# Trends

November 2023
A bulletin of
economic developments
in South Australia

## Shifting Sands

South Australia's opportunity to plug into a reorganised world

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## Foreword

# Globalisation has shaped the world as we know it, but momentum has slowed. What is in store for global supply chains over the next decade?

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

### In this edition, we look at the shifting sands of globalisation and how South Australia can plug into a reorganised world.

**Globalisation has shaped the world as we know it. Historically, it has driven economic growth since the end of World War II, but a combination of factors over the past decade-and-a-half has created a significant drag on global supply chains.**

So how did we get here? And what are the challenges and opportunities for South Australia and its role in Australian exports?

This edition of *Trends* examines why global supply chains are in flux, the impact of geopolitical tensions between the United States and China, Australia's delicate balancing act between the two major powers, and finally, why this may be good news for South Australia in playing a larger role in Australia's export profile.

Since the 2008 financial crisis, globalisation has slowed. This is in part due to several factors including the rise of populist protectionism, China's meteoric economic growth, and ongoing trade friction between the United States and China.

Supply-side disruption from COVID-19 added further pressure as shortages in raw materials and intermediate goods led to the scrutiny of manufacturing approaches designed to be lean and efficient.

This global fragility is likely to persist over the coming decade, with the added complexity of the urgent race to decarbonise the global economy.

The Australian economy will be presented with many challenges and a few opportunities to expand and deepen trade ties while elevating our global role.

It has been well-documented that diplomatic relations between Australia and China since 2017 have been fraught with risk. Our exporters have been encouraged to explore alternative markets in the Indo-Pacific region. There have been signs of a thawing in the Australia-China relationship but it makes sense to continue along the path of trade diversification.

South Australia may account for a relatively small share of Australia's merchandise exports, but we play a much greater role in some of our country's traditional exports such as wine, grain and resources.

This edition of *Trends* details how each of our key export sectors has come under pressure from geopolitical tensions and decarbonisation but also identifies where new opportunities are opening up.

Wine is clearly one of our major exports, accounting for 70 per cent of Australia's wine exports, and more than 40 per cent of all South Australia's wine is exported to China. Heavy tariffs recently imposed by China have put the industry at significant risk, but we quickly saw wine industry businesses investigating new markets. Our state's wine exports have since expanded in existing markets such as the United States and Canada while entering new markets such as India.

A study by Deloitte Access Economics on behalf of Alcohol Beverages Australia presents a positive outlook, noting alcoholic beverage exports could swell from less than $4 billion to $8.6 billion by 2030, which augurs well for South Australia's wine industry.

South Australia's grain growers have faced similar challenges, with China imposing steep tariffs on Australian barley exports. However, exporters have found new markets by expanding trade links with Saudi Arabia, Thailand, Vietnam, Japan, Central America and South America. China recently removed the barley tariffs but this again points to the need for our exporters to diversify to create greater resilience against geopolitical shocks.

Our metals industry is in a relatively strong position due to the state accounting for 67 per cent of Australia's copper resources and 40 per cent of copper exports. The global energy transition is projected to turbocharge the demand for metals, and copper is increasingly likely to be used as large swathes of the global economy switch to electricity to achieve net-zero commitments.

Worldwide copper supply is likely to fall short of demand at current rates of production, which presents Australia, and specifically South Australia, with an opportunity to ramp up production.

This leads us to one of South Australia's current strengths – our opportunity to capitalise on global decarbonisation. We are particularly well-positioned to lead on the clean energy front due to our boundless wind and solar resources.

Green steel presents us with another lucrative opportunity. Green steel production substitutes the use of polluting coal with hydrogen and uses an electric arc furnace rather than a traditional blast furnace. Our easy access to iron ore and renewable energy sources, which are necessary to produce green hydrogen, positions South Australia as a strategic hub for producing green steel.

Green hydrogen itself is yet another export opportunity for South Australia. In September this year, both the State and Federal Governments announced a $100 million investment to develop infrastructure at Port Bonython, near Whyalla, and prepare it to become South Australia's first large-scale export terminal for hydrogen. As a result, we will likely enjoy first-mover advantage in exporting clean hydrogen to Europe.

Defence and advanced manufacturing is another industry cluster that can present South Australia with an opportunity to embed itself into global supply chains. We are already in a prime position to benefit from the AUKUS security pact with the United States and United Kingdom.

Finally, this *Trends* report offers some easy tips for South Australian businesses looking to start, grow or diversify exports. They include links to Austrade, South Australia's Department of Trade and Investment and relevant industry bodies, as well as the Australian Government's export credit agency.

Despite the shifting sands of globalisation, South Australia is well-positioned to be on the cusp of a new era of growth and prosperity.

**David Firth**
**State General Manager, Business Banking**
**BankSA**

US
**$700**
billion

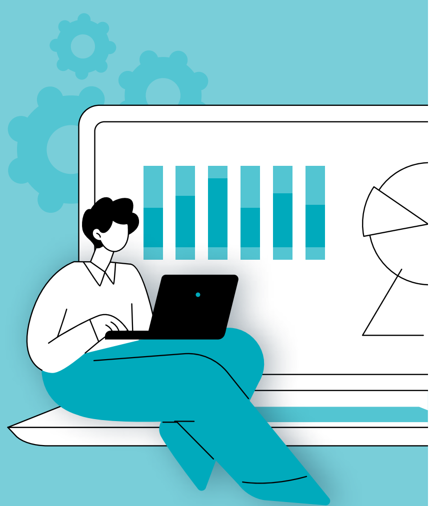
**Two-way dollar trade in 2022 between the US and China**

**80%**

**Grain produced in South Australia that is exported**

**100%**

**South Australia's energy demand produced using only renewable resources for 10 consecutive days in 2022**



# Shifting Sands

## South Australia's opportunity to plug into a reorganised world

**Globalisation has shaped the world as we know it. A large share of everything consumers buy, from factory machinery to gardening tools, from cars to mobile phones, and from designer gowns to t-shirts, are made elsewhere and often across multiple countries. Global supply chains developed as the improved flow of capital combined with competitive advantages in different countries. These supply chains have been held together by economic and political cooperation that has in turn been sustained by employment opportunities and productivity gains. Indeed, globalisation has driven economic growth since the end of the second world war. However, several factors have combined in recent times to create a significant drag on global supply chains and on globalisation.**

### Global supply chains are in flux

Since the 2008 financial crisis, globalisation has slowed. Several factors beyond textbook macroeconomic theory have been at play. First, the 2008 crisis laid bare the gap between the 'winners' and 'losers' of globalisation and set the stage for the rise of populist protectionism. Additionally, a rebalancing of the global economy due to China's meteoric economic growth came to a head during the same time. China's economic and military influence also shifted the balance of geopolitical power. Populism and the bipolarisation of global economic, military and political power has contributed to an increase in geopolitical friction, which has weighed on global trade and is reshaping globalisation. For instance, ongoing trade friction between the United States (US) and China has nudged international supply chains to evolve to avoid collateral damage. This has led to 'friend-shoring', which implies shifting production to a 'friendly' country.

Furthermore, the supply-side disruption caused by the COVID-19 pandemic added to the political pressure weighing on global supply chains. Shortages in raw materials and intermediate goods led to the scrutiny of manufacturing approaches designed to be lean and efficient. This also spurred 'near-shoring' so that production can be shifted closer to the consumer market. In some cases, shortages posed a threat to national security. Even though free trade contributes to economic prosperity, supply-chain fragility has therefore raised risks that could catalyse solutions, which potentially supersede standard macroeconomic theory. Broadly, some degree of efficiency could be eroded in favour of greater resilience and reliability. The pandemic-induced disruption also made a compelling case for improving the transparency of supply chains through digitisation.

A combination of geopolitical risks and a growing focus on resilience are likely to continue exerting influence on global supply chains through the next decade. Adding to this, and intertwined with both aspects, geopolitics, and the need for supply-side reliability, is the urgent race to decarbonise the global economy. As production shifts away from hydrocarbons towards renewable sources of energy, critical global energy supply chains will reroute. Reliability and transparency will take top priority. This is likely to buttress the general pattern of 'friend-shoring,' 'near-shoring,' and digital transformation.

