Economic conditions

Assessing Australian industry’s economic performance over the past financial year, focusing on international, domestic and industry-specific developments.

**International**

- **Global growth forecast for 2016**: 3.1% (IMF global growth forecast for 2016, down from 3.8%)
- **China’s growth forecast for 2016**: 6.6% (annual GDP growth, down from 6.9% in 2015)
- **Australia’s growth in export values**: –1.9% (annual growth in export values, 2015–16)

**Australia**

- **GDP growth was strong in 2015–16, marking 25 years of continuous growth**: 2.8% (annual real GDP growth, 2015–16)
- **Business investment continues to decline**: –16.2% (growth from 2014–15 to 2015–16)
- **Low wages growth is occurring as disposable income growth falls**: 2.1% (annual growth in the Wage Price Index as at June 2016, the lowest level since the late 1990s)

**Unemployment rate is declining, but masks a rise in part-time and underemployment**

- **Unemployment rate**: 5.6% (as at September 2016)

**Growth in:**

- **Full-time**: 1.3%
- **Part-time**: 3.8%
- **Hours worked**: –0.6% (annual growth to quarter 3, 2016)

**Industry**

**Services**

- Services continue to grow but with significant variation between sub-industries

**Mining**

- Mining volumes are strong despite price falls, as the sector transitions into the production phase

**Construction**

- Construction growth is solid, despite decreased demand from Mining

**Agricultural**

- Agricultural output contracted and the value of major exports fell

**Manufacturing**

- Manufacturing output and employment contracted, but export values increased
In 2015–16, Australia recorded its 25th year of continuous economic growth. Given the uncertain economic and political situation around the world, this is a remarkable achievement. Australia is now only second to the Netherlands which has the longest record of economic growth, at 26 years.

This chapter reflects on both Australia’s and the world’s economic developments over the past year, as well as their impacts on Australian industry.

It starts with the impact of international economic conditions on the Australian economy. Advanced economies, such as the United States and Japan, are struggling to return to their pre-Global Financial Crisis (GFC) growth rates. China’s economy continues to grow strongly, albeit below the double-digit highs of past years. The Brexit vote, which saw Britain vote to leave the European Union (EU), has added to global uncertainty, and highlights the growing unease around international trade. Together, these issues are affecting demand for three of our top exports — iron ore, coal and natural gas. They are also affecting domestic business confidence which, while improving, is still relatively weak in light of ongoing uncertainty.

The chapter then outlines how Australia’s domestic economy fared in 2015–16. Australia’s continuous economic growth and low unemployment rate indicate a strong economy. These positive achievements demonstrate that Australia is successfully transitioning away from the mining investment boom. However, beyond the headline figures, risks remain, including a continuation of poor business investment and confidence, a rise in part-time employment and underemployment, and slow wage growth.

The chapter concludes by examining developments in Australian industry in 2015–16. The Services sector continues to dominate the economy with the largest share of both economic output and employment. A divergence is emerging between growth in market and non-market services, with growth in the latter being stronger. Mining continues its transition from the investment to production phase, and export volumes are continuing to expand to record highs at the same time as commodity prices fall. Construction growth is up, driven by residential construction, and partially offsetting the Construction decline in the mining States of Western Australia and Queensland. Finally, both Manufacturing and Agriculture are showing mixed performances. Manufacturing continues to contract in terms of employment and output but is growing in export values while Agriculture is showing positive employment growth but a significant contraction of output and declines in export values.
International economic conditions

As a small, open economy, Australia benefits from foreign investment and trade. However, this openness means that changes in global economic sentiment and conditions can have a large impact on our economy. While positive sentiment can improve investment flows and trading opportunities, negative sentiment and conditions can lead to poor domestic consumption and business confidence, which in turn reduce investment and trade opportunities.

World economic growth prospects are currently pessimistic. Advanced economies have struggled to return to pre-GFC levels of growth. Growth in China, Australia’s largest trading partner is below the double-digit highs of years past and the Brexit vote, which saw Britain vote to leave the European Union (EU) and election results around the world, have added to global uncertainty, and highlight the growing unease around international trade.

