

Australia and New Zealand Economic Analyst

Economics Research

Labour market recovery and progress on female participation?

Thematic: A cautious approach to jobs surge is warranted

The +80.5k surge in full-time employment reported in February captured the market's attention but, in concert with the uptrend in the unemployment rate to a 10½ year high, ultimately added to the growing number of conflicting signals across much of the local data flow. Importantly, the National Statistician specifically cautioned against focusing on the surge in the headline jobs number, and we continue to believe that the trend data and our Labour Market Indicator (LMI) provide a cleaner gauge of underlying trends. To that end, the latest update of our LMI is not sending a strong signal that labour market conditions have fundamentally turned, though tentative signs of stabilization are consistent with our forecast return to modest jobs growth through 2014. Under this scenario, some reversal of the recent cyclical weakness in participation is still likely to see the unemployment rate edge ~20bp higher by mid-year.

Thematic: 5 years on – progress on female participation?

It is 5 years since we issued a report titled "Australia's Hidden Resource: The Economic Case for Increasing Female Participation" which somewhat unexpectedly became one of our most widely quoted pieces. In this note we benchmark how Australia has performed in terms of female participation since 2009. There is both good and bad news for advocates of lifting the female participation rate, however, the silver lining in the data is that policies directed at increasing childcare subsidies and the initial phase of the ALP's paid parental leave (PPL) program appear to have had some success in the key 25-44 year age bracket against a general trend of declining participation rates in the general population. Accessing the talent of highly educated and skilled labour already resident in Australia should help lift aggregate productivity, contain wage growth, assist in lowering the future strains on the pension system and importantly help engender a more diverse workplace. In this respect, we assess the benefits of the proposed enhancements to PPL, in conjunction with other government and corporate initiatives to far exceed the estimated additional cost of the scheme and stress the urgency of redoubling efforts to lift female participation as the 'echo of the Baby Boom' moves through the key career building phase of life.

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Thematic: Why a cautious approach to jobs surge is warranted

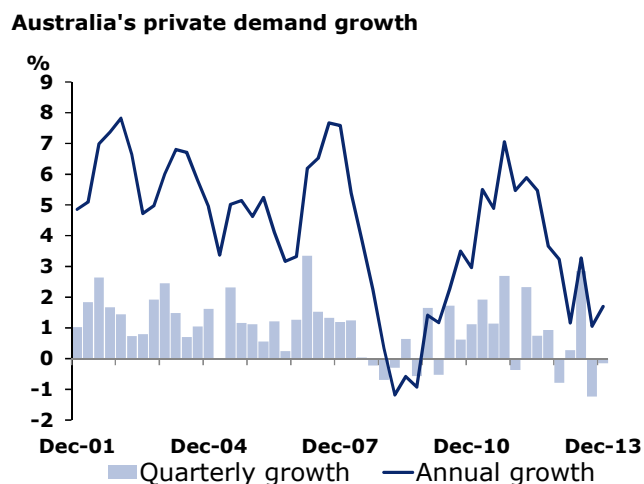
The +80.5k surge in full-time employment reported in February captured the market’s attention but, in concert with the uptrend in the unemployment rate to a 10½ year high, ultimately added to the growing number of conflicting signals across much of the local data flow. Importantly, the National Statistician specifically cautioned against focusing on the surge in the headline jobs number, and we continue to believe that the trend data and our Labour Market Indicator (LMI) provide a cleaner gauge of underlying trends. To that end, the latest update of our LMI is not sending a strong signal that labour market conditions have fundamentally turned, though tentative signs of stabilization are consistent with our forecast return to modest jobs growth through 2014. Under this scenario, some reversal of the recent cyclical weakness in participation is still likely to see the unemployment rate edge ~20bp higher by mid-year. Looking further ahead, it will be a challenge to hit the Department of Employment’s 5-year projections for employment growth – and particularly given the multi-year constraints on job prospects in the mining, manufacturing and public sectors.

Exhibit 1: The unemployment rate is already at a 10½ year high and we expect it to rise further



Source: Goldman Sachs Global Investment Research, ABS.

Exhibit 2: The reported surge in jobs growth early in 2014 is hard to square away with contracting private demand



Source: Goldman Sachs Global Investment Research, ABS

An unexpected surge in February employment raised some eyebrows

The latest official data on the labour market highlighted a +47.6k surge in employment in February – far exceeding i) the most optimistic expectations of local analysts, ii) leading indicators on the labour market, and iii) completely at odds with the outright contraction in private demand experienced over 2H2013 (Exhibit 2). On face value, the composition of the monthly outcome was also very strong, with the heavy skew to full-time positions (+80.5k) representing the largest monthly gain in almost 23 years.

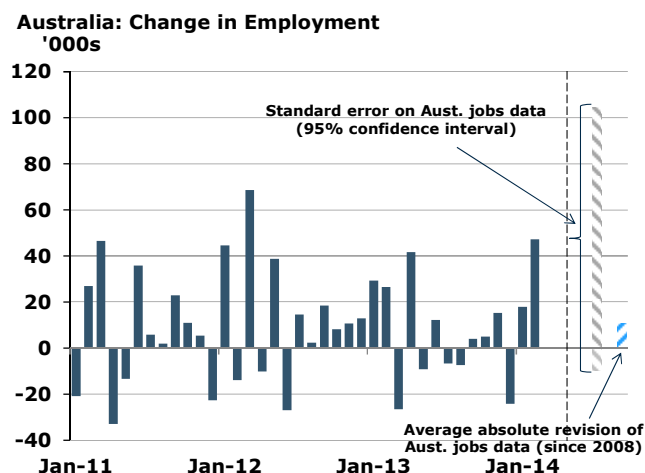
However, there are good reasons for taking a cautious approach to the rapid improvement in Australian labour market conditions reported in early 2014. Indeed, the National Statistician has been quite explicit on this, steering analysts away from the headline data (which reported in seasonally adjusted terms), and noting that “the {markedly weaker} trend estimates provide a better measure of the underlying level and direction of the series”.

But caution is warranted, given the high volatility of Australia’s jobs survey...

Taking a closer look at the nature of the Australian labor market data, it is clear why some caution in interpreting the seasonally adjusted data is warranted.

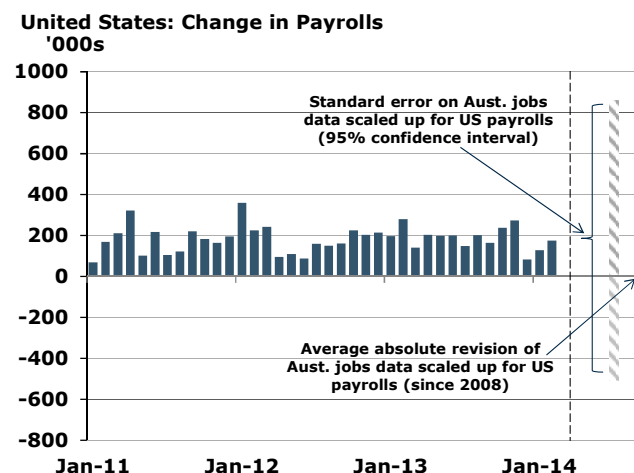
- Firstly, the labour market survey engages **only ~60k individuals each month**, which is less than 0.3% of Australia’s population. The results within this modest sample size, alongside all its implicit errors, are then scaled-up to Australia’s total population.
- Secondly, the design of the survey is such that ~12.5% of the sample is rotated in/out each month, such that in some months this **sample rotation process** itself can exacerbate the volatility of the results. The ABS has indicated that this is likely to have been the case in February, as an unusually large portion of the overall growth in employment (~37%) was attributable to the relatively small incoming rotation group.
- Thirdly, related to the issues above, the headline employment data have always been subject to material **revisions**. Over the past 6 years for example, revisions to the initial print of jobs growth have ranged from +/-45k, with an average monthly revision of ~10.5k (in absolute terms; (Exhibit 3)). In view of the robust jobs growth initially reported for February 2014, we note that a similarly strong outcome for February 2013 (+71.5k) was subsequently revised down to the tune of -44.9k.

