



Industry and Innovation Workshop

**Department of Industry, Innovation and Science
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26 September 2017**

Regional patterns of economic development

The march of the services sector

- Services are growing much faster than other sectors
- Big cities now dominate our economy

City populations are growing faster, but regional incomes are keeping pace

- Regional incomes are lower, but not much lower than outer suburbs
- Income growth in the regions is on par or higher than city suburbs
- Income inequality lower in regional areas

Unemployment varies across regions

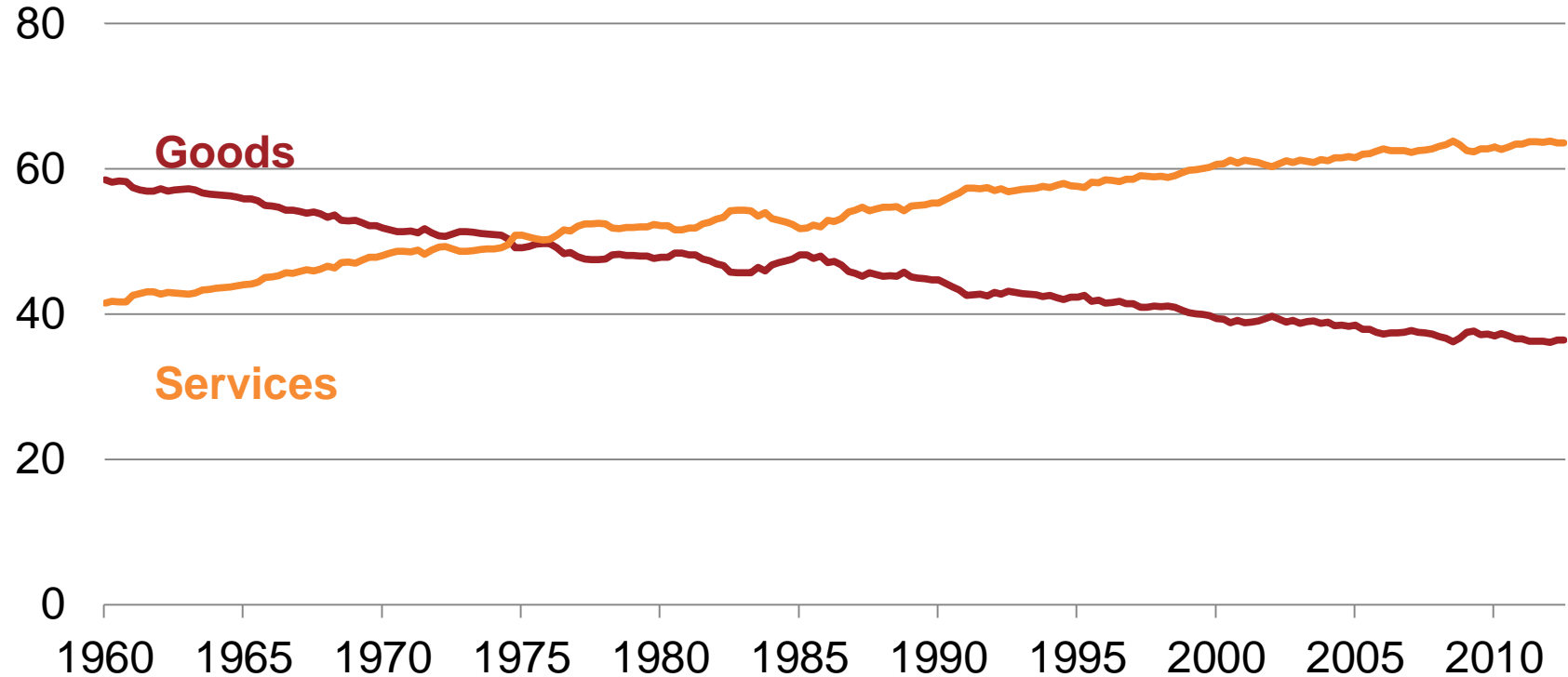
- Unemployment not obviously worse in the regions
- Both cities and regions have areas of strong disadvantage

Some policies conflict with these economic trends

- Housing affordability is falling and congestion costs are rising as housing is added far from jobs
- Infrastructure spending has been driven by politics not need

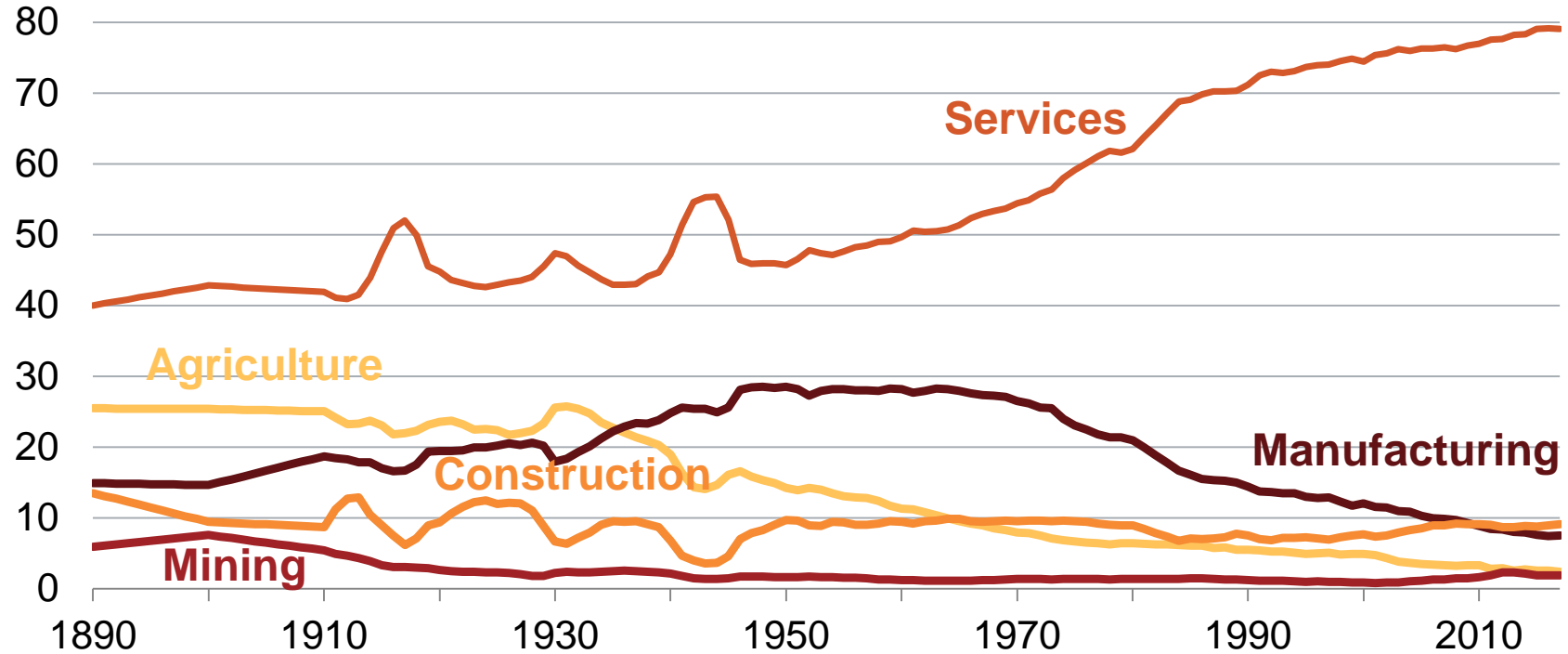
People are consuming more services

Share of total nominal household expenditure



And more people are working in services sector

Industry share of workforce, Australia, per cent



Sources:

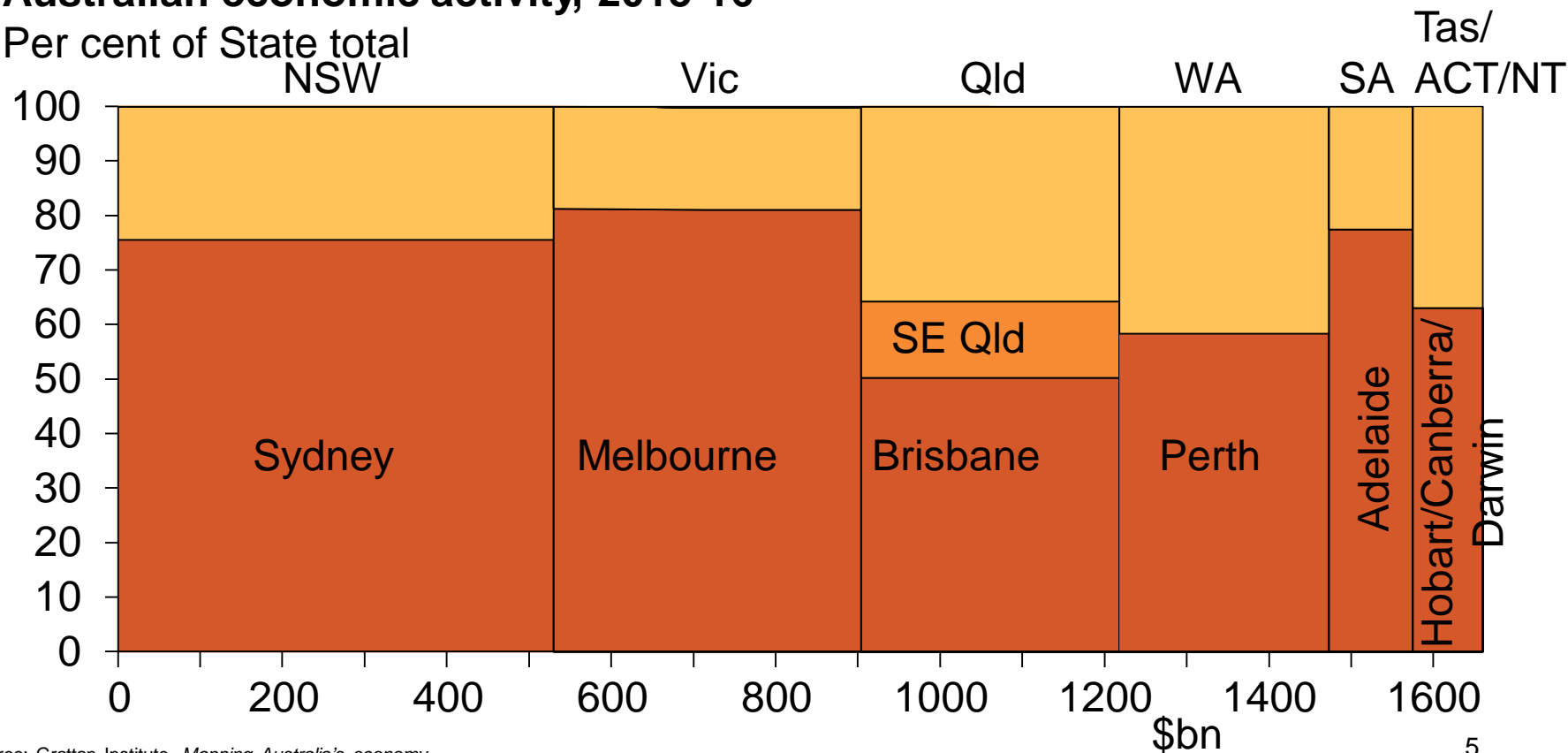
1. 1890-1980 Australian Historical Statistics: Labour Statistics, by G.Withers, T.Endes, L.Perry
2. 1984-201: ABS6291.0.44.003, table 4

