NEWSLETTER

Welcome to QETA Newsletter 22 2018.

QETA 2019 CALENDAR OF EVENTS

25 February	RBA Brisbane Seminar 1 Cannon Hill Anglican College 11am $5.50
	RBA Brisbane Seminar 2 Brisbane Girls Grammar School 4pm $5.50
26 February	RBA Toowoomba Seminar Toowoomba Grammar School 9.30am $5.50
27 February	RBA Brisbane Seminar All Saints Anglican College 9.30am $5.50
28 February	RBA Seminar 3 Cavendish Road State High School 7am $5.50
	RBA Seminar 4 Marist College Ashgrove 9.30am $5.50
28 February	2019 Subscription Due
31 March	Final date for discounted memberships
1 April	Econopak 1 Published
18 May	Professional Development Morning Brisbane
1 July	Econopak 2 Published
18 July	UQ Student Economics Day
19 July	QUT Student Day
22-26 July	UQ Student Economics Competition – no entry fee
9 September	UQ Student Economics Competition Presentation of Prizes - TBC
1 October	Econopak 3 Published
16 October	AGM free to members

QETA NEWS

1. 2019 CALENDAR OF EVENTS

QETA has now finalized our Calendar of Events for 2019. There may be other events added at a later stage. For now, please note the dates above in your diaries.

2. QETA MEMBERSHIP FEE FOR 2019

The Management Committee advises that the membership fee will remain the same as for 2018 in 2019. This will assist those who prepare Department budgets etc. This is the fifth year that membership fees have been the same! QETA remains in a very sound financial position and there is no reason to increase fees!

To remind you, an individual membership will be $77.00 (discounted if paid by 31st March 2019 to $71.50); school memberships will be $154.00 (discounted to $143.00 if paid by 31st March 2019); pre-service teacher membership will remain free for those in their final year of a pre-service teacher course. A reminder that individual membership covers one person only and cannot be paid for by the school!

If you want to pay in advance for your 2019 Membership, please email **info@qeta.com.au** and we will ensure that an invoice is sent to you promptly!

TEACHING RESOURCE

PROFESSIONAL LEARNING

RESOURCES

1. FROM DFAT

Australia and Hong Kong conclude FTA negotiations

Australia and Hong Kong announced the conclusion of negotiations on a free trade agreement on 15 November. Through the FTA, Australia has secured the best commitments on services that Hong Kong has offered to any country to date, as well as binding all goods tariffs at zero. Australian suppliers of education, professional, financial, transport, construction, tourism and recreational services will receive guaranteed certainty of access to the Hong Kong market.
Media Release

Prime Minister's address to APEC CEO Summit 2018

At last weekend's APEC Summit, Prime Minister Scott Morrison spoke about the importance of defending the economic values of openness, and working in partnership, that have successfully lifted hundreds of millions of people out of poverty and created a more prosperous, stable, secure and peaceful region. The Prime Minister said Australia would continue to advocate for trade disputes to be resolved by negotiation, and work with like-minded countries to improve the WTO.
Speech

Global trading rules to defend the interests of Australian farmers

The Australian Government is taking action in the WTO on Indian sugar subsidies that have contributed to a significant downturn in world sugar prices. Australia's $2 billion sugar industry provides 40,000 direct and indirect jobs that support our regional communities. "We will support the right of our sugar industry to compete on equal terms and will utilise well established global trading rules to defend the interests of our farmers," Minister for Trade, Tourism and Investment Simon Birmingham said.
Media Release

Report confirms benefit of PAFTA for Australian farmers, businesses

The Joint Standing Committee on Treaties released its second report into the Peru-Australia Free Trade Agreement this week, recommending binding treaty action be taken. The agreement builds on the significant gains in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11) deal by phasing out a number of tariffs even faster, including on sugar and beef.
Media Release

Trilateral Partnership for infrastructure investment in the Indo-Pacific

The leaders of Australia, Japan and the United States announced the signature of a new Memorandum of Understanding on infrastructure investment in the Indo-Pacific during APEC in Port Moresby last week. Under the MOU, the three countries will work together to mobilise private capital and deliver principles-based, sustainable infrastructure in the Indo-Pacific. The MOU will create opportunities for Australian businesses.
Media Release

Australian Government endorses India Economic Strategy and agrees to initial measures

The Australian Government has provided in-principle support for the 20 priority recommendations contained in the 'An India Economic Strategy to 2035: Navigating from Potential to Delivery' report released in July. The Prime Minister said, as the world's fastest growing major economy, India offered more opportunity for Australian businesses in the next two decades than any other single market. Work will focus on greater economic engagement with ten targeted Indian states and ten key sectors, and practical support for Australian businesses entering, or expanding operations in, India. The Government has also agreed to an initial round of measures under an ongoing implementation plan. A full list of measures for the first 12 months can be found on DFAT's website.
Joint Media Release Government Response Factsheet

