

What the mining industry collapse in Australia could mean for small businesses

From the front running industry driving the Australian economy to prosperity, the recent collapse has turned the mining industry in Australia a liability for its economy. The recent slump in the prices of commodities, as well as the fall in the demand of the minerals and metallic ores from China, has plummeted the revenues and profits of the mining industry, and the loss in value has further burdened the foreign debt. Unfortunately, an economy relying so heavily on the trade has nothing as substantial to fall back on for an immediate recovery of reduced growth.



Small businesses exposed to the mining sector have taken a massive hit due to the subsequent economic deterioration, resulting in a steady decline of jobs. Since the peak days of the mining boom and the unemployment low of 4% in August 2008, the global recession started taking its toll on the market and it was all downhill from there onward. In January 2015 we all just saw the 20 year high unemployment rate of 6.4%, steadily growing from the 5% level in 2011. By July 2015, the unemployment rate remained at 6.3%.

However, it is important to note that while the mining industry has seen a decline with thousands of job cut in 2014, it does not directly affect the labor market too much. As a matter of fact, mining jobs only constitute less than 4% of the entire workforce in the country. Nevertheless, the economic sector is almost 6.6% of the economy and when it sees problems, it is going to put some burden on the overall scenario. After all, the Reserve Bank of Australia recognizes the positive impact of the mining boom on per capita income, unemployment, and the GDP itself. So as the bubble bursts, it would surely take things in the opposite direction. Plus it makes good sense, as there is hardly any other country in the world with that sort of mining contribution as the percentage of GDP in the developed world.

As far as the economy alone is concerned, it's not all doom and gloom yet for Australian businesses. The Australian currency has a lot of margin for devaluation, which can help it overcome the fall in trade and forex reserves. Besides, currently the prices of commodities such as mineral and iron ore are far higher than the pre-boom pricing levels before 2005, which means that not all is lost for the mining industry. But the decline is surely worrisome for the investors.

Furthermore, the resource sector has initiated petroleum ventures, such as the Inpex Darwin Gas Project and the QCLNG plant on Curtis Island, which could stimulate the much needed growth in the energy sector, which overall make up for 2.6% of the entire GDP of Australia. Natural gas is a growing phenomenon that could help redeem the drop in the local economy.

However, the ever growing foreign debt remains to be the biggest hurdle for economic growth, and this could reflect adversely for local small businesses as well. The foreign debt has almost reached the record high levels of 60% of the GDP, something which has become a burning issue in the Australian politics. While a cheaper Australian dollar, in the long term it could adversely affect creditor investment as a sign of a weak economy.



Nevertheless, if the economy has started showing some signs of growth, and you still find the unemployment on the rise, you know that there is much more to worry about than a global recession or the end of the mining boom. According to UBS economist Scott Haslem, "GDP data indicated that the unemployment rate would likely move higher if the non-mining business investment failed to rebound."

While the economy is itself tough on the small business, things become even worse due to hostile government regulation. Not only is the taxation taking its toll on the margin of profitability for small businesses, but it has also become particularly difficult for such concerns to hire and dismiss human resources. Coupled with the ever increasing operating costs, small businesses are struggling to remain operative.

Even the Victorian Employers Chamber of Commerce has acknowledged these factors as hurdles for the prospect of growth for small businesses in 2013, when the mining crisis had not really revealed itself as such a menace. The release mentioned that the small and medium enterprises constituted around 60% of the Australian economy, and employing no less than seven million Australian workers.

HV Hire is small business servicing and supplying the Australian Mining sector with both welding and power generation equipment. When contacted to ask their thoughts on the issues faced due to their own exposure. "Even though we seem to be shipping more commodities from our ports and the tonnage of both ore and coal are up. It has to be noted, that with the prices of these commodities continuing to fall, something had to give".

"Most the miners we have associations with have shed a large amount of their workforce and have scale back planned maintenance shutdown programs. This is having a dire effect on the small businesses providing the underlying support to the larger contractors. We have seen so many small businesses now just shut up and walk away from once profitable ventures. HV HIRE would have gone the same way if we had not looked at changing our business model during the mining boom as now would have been too late." Co-Owner, Andrew Tomkins stated



So what can small businesses do to survive in such an environment?

A recent research report from Asia Pacific Center for Franchising Excellence has identified survival factors for small businesses and observed that failing businesses were more likely than not to have relied on borrowing as the major startup financing. The report has also revealed that both surviving and failing businesses have cited adverse economic conditions as challenges. But clearly that is not the only factor affecting small businesses.

However, as VECC news release emphasized, small businesses can at least come together to make their concerns and grievances heard by the government. Many businesses agree that the government's regulatory and revenue policies are a major hurdle for small businesses, the failure of which could mean even worse unemployment, as many economic experts are warning.

At the same time, small businesses must also work together to form positive public opinion for their demands. Business and public interests are often deemed to be in conflict by political entities in general. While considering their concerns, a representative forum of small and medium businesses should focus on the converging areas of interests and help develop consensus on reasonable regulation and tax code reform.

Although, without the big miners realizing the damage that is happening to their own underlying support that these small businesses offer. They will in the end pay a heavy price as well as skills a competition leave the market place.

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