Exhibit 3: The average size of revisions and standard errors in Australian jobs data are large



Source: Goldman Sachs Global Investment Research, ABS.

Exhibit 4: Scaled-up to the size of the US labour market, they imply a 95% confidence interval of ~+/-650 jobs



Source: Goldman Sachs Global Investment Research, ABS, US BLS.

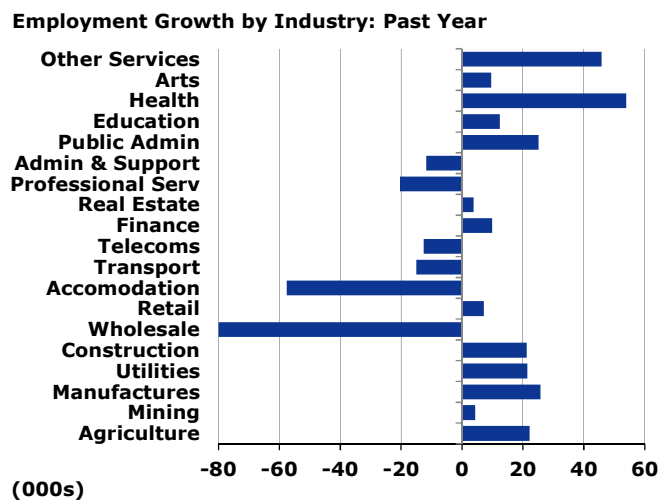
- Fourthly, and again consistent with the points above, the **standard errors** for each labour force report are relatively high. Taking the February 2014 outcome as an example, the ABS flagged that the 95% confidence interval for the +47.6k growth in employment was +/-57.2k. To put this in some context, if we scale-up the statistical variability in the Australian data to the size of the US monthly payrolls release, the equivalent confidence interval for the US report would be +/-683k per month. That is, given the +175k payrolls gain reported in February 2014, the upper bound would be +858k mom and the lower bound would be -508k mom (Exhibit 4). Similarly, scaling-up the average monthly revision of the Australian jobs data to its US equivalent implies monthly revisions to the US payrolls of ~+/-100k per month (Exhibit 3). Clearly these numbers are large and caution is warranted.

...and an industry breakdown which is hard to square away with broader economic trends

A cautious approach to the February jobs report is also warranted, given that the recently updated quarterly breakdown of industry trends is hard to square away with the broader economic reality (Exhibits 5 and 6). With the caveat that these data are only available in “original” terms, we make the following initial observations:

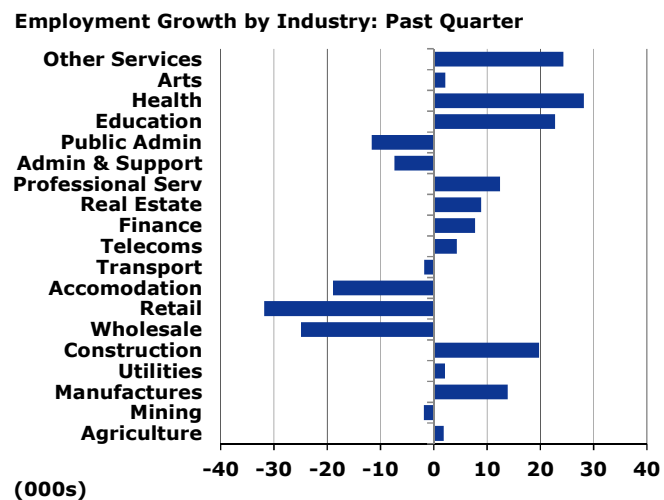
- Together, sectors entirely/highly **reliant on public funding** continue to see quite strong jobs growth over the year – working against the thesis that a significant fiscal consolidation is already underway. We note that the **health sector** made the largest contribution to jobs growth (+28.2k qoq, +54k yoy), both over the year and in the quarter itself. Annual growth in **public administration** (+25.1 yoy) and **education** (+12.5k yoy) also remain robust and skewed to full-time positions.
- The reported strength of employment in the **manufacturing** sector (+13.9k qoq, +25.8k yoy) is hard to square away with very weak business surveys and the underlying structural decline of Australian manufacturing (which has shed ~13k jobs per annum over the past 5 years, seeing its share of total employment halve since the mid-1980s). That all the manufacturing jobs created have been in Qld (+22k yoy) is more puzzling still.

Exhibit 5: Over the past year, jobs growth in health continued apace, but wholesale & accommodation weak



Source: Goldman Sachs Global Investment Research, ABS.

Exhibit 6: Employment in the hospitality, retail and wholesale sector were surprisingly weak in Feb qtr



Source: Goldman Sachs Global Investment Research, ABS.

- Similarly, the expansion in employment in the **agriculture** sector (+1.9k qoq, +22.2k yoy) has also bucked a broader structural decline (-7.4k annually over the past 5 years), with the recent outperformance completely concentrated in Victoria (+27k yoy).
- As the mining construction boom unwinds, the resilience of employment in the **mining** (+4.3k yoy) and **construction sectors** (+21.3k yoy) is also interesting. Encouragingly, the rise on the construction side has been driven by NSW (+30k qoq, +29k yoy), which we view as a further sign of a pick-up in residential construction activity in Australia’s largest and most interest rate sensitive state.
- The broad-based weakness in employment in the **retail** (-31.8k qoq, +7.1k yoy), **accommodation/food** (-18.9k qoq, -58k yoy), and **wholesale** (-24.9k qoq, -80k yoy) sectors is unusual on several fronts. Firstly, the weakness in the quarter came despite the February quarter i) typically being a seasonally strong one for these industries (i.e., including the Christmas sales), ii) including increased demand associated with the Ashes cricket tour, receipt of the school kids cash handout, and favourable weather

conditions. Secondly, the weakness in the retailing and accommodation/food sectors is especially hard to square away with the reported ongoing strength in spending at cafes & restaurants (+11.9% yoy) and apparent recovery in retail more broadly.

At best, other indicators of labour market conditions point to a tentative stabilization

Given that the official jobs data will often send a misleading signal in any given month, we continue to lean on our Labour Market Indicator (LMI) to distill the signal from a broad sweep of data points (for details, see Australia and New Zealand Economic Analyst, 6 December 2013).

As shown in Exhibit 7, together the 16 subcomponents of the LMI currently point to a similar rate of annual growth in employment as the official data (+0.7%yoy vs. +0.6% yoy; Exhibit 8), with the recent improvement in the ANZ job ads component being broadly offset by an ongoing deterioration in the employment/WAP ratio and long-term unemployment. In turn, the LMI tells a similar story in unemployment rate change equivalent terms, corresponding with the underlying uptrend in official unemployment (Exhibit 9).

