

Country Insight Snapshot

Australia

February 2019





OVERVIEW

OVERALL COUNTRY RISK RATING: DB2c

Low risk: Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns in future.

G

Rating Outlook: Stable

CORE OUTLOOK

- + Australia is well placed to benefit from Asian demand and the expanding middle class.
- + Expect population ageing to be more moderate than in European countries.
- The long-term economic trajectory of productivity and growth will depend on demand for energy and mineral exports.
- Australian households remain among the highest-leveraged in the world, elevating financial stability risks.
- US tariffs on foreign steel and aluminium imports will affect Australia's domestic extraction industries and commodity exports.

KEY DEVELOPMENT

Slower Chinese growth may have far-reaching implications for the Australian economy, with impacts on both the exports of services and commodities, as well as on the local currency.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

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Trend: Stable

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

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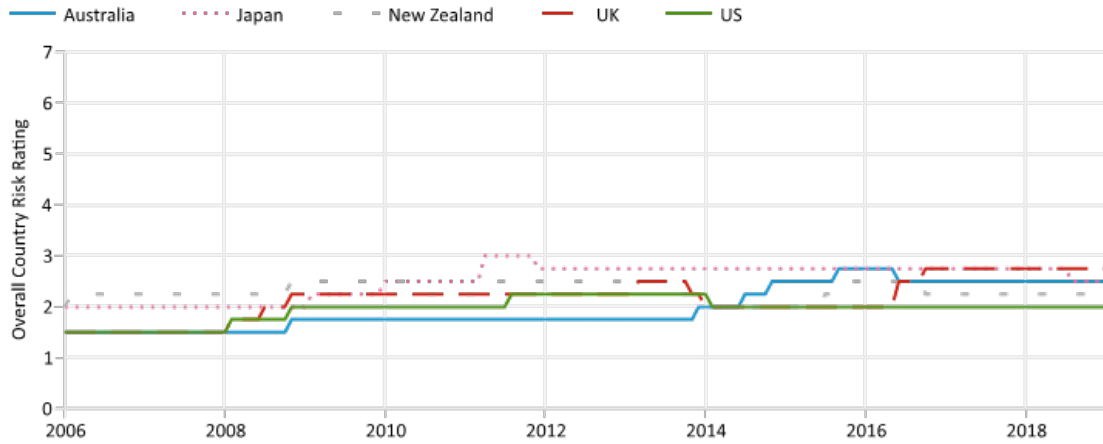
Trend: Stable

Key Development has had a negative impact on the outlook.