The ensuing period of change presents the Australian economy with many challenges and a few opportunities to expand and deepen trade ties while elevating the role it plays in the global economy. In this edition of *Trends*, we first set the context by looking at where Australia stands considering the trade tensions between the US and China, and the global race to decarbonise. Against this context, we examine South Australia's export profile and the possible advantages that might arise from plugging into a world that is reorganising rapidly.

### Trade tensions between the United States and China take centre stage

At the forefront of prevailing geopolitical unease in the global economy is the ongoing diplomatic and trade tensions between the US and China. Trade tensions between the US and China, the two major powers of the global economy, have intensified in recent times. The source of the tension is complex, encompassing differences in ideology and a jostling for larger spheres of influence. Furthermore, it is underpinned by an intense competition for resources and technological primacy. Trade and supply chains that crisscross several countries are at the heart of this tension. Many countries, including Australia, have significant economic, security or political ties to both powers. The evolution of the conflict is therefore critical to decision-making at all levels of government and business in several countries.

On the surface, it appears that despite mounting tensions between the US and China, trade between the two countries has ballooned and is at an all-time high. In 2022, the dollar value of two-way trade in goods grew to almost US$700 billion, up sharply from US$120 billion in 2000. However, when the effect of higher prices is removed, it is plain to see that trade has flattened since peaking in 2018. Even though both countries are likely to remain mutually important markets in the short term, the delinking of ties is well under way. The Peterson Institute for International Economics points out that China is slowly decoupling from US exports.[i] For instance, since the start of current trade tensions in 2018, China has imported manufactured goods from the US at a slower rate than it has from the rest of the world. Additionally, China's imports of manufactured products, such as US aircraft and automobiles, has dipped sharply. At the other end, China's market share in US imports has fallen since peaking at 22% in 2017. In the first quarter of 2023, China's share of US goods imports fell to just 13%.

> **"The decade to 2030 is likely to prove a period of transformation for global value chains."**
>
> *- James Zhan, United Nations Conference on Trade and Development*

The delinking between the US and China is even less tacit in other areas, such as in advanced technology. For instance, the semiconductor industry, which is concentrated in Asia, now serves as the vanguard of the trade war between the US and China. This is mainly because semiconductors are essential to a wide array of consumer products from smartphones to cars as well as in the development of artificial intelligence. At the end of 2022, the US put in place sweeping export controls that curtailed China from accessing advanced semiconductor chips made using US equipment, software or human capital anywhere in the world. The Netherlands, home to the only company in the world that makes the machines used to make semiconductor chips out of silicon wafers, and Japan, a major producer of semiconductors, both followed suit with similar export controls. China retaliated with a counter ban on the import of memory chips from a large US manufacturer citing potential threats to national security infrastructure. Additionally, China imposed export controls on gallium and germanium, two rare earth metals used in making semiconductor chips.

The 'chip wars' between the US and China have put pressure on advanced-technology supply chains around the world. Deeply entrenched manufacturers in Taiwan, Korea and Japan, keen to avoid sanctions, are likely to endure the most of it since China provides an exceptionally large market for advanced technology. However, the strong push to repatriate semiconductor manufacturing to the US also presents opportunities for several countries to invest in the US. These opportunities are more pronounced since the subsidies offered by the Biden administration's 'CHIPS and Science Act' also extend to suppliers and toolmakers.[ii] From an Australian perspective, even though manufacturing leading-edge semiconductors is highly improbable, ramping up capabilities to produce less advanced trailing-edge semiconductor chips, which are essential to household appliances, presents an opportunity to build supply chain resilience in a critical sector.[iii] Additionally, Australia, which is already the fourth-largest producer of rare earths, can ramp up mining and processing to plug gaps in global supplies of raw materials that are essential to manufacturing semiconductors.

In the current geopolitical scenario, industrial policy has overridden the basic tenets of demand and supply. This has caused several multinational companies across various industries to reorganise their supply chains. The ongoing trade tensions and the nature of the COVID-19 pandemic have brought supply chain fragility into sharper focus in Australia, especially since the country ranked at the bottom of the list for manufacturing self-sufficiency among countries that are part of the Organisation for Economic Cooperation and Development (OECD).[iv]

### Australia's opportunity to diversify, not decouple

Amid this global tension, Australia remains delicately balanced between the two major powers. The elevated likelihood that US-China detangling will continue means that Australia will find it increasingly difficult to maintain balance. However, as historian James Curran points out in his book, 'Australia's China Odyssey: From euphoria to fear', Australia has always had to manage its relationship with China with skill and balance.[v] The need for such skilful diplomacy came back into sharp focus since 2017 when Australia banned foreign political donations and blocked Chinese investment in its 5G network, as well as other forms of infrastructure and agriculture.

Since 2017, diplomatic and trade relations between Australia and China have been fraught with risk. Australia's export concentration in China, once a pillar of strength, is gradually evolving into a significant challenge since trade tensions took root in 2020. However, the Australian Government's current approach of encouraging exporters to explore alternative markets in the Indo-Pacific region, such as India and Indonesia, is likely to bear fruit. Negotiating new free trade agreements has bolstered this approach and prepares Australia to withstand geopolitical rivalry and any form of economic coercion. The resilience of Australia's exports in the face of China's trade barriers since 2021, albeit due to favourable dynamics in international markets, is likely to be encouraging. This resilience in exports is highlighted in the Productivity Commission's recent trade and assistance review.[vi] In terms of imports, 25% of Australia's manufacturing sector imports come from China.[vii] As global manufacturers lean towards a 'China-plus-one' strategy, Australia can take advantage of near-shoring opportunities in countries such as Thailand and Vietnam.

> **"We must position South Australia to thrive in a turbulent global environment—with decarbonisation, geopolitical uncertainty, new technologies and disrupted supply chains all set to have lasting impacts on how and what we produce."**
>
> *- Premier of South Australia, Peter Malinauskas, South Australia Economic Statement*

At present, even though China will likely remain Australia's largest trading partner in the near term, it would still be in Australia's interests to continue along the path of trade diversification. Data from the Department of Foreign Affairs and Trade indicates that trade diversification is already underway.[viii] Between 2020 and 2022, Australia imported goods and services from several partner countries at a significantly faster growth rate than the 5-year trend growth. For instance, total imports from each of Singapore, South Korea, Taiwan and India increased by more than 60% during this period, far above the 5-year trend growth in each case. Imports from the United States accelerated by 15% after remaining flat on average over the last five years. The same pattern held true for Australia's imports from Japan, Germany, Malaysia and Vietnam. Australian exports also recorded strong market uptake. While exports of goods and services to China slowed well below the 5-year trend growth rate, the growth rate of exports to almost every other economy in Australia's list of top 15 export destinations accelerated sharply and outpaced the 5-year trend growth rate by a large margin.

## South Australia on the cusp of a new era

**South Australia's traditional exports are likely to be influenced by geopolitical churn and decarbonisation.**

The global forces that are likely to keep Canberra busy will also filter down to the states and territories. Though South Australia accounts for a relatively small share of Australia's total merchandise exports, accounting for about 3.0% of the dollar value of the country's total exports each year, it either dominates or plays a significant role in some of Australia's traditional goods exports such as wine, grains and metals.[ix] Trade in each of these sectors has already come under pressure from geopolitical tensions and global energy transition. However, new opportunities have also sprung up.

### Wine

From 2013 to 2022, South Australia accounted for almost 60% of the value of Australia's total alcoholic beverages exports.[x] In 2020, the state also accounted for 70% of the total value of Australia's wine exports. South Australia is home to 18 unique wine regions and 700 wineries, and 50% of all Australia's bottled wine is produced in the state.[xi] Clearly, wine has been among South Australia's leading and most established products.

