

TASMANIA: STATE OF OPPORTUNITY

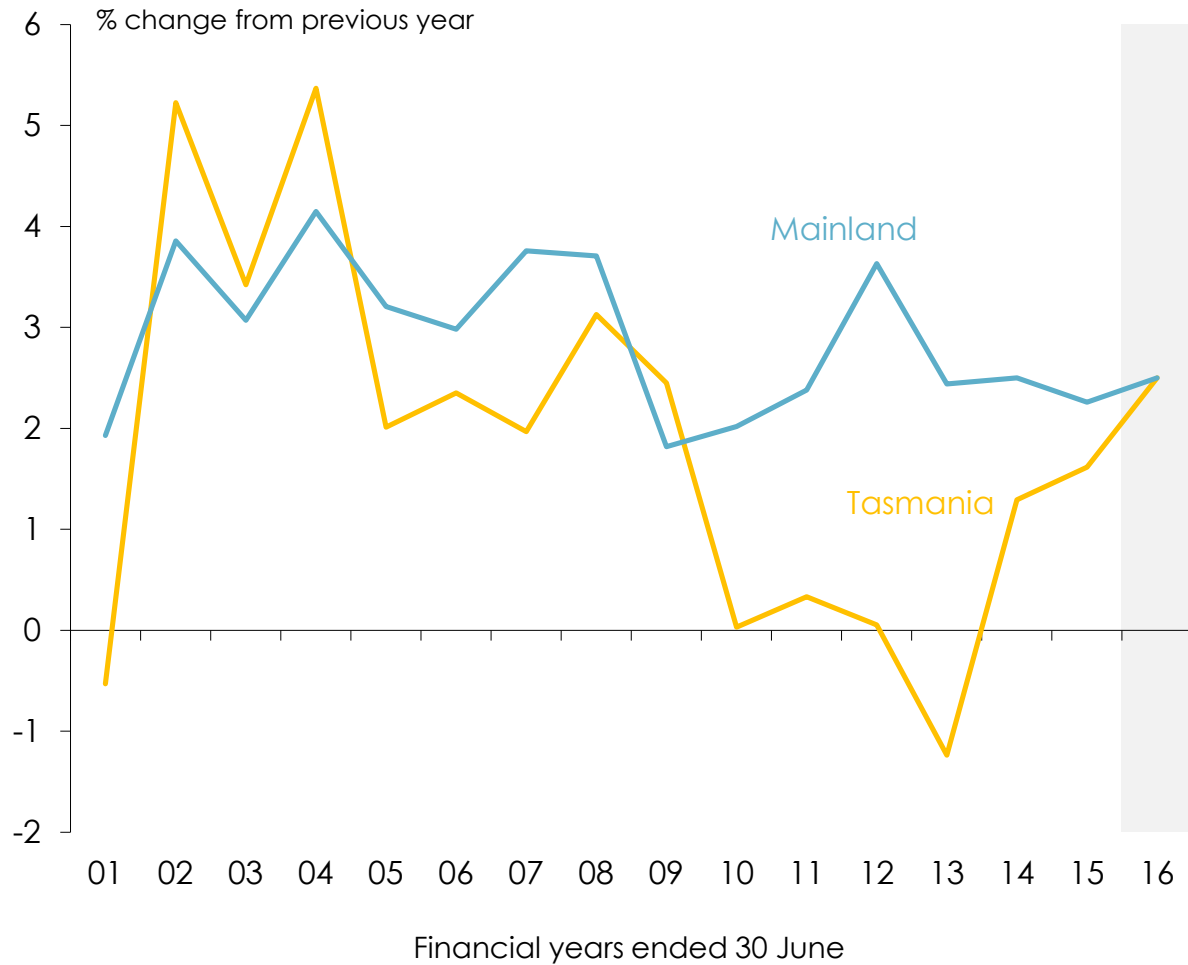
PRESENTATION TO UNIVERSITY OF TASMANIA ALUMNI

HOTEL REALM, CANBERRA – 8TH NOVEMBER 2016

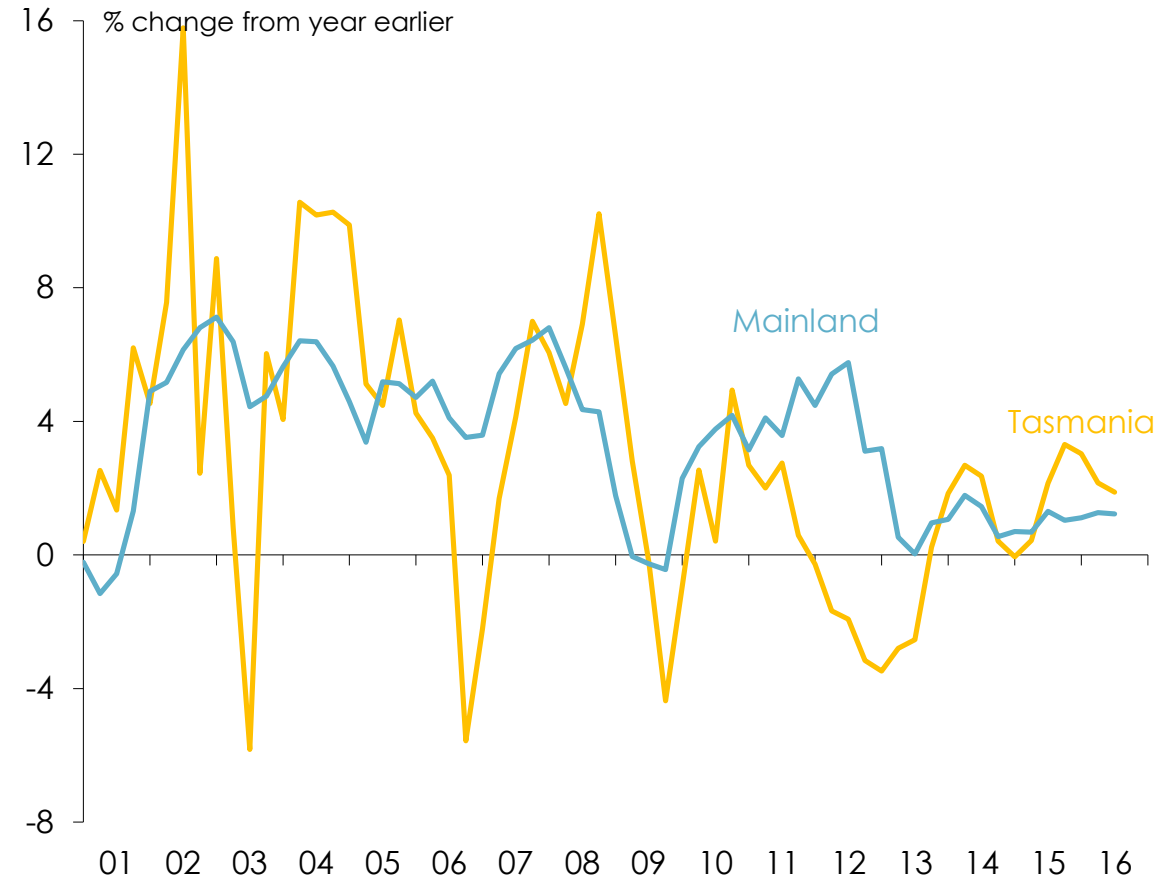
**The near-term picture:
an economy recovering**

Tasmania's economy is recovering from four years of very weak growth after the financial crisis, including a recession in 2012-13

Real gross State product



Real State final demand

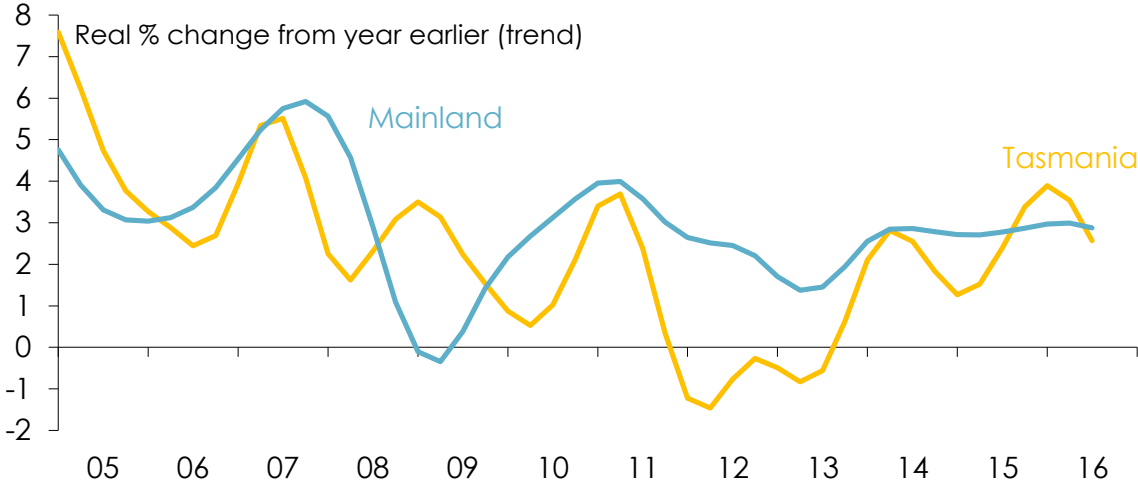


GSP estimates for 2015-16 are forecasts from the Federal and State Budgets for 2016-17, presented in May and June 2016, respectively.

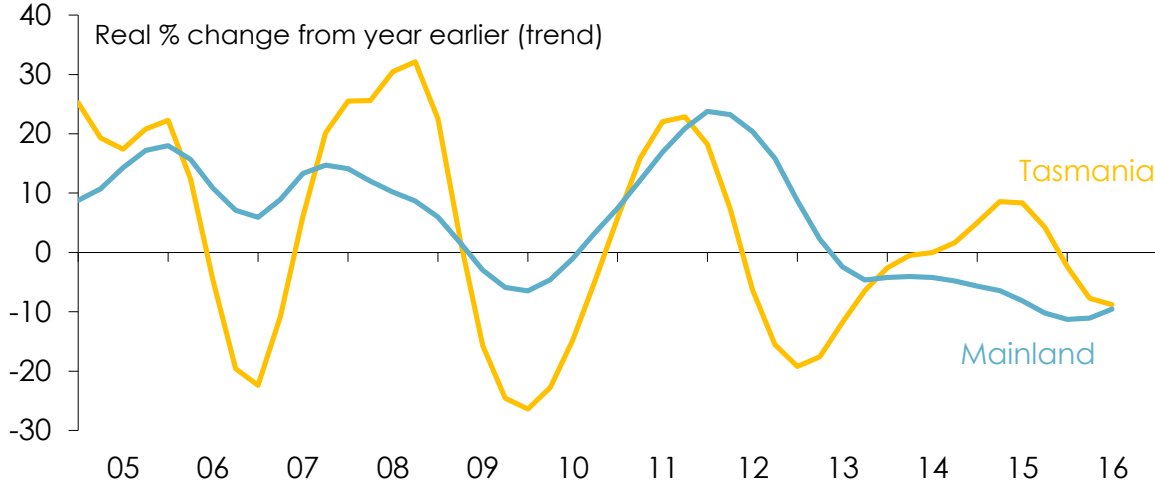
'State final demand' is the sum of spending by households, business and governments. It differs from gross State product by the sum of net interstate and international trade, and change in inventories. Source: ABS 5220.0 and 5206.0

Consumer and government spending are growing in Tasmania but housing and business investment have slowed over the past six months

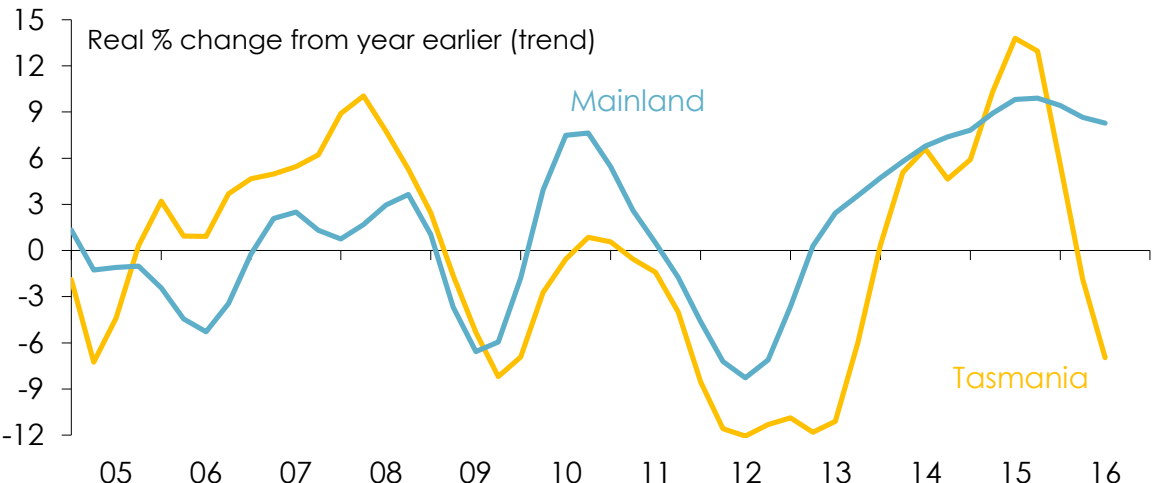
Household consumption



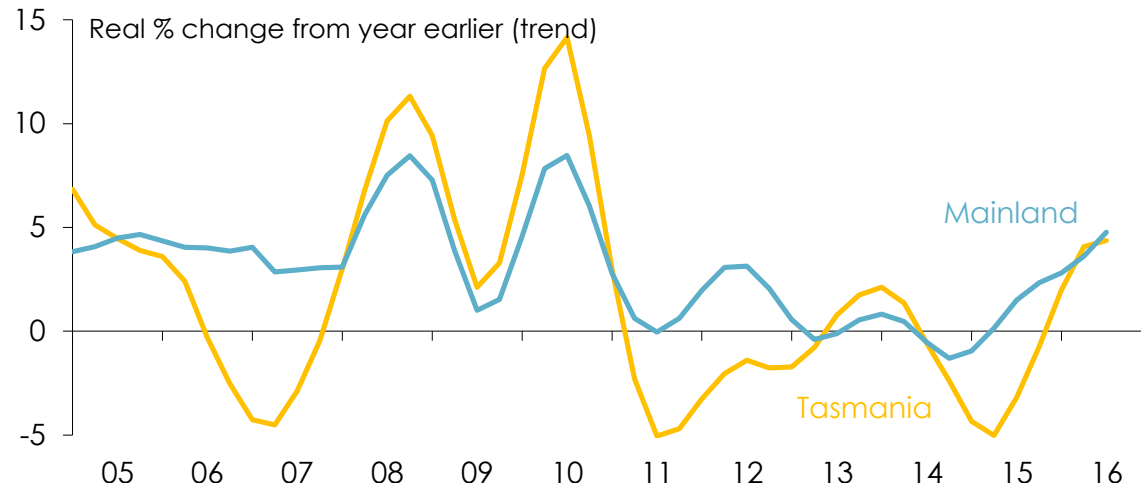
Business investment



Dwelling investment



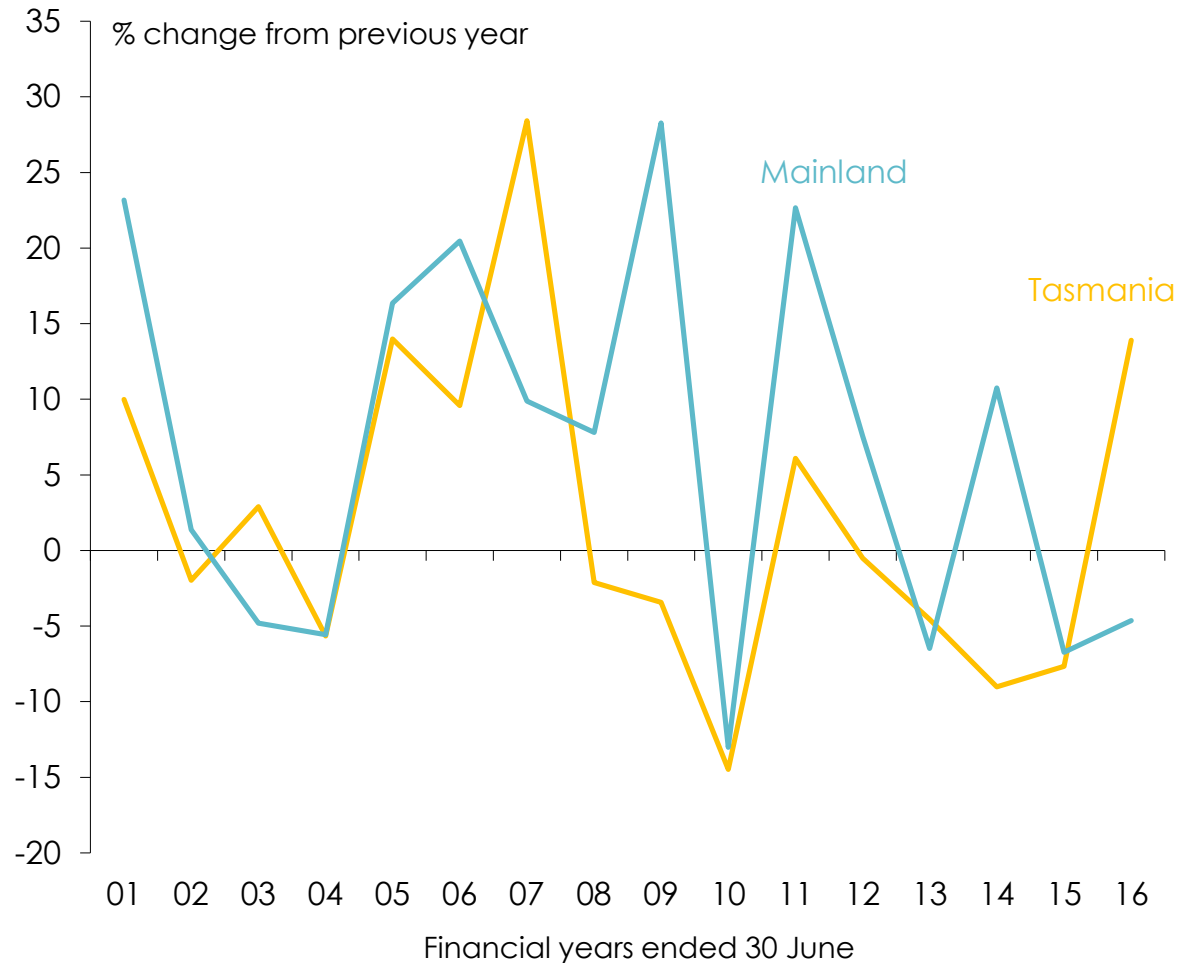
Public sector spending



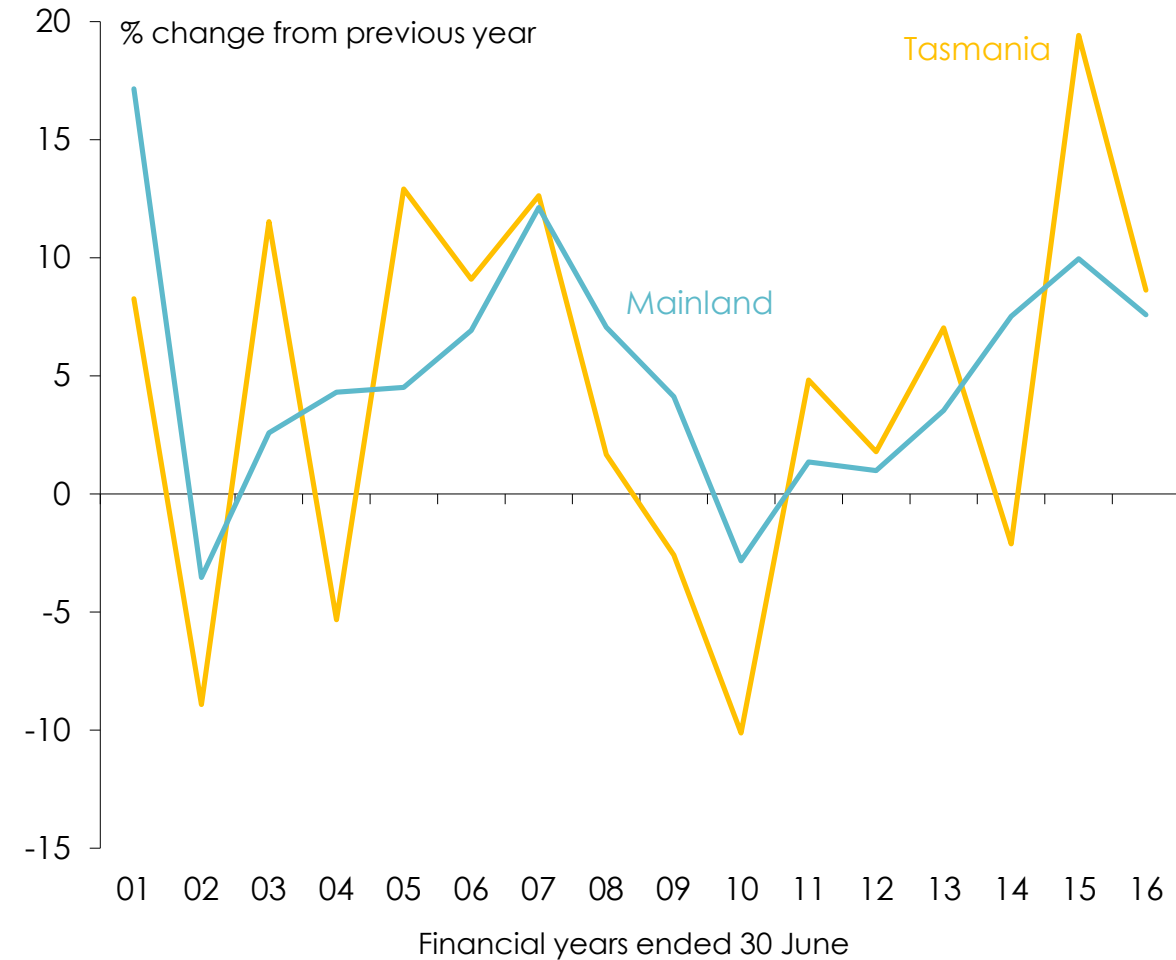
Source: ABS.

Tasmania's exports are doing particularly well – partly thanks to the decline in the A\$ since mid-2011

International exports of goods



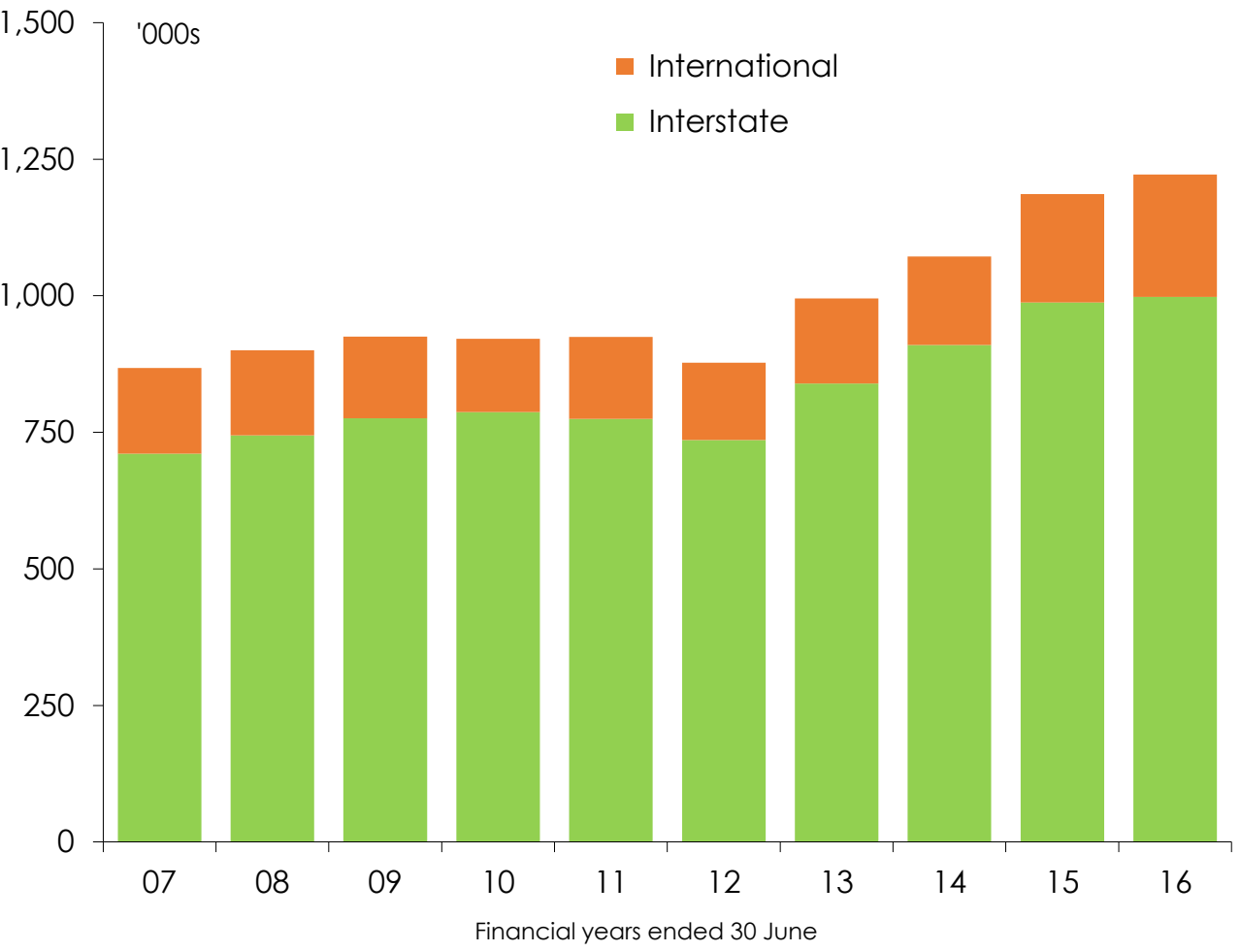
International exports of services



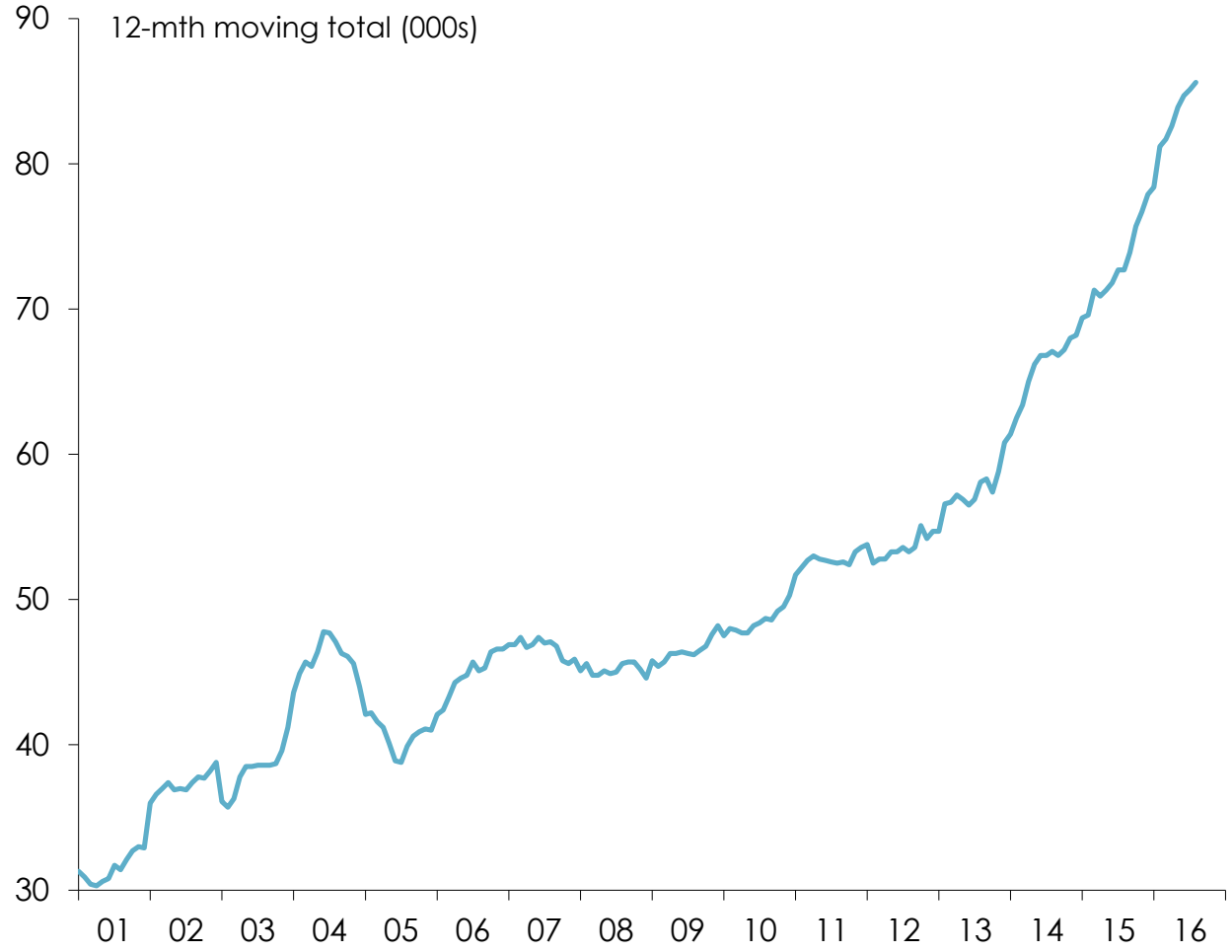
Note: Exports of both goods and services are measured in current dollars. Sources: ABS, 5206.0 and 5368.0.55.003.

