

Sunshine Coast Business Council

# Australia's investment drought

3 May 2024

BCA

Business Council of Australia

## Summary

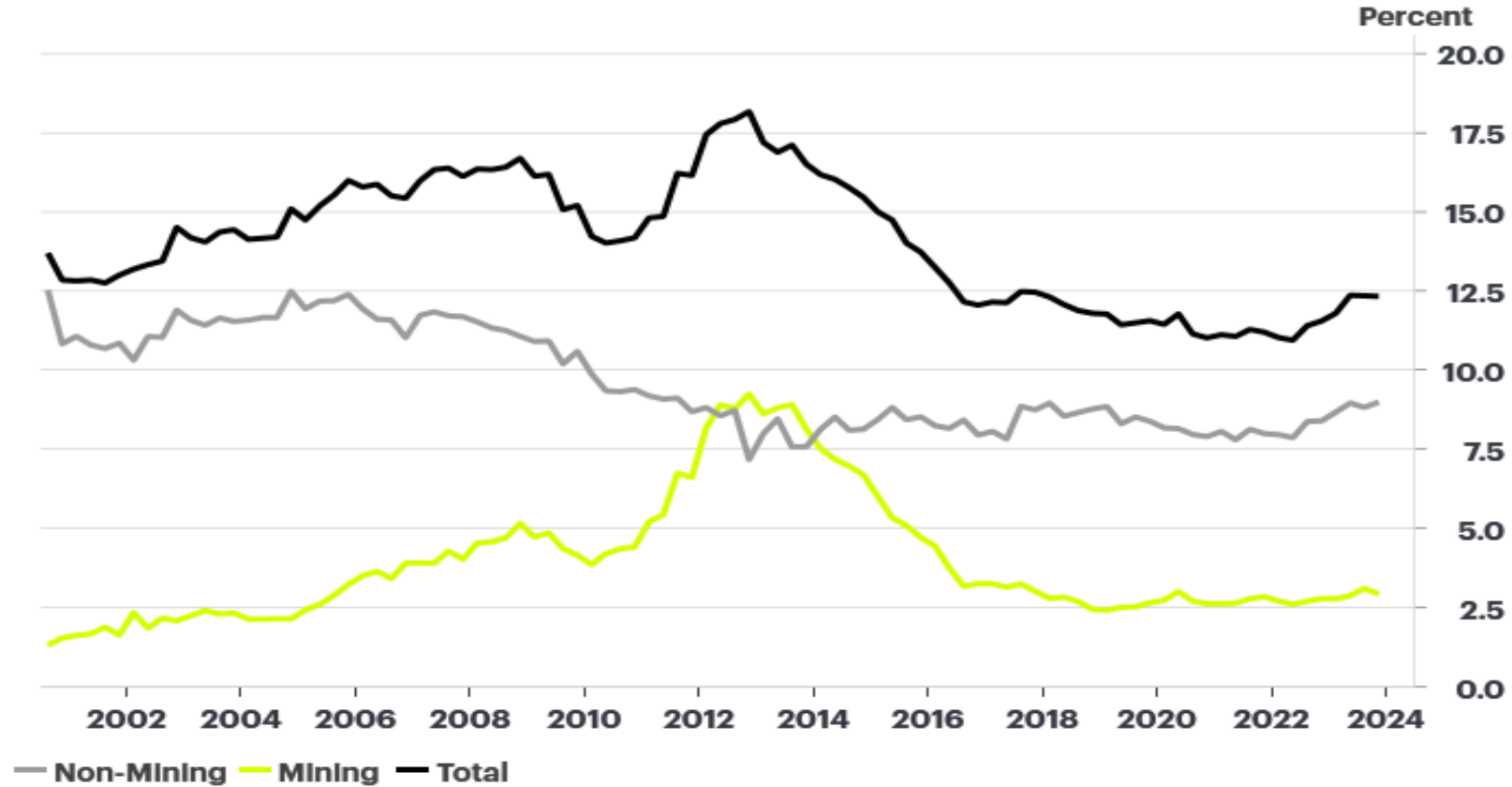
- **Symptoms – the nature of the investment drought**
- **Implications for productivity, innovation and R&D**
- **What this means for Australia long term**
- **How did we get here?**
- **What we can do to end the investment drought**
- **Questions?**

