

SOUTH AUSTRALIA'S DEFENCE INDUSTRY

PERFORMANCE 2012

SUMMARY

Defence-related employment and revenue in South Australia have steadily increased since Defence SA began performance surveys in 2007/08, particularly in naval shipbuilding and defence-related electronic systems and communications, which aligns with the ramp-up of the Air Warfare Destroyer (AWD) project.

Defence sector (Department of Defence and industry) employment was 28,666 in 2012, up from 26,882 in 2010/11, exceeding the 2012/13 milestone goal in *South Australia's Strategic Plan*.

The most recent survey shows state-based defence companies earned defence-related revenue in 2012 of \$1.95 billion, a slight increase over 2010/11 (\$1.8 billion). The industry is estimated to have contributed about \$1.01 billion to the State economy in 2012, up from \$972 million in 2010/11.

EMPLOYMENT

At 31 December 2012, South Australia's defence sector employed 28,666 persons (12,783 direct and 15,883 indirect jobs), which is an increase of 1784 jobs on 2010/11 and achieves *South Australia's Strategic Plan* milestone target of more than 28,000 jobs by 2012/13.

In 2012, the State's defence industry directly employed 4985 FTE persons, down from 5189 in 2010/11. The defence industry reduced jobs by 1046 between surveys, which was partly offset by the addition of 841 jobs, largely with the AWD program. This is the first survey year that companies have reported significant job losses.

Female workforce participation remained steady at 17% (838 FTE) of the total workforce. The industry employed fewer graduates in 2012 (61 compared with 85 in 2010/11), reflecting the broader industry constriction.

The higher skilled categories of managers and professionals accounted for some 60% of total defence-related employment, compared with 52% across the total South Australian labour force.

Figure 1: SA specialist defence firms – employment by industry

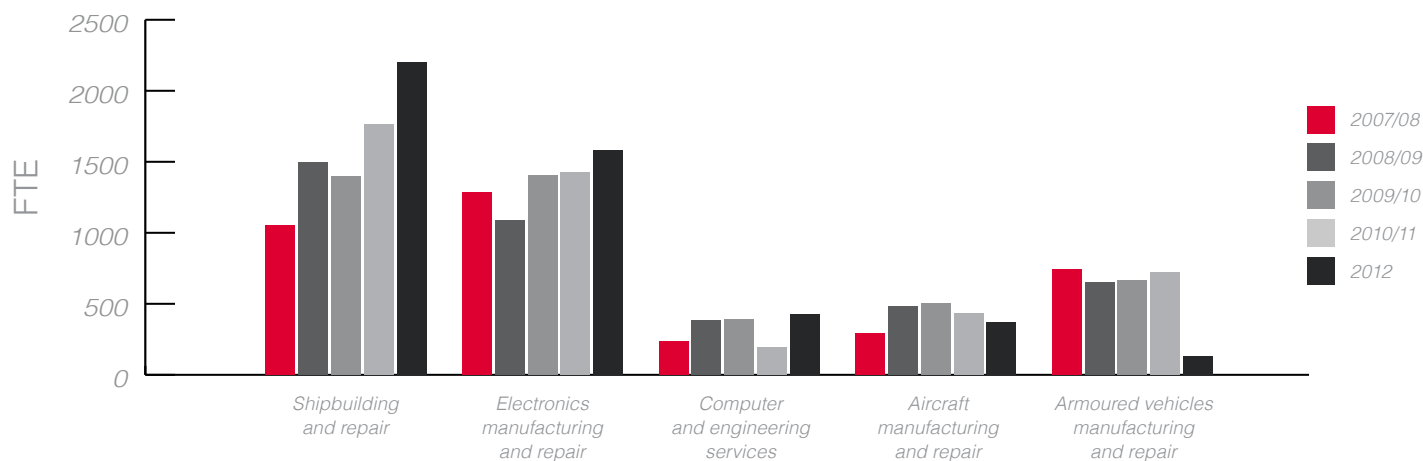
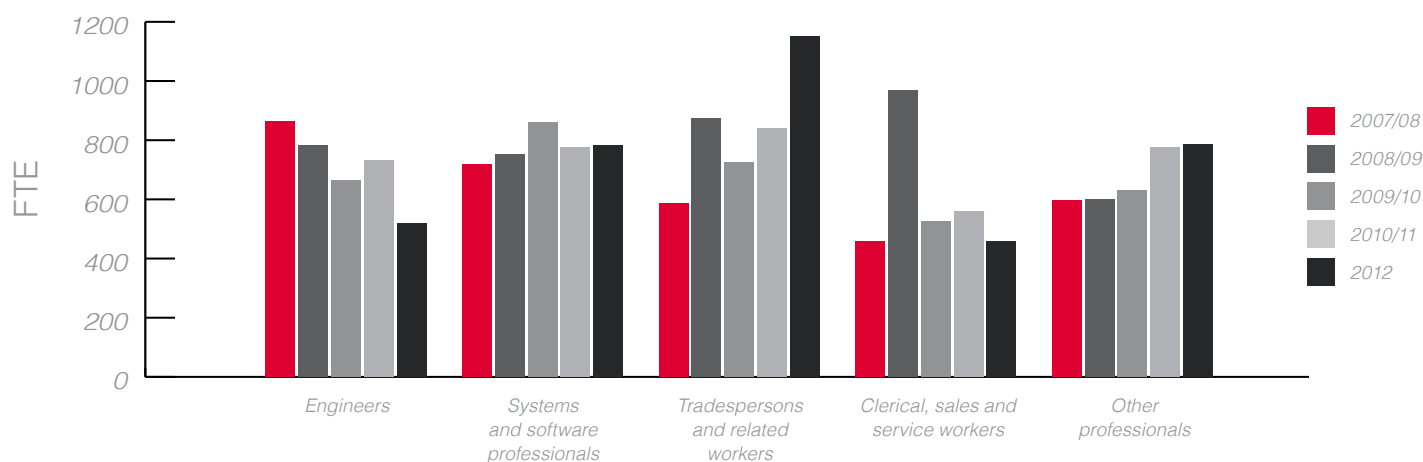


