

# Australian Dollar Fact Pack

October 2015



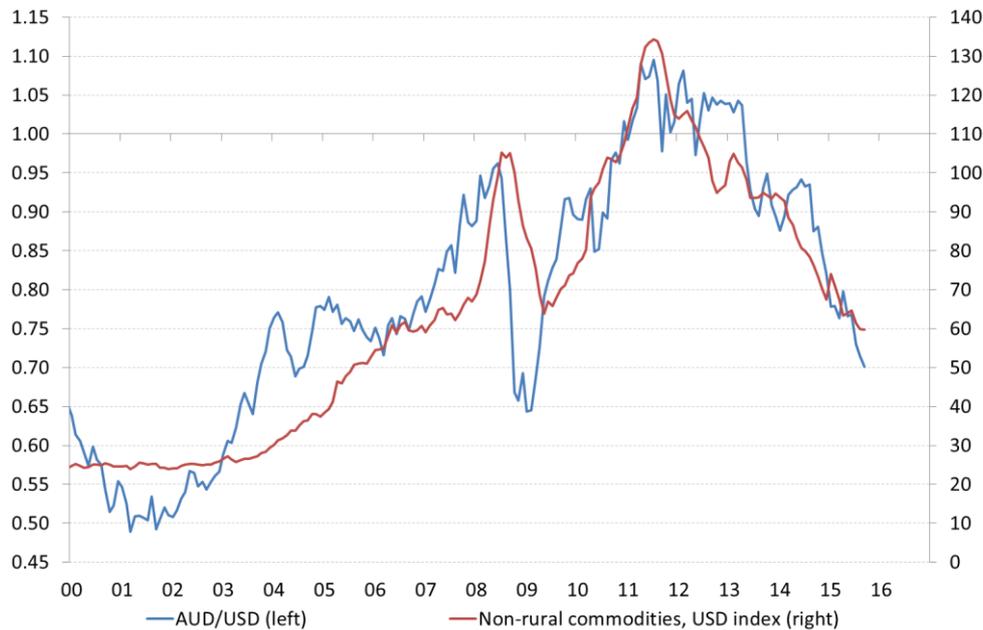
**Recent Australian dollar movements**

The Australian dollar has been moving lower against the US dollar, since reaching an all-time peak in 2011. Since mid-2013, it has traded below parity against the US dollar. This downward trend became more pronounced during 2014-15. By the end of September 2015, the dollar was:

- 20% lower against the US dollar than it had been a year earlier (Sep 2014),
- 25% lower than two years earlier (Sep 2013) and
- 33% less than three years earlier (Sep 2013).

The factors contributing to this trend are mainly offshore international events rather than domestic trends in the Australian economy. The single strongest determinant of the Australian dollar is the global market price of the key commodities which Australia exports (iron ore, coal, metals and other non-rural resources). These prices have fallen as global supplies increase and as growth in global demand begins to wane, taking our dollar lower as a result (Chart 1).

**Chart 1: Australian dollar and the commodity price index, in US dollars**



**Recent trends in Australian growth and industries**

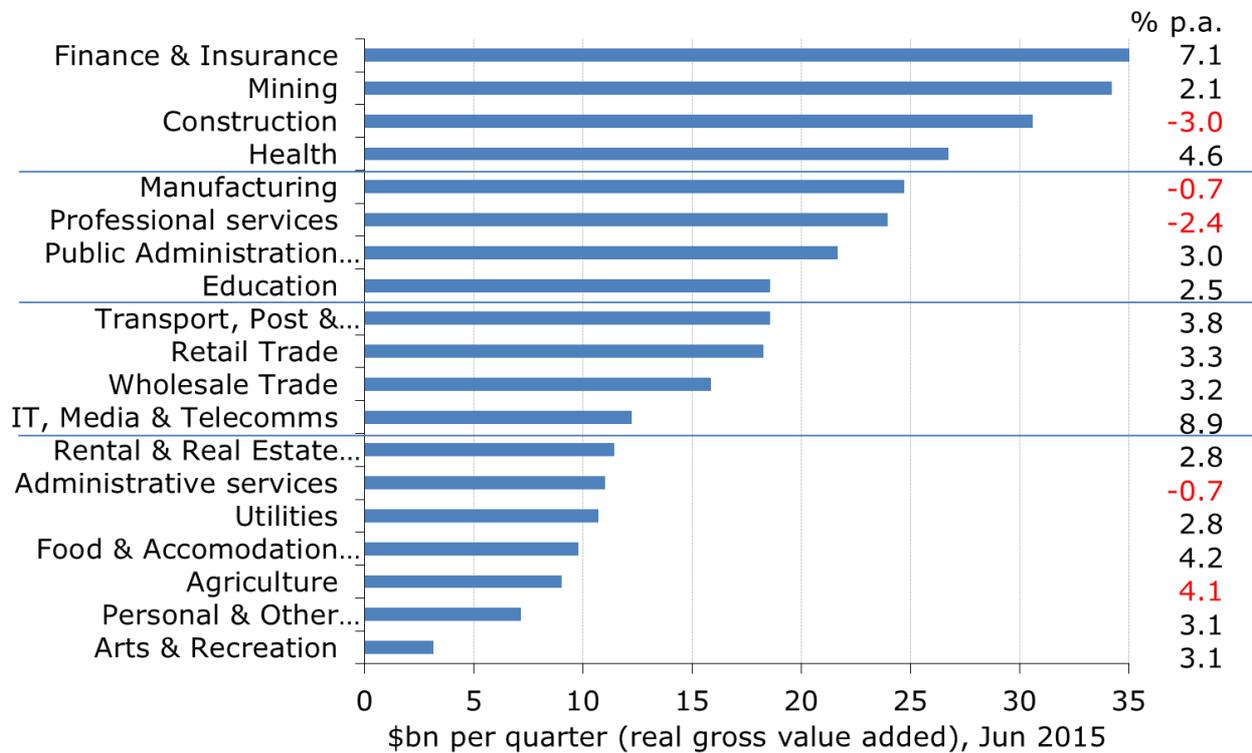
The first half of 2015 was very slow for Australia. The ABS estimates that GDP grew by just 2% p.a. in the June quarter of 2015. This is well below Australia’s ‘trend’ or long-run average GDP growth rate of 3¼%. The average growth rate since 2010 has been 2.6% p.a.