Tourism is a major driver of the growth in services exports

Visitors to Tasmania



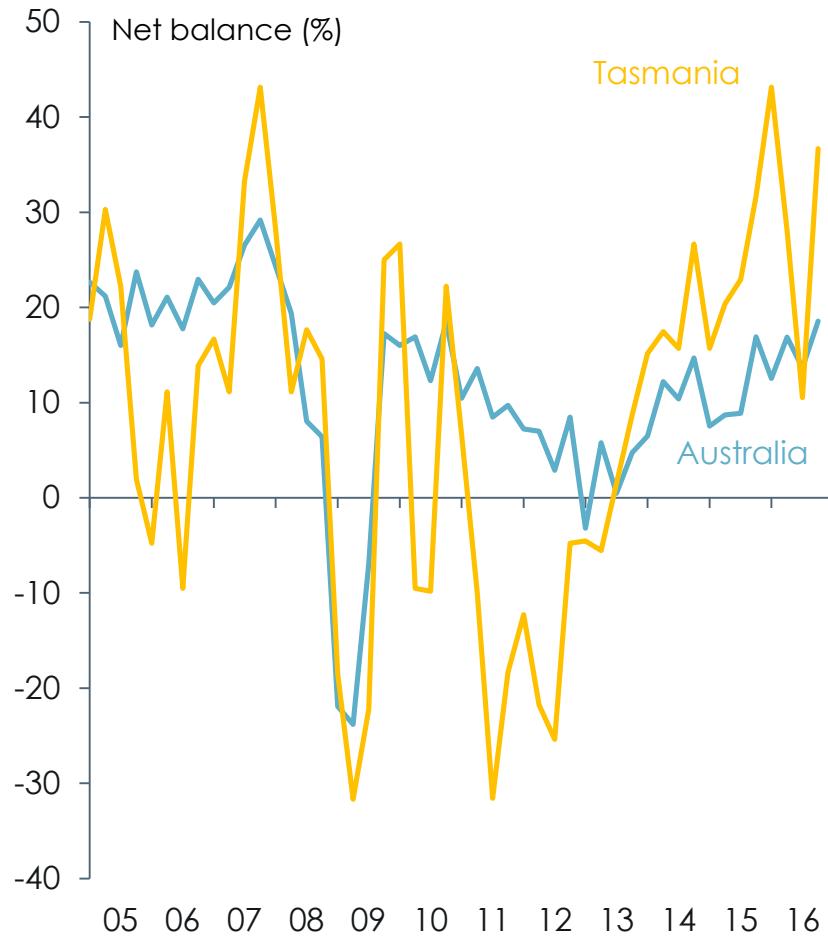
International visitors to Australia spending most time in Tasmania



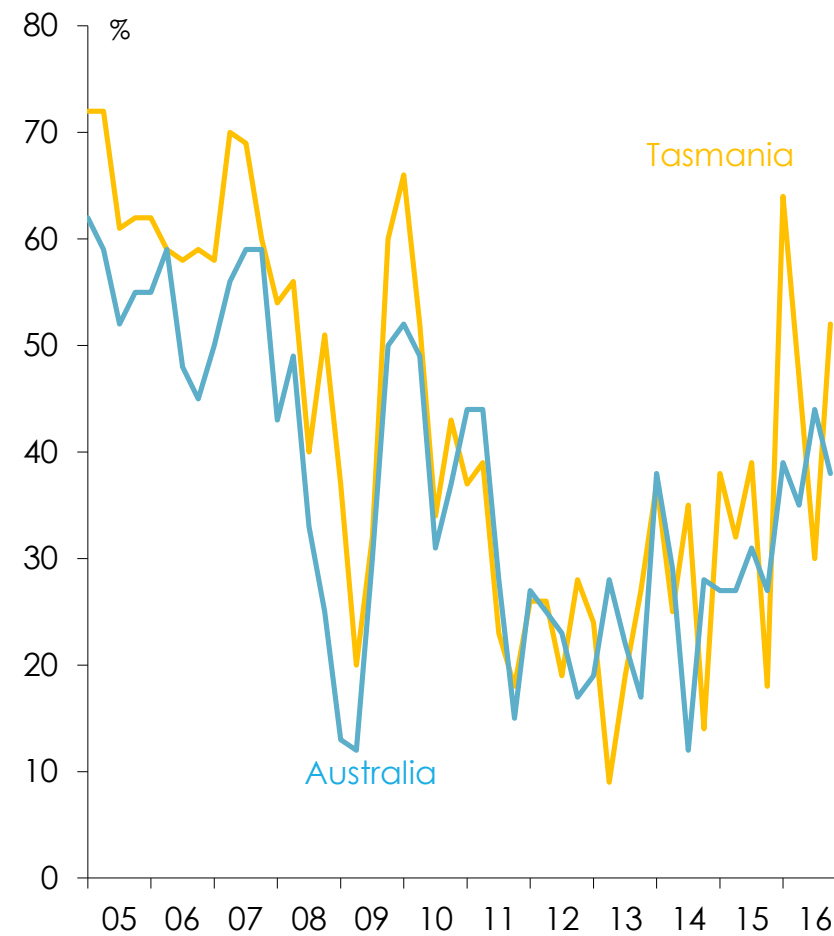
Sources: Tourism Tasmania Corporate; ABS 3401.0.

Business confidence in Tasmania is at a high level – and the State Government can claim at least some of the credit for that

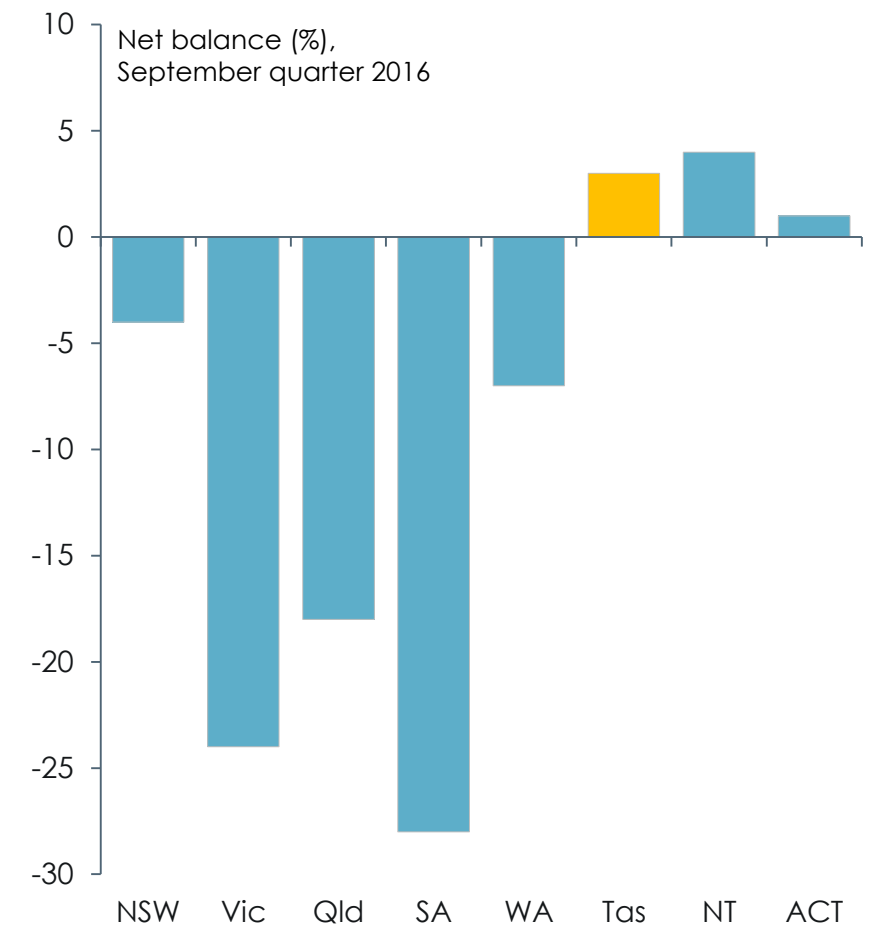
NAB Survey expected business conditions



Sensis SME Survey business confidence



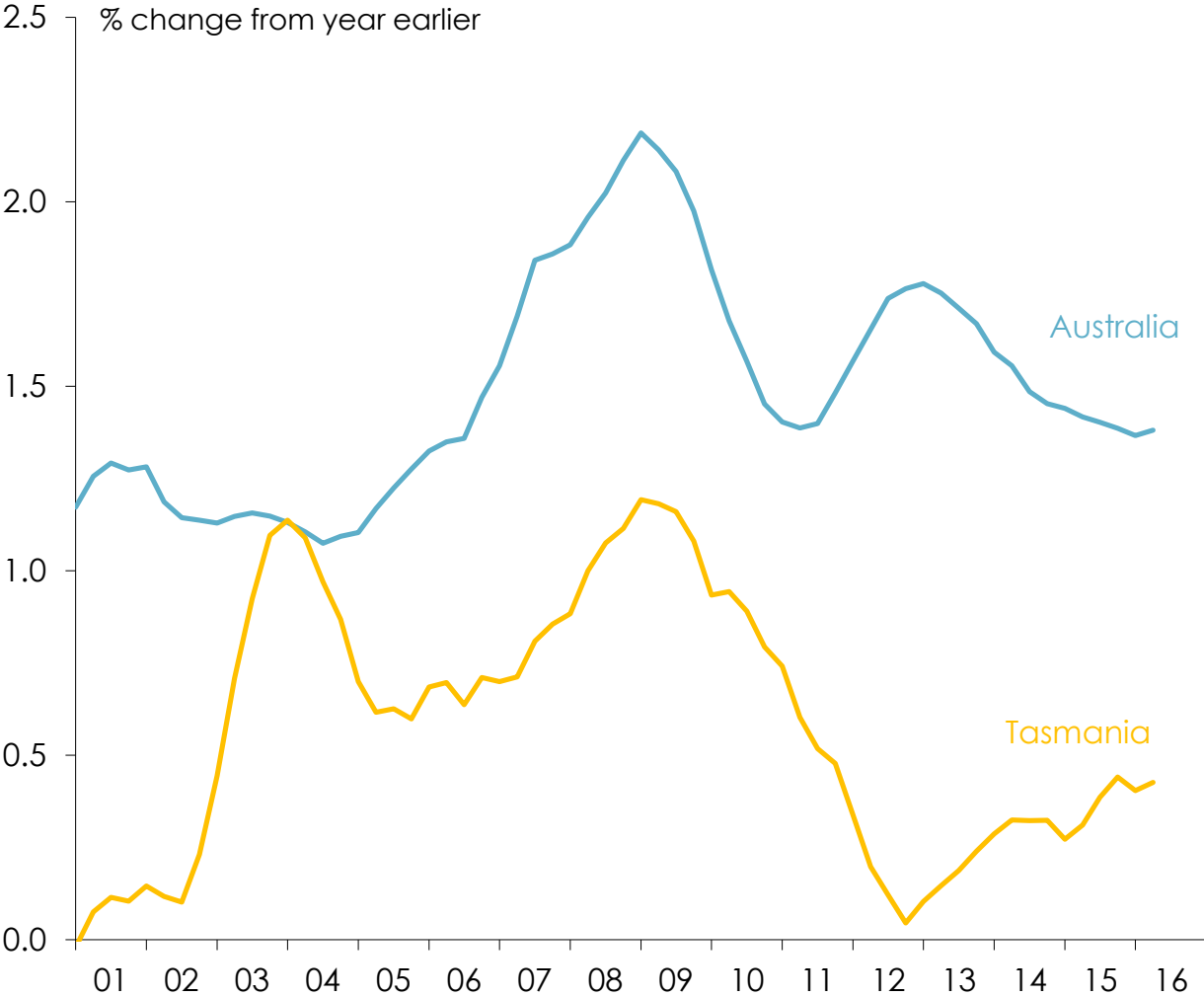
Approval of State/Territory government policies



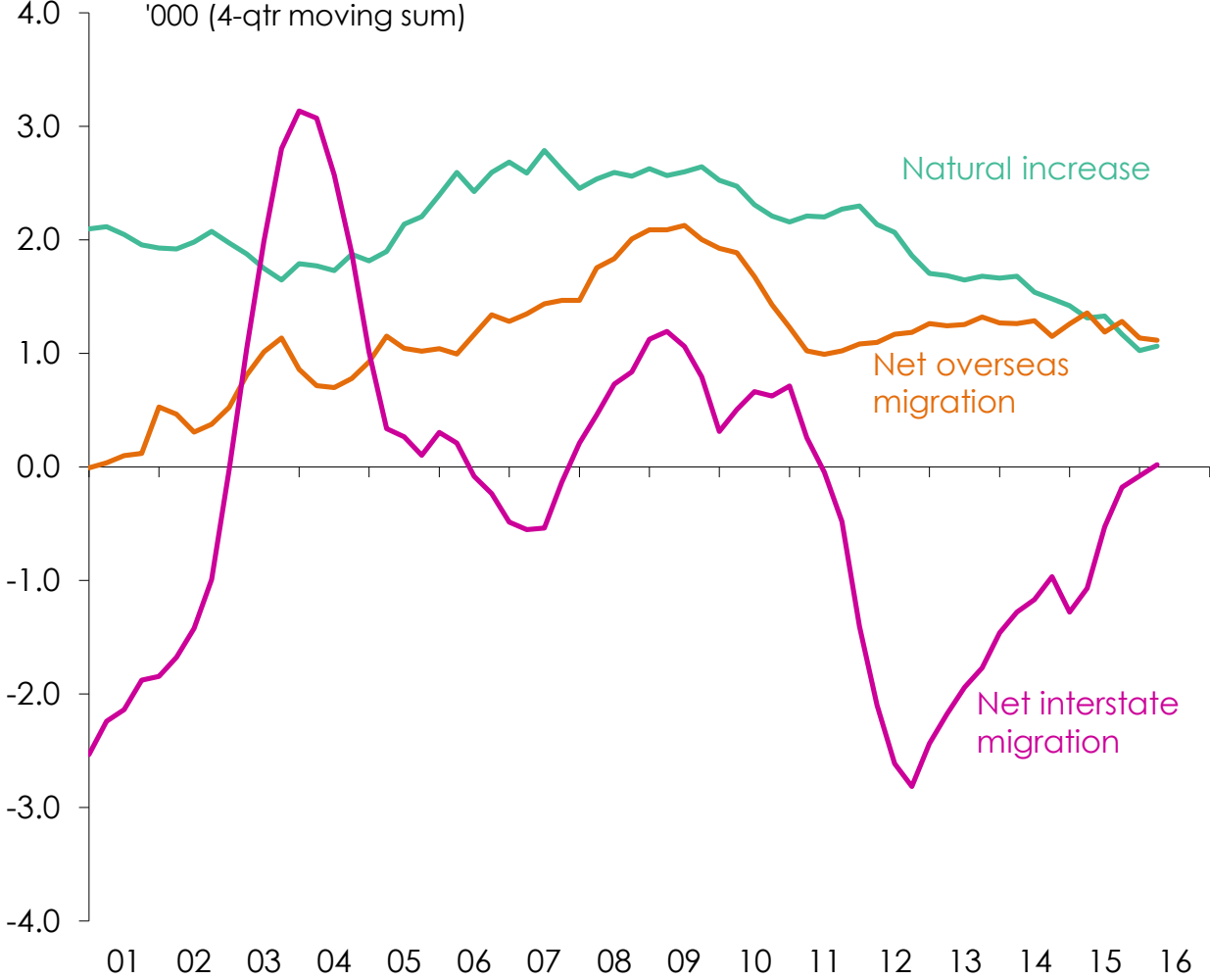
Sources: National Australia Bank; Sensis.

Tasmania's population growth has picked up again – largely because the net outflow of people to the mainland has ceased

Population growth



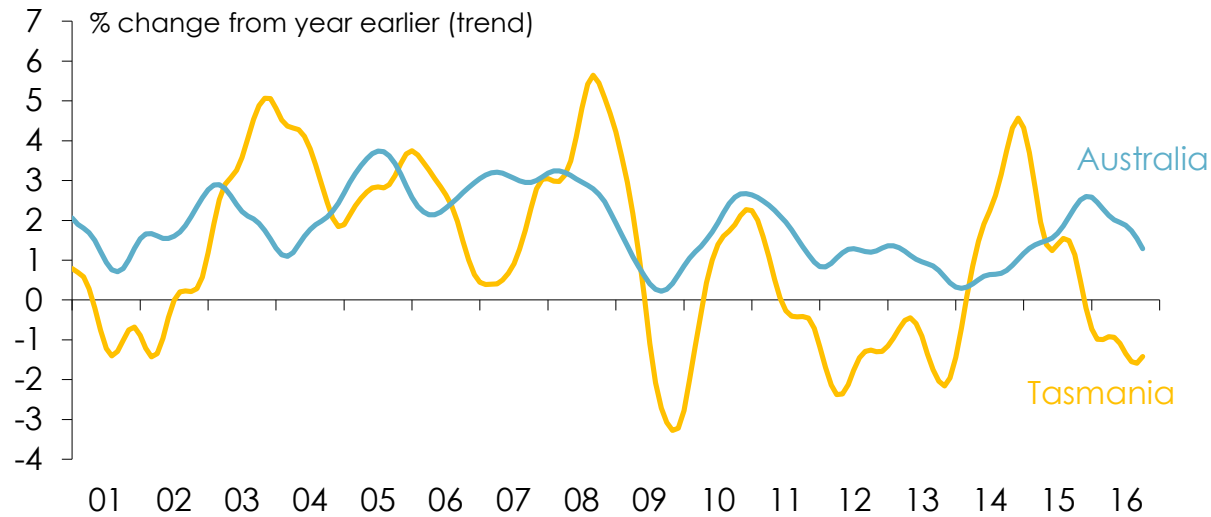
Population growth components



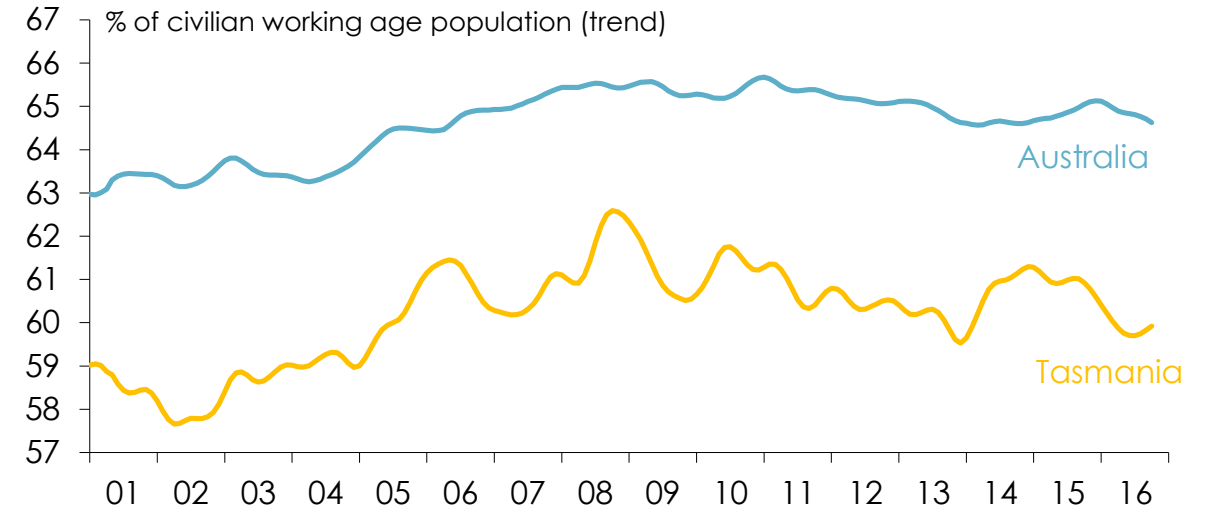
Sources ABS, 3101.0

Against this background the weakness in the Tasmanian labour market is surprising, and hard to explain

