

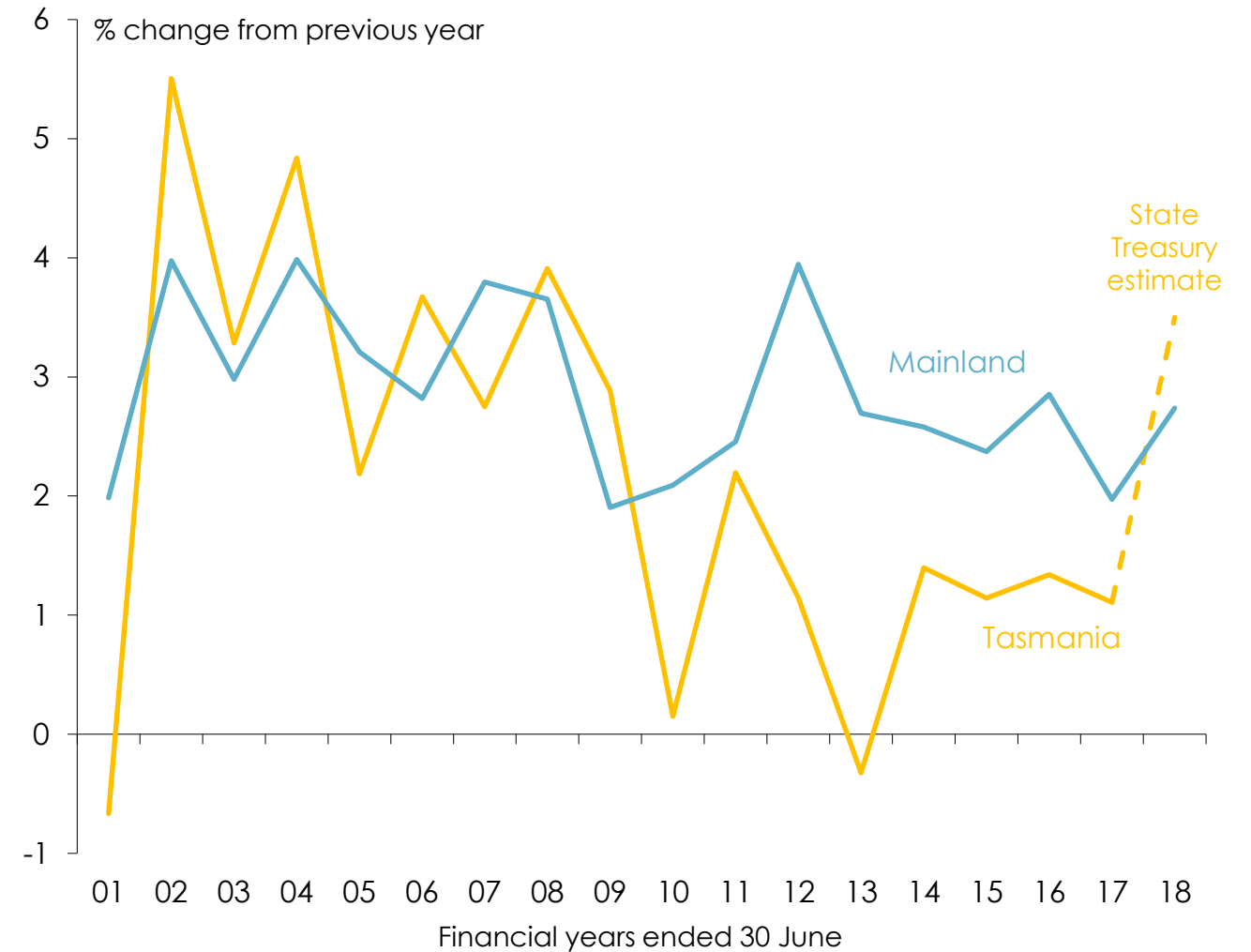
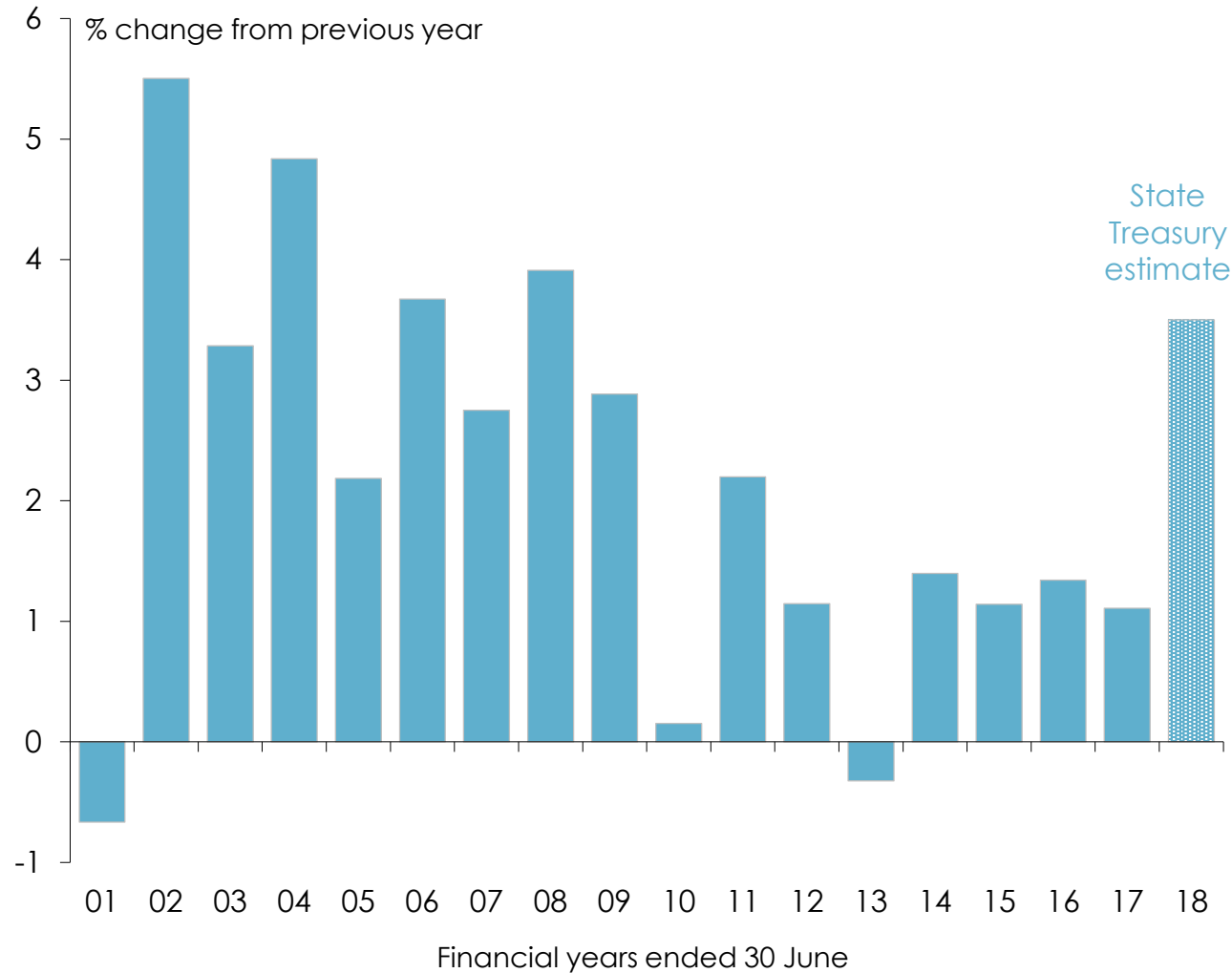
NAVIGATING 42° SOUTH – AN INTRODUCTION TO THE TASMANIAN ECONOMY AND PROPERTY MARKET

