ECONOMICS FACTSHEET

South Australia economic performance in 2015-16

The South Australian economy has faced significant challenges in recent years, with the demise of the local automotive assembly industry putting pressure on the broader manufacturing sector (which is still the second largest industry in the state), and with South Australia's slowly growing and aging population. Defence, agribusiness and related advanced manufacturing are likely to be sources of workforce and activity development in the state over the coming decades, as the state strives to tap into Asian export markets, changing tastes and rising wealth. Other positives include the lower Australian dollar and low interest rates which are supporting consumption in the State.

SA's **Gross State Product** grew by 1.9% in 2015-16, down slightly from 2.0% in 2014-15 (table 1) and below the State's average annual growth rate of 2.1% over the past 10 years (chart 1). South Australian GSP has generally been slower than national average GDP growth of 2.8% during this period.

All states had positive growth in **GSP per capita** in 2015-16, with GSP growth rates exceeding their state population growth rates for the year. Compared to other states, SA grew at about the middle of the national range. NSW was the leading state, with GSP per capita growing by 2.0% in 2015-16. This was followed by Victoria (1.4%) and South Australia (1.2%). The weakest GSP per capita growth was in Tasmania (0.9%), Queensland (0.7%) and Western Australia (0.7%).

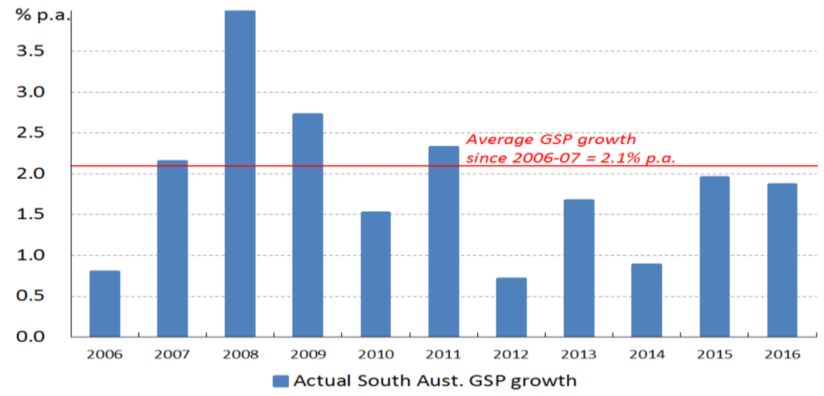
Looking at the composition of growth across the states, **State Final Demand (SFD)** - which measures total spending by households, business and governments but excludes exports and imports -recorded the strongest real growth in 2015-16 in NSW (+3.9%) and Victoria (+3.8%), followed by Tasmania (+2.2%) and South Australia (+1.1%). Western Australia and Queensland recorded negative SFD growth in 2015-16 (-4.0% and -1.3% respectively), driven in each state by falls in private investment and reduced resource-related engineering construction.

Consumer spending in South Australia grew steadily in 2015-16 at a rate of 2.6%, unchanged from growth in 2014-15. This was, however, above its long-run average of 2.2%. Population growth, which was at 0.6% p.a. in the year to Q1 2016 (the lowest in 11 years), is providing only weak support to consumer spending. Net interstate migration is negative (that is, more people leaving than arriving), while net overseas migration to SA remains well below the peaks of early 2008.

Table 1: Real GSP growth and state rankings – 2014-15 and 2015-16

	2014-15		2015-16		
	% p.a (real)	Ranking	% p.a (real)	Ranking	Share of GDP (%)
NSW	2.6	2	3.5	1	*32.5*
Victoria	2.6	2	3.3	2	*22.6*
Queensland	1.2	6	2.0	3	*19.1*
South Australia	2.0	4	1.9	4	*6.1*
Western Australia	3.6	1	1.9	4	*14.5*
Tasmania	1.3	5	1.3	6	*1.6*
Australia	**2.4**	**-**	**2.8**	**-**	*100*

Chart 1: Real GSP growth, South Australia



Government spending in South Australia increased by 2.7% in 2015-16, slightly slower than 3.1% growth in 2014-15.

