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EXECUTIVE SUMMARY

- since 1998-1999, when the rate of growth of New South Wales Gross State Product (GSP) was approximately 5% per annum, the rate of growth of GSP has dropped to around 2% or under between the years 2003-2004 and 2006-2007 (pp.19-20)

- on the surface, the vicissitudes of hosting an Olympic Games appear to have contributed to the slump in activity (pp.6-10,14-16)

- the housing boom (and its accompanying bust) have also contributed to a slowdown (pp.10-14,16-17)

- a further (underlying) contributing factor has been the shrinking of manufacturing as a contributor to Gross State Product (pp.1-6)

- the state also records a significant deficit of imports over exports (pp.17-19)

- while manufacturing has shrunk, both the property and business services sector, and the finance and insurance sector, have expanded rapidly: providing a broadly compensatory influence (pp.20-30)
1. INTRODUCTION

During the late 1990s there was a small-scale boom in New South Wales (partly generated by the preparations for the Sydney 2000 Olympic Games). Following the Games there was a minor slump: exacerbated by the housing boom which had developed during the late 1990s. In 2004-05 growth in Gross State Product (GSP) declined to 1.8%.

This background paper attempts not only to highlight the key economic indicators for New South Wales but also to highlight some of the long-range developments which have affected production in the state. The information in this paper is current as at 30 November 2007.

2. FACTORS CONTRIBUTING TO A MODERATION OF ACTIVITY

(a) The Decline in Manufacturing

One of the major changes influencing activity in the state has been the gradual decline of manufacturing. The onset of the war against Japan, in 1941, led to a dramatic increase in manufacturing in Australia. Tanks, ships and aircraft were manufactured domestically for the war effort. BHP, which had been inaugurated in Newcastle, in 1915, produced one million tons of steel a year during the conflict.  

1 After the war, General Motors and Ford, which had begun assembly operations in Melbourne and Sydney during the 1920s, began full-scale car manufacturing in Melbourne (GM in 1948, and Ford in 1959). GM had already expanded its assembly plant in Sydney in 1940 (transferring it from Marrickville to Pagewood). 2 BHP continued to produce about three-quarters of a million tons of steel each year after the war. In 1950, the British Motor Corporation (Leyland) opened a works in Zetland in Sydney. In 1948-1949 manufacturing in Australia had reached a peak of about 30% of GDP, as the following table illustrates:

<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing Output</td>
</tr>
<tr>
<td>Total Gross Domestic Product</td>
</tr>
</tbody>
</table>


Total employment in manufacturing, in New South Wales, reached a peak, in 1974, of about 27% of the workforce. At the beginning of the 1970s there were 516,000 people employed in manufacturing in the state - 239,000 in the metal trades, as indicated in the following table:  

<table>
<thead>
<tr>
<th>Sector</th>
<th>Workers Engaged</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metals</td>
<td>247,700</td>
</tr>
<tr>
<td>Textiles and Clothing</td>
<td>65,100</td>
</tr>
<tr>
<td>Food</td>
<td>64,600</td>
</tr>
<tr>
<td>Chemicals</td>
<td>31,300</td>
</tr>
<tr>
<td>Wood and Furniture</td>
<td>29,100</td>
</tr>
<tr>
<td>Non-Metal Mining</td>
<td>22,600</td>
</tr>
<tr>
<td>Leather</td>
<td>4,400</td>
</tr>
<tr>
<td>Other</td>
<td>67,400</td>
</tr>
</tbody>
</table>

Between the 1970s and the 1990s there has been a steady decline in the presence of manufacturing in the state: influenced, in many respects, by the impact of dramatic increases in the price of oil and the accompanying effect on manufacturing globally.

During 1974-1975 there was an international recession, triggered by the USA’s support for Israel in its October 1973 war with its Arab neighbours, and by those same Arab nations (in retaliation) increasing the pricing of oil temporarily from $6 a barrel to $23 a barrel. As Michael Niemira and Philip Klein observed, this led to the “1973-1975 recession” in the USA. This development had instant repercussions in Australia. From a low of around 2% in 1974, unemployment rose to 5% in 1975. A slump in car manufacturing, and in manufacturing associated with car production, developed. In 1974 the one non-American car producer in Sydney (British Leyland) announced that it would dismiss 1,000 of its workers (finally closing its works in 1975). Dunlop Australia tyre company announced that it would cut its workforce by up to 4,000 workers. By 1977 manufacturing had still not recovered, with unemployment actually increasing to 5½%. A year later, however, BHP

