OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

AUSTRALIA

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JULY 1975

BASIC STATISTICS OF AUSTRALIA

THE LAND

Area (1 000 sq. km)	7 686.8	Urban population, 1971, % of total (cities over 100 000)	64
Agricultural area, 1973, % of total	65.0	Population of major cities, 30.6.1972 (1 000):	
Tillage and temporary grassland, 1973, % of total	5.6	Sydney	2 851
		Melbourne	2 544
		Brisbane	888
		Adelaide	855
		Perth	752

THE PEOPLE

Population, 30.6.1974 (1 000)	13 339	Civilian employment, 1973 (1 000)	5 640
No. of inhabitants per sq. km	1.7	*of which:* Agriculture	407
Natural increase rate, per 1 000 inhabitants, 1973	10.4	Industry	2 004
Net immigration rate, per 1 000 inhabitants, 1973	3.0	Other	3 229

PARLIAMENT AND GOVERNMENT

Present composition of Parliament:

Party	Senate	House of Representatives
Australian Country Party	5	20
Liberal Party of Australia	21	38
Australian Labour Party	26	66
Australian Democratic Labour Party	5	—
Other	3	1
Total	60	125

Present Government: Australian Labour Party
Next general elections for House of Representatives: at the latest May 1977

PRODUCTION[1]

Gross Domestic Product, 1974 ($ A million)	50 433	Gross fixed capital formation, 1974: Percentage of GDP	23.6
GDP per head (US $)	5 590	Per head (US $)	1 318

THE PUBLIC SECTOR % of GDP in 1974[1]

Expenditure on goods and services[2]	25.7	Current revenue	28.9
Current transfers	9.9	*of which:* Direct taxes	14.9

FOREIGN TRADE

Exports[1]		Imports[1]	
Main exports in 1974, % of total:		Main imports in 1974, % of total:	
Food and live animals	31.6	Machinery and transport equipment	34.4
Crude materials, inedible, except fuels	32.2	Manufactured goods	23.1
Manufactured goods	12.4	Miscellaneous manufactured articles	11.9
Machinery and transport equipment	6.5	Chemicals	9.5

THE CURRENCY

Monetary unit: Australian dollar	Currency unit per US dollar, May 1975 (average of daily figures):	0.7404

1 Fiscal year ended 30 June.
2 Current and capital expenditure. Including public enterprises.

NOTE An international comparison of certain basic statistics is given in an annex table.

OECD ECONOMIC SURVEYS

AUSTRALIA

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Organisation for Economic Co-operation and Development (OECD) was set up under a Convention signed in Paris on 14th December, 1960, which provides that the OECD shall promote policies designed:

- *to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;*
- *to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development;*
- *to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.*

The Members of OECD are Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

The Socialist Federal Republic of Yugoslavia is associated in certain work of the OECD, particularly that of the Economic and Development Review Committee.

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The annual review of Australia
by the OECD Economic and Development Review Committee
took place on 13 th June, 1975.
The present Survey has been updated subsequently.

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INTRODUCTION

As in most Member countries, there was a marked weakening of demand and activity in Australia during 1974 and the early part of this year and unemployment rose to record levels for the postwar period. But despite the fact that the world oil price increase had only a minor direct effect, inflation accelerated—fuelled by rapidly rising wage costs—to the highest rate experienced since the Korean boom. The balance of payments deteriorated sharply in 1974 due mainly to domestic demand pressures, but also to earlier policy initiatives of trade liberalisation and revaluation of the currency aimed at easing inflationary pressures and improving longer-term allocation of resources. In the more recent period the balance of payments position has improved considerably.

Monetary policy had been restrictive until about the latter part of 1974 but has since become distinctly expansionary. Fiscal policy has remained expansionary throughout. In the September 1974 budget public expenditure was raised substantially and direct taxation cut. In the months following the budget further substantial fiscal stimulus was applied—the measures have included direct and indirect tax rate reductions and numerous additions to expenditures including funds for employment-generating schemes—and monetary policy was eased considerably. Moreover, the currency was devalued and restraints were introduced on imports of some products. The prospects are for some recovery of real demand and output in the course of 1975 and a further strengthening of the external accounts. But unemployment is likely to remain at a high level this year and into 1976, and there is some risk that the recent very high rates of price and wage increases may accelerate further.

Part I of this Survey describes recent developments in demand and output, the labour market, prices and incomes and the external accounts. An analysis of policy experience is contained in Part II. The short-term prospects for the economy are then examined in Part III which concludes with a discussion of present policy issues.

I RECENT DEVELOPMENTS

As indicated in last year's Survey, the growth rate of non-farm output slowed down perceptibly during the latter half of 1973, owing essentially to resource shortages rather than an insufficiency of demand. While this supply-induced slowdown was expected to continue, it was also noted that surveys were indicating at the time a pronounced increase in pessimism on the part of the business sector as to the short-term outlook for the economy. In the event the upswing in demand, which had begun around mid-1972 (i.e. about half a year behind the general OECD cycle)[1] peaked in early 1974—implying that this expansionary phase was one of the shortest

1 As measured by deviations from the trend growth rate of a weighted index of final domestic demand in the 7 major OECD countries (see Economic Outlook, No. 16, page 14). Of course, the United States weighs heavily in this index.

experienced in the postwar period[2], as also seems to have been the case among many other Member countries. In common with the speed of the preceding upswing, the severity of the downturn has been particularly marked.

The impact on domestic output of the quite rapid shift to a demand-induced slowdown appears to have been unusually severe, owing in part to the continuing high rate of inflow of imports which had earlier been encouraged as a means of relieving supply shortages. The effect on the labour market also seems to have carried through more quickly than past experience would have suggested. While the country's external account returned closer to balance in 1973 after the sizeable surpluses accumulated during the two preceding years, the substantial flow of imports led to the raising of some tariffs and the imposition of temporary measures to restrain imports of certain products, which had grown very rapidly. On the domestic front fiscal policy has been expansionary while the very tight stance of monetary policy was eased in the latter part of 1974. Australia is at present experiencing one of the highest inflation rates in the OECD area under the influence of severe cost-push pressures, with price rises reaching levels reminiscent of the Korean boom.

Weakening domestic demand

Fuelled by a strong increase in household disposable income, private consumption remained strong up to mid-1974[3]. Indeed, for the most part the factor limiting expenditure was supply shortages due to the heavy pressure to which both domestic and overseas resources were subject at the time. The relatively easy availability of credit until early 1974 probably also contributed to the buoyancy of consumer outlays. While expenditure on food typically represents a relatively stable item in household budgets, the very rapid increase in food prices had led to expenditure in real terms growing only very slightly in 1973. The subsequent easing in the growth rate of prices for these items last year was accompanied by a pick-up in the volume of purchases. Acquisition of durables has, as is typically the case, tended to be both relatively volatile and " procyclical ". Had it not been for supply constraints, the volume of expenditure in this area, except on automobiles, would most likely have grown even faster than the 14 per cent experienced in 1973. During the fourth quarter of last year there was an absolute decline in the seasonally-adjusted volume of private consumption. In particular, sales of household durables weakened perceptibly, reflecting no doubt in part the decline in house-building activity. Registrations of new motor vehicles, which had risen strongly during the greater part of last year, fell away sharply in the final quarter[4]. The March quarter of 1975 witnessed, however, a substantial revival of private consumption which was broadly based but with automobile sales particularly strong.

After the substantial acceleration recorded in 1973, the volume of private fixed capital formation remained on average unchanged last year. The volume of private house-building, which peaked in the September quarter of 1973, declined throughout last year and into the first quarter of 1975. Activity had initially been substantially

2 The upswing lasted some 8 quarters, which is close to the shortest observed since 1950 (see 1972 Survey, page 14).

3 Last year household disposable income rose by about 21 per cent in nominal terms, or by a real 5½ per cent when deflated by the Consumer Price Index. The national accounts definition of the household sector includes unincorporated enterprises, of which farm incomes form an important and particularly volatile element. Making an approximate adjustment for this, non-farm household disposable incomes rose about 1 percentage point faster than indicated above.

4 Sales of motor vehicles in Australia do not seem to have been influenced by the " oil crisis " since the local price of petrol has only been adjusted to compensate for the increased cost of the (relatively minor) imported content and other cost increases.

Table 1 National product and expenditure

	1974 $ million	Percentage change (volume)			1974[1]
		1972	1973	1974	
Consumption:	39 785	3.7	6.1	3.6	2.6
Private	31 945	5.0	5.0	3.6	2.1
Public	7 840	2.0	10.3	3.6	0.4
Gross fixed asset formation	13 031	– 3.5	3.4	2.2	0.5
Private*	8 512	– 5.4	7.2	– 0.3	– 0.1
Public	4 519	0.4	– 3.8	7.7	0.6
Final domestic demand	52 816	2.4	6.1	3.3	3.1
Stockbuilding[1]	2 730	(– 2.0)	(2.0)	(4.6)	(4.6)
Statistical discrepancy[1]	– 53	(– 0.5)	(1.5)	(– 1.7)	(– 1.7)
Total domestic demand[1]	55 491	0.9	10.2	6.1	6.0
Exports of goods and services	8 750	5.8	– 0.3	– 1.9	– 0.3
Imports of goods and services	9 622	– 6.4	22.4	23.9	– 4.2
GROSS DOMESTIC PRODUCT	54 620	3.0	6.3	1.5	1.4
GROSS NON-FARM PRODUCT	50 357	3.5	7.6	1.0	0.9
GROSS FARM PRODUCT	4 263	– 1.5	– 7.1	7.5	0.6
* *of which:* Dwelling	2 687	9.0	10.9	– 10.3	– 0.5
Other building/construction	1 743	– 15.1	– 3.3	– 1.7	– 0.1
Plant and equipment	4 082	– 8.4	9.4	6.7	0.5

1 Percentage point contribution to GDP growth rate.
Source: Australian Bureau of Statistics (ABS) " Quarterly Estimates of National Income and Expenditure ".

affected by the availability of labour and materials, but in the face of the substantial rise in costs and tightening of monetary conditions, the strong speculative boom which had developed in this area quickly collapsed. After peaking at record levels in mid-1973 both approvals and starts fell rapidly up to late last year, although a relatively large volume of work still remained in the pipeline at that time[5]. In seasonally-adjusted terms the number of approvals began rising again in the December quarter.

The volume of private construction other than housing levelled out in seasonally-adjusted terms during the first quarter of 1974 at some 17 per cent below the peak reached in 1971[6], and has since continued to fall quite sharply. In addition to materials and manpower shortages, widespread industrial unrest in the construction industry exacerbated the situation (see page 10 below). Apart from these supply constraints, however, there was also an element of adjustment to the preceding period's extremely heavy investment in office buildings, particularly in the two main cities of Sydney and Melbourne, which had resulted in an oversupply of office space.

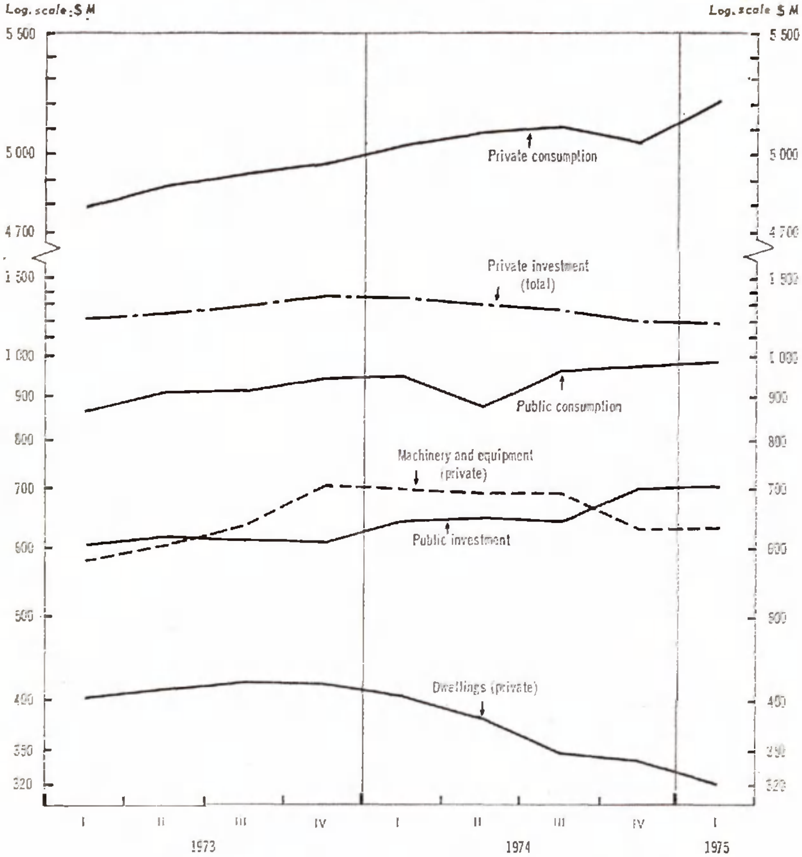
Following the usual lag behind movements in the overall domestic cycle, investment in machinery and equipment had picked up sharply in 1973 after declining for almost two years. However, the recovery proved short-lived and by the March quarter of this year the volume of purchases was some 10 per cent below the level reached in late 1973. The timing of this category of investment, of which overseas suppliers account for an important part, was influenced by the unwinding of lags in delivery of imported equipment.

Public sector current expenditure rose by over 3½ per cent last year in real

5 This pro-cyclical pattern of development is in contrast to experience during the preceding cycle when housing played a relatively steadying role (particularly during the slowdown).

6 It should, however, be remembered that activity in the late 1960s and early 1970s was substantially influenced by major developments in the mining and associated industries.

Diagram 1 **Major expenditure aggregates**
1966/1967 prices, seasonally adjusted



Source: ABS. Quarterly Estimates of National Income and Expenditure.

terms[7]. Among the fastest-growing categories of expenditure were education, health and social security, with a considerable proportion of the funds being channelled via the State and local governments. Central government policies have called for a sizeable expansion of public fixed capital formation. Despite a scarcity of available resources in the early part of 1974 and the relatively long lead times involved in major projects, as well as administrative delays[8], the volume of expenditure on average in 1974 was over 7 per cent higher than in 1973[9].

After no growth in 1973, the volume of merchandise exports fell in seasonally-adjusted terms during the first half of last year, but then recovered in the final two quarters. The sizeable fall in wheat shipments (down by about one-half due mainly

7 The time profile of expenditure over the year appears quite uneven, with a sizeable fall being recorded in the second quarter but an even larger increase in the third. Apart from the possible effect of an election campaign on expenditure flows during the second quarter, it is likely that the statistics exaggerate the "break" in this series.

8 In particular, the planning and implementation of the new expenditure programmes entailed considerable lags. It may also be noted that State and local governments are responsible for about three-quarters of public authority investment, although the funds are largely channelled from the central government.

9 Excluding the purchases of civil aircraft from abroad, public investment would have increased by about 5 per cent in volume last year.

to crop losses from drought) and reduced sales of wool had been the major factors behind the disappointing performance in 1973. While depressed conditions in the wool market continued into early 1974, wheat exports recovered sharply with the better crop (see page 11 below). On the other hand, the abrupt contraction of overseas meat markets, ranging from tighter quantitative restrictions to virtual bans on imports, caused a decline in meat shipments in 1974 to about one-half of the volume in 1973. There was a moderate reduction in the volume of dairy exports in 1974 because of adverse seasonal conditions. The 1973 sugar harvest was also affected by adverse seasonal conditions. This, together with an unusually low shipment rate in the second half of 1974, resulted in the volume of sugar exports in 1974 being substantially below that of 1973. Shipments of metal ores, in which long-term contracts with Japanese buyers are an important influence, had been the most buoyant element among export volumes in 1973, though a weakening tendency had become apparent in the course of that year as industrial activity in Japan at first stagnated late in 1973 and then fell sharply in 1974. During 1974 shipments increased by 11 per cent compared with 30 per cent in 1973. The volume of exports of metal manufactures, machinery and transport equipment fell by 16 per cent in 1974 compared with 4 per cent growth in 1973. The main factors that are thought to have contributed to the fall are the slowdown in economic growth in the main overseas markets, and the appreciation of the Australian dollar.

The initial pick-up in domestic demand in mid-1972 was met by drawing on stocks; indeed, the strength of the pick-up was such that the (non-farm) stocks/sales ratio had fallen to a very low level by the September quarter of 1973. Subsequently, however, as the inflow of orders weakened the position stabilised and then reversed. After making allowance for normal seasonal movements, inventory holdings grew rapidly in each quarter last year. In the important manufacturing sector this build-up appears to have taken place within all major subsectors and been more noticeable at the raw materials and finished goods stages rather than for work-in-progress[10]. The build-up of finished inventories appears to have taken place mainly in the last half of 1974, and has no doubt been importantly influenced by the strong inflow of imports which continued well after the downturn in domestic demand as the unusually long lags which had built up during the preceding boom unwound[11]. Movements in farm stocks are dominated by holdings of wheat and wool. While demand for the former has been strong and stocks remain at low levels, the Australian Wool Corporation, in operating a floor price scheme, was obliged to purchase 27 per cent of wool offered at auction last year. By the end of the year the Corporation was holding about 1 million bales, or the equivalent of about 20 per cent of the 1974/75 season's clip. Despite the strong pick-up in the market discernible since April this year, it is estimated that the Corporation is now holding about 1.6 million bales.

Supply

After reaching a peak in the March quarter 1974, non-farm output fell away sharply. In the second half of 1974 real non-farm output was 3.8 per cent lower than in the first half[12]. Last year saw a marked upswing in industrial unrest; the

10 The Australian Statistician has recently expanded the coverage of changes in inventories. However, the relevant stock valuation adjustment and deflators are not yet available for this disaggregated data.

11 Imports responded not only to the pressures of domestic demand but also to movements in the relative cost of imports arising from revaluation of the Australian dollar and tariff rate cuts.

12 Changes in individual quarters should not be interpreted in isolation and without reference to changes over longer periods. Estimating for periods of less than one year presents special problems and the estimates are affected by possible inconsistencies in timing of recording incomes, expenditures, stocks, exports and imports.

number of disputes rose by around 11 per cent, but the number of days lost increased 2½-fold compared with 1973 (a year about representative of average experience in the recent past)[13]. Though a wide range of industries were affected by this upsurge in strikes, the engineering, construction and transport industries were among the most seriously affected[14].

Table 2 **Quarterly development of GDP**[1]
Volume percentage change

	Demand					Output		
	Private		Public		Final domestic demand	Farm	Non-farm	Total GDP
	Consumption	Fixed investment	Consumption	Fixed investment				
1971: I	0.4	5.2	-1.0	-0.5	1.0	2.1	2.4	2.4
II	0.5	-1.5	-0.6	-3.1	-0.3	2.7	0.6	-0.3
III	2.8	2.3	1.2	12.2	3.3	2.8	2.6	2.6
IV	0.1	-2.5	0.2	-1.5	-0.5	-0.1	0.3	0.2
1972: I	0.8	-5.6	3.0	-3.0	-0.4	1.3	-0.9	-0.7
II	1.7	4.1	-2.6	-2.8	1.2	2.5	1.5	1.6
III	1.4	-3.1	0.4	6.4	0.9	-15.0	2.1	0.5
IV	2.1	-0.7	1.2	-5.9	0.8	-2.5	3.0	2.5
1973: I	1.6	1.8	4.3	-2.9	1.6	8.7	1.7	2.3
II	1.9	4.0	5.2	1.8	2.6	-4.6	1.6	1.1
III	0.8	3.1	0.8	-0.8	1.1	12.6	1.7	2.5
IV	1.0	5.8	2.7	-0.7	1.9	-0.3	0.2	0.2
1974: I	1.5	-1.2	1.2	6.2	1.3	-7.9	2.3	1.4
II	0.9	-3.4	-7.6	0	-0.9	-1.0	-1.4	-1.4
III	0.4	-2.6	9.2	-0.9	0.7	-1.3	-4.2	-3.9
IV	-1.1	-5.7	1.6	9.2	-0.7	11.6	2.3	3.0
1975: I	3.0	-1.8	1.0	0	1.7	1.9	-1.1	-0.8

1 Percentage change on preceding quarter, seasonally adjusted.
Source: ABS, "Quarterly Estimates of National Income and Expenditure".

