

TCCI 2018 Tasmania Report

Prepared and presented by

Saul Eslake



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There's a lot of 'good news' this year

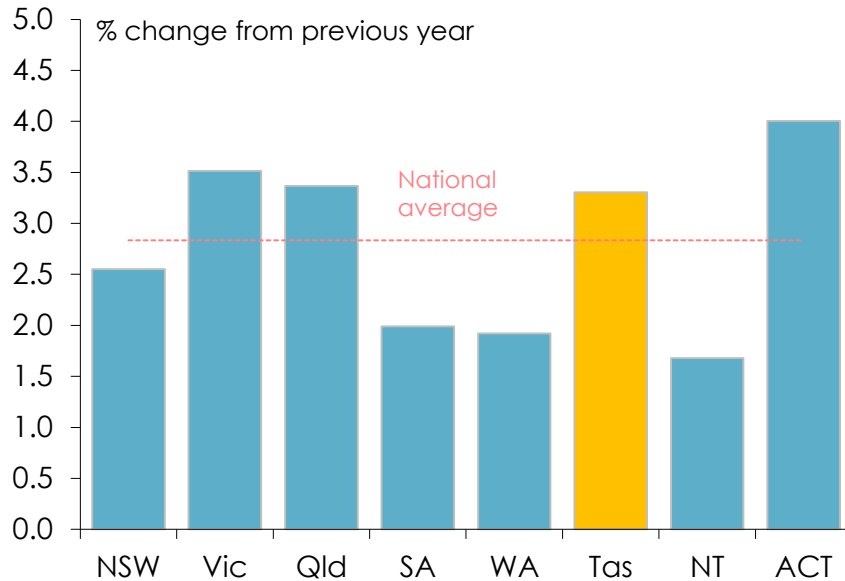


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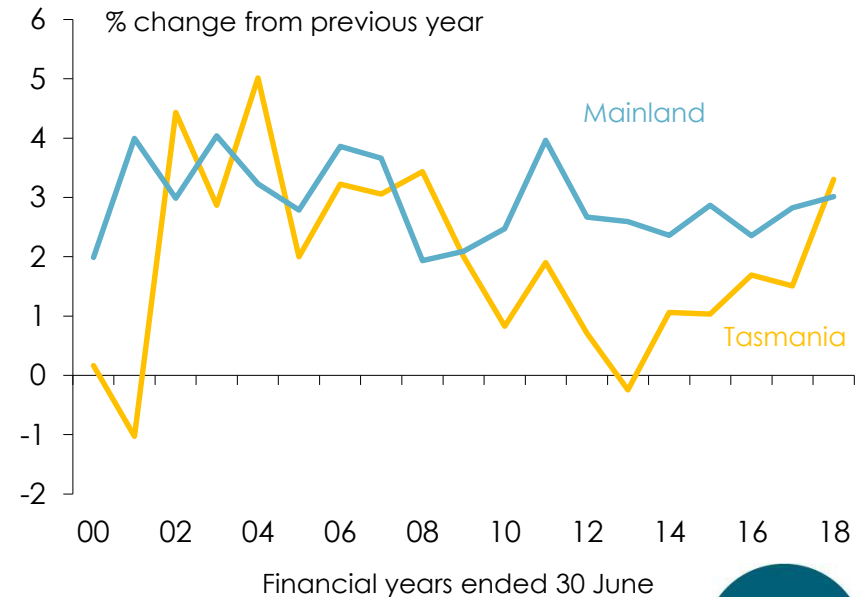
Tasmania's economy is 'on a roll'

Growth in real gross state product, 2017-18



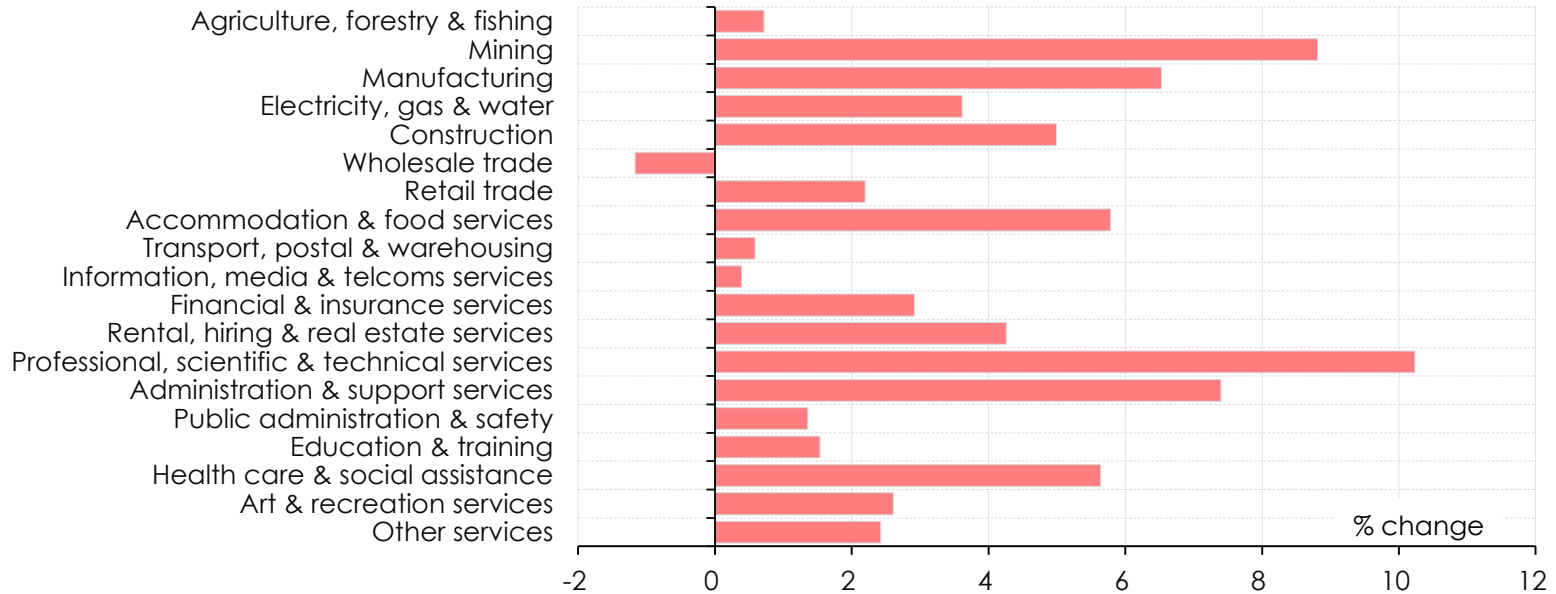
Source: ABS State Accounts.

Growth in real gross state product, Tasmania vs mainland



Growth has been very broadly-based ...

Growth in real gross value added, by sector, 2017-18



Source: ABS State Accounts.

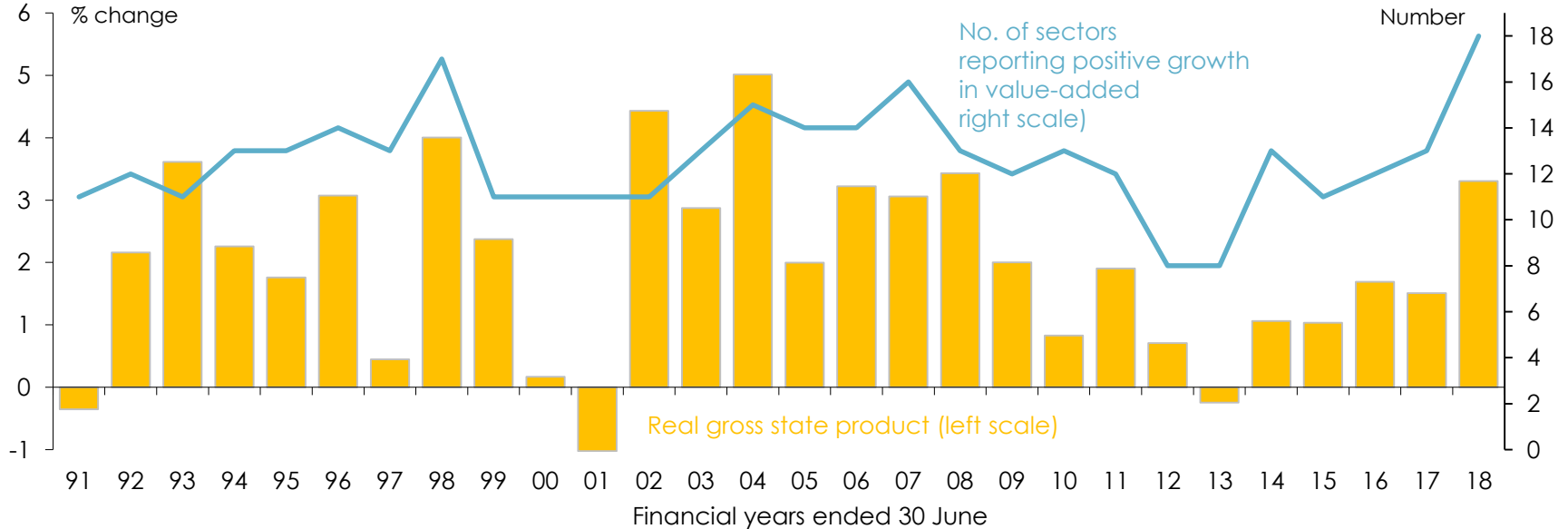


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... with more sectors reporting growth than ever before

Number of industry sectors reporting increase in value-added

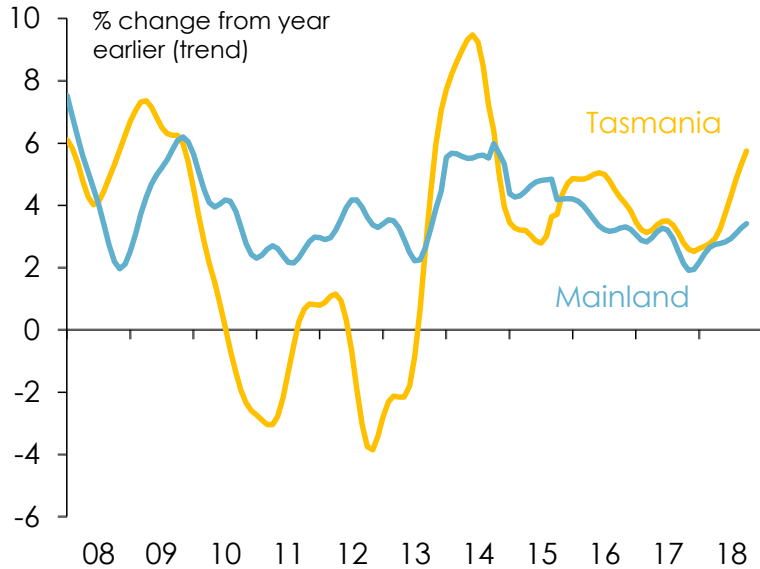


Source: ABS State Accounts.

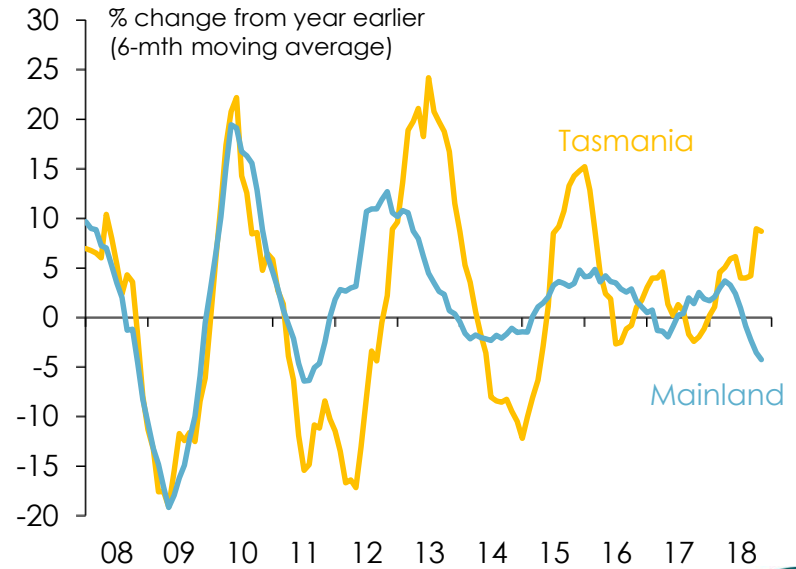


Consumer spending has been stronger than elsewhere

Retail sales



Motor vehicle sales

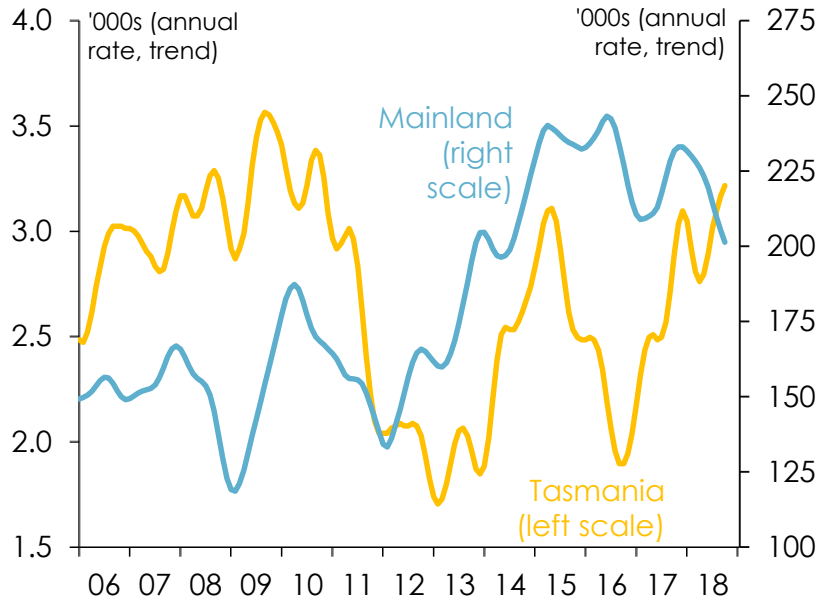


Sources: ABS; FCAI



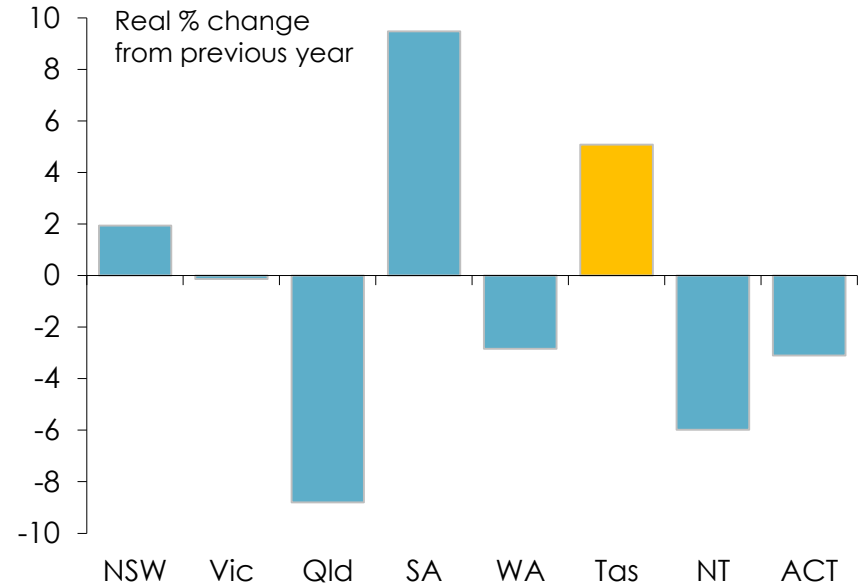
Housing activity is strengthening – unlike the mainland

