



# Australia's economic challenges during an era of shocks

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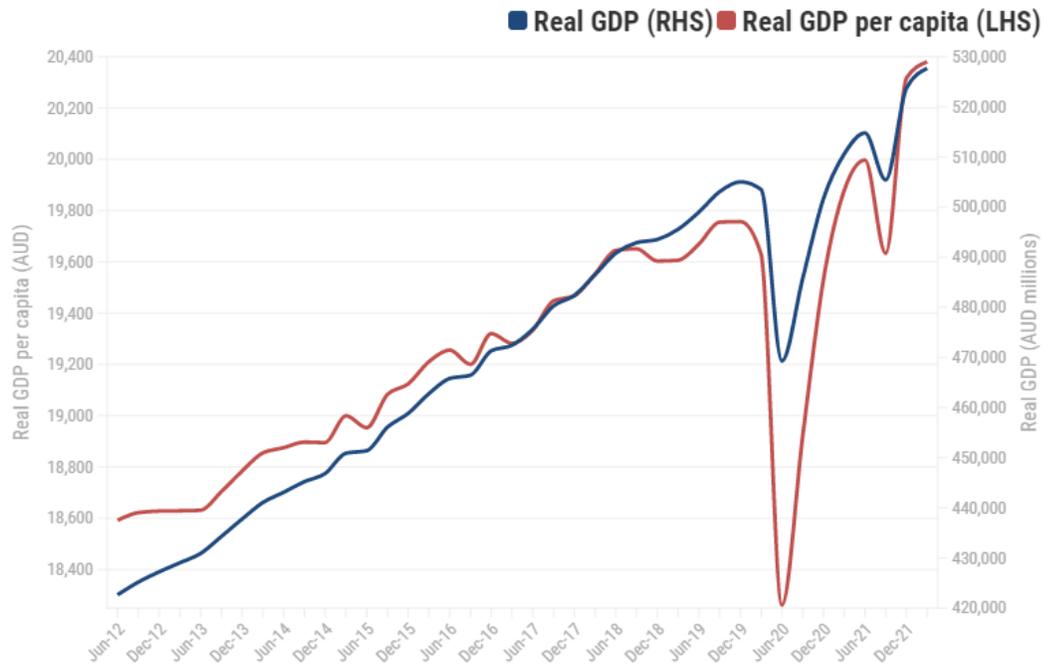


