

Trends

NOVEMBER 2016

A bulletin of
economic developments
in South Australia

Blue skies for 'white collar' professions

Professional services sector on the rise in South Australia



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Chief Executive's Foreword

Professional services resurgence



Welcome to the latest edition of BankSA's economic bulletin, *Trends*, compiled in conjunction with Deloitte Access Economics.

In this edition, we examine South Australia's growing professional services sector, including its resurgence in recent years and its positive outlook for the future.

In the late 1990s, South Australia's professional services sector as a whole was floundering, with jobs being lost to the east coast cities of Sydney and Melbourne at an alarming rate. However, fast forward to 2016 and it's a completely different tale, with this latest *Trends* report revealing that South Australia's professional services sector is now one of the state's good news stories.

South Australia's economy is going through a period of enormous change as the evolution of modern technology and globalisation opens up new opportunities while disrupting 'old' industries.

The state's professional services sector is not immune to change and, like other sectors, has experienced its own highs and lows over the years in terms of job creation and employment security.

Incorporating professions such as lawyers, accountants, architects, advertisers, scientists and computer programmers,

South Australia's professional services sector largely represents the state's 'white collar' workforce.

It's a workforce that was seemingly under threat 20 years ago as bigger cities like Sydney and Melbourne grew job numbers in their professional services sectors at the expense of smaller cities like Adelaide.

But not only have the brakes been put on this trend, South Australia has solidified and indeed grown its professional services sector over the past two decades, particularly over the past 10 years as the state continues to plug the 'brain drain' to the east.

Latest statistics show that over the past 20 years, the total number of professionals in South Australia has grown by 62%, which compares extremely favourably against the increase in the total number of jobs across the board at 24%.

To that end, employment in professional services now accounts for a much larger

slice of the total employment pie in South Australia.

In fact, a decade ago, one in every 20 jobs was in professional services, while today that figure is now one in every 16 workers, which has cemented professional services among the fastest growing sectors in the state – equal to construction and only behind health care.

So who have been the standout performers within the sector?

Topping the list is veterinarians, with the numbers of vets in South Australia soaring by 181% over the past two decades, which is perhaps not surprising given that South Australia now has the highest rate of pet ownership in the country.

The number of computer programmers and IT consultants has also risen dramatically – up from 3,700 to 8,100 workers over the past two decades – while the ranks of architects have grown by 80% from 8,000 to 14,400.

Another sub-category to enjoy strong growth is accountants and lawyers – up from 9,500 in the mid-1990s to 17,400 today, and now the largest single employment category within the professional services sector in South Australia.

Advertisers and other professional service providers such as photographers, interpreters and translators have also grown in numbers, while on the flip side, there are a small number of occupations that have shrunk, including scientists whose numbers in South Australia have fallen from 3,700 two decades ago to 2,600 today.

Pleasingly for the majority of professional workers, remuneration levels also continue to stack up well compared to other industry sectors, with professional services employees now earning 23% more than the average South Australian worker.

And what's more, the *Trends* research shows that employees in professional services tend to have longer careers, partly because their roles are less physically demanding than 'blue collar' jobs, but also because they have more incentive to work longer due to their higher rates of pay.

So the situation is certainly positive for professional workers, as it is for the companies that employ them – from a local perspective, as well as from a national and international viewpoint.

"South Australia has solidified and indeed grown its professional services sector over the past two decades."

Trends indicates significant growth potential for the state's professional services sector, especially globally and particularly in Asia.

You may be surprised to learn that the export of Australia's professional services have grown substantially in recent times. In fact, exports of the services of this sector have increased by 11.9% per year between 1993-94 and 2013-14, and today the nation now sells \$10 billion a year in professional services to the rest of the world.

With falling barriers to entry for professional services firms in Asia – combined with today's lower exchange

rate and our historically low interest rates in Australia – the opportunities are set to grow even further in the future, so South Australian firms should be preparing to take advantage.

But there are challenges for the professional services sector to be mindful of too.

For example, the rapid rise of artificial intelligence and automation poses risks for white collar professions – just like it does for many other industry sectors.

Many of today's jobs will disappear – some sooner than others – yet encouragingly for professional workers, *Trends* suggests the sector is better protected than most, with jobs where you use 'your brain more than your hands' not being as susceptible to automation.

At this point, it is also worth remembering a recent Deloitte study of census data since 1871, which revealed that technology has created more jobs than it has destroyed during that time.

So contrary to popular belief, advances in technology have actually increased employment in professional services, so there is cause for optimism that the sector will actually gain from the march of new ideas, rather than being at risk of them.

Having said that, we don't know for sure though, so only time will tell.

What we do know for sure is that the professional services sector has emerged from difficult times in the late 1990s to reinvent itself as one of South Australia's leading industry sectors.

Professional workers and firms should be looking to the future with a good degree of confidence and embrace the unrelenting advances in information technology to continue to grow as a key pillar of South Australia's economy in the future.



Nick Reade
Chief Executive, BankSA

62%

The rise in the number of professional services workers employed in South Australia over the past 20 years.

\$10 billion

The current value of Australia's exports of professional services to the world.

17,400

The current number of lawyers and accountants in South Australia – the largest single employment category within the state's professional services sector.



Blue skies for 'white collar' professions

"Professionals never guess - they make it their business to know their business." - Michelle Moore

"High-quality professionals look decently, think profoundly, and act thoughtfully." - Pearl Zhu

"In business 'professionalism' is not a tactic but a moral value." - Amit Kalantri

The last decade and more was one in which China's boom pushed up interest and exchange rates in Australia.

That phase of strength in interest and exchange rates left South Australia on the wrong side of Australia's 'two speed economy', leaving our manufacturers and our farmers on the back foot.

Now China's boom is faltering, but the Australian dollar has bounced back, while decisions taken years ago – when the dollar

was rampant – mean that car manufacturers are in the process of closing down in this state. And at the same time, despite the decision to build the next generation of submarines in Adelaide, there is a gap – if not quite a 'valley of death' – in the amount of defence manufacturing underway in South Australia.

So where are the good news stories for this state?

You may be surprised to hear that a set of sectors which were seen as the bad news of

the late 1990s are now looking stronger once more.

Remember when the state lost many service sector jobs to the east coast? For a time it seemed as if jobs from South Australia were blowing east.

Yet it is in those same service sectors where some of the brightest and best in this state are now generating good growth.

Even if you start the clock ticking two decades

ago – just before the loss of service sector jobs to the east coast entered its worst phase – the speed of job gains in professional services in particular has been considerable.

Professional services represent a diverse range of occupations, ranging from lawyers to accountants, architects, advertisers, computer programmers and scientists.

Across the last two decades, the total number of jobs in this state has risen by 24%. But the wider professional services category has grown by 62%, and it includes such standout segments as vets (up 181%), computer programmers (whose ranks have grown by 116%), legal and accounting (up by 83%) and architects (up 80%).

Of course past performance is no guarantee of future performance. The rise of artificial intelligence and automation may yet prove to be a spanner in the works. But our analysis suggests that these professions – ‘white collar central’ – will prove to be an ongoing pillar of the South Australian economy of the future.

Performance of professional services in South Australia over time

So, who are the professional services?

Professional services range from lawyers to accountants, architects, advertisers, computer programmers and scientists.

