



# POLICY INFLUENCE REFORM

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**Annual PIR Conference**

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# Australian economy and labour market

- Current drivers of economic growth in Australia
- Current labour market trends:
  - Employment growth: where, who and why?
  - Part-time work: record high
  - Unemployment, underemployment and underutilization
  - Inflation, wages and labour costs
- Outlook and forecasts

# Current trends and drivers of growth



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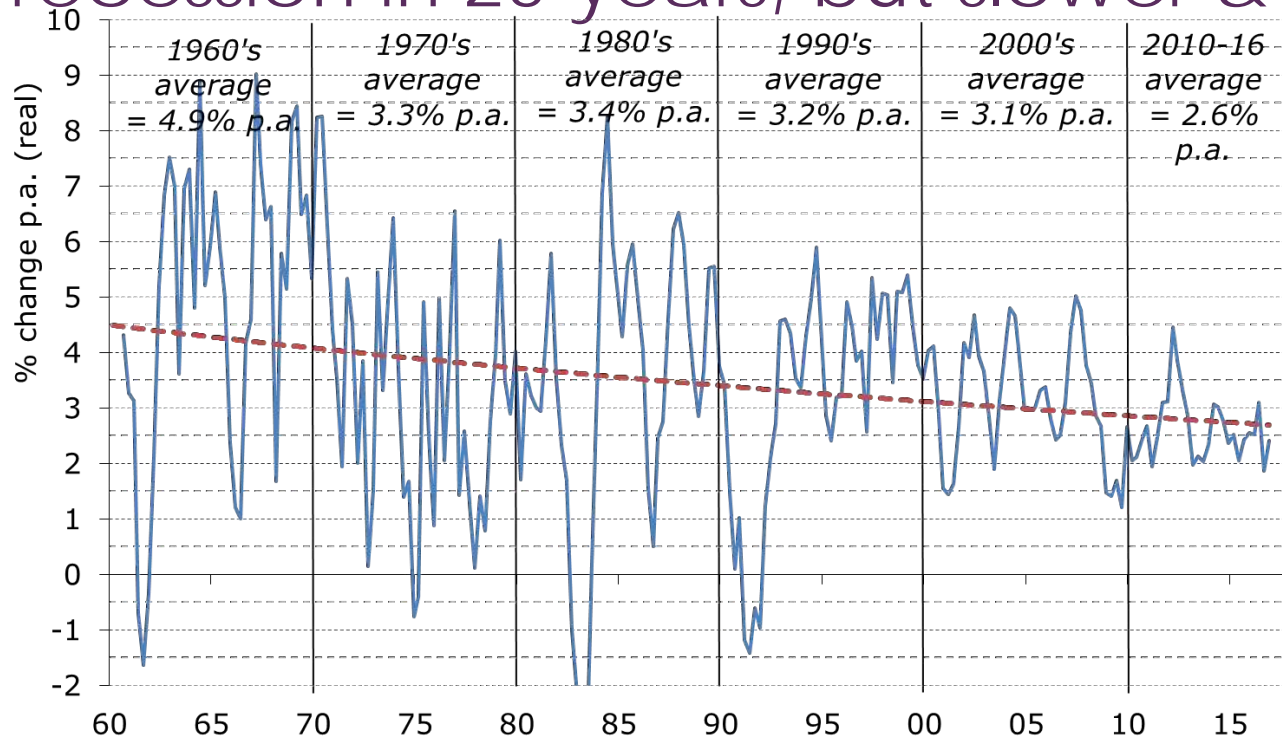
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# Latest GDP growth rate = 2.4% p.a. in Q4 2016.

## No recession in 25 years, but slower & fragile.



Source: ABS National Accounts



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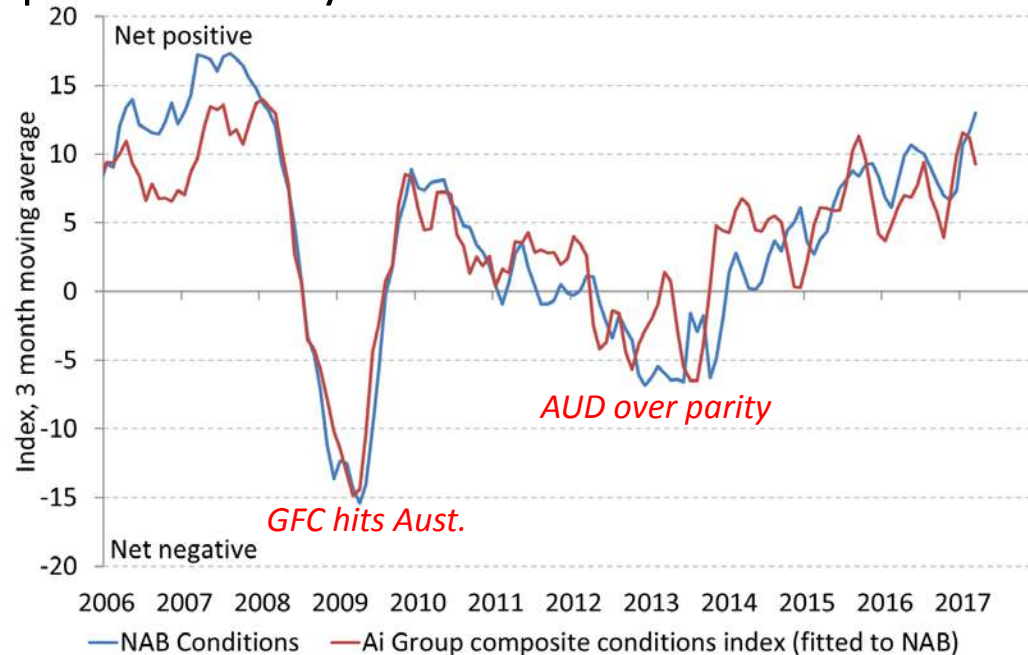






# 2017 looking okay but still patchy: business conditions are broadly but mildly positive

Ai Group composite industry conditions and NAB business conditions indexes



\* Composite of Ai Group's Australian PMI®, Australian PSI® and Australian PCI®. Sources: Ai Group and NAB.



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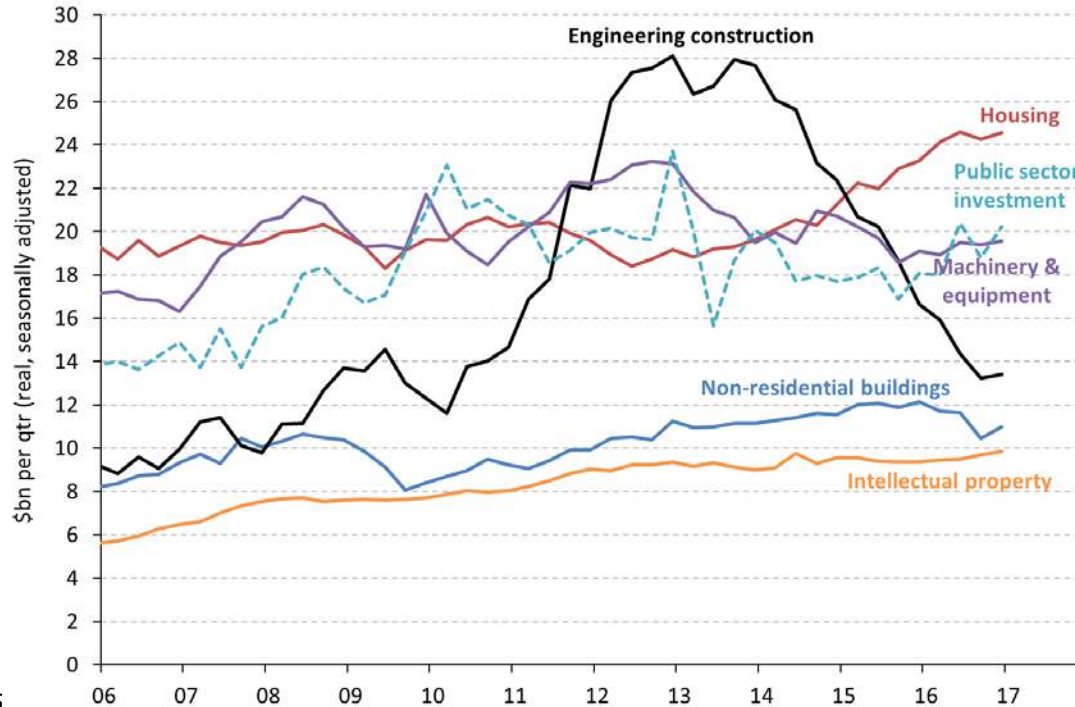
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# Drivers of growth? Housing investment is peaking. Mining investment 'mega-cycle' is nearly over.

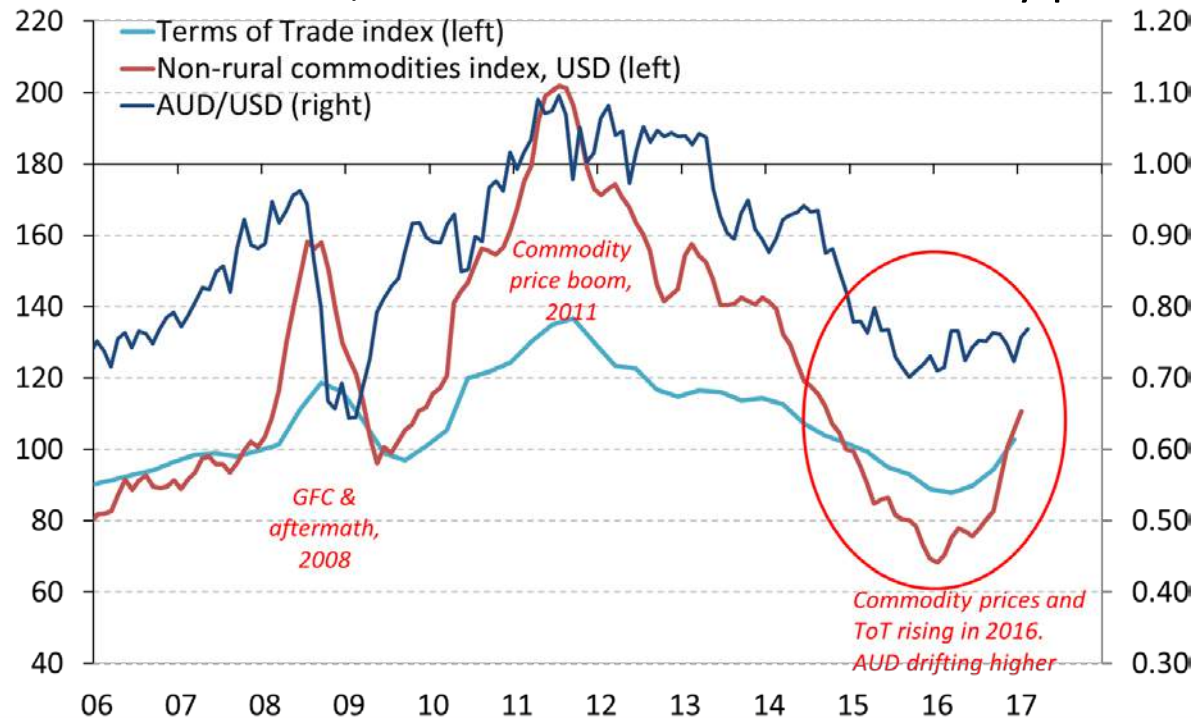
Australian investment spending (inflation-adjusted volumes), per quarter



