

# Macroeconomics

**“An analysis of the key macro and micro economics factors which impact on the current Australian mining industry.”**

**Discuss and relate the above topic to some of the theories, model data or ideas introduced from any of the topics covered in ECON200.**

## **Table of Contents**

Introduction.....	3
Macro economic factors affecting Mining industry in Australia .....	3
Conclusion .....	5
References .....	6

## **Introduction**

Mining industry is the primary industry in Australia. It is one of the major contributors to the economic growth of Australia. The boom of the mining industry has encouraged the immigration to Australia (The Economist, 2007). There are different types of ores and minerals that are mined in the entire country. However the mining in Australia has led to severe impact on the environment and it has adversely affected some areas of Australia. Out of the total labor force in the country, the mining sector in Australia employs 2.2% of the total labor force in the country. In the year 2008, Australia became the third largest supplier of iron ore after China and Brazil (Abs.gov.au, 2015). The largest producer of Bauxite is Australia and it is the second largest producer of Gold after China. Every state of Australia is the producer of coal. Coal is used for the generation of electricity. More than 54% of the coal in Australia is exported.

## **Macro economic factors affecting Mining industry in Australia**

The mining industry in Australia experienced a revival in the year 2000s. But with the rapid growth and expansion of the developing economies, the mining industry in Australia developed to a considerable extent as there was rising demand for the resources in Australia (Treasury.gov.au, 2015). The Australian economy experienced mining boom aftermath the rise of the developing nations. The macro economic factors that affect the mining industry are as follows –

### **1. Employment:**

The mining boom has resulted in the growth of the economy in the past 10 years. The employment rate in the country has risen. The rate of unemployment reduced to a considerable extent. But in the recent times, the mining industry in Australia is affected by the carbon tax. Carbon tax has served as a threat to the prosperity of the mining industry in Australia. Previously the mining sector was one of the most performing sectors with rising profits and salaries of the employees. It contributed to one third of the economy of the country. The pressure set forth by

the Government has led to the fall of the rate of employment (Allard, 2015). The rate of employment is only 2% of the total work force in Australia and the mining sector has been ranked as the 15<sup>th</sup> most jobs creating sector in the country. The mining boom affected other sectors of the economy. It had severe impact on the tourism, manufacturing industry and the exporters (Rba.gov.au, 2015).

## **2. Fluctuation of exchange rate:**

The mining company in Australia is affected by the price and currency volatility in the country. The sector will take measures to ensure the equilibrium in the supply and demand. The demand of the commodities has been driven by China. The increase in the volatility of the price is due to the increase in the length of the lead times as a result of change in production which is leading to under correction and over correction of supply. The mining industry is implementing ways in which they can manage the volatility of prices. However, the risk of price volatility has been managed by short term price volatility (Australianminingreview.com.au, 2015).

## **3. Investment:**

According to the Minerals Council of Australia, the attractiveness of Australia as the chief mining destination has declined. The mineral exploration sector in Australia has been backed by the Government for a long period of time. However South Australia is the second best regions in the country that promotes mining. It is seen as the 19<sup>th</sup> most destinations for investment in Australia. The instability of the political condition of the country has discouraged the investment condition of the country. The mining industry was in a boom during the period of 2000 to 2004. But the present situation of the economy shows an end to the mining boom in the country. The non mining sectors of the country have been affected by the boom in the mining sector. The reports of the private capital expenditures show that the boom in the mining industry has come to an end. There has been considerable decline in the investment in the field of infrastructure and equipment (Lane, 2008). The investment in the field of plant and machinery has declined by 10.9%. There is considerable decline in the investment in the manufacturing sector. The decline has been by 6.9%. The growth in the investment in case of other industries has declined by 4.9%. However it is seen that the investment in the mining sector in Australia has risen by 1.5%

(Karunaratne, 2015). This is higher than expected mining investment for 2014-15. The development of the mining industry in Australia has played an important role in the dynamics of the economy in Australia for a period of 10 years. There has been rapid rise of the demand of coal and other ores in Australia. The supply could not match up to the demand of the commodities. There was increase in the price of the commodities during that period. The peak rise in the investment in the mining sector has slowed down in the year 2014 and 2015. The rise of the investment in the mining sector has been 8% of GDP (Statista, 2015). The peak in the mining sector is followed by the fall in the investment in the same sector (Jericho, 2014).

## **Conclusion**

Australia has seen a considerable boom in the mining sector for the past ten years. The high growth in the prices of the commodities had substantial impact on the economy in Australia. There has been rise in the global demand with the rapid rise of the developing countries. But the mining boom had come to an end. The macro economic factors has affected the fall in the mining boom. The rate of employment in the mining sector has been the highest. But with the decline of the mining boom there is considerable decline in the employment in the country. The expenditure and investment in the mining sector in Australia has declined considerably. It is seen that the growth of the mining industry in Australia has offset the other industries in the country. The tourism industry and the manufacturing industry were adversely affected by the mining boom.

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