# The Australian economy in 2022: Labour, supply and inflation shocks

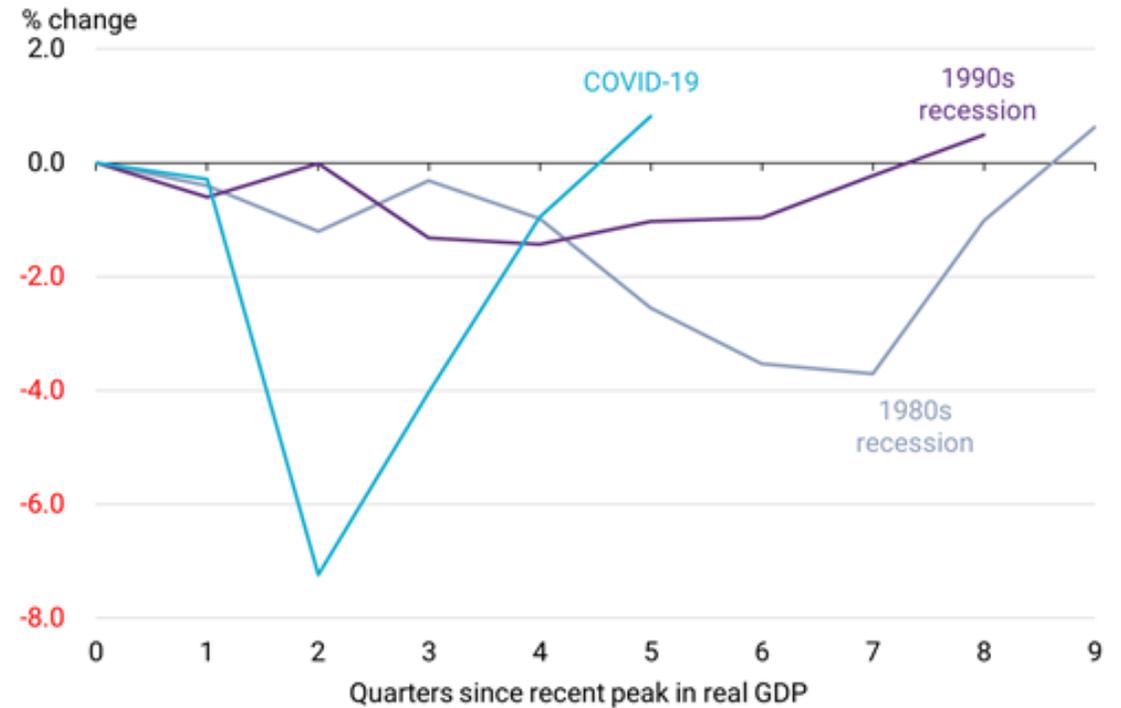


# Australia's COVID recession was very deep but very short. Economy returned rapidly to growth in second half of 2021.

Real GDP and GDP per capita, 2010 to Q1 2022

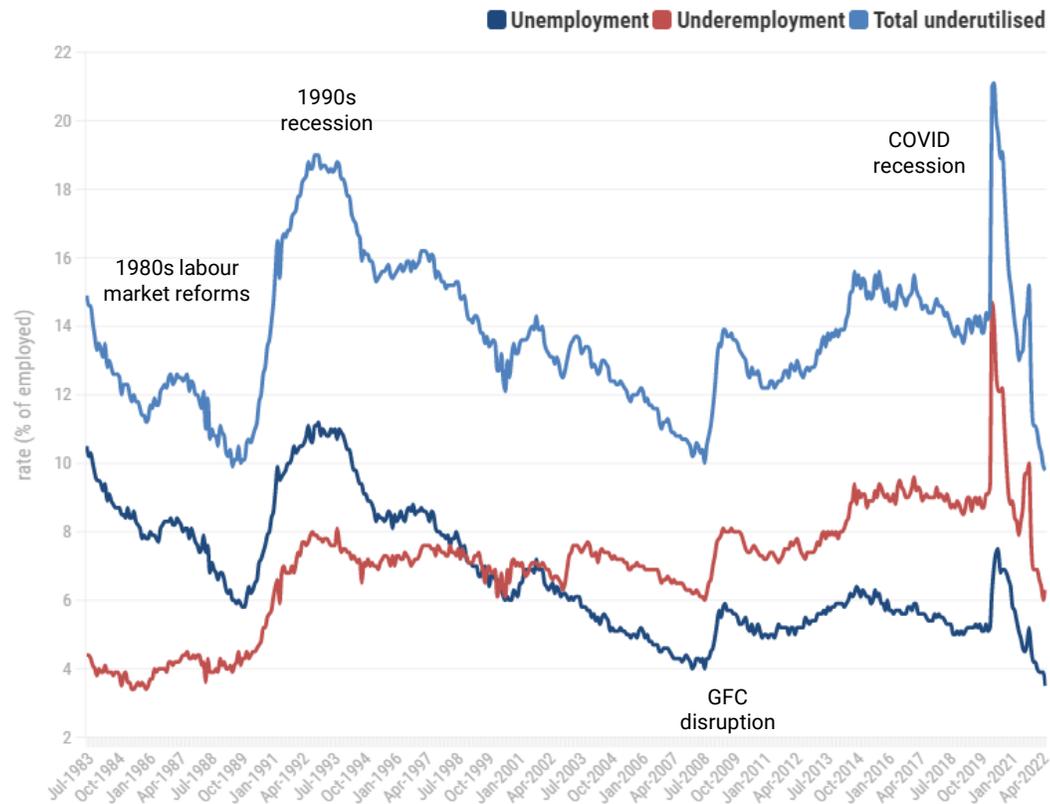


Change in real GDP during Australian recessions: 1980s, 1990s and 2020

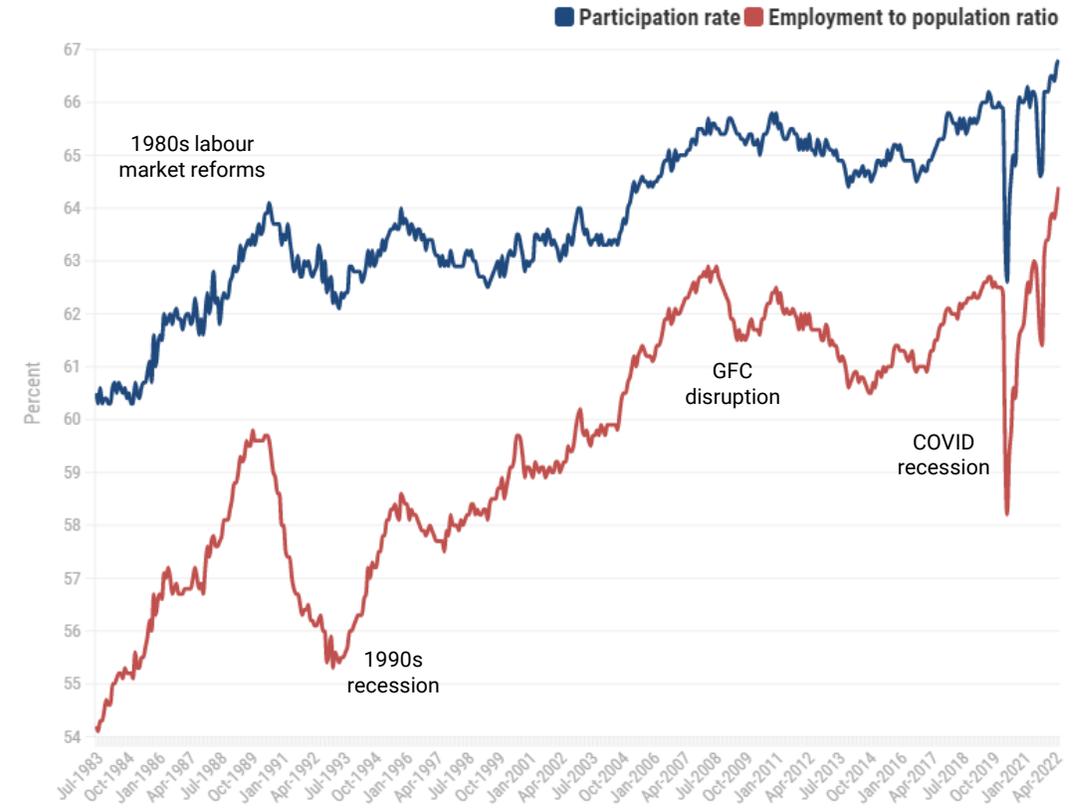


# Unemployment and underemployment are at historically low levels, and there is very limited untapped labour supply to be recruited

