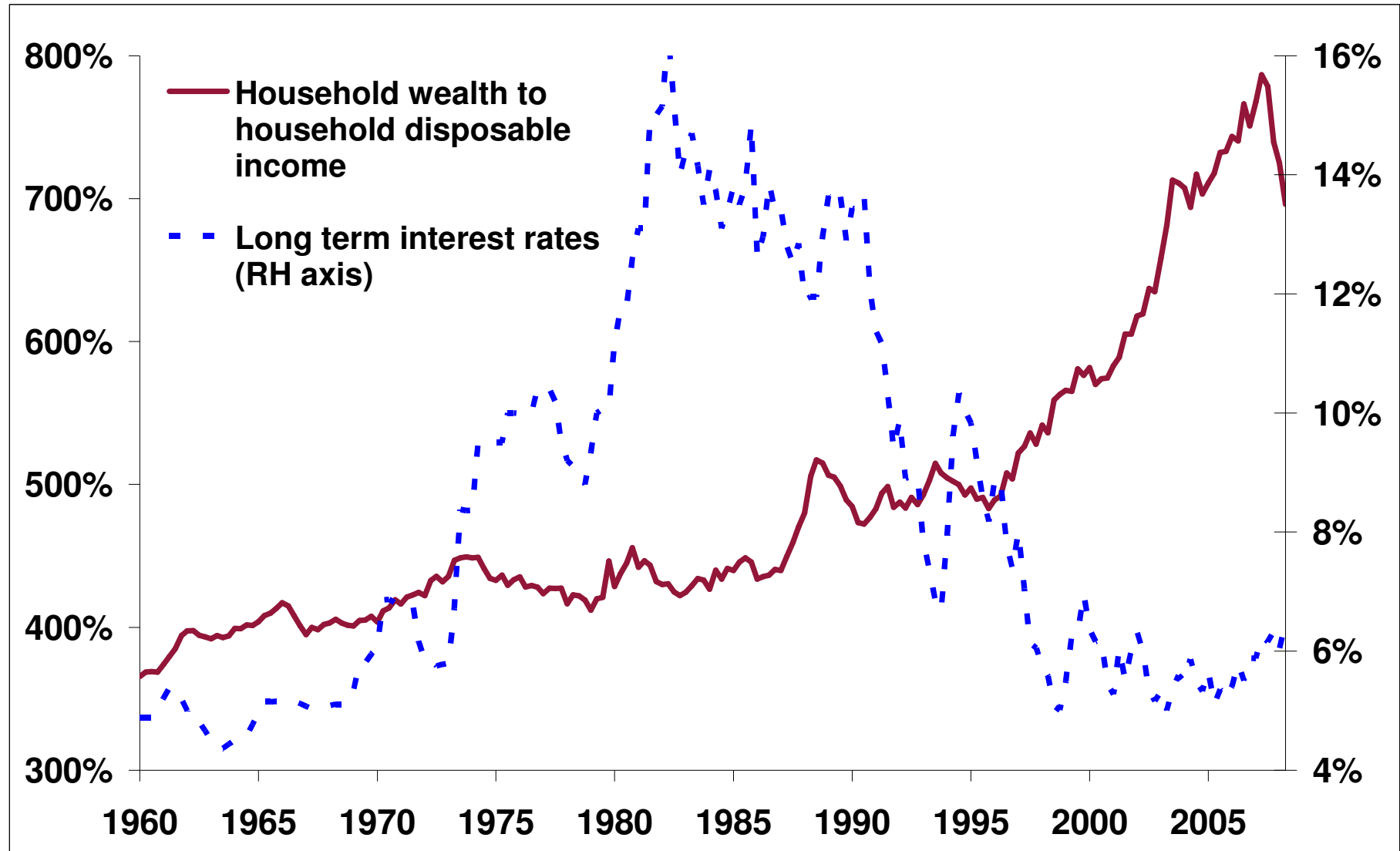


The money or your job?