KEY INDICATORS

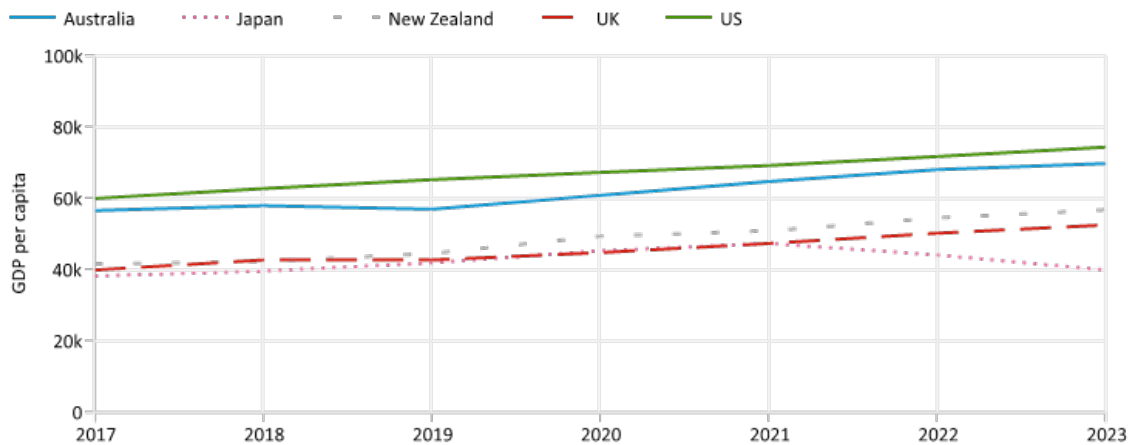
Rating History and Comparison



Source : Dun & Bradstreet

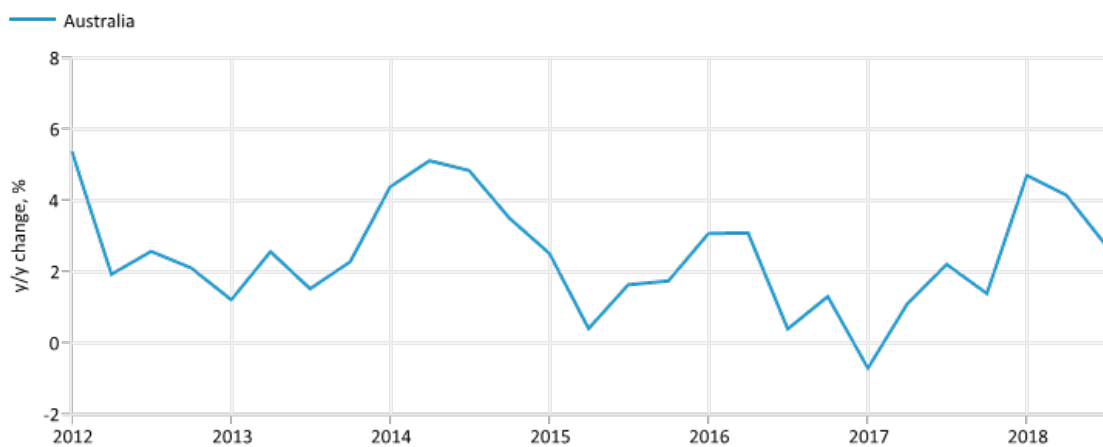
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	-3.3	-2.6	-1.5	-1.6	-1.7	-2.1	-1.6	-1.8
Govt balance, % GDP	-2.1	-1.3	-0.9	-0.2	0.3	0.7	0.5	0.1
Inflation, annual avge %	1.3	1.9	2.1	2.3	1.9	1.8	1.5	1.7
Real GDP Growth, %	2.8	2.4	2.8	2.5	2.0	2.0	2.5	2.4
Unemployment, %	5.8	5.6	5.0	5.0	5.3	5.5	5.5	5.5

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

According to Illion's Q1 *Business Expectations Survey*, optimism in Australia has fallen to the lowest level in seven quarters. Downward turns in all subcomponents, such as expectations in sales, profit, and employment and investment, echo the widespread uncertainty of Australian businesses. Impending recommendations regarding the royal banking inquiry and the likely-resulting regulations are creating some uncertainty for businesses. Additionally, cash flow issues are registering as a top concern facing businesses, especially within the construction segment - possibly indicating fewer upcoming building projects. Weaker sentiment matches our forecast for real GDP to slow from an estimated 2.8% growth in 2018, to 2.5% growth in 2019.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: OA

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: SD

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-60 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-1 month

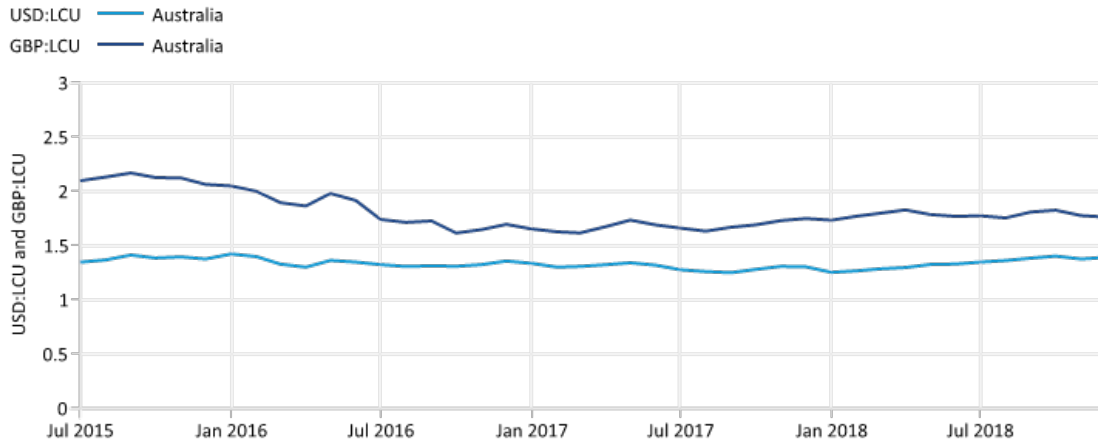
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



