

Economic prospects for South Australia

Excerpt from presentations to
ANZ Business Banking customers

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www.anz.com/go/economics

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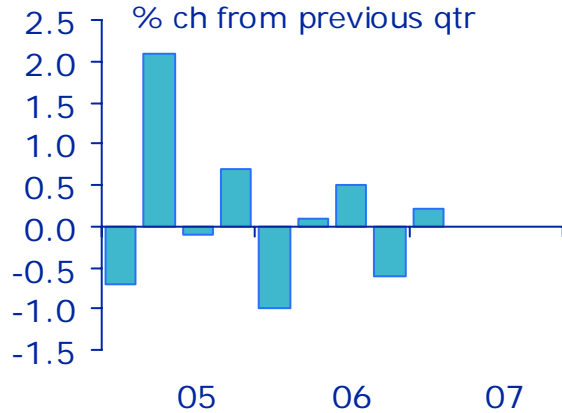
A 'SWOT' analysis of South Australia's economy

<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'

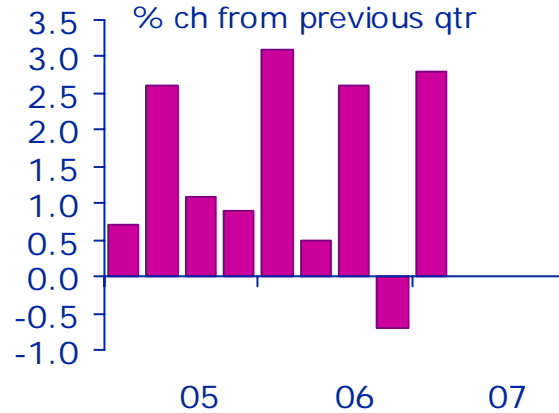
SA, like other 'non-resource' States, has seen a slowing in growth over the past year

Quarterly changes in a proxy for gross State product*

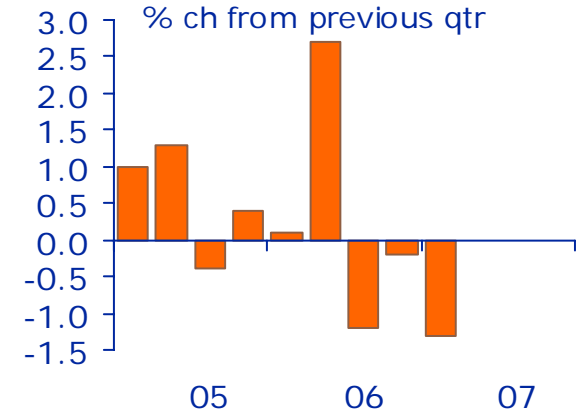
New South Wales



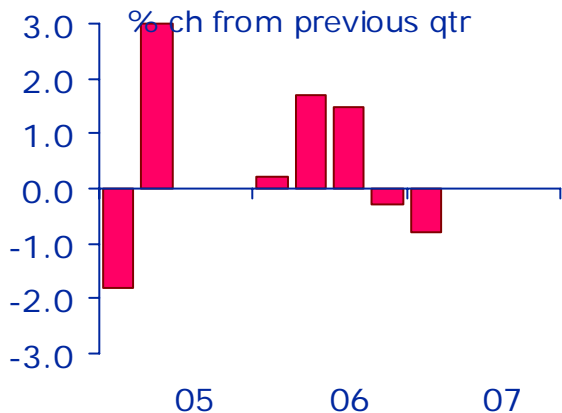
Queensland



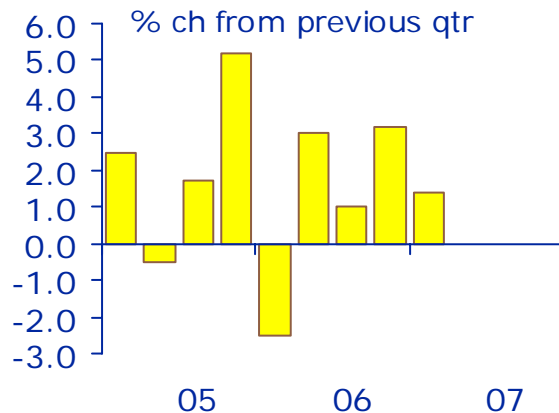
South Australia



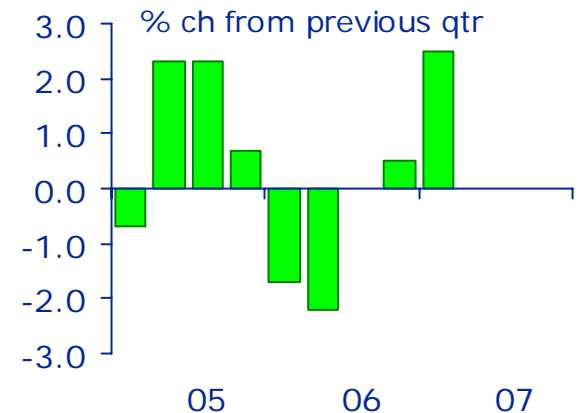
Victoria



Western Australia



Tasmania



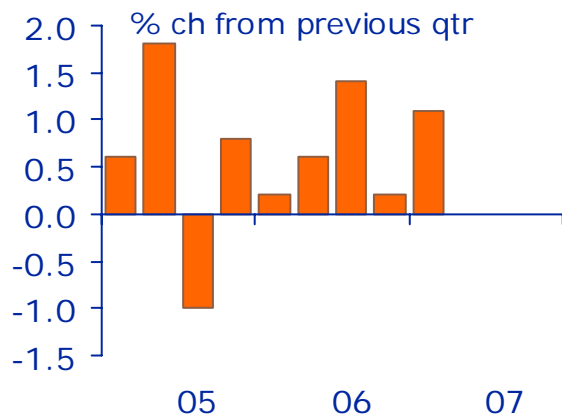
* Defined as state final demand (spending by households, businesses & governments) plus net international exports of goods.

Sources: ABS; Economics@ANZ.

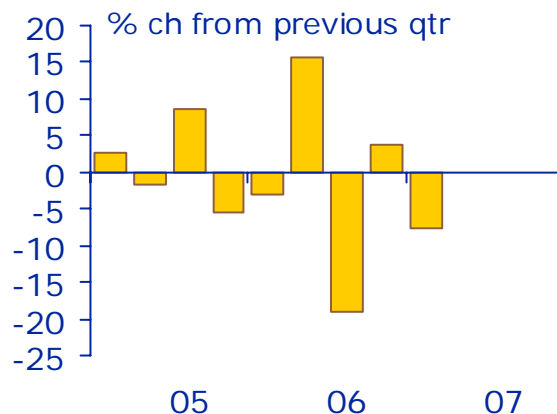
This measure of SA's growth reflects odd swings in the State's international goods trade

State final demand & international trade in goods

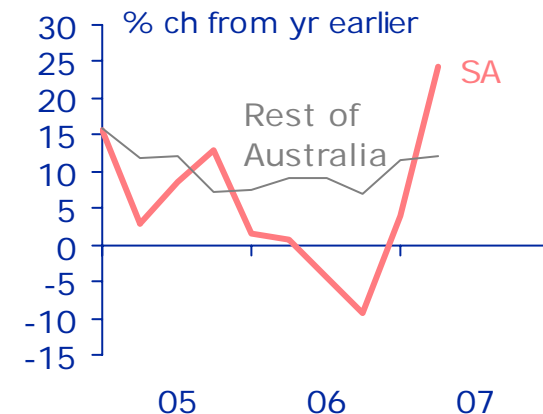
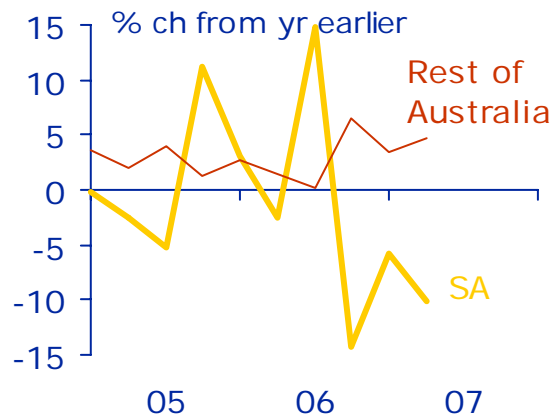
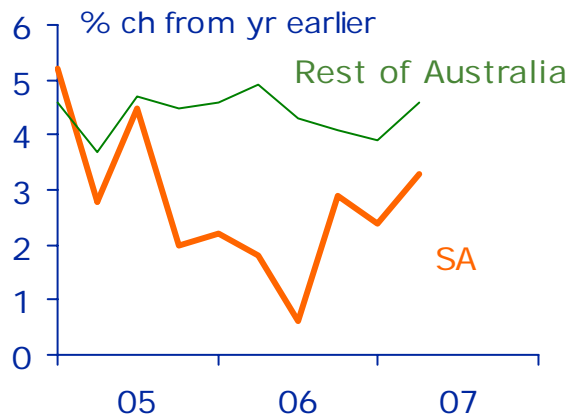
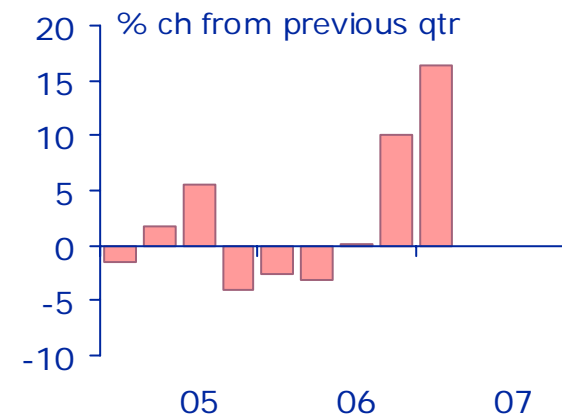
State final demand



Exports of goods



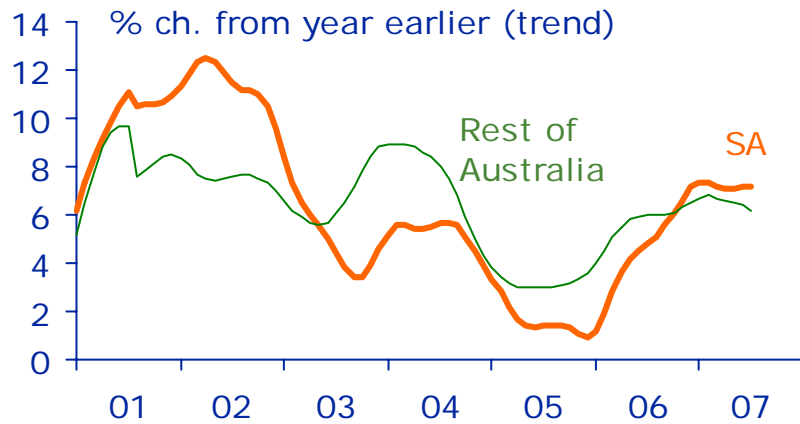
Imports of goods



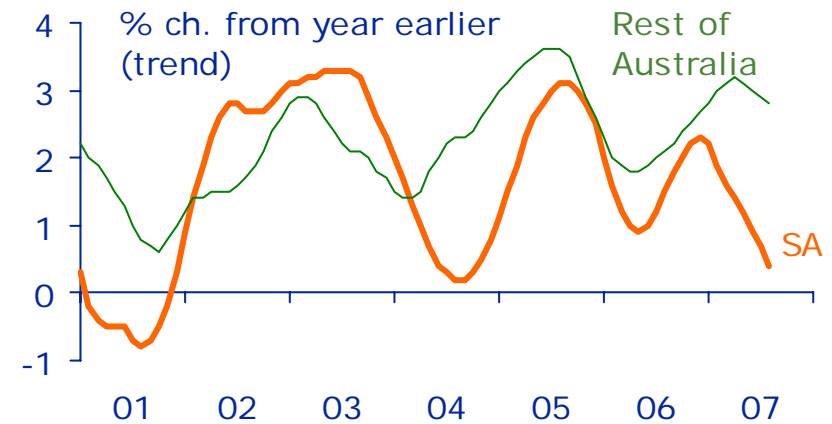
Sources: ABS; Economics@ANZ.

