

***AUSTRALIA'S FUTURE LABOUR MARKET
MYTHS AND REALITIES***

**FACTSHEET
CURRENT
ECONOMIC
REALITIES**

CURRENT ECONOMIC REALITIES

AUSTRALIA'S ECONOMIC CHALLENGES

Australians have not experienced the effects of a major economic downturn or a catastrophic rise in the unemployment rate for 27 years. The economy has greatly benefited from the extensive reforms to the economy in the 1980s and 1990s as well as one of the largest and most sustained commodity price booms in our history in the 2000s. But the adjustment to the end of the mining investment boom has not been easy and a number of economic challenges have emerged.

Looking at the unemployment rate over the past 40 years illustrates the remarkable achievements of the Australian economy (*Figure 1*). For almost all of the 1980s and 1990s, the unemployment rate was between 6 per cent and 11 per cent. Since 2003, the unemployment rate has remained between 4 per cent and 6 per cent almost entirely. This considerably lower unemployment rate over the last 15 years has occurred at the same time as participation in the labour force has increased dramatically. Notably, a larger proportion of women are working or looking for jobs than ever before.

Figure 1

Australia's unemployment rate is low by historical standards

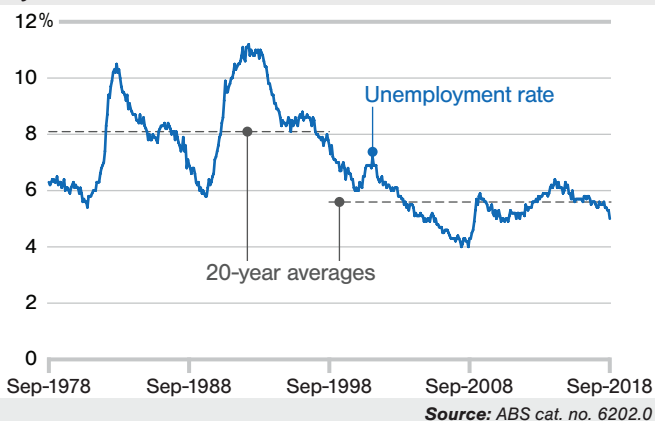
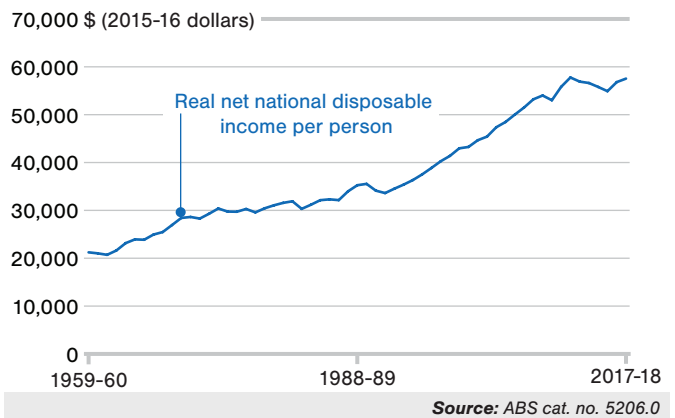


Figure 2

Real income per person grew dramatically for 20 years and then stalled



INCOMES AND WAGES GROWTH HAS BEEN WEAK AS INVESTMENT AND PRODUCTIVITY GROWTH HAVE LANGUISHED

Australia's main economic challenge is weak wages and incomes growth. This is fundamentally linked to underwhelming rates of investment and low productivity growth.

