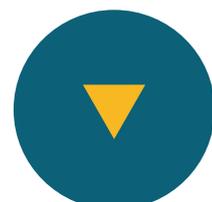


Tasmania Report 2018



TCCI



CONTENTS

FROM THE CHAIR	3
ABOUT THE AUTHOR	4
TIME TO TURN IT AROUND TASCOSS CEO	5
CHAPTER 1 TASMANIA'S ECONOMY	7
CHAPTER 2 TASMANIA'S LABOUR MARKET	27
CHAPTER 3 TASMANIA'S RESIDENTIAL PROPERTY MARKET	37
CHAPTER 4 TASMANIA'S POPULATION AND SOCIETY	45
CHAPTER 5 TASMANIA'S EDUCATION SYSTEM	53
CHAPTER 6 TASMANIA'S PUBLIC SECTOR	69
CHAPTER 7 TASMANIA'S LONG-TERM ECONOMIC CHALLENGE	83
CHAPTER 8 LOOKING FORWARD	93

EVENT PARTNERS



FROM THE CHAIR

SUSAN PARR



It is with great pleasure and pride that I introduce this fourth Tasmania Report to you. It is remarkable both in the quality of the data, the analysis and the themes identified by Saul Eslake, as well as the unique partnership that makes the funding of the report possible. TasCOSS, Federal Group, Bank of Us, St.LukesHealth and the Mercury combine in partnership to provide all of us with key data that continues to disrupt conventional attitudes around likely partnerships formed for the benefit of all Tasmanians.

As engaged Tasmanian leaders, you know the significance of accurate data in measuring and managing key objectives and the benefit of positive relationships with stakeholders who join with us in striving to achieve a better Tasmania for all and who recognise that prosperity and wellbeing are intrinsically linked at an individual and community level. It is gratifying to note that many organisations like Tasplan are now using the Tasmania Report in their planning.

The use of economic indicators alone can cloud vision and judgement. The juxtaposition of social and economic indicators informs a fuller appreciation of the whole picture of the Tasmanian community and prompts debate about the priorities that Tasmania must set. Of course, State Government plays a huge part in the achievement of community priorities, but Local Government, health and education institutions, industry, businesses large and small, community groups, households and individuals have a responsibility to look beyond self-interest and professional empires to understand and act for the needs of Tasmania as a whole.

Tasmanians are the unhealthiest, oldest, worst educated, most under-employed and most dependent on Government benefits in Australia. This is not sustainable and if it continues will condemn a large number of

Tasmanians to unproductive lives with compromised opportunities for employment, personal fulfilment and community engagement. The flow on affects mean increasing health costs, more people who feel alienated from society, and who in turn have no stake in developing their communities.

State Orange Book 2018 produced by the Grattan Institute highlights a stunning statistic: Avoidable mortality rates in Tasmania are the worst in the country. Avoidable mortality rates are defined as deaths from conditions that are potentially preventable and/or treatable through existing primary or hospital care. This is in an environment where health spending is the largest single component of state expenditure and is growing rapidly.

The TCCI believes that the true measure of a successful Tasmania must include improved achievements in these areas as well as in employment, infrastructure, levels of taxation and the costs of doing business in an island state with a relatively static population and limited transport options.

The importance of long term planning and having measurable targets is key to restoring confidence in institutions and improving community engagement.

The TCCI envisages Tasmania as the most successful state in the Commonwealth. The measures of that success include prosperity but depend on education standards and good health and confidence in our institutions.

TCCI will continue to track Tasmania's progress towards the attainment of improved results in jobs, construction, exports, new businesses, housing, health status and educational attainment.

I commend the fourth Tasmania Report to you all.

Susan Parr
Chair
Tasmanian Chamber of Commerce and Industry



ABOUT THE AUTHOR

SAUL ESLAKE

Saul Eslake worked as an economist in the Australian financial markets for more than 25 years, including as Chief Economist at McIntosh Securities (a stockbroking firm) in the late 1980s, Chief Economist (International) at National Mutual Funds Management in the early 1990s, as Chief Economist at the Australia & New Zealand Banking Group (ANZ) from 1995 to 2009, and as Chief Economist (Australia & New Zealand) for Bank of America Merrill Lynch from 2011 until June 2015.

He has now established his own independent economics consultancy business, based in Tasmania, and also has a part-time appointment as a Vice-Chancellor's Fellow at the University of Tasmania.

Saul is on the Board of Housing Choices Australia Ltd, a not-for-profit provider of affordable rental housing in three states, including Tasmania; and is Chair of the Board of Ten Days on the Island, Tasmania's biennial multi-arts festival. He is also on the Macquarie Point Development Corporation board.

Saul has a first class honours degree in Economics from the University of Tasmania, and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia. In December 2012 he was awarded an Honorary Doctor of Laws degree by the University of Tasmania. He has also completed the Senior Executive Program at Columbia University's Graduate School of Business in New York.



TasCOSS

TIME TO TURN IT AROUND

TASCOSS CEO

It is an exciting time for Tasmania. Our economy is growing, visitors are coming to the State in record numbers, more of our young people are participating in school, and billions of dollars will be invested in job-creating projects over the next 10 years. Now is the time of opportunity including to make sure that the growth is sustainable, and that more people can prosper. We need to unlock the potential that is dormant in our communities. We need a game-changer strategy.

Our people are our greatest asset. As any successful business person will tell you, no matter how much you invest in your business, in its infrastructure, its equipment, the latest technology, a business will not be profitable or sustainable if you don't equally invest in your people. That's why large organisations prioritise managers of "people and culture" - because people are the most important part of any business. They are critical to its success.

Tasmania is no different. When you map investment in Tasmania from the three tiers of government it is strong in infrastructure – in irrigation, in tourism, in roads and in energy projects. And when you look at a map of Tasmania you can also see the vast World Heritage Area -- one-fifth of our island protected for future generations. What you can't see on that map is the one-quarter of Tasmania that is locked up because of a lack of investment in our people. That must change.

Around 120,000 Tasmanians do not have the opportunity to live a good life. They try to live on less than \$433 a week while finding the resources to look after their family, and to look for work. They have to make choices that many of us aren't forced to make – for example, to move out of major population centres due to a lack of affordable housing. They are faced with other barriers beyond their control like a lack of access to reliable, affordable transport that can get them to services, training and work. They experience cultural barriers like prejudice, stigma and exclusion. And they face very personal barriers with low levels of literacy, dental problems and poor physical and mental health.

The potential of one-quarter of our people to participate in the social and economic opportunities our state offers and to live a good life is denied them by barriers that are not of their making. Turning that around would be a game-changer for the future of our state.

Inequality is one of the wicked problems. It can feel too big and too hard to change. But we can and we already are. In communities throughout Tasmania local residents are taking the steps to make a difference. Community led. They are turning it around.

In the partnership between TasCOSS, the TCCI and the State Government we are working to turn it around. In the Derwent Valley, the South-East, the Break O'Day municipality and now the West Coast, community members are coming together to find ways to get local people into local jobs. They are asking people what their hopes are, what the challenges are, and what the solutions could be. And, with funding from the State Government, they are trying different ways of doing things, connecting job seekers with employers and building on the resources and strong connections within their communities. They know that the problems are not the fault of individuals and so we must share the responsibility, together as a community, and as Tasmanians.

This work is a strategic investment by the State Government in people. And we need a lot more of it. Just like strategic investment in irrigation has led to an expansion of our agriculture sector, so we must now make a significant strategic investment in our people so everyone has the opportunity to participate fully in life on our amazing island.

It's time to shine the spotlight on investment in our people – our soft infrastructure – investment that matches and exceeds our investment in hard infrastructure.

We have been here before. We have seen strong economic times. But we haven't tackled the deep disadvantage that has excluded many in our population from participating and therefore sustaining our economic growth. To quote Santayana, "those who do not learn from the past are condemned to repeat it". We must not condemn another generation of Tasmanians to being locked out of the opportunities ahead.

Kym Goodes

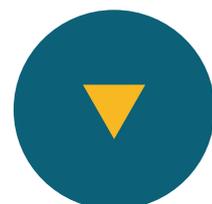
CEO

Tasmanian Council of Social Service



Chapter 1

TASMANIA'S ECONOMY



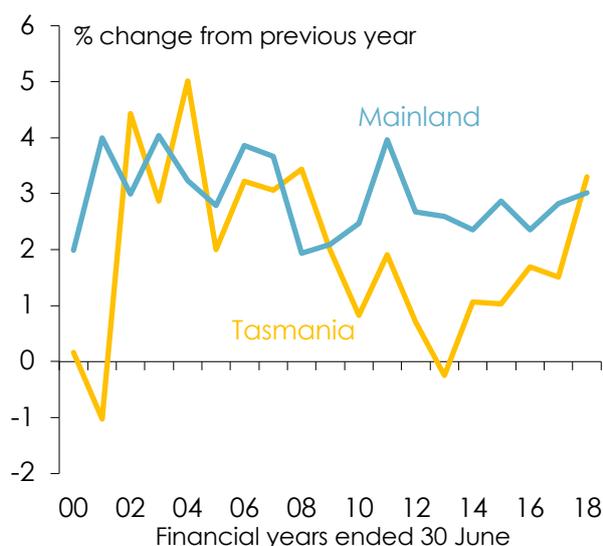
TCCI

TASMANIA'S OVERALL ECONOMIC PERFORMANCE IN 2017-18

Tasmania's economy is on a roll. Overall economic activity – as measured by chain-volume or 'real' **gross state product (GSP)**¹ – grew by 3.3% in 2017-18, the fastest pace in ten years (Chart 1.1), and a substantial improvement on the average growth rate over the preceding five years of just 1.0% per annum. For the first time in nine years, and only the fourth time in the past 25 years, Tasmania's economy grew at a faster pace than that of Australia as a whole. Among the other states and territories only the ACT and (by much smaller margins) Victoria and Queensland recorded faster economic growth rates than Tasmania in 2017-18 (Chart 1.2).

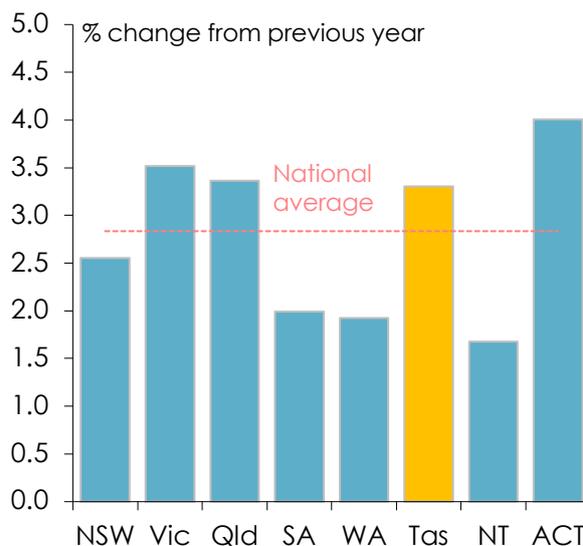
As discussed in more detail in Chapter 4, Tasmania's improved economic performance has prompted a turn-around in the movement of people across Bass Strait – since 2015, more people have moved from the mainland to Tasmania than in the opposite direction – and an increase in the number of overseas migrants settling in Tasmania, which together have more than offset the ongoing decline in the 'natural' rate of Tasmania's population growth (births minus deaths). As a result, Tasmania's population is now growing at its fastest rate in nine years – something which, all else being equal, contributes to faster economic growth as well as being partly a consequence of it.

Chart 1.1: Growth in real gross state product, Tasmania and mainland, 1999-00 to 2017-18



Source: ABS, *State Accounts* (5220.0), 2017-18.

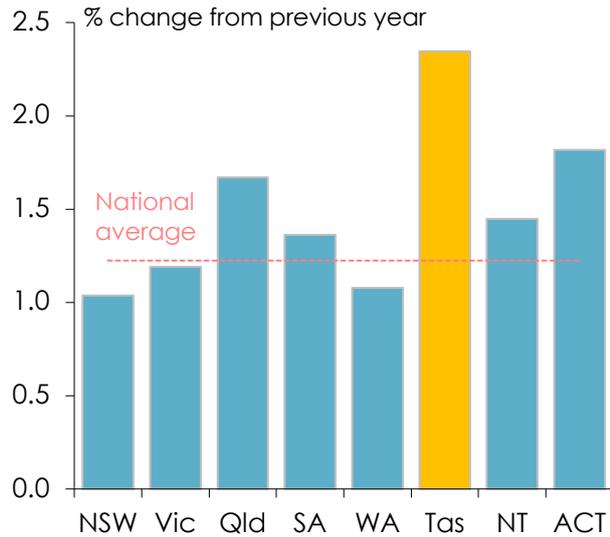
Chart 1.2: Growth in real gross state product, states and territories, 2017-18



Source: ABS, *State Accounts* (5220.0), 2017-18.

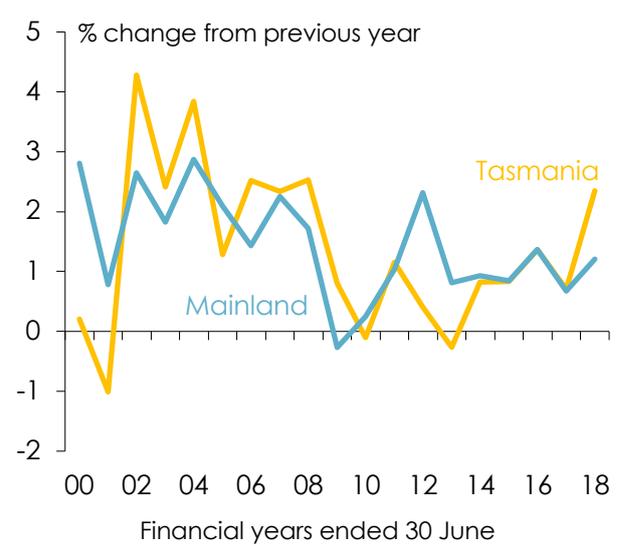
¹For a more detailed explanation of what GSP measures and how it is derived, see ABS, *Australian System of National Accounts: Concepts, Sources and Methods, 2015* (5216.0), Chapter 21, pp. 468-523, or the explanatory notes to ABS, *Australian National Accounts: State Accounts 2017-18* (5220.0). The Tasmanian Treasury continues to harbour significant reservations about the 'reliability and volatility' of ABS estimates of GSP and other key data for Tasmania (see Tasmanian Government, *Budget Paper No. 1, June 2018*, p. 24). Nonetheless, the ABS data provide the only basis for analysing the performance of the Tasmanian economy over time, and for making comparisons between Tasmania's economic performance and that of other states and territories, and hence are used throughout this Report.

Chart 1.3: Growth in real per capita GDP, states and territories, 2017-18



Source: ABS, *State Accounts* (5220.0), 2017-18.

Chart 1.4: Growth in real per capita GDP, Tasmania and mainland, 1999-00 to 2017-18



Source: ABS, *State Accounts* (5220.0), 2017-18.

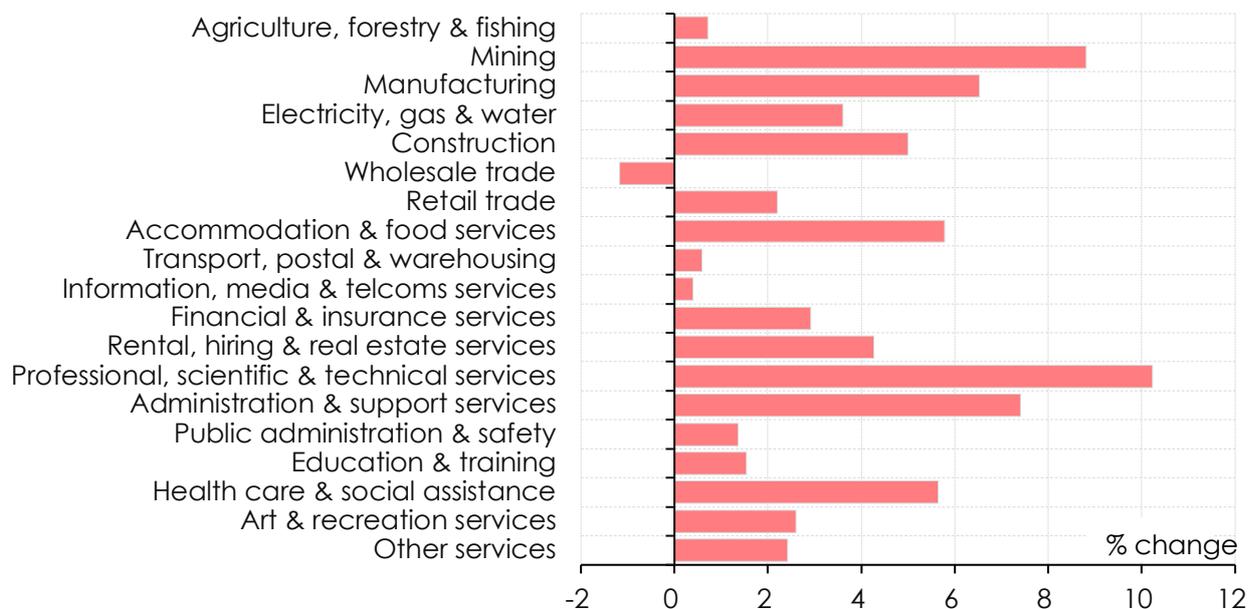
It's therefore especially noteworthy that, after abstracting from the impact of this faster rate of population growth, Tasmania's per capita economic growth rate of 2.3% in 2017-18 was faster than that of any other state or territory (Chart 1.3) – for the first time since the current series of state estimates of economic growth began in 1989-90 – as well as being the most rapid since 2008-09 (Chart 1.4).

Nonetheless, the level of Tasmania's per capita gross product in 2017-18 was still lower than that of any other state or territory, and more than \$15,800 (or 21.2%) below the national average. This is an indication of the longer-term 'performance gap' between Tasmania's economy and that of the rest of Australia – which is in turn the principal reason why Tasmanians' material living standards are, on average, significantly lower than those of other Australians. Narrowing this 'performance gap' requires a sustained period of faster growth in Tasmanian per capita gross product than in the rest of Australia. Chapter 7 explores in greater detail what is required to achieve that.



PERFORMANCE OF KEY SECTORS OF TASMANIA'S ECONOMY IN 2017-18

Chart 1.5: Real change in gross value added by industry, Tasmania, 2017-18



Source: ABS, *State Accounts* (5220.0), 2017-18.

The industry detail of the ABS State Accounts (see Chart 1.5 above) suggests that 60% of the growth in Tasmania's economy in 2017-18 came from five sectors:

- 20% of the increase in Tasmania's gross state product was attributable to a 5.6% increase in value added in the **health care and social assistance** sector, which since the early years of this century has been the largest single sector of the Tasmanian economy, accounting for 12% of gross state product in 2017-18;
- **manufacturing** accounted for 12% of the growth in Tasmania's GSP in 2017-18, with its value-added increasing by 6.5%, following declines in the previous two (and four of the previous five) years. The upturn in Tasmanian manufacturing in 2017-18 was led by the food and beverages sector;
- value-added in **mining** increased by 8.8% in 2017-18, the first increase in four years, and contributed just over 10% of the increase in Tasmania's GSP;
- **construction** industry value-added increased by 5.0% in 2017-18, following two years of decline, contributing almost 9% of the increase in Tasmania's total GSP; and

- the **professional, scientific and technical** services sector's value-added increased by 10.2% in 2017-18, its biggest increase in 13 years, contributing over 8½% of the increase in Tasmania's GSP (despite this sector representing only 3% of the economy). The strong growth in this sector was in part a by-product of growth in other sectors to which it provides services, including construction, mining and manufacturing.

Other sectors recording strong growth in value-added in 2017-18 were **administration and support services** (7.4%), **accommodation and food services** (5.8%), and **rental, hiring and real estate services** (4.3%).

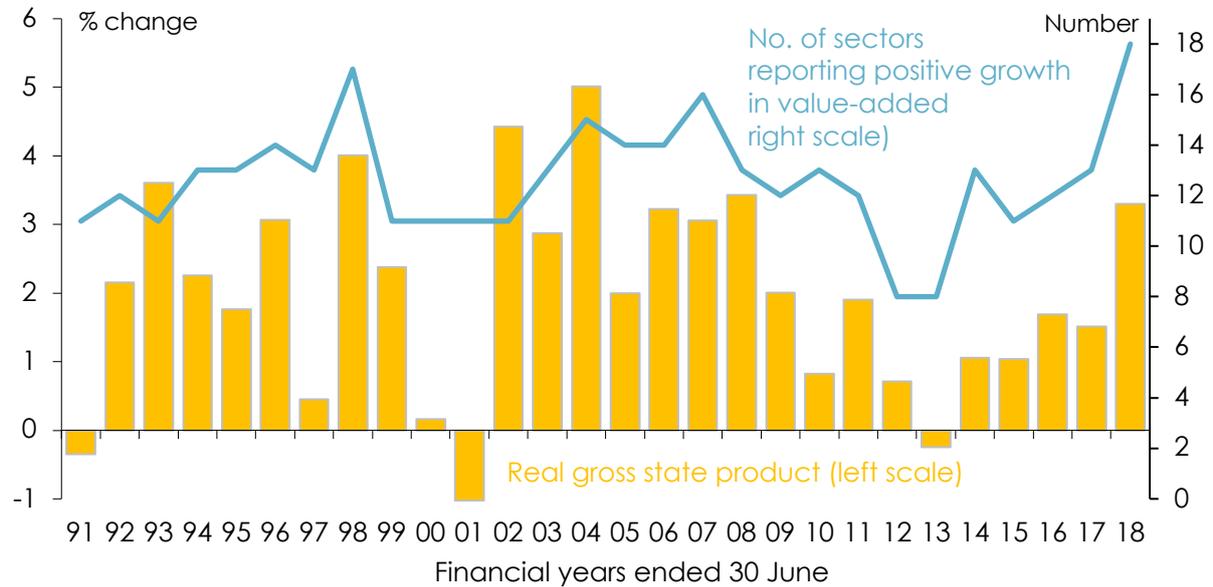
Agriculture, forestry and fishing, which is the second-largest sector of Tasmania's economy after health care and social assistance, recorded growth in value-added of only 0.7% in 2017-18, following three years of much stronger growth averaging almost 5½% per annum. This appears to have been at least partly due to the impact of dry conditions on Tasmania's east coast. Nonetheless, Tasmania was the only state or territory (apart from Queensland) where value-added in agriculture grew at all in 2017-18: for Australia as a whole, value-added in agriculture fell by 5.1%.

PERFORMANCE OF KEY SECTORS OF TASMANIA'S ECONOMY IN 2017-18 (CONTINUED)

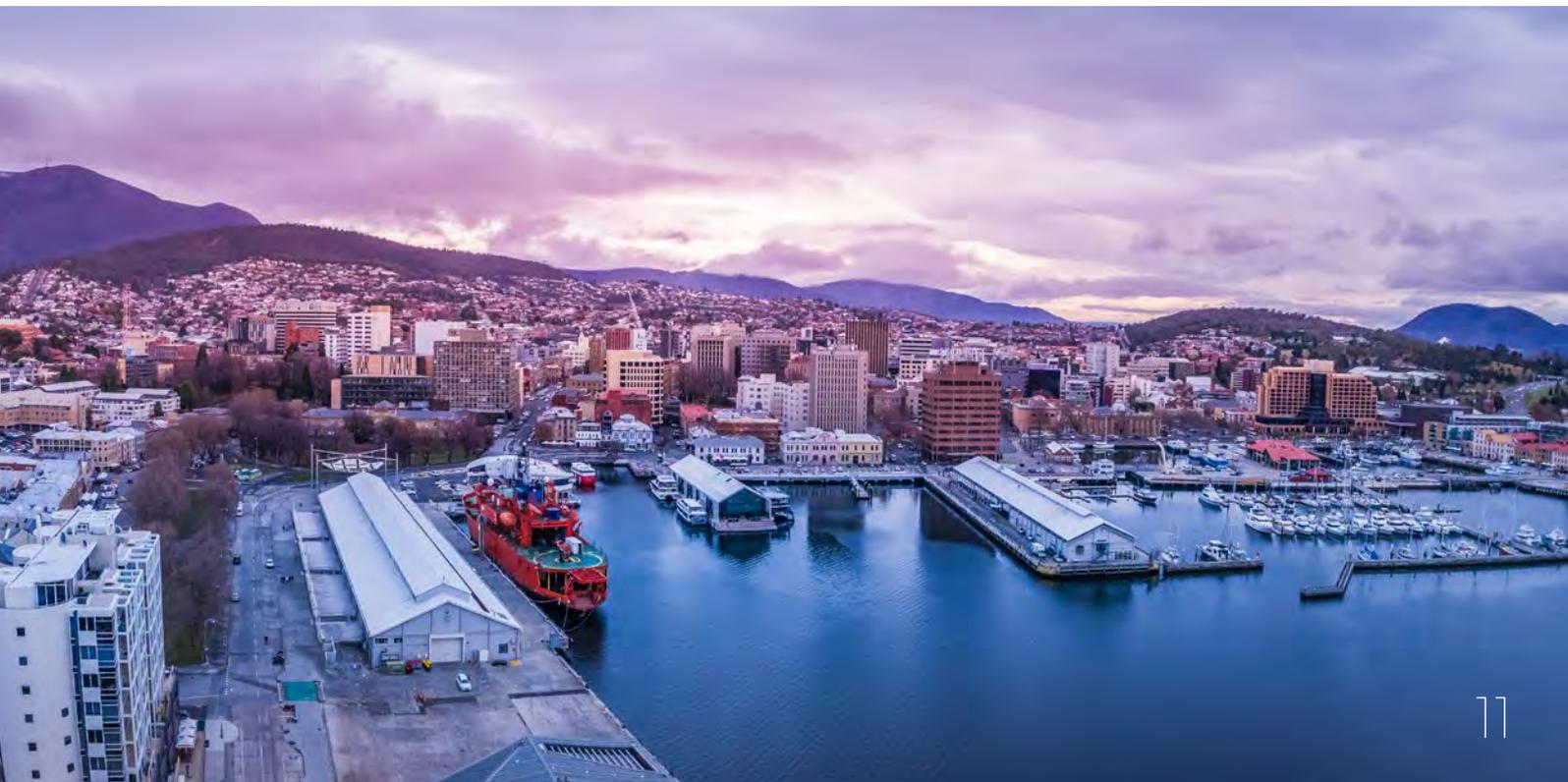
Perhaps the most striking aspect of the sectoral composition of Tasmania's economic growth in 2017-18 depicted in Chart 1.5 above is that only one sector – **wholesale trade** – recorded a decline in value-added during the past financial year.

This is the first time in 27 years that economic growth in Tasmania has been so broadly-based (Chart 1.6). Since the ABS commenced the current series of estimates of gross state product in 1989-90, on average six of the 19 sectors which make up the Tasmanian economy have experienced declines in value-added in any given year. In 2011-12 and 2012-13, 11 sectors reported declines in gross value added.

Chart 1.6: Number of Tasmanian industry sectors recording positive growth in value-added



Source: ABS, State Accounts (5220.0), 2017-18.



HOUSEHOLD CONSUMPTION, BUSINESS INVESTMENT AND PUBLIC SPENDING

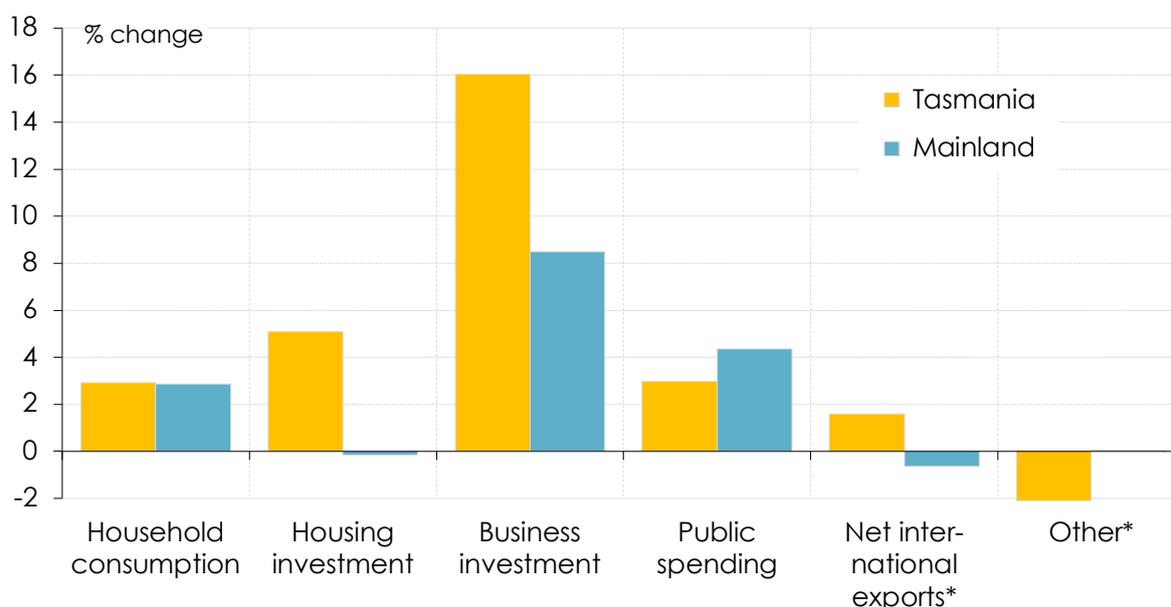
Another illustration of the breadth of the upswing in Tasmania's economy in 2017-18 is that all of the major identified expenditure components of gross state product recorded positive growth (Chart 1.7). This is the first time that this has occurred in Tasmania since the current series of ABS State Accounts commenced in 1989-90.

Household consumption spending grew by 2.9% in real terms in 2017-18, a significant improvement on the 0.6% growth recorded in 2016-17 (and which had previously been reported as a 0.6% decline), and in line with the national average. Household spending on food increased by 6.7% in real terms, the largest increase in nine years; other categories recording strong growth in spending were electricity, gas and other fuel, up 5.6%; communications, up 4.8% (though this was the smallest increase in spending on this category since 2012-13); recreation and culture, also up 4.8%; and hotels, cafes and restaurants, up 4.8%.

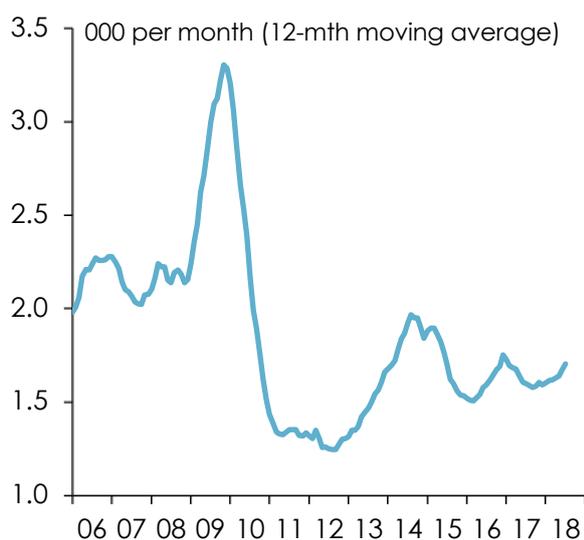
As was the case in 2016-17, 'net expenditure interstate' (that is, the difference between what Tasmanians spend interstate and what mainlanders spend in Tasmania) detracted from total measured household spending (by 0.5 pc points). At face value this appears difficult to reconcile with the strong growth in the number of interstate visitors to Tasmania, but may reflect similarly strong growth in spending by Tasmanians on visits to the mainland (or, perhaps, on goods and services ordered from mainland outlets, including online).

The pick-up in Tasmanian household spending growth in 2017-18 is at least partly attributable to faster growth in real **household disposable income**, which grew by 2.3% in 2017-18, up from 0.4% in 2016-17, and compared with an average of 1.5% in mainland states and territories. As discussed in Chapter 2, employment grew slightly more rapidly in Tasmania than on the mainland in 2017-18, while wages growth hasn't slowed as much in Tasmania in recent years as it has on the mainland.

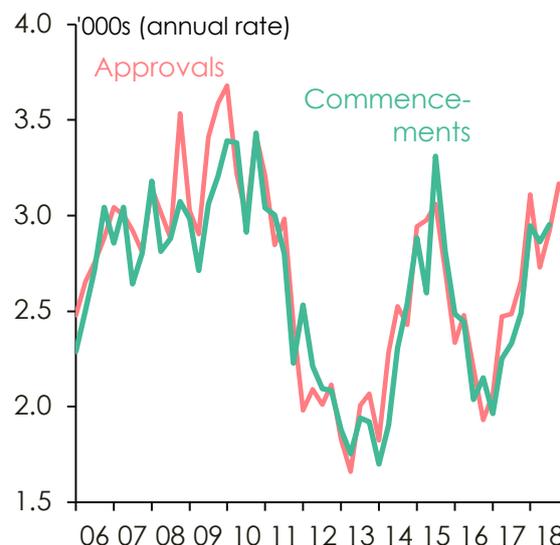
Chart 1.7: Growth in major expenditure components of gross state product, 2017-18



Note: Figures shown for net international exports and 'other' are percentage point contributions to the change in real GDP. 'Other' (conceptually) includes net interstate exports, and changes in business inventories, although these are not measured directly. *Source:* ABS, *State Accounts* (5220.0), 2017-18.

Chart 1.8: Mortgage finance commitments to first home buyers, Tasmania

Source: ABS, *Housing Finance* (5609.0), September 2018.

Chart 1.9: Residential building approvals and commencements, Tasmania

Source: ABS, *Building Activity* (8752.0), June quarter 2018.

Housing investment in Tasmania grew by 5.1% in real terms in 2017-18, rebounding from a decline of almost 18% in 2016-17 (and a decline of 5% in 2015-16). Most other states and territories, apart from South Australia and New South Wales, recorded small declines in housing investment in 2017-18.

The pick-up in housing activity is in response to the increase in 'underlying' housing demand prompted by the acceleration in population growth referred to earlier (and discussed in more detail in Chapter 4); and an apparent increased willingness on the part of existing Tasmanian residents to 'trade up' to new homes, prompted by recent increases in the value of established homes (as discussed in more detail in Chapter 3).

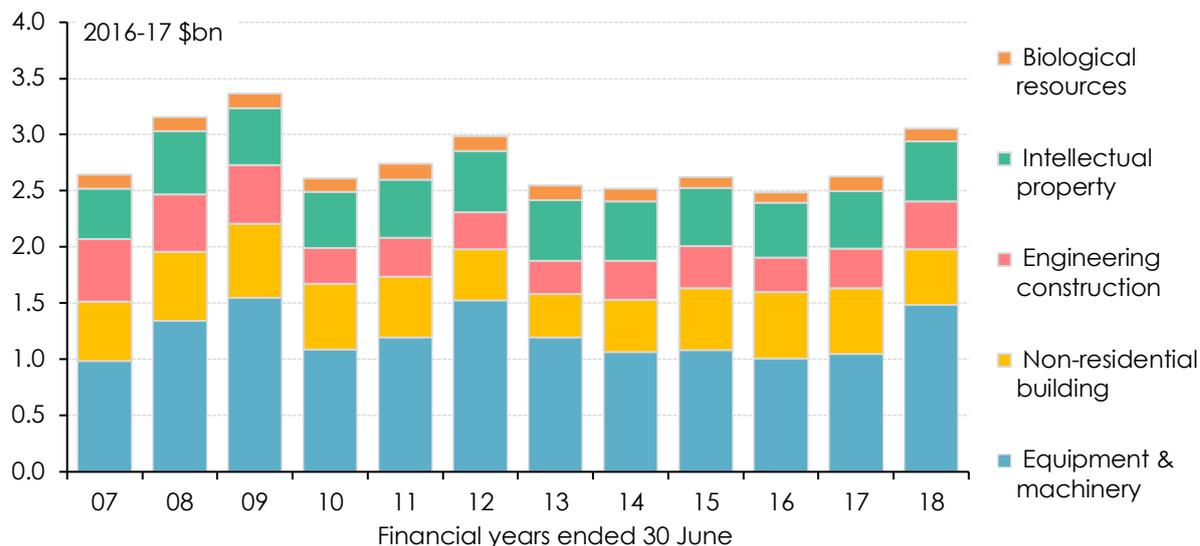
Cash grants to first home buyers would appear to have made only a marginal difference to the level of housing activity: the number of housing loans to Tasmania first-home buyers in 2017-18 was, at just over 1,700, less than 7% higher than in 2016-17, and no higher than it had been in 2014-15 (Chart 1.8).

The time-lag between approvals being granted by local governments and work commencing which was apparent during 2017 appears to have narrowed since then (Chart 1.9), although anecdotal evidence from builders suggests that many are continuing to experience difficulty finding sufficient numbers of skilled workers (partly because of the strong demand from commercial construction projects).

New **business investment expenditure** increased by 16.0% in real terms in Tasmania in 2017-18, the largest increase in ten years, and almost double the growth rate of business investment on the mainland. The level of business investment in 2017-18 was higher than in any year since 2008-09, which attests to the high level of business confidence in Tasmania in recent years.

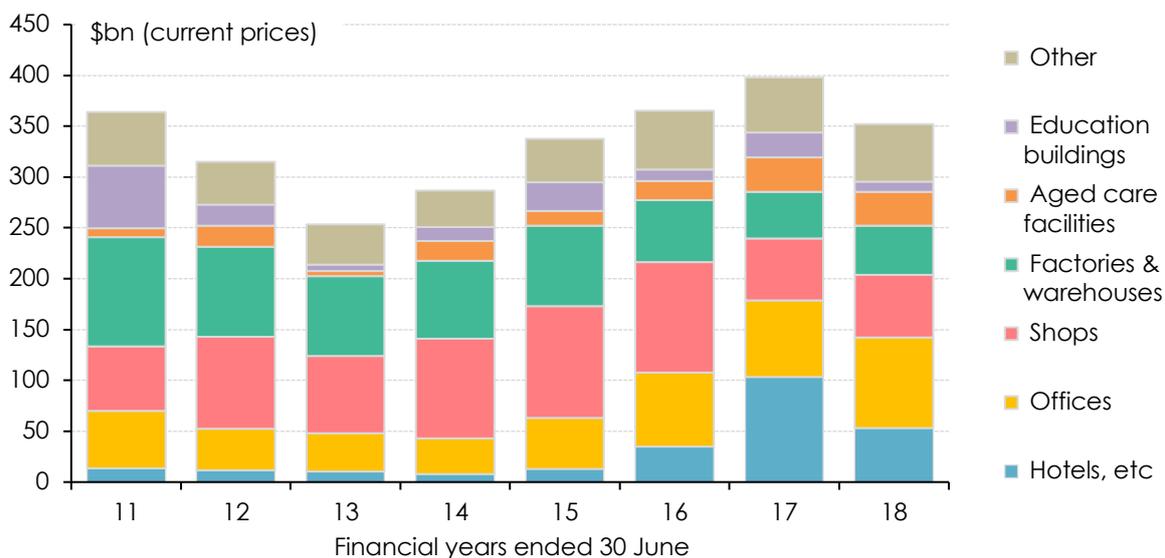
As shown in Chart 1.10, the largest contributor to the increase in business investment in 2017-18 was expenditure on **equipment and machinery**, which rose by almost 42% in real terms. This category is inherently 'lumpy', and the increase in 2017-18 was probably partly due to some large purchases of a one-off nature.

