

THE RESOURCES BOOM: UNDERSTANDING NATIONAL AND REGIONAL IMPLICATIONS

Session 4

The Impact on the States

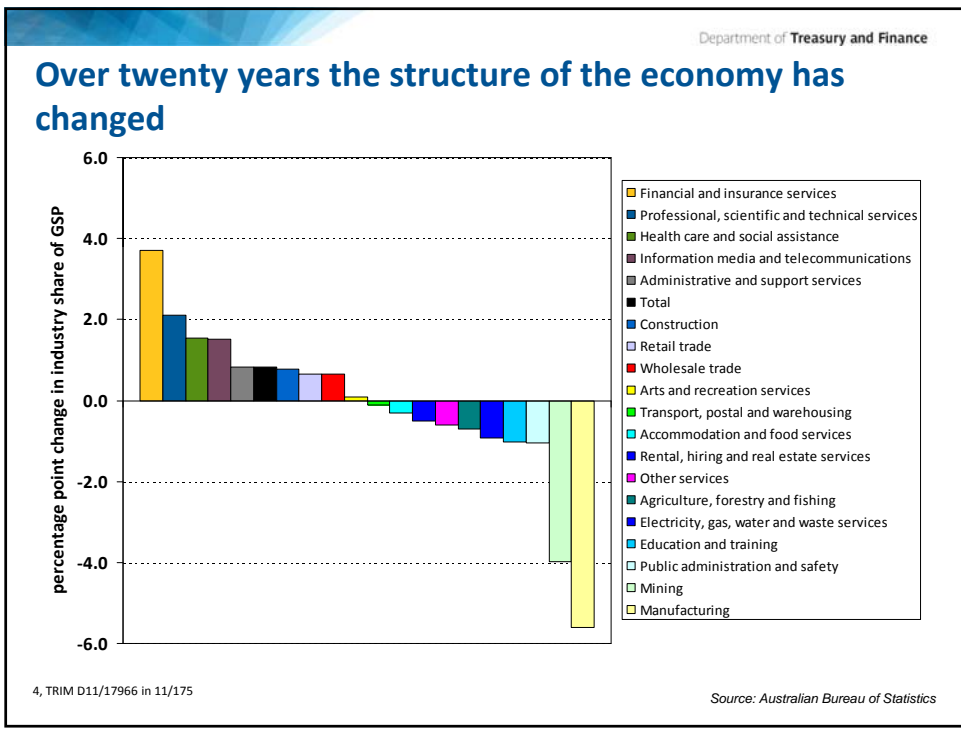
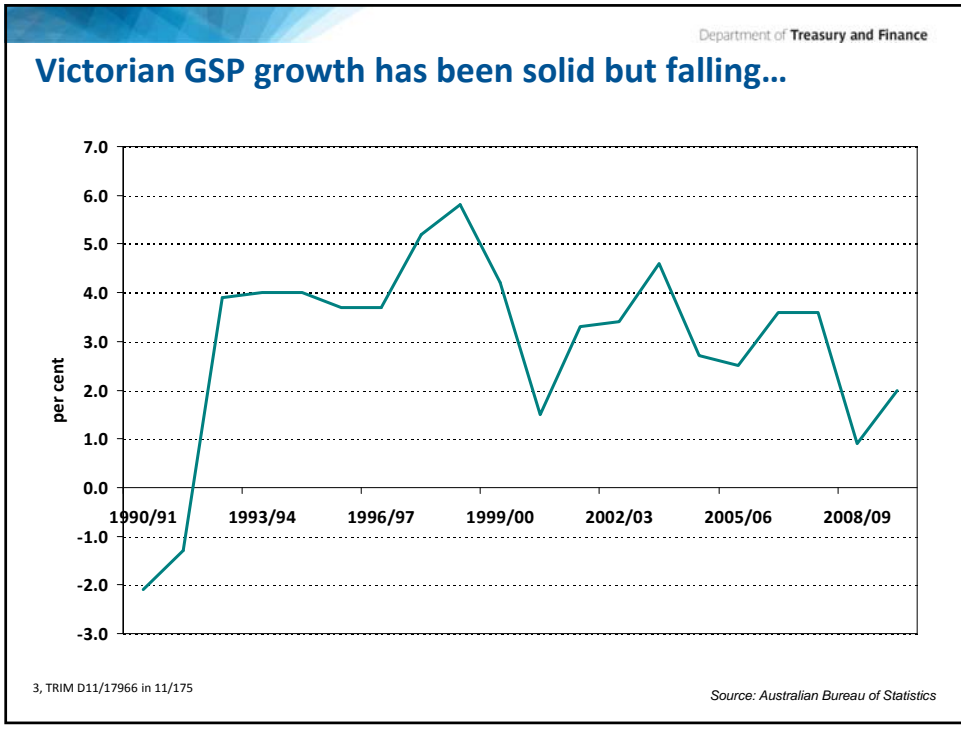


