

ECONOMIC OUTLOOK:SOUTH AUSTRALIA

South Australian state economy and state budget 2019-20

South Australia's Treasurer, Rob Lucas, delivered the SA State Budget for 2019-20 on 18th June 2019. The SA Government expects an operating surplus of \$94 million in 2019-20, with surpluses averaging \$148 million over each of the four years to 2022-23. Despite these surpluses, total net debt is projected to rise from an estimated \$13.5 billion in June 2019 to \$21.3 billion by June 2023. This reflects subdued revenue expectations and increased infrastructure investment over the next four years. In this year's budget the Government announced infrastructure projects worth a total of \$11.9 billion over the four years to 2022-23, with significant investment planned in roads, rail, utilities, education and health facilities. This will see the state's debt increase from 63.1% of revenue in June 2019 to 91.2% in June 2023.

The SA economy is expected to grow by 2.5% in 2019-20 and then slow to 2.25% p.a. in each of the three years to 2022-23. Employment is expected to grow by 2.0% p.a. in 2019-20 and then slow to 2.25% p.a. in subsequent years. SA's unemployment rate is currently 5.8% currently (as of May 2019, trend). This Budget does not provide explicit forecasts for SA's unemployment rate, but if employment growth slows as expected, unemployment will probably rise.

Ai Group's media release for the SA State Budget can be found [here](#).

Budget measures for business and industry

On the revenue side, the Government's **tax changes** will include:

- The top **land tax** rate for properties worth more than \$55 million will be reduced by 0.1 percentage point each year, from 3.7% in 2019-20 to 2.9% from 1 July 2027, building on reforms included in last year's 2018-19 Budget;
- From 1 July 2020, **land aggregation for land tax** purposes will shift to aggregating an owner's interest in every piece of land, rather than only aggregating properties held in the same ownership structure;
- From 1 July 2020, two or more companies will be allowed to be **grouped for land tax purposes**;
- From 1 July 2020, a surcharge will be introduced on **land owned in trusts** (where the interests in land of trust beneficiaries are not disclosed or cannot be identified) to reduce incentives for tax minimisation behaviour;
- From 1 July 2019, the **solid waste levy** in the metropolitan area will increase to \$110 per tonne and then to \$140 per tonne from 1 January 2020; and
- From 1 July 2019, annual increases in the **Natural Resources Management (NRM) levy** (paid by all ratepayers in the Adelaide and Mount Lofty Ranges region) will be indexed to the ABS consumer price index (CPI).

New or extended South Australian Government support measures that may affect business and industry will include:

- \$551 million over 10 years for the **Adelaide City Deal** (partnering with the Federal Government) to develop an innovation and commercialisation precinct at 'Lot Fourteen' on the former Royal Adelaide Hospital site. This will help to facilitate collaborative opportunities for development and growth for the businesses, entrepreneurs and educational facilities that will be based at the precinct;
- \$104.5 million over two years for a targeted **package of measures to support home buyers and the housing construction industry**. This includes an Affordable Housing Fund which will provide interest-free deposit gap loans of up to \$10,000 through HomeStart, starting from 1 September 2019 for 2 years. An additional \$42.5 million will fund new public housing and the maintenance and upgrade of older public housing owned by SA's Housing Authority (SAHA);
- \$82.1 million over 6 years to support six SA-based **National Collaborative Research Infrastructure Strategy** facilities for the state's six priority growth sectors:
 1. high technology optical components and devices;
 2. the wine industry;
 3. microscopy and microanalytical research to support medicine;