Source: ABS National Accounts

# Drivers of growth? Commodity prices recovered in 2016. AUD, ToT & mining profits followed prices up

Australian dollar, terms of trade and commodity prices

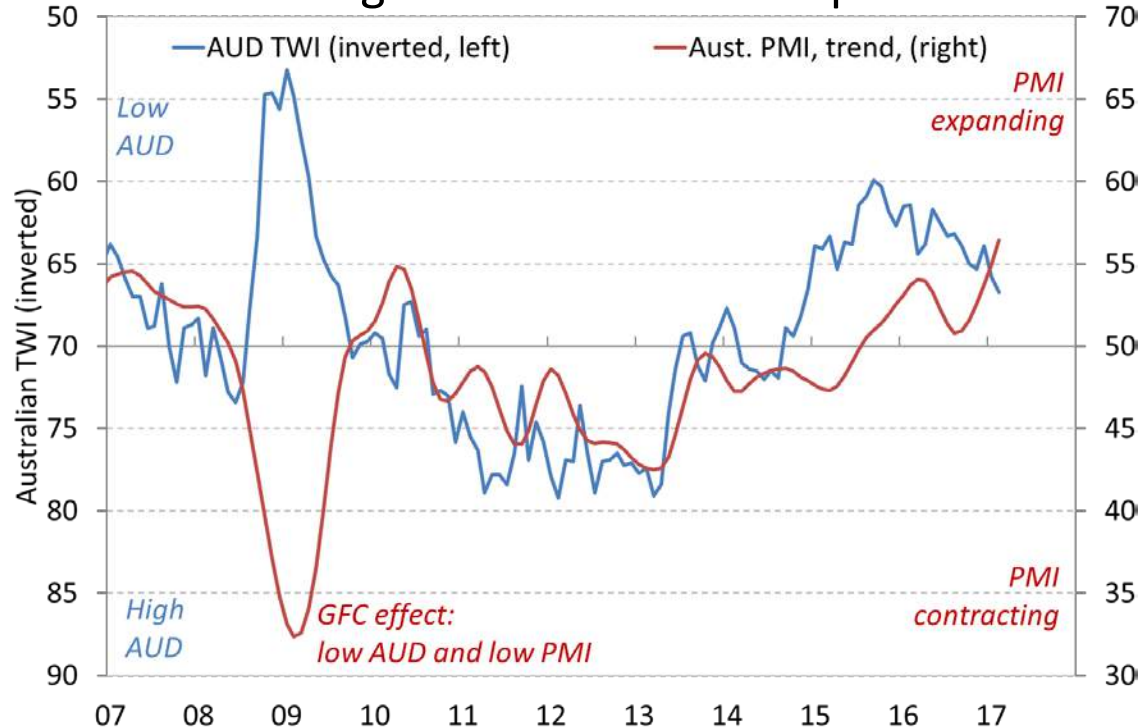


Sources: RBA and ABS



# Drivers of growth? Lower AUD helps manufactured goods exports and import replacements

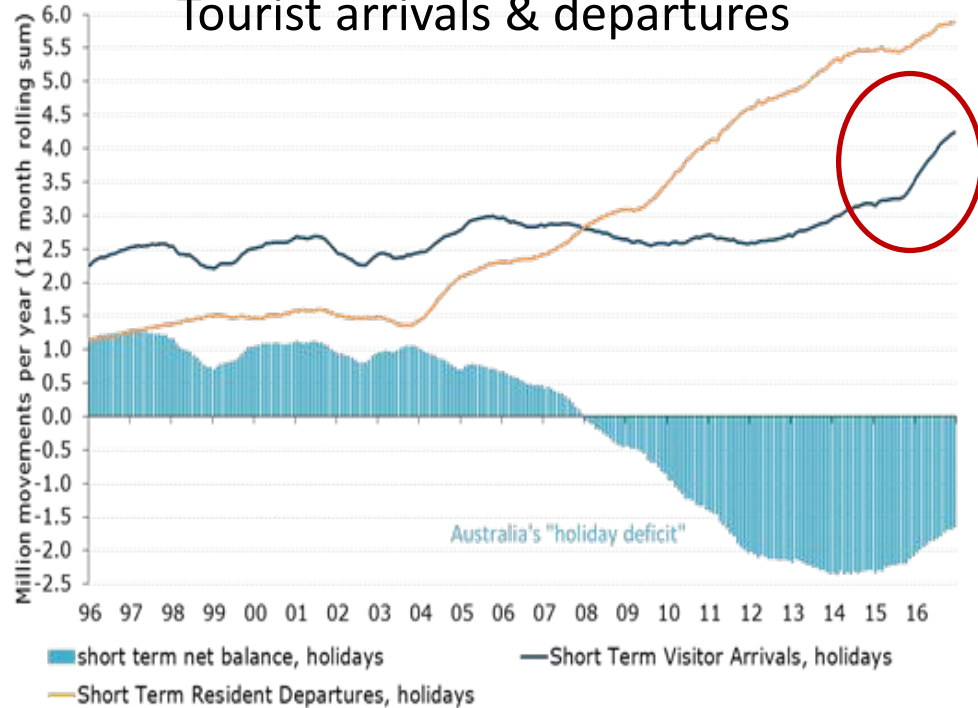
## Australian dollar Trade Weight Index and Ai Group Australian PMI (trend)



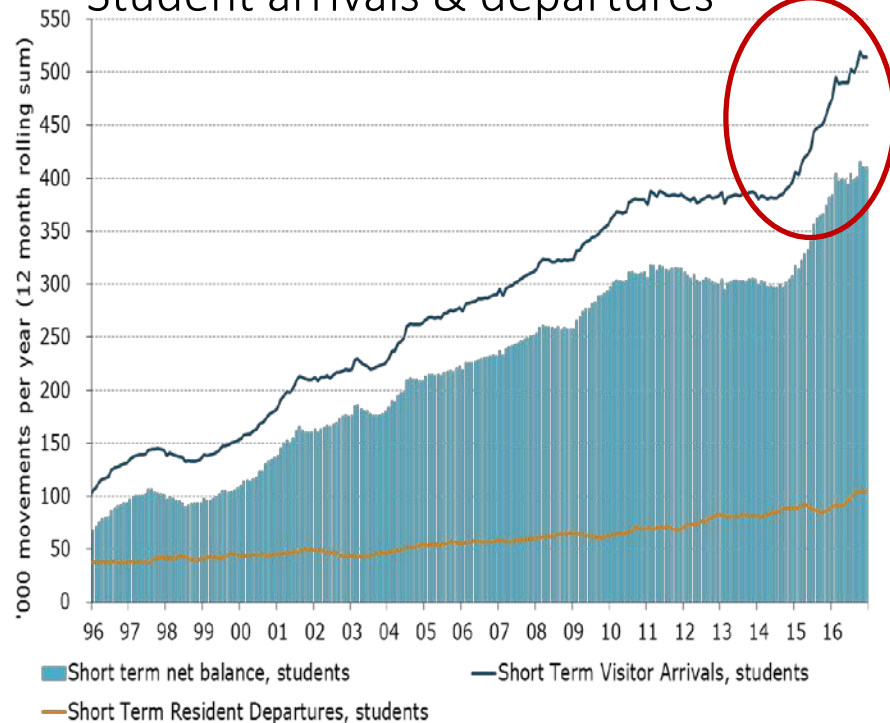
Sources: RBA and  
Ai Group Australian PMI

