Construction spending and macroeconomic trends in Australia: implications for NSW's State Infrastructure Strategy

Infrastructure NSW

23 January 2012

NSW lags the rest of Australia both in construction spending as a percent of GSP, and in the growth rate of GSP. Though GSP is not dependent solely on infrastructure, it is imperative for NSW to maximise productive infrastructure investment and also get the best value for its investment

FINDINGS AND IMPLICATIONS FOR POLICY-SETTING

Findings	Slides
• Even after excluding mining and heavy industry, NSW's infrastructure spending as a percent of GSP lagged the average of all other states by 0.6% in FY11	3-4
• NSW has remained more reliant on public funding than other states	6-7
• In NSW electricity and rail spending has tended to leave less for roads & bridges and some other sectors	9
• NSW's GSP growth has significantly lagged the rest of Australia for at least 10 years	11
• The challenge is to use policy setting to support industries with growth potential	13

Implications for policy-setting

- Maximise infrastructure funding capacity through:
  - Encouraging private sector investment where appropriate
  - Leveraging user-pays
  - Seeking Growth Incentive Payments
  - Improving approvals and other processes in order to obtain the greatest possible share of Commonwealth funding
- Maximise the value of infrastructure funding by:
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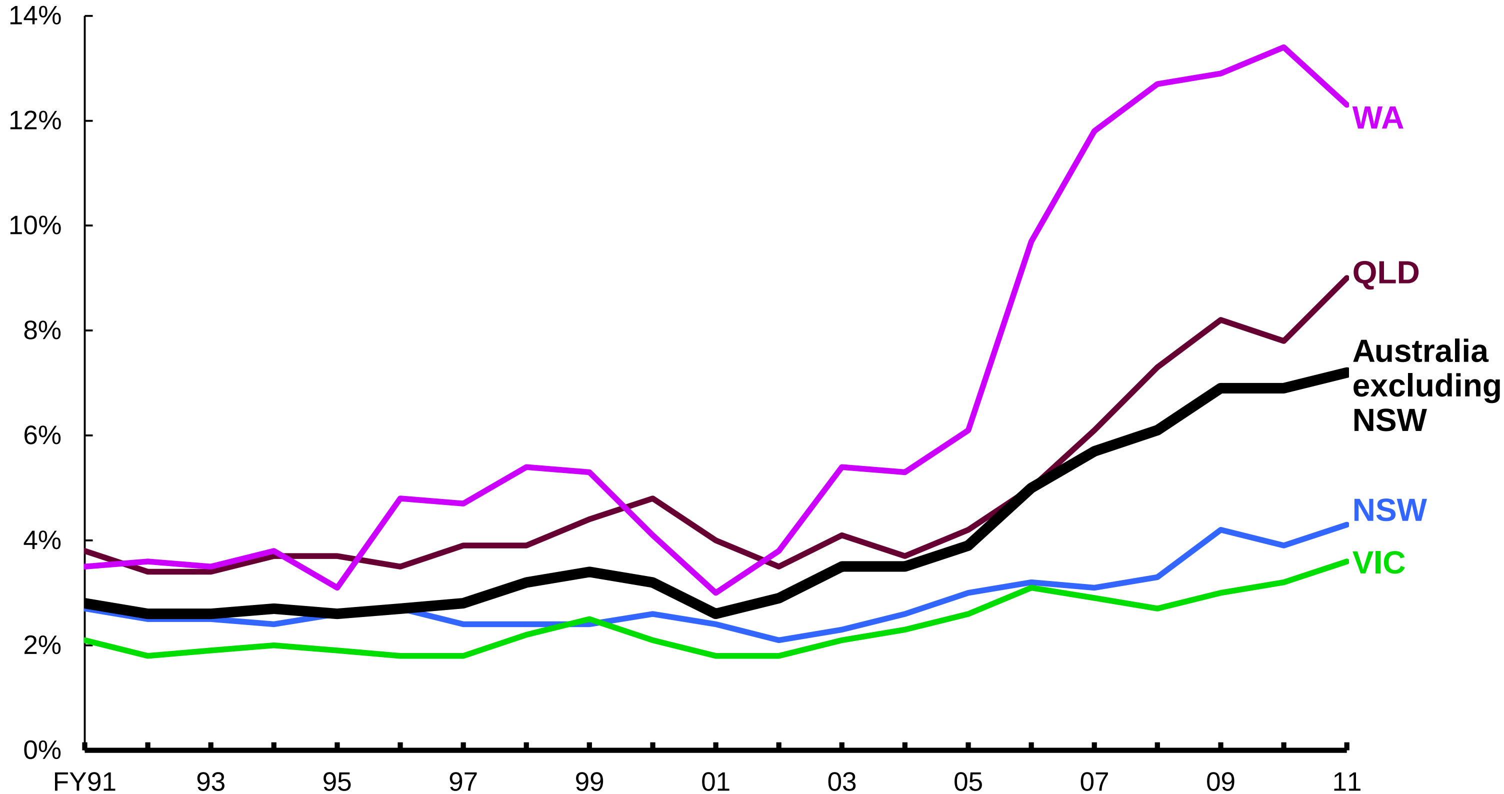
NSW's construction spending as a percentage of GSP has fallen behind the average of all other states