Unemployment and underemployment rates, 1983 to 2022



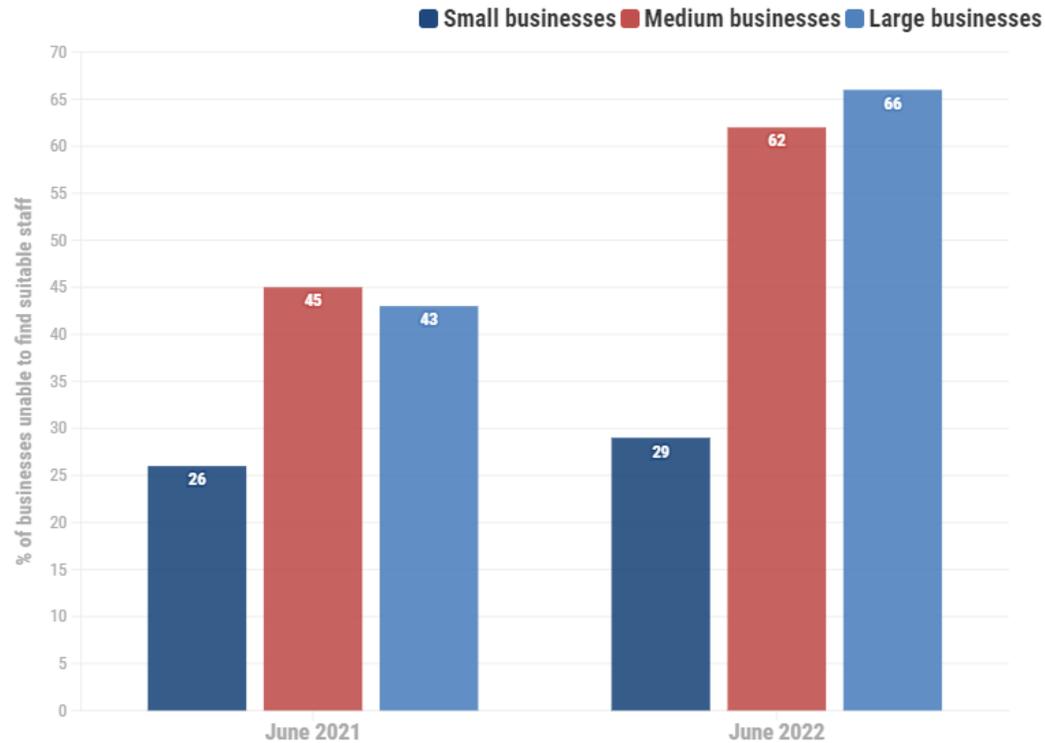
Participation and employment to population ratios, 1983 to 2022



Source: ABS Labour Force Australia

# Labour shortages are now routinely interrupting business operations

Businesses having trouble finding suitable staff



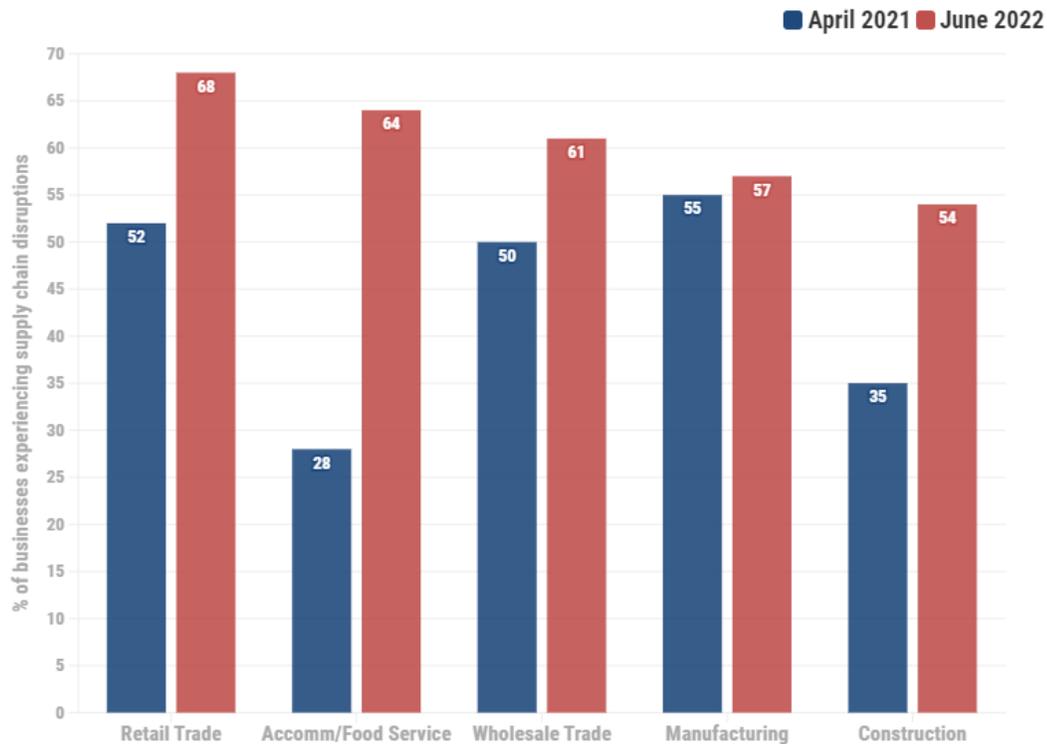
What accounts for staff shortages?



(a) Proportions are of employing businesses that are having difficulty finding suitable staff to fill jobs.  
 (b) Businesses could select more than one response.  
 (c) For example, permanent, temporary, casual, full-time, part-time.  
 (d) For example, working conditions of the job, leave entitlements, flexible working arrangements, superannuation.