Chart 1.10: Business investment in Tasmania, by major category, 2006-07 to 2017-18



Note: Figures exclude purchases of second-hand assets from the public sector.
Source: ABS, State Accounts (5220.0), 2017-18.

Chart 1.11: Private non-residential building work done, by type, Tasmania



Note: Figures exclude purchases of second-hand assets from the public sector.
Source: ABS, Building Activity(8752.0), June quarter 2018.

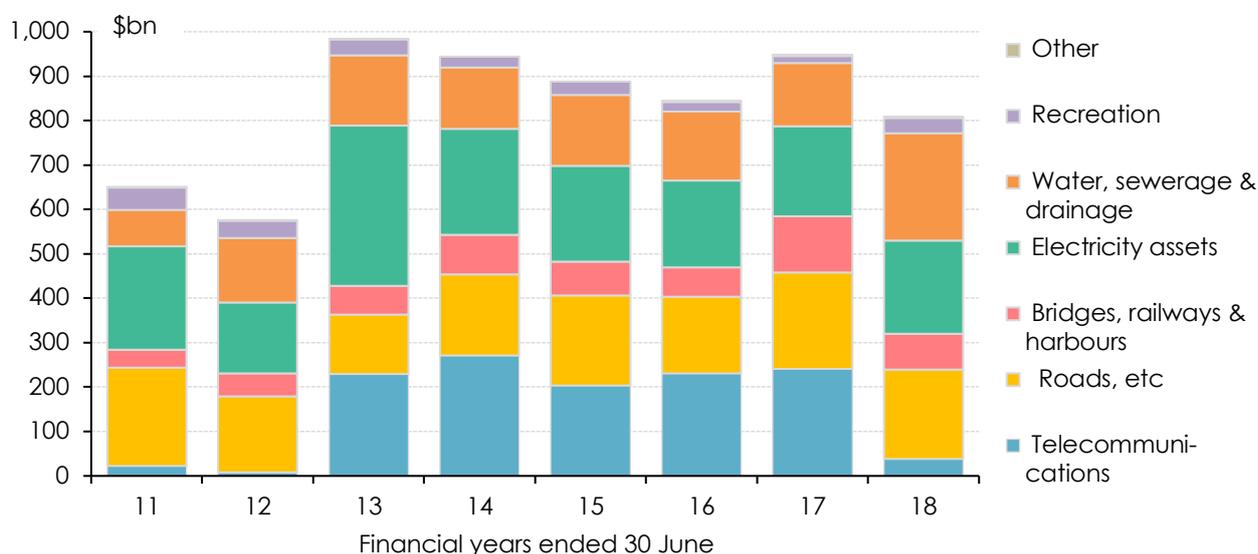
Engineering construction expenditure rose by almost 20% in real terms in 2017-18, to which the largest contributors were work done on water supply, sewerage and drainage (which increased more than threefold in 2017-18); electricity generation and transmission; and heavy industry; partly offset by a large decline in telecommunications infrastructure investment. Engineering construction work done by the private sector for the public sector also declined in 2017-18, although the amount of work still to be done on existing projects remains at a high level by historical standards.

Non-residential building expenditure declined by 15% in real terms in 2017-18, largely reflecting the completion of work on a number of hotels and educational buildings, partly offset by an increase in the amount of work done on office projects (Chart 1.11).

Public sector expenditure² in Tasmania increased by 3.0% in real terms in 2017-18, the smallest increase since 2014-15, and less than the 4.4% increase recorded by mainland states and territories, on average (which was however the first increase in five years). Government consumption spending (which consists largely of wages and salaries of government employees) increased by 3.1%, while public sector investment (including that of government business enterprises) rose by 2.5% (after a 10.2% increase in 2016-17).

The value of engineering construction work undertaken by or for public sector agencies in Tasmania fell by 15% in 2017-18, largely because of an 84% decline in work on telecommunications infrastructure, as the NBN roll-out in Tasmania neared its completion. Excluding telecommunications, the value of public sector engineering work done rose by 9% in 2017-18, to a record high of over \$770bn (Chart 1.12).

Chart 1.12: Engineering construction work done for the public sector, by type, Tasmania



Note: Figures include work done by the private sector under contract to public sector agencies

Source: ABS, *Engineering Construction* (8762.0), June quarter 2018.

²Note that 'public sector expenditure' in this context means purchases of goods and services by all levels of government (Federal, state and local), and excludes cash payments to individuals, subsidies to businesses, interest payments etc. Further analysis of state and local government finances is provided in Chapter 8.

TASMANIA'S TRADE

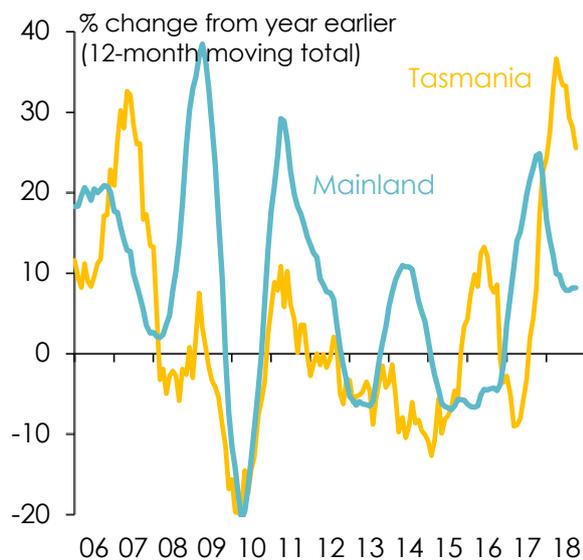
According to the ABS State Accounts, Tasmania's net international trade contributed 1.6 percentage points to the growth in Tasmania's gross state product in 2017-18 – that is, almost half of it – with the volume of **international exports** of goods and services rising by 17.7% and the volume of **international imports** rising by 14.7%.

The 'balancing item' in the state accounts – which conceptually includes interstate trade (that is, between Tasmania and the mainland) as well as the increase or decrease in business inventories – subtracted 2.7 percentage points from recorded growth (see Chart 1.7 earlier). At face value, this suggests that some of the increased spending by households, businesses and public sector agencies in Tasmania during 2017-18 was met by increased purchases from the mainland. In particular, it seems plausible that a significant proportion of the increase in machinery and equipment investment by Tasmanian businesses in 2017-18 would have been purchased from interstate or overseas.

The value of Tasmania's **overseas exports of goods** rose by 28% in 2017-18 (Chart 1.13), which the ABS disaggregates into a 19% increase in Tasmania's export volumes and a 7% increase in the average price of those exports. There is only a limited amount of publicly available information on the composition of exports at the state level: what there is suggests that the most significant contributors to the increase in Tasmania's merchandise exports in 2017-18 were non-ferrous metals (most likely aluminium and zinc), metallic ores (including iron ore), paper and paperboard, seafood and meat, partly offset by a decline in exports of dairy products.

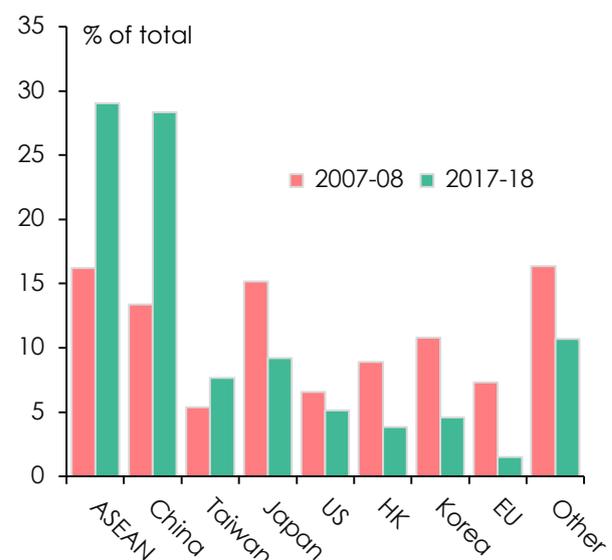
Tasmania's exports to China rebounded by almost 55% in 2017-18, after falling by 23% in 2016-17. Exports to Japan and Korea (which is a much smaller market for Tasmanian products) also increased by more than 50% in 2017-18, while exports to ASEAN rose by 32%. Exports to the EU and US rose by 25% and 18% respectively after each falling by more than 20% in 2016-17.

Chart 1.13: Growth in value of merchandise exports, Tasmania and mainland



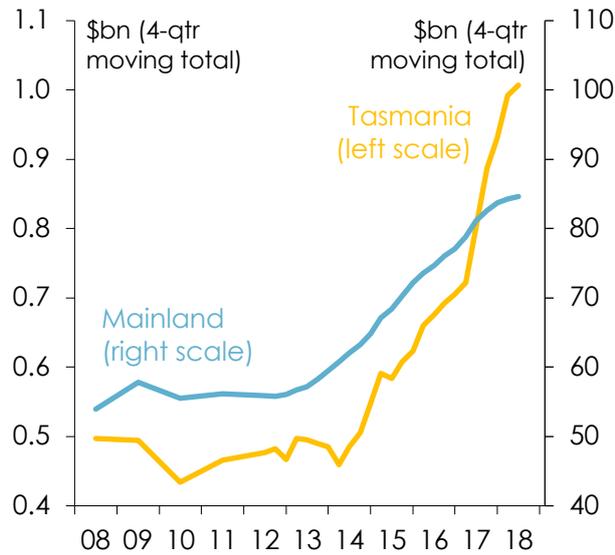
Source: ABS, *International Trade in Goods and Services* (5368.0), September 2018.

Chart 1.14: Tasmania's merchandise exports, by destination



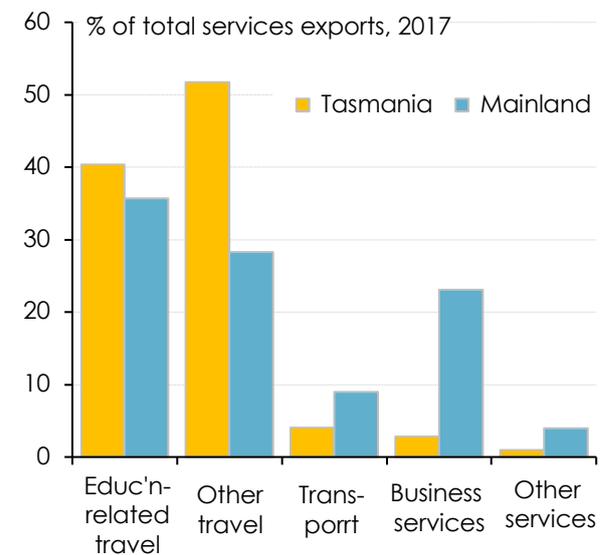
Source: ABS, *International Trade in Goods and Services* (5368.0), September 2018.

Chart 1.15: Value of services exports, Tasmania and mainland



Source: ABS, Balance of Payments and International Investment Position (5302.0), June quarter 2018.

Chart 1.16: Composition of services exports, Tasmania and mainland, 2017



Source: ABS, International Trade: Supplementary Information (5368.0.55.004), Calendar Year 2017.

The value of Tasmania's **international services exports** rose by 12.6% in 2017-18, nearly all of which was due to greater 'volumes' (number of services provided) rather than to higher prices.

Tasmania's services exports have risen at a much more rapid rate – albeit from a much smaller level as a proportion of gross product – than the mainland's in recent years (Chart 1.15). However travel services (both education-related and other) account for 92% of Tasmania's services exports, compared with 64% of the mainland's; conversely, business services account for a minuscule proportion of Tasmania's services exports compared with the mainland's (Chart 1.16)



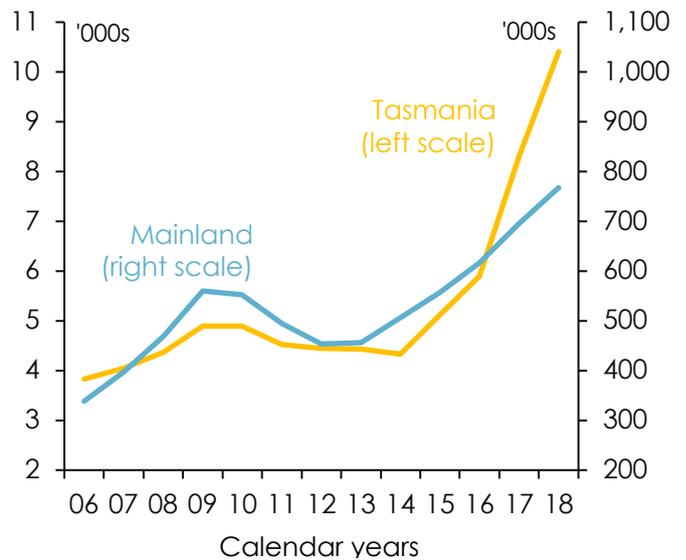
TASMANIA'S TRADE (CONTINUED)

The number of international students in Tasmania has more than doubled in the past three years, from 5,125 in 2015 to over 10,400 in 2018, according to statistics compiled by the Federal Government (Chart 1.17).

Overseas students enrolled in VET courses in Tasmania account for more than half of this increase, rising from 229 in 2015 to almost 3,400 in 2018, while the number of overseas students enrolled in courses at the University of Tasmania has risen from 3,500 to just over 5,700 over the same period.

Despite this much more rapid growth in recent years, Tasmania still accounts for only 1.3% of the total number of overseas students in Australia – well below its 2.1% share of Australia's population, suggesting that there remains potential for further growth in overseas student numbers.

Chart 1.17: International student enrolments, Tasmania and mainland



Source: Australian Government Department of Education and Training, *International Student Data 2018*.



TOURISM

The ABS does not recognize tourism as a distinct sector of the economy in most of its statistical publications – including those used extensively throughout this report – in the same way that it does, for example, manufacturing or construction. Rather, tourism-related spending, employment and other forms of economic activity are spread across sectors such as accommodation and food services, transport, retailing, education and training, and arts and recreation services.

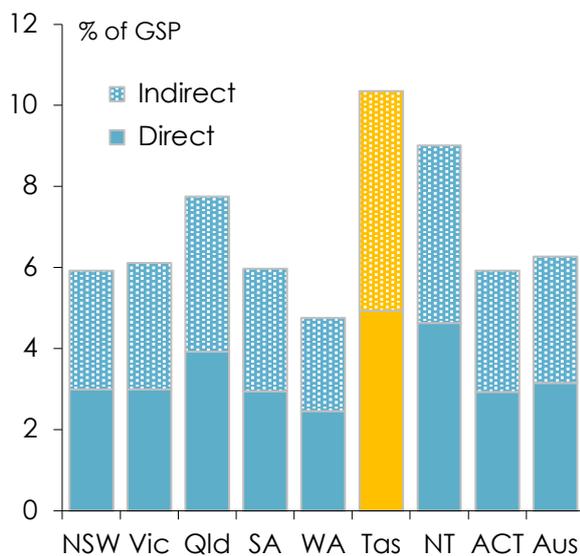
Tourism Research Australia (TRA) estimates that tourism directly accounted for 4.9% of Tasmania's gross state product in 2016-17, and for 7.9% of Tasmanian jobs – higher proportions than for any other state or territory, and well above the corresponding national figures of 3.2% and 5.0% respectively (see Charts 1.18 and 1.19). Including indirect effects of tourism-related activities, TRA estimates that tourism accounted for 10.4% of Tasmania's GSP in 2016-17, and for 15.8% of total employment – compared with national averages of 6.3% and 7.7% respectively.

The total number of visitors to Tasmania rose by 2.0%, to 1.3mn, in 2017-18, following a 9.1% increase in 2016-17 (Chart 1.20). The number of international visitors rose by 21%, while the number of interstate visitors rose by 1.9%³.

ABS statistics suggest that since early 2016, the proportion of international visitors to Australia nominating Tasmania as the state or territory in which they 'spent most time' has risen from 0.6-0.7% to 1.0% (Chart 1.21), representing a significant increase in Tasmania's share of Australia's total overseas tourism market.

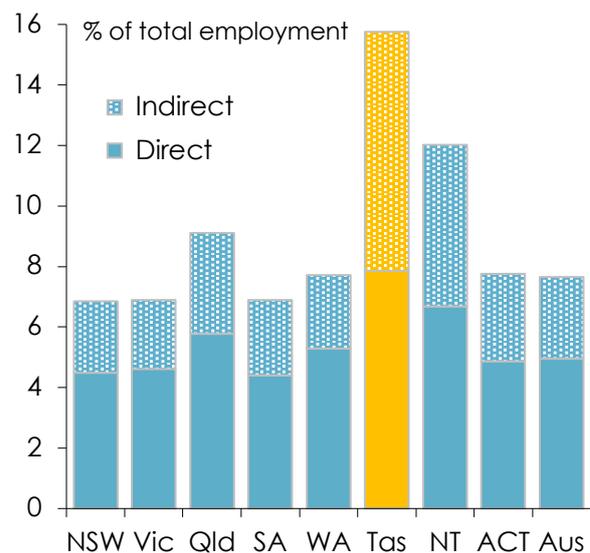
As with Tasmania's share of the number of international students studying in Australia, however, this is still well below Tasmania's share of Australia's population, pointing to the scope for further growth.

Chart 1.18: Tourism as a pc of gross state product, 2016-17



Source: Tourism Research Australia, *State Tourism Satellite Accounts*, 2016-17.

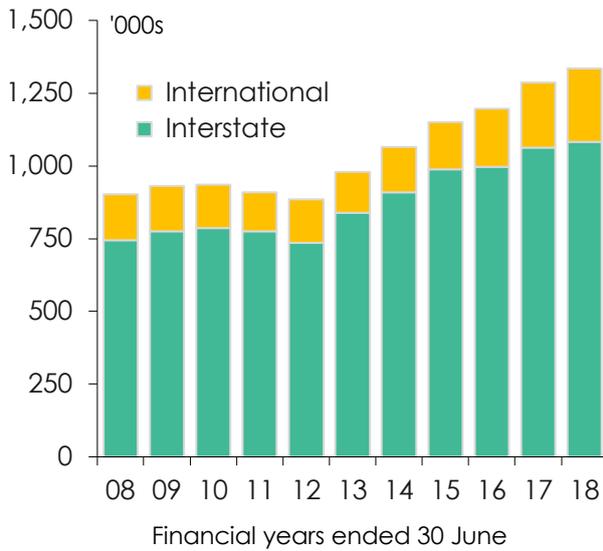
Chart 1.19: Tourism as a pc of total employment, 2016-17



Source: Tourism Research Australia, *State Tourism Satellite Accounts*, 2016-17.

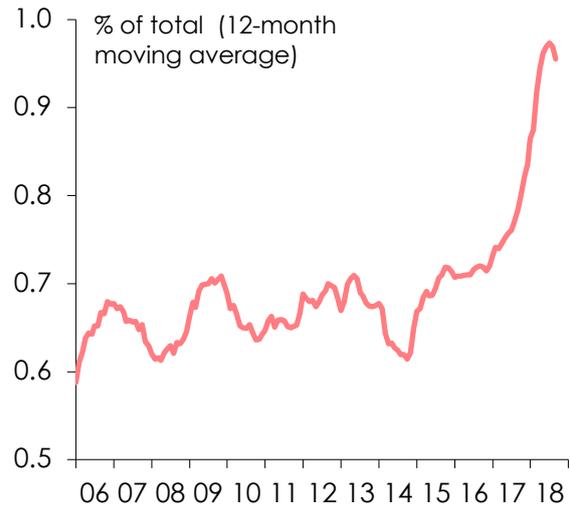
³ There is a discrepancy in the statistics published by Tourism Tasmania (in its quarterly *Tasmanian Tourism Snapshot*) between the total number of visitors to Tasmania (1.30mn in 2017-18) and the sum of the numbers of interstate and overseas visitors (1.08mn and 307,000, respectively, in 2017-18). This appears to reflect the use of different data sources. The number of international visitors is sourced from TRA's International Visitor Survey, which includes cruise ship visitors; the number of interstate visitors, and the total number, is sourced from the Tasmanian Visitor Survey which only counts visitors arriving on scheduled sea and air services.

Chart 1.20: Visitors to Tasmania



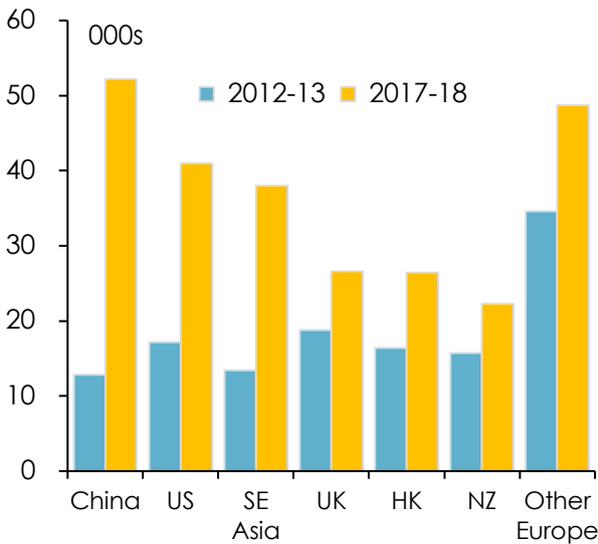
Note: Figures refer to arrivals by scheduled air and sea services; excludes cruise ship visitors. Source: Tourism Tasmania, *Tasmanian Tourism Snapshot*, June 2018.

Chart 1.21: Overseas visitors to Australia spending 'most time in Tasmania'



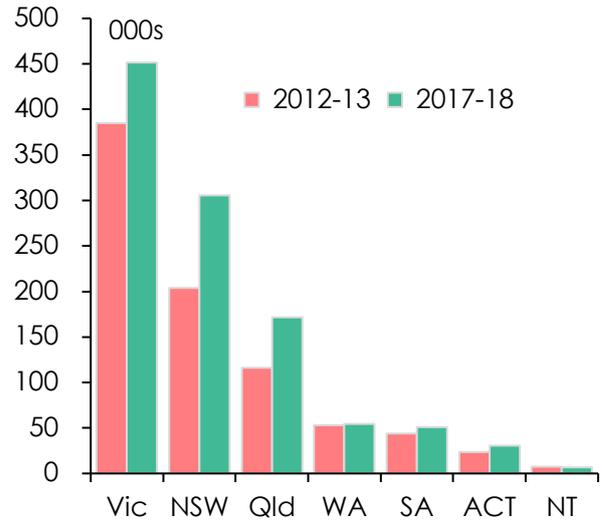
Source: ABS, *Overseas Arrivals and Departures* (3401.0), August 2018.

Chart 1.22: Overseas visitors to Tasmania by country of origin, 2012-13 and 2017-18



Source: Tourism Tasmania, *Tasmanian Tourism Snapshot*, June 2013 and June 2018.

Chart 1.23: Interstate visitors to Tasmania, by state or territory of origin, 2012-13 and 2017-18



Source: Tourism Tasmania, *Tasmanian Tourism Snapshot*, June 2013 and June 2018.

TASMANIA'S TRADE (CONTINUED)

The number of Chinese visitors to Tasmania has increased fourfold over the past five years (Chart 1.22), in part reflecting the exposure Tasmania gained during Chinese President Xi Jinping's visit to Tasmania in November 2014, as well as rapid growth in Chinese outbound tourism more generally. China is now Tasmania's biggest source of international visitors. There has also been very strong growth in the number of visitors to Tasmania from the US, South-East Asia and (from a much smaller base) Korea and India, as well as from some European countries (in particular Germany and France).

Victoria continues to be Tasmania's largest market for interstate visitors, but the past five years have experienced strong growth in the number of visitors from NSW and Queensland (Chart 1.23), partly as a result of the introduction of more direct flights between these states and Tasmania. The more recent commencement of direct flights to Adelaide and Perth from Hobart may have a similar effect in boosting visitor numbers from SA and WA.

While tourism is clearly making a significant contribution to the improvement in Tasmania's economic performance in recent years, and has the potential to continue to do so, it will be important to ensure that Tasmania's economic

and other infrastructure is able to keep pace with the growth in the number of visitors, without adversely affecting the amenity of Tasmanian residents (or, for that matter, detracting from visitors' experiences). In that context, state government plans for upgrades to roads now carrying much higher volumes of tourist traffic are particularly important. Other challenges include the need to ensure adequate provision is made for the maintenance of major tourist attractions (including parks and reserves) which are dependent on public funding; and to manage emerging tensions between the demand for tourist accommodation and the requirements for adequate and affordable rental housing for Tasmanian residents.



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WHAT LIES BEHIND THE IMPROVEMENT IN TASMANIA'S ECONOMY?

As noted at the beginning of this Chapter, Tasmania is now experiencing its strongest economic performance in a decade. A critical issue for the entire Tasmanian community is whether this strong performance can be sustained.

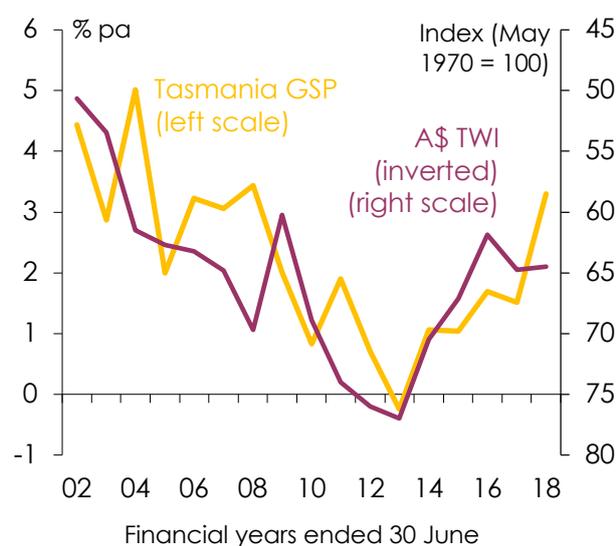
In considering this, it is important to note that the improvement in Tasmania's economic fortunes owes a good deal to fortuitous external developments entirely beyond the control or influence of the Tasmanian Government. These include:

- the substantial decline in the value of the Australian dollar from its peak at the height of the 'resources boom' in mid-2012, which has helped to restore the competitiveness of many of Tasmania's traditional trade-exposed industries (Chart 1.24);
- the strong pick-up in economic activity in New South Wales and Victoria, the states whose economies Tasmania's is most closely aligned, since the end of the 'resources boom' (Chart 1.25);

- faster growth in Commonwealth Government payments to the Tasmanian Government, including both Tasmania's share of GST revenue and specific purpose payments, since 2013-14 (Chart 1.26); and
- a rebound in Tasmania's exports to China, which had slowed during the years either side of the global financial crisis of 2008-09 (Chart 1.27).

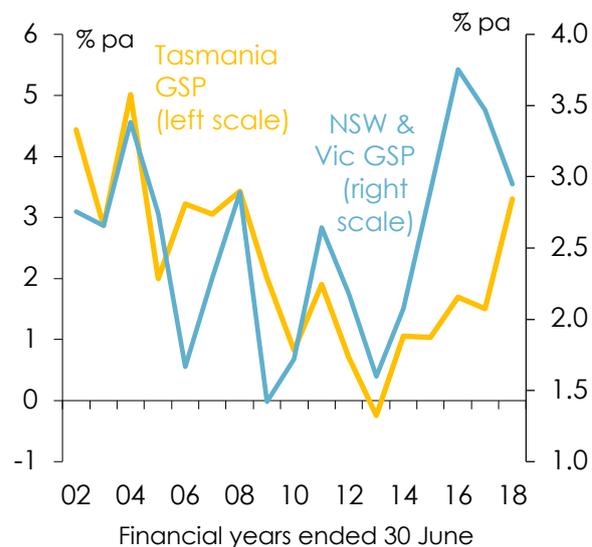
These factors also contributed significantly to the last period of relatively strong economic growth in Tasmania, between 2000-01 and 2007-08. All of these factors subsequently went into reverse, either as a result of the global financial crisis or the 'resources boom', and thereby also contributed to the period of very poor economic growth which Tasmania experienced between 2009-10 and 2013-14.

Chart 1.24: Tasmanian real GDP growth and the trade-weighted index (TWI) of the A\$



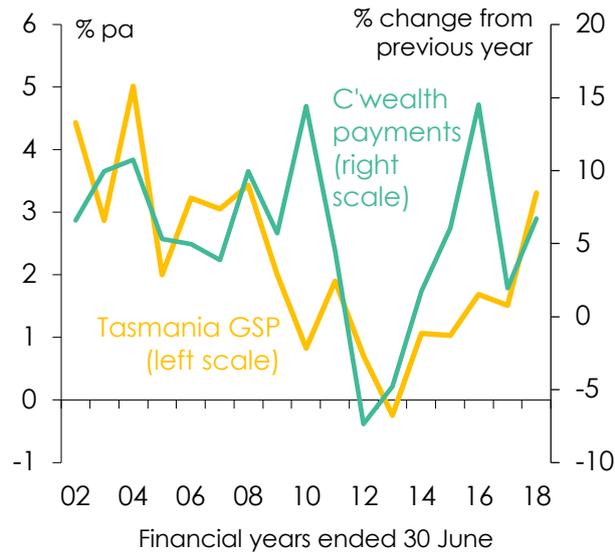
Sources: ABS, State Accounts (5220.0), 2017-18; RBA.

Chart 1.25: Tasmanian real GDP growth and real GDP growth in NSW and Victoria



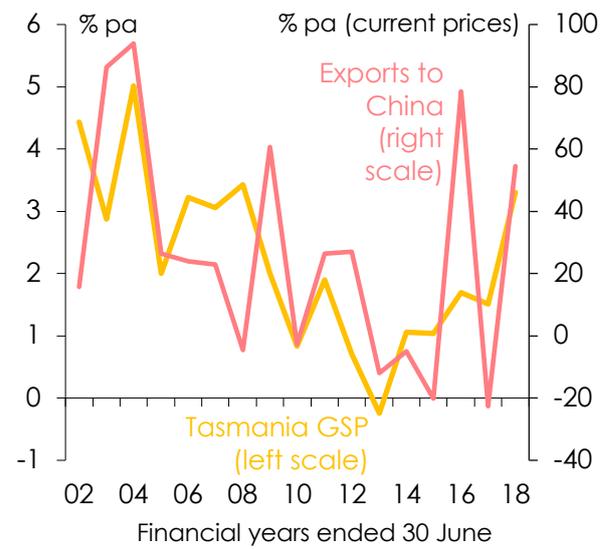
Source: ABS, State Accounts (5220.0).

Chart 1.26: Tasmanian real GDP growth and Commonwealth payments to Tasmania



Note: Commonwealth payments excludes one-off payment for Mersey Hospital transfer in 2016-17.
Sources: ABS, *State Accounts* (5220.0), 2017-18; Australian Government Budget Paper No. 3, various years

Chart 1.27: Tasmanian real GDP growth and Tasmanian exports to China



Source: ABS, *State Accounts* (5220.0); *International Trade in Goods and Services* (5368.0), September 2018.

Another serendipitous contributor to the improvement in Tasmania's economic fortunes in recent years, albeit one less readily depicted in charts, was the opening of MONA in January 2011 – which clearly has had a significant impact on both the number and spending patterns of visitors to Tasmania, and on the 'image' which Tasmania presents to the rest of Australia, and to the world at large⁴.

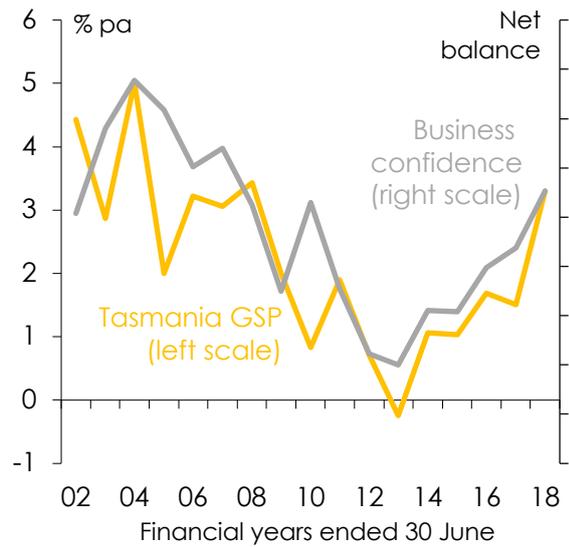
However, whilst recognizing the significance of these 'exogenous' influences, the present state government can also claim a share of the credit for the improvement in Tasmania's economic performance since it took office in March 2014.

The Hodgman Government has been generally prudent in its stewardship of Tasmania's public finances, as discussed in more detail in Chapter 6. It has for the most part responded effectively to short-term risks facing the Tasmanian economy (such as the Basslink cable outage in 2015-16, threats to the King Island shipping service, and more recently the potential closure of the only abattoir catering to pork producers). And it has been able to sustain the upturn in business confidence which accompanied its initial 2014 election victory.

As shown in Chart 1.28, there is a close correlation between business confidence and economic growth in Tasmania – with 'causality' obviously flowing in both directions. However the fact that Tasmanian businesses have had a consistently positive view of state government policy settings since 2014 – in contrast to the generally negative view of state government policies elsewhere in Australia (Chart 1.29) – supports the assessment that state government policies have contributed to the upturn in the Tasmanian economy documented in this chapter.

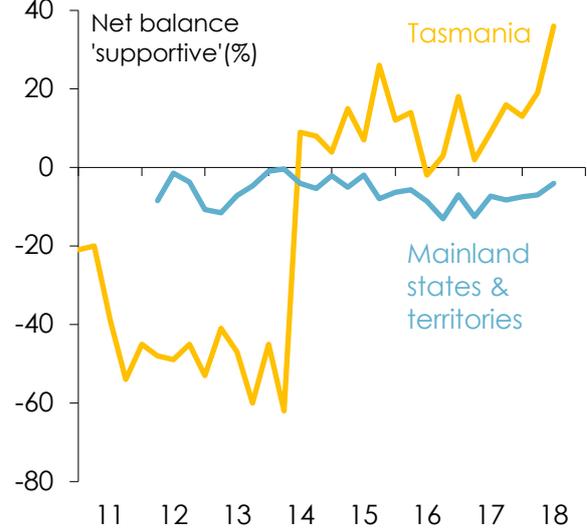
⁴ See, for example, Sally Raphael, 'The MONA effect - how an iconic building can transform a city', Hames Sharley, 13 December 2016.

Chart 1.28: Tasmanian real GDP growth and SME business confidence



Sources: ABS, State Accounts (5220.0), 2017-18; Sensis Business Index, June 2018.

Chart 1.29: SME approval of state and territory government policies



Source: Sensis Business Index, June 2018.

Now that Tasmania's improved economic performance is being reflected in a pick-up in the growth rate of its population, as more people choose to live here, Tasmania has an opportunity to set up an extended period of relatively strong economic growth which would in turn facilitate a narrowing of the large shortfall in material living standards between Tasmania and the rest of Australia, which has been a recurring theme of the past three Tasmania Reports.

As emphasized in Chapter 7 of this year's Tasmania Report, capitalizing on this opportunity calls for an enhanced focus on the drivers of long-term economic growth – in particular, participation in employment and productivity – and on improving Tasmania's capacity to withstand externally generated economic shocks.

Making the most of this opportunity will also be more readily accomplished if the benefits of improved economic performance are widely shared (and seen to be so); and if Tasmania can develop more effective ways of managing and resolving conflicts over the pattern and pace of economic development. Government has an important role to play in these tasks: but they are not the exclusive role of government.

TASMANIA'S NEAR-TERM ECONOMIC OUTLOOK

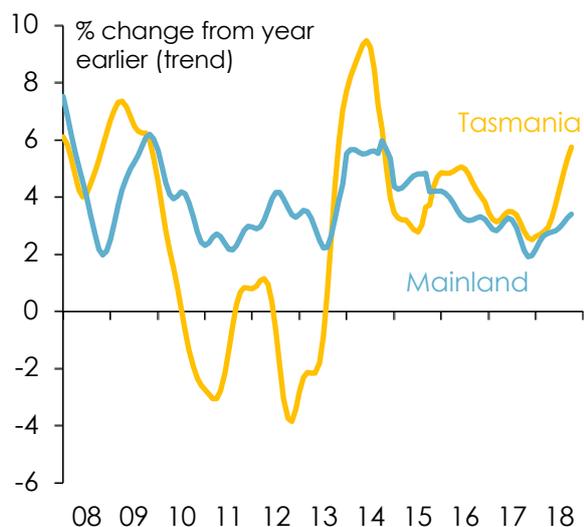
In the near term, Tasmania's economic performance seems likely to be less adversely affected by a number of the factors that could potentially detract from growth in the national economy – such as high levels of household debt and falling property prices on consumer spending.

Thus far in the current financial year, retail sales have grown more rapidly in Tasmania than on the mainland (Chart 1.30); while Tasmania is the only state in which motor vehicle sales are growing (Chart 1.31).

The near-term outlook for both residential and commercial construction activity also appears more promising for Tasmania than for the rest of Australia. Tasmanian residential building approvals are at their highest level since early 2010, whereas on the mainland, they are at their lowest level in more than four years (Chart 1.32). Non-residential building approvals have also picked up significantly in Tasmania during the past year or so, whereas they appear to have peaked on the mainland (Chart 1.33).