Residential building approvals



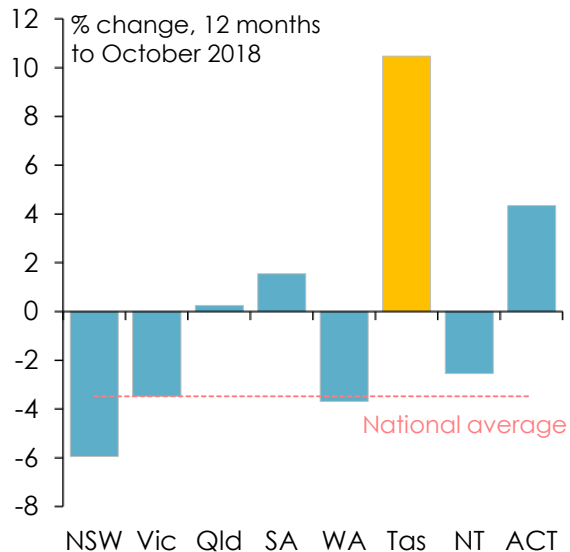
Source: ABS.

Housing investment, 2017-18

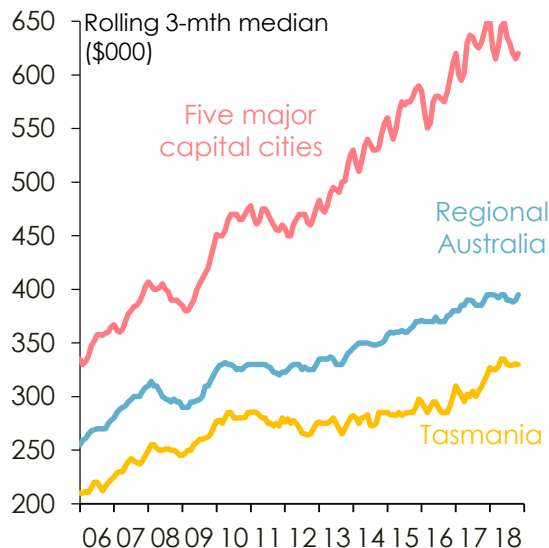


Tasmania's property market is holding up well

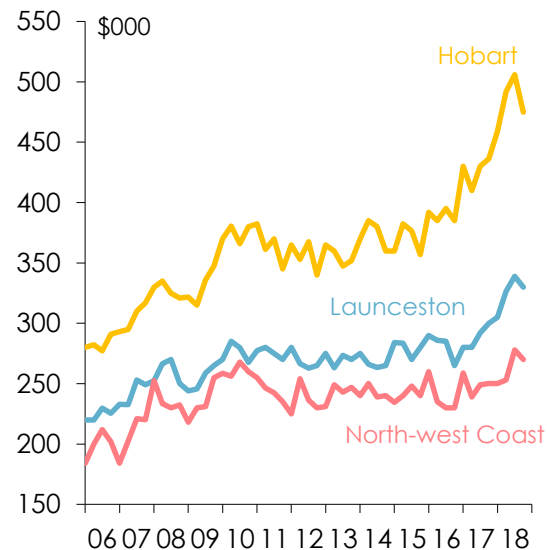
Home values – year to October



Median sales prices – Tasmania vs mainland



Median sale prices – Hobart and regions

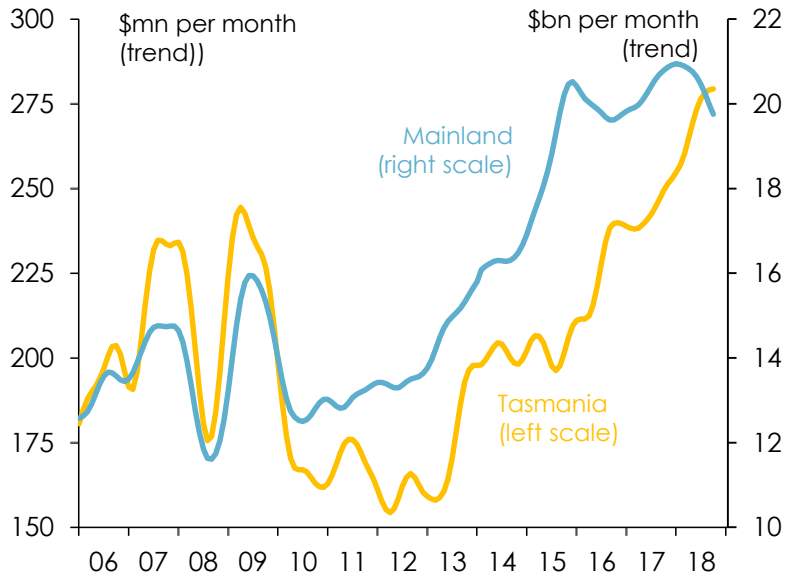


Source: CoreLogic ; REIT.

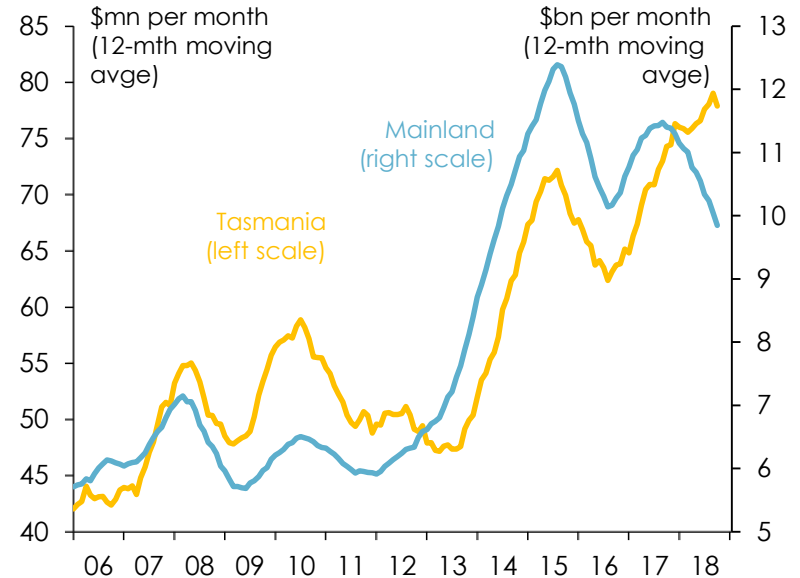


Tighter lending criteria don't seem to be 'biting' here

Housing finance commitments to owner-occupiers



Housing finance commitments to investors

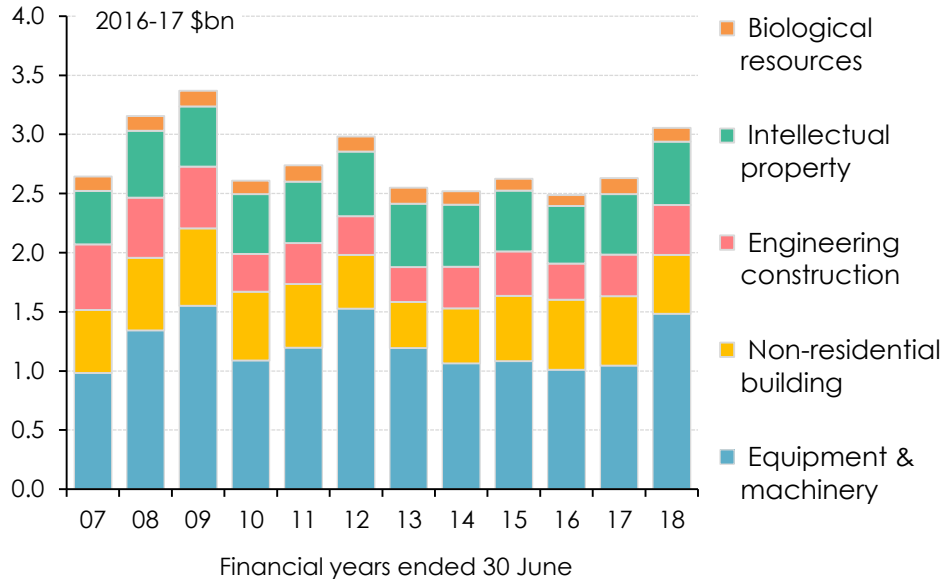


Source: ABS.

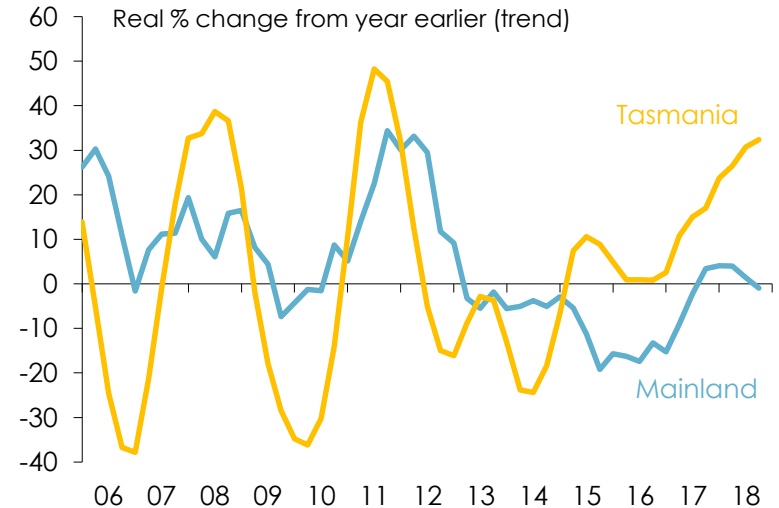


Business investment the highest in nine years

Business investment, by type, Tasmania



Business investment, Tasmania vs mainland

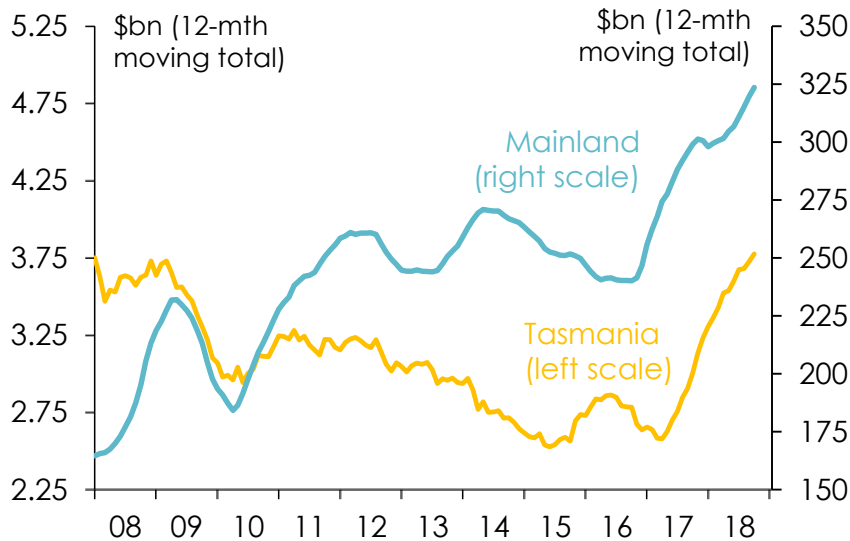


Source: ABS.

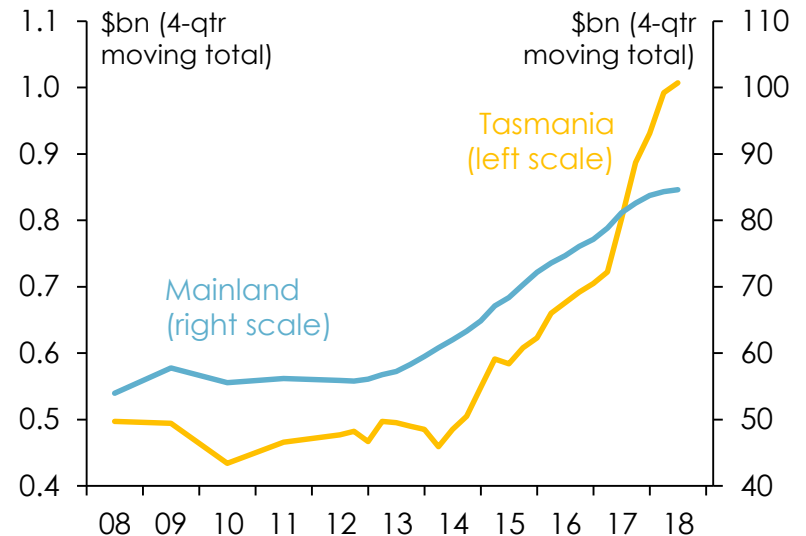


Tasmania's overseas exports are growing strongly

Exports of goods



Exports of services

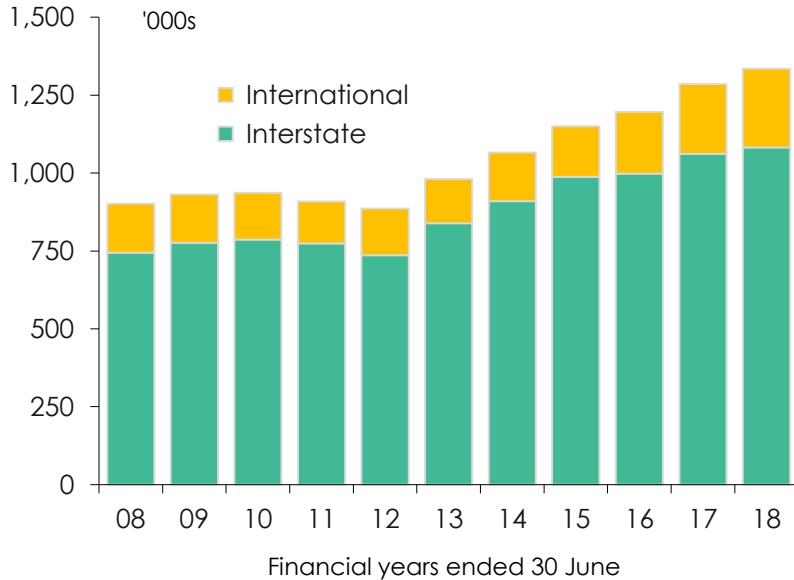


Source: ABS.