Positive economic report card from the IMF

Following a two week mission to Australia, the IMF has delivered a generally favourable preliminary assessment of the Australian economy and welcomed Australia's continued efforts toward further trade liberalisation and promoting the global multilateral trading system. The IMF's concluding statement highlighted the ratification of the TPP-11 agreement as a positive signal in a time of increasing global trade tensions and macroeconomic risks.
Concluding Statement

Australia is a 'top 20' country
In this website resource, DFAT has updated Australia's rankings as of November 2018 across a range of indexes including the economy, international trade and investment, global citizenship and governance and human development.
DFAT

IMF Chart of the Week: grading the G20 on its growth goals
This IMF blog investigates how close the G20 has come to its goal of strong, sustainable, balanced, and inclusive growth. The IMF's 2018 report gives the G20 'good grades' on the short-term outlook, but notes the need to act now and together to sustain strong global growth over the medium term, to make it more balanced, and to ensure that it is more widely shared.
IMF

AIIA: The unlearned lessons of trade wars
Mark Beeson, Professor of Political Science and International Relations at the University of Western Australia and AIIA National Research Chair, looks back into history at the United States' trade war with Japan in the 1980s to draw parallels with challenges today.
AIIA

2. FROM THE ABS

5671.0 **Lending Finance**, Australia, September 2018
http://www.abs.gov.au/ausstats/abs@.nsf/mf/5671.0?OpenDocument

6202.0 **Labour Force,** Australia, October 2018
http://www.abs.gov.au/ausstats/abs@.nsf/mf/6202.0?OpenDocument

5204.0.55.011 Australian National Accounts: Distribution of Household Income, Consumption and Wealth, 2003-04 to 2017-18
http://www.abs.gov.au/ausstats/abs@.nsf/mf/5204.0.55.011?OpenDocument

3. FROM THE IMF

Australia: Staff Concluding Statement of the 2018 Article IV Consultation Mission

Australia
Completing the Rebalancing after the End of the Mining Investment Boom

- *Australia's recent strong growth is expected to continue in the near term, further reducing slack in the economy and leading the way to gradual upward pressure on wages and prices.*
- *Despite recent strong growth and declining unemployment, it is not yet the time to withdraw macroeconomic policy support given remaining slack.*
- *While Australia benefits from a robust regulatory framework, further bolstering of financial sector systemic risk oversight and financial supervision would be helpful.*
- *The cooling of the housing market is welcome and can be weathered in a strong economy. Housing supply reforms will be critical to restoring housing affordability.*

Australia is now on the final leg of its rebalancing and adjustment after the end of the commodity price and mining investment boom. Growth has picked up strongly to well above 3 percent in 2018, driven by business investment and private consumption, while the recent rebound in the terms of trade has been sustained. The strong economic momentum has resulted in further improvements in labour market conditions. Nonetheless, wage growth has remained weak, suggesting some remaining labour market slack. The disinflationary effects from continued strong retail competition still weigh on core inflation, while one-off declines in some administered prices have temporarily lowered headline inflation. After rising by 70 percent in the past ten years at the national level and by roughly 100 percent in Sydney and 90 percent in Melbourne, house prices have moderated recently in a cooling housing market. Several factors have contributed to the cooling, including tightening credit supply, increasing housing supply coming to the market, and easing foreign demand. Market dynamics have adjusted in the process.

The economy's strong growth momentum is expected to continue in the near term. Private consumption growth is anticipated to remain buoyant, supported by strong employment gains. The rebound in non-mining private business investment and further growth in public investment is envisaged to offset a softening in dwelling investment. With growth above potential, the output gap will close and labour market

slack will erode, eventually leading to upward pressure on wages and prices. Macroeconomic policies will then adjust, and growth is expected to moderate to that of potential in the medium term.
The balance of risks to economic growth is tilted to the downside with a less favourable global risk picture. A weaker-than-expected near-term outlook in China coupled with further rising global protectionism and trade tensions could delay full closure of the output gap, although there are also upside risks to the terms of trade in the near term. A sharp tightening of global financial conditions could spill over into domestic financial markets, raising funding costs and lowering disposable income of debtors, with the impact also depending on the response of the Australian dollar. On the domestic side, a stronger pickup in the non-mining business sector, larger spillovers from public infrastructure investment, and the Australian dollar depreciation in real effective terms over the past year could boost near-term growth more than projected. Domestic demand may equally turn out weaker if wage growth remained subdued or investment spillovers were smaller.