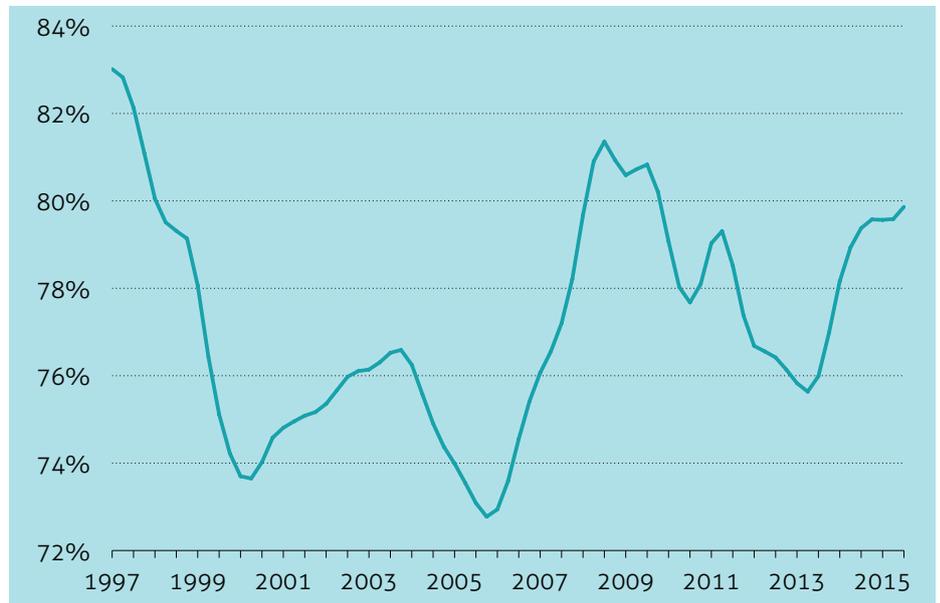
South Australia’s share of employment in professional services is less than its share of jobs in the Australian economy as a whole.

This is no surprise, as Sydney and Melbourne don’t merely dominate the ranks of lawyers and accountants, but the late 1990s saw that dominance entrenched.

Our state shed a lot of market share among professionals in the late 1990s through to 2006 when young, well-educated South Australians headed elsewhere, and that meant professional services in this state became a relatively smaller share of the sector nationally.

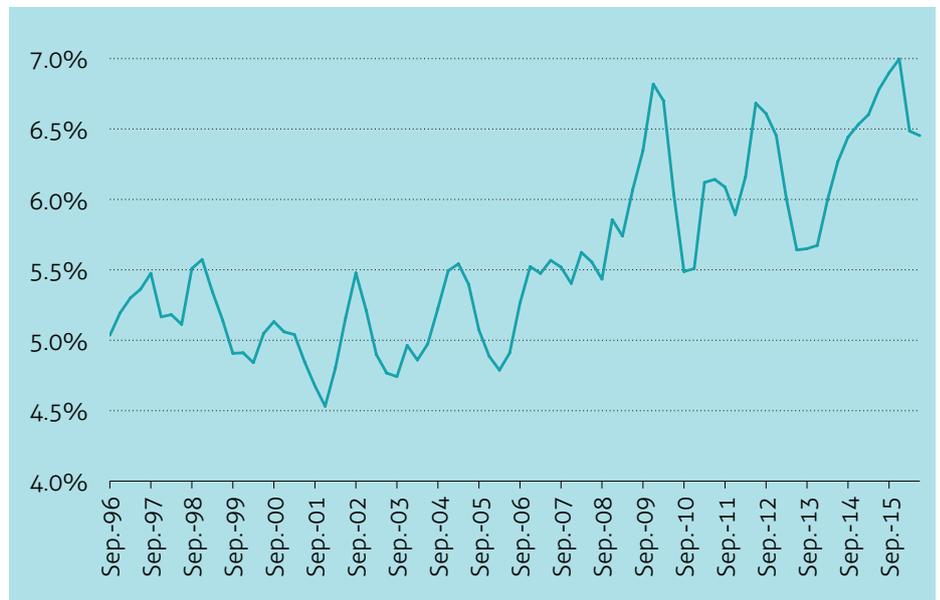
Chart 1 is calculated such that, when it is at a reading of 100%, professional services in South Australia would be the same share of the state’s economy as the wider professional services sector make up of the Australian economy.

CHART 1
RELATIVE EMPLOYMENT IN PROFESSIONAL SERVICES IN SOUTH AUSTRALIA (VERSUS AUSTRALIA)



Source: Australian Bureau of Statistics, Deloitte Access Economics

CHART 2
PROFESSIONAL SERVICES AS A SHARE OF TOTAL EMPLOYMENT IN SOUTH AUSTRALIA



Source: Australian Bureau of Statistics, Deloitte Access Economics

The chart shows that there was a sharp relative drop in the size of the local sector from the late 1990s through to the mid-2000s.

That phase hit its worst just ahead of the global financial crisis (GFC), albeit partly because these sectors were booming in Sydney and Melbourne (rather than because they were stagnating here at home).

There was much said at the time about the

brain drain being suffered by this state.

Yet the story of the last decade has been very different, with South Australia’s share of national employment of professionals climbing.

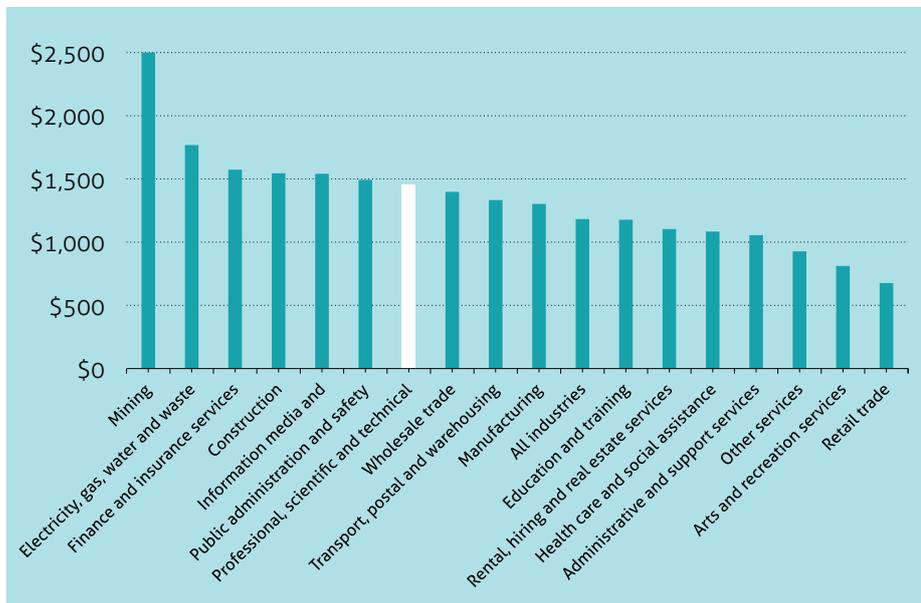
However, it is worth noting that there is still relative under-representation.

CHART 3
NUMBER OF WORKERS IN SOUTH AUSTRALIA FOR EVERY JOB IN PROFESSIONAL SERVICES



Source: Australian Bureau of Statistics, Deloitte Access Economics

CHART 4
WEEKLY EARNINGS BY INDUSTRY (\$\$)



Source: Australian Bureau of Statistics, Deloitte Access Economics

Were South Australia to have the same share of professionals that it has of Australian jobs in general, Chart 1 would be at 100%. But it is only at 80%.

Yet the uptrend of the past decade is even better than it appears. At first glance you might think that these professions were doing better in this state in 2009 and into 2010. But the story isn't that this state was doing that well at

that time.

Rather, the GFC sent a scythe through the ranks of professionals on both the east and west coasts of the nation, whereas the slowdown was less sharp in South Australia.

Or, in other words, there's already a success story here. Chart 2 shows the substantial jump in the local employment base in this

state. Employment in professional services has carved out a much larger chunk of total employment in recent years.

Chart 3 brings that story out well. A decade ago, one in every 20 jobs in South Australia was in professional services. Today that ratio is one in every 16 workers.

And there's good money in these occupations

But this story is even better than it appears.

Not only does this industry account for a rising share of jobs in this state, but it also punches above its weight when it comes to remuneration as well.

As Chart 4 shows, this is a sector whose employees earn incomes that are well above the average in this state – about 23% above it, in fact.

Not only that, but those sectors where earnings are higher than professional services all employ fewer people – meaning that professional services leads the earnings table among the larger sectors in the state's economy.

And the higher remuneration is valuable. As it turns out there are hidden advantages for this sector in its high earnings.

As Spiro Agnew, former Vice President of the United States said, when asked what was good about his job, "it's indoor work, with no heavy lifting".