## Australia's global competitiveness ranking is sliding



# Investment is near 30-year lows as a share of GDP

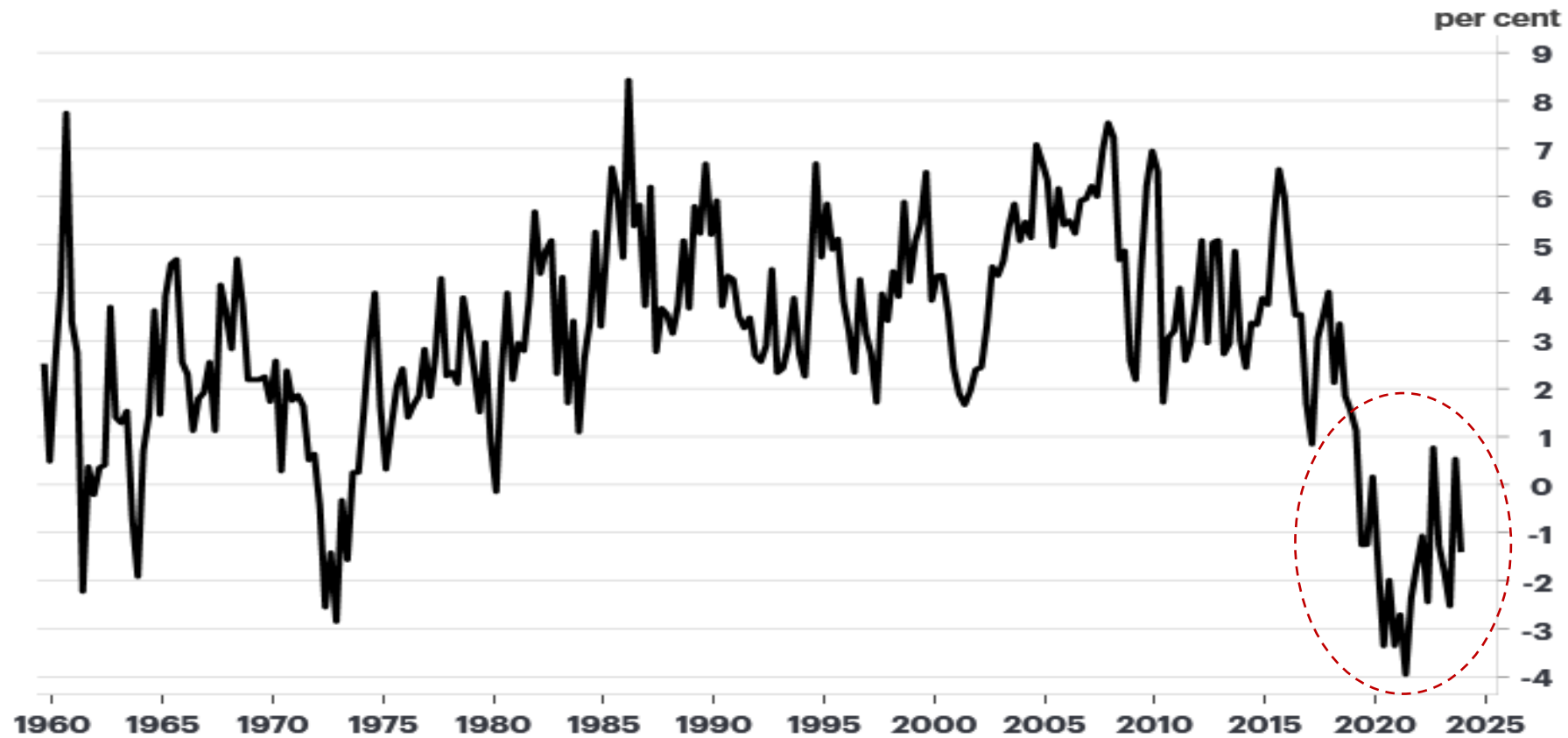
New private business investment, current prices, per cent of GDP