Yet the export of wine has had its fair share of troubles in recent times. As is the case with most of the state's produce, China is the leading export destination. More than 40% of all South Australia's wine is exported to China. The China-Australia Free Trade Agreement underpinned this pattern between 2015 and late 2020. However, after the COVID-19 pandemic catalysed geopolitical tensions between China and Australia, trade ties were strained, and China imposed heavy tariffs on Australian wine.

Even though Australian wine could potentially make a comeback to China's vast consumer market soon, exporters are likely to face competition. Moreover, despite China continuing to present the South Australian wine industry with a large and profitable market, the risks that come with monopsony have crystalised.

According to a study conducted by Deloitte Access Economics on behalf of Alcohol Beverages Australia, alcoholic beverage exports could swell from less than $4 billion to $8.6 billion by 2030.[xii] Wine, which currently accounts for 85% of Australia's alcoholic beverage exports, is likely to hold steady as the largest slice of the pie. This augurs well for South Australia's wine industry. However, the projection continues to be predicated on the ability to break into new markets.

In 2020, one in two businesses in South Australia's wine industry started to investigate new export markets. Since then, South Australian wine exports have expanded in existing markets such as the US and Canada while entering new markets such as India. The newly signed Australia-India Economic Cooperation and Trade Agreement (AI-ECTA) makes Australia the first major wine exporter to gain preferential access to India's

wine market. A 'most favoured nation' clause implies that South Australia's wine exporters would further benefit if India were to negotiate a deeper tariff reduction with another country. Early success in the Indian wine market has been linked to Austrade's business matching services. Similarly, South Australia's Department for Trade and Investment and Wine Australia have launched a Wine Export Recovery and Expansion Program. Under this umbrella the US Market Entry Program offers business matching services for wineries looking to enter the US market while the Explore Canada Program provides wine exporters with guidance for expanding in the Canadian wine market.

Building market share for a product such as wine usually takes time, and demands continued support from government, industry bodies and the financial sector. South Australian wine exporters entering new markets can take heart from the fact that China, which is now a large wine market, did not have a taste for Australian wine two decades ago.

## Grains

Another traditional export for South Australia is grains. Grains grown in South Australia range from wheat and barley to canola and chickpeas. While neighbouring Western Australia plays a leading role in the production and export of grains, South Australia also plays a significant role, accounting for 20% of Australia's total grain production.[xiii] Almost 80% of the grain produced in South Australia is exported. While the demand for grain is linear compared to products such as wine, market access and geopolitics play a role.

For instance, Australia's barley exporters, including those in South Australia, were locked out of China's market when steep tariffs were imposed in 2020 due to allegations of 'dumping'. Until that point, barley exported to China was sold at a premium, since it was used to produce beer in the world's largest beer market, which is dominated by local producers. However, Australia's barley exporters found new markets by expanding exports to Saudi Arabia, Thailand, Vietnam, Japan, Central America and South America. The recent removal of China's tariffs on Australian barley is likely to benefit South Australia's exporters, however, the need to diversify export destinations remains.

Wheat is more widely grown in South Australia. The state produces 14% of the wheat grown in Australia and exports 90% of its crop. The ongoing war between Russia and Ukraine, both major wheat exporters, and Russia's recent withdrawal from the Black Sea grain initiative, have raised the global price of wheat by stifling supply. Australian wheat exporters have benefited from elevated prices and have expanded into new markets such as India, Jordan, Iran, Mauritius, Tunisia, Rwanda and Burundi as global wheat supply chains are reorganised.

Evidence of agricultural export diversification in 2021-22 was clear as barley and wheat exports were more diversified compared with two years ago.[xiv] This was supported by improved access to 46 agricultural and fisheries export markets during the financial year – a result of trade negotiations by the Australian Government and business guidance by industry bodies like Grain Producers SA.

### Metals

South Australia is home to 67% of Australia's copper resources.[xv] On average, the state accounted for almost 40% of Australia's copper exports between 2013 and 2022.[xvi] Additionally, South Australia accounted for 12.5% of Australia's copper ores and concentrates exports during the same period. South Australia also plays a key role in the export of lead, accounting for 40% of the country's overseas shipments.

The global energy transition is projected to turbocharge the demand for metals. For instance, lead batteries will play a vital role in allowing renewable energy to be stored and integrated into electric grids. Copper is likely to be increasingly used as larger swathes of the global economy switch to electricity to achieve net-zero commitments. Charging stations for electric vehicles and solar panels require significant amounts of copper.

However, research by the International Monetary Fund has pointed towards the strong likelihood that current levels of production for several metals will not meet projected future demand.[xvii] Copper, for instance, is expected to fall far short of demand at current rates of production. This presents Australia, and South Australia in particular, with an opportunity to ramp up production. The South Australia copper strategy aims to triple the state's copper production over the next two decades. This would make Australia the third-largest producer of copper. Moreover, since a considerable number of global copper suppliers are graded as being politically unstable, Australia's proven track record of political stability and reliable energy supply is likely to be sought after.

**South Australia's expanding horizon of export opportunities could counterbalance geopolitical risk.**

### Clean energy

Australia's economic success since the early 2000s has been powered by a resources boom that coincided with China's growing global ambitions and exceptionally fast investment-driven economic growth. However, future drivers of growth are likely to look different. First, China's model of economic growth is likely to pivot away from large infrastructure projects that require copious amounts of iron ore to produce steel. Additionally, China has embarked on a strategy to wean itself off Australia's iron ore. Progressively lower demand from China, as well as an expansion of global supply, could lower prices for Australia's top export and force exporters to sell to new markets such as India. However, the bigger picture is rooted in the challenge presented by climate change. Four of Australia's top five trade partners (Japan, South Korea, the United States and the United Kingdom) have set 2050 net zero targets, while China is aiming to achieve net zero by 2060. On a broader scale, almost 90% of the world's GDP is covered by a commitment to achieve net-zero emissions.[xvii] More importantly, hematite, Australia's traditional iron ore export, does not readily lend itself to green methods of producing steel.

> **"Australia has a vast natural resource base of renewables, critical minerals, and fossil fuels. Today, it is one of the largest energy exporters in the world and has the stated ambition to become a renewable energy export superpower in the future."**
>
> *- International Energy Agency, Energy Policy Review, Australia 2023*

However, surging demand for renewable sources of energy, critical minerals and growing markets for green steel present the next frontier of growth for Australia. South Australia is particularly well-positioned to lead on the clean energy front since it is generously endowed with wind and solar resources. Almost 70% of the electricity generated in the state is from renewable sources. This is projected to rise to 85% by 2025.[xix] In fact, South Australia produced 100% of its local energy demand for 10 consecutive days using only renewable sources of energy in late 2022.[xx] The success of renewables in South Australia has led to Project Energy Connect through which South Australia will export renewable energy to New South Wales and Victoria.[xxi]

Green steel presents South Australia with another lucrative opportunity. The traditional production of steel accounts for 5% of global carbon dioxide emissions. However, since steel is an essential product across all economies, decarbonising the production of steel is imperative. Green steel production substitutes the use of polluting coal with hydrogen and uses an electric arc furnace rather than a traditional blast furnace. South Australia's easy access to iron ore and renewable sources of energy, which are necessary to produce green hydrogen, positions the state as a strategic hub for producing green steel. Moreover, magnetite, a particular form of iron ore that lends itself to green steel production, is in abundance in South Australia. More than 90% of the state's iron ore deposit is magnetite.[xxii] South Australia's magnetite strategy aims to produce 50 million tonnes of magnetite a year by 2030.[xxiii] Higher production of magnetite will fuel the domestic steel industry while also creating an export revenue stream. A study conducted by the Grattan Institute indicates that capturing 6.5% of the global steelmaking market would result in $65 billion in annual exports in Australia.[xxiv]

Green Hydrogen, produced by renewable energy, is yet another export opportunity for South Australia. Port Bonython and Cape Hardy are set to become clean hydrogen production and export hubs in South Australia by 2030.[xxv] South Australia is also likely to enjoy first-mover advantage in exporting clean hydrogen to Europe through the port of Rotterdam. A pre-feasibility study indicated that South Australia's hydrogen exports would be a competitive option for the Netherlands.[xxvi] The likelihood that geopolitical tensions will weigh on the supply chains that are likely to facilitate the global green energy revolution is high. Yet, targeted investments that capitalise on South Australia's endowment of natural resources will allow the state to position itself as a reliable source of clean energy that is sought after by economies on both sides of the geopolitical divide.

