

# The economic backdrop

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**15 May 2015**



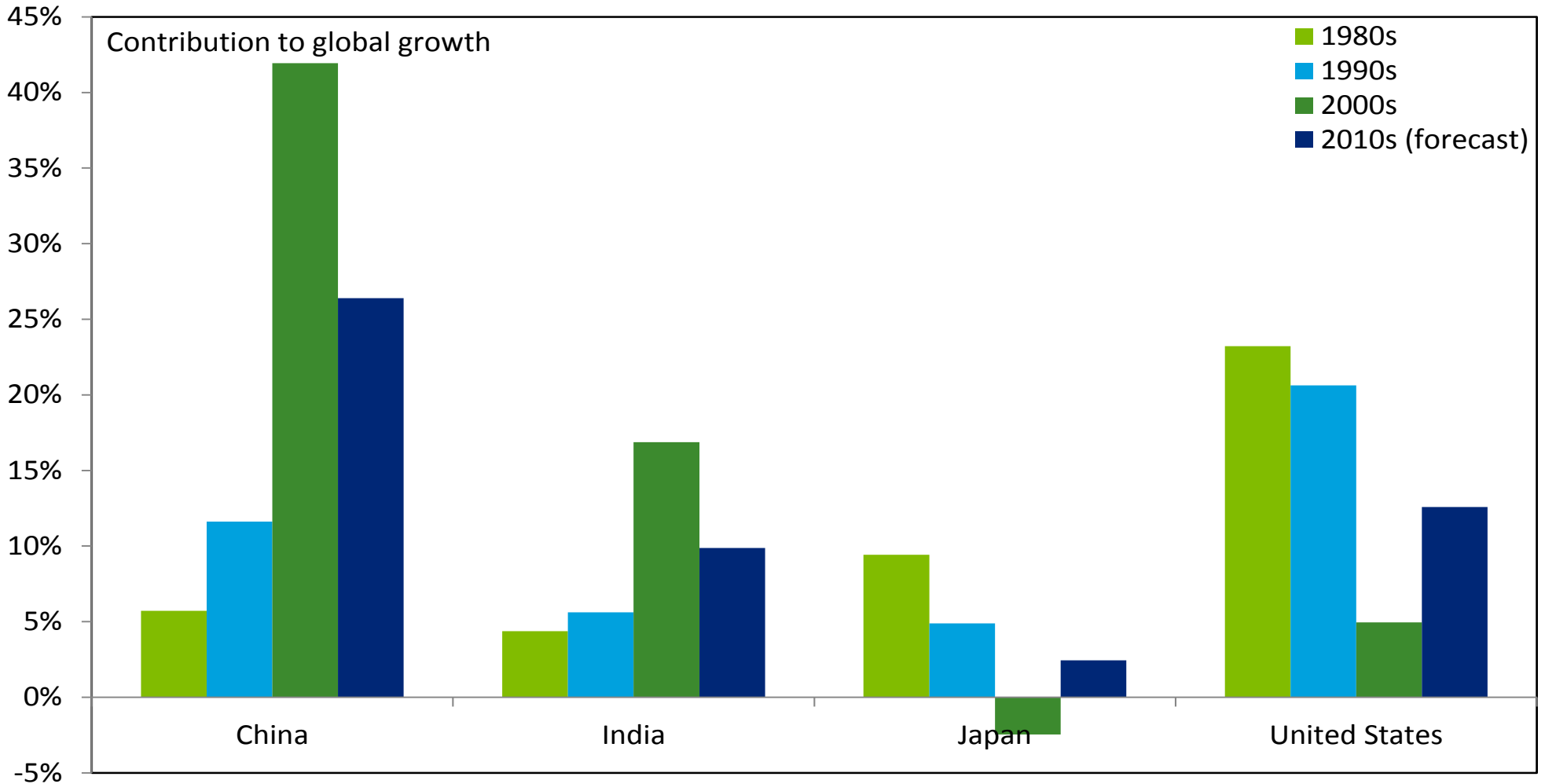
# Magical mystery tour

- **The global and Australian economies**
- **Budgets, dollars and deregulation**
- **Wage trends over the next three to five years**
- **Implications of those wage trends for education**
- **Possible future challenges in wages / HR**

# The global outlook



# The big picture: World income growth shares



# Mixed messages on the globe for 2015 & 2016

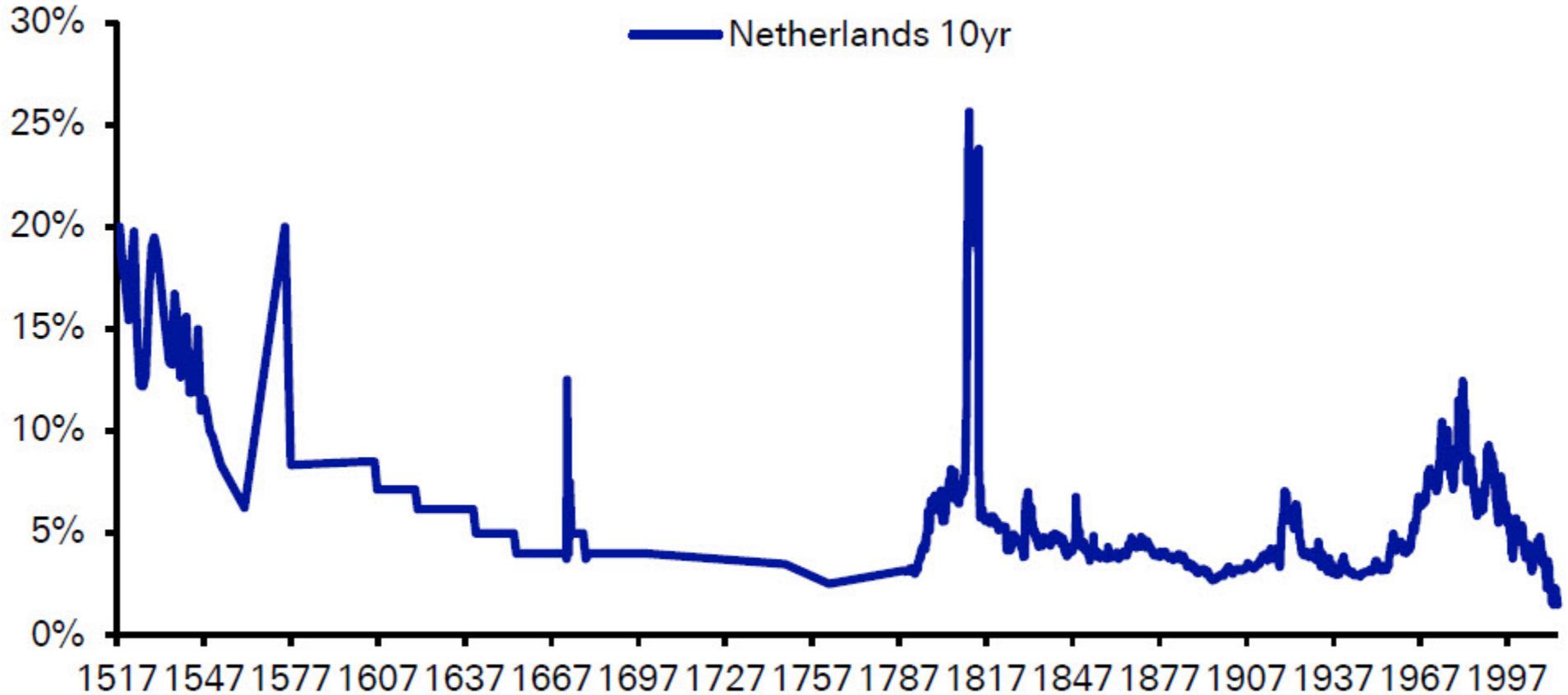
The US is looking better, but China is looking worse. For most of the world that's a draw, with even a little upside thrown in from the Eurozone (where forecasters were too negative).

But for Australia, the slowdown in China means that global challenges continue to edge upwards. And the latest to join the casualty list has been Asia's Tigers, where flagging growth has led to interest rate cuts.

Yet so far that combination still spells major trading partner growth at or a little above 4%. Although that's not exactly shooting the lights out, it is respectable (and a bit better than the two decade average).

