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## Abstract

This report aims to discuss the the current (i.e. September 2017) state of the Australian economy and compare its performance with state of the economy in August 2016. To study the economy of any country it is necessary to evaluate the four prime economic indicators as economic growth (GDP), unemployment, inflation and trade (including the terms of trade, the current account, net foreign debt and the value of the Australian dollar).

With respect to the economic conditions of Australia, the Reserve Bank of Australia is expected to target economic growth than inflation. The GDP actually contributes to higher standard of living through the goods and services provided to the masses. The economic indicators can be regulated by the right allotment of the policies to the appropriate economic indicator. For managing the macroeconomic conditions of the country, the monetary and fiscal policy should be allotted only to inflation and not along with GDP growth. This should also qualify against the rate of unemployment.

These indicators should not be assigned to long term growth. For stabilization of the output it is essential for the policies to be short term such as counter cycling of the monetary policy to streamline the regular variations. But even after taking this step it is not required that the focus should not get diverted towards nominal GDP than inflation. To make the output stable, RBA has cut down the interest rates, however this is not enough to accomplish the goal. It has to take certain measures to attain a long term growth.

Nominal GDP growth is defined as the product of inflation rate and output growth. If inflation would be high, growth will automatically be low. Hence the policies should be formulated taking both of them taken into account. This might be acceptable for short term planning of government policies as it is done for a limited period of time. But since the government is looking forward to long term growth, this option could not be considered.

It was agreed by the bureaucrats that switching the policies from inflation to nominal GDP growth would be less beneficial. Since Australian economy is a small open economy, it would not be possible for monetary policy to support the highly volatile nature of the nominal conditions of trade campaigns. To reduce this volatility, the RBA has to focus on core nominal income. But again this would also not be highly gainful.

After lot of mind exercise, it was established that the RBA does not have to worry about the unexpected variations of monetary policy and nominal interest rates if the fiscal policy is fulfilling its objectives. Also the justification behind not considering the nominal growth as the focus of economic policies is that interest rates can't be controlled either due to high level of migration or unexpected happenings of natural calamities. For growth improvement, the financial body should make a goal to achieve competitive neutrality between citizens and banks in contrast to the present condition where the profiteering conditions were only created for private banks (National Economic Panel, 2016).

For the year 2017-18, the three issues that Australian economy will face includes its Triple A credit rating that will reduce its fiscal gains by lowering down the public debts such as the introduction of land tax, or a broader GST rate. Another issue constitutes the growth of Australian economy to remain below 3 percent in 2018 that will compel the Government to disinvest from the Mining sector and third issue is the necessity of the economy to take certain measures for reporting higher interest rates by end of 2018. This will be followed through the overall growth of Australian economy which is suffering from significantly high unemployment rates and low growth of salaries at present (Philip, 2016).

## **Introduction**

The report has a prime objective of comparing the economic conditions of Australia for the years 2016 and 2017 on the basis of economic indicators such as economic growth (GDP), unemployment, inflation and trade (including the terms of trade, the current account, net foreign debt and the value of the Australian dollar). After analysing these conditions appropriately the report will address the prime issues identified in the findings of comparison such that it can take appropriate measures to combat these challenges in the next 12 months to achieve growth.

## Discussion

**Economic Growth** - Presently, with the strong economic or GDP growth in 2017, the living standards of people kept on a high but there were certain challenges with respect to gender discrimination, green house gas emissions, and population imbalance. The non-mining sector is expected to grow by 3% in 2018 reducing the percentage of unemployment population. The aggregate demand of the population is balanced by the lower interest rates that are pushing investors to take risks in this turned down market.

The government is continuously striving for maintaining this growth rate by making the environment stronger by innovative businesses. This will increase the competitiveness in market and other business models that will imbibe and develop these innovations for maintaining its productivity. The resources required to achieve this are labor and capital markets which will ensure a high growth rate of productivity by collaborating business with research. This would be mainly accomplished through government initiatives such as 'National Innovation and Science Agenda' reform activity.

The current economic growth is also trying to create a balance by eradicating the economic inequality for a more inclusive development. Australian found it very tough to adjust with the explosion in commodity market. It results in the rise of underemployment population and the government became concerned with the rising economic disparity amongst common masses. Huge socioeconomic gaps also got created following the differences in economic conditions and primarily discriminated the indigenous community from the rest of the society. Hence it became very important to impart innovation related skills to the children especially belonging to weaker section of society as well as those who got disoriented due to economic restructuring of the society as it will help in reducing the gap in wages of the workers on the basis of their gender (OECD Economic Survey, 2017).

**Unemployment** - The key points that are gathered for the unemployment status in Australia in 2017 revealed that employment population has increased from 27,100 to 12,249,500 with the decrease in unemployment being 2,200 from 723,200 in the previous year. But despite of this decrease there is no change witnessed in the unemployment rate with the figures maintained at 5.6%. However, the participation has shown an increase by 0.1% and reported an overall rate of 65.2%. The employed population is also committed to devote more number of hours

due to which the work hours of the employees have shown an increase by 3.9 million hours with an overall number reported as 1708.6 million hours.

