

# Australian Economic Outlook

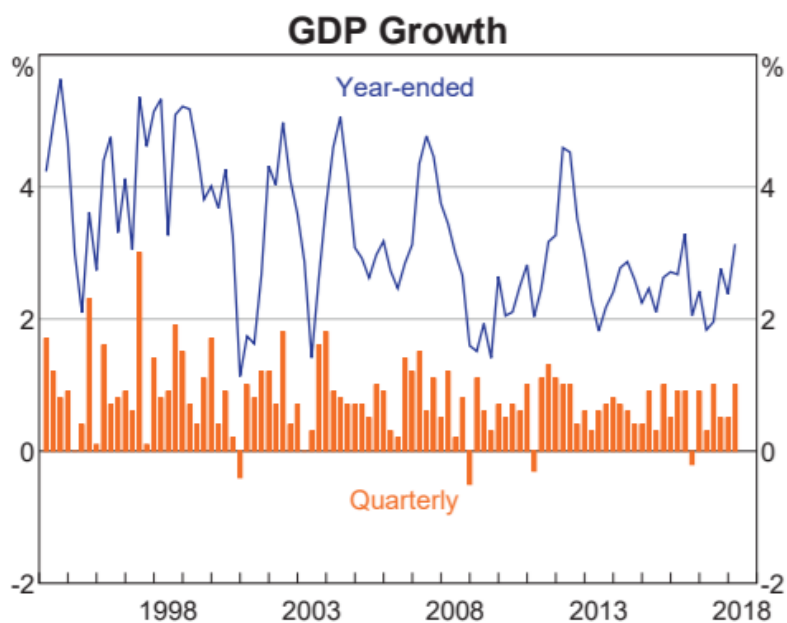
Adam Triggs

Director of Research,

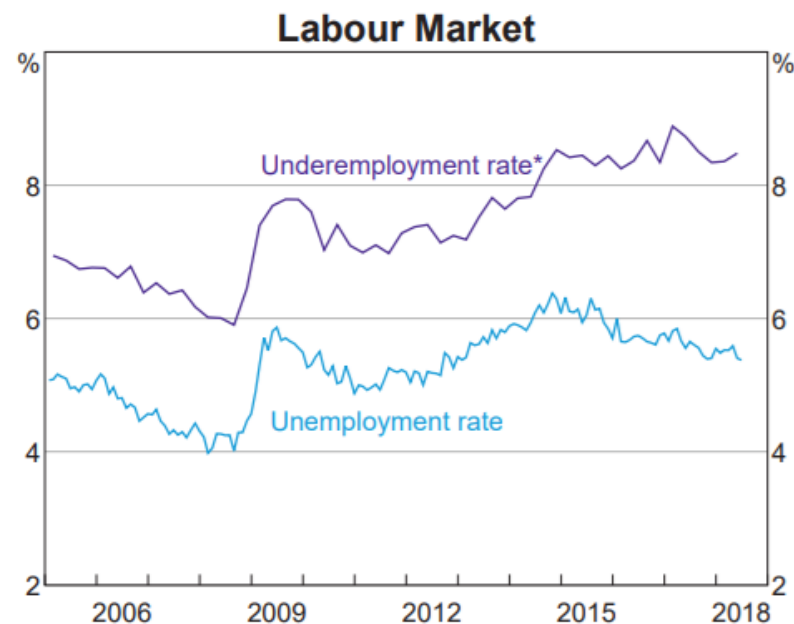
Asian Bureau of Economic Research, Australian National University

22 June 2018

# Australia is enjoying its 25<sup>th</sup> straight year of economic growth



Source: ABS



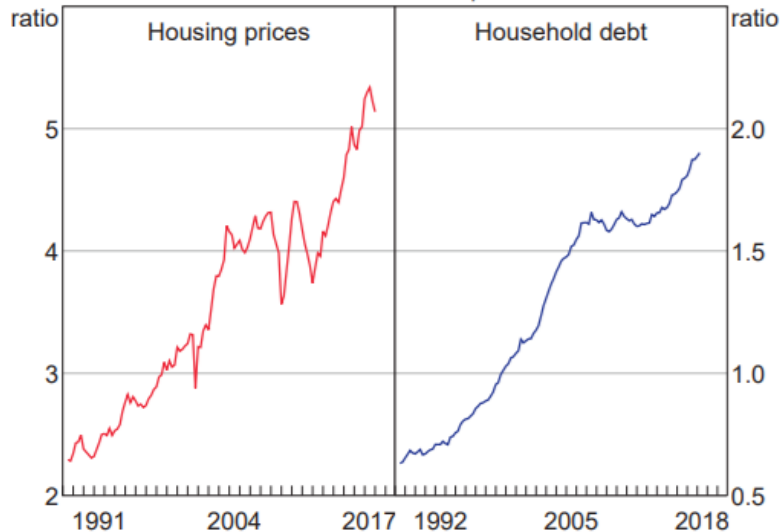
\* Full-time workers on reduced hours for economic reasons and part-time workers who would like, and are available, to work more hours

Source: ABS

The risks most commonly discussed are housing prices, household debt...