Source: ABS

Australia now is a net *exporter* of investment capital

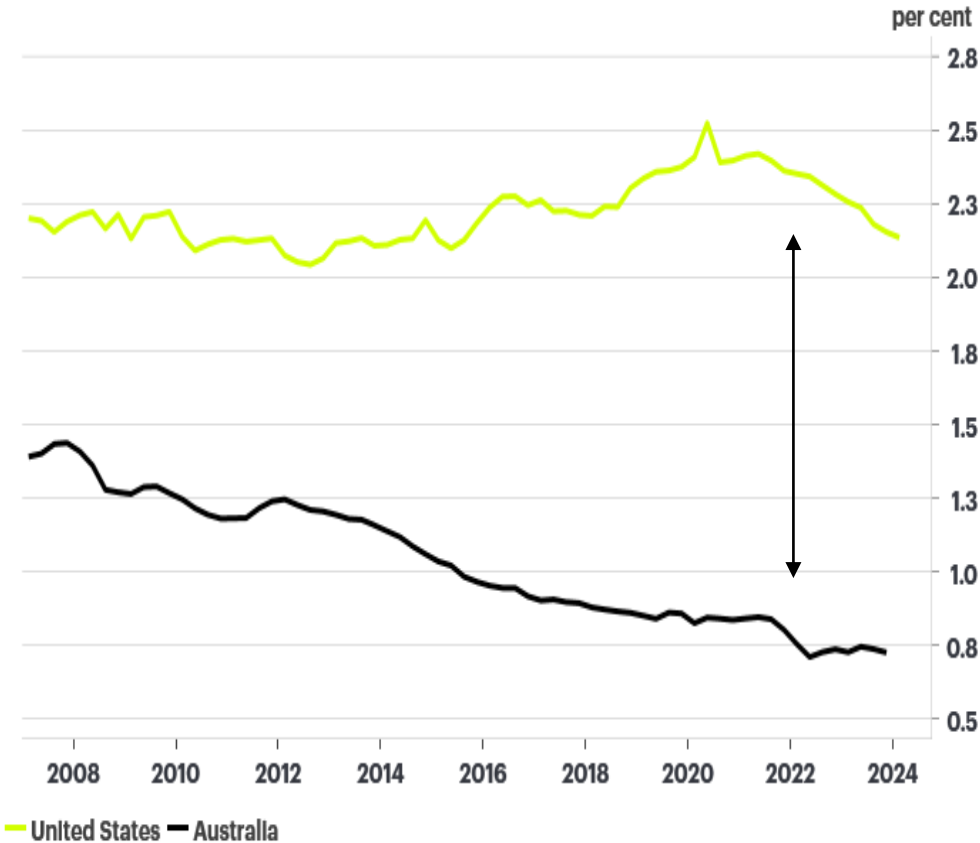
Capital and financial account balance, per cent of GDP



Source: ABS

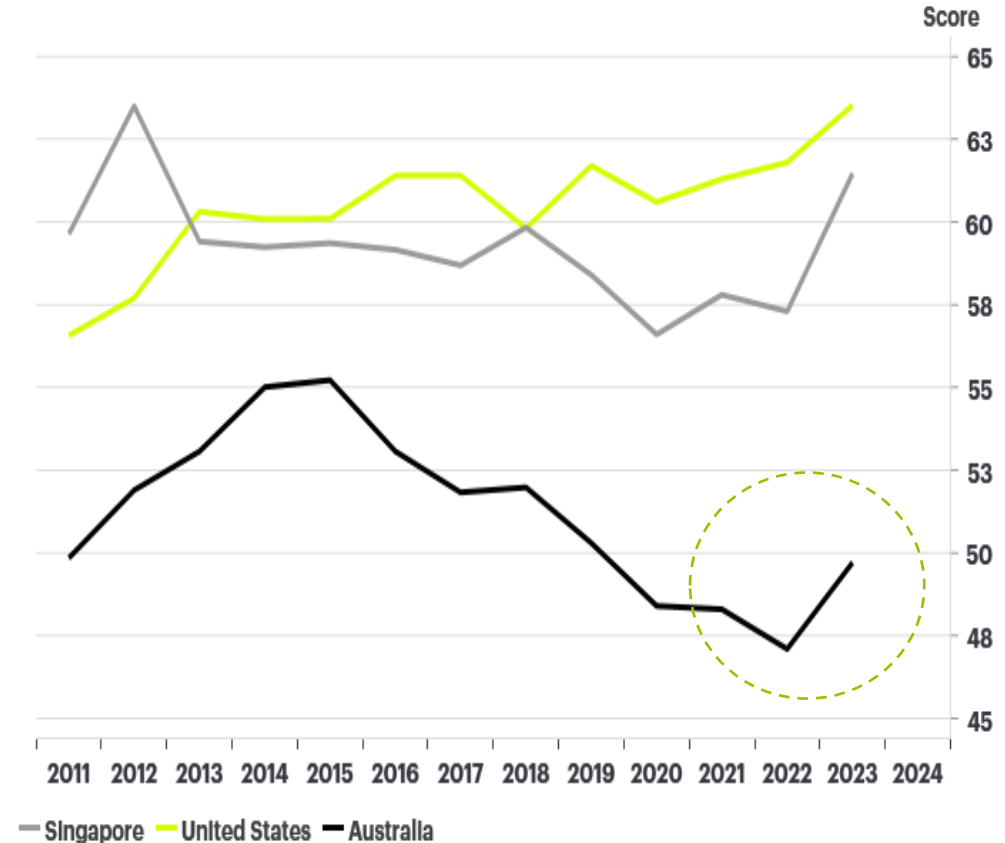
# Australia underperforms other countries in R&D and innovation