The pattern of growth across Australian industries still favours mining (rapid growth in output volumes as recent investment boosts the industry’s production capacities, regardless of the

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prices those outputs fetch in global markets) and larger services sectors (finance, health and education) over industrial sectors (construction, manufacturing and utilities) (see chart 2).

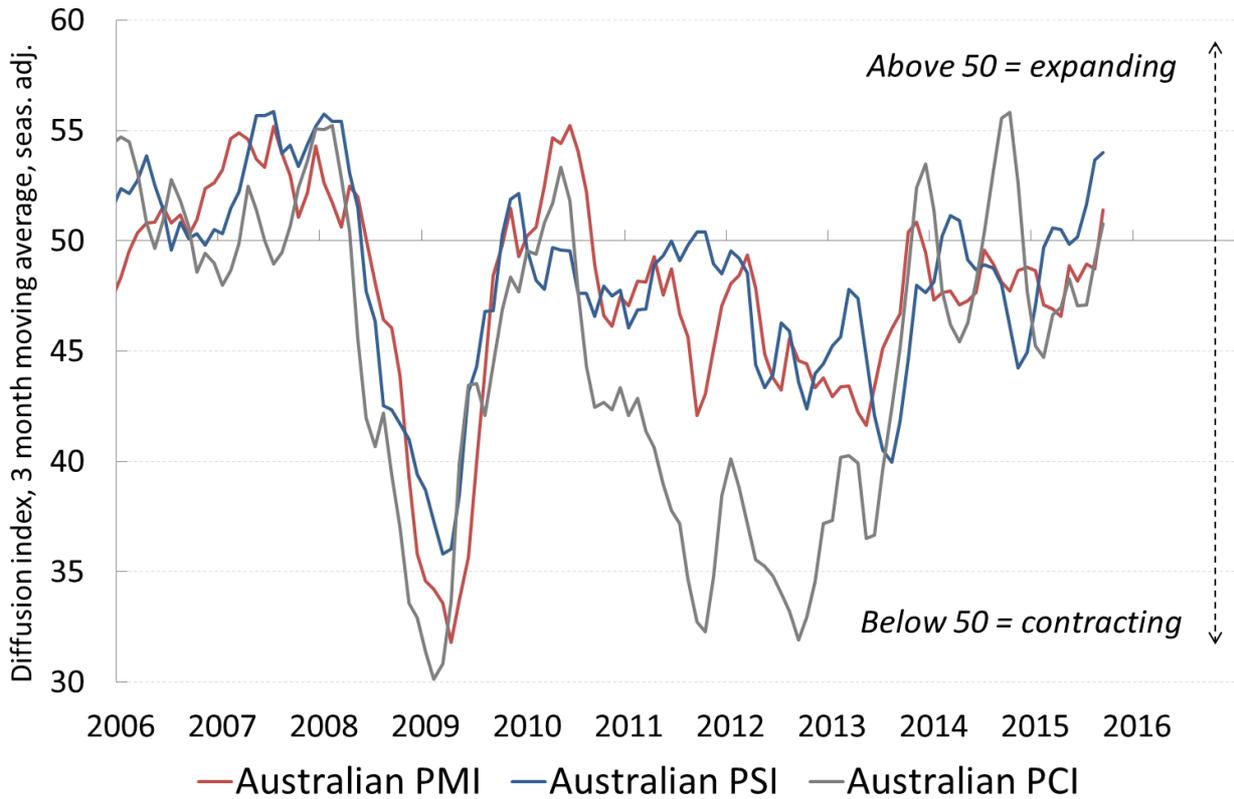
**Chart 2: Real value added output by industry, size and growth, Q2 2015**



As we move more firmly into the second half of 2015, the benefits of growth appear to be spreading across a greater range of industries (see chart 3). We are now seeing recovery in parts of manufacturing (mainly food and beverages) and solid growth in the consumer-oriented services (retail, healthcare, personal services) and in residential construction. This very welcome fanning out of growth is being driven by several concurrent positives in our economy:

- Low interest rates
- Lower Australian dollar
- Resurgent housing market and house construction activity, in some but not all cities
- Improved confidence (largely in response to improved political stability and leadership).

