THE ECONOMIC CONTRIBUTION OF REGIONS TO AUSTRALIA’S PROSPERITY
Australia’s economic performance of the last 20 years has been unlike anywhere else in the world. This remarkable story has generally been told in terms of industries: the mining boom, the fate of manufacturing in Australia and now, the role of construction and infrastructure investment for our future.

This is an important part of the story – but it is not all.

A spatial perspective reveals many hidden insights about our economy, and its future potential. Far from being a drag on national prosperity as is commonly assumed, regions outside our major cities are an important source of Australia’s economic growth.

Our regions’ workforce accounts for one third of employment in Australia, and regional Australia is at the forefront of output per worker in over a third of industries. Most remarkably, since 2001, regional Australia has gained ground on metro areas in productivity terms in every industry except mining.

The importance of regional Australia to the national economy means that realising the potential of our regions remains critical to securing future prosperity for all Australians. Understanding the scale of this opportunity will be critical for getting things right for Australia as a whole.
Regional Australia accounts for around 40 per cent of national economic output and employs around one third of Australia’s workforce. Yet, these facts are not widely known, let alone discussed in prevailing narratives about Australia’s economy.

For a long time, the way we have talked about our economy has been from an ‘industrial’ point of view. There has been the mining boom, the decline of manufacturing and now the role of infrastructure investment balanced against the risks of likely asset price bubbles in housing markets in major capital cities – both of which are stories about construction.

In reality, the nature of our economy is much more subtle than this, and it is important to have a spatial understanding of our economy, to reveal deeper insights into its nature. It is clear that we are in a time of economic change, and if we are to successfully navigate this period of national and global uncertainty, we need to understand the scope of opportunity across our entire economy.

Regional Australia is an important part of this picture, and it is important that we have a clear understanding of its contribution to the national economy, if we are to have an informed discussion about the way forward for the national economy.

It is also important that regional Australia understands not only its importance to the economy, but also the diversity that it brings to the national picture and the scope of its opportunity to drive prosperity for the nation as a whole. Without this understanding, regions cannot take effective responsibility for advocating their role in Australia’s future.

To help kick start this conversation, we outline some key facts about the collective economy of regional Australia, and regions’ place in the national picture. This Talking Point is the first in a set of papers discussing the economy of regional Australia, the scope of the opportunities and challenges regions face in a time of uncertainty and the role that regions can take in driving national prosperity.
This Talking Point is about laying the groundwork for understanding the economy of regional Australia. A basic economic understanding of a community of any size, be it a township or a nation, can be gained by understanding three key indicators of activity.

The first key indicator of economic activity is output. Knowing something about the size of regional Australia’s economic output is important, but it is not enough to know that regional Australia forms a sizeable portion of Australia’s economic activity – digging deeper to find out what is produced and where, and how important regional Australia is to various economic activities in Australia is critical to really understanding the impact of regional Australia on the Australian economy.

The next key indicator of economic activity is how many people are engaged in producing that output. But it’s also important to understand the dynamics of the regional labour market too – how sensitive are regional labour markets to volatility? Have regional labour markets become less diverse as a result of the mining boom?

The final key indicator we need to form our basic understanding of the economy of regional Australia is an idea of how effective at producing output people in our regions are. It should come as no surprise that people employed in regional Australia are the most productive in the country in the agriculture and mining industries – but has this come at the detriment of other industries in our regions? And how do some of the key stories about important industries like manufacturing play out when we look at it from regions’ point of view?

With the help of data from PricewaterhouseCoopers Geospatial Economic Model (GEM), we answer these questions, and build a foundation for understanding the economy of regional Australia, and its importance to the national picture.

There are a great many misconceptions about the importance of regional Australia to the wider economy. While these perspectives might be unfounded, regional Australia – like the nation as a whole – faces a period of economic uncertainty. So, it’s clear that understanding the nature of our regions’ strengths and weaknesses is going to be important – not just for national policymakers, but for our regional communities themselves.
Regional Australia is more than just a major source of Australia’s economic prosperity. Regions also exert a stabilising effect on our overall economic performance, in part because they are critical in maintaining a high degree of economic diversity.

Collectively, Australia’s regions account for around 40 per cent of our total economic output. To put this into context, were it not for our regions, Australia’s economy today would only be the size that it was in 1997 and Australia would no longer rank amongst the world’s largest economies.

If we add Australia’s Regional Cities back in to this picture, it would be like adding the economic output of Finland to our economy. If we then include our Connected Lifestyle Regions and Industry and Service Hubs back into the mix, this is equivalent to adding an economy the size of Singapore to Australia’s national output. And Australia’s Heartland Regions collectively produced more economic output than the entire economy of New Zealand in 2013 (Figure 1).

Our regions have been the dominant source of economic growth in the mining, agriculture and manufacturing industries since 2001, and have punched above their weight in terms of contributing to growth in industries like healthcare and construction.