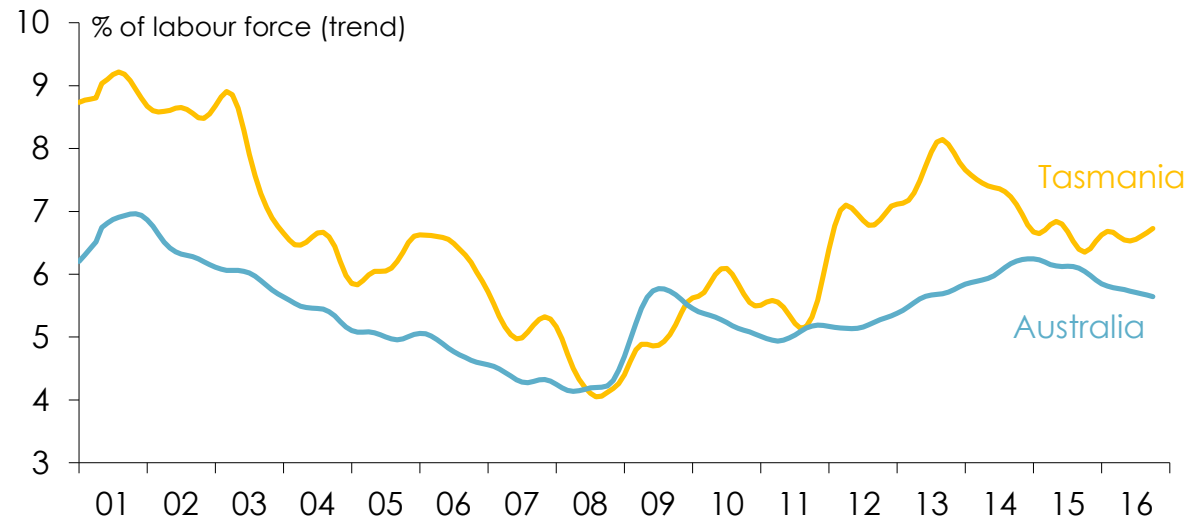
Employment growth



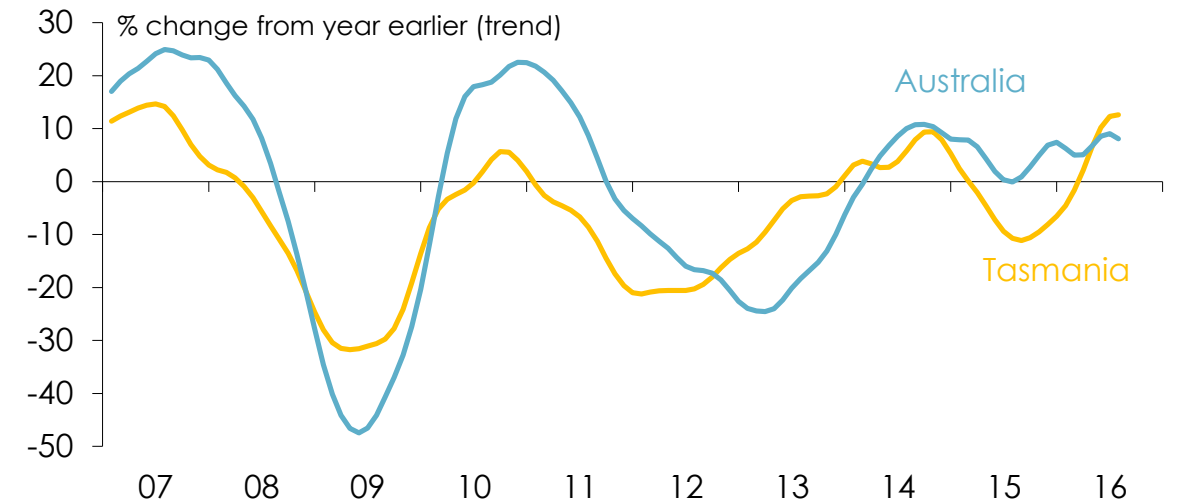
Labour force participation rate



Unemployment rate



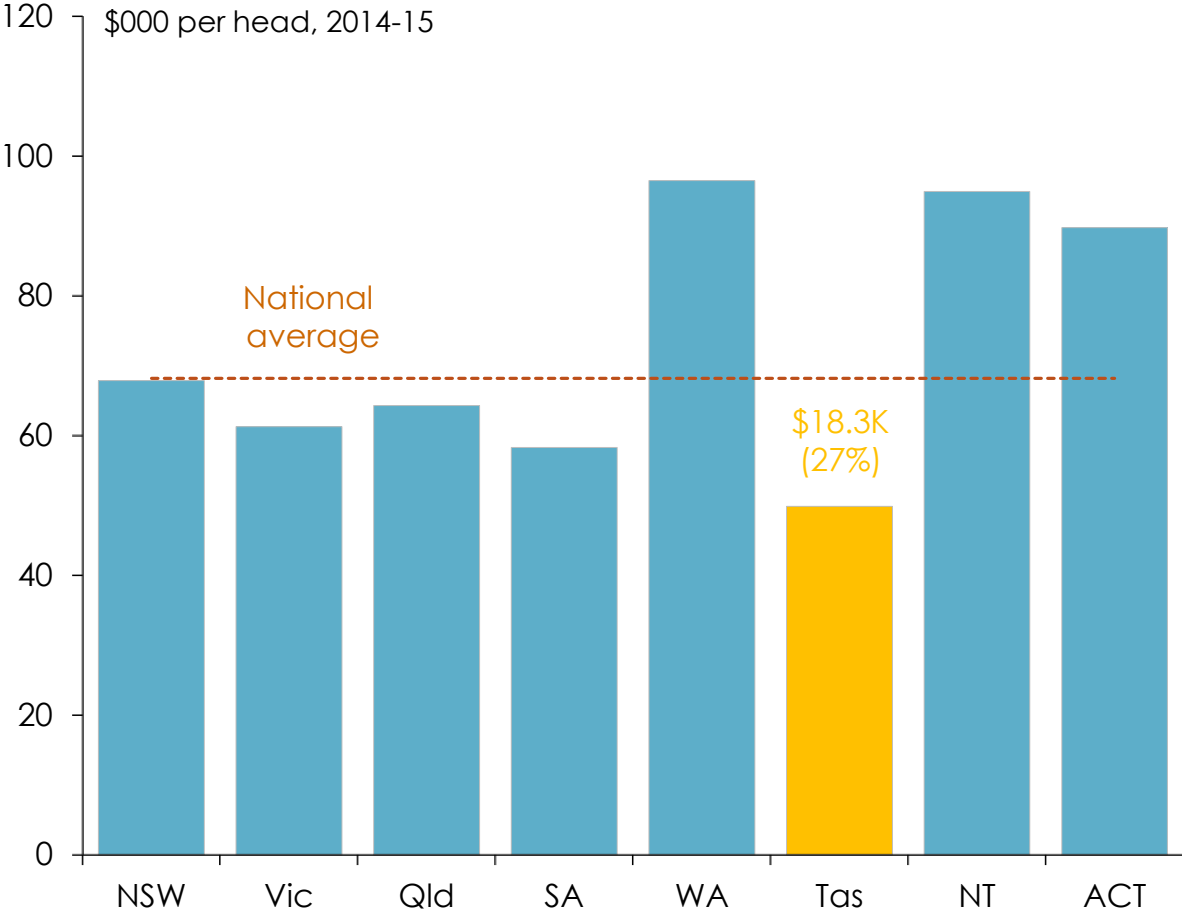
Job vacancies



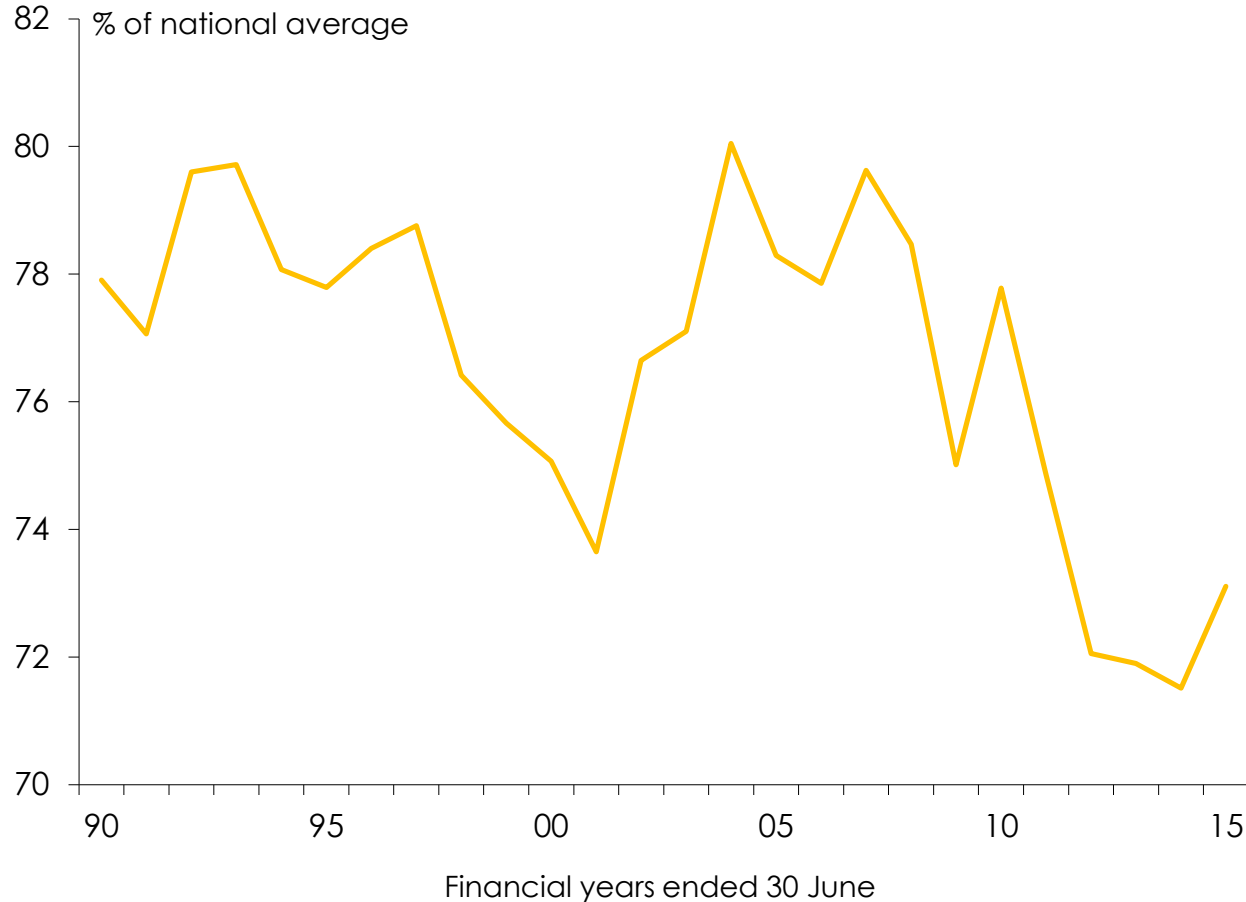
**The longer-term outlook:
some substantial challenges**

Tasmania's per capita gross State product is \$18,300 or 27% below the national average

Gross State product (GSP) per capita, States & Territories, 2014-15



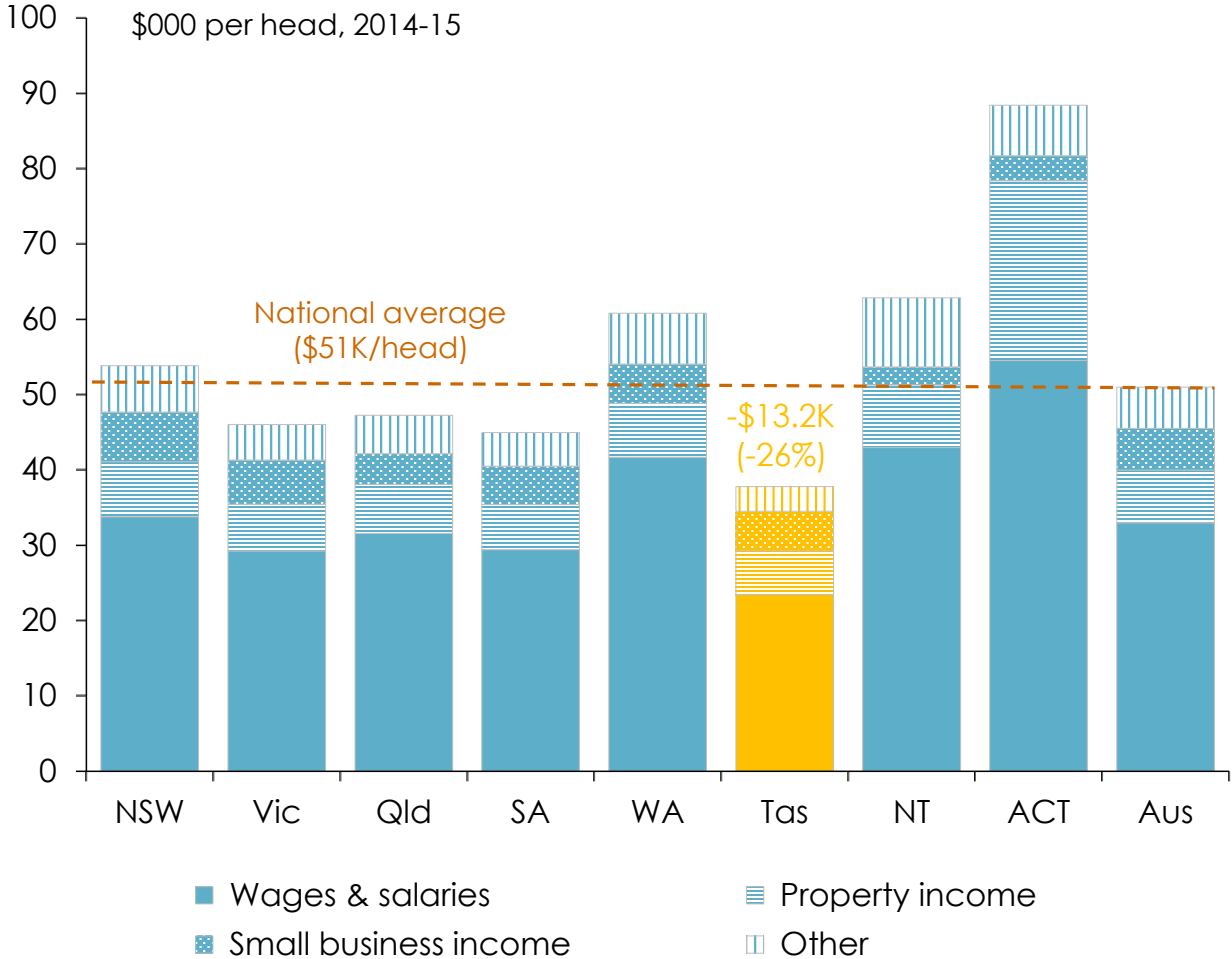
Tasmanian GSP per capita as a pc of national average, 1989-90 to 2014-15



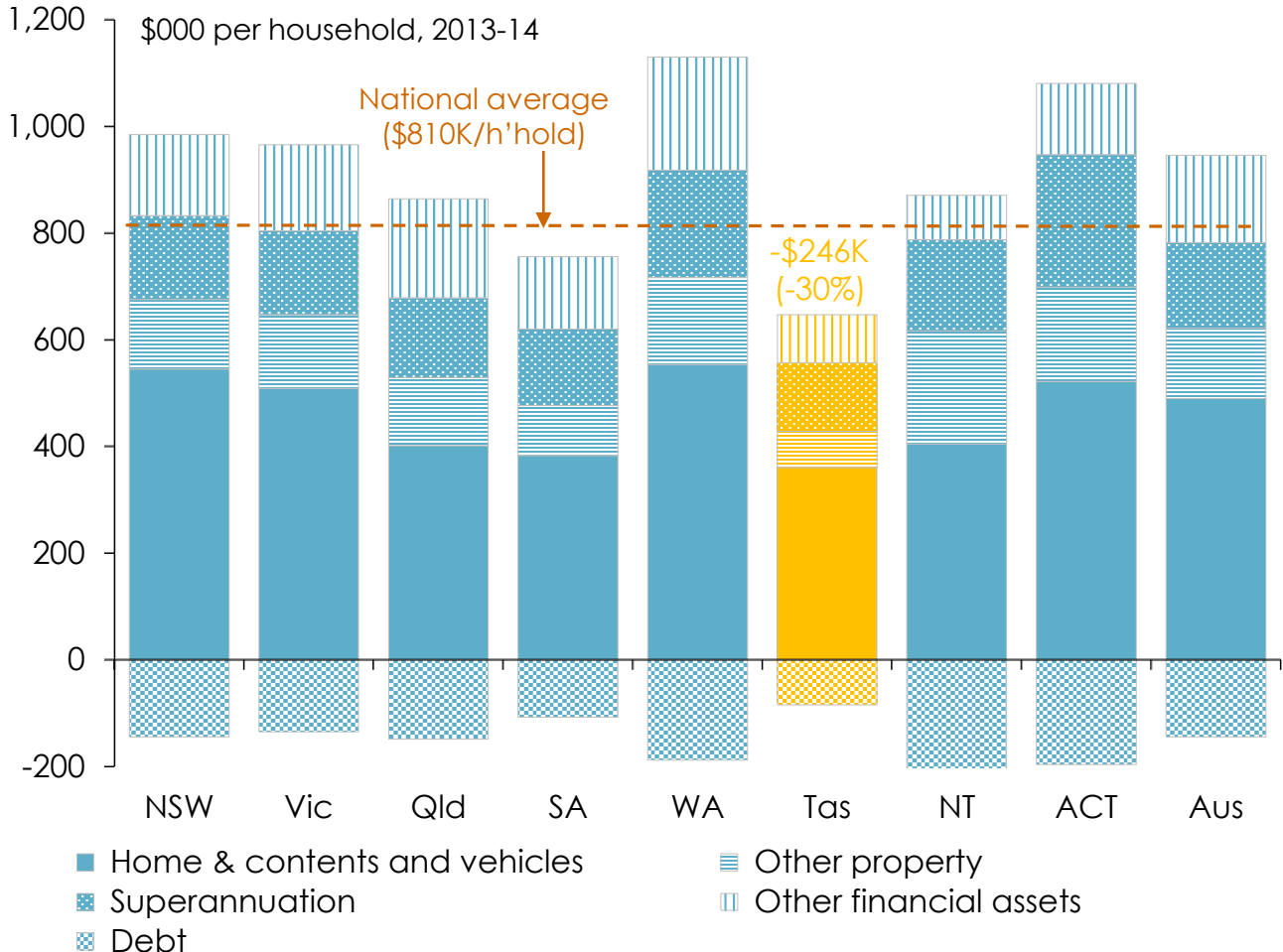
Source: ABS 5220.0.

Tasmanian household incomes and wealth are 26-30% below the national average

Average gross household income per capita, States and Territories, 2014-15



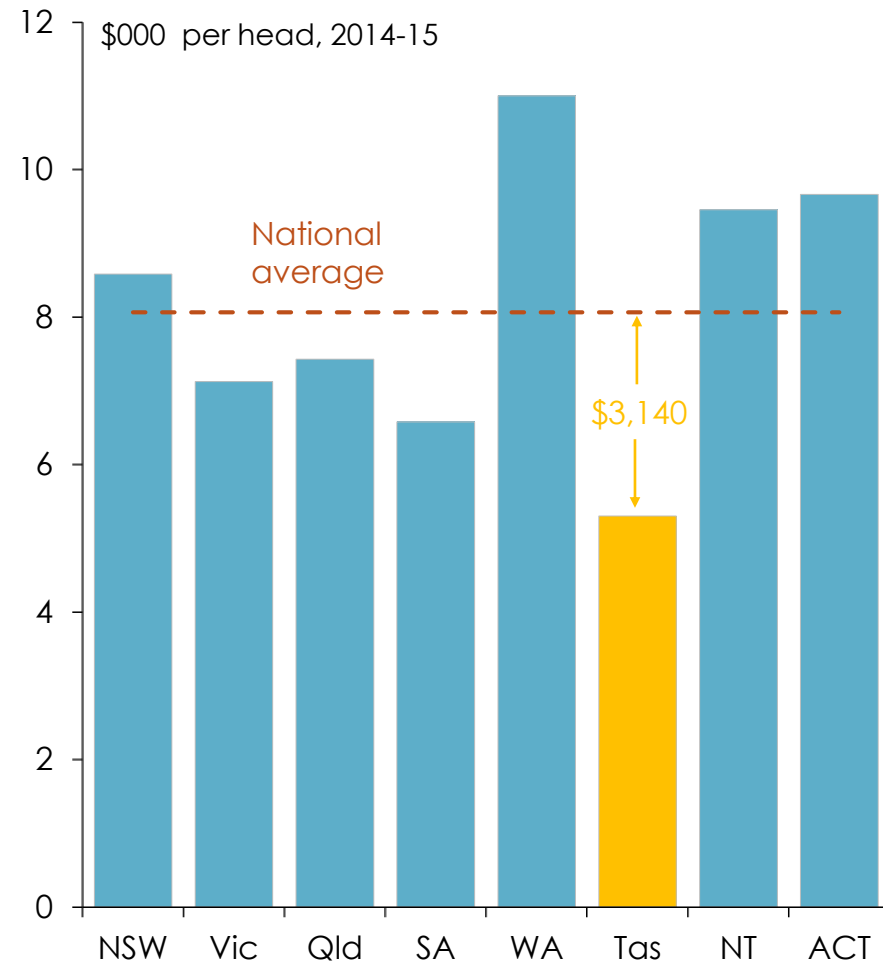
Average net worth per household, States and Territories, 2013-14



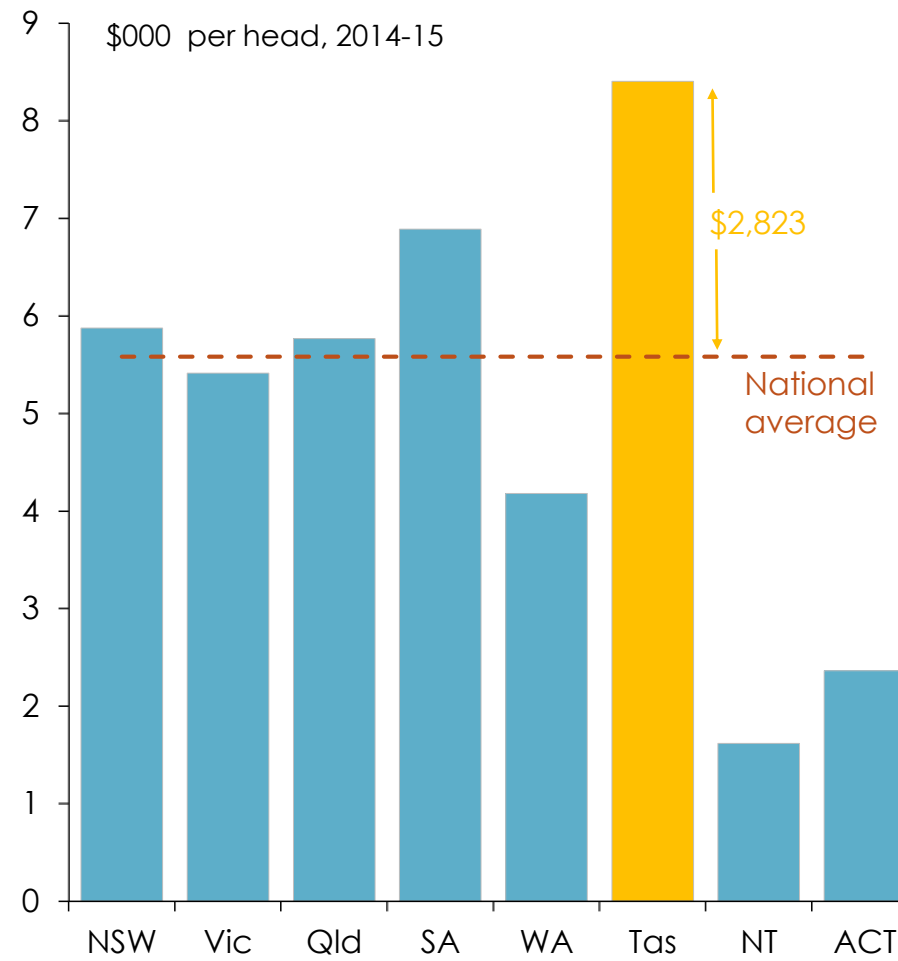
Sources: ABS 5220.0 and 6523.0.

The national tax-transfer system shields Tasmanian households from the full effects of Tasmania's economic under-performance

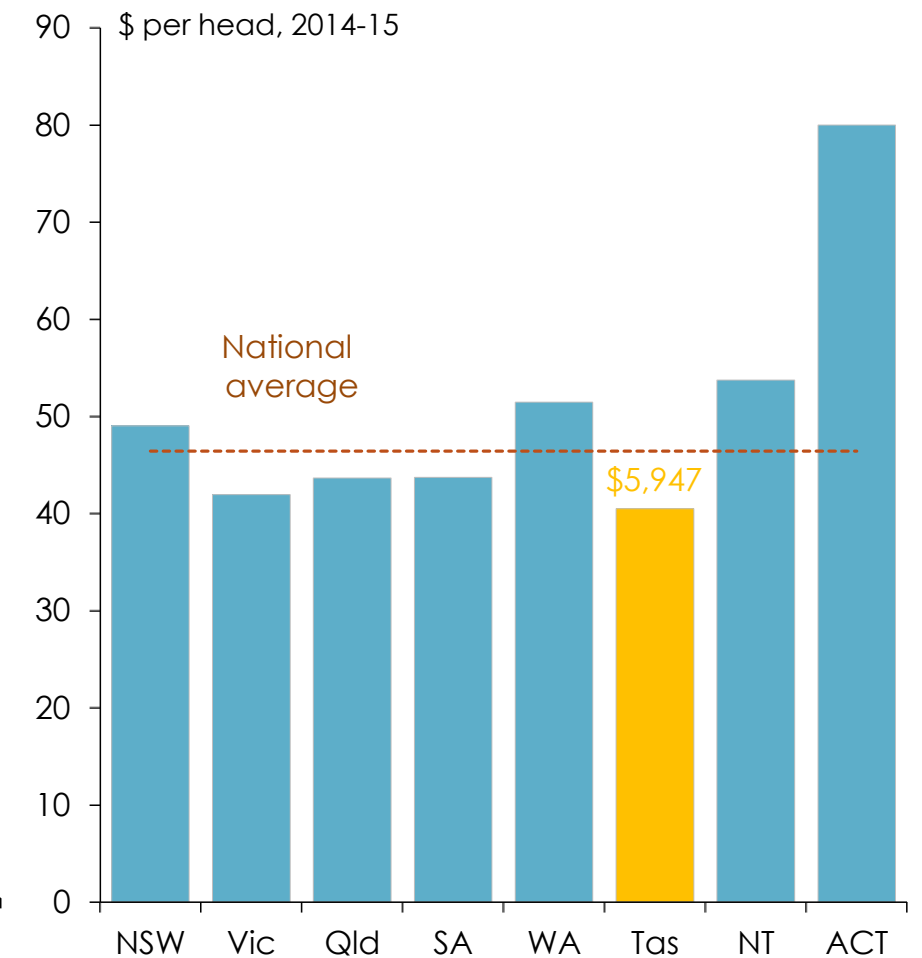
Personal income tax payments per head, 2014-15



