

The Tasmanian economy and the 2015-16 State Budget

Presentation to a luncheon hosted by the
Launceston Chamber of Commerce

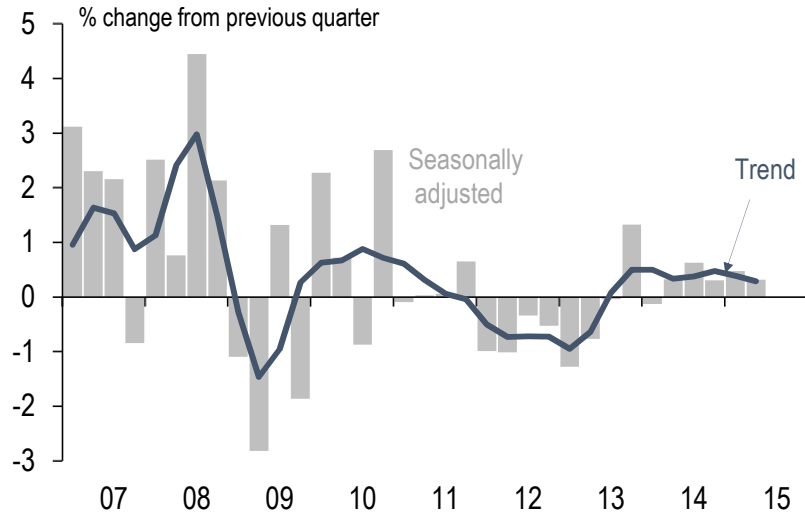
Saul Eslake

Hotel Grand Chancellor, Launceston,
25th June 2015

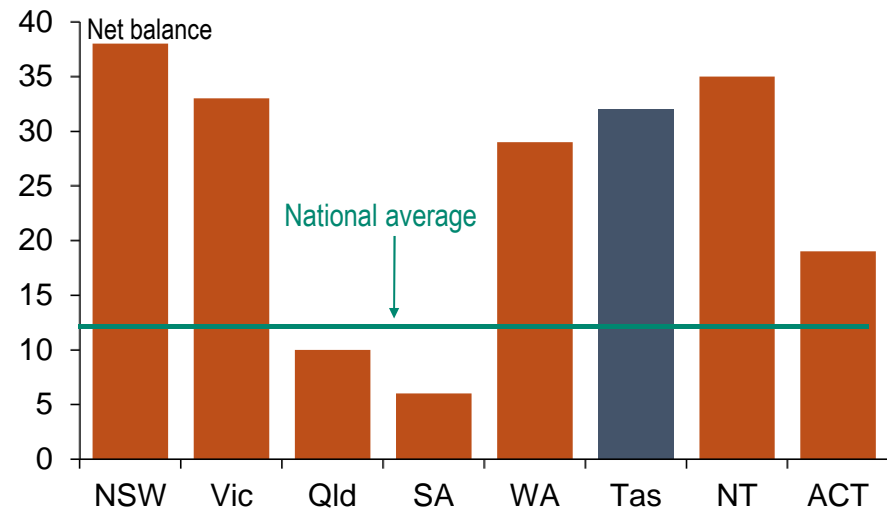
www.bettercallsaul.com.au

After experiencing a recession in 2011-2012, Tasmania's economy has been growing since late 2013

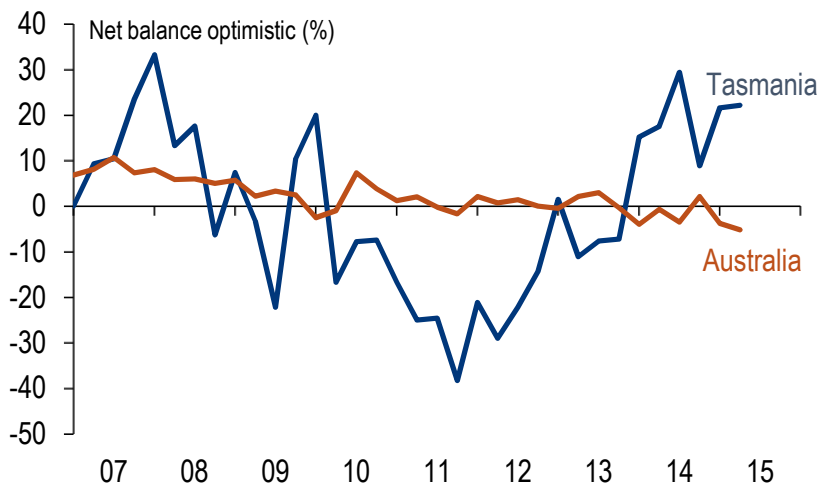
State final demand



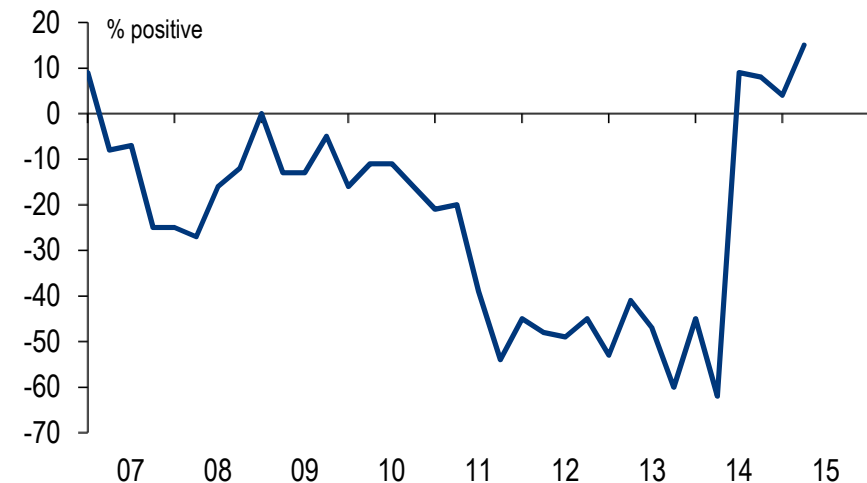
SME business confidence by State



NAB Survey 'business conditions'



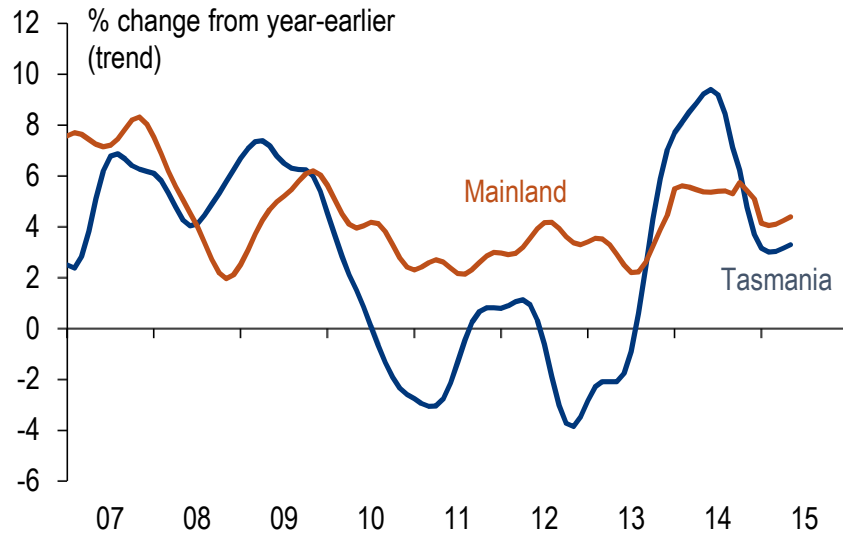
SME approval of State Government policies



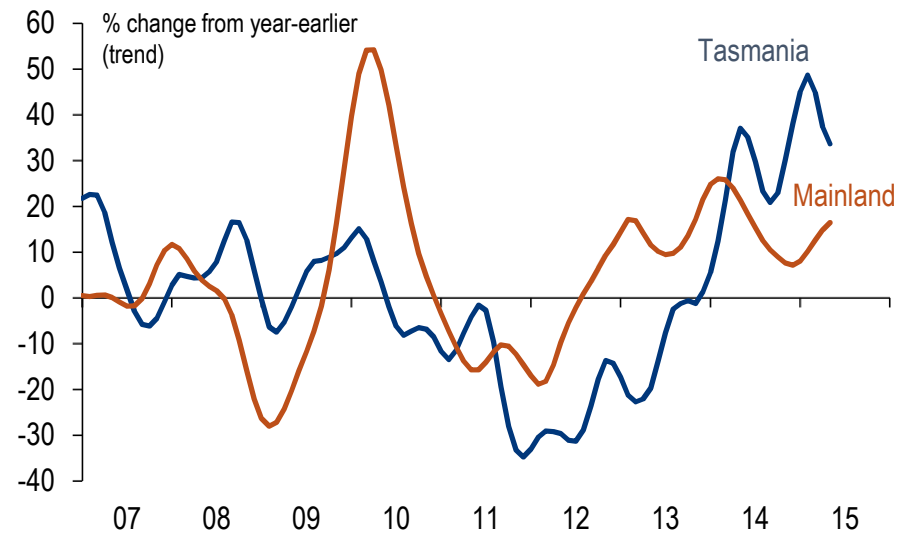
Notes: 'State final demand' is the sum of household, business and government spending. It does not include interstate or international trade, or changes in inventories – and hence is not a proxy for gross State product. Sources: ABS, National Australia Bank; Sensis SME Business Survey.

Apart from retail sales, growth in most of the major drivers of Tasmanian demand compare favourably with the mainland

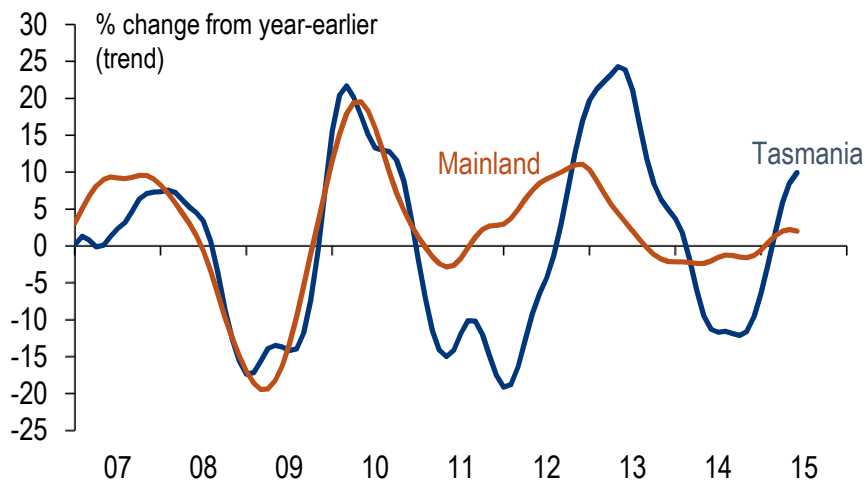
Retail sales



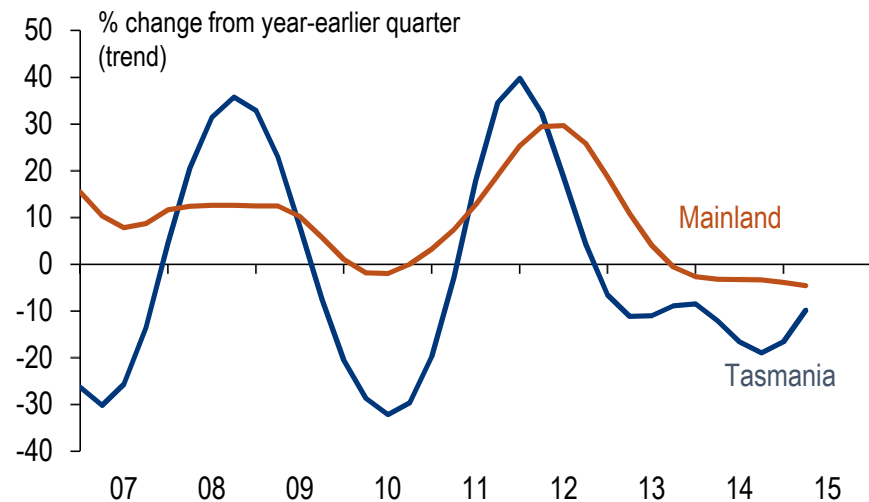
Residential building approvals



Motor vehicle sales



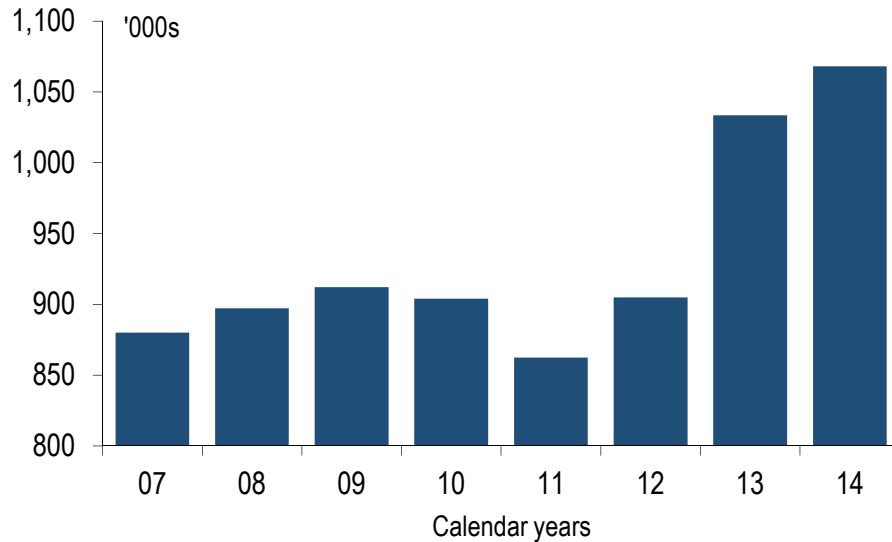
Business fixed capital investment



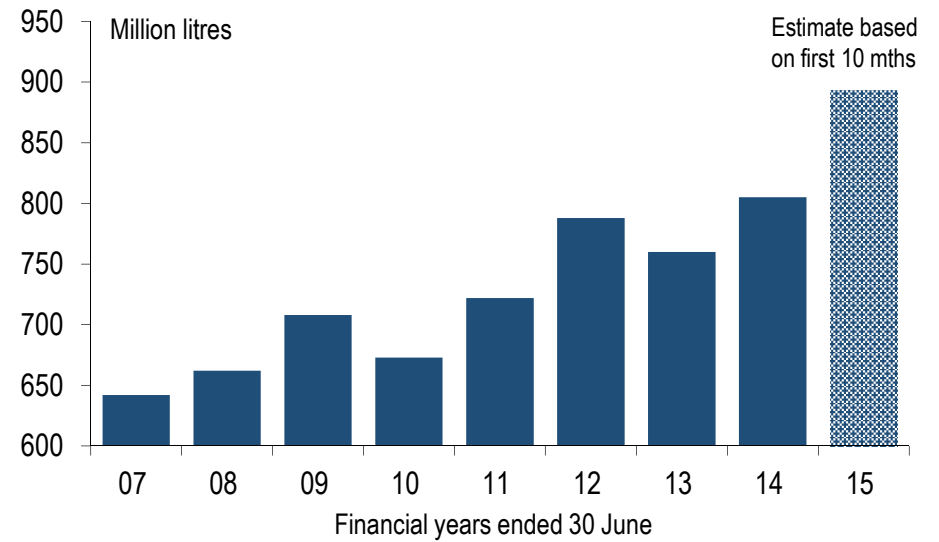
Notes Business fixed investment excludes investment in livestock and intellectual property. Sources: ABS, Nation Australia Bank.