Though no comprehensive estimates of volume output by sector are available, it would appear that the construction and manufacturing industries have been the most seriously affected by the slowdown. After about one and a half years of relatively rapid growth, industrial production fell in the fourth quarter of 1973, but subsequently rose to a peak in the June quarter of 1974. Output then began to fall sharply in the September quarter of last year. The turnaround in production of durable goods, which probably peaked early last year, has been particularly marked. The experience of individual industries has tended to reflect the patterns

13 Almost as many days were lost during the first quarter alone as during the whole of 1973.

14 It is precarious to attempt to estimate the impact of strikes on output (see footnote 2 on page 8 of last year's Survey). This applies particularly for a period exceeding that during which the strikes have taken place, given that a certain degree of "catching-up" probably takes place. On the other hand, indirect effects through disruptions to established business relationships are also no doubt important in the longer term. The 6.3 million loss in working days recorded last year represented about ½ per cent of total labour input. This figure is, however, an underestimate since:

(*a*) only stoppages involving a loss of at least 10 man-days are taken into account, and

(*b*) persons laid off on account of a strike, but who belong to a different establishment, are also excluded.

of development in domestic demand outlined above[15]. While activity in the basic metal and heavier engineering sectors (apart from transport equipment) appears to have held up relatively well, industries catering for the construction sector (i.e. producers of building materials and household goods) have been severely affected. Although as a whole, output of non-durables has been maintained relatively well, textiles and chemicals as well as associated industries have suffered very sharp declines in the level of activity.

As well as producer responses to market conditions (with the usual lags varying by sector), rural production has been importantly influenced by climatic conditions. Aggregate output rose on average by some 6½ per cent in 1974 following a 7½ per cent decline in 1973, though this was mainly due to increases in the last half of 1973 as production fell continuously in seasonally-adjusted terms up to the December quarter. A more detailed analysis of development by product is available only in terms of financial years (i.e. July/June). The main contribution to the 3 per cent increase in overall output in financial 1973/74 came from the very large (almost 90 per cent) rise in wheat production after the substantial drop due to drought in the preceding year. Sugar output fell by about 11 per cent and production in the pastoral industries also declined—ranging from 4½ per cent in the case of wool to almost 50 per cent in the case of mutton. Reduced slaughter rates were reflected in the fall in meat output as world markets weakened dramatically, and in a build-up of herd numbers. For the current 1974/75 season overall rural output is expected to rise somewhat more than last season, and the pattern is expected to be very different. Wool and meat output is expected to rise, while wheat will probably fall by some 4 per cent.

While demand pressures started to ease towards the middle of 1974, imports continued to grow strongly until the end of the September quarter due to lagged responses and the influence of specific measures to encourage increases in supplies from abroad[16]. During the first nine months of the year the volume increase over the same period last year amounted to 29 per cent, following the large increase (22 per cent) recorded in 1973[17]. The only categories of merchandise where any slowing down was evident were fuels and basic materials, where the lags were probably shorter and where demand follows more closely developments in domestic activity[18]. In particular, imports of machinery and equipment increased by almost one-half in volume terms, while textiles and foodstuffs also rose very rapidly.

The labour market

Stimulated by a pick-up in net immigration, the population of working age increased by 2½ per cent during the year to November 1974, following growth of only 1.8 per cent in the preceding 12 month period. With an increase in overall participation rates, growth of the labour force was faster in both years (2.1 and 2.6 per cent in 1973 and 1974 respectively), though the difference last year was only

15 In the case of certain industries an additional factor has been the pronounced degree of industrial unrest.

16 Apart from the effective revaluation of the Australian dollar, all tariffs were cut by 25 per cent in July 1973, while in November they were reduced on a range of consumer electrical products, engines and motors. In January 1974 reductions were made in respect of a wide range of domestic appliances. However, during the latter part of 1974 a number of temporary measures were taken to restrain imports of particular products, and in September the dollar was devalued by 12 per cent.

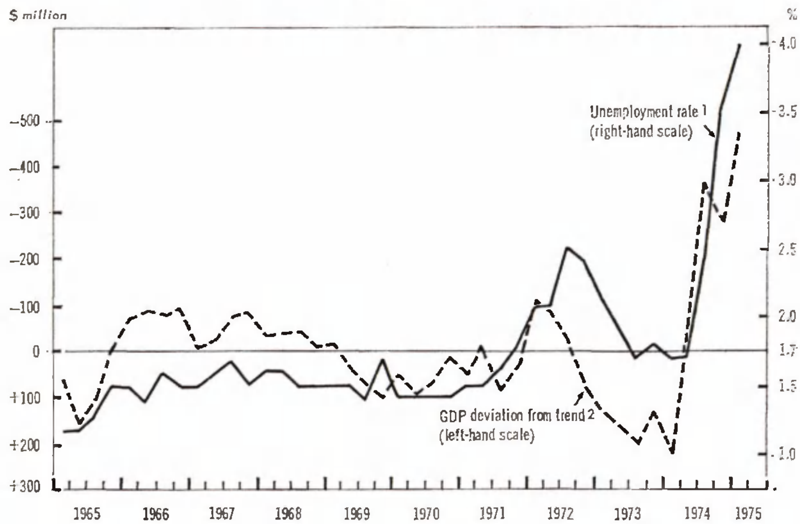
17 The volume of imports peaked in the September quarter—i.e. well after domestic demand had peaked. The volume estimate shown in Table 1, which is based on Australian Bureau of Statistics data, may be subject to considerable revision.

18 In the case of fuels (which consist almost exclusively of oil) in contrast to other import categories, domestic prices rose more slowly than foreign prices.

marginal since labour market conditions weakened perceptibly during its course[19]. This latter development was more clearly reflected in actual employment figures; whereas the overall numbers employed rose by 2.7 per cent in 1973, a mere 1 per cent increase was recorded last year[20]. Over the nine months to March 1975, however, female employment fell by 3.2 per cent and male employment by 1.7 per cent.

Despite the fact that during the boom demand pressures for labour remained strong—as evidenced for example by the unemployment/vacancies ratio—and average overtime worked reached a record level in December 1973[21] the rate of registered unemployment (seasonally adjusted) did not fall below the 1.3 per cent level —which is relatively high compared with previous periods of high activity in Australia[22]. Unemployment remained relatively high in rural areas (despite a substantial increase in rural incomes during fiscal 1973-74, even though the volume of output rose by only some 3 per cent) and among junior females[23]. As measured by the

Diagram 2 **Movements in output and unemployment**



1 According to Labour Force Survey. Mean unemployment rate for the period 1965 : I-1974 : IV was 1.7 per cent.

2 Deviations of seasonally-adjusted non-farm GDP (at fixed 1966/1967 prices) from a quadratic trend line.

Source: ABS. The Labour Force and Quarterly Estimates of National Income and Expenditure; Secretariat estimates.

19 It may be noted that according to estimates relating to August last year the labour force participation rate among persons born outside Australia averaged 67.3 per cent and for locally born 59.6 per cent.

20 This compares with an average increase of about 2.3 per cent over the past decade. As usual, movements among married women have been quite volatile; for example, last year their numbers in the workforce rose by no less than 6.7 per cent, though their employment increased by only 5.2 per cent. However, over the year to the March quarter 1975, the corresponding percentages were 2.9 and 0.3 respectively.

21 According to a survey of larger private factories, the average overtime worked per employee reached 4.0 hours per week (seasonally adjusted).

22 For example, during previous periods of intense labour demand the unemployment rate has typically dropped to below the 1 per cent mark.

23 According to the May 1974 labour force survey the unemployment rate in that month outside the State capital cities was 2.2 per cent and among 15-19 year old females 5.5 per cent, compared with an overall figure of 1.6 per cent. A survey of multiple jobholding carried out by the Australian Bureau of Statistics in August 1973 showed that the incidence of holding a second job was greatest among agricultural workers.

overall (seasonally-adjusted) registered vacancies/unemployment ratio, demand pressures in the labour market appear to have peaked around March/April last year when there were some 1.1 job vacancies for each unemployed[24]. Conditions varied, however, quite markedly by industry and professional category. For example, at the end of March there were 3.9 vacancies in the skilled metal and electrical trades per unemployed, but only 0.5 among rural workers and 0.6 among unskilled workers in general.

The employment situation began to deteriorate quite abruptly after mid-year; that is, immediately after the sharp turnaround in non-farm output which was unusually severe by past standards. The deterioration in the labour market was exceptionally rapid and severe. By October the seasonally-adjusted unemployment rate of 3.1 per cent had already passed the previous postwar record level in mid-1961 and reached 4.7 per cent in April of this year[25]. In addition, the equivalent of a further 0.7 per cent of the workforce (or some 40 thousand persons) were engaged either on retraining or employment-support schemes. During this period the numbers of registered vacancies fell sharply from a peak of 87.2 thousand in April 1974 to 31.6 thousand in May this year, or to less than one vacancy for every 9 unemployed. The monthly survey of larger private factories conducted by the Depart-

Table 3 **Unemployment and vacancies**[1]
Seasonally adjusted

		Unemployed	Vacancies	Vacancies / Unemployed ratio
		'000 persons		
1971:	I	63.9	46.3	0.72
	II	69.1	39.8	0.58
	III	75.6	38.4	0.51
	IV	84.7	38.2	0.45
1972:	I	96.3	31.6	0.33
	II	104.5	29.8	0.29
	III	113.9	31.8	0.28
	IV	104.1	35.8	0.34
1973:	I	90.1	47.7	0.53
	II	90.4	58.9	0.65
	III[2]	81.6	76.3	0.94
	IV	79.5	75.1	0.96
1974:	I	83.2	81.1	0.97
	II	83.4	80.7	0.96
	III	125.5	50.5	0.40
	IV	209.2	37.1	0.18
1975:	I	251.9	34.3	0.14

1 Average of monthly figures.
2 Series revised according to changed definitions of school-leavers. Under the old definition unemployed equalled 85.1 thousand, vacancies unchanged and ratio equalled 0.89 in 1973:III.

Source: Department of Labour and Immigration, " Monthly Review of the Employment Situation ".

24 This ratio is higher than the previous cyclical peak recorded in 1970 but somewhat below that registered in 1965. These figures should, however, be treated with considerable caution and only interpreted in the context of broad comparative movements.

25 In May the figure declined to 4.5 per cent seasonally adjusted.

ment of Labour and Immigration shows that average overtime worked had declined to 2.2 hours (seasonally adjusted) in April[26].

The sharpness of the deterioration as indicated by the Commonwealth Employment Service (CES) statistics should, however, be interpreted with due caution[27]. According to data collected by the Australian Bureau of Statistics (ABS) from quarterly sample labour force surveys (see footnote 27 below), the seasonally-adjusted unemployment rate rose from about 1.6 to 3.9 per cent between May 1974 and February this year—compared with 1.4 and 4.5 per cent according to the CES data[28]. Other ABS estimates show a (seasonally-adjusted) decline in the number of civilian employees of 2.2 per cent between June 1974 and March this year, with employment in manufacturing industry falling to its lowest level for six years[29]. Government employment rose by 4.9 per cent, while the numbers in private employment fell by 4.6 per cent.

Thus, even though the widely-quoted registrations date probably exaggerate the amplitude of the turnaround since the middle of last year, it is clear that recent developments represent the most dramatic decline in the labour market during the postwar period. The following factors have probably played a role:

(*a*) Companies capacity to " hoard " labour was adversely affected by the continuing sharp increase in unit labour costs (see page 15 below) as well as by the increased burden of financing inventory holdings with the tighten ing of credit markets around the middle of last year[30]; and

(*b*) the continued growth in imports after demand had started to ease[31].

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26 These data refer only to personnel whose employment is directly related to manufacturing. While the proportion of employees working overtime fell from 42 per cent in May 1974 to 26 per cent in April 1975 in the factories surveyed, the actual average overtime worked by these employees only fell from 9.0 to 7.7 hours during the period.

27 A recent official Advisory Committee enquiry into these statistics, which are prepared from registrations with the Commonwealth Employment Service (CES), concluded that they should not be regarded as an accurate indicator of unused labour capacity. More important, while they constitute a reasonable indicator of *changes* in overall unemployment levels (though less so in respect of females than males), they tend to exaggerate the amplitude of cyclical movements. On the basis of comparing the CES registrations data and sample survey material gathered by the Australian Bureau of Statistics with Census material, the Committee concluded that the survey results were a more reliable measure of unemployment. Since, however, this material is only prepared on a quarterly basis and appears with a lag of about one month, the registrations figures are those which receive by far the widest attention and publicity in Australia.

28 The surveys yielded seasonally-adjusted figures of 1.7 and 4.0 per cent for May and February respectively, but these include persons seeking part-time work (which the CES unemployment data do not, although the vacancies data do). The rates quoted in the text are estimated after making the appropriate adjustment.

29 Detailed estimates of employment by industry are not available in seasonally-adjusted terms. Unadjusted, overall civilian employment declined by 1.9 per cent during the nine months to March this year, with the numbers employed by the private sector falling by 4.3 per cent, while Government employment rose by no less than 5.4 per cent. During this period, employment in manufacturing fell by 8.6 per cent, with the largest declines being registered by the yarn and textile (25.1 per cent), clothing and knitted goods (19.0 per cent), ships and vehicles (10.7 per cent) and metal products (9.6 per cent) industries.

30 With the phasing in of equal pay and a minimum wage for women, female award wage rates have been rising particularly fast. The decline in employment among women has in fact been relatively greater than among men, though possibly no more so than past experience would suggest. In the textiles/clothing and footwear industries female employment (which accounts on average for two-thirds of the workforce in these activities) fell by 18½ per cent during the 6 months to the end of last year, compared with 15 per cent for males. The rate of decline in the vacancies/unemployment ratio has been more rapid for females than males in the unskilled and semi-skilled manual category of workers (a statistic particularly sensitive to the above-mentioned changes in female awards). By end April 1975 the vacancies/unemployment ratio for women in this category was slightly below that for males (0.07 compared with 0.10).

31 This aspect could be seen in part as a " structural " adjustment in the wake of the tariff cuts and effective revaluation of the Australian dollar. However, the point being made above refers

Though difficult to quantify, the relatively frequent changes in shorter-term policy implementation have contributed to a general air of business uncertainty which is continuing to react negatively on investment and consequently on the demand for labour.

Prices and incomes

As indicated earlier, Australia's experience last year in regard to price stability was again unfavourable in comparison with the OECD area as a whole, while the rate of wage increase was one of the highest in the area. During the 12 months to December last year the index of minimum weekly award wage rates for adult males rose by no less than 33.5 per cent compared with 14.7 per cent in the preceding year[32]. The other most commonly-cited measure of wage and salary developments, the quarterly series of average weekly earnings, rose slightly faster than award rates during the year ended the December 1973 quarter (or by 14.9 per cent). This pattern was reversed last year when average weekly earnings rose 27.9 per cent. The difference between these two series can be largely explained by the importance of " consent " awards, the decline in overtime worked and pay lost through industrial stoppages[33]. However, average weekly earnings have recently underestimated the actual increase in wage costs, owing to the faster rate of increase in female award rates with the progressive introduction of equal pay and extension of the minimum wage to women[34]. Estimated unit labour costs, which were also affected by increases in annual leave and in holiday bonus payments, rose by over 27 per cent in the non-rural sectors last year, compared with some 9 per cent in 1973[35]. In particular, costs rose by no less than 14 per cent (seasonally-adjusted quarterly rates) during the September quarter, reflecting the combined impact of a large increase in wage and salary payments and an actual fall in output.

Measures of domestic price movements indicated a marked acceleration of inflationary pressures last year - indeed, the rate of increase shown by the main implicit deflators of domestic demand at least doubled. While the rate of increase in the overall GDP price deflator for the OECD area as a whole rose from 8 per cent in 1973 to 14¼ last year, the corresponding figures for Australia were 11½ and 16½

rather to the suddenness of the inflow of imports which were also induced by domestic demand pressures. With regard to structural adjustment, it may be mentioned that some 8.6 thousand persons (or 3.3 per cent of total unemployment) at the end of February this year were reported by their employers as having lost their jobs on account of structural change stemming from the 25 per cent general tariff reduction as well as from certain other specific reductions (however, in the same month 22½ thousand of the CES registrants described themselves as unemployed due to this cause).

32 Above-average rates of increase were registered in the mining industry (45.5 per cent) and the railways (41.6 per cent). Movement in hourly pay rates followed closely weekly rates. Under last year's National Wage Case decision " total wages " were increased by 2 per cent plus $ 2.50 as from late May. Under the Metal Industry Award (which ranks in importance after the National Wage Case in terms of numbers of employees affected either directly or indirectly) $ 15 per week was granted by the Arbitration Commission in April last year and a further $ 9 per week in September. In this year's National Wage Case the Commission reintroduced a form of indexation.

33 An unusually large percentage (over 90) of last year's work losses were due to disputes over pay (over the period 1970 to 1973, the proportion was in the range of 64-71 per cent). Such disputes tend to last longer than others. Concerning " consent " awards, see 1972 Survey of Australia, page 81, one aspect of their increased importance was the reduced significance of " over-award " payments compared with experience in recent years.

34 This is due to the index being constructed on an equivalent " male unit " basis. After increasing by 25 per cent in 1973 (December to December), female award rates rose by a further 40 per cent last year. An element of last year's National Wage Case decision provided for the extension in three steps (to be completed in June this year) of the male minimum wage to women.

35 As calculated from movements in wages, salaries and supplements on the one hand and the volume of non-farm GDP on the other.

respectively[36]. As mentioned in last year's Survey, the volatility of foreign trade prices in the case of a " price-taking " country such as Australia reduces the usefulness of this measure as an indicator of domestically-generated inflation. With the passage of time as these external influences work through the domestic economy, it becomes increasingly less meaningful to attempt to distinguish between domestic and external " causes ".

Table 4 **National accounts implicit deflators**
Percentage change

	1972	1973	1974
Private consumption	5.5	7.7	15.0
Public consumption	9.4	9.0	26.1
Gross fixed investment	6.2	8.4	18.4
Private*	6.0	7.8	18.2
Public	6.6	9.8	18.5
GNE	6.7	8.1	16.7
Exports of goods and services	11.3	19.5	19.5
Imports of goods and services	2.1	-0.3	25.6
GDP	7.7	11.7	16.7
*Dwellings	7.3	13.2	24.9
Other building/construction	6.0	10.3	21.8
Plant and equipment	5.4	3.4	13.5

Source: ABS, " Quarterly Estimates of National Income and Expenditure ".

Measured on the basis of change over the preceding quarter, the growth rate of the Consumer Price Index peaked at 5.1 per cent in the September quarter last year, and then increased by 3.8 per cent in the December quarter and by 3.6 per cent in the March quarter, when the index was 17.6 per cent higher than a year earlier[37]. On average the Index rose by 15 per cent last year—the highest figure experienced since the " Korean boom " years of 1951 and 1952—compared with 9½ per cent in 1973, despite a slowdown in the growth rate of food prices. Excluding food, the rate of increase in the other major expenditure groups approximately doubled in 1974, so that whereas food prices had accounted for about one-half of the total increase in consumer prices in 1973—as in other OECD countries—last year this " contribution " fell to about one-third[38].

