Economic Issues

No. 8

Review of the South Australian Economy, 1990-2003

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March 2004

South Australian Centre for Economic Studies

ISSN 1445-6826

Published by: South Australian Centre for Economic Studies
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Editor's Note

Welcome to the eighth issue of *Economic* Issues, a series published by the South Australian Centre for Economic Studies as part of the Centre's Corporate Membership Program. The scope of *Economic Issues* is intended to be broad, limited only to topical, applied economic issues of relevance to South Australia and Australia. Within this scope, the intention is to focus on key economic issues — public policy issues, economic trends, economic events — and present an authoritative, expert analysis which contributes to both public understanding and public debate. Papers will be published on a continuing basis, as topics present themselves and as resources allow.

The authors of this paper are Mr Michael O'Neil, Dr Penny Neal and Ms Anh Thu Nguyen.

The Centre gratefully acknowledges the financial support of our Corporate Members and particularly of the Office of Economic Development. It enables the preparation of this *Economic Issues* series.

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March 2004

Review of the South Australian Economy, 1990-2003

Overview

South Australia's economic performance since 1990 has been subdued in comparison with the performance of the national economy. Lower economic growth in South Australia has been associated with slower population growth than in most other States. As per capita output and labour productivity rose in South Australia much in line with the national average, the slower economic growth rate does not derive from problems with the level of output per person or per worker. Nor does it derive from poor policy settings. The lower growth rate almost certainly reflects slower population growth, and differences in relative factor endowments and industry structure when compared with the other States.

Spending by households in South Australia rose faster than household income, sustained by large increases in house prices and the associated rise in household wealth. South Australia's share of national private business investment mostly fluctuated within the 5 to 7 per cent range between 1990 and 2001 but rose to $8^1/_2$ per cent by 2003. Business investment on machinery and equipment more than doubled in real terms between 1989 and 2003 but there was little growth in investment on buildings and structures. Although investment in mining, manufacturing and other selected industries all increased in real terms between 1990 and 2003, it was dominated by investment growth in other selected industries reflecting the structural changes that have been occurring in South Australia's economy.

Building and construction activity fluctuated through the 1990s. The impending introduction of the GST on 1 July 2000 saw a stimulus to this sector as activity was brought forward in anticipation of rising costs. A marked contraction in building and construction activity followed to which the Commonwealth Government responded by introducing the *First Home Owners Grant*. This measure, low real interest rates and speculative activity based on rising prices for houses and apartments boosted activity from mid 2000 to 2003. By 2003, the number of dwelling units approved was back to the levels experienced in the early 1990s whilst there had been a very large increase in the value of approvals. Whilst growth in residential construction will probably slow in the near-term future as higher interest rates take effect, investment in major infrastructure projects is likely to remain strong and help sustain South Australia's share of private new capital expenditure.

For the most part, Adelaide's inflation rate diverged little from the inflation rate for the weighted average of the eight capital cities between 1990 and 2003. Average weekly earnings growth for South Australia was slower than for Australia, but wages growth as measured by the Wage Cost Index suggests that wages costs in South Australia were comparable with national wages costs by 2003.

Structural change from 1990 to 2003 led to an increase in the importance of services industries and a decline in the importance of manufacturing in South Australia's industry structure. Nevertheless, the traditional and slower growth industries of agriculture and manufacturing continue to play a larger role in South Australia's industry structure than they do across Australia.

South Australia's exports as a share of GSP doubled between 1990 and 2002. There was a particularly significant jump in exports between 1999 and 2002 - largely due to increased exports of wine and motor vehicles - followed by some downturn in 2003 caused by falling foreign demand, drought and appreciation of the Australian dollar. The major export markets for South Australia are the United States of America and the European Union. The increasing importance of exports to the sustained growth of the South Australian economy has important implications for policymaking at the State level to maximise South Australia's export capability and the Economic Development Board has outlined several specific objectives which are to increase the range of products and services exported, improve market penetration and enter new markets.

Conditions in South Australia's labour market reflected South Australia's slower economic and population growth rates. Growth in South Australia's labour force was weak compared with growth of the labour force across Australia between 1990 and 2003. Employment growth was also much weaker and was dominated by rising part-time employment. The unemployment rate in South Australia was consistently higher than the Australian unemployment rate although it did converge on the national unemployment rate in 2003. Also reflecting population movements and the prominence of slower growth industries in the State's industry structure, labour force participation also trended down in South Australia although there has been a substantial pick-up in participation since 2002.

The message of this review is one that the Economic Development Board has already put on the table: economic growth and population growth go hand-in-hand. Strong and sustainable economic growth can stimulate population growth and *vice versa*. Without one the State is very unlikely to achieve the other. This review suggests that economic policies that foster the faster growing services sector and increase exports are the most likely to contribute to economic growth. Long-term growth requires the infrastructure to support it and that requires investment. To that end, the Economic Development Board's recommendation that South Australia's share of private new capital expenditure be used as one of the initial benchmarks adopted for assessment of economic development in the State is to be applauded. Policies to stimulate population growth implemented in conjunction with sound economic policies should ensure a brighter economic outlook for South Australia over the medium-term future.

1. Macroeconomic performance

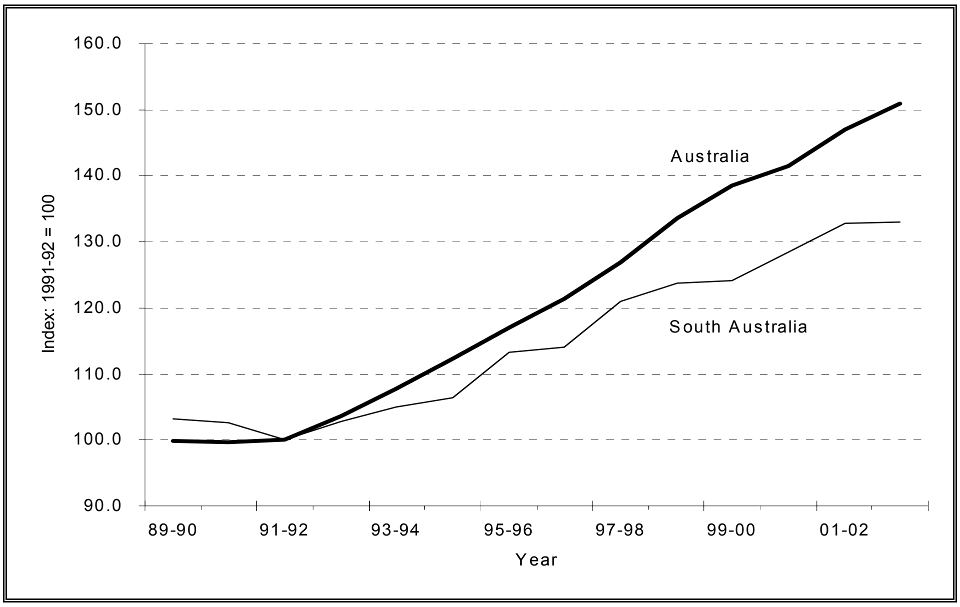
Slower economic growth in South Australia than in Australia is due to slower population growth, differences in relative factor endowments and industry structure.

The South Australian economy has grown at an average 2.6 per cent *per annum* since 1990, more slowly than Australia's economic growth rate of an average annual 3.8 per cent. Lower economic growth in South Australia has been associated with slower population growth than in most other States. As per capita output and labour productivity rose in South Australia much in line with the national average, the slower economic growth rate does not derive from problems with the level of output per person or per worker. Nor does it derive from poor policy settings. The lower growth rate almost certainly reflects slower population growth, and differences in relative factor endowments and industry structure when compared with the other States.

The South Australian economy grew, on average, by an annual 2.6 per cent, slower than Australia's growth rate of 3.8 per cent …

Looking at some of the more important indicators of South Australian macroeconomic performance over the past decade, South Australia's real GSP grew at an average annual rate of 2.6 per cent. Australia on the other hand displayed stronger and faster growth during the 10 years to 2002-03 at an average annual rate of 3.8 per cent (as summarised in Figure 1) with the strongest performing states being Queensland (4.6 per cent), Western Australia (4.1 per cent) and Victoria (3.9 per cent).

Figure 1
Index of Real GSP and Real GDP
1989-90 to 2002-03



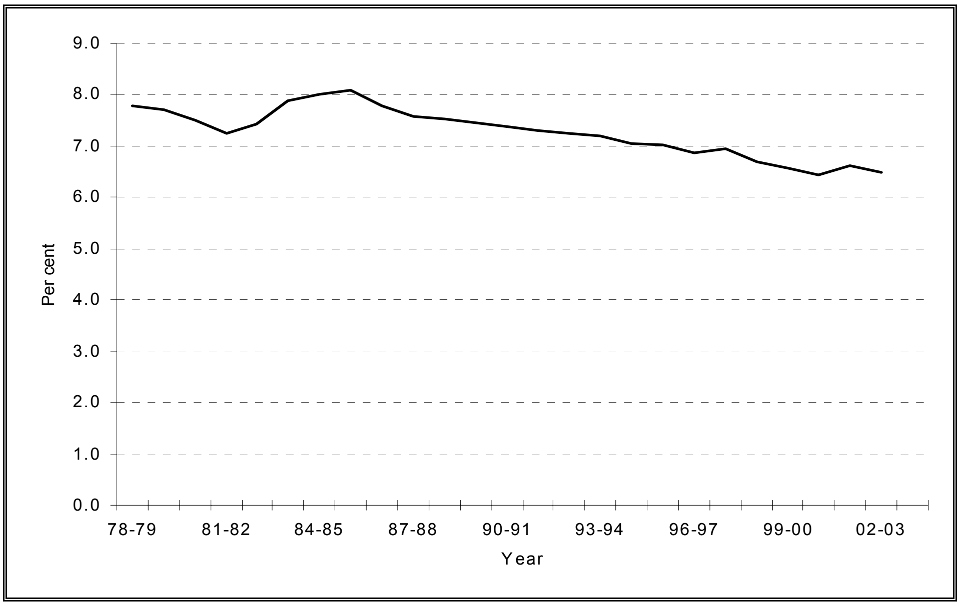
Source: ABS, AusStats, Australian National Accounts: State Accounts (5220.0).

By 2003, South Australia's annual real GSP growth rate had apparently stalled, growing at 0.1 per cent (as opposed to 3.4 per cent in the previous year) whereas the two best performing states, Queensland and Western Australia, grew at the rate of 4.7 per cent and 3.9 per cent respectively. The major reasons for South Australia's downturn were a sharp decline in exports and the severe negative impacts of drought on agricultural production. In addition, there are significant limitations in the data used to compile the real GSP estimates; the ABS describes them as 'experimental'. Some degree of error is inherent in the real GSP estimates, and it is possible that the 2002-03 growth rate is understated, either because the 2002-03 level estimate is an underestimate or because the 2001-02 level estimate is an overestimate. Notwithstanding, over the decade economic growth in South Australia was more subdued than for Australia as a whole.

... resulting in a smaller share of national output.

As a result of these differential growth rates, over the longer term, South Australia's share of Australian GDP decreased gradually from a peak of 8.1 per cent in 1985 to 6.5 per cent in 2003 as shown in Figure 2. This decline reflects a variety of factors. Foremost are decisions about the location of production activity. South Australia has fared worse than some other regions in terms of mineral discoveries, tourism (also highly dependent on region-specific factors), and in securing a share of fast-growing sectors such as financial services. In addition, South Australia had a high exposure to domestically oriented manufacturing production, parts of which were hit hard by tariff reductions, particularly in the recession of the early 1990s.[1] The relative decline in the share of national output also reflects population movements and the faster growth rates experienced by Queensland and Western Australia.

Figure 2
South Australia's Share of National GDP
1978-79 to 2002-03



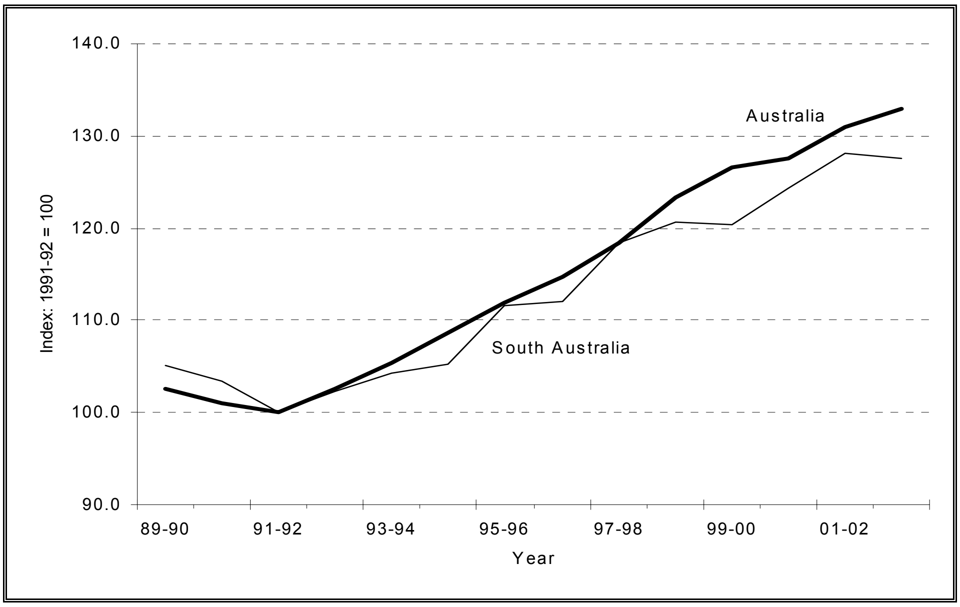
Source: ABS, AusStats, Australian National Accounts: State Accounts (5220.0).

Output growth and population growth go hand-in-hand.

Per capita output in South Australia grew more in line with national trends ...

Differences in production growth are matched to a significant degree by differences in population growth. The population tends to shift to where the jobs are. Consequently, differences in the growth of real per capita GSP and GDP are much smaller over the long term. Figure 3, which depicts indexes of real GSP and real GDP per capita, illustrates this. Although South Australia grew a little more slowly than Australia as a whole, through the 1990s, the difference is much smaller than for aggregate (as opposed to per capita) gross product. The difference between the national GDP growth rate and South Australian GSP growth over the decade to 2002-03 was 1.2 percentage points per annum, whereas the gap between the per capita growth rates was just 0.4 percentage points per annum.

Figure 3
Index of Real GSP and Real GDP per capita
1989-90 to 2002-03



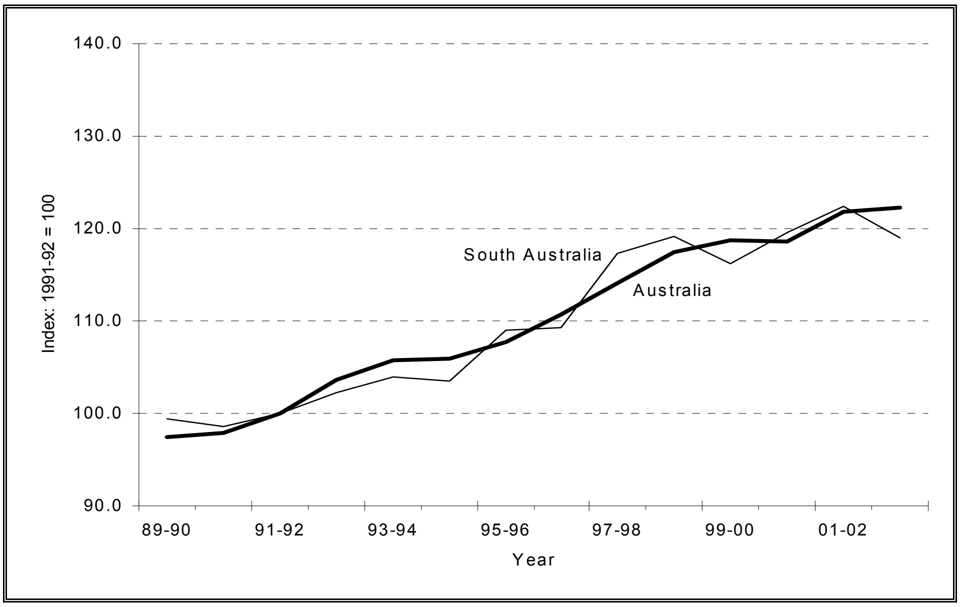
Source: ABS, AusStats, Australian National Accounts: State Accounts (5220.0).

This distinction highlights an important feature of the Australian economy: differences in state growth rates are to a large extent related to population movement, with differences in productivity trends playing only a modest role. The fact that Australia has free migration between States is fundamental to this. Nevertheless, Figure 1 does suggest that if South Australia wants stronger economic growth, policies to improve population growth will need to be put in place.

... as did labour productivity.