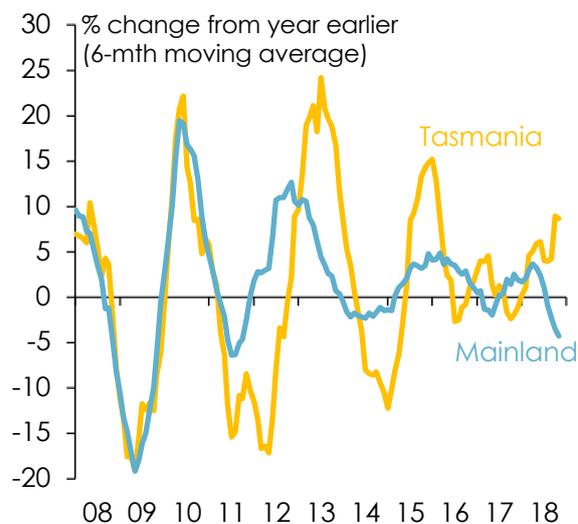
As noted earlier in this Chapter, the level of work still to be done on existing private and public sector engineering construction projects points to ongoing strength in this sector during 2018-19.

Chart 1.30: Retail sales – Tasmania and mainland



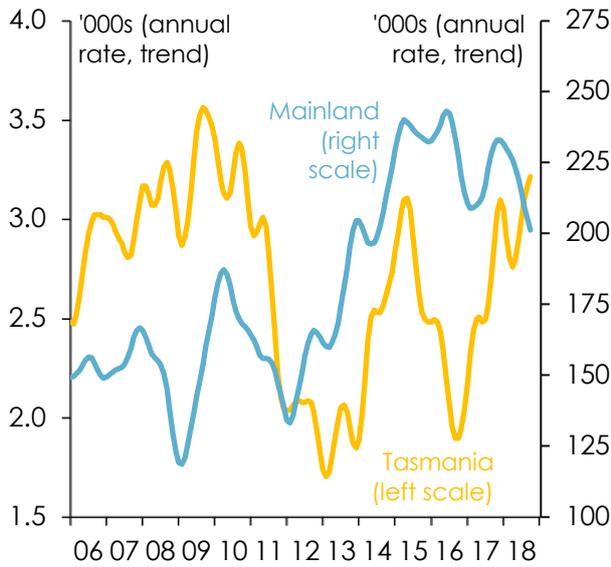
Source: ABS, *Retail Trade* (8501.0), September 2018.

Chart 1.31: Motor vehicle sales – Tasmania and mainland



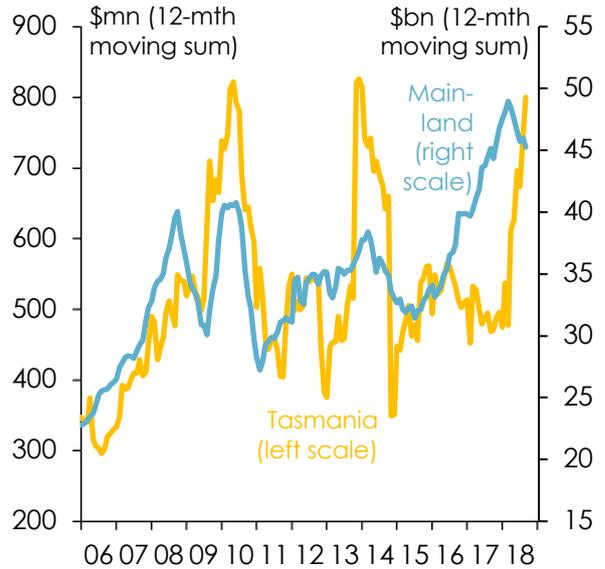
Source: Federated Chamber of Automotive Industries.

Chart 1.32: Residential building approvals – Tasmania and mainland



Source: ABS, *Building Approvals* (8731.0), September 2018.

Chart 1.33: Non-residential building approvals – Tasmania and mainland



Source: ABS, *Building Approvals* (8731.0), September 2018.

There are also some downside risks in the international environment, including the potential consequences of ongoing increases in US interest rates, and the increasing trade tensions between the US and China. If these were to materialize in such a way as to substantially weaken global economic growth, Tasmania's economy would not be immune.

Absent any such shocks, however, it is plausible that Tasmania's economy could grow at a faster pace in 2018–19 than the 2¼% projected in this year's State Budget – a prospect which last year's Tasmania Report (erroneously) described as 'a stretch'.

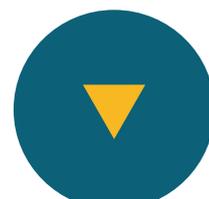
Ideally, Tasmania should be aiming for an extended period of economic growth averaging around 3% per annum (or about 2% per annum in per capita terms). This shouldn't be seen as an impossible goal: indeed between 2002–03 and 2007–08 Tasmania's economy grew at an average annual rate of 3.3% per annum (or 2.5% per annum in per capita terms), aided by a combination of favourable influences similar in many respects to those prevailing more recently (as shown in Charts 1.24–1.27). If it has been done before, it ought to be possible to do it again.



Chapter 2

TASMANIA'S LABOUR MARKET

Tasmania's labour market has continued to improve over the past year, although in some important respects not by as much as might have been expected given the pick-up in Tasmania's overall economic growth rate. In particular, Tasmania continues to lag the rest of Australia in the creation of full-time jobs. And Tasmania's labour force participation rate remains well below the national average.



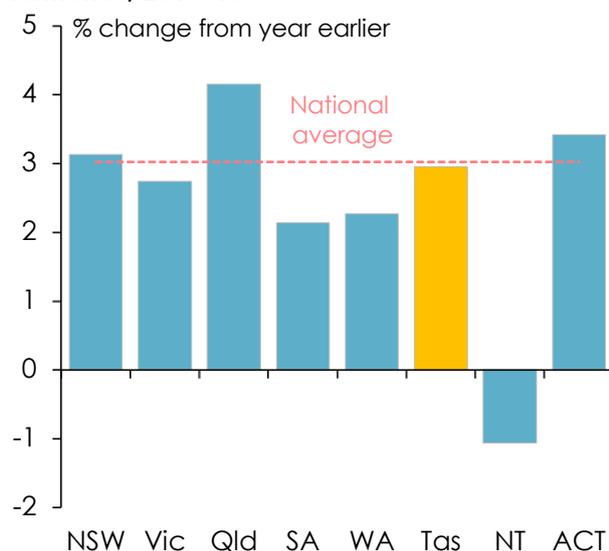
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EMPLOYMENT IN TASMANIA

Employment grew by 2.9%, on average, in Tasmania in the 2017-18 financial year. This was an improvement on the 0.8% growth recorded in 2016-17, but (unlike Tasmania's overall economic growth rate discussed in Chapter 1) was slightly below the national average (Chart 2.1). Monthly data suggests that employment growth was stronger in the first half of 2017-18 than in the second half, and this slower pace of job creation has continued into the first few months of the current financial year (Chart 2.2).

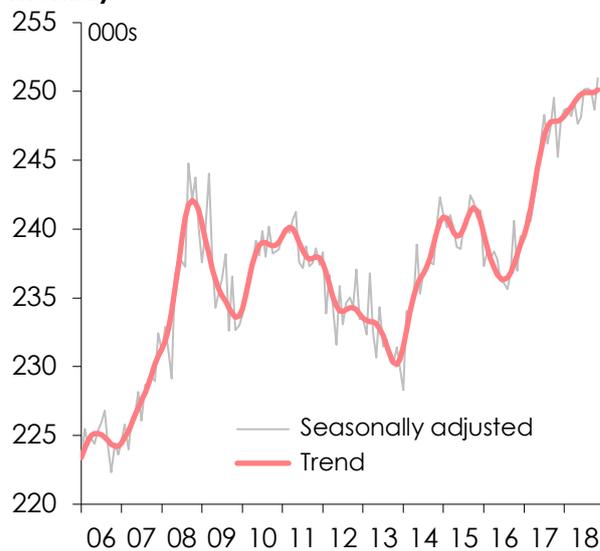
Nearly two-thirds of the increase in employment in 2017-18 was in **part-time** jobs, the number of which rose by 5.4%, on average, while the number of full-time jobs rose by 1.6%. From the most recent low point in late 2013, through to October 2018, employment in Tasmania has risen by almost 20,000 (or 8.7%), more than half of which have been part-time jobs.

Chart 2.1: Employment growth, states and territories, 2017-18



Source: ABS, Labour Force (6202.0), October 2018.

Chart 2.2: Level of employment, Tasmania, monthly



Source: ABS, Labour Force (6202.0), October 2018.

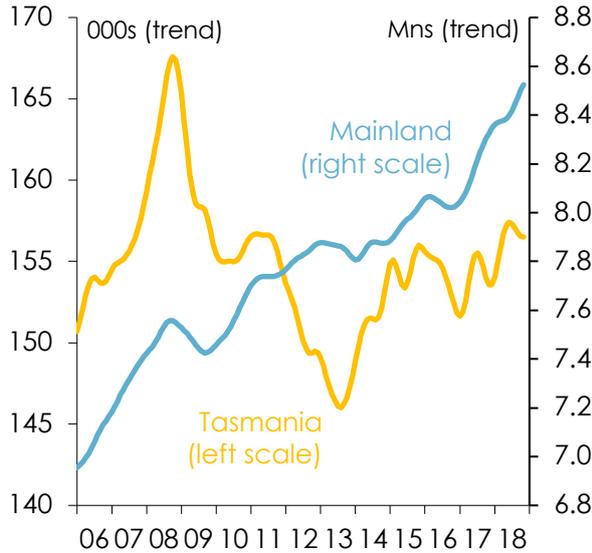
The level of **full-time** employment in Tasmania is still around 11,000 (or 6½%) below its peak ahead of the financial crisis a decade ago – in contrast to mainland Australia where full-time employment is now almost 13% above its pre-crisis peak (Chart 2.3). By contrast, the rate of growth in part-time employment in Tasmania has been more or less commensurate with that in the rest of Australia (Chart 2.4).

This represents a continuation of a long-term trend which began in the early 1980s (Chart 2.5). Full-time jobs represent a lower proportion of total employment in Tasmania than in any other state or territory (Chart 2.6). As discussed in more detail in Chapter 7, this is one of three reasons why Tasmania's per capita gross product remains significantly below that of other states and territories.

The below-average proportion of Tasmanian jobs which are full-time is partly attributable to the Tasmanian workforce being older, on average, than that of other parts of Australia, given the well-established preference of workers to reduce their hours of work as they approach retirement. However, this is not a complete explanation: as of October 2018 more than 10% of Tasmanians with jobs indicated that they were willing and able to work more hours, if their employer offered them – well above the corresponding national average of 8.3%.

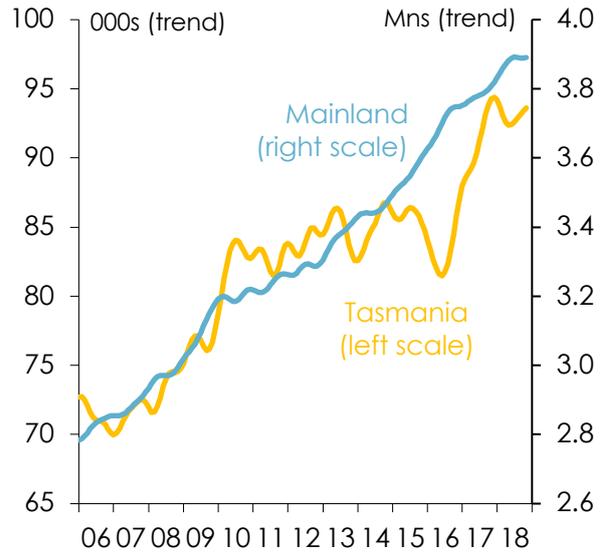
Another important reason is that industries which rely more heavily on part-time workers have accounted for much of the job creations which has occurred in Tasmania, especially over the past decade

Chart 2.3: Full-time employment, Tasmania and mainland



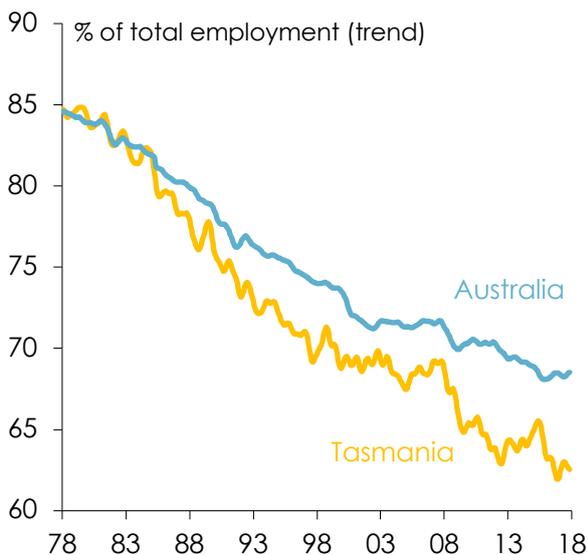
Source: ABS, Labour Force (6202.0), October 2018.

Chart 2.4: Part-time employment, Tasmania and mainland



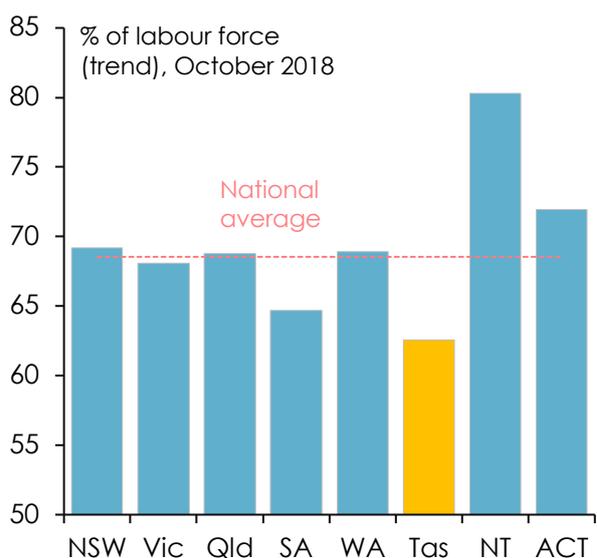
Source: ABS, Labour Force (6202.0), October 2018.

Chart 2.5: Full-time jobs as a pc of total employment, Tasmania and Australia



Source: ABS, Labour Force (6202.0), October 2018.

Chart 2.6: Full-time jobs as a pc of total employment, October 2018



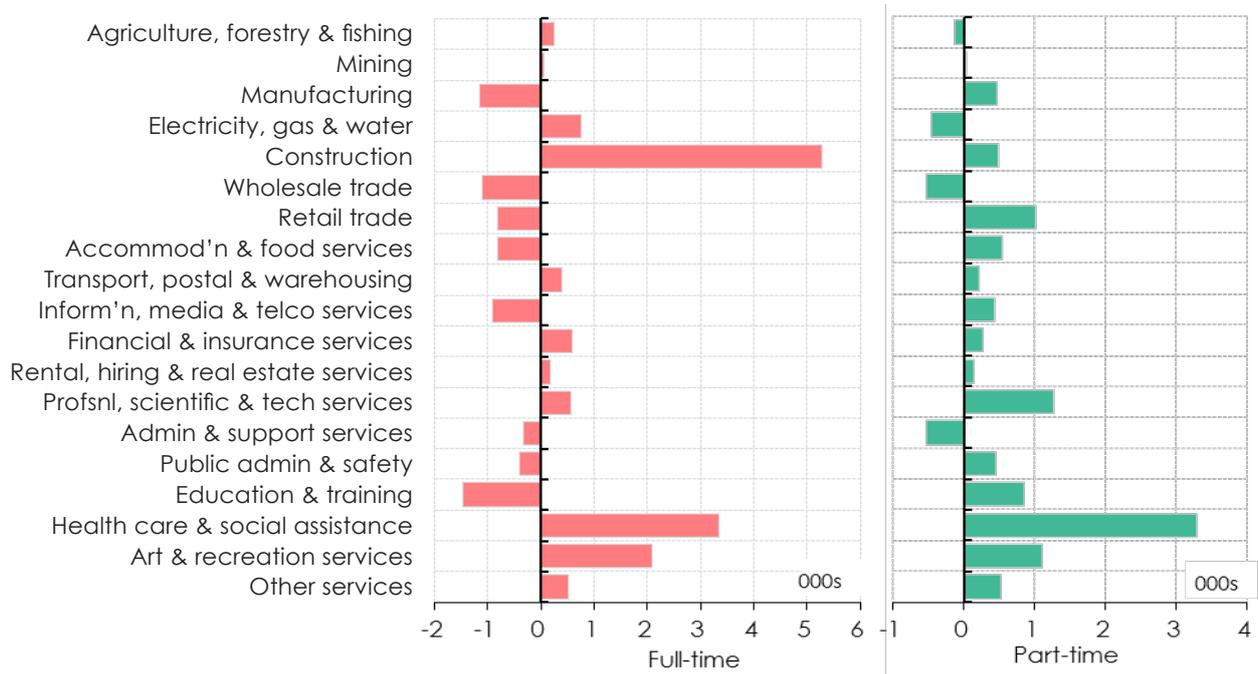
Source: ABS, Labour Force (6202.0), October 2018.

EMPLOYMENT IN TASMANIA (CONTINUED)

As shown in Chart 2.7, the only sectors which have created a significant number of full-time jobs in Tasmania since 2013-14 (the most recent low point for total employment) have been construction (where more than 5,000 full-time jobs have been created in the past four years), health care and social assistance, and art and recreation services. In most other sectors, full-time employment has either declined, or increased only marginally, over the past four years. Even in 2017-18, when (as noted in Chapter 1) every sector of the Tasmanian economy except for wholesale trade recorded an increase in value added, seven sectors recorded declines in full-time employment.

By contrast, all but four sectors of the Tasmanian economy have generated increases in part-time employment over the past four years – including all but one of the 12 services sectors where part-time employment typically accounts for a larger share of employment.

Chart 2.7: Change in full- and part-time employment by industry sectors, Tasmania, 2013-14 to 2017-18



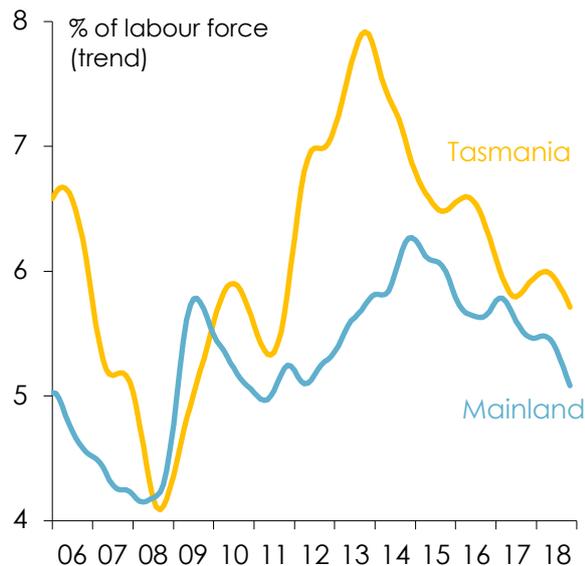
Note: Charts show the difference in the average levels of employment in each sector in August, November, February and May of 2013-14 and 2017-18 respectively. *Source:* ABS, *Labour Force, Australia, Detailed, Quarterly* (6291.0.55.003), August 2018.

UNEMPLOYMENT AND UNDER-EMPLOYMENT

Tasmania's **unemployment rate** has continued to edge lower, reaching 5.7% (in trend terms) in October 2018, the lowest since August 2011, and well down on the peak of 7.9% reached between August and October 2013. However, despite Tasmania's faster overall economic growth rate in 2017-18, the margin between Tasmania's unemployment rate and the mainland average has widened since mid-2017 (Chart 2.8).

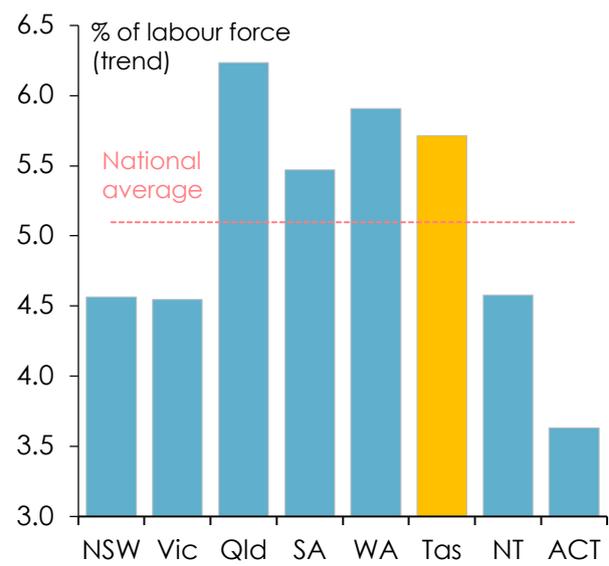
Tasmania no longer has the highest unemployment rate in Australia – as it did for much of the period between the early 1990s and mid-2015 (Chart 2.9). That 'title' has instead been held by either Queensland or Western Australia over the past year. However it is notable that the unemployment rate in South Australia – where, like Tasmania, the unemployment rate has historically been considerably higher than the national average – has declined by 2.2 percentage points over the past three years, almost three times as much as Tasmania's unemployment rate.

Chart 2.8: Unemployment rate, Tasmania and mainland



Source: ABS, Labour Force (6202.0), October 2018.

Chart 2.9: Unemployment rates, states and territories, October 2018

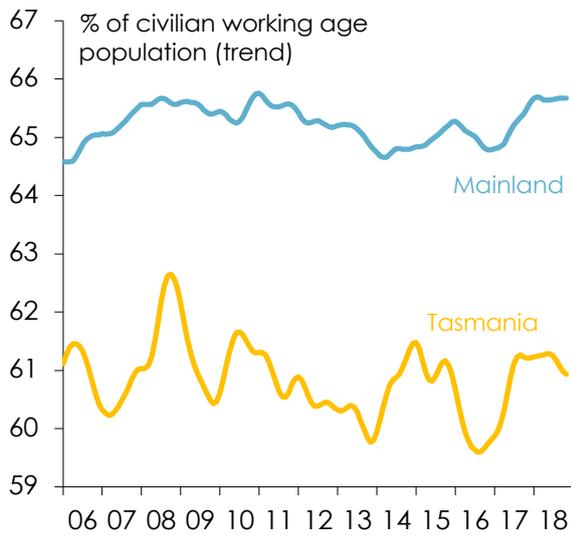


Source: ABS, Labour Force (6202.0), October 2018.

Tasmania's unemployment rate remains lower than it would otherwise be but for a substantially lower **labour force participation rate** than the rest of Australia (Chart 2.10). Hypothetically, if Tasmania had the same labour force participation rate as the rest of Australia, all else being equal its unemployment rate would have been 12.4% in October, or more than double the actual number.

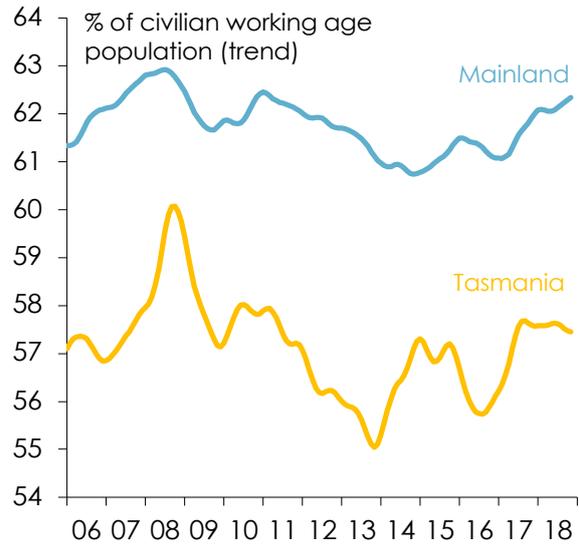
The main reason for Tasmania's low labour force participation rate is the older age structure of Tasmania's 'working-age' population (which labour force statistics define as people aged 15 and over). Almost 24% of Tasmania's working-age population is aged 65 or over, compared with about 19½% of the mainland's. Because the participation rates of people aged 65 and over are about one-sixth of those of people aged 15-64, this difference in age structure accounts for about two-thirds of the difference between Tasmania's participation rate and that of the rest of Australia.

Chart 2.10: Labour force participation rate, Tasmania and mainland



Source: ABS, Labour Force (6202.0), October 2018.

Chart 2.11: Employment-to-population ratio, Tasmania and mainland



Source: ABS, Labour Force (6202.0), October 2018.

The remaining one-third of the difference is due to lower age-specific participation rates: the labour force participation rate of Tasmanians aged 15-64 is about 1½ percentage points below the mainland average.

The combination of a lower labour force participation rate and a higher unemployment rate means that the proportion of Tasmania's (working age) population which is actually working is almost 5 percentage points lower than it is in the rest of Australia, on average. This is another important reason why Tasmania's per capita gross product remains significantly below that of other states and territories, as explained in greater depth in Chapter 7.

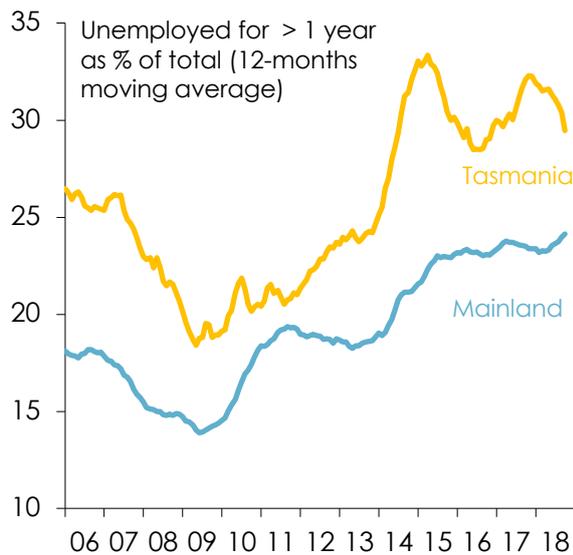
Disappointingly, the 'gap' between Tasmania's **employment-to-population ratio** and the mainland's has widened since the middle of 2017 (Chart 2.11). Narrowing this gap – to the extent that Tasmania's demographic profile permits – would make a major contribution to sustaining improvements in Tasmanians' living standards over the longer term.

LONG-TERM AND YOUTH UNEMPLOYMENT

Although Tasmania's unemployment rate has declined by more than 2 percentage points over the past five years, the incidence of **long-term unemployment** in Tasmania remains persistently high (Chart 2.12). Almost 30% of unemployed Tasmanians have been out of work for more than a year (and of them, more than half have been out of work for more than two years). This proportion has declined by almost 3 percentage points over the past year, but remains relatively high by historical standards. It is also well above the mainland average of 24%.

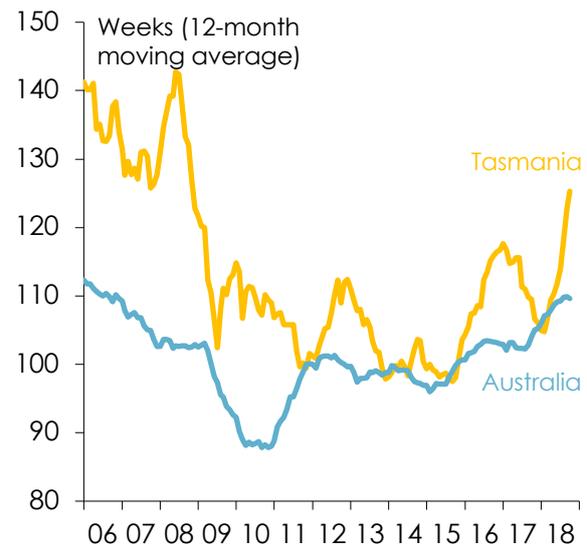
Moreover, those Tasmanians who have been unemployed for more than a year appear to be taking longer to find work. The median **duration of unemployment** among this group has increased to 125 weeks over the year to September, the longest in a decade and 16 weeks more than the national average (Chart 2.13).

Chart 2.12: Incidence of long-term (> 1 year) unemployment, Tasmania and mainland



Source: ABS, Labour Force, Detailed (6291.0.55.001), September 2018.

Chart 2.13: Median duration of long-term unemployment, Tasmania and Australia



Source: ABS, Labour Force, Detailed (6291.0.55.001), September 2018.

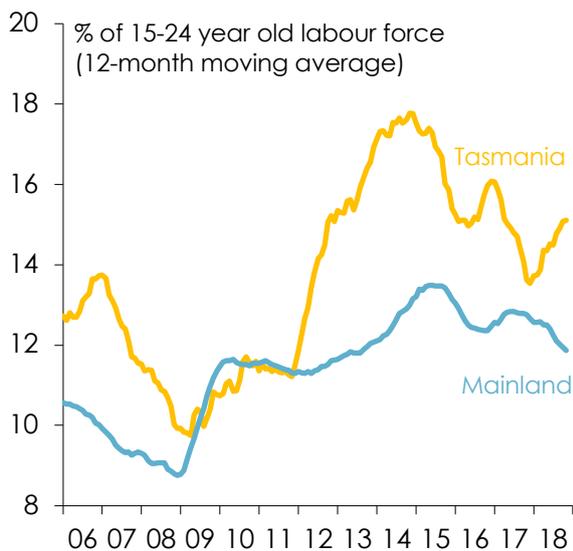


LONG-TERM AND YOUTH UNEMPLOYMENT (CONTINUED)

The progress Tasmania had been making in reducing **youth unemployment** appears to have stalled over the past year, with the unemployment rate among Tasmanians aged 15-24 rising by around 1½ percentage points since late 2017, in contrast to an ongoing decline on the mainland (Chart 2.14). In South Australia, which like Tasmania has long experienced above-average rates of youth unemployment, the unemployment rate among people 15-24 year olds has declined by almost 3½ percentage points over the past year, to the lowest in more than five years.

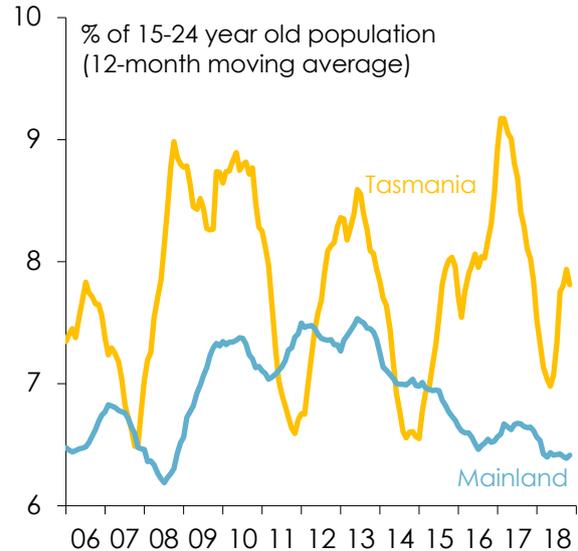
The proportion of 15-24 year old Tasmanians who are in neither full-time education nor in the labour force (ie, neither working nor actively looking for work) remains considerably higher than the corresponding figure for the mainland (Chart 2.15).

Chart 2.14: Youth unemployment rates, Tasmania and mainland



Source: ABS, *Labour Force, Detailed* (6291.0.55.001), September 2018.

Chart 2.15: 15-24 year olds not in education or the work force, Tasmania and mainland



Source: ABS, *Labour Force, Detailed* (6291.0.55.001), September 2018.



LABOUR EARNINGS

The persistence of historically slow rates of wages growth has gained increased attention from economic policy-makers in Australia and other ‘advanced’ economies in recent years. As the Reserve Bank has recently noted, “wages growth has been persistently lower than what the usual relationships” with factors such as the extent of ‘spare capacity in the labour market’ (unemployment and under-employment) and inflation expectations would imply; and that the common experience of a number of ‘advanced’ economies “suggests a role for ... factors such as a decline in labour’s relative bargaining power, and the effects of technological change and globalization”⁵.

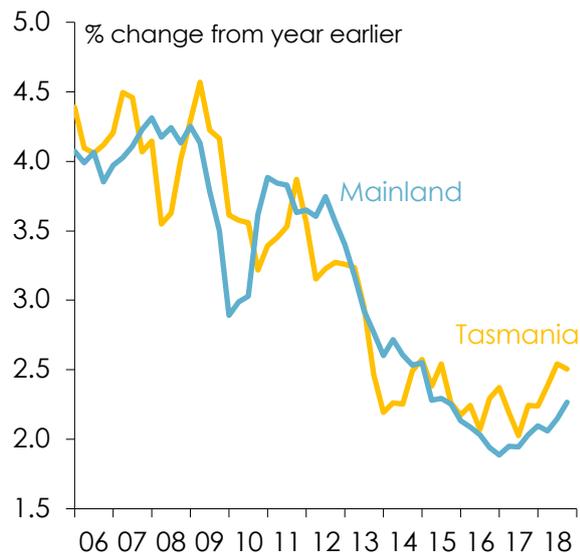
While wages grew less rapidly in Tasmania than in the rest of Australia during the ‘resources boom’ earlier this decade (largely because there was no ‘resources boom’ here), wages growth has since slowed less markedly in Tasmania than in the rest of Australia, and more recently appears to have picked up a little more than in other states and territories (Chart 2.16).

Surprisingly, the ABS wage price index data suggests that, in Tasmania, pay rates have risen at a faster rate in the private sector than in the public sector (Chart 2.17) the reverse of the pattern at the national level. It is possible that the most recent national minimum wage increase of 3.3% has had a greater impact on private sector pay rates in Tasmania (where a larger proportion of employees are affected by changes in award wages) than nationally.

Although pay rates appear to have been growing at a faster rate in Tasmania recently than in the rest of Australia, on average, the level of wages and salaries in Tasmania remains considerably lower than in other states and territories.

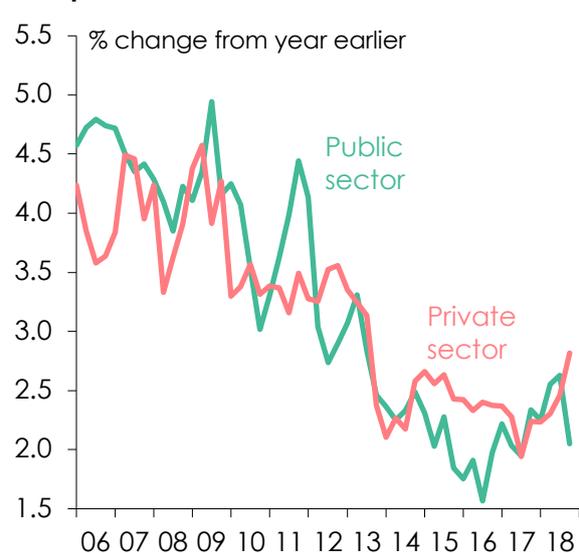
For working Tasmanian adults, **average weekly ordinary time earnings** in May this year (the most recent ABS report) were \$1,379, lower than in any other state or territory and \$206 per week (or 13%) below the national average.

Chart 2.16: Ordinary hourly rates of pay, Tasmania and mainland



Note: excludes bonuses. Source: ABS, Wage Price Index (6345.0), September quarter 2018.

Chart 2.17: Total hourly rates of pay, private and public sectors, Tasmania



Note: excludes bonuses. Source: ABS, Wage Price Index (6345.0), September quarter 2018.

⁵ Reserve Bank of Australia, [Statement on Monetary Policy](#), November 2018, pp. 59-60.

LABOUR EARNINGS (CONTINUED)

Another way of analysing differences in labour earnings between Tasmania and the rest of Australia can be obtained from the ABS State Accounts. According to these, 'employee compensation' per hour worked in Tasmania in 2017-18 was \$34.75, lower than in any other state or territory and \$6.90 per hour (or 18%) below the national average⁶ (Chart 2.18). Moreover, because Tasmanian workers work fewer hours, on average, than their counterparts in other states and territories, their average annual compensation of \$55,502 in 2017-18 was more than 20% below the national average.

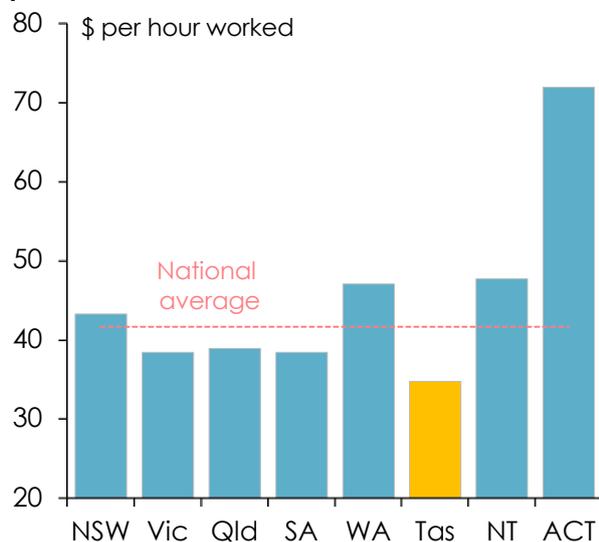
One of the main reasons why hourly compensation rates are lower in Tasmania than in other states and territories is because **labour productivity** (production of goods and services per hour worked) is more than 22% below the national average (a difference explored in more detail in Chapter 7).

If employee compensation is expressed in terms of dollars per dollar value of goods and services produced, rather than as dollars per hour worked – a concept economists refer to as **unit labour costs** – then average employee compensation in Tasmania is less than 5% below the national average (Chart 2.19).

Put differently, from an employer's perspective, labour costs in Tasmania aren't as low, relative to the rest of Australia, as a simple comparison of average wage levels would suggest.

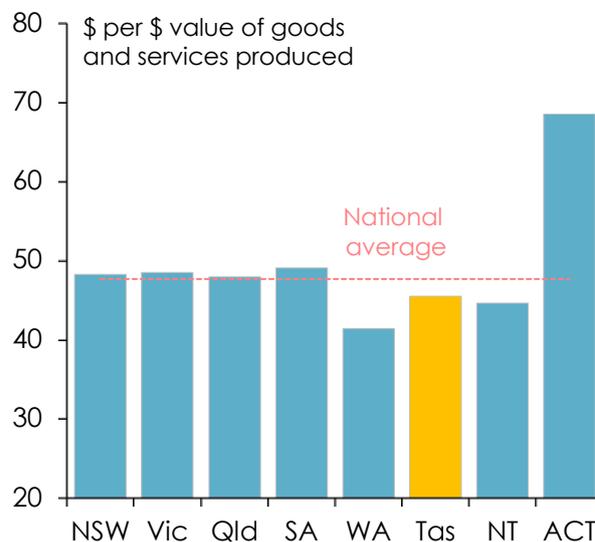
Of course that's little comfort for Tasmanian employees. But the comparison highlights the point that the only way in which the gap between average labour incomes in Tasmania and the rest of Australia can be sustainably narrowed is by lifting the productivity of Tasmanian workers relative to those in other states and territories – a theme which is revisited in Chapter 7.