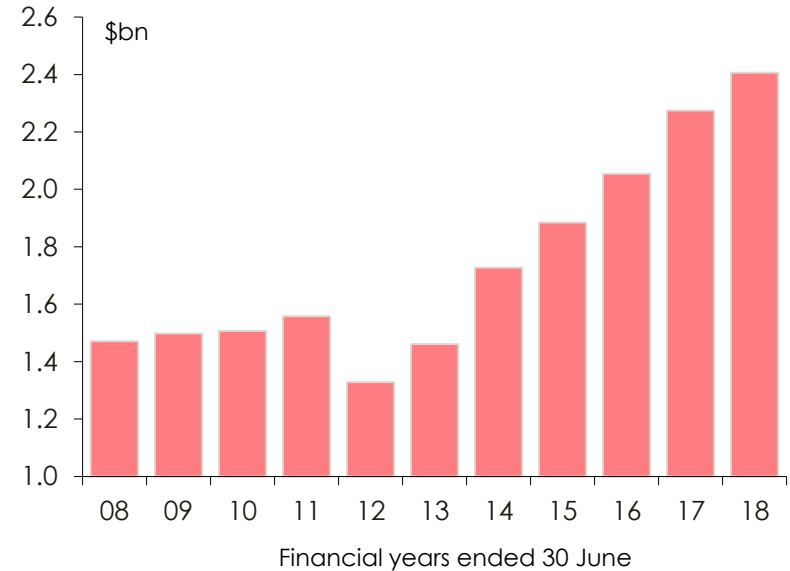


Tourism is a big part of the services exports story

Visitors to Tasmania



Spending by visitors to Tasmania

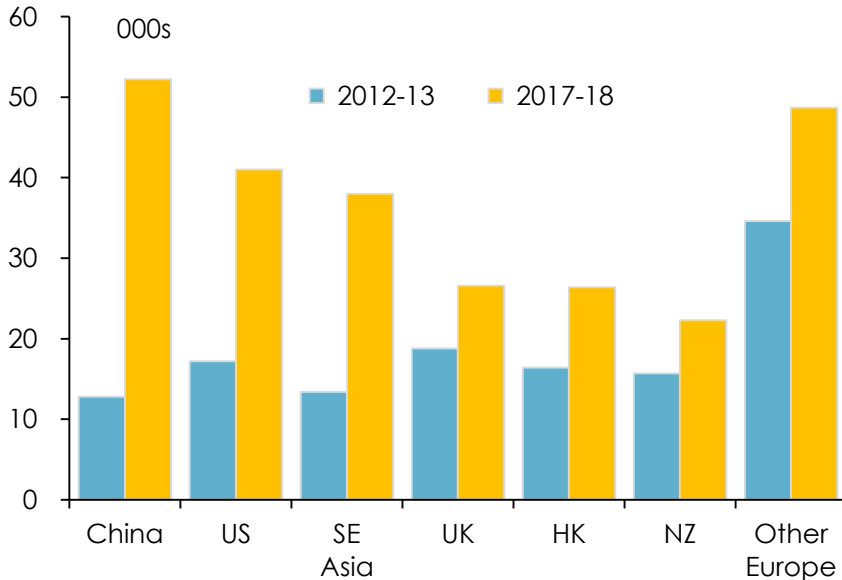


Source: Tourism Tasmania

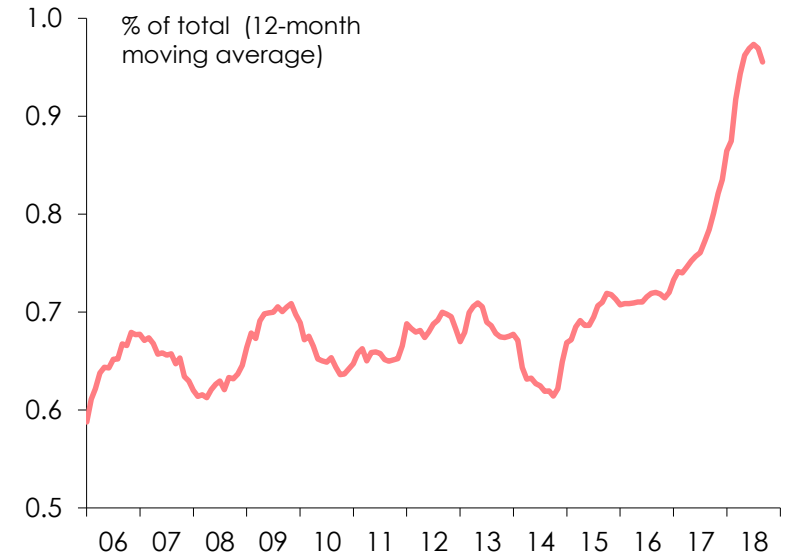


Tasmania's 'market share' of overseas tourists is growing

Overseas visitors to Tasmania by country or region of origin



Tasmania's 'market share' of overseas visitors to Australia



Sources: Tourism Tasmania ; ABS.



Why is Tasmania's economy doing so well now?

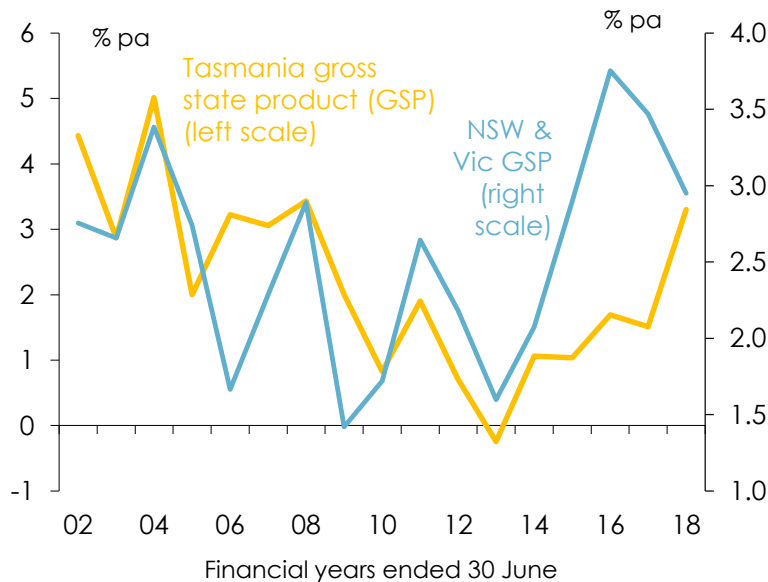


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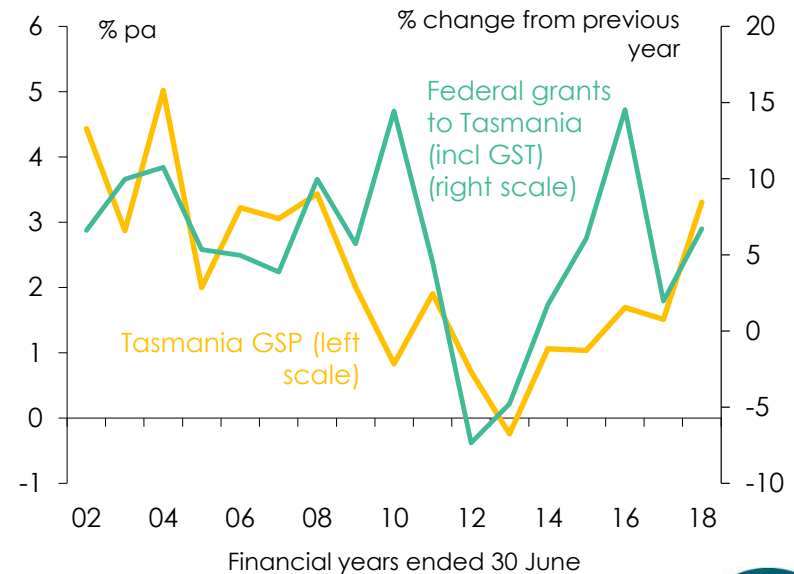


The upturn in Tasmania's economy partly reflects 'external factors'

Stronger economic growth in NSW and Victoria



A stronger flow of revenue from Canberra

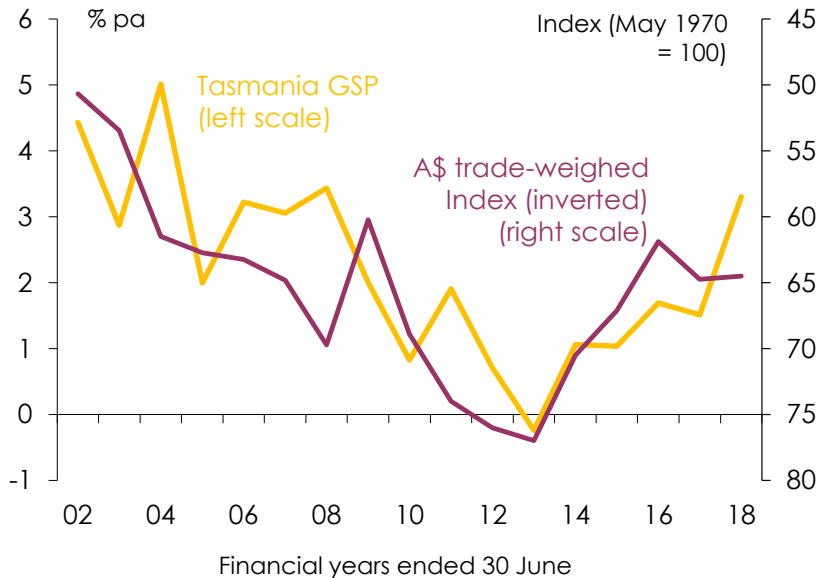


Source: ABS ; Federal Budget Papers; federal grants excludes 2016-17 Mersey Hospital payment.

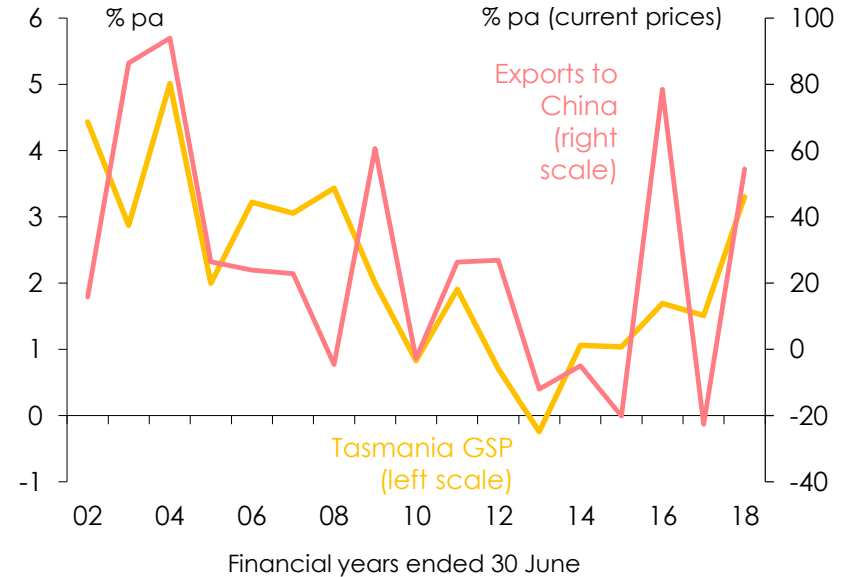


The upturn in Tasmania's economy partly reflects 'external factors'

