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TASMANIAN VOICES

Tasmania's decade of changing economic fortunes

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By most yardsticks, Tasmania's economic performance improved significantly between the first and second halves of the decade leading up to the onset of the Covid-19 pandemic in March 2020.

Tasmania's real gross state product, which is the broadest available measure of the output of goods and services within a state's borders, increased at an average annual rate of 2.1 per cent over the five years to 2018-19, almost double the 1.2 per cent average annual rate recorded over the preceding five years. Adjusted for differences in population growth, Tasmania's real per capita gross product grew at a faster rate than the national average between 2013-14 and 2018-19 (indeed, by more than one-and-a-half times the national average), whereas between 2008-09 and 2013-14, Tasmania's per capita economic growth rate had been almost one-third below the national average.

While measures such as gross state product are redolent with meaning for economists, other people typically find them harder to relate to their own experience. So it's perhaps more meaningful to note that over the five years to 2018-19, employment in Tasmania increased at an average annual rate of 1.3 per cent, a marked turnaround after having fallen at an average annual rate of 0.6 per cent over the previous five years.

As a result, Tasmania's unemployment rate dropped to an average of 6.2 per cent in 2018-19, from 7.6 per cent in 2013-14 – a decline twice as large as that in the national unemployment rate, despite the fact that the proportion of the population "participating" in the labour market (that is, either working or actively looking for work) rose by 1¼ percentage points over this interval. Indeed, in March 2020 – on the cusp of the onset of the pandemic – Tasmania's "trend" unemployment rate had fallen to 5.7 per cent, the lowest it had been since September 2011.

This improved economic performance had in turn set up a potentially self-reinforcing interaction between economic and population growth.

In 2015, Tasmania stopped being a net exporter of people across Bass Strait, as it had been more or less continuously for the previous four years. Fewer Tasmanians left (permanently) for the mainland: while more mainlanders (and in particular, more mainlanders in their 20s and 30s, as well as a growing number of tree-changers and retirees) moved here.

Tasmania also drew a larger number of immigrants from overseas (many of them international students) in 2018 and 2019 than it had done in any year since at least the early 1970s.

This meant that, in 2018, Tasmania's population grew by 1.3 per cent – the fastest pace since 1990.

To be sure, there have been downsides to this – which I will come back to in a later article in this series. But the fact that fewer Tasmanians thought it necessary to seek employment or pursue careers on the mainland, and that more people from the mainland or even further afield decided that Tasmania was where they wanted to be, can (and I think should) be seen as a substantial vote of confidence in the future of this island.

Of course, success has many parents, while failure is an orphan. And thus there are many who seek to claim the credit for this apparent turnaround in Tasmania's economic fortunes.

Being as objective as I can, I think the Hodgman-Gutwein governments, in office since March 2014, are entitled to a share of the credit (as much as the blame would be ascribed to them had Tasmania's economy had continued on the course it had been previously).

In particular, those governments have for the most part kept the promises which they've made at successive elections: and they've largely avoided serious blunders or scandals of the sort which can and have undermined confidence both in Tasmania (under previous governments) and in other parts of Australia under governments of both major political persuasions. They have maintained policy settings which have, for the most part, sustained levels of confidence on the part of the business community which have been conducive to investment and job creation. They have reasonably competently managed the state's public finances – albeit in some cases at the cost of failing to meet reasonable expectations as regards the delivery of important public services (and that's something else I'll come back to in another article in this series).

But Tasmania's economy has also benefited from more favourable external circumstances – developments which have been beyond the influence or control of any state government – during the past five years than had been the case previously.

In particular, Tasmania's economic performance has been enhanced by a more competitive exchange rate for the Australian dollar (more than 20 per cent lower since 2014-15 than it had been in the previous five years) and by markedly lower interest rates (before the pandemic sent the Reserve Bank's cash rate to all-time lows, it had in the five years to 2018-19 been less than half what it had been over the previous five years).

Tasmania derived enormous economic benefits from the flow-on effects of Chinese President Xi Jinping's visit to Tasmania in November 2014 (something which had been arranged by the previous Government) – to the point where a higher proportion of Tasmania's international exports went to China than of any other state or territory except Western Australia. (Of course that might now prove to be a point of vulnerability, rather than an advantage).

And Tasmania received a better deal from the Federal Government – in terms of this state's share of revenues from the GST and other grants – during the five years to 2018-19 than it had done during the preceding five years.

The first and third of these elements of good luck were also significant contributors to the last period of relative economic prosperity which Tasmania enjoyed in the early years of the 21st century – which was of course terminated by the global financial crisis of 2008-09 and then the (largely self-induced) collapse of the forestry industry in 2011-12.

Tasmania's most recent period of relative economic prosperity has of course been rudely interrupted by the onset of Covid-19.

Largely because its economy has become more dependent on sectors which were inherently more vulnerable to the restrictions imposed by governments in order to contain the spread of Covid – and despite the fact that the Tasmanian government was proportionately more generous in the financial support it provided to households and businesses than any other state or territory government – Tasmania experienced a larger initial slump in economic activity and employment than the national average: and the subsequent rebound has, by most measures, been a little less vigorous than the national average.

Nonetheless, as Australia embarks – ahead of most other nations – on the path back to whatever the post-Covid 'normal is going to be, Tasmania has an opportunity to capitalise on its comparative success in keeping the virus at bay, adding to perceptions of this island as a safe place in the face of threats not only of other virus outbreaks but also climate change, and taking advantage of the greater recognition of the potential to work from home without needing to be physically present in high-rise office blocks in large city CBDs.

But for those opportunities to be realised, Tasmania needs to address long-standing weaknesses in its economic structure, vulnerabilities in its dependence on favourable treatment from Canberra, and shortcomings in the delivery of vital public services (in particular education and health). It also needs to deal more effectively with some of the challenges thrown up by the faster population growth of recent years.

These will be the subject of the remaining articles in this series.

Saul Eslake came to Tasmania with his parents as an eight-year old. He went to primary school in Smithton, and high school and university in Hobart (graduating with a First Class Honours degree in Economics from UTas). Like so many in that era, he went to the mainland for work, initially at the Treasury in Canberra, before spending almost 32 years in Melbourne, working as (among other things) chief economist of the ANZ Bank for 14 years and chief economist (Australia & New Zealand) for Bank of America Merrill Lynch for 3½ years. In 2015 he came home to establish his own business, Corinna Economic Advisory. Saul Eslake is a Vice-Chancellor's Fellow at UTas, and a non-executive director of the Macquarie Point Development Corporation.