The housing market downturn is another source of risk. Under the baseline outlook, the correction remains orderly, reflecting a combination of continued strong underlying demand for housing in the context of population growth and no significant oversupply, the presence of other strong growth drivers, and a resilient banking sector continuing to extend credit to support economic growth. Nevertheless, other negative risk developments, as outlined above, could amplify the correction and lower domestic demand. Notwithstanding recent strong growth, it is not yet the time to withdraw macroeconomic policy support given remaining slack. With the cash rate at 1.5 percent, monetary policy remains appropriately accommodative. Normalization should remain conditional on evidence of more substantive upward pressures on wages and prices, as inflation is still below the target range. The broadly neutral fiscal policy stance is welcome. With more limited conventional monetary policy space, a fiscal stimulus would likely need to be part of an effective overall policy response if major downside risks materialized.

With the economy expected to return to full employment, the government's medium-term fiscal strategy appropriately aims to reach budget balance by FY2019/20 and run budget surpluses thereafter. Under the baseline outlook, this fiscal path would still be consistent with the Commonwealth and state governments continuing to run ambitious infrastructure investment programs and structural reforms in support of higher growth. The principle of running budget surpluses in good times has been a core element of fiscal strategies required under Australia's fiscal framework, which has helped in preserving fiscal discipline and substantial fiscal space, notwithstanding shocks with protracted effects. Given the fiscal space, Australia remains in a position to respond flexibly in case large downside risks should materialize. A role for medium-term debt anchors as a complementary element in fiscal strategies might also be considered.
The Australian banks are well capitalized and profitable. Following the requirement for capital to be unquestionably strong, banks' capital levels are high in relation to international comparators.
Managing financial vulnerabilities and risks from high household debt requires macroprudential policy to hold the course. Earlier prudential intervention by the Australian Prudential Regulation Authority has lowered the risks to financial stability from higher-risk household debt and other vulnerabilities, in particular reducing the share of investor and interest-only borrowing. This has supported the strengthening of lending standards and the increase in bank resilience. Nevertheless, heightened systemic risks remain from high household debt levels and banks' concentrated exposure to mortgage lending. Given prospects of interest rates remaining low for some time, macroprudential policy should focus on expanding the available toolkit by addressing any data, legal and regulatory requirements and thus enhancing readiness to implement such measures if and when needed.

The Australian authorities have developed a robust regulatory framework, but further reinforcement in two broad domains would be beneficial.

- The systemic risk oversight of the financial sector could be strengthened. The IMF's Financial Sector Assessment Program (FSAP) recommends buttressing the financial stability framework by strengthening the transparency of the work of the Council of Financial Regulators on the identification of systemic risks and actions taken to mitigate them. Improving the granularity and consistency of data collection and provision would support the analysis of systemic risks and formulation of policy.
- Financial supervision and financial crisis management arrangements should be further bolstered. The FSAP's specific recommendations include increasing the independence and budgetary autonomy of the regulatory agencies, strengthening the supervisory approach, particularly in the areas of governance, risk management, and conduct, and enhancing the stress testing framework for solvency, liquidity, and contagion risks. The FSAP also recommends strengthening the integration of systemic risk analysis and stress testing into supervisory processes, completing the

resolution policy framework and expediting the development of bank-specific resolution plans. Recent announcements of additional funding for the regulatory agencies are welcome.

The cooling of the housing market is welcome and contributes to improving housing affordability. In the absence of a sharp rise in unemployment, interest rates, or housing inventories, an orderly correction in housing prices will help contain macro-financial vulnerabilities. Pressures on housing affordability, which is critical for growth to remain inclusive, will be relieved in the process.

Housing supply reforms will be critical to restoring housing affordability, and progress has been ongoing. Planning, zoning, and other reforms affect supply and prices only with long lags, and underlying demand for housing is expected to remain robust. Housing supply reforms should, therefore, not be delayed because of the housing market correction. Progress has been made through better integration of policies across government levels through "city deals," including for western Sydney and its new airport, and for Darwin. Some states should still take the opportunity for further consolidation in planning and zoning regulation. These policy efforts should be complemented by broader tax reforms that also address housing and land use. Such reforms would strengthen the effectiveness of supply-side measures and reduce structural incentives for leveraged investment by households, including in residential real estate.
There is scope to expand infrastructure spending further to stimulate productivity. Australia is a fast-growing economy supported by high population growth, and its infrastructure needs are also increasing rapidly. Even with the recent increase in the infrastructure spending envelope, an infrastructure gap will remain. Reducing the gap further would help in lowering congestion and increase the economy's potential in the long term, as would improving the effective use of existing infrastructure. The improvements that have been made in the institutional framework for infrastructure planning and assessment support policy efforts in this respect.