Note: 1981-1983 are interpolated using 1980 and 1984 data

Australia's economy is now dominated by its big cities

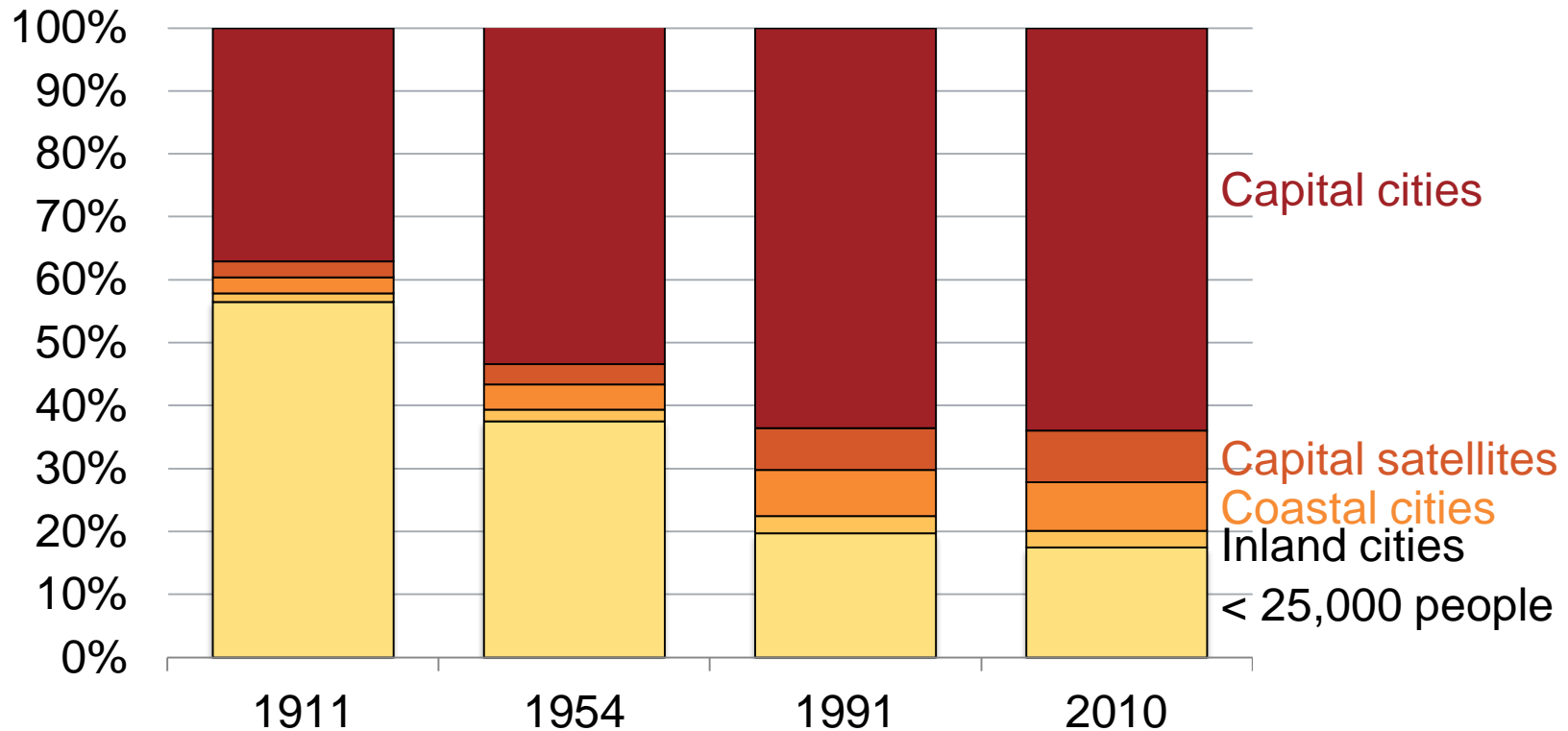
Australian economic activity, 2015-16

Per cent of State total



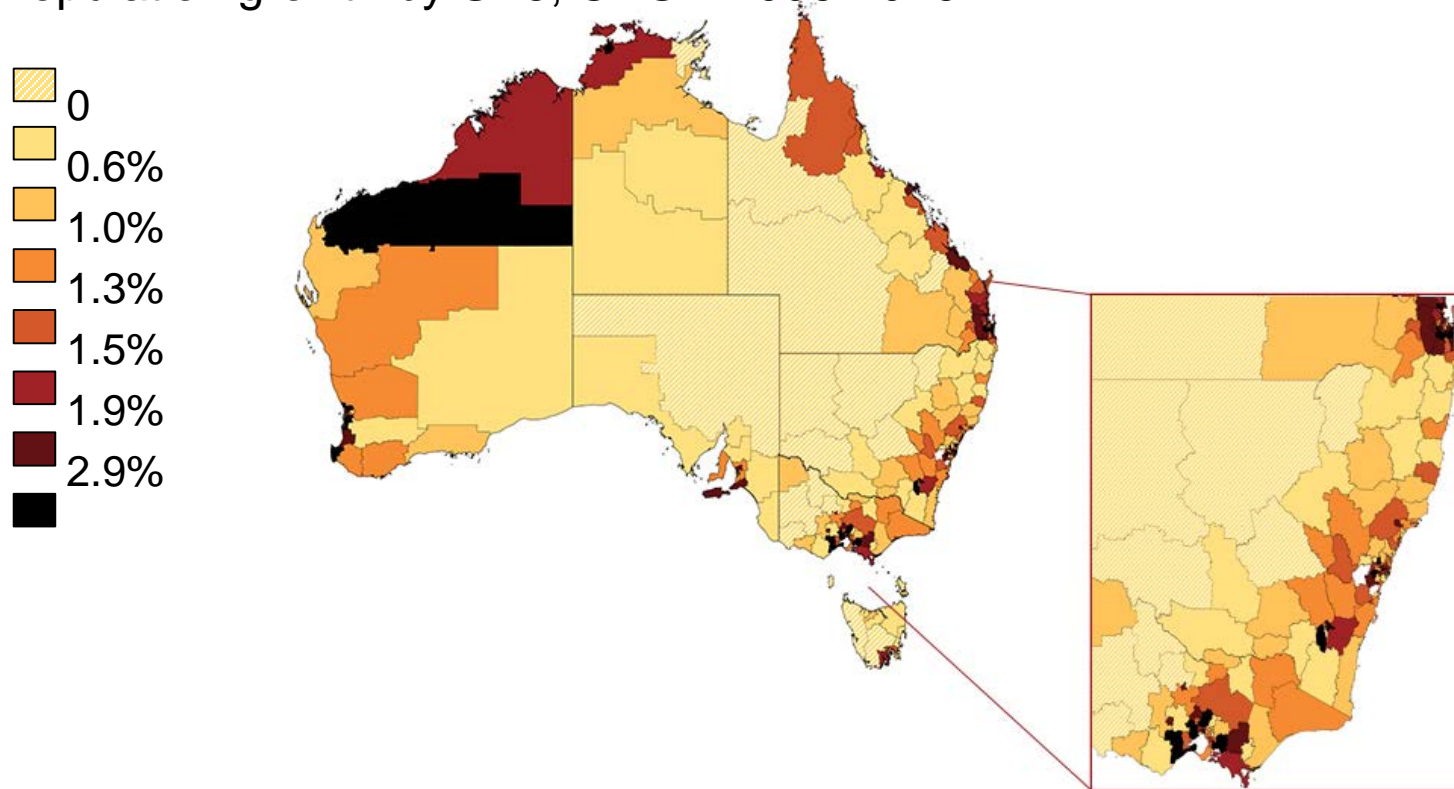
... reflecting long term population shifts towards capital cities and their satellites

