

Deloitte Access Economics

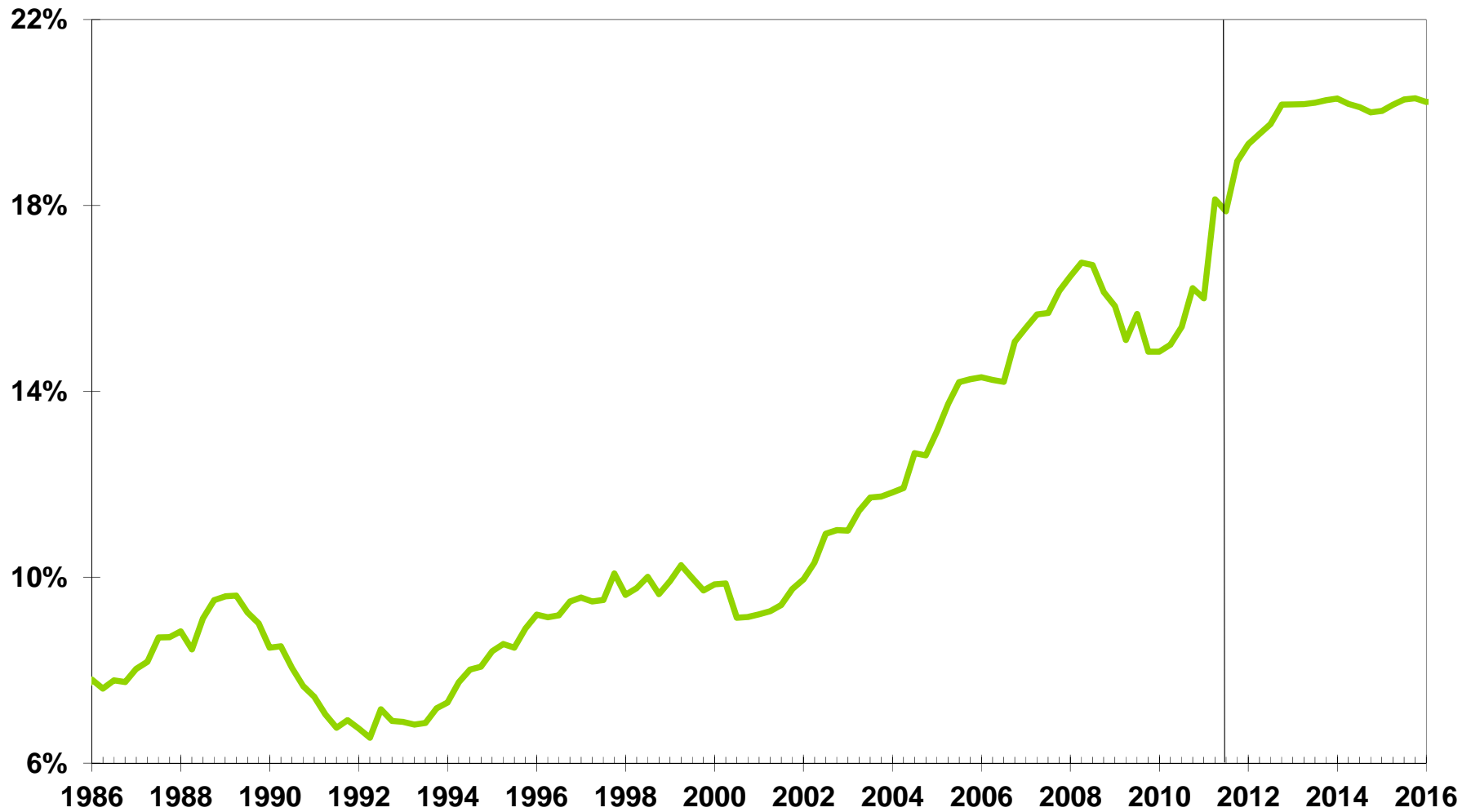
TAFE Victoria,
Economic Outlook,
18 May 2012

Chris Richardson,
Deloitte Access Economics



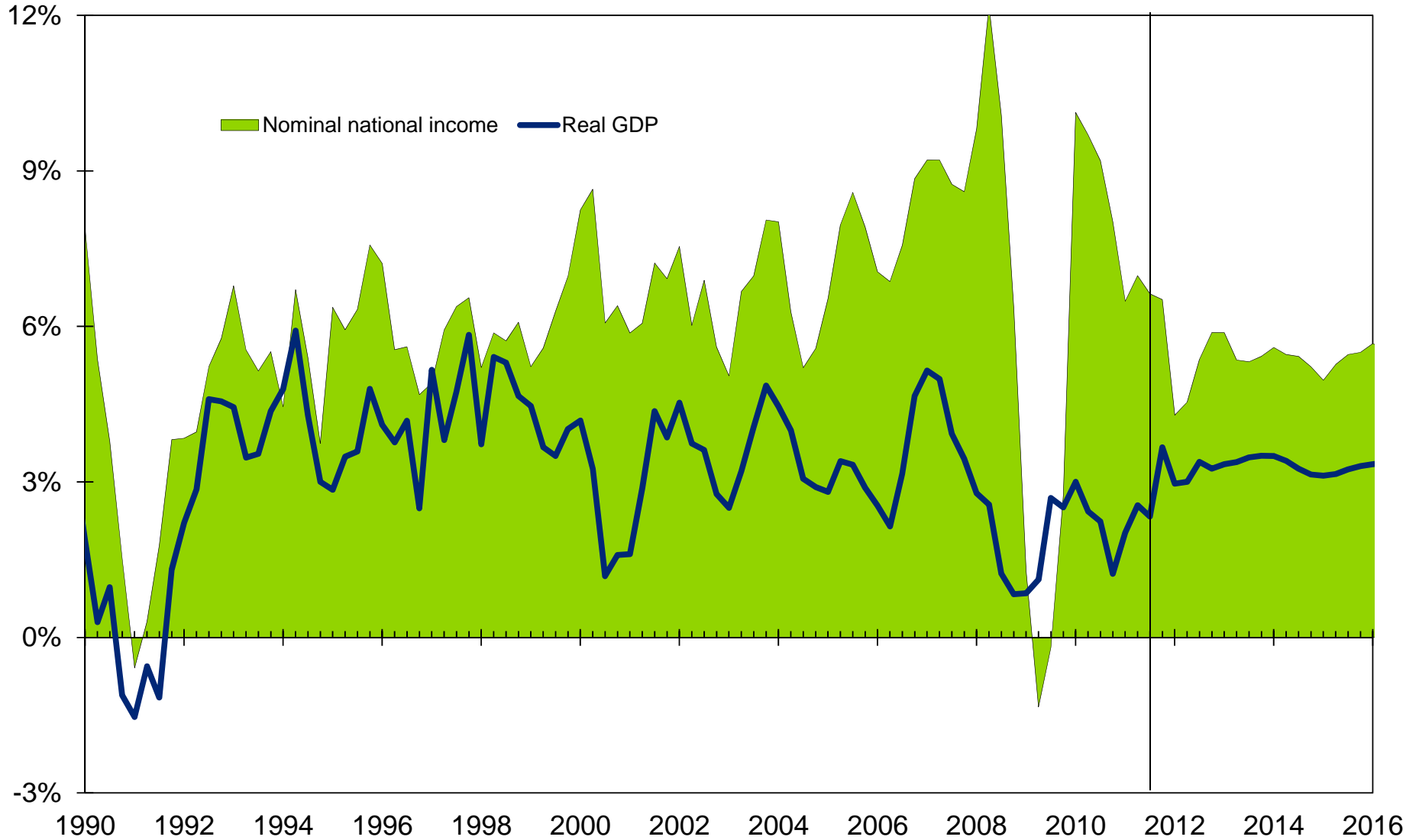
Stunning investment pipeline

Business investment/GDP



So Australian growth better than you think?

GDP growth (change on year earlier)

