



Australian Government
Department of Industry

Office of the
Chief Economist

Australian Industry Report 2014: Highlights

The Australian economy is home to some 2 million actively trading businesses. Together with the public sector, they employ over 11.5 million persons and produce goods and services valued at around \$1.6 trillion per annum. Our workforce is highly skilled; our firms highly productive and as a result, Australian income levels are higher today than they have ever been.

Achieving this has not come without its challenges. Our economy has had to adapt and respond to a range of economic and demographic pressures. Workers and industries have had to retrain and regroup in the face of significant structural change.

In addition, the future poses some considerable challenges that will need to be addressed. How can firms remain competitive when facing a persistently high Australian dollar? How can businesses compete against those in low wage countries? What will drive productivity growth over the next decade? How will the economy manage an ageing population? What happens after the Mining boom?

These are some of the questions that provide the economic backdrop for Australia's industries. And while they are challenges to be overcome, they are also opportunities to be pursued.

This highlights report provides a brief snapshot of the market settings facing the Australian economy. It summarises the findings of a new initiative from the Department of Industry's Office of the Chief Economist, the *Australian Industry Report*. The inaugural report comes at a time of major structural adjustments. Reflecting this, the focus of this year's report is structural change.

To read the report in full, please visit www.industry.gov.au.

The economy is resilient, but formidable challenges remain

Australia's short economic history has been a story of constant change. In the 19th Century, Agriculture contributed to more than 30 per cent of Gross Domestic Product (GDP); today it is just 3 per cent. In the 1960s, one in four jobs was in Manufacturing; today the ratio is about one in twelve.

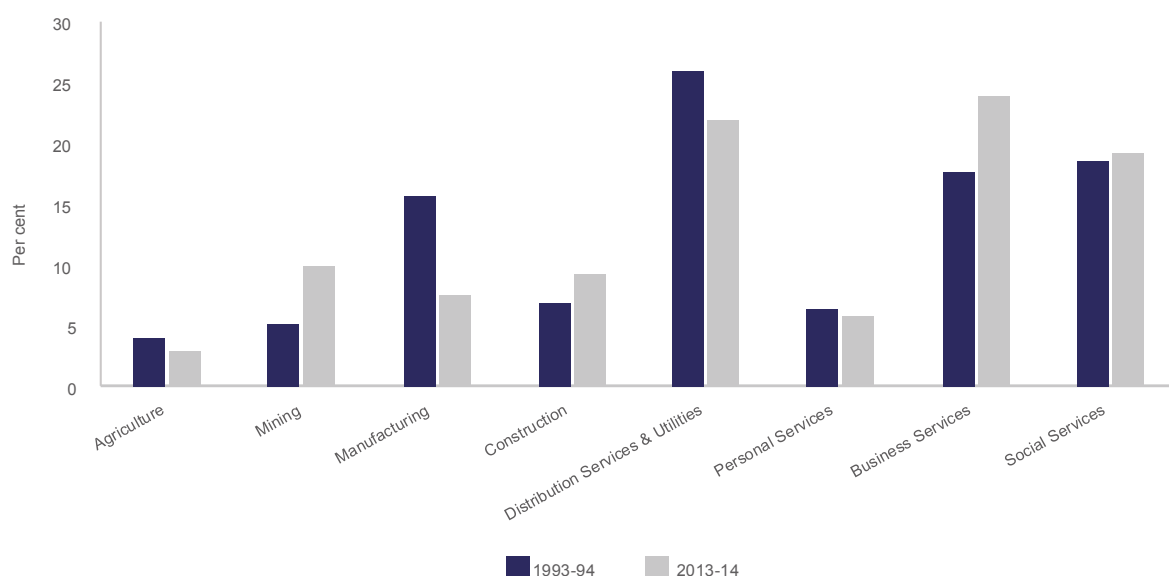
Like other developed countries, the majority of Australia's economic activity today occurs in Services industries. These industries account for more than two thirds of GDP and about ten million jobs. Of the goods producing sectors, Mining is the largest, producing at 8.3 per cent of GDP and employing over 250 thousand workers.