Proportion of Australian population



Population growth is very focused on capital cities, the coast, and WA mining

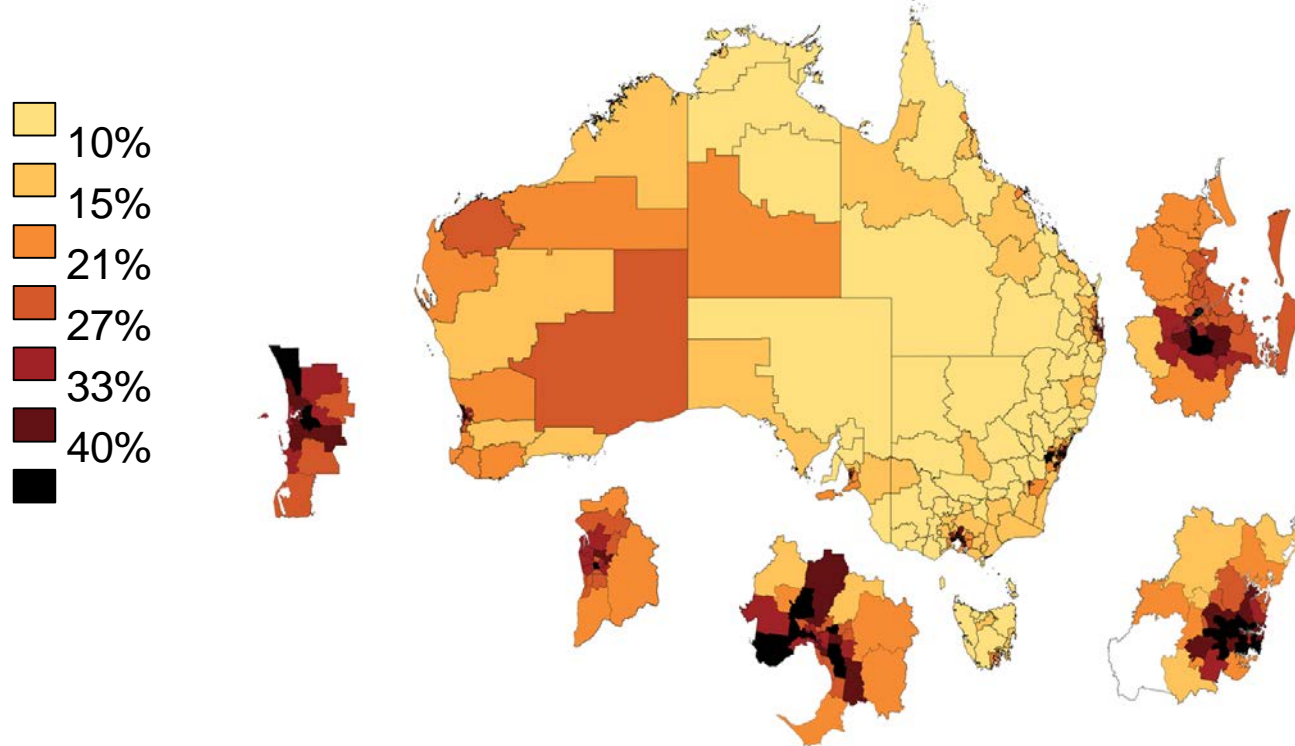
Population growth by SA3, CAGR 2006-2016



Note: Sample is grouped into shrinking areas, and the remainder into seven subsets of equal population.
Source: ABS Census 2016; Grattan Institute, *Regional patterns of Australia's economy and population*

As are migration flows

Migrants as share of population by SA 3, 2016



Note: Sample is grouped into seven subsets of equal population.

Source: ABS Census 2016; Grattan Institute, *Regional patterns of Australia's economy and population*

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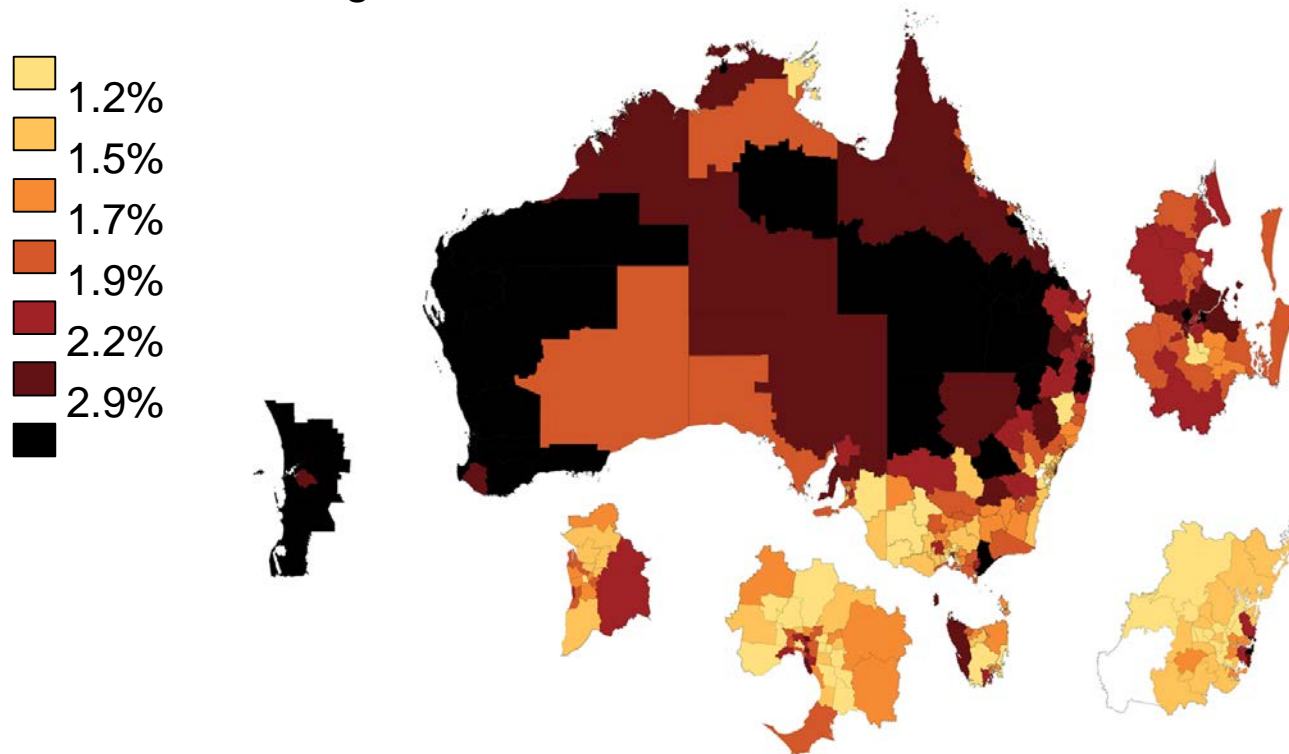
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Incomes grew more across WA, SA, and Qld; Sydney and Melbourne did less well

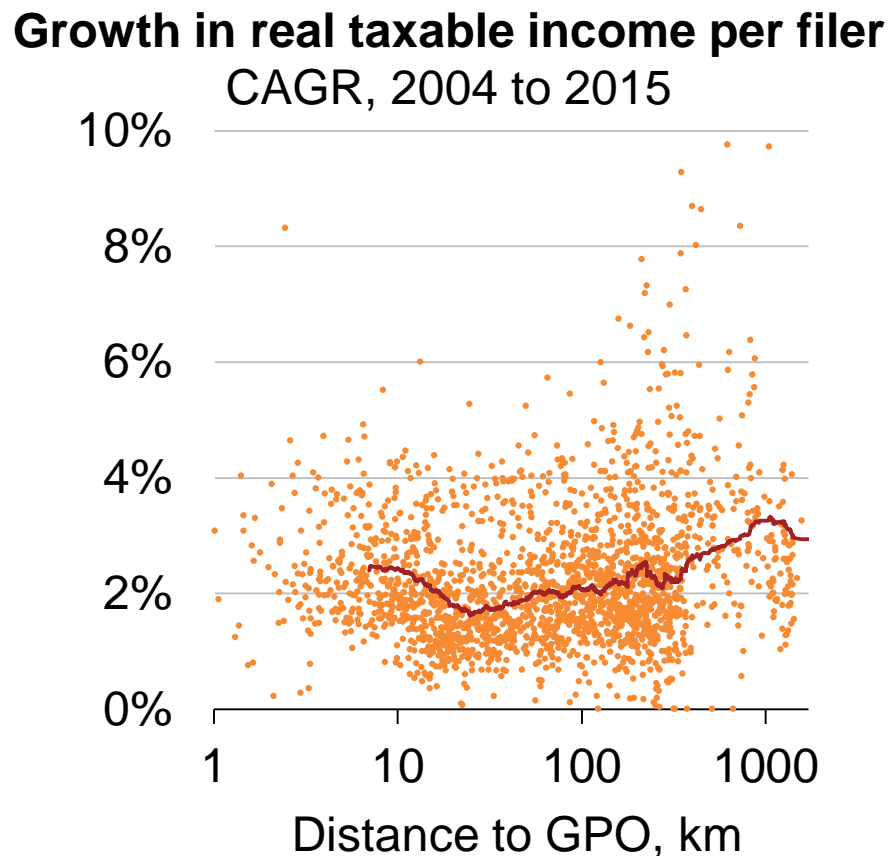
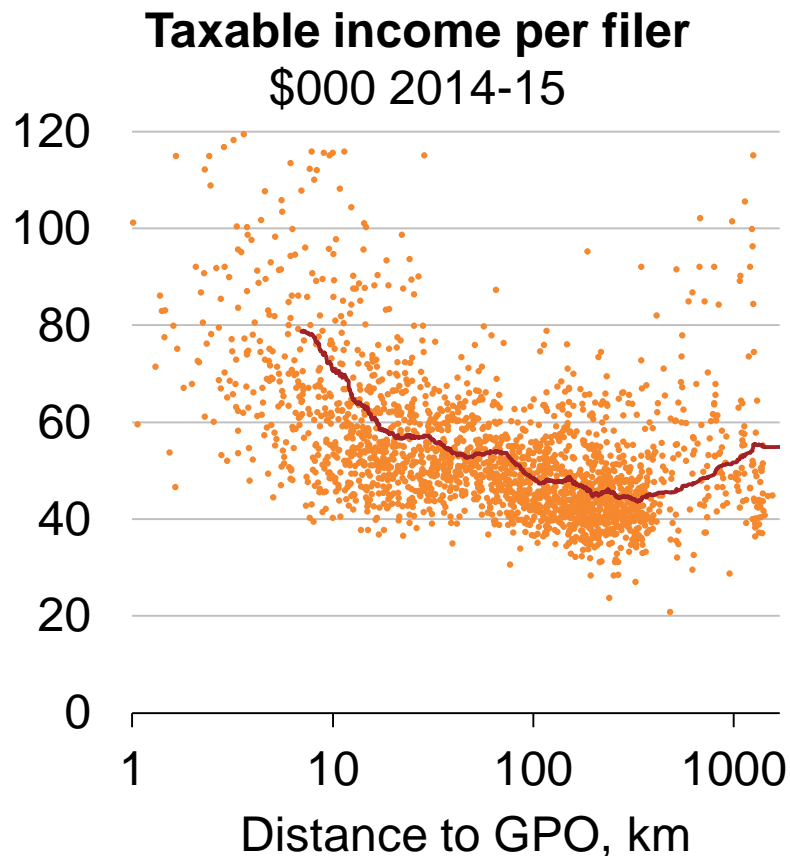
Taxable income growth, CAGR, 2004 to 2015