Social security benefits receipts per head, 2014-15



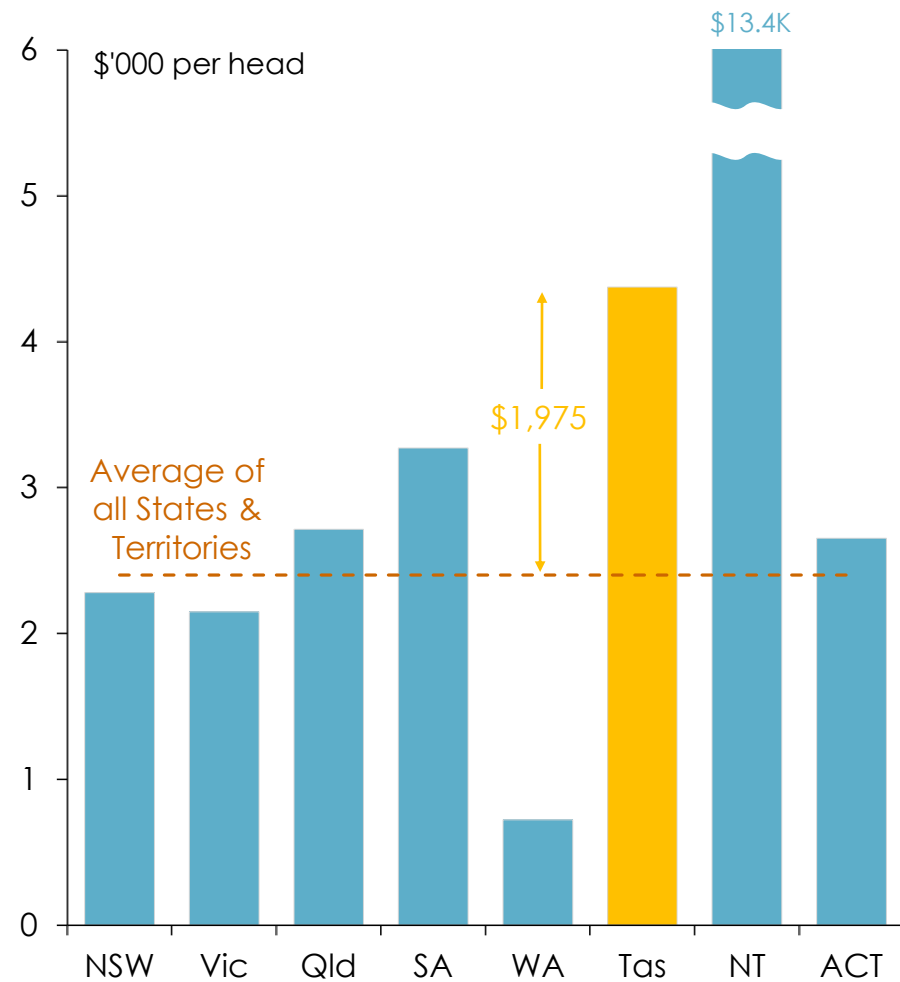
Household disposable income per head, 2014-15



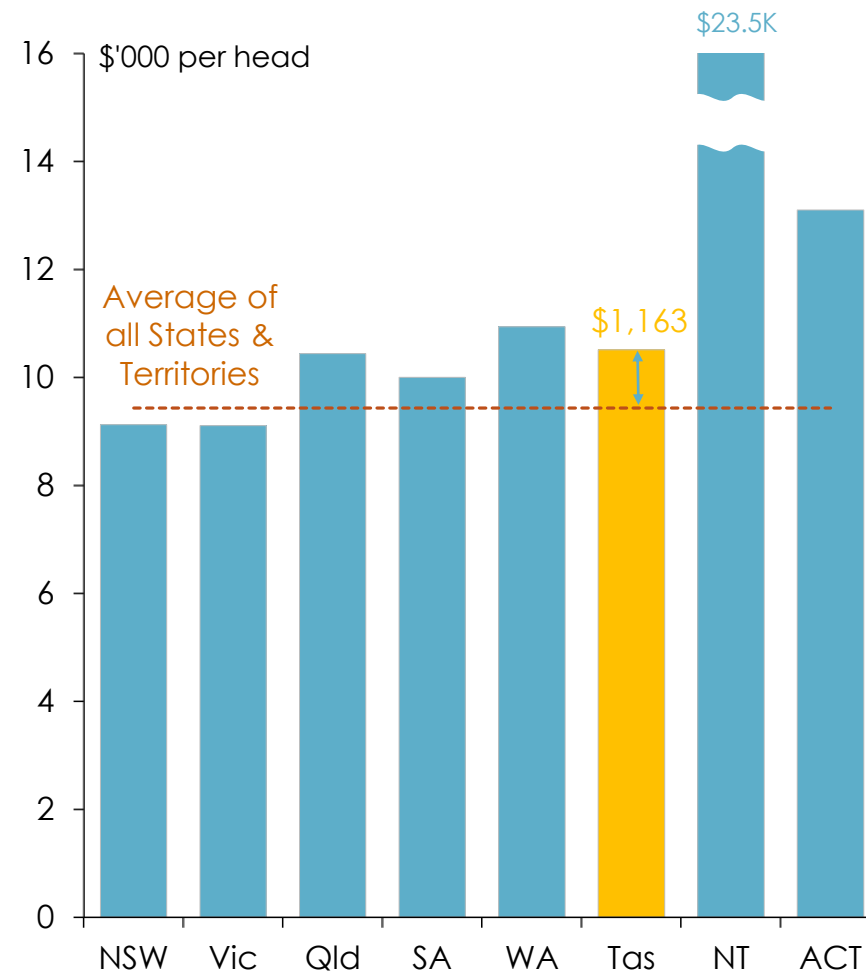
Source: ABS 5220.

Similarly the GST revenue-sharing system shields the State Government from the full impact of Tasmania's economic under-performance

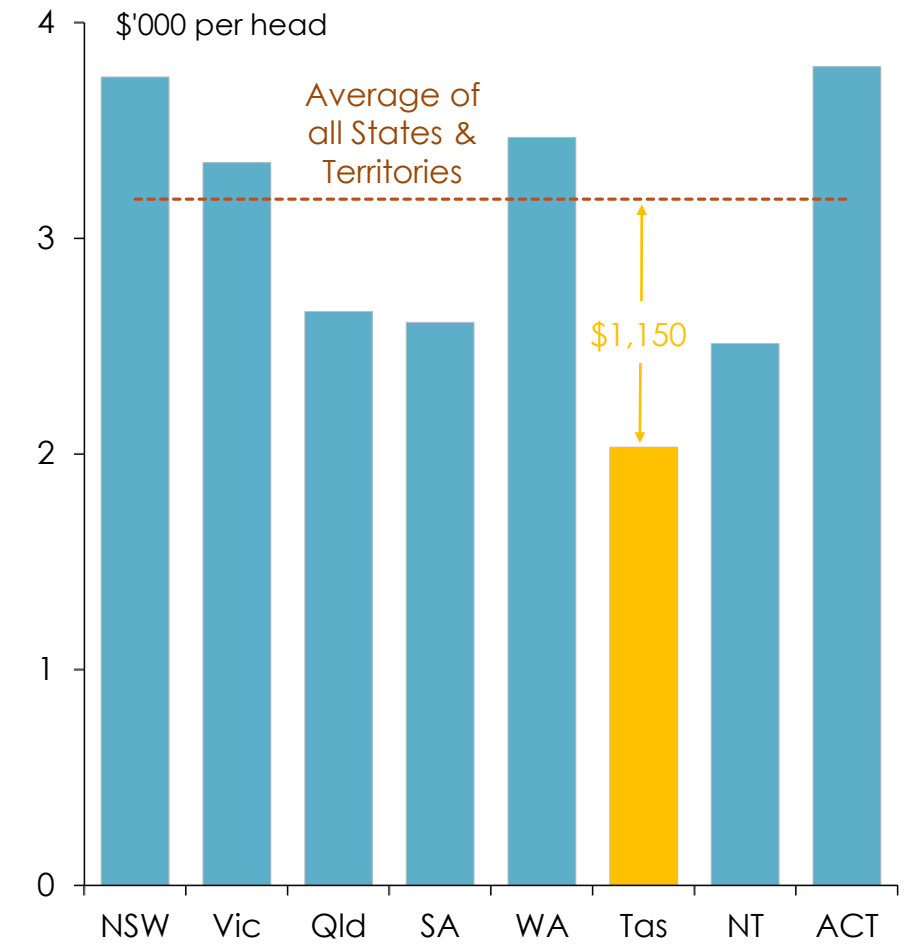
GST revenue-sharing payments per head, 2015-16



State government 'operating expenses' per head, 2015-16



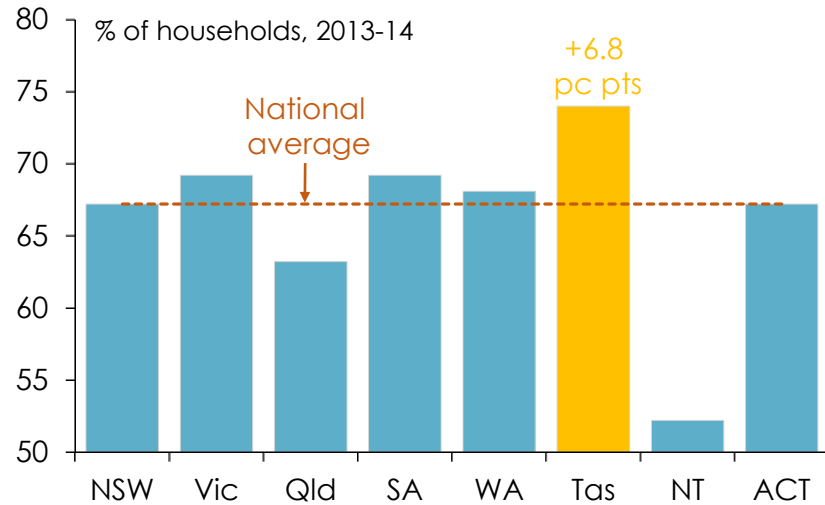
State taxation revenue per head, 2015-16



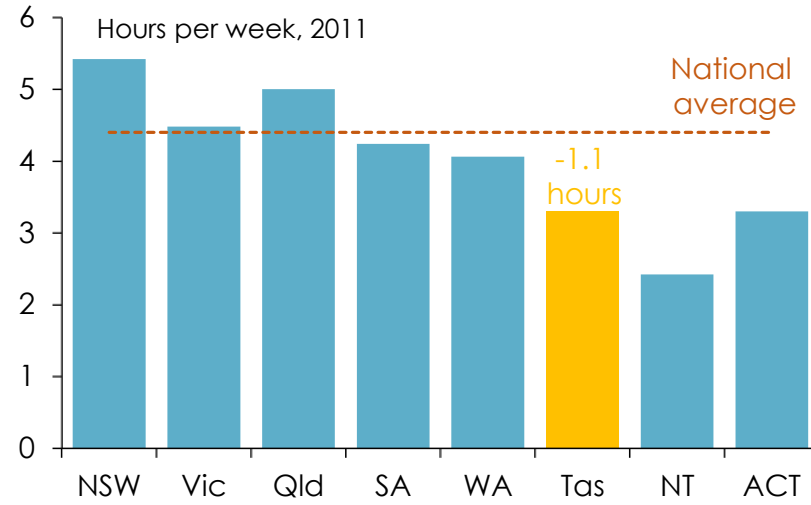
Sources: Commonwealth, State and Territory Budget Papers and Mid-Year Reviews.

Of course, GDP, income and wealth aren't everything ...

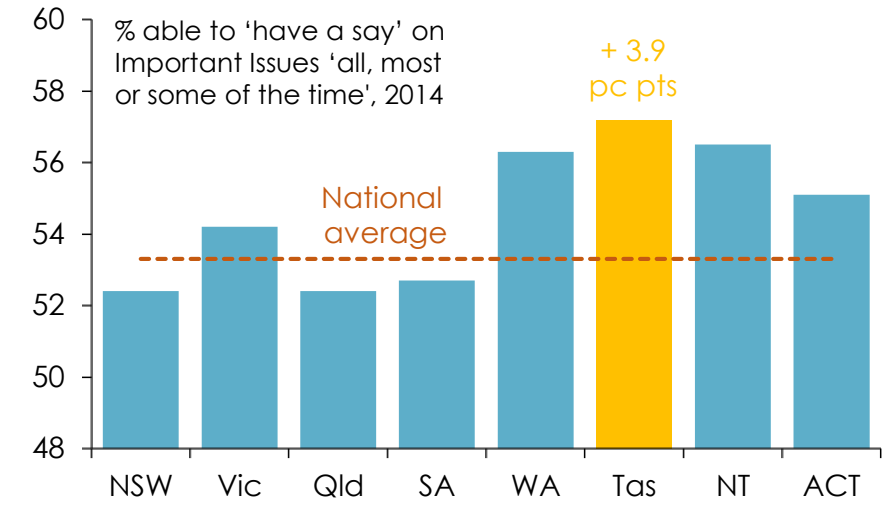
Home ownership rates



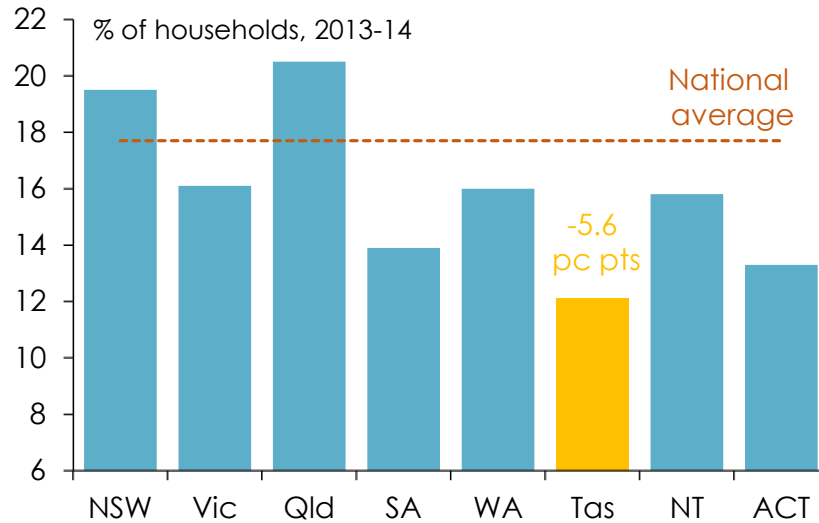
Commuting times



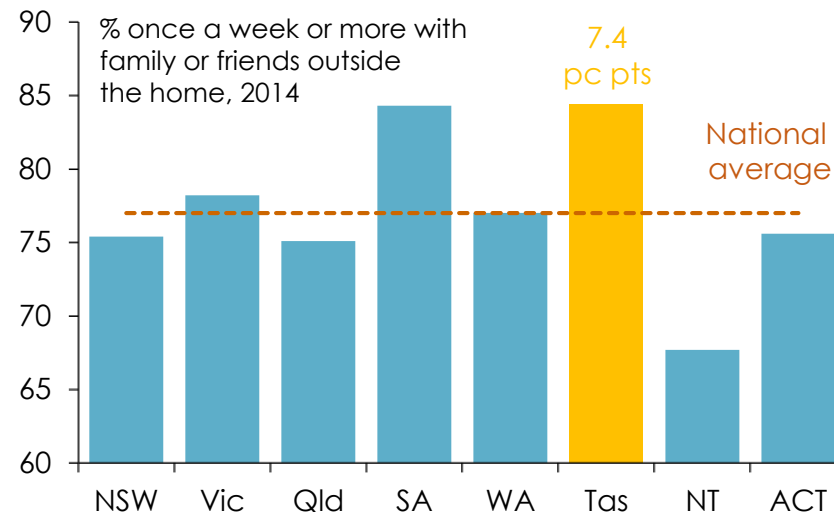
Feel able to 'have a say'



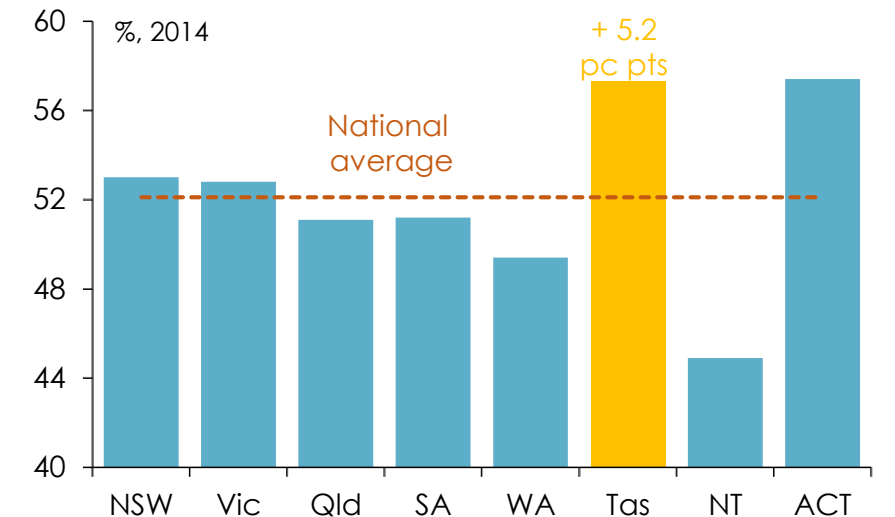
Housing stress



Contact with family & friends



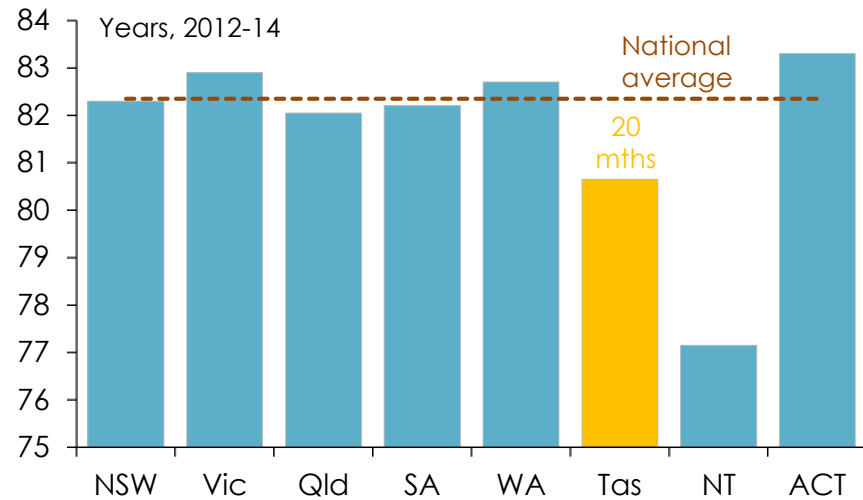
Feel safe walking alone at night



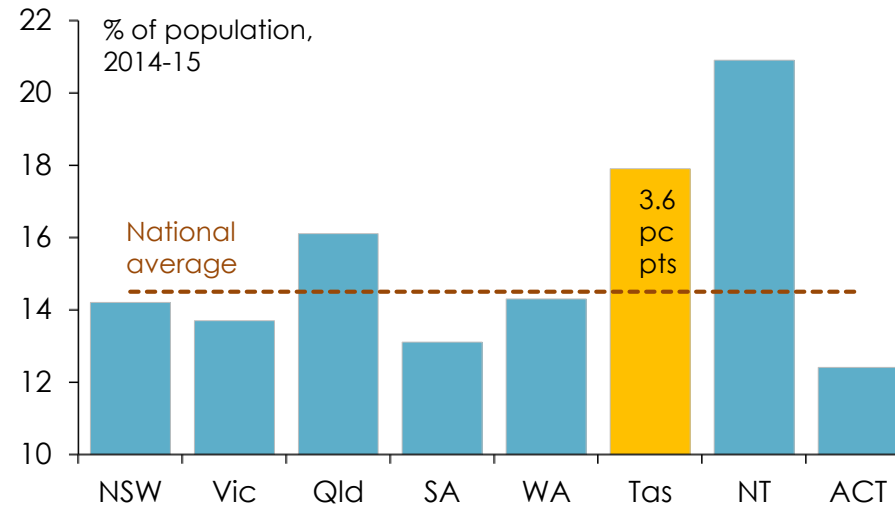
Note: 'Housing stress' means spending more than 30% of gross household income on housing costs.
Sources: ABS, 4130.0, AMP/NATSEM Race Against Time, ABS 4159.0.

... but Tasmanians nonetheless have lower levels of well-being than other Australians on many other non-economic indicators

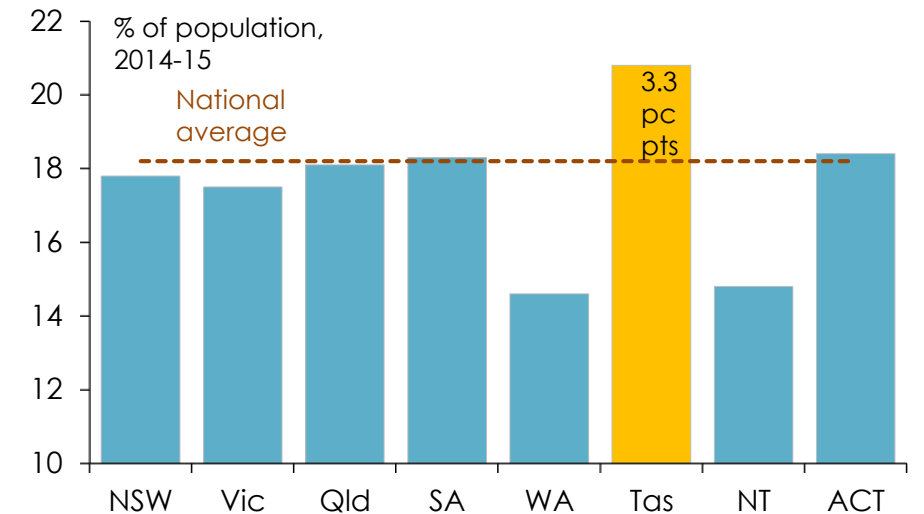
Life expectancy at birth



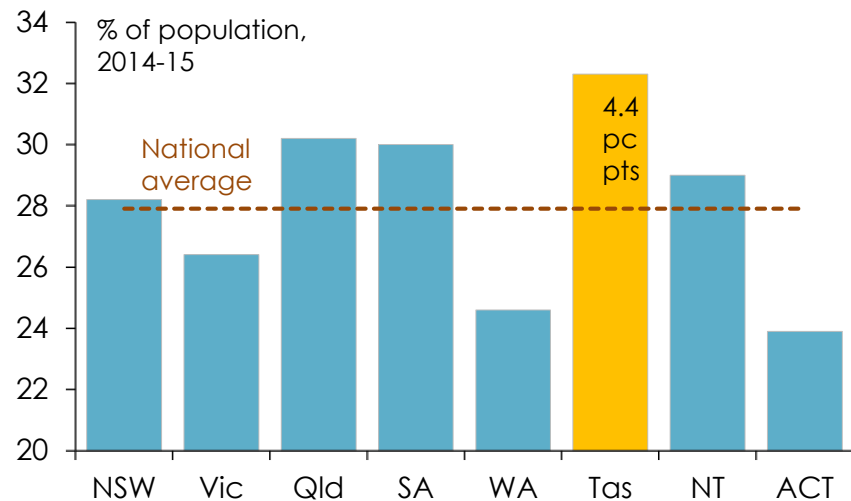
Daily smoking



Mental or behavioural problems



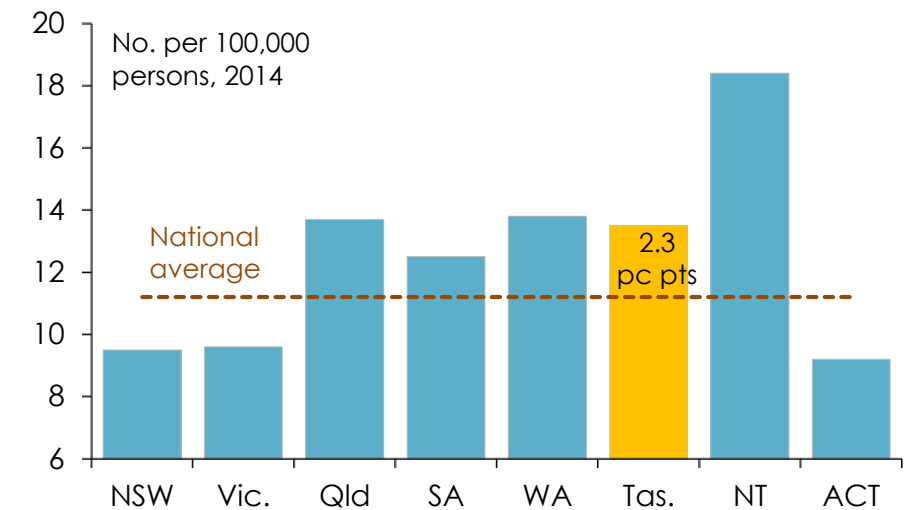
Obesity



High blood pressure



Suicide rate



Note: 'Obese' means body mass index (BMI) of 30 or more. 'High blood pressure' means $\geq 140/90$ mmHg. Mental or behavioural problems includes organic mental problems, alcohol and drug problems, mood (affective) problems, anxiety related problems and other mental and behavioural problems.
Sources: ABS, 3302.0.55.001, 4364.0.55.001, 3303.0.

A useful way of thinking about the reasons for Tasmania's sub-par economic performance

$$\frac{\text{gross State product}}{\text{population}} = \frac{\text{employment}}{\text{population}} \times \frac{\text{total hours worked}}{\text{employment}} = \frac{\text{gross State product}}{\text{population}}$$

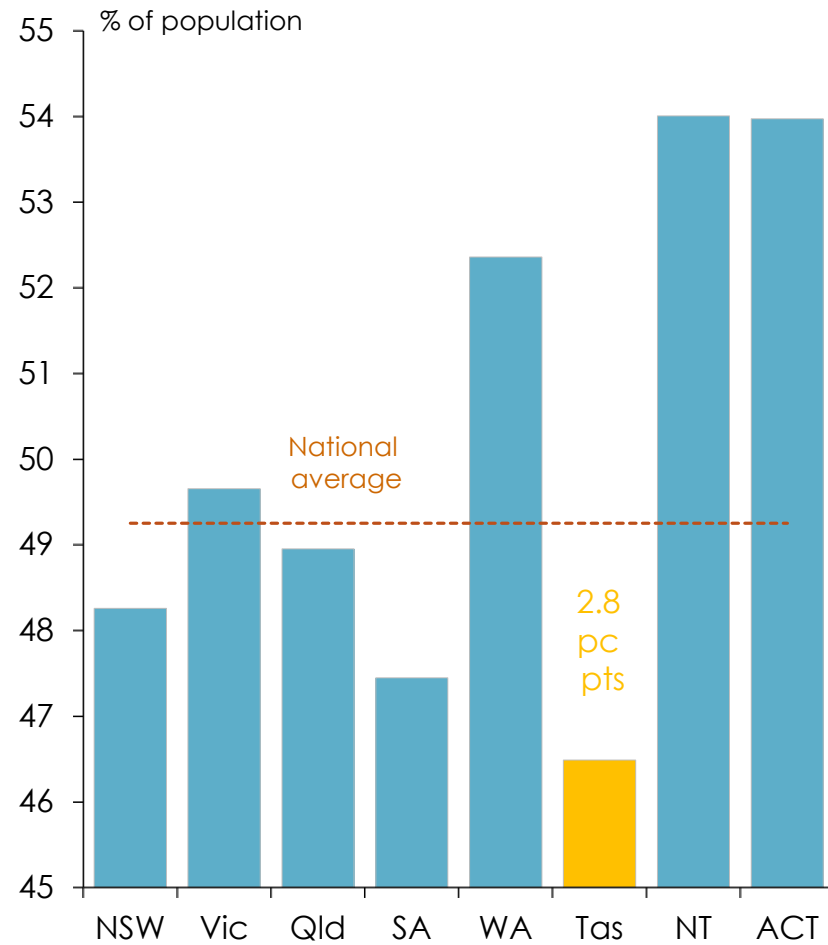
The diagram illustrates the decomposition of per capita gross state product into its components. The first equation shows that per capita gross state product is equal to the employment-to-population ratio multiplied by the average hours worked per employee. The second equation shows that the employment-to-population ratio and the average hours worked per employee cancel out, leaving the original per capita gross state product. Red and blue diagonal lines are drawn through the terms in the first equation to indicate which terms cancel out in the second equation.