TOTAL ENGINEERING CONSTRUCTION*

Percent of Gross State Product (GSP)



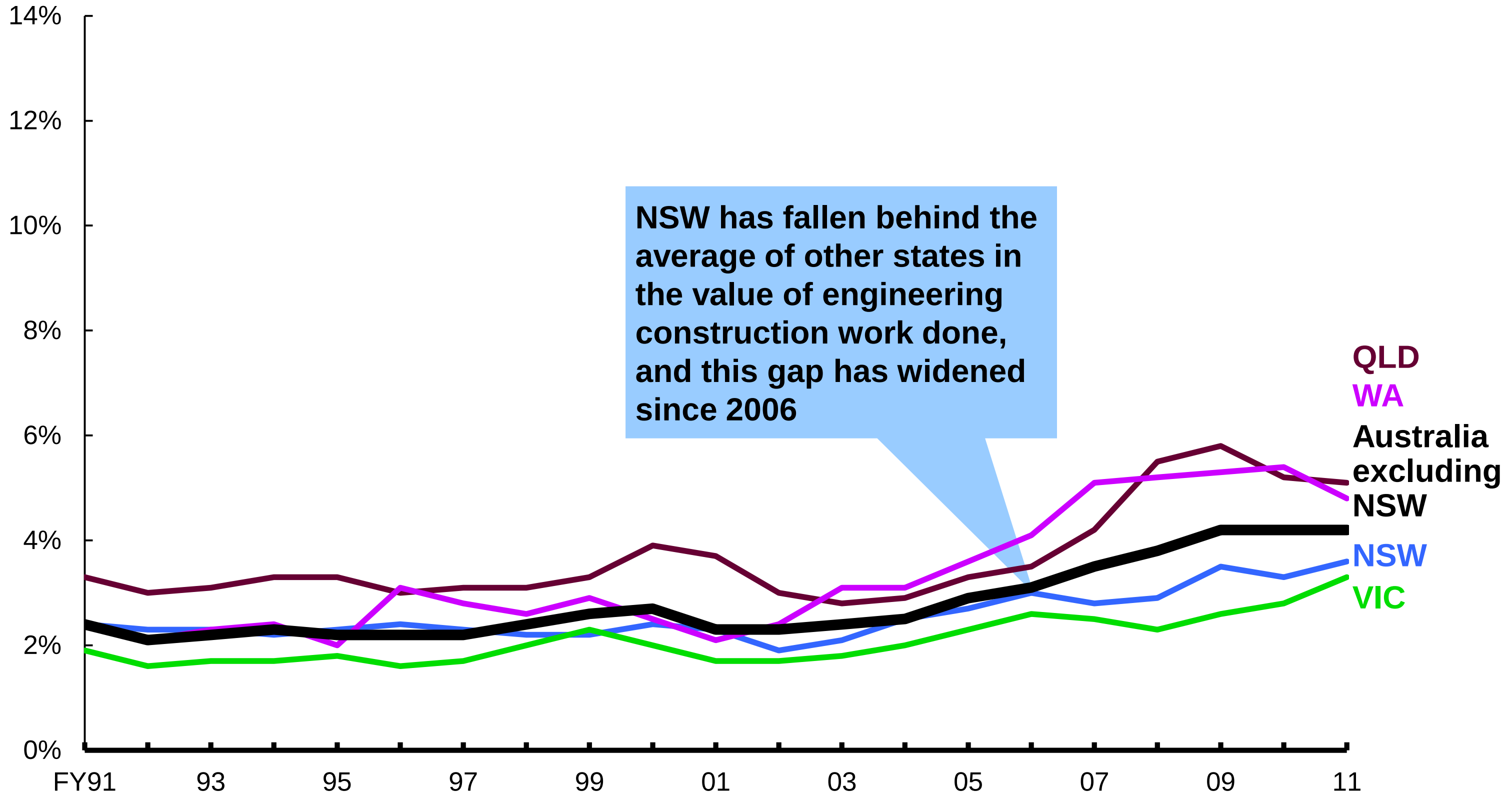
* Engineering construction covers: roads, highways and subdivisions, bridges, railways, harbours, water storage and supply, sewerage and drainage, electricity generation, transmission and supply, pipelines, recreation, telecommunications, mining and heavy industry, and other