# Supply chain disruptions continue to plague an island economy

Businesses impacted by supply chain disruptions

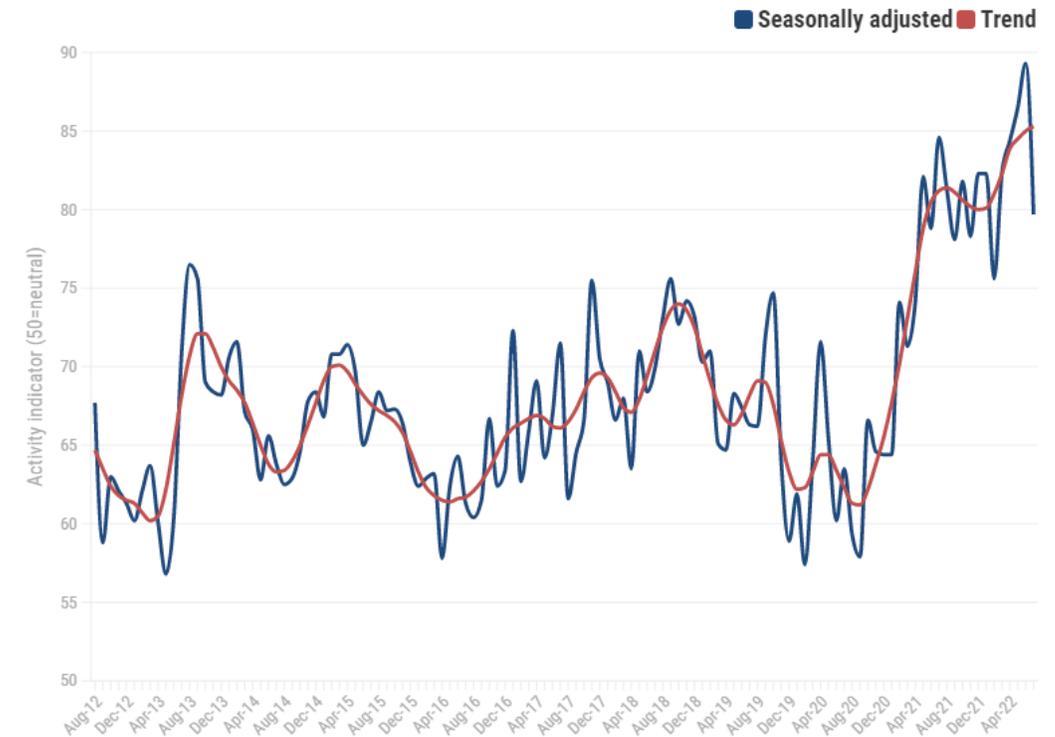


Source: ABS Business Conditions and Sentiments, June 2022

Supply chain stress is at record highs

## Ai Group Australian PMI®

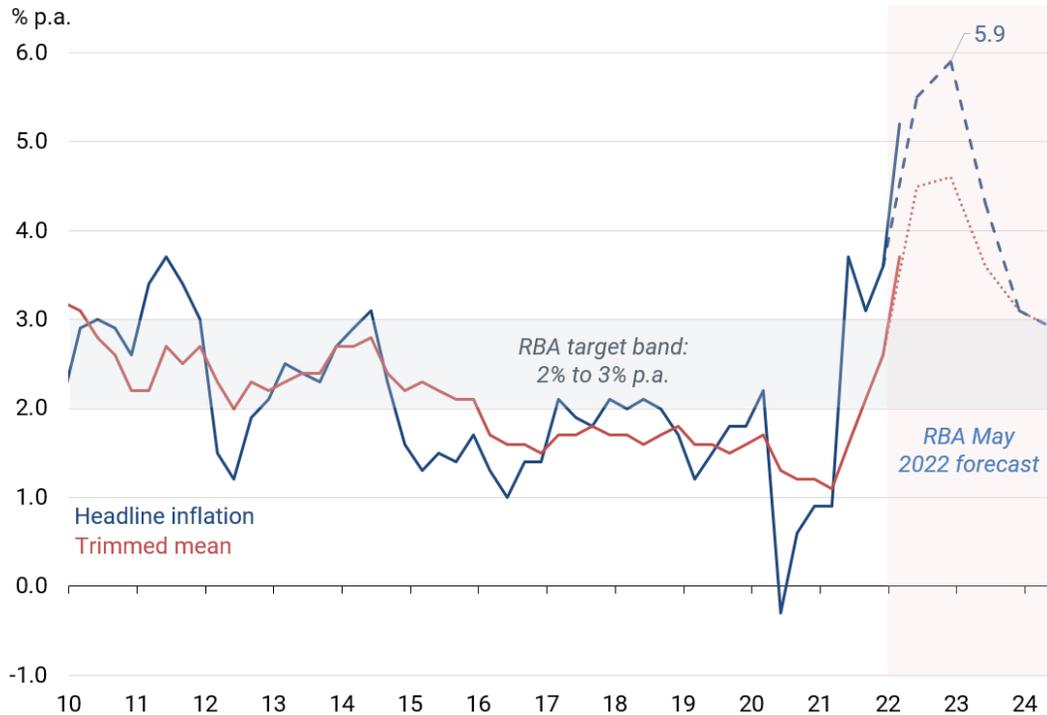
Input price indicator



Source: Ai Group Performance of Manufacturing Index

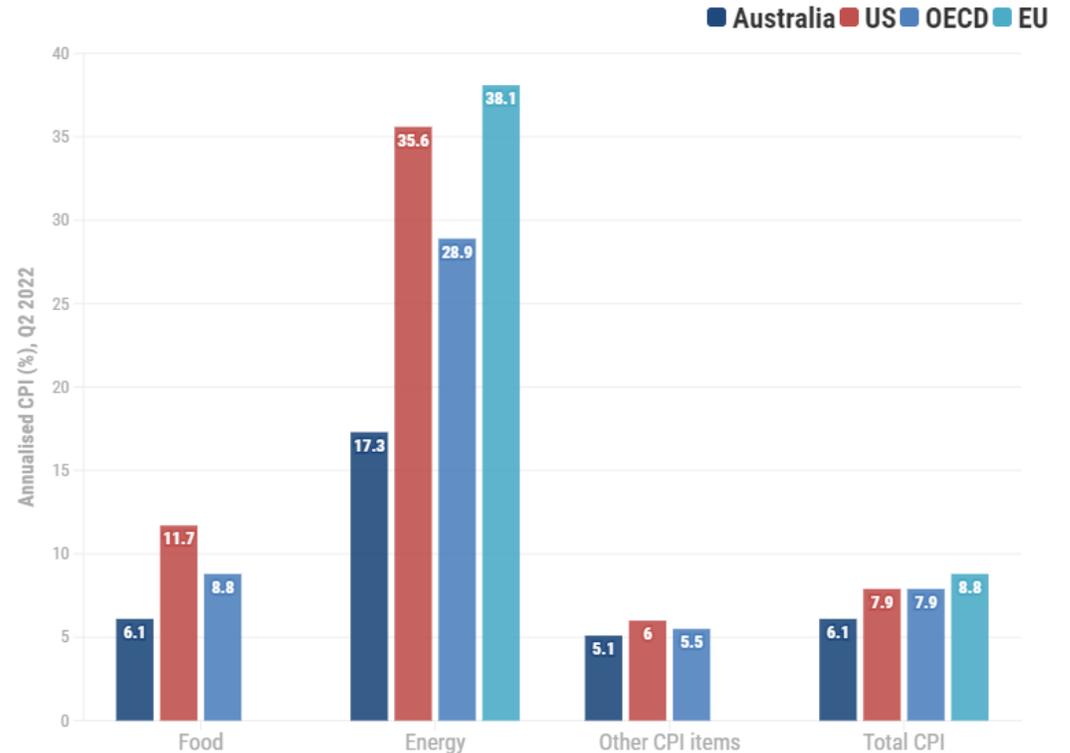
# Inflationary pressures re-emerge. But Australia is doing better than our peers, partially insulated from food and energy pressures

