Issues Report No. 7: State of the Regions Report 2014-15

The 2014-15 State of the Regions report, produced by National Economics (NIEIR) for the Australian Local Government Association (ALGA) provides interesting data and commentary on our Northern Inland region.

As expected, regional employment is dominated by Agriculture. Employment in Retail Trade now nearly matches agriculture, with Manufacturing, Health Care & Social Assistance, and Education & Training the other dominant industries in terms of employment.

Interestingly, while employment in agriculture has been dropping, employment in manufacturing is reported as increasing from around 4-5,000 in the 1990's to over 7,000 in 2014.

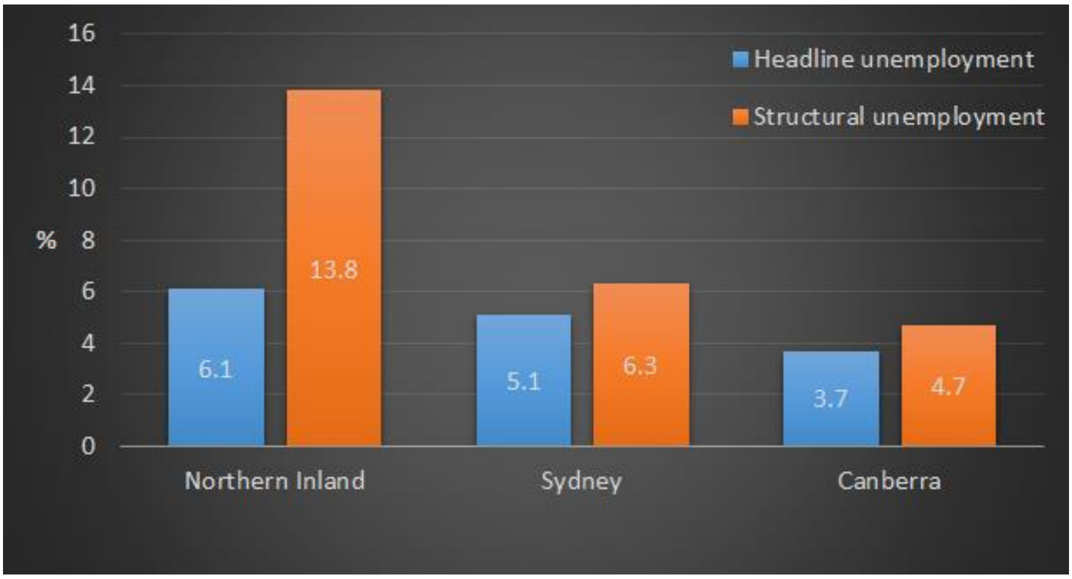
The report discusses the impacts of the mining boom on regional economies, the need to develop new knowledge-based industries, obstacles to rebuilding our traditional export sectors, and the role of strategically placed public infrastructure investment to revitalise regions.

The Bad News

Unemployment

While the 'headline' unemployment rate for our region is 6.1%, the structural rate of unemployment which accounts for people on various benefits unlikely to ever return to work, and those who work minimal hours but are classified as 'employed', is 13.8%. This is a more accurate measure of the long-term unemployment rate (Fig 1).

Figure 1. Unemployment Rate Comparisons



Social Welfare

Compared to the Australian average, we have a higher percentage of our population on disability support, parenting payments and Youth Allowance. Our long-term unemployed as a proportion of our total population are almost 1 percentage point higher than the national average (2.6% versus 1.63%).

Youth

The report notes the special problems faced by young people (ages 15-24) trying to find employment (nationally, the headline unemployment rate for this group is 12.3%, a rise of 3.2 percentage points over the last 5 years).

Job shedding, and the move to casual or part-time work has been most severe in this age category. In regional areas, this is compounded by reduced opportunities in manufacturing, the substitution of capital for labour in agriculture, fewer low-skilled jobs in government agencies, and a decline in apprenticeship offerings. All of these factors mean less opportunity for young people to receive structured training.

