

Updated Assessment on the Contribution of Holden's Elizabeth Operations to the Economy of the State of SA and recent Investment Decisions

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WISeR
Informing Decisions



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HOLDEN'S ELIZABETH OPERATIONS TO THE ECONOMY
OF THE STATE OF SA AND RECENT INVESTMENT
DECISIONS**

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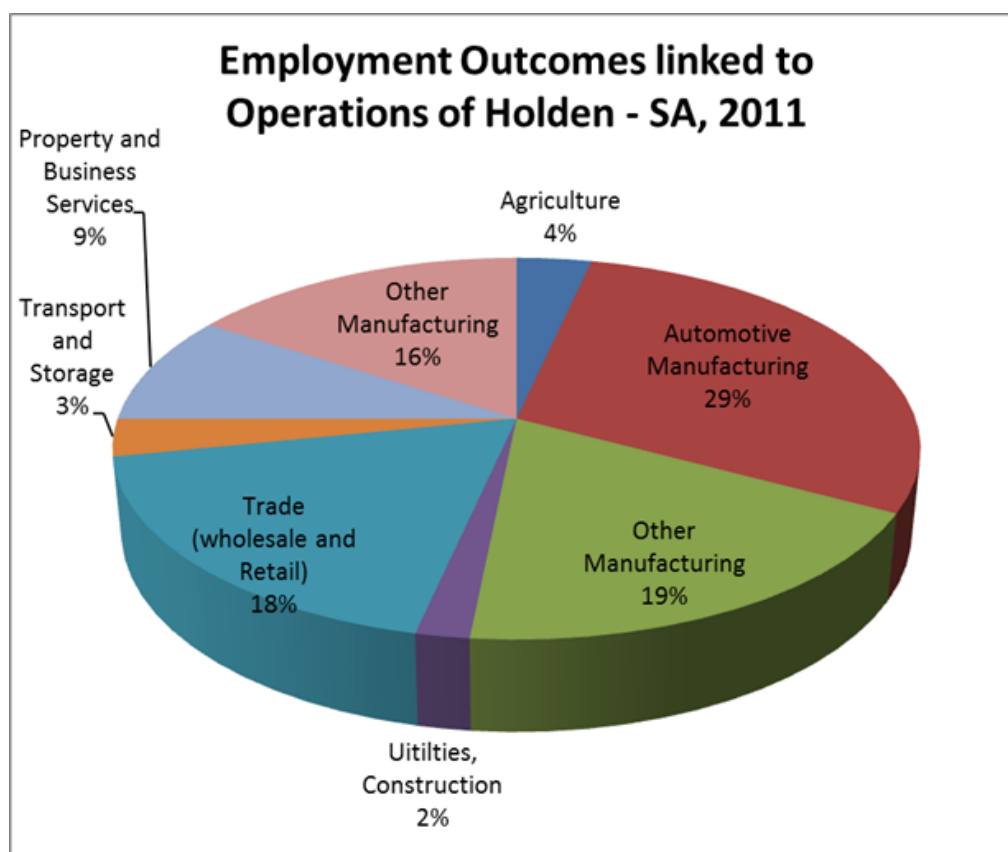
The Australian Workplace Innovation and Social Research Centre (WISeR) focuses on work and socio-economic change. WISeR is particularly interested in how organisational structure and practices, technology and economic systems, policy and institutions, environment and culture interact to influence the performance of workplaces and the wellbeing of individuals, households and communities.

WISeR also specialises in socio-economic impact assessment including the distributional impacts and human dimensions of change on different population groups and localities. Our research plays a key role in informing policy and strategy development at a national, local and international level.

In February 2012, WISer provided an updated assessment of the contribution that the Holden manufacturing facility in Elizabeth makes to the South Australia economy. The conclusion of that analysis was that:

- In 2011, Holden was reported as directly employing 2,700 people, and purchased \$530 million of supplies from core suppliers.
- Due to the supply chain effects, the direct and first round (i.e. Holden and its direct suppliers) of Holden's activities were estimated to involve total expenditure in the state of \$930 million, to contribute \$520 million to Gross State Product and support 5,610 jobs.
- If the full flow through effects of this activity are considered (including the impact of the purchases of suppliers, and the expenditure of wages and salary income) the total economic activity linked to Holden's operations are estimated as \$1.1 billion contribution to GSP (or 1.3% of Gross State Product) and 11,700 jobs (1.5% of employment). These activities are estimated to contribute almost \$65 million per year to the state taxation base (\$31.5 million in payroll tax and \$33.2 million in other taxation revenue). It is noted that these jobs are distributed widely across a range of economic sectors, not just those directly in automotive manufacturing. Figure 1 illustrates the modelled distribution of employment outcomes linked to Holden operations, by broad industry sector.