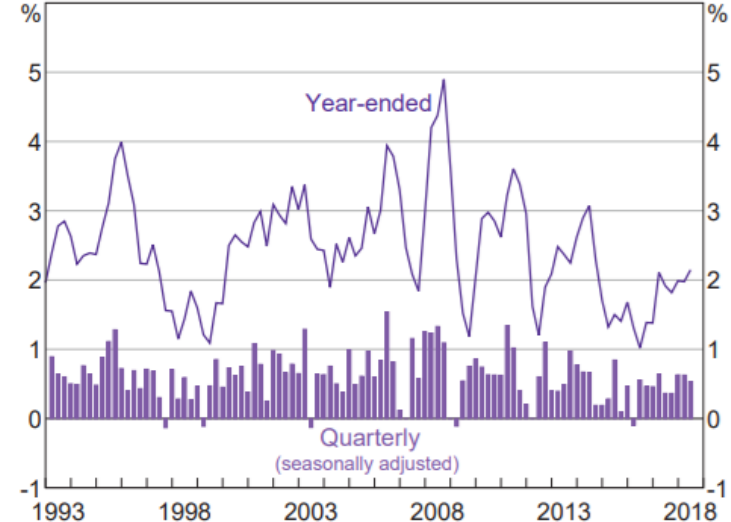
### Housing Prices and Household Debt\*

Ratio to annual household disposable income



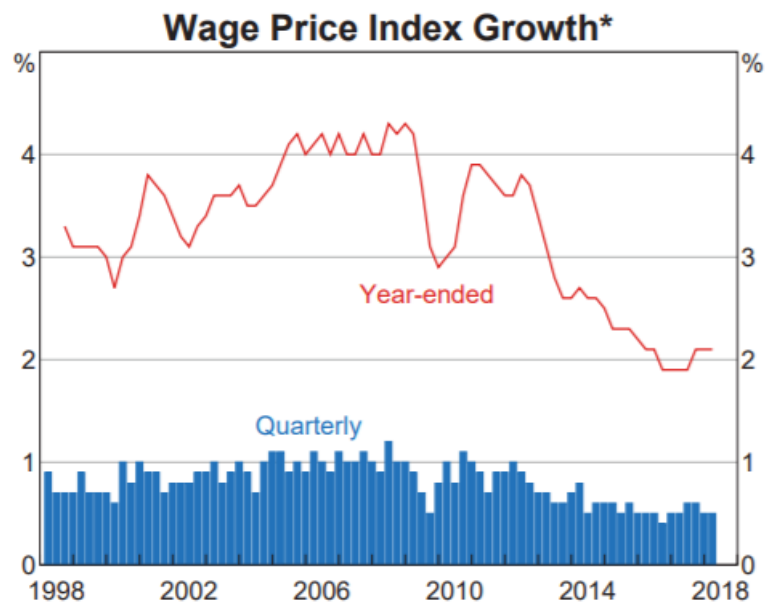
\* Household disposable income is after tax, before the deduction of interest payments, and includes income of unincorporated enterprises  
Sources: ABS; APM; APRA; CoreLogic; RBA

### Consumer Price Inflation\*



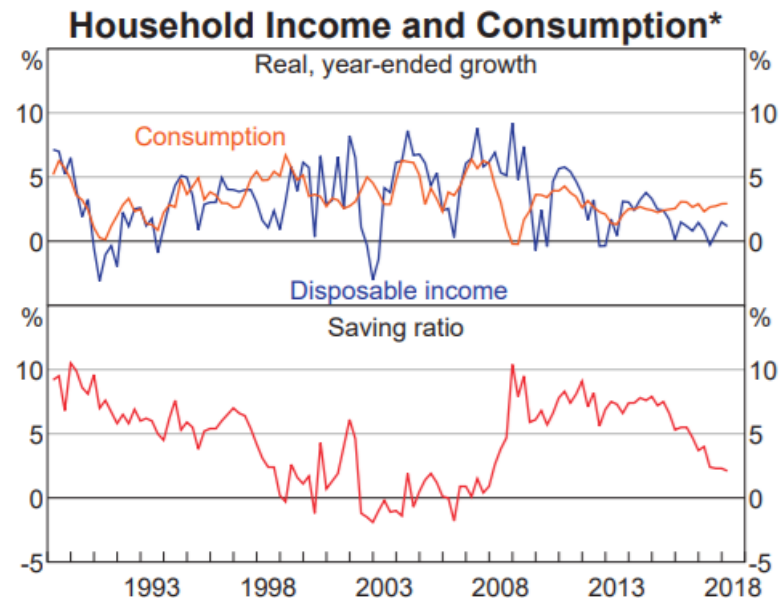
\* Excluding interest charges prior to the September quarter 1998 and adjusted for the tax changes of 1999–2000  
Sources: ABS; RBA

## ...and weak growth in wages and household incomes



\* Total pay excluding bonuses

Source: ABS



\* Household sector includes unincorporated enterprises; disposable income is after tax and interest payments; income level smoothed with a two-quarter moving average between March quarter 2000 and March quarter 2002; saving ratio is net of depreciation