It was clear from the Abstract that the Australian economy had to make adjustments with the present conditions of unemployment. Hence the monthly changes are estimated to be an overall increase in employment from 54,200 to 12,269,000. From this estimation, the margin of full time employees amount to an increase from 40,100 to 8,392,300 and margin of part time employees being grown from 14,100 to 3,876,700. In 2017, the unemployed population reported decrease from 1,100 to 727,500 out of which the full time workers without a job have shown a remarkable change from 6,400 to 501,600 and unemployed part time workers who were jobless reduced from 7,500 to 225,900.

But despite of this remarkable achievement the growth rate of unemployment remained same as 5.6%. In 2017, the participation rate in unemployment increased by 0.2 points which was alarming for the economy of upcoming years and reached to 65.3%. The work hours were also being seasonally adjusted by a growth of 0.4% and 6.1 million hours and reported to be 1705.4 million hours in aggregate by all Australian employees.

A common observation in every quarter of the year showed that the labors were being underutilized that has taken the unemployment rate per quarter to 8.7%. However, in 2017, this rate has shown degrowth of 0.1 points at 14.2% according to the estimation by trends. However, the seasonal adjustments had shown that the unemployment rate of the labor force got decreased by 0.2 points being steady at 8.6% and the rate of non-utilized labors decreased by 0.2 points and found to be 14.1% (Canberra times, 2017).

**Inflation** – Since the standard of living of the residents of Australia is going up day by day, people have started spending substantially high amounts of dollars on fuel and food. Eventually the price of fuel and food expenses has touched great heights and the inflation went up by 0.5% in the first quarter of 2017 projecting an annual inflation of 2.1%.

The justification given for this increase given by RBA is the uncontrollable nature of the volatile factors responsible for inflation. Their estimation to control the same is still weak and they were only able to edge it up by 1.5%. A 6% hike in petrol prices has been reported in the first quarter after falling by 10% in the previous quarter. This has been conducted by Australian Bureau of Statistics. The cost of hospital services has also been inflated by 1.6%,

electricity by 2.5%, and rent by 1% that significantly contributed in the overall growth of inflation.

But simultaneously sectors such as holiday travel and fruit market reported a decline in their prices by 3.8% and 6.7% respectively. However, the band of inflation for the current year has been targeted for 2-3% but the achievements have still not been up to the mark. This was also the result of the drop in deflation by 0.2%.

However, an analysis by JP Morgan indicated that RBA would go for cutting down the interest rates subduing the current rate of inflation. It argued that the major portion of inflation is constituted by oil, seasonality and rates administered. RBA told that the recovery in core inflation is a long term process. It owed the control to the activity in the housing market that will in turn pressurize the labor market currently facing an all time low of 5.9% with lower growth rate in wages.

With all this RBA has decided to step further at the time of sub-trend growth and harmless background of inflation. The next year projection has also been predicted as 2.5% and sounds to be alarming as it will in turn put pressure on the cash rate compelling population to have higher wage growth (Stephen, 2017).

**Trade** - It cannot be argued that trade analysis truly depends on several factors namely the terms of trade, the current account, net foreign debt and the value of the Australian dollar. Considering the first component, Terms of Trade is defined as the ratio of export and import prices. Broadly, the Trade in goods and services means a change in ownership of resources and assets between two different countries. On one hand where the export of goods and services raised by 2.7% in the second quarter the terms of trade fell down by 6% at the same time.

As soon as the export commodity prices got reduced the current account deficit in the second quarter of 2017 increased to \$9562 million from \$4,808 million. With regards to seasonal adjustments, the surplus is obtained over the maintenance of balance of goods and services that amounted to be \$3070 million. At the same time, the exports fell down by \$2,693 million

which is nearly 3% down with the simultaneous increase in imports by 2% figuring out to be \$1,640 million. The income deficit got further increased by \$499 million.

However, in terms of capacity, exports showed a greater increase than imports making the international trade boost by 0.3% points in the GDP of second quarter. After seasonal adjustments in volume the balance achieved on deficit got improved from \$1,363 million to a deficit of \$196 million. In the International market, Australia has an overall liability of \$1,024.6 billion till the first quarter of 2017. However, the net foreign debt liability reduced by \$21.2 billion (2 per cent) to \$990.6 billion. On the other hand, net foreign equity liability decreased by \$3.2 billion (25 per cent) to a landmark of \$9.7 billion by the second quarter (Canberra Time, 2017).

Briefly discussing the three issues that the economy faces in 2017-18 constitutes Triple A credit rating that will reduce its fiscal gains by lowering down the public debts such as the introduction of land tax, or a broader GST rate. Another issue constitutes the growth of Australian economy to remain below 3 percent in 2018 that will compel the Government to disinvest from the Mining sector and third issue is the necessity of the economy to take certain measures for reporting higher interest rates by end of 2018. This will be followed through the overall growth of Australian economy which is suffering from significantly high unemployment rates and low growth of salaries at present.

## **Conclusion**

After carefully studying the current status of Australian economic indicators and the economic challenges currently faced by Australia it can be concluded that the situation is mingled up with mixed signals after kicking off at a disappointment in the first quarter. The second quarter results were also not very sound to be optimistic about the rest of the year but a high rise in labor market made businesses optimistic by maintaining a high commodity

price to attain a high long term growth in the next five years simultaneously tackling huge liabilities (Focus Economics, 2017).

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