Economic prospects for South Australia

Adelaide
11-12th June 2008

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Chief Economist
SA domestic spending has been lagging the national average but exports have been doing very well (despite the strong A$).

Selected economic indicators – SA vs rest of Australia

State final demand

International exports of goods

Employment

Unemployment rate

Sources: ABS; ANZ Economics & Markets Research.
Relative softness in SA final demand largely due to declining trend in business investment

Major final demand components – SA vs rest of Australia

Household consumption

Real % change from year earlier (trend)

0 1 2 3 4 5 6 7
01 02 03 04 05 06 07 08
SA
Rest of Australia

Business investment

Real % change from year earlier (trend)

-10 -5 0 5 10 15 20 25 30
01 02 03 04 05 06 07 08
Rest of Australia
SA

Dwelling investment

Real % change from year earlier (trend)

-30 -20 -10 0 10 20 30
01 02 03 04 05 06 07 08
Rest of Australia
SA

Public spending

Real % change from year earlier (trend)

-10 -5 0 5 10
01 02 03 04 05 06 07 08
Rest of Australia
SA

Note: trend estimates for business investment and public spending have not been published by ABS since the December qtr 2006 and have been calculated by ANZ Economics & Markets Research. Sources: ABS; ANZ E&MR.
South Australia has been attracting more overseas migrants but still losing people to other States.

**Population growth**

<table>
<thead>
<tr>
<th>Year</th>
<th>Rest of Australia</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>02</td>
<td>1.4</td>
<td></td>
</tr>
<tr>
<td>03</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>04</td>
<td>1.8</td>
<td></td>
</tr>
</tbody>
</table>

**Migration to South Australia**

<table>
<thead>
<tr>
<th>Year</th>
<th>From overseas</th>
<th>To interstate</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>0%</td>
<td>-100%</td>
</tr>
<tr>
<td>02</td>
<td>50%</td>
<td>-50%</td>
</tr>
<tr>
<td>03</td>
<td>100%</td>
<td>50%</td>
</tr>
<tr>
<td>04</td>
<td>150%</td>
<td>100%</td>
</tr>
<tr>
<td>05</td>
<td>200%</td>
<td>150%</td>
</tr>
<tr>
<td>06</td>
<td>250%</td>
<td>200%</td>
</tr>
<tr>
<td>07</td>
<td>300%</td>
<td>250%</td>
</tr>
<tr>
<td>08</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ABS; ANZ Economics & Markets Research.
Structure of the SA economy means it gains little from the mining boom and loses from a strong A$.

**Mining, manufacturing and agriculture as a share of State economies**

% of gross State product, 2006-07

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Sources: ABS; ANZ Economics & Markets Research.
South Australia has derived less benefit from terms of trade gains than most other States.

**Contributions to changes in real per capita gross income**
**2002-03 to 2006-07**

- **NSW**
- **Vic**
- **Qld**
- **SA**
- **WA**
- **Tas**
- **NT**
- **ACT**

*Sources: ABS State Accounts (5220.0) 2006-07; ANZ Economics & Markets Research.*
South Australia’s other real structural problem is low productivity (and low productivity growth)

**Level of labour productivity 2006-07**

- **GSP per hour worked ($)**
  - **NSW**: 55
  - **Vic**: 50
  - **Qld**: 50
  - **SA**: 65
  - **WA**: 60
  - **Tas**: 55
  - **NT**: 60
  - **ACT**: 70

- **National average**: 55

**Labour productivity growth 2001-02 to 2006-07**

- **% per annum**
  - **NSW**: 1.0
  - **Vic**: 1.0
  - **Qld**: 1.0
  - **SA**: 0.0
  - **WA**: 1.5
  - **Tas**: 1.0
  - **NT**: 2.0
  - **ACT**: 1.5

* Productivity defined as real gross State product per hour worked. Sources: State Accounts (5220.0); ABS Employed persons by sex, age, hours worked, state (6291.0.55.001); ANZ Economics & Markets Research.
There’s a clear association between productivity and per capita income.