Sources: ABS; RBA

## The state of competition: a framework for thinking about the Australian economic outlook

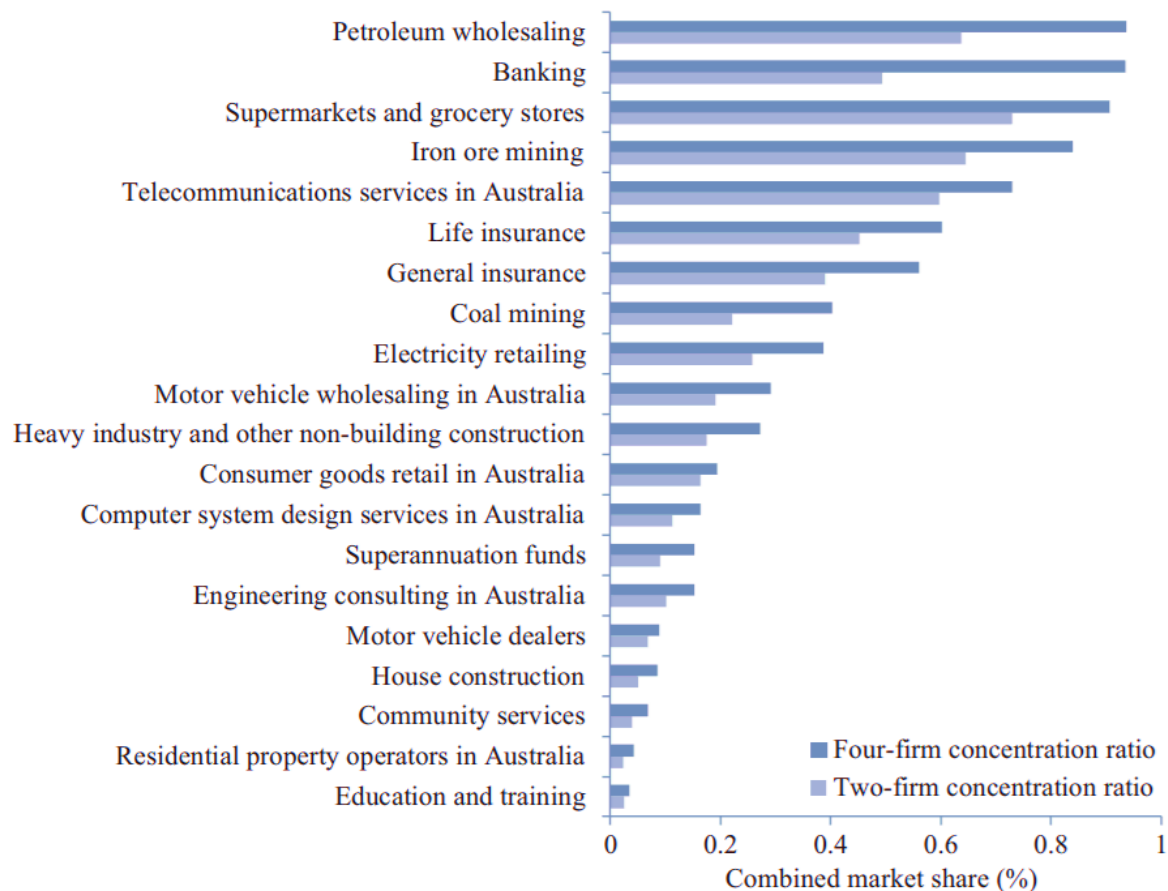
- Competition at the core of a free market economy
- Plays a critical role in productivity, GDP growth, wages and investment
- A useful framework for thinking about the Australian economic outlook
- An area receiving increased attention: Larry Summers (secular stagnation), Paul Krugman (reduced investment), Joseph Stiglitz and Anthony Atkinson (increased inequality).
- The Chicago School's shift from opposing anti-trust (competition) regulation to warning of the dangers of market concentration
- The Economist:
  - “The Chicago School hosting a conference on anti-trust policy is like New Orleans hosting a conference on sobriety”

## Symptoms of weak competition

- Concentrated markets, dominated by a few big firms
- Firms enjoying higher profits and mark-ups than usual
- Reduced investment
- Lower wages
- Reduced output
- Fewer new entrants
- More and bigger mergers and acquisitions
- More anti-competitive conduct
- More large firms exercising market power against suppliers and smaller firms
- More anti-consumer conduct

## Australia's markets are unusually concentrated

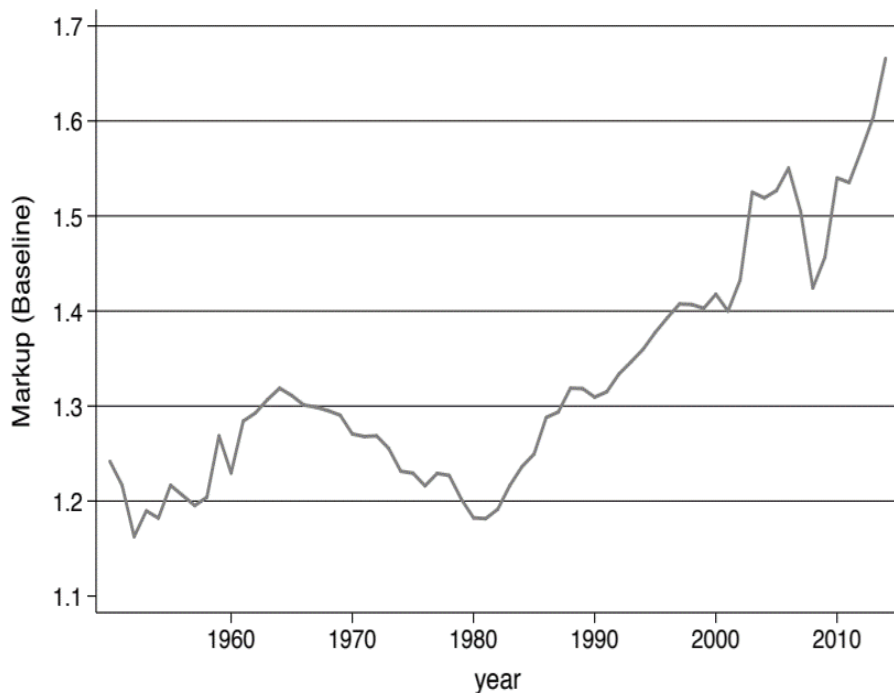
### Market concentration in Australia's 20 largest industries, based on industry revenues