Note: Sample is grouped into seven subsets of equal population.

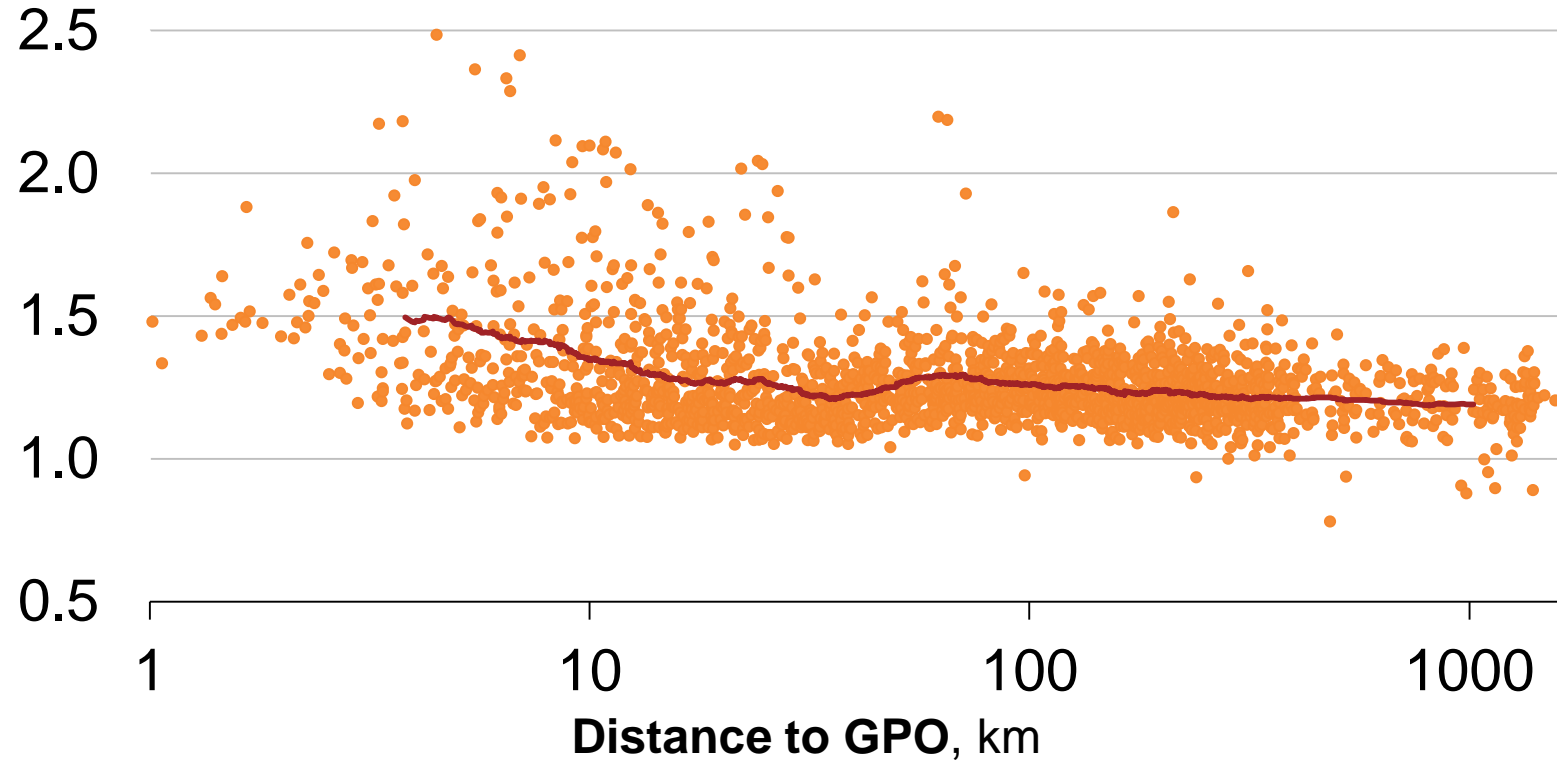
Source: ATO Taxstats 2014-15; Grattan Institute, *Regional patterns of Australia's economy and population*

Regions have lower incomes, but they've been growing faster



Inequality is also somewhat lower within the regions

Inequality measure (mean/median), 2015



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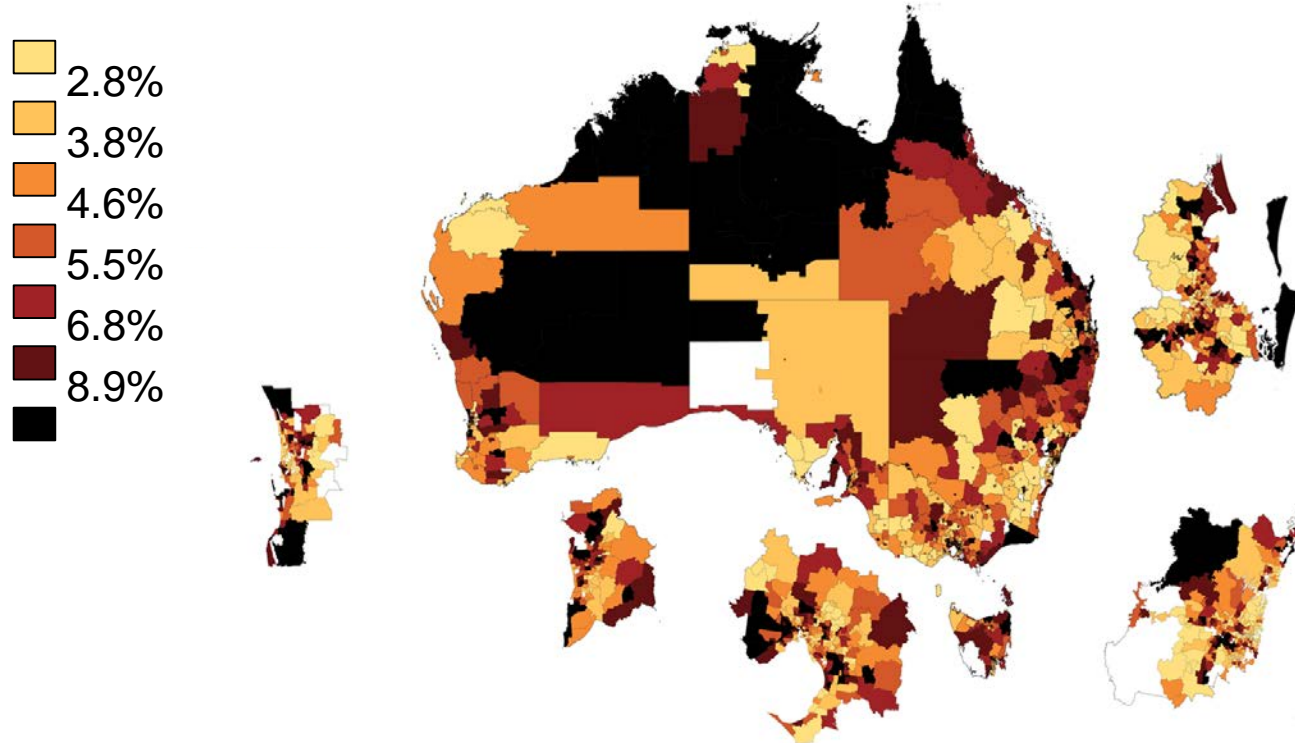
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Unemployment is not noticeably higher in the regions

Unemployment rate 2016, by SA2



Note: Sample is grouped into seven subsets of equal population.

