

Welcome to QETA Newsletter 10 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 Gold Coast 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  |

## QETA NEWS

**QETA wishes all its members a very Merry Christmas and a Happy New Year. Do have a great time over the holidays and come back refreshed for what will be a challenging 2019.**

### 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 DURING HOLIDAY PERIOD

QETA will be functioning over the holidays, but responses may be a little slower than usual, depending on our availability to respond.

### 3. 2019 MEMBERSHIP

2019 Membership can be paid at any time up until February 28<sup>th</sup> 2019. The discounted rate will cease on 31<sup>st</sup> March 2019. In January every 2018 member will receive an invoice from QETA for your membership fees. Please assist us by renewing your subscription early in the new year!

### 4. QETA ON FACEBOOK

In a long over-due move, QETA will be going on Facebook early in 2019. Watch for more details on this and how you can join our Facebook page!

## TEACHING RESOURCE

### FROM ACARA

#### New work samples available

ACARA has published work samples for Foundation – Year 10: Languages and **Years 7–10: Economics**

and Business on the [Australian Curriculum website](#).  
[+ Read more](#)

## RESOURCES

### 1. FROM DFAT

#### **Taking action on non-tariff trade barriers**

The Australian Government has launched a new Action Plan to help Australian farmers and businesses tackle trade barriers. The Action Plan will better identify and address unfair obstacles and make it as easy as possible for our exporters to sell their high-quality goods and services to the world. A dedicated non-tariff barriers website and coordination team will make it simpler for businesses to report trade barriers and find the help they need to overcome them.

[Media Release](#)

#### **Joint Leaders' Statement on the RCEP Negotiations**

After their meeting in Singapore on 14 November, leaders of the Regional Comprehensive Economic Partnership countries – the ASEAN members and their FTA partners Australia, China, India, Japan, Korea, and New Zealand – issued a Joint Statement noting negotiations had advanced to the final stage and that they were determined to conclude a modern, comprehensive, high quality, and mutually beneficial RCEP in 2019

[DFAT](#)

#### **Round two of Australia-EU FTA negotiations**

The second round of Australia-European Union Free Trade Agreement negotiations took place in Canberra on 19-23 November. Discussions covered goods and market access, including modalities and the level of ambition for initial offers, and services and investment. Agreement was reached on provisions in a number of areas of the negotiations.

[DFAT](#)

#### **Australia - economic update**

The National Accounts for the September quarter show Australia's trade surplus widened from \$3.9 billion in the June quarter to \$6.6 billion in the September quarter as a result of exports of goods and services reaching record highs, with the value of merchandise goods increasing to \$87 billion and the value of services exports rising to \$24 billion. Trade has contributed over one-quarter of Australia's economic growth over the past five years.

[Media Release](#)

#### **Australian services exports continue to surge**

According to the latest data from the Australian Bureau of Statistics, Australian services exports rose 7 per cent in 2017-18, up from \$82.3 billion in the previous year. China remained Australia's largest services export market, valued at \$16.9 billion, an increase of 17 per cent on 2016-17. This was followed by the United States, with services exports up 9.4 per cent to reach \$9.2 billion.

[Media Release](#)      [ABS](#)

#### **G20 leaders commit to improve the functioning of the WTO**

WTO Director-General Roberto Azevêdo welcomed the G20 Leaders' Communiqué agreed at the summit in Buenos Aires on 1 December. The Communiqué recognised the contribution the multilateral trading system has made to international trade and investment and the need for reform to improve its functioning. The Director-General also called on the G20 to act urgently to address the blockage in the WTO dispute settlement system.

[WTO](#)

#### **New US, Canada and Mexico trade agreement**

The United States, Canada and Mexico signed the new United States–Mexico–Canada Agreement in Argentina on 30 November. The new agreement replaces the North American Free Trade Agreement (NAFTA).

[White House Statement](#)

#### **What is the Trans-Pacific Partnership?**

This Council on Foreign Relations backgrounder examines the TPP and its evolution into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11). The TPP-11 will enter into force for its first tranche of member countries, including Australia, on 30 December 2018.

