Country Insight Snapshot

Australia

May 2021

Written 07 May 2021

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.
- Exposure to changing demand for upstream materials will significantly expose Australia's export basket to upcoming demand shocks.

KEY DEVELOPMENT

A strong improvement in profits among the 'Big 4' banks will aid both the short-term economic outlook and the market recovery, providing fuel for a credit boom for households.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

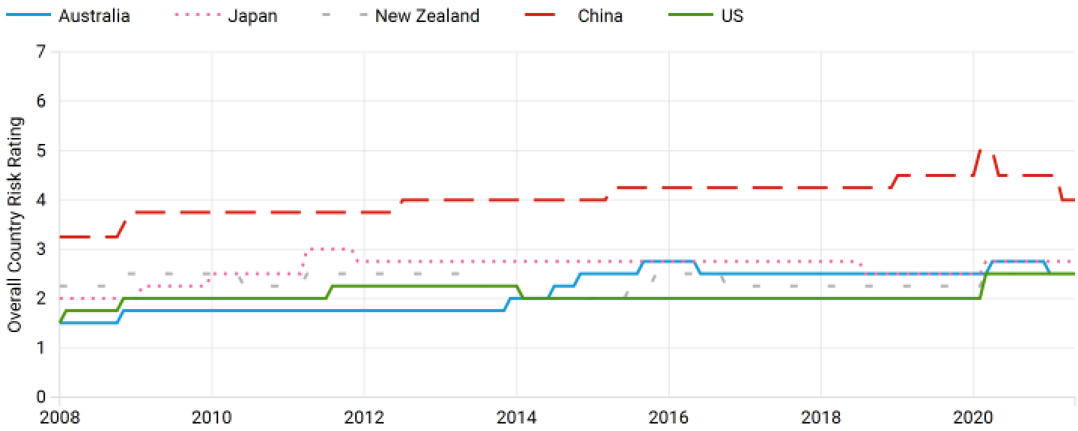
G

Trend: Stable

Key Development has had a neutral impact on the outlook.

KEY INDICATORS

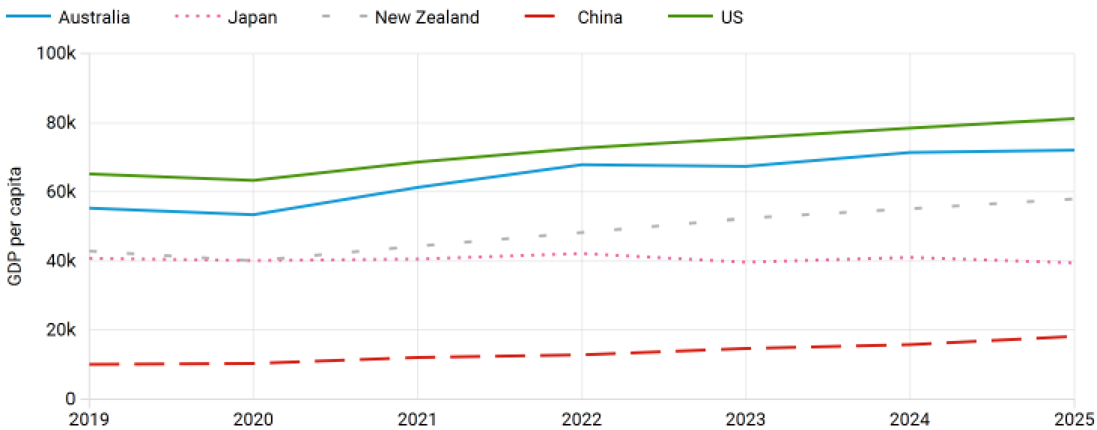
Rating History and Comparison



Source: Dun & Bradstreet

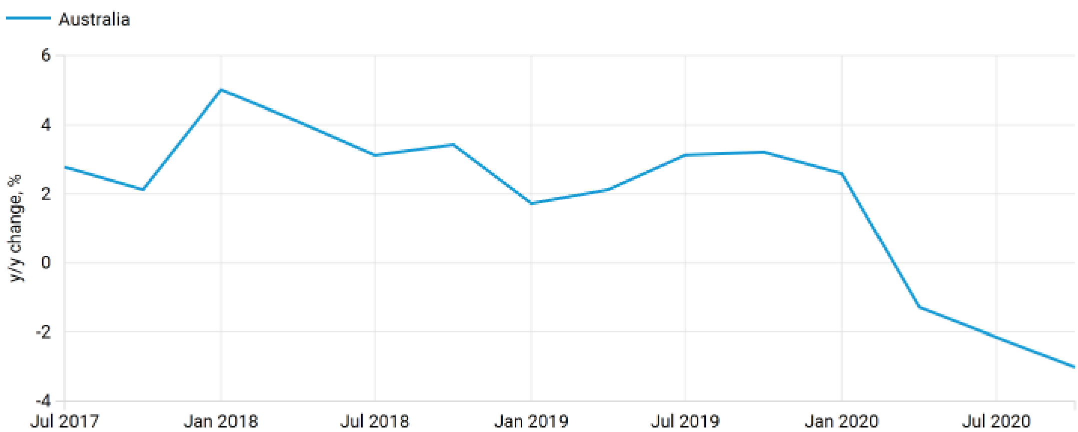
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet

Economic Indicators

Indicator	2018	2019	2020	2021f	2022f	2023f	2024f	2025f
C/A balance % GDP	-2.1	0.7	2.5	2.2	1.7	1.4	1.4	1.6
Govt balance, % GDP	0.5	0.1	-10.9	-6.5	-2.3	-1.0	-0.8	-1.0
Inflation, annual avge %	1.9	1.6	0.8	1.6	1.6	1.7	2.1	1.7
Real GDP Growth, %	2.9	1.9	-2.5	4.1	3.5	2.3	2.3	2.3
Unemployment (annual avge, %)	5.3	5.2	6.5	6.2	5.6	5.0	5.0	5.0

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

In 2020, inward FDI from China fell 61% y/y in 2020 following a 47% y/y decline in 2019. The declines reflect increased scrutiny that Chinese firms received amid new foreign investment laws that have targeted foreign investment. The change in flows represents a significant change in trend following Chinese investment entering nearly every sector in Australia since 2014. 10 Chinese investments have been blocked in Australia on national security grounds, including Belt and Road initiatives, and more are likely to come, with the possible termination of retroactive agreements including a lease at the Port of Darwin which is under review. The Port of Darwin provides Australia's agriculture and resource sector access to Chinese markets. While Chinese dependence on Australian resources remains strong, its agriculture sector could succumb to new tariff or non-tariff measures.

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.

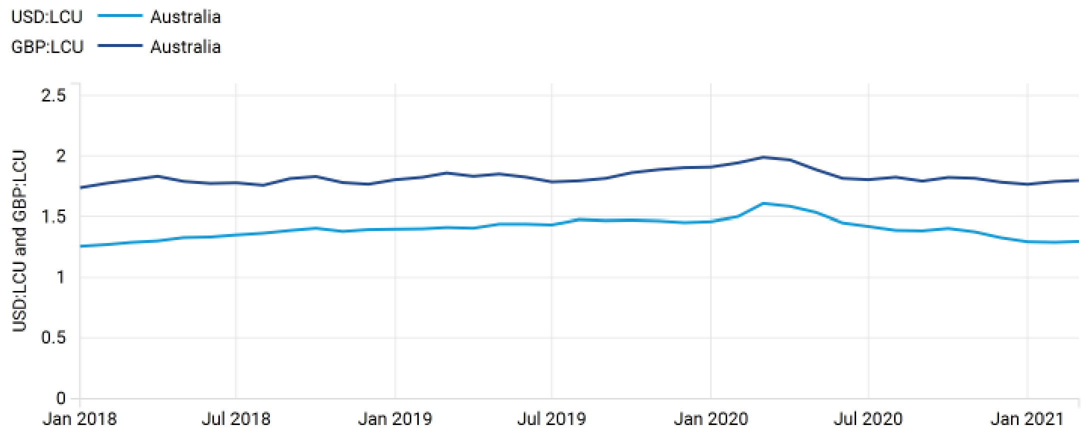
Local Delays: 1-3 month

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.

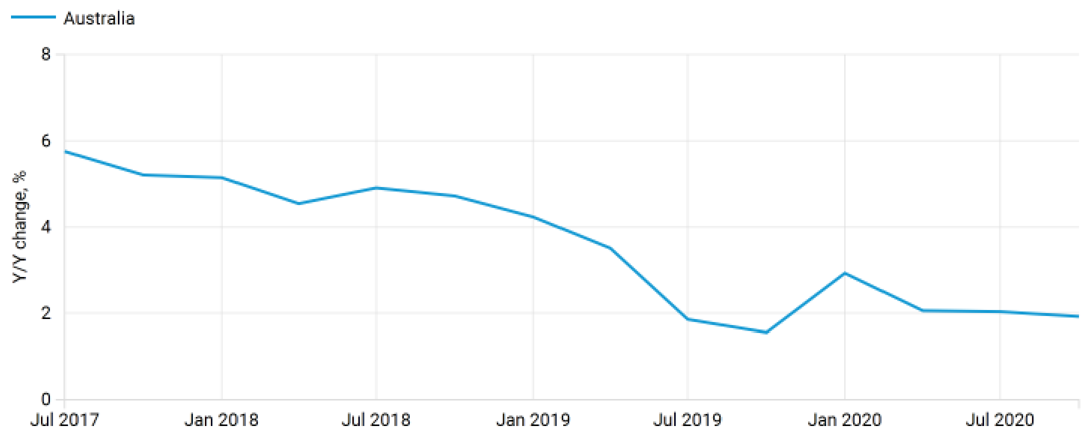
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Australian dollar

Bank Lending to the Private Sector



Source: IMF, Central Banks, Haver Analytics

RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Strong profit growth for major lenders will aid the market recovery

A large turnaround among Australia's 'Big 4' banks, which have received a recent ratings trend upgrade from Fitch and in which nearly all four banks will double to triple profits from the prior year, will help to power a market recovery through 2021. Rising profits and lower provisioning for bad debt among these lenders is a byproduct of the economic recovery, successful implementation of monetary and fiscal stimulus and effective business regulations. Credit risk turned out to be lower than initially forecast and prior funds set aside for loan provisioning can now be used to fuel a credit boom in household lending.