Source: Department of Employment 2016 Small Area Labour Markets: Table 1; Grattan Institute, *Regional patterns of Australia's economy and population*

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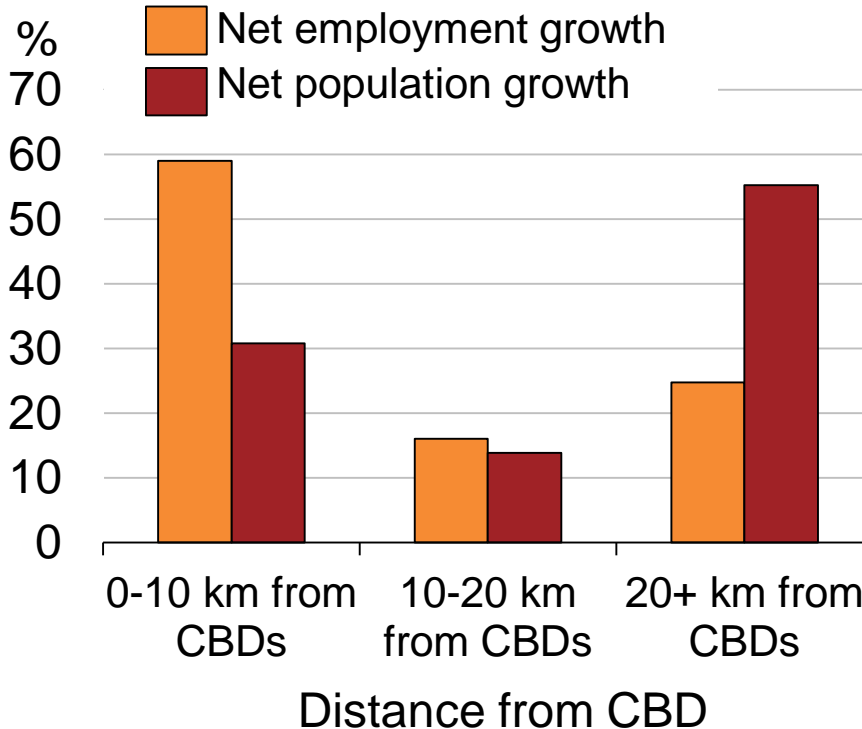
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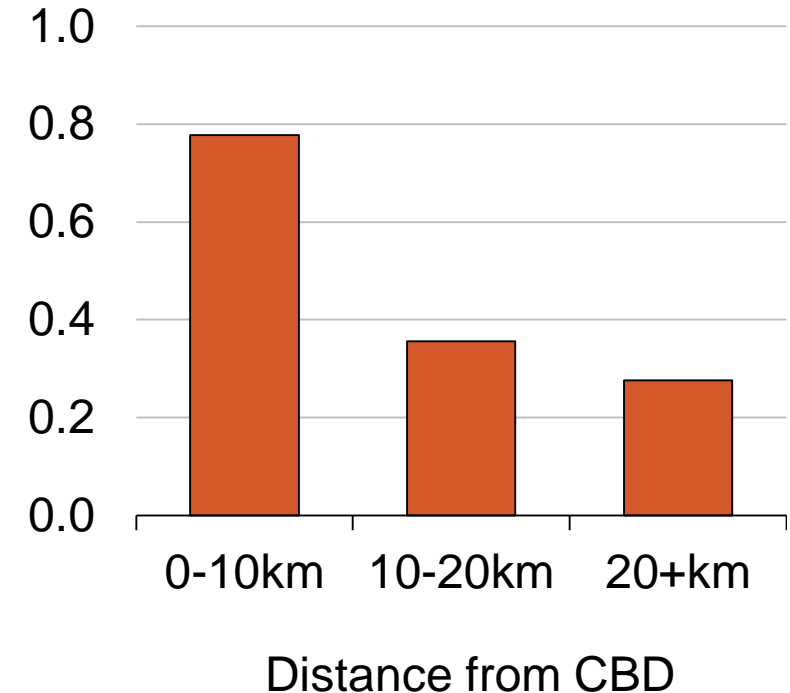
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Most new jobs are towards the centre, while most new homes are on the edge

Employment and population growth,
5 largest Australian cities, 2006-11

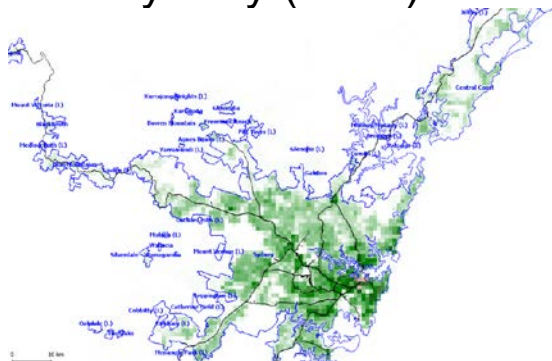


Jobs per resident, 5 largest
Australian cities, 2011

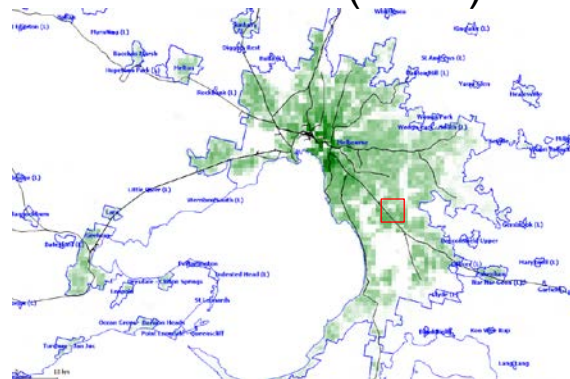


Australian cities are much less dense than cities of similar size

Sydney (3.8m)



Melbourne (3.6m)



Brisbane (2.0m)

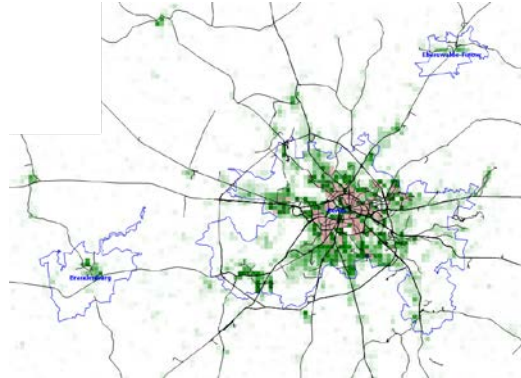


Consistent
scale

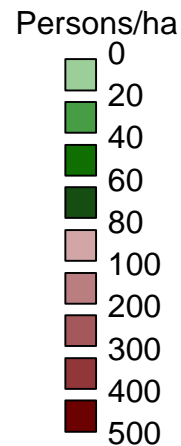
Toronto (6.0m)



Berlin (3.7m)

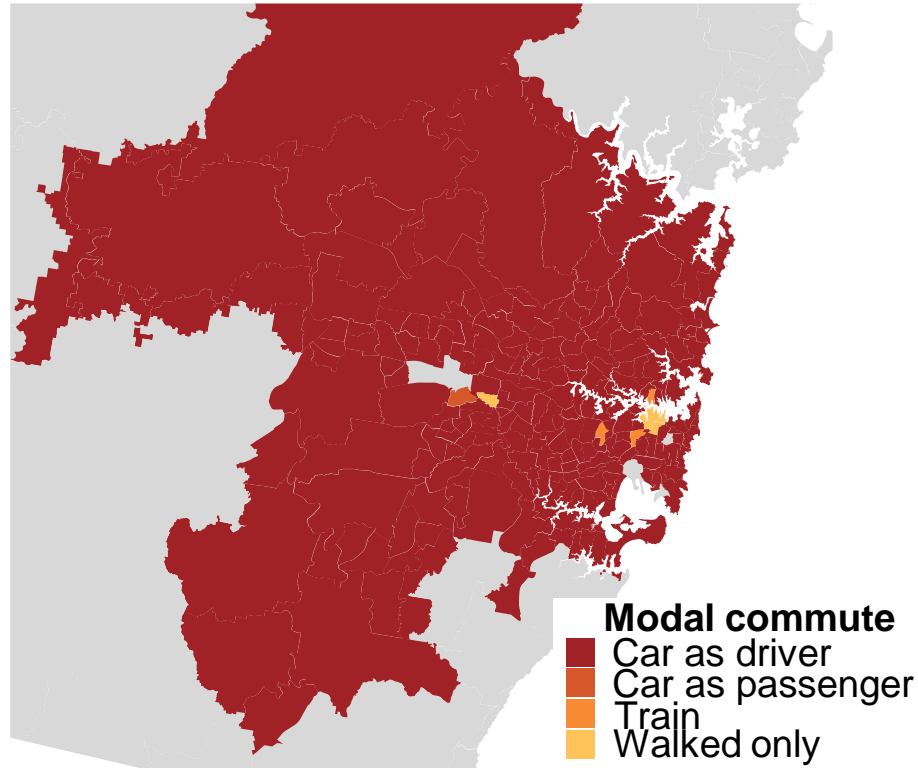


Rome (2.7m)



