

THE LUCKY COUNTRY

How Australia can move beyond resources

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Golden beaches, fresh produce and a great lifestyle are all famously part of Australia's DNA. Less famous, but just as crucial is natural resources, particularly coal and iron ore. For years, Australia has been the envy of the world as its economy surged thanks to our rich supply of natural resources. Now that the mining boom is coming to an end, Australia must find new ways to build wealth.

Digging for wealth

In some ways, you could look at the growth of the Australian economy over the past decade as being down to luck – Australia had a large supply of natural resources that other countries didn't. Combine this with a boom in demand for resources, largely fuelled by China's extraordinary growth and rapid industrialisation, and Australia's mining investment grew from less than 2% of gross domestic product (GDP) to almost 8% over the decade to 2014¹.

Over the past decade, the value of mining to Australia has represented nearly half of its exports, representing billions in income². This had flow on effects to boosting household disposable income, real wages, the Australian dollar and reducing unemployment.

The canary in the mine

But as with most booms, at some point, the mining boom was going to end. There are strong indications it has reached this point.

- > The price of some key resources exports, such as iron ore, has dramatically dropped, declining from a peak of around \$US160 per tonne, in February 2013 to a low of \$US40 in April 2015.³
- > A slowdown in the Chinese economy has reduced global demand for resources against an increasing supply of resources.

While the government and the Reserve Bank have anticipated this to an extent, the struggles that the Australian economy currently face are testament to the difficulty of filling the mining gap.

To some extent, the housing sector has acted as a buffer against the mining slowdown, but Australia will need to develop in other areas to ensure its ongoing growth.

Flying with the dragon

The country is still blessed with a number of advantages that can be leveraged going forward, particularly with the fast-growing Asian region. China in particular offers the greatest scope for growth, despite its current slowdown, with its middle class currently estimated at 66% of all urban households and anticipated to be 75% by 2022⁴.

Some of the key opportunities for Australia to leverage and develop include tourism, education, wealth management and gas.

- > **Tourism** – Australia continues to be on the “wish-list” for tourists and the falling Australian dollar makes it more affordable, with the burgeoning Asian middle-class high on the list of prospective tourists.
- > **Education** – Australia holds the third largest market share of all foreign students in tertiary education worldwide, with the Asian region 2/3 of this⁵. Demand is likely to increase substantially as the Asian region continues to grow.
- > **Wealth management** – Australia's well established wealth management industry and scale of funds under management provide it with a competitive advantage when offering financial services to Asia's rapidly growing and aging middle-class populations.
- > **Gas** – Gas is viewed as a “greener” source of energy and demand is likely to increase. This will benefit Australia, with its vast reserves of natural gas and investment in productive infrastructure.

A new horizon

The mining slowdown need not be the end to Australia's growth, with a range of opportunities to explore outside. The Reserve Bank is supporting these through policies such as lower interest rates intended to support spending and investment along with assisting the Australian dollar in moving downward (which will support the export industry).

Australia's ability to respond and adjust swiftly to evolve and innovate will be crucial in taking advantage of the opportunities going forward.

1. Source: Reserve Bank of Australia Research Discussion paper, [The effect of the mining boom on the Australian economy](#), Peter Downes, Kevin Hanslow and Peter Tulip, August 2014.
2. Source: Department of Foreign Affairs and Trade 2014, 'Trade data by trade import and export classification 2012–13', unpublished; Australian Bureau of Statistics 2013, *International trade in services by country, by state and by detailed services category, financial year, 2012–13*, cat. no. 5368
3. Source: Bloomberg, May 2015
4. Deloitte Research, [Building the lucky country: Business imperatives for a prosperous Australia #3 Positioning For Prosperity? Catching the next Wave](#), Mehrdad Baghai, David Redhill, Chris Richardson, Gerhard Vorster, March 2014.
5. Research Snapshot, Department of Education and Training, November 2014.

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