The outlook for global growth has been downgraded for 2016 and 2017

The International Monetary Fund’s (IMF) global growth projections have been consistently downgraded since mid-2015. Figure 2.1 shows global growth projections for 2016 and 2017 by the dates these projections were made. In July 2015, global growth for the following year was projected at 3.8 per cent, but has since been downgraded to 3.1 per cent in July and October 2016. The IMF also downgraded its 2017 global growth projections from 3.6 per cent in January 2016 to 3.4 per cent in October 2016.

The economic growth of Australia’s major trading partners has been subdued. The forecast for China’s growth in 2016 is 6.6 per cent, a decline from 6.9 per cent in 2015 (Figure 2.2). Growth in the euro area (EU countries that have adopted the euro as currency) is projected to contract from 2.0 per cent in 2015 to 1.7 per cent in 2016, and Japan’s growth has been below 1.0 per cent since 2014. The United States is doing better, although its projected growth of 1.6 per cent for 2016 is more than a percentage point below its pre-GFC growth rate of 2.7 per cent in 2006.
China’s economy is making the transition to consumption-led growth

A key reason for the global growth downgrades is the lower-than-expected growth in the Chinese economy, which has been experiencing a downward trend since 2007 (Figure 2.2). In 2007 China had an annual GDP growth rate as high as 14.2 per cent, which dropped to 7.9 per cent in 2008 and is now forecast at 6.6 per cent in 2016.

While China’s recent growth rates are still strong, its transformation from investment-led growth to consumption-led growth is causing uncertainty amongst the international community. This is because the transformation has been hampered by a large state-owned sector that is slow to reform.

There are also concerns about China’s housing market, one of the key drivers of China’s economic growth. Strong demand for housing in major cities and excess housing stock in regional and rural cities has resulted in ‘ghost cities’ — fully constructed but empty office blocks and apartments. These developments are contributing to reduced demand for Australian iron ore and coal, which are key inputs for Chinese steel production, and in turn housing construction.
High debt levels and low cash rates are constraining growth in our key trading partners

Debt levels have reached historical highs since the GFC, and currently show no signs of falling back to pre-GFC levels (Figure 2.3). These high debt levels are constraining governments from using fiscal measures to stimulate their economies.

Figure 2.3: Net debt to GDP ratios, selected major trading partners, 1980 to 2014

At the same time, constrained monetary policy options are preventing central banks from stimulating their economies. Normally the central bank cash rate is lowered to boost economic activity. But when the cash rate is already close to (or below) zero — as is the case in many countries — it leaves central banks with little power to stimulate the economy.

Japan, the United Kingdom, the United States and the euro area all currently have low or negative cash rates. The cash rate in the euro area is 0.0 per cent as at 31 October 2016, while Japan’s became negative for the first time in its history. From February 2016, Japan’s cash rate became –0.1 per cent. From August 2016, the United Kingdom’s rate became 0.25 per cent, and the United States has been targeting a rate of 0.25–0.50 per cent since December 2015. Its cash rate at 31 October 2016 was 0.5 per cent.

Global trade appears to be slowing as anti-globalisation sentiment rises

The volume of world trade declined significantly in early 2009 following the GFC and has remained flat since then. According to the Netherlands Bureau for Economic Policy Analysis, world trade volume grew by just 0.3 per cent in the 12 months to August 2016.

Slow global growth is coinciding with a rise in anti-globalisation sentiment around the world. The IMF has linked rising discontent in developed countries to:
- workers’ concerns about globalisation’s impact on legacy industries such as manufacturing
- discontent over migrant worker flows
- frustration about accountability for the GFC
- multinational tax evasion.

This discontent culminated in a shock exit vote by Britons from the EU in June 2016, as well as the rise of anti-globalisation political parties around the world. This appears to have also influenced the results of the recent US presidential election.
The sentiment appears to be driving an increase in trade protectionist measures. The European Centre for Economic Policy Research has highlighted a rise in the gap between ‘beneficial’ and ‘harmful’ trade measures, where harmful trade measures include subsidies, tariffs, localisation requirements and industry assistance. Since 2010, the number of harmful trade measures implemented between January and April each year has typically averaged between 50–100. But between January and April 2016, the number of harmful measures increased to around 150. This meant that from 2015 to 2016 the gap between beneficial and harmful measures increased from approximately 65 to 90. While an increase in the number of government decisions is not directly correlated with the scale of protectionism, the rising gap between beneficial and harmful measures over this short period is significant.