[CFR](#)

### **How the Belt and Road Initiative could reduce trade costs**

This article examines potential reductions in shipping times and trade costs as a result of China's Belt and Road Initiative. The findings suggest the initiative could reduce shipment times by up to 3.2 per cent on average in the rest of the world, and by 4 per cent between China and other BRI economies.

[Vox](#)

### **The G20 at 10**

David Gruen, Australia's G20 Sherpa, writes that at a time when support for multilateral institutions is under threat, the G20 represents the pinnacle of the global rules-based system, cemented in the firm foundation of each country's enlightened self-interest, where countries achieve more for themselves by working together.

[East Asia Forum](#)

### **Reimagining international cooperation**

IMF Managing Director Christine Lagarde said 2019 could mark a turning point in the way countries cooperate, with actions including de-escalating trade tensions, improving the trading system, establishing new trade agreements, and reducing external imbalances having the potential to contribute to greater international cooperation in the future.

[IMF](#)

## **2. FROM THE ABS**

3301.0 **Births**, Australia, 2017

<http://www.abs.gov.au/ausstats/abs@.nsf/mf/3301.0?OpenDocument>

5372.0.55.001 **International Merchandise Trade**: Confidential Commodities List, Nov 2018

<http://www.abs.gov.au/ausstats/abs@.nsf/mf/5372.0.55.001?OpenDocument>

6150.0.55.003 **Labour Account Australia, Quarterly Experimental Estimates**, September 2018

<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6150.0.55.003?OpenDocument>

6416.0 **Residential Property Price Indexes: Eight Capital Cities**, Sep 2018

<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6416.0?OpenDocument>

5609.0 **Housing Finance**, Australia, Oct 2018

<http://www.abs.gov.au/ausstats/abs@.nsf/mf/5609.0?OpenDocument>

5368.0 **International Trade in Goods and Services**, Australia, Oct 2018

<http://www.abs.gov.au/ausstats/abs@.nsf/mf/5368.0?OpenDocument>

5655.0 **Managed Funds**, Australia, Sep 2018

<http://www.abs.gov.au/ausstats/abs@.nsf/mf/5655.0?OpenDocument>

6321.0.55.001 **Industrial Disputes**, Australia, Sep 2018

<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6321.0.55.001?OpenDocument>

5232.0 **Australian National Accounts: Finance and Wealth**, Sep 2018

<http://www.abs.gov.au/ausstats/abs@.nsf/mf/5232.0?OpenDocument>

5671.0 **Lending Finance**, Australia, October 2018

<http://www.abs.gov.au/ausstats/abs@.nsf/mf/5671.0?OpenDocument>

## **3. FROM THE IMF**

### **IMF Global Debt Database Update: World Debt Hits Record \$184 Trillion**

Today, the International Monetary Fund (IMF) updated its publicly available [Global Debt Database \(GDD\)](#) – a comprehensive dataset covering public and private debt for virtually the entire world (190 countries)

dating back to the 1950s. Today's [update of the GDD](#) offers for the first time a glimpse of global debt developments up to 2017. By including both the sovereign and private sides of borrowing for the entire world, the GDD offers an unprecedented picture of global debt in the post-World War II era.

According to update, global debt has reached an all-time high of **\$184 trillion\*** in nominal terms or the equivalent of 225 percent of GDP in 2017. On average, the world's debt now exceeds \$86,000 per person—more than 2½ times the average income per-capita. The top three borrowers in the world (United States, China, and Japan) account for more than half of global debt, exceeding their share of global output.