The 2013-14 financial year marked the 23rd consecutive year of economic growth — Australia proving to be one of the most resilient Organisation for Economic Co-operation and Development (OECD) economies. Over the coming decades, however, the economy will face a number of challenges. How the economy responds to the rapid expansion of China, an ageing population and technological advances will determine whether or not our strong performance continues.

This, of course, is nothing new. The composition of the economy today reflects decades of economic and demographic pressures — and the response to those pressures by Australian businesses, investors, workers and governments.

Australian industries are well placed to adapt to the changing circumstances. The terms of trade are expected to continue to fall and provide some relief for trade-exposed industries. Productivity is expected to pick up as the economy transitions to the export phase of the Mining sector. Labour cost pressures have also been subsiding, and, combined with some depreciation in the exchange rate, this has led to Australia's cost competitiveness improving moderately over the past two years.

Chart 1: Industry share of gross value added, 1993-94 and 2013-14



Source: ABS cat. no. 5204.0.

Structural change is caused by a number of interrelated domestic and international factors

The Australian economy is transitioning to a knowledge-based economy. This implies a smaller role for primary and secondary sectors and an even greater role for Services in the economy.

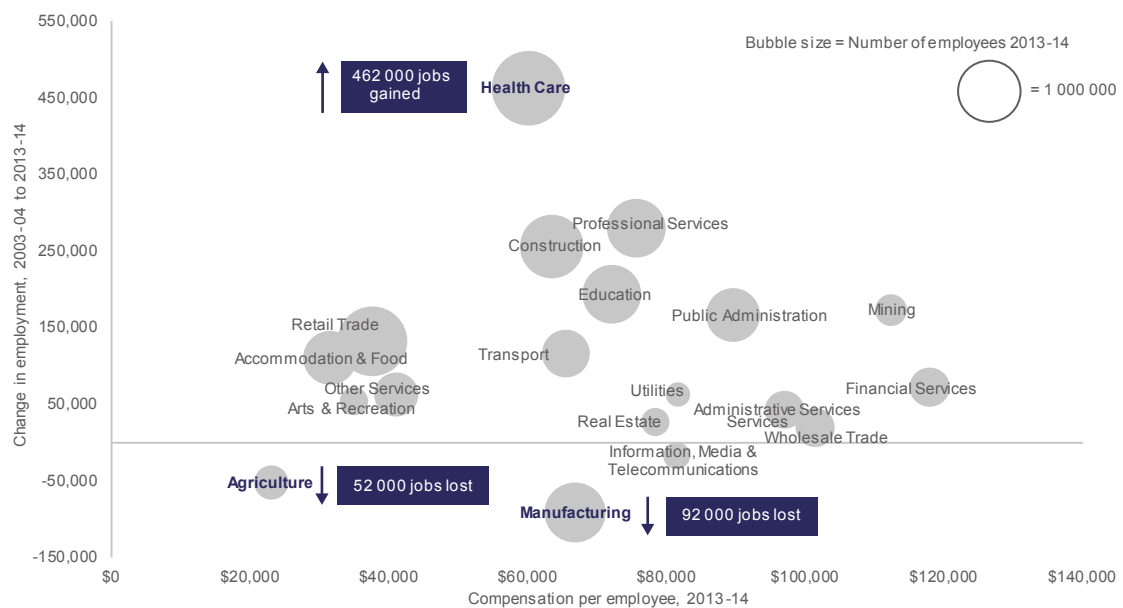
Driving this transformation are a number of interconnected factors. Technological improvements are changing how and where products are produced, and in doing so are forcing Australian firms to reassess their position along the global value chain. A richer and older population is demanding more health care, more tourism and more education. Globalisation has exposed industries to highly competitive international markets. Government has helped industry to meet these challenges by lowering tariffs, promoting competition and developing skills and capabilities.

Structural change has been fundamental to Australia's economic development and reflects a reallocation of resources to more productive uses. Such changes are necessary for continued economic growth and prosperity, and crucial for the economy's ability to capitalise on opportunities.

