



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.

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1 RBA

2 1901: A socio-economic profile of Australia at Federation, Parliamentary Library, Canberra. <http://www.aph.gov.au/library/pubs/rn/2000-01/01rn23.htm>

3 RBA

Predicting Australia's economic future continued

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.

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.

⁴ www.aph.gov.au/Senate/committee/economics_ctte/firb_09/report/c02.htm

⁵ World Bank

News bites

Retiree cost of living increases

Due to the ongoing rise in the cost of living, retiree incomes need to gain an extra \$600 a year for comfortable living.

The Association of Superannuation Funds of Australia has published a report showing that living costs during retirement increased by 1.3 per cent in the March quarter 2011 from the December quarter 2010.

The largest increase in prices was recorded in Melbourne followed by Sydney and Adelaide. A significant factor to the increase was in the rise of the price of fruit at 14.5 per cent, the price of vegetables rose by 16.0 per cent, and with transportation there was an increase of 2.7 per cent and 8.8 per cent in petrol prices.

To achieve a comfortable lifestyle in retirement, speak to us to ensure that you are on track with your retirement plans.

The Flood Levy – know the rules

The Government has introduced a temporary flood and cyclone reconstruction levy otherwise known as the flood levy to provide additional funding to rebuild essential infrastructure. The levy has been created to help affected communities recover from the floods earlier in 2011.

Individual tax payers who have a taxable income of more than \$50,000 in the 2011/12 financial year will have to pay the flood levy. For individuals earning salary and wages, the flood levy will automatically be included in the tax taken out of their salary and wages by their employer. For individuals who pay instalments towards their expected tax liability, the flood levy will be automatically included in the instalment rate, for example, self-employed individuals and self-funded retirees.

Exempt individuals are those who have a taxable income of less than \$50,000 or fall into an eligible Australian Government Disaster Recovery class.

Individuals entitled to a recovery payment will receive a flood levy exemption declaration form from the Australian Taxation Office (ATO).

Tax rebate for low income earners

The Government recently announced plans for a new measure to help boost the superannuation of lower income earners. If the proposal is approved, individuals earning less than \$37,000 would receive a refund on the 15 per cent superannuation contribution tax, to be directed back into their super.

To be eligible for the payment, an individual must have made or received a concessional contribution to their super fund or retirement savings account and have lodged an income tax return for the relevant year. There will be no age test applied, so this measure allows people of all ages to take advantage.

The Government expects it will add some \$1.75 billion to super accounts and will assist an estimated 3.5 million Australians.