ACCESS ECONOMICS
AHEIA National Conference
26 March 2009



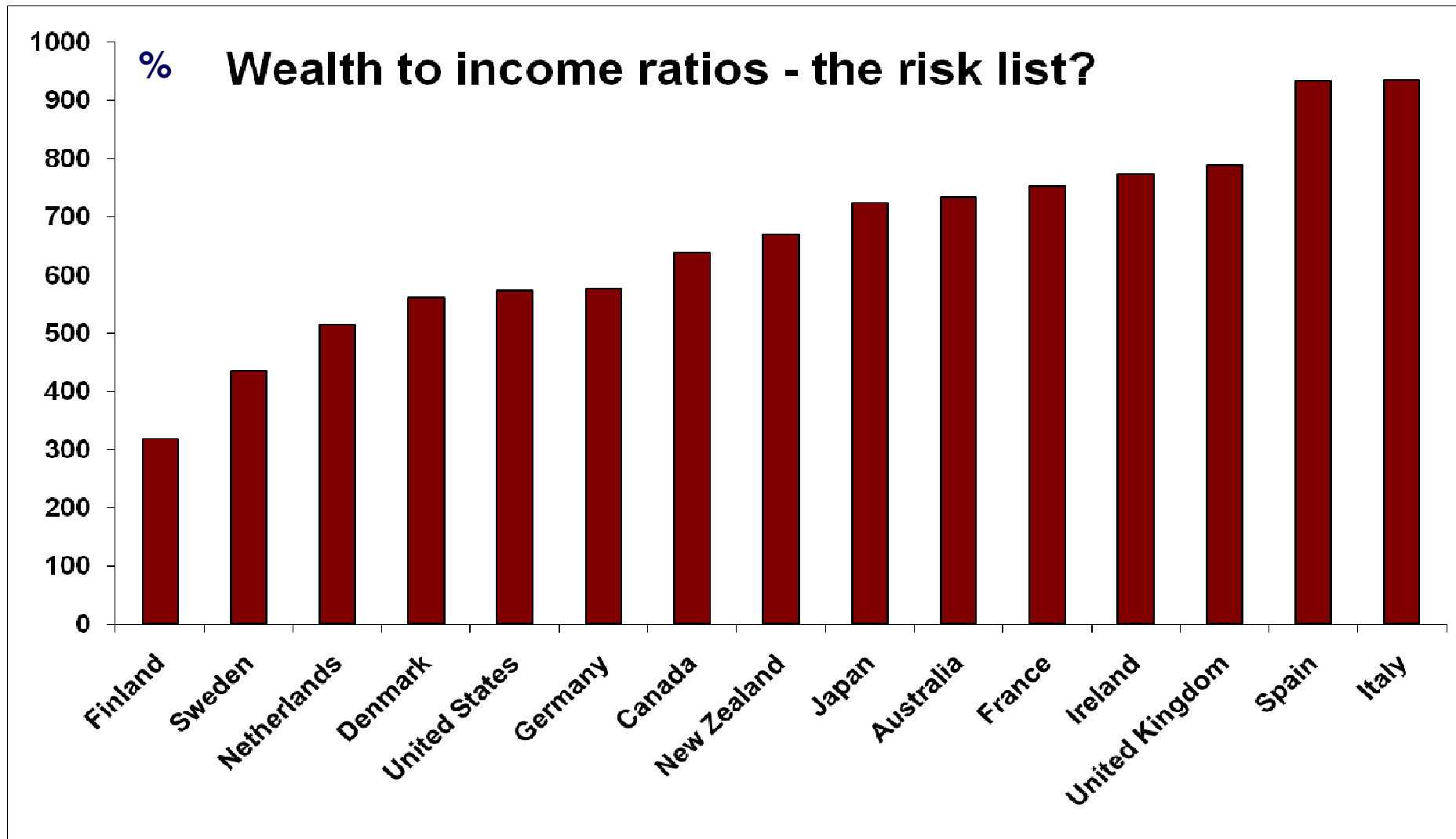
Check those capital gains



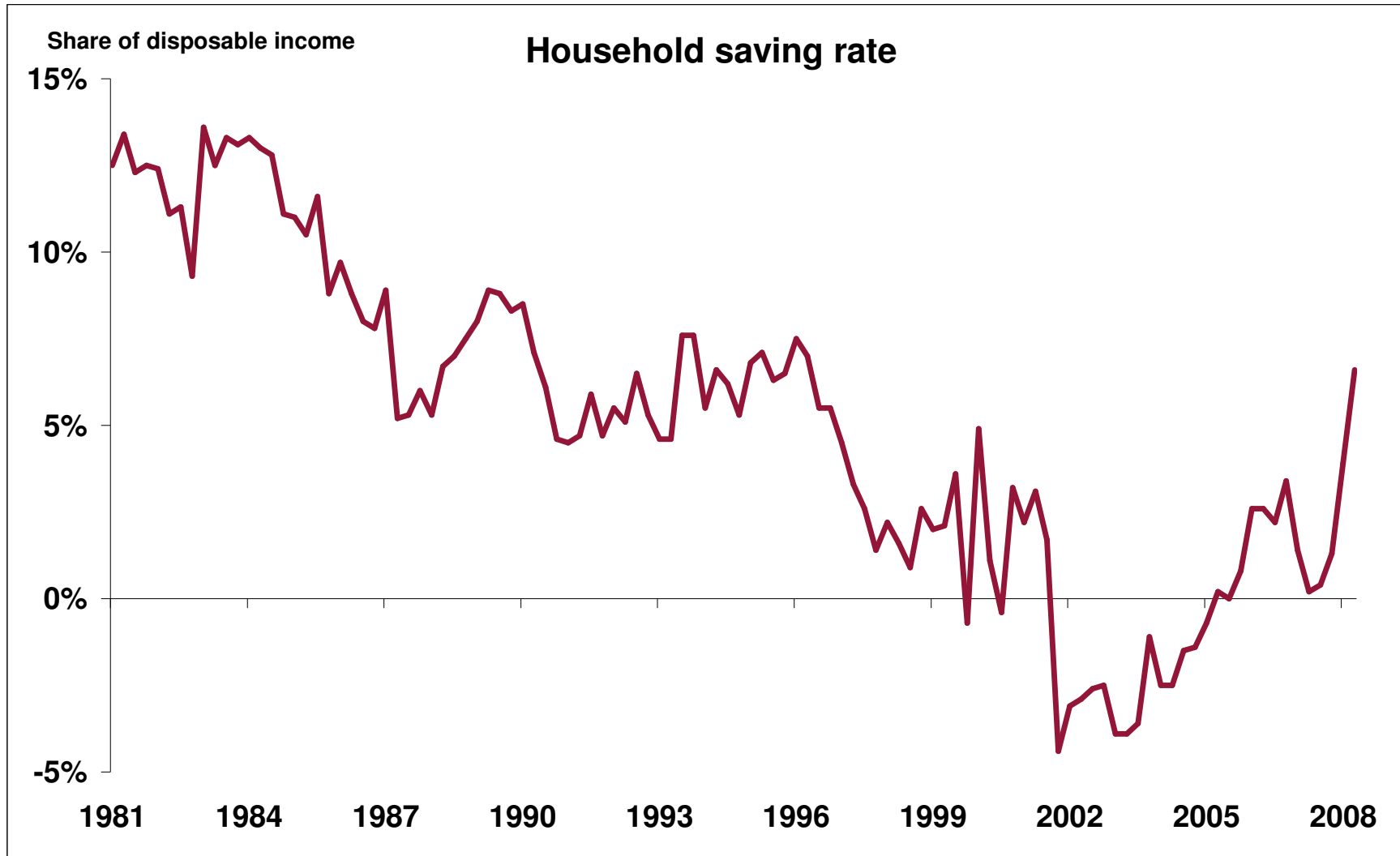
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Australia's ratio risk was high – but we weren't the only ones



