

Aspirations

Live the life you desire now and in the future



Predicting Australia's economic future

If you took a snapshot of the Australian economy on New Year's Day 2011 it would show:

- 1 We are regarded as one of the stronger world economies, thanks to our recovery from the global financial crisis of 2008/09 (GFC) and continuing resource demands from China.
- 2 Exports of mineral resources make up 42 per cent of our export income, putting the mining states of Western Australia and Queensland at the centre of Australia's economy.¹
- 3 Our dollar has increased in value against major currencies, putting our export industries under pressure, though the biggest of these, mining, is somewhat protected by rising mineral prices despite long-term contracts locked in US dollars.

If you took the same snapshot on New Year's Day 1901, Australia's birthday, it would have looked quite different. The newly federated Australia was emerging from the economic crisis of the 1890s; its major exports were agricultural commodities, mainly wool but with wheat and meat growing in volume; the gold boom which started in Victoria

and New South Wales in the 1850s had passed but gold made up 28 per cent of our exports by value; and trade with China, and Asia generally, was irrelevant.²

Change is the constant

The Australian economy has evolved constantly over the past 110 years. In the 1930s, agriculture, once a third of our total economic output, began to shrink and now accounts for only 3 per cent. (Our farmers produce more today, but the value of their products has been overtaken by those of sectors like mining and services). Manufacturing then took over as our most important sector, reaching a peak of 25 per cent of economic output by the 1960s, then declining to less than half of that as manufacturing moved to cheaper labour sources in Asia.³

Today, the structure of the economy has changed once more, to the point where mining accounts for only 8 per cent of our economic output, but 42 per cent of our exports, against 14 per cent of exports for manufacturing and 23 per cent of exports for services (mainly education and tourism).

In practice, by and large we sustain our own economy today, consuming around 80 per cent ourselves of what we produce in goods and services. While our resources and other exported goods are important, they are not the main story at all; we are.

But what does this mean for future Australians?

Our economic history suggests that mining may still be our most important export industry in 2050 or beyond, as we have always been a commodity-exporting economy. However, this is not guaranteed and the best way to cope with a constantly evolving economy is to make sure it is diversified across many sectors to manage risk across the cycles — just as a well managed, long term investment portfolio must be.

Not by mining alone

Mining may be the most important sector for exports today, but the services sector is the most important for jobs. However, mining and resources dominate most Australian media reporting so we may have a skewed picture of the total economy.

Let's take a closer look at the components of Australia's economy in the table below.

If Australian mining experienced a downturn tomorrow, our balance of payments would be under pressure, but we could still be in reasonable shape. A key reason for that is while mining is by far the biggest Australian export sector, it is highly mechanised and employs relatively few people.

Most Australians are employed in the services sector, which makes up 23 per cent of exports, but more than 60 per cent of local consumer spending and 78 per cent of jobs. Services cover virtually everything that isn't farming, mining or manufacturing: from IT, health care and education to lawyers, accountants, hairdressing and tourism.

So while the mining boom continues to help us earn export dollars and supports increased real incomes, it is the creation of more jobs in the services sector that keeps most of us employed.⁴

Though the worlds of 1901 and 2011 are quite different and our economy has undergone major changes in that time, one thing remains the same: per capita, we are still ranked among the richest countries in the world.⁵ The lucky country indeed.

Australian economy: sectors by share of total, export value and employment

Sector	Share of output in the economy (% value)	Export value (% of total)	Employment (% of total)
Agriculture	3	18	3
Mining	8	42	7
Manufacturing	12	17	12
Services	77	23	78

Source: The Reserve Bank of Australia Bulletin, September Quarter 2010, Sectoral evolution in Australia.

- 1 RBA
- 2 1901: A socio-economic profile of Australia at Federation, Parliamentary Library, Canberra. www.aph.gov.au/library/pubs/rn/2000-01/01rn23.htm
- 3 RBA
- 4 www.aph.gov.au/Senate/committee/economics_ctte/firb_09/report/c02.htm
- 5 World Bank

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