Partial indices of price movements at the wholesale level, which cover materials used in building and construction as well as in metal fabrication, all rose by about 20 per cent last year. In the construction field the cost of steel and timber increased particularly rapidly, while prices for aluminium and certain minor metals used in the

36 The slower acceleration in the GDP deflator relative to that in the domestic demand deflators for Australia last year reflects the very rapid growth of import prices in local currency terms.

37 A seasonally-adjusted CPI is not published. However, there does not appear to be a significant seasonal element in the index.

38 The quarter-on-quarter growth rate of food prices peaked in the June 1973 quarter and thereafter declined almost continuously until the March quarter of 1975. However, the average growth rate for all 1974 (of slightly over 15 per cent) was the same as in 1973. It may be noted that while local meat prices are strongly influenced by world prices, intervention arrangements for e.g. dairy products, wheat and sugar effectively isolate the prices of these commodities from external influences.

Table 5 **Quarterly price and wage developments**[1]
Per cent

		Consumer price index	Weekly wage rates[2]	Average weekly earnings[3]
1971:	I	4.9	11.3	12.6
	II	5.4	11.6	12.4
	III	6.7	12.8	11.9
	IV	7.2	13.5	11.2
1972:	I	7.1	7.1	7.5
	II	6.2	9.4	7.6
	III	5.7	9.7	8.8
	IV	4.5	9.3	8.8
1973:	I	5.7	10.7	9.7
	II	8.2	13.4	11.5
	III	10.6	15.3	13.7
	IV	13.2	12.2	15.2
1974:	I	13.6	14.9	16.5
	II	14.4	25.7	19.2
	III	16.0	30.0	25.3
	IV	16.3	34.2	27.9
1975:	I	17.6	33.9	27.5

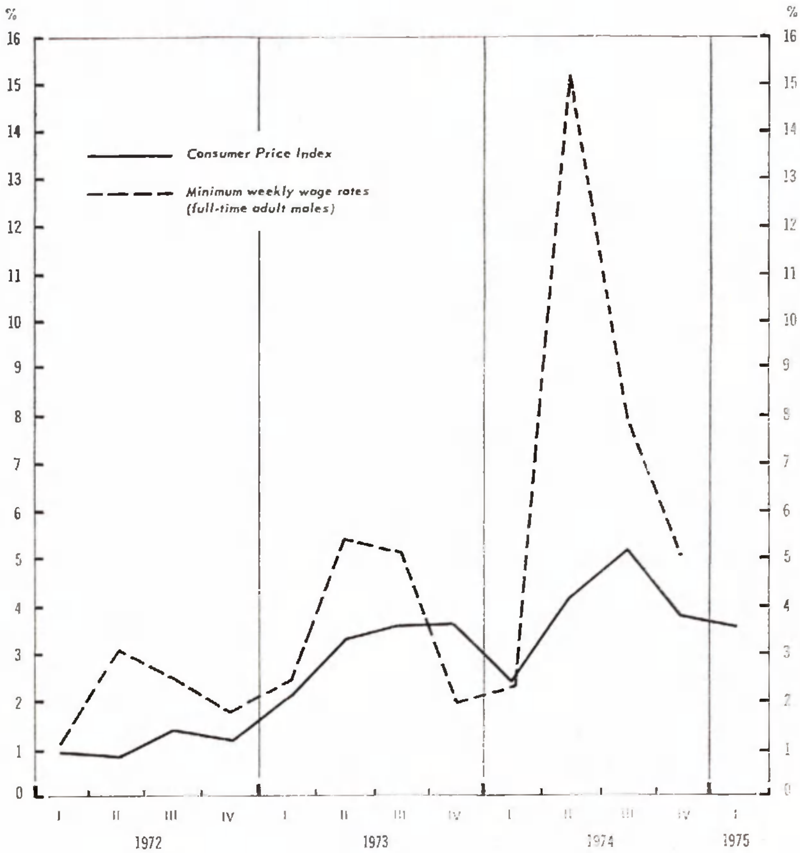
1 Change on corresponding period of preceding year.
2 Minimum rates index for full-time adult males.
3 Per employed male unit.
Source: ABS, " Digest of Current Economic Statistics ".

metal working industry increased substantially. Costs of these commodities tend to be influenced by movements in world prices. Excluding oil, import prices rose by 19 per cent last year, despite the moderating effect of an appreciation of the Australian dollar on average. Apart from the three-fold increase in fuel prices, the costs of chemicals and other basic raw materials rose by over one-third. On the other hand, prices for engineering products—which account for over 40 per cent of all merchandise imports—rose by about 12 per cent on average during the year. On the export side there were widely divergent patterns of development; prices received for wool and meat fell substantially, while wheat prices moved further upwards and sugar prices more than doubled. Exporters of metals and coal benefitted from an average 50 per cent increase in prices. Indeed, the only major category of goods whose prices remained almost stable were dairy products.

As implied by the relative movements in prices and unit labour costs outlined above, the " share " of profits has declined quite sharply to the benefit of wages and salaries. Although this pattern is typical of the downturn phase of the cycle, the erosion of profits last year appears to have been unusually marked. Expressed as a percentage of wages plus gross profits, the latter declined to only 16 per cent on average last year compared with a mean figure of 21 per cent during the past decade and of 20 per cent during 1971 which was a year of slowdown[39]. By early this year the figure had declined to 12.0 per cent. Total profits declined by 8 per cent in 1974 which in real terms—using the national accounts private non-dwelling

39 Profits here refer to the gross surplus of trading companies only; i.e. unincorporated and public enterprises as well as the income imputed to home ownership are excluded.

Diagram 3 **Consumer prices and wage rates**[1]
Percentage change over previous quarter



1 Not seasonally adjusted.
Source: ABS. Digest of Current Economic Statistics.

investment deflator—implied a fall of almost one-fifth[40]. Overall gross farm incomes fell by 2 per cent last year, but as implied in the earlier discussion of output and price developments in the agricultural sector, experience varied widely by farm type[41]. Wheat and sugar growers benefitted from very substantial boosts in income, while woolgrowers and other pastoral producers saw the nominal value of their gross revenues fall by some 30 per cent. Total wage and salary receipts rose by 28 per cent last year and gross household income, which includes income of unincorporated enterprises as well as transfer receipts, by 24 per cent. Despite earlier fiscal concessions, income tax liabilities increased by 40 per cent, which was largely instrumental in reducing the nominal growth rate of household disposable income

40 The figures for gross operating surplus must be treated with some reserve given the arbitrariness with which increases in the book value of stocks are treated as profits. With present high rates of inflation, this problem has acquired particular importance. For example if the non-farm stock valuation adjustment were added back to profits, the latter would have risen by about 5 per cent last year.

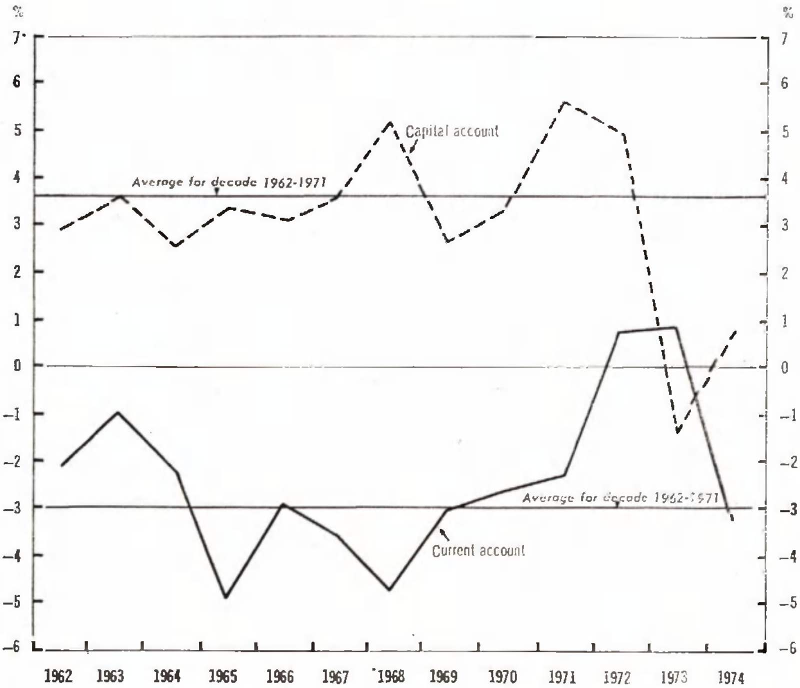
41 In terms of realised incomes (i.e. after account is taken of stocks held by marketing authorities—the most important being wool held by the Wool Corporation) revenue fell by 20 per cent. This adjustment does not, however, affect farmers' incomes (at least directly).

to 21 per cent in 1974. Non-farm household disposable income grew by about an estimated 23 per cent last year, or in real terms by some 6 per cent—a figure considerably in excess of the 1.3 per cent increase registered last year in non-farm GDP. During the first half of 1975 household disposable incomes are being boosted by further income tax concessions to the tune of about 14 per cent (see footnote 57, page 28).

Foreign account

While the traditional pattern of Australia's balance of payments has been one of a sizeable current account deficit offset by an approximately equal capital account surplus[42], the years 1972 and 1973 had witnessed a significant divergence from this pattern. During these two years surpluses averaging 0.8 per cent of GDP were recorded on the current account[43]. While the overall surplus in 1972 was boosted by a net capital inflow equal to almost 5 per cent of GNP, a net outflow of capital equal to 1.4 per cent of GDP occurred in 1973. Last year saw a return to a more traditional picture, with the current account in deficit to the tune of 3½ per cent of GNP, while a modest surplus was recorded in net capital flows. Behind these balances there have, however, been some unusually large fluctuations both in volume

Diagram 4 **Balance of payments 1962-1974**
Per cent of GDP



Source: **ABS. Balance of Payments and Quarterly Estimates of National Income and Expenditure.**

42 In the decade 1962-63 to 1971-72, the current account deficit averaged around 3 per cent of GDP, and the capital account surplus averaged around 4 per cent.

43 The current account surplus (in seasonally adjusted terms) first emerged in the second quarter of 1972 and persisted through until the end of 1973, after which a substantial deficit re-emerged.

flows of merchandise as well as in trade prices and capital movements under the influence of international market pressures as well as domestic policy measures.

The current account surplus in 1972 was attributable to an improvement in the terms of trade and a turn-around in the real foreign account equivalent to 2½ per cent of GDP. In contrast, the 1973 surplus was due solely to the world commodity price boom improving Australia's terms of trade by around 20 per cent[44]. As indicated earlier in this Survey, an upsurge occurred in imports in 1973 as a result of the revival in domestic demand and of deliberate policy measures, while there was no growth in the volume of exports compared with 1972 due to a number of supply shortages of rural products. As a result a deterioration took place in the real foreign balance equivalent to a substantial 3½ per cent of GNP. To some extent then, the emergence of a current account surplus could initially be described as " cyclical ", in the sense of the Australian economy being out-of-phase with its major trading partners. Subsequently, however, as the growth rate of domestic demand gathered pace, the effect of this reversal of the cyclical element on the balance of payments was masked for some time by the sizeable improvement in the country's terms of trade[45]. Nevertheless, by the second half of 1973 virtual balance on the current account brought the surplus period to an end.

For 1974 as a whole exports increased in value by less than a quarter the rate at which imports rose. This reflected a deterioration in the terms of trade as well as, and more importantly, a sizeable decline in the real foreign balance, and resulted in the (fob) trade account moving from a very large surplus to virtual balance last year[46]. The net invisibles deficit, which had been falling as a percentage of GDP from 3.9 in 1970 to 3.4 in 1973, was unchanged as a percentage of GDP in 1974 to give a current account deficit of the same order which was slightly higher than the average for the decade ending June 1972. As the volume of Australian exports began to pick up in the second half of the year despite a general slowdown in world trade, while imports dropped away, there were clear signs of an improvement in the current account towards the end of the year. Thus, by the first quarter of 1975 the (fob) trade balance had returned to a sizeable surplus and the current account deficit fallen to below 1 per cent of GDP on a seasonally-adjusted basis.

As in the previous year, 1972 had seen a continuous high rate of net capital inflow. Of identified flows[47] one-half was made up of net direct investment including borrowing from related companies overseas and the remainder distributed between portfolio purchases and institutional borrowing. The first quarter of 1973 had seen an abrupt transformation of this picture in the form of a turnaround in the capital account equal to $ 1 billion; that is, from a net inflow in the preceding December

44 In fact, the favourable shift in the terms of trade continued only into the first quarter of 1973. However, the improvement had been sufficiently sharp during this and preceding quarters as to give the overall improvement noted in the text.

45 In 1972 and 1973 Australia's export markets grew by 9 and 10 per cent respectively, while total Australian domestic demand rose by 1¼ and 11 per cent respectively. Given the substantial element of agricultural produce in Australia's export structure, analysis of cyclical influences on the country's current account should be treated with some reserve. Thus the failure of exports to grow in volume in 1973 was attributable to supply rather than demand constraints. However, for a discussion of the stabilising/destabilising influence on Australian domestic developments of the relative phasing of domestic and overseas cycles under the earlier fixed exchange rate system see " The Australian Business Cycle and International Cyclical Linkages ", paper presented by P.F. Barry and C.W. Guille to the Fourth Conference of Economists, Canberra, August 1974.

46 The oil import bill amounted last year to $ 650 million, compared with $ 196 million in 1973. As late as the mid-1960s Australia was almost wholly dependent on imported oil, the cost of which accounted for over 8 per cent of the total value of merchandise imports. The country is now over two-thirds self-sufficient and imports in 1973 amounted to only about 4 per cent of the total import bill. However, following the price increase, this figure rose to 8¾ per cent last year.

47 Of the total net apparent capital inflow, over one quarter remained unidentified, and so appeared in the " balancing " item.

Table 6 Balance of payments
$ million

	1972	1973	1974	1973				1974				1975
				I	II	III	IV	I	II	III	IV	I
				Seasonally adjusted								
Exports (fob)	5 225	6 489	7 473	1 632	1 567	1 616	1 674	1 677	1 757	1 958	2 081	2 141
Imports (fob)	3 589	4 502	7 394	987	1 043	1 183	1 289	1 509	1 794	2 014	2 077	1 811
Trade balance	1 635	1 987	80	645	524	433	385	168	–36	–56	4	330
Invisibles (net)	–1 363	–1 578	–1 877	–414	–373	–416	–375	–431	–471	–476	–499	–470
CURRENT BALANCE	272	411	–1 797	232	152	17	10	–264	–507	–532	–494	–140
				Not seasonally adjusted								
Capital account												
Government	–27	–53	–124	–58	–63	78	–10	–14	–62	–42	–6	–37
Marketing authorities	–52	73	–234	14	14	27	18	–35	–105	–51	–43	4
Private	1 345	–498	665	–338	–40	–91	–29	0	319	155	191	90[1]
Balancing item[2]	646	–213	153	–156	9	–6	–60	37	14	–78	180	87
NET APPARENT CAPITAL INFLOW	1 912	–633	460	–538	–80	8	–23	–12	166	–16	322	144
NET MONETARY MOVEMENTS	2 184	–231	–1 324	–298	72	–3	–2	–248	–316	–620	–144	25

1 Undistributed profits only.
2 From 1973: III includes certain private sector monetary transactions as well as in 1975: I all private capital movements except undistributed profits.
Source: Australian Bureau of Statistics, "Balance of Payments".

quarter of $ 450 million to an outflow of $ 540 million. During the remainder of 1973 a small outflow of less than $ 100 million was recorded. Virtually all forms of investment flows were affected[48]. While part of the turnaround, which for the year as a whole amounted to $ 2½ billion compared with 1972, could be explained in terms of a tailing off of major development projects, the main portion is attributable to policy action aimed at influencing both domestic liquidity and the balance of payments[49].

Last year saw a return to a net inflow—albeit of modest proportions—equal to 0.9 per cent of GDP. This turnaround occurred despite the continued amortisation of public sector foreign debt as well as a considerable increase in credit accorded by the agricultural marketing boards mainly on account of wheat sales. The ploughing back of undistributed profits remained at a relatively high level—probably influenced by relative interest rate levels—while the inflow of other direct investment picked up in 1974. On the other hand, there was a slight outflow on account of portfolio investment and borrowing abroad, despite measures taken to alleviate the extreme tightening which had occurred in domestic monetary conditions. From mid-year the variable deposit requirement ratio was lowered in two steps and finally suspended in November, while the short-term borrowings embargo was modified so as to apply to borrowings repayable within six months rather than within two years as previously applied[50]. Australia's international reserves fell by A $ 654 million to A $ 3,217 million during 1974, or to the equivalent of about 4 months imports of goods and services.

II ECONOMIC POLICY

Last year's Survey commented that in 1973 economic policy had been more successful on the external than on the domestic front. A series of measures, beginning with the December 1972 revaluation and including an across-the-board cut as well as further specific reductions in the tariff, had been taken which both helped redress the earlier large external surplus position and at the same time relieve short-term supply shortages. Perhaps more importantly from the longer-term aspect, these policy initiatives appeared to imply that the desirability of examining ways of improving the allocation of the country's resources had been recognised and acted upon. In the domestic sphere, the strength of the recovery which had become apparent in late 1972 seems to have been underestimated in policy formulation. A number of internal and external factors complicated economic policy. The large surplus on the external account contributed to a substantial increase in domestic liquidity the effects of which were felt well into 1973. At the same time the implementation of a series of wide-ranging social reforms by the newly-elected Government contributed to a faster growth in public expenditure.

48 However, there was a net repayment of debt to marketing authorities. The amount of undistributed profits also increased; however, no actual flow takes place in this latter case.

49 The most important measures of relevance here were the appreciation of the Australian dollar, a ban on short-term borrowing abroad and introduction of a variable deposit requirement (VDR) scheme on other borrowing. In particular appreciation of the currency appears to have induced a sizeable volume of repayments of outstanding loans, while new borrowing was made virtually prohibitive by the VDR scheme. For details ofthis scheme see last year's Survey page 58. Some foreign borrowing did continue, but this largely reflected drawings on facilities arranged prior to the scheme's introduction (since these were exempt from the deposit).

50 For details of these policy measures see the Calendar of Main Economic Events. The short-term borrowing embargo still applies. There was a marked increase in exchange control approvals for loan inflows in October, which probably reflected a reaction to the devaluation in the preceding month as well as the measures listed above.

When it was decided to exercise a restraining hand in the light of an acceleration in the rate of inflation, the burden of so doing was placed on monetary measures and on the impact on liquidity of the growing external deficit. It was not until September of 1973 that substantive action was taken on the domestic monetary front to supplement the various external measures which had been successfully implemented to reduce the rate of capital inflow from abroad. The net result for 1973 was that a rapid increase in output was obtained and the rate of unemployment reduced, but inflation accelerated markedly despite the benefits which the external policy initiatives had implied in this area.

By the beginning of 1974, business surveys were already suggesting a less buoyant general outlook, though supply bottlenecks were still operating to restrain expanding output. The Secretariat in its assessment of short-term economic prospects expressed concern that the chances of combatting the then mounting inflationary pressures were not favourable unless closer attention was paid to demand management policies. In the event, monetary conditions tightened further in the opening months of the year and interest rates continued to rise to historically high levels. Private construction was the main element of demand affected by this tightening; the housing market, which had experienced a severe speculative boom, recorded a sharp decline in activity from the first quarter on. However, the impact of this severely restrictive monetary stance began to be reinforced by the normal seasonal tightening during the June quarter.