**Chart 3: Australian PMI®, Australian PSI®, Australian PCI®, to Sep 2015**



### Impact of the Australian dollar on manufacturing

Ai Group research conducted over a number of years (through our annual *CEO Business Prospects* survey and report series) indicates that among Australian manufacturers:

- Around 2/3 can compete against imports in Australia and/or compete in global export markets when the Australian dollar trades between 81 and 90 US cents; and
- Around 95% can compete against imports in Australia and/or compete in global export markets when the Australian dollar trades between 71 and 80 US cents (see chart 4).

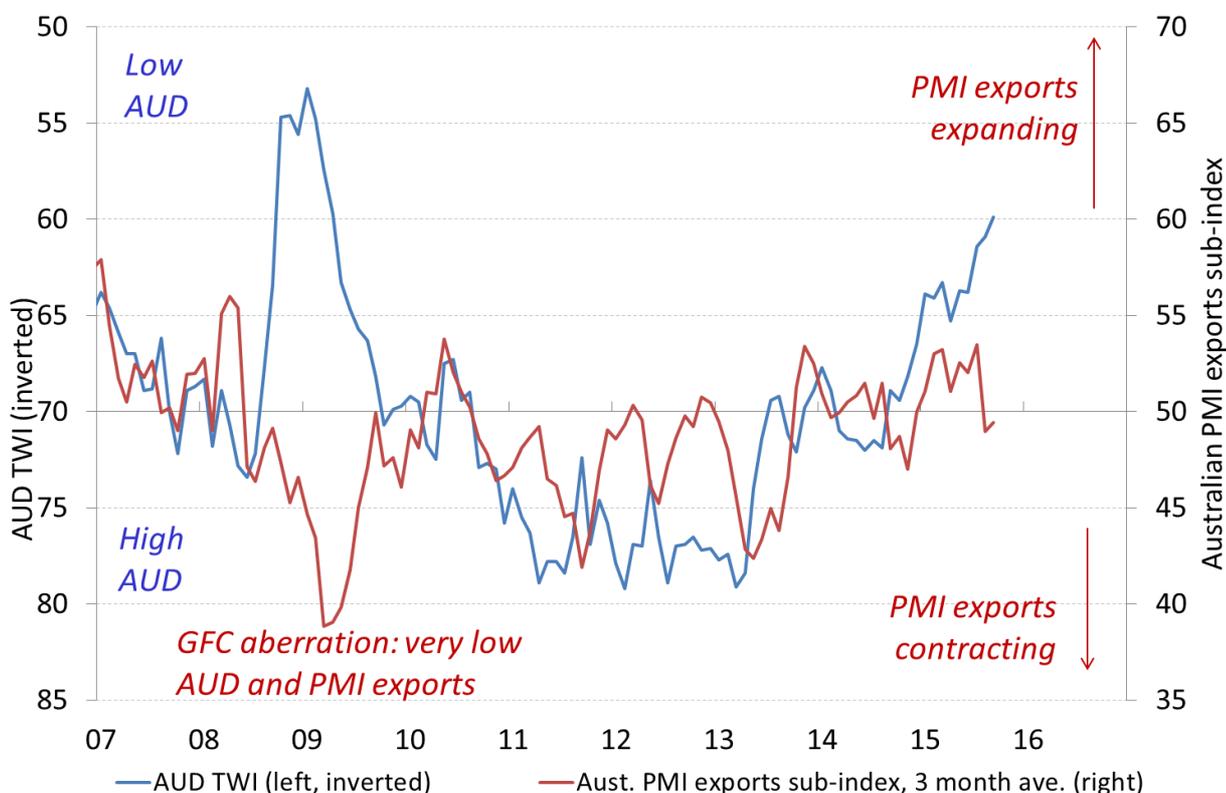
This suggests that the vast majority would feel very comfortable with the current trading range for the Australian dollar, of around 70-72 US cents. This is showing up in better results for the Australian PMI and especially its exports sub-index in recent months (see chart 5).

The flipside of this improved pricing competitiveness however, is that all imported inputs are more expensive in Australian dollar terms, as the Australian dollar falls. This can raise the production costs of local manufacturers, to the extent that their imported inputs are now more expensive. This is being offset in many instances by large falls in metals and other global bulk commodity prices. These cost increases can be difficult to pass on to customers in the current highly competitive, low-inflation retail environment. So they may be eating into margins instead.

**Chart 4: AUD tolerance: manufacturing businesses that can remain competitive at each AUD/USD trading range, (cumulative per cent of businesses), 2013 to 2015\***

Trading range for AUD/USD:	Competitive in export markets			Competitive against imports		
	2015	2014	2011	2015	2014	2011
0.50-0.60	100	100	100	100	100	100
<b>0.61-0.70</b>	<b>98</b>	97	95	<b>98</b>	94	91
<b>0.71-0.80</b>	<b>94</b>	95	93	<b>94</b>	92	74
0.81-0.90	63	76	67	66	75	45
0.91- 1.00	29	37	35	24	43	19