# Drivers of Australian growth? Lower AUD supports services exports (e.g. inbound tourism & students)

## Tourist arrivals & departures



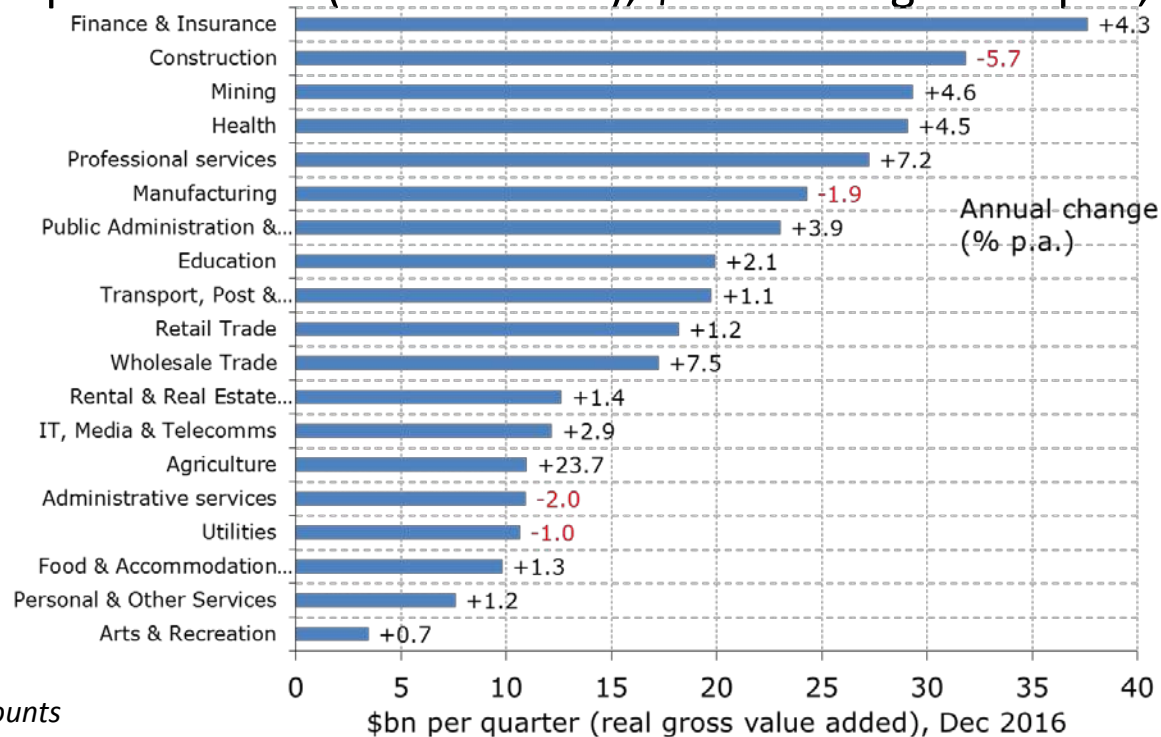
## Student arrivals & departures



Source: ABS, short-term visitor arrivals and resident departures

# Rebalancing? Finance, mining & healthcare are strongest. Some (not all) other sectors recovering

Industry output volumes (value-added), \$bn and % growth p.a., Dec Qtr 2016

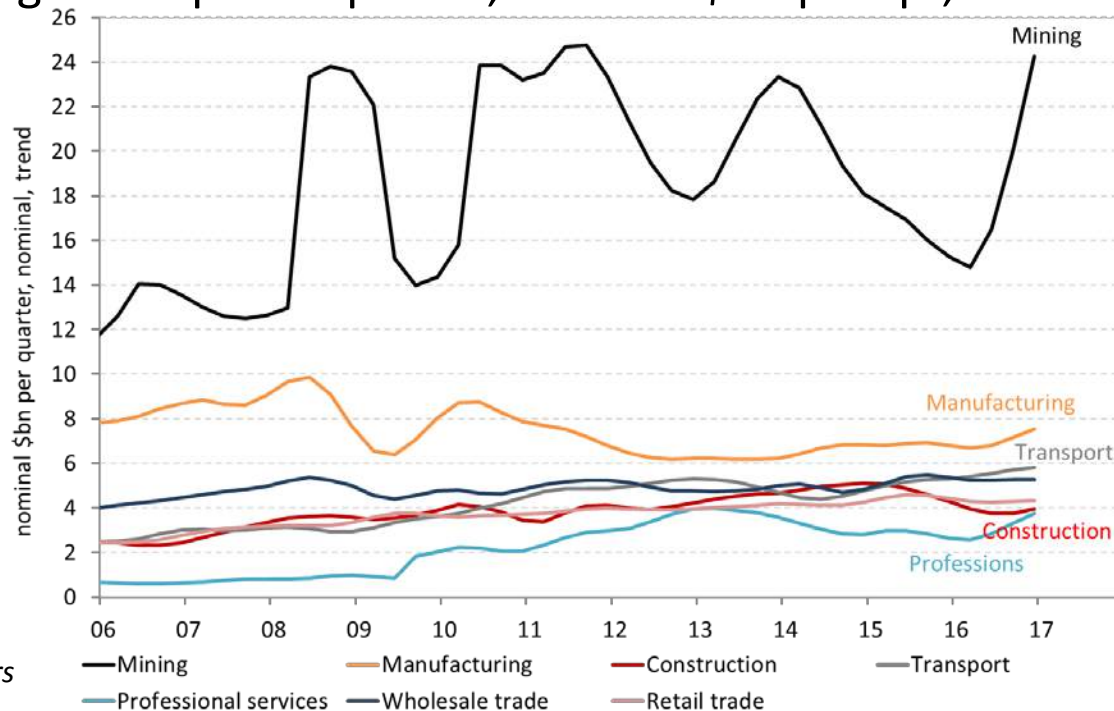


Source: ABS National Accounts



# Rebalancing? Profits up again in mining, weak recovery in manufacturing & a few other sectors

Aggregate corporate profits, nominal \$bn per qtr, to Dec 2016



Source: ABS Business Indicators and National Accounts



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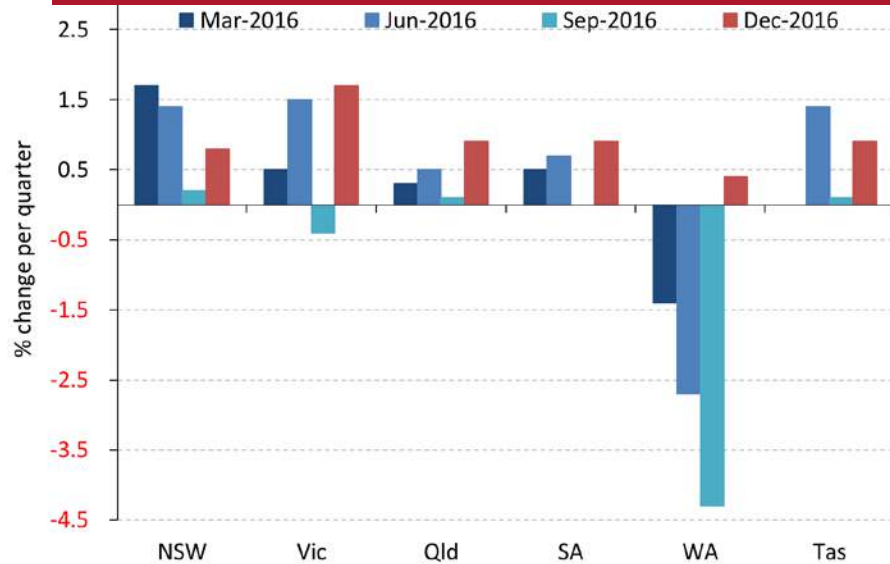
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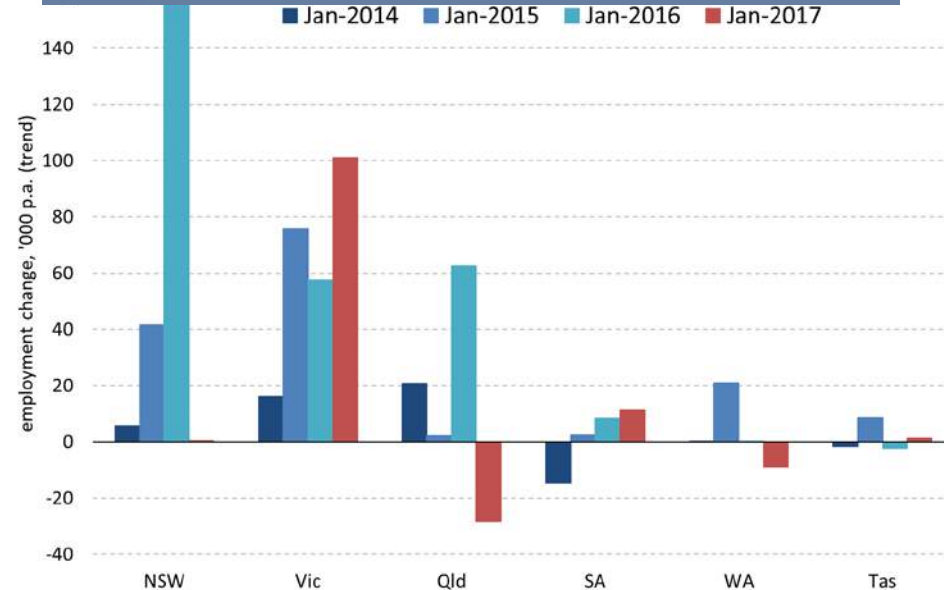


# Rebalancing? Growth shifted back to NSW in 2015 and Victoria in 2016. Jobs, prices, people, CAPEX

## State final demand growth



## Employment growth



Sources: ABS National Accounts and ABS Labour force



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# Current labour market trends

- Employment growth: where, who and why?
- Part-time work: record high
- Unemployment, underemployment and underutilization
- Inflation, wages and labour costs



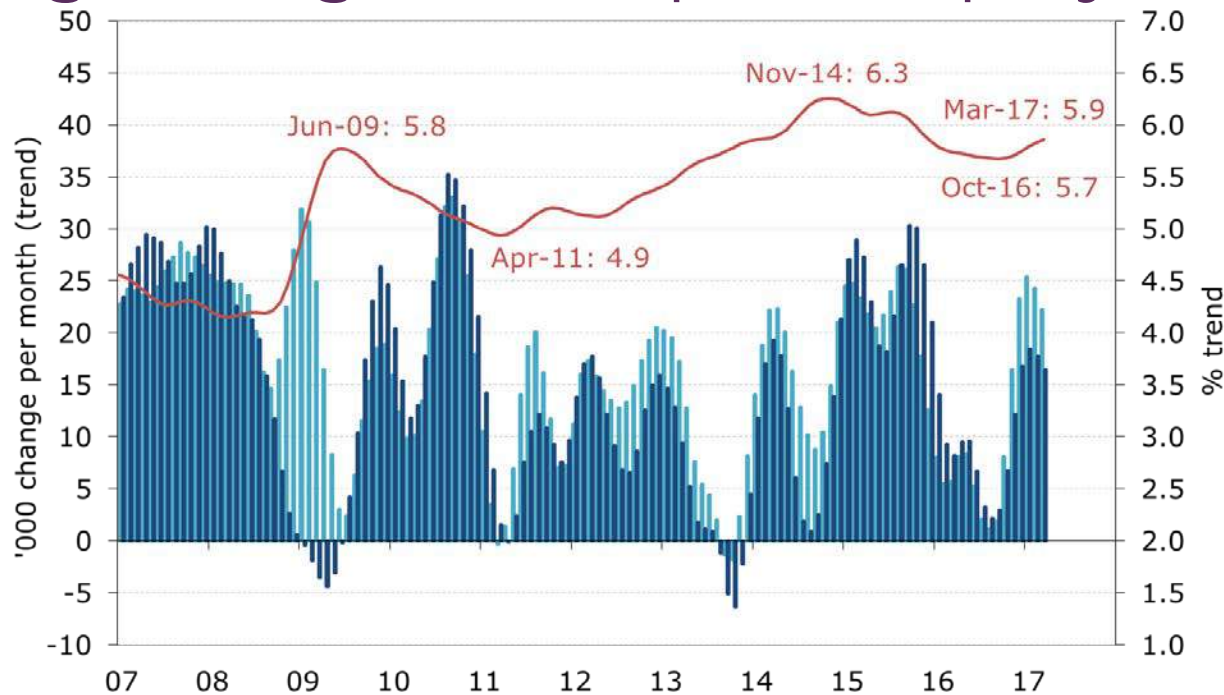
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# Employment growth better in Q1 2017: +1.0% p.a. Not strong enough to keep unemployment down