Australians are highly dependent on cars

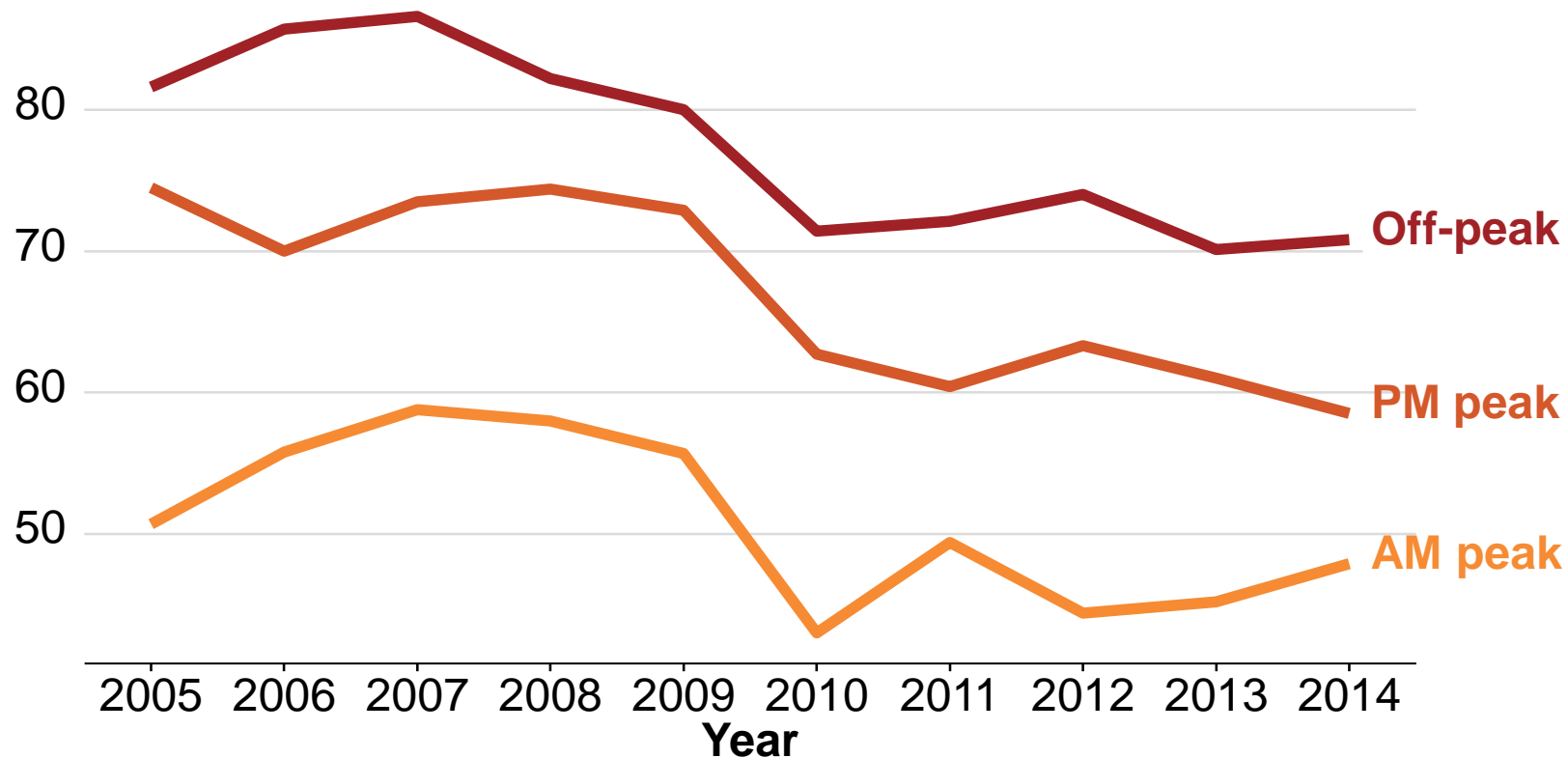
Main mode of transport by suburb of residence, Sydney



Note: Modal commute is the most common mode of commute of all respondents in the Census, excluding those who did not travel to work or worked from home.
Source: ABS Census 2016; Grattan Institute, *Stuck in traffic: road congestion in Sydney and Melbourne*

And congestion is reducing travel speeds

Average travel speed on inner region freeways in Melbourne, km/h

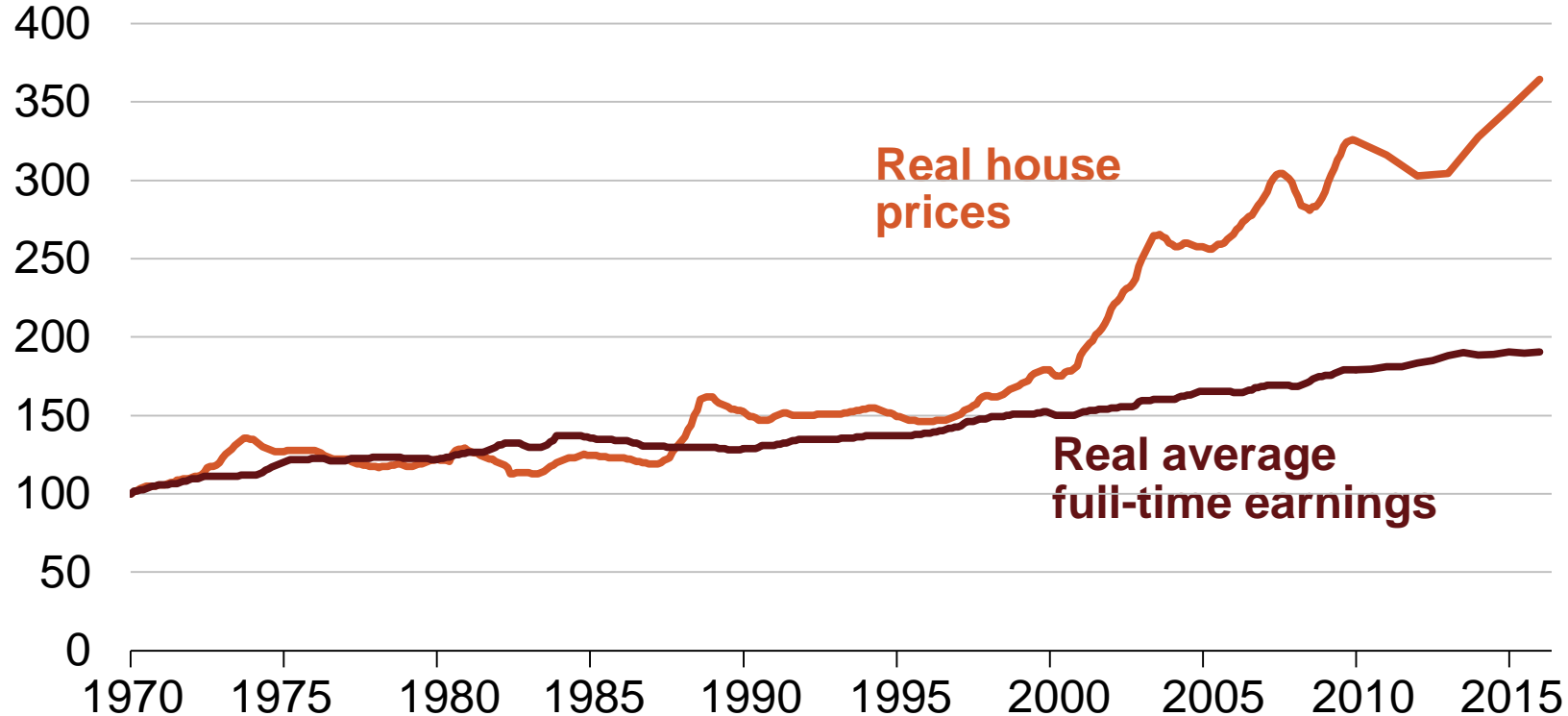


Note: AM peak: 7am to 9am weekdays. PM peak: 4.30pm to 6.30pm weekdays. Inner- region freeways are broadly within 10-15 km of the CBD.
Source: Vic Roads (2017); Grattan Institute, *Stuck in traffic: road congestion in Sydney and Melbourne*

House prices risen strongly relative to income

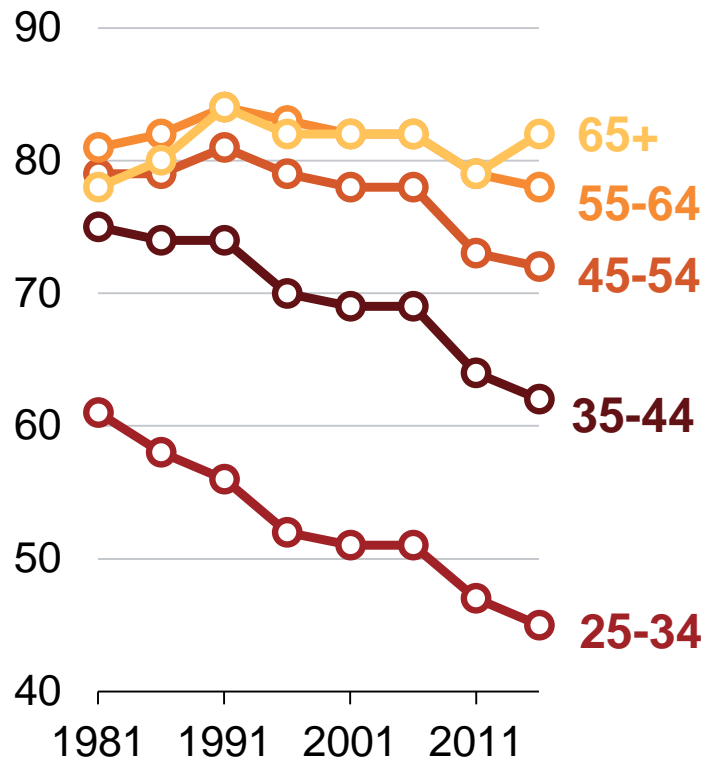
House prices and full-time weekly earnings

