

Open partnerships
Open possibilities

Economic prospects for South Australia

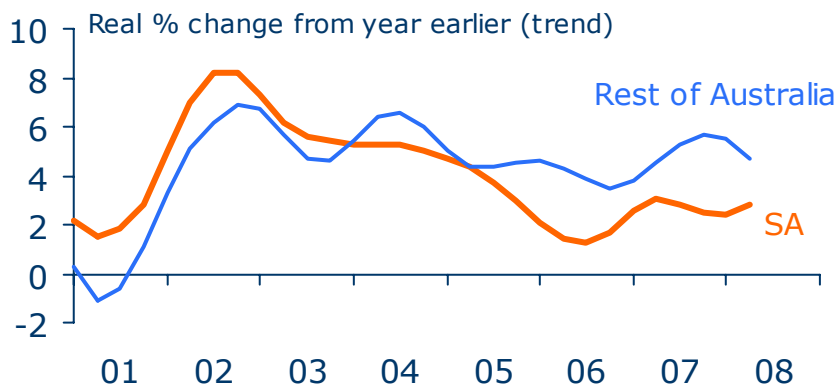
Adelaide
11-12th June 2008

Saul Eslake
Chief Economist

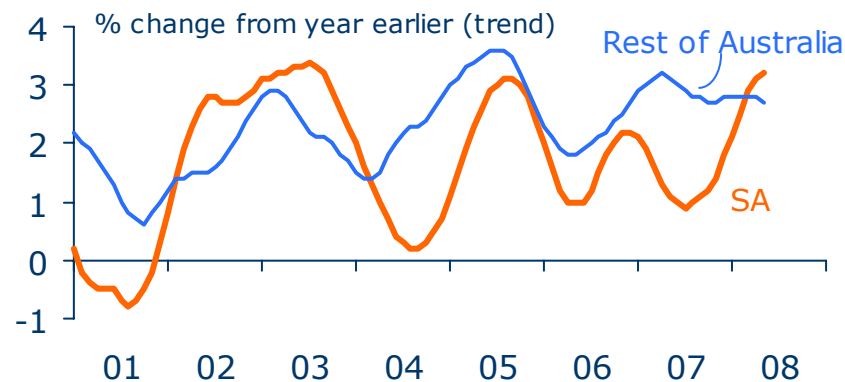
SA domestic spending has been lagging the national average but exports have been doing very well (despite the strong A\$)

Selected economic indicators – SA vs rest of Australia

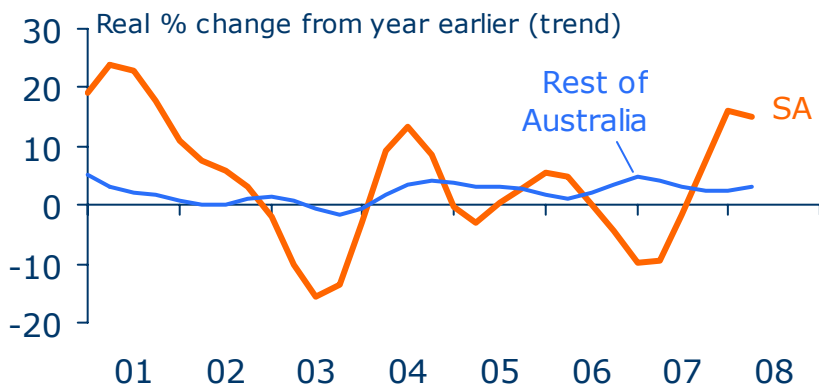
State final demand



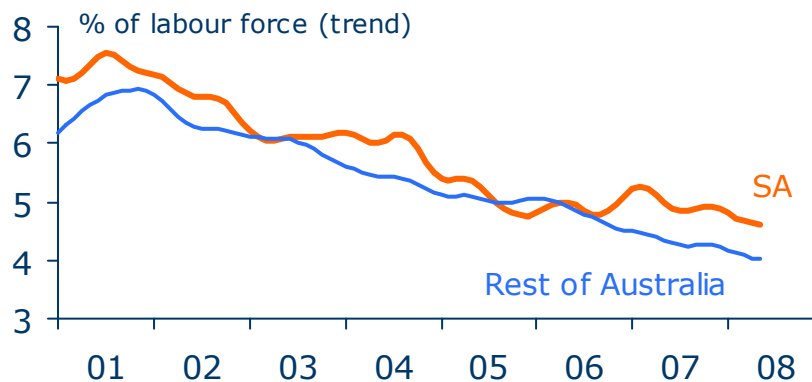
Employment



International exports of goods



Unemployment rate



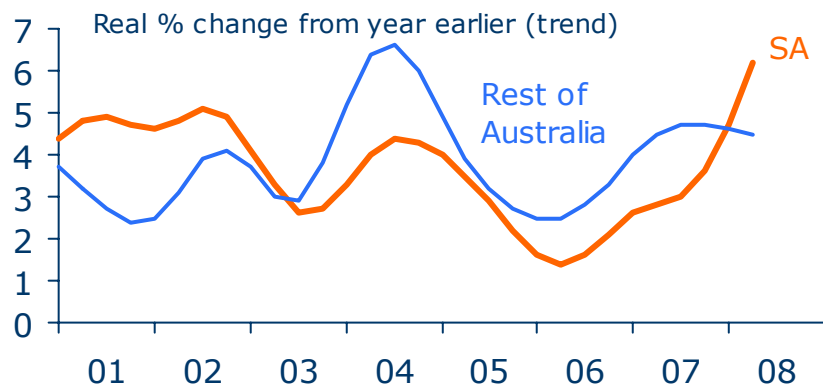
Sources: ABS; ANZ Economics & Markets Research.



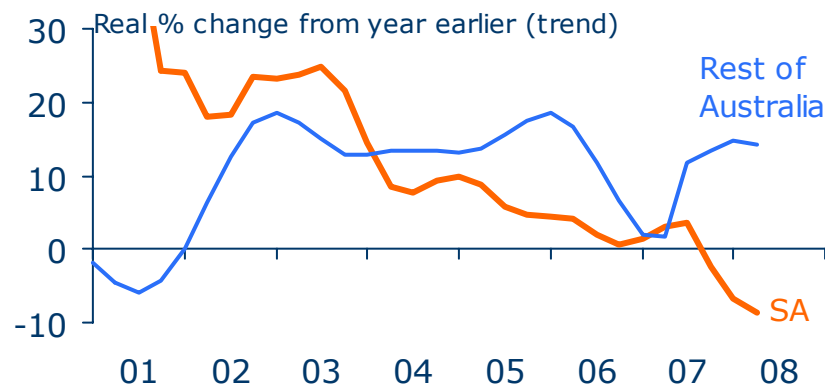
Relative softness in SA final demand largely due to declining trend in business investment

Major final demand components – SA vs rest of Australia

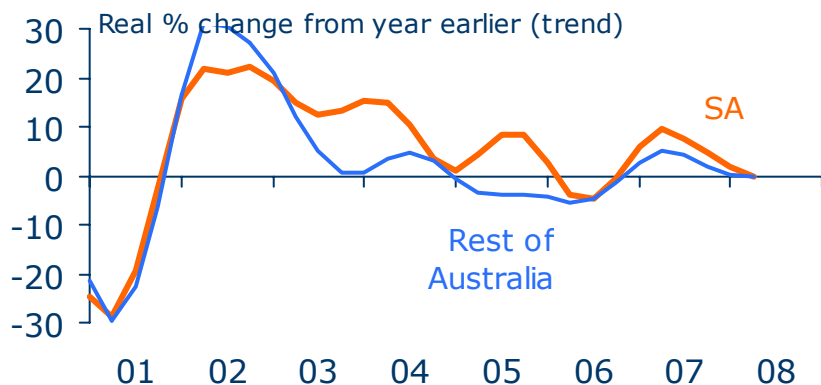
Household consumption



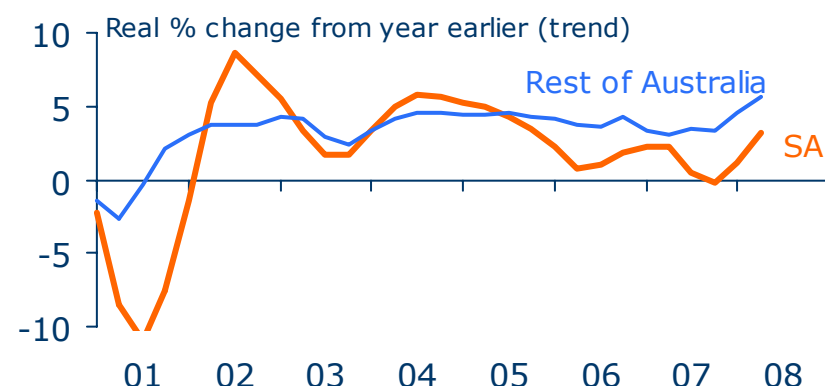
Business investment



Dwelling investment



Public spending

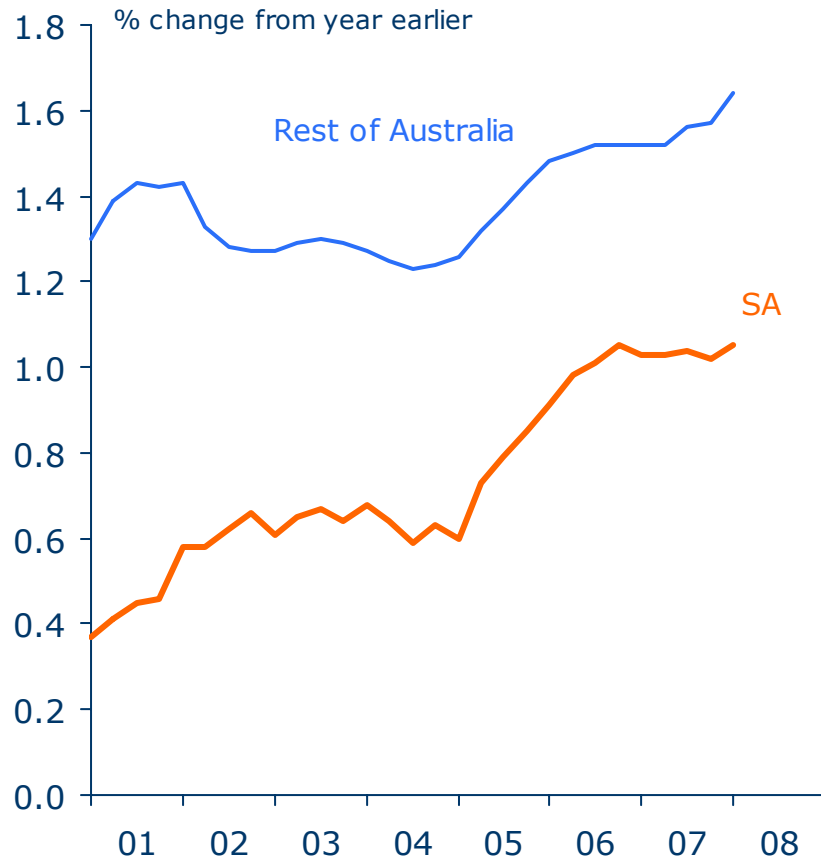


Note: trend estimates for business investment and public spending have not published by ABS since the December qtr 2006 and have been calculated by ANZ Economics & Markets Research. Sources: ABS; ANZ E&MR.