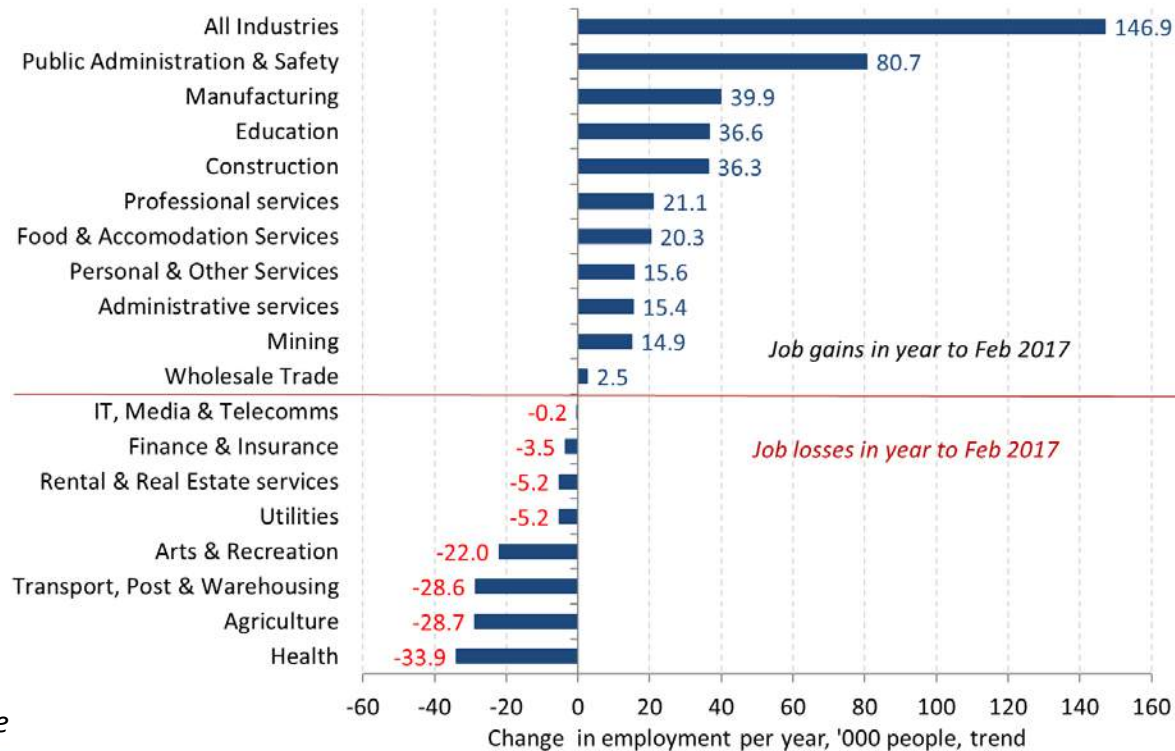
Source: ABS Labour force

Labour force (left)

Employment (left)

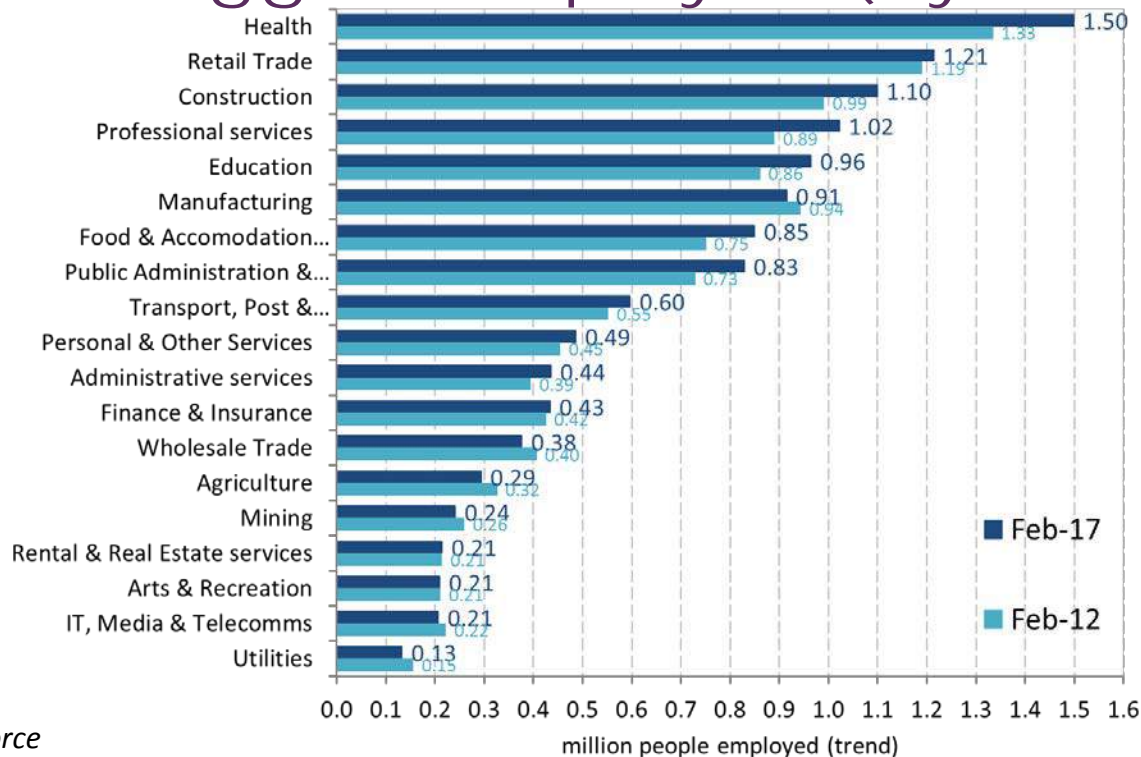
Unemployment rate (right)

# Better spread of jobs growth in 2016-17, as more sectors recover or grow, including manufacturing



Source: ABS Labour force

# Healthcare, retail, construction and professions are our biggest employers (by headcount)



Source: ABS Labour force



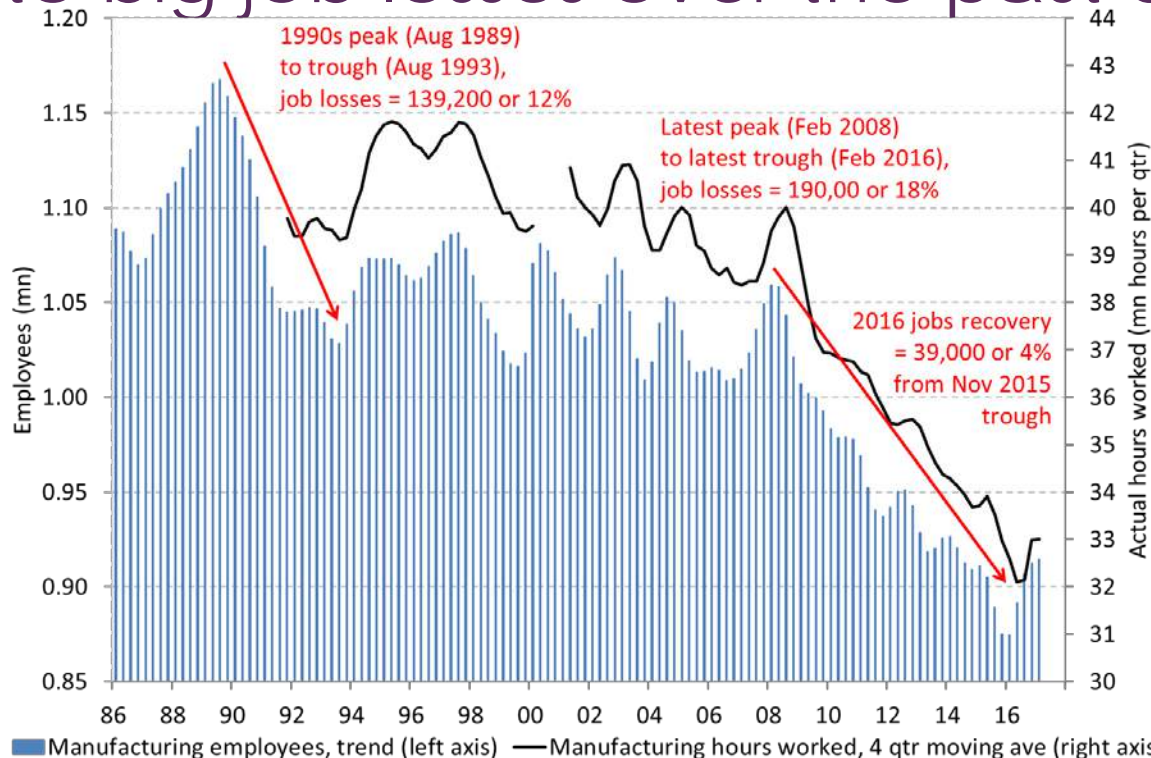
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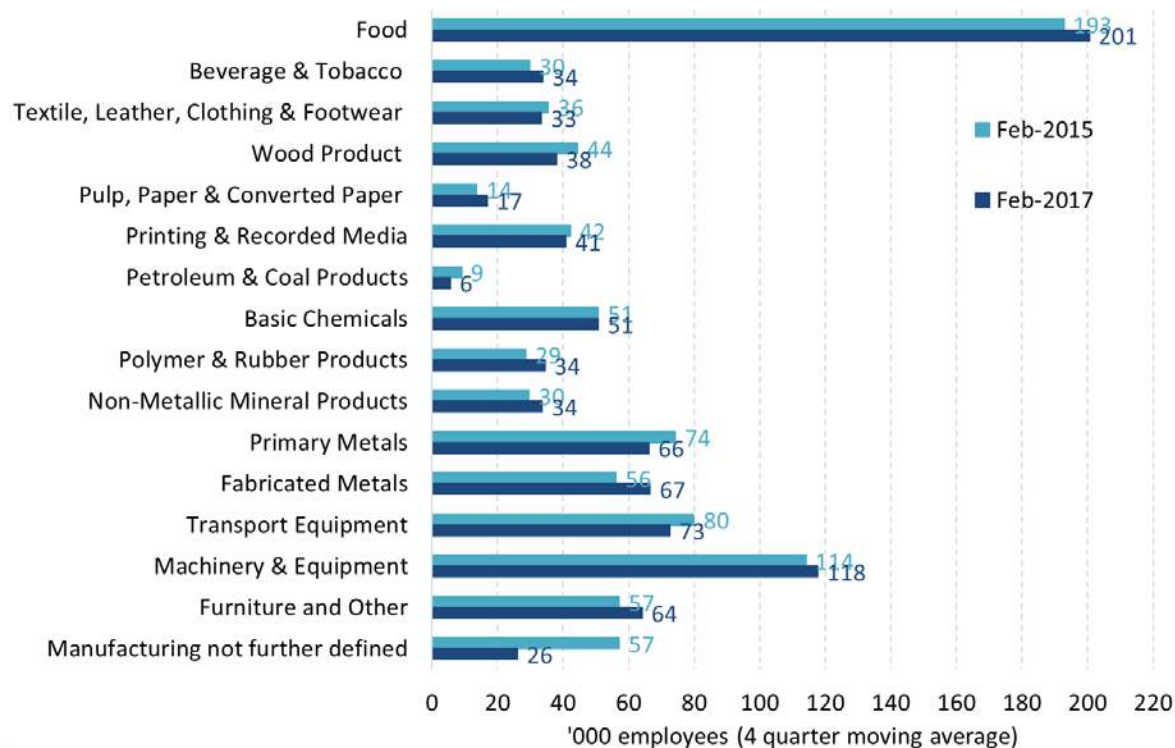
# Manufacturing recovery? welcome but small, relative to big job losses over the past decade