Much the same could be said of professional services. The average employee in professional services will tend to have a longer career:

- In part that is because these jobs are less physically demanding – meaning that their health is less of a constraint on the length of their careers; and
- Because those who are paid better also have an incentive to work for longer – as there's more money in it for them.

That's yet another reason why professional services are good news for South Australia and for South Australians.

Federal Treasury has long since made the point that, over the longer term, economies are powered by the three Ps – population, participation and productivity.

What not enough people have understood is that two of these three Ps – participation and productivity – are closely linked, and they are central to living standards.

Simply put, more productive people are paid more, which then also encourages them to work for longer.

Given South Australia's position among the oldest and fastest ageing states of Australia (a position we share with Tasmania), a renewed focus on a sector with high incomes and higher retirement ages makes marvellous sense.

Or, in other words, success in professional services plays exactly to this state's needs over coming decades.

“Not only that, but those sectors where earnings are higher than professional services all employ fewer people – meaning that professional services leads the earnings table among the larger sectors in the state's economy.”

Niches of opportunity in Australia

But this hasn't been unalloyed success.

Some of these sectors have seen cycles. And others have been less successful than the average.

Chart 5 shows the ups and downs of a variety of types of professional services over the years.

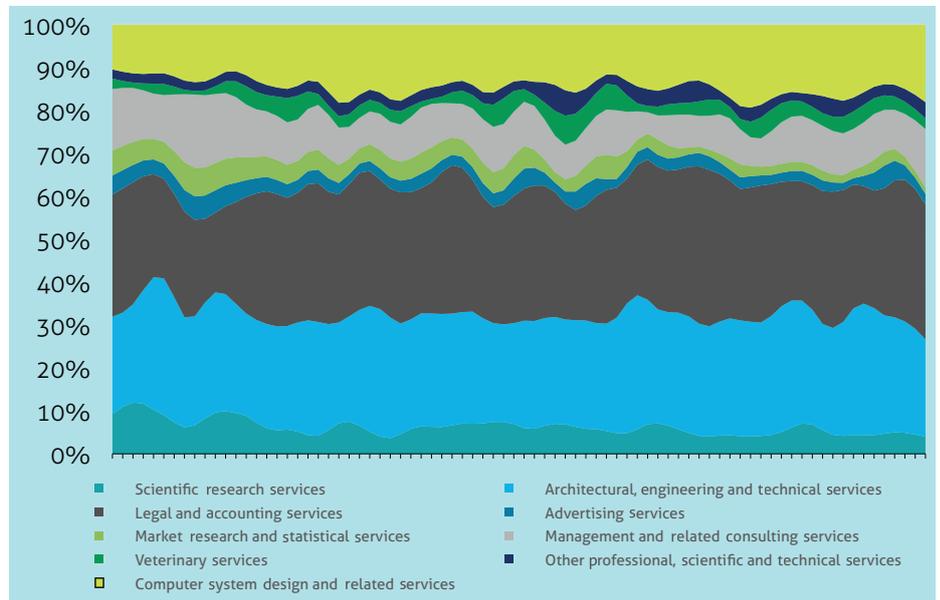
Not everyone's a winner

Within the wider professional services sector, some occupations have shrunk rather than expanded.

The ranks of the state's scientific community have thinned over time. Two decades ago there were 3,700 South Australians employed in 'scientific research services'.

Today that number has dropped to just 2,600;

CHART 5
PROFESSIONAL SERVICES EMPLOYMENT IN SOUTH AUSTRALIA



Source: Australian Bureau of Statistics, Deloitte Access Economics

CHART 6
AVERAGE INCOME/WEEK FOR SOUTH AUSTRALIA (\$\$)



Source: Australian Bureau of Statistics, Deloitte Access Economics

a fall of 30%.

And falling employment numbers have been equally evident in market research, with 1,800 jobs in the state in that area two decades ago, but just 1,300 today.

And what has worked?

But those are the exceptions rather than the rule. And they account for just 7% of those

engaged in professional services in this state.

Elsewhere the news has been very much better.

Veterinary services

The demand for veterinary services has increased tremendously, with the number of vets in this state jumping by a remarkable



181% in the last two decades.

That says, for every vet in the state two decades ago, there are 2.8 today.

Even more remarkably, all of that growth occurred in the first of those two decades, with the number of vets in the state at 600 in the mid-1990s, but reaching 1,600 by 2006-07, and maintaining those numbers today.

This increase in demand for veterinary services shouldn't come as a surprise. It turns out that ours is a state of dog and cat lovers.

In fact, South Australia has the highest rate of pet ownership in Australia. Data from the Animal Health Alliance (AHA) shows that 73% of households in South Australia own a pet, way above the national average of 63%. Moreover, the AHA has estimated that the cost of vets is the second biggest expenditure across all pet types (taking up about 21% of total spending on our pets – we love them, and we want to keep them healthy).

Nor has that trend yet run its course, as Australia's ageing population should also drive further growth in the demand for veterinary services. After all, an ageing

population is often linked to increasing needs for companionship.

Over the next quarter of a century, the number of people over the age of 85 in Australia will rise from some 400,000 today to well over one million by 2040. This should bode well for the future demand for veterinary services in South Australia.

An increase in wealth has also played a role in this increase in demand for veterinary services. South Australians have become better off over time, as shown by the steady increase in discretionary household income in Chart 6. This increase in income has also helped the veterinary services industry as people have more income to spend on these services.

Computer programmers and designers

The 'computer system services' industry is also commonly known as IT consulting. This industry provides IT solutions and computer systems to clients like us, making our lives easier.

But someone else has to do the hard yards before we get to benefit from that, making this

one of the most successful sectoral stories in the state over the past two decades.

The increase in outsourcing and advances in information technology explain why computer programmers and designers have seen the demand for their services increase over the last 20 years.

Gone are the days where computing services are conducted in-house by many companies. Over time, companies have started to outsource these jobs, while focusing on what they do best. This has boosted the demand for computer programmers and designers.

Moreover, the last two decades has seen great advancements in information technology:

- Internet connections have become more reliable with the rollout of 3G and 4G wireless internet networks;
- The increasing use of mobile phones and tablet computers has made information more accessible; and
- The advancements in cloud computing and its reliability has also led to an increase in demand for these services, as companies seek to lower costs through outsourcing their information system requirements.

These advances in information technology have led to the private and public sectors adopting new IT systems and upgrading their existing systems so as to improve productivity and efficiency at workplaces.

As such, capital expenditure on computer software and equipment has well advanced over the last two decades.

Against that positive backdrop, it is no surprise that firms are increasingly seeking the services of IT consultants – computer programmers and designers – to help them better tap into the advances made in technology.

That combination of factors means that, from 3,700 workers two decades ago, computer system designers and related workers now total 8,100 people in this state:

And chances are that there's more growth in jobs where that came from in the years ahead.

For example, the use of physical phones at workplaces is becoming increasingly rare as companies adopt virtual telecommunication technologies such as Skype. IT consultants have been hired to plan and design computer systems that integrate computer hardware, software, cloud and telecommunication technologies.

In addition, as technology continues to advance it will become cheaper to purchase software and equipment. Increasingly, the budget that is typically spent on purchasing software and equipment will be spent on computer programmers and designers – the brains behind the IT solutions and computer systems embedded into our everyday lives.

Architects

The demand for architects has also risen alongside an increase in the construction of the buildings around us.

With South Australians becoming wealthier than ever before, an increasing number of us are able to afford to hire architects to transform our houses and apartments into designer homes.

In effect, the great Australian dream of home ownership has grown even dreamier, with the added advantage of a tax system that makes

gains in the value of the homes we live in tax free.

Yet it isn't just rising incomes and favourable tax treatment in play here. Regulatory demands have also been on the rise, affecting our homes, offices, factories, sporting venues, shopping centres and institutional buildings such as schools, hospitals and prisons.

These changes to the rules that society sets itself have powered up the demand for a range of professional services, including architects, with the ranks of that group swelling by 80% from 8,000 people in the mid-1990s, to some 14,400 today.

Lawyers and accountants

The demand for lawyers and accountants in South Australia has also seen strong growth over the last two decades.