Chart 2.18: Average employee compensation per hour, states and territories, 2017-18



Sources: ABS, *State Accounts* (5220.0), 2017-18, and *Labour Force, Australia* (6202.0), October 2018.

Chart 2.19: Unit labour costs, states and territories, 2017-18

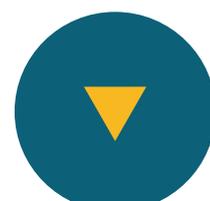


Sources: ABS, *State Accounts* (5220.0), 2017-18, and *Labour Force, Australia* (6202.0), October 2018.

⁶'Employee compensation' includes superannuation contributions and workers' compensation insurance premiums as well as wages and salaries. The estimates of compensation per hour used here are derived by dividing the published estimates of total annual employee compensation by an estimate of total annual hours worked, which is in turn derived from the monthly labour force survey.

Chapter 3

TASMANIA'S RESIDENTIAL PROPERTY MARKET



TCCI

Tasmania's residential property market has once again been the strongest in Australia (in terms of price performance) over the past year – reflecting both the improvement in the state's economy (discussed in Chapter 1) and the pick-up in population growth (discussed in more detail in Chapter 4). It is a tangible indication of greater confidence in Tasmania's future.

However, it would be unrealistic to expect that Tasmania will remain completely immune from some of the factors weighing on property prices elsewhere in Australia – in particular, the recent and prospective tightening in credit conditions. And it is also important to note that there has been a 'downside' to the strong performance of the Tasmanian property market for those who do not own property and have been exposed to greater difficulties in finding rental accommodation and/or markedly higher rents, particularly in Hobart.

RESIDENTIAL PROPERTY PRICES

Tasmanian **residential property values** rose by 10.5% over twelve months to October 2018, according to the hedonic indices compiled by CoreLogic. By contrast, property prices in the five mainland capital cities declined by an average of 4.6% over this period; while in non-metropolitan areas of the mainland states property prices rose by only 0.8%, and have actually declined by about 1% over the past six months. Over

the past three years, Tasmanian home values have risen by 24.2%, compared with a net gain of 5%, on average, in the five mainland capitals and just under 10% for regional areas on the mainland (Chart 3.1). Despite these more rapid gains in recent years, the **level of residential property prices** remains substantially lower in Tasmania than on the mainland (Chart 3.2).

Chart 3.1: Hedonic home value indices, Tasmania, metropolitan and regional averages

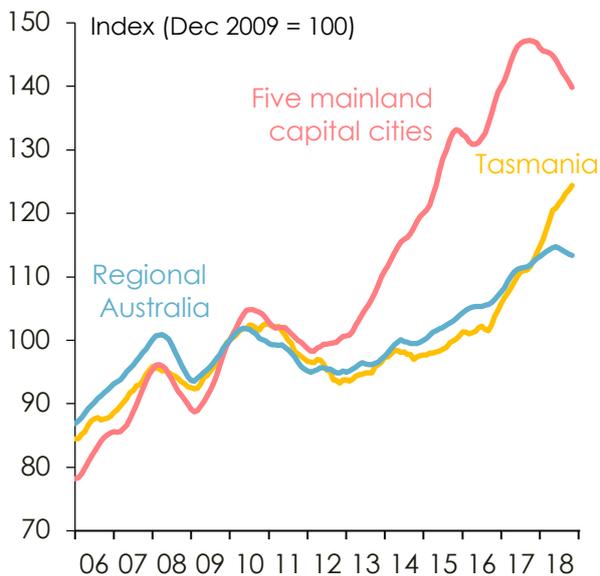
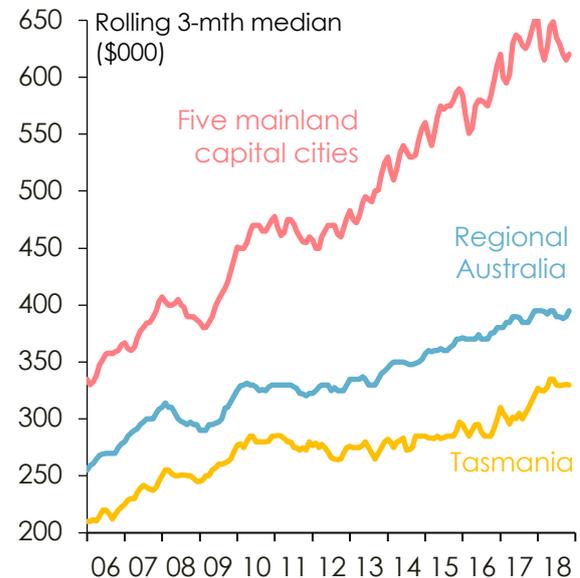
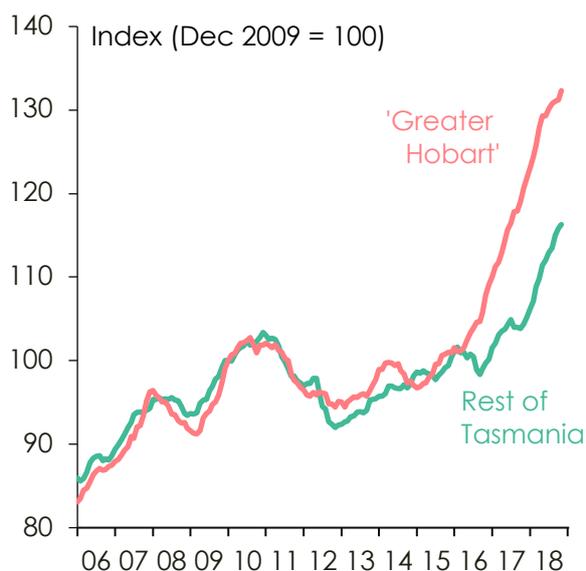


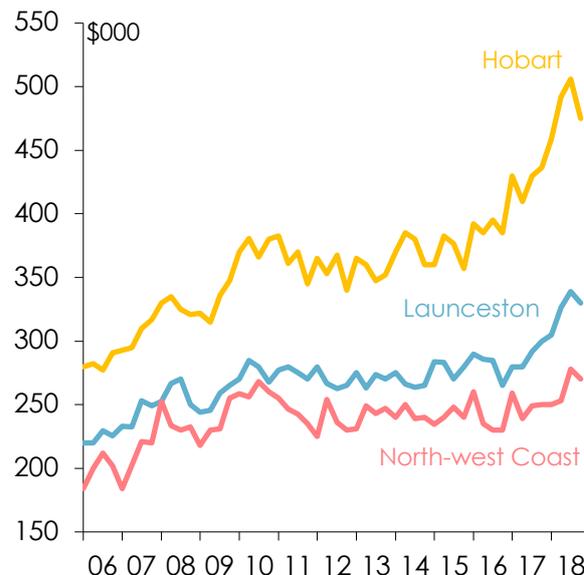
Chart 3.2: Median sale prices, Tasmania, metropolitan and regional averages



Note: Hedonic indices measure the 'organic change' in underlying sale values of properties using the [hedonic imputation methodology](#). They are designed to show *rates of change* in property prices rather than the *level* of prices. The median price is the middle (50th percentile) price of all transactions during the preceding three months. Source: CoreLogic Property Market Indices.

Chart 3.3: Hedonic home value indices, 'Greater Hobart' and regional Tasmania

Source: CoreLogic.

Chart 3.4: Median sale prices, Hobart, Launceston and NW Coast

Source: Real Estate Institute of Tasmania.

The buoyancy in property prices hasn't been confined to Hobart over the past year, as it had been during 2016 and much of 2017. The CoreLogic hedonic home value index for 'Greater Hobart' rose by 9.7% over the year to October – but although this was much larger than for any other capital city (and indeed contrasted with falls in Sydney, Melbourne and Perth), it was nonetheless surpassed by an 11.4% increase in the rest of Tasmania (Chart 3.3).

More granular data compiled by the Real Estate Institute of Tasmania present a somewhat similar picture. Over the year to the September quarter, median sales prices recorded by REIT members rose by 10% in Launceston, as opposed to 9% in Hobart; although prices along the North West Coast rose by 8% over this period (Chart 3.4).

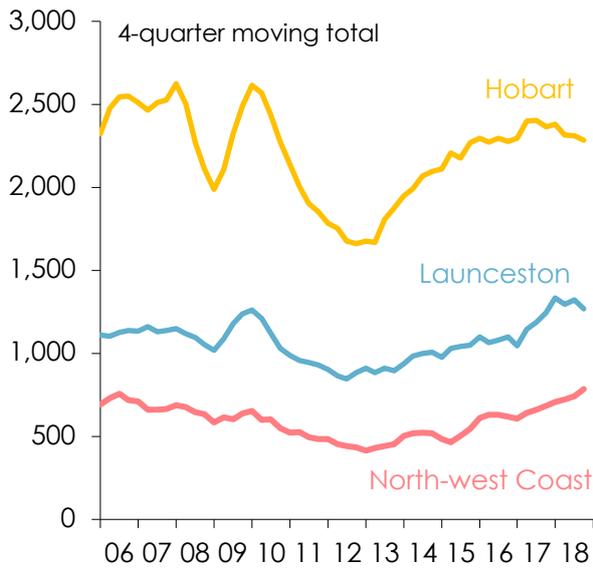
REIT data point to some easing in the **number of residential property sales** in Hobart since the middle of 2017, and more recently in Launceston, although sales volumes on the North West Coast have continued to increase (Chart 3.5).

However it's not clear that this represents a signal that property prices in Tasmania have peaked. CoreLogic data suggest that properties in Hobart are continuing to sell very quickly by historical standards, typically 11-12 days over the past year, down from an average of more than 50 days earlier this decade. Properties are also selling more quickly in regional Tasmania than at any time since before the financial crisis (Chart 3.6), as well as more quickly than in regional areas of other states. By contrast, properties are taking longer to sell in most mainland capitals, particularly in Sydney.

There's also little evidence of Tasmanian vendors having to lower their price expectations in order to complete sales. The median 'vendor discount' in Hobart fell to about 3½% in Hobart, and just under 4½% in regional Tasmania, during the September quarter of 2018, down from around 5-5½% two years previously; whereas vendor discounts have been rising in most mainland capitals since mid-2017 (again especially in Sydney).

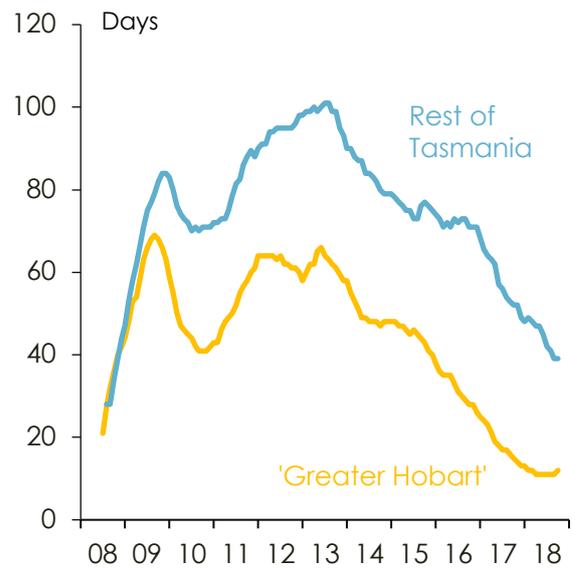
RESIDENTIAL PROPERTY PRICES (CONTINUED)

Chart 3.5: Volume of residential property sales, Tasmania



Source: Real Estate Institute of Tasmania.

Chart 3.6: Median time on the market, Hobart and regional Tasmania.



Source: CoreLogic.



HOUSING FINANCE

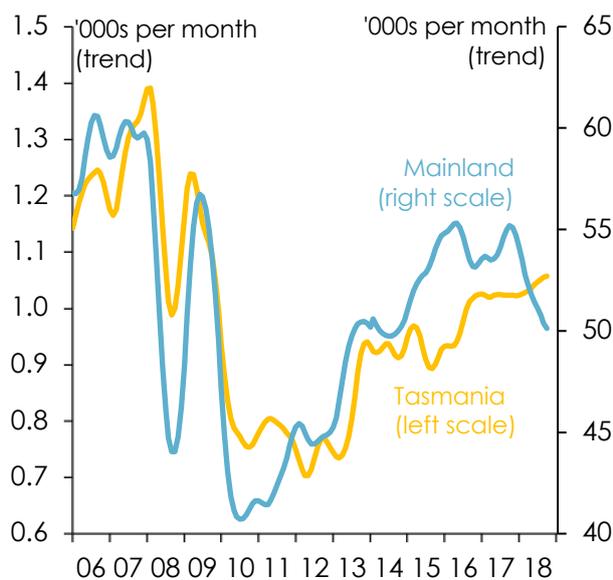
The **number** of housing **finance commitments** to owner-occupiers in Tasmania picked up modestly over the past year, in marked contrast to the declines registered in every other state and territory (Chart 3.7). With the average mortgage taken out by Tasmanian home-buyers continuing to rise (to an average of \$264,500 in the first three months of 2017-18, up from \$226,300 in 2015-16), in line with higher property prices, the **value** of finance commitment to home-buyers in Tasmania has risen by almost 10% in the first three months of 2017-18 over a year earlier (Chart 3.8).

By contrast, the average mortgage taken out by mainland home-buyers has declined slightly, to an average of just under \$400,000 in the first quarter of 2018-19. This probably reflects the decline in property prices in mainland centres over the past year – although it may be that the tightening in mortgage lending criteria at the behest of regulators and ahead of the likely recommendations of the banking Royal Commission is also having some impact on average loan sizes.

Regulatory measures – in particular, the clamp-down on interest-only lending – have had a much larger impact on the willingness of banks and other mortgage providers to lend to **investors**. Changing expectations for future movements in property prices have also had a bigger impact on the demand for finance from investors than on that from home-buyers (for many of whom the falls in prices in most mainland capitals represents an opportunity, rather than a threat). In the year to September, the value of finance commitments to investors fell by 13.4% nation-wide, whereas the value of lending to home-buyers rose by 1.3%.

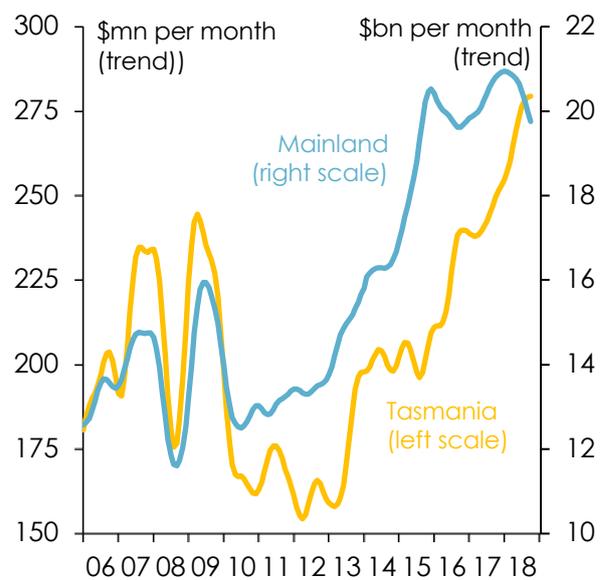
Thus far, however, these developments appear to have had little influence on demand from, or lending to, property investors in Tasmania. The value of new lending to property investors in Tasmania rose by almost 5% in the year ended September (Chart 3.9).

Chart 3.7: Number of housing finance commitments to owner-occupiers



Source: ABS, Housing Finance (5609.0), September 2018.

Chart 3.8: Value of housing finance commitments to owner-occupiers



Source: ABS, Housing Finance (5609.0), September 2018.

HOUSING FINANCE (CONTINUED)

Investors have historically accounted for a smaller share of the residential property market in Tasmania than in other states. Even with the continued growth in Tasmania over the past year, lending to investors accounted for about 23% of total mortgage lending in this state, compared with 32% in the rest of Australia.

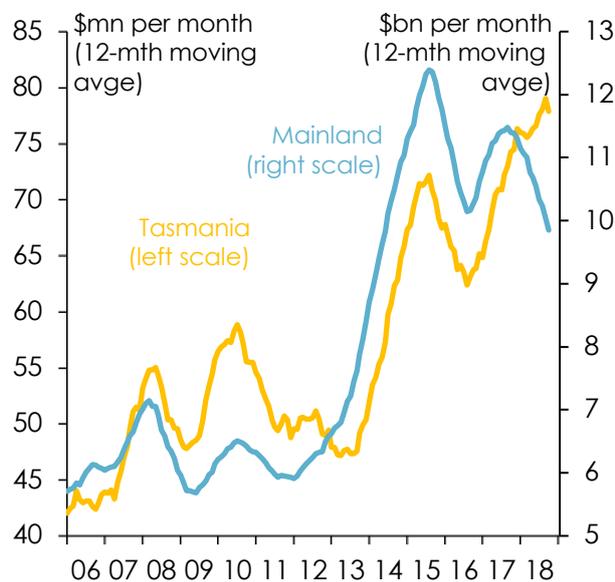
A much smaller proportion of Tasmanian taxpayers report earning rental property income than taxpayers in any other state or territory (Chart 3.10) – and of those who do, less than 55% are ‘negatively geared’, compared with the national average of 62%.

This almost certainly reflects the fact that property investment is more commonly undertaken by high income earners – nationally, almost 35% of taxpayers in the top tax bracket (that is, with taxable incomes in excess of \$180,000) have rental property income (and 65% of

them are ‘negatively geared’), whereas fewer than 13% of taxpayers in the bottom three tax brackets (that is, with taxable incomes of \$80,000 or less) have rental property income (and less than 59% of them are ‘negatively geared’). And Tasmania has relatively fewer high income earners than any other state or territory: only 1.5% of Tasmanian taxpayers are in the top income tax bracket – less than half the national average of 3.1%.

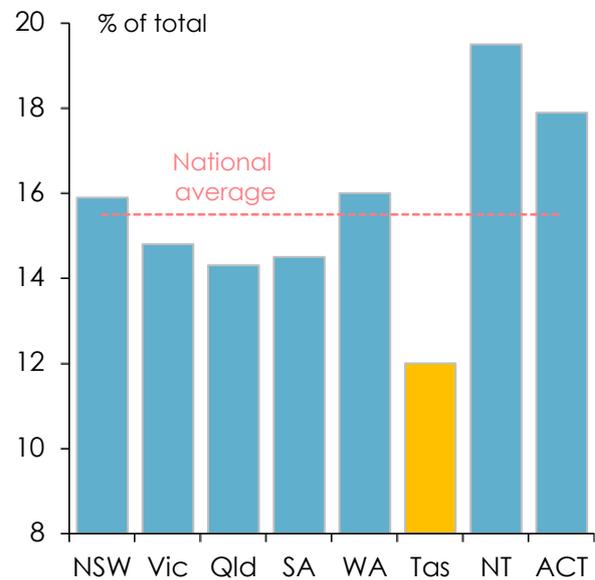
The fact that investors have a smaller presence in the Tasmanian market than elsewhere in Australia arguably means that there is less downside risk to Tasmanian property prices from either a further tightening in the lending criteria applied to property investment loans or from possible changes to the tax treatment of property investment than there is in other states.

Chart 3.9: Value of housing finance commitments to investors



Source: ABS, *Housing Finance* (5609.0), September 2018.

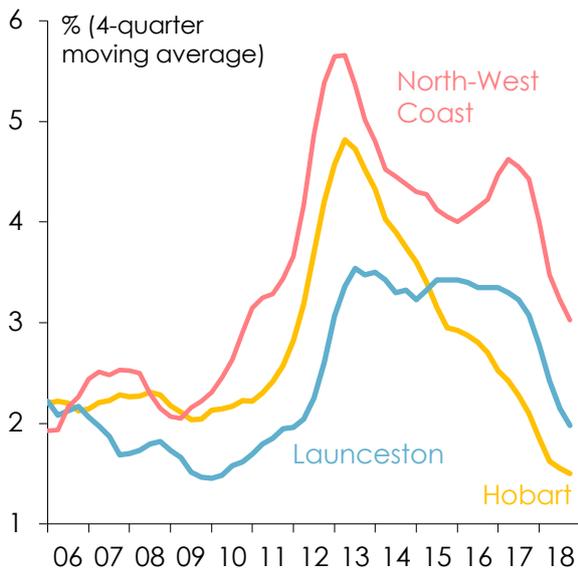
Chart 3.10: Taxpayers reporting rental property income as pc of total, 2015-16



Source: ATO, *Taxation Statistics*, 2015-16.

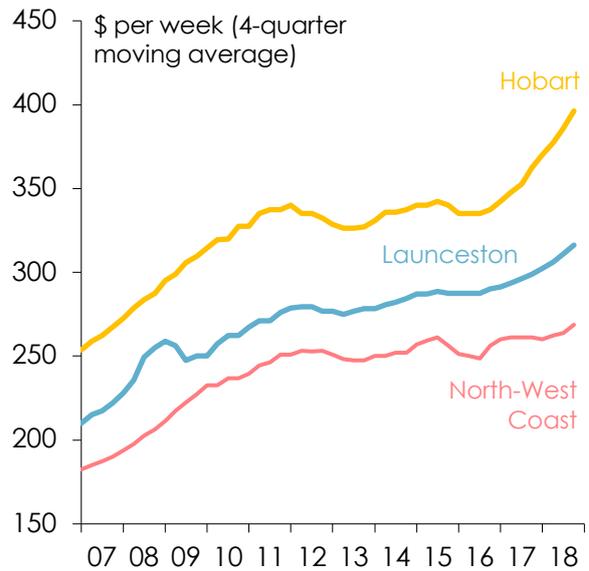
THE RENTAL HOUSING MARKET

Chart 3.11: Rental vacancy rates



Source: REIT, Quarterly Property Report, September 2018.

Chart 3.12: Median rents, 3-bedroom houses



Source: REIT, Quarterly Property Report, September 2018.

The rental housing market in Tasmania has tightened further over the past year. Hobart's rental vacancy rate averaged just 1.5% over the year to the September quarter 2018, down from 2.1% over the preceding four quarters and well below the peak of over 4½% in 2012-13. Vacancy rates are higher in other parts of Tasmania but have fallen more rapidly over the past year – from 3.1% to 2.0% in Launceston and from 4.4% to 3.0% on the North West Coast (Chart 3.11).

The ongoing tightening in the rental housing market has resulted in further upward pressure on rents. REIT data indicates that the median rent for 3-bedroom houses in Hobart rose by 9.3% over the year to the September quarter 2018, bringing the cumulative increase over the past two years to almost 17½% (Chart 3.12).

CoreLogic data suggest an even larger increase in Hobart rents, of 14.3% for houses (and 18.8% for units) over the 12 months to October – to the point where the median rent for a 3-bedroom house in Hobart is now higher than in Brisbane, Adelaide or Perth, and on par with Melbourne (Chart 3.13).

Even on the more conservative REIT data, the increase in rents in Hobart has been substantially greater than the

growth in household incomes. As a result, the incidence of 'rental housing stress' has risen substantially over the past two years.

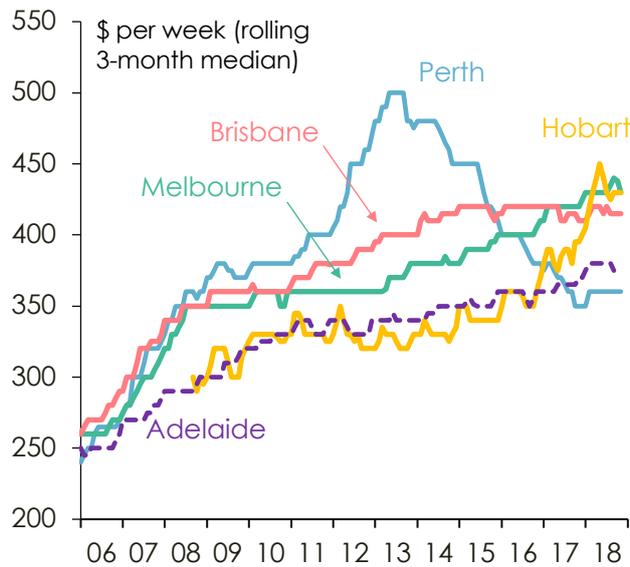
A measure of housing affordability for low-income rental households is compiled by National Shelter, Community Sector Banking and SGS Economics and Planning. It is based on the ratio of median income to the income at which median rent would represent 30% of income (30% of income being the most widely-used threshold for identifying housing stress)⁷.

By this measure, rental affordability for low income households in Hobart has deteriorated significantly in Hobart over the past three years, and by mid-2018 was the lowest of any capital city (Chart 3.14).

The significant tightening of the rental accommodation market, particularly in Hobart, partly reflects more rapid growth in demand for rental housing as a result of increased population growth. As discussed in more detail in Chapter 4, interstate immigration to Tasmania is running at its fastest pace since 2004, while the level of overseas migration to Tasmania is now higher than at any time in the last 38 years.

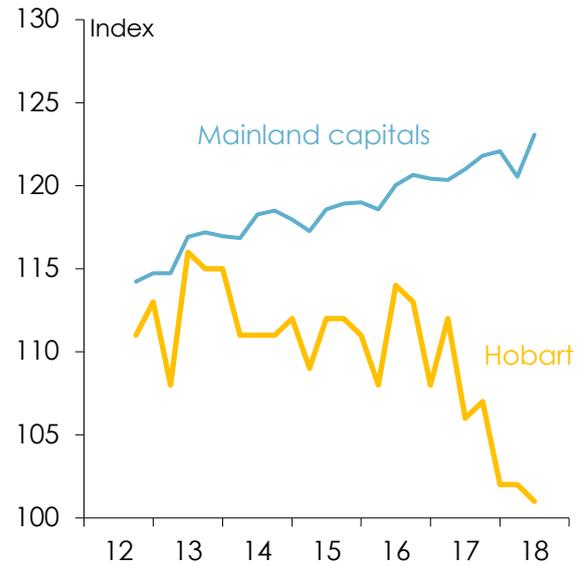
⁷ For further details see SGS Economics and Planning, [Rental Affordability Index](#), May 2018.

Chart 3.13: Median rents, 3-bedroom houses, Hobart and selected mainland cities



Source: CoreLogic.

Chart 3.14: Rental affordability index, Hobart and mainland capitals



Source: SGS Economics & Planning, *Rental Affordability Index*, November 2018.

An increasing proportion of the former are people aged between 20 and 30, while the majority of the latter are international students: most of both groups are likely to be seeking rental accommodation.

This growth in demand has been well in excess of the growth in the supply of rental housing, particularly at the 'affordable' end of the market. In addition, it appears likely that the rapid growth in the availability of short-stay tourist accommodation has had an adverse impact on the supply of rental housing, particularly in Hobart.

Research by the University of Tasmania's Institute for the Study of Social Change suggests that the number of listings across Tasmania on Airbnb increased by more than 160%, from 1,827 in July 2016 to 4,783 in June 2018; that more than 80% of this increase was accounted for by 'entire properties' (as opposed to rooms in properties where the owner was also living); and that more than half of this increase in 'entire property' listings were of properties which had been booked, or were available, for more than 60 nights a year^a.

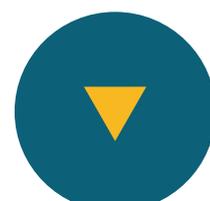
In response, the state government has implemented new monitoring and enforcement provisions aimed at securing greater compliance with guidelines originally introduced in 2017 to govern the provision of short-stay accommodation. It has also undertaken a range of other measures intended to increase the supply of affordable rental housing, including the direct provision of more social housing under its Affordable Housing Strategy, the release of government-owned land for the construction of housing, and land tax incentives for the construction of new rental housing by private investors.

It will be important for the Government to continue to attach a high priority to ensuring an adequate provision of affordable housing, and to be willing if needed to take further measures to increase housing supply and regulate the conversion of existing properties to short-stay accommodation, not least with a view to ensuring that continued growth in Tasmania's economy and population is not seen as adversely affecting the living conditions of a growing cohort of existing residents, especially those of limited means.

^a See University of Tasmania, Institute for the Study of Social Change, *Tasmanian Housing Update*, August 2018.

Chapter 4

TASMANIA'S POPULATION AND SOCIETY



TCCI

Tasmania's improving economic performance is being mirrored by a pick-up in the growth rate of its population. Although the 'natural' growth rate of the population (the difference between births and deaths) is now slowing sharply, more people are moving to Tasmania, from both overseas and interstate, while fewer people are leaving.

This is a very clear demonstration of confidence in Tasmania's future. It has the potential to create a 'virtuous circle' of mutually supportive economic and population growth, including by slowing the rate at which Tasmania's population will age.

However, it is also important to recognize that although faster population growth will (all else being equal) result in more rapid economic growth (as measured by gross state product), it will not necessarily result in improvements in people's (material) standards of living (as measured, albeit imperfectly, by per capita gross state product).

Indeed, as the experience of other states demonstrates, rapid population growth can create pressures – most obviously on the availability and affordability of housing, and on the adequacy of economic and social infrastructure – which detract from people's quality of life (in ways that are not always captured by economic statistics). Responding appropriately to those challenges calls for careful planning and, in all likelihood, higher levels of both private and public investment. Failure to deal adequately with these challenges risks triggering a political backlash against more rapid population growth, in turn detracting from Tasmania's longer-term economic prospects.

POPULATION GROWTH

Tasmania's population increased by 0.9% in 2017-18, the fastest growth rate since 2008-09, and well above the average since the turn of the century of 0.6% per annum (Chart 4.1). Tasmania's population grew at a faster rate than that of Western Australia, South Australia and the Northern Territory in 2017-18 – the first year in which Tasmania hasn't had the slowest, or second-slowest, population growth rate among Australia's states and territories since 2003-04 (Chart 4.2).

The acceleration in Tasmania's population growth rate has been driven by a pick-up in both **overseas** and **interstate migration** to Tasmania (Chart 4.3).

Net overseas immigration is now adding around 2,200 people annually to Tasmania's population – the highest level on record. A large proportion of the increase in overseas immigration appears to be of overseas students, so it is unclear how sustained this increase will be, but for the moment it is adding about 0.4 percentage points to the annual growth rate of Tasmania's population.

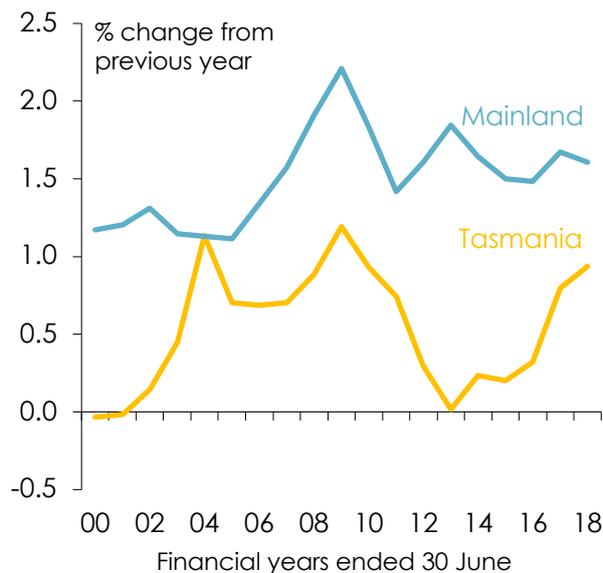
Net interstate immigration also added more than 2,000 people to Tasmania's population over the year to March 2018, the highest number in 14 years, and representing a dramatic turnaround from earlier this decade when net interstate emigration peaked at over 2,000 per annum.

The turnaround in net interstate migration largely reflects a rise in the number of people moving from the mainland to Tasmania – from an average of around 11,000 per annum in the early years of this decade to more than 14,000 in the year ended March 2018 (Chart 4.4).

The number of people moving from Tasmania to the mainland has increased marginally over the past couple of years, to just under 12,000 in the year ended March, but remains below the peak of over 13,000 in the year ended June 2012.

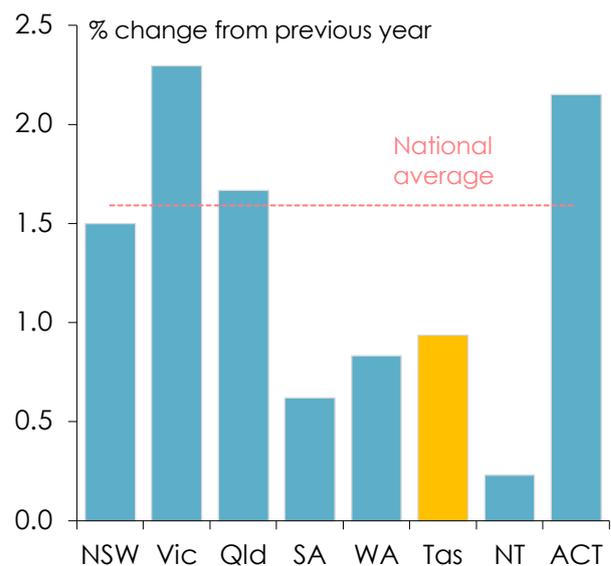
One other important dimension of the turnaround in the flow of people across Bass Strait is its impact on the age structure of Tasmania's population.

Chart 4.1: Population growth, Tasmania and mainland Australia, 2001-02 to 2017-18



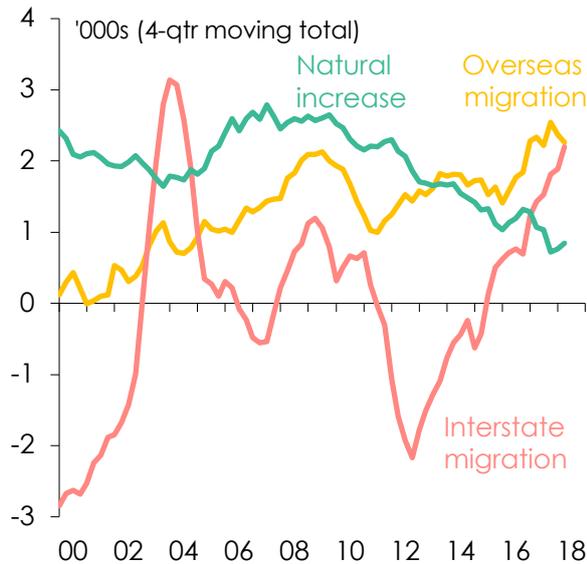
Source: ABS, State Accounts (5220.0), 2017-18.

Chart 4.2: Population growth, states and territories, 2017-18



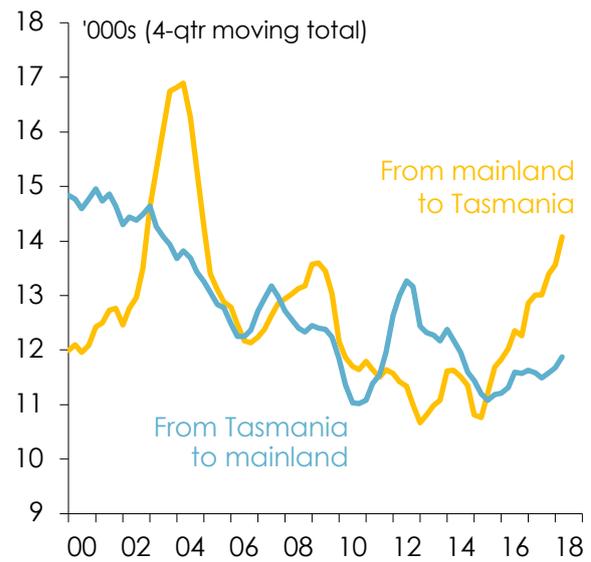
Source: ABS, State Accounts (5220.0), 2017-18.

Chart 4.3: Components of Tasmania's population growth



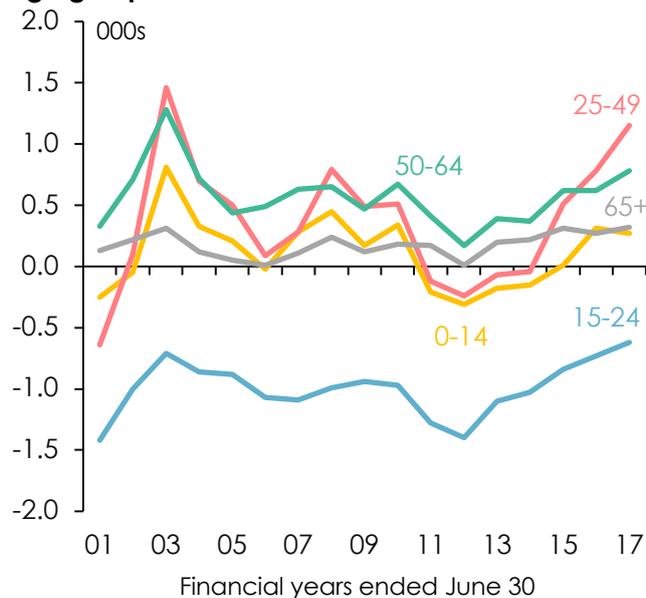
Source: ABS, Australian Demographic Statistics (3101.0), March 2018.

Chart 4.4: Components of net interstate migration to Tasmania



Source: Australian Demographic Statistics (3101.0), March 2017.

Chart 4.5: Net interstate migration to Tasmania, by age group



Source: ABS, Stat-beta.

Over the past three or four decades the outflow of people from Tasmania has been dominated by young adults (and, in particular, people with tertiary qualifications or trade skills), while the inflow from the mainland has been disproportionately of people near to or in retirement. This has increased the rate at which Tasmania's population has been ageing, relative to the rest of Australia's.

However the largest component of the recent increase in people moving to Tasmania from the mainland has been people aged 25-49; while the number of people in this age group and those aged 15-24 has declined (Chart 4.5).

POPULATION GROWTH (CONTINUED)

If sustained, this change in the age profile of net interstate immigration would have a number of positive economic consequences, at least at the margin – in particular, slowing the rate at which the proportion of Tasmania’s population who are in employment is otherwise likely to decline. To the extent that people in this age group moving to Tasmania are bringing with them additional education and skills, it could also assist in improving the productivity of Tasmania’s work force, relative to that of the rest of Australia.