Two sectors of the Tasmanian economy doing particularly well are tourism and agriculture

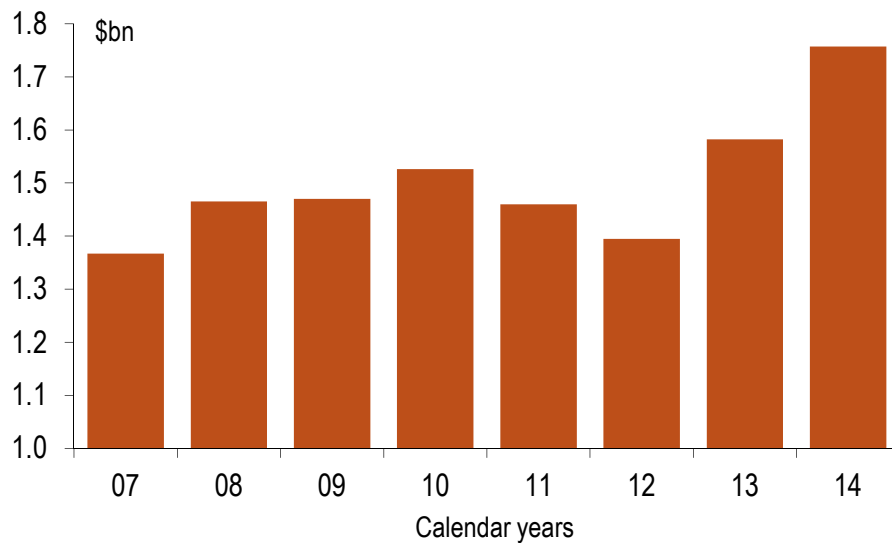
Visitor numbers



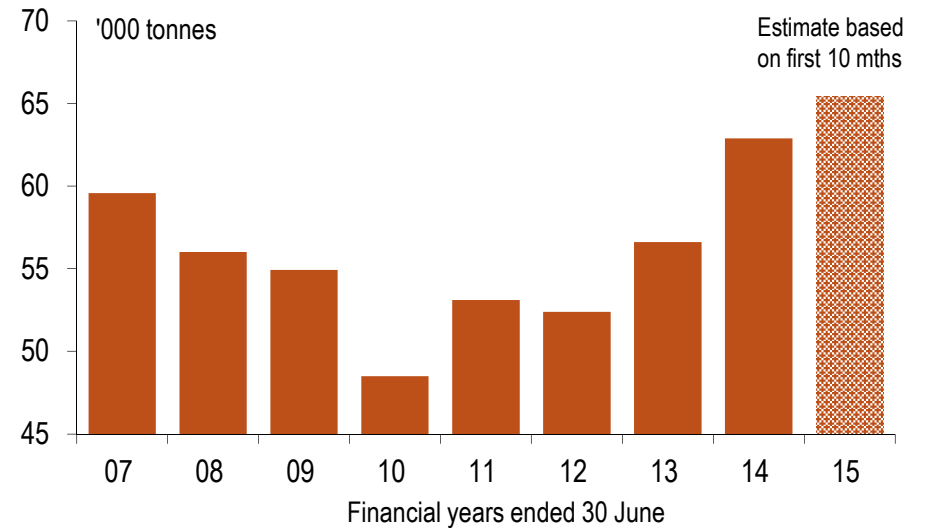
Dairy production



Visitor expenditure

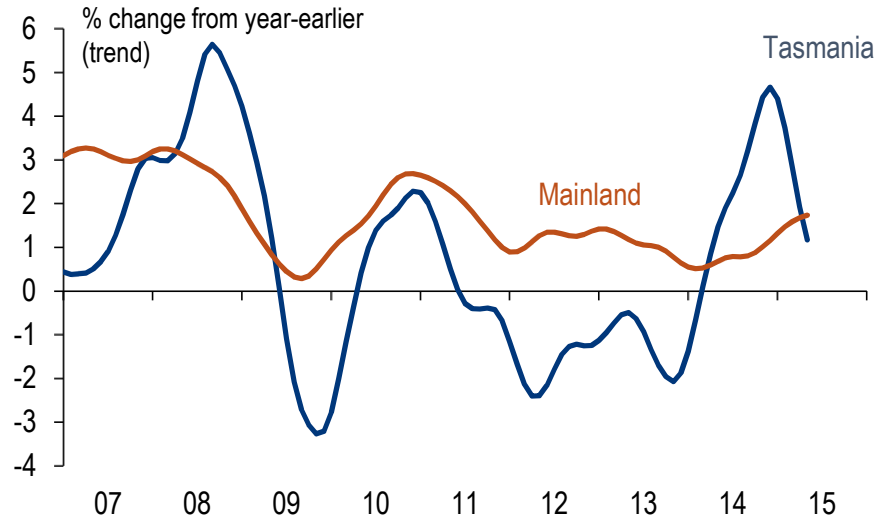


Beef production

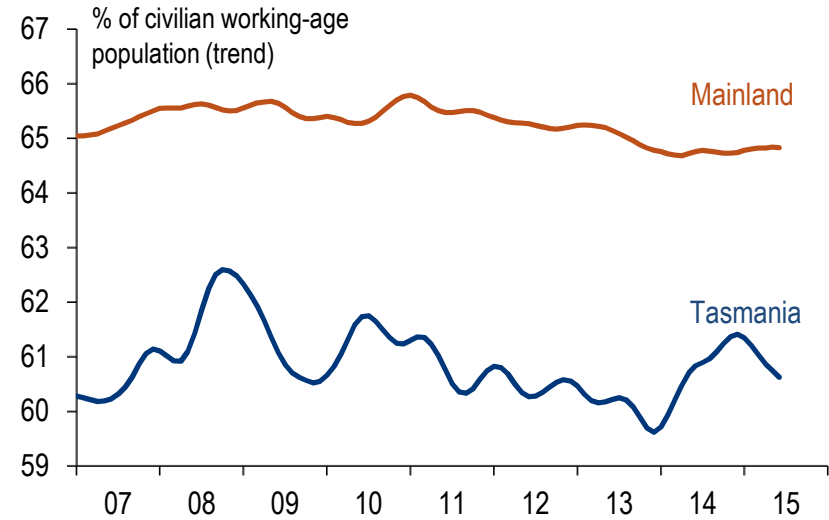


The Tasmanian labour market appears to have softened appreciably since late last year

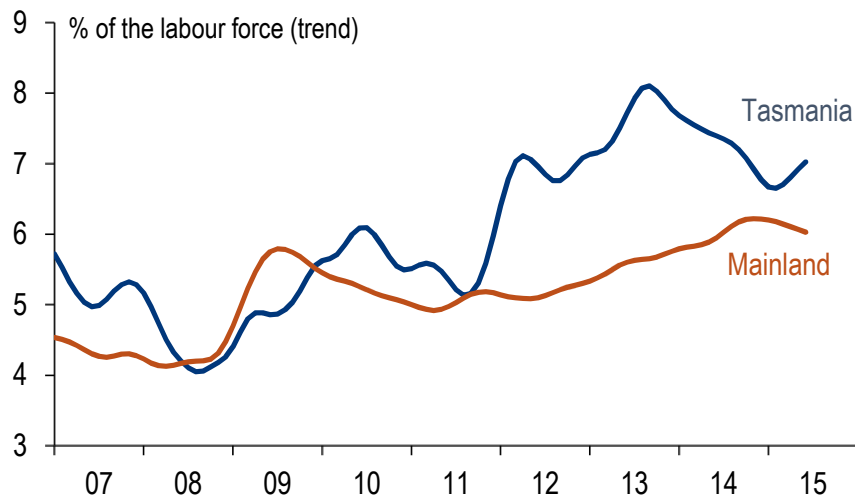
Employment growth



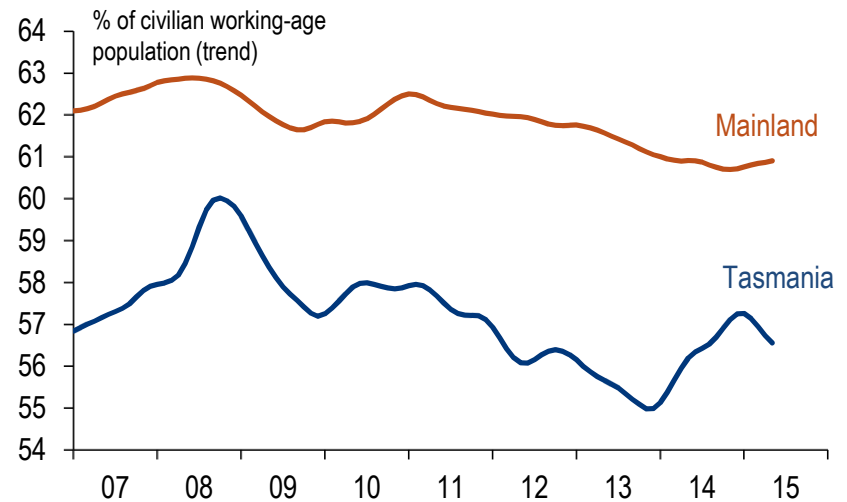
Participation rate



Unemployment rate

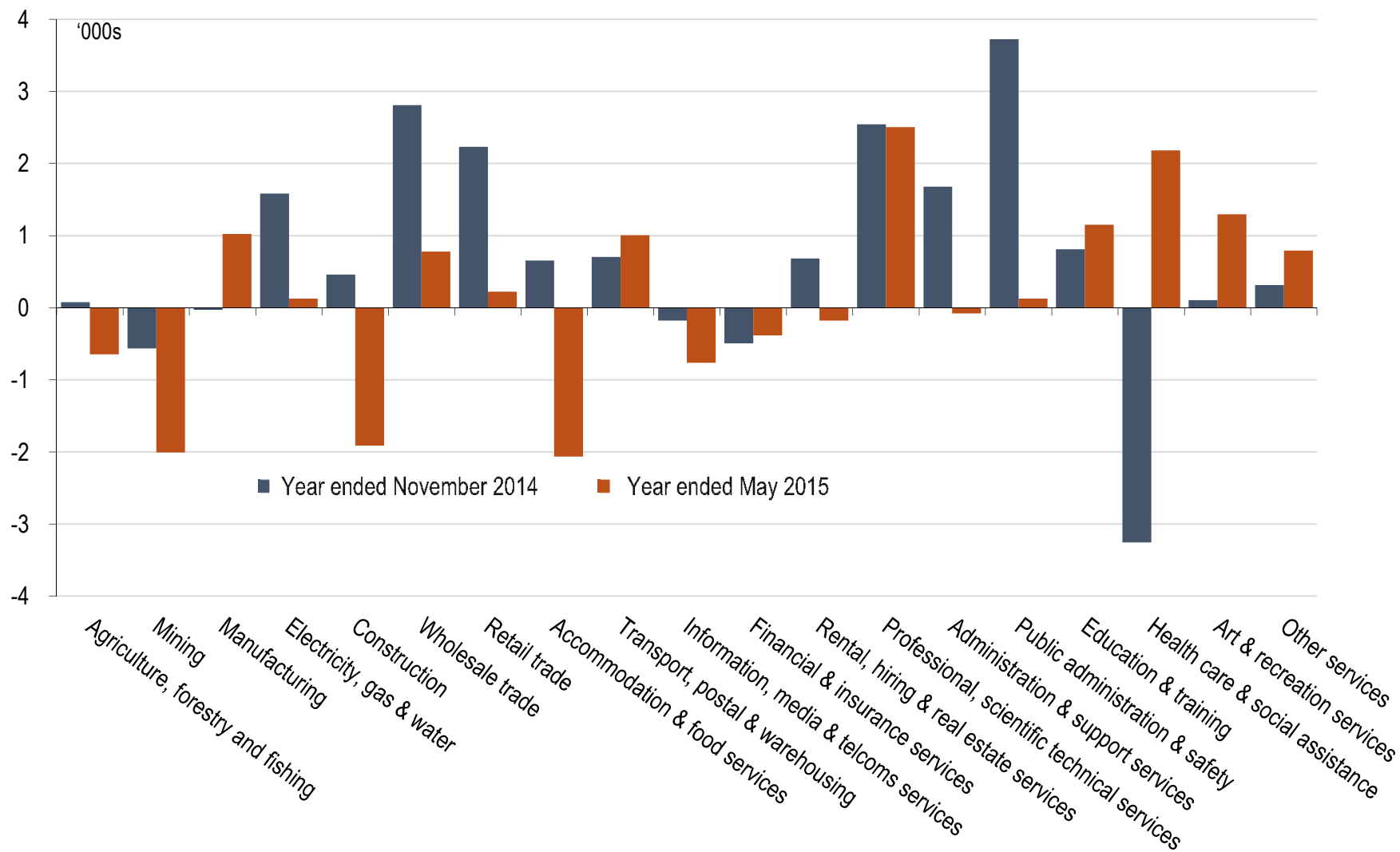


Employment-to-population ratio



It's not obvious that the slowdown in employment growth since late last year is due to public sector job cuts

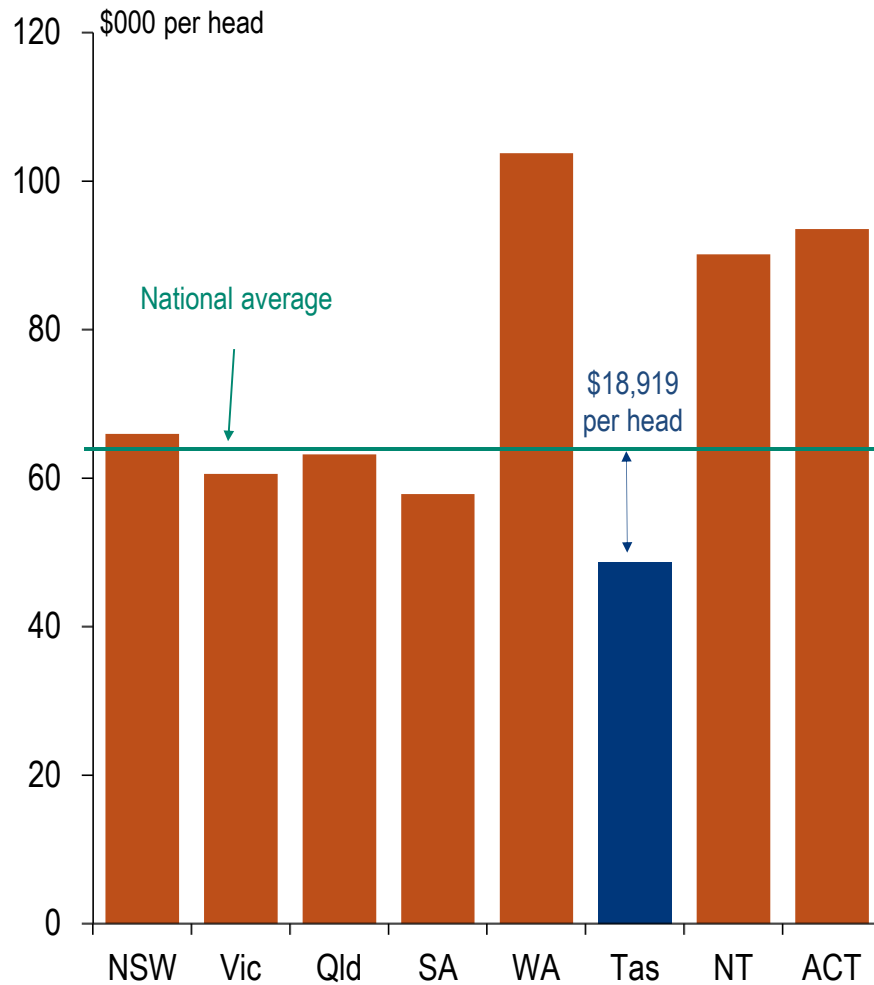
Employment growth in Tasmania, by industry



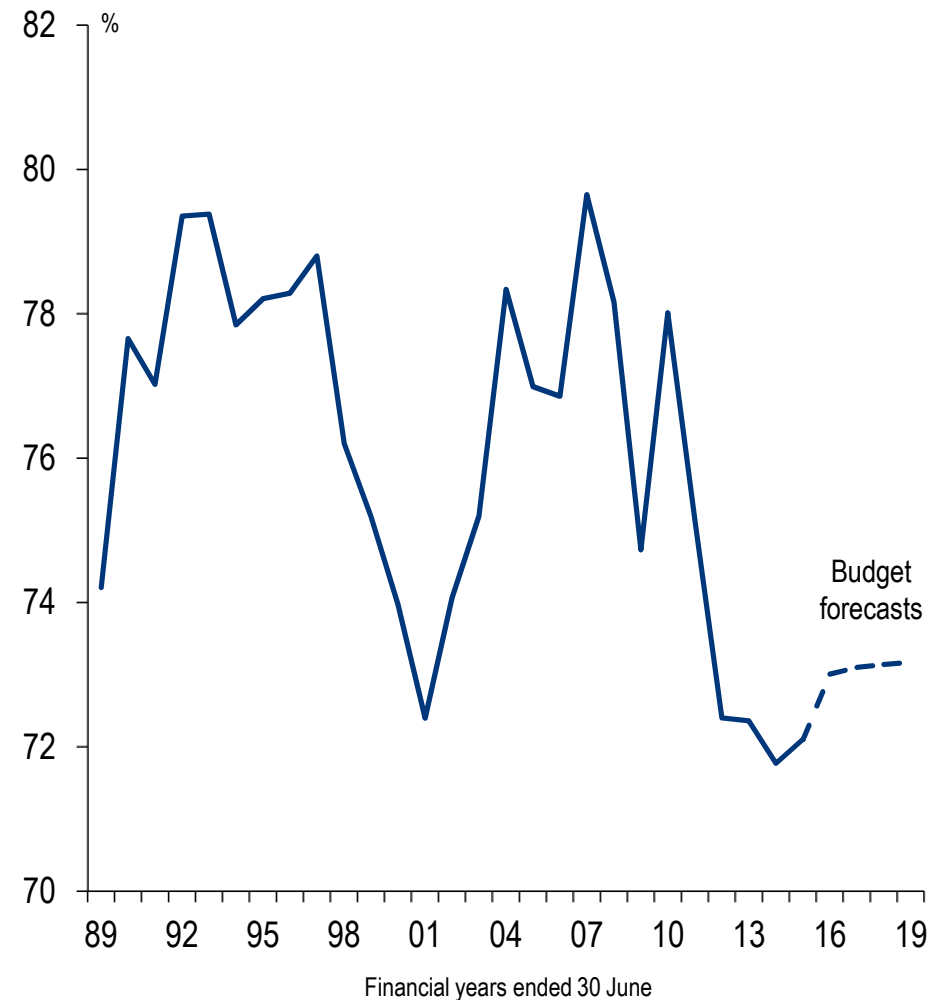
Sources: ABS; author's calculations.