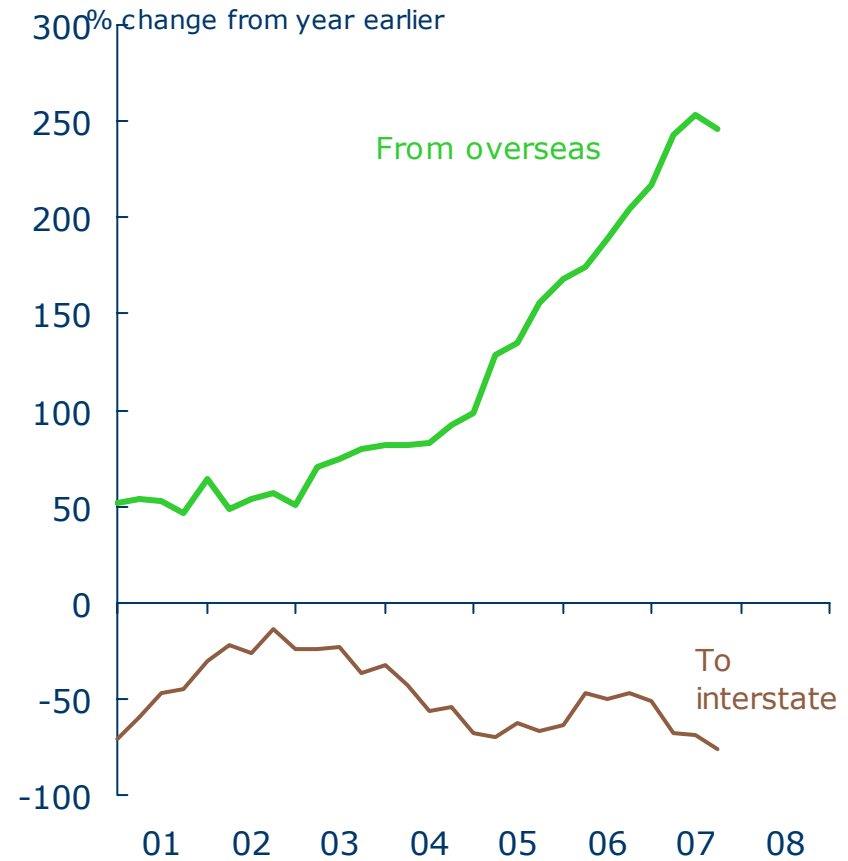


South Australia has been attracting more overseas migrants but still losing people to other States

Population growth



Migration to South Australia

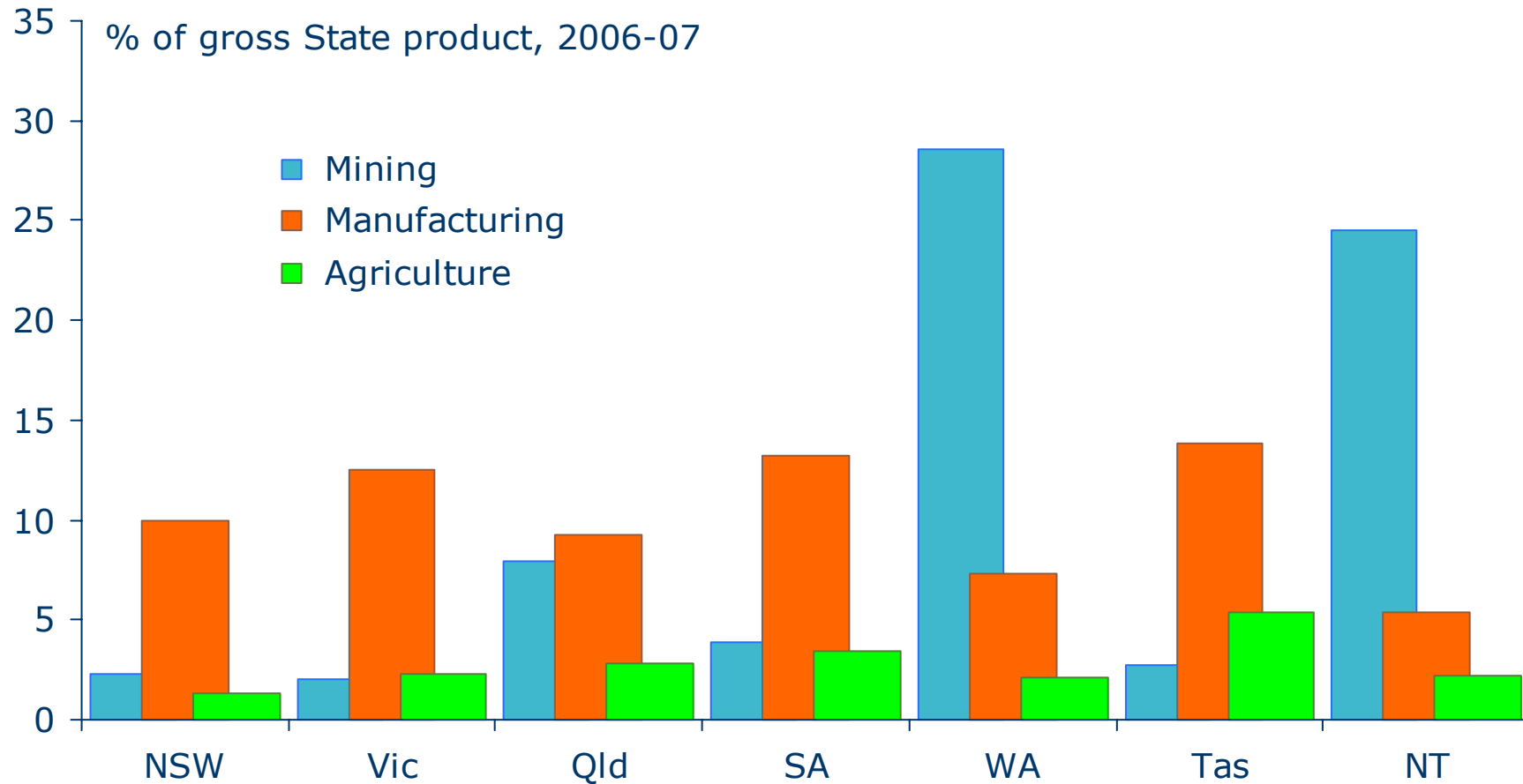


Source: ABS; ANZ Economics & Markets Research.



Structure of the SA economy means it gains little from the mining boom and loses from a strong A\$⁵

Mining, manufacturing and agriculture as a share of State economies

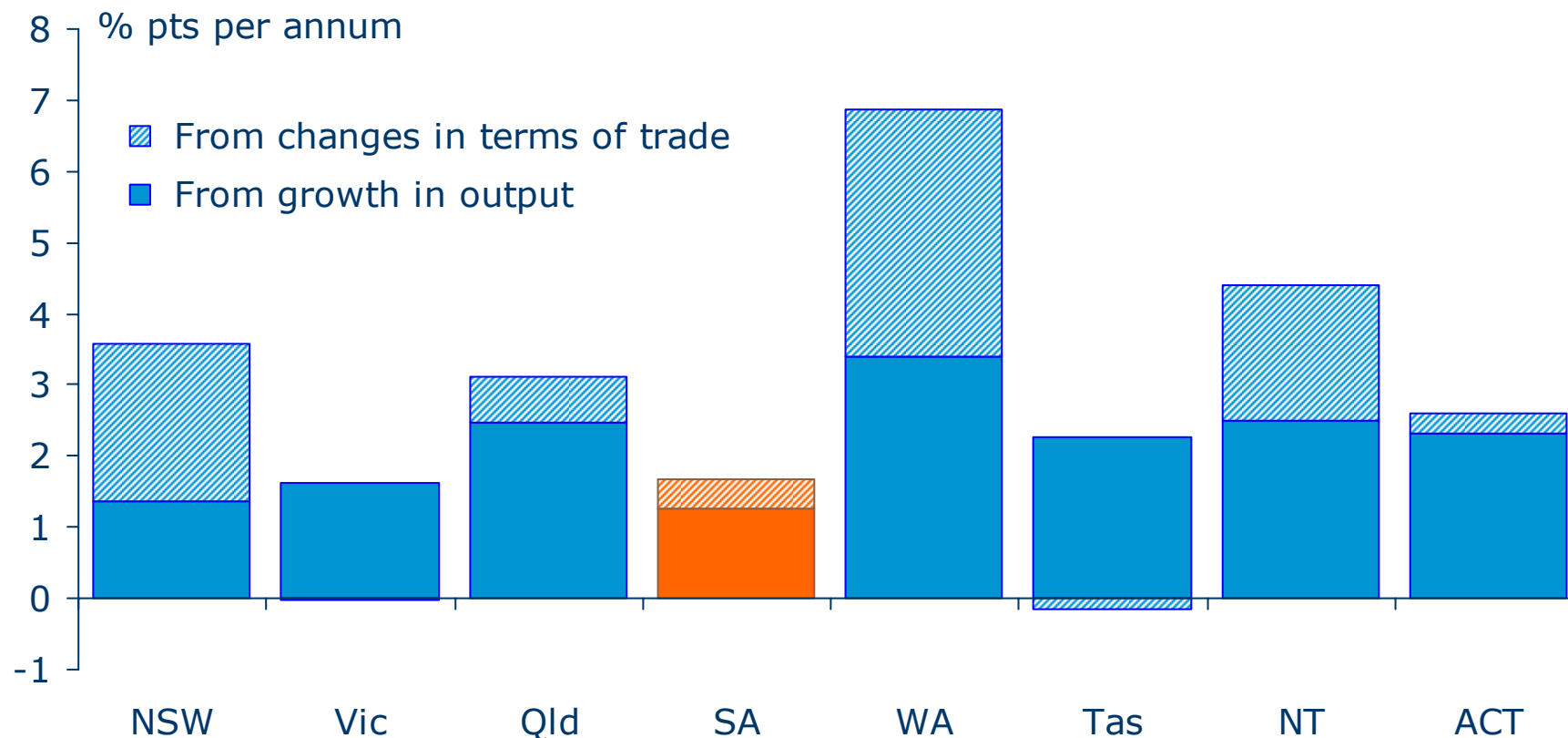


Sources: ABS; ANZ Economics & Markets Research.



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

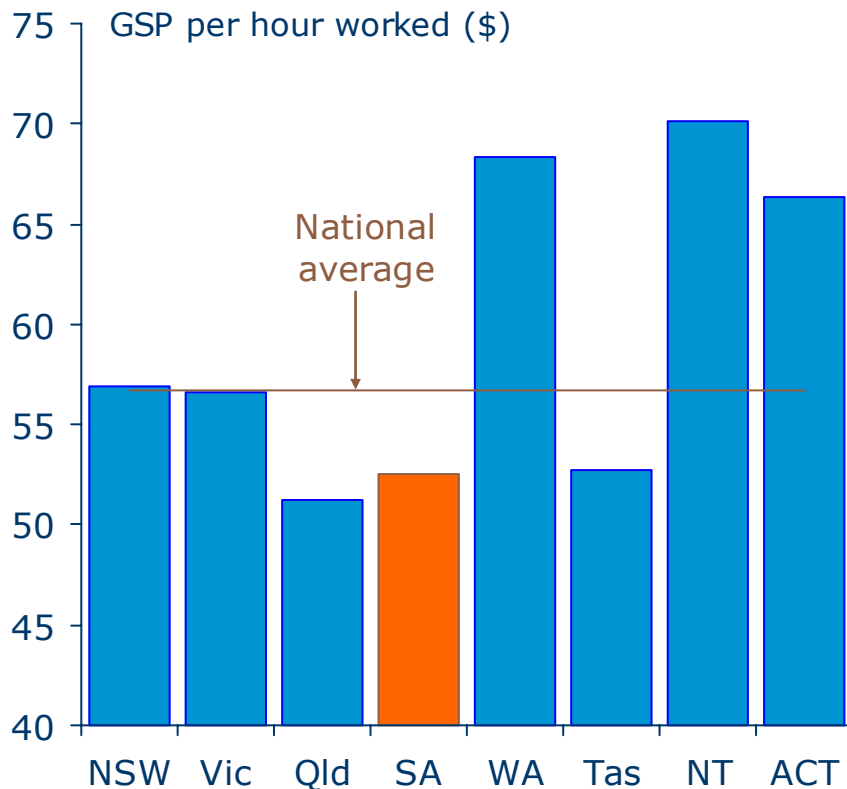


Sources: ABS State Accounts (5220.0) 2006-07; ANZ Economics & Markets Research.