Although it is common to measure productivity trends with gross product per capita estimates, it is more appropriate to consider gross product per worker. Figure 4 shows South Australian and Australian GSP and GDP per worker moving very closely together over time. This indicates that South Australia's medium term growth in labour productivity was in line with the national rate. The divergence in 2003 was temporary with the setback being mainly due to unfavourable seasonal conditions and the severe impact of the drought on agricultural production (with flow-on impacts for service industries and the demand for business and personal services).

Figure 4
Index of Real GSP and Real GDP per worker
1989-90 to 2002-03



Source: ABS, AusStats, Australian National Accounts: State Accounts (5220.0) and Labour Force, Australia (6202.0).

We conclude that the South Australian economy has experienced a significant positive growth trend over the last decade. Although it has had slower growth than Australia as a whole, it has certainly performed more strongly than some other advanced nations.

Weaker growth in South Australia than Australia reflects relative factor endowments rather than poor policy settings ...

South Australia's relative under-performance against Australia does not necessarily mean that its policy settings were poor. It almost certainly reflects relative factor endowments. For example, as measured by total factor incomes (i.e., compensations to employees, gross operating surplus and gross mixed income) the mining sector in South Australia contributes less than 3 per cent of total State/Territory factor incomes. In Western Australia, it accounts for 20 per cent, the Northern Territory 18 per cent and Queensland 6 per cent. Mining is one sector with a very high capital to labour ratio and higher productivity per unit of labour input.

Indeed, it is arguable that South Australia has performed better than was expected a decade ago. The State's growth of 2.6 per cent per annum is considerably stronger than some of the forecasts made in the early and mid 1990s.

The very favourable conditions in agriculture in 2003-04 will help to turn around what now must be viewed as a temporary downturn a year earlier in this sector, where drought and other unfavourable events (the war in Iraq) combined to have a severe impact on agricultural production and exports.

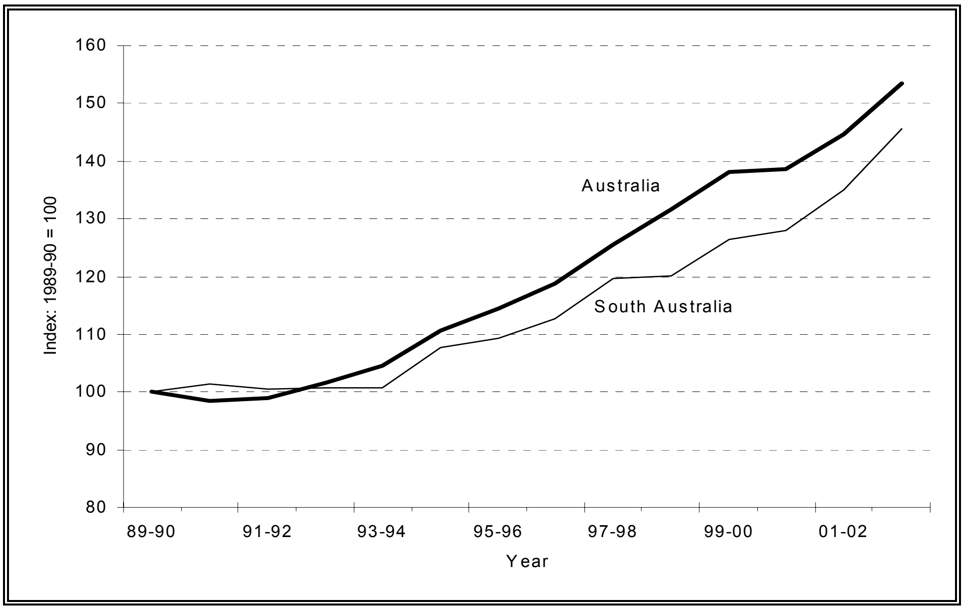
... but stronger economic growth over the longer-term will require strategies to increase population growth.

Nevertheless, the preceding discussion does suggest that population growth is an important contributing factor to aggregate GSP growth over the longer-term. Population growth is slower in South Australia than in all other States, except Tasmania, due in large part, to interstate migration to those States that have higher economic growth rates. As the Economic Development Board acknowledged, population growth and economic development go hand-in-hand.[2] South Australia's share of national output and economic growth rate relative to the growth rates of other States will continue to decline over the longer-term unless strategies to increase the population are implemented. The Government of South Australia has accepted the Economic Development Board's recommendation of a target of a 7.8 per cent share of the national migration intake over the next 10 years – a share equal to our population share. An important factor in attracting more people to South Australia will be a vibrant local economy with strong employment growth that provides jobs for the larger population.

2. State Final Demand

Between 1990 and 2003, State Final Demand increased by an average annual 2.9 per cent – somewhat higher than South Australia's economic growth rate. Spending by households in South Australia rose faster than household income, sustained by large increases in house prices and the associated rise in household wealth.

Figure 5
Indexes of State Final Demand – South Australia and Gross National Expenditure - Australia Chain Volume Measures[(a)]: 1989-90 to 2002-03



Note: [(a)] Reference year for chain volume measures is 2001-02.
Source: ABS, AusStats, National Accounts, 5220.0.

Spending in South Australia has increased by an annual average 2.9 per cent since 1990 ...

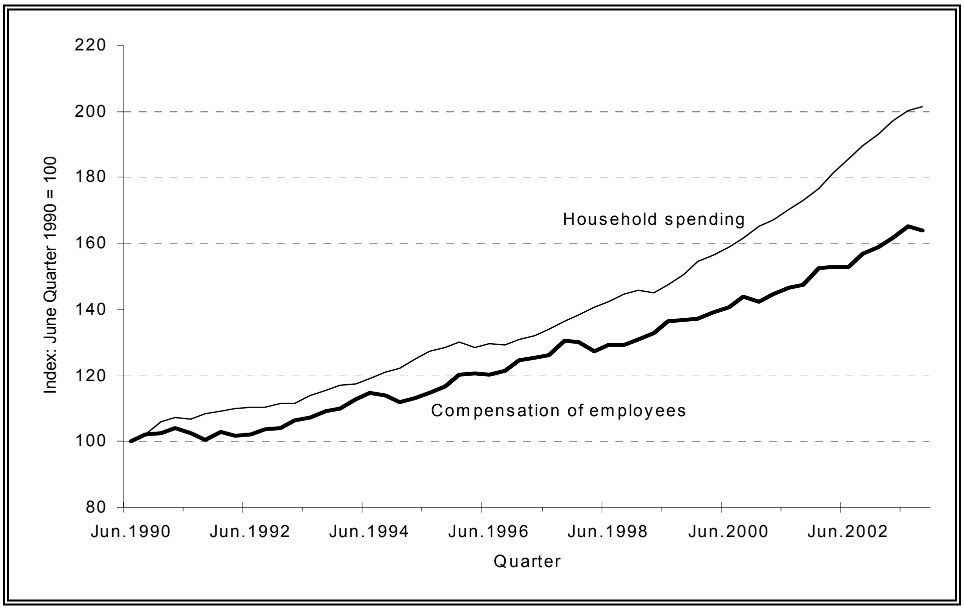
State Final Demand (SFD) is a measure of the State's level of spending by the private and public sectors on consumption and investment goods and services. It excludes overseas and interstate exports of goods and services. From 1990 to 2003, South Australia's SFD grew at an average annual growth rate of 2.9 per cent, 0.5 percentage points lower than the average growth rate in gross national expenditure. However, in recent years consumption and investment spending rose more strongly in South Australia than in Australia.

Household consumption accounts for about 60 per cent of SFD. The closing gap between gross national expenditure and state final demand indices, shown in Figure 5, is due in part to rising household spending in recent years.

... with household spending rising more than one and a half times the increase in household income ...

Household spending in South Australia has been growing consistently faster than household income (represented by compensation of employees) over the past 13 years as summarised in Figure 6. From the June quarter 1990 to the September quarter 2003, household spending has grown by more than one and a half times the increase in household income.

Figure 6
Index of Compensation of Employees and Household Spending
South Australia – Seasonally Adjusted Estimates
June Quarter 1990 – June Quarter 2003



Source: ABS, AusStats, National Accounts, 5220.0.

... sustained by significant increased in housing prices and the associated rise in household wealth.

High levels of household spending were most likely caused by significant increases in housing prices over the same period. Between the September quarters 1990 and 2003, housing prices increased by more than 100 per cent. High housing prices translate into wealth effects that encourage people to increase their consumption levels. They can take advantage of the increased housing prices by selling their current property for a cheaper one or by borrowing against the increased housing wealth. As a consequence, household consumption expenditure tends to rise more quickly than income growth which is much more sluggish. Borrowing against increased housing wealth may lead to higher levels of borrowing and of debt, which may in turn, be detrimental to future levels of household consumption and State Final Demand.

Investment spending is also an important component of SFD. Business investment and building and construction activity are the subjects of the following two sections.

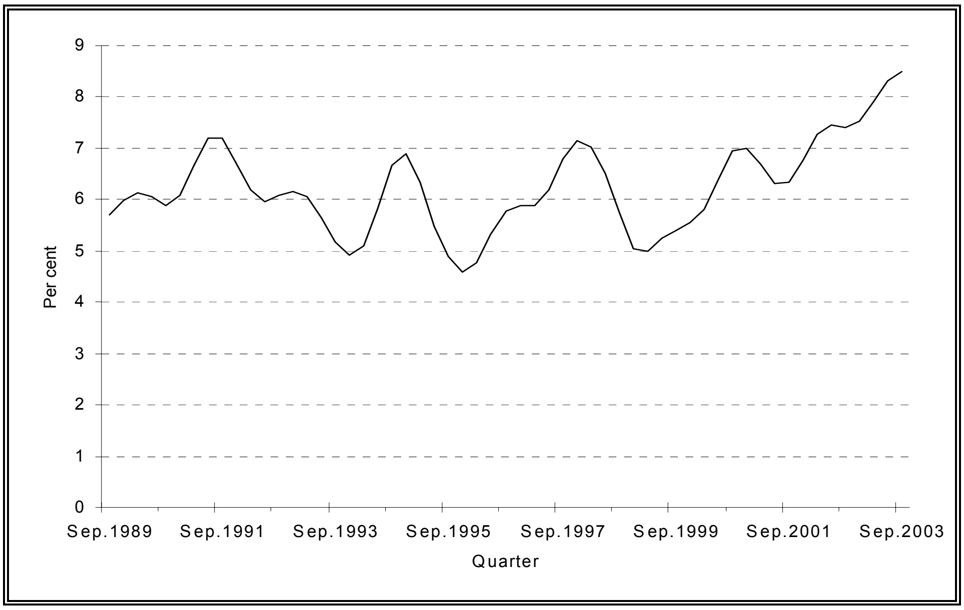
3. Business Investment

The Economic Development Board has recommended that South Australia's share of private new capital expenditure be one of the initial benchmarks adopted for assessment of economic development in South Australia. This section discusses business investment and is followed by a discussion of building and construction.

South Australia's share of business investment had risen to 8.5 per cent of the national total by 2003 ...

Figure 7 shows South Australia's share of Australia's total business investment over the period 1989-90 to 2002-03. South Australia entered the 1990s with a starting share of 5.7 per cent in the September quarter of 1989. South Australia's share of business investment fluctuated between a little under 5 per cent and a little over 7 per cent until 2001 but has consistently trended upwards in subsequent years. By the September quarter 2003, the State's share of national business investment rose sharply to reach a peak of 8.5 per cent.

Figure 7
South Australia's Share of National Business Investment
Chain Volumes Measures[(a)] – Trend
September Quarter 1989 to September Quarter 2003



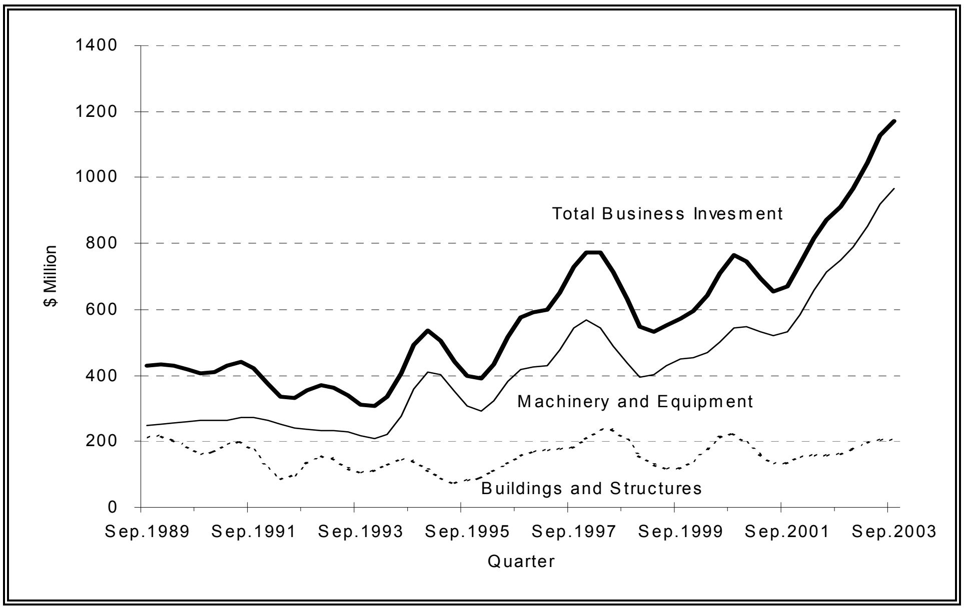
Note: [(a)] Reference year for chain volume measures is 2001-02.
Source: ABS, AusStats, Private New Capital Expenditure. 5625.0.

... growing at an annual average rate of 6.9 per cent. Investment spending on machinery and equipment more than doubled between 1990 and 2003, but there was little growth in investment on building and structures.

Business investment in South Australia by asset type (machinery and equipment and building and structures) is illustrated in Figure 8. Total business investment grew strongly with an annual average growth rate of 6.9 per cent over the period 1989-90 to 2002-03. Investment in machinery and equipment experienced remarkable growth at an annualised rate of 9.5 per cent. By 2002-03, investment spending on machinery and equipment in real terms was 225 per cent higher than the level in 1989-90. In contrast, investment in building and structures in 2002-03 was little unchanged in real terms from investment in 1989-90 although there were some fluctuations over the period to 2002-03.

Major investment projects during the recent period 2001 to 2003 accounted for the significant growth in machinery and equipment investment expenditure. Key projects included Holden's $1 billion expansion of its car production facility at Elizabeth, Mitsubishi's $300 million manufacturing facility upgrade and redesign, and Kimberly Clark's $250 million investment in a new tissue machine and associated infrastructure at Millicent.

Figure 8
South Australia's Business Investment by Asset Type
Chain Volume Measures[(a)] – Trend
September Quarter 1989 to September Quarter 2003

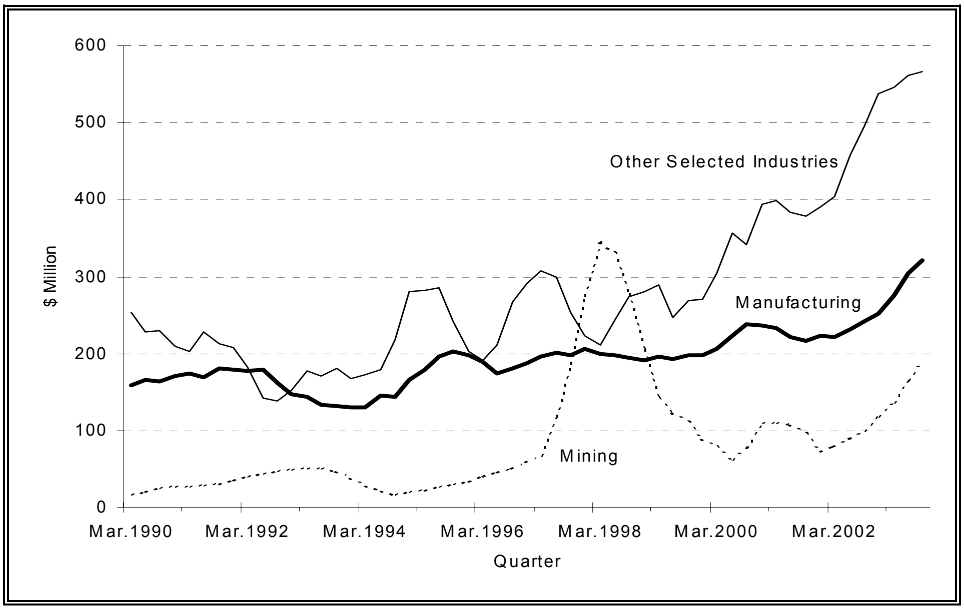


Note: (a) Reference year for chain volume measures is 2001-02.
Source: ABS, AusStats, Private New Capital Expenditure. 5625.0.

Investment in mining, manufacturing and other selected industries was much higher in real terms in 2003 than it had been a decade earlier.