Australian Quarterly CPI 2010-2022 and forecast



Sources: ABS Consumer Price Index and RBA Forecast Tables

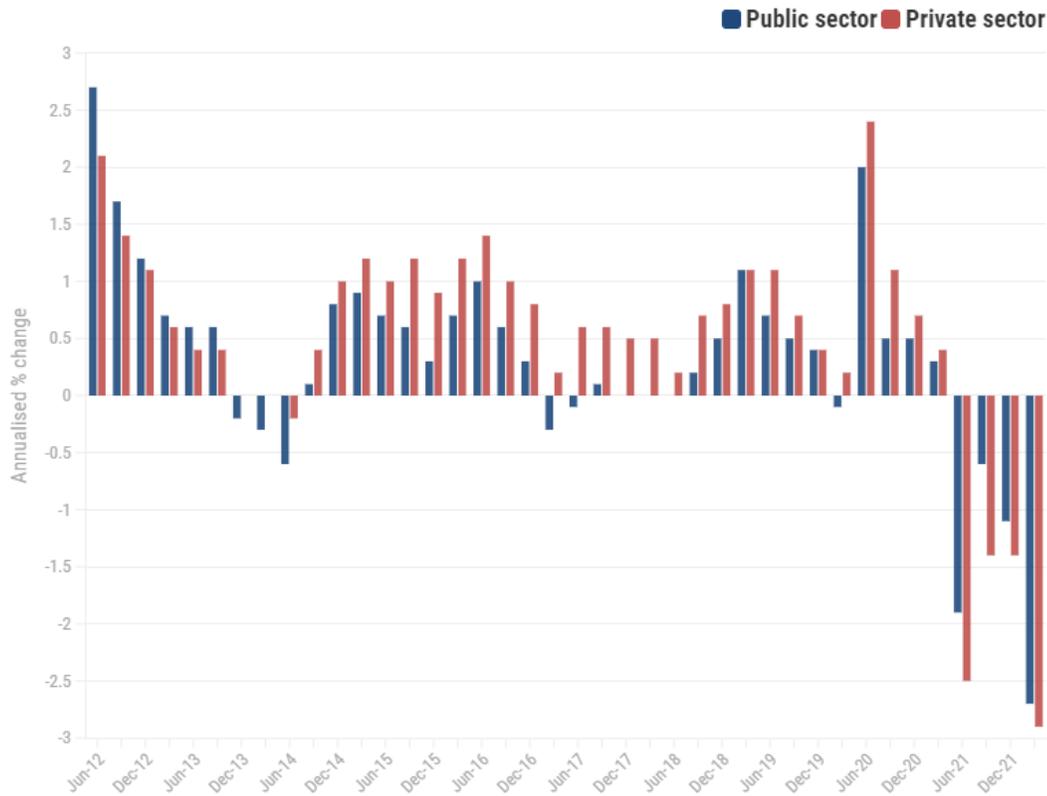
Inflation in the OECD and Australia, Q2 2022



Source: OECDStat Consumer Price Indices

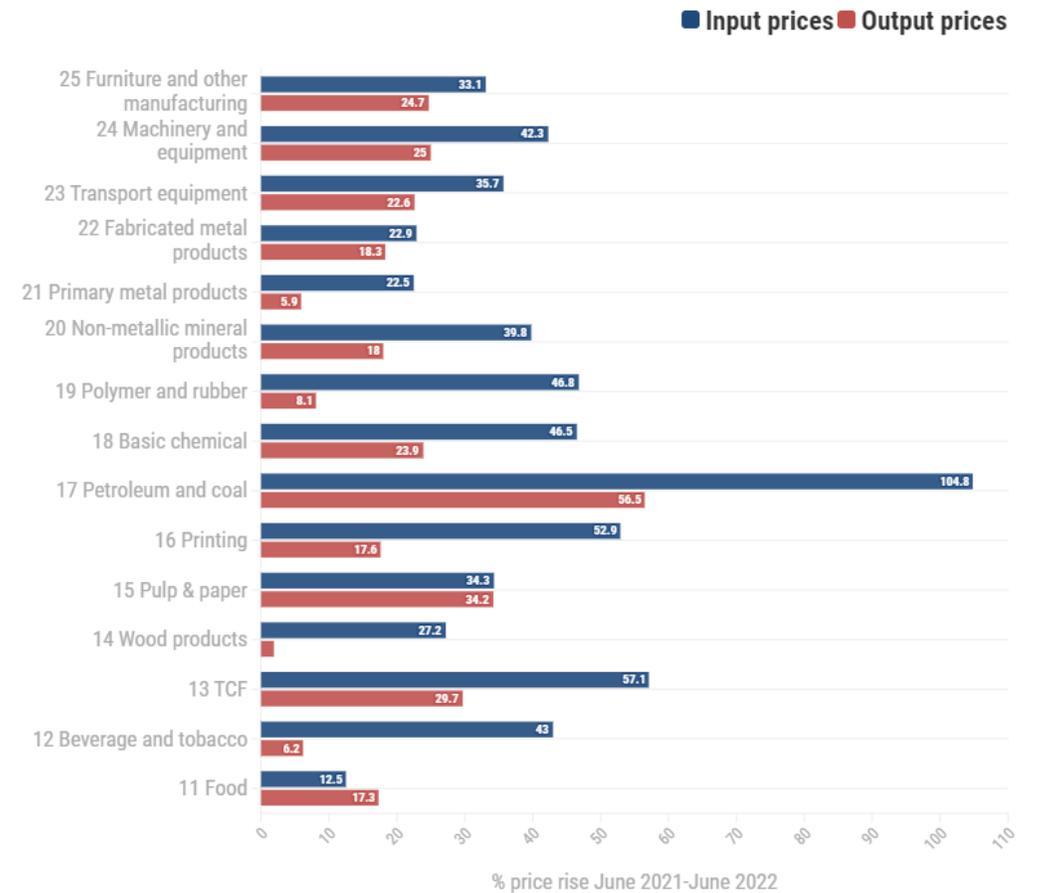
# High inflation has crushed real wages and crimped business margins over the last twelve months