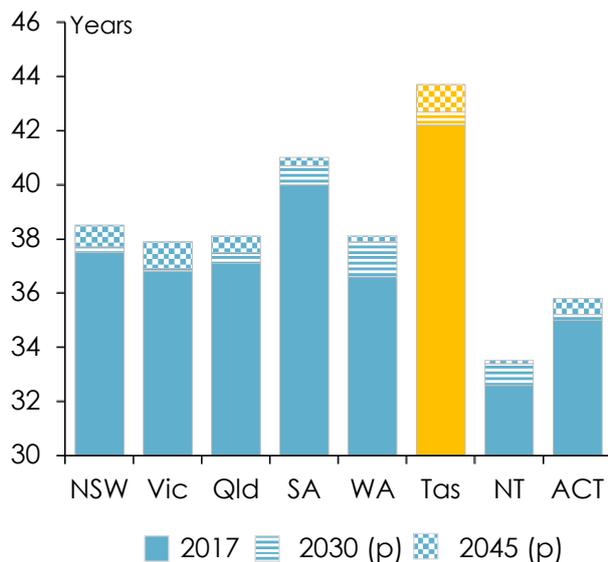
The Statistics Bureau’s most recent median population projections, based on the results of the 2016 Census, point to a less rapid ageing of Tasmania’s population than those based on the previous Census.

The median age of Tasmania’s population, currently 42.2 years (5 years older than the national average), is now projected to reach 42.7 by 2030 (as against 44.3 in the previous projections), and 43.7 years by 2045 (as against 46.4 previously) (Chart 4.6).

Similarly, the proportion of Tasmania’s population aged 65 or over, currently 19.3% (4 percentage points higher than the national average) is expected to rise to 23.9% by 2030 in the most recent projections (down from 25.1% previously) and 24.5% by 2045 (as against 27.2% previously) (Chart 4.7).

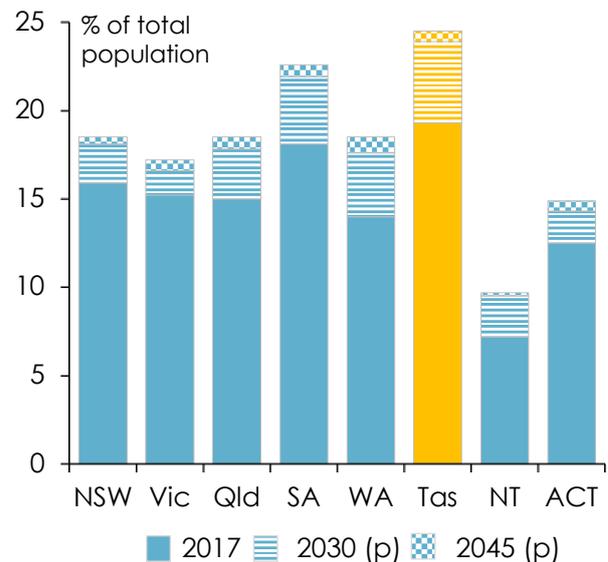
This still leaves Tasmania with the oldest population of any state or territory, and the highest proportion of people aged 65 or over (as well as the smallest proportion aged 55-64) – but by a smaller margin than implied by the ABS’s previous projections. This largely reflects the incorporation of more optimistic assumptions about interstate and overseas migration to Tasmania in the most recent set of projections than had been included in the earlier set.

Chart 4.6: ABS projections of median age, states and territories



Source: ABS, Population Projections, Australia (3222,0), 2017 (base) to 2066 (Series B).

Chart 4.7: ABS projections of population aged 65 and over, states and territories



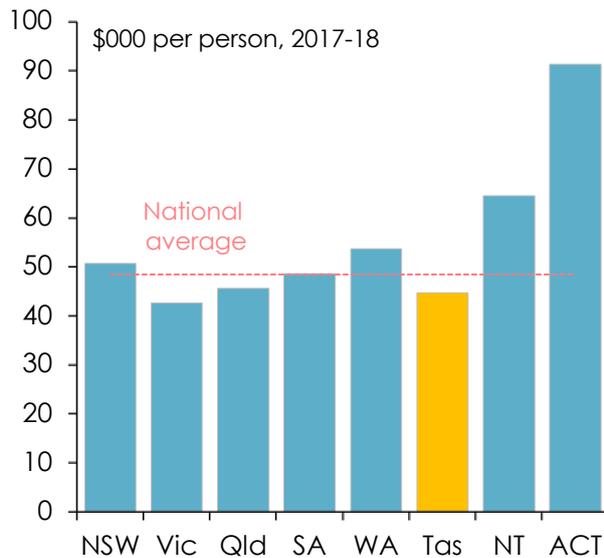
ABS, Population Projections, Australia (3222,0), 2017 (base) to 2066 (Series B).

HOUSEHOLD INCOME

Tasmanian **household disposable income** per capita rose by 3.4% in 2017-18, the largest increase of any state or territory. This was sufficient to lift Tasmania off the bottom rung of states and territories ranked by per capita household disposable income, a position now occupied (somewhat surprisingly) by Victoria (Chart 4.8). The annual ABS State Accounts publication suggests that Tasmanian household disposable income per capita is now higher, relative to the national average, than at any time in the past 18 years (Chart 4.9).

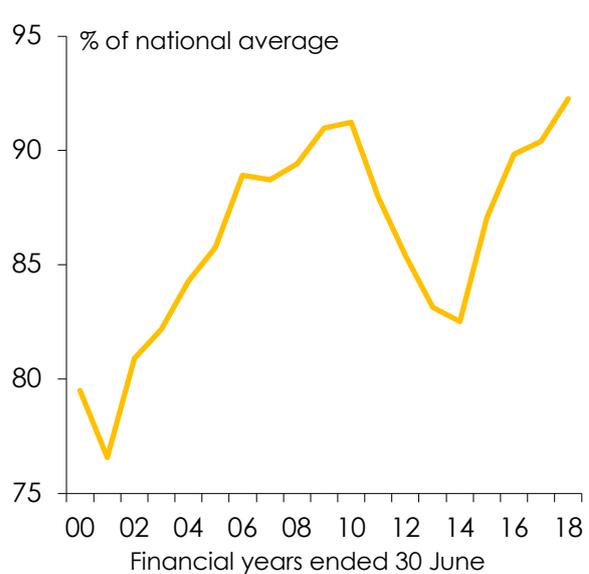
Primary household income (that is, income before interest payments, personal income tax payments and social security benefits received) per capita remained lower in Tasmania than in any other state or territory (including Victoria) in 2017-18, and almost 19% below the national average (Chart 4.10). That was largely attributable to Tasmanian wages and salaries being lower, on average, and a smaller proportion of the population being employed, than elsewhere in Australia, as discussed in Chapter 2. Property income (interest, rent and dividends) per head is also lower in Tasmania than in any other state or territory, although conversely Tasmanian small business income per head was above the national average in 2017-18.

Chart 4.8: Household disposable income per capita, states and territories, 2017-18



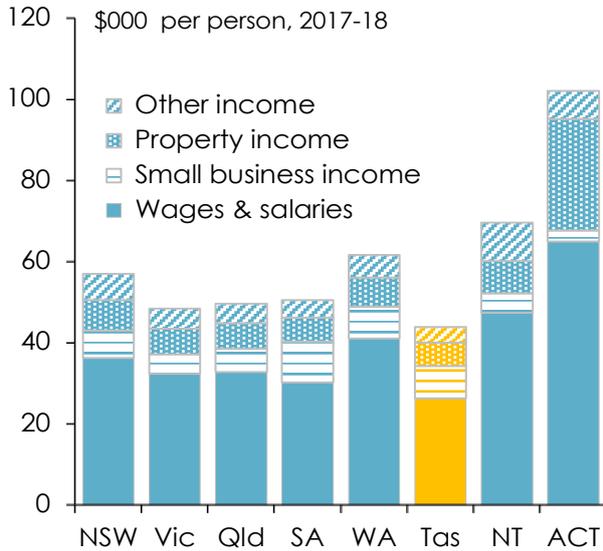
Source: ABS, State Accounts (5220.0), 2017-18.

Chart 4.9: Tasmanian household disposable income per capita as pc of national average



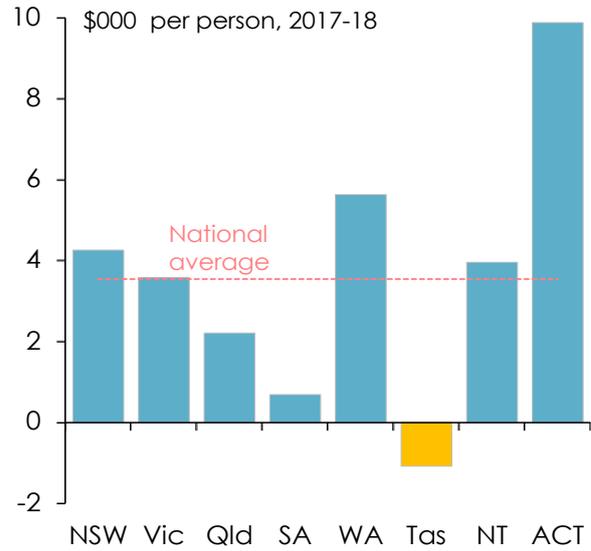
Source: ABS, State Accounts (5220.0), 2017-18.

Chart 4.10: Primary household income per capita, states and territories, 2017-18



Source: ABS, *State Accounts* (5220.0), 2017-18.

Chart 4.11: Personal income tax paid less social security benefits, 2017-18



Source: ABS, *State Accounts* (5220.0), 2017-18.

However Tasmania remained the only state or territory whose population pay less in personal income tax than they receive by way of social security benefits (Chart 4.11) – reflecting the fact that Tasmania has an above-average share of age and disability pensioners, and a below-average share of high-income taxpayers. And, as noted in Chapter 1, Tasmanian households also have lower interest burdens than households in other states and territories.

Consistent with the improvement in Tasmania's economic performance over the past few years, the margin by which social security benefits paid to Tasmanian households exceeds personal income tax payments by Tasmanian households fallen significantly, from \$1,900-\$2,200 per head between 2008-09 and 2014-15 to just over \$1,000 per head in 2017-18.

Ideally, Tasmania's economic performance will continue to improve over the longer term to the point where Tasmanians are paying more in personal income tax than they are receiving in pensions and benefits – as South Australians have been doing since 2016-17, having previously been in a similar position to Tasmanians on this score. However that would require a sustained increase in the proportion of Tasmanians in employment, and in productivity.

SOCIO-ECONOMIC STATUS

Although the gap between average Tasmanian household disposable incomes and those in other states and territories has narrowed over the past few years, on a range of other indicators (including employment, educational attainment, health status, and incidence of disability) set out elsewhere in this Report (or its predecessors) Tasmanians continue to fare less well, on average, than people in other states and territories.

Calculations undertaken by the Commonwealth Grants Commission as part of its annual assessments of the capacity of each state and territory government to raise revenue from its own resources, and the requirements for expenditure on public services, indicate that, as at December 2016, 32.6% of Tasmanians are in the most disadvantaged socio-economic status (SES) quintile (fifth) of Australians – 12.6 percentage points more than would be the case if socio-economic advantage and disadvantage were evenly spread across the country; while a further 23.6% of Tasmanians are in the second-most disadvantaged SES quintile – 3.6 percentage points more than if advantage and disadvantage were evenly spread (Chart 4.12).

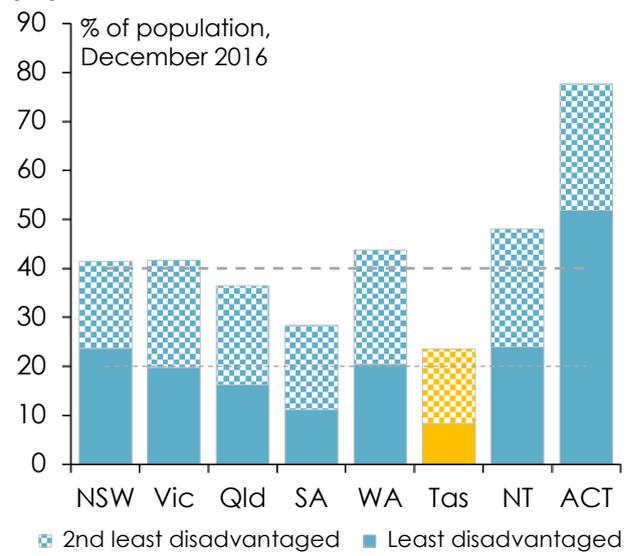
Conversely, only 8.3% of Tasmanians are in the highest SES quintile – 11.7 percentage points less than if advantage were evenly spread across Australia – while 15.2% were in the second-most advantaged SES quintile – 4.8 percentage points than if there were an even spread of social and economic advantage (Chart 4.13).

The proportion of Tasmanians in the lowest two SES quintiles rose by 1.4 percentage points between December 2013 (when these estimates were first presented, in the Grants Commission's 2015 Review) and December 2016, while the proportion in the two highest SES quintiles fell by 0.6 percentage points over the same period. Hopefully there will have been some improvement when estimates for December 2017 are published in the Grants Commission's next review, due in April 2019.

Chart 4.12: Low SES status as a pc of population, December 2016



Chart 4.13: High SES status as a pc of population, December 2016



Source: Commonwealth Grants Commission, *Report on GST Revenue-Sharing Relativities – 2018 Review*.

HEALTH

The past two Tasmania Reports have presented data from the most recent ABS National Health Survey (conducted in 2014-15) and the 2016 Census showing that, on most indicators, Tasmanians experience poorer health outcomes than any other Australians, with the exception of the Indigenous population.

The results of a detailed survey of the health status of 25-34 year old Tasmanians by St.LukesHealth (a not-for-profit Tasmanian-based health insurance fund) undertaken in August-September 2018 and released in November provides further useful insights into the health status of this segment of the state's population⁹.

This survey found that only 33% of Tasmanians in this age group rated their health status as 'excellent' or 'very good', compared with 66% of all Australians in the 2014-15 National Health Survey (NHS); while 29% of 25-34 year old Tasmanians rated their health status as 'fair' or 'poor', compared with just 9% of all Australians in the 2014-15 NHS. Unsurprisingly the proportion of 25-34 year old Tasmanians rating their health status 'fair' or 'poor' was much higher among those who had not completed Year 12 of schooling (39%) than among those who had attained Year 12 (27%) or who had obtained a tertiary qualification (25%).

The St.LukesHealth Survey found a relatively high incidence of lifestyle risk factors among 25-34 year old Tasmanians:

- 25% were smokers (of whom 18% were daily smokers), compared with 20% of all Australians in the 2014-15 NHS;
- nearly 26% drank at levels which exposed them to increased lifetime risk of alcohol-related harm on a monthly basis, and a further 19% did so on a weekly basis (the proportion of men in the latter category being 29%);
- 52% were either overweight or obese, based on self-assessed height and weight;
- 38% met National Health and Medical Research Council (NHMRC) guidelines for daily fruit consumption (7% less than the average for all Australians in the 2014-15 NHS), while fewer than 8% met the NHMRC guidelines for daily vegetable consumption (marginally above the 2014-15 NHS average);

Partly offsetting these findings, the survey also found that 89% of 25-34 year old Tasmanians met NHMRC guidelines for 'moderate' and/or 'vigorous' physical activity, well above the 61% of all Australians in the 2014-15 NHS.

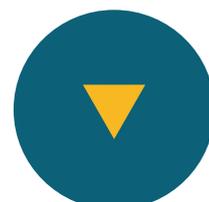
The St.LukesHealth Survey reported higher levels of a number of chronic conditions among 25-34 year old Tasmanians than the corresponding national averages from the 2014-15 NHS – in particular for asthma (29% vs 11%) and diabetes (6% vs less than 1%).

On the basis of these and other findings St.LukesHealth concludes that "the majority of Tasmanians in this age group can't or don't look after their own health, despite recognising it could be better", and that "only appropriate investment in evidence-based, locally responsive methods that allow and support people to form healthy habits will fix this problem".

⁹ St.LukesHealth, Tasmanian Health Report – 25 to 34 Year Olds, November 2018.

Chapter 5

TASMANIA'S EDUCATION SYSTEM



TCCI

A consistent theme in each of the past three Tasmania Reports has been the importance of achieving higher levels of educational participation and attainment in Tasmania in order to lift participation in employment, the proportion of jobs which are full-time rather than part-time, and labour productivity – the key drivers of per capita gross product and hence of material standards of living – closer to national average levels.

This conclusion continues to be highlighted by the results of the annual ABS surveys of the labour market status of people classified according to their level of educational attainment.

TASMANIA'S EDUCATION SYSTEM

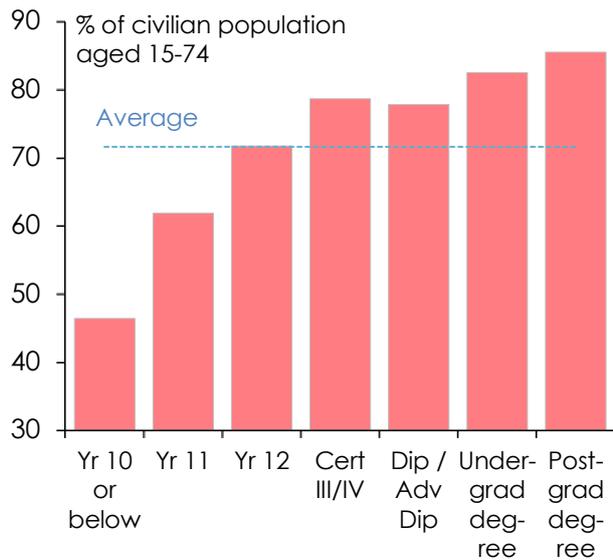
The most recent such survey indicates that someone who has completed Year 12 is 55% more likely to have a job than a person who has had 10 years of schooling or less; while someone with any kind of post-secondary qualification is almost 75% more likely to have a job than someone who left school at or before Year 10 (Chart 5.1).

Conversely, a person who left school at or before Year 10 is almost 50% more likely to be unemployed than someone who has completed Year 12, and more than twice as likely to be unemployed as someone who has a post-secondary qualification (Chart 5.2).

Of people with jobs, someone with a post-secondary qualification is almost 30% more likely to be employed full-time than someone without one (Chart 5.3).

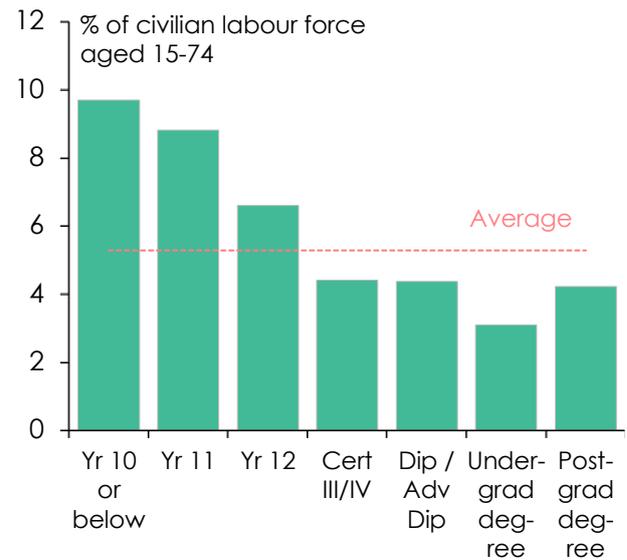
Finally, there is a clear correlation between levels of educational attainment and productivity in work-places, based on what people get paid: someone with a post-secondary qualification (Certificate III/IV or higher) earns, on average, 52% more than someone with no post-school education or training (Chart 5.4).

Chart 5.1: Educational attainment and employment-to-population ratio, May 2018



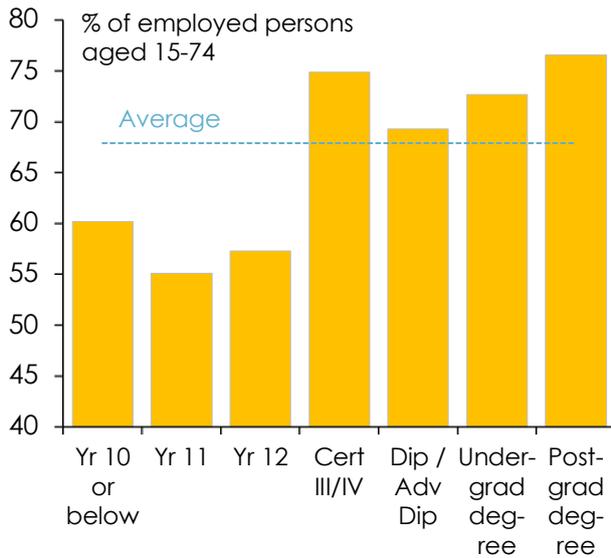
Source: ABS, *Education and Work* (6227.0), May 2018.

Chart 5.2: Educational attainment and unemployment rate, May 2018



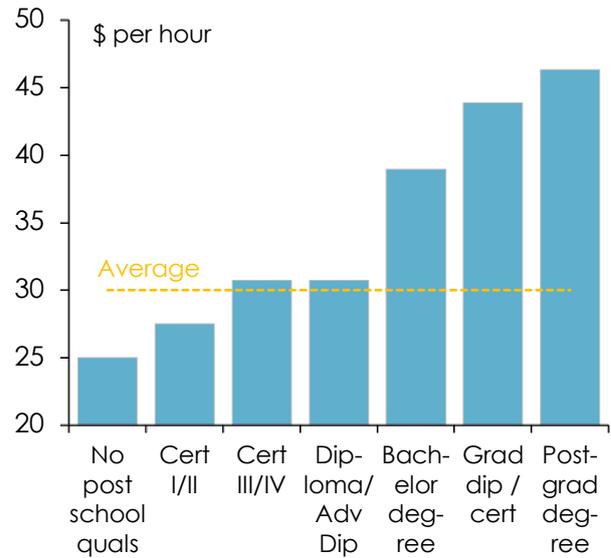
Source: ABS, *Education and Work* (6227.0), May 2018.

Chart 5.3: Educational attainment and full-time employment as a pc of total, May 2018



Source: ABS, Education and Work (6227.0), May 2018.

Chart 5.4: Educational attainment and hourly earnings, August 2017



Source: ABS, Characteristics of Employment (6330.0), August 2017.



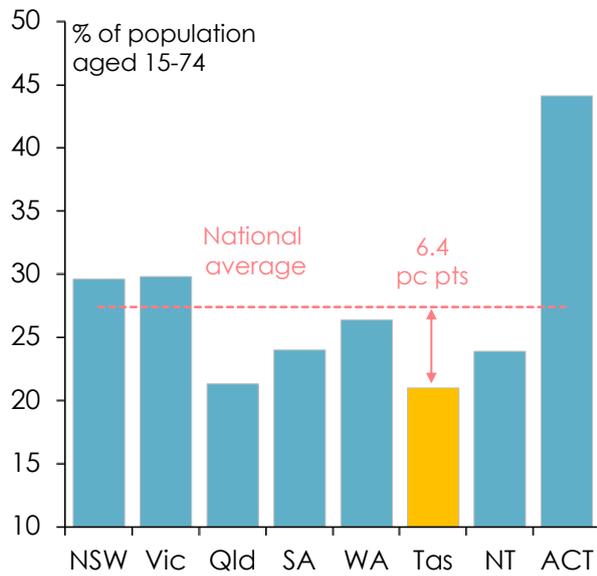
EDUCATIONAL ATTAINMENT IN TASMANIA

Tasmanians are, in general, less well-educated than people living in other parts of Australia.

Only 21.0% of Tasmanians aged 15-74 have a university degree or higher, the lowest proportion of any state or

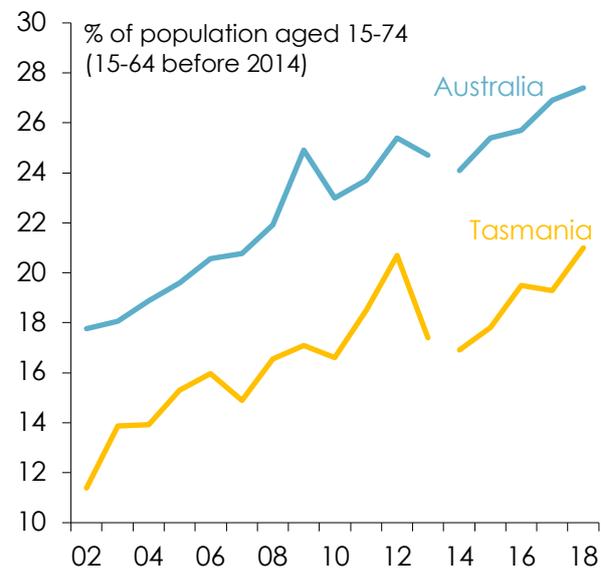
territory (Chart 5.5). However this proportion has risen by 4 percentage points since 2014, narrowing the 'gap' with the national average from 7.2 to 6.4 percentage points (Chart 5.6).

Chart 5.5: Population aged 15-75 with bachelor degree or higher, May 2018



Source: ABS, Education and Work (6227.0), May 2018.

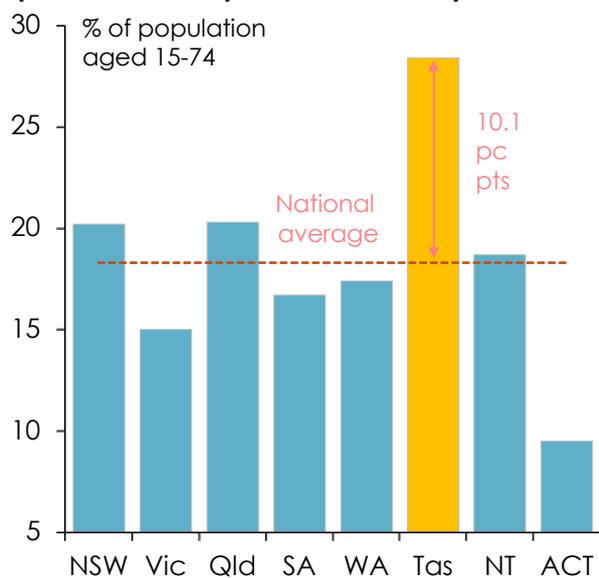
Chart 5.6: Population with bachelor degree or higher, Tasmania and Australia, (15-64 before 2014)



Source: ABS, ABS, Education and Work (6227.0), annual issues from 2002 through 2018 (note series break in 2014).

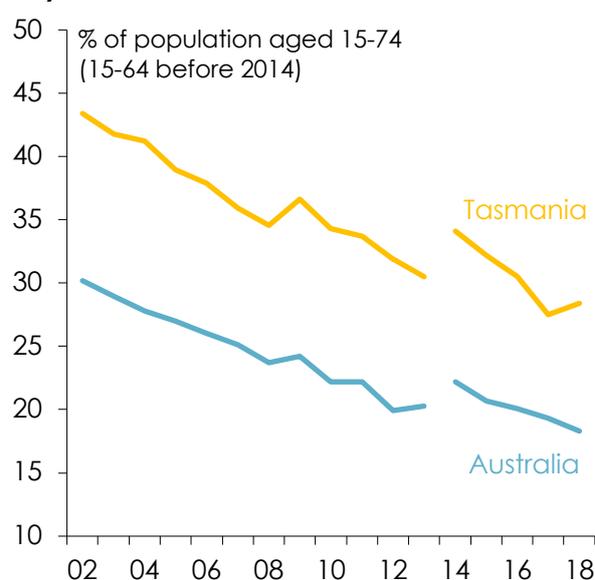


Chart 5.7: Population aged 15-75 with no qualifications beyond Year 10, May 2018



Source: ABS, *Education and Work* (6227.0), May 2018.

Chart 5.8: Population with no qualifications beyond Year 10, Tasmania and Australia



Source: ABS, ABS, *Education and Work* (6227.0), annual issues from 2002 through 2018 (note series break in 2014).

Conversely, 28.4% of Tasmanians aged 15-74 have no qualification beyond Year 10, a higher proportion than in any other state or territory (Chart 5.7). Although this proportion increased slightly between 2017 and 2018, it has declined by nearly 6 percentage points over the past four years, narrowing the gap with the national average by almost 2 percentage points (Chart 5.8).

Last year's Tasmania Report showed that the differences in educational attainment between Tasmania and the rest of Australia could also not be attributed to the fact that Tasmania lacks a large metropolitan area of the size of any of the mainland state capitals, or that a much larger proportion of Tasmania's population lives outside its capital city. Based on data from the 2016 Census, levels of educational attainment in Hobart were lower than those in nearly all mainland provincial cities with similar or even somewhat smaller populations; while levels of educational attainment in regional Tasmania were lower than those in the non-metropolitan areas of each of the mainland states.

The differences in educational attainment between Tasmania and the rest of Australia are partly the result of Tasmania's older age profile, given that, in every state and territory, younger generations typically have higher levels of educational attainment than successively older generations. However it is worth noting, in this context, that South Australia, despite having the second-oldest demographic profile of any state or territory after Tasmania, has higher levels of educational attainment than either of Queensland or Western Australia, both of which have younger age profiles.

They are also partly the result of historical patterns of interstate migration, with young Tasmanians who have acquired tertiary qualifications being more likely to move to the mainland, while those moving to Tasmania from the mainland have historically been older, and hence less likely to have acquired tertiary qualifications. As noted in Chapter 4, this pattern has begun to change a little over the past two years.

PARTICIPATION IN SENIOR SECONDARY EDUCATION

The single most important reason for an above-average proportion of Tasmanians having no qualifications beyond Year 10 of high school, and a below-average proportion having a university qualification, is the persistently below-average rates of participation in, and completion of, senior secondary school (Years 11 and 12) by comparison with the rest of Australia.

A smaller proportion of Tasmanian Year 10 students continue their studies on to Year 12 than of those in any other state or the ACT – or in the Northern Territory if the Indigenous population is excluded from the comparison (Chart 5.9).

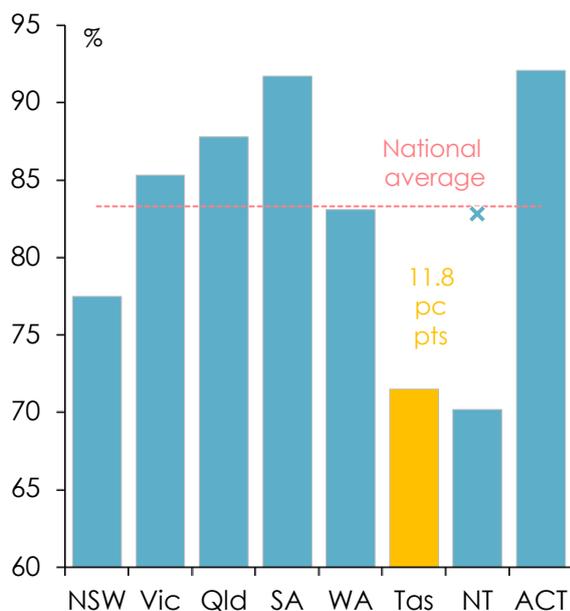
Tasmania's **apparent retention rate** to Year 12 has been rising over the past decade, but remains lower than it was in the late 1990s and early 2000s (Chart 5.10). Moreover retention rates have been rising elsewhere in Australia – most noticeably in South Australia, the state whose socio-economic profile is closest to Tasmania's: South Australia's Year 12 retention rate has risen by more than 14 percentage points since 2009, and is now second only to that of the (much more affluent) ACT.

Apparent retention rates are based on enrolment figures – that is, the number of students enrolled in (in this case, Year 12) courses at the beginning of each year. They do not convey any information about the extent to which students successfully complete the courses in which they enrol.

Tasmania's Year 12 **completion rate** – the number of students who meet the requirements of a Year 12 Certificate or equivalent expressed as a percentage of the potential Year 12 population (in turn defined as one fifth of the population aged 15-19) – reached 60% in 2016, the latest year for which directly comparable data for all states and territories are publicly available (Chart 5.12). This is the highest figure since the commencement of the new TCE in 2009.

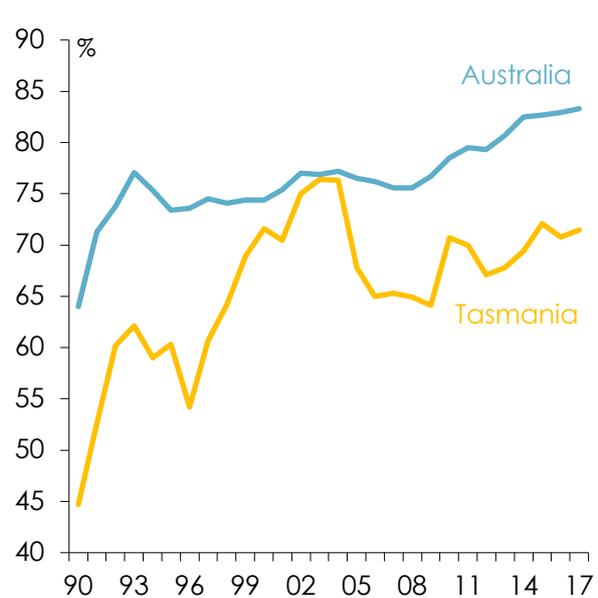
Data published by the Office of Tasmanian Assessment, Standards and Certification (TASC) puts Tasmania's 2016 completion rate at 56%, slightly below that published by the Productivity Commission, increasing further to 59% in 2017. While this suggests an ongoing improvement in Tasmania's Year 12 completion rate, it remains well below those of other jurisdictions, with the exception of the Northern Territory.

Chart 5.9: Apparent retention rates from Year 10 to 12, states and territories, 2017



Note: 'x' is the value for the non-Indigenous population of the NT. Source: ABS, Schools (4221.0), 2016.

Chart 5.10: Apparent retention rates from Year 10 to 12, Tasmania and Australia, 1990-2017



Source: ABS, Schools (4221.0), 2016.

PARTICIPATION IN SENIOR SECONDARY EDUCATION (CONTINUED)

Chart 5.11: Year 12 completion rates, Tasmania and Australia

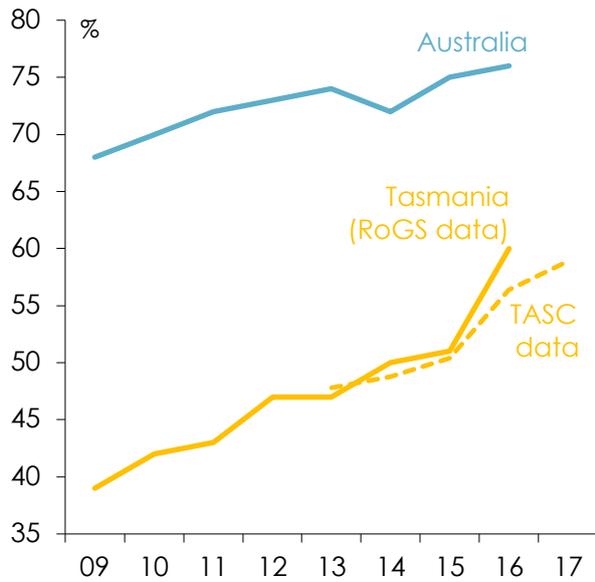
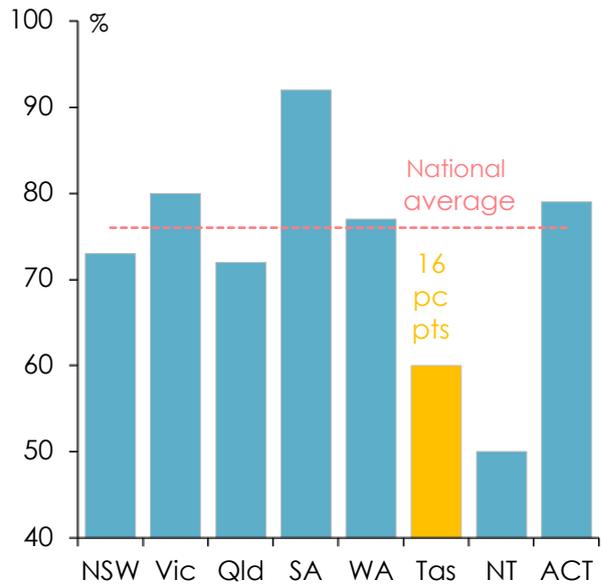


Chart 5.12: Year 12 completion rates, states and territories, 2016



Source: Productivity Commission, *Report on Government Services*, 2018, Volume B, Chapter 4, *School Education*; Office of Tasmanian Assessment, Standards and Certification (TASC), *Rates of Attainment 2017*.

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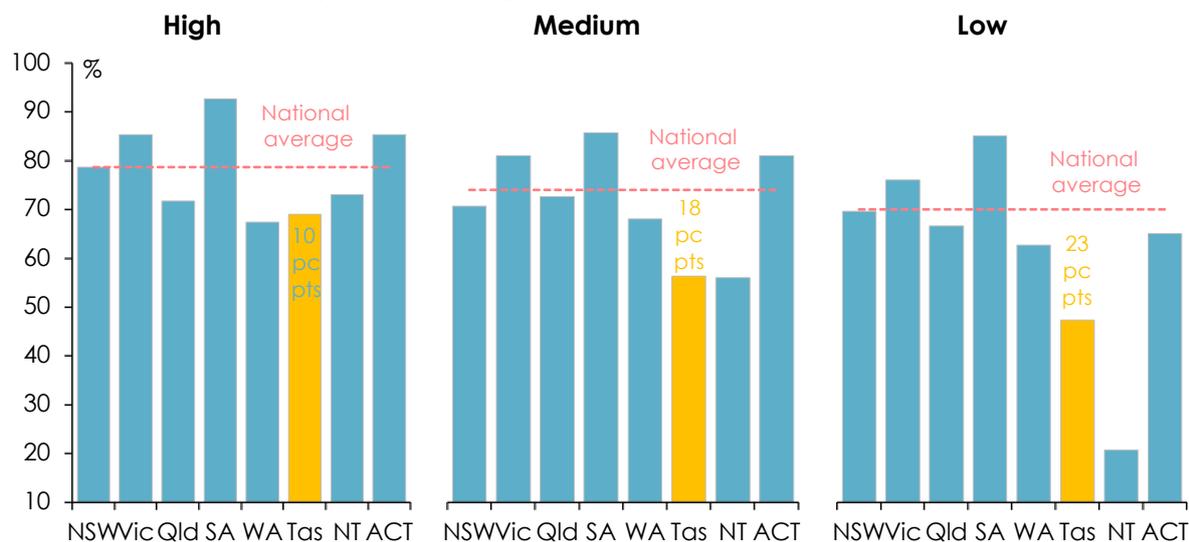
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Chart 5.13: Year 12 completion rates by SES status, States and Territories, 2014-16



Note: Low socio-economic status (SES) is the average of the three lowest deciles, medium SES is the average of the four middle deciles and high SES is the average of the three highest deciles. Source: Productivity Commission, *Report on Government Services, 2018, Volume B, Chapter 4, School Education, Table 4A.55.*

Tasmania's relatively low Year 12 completion rates are undoubtedly influenced to some extent by the fact that an above-average proportion of Tasmanian students come from lower-SES households (as noted in Chapter 4).