A useful way of thinking about the reasons for Tasmania's sub-par economic performance

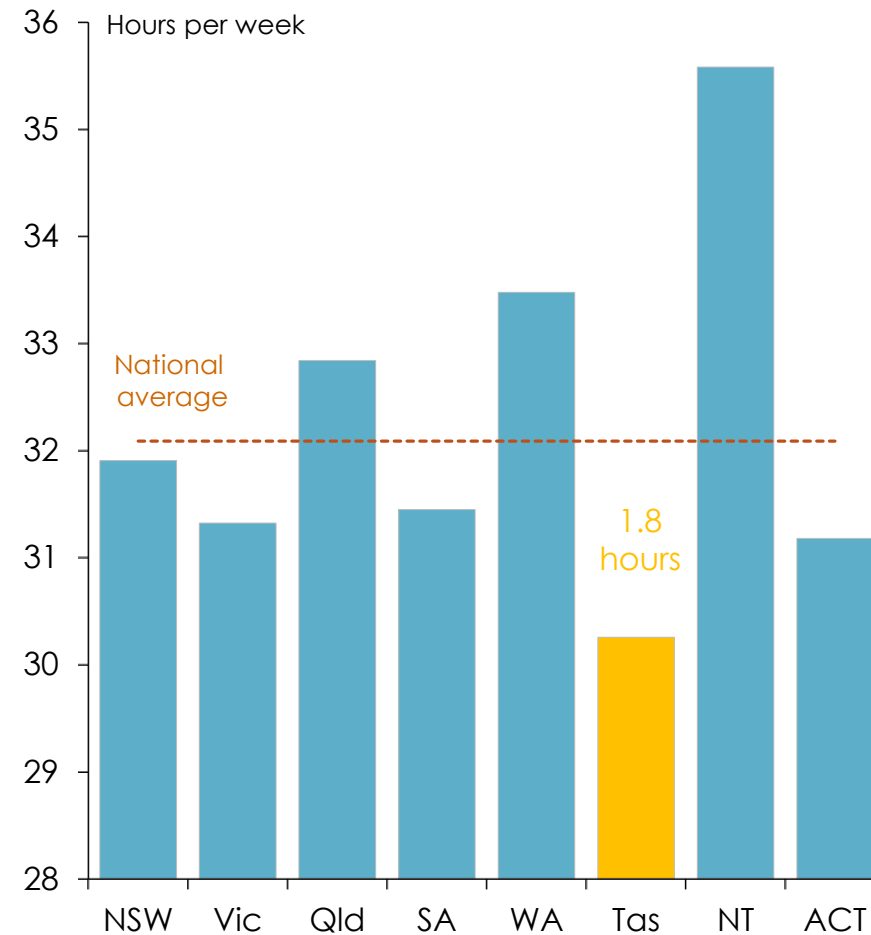
$$\frac{\text{gross State product}}{\text{population}} = \frac{\text{employment}}{\text{population}} \times \frac{\text{total hours worked}}{\text{employment}} = \frac{\text{participation rate}}{\text{rate}} \times \frac{\text{average hours worked}}{\text{worked}} \times \frac{\text{labour productivity}}{\text{productivity}}$$

Tasmania's below-average per capita GSP reflects below-average employment participation, working hours, and productivity

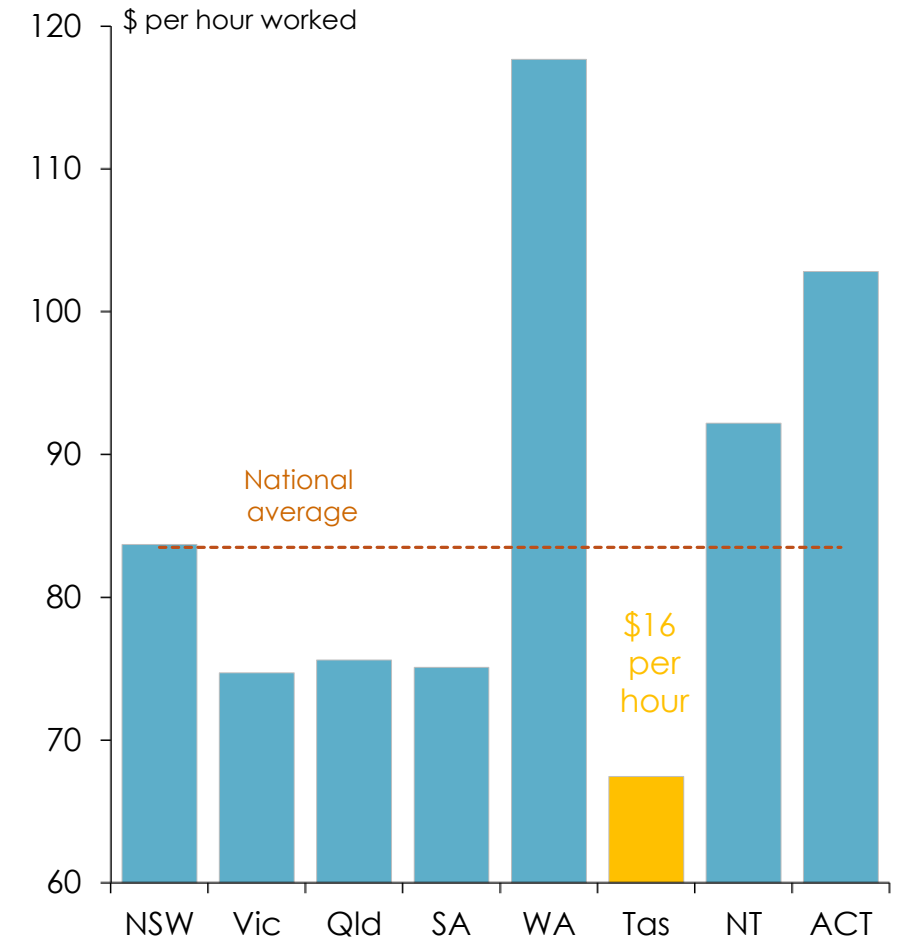
Employment-to-population ratio, 2014-15



Average weekly hours worked, 2014-15



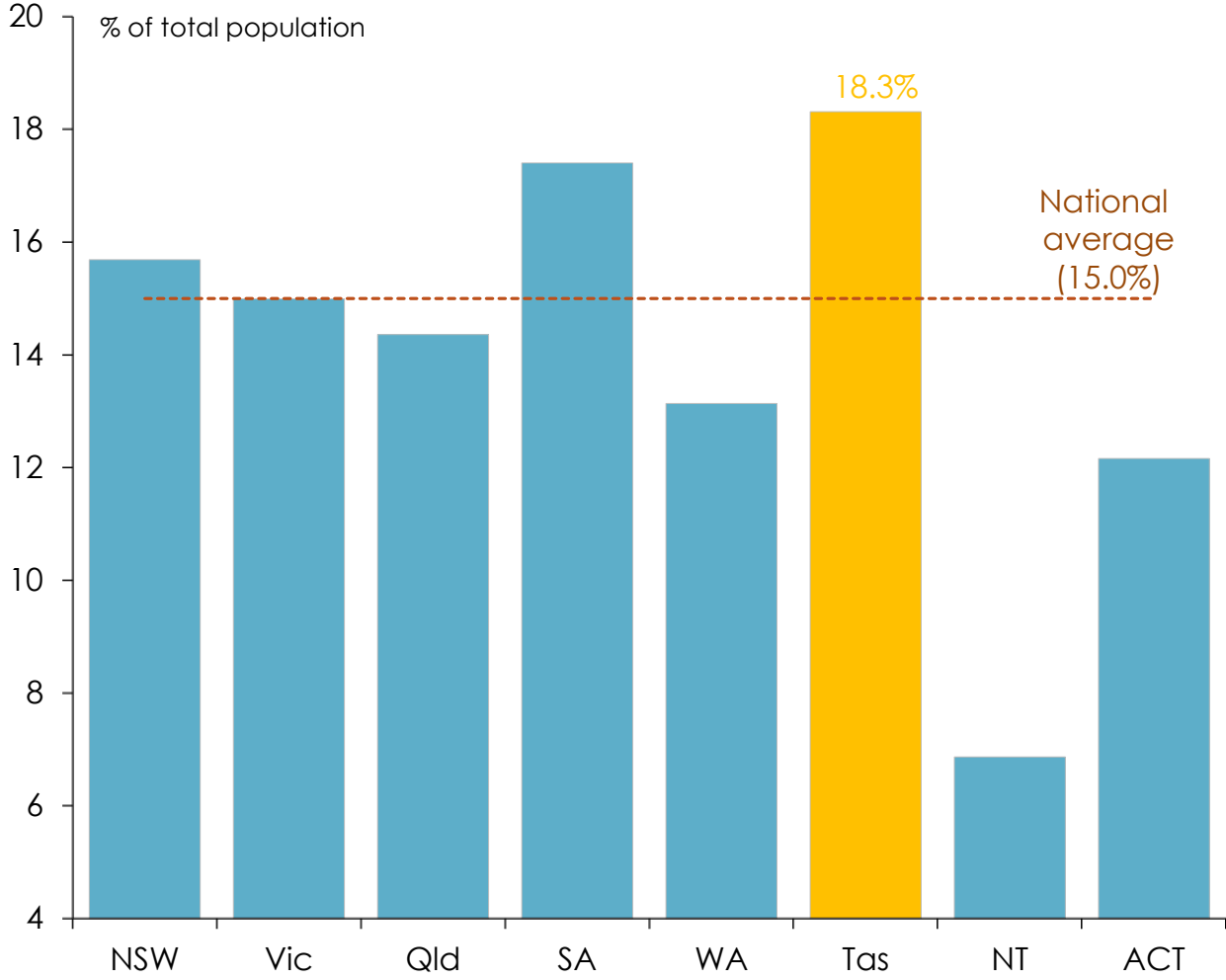
Output per hour worked, 2014-15



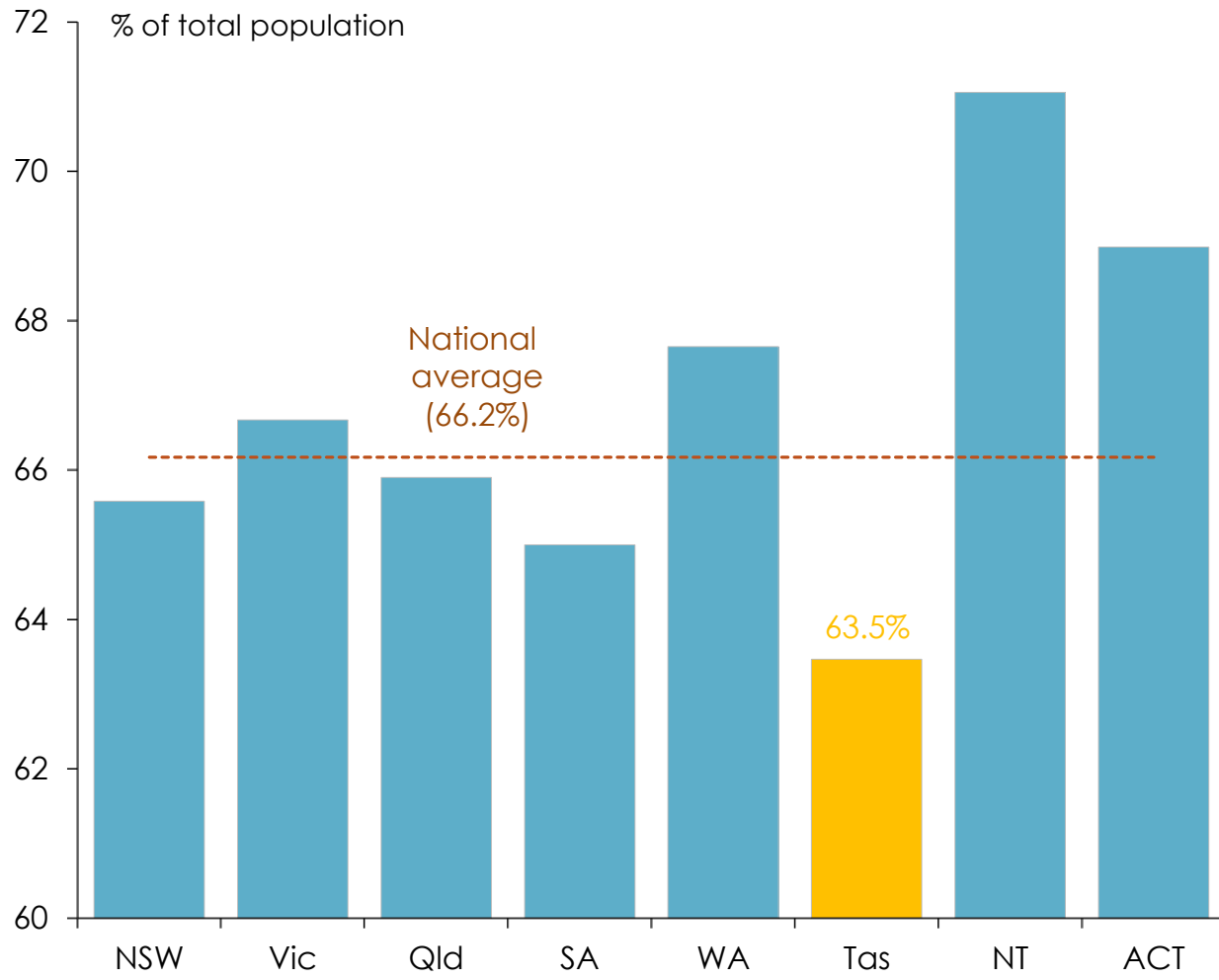
Source: ABS 5220.0 and 6201.0

Tasmania's below-average workforce participation rate is partly the result of its older-than-average population

Population aged 65 and over, States and Territories, June 2015



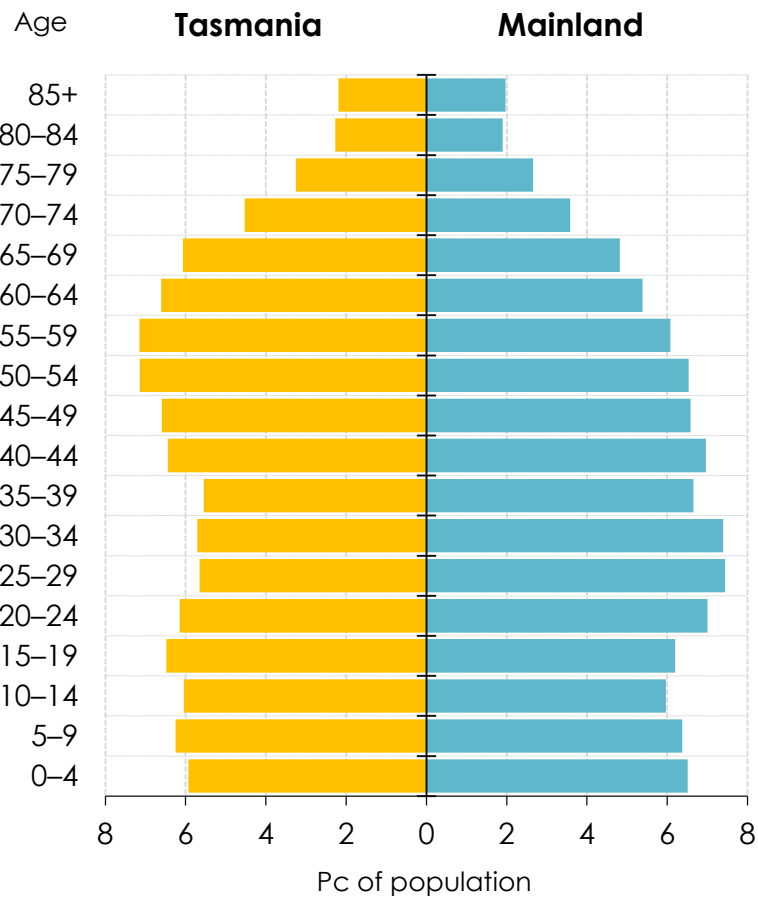
Population aged 15-64, States and Territories, June 2015



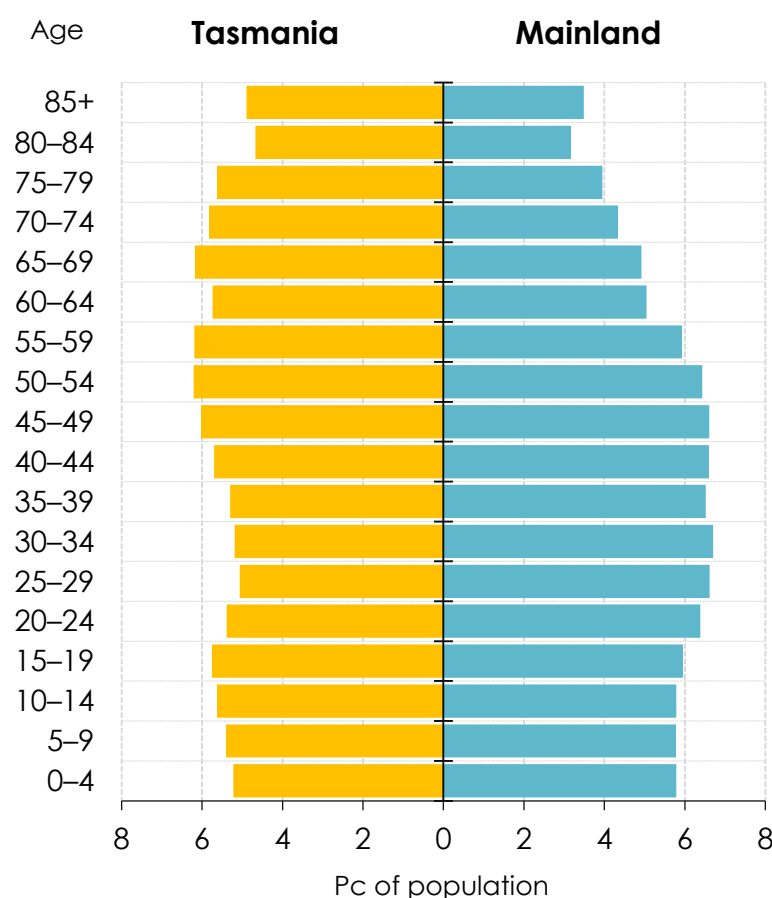
Source: ABS 3101.0 and 3105.0.65.001.

On current projections Tasmania's age profile will detract progressively more from economic activity over the next five decades

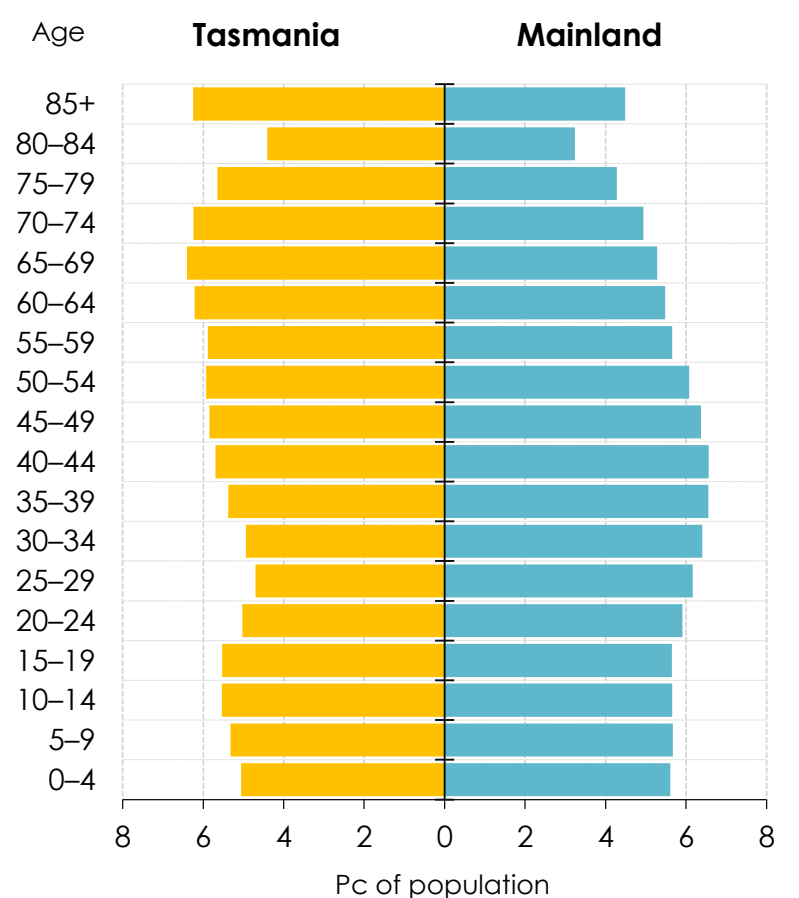
Age structure of Tasmania's and mainland Australia's population