A weaker Australian dollar



A pick-up in exports to China

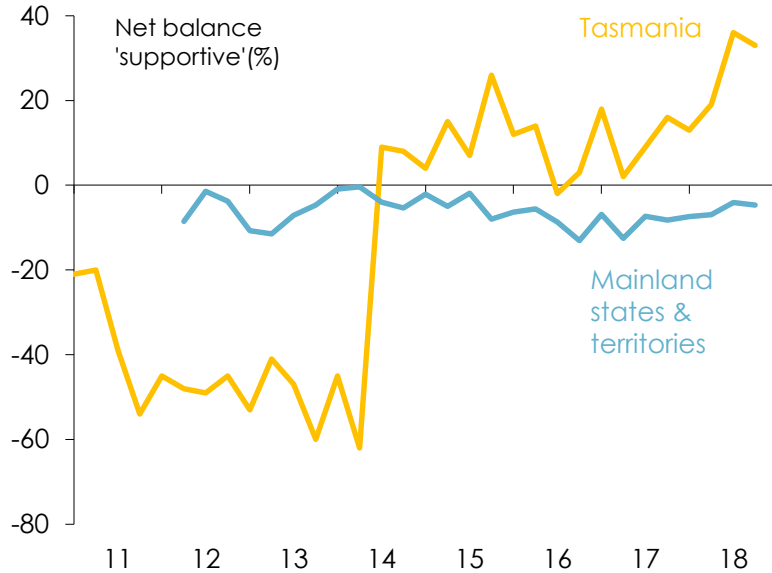


Source: ABS

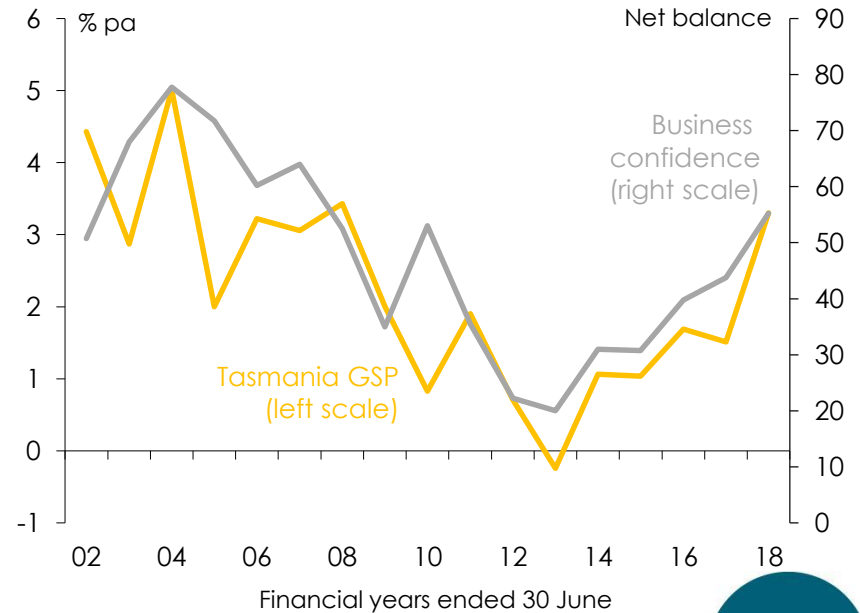


But the state government can certainly claim a share of the credit, too

SME business approval of state government policies



Business confidence and Tasmania's economic growth

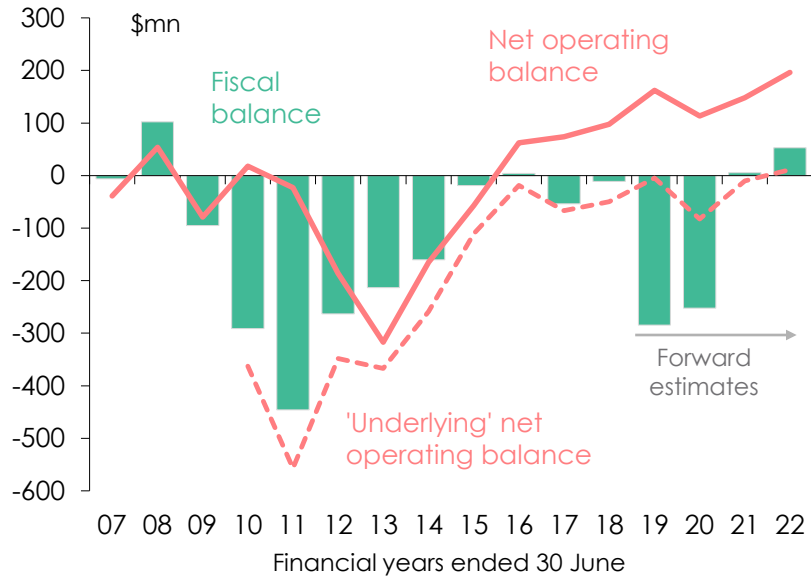


Source: Sensis Business Index; ABS.

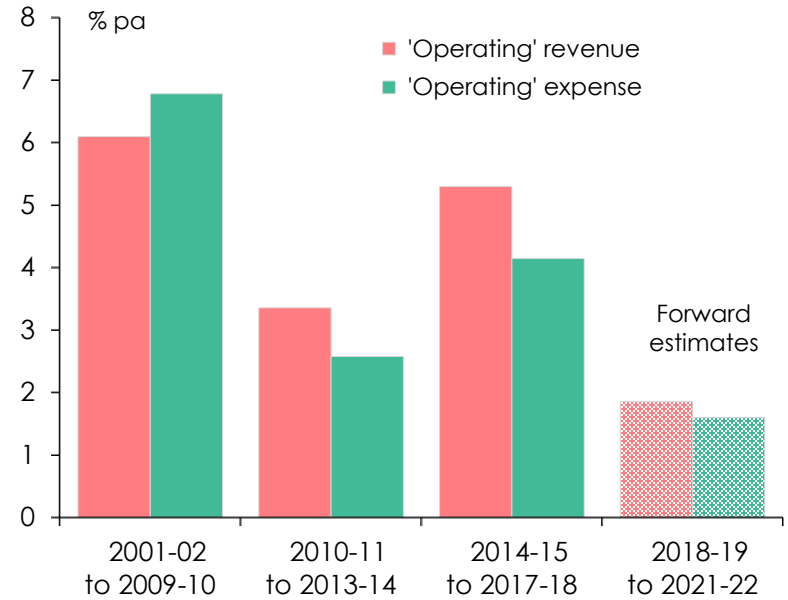


Tasmania's public finances are in good shape

Budget 'bottom lines'



'Operating' revenues and expenses

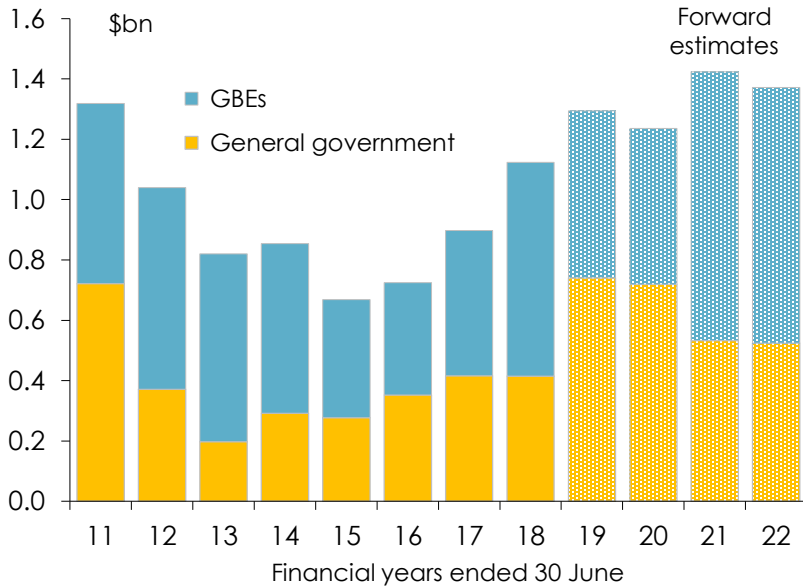


Sources: Treasurer's Annual Financial Report and Tasmanian Budget Papers. \$740mn Federal Government payment accompanying transfer of Mersey General Hospital back to Tasmania in June 2017 is excluded.

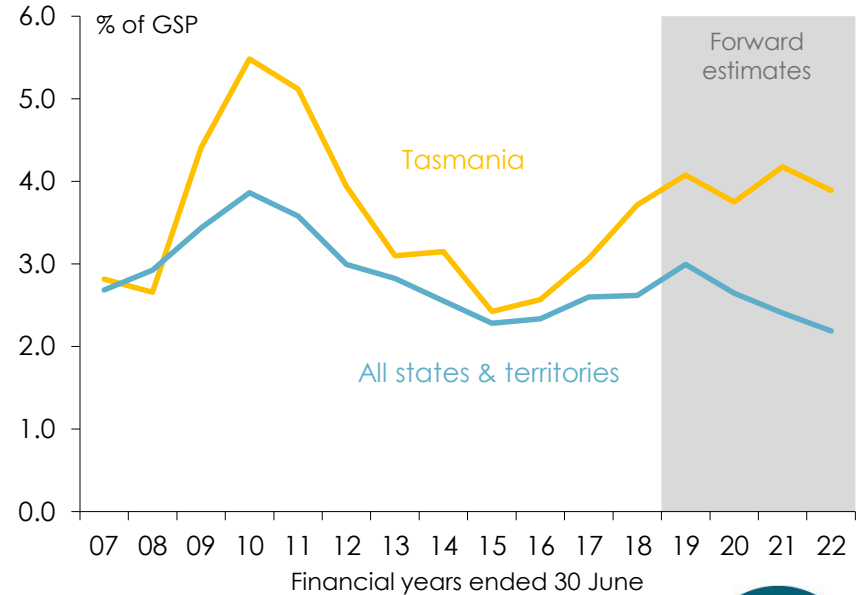


The Government now has a large infrastructure investment program ...

Tasmanian non-financial public sector 'purchases of fixed assets'



Non-financial public sector 'purchases of fixed assets' as a pc of GDP

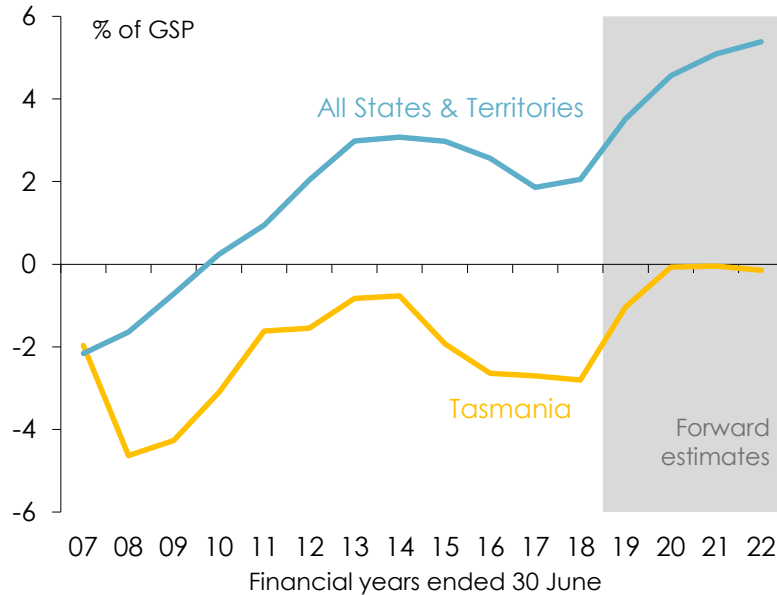


Sources: State and Territory Government Budget Papers and Annual Financial Reports

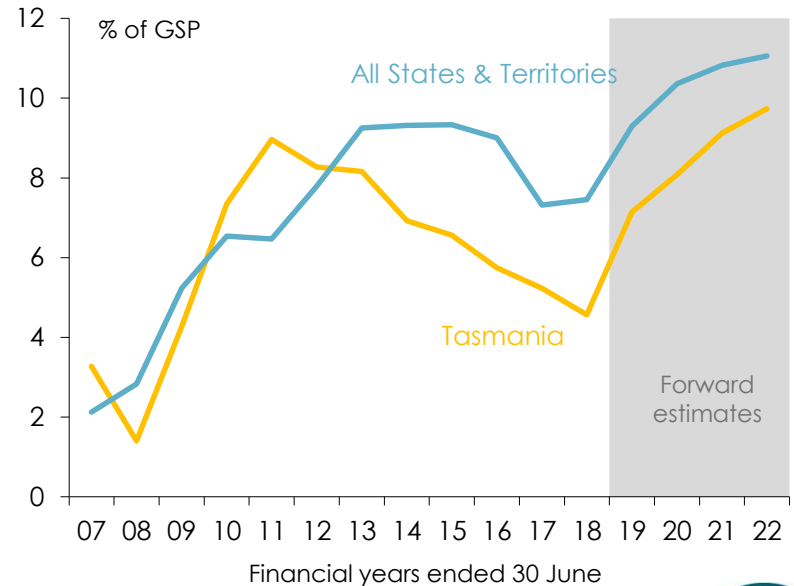


... but the balance sheet is still in a strong position ...

'General government' net debt



Total non-financial public sector net debt

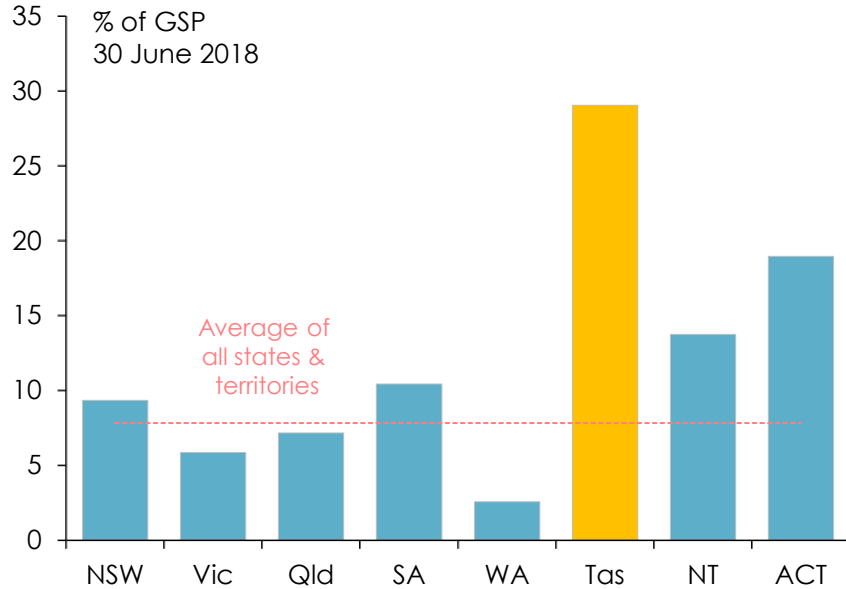


Sources: State and Territory Government Budget Papers and Annual Financial Reports



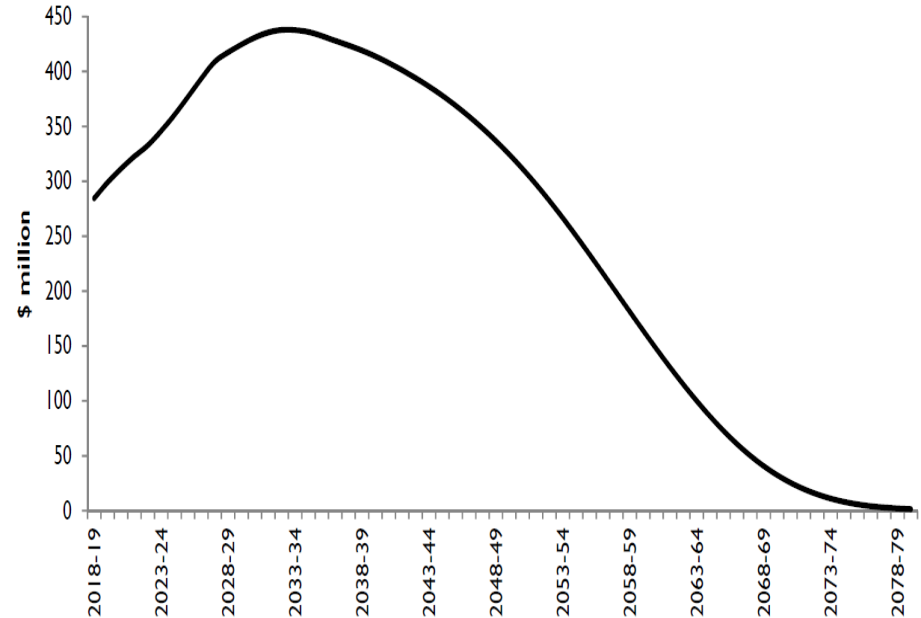
... with one glaring exception

Unfunded public sector super liabilities



Sources: State and Territory Government Budget Papers and Annual Financial Reports