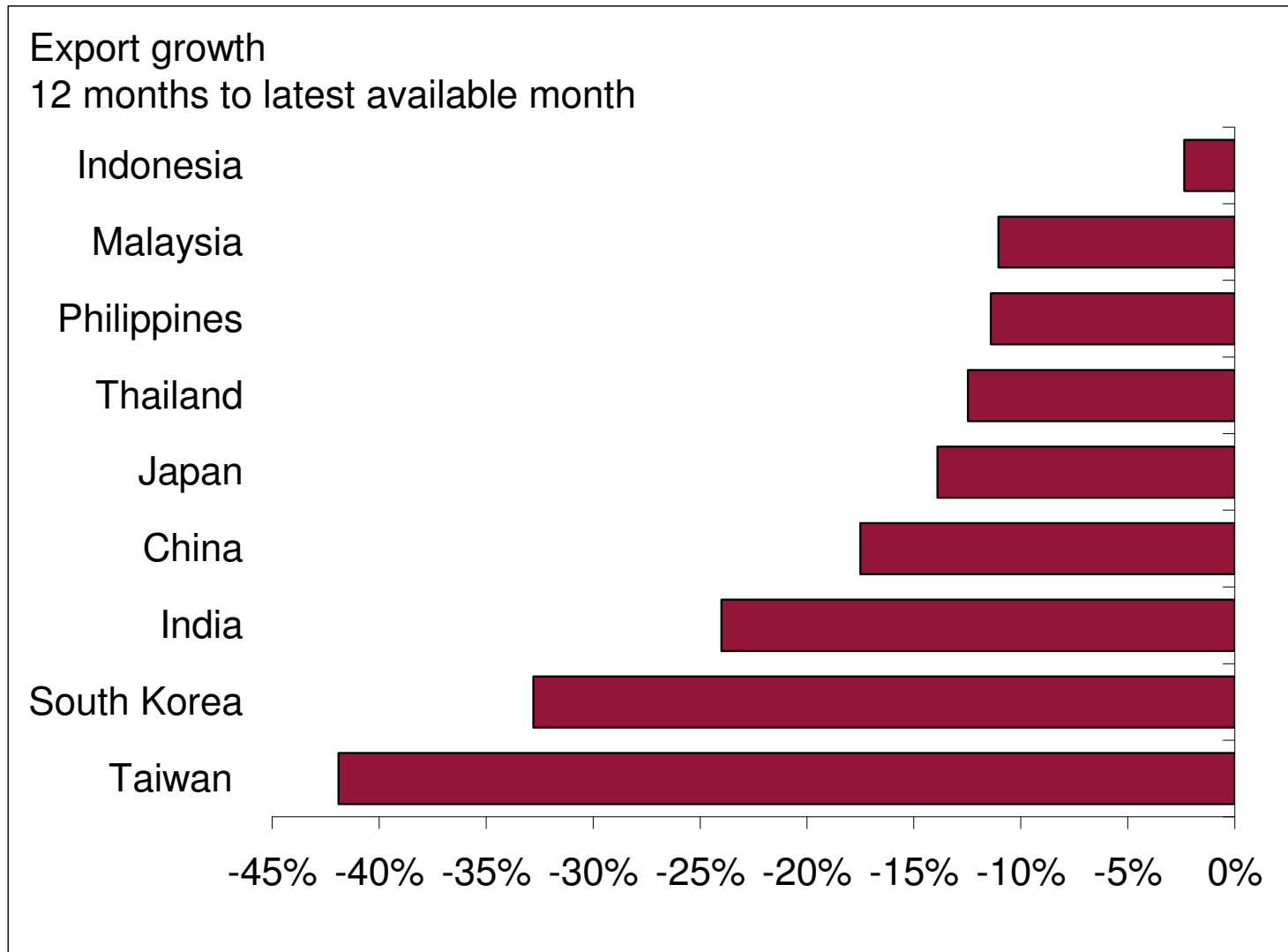
Australians spent the good times



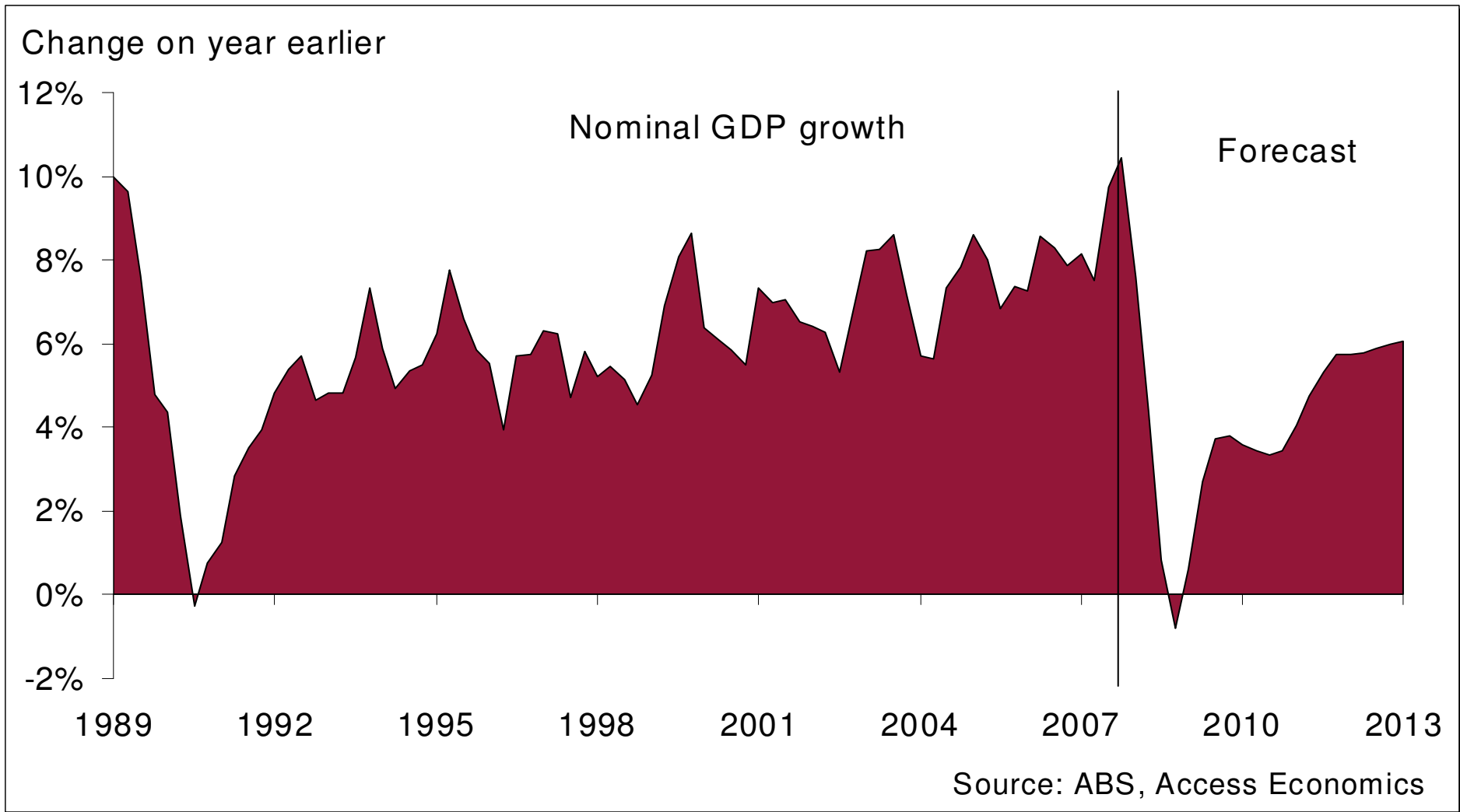
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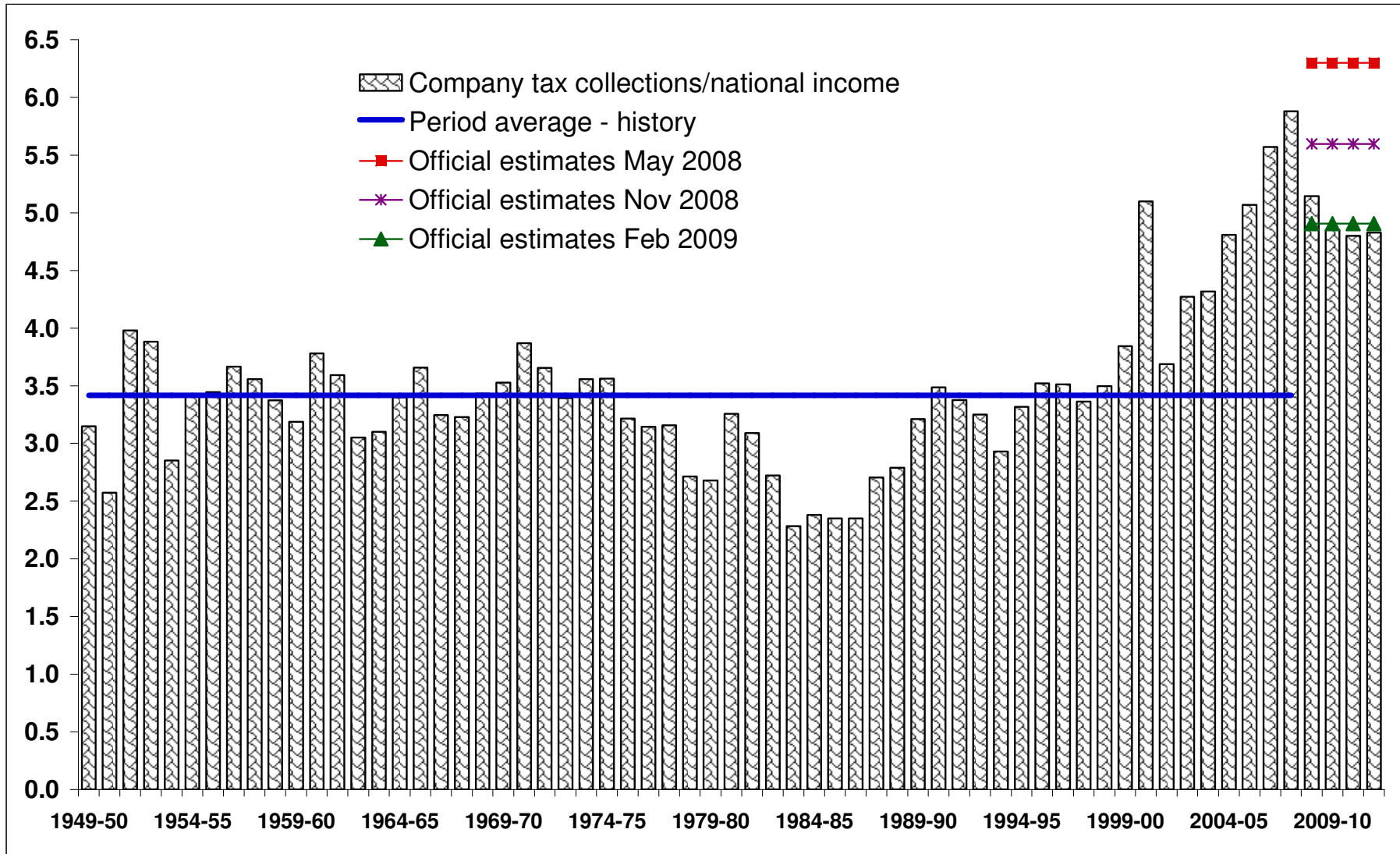
Asian export growth has slumped alarmingly



Lost income growth means much pain and a sharp jump in unemployment here



And Gov't funding is less safe than you think



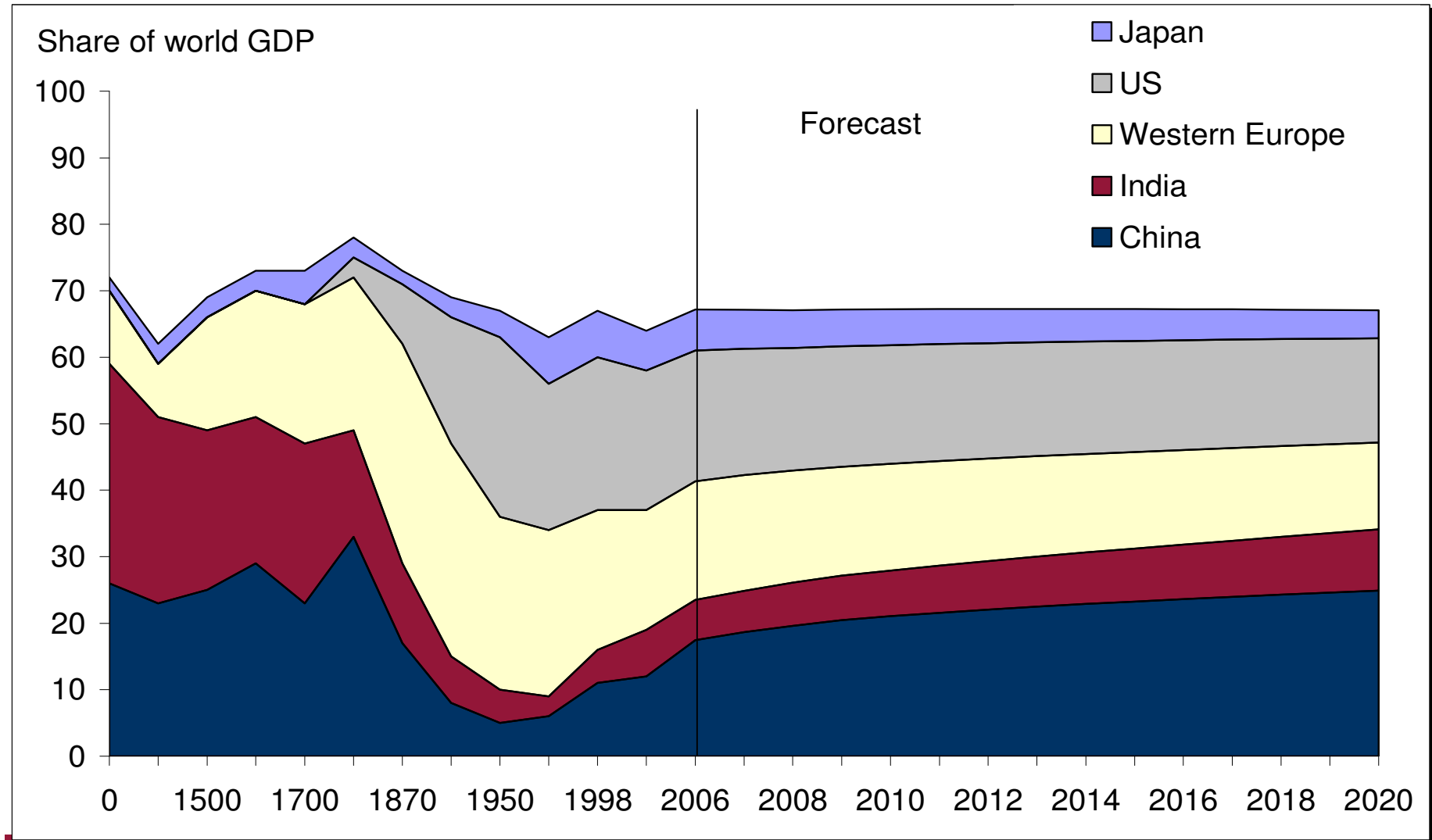
The forecasts

% change on previous year	2009	2010
Real GDP growth	-0.7%	1.2%
Nominal GDP growth	0.2%	2.8%
Headline CPI	2.0%	2.5%
Underlying CPI	2.9%	2.8%
90 day bill rate	2.9%	3.9%
10 year bond rate	4.5%	5.5%
Standard variable mortgage rate	5.7%	5.9%
\$A / \$US	0.593	0.645