% 15-64	63.5	66.2
% 65 +	18.3	14.9



% 15-64	56.5	62.8
% 65 +	27.2	19.9

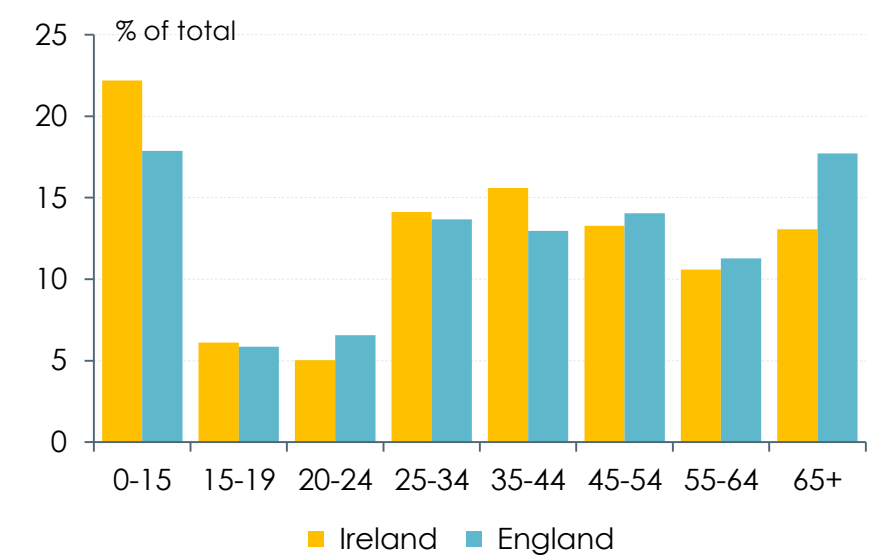
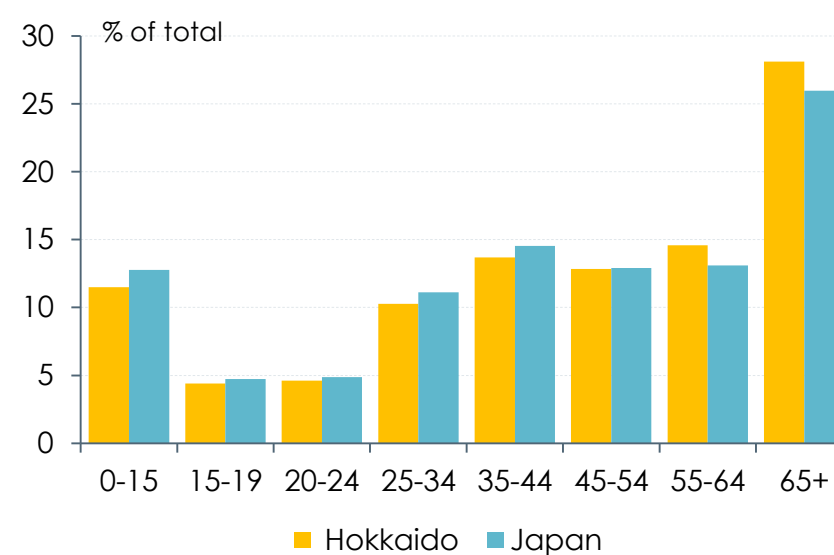
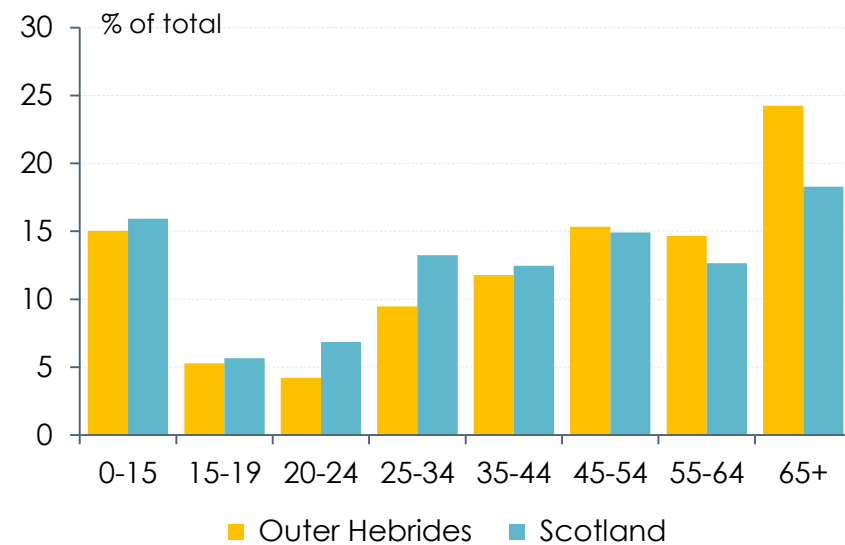
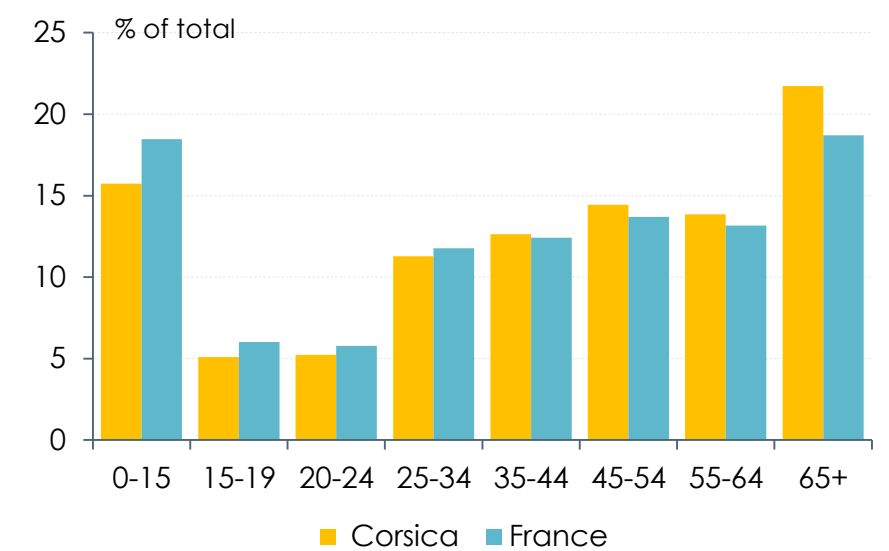
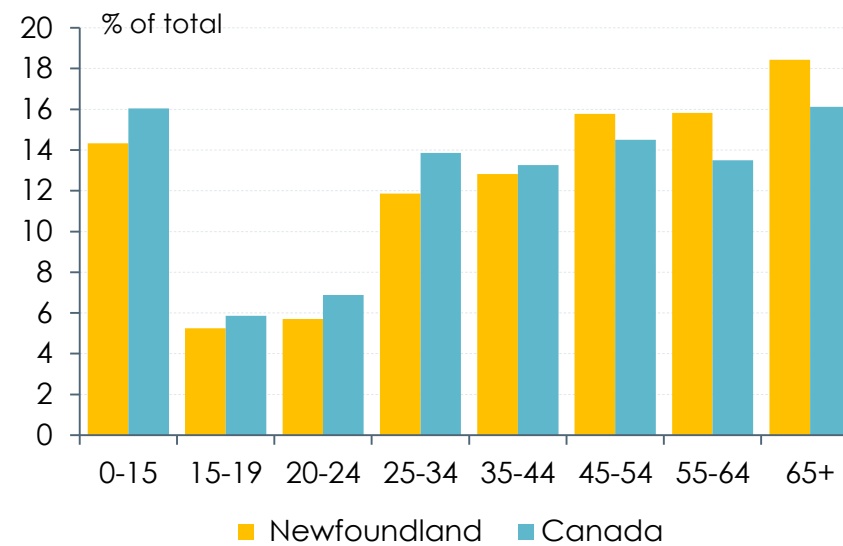
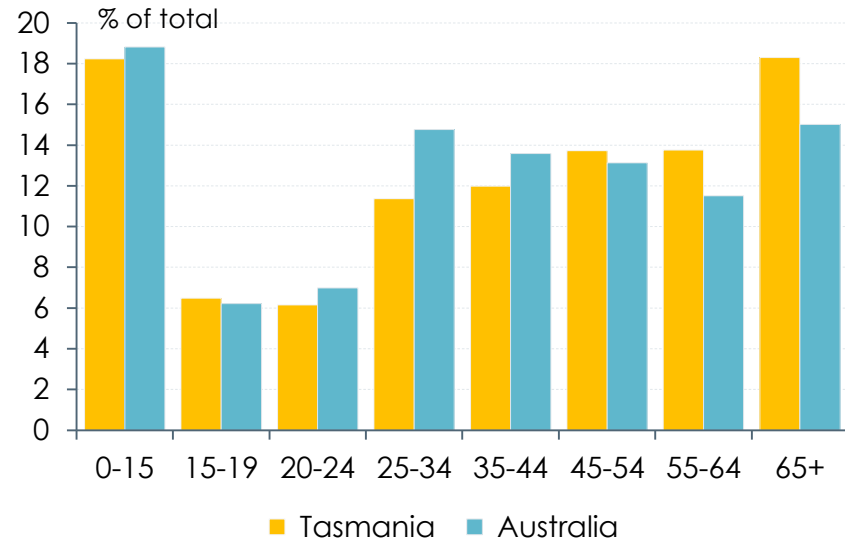


% 15-64	55.1	60.8
% 65 +	29.1	19.9

Source: ABS 3220.

Tasmania's demographic profile is similar to that of other islands ... but not all of them

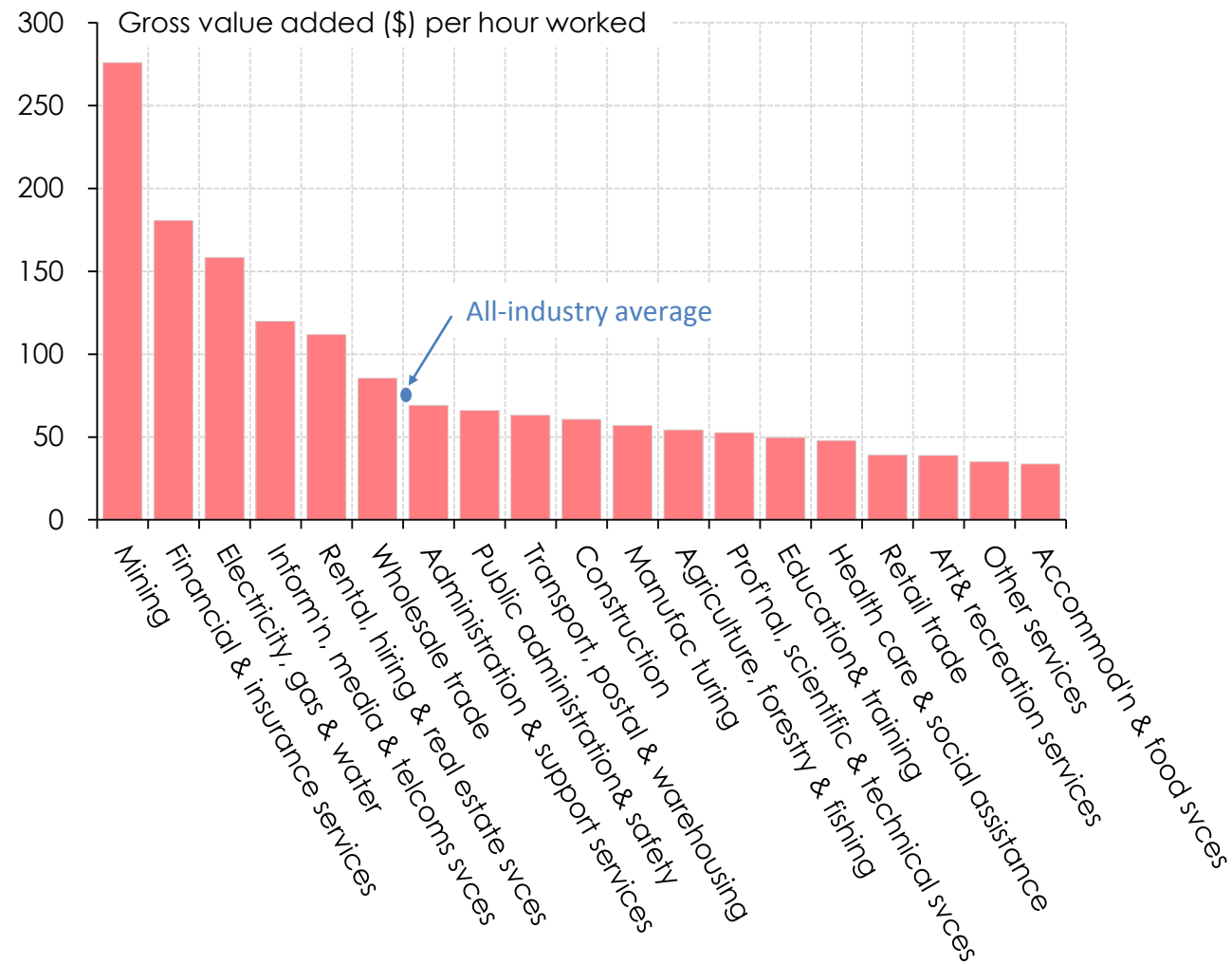
Age profile of selected islands and their 'mainlands', 2015



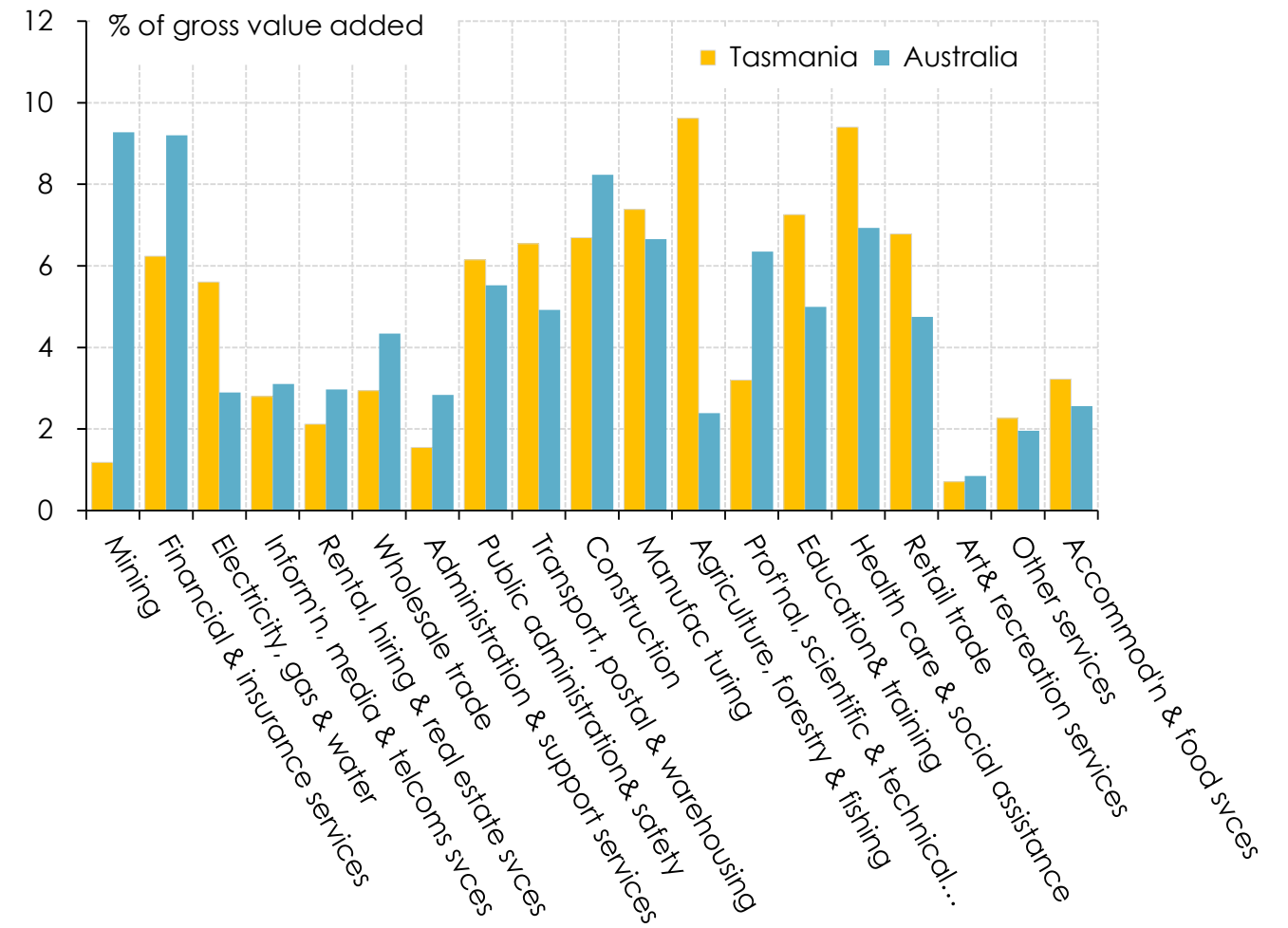
Sources: ABS; Statistics Canada; Institute National de la Statistique et des Études Économiques; UK Office for National Statistics; Statistics Japan (2014); Ireland Central Statistics Office.

The current structure of Tasmania's economy makes it very difficult for Tasmania to achieve the national average level of labour productivity

Labour productivity by industry, Australia, 2014-15



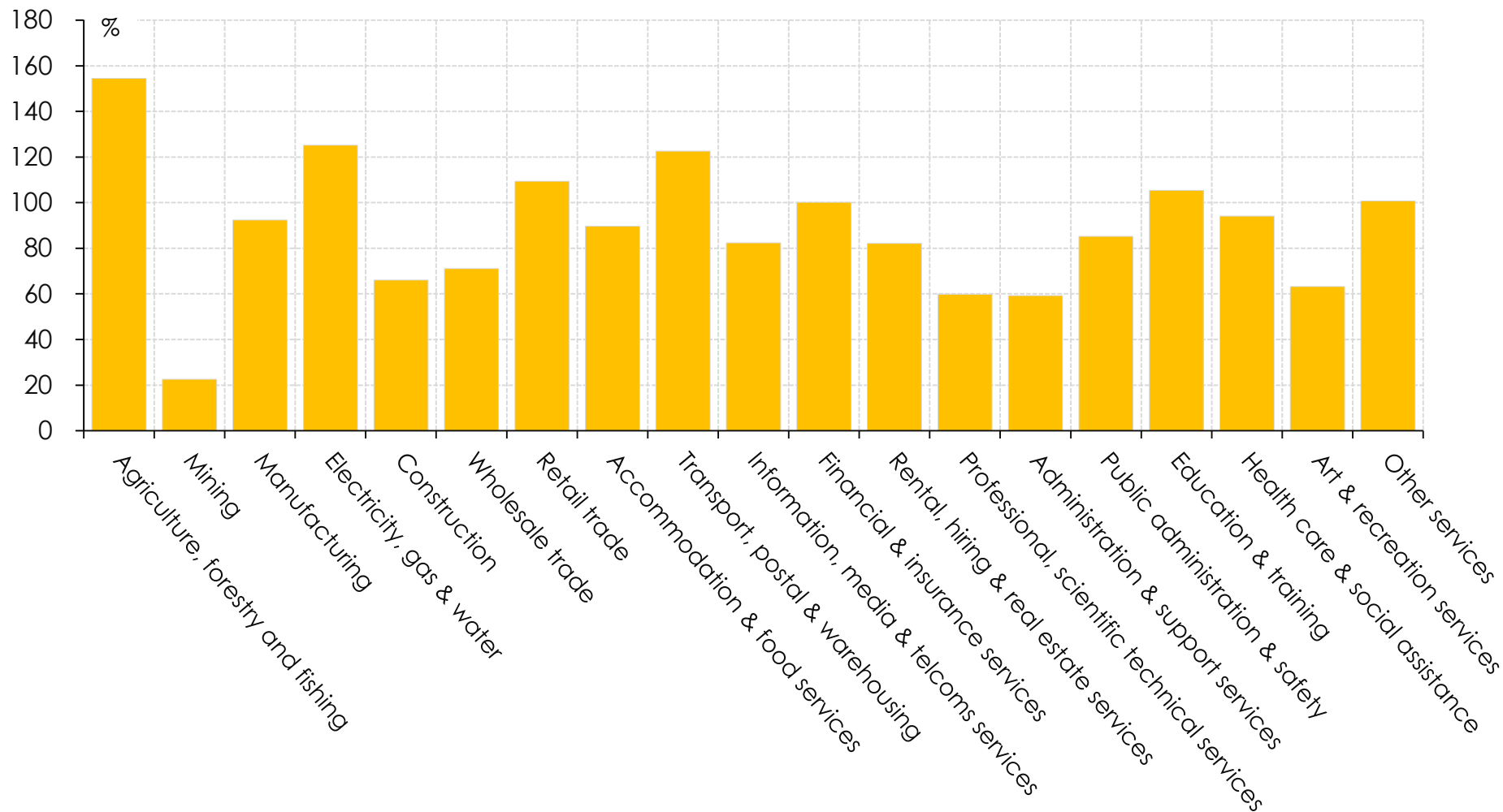
Industry shares of gross value added, Tasmania and Australia, 2014-15



Sources: ABS 5206.0, 5220.0 and 6291.0.55.003

In addition, in a majority of Tasmanian industries, labour productivity is below the corresponding national industry average

Tasmanian labour productivity by sector, as a pc of Australian average labour productivity by sector, 2009-10 to 2014-15

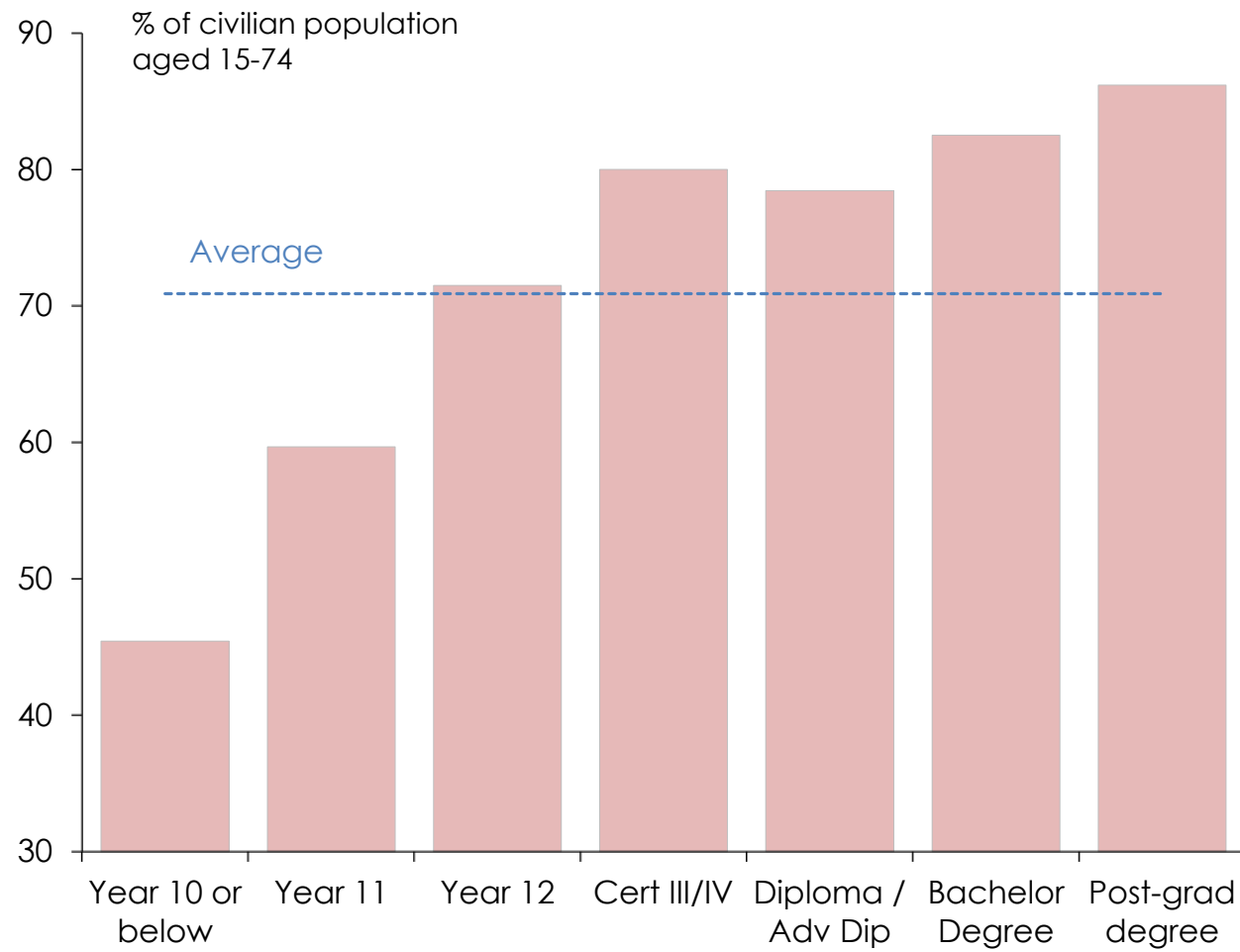


- ❑ Only 5 Tasmanian industries (accounting for 36% of the Tasmanian economy) have labour productivity above the corresponding national industry average
- ❑ Conversely 12 Tasmanian industries (accounting for 47% of the Tasmanian economy) have labour productivity below the corresponding national industry average
- ❑ And of these 6 (accounting for 16% of the Tasmanian economy) have labour productivity more than one-third below the corresponding national industry average

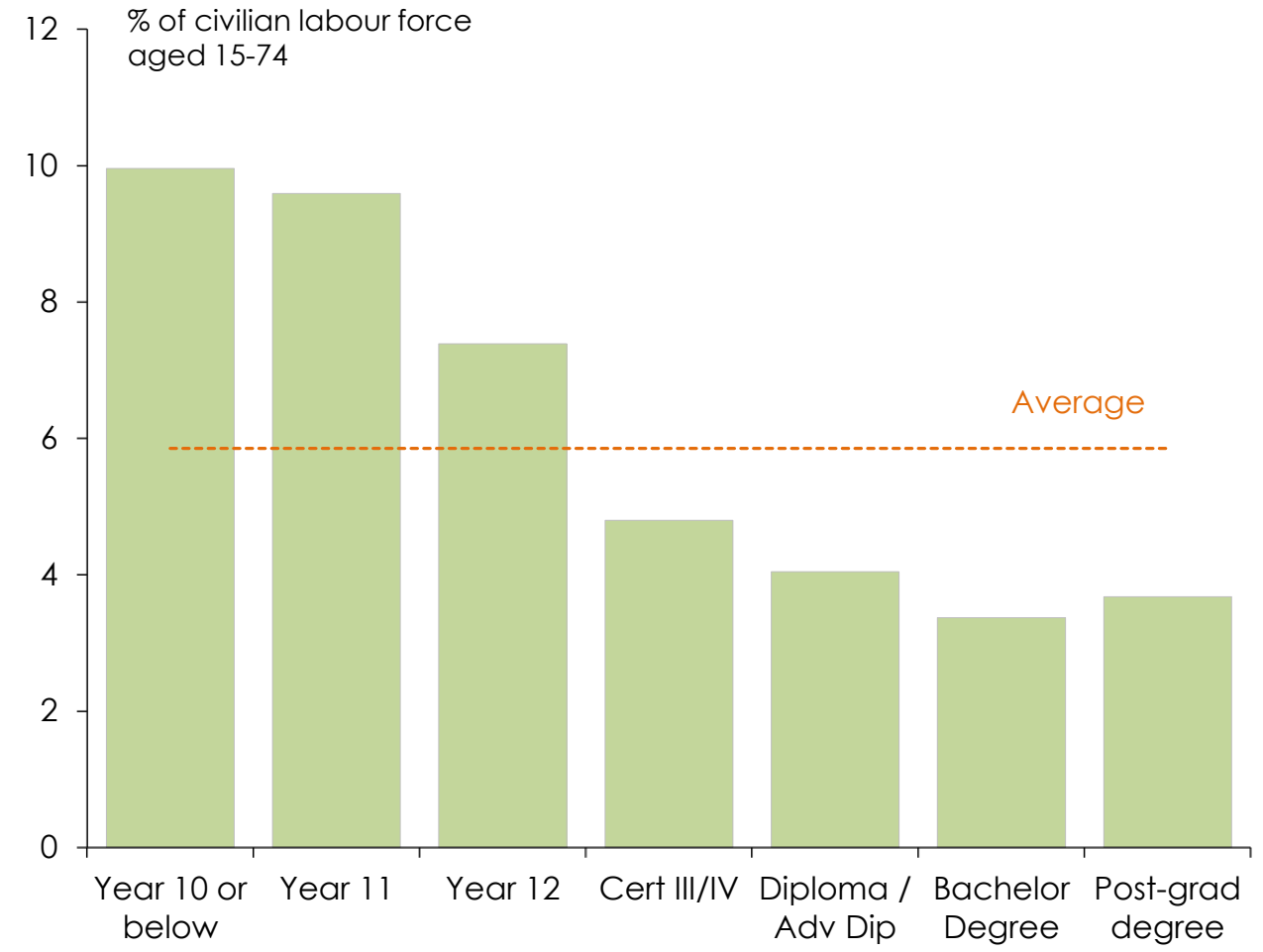
The importance of education

Educational attainment is unambiguously positively correlated with workforce participation, and inversely correlated with unemployment

Educational attainment and labour force participation, May 2015



Educational attainment and unemployment, May 2015



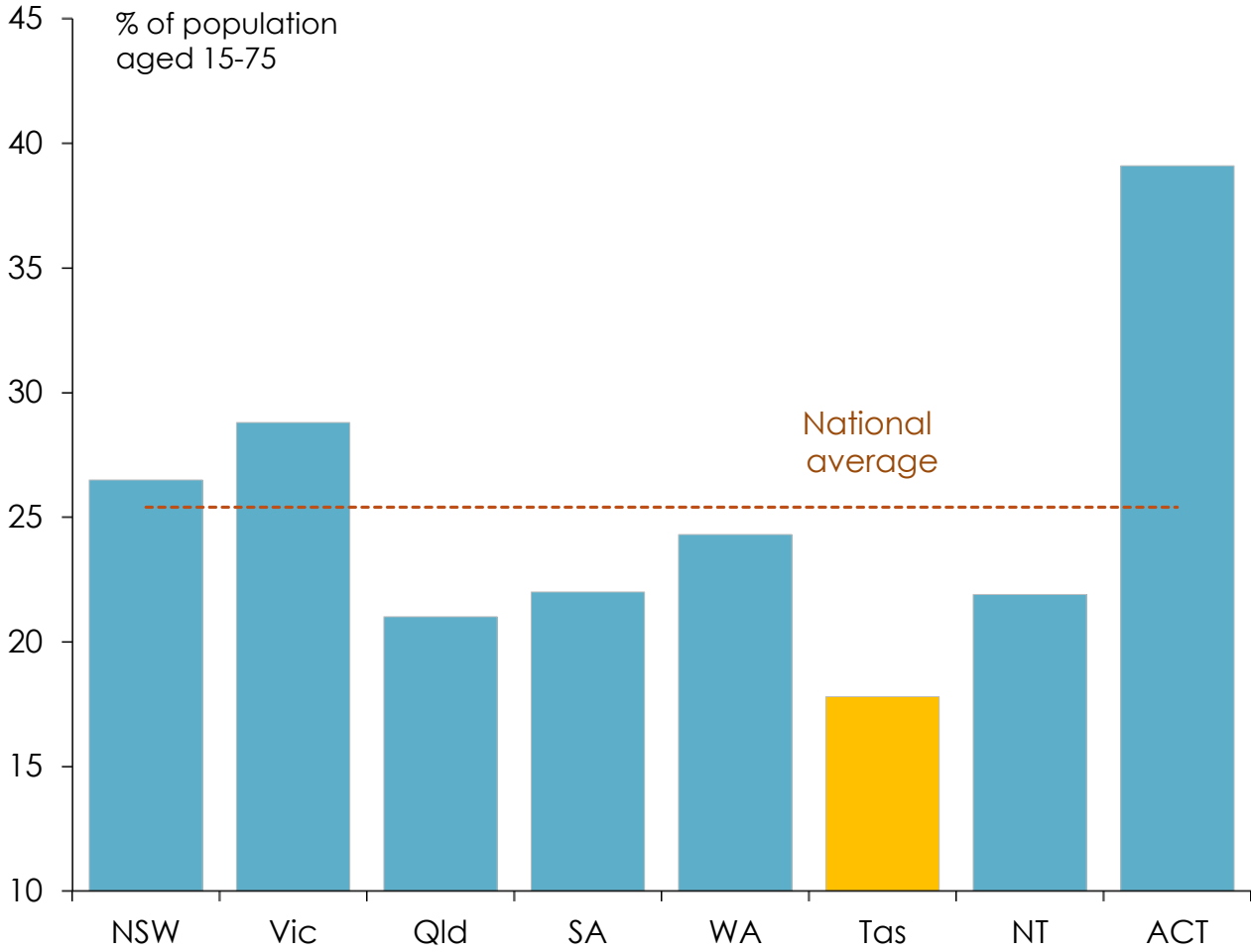
Source: ABS 6227.0.