Economic conditions have impacted the value of major Australian exports

The value of the Australian dollar appears to have reached a plateau in 2016, following its fall from the highs associated with the mining boom. Economic theory suggests this would tend to increase Australia’s exports as they become cheaper to other countries. However, the lower global growth outlook, high debt levels and increased protectionist measures have softened demand, and likely contributed to a fall in the value of Australia’s exports. Australia’s export values declined from $318 billion in 2014–15 to $312 billion in 2015–16, a fall of 1.9 per cent. This was driven by a decline in the export values of three of Australia’s top four exports — iron ore, coal and natural gas.

In 2015–16, the value of our top export — iron ore — fell 12.4 per cent to $47.7 billion, while the value of our second largest export — coal — fell 9.4 per cent to $34.3 billion. Values for our fourth largest export — natural gas — fell 2.1 per cent to $16.5 billion.

Despite the slowing Chinese economy, international education, which is Australia’s third largest export, continued to grow. Annual growth in international education in 2015–16 was 9.4 per cent. Department of Education and Training data indicate that Chinese students were Australia’s largest international student group in 2016 (at 28 per cent of enrolments to July 2016).

The domestic economy

Australia’s strong real Gross Domestic Product (GDP) growth of 2.8 per cent in 2015–16, and low unemployment rate of 5.6 per cent (as at September 2016), place us in good stead for the future. However, other indicators and industry performance point to a more mixed economic picture, including:

- poor business investment and confidence
- slow wage growth
- a rise in part-time employment and underemployment (when an employee would prefer to work more hours but is unable to)
- the mixed performance of the Manufacturing and Agriculture industries.
The economy continues to transition away from resources

Australia’s recent economic strength has relied heavily on the resources boom, which is now transitioning into its production phase. Increased production means that in 2016 the resources sector produced record commodity volumes. Between 2012–13 and 2015–16, the volume of iron ore and concentrates produced was 66.3 per cent higher than between 2008–09 and 2011–12.

But the increase in commodity volumes and lower international demand have contributed to a reversing of the appreciation of the Australian dollar seen during the mining investment boom. From its peak of $1.08 USD (United States dollar) in June 2011, the Australian dollar fell to $0.71 USD in January 2016. Subsequent to this, the dollar has risen slightly to $0.76 in October 2016.

The fall in the exchange rate has been associated with declines in Australia’s terms of trade (the ratio of export prices to import prices). This decline continued into 2016, with the terms of trade dipping to 80.5 in the June quarter of 2016 — the lowest level in more than a decade (Figure 2.4). However, as with the Australian dollar, the terms of trade appear to have reached a plateau in 2016.

Figure 2.4: Australia’s exchange rate and terms of trade, June quarter 2006 to June quarter 2016

Notes: Terms of trade data is quarterly, seasonally adjusted data. Exchange rate data is an average of each quarter.

Source: ABS cat. no. 5206.0, table 01; RBA, historical daily exchange rates data
Falling levels of business investment continue to detract from GDP growth

GDP growth can be broken down into its constituent drivers: household consumption, government spending, business investment, and trade. Australia’s real GDP growth of 2.8 per cent in 2015–16 was driven primarily by household consumption, closely followed by trade (Figure 2.5).

Figure 2.5: Contributions to annual GDP growth by key components, 2005–06 to 2015–16

Notes: Original data, chain volume measures. ‘Government’ includes government consumption and government gross fixed capital formation. A GDP component below the horizontal axis indicates that the component experienced negative growth, bringing down (detracting from) GDP growth. The figure excludes the following components of GDP growth: change in inventories, other private investment and statistical discrepancy. As such, the contributions by components in the figure do not add up total GDP growth.

Source: ABS cat. no. 5204.0, table 02

In 2015–16, household consumption and net exports contributed 1.6 and 1.4 percentage points to GDP growth respectively. Government expenditure also made a positive contribution of 0.8 percentage points to growth. In contrast, business investment detracted 1.7 percentage points from GDP growth.
This was caused by a continuation of falling business investment, particularly in Mining. In 2015–16, total business investment was $123.6 billion, a fall of 16.2 per cent from 2014–15 (Figure 2.6). Business investment in Mining was $52.4 billion in 2015–16, compared to $74.8 billion in 2014–15 — a fall of 29.9 per cent. In March 2016, investment in Mining fell below that for Services and Construction for the first time since December 2011. Non-Mining investment is not picking up at the same rate as the fall in Mining investment, despite two cuts to the Reserve Bank of Australia (RBA) cash rate to date in 2016. The outlook for future business investment and its impact on the domestic economy remains a concern.