Other data suggest South Australia is doing OK given its specific economic structure

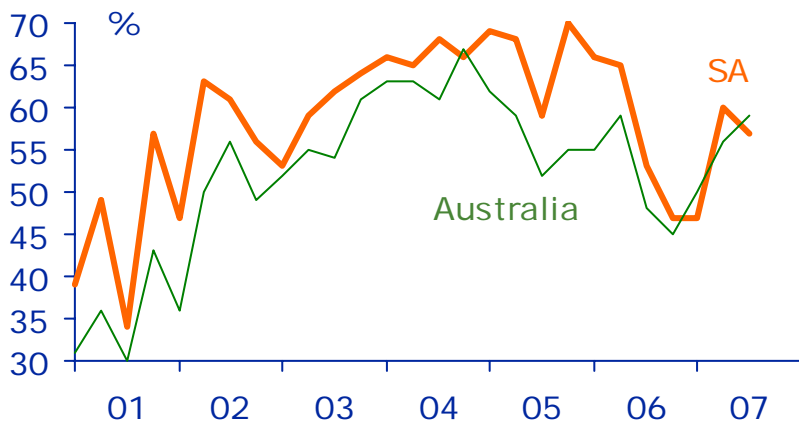
Retail sales



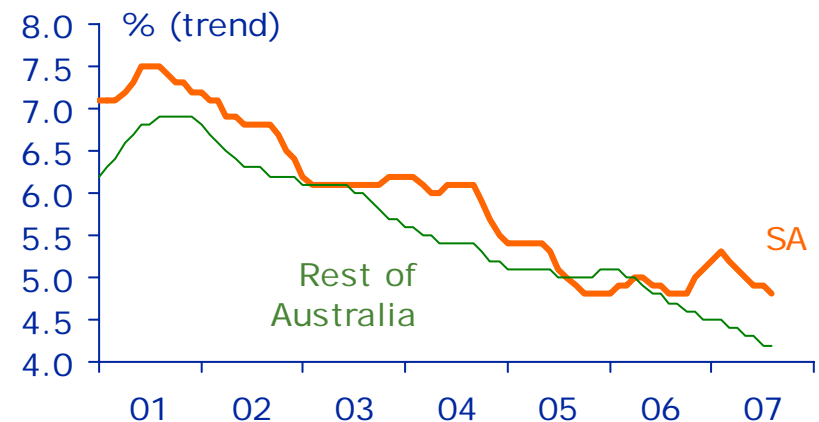
Employment



Small business confidence

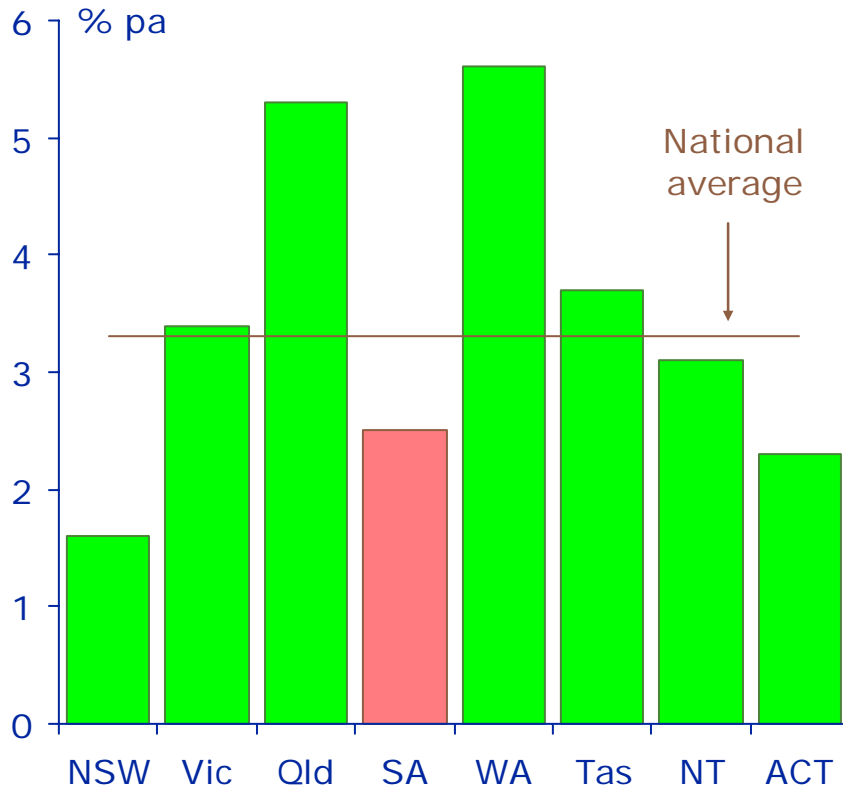


Unemployment rate

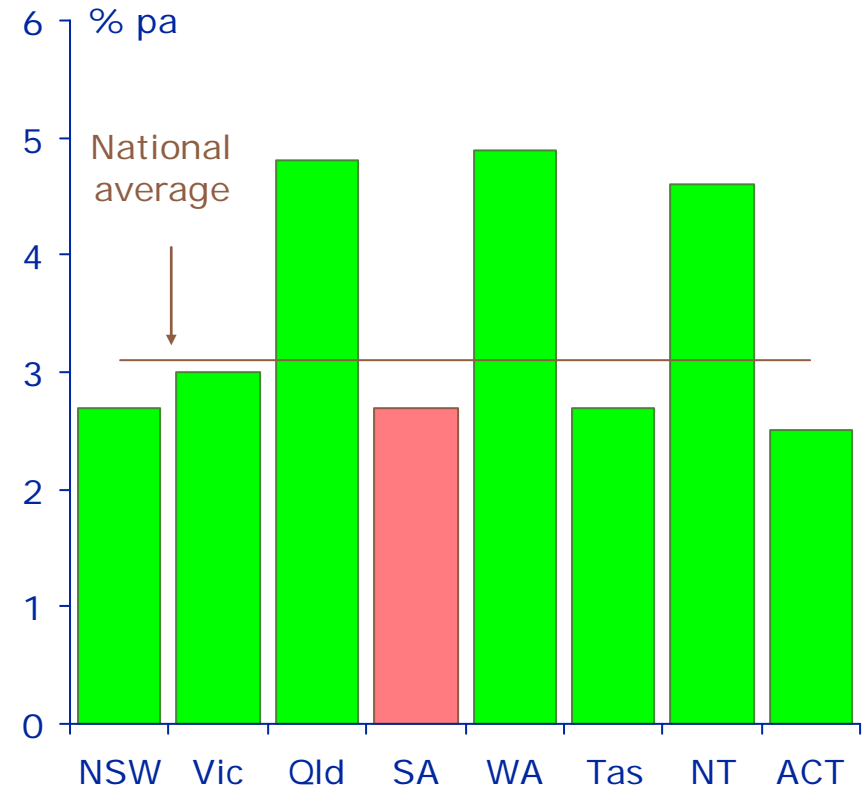


SA's economic growth rate has been below the national average and is expected to remain so

Growth in real gross State product, 2000-01 to 2005-06



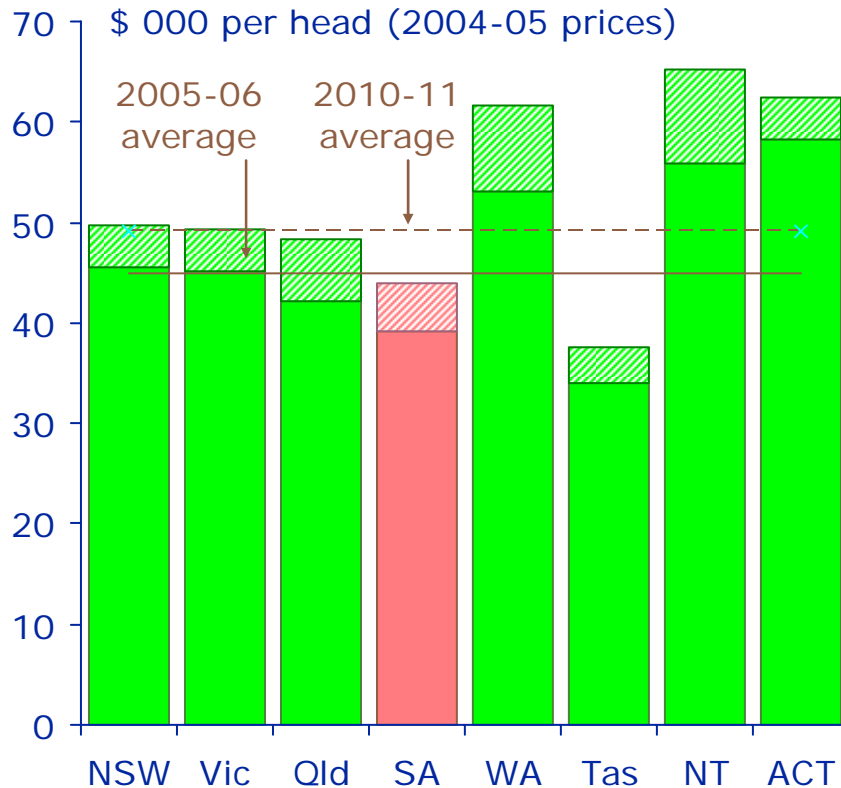
Growth in real gross State product, 2005-06 to 2010-11



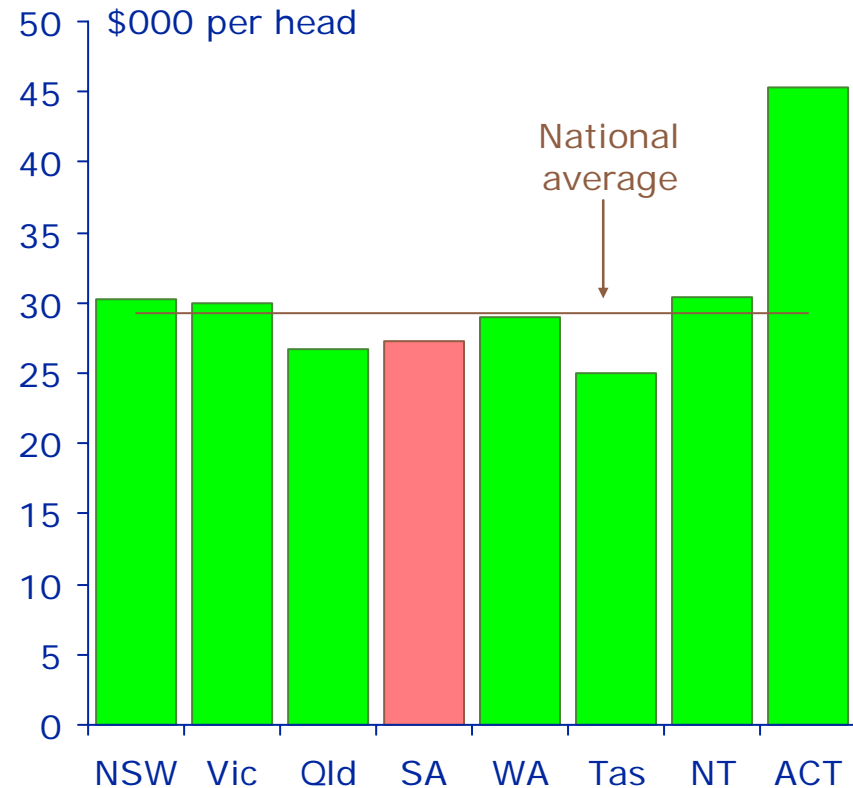
Sources: ABS State Accounts (5220.0) 2005-06; Forecasts by Commonwealth and State Treasuries in 2007-08 Budget Papers; Economics@ANZ.

