Australia’s competitiveness has once again come under scrutiny. Our ranking on international measures of competitiveness has slipped, real GDP per capita trends show signs of weakening, and keeping up with both technological advances and ongoing globalisation pose constant challenges.

Australia has just recorded its 25th consecutive year of continuous economic growth — a remarkable achievement. But what should be done to ensure we remain competitive on the world stage?

Exporting is an indicator of international competitiveness. Chapter 5 investigates the dynamic relationship between business export behaviour and performance. New firm-level results show continuous exporters consistently outperform non-exporters.

Chapter 6 discusses another important factor of business performance — digital maturity. It argues that Australia is not fully tapping into its potential to drive competition, innovation and productivity.

Using new experimental estimates of Gross Regional Product per capita, Chapter 7 shows that the benefits of growth across Australia have been uneven, benefiting some regions more than others. Agglomeration (population density) and mineral resources are identified as two key determinants of regional performance.

Chapter 8 discusses common issues affecting further growth in industry growth sectors, and acknowledges the work being undertaken by the Industry Growth Centres to overcome these issues. Ultimately, success depends on getting sectors working smarter and more collaboratively with each other. The final chapter showcases a feature article by Martin Baily from the US Brookings Institution that examines the role of industry policy in managing the process of creative destruction.
What does competitiveness mean for Australia?

Examining Australia’s competitiveness can reveal insights about the state of the Australian economy, and also uncover policy settings that can help improve Australia’s performance.

We can use these outcomes to improve our understanding of Australia’s current competitiveness.

Economic outcomes
- Productivity
- Competitive firms, sectors and markets
- Prosperity
- Employment

Our economy
- National
- Sector
- Firm

Competitiveness can be examined at the firm, sectoral and national levels.

Macroeconomic stability
- Ability to attract resources
- Competition and innovation
- Openness to trade

Examining the importance of competitiveness, alternative ways of measuring it, and analysing how Australia is performing.
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**

- **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
Reducing business costs

Examining how reducing business operating costs produce net benefits for the Australian economy, and how different types of cost reductions produce distinct advantages and disadvantages for different industries.

What happens when business costs fall?

Facilities
A boost to investment and employment, with capital intensive industries doing best

Interest
A boon for investment and high-tech services, but Manufacturing misses out

Labour
A more labour intensive economy, with stronger service industries

Tax
More investment, more employment, faster structural change

Transport
Investment and employment lift, and Manufacturing gets a boost

Utilities
Some gains in investment, some gains in jobs, but most industries miss out

Why business costs matter?

How cost competitive is Australia?
The energy–competitiveness relationship

Uncovering energy costs’ impact on the competitiveness of Australia’s industries.

**Industrial energy costs in Australia**

**Measuring the response of:**
1. Energy efficiency to energy price changes
2. Export competitiveness to energy intensity/cost changes

The switch to cleaner technologies and the impact of related government assistance

**Background**

- Environmental considerations and rising energy costs have thrust energy use and energy efficiency to the fore.
- Energy costs have been rising in Australia, particularly for certain industries like Manufacturing.
- The extent to which energy costs impact on competitiveness is not well known in Australia.

**Energy prices**

Higher energy prices in Australia have not been fully offset by reductions in energy intensity, resulting in rising energy costs over time.

**International competitiveness**

Rising energy costs have a negative impact on the international competitiveness of energy intensive industries. Its significance, however, is generally overshadowed by other factors.

**CleanTech**

Government assistance (CleanTech) had wider impacts by also boosting business performance.

**Reduced emissions**

Policy measures designed to encourage a switch to cleaner technologies have successfully reduced emissions.
Exporting is:
- a driver of economic growth
- an indicator of international competitiveness
- interrelated with innovation

Firm-level evidence on business performance prior and subsequent to exporting is essential for designing export promotion policy.
Examining the role of digital maturity in driving higher business productivity and economic growth, and demonstrating the benefits of better measurement for both business and government.

Making our economy strong
Digital maturity is considered to be a strong contributor to productivity at both the firm and economy-wide levels.

Measuring digital maturity
New ways of measuring digital maturity will help in the development of policies that facilitate the greater uptake of digital technologies.

Lifting productivity
Higher levels of digital maturity may help lift sluggish productivity growth.

Productivity linkages
Policy makers need stronger evidence of the link between digitally mature firms and productivity.

Challenges
Many Australian businesses, particularly SMEs, are not tapping into the full potential of digital technologies.

Opportunities
As a result, they may be missing out on the productivity benefits of digital maturity.
Australia’s economy recorded 25 years of continuous economic growth. Despite this, some regions have benefited more than others. This uneven performance has important implications for the sustainability of remote and regional areas.

Why do regions differ in terms of economic performance?

Key findings

Develop experimental estimates of Gross Regional Product (GRP)

Compare GRP vs known factors, that influence regional performance

The new experimental estimates provide insight into the distribution of economic activity across Australia

Over 2/3 of Australia’s economic activity is generated within less than 1% of Australia’s land area — in Australia’s capital cities

A further 8% of Australia’s economic activity is from the mining regions of Western Australia Outback (the location of the Goldfields and Pilbara) and the Bowen Basin in Queensland

Outcomes

The results show that agglomeration, specialisation, infrastructure, structural change and knowledge intensity are all positively related to the performance of regions

These results are useful for explaining why regions differ in performance and in guiding government policy regarding regional assistance

Explores the relationship between new experimental estimates of Gross Regional Product per capita and factors known to influence regional performance.
Industry Growth Centres: Challenges and opportunities

Demonstrating how Industry Growth Centres are working to address challenges to further growth at the sector level by improving competitiveness, productivity and innovative capacity.

Industry Growth Centres have been established in high potential industry sectors with competitive strengths.

Working to address challenges to further grow in their sectors to drive competitiveness, productivity and innovation.

Helping Australia transition to smarter, higher value and more export focused industries.

The Industry Growth Centres:
- Advanced Manufacturing
- Food and Agribusiness
- Medical Technologies and Pharmaceuticals
- Mining Equipment, Technology and Services
- Oil, Gas and Energy Resources
- Cyber Security

Growth Centres have identified business management, marketing, business regulation and the skills for the jobs of tomorrow as skills deficiencies in their sectors.

Skills

Growth sectors are more export oriented compared to other Australian sectors (the all-industries benchmark) but there are still significant opportunities to increase exports.

Exports

Firms in growth sectors are more collaborative compared to other Australian sectors (the all-industries benchmark) but Australian sectors don’t do as well compared to international comparisons.

Collaboration

Some regulations are necessary. However, excessive regulation (both Government and self-imposed) can be a challenge to further growth.

Regulation

Growth Centres have identified challenges to further growth in their sectors and are working hard to overcome these.

Australian Industry Report 2016

Office of the Chief Economist
Disruption and growth are inextricably linked

How do we maximise opportunities for growth while minimising the cost of disruption?

1. Target economic growth and productivity improvements
2. Accurate diagnosis of the problem
3. Maximise additionality and spillovers
4. Sector and technology neutrality
5. Support resources, not firms
6. Structural problems require structural solutions
7. Industry policy should be industry led
8. Articulate clear benchmarks and criteria for success and failure
9. Support is temporary

A look at ‘creative destruction’ — the symbiotic nature of growth and displacement — and the role that industry policy plays in managing this process.

Australian Industry Report 2016