Despite some recent improvement, Tasmania remains Australia's poorest State – and the gap isn't expected to change much

Gross State product per head



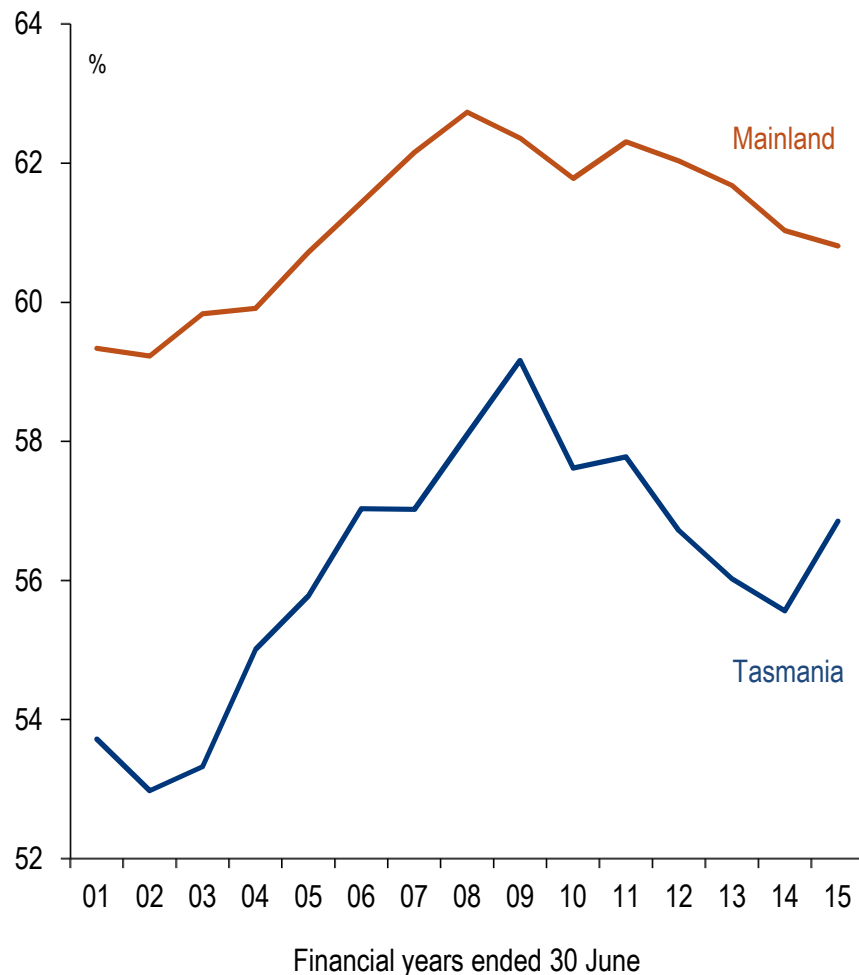
Tasmania's per capita GSP as a pc of mainland average



Source: ABS, State Accounts.

37½% of the difference between Tasmanian per capita GSP and the mainland average is due to lower participation in employment

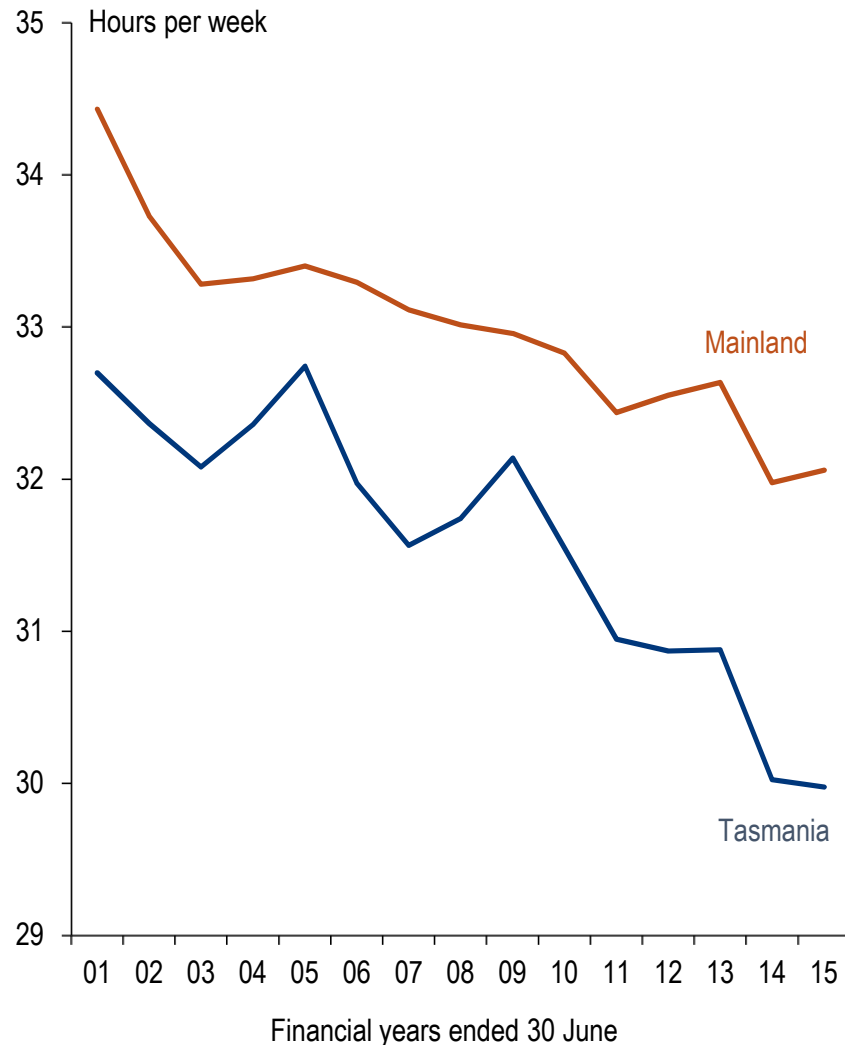
Employment as a p.c. of the working-age (15+) population



- A lower workforce participation rate and a higher unemployment rate adds up to an employment-working age population ratio that was 4 pc pts lower in Tasmania than on the mainland in 2013-14 (compared with a gap of 3 pc points in 2008-09)
- The difference in employment participation accounted for \$7,350 (or 37.4%) of the \$19,608 difference between Tasmanian and mainland per capita gross State product in 2013-14
- About half of the difference in employment participation is due to Tasmania's greater above-average share of population over 65 – and there's not much that can (or should) be done about that
- However the other half is largely due to an above-average incidence of work-restricting disabilities, and below-average levels of educational attainment – and there are things that can (and should) be done about that

40½% of the difference between Tasmanian per capita GSP and the mainland average is because Tasmanians work fewer hours

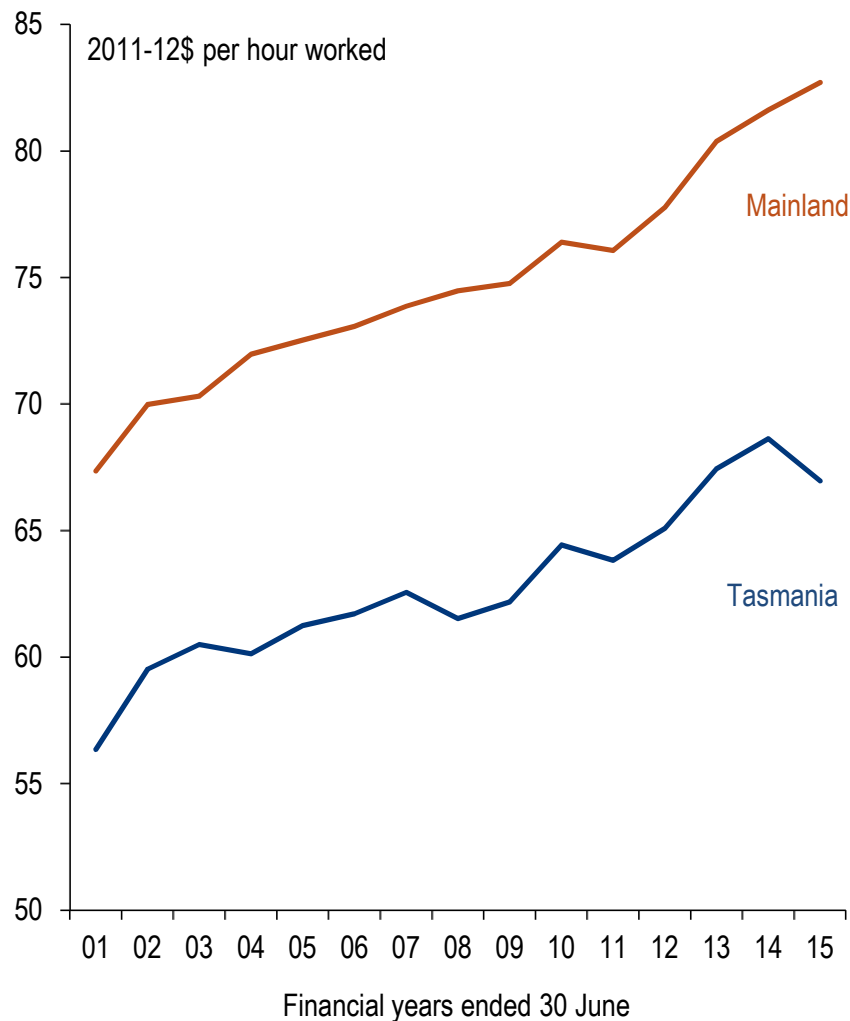
Average hours worked



- Employed Tasmanians worked an average of 2.1 fewer hours per week than employed people on the mainland in 2013-14
- Over the course of a year that represents a difference in time worked of 111 hours, or almost 20 working days
- The shortfall in average hours worked between Tasmania and the mainland has widened substantially over the past decade
- It's not clear whether the difference in average hours worked reflects employee choices, or is the inevitable outcome of the type of work available
- The difference in average hours worked accounted for \$7,950 (or 40.5%) of the \$19,608 difference between Tasmanian and mainland per capita gross State product in 2013-14

... and 22% of the difference between Tasmanian and mainland per capita GSP is attributable to lower labour productivity

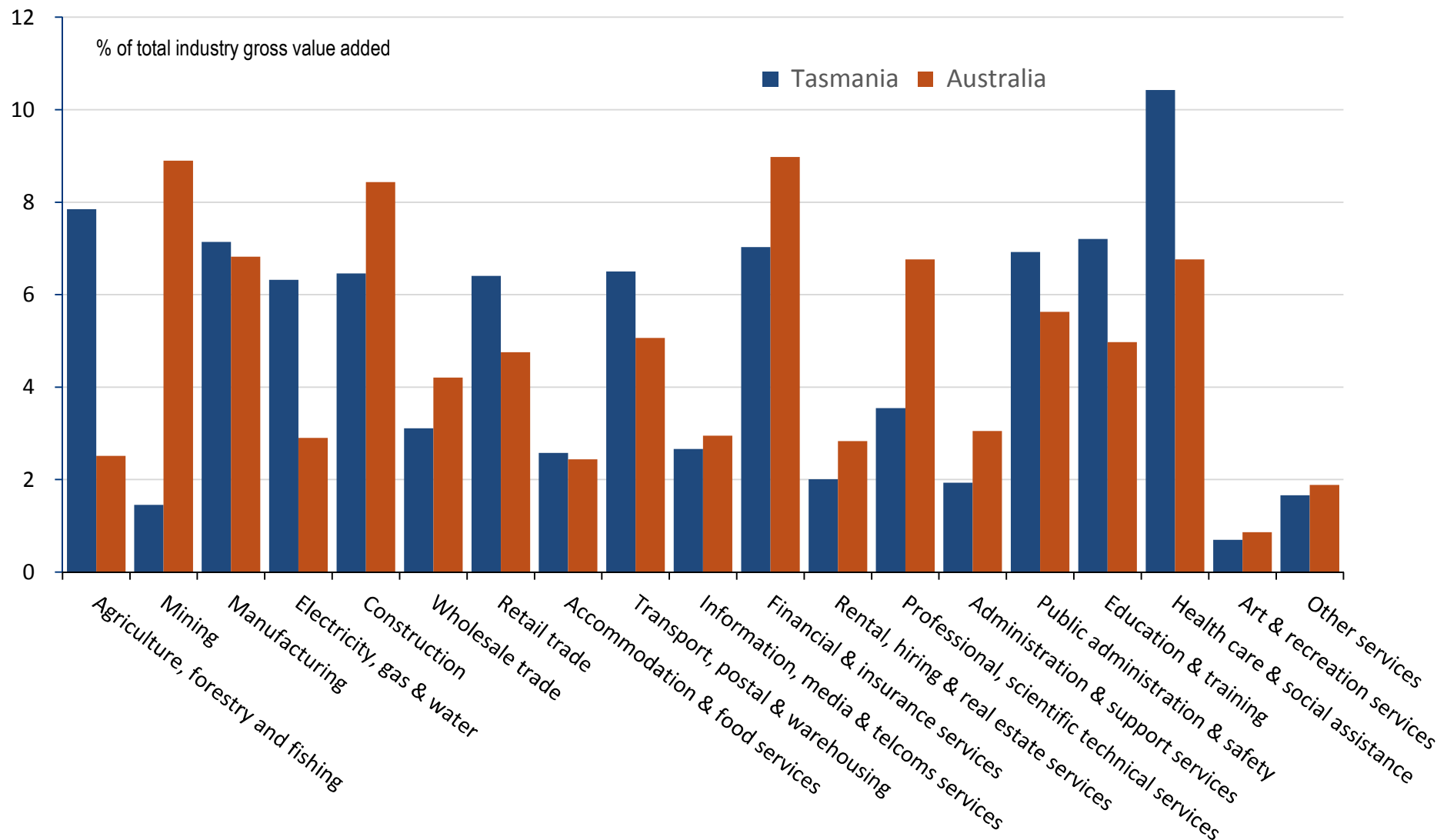
Output per hour worked (labour productivity)