Figure 1:



Source: Modelled result

The conclusion of the paper was that if Holden was to cease operation in the State, the above estimates provide an indication of what level of activity is at risk – with the indicative range of impacts being modeled under alternatives perspectives of how the economy would react as follows:

- If the impact was proportional to current operation, there would be a reduction of GSP of \$1.1 billion over what would otherwise be the case, and the loss of 11,700 jobs (as above).
- However the closure could free up resources currently employed in automotive production and make them available for other activity and if so it is indicatively estimated that allowing for this

effect, the impact on the state economy of Holden closing would be offset partly by growth in other sectors, and that total economic activity lost in the state linked to Holden's closure would be of the order of as \$0.5 billion of GSP (or 0.6% of Gross State Product), 5,950 jobs of employment and \$25 million per year to the state taxation base.

- On the other hand, Holden's closure would make some of their major suppliers uneconomic, and not only would the state lose the supply chain that services Holden's in Playford, but also the other activity that these businesses undertake (as well as the impact of closures in Victorian operations). It is indicatively estimated that allowing for this effect (independently of the issue of freed resources), the total economic activity lost in the state linked to Holden's closure would be of the order of \$1.53 billion of GSP, 16,100 jobs and \$83 million per year to the state taxation base.
- In summary the closure of Holden would, it was estimated¹, cause the loss (relative to the contribution in 2011) of between 6,000 and 16,000 jobs in the state, reduce the value of economic activity by between \$0.5 billion and \$1.5 billion and cause a decline in state taxation revenue of between \$25 million and \$83 million. Given current economic conditions, and competitive circumstances in the manufacturing sector, it could be considered that the higher of these estimates is a distinct possibility, but there would be some structural readjustment (though this implies reduced real incomes in order to achieve these reductions).

Updated Assessment on GMH Investment Decision

Holden was provided with a package of government support in 2012, sourced mainly from the Commonwealth, but including a substantial amount from the State. One year later, Holden announced a 13% reduction in throughput, and the loss of 400 jobs (14% decline), citing poor economic conditions and subdued demand for existing models as causes.

In this section of the paper we examine the economic impact of this decision using the same assumptions adopted in the earlier analysis. The estimated impact can be indicatively estimated as follows, with the detailed spread by industry as in the attached table:

- Under a middle ground scenario (scenario 1), where the If the impact was proportional to current operation, there would be a reduction of Gross State Product of \$145 million over what would otherwise be the case, and the loss of 1,500 jobs.
- Under a conservative scenario (scenario 2), where resources currently employed in automotive production shift to other activity, the estimated impact would be of the order of as \$65 million of GSP, and 770 jobs of employment.
- Under an upper end or worst case scenario (scenario 3), where the lost core activity from Holden will create a critical mass problem for a number of suppliers, the economic activity loss in the state would be of the order of \$190 million of GSP and 2000 jobs.
- In summary therefore the current reduction in activity is estimated to result in the loss of between 770 and 2,000 jobs in the state, reduce the value of economic activity by between \$65 million and \$190 million, depending on how effectively the economy is able to adjust.

¹¹ This modeling was based on an application of the RISE model – an input output table of the state. A more detailed study would internalize some of the exogenously assumed adjustments in the analysis (as described above) by using a model such as a CGE framework (MMRF)

