

Is Australia facing the risk of complacency?



6%

We have seen Australia's real per capita income fallen by 6% since the peak in the terms of trade in 2011

17th

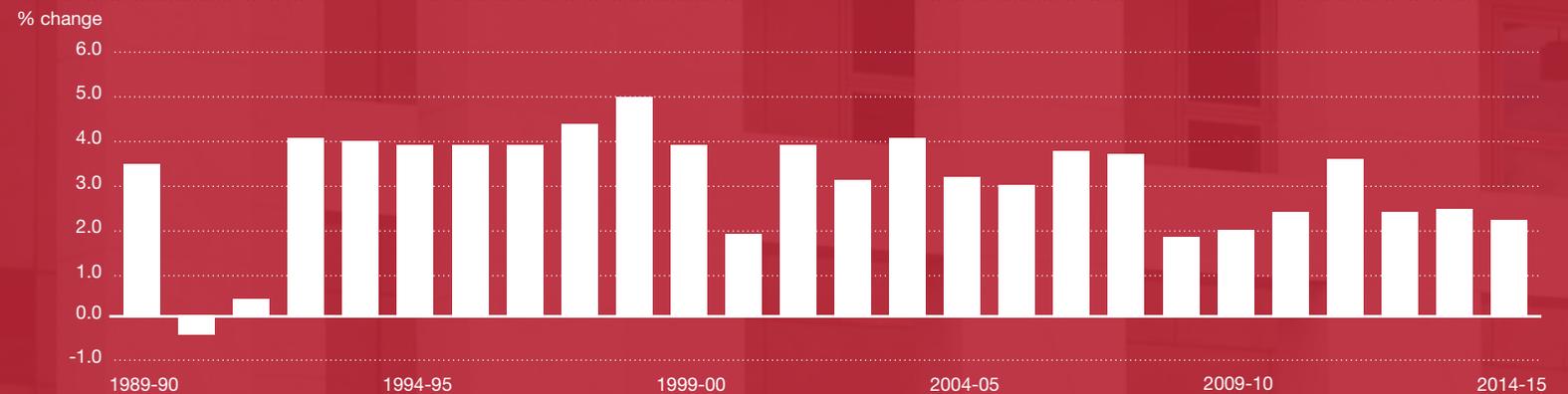
The global Innovation Index ranks Australia 17th compared to Switzerland (1st), UK (2nd), US (5th) and New Zealand (15th)



The risk of complacency

The Australian people have, through good luck and generally prudent governance, been the beneficiary of 25 years of continuous economic growth (Figure 1).

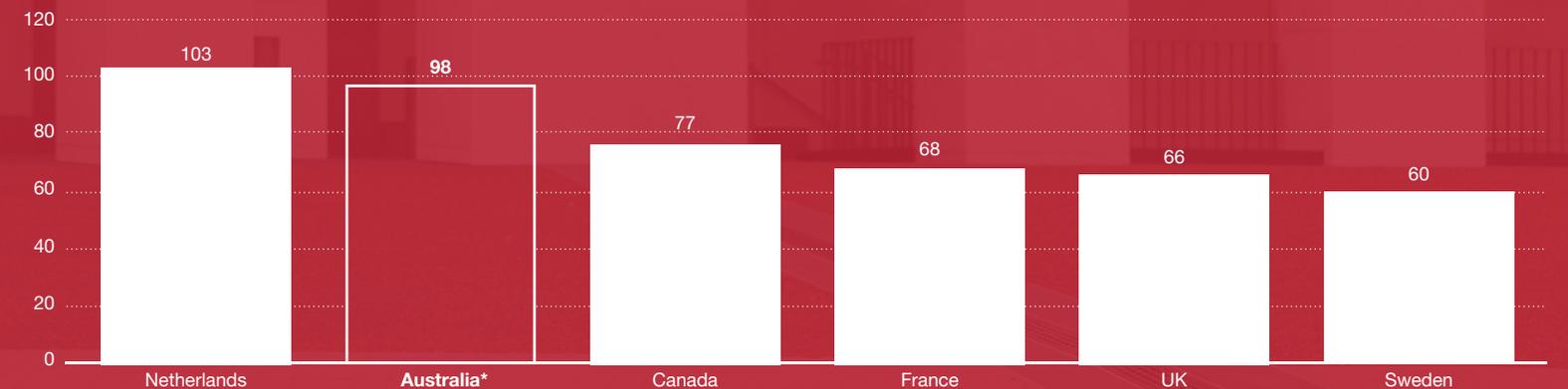
Figure 1: Annual Australia GDP growth



Source: ABS Catalogue 5206.0

No other country can claim such sustained national prosperity over the same period. Indeed, over a period of significant global volatility, the Australian economy is only months away from breaking an economic growth record (see Figure 2).

Figure 2: Period of economic growth without a recession (selected G10 economies + Australia)



Source: Business Insider, Longview Economics, PwC.

Since the collapse of Lehman Brothers in 2008, marking the beginning of the GFC, Australian economic output has increased by over 19%. This compares favourably to countries such as the US, UK and Euro area which have grown by 11%, 9% and 2% respectively over the same period.

This run of prosperity reflects different drivers of growth, from the micro-economic reforms of the 1990s through to the commodity price boom driven largely by China's urbanisation in the past decade.

However, the current environment presents us with a series of challenges, which include:

- the need to adjust our economy in the face of lower mining investment and commodity prices – this is our major short term challenge but one which will be partly addressed as the economy adjusts to a lower dollar environment
- continuing weak global growth – the IMF has downgraded its outlook for global growth for the fifteenth time in the past four years, cutting its forecasts for 2016 from 3.8 per cent to 3.6 per cent
- an ageing population – in future years Australia will have far fewer workers to support the demands of the population, lowering economic growth
- the challenge of simply being relevant in the global economy¹

Some of these are challenges that we can address directly (transitioning the economy, productivity, etc) and some are outside our control (e.g. global growth).