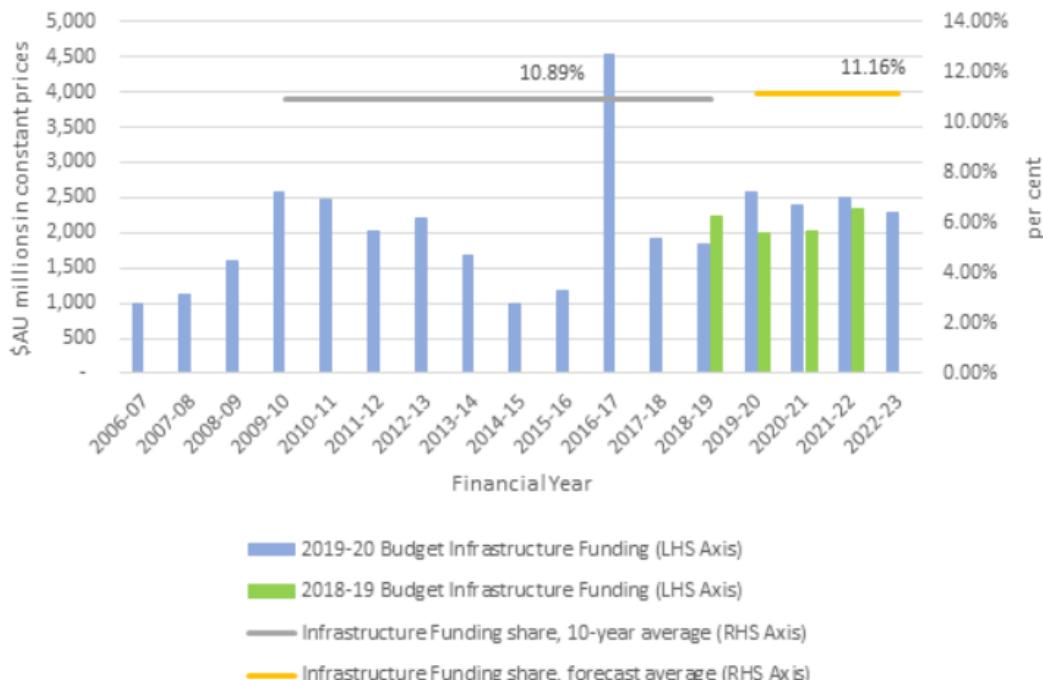
- 4. agriculture;
- 5. advanced manufacturing and
- 6. geology and materials science;
- \$33 million over five years for marketing SA to **international and domestic tourism** markets;
- \$24.3 million over three years (partnering with the Federal Government) for road and utilities infrastructure to support the new **Thomas Foods International processing plant**;
- \$10.0 million over three years to support co-funded exploration of **major minerals discoveries** and support the state's mining sector;
- \$4.0 million over four years to establish a **SA 'Landing Pad'** to attract early stage companies with high growth potential;
- \$4.3 million over four years to invest in **data analytics and monitoring capabilities** to protect government information from cyber attacks and improve shared intelligence about cyber attacks across government agencies;
- \$3.0 million over four years to Infrastructure SA to develop a **20-year state infrastructure strategy** and five-year infrastructure plan; and
- \$2.3 million over four years to the **SA Productivity Commission** to conduct inquiries and advance reforms that can support SA's industrial growth and create jobs.

South Australian Government infrastructure program

The Budget provides \$2.6 billion in infrastructure spending in 2019-20 and \$11.9 billion over the four years to 2022-23 (see chart 1). This represents an increase of \$1.1 billion or 14.4% from the 2018-19 Budget. Infrastructure funding will account for 11.16% of total general government total expenditure over the forward estimates, up from the decade-average of 10.89%. Infrastructure projects include hospitals, schools, road and rail and innovation and tourism precincts.

Of particular note, an additional \$3 billion is allocated to the North-South Corridor project which is jointly-funded by the Federal and SA governments. It will provide a dedicated non-stop route for north and south bound traffic (including freight) running between Gawler and Old Noarlunga and passing through the Adelaide CBD.

Chart 1: General Government infrastructure funding, 2006-07 to 2022-23



Source: South Australian Department of Finance and Treasury.