Source: Leigh and Triggs (2016)

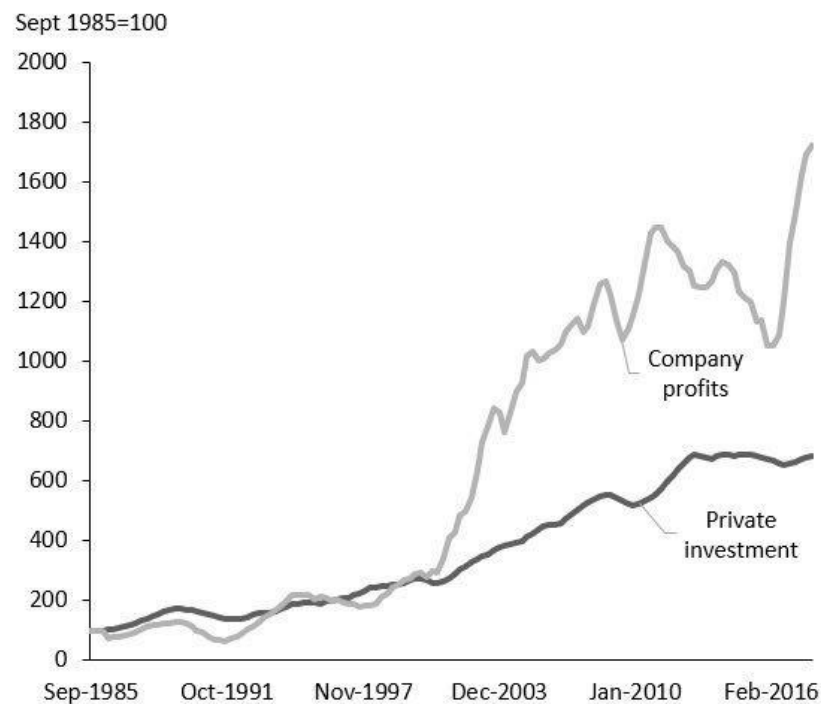
# Markups, profits and investment

The evolution of average markups in the United States, 1960-2014



Source: Loecker and Eeckhout (2017)

Company profits and private fixed capital formation in Australia (1985=100)