However this is far from a complete explanation. As shown in Chart 5.13, Tasmanian students in each SES category are less likely to complete Year 12 than their counterparts in other states and territories – with the exceptions of students from high SES backgrounds in Western Australia and those from low SES backgrounds in the Northern Territory. In particular, a student from a high-SES household in Tasmania has, over the past three years, been less likely to complete Year 12 than a student from a low-SES household on the mainland, on average.

IS TASMANIA SPENDING 'ENOUGH' ON SCHOOL EDUCATION?

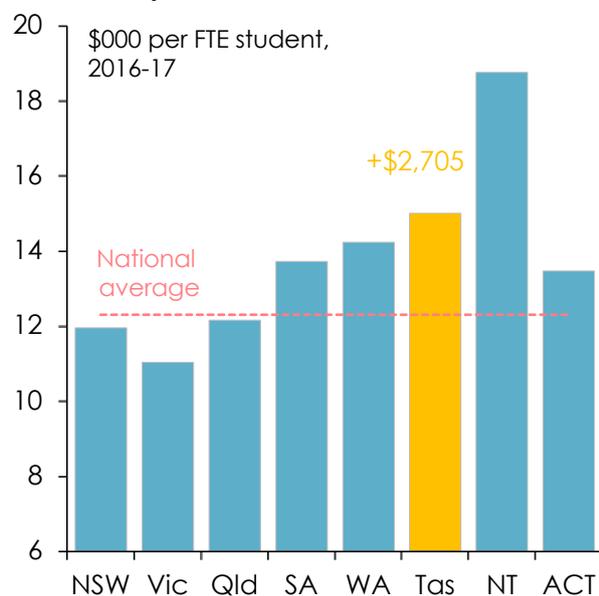
Again the contrast with South Australia is particularly striking. As shown in Charts 4.12 and 4.13 in the previous Chapter, South Australia has the second-highest concentration of low socio-economic status households, and the second-lowest concentration of high socio-economic status households, of any state or territory after Tasmania. Despite this apparent disadvantage – given that there is typically some relationship between socio-economic status and education outcomes – South Australia has the highest Year 12 completion rate of any state or territory.

It is more likely that the 'causation' runs the other way round from how it has often been portrayed – that is, Tasmania's historically low levels of educational participation and attainment are an important reason (albeit not the only one) why a higher proportion of Tasmanian households than of households in other states fall into the lowest socio-economic status, rather than the latter 'causing' the former.

It may seem tempting to suggest that Tasmania's below-average levels of educational participation and attainment could be improved simply by spending more on school education. Yet this is not supported by a comparison of levels of school education in Tasmania with that in other jurisdictions.

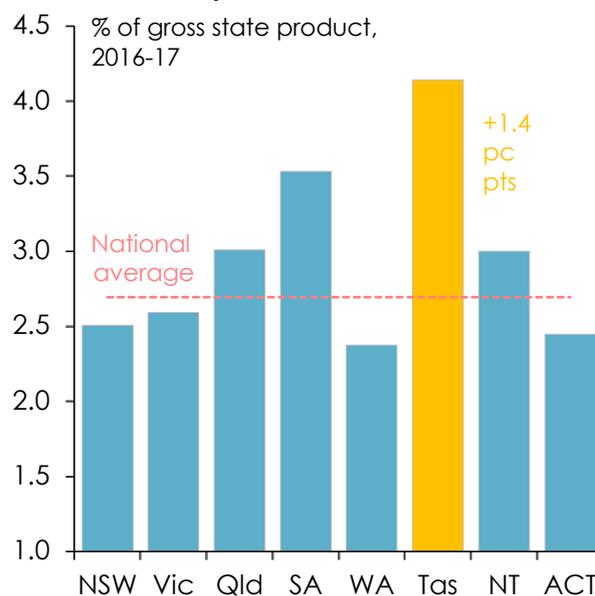
In the 2016-17 financial year, the Tasmanian government spent just over \$15,000 per full-time equivalent student on school education, almost \$2,700 per FTE student (or 22%) more than the average for all states and territories, and more than any other jurisdiction except the Northern Territory (Chart 5.14). This was equivalent to 4.1% of Tasmania's gross state product in 2015-16, more than for any other state or territory, and some 1.4 pc points above the average for all states and territories (Chart 5.15).

Chart 5.14: Government spending on school education per FTE student, 2016-17



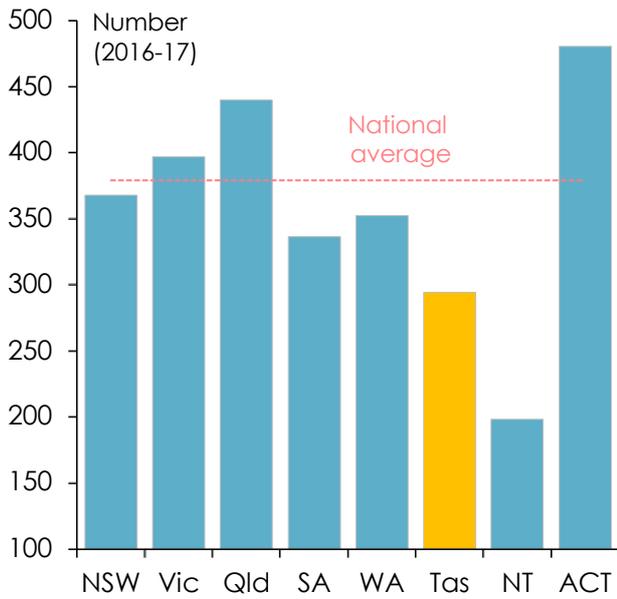
Sources: ABS, *Government Finance Statistics, Education*, (5518.0.55.001), 2016-17; and *Schools* (4221.0), 2017.

Chart 5.15: Government spending on school education as a pc of GSP, 2016-17



Source: ABS, *Government Finance Statistics, Education*, (5518.0.55.001), 2016-17; and *State Accounts* (5220.0), 2017-18.

Chart 5.16: Average government school sizes, states and territories, 2017



Source: ABS, Schools (4221,0), 2017.

More detailed data compiled by the Productivity Commission show that this is because Tasmania has relatively few large primary schools (with more than 400 students), a relatively large number of small secondary schools (with fewer than 300 students), and relatively few large secondary schools (with more than 800 students).

Smaller schools will typically have higher overhead and fixed costs (eg for school leaders, administrative, support and maintenance staff) per student than larger schools. However, in the Tasmanian context, there is no evidence to suggest that smaller schools produce better student outcomes.



TASMANIA'S COLLEGE SYSTEM

The most obvious and substantial structural difference between the government school system in Tasmania and elsewhere in Australia is that Year 11 and 12 courses have (since the 1960s) been provided through 'colleges', separate from high schools which in Tasmania, unlike other states, have traditionally only catered for Years 7 through 10. The only other jurisdiction which provides senior secondary education through separate colleges is the ACT – which, as shown throughout this Report, is economically, culturally and in almost every other way more different from Tasmania than any other part of Australia.

There is no compelling evidence that Tasmania's colleges provide an inferior quality of senior secondary education to the students who attend them than the comprehensive systems in other states.

However, Tasmania's college system does appear to be a relatively more expensive way of providing Year 11 and 12 courses.

The average cost per TCE graduate across Tasmania's eight senior secondary colleges in 2016 (using the most recent financial data published on the MySchool website) was about \$46,700 – almost \$10,000 (or 27%) more than the equivalent figure for 13 South Australian high schools whose students come from a similar range of socio-economic status backgrounds to those attending Tasmania's colleges; and about \$4,000 or 9% more than the average for five Tasmanian independent schools¹⁰.

The separate college system has also led to the existence of a number of obstacles confronting students who might otherwise have been more likely to progress all the way to Year 12, obstacles which do not exist in the integrated high school systems of mainland states.

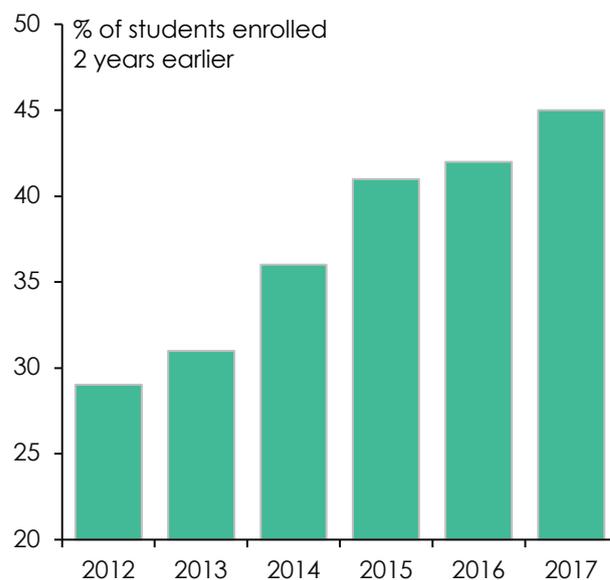
In particular, the 'structural break' in the Tasmanian education system at Year 10 means that students in Years 7 through 10 at government high schools do not come into regular contact with Year 11 and 12 students who can serve as 'role models' for them, inspiring them to see Year 12 as the appropriate 'exit point' from schooling, rather than Year 10.

It also means that students who do go on to Years 11 and 12 at a college lose contact with subject teachers and other staff who have come to know their strengths and weaknesses over their first four years of high school, and have to 'start again' with college staff who will only have two years to achieve the same insights – and who are themselves 'starting from scratch' with their new intakes each year.

And it has historically meant that students from other than the four centres where the colleges are located have had to commute long distances, or board, in order to complete Years 11 and 12 – which have often turned out to be insurmountable hurdles.

During its first term in office, the Hodgman Government extended Year 11 and 12 courses to all high schools outside of the four major metropolitan centres (where the colleges are located).

Chart 5.17: Year 12 completion rates at 'extension' high schools, 2012-2017



Source: Office of Tasmanian Assessment, Standards and Certification (TASC), *Attainment Profiles and Direct Continuation Data*, 2018.

¹⁰ These calculations were made using the same methods and assumptions as in Michael Rowan and Eleanor Ramsay, 'Tasmanian Colleges – Fit for the Purpose of Post-Compulsory Schooling?' Education Ambassadors, August 2014, and *Submission to the State of Tasmania Years 9-12 Education Review: Attachment 1*, Australian Council for Educational Research, September 2016.

TASMANIA'S COLLEGE SYSTEM (CONTINUED)

46% of students enrolled in these schools in 2015 attained their TCE in 2017, up from 29% of those enrolled in these schools in 2010 who attained their TCE in 2012 – an increase of 17 percentage points, compared with an increase of 11 percentage points in the completion rate for all Tasmanian schools (including the 'extension schools') (Chart 5.17).

The Government has committed to extend Year 11 and 12 courses to high schools in urban areas during its second term in office.

The Hodgman Government's ultimate aims are to lift Tasmania's Year 12 retention rate to at least the national average, and the TCE completion rate to 75%, by 2022. It believes that these goals can be accomplished by high schools and colleges working 'in partnership', as a number of them already do.

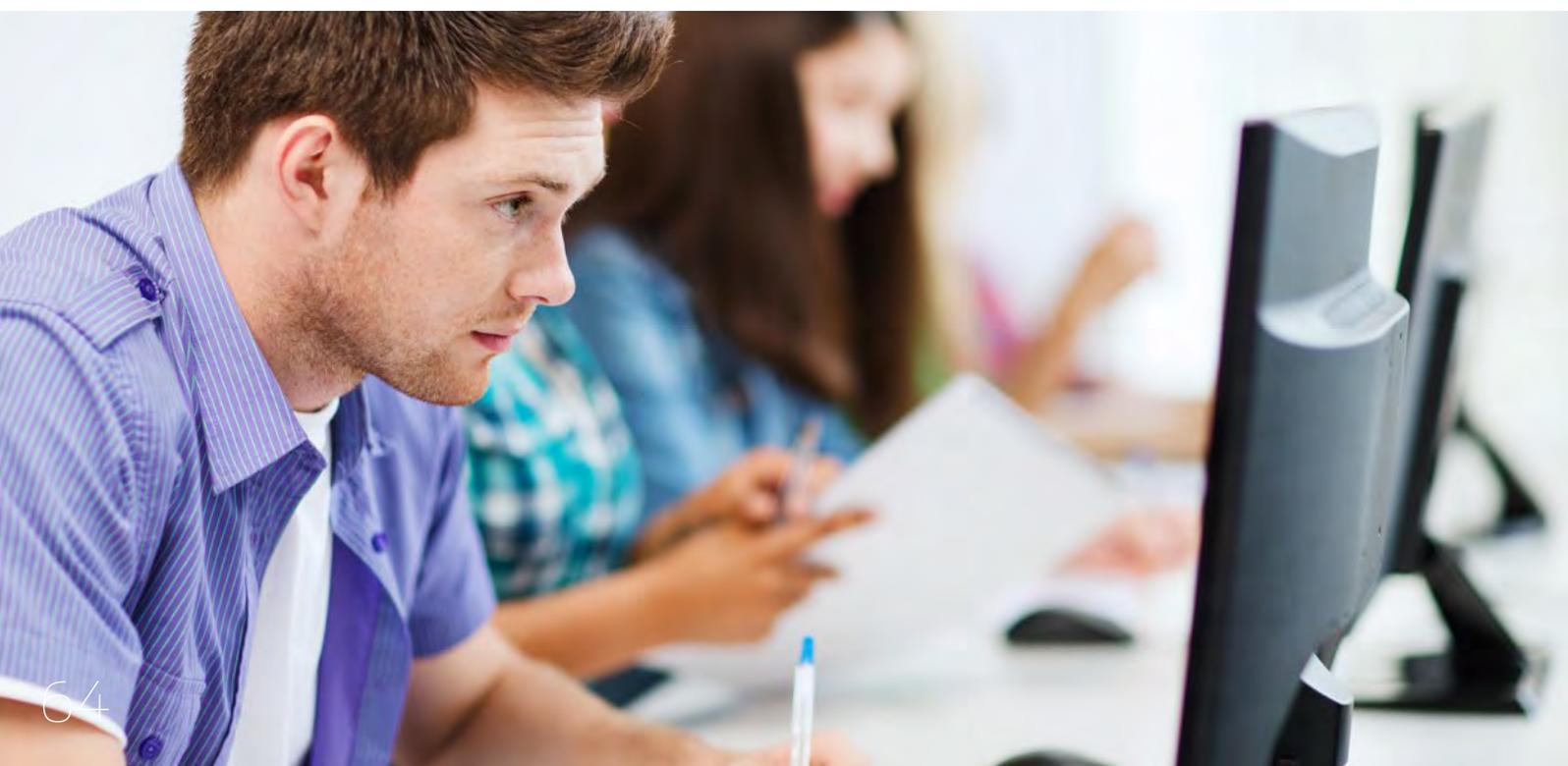
However, retaining the existing colleges as separate institutions, as the Government envisages, seems likely to entail a higher on-going cost than a fully integrated system such as those operating in every other state.

As last year's Tasmania Report argued, if the college system really has done such a stellar job of educating Tasmanian students in the senior secondary years over the past five decades, why is it that no other state has seen fit to copy it (other than the ACT which, as argued earlier, might as well be Mars for all the relevance its circumstances have to Tasmania)?

Once again South Australia provides an instructive counter-example. South Australia has in recent years been the only state where Year 7 forms part of primary school, rather than high school. However the newly-elected Liberal Government of Premier Steve Marshall has committed, in its first Budget, to transitioning Year 7s in public schools from primary to secondary schools by 2022, in recognition of "the experience of other states showing that Year 7s thrive in a high school setting", and so as "to improve the long-term educational outcomes for South Australian students"³.

If South Australia – whose education system, as noted previously in this Chapter, typically produces above-average student outcomes despite having a socio-economic profile closer to Tasmania's than any other state or territory – sees merit in bringing the structure of its education system more into line with that of the rest of Australia's, why shouldn't Tasmania?

³Government of South Australia, 2018-19 Budget Paper No 1, p. 8.



TASMANIA'S VOCATIONAL EDUCATION AND TRAINING (VET) SYSTEM

By contrast with its senior secondary system, Tasmania's vocational education and training system appears to compare favourably in a number of respects with those of other states and territories.

Data assembled by the Productivity Commission indicate that a higher proportion of 18-24 year old Tasmanians participate in VET programs than of the same age group in any other jurisdiction except the Northern Territory (Chart 5.18); and that the proportion of VET graduates who believe that their training helped them achieve their main reason for undertaking it is also well above the national average (Chart 5.19).

Tasmanian employers also report higher levels of engagement with the VET system than employers in any other state (Chart 5.20). And they appear to be generally more satisfied with the various forms of VET training than their counterparts elsewhere in Australia (Chart 5.21), although within these totals the proportion of Tasmanian employers who are satisfied with apprenticeship or traineeship programs is lower than the national average.

Despite these generally favourable comparisons, however, some employers are encountering shortages of suitably skilled employees, particularly in construction-related trades.

Chart 5.18: Participation of 18-24 year olds in government-funded VET programs, 2017

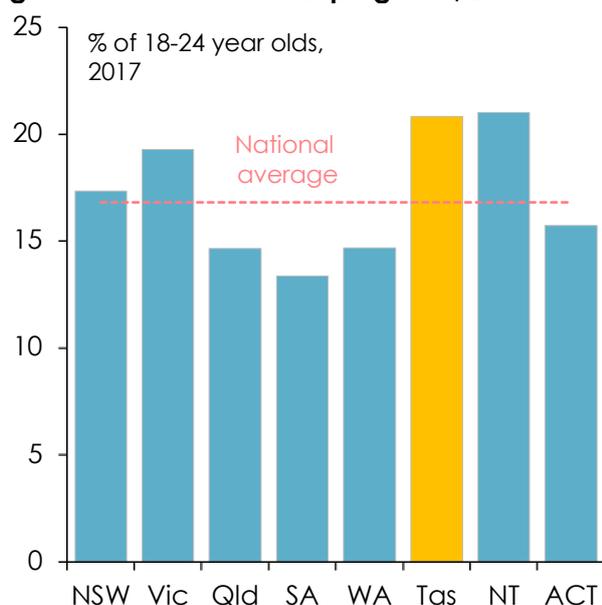
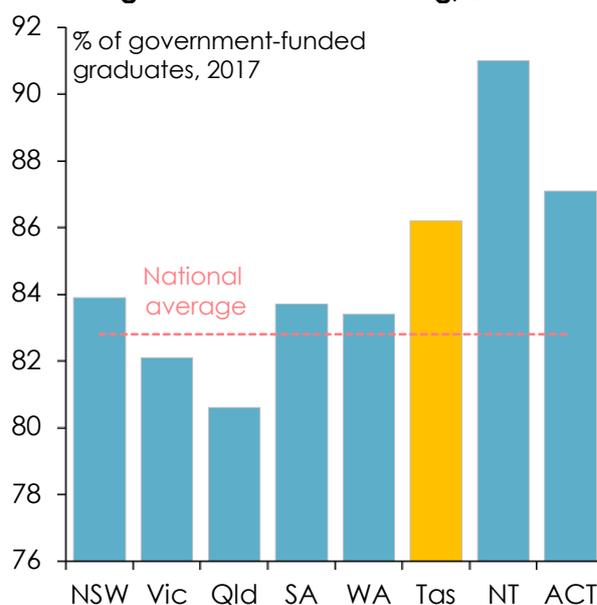


Chart 5.19: Proportion of VET graduates achieving main reason for training, 2017



Source: Productivity Commission, *Report on Government Services*, 2018, Volume B, Chapter 5, *Vocational Education and Training*.

Chart 5.20: Employer engagement with VET programs, 2017

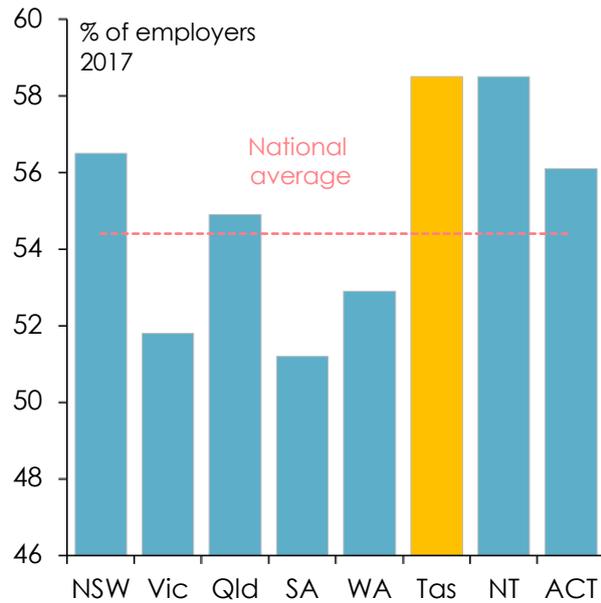
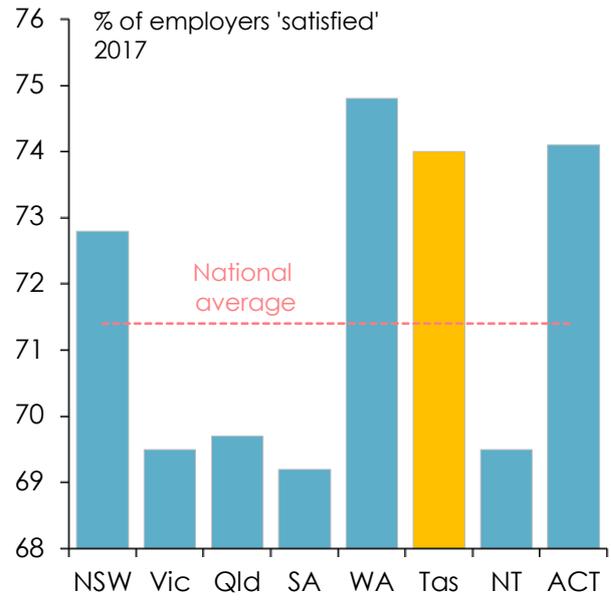


Chart 5.21: Employer satisfaction with VET programs, 2017



Source: Productivity Commission, *Report on Government Services, 2018, Volume B, Chapter 5, Vocational Education and Training.*

Those pressures may become more intense if the level of residential, commercial and engineering construction activity continues to grow.



THE BROADER ROLE OF EDUCATION

The importance of achieving higher levels of educational participation and attainment does not derive exclusively from the contribution that doing so can make towards better economic outcomes. Higher levels of educational attainment would also contribute towards improving the health status of Tasmanians, not least by enabling them to make better 'lifestyle choices' than the ones documented in the last section of Chapter 4.

More broadly, as the University of Tasmania puts it in its most recent Strategic Direction statement, "sustainable social, economic and cultural progress requires ever higher levels of capability and constant discovery to solve the complex problems and questions that we face" ... Today, education, knowledge and creative productions are critical to future social and economic wellbeing, and even more so in an island setting with a small population. In a world where globalisation favours large, globally connected metropolitan areas, regional economies will always have to work harder to find the distinctive sources of advantage that are needed to generate wealth, services and infrastructure required to support a decent quality of life here"⁴.

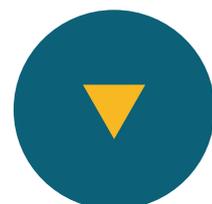
The need for 'ever high levels of capability' and the quest for 'distinctive sources of advantage' are challenges which confront all sections of the Tasmanian community.

⁴University of Tasmania, Strategic Direction, November 2018, p. 2.



Chapter 6

TASMANIA'S PUBLIC SECTOR



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SIZE OF THE PUBLIC SECTOR

Tasmania has a relatively large state public sector. At the end of the 2017-18 financial year, the **assets** of the state non-financial public sector had a value equivalent to 86% of Tasmania's gross state product (GSP) for the year, a larger figure than for any other state except Queensland, and well above the average for all states and territories of 73% (Chart 6.1)¹³. Tasmanian state non-financial public sector **'operating expenses'** in 2017-18 were equivalent to almost 29% of gross state product, a larger proportion than in any other state or territory, and well above the average of 15.7% for all states and territories (Chart 6.2).

The size of Tasmania's state public sector partly reflects the relatively greater importance of its **government business enterprises (GBEs)**, whose assets at the end of 2017-18 were worth 35% of gross state product, and whose 'operating expenses' represented 11% of GSP in 2017-18 – in each case higher than for any other state or territory, and well above the averages for all states and territories of 15.7% and 3.4% of GSP, respectively.

Chart 6.1: State non-financial public sector assets as a pc of GSP, 30 June 2018

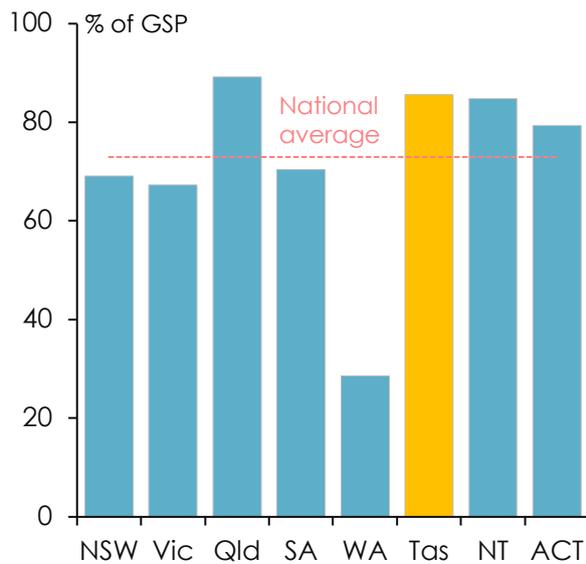
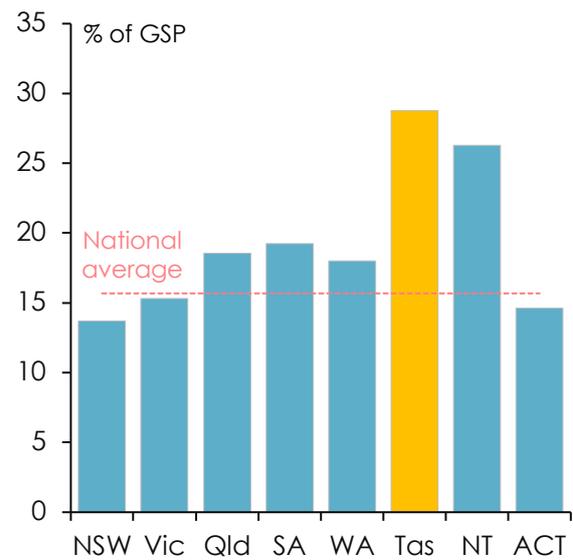


Chart 6.2: State non-financial public sector operating expenses as a pc of GSP, 2017-18

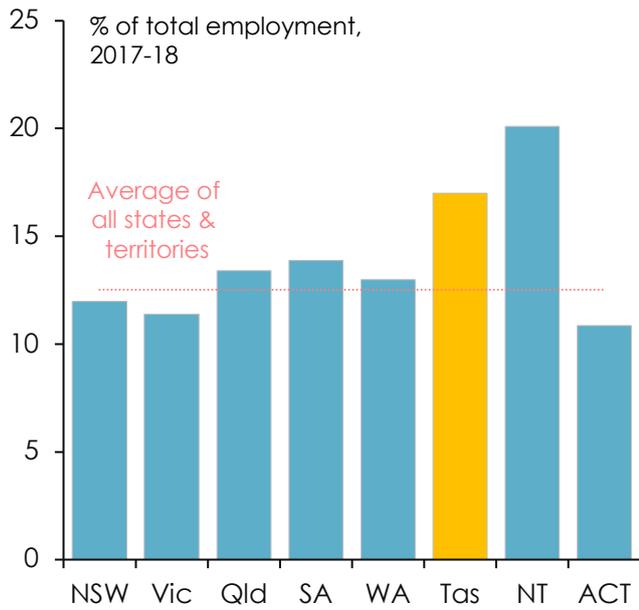


Sources: State and Territory Treasuries, *Annual Financial Reports* (or equivalents), 2017-18, except for Queensland and South Australia, 2018-19 Budget Papers; ABS, *State Accounts* (5220.0), 2018-19.

¹³ The value of assets owned by the entire Tasmanian state public sector, including the Tasmanian Public Finance Corporation (Tascorp) and the Motor Accident Insurance Board (which are classified as public financial corporations) was equivalent to almost 100% of GSP as at the end of 2017-18

SIZE OF THE PUBLIC SECTOR (CONTINUED)

Chart 6.3: State public sector employment as a pc of total employment, 2017-18



Source: ABS, *Employment and Earnings, Public Sector, Australia, 6248.0.55.002*, 2017-18.

Tasmania's 'general government' sector (that is, the 'core' departments and agencies) was also larger than that of most other states and territories, with assets valued at the equivalent of 66% of GSP in 2017-18 (higher than in any other state except Queensland, and the two territories), and 'operating expenses' amounting to 19.4% of GSP (higher than for any other jurisdiction except the Northern Territory, and well above the average for all states and territories of 13.6%).

The state public sector is also a relatively large employer, accounting for 17% of total employment in Tasmania in 2017-18 – more than in any jurisdiction except the Northern Territory, and 4½ percentage points above the average for all states and territories (Chart 6.3).

The Commonwealth Government is also a larger employer in Tasmania than in any other state, accounting for 2.2% of total employment – although this is a smaller figure than for the Northern Territory or (especially, but unsurprisingly) the ACT.

Local government, on the other hand, accounts for just 1.7% of total employment in Tasmania, which is only marginally above the national average of 1.5%.



FINANCIAL POSITION AND PERFORMANCE OF TASMANIA'S PUBLIC SECTOR

Except for its very large unfunded superannuation liability – on which more below – the Tasmanian public sector is in a relatively strong financial position.

Tasmania is one of only two jurisdictions where the 'general government' sector is a **net creditor** (Chart 6.4) – and the other, New South Wales, will be in this position only temporarily,

whereas Tasmania's general government sector is projected to remain a net creditor throughout the current forward estimates period, which ends in 2021-22 (Chart 6.5), albeit to a much smaller extent than projected a year previously, as a result of the greater run-down in net cash balances required to fund the Government's election commitments.

Chart 6.4: 'General government' net debt as a pc of GDP, 30 June 2018

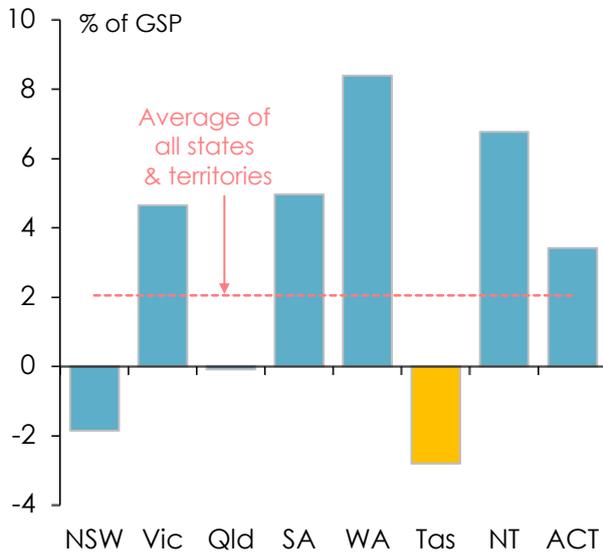


Chart 6.5: 'General government' net debt, Tasmania and all states & territories

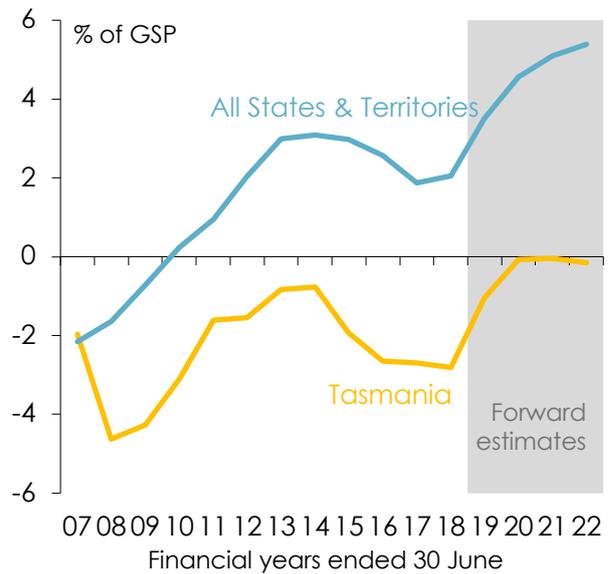


Chart 6.6: State non-financial public sector net debt as a pc of GDP, 30 June 2018

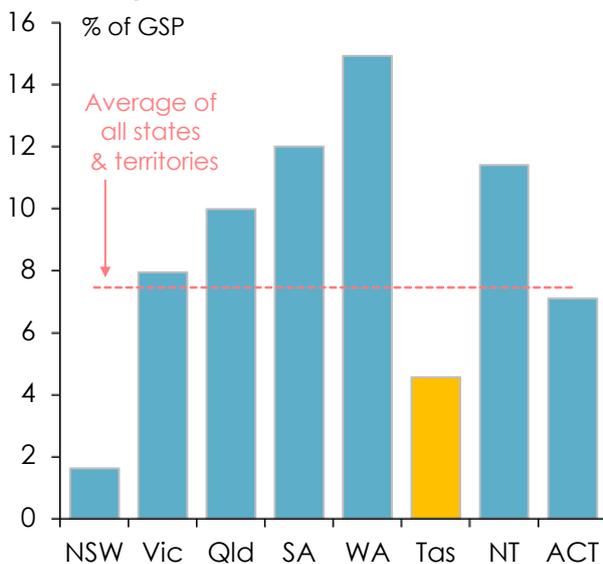
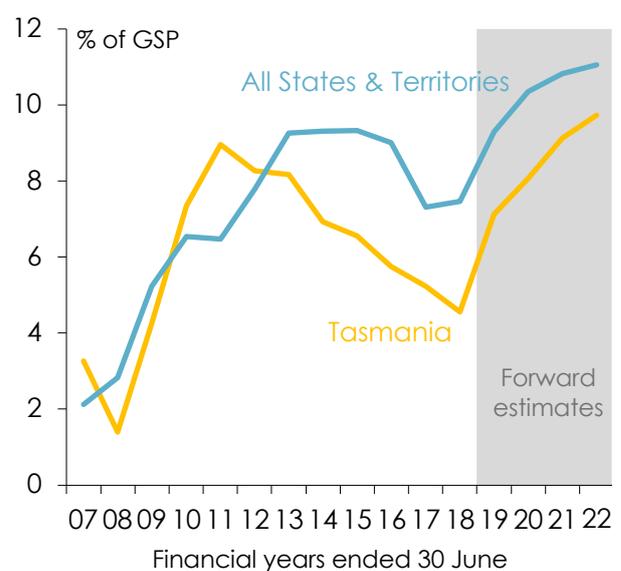


Chart 6.7: State non-financial public sector net debt, Tasmania and all states & territories



Sources: State and Territory Treasuries, *Annual Financial Reports* (or equivalents), 2017-18, except for Queensland and South Australia; 2018-19 Budget Papers; ABS, *State Accounts* (5220.0), 2017-18.

Chart 6.8: Tasmanian general government operating revenue and expenses

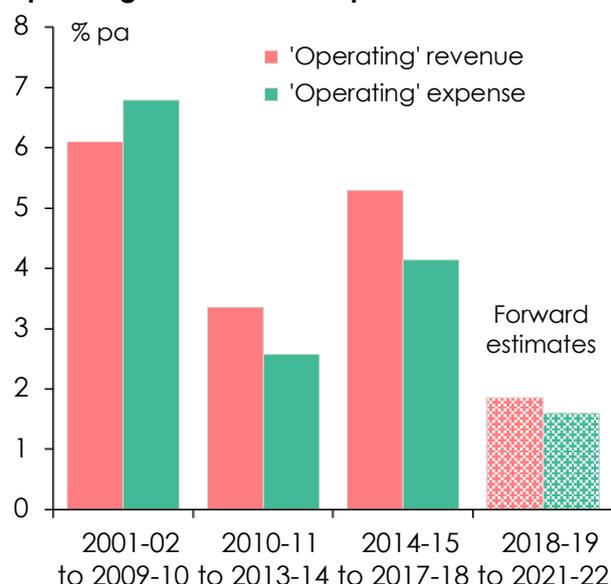
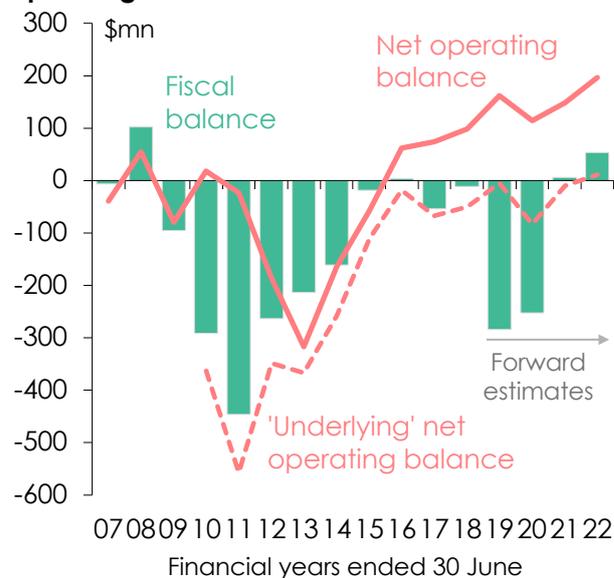


Chart 6.9: Tasmanian general government 'net operating' and fiscal balances



Note: The net operating balance for 2016-17 shown in Chart 6.9 excludes the one-off payment of \$740mn from the Australian Government accompanying the transfer of the Mersey Community Hospital. The 'underlying' net operating balance excludes this and other one-off Australian Government capital funding (such as for the Royal Hobart Hospital re-development, and various roads projects). The fiscal balance includes net purchases of non-financial assets. Sources: Tasmanian Government, *Budget Paper No. 1*, 2018-19 and previous years; *Treasurer's Annual Financial Report*, 2017-18.