Regional and rural areas tend to offer more trade skills opportunities, while learning professional skills often requires a move to larger cities. The advent of the online era also means that young people need to engage in lifelong learning, continually adapting their skill set and capabilities to remain employed.

Other problem areas

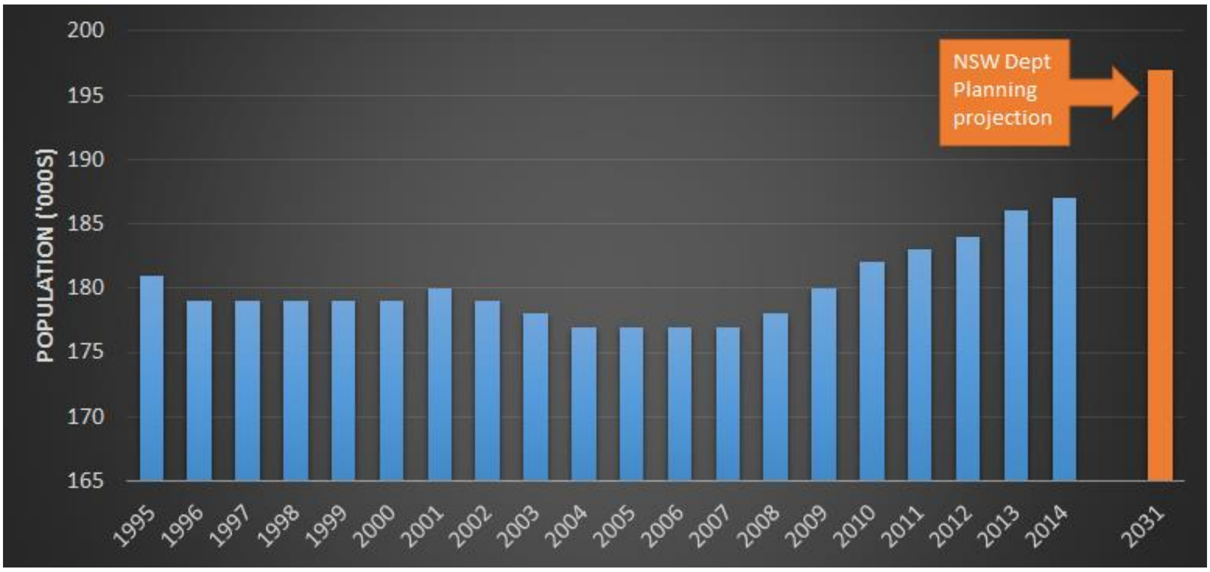
- A social security uptake rate of 18.6%;
- The ratio of taxes paid ($952M) to benefits received ($1,103M) is 0.86 – the region is receiving more taxation dollars back in benefits than it actually pays in tax;
- Employees in the region work long hours, but receive a low hourly rate of pay (we rank 65th out of 67 regions for hourly pay rate per employee). This is probably impacted by the long hours worked in agriculture. Canberra has the highest ranked hourly rate of pay.

The Good News

Population

Following a steady decline in population between 1991 and 2005 to a trough of 177,000 people, the number of residents in the region has turned around, is heading in the right direction and in 2014 reached 187,000 (Fig 2).

Figure 2. Population



The majority of this increase is in the 55+ age group – a situation likely to persist according to recent NSW Department of Planning projections. While there was a loss of youth in the 0-19 age group and adults in the 30-54 group, the region actually gained numbers in the 20-29 group.

Housing Affordability

The average value of dwellings in the region is $241,000 (compared to $905,000 for Sydney Northern Beaches). This represents just 2.7 times household disposable income, compared to 4.9 times on the Northern Beaches.

Dwellings in the Northern Inland region incur a much lower mortgage burden (expressed as a percentage of disposable income) than other regions. We rank 58th out of 67 regions for mortgage burden (i.e. it is comparatively low).