*\*Note: The number is \$2 trillion higher than the estimated number released during Fiscal Monitor press conference in October 2018, because it includes end-2017 data and includes the debts of several countries who had not previously reported their updated data.*

### [How Should GCC Countries Diversify Their Economies And Promote Inclusive Growth?](#)

Working Paper No. 18/253 : China's Bond Market and Global Financial Markets

[A cross-country comparative analysis shows that there is substantial room for further integration of China into global financial markets, especially in the case of the international bond market. A further successful liberalization of the Chinese bond market would encompass not only loosening bond market regulations, but also further developing of other markets, notably the foreign exchange market. Even though the increased integration of China into international capital markets would increase its exposure to the global financial cycle, the costs in terms of monetary autonomy would not be large given China's size and especially under a well-articulated macroeconomic framework.](#)

### [Martin Wolf on Global Cooperation and Why Truth Matters](#)

### [Why a New Multilateralism Now?](#)

## **4. FROM WORLD BANK**

### [World Bank Group announces \\$200 billion over five years for climate action](#)

The World Bank Group announced a major new set of climate targets for 2021-2025, doubling its current 5-year investments to around \$200 billion in support for countries to take ambitious climate action. The new plan significantly boosts support for adaptation and resilience, recognizing mounting climate change impacts on lives and livelihoods, especially in the world's poorest countries.

### [World Bank Group at COP24](#)

### [It's time to ask tough questions about transport and climate](#)

If we don't, figures contributing to global energy-related greenhouse gas emissions will continue to rise, reaching 1/3 of all emissions by 2040.

Food prices to edge up in 2019 but energy, trade, and foreign exchange could unsettle outlook

[http://blogs.worldbank.org/developmenttalk/food-prices-edge-2019-energy-trade-and-foreign-exchange-could-unsettle-outlook?cid=ECR\\_E\\_NewsletterWeekly\\_EN\\_EXT&deliveryName=DM7194](http://blogs.worldbank.org/developmenttalk/food-prices-edge-2019-energy-trade-and-foreign-exchange-could-unsettle-outlook?cid=ECR_E_NewsletterWeekly_EN_EXT&deliveryName=DM7194)

### [5 ways to achieve universal health coverage by 2030](#)

Health is a foundational element of a country's human capital, but half the world's population still cannot access needed health services. A healthy, educated and resilient population is a must for countries to compete effectively in the global economy.

[Infographic](#) | [Video](#) | [Blog](#)

Infographic: Poverty and Shared Prosperity 2018 - Piecing Together the Poverty Puzzle

[http://www.worldbank.org/en/news/infographic/2018/10/17/infographic-poverty-and-shared-prosperity-2018-piecing-together-the-poverty-puzzle?cid=ECR\\_E\\_NewsletterWeekly\\_EN\\_EXT&deliveryName=DM7442](http://www.worldbank.org/en/news/infographic/2018/10/17/infographic-poverty-and-shared-prosperity-2018-piecing-together-the-poverty-puzzle?cid=ECR_E_NewsletterWeekly_EN_EXT&deliveryName=DM7442)

## **5. FROM THE RBA**

An address delivered by **Guy Debelle, to the Australian Business Economists** Annual Dinner in Sydney, is available on the Reserve Bank website.

<https://www.rba.gov.au/speeches/2018/sp-dg-2018-12-06.html>

A speech delivered by **Christopher Kent, at the Bloomberg Address in Sydney**, is available on the Reserve Bank website.

<https://www.rba.gov.au/speeches/2018/sp-ag-2018-12-10.html>

The Reserve Bank of Australia has released the following Research Discussion Paper:

\* RDP 2018-12, **'Where's the Money? An Investigation into the Whereabouts and Uses of Australian Banknotes'**, by Richard Finlay, Andrew Staib and Max Wakefield

<https://www.rba.gov.au/publications/rdp/2018/2018-12.html>

The **Bulletin for the December Quarter 2018** has been released by the Reserve Bank of Australia today with the following articles:

- [Payment Surcharges: Economics, Regulation and Enforcement](#)
- [Which Firms Get Credit? Evidence from Firm-level Data](#)
- [Understanding Exchange Rates and Why They Are Important](#)
- [China's Supply-side Structural Reform](#)
- [Developments in Emerging South-East Asia](#)
- [Understanding Demand for Australia's Banknotes](#)
- [Business Concentration and Mark-ups in the Retail Trade Sector](#)
- [A Forward-looking Model of the Australian Dollar](#)
- [The Reserve Bank's Securitisation Dataset](#)

A speech delivered by **Marion Kohler, at the 31st Australasian Finance and Banking conference** in Sydney, is available on the Reserve Bank website.