Research and development spending, share of GDP



Source: ABS, BEA

Global Innovation Index



Source: GII

# How business investment delivers benefits

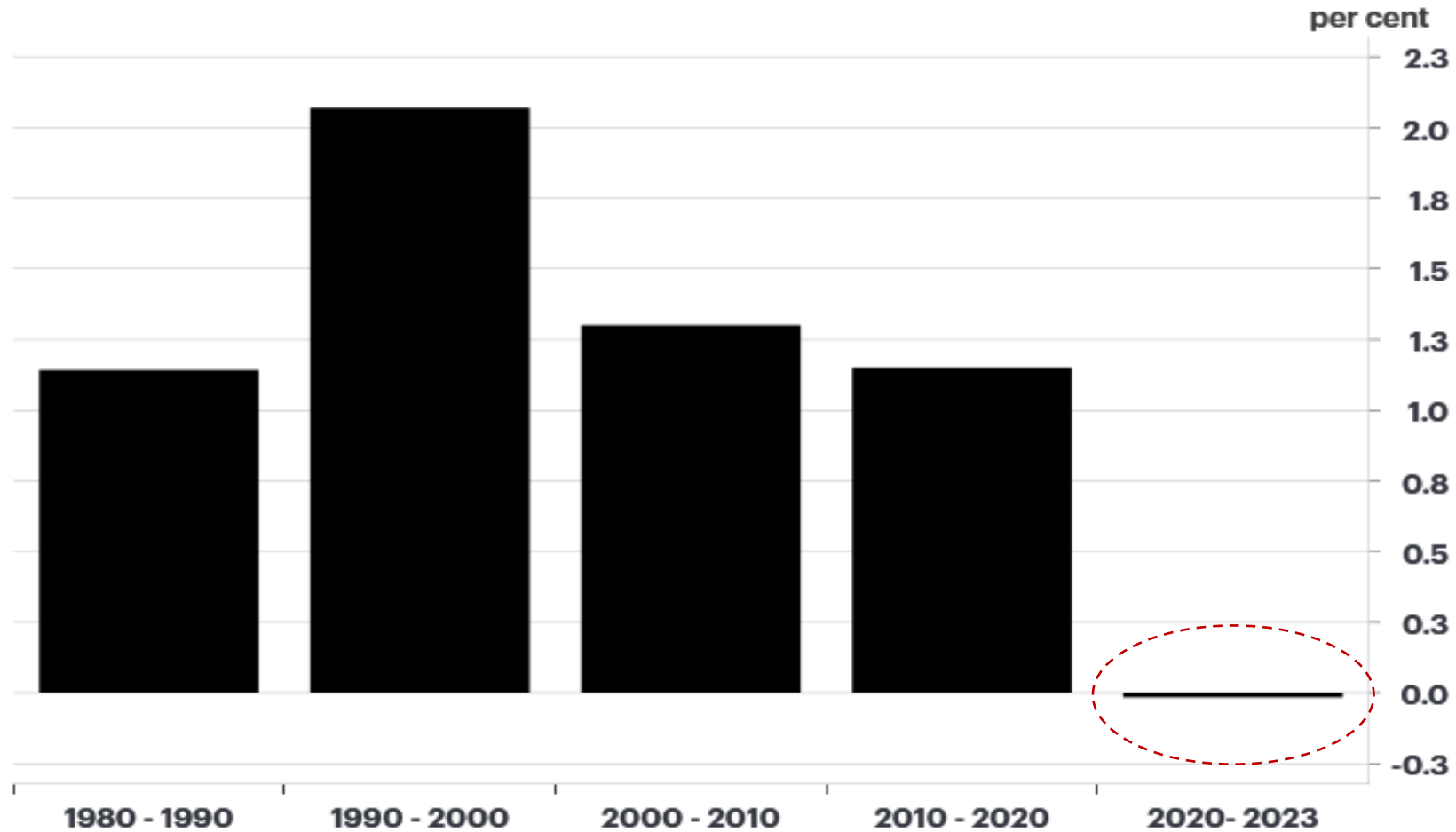
*How business investment delivers benefits across the economy*



