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HD **Silver lining as mining boom fades**

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Transport, IT and food sectors will now drive the economy

THE feared end of the resources boom does have at least one silver lining: the business front pages of Australia's newspapers will no longer hinge on the sometimes monotonous gyrations of the price of iron ore and coal. Instead, Australians will learn that their prosperity depends on the success of other parts of the economy, which in fact already contribute at least as many jobs as mining and will have far more long-term growth potential.

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The Australian's 2014 Mid-Market Capital Series, supported by GE Capital, examined some of the challenges and opportunities faced by three sectors that don't grace the news pages often enough: transport, food and beverage, and information technology.

The size of the mid-market within each of these industries — more than 4000 individual firms making more than $100 billion a year in revenue — points to their overall potential. These substantial revenues provide economic resilience at the same time as their more nimble size avoids the management clutter that pervades many large-cap companies.

Transport and IT are at least as important for how they affect the costs of other businesses and boost productivity as they are stand-alone contributors.

Rapid advances in telecommunications in particular can improve business efficiency so much that businesses are able to expand without hiring more staff.

"It's the fact that we're prepared to invest in technology, or we can leverage technology better, that's going to allow us to get more scale, to generate more revenue, without necessarily adding to the cost base," GE Capital Australia and New Zealand chief executive Duncan Berry said, referring to surveys that show 61 per cent of mid-market companies are expecting some form of growth this year without necessarily hiring additional staff.

The growth of personal mobile communication devices — mobile phones and iPads — is boosting the productivity of existing workers, enabling work to be conducted from home or while commuting.

Commuting is becoming obsolete. "For a lot of employees it's a lifestyle choice," Anthony Woodward, chief executive of cloud computing specialist Bulletproof, told the series. "They don't want to be tied up spending long periods of time travelling to and from a workplace. Or they may want to live in an area that suits their lifestyle." The slump in the cost of mobile phone and computing technology has given consumers and workers the ability to access state-of-the-art technology sooner than their employers can order it. Where once the most advanced equipment employees operated was in the workplace, increasingly workers' own store of computing power exceeds what their employers would or could provide. Such technology is also restructuring firms' back offices, especially data-intensive payroll administration. In bygone eras, firms would need their own heavy-duty computing infrastructure to crunch and store data.

But emergence of cloud technology — the ability to access computing firepower remotely — is dramatically cutting business costs, too.

According to Mr Woodward about 86 per cent of Australian firms are using cloud computing.

“Essentially computing becomes a utility, so you pay only for what you need when you need it. This removes the cost of unused or underutilised infrastructure capacity,” he said.

New Zealand small-cap **firm** Xero announced recently that its cloud accounting software had processed more than $1bn worth of payroll in Australia in June.

“We’ve seen amazing growth in both the number of businesses and amount of Australian payroll processed using Xero,” the **company** said.

“End of year payment summaries, which small businesses around the country are struggling with right now, can take as little as a few minutes to prepare in Xero’s product,” Xero managing director Chris Ridd said.

“Tax file number declarations (which traditionally have involved manually completing employer details on the paper form) now just take one click to get this information to the ATO,” he added.

The prospect of rapid advances in time-saving devices leading to jobless growth is not unique to Australia.

In fact world-renowned economists including former US treasury secretary Larry Summers have become concerned advanced economies will not be able to generate sufficient full-time work for low-skilled workers. The sectors that used to provide such jobs en masse — large-scale manufacturing — have shifted to developing countries with lower labour costs.

Like IT, Australia’s transport sector has a critical effect on the productivity and job prospects of the broader economy. Almost all businesses are affected by the quality of private and certainly public logistic capabilities. Supply-chain costs make up about 10 per cent of the final costs of a product to a consumer.

Michael Paul, chief executive of Australian logistics **firm** Pack and Send, told the series that growth of internet shopping had increased the cost of congestion to the wider economy.

“The number is only going to increase with population increase, but it’s going to increase more so as a result of a change of delivery to more homes as a result of online shopping,” he said.

NSW Transport Minister Gladys Berejiklian, who took part in one of the series’ panel discussions, pointed out that her government was prioritising construction of new mass transit systems to reduce household demands on the existing road network, pointing to the North-West Rail Link and new light rail options between Sydney’s central business district and the University of NSW.

Households and businesses can at least expect some reprieve from the final repeal of the carbon tax in July. The $25 a tonne tax on carbon emissions ultimately found its way into the costs of all goods, including transport. Whether prices will fall in the wake of its removal remains to be seen, but businesses are confident.

Infrastructure Partnerships Australia’s chief executive Brendon Lyon said, “We can rely on the invisible hand of the market to drive these sorts of (cost-cutting) behaviours because they are very competitive markets.” GE Capital’s Kirk **Purchase** said the carbon tax had damaged the mid-market transport sector by curbing already slender margins. “It’s already a 4 per cent profit margin industry so the sooner that tax could get rolled back the better for those operators,” he added.

The privatisation of Australia Post is an elephant in the room that could yet have profound influence on the transport and logistics sector. The publicly owned national mail service is facing steep losses as booming profits on parcel delivery fail to outweigh losses from standard mail delivery. Online shopping has boosted parcel delivery dramatically as email and social media have devastated traditional snail mail businesses.

So far the Abbott government has ruled out privatising Australia Post. But Australia’s ability to maintain something akin to a next-day delivery service for the cost of a 50c or 60c stamp will become less feasible. If ever the parcel business need not subsidise the loss-making letter business, costs could fall, benefiting all.

The growing pipeline of infrastructure projects is a more certain benefit. Australia’s infrastructure backlog is well known and the Abbott government has undertaken to provide incentives to state governments that elect to sell publicly owned infrastructure, such as electricity networks, as long as they plough the proceeds back into road, rail and port facilities that in turn improve the country's productivity.

Unlike transport and IT, Australia's food and beverage sector doesn't affect the productivity of the rest of the economy so tangibly, but it is slated to be part of the next boom in Australia's economy.

Agribusiness is among the five Australian industries recently singled out by Deloitte Access Economics to grow at rates at least 10 per cent faster than global gross domestic product as a whole. As the world's population surges ahead by more than 60 **million** a year and Australia's neighbours become richer, so will their diets and their demand for Australian food and beverages.

"We've all heard the line about Australia being Australia's food bowl for Asia and Oceania but we haven't really thought about what that means: the potential is huge," John Barilaro, NSW government Parliamentary Secretary for Small Business, told the series.

"We've seen predictions where **China** alone by 2030 could consumer almost 60 per cent of Australia's agricultural food output compared to around 12 per cent in 2007." Ben McKee, chief executive of Capilano Honey, said exports were growing fast especially in **China** and not just because of population trends but because of Australia's growing brand power as a source of fresh, "premium'" food. "People are liking the products because they are actually produced here — not only the primary production but all the manufacturing and quality standards," he said.

While Australia's growing list of free trade agreements has helped exporters take advantage of the new opportunities, they still contain sometimes exorbitant restrictions on offshore sales. Tariffs of up to 220 per cent still apply to some beef exports to Japan, even after signing a free trade deal with that country.As the resources boom fades into the rear-vision mirror, Australia's economic destiny will rest on industries such as transport, IT and food and beverage sector. Policymakers will need to become as knowledgeable about their cost structures and challenges as much as of the resources sector's.

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