Tasmanian Chamber of Commerce and Industry

Common Challenges for Regional Economies

8th April 2011

Presentation to Australian Innovation Research Seminar Series

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TCCI Chief Executive Officer
Facts about TCCI

➢ TCCI is a non-profit, non government organisation that is funded **by** members **for** members.

➢ Building on this history today's TCCI is the state’s peak employer body and the recognised voice of the Tasmanian business community.

➢ Size isn’t important. TCCI members range from one employee to hundreds of employees.

➢ TCCI is a state based organisation, geographic location does not diminish the value of your membership.

➢ Given our diversity in membership, our interest in energy policy is its contribution to overall economic **competitiveness** and **liveability**.

➢ We promote transparency and open debate
Today’s Plan

▶ The Wider Economic Environment
▶ Challenges for Regional Economies
   ▶ Infrastructure
   ▶ Finance
   ▶ Labour
Global Economy Growing Again

But US employment @ 9.6% in Feb '11, curbing recovery speed


Source: IMF, ABS

Export Destinations - Forecast GDP Growth, 2011

Top Merchandise Export Destinations (% share of total exports)

China (25%)  Japan (19%)  ASEAN (9%)  Korea (9%)  EU (8%)  India (7%)  USA (4%)
Australian Economy

Moderate recovery expected

Australian Economic Growth
(1961 - 2014)

Source: ABS, Westpac, Australian Treasury

Actual Growth
Forecasts
Average = 3.6%

Invigorating Business
National recovery contrasts with Tasmanian anaemia

Australian & Tasmanian Economic Growth (1991 - 2010)

Source: ABS National & State Accounts
Expected Economic Performance

Index Score of 50.5 in December = Not much change for 2011

Survey of Business Expectations

Trend
Seasonally Adjusted

Source: ACCI
Private Investment by State

Gradual recovery in last three quarters for Tasmania

Private Investment, Real Growth Index
June 2008 - December 2010

Source: ABS
Regional Differences

Regions depended on agriculture, construction, retail, tourism...

Past Regional Advantages
Difference in share of business: Regions v National

Agriculture, Forestry and Fishing
Construction
Retail Trade
Accommodation and Food Services
Other Services
Arts and Recreation Services
Electricity, Gas, Water and Waste Services
Mining
Public Administration and Safety
Education and Training
Manufacturing
Information Media and Telecommunications
Administrative and Support Services
Health Care and Social Assistance
Rental, Hiring and Real Estate Services
Transport, Postal and Warehousing
Wholesale Trade
Financial and Insurance Services
Professional, Scientific and Technical Services

Source: ABS 2009. Regions = Statistical Divisions of Illawarra, South Eastern, Sunshine Coast, West Moreton, Northern, Far North, Great Hobart, Southern, Northern, Mersey-Lyell, Darwin, Northern Territory other
An Economy Shifting to Services

Tasmanian Industry Structure
(Real Value Added 1999 - 2000)

Source: ABS 5520.0
Shifting Tasmanian Industry

Tasmanian 'Market' Industry Structure
(Bubble size = employment)

Value added 2009-10 ($m)

Growth in real value added (2000-2010)

Source: ABS 5220.0 & 6291.0.55.003
Investment is the Key

Tasmanian Economy - Sector Growth

- Household consumption
- Business investment
- Government
- Exports

Public & Business Investment

- Business Investment
- Public Investment

Tasmanian Economy - Sector Growth

- Household consumption
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- Household consumption
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Public & Business Investment

- Business Investment
- Public Investment

Invigorating Business

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Tasmanian Households Scrimp

Tasmanian Retail Trade Turnover

Source: ABS 8501.0

Dwelling Approvals - Tasmania
(Aug 2007 - Jan 2011)

Source: ABS 8731.0
Business Confidence Drops

An index score above 50 represents growth and below 50 signals a contraction.

Business expectations are for a flat National economy, and a contraction in Tasmanian economy over the next 12 months.

The National and Tasmanian indexes both weakened during the December quarter.

National Index: from 51.1 to 49.5 index points, Tasmanian Index: from 39.9 to 36.7 index points.
Investment in Equipment Weakening

> Investment in buildings index was unchanged at 45.3 and investment in plant & equipment fell, from 45.5 to 42.4 index points during the December quarter.

> Expectations are for further falls in investment in buildings and plant & equipment during the March quarter.
State Budget is Critical
Deficits drag down confidence

Tasmanian Business Confidence

Source: Tas Budget Papers & TCCI Tasmanian Survey of Business Expectations
Spending Does Not Boost Confidence

*It can actually harm it!*

Source: Tas Budget Papers & TCCI Tasmanian Survey of Business Expectations
Challenge facing SMEs

- High Australian dollar
- Electricity costs + carbon tax
- Water and sewerage costs
- Wages
- Accessing finance & cost of finance
Finance in Regional Australia
Interest Rates Globally

High interest rate hurts investment and drive up Australian dollar

Interest Rates - Cash

- Sep 2008: Lehman Bros bankruptcy

Source: FXStreet
Cost of Finance High & Rising

Bank margins, not official rates, key driver

Cash Rate and Average Bank Loan Spreads
(1992 - 2011)

Rate

Jan-92 Jan-94 Jan-96 Jan-98 Jan-00 Jan-02 Jan-04 Jan-06 Jan-08 Jan-10 Jan-12

Small Business Overdraft (Spread)
Small Business Overdraft Rate
RBA Target Rate
Forecast (ASX interbank cash rate futures, 11 Mar11)

Source: RBA, ASX
Higher cost of funds for lenders

Regional banks have less access to foreign money, so rely on more expensive sources of funds