Other key infrastructure projects announced in this Budget over the four years to 2022-23 include:

- \$550 million to complete the planning and start construction of a **new Women's and Children's Hospital**;
- \$479.8 million (in addition to \$94.3 million in 2018-19) towards the **Gawler Rail Line electrification** from Adelaide to Gawler and the purchase of additional three car electric trains (jointly funded with the Federal Government);
- \$322 million for **level crossing upgrades** (jointly funded with the Federal Government), and a further \$80 million beyond 2022-23;
- \$314.2 million (in addition to \$39.9 million in 2018-19) for the **North-South Corridor** Regency Road to Pym Street upgrade (with an estimated total project cost of \$354.3 million);
- \$303.0 million (in addition to \$2.0 million in 2018-19) for the **duplication of Main South Road** from Seaford to Aldinga (with an estimated total project cost of \$305.0 million);
- \$289 million in 2019-20 for the **Zero Cost Energy Future** (with an estimated total project cost of \$390 million). This pays for the installation of solar PV generation and storage to achieve net zero electricity costs for SA Water from 2020;
- \$280 million over four years to **upgrade seven major road intersections** (jointly funded with the Federal Government);
- \$252.0 million to undertake planning and early works for the **North-South Corridor** (North-South Corridor Future Priorities Project);
- \$242.0 million (in addition to \$18.0 million in 2018-19) for stage 3 of **The Queen Elizabeth Hospital redevelopment** (with a total project cost of \$263.7 million);
- \$231 million over three years to remove a level rail crossing for **the Gawler rail line** at Torrens Road, Ovingham;
- \$197.8 million (in addition to \$2.0 million in 2018-19) for the duplication of the **Joy Baluch AM Bridge** (with a total project cost of \$200.0 million);
- \$182 million for the redevelopment of the **Adelaide Festival Plaza** and upgrades to the **Adelaide Festival Centre**;
- \$150.0 million for the **Aboriginal Art and Cultures Gallery** (with the total project cost yet to be determined); and
- \$146.3 million (in addition to \$2.7 million in 2018-19) to expand the **Yatala Labour Prison** (with a total project cost of \$149.0 million).

Investing in the Regions

Regional SA accounts for around one-quarter (\$26.9 billion) of state GSP (see table 1) and contributes significantly to the state's exports. In recognition of regional SA's key role in the state economy, the Government is undertaking new funding initiatives for regional areas including:

- \$341 million over four years for the **Regional Roads and Infrastructure Fund**. 30% of mineral and petroleum royalties will be paid into this fund. It will be used to maintain and improve regional and remote transport links;
- \$100 million over three years for the construction of a new **secondary school in Whyalla**;
- \$90 million over four years for the **Port Wakefield Overpass and Highway** duplication;
- \$75 million to improve **housing in remote communities**;
- \$32.7 million over five years for capital improvements of **regional high schools**, including \$17.2 million for the redevelopment of the Berri Senior Campus of Glossop High School over five years and \$10 million to upgrade the **Gawler and District College B-12**;
- \$20 million over two years to refurbish the **Granite Island causeway** to restore safe load limits;
- \$10 million towards the new **Mount Gambier Regional Community and Recreation Hub**, in addition to \$15 million contributed by the Federal Government;

- \$10 million over three years to facilitate **new major minerals discoveries** to support new mining developments; and
- The existing \$150 million **Regional Growth Fund** continues to be supported in the 2019-20 Budget. It will deliver critical economic infrastructure, including the **Mobile Phone Black Spots Fund** (launched in 2018-19) to improve digital connectivity in regional areas.