<https://www.rba.gov.au/speeches/2018/sp-so-2018-12-13.html>

## **6. FROM TUTOR2U**

### **Carbon taxes and behavioural economics**

Economists have long argued that an effective way of reducing carbon emissions is by increasing taxes on energy consumption. This year's Noble Laureate, Bill Nordhaus, advocated a global carbon tax over forty years ago.

The scientific logic is impeccable. But the practical politics of it are fraught with difficulties.

<https://www.tutor2u.net/economics/blog/carbon-taxes-and-behavioural-economics>

### **Amazon targets airport retailing for expanded Amazon Go operations**

Contestable markets and mobile payment technology [are in action here!](#) Amazon is looking to expand their "bricks and mortar footprint" with a move into airport retail seemingly on the cards. But there are some barriers to entry to overcome first.

<https://www.tutor2u.net/economics/blog/amazon-targets-airport-retailing-for-expanded-amazon-go-operations>

### **Business Economics - 'Lockdown' activity**

Here's a 10 question multi-choice quiz on topics related to Business Economics. In this 'Lockdown' format, each question has four possible answers - however, each answer is revealed one at a time. Players must select what they consider the correct answer as soon as it is revealed to score higher points. Good luck!

<https://www.tutor2u.net/economics/reference/business-economics-lockdown-activity>

## **7. FROM FOUNDATION FOR ECONOMICS EDUCATION usa**

[In Final Plea, Economists Implore South Africa to Abandon Expropriation Plan](#)

by Martin van Staden

South Africa is at a crossroads: it can choose to remain Africa's most developed economy by respecting property rights, or it can decide to follow the example of Venezuela, Cuba, and Zimbabwe by empowering government to seize property arbitrarily and without having to compensate owners.

[NUMEROUS ECONOMISTS FROM AROUND THE WORLD EXPLAIN WHY LAND EXPROPRIATION IS A TERRIBLE IDEA.](#)

[Why Tariffs Won't Create Jobs or Help the Auto Industry](#)

by Mihai Macovei

The imposition of steel and aluminum tariffs has already cost the industry billions of dollars, and the negative economic fallout from car tariffs may also include the loss of about 700,000 jobs across the country.

[IF US CARMAKERS, EMPLOYEES, AND CONSUMERS, IN GENERAL, ARE NOT TO BENEFIT FROM TARIFFS, THEN WHO DOES?](#)

[VIDEO: Thanks to Markets, Life Is Pretty Good](#)

Bob thinks the world is getting worse, but Seamus, Sarah, and the Debunkers remind us that there's a lot to be thankful for on this episode of Common Sense Soapbox.

[WATCH THE VIDEO ON YOUTUBE NOW!](#)

## **8. FROM OXFAM**

[Motivating people to take action: towards an Asian narrative on tax justice and financial transparency](#)

**Amy Croome**

06/12/18

Amy Croome, from Oxfam GB, interviews fellow researchers, and civil society actors, on approaches, challenges, and opportunities to tax justice in Asia. For two days academics, activists and civil society ...

[Read More](#)

## **9. FROM BROOKINGS INSTITUTE**

[Can US cities help the world achieve the Sustainable Development Goals?](#)

[Anthony F. Pipa](#)

From poverty to climate change, U.S. cities are increasingly responsible for addressing local challenges with global implications. Anthony Pipa explains why America's urban areas are uniquely positioned to move the world forward on the U.N. Sustainable Development Goals.

[Read more](#)

## **10. FROM AUSTRALIAN INDUSTRY GROUP**

5 December 2018

**National accounts: Exports vulnerable as economy slows**

[Find out more >](#)

3 December 2018

**Australian PMI®: Manufacturing recovery slows in November**

[New-look report >](#)

3 December 2018

**Enterprise bargaining needs to be preserved**

[Find out more >](#)

7 December 2018

**Australian PCI®: Weak housing sees construction drop again**

[Find out more >](#)

## **11. FROM COUNCIL OF FINANCIAL REGULATORS**

A statement by the Council of Financial Regulators has been published and is available on the CFR website.