¹ Australia is projected to fall from being the 19th largest economy to the 28th in 2050 – PwC (2015), The World in 2050: Will the shift in global economic power continue? <http://www.pwc.com/gx/en/issues/the-economy/assets/world-in-2050-february-2015.pdf>

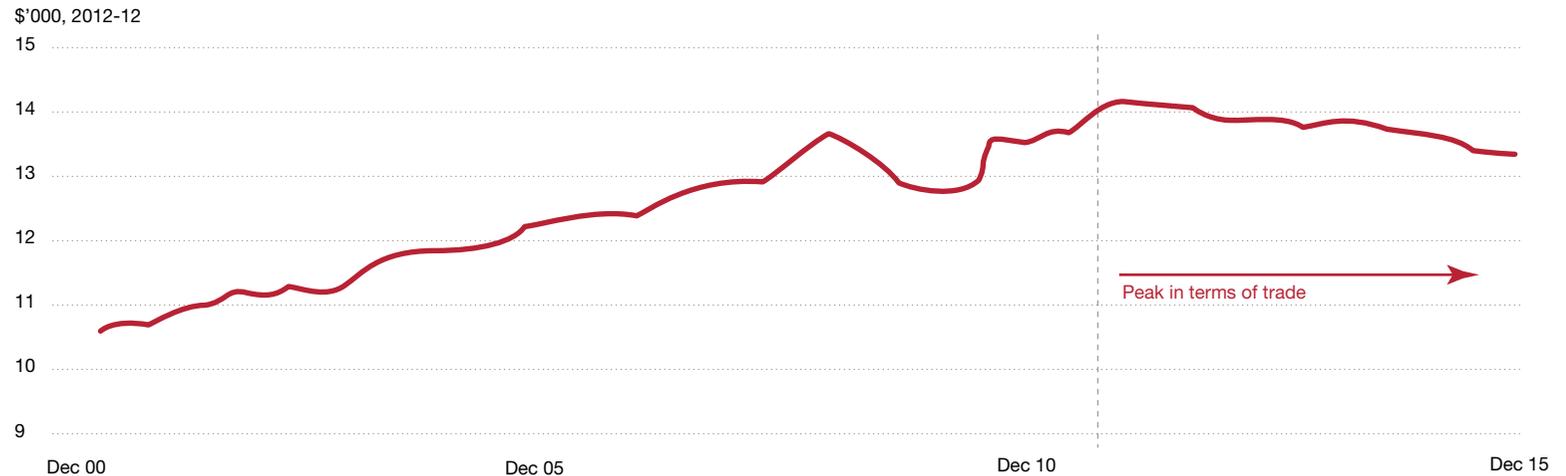


Our real living standard is on the decline

The consequence of these challenges are not in the never-never – they are happening now. Already in recent years we have seen Australia's real per capita income (i.e. a measure of our welfare) fallen by 6% since the peak in the terms of trade in 2011 (compared with an increase in GDP of 11% and GDP per capita of 4%).²

In effect, our real living standard is on the decline. While the community may not necessarily feel that this is a material outcome at present, this decline in our real standard of living points to a less than comfortable future of lower growth and declining living standards.

Figure 3: Real national disposable income per capita



Source: ABS Catalogue 5206.0

It would be irresponsible to sit back and hope that this decline in living standards will be halted by some currently unforeseen turnaround in our national circumstances.

²Real income' accounts for all income earned by Australians, deflated in terms of prices of national expenditure.

