The rush that never ended.....exports, exchange rates and the Gregory effect

The Airport Economist
Tim Harcourt, Chief Economist, Australian Trade Commission

The last few years has been a dramatic time to observe the global economy.....
The world witnessed one of the most drastic collapses in trade in economic history.

Australia’s economic performance was a standout.
Australia’s labour market has a great story to tell….

By contrast, workers in the north atlantic economies have been hit very hard.
Why did an advanced Australia fare so well?

The great trade reforms of the past 25 years gave us a good base to withstand the GFC.
Trade has been associated with higher living standards

Given the GFC and the ‘recession porn’ faced, our exporters were the ‘true believers’
They kept the faith – particularly in Asia and the emerging markets

Australia’s attitude towards Asia: ‘Once were worriers’ because of ‘The Tyranny of Distance’
We are now in the right place at the right time: ‘The Tyranny of Distance’ has been replaced by ‘The Power of Proximity’

Japan’s economic development has partially driven Australia’s export growth in the past
Now it will be China and India and the emerging markets who will drive much of our export growth in the 21st century.
To stimulate or not to stimulate: some fiscal packages have been effective – ‘bamboo shoots’ as much as ‘green shoots’.

With a little bit of help from my assigned translator.
Sent airborne by Australia’s first female Prime Minister

Urbanisation rates in China and India are playing a role

[Graph showing urbanisation rates in China and India from 1978 to 2008]
Looking west, there’s room to grow income-wise

China – Regional Income Levels
Per cent of nationwide average in 2008

Source: CEIC

Shipping Steel: industrialisation is driving demand

Steel Consumption

Sources: ASARE; World Steel
There’s a long way to go in food consumption too

India has traditionally lagged China in the great export stakes
India has shot up like a 2020 game

Gilly is going into bat for the ‘Gong’
Chindia as well as ASEAN are doing their bit

Graph showing world output with a focus on China, India, ASEAN, and other regions.

ASEAN is the chart buster in terms of exporting

<table>
<thead>
<tr>
<th>Country</th>
<th>Export Share</th>
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</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>34%</td>
</tr>
<tr>
<td>United States</td>
<td>29%</td>
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<tr>
<td>United Kingdom</td>
<td>28%</td>
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<tr>
<td>Net ASEAN</td>
<td>20%</td>
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<tr>
<td>China</td>
<td>13%</td>
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<tr>
<td>Hong Kong</td>
<td>11%</td>
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<tr>
<td>South Africa</td>
<td>10%</td>
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<tr>
<td>Japan</td>
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<tr>
<td>Malaysia</td>
<td>8%</td>
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<tr>
<td>Phillipines</td>
<td>8%</td>
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<tr>
<td>Singapore</td>
<td>7%</td>
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</tbody>
</table>
The rush that never ended?

Resources exports are being boosted by commodity price rises.
Non-resources sectors have a good story to tell in terms of export volumes

Employment growth is well spread across industry sectors
Yes Virginia, the exchange rate matters

- Exchange rates: 73%
- Global financial crisis: 71%
- Cost of raw materials: 20%
- Oil/Fuel prices: 18%
- Cost of credit/trade finance: 17%
- Capacity constraints: 15%
- Restrictions to trade: 14%
- Political conditions abroad: 14%
- Interest rates: 13%
- Labour issues: 13%
- Health issues (eg. swine flu): 7%
- Natural disasters: 4%
- Other: 5%
- No negative impacts: 1%

But the float did its job in the GFC.....like it did in the AFC

- Associated stimulus packages: 10%
- Exchanges rates: 34%
- Global stimulus packages (China, Thailand, UK, USA etc.): 18%
- Interest rates: 16%
- Oil prices: 8%
- Other: 5%
- None: 26%
Recently, the southern states and tourism have been the most affected.

**Exchange rates**

- **% negatively affected by exchange rates in the last 12 months**
  - Location: NSW/ACT 69%, Victoria 81%, Queensland 70%, South Australia 82%, Western Australia 65%
  - Industry: Agriculture 76%, Manufacturing 77%, Mining 60%, Tourism 79%, Services 61%

Victoria and Tasmania exporters are significantly more likely than other states to have been affected by exchange rates.

Exporters in the mining and services sectors are significantly less likely to have had their sales negatively affected by exchange rates compared to exporters in other sectors.

- Statistically significantly higher result
- Statistically significantly lower result

The exchange rate mainly affects profit & revenue

- **Has The Exchange Rate Affected Your ...**
  - Profit: 83%, Sales Revenue: 75%, Prices: 67%, Costs: 44%, Future Investment/ Business plans: 36%, Output: 36%

- 20% of all exporters have had to halt or alter their future investment plans due to unfavourable movements in the exchange rate.

**Exchange rate has affected ...**

- **Future investment/ business plans**
  - 20%

(Base = ALL exporters)
Almost 40 per cent of exporters import simultaneously

As good as it gets? The terms of trade are at an historic high
Taking a walk on the supply side: the role of capacity constraints

Labour Productivity
Market sector, 1980 = 100, log scale

United States
Australia

Sources: ABS; Thomson Reuters

Many experienced exporters have survived crises before

Bar chart showing percentage of companies by experience:
- 7%
- 21%
- 16%
- 20%
- 80%

up to 5 years
5 to 9 years
10 to 14 years
15 to 19 years
20+ years
But the baby-boomers will be sea-changing, tree changing and...cool changing...
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