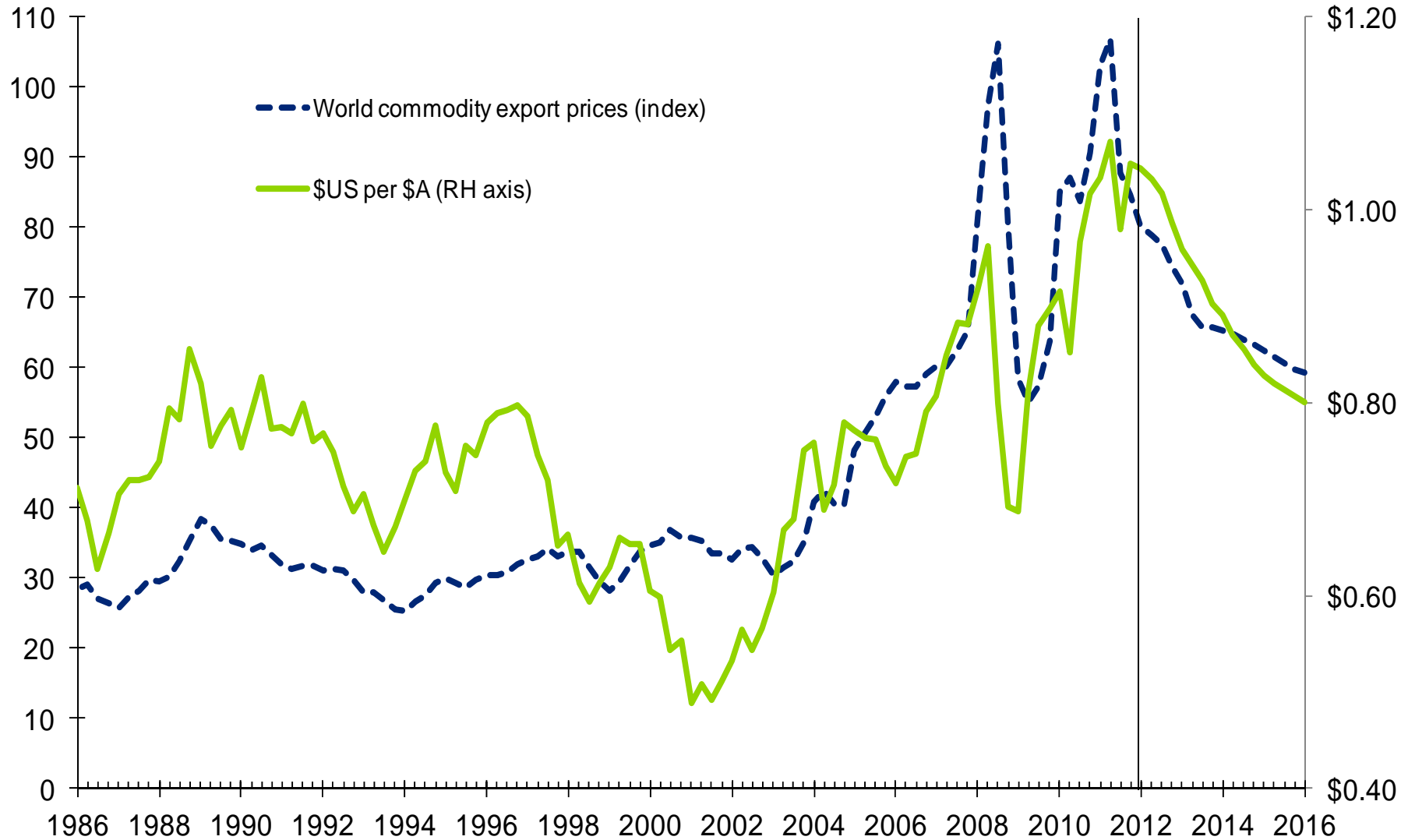


But more of the same two speed troubles

The resources boom has pumped up Australian interest and exchange rates. And the latter are tearing strips off many businesses. **Manufacturing, tourism, and international education – are wondering whether they compete against cheap global competition.** That raises an important risk – **the sectors and States on the wrong side of Australia's two speed economy may be in trouble.** And that trouble could worsen further. **Negatives of the structural change that Australia's economy needs could end up dominating the positives** – business closures may run ahead of the fast growth in mining and engineering construction. Business investment may run into further hurdles – delays in approvals, shortages in skilled labour, difficulties in getting bank finance – meaning that the key positive for Australian growth may prove less of a positive than currently projected.

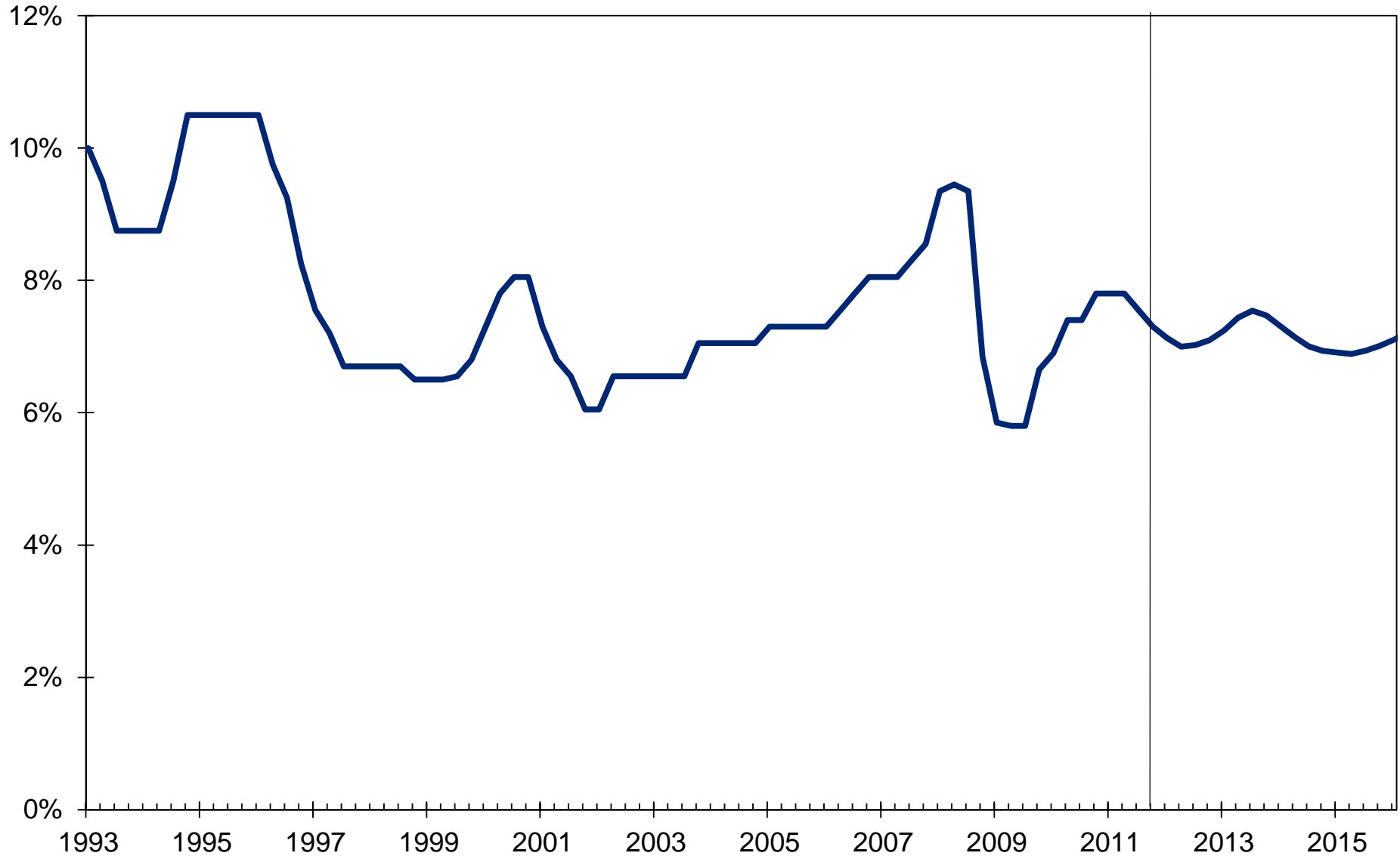
\$A high for a time further, although not forever

