

23 June 2014

South Australian 2014-15 State Budget

The South Australian 2014-15 Budget, handed down on Thursday 19 June, showed a substantial deterioration in fiscal position and economic outlook for the State since the SA Treasury pre-election forecasts in January. The **budget deficit for 2013-14 is expected to widen to \$1.232 billion** and the **deficit for 2014-15 is forecast to be \$479 million**. The bleaker fiscal outlook reflects a hit to the State Government's revenues through two channels - the weaker economic outlook is expected to hit the State's tax receipts, while federal funding is also forecast to fall significantly over the next four years.

The State Budget's improvement in the fiscal position towards the end of the forecast period is highly dependent upon an improvement in tax revenues. Ai Group believes would involve a considerable upswing in the present economic environment, which many of our members are struggling to see.

The SA economy (**GSP**) is forecast to grow by 2.25% p.a. in 2014-15, following expected growth of 1.75% p.a. in 2013-14, both down on the forecasts within the 2013-14 State Budget and the January update (Table 1). While SA Treasury pointed to dwelling construction activity as a positive supporting the State's economy, trade-exposed sectors have faced difficult trading conditions. SA Treasury forecast the closure of GM Holden's Elizabeth plant, along with Toyota and Ford's Australian vehicle production, will reduce the pace of employment and economic growth in 2016-17 and 2017-18.

Table 1: South Australian economic forecasts

% p.a. unless noted	2012-13 (Actual)	2013-14	2014-15	2015-16	2016-17	2017-18
2014-15 State Budget						
Australian GDP	2.6	2.75	2.5	3.0	3.5	3.5
Gross State Product	1.3	1.75	2.25	2.5	2.25	2.25
SA State Final Demand	-0.2	1.0	2.0	2.5	2.25	2.25
Employment Growth	0.1	-1.25	1.0	1.25	1.0	1.0
Adelaide Consumer Price Index	2.0	2.75	2.5	2.5	2.5	2.5
SA Treasury (Jan 2014 Budget Update)						
Gross state product	2	2.5	2.5	2.5	2.5	-
Employment Growth	-0.75	1	1.25	1.25	1.25	-

Sources: SA Treasury Budget 2014-15; SA Treasury Pre-election Update

In response to the worsening fiscal position, SA Treasurer Tom Koutsantonis, announced several **measures to cut expenditure and raising additional income** which included:

- **pay freezes** for senior public servants and state politicians as well as **efficiency dividend** on public sector agencies;
- **a lift in the Emergency Services Levy**, which applies to property values and is expected to cost the average household an additional \$150 a year;
- a reduction in funding to the **Motor Accidents Commission** and opening up compulsory third-party insurance provision to the private insurers; and
- the State Government has **suspended three health infrastructure projects** valued at \$184.1 million: The Queen Elizabeth Hospital stage 3A, Modbury Hospital and Noarlunga Health Service stage 2A redevelopments.

Ai Group welcomes the confirmation of \$60 million funding over four years in the SA State Budget as part of the \$155 million national package to assist the transition of automotive workers and suppliers. It will be important that not only workers directly affected are assisted, but that non-automotive companies are able to accelerate growth strategies and be in the best position possible to engage displaced workers.

Ai Group also welcomes the additional funds for the important training initiative *Skills for All*. The Government has committed an additional \$52.0 million over two years (in addition to \$11.0 million in 2013–14) to this program which it says will ensure industry training needs are met while supporting the state's economic priorities.

The SA Government has also maintained its small business payroll tax concession. The concession provides relief to eligible employers of up to \$9800.



	NSW	Vic	Qld	SA	WA	Tas	Australia
Economy size (2012-13)							GDP
GSP, real \$bn	471.4	333.4	294.5	94.2	253.0	24.2	1,525.0
% of national GDP	30.9	21.9	19.3	6.2	16.6	1.6	100.0
Economy structure (2012-13)							% of GDP
Agriculture, % of GSP	1.4	2.4	2.7	4.8	1.0	7.4	2.1
Mining, % of GSP	3.1	2.0	10.3	4.1	34.3	1.6	9.6
Manufacturing, % of GSP	7.3	7.9	6.8	8.2	4.7	7.1	6.8
Construction, % of GSP	5.2	5.9	8.8	7.4	12.0	6.3	7.6
Retail, % of GSP	4.2	5.2	5.2	5.0	3.2	5.5	4.5
Transport, % of GSP	4.8	4.7	5.5	4.6	4.4	5.8	4.8
Financial services, % of GSP	11.5	10.4	5.1	7.3	2.9	6.4	8.0
Professional services, % of GSP	7.5	8.1	5.1	5.2	5.0	3.2	6.6
Public administration, % of GSP	4.9	4.1	5.5	5.8	2.8	6.8	5.2
Health, % of GSP	6.4	7.0	6.8	7.8	4.0	9.4	6.3
Education, % of GSP	4.6	5.4	4.3	5.1	2.7	6.7	4.5
Population size (2013)							
Population, mn	7.4	5.7	4.7	1.7	2.5	0.5	23.131
% of national total	32.0	24.8	20.1	7.2	10.9	2.2	100.0
Population structure (2013)							
% female	50.3	50.5	50.1	50.4	49.5	50.1	50.2
% born outside Australia (2011)	28.3	28.7	22.5	23.7	33.4	12.5	26.9
Median age, years	37.8	37.3	36.6	39.8	35.8	41.2	37.3
% aged 65 years and over	15.2	14.6	13.6	16.7	12.5	17.3	14.4
Labour market (May 2014)							
Employment growth, '000s s.a.	-13.1	18.0	60.7	-19.6	39.1	0.6	98.7
Unemployment rate, % trend	5.5	6.3	6.3	6.7	5.1	7.5	5.9
Participation rate, % trend	63.0	64.2	66.4	62.0	68.2	60.9	64.7
Wages and prices (March Quarter 2014)							
Wage price index (WPI, private sector) % p.a.	2.5	2.6	2.7	3.4	2.3	2.3	2.6 (WPI)
Capital city headline CPI, % p.a.	2.8	2.8	3.1	2.9	3.1	2.8	2.9 (CPI)

Sources: ABS various publications.

Ai Group Economics and Research Team

Julie Toth

David Richardson

Pip Freebairn

Yi Ming Hu

Gareth Shaw (part time)

Elle Spyropoulos (part time)

Chief Economist

Manager, Economics and Business Services

Senior Adviser, Economic Policy

Economist

Research Coordinator

Research Assistant

(03) 9867 0124

(02) 9466 5456

(03) 9867 0261

(03) 9867 0231

(03) 9867 0280

(03) 9867 0108