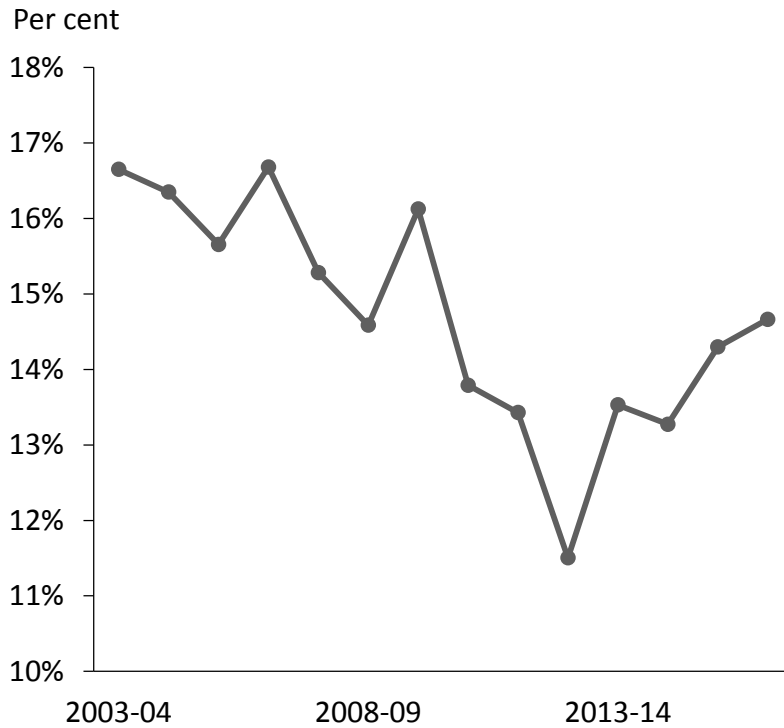


Source: ABS Cats 5206 and 5676



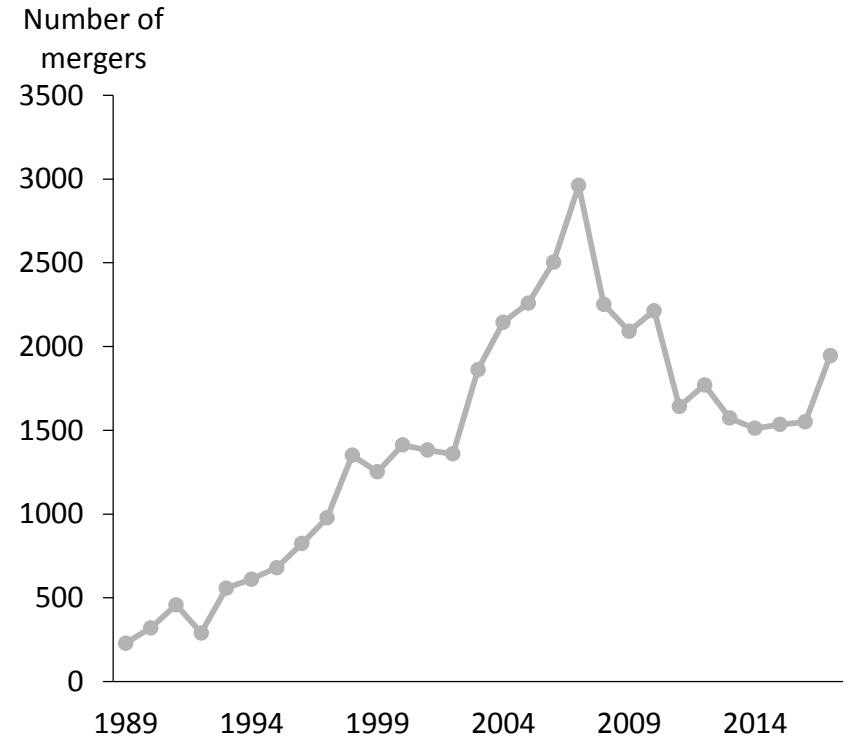
## New business formation and mergers and acquisitions

**Number of new businesses in Australia as a % of total businesses**



Source: ABS

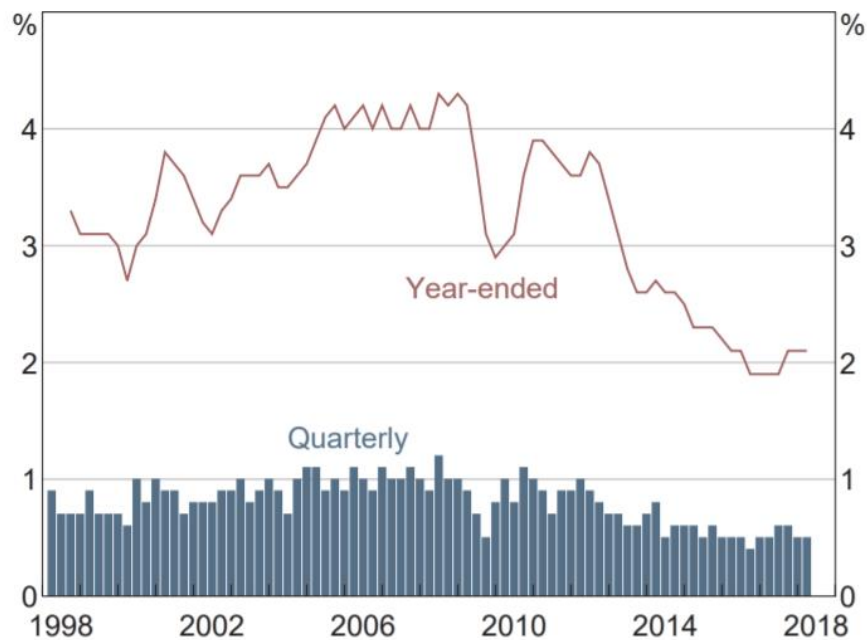
**Number of mergers and acquisitions in Australia, 1989 to 2014**