The exchange rate and commodity prices

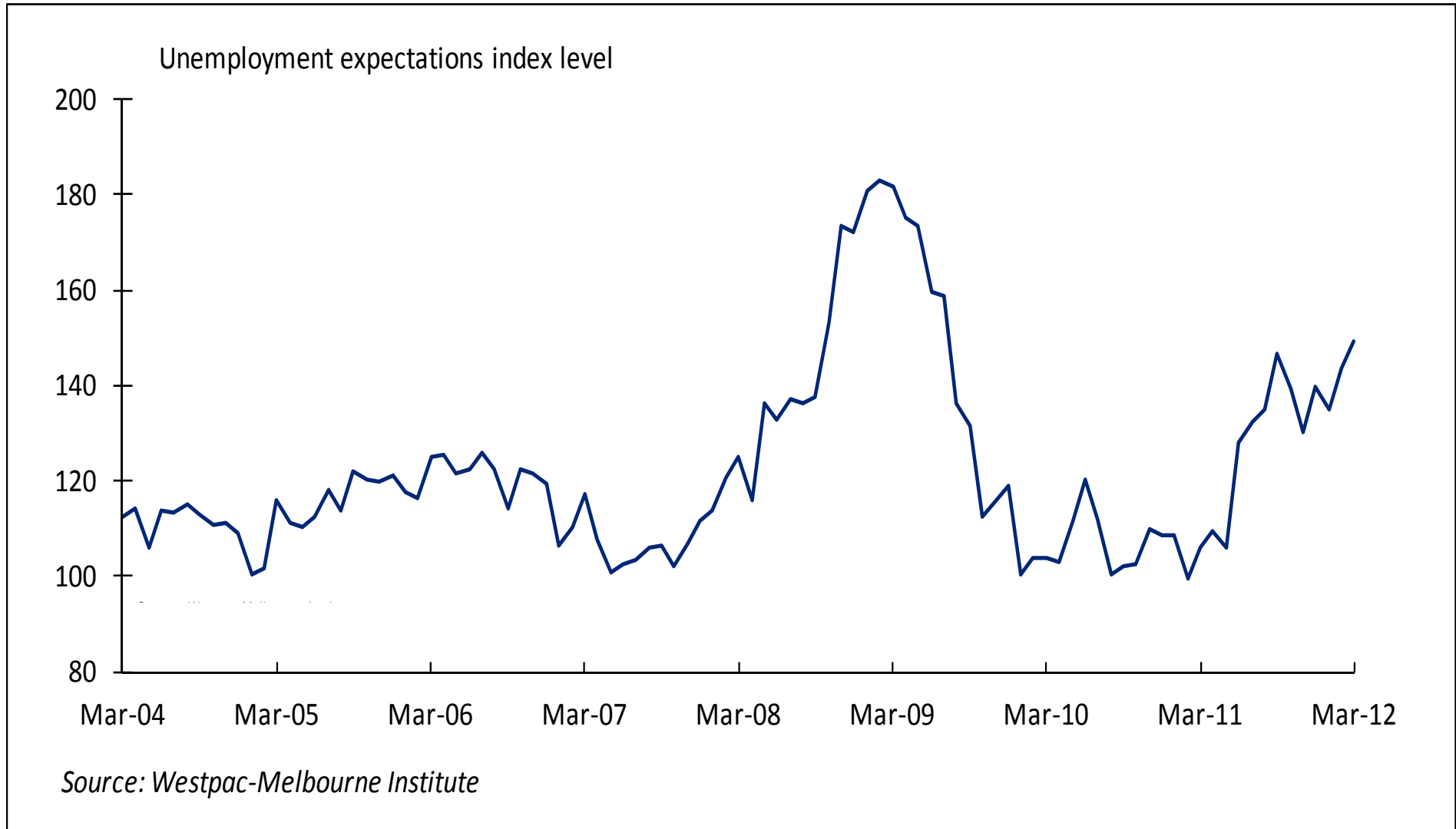


And still some downside in interest rates

Standard variable mortgage rates

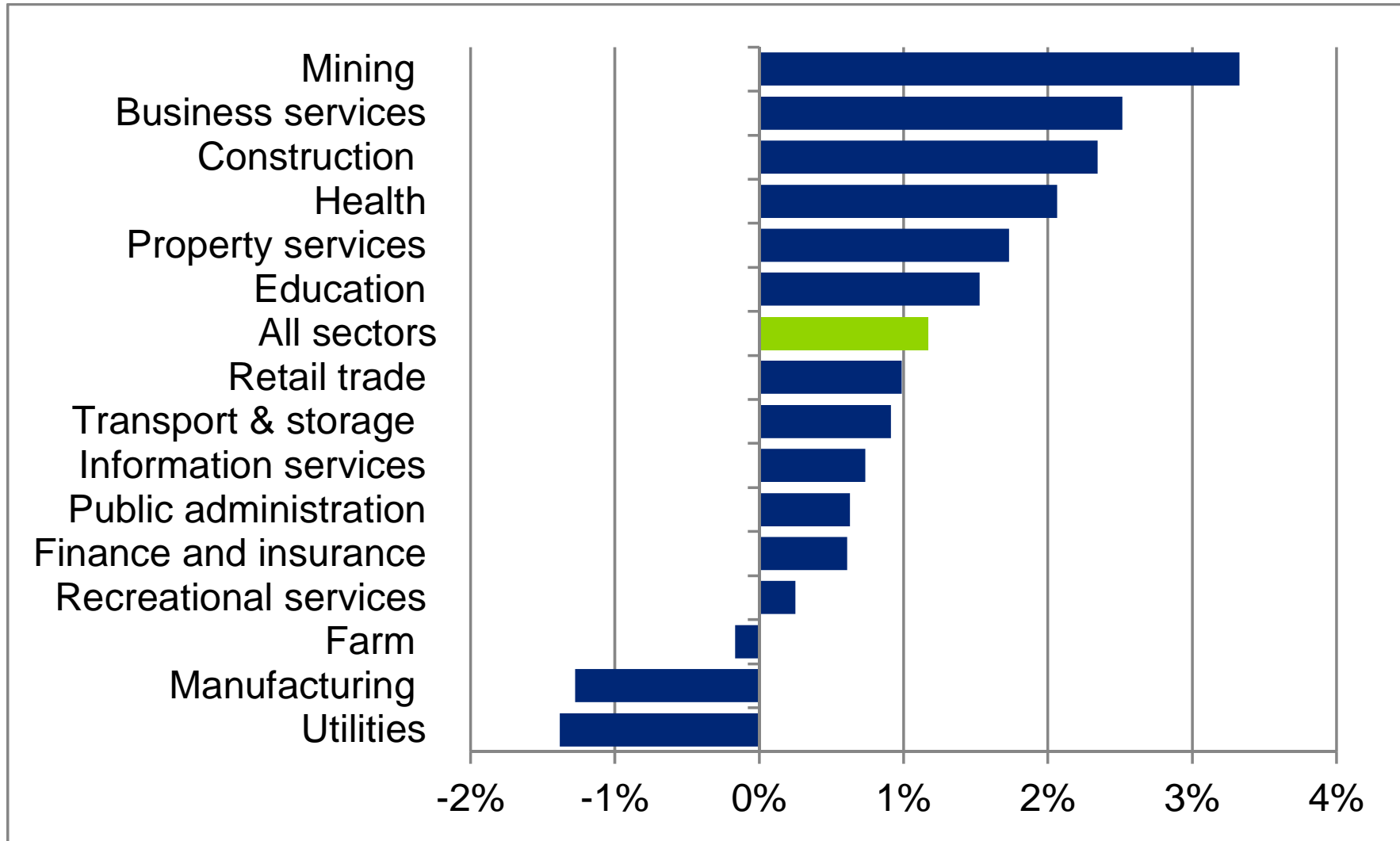


People are worried about losing their jobs



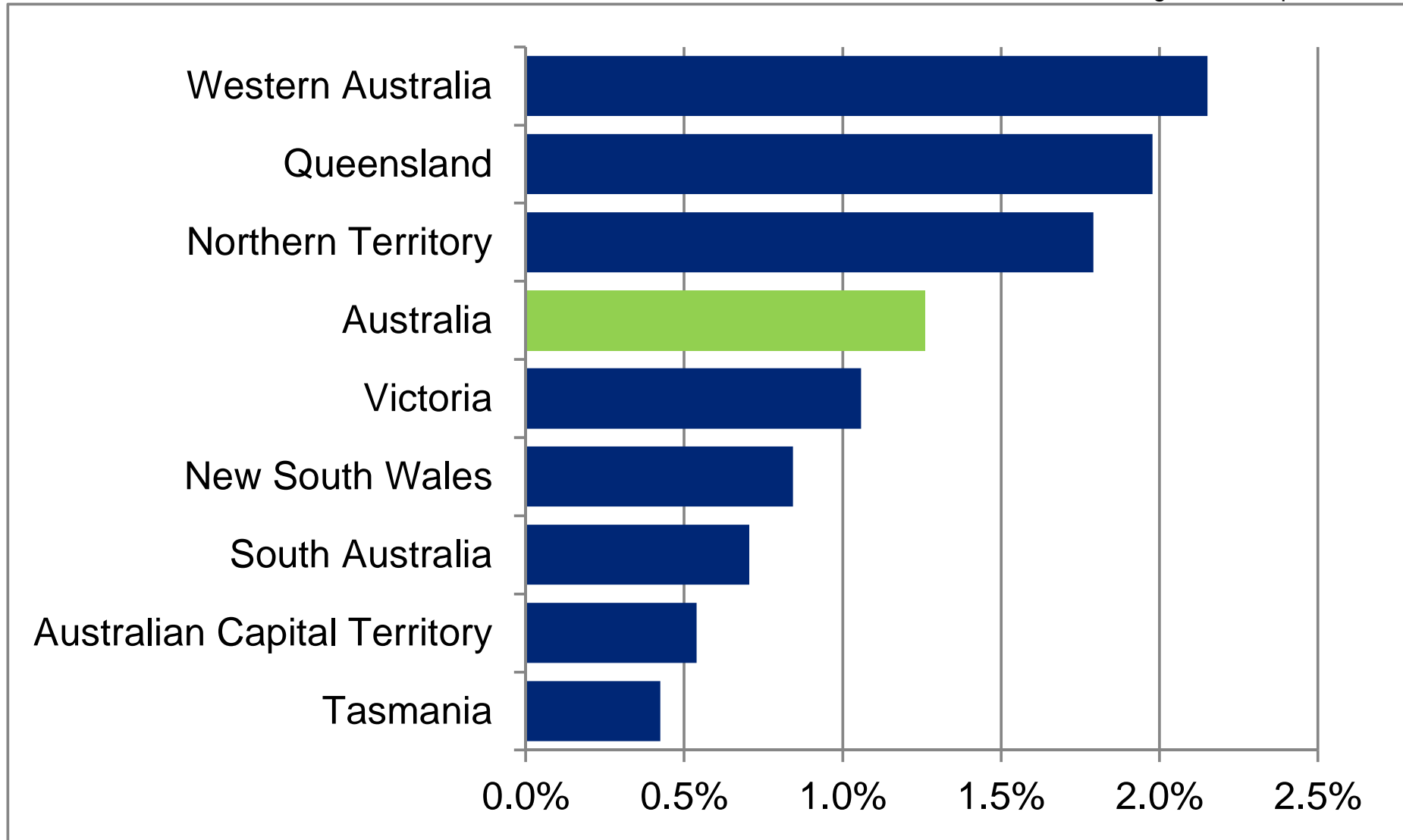
Sectoral employment growth 2012-16

Average over the period



State employment growth 2012-16

Average over the period

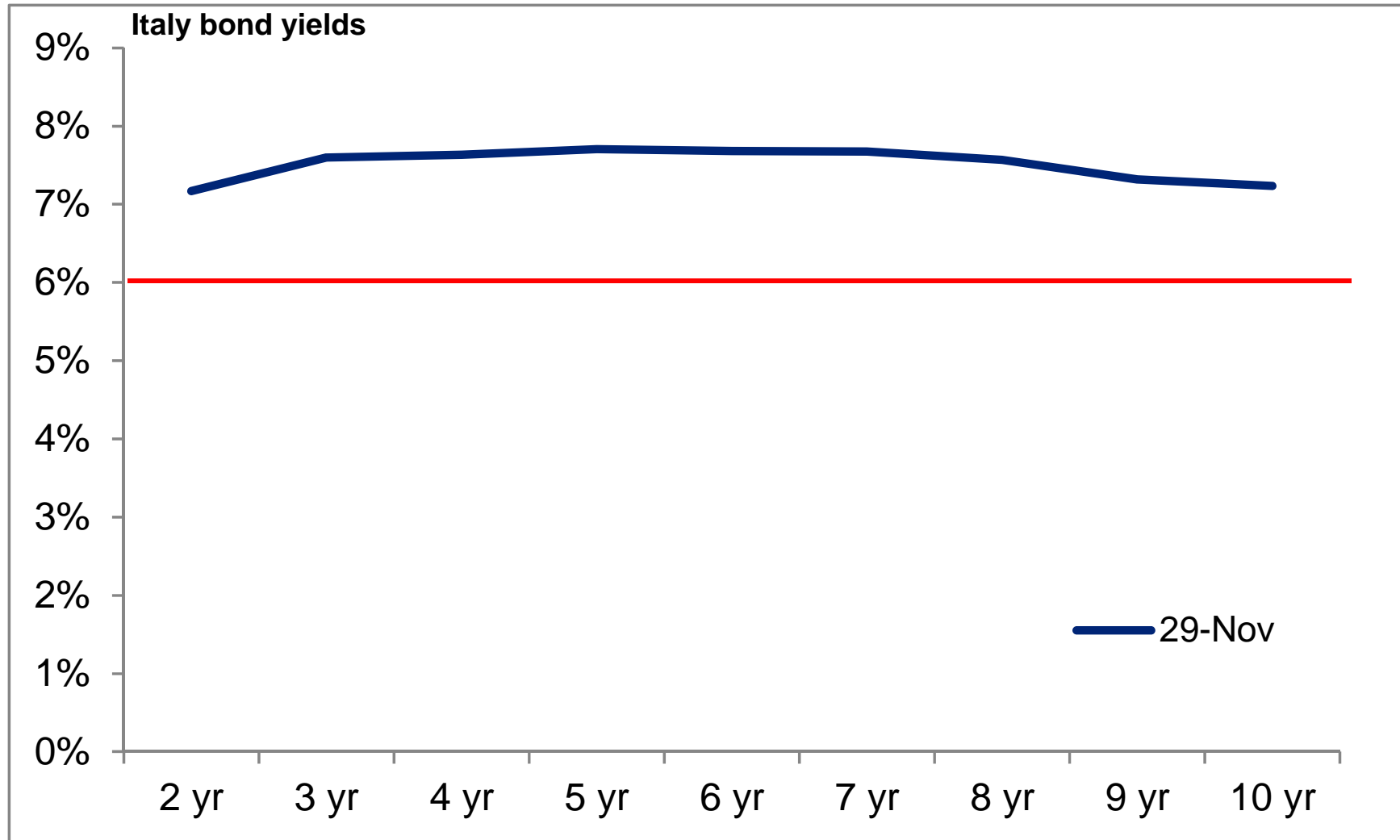


Or might Europe blow a tyre?

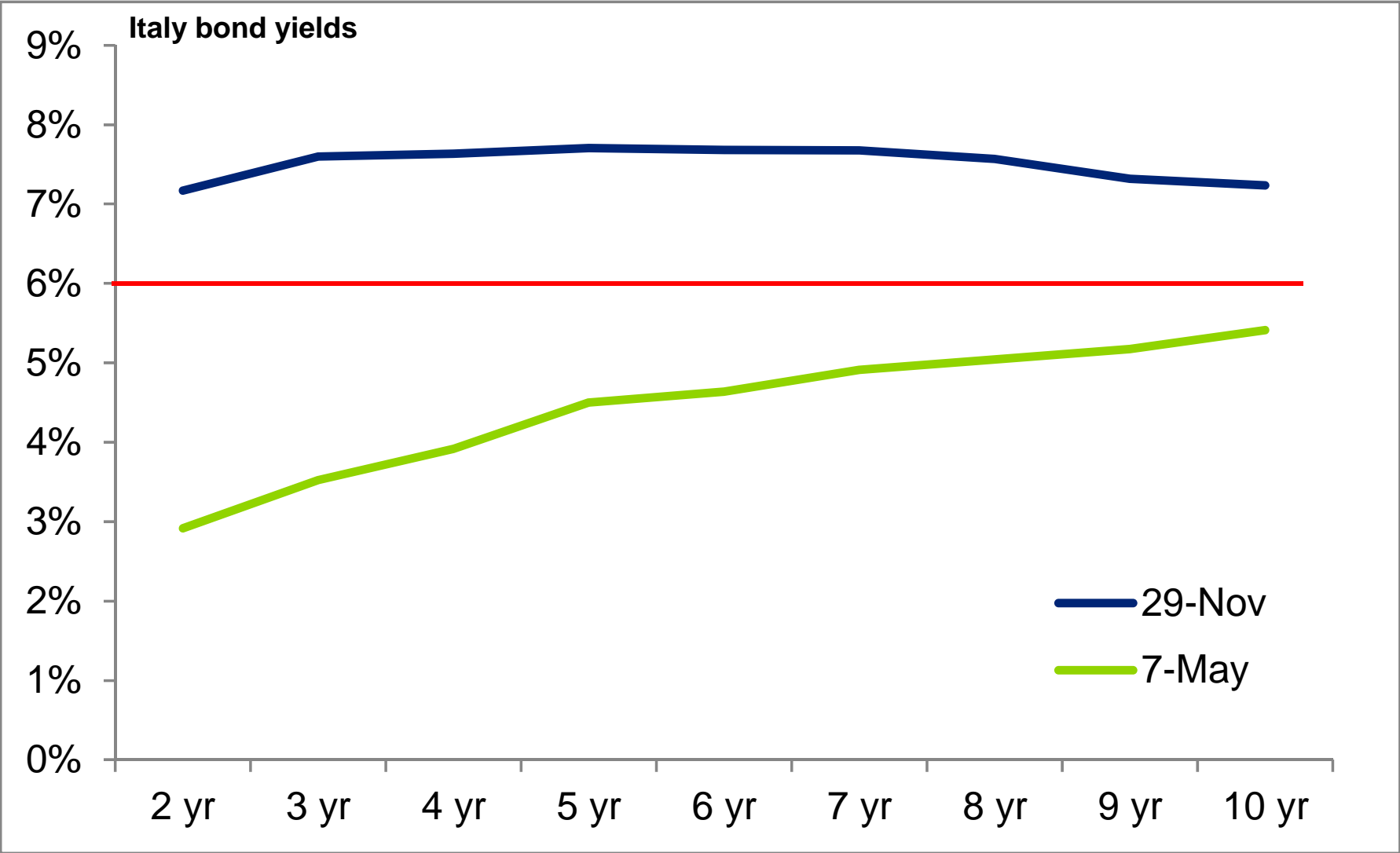
Europe's central bank has shoved a trillion euros of valium down the throat of financial markets. That doesn't solve Europe's problems, but it is very effective sticky tape, so the risk of Europe 'blowing' and banks going bust in 2012 is now rather lower.

That doesn't mean the outlook for the global economy is better – it was always the more likely outcome that Europe wouldn't blow. But it means the central forecast (Europe has a small recession and emerging Asia is slower, but the US recovery becomes more evident) is now more likely. That's welcome news. We're not out of the woods yet, but we're a bit closer to the clearing.