Table 1: South Australian Gross Regional Product, 2017-18

2017-18 \$ million per year	Adelaide Metro Area	Adel- aide Hills	Barossa Light and Lower North	Fleurieu and Kanga- roo Island	Yorke and Mid North	Murray and Mallee	Lime- stone Coast	Eyre and West	Far North
Agriculture, forestry and fishing	641	216	394	259	585	811	795	452	79
Mining	1,539	82	33	17	38	14	4	558	1,487
Manufacturing	5,432	216	527	90	254	274	406	259	26
Construction	5,806	257	211	172	252	251	261	210	175
Household services ^(a)	16,498	572	609	432	716	640	665	597	322
Business services ^(b)	26,206	878	842	562	831	835	888	734	374
Goods related services ^(c)	12,896	402	395	268	540	658	584	493	202
Public administration	5,931	151	84	72	147	167	134	127	141
Net taxes in final demand	5,529	316	308	218	312	302	292	263	151
Gross Regional Product	80,479	3,089	3,404	2,090	3,674	3,952	4,028	3,691	2,958
<i>Regional share of total GRP, %</i>	<i>75.0</i>	<i>2.9</i>	<i>3.2</i>	<i>1.9</i>	<i>3.4</i>	<i>3.7</i>	<i>3.8</i>	<i>3.4</i>	<i>2.8</i>

Source: REMPLAN, Input Output Tables for South Australia and its Regions, March 2019 Update, Source: South Australian Department of Finance and Treasury, Note: Totals may not add due to rounding

- (a) Household services includes: accommodation, and food services; education and training; healthcare and social assistance; arts and recreation services; and other services.
- (b) Business services includes: information media and telecommunications; financial and insurance services; rental, hiring and real estate services; professional, scientific and technical services; and administrative and support services.
- (c) Goods-related services includes: electricity, gas, water and waste services; wholesale trade; retail trade; and transport, postal and warehousing.

Government measures for education and skills

A key priority for the SA Government is ensuring the State has the necessary skills, especially STEM skills, to support future growth, innovation, competitiveness and new opportunities as they arise.

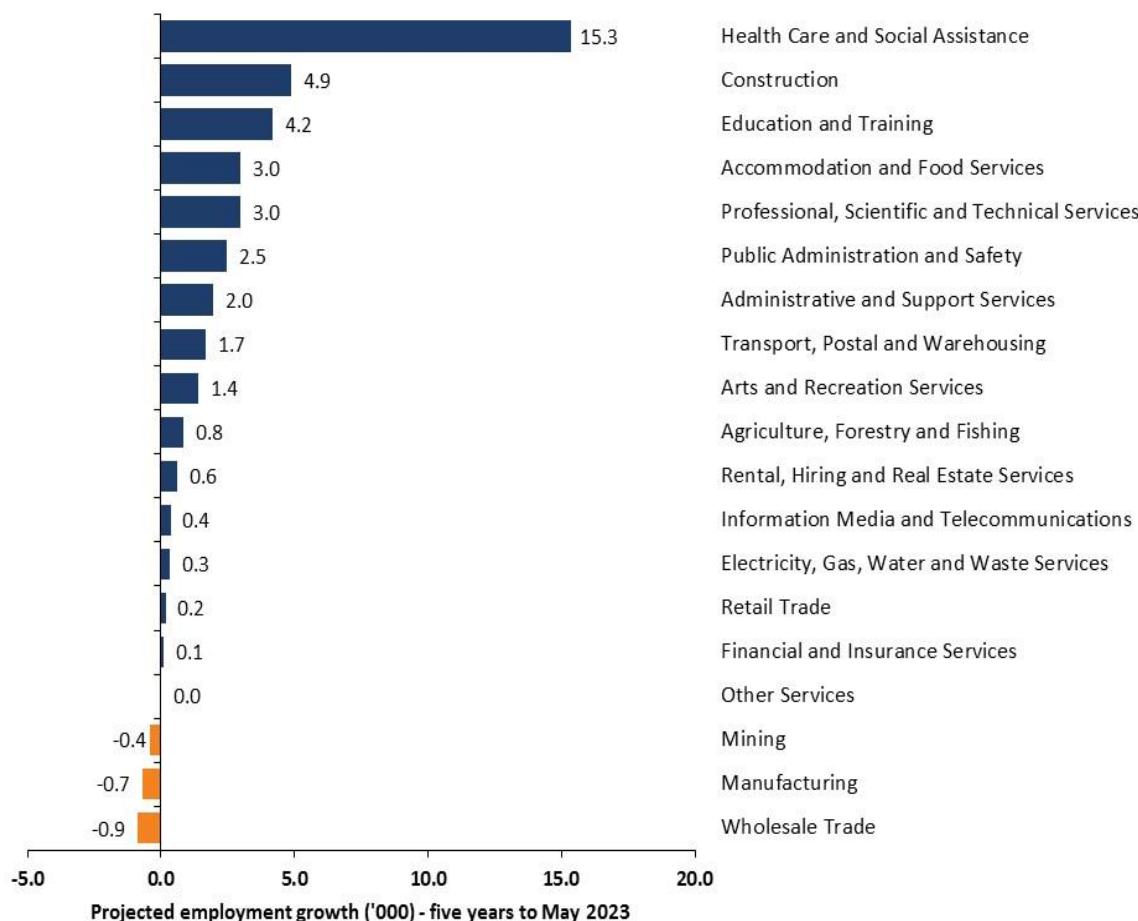
The Australian Department of Jobs and Small Business forecasts that the Health Care and Social Assistance industry will account for the largest share of South Australia's employment growth over the next five years (up by another 5,300), with the ongoing roll-out of the National Disability Insurance Scheme (NDIS) adding to public sector and healthcare employment. This industry is already the largest employer in SA, accounting for 15.4% of SA's workforce (equal highest with Tasmania and well above 13% of the national workforce who are employed in health and social assistance). This reflects differences in demographic profiles across the states; SA and Tasmania have older populations (with higher average care needs) than other states and territories.