Source: BIS Shrapnel Engineering Construction in Australia, March 2011; ABS 5220 Australian National Accounts: State Accounts, Table 1

Even after excluding mining and heavy industry, NSW's infrastructure spending as a percent of GSP lagged the average of all other states by 0.6% in FY11

ENGINEERING CONSTRUCTION—EXCLUDING MINING AND HEAVY INDUSTRY*

Percent of Gross State Product (GSP)



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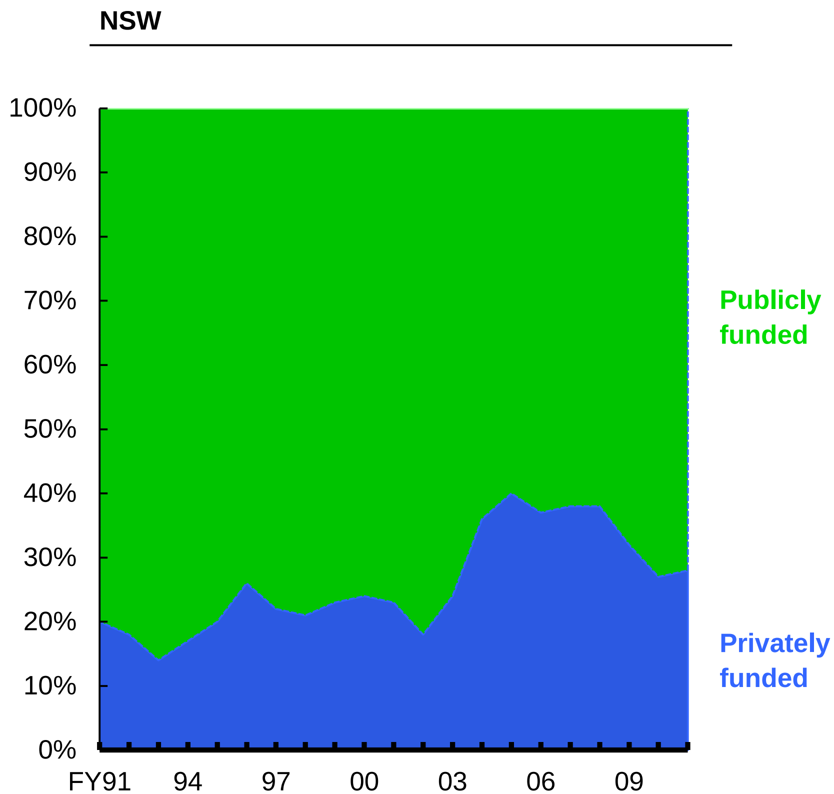
