Session 4
The Impact on the States

Victoria in a Resources Boom

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Presentation to 'The Resources Boom: Understanding National and Regional Implications', Victoria University, 23rd Feb
Victorian GSP growth has been solid but falling...

Over twenty years the structure of the economy has changed

Source: Australian Bureau of Statistics
Interstate trade might be nearly as important as international trade

![Graph showing the percentage of GDP for Household Consumption, Government, Gross fixed capital formation, Net exports, and Balancing item for 1989/90 and 2009/10.]

Recently output growth has been stronger elsewhere in Australia

![Graph showing output growth for Rest of Australia and Resource states (WA, Qld) from 1999/00 to 2009/10.]

Source: Australian Bureau of Statistics
Possible impact of a resources boom

- Provides challenges
  - High exchange rate squeezes traditional exports
  - Increased competition for capital and labour
- Opportunities
  - Increased wages and share income
  - High exchange rate provides cheaper imports
  - Increased demand stimulates activity including interstate trade

Measuring interstate merchandise trade – How the ABS does it

- Establish state by state matrix of flows in a base year

  - Use data from Monash multi-region (MMR) model estimates for 1987, possibly derived as follows
    - For each state, estimate production and consumption in each commodity
    - Identify interstate trade as the difference between production and consumption less international trade
    - Allocate trade to source states using known transport data plus a gravity model assigning the residual
Measuring interstate merchandise trade – How the ABS does it

- Update volumes using growth rates for 1987 ... 2010
  - exports (GDP)
  - imports (DFD)
  - imports for re-export (DFD)

- Generate price indexes
- Constrain sum of exports = sum of imports

Implications

- Accuracy of base year estimates is a concern
- Aggregation of industries is an issue
- Method of updating implies limited change in economic structure over time
- What about trade in services?
### Net trade by state, 1987

<table>
<thead>
<tr>
<th>State</th>
<th>Interstate Exports ($m)</th>
<th>Interstate Imports ($m)</th>
<th>Internationally sourced net interstate trade ($m)</th>
<th>Net Interstate Trade ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>5,142</td>
<td>3,989</td>
<td>696</td>
<td>1,849</td>
</tr>
<tr>
<td>VIC</td>
<td>5,230</td>
<td>3,674</td>
<td>1,420</td>
<td>2,976</td>
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<tr>
<td>SA</td>
<td>2,110</td>
<td>1,945</td>
<td>-419</td>
<td>-254</td>
</tr>
<tr>
<td>QLD</td>
<td>1,962</td>
<td>3,159</td>
<td>-955</td>
<td>-2,152</td>
</tr>
<tr>
<td>WA</td>
<td>669</td>
<td>1,747</td>
<td>-277</td>
<td>-1,355</td>
</tr>
<tr>
<td>TAS</td>
<td>849</td>
<td>990</td>
<td>-235</td>
<td>-376</td>
</tr>
<tr>
<td>ACT/NT</td>
<td>234</td>
<td>964</td>
<td>-215</td>
<td>-945</td>
</tr>
</tbody>
</table>

11, TRIM 01/17666 in 11/175

### Some indicative results from modelling

- What is the regional impact of increases in commodity prices?
  - changes from 2003-4 to 2004-5
  - coal +50%; oil +36%; iron ore +34%

- MMRF-GREEN model
  Measures changes relative to what would otherwise have been
Short run (say 2 years)
  - capital stocks do not adjust
  - supply of labour unchanged in each state
  - wages constant

12, TRIM 01/17666 in 11/175
State results, % deviation from baseline

<table>
<thead>
<tr>
<th></th>
<th>Real GSP/ GDP</th>
<th>Real Household Consumption</th>
<th>International Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>-0.46</td>
<td>0.39</td>
<td>-6.58</td>
</tr>
<tr>
<td>Vic</td>
<td>-0.54</td>
<td>0.39</td>
<td>-6.43</td>
</tr>
<tr>
<td>QLD</td>
<td>-0.16</td>
<td>0.39</td>
<td>-1.63</td>
</tr>
<tr>
<td>WA</td>
<td>0.88</td>
<td>1.13</td>
<td>2.85</td>
</tr>
<tr>
<td>SA</td>
<td>-0.4</td>
<td>0.42</td>
<td>-5.92</td>
</tr>
<tr>
<td>Tas</td>
<td>-0.16</td>
<td>0.64</td>
<td>-3.4</td>
</tr>
<tr>
<td>Aus</td>
<td>-0.22</td>
<td>0.49</td>
<td>-3.0</td>
</tr>
</tbody>
</table>

Key issues for Victoria

- Although output may decline, standards of living may rise
- Adaptation may mean reduced international exports (but increased interstate exports)
  - Victoria becomes a service provider for other states
- Comparative advantage does not necessarily favour industries with higher labour productivity
  - improving productivity should focus within industries
What is the outlook for Victoria?

- Exchange rate effects will reduce output from what it would otherwise be
  - But also acts as a powerful incentive for trade-exposed firms to reduce costs and increase productivity
- Victoria is well positioned for continued solid growth
  - Good record of adaptation
  - Flexible and mobile labour market
  - Skilled workforce with training opportunities
  - Open economy with few barriers to entry for new producers
  - Government and other institutions foster reform/change