Educational attainment is also unambiguously correlated with earning capacity

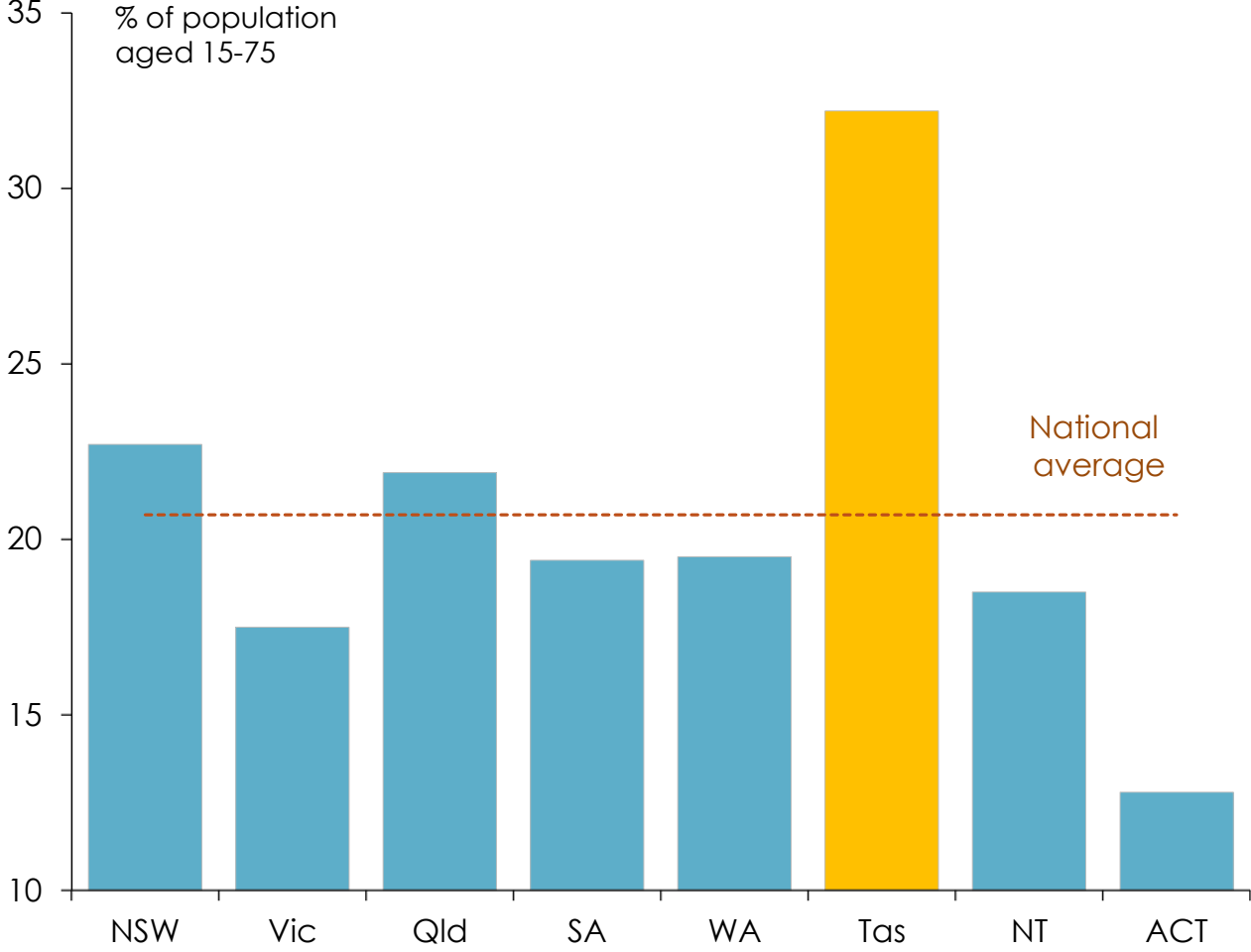
- ❑ people who complete Year 12 have lifetime earnings which are 42% higher than those who leave school at Year 10, and 64% higher than those who do not go beyond Year 9;
- ❑ the lifetime of earnings of people who complete a bachelor's degree are 45-50% higher than those whose highest educational qualification is Year 12 – while those of people with a higher degree are 66-74% higher than those of people whose highest educational qualification is Year 12.

Tasmania's economic performance is clearly held down by below-average levels of educational attainment

Proportion of population with bachelor's degree or higher, May 2015



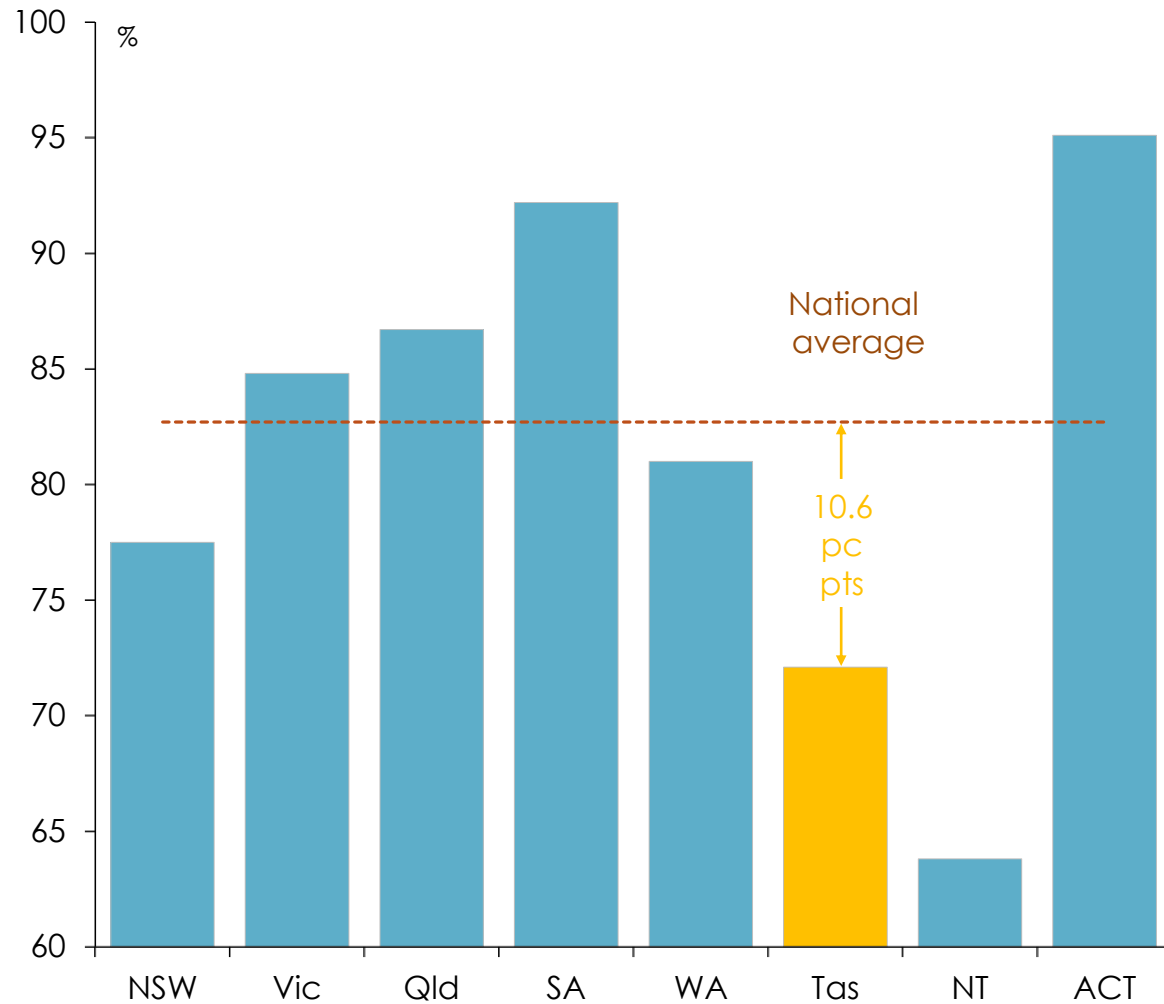
Proportion of population with no qualification beyond Year 10 of high school, May 2015



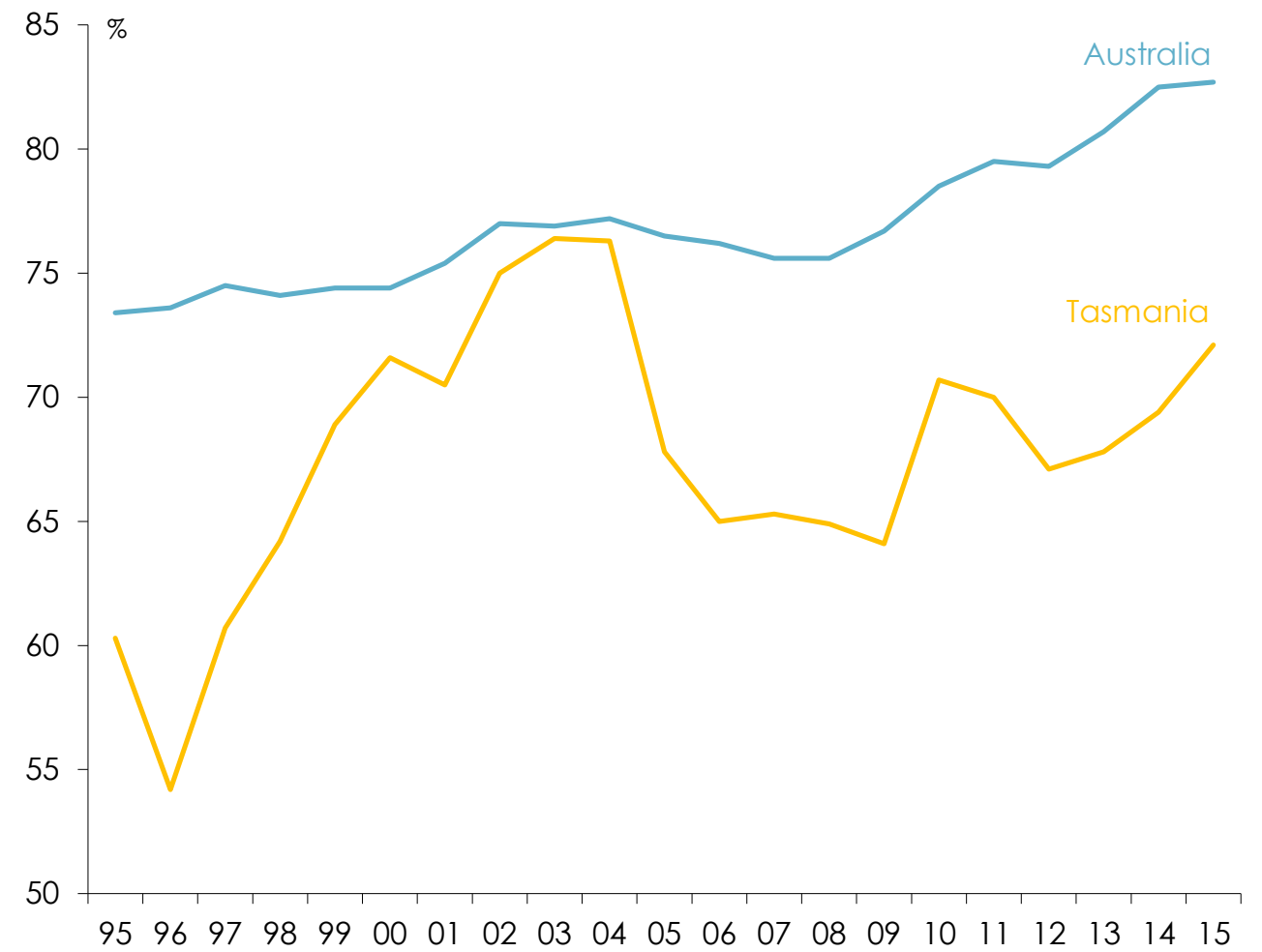
Source: ABS 6227.0.

Skill levels of Tasmania's workforce aren't likely to improve much while the retention rate to year 12 remains so far below the national average

School retention rates from Year 10 to Year 12, States & Territories, 2015



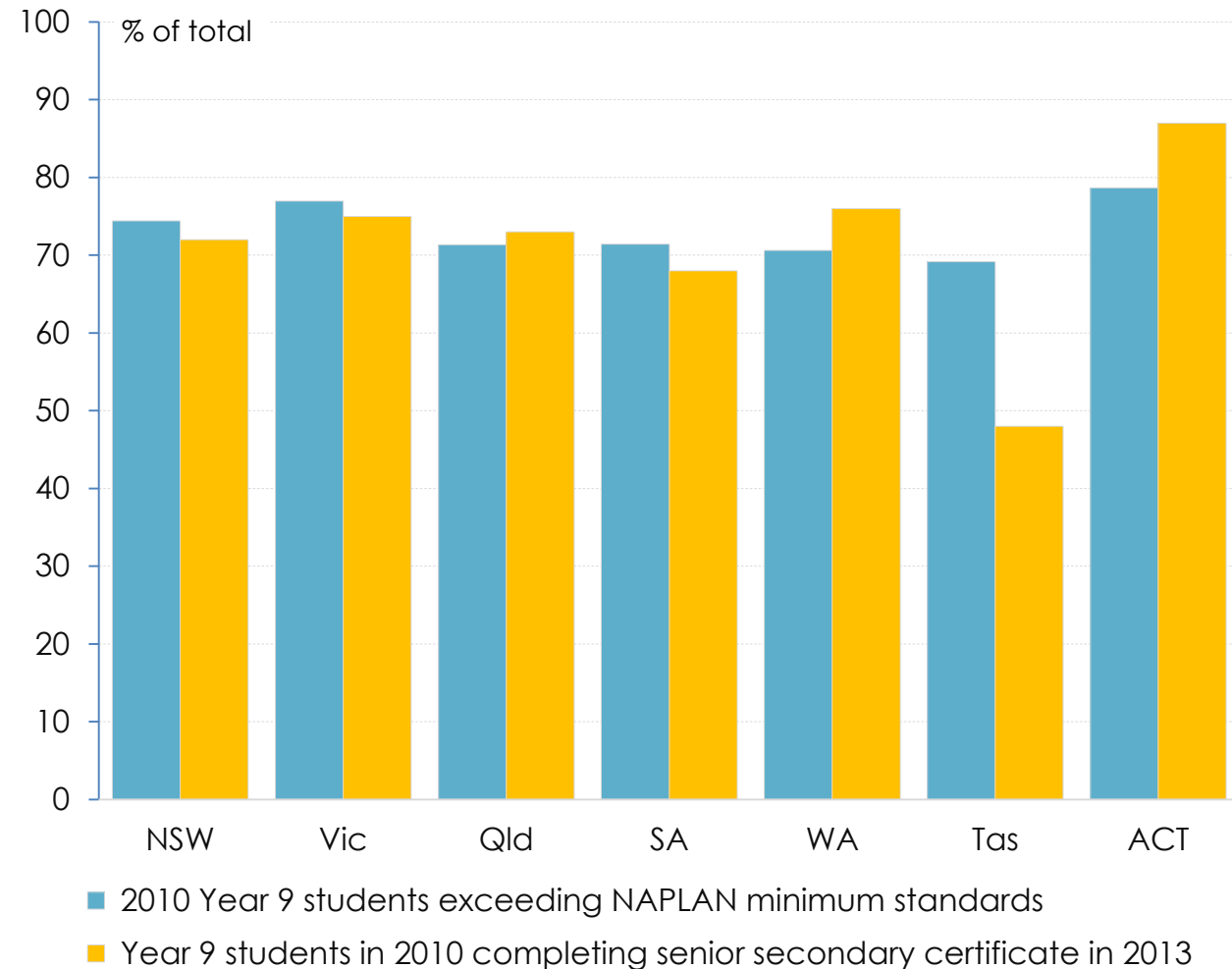
School retention rates from Year 10 to Year 12, Tasmania vs national average, 1995-2015



Source: ABS 4221.0.

Tasmania's poor Year 12 retention and attainment rates are not because Tasmanian students are less capable than students from elsewhere

Year 9 NAPLAN results 2010 and subsequent senior secondary certificate completions



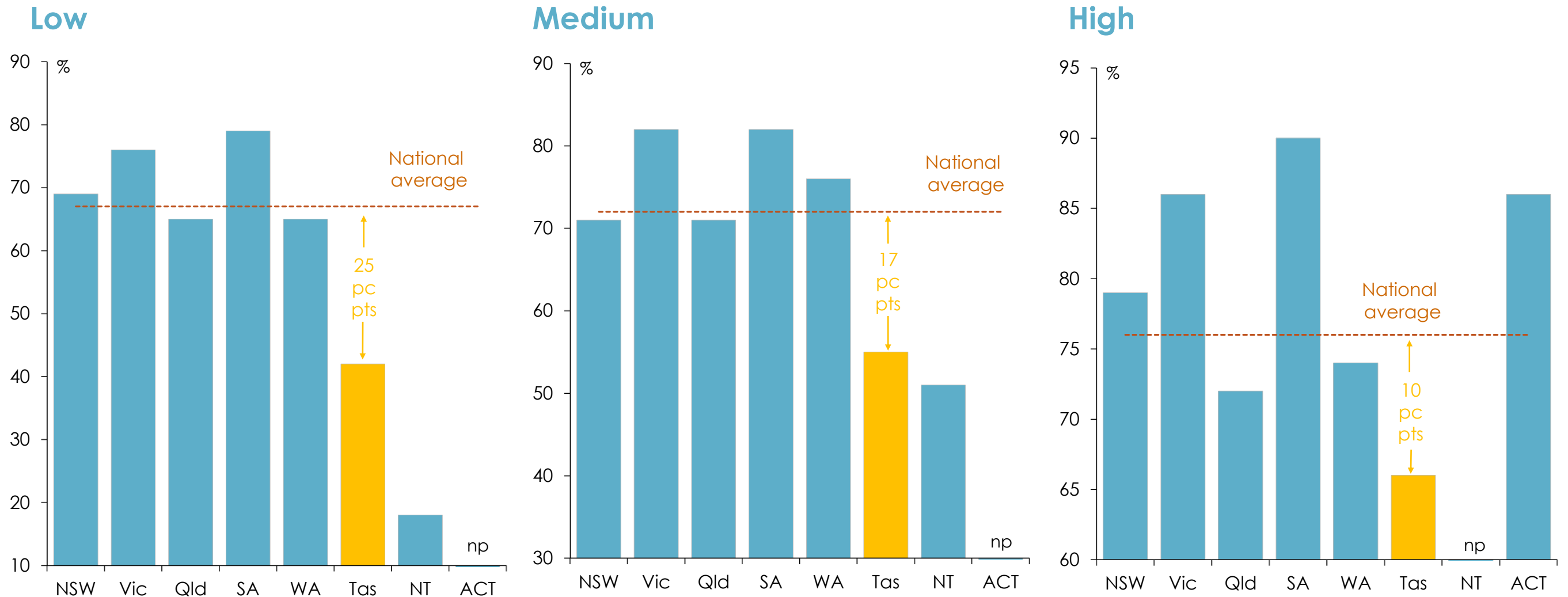
Selected Tasmanian schools Year 9 NAPLAN and Year 12 certificate completion rankings

School	Year 9 NAPLAN ranking	Year 10s completing Year 12 ranking
Burnie	4/25	24/25
Campbell Town	1/13	13/13
Devonport	8/29	28/29
Huonville	3/33	33/33
Kingston	8/15	13/15
Mountain Heights	1/10	10/10
Queechy	29/34	33/34
Scottsdale	5/29	26/29
Taroona	5/9	9/9
Wynyard	10/24	24/24

Note: Table shows school rankings among group of schools from NSW, Vic, Qld & SA with similar Index of Community Socio-Economic Advantage (ICSEA), of the % of Year 9 students recording NAPLAN scores above minimum standard in Year 9, and % of Year 10 students in 2012 who completed Year 12 two years later

Tasmania's poor educational participation and attainment rates are not primarily the result of an above-average share of low SES households

Year 12 completion rates, by socioeconomic status (SES), 2014

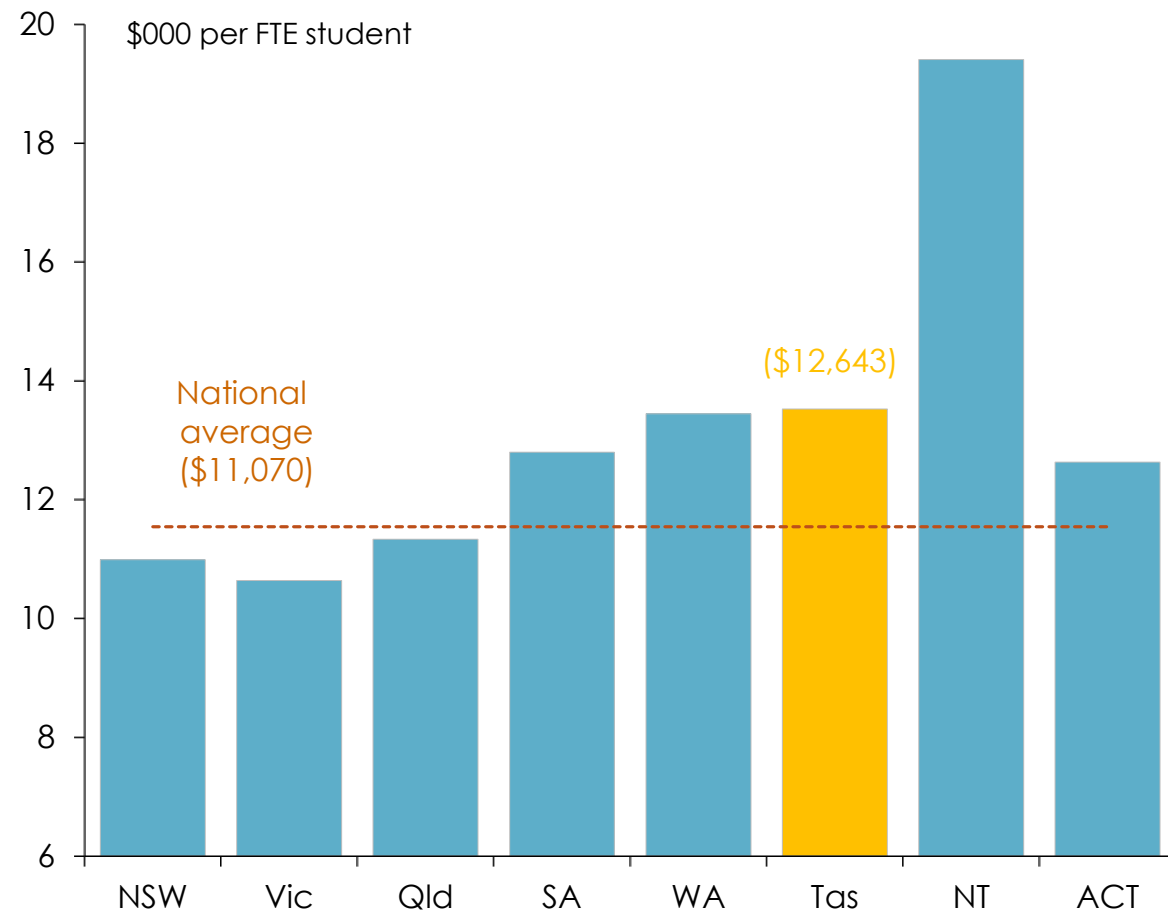


Note: Completion rates are estimated by calculating the number of students who meet the requirements of a year 12 certificate or equivalent expressed as a pc of the 'potential year 12 population'. The 'potential year 12 population' is an estimate of a single year age group which could have attended year 12 that year, calculated as the estimated resident population aged 15–19 divided by five. WA figures in these charts are for 2013, because WA changed the pre-year one entry age in 2002 resulting in approximately half the normal intake of students for that year level, so that in 2014, Year 12 in WA had significantly lower enrolments when compared to the population of the year 12 age group. Source: Productivity Commission, *Report on Government Services 2016 – School Education*, Table 4A.124.