With the rate of inflation accelerating sharply in the second quarter of 1974, however, it was foreshadowed that the forthcoming Budget for fiscal 1974/75, due to be presented in September, would be severely restrictionary. Thus in late July a " mini-budget " was announced providing inter alia for increases in certain indirect tax rates and Government charges as well at a cutback in the immigration programme. But subsequent information showing a serious decline in levels of activity accompanied by a marked increase in unemployment and no weakening in inflationary pressures, posed a serious dilemma for policymakers. In the event, fiscal policy remained expansionary and monetary policy was substantially relaxed. In the face of a continuing deterioration in labour market and general business conditions, this stance has been further confirmed, buttressed by a series of specific measures aimed at stimulating particular sectors.

Tightening liquidity

A measure of the direct effects on private sector primary liquidity during the period 1972-1974 of changes in the private external account, budgetary operations and Reserve Bank transactions respectively is set out in Table 7 below[51]. The broad picture which emerges is that while budgetary and Central Bank transactions operated to moderate the growth in domestic liquidity in 1972, this was swamped by the liquidity effect of the balance of payments surplus (principally on capital account). Private sector primary liquidity was accordingly boosted by over $2 billion in that year. In both ensuing years the growth rate of the liquidity base increased more slowly and indeed the banking system's reserve assets actually fell last year. In 1973 the commercial banks' SRD ratio was successively increased from 6.6 to 9.0 per cent, while the capital account of the balance of payments swung around sharply to produce a large outflow of funds which more than outweighed the current surplus. On the other hand, the Budget domestic deficit added almost $0.5 billion to private sector primary liquidity. The pronounced fluctuations in impulses to the economy's

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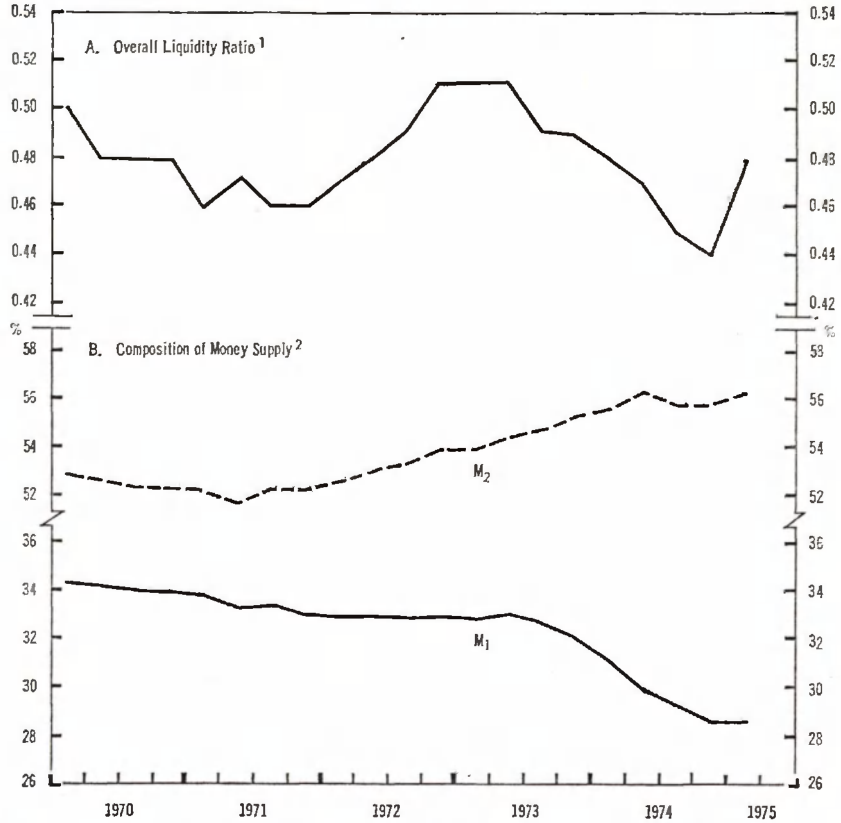
51 The table should be treated with due reserve. For example, the three categories of influences listed are not independent; thus, for instance, balance of payments developments are influenced by monetary and budgetary actions. Interest rate policy is not taken explicitly into account.

Table 7 **Main determinants of changes in private sector primary liquidity**[1]
$ million

	1972	1973	1974	1973 I	1973 II	1973 III	1973 IV	1974 I	1974 II	1974 III	1974 IV	1975[2] I
Budget domestic deficit	–284	475	93	–60	–1 077	857	755	–417	–1 407	808	1 109	946
Foreign exchange transactions[3]	2 858	390	–486	–231	312	141	168	–46	–19	–448	27	204
Reserve bank accounts*	–310	–259	497	416	–97	–451	–127	397	152	–23	–29	155
PRIVATE SECTOR PRIMARY LIQUIDITY	2 264	606	104	125	–862	547	796	–66	–1 274	337	1 107	1 305
Less Non-bank holdings of: Notes and coin	189	287	374	–45	82	87	163	–28	82	117	203	28
Government securities	405	–158	88	–205	–292	169	170	–8	–378	287	187	33
BANK SECTOR PRIMARY LIQUIDITY[4]	1 670	477	–358	375	–652	291	463	–30	–978	–67	717	1 244
Plus Bank: Loans and advances**	1 310	3 202	2 469	643	1 083	873	603	692	1 033	–105	849	517
Other assets	190	471	–233	–51	141	285	96	66	–536	–27	264	–13
BANK ASSETS (= TOTAL BANK DEPOSITS)	3 170	4 150	1 879	967	572	1 449	1 162	727	–480	–199	1 831	1 748
Plus Notes and coin held by public	189	287	371	–45	82	87	163	–29	82	117	201	28
Money supply (M3)	3 359	4 437	2 250	922	654	1 536	1 325	697	–398	–82	2 033	1 776
Money supply (M2)	2 132	2 821	1 318	518	200	889	1 214	550	–539	–199	1 506	1 353
Money supply (M1)	1 149	1 176	–79	140	278	300	458	–153	–456	–158	688	374
* *of which:* Commercial bank SRD accounts	19	–449	683	–72	–113	–193	–71	–81	97	493	174	–46
Rural credits advances	–49	–79	11	121	–108	–68	–24	242	–158	–103	30	181
Other[5]	–580	269	–197	367	124	–190	–32	236	213	–413	–233	20
** *of which:* Commercial banks	963	2 500	1 696	543	923	645	389	518	812	–255	621	214
Savings banks	347	702	773	100	160	228	214	174	221	150	228	303

1 Average-weekly figures basis except for budget domestic deficit, foreign exchange transactions and public holdings of Government securities (which are on a last-day basis) and for private sector primary liquidity (which is partly on a last-day basis).
2 Preliminary.
3 Attributable to private sector transactions only. Equals change in Reserve Bank holdings of gold and foreign exchange adjusted to exclude the effects of exchange rate variations and Government budgetary and financing transactions overseas.
4 Equals bank sector holdings of notes, coin, cash with the Reserve Bank, Treasury Bills and Notes, and other Australian Government securities.
5 Includes Reserve Bank loans and miscellaneous accounts as well as balancing item (the latter mainly takes account of differences in timing bases used).
Source: Treasury Information Bulletin.

Diagram 5 **Monetary indicators**
Seasonally adjusted



1 Money supply (broadly defined as M3) divided by current-price GDE (at annual rate).
2 Percentage share of M1 and M2 in total money supply broadly defined as M3 :
M1 equals public's holdings of currency plus current accounts in commercial banks.
M2 equals M1 plus all other accounts in commercial banks.
M3 equals M2 plus all accounts in savings banks.

Source: ABS. Quarterly Estimates of National Income and Expenditures; Reserve Bank Statistical Bulletin.

liquidity base continued into 1974 as a large deficit—which peaked in the September quarter—was posted on the current external account, the effect of which was only partly counteracted by an increasingly expansionary monetary and budgetary policy stance as well as by a revival of capital inflows. Domestic budgetary transactions grew very strongly in the March quarter of 1975, accounting for almost $1 billion of the $ 1.3 billion increase in primary liquidity in that quarter. Primarily due to the rapidly growing budget domestic deficit, primary liquidity increased by $ 2.7 billion over the nine months to March, more than double the increase in the corresponding period of the last financial year and almost $ 250 million above the increment during the corresponding months of 1972-73, when financial conditions were very easy indeed.

After rising on average by about 33 per cent in 1973, the seasonally-adjusted growth rate of the narrowly-defined money supply (M1) fell sharply from the third quarter of 1973 and an actual decline was recorded during the middle quarters of last year, before again expanding during the final quarter. On average the money supply according to this definition fell by 5 per cent in 1974, but was again growing at an annual rate of around 20 per cent by the early months of this year. The behaviour of the most broadly-based measure of the money supply (M3) was quite different, with a 13 per cent increase being recorded on average for 1974 as a whole. This divergence reflected a marked shift away from checking accounts in favour of interest-bearing deposits. An important factor in this development was the very substantial growth in certificates of deposit following abolition in September 1973 of the upper limit on interest rates which the trading banks could offer on these instruments.

Despite this rapid increase in the broadly-defined money supply, Part A of Diagram 5 shows that its ratio to current-price GNE (the overall liquidity ratio) has fallen almost continuously since mid-1973 in seasonally adjusted terms to a level below that reached in the preceding (1971) cyclical low. Nevertheless, in general, domestic monetary conditions remained relatively easy until early 1974, as the earlier build-up of liquidity had been sufficient to delay the impact of the tightened policy stance during this interval. The effects of the tightened monetary conditions then spread rapidly and reports of companies in difficulties became more widespread[52], while business surveys revealed a marked increase in companies reporting the existence of financial constraints to their further expansion. The virtually unprecedented degree of tightness in financial markets was further evidenced by the fact that the " usage ratio " for commercial bank overdraft limits reached a record 73 per cent, compared with a typical 65-67 per cent in past periods of tight money.

Policy response

The fiscal 1973/74 Budget as originally presented provided for an equal growth rate of receipts and domestic expenditure (20.6 per cent for receipts and 20.0 per cent for expenditure on actual 1972/73 outcome[53]) to give a domestic deficit of some $ 162 million or about 0.4 per cent of 1972/73 GDP. While the gathering strength of the upturn had been recognised when presenting the Budget, the scope for exercising restraint had been curtailed by earlier undertakings not to raise personal income tax rates[54] and by an election mandate which implied a sizeable expansion of public expenditure. In the event, the Budget operations exercised a more restraining effect than originally envisaged. On the one hand, the more rapid growth rate of average earnings than assumed (16.3 per cent compared with 13 per cent) contributed to total receipts rising in fact by 26.1 per cent—over 60 per cent of the extra revenue stemming from higher PAYE deductions[55]. On the other hand, actual outlays exceeded Budget estimates by only 1.1 percentage points despite increases in cost levels as shortfalls occurred in certain " new " areas on account of resources shortages and administrative lags. As a result, the Budget outcome registered a small domestic surplus equivalent to 0.5 per cent of the preceding fiscal year's GDP. Borrowings on the domestic market raised a net $ 776 million, all in long-term issues, there being a decline in Treasury Notes outstanding, and $ 127 million was drawn from Government and Trust Funds, etc. The proceeds were used to repay a net $ 130 million of overseas debt and the balance to increase the Government's cash

52 During this period several company failures (particularly in the property development area) received widespread publicity and appear to have caused some uncertainty in financial markets. In October building societies in most States experienced a net outflow of funds.

53 The percentage changes are based on Budget estimates adjusted to ensure comparability between years.

54 However, a number of changes were made affecting concessions, etc., and to corporate taxation, the total effect of which was to raise estimated taxation receipts by 3.0 per cent.

55 The faster growth rate of earnings also raised Budget expenditure, of course—primarily on account of the Australian Government's own wage and salary bill, but also of transfers to the States, etc.

Table 8 **Budget transactions**[1]

	1972-73	1973-74			1974-75	
	Actual $ million	Budgeted ($ million)	Actual ($ million)	Change[2] Per cent	Budgeted $ million	Change[3] Per cent
Receipts						
Income tax — individuals	4 090	5 179	5 490	34.2	7 966	45.1
— companies	1 634	1 943	2 034	24.5	2 566	26.2
Sales tax	765	889	969	26.7	1 105	14.0
Other taxes	1 999	2 389	2 446	22.4	2 881	17.8
Interest, rent, dividends	951	1 007	1 031	8.4	1 145	11.1
Other	80	72	33	—57.5	41	21.4
TOTAL	9 518	11 478	12 002	26.1	15 704	30.8
Outlays						
Expenditure on goods and services						
— current	2 377	2 635	2 767	16.4	3 480	25.8
— capital[4]	230	311	283	23.0	412	45.6
Transfers to households	2 530	3 041	3 075	21.5	4 119	34.0
Grants to States[5]	2 782	3 337	3 430	23.3	4 755	38.6
Interest payments	674	704	712	5.6	795	11.7
Other transfers	648	769	745	15.0	875	17.6
Net advances to States	668	847	749	12.1	1 073	43.3
Other net advances	321	522	536	67.0	765	42.7
TOTAL	10 227	12 165	12 295	20.2	16 274	32.4
SURPLUS (+) OR DEFICIT (—)						
— total	—709	—687	—293		—570	
— domestic	—215	—162	+211		+23	

1 Refers to Australian Government budget sector transactions for fiscal years (July-June).
2 Actual 1973-74 on actual 1972-73.
3 Budgeted 1974-75 on actual 1973-74.
4 Fixed capital expenditure on new assets plus increase in stocks less sales of previously rented houses.
5 Including for local government authorities.

Source: Statements attached to Budget Speeches 1973-74 and 1974-75.

balances. As indicated below, the vigorous pursuit of open-market operations also contributed to the large increase in non-bank private holdings and Government securities in the last half of 1973. As, however, policy was subsequently reoriented toward a more accommodating stance this increase was more than offset in the next two quarters.

As the employment situation deteriorated, fiscal policy swung over to a more expansionary tack with the presentation of the 1974/75 Budget in September last year[56]. Although a sharp 33 per cent increase in domestic expenditure was budgeted for and the burden of personal taxation eased through a restructuring of rates, it was estimated that the domestic balance would still yield a very slight surplus. Actual developments have since witnessed a considerable divergence from these estimates. The fast growth rate of average earnings has been the principal factor

56 To quote from Statement 2 attached to the Budget Speech the " Budget has been framed in an unusually difficult economic context. Unemployment and prices are rising and the balance of payments is deteriorating... " More precisely, in formulating the Budget it was assumed that non-farm GDP would rise by only 2 per cent and average earnings by 22½ per cent. The restructuring of personal income tax brackets was designed to favour those on lower incomes and overall was estimated to reduce personal tax revenue by about 3½ per cent. At the time of the June 1974 Premier's Conference inflation appears to have been the authorities' principal preoccupation and a sharply restrictive 1974-75 Budget was foreshadowed, entailing inter alia cuts in both final expenditure and in grants to the States.

pushing up through the effect of fiscal drag the growth rate of net PAYE tax revenues by no less than 51 per cent in the 10 months to end-April 1975 compared with the same period in 1973-74: the budgeted increase was 46 per cent. On the other hand, a series of expansionary measures has been taken in an effort to meet the dual problem of rising unemployment and declining levels of activity on the one hand coupled with a continuing rapid rate of inflation on the other. On the revenue side, personal and company income tax rates have been cut and sales tax rates on motor vehicles temporarily lowered, while on the expenditure side transfers to the States for housing have been increased and spending on employment schemes raised[57]. Up to the end of April this year—the first five-sixths of the current fiscal year—overall revenue was up 24.6 per cent and expenditure by 44.1 per cent on the corresponding period of the preceding fiscal year, leaving an overall domestic deficit of about $ 3.2 billion compared with $ 1.0 billion. While total domestic borrowings of $ 1¾ billion during this period were marginally higher than during the corresponding period of 1973-74 last year, over 80 per cent has taken the form of short-term Treasury Note issues taken up by the trading banks. The remainder of the Budget deficit has been met by drawing on cash balances, and the rate of repayment of foreign debt has been reduced.

During the five months up to the end of February last year the Reserve Bank pursued open market operations vigorously to mop up excess liquidity. Private non-bank holdings of Government securities, which had increased by $ 170 million during the September 1973 quarter, rose again by an equal amount in the final quarter of that year. However, as monetary conditions tightened under the usual seasonal influences in the early part of last year[58], the authorities subsequently felt constrained to take special action to relieve the banks' position. Very large quantities of Government securities were purchased in the open market (mostly paper with a very short term to maturity) and beginning in late May the Bank dealt in non-Government paper for the first time, buying a small quantity ($ 38 million) of bank-accepted commercial bills from dealers in the official short-term money market. Overall non-bank holdings of Government securities fell back to their mid-1973 level[59]. Although the banks' SRD ratios had already begun to be accommodated to the tightness of market, it was not until after the Budget was presented in September last year that monetary policy officially swung round to an expansionary tack to accommodate the economy's increased basic financing requirements. Foreign exchange transactions, which had already registered a small deficit in the first half of the year, now placed a severe drain on the banks' liquidity. By early October the SRD ratio had been reduced to 3.0 per cent—the lowest figure ever set[60]—

57 For a detailed list of these measures see the Calendar of Main Economic Events. The change in personal income tax scales is calculated to reduce revenues from this source by 7 per cent in fiscal 1974-75. Apart from providing a boost to demand, this measure was aimed at moderating claims to be put at the National Wage Case by compensating disposable income for price rises in the December quarter. As the concessions have been concentrated in the first half of calendar 1975, individuals' tax liabilities will fall by about 14 per cent below what they would have been during this period. It was also decided not to proceed with a proposed capital gains tax. Measures taken which touch directly on the employment situation include:

(*i*) Financial assistance to families obliged to relocate for suitable employment,
(*ii*) Increased subsidies to companies for employee purposes,
(*iii*) Extension of Regional Employment Development Scheme from rural to certain high-unemployment metropolitan areas.

58 Actually these influences were felt sooner than on previous occasions due to the fact that quarterly company tax payments were made for the first time in January last year.

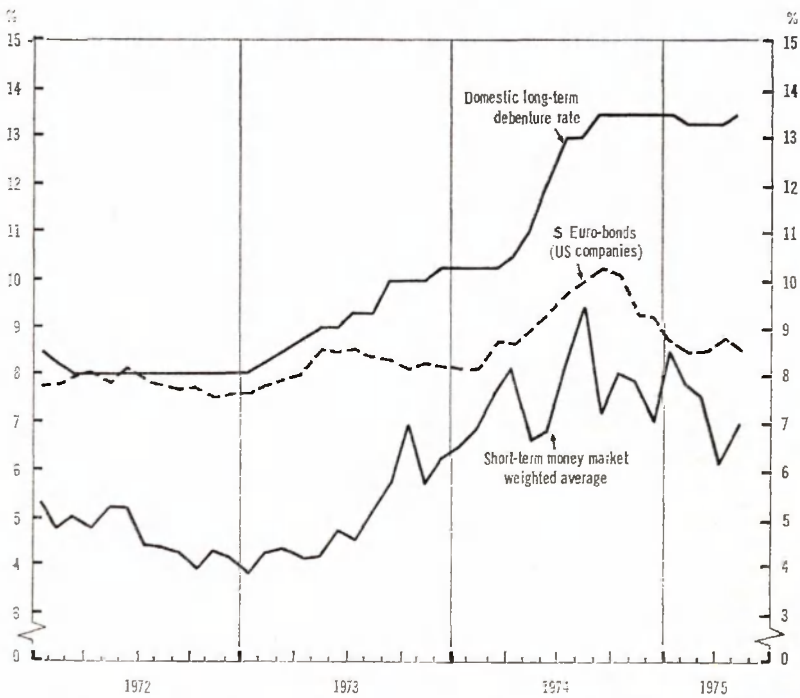
59 The short-term money market dealers reduced their holdings by a substantial amount, but other private non-bank financial institutions holdings' remained approximately unchanged.