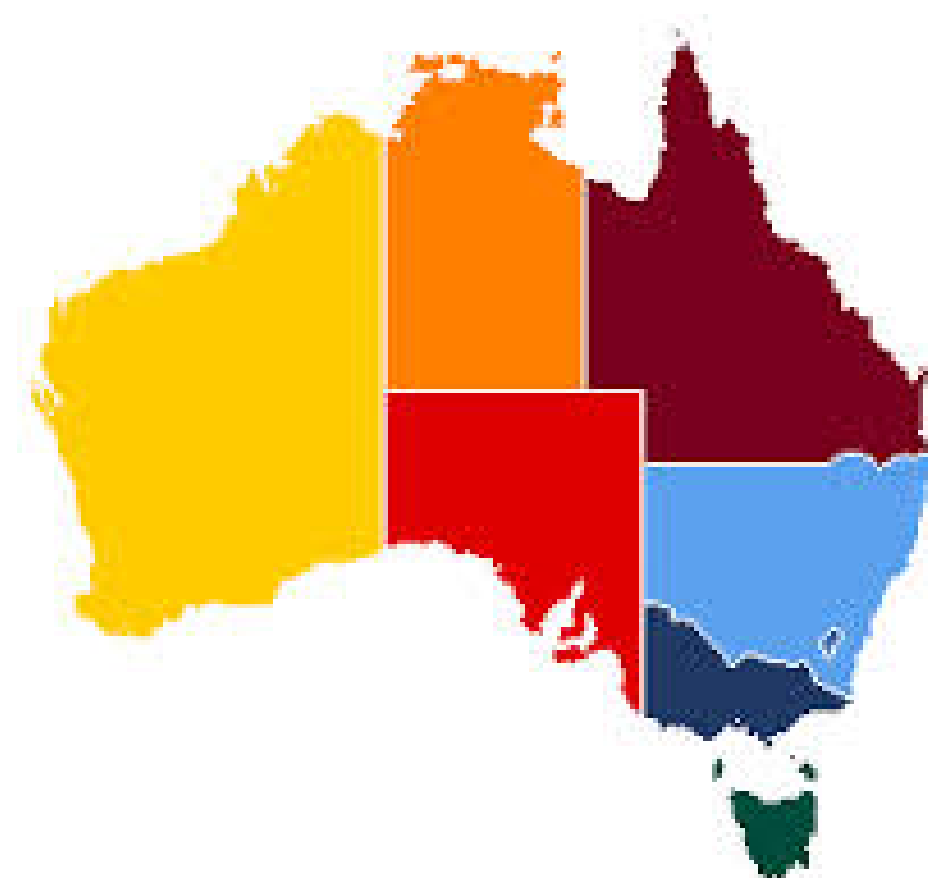
# Financial markets: Pedal to the metal

Figure 1: Netherlands 10yr Government Bond Yields



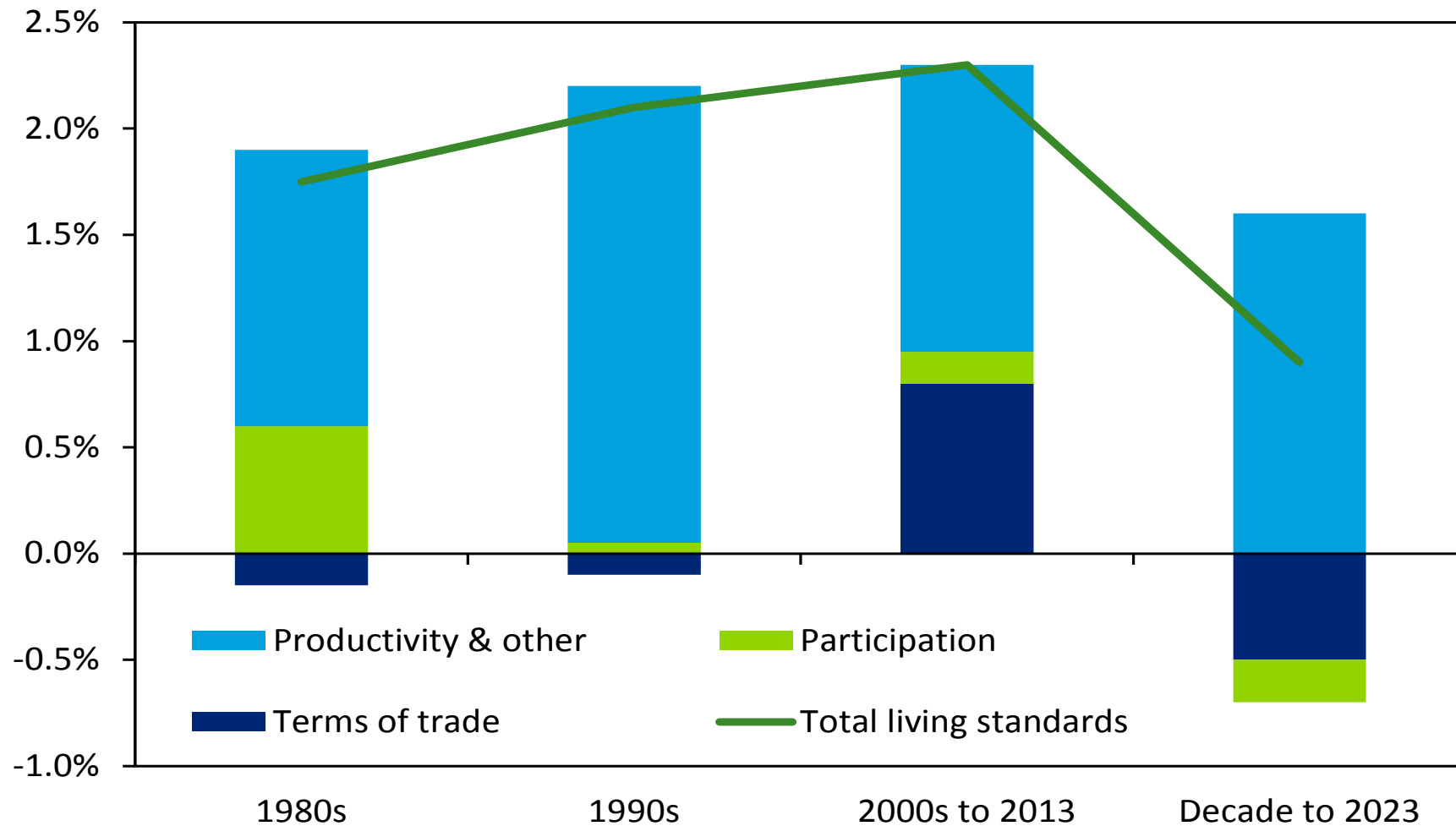
Source: Deutsche Bank, GFD

# The Australian outlook



# Australia's future productivity challenge

Contribution to annual income growth