Recent policy decisions should help encourage innovation. A reform of the research and development (R&D) tax credit system is with Parliament, aiming for a more efficient and targeted use of the tax credit. It will be complemented by higher funding for research infrastructure. The recommendations of the science agenda laid out in *Australia 2030: Prosperity through Innovation* are constructive and should be implemented, as envisaged in the government's response to the report.

Energy policy should further reduce uncertainty for investment decisions. Governments have already made substantial progress on pricing and reliability issues. The clarification in due course of policies to achieve Australia's greenhouse gas emissions target commitments will also help reduce uncertainty.
Broad tax reform to support productivity and inclusive growth would be desirable. The share of direct taxes in Australia's federal tax revenue is higher than the average of OECD economies, and shifting from direct to indirect taxes would lower tax distortions and enhance productivity. The Commonwealth government has to date lowered company tax rates for SMEs and introduced personal income tax cuts. These reforms should be combined with reforms to raise the GST revenue, lower the company tax rate more broadly, and reduce tax concessions. To offset the regressive element from higher GST revenue, an income tax-based rebate scheme to reduce the negative impact on lower income groups should be considered.

Australia's continued efforts toward further trade liberalization and promoting the global multilateral trading system are welcome. This includes supporting new WTO agreements and modernization efforts. The formal ratification of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (also known as CPTPP or TPP-11), which replaces the Trans-Pacific Partnership, sends a positive signal in a time of increasing global trade tensions.

4. FROM WORLD BANK

Borrowing by low and middle-income economies more than triples in 2017
Borrowing from external official and private creditors surged to $607 billion in 2017 from $181 billion the previous year, the highest level in three years. External debt stocks also saw a rise of 10 percent in 2017 to $7.1 trillion, according to International Debt Statistics 2019.
Press Release | Report

How can impoverished women grow their businesses?
With mobile savings, training, and mentoring! This is how it worked for women in Tanzania and Indonesia.

High growth firms create jobs. But what drives firm growth?

A new report looks at the characteristics of high-growth firms, drivers of high-growth, and what this means for policymakers.
Press Release | Report

Doing Business 2019: A Year of Record Reforms, Rising Influence
The buy-in for Doing Business was slow to come in many corners of the world after it launched in 2003. The annual ranking has become increasingly influential, as evidenced by the accelerating pace of business regulation reforms in every region.
http://www.worldbank.org/en/news/immersive-story/2018/10/31/doing-business-2019-a-year-of-record-reforms-rising-influence?cid=ECR_E_NewsletterWeekly_EN_EXT&deliveryName=DM6684

5. FROM THE RBA

Remarks delivered today by **Guy Debelle in Melbourne, at the FINSIA Signature Event: The Regulators**, are available on the Reserve Bank website.
https://www.rba.gov.au/speeches/2018/sp-dg-2018-11-15.html

An address delivered by **Philip Lowe, to the CEDA Annual Dinner** in Melbourne, is available on the Reserve Bank website.
https://www.rba.gov.au/speeches/2018/sp-gov-2018-11-20.html

The Reserve Bank of Australia has released the **Minutes of the November 2018 Monetary Policy Meeting** of the Reserve Bank Board.
https://www.rba.gov.au/monetary-policy/rba-board-minutes/2018/2018-11-06.html

6. FROM TUTOR2U

7. FROM THE ECONOMIST

Capitalism has a real problem, we argue—just not the one that protectionists and populists like to talk about. Life has become far too comfortable for some firms in the old economy, and in the new economy, tech giants have amassed formidable market power. A revolution is needed to unleash competition, force down abnormally high profits and ensure that innovation can thrive. A competition revolution could also help restore the public's faith in capitalism.

Trade unions and technology
Workers of the world, log on!
Technology has eroded union power. Harnessing it may help organised labour to stage a revival
https://www.economist.com/briefing/2018/11/15/technology-may-help-to-revive-organised-labour?cid1=cust/ednew/n/bl/n/2018/11/15n/owned/n/n/nwl/n/n/ap/167098/n

8. FROM FEDERAL TREASURY

The 9th Caixin Summit: Global Challenges, Global Solutions
The Secretary to the Treasury Mr Philip Gaetjens has addressed the 9th Caixin Summit in Beijing.
A transcript of the speech is now available on the Treasury website.

