The Impact of Mining and Services Industries on the Structural Change of Australia

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Abstract

Both services and mining industries gained relatively more importance in the structural changes occurring, particularly in recent years, where the rate of structural change has increased. The study aims at defragmenting the mining and services industries, and analyses their impacts on structural change. VAR model, where activity is measured in terms of output, shows social and business services to have more forecasting abilities than other variables. On the hand, VAR model where activity is measured in terms of investment shows the mining industry to have relatively less Mean Absolute Errors forecasts. Results deteriorate as one moves from one step ahead to twelve step ahead forecasts, suggesting longer periods of one step ahead forecasting should be used to avoid cyclical fluctuations in activity variables such as output or investment for industries.

Keywords: Australia, mining, services, VAR, structural change

JEL classification: L16, N15, O11

1. Introduction and Background to Study

Structural change and economic development have always been part of the economics literature since Smith (1776). More recent research includes Silva and Teixeira (2008) and Krüger (2008) who survey previous literature on structural change at different aggregation levels. Structural change plays a critical role in the process of economic growth in raising standards of living for any economy. In the Australian context, the Productivity Commission is chartered by the government to facilitate adjustment within the economy by those individuals, firms and regions affected by economic change, by providing accurate information about structural change in Australia since the 1970s (Productivity Commission, 1998).

The framework of this study is based upon an extension of the traditional three-sector hypothesis, i.e. primary (agriculture and mining), secondary (manufacturing and

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