Source: ABS Labour force

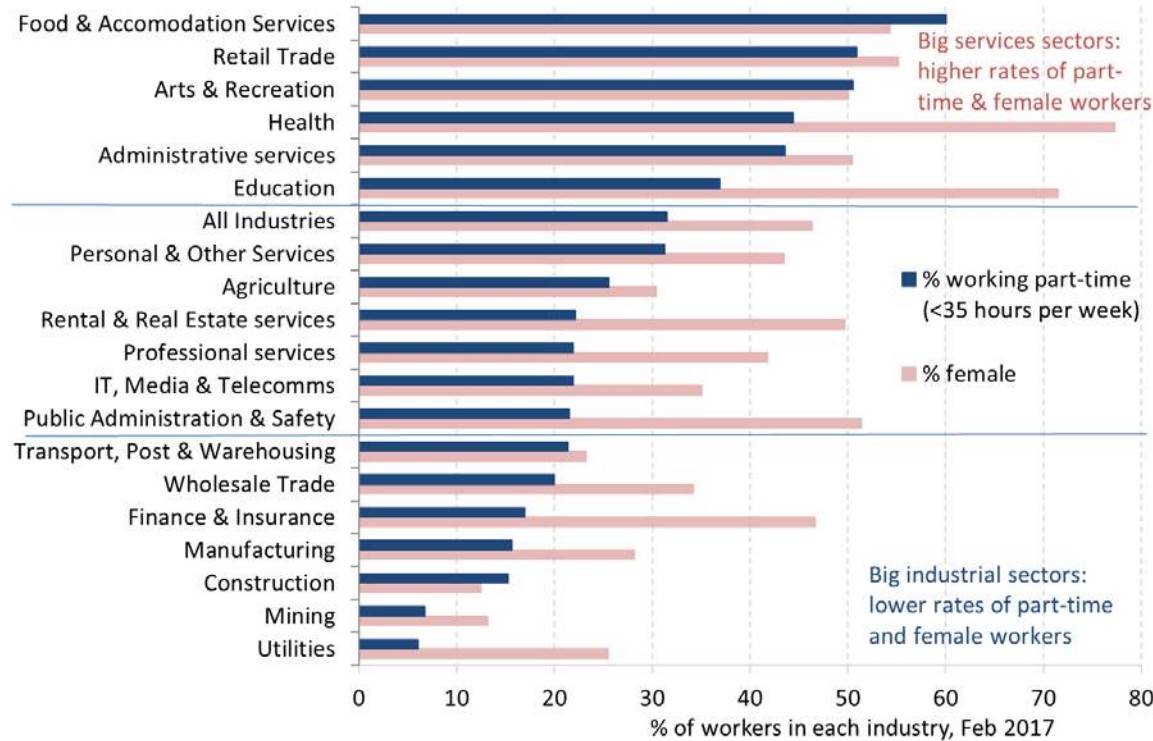


# Manufacturing jobs recovery? in food, beverages, machinery, polymers, building materials, furniture



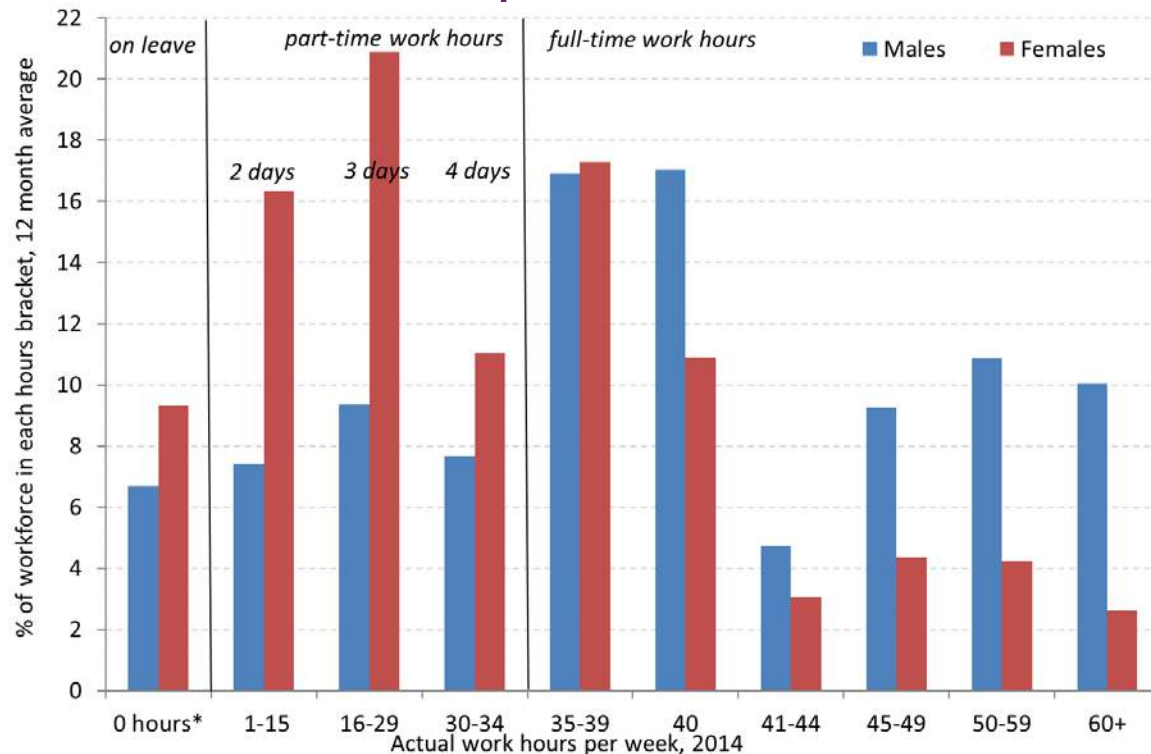
Source: ABS *Labour force*

# Part-time workers = 32%. Industry mix helps explain it, also demographic mix of the workforce



Source: ABS Labour force

# Part-time demographics. 47% of women 18% of men. Most common part-time week = 3 days



Source: ABS Labour force



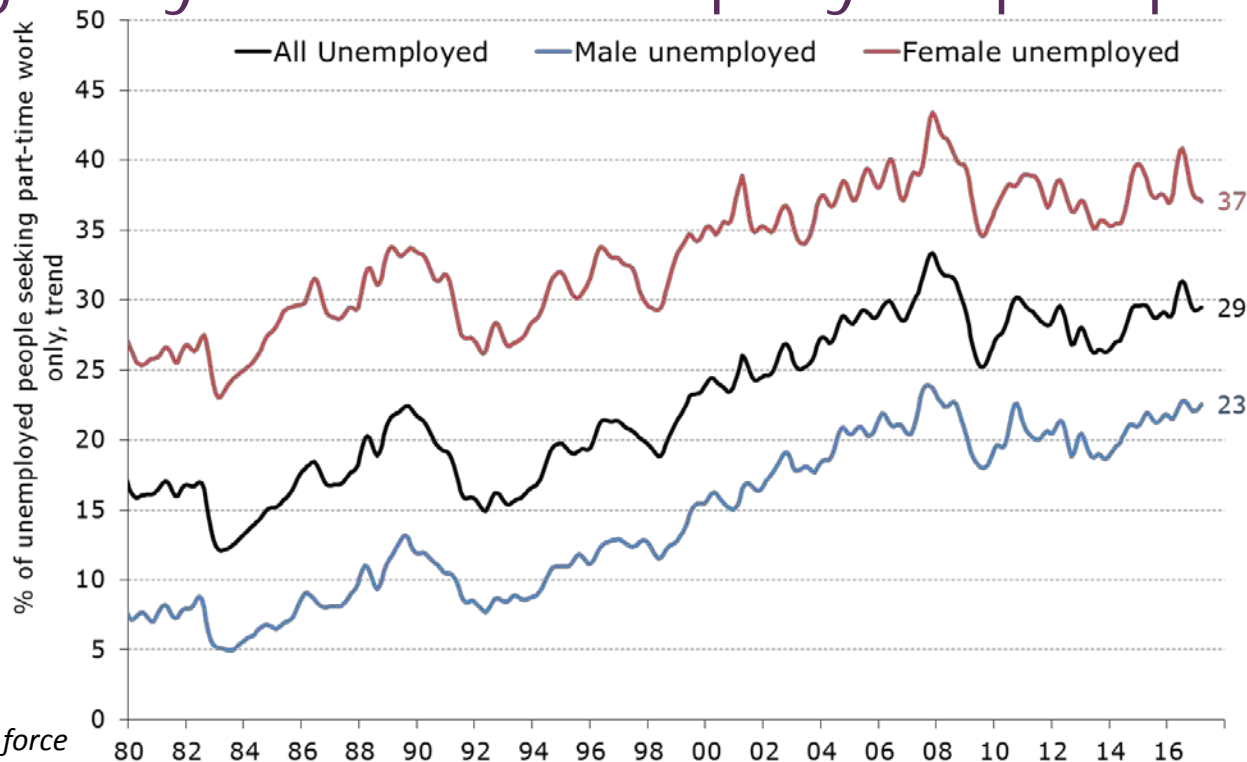
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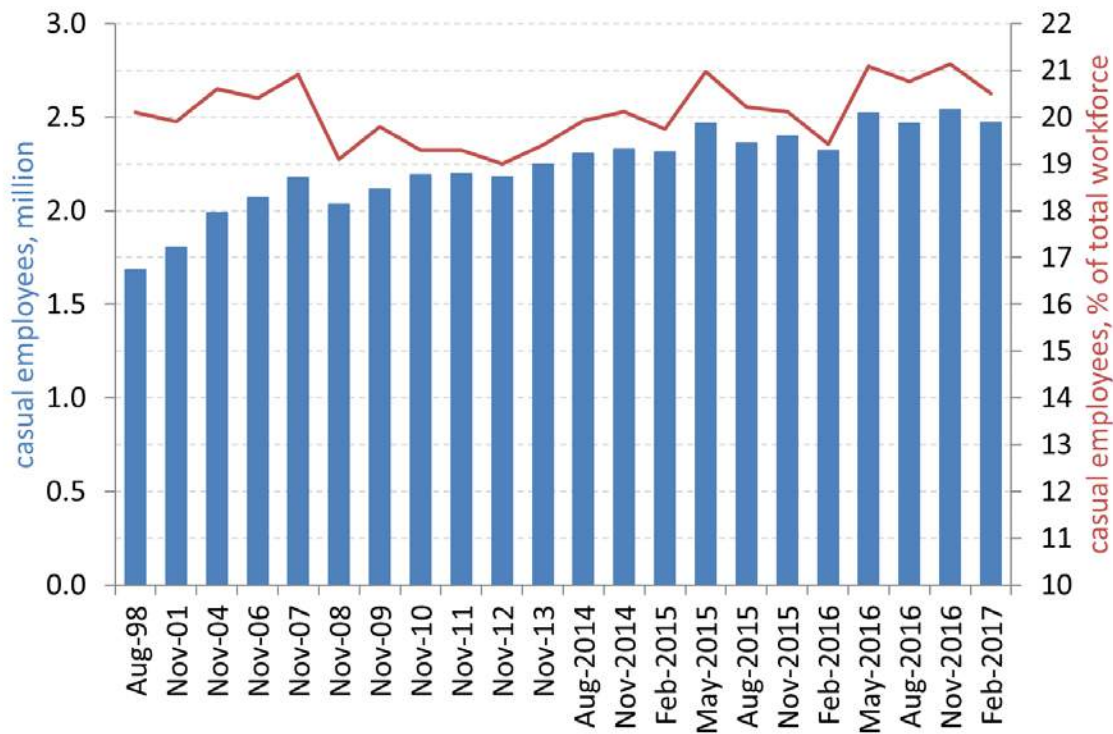


# Part-time demographics: actively and solely sought by 30% of unemployed people (750k)



Source: ABS Labour force