- For each hour that they worked in 2013-14, Tasmanian workers produce about \$13 (or 16% less) of goods and services than mainland workers
- This difference in labour productivity accounted for about \$4,300 (or 22%) of the \$19,608 difference between Tasmanian and mainland per capita GSP in 2013-14
- The 'productivity gap' is partly because a below-average proportion of Tasmanians are employed in intrinsically high-productivity sectors (such as mining & financial services), and there's not much that can be done about that ...
- ... but it's also partly because in many industries - including mining, construction, retailing, information & telecommunications services, rental hiring & real estate, professional & technical services, and public administration & safety – the productivity of Tasmanian workers is significantly below that of the same industries on the mainland ...
- ... and there are things that can (and should) be done about that

High-productivity industries are 'under-represented', and low-productivity industries 'over-represented' in Tasmania's economy

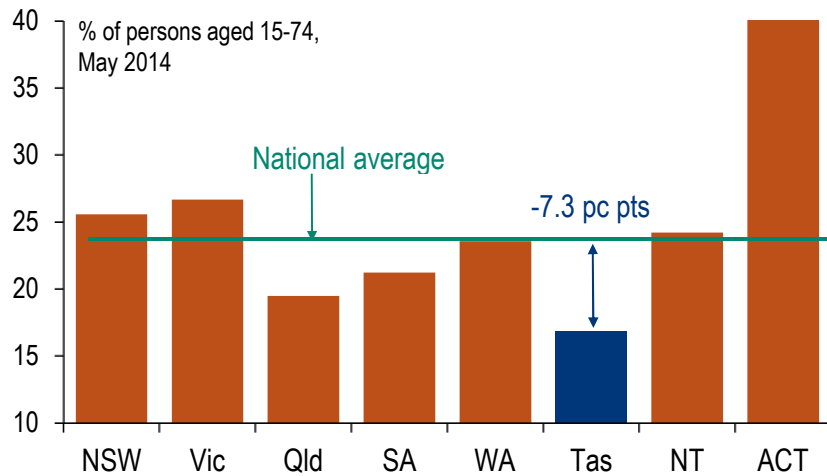
Industry composition of the Tasmanian and national economies, 2013-14



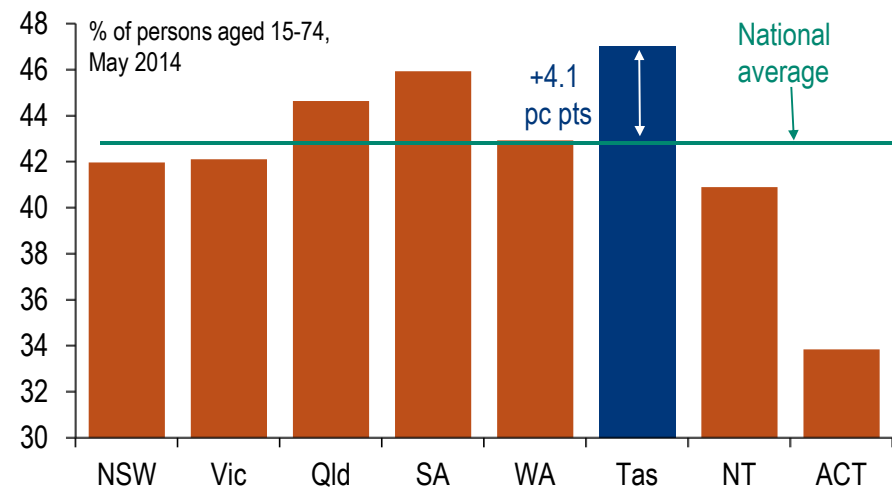
Note: 'industry gross value added' is gross product excluding ownership of dwellings, net indirect taxes and the statistical discrepancy between the production- and average measures of gross product. Sources: ABS; author's estimates and calculations.

Low levels of educational participation and attainment are probably the most important reason for Tasmania's poor outcomes

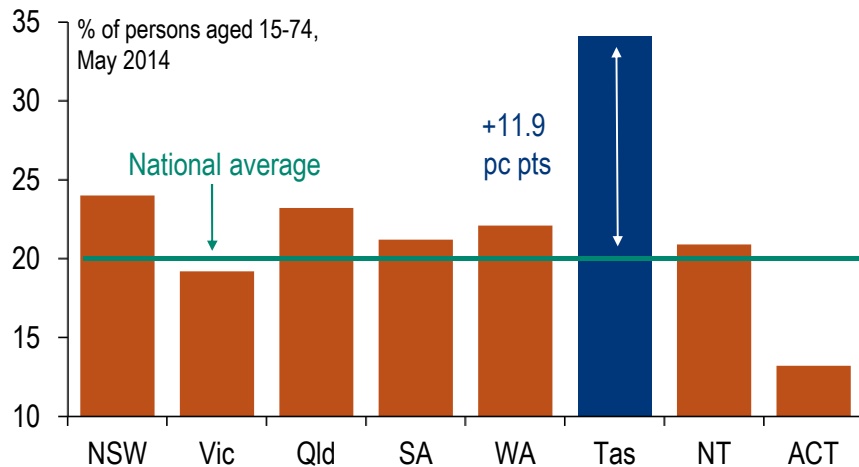
15-74 year olds with a university degree



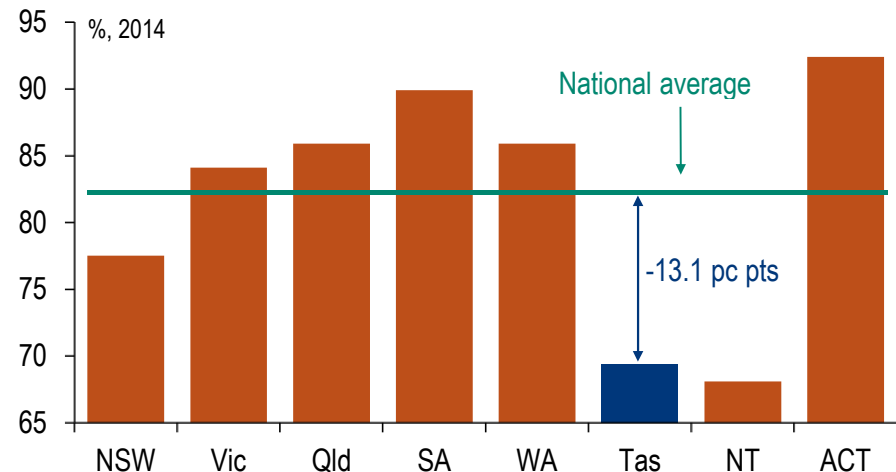
15-74 year olds with no post-school qualifications



15-74 year olds whose highest level of schooling is Year 10 or below



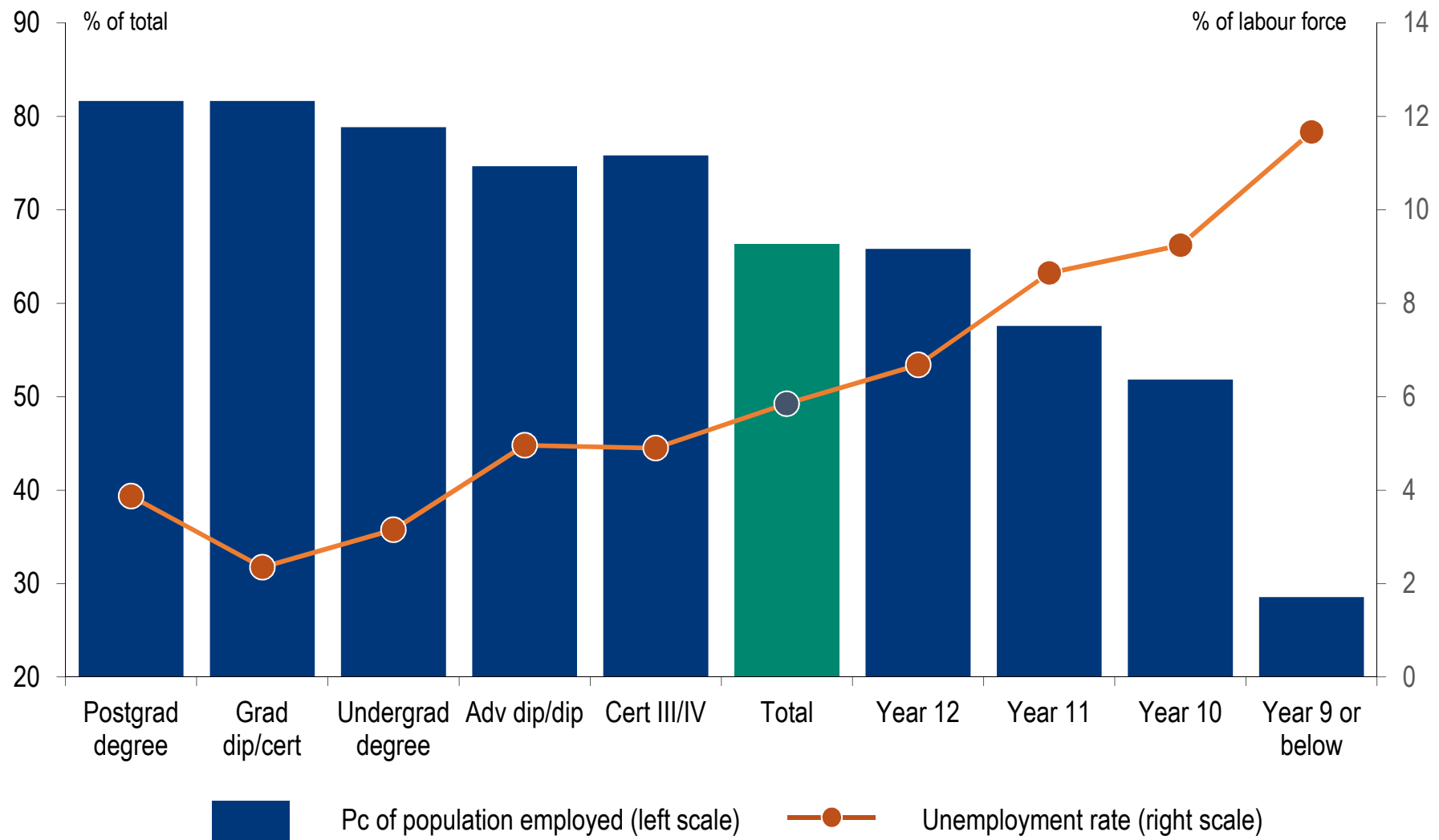
Apparent retention rates from Year 10 to Year 12



Source: ABS.

There's a very clear correlation between educational attainment and employment prospects

Educational attainment and labour force status, May 2014



Sources: ABS; author's estimates and calculations.

There's a very clear correlation between educational attainment and socio-economic advantage or disadvantage

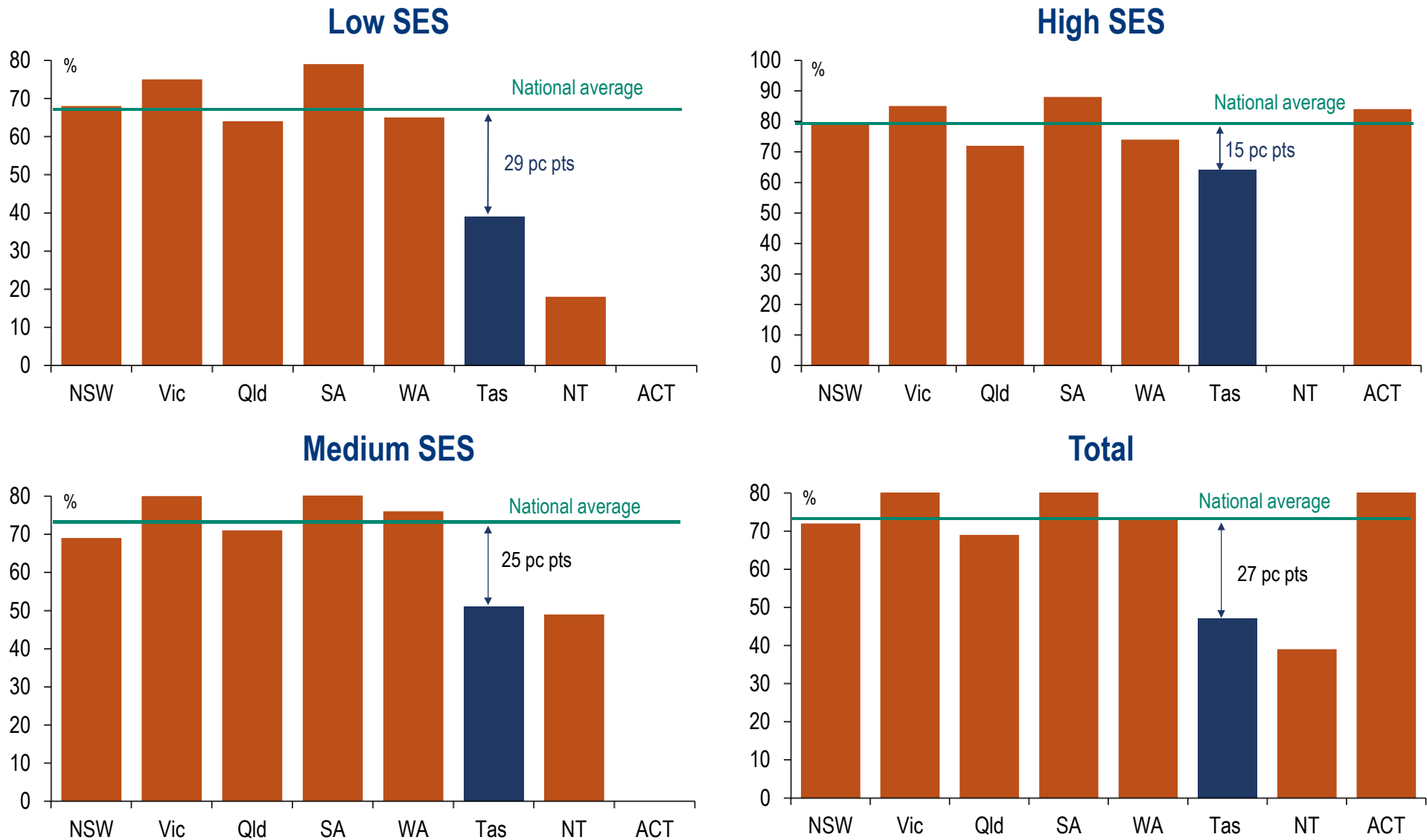
Educational attainment and socio-economic status, 2013



Sources: Michael Rowan & Eleanor Ramsay; *Social Atlas of Australia*.