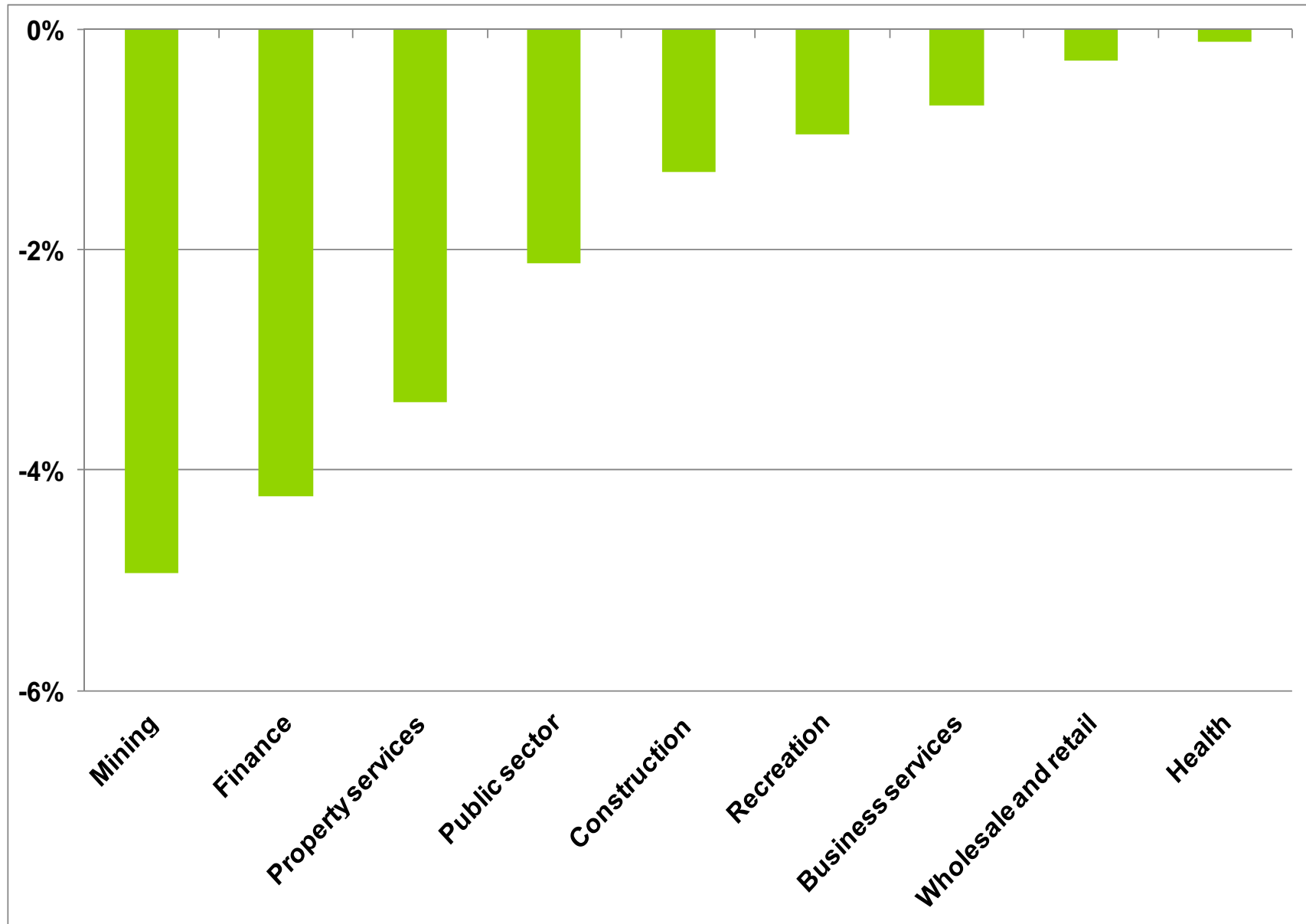
Blood, sweat and Eurozone bond spreads ...



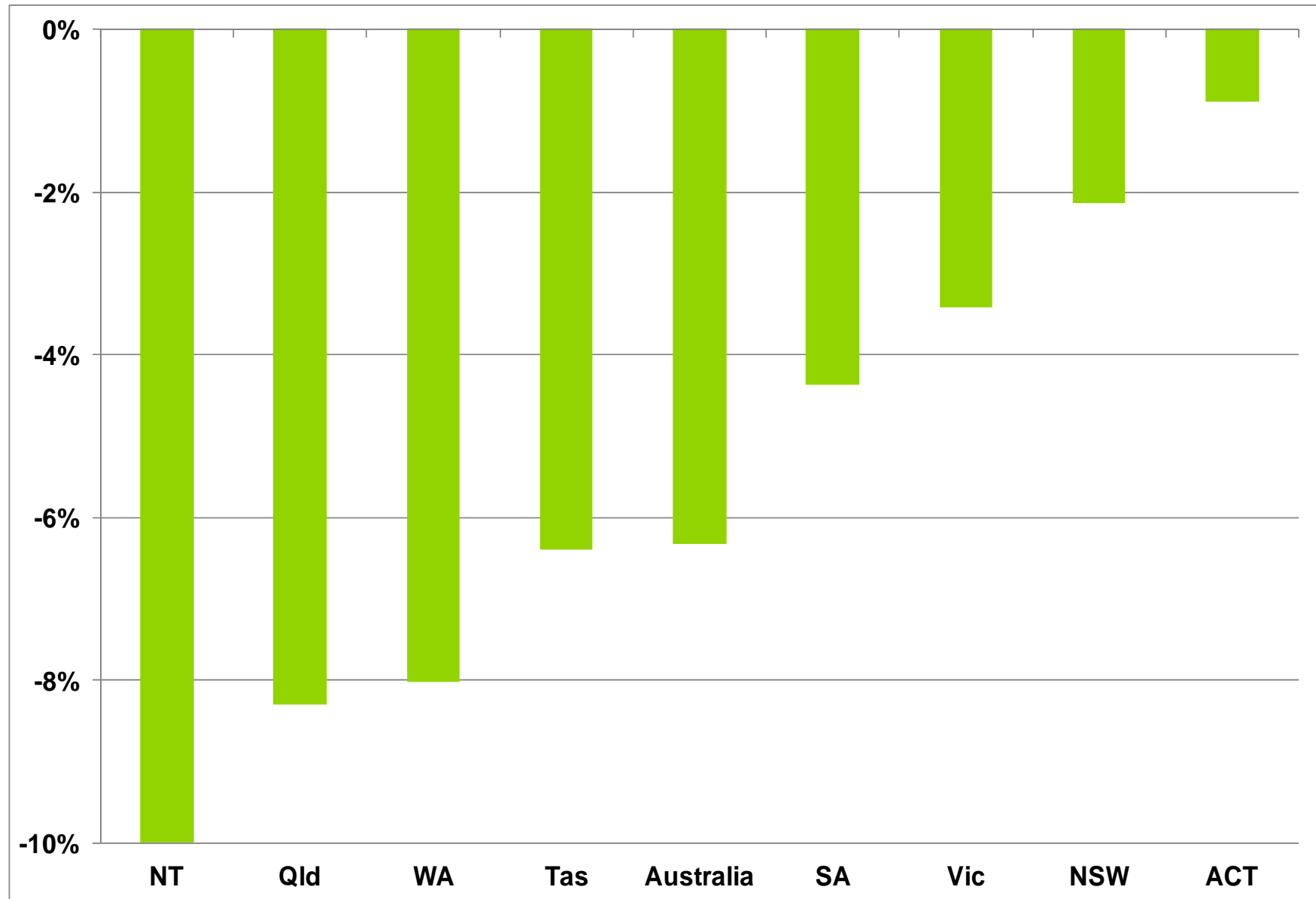
The ECB effect – cheap money helps ...



Shortfall in jobs by sector in 2009 (vs trend)



Shortfall in State 'revenue' in 2009 (vs trend)



Victoria: past success, solid prospects

Excellent population growth and **relatively strong housing construction** activity have been both **the chicken and the egg** of Victoria's success in recent years – leading to **the level of housing construction in the State at times equalling those of Queensland and NSW added together.**

Victoria's economy did slow sharply as the global financial crisis rolled into town, but the State then achieved a modest recovery since then.

However, although the forecasts are for that recovery to continue, there are already some important problems.

Yet no return to the 'glory days'

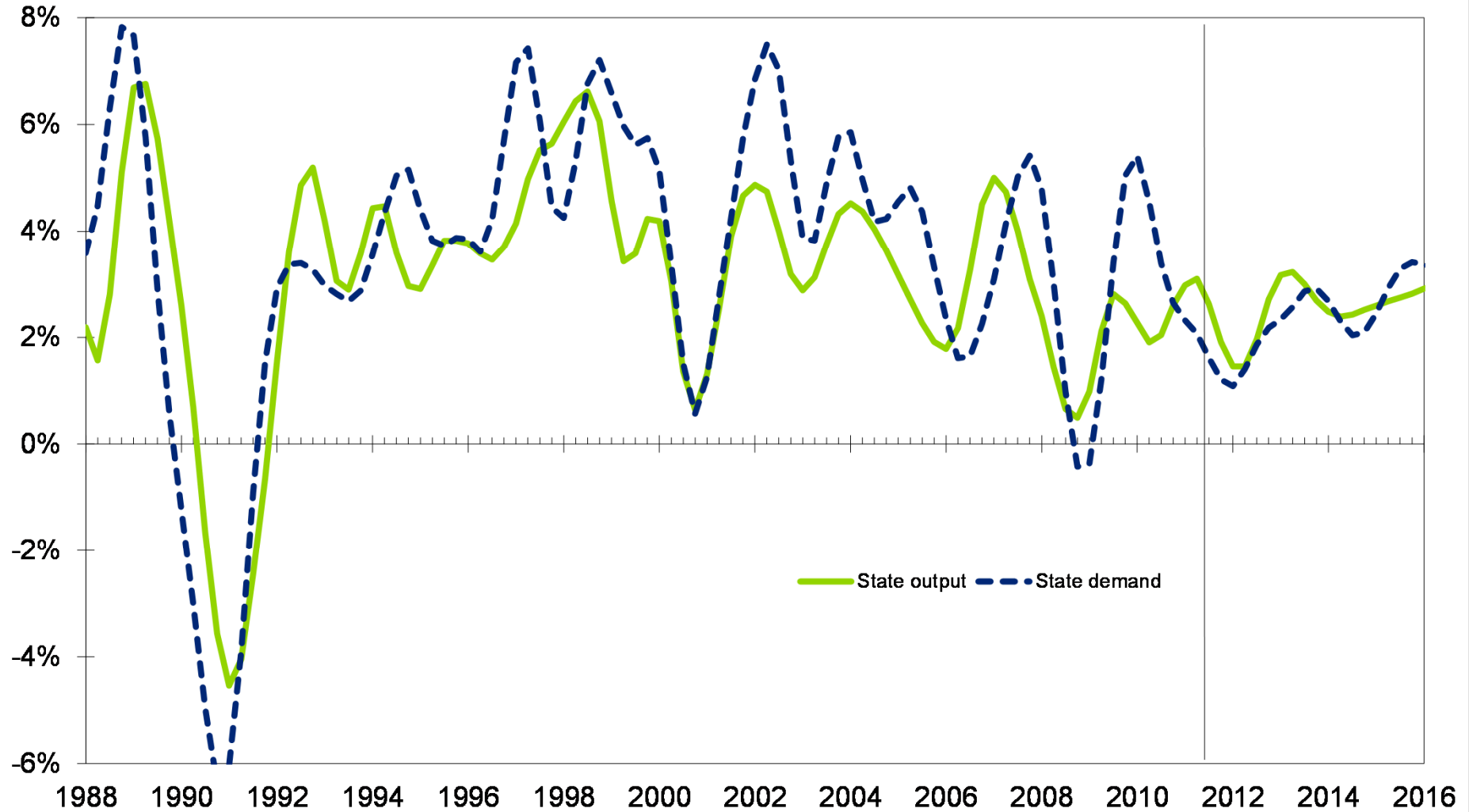
This is hardly a return to the glory days evident through much of last decade. The slowdown in Victoria in 2008-09 was very much due to factory closures and job losses in the State's strong manufacturing sector, but the modesty of the subsequent rebound is also partly a manufacturing story.