### Defence and advanced manufacturing

Finally, another cluster that is likely to present South Australia with an opportunity to embed itself into global supply chains is defence, advanced manufacturing and supercomputing. Opportunities in the defence sector are highly likely to be deeply rooted in South Australia, with closer military trade ties formed with the US and the UK under the AUKUS security pact. The multi-year pact is likely to raise defence spending and deepen defence sector integration with the US and the UK while creating jobs in South Australia. The recently announced AUKUS nuclear submarine deal is likely to make South Australia the "home of Australian nuclear-powered submarine construction". [xxvii]

The deal will include investment in the existing shipbuilding industry, the ancillary manufacturing sectors associated with it, and in research and education to develop a skilled workforce. Global tensions are also likely to spur investment and create trade opportunities beyond the shipbuilding industry, in defence focused cybersecurity and in aerospace. The AUKUS deal is likely to strengthen Australia's defence supply chains by facilitating access to the large military-industrial bases in the US and the UK. The transfer of dual-use technology could potentially boost advanced manufacturing in the state and create another significant revenue stream for the South Australian economy.

### South Australia is likely to play a larger role in Australia's export profile.

The fragility of global value chains and the subsequent reorganisation of trade is very likely to persist over the coming decade. Moreover, global tensions could result in trade restrictions being used as leverage, especially when demand is concentrated. Global tensions and the shake-up of supply chains is also expected to become increasingly intertwined with the process of decarbonisation. All of this will continue to weigh on South Australia's economy — presenting challenges and opening opportunities. While Australia will find it challenging to match the scale of industrial action in the US or in China, there is abundant scope for ensuring the country continues to benefit from its comparative advantages amid disruptive change. For South Australia, which is likely to play an increasingly important role in Australia's international trade and investment, a successful pivot to greater diversity will involve all levels of government, industry, and financial institutions. Government diplomacy opens trade opportunities, industry guidance equips South Australian businesses with the necessary toolkit, and financial institutions - domestic and global - play the critical role of extending lines of finance. A concerted effort could position South Australia on the cusp of a new era of growth and prosperity.

## Easy tips for South Australian businesses looking to start, grow or diversify exports

**Navigating geopolitical currents and identifying global risks and opportunities can often be very challenging. Some suggestions for businesses in South Australia looking to tap into the global market include:**

### 1 Reach out to Austrade for practical up-to-date advice

Austrade provides up-to-date information about countries and regions, ongoing support in identifying market opportunities, and practical advice about the processes involved. Additionally, Austrade enables access to qualified specialists.

### 2 Tune in to the guidance provided by the South Australian government

The Department of Trade and Investment helps South Australian companies start, grow and diversify exports. A useful starting point would be to identify your export adviser.

### 3 Liaise with industry bodies

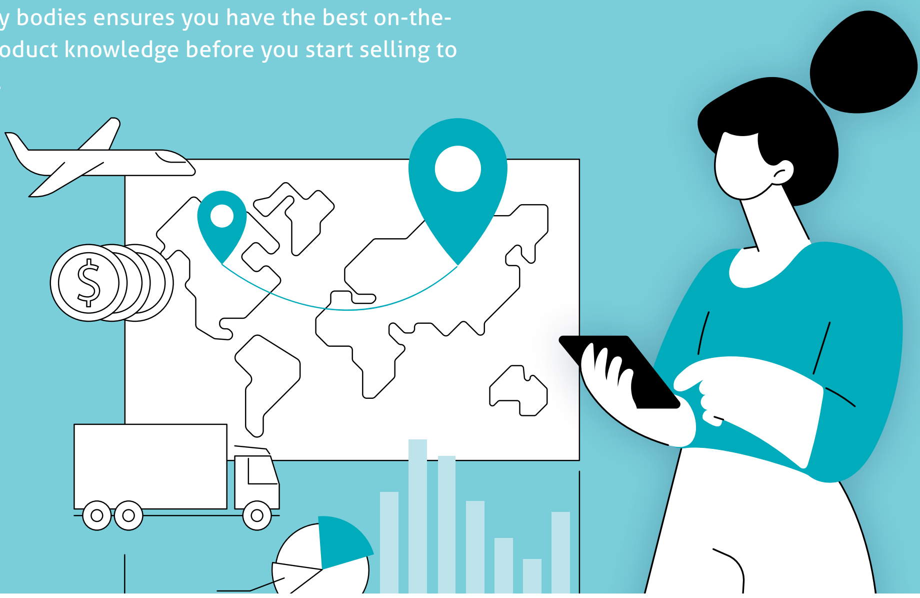
Industry bodies such as Wine Australia and Grain Producers SA share the latest industry research, trends and information with producers. Reaching out to industry bodies ensures you have the best on-the-ground product knowledge before you start selling to the world.

### 4 Ramp up your knowledge

The Export Council of Australia offers self-paced online training courses for Australian businesses engaged in global trade. Additionally, the International Chamber of Commerce publishes Incoterm Rules, which are a set of standards used in international and domestic contracts for the delivery of goods.

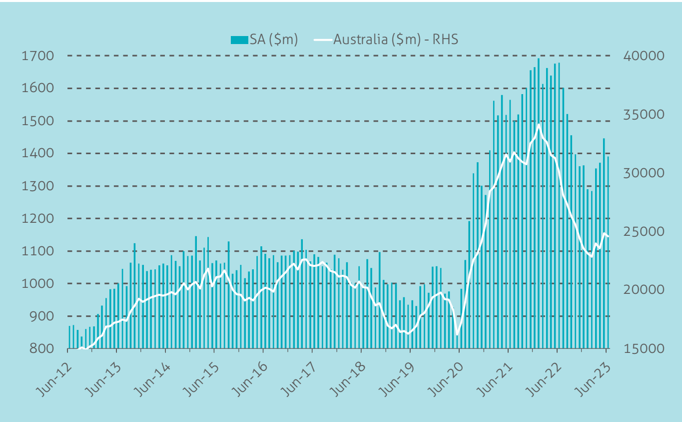
### 5 Get your finance in order

Finance is essential to establishing or expanding an export business. Export Finance and Insurance Corporation, the Australian Government's export credit agency, is a good place to start. Among other functions, Export Finance Australia provides defence export finance through the Defence Export Facility and extends support to the critical minerals sector via the Critical Minerals Facility.



# Statistics

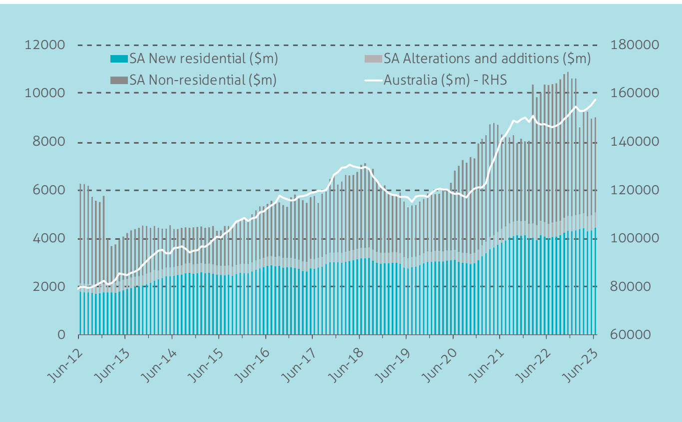
**CHART 1**
**SECURED HOUSING FINANCE COMMITMENTS – SEASONALLY ADJUSTED ($M)**




*Source: ABS Cat No. 5601.0, Table 4 and Table 14*

In 2022, the total value of new housing finance commitments fell 31% in Australia as consumer sentiment dipped and increasing mortgage rates weighed on prospective borrowers. In South Australia, the value of new housing loan commitments fell 20% during the same period. The trend reversed in the first half of 2023 — housing lending increased 6.5% nationally and by almost 8% in South Australia. The rebound in lending is despite elevated inflation and significantly higher mortgage servicing costs. However, the increase through the first half of 2023 has been driven by lending to investors rather than owner-occupiers. Investors are likely to be further encouraged by the fact that home prices have resumed an upward trend as demand exceeds supply.