The second largest industry of employment growth in SA is the construction sector, which is projected to increase employment by 4,900 over the next five years. A solid pipeline of publicly funded infrastructure work is supporting job gains in the construction industry. In contrast, lower employment is projected over the next five years in the mining, manufacturing and wholesale trade sectors (see chart 2).

In order to meet these changing skill needs, the SA Budget allocates \$181.8 million in 2019-20 and \$1.4 billion over the four years to 2022-23 for education capital investments. Key education funding initiatives include:

- \$162.7 million over four years (in addition to \$594 000 in 2018-19) to **upgrade government high schools** to facilitate the transition of Year 7 students into high schools and accommodate additional growth in the system. This includes infrastructure upgrades at Unley, Norwood Morialta, and Adelaide high schools;
- \$361 million to build **three new schools** at Whyalla, Munno Parra and Sellicks Beach/Aldinga;
- more than \$80 million to deliver **high-speed internet to public schools** across SA. This will aim to deliver speeds beyond 1GB to more than 500 government schools by mid-2020;
- a **flexible apprenticeship pathway** to help young people achieve their SA Certificate of Education while working full time in Year 12 (and meet the target of 1000 flexible apprenticeships);
- \$26.8 million in additional support for **TAFE SA** as it reforms its operations. Ownership of key TAFE SA properties will be transferred from Renewal SA to TAFE SA in 2019-20. This transfer will inflate investment spending on paper in 2019-20 by \$601 million; and
- \$3.4 million over 4 years to provide additional case managers to support a targeted increase of **1,000 skilled business migrants** each year.

Chart 2: South Australia projected employment growth by industry, five years to May 2023



Source: Department of Jobs and Small Business, 2018 Employment Projections for the five years to May 2023.

South Australian Budget revenue, expenditure, balance and debt

Total revenue (including all taxes, grants and transfers) is expected to grow by a relatively modest 2.5% p.a. over the four years to 2022-23 (nominal average annual growth). Revenue expectations have been revised lower since the 2018-19 Mid-Year Budget Review due to a smaller share of GST grants (reflecting slower local consumption spending nationally), lower land transfer revenue (stamp duty) and lower land tax revenue (reflecting slower and smaller housing transactions in SA).

Direct tax revenue is forecast to increase by 2.9% p.a. in 2019-20 (nominal) and by an average annual rate of 3.9% over the four years to 2022-23. Revenue from land transfer revenue (stamp duty) is projected to grow by 6.2% p.a. (nominal) over this period due to moderate growth in residential property prices and transaction numbers. Property taxes (such as land tax and the environmental services levy on fixed property) are expected to increase by 2.7% p.a.