Part-time work is rising (share and number),  
but casual work is not. 20-21% since late 1990s.



Source: ABS Labour force



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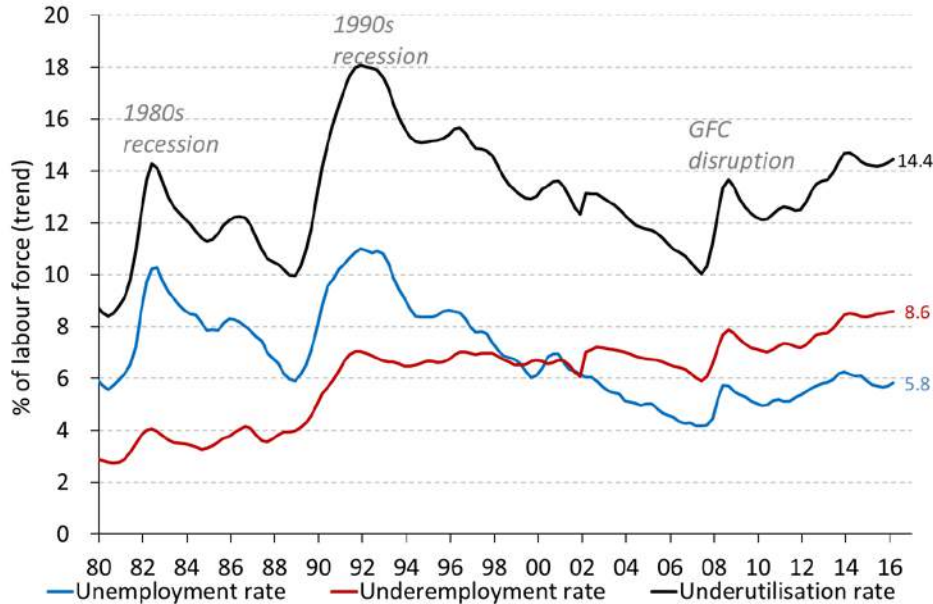
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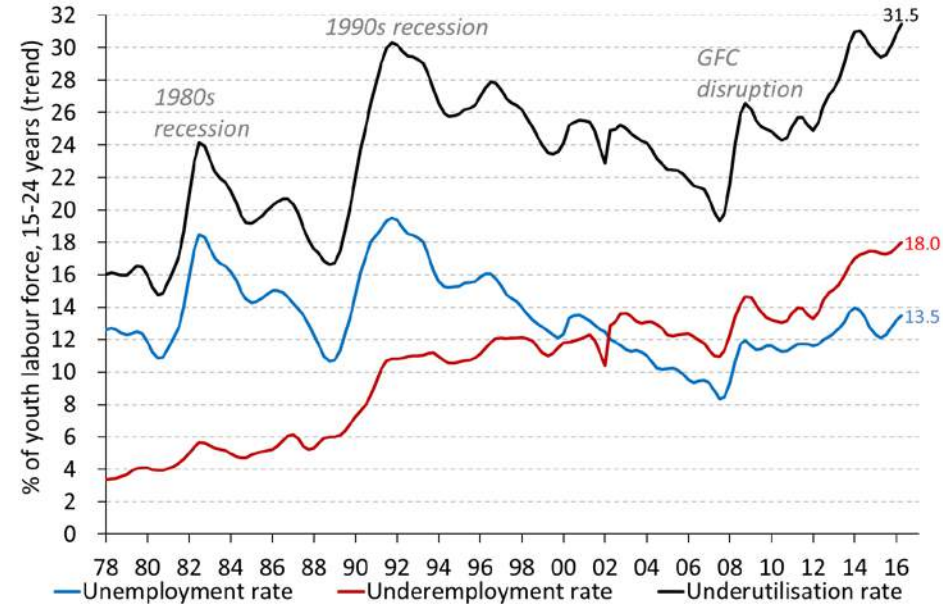


# Record high part-time is contributing to record high underemployment, especially among youth.

## All labour force (15 years +)

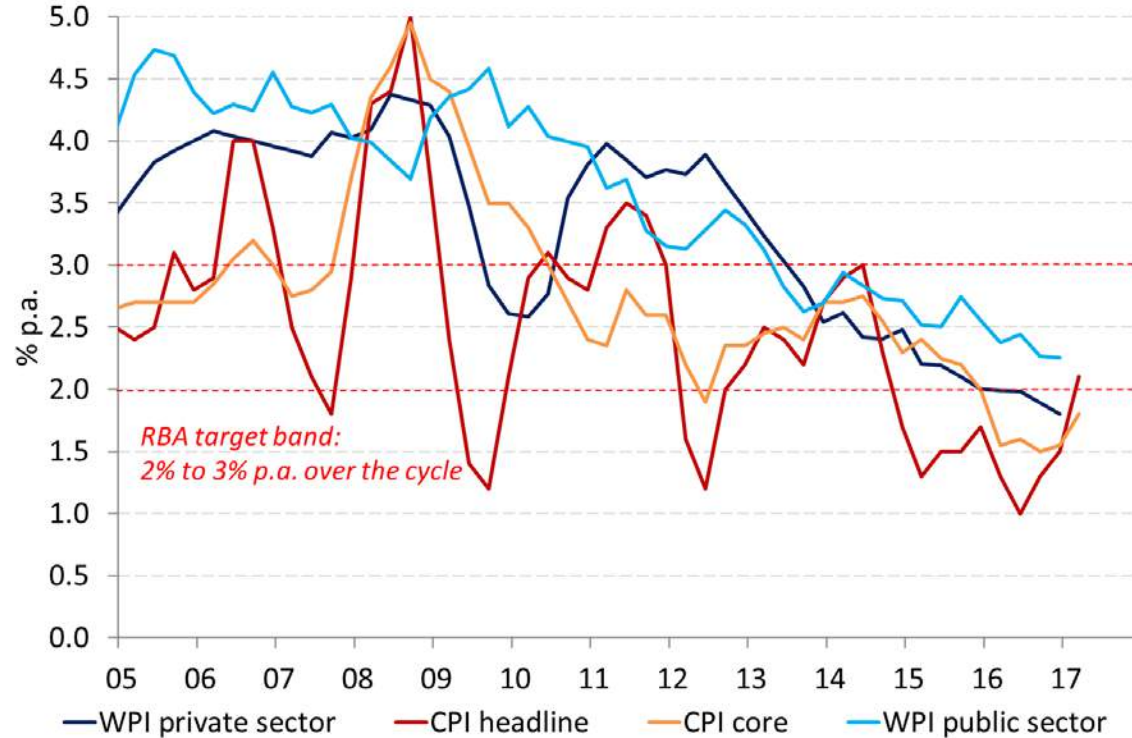


## Youth labour force (15-24 years)



Source: ABS Labour force

Wages growth tracks inflation & labour demand.  
Weak profits (ex-mining) also constraining wages.