That sector went from 'the frying pan' of the GFC to 'the fire' of the strong \$A, capping what would otherwise have been a stronger Victorian economic recovery.

Moreover, almost regardless of what happens in 2012, the outlook for manufacturing remains relatively modest: either it will be held back by continuing strength in the \$A, or by gory headlines inspired by problems in Europe leaving businesses and families unwilling to spend on buying the State's manufactured goods.

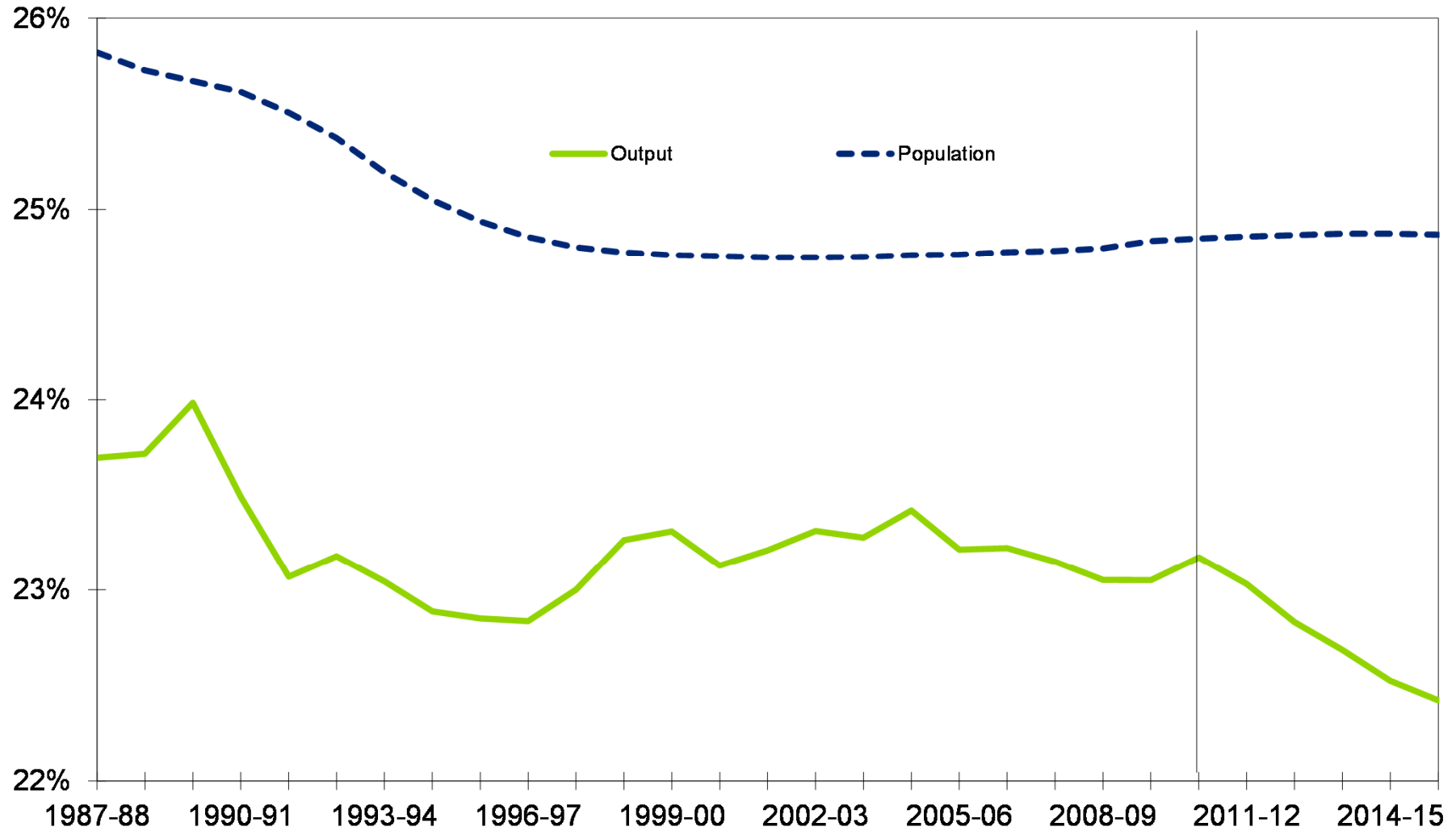
Currently slowing, with rebound riding on \$A

VIC output and demand (change on year earlier)