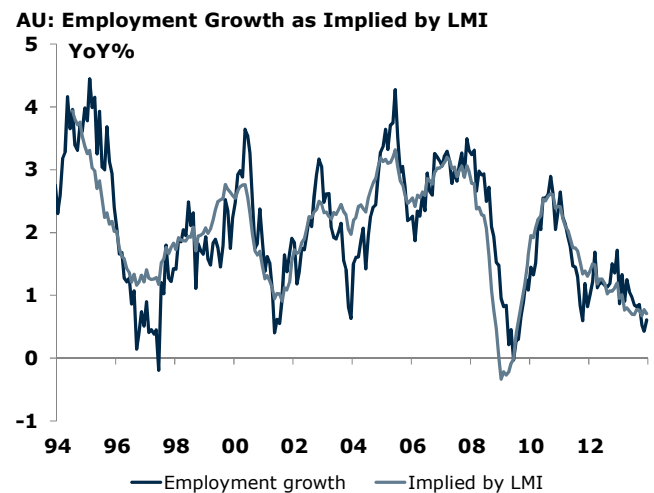
Exhibit 7: The employment rate has the highest weight in the LMI

Data used in the AU Labour Market Indicator			
Indicator	Transformation	Weight ⁽¹⁾	Correlation with LMI ⁽²⁾
Employment/WAP Ratio	change	0.143	0.899
ANZ Job Ads	% change	0.139	0.854
ABS Employment	% change	0.139	0.849
ACCI Overtime Utilisation	level	0.135	0.808
Hours Worked	% change	0.130	0.809
ACCI Employment Expectations	level	0.129	0.778
NAB Employment	level	0.128	0.778
National Accounts Employment	% change	0.124	0.760
NAB Employment Expectations	level	0.123	0.740
Vacancy	% change	0.118	0.717
NAB Availability of Staff	level	0.101	0.595
Participation Rate	change	0.095	0.593
Long-term Unemployment	change	-0.100	-0.592
WMM Unemployment Expectations	level	-0.131	-0.797
Unemployment Rate	change	-0.133	-0.817
Underutilisation Rate	change	-0.140	-0.861

(1) Share of total loadings; (2) correlation with LMI implied employment growth

Source: Goldman Sachs Global Investment Research.

Exhibit 8: The LMI may be showing some very tentative signs of stabilization, but no pronounced improvement



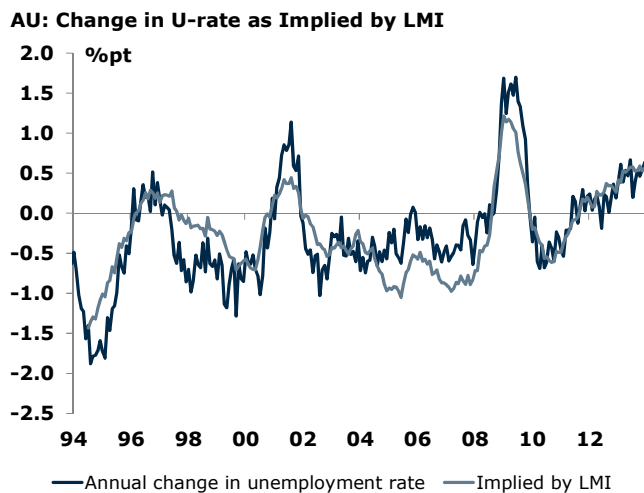
Source: Goldman Sachs Global Investment Research, ABS.

Overall, at best, the recent trend in the LMI might be characterized as a tentative stabilization in employment conditions after a period of protracted weakness. Ultimately, jobs growth continues to track at a clearly below-trend pace, jobless claims remain elevated (Exhibit 10), turnover and structural change metrics are subdued (as is the norm in a weak labour market; Exhibits 11 and 12) and there is little evidence in support of the apparent sharp turnaround in conditions suggested by the February Labour Force report.

Looking ahead, we expect both rising jobs growth and rising unemployment

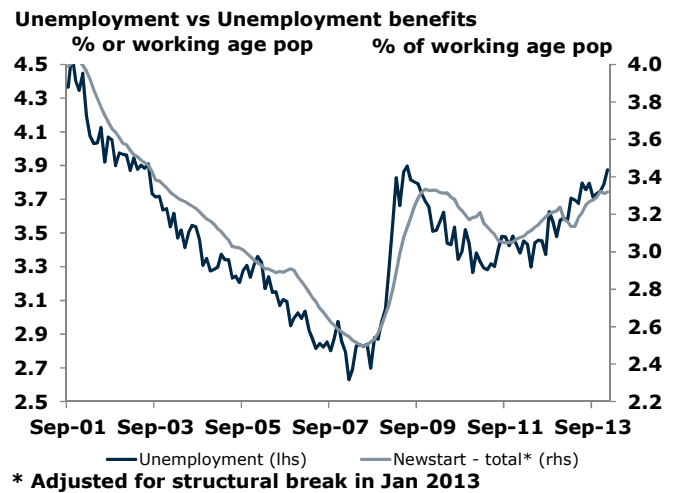
Policy-makers will rightly be monitoring the labour market data closely over the coming months for any corroborating evidence that we might be approaching a turning point in employment trends. For our part, while we caution against extrapolating forward February’s rapid jobs growth, we do expect total employment to gradually trend higher over the coming quarters as the non-mining recovery gains traction. Indeed, on average, our employment forecasts embed an average monthly jobs growth of +10-15k a month over the remainder of the year (skewed to 2H2014).

Exhibit 9: The LMI is consistent with a rising unemployment rate...



Source: Goldman Sachs Global Investment Research, ABS.

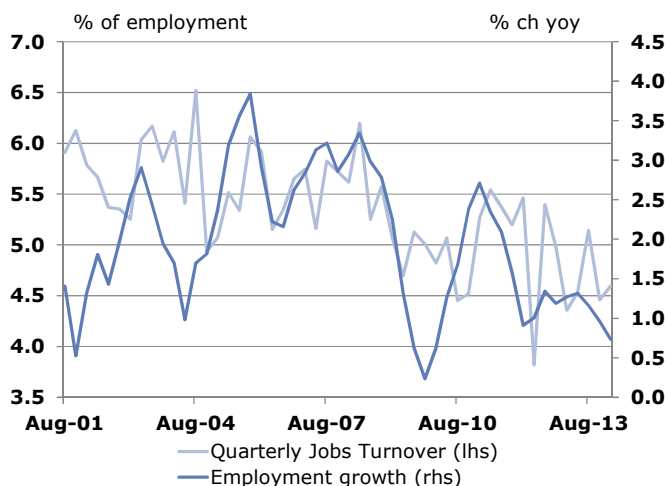
Exhibit 10: ...as are recent data on Australian jobless claims



Source: Goldman Sachs Global Investment Research, Dept of Employment.

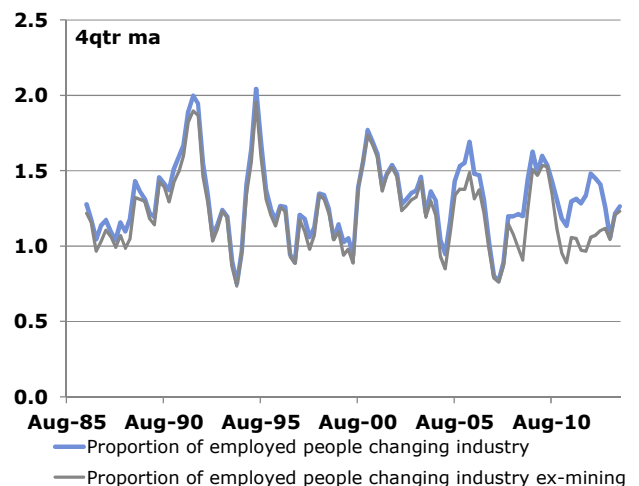
The unemployment rate is also likely to rise, however, even as employment growth turns the corner. As we have highlighted before (see Australia and New Zealand Economic Analyst, 15 November 2013), any assessment of the employment/output gap and underutilization rates points to a significant cyclical component to the ~100bp decline in the participation rate since late 2010. In turn, as a healthier labour market encourages some recently detached workers to re-engage, even a stabilization in the rate of participation will be sufficient to drive the unemployment rate up to a cyclical peak of ~6.2%.