Investment by industry from the March quarter 1990 to the September quarter 2003 for South Australia is shown in Figure 9. Investment in manufacturing trended upwards with an annual average growth rate of 3.4 per cent between 1989-90 and 2002-03. Investment in other selected industries[3] underwent marked fluctuations over the span of 13 years and has been rising sharply over the past few years. Mining, on the other hand, attracted very few investments in the early 1990s. In 1997-98, mining investment surged to more than triple the 1996 level. This was mainly due to the operation of the Olympic Dam Project ($1,940 million), which commenced as early as 1988 but only reached capacity in 1997-1998. Following the exceptional but temporary boom in 1998, investment in mining declined to levels that remained well above those of the early 1990s.

Figure 9
South Australia's Business Investment by Industry[1] – Trend Moving Quarterly Average: March Quarter 1990 to September Quarter 2003



Note: [1] Deflated by Chain Price Index of Total Business Investment (Reference year: 2001-2002).
Source: ABS, AusStats, Private New Capital Expenditure. 5625.0.

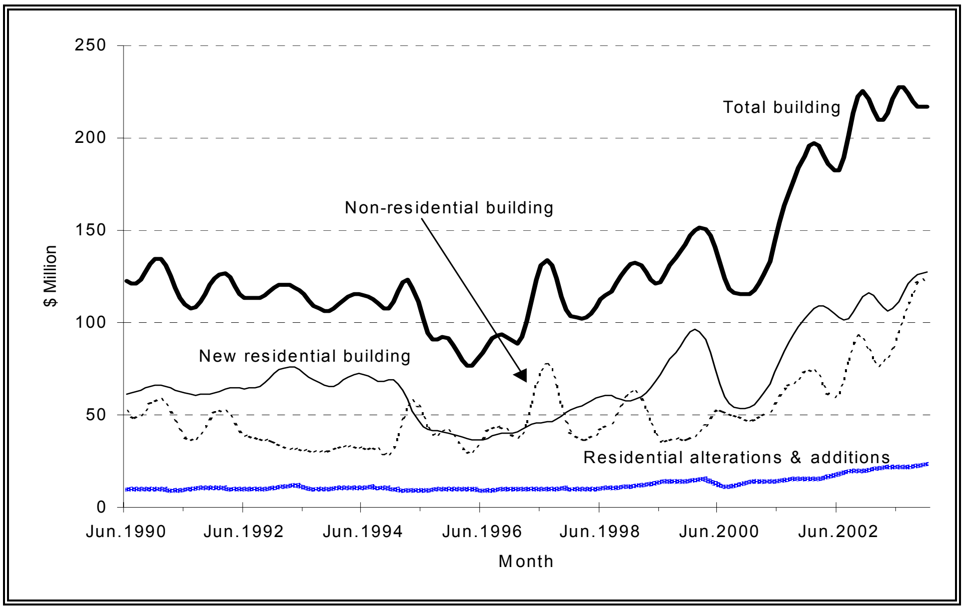
The pattern of business investment spending over the period 1989-90 to 2002-03 reflects structural change in South Australia's economy including the expansion of production and processing capacity in the wine industry, significant new investment and expansion of capacity in the automotive sector, as well as more gradual diversification of the services sector and utility upgrades. The much slower rise in investment in manufacturing compared with rapidly rising investment in other selected industries indicates a partial shift away from the traditional industries into new and faster-growing industries to be discussed in Section 6 on Industry.

4. Building and Construction

The value of building approvals increased by around $100 million between June 2000 and June 2003 ...

Figure 10 shows trend estimates for the value of building approvals for South Australia from the June quarter 1990 to the December quarter 2003. The total value of building approvals fluctuated in the early 1990s but achieved marked growth over recent years increasing by around $100 million between June 2000 and June 2003. From mid 1990 until the December quarter 2003, the value of total building approvals grew by 76.8 per cent.

Figure 10
Value of Building Approvals by Type of Building
South Australia – Trend Series at Current Prices
June 1990 – December 2003



Source: ABS, AusStats, Building and Construction. 8731.0.

Growth in the value of new residential building approvals accounts for 52 per cent on average of the total value of buildings approvals. The rise in the value of new residential building approvals in recent years was due to sustained low interest rates, the First Home Owners Grant, high consumer confidence and gains in housing wealth. The value of non-residential building approvals also increased markedly, more than doubling between 1990 and 2003.

... due mostly to an increase in the number of housing approvals ...

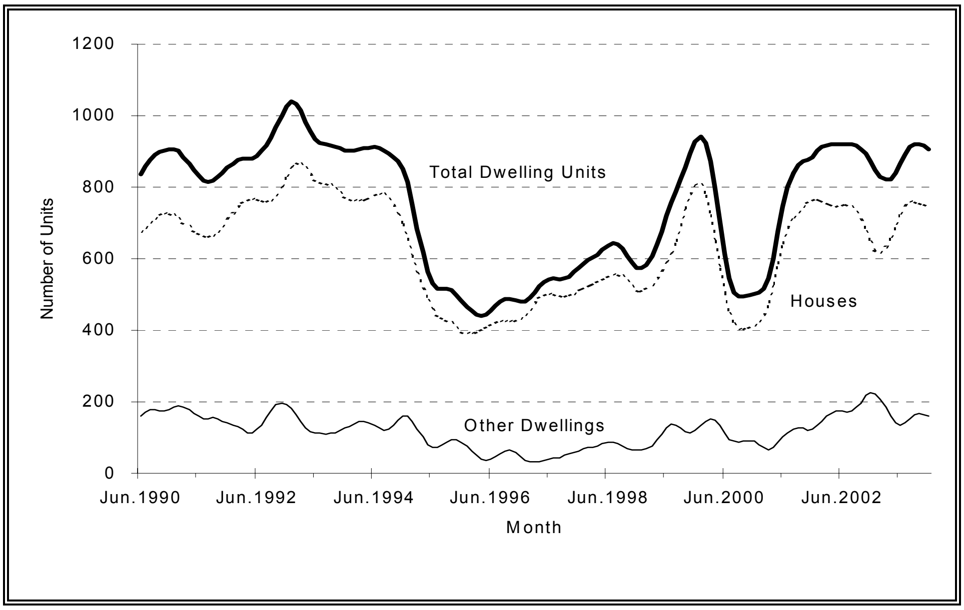
Figure 11 illustrates large fluctuations in the number of private sector dwelling units approved. Houses account for 84 per cent on average of total dwelling units and changes in the number of houses approved were responsible for most of the fluctuations in total dwellings approved. The number of houses approved was very high in the early 1990s but declined sharply (almost halved) by 1996 following rises in interest rates in 1994. Growth in approvals stalled for a couple of years and did not rise again until December 1999 when it reached a peak of 808 units. Approvals fell sharply in the period immediately following but quickly picked up and have remained strong out to the end of 2003.

... boosted by low real interest rates and the introduction of the First Home Owners Grant.

Low building activity in the private sector in 1996 and the following few years was principally due to high real interest rates, low inflation and low population growth. In contrast, the boom in house building in late 1999 and early 2000 resulted from anticipation of the impact of GST on prices in the second quarter of 2000 (see Figure 11). Also in 2000, the government introduced the First Home Owners Grant, which was designed to stimulate building activity following the slowdown of the building sector with the introduction of the GST. The introduction of the

First Home Owners Grant partly explains the more recent boost in building activity as do real housing interest rates which continue to remain low when compared with interest rates earlier in the period under study.

Figure 11
Number of Private Sector Dwelling Units Approved
South Australia – Trend Series
June 1990 – December 2003



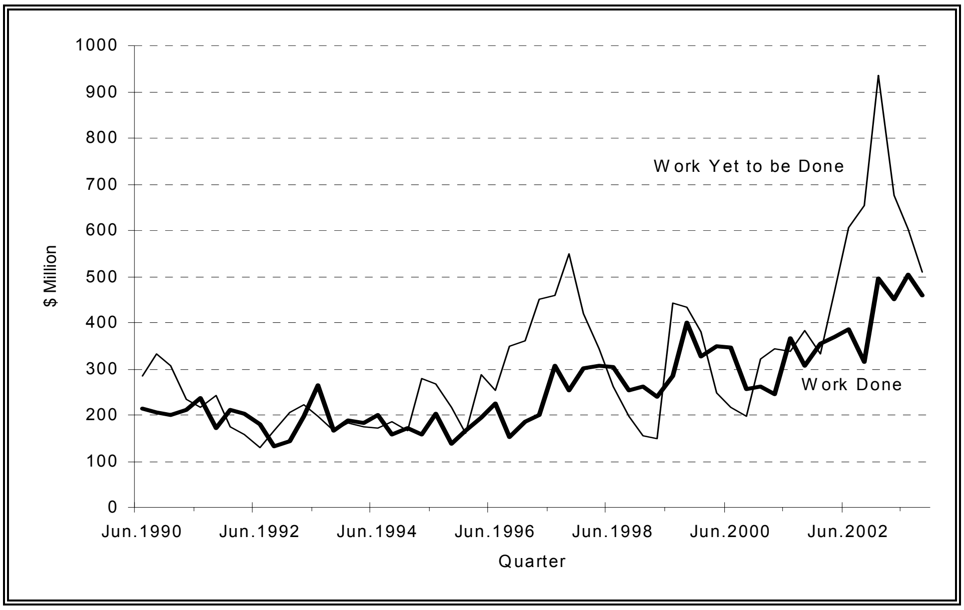
Source: ABS, AusStats, Building and Construction. 8731.0.

Although fluctuating over the intervening years, the number of other private sector dwelling units approved was about the same in 2003 as it had been in 1990 despite some speculative activity through 2001 and 2002.

Investment in major infrastructure projects ...

Figure 12 illustrates the value in current prices of engineering construction from the June quarter 1990 to the September quarter 2003. The value of work done grew steadily over time, more than doubling by 2003 with much of the growth in the later years associated with construction of the Adelaide to Darwin railway. The value of work yet to be done is associated with increasing investment in electricity generation, transmission and distribution, the SEA Gas pipeline, the Port River Expressway, the new Adelaide Airport Terminal and a deep-sea grain wharf at Outer Harbor.[4]

Figure 12
Engineering Construction Work Done and Yet to be Done
June Quarter 1990 – September Quarter 2003



Source: ABS, AusStats, Building and Construction. 8762.0.

... will help sustain South Australia's share of private new capital expenditure.

Whilst growth in residential building and construction will probably slow in the near-term future as higher interest rates take effect, investment in major infrastructure projects will remain strong and help sustain South Australia's share of private new capital expenditure.

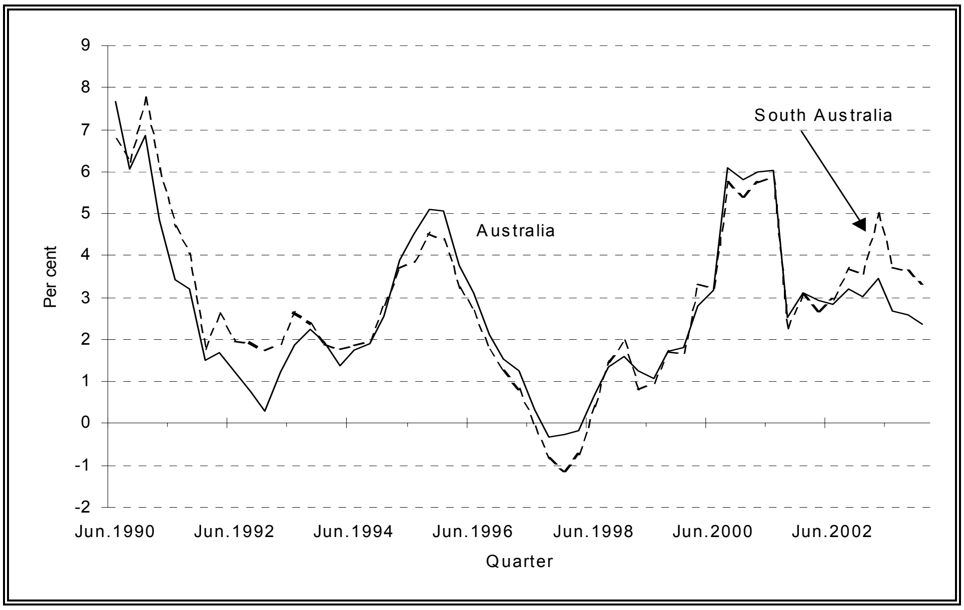
5. Prices and Wages

The inflation rate in Adelaide has varied little from the inflation rate of the weighted average of the 8 capital cities (Australia) for most quarters between 1990 and 2003. At those times when the Adelaide inflation rate did rise substantially above the Australian rate, the rise was to some extent policy induced.

Inflation rates fell sharply in the early 1990s as the economy went into recession ...

Figure 13 illustrates the annual inflation rate for Adelaide and the weighted average inflation rate for the 8 capital cities from the June quarter 1990 to the December quarter 2003. In the June quarter 1990, the annual inflation rates were 6.8 per cent for Adelaide and 7.7 per cent for Australia. Inflation rates subsequently fell sharply to around 1.8 per cent and 1.5 per cent in the December quarter 1991 in Adelaide and Australia respectively as the economy went into recession.

Figure 13
Annual Inflation Rates: Adelaide and Australia
June Quarter 1990 – December Quarter 2003



Source: ABS, AusStats, Prices, 6401.0.

... but the Adelaide inflation rate was higher than for Australia because of increases in State levies.

In the early 1990s, South Australia's inflation rate was consistently higher than Australia's inflation rate, especially in the December quarter of 1992 when the inflation rates were 1.7 for South Australia and 0.3 per cent for Australia. The low inflation rate for Australia as a whole during this period was due to the existence of restrained labour costs, lower mortgage interest rates and the influence of low inflationary expectations. The higher inflation rate in Adelaide as compared with the weighted average of the 8 capital cities was due to increases in cigarette and tobacco prices (as a result of a State levy).

The introduction of the GST caused headline inflation to surge in 2000 but underlying inflation remained well within the Reserve Bank's target band of 2 to 3 per cent.

Inflation rose rapidly in 1994 and 1995. In 1994 the Reserve Bank responded to excess demand pressures by raising interest rates. Nevertheless, before subsequently falling, inflation rates rose and peaked at 4.5 per cent for Adelaide and 5.1 per cent for Australia in the September quarter 1995 partly because mortgage interest rate charges were at that time incorporated in the calculation of the CPI. (Mortgage interest charges and consumer credit charges were removed from the CPI calculation from the September quarter 1998.) Inflation subsequently declined largely as a result of mortgage interest rate reductions following cuts in official interest rates during 1996-97. Prices actually *fell* by 0.7 per cent and 1.1 per cent respectively in South Australia and Australia in the December quarter 1997 so that inflation rates were negative. In 1998 and 1999 inflation again rose due to increases in the prices of fresh fruits, vegetables and domestic holiday travel and accommodation. The headline inflation subsequently surged to 5.8 per cent (SA) and 6.1 per cent (Australia) in the September quarter 2000 following the introduction of the GST in July 2000. However, underlying inflation at that time was around 2.25 per cent - well within the Reserve Bank's target band of 2 to 3 per cent.

In recent years the inflation rate has been higher in Adelaide than in other capital cities. In the December quarter 2003, inflation rates figures for South Australia and Australia were 3.3 per cent and 2.6 per cent respectively. Contributing to the higher CPI for Adelaide were price increases for electricity, petrol, food, and holiday travel and accommodation.

Policy changes have, at times caused South Australia's inflation rate to rise above the national rate.

Table 1 shows 2002-03 consumer price indices for Australia's 8 capital cities. Adelaide prices rose by 42.7 per cent, more than prices in any other capital city over the period from 1989-90 to 2002-03. Prices in Sydney and Brisbane also rose by more than 40 per cent over the same period. Darwin and Perth were cities with the lowest price increases. Figure 13 and the accompanying discussion suggests that policy changes have largely been the cause when the inflation rate in Adelaide has risen much above the national average. State levies on cigarettes and tobacco in the early 1990s and increased electricity prices resulting from the decision for South Australia to join the national electricity market more recently have led to higher inflation rates in South Australia at those times. For the most part, however, the inflation rate in South Australia has not differed much from the inflation rate for Australia.