Source: Institute of Mergers and Acquisitions

## Wages and household debt

**Wage price index growth: Total pay excluding bonuses**



Source: ABS, RBA

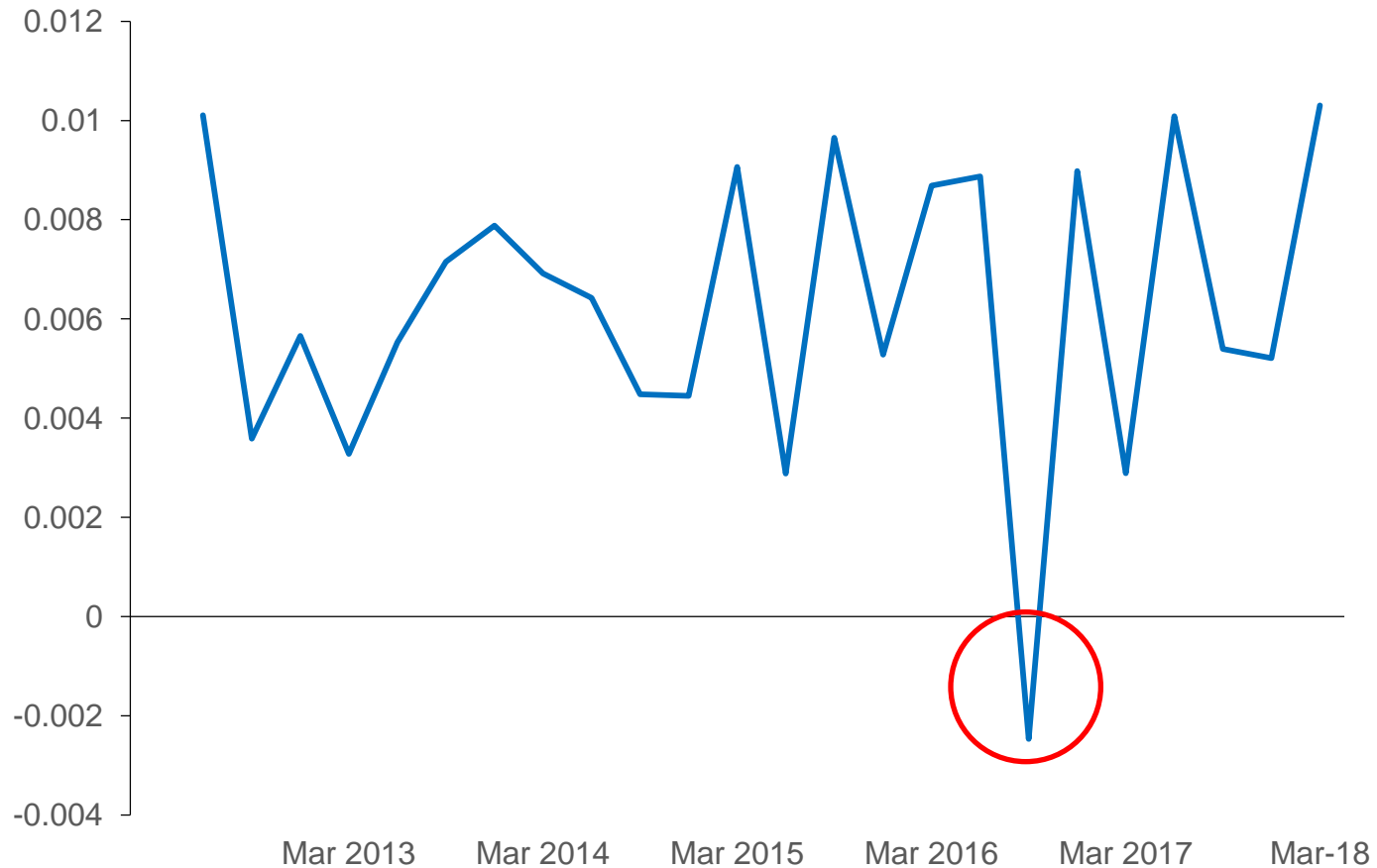
**Housing prices and household debt: Ratio to annual household disposable income**



Source: ABS; APM; APRA; CoreLogic; RBA

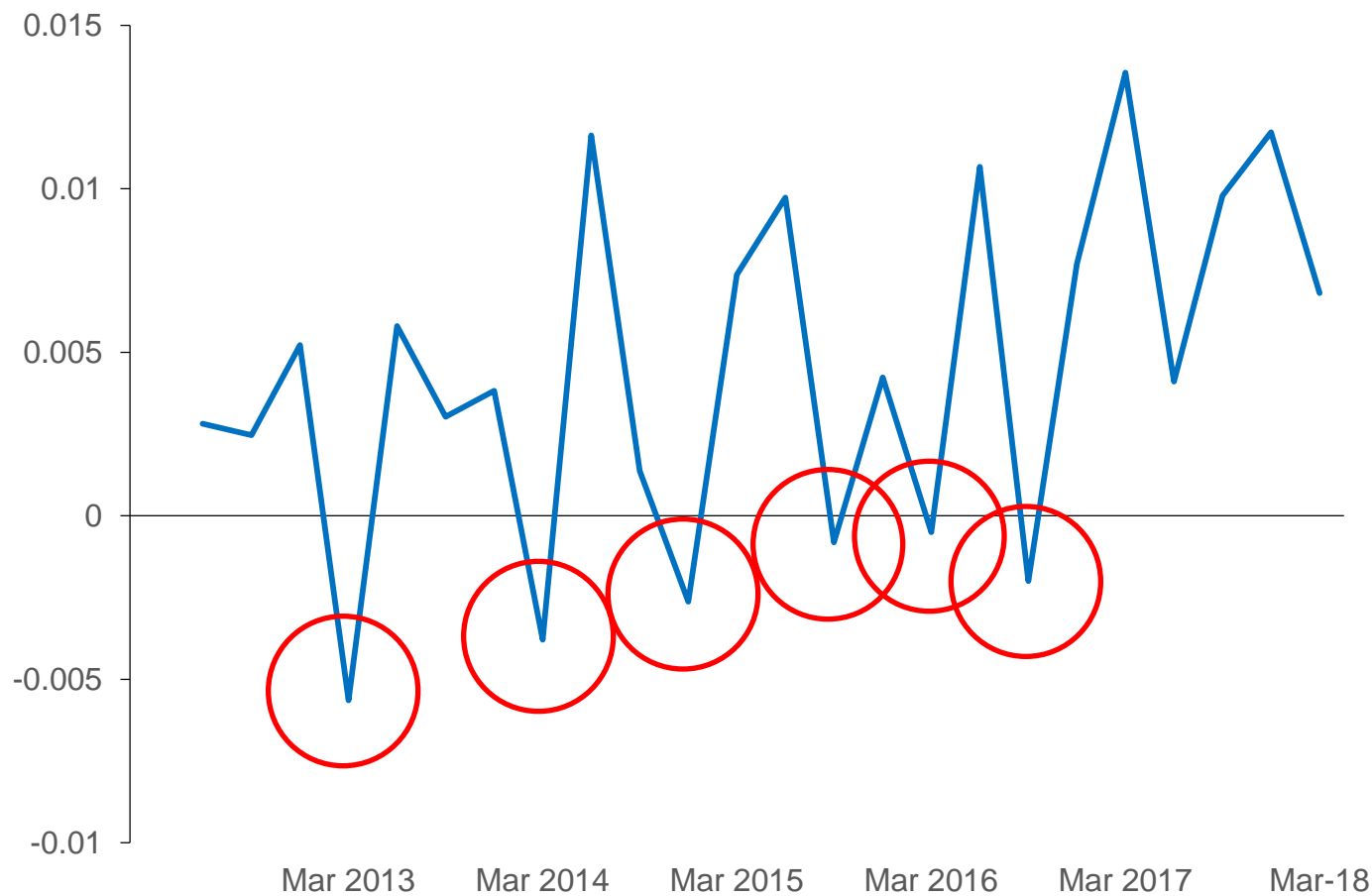
## The composition of Australia's growth