Payroll tax, which is the state's single largest source of tax revenue, is expected to grow by 3.8% p.a. over the next four years (annual average) due to stronger compliance activities and steady (albeit subdued) growth in employment.

Government expenses in 2019-20 are forecast to be \$20.1 billion, which is 0.8% lower than in 2018-19. Expenses in 2018-19 were inflated by a one-off payment to the SA Housing Authority for restructuring. Over the four years to 2022-23, expenses are forecast to increase by an average of 2.0% per year (nominal), which is slightly below the average revenue growth rate for SA.

The Government expects an **operating surplus** of \$101 million in 2018-19, following a deficit of \$313 million in 2017-18. This surplus is expected to be achieved despite GST and stamp duty write-downs. Across the four years to 2022-23, the Budget is projected to achieve average annual budget surpluses of \$148 million. These surpluses are smaller than projected in the 2018-19 Mid-Year Budget Review, largely due to weaker than expected GST receipts.

Total non-financial public sector **net debt** is projected to increase from \$13.5 billion at 30 June 2019 to \$21.3 billion at 30 June 2023 due to relatively subdued revenue expectations and increased infrastructure investment over the next four years.

Table 3: General government fiscal position

	Unit of measure	2018-19 estimated	2019-20 budget	2020-21 estimate	2021-22 estimate	2022-23 estimate
Revenue	\$ million	20,359	20,198	20,543	21,233	22,118
Revenue growth (nominal)	per cent	1.5	0.8	1.7	3.4	4.2
Expenses	\$ million	20,258	20,104	20,439	21,091	21,867
Expenses growth (nominal)	per cent	5.0	3.7	3.7	1.9	1.6
Net operating balance	\$ million	101	94	105	142	251
Net lending/borrowing	\$ million	-579	-1,069	-654	-989	-585
Net debt	\$ million	13,547	16,713	18,154	19,949	21,271
% of revenue	per cent	63.1	78.2	83.2	88.8	91.2

Source: South Australian Department of Finance and Treasury

South Australia economic outlook

SA is benefiting from a lower Australian dollar and low interest rates. These factors are conducive to business investment and are encouraging growth in export-oriented sectors including agriculture, food and beverages, manufacturing, tourism and international education. A solid pipeline of public sector capital works led by road, water infrastructure, renewables, education and health facilities are also supporting economic activity. Less positively, SA (like other states) is being affected by drought, weak consumer spending and a downturn in residential property markets.

The 2019-20 Budget forecasts that real **SA Gross State Product (GSP)** will grow by an estimated 2.0% p.a. in 2018-19, unchanged from the previous year (see table 4 and chart 3). Growth is expected to accelerate to 2.5% p.a. in 2019-20 and then ease to 2.25% in each of the three years to 2022-23. The stronger outlook in 2019-20 is due to an expected boost in SA's winter crop production, assuming a return to more favourable weather conditions.

Public sector investment is expected to continue to support economic growth over the medium term, reflecting sizable government transport, water, electricity, health, education and other infrastructure projects. Significant private sector non-dwelling investment will include the OZ Mineral' Carrapateena project, the Skycity Adelaide casino expansion and the construction of frigates and submarines. This is expected to help offset the effects of weaker residential construction.

Exports will be supported by a lower Australian dollar, with growth expected across key export sectors including food and beverages, agriculture, mining and tourism. The value of SA' goods exports lifted by 2.3% p.a. in April 2019 led by copper, petroleum products and wine. International education and tourism also continue to perform strongly.