PRESENTATION TO THE
CHOICE PLATINUM ACHIEVER CONFERENCE

HOTEL GRAND CHANCELLOR, HOBART – 14TH NOVEMBER 2018

Tasmania's economy recorded its strongest growth for a decade in the 2017-18 financial year

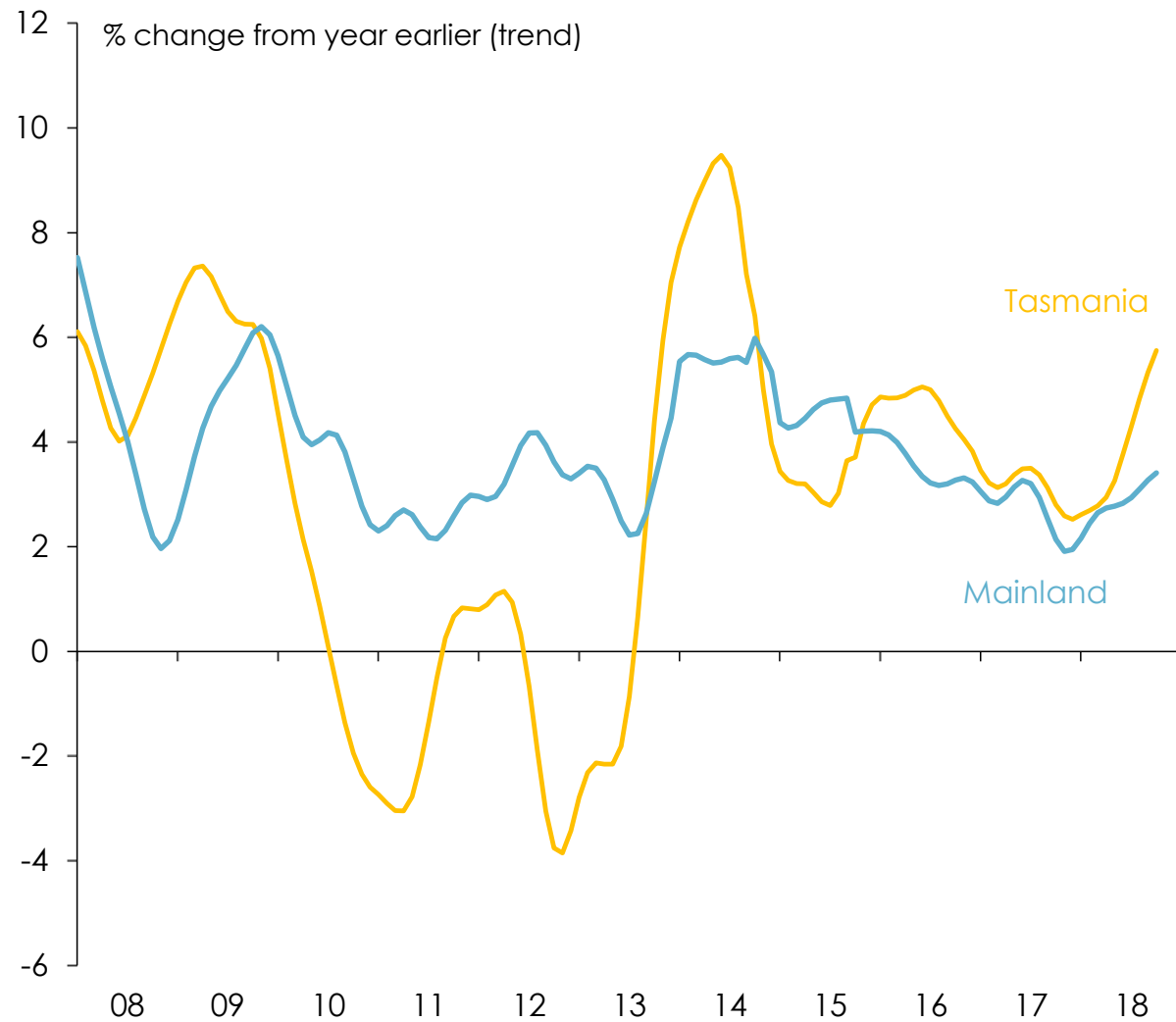
Annual growth in Tasmania's economy, as measured by real gross State product (GSP)