Australia's real per capita income fallen by 6%



since the peak in the terms of trade in 2011

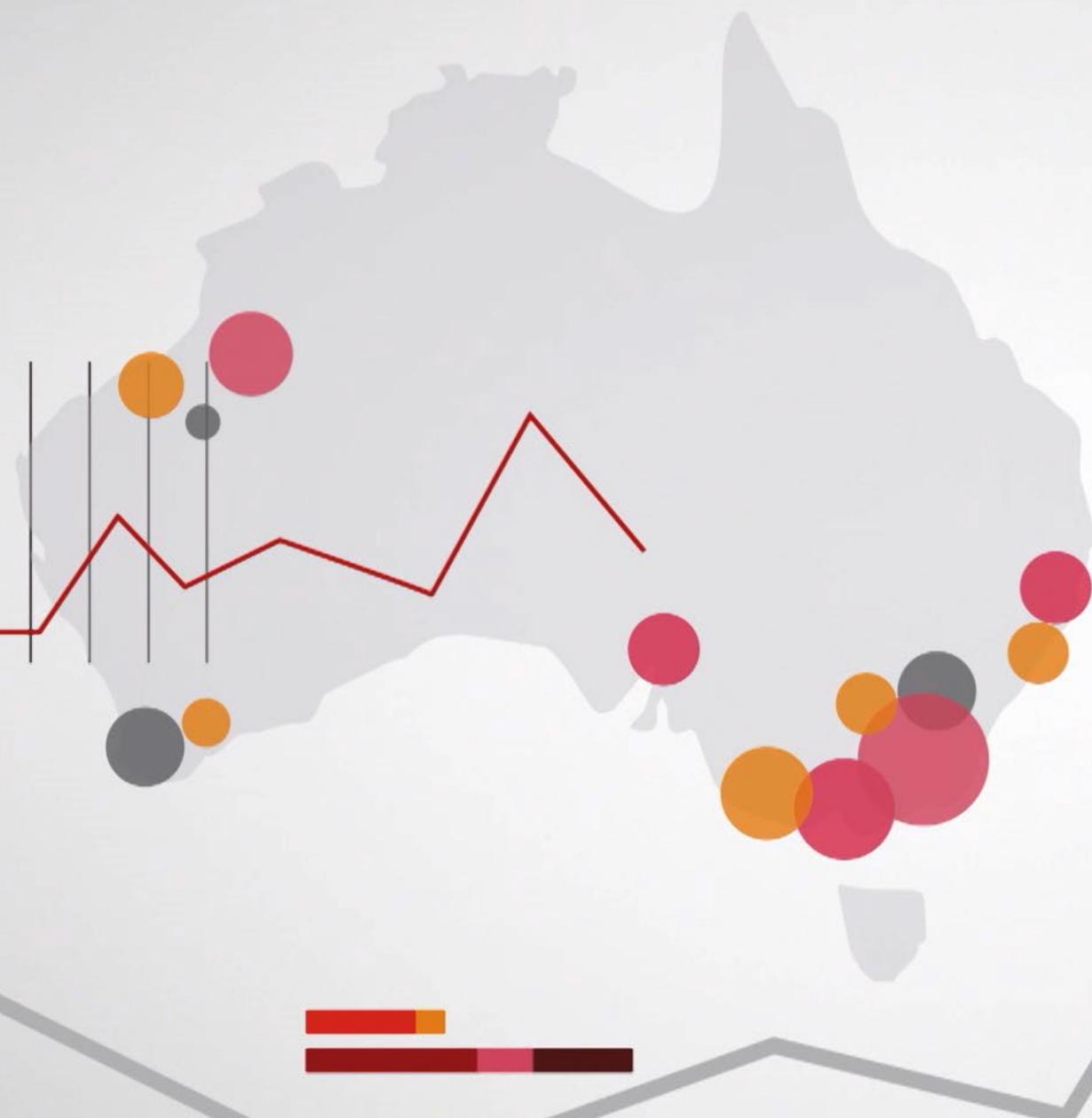
VS

Increase

12% in GDP and

5% GDP per capita

Source: ABS Catalogue 5206.0



Top 10 locations of economic output in FY15

1	Sydney - Haymarket - The Rocks	\$69.8 bn
2	Melbourne CBD (City, Docklands, Southbank)	\$58.3 bn
3	Perth City	\$30.7 bn
4	Ashburton (WA)	\$26.8 bn
5	Roebourne (WA)	\$24.7 bn
6	East Pilbara (WA)	\$24.7 bn
7	Brisbane City	\$24.0 bn
8	Adelaide CBA	\$16.3 bn
9	North Sydney - Lavender Bay	\$11.2 bn
10	Macquarie Park - Marsfield	\$10.3 bn

Source: PwC's geospatial economic model (GEM), 2015

Australia's economic growth is concentrated

close to one in five dollars of national income comes from just 10 locations

Realising our productivity potential

Stimulation of sustained longer term growth requires a sustained improvement in national productivity. Unfortunately, when there is reference to 'productivity improvements' too often the public equates this with downsizing and job losses.

Instead, we need to see productivity improvement as a reflection of a package of more tangible public policy and corporate goals including, for example:

A skilled workforce



Fit for the future with increased participation and diversity

The demographic profile of the Australian community means that we need greater participation in the workforce, with people educated and trained to adapt to the future work environment.

We passionately believe that greater STEM adoption is an integral element of a more fit for the future workforce.³



With an increased appetite for Innovation and entrepreneurship

Risk-taking and support for disruptive startup innovation will need to become embedded in our national psyche.⁴ We need to embrace the disruptive power of technology and innovative thinking so that we are the beneficiaries of disruption rather than the victims.

Supported by



Tax and regulatory systems that are efficient and promote investment

We have a complex and fragmented tax system that is not aligned to supporting growth, minimising distortions and supporting distributional outcomes.⁵



The right physical and digital infrastructure

More is not necessarily better; we require the right infrastructure delivered cost effectively to promote the liveability of cities, the efficient delivery of products and digital connectivity to support new digital services.

Combined, achievement of these goals will set Australia up for the next phase of growth.

³ PwC (2015), A smart move: Future-proofing Australia's workforce by growing skills in science, technology, engineering and maths (STEM), <https://pwc.docalytics.com/v/a-smart-move-pwc-stem-report-april-2015>

⁴ PwC (2013), The startup economy: How to support tech startups and accelerate Australian innovation, <https://www.digitalpulse.pwc.com.au/wp-content/uploads/2013/04/PwC-Google-The-startup-economy-2013.pdf>

⁵ PwC (2015), Protecting our prosperity: The pathway to a better tax system, <https://pwc.docalytics.com/v/pathway-to-a-better-tax-system>