Table 1
Consumer Price Index – 2002-03
(1989-90 = 100)

Capital City	2002-03
Sydney	141.1
Melbourne	139.7
Brisbane	140.7
Adelaide	142.7
Perth	136.8
Hobart	139.1
Darwin	136.8
Canberra	139.7
Weighted Average of 8 Capital Cities	140.2

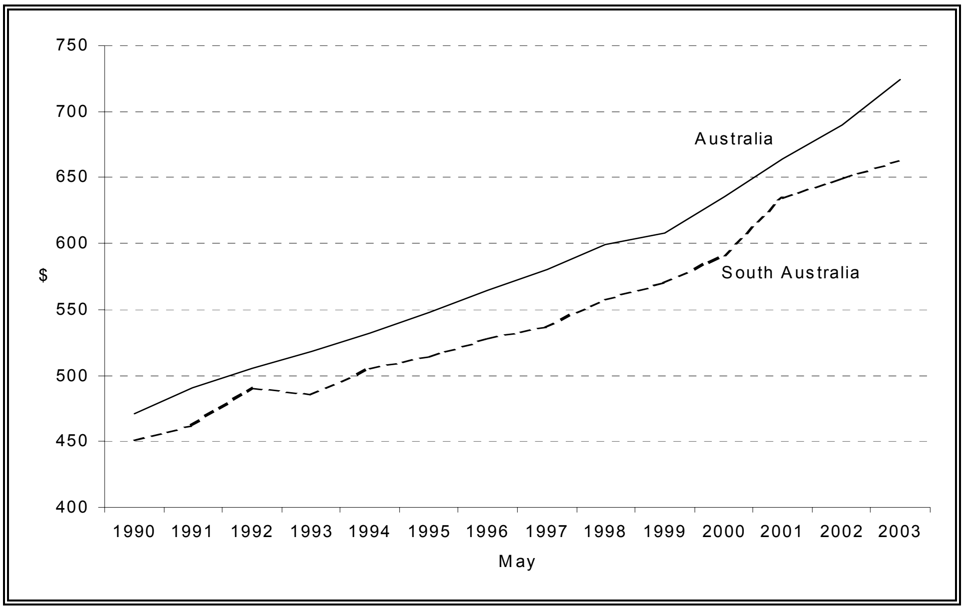
Source: ABS, AusStats, Prices, 6401.0.

Average weekly earnings growth in South Australia from 1990 to 2003 has under-performed the national average. However, the Wage Cost Index - which is perhaps a more reliable indicator of wages growth - suggests that by 2003 wage costs in South Australia were comparable with wage costs across Australia.

AWE have risen more slowly in South Australia ...

Figure 14 tracks average weekly earnings (AWE) since 1990 for South Australia and Australia. Both series trend upwards with South Australia somewhat under-performing the nation as a whole. The gap in AWE has widened over recent times.

Figure 14
Average Weekly Earnings, South Australia and Australia
Trend: May 1990 to May 2003



Source: ABS, AusStats, Earnings, hours and employment conditions, 6302.0.

Table 2 shows that in 2003 South Australia's average weekly earnings (AWE) figure was 91.5 per cent of Australia's AWE. The State's average weekly earnings rose steadily from $451.4 in June quarter 1990 to $663 in June quarter 2003 with an average annual growth rate of 3 per cent. AWE growth was slower only in the Northern Territory (2.6 per cent) and Tasmania (2.6 per cent). AWE grew fastest in New South Wales (3.6 per cent) and Victoria (3.5 per cent).

Table 2
Average Weekly Earnings – Trend – May 1990 to May 2003

	1990	1997	2003
New South Wales	486.3	600.3	770.9
Victoria	475.8	582.9	738.9
Queensland	437.6	559.4	656.9
South Australia	451.4	537.2	663.0
Western Australia	456.7	562.1	704.7
Tasmania	449.2	526.2	627.0
Northern Territory	516.7	587.1	724.8
Australian Capital Territory	515.4	672.9	825.6
Australia	470.6	580.2	724.7

Source: ABS, AusStats, Earnings, hours and employment conditions, 6302.0.

In 1997, the ABS developed a new measure of changes in wage and salary costs, namely the Wage Cost Index (WCI). The index can be considered to a certain extent to be a better measure of wages growth than AWE. Average Weekly Earnings contains distortions caused by compositional changes in the workforce. In other words, AWE captures both wages growth by itself and wages growth due to changes in employment composition. The WCI, like the CPI, measures movements in the wage and salary cost of a fixed basket of jobs over time. Hence, it is not affected by changes in the quantity and quality of work and thus gives a more accurate measurement of wages growth.

... but increases in wage costs have been comparable with rising wage costs in other States.

Table 3 shows the wage cost index for South Australia and other States in the September quarter 2003. Between 1997 and 2003, wages in South Australia increased by 21.6 per cent, which was second only to wages growth in New South Wales of 22.8 per cent over the same period.

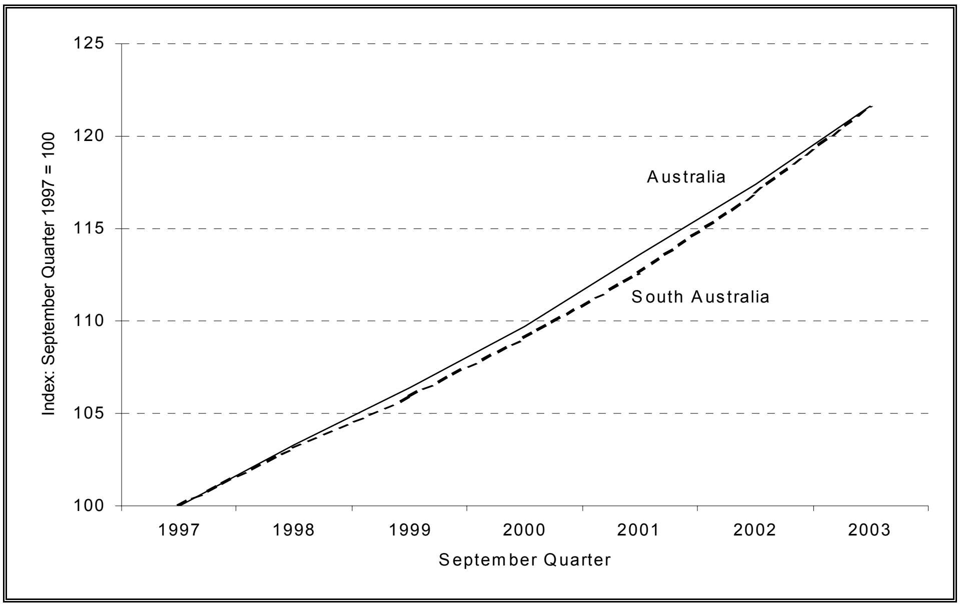
Table 3
Wage Cost Index – September quarter
September Quarter 1997 = 100

	2003
New South Wales	122.8
Victoria	121.5
Queensland	120.2
South Australia	121.6
Western Australia	121.3
Tasmania	119.0
Northern Territory	118.8
Australian Capital Territory	120.8
Australia	121.6

Source: ABS, AusStats, Earnings, hours and employment conditions, 6345.0.

Figure 15 compares the rise in South Australia's and Australia's wage cost indices from 1997 to 2003. South Australia's wage costs rose more slowly than the national average until the September quarter 2003, when wage costs in South Australia were once again comparable with the Australian level. AWE figures suggest South Australia retains a competitive edge over all other States and Territories other than Queensland and Tasmania. WCI figures suggest that wage costs in South Australia have been rising no faster than the national average. Relatively subdued growth in AWE and wages costs is important from the perspective of encouraging employment but it also reflects the differences in industry structure between South Australia and Australia – in particular, that South Australia is still more reliant on the traditional and slower growth industries of agriculture and manufacturing rather than the faster growing services industries.

Figure 15
Wage Cost Index
September Quarter 1997 = 100



Source: ABS, AusStats, Earnings, hours and employment conditions, 6345.0.

6. Industry

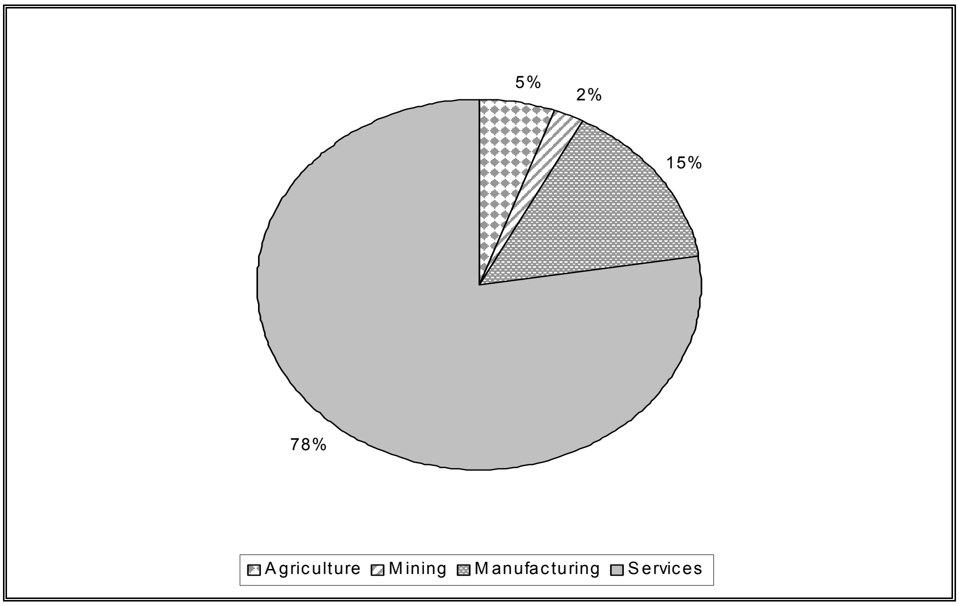
Structural change from 1989-90 to 2002-03 led to an increase in the importance of service industries and a decline in the importance of manufacturing in South Australia's industry structure.

Structural change was the main feature of South Australia's industry over the period 1989-90 to 2002-03. Services industries became more important whereas the importance of manufacturing in South Australia's industry structure tended to decline over time. However, compared with Australia as a whole, agriculture and manufacturing continue to play a larger role in South Australia's industry structure.

In 2002-03,the share of total factor income derived from the agricultural and manufacturing sectors was still higher for South Australia than for Australia …

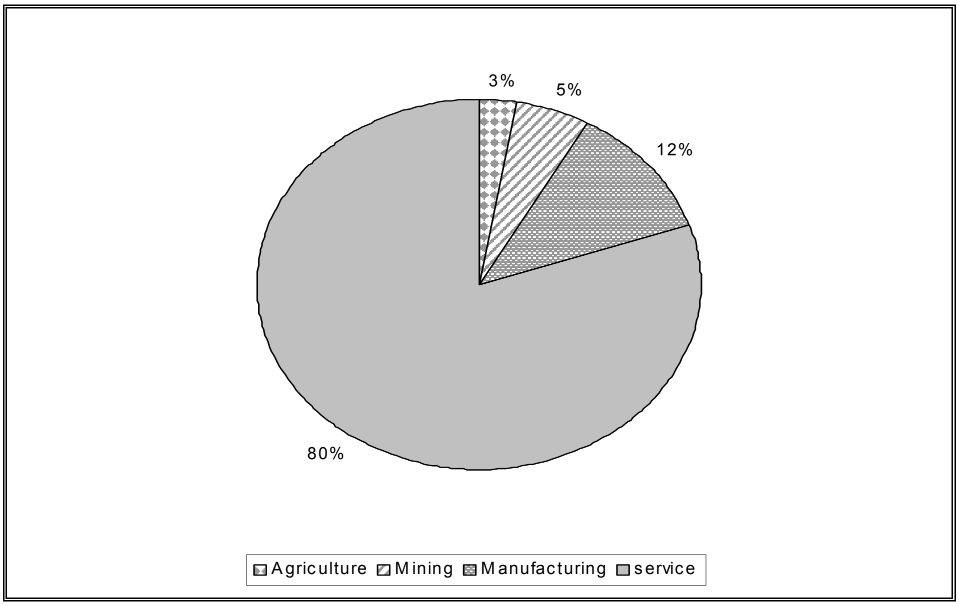
Figures 16a and 16b illustrate the shares of total factor income of major industry groups for South Australia and Australia in 2002-03. Agriculture and manufacturing in South Australia accounted for 5 per cent and 15 percent of total factor income respectively as opposed to 3 per cent and 12 per cent for Australia. In contrast, services industries and mining were predominantly larger sectors for Australia as a whole with services industries generating 80 per cent of total factor income (compared with 78 per cent for South Australia) and mining 5 per cent (compared with only 2 per cent in South Australia).

Figure 16a
Share of Total Factor Income 2002-03: South Australia
Agriculture, Mining, Manufacturing and Services



Source: ABS, AusStats, Australian National Accounts; State Accounts (5220.0)

Figure 16b
Share of Total Factor Income 2002-03: Australia
Agriculture, Mining, Manufacturing and Services

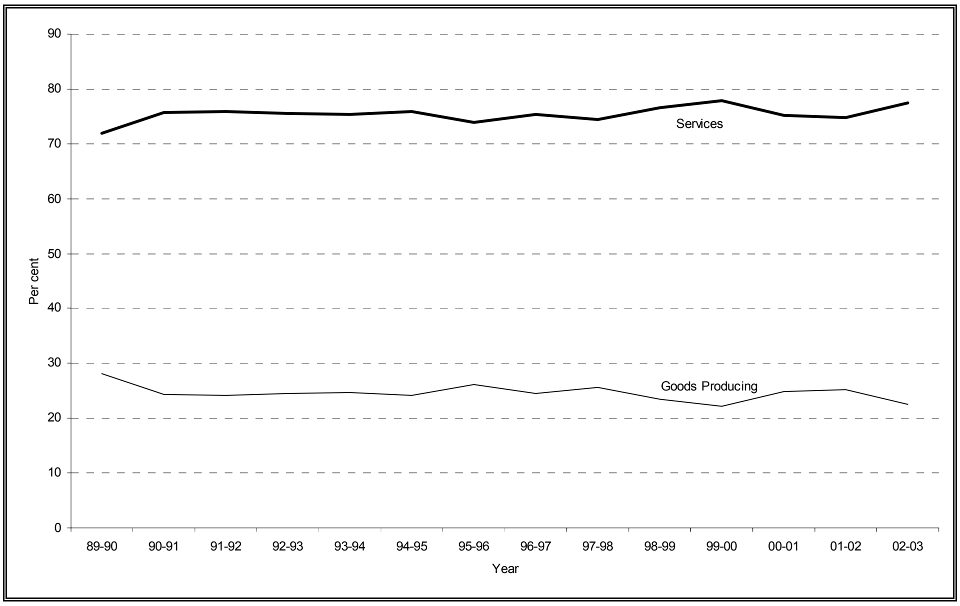


Source: ABS, AusStats, Australian National Accounts; State Accounts (5220.0).

... although services income was more important accounting for a 77.5 per cent share of total factor income in South Australia in 2002-03.

The relative share of total factor income derived from services and non-service industries (agriculture, mining and manufacturing) in South Australia is shown in Figure 17. Services (the sum of the shares of all services industries presented in Table 4 below) accounted for an annual average of 75.4 per cent of total factor income whereas the share of goods-producing sector on average was 24.6 per cent. Relative to the 1990s levels, the share of services in 2002-03 rose by 5.6 per cent to account for 77.5 per cent of total factor income by 2003.

Figure 17
Share of Total Factor Income: Services and Goods-Producing Industries, South Australia 1989-90 to 2002-03



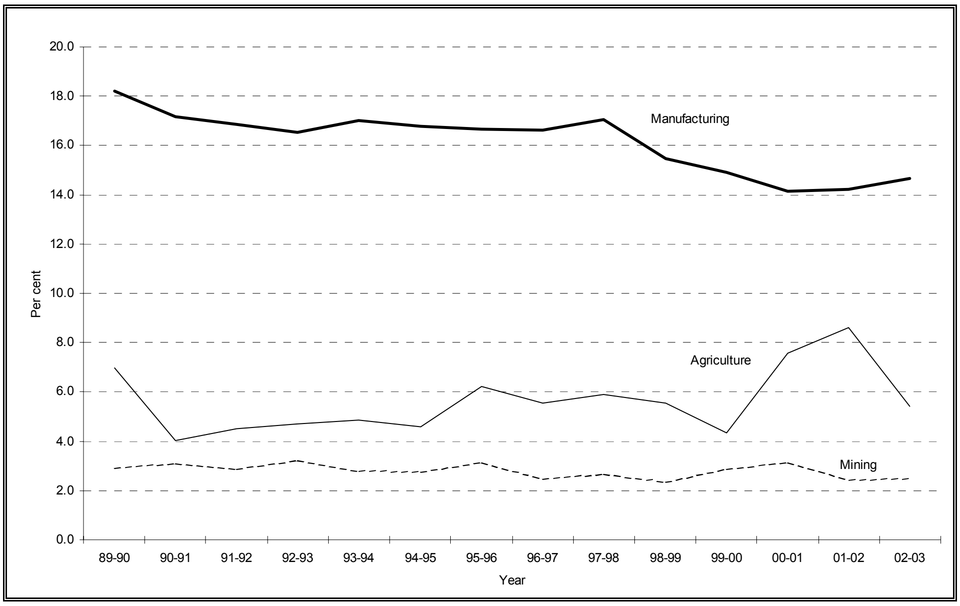
Source: ABS, AusStats, Australian National Accounts: State Accounts (5220.0).