Figure 2.6: Business investment by industry, June quarter 2006 to June quarter 2016

Notes: Data is real trend data. Levels are year-ended to the quarter.

Source: ABS cat. no. 5625.0, table 3b
Business conditions are improving, but confidence is lagging behind

The National Australia Bank (NAB) business conditions index is a composite index based on trading, profitability and employment conditions for the past month. In contrast, the confidence index measures the perception of future industry performance. This makes the conditions index a lagging (past-looking) indicator and the confidence index a leading (forward-looking) indicator.

Average business conditions improved in 2015–16 to be 9.9, a significant increase from 5.8 in 2014–15 (Figure 2.7).

Figure 2.7: NAB business conditions and confidence indices, 2005–06 to 2015–16

Notes: The NAB business conditions index is made up of trading conditions, employment conditions and profitability. Respondents are asked how the performance of each of these variables in their business has changed in the past month. The NAB business confidence index measures respondents' perceptions of their industry for the upcoming month. Positive numbers indicate optimists outweigh pessimists.

Source: Thomson Reuters DataStream

In contrast, average business confidence for 2015–16 was 4.4, a contraction of 12.7 per cent from 2014–15. This suggests that businesses are consistently predicting that they will perform worse (confidence) than they actually do (conditions).

One explanation is that businesses are working in an environment of uncertain global growth and domestic conditions, which is reducing their confidence. Improved business confidence will be a key factor in reversing the trend of falling business investment.
The unemployment rate is down, but masks rising part-time and underemployment

Australia’s unemployment rate continued to fall in 2016, declining from highs of 6.3 per cent in January and July 2015 to 5.6 per cent in September 2016 (Figure 2.8). The participation rate has fallen since the latest peak of 65.1 per cent in late 2015 to be 64.5 per cent in September 2016.

But these high-level employment indicators are masking a changing trend in part-time and underemployment in the labour market. In the 12 months to the third quarter of 2016, employment growth was 2.1 per cent, while the average number of hours worked contracted by 0.6 per cent. This contraction in hours worked was likely a result of an increase in part-time employment. In the 12 months to the third quarter of 2016, growth in full-time employment was 1.3 per cent, compared to a much higher 3.8 per cent growth in part-time employment (Figure 2.9).
Underemployment also rose. Annual growth in the number of people who were underemployed averaged 2.0 per cent over the 12 months to the third quarter of 2016, considerably higher than the growth in full-time employment over the same period (Figure 2.9). According to the RBA, this rise in underemployment has resulted in excess capacity in the labour market, despite the seemingly positive unemployment picture.

Figure 2.9: Full-time, part-time and underemployed persons, August quarter 2006 to August quarter 2016

Employment growth has also been unevenly distributed throughout the nation, with mining States experiencing a contraction in employment. Through-the-year employment growth in September 2016 for Queensland and Western Australia was −0.3 and −1.3 per cent respectively, compared to the national average of 1.4 per cent. In contrast, over the same period, the eastern States of New South Wales and Victoria experienced employment growth of 1.8 and 3.6 per cent respectively — higher than the national average. The transition of mining away from its investment phase (mainly based in Queensland and Western Australia) and increased output in services (mainly in New South Wales and Victoria) are the likely reasons for these patterns. Differences in regional performance across Australia are further discussed in Chapter 7 of this report.
Low wage growth is occurring as disposable income growth falls

In 2016, wage growth was the lowest in the history of the Wage Price Index series (which measures the change in wages from a fixed ‘basket’ of representative jobs). Through-the-year annual growth in the index for June 2016 was 2.1 per cent, the lowest level since the late 1990s.

In addition, data from the RBA, in association with the ABS, suggest that both the frequency and the size of wage increases have been falling in the past 10 years. For example, the share of jobs in the past year that had a 10 per cent increase in salary was less than 10 per cent, compared to 40 per cent six years ago. The falling terms of trade and low business confidence explain the weak wage growth.