Exhibit 11: No signs of a marked pick-up in turnover which might be associated with stronger momentum



Source: Goldman Sachs Global Investment Research, ABS.

Exhibit 12: There is little clear evidence of a sharp rise in structural change in the labour market

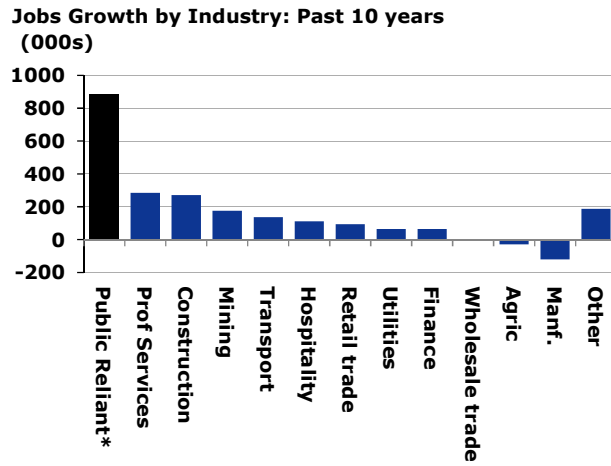


Source: Goldman Sachs Global Investment Research, ABS.

Where will the jobs come from? As public growth slows and mining unwinds
 Over the past decade, more than 40% of all the job creation in the Australian economy has been concentrated in public administration and other sectors highly reliant on public funding (e.g., health & education; Exhibit 13). In context, the contributions from the next strongest contributors (professional services: 13.4%, construction: 12.8% and mining: 8.3%)

have been relatively modest. Looking ahead, however, with the mining construction boom going into reverse, and all levels of government experiencing multi-year constraints to their fiscal capacities – a key question is where future employment growth is likely to come from.

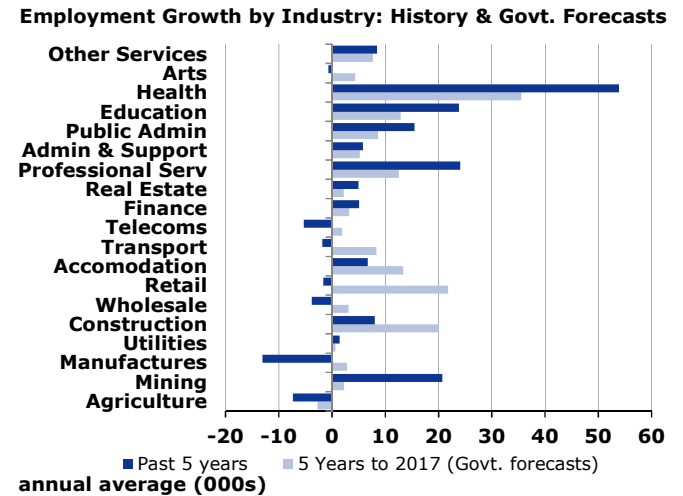
Exhibit 13: It is underappreciated just how much jobs growth has been driven by the public sector



* Includes public admin, health & education

Source: Goldman Sachs Global Investment Research, ABS.

Exhibit 14: The Department of Employment’s forecast rise in retail and manufacturing jobs looks optimistic



Source: Goldman Sachs Global Investment Research, ABS, Dept of Employment.

Government’s long-run forecasts look optimistic

Australia’s Department of Employment provides one perspective on the likely composition of future jobs growth in its annual Industry Employment Projections. Ahead of the 2014 update (due this Friday), the latest update (based on growth forecasts in the 2012 MYEFO) point to a net gain of 820k jobs over the five years to November 2017, with employment expanding in all sectors (with the exception of agriculture). Taking a closer look at the Department’s forecasts, and benchmarking them to the labour market’s performance over the past five years (Exhibit 14), we make the following observations:

- The Department’s forecasts provide a flavor for the ongoing fiscal consolidation, with employment growth in **health, education, and public administration** all projected to be somewhat slower than experienced since 2007. For comparison, the Department’s forecasts imply that sectors highly reliant on public funding will contribute 35% of all jobs created over the next 5 years.
- The Department’s forecasts arguably look overly optimistic on several fronts:
 - Firstly, the forecast annual growth in employment in the **manufacturing** sector (~+3k pa) is a marked turnaround on the sustained contraction in manufacturing employment over the past five years (-13k pa). We see downside risks, and note that the current vintage of the Department’s forecasts predate the staggered announcements by Ford (May 2013), General Motors (December 2013), and Toyota (February 2014) to effectively shut down Australia’s auto-motive manufacturing sector altogether.
 - Secondly, given the pronounced unwind in mining investment currently underway, we think it reasonable to expect a more pronounced weakness in **mining employment** (the Department is forecasting it to continue to expand at +2.3k pa) and the related **construction** subcomponent. While the latter will benefit from a solid upswing in dwelling construction and public infrastructure

activity, even accounting for this it is hard to justify a forecast where the pace of growth in construction employment more than doubles despite a once-in-a-generation non-residential construction boom unwinding.

- Finally, given the positive experience that households have had with online retailing and the ongoing structural change taking place in the retail sector, the Department's forecast surge in **retail employment** looks overly optimistic. Again, even on our assumed pick-up in retail turnover and increased competitiveness of local retailers (as the AUD falls), the assumption that the retail industry (+21k pa) will make the second largest sector contribution to overall employment growth is a bold one – and not least in the context of the outright contraction in retail employment experienced over 2007-2013.

Overall, we acknowledge that it is extremely difficult to forecast job outcomes by sector over such a long period. Moreover, for all generous assumptions on the sector outlooks identified above, we do see some offsetting upside from the government's relatively conservative outlook for key sectors like "other services" and professional services. On balance, however, we believe the reliance on a strong rebound in retail jobs, resilience in mining and manufacturing, and ongoing solid growth in public employment does skew the risks to total employment growth falling short of expectations.



Thematic: 5 years on – progress on female participation?

In 2009 we issued a report titled “Australia’s Hidden Resource: The Economic Case for Increasing Female Participation” which somewhat unexpectedly became one of our most widely quoted pieces we have published in Australia.

The report stepped through the composition of the workforce, hours worked, industry concentration, occupational levels, education attainment, income disparity and productivity of males and females. In particular, the report made an estimate of the economic benefits of lifting female participation in the workforce and redressing the power balance at executive and board level and we discussed the role of public policy in providing a catalyst for change.

In this note we benchmark how Australia has performed in terms of female participation since 2009 in the lead up to the 2014-2015 Budget, which is expected to detail the new government’s paid parental leave scheme.

We find that there are both some reasons for disappointment and optimism for advocates of increased female participation. The disappointing aspects are that the female participation rate has declined, more males than females have entered the workforce over the period, the female unemployment rate has risen significantly more than males and female employment growth has been highly concentrated in the health and education sectors in which females are already highly represented.