**Chart 5: AUD TWI and the Australian PMI® exports sub-index**

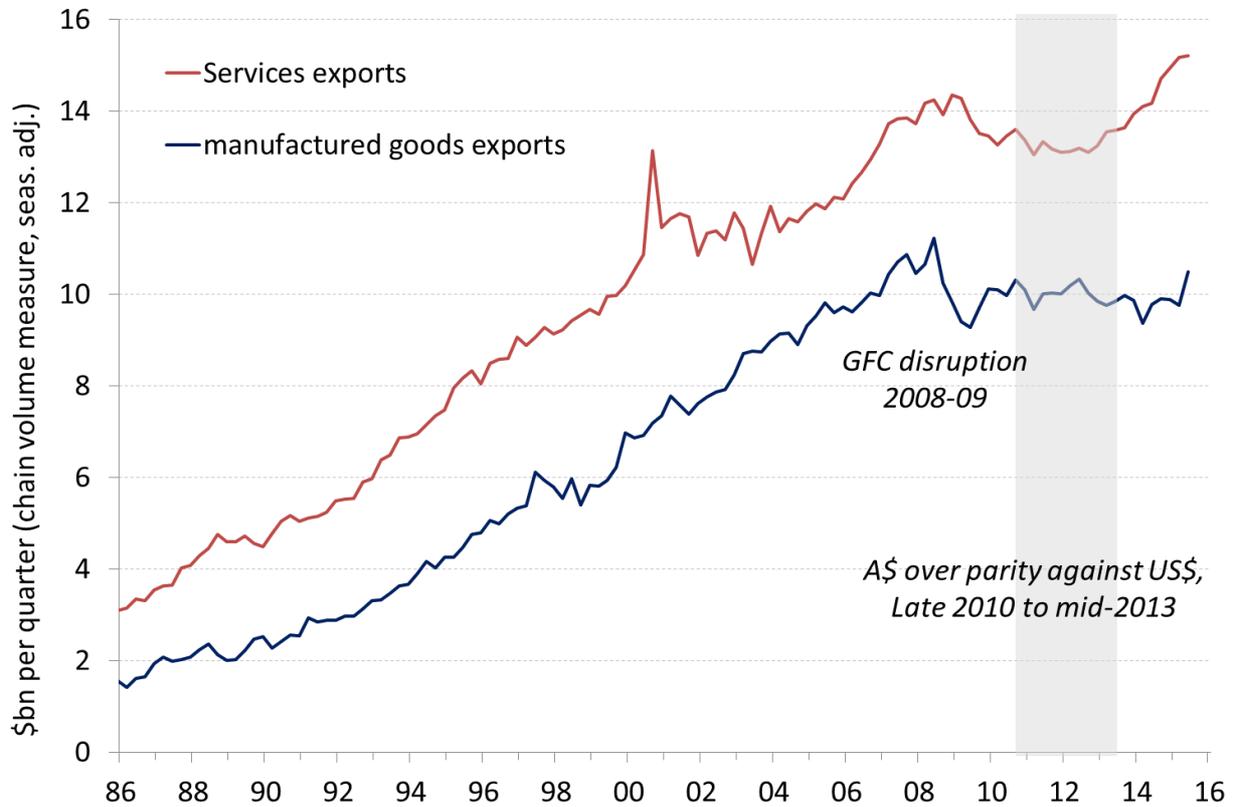


**Impact of the Australian dollar on exports of goods and services**

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The benefits of the lower Australian dollar are becoming increasingly evident in Australian trade statistics for goods and services (that is, for exports and imports other than resources and rural products). As of June 2015, the volume of services exports had reached a record high, while the volume of manufactured goods exports had reached its highest level since 2008 (see chart 6).

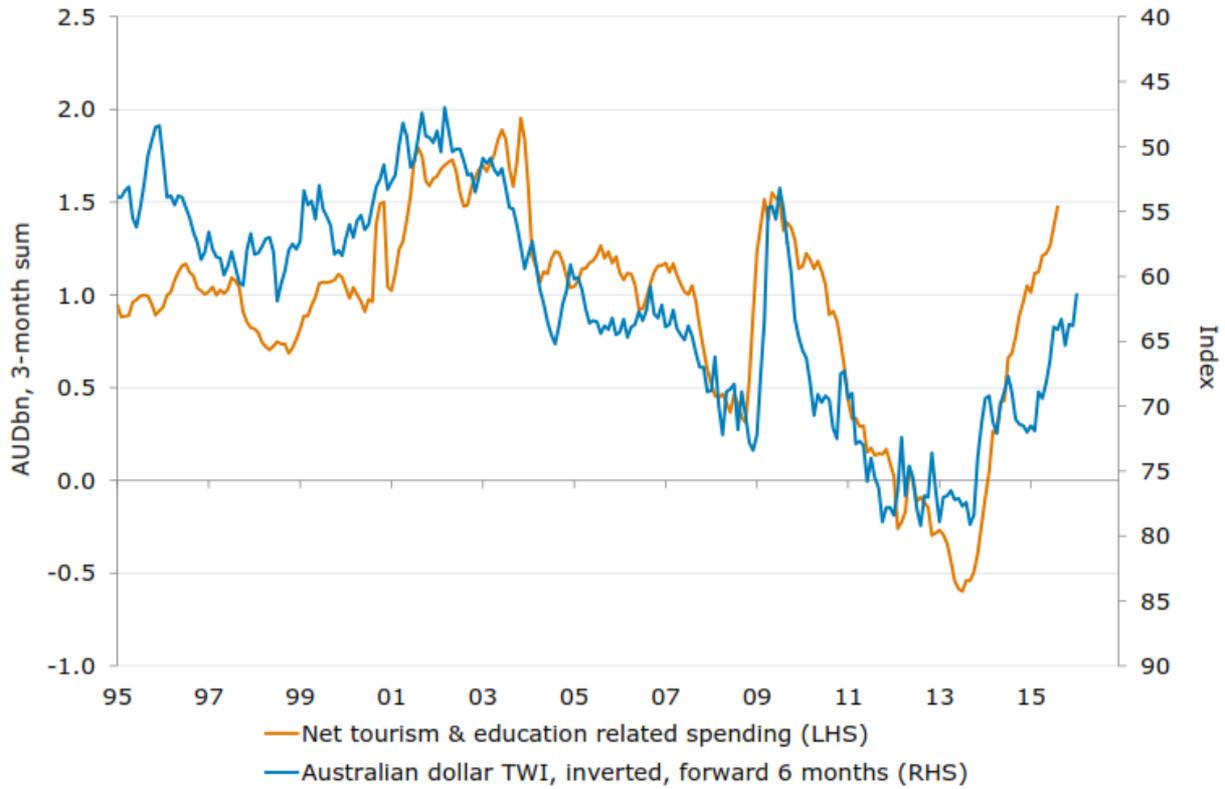
**Chart 6: Australian export volumes per Qtr, to Q2 2015**