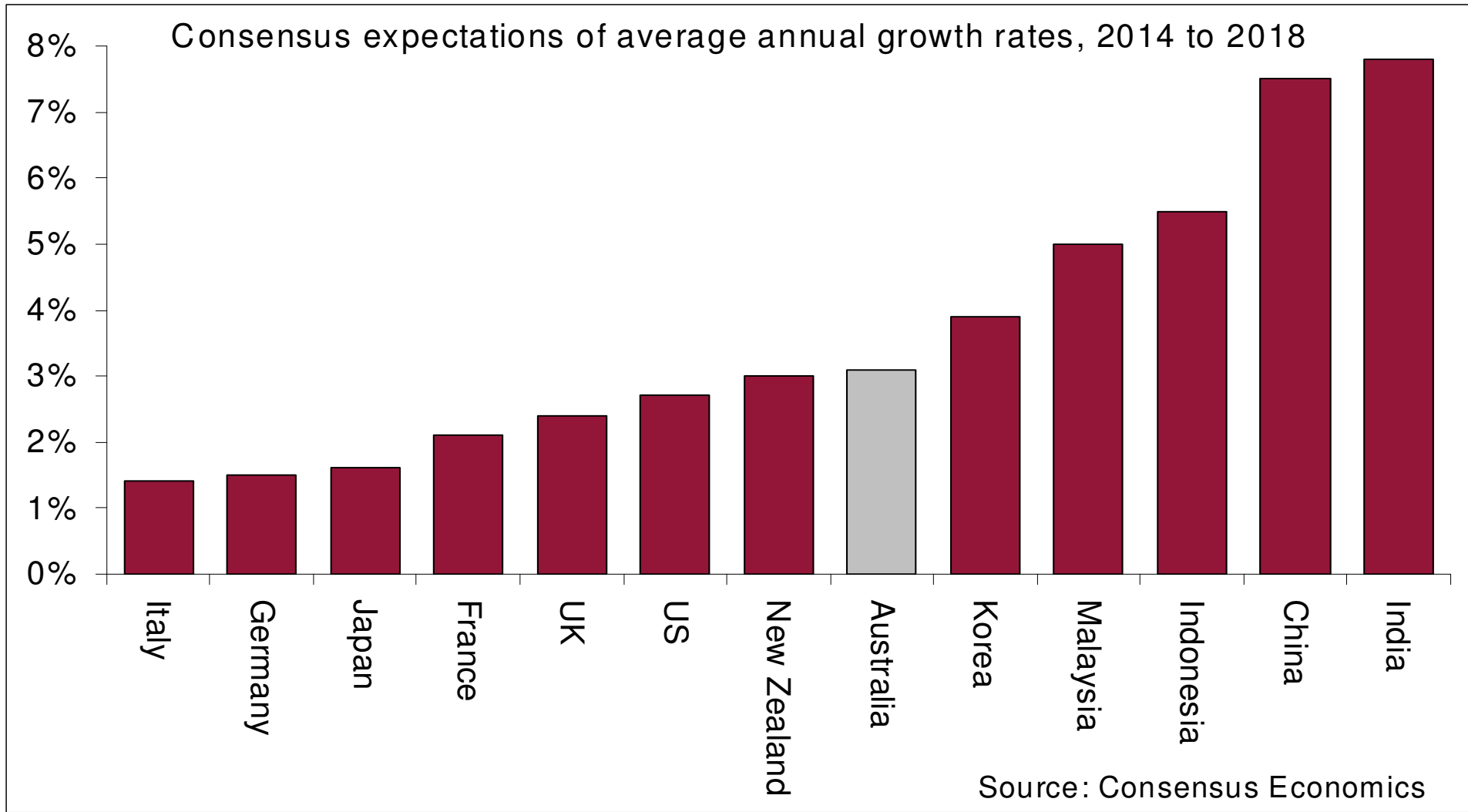
The signs of recovery: What to look for

- **A narrowing in credit spreads** (that is, the global banking system returning to better health – watch 3 month US LIBOR less the OISR).
- **Angelina Jolie on the front page** (a return to better business and consumer confidence here and globally).
- **Stabilisation or even recovery in sharemarkets** (a traditional leading indicator of recovery).
- **Stabilisation or even recovery in commodity prices** (very important for Australia – watch spot steel prices).
- **An end to falls in housing prices** (the largest component of our wealth).

There is a bigger picture as history reverts



This too shall pass



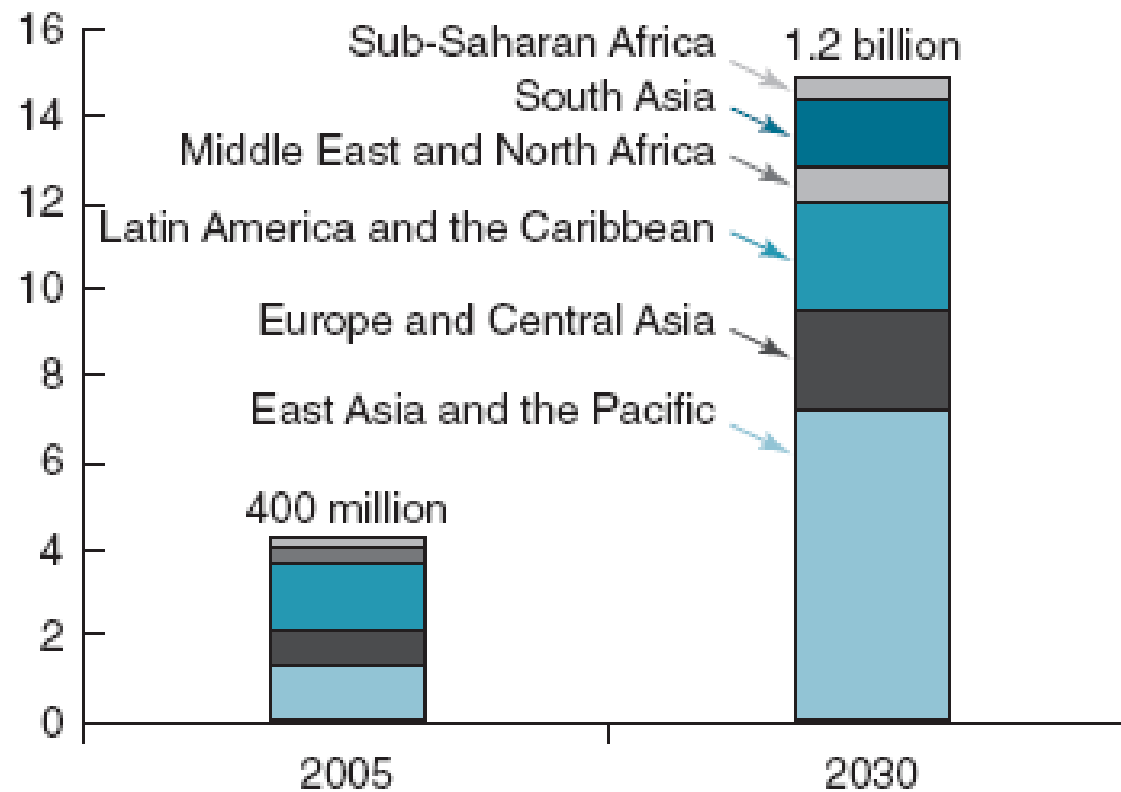
Education demand – foreign students

- **Key markets for Australia's foreign students are in big trouble.** The number of international students enrolling in Australia continued to climb at a remarkably rapid rate in 2008, rising by 21% to reach 543,000.
- **That is magnificent, but we doubt it can last** – the countries and the families that we sell education services to are increasingly in trouble.
- It helps that the \$A has fallen, particularly as we sell into markets with relatively stronger exchange rates (such as China). Equally, however, competitors such as the UK have also seen their exchange rates fall.

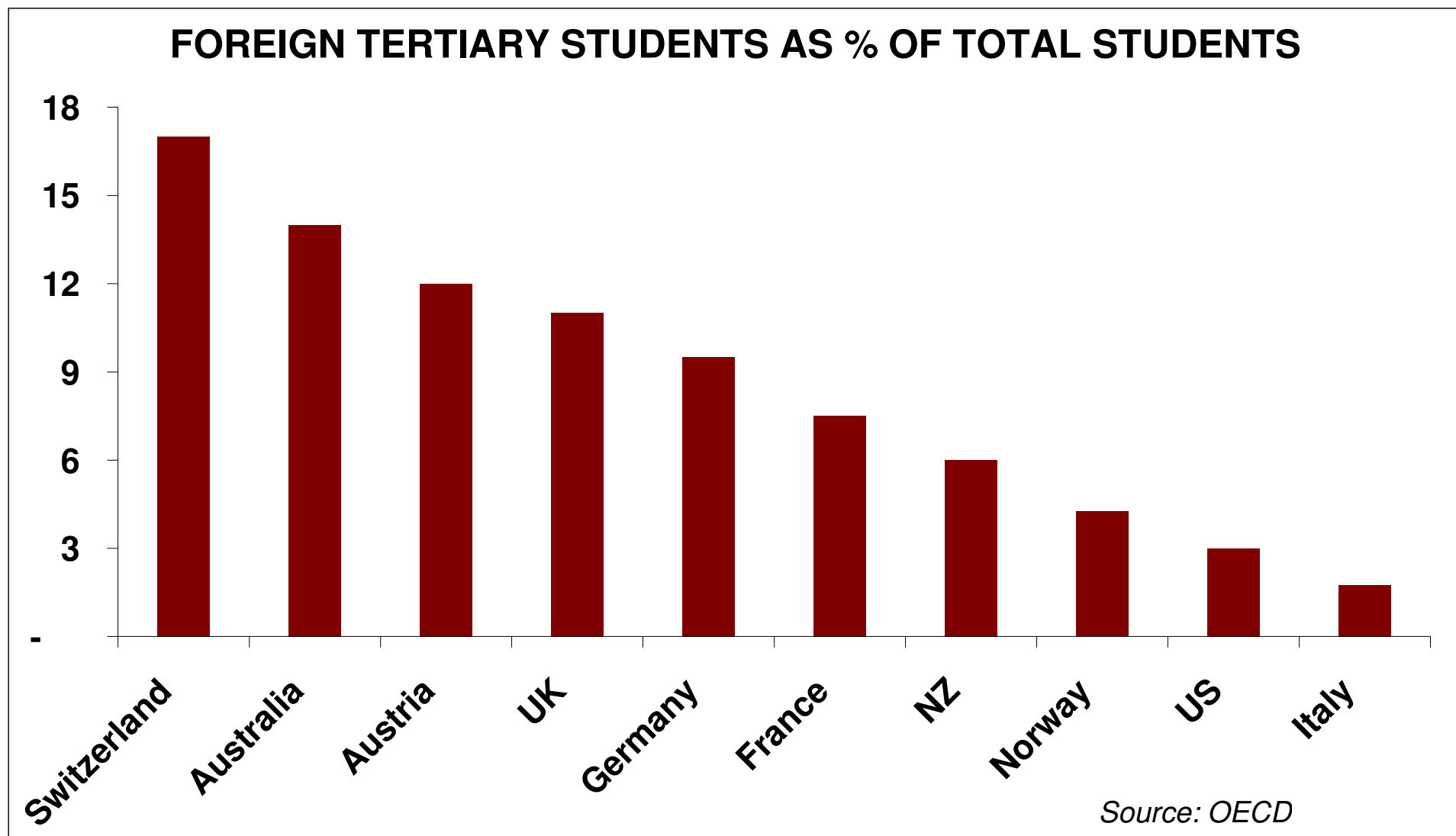
Here they come

Population in low- and middle-income countries earning \$4,000–\$17,000 per capita (PPP)