Mirroring this trend, real net national disposable income (RNNDI) per capita continued to fall in 2016. RNNDI measures the income Australians have at their disposal, and is considered by the ABS as the best measure for living standards. Typically, GDP per capita and RNNDI per capita move in parallel. However, with the falling terms of trade, RNNDI and GDP per capita have diverged since 2012, with RNNDI growth falling while GDP growth continued to increase (Figure 2.10).

Figure 2.10: Annual growth in real GDP and RNNDI per capita, 1995–96 to 2015–2016

Notes: RNNDI per capita is the ABS’ preferred measure of national wellbeing. It uses GDP, but adjusts it to include additional components that affect the purchasing power of Australians. Chain volume measures, original data.

Source: ABS cat. no. 5204.0, table 01

In 2015–16, growth in GDP per capita was 1.4 per cent while that for RNNDI per capita was –1.3 per cent. This continued divergence meant that the gap between RNNDI and GDP per capita increased to 2.7 per cent, up from 2.3 per cent in 2014–15. However, the latest quarterly data suggests this divergence may be reversing, in line with a plateauing of the terms of trade (refer to previous Figure 2.4). Seasonally adjusted quarterly growth (March versus June quarter 2016) was 0.2 per cent for both RNNDI and GDP per capita.

Low wages growth and RNNDI mean a weaker purchasing power for Australians, and are likely contributing to subdued consumer and business confidence.

Wages are an important part of business input costs and their influence on a firm’s competitiveness is further discussed in Chapter 3 of this report.
Developments in Australian industry

The year 2016 was an eventful one for Australian industry. Australia saw several high-profile changes in the manufacturing sector, including the production of the last ever Australian-made Ford being produced in October. There was also the announcement of the Future Submarine Program, which will build a new fleet of Australian submarines in Adelaide.

Tourism set new records, with 7.7 million tourists visiting Australia in the twelve months to March 2016 and values for tourism-related services growing by 11.2 per cent in 2015–16 to $43.6 billion.

Resource production is still strong, despite the transition away from the resources investment boom. This year also marks the 50th year of iron ore shipments from the Pilbara in Western Australia.

Table 2.1 outlines the values and shares of output and employment for Australian industries in 2015–16.

Table 2.1: Output and employment by industry, 2015–16

<table>
<thead>
<tr>
<th>Industry</th>
<th>Output ($ billion)</th>
<th>Share of GDP (per cent)</th>
<th>Employment (million)</th>
<th>Share of all industry (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>1,015.1</td>
<td>61.1</td>
<td>9.4</td>
<td>79.2</td>
</tr>
<tr>
<td>Mining</td>
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<td>6.9</td>
<td>0.2</td>
<td>1.9</td>
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<td>Construction</td>
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<td>1.1</td>
<td>8.8</td>
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<tr>
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<td>6.0</td>
<td>0.9</td>
<td>7.4</td>
</tr>
<tr>
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<td>2.2</td>
<td>0.3</td>
<td>2.7</td>
</tr>
<tr>
<td>All industries</td>
<td>1,400</td>
<td>84.3</td>
<td>11.9</td>
<td>100</td>
</tr>
</tbody>
</table>

Notes: Output calculations use original, chain volume measures data. Employment data uses original data and is an average of all quarters in 2015–16.

Source: ABS cat. no. 5204.0, table 05; ABS cat. no. 6291.0.55.003, table 04
Figure 2.11 shows the growth in output and employment by industry between 2014–15 and 2015–16.

Figure 2.11: Annual output and employment growth by industry, 2015–16

Notes: Output calculations use original, chain volume measures data. Employment calculations use original data, average of four quarters.

Source: ABS cat. no. 5204.0, table 05; ABS cat. no. 6291.0.55.003, table 04
At 6.2 per cent, Mining was the strongest performer in terms of output growth, compared to a relatively low employment growth of 1.0 per cent. The taper in mining investment has not adversely affected demand for construction, with overall Construction output and employment growing by 2.8 per cent and 1.8 per cent respectively in 2015–16.

2015–16 saw mixed results for the Agriculture and Manufacturing sectors. While both experienced falls in output, Agriculture gained a small increase in employment from a low base, and Manufacturing exports continued to grow.