Australian banks will find profit opportunities within the housing market, a segment that is recording strong price growth and will grow in excess of 10% this year, with increased mortgage lending going to both owner occupiers and investors. Meanwhile, rising consumer sentiment according to Westpac and the Melbourne Institute Consumer Sentiment Index reached a near 11-year high in April, and that will create additional consumer credit demand.

The confluence of rising home prices and recovering capital markets has led to an acceleration in household net worth, which will support the purchase of household durable goods such as motor vehicles or household products such as home furnishings, where demand tends to correlate with home prices. Rising household net worth does typically bring about rising household debt and while that is beneficial to lenders, higher leverage can create longer-term stability risks, risks that are expected to rise amid the commitment by the Reserve Bank to a low cash rate until at least 2024.

Business Continuity

Establishment of 'travel bubble' will help the tourism industry

The accommodation and food services, transport and tourism support sectors will also receive a slight boost in activity following the establishment of a quarantine-free 'travel bubble' between Australia and New Zealand. Typically, short-term visitors from New Zealand represent about 15-18% of the annual arrivals and contribute about AUD2.6bn annually in expenditure while visiting much of the eastern part of the country. A relaxing of required quarantine rules for two-way travel will encourage some pick-up in activity and that will help the recovery in employment and gross operating surplus in accommodation and food services, which remain 78,900 employees and AUD2.1bn below the pre-pandemic peak respectively.

However, delays to the vaccine roll-out where enough doses were supposed to have been administered to 4.7% of the population in early May, below the US (38.8%), the UK (37.9%) and Canada (19.3%), poses a risk to the reopening.

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)	25.5
GDP (USD billions)	1,359.3
GDP per capita (USD)	53,307
Life expectancy (years)	83.2
Literacy (% of adult pop.)	99.9
Surface area (sq km)	7,741,220

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	2.7	2.4	2.9	1.9	-2.5
Nominal GDP in USDbn	1,266	1,386	1,421	1,392	1,359
Nominal GDP in local currency (bn)	1,702	1,807	1,900	2,001	1,969
GDP per Capita in USD	52,194	56,358	57,068	55,213	53,307
Population (year-end, m)	24.3	24.6	24.9	25.2	25.5
Exchange rate (yr avge, USD-LCU)	1.3	1.3	1.3	1.4	1.4
Current Account in USDbn	-41.5	-35.9	-29.9	9.2	33.9
Current Account (% of GDP)	-3.3	-2.6	-2.1	0.7	2.5
FX reserves (year-end, USDbn)	50.9	63.6	51.0	56.4	39.6
Import Cover (months)	2.3	2.6	2.0	2.3	1.9
Inflation (annual avge, %)	1.3	1.9	1.9	1.6	0.8
Govt Balance (% GDP)	-2.1	-1.0	0.5	0.1	-10.9

Source: Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2021f	2022f	2023f	2024f	2025f
Real GDP growth (%)	4.1	3.5	2.3	2.3	2.3
Nominal GDP in USDbn	1,513	1,689	1,690	1,805	1,835
Nominal GDP in local currency (bn)	2,058	2,162	2,248	2,347	2,441
GDP per Capita in USD	61,248	67,835	67,354	71,386	72,059
Population (year-end, m)	24.7	24.9	25.1	25.3	25.5
Exchange rate (yr avge, USD-LCU)	1.4	1.3	1.3	1.3	1.3
Current Account in USDbn	33.9	28.7	23.1	25.4	29.0
Current Account (% of GDP)	2.2	1.7	1.4	1.4	1.6
FX reserves (year-end, USDbn)	41.2	41.6	42.9	44.2	45.5
Import Cover (months)	1.9	1.7	1.6	1.6	1.5
Inflation (annual avge, %)	1.6	1.6	1.7	2.1	1.7
Govt Balance (% GDP)	-6.5	-2.3	-1.0	-0.8	-1.0

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Australia	Japan	NZ	UK	US
Income per Capita (USD)	61,248	40,564	44,320	45,995	68,606
Country Population (m)	24.7	125.5	4.9	68.2	332.9
Internet users (% of population)	86.5	84.6	90.8	94.9	87.3
Real GDP Growth (% p.a., 2021 - 2030)	0.7 - 3.1	-0.8 - 1.3	2.1 - 4.5	1.5 - 2.8	1.5 - 3.3

Source: Various sources/Dun & Bradstreet

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