**Productivity and per capita income, 2006-07**

- **Sources:** ABS State Accounts (5220.0); Employed persons by sex, age, hours worked, state (6291.0.55.001); ANZ Economics & Markets Research.
When productivity is taken into account, SA does not have a labour cost advantage.

Sources:
- ABS State Accounts (5220.0);
- Employed persons by sex, age, hours worked, state (6291.0.55.001);
- ANZ Economics & Markets Research.

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**Labour cost per hour worked 2006-07**

<table>
<thead>
<tr>
<th>State</th>
<th>$ per hour worked</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>30</td>
</tr>
<tr>
<td>Vic</td>
<td>25</td>
</tr>
<tr>
<td>Qld</td>
<td>25</td>
</tr>
<tr>
<td>SA</td>
<td>25</td>
</tr>
<tr>
<td>WA</td>
<td>35</td>
</tr>
<tr>
<td>Tas</td>
<td>25</td>
</tr>
<tr>
<td>NT</td>
<td>30</td>
</tr>
<tr>
<td>ACT</td>
<td>45</td>
</tr>
</tbody>
</table>

**Labour cost per unit of output 2006-07**

<table>
<thead>
<tr>
<th>State</th>
<th>$ per $100 of gross State product</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>40</td>
</tr>
<tr>
<td>Vic</td>
<td>35</td>
</tr>
<tr>
<td>Qld</td>
<td>50</td>
</tr>
<tr>
<td>SA</td>
<td>55</td>
</tr>
<tr>
<td>WA</td>
<td>45</td>
</tr>
<tr>
<td>Tas</td>
<td>30</td>
</tr>
<tr>
<td>NT</td>
<td>35</td>
</tr>
<tr>
<td>ACT</td>
<td>60</td>
</tr>
</tbody>
</table>

National average

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*ANZ*
South Australia’s below-average productivity is partly a result of its economic structure.

National industry productivity levels and the industry composition of the South Australian economy compared with the national average.

Sources: ABS State Accounts (5220.0); Employed persons by sex, age, hours worked, state (6291.0.55.001); ANZ Economics & Markets Research.
South Australian businesses are more innovative than their counterparts in other States

‘Innovation-active’ businesses, 2004 and 2005

Sales revenue from new or significantly improved products

Note: ‘innovation’ refers to the introduction of new or significantly improved products, or operational or managerial processes. Source: ABS Innovation in Australian Business 2005 (8158.0)
Non-residential investment and productivity are closely related

Investment and productivity, 2006-07

Sources: ABS State Accounts (5220.0); ANZ Economics & Markets Research.
South Australia invests a smaller share of its output than the faster-growing States

**Business investment as a share of gross State product, 2004-05 to 2006-07**

**Public investment as a share of gross State product, 2004-05 to 2006-07**

*Sources: ABS State Accounts (5220.0); ANZ Economics & Markets Research.*
Educational attainment and productivity are closely related.

**Educational attainment and productivity, 2006-07**

15-65 year olds with post-school qualifications, 2006

Sources: ABS State Accounts (5220.0); ANZ Economics & Markets Research.
SA has a below-(above-) average share of well-(un-) qualified people in its workforce ...

25-64 year olds with post-school qualifications*

15-64 year olds who have not completed Year 12

Source: ABS, Education and Work (6227.0) 2007.
... and not surprisingly has a below- (above-) average proportion in high- (low-) skill jobs

The SA school system does well in improving student outcomes the longer they stay in school.