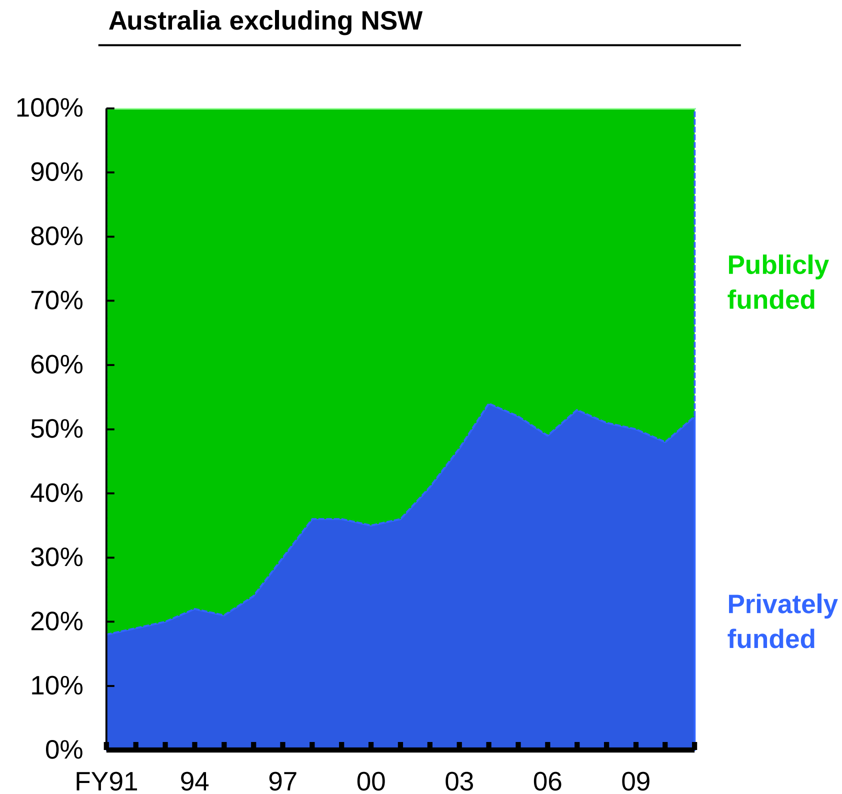
Excluding mining and heavy industry, NSW has remained more reliant on public funding than other states

ENGINEERING CONSTRUCTION BY FUNDING SOURCE—EXCLUDING MINING AND HEAVY INDUSTRY*

Percent of total





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Source: BIS Shrapnel Engineering Construction in Australia, March 2011

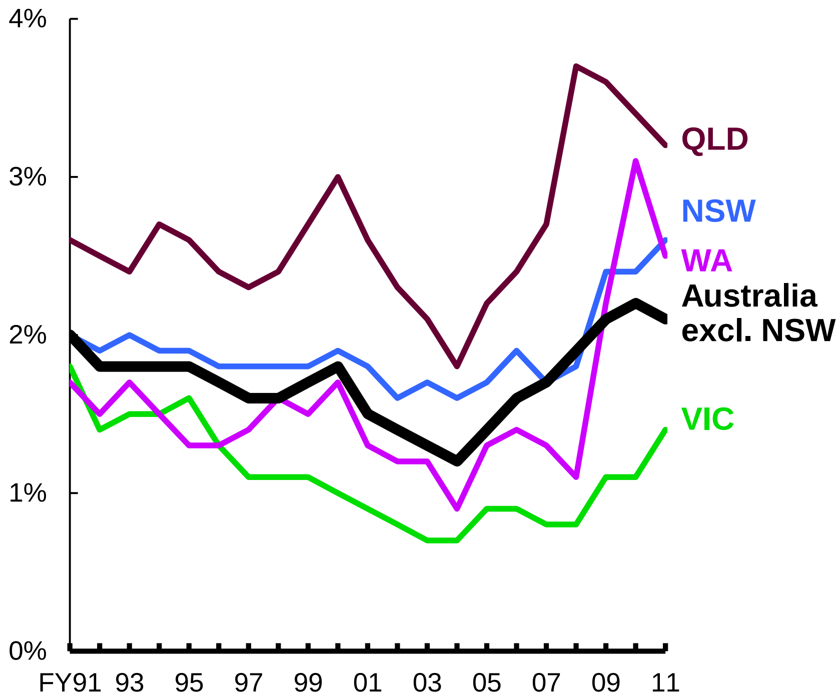
NSW has missed out on infrastructure spending growth due to a lack of privately funded engineering construction