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9 “100 Years of Dunlop”, insert, in The Australian, 4 November 1993, p.2.
began to reduce the scale of its operations, nationally, by closing its shipbuilding and engineering works at Whyalla, in South Australia.10

Another recession in global production occurred between 1980 and 1982: following the overthrow of the Shah of Iran in 1979 and the new revolutionary government’s raising the price of oil to around $34 a barrel. As described by Niemira and Klein, “this caused major disruptions to the US economy.”11 Chrysler Corporation nearly went bankrupt in 1979 and in 1980 sold off its operations in Europe and Australia (essentially those in Adelaide).12 During 1980, as a result of this global slump in business conditions, General Motors began to reduce the scale of its operations worldwide: announcing in July that it would close its Pagewood assembly plant in Sydney.13 BHP also began to experience difficulties. Jenny Stewart has recorded that, “Unemployment in the industry spread rapidly in Newcastle and Port Kembla. Three thousand jobs were shed between June 1981 and May 1982, and a further 2,700 between May and September 1982.”14 By 1983 unemployment, Australia-wide, had risen to 9% of the workforce.15 By the beginning of the 1990s there was a pronounced slump in the prominence of manufacturing in New South Wales. In 1992 the Australian Bureau of Statistics (ABS) reported the following figures for manufacturing’s contribution to the state’s gross state product (GSP):

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of NSW GSP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>21%</td>
</tr>
<tr>
<td>1991</td>
<td>15%</td>
</tr>
</tbody>
</table>

10 Crowley, op.cit., p.385.
13 Crowley, op.cit., p.398.
The ABS observed that the fall in manufacturing’s contribution to NSW gross state product, during this period, “was the largest fall of any industry.”

Once more, in the early 1990s, there was another end-of-decade global recession: this time an outcome of the 1987 investment crash in the USA. In 1991, General Motors made a loss of $4.5 billion and Ford Motor Company recorded a loss of $2.3 billion. A year later, General Motors lost $23.4 billion and Ford made a loss of $7.4 billion. Manufacturing concerns, in Australia, again suffered corresponding falls in profit. BHP reported a 50% decline in profit during the second half of 1991 (from $828 million down to $407 million). It subsequently announced that it would be reviewing its operations at Newcastle. Ford of Australia made a loss, during 1991, of $114 million. Unemployment, in 1991, rose to 8.7%. A year later (when in November 1992 the all ordinaries sank to 1357) it increased to 11%. According to Laura Tingle, throughout Australia, between 1990 and 1992, “Around 120,000 jobs were lost in manufacturing”.

Ford, globally, continued to focus on rationalising its operations and, in September 1994, closed down its plant at Homebush (the last remaining car building concern in Sydney).

BHP initially recovered well between 1992-1993: in financial year 1992-1993 the company made a profit of around $1.2 billion and, in late 1993 the company was reporting its highest level of raw steel production in 11 years. In financial year 1994-1995, BHP made another profit of $1.6 billion. Then between 1998 and 1999 the company made a loss of $2.3 billion. Finally, in October 1999, BHP closed down its steel works at Newcastle: focusing the remainder, of its NSW production, at its Port Kembla plant.

17 Ibid.


22 Peter McKay, “Homebush Quiet after a Million Vehicles” in the SMH, 3 September 1994, p.8.


24 Mark Westfield, “Prescott Faces up to Harsh Realities” in The Australian, 1 July 1999, p.25.


As a result the proportion of manufacturing, in the output of the state, has decreased even more as the present figures demonstrate:


<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>15%</td>
</tr>
<tr>
<td>2005-2006</td>
<td>11%</td>
</tr>
</tbody>
</table>

The number of full time positions in manufacturing has also decreased dramatically, as can be illustrated by the following two graphs:

**NSW Full-Time Employment in Manufacturing: 1996-2006**

(ABS Catalogue 6291.0.55.003: Table 5)

**NSW Full-Time Employment in Manufacturing (Percentage Change from Previous Year): 1997-2006**

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(b) The Fluctuations in Building Work before and after the Sydney 2000 Olympics

In the course of preparations for the Olympics both the Fahey government (1992-1995) and the succeeding Carr government (1995-2006) expended substantial sums of money on venues and transport facilities. This reached a peak in 1998-1999, when over half a billion was spent on the games. The overall level of expenditure is illustrated in the following table:

<table>
<thead>
<tr>
<th></th>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-1993</td>
<td>$122.7 million</td>
</tr>
<tr>
<td>1993-1994</td>
<td>$128 million</td>
</tr>
<tr>
<td>1994-1995</td>
<td>$57.9 million</td>
</tr>
<tr>
<td>1995-1996</td>
<td>$72.4 million</td>
</tr>
<tr>
<td>1996-1997</td>
<td>$273.2 million</td>
</tr>
<tr>
<td>1997-1998</td>
<td>$409.6 million</td>
</tr>
<tr>
<td>1998-1999</td>
<td>$591.1 million</td>
</tr>
<tr>
<td>1999-2000</td>
<td>$499.4 million</td>
</tr>
<tr>
<td>2000-2001</td>
<td>$400.8 million</td>
</tr>
</tbody>
</table>

This led to a temporary surge in activity. As the London East Research Institute observed,

In relation to temporary employment, the peak achieved in the construction industry was 24,000 jobs in the two years preceding 2000.29

A year after the Olympics there was a slump in building work. The development of this slump can be seen in the value of work completed, between 2000 and 2006:

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The course of the changes in building work completed, from 2000 to 2006, can be better seen in a line graph, as follows:

Despite the downturn in the value of building work completed, employment has continued to steadily increase, as the following two graphs indicate:
NSW Full-Time Employment in the Building Industry:
1999-2006 (ABS Catalogue 6291.0.55.003: Table 5)

(c)The Fluctuations in Tourist Arrivals during and after the September 2000 Olympics

Although there had been predictions of a boom in tourist arrivals, as an outcome of the Sydney 2000 Olympics, this did not turn out as expected. Richard Cashman has outlined what took place during, and shortly after, the September 2000 Olympics:

the actual number of Olympic tourists during the games was relatively small. OCA [Olympic Co-ordinating Authority] stated that there were 110,000 Olympic-specific visitors to Sydney during September 2000, of which one-third...36,000...were 'Olympic Family': athletes, officials, sponsors and so forth. So the number of Olympic-specific tourists (excluding the Olympic Family) amounted to approximately 74,000...[that represented] only a small increase – of 53,000 – in the average September figures...[a year later] the world was transfixed by the terrorist attack of 11 September...the Australian tourism industry suffered an unprecedented three years of negative growth...to rescue the tourist industry, the federal government announced a $235 million package in November 2003.\(^{30}\)

The course of the downturn in tourist arrivals in Sydney can be seen firstly in the accompanying graphs for international visitors to Sydney:


The effect of the slowdown, in overseas visitors to Sydney, can also be seen in the slow growth of exports in personal travel services from New South Wales:

**NSW Exports of Personal Travel Services: 1999-2000 to 2005-2006**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-2000</td>
<td>$3.4 billion</td>
</tr>
<tr>
<td>2005-2006</td>
<td>$3.75 billion</td>
</tr>
</tbody>
</table>

The course of the downturn can be further seen in the figures for tourist visits to New South

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Wales by Australians, as illustrated in the following two graphs:

**Domestic Overnight Visitors to NSW: 1998-99 to 2006-07**
*(Tourism Research Australia: National Visitor Survey)*

**Domestic Overnight Visitors to NSW (Percentage Change from Previous Year): 1999-00 to 2006-07**

**d) The Eruption of the Housing Boom**

After being elected to a second term in office, in 1998, the Howard government (a year later) introduced a particular measure which led to a surge in investment in residential property: this was the change to the capital gains tax. As explained by the Productivity Commission,

Capital gains tax [CGT] applies to many classes of assets, including housing, acquired after September 1985 [the second year of the Hawke government]. . .It is payable when assets are sold. . .The taxable amount of capital gain is added to income in the year of sale. . .The taxpayer's main residence is exempt from CGT. . .since 21 September 1999. . .Under the new arrangements, individuals. . .receive a discount of 50 per cent for assets (including investment housing) held for longer than twelve months. . .

\[32\]

In the late 1990s a boom in housing developed, which continued into the early years of the
twenty-first century, as indicated in the following table:

**Median House Prices Sydney: 1999-2003**

<table>
<thead>
<tr>
<th>Year</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>$317,482</td>
</tr>
<tr>
<td>2003</td>
<td>$563,765</td>
</tr>
<tr>
<td>Increase</td>
<td>177%</td>
</tr>
</tbody>
</table>

For many people, the boom in house prices (and in rents) dramatically increased the
proportion of their income expended on housing. In early 2007 the Housing Industry
Association produced the following figures for households in housing stress in New South
Wales:

**NSW Households in Housing Stress: 2007**

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households Renting, in Housing Stress</td>
<td>192,000</td>
</tr>
<tr>
<td>Households Paying Mortgages, in Housing Stress</td>
<td>282,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>474,000</td>
</tr>
</tbody>
</table>