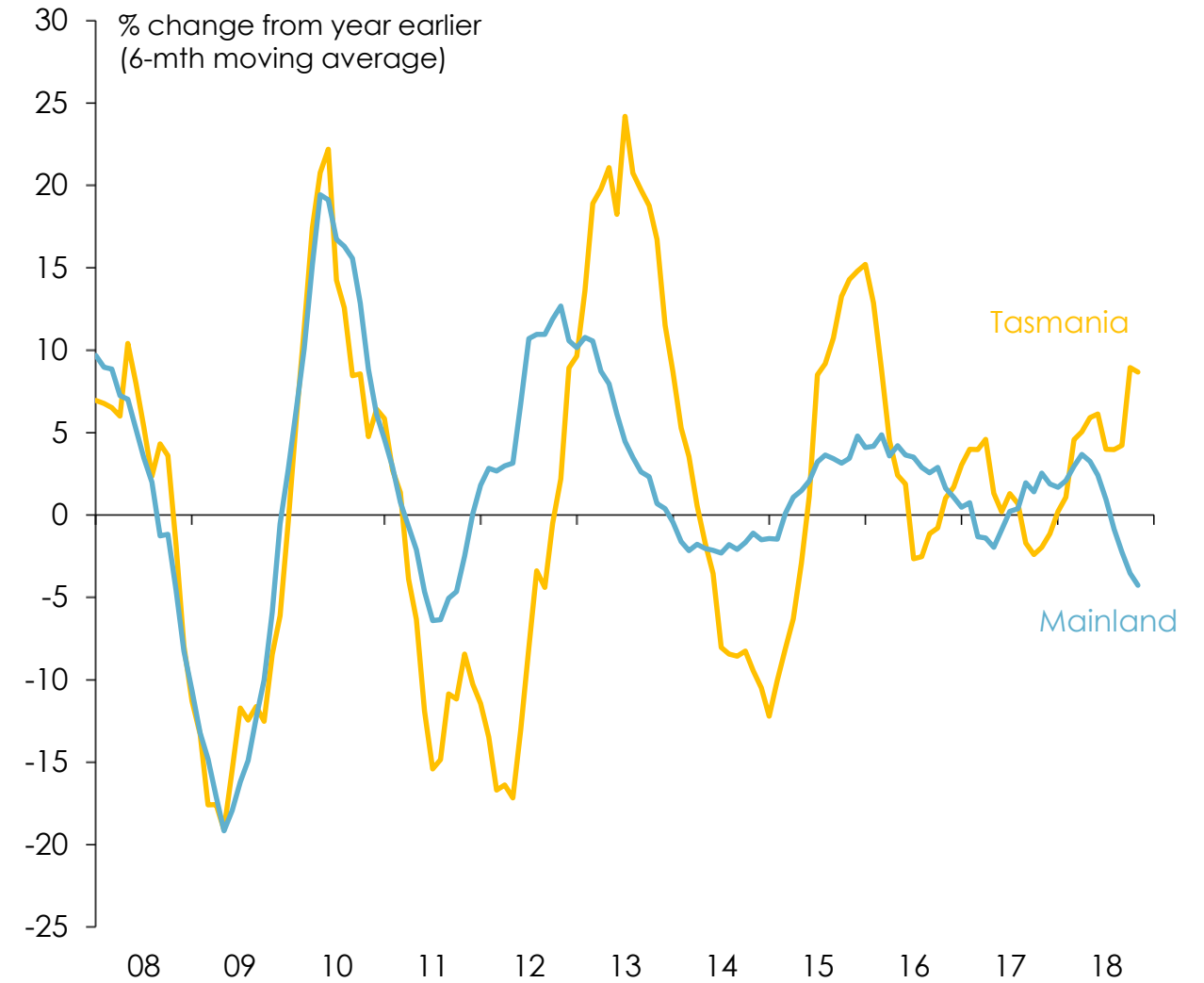
Sources: Australian Bureau of Statistics (ABS), *State Accounts*; Tasmanian Government, *2018-19 Budget Paper No 1*. Note that ABS estimates for growth in real gross state product in 2017-18 will be released this coming Friday (16th November).