NSW ENGINEERING CONSTRUCTION BY FUNDING SOURCE—EXCLUDING MINING AND HEAVY INDUSTRY*

Percent of Gross State Product (GSP)

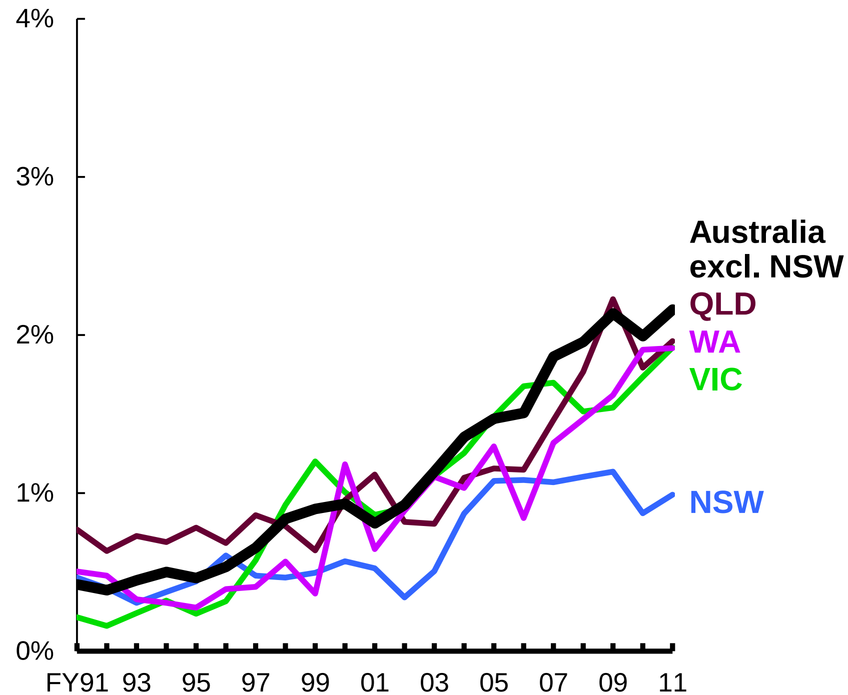
Publicly funded construction

Publicly funded engineering construction has kept pace with other states…



Privately funded construction

…but privately funded construction has lagged badly