Source: BCA

# Lifting investment is key to arresting the slide in productivity

Labour productivity by decade, annual average growth rate

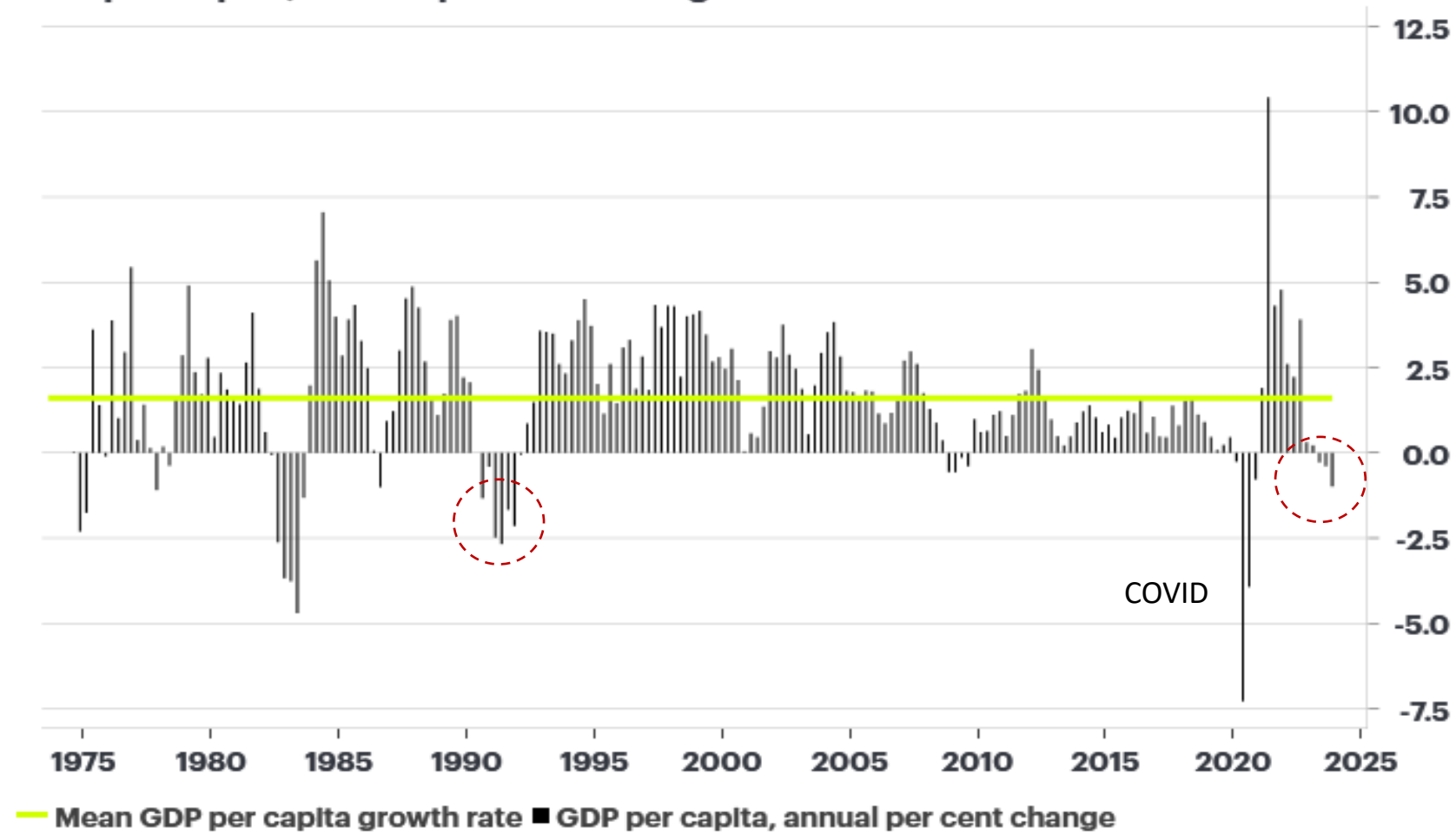


Source: ABS



# Low productivity means our living standards are under pressure

## GDP per capita, annual per cent change

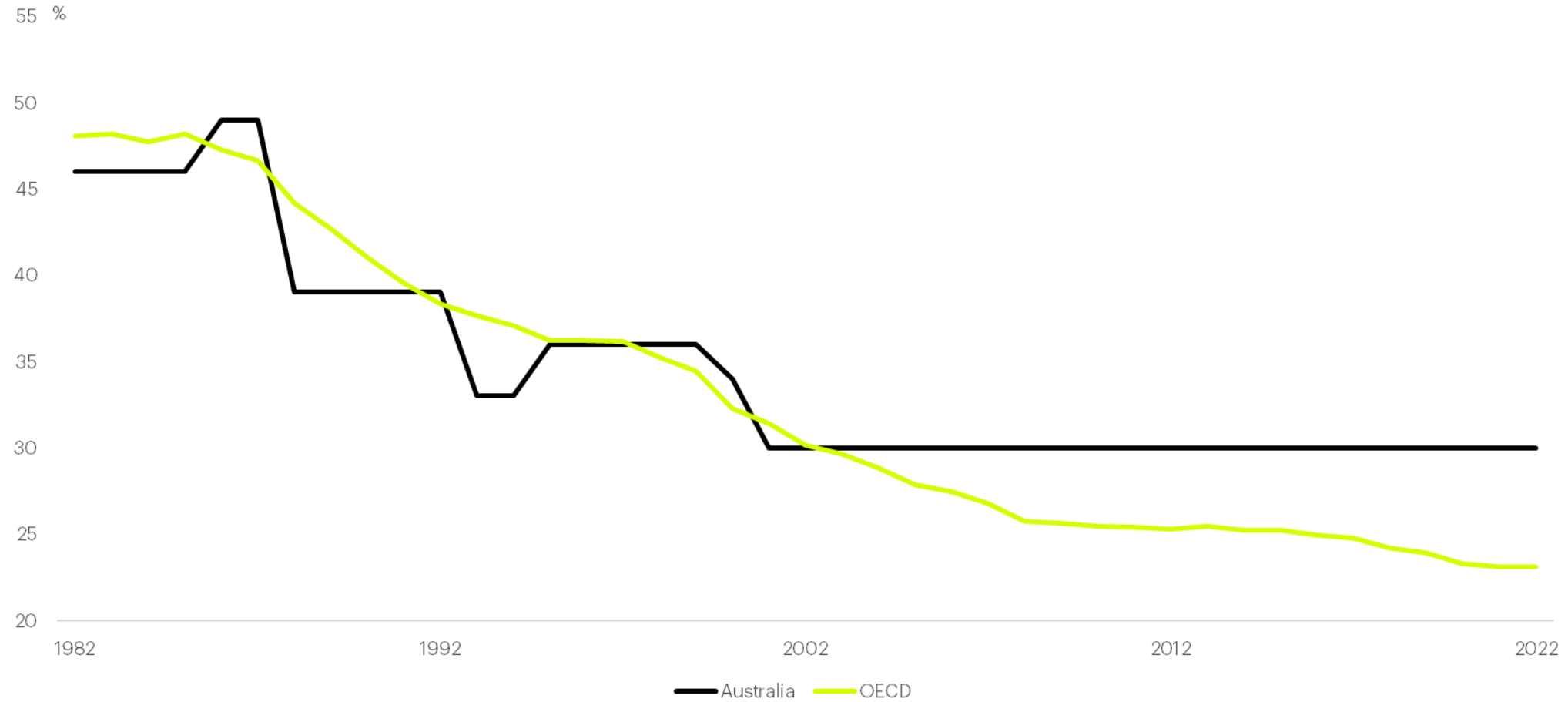