Australian real wage growth, 2012-2022



Sources: ABS Consumer Price Index and ABS Wage Price Index

Manufacturing input and output prices, FY2021-22



Source: ABS Produces Price Indexes

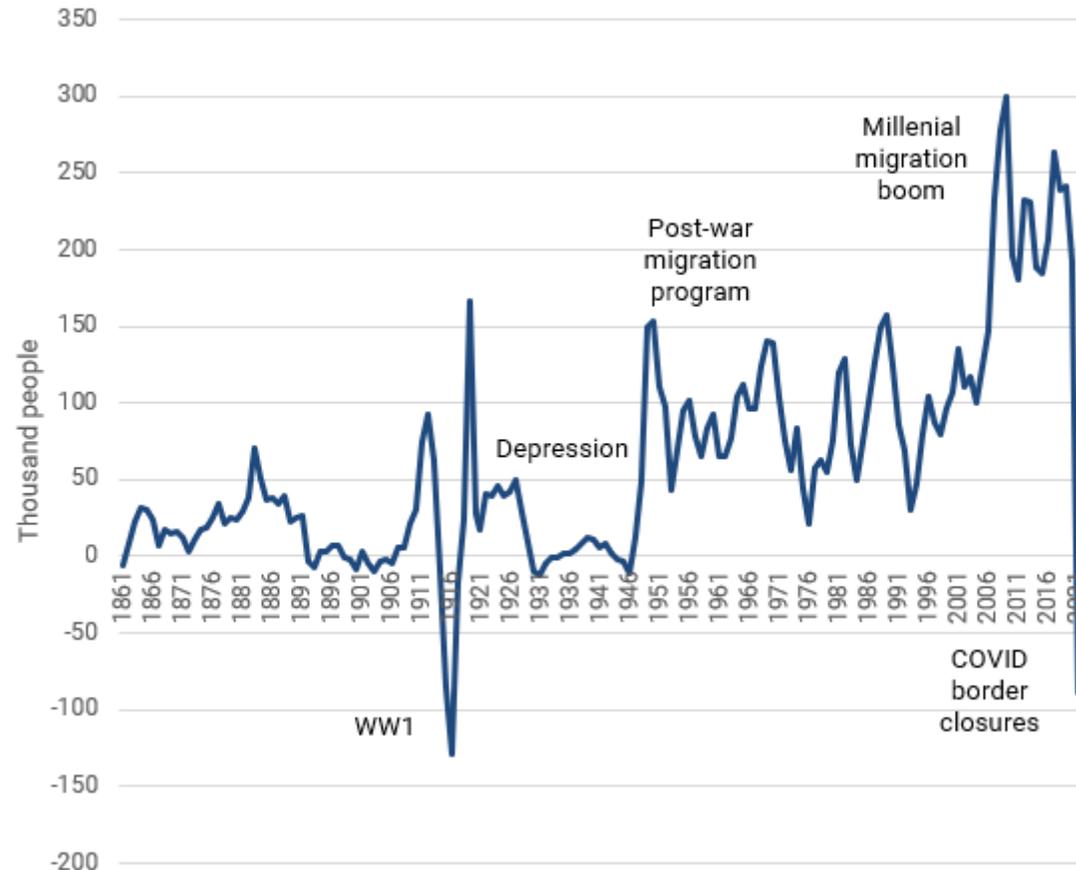
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2023 and beyond:  
Adapting to five new  
structural challenges