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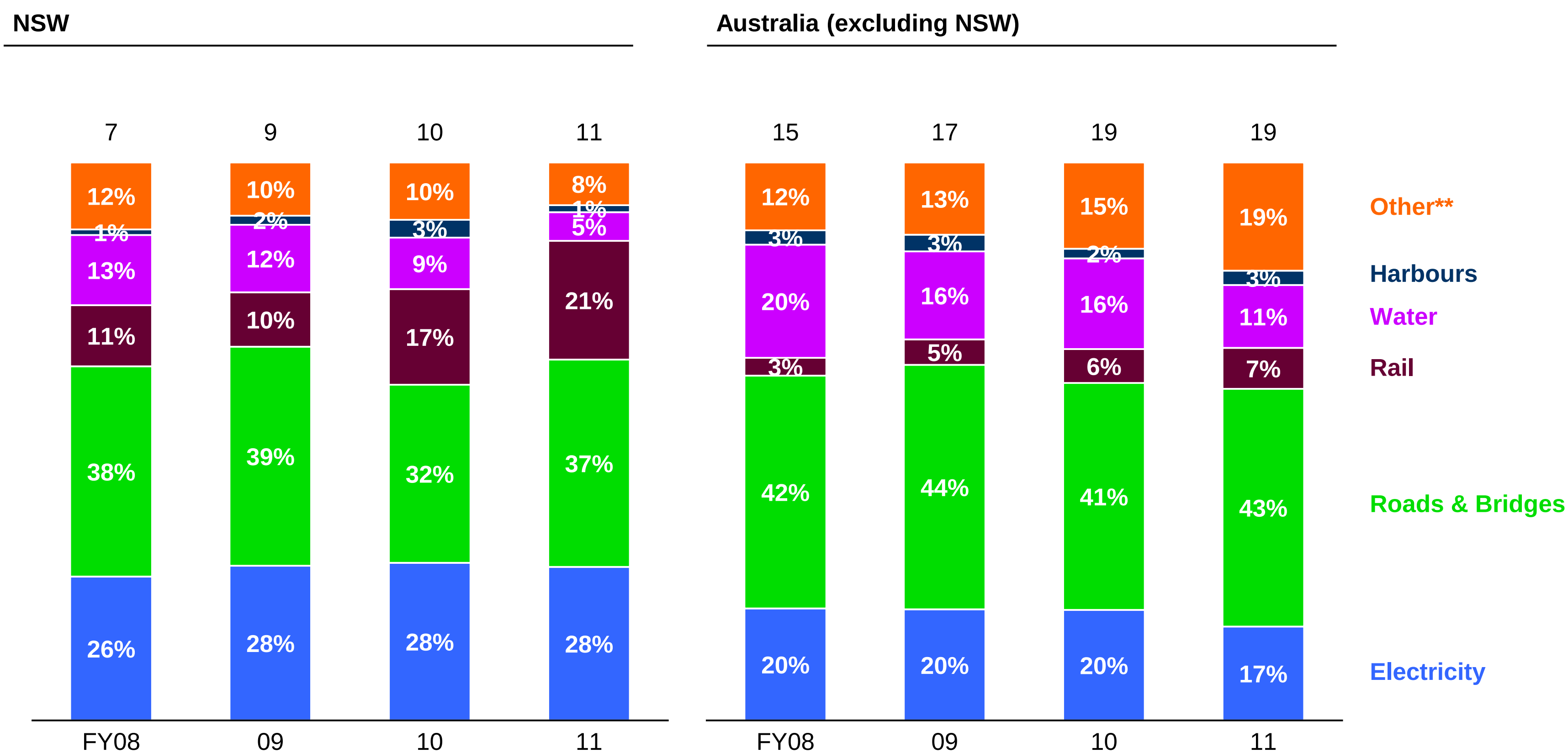
PUBLICLY FUNDED CONSTRUCTION NOT RELATED TO MINING—NSW VS THE REST OF AUSTRALIA*

Value of work done, $ Billions (Real, 2008/2009); Percent of total engineering construction



* This categorisation excludes engineering construction from all sectors (road, rail, etc) which is directly related to the mining industry

