Down Under

A closer look at Australia's economy

By Afonso Vieira
MD & Head of Investment Management at TWM

Looking at Australia's economy, you couldn't tell there was a worldwide recession. In the plague years of 2008 and 2009, Australian real GDP grew by 2.6% and 1.3%, respectively, thanks in no small part to its proximity to China and India. Australia is a direct beneficiary of a shopping spree. China, particularly, it buys 53% of the world's cement, 48% of its iron ore, 47% of its coal, 45% of its steel and so on. The two key export earners for Australia are iron ore and coal, and the prices of these commodities have increased over the past decade.

You would expect that Australia, with its huge mineral resources, would be an export-dependent economy. But net exports contributed a mere 1.1% to GDP in 2010. In fact, Australia ran trade deficits in most of the calendar quarters since 2000. So the impact on the economy is not exports per se, but, rather in mining investment. BHP, Rio Tinto and other mining companies, are flush with funds and are expanding facilities. According to the Australian Bureau of Agricultural and Resource Economics and Sciences the value of mining investment as a share of GDP has increased from 2% in 2002 to 13% in 2010. And companies plan for that to double in the next five years. Sitting where the Aussies sit, nothing could seem more reasonable. Unreason-able to them is the skepticism of the people who fail to grasp the significance of the transformation of India and China.

"Aussies are now borrowing like Americans. The Australian household debt to disposable-income is now close to 160%, ten years ago it was below 110%."

Suddenly, two billion people demand with the capacity to buy coal and iron ore. And everybody seems optimistic. Aussies are now borrowing like Americans. The Australian household debt to disposable-income is now close to 160%, ten years ago it was below 110%.

This picture would change in a flash if China tripped or if Australia took an autonomous spill (Australia has borne not one year of GDP shrinkage since 1991). Nothing is so unstable as stability.