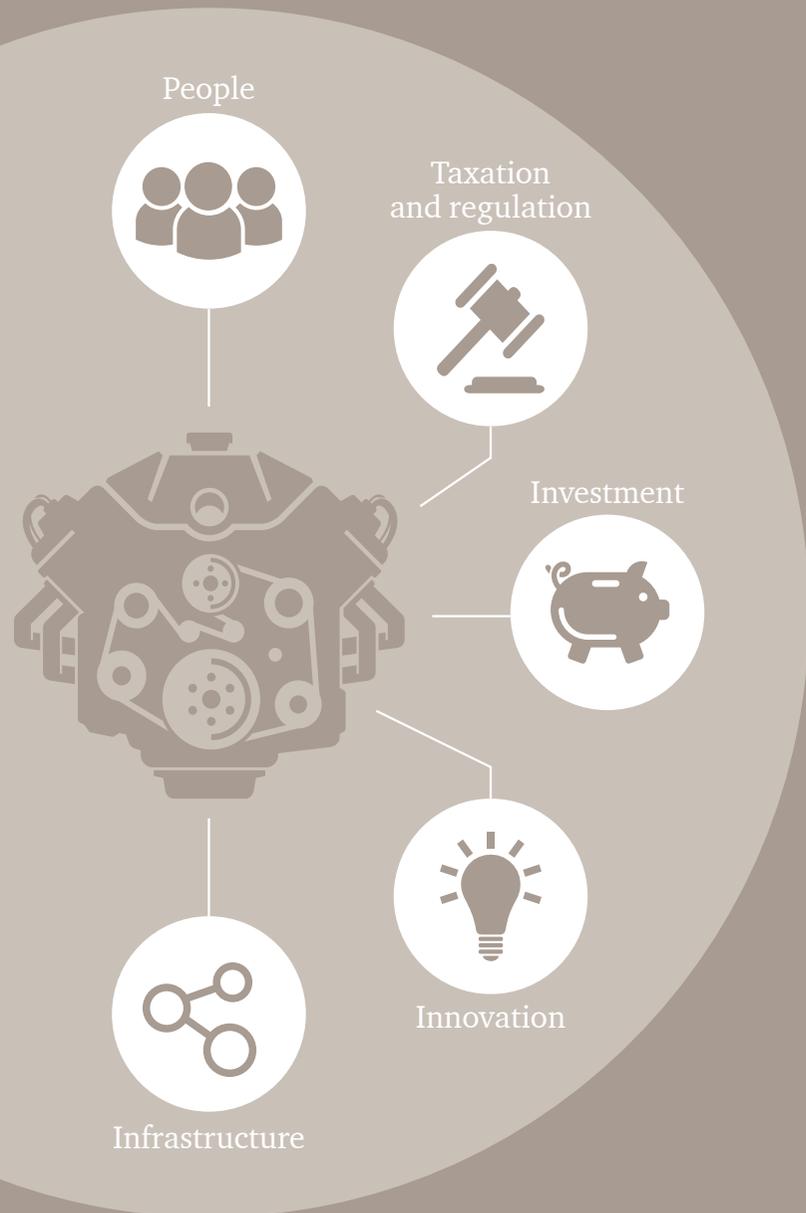


Figure 4: Selected indicators of national performance

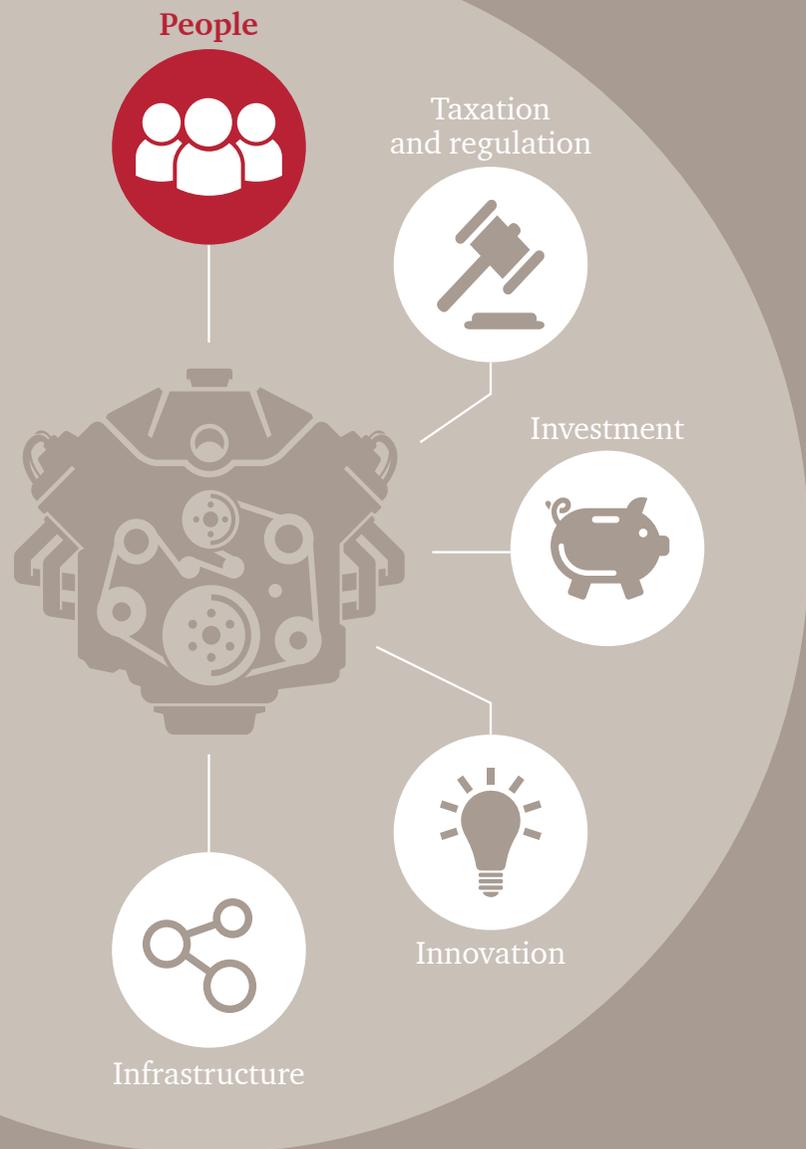
Can we jump start the economy's engine by learning from other nations?

It would be naïve to suggest that these public policy and corporate goals are easily achieved. In some cases, (e.g. tax) the politics of reform is verging on toxic, and in others the policy prescriptions span decades and hence get lost in the day-to-day of political to and fro (e.g. skills and education).

A scan of nations which we may aspire to emulate in some respects shows that there are areas where we lag in best practice when it comes to these goals.

What is clear is that we cannot just keep on doing what we have always done, and still expect to achieve these goals. Whether as individuals, or as corporates, not-for-profits or government, we need to fight the urge to see the status quo as acceptable, and embrace the view that we need to take greater risks to jumpstart the economy's engine.

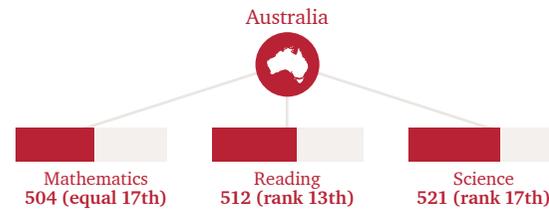
Can we jump start the economy's engine by learning from other nations?