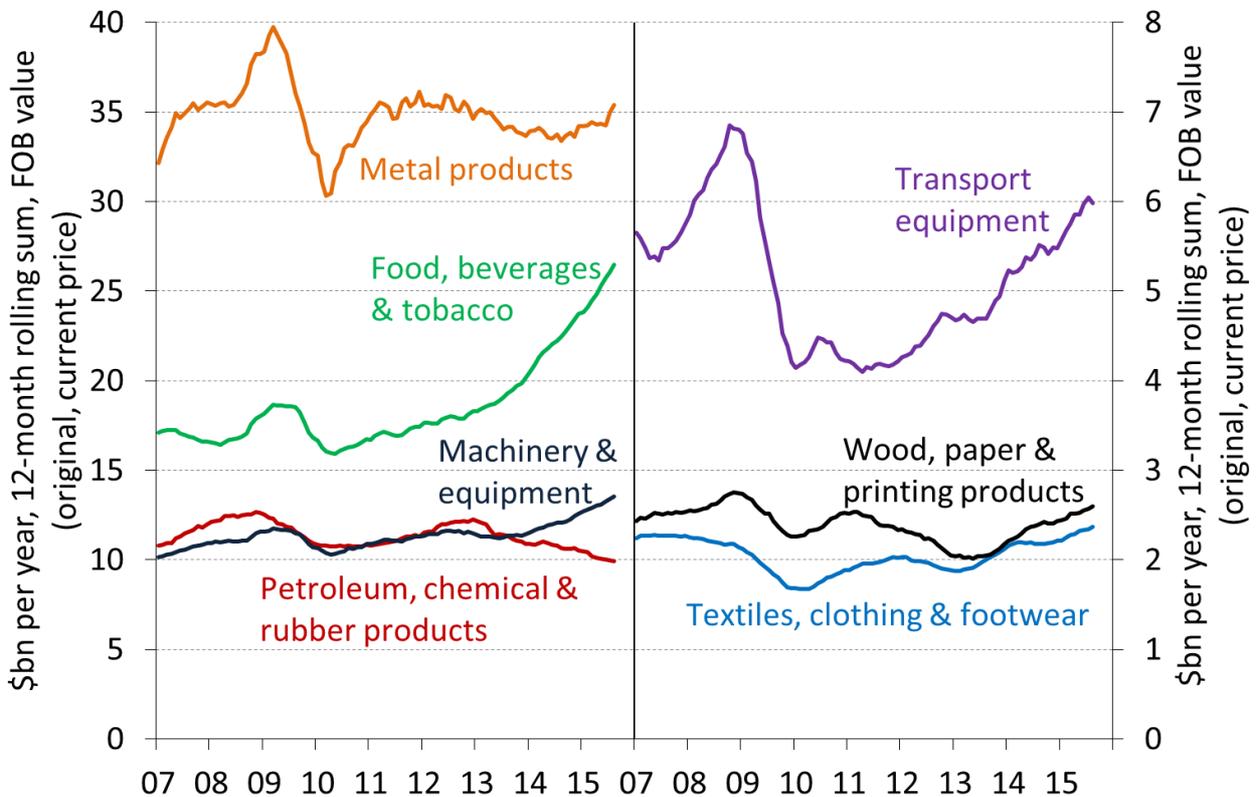
On the services side, the largest categories for export earnings are education services and tourism services. Other services exports come from transport, professional services, personal services and arts and recreational services. Growth rates in these types of services exports has picked up in direct response to the fall in the Australian dollar, with a time lag of around 6 months, reflecting the time it takes for international visitors and students to adjust their travel and spending intentions in favour of Australia (see chart 7).