As the world grows ever more complicated, such as in tax and the other rules and regulations that society sets for us, we increasingly require the help of professionals such as lawyers and accountants to handle them.

Luckily, the lift in incomes for South Australians has allowed the demand for these professions to rise as they handle complicated issues for us.

And we've happily employed others to manage the details.

While that may be especially true for particularly complicated questions, it is also true for some that are more straightforward. For example, the housing market – which has flourished over the years – has also helped boost the demand for lawyers and conveyancers as they deal with the transfer of property titles.

That's why the total number of accountants and lawyers in South Australia has risen from 9,500 in the mid-1990s to 17,400 today, making this the largest single employment category within professional services in this state.

Looking ahead, there's also a tech angle here too. Advancements in technology have not just helped those directly involved in the sector, such as computer programmers and

designers. It has also led to the digital delivery of law – a first in Australia that is already happening in South Australia.

“Against that positive backdrop, it is no surprise that firms are increasingly seeking the services of IT consultants – computer programmers and designers – to help them better tap into the advances made in technology.”

For example, a web chat platform, 'Legal Chat', was launched in 2015 to connect the public with solicitors from the Legal Services of South Australia. The real-time service of 'Legal Chat' has allowed legal aid to reach out to people living in rural and remote parts of South Australia. The wide geographical spread in South Australia suggest that more of the same lies ahead, with demand for the digital delivery of legal aid to increase.

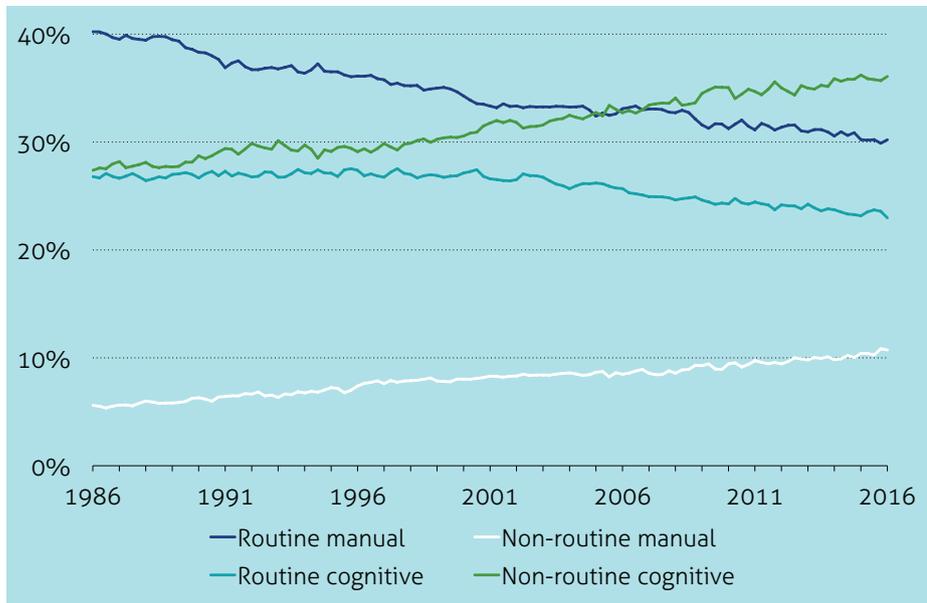
Other professional, scientific and technical services

The next-to-fastest growth has been in the less-imaginatively named 'other professional, scientific and technical services'. This includes the likes of professional photographers, interpreters and translators.

The number of migrants coming over to Australia and South Australia has grown over the last two decades. In fact, according to the Australian Bureau of Statistics (ABS), 28% of Australia's population were born overseas, the highest such share in over 120 years.

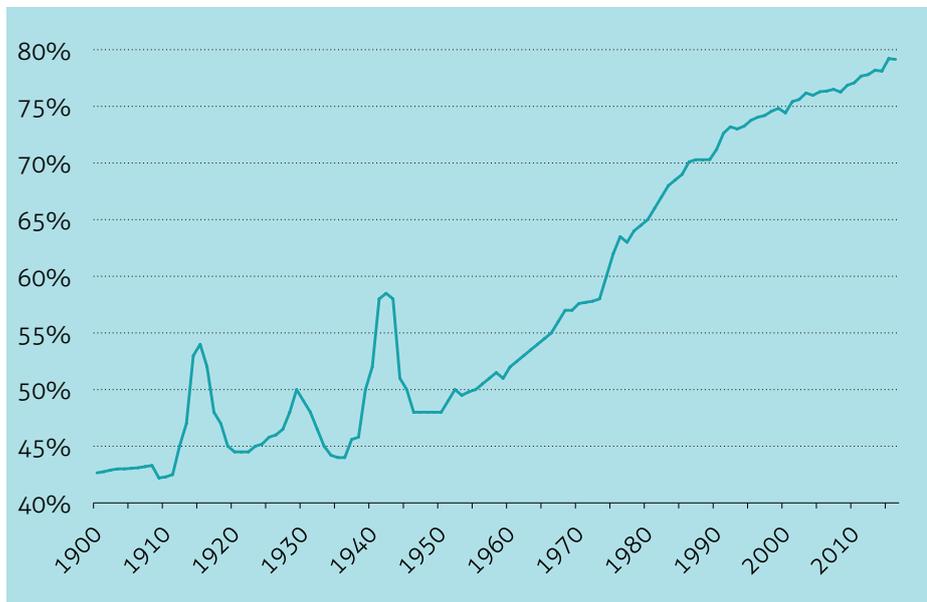
For South Australia, net overseas migration has increased by 29% between 2004-05 and 2013-14. So it is not surprising that such migration trends have also resulted in an increase in the demand for services provided by the interpretation and translation sector.

CHART 7
JOBS BY SKILL TYPE



Source: Reserve Bank, Australian Bureau of Statistics, Deloitte Access Economics

CHART 8
SERVICE SECTORS AS A SHARE OF ALL AUSTRALIAN JOBS



Source: Reserve Bank, Australian Bureau of Statistics, Deloitte Access Economics

Advertisers

Even occupations that have grown less fast than the average professional, such as advertisers, – have still seen job growth at rates more than double those for the state’s workforce as a whole, with their numbers lifting from 1,400 to 2,200 over the past 20 years.

Once again, this should come as no surprise.

Over the last two decades, media has become increasingly fragmented. The demand for traditional forms of media such as television broadcasting and newspaper publishing has stagnated. This has resulted in a reduction in the demand for advertising campaigns run off these traditional mediums.

But at the same time there’s also been explosive growth in digital media. Technology innovations and more reliable and faster internet has led to an increase in the use of smartphones and computer tablets. In turn, we have also seen the rise of social networking websites such as Facebook, YouTube and Twitter.

So whereas the demand for traditional forms of media has dwindled, digital media has continued to grow. Accordingly, the demand for advertising services firms has still managed to grow relatively comfortably as firms try to outdo themselves with advertising campaigns and materials that are more innovative and catchy.

There is potential for this industry beyond Australia

When it comes to growth in professional services over the coming years, the world is our oyster. There is considerable potential for this industry beyond Australia’s shores, particularly so in Asia.

The provision and export of services is an important contributor to Australia’s growth and employment. To date, the export of services has been led by the tourism and education sectors, with exports of professional services remaining relatively low.

The exports of professional services have grown tremendously for many years now. In fact, exports of the services of this sector have grown by 11.9% per year between 1993-94 and 2013-14.

It would surprise many to know that Australia now sells \$10 billion a year in professional services to the rest of the world.

And chances are that there are further opportunities for the professional services industry in South Australia and Australia to sell to Australia’s major trading partners, particularly those in the emerging (and fast growing) economies of Asia.

Growth in many Asian economies have traditionally been driven by exports of manufactured goods. However, as these economies mature, their growth will be more driven by services. Accordingly, the need for knowledge-based services is already expanding exponentially in Asia, with

considerable capacity for further growth in the years and decades ahead.

With rising incomes in Asia, and with the ranks of that region's middle class set to grow rapidly, there will be more consumers with more money to spend on goods and services, with a greater share of their income to be spent on services.