South Australians have and in 5 years time will still have below-average per capita incomes

Real gross State product per capita, 2005-06 and 2010-11



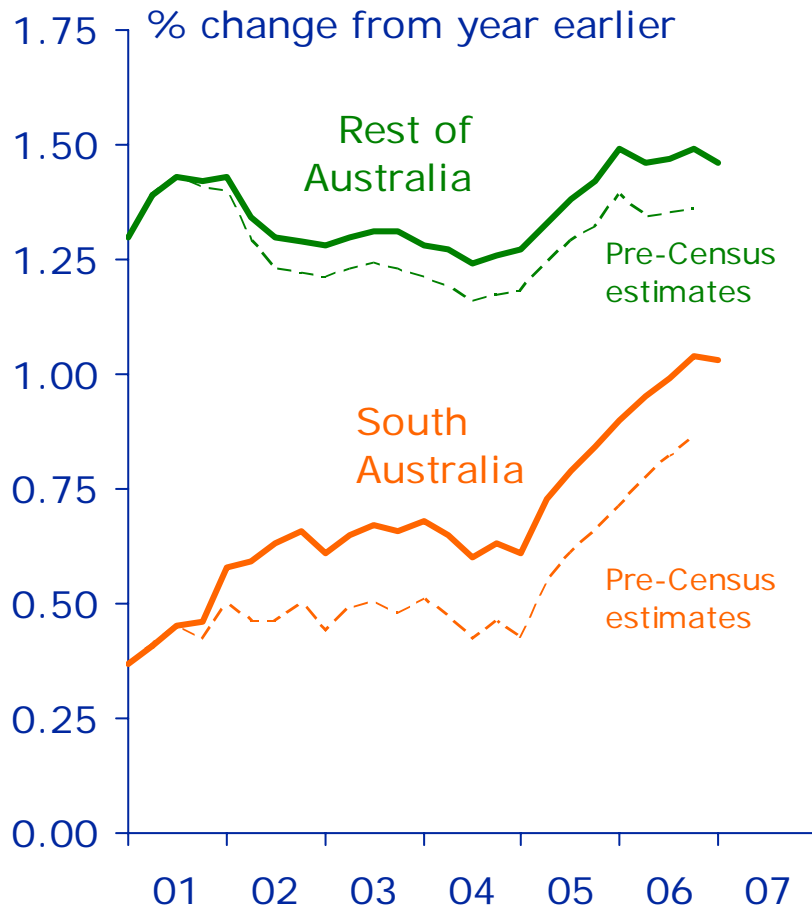
Household disposable income per capita, 2005-06



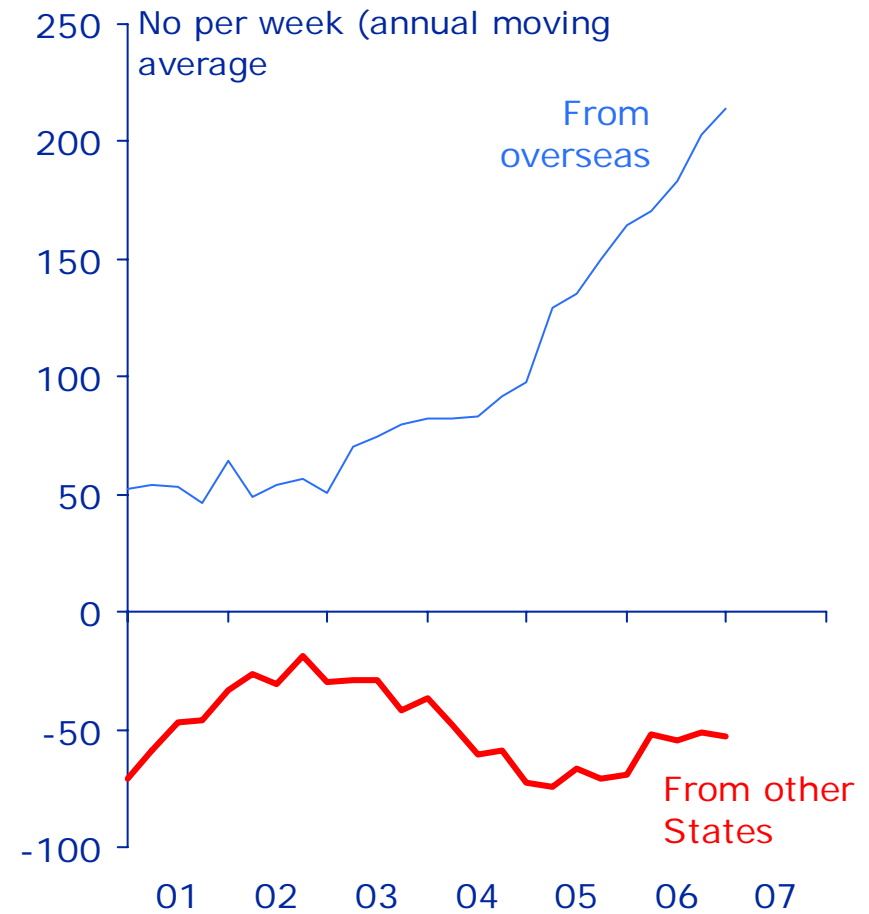
Sources: ABS State Accounts (5220.0) 2005-06; Forecasts by Commonwealth and State Treasuries in 2007-08 Budget Papers; Economics@ANZ.

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

Population growth



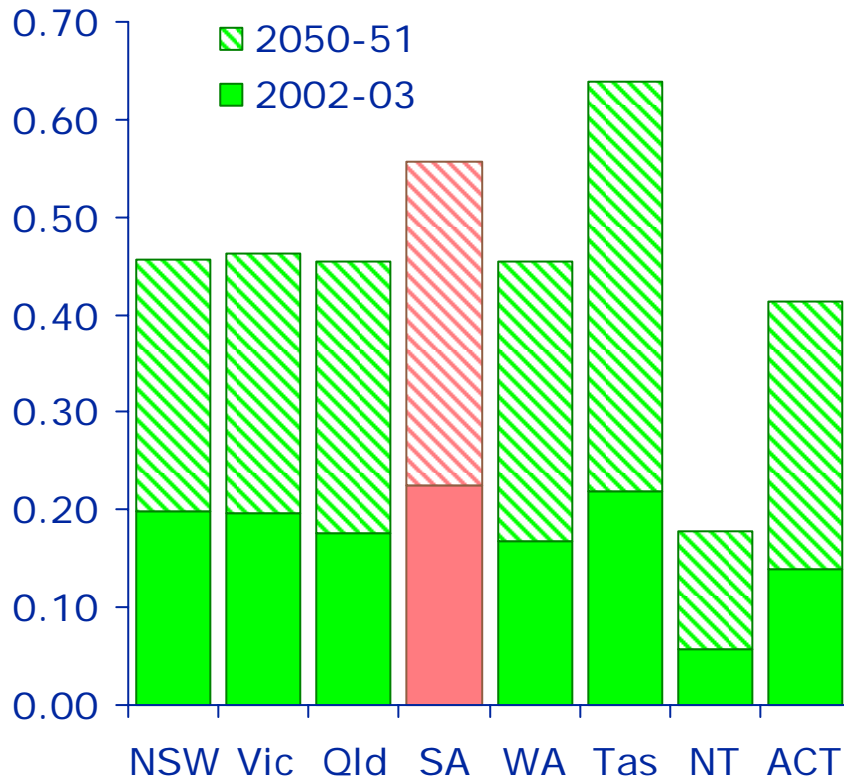
Migration to South Australia



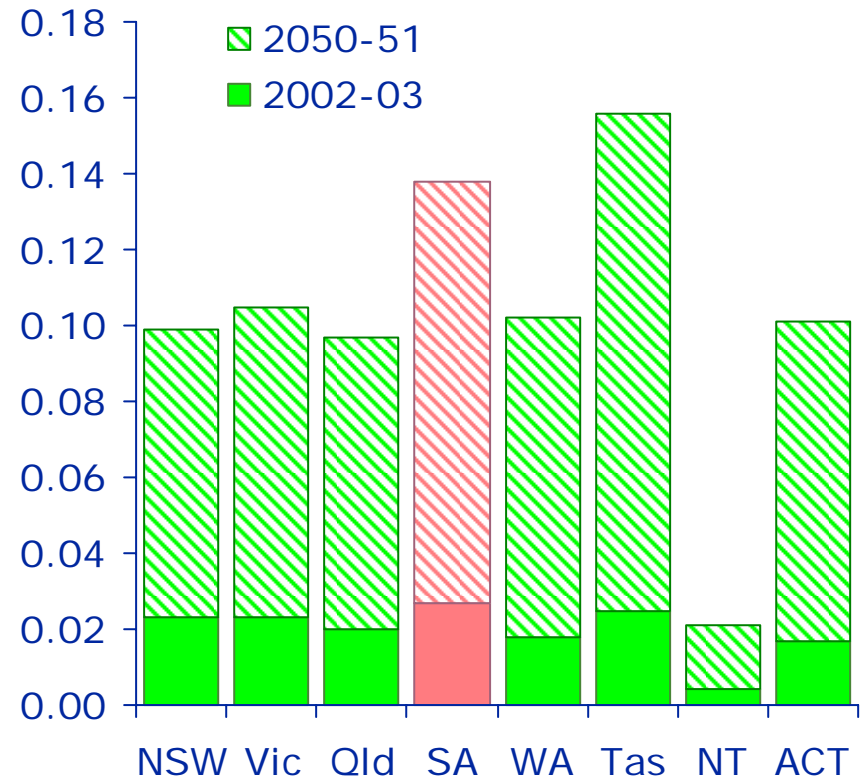
Source: ABS

Population ageing is a bigger challenge for SA than for any other State except Tasmania

Aged (65+) dependency ratios



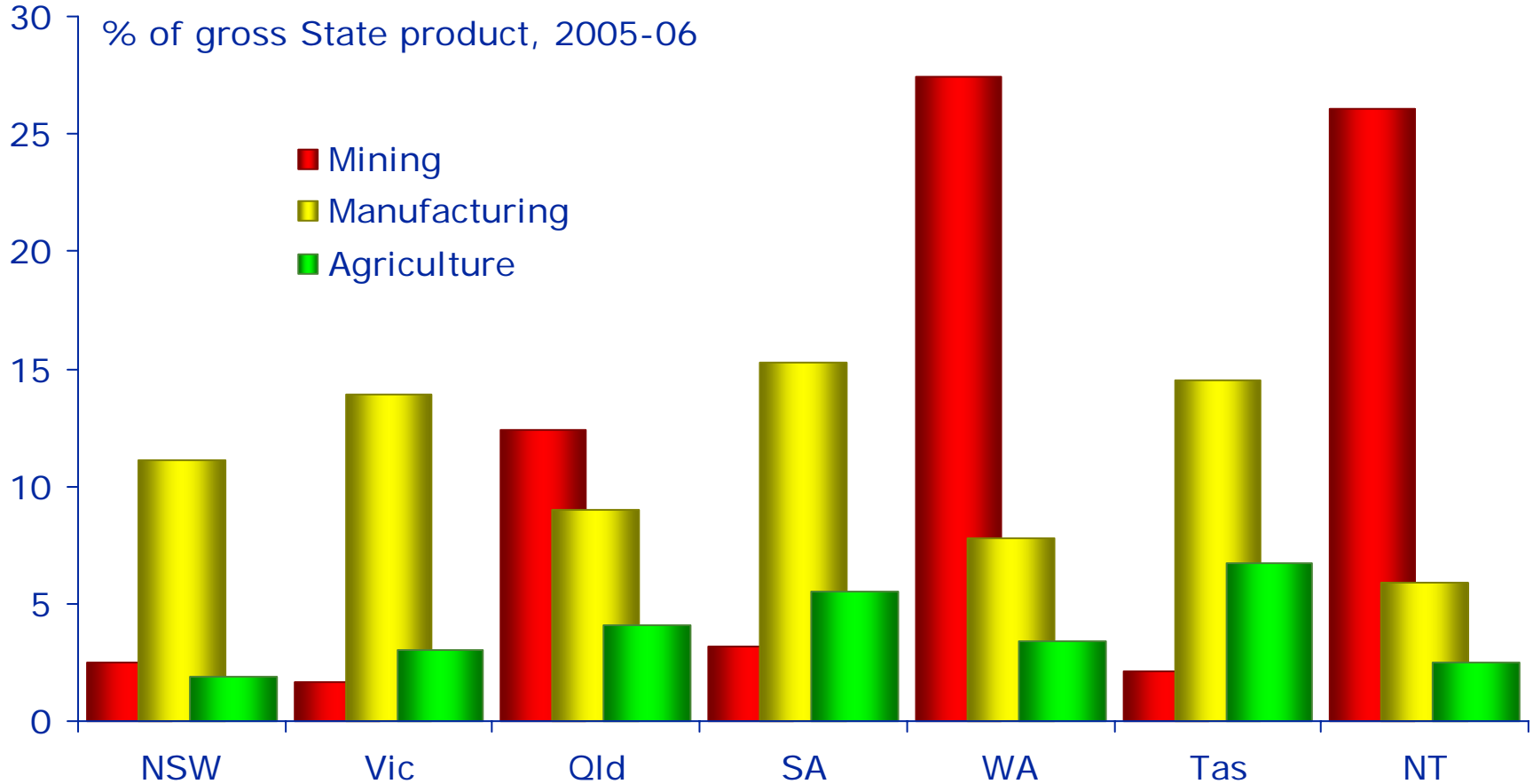
Very old (85+) dependency ratios



Sources: ABS; Productivity Commission.