# MIGRATION: Closed borders during COVID made an historic dent in Australian migration – how do we recover?

Australia's net overseas migration



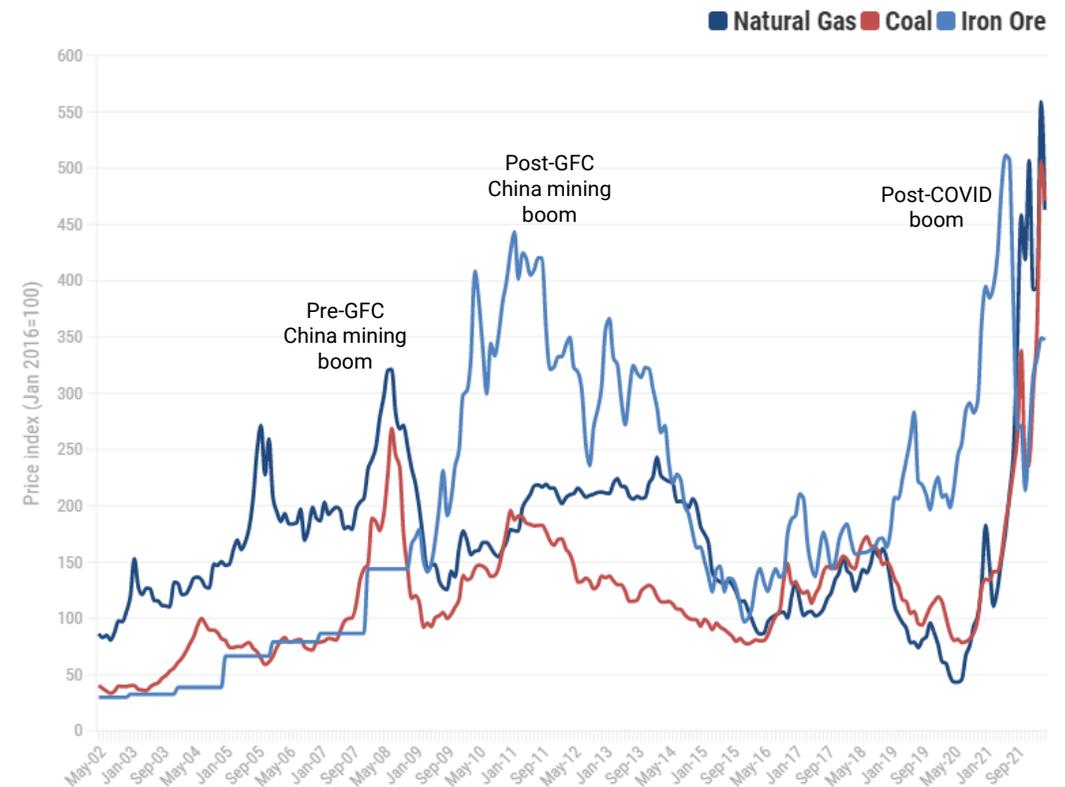
Source: ABS Overseas Migration

- Since white settlement, Australia been a migration-driven economy
- Over last two decades, Australia added on average 191 thousand net migrants per year.
  - These are usually younger cohorts (median age 26 years) entering the labour market
  - Policy settings bias the pool toward skilled migrants
- However, migration fell net negative during COVID due to border closures – first time since 1947
- Whether Australia snaps back to positive net migration remains an open question
  - Intense global competition for migrants, particularly in skilled sectors
  - Political and community attitudes to migration hard to sustain in times of economic dislocation
  - Constraint of skill matching policies in a time of rapid technological change
- After the COVID “reset”, what role will migration play in driving Australian economy – quantitatively (labour) and qualitatively (skills) – in future.

# COMMODITIES: Australian has benefited from record-setting commodity prices, but how to 'climate proof' our resource exports?

- Australia has benefited from high commodity prices for two decades, particularly during the GFC and COVID recessions
- Just three minerals – iron ore, coal and gas – account for the lion's share (AUD 267b exports in 2021, 58% of national total)
- Medium-term outlook for all three is cloudy
  - Coal is being retrenched from global energy systems due to net zero transitions
  - Gas will function as a transitional energy but face a similar structural pattern
  - Global "peak steel" in mid-2020s will slow iron ore expansion
- High prices may persist for some time, but none will drive growth in the way they have in the past two decades
- Lithium, critical minerals, green hydrogen all well-poised to replace the Big-3
- How can Australia pivot its export basket towards new 'climate-proofed' resource industries?

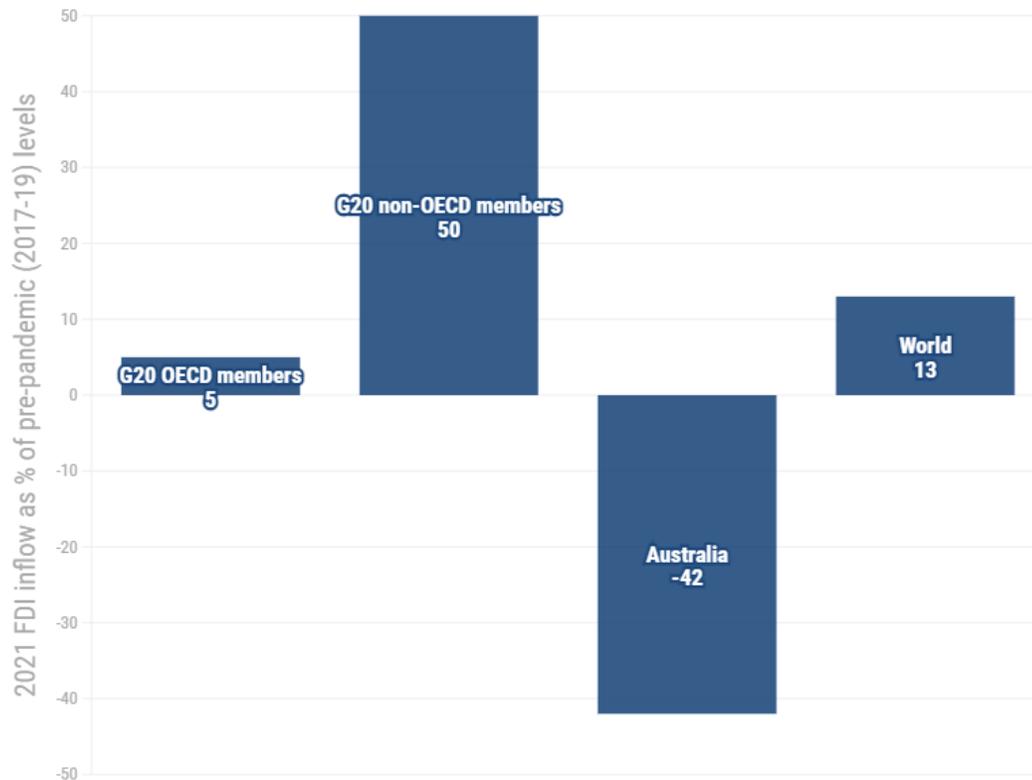
Prices for Australia's 'Big-3' commodity exports