Employment growth in South Australia slowed in 2018-19. The ABS estimates that employment growth in SA slowed from a recent peak of 2.6% p.a. in April 2018 to 1.5% p.a. in April 2019 (trend). The Budget forecasts employment growth to strengthen back to 2.0% p.a. in 2019-20 and 2.25% p.a. each of the three years to 2022-23. Naval shipbuilding and major project activity will help to expand job opportunities over this period, including in supply chain businesses. Rather unusually, this Budget does not provide explicit forecasts for SA's unemployment rate, which was 5.9% as of April 2019 (trend) and largely unchanged from one year earlier. If employment growth slows, as the Budget expects over the next four years, SA's unemployment rate will probably rise back above 6.0%.

Consumer spending in South Australia is also likely to remain under pressure compounded by low real income growth and high levels of household debt which is constraining discretionary expenditure.

A softening global backdrop, subdued growth in consumer spending and the prospect of weaker residential construction over the medium term suggest downside risks to the forecasts of the South Australian Treasury.

Table 4: South Australia State Budget economic forecasts

% change p.a.	2017-18 actual	2018-19 forecast	2019-20 forecast	2020-21 forecast	2021-22 projection	2022-23 projection
Real gross state product	2.00	2.00	2.50	2.25	2.25	2.25
Real state final demand	3.30	2.25	2.00	2.25	2.25	2.25
Employment	2.20	1.25	2.00	2.25	2.25	2.25
Unemployment rate, % (annual average)	5.8	na	na	na	na	na
Adelaide consumer price index	2.30	1.50	1.75	2.25	2.50	2.50

Sources: Australian Bureau of Statistics; South Australian Department of Finance and Treasury.

Table 5: Australian full-year growth rates and government forecasts

RBA, SoMP (May 2019)	Dec 18 e	Jun 19 f	Jun 20 f	Jun 21 f		
GDP, % change p.a., year end	2.3	1.7	2.7	2.8		
Unemployment rate, %, year end	5.0	5.0	5.0	4.8		
Inflation (CPI), % change p.a., year end	1.8	1.7	2.0	2.1		
Wages (WPI), % change p.a., year end	2.4	2.4	2.5	2.6		
Treasury, Federal Budget 2019-20 (Apr 2019)	2017-18 e	18-19 f	19-20 f	20-21 f	21-22 p	22-23 p
GDP, % change p.a., year average	2.8	2.25	2.75	2.75	3.0	3.0
Employment growth, % p.a., year end	2.7	2.0	1.75	1.75	1.5	1.5
Unemployment rate, %, year end	5.4	5.0	5.0	5.0	5.0	5.0
Inflation (CPI), % change p.a., year end	2.1	1.5	2.25	2.5	2.5	2.5
Wages (WPI), % change p.a., year end	2.1	2.5	2.75	3.25	3.5	3.5
Terms of trade, % change p.a., year end	1.9	4.0	-5.25	-4.75	-	-

e = estimate. f = forecast. p = projection. Sources: ABS various data; RBA *Statement on Monetary Policy* (SoMP), latest quarter; Australian Treasury, *Federal Budget* 2019-20 (April 2019).

Table 6: Industry share of output, South Australia and Australia, 2017-18

Industry shares of output, 2017-18	SA	Australia
Agriculture	5.0	2.5
Mining	3.6	7.6
Manufacturing	6.2	5.8
Utilities	3.8	2.5
Construction	6.8	7.8
Wholesale Trade	4.5	3.9
Retail Trade	4.9	4.3
Hospitality	2.6	2.4
Transport	4.0	4.6
Information media	2.0	2.5
Finance & Insurance	7.4	8.7
Rental & Real Estate services	2.2	3.0
Professional services	5.0	6.8
Administrative services	2.8	3.2
Public Administration	5.2	5.1
Education	5.6	4.7
Healthcare	9.4	7.0
Arts & Recreation	0.7	0.8
Personal & Other Services	2.0	1.8
Ownership of dwellings	8.5	8.4
Gross Value Added	92.3	93.2
Taxes & subsidies	6.9	6.8
<i>Statistical discrepancy</i>	0.8	0.0
Gross State Product / Gross Domestic Product	100.0	100.0

Source: Australian Bureau of Statistics