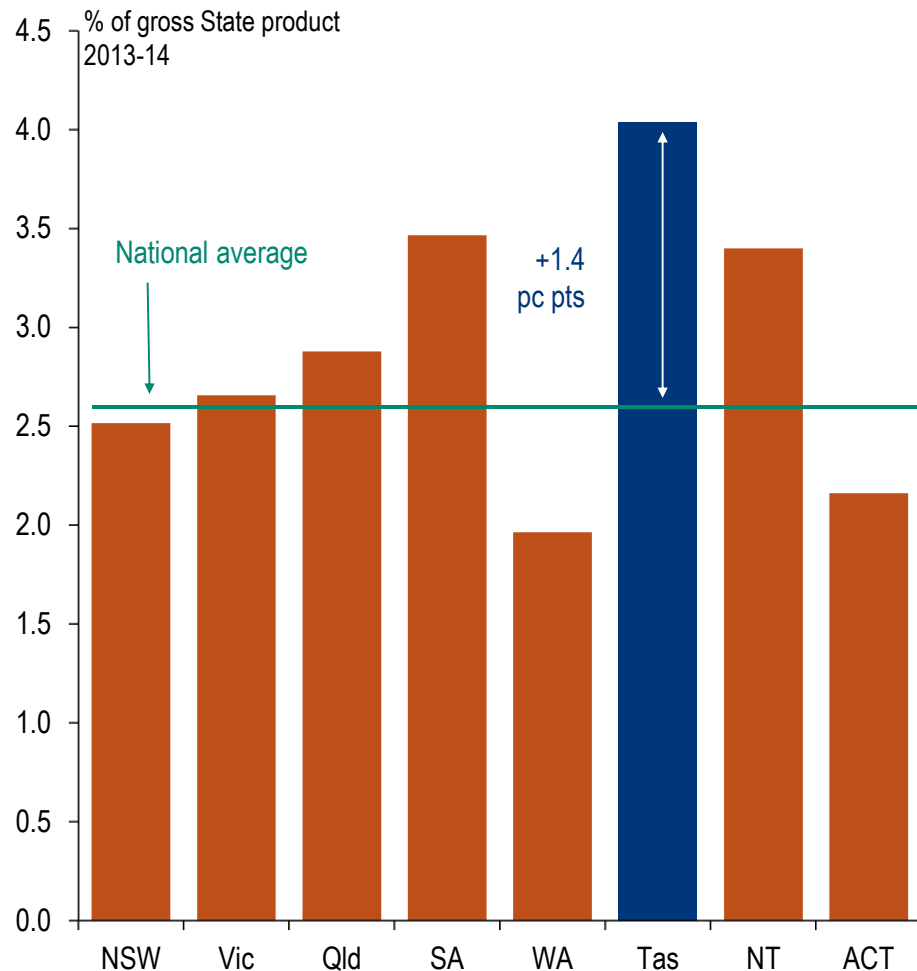
Tasmania's poor Year 12 completion rates are not due to the above-average proportion of students from low SES backgrounds

Year 12 completion rates by socio-economic status (SES), 2013

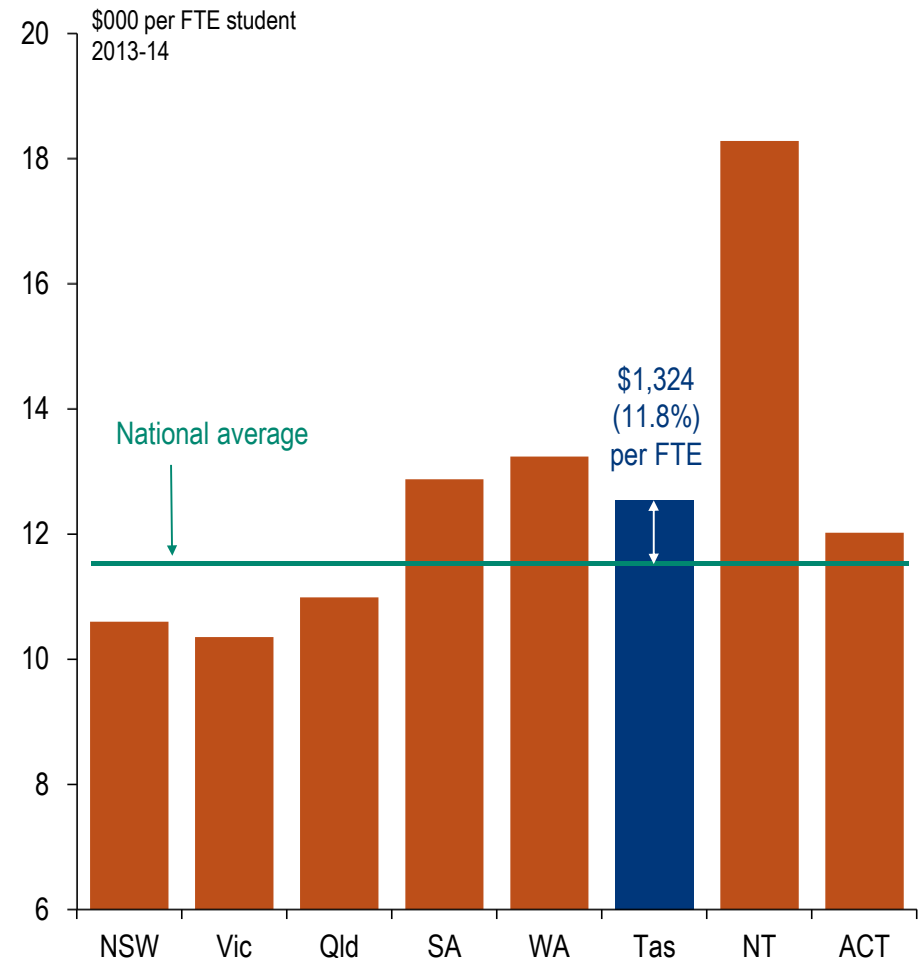


Tasmania's poor educational outcomes aren't the result of insufficient government spending on education

Government spending on primary & secondary education as a pc of GSP

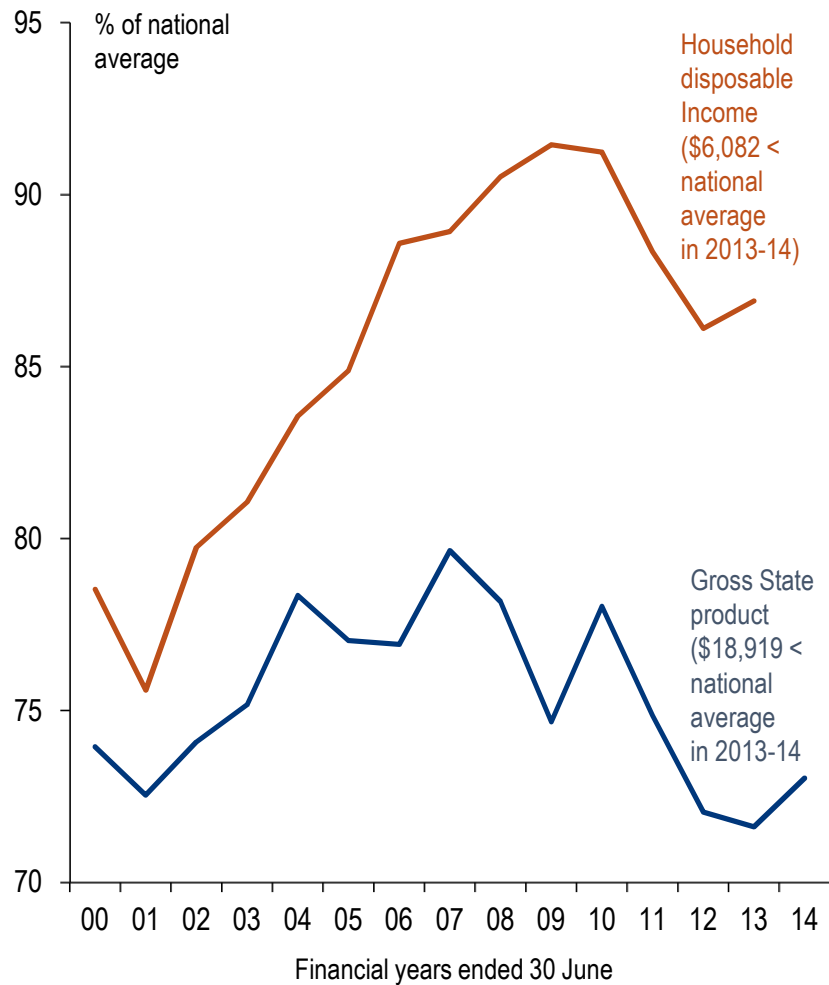


Government spending on primary & secondary education per student

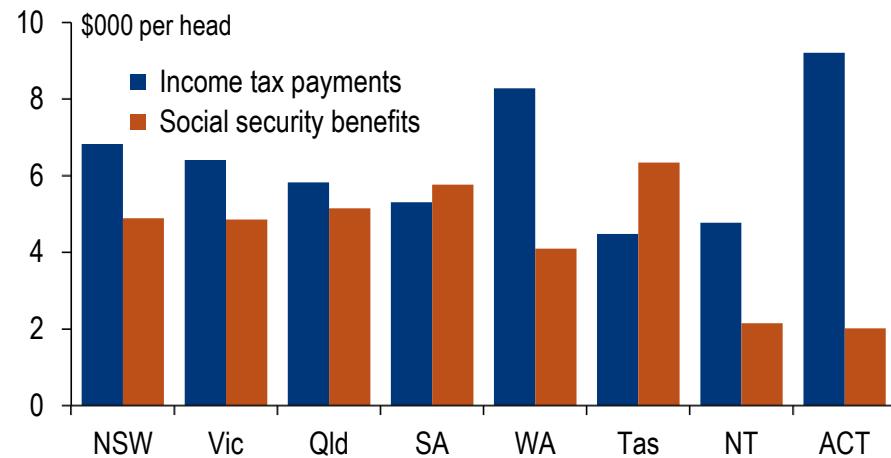


Tasmanians are somewhat insulated from the full effects of the State's poor economic performance ...

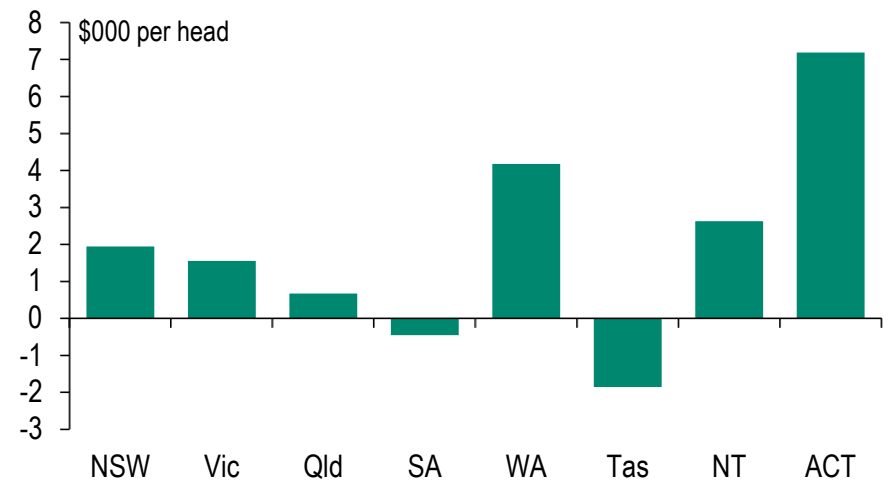
GSP and household disposable income per head as pc of national averages