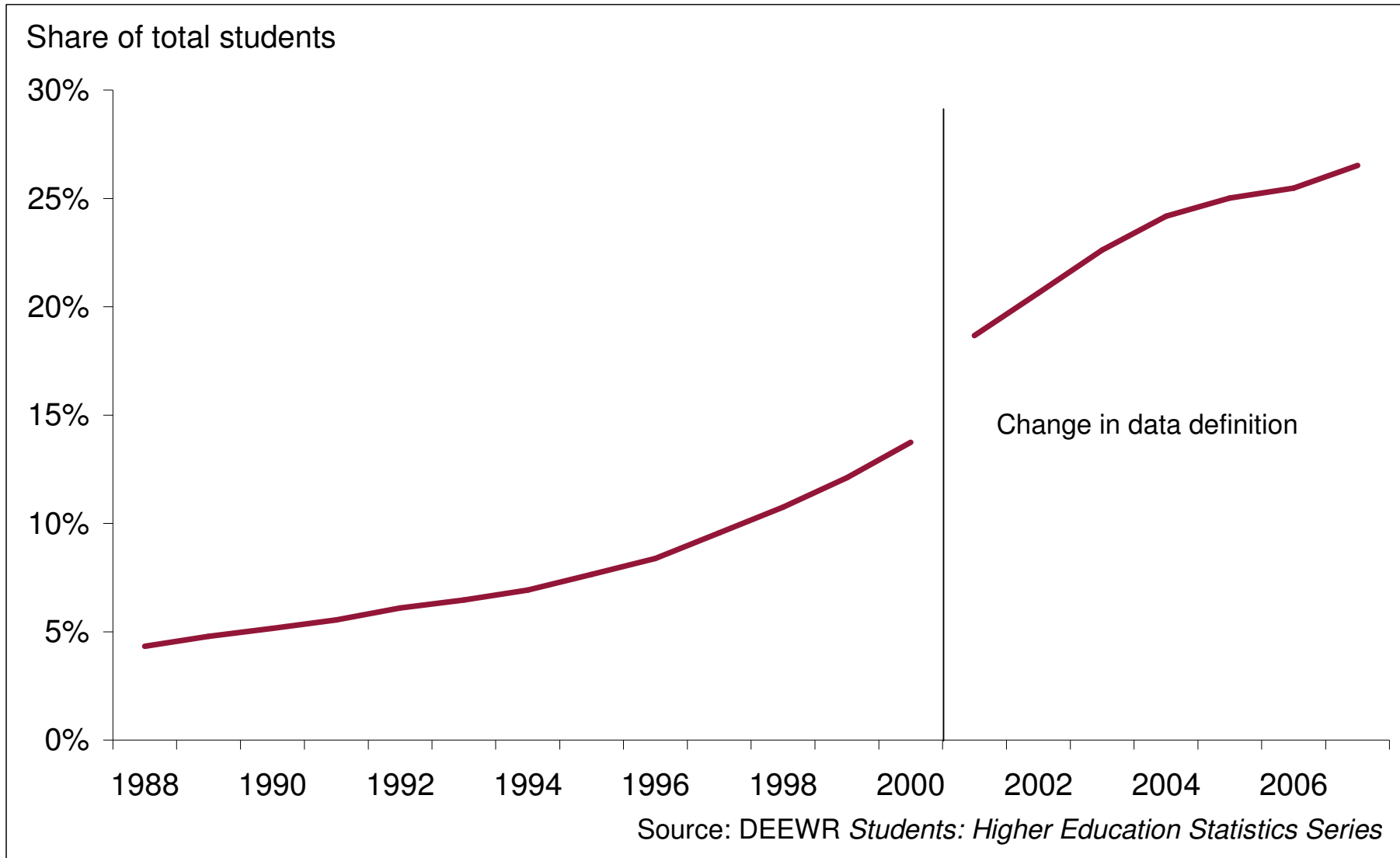
Percent



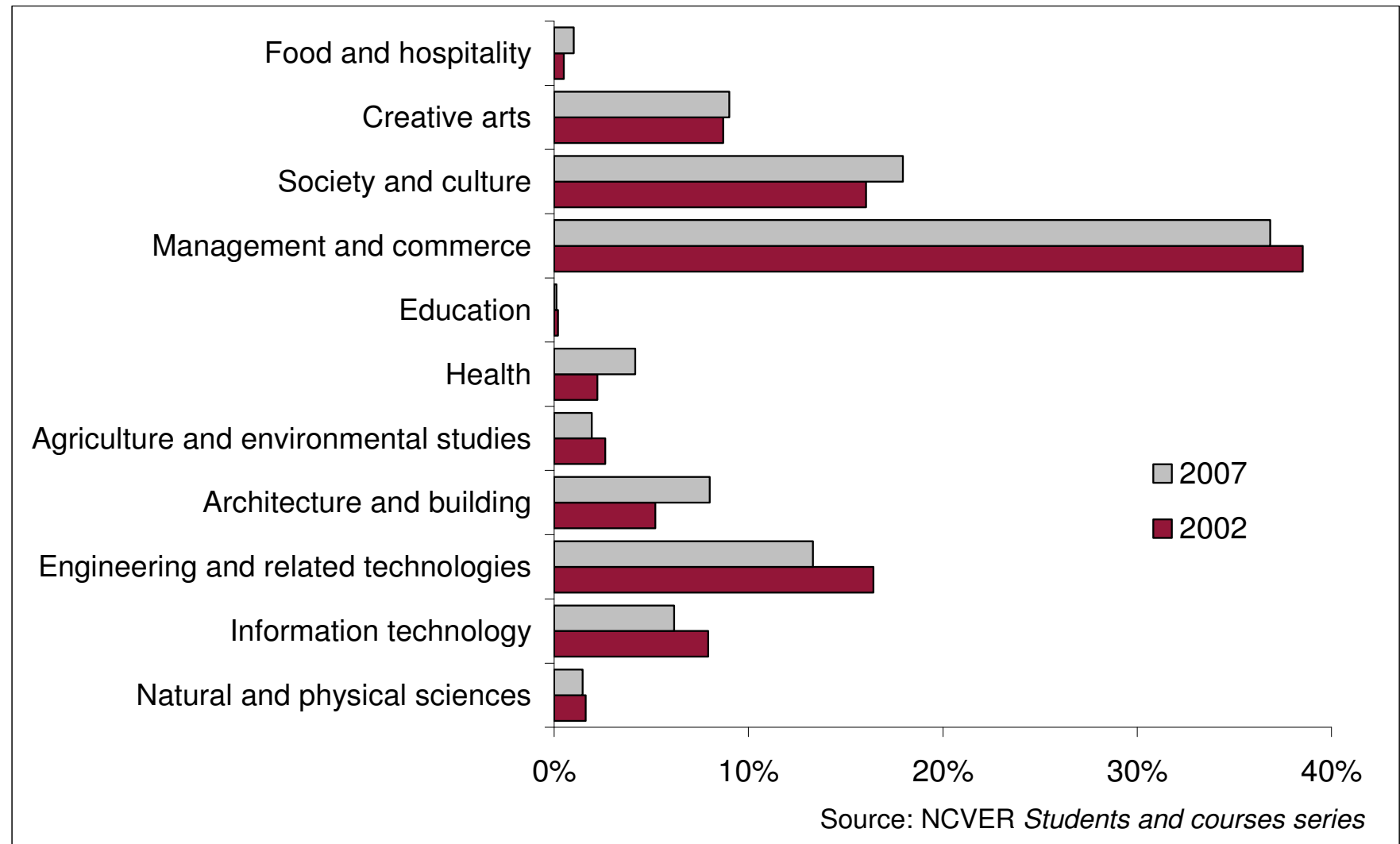
David Ricardo and 'comparative advantage'