9. FROM WORLD ECONOMIC FORUM

From unemployment to growing cyber-risk: business executives in different regions have different worries

- Executives from different regions ranked unemployment, failure of national governance and energy price shocks as top risks for doing business, according to new *Regional Risks for Doing Business* report
- Cyber-attacks ranked as top risk in three of the eight regions covered: Europe, East Asia and the Pacific, and North America
- This new report builds on data from the World Economic Forum's annual *Executive Opinion Survey*, which surveyed more than 12,000 executives in 140 economies this year
- The World Economic Forum's Global Risk Report will be launched on 16 January 2019

Globalization Cannot Be Stopped – but It Can and Should Be Better

- The World Economic Forum's second Annual Meeting of the Global Future Councils opened today
- Further globalization is inevitable, but it needs to be more inclusive, sustainable and job-creating
- Greater cooperation is needed between nations in age of Fourth Industrial Revolution
- More about the Annual Meeting of the Global Future Councils 2018: https://wef.ch/gfc18

10. FROM TED TALKS
"We are living in a world that is tantalizingly close to ensuring that no one need die of hunger or malaria or diarrhea," says economist Michael Green. To help spur progress, back in 2015 the UN drew up a set of 17 goals around important factors like health, education and equality. In this data-packed talk, Green shares his analysis on the steps each country has (or hasn't) made toward these **Sustainable Development Goals**. Watch »

How did the internet take over our lives?
7 TED Talks that try to make sense of this brave new virtual world. Watch »

Author AJ Jacobs wanted to do one simple thing: to personally thank each and every person who helped make his morning cup of coffee. More than one thousand "thank you"s later, Jacobs reflects on the globe-trotting journey that ensued -- and the life-altering wisdom he picked up along the way -- in this funny, thoughtful talk about the value of gratitude. **Watch » Would this be useful for globalisation and supply chain economics?** (Supply Chain is in 2019 Syllabus Unit 3!)

11. FROM AUSTRALIAN INDUSTRY GROUP
1 November 2018
Headline CPI slows in September quarter
Read Fact Sheet >

12. FROM FOUNDATION FOR ECONOMICS EDUCATION
What the Overpopulation Pessimists Got Wrong (and Still Get Wrong Today)
by Marian L. Tupy
The book comes out exactly 50 years after Paul R. Ehrlich published 'The Population Bomb,' in which the Stanford University biology professor famously claimed that population growth would result in resource depletion and the starvation of hundreds of millions of people. The authors of 'Population Bombed' take stock of past scholarship on "depletionism" and provide a cheerful rejoinder to the doomsayers.
"ON WHAT PRINCIPLE IS IT THAT WITH NOTHING BUT IMPROVEMENT BEHIND US, WE ARE TO EXPECT NOTHING BUT DETERIORATION BEFORE US?"

Kanye West's Private Firefighting Is a Force for Good
by Brittany Hunter
Kanye West's use of private firefighters it is a testament to the effectiveness of the market. When the government allows it to exist, whether because of budgetary constraints or otherwise, the private sector is more than capable of entering the firefighting market.
MARKET SOLUTIONS FOR PROTECTING PRIVATE PROPERTY ARE A BETTER WAY OF PREVENTING FURTHER DEVASTATION.

13. FROM ACCC
ACCCount

1 July to 31 September 2018

The Australian Competition and Consumer Commission (ACCC) has published ACCCount, its quarterly report on its activities for the period 1 July to 31 September 2018.

ACCCount details the ACCC's enforcement, compliance, merger, adjudication, economic regulation, market studies, advocacy and international activities.

During the July to September 2018 quarter:
· Four ACCC court proceeding were concluded, with a total of $17.1 million in penalties ordered, including:
o Oakmore Pty Ltd (trading as EGR) and its director Mr Rodney Horwill to pay penalties of $6.35 million for being knowingly concerned in exclusive dealing conduct with the purpose of substantially lessening competition
o Palram Australia, Ampelite Australia and a director to pay penalties totalling $5.5 million for exclusive dealing conduct with the purpose of substantially lessening competition
o H.J. Heinz Company Australia Ltd to pay penalties of $2.25 million for false or misleading representations

o Meriton Property Services Pty Ltd to pay penalties of $3 million for manipulating Trip Advisor reviews, in breach of the Australian Consumer Law

· Following an investigation by the ACCC, the Commonwealth Director of Public Prosecutions laid criminal charges against the Construction, Forestry, Maritime, Mining and Energy Union (CFMMEU) and its ACT Divisional Branch Secretary Jason O'Mara for alleged cartel conduct.
· The ACCC continues to monitor and oversee compliance with the compulsory Takata airbag recall. The ACCC released comprehensive state-by-state data detailing recall rates for Takata airbags and the first data detailing progress made by vehicle manufacturers in removing them from Australian cars under the compulsory recall.
· The ACCC released its second *Measuring Broadband Australia* report which showed that while most NBN fixed-line broadband customers are receiving relatively fast internet speeds, around 7 per cent of tests are still showing that some customers are receiving less than half of the maximum speed of their plan.
· The ACCC accepted a court enforceable undertaking from NBN Co under section 87B of the CCA which commits NBN Co to improve its wholesale service level terms and provide additional public reporting on its fixed wireless network.
· The ACCC released its June quarter 2018 petrol monitoring report which revealed that average petrol prices increased by 7 per cent in the past three months, hitting a four-year high in real terms of around 145 cents per litre in Australia's five largest cities.
· The ACCC released its second in depth report on retail and wholesale petrol market shares in Australia under the new petrol monitoring direction issued by the then Treasurer in December 2017.