New dwelling investment increased by just 1.7% in 2015-16, following a 7.3% lift in 2014-15. This reflects a combination of slower population growth, soft growth in house prices and possibly a looming surplus of dwellings. Construction forecasters BIS Shrapnel have estimated that by 2017, SA will have a state-wide surplus of almost 6,000 dwellings.

Private business investment declined by 9.3% in 2015-16 after a modest recovery of 3.8% in 2014-15. Reflecting the state's shrinking industrial base, plant and equipment investment fell by 10.0%, while new engineering construction investment was broadly flat (down 0.6%) and non-dwelling construction investment fell by 10.1%, its largest fall in six years.

Government investment recovered by 3.0% in 2015-16 following a 13.3% decline in 2014-15. This modest reversal provided some support to the economy amid a lack of private-sector activity. Growth in 2015-16 was due in part to spending on the new Royal Adelaide Hospital and new transport infrastructure projects, including the North-South Corridor project.

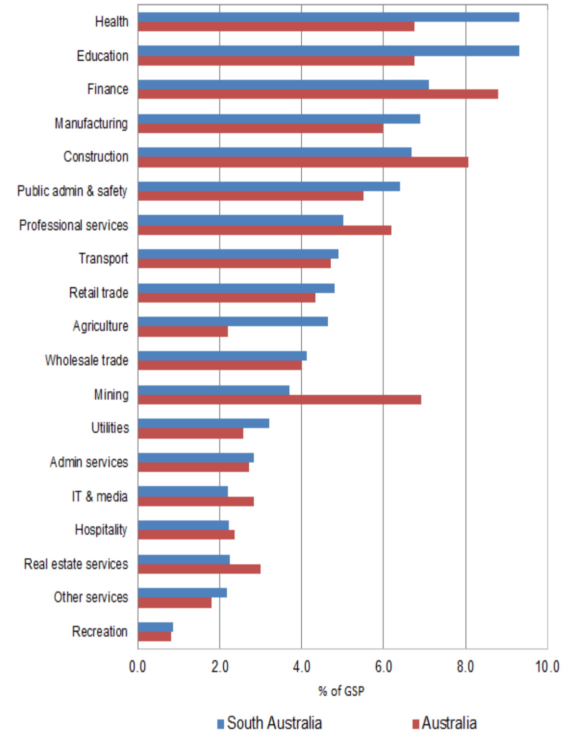
South Australian **exports** of goods and services increased by a solid 11.3% in 2015-16, following a 4.3% decline in 2014-15. The lower Australian dollar lifted the overseas competiveness of manufacturing, agriculture, international education and other export-oriented sectors.

Looking at the composition and growth of **industrial production in South Australia**, 2015-16 highlights SA's relatively larger reliance on agriculture (4.6% of GSP in 2015-16) and manufacturing (6.9% of GSP in 2015-16) than in other states. This means South Australia is more exposed to the pressures besetting manufacturing industry generally, than is the case for larger states. South Australia's largest sectors are healthcare and education (both around 9% of GSP) reflecting the state's aging population but also its relatively high education participation rates.

Compared to other states in 2015-16, South Australia saw the **strongest industry growth in** public administration and safety (contributing 0.4% points to GSP growth in 2015-16), followed by construction (+0.3% points contribution). Across other states, mining was the major driver of Western Australia's economy (+1.9% points contribution) and Queensland (+0.6% points contribution). In contrast, NSW and Victoria's largest growth drivers were financial and insurance services and construction, with both contributing +0.6% points. Tasmania's growth came mainly from construction and retail trade (both contributing +0.3% pts).

Data source: ABS Australian National Accounts: State Accounts, 2015-16
Note: all percentage changes are expressed in real (inflation adjusted) terms

Chart 2: South Australia industry output, share of value added



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