In fact, the market for services is already growing quickly, particularly for accounting, legal and advisory services – all of which are industries in which Australia has developed global capabilities.

With today's lower exchange rate and historically low interest rates in Australia, there are substantial opportunities for this nation, and for South Australia, to further expand its professional services exports in coming years.

Falling barriers to entry for professional services firms in Asia

Those opportunities exist simply because these markets will grow fast.

Yet market access is also improving – pointing to a potential extra dose of growth potential.

Two major regional trade pacts have the potential to lower barriers to entry for professional services firms – the Trans Pacific Partnership (TPP), and the Regional Comprehensive Economic Partnership (RCEP).

Twelve nations negotiated the TPP. These countries represent about 40% of the global economy and a quarter of world trade. More importantly, Australia's exports of goods and services to these TPP countries in 2015 were worth \$105 billion; a third of Australia's total exports. The Asian parties to the TPP include Japan, Malaysia, Singapore and Vietnam.

The key outcomes for the TPP have the potential to benefit Australia's professional services industry and will help this industry to continue to grow in these markets. In particular, the TPP would benefit the legal, accounting and consulting services, where exports have been rising over time.

For example:

- Brunei, Mexico, Malaysia, Peru and several American states have agreed to open up their legal services sector, guaranteeing

access for Australian lawyers to provide advice on Australian, international or third party law on a fly-in, fly-out basis; and

- In Brunei, Canada, Malaysia, Mexico, Peru and Vietnam, Australian suppliers will be able to bid for government procurement contracts for accounting, auditing and book-keeping services, with taxation services contracts.

Yet the TPP isn't a done deal. The negotiations for it might have concluded, but the TPP hasn't actually been ratified (and was the subject of considerable sabre-rattling by both sides in the US presidential campaign), so there's a chance that this potential will stay sitting on a shelf for at least a while longer yet.

Negotiations for the RCEP include China, India, Korea and the 10 members of Association of Southeast Asian Nations (ASEAN). These participating countries are important economic partners for Australia. In fact, nine out of Australia's top 12 trading partners are participating in the RCEP negotiations. It can be expected that further liberalisation of trade in services and investment will be sought by the RCEP. This too has the potential to create growing opportunities for Australian businesses to export services to Asia.

Where do the dangers lie?

So the quick summary sounds great – two decades of success, with that success being particularly strong in South Australia over the last decade, and with potential growth markets offshore.

But just because these professions have prospered in times past doesn't mean that they'll continue to do so.

After all, past performance is no guarantee of future performance.

And, as a simple example, the legal profession is already finding itself considerably disrupted. Some work that would once have been done by junior lawyers is now being done overseas (via outsourcing to nations which share a common law tradition with us – such as India), or being done by new technologies.

Does that suggest the future may be rather less kind to professional services than the past has been?

Rise of artificial intelligence and automation

The most obvious challenge of all is the rise of artificial intelligence and automation. As many commentators and analysts have noted, these developments point to rising risks even for some occupations that – to date at least – have appeared to be immune to job losses arising from technological advances.

If cars are going to be driving themselves, if you are your own checkout operator at a supermarket, and if you do all your banking on the internet, then what will be left for humans to do?

Many of today's jobs will doubtless disappear – eventually. And although that statement has held true for a very long time, it is the sheer pace of change that points to potential volatility.

Yet the consensus also appears to be that the professional services sector is rather better protected than most.

Although Rosie the Robot can and will do many jobs into the future, there are broad characteristics that help determine where success may lie.

For example, the Reserve Bank of Australia has noted that we've already seen three decades in which routine jobs – the types of roles that are most readily automated – have been on the wrong side of history. On the other hand, jobs where you use your brain more than your hands have done relatively well.

Put that combination together, and you get the trends evident in Chart 7.

Taking that further still, the Reserve Bank analysis asked how fast job growth had been across sectors since the turn of the century, and then divided that job growth into the skill base underlying it.

Not surprisingly, that analysis (seen in Chart 9) showed that professional services was among the fastest growing of all sectors across this period – line ball with construction across a period in which the latter boomed, and behind only health care.

More importantly still, that good job growth was soundly based. Chart 10 shows that almost 80% of it was attributable to

occupations within professional services that were categorised as 'non-routine cognitive' – that is, as the most protected from the march of new technologies.

Hence professional services shows up as doubly blessed, with a good record of growth overall, and with that growth also significantly aided by its strength in 'non-routine cognitive' job creation.

Accordingly, although there can be no guarantees, this is a sector that appears to be rather better future-proofed than most.

Final words

Too many people tend to be too worried about the future of this state.

Yes, car making is in trouble. So too is steel making, for that matter.

But it is worth remembering that industries are always rising and falling. And one that was in trouble in the late 1990s through to the mid-2000s – professional services – has reinvented itself as a state success story.

And the future for South Australia's professional services industry is promising.

In the short term, the lower exchange rate of recent years and historically low interest rates enhance the competitiveness of the professionals who staff this industry – lawyers, accountants, architects, advertisers, computer programmers and the like.

In the longer term, advances in information technology and the increasing wealth of South Australians will continue to pave the way for growth in this industry.

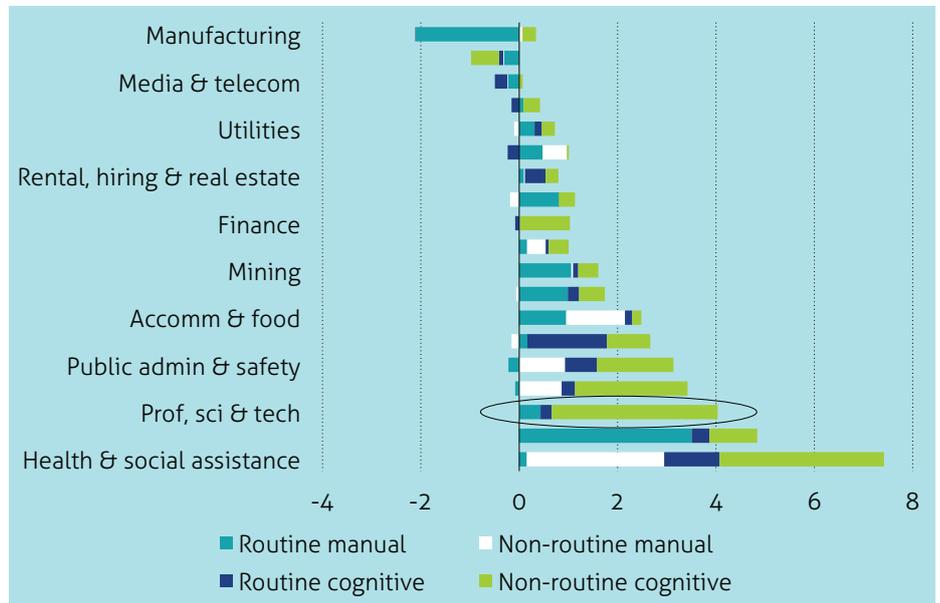
That combination of factors suggests that these professions will continue to provide an ongoing pillar for the South Australian economy of the future.

The rise of artificial intelligence and automation may appear to be a threat to growth in the professional services industry in South Australia at first glance, but in practice the march of ideas may actually be beneficial to the industry.

Moreover, there is great potential in Asia for this industry.