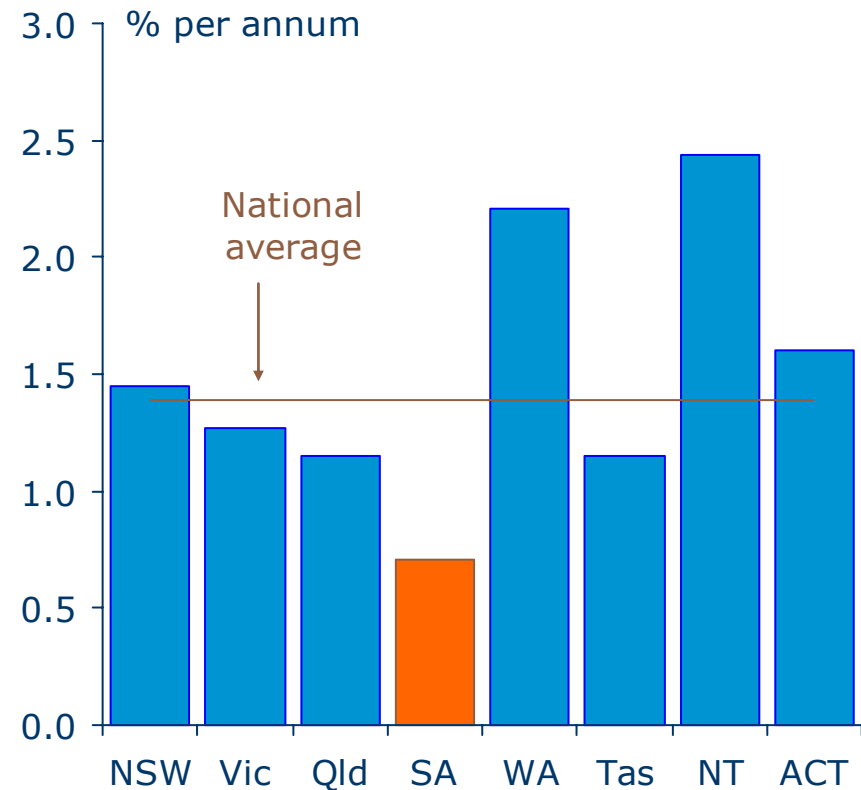


South Australia's other real structural problem is low productivity (and low productivity growth)

**Level of labour productivity
2006-07**



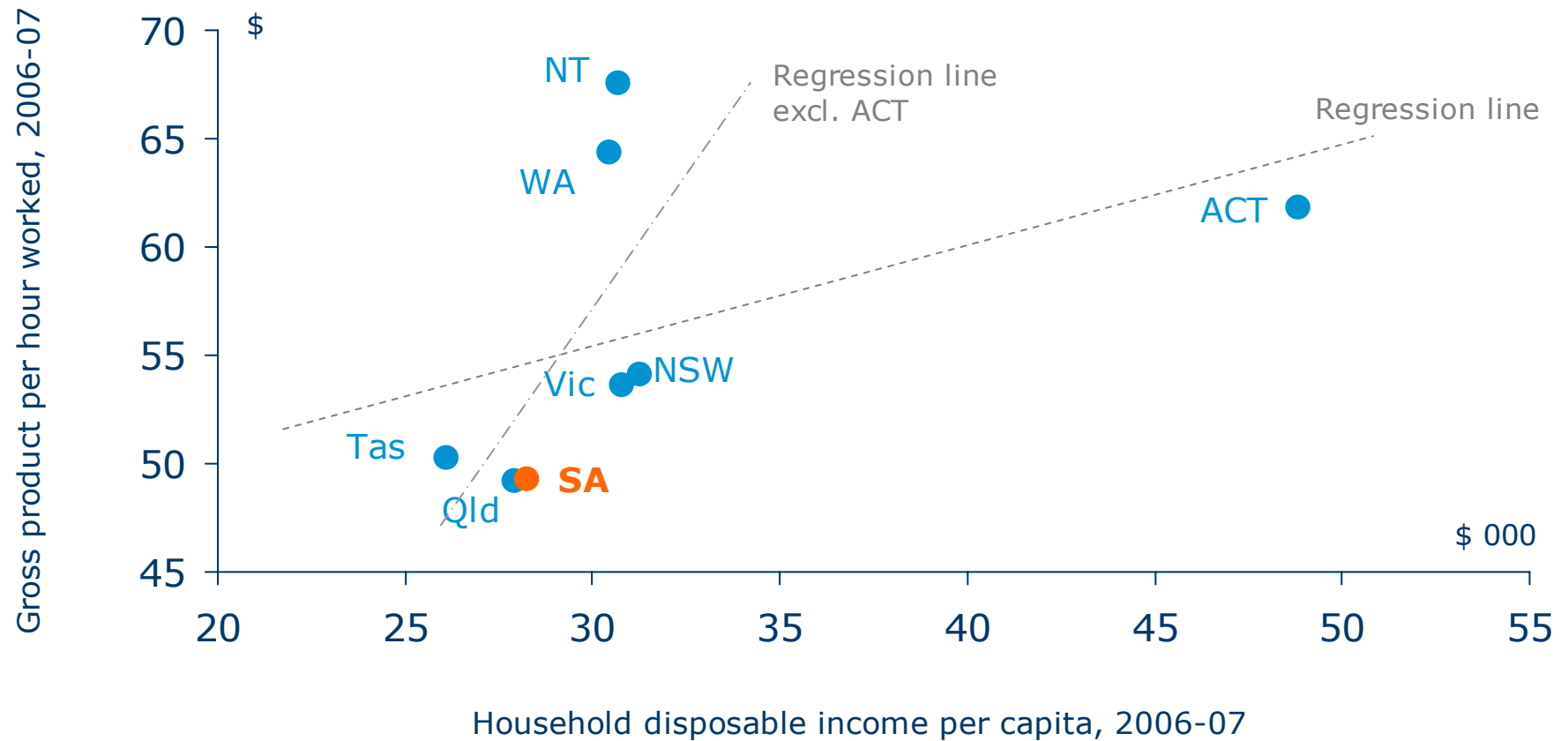
**Labour productivity growth
2001-02 to 2006-07**



* 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

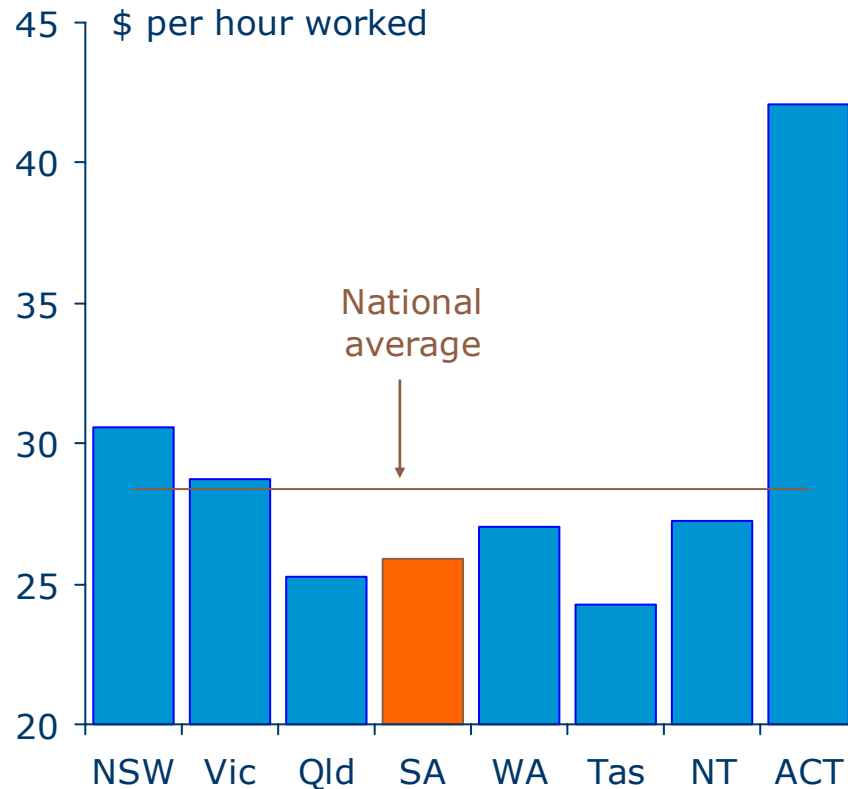


Sources: ABS State Accounts (5220.0); Employed persons by sex, age, hours worked, state (6291.0.55.001); ANZ Economics & Markets Research.

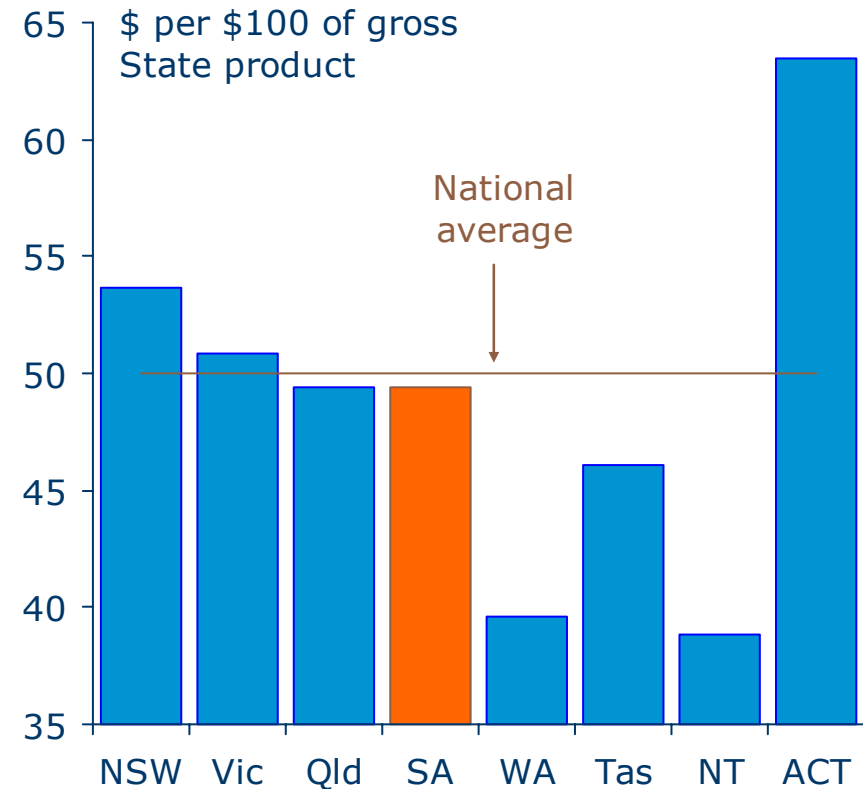


When productivity is taken into account, SA does not have a labour cost advantage

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



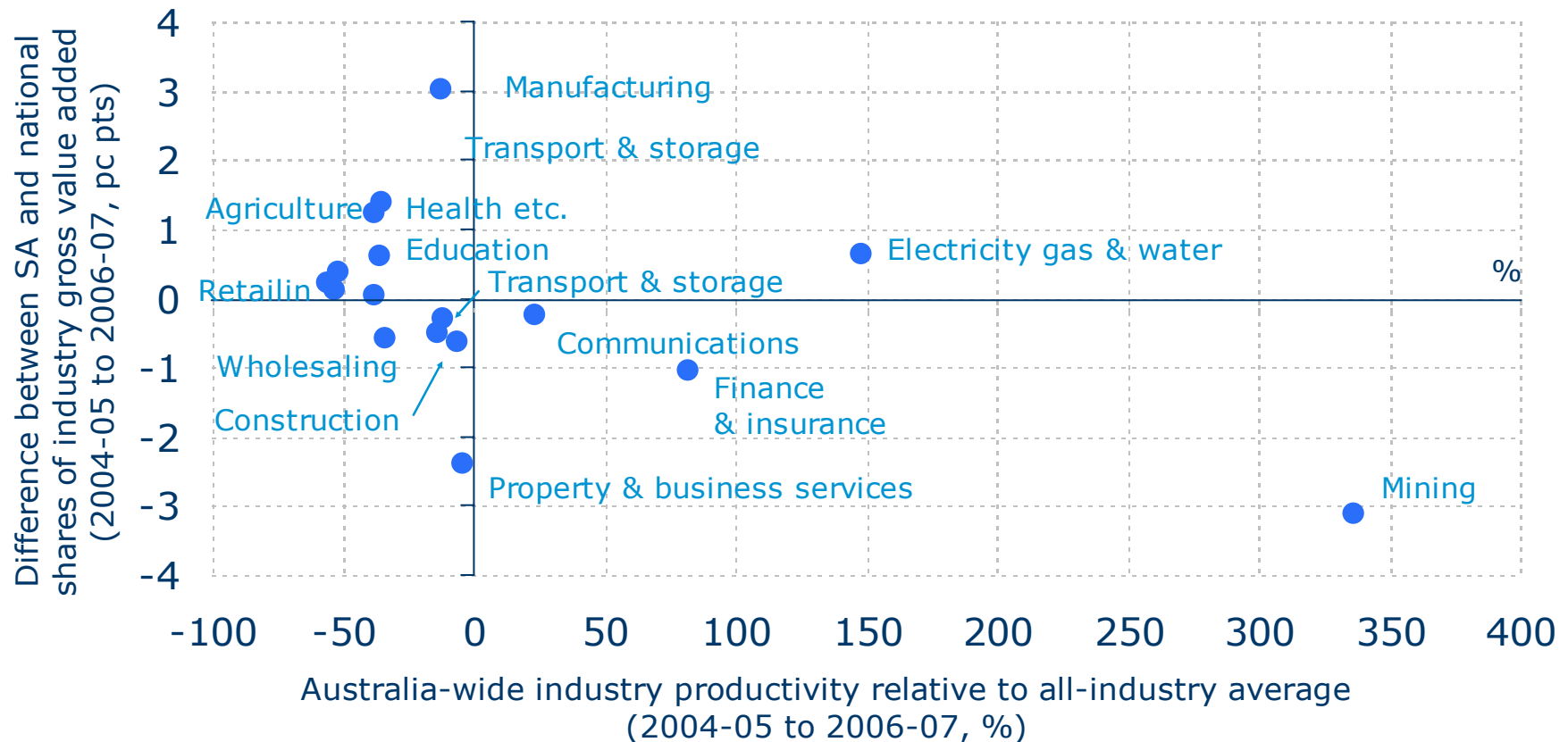
**Labour cost per unit of output
2006-07**



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

South Australia's below-average productivity is partly a result of its economic structure ¹⁰