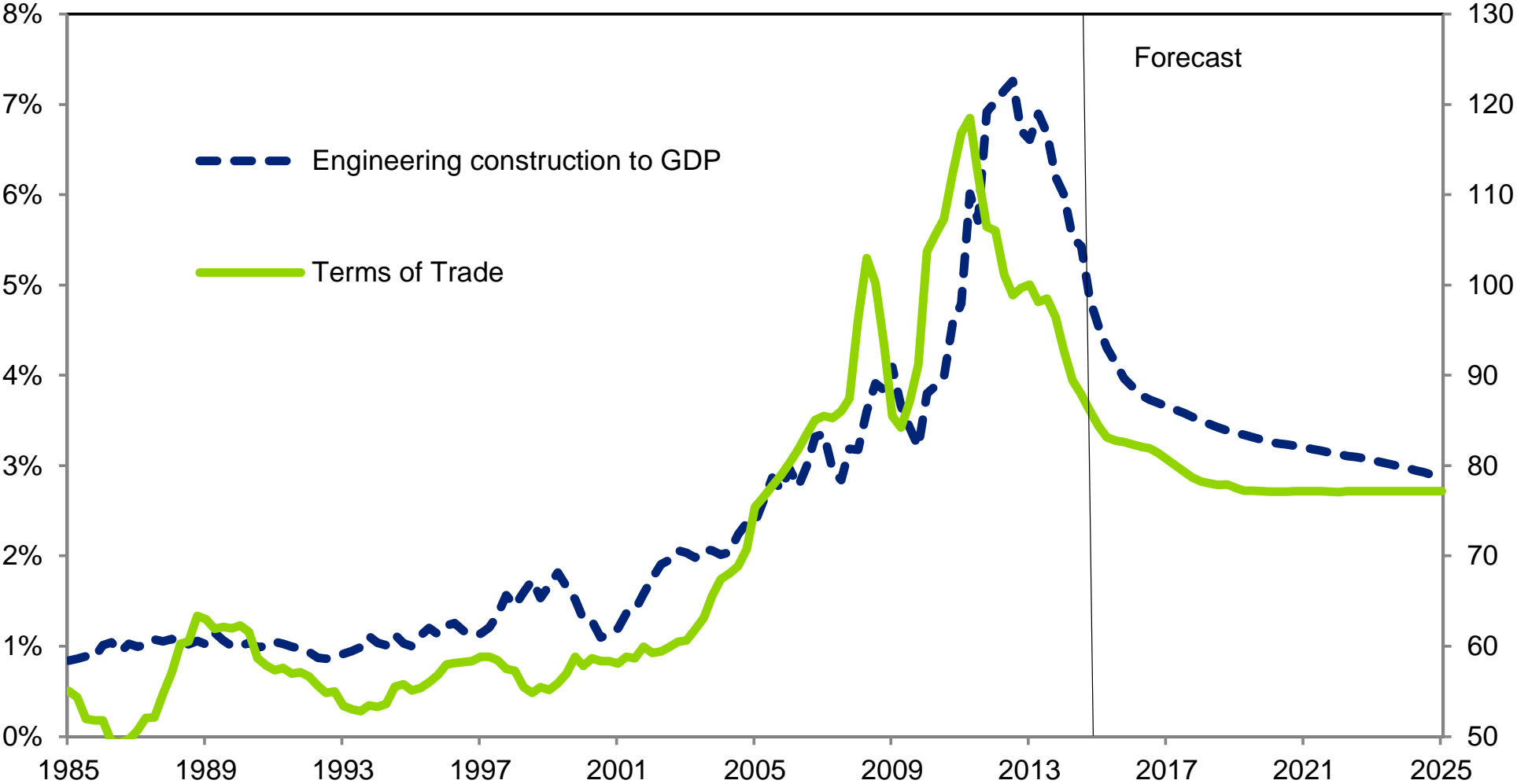




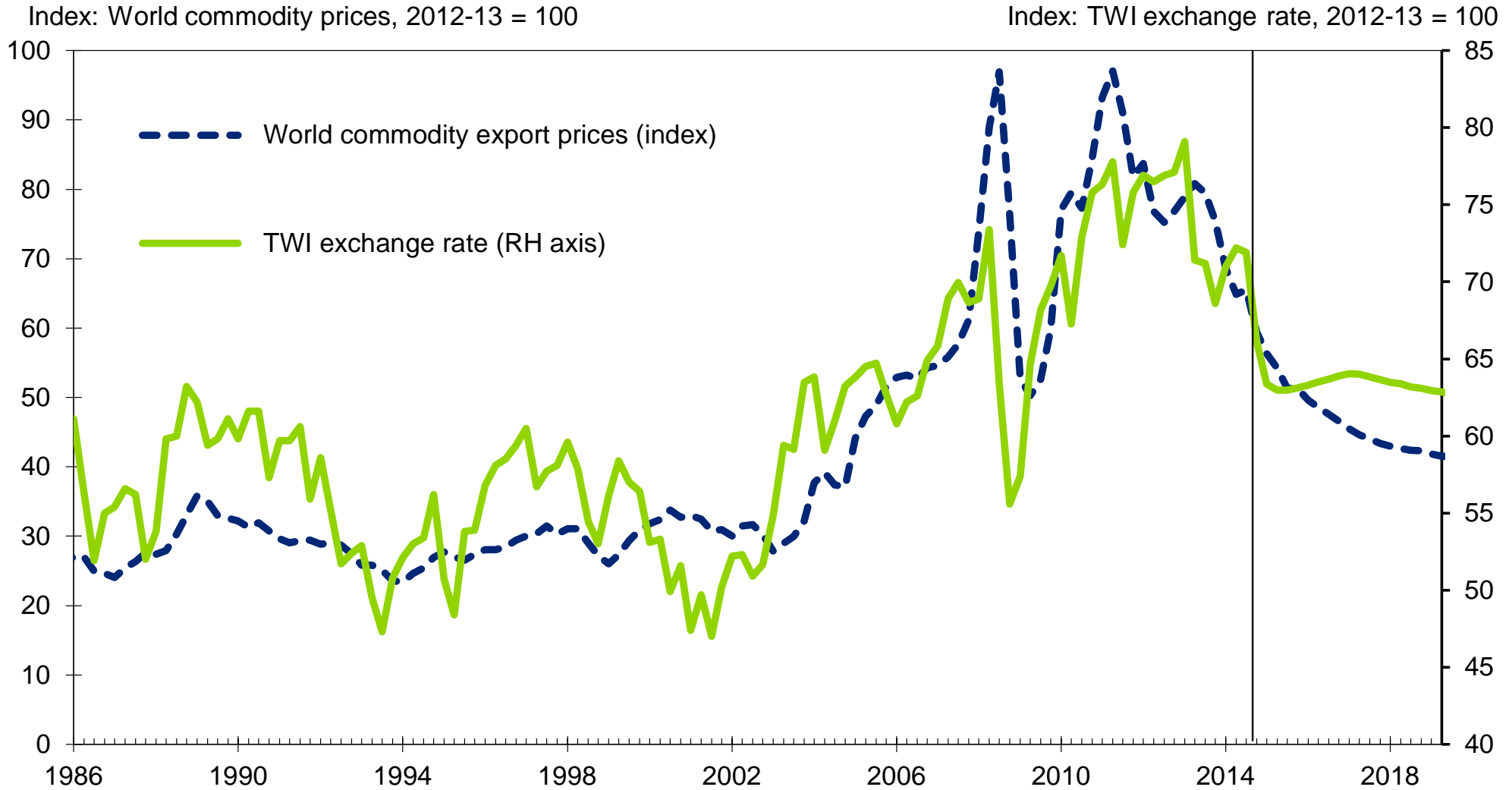
# Australia's economic drivers are changing

Share of economy

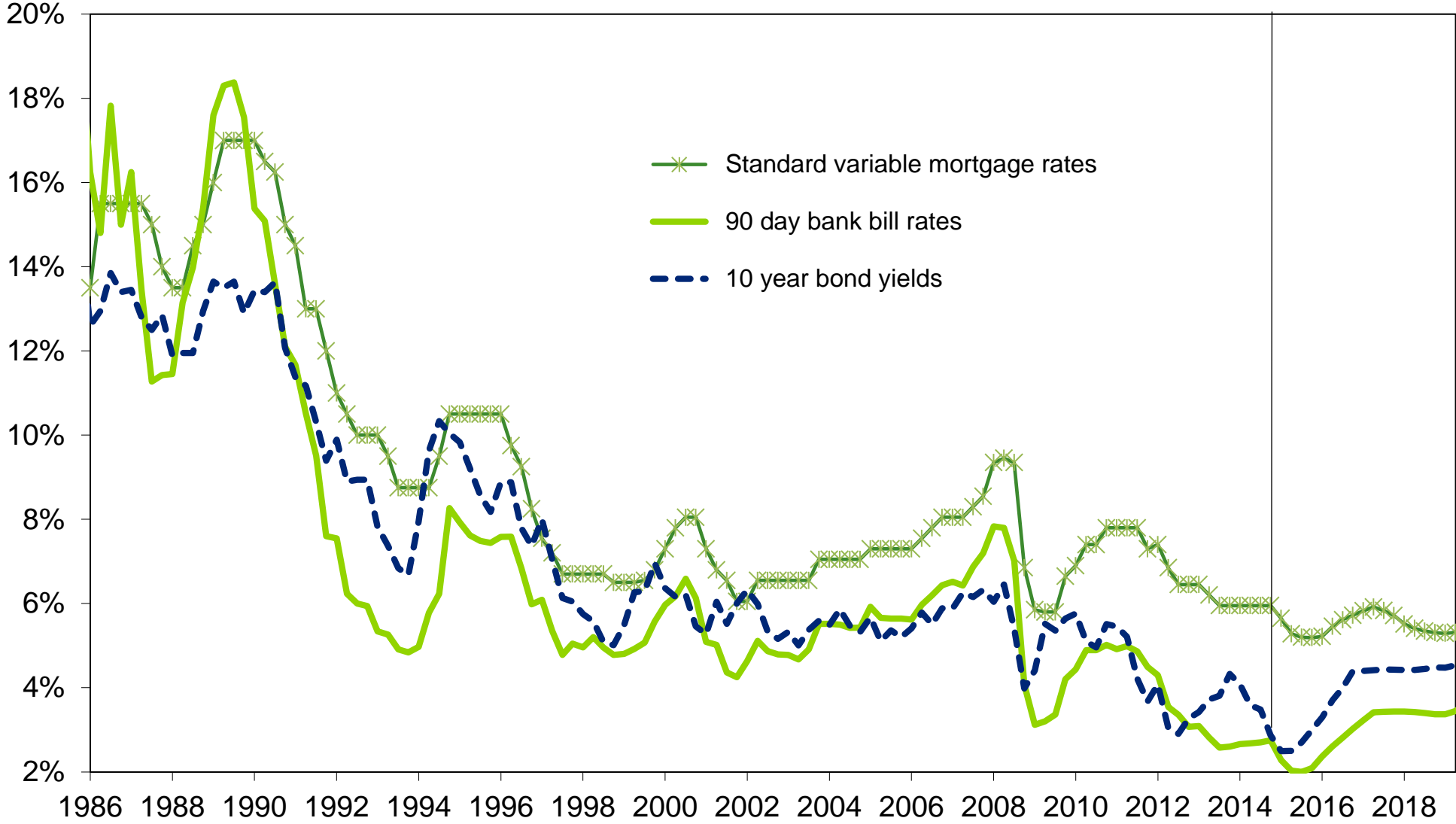
Terms of Trade index: 2012-13 = 100



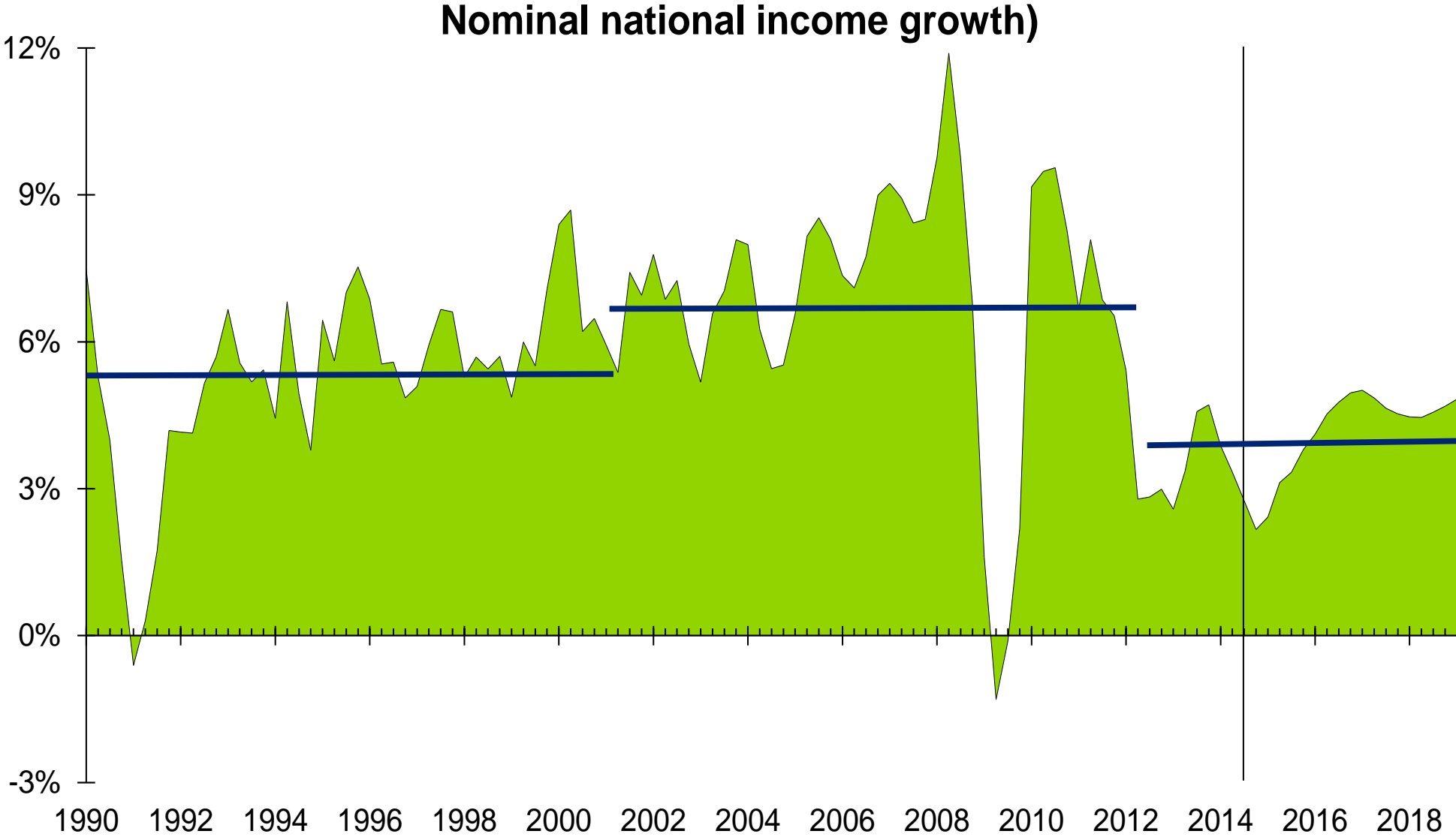
# Good news for 'dollar dependent' sectors