Tasmania's GBEs have a relatively large amount of debt – equivalent in 2017-18 to just under 7½% of gross state product, more than any other state or territory except Queensland, and well above the average of 5½% of GSP for all states and territories – largely as a result of the fact that, as noted earlier, they also have a lot of assets.

Despite this, because Tasmania's general government sector is a net creditor, Tasmania's **total non-financial public sector debt** is lower, as a proportion of gross product, than that of any other state or territory except New South Wales (Chart 6.6), and on the most recent state budget projections will remain below the average for all states and territories through 2021-22 (Chart 6.7).

The improvement in the financial position of Tasmania's general government sector reflects greater control over **government spending** since 2010-11, and stronger growth in **revenues** since 2013-14.

Growth in 'operating expenses' has been held to an average of just over 4% pa since 2013-14, up from 2½% pa over the previous four years but well down on the growth rate of almost 7% pa over the decade before that (Chart 6.8). Meanwhile 'operating revenue' has grown at an average annual rate of 5¼% pa over the past four years, up from less than 3½% pa between 2010-11 and 2013-14.

Importantly, holding growth in spending to less than the growth in revenues has allowed the Government's 'net operating balance' to return to surplus: and that surplus is projected to increase over the forward estimates period out to 2021-22 (Chart 6.9), which is in turn helping to finance higher levels of infrastructure investment. (Note the 'net operating balance' as published in the State Budget Papers includes about \$177mn pa of Commonwealth Government grants for capital purposes which accounting conventions treat as 'operating revenues'; excluding these the 'underlying' operating balance will record small deficits over the forward estimates period).

Chart 6.10: Growth in major categories of 'operating revenues'

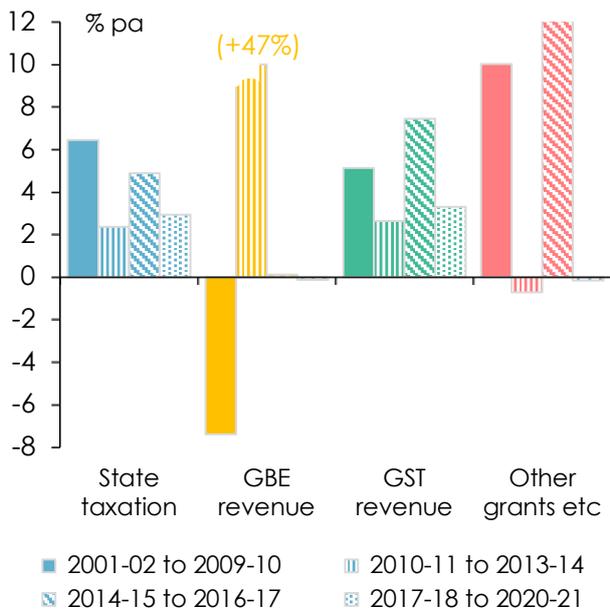
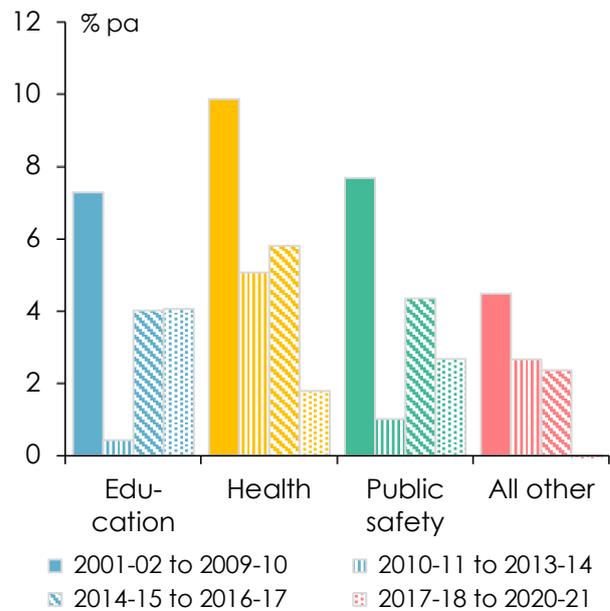


Chart 6.11: Growth in major categories of 'operating expenses'



Sources: Tasmanian Government, *Budget Paper No. 1*, 2018-19 and previous years; *Treasurer's Annual Financial Report*, 2017-18.

More than half of the growth in the state government's operating revenues over the past four years has come from Tasmania's share of GST revenue collected by the federal government (Chart 6.10): this in turn reflects both strong growth in total GST collections and some increase in Tasmania's share of the GST pool. Revenue from other Commonwealth grants has also grown rapidly. Tasmania's improved economic performance has also been reflected in stronger growth in state taxation revenue, particularly from stamp duty.

However the most recent State Budget forecasts revenue to grow much more slowly over the next four years, largely reflecting slower growth in GST revenue (as a result of a decline in Tasmania's share) and virtually no growth in other Commonwealth grants. State taxation revenue is also projected to grow at a slower rate over the next four years than over the past four: this may prove to be an underestimate, however, if Tasmania's economy grows at a faster rate than the 2-2¼% pa envisaged by State Treasury.

Spending on health, education and public order and safety have risen at faster rates, of 6%, 4% and 4¼% pa respectively, over the past four years, than in other functional areas, where spending growth has been held to less than 2½% pa, on average (Chart 6.11).

The forward estimates in the most recent State Budget imply a sharp slowing in spending on health, to less than 2% pa over the four years to 2021-22. Given the pressures being experienced in the Tasmanian health system this forecast is likely to be subject to some upward revision. There may also be pressure for additional spending in some other areas of the budget, including housing.

Chart 6.12: Tasmanian state public sector infrastructure investment

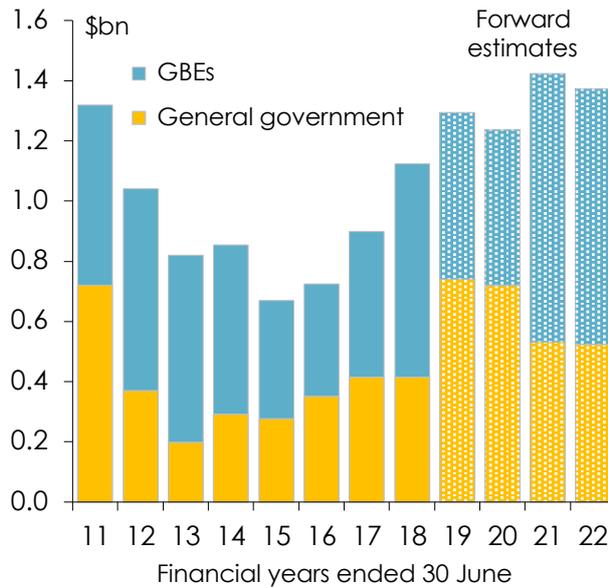
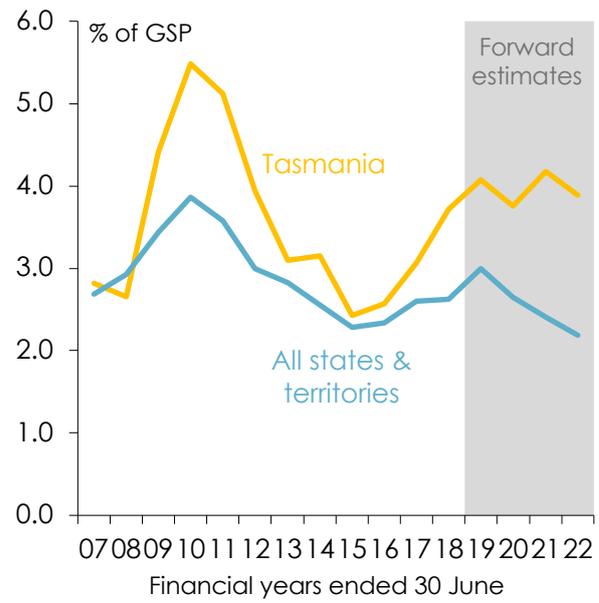


Chart 6.13: State non-financial public sector infrastructure investment as pc of GSP



Note: 'infrastructure investment' in the above charts is measured by 'purchases of non-financial assets' as shown in Budget Papers. Sources: Tasmanian Government, *Budget Paper No. 1*, 2018-19 and previous years; *Treasurer's Annual Financial Report*, 2017-18; other state and territory Budget Papers.

The Government's stronger operating position has allowed it to undertake higher levels of investment in economic and social **infrastructure**. General government infrastructure spending over the four years to 2021-22 is projected to exceed \$2½bn, an increase of more than 70% by comparison with the four years ended 2017-18 (Chart 6.12). Apart from the Royal Hobart Hospital redevelopment, which is expected to be completed during the 2019-20 financial year, the largest component of this infrastructure spend is in roads, although the most recent State Budget also includes new investments in housing, schools and the justice system.

Infrastructure investment by GBEs is also expected to approach \$2.8bn over the four years to 2021-22, almost \$1bn more than over the past four years. This includes the funding for the expected replacement of TT Line's Spirit of Tasmania vessels in the beginning in 2021. However it does not include potential investments by Hydro Tasmania and TasNetworks in mooted pumped hydro developments or additional electricity interconnection with the mainland.

Including some large private sector projects, the Government now envisages a 'pipeline' of \$13.9bn of infrastructure spending in Tasmania over the next decade.

State public sector infrastructure investment will represent a larger share of Tasmania's economy over the next four years than in other states and territories, on average (Chart 6.13). This partly reflects the relatively larger role which government-owned businesses play in Tasmania's electricity industry compared with most other states or territories. Tasmanian general government infrastructure investment.

TASMANIA'S UNFUNDED PUBLIC SECTOR SUPERANNUATION LIABILITY

The one significant blemish on Tasmania's otherwise strong public sector financial scorecard is its large unfunded superannuation liability.

The present value of the Tasmanian Government's liability to pay pensions and lump sums to current and former employees (including judges and MPs) who are or were members of (now closed) defined benefit superannuation schemes was estimated to be \$10.2bn as at the end of the 2017-18 financial year. Partly offsetting this, the value of 'plan assets' (that is, the contributions made by members of these schemes and the accumulated investment income earned on them) was estimated to be nearly \$2.0bn – leaving an 'unfunded liability' of \$8.3bn.

Adding in the unfunded liability in respect of GBE employees, the total **unfunded superannuation liability** was estimated to have been \$9.0bn as at the end of the 2016-17 financial year.

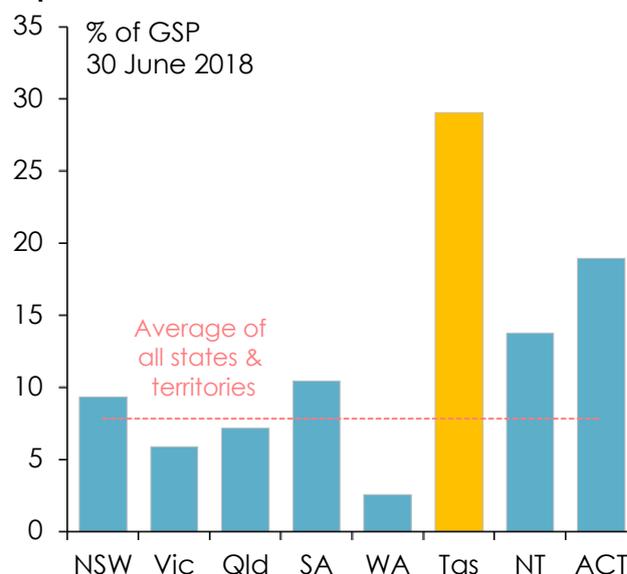
This represents 29% of Tasmania's 2017-18 gross product, a larger proportion than for any other state or territory, and more than three times the average for all states and territories (Chart 6.14).

The cash cost of meeting the 'general government' component of this liability is forecast to rise from about \$280mn (equivalent to 4.4% of operating cash receipts) in 2018-19 to a peak of \$438mn (5% of operating cash receipts) in 2027-28.

On present indications, the unfunded superannuation liability will not be extinguished until 2080; servicing it will still be absorbing 3½% of operating cash flows in 20 years' time.

The unfunded superannuation liability differs from conventional debt in that none of it needs to be re-financed at periodic intervals – that is, it doesn't carry any 'refinancing risk'. However, it does represent a constraint on Tasmania's capacity to take on conventional debt (for example, in order to finance higher levels of infrastructure investment) in two important ways.

Chart 6.14: Non-financial public sector unfunded superannuation liabilities, June 2018



Sources: State and Territory Treasuries, *Annual Financial Reports* (or equivalents), 2017-18, except for Queensland and South Australia, 2018-19 Budget Papers; ABS, *State Accounts* (5220.0), 2017-18.

First, it means that, notwithstanding Tasmania's very strong position with regard to net debt, its **net financial liabilities** (which includes superannuation) represent a higher proportion of its revenues (a key ratio used by credit rating agencies) than that of any other state except South Australia. This is one of the main reasons why Tasmania doesn't have a AAA rating, as might otherwise be expected – which in turn results in the Tasmanian Government paying slightly higher interest rates on its borrowings than most other states.

Second, the relatively large annual cash cost of meeting the Government's obligations to retired public sector employees means that it has less scope than other states or territories to pay interest on debt without pushing the 'net operating balance' into deficit.

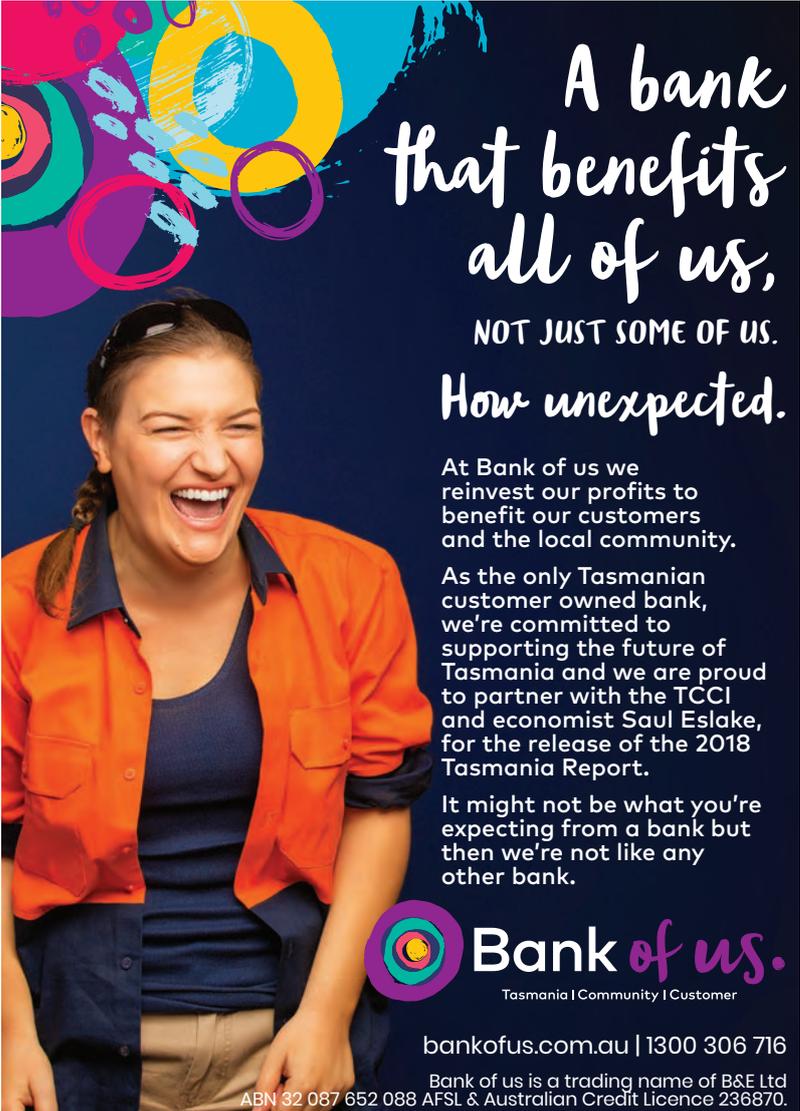
TASMANIA'S UNFUNDED PUBLIC SECTOR SUPERANNUATION LIABILITY (CONTINUED)

As explained in last year's Tasmania Report, there are only two broad options open to the Government for reducing this liability over a shorter time-frame than the 62 years envisaged in the most recent State Budget. The first is to run cash surpluses (that is, spend less on both recurrent expenses and infrastructure than received from state taxes, federal government grants and other revenue sources), and set them aside in a fund dedicated to offsetting the liability. The second is to sell assets and invest the proceeds in a similar way. In either case, the returns on the investments, and the capital itself, can be drawn down in the future in order to reduce the requirement to divert revenues to meeting superannuation payments.

Previous Tasmanian governments pursued the first of these options in the late 1990s and early 2000s, but the accumulated balances were drawn down in order to finance budget deficits incurred in the early years of this decade. And other state governments, and at the federal level the Howard Government in the early 2000s, have pursued the second.

It is not at all obvious that, in current circumstances, it would be economically sensible to preference accumulating cash balances over undertaking infrastructure investment. And it is clear that there is no appetite anywhere across the political spectrum in Tasmania for major asset sales. Hence, unlike its predecessors, this Report is no longer advocating that the Government contemplate the sale or lease of any major business assets.

However, that also implies that, for several decades, the unfunded superannuation liability will continue to represent a constraint on Tasmanian governments' budget flexibility, and a source of risk to future budgets. In particular, it means that the present and future Tasmanian governments have less scope than the governments of other states and territories for borrowing, even at present relatively low interest rates, in order to fund worthwhile infrastructure investments.



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BUDGET RISKS AND PRESSURES

Chart 6.15: GST revenue shares per head of population, 2018-19

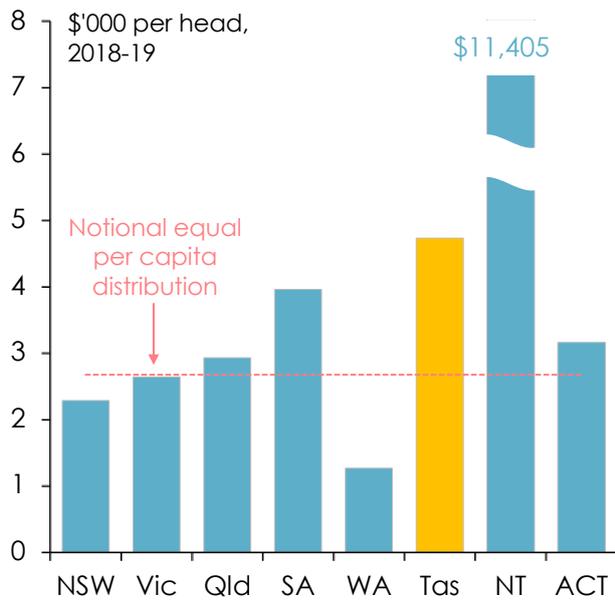
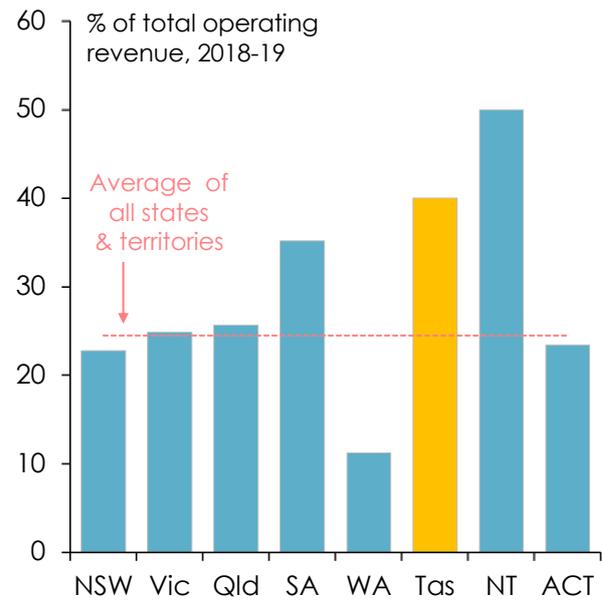


Chart 6.16: GST revenue shares as a proportion of total 'operating revenue', 2018-19



Sources: Australian Government, *Budget Paper No. 3, 2018-19*; State and Territory Government 2018-19 Budget Papers.

Last year's Tasmania Report devoted considerable attention to the risks posed to Tasmania's budget by the review of GST revenue-sharing arrangements then being undertaken by the Productivity Commission. Tasmania has long been a major beneficiary of the principles of 'horizontal fiscal equalization' under which general purpose payments from the Commonwealth to the states and territories (or, since 2000-01, revenue from the GST) have been distributed (see Charts 6.15 and 6.16).

The Productivity Commission's Final Report¹⁴ recommended that the objective of horizontal fiscal equalization be narrowed from (in effect) lifting the 'fiscal capacity' of all states and territories to that of the fiscally strongest state (which in recent years has been Western Australia) to 'equalizing to the average', by which it meant lifting the 'fiscal capacity' of the weaker states and territories to that of the average of all states and territories rather than to the strongest. That would have resulted in a significant redistribution of GST revenues from Tasmania, South Australia and the two territories to Western Australia, New South Wales and Victoria.

The Federal Government rejected this recommendation in favour of equalizing to the fiscally stronger of New South Wales and Victoria, together with the introduction of a 'floor' below which any state or territory's share of GST revenues, relative to its share of Australia's population, would not be allowed to fall.

This new equalization benchmark would also have disadvantaged the smaller states (including Tasmania) and territories: but the federal government proposed to offset that by 'topping up' the GST revenue pool by more than \$9bn over the next decade, such that 'no state or territory would be worse off' as a result. However there was initially no similar guarantee that the proposed 'relativity floor' – which was primarily intended to protect Western Australia's share of GST revenue from falling below 75% of its share of the population – would not make other states and territories worse off if, for example, there were to be another 'mining boom'.

¹⁴ Productivity Commission, *Horizontal Fiscal Equalization - Inquiry Report*, Canberra, May 2018.

BUDGET RISKS AND PRESSURES (CONTINUED)

In the end, the federal government agreed to legislate an additional safeguard for the smaller states and territories which in effect guarantees that, at least until 2028-29, they will receive the greater of their entitlement under the new arrangements, or what they would have received under the system applying up until 2018-19. Although this introduces an additional element of complexity into the GST revenue-sharing arrangements, it would seem that the risks to Tasmania's share of GST revenue have now been significantly reduced.

Of course, to the extent that Tasmania's improved economic performance results in an improvement in Tasmania's 'fiscal capacity', as assessed each year by the Grants Commission, then Tasmania's share of the GST revenue will decline – but that would be something to be welcomed, rather than feared.

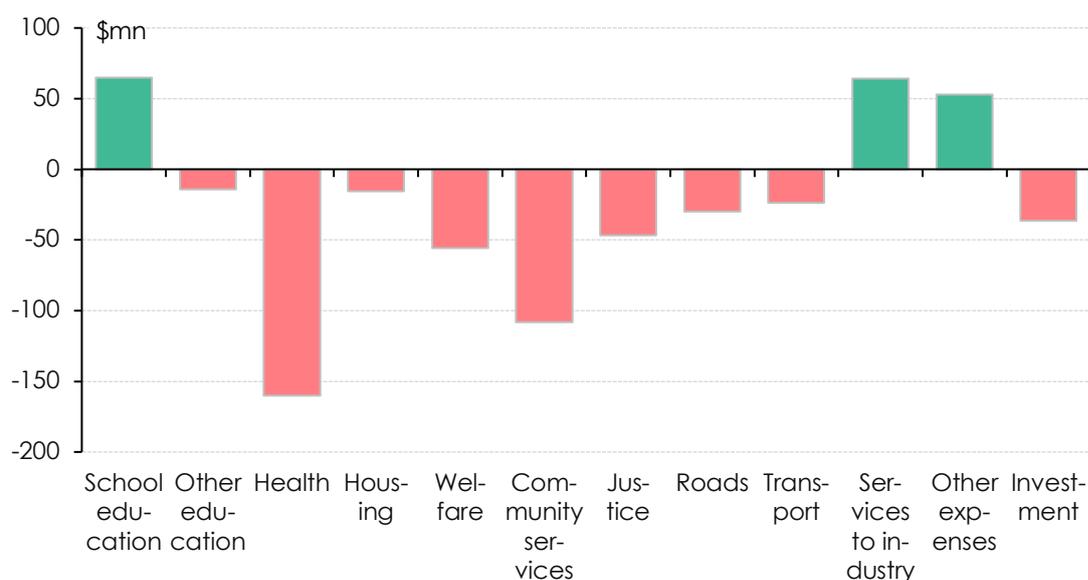
However, while that source of risk to Tasmania's public sector finances appears to have lessened considerably, there are other areas of potential pressure or risk which merit attention.

The first of these is that it may become increasingly difficult to maintain the degree of spending restraint which the Government has exercised since first coming to office in 2014.

In health in particular, notwithstanding its election commitments (on which the most recent Budget delivers), the Government may well find that it cannot meet community expectations without increasing spending more rapidly than provided for in the most recent Budget.

The Grants Commission's most recent assessment of Tasmania's budget (which it undertakes as part of its determination of each state and territory's 'fiscal capacity' in order to arrive at its recommendations as to how revenue from the GST should be distributed among the states and territories) suggests that, in 2017-18, Tasmania spent \$160mn, or 10%, less than it would have 'needed to' in order to provide a similar standard of health services to that provided by all states and territories, on average, after taking account of differences in the 'need' for, and cost of providing, these services (Chart 6.17).

Chart 6.17: Difference between Tasmanian Government actual spending, and Grants Commission's assessment of spending required to provide 'national average' level of services, 2017-18



Source: Commonwealth Grants Commission, 2018 Update Report, Tables S7-1 to S7-6.

BUDGET RISKS AND PRESSURES (CONTINUED)

In considering this assessment, it's important to note that the suggestion that Tasmania may be spending less than it 'needs to' on health is not a recent development: this has been a consistent finding in the Grants Commission's reports for at least six years. And the precise figure should not be taken too literally: in this area (and in some others, notably community services, there may be structural differences among the states and territories in the way in which services are delivered which the Grants Commission's methods do not fully take into account).

Nonetheless, the Grants Commission's broad assessment does appear consistent with ongoing evidence of pressures and short-comings in Tasmania's health system.

More broadly, the Government may also encounter pressure on the spending side of its budget in order to ensure that, as the Premier put it in his recent 'State of the State' address, "all Tasmanians are feeling the benefits of a strong economy, and that no-one is left behind"¹⁵. Chapters 2 and 3 of this Report have noted that among those at risk of being 'left behind' are those who have been unemployed for prolonged periods; and low-income households requiring rental accommodation.

In addition, and notwithstanding the significant increase in infrastructure spending provided for in the past two state budgets, the Government is also likely to face pressure for additional investment, particularly in transport and housing-related infrastructure, in order to respond to some of the emerging stresses and strains associated with more rapid population growth – and growth in the number of visitors to Tasmania.

Failure to respond adequately to these stresses and strains could result in more widespread questioning of the desirability of more rapid population and economic growth, or of more rapid growth in areas such as tourism – of which there have been some indications already over the past year.

Of course, any additional expenditures have to be paid for, by some combination of higher revenues, reductions in other areas of spending, or increased borrowing (and the third of these ultimately has to be serviced by some combination of the first two).

The same Grants Commission assessment as referred to earlier estimates that, in 2017-18, Tasmania collected about 12% (or \$250mn) less revenue than it would have done had its regime of state taxes and charges been equivalent to the average of all states and territories (Chart 6.18). This difference results largely from less 'severe' stamp duties, motor taxes and mining revenues, rather than from payroll tax or land tax (Chart 6.19).

This Report is not advocating that the Government abandon its fiscal strategy objective of maintaining a 'competitive tax environment'.

To become a 'high tax jurisdiction' would almost inevitably have adverse consequences for Tasmania's ability to attract investment and create employment.

However, there may be some scope to consider ways of raising additional revenue which do not detract from Tasmania's overall competitiveness.

As noted in last year's Tasmania Report, Tasmania has a narrow payroll tax base. Tasmania's 'headline' payroll tax rate of 6.1% is the highest of any state or territory with the exception of the ACT; and the threshold at which it becomes payable – now \$2mn following the introduction of a lower rate of 4% for employers with payrolls of \$1¼-2mn in the 2018-19 Budget – is, along with the ACT, also the highest in Australia. Treasury figures suggest that only 7½% of Tasmanian employers pay payroll tax.

Yet it is far from clear that Tasmania's very generous payroll tax exemptions for small businesses have had any positive impact on employment creation in Tasmania. Last year's Tasmania Report urged consideration of extending payroll tax to all employers, irrespective of size, allowing the rate to be less than 4%, noting that if the tax were administered by the Australian Taxation Office it could be collected in the same way as PAYG income tax collections (from all employers, irrespective of their size) without any additional administrative burden on small employers.

¹⁵Hon. Will Hodgman MP, *CEDA State of the State speech*, 23rd November 2018.

Chart 6.18: 'Tax severity ratios', states and territories, 2017-18

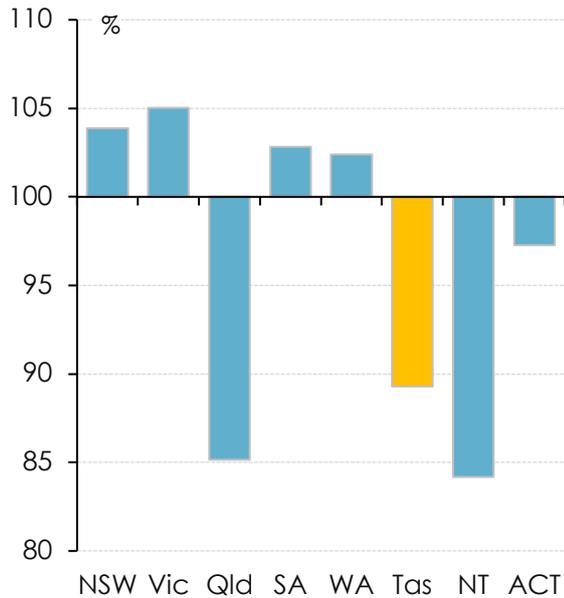
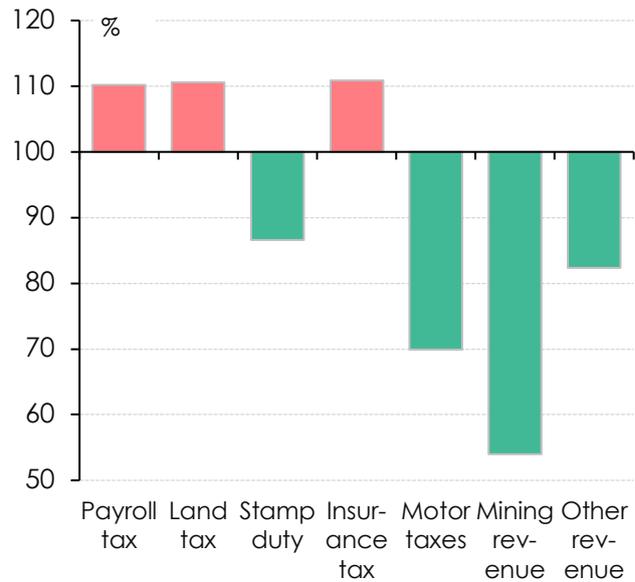


Chart 6.19: 'Tax severity ratios' for specific revenue sources, Tasmania, 2017-18



Note: The 'tax severity ratio' is the ratio of revenue actually raised by a state or territory to the revenue which the Grants Commission assesses it would raise if it levied a particular tax or charge, or total taxes and charges, at the same rate over the same base as the average of all states and territories, after taking into account differences between its capacity to raise revenue, and the average of all states and territories.

Source: Commonwealth Grants Commission, 2018 Update Report, Tables S7-1 to S7-6.

Small business would, understandably enough, vociferously object to the idea that they should pay payroll tax. But there is no sound or valid economic reason why small business should receive preferential tax treatment¹⁶.

If there is to be any kind of preferential tax treatment given to particular types of businesses, a far more sensible basis for doing so than the size of the business concerned is to give preferential treatment to new businesses – whether they are new Tasmanian businesses, or established businesses setting up in Tasmania for the first time. New businesses are much more likely than small ones to create new jobs; and they are more likely to engage in innovation than small businesses. Preferentially taxing new businesses also avoids the perverse incentives inherent in any system of preferential treatment for small businesses, prompting them to refrain from hiring the marginal employee who will push them above the tax-free threshold.

There may also be merit in giving further consideration to the suggestion of a levy on short-term tourist accommodation, as recently proposed by Airbnb and the Lord Mayor of Hobart¹⁷. Although this proposal has been promptly rejected by both Government and Opposition, as well as by representatives of the tourism industry, such levies are commonplace in overseas tourist destinations, and may provide a means not only of funding additional tourism-related infrastructure investment, but also of demonstrating to the broader Tasmanian community that the benefits of rapid growth in tourism are being widely shared.

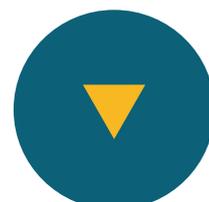
¹⁶ See, for example, Richard Holden, 'Is small business really the engine room of the economy?', *The Conversation*, 10 June 2016; or Dora Benedek et al., *The Right Kind of Help? Tax Incentives for Staying Small*, IMF Working Paper No. 17/139, Washington DC, June 2017.

¹⁷ 'Tasmanian tourist hotspots could see millions in revenue from short stay user tax', *The Examiner*, 27th September 2018; 'Visitor levy could fund tourism infrastructure, says Lord Mayor', *The Mercury*, 11th November 2018.



Chapter 7

TASMANIA'S LONG-TERM ECONOMIC CHALLENGE



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The first three Chapters of this Report set out and analysed the significant improvement in Tasmania's economic performance over the past few years, while Chapter 4 showed that this has in turn an acceleration in the growth rate of Tasmania's population. Despite these welcome and encouraging developments, however, this Report has also indicated that Tasmania continues to lag behind the rest of Australia on a wide range of measures of economic and social well-being.

This Chapter updates the analytical framework as in the three previous Tasmania Reports to highlight the key reasons for the differences in Tasmania's long-term economic performance and that of other states and territories, to show the extent to which progress is being made in narrowing those differences, and to provide some indication of the potential for further improvements in Tasmanian living standards relative to those of the rest of Australia.

TASMANIA'S ECONOMY COMPARED WITH THAT OF MAINLAND AUSTRALIA

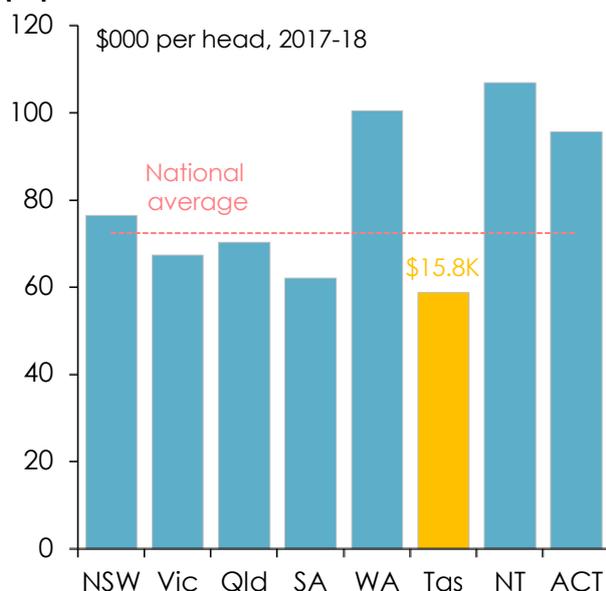
The annual ABS estimates of gross state product provide the broadest, and most timely, basis for comparison of the economic performance of each of Australia's states and territories, and of the material well-being of their populations.

Like its national counterpart, gross domestic product (GDP), gross state product is an incomplete measure of both economic performance and well-being. There are many things which it doesn't include, such as the value of unpaid work done in homes and in the broader community, or the depletion of finite natural resources¹⁸. Nor does it make any allowance for the effects of traffic congestion, pollution, deteriorating housing affordability, increasing inequality, or crime – the lower incidence of all of which in Tasmania, compared with other parts of Australia, is cherished by most Tasmanians. As acknowledged in Chapter 1, there are also some specific on-going concerns about the reliability and volatility of the ABS estimates of gross state product for Tasmania.

Nonetheless, these estimates, and others based on them, are widely used by governments, analysts and commentators. They provide the only available basis for making broad comparisons of the sort which this section seeks to make. This section therefore makes extensive use of the published estimates of gross state product, whilst being aware of their limitations, and being conscious of those limitations in the conclusions which it draws.

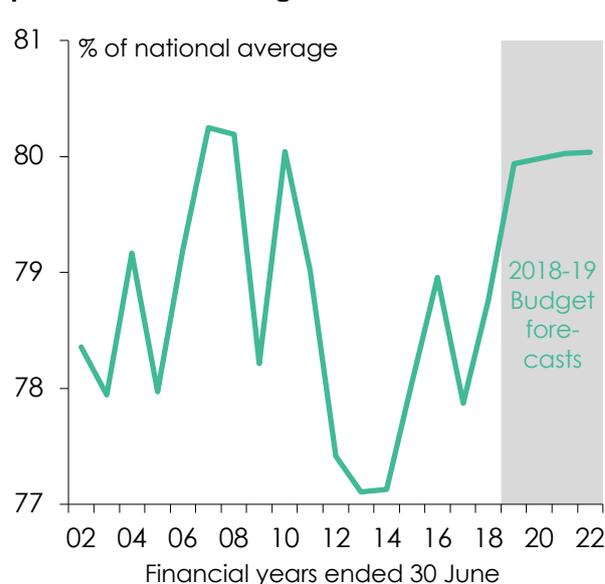
Tasmania's per capita gross state product, according to the most recent ABS State Accounts, was \$58,759 in 2017-18 – the lowest of any state or territory. It was also \$15,846, or 21.2%, below the national average of \$74,605 per person (Chart 7.1).

Chart 7.1: Gross state product per head of population, states and territories, 2017-18



Source: ABS, *State Accounts* (5220.0), 2017-18; Tasmanian and Australian Government 2018-19 Budget Papers.