To contain the boom, which started to send the price of houses beyond the reach of many,
the Reserve Bank of Australia began to increase official interest rates: from a low of 4.25%
(in December 2001) to 6.75% (in 2007). Bank mortgage interest rates likewise increased:

The increase in interest rates contributed to a decline in the housing boom (after reaching
its peak in 2003) and to an accompanying decline in the number people deciding to buy a
home. The decline in the number of people deciding to buy a home led to a slowdown in
the number of houses and flats being built. The chart below indicates the number of houses
and flats built between 2000 and 2006:

**Australian Property Monitors, Home Price Guide.**

**Housing Industry Association, Housing Affordability in New South Wales (Housing Industry
Association, Canberra, 2007), p.2.**

**see Reserve Bank of Australia, Bulletin Statistical Tables (Reserve Bank of Australia, Sydney,
2007), table A2 (Monetary Policy Changes). See also Ross Gittins, “Pained PM Seeks Rates Forgiveness” in the Sydney Morning Herald, 8 November 2007, p.1.**

**See Reserve Bank of Australia, Bulletin Statistical Tables (Reserve Bank of Australia, Sydney,
2007), table F5 (Indicator Lending Rates). See also Gittins, ibid.**
The rise and fall, between the number of house and flats built in 2000, and the number built later on, can also be illustrated in the accompanying graph illustrating the percentage change in dwelling unit construction between 2000-2006:

The contraction in the buying and selling of houses, which the RBA’s interest rate increases was meant to bring about, correspondingly resulted in a decline in Sydney median price houses prices: after they reached their peak in 2003. This can be seen in the two accompanying graphs:
With the rise and fall in the housing boom, the value of total residential land (in New South Wales) also fluctuated, as illustrated by the following graphs:

**NSW Value of Total Residential Land: 2000-2006**
(Commonwealth Grants Commission: Relative Fiscal Capacities of the States, Attachment B)
The NSW Economy: A Survey

NSW Value of Total Residential Land (Percentage Change from Previous Year): 2001-2005

(c)Retail Turnover

The decline in the number of tourists visiting Sydney, and the rise and fall of the housing boom, contributed to a decline in retail turnover. In 2000, for instance, retail turnover grew by 5.1%. The following year it only grew by 1.4%. In 2002 it grew by 4.5% but by 2005 growth had slipped to 2.4%. The volume of turnover, from 2000 to 2006, was as follows:

NSW Retail Turnover: 2000-2006 (ABS Catalogue 8501.0)

The course of the percentage growth in retail turnover, from calendar year 2000 to calendar year 2006, is accordingly:
The retail area is important because, whereas manufacturing was once the greatest source of employment in New South Wales, retail has taken its place. This is evident in two graphs showing the number of jobs in retail (each year) and the trend growth in retail employment:

NSW Retail Turnover (Percentage Growth from Previous Year): 2000-2006 (ABS Catalogue 1338.1: Table 10.1)

NSW Full-Time Employment in the Retail Industry: 1998-2006
(ABS Catalogue 6291.0.55.003: Table 5)
NSW Full-Time Employment in the Retail Industry
(Percentage Change from Previous Year): 1999-2006

(f) New Motor Vehicle Sales

As interest rates increased, and households became more pre-occupied with mortgage repayments or paying rent, fewer people in New South Wales bought motor vehicles. This can be seen in the following two charts, covering the total number of vehicle sales and the percentage change from one year to the next:
(g) Imports versus Exports

Another factor contributing to the moderate rate of growth, in New South Wales, is the preponderance of imports over exports. This can be seen in the following comparison table for 2005-2006:

**Imports versus Exports (New South Wales): 2005-2006**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Imports</strong></td>
<td>$83.1 billion</td>
</tr>
<tr>
<td><strong>Exports</strong></td>
<td>$44.3 billion</td>
</tr>
</tbody>
</table>

With the decline of manufacturing in NSW, the state now imports a large amount of manufactured items. This can be seen in contrasting tables for the composition of imports and exports:

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37 Market Information and Analysis Section, Department of Foreign Affairs and Trade, *Australia’s Trade by State and Territory* (Market Information and Analysis Section, Department of Foreign Affairs and Trade, Canberra, 2007), p.16.
The biggest single area of imports, for New South Wales, is Information and Computer Technology (ICT) equipment. Although the state exports a small amount of computer equipment, it imports over twenty times as much. This can be seen in the following contrasting tables for ICT imports and exports:

**NSW Imports by Value: 2005-2006**\(^{38}\)

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elaborately Transformed Manufactures</td>
<td>$49.7 billion</td>
</tr>
<tr>
<td>Travel</td>
<td>$5.8 billion</td>
</tr>
<tr>
<td>Transportation</td>
<td>$5.8 billion</td>
</tr>
<tr>
<td>Fuels</td>
<td>$5.5 billion</td>
</tr>
<tr>
<td>Simply Transformed Manufactures</td>
<td>$4.4 billion</td>
</tr>
<tr>
<td>Processed Food</td>
<td>$2.6 billion</td>
</tr>
<tr>
<td>Unprocessed Food</td>
<td>$539 million</td>
</tr>
<tr>
<td>Minerals</td>
<td>$184 million</td>
</tr>
<tr>
<td>Other Services</td>
<td>$6.5 billion</td>
</tr>
<tr>
<td>Other Manufactures</td>
<td>$1.5 billion</td>
</tr>
<tr>
<td>Other Primary Products</td>
<td>$334 million</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$83.1 billion</strong></td>
</tr>
</tbody>
</table>

**NSW Exports by Value: 2005-2006**\(^{39}\)

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel</td>
<td>$8.4 billion</td>
</tr>
<tr>
<td>Elaborately Transformed Manufactures</td>
<td>$7 billion</td>
</tr>
<tr>
<td>Fuels</td>
<td>$6.3 billion</td>
</tr>
<tr>
<td>Transportation</td>
<td>$3.3 billion</td>
</tr>
<tr>
<td>Simply Transformed Manufactures</td>
<td>$3 billion</td>
</tr>
<tr>
<td>Processed Food</td>
<td>$2.7 billion</td>
</tr>
<tr>
<td>Minerals</td>
<td>$2 billion</td>
</tr>
<tr>
<td>Unprocessed Food</td>
<td>$1 billion</td>
</tr>
<tr>
<td>Other Services</td>
<td>$5.6 billion</td>
</tr>
<tr>
<td>Other Manufactures</td>
<td>$3.3 billion</td>
</tr>
<tr>
<td>Other Primary Products</td>
<td>$1.3 billion</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$44.2 billion</strong></td>
</tr>
</tbody>
</table>

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\(^{38}\) Market Information and Analysis Section, Department of Foreign Affairs and Trade, op.cit., p.17.

\(^{39}\) Market Information and Analysis Section, Department of Foreign Affairs and Trade, op.cit., p.16.
The NSW Economy: A Survey

NSW ICT Equipment Imports by Value and Type: 2006

<table>
<thead>
<tr>
<th>Equipment Type</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer</td>
<td>$6.3 billion</td>
</tr>
<tr>
<td>Communications</td>
<td>$3.4 billion</td>
</tr>
<tr>
<td>Audiovisual</td>
<td>$2.7 billion</td>
</tr>
<tr>
<td>Software Products</td>
<td>$407 million</td>
</tr>
<tr>
<td>Components</td>
<td>$325 million</td>
</tr>
<tr>
<td>Other ICT-Related</td>
<td>$1.3 billion</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$14.4 billion</strong></td>
</tr>
</tbody>
</table>

NSW ICT Equipment Exports by Value: 2006

<table>
<thead>
<tr>
<th>Equipment Type</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer</td>
<td>$220 million</td>
</tr>
<tr>
<td>Components</td>
<td>$118 million</td>
</tr>
<tr>
<td>Audiovisual</td>
<td>$83 million</td>
</tr>
<tr>
<td>Communications</td>
<td>$76 million</td>
</tr>
<tr>
<td>Software Products</td>
<td>$51 million</td>
</tr>
<tr>
<td>Other ICT-Related</td>
<td>$125 million</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$675 million</strong></td>
</tr>
</tbody>
</table>

(h) Gross State Product

The slowdown in manufacturing, the post-Olympic decline in building, and the ending of the housing boom have all contributed to a slowdown in gross state product. In 1998-99 the rate of growth of gross state product (GSP) was around a peak level of 5% per annum. The following year (1999-2000), GSP slipped to 4.4% and in 2000-01 declined to 2.4%. Growth then slowed further during 2001-02 (to 2.2%). Growth revived during 2002-03 (reaching 3%) and then declined in 2003-04 (to 2.1%) and again in 2004-05 (1.8%). It revived momentarily in 2005-06 (to 2.1%) and then declined once more in 2006-07 (1.8%). The growth in GSP, in terms of value, can be illustrated in the accompanying graph:

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41 Ibid.