** Other includes telecommunications, heavy industry, sewerage and drainage, pipelines, recreation, and 'other'

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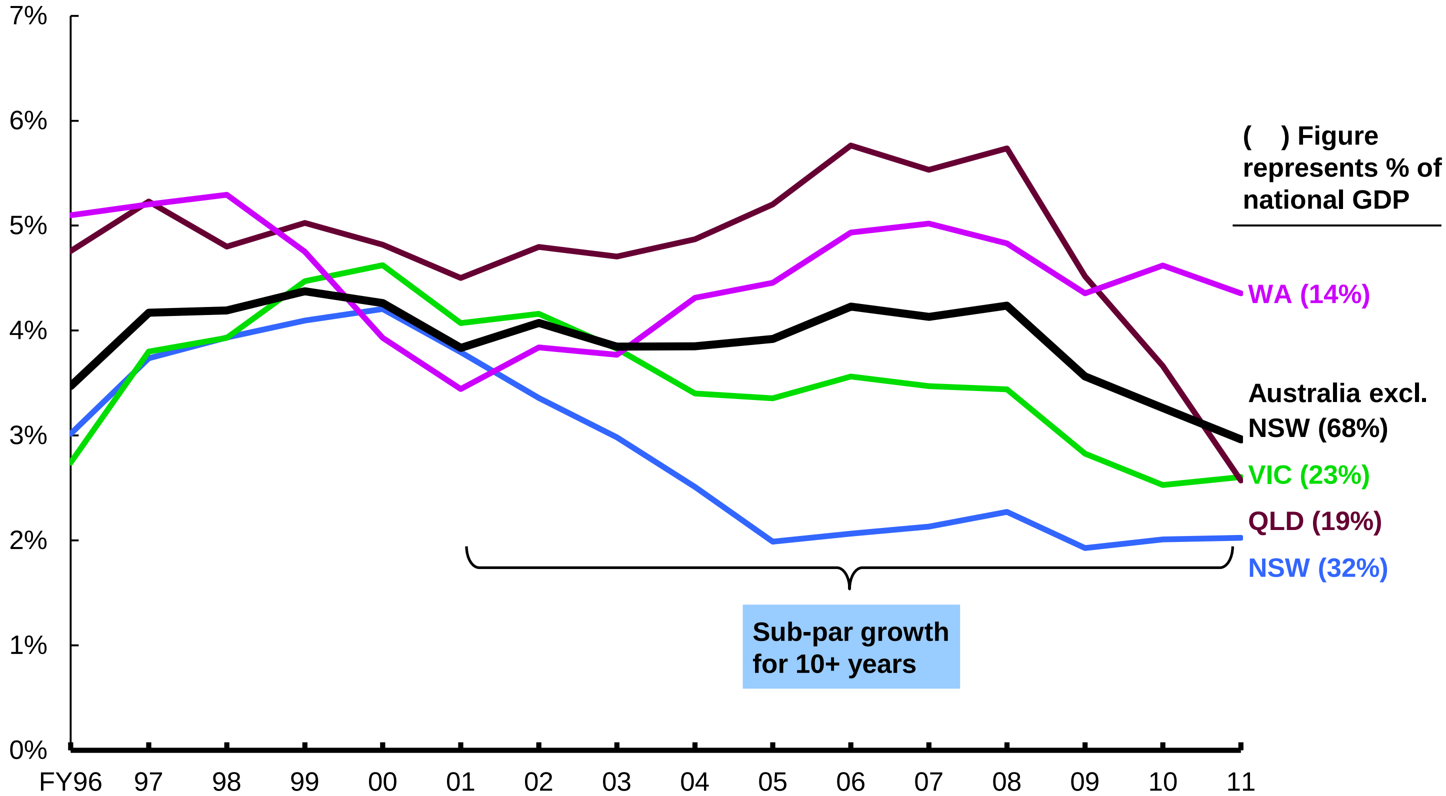
NSW's GSP growth has significantly lagged the rest of Australia for at least 10 years