Disaggregating the good-producing industries (agriculture, mining and manufacturing), Figure 18 shows the share of total factor income derived from manufacturing declined significantly over time from a peak of 18.2 per cent in 1989-90 to 14.7 per cent in 2002-03, the share of mining remained fairly stable, while agriculture's share tended to fluctuate considerably, largely due to seasonal conditions.

Finance and insurance services exhibited strong growth.

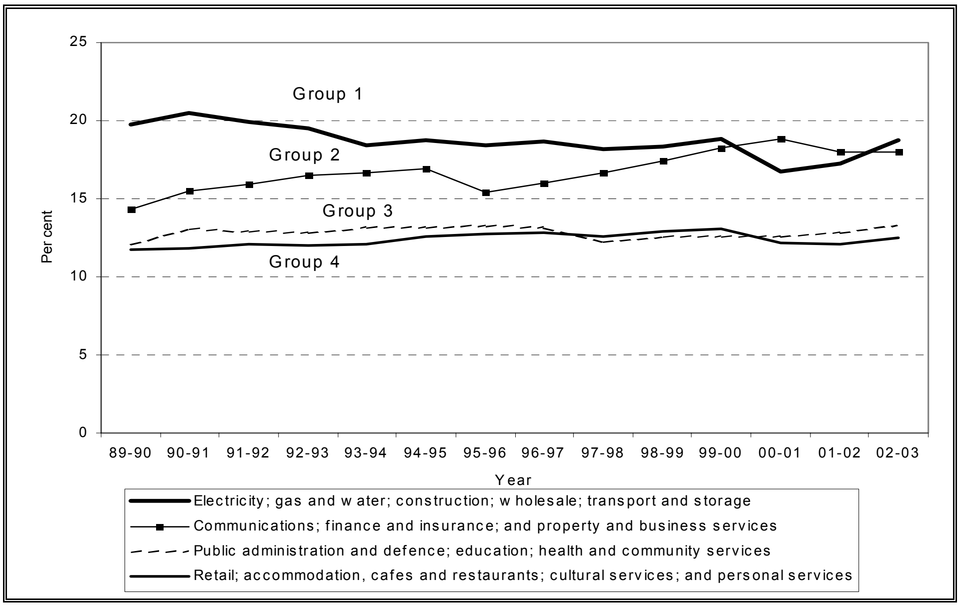
Services industries, which were already significant contributors to total factor income, have become increasingly important over the past decade. Figure 19 illustrates the shares of total factor income of groups of services industries. Industries in Group 1 (electricity, gas and water; construction, wholesale and transport and storage) and Group 2 (communications, finance and insurance and property and business services) contributed the most to services industries. Group 2 increased its share of services income gradually over time, rising from 14.4 per cent in 1989-90 to 18 per cent by 2002-03. Among the industries in this group, finance and insurance services grew most strongly with an annual average growth rate of 7.5 per cent. Group 3 (public administration and defence, education and health and community services) and Group 4 (retail, accommodation, cafes and restaurants, cultural services and personal services) share of total factor income rose only slightly from their 1989-90 shares to 13.4 per cent and 12.5 per cent respectively in 2002-03.

Figure 18
Share of Total Factor Income
Agriculture, Mining, and Manufacturing, South Australia, 1989-90 to 2002-03



Source: ABS, AusStats, Australian National Accounts: State Accounts (5220.0).

Figure 19
Share of Total Factor Income
Groups of Services Industries[1], South Australia, 1989-90 to 2002-03



Note: [1] Excluding ownership of dwellings and general government services.
Source: ABS, AusStats, Australian National Accounts: State Accounts (5220.0)

Property and business services is the largest service industry but accounts for a smaller share of total factor income in South Australia than in Australia whereas health and community services plays a larger role in South Australia.

Table 4 compares the shares of total factor income of individual service industries that make up the services sector for 1989-90 and 2002-03 in South Australia and Australia. Property and business services is the largest service industry in both South Australia and Australia (other than ownership of dwellings in South Australia), accounting for 9.1 per cent and 11.7 per cent of total factor income respectively in 2002-03 (substantially higher than the corresponding shares in 1989-90). Health and community services played a bigger role in South Australia (representing 8.1 per cent of total factor income) as compared with Australia (6.3 per cent). This almost certainly reflects South Australia's older population and associated higher costs of health care. Finance and insurance accounted for a smaller share of the services sector in South Australia (6.4 per cent) than in Australia (7.7 per cent).

Table 4
Share of Total Factor Income – Service Industries
South Australia and Australia

	South Australia		Australia	
	1989-90	2002-03	1989-90	2002-03
Electricity, gas and water supply	3.1	2.4	3.5	2.5
Construction	6.8	7.0	7.2	6.7
Wholesale trade	5.0	4.7	5.9	5.5
Retail trade	6.1	5.6	5.8	5.7
Accommodation, cafes and restaurants	1.8	2.2	1.9	2.2
Transport and storage	4.9	4.7	5.3	4.7
Communication services	2.5	2.5	2.7	2.9
Finance and insurance	4.1	6.4	5.0	7.7
Property and business services	7.8	9.1	9.9	11.7
Government administration and defence	3.3	3.5	3.8	3.9
Education	5.0	5.2	4.3	4.6
Health and community services	7.1	8.1	5.5	6.3
Cultural and recreational services	1.4	1.8	1.5	1.9
Personal and other services	2.5	3.0	2.0	2.5
Ownership of dwellings	8.4	9.2	9.1	9.3
General government	2.2	2.2	2.3	2.2
All industries	100.0	100.0	100.0	100.0

Source: ABS, AusStats, Australian National Accounts; State Accounts (5220.0).

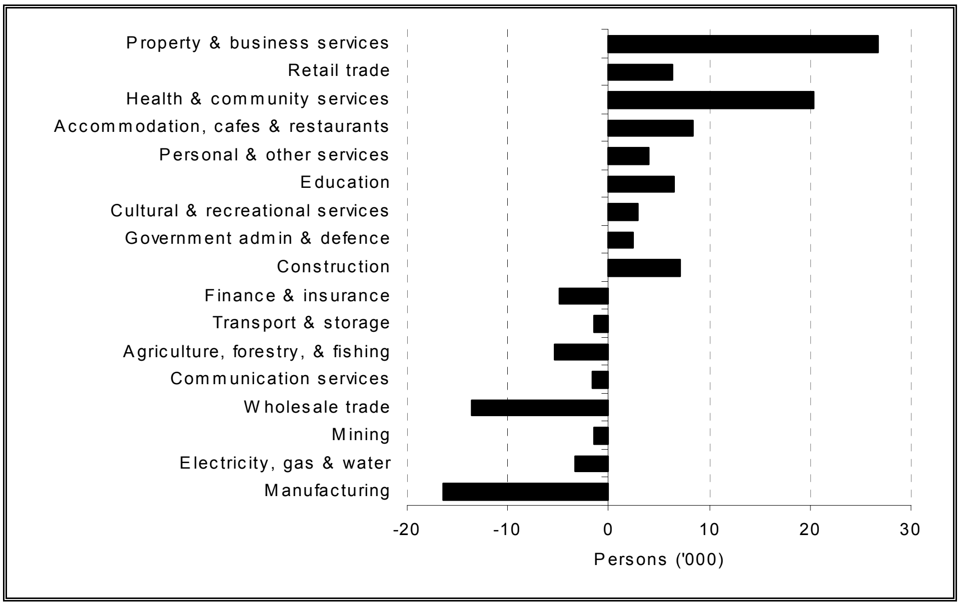
South Australia is still more reliant than Australia on the traditional and slower growth industries of agriculture and manufacturing rather than the faster-growing service industries.

The differences in the industry structure of South Australia and Australia highlights the fact that South Australia is still more reliant on traditional and slower growth industries, i.e., agriculture and manufacturing, rather than faster-growing services industries. Although the current trends in South Australia's industry structure suggest a gradual shift from agriculture and manufacturing into service industries, the challenge remains to diversify the economic base of the economy, which in turn will attract residents to South Australia and help to retain younger workers. In *A Framework for Economic Development in South Australia,* May 2003, the Economic Development Board recommended that the State Government make more effective use of their budgetary assistance to industry by providing grants for infrastructure and skill development that benefit overall industries rather than funding individual corporations. A more tightly focussed use of assistance measures is a welcome policy change. Assistance should not be used to "prop-up" poor performance as it acts to slow down or impede necessary restructuring.

Employment changes by industry also highlight the shift from goods-producing industries into service industries.

Figure 20 explores the change in employment by industry, revealing the same major shift in industry structure. Three industries, which had the largest increase in employment during the 1990-2002 period, were all services industries: property and business services (26,725 persons), health and community services (20,375 persons), and accommodation, cafés and restaurants (8,425 persons). In contrast, industries that experienced losses in employment were manufacturing (16,375 persons), wholesale trade (13,675 persons) and agriculture, forestry and fishing (5,425 persons). These significant changes in employment highlight the shift from goods-producing industries into service-providing industries.

Figure 20
Change in Employment by Industry
South Australia – 1990 to 2002 (Year Average to November)



Source: ABS, AusStats, Labour Force – Employed – Industry, (6291.0).

7. Exports

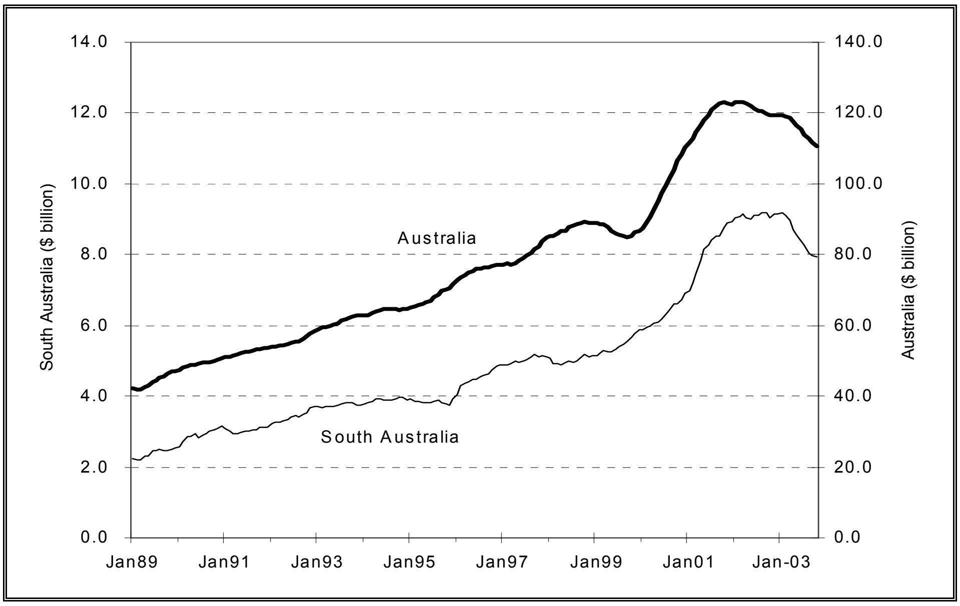
Exports were a major contributor to economic growth in South Australia between 1989-90 and 2002-03.

Exports were a major contributor to economic growth in South Australia between 1989-90 and 2002-03. In 1990 South Australian exports as a proportion of GSP languished well below the national exports to GDP ratio but almost doubled by 2002 to match the Australian share of exports in GDP. Exports from South Australia rose particularly strongly between 1999 and 2002 with exports of wine and motor vehicles accounting for most of the growth. Services exports accounted for a lower share of total exports from South Australia than from Australia. Major export destinations also differed with the United States of America and the European Union being the major export destinations for South Australia, whereas the two largest markets for Australia were Japan and the other East Asian countries.

There was a sharp rise in exports between 1999 and 2002 ...

Between 1989-90 and 2002-03 South Australia's annual growth in merchandise exports was 8.3 percent, higher than the Australian average of 6.6 per cent. As illustrated in Figure 21, the period between 1999 and 2002 saw a significant jump in the value of South Australia's merchandise exports which was also a period of impressive growth for Australian exports. By 2002, the total value of merchandise exports had risen by 84 per cent (SA) and 54 per cent (Australia) above their 1999 values.

Figure 21
Overseas Merchandise Exports
Australia and South Australia: January 1989 to October 2003
(Moving annual totals)



<u>Source</u>: ABS, AusStats, International Trade.

... but this was followed by a downturn in 2003 ...

... caused by declining foreign demand, drought and $A appreciation.

However, more recently, commencing in December 2002, both Australia's and South Australia's merchandise exports turned sharply downwards. South Australia's merchandise exports fell 12.3 per cent in the 12 months to October 2003, compared with exports for the twelve months to October 2002. Australia's exports fell by 7.5 per cent. The main reasons for these sharp declines were falling foreign demand (reflecting a marked slowdown in economic growth in overseas markets), the damaging impact of drought on agricultural production (a significant component of South Australia's exports are agricultural products) and the strong appreciation of the Australian dollar.

Table 5 shows the value of the Australian dollar in terms of the US dollar and Australia's trade weighted indices from 1998 to 2003. From 1999 through 2002 exports rose as the Australian dollar depreciated against the United States dollar to a low of $US .51 in 2001. The Australian dollar subsequently rose to a high of $US .66 in 2003 and this abrupt appreciation helps to explain the underperformance of exports in 2003.

Table 5
Exchange Rates and Trade Weighted Indices

Year	1998	1999	2000	2001	2002	2003
$US per 1 $A	.63	.64	.58	.51	.55	.66
TWI	103.9	103.1	96.3	92.2	96.9	107.1

Source: RBA statistics.

The trade-weighted index is a more comprehensive indicator of Australia's exchange rates than the exchange rate against a single foreign currency. The trade-weighted index is a measure of Australian currency relative to the currencies of Australia's main trading partners (up to 20 countries). In a sense, it is a calculated aggregate exchange rate. As shown in Table 5, the trade-weighted index followed the same pattern of rise and fall as the USD/AUD exchange rate. The spectacular growth in the value of merchandise exports between 1999 and 2002 can be explained in terms of the depreciation of the Australian dollar (in terms of foreign currencies) whereby the slow down into 2003 can be attributed, in part, to currency appreciation. A marked slowdown in the economic growth rates of some of Australia's major trading partners exacerbated the decline in exports. Appreciation of the trade-weighted index in 2002 and 2003 was largely due to the depreciation of the US dollar. The $US together with some Asian currencies that are directly linked to it, account for approximately 50 per cent of the trade-weighted index for Australia.

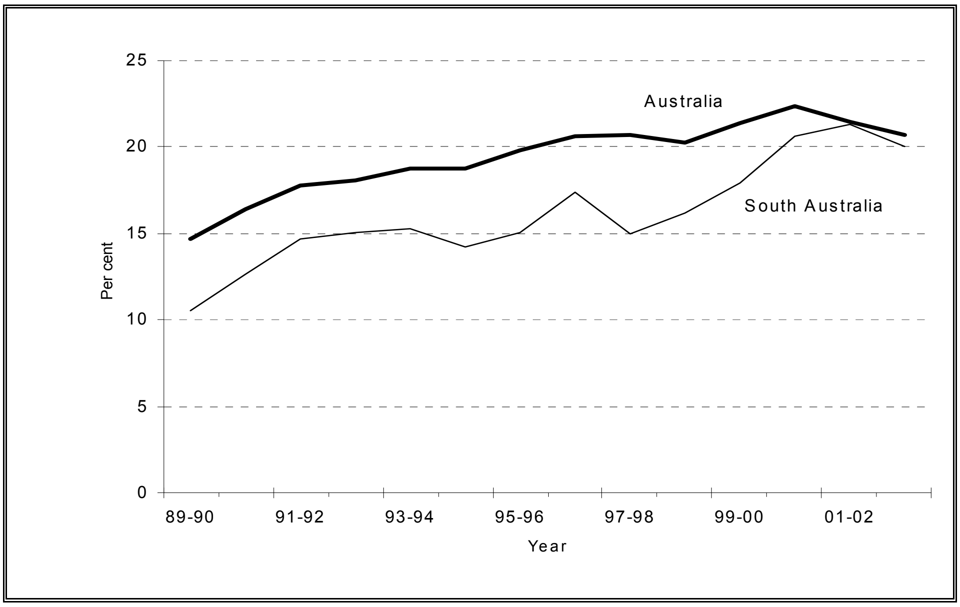
South Australia's exports as a share of GSP doubled between 1990 and 2002 ...