Overseas share of higher ed students in Australia, 1988 - 2007

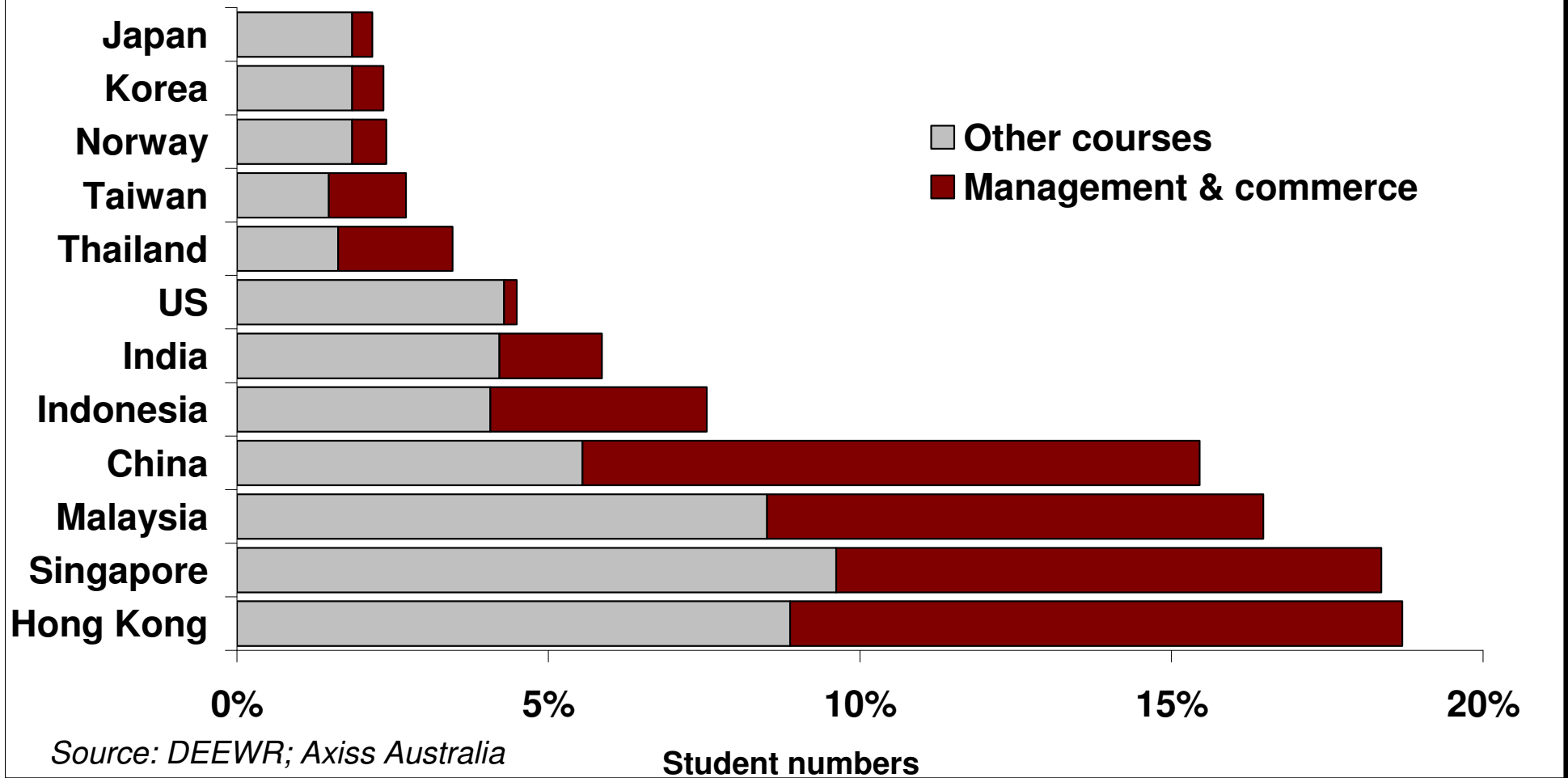


Share of diploma and advanced diploma students by field, 2002 and 2007



English and business – two strong suits

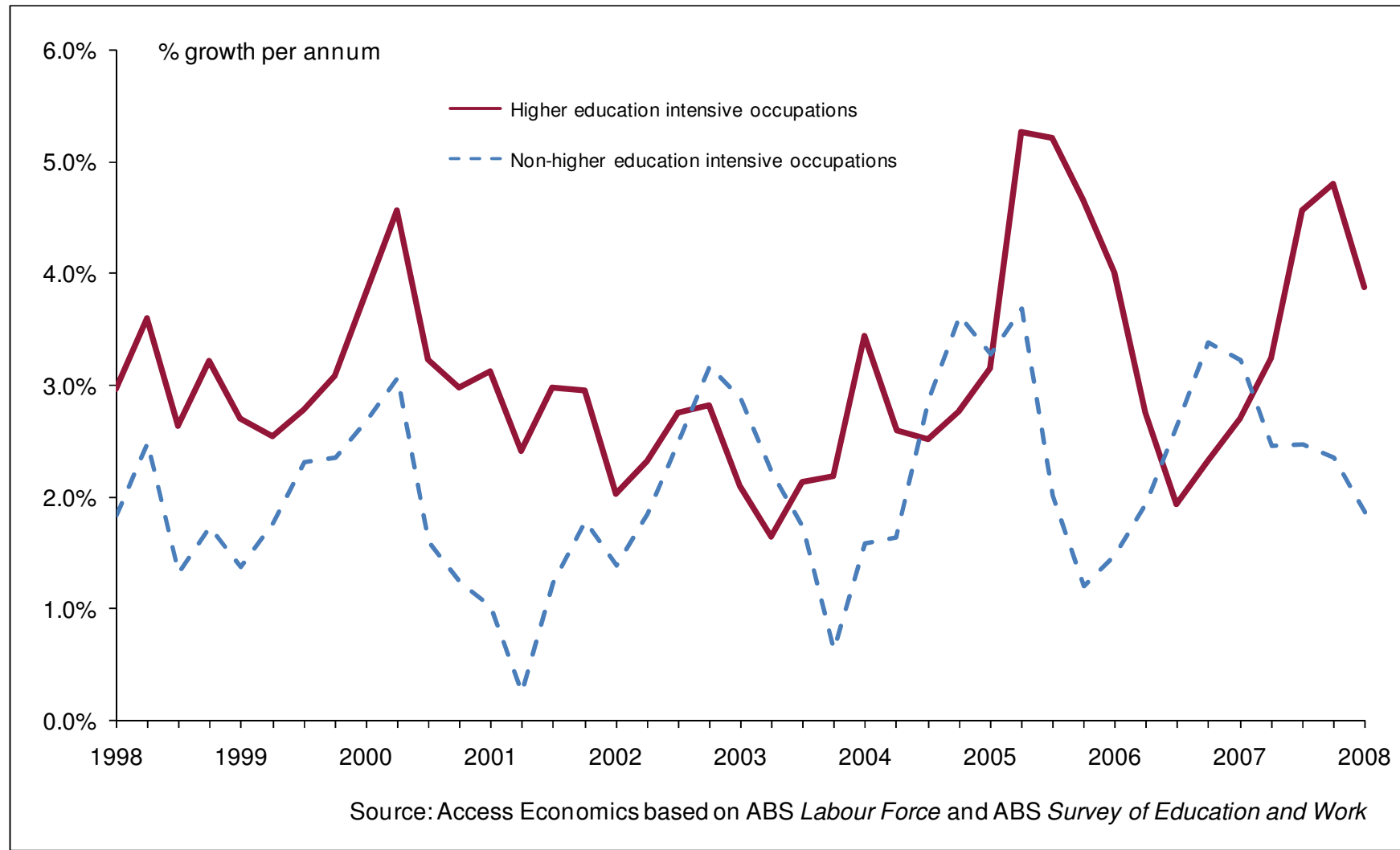
**WHERE FOREIGN TERTIARY STUDENTS COME FROM
- AND THEIR STUDIES**



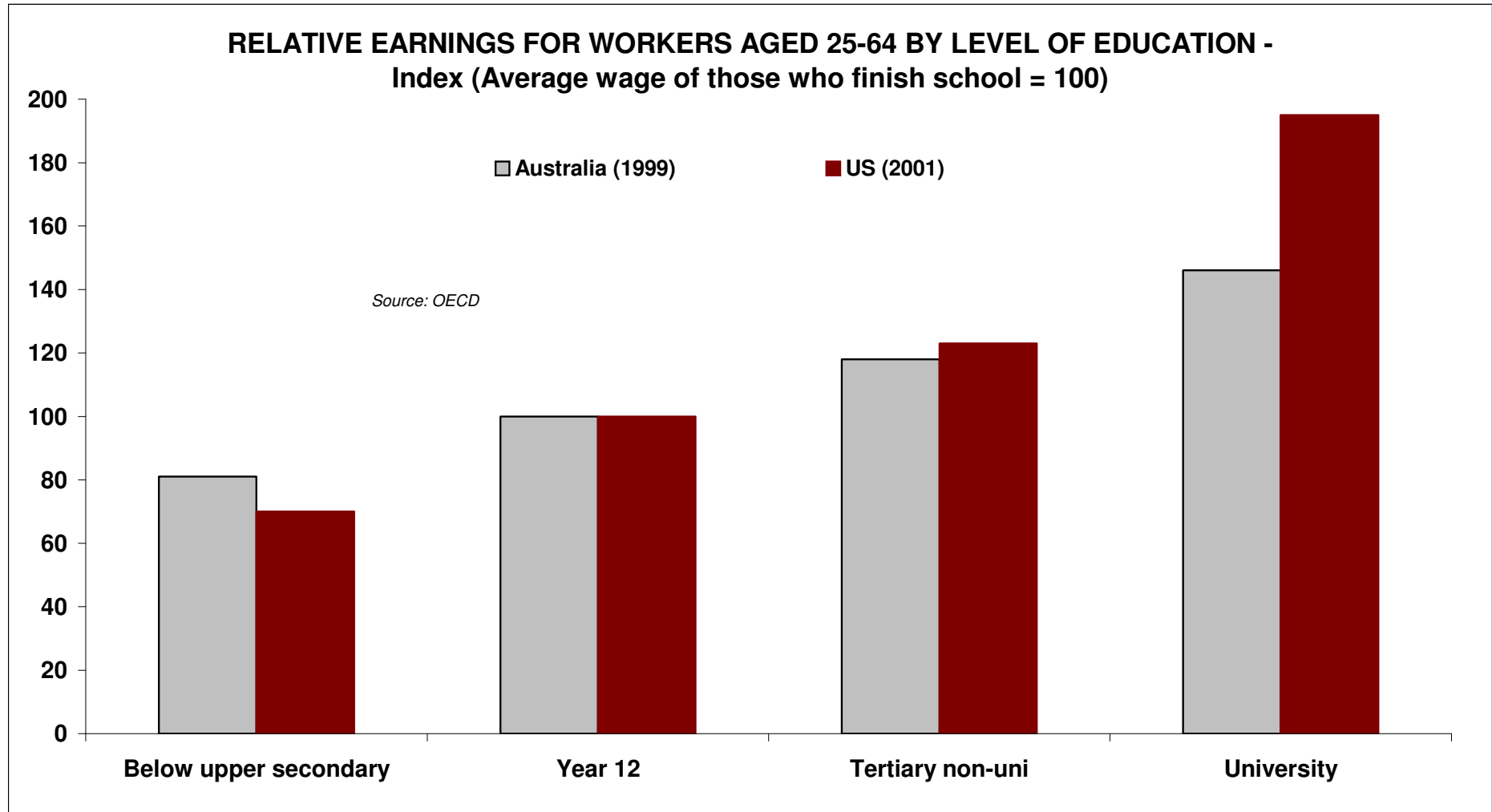
Education demand – domestic students

- **More unemployment means more demand for tertiary education.** Skill shortages have been so notable in recent years that more and more young Australians were going straight from