60 Some idea of the flexibility with which SRD ratios have been used is conveyed by the number of changes made recently. Whereas in previous years there have been only 1 or 2 changes a year, in 1973 there were 5 (taking the ratio from 6.6 to 9.0 per cent) and in 1974 no less than 8 (taking the ratio from 9.0 to 3.0 per cent).

and later that same month a special borrowing facility of $ 113 million in the Reserve Bank was placed at the disposal of the commercial banks.

After moving up in the early months of 1974, short-term interest rates rose sharply around the middle of the year under the influence of the severe tightening in financial conditions, which in turn reflected heavy tax payments to government and a growing current account deficit on the balance of payments (see Diagram 6). The need on the part of the commercial banks to turn over maturing certificates of deposit forced up yields to as high as 21 per cent in some reported instances by late May[61]. This strong demand for funds at the short-term end of the market contributed to the opening up during the period from May to September of an " inverse yield gap "[62]. Somewhat behind short-term yields, the rise in long-term interest rates accelerated around mid-year. In July, after consulting the Reserve Bank, the savings banks increased by 2 percentage points the rates offered on their investment accounts in the face of strong competition for funds from the building societies and finance companies. Within the space of about four months corporate bond yields had risen by some 2½ percentage points. From October the yields on short and medium-term Government securities were successively reduced—ranging from

Diagram 6 **Selected interest rates**



Source: Reserve Bank of Australia Statistical Bulletin; Morgan Guarantee Trust. World Financial Markets.

61 The published average yield on (3-6) month CDs peaked in June at 17.2 per cent (the bulk of issues were in this maturity range). It would seem that the novelty of freely bidding for deposits (on the basis of price) entailed difficulties of adaptation for the banks, but on the other hand this helped transmit the policy impact more rapidly to non-bank financial intermediaries.

62 During the September quarter the yield gap between the shortest and longest Government securities amounted to some 1¼ percentage points. This interest rate structure could be interpreted as indicating an expected fall in long-term rates.

an almost 3 percentage point fall in the case of 13-week Treasury Notes to about a ¾ percentage point for 5-year non-rebatable bonds by January this year. On the other hand, long-term security yields remained unchanged. While Treasury Note yields then stabilised, there has been a slight tendency for short and medium-term bond rates to firm. Private finance company debenture rates have remained essentially unchanged since the middle of last year, though the span of rates offered on 5-year notes has narrowed. Short-term money market rates have moved somewhat erratically, though in a generally downward direction since the September quarter of last year.

Following the general tariff reduction in July 1973 and the earlier appreciation in the value of the Australian dollar, a number of temporary specific measures were taken during the second half of 1974 to restrain the growth in imports of a number of products—including textiles, clothing, footwear, and motor vehicles—which account for around 6-8 per cent of total merchandise imports. In September the Australian dollar was devalued by 12 per cent and the link with the US dollar discontinued. The exchange rate is now being determined by movements in a trade-weighted average of certain foreign currencies. In addition, the existing restrictions on borrowing abroad were successively eased[63].

A number of other measures have been taken to assist the private corporate sector. The Prices Justification Tribunal, whose operations had no doubt contributed to the decline in company liquidity and affected investment plans, was formally requested to take into account the need for companies to earn a reasonable return on capital invested[64]. Companies' cash flow will also be boosted by the introduction of a scheme for accelerated depreciation (at twice the normal rate) during a 12-month period with retroactive effect to July 1974 in respect to purchases of certain new plant and equipment by the manufacturing and primary production sectors. The Industries Assistance Commission has been requested to include a special supplementary short-term recommendation to take account of the economic cycle in its findings when recommending long-term levels of assistance for an industry. Furthermore, the company income tax rate was cut from 47½ to 45 per cent, the tax instalment due in February this year postponed, and loan guarantees are being accorded the financing of firms' restructuring activities.

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63 A ban still exists on short-term borrowing abroad; however, the definition of " short-term " for this purpose has been relaxed from 2 years to 6 months.

64 It will be recalled that the Australian Government lacks the Constitutional power to directly control wages and prices. Last year's Survey (page 25) commented that it remained to be seen how effective the Prices Justification Tribunal, which under the current legislation is obliged to rely on " moral suasion " to have its findings accepted, would prove to be. It was noted, however, that up to that time all the Tribunal's recommendations stemming from public enquiries had been accepted by the companies concerned. In fact, acceptance of the Tribunal's findings has continued. It is extremely difficult to assess the Tribunal's overall impact on restraining inflation. However, a recent study was of the opinion that it had perhaps reduced the growth rate of the Consumer Price Index by 1-2 percentage points during a period approximately covering fiscal 1973-74 (see " The Nature and Economic Implications of the Prices Justification Tribunal " by Dr. N.R. Norman, issued by Australian Industries Development Association, Canberra, February 1975). The study found, however, that the Tribunal had, by squeezing profits, also contributed to reducing investment, to the detriment of longer-term productivity growth. The legislation does not define the criteria on which the justifiability of a price increase is to be judged. For its part the Tribunal has based its assessments on " allowable " cost increases rather than on a measure of profitability—with " allowable " being broadly considered as unavoidable from the company's viewpoint (for example, not due to a wrong assessment of the business situation and which cannot be absorbed by increased efficiency). In this context, the Tribunal has generally considered wage and salary increases as allowable, but in a well-publicised finding last year refused part of a " consent award " which it considered excessive. It may be noted that, following the official request to the Tribunal mentioned in the main text above, the first case is currently being heard which is based specifically on an application involving a profitability criterion.

III SHORT-TERM PROSPECTS AND CONCLUSIONS

The Australian economy has been experiencing a decline in levels of activity for about one year. Past experience offers little guide as to when the upturn may be expected, since the length of downturns has been extremely variable. Policy has been operating along very expansionary lines for more than half a year, but its impact so far has been limited. However, the Secretariat estimates that overall final domestic demand should recover slightly in the first half of 1975, with the growth rate then picking up to around a 7 per cent annual growth rate by the first half of next year. A sizeable rundown in inventories probably occured in the first half of this year, with a turnaround then occurring by the second half. While total domestic demand is thus expected to be relatively weak this year, a turnaround in the external account—mainly in the first half of this year—will boost the growth rate of GDP. However, unless there is a realisation of the need to adjust fiscal and monetary policies and a significant moderation in the growth of wages, the recovery in output and employment may not be sustainable and the present high rate of inflation may well worsen.

Demand

A major imponderable in assessing the likely development of real consumer demand is the growth of real disposable incomes. At the time of writing, the Conciliation and Arbitration Commission had just handed down its decision in the National Wage Case (see below); while no general increase in wage rates has been granted, discretionary indexation of wage rates to consumer prices has been restored after a break of over 20 years and its effect on incomes is difficult to assess. The expected improvement in the employment situation, though relatively weak, should provide some stimulus to consumer expenditure. However, the phenomenon observed during the 1970s of households tending to increase their savings ratio in the face of sharp rises in prices could weaken this reaction. A recently-conducted consumer sentiments survey has indicated a considerable improvement in consumer's confidence about prospects for the economy as a whole. Nevertheless, inflation and unemployment were still regarded as serious problems by some three-quarters of respondents[65].

These sentiments have no doubt contributed to the pick-up in consumer demand noted during the first quarter of the present year, and the subsequent continued buoyancy of retail sales. Probably the most important short-term influences operating at the present moment to boost consumer spending are the personel income tax reductions and the temporary specific cuts in sales tax on motor vehicles (which are now being gradually phased out up to the end of September). Reductions in personal income tax were announced in the September 1974 Budget and again in November 1974. The November reduction was of particular significance because it was based on full-year income for fiscal 1974-75 but was fully paid out to wage and salary earners during the second half of the financial year. Registrations of motor vehicles reacted rapidly to the sales tax cuts, reaching a new record in February and rising further by April, although sales can be expected to tail off in the second half of the year. On the other hand, the pick-up in house-building, likely to be evident by

65 The numbers concerned about the employment situation jumped sharply during the final half of 1974.

Table 9 **Short-term forecasts of demand and output**

	1974 $ million	Percentage volume change	
		1974	1975[1]
Consumers' expenditure	31 945	3.6	4
Government current expenditure	7 840	3.6	8½
Gross fixed investment	13 031	2.3	– 3
Final domestic demand	52 816	3.3	3
Stockbuilding[2]	2 730	(4.6)	(–4½)
Statistical error[2]	–53	(–1.7)	(0)
Total domestic demand	55 491	6.1	–1½
Exports of goods and services	8 750	–1.9	5
Imports of goods and services	9 622	23.9	–15
Foreign balance[2]	–872	(–4.6)	(3½)
Gross domestic product	54 620	1.5	2

1 Secretariat forecast.
2 Contribution to GDP growth.
Source: ABS, " Quarterly Estimates of National Income and Expenditure " and Secretariat estimates.

mid-year, should boost the demand for associated durables. Taking account of these various influences, as well as the technical effect of the decline experienced in the latter part of last year, it seems unlikely that the volume growth rate of private consumption would exceed 4 per cent on average this year over 1974.

The only bright spot in the outlook for private fixed capital formation is dwelling construction. Responding to the general easing in liquidity as well as specific measures taken to boost activity in this area, it seems that building approvals bottomed out in the fourth quarter of last year. During the March quarter this year the number of approvals granted was 9 per cent above the figure for the preceding quarter. Loan approvals accorded by the savings banks and building societies, which are the major sources of home finance, are now increasing sharply. Although initially a sizeable part of funds flowing into the housing market appear to have been intended for the purchase of existing structures, the revival in demand has now penetrated to the new dwellings market.

A recent Department of Manufacturing Industry survey, which reflects views held around the end of April, indicated that the manufacturing sector expected little or no growth in the volume of sales seasonally adjusted and a continued low level of capacity utilisation during the period up to end-September. Capital outlays were being largely confined to replacement expenditure, with new projects tending to be deferred. A private survey carried out at about the same time confirmed the present depressed state of this sector, and planned expenditure in nominal terms on building as well as on plant and equipment was still expected to fall during the coming year. In other sectors, prospects appear no brighter. As indicated earlier, there is at present a surplus of vacant office space in the major cities, while in the mining sector major projects are being held in abeyance. Apart from the marked weakening in world metal markets, uncertainties concerning Government policies in this area have been a contributing factor[66]. Indeed, the overall picture for private construction activity other than house-building is at present exceptionally pessimistic and, given the quite long lead times applicable in many cases, it is unlikely that the volume

66 Apart from iron ore mining, fiscal 1973-74 seems to have been a very profitable year for the minerals industry. However, with the present depressed conditions in world markets and the high costs of holding stocks, the tendency to trim production has been more marked than in the past.

of expenditure will pick up significantly this year. Among the major immediate factors behind this downturn in investment activity has been the weak inflow of orders, above-average holdings of stocks and unfavourable sales prospects. To some extent the situation in these respects can be expected to improve as the year progresses. However, another major element has been the continuing high rate of inflation which seems to have had a generally detrimental effect on business activity and confidence through such channels as its direct impact on profitability and the uncertainties created for investment decision-making. Although the Prices Justification Tribunal has been requested to give increased consideration to ensuring that a reasonable return is earned on capital invested, the present slackness in domestic demand may well sharpen competitive pressures on profit margins[67].

Public sector expenditure is expected to be buoyant this year. The 1974-75 Budget and subsequent measures provide for a sizeable expansion of spending to absorb resources released with the slowdown in private sector activity. Apart from increased outlays on retraining schemes and employment-creating public works, the earlier delays encountered in expanding government fixed capital formation appear to have now been largely overcome. Consequently, a sharp acceleration in the volume of both current and fixed capital expenditure on public account is expected this year. A high level of activity is expected to continue into 1976.

While Australia has the capacity to expand the volume of exports this year, much will depend upon the demand conditions for particular products. Shipment of cereals and sugar should be higher than last year, but for meat the picture is still rather depressed with little prospect of a significant recovery in markets before next year. In the case of wool, there has, as noted earlier, been a pick-up in demand recently which should be reflected in exports later this year. With industrial activity depressed in the major markets, it is possible that the rate of growth of the overall volume of minerals shipments may slow down. As Australia's export markets are likely to decline this year, the outlook for manufactured exports is particularly weak. The rapid increase in unit labour costs is also endangering competitiveness, despite last year's devaluation. The sharp decline in domestic demand during the latter half of last year, and the relatively weak recovery expected this year, as well as the maintenance of import restrictions on certain items and the impact of the September 1974 devaluation are likely to result in a significant drop in imports in the first half of 1975 followed by only a slight increase subsequently.

Output and employment

Industrial production seems to have been extremely sluggish in the early months of this year, but a pick-up is expected as the year progresses. Nevertheless, for 1975 as a whole the growth rate of output may not on average exceed 1½-2 per cent. As indicated when considering the depressed state of private business fixed capital formation, certain factors, including the present high rates of inflation, have had an adverse effect on business profitability and expansion plans[68]. Thus, the outlook at this stage must be considered highly uncertain and the strength of the expected recovery remain open to doubt. The policy action taken to limit the rapid rise in imports of certain products—specifically textiles, clothing, footwear, white goods and motor vehicles—should arrest the decline in domestic producers' share of local sales. In addition, the effect of the devaluation should be stimulatory. However, the prospects for these individual markets vary considerably. As indicated earlier, white goods manufacters should benefit from the pick-up in housing construction.

67 New legislation in the trade practices field is likely to stimulate competitive forces through increased control over restrictive practices.

68 The previously low levels of manufacturing investment may also limit the scope for expanding output much beyond earlier levels in some areas.

While motor vehicle manufacturers are benefitting from the current boom in sales, this will be limited in time and demand has probably been largely met by drawing on existing stocks. Thus the impact on production plans of the sales tax may prove slight, although, of course, companies' cash flow has been considerably improved.

The uncertainties concerning output have, of course, implications for the labour market. Even after taking into account the impact on the labour force of the reduced immigration programme and the boost imparted by the more buoyant elements of demand—housing and public expenditure—there would seem on balance little scope for an overall significant improvement in the employment situation this year. Unemployment is highest among young people and the unskilled who form those categories of the workforce most likely to suffer from any weakness in the recovery. There are signs that in manufacturing adjustment of labour input to the downturn took the form of releasing expensive marginal labour and to a lesser extent of reducing overtime.

Wages and prices

The outlook for wage rate developments remains uncertain. Award rates now seem likely to be indexed to the quarterly Consumer Price Index. For the time being the Conciliation and Arbitration Commission will automatically apply such indexation unless persuaded to the contrary by those seeking to oppose the adjustment[69]. The main central union organisation (ACTU) has given a broadly favourable response in support of the indexation decision, but it remains to be seen how amenable the individual unions will prove to be. The decision in the recent Metal Trades Case in which the unions sought a $ 20 a week increase, is encouraging. The Commission ruled that the unions had not sustained their arguments for " catch up " wage increase in terms of the principles laid down in the National Wage Case Decision of April 1975 and adjourned their application for further consideration after these principles are discussed in July. So far as inflation more generally is concerned, there are certain influences working in the opposite direction which, in the absence of offsetting factors, could lead to an acceleration in the rate of inflation:

(*a*) the present expansionary fiscal policy and easier liquidity conditions; and

(*b*) the request, mentioned earlier, to the Prices Justification Tribunal to take into account the need for companies to earn a reasonable return on capital.

External account

Due to the expected fall in the volume of imports, an appreciable turnaround in the real foreign balance is likely this year. The outlook for Australia's trade prices—particularly for exports—must be regarded as highly uncertain. It seems likely that average world prices in 1975 for the major agricultural products except wool (that is, grains, sugar and particularly meat) will remain considerably below the average 1974 levels, although Australia's exports receipts in 1975 will be favourably affected by earlier high prices at which sales of some of these commodities have

69 The Commission will adjust award wages each quarter in relation to movements in the Consumer Price Index. The form of indexation will be determined " in the light of circumstances and the submissions of the parties " subject to such movement being at least 1 per cent and to increases of less than 2 per cent being applied fully to all awards. At the time of handing down this decision wage rates were adjusted by 3.6 per cent, which reflected the increase in the March quarter. Each year the Commission will consider increases in the total wage on account of productivity movements. The only other grounds for seeking wage increases, as enumerated by the Commission, were changes in " work value " or the conditions under which work is performed, and catch-up of community movements (i.e. having regard to established relativities)

been contracted. For wool some recovery is expected. Coal and iron-ore producers received substantial price increases in late 1974 which should ensure an appreciable year-on-year increase for 1975. Prices for manufactures can also be expected to rise rather strongly. Thus, in Australian dollar terms overall export prices could rise by around 10 per cent this year. However, since import prices could rise even faster, a weakening in Australia's terms of trade is likely to occur, which would in part cancel out the effect of the improvement in the real balance. Taking into account net property income and transfers there should be a sharp reduction in the current account deficit in 1975.

Conclusions

The difficulties of the Australian economy over the last few years stemmed initially, in large part, from the unsettled world economic conditions, but more recently domestic factors have become preponderant. After the upswing had started in 1972, expansionary measures continued to be applied, leading to increased inflationary pressures and balance of payments strains. The boom was of relatively short duration and peaked in the first half of 1974. However, the process of tightening of monetary policy which began in 1973, continued and became particularly severe in mid-1974. The subsequent downturn was unusually severe with unemployment increasing rapidly to a post-war peak. The very large increases in money and real wages in 1973 and 1974 added strongly to cost pressures and were also a contributory factor to the severity of the downturn and the rise in unemployment. The more recent period has seen a substantial improvement in the external accounts, but a continued rapid increase in prices and wages. Demand management was shifted to an expansionary stance in the September 1974 budget. But the authorities are faced at present with one of the highest rates of inflation among Member countries, essentially of a cost-push nature, which has had widespread effects throughout the economy and has led to policy impasses and resort to a series of specific measures.

Recent indicators suggest that the downturn may have bottomed out and that the economy may now be recovering slowly. But, although both fiscal and monetary policy are highly expansionary at present, the prospects are for slow growth of demand and activity through 1975, with little improvement in the labour market. At the same time, there would be a risk, if present policies were persevered with, of a further accelaration in the rate of inflation. Should this occur, the task of reducing the level of unemployment may become more difficult and for this reason alone, it seems that priority needs to be given to controlling inflation.

The recent decision in the National Wage Case to reintroduce a form of wage-indexation with the Conciliation and Arbitration Commission maintaining discretionary control over its application, represents an attempt to achieve moderation in wage rates which rose by approximately 34 per cent for males and 40 per cent for females during 1974. The National Wage Case award, however, is only one element of wage increases, and it remains to be seen whether this latest initiative will prove successful. With inflation largely of the wage-push variety, the attitude of the Prices Justification Tribunal—which recommends what it considers reasonable price increases in light of cost rises—towards the various elements of wage increases may strengthen the Conciliation and Arbitration Commission' hand. But, there is clearly little scope for attempting to restrain wage inflation through squeezing company profitability with a view to strengthening resistance to high wage claims. Indeed, the need to restore company profitability has been explicitly recognised by the authorities. As the powers of the Australian Government to control wages and prices are strictly limited constitutionally, the reduction of inflation depends largely on public acceptance of the need for price and wage restraint. At the present time, however, it is uncertain that a national consensus will be forthcoming. Nevertheless, it seems desirable that all avenues of achieving such restraint are fully explored with the unions and employers. If a voluntary solution cannot be found and if significant wage restraint is not quickly achieved, demand-management weapons will need to bear the brunt of anti-inflationary policy, with unfortunate consequences on the levels of activity and employment.