Source: IMF Commodity Prices

# INVESTMENT: Australian FDI inflows are slow to recover from COVID, posing questions about investment competitiveness

## Post-pandemic recovery of FDI inflows



Source: OECD FDI Statistics

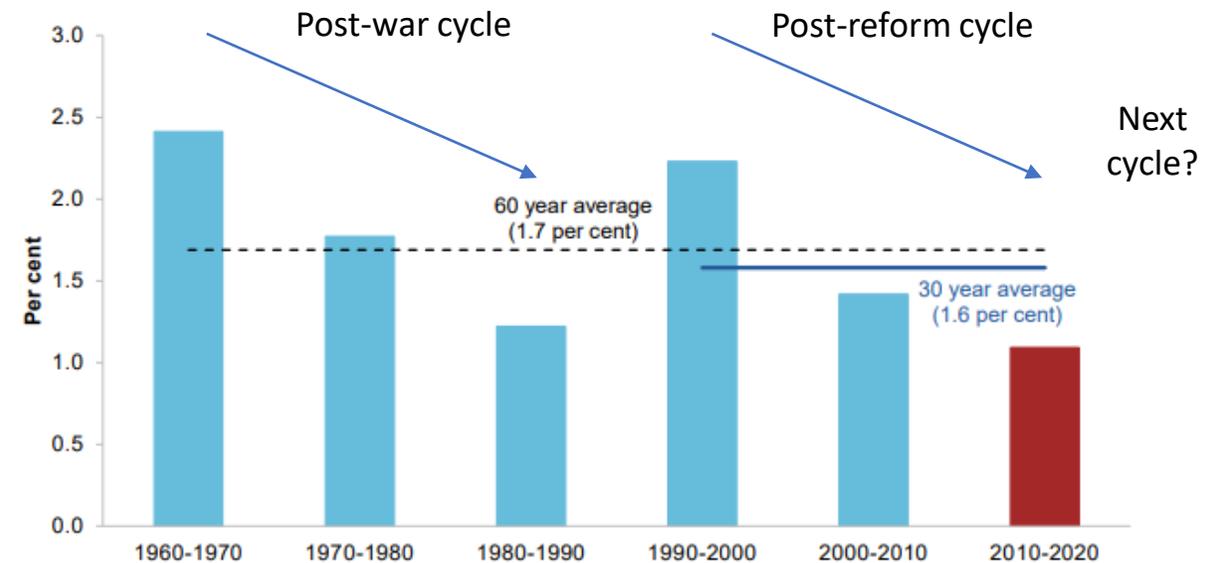
## Why does Australia need this investment?

- FDI brings a three-part package of services: capital, technology and marketing channels
- Australian FDI did not rebound in 2021 like the rest of the world, likely due to ongoing border closures.
- But whether an open border reverses trend in 2022 remains an open question:
  - Weakened economic conditions in major senders (US, Europe) will dampen supply
  - Falling commodity prices will weaken investment into resource sector, the largest drivers
  - End of cheap money will put greater pressure on project proponents
- Australia will need to reappraise what it needs to maintain investment competitiveness in this new era

# PRODUCTIVITY: It is time to re-boot the Australian productivity cycle

- There are only two sources of economic dynamism: extensive growth (more people using more things) and intensive growth (productivity improvements)
- Australian productivity growth comes in three decade-long cycle: a peak following economic reforms, which then steadily decline
- Rebooting the cycle require new reform on:
  - Innovation: Bringing knowledge capital into Australia and applying it across the economy
  - Skills: Ensuring match between labour force capabilities and industries of the mid-21<sup>st</sup> century
  - Digitalisation: Diffusing digital enablers to 'follower' industries
- Productivity touches every area of economic policy, and ignoring it in policy reform leaves huge gains on the table

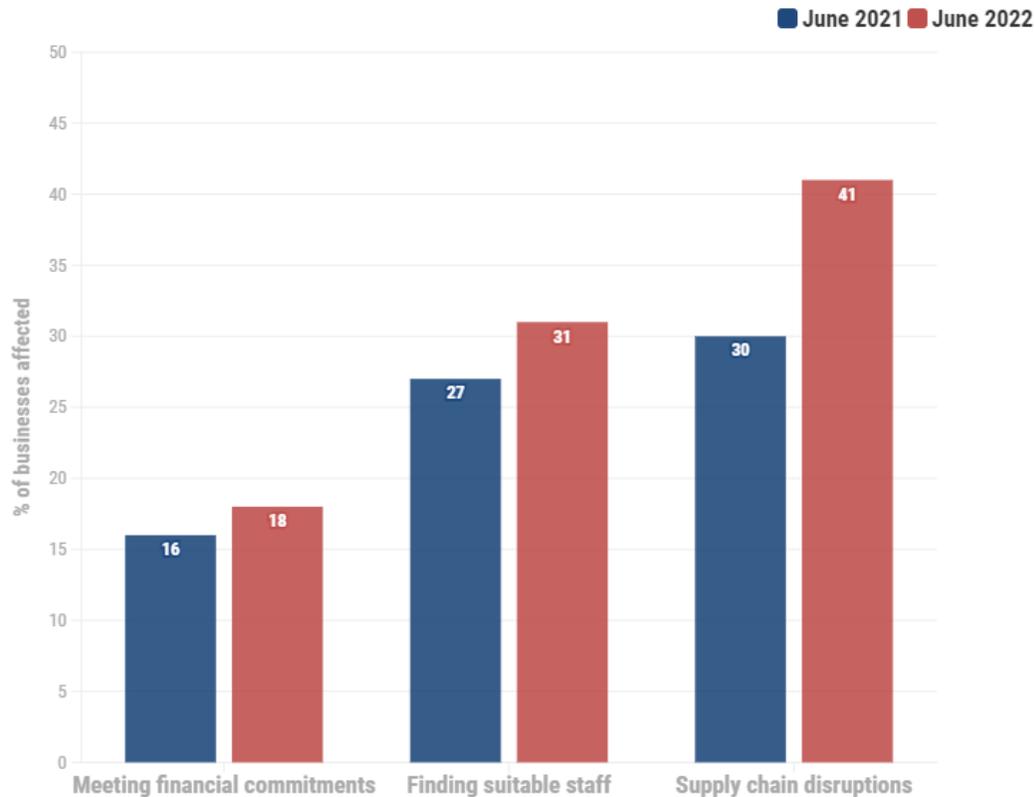
Australian labour productivity growth, 1960-2020



Source: Productivity Commission, <https://www.pc.gov.au/inquiries/current/productivity/interim1-key-to-prosperity>

# SUPPLY CHAIN RESILIENCE: A structural reality for the medium term

## Challenges faced by Australian businesses



Source: ABS Business Conditions and Sentiments, June 2022

## Why are disruptions still growing post-COVID?

- Supply chain disruptions are consistently the largest challenge reported by businesses
- And they have grown over the last year, despite Australia's COVID restrictions having greatly eased
- This indicates that the source of the problem is not internal supply chains, but originates in the global economy.
- Four global drivers of supply chain interruptions:
  - Interruptions to international connectivity
  - Rising protectionism
  - Geopolitical shocks
  - China's ongoing COVID-zero policies
- international connectivity will gradually improve through 2022. But the other three drivers are likely to become structural features for the medium-term (2023-25)
- There is a pressing need for new policy effort to address a leading and lasting challenge facing Australian industry