Summary Quotes from The Lucky Country

*What follows are selected quotes from the last 17 pages of the Australian section of the **Things that make you go hmmm** newsletter, **The Lucky Country**. Paragraphs in italics are mine. The rest is direct quotes. Indented paragraphs are where the author is quoting other sources, source in brackets at the beginning. Food for thought.*

The good.

In 2013, Australia was ranked the word's second-most wealthy nation on a per capita basis behind Switzerland while a Credit Suisse survey last year declared it to not only possess the highest median wealth in the world, but also the second-Highest average wealth per adult.

In 2010, the country was ranked 3rd in the Index of Economic Freedom, it has the world's 12th largest economy. The fifth highest per capita GDP (nominal) at $66,984 and was ranked second in the United Nations 2011 Human Development Index and first in Legatum's Prosperity Index.

Want more? Well how about the fact that Melbourne was voted the world's most livable city by the Economist in 2011, 2012 and 2013. Or the fact that behind it in fifth, seventh and ninth place respectively were Adelaide, Sydney and Perth (sorry Bris Vegas)?

That little lot, plus the weather, is a pretty potent combination – and we haven't even got to the country's natural resources yet.

The Not So Good.

It then goes on to talk about the wealth coming from mineral exports and that those go mainly to China. There are lots of charts & graphs.

However, just like the azure blue waters that lap at Australia's 25,760 km of coastline, beneath the surface there are some extremely nasty-looking things which occasionally bite without warning.

One of the primary causes for concern is the main source of the average Australian's wealth.

> **(Sydney Morning Herald):** "Thanks to their houses, Australians are the richest people in the world, according to the investment bank Credit Suisse.
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> The fifth annual study by the Swiss bank of global wealth trends found the median Australian adult was worth more than $US225,000 (A$258,000) in June, well ahead of the second wealthiest population on this measure, the Belgians at $US173,000.
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> They were followed by the Italians, French and British, all at around $US110,000.
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> Only 6 per cent of Australian's have wealth below $US10,000, compared with 29 per cent in the United States and 70 per cent for the world as a whole.
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> Household wealth in Australia is heavily skewed to "real assets" – essentially property – which average $US319,700 per household, or 60 per cent of gross assets. This is the second highest in the world after Norway."

Now, while having 60% of your gross assets tied up in the price of your house may not *necessarily* be a problem .... it bloody well can be.

(Charts, graphs and more on Australian real estate).

Compared to Q4 2006, Australian house prices have increased by roughly 50% whereas those in the US are still 15% lower (having fallen some 35% at their nadir).

That, Dear Reader, is not going to last forever.

Setting hugely-inflated house prices aside for the moment, Australia is, as we've seen, a resource-based economy. Actually, strike that. Australia is a resource-dependent economy – a dependence which is two-fold. Firstly, it is dependent upon the extraction and sale of 'nature's gifts' to provide capital, revenue, jobs and taxes.

Secondly, and most importantly, it is largely dependent on China (and to a lesser extent, Japan) to buy those resources, provide that capital, generate that revenue and create those jobs.

With more charts and details, the newsletter shows how badly the prices for our exports have been faring and how demand has been falling. Selling less at lower prices. It then mentions something I didn't realise.

Australia is the world's second-largest producer of iron-ore (worryingly, second only to its biggest customer, China). The two countries are alone in the world in producing in excess of 500,000 tonnes annually but Chinese capacity is two-and-a-halftimes that of Australia and so, on the back of any slowdown n demand in China, it's no mystery where the cutbacks to supply will be made.

It then goes into examples of how prices have been tumbling, wages falling and jobs disappearing in some areas, finishing with.

It's those knock-on effects, particularly to the housing market, which create a dangerous dynamic for The Lucky Country.

> (**Gerard Minack, Feb 2014**): "Australia faces the end of a once-in-a-century commodity boom. The outlook is for lower (non-mining) growth, weak income growth, and pressure on public finances. For investors this points to a still-lower A$, under-performance of Australian equities and a structurally lower policy rate."

This was followed by more charts and info about different parts of the Australian economy, then it was back to housing.

The dramatic rise in house prices has made them largely unaffordable for many Australians and that has had a very predictable effect on the level of household debt built up by the country's citizens over the last 20 years.

> (**Sydney Morning Herald**): "During the past 24 years of unbroken economic growth, real household debt has gone from $20,000 for every person to $80,000. The ratio of average household debt, when compared with average household income, has broadly trebled in 24 years, from 60 per cent to around 180 per cent. This takes us into new social territory.
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> The core driver of debt is Australia's obsession with property and over-capitalisation of housing.
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> Australia's rate of mortgage debt is more than double that in Germany and France. It is about 50 per cent higher than in the United States and japan. It is even comfortably higher than in the United Kingdom.
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> The International Monetary Fund's global Housing Watch confirms that Australia, along with Canada and Belgium, has the most expensive housing in the world, measured by the rate of debt to income. Even with low interest rates, the amount of household income consumed by interest payments has trebled in a generation."

Elsewhere, the rental market is showing signs of the kind of strain which – should the Aussie housing boom ever splutter – will cause mayhem in the markets as landlords see rents turning negative and losses picking up considerably leading to forced sales of rental properties and it was this phenomenon which Gerard identified as having the biggest potential to upset the apple cart.

More charts and details, then

> (**Gerard Minack, December 2014**): “Australia’s once in a century commodity boom is (unsurprisingly) reversing. There is a serious risk – say, a 40% chance – that Australia has a recession in 2015...... If there is a recession, expect sharp outright losses in equities, notably banks, and significant falls in house prices.”

Then more info and an introduction into the global currency war which has begun.

When the Aussie dollar sits at an 8-year low (GFC notwithstanding), the RBA cutting rates due to concerns that it may “rise to uncompetitive levels” should be a clarion call to anybody paying attention that all is not right in the Lucky Country.

Then more information showing how badly the country compares to where it was at the beginning of the last recession in 1991 and the much more limited tools available to the RBA (not much more room to cut rates).

If the country does tip into a recession, the debt which has built up on household balance sheets in the last two-and-a-half decades is going to be a major problem and it’s clear that the days of being able to simply dig up and sell ‘nature’s gifts’ to a voracious China at ever-increasing prices are over.

More stats showing things have got worse since the quote above was written, then to finish...

... from a technical standpoint at least, Australia has already entered an income recession in 2014 with the likelihood of a full-blown recession rising swiftly thanks to a set of dynamics over which the country’s leaders have little or no control at this point. .....

After twenty-four years of continuous expansion, Australia’s next recession will, unfortunately, be anything but second rate.

I do not feel that I should put much more of the Australian section of the newsletter onto my website, but if you want more information, please send me an email and I’ll send you more. If you aren’t particularly interested in economics, it might be a bit much. If you are, the whole document is well worth a read. If you are very interested, you might want to subscribe.