school into well paid blue collar jobs in construction and mining, culminating in university enrolments in WA levelling off of late.
- However, as it has done in past recessions, a rise in unemployment will generate a renewed interest in higher level education. (The Great Depression educated a generation of Americans.)

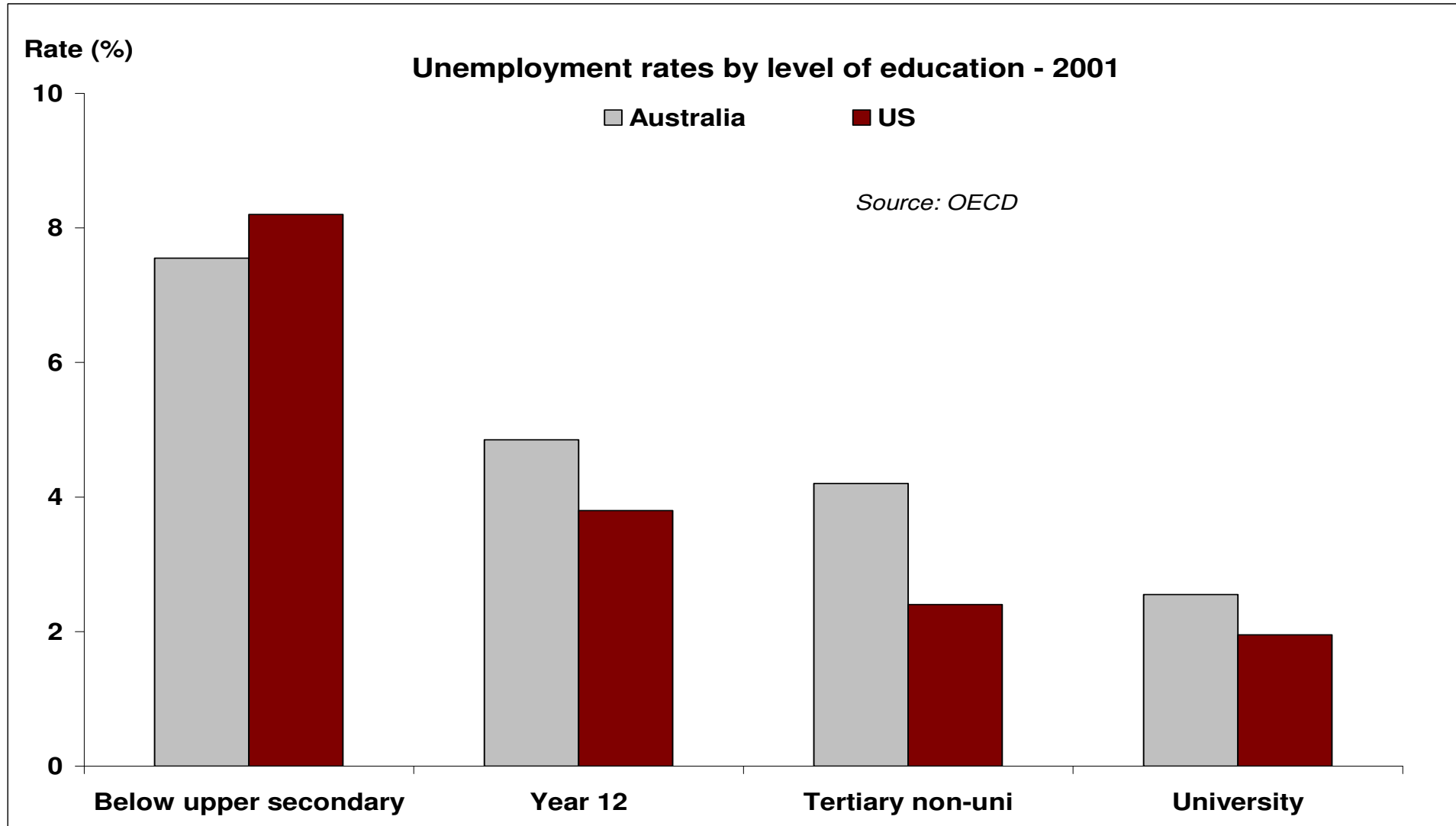
And that will pay-off: Employment growth by occupation type, 1988 - 2008



Training and education are worth it



As is evident in unemployment



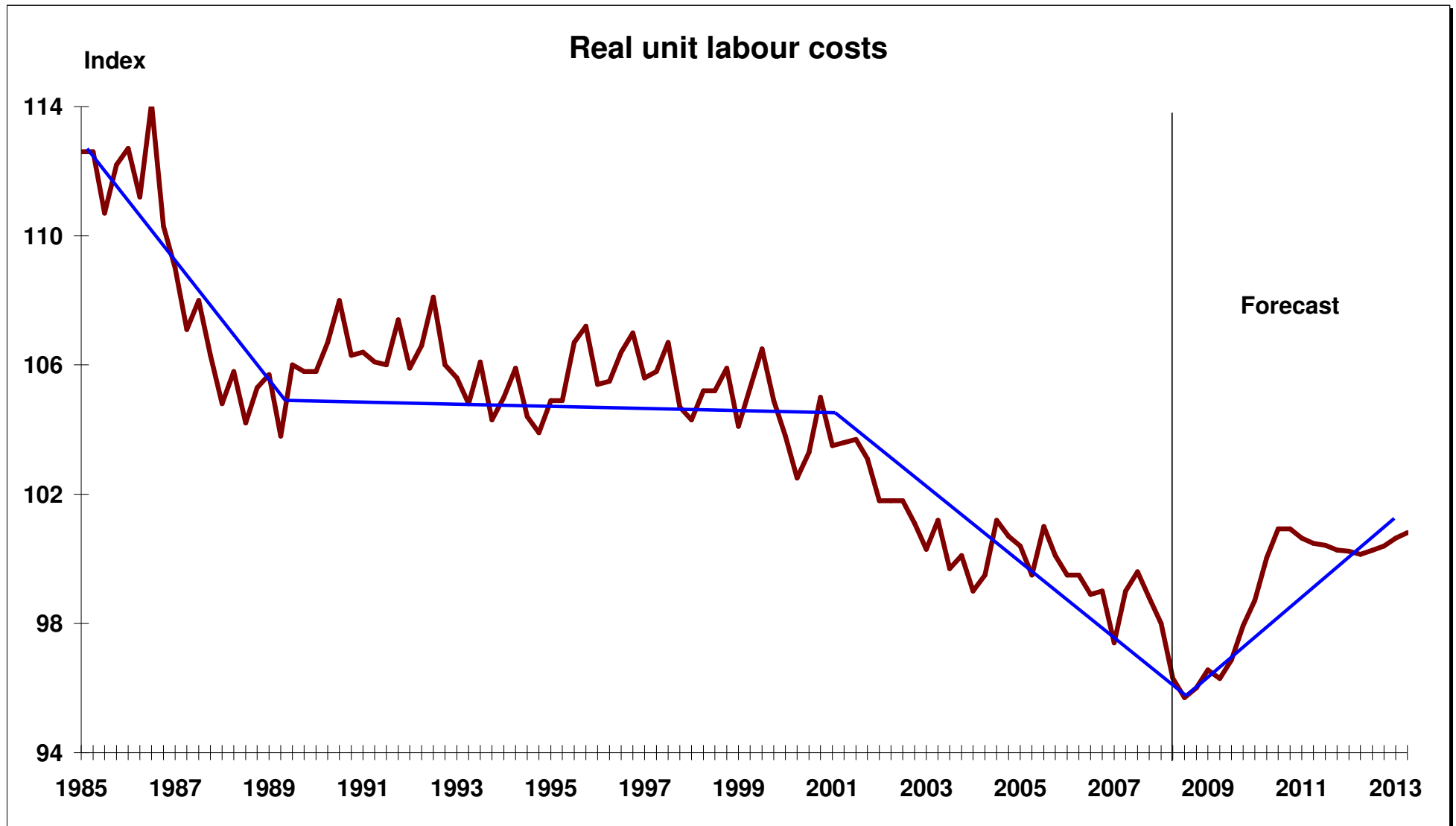
How will our income weakness be shared?