The NSW Economy: A Survey

NSW Gross State Product 1998-99 to 2006-07 (ABS Catalogue 5220: Table 1)

The trend in the decline in gross state product, from financial year 1999-2000 to 2006-2007, can be seen as follows:

3. THE COMPENSATORY CONTRIBUTION OF THE FINANCE/PROPERTY SECTORS AND GOVERNMENT FINANCIAL POLICY

(a) The Expansion in Property and Finance

While the manufacturing sector declined during the 1980s and the 1990s, other sectors of activity rose in output: particularly property and finance. The oldest established (and for many years the strongest) bank in the state was the Bank of New South Wales (BNSW - the present day Westpac): founded in 1817 by a group of British magistrates and merchants.  

It was on the basis of the profits that the company made during the 1850s gold rush, and the profits that it made through lending in the accompanying wool boom, that, in Reginald Holder’s words, “between 1865 and 1870...[the Bank of New South Wales] established itself as the largest bank in Australasia”. 44

Meanwhile, thirty-one years after the founding of the BNSW, five other British individuals (including at least two prominent businessmen in the colony) held a meeting to form a friendly society. In 1849 the Australian Mutual Provident Society (AMP) was registered under the Friendly Societies Act of NSW. By 1905 the AMP has become the outright leader in life assurance in Australia: with a value of £55 million in life policies on issue (over three times that of its nearest rival, the Melbourne-based National Mutual). 45

Accompanying the rise of the finance sector, commercial involvement in property became a major feature of business activity. Initially, property activity focused on residential housing. Professor Noel Butlin wrote that, during the 1800s,

Residential investment...was the leading field of investment during the second half of the nineteenth century, rivalled only by the pastoral...industry... 46

In 1912, Andrew Fisher’s ALP government established the government-owned Commonwealth Bank of Australia (CBA). It was initially based in Melbourne and all 489 post office branches in Victoria became agents for the Bank. Four years later, in the midst of the First World War, the bank’s headquarters were transferred to Sydney. Fifteen years later, in the depths of the 1930s investment crash, the CBA acquired the assets of the Government Savings Bank of NSW (which had collapsed after a run on its deposits). In Stephen Martin’s word, “At a stroke, the Commonwealth became the biggest bank in New South Wales.” 47

The BNSW, meanwhile, remained the largest bank in Australia - with balance sheet assets (in 1936) of £111,557,000 (nearly three times that of the Melbourne-based National Bank of Australia: the present-day NAB). 48

A new feature in property development, in addition to investment in suburban housing, was the introduction of the shopping mall during the 1950s: the first being opened by Brisbane retailer Allan and Stark’s in 1957. This inaugurated a major change in the housing of

44 Holder, op.cit., p.267,281.
retailing and heralded the emergence of local Australian companies which, thirty to forty years later, would become major property dealing companies. Three of these were Lend Lease, Stocks and Holdings (later Stockland) and Westfield.  

During the 1970s new connections, between banks and property concerns, facilitated the emergence of even more property undertakings. Mirvac, for instance, was formed in the early 1970s, through an alliance between AGC (a subsidiary of the Bank of New South Wales) and the developer Henry Pollack.

During the 1980s the sector expanded dramatically in the midst of a massive boom. Although this boom collapsed in the general recession of 1990-1992, it elevated property into the position that it occupies today. Christopher Kent and Patricia Scott observed that, over the 1985/86 to 1988/89 investment boom...just over one quarter of the growth in real non-farm capital expenditure was in the real estate and property development industry.

AMP, meanwhile, had also massively expanded its scale of operations. By the early 1960s the company had shares in 120 public companies in New South Wales. By the early 1990s, Anne Lampe reported in the Sydney Morning Herald that the “AMP Society is Australia’s largest fund manager with more than $40 billion in funds under management.”

During the second half of the 1990s, and the early years of the twenty-first century, there has been a renewed expansion in the property industry. The leading property funds managers in Australia, in recent years, are as follows:

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52 Blainey, op.cit., p.263.

Australia’s Ten Leading Property Fund Managers by Value of Assets under Management: 2001-2003

<table>
<thead>
<tr>
<th>Fund Manager</th>
<th>Value of Assets under Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Westfield Holdings Limited</td>
<td>$27.93 billion</td>
</tr>
<tr>
<td>Colonial First State Group</td>
<td>$15.48 billion</td>
</tr>
<tr>
<td>Lend Lease International Pty Ltd (including GPT)</td>
<td>$12.91 billion</td>
</tr>
<tr>
<td>Deutsche Asset Management (Australia)</td>
<td>$11.16 billion</td>
</tr>
<tr>
<td>AMP Global Investors</td>
<td>$10.13 billion</td>
</tr>
<tr>
<td>Challenger Financial Services</td>
<td>$6.02 billion</td>
</tr>
<tr>
<td>Macquarie Bank</td>
<td>$5.79 billion</td>
</tr>
<tr>
<td>Stockland</td>
<td>$5.64 billion</td>
</tr>
<tr>
<td>Centro</td>
<td>$5.46 billion</td>
</tr>
<tr>
<td>ING Group</td>
<td>$4.95 billion</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$105.48 billion</td>
</tr>
</tbody>
</table>