# Credit is cheaper than it ever has been



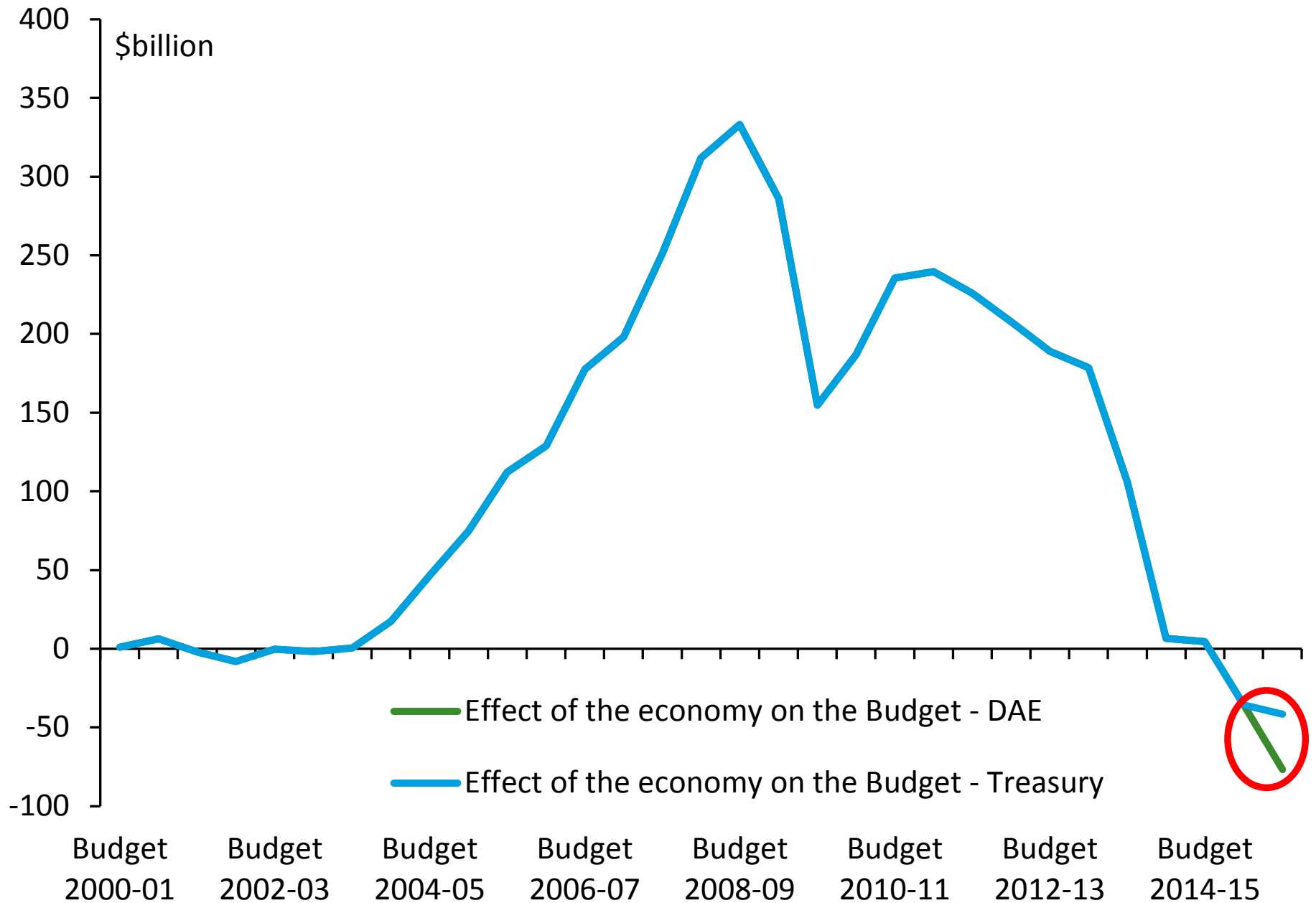
# Growth remains below trend



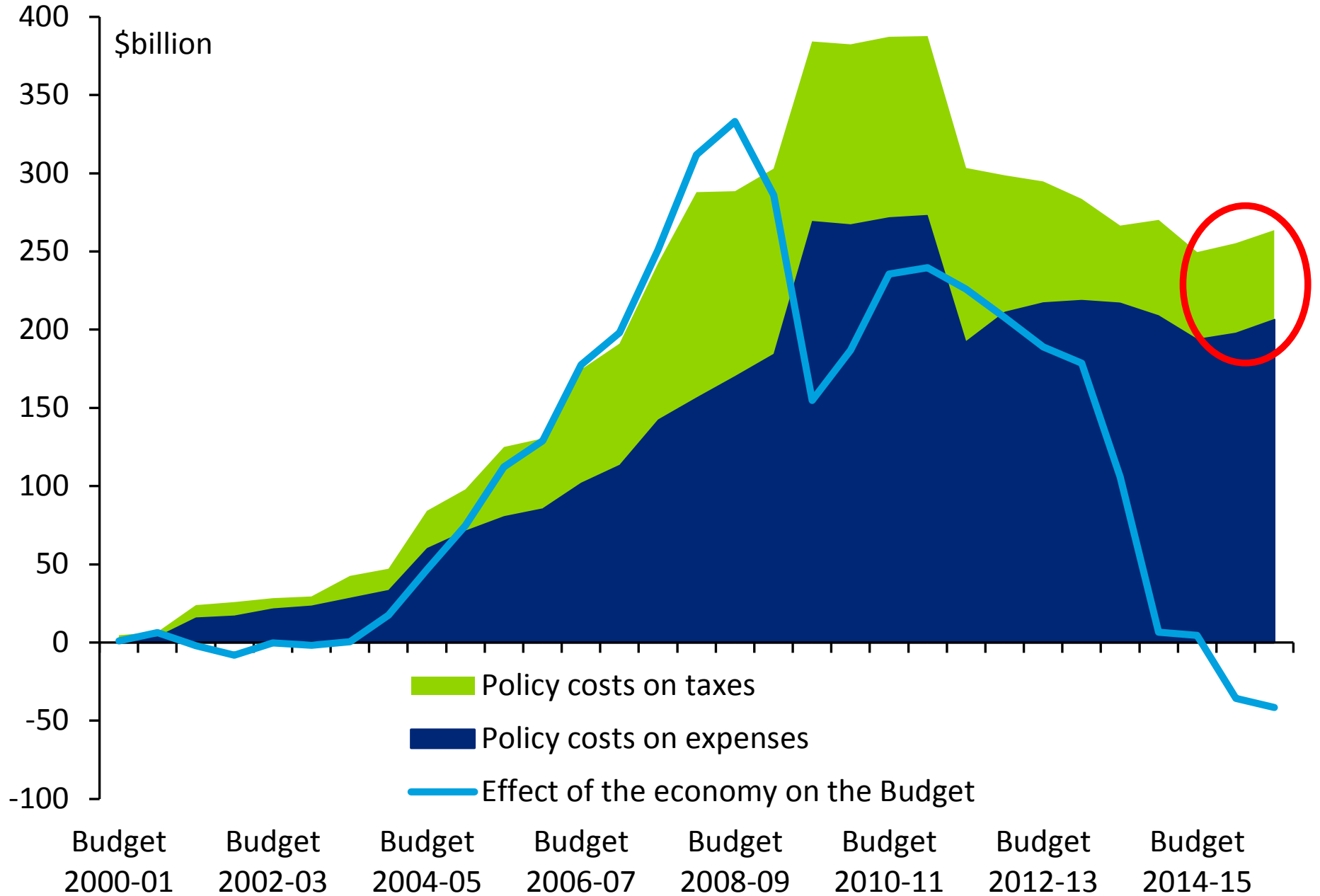
# The Budget changes gear



# The Federal Budget: Easy come, easy go



# The cost of permanent promises



# It's a huge ask

The improvements in future Budget deficits assume:

- The Senate merely delays rather than denies further savings of the size announced in last year's Budget. We can run, but we can't hide: policy needs to be part of the repair. The economy can't and won't get there by itself.
- That taxes on capital gains surge in a way that they haven't for many years.
- That wage gains pick up, pushing people into higher tax brackets at a faster pace.
- And that China steadies and commodity price falls ease back to being moderate.

In isolation, each of those assumptions are brave. In tandem, they may rank as heroic.



# What happens next?

**The old rule of thumb is that Australia wastes booms, but then rises to the challenge when adversity hits.**

Yet although the first part of that rule held true in spades this time around, it is less clear that the second part will.