<https://www.cfr.gov.au/news/2018/mr-18-02.html>

## **12. FROM THE ECONOMIST**

Officials from America and China began negotiations in the hope of reaching a trade deal before March 1st and thus avoid another round of punishing tariffs. China reportedly agreed to reduce tariffs on imports of American cars from 40% to 15%, though it was unclear when that might happen. American exports of vehicles to China have fallen sharply since the imposition of retaliatory duties

<https://www.economist.com/the-world-this-week/2018/12/15/business-this-week?cid1=cust/ednew/n/bl/n/2018/12/13n/owned/n/n/nwl/n/n/ap/176773/n>

## **13. FROM AUSTRALIAN INDUSTRY GROUP**

7 December 2018

**AUSTRALIAN ECONOMIC DEVELOPMENTS**

This week the Reserve Bank of Australia (RBA) left the cash rate on hold at a record low of 1.50%, where it has been since August 2016. The RBA's accompanying statement remained generally upbeat about Australia's outlook. In particular, the RBA noted that the Australian economy is "performing well" and that

“the stronger labour market has led to some pick-up in wages growth... improvement in the economy should see some further lift in wages growth over time.”

Ai Group’s monthly business surveys (the Australian PMI®, PSI® and PCI®) showed mixed results in November (released this week). The recovery in the Australian manufacturing sector slowed in November, with the Australian PMI® continuing to indicate expanding conditions but falling to its lowest level this year. In the services industries, the pace of expansion bounced higher in November after easing in recent months, as sales and new orders both accelerated. Businesses will be hoping this November bounce becomes more than just some early holiday-season spending and is sustained over coming months. The construction sector contracted for a third consecutive month in November, after strong activity levels in early 2018. In November, a further lift in infrastructure activity was not able to offset steep falls in the residential construction sectors. To view Ai Group’s Performance Indices please click here.

In the latest Australian Industry Group/Australian Constructors Association Construction Outlook survey, the nation's largest non-residential construction companies are expecting their work in major infrastructure projects to keep growing through to mid-2020. However, the pace of growth is expected to moderate as total infrastructure investment moves closer to peak levels. The outlook also points to large falls in revenue from multi-apartment work. Further detail is available online here.

The National Accounts released this week by the ABS confirm that the economy slowed in the September quarter (Q3) of 2018. This is consistent with Ai Group's monthly performance indicators since at least the middle of 2018. Australia’s real output volumes (real GDP) grew by 0.3% q/q and 2.8% p.a. in the September quarter (Q3) of 2018, which was the slowest quarterly growth rate since Q3 2016. Growth in Q3 2018 was supported by government spending and net exports. Consumption growth slowed and business investment fell.

### **GDP growth slows in Q3 2018**

The ABS National Accounts (released this week) indicate that Australia’s real GDP grew by 0.3% q/q in Q3 of 2018. Annual growth edged down to 2.8% y/y from a downwardly revised 3.1% p.a. in Q2 2018 (previously reported as 3.4% p.a.). The ABS revised these figures using updated data from the 2016-17 financial year. The good news from these revised data is that the economy was growing faster in 2016-17 than was previously estimated but the bad news is that growth has been slower than previously estimated through 2018 to date.

On the expenditure (demand) side of the National Accounts, growth in Q3 2018 was mainly driven by net exports and government spending. Unfortunately, net exports rose due to lower imports rather than significantly higher exports in Q3. Imports of goods and services fell by 1.5% in Q3, while exports rose by just 0.1% q/q. Services exports rose by 4.5% q/q but this was offset by a decline in goods exports.