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

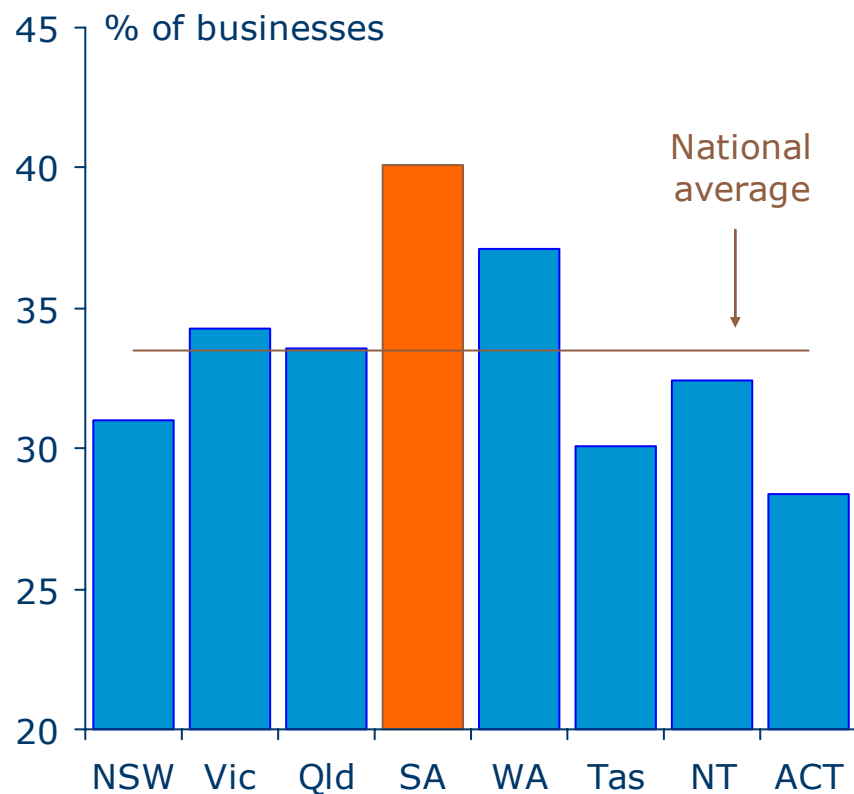


Sources: ABS State Accounts (5220.0); Employed persons by sex, age, hours worked, state (6291.0.55.001); ANZ Economics & Markets Research.

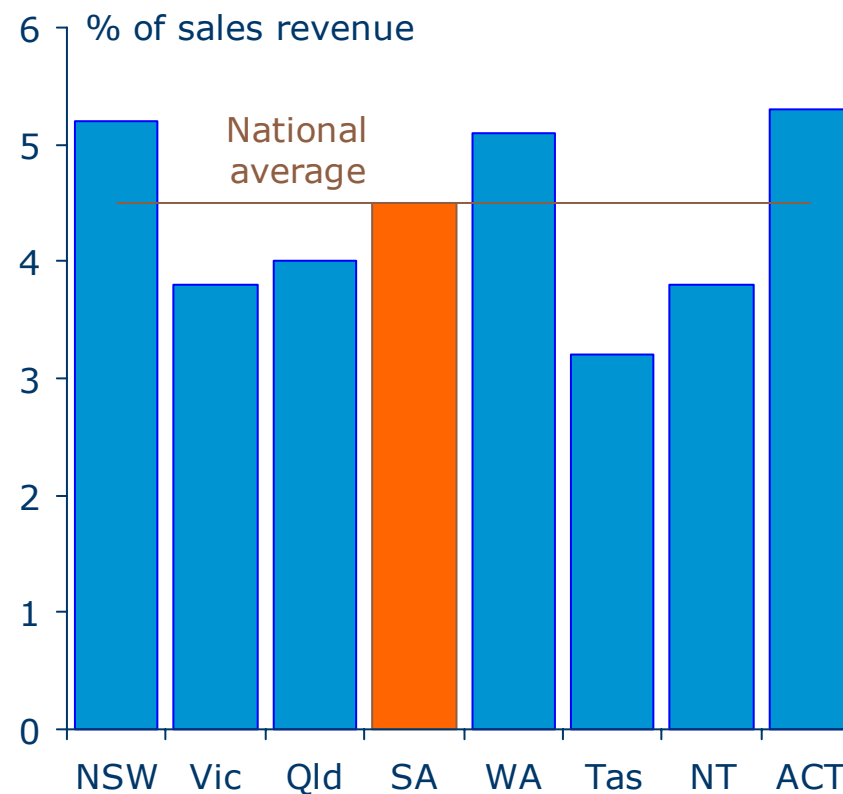


South Australian businesses are more innovative than their counterparts in other States

'Innovation-active' businesses, 2004 and 2005



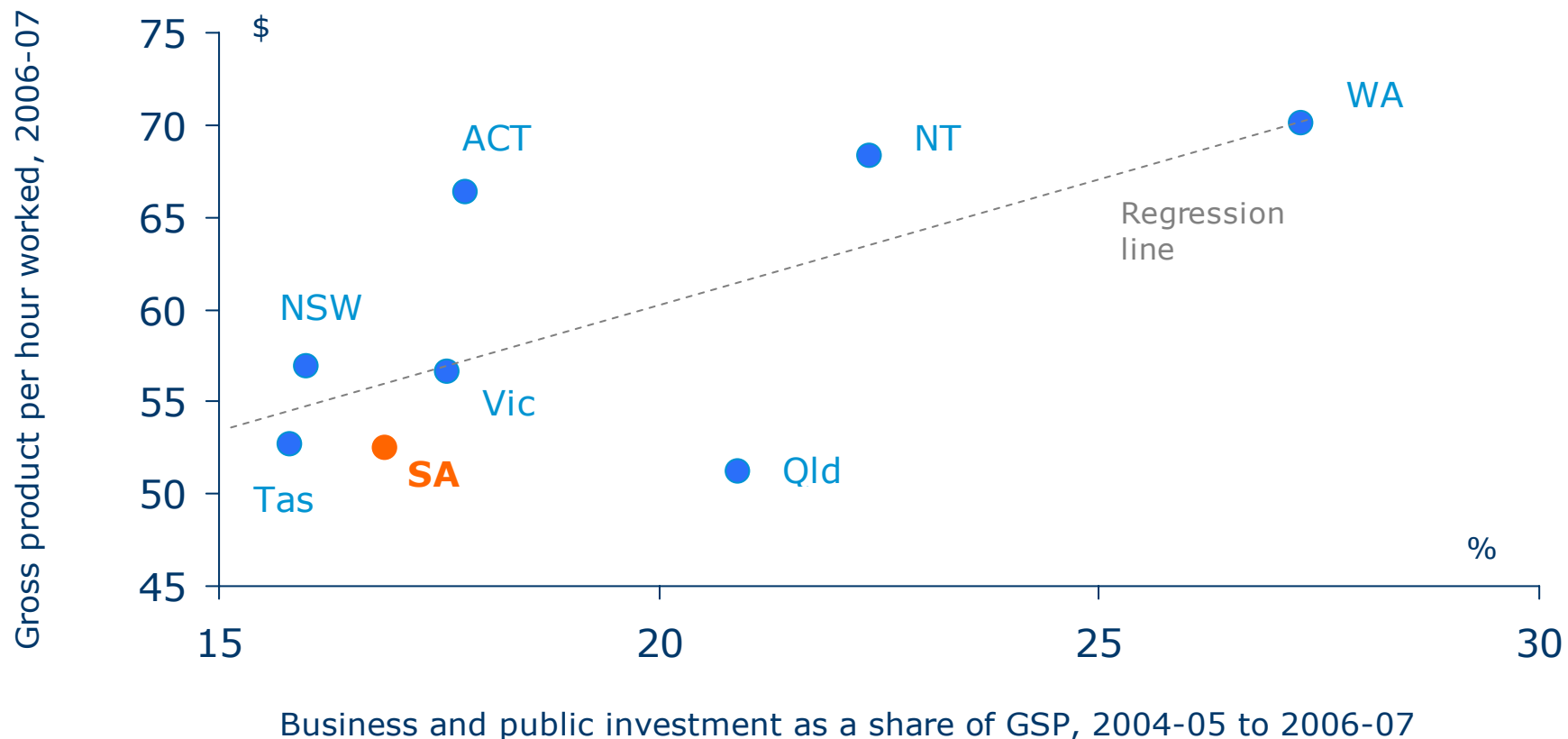
Sales revenue from new or significantly improved products



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)



Investment and productivity, 2006-07

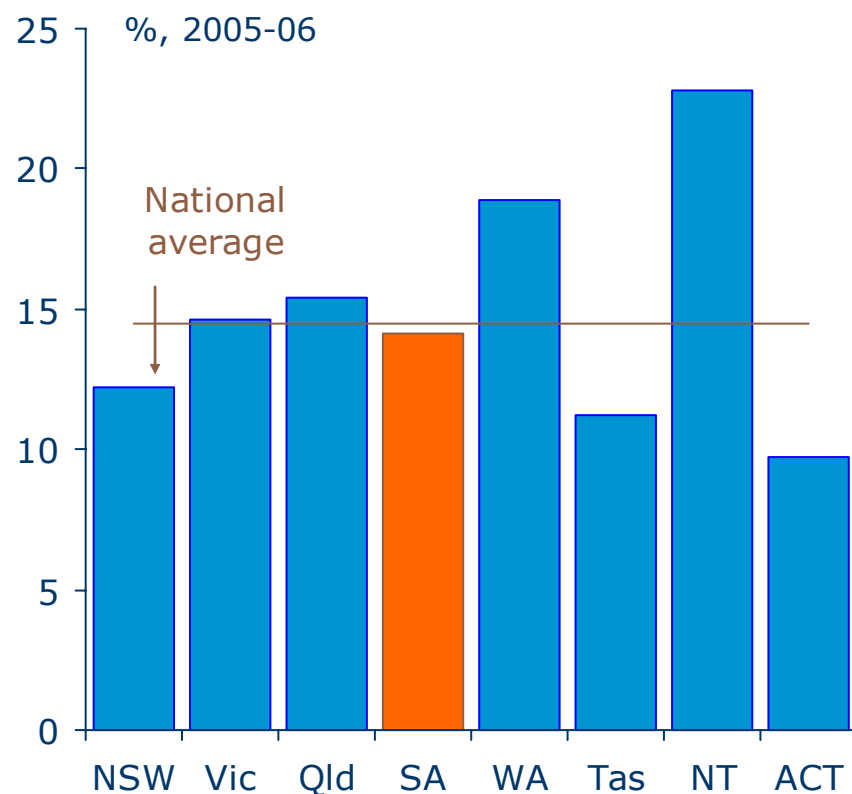


Sources: ABS State Accounts (5220.0); ANZ Economics & Markets Research.

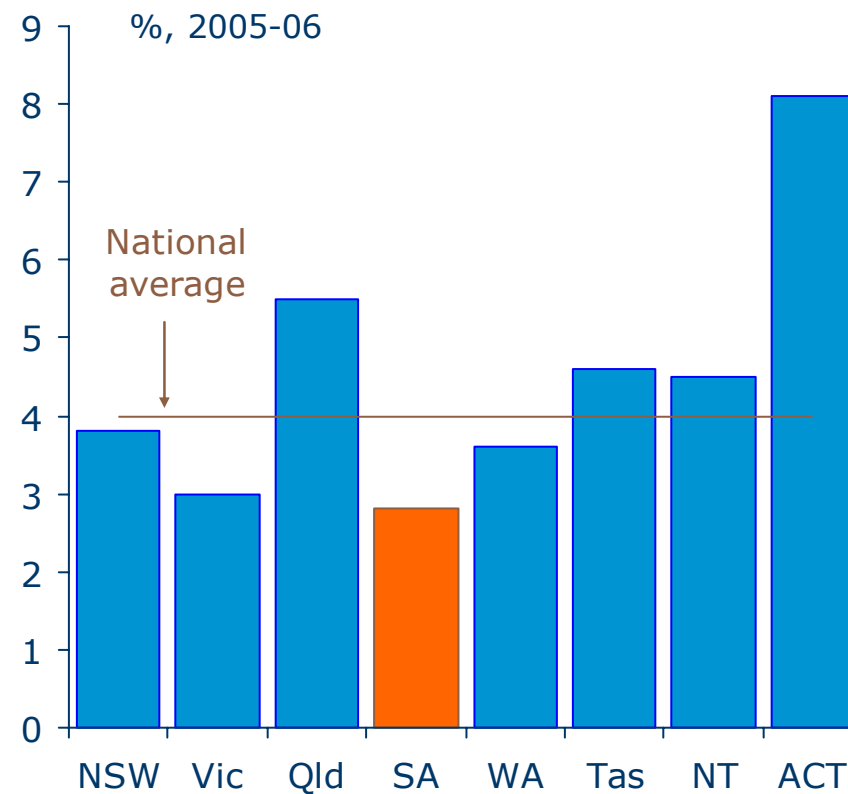


South Australia invests a smaller share of its output than the faster-growing States