**Australians are more willing to change their votes than ever before, meaning that the incentive for oppositions to oppose has been rising for some time.**

It is that which now poses a key challenge for Australia, as it means parliament has rising incentives to stifle what the government of the day is trying to achieve.

**But small targets may be an increasingly big problem.**

# Wages, HR



## Wages in the slow lane

Wages are in the slow lane, closely tracking price gains, but no more than that. That isn't the result of trends in particular sectors or States. Although wage growth in WA has slumped to the lowest of all the States – rather less than half its 2008 peak – wage gains in WA in the past year (at 1.9%) is only a little below the national average of 2.3%.

And nor should you be surprised to hear mining wage growth (at 2.4%) is also back close to the average.

Yet the simple summary is that you could throw a handkerchief over all States and all sectors, with wage gains low across the board.

# **The economy is to blame – as is the past decade**

**Some of that slowdown has its roots in an economy growing at below trend rates, and with unemployment creeping up. But there is a bigger picture adjustment underway as well, with a need for businesses to rebuild their cost competitiveness despite the helping hand proffered by a lower exchange rate.**

Nor will wage growth rebound any time soon – growth looks set to remain below trend for a while further, and those employers who were hit up for hefty wage gains in the past decade (mining, construction, the utilities, education and elements of both the Federal and State public service) are now mostly amid long and grinding campaigns of cost cutting.

## What lies ahead

Wage gains are likely to remain weak at least until 2016, when a recovery (to relatively modest wage gains) finally begins. Yet wage gains won't bump along the bottom at record lows forever. Baby boomer retirement means that the pace of growth in Australia's labour supply won't be healthy, the urgency of the current phase of national cost cutting will slowly dissipate, while better news in housing construction will also boost wage gains.

So although the recovery in wage gains is both modest and slow, it will occur.

# Wage growth has dropped

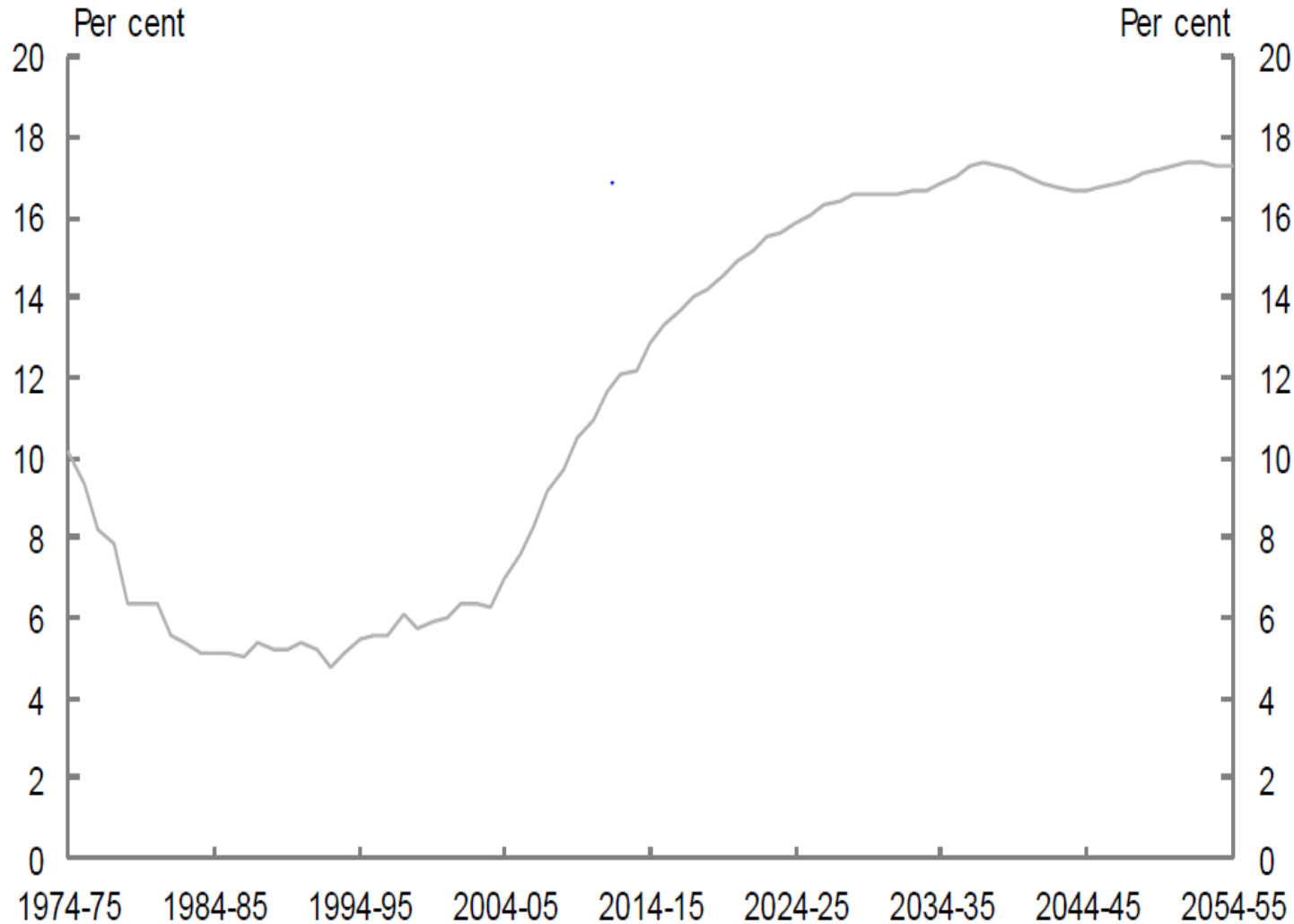


# EBAs yet to slow to the same extent

Quarter	Private sector			Public sector			Total			Total All current agreements
	No. of agmts	Employees ('000)	Wage rise (% annual)	No. of agmts	Employees ('000)	Wage rise (% annual)	No. of agmts	Employees ('000)	Wage rise (% annual)	
<b>Sep-12</b>	43	52.1	2.7	1,998	149.0	3.7	2,041	201.1	3.4	3.7
<b>Dec-12</b>	42	17.3	3.2	1,850	373.4	3.2	1,892	390.7	3.2	3.6
<b>Mar-13</b>	32	21.5	3.7	1,308	118.9	3.6	1,340	140.5	3.6	3.6
<b>Jun-13</b>	34	22.4	3.1	1,461	107.9	3.4	1,495	130.3	3.3	3.6
<b>Sep-13</b>	46	119.4	3.3	2,168	262.8	3.4	2,214	382.2	3.4	3.5
<b>Dec-13</b>	61	79.7	3.3	1,586	171.2	3.5	1,647	251.0	3.4	3.5
<b>Mar-14</b>	44	69.8	3.7	1,195	112.3	3.4	1,239	182.1	3.5	3.5
<b>Jun-14</b>	45	36.1	3.6	1,265	106.3	3.3	1,310	142.4	3.3	3.5
<b>Sep-14</b>	39	42.7	3.9	1,475	180.9	3.4	1,514	223.6	3.5	3.5

# More of us working longer

**Chart 1.12 Participation rates of people aged 65 years and over**

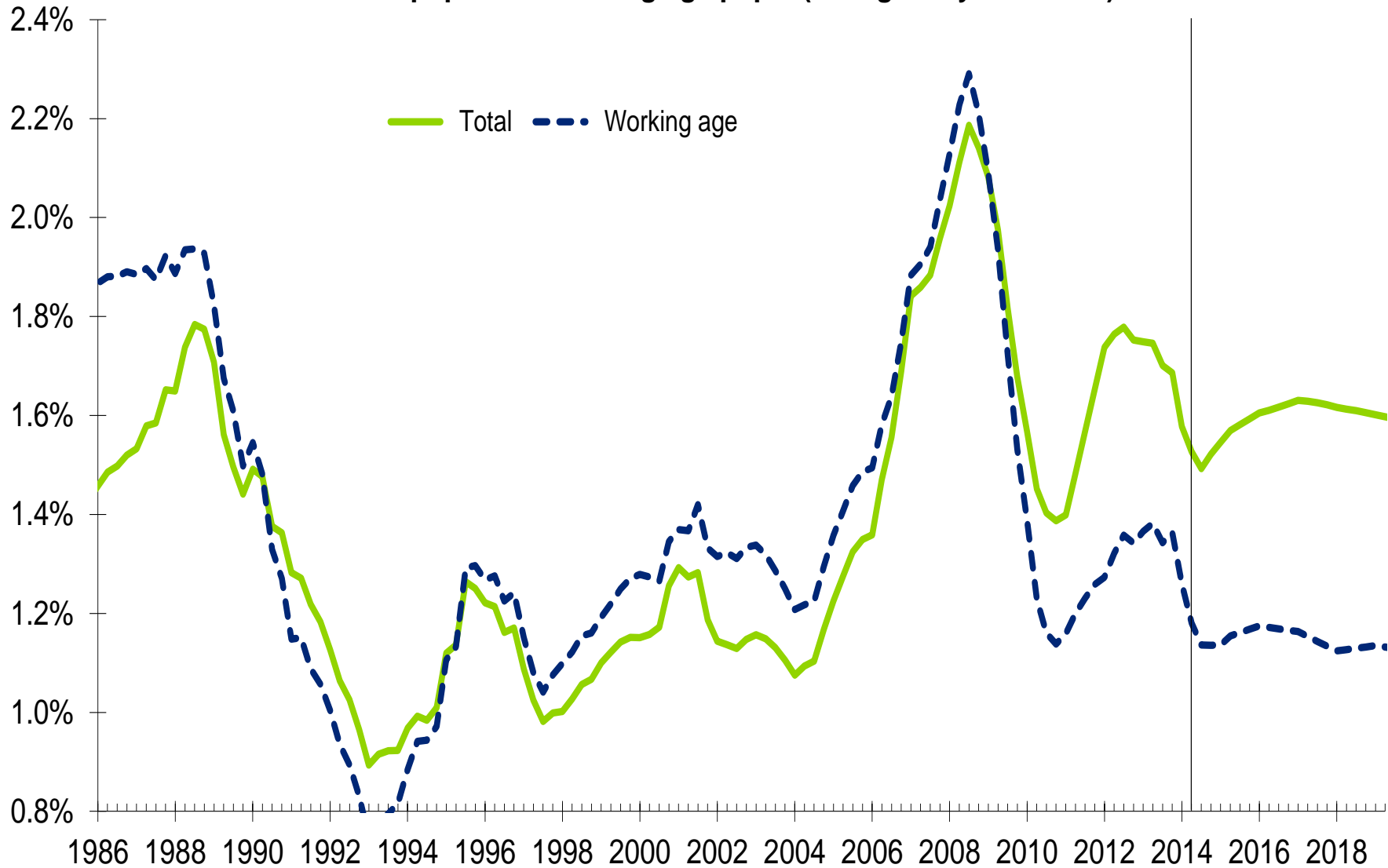


Source: ABS cat. no. 6291.0.55.001 and Treasury projections.