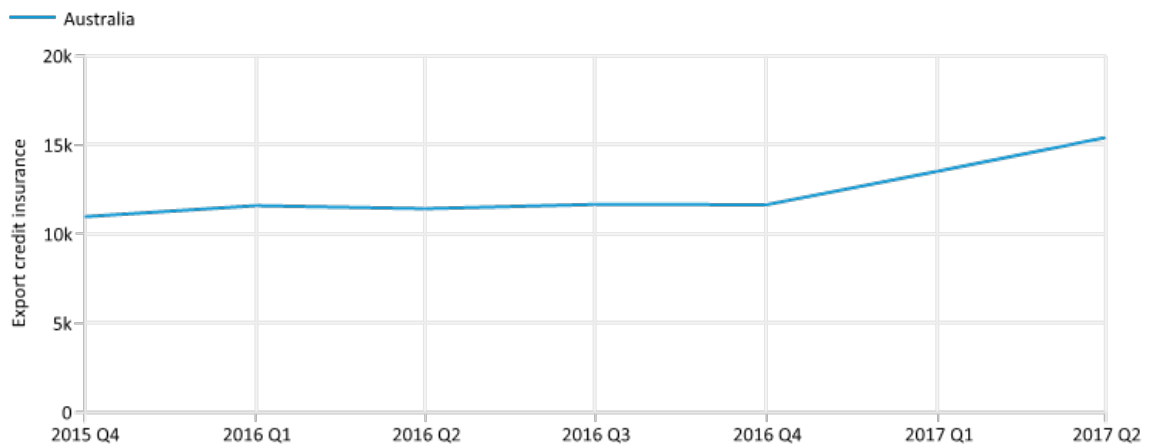
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Australian dollar

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm; increase going into 2017 is partly due to methodology changes.



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Australian growth vulnerabilities rising

Last month, Dun & Bradstreet downgraded the country risk rating of Australia's largest export market, China, from DB4b to DB4c, given multiple signals of an economic slowdown, while maintaining a deteriorating outlook. Specific segments of China's economy - including the industrial sector - are likely to already be in recession, which will have negative effects on Australia's primary resource extraction industries. Exports of metalliferous ores and scrap metal and coal, coke and briquettes remain above trend due to ongoing support from China, but will likely weaken because of slower Chinese growth. These commodities represent nearly half the value of Australia's export basket - with the contribution of these commodities nearly doubling in size over the last two decades. The high dependence on China for the export growth of commodities as well as through tourist arrivals, has aided Australia in its record 27-year run of growth. However, the two economies - for better or worse - have become increasingly intertwined.

Both the magnitude and impact of Chinese investor influence on Australia's real estate market has been displayed in various forms over the past few years. Chinese demand for properties in Sydney increased annual home price growth by over 20%. The Australian government attempted to reduce demand from China through a foreign home-buyer tax which helped to moderately slow both the price appreciation and some investor appetite, but Chinese demand has kept residential prices buoyed. Over the last couple of quarters, as the Chinese economy has slowed, the Chinese government has directed money back to shore up the economy; with Australian home prices cratering as a result. Weakness in China's economy will increase pressure on domestic sources for growth, but with historically-low savings rates in Australia, aggregate economic growth is expected to weaken.

FX Risk

Local currency to remain volatile

Given the country's dependence upon China for economic growth, the Australian dollar will become increasingly sensitive to swings in China's economy. The Australian dollar has been on a weakening bias for quite some time, declining nearly 10 cents - or about 11.1% - against the USD compared to the same time in the previous year at the time of writing. With the expectation that the cash rate will remain at its current rate - with chances of any move being to the downside - expect the dollar to weaken further.