Since 2015, government consumption has consistently grown faster than household consumption. Government consumption increased by 0.5% q/q and 4.8% p.a. in Q3. Commonwealth Government spending has been growing strongly in recent years due to increased spending on health, aged care and disability services, including the roll-out of the NDIS. In contrast, household consumption growth slowed to 0.3% q/q in Q3 after rising to 0.9% q/q in Q2 2018. This has a large effect on headline GDP because household consumption accounts for about 57% of GDP (on the expenditure side). On an annual basis, household consumption growth slowed to 2.5% p.a. in Q3, with weaker spending most evident in fuel consumption (petrol), car sales and cigarettes. Indeed, the value of new car sales fell by 2.1% p.a., the worst slump since the GFC. Consumer spending grew for insurance and other financial services, food and transport services. It appears that at least some of this quarter’s consumption was financed by households reducing the amount they are saving; the household saving ratio (the proportion of income saved) fell to 2.8% of income, which is its lowest rate since Q4 2007.

Regarding investment spending, public sector investment contributed to GDP in Q3 but was largely offset by weaker business investment (see table 1 and chart 3). Spending on new buildings fell, as did spending on new engineering construction as the last two mega-LNG plants (Ichthys and Prelude) near completion. Most positively for future productivity gains, intellectual property investment by Australian business is rising again after falling between 2012 and 2016). In Q3, intellectual property investment rose by 0.9% q/q and is up 6.5% p.a., to \$9.9 billion.

Dwelling (residential) investment rose by 1.0% q/q and 7.1% p.a., with renovation activity supporting growth in Q3. In contrast, new housing construction fell by 0.8% in the quarter. It now appears that new

housing construction may have peaked, after the number of dwellings under construction in Australia reached a record high in early 2018, at about 225,000 new dwellings. This would be consistent with the recent easing in building approvals from record levels in 2018, which is now flowing through to fewer commencements.

### **Output falls across industrial sectors**

On the production (output) side of the National Accounts, industry output<sup>1</sup> grew in 12 of the 19 major industries during Q3 2018. 16 of the 19 major industries grew over the year to Q3 (see chart 4). In Q3, growth was concentrated in healthcare (largely due to growth in the NDIS and other public sector programs) and in the services industries that are linked to current infrastructure projects. Output fell in Q3 across all of the industrial-related sectors including construction, manufacturing, mining, utilities, agriculture, transport and telecommunications.

Agricultural output was clearly affected by drought. It fell by 1.6% in the September quarter and 7.9% over the year, due to falls in output of grains and other crops. This was partially offset by a rise in livestock output as farmers destocked in response to the drought. Abstracting from these contractionary effects from the drought-affected agricultural sector, output from the non-farm economy grew by 3.0% p.a.

In the manufacturing sector, output fell by 0.7% q/q in Q3 2018, partially unwinding some of the much-needed recovery in 2017 and early 2018. This fall was driven by output from 'other manufacturing' which fell by 4.1% q/q due to a decline in the production of building materials for the construction industry. Metal products rose by 2.6% q/q because of strong international demand, particularly for copper products. Over the year to Q3, manufacturing output fell by 0.4% p.a. to \$26.2bn. It now accounts for 5.7% of total industry output.

### **National incomes rise across the board in Q3 2018**

National income is affected by changes in nominal prices as well as changes in real output. Chief among these pricing effects is the terms of trade, which is the ratio between export prices and import prices (that is, what Australia can buy compared to what it sells globally). In Q3, recovering commodity prices lifted the terms of trade by 0.8% to be 2.7% higher than one year earlier. This helped push up real gross domestic income (GDI) by more than just output alone; real GDI rose by 0.4% q/q and 3.4% p.a., compared to 0.3%q/q and 2.8% p.a. for real GDP .

In nominal terms, GDP grew by 1.0% q/q and 5.2% p.a. in Q3 2018. Growth in the quarter was spread fairly evenly across all categories of income, including employees, financial corporations (banks, superannuation funds and related entities), non-financial corporations and dwelling owned by individuals. Annual growth was stronger for business profits than for wages, reflecting gains made by mining companies in early 2018 (see table 1). This saw the share of total income derived from each type of income remaining relatively stable during 2018 to date.