Annual cost of superannuation payments



Better economic performance reflected in stronger population growth

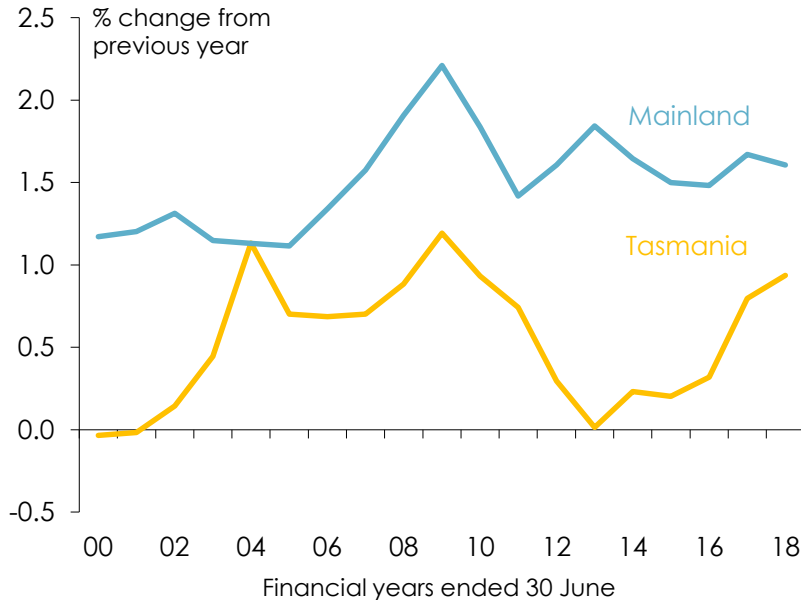


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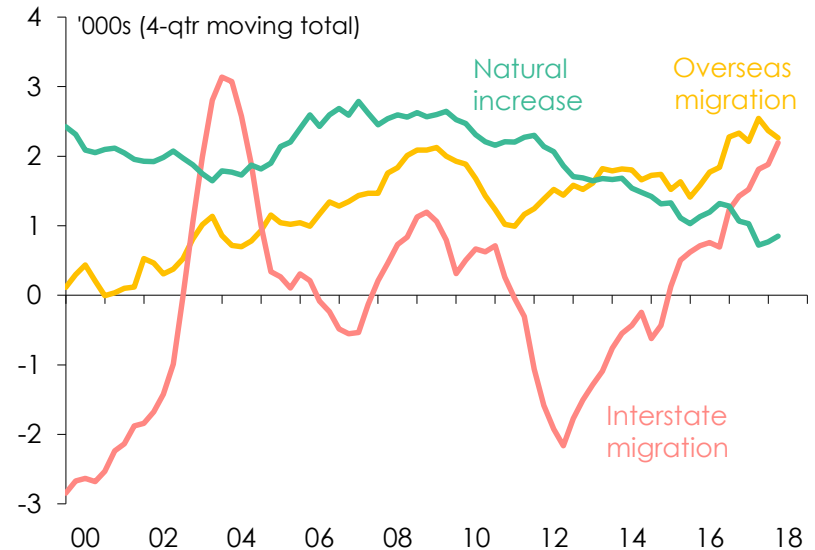


The acceleration in population growth represents another 'vote of confidence' in Tasmania's prospects

Population growth



Components of Tasmania's population growth

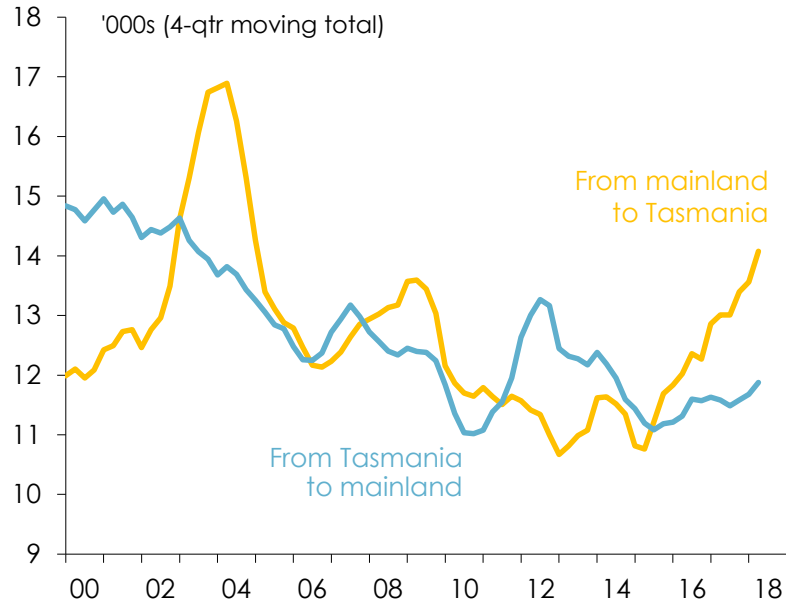


Source: ABS.



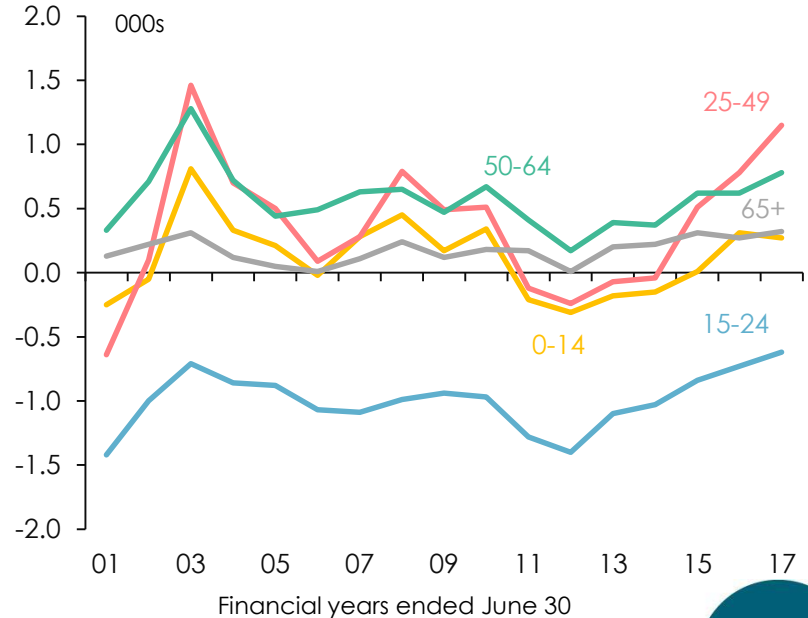
More people are moving to Tasmania – and their age mix is changing

Interstate migration to and from Tasmania



Source: ABS.

Net interstate migration to Tasmania by age group



Creating jobs – especially full-time jobs –
remains a challenge

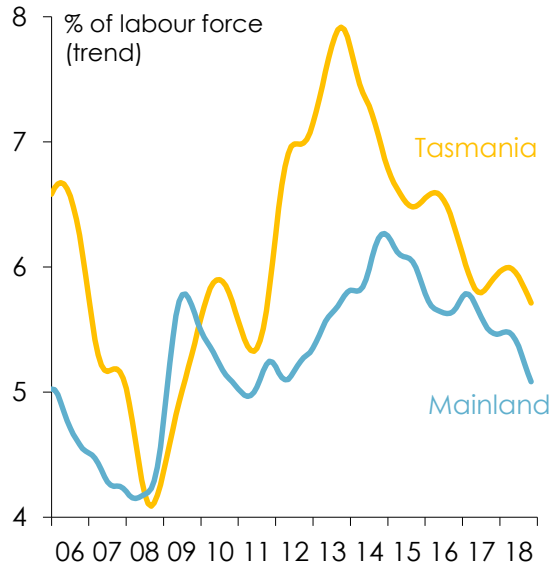


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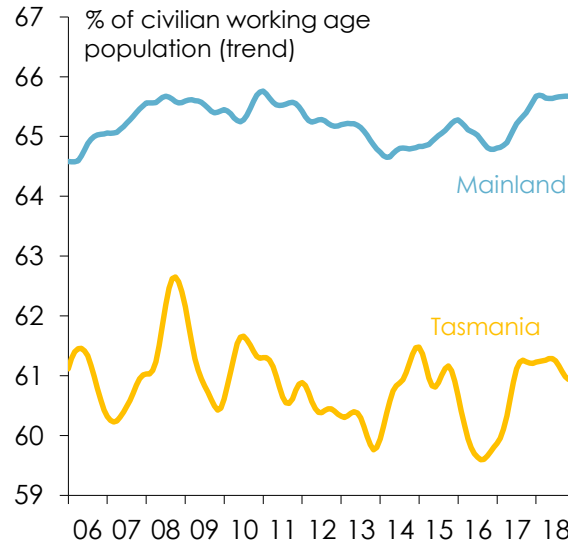


The labour market hasn't improved as much as the broader economy over the past year

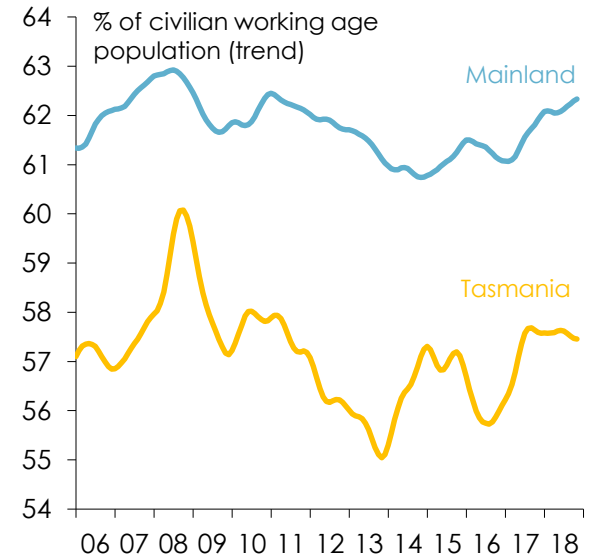
Unemployment



Labour force participation



Employment-to-population ratio



Source: ABS

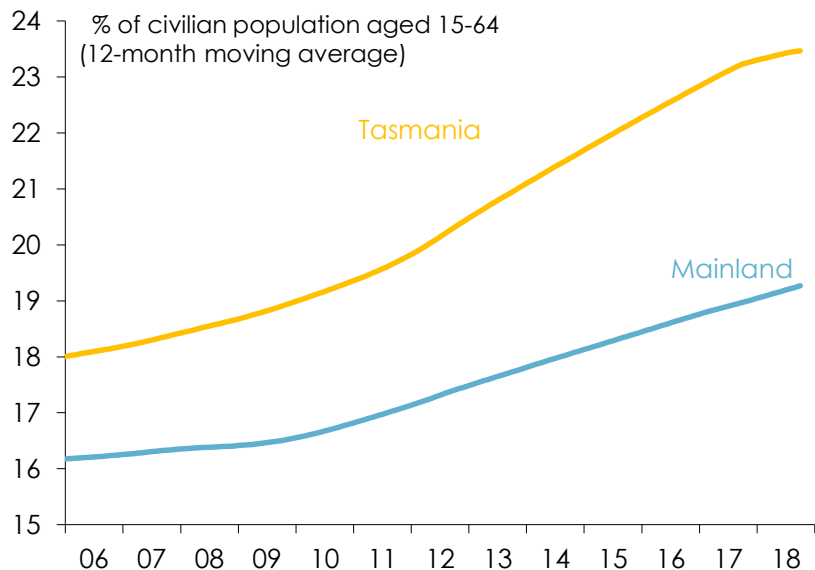


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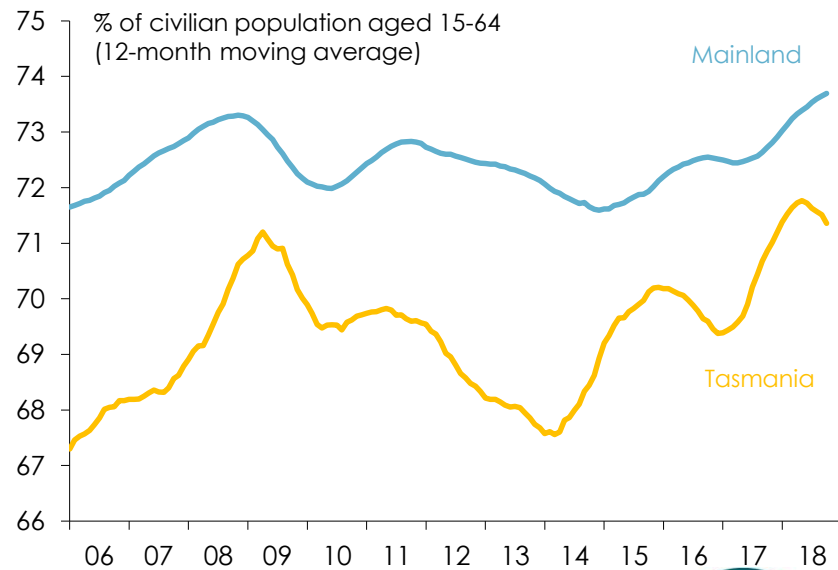


Tasmania's below-average employment rate partly but not entirely the result of our older age profile