But more than just contributing output to Australia’s economy, our regions have had an important stabilising effect on economic growth (Chart 1). During the aftermath of the Global Financial Crisis, economic growth in our metropolitan areas slowed considerably. In 2009 and 2010, regional Australia accounted for half of national economic growth.

**Chart 1: Regional and metropolitan output growth**

Source: PricewaterhouseCoopers GEM, Regional Australia Institute calculations.
Figure 1: Foundations of Regional Australia and their contribution to national output.

**Regional Cities**
- Adds an economy similar to the size of Finland
- Population of over 50,000 persons
- Diverse economies
- Size & diversity create future opportunities

**Connected Lifestyle Regions**
- Do not have city population size
- Are close to major metropolitan regions
- Influenced by their connection

**Industry and Service Hubs**
- More than 15,000 residents
- Located further from major metropolitan areas
- Performance linked to industry outcomes

**Heartland Regions**
- Smaller regional areas
- Isolated from major metropolitan or Regional Cities
- Shaped by local ingenuity

Source: Regional Australia Institute.

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Output in our heartland regions in 2013 was larger than the GDP of New Zealand.

Source: PricewaterhouseCoopers GEM, IMF World Economic Outlook database, Reserve Bank of Australia, Regional Australia Institute.
While it is the case that Australia’s commodity production played a large role in supporting growth in the aftermath of the Global Financial Crisis, that’s not the whole story. Looking at the contribution of each of the four regional types in our *Foundations of Regional Australia* paper to national economic growth, we can see two major trends:

**Chart 2: Regional types’ contribution to national output growth**

First, Regional Cities are an important source of economic growth – and it’s not because of mining activity. These communities benefitted far less from the mining boom than our Heartland Regions, and in fact, more economic output from mining activity actually accrued to our major metropolitan areas than our Regional Cities.

Second, our Heartland Regions exerted an important stabilising effect on overall economic growth, with their contribution to economic output hardly varying over this time. Mining activity had a lot to do with this, but so too did the agricultural output of these areas.

Although individual communities might lose or gain quite significantly from their exposure to major commodities, collectively, these regions represent a diverse ‘portfolio’ of growth and activity for Australia – the stabilising effects of which benefitted the entire economy during the aftermath of the Global Financial Crisis, and are likely to do so again during the next major headwinds for our economy.
Our regions are home to one in three Australians, so it is not surprising that around one third of people employed in Australia are in our regions. While regional Australia is the major source of employment for our agriculture and mining industries, our regions have also seen an increase in the diversity of employment across a wide range of occupations.

Even though regional Australia dominates employment in primary production and manufacturing, when we look at what industries are important to regional Australia, we see that service industries form a relatively high share of employment, which presents a stark contrast to the stereotypical view of our regional communities being focussed solely on farming and mining (Chart 3).

In fact, employment in higher value services like finance and insurance services and professional and scientific services have actually seen their shares of regional employment grow at the expense of the regions’ ‘traditional’ strengths in primary production and transportation (Chart 4).

Our regions have become increasingly services-diverse, even during the mining boom. If regional Australia can maintain this services-diversity as the mining boom unwinds, it could play a strong role in mitigating the downsides of this adjustment.
In fact, it would seem our regional communities are taking advantage of growth opportunities. The areas where regional Australia is collectively increasing its diversity of employment are the very areas where regions do not yet either punch above their weight in terms of contribution to an industry’s growth, or at least contribute proportionately as much to that industry’s growth as do our metro areas. But even though the labour market of regional Australia has become increasingly diverse, labour markets remains subject to far more instability than our major metropolitan areas. Much of this volatility in regional employment is driven by the smaller populations of some of these communities (Chart 5).

Source: PricewaterhouseCoopers GEM, Regional Australia Institute calculations.

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Chart 4: Services-diversity in regional labour markets

Source: PricewaterhouseCoopers GEM, Regional Australia Institute calculations.

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Chart 5: Population and employment volatility

Source: PricewaterhouseCoopers GEM, Regional Australia Institute calculations.
It is important to acknowledge that this will remain a challenge for regional Australia in the future. It is not an insurmountable challenge - but the strategies for dealing with this will vary for each community.

For our Regional Cities, this is an issue that probably doesn’t need to be tackled directly, given the size and diversity that typifies the labour markets of these communities. But in smaller communities, this would require proactive effort to encourage diversification of the local labour market to make up for shortcomings in sheer size.
The windfall from the mining boom has seen output per worker – a crude measure of productivity – in regional Australia exceed that of output per worker in our major metropolitan areas. But even if the effect of mining is removed, output per worker in our regions is still extremely high. In fact, regional Australia is at the forefront of productivity in around a third of industries in Australia.

But even if the effect of the mining boom is removed, it is far from the case that productivity in regional Australia has somehow stagnated – it has steadily increased, along with metropolitan productivity growth. Workers in our Connected Lifestyle Areas – which have the lowest output per worker of any regional type – are actually responsible for as much economic activity as the average worker in the United Kingdom.