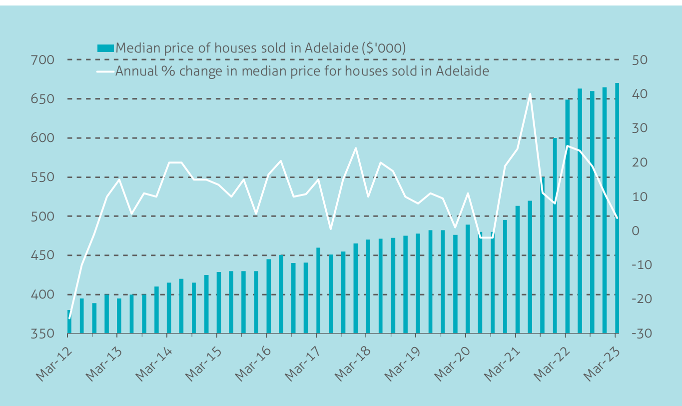
**CHART 2**
**BUILDING APPROVALS – SEASONALLY ADJUSTED ($M)**




*Source: ABS Cat No. 8731.0, Table 33 and Table 38*

The value of new building approvals in Australia has trended up at a faster-than-average pace since the end of 2020. Even though the total dollar value of new approvals continues to rise, the pace of increase has been moderated by a downward trend, since early 2021, in the number of dwelling units approved. The pattern broadly reflects an overlap of supply-side bottlenecks that have weighed on the construction industry, and elevated demand. In South Australia, the value of new residential building jobs was 57% higher in June 2023 than in June 2020. Residential renovations (alterations and additions) also increased sharply during the same period. Resurgent housing demand amid tight supply has driven valuations higher in the state. The value of non-residential building jobs has also trended up, on average, over the past three years.

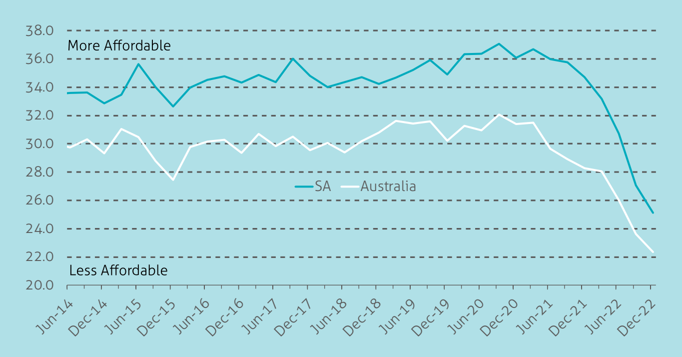
**CHART 3**
**MEDIAN PRICE OF HOUSES SOLD – ADELAIDE ($'000)**




*Source: Real Estate Institute of Australia: "Market Facts"*

The median price of houses sold in Adelaide increased to $670,000 in the March quarter of 2023, remaining relatively unchanged since late 2022. However, the median price of a house in Adelaide was 40% higher than in the same quarter in 2019. The fastest growth in prices in 2023 was in suburbs such as Elizabeth, Gawler and Salisbury, where median prices were relatively lower. Adelaide's housing market has led the nation with strong increases in prices as demand from local, interstate and overseas buyers has supported values. Low levels of housing stock has also contributed to higher median prices. House prices in Adelaide are likely to stay elevated as the state benefits from a large infrastructure outlay.

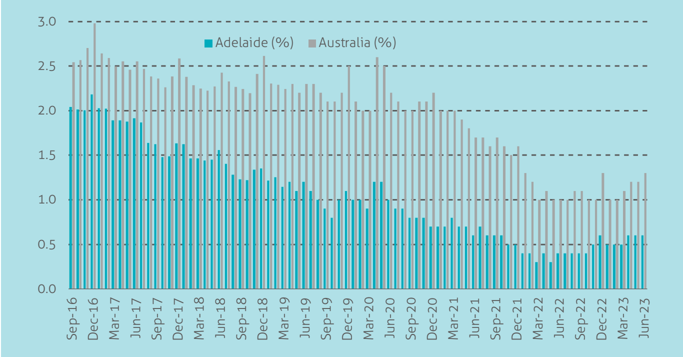
### CHART 4
### HOUSING AFFORDABILITY – INDICATOR STATISTIC




*Source: Real Estate Institute of Australia: "Home Loan Affordability Report"*

Housing affordability, calculated as the ratio of median family income to the average size of loan repayments, has declined sharply since the start of the pandemic. A combination of supply-side bottlenecks and strong demand, supported by government subsidies, drove house prices higher at a faster rate than wages. A sharp increase in mortgage servicing costs due to rapid monetary tightening in the wake of post-pandemic inflation has weighed further on housing affordability in 2023. Rental affordability has also deteriorated to a historical low across Australia. Adelaide's tight housing market has resulted in a sharp increase in rents and a further deterioration in affordability.

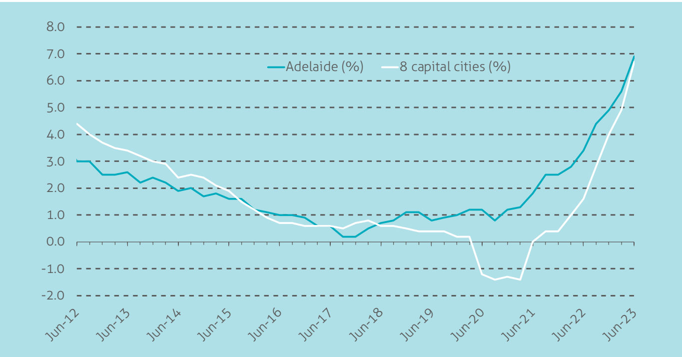
### CHART 5
### RENTAL ACCOMMODATION VACANCY RATE




*Source: SQM Research, Residential Vacancy Rates*

Rental vacancy rates in Adelaide are near historical lows. In June, Adelaide's rental vacancy rate was at 0.6%, far lower than the national vacancy rate of 1.3%. Rising house prices and high mortgage servicing costs are likely to keep demand for rental accommodation elevated. The current surge in net overseas migration is expected to be temporary, but it is likely to sustain pressure on house prices and on the rental market through the next few quarters. South Australia's population growth is likely to cool from the current rate but could stay relatively elevated as large investment outlays create job opportunities.

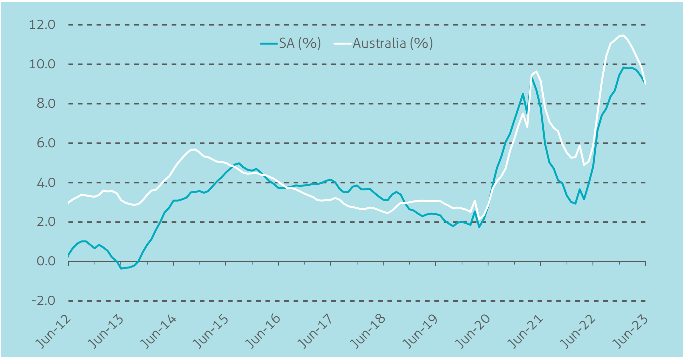
### CHART 6
### INDEX OF DWELLING RENTS - % CHANGE ON PREVIOUS YEAR




*Source: ABS Cat No. 6401.0, Table 10*

Growth in dwelling rents have accelerated to the fastest pace in a decade. Rents have increased sharply since the onset of the pandemic. The index of dwelling rents across all eight capital cities increased 6.7% from a year ago in the June quarter of 2023. In Adelaide, the index grew 6.9% during this period. A surge in population and relatively inelastic housing supply have raised rental costs significantly. Rental affordability is likely to remain at historical lows over the next few quarters, especially as more people relocate to South Australia.