Consumer spending has been stronger in Tasmania in recent years than on the mainland

Retail sales

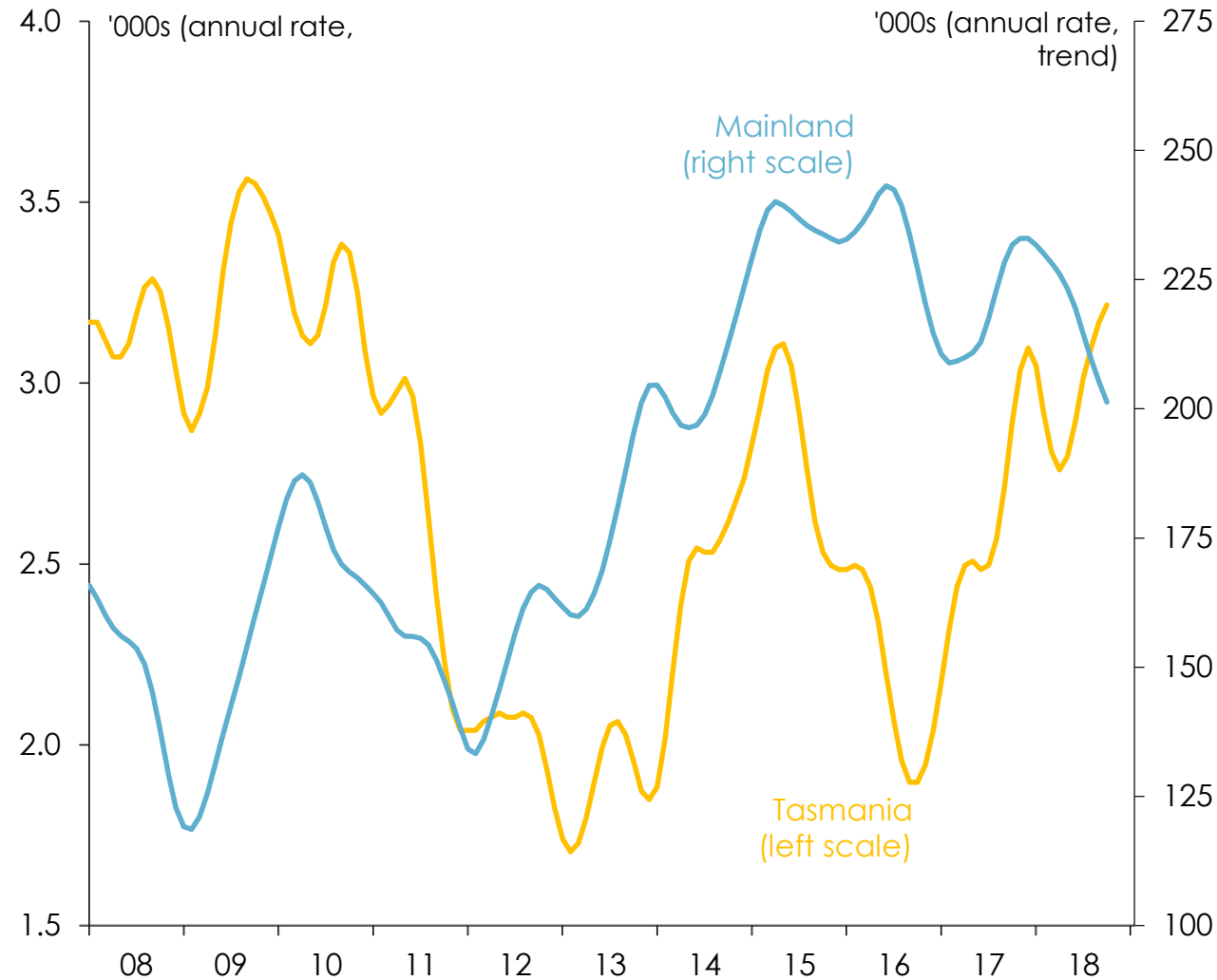


Motor vehicle sales

