

Effects of the financial crash on australia's economy



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Executive Summary:

This is a report of current Australian economic situation, and a forecast of Reserve Bank of Australia's cash rate movements in 2015. This report will help the board and management to formulate budget and set goals for the upcoming years.

The report will look into and analyse in details all economic indicators and other internal non-numeric based factors such as geographical advantages, politics, policies, regulations as well as external factors such as world economy, politics and laws of major trade partners, international exchange rates, etc. that directly and indirectly impact the economy. The report will show how simple forecasting of cash rate movement is a complex process, as it is directly related to Reserve Bank of Australia's fiscal and monetary policy.

Introduction:

Former Australian Prime Minister Kevin Rudd once described “ Australia to be a nation whose origins lie firmly in the west, but whose geo-political and geo-economic circumstances are shaped in large part by our location in the east, this is the inescapable expression of the Australian condition. (Economy Watch, 2010)” And he was right because where in the early 19th century Australia's major trade partner was the Western world, along with time it shifted to the eastern side, and Asia became the primary focus of Australia's economic policy. And understanding this is crucial to all large, medium, and small business in Australia, for budget forecasting, and goal setting, and this is true for every sector from hospitality and tourism, to mining and banking
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sectors. We will now look into current Australian economic situation and will conclude with a forecast of Cash Rate Movement.

Body:

The Australian Business Review published a report by Steen Jakobsen, Saxo Bank chief economist on 14th of November 2014 (AAP, 2014). In his report Mr. Jakobsen said Australian Economy will face recession in 2015, he also pointed out that ASX is dominated by mining companies and financial institution, and that the country should focus on technology sector, and small and medium size enterprises. Like many in past, the economist supported the idea that education and research should be the back bone of an economy.

Understanding Australian Economy:

The table below will show a summary of Australian Economy as at Demeter 2014 (Trading Economics, 2014). From the table we can see that Mr. Jakobsen's reasons for such declaration. The Australian currency rate is still higher than sustainable, the stock market is down, high unemployment rate, lower consumer spending, budget deficit, everything contributed to it, and even an all-time low cash rate failed to attract more investments, for which probably high Australian labour cost may be liable.

Australia | Economic Indicators

The chart below will help us understand the current Australian economy from the viewpoint of the federal government. Where it shows how the western part of the country is based on mining industry where the eastern part

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especially New South Wales and Victoria are manufacturing, finance, and service based. The contrast between these two regions has often led to disagreements within the Australian government over developmental plans. Australian GDP is still dominated by service and financial industries, although they are struggling a lot after 2008 global financial crisis. On the other hand Western Australia is and its mining industry is enjoying a boom, even though some economist argue that resource based industry is highly depended on exports to China, and if the world economy is not doing well, then it will hurt the Chinese economy, and find its way to Australia (Economy Watch, 2010).

Unemployment rate:

From the graph released by trading economics using the data realised by Australian Bureau of Statistics, we can clearly see that in last four years (January 2011 to November 2014) the unemployment rate only went high and is now sitting at 6.30% which is the highest in 11 years, the month of December 2014 should have a similar rate too. The ABS reported the number of people employed increased by 42,700 to 11,637,400 in November 2014 (seasonally adjusted). The increase in employment was driven by increased part-time employment for females (up 36,400) and full-time employment for males (up 23,300) offset by a fall in female full-time employment (down 21,400). Total full-time employment increased, up 1,800 (Trading Economics, 2014).

Cash rate, Inflation, and exchange rate:

On 2nd of December 2014, the Reserve Bank of Australia decided to leave cash rate unchanged at 2.5%, even though American and Chinese is showing some sign of strength, Euro Zone, and Japan both seen weakness recently, some key commodity prices such as petrol has declined significantly in recent months, which indicated softer demand but increased supply, and therefore the central bank decided to keep the cash rate unchanged for the 16th month in a row. Inflation is running between 2 and 3 per cent, as expected, with recent data confirming subdued rises in labour costs.

The exchange rate has traded at lower levels recently, in large part reflecting the strengthening US dollar. But the Australian dollar remains above most estimates of its fundamental value, particularly given the significant declines in key commodity prices in recent months. A lower exchange rate is likely to be needed to achieve balanced growth in the economy (RBA, 2014).

The benchmark price for iron ore, which accounts for more than \$1 out of every \$5 of export income has fallen to around a third its 2011 high of \$US190 (Greber et al, 2014). As at December 2014 it is \$63 per tonne, and it seems like it will fall more in 2014-15. (Massola, 2014). Australian Economy and Cash Rate Movement in 2015:

During a parliament briefing Joe Hockey says the federal budget will be used as a “ shock absorber” to protect the economy from the largest fall in the terms of trade since 1959. The Treasurer who will unveil a larger deficit in 2014-15 and a slower return to surplus when he releases the midyear

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economic update on 15th of December 2014, said economic growth would remain about 2.5 per cent, while conceding unemployment would rise to levels higher than those forecast in the May budget (Massola, 2014). So both the Treasurer and the economist Steen Jakobsen agreed to the fact that currently Australian economy is not doing well, and there are many good indicators that it could get worse. I would agree with them that there are still hope, if the government invest in roads and infrastructure such as the East West, as well as further decrease the cash rate in 2015 as Jakobsen has advised to 2% percent or even down up to 1.5%, along with simplification of taxation and regulations might help in boosting the economy and improving investments (AAP, 2014). The cash rate is sitting 2.5% for 16 consecutive months (RBA, 2014) but it was not good enough to turn the wheel of Australian Economy, and from the parliament bribing of the Honourable Treasurer Joe Hockey it could be argued that the Federal Government may push Reserve Bank of Australia to further decrease cash rate in 2015 to 2% along with taking other measures hoping it may help to improve the growth to 3% which Mr. Hockey is hoping to achieve. And if IMF is right the Treasurer will be able to achieve 3% growth in 2015, and added it will remain there until 2019 (Jerico, 2019)

Conclusion:

To conclude, Australian economy showed a little sign of recovery in 2012 after the global financial crisis of 2008, but started to fall and 2014 is finishing without any sign of recovery, in fact data shows that 2015 could be even worse. IMF, The Treasurer of Australia, and economist Steen Jakobsen

all believed that despite all there are still hope that the economy may grow 3% in 2015, even though unemployment rate might rise further and cash rate might continue to stay low at 2.5% or go even lower. World economy, investor's confidence, fiscal and monetary policy as well as other internal and external factors will determine the end result.