With regard to manufactured goods exports, the single largest category of exports remains 'metal products', but the best growth in export volumes has been in food and beverages. Most other categories of manufactured goods exports have also experienced recovery or have at least held steady in 2014 and 2015 (see chart 8).

**Chart 7: Australian export earnings, net tourism and education services**



**Chart 8: Manufactured goods exports by sector, annual value**



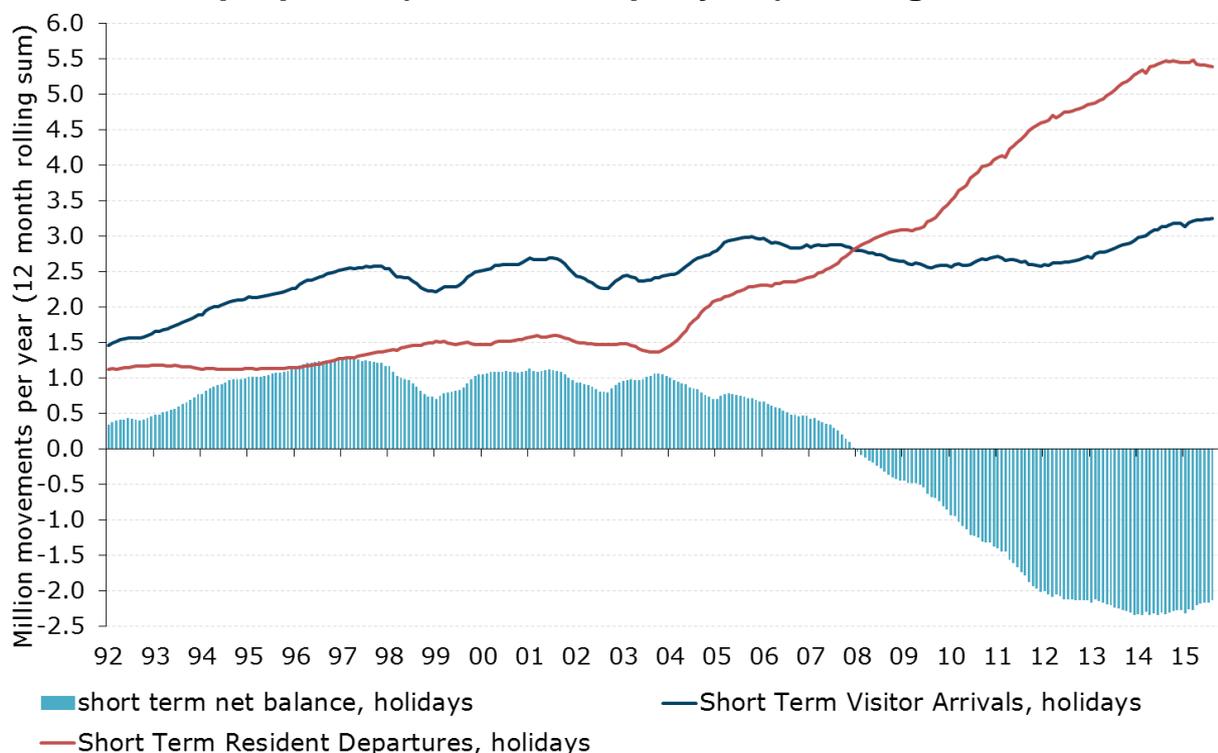
**Impact of the Australian dollar on imports of goods and services**

It can be harder to identify and quantify the benefits of the lower Australian dollar on import replacements. That is, the share of local sales that Australian companies are able to ‘win back’

from their international competitors as a direct result of the lower dollar.

One clue comes from changes in arrivals and departures from Australia for holiday purposes. These movements are important because they indicate the locations in which people are choosing to spend their discretionary dollars (on personal items, hospitality, entertainment and other holiday-related goods and services): do they spend their holiday time and money here or overseas? Since 2008, Australia has experienced a growing 'holiday deficit', with rapidly growing numbers of Australian residents departing for holidays overseas (peaking at 5.5 million departures for holiday purposes in 2014) but flat or slow growth in holiday visitor arrivals (about 3 million in 2014). In 2015, the lower dollar seems to be encouraging some turning points in this trend, with resident departures starting to gently fall and visitor arrivals lifting (see chart 9). This is providing a boost to discretionary spending on local tourism, hospitality and retail services.

**Chart 9: Short-term visitor arrivals and resident departures for holiday purposes (movements per year), to Aug 2015**



## **Australian performance in the *WEF Global Competitiveness Report, 2015-16***

The trading range of the Australian dollar is not the only factor affecting Australian businesses' competitiveness with regard to international trade in goods and services. A range of other factors and considerations will always be at play, depending on the type of products and the markets concerned.

The annual World Economic Forum's *Global Competitiveness Report* provides a valuable insight into Australia's relative performance across a wide range of competitiveness indicators. Ai Group is the WEF's Australian research partner in producing this series each year.

In the WEF *Global Competitiveness Report* for 2015-16, Australia's overall business competitiveness improved, with Australia moving up one place to 21<sup>st</sup> most competitive economy. This is a touch better than last year (22<sup>nd</sup> place), but still ranks us lower than in 2009-10 (15<sup>th</sup> place), which was roughly equal with the global ranking of our economy by size.