Source: ABS

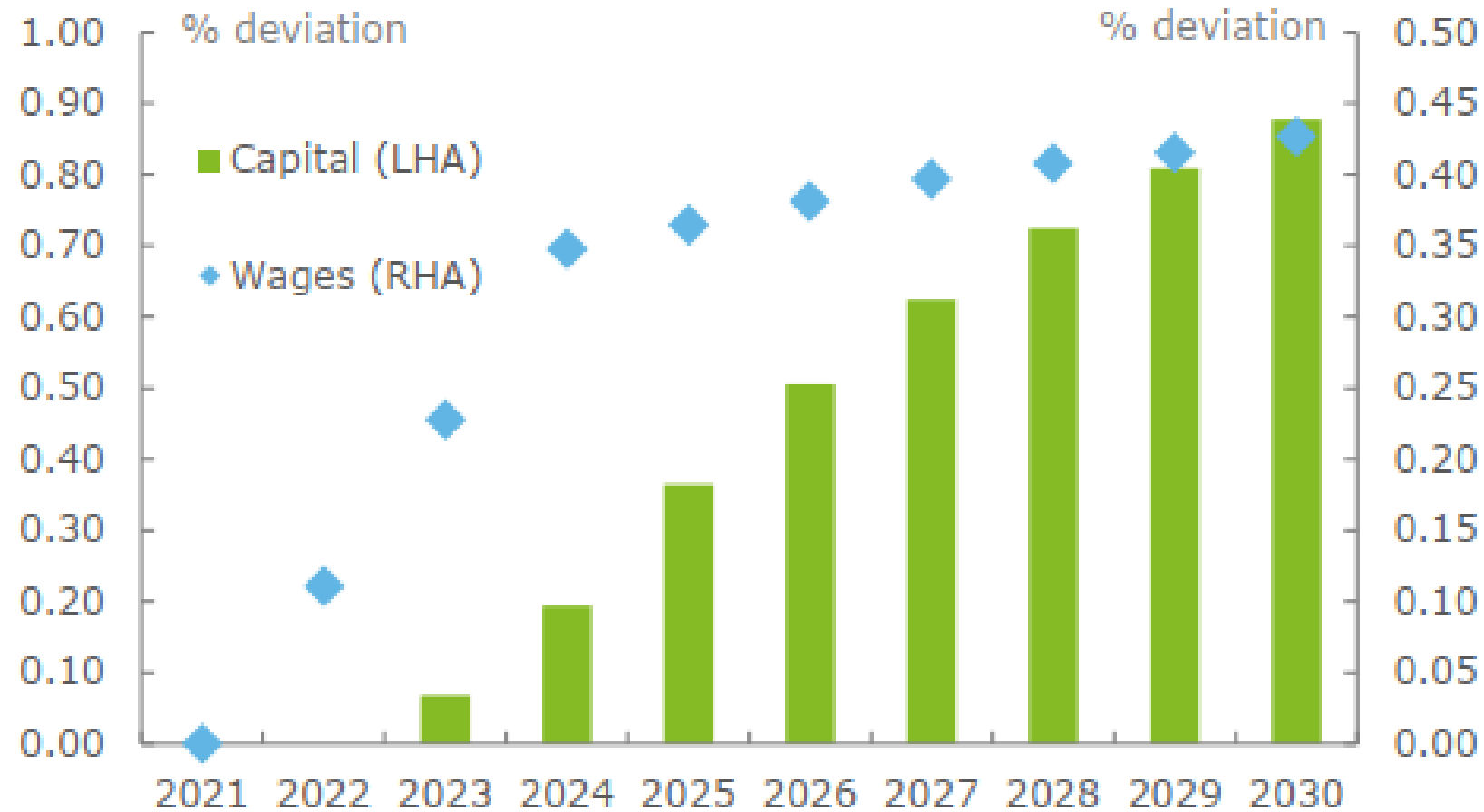
## Drivers of weak business investment

- Mining boom
- COVID
- Increased uncertainty (domestic/global issues, policy uncertainty, technological change)
- Weak confidence post GFC
- Weak capacity utilisation post GFC
- A growing services sector