Australian quarterly GDP growth, 2012-2018

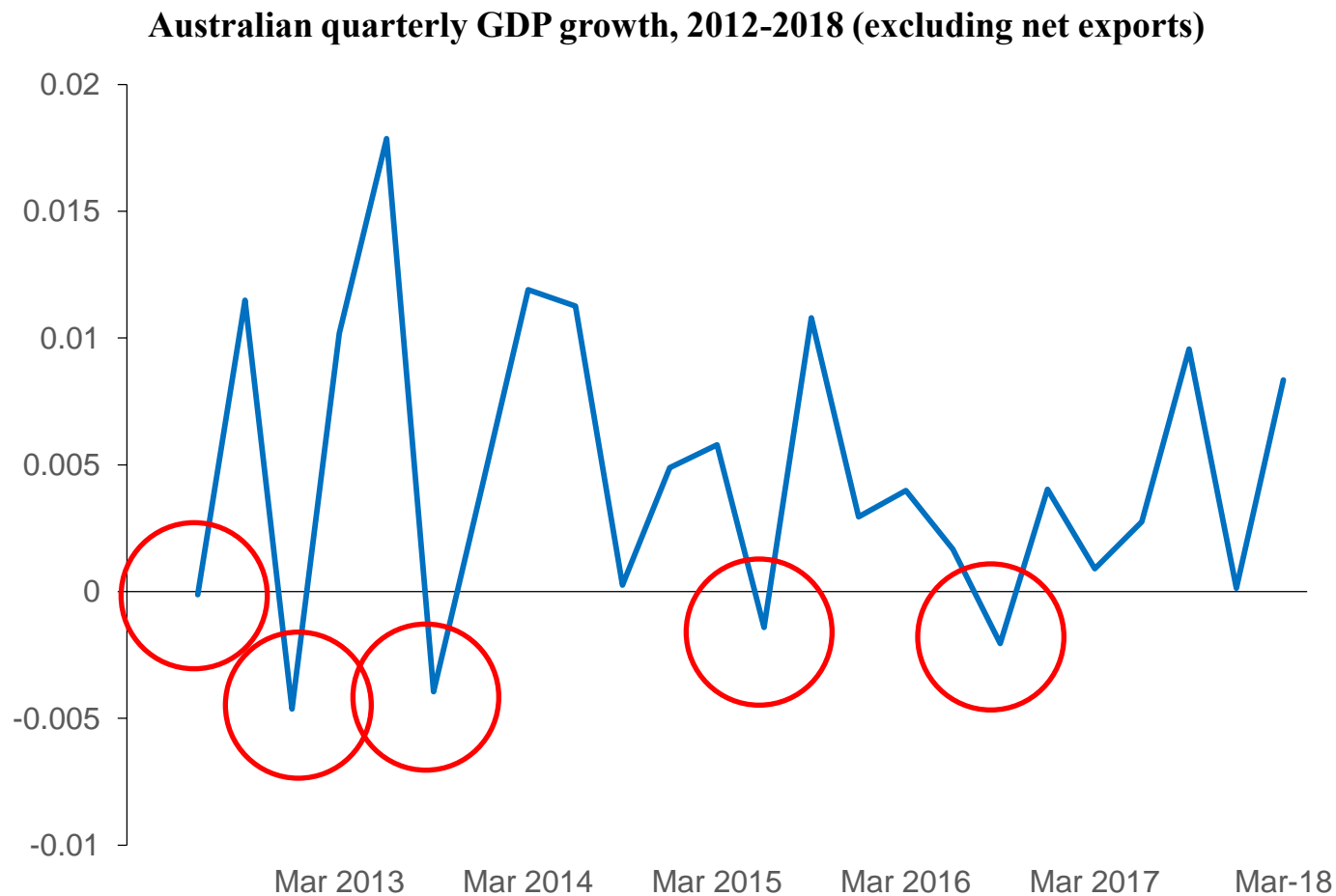


## The composition of Australia's growth

Australian quarterly GDP growth, 2012-2018 (excluding government spending)