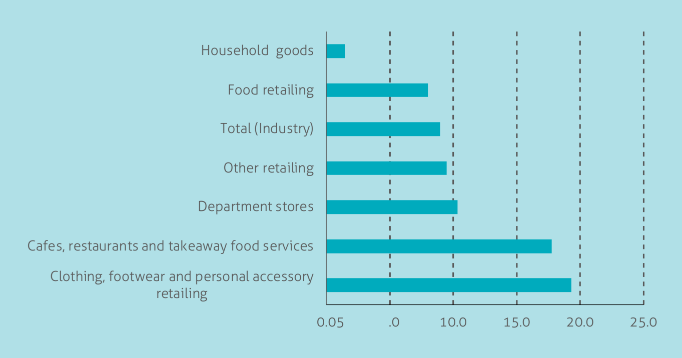
### CHART 7
### RETAIL TRADE - % CHANGE OVER PREVIOUS YEAR – SEASONALLY ADJUSTED SERIES




*Source: ABS Cat No. 8501.0, Table 3*

Retail sales in Australia fluctuated sharply between 2020 and 2022 due to lockdowns and subsequent surges in pent-up demand for goods. After increasing sharply through most of 2022, the trend in total retail turnover flattened. This has persisted through the first half of 2023. Real retail turnover dipped in each of the last three quarters as tight monetary policy and a deterioration in real wages weighed on consumers. In South Australia, growth in total retail turnover slowed after late 2022 but continued at a relatively healthy pace. Real retail turnover continued to grow through the first half of 2023, bucking the national trend. Rapid population growth and an expected moderation in inflation are likely provide support for retail sales in the state in early 2024.

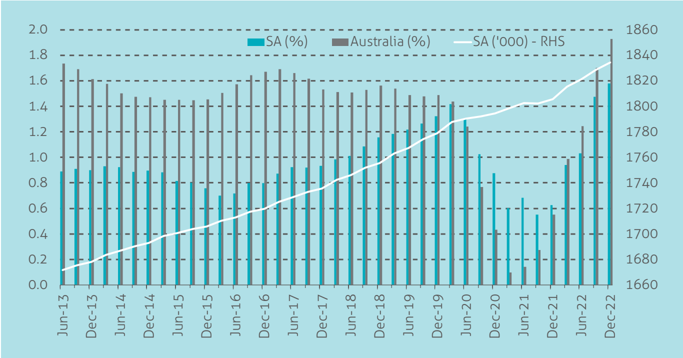
**CHART 8**
**RETAIL TRADE BY SECTOR – YEAR-AVERAGE % CHANGE – JUNE 2023**




*Source: ABS Cat. No. 8501.0, Table 12*

Consumer spending in the wake of the pandemic was skewed towards spending on goods. A normalisation of this trend is underway. Weaker spending on goods is likely to be counterbalanced by pent-up demand for services. A slowdown in spending on goods will continue to reflect in retail sales numbers. Within total retail sales, non-discretionary spending categories, which recorded strong growth in the previous year, are likely to see sales volumes come under pressure. More essential expense categories will remain relatively more inelastic. This is evidenced in the first half of 2023 — food retail sales continued to grow at a healthy rate in Australia, but non-food retail categories saw volumes fall by 3.7%.

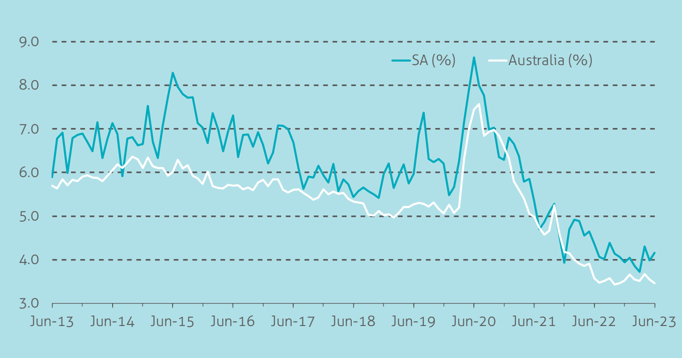
**CHART 9**
**POPULATION TRENDS - % CHANGE ON PREVIOUS YEAR AND LOCAL LEVELS ('000S)**




*Source: ABS Cat. No. 3101.0, Table 4*

South Australia's population grew at an accelerated rate from 2016 to 2020 before slowing at the onset of the pandemic. Since late 2021, the state's population returned to an accelerated growth path due to an increase in interstate migration. A rapid return of international migrants since early 2022 added to this trend to keep South Australia's population growing at an elevated rate. This is likely to continue through 2023. Beyond the short term, South Australia's population growth is likely to slow but could stay elevated compared with historical standards as large investment outlays create job opportunities.

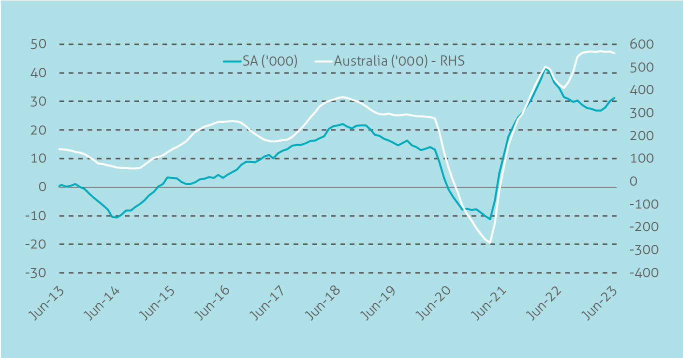
**CHART 10**
**SEASONALLY ADJUSTED UNEMPLOYMENT RATE**




*Source: ABS Cat. No. 6202.0, Table 1 and Table 7*

Unemployment across Australia remains at historical lows as the demand for labour continues to outpace supply. Labour market conditions have remained tight across the country despite an unprecedented tightening of monetary policy and an influx of overseas migrants. However, a combination of tight policy, slowing consumer spending and a growing pool of workers could reflect in higher unemployment rates in the latter half of 2023. In South Australia, total employment decreased 0.8% from the previous month in June 2023. The unemployment rate edged up to 4.2% in June from 4.0% in May, higher than the national unemployment rate of 3.5%.

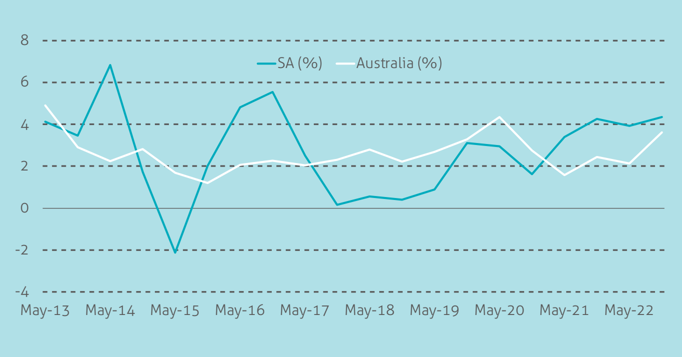
**CHART 11**
**EMPLOYMENT – NET NUMBER OF NEW JOBS OVER THE PAST YEAR**




*Source: ABS Cat. No. 6202.0 Table 1 and Table 7*

The net number of new jobs in South Australia remains elevated despite declining from its peak in early 2022. On average, net new jobs have climbed higher in 2023. In the twelve months up to June 2023, net new jobs in South Australia were 13% higher than the level at the beginning of the calendar year. Tight monetary policy and slowing consumer spending are likely to weigh on job creation in the state in the short term. However, large infrastructure outlays and the likelihood of increased investment are expected to support job creation in the medium to long term.