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



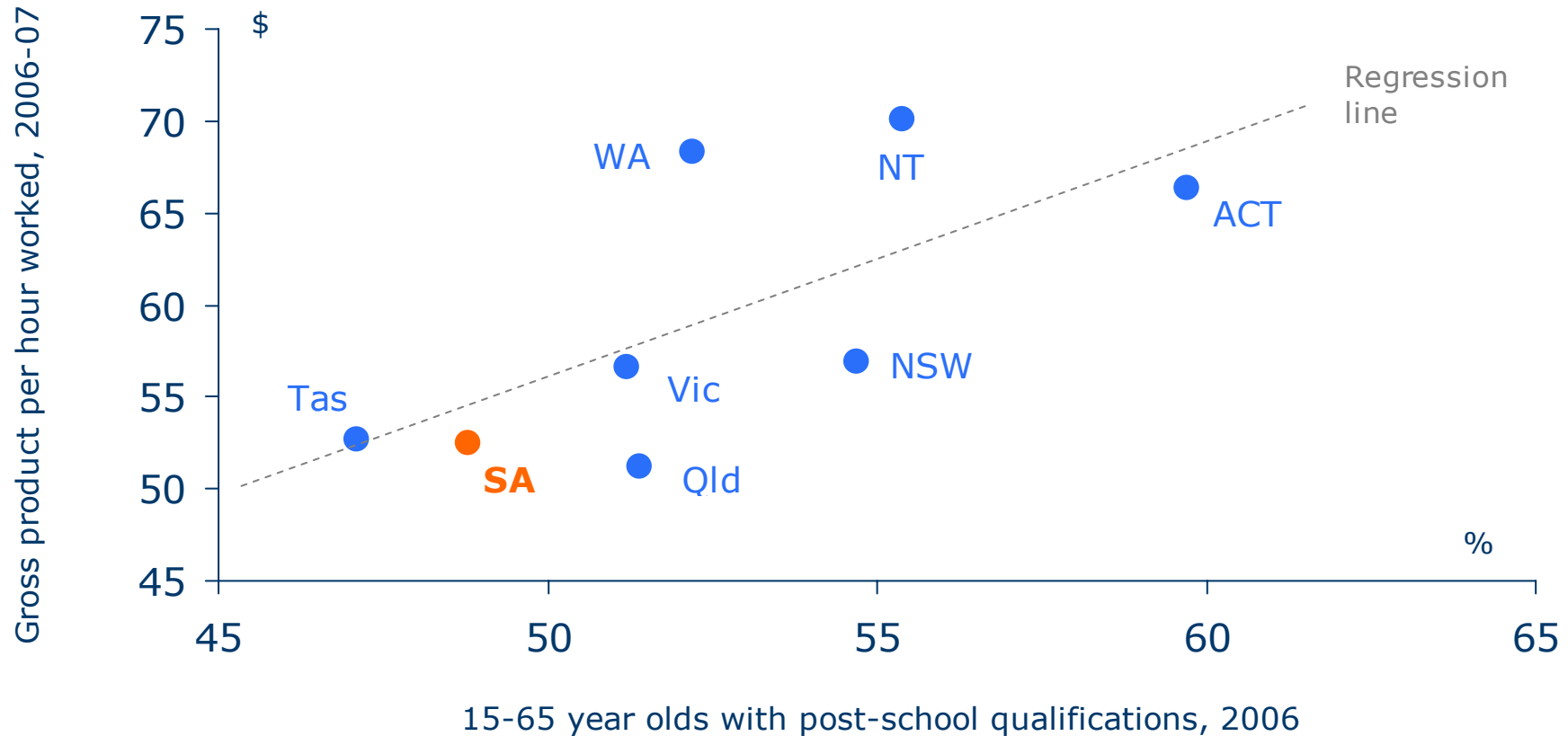
Public investment as a share of gross State product, 2004-05 to 2006-07



Sources: ABS State Accounts (5220.0); ANZ Economics & Markets Research.

Educational attainment and productivity are closely related

Educational attainment and productivity, 2006-07

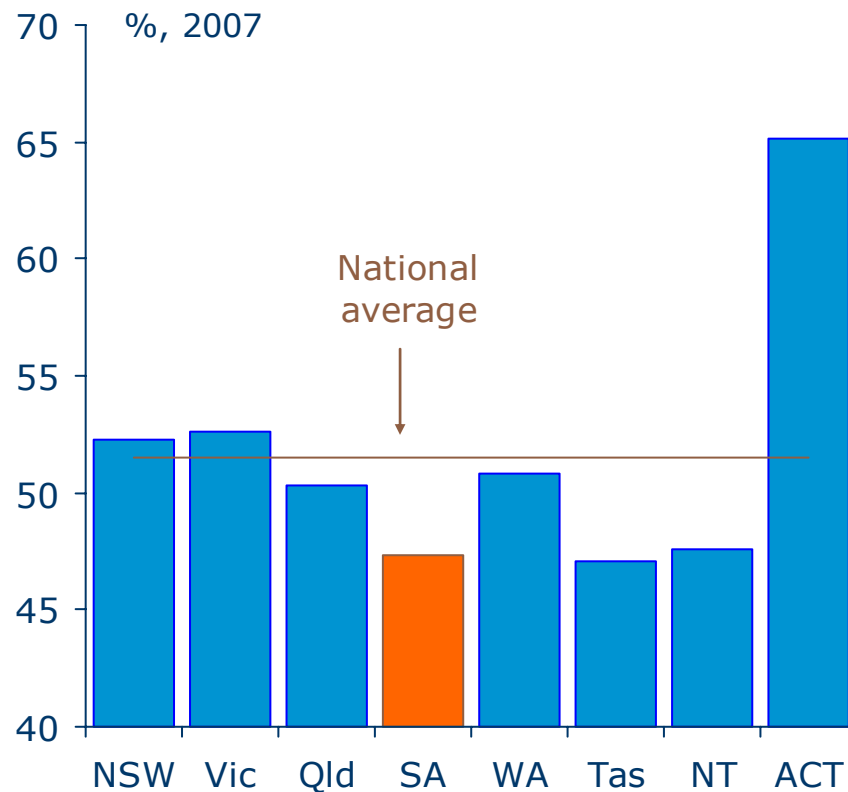


Sources: ABS State Accounts (5220.0); ANZ Economics & Markets Research.

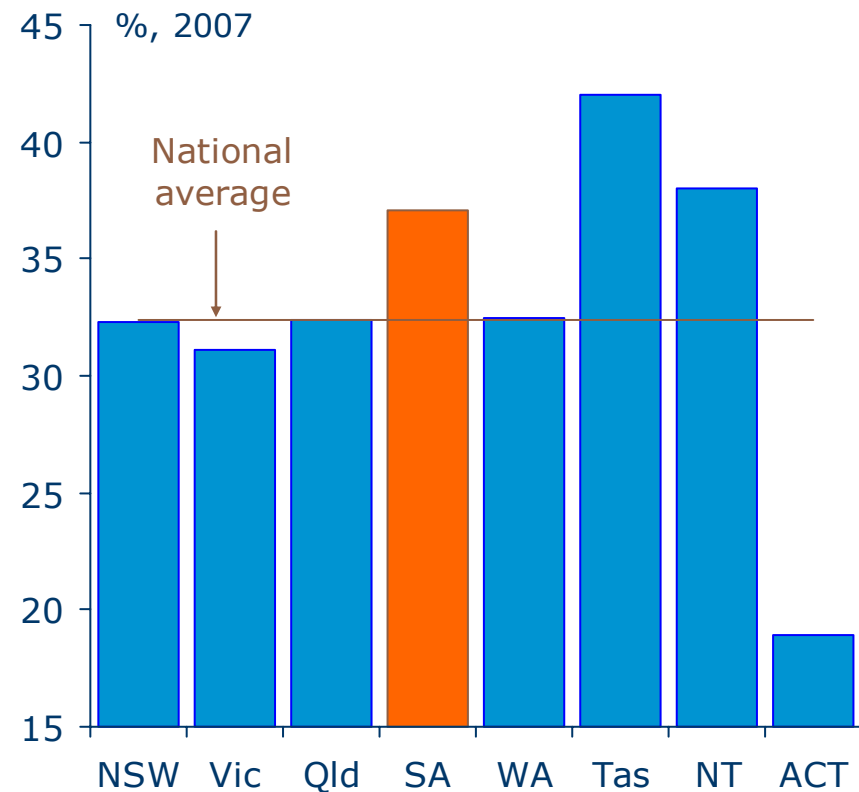


SA has a below-(above-) average share of well-(un-) qualified people in its workforce ...

25-64 year olds with post-school qualifications*



15-64 year olds who have not completed Year 12

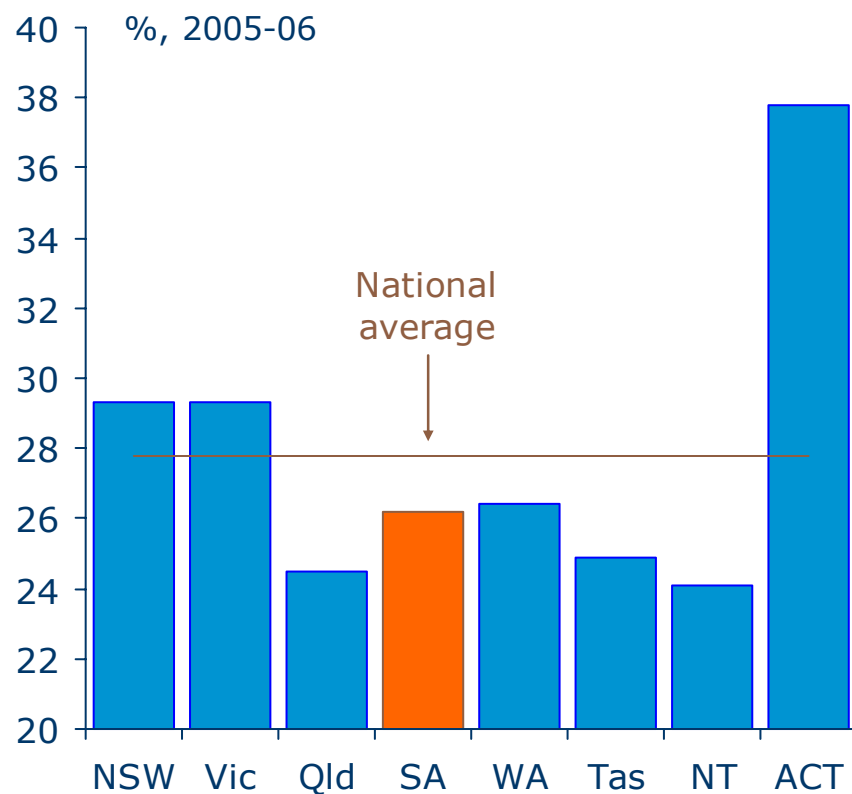


Source: ABS, Education and Work (6227.0) 2007.

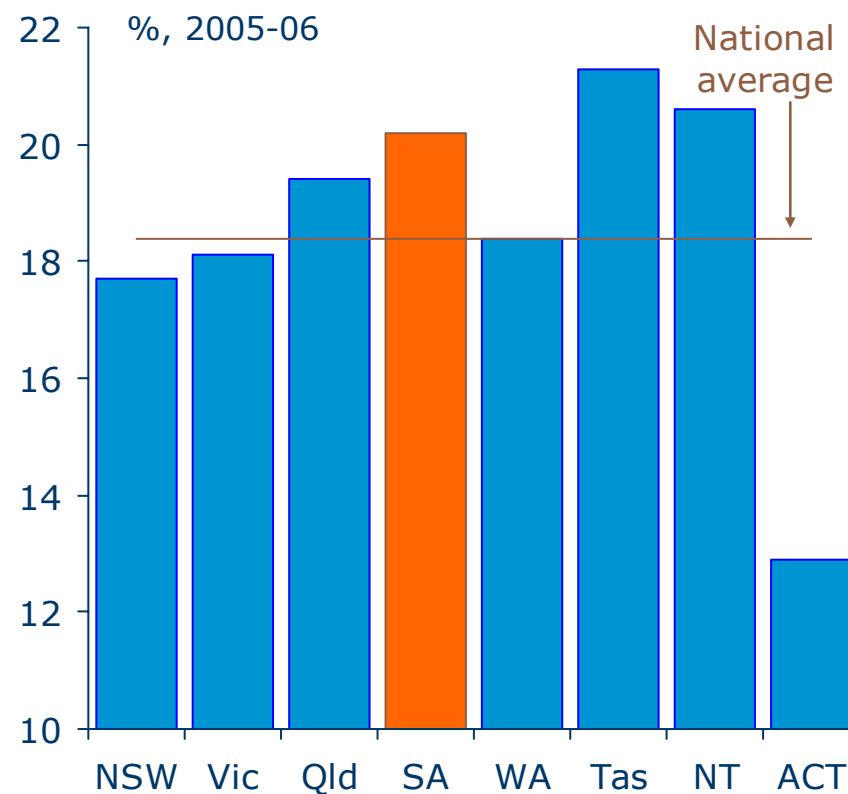


... and not surprisingly has a below- (above-) average proportion in high- (low-) skill jobs

