MURRAYLANDS

Growth Update

2007

Re-visiting the predictions

of the Murraylands Growth and Investment Survey 2006

in the light of current data

for the

Murraylands Regional Development Board

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June 2007

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Headline Summary

Why and how the update survey was conducted

The Murraylands Growth and Investment Survey 2006 showed that Murraylands employers expected an increase of 3,326 new positions between the beginning of 2006 and the end of 2008 given average years, and 961 if all three years were significantly worse than average. It also predicted approximately one billion dollars of business investment in the Region over the period and canvassed a number of related issues. The drought seemed likely to change these expectations and highlighted the need for an update. Accordingly, in June 2007, eighty of the 269 respondents to the 2006 survey were contacted by phone and asked to revise their estimate of the number of new positions over the same period. Most also made anecdotal comment regarding their future prospects. Data gathered by this method was used to revise the growth predictions made in 2006 in proportion to the variations evident from the smaller 2007 sample, with minor adjustments in the light of anecdotal and other evidence. Whenever more than one interpretation of the data was possible, this update has opted for the more cautious alternative.

What the update shows

Murraylands' business owners and managers now expect employment in the Region to grow by 2,597 new positions over the three years ending at the close of 2008, compared with the 3,326 predicted in the 2006 survey. This result is better than anticipated and mostly reflects the fact that the prime drivers of growth in the Murraylands are industries such as Manufacturing and Retail, which will be less affected by the drought than Agriculture. While all industry sectors except mining are expecting a decreased rate of growth, those most affected are horticultural operations that are dependent upon Murray water, and servicing operations (storage, engineering etc) that are reliant upon them.

Other factors that soften the affects of the drought include the strength of intensive animal industries, those parts of the Transport and Storage sector that do not rely upon river based horticulture, and Mallee based vegetable production, which is picking up some of the business that horticulture along the Murray is losing. The amount of water to be made available to irrigators is still uncertain. If allocations are insufficient to maintain some production and the health of crops, these growth predictions will need to be revised downwards.

The anticipated growth contains a slightly higher proportion of full-time positions. Part time positions now represent 36% of the expected growth, rather than 40% as was the case in the 2006 survey.

While firm predictions can not be made from these data concerning changes to anticipated investment in the Region, it is worth noting that if the (approximately) one billion dollars anticipated in 2006 for the three year period is reduced in proportion to employment expectations, the resulting figure is $778 million.

Background

The Murraylands Growth and Investment Survey 2006

The Murraylands Growth and Investment Survey 2006 made predictions based upon the employment and investment expectations of Murraylands employers for the three years to the end of 2008. Its data were drawn from a sample of 269 organisations, covering all industry sectors in all five Local Government Areas (LGA'S) of the Region. It predicted an increase of 3,326 new positions given average years, or 961 if all three years are significantly worse than average. It also predicted business investment in the Region in the order of one billion dollars given average years, and canvassed a number of issues that may boost or retard growth.

The Murraylands Growth Update 2007

Since the 2006 Survey was conducted, the drought (with its particular implications for businesses related to agriculture and river based irrigation) seemed likely to change the growth expectations of many Murraylands businesses. The present survey therefore is intended to update the core findings of the 2006 Survey and identify the way that industry sectors have responded to the drought and other change factors.

The 2006 update is based on a smaller sample of businesses (80) than its parent survey, but is nonetheless able to give a good account of the volume and nature of employment growth changes to the end of 2008 as anticipated by Murraylands businesses, and to show how they affect the major industry sector groupings of the Region. While the sample is not large enough to give a reliable industry break-down for each of the five Local Government Areas concerned, it was capable of supporting some general and specific comments related to these areas within the text.

The update also gleaned a good deal of anecdotal evidence relating to business and investment confidence which has allowed for some predictive commentary concerning these topics.

Methodology

The Sample

A sample of eighty Murraylands businesses was contacted by telephone. All of these had contributed data to the 2006 Survey, allowing a basis for comparison. A sample of this size is much too small for random selection to lead to credible predictions. Such a method would inevitably pass over crucial businesses which because of their size or volatility have a much greater impact upon growth in the Murraylands than others. Instead, the sample was carefully selected to contain those businesses that have a disproportionate effect upon regional growth while not excluding small and more representative businesses. It was also selected so as to ensure that each of the major industry sectors, and as far as possible, each of the Murraylands' Local Government Areas was fairly represented.