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**Average maths scores – Year 4**

<table>
<thead>
<tr>
<th>NSW</th>
<th>Vic</th>
<th>Qld</th>
<th>SA</th>
<th>WA</th>
<th>Tas</th>
<th>NT</th>
<th>ACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>450</td>
<td>475</td>
<td>500</td>
<td>525</td>
<td>550</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

National average: 500

**Average maths scores – Year 8**

<table>
<thead>
<tr>
<th>NSW</th>
<th>Vic</th>
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<th>SA</th>
<th>WA</th>
<th>Tas</th>
<th>NT</th>
<th>ACT</th>
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<tbody>
<tr>
<td>425</td>
<td>450</td>
<td>475</td>
<td>500</td>
<td>525</td>
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<td></td>
<td></td>
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</table>

National average: 500

**Average science scores – Year 4**

<table>
<thead>
<tr>
<th>NSW</th>
<th>Vic</th>
<th>Qld</th>
<th>SA</th>
<th>WA</th>
<th>Tas</th>
<th>NT</th>
<th>ACT</th>
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<tbody>
<tr>
<td>475</td>
<td>500</td>
<td>525</td>
<td>550</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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</table>

National average: 525

**Average science scores – Year 8**

<table>
<thead>
<tr>
<th>NSW</th>
<th>Vic</th>
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<th>SA</th>
<th>WA</th>
<th>Tas</th>
<th>NT</th>
<th>ACT</th>
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</thead>
<tbody>
<tr>
<td>475</td>
<td>500</td>
<td>525</td>
<td>550</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

National average: 525

Source: Trends in International Mathematics and Science Study 2002-03
But the proportion of SA students going to Year 12 is no longer above the national average.

Source: ABS, Schools Australia (4221.0)
SA’s growth rate will be below the national average over the next five years, but by a smaller margin than in the recent past.

**Growth in real gross State product, 2002-03 to 2006-07**

**Growth in real gross State product, 2007-08 to 2011-12**

Sources: ABS State Accounts (5220.0) 2006-07; Forecasts by Commonwealth and State Treasuries in 2008-09 Budget Papers; ANZ Economics & Markets Research.
Mineral and petroleum exploration are booming in SA, pointing to a substantial increase in resources sector output.

Source: ABS; ANZ Economics & Markets Research.
South Australia now accounts for the largest share of defence industry activity.

State shares of defence industry sales

Source: Defence Materiel Organisation (indicative figures).
Defence industry is particularly important for South Australia, and unlike most other States is still growing.

**Defence industry employment and sales**

**Employment**

- % of total employment

- 2005-06
- 2008-09 (e)

**Sales**

- % of gross State product

Note: employment includes direct and indirect jobs.

Sources: Defence Materiel Organisation (indicative figures); ABS; ANZ estimates.
Defence industries particularly important in Edinburgh, Mawson Lakes and Osborne

### SA defence industry activity by region

<table>
<thead>
<tr>
<th></th>
<th>Employment</th>
<th>Sales ($mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005-06</td>
<td>2008-09</td>
</tr>
<tr>
<td>Adelaide</td>
<td>526</td>
<td>623</td>
</tr>
<tr>
<td>Edinburgh</td>
<td>1,008</td>
<td>1,886</td>
</tr>
<tr>
<td>Mawson Lakes</td>
<td>2,435</td>
<td>2,606</td>
</tr>
<tr>
<td>Osborne</td>
<td>2,026</td>
<td>2,292</td>
</tr>
<tr>
<td>Woomera</td>
<td>74</td>
<td>85</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,069</strong></td>
<td><strong>7493</strong></td>
</tr>
</tbody>
</table>

**Note:** employment includes direct and indirect jobs.  
**Sources:** Defence Materiel Organisation (indicative figures).
Key challenges for the defence industry in South Australia

- **Ensuring pace of growth is sustainable**
  - avoiding ‘over-stretch’

- **Nurturing the skills base**
  - note South Australia’s relatively low levels of educational attainment and workplace skills compared with most other States

- **Changing political circumstances**
  - South Australia used to have four Federal Cabinet ministers
  - now it only has one
South Australia’s finances are in good shape, and borrowing for properly evaluated infrastructure is not a problem.

**Net ‘operating’ balance**

**Capital expenditures**

**Fiscal balance**

**Net debt**

*Note: all data are for the ‘general government’ sector.*

*Sources: State Budget Papers; ANZ Economics & Markets Research.*
SA’s policy of high-quality State services funded by high taxes may detract from economic growth.