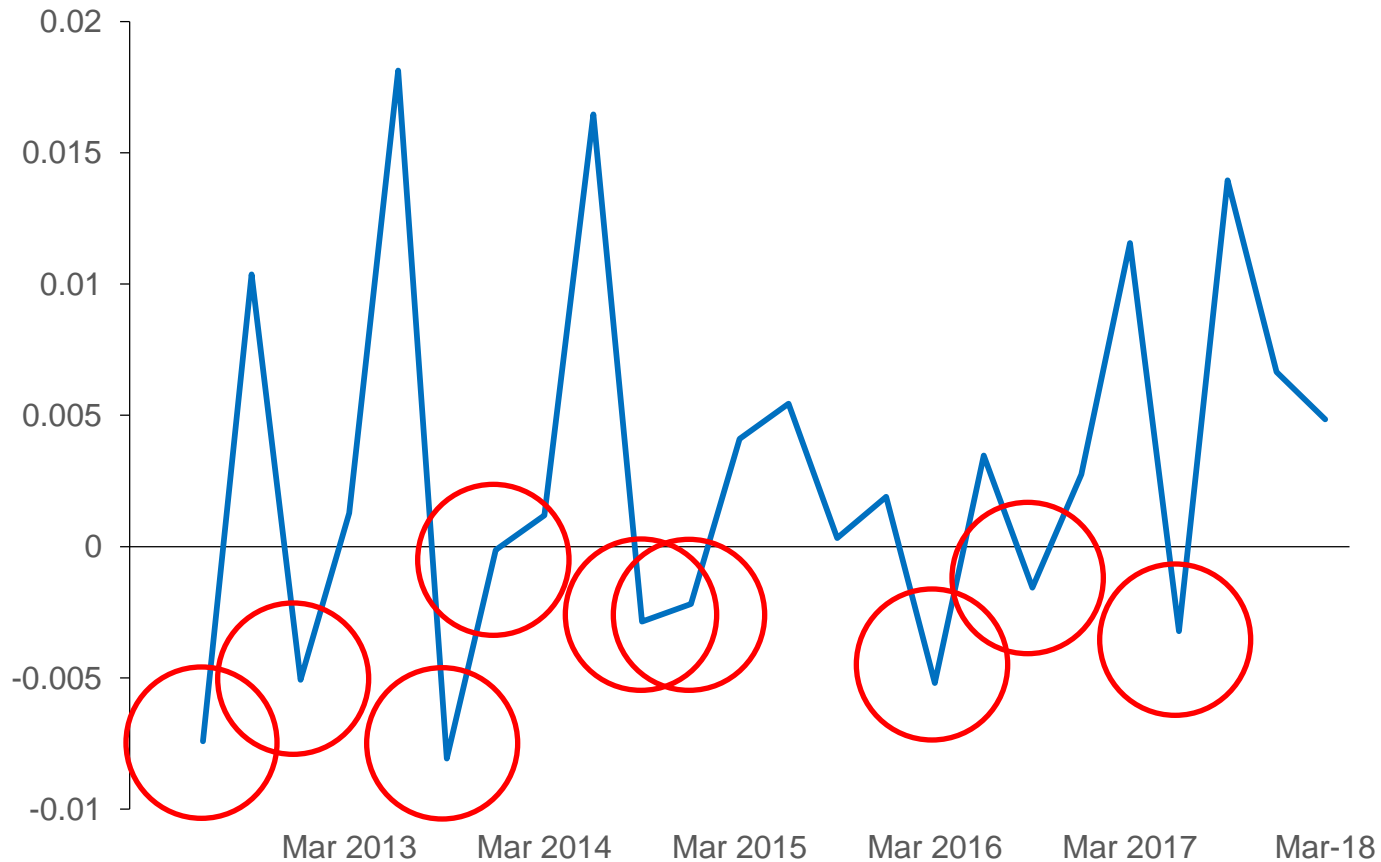


## The composition of Australia's growth



## The composition of Australia's growth

Australian quarterly GDP growth, 2012-2018 (excluding government spending and net exports)



## Anti-competitive and anti-consumer conduct

“There is clearly no shortage of work for the ACCC. Many well-known and respected major Australian companies have admitted, or been found, to have breached our competition and consumer laws. These same companies regularly proclaim to put their customers first”

– Rod Sims, Chair of the ACCC

## What this means for the Australian economic outlook

- Growth is weaker today than it was before the crisis. Growth is more reliant on government spending and net exports
- Investment remains subdued, despite high corporate profits and low interest rates
- Wages growth has been contained and has failed to keep up with labour productivity
- Productivity growth has been sluggish
- Fewer new businesses are being created
- Market concentration is high, markups are increasing, anti-competitive conduct is becoming more systemic and anti-consumer conduct continues to rise
- The momentum for reform has slowed