### **Company profits jump in mining, improve modestly elsewhere in Q3 2018**

More detail on the relative trends in earnings by companies (profits) and employees (wages and salaries) is provided by the ABS Business Indicators (released earlier this week). These data indicate that nominal corporate gross operating profits (GOP) in the market sector (all industries except public administration, education and health) rose by 1.4% q/q and 6.9% p.a. in Q3 2018 while spending on wages and salaries by corporate market sector industries rose by 0.9% q/q and 3.9% p.a. (nominal and seasonally adjusted).

The location of gross operating profits is the key to explaining this apparent discrepancy, since the bulk of this recent increase in nominal profits (GOP) occurred in the mining sector, which rose by about \$7.1 billion from this time last year. Corporate profits in the mining sector are now up by 27.1% p.a. to \$33.2 billion in Q3 2018. This increase in mining profits accounted for 64% of the increase in company profits over the year to Q3 and now accounts for 37% of all corporate profits.

Nominal aggregate profits in the non-mining sectors grew by a far more modest 1.0% q/q and 6.8% p.a. in Q3. Results across the non-mining sectors were mixed, with nominal profits rising in all the industrial sectors but falling in finance and insurance services and professional services over the year. The recent recovery in GOP in the manufacturing sector abated, with nominal profits falling by 5.1% q/q to \$8.1 billion in Q3, but are still 7.7% higher than they were at this time last year. Even after this rise in nominal terms however, aggregate manufacturing profits are still well below the high point reached just before the GFC in June 2008, of \$10.1bn.

It is important to distinguish between corporate profits (GOP) and nominal sales or turnover. Sales is the total gross revenue a company is paid. Profits are what is left from this revenue for the company, after all wages, rents, materials, inputs, interest and other costs are paid. Historically, corporate sales growth and corporate spending on wages and salaries in Australia are highly correlated. From 2002 to 2008, nominal corporate sales growth averaged 7.8% p.a. while corporate spending growth on wages and salaries rose by an average of 7.6% p.a. After the GFC however, corporate sales growth moved substantially lower than wages growth. From 2008 to 2016, growth in corporate spending on wages and salaries exceeded growth in corporate sales in 25 out of the 32 quarters, on an annual basis. Over this period, corporate sales growth averaged 2.9% p.a. while corporate spending on wages and salaries rose by an average of about 3.2% p.a..

Since the end of 2016, Australian market-sector companies have managed to increase their sales revenue faster than their wages bill, in aggregate. This has coincided with an improvement in the terms of trade and a large jump in mining earnings. The growing dominance of mining revenues means the old correlation between corporate sales and corporate spending on wages might now be diminishing, as the mining sector moves into a heavy production phase. Going forward, a growing proportion of Australian sales will be derived from global commodity sales. Even with weaker sales growth in the non-mining market sectors however, 2017 and 2018 have seen strong growth in aggregate nominal wages in the market sector, which is consistent with strong employment growth.

### **Diverging growth across states in 2018**

State final demand (SFD, the state equivalent of national 'domestic final demand' or total expenditure net of exports) was positive in the south eastern parts of Australia and in the west. Queensland, South Australia and the Northern Territory went backwards in Q3, all experiencing large falls in non-dwelling construction. Over the year, growth ranged from a low of -17.2% p.a. in the Northern Territory to a high of 4.3% p.a. in the Victoria. The Northern Territory was negatively affected by a 28.1% q/q decrease in private investment in Q3, probably relating to the withdrawal of mining projects. Private investment in the resource-based states can be especially volatile due to the timing and nature of large 'lumpy' mining and related projects.

Changes in the growth of state final demand this decade confirms important geographical changes in economic growth within Australia (see Chart 8). Domestic demand is now faster along the eastern seaboard than in the mining locations of Western Australia, Queensland and the Northern Territory (although Queensland has recovered somewhat). Western Australia, Queensland and the Northern Territory grew substantially faster than the rest of the states and territories until about 2013, because of the mining infrastructure and construction boom in those locations. During this period, demand in the non-mining states and the ACT was weaker, partially because some industries were adversely affected by the fallout from the GFC and/or the very high Australian dollar during 2010-13.