The Issues Canvassed

Each respondent was first presented with the predictions s/he made in the 2006 Survey as to the number of new (full and part time) staff positions they expected between the beginning of 2006 and the end of 2008, given average years. They were then asked to estimate how many new staff positions they would now expect over the same period. If the respondent did not seem particularly pressed for time, s/he was then asked to comment on future prospects, and where possible, issues of investment and long term viability were explored. It is a credit to the business-people of the Murraylands that a high level of engagement with the survey was generally encountered, and not one prospective respondent declined to be involved.

Data Interpretation

The numerical survey data were sorted into major industry categories and the predictions of each business compared with its 2006 counterpart. Predictions for each industry were totalled and the differences between the 2006 and the 2007 predictions were expressed as percentages. These percentages were then applied to the total predictions for each industry made by the 2006 Survey, thus arriving at revised predictions for staff gains or losses expected for the Region as a whole. The results thus obtained were examined in the light of respondents' comments and any apparent anomalies that seemed likely to bias the findings (given the small size of the sample) were noted. Adjustments were then made where changes to the predictions of one or more businesses in an industry group appeared likely to bias findings for that group. Typical examples were businesses expecting to set up or expand, whose plans had been delayed to a date outside the survey period. Where the number of positions concerned was significant, the changed predictions were excluded from the calculation of percentages, but added to the final industry prediction.

As a very approximate indicator of investment trends, the growth proportions arrived at by the above method were applied to the investment projections for each industry in the 2006 Survey. These were then interpreted in the text, in the light of respondents' comments and the considerable local knowledge of MRDB staff. As in previous surveys, in arriving at final figures and interpreting them, the principle of conservatism has been rigorously applied whenever the data admitted more than one interpretation. In particular, the 2006 Survey's principle of ignoring employment generated by the building and construction of operations planned to commence during the survey period has been continued here in the interests of presenting a picture free from temporary distortions.

Employment Growth Predictions

Murraylands Region

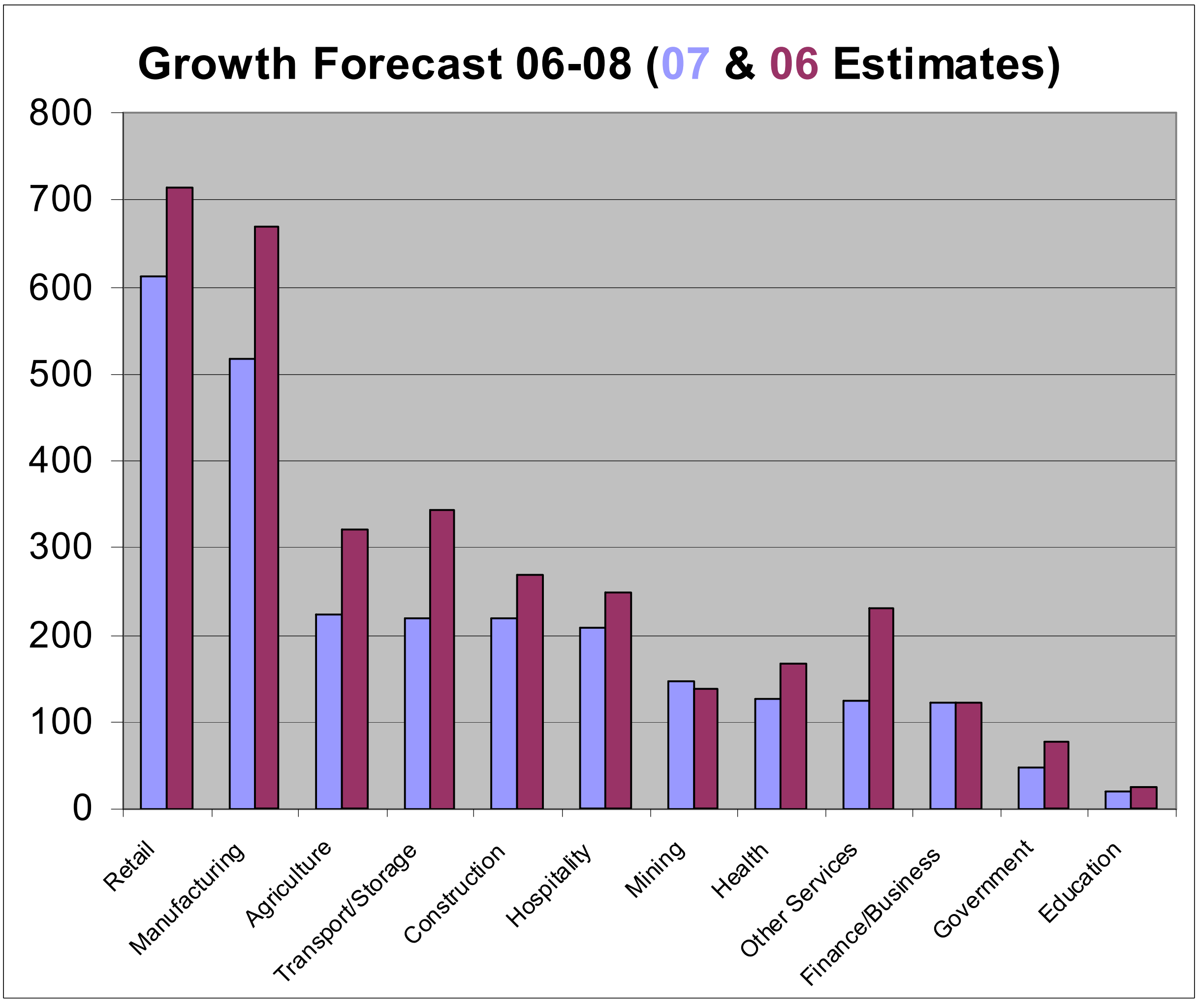
While the 2006 Survey predicted that given average years the Murraylands Region as a whole would grow by 3,326 new positions by the end of 2008, this update shows that the Region's business owners and managers have revised this estimate down to 2,597. Part time positions have been slightly more affected, decreasing from 40% to 36% of the anticipated new positions. This result is rather better than anticipated. From the 2006 predictions, one worse than expected year among the three should have brought the estimate down to about 2,400, but because of the severity of the drought with its attendant water restrictions, and an expected recovery time in excess of twelve months, a figure closer to the worst 2006 scenario (961) would not have been surprising. However it must be acknowledged that changes (particularly climatic) over the coming eighteen months could easily affect the realisation of this anticipated growth.