Services continue to grow, but with significant variation between sub-industries

In 2015–16, Services continued to be the largest part of the Australian economy, representing just over 60 per cent of GDP with output of $1,015 billion. Services sectors were also the largest employers, averaging 9.4 million employees in 2015–16.

The largest Services industry in terms of value was Financial & Insurance Services with $146.2 billion in output in 2015–16. In terms of employment, Financial & Insurance Services employed an average of 431,100 people.

The largest Services industry by employment in 2015–16 was Health Care & Social Assistance, employing around 1.5 million workers. It was also the second largest Services industry by value, growing by 3.9 per cent to produce $112.3 billion of output in 2015–16.

Services exports grew strongly in 2015–16, with Australia’s top service export — international education — growing by 9.4 per cent to be worth $19.8 billion. The majority of international students studying in Australia were from Asia, with China being the number one source.

Personal Travel Services (excluding education-related travel) was Australia’s second largest Services export after education in 2015–16. Personal Travel had strong annual output growth of 16.9 per cent, to be worth $16.5 billion. This suggests that Australia has remained an attractive destination for international tourists, likely supported by the lower Australian dollar.

Services can be divided between ‘market’ and ‘non-market’ services. Market services are sold at commercial prices, while non-market services are either provided free of charge or with significant price reductions due to heavy subsidies. Examples of non-market services are health care and education, which receive significant subsidies from governments. In 2015–16 market services represented 44.1 per cent of GDP, compared to 16.9 per cent for non-market services.

In 2015–16, non-market services grew more strongly than market services for both output (4.2 per cent vs 2.8 per cent) and employment (4.1 per cent vs 1.8 per cent). For output, this continues a trend observed since 2013–14 (Figure 2.12). Employment growth in non-market services was also stronger in regional areas, and is likely supporting regional employment. Our analysis indicates that non-market services employment growth was 6.4 per cent in regional (non-capital city) areas, compared to 2.3 per cent for capital cities in 2015–16.
Figure 2.12: Annual output and employment growth, market and non-market Services, 2005–06 to 2015–16

Notes: Output calculations use original, chain volume measures data. Employment data uses original data and is an average of all quarters for each year. The ABS defines non-market services as: Public Administration & Safety; Education & Training; and Health Care & Social Assistance.

Source: ABS cat. no. 5204.0, table 05; ABS cat. no. 6291.0.55.003, table 04
Mining volumes are strong despite price falls, as the sector transitions into the production phase

Mining output represented 6.9 per cent of Australia’s GDP in 2015–16 at $114.9 billion. This ranked Mining as the third highest contributing industry to GDP after Services and Construction. Annual growth for Mining output was 6.2 per cent in 2015–16 — the highest growth rate of all industries.

Mining’s production phase requires fewer employees than did the investment phase, which meant that annual employment growth in 2015–16 was only 1.0 per cent — the second lowest of all industries after Manufacturing.

Mining continued to produce record export volumes in 2015–16 (Figure 2.13). Volumes of Australia’s key commodity exports — iron ore, metallurgical and thermal coal — increased by 3.0 per cent in 2015–16.

Figure 2.13: Volume and value of Mining commodity exports, 2005–06 to 2015–16

At the same time, commodity prices continued to fall, with lower Chinese demand for iron ore and coal occurring at the same time as other commodity-exporting countries ramped up production. The slowdown in China’s housing market and China’s shutdown of steel factories saw reduced demand for iron ore and metallurgical coal — key inputs into steelmaking. Despite increases in volume, lower commodity prices saw revenue for iron ore, metallurgical and thermal coal exports fall by 11.2 per cent between 2014–15 and 2015–16 (Figure 2.13). However, the latest data shows that commodity prices are picking up — prices for resource and commodity exports reached 13 month highs in August 2016.

Australia’s Liquefied Natural Gas (LNG) has become a significant part of the mining sector. In line with international trends, Australia has increased its gas liquefaction capacity through a number of offshore projects in Western Australia, and coal seam gas projects in the eastern States.

Expansion in LNG production continued in 2015–16, with significant annual growth of 47.2 per cent in LNG export volumes (Figure 2.14).
As LNG production is linked to the price of oil through the pegging of long-term contracts to oil prices, the collapse in recent oil prices is putting a strain on export values in the sector (Figure 2.14). In 2015–16, the value of LNG exports contracted by 2.0 per cent from 2014–15. Growth in export volumes will continue in the near future, and it is estimated that in the next two to five years Australia will become the largest LNG exporter in the world.