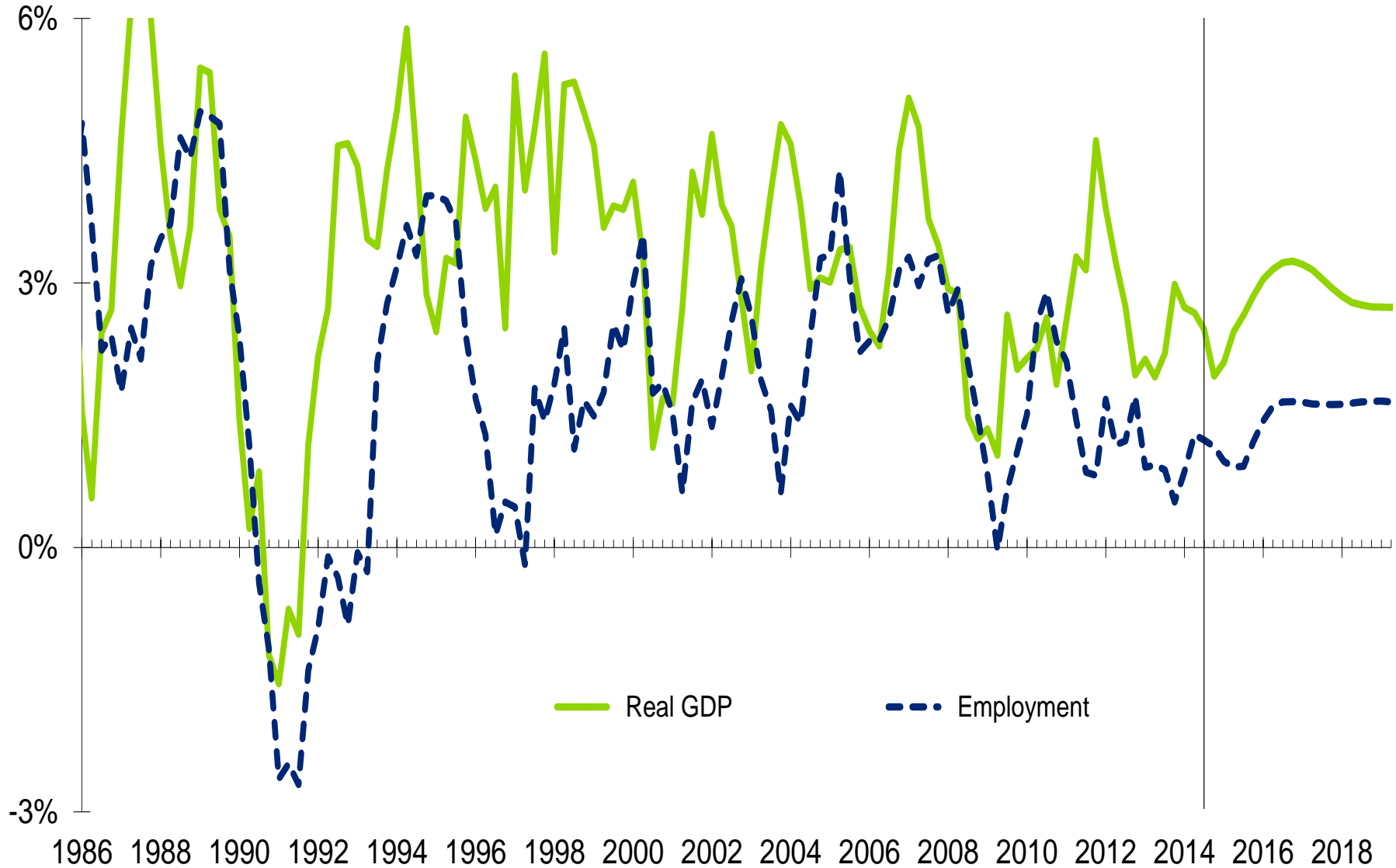
# Supply slows, demand slows less ...

Total pop'n and working age pop'n (change on year earlier)

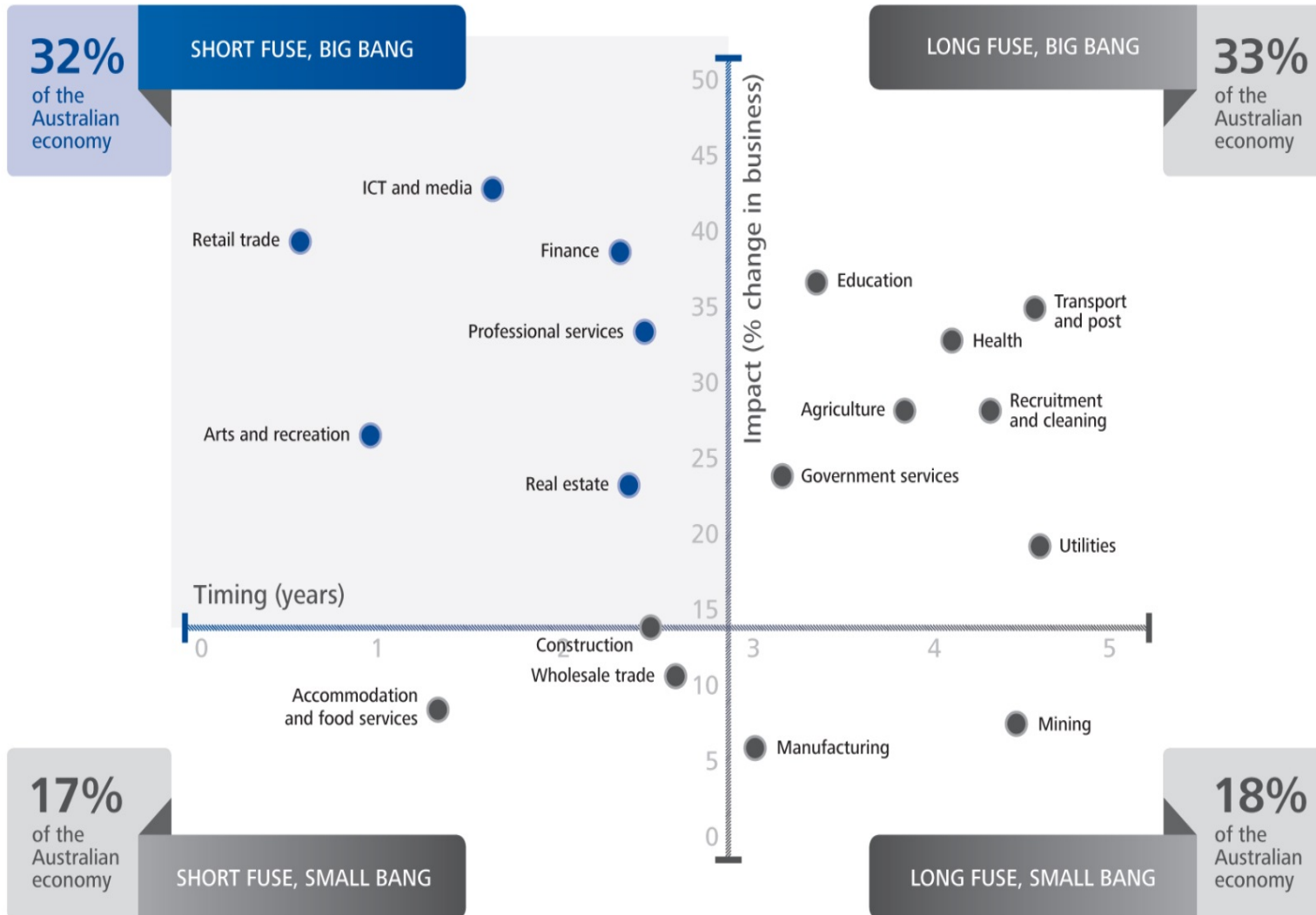


# It's a different decade

Output and employment (change on year earlier)