Income tax payments and social security benefits per head, 2013-14

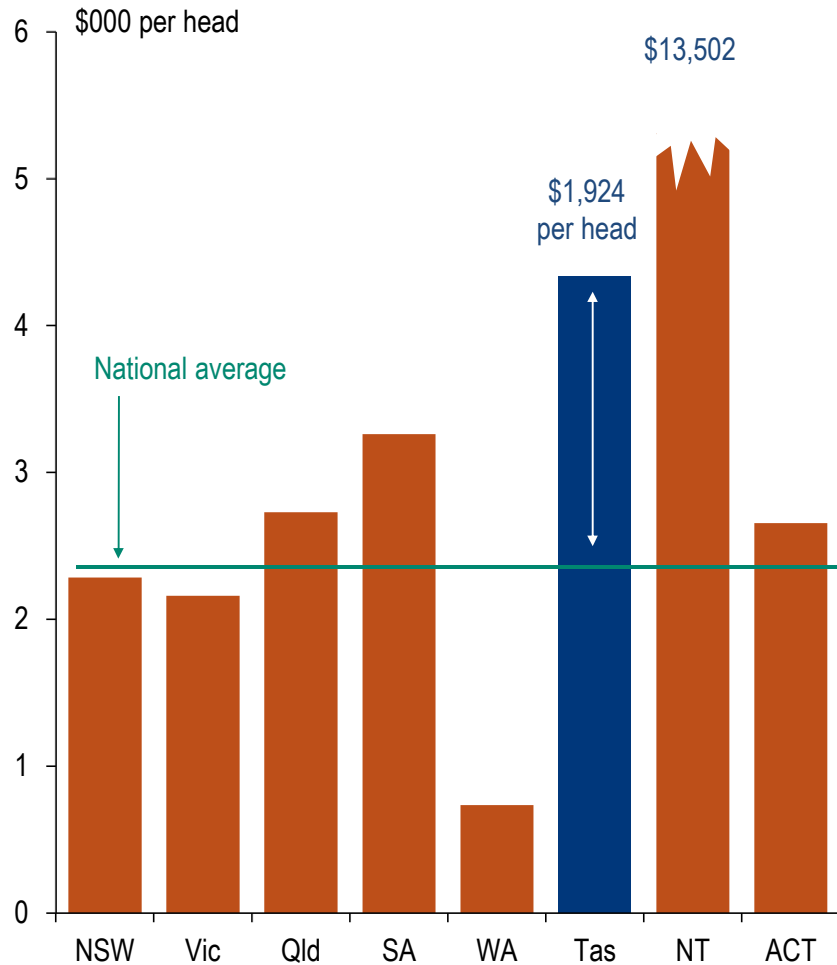


Net tax-transfer payments per head, 2013-14

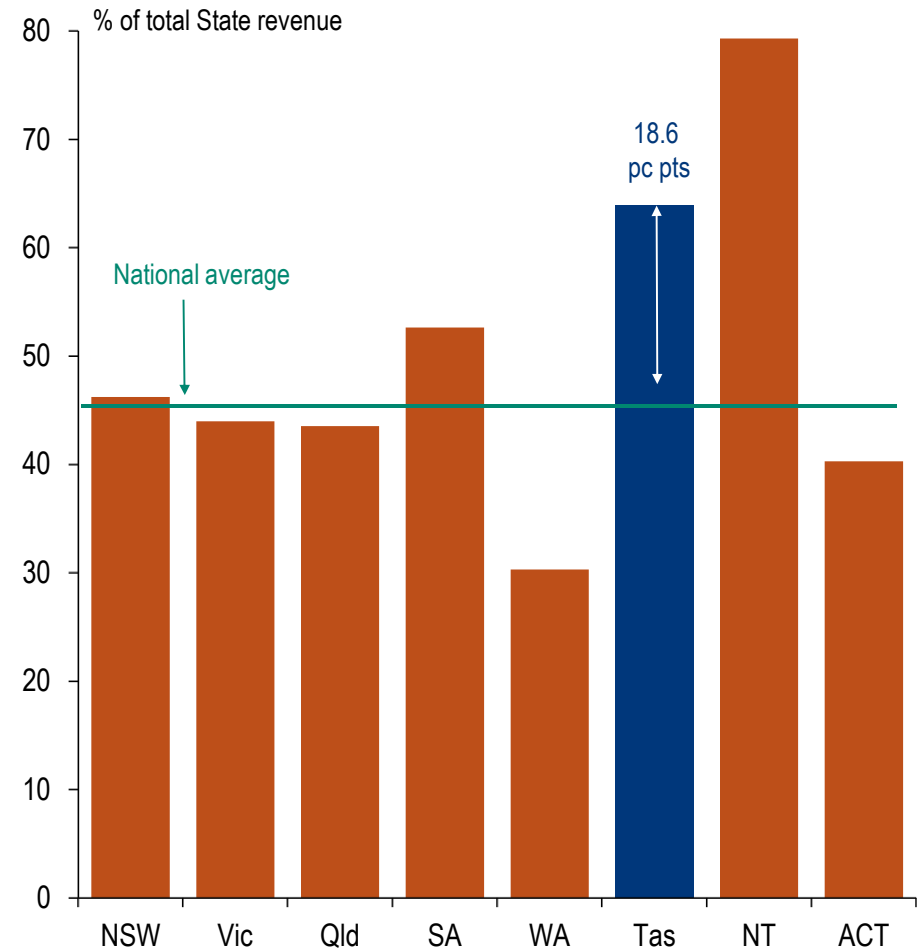


... and so is the State Government

GST revenue shares per head 2014-15

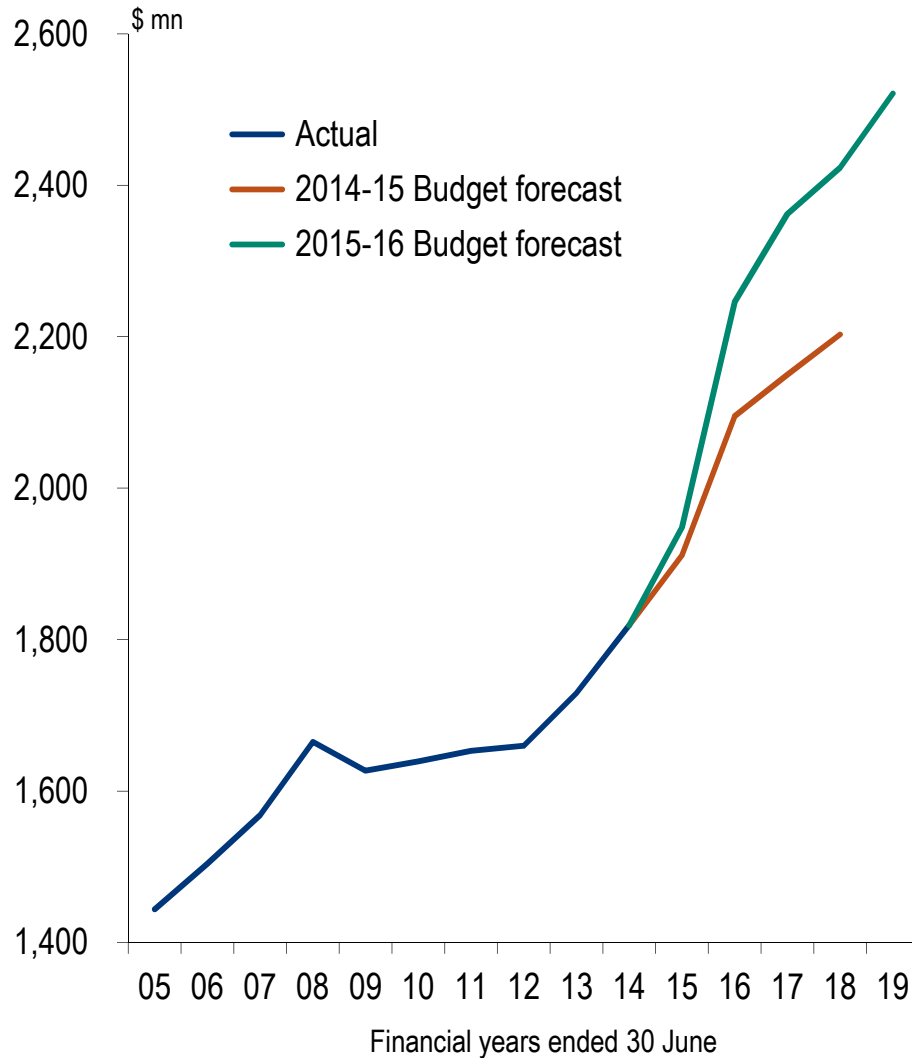


Commonwealth payments as a pc of total State Government revenue, 2013-14

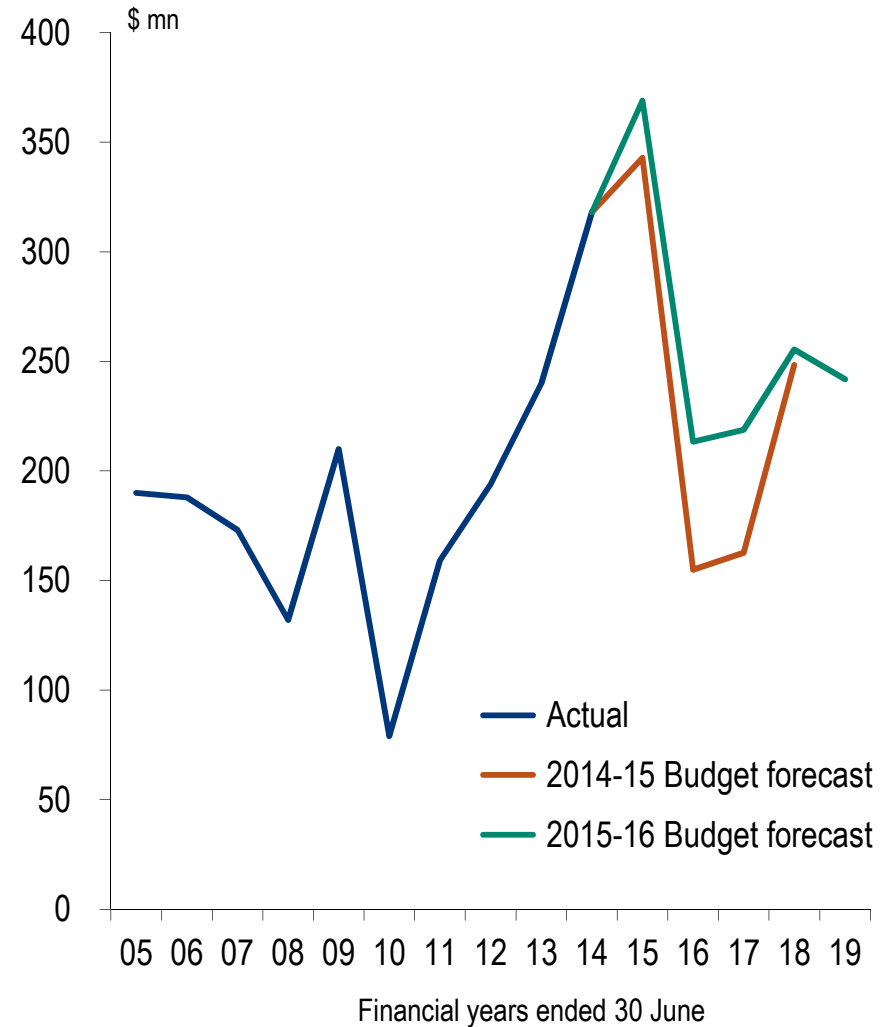


This year the State Government got a substantial 'windfall' from GST revenues, and a smaller one from its GBEs

Actual and forecast GST revenue

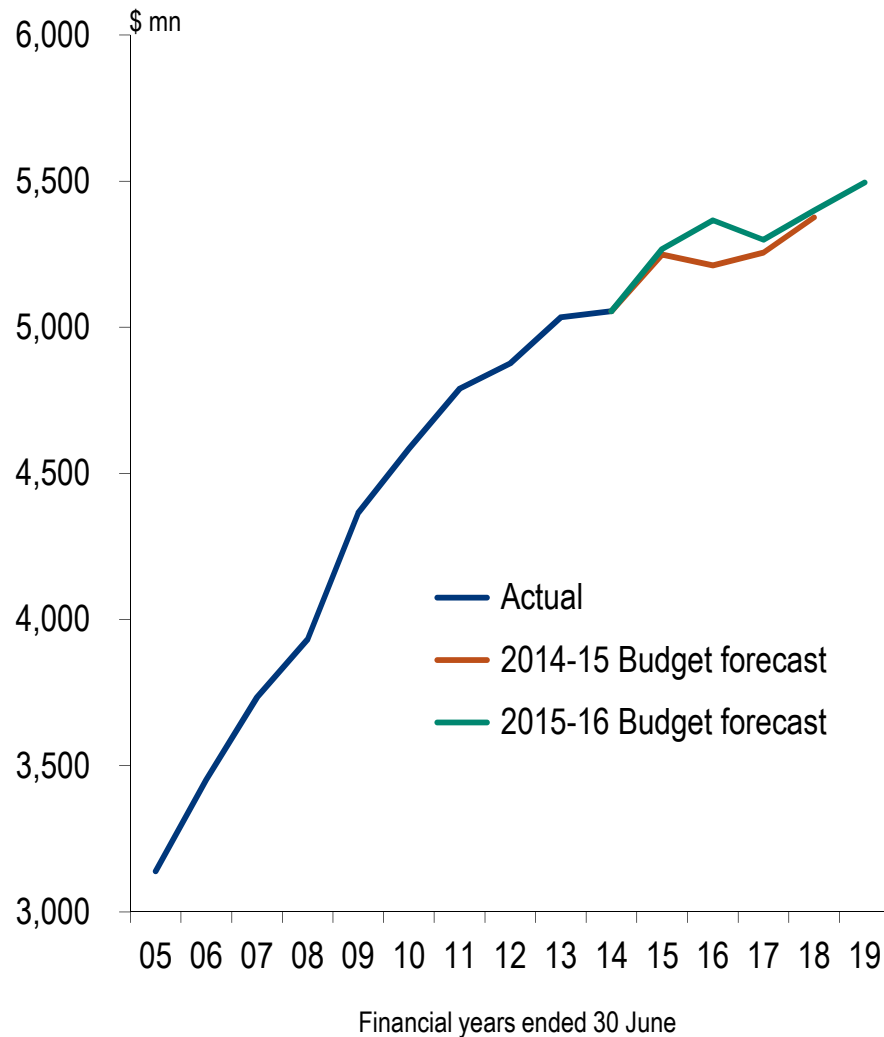


Actual and forecast GBE dividend, tax and rates equivalent income

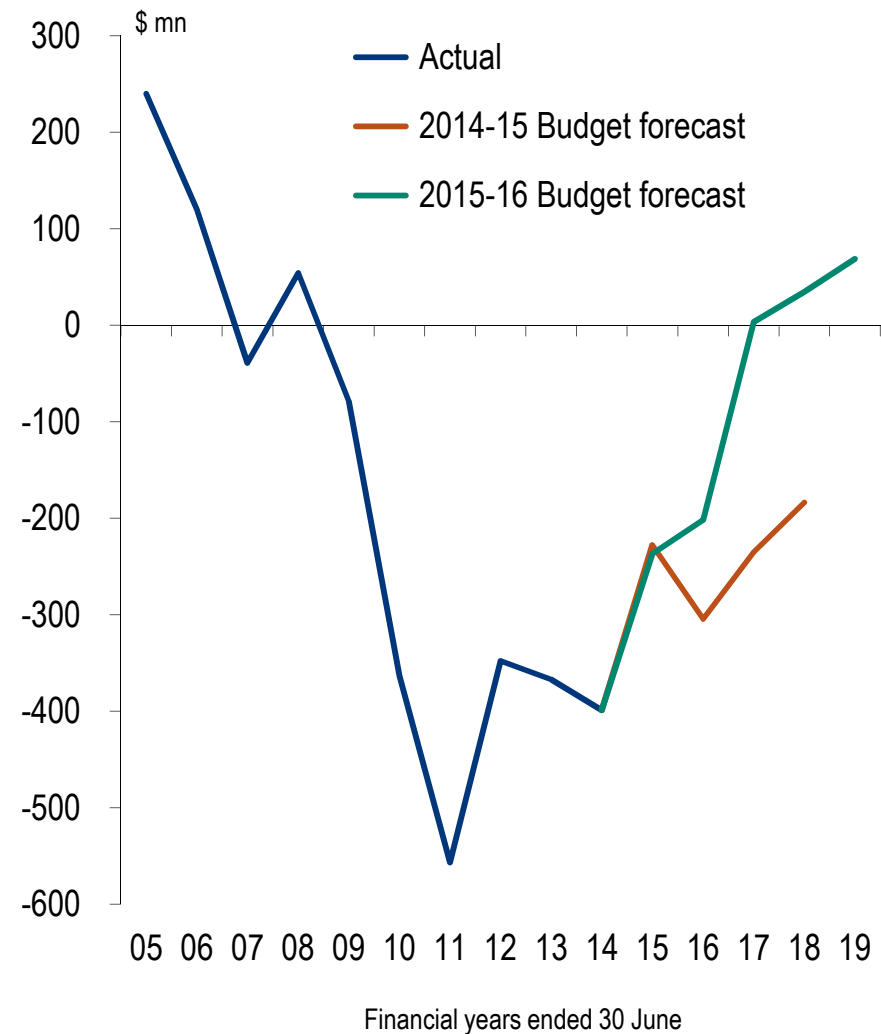


Wisely, the Government applied most of this windfall to improving the 'operating balance', rather than spending it ...