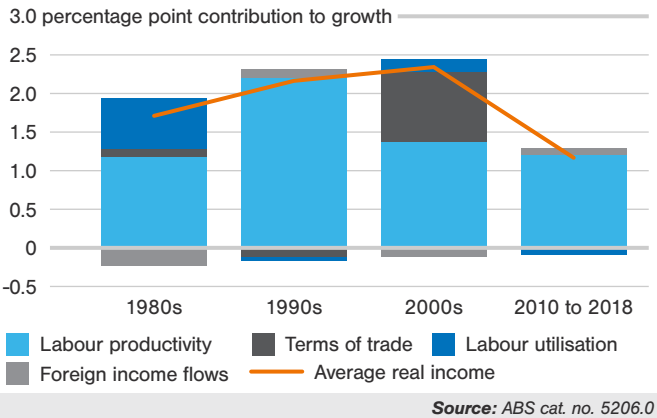
Real per capita incomes have gone sideways for six years, and are still slightly below the peak in 2011-12 (*Figure 2*). While nominal wages (wage price index) growth has improved by a very small amount this year, it is still near the slowest it has been in over 20 years.¹ Real wages have barely grown over the past six years.²

Incomes can be driven by external factors that aren't always in our control (like international commodity prices) or productivity growth. Productivity (innovation and investment) has historically been the main driver of real income growth (*Figure 3, overleaf*).

¹ ABS cat. no. 6345.0

² ABS cat. no. 5206.0

Figure 3
Productivity has historically been the main driver of real income growth

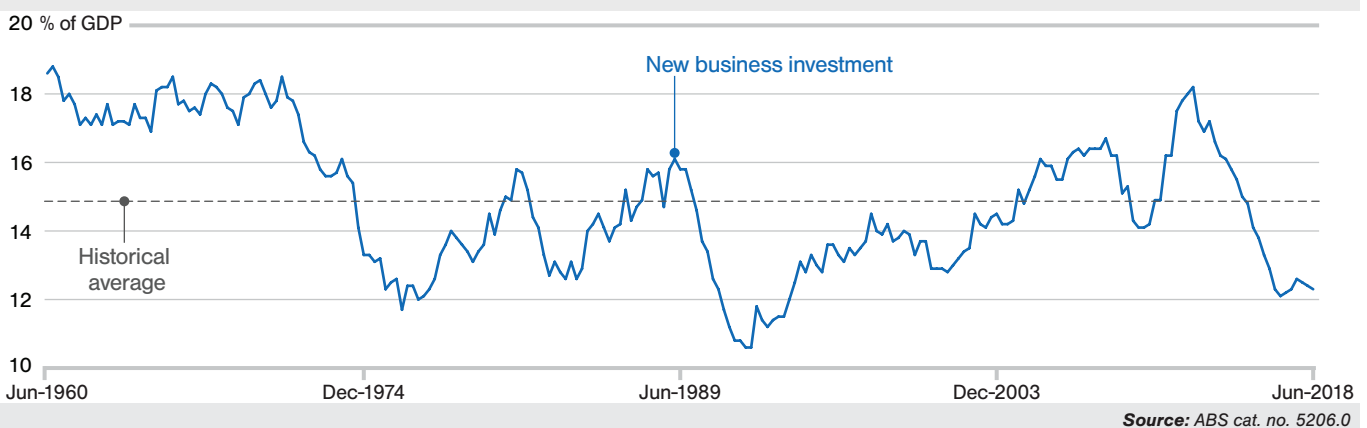


In the 1990s, productivity growth ran at an average 2.2 per cent a year. That was also the pace of real income growth. In the 2000s, real income growth also ran at about the same rate, but slower productivity growth was offset by the record terms of trade boom.

With the terms of trade boom now over and productivity growth remaining weak, real income growth has slowed.