Workforce employed in highest-skill occupations



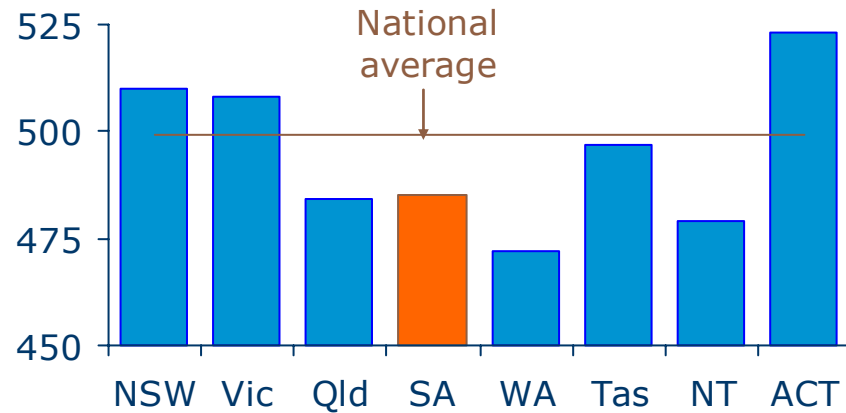
Workforce employed in lowest-skill occupations



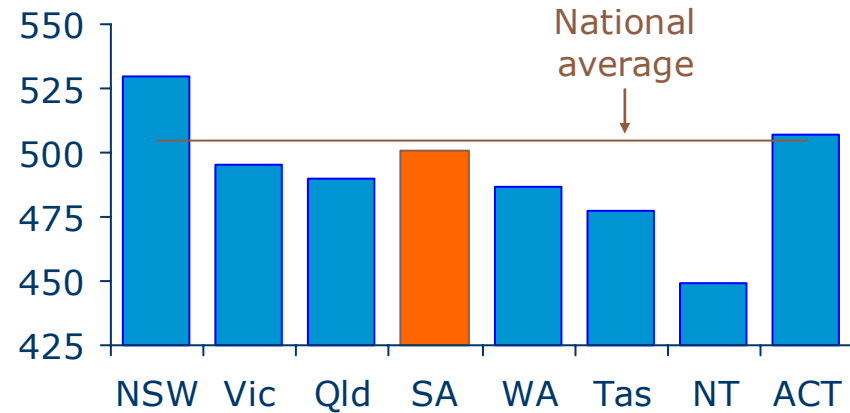
Source: ABS, Australian Social Trends (4102.0) 2007.

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

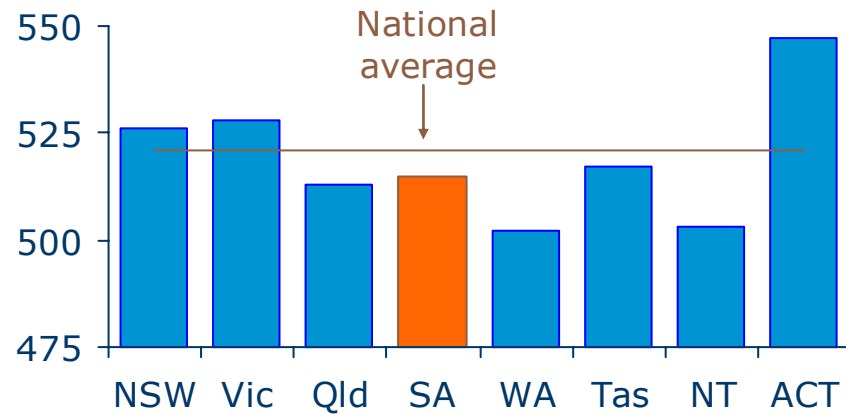
Average maths scores – Year 4



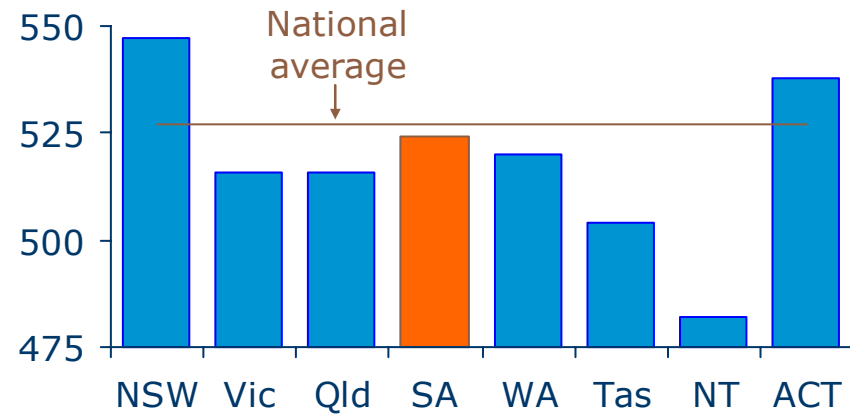
Average maths scores – Year 8



Average science scores – Year 4



Average science scores – Year 8

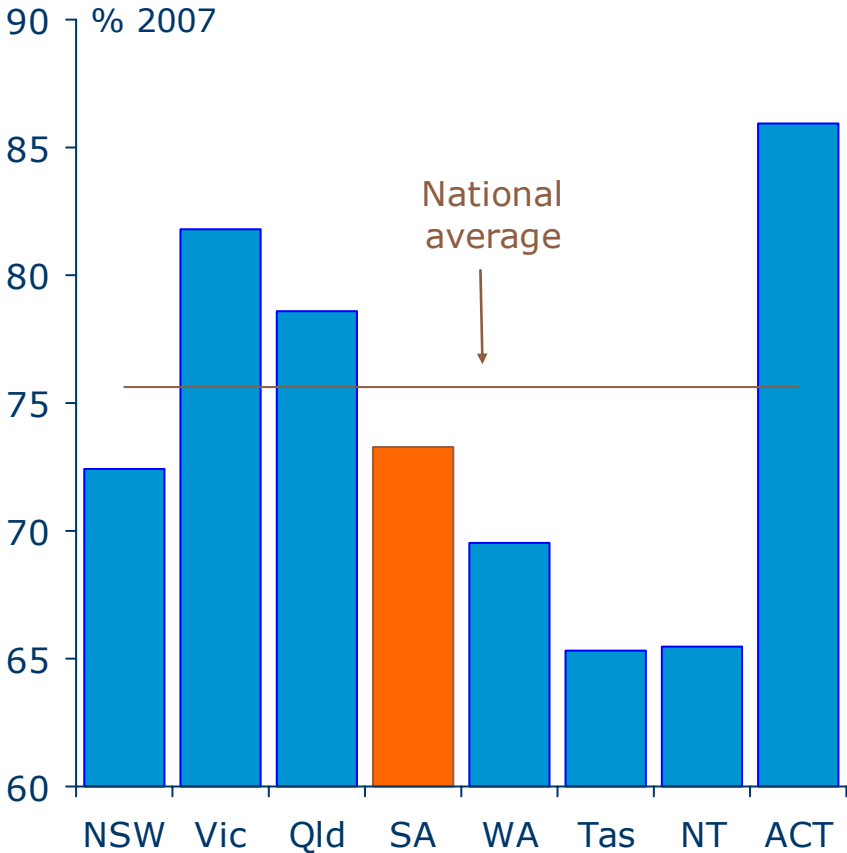
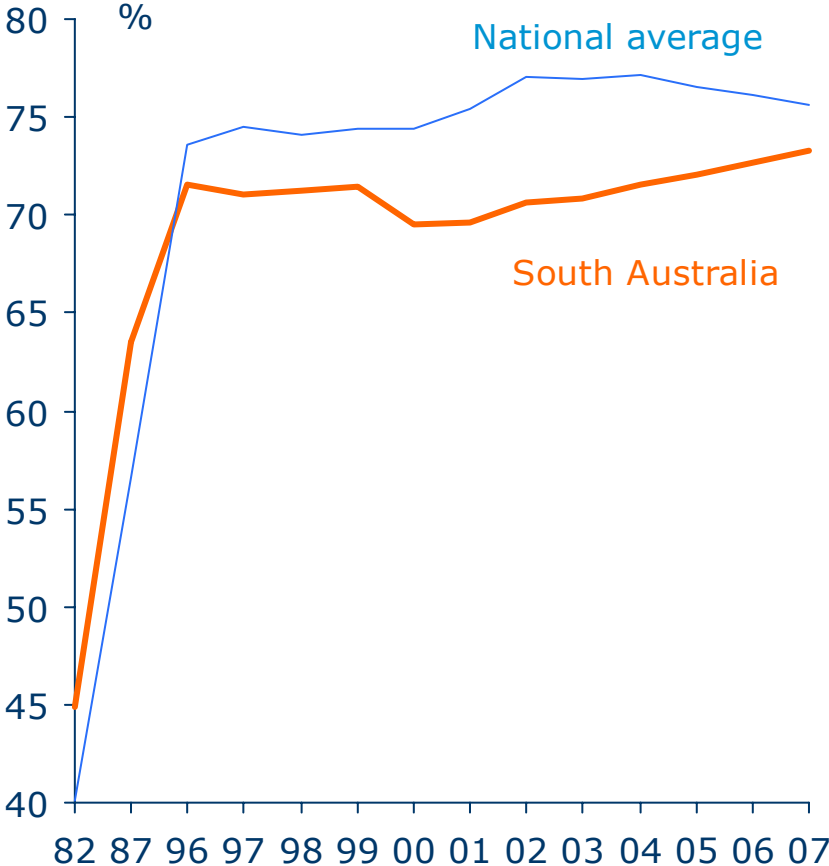


Source: Trends in International Mathematics and Science Study 2002-03



But the proportion of SA students going to Year 12 is no longer above the national average 18

School retention rates to year 12

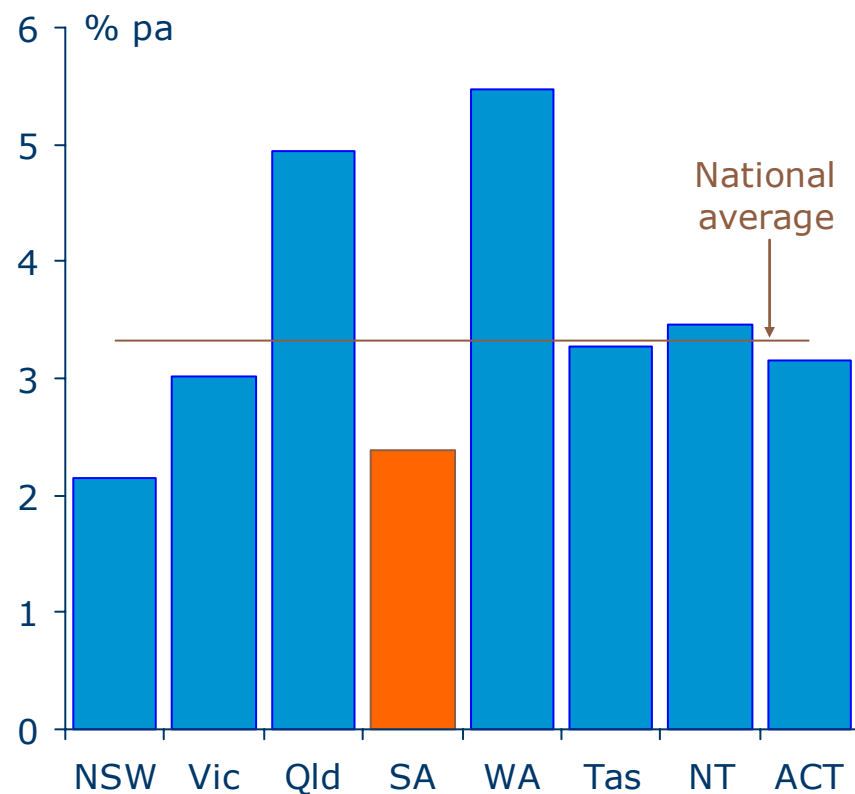


Source: ABS, Schools Australia (4221.0)