The WEF data provides detailed information on our strengths and weaknesses, and helps to pinpoint where we should focus our efforts to improve our global competitiveness. In 2015-16, our strengths included the stability and security of our banks and financial markets; our general standards of health and education; and the quality of our physical infrastructure and our legal and political institutions. Our weaknesses were centred around problems with labour relations; with goods market efficiencies; and with our general standard of business sophistication, innovation and technological abilities (see chart 10).

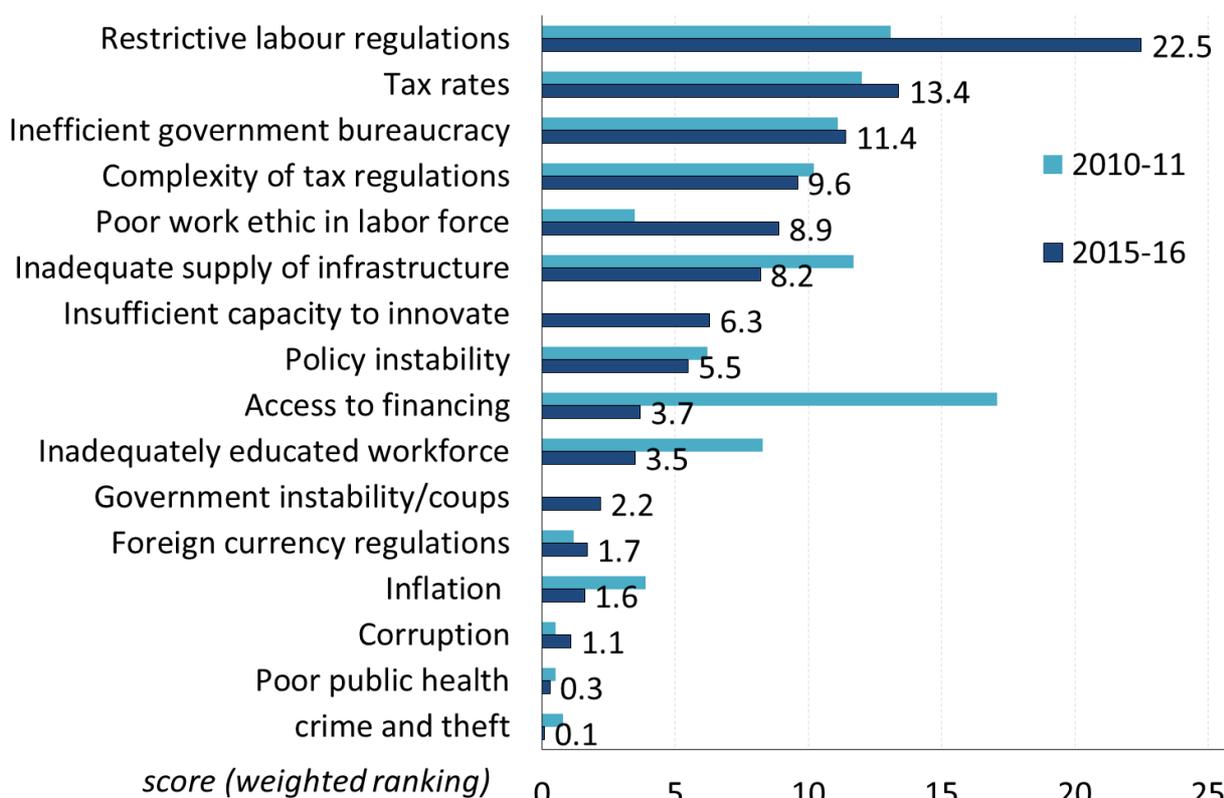
When asked about the 'most problematic factors for doing business in Australia', CEOs globally nominated labour regulations and tax regulations as the biggest barriers (see chart 11). Government bureaucracy and red tape, as well as a 'poor work ethic' were also identified as issues for Australia to address. Concerns about Australian labour relations arose from: cooperation in the workplace; pay and productivity; redundancy costs; and wage and hiring flexibilities (see chart 12).

The global leaders in the WEF *Global Competitiveness* series provide a good illustration of 'best practice'. The top economies are Switzerland, Singapore, the US, Germany, Japan and other advanced north European and Asian economies. They are by no means the cheapest places globally to make or trade anything. This underscores the fact that 'global competitiveness' is not about being the cheapest production location. Instead, it is about being the most innovative, efficient, flexible and creative economy, in trade and in production (see chart 13). Achieving success in these elements requires active participation, cooperation and collaboration between businesses, governments, workers, communities, universities and other relevant stakeholders.