Prediction Volatility

The main reason for the higher than expected revised growth total is the fact that growth in the Murraylands is primarily driven by comparatively large manufacturing and retail industries. While growth in both of these sectors is expected to slow somewhat, the resulting impact across the region is less than would be the case if the prime driver had been agriculture. Nonetheless, Murraylands agriculture has suffered from the drought, but the final extent of the damage will not be evident until the amount of water available to irrigators has become clear. Horticultural industries that are dependent upon Murray water affect a wide range of other industries. In particular, many transport and storage businesses, and also a good number of engineering and servicing operations are largely reliant upon them. Respondents from these areas tended to base their growth predictions upon the assumption that sufficient irrigation water will be available for at least a basic level of business and the health of their crops to be maintained. If this assumption proves to be unfounded, the growth prediction will need to be revised downwards. This situation is mitigated to some extent across the Region by the fact that some of the business being lost to Murray based horticulturalists is being picked up by Mallee based horticulturalists whose supply of water for irrigation is not dependent upon the Murray.

Employment Growth by Industry

The following tables show the expected changes to growth expectations for each industry sector in the Murraylands. The numbers quoted represent revised growth expectations for the full three year period.



Growth Predictions by Industry ~ 2006 to 2008		
Industry Sector	**2006 Estimate**	**2007 Estimate**
Retail	714	612
Manufacturing	670	517
Agriculture	332	224
Transport & Storage	343	220
Building & Construction	270	220
Hospitality	249	204
Mining	138	146
Health	167	126
Other Services	231	124
Business & Finance	121	121
Government	77	48
Education	24	20

Retail

Retail was predicted to be the fastest growing sector by the 2006 Survey. This update shows that this is still the case. None of the retail businesses contacted expected their staffing forecasts to differ from those of 2006. The drop from 714 to 612 anticipated new positions over the three year period reflects delays in the commencement of major retail projects in the Rural City of Murray Bridge, and possibly in the Mid Murray area. These delays are expected to defer the realisation of the 2006 estimate until 2008.

Manufacturing

The lowering of expectations in the Manufacturing sector from 670 to 517 represents a bigger drop than that forecast by the Retail sector. This reflects the dependence of some parts of this sector on drought-affected industries. Organisations which add value to agricultural products are included in Manufacturing. Some losses are likely in meat product organisations, but these are to some extent negated by gains in those that rely upon intensive animal handling producers. Mostly, the expected losses are temporary, and prospects past 2008 are for a steady increase.

Losses are also being experienced in dairy product organisations, and in engineering businesses that rely upon the continuing demand for agricultural machinery and equipment. Manufacturers who are not reliant upon agriculture are mostly confident of attaining their 2006 growth predictions, and some are expecting significant growth after the survey period.