**Level of service provision ratios 2006-07**

All States & Tties = 100

**State tax severity ratios 2006-07**

All States & Tties = 100

*Source: Commonwealth Grants Commission 2008 Update; ANZ Economics & Markets Research.*
### A ‘SWOT’ analysis of South Australia’s economy

<table>
<thead>
<tr>
<th><strong>Strengths</strong></th>
<th><strong>Weaknesses</strong></th>
<th><strong>Opportunities</strong></th>
<th><strong>Threats</strong></th>
</tr>
</thead>
</table>
| - Competitive advantages in specialist niche manufacturing and agriculture  
- Track record in innovation and creativity  
- Generally high standard of public services cf. other States  
- Lifestyle  
- Relatively low housing costs  | - Relatively small scale  
- Ageing and slow-growing population  
- Concentration in declining industries  
- Below-average export orientation  
- Below-average productivity and educational attainment  
- Relatively high State taxes  | - Upsurge in mineral exploration activity  
- Expansion in defence industry capabilities  
- Fledgling ICT, bio-tech and medical devices industries  
- Underdeveloped tourist industries  | - Erosion of competitiveness due to persistently strong A$  
- Reliability and quality of water supplies  
- Reliability of energy supplies  
- Above-average rate of demographic change  
- Persistent interstate emigration of head offices and ‘talent’  |
## Australian forecast summary

<table>
<thead>
<tr>
<th>Economic forecasts</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth (%) – Australia</td>
<td>3.2</td>
<td>3¼</td>
<td>2¼</td>
<td>2¼</td>
</tr>
<tr>
<td>Sth Australia</td>
<td>0.8</td>
<td>3¼</td>
<td>3¼</td>
<td>3</td>
</tr>
<tr>
<td>Unemployment rate (year end, %)</td>
<td>4.3</td>
<td>4</td>
<td>4½</td>
<td>5</td>
</tr>
<tr>
<td>Inflation (year end, %)</td>
<td>2.1</td>
<td>4</td>
<td>3½</td>
<td>3</td>
</tr>
<tr>
<td>Housing starts (‘000)</td>
<td>152</td>
<td>150</td>
<td>140</td>
<td>165</td>
</tr>
<tr>
<td>Current account balance ($bn)</td>
<td>-59.6</td>
<td>-76</td>
<td>-59</td>
<td>-75</td>
</tr>
<tr>
<td>Household saving rate (%)</td>
<td>0.7</td>
<td>2</td>
<td>4½</td>
<td>5½</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial market forecasts</th>
<th>Jun 08</th>
<th>Dec 08</th>
<th>Jun 09</th>
<th>Dec 09</th>
<th>Jun 10</th>
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<tr>
<td>RBA cash rate (% pa)</td>
<td>7.25</td>
<td>7.75</td>
<td>7.75</td>
<td>7.25</td>
<td>6.25</td>
</tr>
<tr>
<td>90-day bill yield (% pa)</td>
<td>7.70</td>
<td>8.05</td>
<td>7.95</td>
<td>7.20</td>
<td>6.20</td>
</tr>
<tr>
<td>A$-US$</td>
<td>0.96</td>
<td>1.03</td>
<td>0.96</td>
<td>0.88</td>
<td>0.83</td>
</tr>
<tr>
<td>A$-¥</td>
<td>101</td>
<td>107</td>
<td>103</td>
<td>96</td>
<td>94</td>
</tr>
<tr>
<td>A$-€</td>
<td>0.61</td>
<td>0.66</td>
<td>0.63</td>
<td>0.62</td>
<td>0.62</td>
</tr>
<tr>
<td>Gold price (US$ / oz)</td>
<td>940</td>
<td>910</td>
<td>920</td>
<td>990</td>
<td>840</td>
</tr>
<tr>
<td>Oil price (US$ / barrel)</td>
<td>135</td>
<td>123</td>
<td>127</td>
<td>122</td>
<td>115</td>
</tr>
</tbody>
</table>