Since about 2014, growth in final demand has returned to the non-mining states. Domestic demand is now 14.2% lower in Western Australia and 19.6% lower in the Northern Territory than what it was this time five year ago, while Queensland domestic demand is only 1.9% higher than five years ago (inflation-adjusted). In contrast, domestic demand is now 21.3% higher in Victoria, 19.4% higher in New South Wales, 13.4% higher in Tasmania and 10.8% higher in South Australia than what it was in Q3 2013.

## **WEBSITES**

### **1. FROM ANZ BANK**

[New world order: the G20 speed bump](#)

The world is drifting further away on trade liberalisation. It's a game the economy can't afford to lose.  
*Tony Walker | Author and Former Editor*

[South east Asia's new phase digital craze](#)

Traditional cultures of patriarchy and authority in Asia are under pressure from a new generation of digitally empowered consumers.  
*Greg Earl | Writer, Editor and Consultant*

### **2. FROM NAB**

7 Dec 2018

## [Australian Economic Update: Q3 GDP 2018](#)

by [NAB Group Economics](#)

Consumer worries still loom large

7 Dec 2018

## [NAB Independent School Survey 2018](#)

by [NAB Group Economics](#)

What do students really think about their lives now & in the future?

11 Dec 2018

## [Why business conditions have weakened significantly recently](#)

by [NAB Group Economics](#)

We ask respondents to give their views on business conditions.

11 Dec 2018

## [NAB Monthly Business Survey: November 2018](#)

by [NAB Group Economics](#)

Both business conditions and confidence continued their downward trend in November.

12 Dec 2018

## [Forward View December 2018](#)

by [NAB Group Economics](#)

Growth to slow – with rates now unlikely to change until the second half of 2020. See our special note on this.

12 Dec 2018

## [NAB Change to Rate Call – December 2018](#)

by [NAB Group Economics](#)

First 25 basis point increase now expected in the second half of 2020.

13 Dec 2018

## [The Forward View – Global: December 2018](#)

by [NAB Group Economics](#)

Slowing growth paired with greater uncertainty going forward.

### **3. FROM BUSINESS COUNCIL OF AUSTRALIA**

13 December 2018

#### [Businesses paying more tax than ever](#)

Company tax data released today shows that large companies in Australia are paying almost two thirds of all company tax, providing \$45.7 billion in government revenue to fund services and...

10 December 2018

#### [Why growth matters, Business Council President Grant King](#)

Thank you for your kind introduction and the opportunity to speak with you this evening. The broad theme for this discussion is that economic growth matters. It is only through...

### **4. FROM ROSS GITTINS**

MONDAY, DECEMBER 3, 2018

#### [Budget Office finds the bigger picture is looking OK](#)

There's a weakness in the way we think about the government and its effects on the economy that economists and politicians usually don't see. We draw macro conclusions from micro data because we forget the need for what accountants call "consolidation". The problem arises because we keep forgetting that the responsibility for governing Australia is divided between the federal government and eight state and territory governments...

[Read more >>](#)

### **5. FROM AMP ECONOMICS**

#### **Review of 2018, outlook for 2019 - another cycle extension**

Economy and markets

07 December 2018

**Key points**

- 2018 saw reasonable global economic and profit growth and still low interest rates but it has been a rough year for investors with worries about the Fed, trade wars and global growth causing volatility and poor returns.
- 2019 is unlikely to see the plunge into recession many fear with growth likely to stabilise supporting profit growth, the Fed is likely to undertake a pause in rate hikes and global monetary policy is likely to remain easy. The RBA is expected to cut interest rates.
- Against this backdrop, share market volatility will likely remain high but markets should start to improve through the year.
- The main things to keep an eye on are: the risks around the Fed, US/China tensions, global growth, Chinese growth and the property price downturn in Australia.

<https://corporate.amp.com.au/newsroom/2018/december/oliver-s-insights-review-2018-outlook-2019>

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