'Operating' expenses

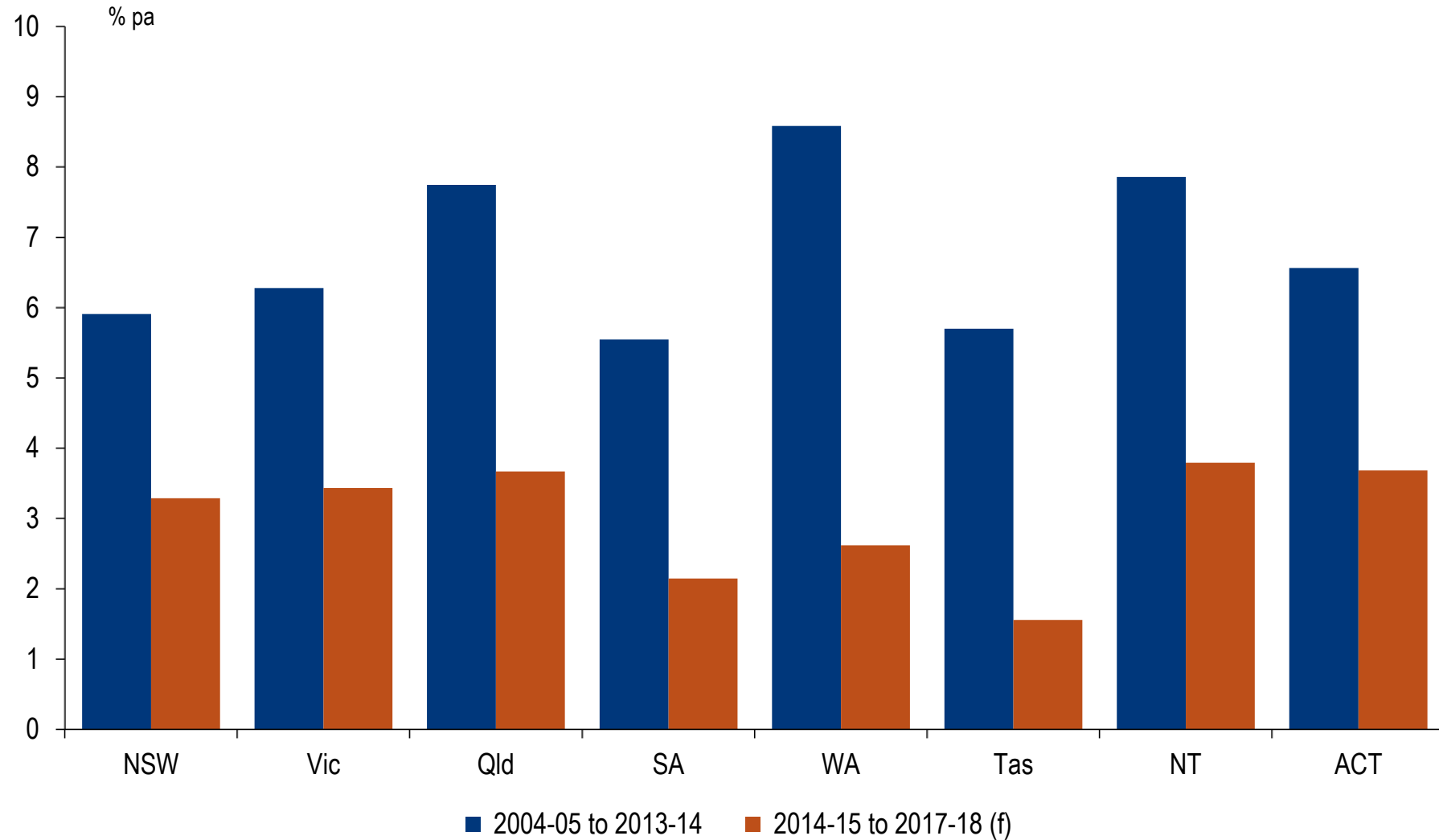


'Underlying' net operating balance



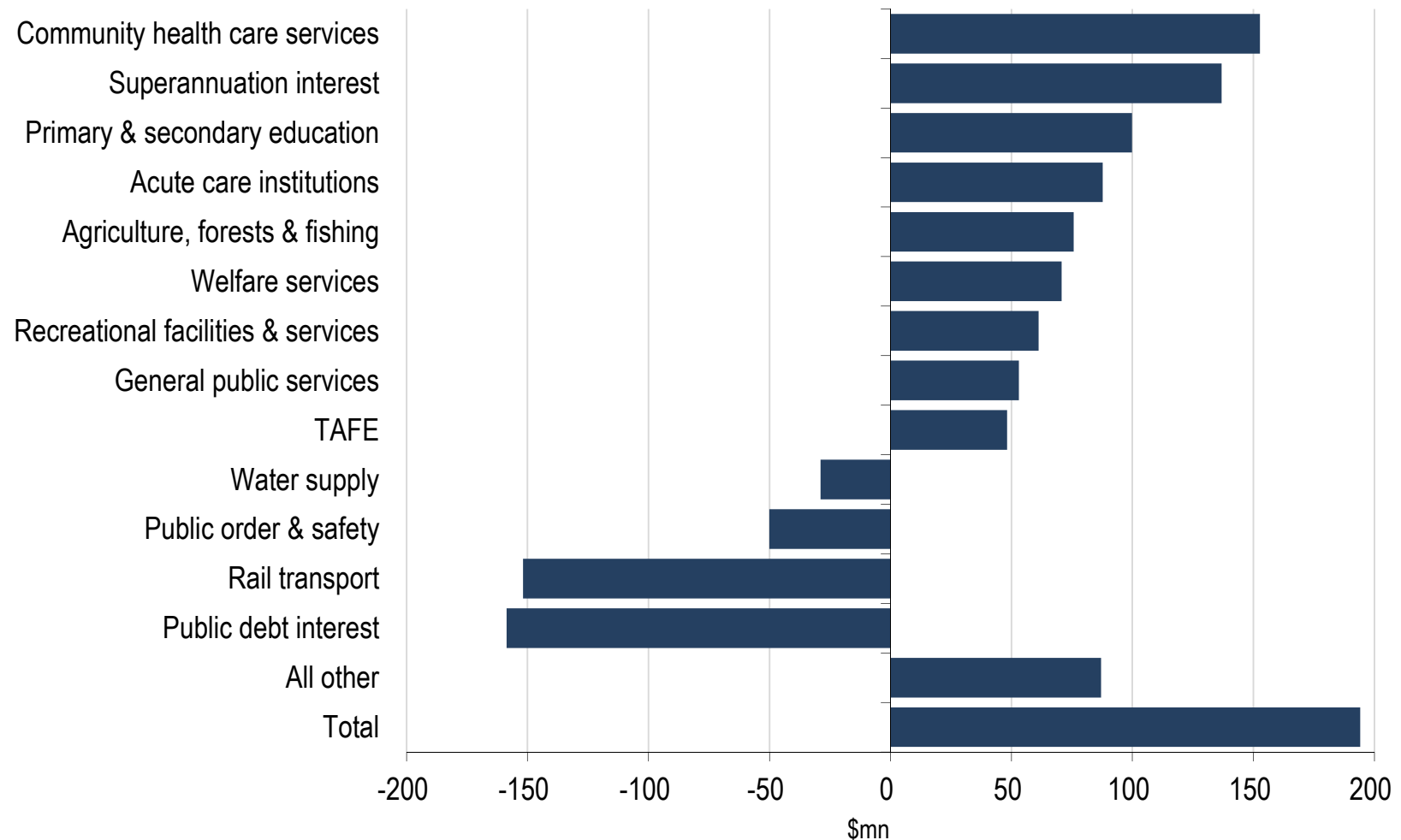
Tasmanian Government 'operating expenses' set to grow at a slower rate than in any other State or Territory over the next three years

Growth rate of 'general government' operating expenses



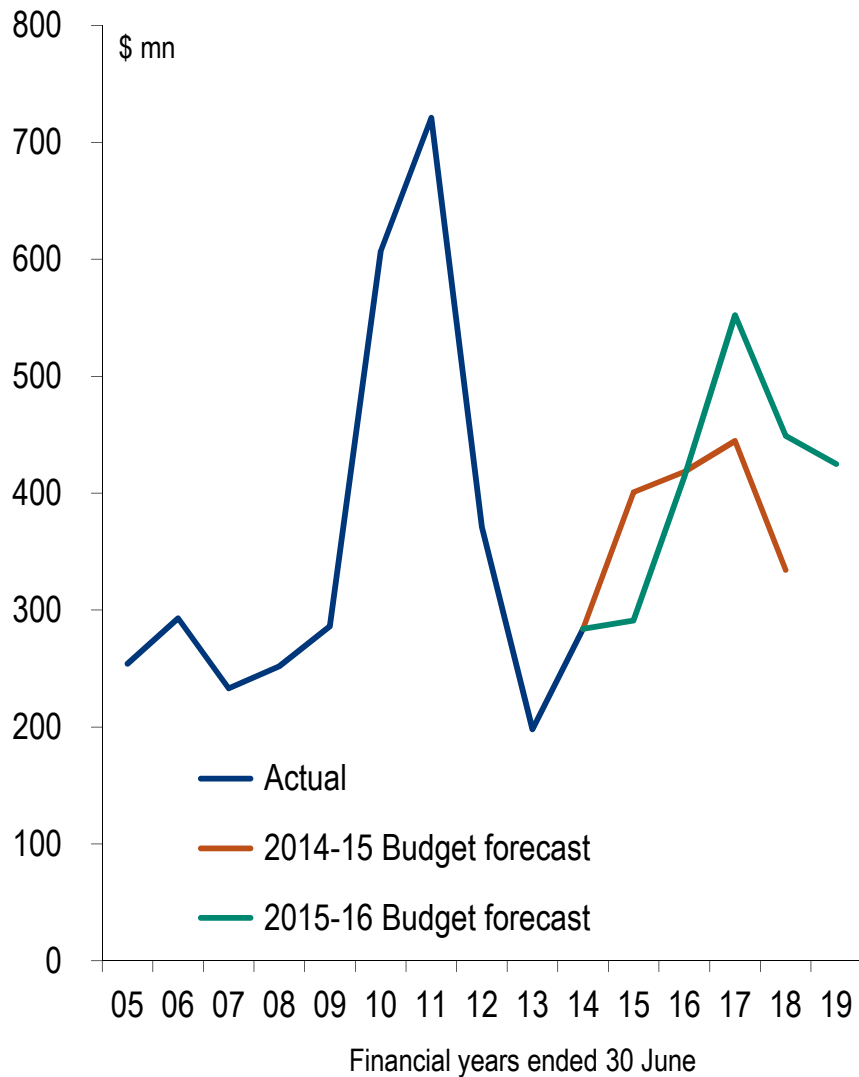
Tasmania spends a lot more per head on most 'core' State public services than other State and Territory Governments

Amount by which Tasmanian Government spending exceeded the equivalent of the average per capita level for all States & Territories in 2013-14

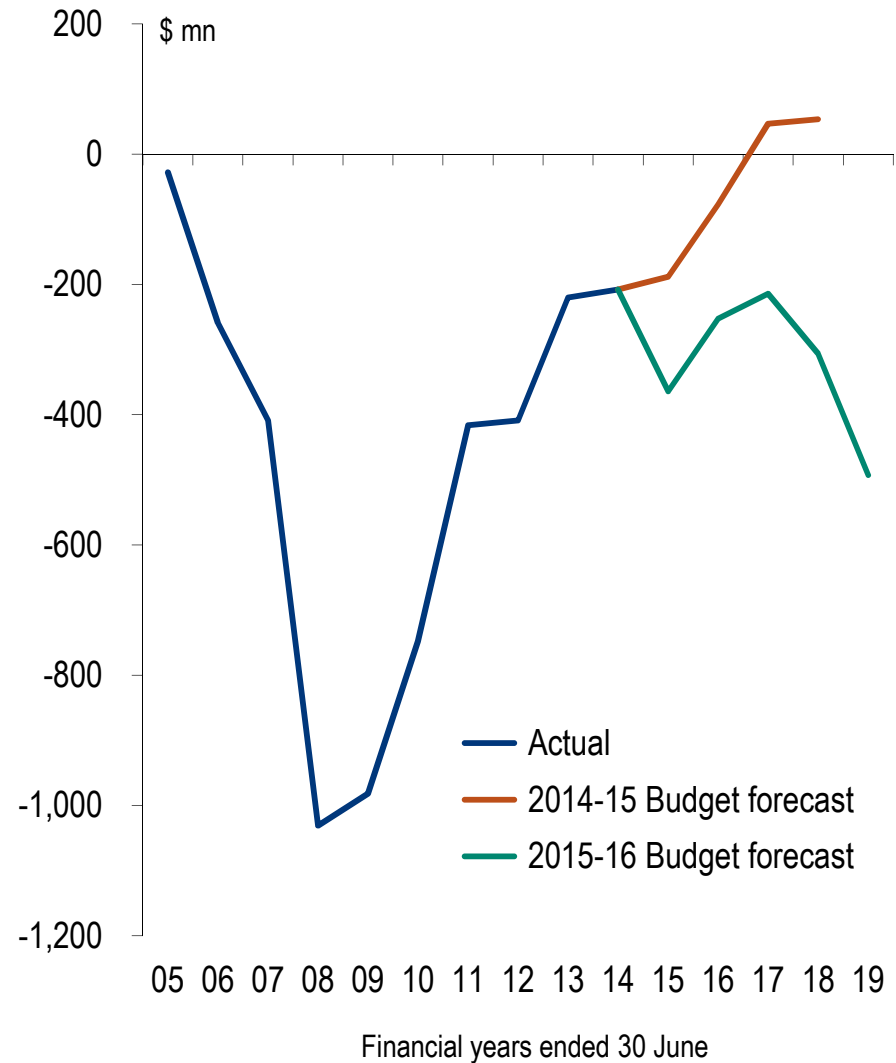


Some of the improvement in the operating balance is being spent on infrastructure, but most of it goes to reducing debt

Infrastructure spending

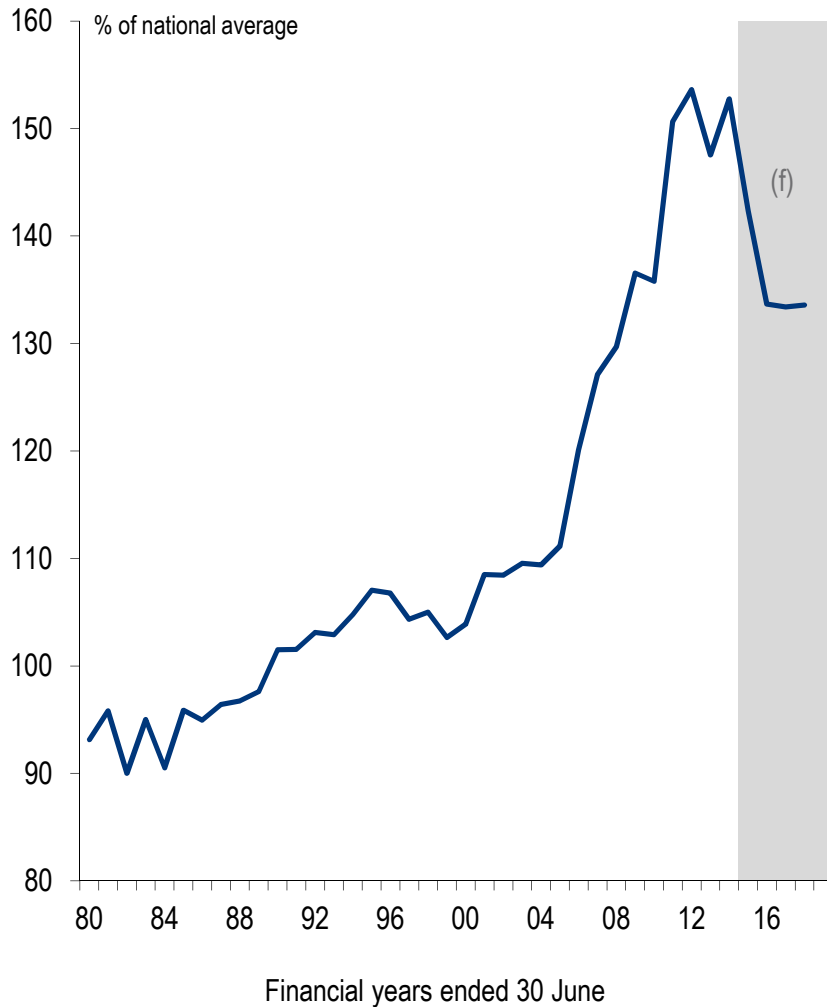


Net debt

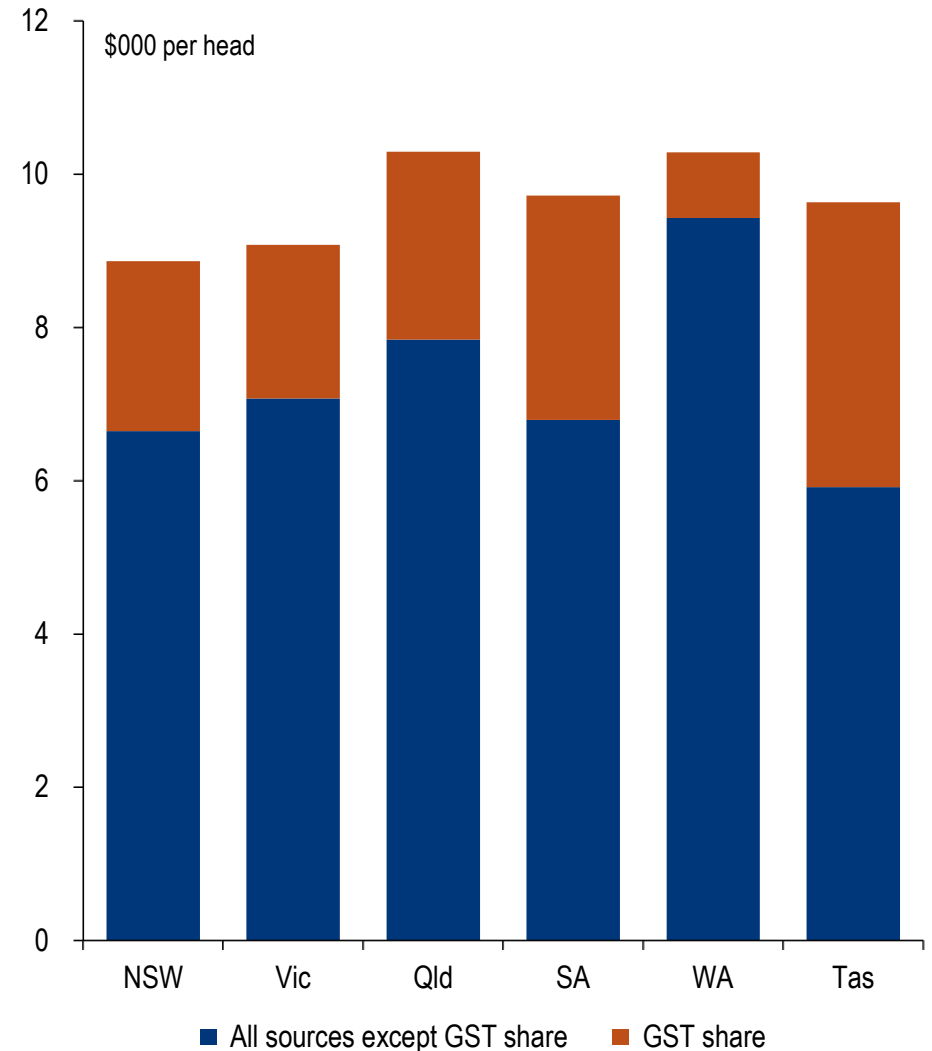


WA's share of GST revenues is bound to rise – even if there aren't any changes to the revenue-sharing formula (as there might be)