People aged 65+ as a proportion of the 'working age' (15+) population



Employment-to-population ratio of people aged 15-64

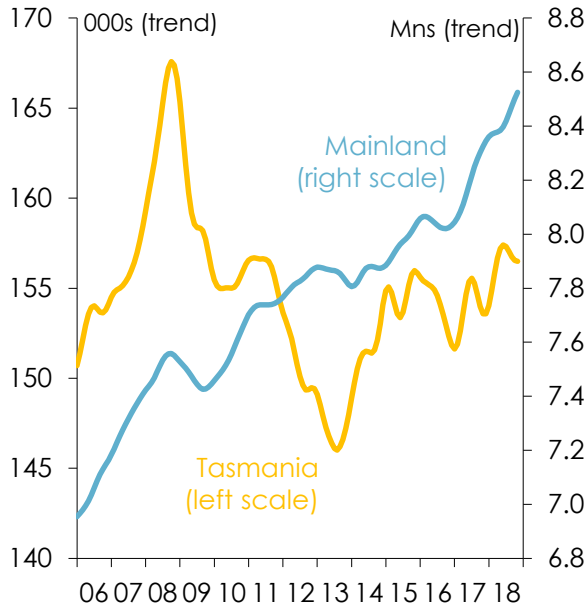


Source: ABS

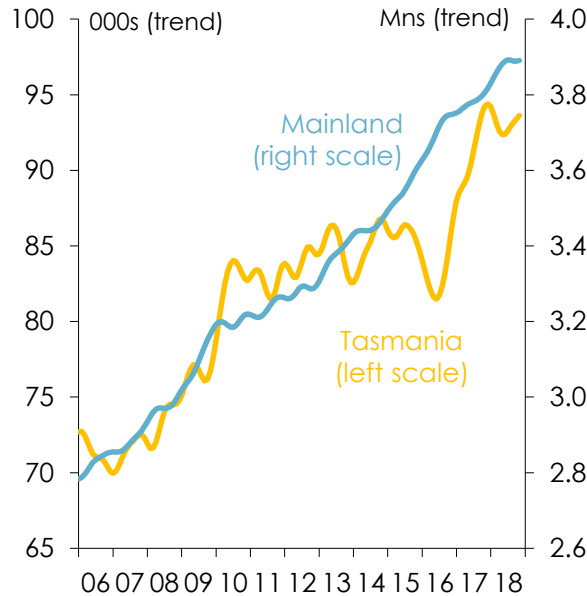


Tasmania is still finding it hard to create full-time jobs

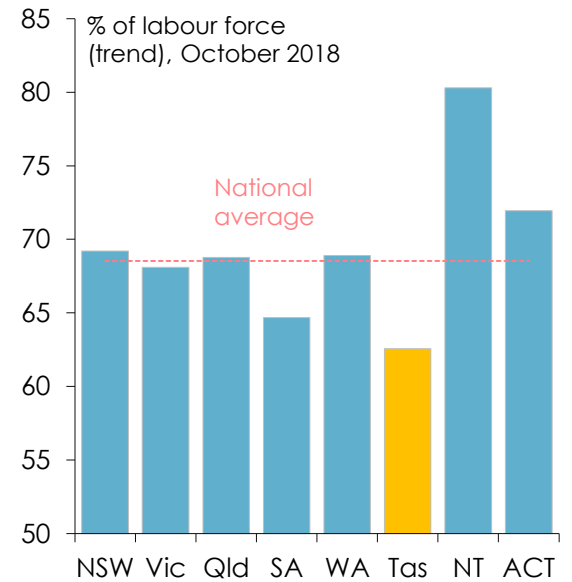
Full-time employment



Part-time employment



Full-time employment as a pc of total

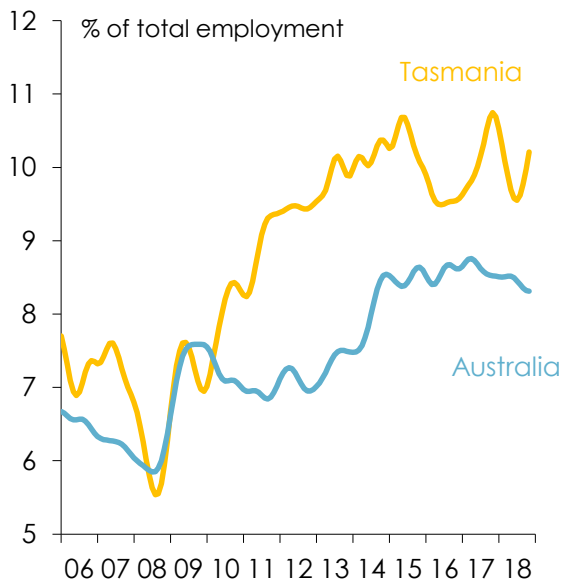


Source: ABS

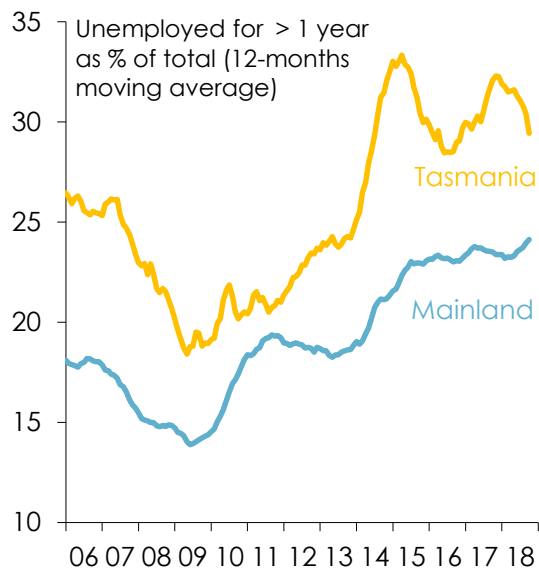


And we still have significantly higher levels of under-employment, long-term unemployment, and youth unemployment

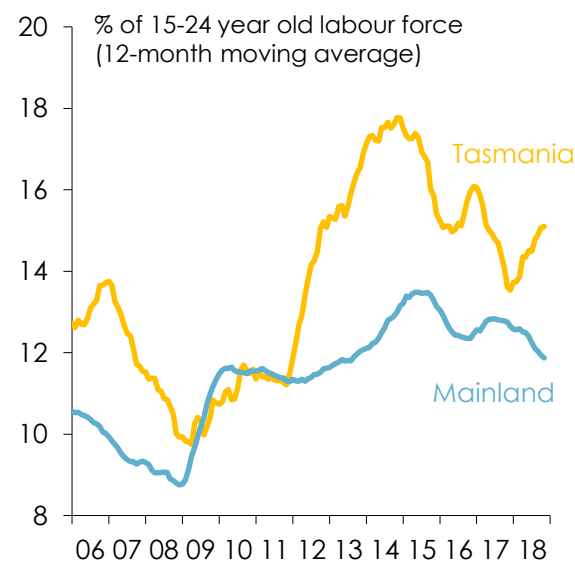
Under-employment



Long-term unemployment



Youth unemployment



Source: ABS



The 'living standards gap' between Tasmania and the rest of Australia has begun to shrink, but remains substantial

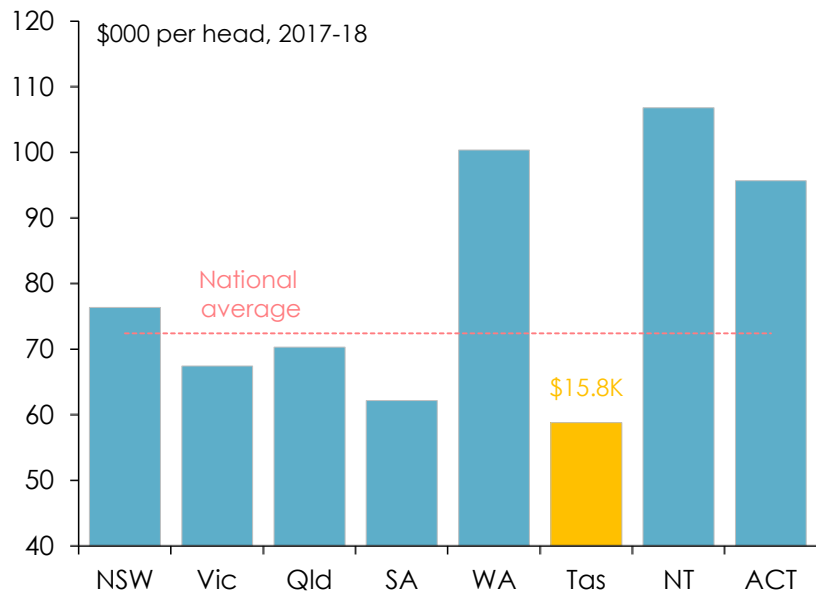


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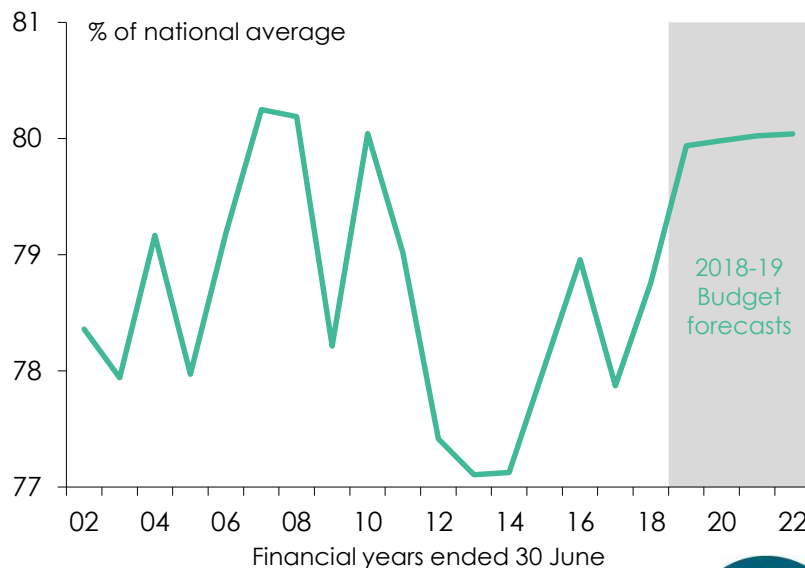


We remain Australia's poorest state – although by a smaller margin than four years ago

Gross state product per head, 2017-18



Tasmania's GSP per head as a pc of the national average

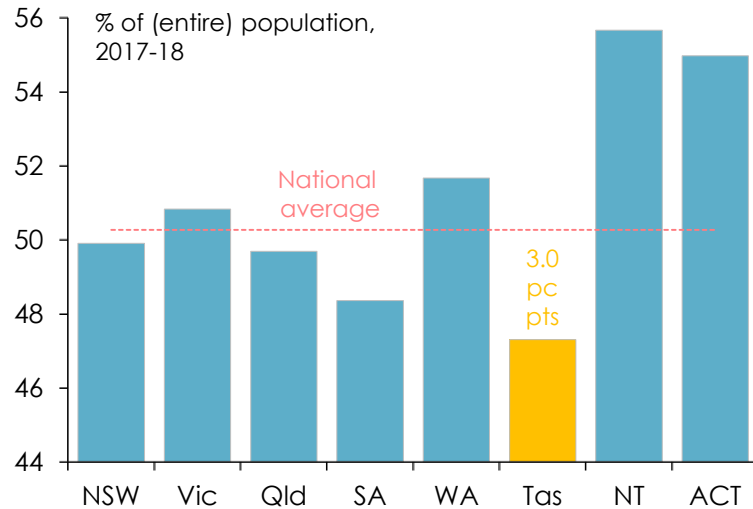


Source: ABS ; Tasmanian and Federal Government Budget Papers

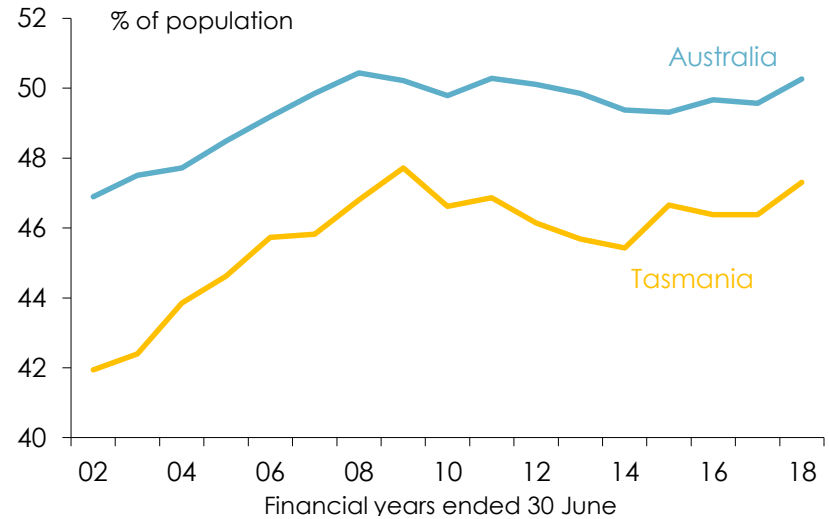


Lower employment participation accounts for 38% of the difference in per capita GSP

Employment as a pc of population, States & Territories, 2017-18



Employment as a pc of population, Tasmania & Australia, 2001-02 to 2017-18



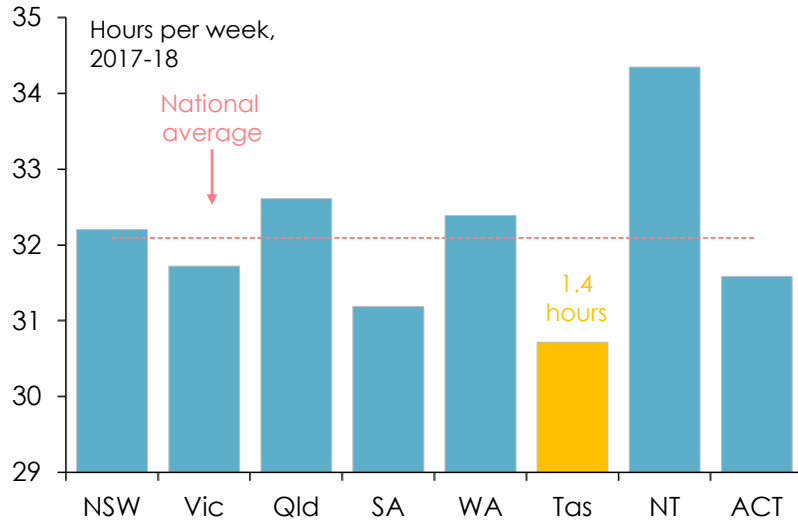
The 3 pc point gap in employment participation rates accounts for \$5,950 or 38% of the difference in per capita GSP between Tasmania and the national average