Funding Composition of Regional Australian Banks

Source: RBA
Infrastructure in Regional Australia
Export markets are shifting and presenting new opportunities

Source: IMF – The World Economic Outlook
Geographic location

But regions are often separated from main freight channels

Relative Electricity Prices (Business)

No longer comparative advantage in Electricity
Relative natural gas prices

*Disadvantaged in gas too...*
Energy consumption by industry

![Energy Consumption Graph](graph.png)

- Manufacturing
- Transport
- Residential
- Electricity Generation
- Mining
- Commercial
- Agriculture

Energy Consumption
By industry, Tasmania

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# Infrastructure Report Card

<table>
<thead>
<tr>
<th>Transport Infrastructure</th>
<th>Score</th>
<th>Comment</th>
<th>Source: Engineers Australia (2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airports</td>
<td>B-</td>
<td>Adequate for current &amp; future use.</td>
<td></td>
</tr>
<tr>
<td>Ports</td>
<td>B-</td>
<td>Currently adequate but better rail/road integration needed.</td>
<td></td>
</tr>
<tr>
<td>National roads</td>
<td>C+</td>
<td>Deteriorated due to higher freight use.</td>
<td></td>
</tr>
<tr>
<td>State Roads</td>
<td>C</td>
<td>Some backlog of work has been addressed.</td>
<td></td>
</tr>
<tr>
<td>Local Roads</td>
<td>D</td>
<td>Failure common due to reactive maintenance practices.</td>
<td></td>
</tr>
<tr>
<td>Rail</td>
<td>F</td>
<td>Inadequate for current and future use.</td>
<td></td>
</tr>
<tr>
<td>Other infrastructure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Potable Water</td>
<td>B-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irrigation</td>
<td>B-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity</td>
<td>B-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telecommunications</td>
<td>C+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gas</td>
<td>C</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wastewater</td>
<td>C</td>
<td></td>
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</tr>
<tr>
<td>Stormwater</td>
<td>C-</td>
<td></td>
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</tbody>
</table>
Infrastructure

*Energy catching up with demographics geography*

Infrastructure Construction by Type

Source: BITRE, Infrastructure Yearbook

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Infrastructure Owners

Private sector leading (PPPs, user pays etc). But for how long?

Infrastructure Construction by Project Owner

Source: BITRE, Infrastructure Yearbook
Energy R&D expenditure

Investor certainty also an issue

- Yellow: Higher education
- Red: State/territory government
- Orange: Australian Government
- Blue: Business

$m

Growth Not in Infrastructure

Public sector wage bill is a concern

State & Local Government Spending:
Tasmania
(per quarter)

General Government Employee Expenses

Source: Tas Budget Papers & ABS
Source: ABS National Accounts

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Labour in Regional Australia
Strong Labour Markets Are Welcome

But putting pressure on wages costs

Unemployment Rates by State
(Feb 78 - Feb 11)

Source: ABS
Large Variances Among Regions

Australia – Unemployment Rate

Distribution across regions*

* Blue area represents 80 per cent of the interpolated population-weighted distribution; grey lines represent the range; black line is the national unemployment rate. Ranges are three-month moving averages of non-seasonally adjusted data.

Sources: ABS; RBA
Investing in Skills

Skills  ➔  Innovation & Competitiveness  ➔  Well-being

Economic value

> One extra year of education for the working age population delivers 3% to 6% increase in our Gross State Product

Social value

> Education delivers private benefits to the individual and shared benefits for the community improved social cohesion and inclusiveness
The value of education

Value to the individual

Compared to a person with year 11 education or less:

- A man with a year 12 education earns around 13 percent more, and a woman around 10 percent more
- A university education adds around 40 percent to men’s and women’s earnings.

Source: Productivity Commission (2010), *The Effect of Education & Health on Productivity & Wages*
Education retention a major issue

Apparent Retention Rates to Year 12

Source: ABS 4221.0
How Will We Employ Them?

86 per cent of all occupations require a post-school qualification.

Proportion of persons with a qualification at Certificate III level or above aged 15-64 - 2009

%  
35.0%  
40.0%  
45.0%  
50.0%  
55.0%  
60.0%  

NSW  
VIC  
QLD  
SA  
WA  
Tas  
NT  
ACT  

National
Need to boost private sector workforce and skills

Private Sector Workforce
(% of total population)

Western Australia | Queensland | Victoria | New South Wales | South Australia | Northern Territory | Tasmania | Australian Capital Territory
34% | 44% | 46% | 42% | 40% | 38% | 32% | 30%

Source: ABS Labour Force 6202.0
On the demand side, population growth helps expand local markets...

Annual Population Growth
(1972-2009)

Population Growth (%)

Source: ABS
Innovate or perish .....
Most profitable strategies are built on differentiation: offering customers something they value that competitors don’t have. But most companies, in seeking to differentiate themselves, focus their energy only on their products or services. In fact, a company has the opportunity to differentiate itself at every point where it comes in contact with its customers – from the moment customers realize that they need a product or service to the time when they no longer want it and decide to dispose of it. We believe that if companies open up their creative thinking to their customers’ entire experience with a product or service – what we call the consumption chain – they can uncover opportunities to position their offerings in ways that they, and their competitors, would never have thought possible.

How To Promote Regional Growth?

*By investing in the right things and applying innovation*

- Put as many minds to the task as possible
- That is, use markets for economic planning
- Flexibility – land use, labour, capital
- Investment (not consumption) orientation
- Public goods – great infrastructure & education

- Infrastructure (energy, water & sewerage, roads) – rational pricing, not cost shifting. Continual drive for efficiency and innovation.
Tasmanian Advantages

Cheap Housing, low congestion, great lifestyles

Thank you