Chart 7.2: Tasmania's gross state product as a pc of national average, 2001-02 to 2021-22



¹⁸For a broader discussion of these issues see, eg. Joseph Stiglitz, Armatya Sen and Jean-Paul Fitoussi, *Report by the Commission on the Measurement of Economic Performance and Social Progress*, Paris, September 2009; or Diane Coyle, 'Rethinking GDP', *Finance and Development*, Vol. 54, No. 1, International Monetary Fund, Washington DC, March 2017.

TASMANIA'S ECONOMY COMPARED WITH THAT OF MAINLAND AUSTRALIA (CONTINUED)

The good news is that since 2013-14 the gap between Tasmania's per capita gross product and that of Australia as a whole has however narrowed by 1.6 percentage points. Combining the forecasts contained in the most recent Tasmanian and Federal Budgets, the gap is expected to narrow by a further percentage point in the current financial year, and then level out at 20% below the national average over the years 2019-20 through 2021-22 (Chart 7.2) – returning Tasmania's position relative to the national average to roughly where it was immediately before the onset of the financial crisis a decade ago.

A critical question for Tasmania's long-term future is whether we can do any better than this – and if so, how might we go about it?

A useful framework for understanding why Tasmania's per capita gross product is so much lower than that of the rest of Australia – and how it may be possible to make further progress in reducing it – is the one which has been widely used by economists to make long-run economic growth projections, for example in the Intergenerational Reports produced by the Commonwealth Treasury over the past fifteen years, and which has been used in the past three Tasmania Reports.

This framework can be adapted to show that gross state product per person can be disaggregated into three separate components as follows:

$$\frac{\text{GROSS STATE PRODUCT}}{\text{POPULATION}} = \frac{\text{EMPLOYMENT}}{\text{POPULATION}} \times \frac{\text{HOURS WORKED}}{\text{EMPLOYMENT}} \times \frac{\text{GROSS STATE PRODUCT}}{\text{HOURS WORKED}}$$

or, alternatively:

$$\text{GSP PER CAPITA} = \text{EMPLOYMENT RATE} \times \text{AVERAGE HOURS WORKED} \times \text{PRODUCTIVITY}$$

Note that there is no economic theory, and that there are no assumptions, underlying this expression: it is simply an algebraic expression.

And it holds true by definition, as can be seen by 'cancelling out' the employment and hours worked terms on the right hand side of the equals sign, leaving the statement that gross state product divided by population equals gross state product divided by population. Inserting the employment and hours worked terms serves simply to assist in understanding where differences in, or growth in, gross state product per capita come from.

PARTICIPATION IN EMPLOYMENT

47.3%, on average, of Tasmania's total population were employed during the 2017-18 financial year – a smaller proportion than in any other state or territory, and 3 percentage points below the national average (Chart 7.3). Nonetheless, the 2017-18 figure is the highest since 2008-09; and the gap between Tasmania's employment-to-population ratio and the national average has declined by 1.2 percentage points over the past five years (Chart 7.4).

As discussed in Chapters 2 and 4, about two-thirds of the difference between Tasmania's employment-to-population ratio and the national average is the result of Tasmania's demographic profile. 19.7% of Tasmanians are aged 65 or over, 4.1 percentage points more than the corresponding figure for Australia as a whole: and the most recent ABS population projections suggest that this margin will widen by a further percentage point between now and 2023-24, and by yet another percentage point (to 6.2 percentage points) by 2031-32. All else being equal this implies that Tasmania's employment-to-population ratio will trend down over time.

However, as noted in Chapter 2, the remaining one-third of the difference between Tasmania's employment-to-population ratio and the national average is the result of lower age-specific workforce participation rates.

The proportion of 15-64 year old Tasmanians who were in employment was 1.9 percentage points below the national average in 2017-18. This difference has narrowed substantially from 4.2 percentage points in 2011-12, helping to offset the effects of the ageing of Tasmania's population.

It should be possible to reduce this gap further over time. As discussed in Chapter 5, the best way of achieving that goal is through higher rates of educational participation and attainment.

Chart 7.3: Employment as a pc of total population, states and territories, 2017-18

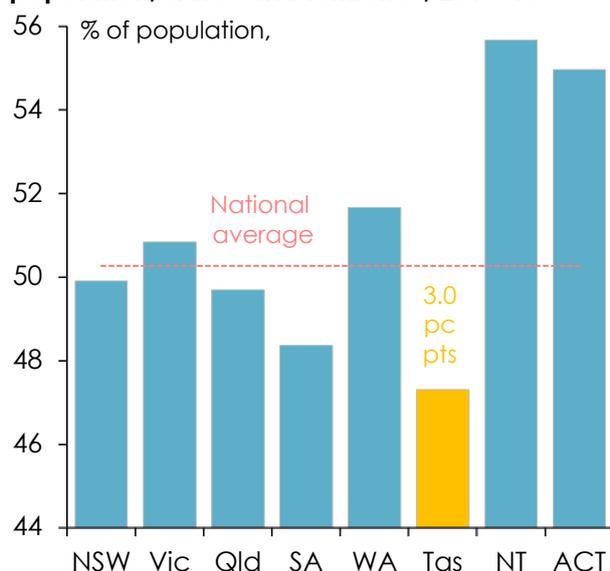
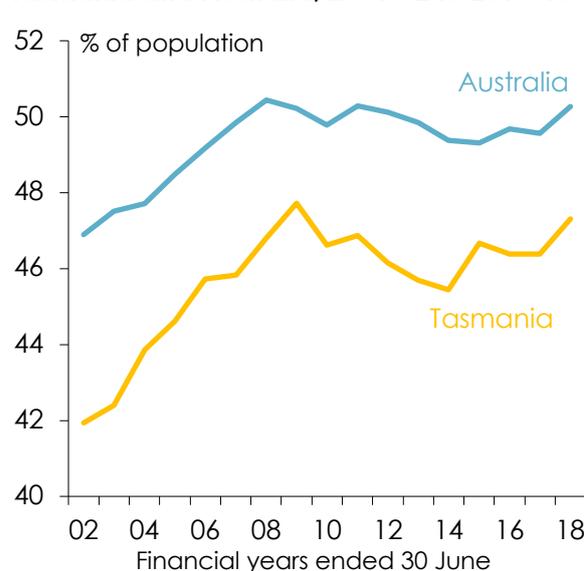


Chart 7.4: Employment as a pc of population, Tasmania and Australia, 2001-02 to 2017-18



Source: ABS, *Labour Force* (6202.0), October 2018; *State Accounts* (5220.0), 2017-18.

HOURS OF WORK

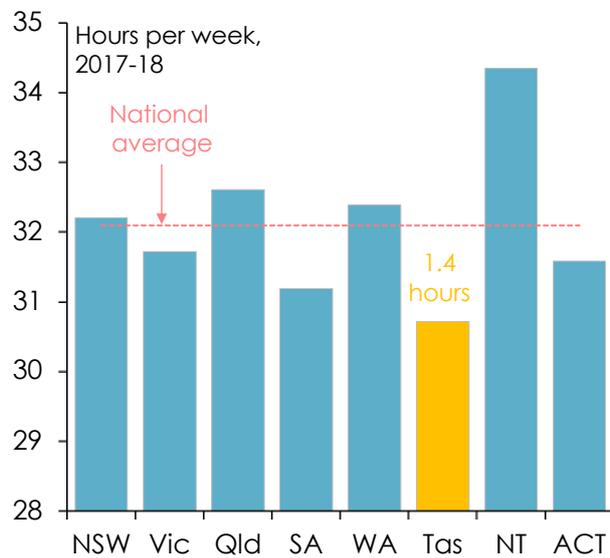
Those Tasmanians who did have jobs during 2017-18 worked an average of 30.7 hours per week, fewer than in any other state or territory, and 1.4 hours per week less than the national average (Chart 7.5). Over the course of an entire year this difference adds up to almost 72 hours: the equivalent of Tasmania having 10 more public holidays each year than the rest of Australia.

The difference in average hours worked between Tasmania and Australia as a whole largely reflects the fact that 37.3% of employed Tasmanians work part-time, a higher proportion than in any other state or territory and well above the national average of 31.7%. This margin has continued to widen over the past few years, although it appears to have been partly offset by an increase in the average number of hours worked by both full- and part-time workers in Tasmania.

While part-time employment is often a matter of choice: and given that Tasmanian workers are, on average, older than their mainland counterparts, many of them are likely to be content with working part-time. However, a higher proportion of part-time workers in Tasmania than in the rest of Australia indicate that they would like to work more hours than they currently do.

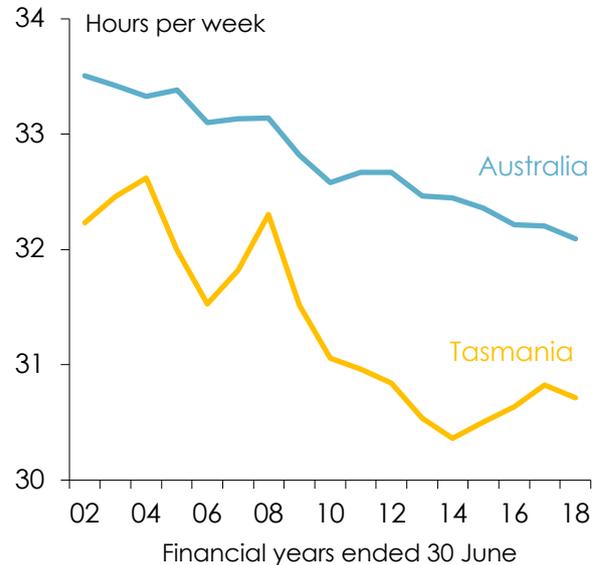
As discussed in Chapter 5, the probability of being employed full-time rises with levels of educational attainment, so the pursuit of higher levels of educational participation and attainment is likely to contribute to narrowing the 'hours worked' gap, as well as the 'participation' gap.

Chart 7.5: Average hours worked, states and territories, 2017-18



Source: ABS, *Labour Force* (6202.0), October 2018.

Chart 7.6: Average hours worked, Tasmania and Australia, 2001-02 to 2017-18



LABOUR PRODUCTIVITY

For each hour that they worked in 2017-18, employed Tasmanians produced \$77.78 worth of goods and services – less than in any other state or territory, and \$11.20 or 12.6% below the national average (Chart 7.7).

Tasmania's gross product per hour worked (labour productivity) increased by 0.7% in 2017-18, a faster pace than the national average of 0.2%. However this comes after four years over which Tasmania's labour productivity grew at less than half the national average rate, so that the 'productivity gap' between Tasmania and Australia as a whole remains wider than in the early years of the current decade (Chart 7.8).

There are two broad reasons why Tasmanian labour productivity, as measured in the ABS State Accounts, is so much lower than in the rest of Australia.

The first of these is that intrinsically high (labour) productivity industries – industries which are highly capital-intensive (such as mining, or IT and telecommunications), or which are intensive in their use of highly skilled (or highly paid) labour (such as financial services) – tend to be 'under-represented' in Tasmania.

Chart 7.9 shows estimates of the national average level of labour productivity in 2017-18 for each of the 19 different industry sectors into which the Australian Bureau of Statistics divides the Australian economy, ranked from highest to lowest.

Chart 7.7: Gross product per hour worked, states and territories, 2017-18

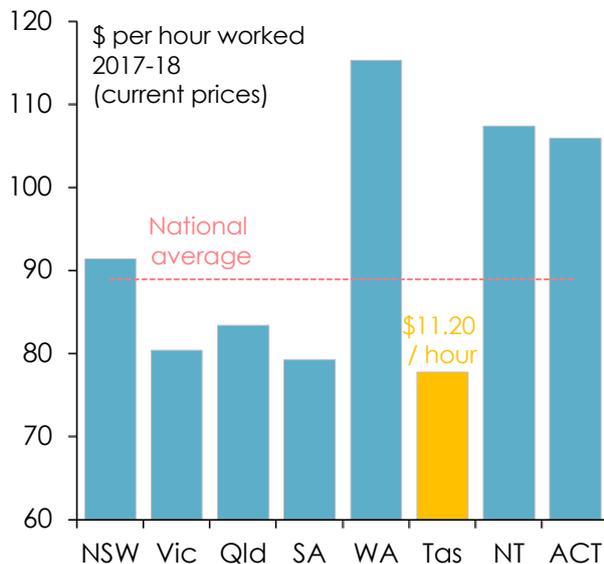
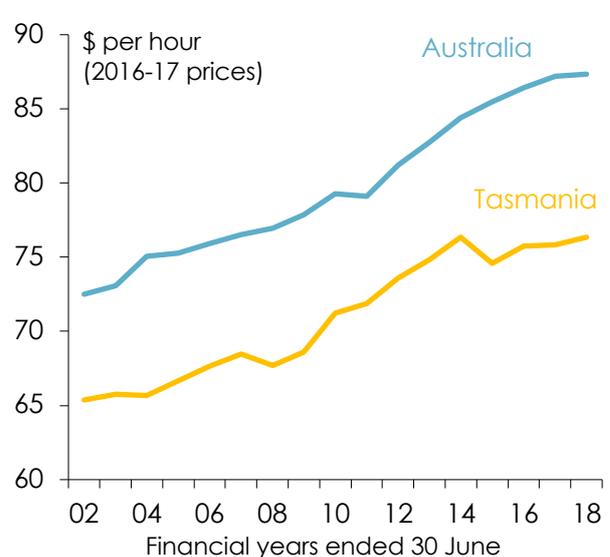
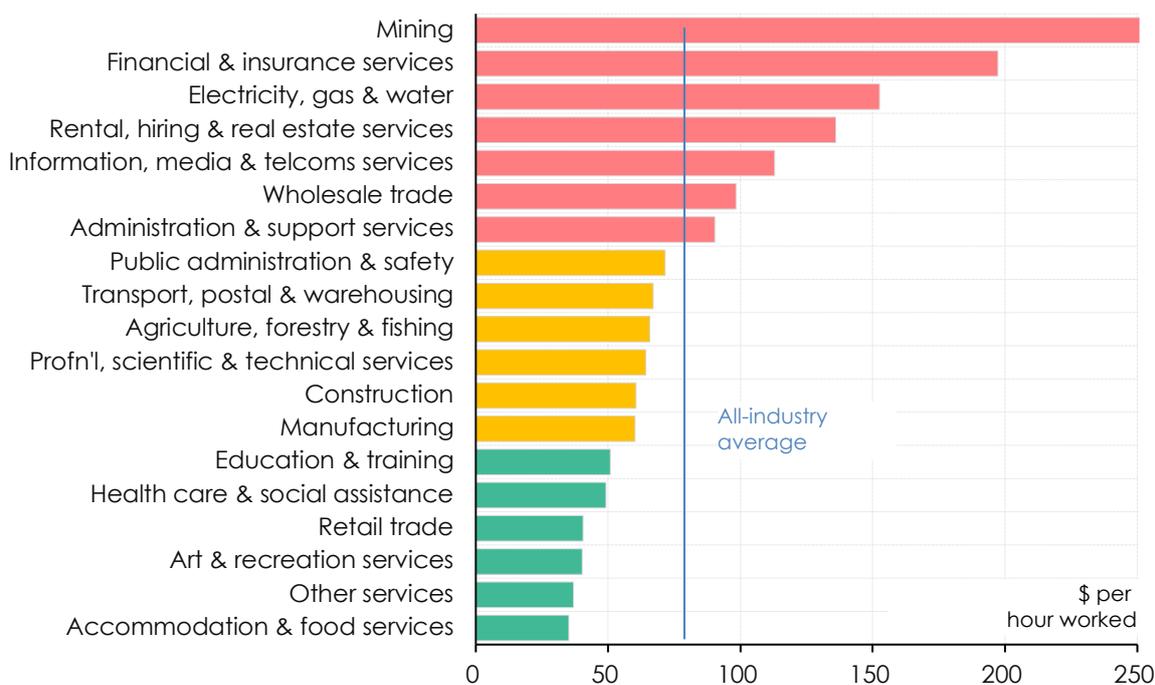


Chart 7.8: Gross product per hour worked, Tasmania and Australia, 2001-02 to 2017-18



Source: ABS, *Labour Force* (6202.0), October 2018; *State Accounts* (5220.0), 2017-18. Data in Chart 7.8 shown in 2016-17 prices in order to eliminate the effect of price changes on measures of labour productivity.

Chart 7.9: Labour productivity (gross value added per hour worked) by industry, Australia, 2017-18



Sources: ABS, *State Accounts* (5220.0), 2016-17; and *Labour Force, Detailed, Quarterly* (6291.0.55.003), August 2018.

These estimates are, of necessity, approximations, and hence the discussion based on these estimates should be regarded as suggestive, rather than conclusive¹⁹.

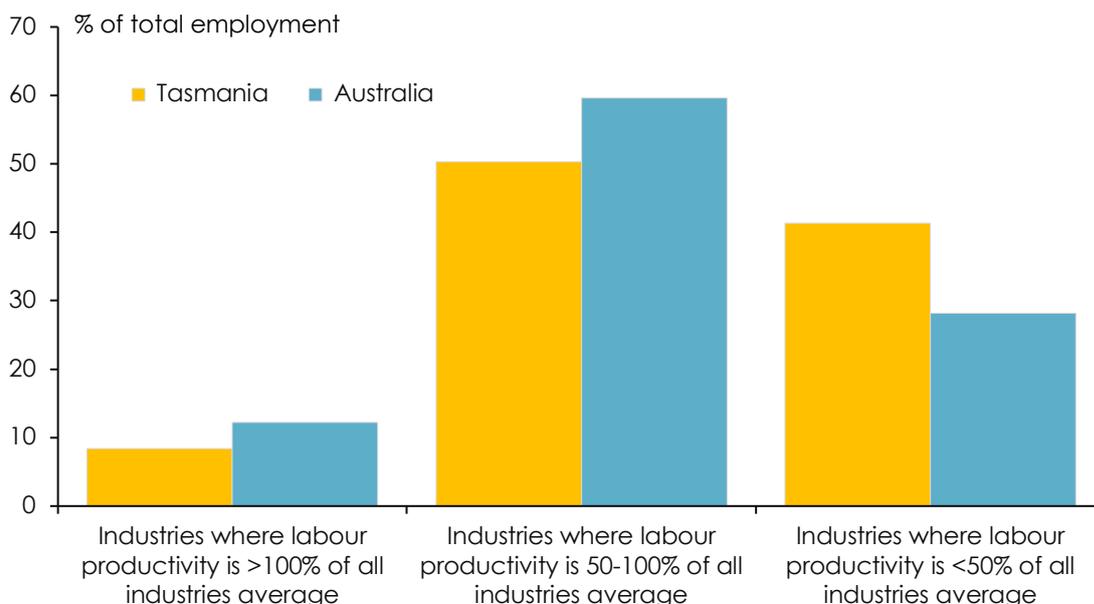
Tasmania’s problem, in this context, is that the seven industries which, nationally, have above-average levels of labour productivity – the industries represented by pink bars in Chart 7.9 – account for less than 11% of total employment in Tasmania, compared with more than 16% of national employment (see Chart 7.10).

The six industries whose labour productivity is between two-thirds and 100% of the all-industry average – represented by the green bars in Chart 7.9 – account for about 40% of employment in Tasmania, compared with 48% of employment nationally.

By contrast, the six industries where labour productivity nationally is less than two-thirds of the national all-industry average – represented by the yellow bars in Chart 7.9 – account for over 49% of employment in Tasmania, compared with less than 35% of employment nationally.

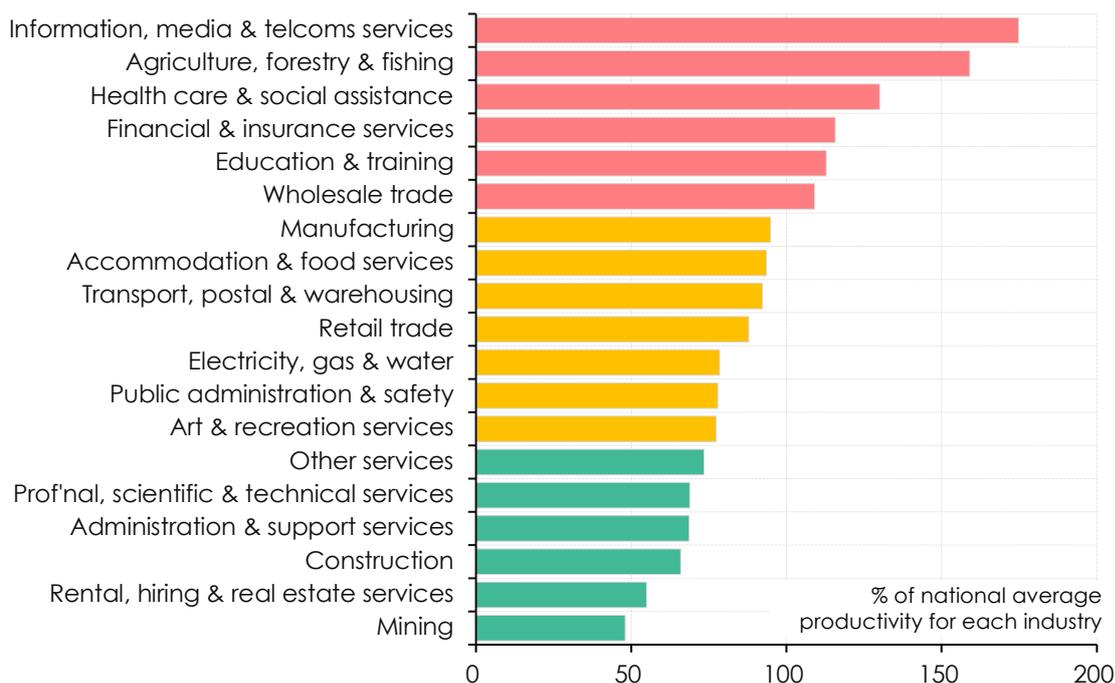
¹⁹ They have been derived by dividing gross value added for each industry by an estimate of hours worked in each industry, which is in turn obtained by multiplying the average number of hours worked in the reference week for the middle month of each quarter during 2017-18 by 52, and then by the average number of people employed in the middle month of each quarter (that being the frequency with which these data are published). These estimates of hours worked by industry are, at best, approximations, and usually do not sum to the estimates of hours worked for Australia as a whole, or for each individual state or territory. The estimates of gross value added and hours worked are sourced from different surveys (of employers and households, respectively). Finally it should also be noted that estimates of gross value added for the public administration and defence, education and training, and health care and social assistance sectors are based largely on estimates of labour input, so that the resulting estimates of labour productivity for these sectors are less meaningful than those for sectors where the value of output is estimated more directly.

Chart 7.10: Industry composition of employment according to labour productivity nationally as a proportion of average for all industries, Tasmania and Australia, 2017-18



Sources: ABS, *State Accounts* (5220.0), 2017-18; and *Labour Force, Detailed, Quarterly* (6291.0.55.003), August 2018.

Chart 7.11: Labour productivity (gross value added per hour worked) by industry in Tasmania as a percentage of national industry average, 2017-18



Sources: ABS, *State Accounts* (5220.0), 2017-18; and *Labour Force, Detailed, Quarterly* (6291.0.55.003), August 2018.

LABOUR PRODUCTIVITY (CONTINUED)

The second reason why labour productivity is so much lower than the rest of Australia is that a majority of employed Tasmanians work in industries where labour productivity is less than it is at the corresponding national industry level.

Chart 7.11 shows labour productivity in Tasmanian industries expressed as percentage of the corresponding industry national average.

Chart 7.11 shows that there are six Tasmanian industries (represented by the pink bars) in which labour productivity is higher than the national average for those industries. However, as shown in Chart 7.12, only 34% of working Tasmanians are employed in those industries. Conversely, 76% of Tasmanian workers are employed in industries where labour productivity is less than the national averages for those industries – including 20% who work industries where labour productivity is more than 25% below the national average for those industries.

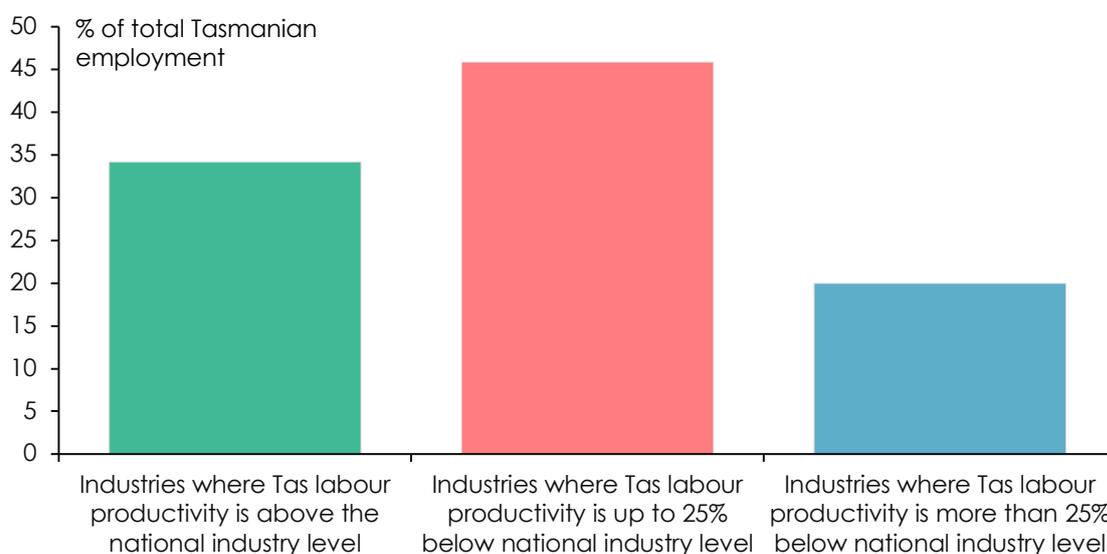
There are some inherent constraints on how much Tasmania can do about the first of these factors. For example, in the absence of any discoveries of significant quantities of commercially recoverable mineral deposits, or oil or gas fields, Tasmania is unlikely to have a larger mining sector than it does at present. Similarly, Tasmania's relatively small

population makes it an unlikely location for activities which are more typically found in large cities – such as financial services (with the exception of tax havens) or a range of specialist business services.

However there may well be scope for expanding the size of Tasmania's electricity generation and distribution sector, depending on the outcome of feasibility studies now under way, developments in energy policy at the national level and the availability of funding for additional interconnection across Bass Strait. There may also be potential for further growth in the Tasmanian information, media and telecommunications, and rental, hiring and real estate services sectors.

There should be more scope for improving the level of labour productivity in those Tasmanian industries where it is currently below the corresponding national averages. The most effective way of achieving that is likely to be obtained by raising levels of educational attainment of new entrants to the Tasmanian workforce and, where possible, those already in the workforce – given the strong correlation between educational attainment and productivity, which is evident in the earnings differentials between people with different levels of education.

Chart 7.12: Industry composition of employment in Tasmania according to labour productivity as a proportion of the corresponding national industry average, 2017-18



Sources: ABS, *State Accounts* (5220.0), 2017-18; and *Labour Force, Detailed, Quarterly* (6291.0.55.003), August 2018.

THE ECONOMIC PERFORMANCE GAP

Drawing together the foregoing analysis, the difference of nearly \$15,850 or 21% between Tasmania's per capita gross state product and the national average in 2017-18 can be disaggregated as follows:

- about \$5,950 (or 38%) was due to the employment participation gap – that is, to the fact that the proportion of Tasmania's population with a job was 3 percentage points below the national average in 2017-18;
- about \$6,450 (or 41%) was due to the hours worked gap – that is, to the fact that Tasmanians in employment worked about 1.4 fewer hours per week (or 10 days per year) than the national average in 2017-18; and
- about \$3,350 (or 21%) was due to the labour productivity gap – that is, to the fact that employed Tasmanians produce, on average, nearly \$11 (or 12%) less for each hour that they work than the average for the Australian workforce as a whole.

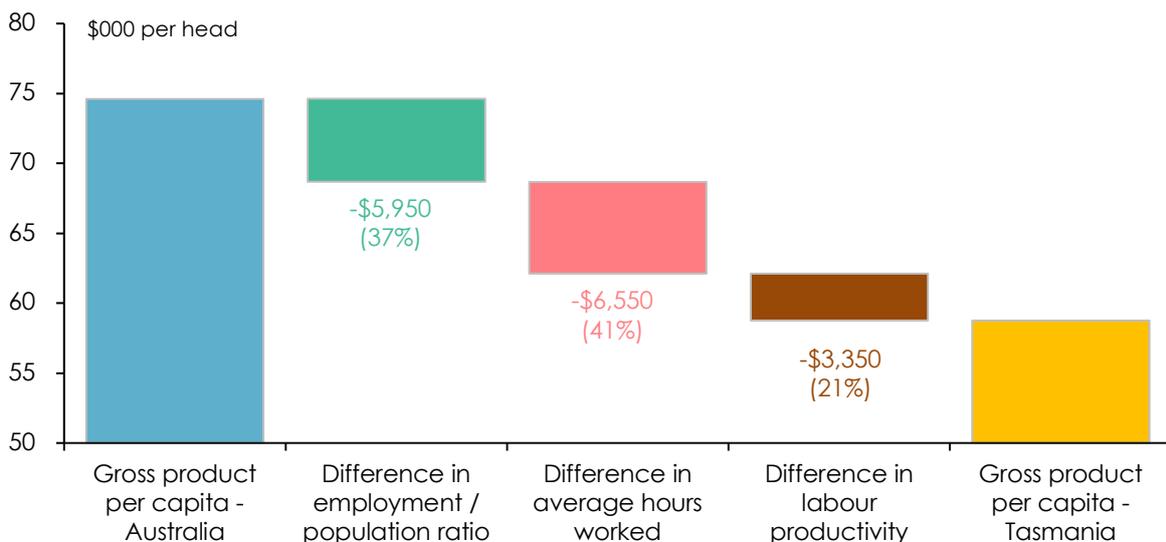
This disaggregation is depicted in Chart 7.13.

It is unrealistic to anticipate that any of these 'gaps' could be completely eliminated, given the smaller size and older age profile of Tasmania's population compared with other states and territories, and its comparative lack of mineral resources.

However, it is both reasonable and feasible to seek to reduce the size of these gaps – and indeed it is essential to do so in order to narrow the difference in material living standards between Tasmanians and other Australians. Tasmania has made some progress over the past four years in reducing the first two of these gaps – and needs to continue doing so, as well as aiming to make progress in reducing the third.

As an illustration, if Tasmania could lift its employment participation rate by 1 percentage point, average hours worked by about half an hour, and productivity by 2%, all else being equal Tasmania's per capita gross product would be about \$1,780 (or 5¾%) higher than it was in 2017-18, to be on a par with South Australia's. And if that flowed through to household disposable income in the same proportion as in 2017-18, each Tasmanian would be around \$1,350 per annum better off, on average.

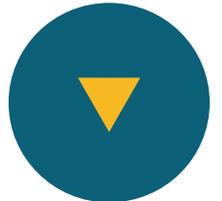
Chart 7.13: Components of the difference in per capita gross product between Tasmania and the Australian average, 2017-18



Sources: ABS, *State Accounts* (5220.0), 2017-18; and *Labour Force, Detailed, Quarterly* (6291.0.55.003), August 2018.

Chapter 8

LOOKING FORWARD



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LOOKING FORWARD

The analysis presented in this year's Tasmania Report suggests that Tasmania's economy is, in most respects, performing better than at any other time in the past decade. Economic growth is stronger, and more broadly-based, than at any time since the global financial crisis. On many indicators, Tasmania is now recording faster growth than the national average, or indeed the fastest of any state or territory. Moreover, this improved economic performance is now being reflected in higher levels of migration to Tasmania from both overseas and interstate, which is in turn providing a boost to economic growth.

While some of the impetus to this improved economic performance stems from favourable external developments (including a more competitive exchange rate, stronger economic growth in Victoria and New South Wales, and an increased flow of revenue from the federal government), the Tasmanian Government is also entitled to a good share of the credit. The Government's management of Tasmania's public sector finances, its infrastructure investment program, and other policy settings have helped to maintain a consistently high level of business confidence, which has been in turn reflected in sustained higher levels of business investment.

By some benchmarks, Tasmanian living standards are now starting to improve relative to those in the rest of Australia.

It is crucial that this initial progress be sustained. Doing so will require an ongoing focus on the principal economic drivers of material living standards – in particular, participation in employment, and productivity – and to the various ways in which the benefits of improved economic performance are shared throughout the Tasmanian community.

As this Tasmania Report and its predecessors have stressed, the single most important 'enabler' to improving Tasmania's employment participation and productivity is higher levels of educational participation and attainment.

The Government's continuing emphasis on broadening access to Years 11 and 12 at Tasmanian high schools is thus particularly appropriate – although this Report again argues that the ultimate goal should be the complete integration of Years 11 and 12 into high schools, as in every other state, rather than maintaining a parallel system of separate colleges.



LOOKING FORWARD (CONTINUED)

Consideration should also be given to ways of providing opportunities for Tasmanians who completed their formal education in earlier decades to upgrade their capabilities and skills. The University of Tasmania, TasTAFE and other parts of the VET system could have expanded roles in this context.

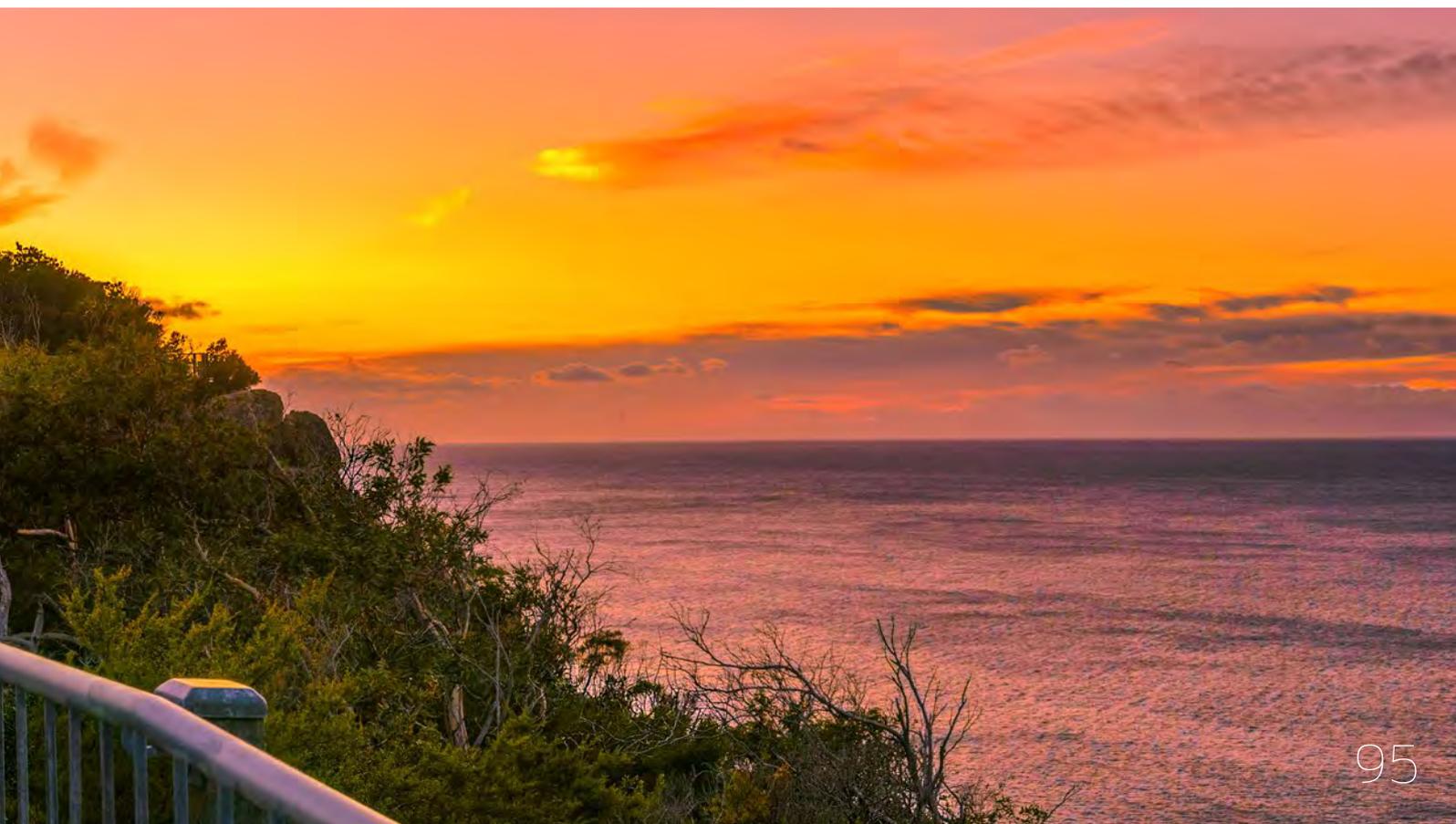
In other respects this Report is broadly supportive of the Government's economic development strategies and policies.

This Report has also noted that the Government is likely to face ongoing pressure for increased spending on health and affordable housing; and, potentially, demand for more spending on arterial roads, particularly in and around Hobart.

The Government may have some scope to accommodate these pressures to the extent that faster economic growth than assumed in the most recent state budget delivers additional revenue. But because Tasmania's state tax base is relatively narrow, the revenue 'dividend' from stronger economic growth may not be especially large.

That's one reason why this Report argues that the Government should consider a more ambitious agenda for reform of the taxation system – including, as proposed in more detail here last year, broadening the base and lowering the rate of payroll tax, and (over time) replacing stamp duties on land transfers with a more broadly based land tax. For the same reason, the suggestion of some kind of levy on visitor accommodation (to be passed on to tourists) as a way of partially funding tourism marketing campaigns, or additional infrastructure primarily used by tourists, merits further consideration.

There may also be a case for the Government to consider undertaking a moderate level of net borrowing in order to fund higher levels of infrastructure investment in response to some of the pressures associated with more rapid economic and population growth. As noted in Chapter 6, Tasmania's very high unfunded public sector superannuation liability represents a significant constraint on how much it can prudently borrow for infrastructure investment. But that does not necessarily mean that the optimal level of net debt for the Tasmanian general government sector is zero, especially if it can be rigorously demonstrated that the return on particular infrastructure investments is likely to exceed the cost of debt.



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