In this context, the role of fiscal and monetary policy will need careful consideration. At the present time, the main monetary aggregates seem to be growing rapidly and a high level of liquidity is building up, partly reflecting the financing of the sharp increase in the Government's domestic deficit in fiscal 1974/75. As noted in the Survey, expenditure in the first ten months of the fiscal year has risen at a rate of about 44 per cent over the same period a year earlier, while revenue has increased by 25 cent. If inflation is to be brought under control, it would seem essential that the impact of budget policy on the money supply be curtailed. While some scope exists for achieving this through judicious debt management, a reduction in the rate of growth of government expenditure, rather than reliance on increasing revenue as a result of fiscal drag will undoubtedly be required.

The measures taken to assist the corporate sector—described in the main body of the Survey—may help to maintain employment. Nevertheless, unemployment is at an unacceptably high level and there is the risk that failure to control inflation could exacerbate the problem. A considerable proportion of unemployment at present is concentrated in specific categories of the workforce, principally younger people and unskilled manual workers. Under these conditions, the employment-creating and training programmes, such as the National Employment and Training Scheme, are to be welcomed.

The recent steps to limit the growth of imports of certain products are seen by the Australian authorities as temporary measures only, and as such they do not represent a reversal of the long-term policy of improving resource allocation through the process of lowering tariffs. The actions to restrain imports were mainly motivated by the rise in unemployment in some important industries, primarily as a result of large increases in the level of imports in these sectors. Despite their temporary nature, there is a risk that these measures may result in a delay in achieving more efficient resource allocation, the need for which has been noted in earlier OECD Surveys. Furthermore, the general competitiveness of domestic industry has probably been more disadvantaged by domestic labour cost increases than by tariff cuts or the appreciation of the exchange rate, while in the short-term the introduction of the measures has removed one contributory factor in restraining the rate of price increases, particularly in the affected product areas. With a slowdown in imports —partly reflecting the measures—and relatively buoyant exports expected in 1975, the balance of payments prospects are for a substantial reduction of the current external deficit this year. With most of the controls on non-equity private capital inflow removed, the financing of the deficit is not expected to pose any difficulties. Indeed, the size of inflows will need to be carefully watched in relation to the growth of liquidity in the economy and the stance of monetary policy. The decision last September to untie the currency from the United States dollar and move to a trade-weighted system for determining the exchange rate has protected the exchange rate from arbitrary changes in its effective value.

Annex

CALENDAR OF MAIN ECONOMIC EVENTS

January 1974 — April 1975

1974

January

1 Industries Assistance Commission—a statutory authority superseding the Tariff Board and now responsible for advising the Government on all assistance to industry—established.

8 Prices Justification Tribunal's recommendation that General Motors Holden average prices for its vehicles be increased by only 4.6 per cent. A similar price rise for some Leyland and Chrysler Australia vehicles was also approved.

14 Interest rates on trading banks fixed deposits of less than \$ 50,000 for 1—4 years were increased slightly.

22 New policy to stimulate Australian investment overseas, particularly in developing countries announced.

23 Industries Assistance Commission's advice to lower tariffs (by average 5-10 per cent) for domestic appliances to a uniform 25 per cent accepted by Government.

26 South Australian Prices Commissioner announced increase of \$ 5 in maximum price of fuel oil to \$ 36.15 per tonne.

February

5 In compliance with Prices Justification Tribunal's recommendations, Ford passenger car and light motor vehicle prices raised by average 4.3 per cent.

Terms for Australian Government February cash and conversion loan announced, with yields approximately unchanged from October loan.

15 Phosphate fertilizer bounty (of \$ 12 per ton) to expire on 31st December, 1974.

Committee of Inquiry appointed to consider industrial relations problems arising under industrial arbitration legislation.

March

1 Import quotas on shirts and knitwear abolished.

19 Scheme to provide income tax deductions graduated according to income for interest paid on housing loans (to have effect from July 1, 1974) announced (became effective January 1, 1975).

22 Treasury Note yields raised slightly: on 13-week notes to 7.6 per cent, on 26-week notes to 7.7 per cent.

28 Following intervention by Australian Government, Japanese buyers agree to substantial increase in prices for Australian coking coal.

April

1 High Court upholds right of Tasmanian State Government to levy tax on tobacco consumption (the tax was held not to be an excise duty).

4 Old age and invalid pensions raised—single rate old age pension by $ 3 to $ 26 per week (married rate by $ 5 to $ 45.50 per week).

Treasury Note yields raised slightly: on 13-week notes to 7.8 per cent; on 26-week notes to 8.0 per cent.

9 Metal industry workers accept recommendation of Conciliation and Arbitration Commission for $ 15 per week wage rise and an extra week's annual leave, and 17½ per cent holiday bonus. End of rolling strikes which resulted in seven nationwide metal industry stoppages in eight weeks.

18 Western Australian Government decides not to endorse proposed new Wheat Stabilization Scheme.

23 Terms of income maintenance payments under Structural Adjustment Assistance scheme announced.

Export controls placed on copper and copper products in response to domestic shortages.

29 Treasury Note yields raised by around ¼ per cent; 13-week notes to 8.1 per cent; 26-week notes to 8.3 per cent.

30 Treasurer announced that, because of tight liquidity situation, there would be no cash or conversion Government loan issue in May.

May

2 National Wage Case decision announced (applicable from May 23):
(*i*) Total wage raised by $ 2.50 plus 2 per cent per week.
(*ii*) Minimum wage raised by $ 8 to $ 68 per week and to be reviewed in 6 months.
(*iii*) Minimum wage for women to be introduced in 3 stages beginning by 85 per cent of male minimum wage and reaching equality by June 30, 1975.

8 Prices Justification Tribunal recommend 1 per cent per gallon increase in wholesale price of petrol.

22 In compliance with Prices Justification Tribunal's recommendation General Motors Holden car prices raised by average 7.75 per cent. Tribunal also approved 4.6 per cent increase for Chrysler vehicles.

23 Treasury Note yields raised by around one-third per cent; 13-week notes to 8.4 per cent; 26-week notes to 8.5 per cent.

Prices Justification Tribunal approved average 7.6 per cent price increase for all Ford vehicles.

27 Reserve Bank commenced trading in bank-accepted commercial bills for the first time; non-government paper worth between $ 5-10 million purchased.

30 Treasury Note yields raised by around 1 per cent; 13-week notes to 9.5 per cent; 26-week notes to 9.5 per cent.

June

6 Treasury Note yields raised by around ½ per cent; 13-week notes to 9.9 per cent; 26-week notes to 10.0 per cent.

7 Financial restraints and a severe forthcoming 1974-75 Budget to reduce inflationary pressures outlined by Prime Minister, at State Premiers' Conference.

Measures included:

— pegging Post Office and Civil Aviation spending;
— cutting of capital and defence expenditure;
— grants to States for roads to be reduced below recommended level;
— subsidy on petrol prices outside capital cities to be abolished from August 1;
— growth of full-time Australian Public Service staff limited to an effective ceiling of 1 per cent for 1974/75.

Advances of $ 235 million to be made to States in 1974/75 under the Commonwealth-State Housing Agreement. Commonwealth increased by 10 per cent States' share of loan funds for public works. Following the Conference, State Premiers increased payroll tax by ½ per cent to help meet their budget deficits.

10 Loan Council approval given for two semi-government authority loans (of 4 and 6 years) to be issued at 10.25 per cent, thus breaking nexus between long-term bond rate and maximum semi-governmental authority rate.

12 Treasury Note yields raised by around ½ per cent; 13-week and 26-week notes to 10.5 per cent.

Establishment of Foreign Investment Committee announced to provide a more complete screening of foreign investment.

13 Statutory Reserve Deposit (SRD) ratio reduced from 9 to 8.25 per cent, releasing $ 90.7 million of trading banks funds.

17 Reserve Bank forward exchange regulations changed; traders now obliged to take decision on cover at time of writing contract rather than when exchange risk emerges. At same time discount of 4 per cent on forward cover for imports eliminated.

Permanent building societies in 3 States raise deposit rates to 10 per cent.

19 Treasury Note yields raised by around ¼ per cent; 13-week notes to 10.7 per cent; 26-week notes to 10.8 per cent.

20 SRD Ratio reduced by ¾ per cent to 7½ per cent.

25 Variable Deposit Requirement relating to overseas borrowing exceeding 2 years reduced from 33.33 to 25 per cent.

July

1 Formation of Structural Adjustment Board announced. Board to provide assistance to firms and industries requiring assistance to adjust to changes in economic conditions and Government policy.

Prices Justification Tribunal recommends 8.7 per cent average increase in BHP steel product prices.

9 SRD ratio reduced by 0.6 points to 6.9 per cent, releasing $ 72.6 million for bank' term and farm development lending.

Savings and trading bank interest rates raised. Maximum trading bank fixed deposit rate raised from 8 to 10 per cent and maximum rate on overdraft of under $ 50 000 from 9.5 to 11.5 per cent. Maximum rate payable on savings bank deposits raised from 7 to 9 per cent and maximum rate on loans of under $ 50 000 from 9.5 to 11.5 per cent.

Cabinet approved establishment of National Employment and Training (NEAT) Scheme. During 1974/75, $ 20 million to be spent on retraining 15,000 persons in courses running on average for 4 months; in 1975/76, 24 000 persons to be retrained (NEAT became operational on October 1).

Long-term bond rate for forthcoming July loan set at 9.5 per cent, i.e., 1 percentage point higher than for February loan. Short-term rate (2 years) set at 11 per cent, almost 3 percentage points higher than rate set in February. This established first ever inverse yield structure on Australian securities.

Import licencing controls on certain clothing items announced and requests made to South-East Asian countries for voluntary restraints on clothing exports to Australia.

11 Industries Assistance Commission presented 8-year plan for restructuring Australian motor vehicle industry, involving scrapping of " local content plan " and initial raising—but subsequent lowering—of tariff rate. Plan subsequently not accepted by Government.

12 SRD ratio reduced 0.9 points to 6.0 per cent, releasing $ 105.8 million of trading bank funds.

Bill introduced into Parliament extending Prices Justification Tribunal's powers to enable it to enquire into prices charged by companies with annual turnover below $ 20 million. (Royal assent given 21 August).

18 Report of Senate Select Committee on Securities and Exchange tabled in Parliament.

23 " Mini-budget " package of restrictive measures announced:

(*i*) increased postal, telephone and telegraph charges (Senate subsequently voted to defer increases until September Budget);
(*ii*) increased indirect taxes on tobacco and spirits;
(*iii*) capital gains tax to be introduced in 1974/75 Budget (see, however, under January 29, 1975);
(*iv*) deferral of proposed abolition of means test;
(*v*) cut-back of immigration programme for 1974/75 from 110 000 to 80 000;
(*vi*) deferral of full implementation of pre-school and child-care central programme;
(*vii*) $ 5 per week increase in pensions ($ 6 married rate);
(*viii*) Prices Justification Tribunal instructed to examine closely price claims to cover over-award wage increases.

24 SRD ratio reduced by ½ point to 5.5 per cent, releasing $ 58.8 million of trading bank funds.

August

5 Prices Justification Tribunal recommends 12 per cent increase in interstate freight rates for Mayne Nickless Ltd. (compared with requested 18 per cent). Tribunal considered company only justified to recoup $ 16 of a recent $ 25.40 per week consent award.

7 National Conference of representatives of Australian Government, trade unions and employers called by President of Conciliation and Arbitration Commission.

Financial Corporations Bill, giving Government extensive powers over operations of certain non-bank financial institutions, became law.

Cabinet approval given for establishment of an Australian Overseas Trading Organisation to help boost trade with Socialist and developing countries.

8 VDR (see under June 25) reduced from 25 to 5 per cent.

20 Prices Justification Tribunal recommends prices of aluminium products could rise by between 5.8 and 11.6 cents per kg.

27 Minimum floor price for wool equivalent to 250 cents per kilo clean (for 21 micron grade) to be guaranteed during 1974/75 season. Australian Wool Corporation to be empowered to manage supply of wool offered for sale and also to be accorded trading powers.

28 Announcement that no cash or conversion loan to be held in September.

29 SRD ratio reduced ½ per cent to 5 per cent.
Increased prices to be paid (from September 1) by Japanese buyers of iron ore, representing total (full-year) revenue increase of 28½ per cent for Australian producers.

31 Treasurer announced Australia had withdrawn from Sterling Guarantee Agreement.

September

11 Regional Employment Development (RED) Scheme announced. Initially $ 2 million per month to be spent on improving employment opportunities in areas of high unemployment, with provision for additional amounts up to total $ 20 million per month.

Further $ 9 a week rise in Metal Industry award announced.

12 Banking (Savings Bank) Regulations amended to expand banks' lending capacity for housing. Proportion of deposits required to be held in prescribed liquid assets and public sector securities reduced from 60 to 50 per cent and proportion to be held in Reserve Bank and Treasury Notes reduced from 10 7.5 per cent.

13 Public Service Board announced its decision not to offer any additional wage increase to 143 000 Australian Public Servants over and above the $ 16 a week interim award granted in June.

17 Australian Government Budget for fiscal 1974/75 presented. Main features include:

— 32 per cent increase in outlays and 31 per cent increase in receipts. Domestic surplus estimated at $ 23 million and overall deficit at $ 570 mil-

lion. Major increases in expediture were in education (78 per cent), housing (34 per cent), health (30 per cent), and urban and regional development (160 per cent);
- — restructuring of personal income tax rate scale making it more progressive;
- — introduction of capital gains tax (half of realised gains to be included in assessable income—see, however, under January 29, 1975) and 10 per cent surcharge on income from property;
- — provision of $ 25 million for RED scheme;
- — private company tax rate to be raised from 45 per cent to the public company rate of 47½ per cent.

25 Australian Dollar devalued by 12 per cent and fixed link to the $ US discontinued. Exchange rate of $ A to be determined by changes in an average of certain foreign currency values weighted by their importance in Australian trade.

SRD ratio reduced by 1 point to 4 per cent. Sydney Stock Exchange suspended trading in shares of major property developer and financier, Cambridge Credit Corporation (on 30 September corporation was placed in the hands of receiver).

October

2 Reserve Bank advises banks to consider sympathetically request for finance from financial institutions " which are responsibly managed and have adequate asset backing ". This follows deposit withdrawals from a number of building societies.

4 Treasury Note yields reduced by around 1.4 per cent; 13-week notes to 9.4 per cent, 26-week notes to 9.5 per cent.

10 SRD ratio reduced by 1 point to 3 per cent.

11 Additional $ 75 million to be advanced to States under the Housing Agreement in fiscal 1974/75, comprising extra $ 25 million for housing commission homes and $ 50 million for lending via terminating building societies and certain State banks.

17 Prices Justification Tribunal recommends wholesale price increases for petrol, kerosene and heating oil ranging from 1.7 to 1.95 cents per gallon.

18 Imposition of temporary import quotas (for 12 months) on most items of footwear.

23 Special drawing facilities in the Reserve Bank made available to the major trading banks. Up to 1 per cent of deposits available by either loan or bill transactions for 180 days (with option to extend for further 180 days) to each bank.

November

3 New guidelines on foreign equity participation in, and control of, Australian mining industry announced.

10 Treasury Note yields reduced by around 0.7 per cent; 13-week notes to 8.7 per cent; 26-week notes to 8.9 per cent.

First part of policy package to stimulate activity and relieve liquidity situation in the private sector announced:

— reduction in Treasury note yields (see above);
— suspension of VDR scheme (see under August 8);
— embargo on overseas borrowings to apply only to loans of less than six months (previously two years).

12 Second part of policy package announced:
— further restructuring of personal income tax scale, involving a cut of \$ 650 million in tax liabilities (bringing total reduction to \$ 1 200 million for fiscal 1974/75), boosting average take-home pay by 3 per cent. Full-year effects to be concentrated to first half of 1975;
— public company tax rates cut from 47.5 to 45.0 per cent, and proposed increase in private company tax rates to 47.5 per cent withdrawn;
— \$ 150 million to be advanced to savings banks to increase their lending for housing;
— easing of staff ceiling on Public Service employment;
— duties on imported built-up vehicles increased by 10 per cent to 45 per cent and on knocked-douw vehicles by 9 per cent to 35 per cent. Duties to be lowered again when imports fall below 20 per cent of registrations for designated period;
— Government to submit to Arbitration Commission that, in conjunction with indexation proposal, above tax cuts should compensate for price increase during December 1974 quarter;
— panel to enquire into effects of inflation on taxation paid by individuals and companies;
— Prices Justification Tribunal to give particular attention to maintaining adequate rates of return on capital so as to induce the new investment needed to maintain economic growth and employment;
— loan guarantees to be provided for firms restructuring their activites;
— extra \$ 8 million allocated to welfare housing in Queensland.

14 A 10-year plan for motor industry announced. Company average local content plan of 85 per cent to be phased in over 4 years.

27 Correspondence between Prime Minister and Chairman of Industries Assistance Commission released. When recommending long-term level of assistance for an industry, Commission should include supplementary recommendation applying to short-term which should ensure that short-term employment difficulties are not exacerbated.

December

1 Scheme announced to pay fares, removal expenses and related legal costs for transferring domicile for workers forced to relocate to secure suitable employment.

3 Tariff quotas imposed on imports of acrylic apparel yarns, synthetic knitted fabrics and towelling. Import volume from all sources limited to that for fiscal 1972/73.

9 Treasury Note yields reduced by about 0.7 points; 13-week notes to 7.98 per cent and 26-week notes to 8.18 per cent.

Tariff quotas imposed on polyamide and polyester yarns, woven man-made fibre fabrics and foundation garments.

Measures taken to assist private sector liquidity and profitability; namely quarterly company tax instalment due in February 1975 permitted to be postponed until April 1975, and introduction of scheme of accelerated depreciation of new plant and equipment installed in fiscal 1974/75.

18 In National Wage Case, Conciliation and Arbitration Commission increases minimum wage by $ 8 to $ 76.10 per week (effective January 1).

26 Largest long-term sugar contract by Australia signed with Japan, providing for sale of 600 000 tonnes per year for 5 years at $ 405 per tonne.

31 Australian beef quota to United States for 1975 restricted to about 280 000 tonnes.

1975

January

7 Subsidies to employers under the National Apprenticeship Assistance Scheme increased (e.g. from $ 260– $ 454 to $ 1200 for first-year apprentices under 18 years).

10 Treasury Note yields reduced by 0.17 points; for 13-week notes to 7.81 per cent and 26-week notes to 8.01 per cent.

14 Tariff quotas imposed on certain clothing items (men's shirts and woven nightwear). Temporary additional 10 per cent duty imposed on motor vehicle tyres.

28 Package of measures taken to safeguard employment in motor vehicle industry: (*i*) Sales tax on passenger vehicles reduced for 3 months from 27½ to 15 per cent and on commercial vehicles from 15 to 5 per cent (subsequently rates to be restored gradually to former levels by September 1): (*ii*) Reversal of earlier decision to impose tax on employees for use of company cars: (*iii*) Import quotas imposed on passenger and light commercial vehicles for 12 months.

New Cabinet Committee formed to scrutinise continuing government expenditure and all future expenditure proposals.

29 Capital gains tax announced in September 1974 Budget not to be introduced.

RED scheme (see under September 11, 1974) extended to metropolitan areas with high unemployment and further grants made to rural areas.

February

1 Export Payments Insurance Corporation reconstituted as Export Finance and Insurance Corporation. Corporation to provide export financing as well as credit and investment insurance.

Wheat sale of 1 million tonnes to China announced.

2 Sugar agreement with Japan signed providing for shipment of 3 million tonnes over next 5 years.

7 Terms of Australian Government February cash and conversion loan announced, removing inverse yield structure (8.5 per cent yield for 2½-year, 9 per cent for 5-year and 9.5 per cent for 10-year maturities).