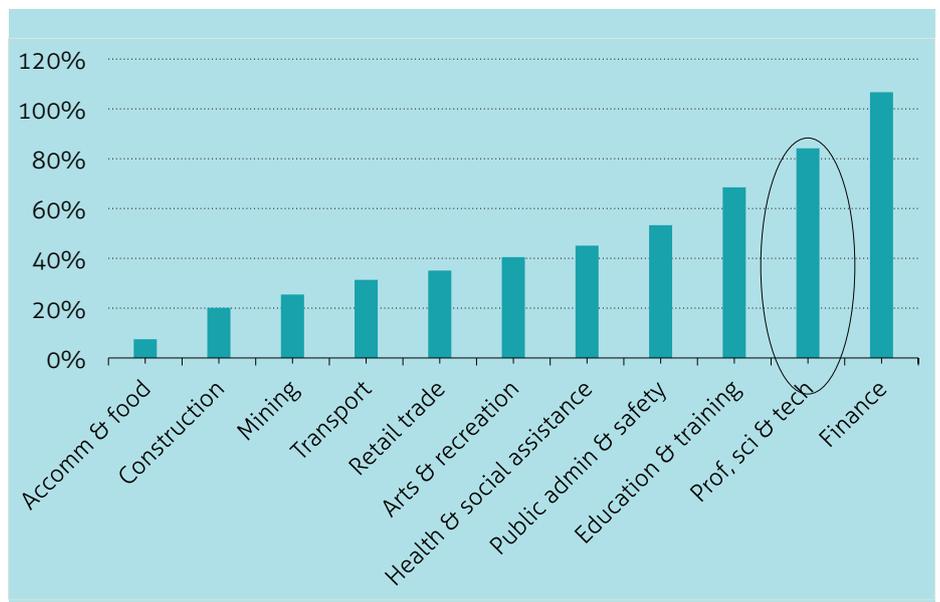
As Asian economies mature and income in Asia rises, the demand for professional

CHART9
JOBS BY INDUSTRY AND BY SKILL TYPE



Source: Reserve Bank, Australian Bureau of Statistics, Deloitte Access Economics

CHART10
NON-ROUTINE COGNITIVE JOBS AS A SHARE OF ALL JOB GAINS



Source: Reserve Bank, Australian Bureau of Statistics, Deloitte Access Economics

services in this region will rise as well. South Australia, with its growing professional services industry, is well placed to tap into the opportunities offered by this region.

Yet competition is set to intensify as well. Professional services providers in other countries such as the United States recognise the same opportunities as we do.

So there are challenges for the professional services industry in this state to overcome.

But the potential gains are there for South Australia to take.

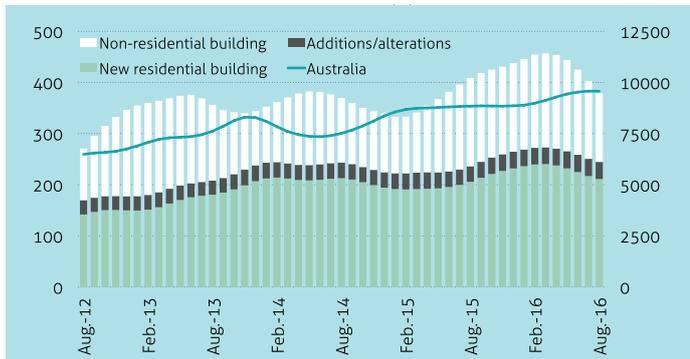
Statistics

CHART 1
SECURED HOUSING FINANCE COMMITMENTS - TREND (\$M)



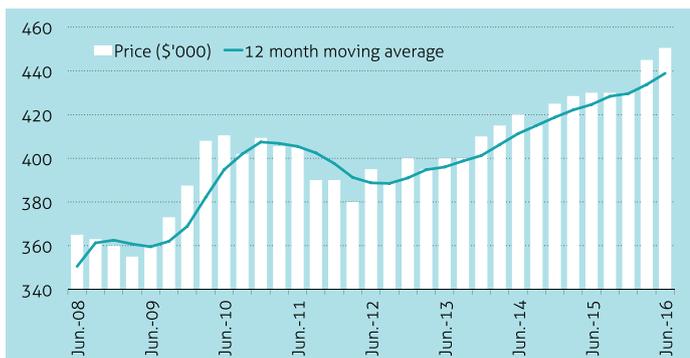
Lower interest rates have helped to support strength in housing finance commitments both nationally and in South Australia. That said, nationally there has been a slowdown in housing finance commitments through 2016. South Australia had been failing to keep pace with the national strength in housing finance, but continuing steady growth in housing finance commitments in this state has helped to restore relativities with national performance.

CHART 2
BUILDING APPROVALS - TREND (\$M)



The news on trends in housing finance may be good, but building approvals in South Australia have slowed in recent months. A softening is evident for both the trend in residential building approvals as well as the trend in commercial construction approvals in the state. The recent slowdown follows a period of strength through the course of much of 2015 for building approvals in South Australia.

CHART 3
MEDIAN PRICE OF HOUSES SOLD (\$'000)



Low interest rates have supported rising house prices in Adelaide, which have continued to trend higher in the first half of 2016. That said, the rise in house prices in Adelaide has been relatively moderate when compared with the very large rises in house prices that have been seen in Sydney and Melbourne in recent times.

CHART 4
HOME LOAN AFFORDABILITY - INDICATOR STATISTIC



The more moderate rises in house prices in Adelaide have helped to support home loan affordability in South Australia. As a result, home loan affordability in South Australia remains notably better than that of the nation as a whole, as has been the case for many years. The Reserve Bank's recent cuts to interest rates have further improved home loan affordability, both nationally and in South Australia.

CHART 5
INDEX OF DWELLING RENTS - % CHANGE ON PREVIOUS YEAR



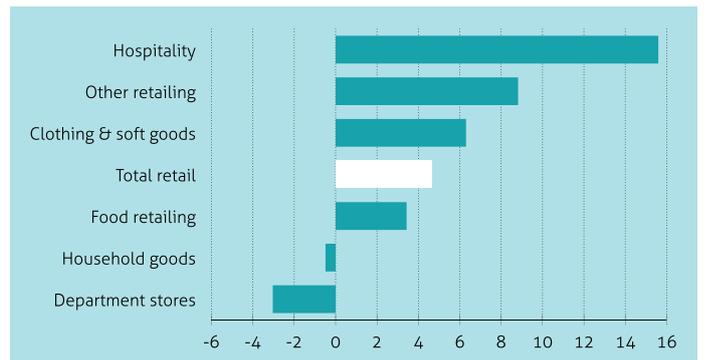
The overall pace of increase in housing rents has been moderating for a number of years now, both in Adelaide as well as nationally. A moderation in overall inflation trends, including in wage growth, has been a contributor to moderating growth in housing rents, as has the enthusiasm of investors in purchasing of homes and apartments in recent years, which has increased the supply of available rental homes. Interestingly, although both have slowed, rentals are now rising faster in this state than nationally.

CHART 6
RETAIL TRADE - % CHANGE OVER PREVIOUS YEAR - SEASONALLY ADJUSTED SERIES



Retail sales in South Australia saw growth that lagged behind the nation throughout much of the decade and through to late 2014. However, South Australia has shrugged off the effects of the more modest rates of population growth in this state to generate growth in retail turnover at or close to the Australian average for a couple of years now. Indeed, the latest data saw that gap grow, with growth in retail turnover in South Australia well above the Australian average.

CHART 7
RETAIL TRADE - % CHANGE OVER PREVIOUS YEAR - SEASONALLY ADJUSTED SERIES



The solid local outcomes in retail trade cover a relatively wide divergence of experience across different retail categories. Spending growth on hospitality (that is, spending on takeaway food and eating out at cafes and restaurants) has shown the strongest growth over the past year. At the other end of the scale, sales at department stores have continued to show a decline, and there has been a marked slowdown in the sales of household goods after a period of strength.

CHART 8
NEW MOTOR VEHICLE REGISTRATIONS - SEASONALLY ADJUSTED



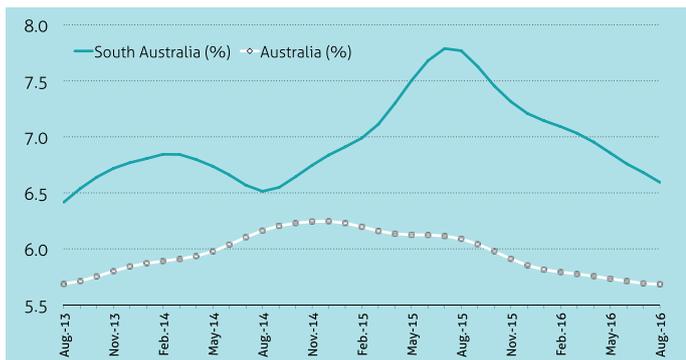
Motor vehicle sales in South Australia have eased in recent months, although that follows a surge in motor vehicle sales late last year. Consequently, and despite the recent slowdown, motor vehicle sales in South Australia remain at a notably higher level than this time last year. Solid motor vehicle sales are a vote of confidence: they suggest that there is a degree of comfort in household finances and in the economic outlook among a number of South Australians. Nationally, there has been a recent flattening trend in new motor vehicle registrations.

