

PRECIS OF THE STATE OF THE REGIONS SUPPLEMENTARY REPORT 2008-09

The State of the Regions Report

The National Economics *State of the Regions* (SOR) report - commissioned by ALGA - provides an annual stock-take of the economic well being of Australia's regions and their prospects for economic development and employment growth. For over a decade, successive SOR reports have examined diverse strategies to strengthen local and regional economic and employment outcomes, and examined the important roles that are played by local government and associated regional agencies.

A distinctive feature is that SOR divides Australia into regions: both metropolitan and non-metropolitan regions. The regions are divided into six types: dispersed metropolitan, independent cities, knowledge intensive; lifestyle, resource based, and rural zone.

The core objectives of the SOR are to:

- present the latest statistical indicators of how Australian regions are performing;
- analyse the indicator trends in terms of growing equality and inequality between Australian regions;
- make suggestions for the policy implications of current Australian regional performance;
- steadily expand the indicators used to measure regional performance;
- describe the reality of regional economics at both a macro and micro level; and
- assist local government and their communities to understand their regions and to provide useful planning tools and policy interventions.

Commissioning the supplementary SOR 2008-09 Report

The 2008-09 *State of the Regions* Report was released in December 2008. The report was the 11th in the series and examined the dual implications of the global financial crisis (GFC) and the economic implications of climate change on Australia's regions.

Given the ongoing global, national and regional changes that have been experienced since late 2008, ALGA commissioned National Economics to undertake further modelling on the likely implications of the GFC on Australia. The supplementary mid-year report was also commissioned to provide an ongoing commentary on the Commonwealth's commitment to deal with climate change, as well as providing some useful comparisons of what is happening internationally in this policy area.

Whilst the 2008-09 regional indicators remain valid and useful, the supplementary report has reviewed regional income and labour market indicators and updated them to cover the period to the June quarter 2012.

Given the powerful influences of both global climate change and the GFC, the Supplementary report provides valuable guidance to local government across the nation in the likely challenges their local and regional economies may face in years to come.

The key Supplementary Report findings are summarised below:

Climate change

The 2008-09 report released in December 2008 argued that the challenges associated with climate change would continue to increase in priority and should not be relegated to the back seat due to the unfolding global financial crisis (GFC). The report highlighted an important opportunity to link climate change measures to measures which could alleviate the impact of the GFC by creating a new “green” economy based on a low carbon emissions future.

The supplementary report argues that the financial and environmental imperatives have not changed and the Supplementary Report continues to emphasise the need for the Australian Government to link CO₂ abatement measures with stimulatory fiscal policy, as governments in China, Japan and South Korea are doing. Such economic actions will permit these countries to be in a position to dominate the clean energy industries of the future.

Aggressive greenhouse gas emission reduction measures continue to be needed, and the supplementary report estimates that \$1 billion in expenditure is required to reduce greenhouse gas emissions by between 0.8 and 1 million tonnes per annum. To reduce CO₂ emissions by 250 to 300 million tonnes over the next 20 years will require a total expenditure approaching \$400 billion in 2007 prices and to reach the absolute reduction in emissions targeted by 2030 will require abatement expenditure of approximately 2 to 3 percent of GDP on a sustained basis.

Global Financial Crisis

The Supplementary Report estimates that the GFC will reduce world GDP by around 2 to 3 per cent in 2009. Recent Australian Government stimulus measures are estimated to stabilise the local economy and are likely to produce modest growth by the second half of 2010.

Regardless of the structural developments in the Australian economy over the last 25 years, high international and household debts will mean that Australia will be much slower in responding to the recovery and growth rates will be less than what Australia has experienced coming out of previous international recessions.

The bottom line is that Australia is continuing to live beyond its means, with unsustainable levels of both household and international debt. The two types of debt will constrain economic growth and leave the economy vulnerable to external pressures. Additionally, Australia’s high level of annual international financing, currently over 50

per cent of GDP, means that the economy could experience an exchange rate crisis followed by a banking crisis, if there is a sudden loss of confidence by foreign investors in the Australian economy.

Labour market

The Supplementary Report's regional labour market projections are worrying. Even with a relatively optimistic view of unemployment rates, the report predicts that half of Australia's regions will have worse unemployment levels by 2012, than they do in 2009. At national level the projections have the national unemployment rate peaking at 10.8 per cent at the end of 2010.

All 65 regions will experience a decline in employment over the next 3 years (between 1% and 11%). Only in the knowledge-based economies in major metropolitan areas, is the employment level in 2012 predicted to be significantly above the June 2009 level. Resource regions in Queensland and West Australia will feel severe impact in terms of unemployment and wealth distribution (10% unemployment in the Queensland resource region in 2012, and 10.6% in the WA Gascoyne goldfields and 13.4% in the Pilbara).

The lifestyle regions have a high proportion of retirees and the deterioration in these regions can be largely explained by the end of the land/property boom and corresponding slow-down in property investment. The rural zone is predicted to have an employment level in 2010 significantly below the level in 2009.

It should be noted that the National Economics unemployment rate is calculated differently than the conventional ABS figure primarily in that the National Economics measure includes all those people receiving various Centrelink allowances.

Potential implications for local governments and their local and regional economies

- Retail and consumer industries will be vulnerable to rising household savings rates; finance sector employment is likely to fall through contractions; high import, high carbon industries will be highly vulnerable, and to varying degrees so will export and import competing industries; domestic industries with high carbon inputs must face the economic challenge of reducing carbon emissions.
- Opportunities arising from successful structural adjustment include an investment program with low import content, opportunities for industries with low import content and low carbon inputs (eg. education and health), as well as potential opportunities in export and import-competing industries with low carbon inputs.
- Depending what happens to land prices, some Councils will find that the nominal value of their rate base is declining, possibly facing an increased incidence of ratepayers in financial difficulties. Local government would be wise to closely monitor any government measures which may be taken to refinance over-indebted households so that rate liabilities can be included in the negotiations for refinancing.

- The future of grants may be uncertain if the Commonwealth budget comes under pressure. On the positive side, Local Government may be chosen as the preferred expenditure agent/provider for a wide variety of functions.
- Service demand patterns will change as a result of changed household income, with possible increased demands for welfare and other personal services, which may also affect demand for local public works.
- Increasing national saving rates, designed to reduce high international and household debt, could see Australian's living more 'local' and 'regional lives'. The more people concentrate their lives in local areas, the more important and relevant their local governments will become!

The State of the Region indicators of data at local government area level can be obtained from National Economics (for any specific inquiries please email peter.hylands@nieir.com.au).