Given manufacturing risks likely to linger

VIC - shares of national totals

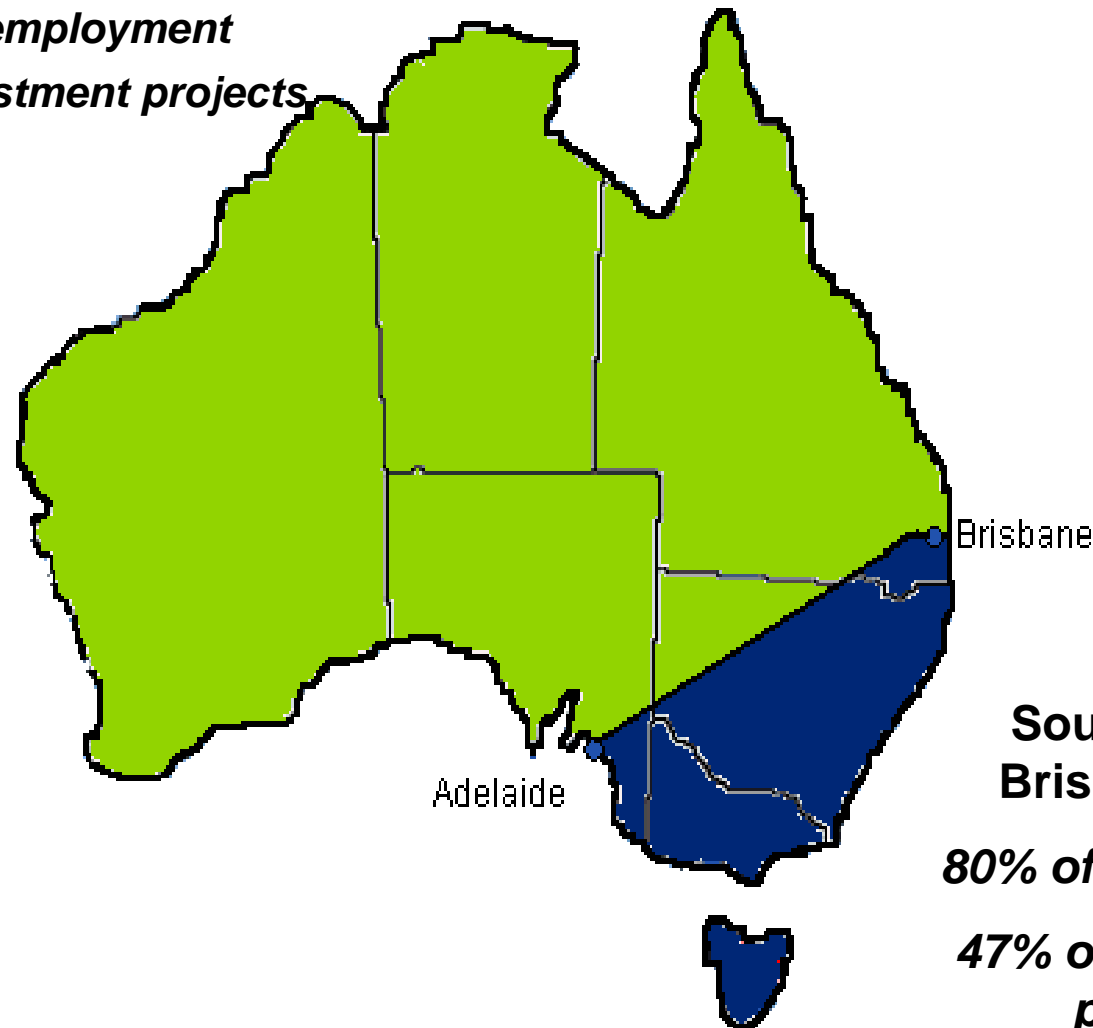


The demand for skills: The Brisbane Line is skewing investment in Australia

North West of Brisbane Line

20% of employment

53% of investment projects

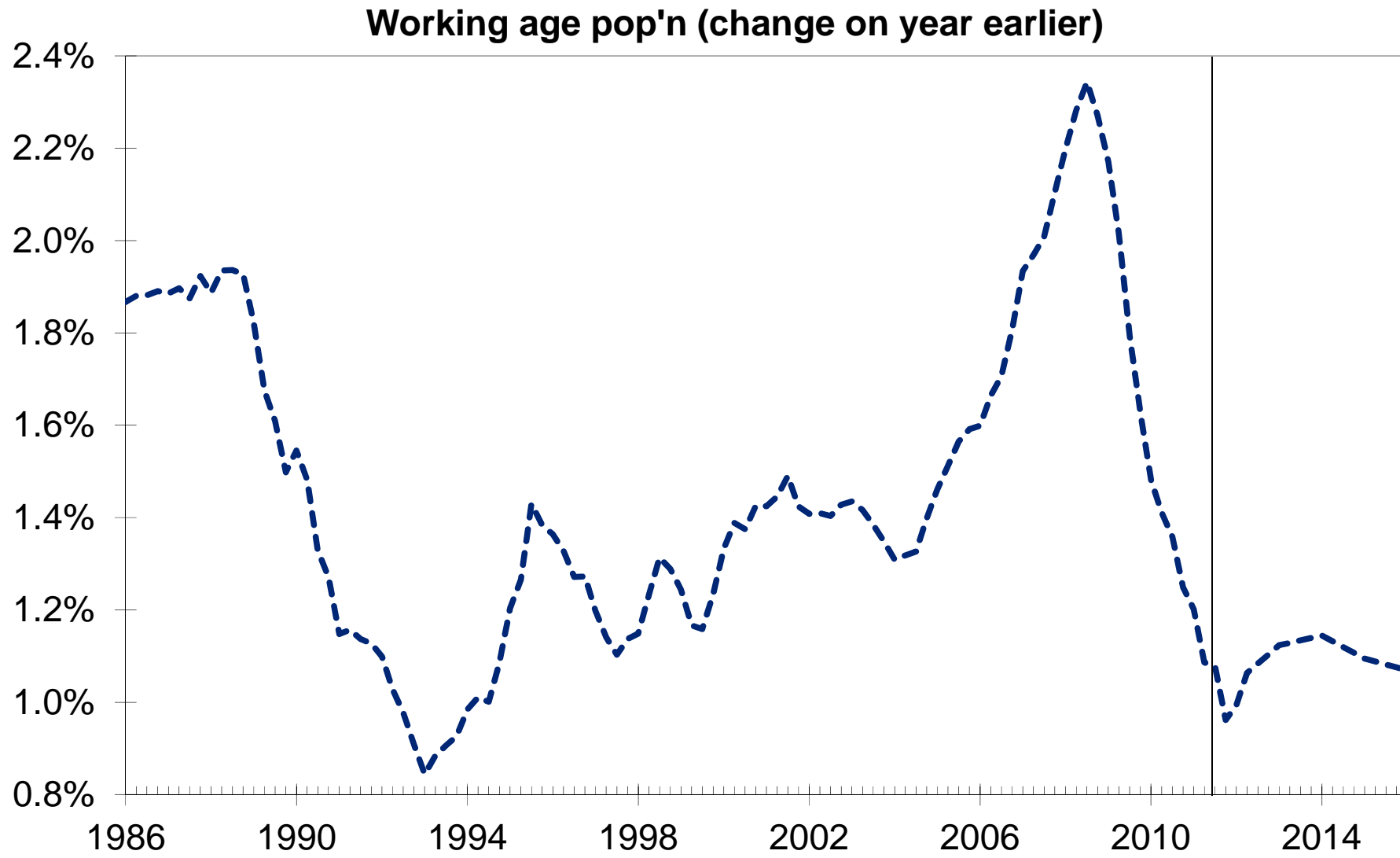


South East of
Brisbane Line:

80% of employment

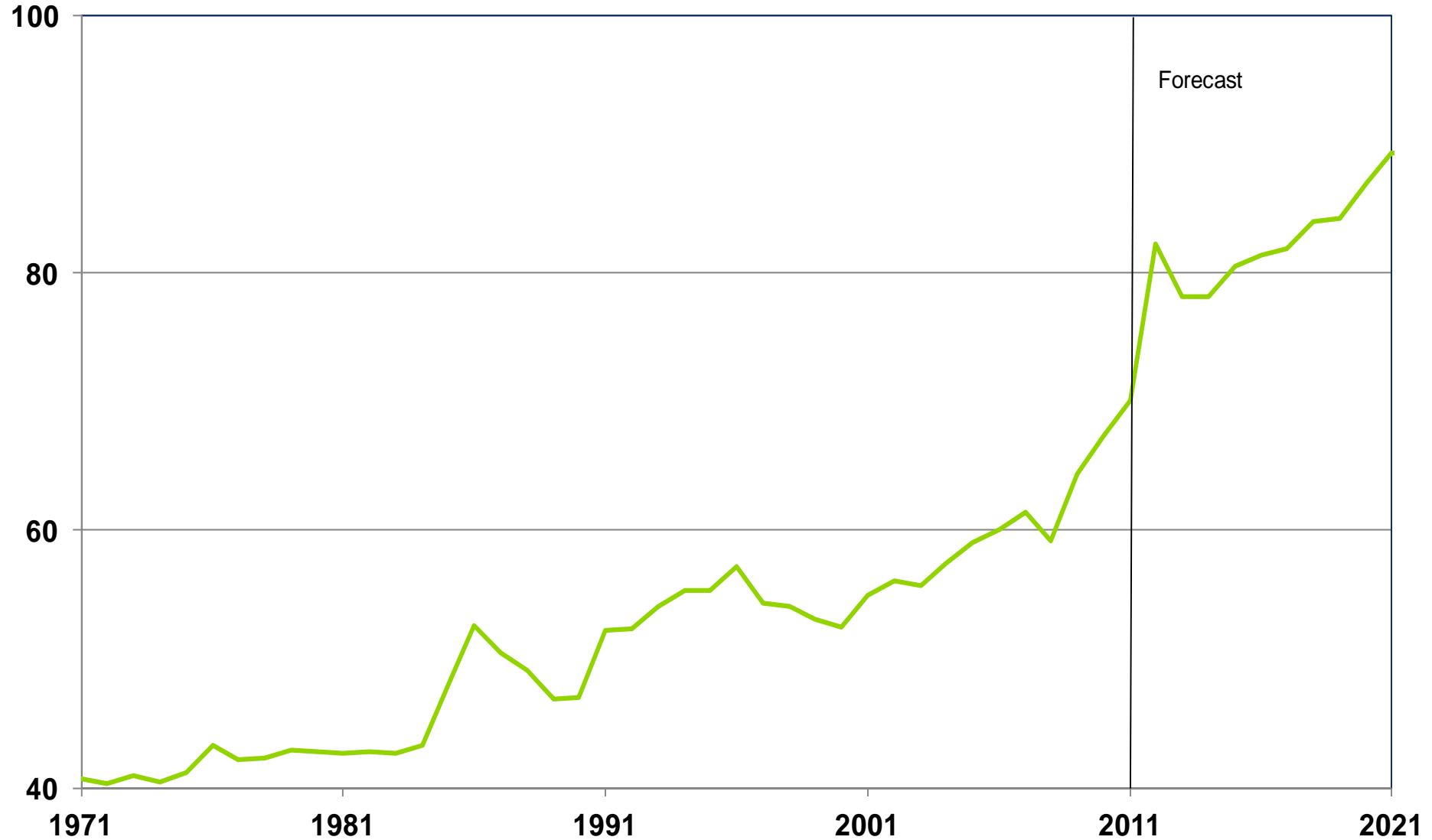
*47% of investment
projects*

Key challenge: the demographic tide is turning

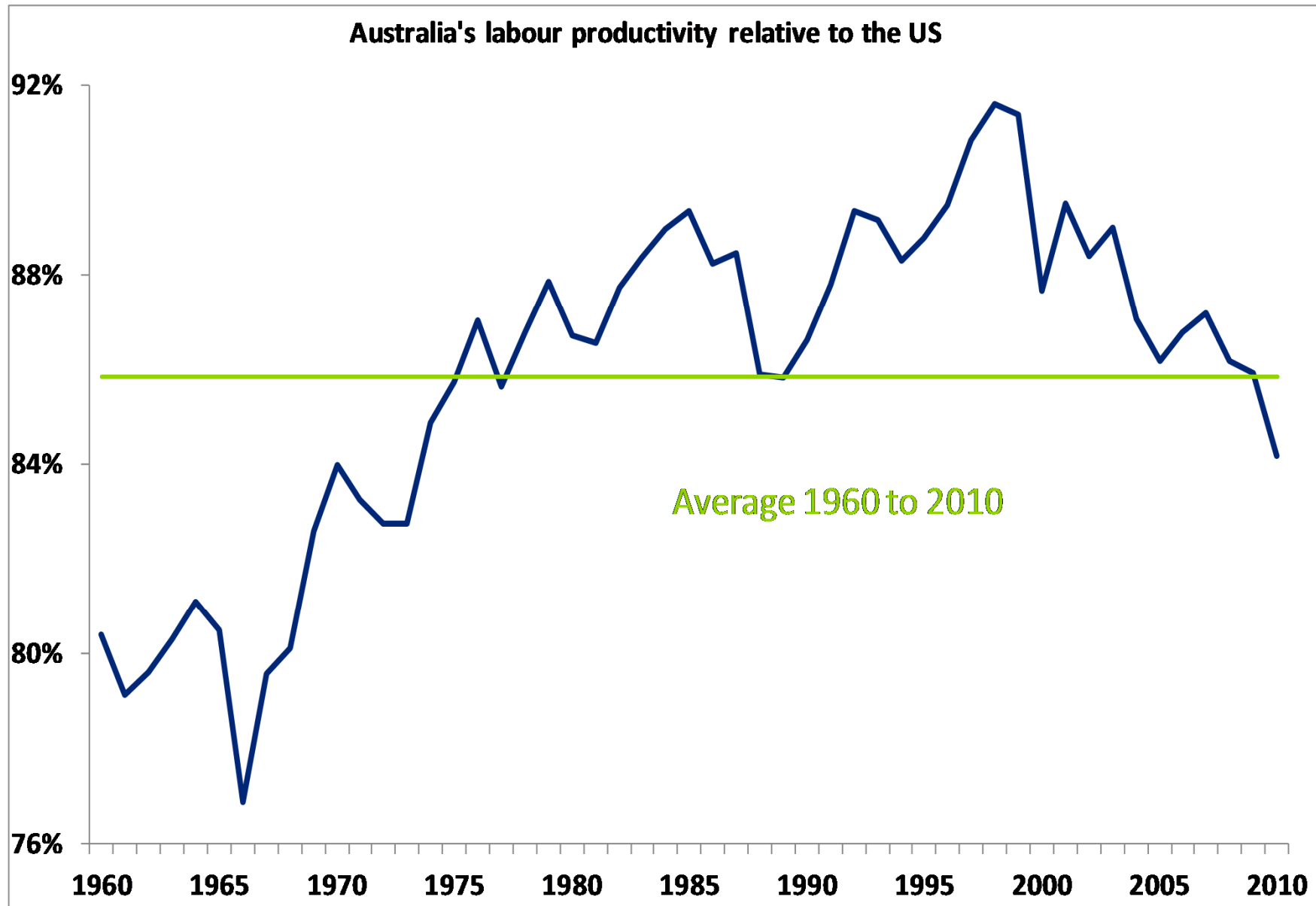


Gold watch time

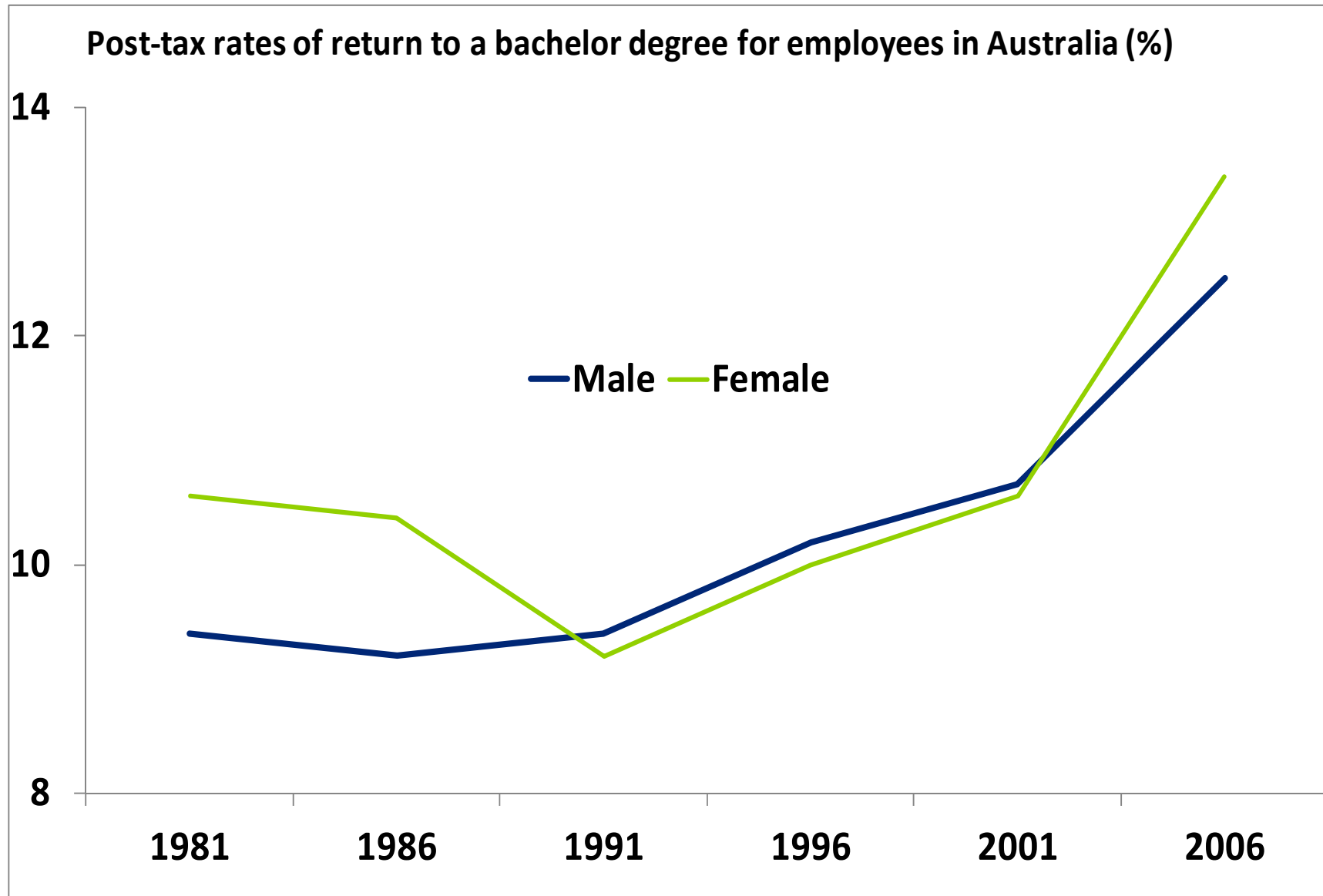
Ratio of those turning 18 to those turning 65 years (%)



The longer term story depends on this ...



Rich returns



Key TAFE issues – Demand side (i)

- Australia's **elevated exchange rate** is adding to competitive pressure on industries which rely on exports or compete with imported products in the domestic market. The strength of the currency does also provide some important benefits in some areas, such as through cheaper inputs sourced from overseas.
 - Relevant industries: Culture and recreation; food processing; forestry; furnishing; manufacturing and engineering; services; textiles, clothing, footwear and leather.
- **Demographic trends** are influencing the volume and types of products being produced across a number of industries. The ageing population is influencing demand for health services, and is also expected to alter consumption patterns more generally. The rate of population growth is also slowing fast as a result of less international migration. That may have some impact on the demand for housing and household products.
 - Relevant industries: Community services and health; Primary industries; Racing; Services

Key TAFE issues – Demand side (ii)

- **Consumer demands** are influencing production and skill needs. More consumers are choosing sustainable products (of particular relevance for the food industry), while many corporates more generally are looking to incorporate sustainability into business practices in order to meet consumer expectations. There is also a growing trend toward online shopping and rising demand for digital interactive media to provide greater experience of products.
 - Relevant industries: Food processing; culture and recreation; forestry; furnishing; services; textiles, clothing, footwear and leather.
- More broadly, **economic trends and conditions** are an important demand side issue. Victoria's economy has slowed, and the re-emergence of the mining boom in other States and weak consumer spending growth are influencing output and skill needs.
 - Relevant industries: Auto; building and construction; business services; culture and recreation; manufacturing and engineering; services; textiles, clothing, footwear and leather, water.

Key TAFE issues – Supply side (i)

- **Regulatory changes and other gov't policies** related to the supply of training/skills – such as those funding VET – along with wider economic and social policies. The latter includes, for example, the rollout of the NBN, health funding, carbon pricing, and a range of various industry-specific policies.
 - Relevant industries: Building and construction; community services and health; culture and recreation; electro-technology and communications; food processing; forestry; furnishing; manufacturing and engineering; textiles, clothing, footwear and leather; water.
- **Technological changes**, including the use of new materials and the business processes, is an emerging issue across many industries, partially as a response to a competitive business environment. New technology increases demand for technical skills within the industry, but can also reduce the need for labour in some areas as production becomes more capital intensive.
 - Relevant industries: Building and construction; community services and health; culture and recreation; food processing; services; textiles, clothing, footwear and leather.

Key TAFE issues – Supply side (ii)

- **Environmental/sustainability** issues are becoming embedded in standard business practices, underpinning demand for workers to have a broad understanding of sustainable processes. A need for workers to have a solid understanding of sustainability within existing operations is seen, in a number of industries, as a more practical short term outcome of growing environmental trends compared with the emergence of new sectors and technologies.
 - Relevant industries: Forestry; furnishing; primary industries; TCF.
- The **ageing population** means an increased number of retirements in coming years. Concerns are centred on the loss of skills and experience in key occupations, and the resultant ‘skills gap’ which is expected to occur.
 - Relevant industries: Supply of labour is being influenced by ageing issues across almost all industries



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