Skills

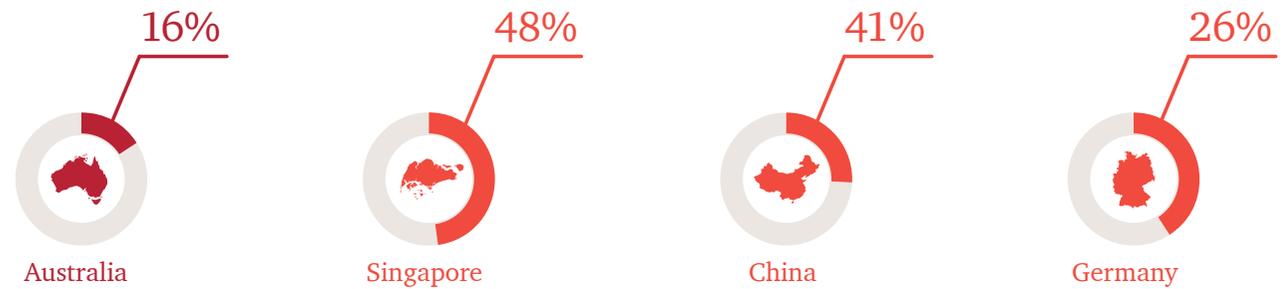
Educational outcomes

PISA scores



STEM

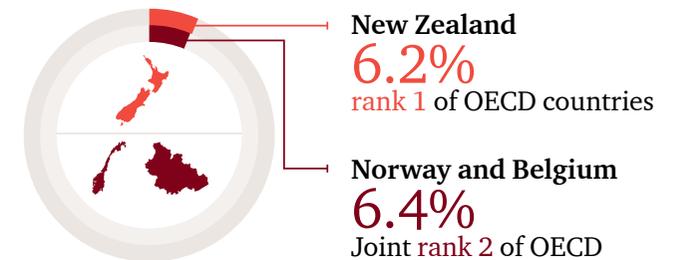
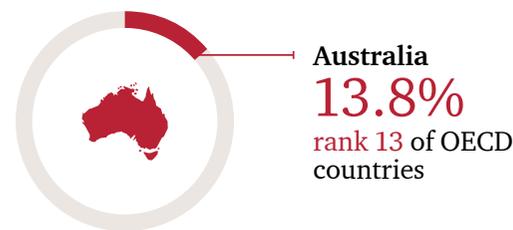
STEM degrees as a proportion of all degrees



Diversity

Pay

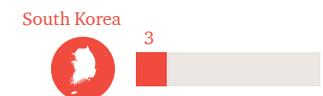
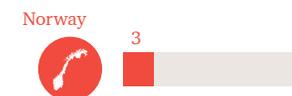
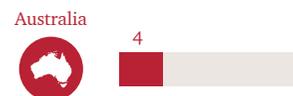
Gender wage gap



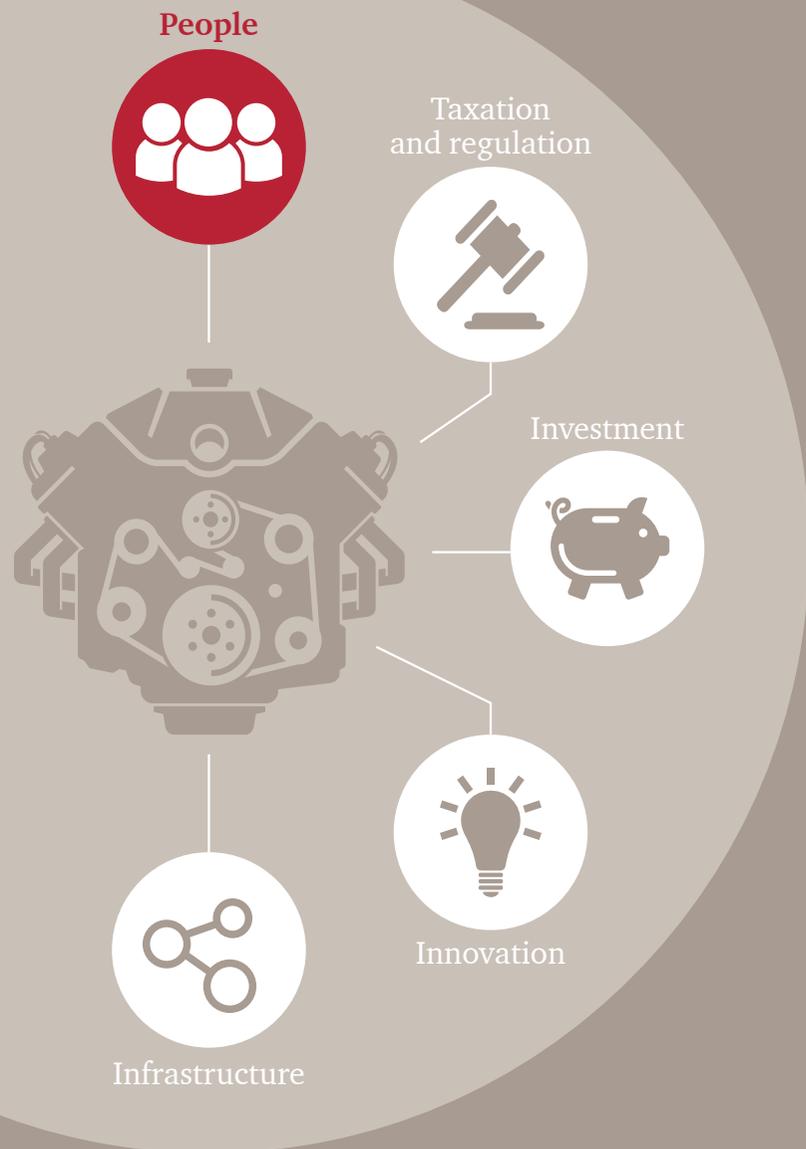
Health

Outcomes

Mortality rate under 5 (per 1,000)



Can we jump start the economy's engine by learning from other nations?



Workforce participation

Age

Participation rate

Among 65+
12.9% (OECD stat)



Among 15+
64% (rank 5 of ECD)
(read from graph)



Among 15+ (read from graph)

Canada – 66% (rank 4)



New Zealand – 68% (joint rank 2)



Switzerland – 68% (joint rank 2)

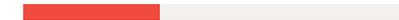


Iceland – 73% (rank 1)

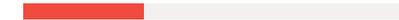


Among 65+ (extracted from OECD table)

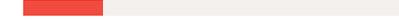
Iceland – 36.2%



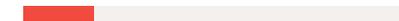
Korea – 31.9%



New Zealand – 21.0%



USA – 18.6%



Gender

Participation rate of females

Australia (rank 3 against Canada and New Zealand) (read from graph):

Total – 65%



Male – 72%



Female – 57%



Canada (rank 2)
(read from graph)

Total – 66%



Male – 72%



Female – 62%



New Zealand (rank 1)
(read from graph)