Figure 22 shows the level of importance of exports to the South Australian economy. South Australia's exports as a share of the state's GSP in 1990 was 10.6 percent and reached a peak of 21.3 per cent (about double the 1990 share) in 2002. Contributing to this improved performance were exports of wine and motor vehicles. In 1990 South Australia's exports as a share of GSP was well below the national level of just under 15 per cent but exceptionally strong growth between 1999 and 2002 raised the South Australian exports to GSP ratio to a level very close to the national exports to GDP ratio.

... with important implications for policy making at the State level.

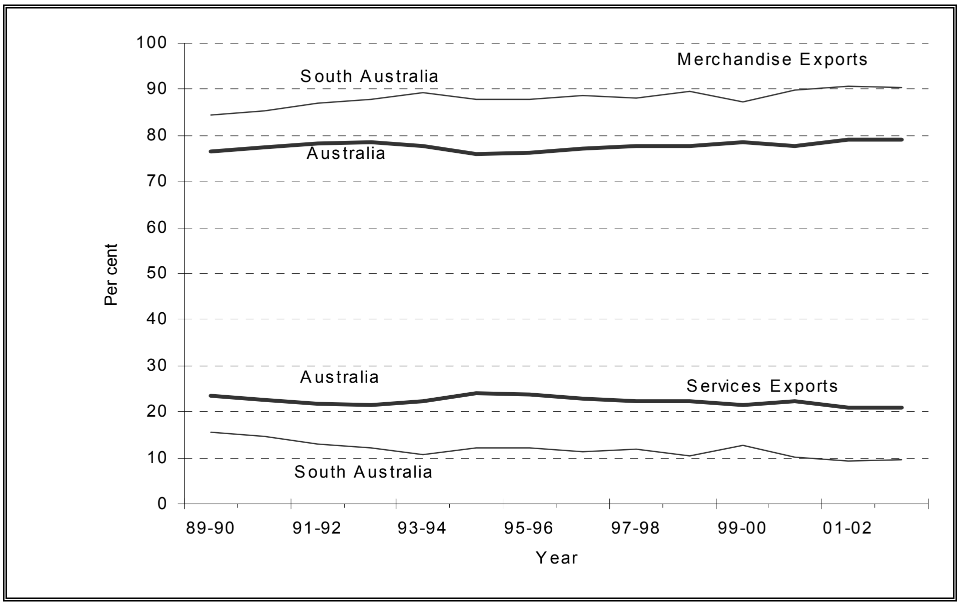
Exports have become increasingly important to the sustained growth of the South Australian economy. This has important implications for policy making at the State level. The Economic Development Board (EDB) in *A Framework for Economic Development in South Australia*, May 2003, stressed the need to maximise South Australia's export capability. The EDB enunciated several specific objectives, which involve expanding the range of products exported, improving market penetration and entering new markets (target markets include the USA, Europe, South East Asia, Middle East and China), reducing cost of freight services, etc. The flow on from expanding exports includes business growth, investment, employment growth and rising average living standards.

Figure 22
Exports as a Proportion of GSP and GDP
South Australia and Australia
1989-90 to 2002-3



Source: ABS, AusStats, Australian National Accounts: National Income, Expenditure and Product (5206.0).

Figure 23
Value of Merchandise and Services Exports as a Share of Total Exports
South Australia and Australia
1989-90 to 2002-03



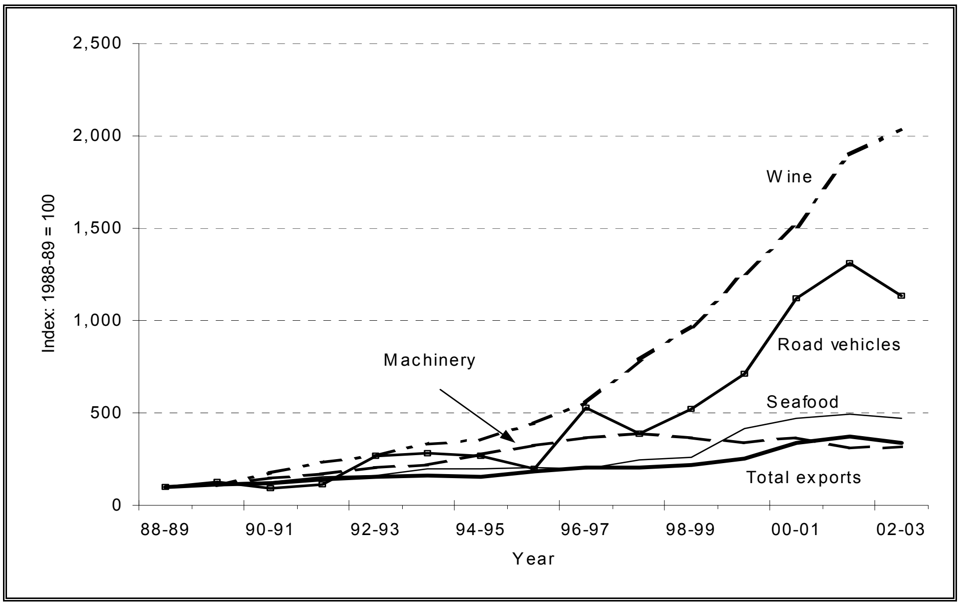
Source: ABS, AusStats, Australian National Accounts: National Income, Expenditure and Product (5206.0).

Merchandise goods accounted for about 90 per cent of exports from South Australia, much higher than its share of 78 per cent in total exports from Australia.

Figure 23 contrasts the share of merchandise and services exports for South Australia and Australia. For South Australia, exports of merchandise goods accounted for an annual average of 90.2 per cent of total exports, whereas the share of services exports was a relatively modest 9.8 per cent. For Australia, the share of merchandise exports was 78.5 per cent while services exports had an annual average share of 21.5 per cent (more than double the figure for South Australia).

This illustrates the importance of merchandise exports to South Australia's total exports and the impact that poor seasonal conditions and high tariffs on manufactured goods in other countries exert on the state's export performance.

Figure 24
Index of Selected Commodity Exports
South Australia: 1988-89 to 2002-03



Source: Compiled by SACES from ABS, South Australian Economic Indicators, (1307.4).

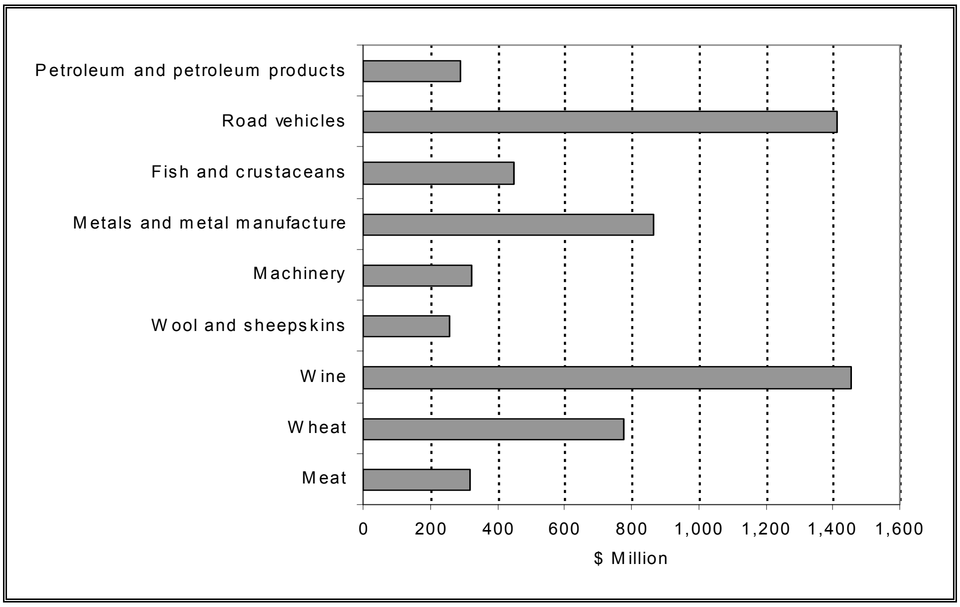
Wine and motor vehicles were the largest contributors to exports growth from South Australia.

Looking more closely at the components of merchandise exports, Figure 24 shows that those industries contributing most to export growth were wine and motor vehicles. Wine production is a significant industry in South Australia, accounting for 17.4 per cent of the state's total exports in 2002-03. From 1988-89 to 2002-03, the value of South Australia's wine exports grew from $71 million to $1.455 billion, an enormous increase of 1,950 per cent. Despite some fluctuations, exports of motor vehicles also grew very strongly over the same period.

Figure 25 illustrates the main commodity groups of South Australian exports for 2003, showing the value of exports in Australian dollar terms. Wine exports exceeded $1 billion for the third consecutive year in 2002-03 peaking at $1.455 billion. Exports of road vehicles also exceeded $1.4 billion in 2003.

This Middle East is a major export destination for South Australia. The downturn in South Australian exports in 2002-03 was due to slow international growth, unfavourable political conditions in some importing countries including the war with Iraq and general instability in the Middle East region and the appreciation of the $A.

Figure 25
Values of Selected South Australian Exports - 2003
($A million)



Source: ABS, AusStats, South Australian Economic Indicators (1307.4).

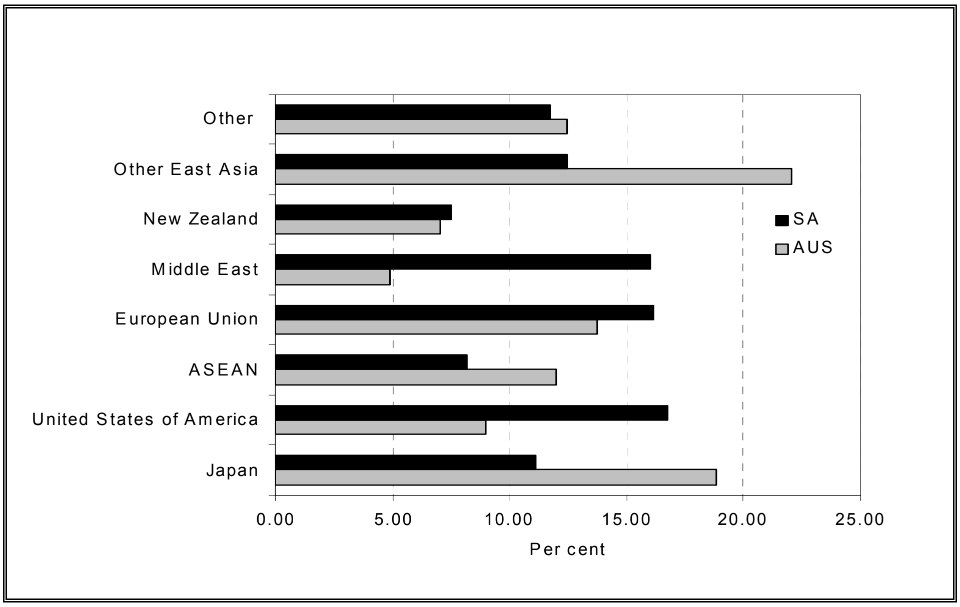
Figure 26 shows that the major export market destinations for South Australian and Australian goods differ. This difference in exports destination partly explains the variation in the export performance of South Australia and Australia. For example, South Australia and Australia will react to external shocks differently. South Australia's major markets in 2003 were the United States of America (USA) and the European Union (EU). Their shares of South Australia's exports were 16.8 per cent and 16.2 per cent respectively. The USA and the EU were the main recipients of South Australia's major exports of wine, road vehicles and high value added electronic manufactures. A high proportion (around 50 per cent) of South Australia's exports of motor vehicles and motor vehicles components went to the USA whereas the EU was apparently the largest market for South Australia's wine.

South Australia's major export markets are the USA and the EU ...

In contrast, the two largest markets for Australia as a whole were Japan (18.9 per cent) and other East Asia (22 per cent). In 2003, the major Asian economies' share of Australia's exports was 52.9 per cent, whereas only 31.8 per cent of South Australia's exports went to Asia. Differences in the compositions of Australia's and South Australia's exports are reflected in the differences in market destinations. Australia's exports mainly comprise products from the mining industries and agriculture whereas the bulk of South Australian exports are made up of manufactured and agricultural products that are relatively price-sensitive and subject to seasonal fluctuations. For example, South Australia's exports to Other East Asia as a share of South Australia's total exports (12.5 percent) differs significantly from that of Australia (22 percent), as shown in Figure 26. "Other East Asia" is composed of China, Hong Kong, Korea and Taiwan.

... whereas Australia's largest export markets are Japan and the other East Asian countries.

Figure 26
Major Export Markets
Share of Total Exports - 2003



Source: ABS, AusStats, International Trade in Goods and Services, Australia (5368.0).

Free trade agreements offer prospects for future export growth.

Free trade agreements with Australia's major trading partners offer some growth prospects in Asia and beyond. For example, in October 2003, the TAFTA (Thailand-Australia Free Trade Agreement) was announced. This free trade agreement will gradually remove all of Thailand's tariff and quota barriers. The TAFTA should prove profitable for exports of large passenger motor vehicles, automotive parts, electronic goods, wine, meat and dairy products. More recently, the AUSFTA[5] (Australian United States Free Trade Agreement) signed in February 2004 opens up market access and export opportunities into the US. AUSFTA eliminates tariffs in manufacturing and reforms parts of agriculture. Removal of tariffs in manufacturing is likely to benefit the automotive industry (especially the exports of light commercial vehicles or utes) as well as the auto parts industry. Reduced tariffs in agriculture will assist exporters of dairy products, meat (beef) and seafood (canned tuna).

To conclude, South Australia has achieved strong export growth over the period under study. Exports proved to be one of the main levers in boosting South Australian economic growth. Drawing on regional strengths such as wine and road vehicles and exporting into major markets like the USA and the EU is crucial to achieving and sustaining economic prosperity for South Australia. At the same time, appropriate policies that promote export of services will need to be put in place to diversify the export sector and export destinations. Prospects for increasing exports to Asia requires more analysis.

8. Labour Market

Demographic factors: Population growth and migration

There has been a long-term decline in South Australia's population share ...

Table 6 offers a long-term historical perspective of the decline of South Australia's population as a share of the national level. South Australia's population share declined from a peak of 12.3 per cent in 1881 to roughly 7.8 per cent in 2001. Within the long span of more than a hundred years of gradual decline, there was a period of around 20 years after World War II when South Australia's population share increased due to the influx of overseas migrants following which it resumed its declining trend. The recent decline in population share and the challenges this presents are not new!

Table 6
South Australia's Share of the National Population

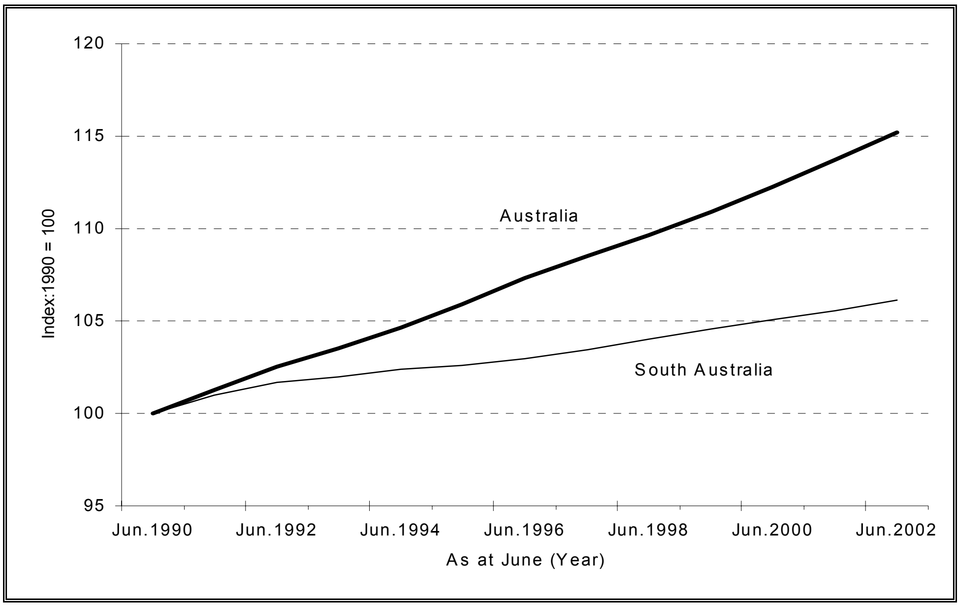
Year	South Australia Population ('000)	Australia Population ('000)	Population (SA)/ Population (Aust) (Per cent)
1881	276.4	2,250.2	12.3
1891	315.5	3,177.8	9.9
1901	358.3	3,773.8	9.5
1911	408.6	4,455.0	9.2
1921	495.2	5,435.7	9.1
1933	580.9	6,629.8	8.8
1947	646.1	7,579.4	8.5
1954	797.1	8,986.5	8.9
1961	969.3	10,508.2	9.2
1966	1,095.0	11,599.5	9.4
1971	1,200.1	13,067.3	9.2
1976	1,274.1	14,033.1	9.1
1981	1,318.8	14,923.3	8.8
1986	1,382.6	16,081.3	8.6
1991	1,446.3	17,284.0	8.4
1996	1,479.2	18,289.1	8.1
2001	1,511.7	19,413.2	7.8

Source: ABS, AusStats, Australian Historical Statistics (3105.0). Compiled by SACES.