In looking for good news the gap between female and male participation rates has narrowed with the female participation proving more robust and the decline in female participation can be attributed to the very young 15-24 year olds, with all other age brackets either steady or rising. **If there is a silver lining in the data it is that some of the policies directed at increasing childcare subsidies and the initial phase of the ALP’s paid parental leave program appear to have some success in at least stabilizing female participation rates in the key 25-44 year age bracket against a general trend of declining participation rates in the general population.**

However, if Australia accepts that is desirable to lift female participation rates in a more fundamental sense then efforts by the corporate and government sector need to be redoubled. It is therefore of interest that the government’s proposed enhancements to the parental leave scheme has been criticized as too expensive and a tax on business. However, **as currently designed the proposed scheme will cost just \$2.2bn more than the existing scheme in 2016-17 and is not funded by a tax increase on business. It is funded by not passing on a proposed company tax cut of 1.5% to companies with taxable income over \$5mn. The net cost of the scheme is less than \$1bn over the next 4 years, however, the economic benefits of assisting in lifting female participation, in conjunction with other government policies and corporate initiatives, is likely to be vastly greater.**

Accessing the talent of highly educated and skilled labour already resident in Australia should help lift aggregate productivity, contain wage growth, assist in lowering the future strains on the pension system and importantly help engender a more diverse workplace and a fairer society. **The evidence is that steps already taken have had some effect in stabilizing female participation rates but bigger steps now need to be taken as the echo of the Baby Boom moves through the key career building phase of life.**

A checklist of facts – 2009 to 2014

A quick review of the labour force facts since 2009 reveals a mixed picture for advocates of increased female participation in the workforce.

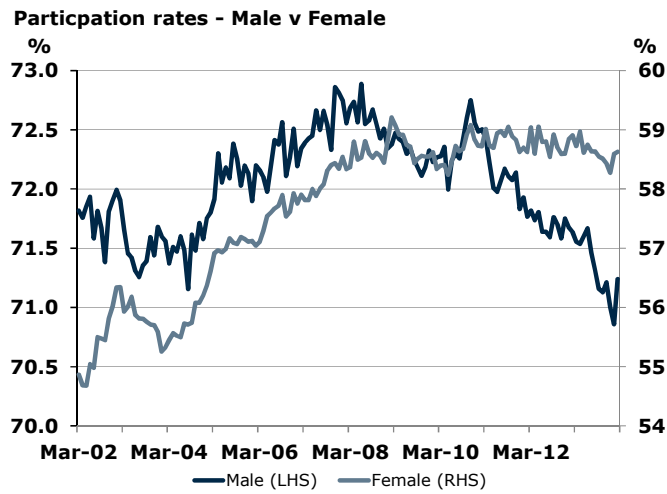
In a falling participation rate trend for both males and females, the performance of female participation in the workforce has been more robust than males since 2009 with the gap between the genders narrowing 60ppts, which while encouraging the gap between male to female participation is still a wide 12.5%.

Females now represent just under 50% of the working age population, however, female participation has fallen in an absolute sense and more males have entered the labour force than females since 2009. Moreover, the female unemployment rate increased significantly more than the male unemployment rate over the same period despite female employment concentrated in less cyclically exposed sectors of the economy. Once an adjustment is made for the underemployed, it is clear that the status of female employment in the workforce has not improved since 2009 and the evidence is that female employment growth has remained heavily concentrated in the health and education sectors.

In summary;

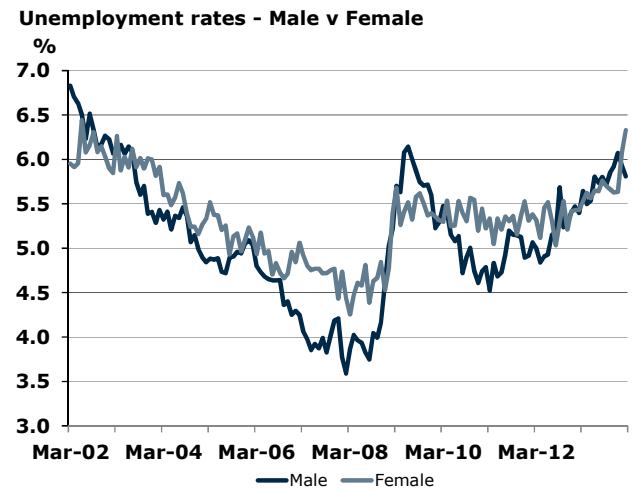
- Females represent 50.2% (or 11,614,645) of Australia's population of 23,130,931. The female share of the population is unchanged since 2009.
- Females of working age (16-64 years of age) represents 49.9% of the working age population (or 7,579,053), up 0.1% since 2009.
- Females identified as being in the workforce (either in work or looking for work) represent 58.6% of the workforce (or 5,622,600), down from 59.2% since 2009. The male participation rate stands at 71.2% down from 72.4% in 2009 and although the male participation rate fell by more than the female rate, in an absolute sense, 44k more males have entered the workforce since 2009 compared with females.
- The female unemployment rate of 6.3% increased 0.94% since 2009 compared to the male unemployment rate of 5.8% which has increased by 0.59%. That is female unemployment is higher in an absolute sense and increased at a faster rate than male unemployment over the period. This is not a function of higher part time employment concentration of female employees. The unemployment rate for females looking for fulltime work currently stands at 7.1%, 0.9% higher than 2009.
- The underutilization rate (i.e. unemployed plus underemployed as a percent of the workforce) of females of 16.9%, a decline of 0.2% since 2009. This compares to an underutilization rate of males of 12.2% which has declined 0.6% from 2009.
- From an employment perspective it is disappointing that the vast majority of the employment growth for females since 2009 has been concentrated in the 22 sectors in which females are over represented; health care and education. Indeed, outside of these 2 sectors, which contributed 186k and 78k, respectively to female employment since 2009, only professional services (+45k) and (+37k) contributed positively to employment growth over the period. The rest of the 19 sectors recorded less than 20k female employment with 6 of the 19 recording negative growth. Finance has added only 9k female employees since 2009.

Exhibit 15: Since 2011 female participation rates have been far more resilient than male participation rates



Source: ABS.

Exhibit 16: The female unemployment rate has risen more than the male unemployment rate, with much of the increase occurring in the past 12 months

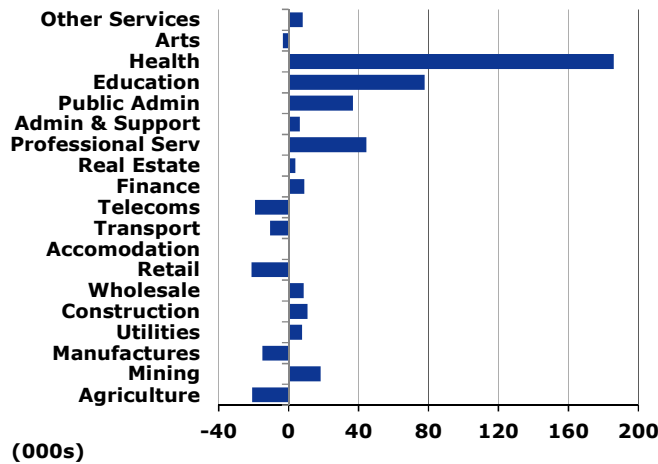


Source: ABS.