The resources boom affects different States quite differently – both positively and negatively

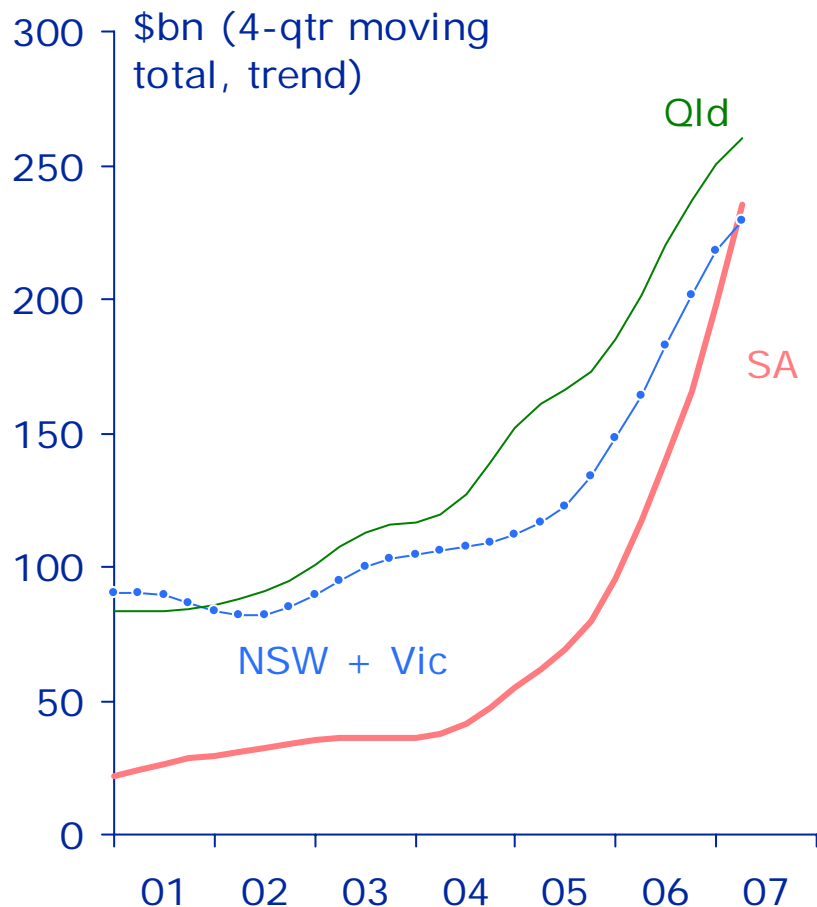
Mining, manufacturing and agriculture as a share of State economies



Sources: ABS; Economics@ANZ.

Mineral exploration is booming in SA, pointing to a substantial increase in mining output

Mineral exploration expenditure

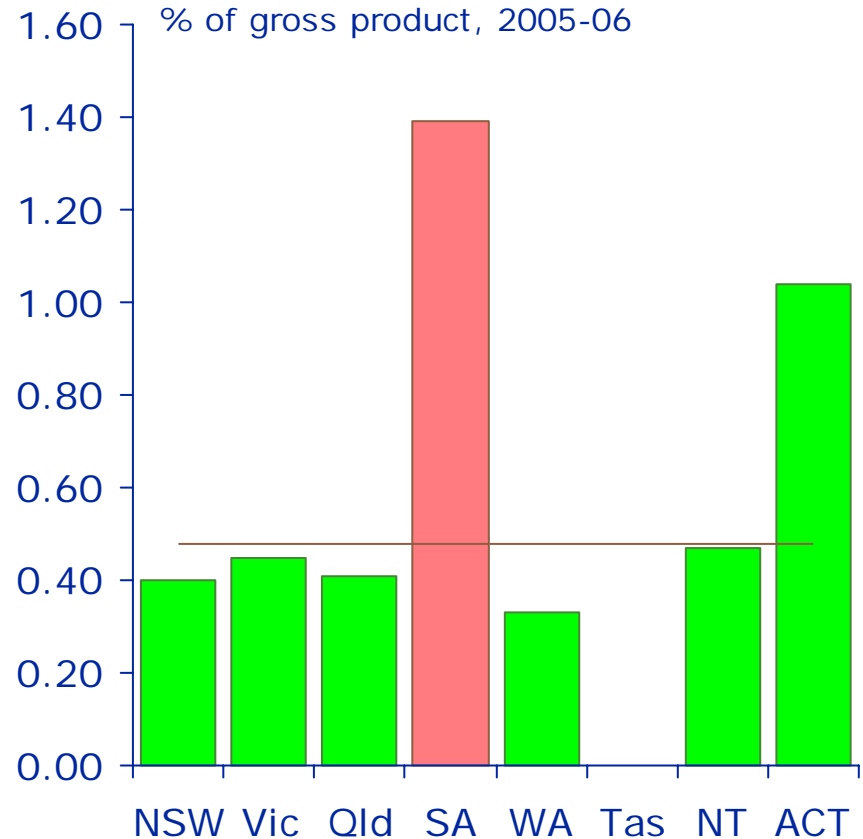


- SA isn't usually regarded as a 'mining State', but mineral exploration spending in SA has increased fivefold over the past three years
- SA accounts for less than 3% of total Australian mining industry output, but now almost 15% of total mining exploration expenditure
- Exploration spending in SA now exceeds that in NSW & Victoria combined, and almost matches that in Queensland
- More than half the exploration spending in SA is for copper, and most of the rest is for uranium and gold

Defence industry sales in SA equivalent to 1.4% of gross product – nearly 3 times national average

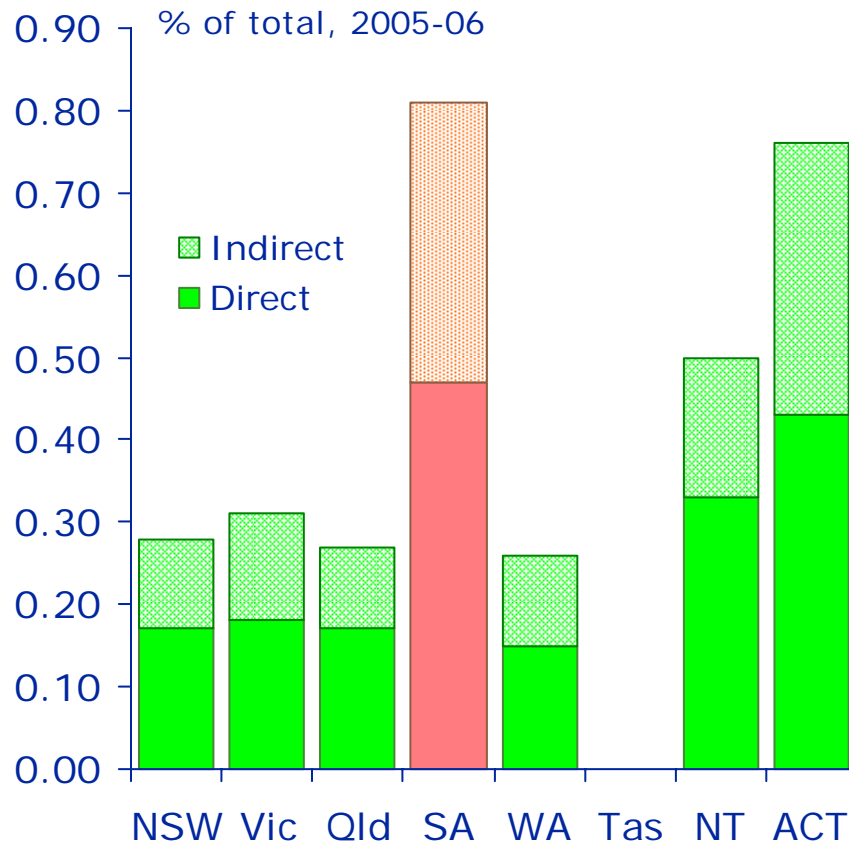
Defence industry sales by State, 2005-06

State	Sales (\$mn)
NSW	1,263
Vic	1,055
Qld	756
SA	876
WA	390
Tas	-
NT	57
ACT	203
Total	4,600



Defence industry employment is more important to South Australia than any other State

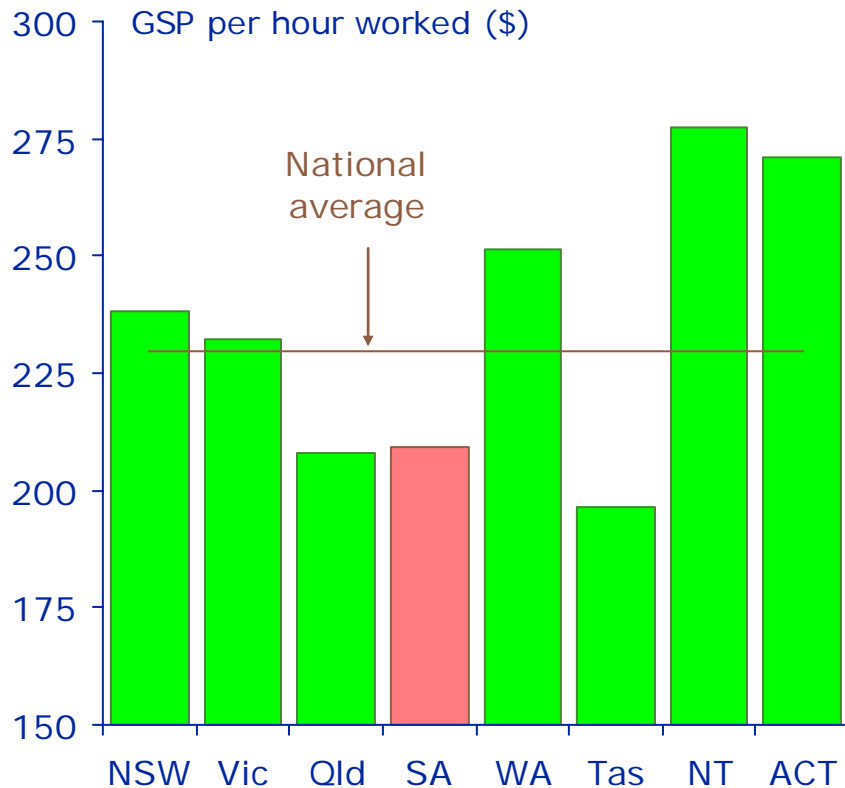
Defence industry employment by State, 2005-06



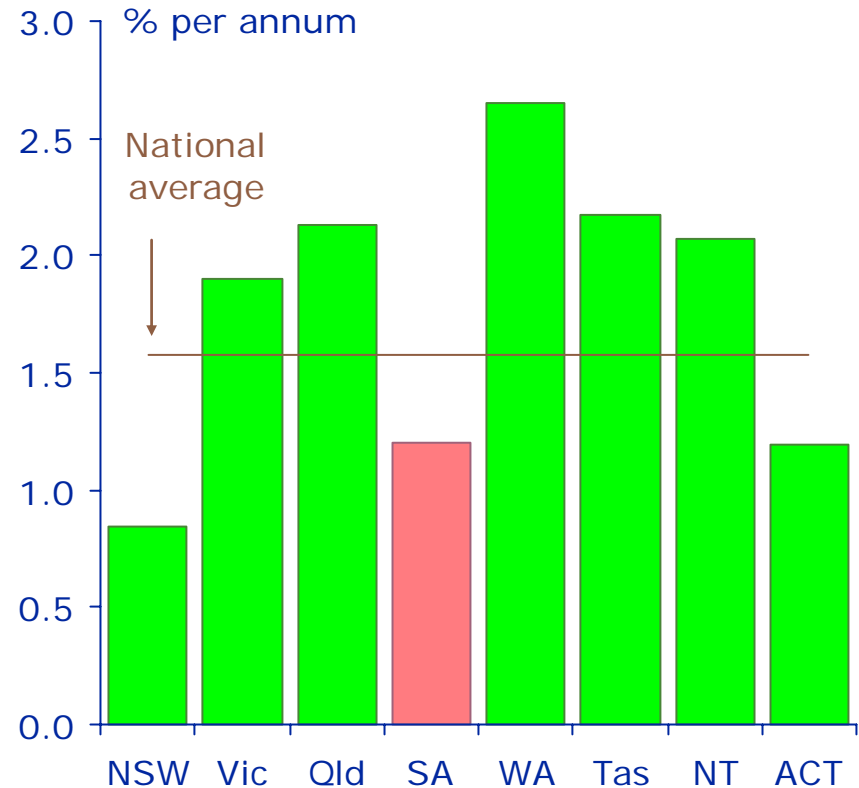
State	Direct	Indirect
NSW	5,399	3,680
Vic	4,486	3,172
Qld	3,376	2,022
SA	3,522	2,547
WA	1,593	1,180
Tas	-	-
NT	321	168
ACT	773	599
Total	19,470	13,368