14 Additional funds ($ 240 million) advanced at Premiers' Conference by Australian Government to States for expenditure by June 30 (of this, $ 40 million to be applied for directly absorbing about 10 000 unemployed).

18 Further $ 30 million provided to States by Australian Government for welfare housing.

19 Ampol Petroleum to seek 9 c per gallon price increase for petrol and other petroleum products from Prices Justification Tribunal. This represents first application to Tribunal on basis of anticipated cost increases as opposed to recovery of unavoidable costs already borne.

21 Further 28 projects to employ about 500 persons approved under Regional Employment Development (RED) Scheme.

March

2 Lowering of interest rates on most loans (by 0.25-0.5 percentage points) and deposits (by up to 1 percentage point) below $ 50 000 announced by one major commercial bank. Other banks (except one) subsequently adjusted their rates accordingly.

4 Tariff quotas introduced (effective March 1) on range of apparel items.

9 Iron and steel rolled plate imports to be cut by up to 75 per cent to protect domestic steel industry (quotas to apply from January 1 and imports for 1975 to be limited to one-quarter of total during 1972 and 1973).

11 Pensions for aged, invalid and widowed persons raised by $ 5 per week —increase also applies to persons on unemployment and sickness benefits (to apply from early May when means test on old age pensions for persons 70 years and over to be abolished).

12 Prime Minister announced that foreign companies need not necessarily seek Australian participation in " grass roots " oil exploration. Australian Atomic Energy Commission to carry out all uranium exploration in Northern Territory and to be sole exporter of all uranium.

19 New building industry award by Conciliation and Arbitration Commission (replacing about 30 State and Federal awards) sets national standard for wages and working conditions.

April

1 Australia and New Zealand agree to extension for further 12 months of interim agreement guaranteeing mutual tariff preferences.

9 Bill introduced to re-establish the Inter-State Commission which would have adjudicatory, investigatory, arbitration and administration functions in trade and commerce matters (particularly in respect to interstate transport).

11 Australian Government to allocate $ 30 million for rural reconstruction in fiscal 1975/76 (i.e. $ 2 million more than in 1974/75) following review of Rural Reconstruction Scheme.

18 BHP Company Limited notified Prices Justification Tribunal of intention to raise steel prices by weighted average 14 per cent to improve profit margins. This is first application to Tribunal for price increase not based solely on higher costs.

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STATISTICAL ANNEX

Table A Gross Domestic Product

$ million, current prices

Year ended 30 June	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Expenditure										
1 Private consumption	12 145	12 920	13 951	15 249	16 484	18 139	19 988	22 224	24 833	29 088
Durables	1 692	1 632	1 700	1 919	2 050	2 299	2 491	2 755	3 060	3 779
Other	10 453	11 288	12 251	13 330	14 434	15 840	17 497	19 469	21 773	25 309
2 Government current expenditure	2 050	2 390	2 709	3 056	3 339	3 645	4 196	4 757	5 405	6 773
3 Gross fixed capital formation	5 266	5 713	6 001	6 524	7 261	7 903	8 760	9 585	9 947	11 884
Residential	963	975	1 056	1 182	1 367	1 577	1 633	1 837	2 171	2 702
Other building and construction	1 925	2 155	2 226	2 445	2 724	2 920	3 360	3 651	3 772	4 258
Machinery and equipment	2 377	2 582	2 720	2 898	3 169	3 406	3 768	4 097	4 005	4 924
4 Change in stocks	572	106	367	138	668	485	342	-128	-322	1 638
5 Exports of goods and services	3 049	3 151	3 477	3 557	3 919	4 755	5 071	5 644	6 956	7 806
6 Imports of goods and services	3 485	3 629	3 711	4 155	4 276	4 764	5 118	5 238	5 349	7 632
7 Statistical discrepancy	8	-127	-249	-338	-351	-269	-362	-284	216	876
8 Gross domestic product at purchasers' values	19 605	20 524	22 545	24 031	27 044	29 894	32 877	36 560	41 686	50 433
Origin										
1 Agriculture, hunting, forestry and fishing	2 186	1 904	2 351	1 839	2 339	2 175	2 018	2 303	2 984	n.a.
2 Manufacturing	4 695	4 886	5 246	5 690	6 307	6 850	7 477	7 857	8 751	n.a.
3 Other industry	2 352	2 588	2 808	3 027	3 407	4 062	4 587	5 161	5 734	n.a.
4 Services	8 414	9 008	9 875	10 999	12 256	13 793	15 497	17 552	19 995	n.a.
5 Indirect taxes less subsidies	1 958	2 138	2 265	2 476	2 735	3 014	3 298	3 687	4 222	5 367
6 Gross domestic product at purchasers' values	19 605	20 524	22 545	24 031	27 044	29 894	32 877	36 560	41 686	50 433

Sources: Australian submission to the OECD and Australian National Accounts.

Table B Gross Domestic Product

$ million, average 1966-67 prices

Year ended 30 June	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
EXPENDITURE										
1 Private consumption	12 927	13 313	13 951	14 771	15 527	16 474	17 130	17 944	18 998	20 013
Durables	1 704	1 642	1 700	1 909	1 992	2 192	2 300	2 427	2 610	3 007
Other	11 223	11 671	12 251	12 862	13 535	14 282	14 830	15 517	16 388	17 006
2 Government current expenditure	2 230	2 521	2 709	2 916	3 037	3 096	3 229	3 274	3 421	3 685
3 Gross fixed capital formation	5 578	5 902	6 001	6 344	6 811	7 106	7 427	7 601	7 404	7 870
4 Change in stocks	583	117	367	147	705	445	328	−107	−162	1 042
5 Exports of goods and services	3 105	3 142	3 477	3 682	3 979	4 744	5 166	5 511	5 732	5 489
6 Imports of goods and services	3 576	3 667	3 711	4 151	4 272	4 706	4 866	4 761	4 950	6 352
7 Statistical discrepancy	12	−129	−249	−325	−324	−234	−296	−216	170	608
8 GROSS DOMESTIC PRODUCT AT PURCHASERS' VALUES	20 859	21 199	22 545	23 384	25 463	26 925	28 118	29 246	30 613	32 355

Sources: Australian submission to the OECD and Australian National Accounts.

Table C **Income and Expenditure of Households (including unincorporated enterprises)**

$ million, current prices

Year ended 30 June	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Compensation of employees	9 903	10 669	11 626	12 630	13 956	15 633	17 912	20 061	22 443	27 455
Wages and salaries	9 585	10 328	11 252	12 214	13 497	15 119	17 331	19 336	21 572	26 415
Supplements to wages and salaries	318	341	374	416	459	514	581	725	871	1 040
Income from property and entrepreneurship	4 310	4 209	4 828	4 620	5 419	5 669	6 020	6 839	8 154	10 352
Income from independent traders	3 232	3 052	3 553	3 217	3 881	3 956	4 130	4 726	5 737	7 363
Interest, rents and dividends	1 078	1 157	1 275	1 403	1 538	1 713	1 890	2 113	2 417	2 989
Current transfers from Government	1 109	1 189	1 285	1 343	1 465	1 664	1 852	2 166	2 695	3 313
Third party insurance transfers	35	37	44	48	49	62	69	80	89	105
Current transfers from the rest of the world	115	122	138	159	168	186	181	226	236	214
INCOME	15 472	16 226	17 921	18 800	21 057	23 214	26 034	29 372	33 617	41 439
less: Direct taxes payable on income	1 533	1 696	1 933	2 083	2 427	2 861	3 123	3 815	4 084	5 852
Consumer debt interest	125	127	131	142	166	184	214	234	281	374
Current transfers to Government	110	120	130	140	162	174	181	219	252	339
Current transfers to the rest of the world	66	74	81	86	92	114	134	172	211	214
DISPOSABLE INCOME	13 638	14 209	15 646	16 349	18 210	19 881	22 382	24 932	28 789	34 660
Consumption expenditure	12 145	12 920	13 951	15 249	16 484	18 139	19 988	22 224	24 833	29 088
Food	2 666	2 838	3 026	3 199	3 342	3 570	3 819	4 126	4 549	5 327
Clothing	1 271	1 316	1 389	1 479	1 553	1 667	1 814	1 987	2 224	2 666
Rent	1 359	1 483	1 647	1 830	2 042	2 314	2 680	3 053	3 469	4 038
Other	6 849	7 283	7 889	8 741	9 547	10 588	11 675	13 058	14 591	17 057
SAVING	1 493	1 289	1 695	1 100	1 726	1 742	2 394	2 708	3 956	5 572
(Per cent of disposable income)	10.9	9.1	10.8	6.7	9.5	8.8	10.7	10.9	13.7	16.1

Sources: Australian submission to the OECD and Australian National Accounts.

Table D Labour Market

Calendar year averages	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
	Thousand persons									
Civilian employment: total[1]	4 628.0	4 760.6	4 880.4	5 001.4	5 150.9	5 329.2	5 424.5	5 488.8	5 640.2	5 755.9
in manufacturing[2]	1 401.4	1 415.9	1 457.7	1 468.1	1 493.0	1 531.1	1 559.8	1 414.6	1 442.3	1 445.0
Unemployment[3]	60.7	71.5	79.1	77.8	80.0	74.7	87.6	125.9	107.7	133.2
Unfilled vacancies[4]	53.5	43.7	37.5	37.1	44.3	50.9	40.8	32.4	64.0	62.0
	Per cent									
Unemployment	1.3	1.5	1.6	1.5	1.5	1.4	1.6	2.3	1.9	2.3
Participation rate: male	84.0	84.1	83.7	83.4	83.3	83.2	82.7	82.5	82.2	81.6
female	34.4	35.3	36.3	36.8	37.6	38.8	39.2	39.4	40.5	41.5
	Hours									
Average weekly hours paid for[5]										
all industries	[6]	43.0	43.1	43.3	43.6	43.5	43.2	42.9[5] 42.0[6]	42.3	41.3
manufacturing	[6]	43.5	43.7	43.7	44.1	44.0	43.5	43.2 43.1	43.6	42.2

1 Estimates for 1972 and 1973 not comparable with those for earlier periods due to exclusion of trainee teachers from labour force since 1971 (about 24 thousand at August 1971).
2 Including electricity, gas and water. Estimates for 1972 and 1973 not comparable with those for earlier periods. The 1966 census classification of industries has been used prior to 1972 and Australian Standard Industrial Classification from 1972 onwards.
3 According to labour force survey.
4 Registered with Commonwealth Employment Service.
5 Refers to full time adult male employees (other than managerial, executive, professional and higher supervisory staff) in private employment (excluding rural industries and private domestic service) as at the last pay-period in October each year.
6 Data from October 1965 survey not comparable with that for other years. From 1972 figures refer to full time adult wale employees in private and government employment.

Sources: Survey of Weekly Earnings and Hours; Australian submission to the OECD.

Table E **Prices and Wages**

Year ended 30 June	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
	1966-67 = 100										
Implied GDP deflator, total	91.6	94.0	96.8	100.0	102.8	106.2	111.0	116.9	125.0	136.1	155.8
Private consumption	90.9	94.0	97.0	100.0	103.2	106.2	110.1	116.7	123.8	130.7	145.4
Gross fixed asset formation	91.4	94.4	96.8	100.0	102.8	106.6	111.2	118.0	126.0	134.2	151.0
Consumer prices: Total	90.6	94.0	97.4	100.0	103.3	106.0	109.4	114.6	122.4	129.8	146.6
Food	89.0	93.9	98.4	100.0	104.7	105.8	108.1	112.4	116.8	125.7	149.5
Non-food	91.4	94.0	96.9	100.0	102.7	106.1	110.0	115.6	124.9	131.6	145.4
Foreign trade prices: Exports	103	100	102	100	95	97[6]	98	97	100	120	146
Imports	96	97	99	100	99	99	101	105	109	107	119
Terms of trade	107	103	103	100	96	98	97	92	92	112	123
	Dollars										
Hourly wage rates[1]											
All activities[2]	0.94	0.99	1.02	1.09	1.14	1.22	1.28	1.39	1.54	1.69	1.99
of which: Manufacturing	0.93	0.98	1.00	1.06	1.12	1.19	1.25	1.34	1.50	1.64	1.91
Hourly earnings[3]											
All industries[4]	1.29	[5]	1.42	1.50	1.59	1.70	1.84	2.08	2.24	2.72	n.a.
Mining and quarrying	1.53	[5]	1.77	1.86	1.97	2.13	2.32	2.68	2.88	3.28	n.a.
Manufacturing	1.27	[5]	1.40	1.48	1.57	1.66	1.79	2.04	2.21	2.58	n.a.
Building and construction	1.37	[5]	1.52	1.59	1.72	1.80	2.02	2.26	2.42	2.66	n.a.

1 Weighted average minimum rates payable to adult males as prescribed in awards, determinations, etc. Average of twelve monthly figures.
2 Excluding the rural, shipping and stevedoring industries.
3 Refers to full-time adult males in private employment (other than managerial, etc. staff) and to conditions in October of respective year.
4 Excluding rural industry and domestic service.
5 Data from October 1965 survey not comparable with that for other years.
6 Interim Series, including additional items linked as at June 1969.

Sources: Quarterly Summary of Australian Statistics; Survey of Weekly Earnings and Hours; Wage Rates and Earnings; Australian submission to the OECD.

Table F Liquidity Formation

Changes in $ million

Year ended 30 June	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Government debt (net)	301	331	521	485	172	305	86	156	705	430
Reserve Bank transactions										
Gold and foreign exchange[1]	–308	–18	–170	–91	210	47	784	1 535	440	–584
Rural Credits advances	128	–69	184	–142	260	–140	–39	–44	–53	–7
Statutory Reserve Deposits (—)	–(–22)	–(–184)	–(+2)	–(–17)	–(+110)	–(+111)	–(–59)	–(–62)	–(+227)	–(+248)
Term loan funds (—)	–(+2)	–(+3)	–(–8)	–(+11)	–(–22)	–(–10)	–(+5)	–(+27)	–(–31)	–(–17)
Farm development loan funds (—)	—	–(+50)	–(–17)	–(+13)	–(–21)	–(–15)	–(+22)	–(+6)	–(–18)	–(–15)
Miscellaneous[2]	–14	10	17	134	–16	71	–211	–224	713	373
Total (= LGS[3] assets of private sector)	127	385	575	379	559	197	652	1 452	1 627	–4
less: LGS[1] assets of private non-bank sector	60	158	389	279	269	249	424	831	103	256
LGS assets of banks (excl. Reserve Bank)	67	227	186	100	290	–52	228	621	1 524	–260
Statutory Reserve Deposits	–22	–184	2	–17	110	111	–59	–62	227	248
Loans and advances										
Trading banks	345	228	365	474	361	519	415	559	2 027	2 304
Savings banks	221	213	235	243	246	227	277	287	476	835
Other assets and liabilities of banks[4]	170	148	–1	99	61	–65	3	121	4	–269
Notes and coin in the hands of the public	–1	–30	99	82	101	122	150	131	235	304
Total (= Volume of money)	781	602	886	982	1 169	863	1 014	1 657	4 493	3 162

1 Valued at market prices.
2 Includes balancing item.
3 LGS = Liquid Assets and Government Securities, valued at average of weekly figures except for government securities held by private non-bank sector which are included on a last-day basis.
4 Including public deposits with Reserve Bank (+) and government and interbank deposits with trading banks (—).

Source: Australian submission to the OECD.

Table G **General Government Receipts and Expenditure**

$ million

Year ended 30 June	Total[1]					Australian Government				
	1970	1971	1972	1973	1974	1970	1971	1972	1973	1974
Current receipts	8 426	9 335	10 672	11 604	14 554	6 556	7 398	8 231	8 783	11 203
Direct taxes on income	4 042	4 603	5 284	5 698	7 503	4 042	4 603	5 284	5 698	7 503
Households	2 855	3 175	3 765	4 084	5 485	2 855	3 175	3 765	4 085	5 485
Corporations	1 187	1 428	1 519	1 614	2 018	1 187	1 428	1 519	1 614	2 018
Indirect taxes	3 288	3 589	4 079	4 549	5 648	2 211	2 454	2 518	2 629	3 248
Income from property and entrepreneurship	922	962	1 090	1 105	1 064	256	293	368	388	358
Compulsory fees, fines, etc.	174	181	219	252	339	47	48	61	67	94
Current disbursements	6 518	7 355	8 435	9 694	11 773	5 145	5 868	6 511	7 514	9 077
Goods and services	3 645	4 196	4 757	5 405	6 773	1 785	1 979	2 152	2 348	2 861
Subsidies	274	291	392	327	281	242	262	359	295	248
Interest on public debt	756	831	914	1 018	1 116	28	13	-14	15	4
Current transfers to domestic sectors	1 664	1 852	2 166	2 695	3 314	2 911	3 430	3 809	4 607	5 675
Current transfers to the rest of the world	179	185	206	249	289	179	184	205	249	289
Saving	1 908	1 980	2 237	1 910	2 781	1 411	1 530	1 720	1 269	2 126
Capital transfers	165	175	165	164	174	-267	-511	-591	-688	-887
Finance of gross accumulation	2 073	2 155	2 402	2 074	2 955	1 144	1 019	1 129	581	1 239
Investment expenditure	1 270	1 411	1 561	1 734	1 978	151	186	176	181	225
Net lending	803	744	841	340	977	993	833	953	400	1 014

1 Combined Australian, State and Local Sectors.

Sources: Australian submission to the OECD; ABS, " Commonwealth Authorities ".

Table H Balance of Payments

$ A million

Year ended 30 June	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Current Account										
Exports, fob	2 574	2 626	2 926	2 942	3 217	3 969	4 217	4 726	5 991	6 727
Imports, fob	2 739	2 822	2 837	3 159	3 203	3 553	3 790	3 792	3 808	5 750
Trade balance	–165	–196	89	–218	14	416	427	934	2 183	977
Invisibles, net	–621	–694	–750	–925	–1 018	–1 134	–1 276	–1 309	–1 483	–1 686
CURRENT BALANCE	–787	–891	–660	–1 143	–1 004	–718	–849	–375	699	–709
Capital Account										
Government	–48	13	–28	86	70	–185	–63	–60	–64	–8
Marketing authorities	–61	34	–75	33	28	–48	–42	–45	34	–95
Other private	583	666	484	963	948	916	1 530	1 367	341	259
Balancing item[1]	16	234	156	140	106	72	22	556	68	–16[6]
APPARENT CAPITAL BALANCE	490	947	537	1 222	1 152	755	1 447	1 818	379	140
Other foreign assets[2]	4	–16	18	–8[4]	–26	–6	71	31[4]	–10[4]	150
Other monetary movements[3]	2	2	–26	3	20	12	10	8	10	28
Allocation of SDR's	—	—	—	—	—	75	64	63	—	—
CHANGES IN OFFICIAL RESERVES	–292	44	–132	73[4]	143	118	742	1 544[4]	1 079[4 5]	–391
(*a*) Gold	10	–7	6	25	1	10	–14	6	–13	–10
(*b*) Currency assets	–325	10	–165	–23	187	16	718	1 512		
(*c*) IMF gold tranche	22	40	26	71	–45	13	–30	–37	–6	6
(*d*) Special Drawings Rights	—	—	—	—	—	79	68	63	–9	–50

1 Includes errors and omissions and balances the figures for changes in official reserves on an official parities (rather than market values) basis.
2 Includes changes in the net foreign exchange assets of Australian trading banks adjusted for settlements pending with the Reserve Bank and changes in foreign exchange assets of the Australian Government other than in London.
3 Includes:
a) Drawings and repayments made by Reserve Bank of New Zealand under a special arrangement with the Reserve Bank of Australia for the purposes of financing Australian exports to New Zealand. Also included are small amounts for the purchase of shares in the Bank for International Settlements.
b) Changes in the balances of foreign central monetary institutions with the Reserve Bank of Australia and changes in Australia's currency liabilities (notes and coins in circulation) in Papua New Guinea.
4 Excludes effects of changes in official parity relationship between $ A and other currencies.
5 Excludes effect on official reserve assets of $ 26 million equivalent received in March 1973 under the Sterling Agreement compensation arrangements.
6 Includes monetary sector transactions (n.e.i.).