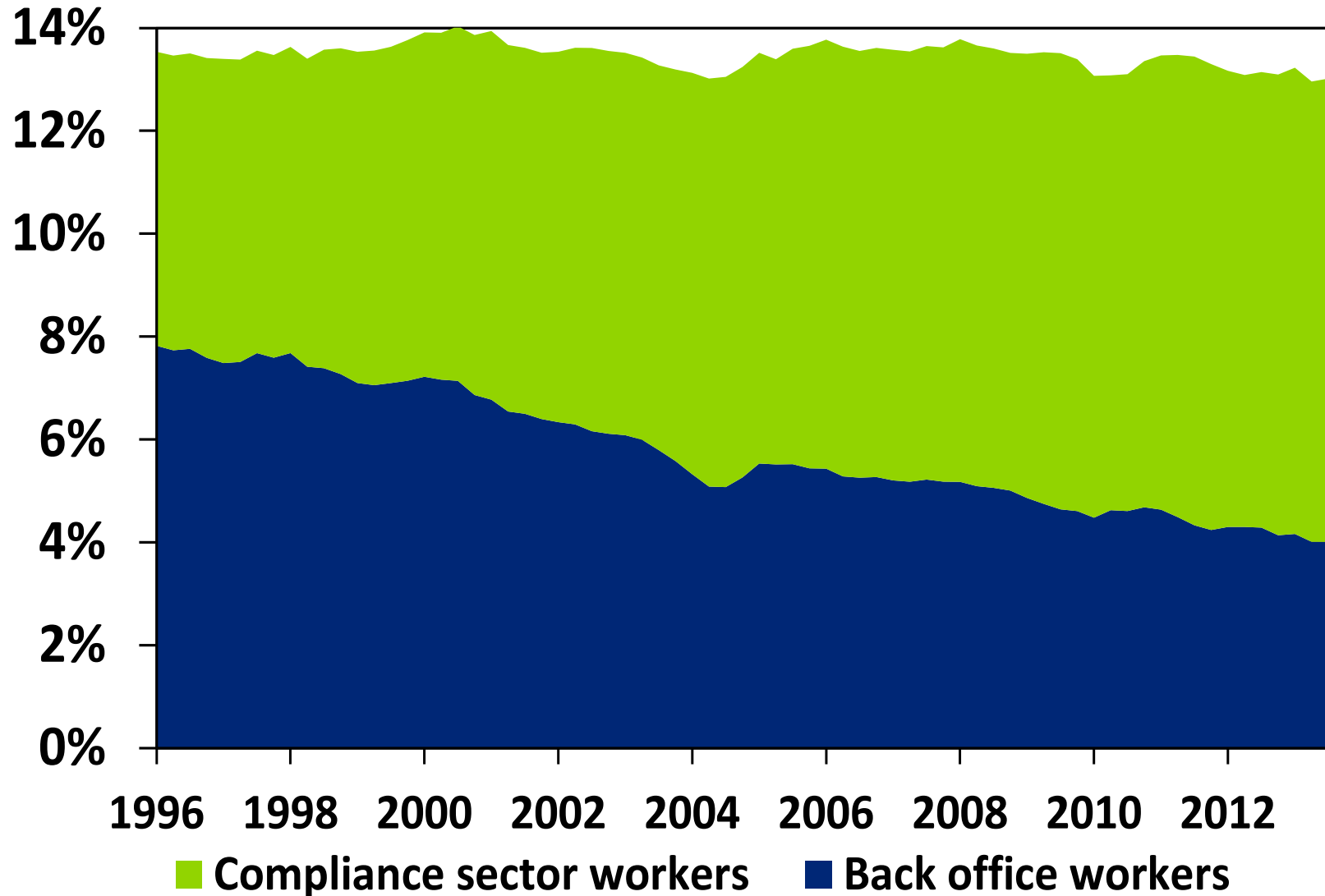


# While digital disruption is spreading



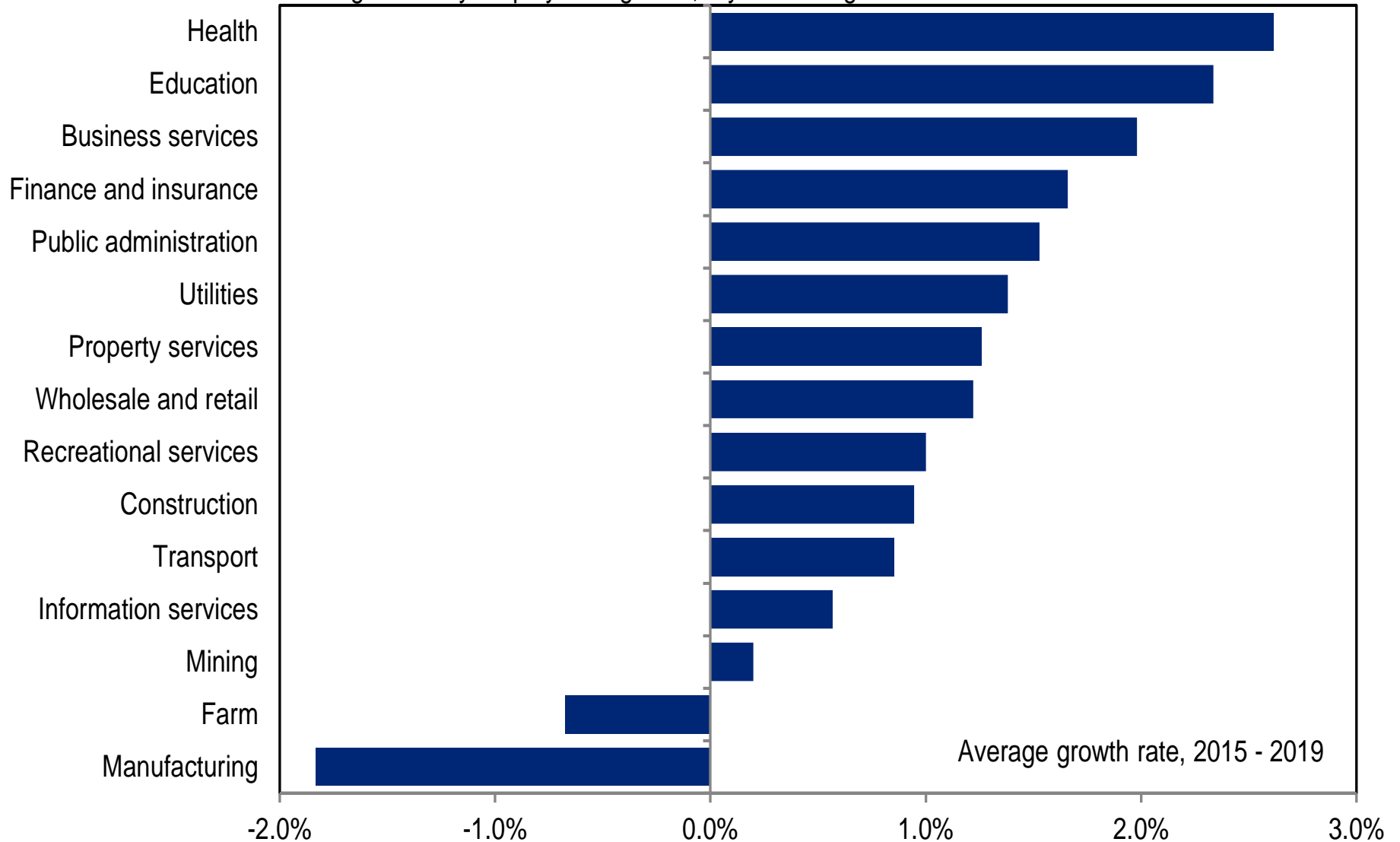
# And 'compliance' changes shares of the workforce