The full report and all previous editions can be found at https://www.accc.gov.au/publications/acccount

14. FROM BROOKINGS INSTITUTION

Inflation in emerging economies is driven more by domestic policy than global factors

Inflation in emerging markets has remained low and stable since the 2000s. Is the improvement due to domestic factors or have global factors been exerting downward pressure on inflation across the world? Studying 19 large emerging market economies from 2004-2018, Rudolfs Bems, Francesca Caselli, Francesco Grigoli, and Betrand Gruss from the International Monetary Fund find that inflation is much more strongly influenced by domestic factors than external ones. A one percentage point increase in inflation expectations raises current inflation by 0.6 percentage points, and a one percentage point increase in past inflation raises current inflation by 0.5 percentage points. Domestic cyclical factors also affect inflation albeit to a smaller degree. The impact of global factors is, however, negligible, suggesting that policymakers in those economies still have substantial influence on domestic inflation. The authors reason that better domestic policies such as inflation targeting and fiscal rules lead to price stability and policy predictability, which increases the sensitivity of inflation to domestic factors.

15. FROM AIG

16 November 2018

AUSTRALIAN ECONOMIC DEVELOPMENTS

Australia's labour market continues to expand strongly in 2018. Jobs growth seems to be stronger than had been anticipated by the RBA, Government and financial markets, as does recent growth in labour market participation. The ABS estimates that the national unemployment rate held steady at 5.0% in October 2018, its lowest point in six and a half years (seasonally adjusted). Total employment increased by 32,800 people in the month of October and 308,100 over the year to October. Most of this jobs growth has been full-time and has been in NSW and Victoria. These states now have the tightest labour markets amongst the states, with strong employment growth and unemployment at decade lows. Even more positively, the national youth unemployment rate (those aged 15-24 years) fell to 11.2% in October 2018 from a recent peak of 14.1% in November 2014 (trend). This was the lowest youth unemployment rate since 2011.

The reduction in spare labour capacity (i.e. lower unemployment and underemployment) across the economy is now contributing to a gradual acceleration in wages. National wage growth (as measured by the ABS Wage Price Index) accelerated to 2.3% p.a. in the September quarter of 2018 (Q3), up from 2.1% p.a. in Q2 of 2018 and the fastest annual growth rate since Q3 2015. Headline inflation was just 1.9% p.a. in Q3 2018, so average wages are growing in real terms across most large industries.

Average wages are also (gradually) becoming more equitable. This week the Workplace Gender Equality Agency (WGEA) found Australia's national 'gender pay gap' has shrunk over the past five years, as more employers have acted to address gender pay gaps within their own businesses. More work is needed to close the gap however; in 2017-18, average full-time pay including bonuses was 21.3% more for men than for women – equivalent to $25,717 per year.

Elsewhere in the economy, Ai Group's Australian PMI®, PSI® and PCI® and NAB's Business Survey suggest business conditions are slowing in October. The NAB Business Survey (released this week) suggests business conditions remain above their long-run average but have deteriorated since hitting a recent peak in early 2018. More positively, consumers seem to be feeling more optimistic. The Westpac-MI Index of Consumer Sentiment rose by 2.8% m/m to 104.3 points in early November, indicating an improving mood among Australian consumers (results over 100 points indicate 'net optimism' in this survey). November marks the twelfth successive month that optimists have slightly outnumbered pessimists in the survey. Consumers in November were more positive about their own finances and employment prospects. Buyer sentiment on housing improved sharply, but house price expectations fell to new lows.

Strong employment growth continues in October
The ABS estimates that the national unemployment rate held steady at 5.0% in October 2018, its lowest point in six and a half years (seasonally adjusted). Total employment1 rose by 32,800 people in the month and 308,100 over the year to October. This consisted of an additional 42,300 full-time employed persons, offset by 9,500 fewer part-time employed persons (those working 35 hours or less per week) in October. At the same time, the number of unemployed persons looking for full-time work decreased by 5,200 to 445,400 and the number of unemployed persons only looking for part-time work increased by 9,800 to 226,700 (seasonally adjusted). These monthly labour market data are volatile and are subject to revision. For these reasons, the ABS recommends the trend estimates as the best guide to underlying patterns in the labour market.