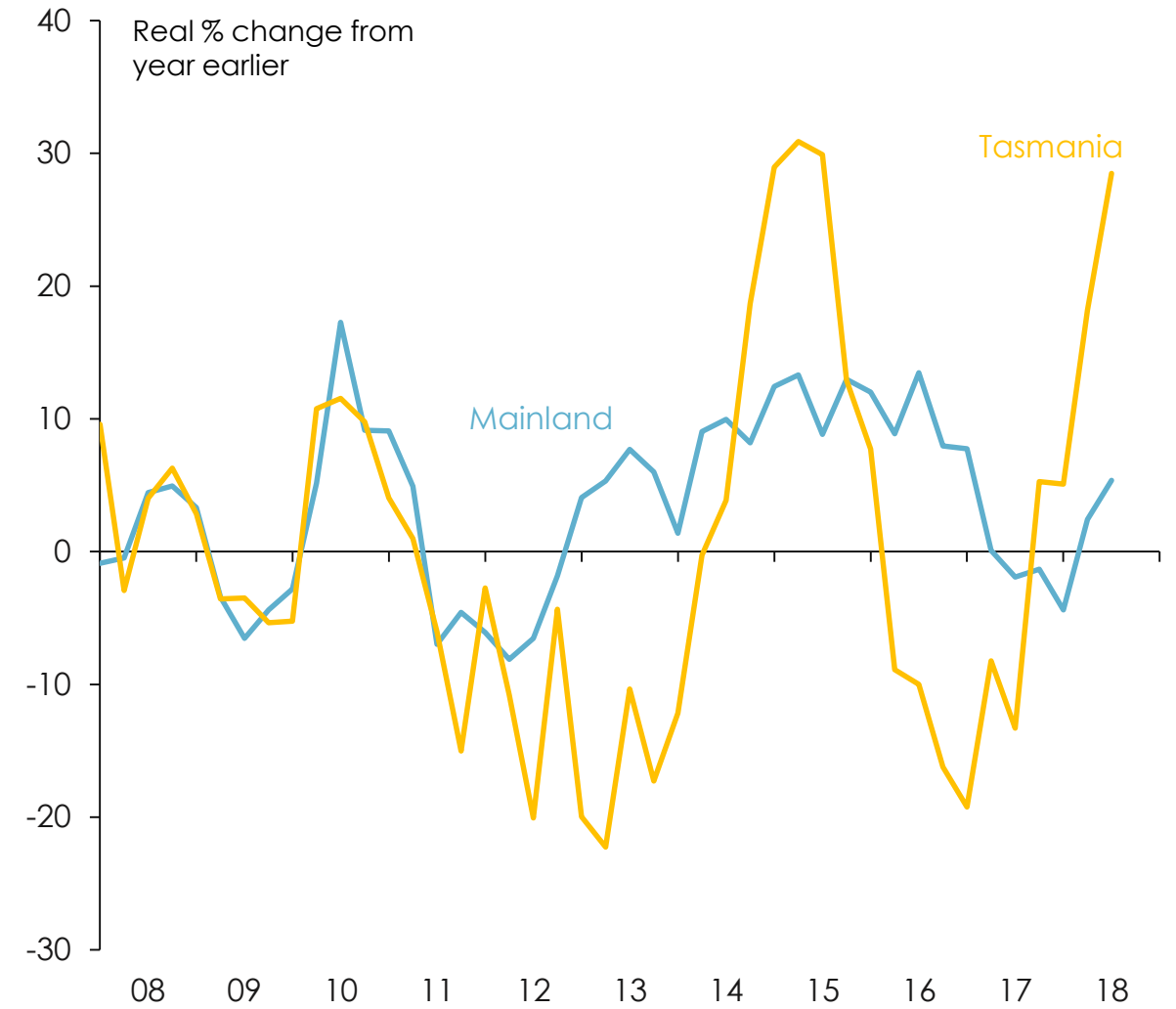


Housing activity is picking up in Tasmania, in contrast to the downturn now under way in most mainland states