	Scenario 1: Proportional Adjustment across Economy						Scenario 2: Allowing for Readjustment Affect						Scenario 3: Loss of Additional Business					
	Holdens and Direct Suppliers			Total Impact			Holdens and Direct Suppliers			Total Impact			Holdens and Direct Suppliers			Total Impact		
	GSP or Value Added (\$m)	Wage and Salary Income	Employment (FTE's)	GSP or Value Added (\$m)	Wage and Salary Income	Employment (FTE's)	GSP or Value Added (\$m)	Wage and Salary Income	Employment (FTE's)	GSP or Value Added (\$m)	Wage and Salary Income	Employment (FTE's)	GSP or Value Added (\$m)	Wage and Salary Income	Employment (FTE's)	GSP or Value Added (\$m)	Wage and Salary Income	Employment (FTE's)
Agriculture, forestry and fishing	0.0	0.0	0	-3.90	-1.7	-53	1.1	0.5	15	-1.0	-0.4	-14	0.0	0.0	0	-5.6	-2.4	-76
Mining	0.0	0.0	0	-1.11	-0.2	-3	0.9	0.2	3	0.4	0.1	1	0.0	0.0	0	-1.6	-0.3	-5
Automotive Manufacturing	-38.3	-25.6	-431	-39.16	-26.2	-444	-37.9	-25.3	-425	-38.4	-25.7	-433	-43.7	-29.2	-513	-45.1	-30.2	-534
Other Manufacturing	-17.0	-11.8	-174	-27.69	-19.2	-284	-12.7	-8.8	-130	-17.7	-12.3	-182	-25.4	-17.6	-260	-40.6	-28.1	-417
Electricity, gas and water	-0.6	-0.2	-2	-3.83	-1.2	-13	0.4	0.1	1	-0.9	-0.3	-3	-0.7	-0.2	-2	-5.1	-1.6	-17
Building and construction	-0.4	-0.3	-5	-1.47	-1.0	-16	1.7	1.1	18	1.9	1.3	20	-0.6	-0.4	-6	-2.0	-1.3	-21
Wholesale trade	-4.9	-3.2	-54	-2.04	-6.8	-115	-3.4	-2.2	-38	2.6	-4.2	-70	-5.1	-3.3	-56	-2.7	-8.7	-147
Retail trade	-0.4	-0.3	-9	-7.78	-5.6	-164	1.2	0.9	26	-1.7	-1.2	-36	-0.4	-0.3	-9	-10.1	-7.3	-213
Accommodation, cafes & restaurants	-0.1	-0.1	-2	-2.84	-1.7	-44	0.5	0.3	8	-0.6	-0.4	-10	-0.1	-0.1	-2	-3.7	-2.3	-58
Transport and storage	-1.1	-0.6	-9	-5.61	-3.0	-48	0.6	0.3	5	-1.6	-0.9	-13	-1.3	-0.7	-11	-7.6	-4.1	-64
Communication services	-0.2	-0.1	-1	-2.76	-1.3	-17	0.5	0.2	3	-0.5	-0.2	-3	-0.2	-0.1	-1	-3.6	-1.7	-22
Finance and insurance	-0.3	-0.2	-2	-7.77	-4.0	-41	1.4	0.7	7	-0.8	-0.4	-4	-0.3	-0.2	-2	-10.2	-5.2	-54
Ownership of dwellings	0.0	0.0	0	-13.04	0.0	0	2.6	0.0	0	-2.5	0.0	0	0.0	0.0	0	-17.0	0.0	0
Property and business services	-3.3	-2.5	-30	-15.41	-11.4	-140	-0.5	-0.3	-4	-5.4	-4.0	-49	-3.4	-2.5	-31	-20.1	-14.9	-182
Public administration and defence	-0.1	-0.1	-1	-0.58	-0.5	-8	0.9	0.8	14	0.8	0.7	11	-0.1	-0.1	-1	-0.8	-0.6	-11
Education	-0.1	-0.1	-2	-2.55	-2.4	-39	1.2	1.2	19	0.3	0.3	5	-0.1	-0.1	-2	-3.3	-3.1	-50
Health and community services	-0.1	-0.1	-1	-2.70	-2.4	-39	2.1	1.9	30	1.0	0.9	15	-0.1	-0.1	-1	-3.5	-3.2	-51
Cultural and recreational services	-0.2	-0.1	-1	-1.59	-1.1	-15	0.3	0.2	3	-0.2	-0.1	-2	-0.2	-0.1	-1	-2.1	-1.4	-20
Personal services	0.0	0.0	-1	-2.10	-1.9	-32	0.6	0.6	10	-0.2	-0.1	-2	0.0	0.0	-1	-2.7	-2.5	-42
Total	-67.2	-45.1	-726	-143.93	-91.5	-1,514	-38.3	-27.7	-436	-64.5	-47.0	-770	-81.7	-55.0	-899	-187.5	-118.9	-1,985