In trend terms, the national unemployment rate fell to 5.1% in October, its lowest level since June 2011. The number of employed persons increased by 25,400 in the month of October and 285,900 over the year to October. Full-time workers increased by 22,900 in the month and 202,500 over the year, while part-time workers increased by 83,400 over the year. Full-time work has grown for twenty-five consecutive months with an average increase of 20,300 per month, accounting for 71% of all jobs growth over the year to October. As a result of this stronger growth in full-time work, part-time work has been falling as a share of total employment since June 2018 and now accounts for 31.5% of the workforce. Most positively, the youth unemployment rate (those aged 15-24 years) fell to 11.2% in October 2018 from a recent peak of 14.1% in November 2014. This was the lowest youth unemployment rate since 2011.

Stronger employment growth is attracting more people into the labour market and pushing up the national participation rate (those that are working or looking for work). This is a normal response to stronger demand for labour, as more job vacancies and more jobs draw additional people into active participation. As of October, Australia's participation rate was 65.60%, just shy of the record high of 65.64% in December 2010 (trend). Much of this is due to long-term changes in gender work patterns. Over the past three decades, rising female participation has more than offset falling male participation. In 2018, female labour force participation has eased, while male labour force participation has rebounded from 70.4% in February 2017 to 71.0% in October 2018. Strong employment growth in 2018 in male-dominated industries such as manufacturing, construction and professional services may have attracted more males back into the labour market in 2018.

Although the rate of part-time work has fallen, it remains relatively elevated. As a result, the underemployment rate (that is, the proportion of the labour force who are working but are willing and able to work more hours) remained at 8.3% in October and remains relatively elevated by historical standards. The underutilisation rate (unemployment plus underemployment), fell to 13.4% in October 2018. The underutilisation rate has fallen 0.6 percentage points since October 2018, of which two-thirds has been driven by the falling unemployment rate and one third has been driven by falling underemployment. This indicates a greater degree of 'spare capacity' in the labour market than is evident from the unemployment rate alone, which continues to weigh (a touch less heavily) on wage growth (see Wage Price Index section below).

Across the states and territories, employment increased in the year to October 2018 in all states but not in the territories. Annual employment growth was strongest in New South Wales (+3.5% p.a.), Victoria (+2.6% p.a.) and South Australia (+1.5% p.a.). Employment growth in 2018 has been weaker in all states and territories than in 2017, except for New South Wales and the Northern Territory.

Unemployment rates fell in October 2018 in Victoria (4.5%), Western Australia (5.9%), Tasmania (5.6%) and remained steady in New South Wales (4.6%) and Queensland (6.2%) and the ACT (3.7%). The unemployment rate increased in the Northern Territory to 4.6%. South-east Australian labour markets appear to be performing better than other states and territories in 2018. Unemployment rates in Victoria and New South Wales are at their lowest levels since the GFC commenced in 2008 while Tasmania's unemployment rate is at its lowest level since 2011.

Wage growth accelerates to 2.3% in Q3 2018

The ABS Wage Price Index3 (WPI) grew by 0.6% q/q and 2.3% p.a. in the September quarter (Q3) of 2018. This was an acceleration from 2.1% p.a. in Q2 of 2018 and the fastest annual growth rate since Q3 2015.

The ABS noted that "September quarter wages growth was mainly influenced by increases to the national minimum wage, regularly scheduled enterprise agreement increases, modern awards and salary reviews timed to coincide with the financial year." This year, the Fair Work Commission increased the minimum wage by 3.5%. This was applicable to all minimum wage rates (and all wage rates linked to the minimum wage) from 1 July and began to flow through to employees during Q3. All wage setting methods (enterprise agreements, individual agreements and awards) contributed to wage growth over the year to Q3 2018, suggesting wage growth has lifted from its slowest point in this cycle after reaching a recent low of 1.9% p.a. in 2016.

Average national wage growth is accelerating, but it is likely to remain relatively weak in the short term due to ongoing slow growth in productivity, low inflation and spare labour market capacity (see above). Core inflation was just 1.8% p.a. in Q3 2018, so average wages are still growing in real terms across most large industries.

Public sector wages grew by 0.6% q/q and 2.5% p.a. in Q3 2018 and have been stronger than wage increases in the private sector since 2014. Private sector wages excluding bonuses grew by 0.5% q/q and 2.1% p.a., their fastest annual growth rate since Q2 2015. Private sector wages including bonuses rose by a faster rate, at 2.7% p.a. in Q3. This suggests that more firms are now paying higher bonuses instead of raising their base rates (for example, in order to retain flexibility and reward stronger performances).

Wage growth tends to reflect the strength of labour demand and activity across industries and geographies. Across industries, private sector wage growth was strongest in Q3 in health care (3.0% p.a.), education (3.0% p.a.) and utilities (2.7% p.a.). Private sector wage growth was weakest in mining (1.7% p.a., albeit off a significantly higher base wage than other industries), public administration (1.7% p.a.) and retail trade (1.8% p.a.). Wage growth is now strengthening across more industries; in Q3 private sector wage growth was higher than at the same time last year across all industries except for public administration; information media and arts & recreation.