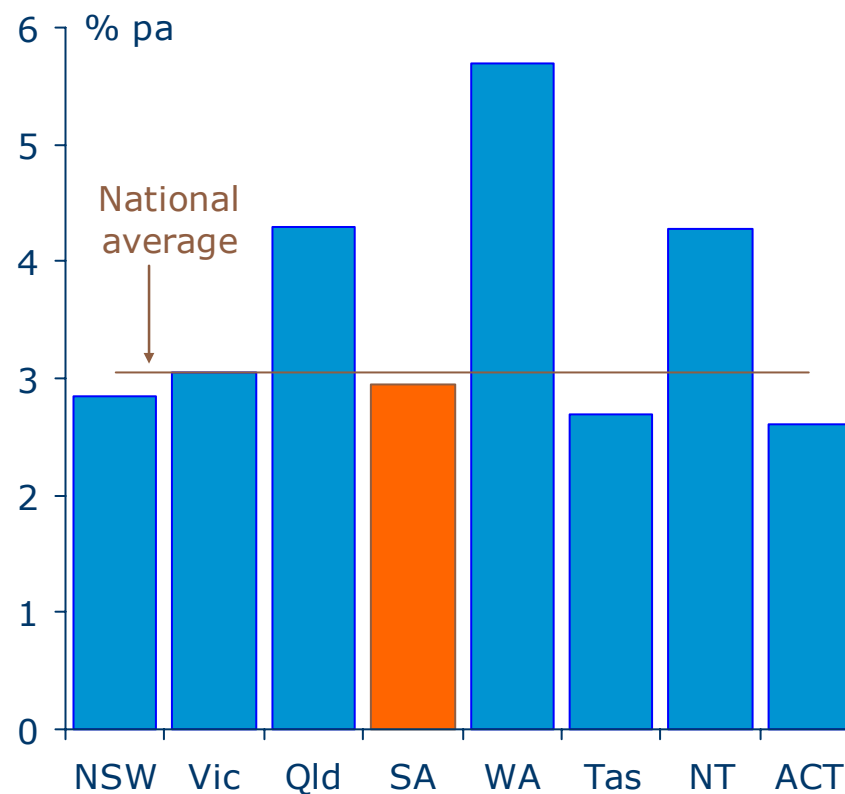


SA's growth rate will be below the national average over the next five years, but by a smaller margin than in the recent past

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



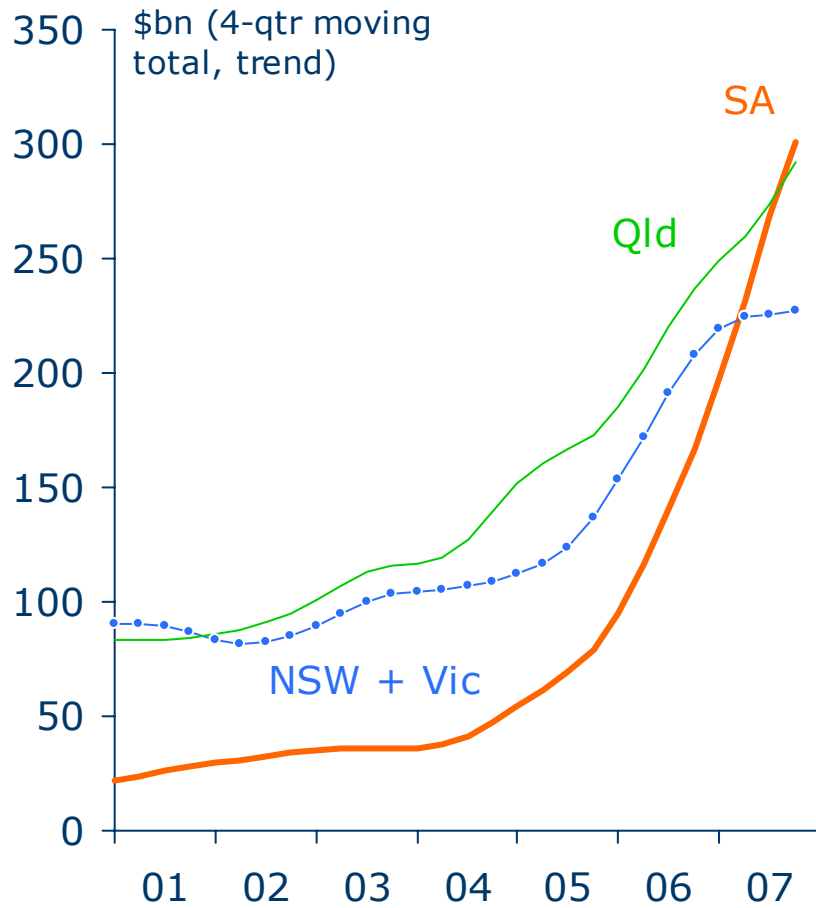
Growth in real gross State product, 2007-08 to 2011-12



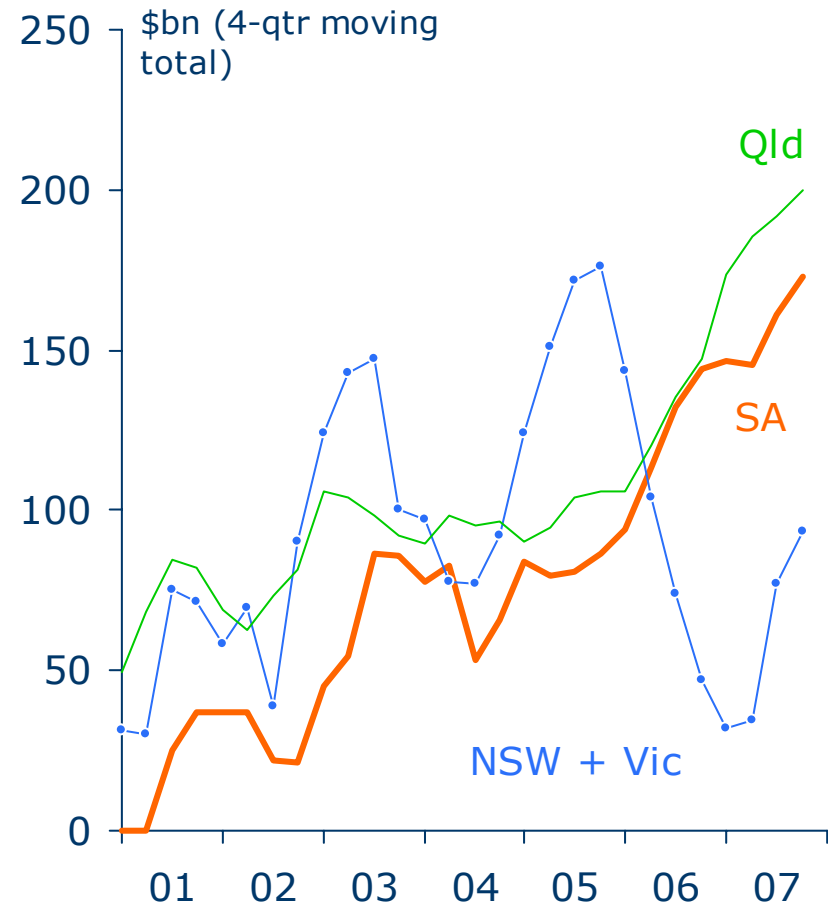
Sources: ABS State Accounts (5220.0) 2006-07; Forecasts by Commonwealth and State Treasuries in 2008-09 Budget Papers; ANZ Economics & Markets Research.

Mineral and petroleum exploration are booming in SA, pointing to a substantial increase in resources sector output

Mineral exploration expenditure



Petroleum exploration expenditure

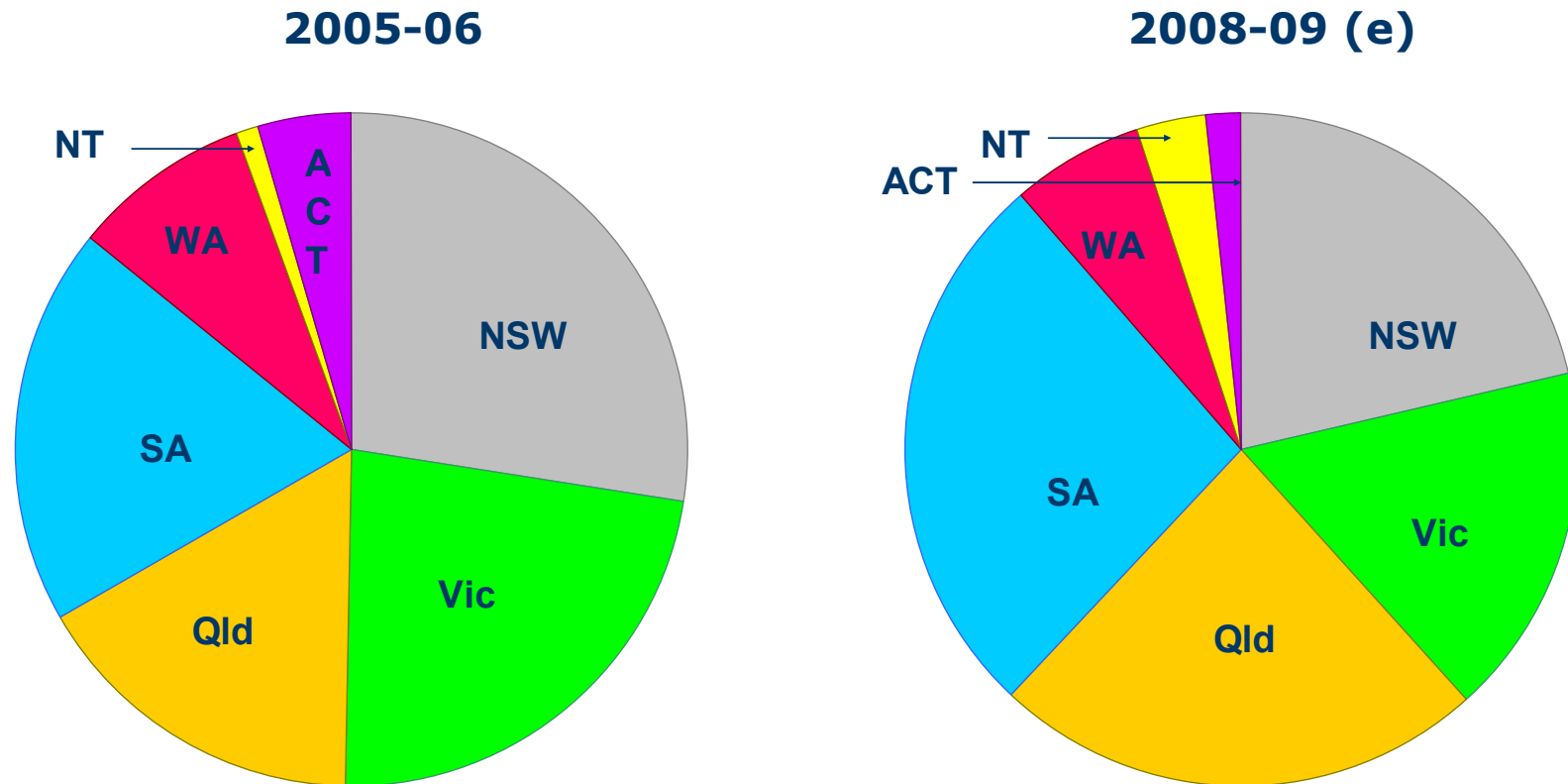


Source: ABS; ANZ Economics & Markets Research.



South Australia now accounts for the largest share of defence industry activity

State shares of defence industry sales



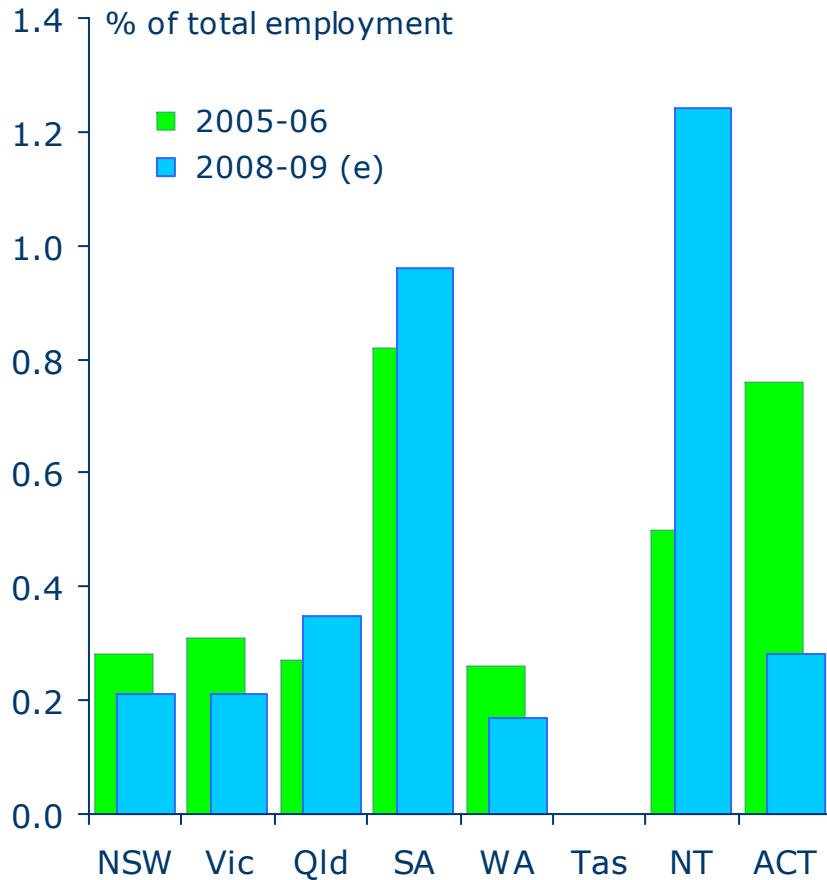
Source: Defence Materiel Organisation (indicative figures).