Exhibit 17: Female employment growth remains dominated in sectors that already have high female representation

Health and education dominate female employment growth

Female Employment Growth by Industry: Since 1Q2009

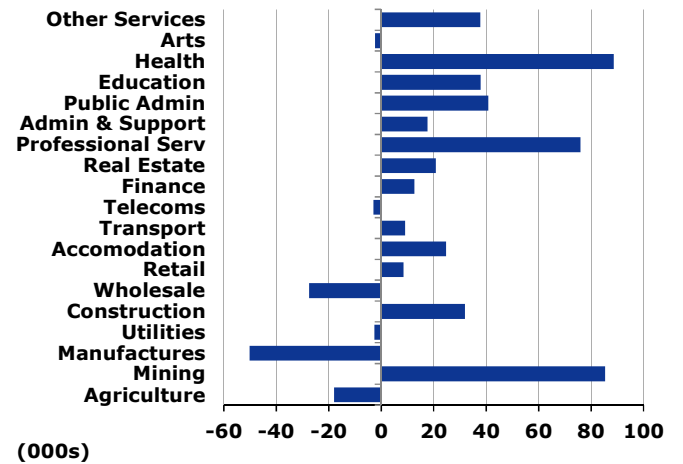


Source: ABS.

Exhibit 18: Male employment growth has been more diverse across the industry structure

Mining, health and professional services dominate male employment growth; manufacturing and wholesale drag

Male Employment Growth by Industry: Since 1Q2009



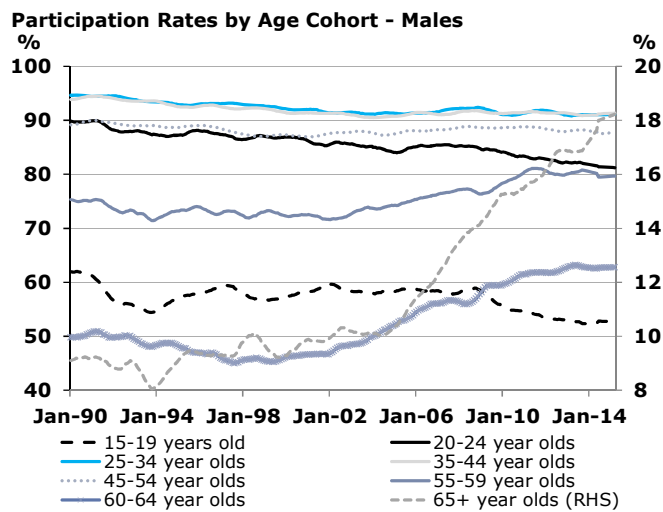
Source: ABS.

Looking for silver linings

Although female participation rates fell in the period since 2009, in assessing female participation by age cohort there are some initial reasons for optimism, yet the challenge of lifting female participation levels to an acceptable level remains great.

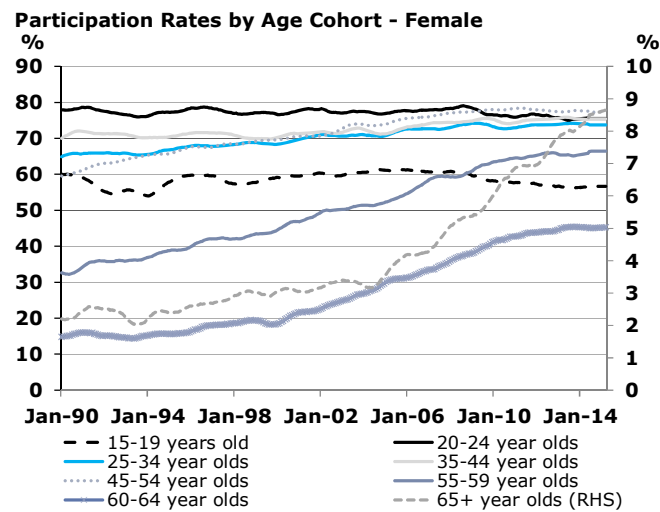
It is clear that most of the damage to the female participation rate since 2009 was caused by the very young. Females aged between 15-19 years saw their participation decline 3.7% and females aged between 20-24 years participation declined 2.8%.

Exhibit 19: Big rises in older male participation, big falls in young males participation, stable or falling rates elsewhere



Source: ABS.

Exhibit 20: Big rises in older female participation, more moderate declines in the very young and stable or rising rates elsewhere



Source: ABS.

However, females aged 25-34 years saw their participation increase 0.3%, participation of females aged 45-54 years rose 0.6%, while females aged 35-44 years saw their participation rates remain unchanged since 2009.

Interestingly, participation of females aged 55-59 years rose 4.2% and participation of females aged 60-64 years rose 6.5%, however, it is difficult to attribute this rise to gender specific policies since participation of males aged 55-59 rose 4.3% and males aged 60-64 years rose 3.8%.

Indeed, assessing participation rate trends by age suggests that the sharp falls recorded in both female and male participation rates for the young and rising participation rates for older workers that the decline in the aggregate participation rate is more cyclical than structural in nature and we continue to see the decline in participation rate in recent years as 2/3rds cyclical in nature.

It is clear that younger males and females have sought out further education in lieu of obtaining employment. Females aged 15-19 enrolled in formal study increased from 75.7% in 2009 of that population cohort to 82.1% in 2013. Females aged 20-24 enrolled in study increased from 40.7% to 42.3% over the period. Males aged 15-19 enrolled in further study rose 2.6% to 79.7% over the period to 2013 and males aged 20-24 rose 3.1% to 40.1%. Although this can be seen as a positive development in the sense that the young are deepening their skill sets, it is noticeable that there was no improvement since 2009 in educational attainment for bachelor level education or above. All of the improvement is at diploma level or below.

In contrast, enrollment in education for females and males in the 45-64 age groups remained largely unchanged in the period since 2009. The rise in older worker participation rates may well reflect the underfunded nature of retirement savings keeping workers engaged in the workforce for longer than previously expected. Indeed, older females have the added problem of a life expectancy of 84.3 years, 4.4 years more than

their male counterparts, with only 10.5% of females currently using superannuation as the main source of income (c.f. 18.8% of males) and perhaps more worrying is that 26.5% of females currently have no superannuation coverage (c.f. 19.4% of males).

If there is a silver lining in the data it is that some of the policies directed at increasing childcare subsidies and the initial phase of the ALP's paid parental leave program appear to have some success in at least stabilizing female participation rates in the key 25-44 year age bracket against a general trend of declining participation rates in the general population.

Why it's important to persist with the Paid Parental Leave scheme

Assessing the economic cost and measuring the economic benefits of policies that encourage female participation in the workforce has proven a difficult task for economists and politicians alike. However, the initial evidence that childcare policies, corporate engagement on gender equality and the initial benefits of the ALP's paid maternity leave scheme are having some impact in stabilizing female participation rates. If Australia accepts that it is desirable to lift female participation rates in a more fundamental sense then efforts by the corporate and government sector need to be redoubled.

In this respect, it is somewhat disappointing that the criticism of the Coalition government's proposed paid paternity scheme has focused so heavily on issues such as the perceived high cap of \$150,000 on the female's salary and the gross cost of the scheme. If females are to take a greater role at the executive and board level of corporate Australia then it is questionable why females would not be paid at or near their current wage. And although focus has centred on the gross cost of the scheme, little focus has been placed on the net cost.

How much will the paid parental scheme cost?

The ALP's policy of paid parental leave which came into force in January 2011 was originally budgeted at \$731mn over 5 years in which stay at home parents would be paid the equivalent of the minimum wage, currently \$622.20 per week, for 18 weeks after the birth of a child. The Parliamentary Budget Office (PBO) currently estimates the existing scheme will now cost \$2.0bn in the 2016-2017 year.

