

AUSTRALIA :

The Lucky Country

When Donald Horne coined the phrase The Lucky Country in 1964, it was not meant as a compliment. He argued that we were riding our luck on the back of our natural resources rather than creating our luck through innovation.

That hasn't stopped us adopting the phrase to describe our economic good fortune. But now that the latest resources boom is at an end, is our luck running out?

The recent Intergenerational Report said we would remain in deficit for the next 40 years unless radical changes are made. But despite talk of debt and deficit, Australia's economy is enjoying its 23rd consecutive year of growth.

That's an achievement matched by no other advanced economy, even though growth has slowed along with the resources boom.

Slower growth

Gross domestic product, the measure of the economy, grew by 2.3 per cent in 2014, slightly below the global average of 2.6 per cent.

Growth below 3 per cent is generally viewed as insufficient to encourage

business to take on more employees and this is certainly an area where Australia is facing some challenges.

At 6.3 per cent, the unemployment rate is near a 12 year high, but that is still very manageable when compared with a rate of 26 per cent in Greece. Unemployment in the US has fallen to 5.5 per cent, but then we never hit the double-digit levels they experienced after the financial crisis.

The outlook for employment rests to some extent on business confidence which is not faring so well. The February 2015 National Australia Bank business confidence index showed sentiment had dropped three points to zero.

Reason for confidence

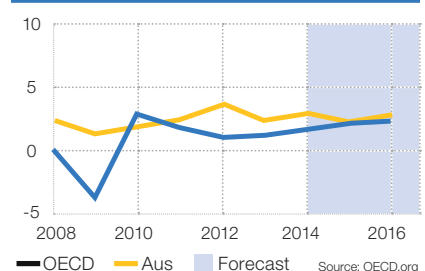
And yet there is little reason for confidence to be so low given recent falls in the Australian dollar, interest rates and petrol prices.

The low Aussie dollar – now hovering around US\$77c – is good news for business as it makes our exports more attractive and encourages tourism.

Low interest rates – currently 2.25 per cent but tipped to fall another 25 basis points – should also support retail spending and home building/buying.

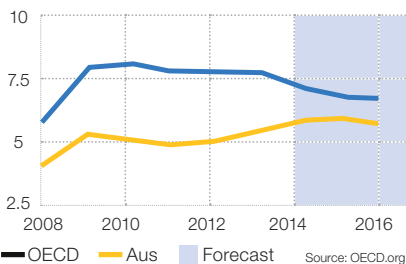
The weak oil price is also playing its part, saving us up to \$30 each time we fill up at the bowser. This increase in disposable income helps boost spending in other areas.

OECD Economic Outlook (Nov 2014)
GDP growth

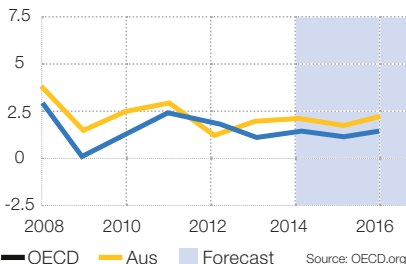




OECD Economic Outlook (Nov 2014)
Unemployment rate



OECD Economic Outlook (Nov 2014)
Headline inflation



Low inflation

Cheaper petrol is one reason our inflation rate is running at just 1.7 per cent. The Reserve Bank's preferred band for inflation is within the 2-3 per cent range and a lower level can be an indicator of sluggish economic activity.

The Reserve Bank expects the economy to continue growing just below the 3 per cent mark through 2015 although it is looking for a pick-up in 2016.

On a per capita basis, Australia's GDP of \$38,160 is just over 80 per cent of the level in the US but in line with many other western countries. Despite the ending of the resources boom, its impact on the economy needs to be put into perspective. Mining accounts for less than 9 per cent of economic output, which puts it on a par with financial services and construction.

Low taxes

It may come as a surprise, but one way Australia is truly lucky is that we are relatively lightly taxed.

According to the OECD, taxes for the single average worker only account for 27.4 per cent of employment income in Australia compared with the OECD average of 35.9 per cent.

And when it comes to GST, Australians are very lucky indeed. Our 10 per cent GST is well below countries such as the UK, Spain, Greece and France, all of which pay in excess of 15 per cent.

What's more, Australia's minimum wage is head and shoulders above the rest of the world at \$16.88 an hour. The next closest is France with \$12.09 while the US comes in at \$7.25.

Despite our relatively high minimum wage overall, wages growth was pegged back to 2.5 per cent in 2014, the lowest rate of increase since 1997. While wage restraint may act as a dampener on retail spending, on the plus side it encourages local businesses to take on more employees.

All's well

Aside from basic economic statistics, Australia also scores well on the wellbeing front.

The Happy Planet index, a project of the New Economics Foundation, has Australia ranked at eight out of 151 countries in terms of wellbeing with a score of 7.4 out of 10, although most Australians would probably argue that we are number one.ⁱ

The economy may not be going gangbusters, but in the things that really count we are a lucky country.

ⁱ Happy Planet Index, <http://www.happyplanetindex.org/data/>

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