**Construction growth is solid, despite decreased Mining demand**

Construction is a large part of the Australian economy, accounting for 8.1 per cent of GDP in 2015–16, making it the second largest industry after Services. In 2015–16, it grew by 2.8 per cent in output terms, producing $134.2 billion of output and employing nearly 1.1 million workers.

In 2015–16, growth in Construction output was driven by building construction, with its value increasing 6.2 per cent. This growth was dependent on residential construction, which grew by 10.6 per cent, in contrast to non-residential construction which contracted by 1.3 per cent in 2015–16. In addition, the value of engineering construction work fell by 14.7 per cent in 2015–16, in line with the transition of the economy away from the resources investment boom.

Construction trends are exhibiting a distinct national pattern, with Construction continuing to increase in New South Wales and Victoria and declining in all other States (Figure 2.15). Construction in New South Wales is particularly strong, with significant building construction and major infrastructure projects such as the Westconnex, upgrades to the Princess Highway, and Metro and Light Rail developments in Sydney.
Despite the fall in mining-related construction, a large number of major infrastructure projects have still been committed to or are under construction in areas where mining dominates, such as Northern Australia. According to Deloitte Access Economics data, Northern Australia has 66 major projects worth around $201 billion being constructed or committed to as at September 2016. These form around 46 per cent of all such projects across Australia.

**Manufacturing output and employment contracted, but export values increased**

While Manufacturing made up 6.0 per cent of GDP in 2015–16, its share of the economy continues to shrink, with declines in both output (–2.7 per cent) and employment (–3.9 per cent). In 2015–16, it produced $99.4 billion of output, and employed 877,400 workers.

Although Manufacturing’s output and employment has been declining, its share of exports has been increasing since January 2014. Manufacturing is now the second largest exporter after Mining, representing 32.2 per cent of the value of Australia’s exports in 2015–16.

Manufacturing export volumes are strongly influenced by the exchange rate. In 2016, the value of Manufacturing exports continued to increase as the Australian dollar fell and then plateaued (see Figure 2.4). In 2015–16, total Manufacturing exports were $100.2 billion, up from $96.1 billion in 2014–15 (Figure 2.16). This represents an annual growth of 4.2 per cent — a strong result given that over the same period the value of all merchandise exports contracted by 4.5 per cent. The biggest Manufacturing exporters by value in 2015–16 were Primary Metal & Metal Product Manufacturing ($34.2 billion) and Food Product Manufacturing ($24.3 billion).
Agricultural output contracted and the value of major exports fell

Agriculture represented 2.2 per cent of GDP in 2015–16 — a similar share to that of previous years. Agricultural output in 2015–16 fell significantly by 5 per cent to $36.7 billion, making it the industry with the lowest annual growth. Agriculture employed an average of 321,600 workers in 2015–16, a slight increase of 1.3 per cent from 2014–15.

Within the broader agricultural sector, the Australian Bureau of Agricultural and Resource Economics and Sciences estimates that crop production rose 1.9 per cent in 2015–16 and livestock production fell 5.9 per cent. The declines in livestock production were the main driver behind the significant contraction in Agriculture’s output in 2015–16.

The value of Agriculture exports fell for four of our major Agriculture products in 2015–16. In seasonally adjusted terms, the value of meat and cereal grains exports fell 7.5 per cent, and wool exports fell 12.0 per cent (Figure 2.17). This suggests that the falls seen in Agriculture output overall were also reflected on the export front. This is unsurprising, given that Agriculture is a highly export-focused industry. In contrast, the value of Other Rural exports grew by 8.7 per cent (Figure 2.17).
Within this group, the biggest growth in value for 2015–16 was in exports of Miscellaneous Edible Products & Preparations (71.8 per cent) and Crude Animal & Vegetable Materials (57.4 per cent). The value of exports in the biggest contributor to the Other Rural group — Dairy Products and Bird Eggs — grew by 7.7 per cent in 2015–16. Finally, the value of Live Animal exports grew by 18.2 per cent in 2015–16, indicating a continued recovery from the slowdown in 2009–2013 associated with controversies in live animal exports.