- Problematic industrial relations changes
- Changes to risk appetite
- “Sticky” hurdle rates
- Heavy regulatory burden
- Energy affordability and reliability
- Changing nature of investment
- Weak productivity growth
- Uncompetitive tax settings

## Growing wedge between Australia and OECD corporate tax rates



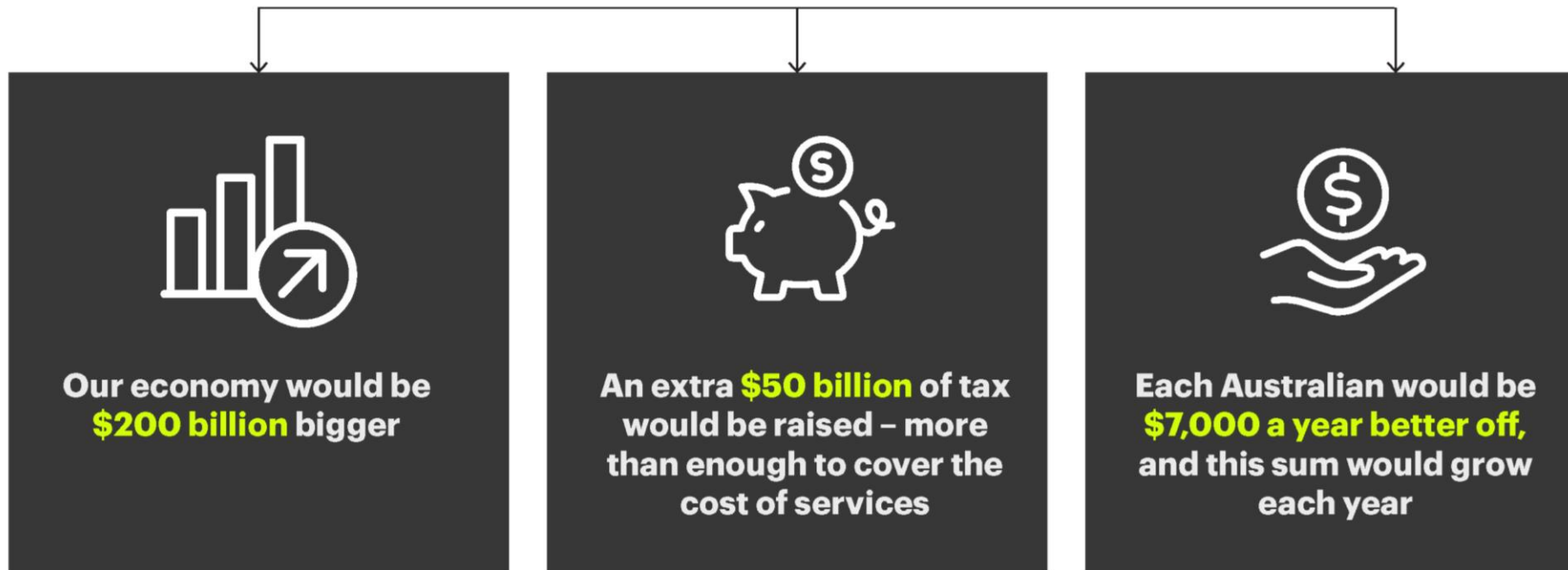
# A suggested solution – a business investment allowance



Source: DAE-RGEM.

## Huge reform payoffs if we are bold

If the Australian economy was to grow at its long-run average of 3.3 per cent a year rather than the status quo, after a decade:



Source: ABS and BCA

**Questions?**