Western Australia's per capita gross product relative to national average

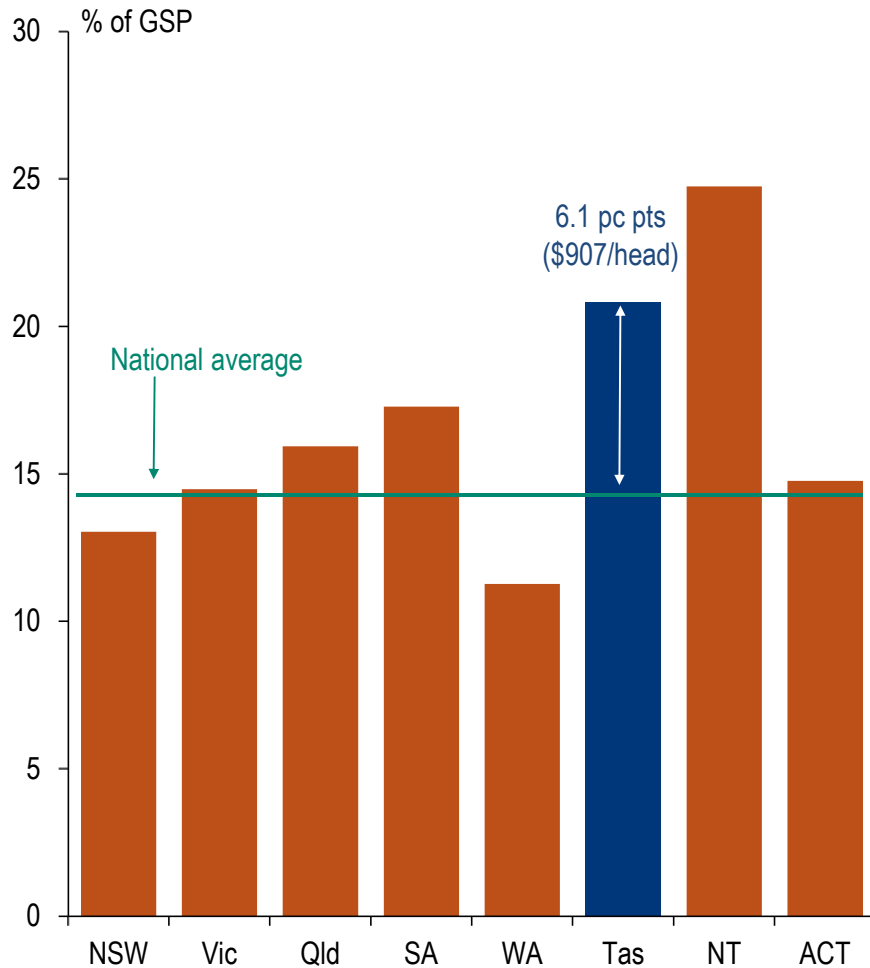


State revenue per capita, 2014-15

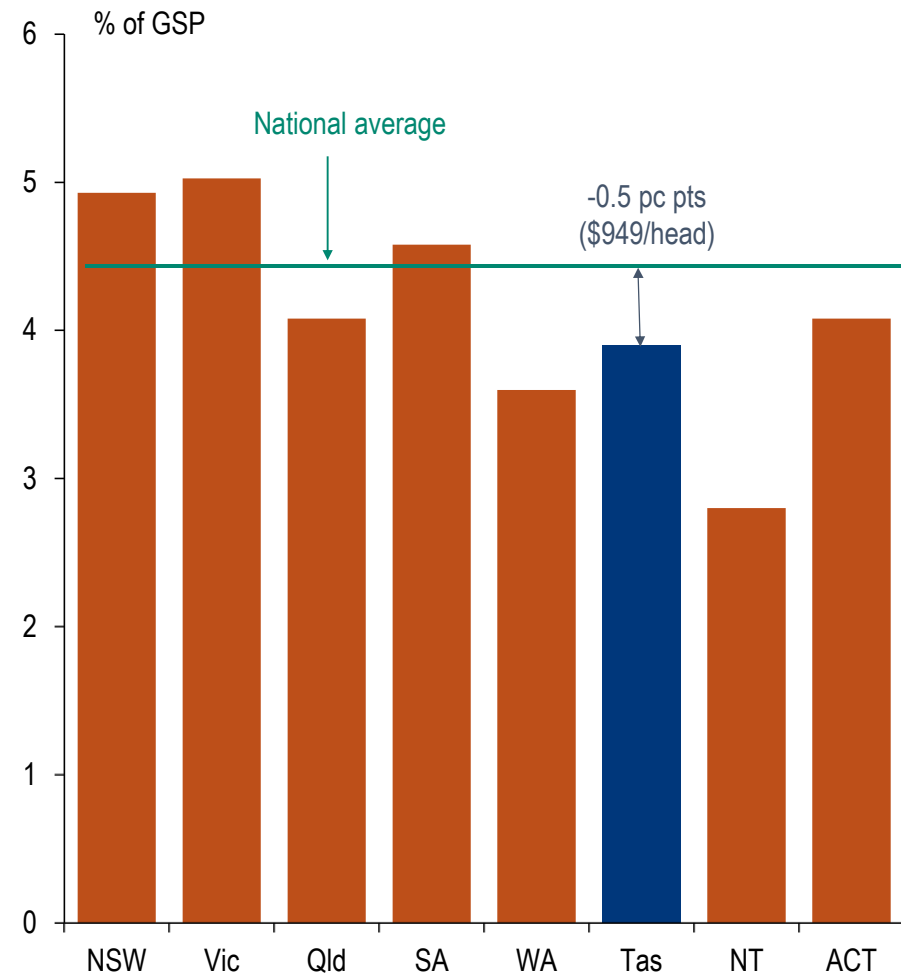


If the GST formula is changed Tasmania might not be able to get away with spending more and taxing less than other States

'General government' operating expenses, 2014-15

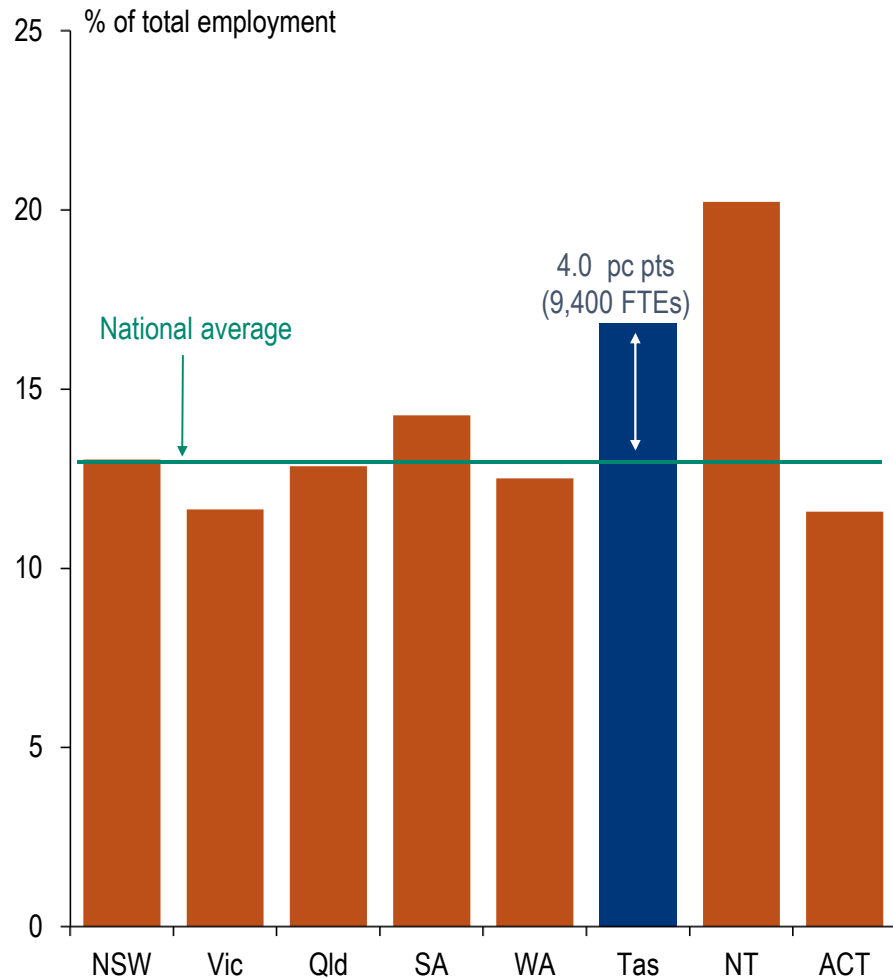


State taxation revenue, 2014-15

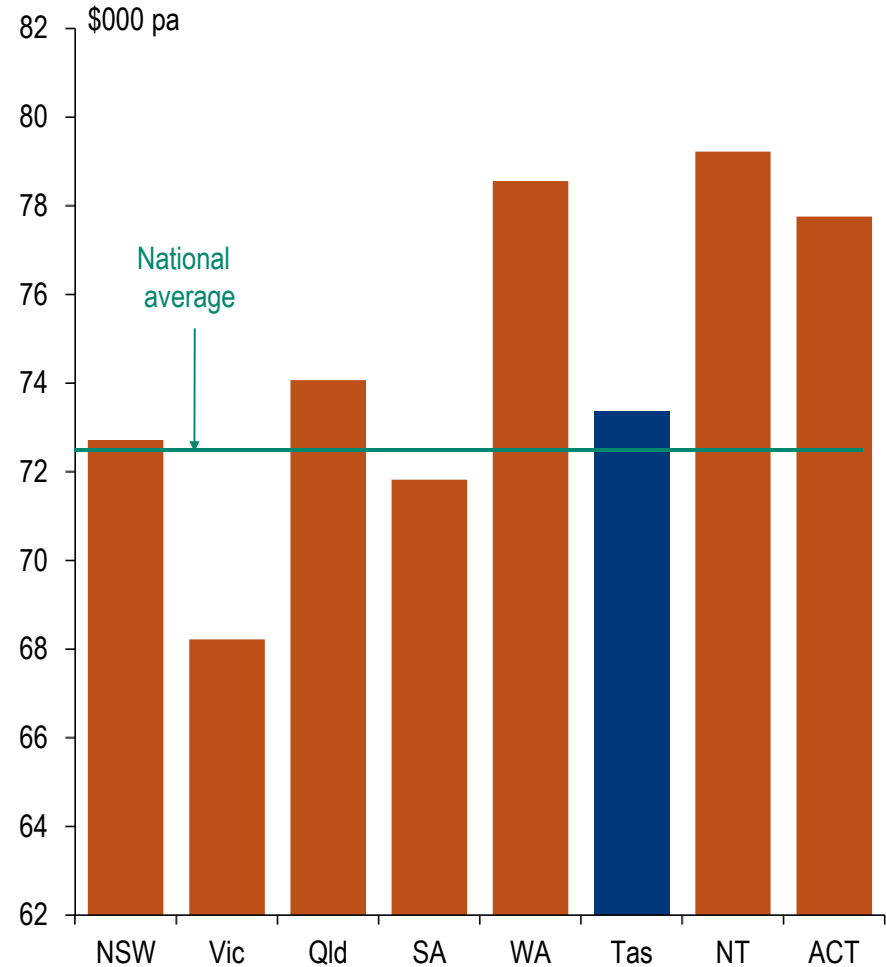


... and having relatively more State public servants, and paying them more, on average, than other States

State public sector employees 2013-14



Average State public sector salaries, 2013-14

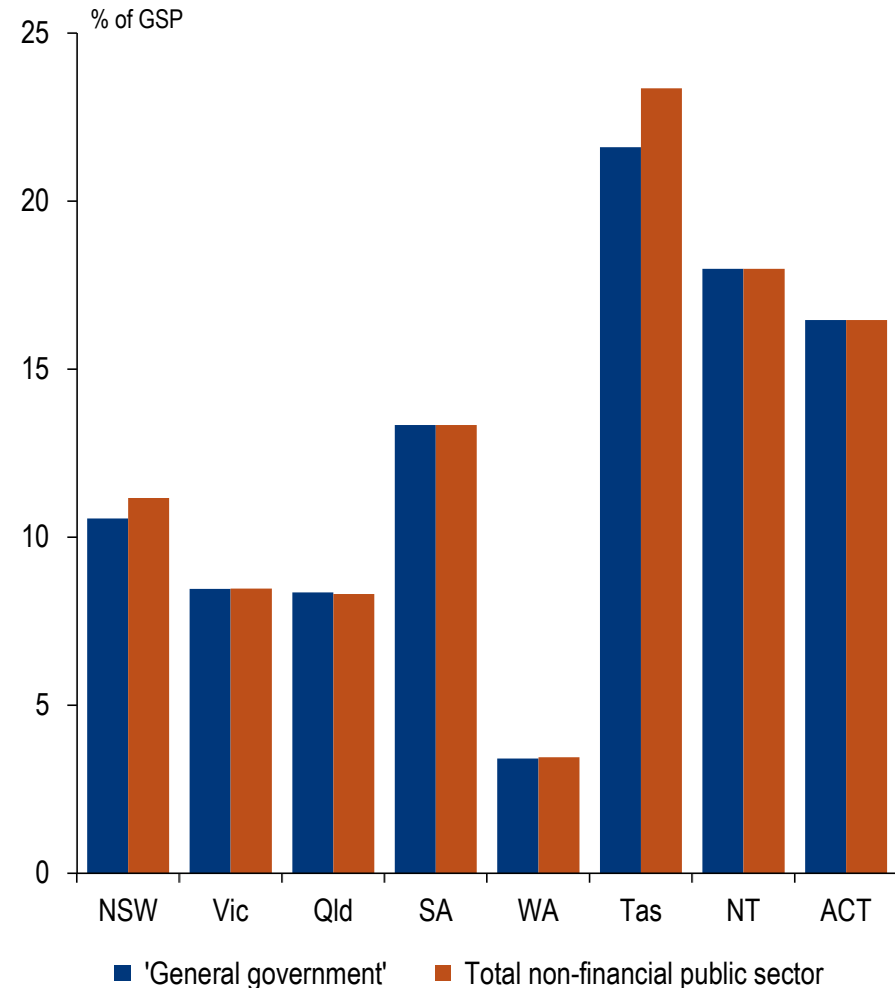


Tasmania doesn't have a lot of debt compared to other States – but it does have an awful lot of unfunded super liabilities

State & Territory Government net debt, 30 June 2015



State & Territory Government unfunded superannuation liabilities, 30 June 2015



Tomorrow's Tasmanian economy has to be different from yesterday's

- ❑ The 'old' Tasmanian economy that Bob Cosgrove and Eric Reece built – aided by Sir Allan Knight and Russ Ashton – and which Robin Gray tried to revive using borrowed money – was only ever sustainable when 'the world' (as far as Tasmania was concerned) consisted of other high-cost locations such as the rest of Australia, Europe, North America and Japan
- ❑ In the world that has been evolving since the mid-1980s – driven by 'globalization' and the rise of 'emerging markets', and rapid technological change – it's no longer economically sustainable for Tasmania to rely on the **volume production** of essentially **undifferentiated** commodities competing solely on the basis of **price**
 - at least, not without paying much lower wages and taxes, and further despoiling the environment
- ❑ Instead, Tasmania's economic prosperity will increasingly depend on its ability to produce **and market highly differentiated goods and services**, embodying a significant **intellectual content**, for which customers can be persuaded to pay **premium prices**
 - this is the only way producers based in Tasmania can overcome the disadvantages inherent in small scale and great distance from markets – whilst still being able to pay 'decent' wages, sufficient taxes to finance the public services Tasmanians want, and being able to maintain OHS, environmental and other standards
- ❑ That's not to say that there is no role for 'traditional' commodity-based / energy intensive industries in Tasmania – they make an important and valuable contribution to the economy and employment
 - but we can't realistically expect them to be major drivers of future growth

The 'eight Ws' of today's Tasmanian economy that illustrate what tomorrow's might look like

- ❑ **Wool:** for >150 years Tasmania has been producing the finest, most expensive wool in Australia
- ❑ **Water:** Hydro's renewable energy sold at high prices to mainland wholesale markets (and commanding an additional premium when carbon pricing returns) – plus irrigation (an enabler for expansion of the dairy industry) – plus premium water (from Cape Grim) in Qantas First Class and expensive restaurants – and products from water (like salmon and oysters – and boat-building, marine engineering etc)
- ❑ **Wine:** Tasmania now produces some of Australia's best, and most expensive, premium wines
- ❑ **Wasabi:** and other horticultural products (cherries, onions, turnips, truffles, etc) sold to at high prices to customers in Northern Hemisphere countries (Japan, Germany, France) who are used to paying high prices, in their off-seasons
- ❑ **Wagyu:** high-priced beef (retailing in Japan for >A\$80 per kilo)
- ❑ **Whisky:** high-priced distilled spirits branded using some of Tasmania's most distinctive characteristics
- ❑ **Walking:** unique experiences for which tourists will pay premium prices (should include adventure tourism like New Zealand)
- ❑ **Walshy:** the unique MONA experience (and others like it)

Important information

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

This document has been prepared for the use of the party or parties named on the first page hereof, and is not to be further circulated or distributed without permission.

This document does not purport to constitute investment advice. It should not be used or interpreted as an invitation or offer to engage in any kind of financial or other transaction, nor relied upon in order to undertake, or in the course of undertaking, any such transaction.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all financial instruments referred to herein. Neither Saul Eslake nor Corinna Economic Advisory Pty Ltd however makes any representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. The author and Corinna Economic Advisory Pty Ltd expressly disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

Any opinions expressed herein should not be attributed to any other organization with which Saul Eslake is affiliated.