- **Who will lose out in this downturn?** Profits got most of the upside during the boom, and have most to lose in the bust.
- **Wages will hurt too:** Wage earners got their share of the boom, but mostly as jobs. (Jobs accounted for 70% of output growth in the past seven years, well up on the 'norm' of a half. Their gains came because a commodity boom is a profit boom, and a profit boom makes workers profitable).
- **Jobs or wage restraint?** We're about to find out how the latter split will occur in this downturn – the share of the pain to be felt via slower wage growth, versus the share to come via job losses.

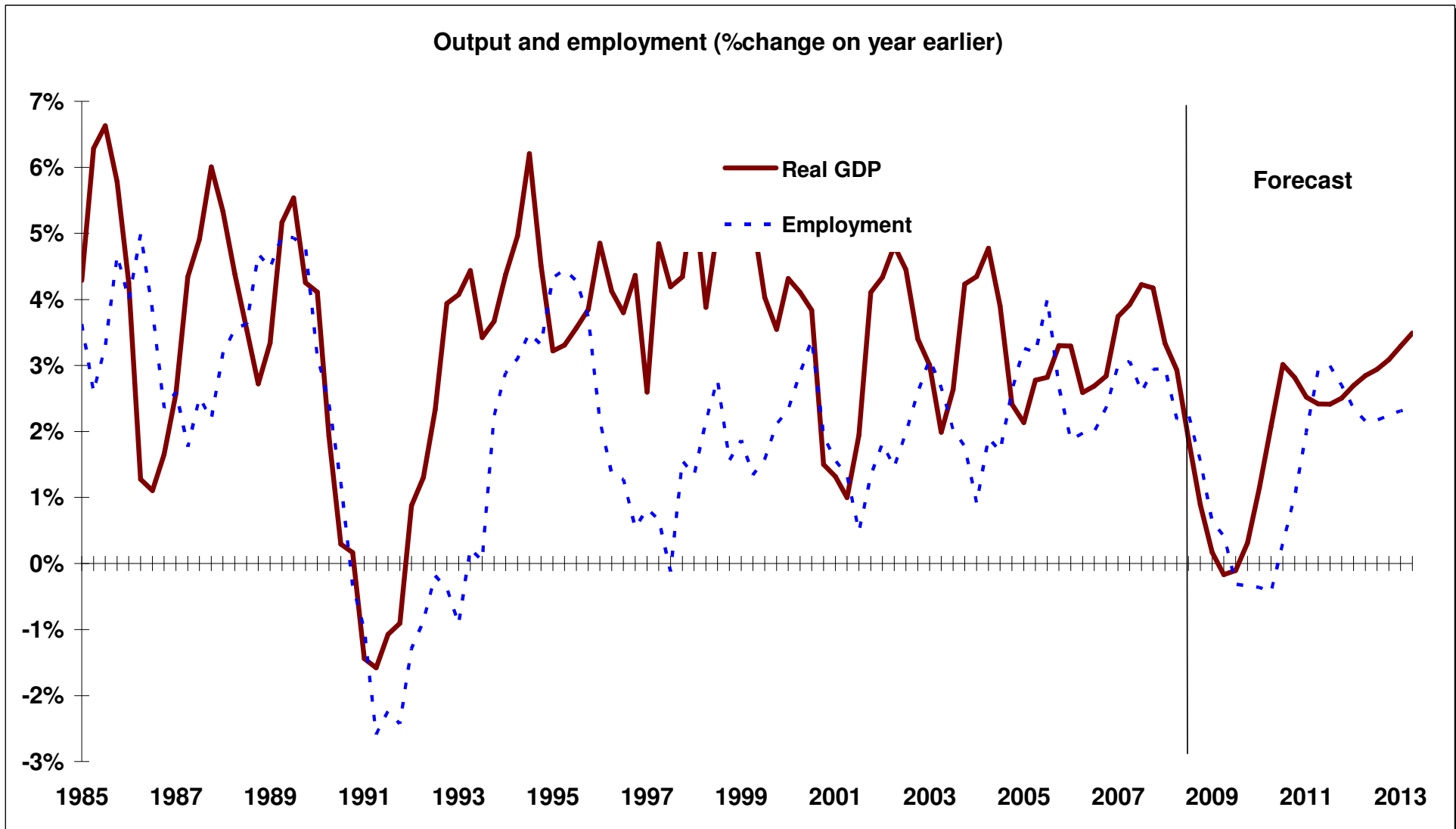
This has been an unusual job cycle

	Average annual job growth	Average annual output growth	Ratio job/output growth
Five years to end-1989	3.6%	4.2%	87%
Seven years to end-2007	2.2%	3.2%	70%
In-between those periods	1.4%	3.3%	41%

'Cheap labour' as real unit labour costs fell

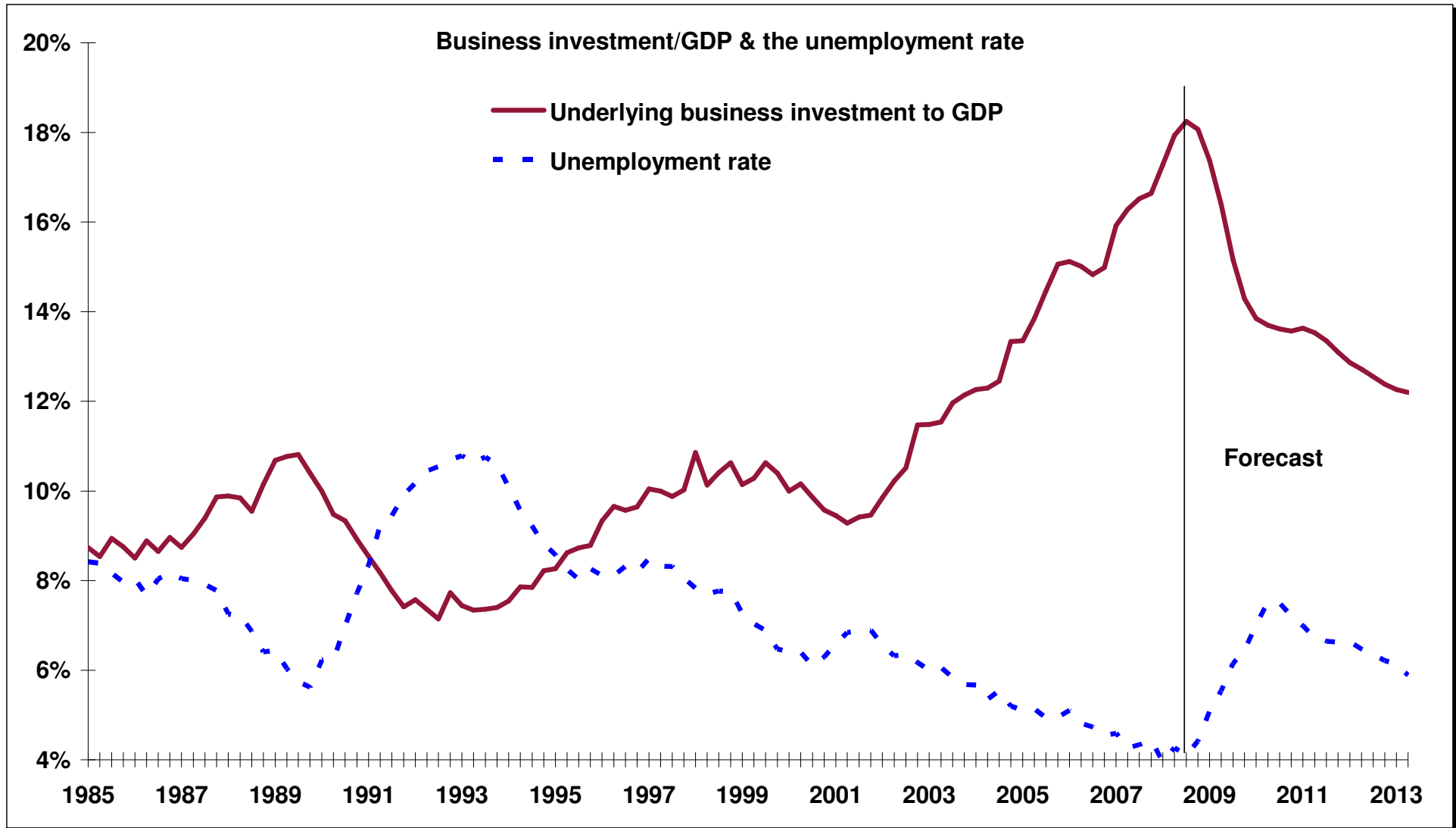


But now job growth stalls – it already has



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Raising unemployment



While moderating wage gains



The commercial implications

- **Be worried. The globe can expect a rolling recession that won't end soon.**
- **China's slowdown means a recession in Australia, and one that will eat into Federal pockets in a way which will pressure funding.**
- **Yet pressures on funding may be accompanied by a lift in demand from domestic students, and only a modest downturn in international student numbers. In turn, that will pressure HR departments as they juggle increased demands with constrained resources.**
- **Yet 'this too shall pass'.**

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