Transfer Risk

Banking misconduct inquiry to publish new recommendations

Risks are rising in the country's credit markets as the final recommendations in Australia's inquiry into banking misconduct are set to be released. Tighter regulations to improve business culture and behaviour could lead to a scaling back in the once-profitable areas of financial institutions, especially in areas where banks excessively made credit available to borrowers. These tighter lending standards raises the risks of a credit crunch, at a time when total credit growth has slowed from previous years. A credit crunch would likely slow payment performance.



COUNTRY PROFILE AND STATISTICS

Overview

Australia is situated in the South Pacific; its closest neighbours include Indonesia, Papua New Guinea and New Zealand. It is a member of the British Commonwealth and the OECD. The economy has undergone considerable liberalisation in recent years and offers a conducive environment in which to do business.

Australia's population numbers around 23m and income levels are on a par with other developed economies. While the economy is diversified, mineral and agricultural commodities still play an important role in the country's export profile. This has helped the economy to enjoy a prolonged period of growth in recent years, and protected the country from the worst effects of the global slowdown in 2008-09, as demand from China was maintained. However, this has also contributed to the economy growing unevenly, complicating policy responses.

The political system is generally stable and policy risk is low, with broad policy agreement between the main parties. The bicameral parliamentary model helps to ensure a robust system of checks and balances, although an opposition-held Senate occasionally frustrates policy initiatives.

Key Facts

Key Fact	Detail
Head of government	Prime Minister Scott Morrison
Capital	Canberra
Timezone	GMT +10-00
Official language	English
Population (millions)	24.8
GDP (USD billions)	1,439.0
GDP per capita (USD)	58,090
Life expectancy (years)	82.8
Literacy (% of adult pop.)	99.9
Surface area (sq km)	7,741,220

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018e
Real GDP growth (%)	2.6	2.5	2.8	2.4	2.8
Nominal GDP in USDbn	1,458	1,235	1,268	1,386	1,439
Nominal GDP in local currency (bn)	1,615	1,641	1,704	1,808	1,924
GDP per Capita in USD	62,089	51,877	52,553	56,705	58,090
Population (year-end, m)	23.5	23.8	24.1	24.5	24.8
Exchange rate (yr avge, USD-LCU)	1.1	1.3	1.3	1.3	1.3
Current Account in USDbn	-45.4	-57.4	-41.2	-35.8	-21.6
Current Account (% of GDP)	-3.1	-4.6	-3.3	-2.6	-1.5
FX reserves (year-end, USDbn)	50.8	43.1	50.9	63.6	42.5
Import Cover (months)	2.0	1.9	2.4	2.8	2.2
Inflation (annual avge, %)	2.5	1.5	1.3	1.9	2.1
Govt Balance (% GDP)	-2.8	-2.2	-2.1	-1.3	-0.9

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	2.5	2.0	2.0	2.5	2.4
Nominal GDP in USDbn	1,387	1,493	1,602	1,698	1,754
Nominal GDP in local currency (bn)	1,969	2,016	2,083	2,208	2,298
GDP per Capita in USD	57,072	60,952	64,851	68,202	69,893
Population (year-end, m)	24.3	24.5	24.7	24.9	25.1
Exchange rate (yr avge, USD-LCU)	1.4	1.4	1.3	1.3	1.3
Current Account in USDbn	-22.2	-25.4	-33.6	-27.2	-31.6
Current Account (% of GDP)	-1.6	-1.7	-2.1	-1.6	-1.8
FX reserves (year-end, USDbn)	42.6	45.6	46.5	47.0	48.4
Import Cover (months)	2.2	2.3	2.1	2.3	2.3
Inflation (annual avge, %)	2.3	1.9	1.8	1.5	1.7
Govt Balance (% GDP)	-0.2	0.3	0.7	0.5	0.1

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Australia	Japan	NZ	UK	US
Income per Capita (USD)	57,072	42,002	44,650	42,827	65,372
Country Population (m)	24.3	125.0	4.8	67.0	329.1
Internet users (% of population)	88.2	92.0	88.5	94.8	76.2
Real GDP Growth (% p.a., 2019 - 2028)	0.9 - 3.3	-0.5 - 1.2	1.4 - 3.0	1.8 - 3.5	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



LINKS

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