The Coalition's policy proposal, which would come into operation on 1 July 2015, should it be passed in its current form, grants stay at home parents 26 weeks of paid parental leave at the mother's wage, plus superannuation, with the payment capped at the \$150,000 salary level. The scheme is budgeted to cost approximately \$6.1bn over the 4 year forward period according to the Coalition's policy document ahead of the 2013 election (although the PBO estimated the cost of the package would be \$3.5bn over the forward period after allowing for the removal of the ALP's scheme, taxes collected, and savings from the removal of the existing public sector scheme). The scheme is to be funded by a 1.5% levy on businesses with taxable income in excess of \$5mn although the Coalition has also scheduled a 1.5% cut in the company tax rate, in effect leaving the cost to large businesses unchanged and businesses under \$5mn taxable income with a company tax rate of 28.5%. This 'levy' is forecast by the PBO to raise \$4.3bn over the forward period.

In effect, the proposed policy will increase expenditure on paid parental leave by approximately \$2.2bn pa from 2016-2017 over and above the \$2.0bn estimated by the PBO, which would have been spent under the existing scheme.

The Coalition's proposal has been criticized by business groups and in the media as being too expensive, a tax on business and a misallocation of funds. However, as it is currently structured business will not pay higher taxes under the scheme and the net cost of the

package is estimated to cost just \$805mn over the 4 years to 2016-2017. Moreover, by the end of the 4 year forward period the scheme is expected to raise \$1.5bn more in tax than the scheme is estimated to pay out to parents.

Whether the funds would achieve a higher outcome in terms of female participation rates if directed to other policies including childcare initiatives remains an open question. However, given the surge in Australia's population in the 20-34 age bracket over recent years it makes sense for paid parental leave schemes to be implemented in the near term and it makes sense to view the initiative as a policy that can be supplemented with additional policies through time if required.

What evidence is there that such a scheme will work in Australia?

The evidence thus far is paid parental leave schemes in Australia have demonstrated some encouraging signs of success.

The Department of Social Services reports that from the start of the scheme (1 January 2011) to 31 March 2013 the number of parents who had claimed Parental Leave Payments was 286,975.

In the 2011-2012 financial year;

- Just under half (43.5 per cent) of all new mothers in Australia received Parental Leave Pay
- 99.5% of the recipients are females
- 99% of those receiving payments took the full 18-week period
- The percentage of recipients who lodge pre-birth claims was 54%
- The number of transfers to fathers/partners was 518
- Median income of recipients was \$45,125
- Median age of recipients was 32
- Percentage of recipients in 2012-2013 (as at 31 March 2013) whose adjusted taxable income is below National Minimum Wage was 25%

Of those parents receiving Parental Leave Pay at 31 March 2013, the majority (75 per cent) were receiving the payment through their employer. There are 48,301 employers registered to provide Parental Leave Pay to their employees. Of the registered employers at 31 March 2013:

- 39,196 have provided or are providing Parental Leave Pay to their employees
- Around 50 per cent have fewer than 20 employees and 50 per cent have 20 or more employees
- 87 per cent have opted to provide Parental Leave Pay only to those employees they are required to pay, and 13 per cent have opted to also provide the payment to non-mandatory employees.

In sum, the raw data suggests that since the introduction of the paid parental scheme 44% of new mothers have taken advantage of the scheme and given females in the 20-34 age group provide 78% of all births and this age group has a participation rate in the workforce of 75% we estimate approximately 60% of the female workforce who have had a child in the past year appear to have used the scheme.

By dramatically increasing the sum of funds available to pay for parental leave, extending the duration of the scheme to 26 weeks, and including superannuation payments, it is reasonable to assume that not only will the proportion of working mothers currently in the

workforce increasingly utilize the scheme, the female participation rate for 25-44 year olds may do more than just stabilize over the next 5 years – it could well rise as females are attracted back to the workforce.

We have estimated previously that should the female participation rate move closer to the male participation rate the potential economic benefits would exceed 11% of GDP and, should measured productivity gaps narrow also, then the gains are even larger. Together with a broader program of childcare subsidies, gender reporting, and salary equalization strategies, the suggestion is that a successful implementation of an enhanced paid paternity scheme can make a real difference. If recognized by business as an initiative that will retain skills, increase labour availability, and improve the diversity of the workplace, embraced by employees, and recognized by taxpayers as an initiative that will serve to improve the sustainability of the pension system and potentially lift taxation receipts over the longer run then it is part of a collective policy that is worth pursuing.



Australia and NZ economic and financial outlook

Exhibit 21: Australia economic forecasts

Australia Key Forecasts							2013				2014				2015			
Australia	2012	2013F	2014F	2015F	2016F	2017F	1Q	2Q	3Q	4Q	1Q(e)	2Q(e)	3Q(e)	4Q(e)	1Q(e)	2Q(e)	3Q(e)	4Q(e)
Activity and Prices																		
Real GDP growth (% yoy)	3.6	2.4	2.0	2.6	3.6	3.9	2.1	2.4	2.4	2.8	2.6	2.0	1.8	1.7	2.0	2.6	2.8	3.0
Real GDP growth (% qoq)							0.5	0.8	0.6	0.8	0.4	0.2	0.5	0.6	0.7	0.7	0.7	0.8
Real non-farm GDP growth (% yoy)	3.7	2.4	2.1	2.6	3.7	4.0	2.3	2.4	2.3	2.6	2.6	2.1	1.9	1.7	2.1	2.6	2.9	3.0
Private consumption (% yoy)	2.5	2.0	2.9	3.5	3.3	3.1	1.5	1.7	2.1	2.6	2.8	2.9	2.8	3.0	3.2	3.4	3.8	3.5
Private dwelling investment (% yoy)	-3.4	2.0	7.8	6.3	-0.3	-1.5	0.3	3.9	2.4	1.4	5.0	6.4	9.4	10.4	8.8	7.0	5.6	4.1
Private business investment (% yoy)	16.4	-2.3	-9.3	-5.9	1.6	2.2	1.2	-0.9	-2.1	-7.2	-4.7	-9.0	-12.5	-10.9	-9.2	-7.2	-4.5	-2.5
Private spending (% yoy)	4.5	1.8	0.3	1.7	2.7	2.6	1.2	3.3	1.1	1.7	1.7	-1.2	0.0	0.7	0.9	1.5	2.2	2.4
Government spending (% yoy)	3.0	-2.0	3.7	2.7	3.0	2.4	-2.4	-6.1	7.2	1.2	-0.3	0.6	0.9	0.9	0.6	0.5	0.5	0.6
Domestic demand (% yoy)	4.2	0.9	1.0	2.0	2.8	2.5	0.7	0.6	1.3	1.2	1.6	0.9	0.6	1.0	1.4	1.8	2.3	2.3
CPI inflation (avg., % yoy)	1.8	2.4	3.2	2.6	2.8	2.4	2.5	2.4	2.2	2.7	3.2	3.5	3.2	2.9	2.6	2.6	2.6	2.6
Underlying inflation (avg., % yoy)*	2.3	2.4	2.5	2.9	3.1	2.8	2.4	2.5	2.3	2.4	2.5	2.5	2.5	2.5	2.6	2.8	3.0	3.1
Unemployment Rate, %	5.2	5.7	6.2	5.9	5.2	4.9	5.5	5.6	5.7	5.8	6.1	6.2	6.2	6.2	6.1	6.1	5.8	5.5
Nominal GDP growth (% yoy)	3.3	3.7	3.9	3.5	5.7	6.8	2.8	3.3	3.8	4.7	4.7	3.8	4.0	3.2	3.1	3.4	3.6	3.8
Corporate profits growth (% yoy)†	-4.8	2.7	5.5	-2.0	6.3	12.2	-2.5	0.4	3.1	10.3	9.5	7.1	5.4	0.5	-2.5	-2.5	-2.0	-1.0
External Sector																		
Current acct. balance (A\$bn)	-61.8	-45.7	-50.4	-68.4	-64.7	-43.8	-10.5	-12.4	-12.5	-10.1	-10.5	-11.3	-13.1	-15.6	-17.1	-17.0	-17.2	-17.1
Current acct. balance (% of GDP)	-4.1	-2.9	-3.1	-4.1	-3.7	-2.3	-2.8	-3.2	-3.2	-2.6	-2.6	-2.8	-3.2	-3.8	-4.1	-4.1	-4.1	-4.0
Trade balance (A\$bn)	-22.9	-7.0	-8.4	-25.7	-21.3	0.2	-1.7	-3.0	-2.7	0.2	-0.1	-0.8	-2.5	-5.0	-6.5	-6.3	-6.5	-6.4
Terms of Trade (% yoy)	-10.2	-4.2	-5.2	-7.6	-1.9	1.1	-6.3	-5.7	-3.5	-1.2	-3.0	-5.2	-4.9	-8.0	-9.5	-8.7	-7.0	-4.8
Export volumes (% yoy, A\$)	5.8	6.8	6.5	8.1	11.3	11.2	7.6	7.2	5.9	6.5	5.5	6.4	7.6	6.4	6.7	7.2	8.5	9.8
Import volumes (% yoy, A\$)	6.1	-2.8	1.1	4.8	7.2	6.4	-3.4	-0.1	-3.1	-4.6	0.3	-1.8	2.1	4.1	4.0	4.1	5.4	5.7
Monetary and Fiscal Sector																		
Cash rate (% eop)	3.00	2.50	2.25	2.75	3.50	4.00	3.00	2.75	2.50	2.50	2.50	2.50	2.25	2.25	2.25	2.50	2.50	2.75
3-month interest rate (eop, in %)	3.12	2.65	2.40	2.97	3.72	4.15	2.99	2.74	2.65	2.65	2.65	2.41	2.40	2.40	2.47	2.65	2.89	2.97
Exchange rate (per A\$, eop)	1.05	0.90	0.81	0.81	0.82	0.83	1.03	0.94	0.93	0.90	0.89	0.85	0.82	0.81	0.80	0.80	0.81	0.81