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

Level of labour productivity
2005-06



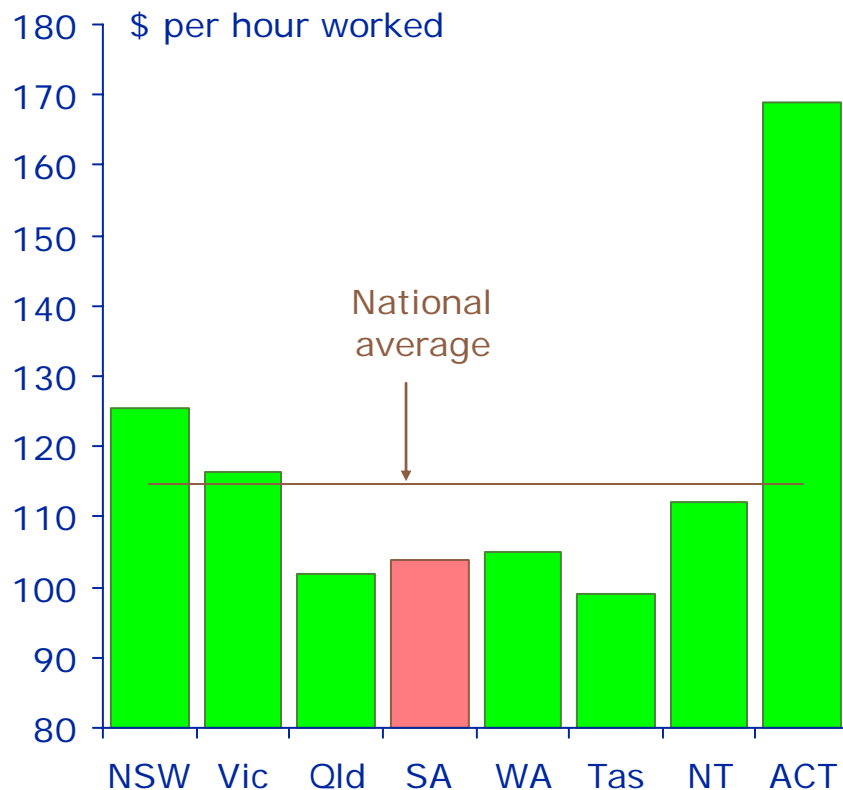
Labour productivity growth
2000-01 to 2005-06



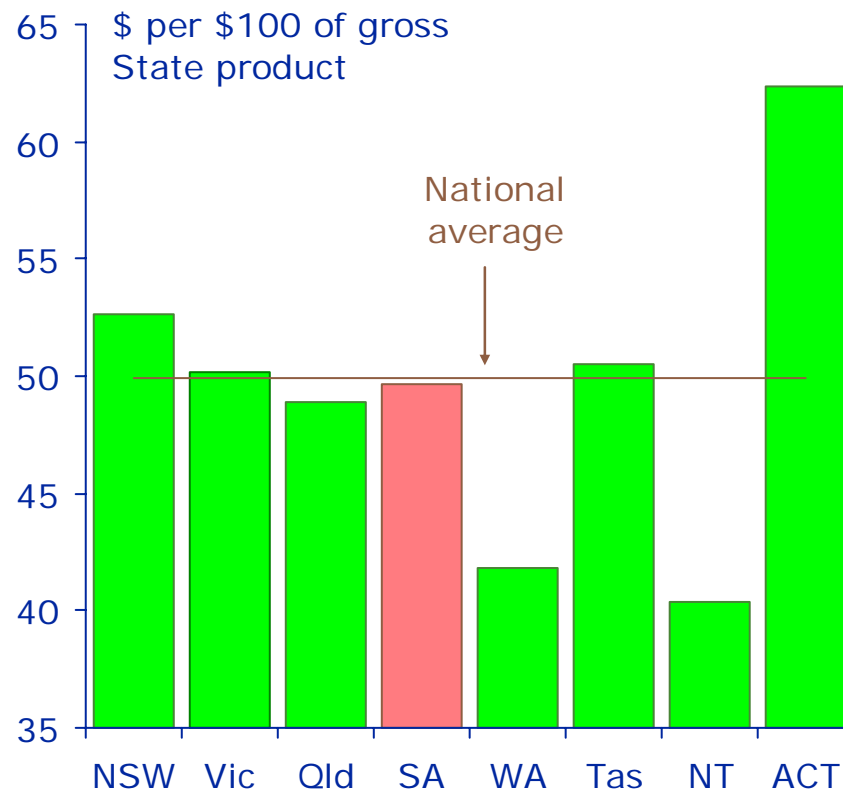
* Productivity defined as real gross State product per hour worked.
Sources: State Accounts (5220.0); ABS *Employed persons by sex, age, hours worked, state* (6291.0.55.001); Economics@ANZ.

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

Labour cost per hour worked
2005-06



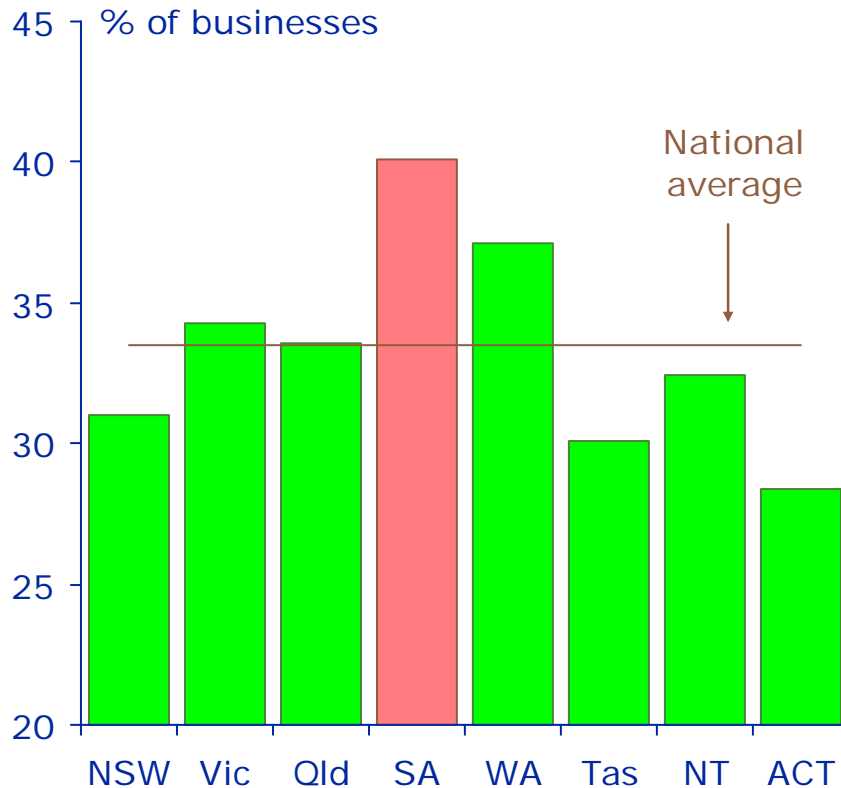
Labour cost per unit of output
2005-06



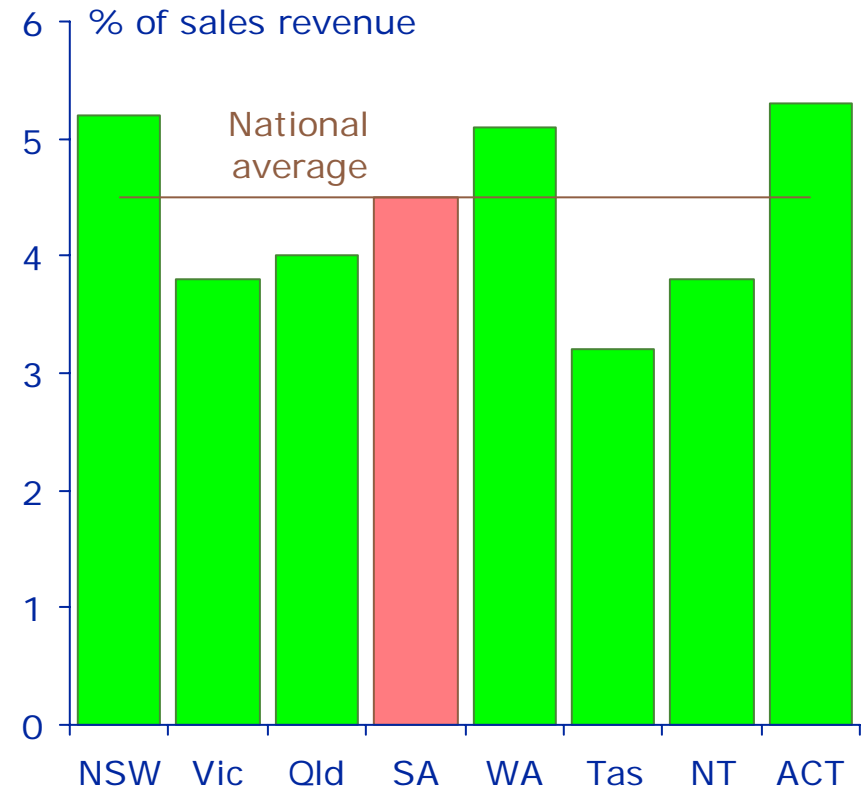
Sources: ABS State Accounts (5220.0); Employed persons by sex, age, hours worked, state (6291.0.55.001); Economics@ANZ.

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

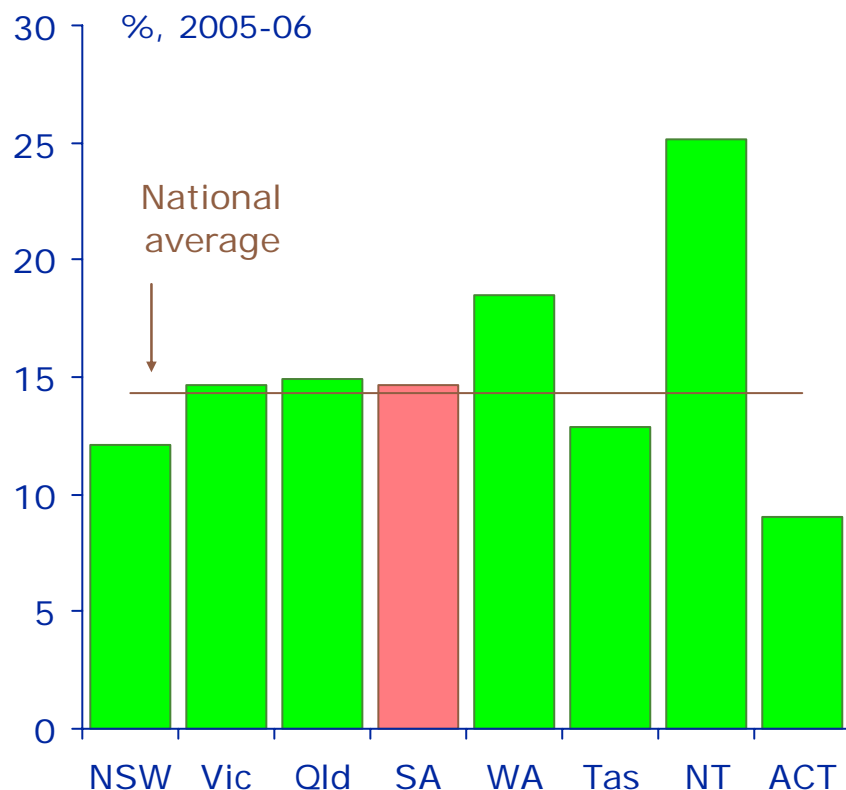


Note: 'innovation' refers to the introduction of new or significantly improved products, or operational or managerial processes.

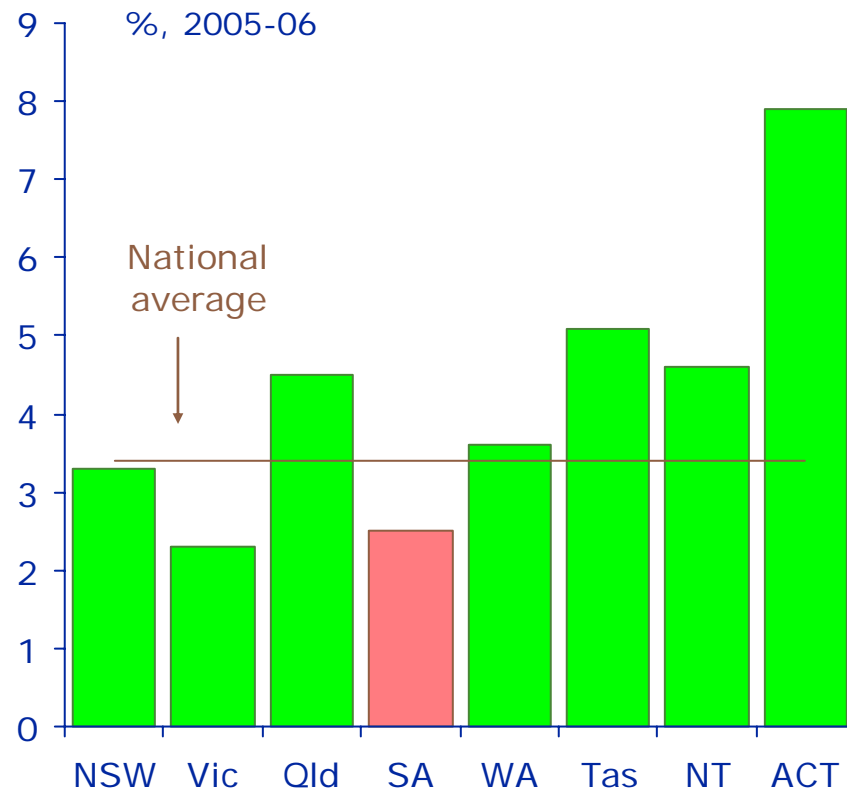
Source: ABS *Innovation in Australian Business 2005* (8158.0)