Index: 1970 = 100

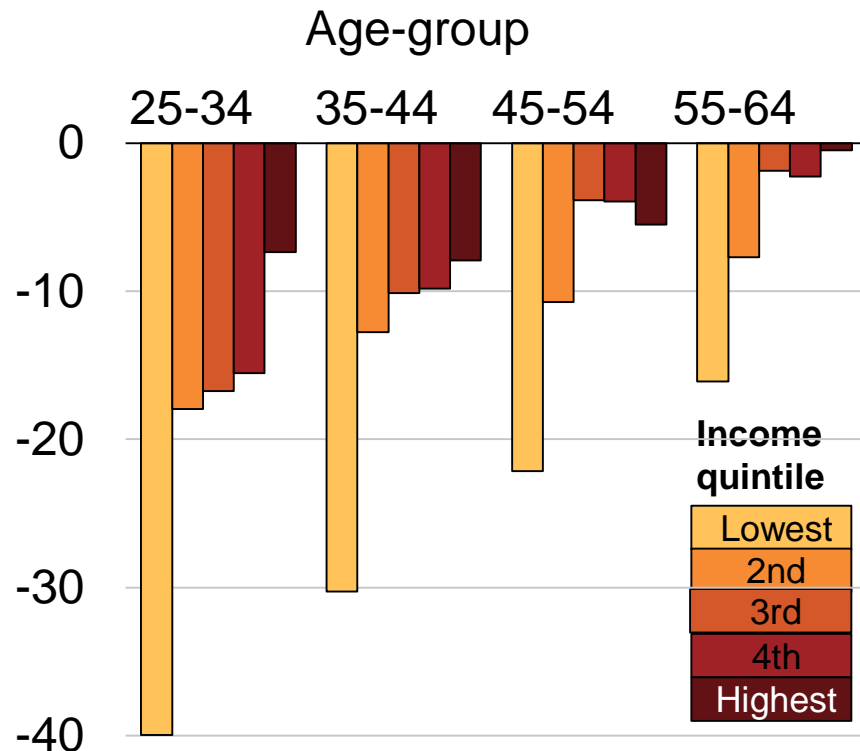


Home ownership is falling for younger ages, particularly low incomes

Home ownership rate by age, per cent

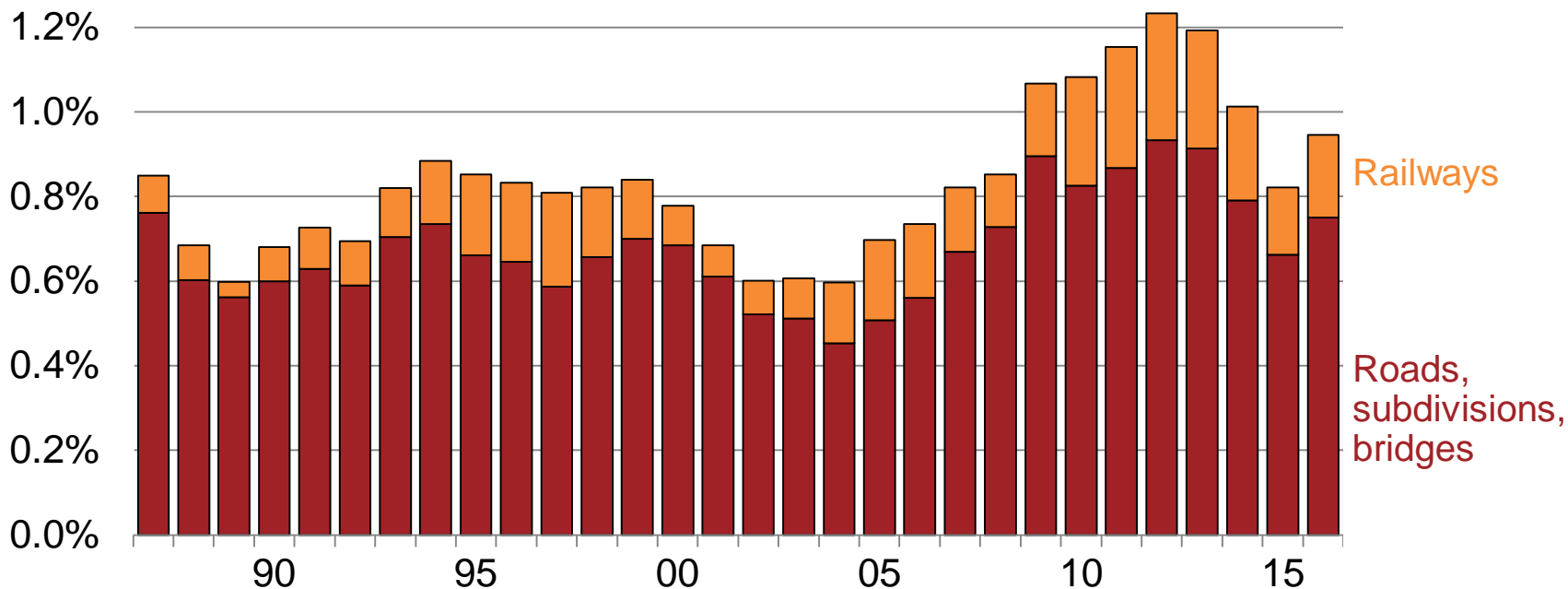


Percentage point change in home ownership rates, 1981 to 2016



Government spending on transport infrastructure remains at historic highs

Engineering work done for the public sector as a proportion of GDP
Per cent

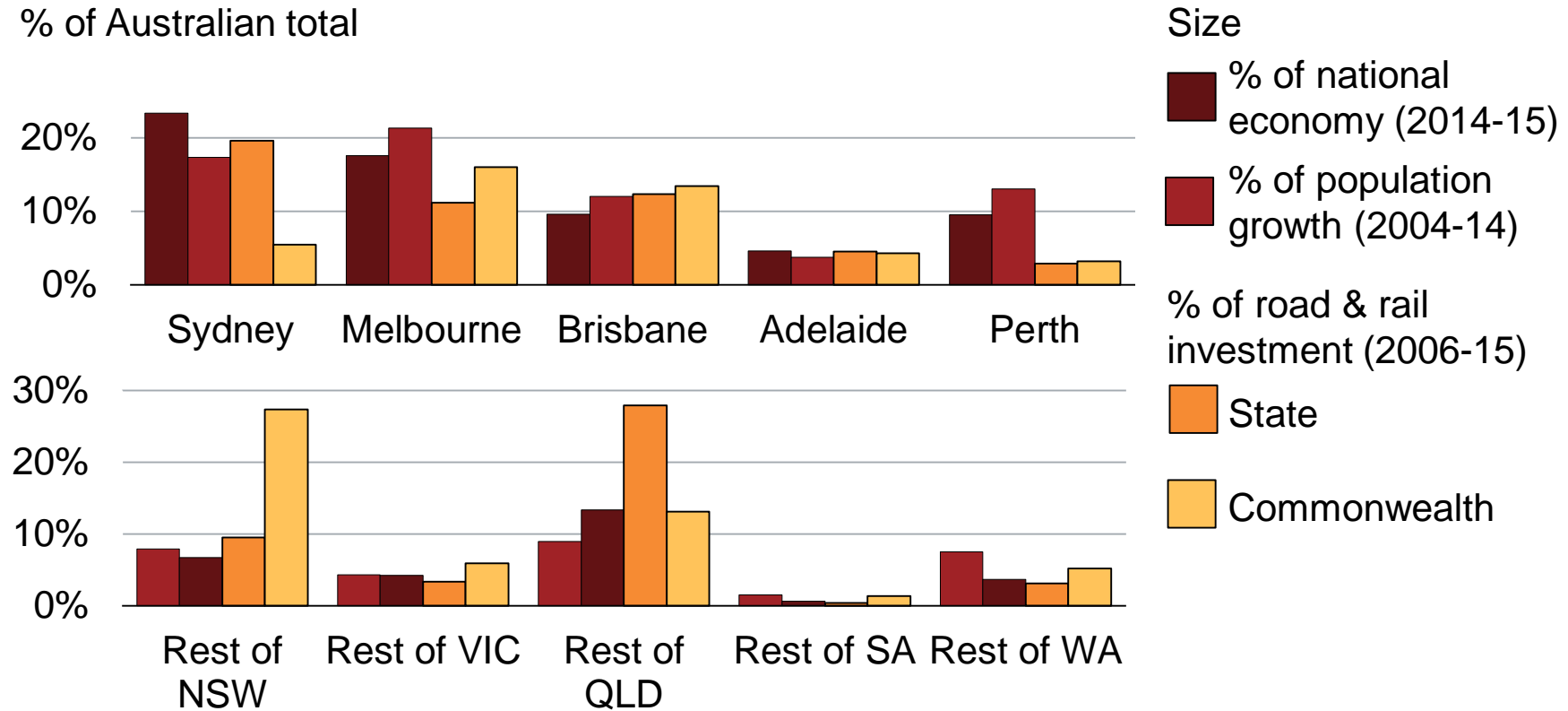


Notes: By financial year. Includes work done by the private sector for the public sector. Does not include ports.

Source: ABS Engineering Construction Activity, Australia, Table 11.