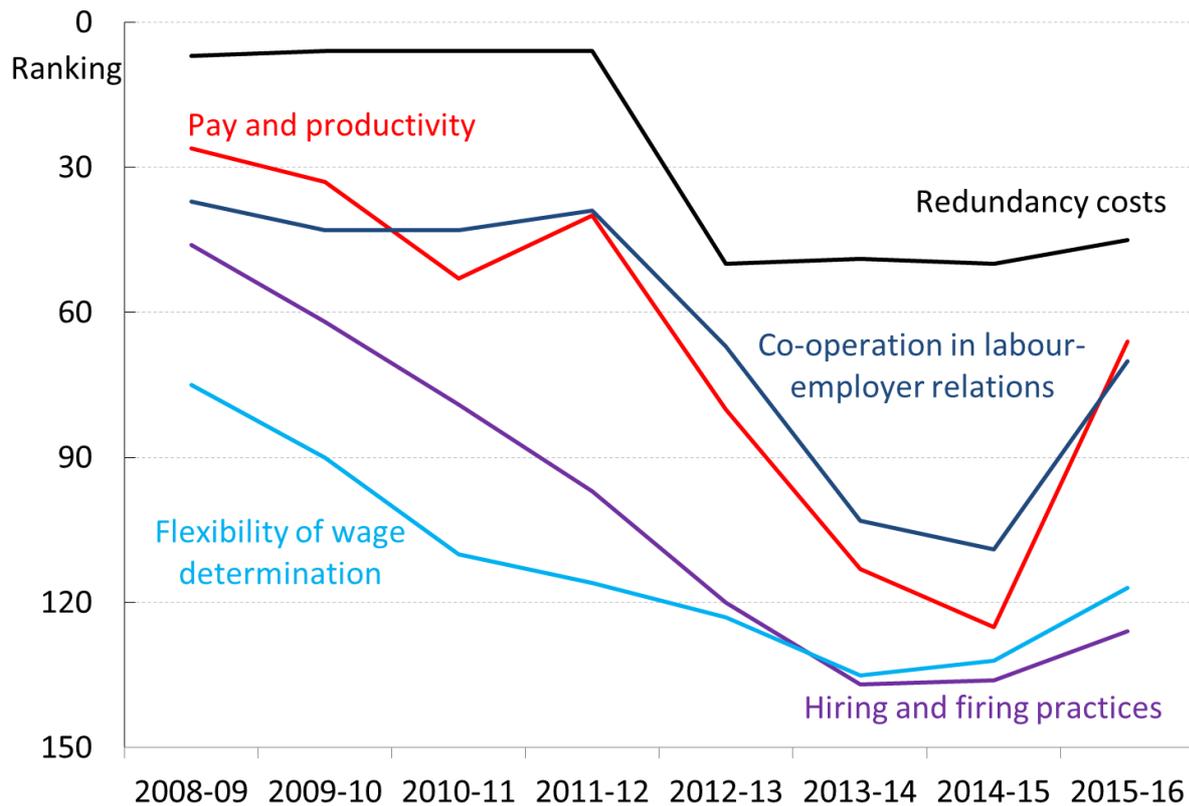
**Chart 10: Australian rankings in the WEF *Global Competitiveness Report*, 2015-16**

<b>BEST INDICATORS (strengths)</b>	<b>rank</b>	<b>WORST INDICATORS (weaknesses)</b>	<b>rank</b>
Financial markets	7	Labour market efficiency	36
Higher education	8	Goods market efficiency	27
Primary education	9	Business sophistication	27
Population health	9	Innovation	23
Infrastructure	16	Market size	22
Institutions	19	Technological readiness	21

**Chart 11: Australia’s ‘most problematic factors for doing business’, 2010-11 and 2015-16**



**Chart 12: Australia's labour market rankings, 2015-16**



**Chart 13: the WEF Global Competitiveness Leaders, 2015-16**

GCI Rank, 2015-16	Country (GCI rank in 2014-15)	Basic requirements*	Efficiency enhancers#	Innovation and sophistication**
1	Switzerland (1)	2	4	1
2	Singapore (2)	1	2	11
3	United States (3)	30	1	4
4	Germany (5)	8	10	3
5	Netherlands (8)	7	9	6
6	Japan (6)	24	8	2
7	Hong Kong (7)	3	3	23
8	Finland (4)	11	13	5
9	Sweden (10)	13	12	7
10	United Kingdom (9)	25	5	9

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### Useful links and documents

Ai Group monthly performance indexes <http://www.aigroup.com.au/economicindicators>

Ai Group *Economics Weekly* (and email subscription service for our *Economics Weekly*)  
<http://www.aigroup.com.au/portal/site/aig/weeklyreports/>

Ai Group economics Fact Sheets

<http://www.aigroup.com.au/portal/site/aig/economicfactsheets/>

Ai Group *Australian performance in the WEF Global Competitiveness Report, 2015-16*

[http://www.aigroup.com.au/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/LIVE\\_CONTENT/Publications/Reports/2015/GCR%2520Aust%2520summary%25202015-16%2520final.pdf](http://www.aigroup.com.au/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/LIVE_CONTENT/Publications/Reports/2015/GCR%2520Aust%2520summary%25202015-16%2520final.pdf)

ABS 5368.0 *International trade in goods and services, current prices* (monthly)

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5368.0Main+Features1Aug%202015?OpenDocument>

ABS 5302.0 *Balance of Payments and International Investment Position* (quarterly)

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5302.0Main+Features1Jun%202015?OpenDocument>

ABS 5206.0 *Australian National Accounts* (quarterly)

<http://www.abs.gov.au/ausstats/abs@.nsf/mf/5206.0/>

RBA Australian dollar (daily) <http://www.rba.gov.au/>

RBA Statement on Monetary Policy (quarterly)

<http://www.rba.gov.au/publications/smp/index.html>

WEF Global Competitiveness Report, 2015-16 (annual)

[http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2015-16.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2015-16.pdf)

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