Total household debt to gross income is also relatively low – a ratio of 1.26, which ranks us at 56 out of 67 regions. In this case, a low ranking is better, as it indicates a greater capacity to service debt. This is driven by lower housing costs, and hence lower mortgage burdens.

Welfare Benefits Share of Income

This is an indicator which has also been improving. Measured as the cash paid out in benefits as a proportion of disposable income, this figure has steadily decreased from 20.2% in 2006 to 15.8% in 2014, improving our ranking from 7th (i.e. a higher proportion of benefit income) to 29th (lower proportion of benefits income). Given that disposable income per capita has not changed much over this period, it suggests the improvement is due to benefits becoming a lower proportion of incomes, not an increase in incomes.

Messages to Heed for the Future

The State of the Regions report contains extensive commentary on the economic environment in which regional Australia finds itself, and the initiatives needed to improve regional economic performance. Some key messages from the report are summarised below.

The Mining Boom was not Kind to Many Regions

Apart from those regions where major mining activity was located, the spinoff from the mining boom on many other regions was largely negative.

The resulting high exchange rates disadvantages regions with a dependence on agriculture, manufacturing and tourism/lifestyle retirement industries.

NIEIR also suggest that the benefits from the mining boom were over-estimated as mining is capital intensive which means fewer jobs per dollar of investment, and most profits going back to overseas owners.

The Australian financial system has significant overseas debt and a flow of foreign exchange (i.e. exports) is required to service that debt if Australia is to avoid a foreign debt crisis. However, the high exchange rate means lower returns for exports, and this has limited investment in export industries (agriculture, manufacturing). Increasing exports requires private investment, and finance for those investments will be difficult to obtain until confidence returns to those trade-exposed sectors.

It is argued that the probability of a balance of payments and banking debt crisis has been increased through the policy of specialising in resources.

There is also the problem that the financial sector now has much shorter time horizons, reducing the potential for investment in long time horizon industries such as manufacturing and agriculture.

Added to this, rising gas prices due to LNG export with no gas flows reserved for domestic use means reduced manufacturing competitiveness.

Time to Change

In the post-mining boom era, there is a need for regional areas to migrate toward becoming knowledge economies (i.e. start selling knowledge, as well as commodities). However, it will require improvements in transport and communication to facilitate (i.e. to attract metro-based knowledge workers to live in regional areas and give them ready access to major population centres).

The report also surmises that higher levels of household debt following financial deregulation have curtailed the capacity for investment in new opportunities.

It is noted that Australia has massive unexploited potential for renewable energy – solar, wind, tidal. However a surge of private investment in renewables is not expected until relative prices with fossil fuel energy change to the point where it is unavoidable.

Public Infrastructure Investment to the Rescue

The suggestion is made that public investment in infrastructure can support the revival of trade-exposed, low greenhouse emission industries. Carefully selected infrastructure can underpin increased national productivity and by supporting business investment, generate export income.

Infrastructure projects typically require public investment as their economic returns are greater than the returns the private sector can make (e.g. road tolls). Roads for example underpin all economic activity and government investment is likely to become self-financing from the additional tax revenues via increased economic activity.

Take Heed of Regional Needs

New infrastructure investment can help neutralise the decline in mining activity, but it must be well integrated into regional strategy to ensure it is utilised by industries and households. Water supply for irrigation could assume more importance as the mining boom subsides, helping agriculture to fill the export gap.

Current investment plans are focussed on national and state level infrastructure, and pay little attention to regional, inter-regional and local impacts. Australia needs to adopt a strategic regional approach, which will entail an enhanced role for local government who better understand regional needs. However, local government is held back by a lack of administrative and financial capacity to take responsibility for local economic development.

While transport, communication, water and waste management investments will generate direct economic benefits, liveability standards are a key driver of regional economic development. Liveability is determined by the stock of community and social infrastructure and the quality of health, education and welfare services.

The 2014-15 State of the Regions Report is available here - http://alga.asn.au/?ID=12336