At the same time Westpac (the new name the former BNSW took for itself in 1982 when it absorbed the Commercial Bank of Australia) and the Commonwealth Bank of Australia (placed in commercial hands by the Hawke, Keating and Howard governments during the 1990s), have increased their profits even more, as the accompanying figures illustrate:

**Commonwealth Bank and Westpac Profits: 2003-2004 to 2005**

<table>
<thead>
<tr>
<th></th>
<th>2003-2004</th>
<th>2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth Bank</td>
<td>$2.6 billion</td>
<td>$4.6 billion</td>
</tr>
<tr>
<td>Westpac</td>
<td>$2.5 billion</td>
<td>$3.45 billion</td>
</tr>
</tbody>
</table>

In terms of funds management, seven out of the top ten funds managers in Australia are based in Sydney and, between them, have 70% of funds under management:

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Top Ten Funds Managers Australia: 2006

<table>
<thead>
<tr>
<th>Funds Manager</th>
<th>Assets (in billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth/Colonial (Sydney)</td>
<td>$87.8</td>
</tr>
<tr>
<td>National Australia Bank (Melbourne)</td>
<td>$84.3</td>
</tr>
<tr>
<td>AMP (Sydney)</td>
<td>$75.8</td>
</tr>
<tr>
<td>Macquarie (Sydney)</td>
<td>$53.7</td>
</tr>
<tr>
<td>ING Australia (Sydney)</td>
<td>$59.5</td>
</tr>
<tr>
<td>AXA (Melbourne)</td>
<td>$42.4</td>
</tr>
<tr>
<td>Westpac/Bankers Trust (Sydney)</td>
<td>$35.5</td>
</tr>
<tr>
<td>St. George (Sydney)</td>
<td>$29.6</td>
</tr>
<tr>
<td>Russell Investment Management (Sydney)</td>
<td>$18.9</td>
</tr>
<tr>
<td>Aviva (Melbourne)</td>
<td>$18.3</td>
</tr>
<tr>
<td><strong>TOTAL SYDNEY</strong></td>
<td><strong>$351 billion</strong></td>
</tr>
<tr>
<td><strong>TOTAL AUSTRALIA</strong></td>
<td><strong>$495 billion</strong></td>
</tr>
</tbody>
</table>

(b) The Compensatory Contribution of the Property and Finance Sectors

Currently property and business services, and finance and insurance, contribute over 25% of Gross State Product, as the following table illustrates:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property and Business Services</td>
<td>14.9%</td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>10.9%</td>
</tr>
</tbody>
</table>

The strength of the property and finance sector has, to some degree, compensated for the decline in manufacturing. On an overall level, this can be seen via the following indicators of activity:

Private New Capital Expenditure

While private new capital expenditure declined in the first two years after the Olympics, it gradually increased again between 2003 and 2006. The value of private new capital expenditure can be seen in the graph below:

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56 See Plan For Life (Media Release), Analysis of Retail Managed Funds During December Quarter 2006, p.3; Analysis of Unitised Wholesale Funds During December Quarter 2006, p.1.

The fluctuations in private new capital expenditure, between the period just after the Olympics and then between 2003-2006, can be seen in a graph of the yearly changes in growth:

**NSW Total Private New Capital Expenditure: 2000-2006**  
(ABS Catalogue 1338.1: Table 10.1)

![Graph of NSW Total Private New Capital Expenditure: 2000-2006](image)

Further evidence of the influence of the property and finance sectors, on activity in New South Wales, can be seen in figures for the value of commercial and industrial land. On an overall level, there has an increase of 60% in the value of commercial and industrial land, in New South Wales, between 2001 and 2005, as indicated in the following tables:
While there was a drop in the value of commercial and land, between 2003 and 2004, the value began to increase again between 2004 and 2005, as the accompanying graph indicates:

**NSW Value of Commercial and Industrial Land**
* (Percentage Change from Previous Year): 2001-2005

Employment in Property and Business Services

While employment in the manufacturing sector declined, employment in property and business services has (overall) increased substantially. This can be seen in the following graphs of employment numbers and percentage increases:
Employment in Finance and Insurance