GROSS STATE PRODUCT GROWTH BY STATE

Compound annual growth of GSP (Real, 2009/2010) , 5 year rolling average



Source: ABS 5220 Australian National Accounts: State Accounts

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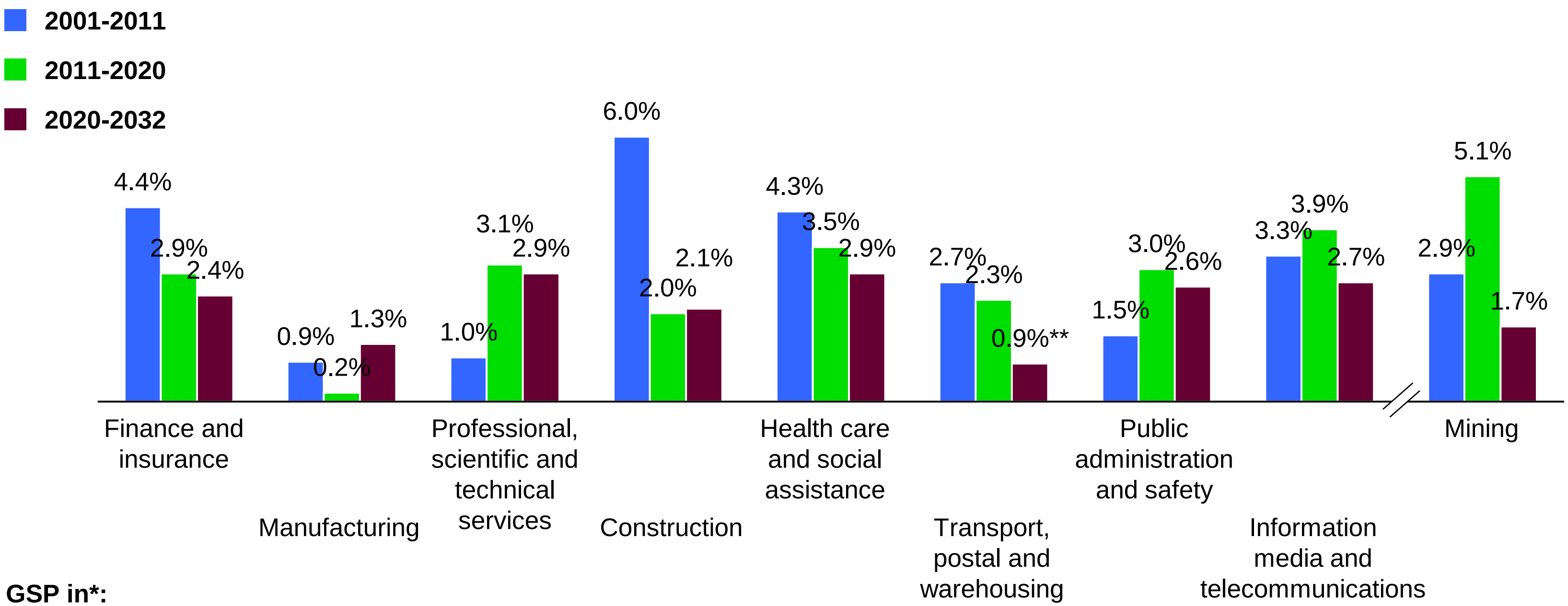
NSW GROWTH RATES OF LARGEST SECTORS BY FY11 VALUE ADD

Compound annual growth rate of gross value added to Gross State Product (Real, 2009/2010)



% of GSP in*:	Finance and insurance	Manufacturing	Professional, scientific and technical services	Construction	Health care and social assistance	Transport, postal and warehousing	Public administration and safety	Information media and telecommunications	Mining
FY11	**16%**	**10%**	**8%**	**7%**	**7%**	**6%**	**5%**	**5%**	**3%**
FY20	**16%**	**10%**	**8%**	**7%**	**7%**	**6%**	**5%**	**5%**	**3%**
FY32	**16%**	**10%**	**8%**	**7%**	**7%**	**6%**	**5%**	**5%**	**3%**

* Percent of GSP excluding value added by ownership of dwellings, taxes less subsidies and statistical discrepancies
** Includes rounding error of approximately ±0.5% due to rounding in source data

Source: ABS 5220 Australian National Accounts: State Accounts (2001-2011 data); Deloitte Access Economics (2011-2032 forecasts)