It should also be noted that a small proportion of the 2006 predictions for the Manufacturing sector represented projects which then appeared likely to commence in the Region, but for various reasons have failed to go ahead.

Agriculture

Although, the Agriculture sector has reduced its 2006 growth expectations (332 to 224), it has nonetheless proved to be more resilient than expected. Traditional cropping and grazing properties continue to decline slowly in the trend towards larger holdings; and while business gains have been affected by the drought, the predominance of family run properties softens the reduction of employment expectations. The most serious reductions are expected by those (mostly horticultural and dairy) producers who are reliant upon irrigation from the River Murray. As mentioned above, most respondents from these businesses based their predictions upon the expectation that sufficient irrigation water will be made available to maintain a basic level of both production and health for their crops. If this proves to be the case, recovery over time is likely. Irrigation-dependent vegetable growers in the Mallee have made gains where Murray based irrigators have lost business, and this effect has lessened the negative impact on growth forecasts for agriculture.

Expectations for growth are being eroded somewhat in fishing in the Coorong area, where scarcity of appropriate employees and fear of impending legislative restrictions compound the difficulty of finding the wherewithal to upgrade equipment.

The outlook for this sector is greatly improved by the success of intensive animal handling organisations, including new businesses entering the Region during the survey period.

Transport and Storage

Within transport and Storage there are a number of businesses experiencing drought affected cut-backs. These are mainly wholesale and storage organisations which rely upon produce from River Murray irrigators. However, the reduction of the growth forecast from 343 to 220 does not reflect the fortunes of the entire sector. Transport and storage operators in the Monarto area are less dependent upon horticultural produce and continue to grow. Most transport operators through the Region expect to remain stable, and some in Murray Bridge expect growth to be quite likely after the survey period as a result of the establishment of the new prison.

Building and Construction

The apparent reduced growth expectation of this sector (270 to 220) is less serious than it appears. As mentioned above, building and construction relating to new projects has been excluded from the figures. At the same time, a significant number of new projects have been delayed to (or expect to start in) the two years following the survey period.

Regional building and earthmoving businesses agree that there is evident potential for further growth, but its realisation is hampered by the difficulty of obtaining staff experienced and qualified in building trades and plant operation. In the face of this difficulty, they mostly expect to remain stable or grow in the longer term.

Hospitality

The growth reduction for Hospitality from 249 to 204 is caused by the stalling of a single expected project and does not reflect the sector as a whole. Hospitality businesses across the Region mostly expect their 2006 predictions to hold good and there are good grounds to expect further growth (not yet surveyable) in the Murray Bridge and Mid Murray areas.

Mining

This is the only sector to record a rising employment forecast. Mining in the Murraylands comprises a very small handful of businesses. Most of the growth from 138 to 146 represents the increased expectations of a single operation.

Health

Health care operations with decreased employment expectations (167 to 126 for the sector) mostly came under the ambit of the new State administrative body, - Country Health SA. This has brought about staff rationalisations not anticipated in 2006, compounded by losses to “shared services “ (see Government below). The rest of the sector is likely to remain stable, with some gains in aged care businesses mainly after the survey period.

Other Services

In the Murraylands, this sector encompasses recreational services, personal services and communication services including the media. The lion’s share of the decline in expectations from 231 to 124 in fact represents a single large development in the Murray Bridge Local Government Area which is not likely to commence until after the survey period. Businesses in the remainder of this diverse sector mostly expect growth in line with their 2006 forecast.

Business and Finances

There are little or no expected growth trends held in common by the businesses of this sector, which overall retains its 2006 forecast of 124.

Government

Declining expectations in Government organisations (78 to 44) mostly reflect budgetary cuts and efficiency measures in public service administration. A trend which has now commenced and is likely to reduce employment numbers further over time is the institution of “shared services”. This consists of pooling all administrative support functions across the State Public Service within a single organisation. It appears probable that the organisation will be centred in a single metropolitan location. This innovation will incur staff losses in rural areas.

It should be noted that the new prison for Murray Bridge announced last year will not commence during the survey period. When it does however, it will cause significant growth, not only through its own staffing, construction and maintenance, but also by increased business engendered locally by its staff.

Education

Growth predicted in 2006 by private schools appears to be on track. The reduced employment expectation from 24 to 20 for the whole Education sector reflect structural changes in a public sector educational organisation. The low numbers indicate that growth expectations for Education are significantly lower than those for other industry sectors.