CHART 9
POPULATION TRENDS - % CHANGE ON PREVIOUS YEAR AND LOCAL LEVEL ('000s)



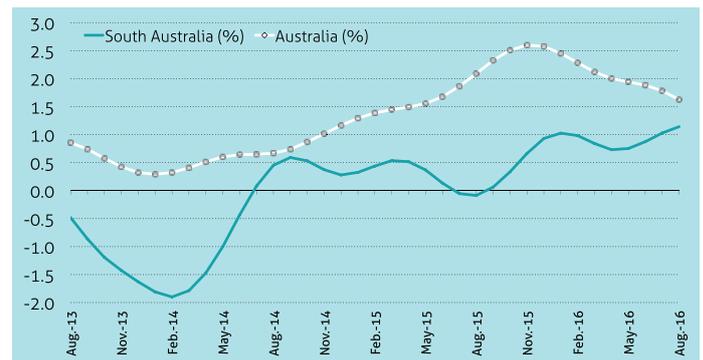
The continuing moderation in the growth of 'people power' in the state has recently seen population gains drop below the trend averaged since the turn of the current decade. Latest data shows a continuing moderation in population growth in South Australia, whereas population growth nationally has recently begun to stabilize after falling since mid-2012.

CHART 10
TREND UNEMPLOYMENT RATE (%)



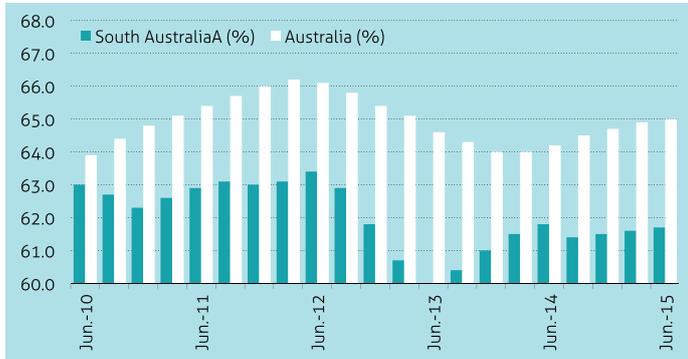
The South Australian economy continues to suffer from the earlier strength in Australian interest rates and exchange rates. It has therefore benefitted less than state economies with a similar sectoral make up, such as Victoria, from recent trends in financial markets. That said, the big phase of weakness in the local economy was probably in the first half of 2015, with the state's unemployment rate picking up at around that time. There has since been a steady decline in the state's unemployment rate since then. That said, it remains well above the national unemployment rate.

CHART 11
EMPLOYMENT - % CHANGE ON PREVIOUS YEAR - TREND SERIES



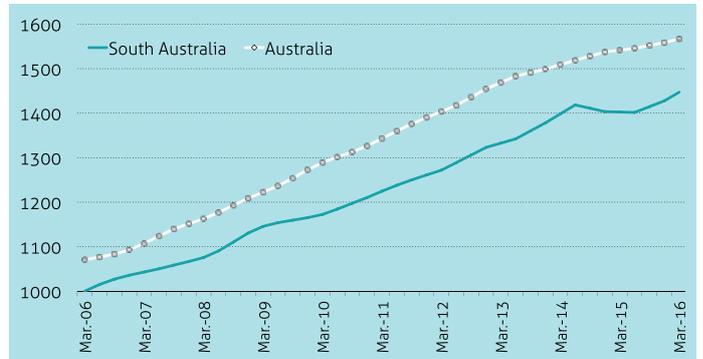
While South Australia has been an under-performer in employment growth compared to Australia as a whole for some years now, employment growth in South Australia has picked up in recent months. When taking account of South Australia's weaker population growth and older population structure, South Australia's recent employment outcomes have been particularly solid. That strength in employment growth has helped to bring down the state's unemployment rate.

CHART 12
ROOM OCCUPANCY RATE - TREND SERIES



The downswing in the Australian dollar in recent years has seen a trend away from Australians holidaying overseas and towards an increasingly number of visitors to Australia. The first of these two factors is consistent with increased domestic tourism. A swing towards holidays within Australia by Australians usually works to the advantage of room occupancy rates in South Australia. On the other hand, however, increased flows of international visitors to our shores tend to be more important for other states than it is for South Australia. On balance, recent years have indeed seen some modest gains in average room occupancy rates in this state, but they are still tracking below the equivalent indicator nationally.

CHART 13
TOTAL AVERAGE WEEKLY EARNINGS (\$) - PERSONS IN FULL-TIME EMPLOYMENT



Average wages available in South Australia have tended to be lower than those evident elsewhere in Australia. Historically, Australia's biggest states – NSW and Victoria – have tended to have higher wages, partly to offset the higher living costs evident in cities such as Sydney and Melbourne. During the mining boom, wage gains were also stronger in states such as Queensland and Western Australia. While average wages in South Australia have shown signs of a solid recovery after a recent slowdown, they remain notably below the national average.

CHART 14
CONSUMER PRICE INDEX, ALL GROUPS - % CHANGE ON PREVIOUS YEAR



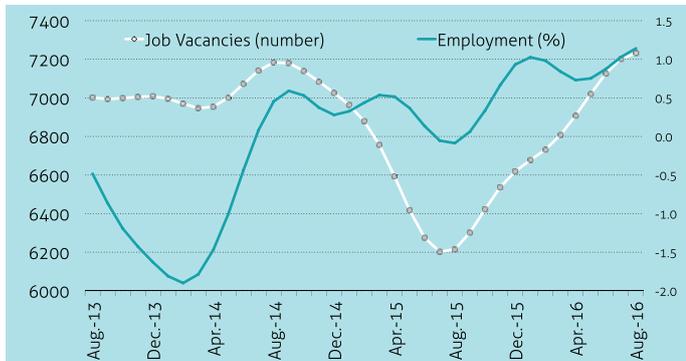
Inflation has slowed both nationally and in South Australia since the middle of 2014. Recently, that slowdown has been even more evident at the local level than at the national level. The modest pace of economic growth in South Australia has been an important factor contributing to this differential, with the pricing power of local businesses more constrained than their national counterparts of late. Overall growth in consumer prices in South Australia was very low over the past year.

CHART 15
SMALL BUSINESS CONFIDENCE - NET BALANCE



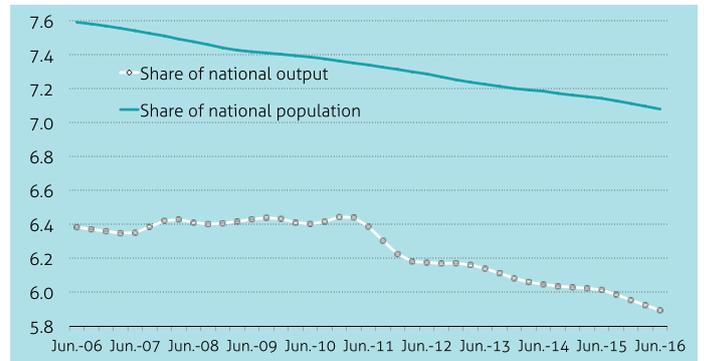
South Australia's economic challenges have been reflected in levels of small business confidence that have generally been below the national average. That said, latest data has shown a pickup in business confidence in South Australia, but local small business confidence still lagged the national figure in mid-2016.

