Price
(\$ million, average 1984/85)

	1975	1978	1981	1984	1987	1989	1990
Private Investment	24069	26983	34451	31768	36985	49927	48411

Current Deficits in the Balance of Payments (Percentage of GDP)
and Net Foreign Debt (at 30 June, Percentage of GDP)

	1976	1978	1981	1984	1987	1989	1990
Deficits of the BP	-1.8	-3.2	-3.9	-3.8	-4.7	-5.3	-5.7
Net Foreign Debt	3.1	6.5	6.1	15.5	31.7	32.6	33.3

Exports and Imports of Goods by Country at Current Prices

	1975	1978	1981	1984	1987	1989	1990
(Exports)							
U. K.	5.4	3.9	3.7	4.6	3.8	3.5	3.5
EC (excl. UK)	9.9	10.2	8.7	9.4	11.9	10.3	10.4
Japan	28.1	31.8	27.3	27.2	25.4	27.2	26.1
South and S. East Asia	13.7	11.8	14.0	15.2	14.9	18.7	18.7
U. S.	9.5	10.5	11.2	10.8	11.7	10.2	10.9
(Imports)							
U. K.	15.0	11.5	8.4	6.8	7.3	7.3	6.5
EC (excl. UK)	14.5	13.8	11.9	14.6	16.5	15.5	15.5
Japan	17.5	18.9	19.1	22.7	20.8	20.7	19.2
South and S. East Asia	7.7	10.7	12.4	12.1	12.4	12.9	12.1
U. S.	20.6	20.8	22.0	21.4	21.9	21.5	24.1

Source: Calculated from the data in Australian Economic Statistics

economic survival among the industrialized nations.

The main such weakness is Australia's over-reliance on exports of primary commodities, above mentioned, either agricultural products like wheat, wool and barley, or minerals like iron ore, coal and oil. It is necessary to increase export growth relative to import growth so that the foreign debt can be stabilised.

Can Manufacture be Restructured?

It is widely argued in Australia the necessity of the importance of an improved and expanded manufacturing sector in securing their future. It is widely believed that a strong

Table 3 GDP by Industry, and Exports and Imports by Category
(GDP at Constant Price per Head by Industry, 1984/85=100)

	1975	1978	1981	1984	1987	1989	1990
Agriculture	73.0	79.2	73.8	98.6	95.5	90.3	—
Mining	89.5	97.3	91.4	94.7	113.3	135.1	—
Manufacturing	73.8	80.6	88.8	96.0	104.6	112.5	—
Electricity, Gas and Water	77.8	84.6	86.2	94.0	110.7	132.6	—
Construction	74.9	83.1	91.5	101.5	100.6	101.9	—
Wholesale and Retail Trade	88.5	86.1	89.3	96.9	91.0	92.0	—
All Industry	84.7	89.2	92.5	97.4	99.6	102.6	—

Exports and Imports of Goods by Category at Current Prices

	1975	1978	1981	1984	1987	1989	1990
(Exports)							
Meat	5.1	9.1	8.3	5.8	6.3	5.2	5.9
Cereals	16.7	11.0	12.1	11.1	7.8	6.5	7.2
Textile	8.7	9.8	9.8	8.6	10.8	14.4	9.8
Coal	8.4	12.1	10.3	13.9	15.2	10.9	12.0
Iron Ore	8.1	7.5	5.8	6.7	4.9	4.1	4.5
Alumina	3.4	5.4	5.2	5.2	4.3	5.1	5.6
(Imports)							
Consumer Goods	21.8	20.9	17.2	20.9	20.0	18.9	18.9
Industrial Supplies	29.0	30.2	28.7	28.5	28.2	30.0	28.4
Capital Goods	21.1	22.2	24.7	23.8	28.6	27.6	28.6
Transport Equipment	15.3	14.5	13.1	15.1	14.0	17.1	17.9
Fuels and Lubricants	9.6	10.2	14.1	9.0	4.4	4.1	4.6

Source: Calculated from the data in Australian Economic Statistics

and export-oriented manufacturing sector will be an essential part of the winning formula. However, Australian manufacturing sector is gradually growing. From Table 3 and Table 4, we can find out some interest facts. Total manufacturing product per head built from Machinery & Transport equipment and other manufactures has rapidly increased compared to other categories in imports for these fifteen years. This shows the stimulating secondary industry circumstance in Australian economy. In exports, manufactures' share has significantly increased, while metalliferous ores & coal's share has been identical. Metalliferous ores & coal includes such things as iron and steel, and aluminium. They are so-called "simply transformed" manufactures.

On the contrary, Manufactures are so-called "elaborately transformed" manufactures, including computers, telecommunications equipment, electrical equipment, industrial machinery, medical pharmaceutical and scientific products and equipment. They are more sophisticated products with the most "value-added."

It has been believed that the Australian primary industry, mining and farm sector is only leading exporting industry with international competitive force in Australia. In the Australian secondary industry, it has been also believed that the manufacturing sector has not grown and autonomous process without supporting of high tariff protection. These facts above mentioned are the evidences of the structural changing for the Australian economy in recent years. Evidently, Australia is making a dynamic structural adjustment to its economy.

Table 4 Exports of Merchandise (Percentage of Total)

Exports of Merchandise by Major Industrial Groups	<i>Average</i> 1975/76 to 1977/78	<i>Average</i> 1978/79 to 80/81	<i>Average</i> 1981/82 to 83/84	<i>Average</i> 1984/85 to 86/87	<i>Average</i> 1987/88 to 88/89
Rural	43.6	42.1	37.9	34.4	34.2
Metalliferous ores & Coal	27.3	27.6	30.7	30.2	25.0
Manufactures	18.9	20.5	20.2	20.0	24.2
Others	10.2	9.8	11.2	15.4	16.6
	100.0	100.0	100.0	100.0	100.0

Source: Calculated from the data in Australian Economic Statistics and State of Play, Nos 5, 6 & 7 (1986) (1988) (1990), Australian Bureau of Statistics

In next step for Australian economy, it is very important to increase the number of trading quantities with the Asian-Pacific basin in the World Economy. Australia is geographically isolated from the European regions, and has hence been less of a trading nation with European countries after World War 2. However, Australia is a still European

mind country. Australia should become one of the colleagues of the Asian-Pacific spiritually, as well as physically.

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