In the most recent decade, South Australia's population grew relatively slowly. The State's population in 1991 was 1,446 million persons, increasing by only 4.5 per cent to 1,512 million persons by 2001 compared with an increase of 12.3 per cent for Australia. Population growth in Australia was faster with an annual average growth rate of 1.2 per cent compared with 0.5 per cent for South Australia over the same period. Subdued population growth in South Australia was the result of several factors including low fertility rates, outflow of interstate migrants and low intake of overseas immigrants. This divergent pattern of population growth for Australia and South Australia is summarised in Figure 27.

... due most recently to low fertility rates, outflow of interstate migrants and low intake of overseas migrants.

Figure 27
Index of Population Growth
1990 to 2003



Source: ABS, AusStats, Population trends and estimates: Population by Age and Sex, Australian States and Territories, (3201.0).

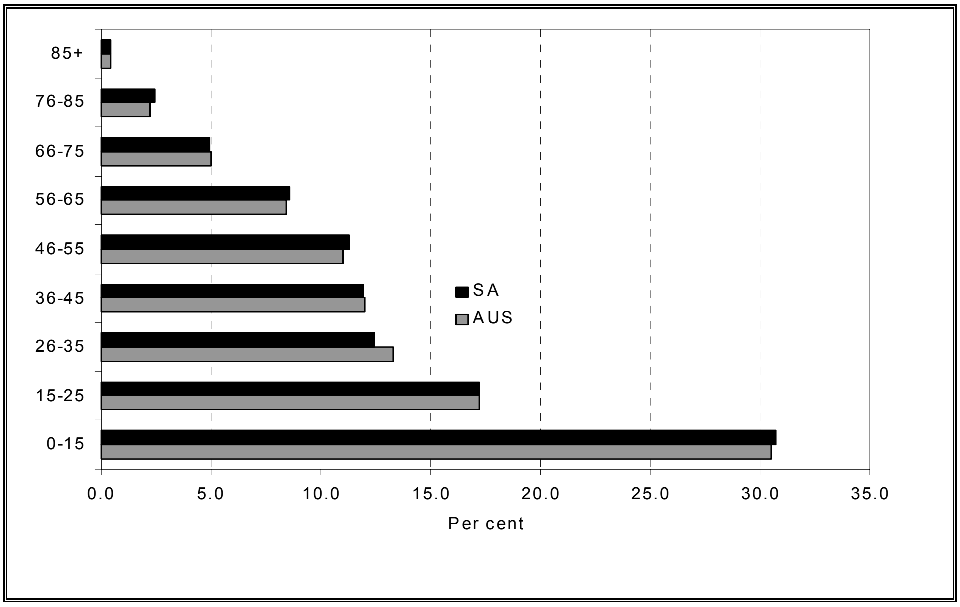
South Australia's population has aged ...

Coupled with a decline in South Australia's share of the national population and a lower internal growth rate is a further policy challenge shown in Figures 28 and 29, specifically the ageing of the population and the resultant shift in the age profile. In 1971, the majority of the population in South Australia fell into the two age groups of 0-15 years of age and 16-25 years of age. The ratios of each age group in the 1971 profiles were relatively the same for both South Australia and Australia. By 2002, the proportion of the 0-15 group was down by 10 per cent (for both South Australia and Australia). In addition, South Australia has a higher proportion of the population than Australia in all age groups above 45 years of age, while the percentage of South Australia's population in the two age groups 0-15 and 16-25 is now well below the national average.

... increasing the dependency ratio.

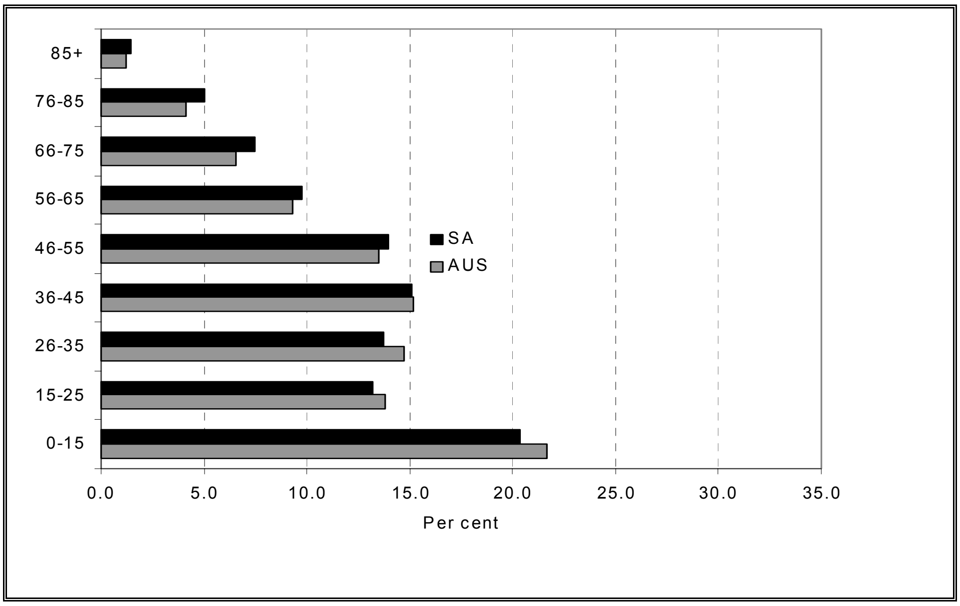
The dependency ratio is the ratio of the number of dependent persons (aged 0-14 years and 65 years and over) to the number of persons of working age (15-64 years). South Australia's total dependency ratio has stopped declining (1971 to 2004) and will now commence to rise out to 2041 and beyond as shown in Figure 30. The long run trend of a decline in fertility rates is revealed in the on-going fall in the youth dependency ratio, while the age dependency ratio is set to accelerate. By 2041, total dependency is projected to reach 48.5 per cent, which implies there will be only two people of working age for every one person in the dependent age group (children under 15 plus people over 65). The increase in the total dependency ratio is due to the increase in the aged dependency ratio; a direct outcome of an ageing population. An ageing population contains obvious challenges, along with many that are as yet unforeseen. Expenditure on health care services, accommodation and age pensions (even with significant structural reforms to superannuation) can be expected to put pressure on Commonwealth and State budgets.

Figure 28
Age Profile of the Population in 1971
South Australia and Australia



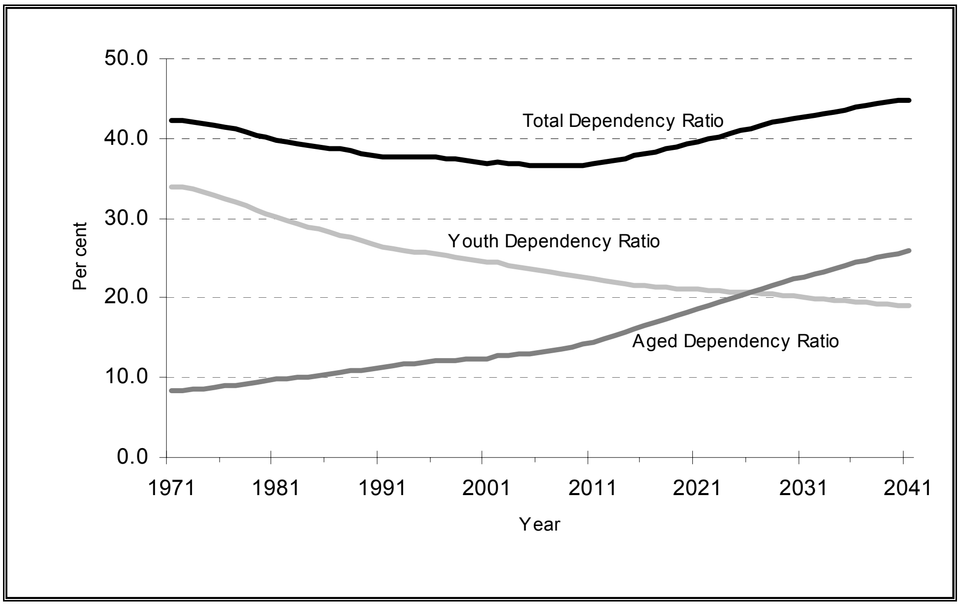
Source: ABS, AusStats, Population trends and estimates: Population by Age and Sex, Australian States and Territories, (3201.0).

Figure 29
Age Profile of the Population in 2002
South Australia and Australia



Source: ABS, AusStats, Population trends and estimates: Population by Age and Sex, Australian States and Territories, (3201.0).

Figure 30
Youth, Aged and Total Dependency Ratios
South Australia – Actual 1971 to 2002, Projected 2003 to 2041



Source: ABS, AusStats, Estimated Resident Population by Single Year of Age (3201.0), and Population Projections, Australia (3222.0).

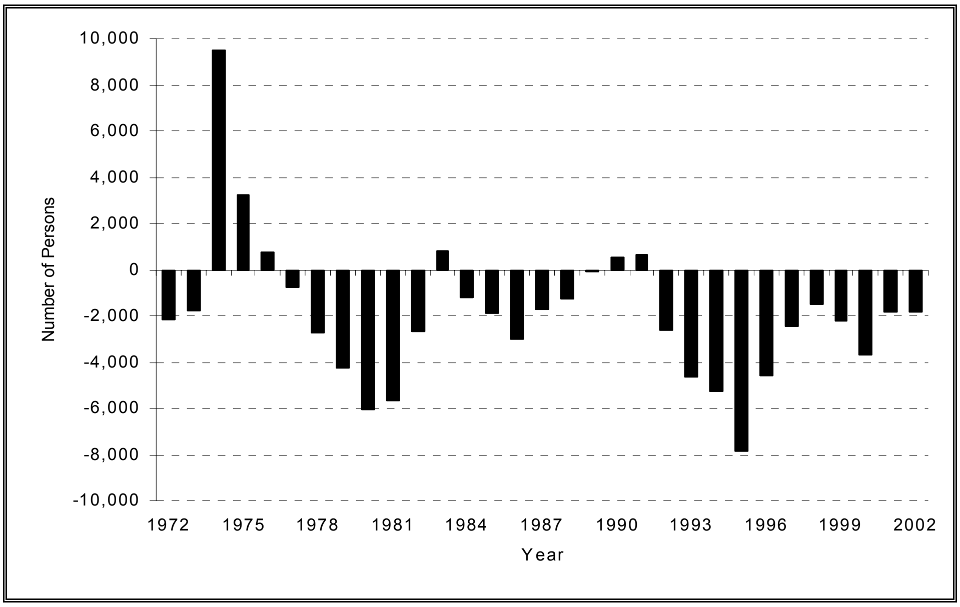
More people have left South Australia for other States than have arrived from other States ...

South Australia's net interstate migration has been consistently negative, indicating more people departing South Australia than those who are arriving from other States. As shown in Figure 31, there was an annual average outflow of 3,582 people from South Australia to other States during the 10 years to 2002, with large outflows from 1993 to 1996 following the collapse of the Sate Bank. Undeniably, the perception of many who left the State was that there were generally poorer economic conditions in South Australia, and better job opportunities elsewhere. Net interstate migration sharply increased following the recessions of 1980-81 and 1990-91.

... but people arriving from overseas have led to more arrivals than departures in total.

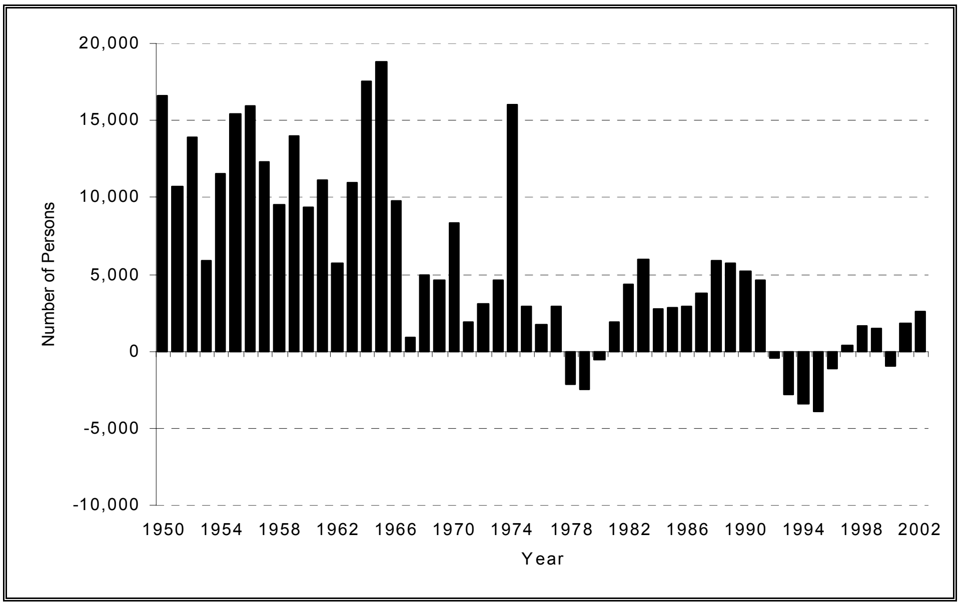
As shown in Figure 32, South Australia's net interstate and overseas migration has been largely positive (more arrivals than departures) throughout the post-World War II period up to the early 1990s. In 1993, the State Bank's collapse undermined South Australia's economy damaging employment prospects and business and consumer confidence so that there was a net outflow of persons from the State through the mid 1990s. However, more recent years have seen a positive inflow of people from overseas. What accounted for the recent reversals in net interstate and overseas migration? Higher levels of economic activity in South Australia which helped to attract people to work and live in South Australia and the higher intake of international students.

Figure 31
Net Interstate Migration
South Australia – 1972 to 2002 (year ended December)



Source: ABS, AusStats, Australian Historical Population Statistics: Migration (3105.0).

Figure 32
Net Interstate and Overseas Migration
South Australia – 1950 to 2002 (year ended December)



Source: ABS, AusStats, Australian Historical Population Statistics: Migration, (3105.0).

Nevertheless, net overseas migration has also declined.

Net overseas migration to South Australia has declined substantially over the years as well. Table 7 shows that South Australia's net migration gain as a percentage of the Australian total declined from roughly 4.5 per cent in the early 1990s to 2.7 per cent in 2001-02. Contrast this with the 38 per cent share for New South Wales which received the largest share of net overseas migration. Endorsing immigration policies that raise the intake of overseas immigrants can be helpful in dealing with the issue of an ageing population as migrants are younger on average than the Australian population.

Table 7
Net Overseas Immigration

Year (ending Dec 31)	South Australia	Australia	South Australia Per cent of Australian Net Migration Gain
1972-75	21,437	259,835	8.3
1976-80	9,428	272,929	3.5
1981-85	29,890	443,393	6.7
1986-90	29,663	657,513	4.5
1991-95	13,939	311,728	4.5
1996-00	16,430	474,136	3.5
2001-02p	7,246	269,357	2.7

Source: ABS, AusStats, Australian Historical Population Statistics: Migration (3105.0).

Slow population growth and an ageing population have negative economic impacts.

Slow population growth and low population gains from migration (both overseas and interstate) were the main features of South Australia's demographic profile between 1990 and 2002. Low population growth can have very negative impacts on the state's economy, including *inter alia*, lower investment, lower consumer demand, a more subdued construction sector, slower employment growth and decreased tax revenues. An older population puts more pressure on the government to provide a greater amount of health care and other public services. Measures will need to be taken to reverse the current trends to help sustain a young, highly skilled, and flexible workforce to support economic growth in South Australia. In the immediate term, attracting more overseas migrants and students from the current intake into South Australia offers the best prospect of population growth.

To reverse the current trends, the Economic Development Board has recommended that South Australia increase its intake of overseas migrants.

The Economic Development Board (EDB) suggested in *A Framework for Economic Development in South Australia* that South Australia could increase population growth by means of raising its intake of overseas migrants. The EDB recommended that the Commonwealth government set the migration programme between 110,00 and 150,00 migrants (mainly independent skilled and business migrants) per annum. If we were able to achieve the 1973 level of immigrants to South Australia, this would equate to 8,800-12,000 persons. However, South Australia should be far more aggressive in policy terms in its endeavours to attract a greater share of the current intake.