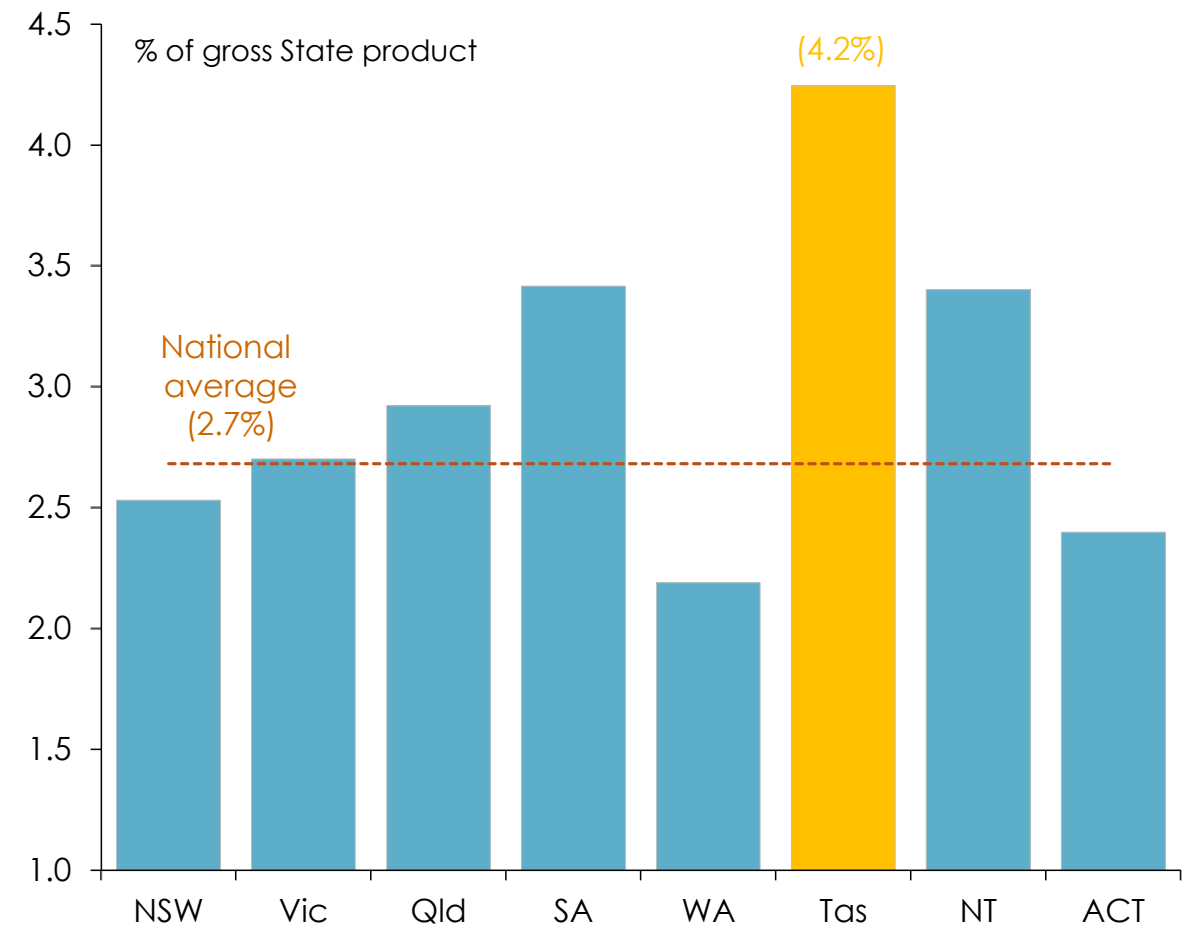
Nor are Tasmania's poor educational participation and attainment rates the result of insufficient government spending on education

State and Territory government spending on primary and secondary education, 2014-15

Per full-time equivalent student



As a percentage of gross state product

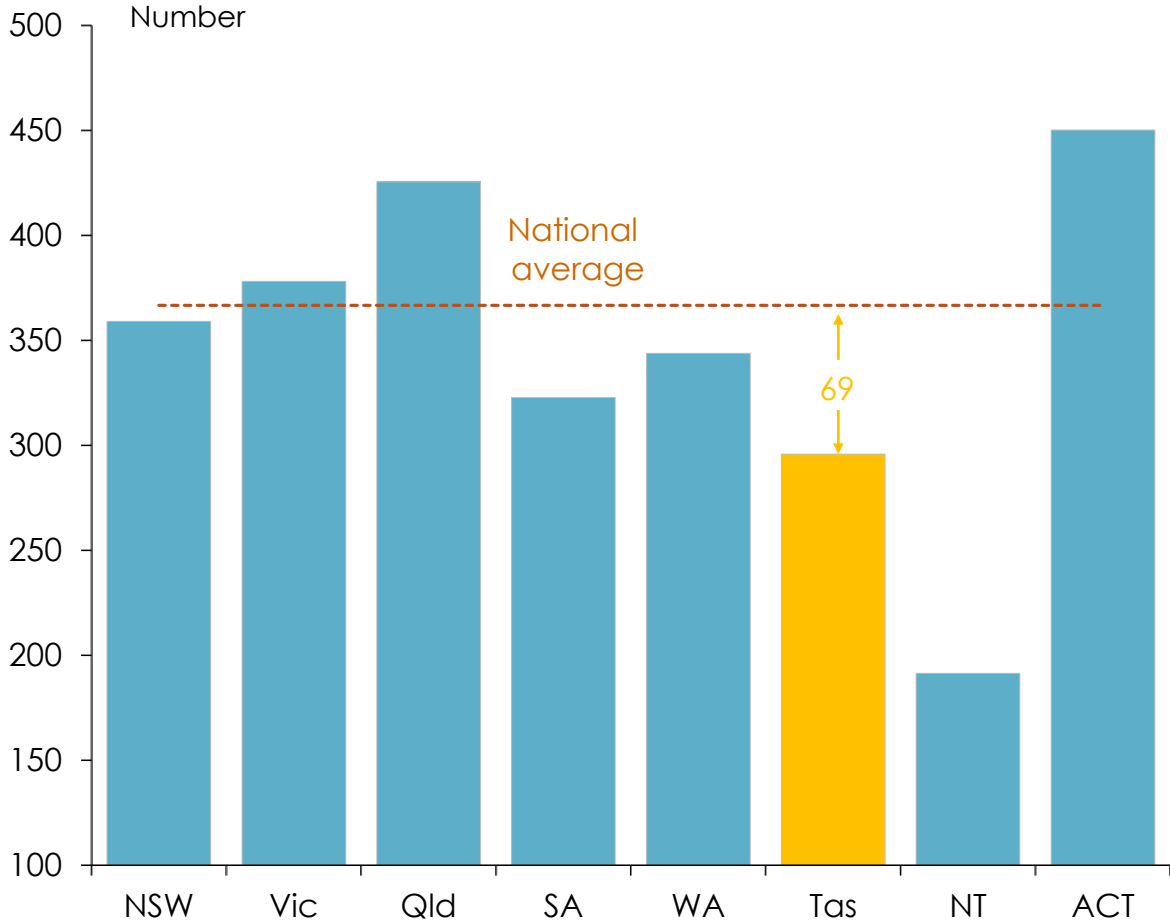


Sources: ABS 4221.0 and 5518.0.55.001.

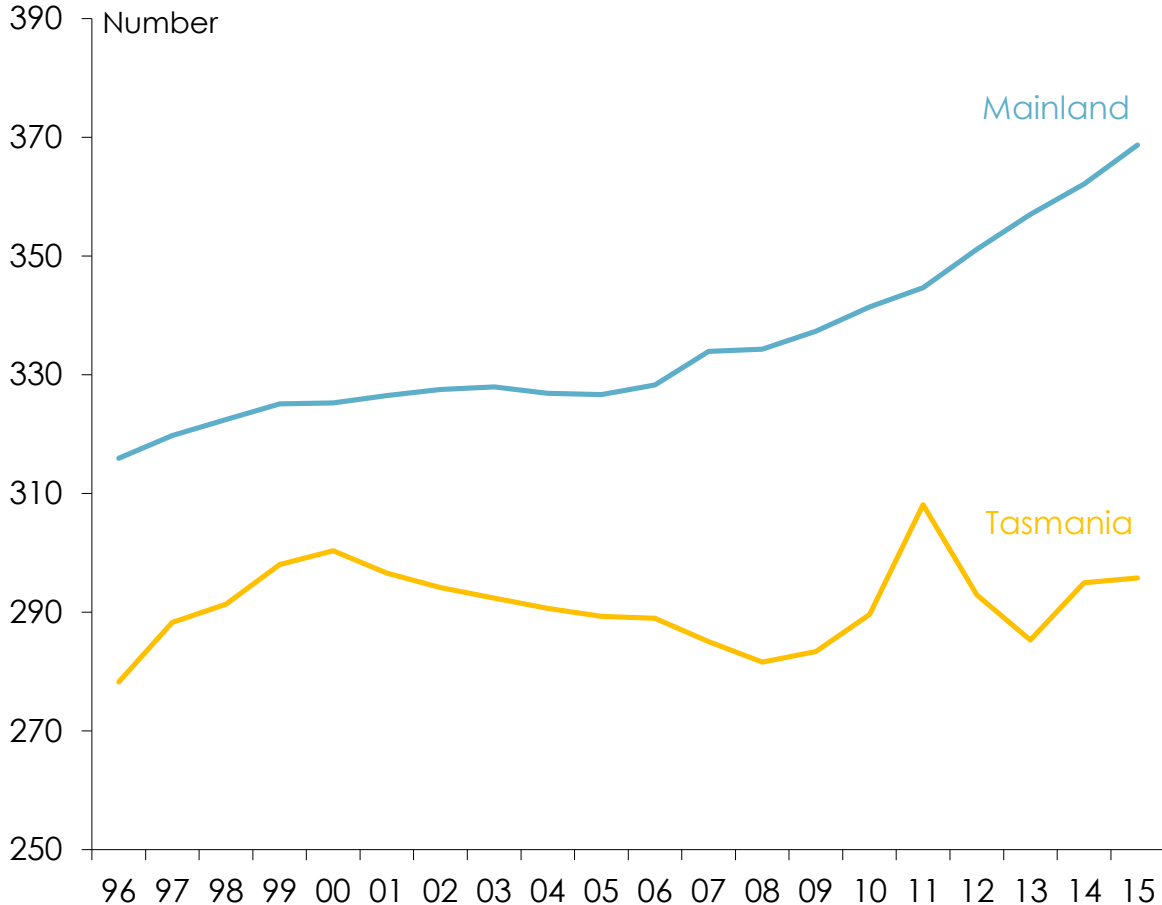
Rather, Tasmania spends what it does spend on school education inefficiently

Number of full-time equivalent students per government school

States and Territories, 2015



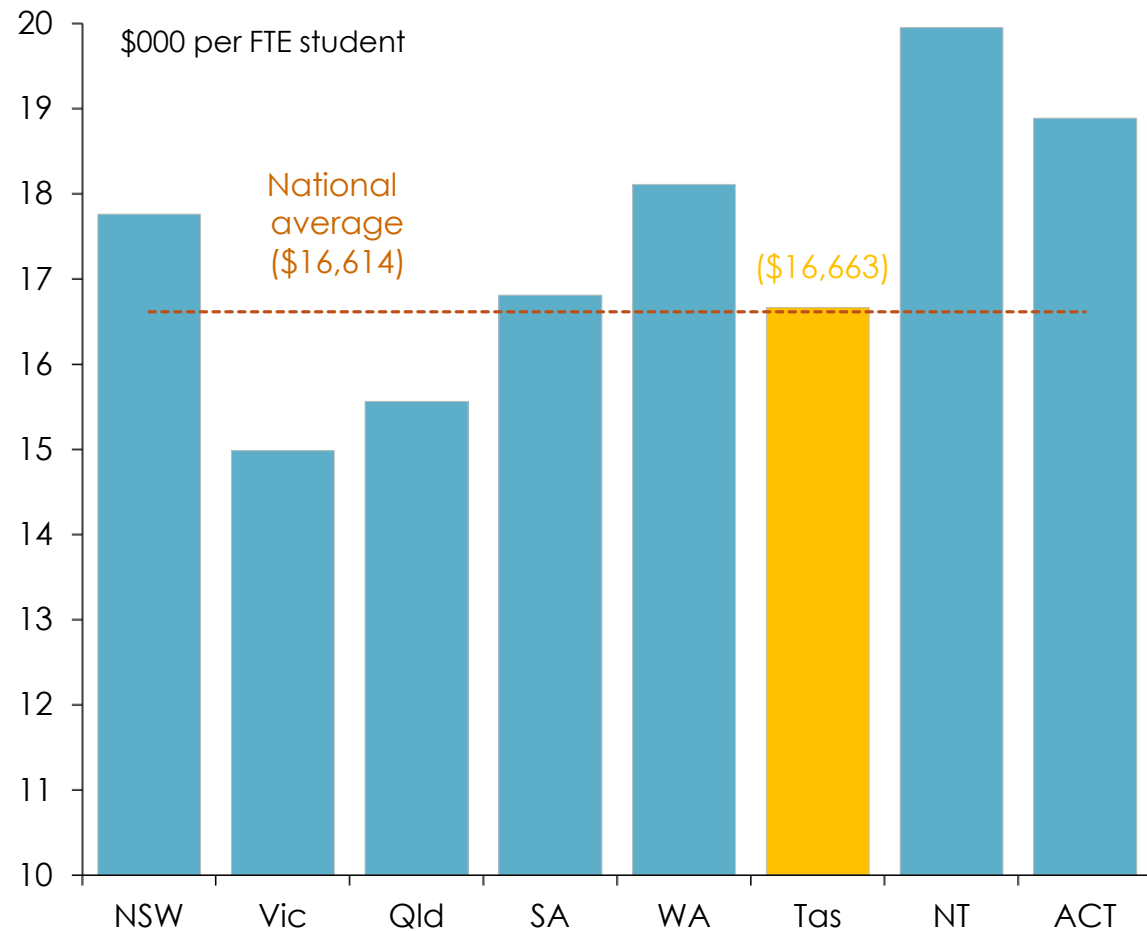
Tasmania vs mainland, 1996-2015



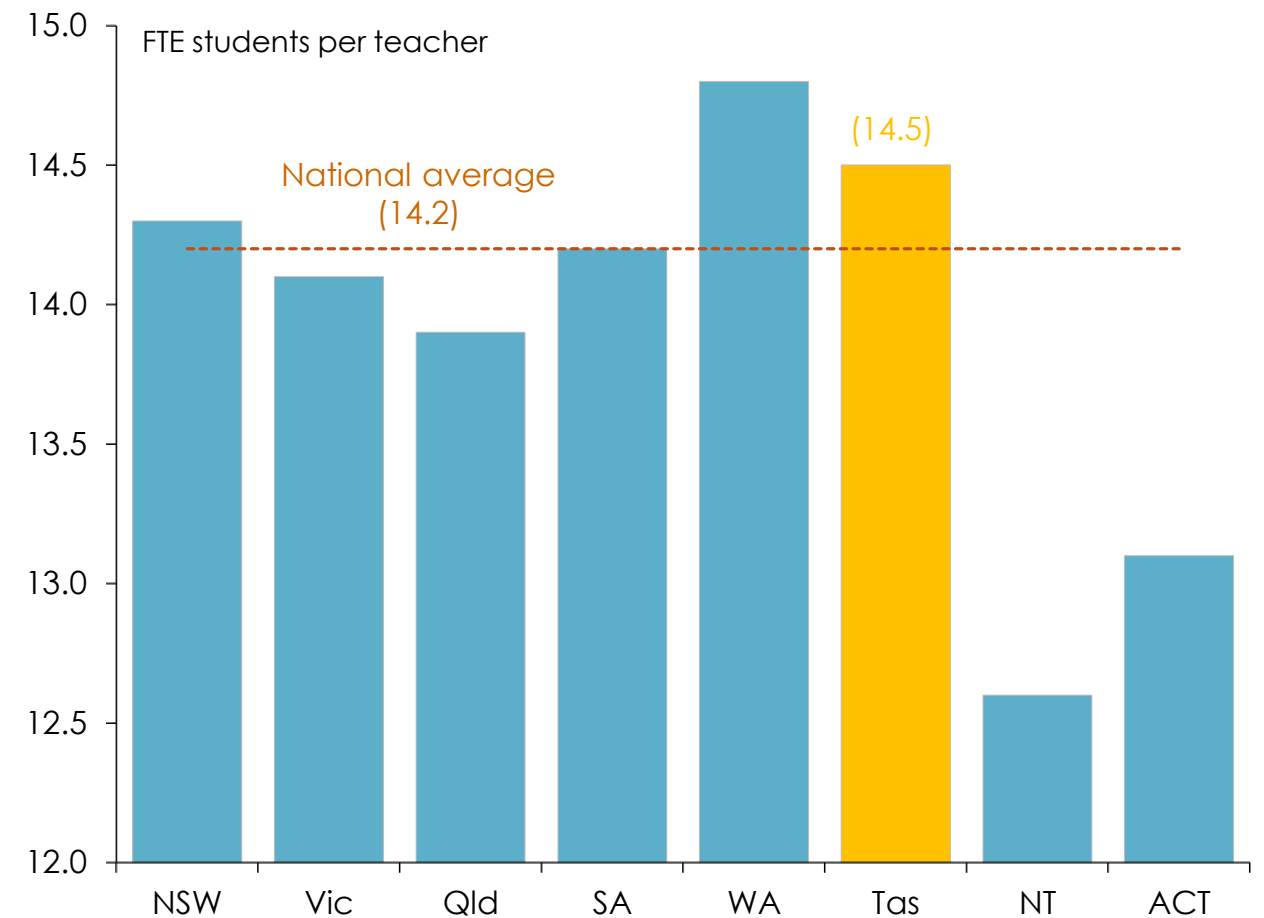
Sources: ABS 4221.0.

Tasmania spends about the same as the national average on teachers, and has similar class sizes to the national average

Spending on teachers in government schools, per FTE student, 2013-14



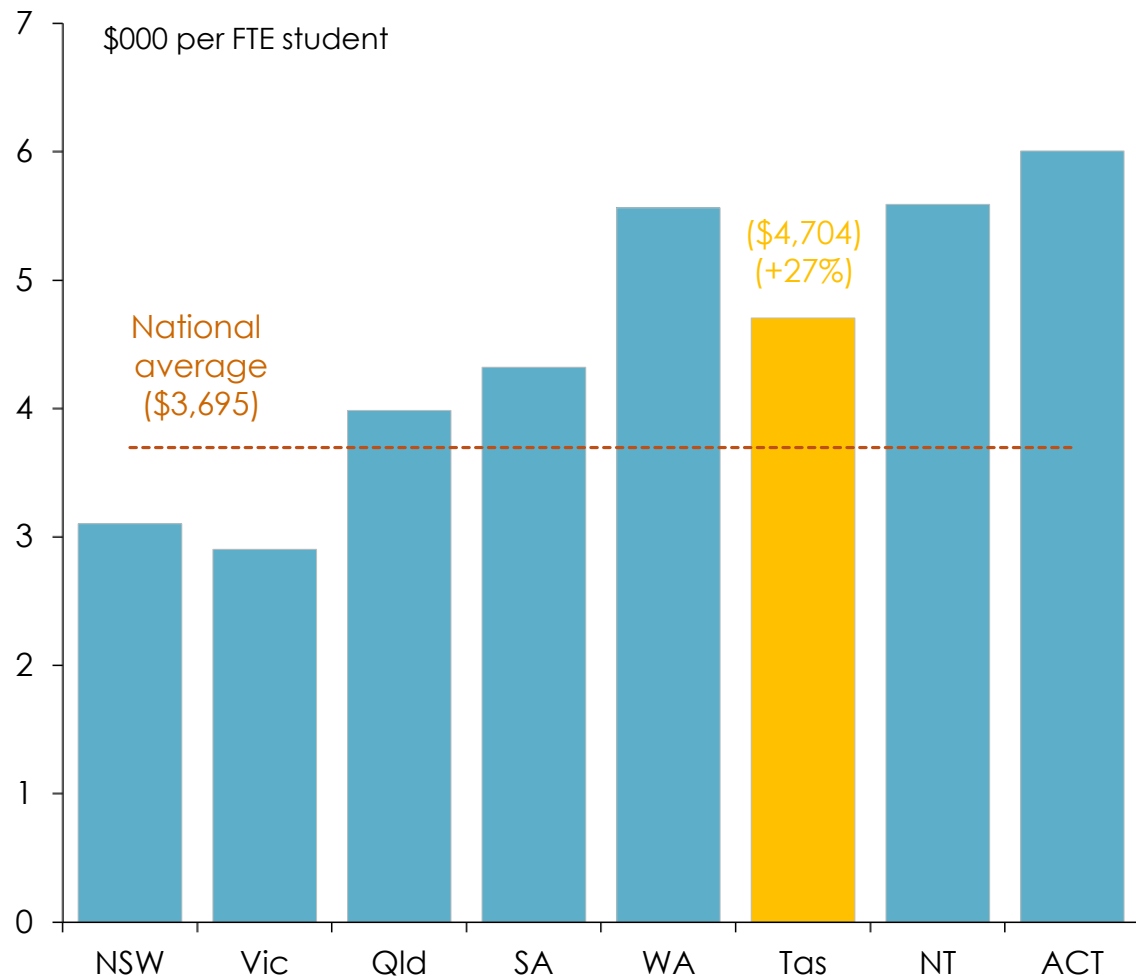
Average class sizes in government schools, 2015



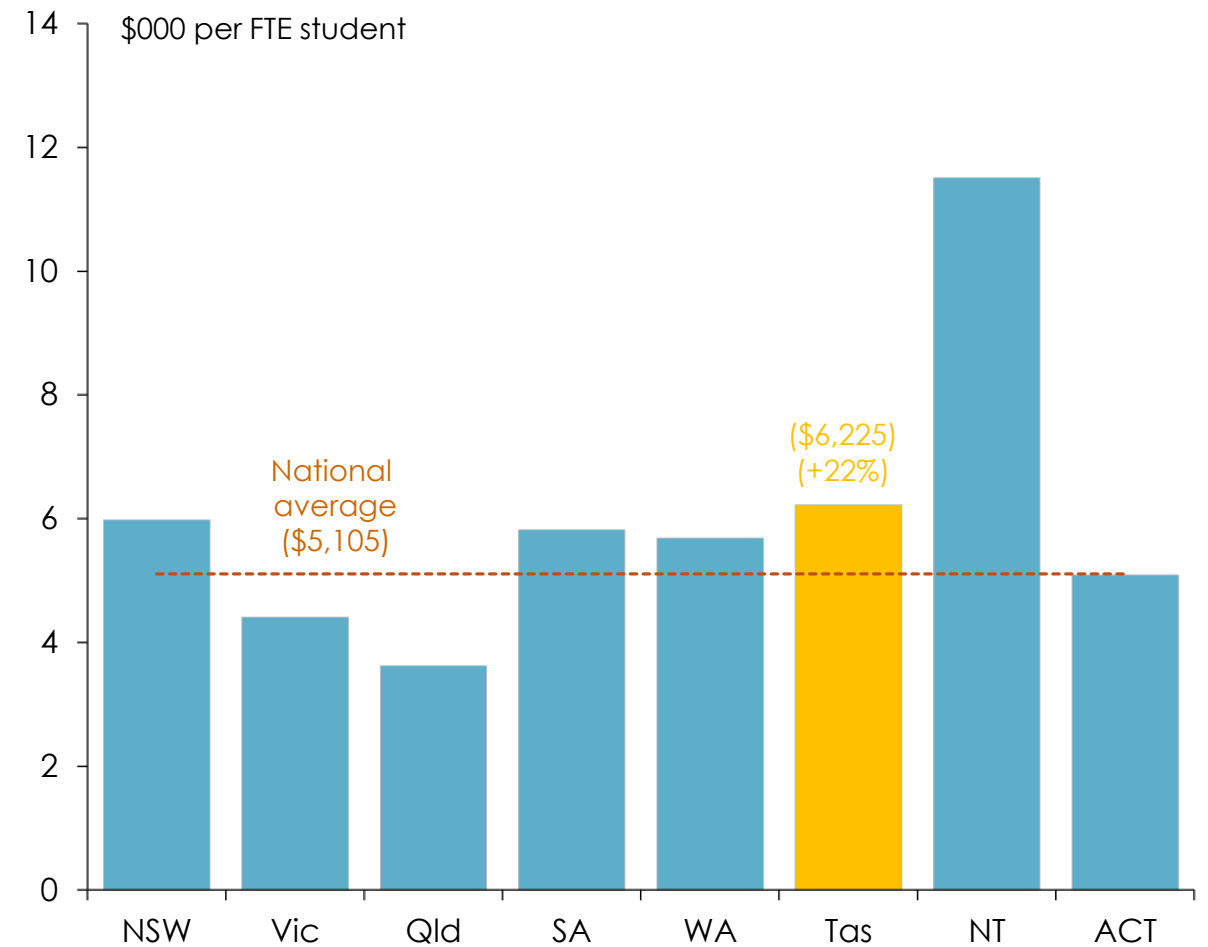
Source: Productivity Commission, *Report on Government Services 2016 – School Education*, Table 4A.14; ABS 4221.0.

Tasmania spends about 25% more per government school student on non-teaching staff and other costs than the national average

Spending on non-teaching staff per FTE government school student, 2013-14



Other 'operating expenses' per FTE government school student, 2013-15



Source: Productivity Commission, *Report on Government Services 2016 – School Education*, Table 4A.14..

Tasmania's economic future

The Tasmanian economy of tomorrow has to be different from yesterday's

- ❑ The 'old' Tasmanian economy which Bob Cosgrove and Eric Reece built – aided by Sir Allan Knight and Russ Ashton – and which Robin Gray tried to prolong 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

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