Back office & compliance workers as a share of total employment

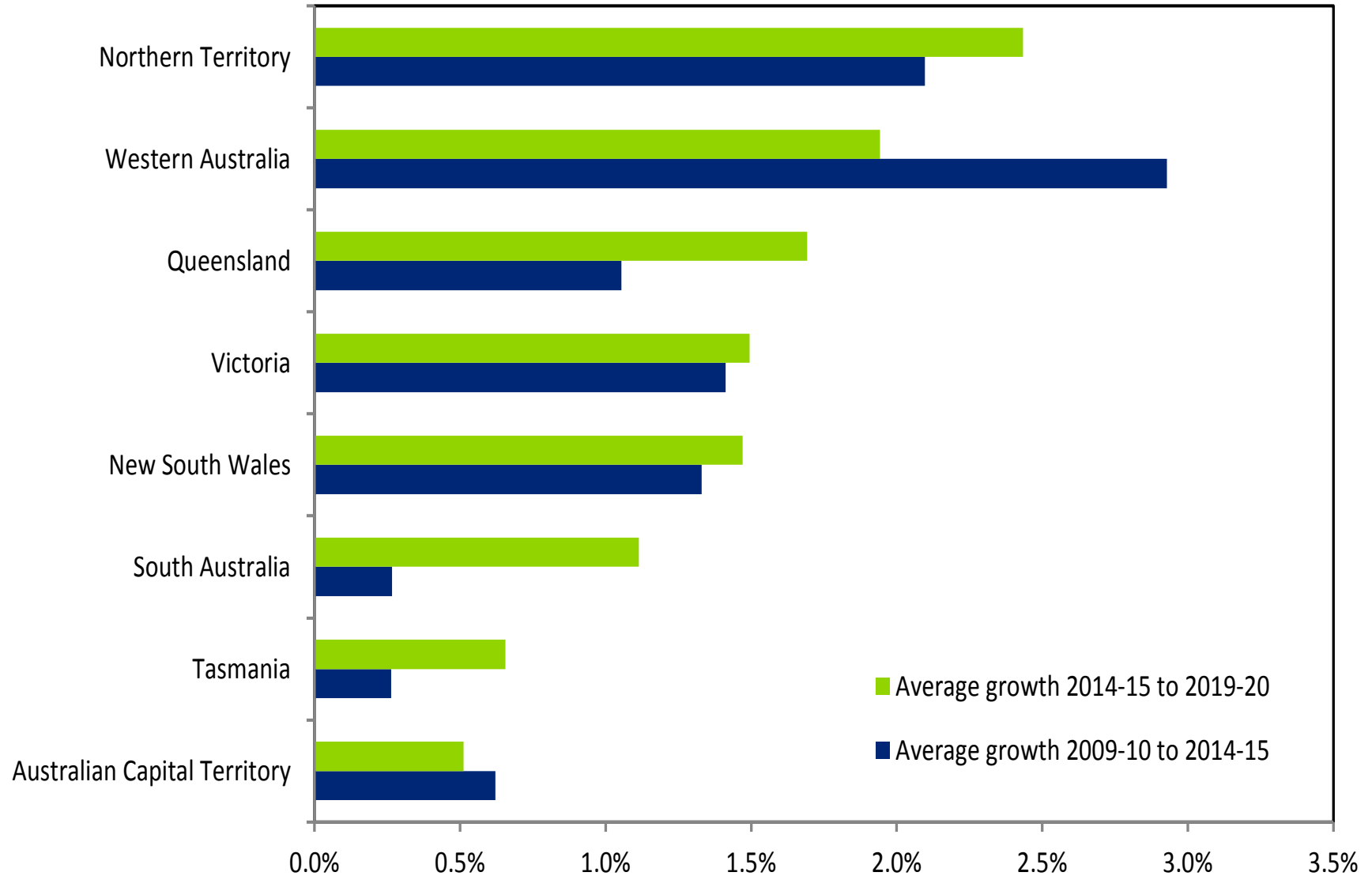


# Employment by industry

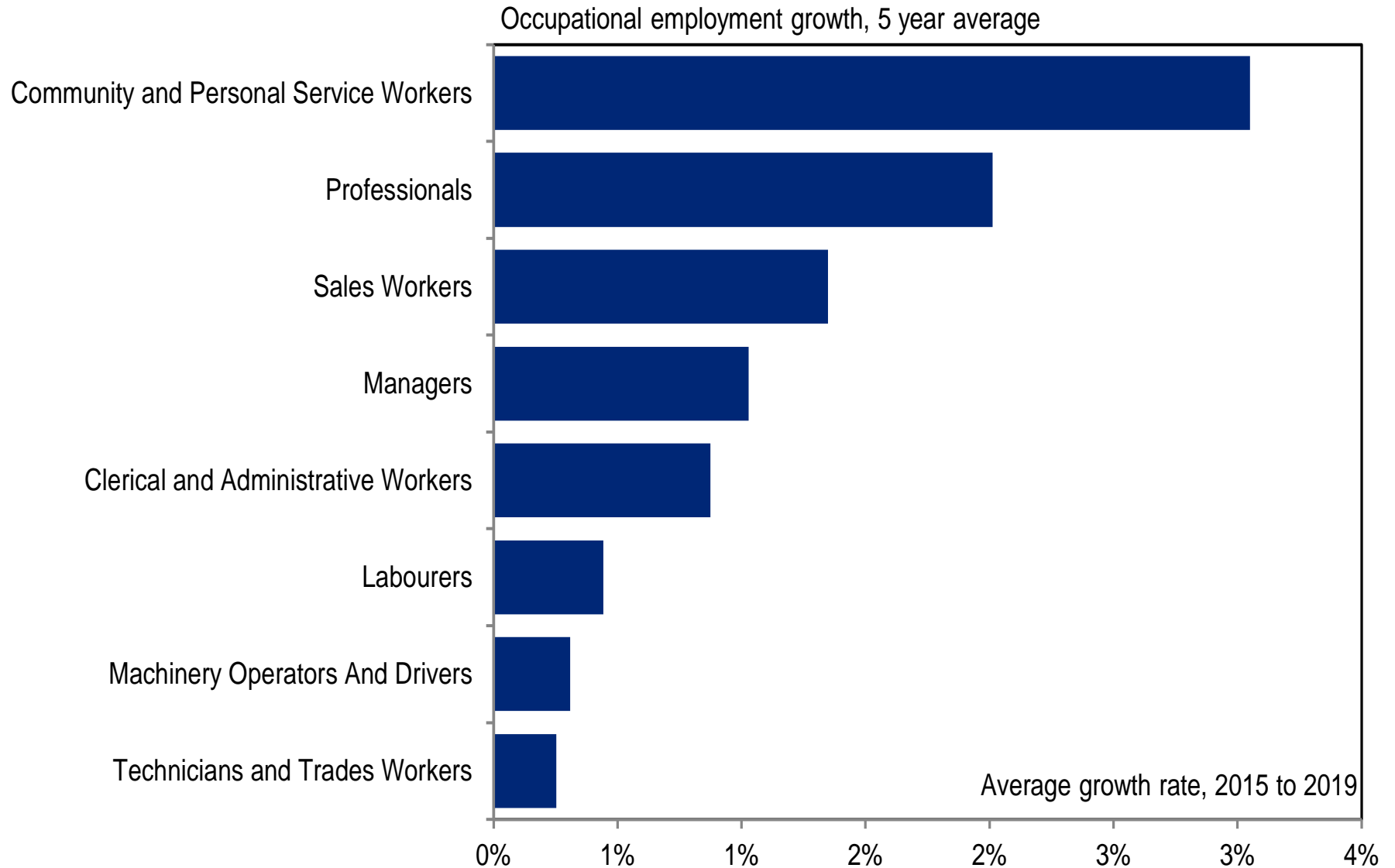
Average industry employment growth, 5 year average



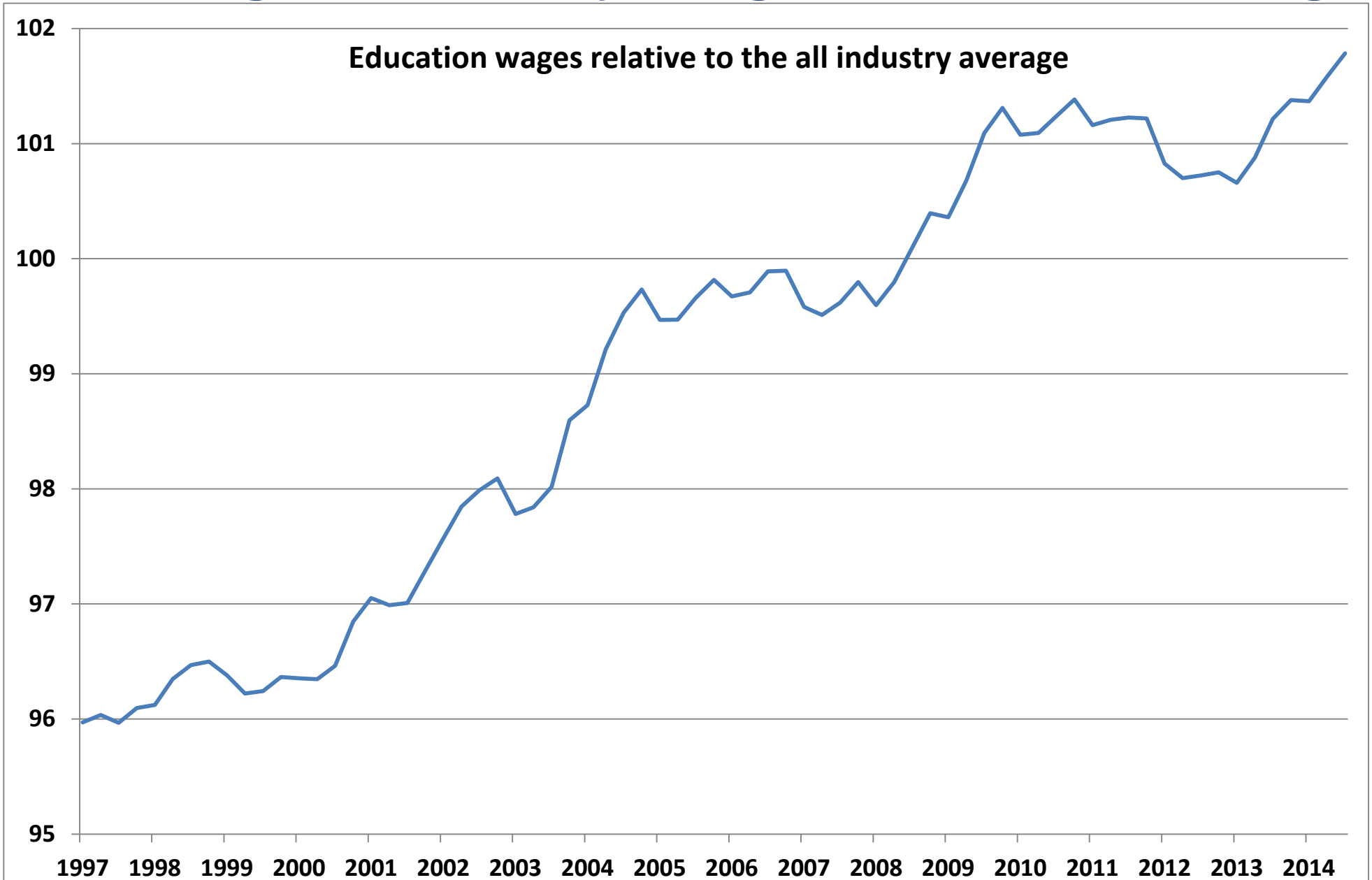
# State employment growth



# Employment by occupation



# And Budget woes may weigh on education wages





# **The Senate votes against higher education reforms**

**The Feds' higher ed reforms didn't make it through the Senate, even though they've been trimmed back to focus on fee deregulation rather than funding cuts. (The support of six crossbenchers was needed for it to pass.)**

**There were 'no' votes from the Labor party, the Greens and five of the eight cross benchers.**

Proposed measures re pricing and HECS loans generated considerable concern. But the absence of any certainty about 'where to next' will increasingly generate concerns of its own.

# 2015-16 Budget: Move on, folks

## Nothing to see here:

- The key point from the 2015-16 Budget is what *didn't* change: the forecasts still assume that measures from last year (both savings and deregulation) will go ahead as previously planned.
- Beyond that:
  - The National Collaborative Research Infrastructure Strategy received \$150m
  - Balanced by a \$150m cut to the Sustainable Research Excellence Initiative



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