Confidence and Investment

The most striking impression gained from surveying eighty Murraylands business people by telephone has been the level of confidence displayed by those whose operations were not directly drought affected. Even within vulnerable parts of the agriculture, transport and storage and manufacturing sectors, many organisations had been able to avoid damage by diversification and proactive business practices.

Where appropriate, respondents were encouraged to give anecdotal evidence relating to their future prospects and economic viability. Given the comparatively small number in the sample, it is not possible to give a firm prediction of changed investment trends; however, a very approximate indication may be attempted. The 2006 survey predicted investment in the Region in the order of one billion dollars over the survey period. If this figure is revised downwards in proportion to the changed employment anticipations, the result is $778 million. The following figures were arrived at by revising each industry sector's share in proportion to its 2007 growth update and then adjusting it according to known investment variations and the anecdotal evidence of respondents.

Possible Investment Forecast by Industry ~ 2006 to 2008

Industry Sector	2006 Estimate ($ Million)	2007 Estimate ($ Million)
Retail	248	206
Mining	212	152
Manufacturing	184	144
Transport & Storage	141	114
Building & Construction	105	87
Agriculture	88	62
Hospitality	46	39
Other Services	34	27
Health	28	24
Education	25	22
Business & Finance	20	17
Government	0.8	0.6

It must be reiterated that these figures are only supplied as a very approximate guide, based as they are upon the very conservative assumptions of the 2006 survey and adjusted according to anecdotal evidence. Moreover, a significant proportion of the reductions given above represent projects the commencement date of which have been delayed beyond the survey period.

Local Government Areas

Because of the size of the survey sample, it was not possible to make firm numerical predictions about growth in both industry sectors and local government areas. The sample was therefore chosen to include sufficient representation of each industry sector to make meaningful statements about their growth expectations. Nonetheless, the sample contains enough respondents in each of the Region's local government areas to glean some useful anecdotal comment. Where figures are quoted in the following paragraphs, they are simply a revision of the 2006 predictions for local government areas in proportion to the region's 2007 growth expectations, adjusted according to anecdotal evidence. They are given as a very rough guide only.

Rural City of Murray Bridge

While growth expectations in the Rural City have declined (from 2191 to roughly 1700), this area is expecting a higher proportion of new projects, mostly major, to commence from 2009. Chief amongst these is the new prison, which as stated above will bring further growth with it in other industries. Reduced growth expectations are mainly experienced in some value-adding, horticulture, dairy and other agriculture-related businesses, particularly those that are reliant upon irrigation.

Mid Murray District Council

As expected, growth expectations have declined in the Agriculture sector, particularly amongst horticulture businesses along the Murray. There are also reduced expectations in industries that rely upon them, including storage, and engineering. The 2006 expectation of 579 new positions has reduced to around 420.

Coorong District Council

As with the other areas that border the Murray, irrigation related businesses are experiencing reduced expectations, as are agriculture servicing operations and fishing. Intensive animal industries however are softening the impact on this area. The 2006 expectation of 399 new positions has reduced to around 290.

Karoonda East Mallee Council

Agriculture in the Mallee has always been resilient, and significant losses are not expected in this area. Expectations of growth from mining have increased somewhat since 2006, and this has also boosted the outlook for retail and hospitality.

Southern Mallee District Council

The 2006 survey found that the stability of horticulture in this area was the factor which saved it from a negative growth rate. Now that, as mentioned above, growers of irrigated vegetables have picked up some of the business lost by Murray River-based horticulturalists, this area is (for the present at least) less prone to decline.

Conclusion

The expectation on undertaking this survey was that it would reveal a large decline in the growth expectations of the Region for the period 2006 to 2008. It came as a big surprise to find a general high level of confidence, and to discover that most businesses were on track to achieve the growth for this period that they anticipated in 2006. Despite taking every opportunity to place a conservative interpretation upon the data gathered, it has not been possible to reduce the projected growth estimation below the figures quoted.

The threat still remains that irrigation-dependent organisations and industries that rely upon them will sustain further losses if insufficient water is released for their use. This threat is to some extent mitigated by the expected commencement of a number of projects (several of them significantly large) after the conclusion of the survey period at the end of 2008.

It appears that the Murraylands is well able to sustain the damage caused by the drought and recover from it in the medium term. Growth expectations are still considerable and business confidence is still high in most industries.

In the light of this update, it is evident that the greatest long term threat to growth in this Region is still the difficulty of attracting enough skilled staff to fill the positions that are being created. If business, government and the community work together to address this problem, the Murraylands may look forward to the continuation of its growth phase into the foreseeable future.

30th June 2007