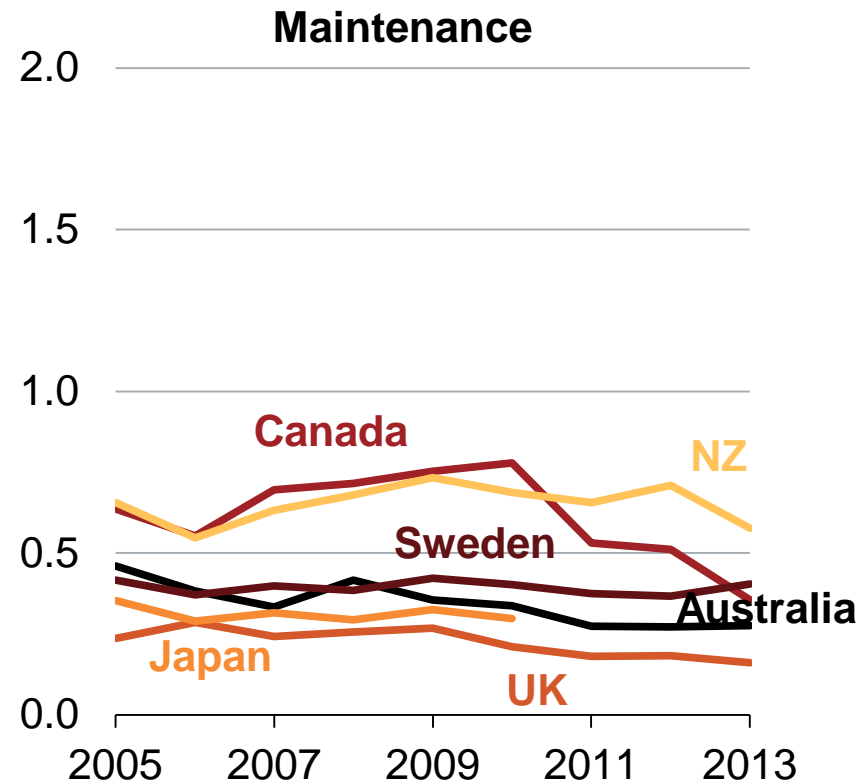
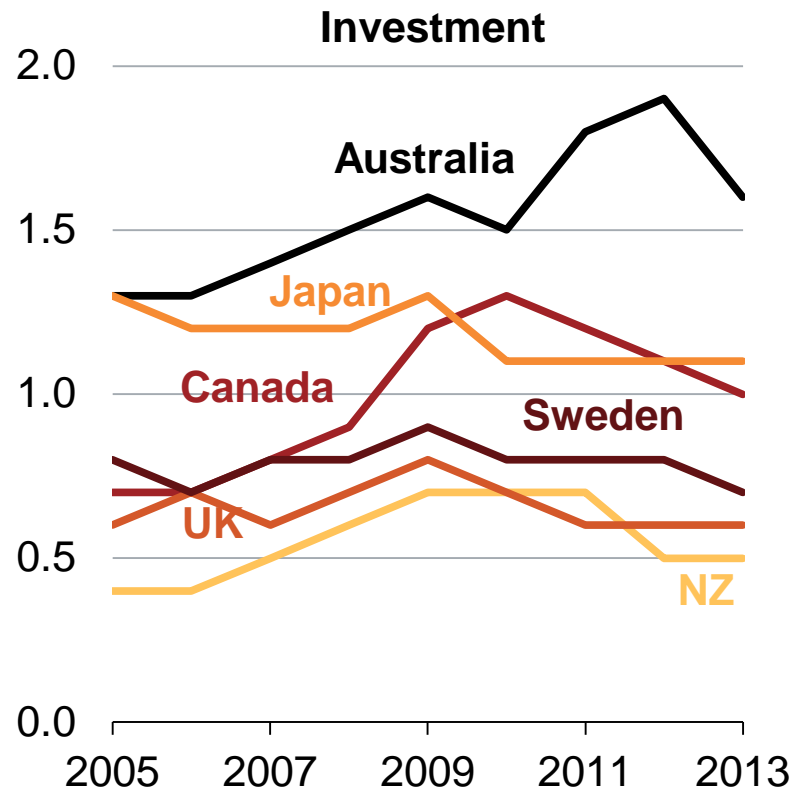
Government transport spending has not targeted growth in economy or population

Size and transport infrastructure spending % of Australian total



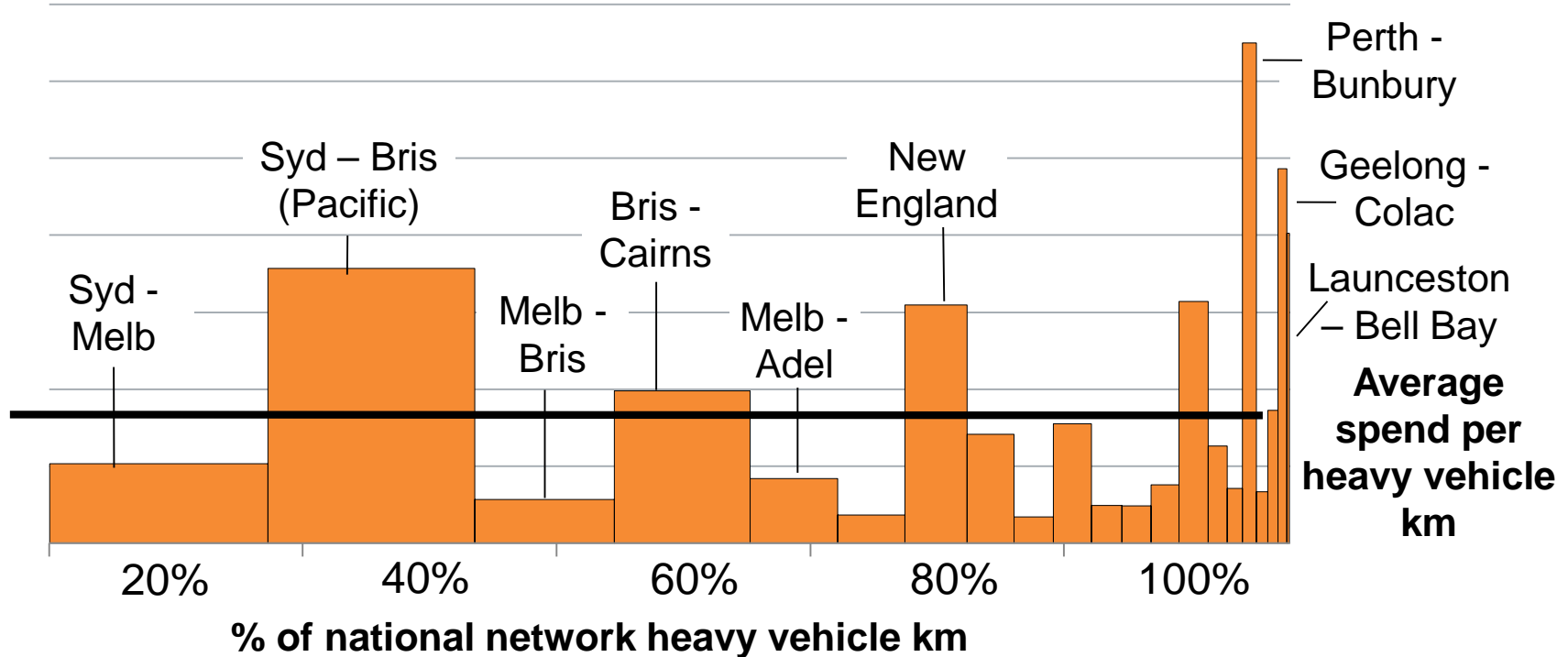
Australia focused on building new infrastructure, rather than maintenance

Transport infrastructure spending as proportion of GDP



Much road spending has occurred on relatively unimportant freight routes

Spending per heavy vehicle kilometre on the National Land Transport Network highways outside of capital cities, 2005-06 to 2014-15

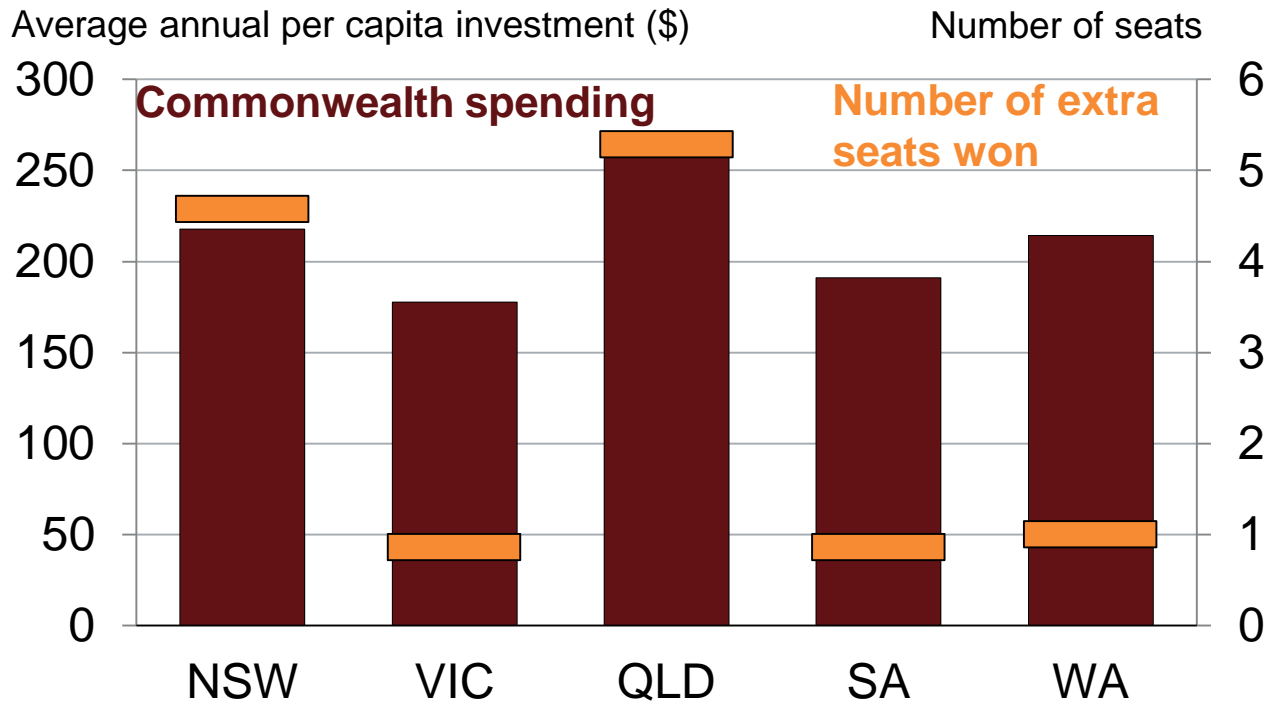


Note: The width of the bar represents the heavy vehicle kilometres travelled on the road in the 2011-12 financial year.

Source: Grattan analysis of Commonwealth, State and Territory budget papers 2005-06 to 2014-15; BITRE: Traffic on the national road network, 2011-12; BITRE: unpublished data.

The politics of project selection

Commonwealth spending on transport infrastructure and average number of seats contributing to swing



Notes: Spending includes amounts paid directly to local government. The seats measure is the number of extra seats won in each state, by the party that made an overall gain at the election i.e. Coalition in 1996, 2001, 2004, 2010, 2013; Labor in 1998, 2007.

Source: Grattan analysis of Commonwealth Budget Papers 2005-06 to 2014-15; AEC (2015); Grattan Institute, *Roads to Riches*.

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For more ...



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