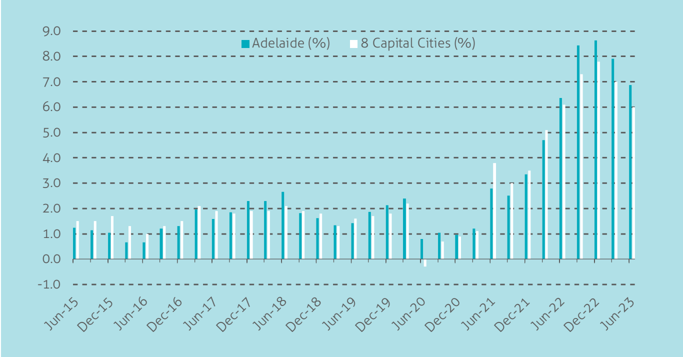
**CHART 12**
**TOTAL AVERAGE WEEKLY EARNINGS (% CHANGE ON PREVIOUS YEAR) – PERSONS IN FULL-TIME EMPLOYMENT**




*Source: ABS Cat. No. 6302.0 Table 2 and Table 12D*

Total average weekly earnings for persons in full-time employment in Australia has been trending up as a tight labour market puts upward pressure on wages. Workers covered by enterprise bargaining agreements received an annualised average pay increase of 3.7% in the March quarter. According to the Reserve Bank of Australia wages grew at the fastest rate in a decade in the March quarter and held steady in the June quarter. The Fair Work Commission's decision to raise the minimum wage by 8.6%, and award wages by 5.75%, will take effect in the September quarter. Unit labour costs, which indicate the average cost of labour per unit of output produced in the economy, have increased at their strongest pace in decades as growth in productivity remains weak. Weekly earnings in South Australia have grown at a faster pace than the national average since 2021.

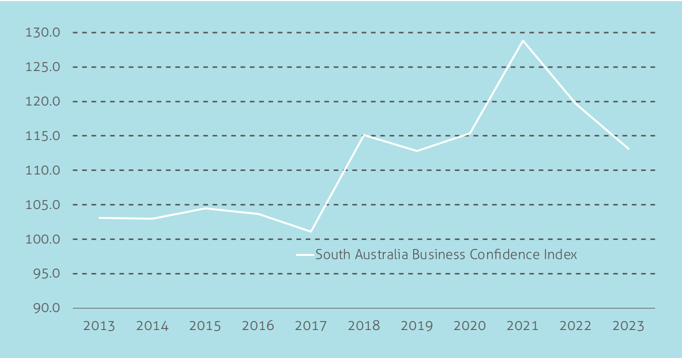
**CHART 13**
**CONSUMER PRICE INDEX, ALL GROUPS - % CHANGE ON PREVIOUS YEAR**




*Source: ABS Cat. No. 6401.0 Tables 3,4, and 5*

The consumer price index (CPI) increased 6.0% from a year ago in the June quarter in Australia, slowing from an increase of 7.0% in the previous quarter. The CPI for Adelaide increased 6.9% in the June quarter, down from 7.9% in the March quarter. Despite the slowdown, Adelaide recorded the fastest rate of inflation among all capital cities. Price increases were concentrated in services as consumer demand patterns shift away from purchasing goods. Rental prices increased at the fastest pace since 2009 reflecting low vacancy rates amid an acceleration in population growth.

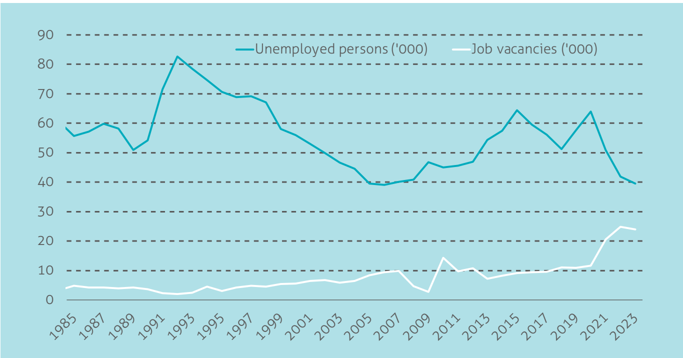
**CHART 14**
**SOUTH AUSTRALIA BUSINESS CONFIDENCE INDEX**




*Source: The BankSA State Monitor, Business Confidence Annualised Index*

Despite uncertainty, South Australia's business confidence edged up between February and July 2023 according to the latest BankSA State Monitor survey. Business confidence increased by 5.1 points to 115.6 points during the same period. The West and North regions of South Australia recorded strong gains in business confidence. An uptick in confidence was reflected in improved intentions to hire and invest. On an annualised basis, business confidence in 2023 is lower than its peak in 2021. However, the index remains well above the 100-point benchmark indicating that there is overall optimism in the business community.

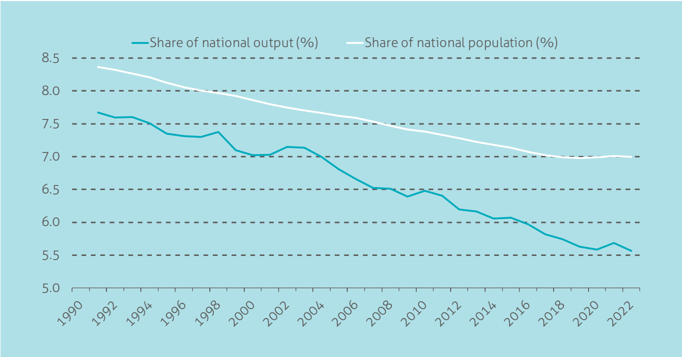
**CHART 15**
**SA UNEMPLOYED PERSONS & JOB VACANCIES**




*Source: ABS Cat. No. 6202.0 Table 7, ABS Cat. No. 6354.0 Table 1*

The number of unemployed persons in South Australia has continued to dip, reaching a historical low in early 2023 as the strong post-pandemic labour market absorbs the available supply of labour in the state. Job vacancies in South Australia have moved in the opposite direction, rising to historical highs. The number of unemployed persons in the state still exceeds the number of job vacancies. However, in the March quarter, businesses in South Australia reported difficulties in sourcing labour primarily due to a lack of suitable skills.

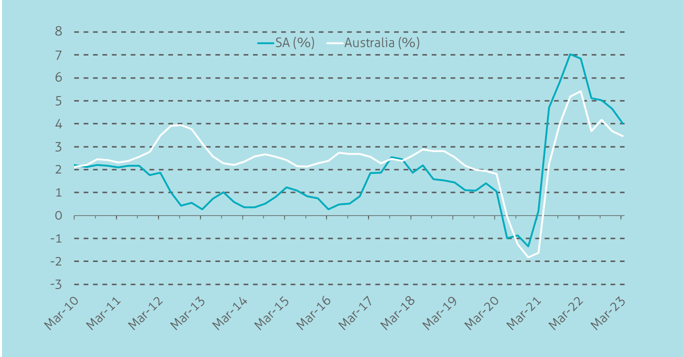
**CHART 16**
**SHARE OF NATIONAL OUTPUT AND POPULATION – SOUTH AUSTRALIA**




*Source: ABS Cat No. 3101.0 Table 4, ABS Cat. No. 5220.0 Table 1*

South Australia's share of national output has been on a broad downward trend, falling from 7.5% in the early 1990s to 5.6% in 2020. Part of the broad decline has been due to South Australia's relatively slow population growth. The state's share of national population fell from close to 8.5% in 1991 to 7.0% in 2017 before steadying for the last five years. Since the start of the pandemic, South Australia has benefited from a reversal of the interstate migration trend which added to the state's population for the first time in almost 30 years. Furthermore, net overseas migration, the state's main source of population growth since the early 2000s, has bounced back strongly. This contributed to South Australia's share of national output staying relatively steady instead of declining further between 2020 and 2022. Large infrastructure outlays as well emerging opportunities in renewable energy and defence could support South Australia's population and economic growth in the medium term.