Source: ABS

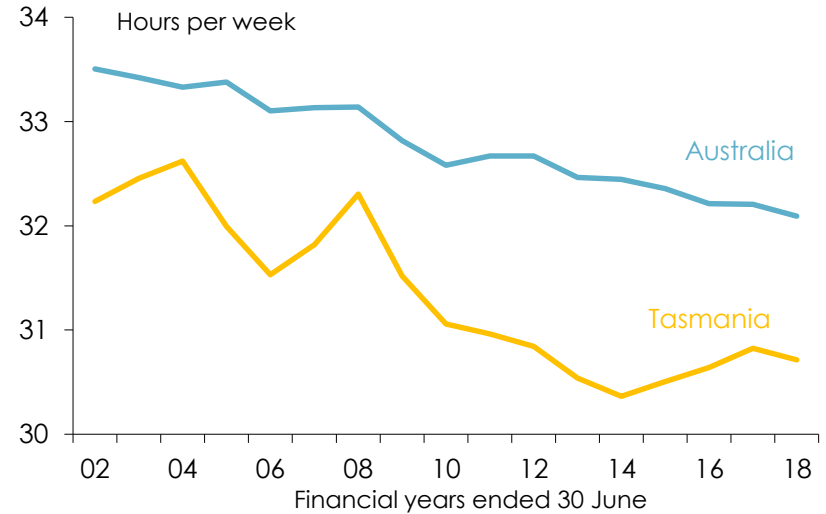


Fewer average hours worked accounts for 41% of the difference in per capita GSP

Average weekly hours worked, States & Territories, 2017-18



Average weekly hours worked, Tasmania & Australia, 2001-02 to 2017-18



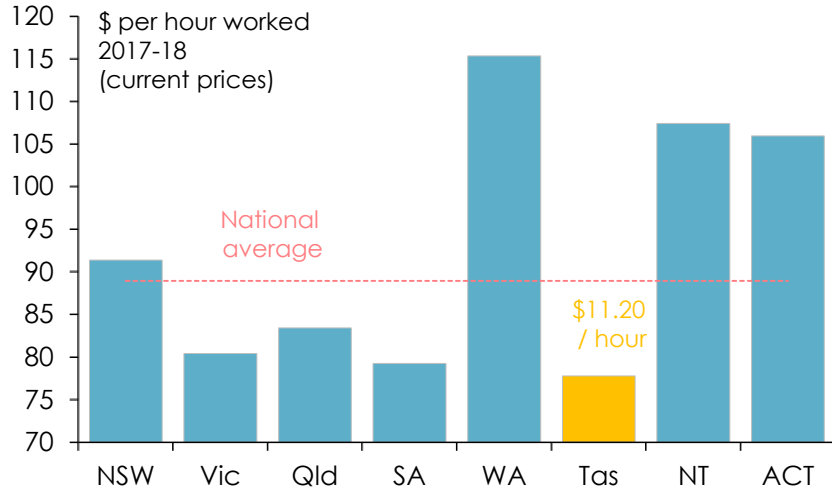
The 1.4 hours per week gap in average hours worked (equivalent to more than 10 days per annum) accounts for \$6,450 or 42% of the difference in per capita GSP between Tasmania and the national average

Source: ABS

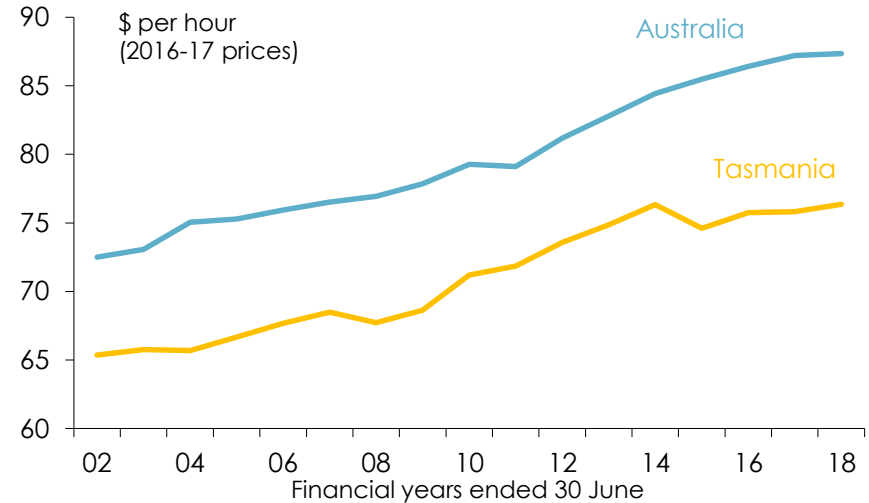


Lower labour productivity accounts for 21% of the difference in per capita GSP

Gross product per hour worked States & Territories, 2017-18



Gross product per hour worked Tasmania & Australia, 2001-02 to 2017-18



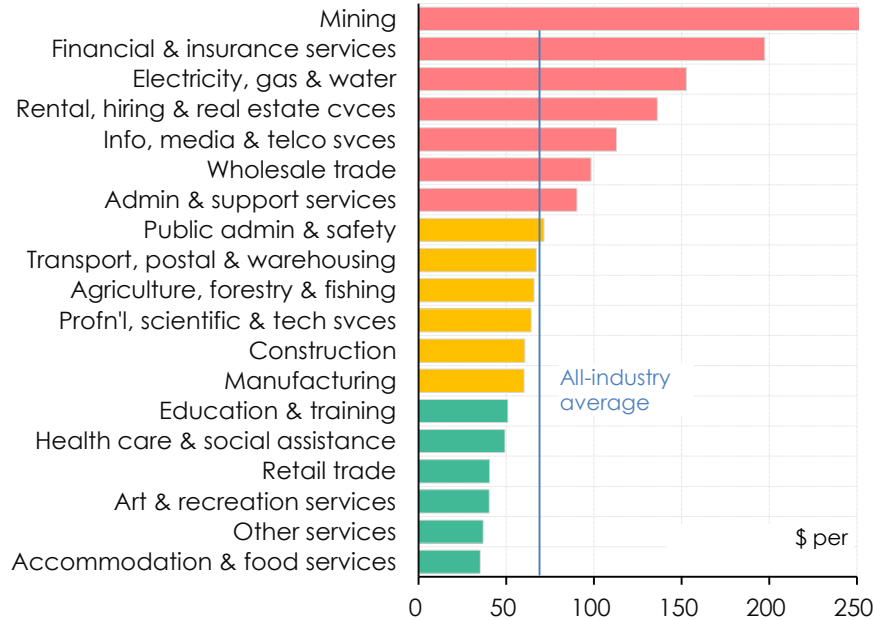
The \$11.20 per hour (or 13%) 'productivity gap' accounts for \$3,350 or 21% of the difference in per capita GSP between Tasmania and the national average

Source: ABS

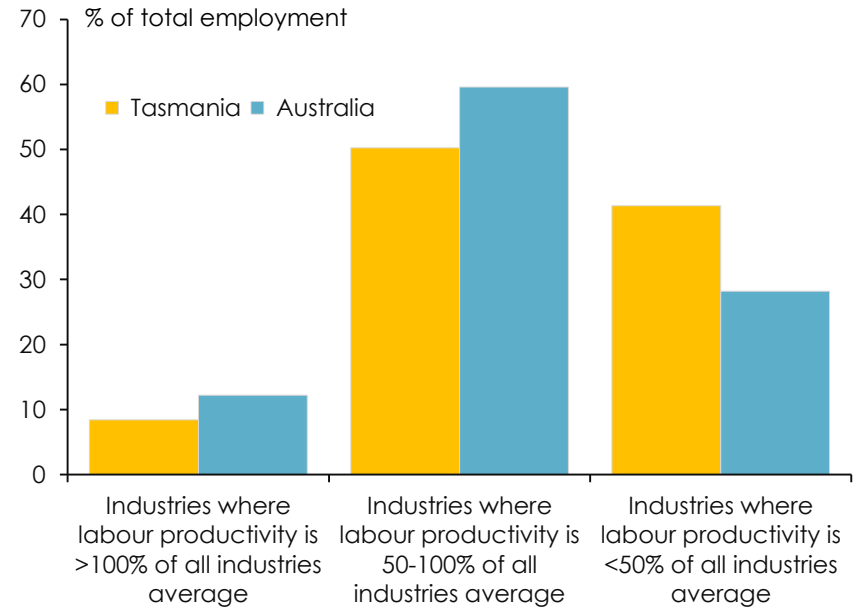


High-productivity industries are 'under-represented' in Tasmania

Labour productivity by industry, Australia, 2017-18



Employment by high, medium and low productivity industries, 2017-18

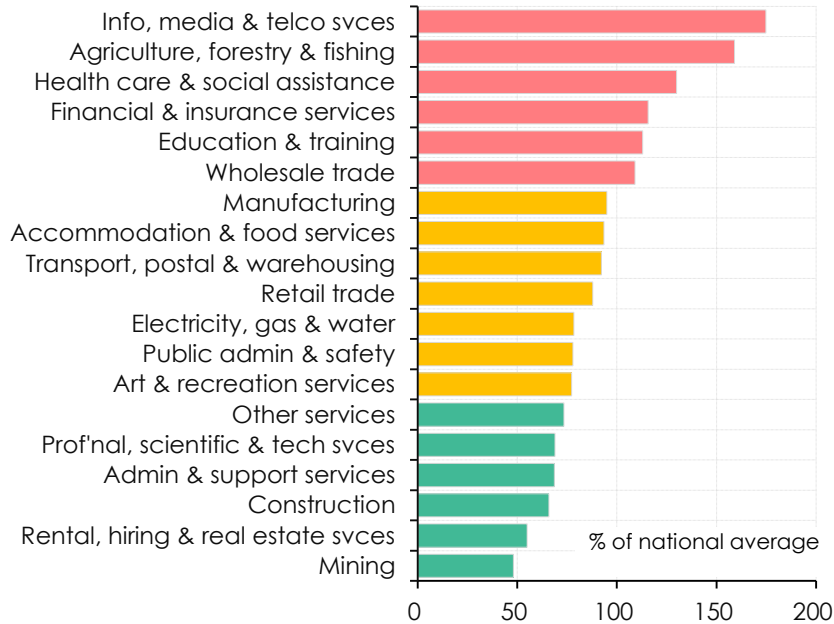


Source: ABS.

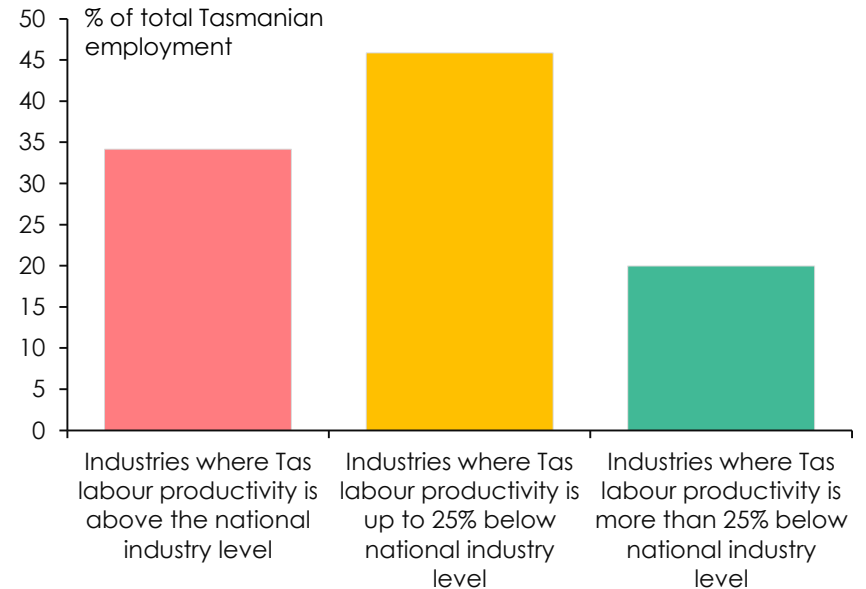


Most Tasmanian workers work in industries where productivity in Tasmania is below those industries' national averages

Tasmanian labour productivity as a pc of national industry averages, 2017-18



Tasmanian employment by industry productivity as pc of national, 2017-18



Source: ABS.



Higher levels of educational participation and attainment is the single most important 'enabler' to reducing the 'living standards gap'

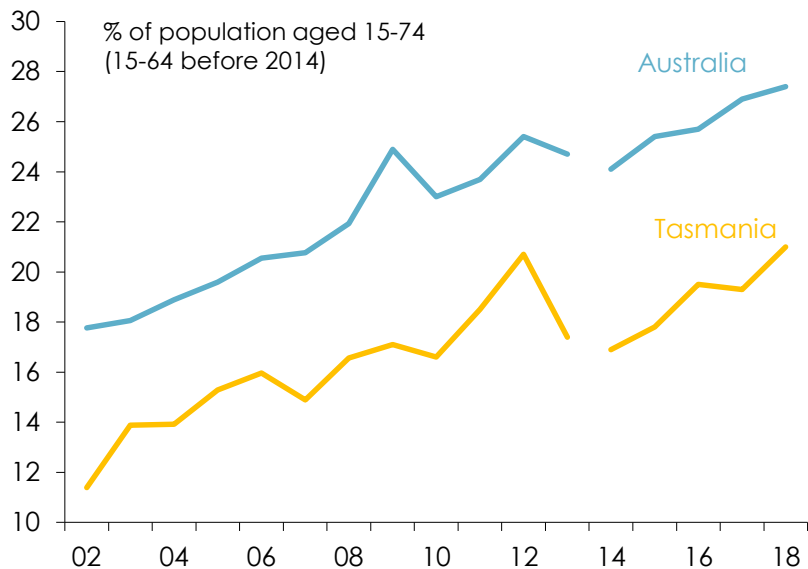


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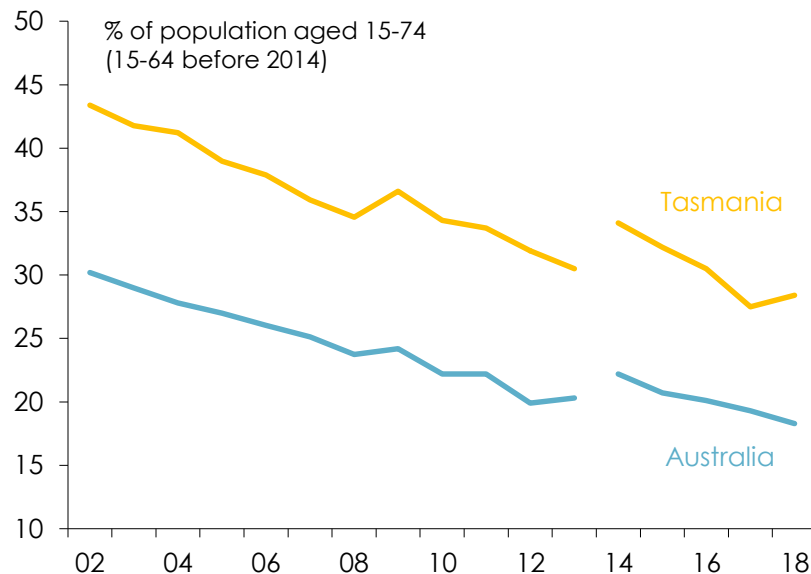


Closing the 'educational attainment gap' is critical to reducing the 'GSP gap'

Population aged 15-75 with bachelor degree or higher



Population aged 15-75 with no qualification beyond Year 10

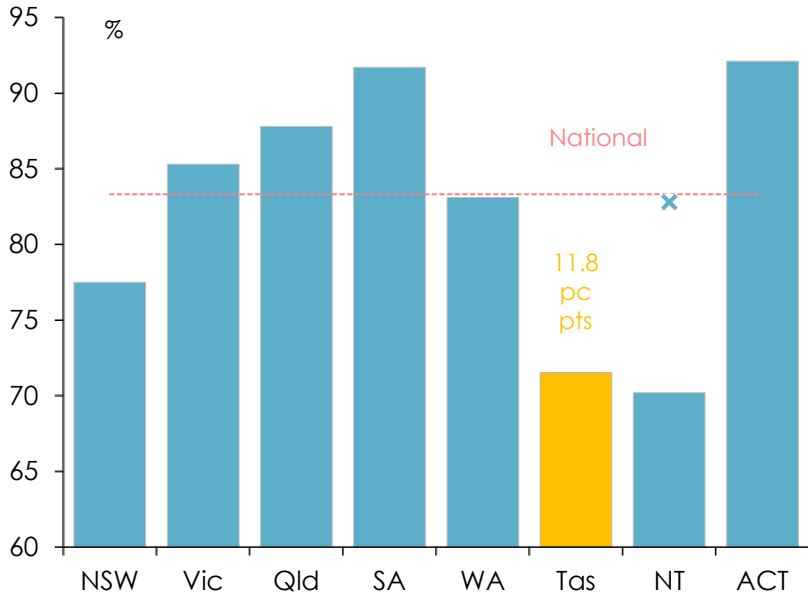


Note: break in series in 2014 when age range for survey changed from 15-64 to 15-74. Source: ABS.