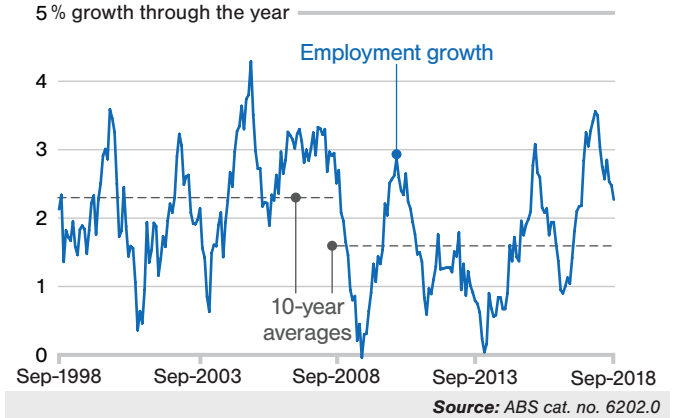
Business investment (capital deepening) typically drives productivity growth. But new business investment is now 12.3% of GDP – as low as it was coming out of the 1990s recession (Figure 4, below). Faster productivity growth therefore requires a pick-up in investment.

Figure 4
New business investment as a share of the economy is low



ABS cat. no. 6202.0

Figure 5
Employment growth has strengthened after a decade of weaker growth



THE LABOUR MARKET HAS WORKED FAIRLY WELL IN ENSURING MORE PEOPLE HAVE JOBS

The unemployment rate has slowly been falling over the past four years and employment growth has strengthened after close to a decade of weaker growth following the GFC (Figure 5, above).

There were 280,000 people who found jobs over the past year and in almost 80 per cent of cases, these were full-time jobs. The participation rate has been bouncing around a record high level for most of 2018 after rising through 2017.³ This indicates that people are being encouraged to start looking for a job due to the good labour market conditions and, for many, they are successful in their search.

AUSTRALIA IS VULNERABLE TO THE NEXT ECONOMIC SHOCK

Australia has rarely been as exposed to the global cycle as it is now. While the budget is likely to return to surplus in coming years, long-term fiscal pressures remain. Additionally, federal net debt is at its highest level as a share of GDP in over 50 years; and the RBA cash rate is at a record low.

Indeed, the combination of a budget that is yet to get back into surplus, an historically high level of government debt, record low interest rates and very high levels of household sector debt, are an unfavourable combination.

Of course, Australia does retain a AAA credit rating. However, a comparison with the position prevailing just prior to the GFC shows how little policy ammunition we have to deal with the next global (or domestic) shock:

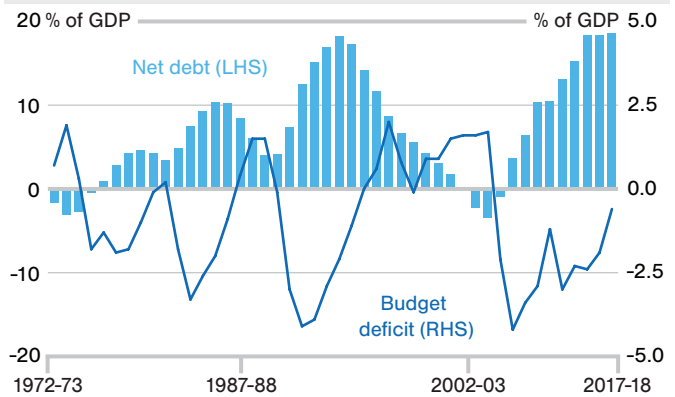
- » the cash rate is 1.5 per cent today, compared with 7.25 per cent then
- » net debt is now 18.6 per cent of GDP, versus -3.4 per cent of GDP then, and
- » the budget was in deficit in 2017-18 (0.6 per cent of GDP) versus a 1.7 per cent of GDP surplus then. (Figure 6)⁴

There are, as always, a number of global economic risks. These include US / China trade tensions, concerns over the Italian fiscal position, recent volatility in US equity markets and the ever present worry about what a downturn in China might mean for Australia.

A strong fiscal position enables investment, funds the services the community expects and also provides strength to defend against economic shocks. Achieving that also requires a strong economy, as economic growth drives revenue growth.

Figure 6

The budget deficit is improving, but net debt is still very high



⁴ RBA, Cash Rate, <https://www.rba.gov.au/statistics/cash-rate/>; Australian Government, Final Budget Outcome 2017-18, 2018.