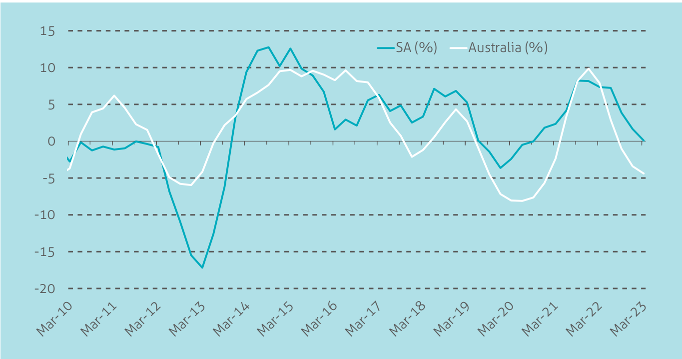
**CHART 17**
**OUTPUT – 4-QUARTER ROLLING AVERAGE - % CHANGE ON PREVIOUS YEAR**




*Source: Deloitte Access Economics Business Outlook*

South Australia's output growth rate trailed the national rate for several years up to the pandemic. However, since the end of 2020, South Australia's output has grown at a faster rate than Australia's GDP. This has helped to arrest the state's declining share of national output. At the end of 2022, South Australia's output increased 4.5%, faster than GDP growth of 3.7%. Strong growth persisted in early 2023 due to strong household consumption, construction, and exports. However, growth is likely to slow in the second half of 2023 as the effect of tight monetary policy is transmitted through the domestic economy and as global demand moderates.

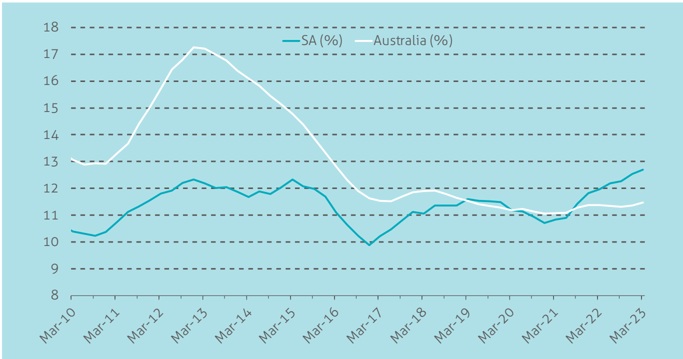
**CHART 18**
**DWELLING INVESTMENT – 4-QUARTER ROLLING AVERAGE - % CHANGE ON PREVIOUS YEAR**




*Source: ABS Cat. No. 5206.0 Table 2 and Table 29*

The level of dwelling investment in South Australia trended up between 2013 and 2018 before flattening in 2019 and early 2020. A resurgence in dwelling investment from late 2020 to mid-2022 was supported by the government's HomeBuilder program. After peaking in 2022, dwelling investment in South Australia slowed through early 2023. A further slowdown in dwelling investment is likely over the rest of 2023 as the number of dwelling approvals has trended down. However, population growth and large infrastructure outlays are likely to support dwelling investment in South Australia in the medium term.

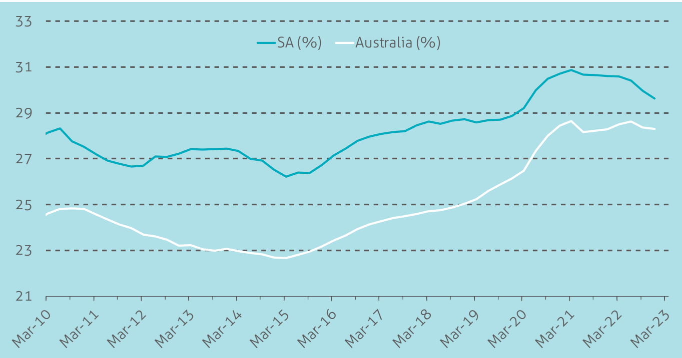
**CHART 19**
**BUSINESS INVESTMENT – 4-QUARTER ROLLING AVERAGE - % OF OUTPUT**




*Source: Deloitte Access Economics Business Outlook*

In South Australia, business investment as a share of state output is usually lower than the equivalent ratio at the national level. However, this pattern has gradually reversed. Business investment has played a larger role in state output since late 2020. As a result, business investment accounted for a historical high of 13% of state output at the end of 2022. This was higher than the share of nationwide business investment in Australia's GDP which stood at 11.4% during the same period. Business investment is likely to come under pressure from higher interest rates in the near term but further large-scale investment in renewable sources of energy is likely to support business investment's share in state output.

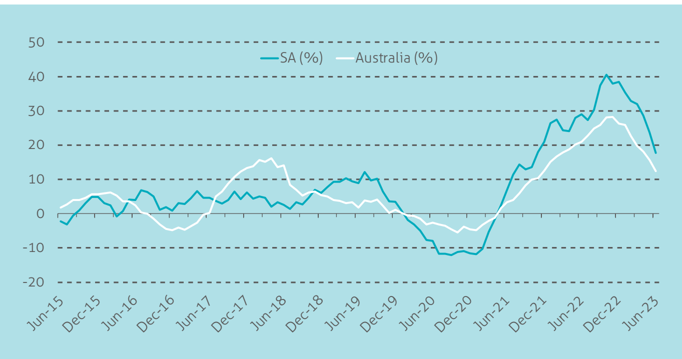
**CHART 20**
**PUBLIC SECTOR – 4-QUARTER ROLLING AVERAGE - % OF DOMESTIC FINAL DEMAND**




*Source: Deloitte Access Economics Business Outlook*

In South Australia, the public sector's share of domestic final demand is significantly higher than it is at the national level. Since 2008, the public sector in South Australia has accounted for an average of 28% of domestic final demand. This is higher than the public sector's share in Australia's domestic final demand, which averaged 25% during the same period. The public sector's share of domestic final demand in South Australia has seen some erosion since peaking in 2021 due to a faster uptick in post-pandemic household consumption and business investment. However, public sector demand is likely to continue playing a significant role in the state.

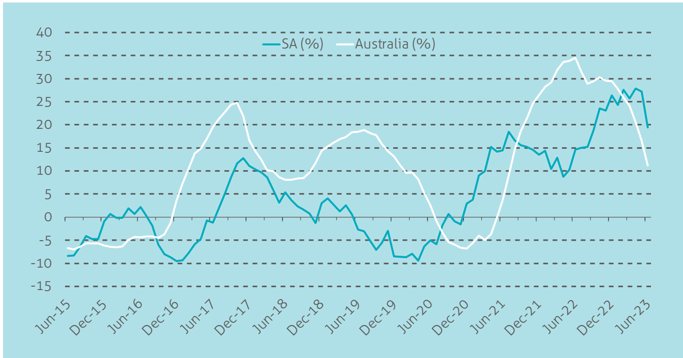
**CHART 22**
**MERCHANDISE IMPORTS – 12-MONTH AVERAGE % CHANGE ON PREVIOUS YEAR**




*Source: ABS Cat. No. 5368.0 Table 15b*

The value of South Australia's merchandise imports also surged after mid-2020. This was driven by an increase in the price of refined petroleum and passenger motor vehicles relative to pre-pandemic levels. In 2022, the value of South Australia's refined petroleum imports increased 182% relative to 2018. During the same period, the value of passenger motor vehicle imports increased 40%, and the value of fertilisers increased by more than 200%. Pandemic-induced disruptions to global supply chains and geopolitical tensions were the main reasons behind the sharp increases in price. A repairing of supply-side disruptions and slowing global demand are likely to reduce the state's import bill in the near term.

**CHART 21**
**MERCHANDISE EXPORTS – 12-MONTH AVERAGE % CHANGE ON PREVIOUS YEAR**




*Source: ABS Cat. No. 5368.0 Table 15a*

The total value of South Australia's merchandise exports increased sharply after mid-2020. This is despite tariffs being imposed on key products by the state's largest export destination— China. The total value of exports in June 2023 was 34% higher than in June 2020. During this period, South Australia's exporters benefited from a global surge in commodity prices. Prices of some key exports are likely to stay elevated — the price of wheat is likely to be elevated due to a disruption in global supplies caused by the war in Ukraine, while the price of barley is likely to be supported by China's recent removal of tariffs on the grain. Though South Australia's wine continues to be restricted from entering the Chinese market, exporters were successful in breaking into new markets. A continued thawing in the relationship with China is likely to benefit South Australia's exporters in the near term but this is also likely to be counterbalanced by slowing global demand. In the medium to long term, export diversification and investment in renewable energy is likely to contribute to greater resilience.

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