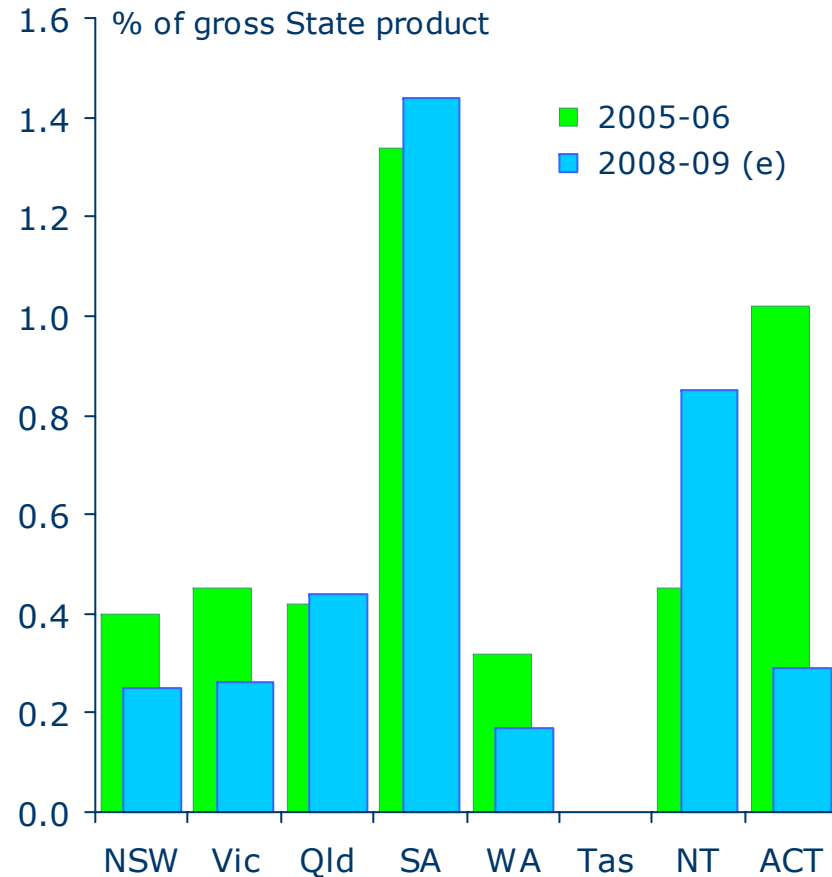
Defence industry is particularly important for South Australia, and unlike most other States is still growing

Defence industry employment and sales

Employment



Sales



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

	Employment		Sales (\$mn)	
	2005-06	2008-09	2005-06	2008-09
Adelaide	526	623	76	99
Edinburgh	1,008	1,886	129	276
Mawson Lakes	2,435	2,606	368	445
Osborne	2,026	2,292	293	354
Woomera	74	85	10	10
Total	6,069	7493	876	1,184

Note: employment includes direct and indirect jobs.
Sources: Defence Materiel Organisation (indicative figures).

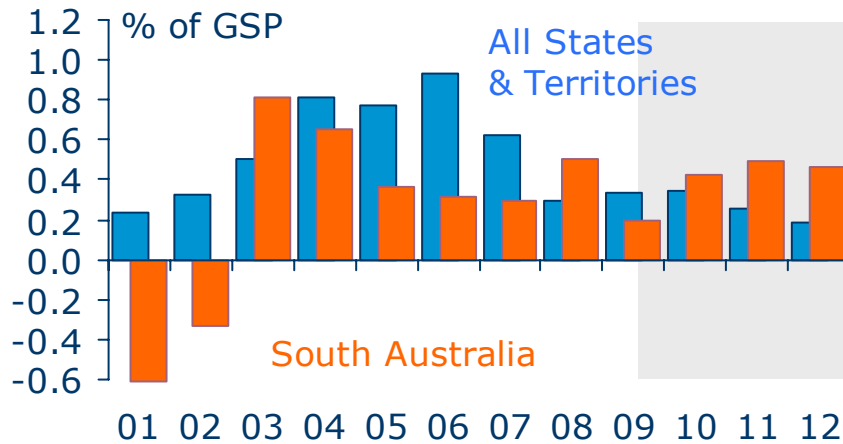


Key challenges for the defence industry in South Australia

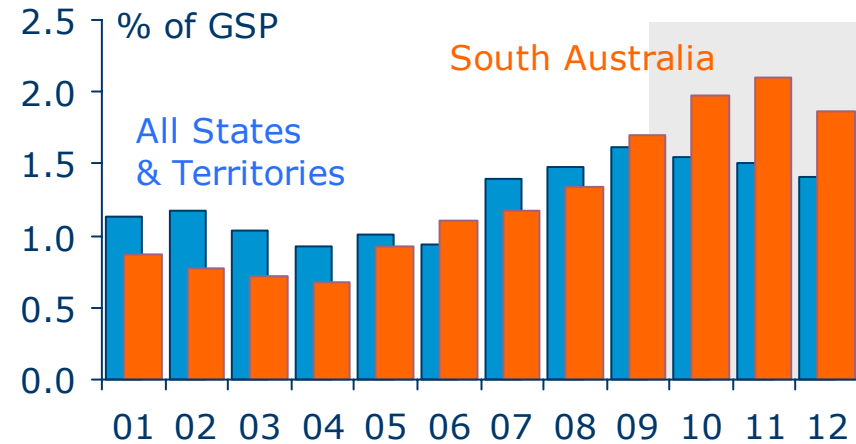
- **Ensuring pace of growth is sustainable**
 - **avoiding 'over-stretch'**
- **Nurturing the skills base**
 - **note South Australia's relatively low levels of educational attainment and workplace skills compared with most other States**
- **Changing political circumstances**
 - **South Australia used 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 ²⁵

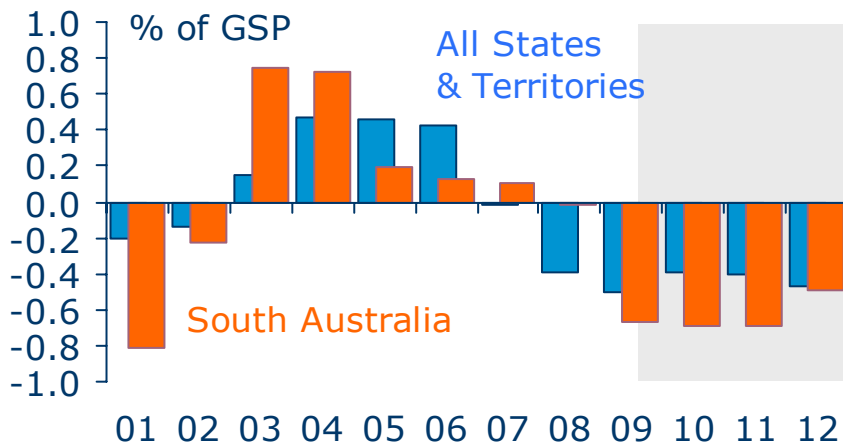
Net 'operating' balance



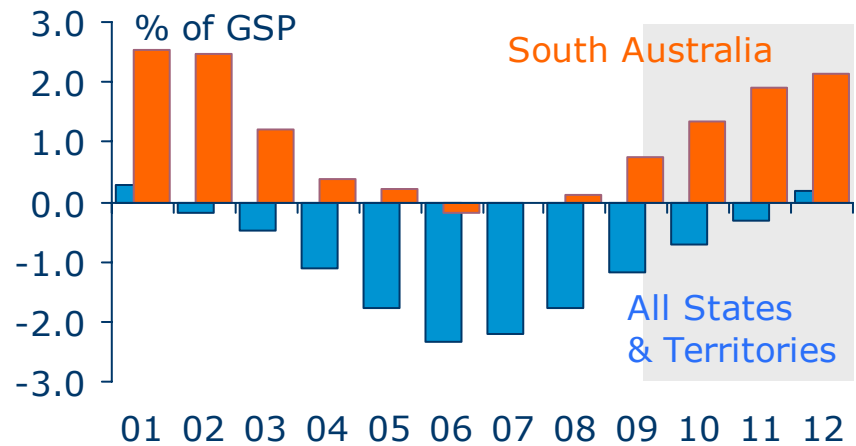
Capital expenditures



Fiscal balance



Net debt



Note: all data are for the 'general government' sector.
Sources: State Budget Papers; ANZ Economics & Markets Research.

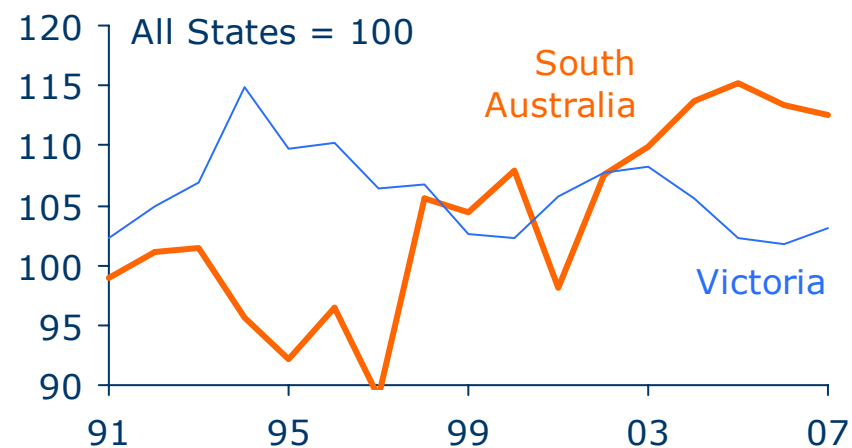
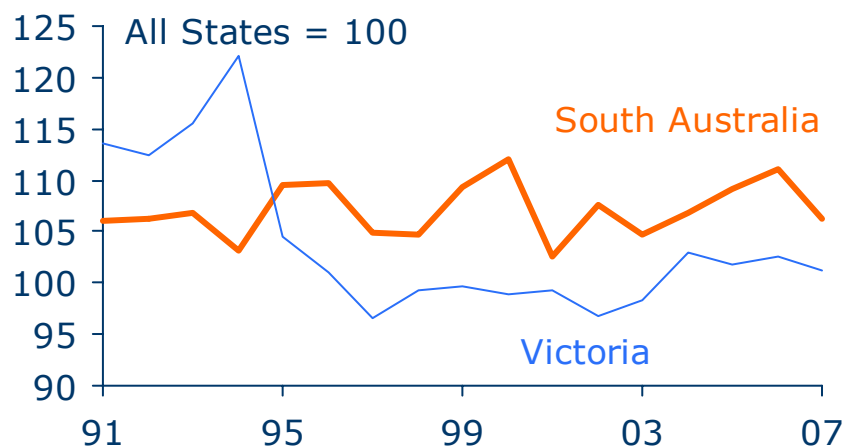


SA's policy of high-quality State services funded by high taxes may detract from economic growth

Level of service provision ratios 2006-07



State tax severity ratios 2006-07



Source: Commonwealth Grants Commission 2008 Update; ANZ Economics & Markets Research.



A 'SWOT' analysis of South Australia's economy

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> ● 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 	<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> ● Upsurge in mineral exploration activity ● Expansion in defence industry capabilities ● Fledgling ICT, bio-tech and medical devices industries ● Underdeveloped tourist industries
<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> ● 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 	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> ● 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

	Economic forecasts				
	2006-07	2007-08	2008-09	2009-10	
Real GDP growth (%) – Australia	3.2	3¼	2¼	2¼	
Sth Australia	0.8	3¼	3¼	3	
Unemployment rate (year end, %)	4.3	4	4½	5	
Inflation (year end, %)	2.1	4	3½	3	
Housing starts ('000)	152	150	140	165	
Current account balance (\$bn)	-59.6	-76	-59	-75	
Household saving rate (%)	0.7	2	4¼	5½	
	Financial market forecasts				
	Jun 08	Dec 08	Jun 09	Dec 09	Jun 10
RBA cash rate (% pa)	7.25	7.75	7.75	7.25	6.25
90-day bill yield (% pa)	7.70	8.05	7.95	7.20	6.20
A\$-US\$	0.96	1.03	0.96	0.88	0.83
A\$-¥	101	107	103	96	94
A\$-€	0.61	0.66	0.63	0.62	0.62
Gold price (US\$ / oz)	940	910	920	990	840
Oil price (US\$ / barrel)	135	123	127	122	115