Source: ABS *CPI* and *WPI*



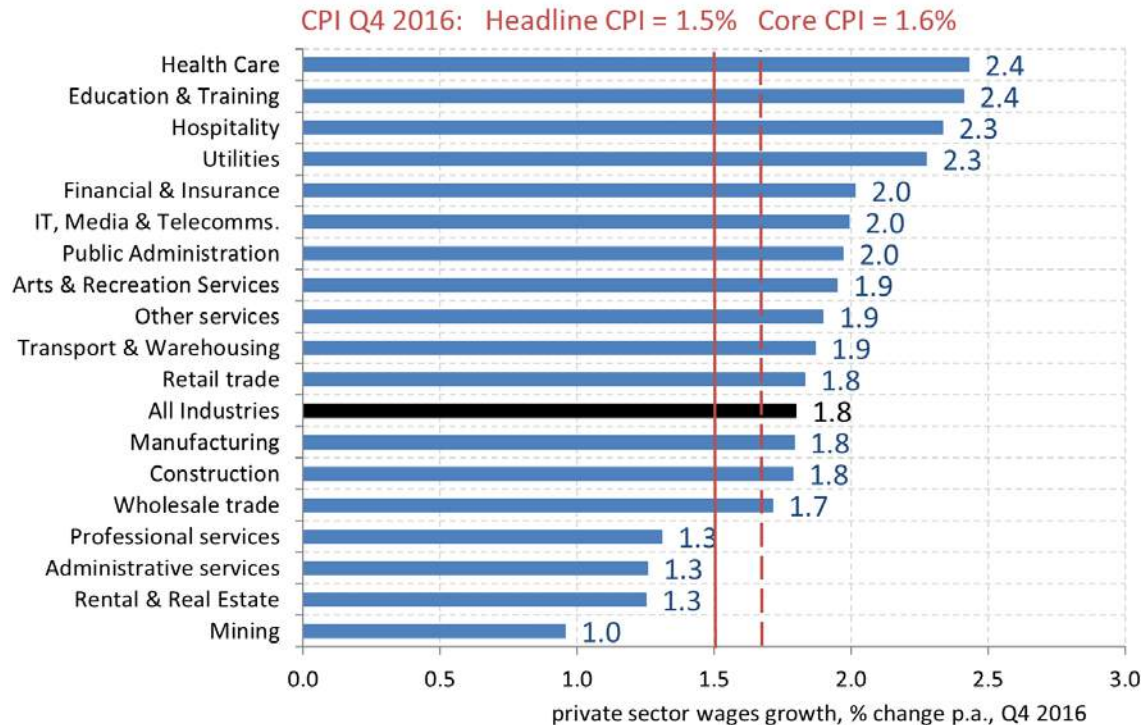
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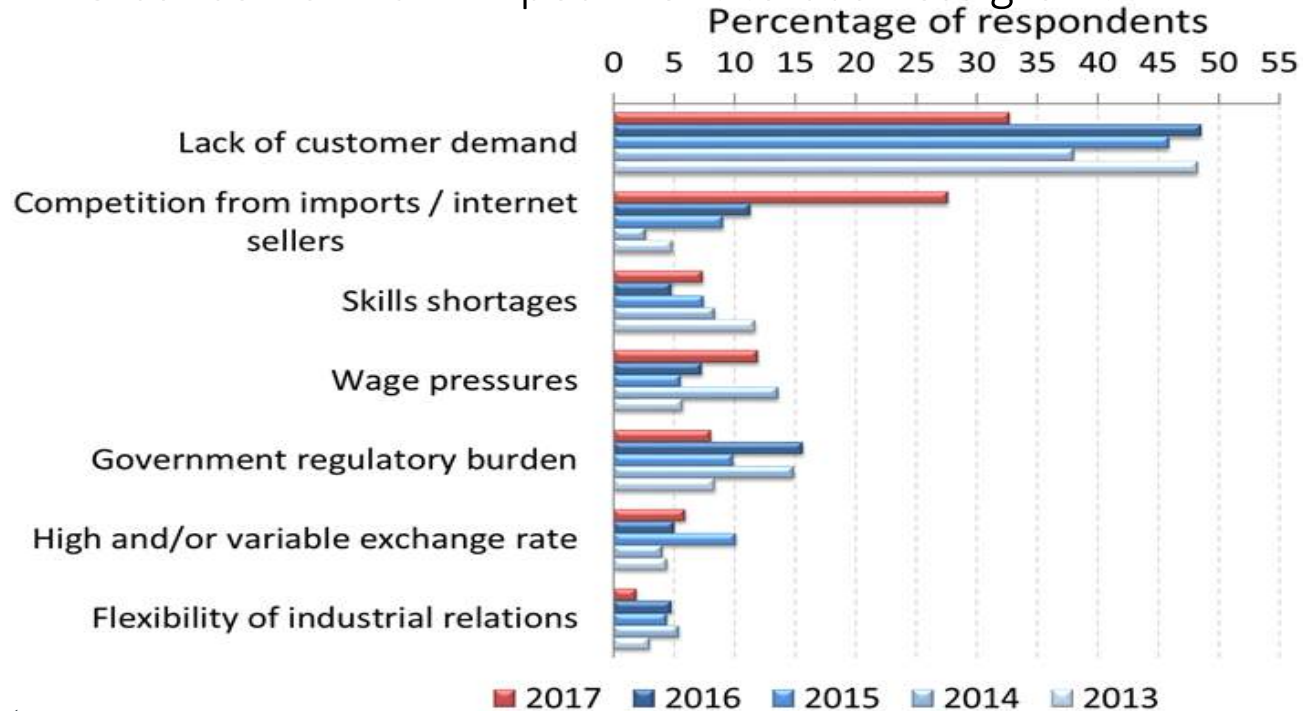
# Nominal wages growth is weak (1.8% p.a. in Q4), but it is still positive in real terms in most industries



Source: ABS *CPI* and *WPI*

# CEOs are more concerned about wage pressures and skill shortages in 2017 than in previous years

CEO concerns: main impediment to business growth



Source: Ai Group *Business Prospects*



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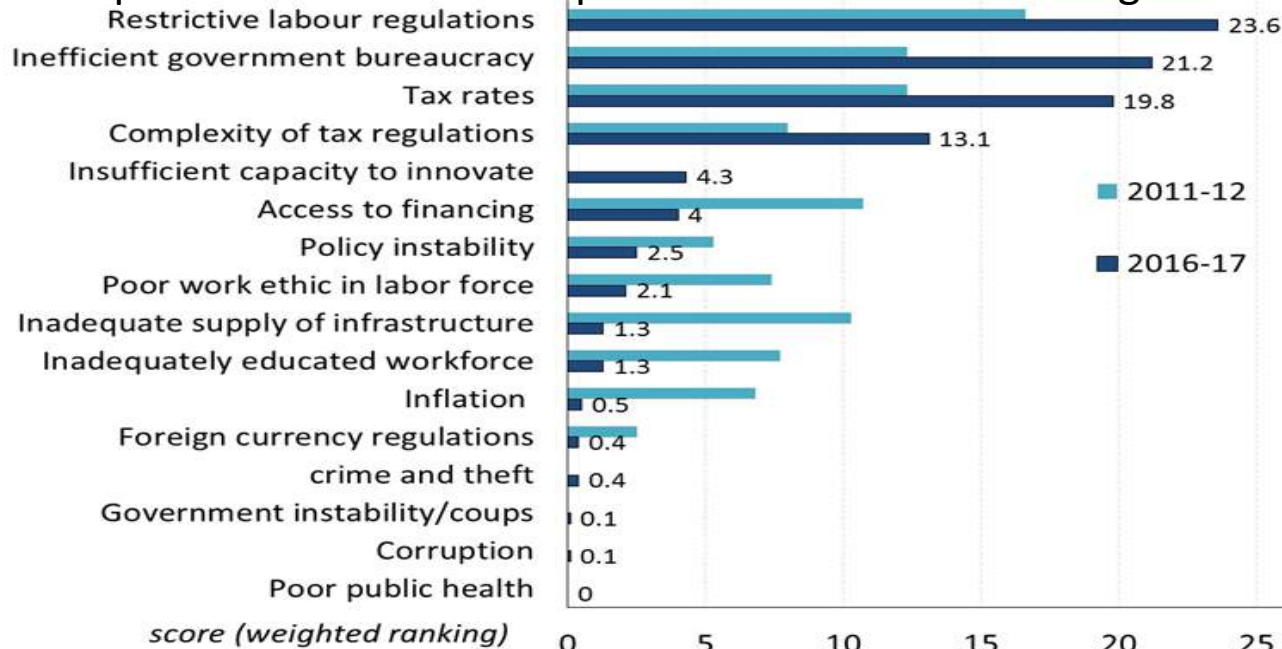
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# Internationally, CEOs are concerned about Australia's IR regulations, bureaucracy and tax

## WEF Global Competitiveness Indicators: problematic factors for doing business in Australia\*



\* WEF respondents were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5 (least problematic). The score corresponds to the responses weighted according to their rankings.

Source: WEF *Global Competitiveness Report*, 2016-17 and Ai Group.