Total – 67%



Male – 74%



Female – 63%



Childcare

Enrolment



37.6%
of three year olds were
in formal childcare or
pre-school



100% France



99% Belgium



97% Denmark



88% Germany



83% UK

Cost



16%
of family net income



Austria – 3% of
family net income



Sweden – 4% of
family net income



Germany and France –
10% of family net income

Disability

Participation Rate for working age people with a disability



52.8%
Australia



56.2% France



62.5% Luxembourg



66.2% Sweden



69.0% Switzerland

Foreign-born participation rate



72.2%
Australia



87.6% Iceland

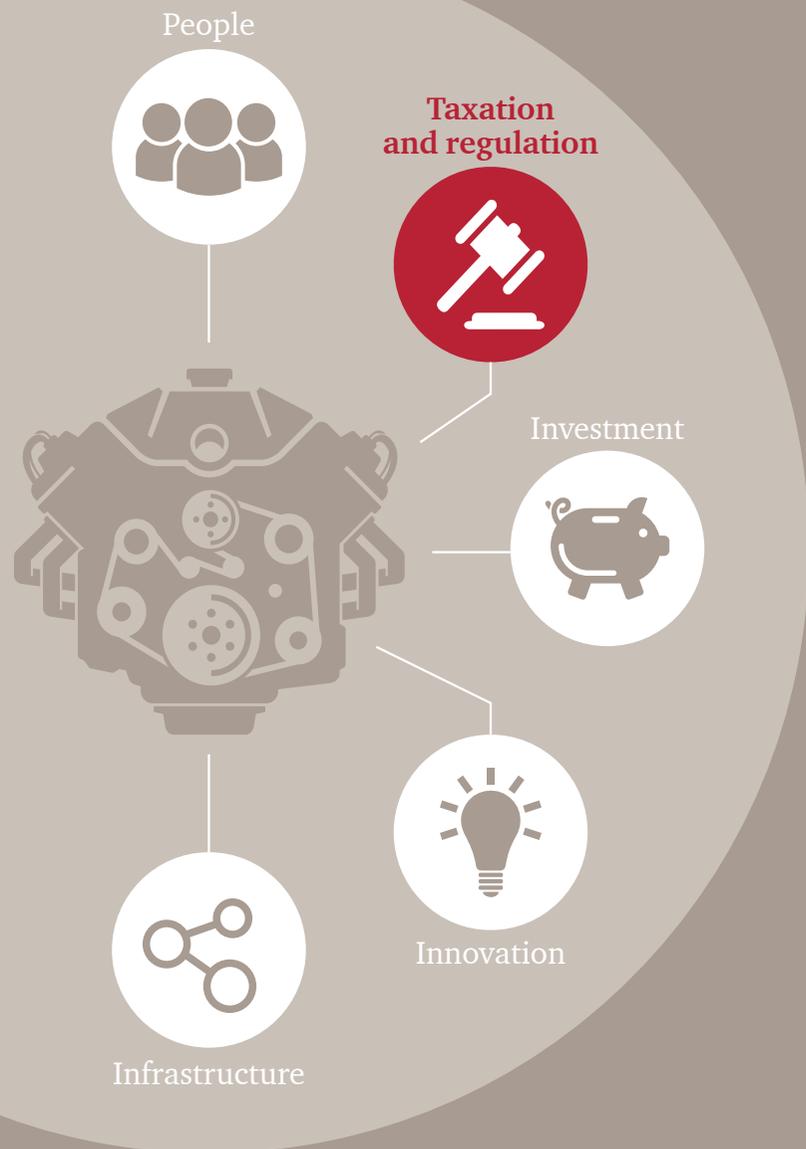


82.6% Switzerland



76.8% New Zealand

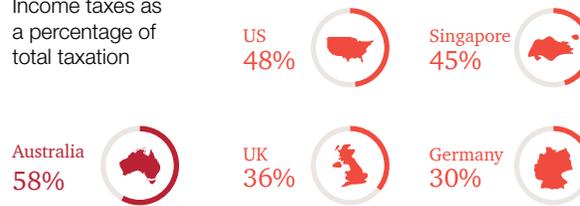
Can we jump start the economy's engine by learning from other nations?



Tax

Tax mix

Income taxes as a percentage of total taxation



Size of tax take

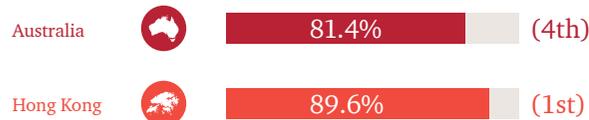
Tax as a percentage of GDP



Economic freedom

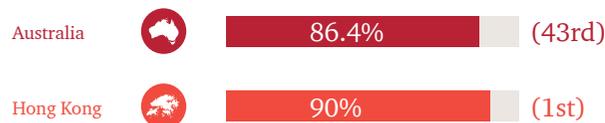
Overall

Rating

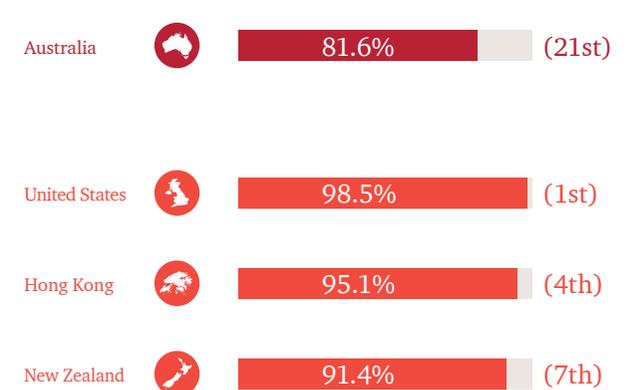


Trade freedom

Rating



Rating



Labour Freedom

Regulation

Red tape

Ease of doing business index



Burden of government regulation

Australia score:

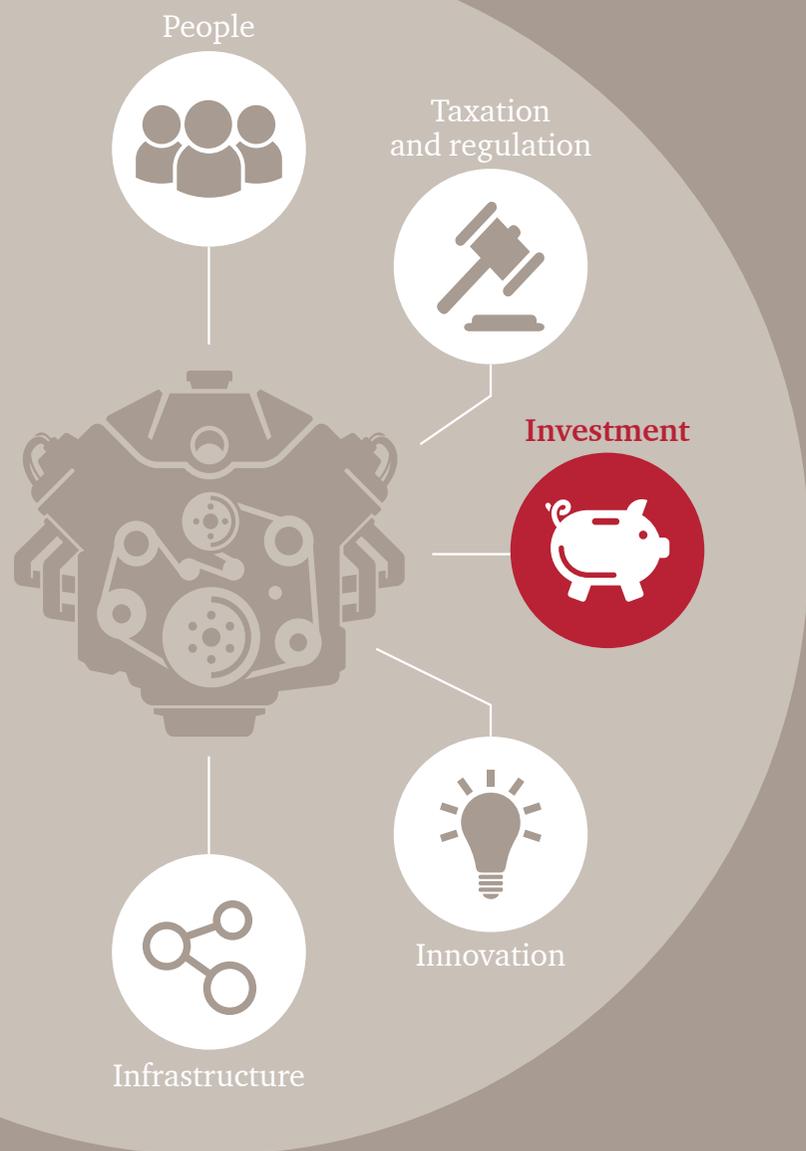


UK



(1 = extremely burdensome, 7 = not burdensome at all)

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*jump start the
 economy's engine*
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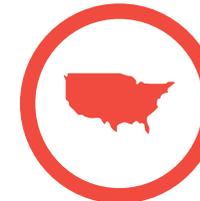
Venture capital attractiveness

The Venture Capital and Private Equity Country Attractiveness Index

Australia
 88.5%
 (Rank 8)



US
 100%



UK
 94%



Japan
 91.3%



Depth of capital market

78.9%
 (Australasia)



North America
 95.7%



Entrepreneurial culture and deal opportunities

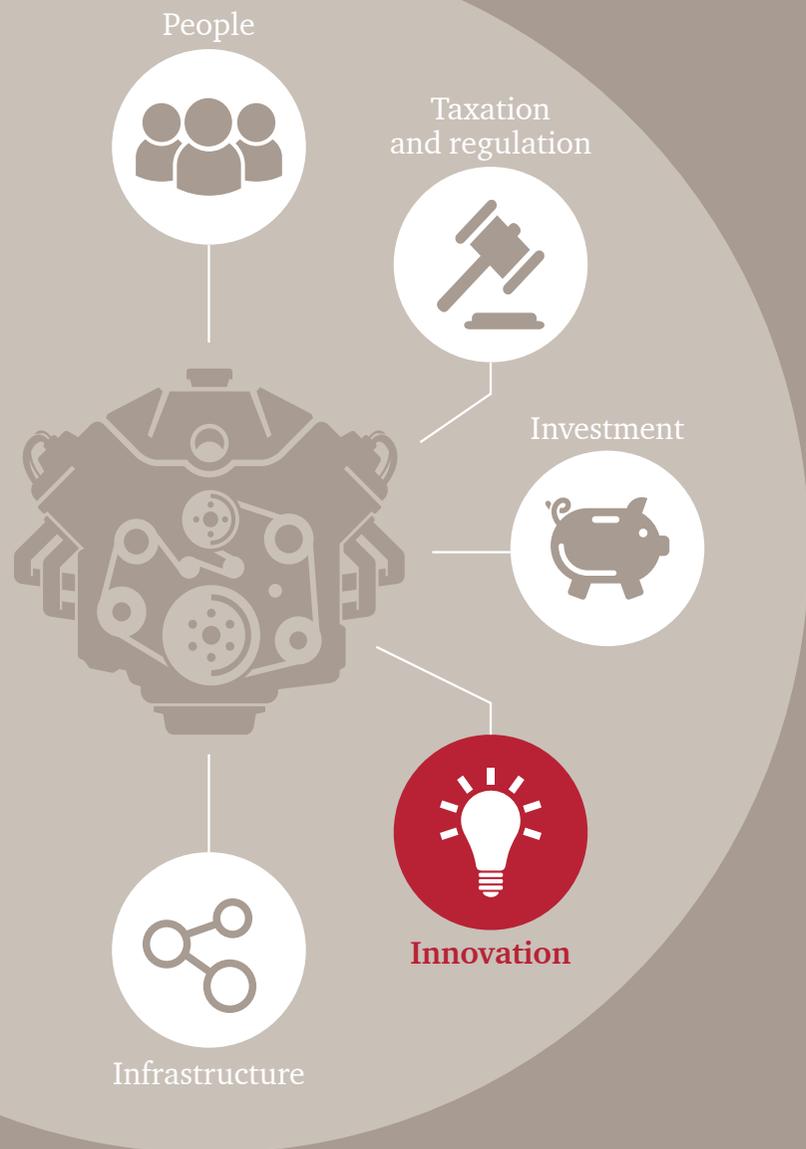
83.0%
 (Australasia)