Source: Australian Bureau of Statistics.

Table I Foreign Trade — Commodity and Geographic Structure
Per cent

Year ended 30 June	Imports			Exports		
	1972	1973	1974	1972	1973	1974
SITC sections:						
Food and live animals	4.0	4.0	3.9	35.3	31.1	31.6
Beverages and tobacco	1.3	1.3	1.1	0.3	0.2	0.2
Crude materials, inedible, except fuels	5.5	6.5	6.8	17.3	34.1	32.2
Mineral fuels, lubricants and related materials	4.8	4.3	6.2	6.2	5.5	6.3
Animal and vetegable oils and fats	0.4	0.3	0.5	0.7	0.5	0.7
Chemicals	10.2	10.3	9.5	5.0	4.4	5.1
Manufactured goods classified chiefly by material	21.3	21.7	23.1	11.6	11.2	12.4
Machinery and transport equipment	37.0	36.1	34.4	7.7	8.0	6.5
Miscellaneous manufactured articles	10.8	11.5	11.9	2.1	1.6	1.5
Commodities and transactions not classified according to kind[1]	4.7	4.0	2.6	3.8	3.4	3.5
Total (merchandise and non-merchandise)	100.0	100.0		100.0	100.0	100.0
OECD countries	81.1	80.0	79.0	64.1	68.3	69.0
North America	25.3	24.2	25.3	15.4	15.0	13.3
Japan	15.7	17.9	17.8	27.8	31.1	31.0
EEC	34.9	32.3	27.9	18.9	20.3	16.3
Other	5.2	5.5	8.0	1.9	1.9	8.4
Non-OECD countries	18.9	20.0	21.0	35.9	31.7	31.0
Sino-Soviet area[2]	1.6	1.8	1.9	3.5	4.2	6.0
Other developed countries	3.5	3.3	0.6	7.0	6.8	1.3
Developing countries	13.8	14.9	18.5	25.4	20.7	23.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

1 Including non-merchandise.
2 Including Mainland China, North Korea and North Vietnam.
Sources: Australian submission to the OECD and OECD, Foreign Trade Statistics, Series A.

INTERNATIONAL COMPARISONS

BASIC STATISTICS : INTERNATIONAL COMPARISONS

Item	Period	Unit	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland
POPULATION	Mid-1973	Thousands	13 132	7 521	9 742	22 125	5 027	4 643 [2]	52 177	61 967	8 972	212	3 051
Net average annual increase	1963 to 1973	%	1.87	0.48	0.48	1.55	0.71	0.26	0.88	0.77	0.57	1.37	0.68
EMPLOYMENT Total civilian	1973	Thousands	5 640	3 039	3 818	8 759	2 385	2 153	20 953	26 202	(3 320)	(88)	1 042
Agriculture		% of total	7.2	16.1	3.9	6.5	9.5	17.1	12.2	7.5	(34.1)	(15.9)	25.1
Industry [6]		% of total	35.5	40.1	43.3	31.3	33.8	35.7	39.3	49.5	(25.7)	(37.5)	30.7
Other		% of total	57.3	43.8	52.8	62.2	56.7	47.1	48.5	43.0	(40.2)	(46.6)	44.2
PRODUCTION GDP [7] per head	1973	$ [8]	4 900	3 550	4 650	5 410	5 460	3 720	4 900	5 610	1 790	4 870	2 130 [13]
GDP by sector: Agriculture	1973	% of total	7.1 [9 10 11]	5.8	3.9	5.2 [11]	8.2 [11]	12.0	6.3	2.9	20.4 [11]	..	18.0 [11 13]
Industry		% of total	41.4 [9 10 11]	50.1	40.1	36.2 [11]	39.9 [11]	44.2	93.7	52.1	32.4 [11]	..	33.8 [11 13]
Other		% of total	51.5 [9 10 11]	44.1	56.1	58.6 [11]	51.9 [11]	43.8		45.0	47.2 [11]	..	48.2 [11 13]
GDP [7 14] annual volume growth	1973	%	5.6	5.5	5.4	6.8	3.9	6.0	6.0	5.3	9.4	6.2	7.2
	1968 to 1973	%	5.1	6.4	5.5	5.2	4.7	6.8	6.0	5.1	8.9	6.3	4.6
INDICATORS OF LIVING STANDARDS Private consumption per head	1973	$	2 850	1 870	2 810	3 080	3 050	1 910	2 913	3 000	1 200	2 990	1 370
Public expenditure on education	1970	% of GNP	4.3	4.7	5.4 [15]	8.6	7.0	6.3	4.7	4.0	2.2	4.3	4.8 [15]
Dwellings completed, per 1 000 inhabitants	1972	Number	11.1	6.4	5.4 [17]	10.6	10.0	10.8	10.5	10.7	14.0 [10]	9.0	6.9
Passenger cars, per 1 000 inhabitants	1971	Number	314	177	212	321	231	163	260	239	30	222	140
Television sets, per 1 000 inhabitants	1972	Number	227	226	236	349 [10]	282	256	237	293	31 [10]	220	173
Telephones, per 1 000 inhabitants	1972	Number	340	226	240	499	377	295	199	268	160	370	114
Doctors, per 1 000 inhabitants	1971	Number	1.25	1.87	1.60	1.50	1.41 [12]	1.11	1.38	1.71 [12]	1.67	1.44	1.09 [15]
GROSS FIXED INVESTMENT [14] Total	1968-72 average	% of GDP [7]	25.8 [9]	29.0	20.8	21.4 [18]	23.6	24.1	26.3	25.9	25.7 [19]	28.7	24.2
Machinery and equipment		% of GDP [7]	10.9	12.5	8.8	7.9	12.1	8.9	12.0	12.4	8.2	8.6	12.2
Residential construction		% of GDP [7]	5.2	16.5 [24]	4.7	4.4	4.6	5.8	6.5	5.2	8.0	5.3	4.3
Other construction		% of GDP [7]	9.7	— [24]	7.3	9.1	6.9	9.4	7.8	8.3 [25]	9.5	14.8	7.7
GROSS SAVING	1968-72 average	% of GDP [7]	25.9	29.3	24.9	22.3	19.1	29.8	26.8	27.5	23.8	..	20.8
PUBLIC SECTOR [26] Total current revenue	1973	% of GDP [7]	28.2 [13]	36.6	35.8 [13]	36.2	44.8	39.0	38.0 [13]	41.0	26.6 [13]	33.2 [16]	33.7 [13]
WAGES/PRICES Hourly earnings [27]	Annual increase 1967 to 1972	%	7.6 [28 29]	9.3 [30]	10.2	8.2 [28]	12.4 [31]	11.8	11.3 [32]	9.3 [28]	8.3 [28]	18.3 [33]	13.5 [28]
Consumer prices		%	4.2	4.3	4.0	3.9	6.2	5.5	5.6	3.8	2.6	13.3	7.6
GDP [7] deflator		%	5.8	4.4	4.6	4.0	6.4	6.5	5.5	5.2	2.9	17.2	9.3
FOREIGN TRADE Imports [43]	1972	$ million [8]	6 180	6 290	14 570	23 130	6 080	3 680	32 070	51 150	2 530	300	2 240
		% of GDP [7]	13.2	30.9	40.9	21.8	28.6	27.4	16.4	19.9	20.7	39.5	40.6
Exports [43]		$ million [8]	7 500	6 220	15 430	23 750	6 240	3 700	33 760	55 730	1 470	290	1 930
		% of GDP [7]	16.0	30.5	43.4	22.4	29.4	27.5	17.2	21.6	12.0	38.2	35.0
BALANCE OF PAYMENTS Current balance	1968-72 average	% of GNP	–2.1 [9]	–0.4	2.5 [45]	0.0	–2.1	–1.2	–0.2	0.8	–3.6	–4.2	–3.3
Official reserves [44], end-1973: per cent of imports of goods in 1973		%	88.3	42.4	23.3 [45]	24.7	17.2	14.8	22.8	60.8	30.1	28.1	36.7
Change	April 1974 - April 1975	Mill. SDR's	– 886	861	864 [45]	–709	–202	–203	993	–991	–93	–35	152
NET FLOW OF RESOURCES TO DEVELOPING COUNTRIES [48]	1973	% of GNP	0.55	0.52	1.10	0.93	0.70	— [49]	1.10	0.52	— [50]	— [49]	— [49]
EXPORT PERFORMANCE [51] Growth of markets [52]	1972 to 1973	%	10	14	13	10	12	15	13.5	14.5	14	12	12
	1961-62 to 1971-72 (average)	%	9	9	9	8.5	8	7.5	8.5	8.8	9	8	7.5
Gains or losses of market shares [53]	1972 to 1973	%	–12	–3	2.5 [45]	–1	–5.5	–10	–2	5.5	5	0	–6.5
	1961-62 to 1971-72 (average)	%	4.5	2	1.5 [45]	–2	–0.5	–0.8	1	1	1.5	2.5	0.5

Item	Period	Unit	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia [1]
POPULATION	Mid-1973	Thousands	54 888 [3]	108 350 [4]	350	13 438	2 932	3 961	8 564	34 730	8 138	6 431	37 930	56 026	210 404	20 960
Net average annual increase	1963 to 1973	%	0.70	1.22	0.77	1.17	1.46	0.77	–0.46	1.06	0.68	1.09	2.49	0.43	1.07	0.95
EMPLOYMENT Total civilian	1973	Thousands	18 310	52 330	154	4 564	1 137	1 654	(3 109)	12 844	3 879	3 097	13 810	24 553	84 409	8 009 [5 10]
Agriculture		% of total	17.4	13.4	9.0	6.8	12.1	11.4	(28.8)	26.5	7.1	(7.3)	63.4	3.0	4.1	49.5
Industry [6]		% of total	44.0	37.2	48.6	36.2	34.7	33.9	(33.8)	38.0	36.8	(46.2)	15.1	42.3	31.7	50.5
Other		% of total	38.6	49.4	42.4	57.1	53.2	54.7	(37.4)	35.5	56.1	(46.5)	21.5	54.7	64.2	
PRODUCTION GDP [7] per head	1973	$ [8]	2 510	3 760	5 200	4 410 [13]	4 080 [9a]	4 780	1 250	1 750	6 140	6 190	540	3 100	6 170	792 [13]
GDP by sector: Agriculture	1973	% of total	8.8	5.9	4.4 [11 12]	5.3 [11 13]	18.8 [12]	5.6	16.3 [11]	12.7 [11]	3.8	..	26.1	3.0 [11]	4.4	16.6 [11 13]
Industry		% of total	41.2	48.3	57.5 [11 12]	44.9 [11 13]	28.0 [12]	33.4	43.2 [11]	35.5 [11]	36.6	..	28.8	42.4 [11]	33.9	46.6 [11 13]
Other		% of total	50.0	45.9	38.1 [11 12]	49.8 [11 13]	53.2 [12]	61.0	40.6 [11]	51.8 [11]	59.6	..	45.1	54.6 [11]	61.7	36.8 [11 13]
GDP [7 14] annual volume growth	1973	%	6.4	11.0	7.5	4.2	4.8 [9a]	3.7	7.6	7.4	3.3	3.5	4.6	5.3	5.9	..
	1968 to 1973	%	4.3	9.5	5.2	5.3	3.1 [9a]	4.5	6.4	7.0	3.2	4.6	6.2	2.8	3.6	..
INDICATORS OF LIVING STANDARDS Private consumption per head	1973	$	1 620	1 910	2 780	2 430	2 410 [9a]	2 530	900	1 170	3 240	3 640	320	1 960	3 840	425 [13]
Public expenditure on education	1970	% of GNP	4.3	4.1	4.4	7.3 [15]	4.4 [15]	5.9	2.0	2.4	7.8	4.2	2.9	5.5 [15]	5.4 [15]	4.3 [16]
Dwellings completed, per 1 000 inhabitants	1972	Number	4.7	16.8 [17]	5.3 [12]	11.4	9.3	11.1	3.4	9.6	12.8	11.5	2.8	6.1	11.3	6.4
Passenger cars, per 1 000 inhabitants	1971	Number	209	100	296	211	324	206	72	81	290	233	4 [12]	219	443	42
Television sets, per 1 000 inhabitants	1972	Number	202	225	220 [10]	243 [10]	250	241	63	145	333	239	4	305	474	113
Telephones, per 1 000 inhabitants	1972	Number	206	315	361	299	458	320	99	164	576	535	19	314	628	44
Doctors, per 1 000 inhabitants	1971	Number	1.83	1.15	1.07	1.31	1.16	1.45	0.98	1.39	1.36 [12]	1.67	0.45	1.29	1.57 [12]	1.06
GROSS FIXED INVESTMENT [14] Total	1968-72 average	% of GDP [7]	19.8	38.7	23.6	25.3	..	..	19.0	24.2	23.1	27.8 [20]	16.9 [21]	19.6	17.0 [22]	..
Machinery and equipment		% of GDP [7]	8.4	32.1 [23]	..	10.5	..	..	8.8	12.8	8.6	9.5	5.8	9.5	7.0 [22]	..
Residential construction		% of GDP [7]	5.9	6.6	..	5.7	..	..	2.7	3.7	5.0	7.1	3.3	3.5	3.5	..
Other construction		% of GDP [7]	5.5	— [23]	..	9.1	..	..	7.5	7.7	9.5	11.2	7.8	6.6	6.5	..
GROSS SAVING	1968-72 average	% of GDP [7]	22.9	39.3	31.3	26.9	24.9 [9a]	27.8	22.0	23.1	22.8	28.9 [20]	21.5 [21]	19.2	17.5	..
PUBLIC SECTOR [26] Total current revenue	1973	% of GDP [7]	33.3	22.4	39.1 [13]	49.9	..	49.4	23.0	23.4 [13]	50.1 [13]	27.1 [15]	27.5 [13]	37.9 [13]	30.2	..
WAGES/PRICES Hourly earnings [27]	Annual increase 1967 to 1972	%	11.2 [34]	15.6 [35]	..	10.4 [36]	10.3 [28]	10.0 [31]	10.2 [37]	12.6 [38]	9.9 [39]	6.5 [40]	12.8 [38]	9.6 [41]	6.0 [42]	16.1 [37 38]
Consumer prices		%	3.9	5.8	3.9	6.2	6.5	6.1	8.6	5.8	5.0	4.3	10.5	6.6	4.6	11.3
GDP [7] deflator		%	5.0	4.8	5.9	6.6	6.9 [9a]	..	4.3	6.0	5.2	6.0	10.5	6.6	4.4	..
FOREIGN TRADE Imports [43]	1972	$ million [8]	23 600	24 910	1 050	20 100	1 980	5 810	2 630	7 250	9 590	9 710	1 400 [10]	33 620	74 830	3 820
		% of GDP [7]	20.1	8.5	77.8	43.4	23.1	38.3	32.2	16.2	23.2	32.6	10.9	21.8	6.3	23.2
Exports [43]		$ million [8]	24 040	31 800	1 100	21 320	2 320	6 060	2 220	7 190	10 110	9 720	900 [10]	33 350	62 690	3 480
		% of GDP [7]	20.4	10.8	81.5	46.1	27.1	39.9	27.1	16.1	24.4	32.7	7.0	21.6	5.3	21.2
BALANCE OF PAYMENTS Current balance	1968-72 average	% of GNP	2.1	1.7	—	0.3	1.4	–1.0	3.3	0.5	–0.1	1.3	–0.5	0.8	–0.2	..
Official reserves [44], end-1973: per cent of imports of goods in 1973		%	23.1	32.0	—	26.9	119.8	25.3	99.1	70.3	23.9	69.5	102.8	16.7	20.8	32.9
Change	April 1974 - April 1975	Mill. SDR's	414	1 010	—	976	–115	79	–435 [46]	–340 [47]	41	406	–896	124	1 172	–57
NET FLOW OF RESOURCES TO DEVELOPING COUNTRIES [48]	1973	% of GNP	0.46	1.42	— [49]	1.03	0.35	0.49	2.25	— [50]	0.73	0.72	— [50]	0.76	0.58	— [50]
EXPORT PERFORMANCE [51] Growth of markets [52]	1972 to 1973	%	13	14	—	13	10	13	12	13.5	13	14	14	14.5	20	..
	1961-62 to 1971-72 (average)	%	9	9	—	9	..	8	7	8.5	8	9	8.5	8.5	8	..
Gains or losses of market shares [53]	1972 to 1973	%	–8.5	–8	—	5	–2.5	1.5	7	0	2	–5	5	–1	4	..
	1961-62 to 1971-72 (average)	%	3	8	—	1.5	..	2	4	5	–0.5	0	2.5	–3.5	–2.8	..

[5] 10 6 75

1 National source.
2 Does not include total net migration between Finland and the other Nordic countries.
3 Total resident population.
4 From 1972, including Okinawa prefecture.
5 Private and socialised sector.
6 According to the definition used in OECD Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
7 GDP in purchasers' values.
8 At current prices and exchange rates.
9 Fiscal year-Beginning July 1st.
9a Fiscal year-Beginning April 1st.
10 1971.
11 GDP at factor cost.
12 1970.
13 1972.
14 At constant (1970) prices.
15 1969.
16 1968.
17 Dwellings started.
18 Excluding transfer costs of land and existing assets.
19 Excluding ships operating overseas.
20 1965-1969.
21 1967-1971.
22 Government and government enterprise expenditure on machinery and equipment is included in government current expenditure.
23 " Other construction " included under " machinery and equipment ". Work in progress on heavy equipment and ships for the domestic market are included in fixed asset formation.
24 " Other construction " included in " residential construction "
25 Including transfer costs of land.
26 General government.
27 Industry.
28 Manufacturing.
29 Males.
30 Monthly, wage earners.
31 Mining and manufacturing, males.
32 Hourly rates in manufacturing.
33 Hourly wages rates, unskilled workers.
34 Hourly rates in manufacturing, excluding family allowances.
35 Monthly earnings in manufacturing. Cash payments including bonuses, regular workers.
36 Hourly rates in industry, males.
37 Monthly.
38 Manufacturing, including salaried employees.
39 Mining and manufacturing.
40 Hourly rates.
41 Hourly rates in manufacturing, males.
42 Manufacturing, gross earnings per production worker.
43 Goods and services, excluding factor income.
44 Including reserve position in the IMF and special drawing rights.
45 Including Luxembourg.
46 Feb. 1974 - Feb. 1975.
47 March 1974 - March 1975.
48 According to the DAC definition. Including flows to multilateral agencies and grants by voluntary agencies.
49 Not Development Assistance Committee member.
50 Considered as a developing country for purposes of DAC reporting.
51 Volume, percentage change. Figures are subject to many limiting factors. For an explanation see OECD Economic Outlook, simple definition, December 1970, pp. 65 and 69.
52 The growth which would have occurred in a country's exports if it had exactly maintained its share in total OECD exports to each of 19 broad geographical zones.
53 The difference between the growth rates of markets and exports.

NOTE Figures within brackets are estimates by the OECD Secretariat.

Sources: Common to all subjects and countries, except Yugoslavia (for special national sources see above): OECD: Labour Force Statistics, Main Economic Indicators, National Accounts, Balance of Payments, Observer, DAC and Statistics of Foreign Trade (Series A); Office Statistique des Communautés Européennes, Statistiques de base de la Communauté; IMF, International Financial Statistics; UN, Statistical Yearbook.

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