Employment in finance and insurance had also increased over the last ten years, although in smaller numbers than in property and business services (and by smaller percentage increases over the years). Again this can be seen in the following two graphs:
The increase in employment in property and business services (and in finance insurance) has meant that, despite the fall in employment in manufacturing, there has been (generally) an increase in employment over the last seven years. This can be seen in the accompanying graphs:
Despite the slowdown in other areas of activity, the resilience of the property and finance sector has sustained a modest growth in average weekly earnings, as highlighted in the following graph:
Although there was a slightly higher than average increase between 2002 and 2003, over the five-year period 2002-2006 the average increase has been around 4%, as indicated in the graph below:

(c) NSW Trade Performance against the Background of Australia’s Recent Trade Performance

While NSW imports more than it exports, the state’s trade imbalance does not appear to be critical when considered against the background of the nation’s net foreign debt (the total amount of borrowing from non-residents by Australians minus non-equity assets such as lending by Australian residents to non-residents and holdings of foreign reserves by the Reserve Bank). The increase in Australia’s net foreign debt by value, from 1996 to 2007, is as follows:
Australia's Net Foreign Debt: 1996-2007 (ABS Catalogue 5302.0: Table 2)

The percentage change in Australia’s net foreign debt, over the last ten years, can be seen in the following graph:

(d) State Government Financial Policy

During its term in office, the Carr government embarked on reducing the state’s debt. The following Iemma government has continued the same policy. Gradually the state’s net debt has been reduced from 11.5% of Gross State Product to around 4.8% of GSP in 2006,\(^{58}\) as illustrated in the following graph:

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As outlined in the recent budget, the Iemma government has embarked on a program of expansion of government works and increased borrowing to do so. The 2007-08 budget states that,

Over the four years to 2010-11...Capital expenditure will be $18.4 billion in the general government sector...and $31.2 billion in the PTE [Public Trading Enterprise] sector...Total state net debt is forecast to rise to $39.3 billion (9.3% of GSP) at June 2011. 59

Despite the anticipated increase in public debt, credit ratings agencies (and bank economists) believe that there will be no untoward impact on the state economy. In September 2007, Standard and Poor’s issued a report on New South Wales in which it confirmed a AAA credit rating for the state. On an overall level, while raising some concerns over the increase in debt, Standard and Poor’s does not expect the state’s credit rating to alter. It has outlined its opinion as follows:

The key elements of the state’s fiscal strategy are as follows...Keeping general government net financial liabilities at or below 7.5% of GSP by June 2010 and 6% by June 2015...[to] Maintain general government sector net debt as a share of GSP at or below the level at June 2005 (not expected to be met over the forecast period to fiscal 2011)...[to keep] The 4-year average annual growth in net cost of services and expenses...at or below long-term average annual revenue growth (not yet achieved but expected to be achieved over the forecast period to 2011). This represents a weakening commitment to the fiscal strategy and reduces the extent to which the strategy supports the state’s credit quality. However the deviation does not impact the rating because...The state’s forecast net financial liabilities are expected to remain within the tolerance of the rating...The state’s operating performance tends to be stronger than forecast...The government has implemented efficiency savings measures to correct the mismatch between revenue and

CONCLUSION

On the surface it could be said that, during the last ten years, Sydney has experienced the vicissitudes that are typically encountered in hosting an Olympic Games. Montreal, for instance, incurred a debt of $2.5 billion in the course of staging the 1976 Olympic Games: a sum which it only paid off last year. While Sydney did not accumulate debts in hosting the Games, it did experience a minor boom before the Olympics and a slump afterwards. On the other hand it is clear that there is at least one long-range factor further contributing to the recent course of production in the state: the long-term decline of manufacturing ever since the first major global increase in oil prices in the early 1970s.

The corresponding expansion of the property/finance sector, on the other hand, appears to compensate for the shrinking of manufacturing’s contribution to output. While activity and employment in manufacturing has shrunk, private new capital expenditure has increased and employment in property and finance has expanded. The state’s dependence on sophisticated imports certainly provides food for thought in considering the future of production in the state but, against the background of the nation’s performance as a whole, does not appear to be critical.

60 Standard and Poors, New South Wales (Standard and Poor’s, Melbourne, 2007), p.6. Stephen Halmarick and Annette Beacher, of Citigroup, have also concluded that "despite the expected increase in net debt in 2007/08 and the outyears, we continue to believe that NSW's strong balance sheet and diversified economy ensure that the state is, in our view, in no danger of losing its AAA/Aaa rating." See Stephen Halmarick and Annette Beacher, State of the States (Citigroup, Sydney, 2007), p.47.

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