CHART 16
EMPLOYMENT GROWTH & JOB VACANCIES



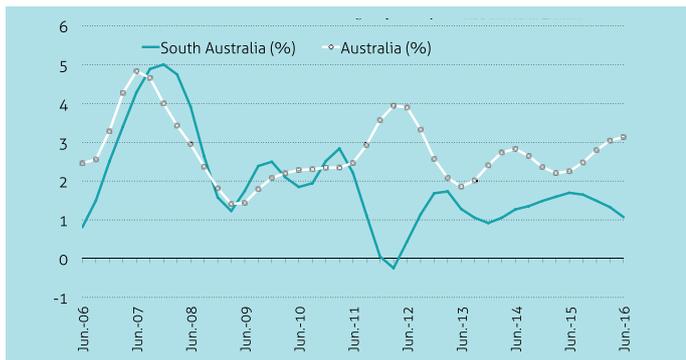
Employment growth in South Australia has picked up through the course of the past year. This has been consistent with a rising trend in job vacancies in South Australia across a similar timeframe. Job vacancies have been recovering since reaching a trough in mid-2015, and suggest that the recent trend in employment growth may be maintained.

CHART 17
SHARE OF NATIONAL OUTPUT AND POPULATION (%)



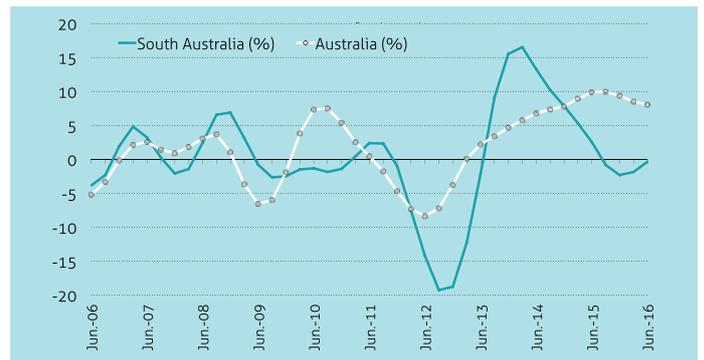
The long term downward trend in South Australia's share of the national population and national economy is continuing. The trend is largely a reflection of the state's 'demographic destiny', given South Australia's relatively older population and slower population growth. Economic conditions during the resources boom were also stronger in other states, which led to further losses in market share within Australia for South Australia.

CHART 18
OUTPUT - % CHANGE ON PREVIOUS YEAR



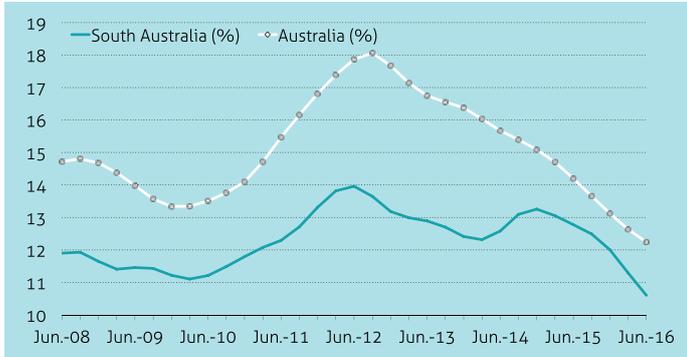
Overall economic growth in South Australia is estimated to have slowed a little of late. Growth is estimated to have been slower than national growth across the matching period. National growth has picked up on the back of a surge in housing construction, a lift in public investment and rising resource export volumes, as major resource projects under construction are completed and reach their production phase.

CHART 19
DWELLING INVESTMENT - % CHANGE ON PREVIOUS YEAR



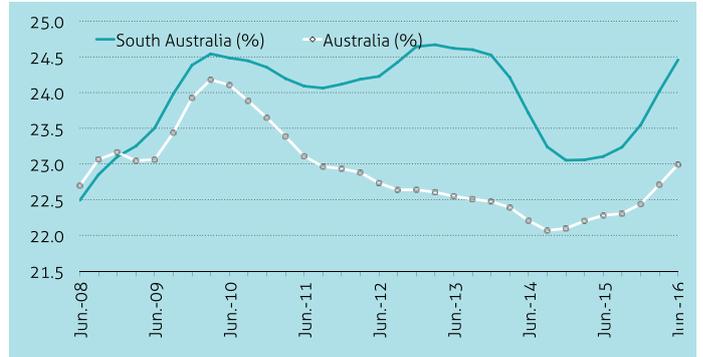
There has been a strong upturn in housing construction nationally of late, supported by a surge in apartment construction in Sydney, Melbourne and Brisbane. That has not been the case in South Australia, which has recently seen housing construction slow, although the latest data shows that housing construction activity is now stabilising after earlier falls. The value of residential building approvals in South Australia has slowed in recent months, suggesting that the near term outlook for housing construction in South Australia may be relatively modest.

CHART 20
BUSINESS INVESTMENT - % OF OUTPUT



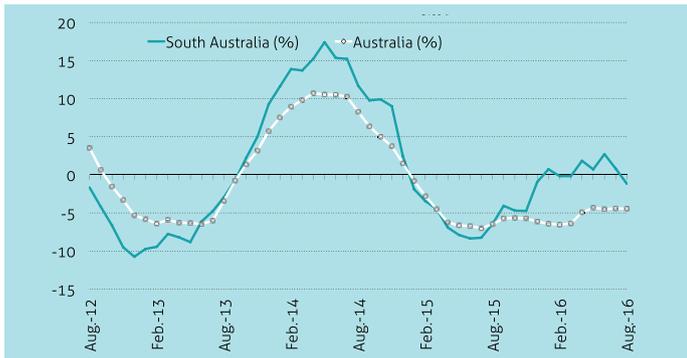
During Australia’s historic mining investment boom, business investment spending rose steadily as a share of the economy. But as resource projects under construction have reached completion, business investment spending has been falling. The so-called ‘construction cliff’ continues to weigh on the national numbers, whereas the matching downturn in South Australia has been more moderate over the period since mid-2012. That has continued to result in the state and national measures moving closer together, but the recent further falls in investment spending in this state should be closely monitored.

CHART 21
PUBLIC SECTOR OUTPUT - % OF TOTAL CONSUMPTION AND INVESTMENT



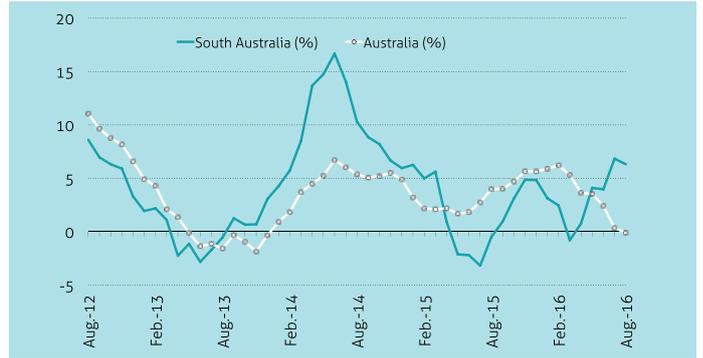
Nationally, public sector output as a share of the national economy fell for an extended period since the big stimulus programs increasingly wrapped up in 2010. More recently, falling business investment has contributed to the public sector comprising a larger share of the economy. South Australia’s public sector cutbacks came later than was the case nationally, with a rush of writedowns through the course of 2013 and well into 2014. However, with private investment on the back foot in the state, public sector spending in South Australia has risen as a share of the economy as a whole over the past year.

CHART 22
MERCHANDISE EXPORTS - % CHANGE LAST TWELVE MONTHS TO PREVIOUS



The value of South Australia’s merchandise exports has shown a rather subdued performance over the past year. Despite this, South Australia’s merchandise exports earnings have displayed a stronger performance than their national counterpart. Nationally, the increase in the volume of mineral and energy exports has been more than offset by the big falls in commodity prices (such as coal and iron ore).

CHART 23
MERCHANDISE IMPORTS - % CHANGE LAST TWELVE MONTHS TO PREVIOUS



Import growth has moderated since 2014. However, the impact of the lower Australian dollar has pushed up a bunch of import prices, with a consequent flow-on effect to a lift in the value of merchandise imports over the year. Nationally, there are also influences from a reduction in imported machinery and equipment associated with the wind-down of construction on major resource projects.

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