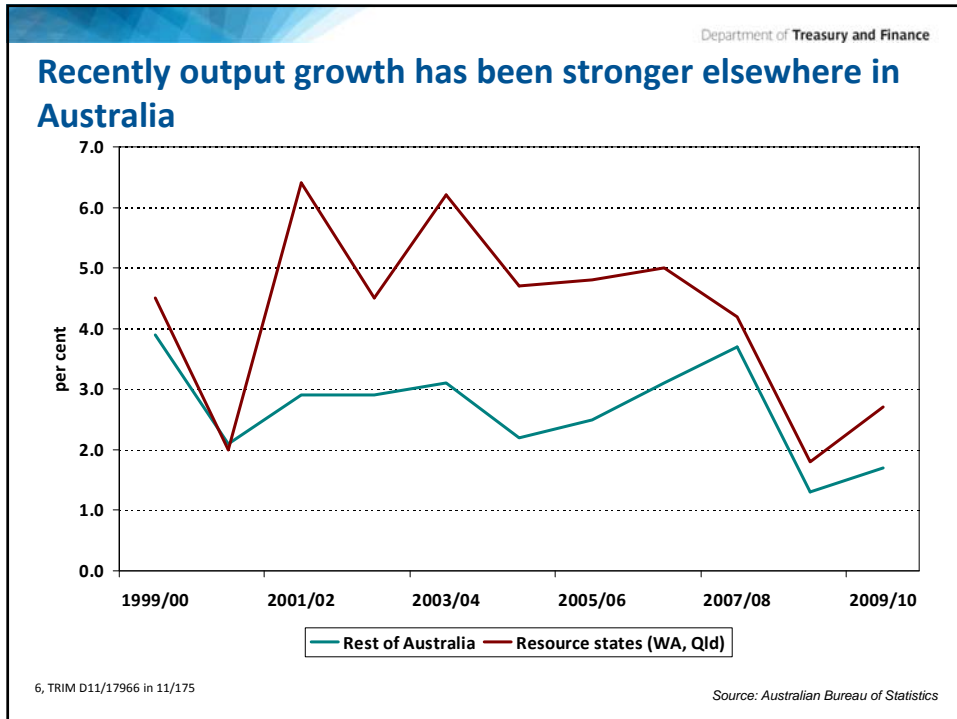
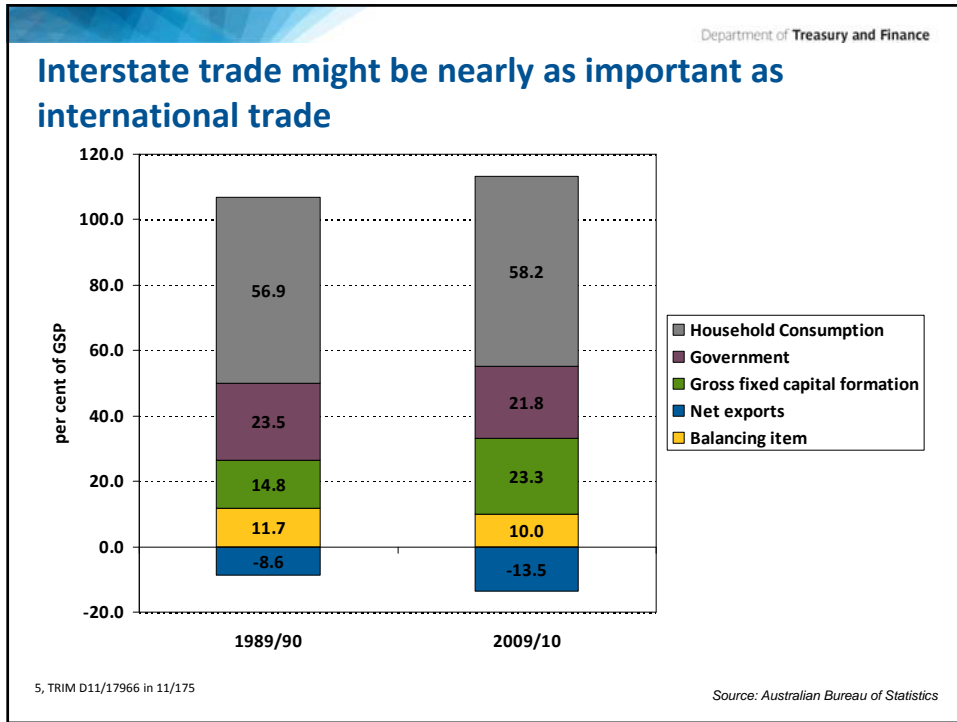
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Victoria in a Resources Boom

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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

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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

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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

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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?

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Net trade by state, 1987

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

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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

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State results, % deviation from baseline

| | Real GSP/ GDP | Real Household Consumption | International Exports |
|------------|---------------|----------------------------|-----------------------|
| NSW | -0.46 | 0.39 | -6.58 |
| Vic | -0.54 | 0.39 | -6.43 |
| QLD | -0.16 | 0.39 | -1.63 |
| WA | 0.88 | 1.13 | 2.85 |
| SA | -0.4 | 0.42 | -5.92 |
| Tas | -0.16 | 0.64 | -3.4 |
| Aus | -0.22 | 0.49 | -3.0 |

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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

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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