North America
 94.4%



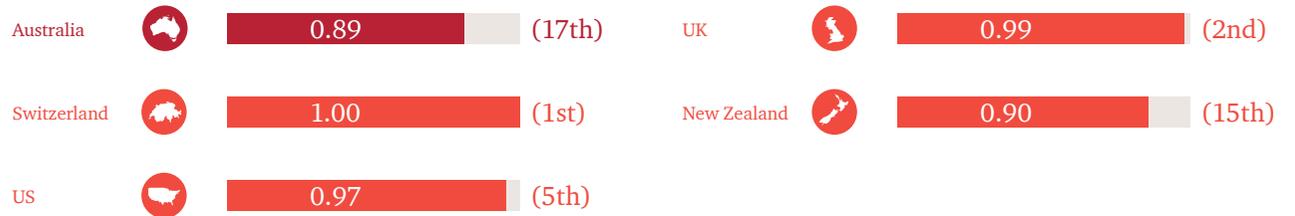
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Overall

Global Innovation Index

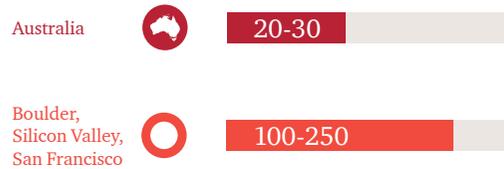
Ranking



Inputs

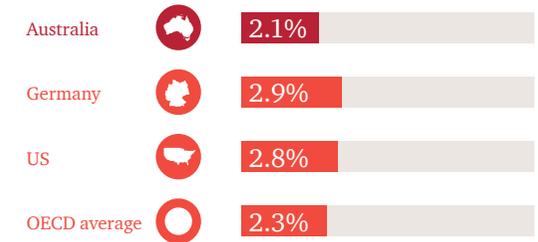
Startups

Startups per million people



R&D

R&D Expenditure as a percentage of GDP

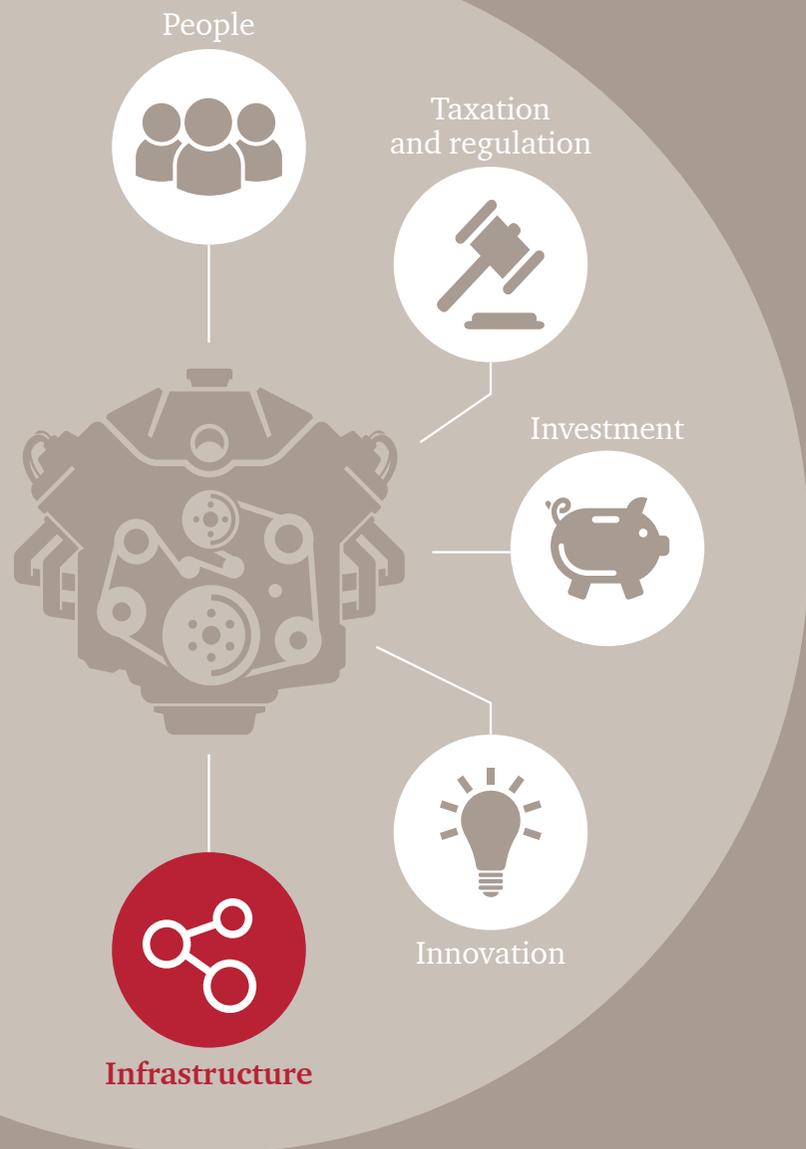


Collaboration

Proportion of innovative-active businesses collaborating with universities or other non-commercial institutions.



Can we jump start the economy's engine by learning from other nations?



Internet

Speeds

Average connection speed – Kilobytes per second (KBPS)



Users

Internet users (per 100 people)



Quality

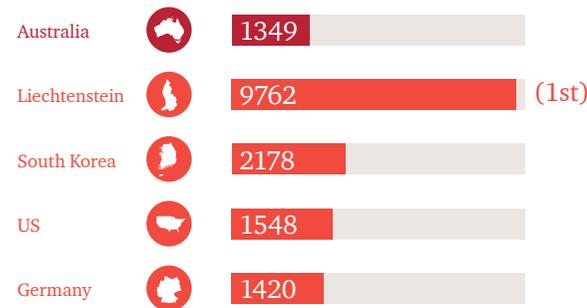
IPv6 Adoption (%)



Digital infrastructure

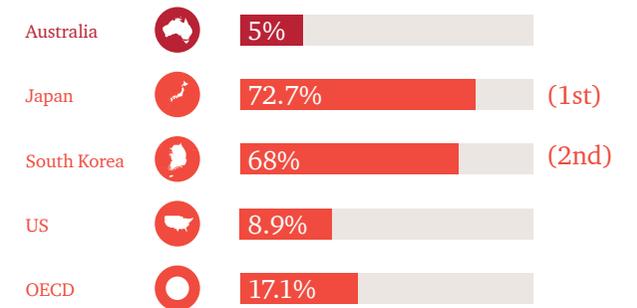
Security

Secure internet servers (per 1 million people)



Fibre Connections

Fibre connections (% of total broadband connections)



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