Across the states, private sector wage growth was strongest in Q3 in Tasmania (2.8% p.a.) and Victoria (2.4% p.a.), reflecting the strong labour markets in those states. Wage growth was weakest in Western Australia (1.5% p.a.) due to the prevalence of mining jobs in those states.

As has been observed by the RBA and others, recent Australian wage growth has been tracking lower than its historical relationship with the unemployment rate would suggest. Since around 2014 however, underemployment has remained relatively elevated even though the unemployment rate has declined. This has seen the total 'underutilisation rate' (unemployment plus underemployment, expressed as a proportion of the labour force) remain higher. At a national average level, changes in annual wages are now aligning more closely to the underemployment rate than to unemployment rate. This suggests a larger effect on wages is being exerted by the incidence of underemployment than in the past, for a range of reasons. This stronger effect from underemployment has also been noted internationally by the IMF and OECD.

More detail about Australia's recent experience of slow wages growth and its causes are here.

Gender pay gap shrinks to 21.3%, but more work needed to close it

The Workplace Gender Equality Agency's (WGEA) annual report (released this week) shows that average full-time pay including bonuses and other remuneration was 21.3% more for men than for women in

2017-18. The 'gap' has shrunk from 22.4% in 2016-17 (chart 10) but means that male full-time workers still take home $25,717 a year more than women full-time workers, on average.

Over the past five years the gender pay gap has slowly declined but men still earn more than women across all industries and occupations. The gap for base pay (that is, excluding bonuses and other remuneration) is narrower, with women earning an average of 16.2% less than men. Women are slowly becoming more prevalent in senior roles with the proportion of female CEOs increasing slightly to 17.1% in 2017-18 and the number of female board members increasing by 0.9% to 25.8% in 2017-18. This low level of female representation at senior levels is a significant factor contributing to the persistence of Australia's sizeable national gender pay gap.

For more information on the gender pay gap, please read Ai Group's blogpost here .

WEBSITES

1. FROM ANZ BANK

Goh on China, the US & a looming Thucydides trap
Singapore's former Prime Minister and now Emeritus Senior Minister Goh Chok Tong sat down with bluenotes managing editor Andrew Cornell at ANZ's Finance and Treasury Forum in Singapore to discuss the omnipresent China-US confrontation.

Why it's not all gloom and doom in Australian property
The outlook in NSW and Victoria may make you wince but elsewhere sentiment is looking more positive.
Daniel Gradwell & Brad Williamson | *Senior Economist & State Director, Property, ANZ*

TPP & the quid pro quo
The intangible benefits of an agreement drawing neighbours closer in a time of uncertainty may prove more valuable than any financial incentive.
Tony Walker | *Author & Former Editor*

2. FROM NAB

15 Nov 2018
The Forward View – Global: November 2018
by NAB Group Economics
Global growth is above average but slowing.

16 Nov 2018
China's economy at a glance – November 2018
by NAB Group Economics
Trade impacts are yet to emerge, but mixed signals persist in China.

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NAB Australian Wellbeing Report: Q3 2018
by NAB Group Economics
New research shows anxiety is on the rise

20 Nov 2018
NAB's world on two pages: November 2018
by NAB Group Economics
The bigger picture, a global and Australian economic perspective.

3. FROM BUSINESS COUNCIL OF AUSTRALIA

Wages growth a matter of basic economics
https://www.bca.com.au/media/wages-growth-a-matter-of-basic-economics

4. FROM ROSS GITTINS

Not one rotten apple, it's the whole barrel: Crunchtime for banks
Where to now for the big four banks, AMP and some other big businesses? They've abused the trust of their customers and the public, and it will be a long time before any side of politics wants to be seen as going easy on them.

https://www.smh.com.au/business/banking-and-finance/not-one-rotten-apple-it-s-the-whole-barrel-crunchtime-for-banks-20181116-p50gfn.html

Why Scott Morrison has had a change of heart on population
The Prime Minister's plans to cut migration will please a lot of ordinary voters and enrage big business.

5. FROM AMP ECONOMICS
13 common sense tips to help you manage your finances
Economy and markets|Author Shane Oliver
16 November 2018
https://corporate.amp.com.au/newsroom/2018/november/oliver-s-insights-common-sense-tips-manage-finances

6. FROM WESTPAC
Solid Shift in Consumer sentiment
https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/economics-research/er20181114BullConsumerSentiment.pdf

Growth rate of the Leading Index slows
https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/economics-research/er20181121BullLeadingIndex.pdf

Doug Cave
QETA Secretary/Treasurer

info@qeta.com.au
http://www.qeta.com.au