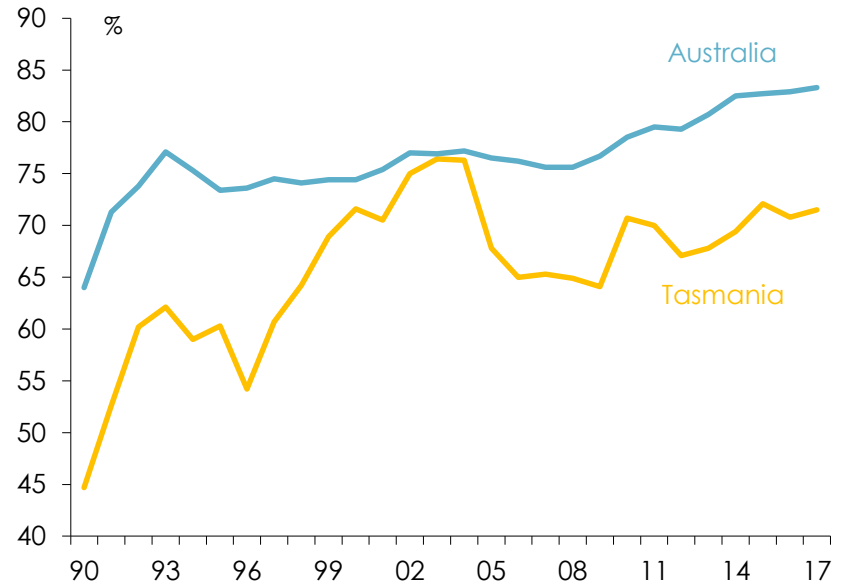


Y12 retention rate improving but still well below average

Apparent retention rates to Year 12, 2017



Apparent retention rates to Year 12, Tasmania and Australia

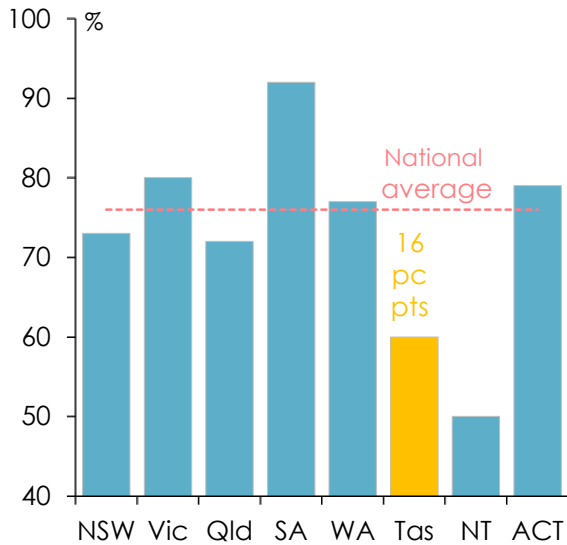


Source: ABS. 'X' is retention rate for NT non-Indigenous population.

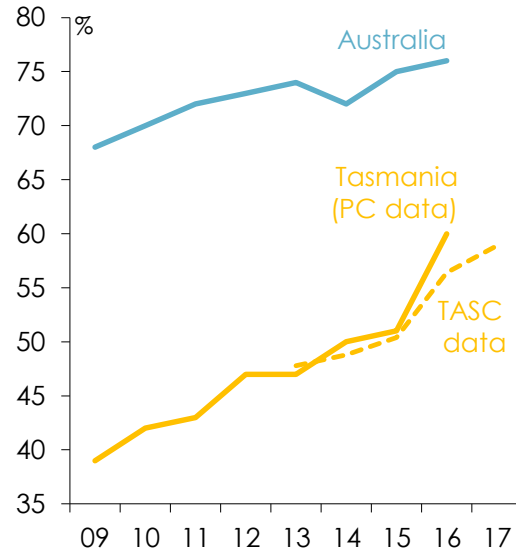


Y12 certificate completion rates also still below average

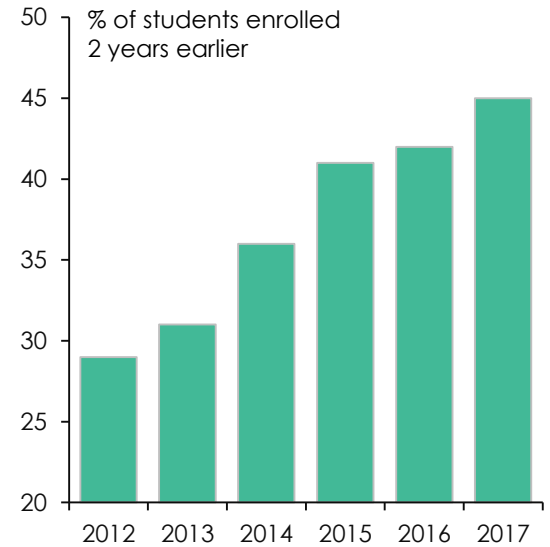
Year 12 completion rates, 2016



Y12 completion rates, Tasmania and Australia



Y12 completion rates at 'extension schools'



Note: 'Completion rate' is the number of students meeting the Y12 Certificate or equivalent requirements as a pc of potential Y12 population (defined as one-fifth of the 15-19 population). Source: Productivity Commission; Office of Tasmanian Assessment, Standards & Certification (TASC)



Managing 'growing pains' is a new but important challenge

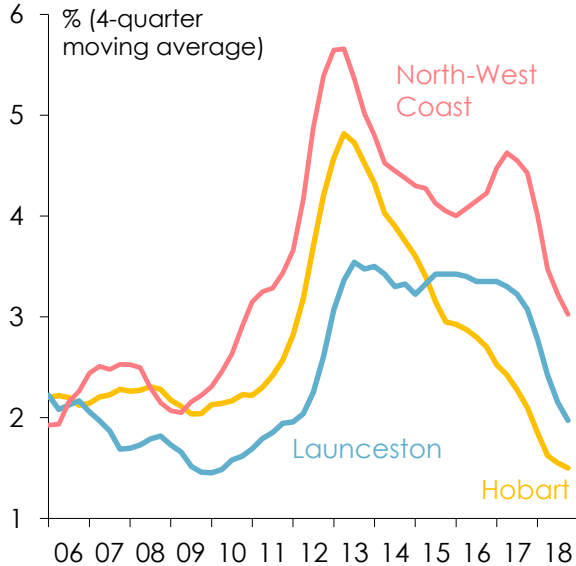


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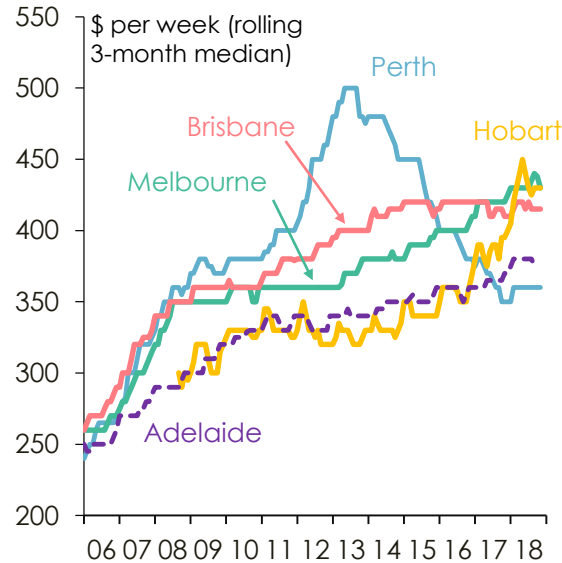


The buoyant property market hasn't been good for everyone

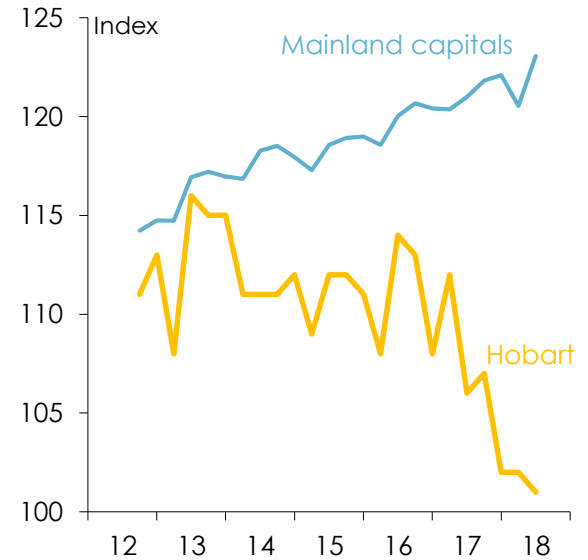
Rental vacancy rates



Median rents, Hobart and mainland cities



Rental affordability index (low-income households_

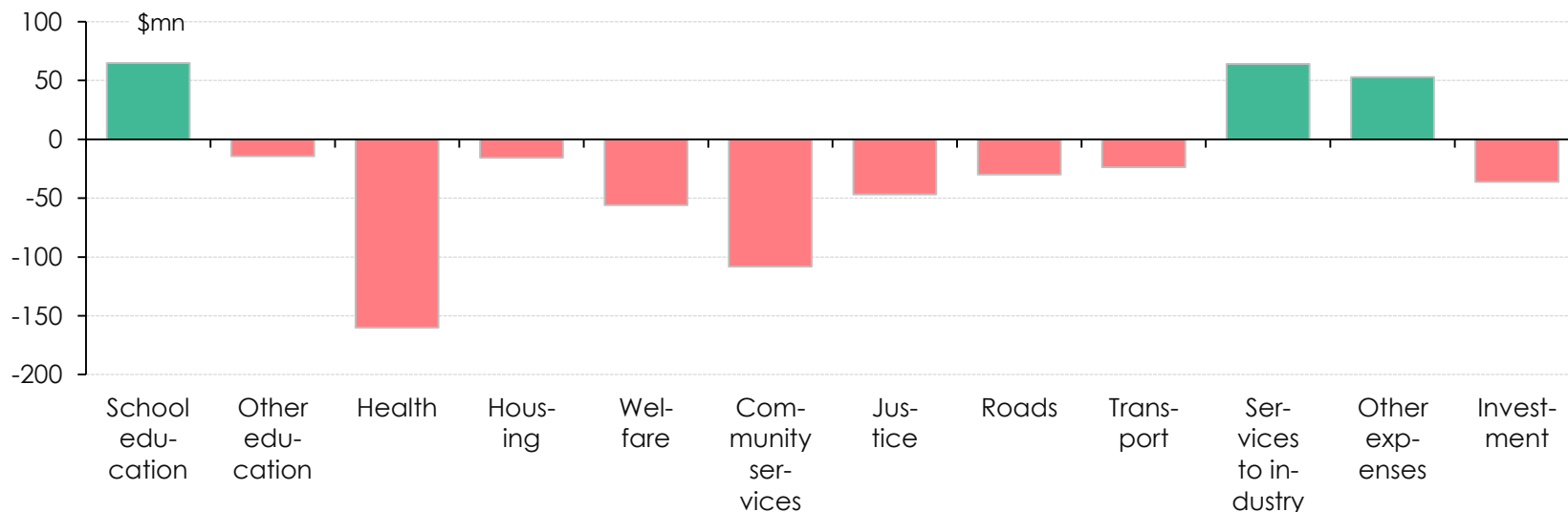


Source: ABS ; CoreLogic; SGS Economics & Planning



Some areas of the state budget face pressure for more spending

Tasmanian government spending relative to Grants Commission benchmarks for 'service provision at the same level as the all states and territories average', 2016-17



Source: Commonwealth Grants Commission 2018 Update Report



Challenges on the spending side of the budget may eventually require thinking about the revenue side

- The risks posed to Tasmania's public finances by possible changes to GST revenue-sharing arrangements seem to have abated – but the Tasmanian Government will still depend on Canberra for about 60% of its total revenue (compared with average for all states and territories of about 45%)
- Sustained stronger economic growth may produce a larger state tax revenue 'dividend' than projected in the most recent state budget
- Tasmania's state taxation base is very narrow – only about 7½% of businesses pay payroll tax, only 35% of properties are subject to land tax
- Long term tax reform should be about broadening the base of payroll and land tax (and abolishing stamp duties)
- The idea of collecting some kind of financial contribution from tourists shouldn't be completely dismissed
- Is the optimal level of 'general government' net debt zero?



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Conclusions

- Tasmania is experiencing its strongest economic conditions in a decade
- That partly reflects a combination of favourable ‘external’ conditions, but the State Government can also rightly claim a share of the credit
- A key challenge now is to ensure that this trajectory is sustained – because there is still a large gap between material living standards in Tasmania and those of the rest of Australia
- Continued progress in improving educational participation and attainment is vital to that goal
- It’s possible that economic and population growth trends could interact to set up a ‘virtuous circle’, slowing the rate at which our population is ageing
- It will also be important to respond effectively to some of the stresses and strains caused by faster economic and population growth, and to ensure that the benefits of growth are widely distributed



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