Figure 2: SA specialist defence firms – employment by top five occupations



REVENUE AND EXPENDITURE

State-based defence companies earned defence-related revenue of \$1.95 billion in 2012, a 6.5% increase over 2010/11 (\$1.8 billion), which is attributable to the AWD project. During the five years since surveys began in 2007/08, defence revenue has grown by an average of 11.5% a year, compared with the South Australian economy's growth of 4.4% in nominal terms.

Defence Materiel Organisation (DMO) contracts accounted for 75%, or \$1.46 billion, of defence-related revenue in 2012, which is typical of all five surveys. About 70% of 2012 revenue related to activities undertaken in South Australia, 23% to activities performed interstate, and 7.4% (worth \$144 million) to exports. About half of reported revenue is due to four major defence programs: the AWD build, Collins-class submarine through-life support, AP-3C Orion maintenance and upgrade projects, and the Project Sentinel maritime surveillance project.

In 2012, as in 2010/11, South Australia's defence industry was projecting negative revenue for the following four years, reflecting defence trends of the time.

Defence industry expenditure was \$1.9 billion in 2012, up from \$1.7 billion in 2010/11. Wages and materials accounted for 76% of expenditure, and about 78% of the total was spent in South Australia. Capital expenditure in South Australia was about \$23.8 million in 2012.

Reflecting a trend among the larger firms to use in-house resources in response to reduced defence materiel

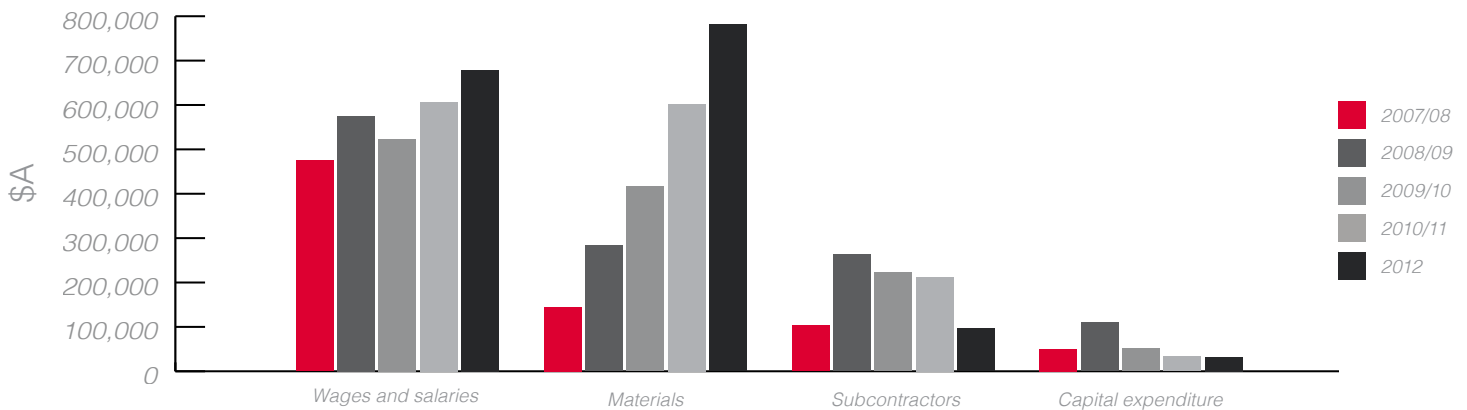
spending, subcontracting accounted for 5% of total expenditure in 2012, down from 12% in the 2010/11 survey. Defence industry spent \$20.8 million, or 1.1% of total expenditure, on research and development in 2012, compared with 0.75% in 2010/11 and 0.4% in 2007/08.

SURVEY BACKGROUND

Since 2007/08, Defence SA has regularly commissioned economic modelling firm Macroeconomics Pty Ltd to survey the performance of South Australia's defence industry. The latest survey, for 2012, was distributed to 62 private and five public sector enterprises.¹ Of these, 49 private firms and all public sector enterprises completed the survey in full. Seven private firms did not participate as they had no defence-related revenue during the period. Completed survey responses accounted for more than 97% of all Commonwealth defence materiel spending in South Australia.

The survey defines 'defence industry' as businesses involved in supplying or sustaining capital equipment including components or related services to the Department of Defence or overseas defence organisations as a prime or subcontractor. The findings do not include activities related to general military base support nor to other non-specialist suppliers to Defence, unless otherwise stated. The number of specialist defence organisations in South Australia has remained at 60 to 70 since surveys began.

Figure 3: SA specialist defence firms – local expenditure by key category



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¹ Previous surveys reviewed the financial years of 2007/08, 2008/09, 2009/10 and 2010/11. The 2012 survey reviewed the 12 months to 31 December 2012.



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