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

Business investment as a share of gross State product, 2003-04 to 2005-06



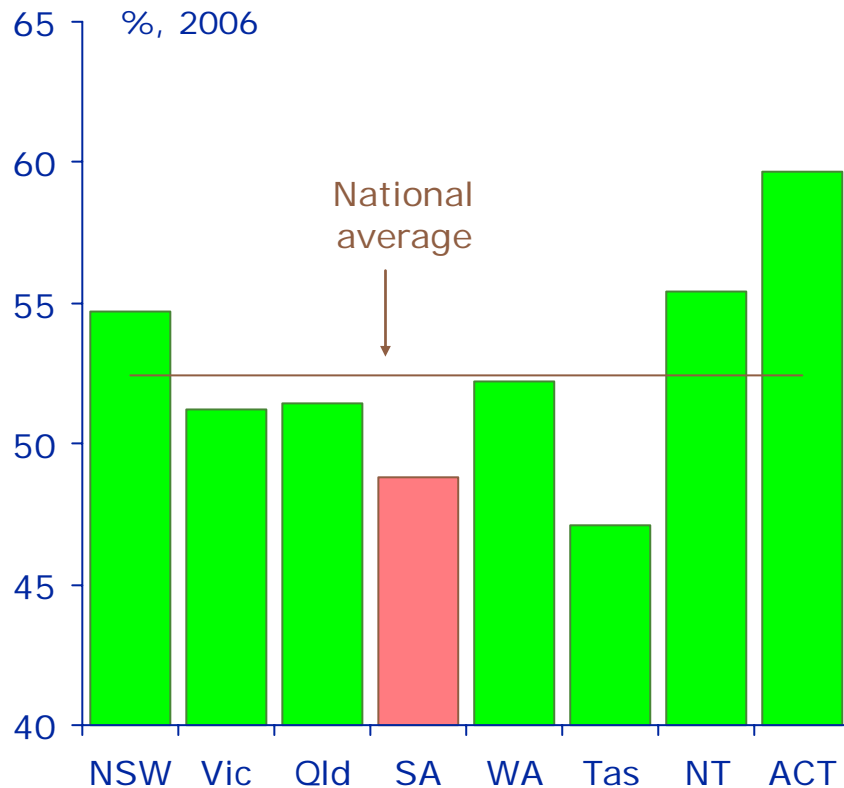
Public investment as a share of gross State product, 2003-04 to 2005-06



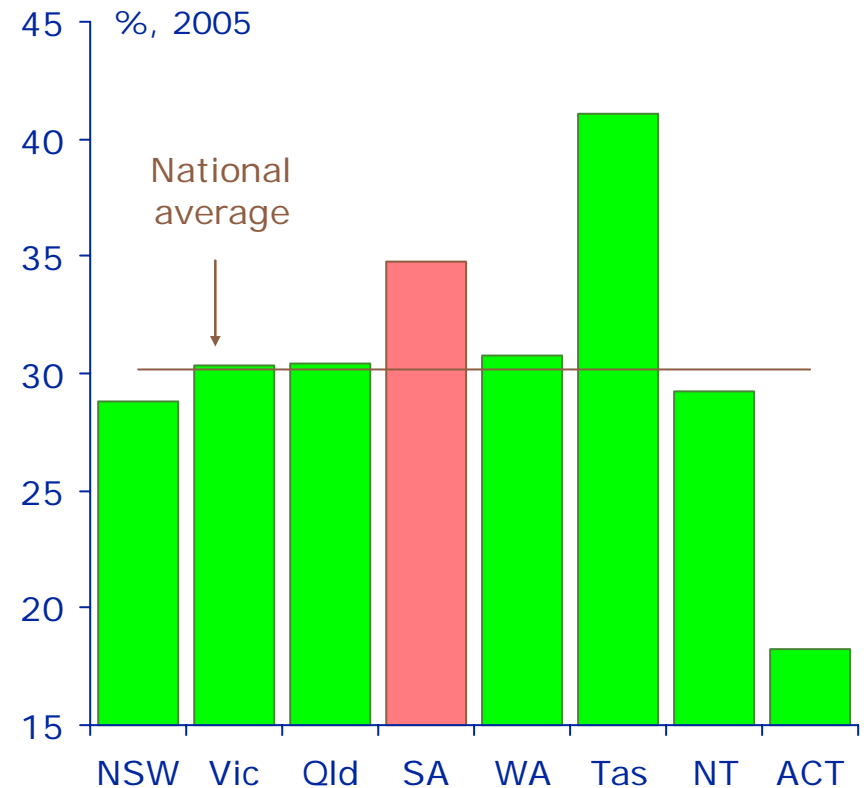
Source: ABS, State Accounts; Economics@ANZ.

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

15-64 year olds with post-school qualifications



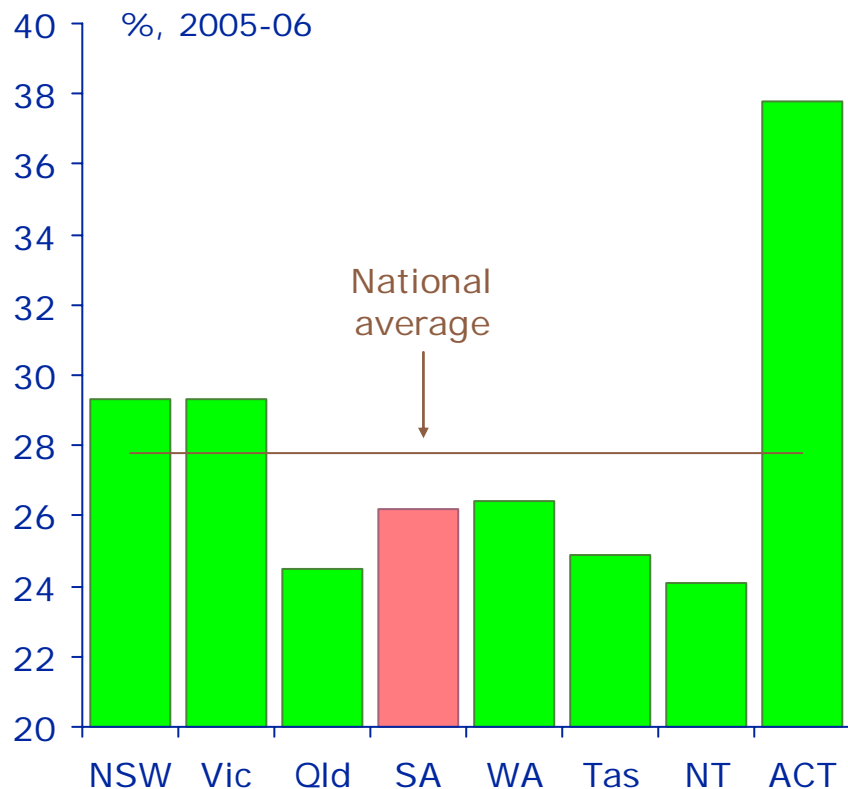
15-64 year olds who have not completed Year 12



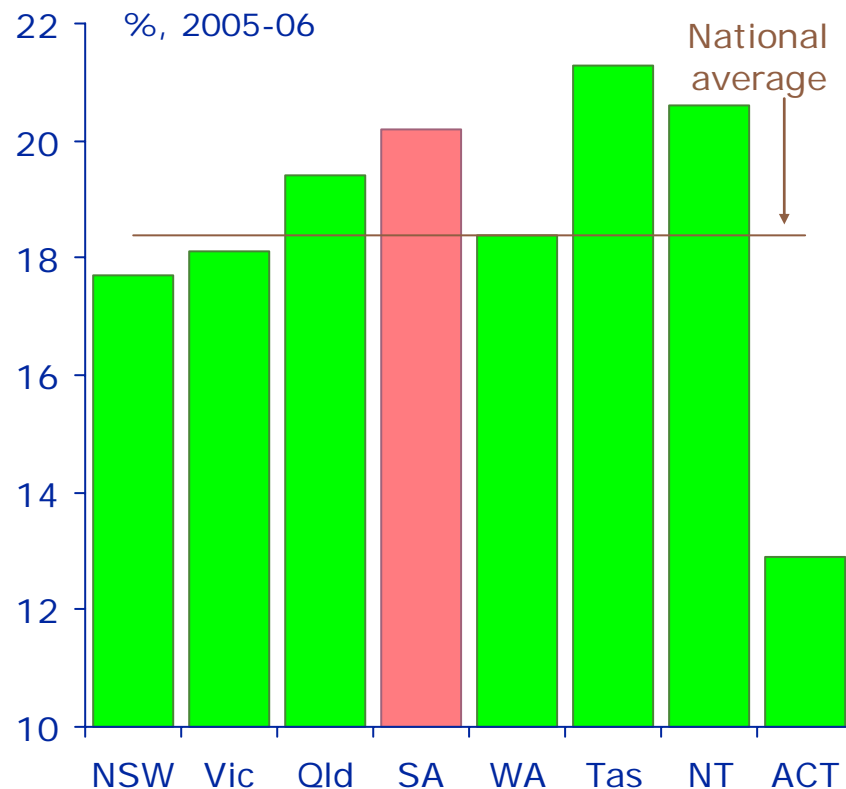
Source: ABS, Australian Social Trends (4102.0) 2007.

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

Workforce employed in highest-skill occupations



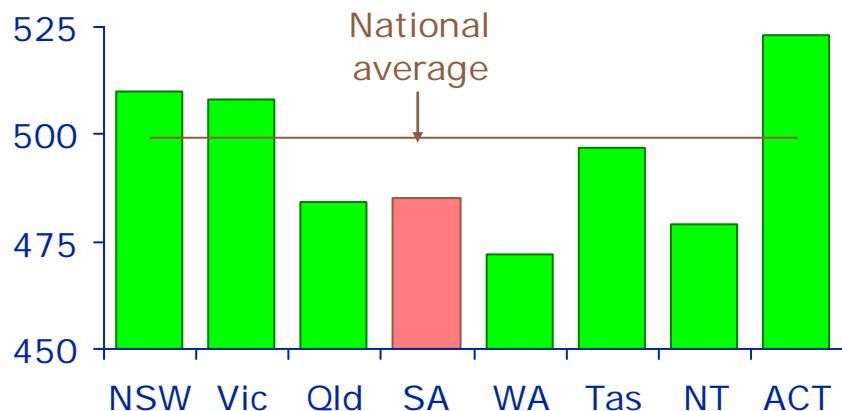
Workforce employed in lowest-skill occupations



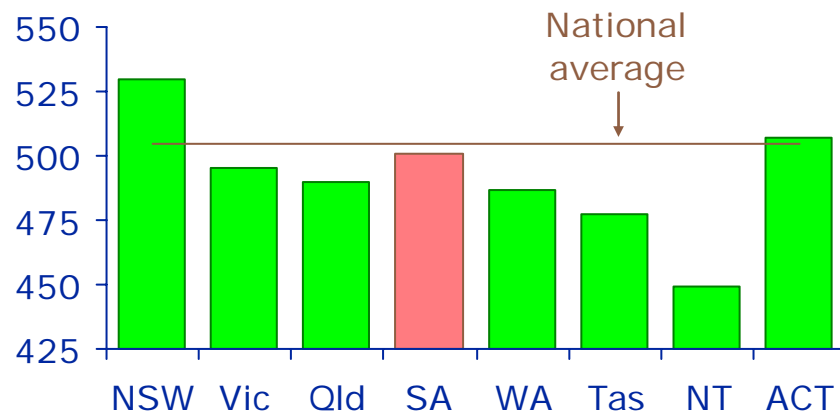
Source: ABS, Australian Social Trends (4102.0) 2007.