Digging deeper still, we can see that not only has output per worker in regional Australia increased, but output per worker in regional Australia has actually gained on metro areas in practically every industry (Chart 6).
In 2013, regional Australia was actually at the forefront of output per worker in seven of the 19 industry categories recorded by the ABS. Apart from being at the forefront of productivity in more than one third of Australia’s industries, regional Australia’s lead is not simply confined to primary production. Our regions are at the forefront of output per worker in industries like logistics and healthcare (Chart 7).

Increasing national productivity is one of the most important challenges for the Australian economy over the coming decades. Without an improvement in our capacity to produce, with the resources we have, living standards will decline.

The existence of gaps between output per worker in metropolitan and regional areas seem to be a permanent feature, but there is some scope to reduce the size of these gaps. And this data tells us two things. First, regional Australia is by no means a drag on national productivity, and ‘high-productivity’ regions are widely distributed. This suggests that regional productivity has an idiosyncratic component, which if identified and acted upon can help to close these gaps for regional Australia collectively. Second, that the size and importance of regions to the national picture means that closing these gaps can have a big impact on maintaining, if not improving the national standard of living.
We know that regional Australia is important to national prosperity – each regional type adds economic activity to the nation that is comparable to entire, major economies. And the type of activity our regions bring to the picture has been an important stabilising influence for us in the past.

We’ve shown that regions are an important source of employment for Australia, and that far from becoming insular and focussed, regional labour markets have by and large become increasingly diverse. And we know that regions are an important source of productivity in Australia, with potential to keep improving.

But what does it mean for the future? Even though PwC’s GEM framework projects that the share of regional Australia’s output is set to shrink slightly, this is not because our regions are going to perform poorly – their historical strengths are likely to persist (Chart 8).

The unwinding of the mining boom will have an effect on regional output as activity ‘normalises’, reducing regions’ share of national output. But this is not a foregone conclusion. This work has shown that regions are, in aggregate, economically dynamic. If regions can get on the front foot in facing this adjustment, mitigating a reduction in regions’ share of economic output is possible.
For example, Australia has many great small cities, home to millions of Australians, and we know that these Regional Cities are an important contributor to economic growth. Maximising and taking advantage of the inherent strengths of these communities is going to be an important part of securing the future prosperity of Australia.

Similarly, maintaining the economic diversity that many of our Heartland Regions - typically smaller and quintessentially regional communities – bring to the national economic picture is going to be important. But there are challenges to be faced as well. While PwC’s GEM framework projects a more equitable picture for employment growth across metro and regional areas (Chart 9), the vulnerability of many regional labour markets means that realised this potential is far from guaranteed.

Promoting the economic diversity of our regional communities is going to be an important part of increasing the stability of our regional labour markets. And creating better jobs in our regions could go a long way to helping close the gaps in productivity between our cities and many of our regional communities. The fact that regional Australia is at the forefront of output per worker in around a third of our industries shows that this is by no means unachievable.

Source: PricewaterhouseCoopers GEM, Regional Australia Institute calculations.
Conclusions

Contrary to entrenched perceptions, regional Australia is not a collection of isolated communities in economic decline. It is a dynamic, diverse and robust pillar of the Australian economy with an important contribution to make to our future.

It is critical to understand the regional economy and its importance to the national picture. Without this knowledge of how our regions contribute growth, stability, jobs and productivity to the national picture – at a time when the wider economy itself is facing significant change – we run the risk of leaving opportunities on the table for improving the prosperity of Australia as a whole.

Maintaining the economic diversity, and diversification, of our regions will be of critical importance during periods of structural change. This was exemplified during a period of positive change as the mining boom progressed – and will likely be an important part of maintaining stability in growth as we adjust to a new paradigm.

Similarly, the high productivity of our regions will be important in preserving living standards in the future – efforts to build upon the productive capacity in our regions will go a long way to meeting the productivity challenge Australia faces in the medium term.

Regional Australia is a source of employment for one in three Australians, improving the dynamism of regional labour markets and their connectivity to the national economy will be crucial for securing balanced jobs growth, and a smooth transition from the mining boom, in the years ahead.
We want to hear from you! If you live in one of the Foundations of Regional Australia and have a story to tell, visit us at www.regionalaustralia.org.au and leave a comment on our blog. Alternatively you can head to the ‘Have Your Say’ page or connect with us via Facebook or Twitter.
Independent and informed by both research and ongoing dialogue with the community, the Regional Australia Institute (RAI) develops policy and advocates for change to build a stronger economy and better quality of life in regional Australia - for the benefit of all Australians.

To find out more about the RAI contact us at info@regionalaustralia.org or visit www.regionalaustralia.org.au

This Talking Point translates and analyses findings of research to enable an informed public discussion of regional issues in Australia. It is intended to assist people to think about their perspectives, assumptions and understanding of regional issues.

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