Source: ABS, RBA, Goldman Sachs Global Investment Research. #Underlying inflation is the average of the RBA statistical measures and forecasts have carbon tax excluded. *Non-financial corporate profits.

Source: Goldman Sachs Global Investment Research, ABS, RBA.

Exhibit 22: New Zealand economic forecasts

NZ Key Forecasts							2013				2014				2015			
NZ	2012	2013F	2014F	2015F	2016F	2017F	1Q	2Q	3Q	4Q(f)	1Q(f)	2Q(f)	3Q(f)	4Q(f)	1Q(f)	2Q(f)	3Q(f)	4Q(f)
Activity and Prices																		
Real GDP growth (% yoy)	2.6	2.7	3.1	2.1	2.4	2.3	2.1	2.3	3.5	3.0	3.3	3.7	2.8	2.4	2.0	1.9	2.1	2.4
Real GDP growth (% qoq)							0.5	0.3	1.4	0.8	0.8	0.7	0.5	0.4	0.4	0.6	0.7	0.7
Private consumption (% yoy)	2.7	3.2	2.7	1.7	2.2	1.7	2.3	3.3	3.7	3.6	3.3	2.7	2.8	1.9	1.6	1.5	1.6	1.9
Government consumption (% yoy)	-1.0	1.2	0.6	0.4	0.8	0.8	0.3	0.1	2.0	2.2	2.4	1.7	-0.5	-1.0	-0.3	0.4	0.6	0.8
Residential investment (% yoy)	15.2	18.0	19.0	12.6	5.0	1.5	23.1	14.2	18.7	16.5	15.4	22.5	17.0	20.9	16.4	13.2	11.7	9.4
Other fixed asset investment (% yoy)	4.3	6.6	8.0	3.0	2.3	2.0	1.4	6.8	10.0	8.4	11.5	6.4	6.3	7.8	3.9	2.8	2.6	2.6
Domestic final demand (% yoy)	2.9	4.1	4.1	2.2	2.2	1.6	2.6	3.9	5.2	4.8	5.2	4.1	3.6	3.4	2.4	2.1	2.1	2.3
CPI inflation (avg., % yoy)	1.1	1.1	2.0	2.2	2.2	1.9	0.9	0.7	1.4	1.6	1.9	2.1	1.9	2.1	2.1	2.2	2.2	2.2
Tradable inflation (avg., % yoy)	-0.7	-0.9	0.4	0.5	0.5	0.5	-1.1	-1.6	-0.5	-0.3	0.4	0.9	0.1	0.4	0.3	0.5	0.6	0.6
Non-tradable inflation (avg., % yoy)	2.4	2.6	3.1	3.4	3.4	3.3	2.4	2.5	2.8	2.9	2.9	2.9	3.1	3.4	3.4	3.5	3.5	3.4
Unemployment Rate, %	6.9	6.2	5.6	5.4	5.5	5.6	6.2	6.4	6.2	6.0	5.9	5.7	5.5	5.4	5.3	5.3	5.3	5.4
External Sector																		
Current acct. balance (NZ\$bn)	-8.7	-7.4	-10.2	-12.9	-12.0	-11.4	-1.8	-2.2	-2.6	-0.8	-1.6	-2.4	-3.0	-3.3	-3.3	-3.2	-3.2	-3.1
Current acct. balance (% of GDP)	-4.1	-3.3	-4.4	-5.3	-4.7	-4.3	-3.3	-4.1	-4.6	-1.5	-2.7	-4.2	-5.1	-5.5	-5.5	-5.4	-5.2	-5.1
Trade balance (NZ\$bn)	1.3	2.4	2.2	0.9	2.4	2.4	0.7	0.2	-0.2	1.8	1.2	0.6	0.3	0.1	0.1	0.2	0.3	0.4
Terms of Trade (% yoy)	-6.7	9.1	2.6	-3.3	1.0	0.8	-2.8	4.3	15.8	20.0	15.6	7.1	-3.4	-7.0	-7.9	-4.5	-1.0	0.7
Export volumes (% yoy, NZ\$)	2.2	1.0	2.1	2.5	2.7	2.2	4.3	0.9	-2.9	1.8	-0.6	3.9	5.2	0.2	2.3	2.5	2.6	2.7
Import volumes (% yoy, NZ\$)	2.6	6.5	4.7	2.0	1.6	1.2	1.1	6.0	9.1	10.1	7.7	6.4	2.5	2.4	2.6	2.2	1.8	1.5
Monetary and Fiscal Sector																		
Cash rate (% eop)	2.50	2.50	3.25	4.00	4.00	4.00	2.50	2.50	2.50	2.50	2.75	3.25	3.25	3.25	3.50	3.75	4.00	4.00
3-month interest rate (eop, in %)	2.65	2.84	3.40	4.15	4.15	4.15	2.65	2.66	2.69	2.84	3.07	3.40	3.40	3.40	3.65	3.90	4.15	4.15
Exchange rate (per NZ\$, eop)	0.82	0.82	0.78	0.72	0.68	0.65	0.84	0.78	0.83	0.82	0.83	0.81	0.80	0.78	0.76	0.75	0.73	0.72

Source: Goldman Sachs Global Investment Research, Statistics NZ, RBNZ.

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Reg AC

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