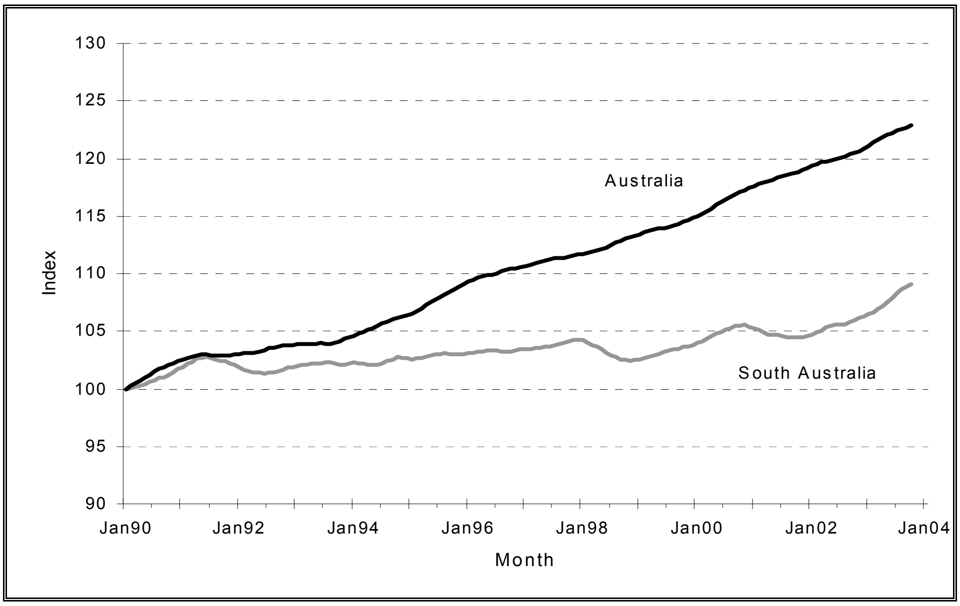
Employment and unemployment

Growth in South Australia's labour force was weak compared with growth in the labour force across Australia ...

Consistent with other indicators, South Australia's labour force grew by 5.6 per cent compared with 15.9 per cent growth in the labour force across Australia (see Figure 33). Muted labour force growth in South Australia was the result of slower population growth and weaker economic conditions which led people to withdraw from the labour force (discouraged worker effect) or to migrate to other States with more employment opportunities. Nevertheless, rapid labour force growth in

South Australia during 2003 suggests a brighter outlook for the labour market in the near-term.

Figure 33
Index of Labour Force Growth
South Australia and Australia – January 1990 to October 2003
(Seasonally Adjusted Series, Moving Annual Average)
Index: January 1990 = 100



Source: ABS, AusStats, Labour Force – Australia, (6202.0).

... as was employment growth ...

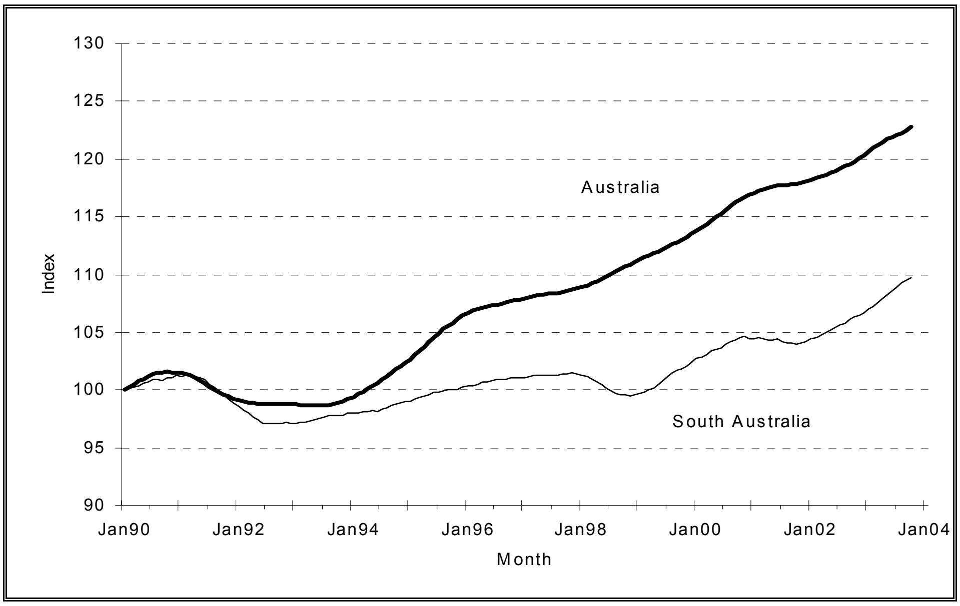
Mirroring trends in the labour force, employment growth in South Australia was moderate from 1990 to 2003. Compared with 1989-90 levels, employment in Australia and South Australia rose by 22 per cent and 9 per cent respectively to 2002-03 (Figure 34).

... which was dominated by rising part-time employment

Growth in part-time employment accounted for most of the growth in total employment from 1990 to 2003. As shown in Figure 35, South Australia's part-time employment in 2002-03 was 41 per cent above the level in 1990, compared to a decline of 1 per cent in full-time employment over the same period. This shift in the composition of employment can be explained (partly, at least) in terms of structural change in the economy away from manufacturing industries that provide mostly full time employment job opportunities towards service industries where there are more opportunities for part-time and casual employment. This pattern also reflects the changes in participation rates by gender.

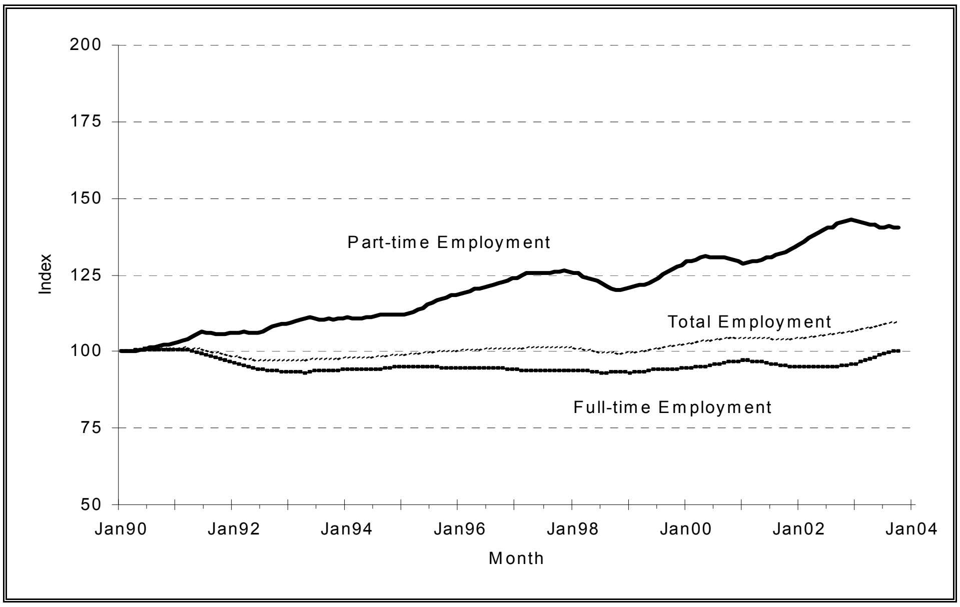
The demand for part-time employment tended to centre around a small number of industry sectors. In November 2003, 51.8 per cent of part-time workers were in the three services industries: retail trade (22.8 per cent), health and community services (17.7 per cent) and property and business services (11.3 per cent).

Figure 34
Index of Total Employment
South Australia and Australia – January 1990 to October 2003
(Seasonally Adjusted Series, Moving Annual Averages)
Index: January 1990 = 100



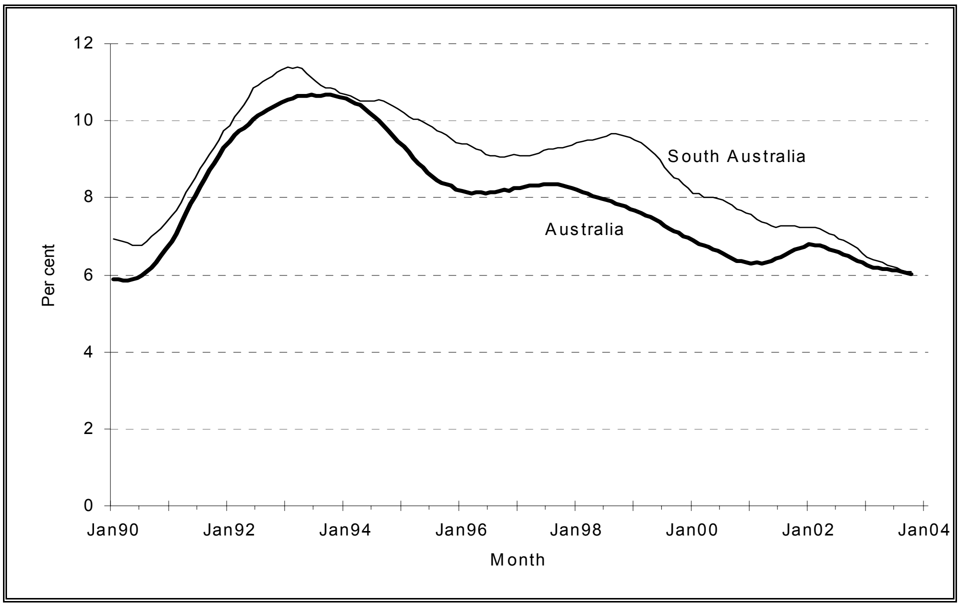
Source: ABS, AusStats, Labour Force – Australia, (6202.0).

Figure 35
Index of Full-time, Part-time and Total Employment
South Australia – January 1990 to October 2003
(Seasonally Adjusted Series, Moving Annual Averages)
Index: January 1990 = 100



Source: ABS, AusStats, Labour Force – Australia, (6202.0).

Figure 36
Unemployment Rates
Australia and South Australia – January 1990 to October 2003
(Original Series, Moving Annual Average)



Source: ABS, AusStats, Labour Force – Australia, (6202.0).

The unemployment rate has declined since 1993.

As shown in Figure 36, South Australia's unemployment rate rose sharply in the early 1990s as a result of the recession and remained high following the State Bank collapse. Unemployment started to decline gradually from a peak of 11.4 per cent in March 1993 to 6.1 per cent by October 2003. Though consistently higher than the Australian unemployment rate for most of the period, South Australia's unemployment rate declined to approximate the national level in late 2003.

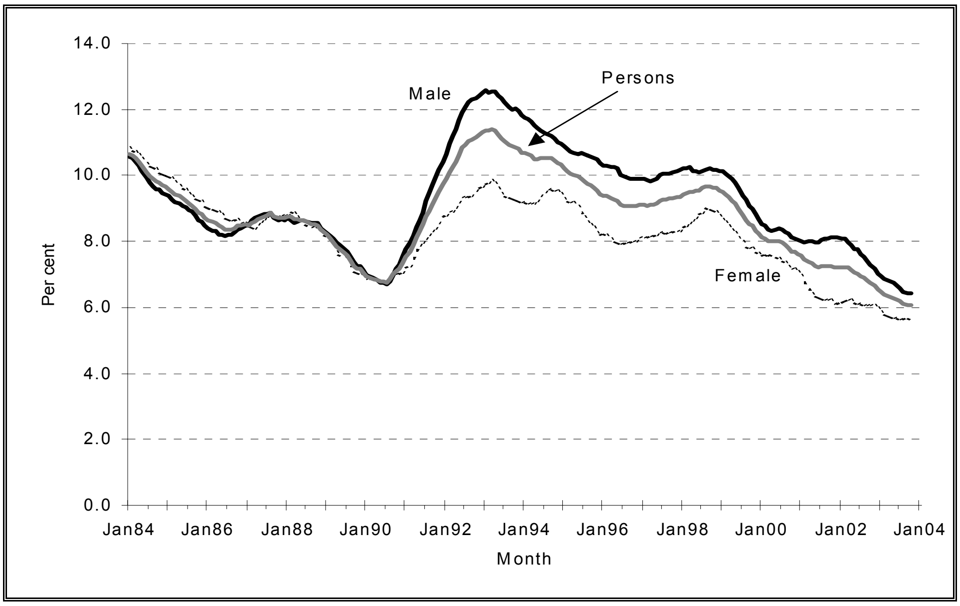
Male unemployment is persistently higher than female unemployment.

Male unemployment in South Australia was persistently higher than female unemployment as illustrated in Figure 37. A greater proportion of male workers were in declining industries, e.g., manufacturing, where employment growth largely stalled, and many became discouraged job seekers, left the State or became hidden unemployed by accessing disability pensions. In contrast, many female workers prefer to work in the faster growing services industries where the opportunities for part-time employment are greater.

Labour force participation in South Australia has trended down reflecting slow population growth and the differences in industry structure between the State and national economies.

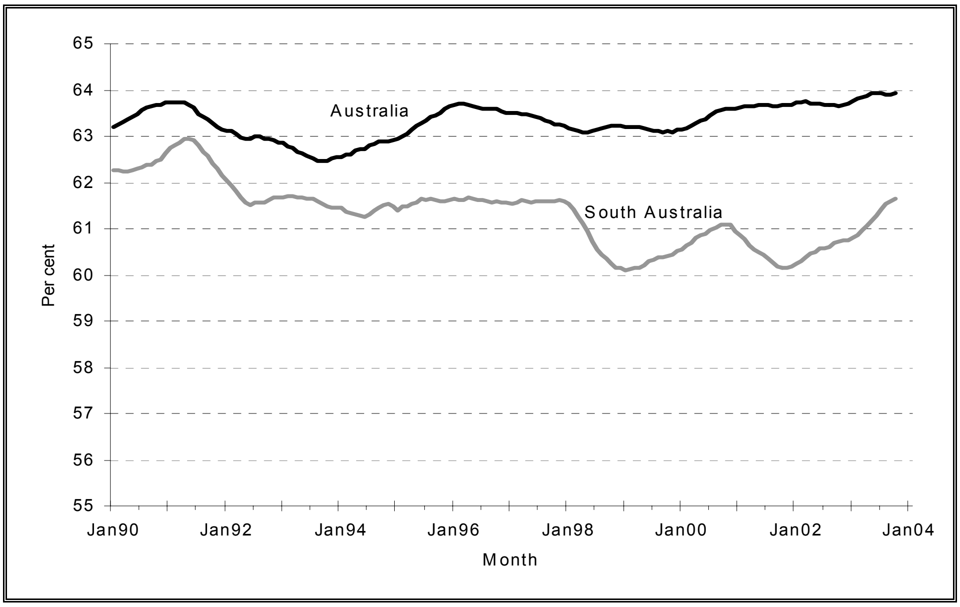
Despite declining unemployment rates, participation in the labour force in South Australia has trended down although there have been positive signs of a substantial pick-up in participation since 2002 (see Figure 38). Nevertheless, the participation rate remains well below the peak of 63 per cent achieved in January 1991. Over the longer-term, the female participation rate increased from 44 per cent in June 1983 to 53.6 per cent in June 2003. The male participation rate fell from 75.9 per cent to 69.3 per cent over the same period. Changes in participation over the long-term tend to reflect changes in social mores and changes in industry structure and their impact on male and female employment and unemployment. Short-term changes in participation tend to be influenced by economic growth. However, economic growth itself is influenced by, *inter alia*, relative factor endowments and their impact on industry structure and population movements. For these reasons, as described earlier, the State has grown more slowly than the national economy which at least partly explains the divergence between the labour force participation rates for South Australia and Australia illustrated in Figure 38.

Figure 37
Unemployment Rate by Gender
South Australia – January 1990 to October 2003
(Original Series, Moving Annual Average)



Source: ABS, AusStats, Labour Force – Australia, (6202.0)

Figure 38
Participation in the Labour Force
January 1990 to October 2003 (Original Series, Moving Annual Average)



Source: ABS, AusStats, Labour Force – Australia, (6202.0).

Economic and population policies in conjunction are required to improve the economic outlook for South Australia and hence labour market outcomes.

South Australia is now faced with the challenges of an ageing population with its consequences on the labour force and employment. Slow population growth has always been both a cause and effect of a poorly performing economy. Strong and sustainable economic growth can stimulate population growth and vice versa. Hence, economic and population policies used hand in hand should improve the economic outlook for South Australia and lead to more positive outcomes for the State's labour market.

End Notes

1. The Centre examines employment changes in manufacturing in the period 1990-2002 in South Australia in the forthcoming Issues Paper: “Manufacturing in South Australia: 1990-2002”.
2. See Economic Development Board (2003), “A Framework for Economic Development in South Australia: Our Future, Our Decision”, May, p. 40.
3. Other selected industries include all services industries except for government administration and defence, education, and health and community services.
4. See Government of South Australia (2003), “Economic Development Update”, Issue No. 1, November.
5. At the time of writing, the full details of the AUSFTA had not been released by DFAT. Export opportunities will be dependent on the detail in the agreement relating to timing of access, reciprocal rights, rules of origin, commencement dates etc. “The devil is in the detail”.