Every year around a million Australian workers change jobs and a quarter of a million businesses enter and exit the market. This level of flux in the economy is a hallmark of a dynamic and highly resilient economy.

Through the process of structural change, the Australian economy is able to realise its full potential. The job losses that have accompanied the declining shares of Agriculture and Manufacturing production have been more than offset by jobs created in expanding sectors, jobs that on the whole pay more. Moreover, the sectors experiencing the strongest employment growth have been those with higher skilled occupations.

Chart 2: Change in employment (2003-04 to 2013-14), employment and compensation per employee (2013-14) by industry



Source: ABS cat. no. 6291.0.55.003 and 5204.0.

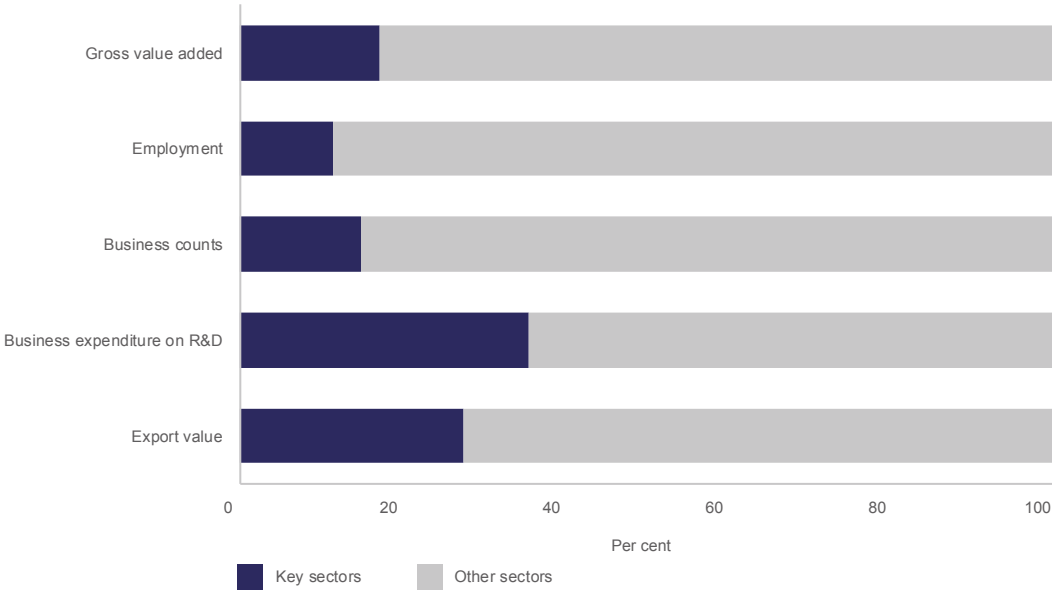
Our future economic success depends on finding new sources of growth

As the level of investment in the Australian resources sector eases back from historically unprecedented levels it will be important to generate new sources of growth across the economy. Long-run prosperity will depend on the ability of our domestic industries to be globally competitive and productive in the light of intensified international competition.

The Government’s *Industry Innovation and Competitiveness Agenda* outlined five sectors where Australia has recognised competitive strength — Food & Agribusiness, Mining Equipment, Technology & Services, Oil, Gas & Energy Resources, Advanced Manufacturing and Medical Technologies & Pharmaceuticals. A number of independent reports have also stated that these sectors are of strategic importance to Australia’s economic prosperity.

These sectors reflect a mix of our comparative advantage in natural resources and our strengths in human capital and innovation. Comprising over 300,000 firms, they account for about a sixth of industry output, over a quarter of export value and nearly 40 per cent of business research and development expenditure. They form the foundation of the Government’s refocused industry policy to drive innovation and entrepreneurship.

Chart 3: Share of the five key sectors by various characteristics, latest available data



Source: Department of Industry estimates based on a range of ABS data series.

Notes: Value added (2013-14), Employment (2013-14), Business counts (June 2013), Business expenditure on R&D (2011-12), Export value (2012-13).