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

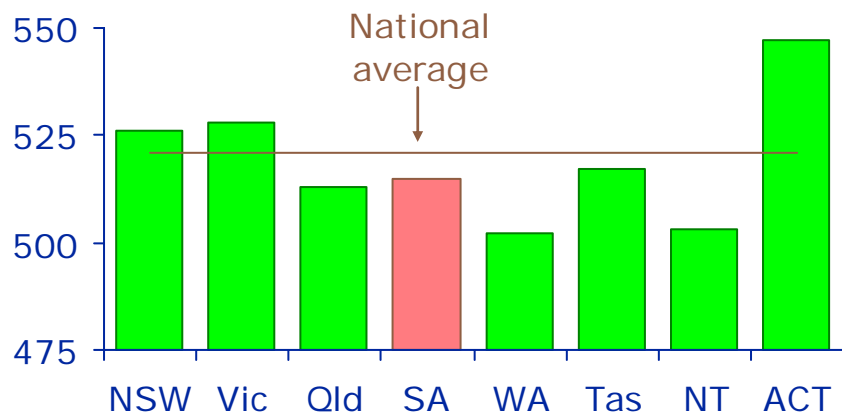
Average maths scores – Year 4



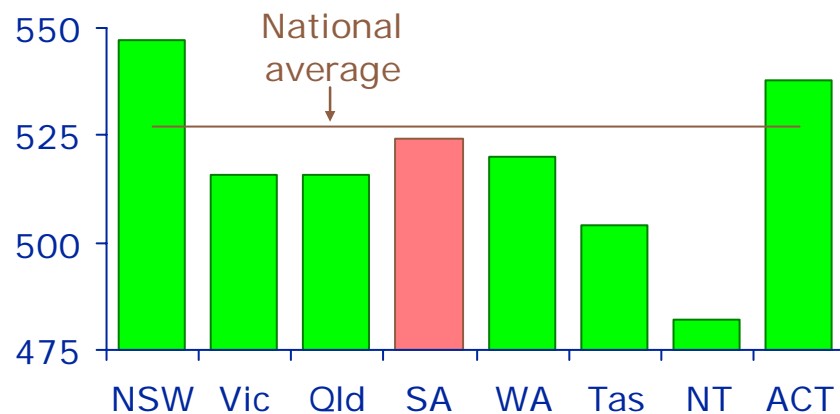
Average maths scores – Year 8



Average science scores – Year 4



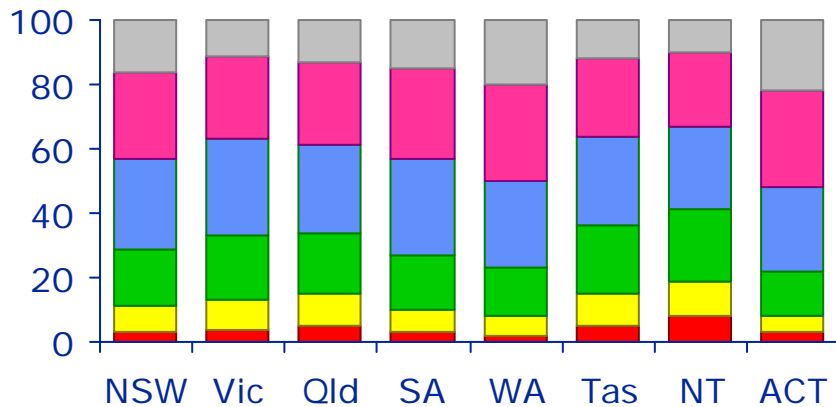
Average science scores – Year 8



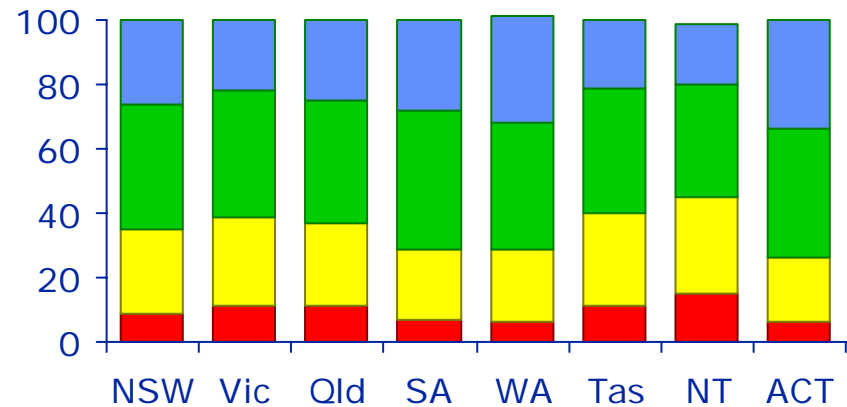
Source: Trends in International Mathematics and Science Study 2002-03

And SA produces students with above-average reading, maths and problem-solving skills

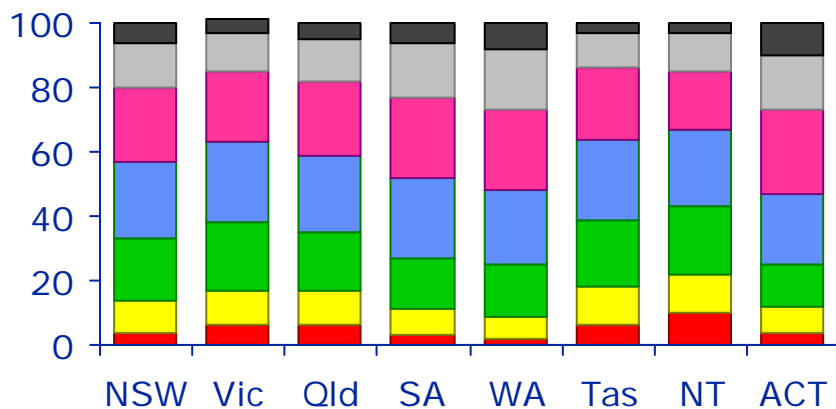
Reading literacy



Problem solving ability



Mathematical literacy

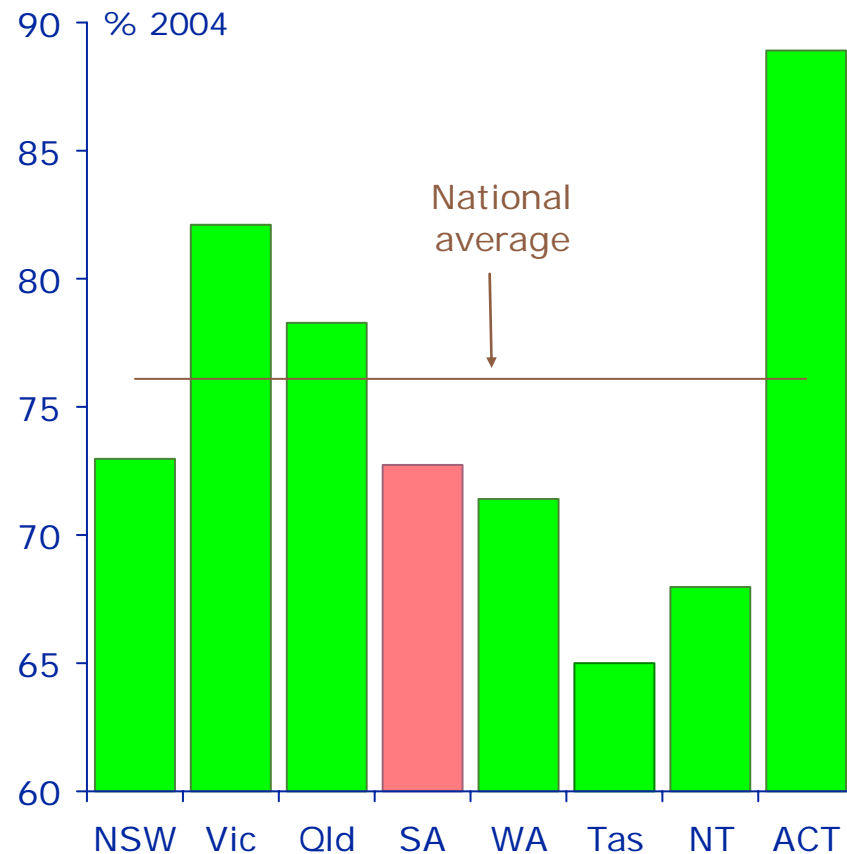
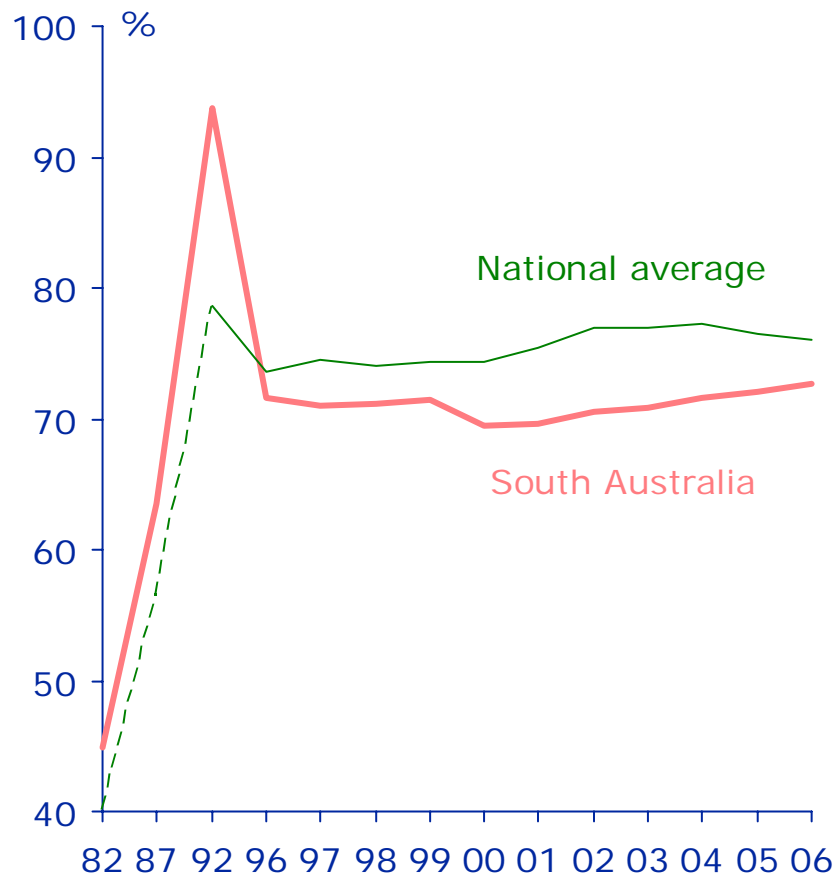


- Below Level 1 ('likely to be seriously disadvantaged in life beyond school')
- Level 1 (lowest)
- Level 2
- Level 3
- Level 4
- Level 5
- Level 6 (highest)

Results based on testing of 12,500 students from 321 schools randomly selected from across Australia in 2003 as part of an OECD-sponsored assessment involving 41 countries.