# Outlook and forecasts



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# Outlook and forecasts: Australia

## RBA and Treasury forecasts for the Australian economy

| <b>RBA SoMP (Feb 2017)</b>                         | <b>2015-16<br/>actual</b> | <b>2016-17 f</b> | <b>2017-18 f</b> | <b>2018-19 p</b> | <b>2019-20 p</b> |
|--|---------------------------|------------------|------------------|------------------|------------------|
| GDP, % change p.a., year end                       | 3.3                       | 1.5-2.5          | 2.5-3.5          | 2.75-3.75        |                  |
| Inflation (CPI), % change p.a., year end           | 1.0                       | 2.0              | 1.5-2.5          | 2.0-3.0          |                  |
| <b>Treasury MYEFO 2016-17 (Dec 2016)</b>           |                           |                  |                  |                  |                  |
| GDP, % change p.a., year average                   | 2.7                       | 2.0              | 2.75             | 3.0              | 3.0              |
| <i>Household consumption, % p.a., year average</i> | 2.9                       | 2.75             | 3.0              |                  |                  |
| <i>Dwelling investment, % p.a., year average</i>   | 8.3                       | 4.5              | 0.5              |                  |                  |
| <i>Business investment, % p.a., year average</i>   | -14.7                     | -6.0             | 0.0              |                  |                  |
| Employment growth, % p.a., year end                | 1.9                       | 1.25             | 1.5              | 1.5              | 1.5              |
| Unemployment rate, %, year end                     | 5.8                       | 5.5              | 5.5              | 5.25             | 5.25             |
| Terms of trade, % change p.a., year end            | -5.4                      | 14.0             | -3.75            |                  |                  |
| Inflation (CPI), % change p.a., year end           | 1.0                       | 1.75             | 2.0              | 2.5              | 2.5              |
| Wages (WPI), % change p.a., year end               | 2.1                       | 2.25             | 2.5              | 3.25             | 3.5              |

Sources: ABS, RBA, Treasury. f = forecast. p = projection.



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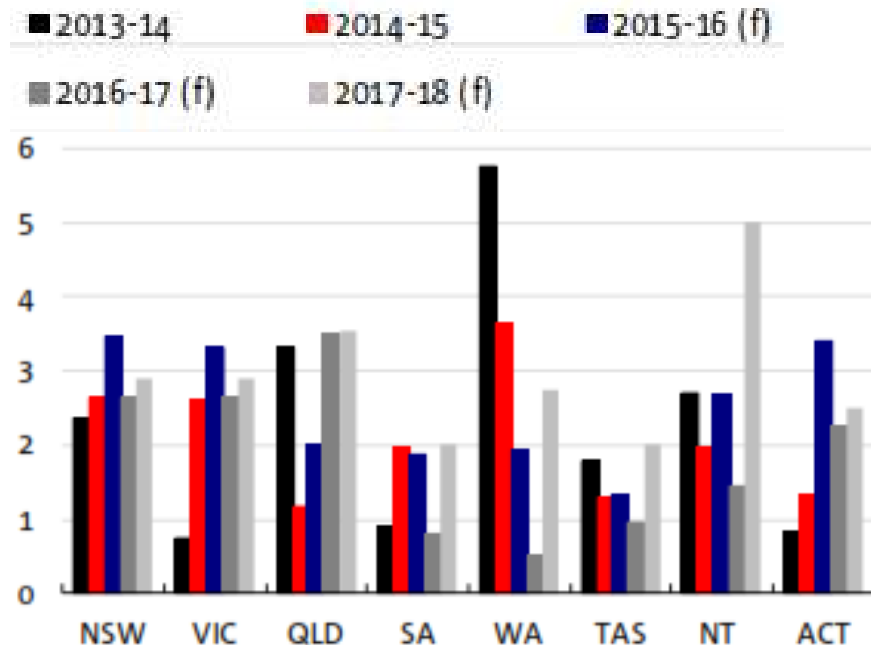
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# Outlook and forecasts: Australian states

State Treasury and private sector forecasts for Australian states, GSP % change p.a.

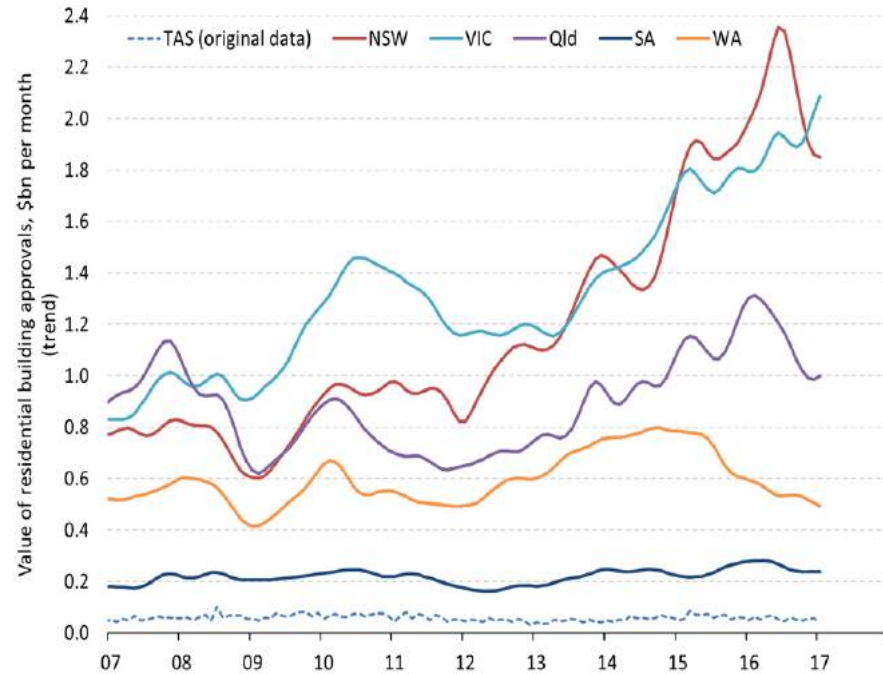
| GSP, 2017-18<br>% change p.a. | State Treasury | DAE | NAB |
|-------------------------------|----------------|-----|-----|
| NSW                           | 2.75           | 3.0 | 2.9 |
| VIC                           | 2.75           | 3.4 | 2.9 |
| QLD                           | 3.5            | 4.5 | 3.5 |
| SA                            | 2.0            | 2.7 | 2.0 |
| WA                            | 2.5            | 0.2 | 2.8 |
| TAS                           | 2.0            | 1.4 | 2.0 |



Sources: State Treasuries, Deloitte Access Economics, NAB Economics.

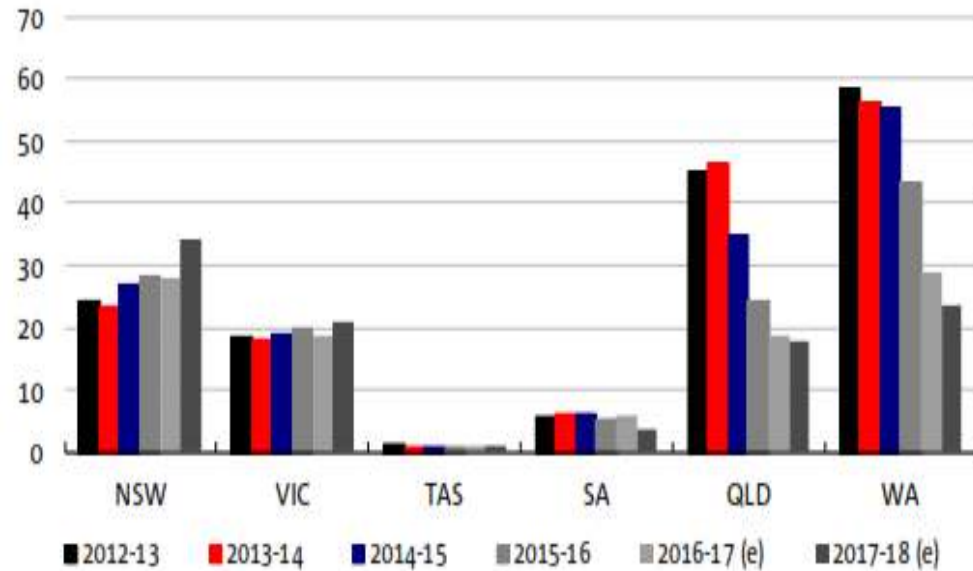
# Outlook and forecasts: Australian states

## Residential building approvals, by state



## Actual and expected CAPEX, by state

\$bn, based on previous realisation ratio



Sources: ABS and NAB economics.

# Outlook and forecasts: global economies

IMF estimates and projections for Global Growth, Jan and April 2017

| Change in real GDP, % change p.a.          | IMF in Jan 2017 |      |      | IMF in Apr 2017 |            |            |
|--|-----------------|------|------|-----------------|------------|------------|
|  | 2016            | 2017 | 2018 | 2016            | 2017       | 2018       |
| <b>World</b>                               | 3.1             | 3.4  | 3.6  | <b>3.1</b>      | <b>3.5</b> | <b>3.6</b> |
| <b>Advanced economies</b>                  | 1.6             | 1.9  | 2.0  | <b>1.7</b>      | <b>2.0</b> | <b>2.0</b> |
| US   | 1.6             | 2.3  | 2.5  | 1.6             | 2.3        | 2.5        |
| Euro area                                  | 1.7             | 1.6  | 1.6  | 1.7             | 1.7        | 1.6        |
| UK   | 2.0             | 1.5  | 1.4  | 1.8             | 2.0        | 1.5        |
| Japan                                      | 0.9             | 0.8  | 0.5  | 1.0             | 1.2        | 0.6        |
| <b>Emerging / developing economies</b>     | 4.1             | 4.5  | 4.8  | <b>4.1</b>      | <b>4.5</b> | <b>4.8</b> |
| China                                      | 6.7             | 6.5  | 6.0  | 6.7             | 6.6        | 6.2        |
| India                                      | 6.6             | 7.2  | 7.7  | 6.8             | 7.2        | 7.7        |
| ASEAN-5                                    | 4.8             | 4.9  | 5.2  | 4.9             | 5.0        | 5.2        |
| <b>Global trade volumes, % change p.a.</b> | 1.9             | 3.8  | 4.1  | <b>2.2</b>      | <b>3.8</b> | <b>3.9</b> |

Sources: IMF *Global Outlook*



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- Australian CEO Business Prospects (annual, Jan)
- World Economic Forum (WEF) Global Competitiveness Index (annual in Sep)
- Federal and State Gov Budget updates for business

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