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

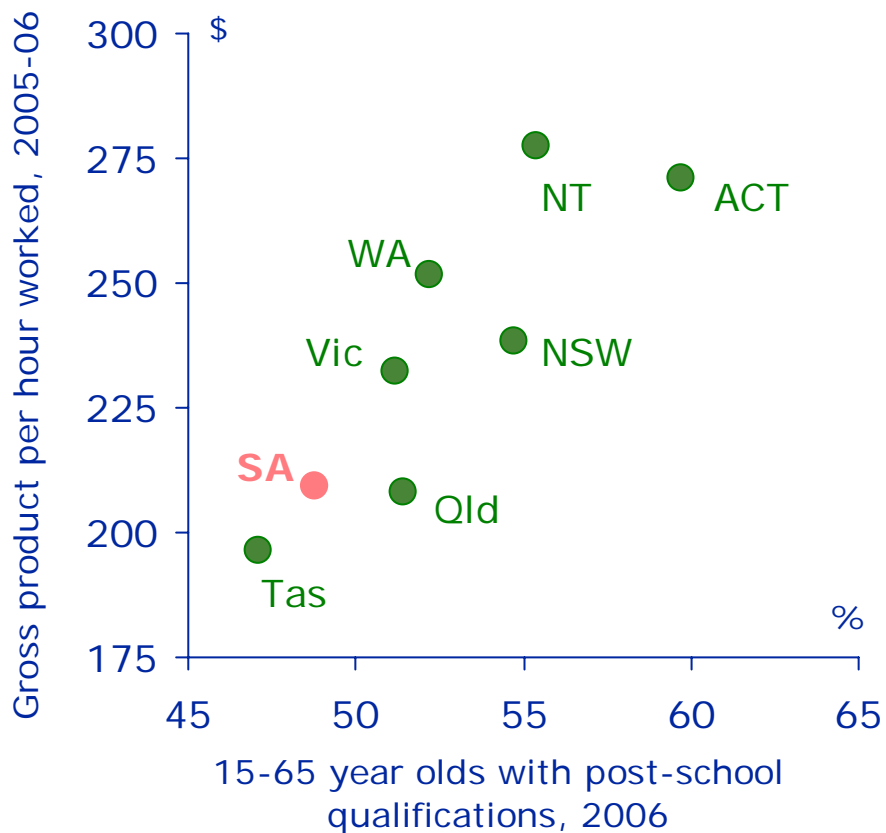
School retention rates to year 12



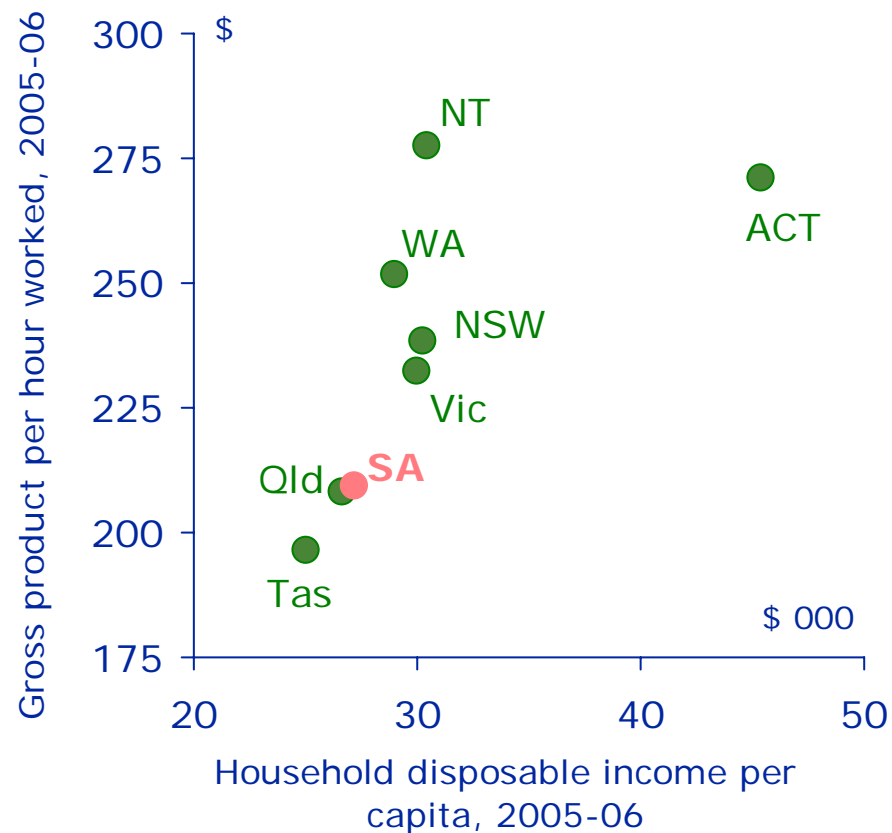
Source: ABS, Schools Australia (4221.0)

There are clear associations between education, productivity and income across the States

Educational attainment and productivity, 2005-06



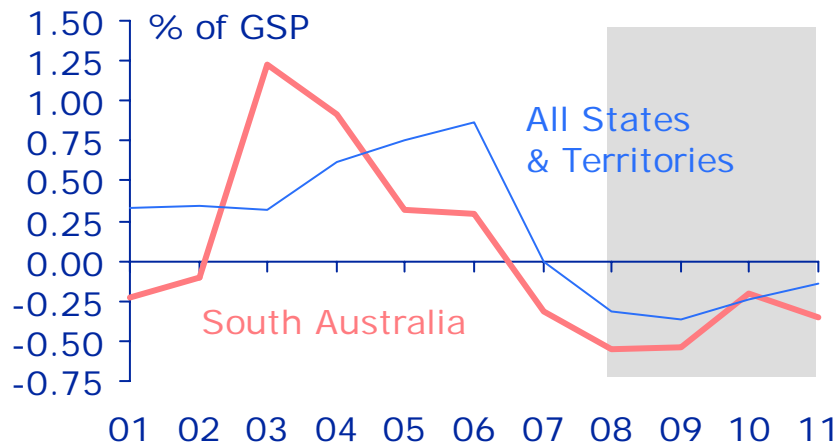
Productivity and per capita income, 2005-06



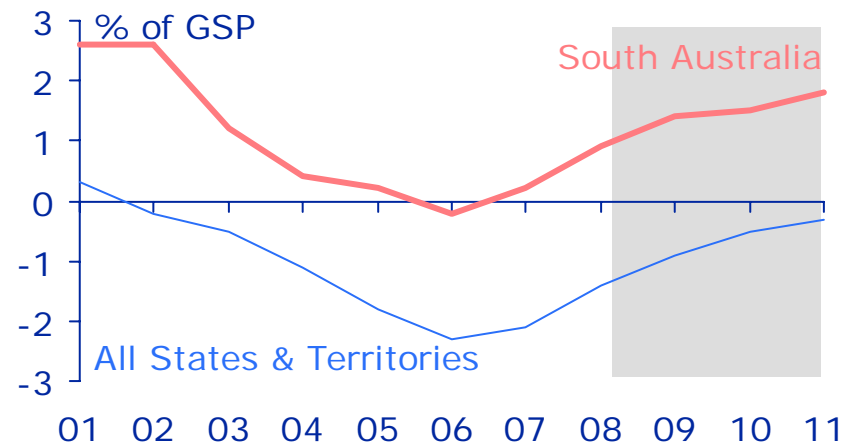
Sources: ABS State Accounts (5220.0); Employed persons by sex, age, hours worked, state (6291.0.55.001); Economics@ANZ.

South Australia's finances are in good shape, borrowing for infrastructure is not a problem

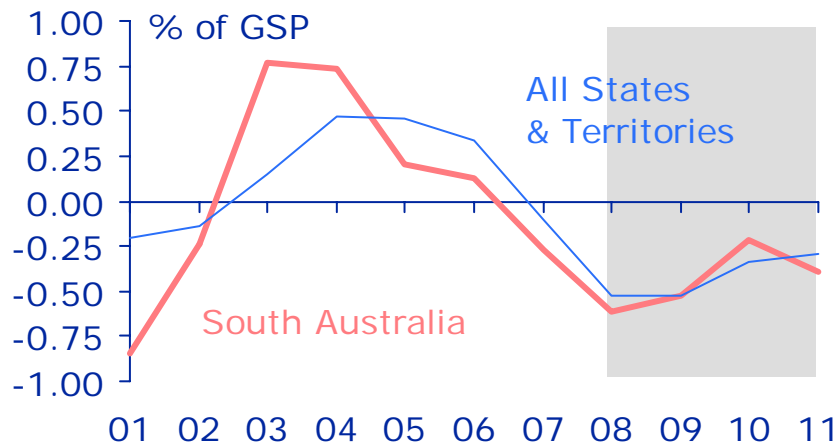
Cash balance



Net debt



Fiscal balance



Net interest as % of revenue

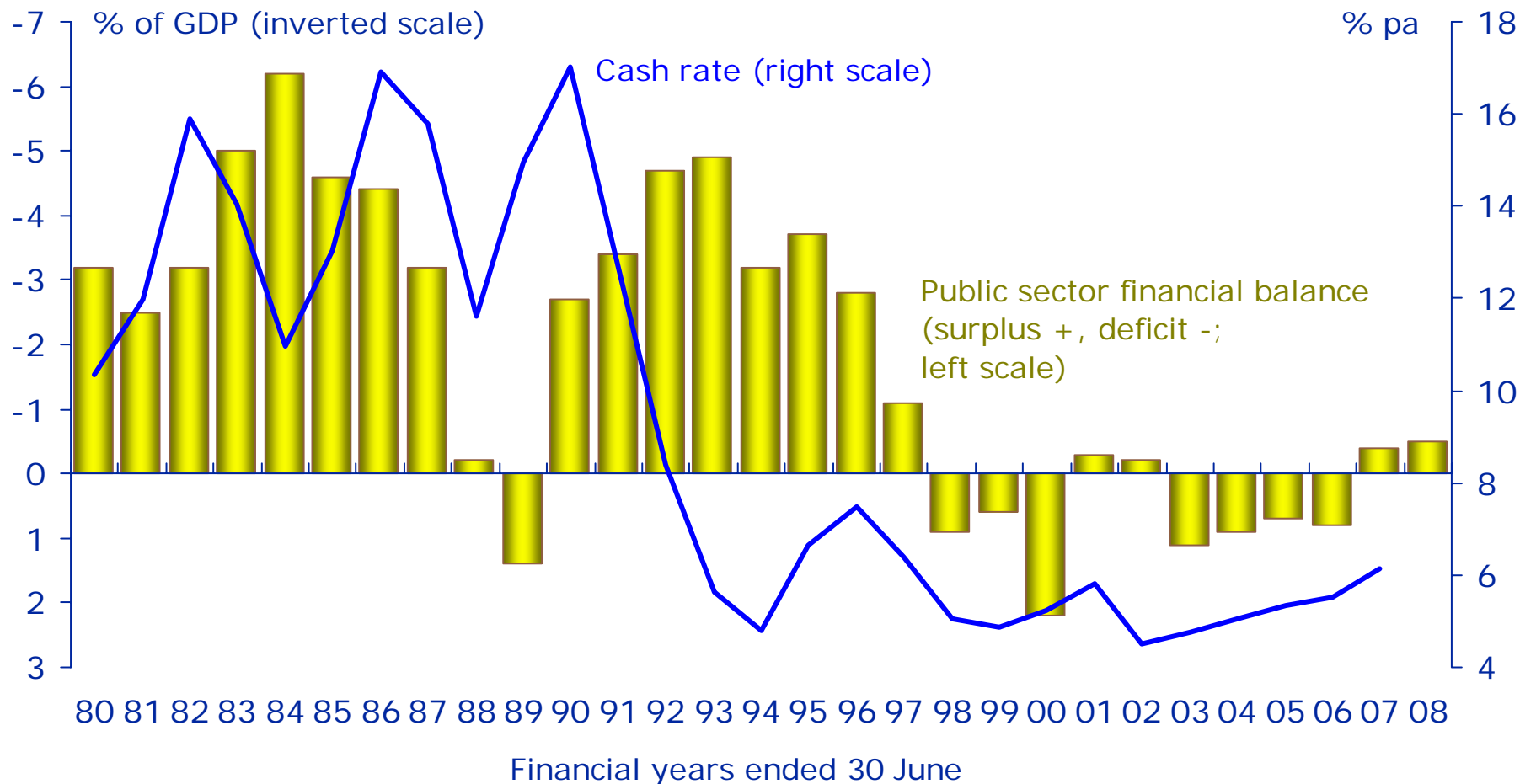


Note: all data are for the 'general government' sector.

Sources: State Budget Papers; Economics@ANZ.

There's no correlation between the level of public sector borrowing and interest rates

Total public sector borrowing and the cash rate



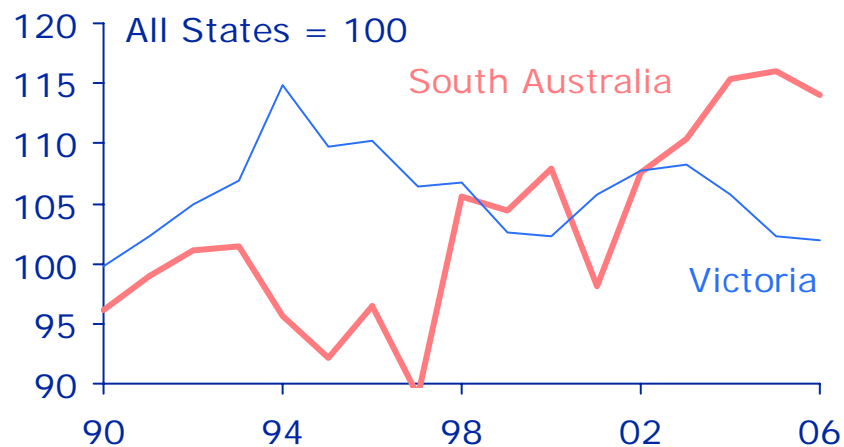
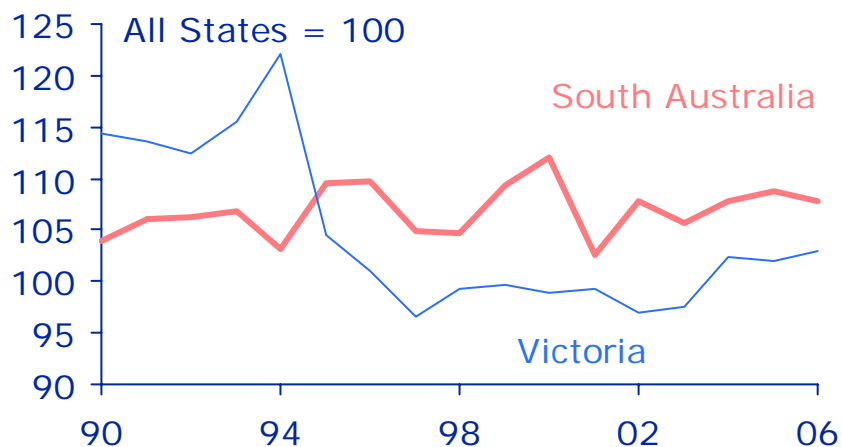
Sources: RBA Bulletin; Commonwealth Budget Paper No. 1; Economics@ANZ.

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

Level of service provision ratios 2005-06



State tax severity ratios 2005-06



Source: Commonwealth Grants Commission;
Economics@ANZ.