Residential building approvals

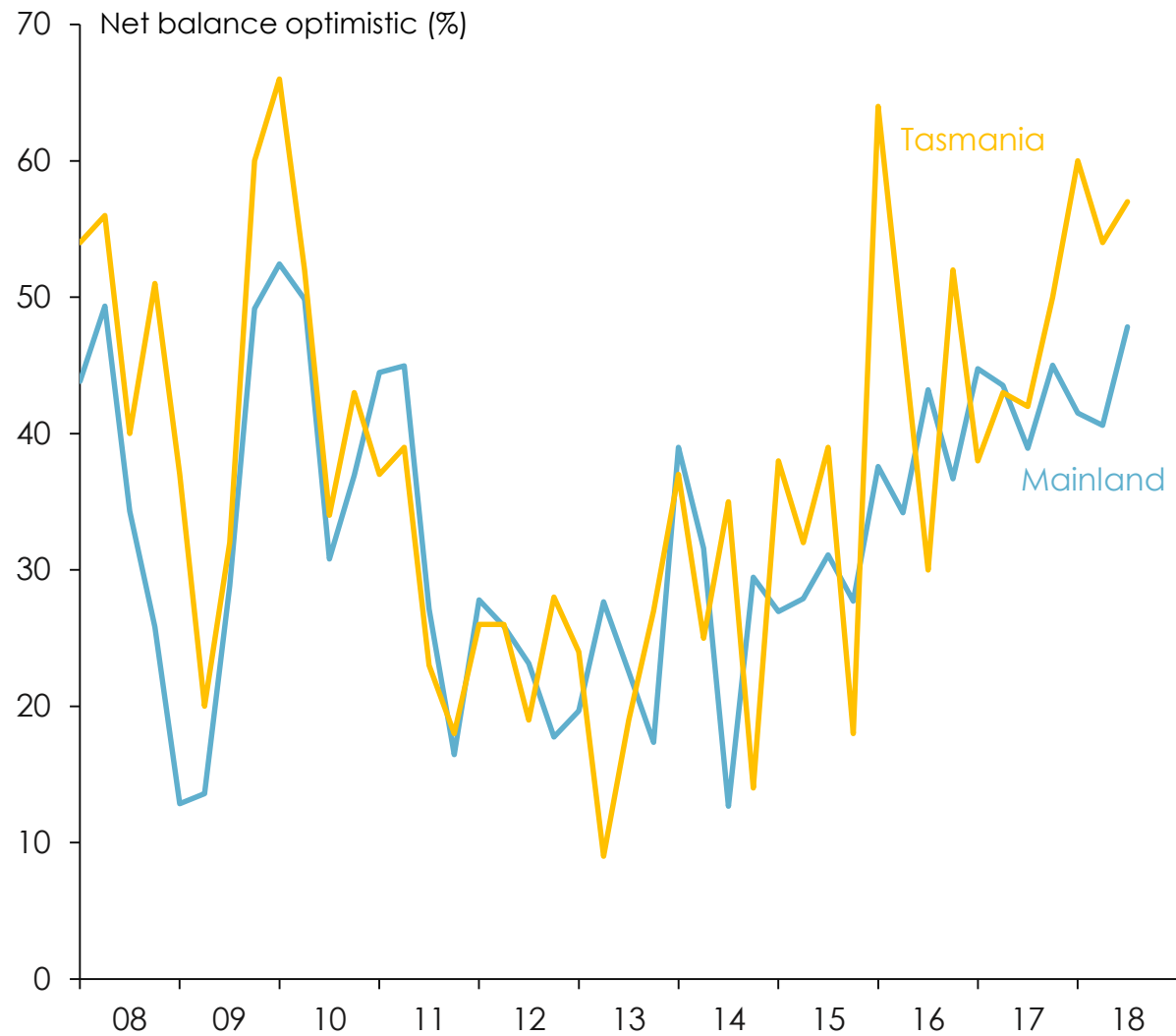


Residential construction work done

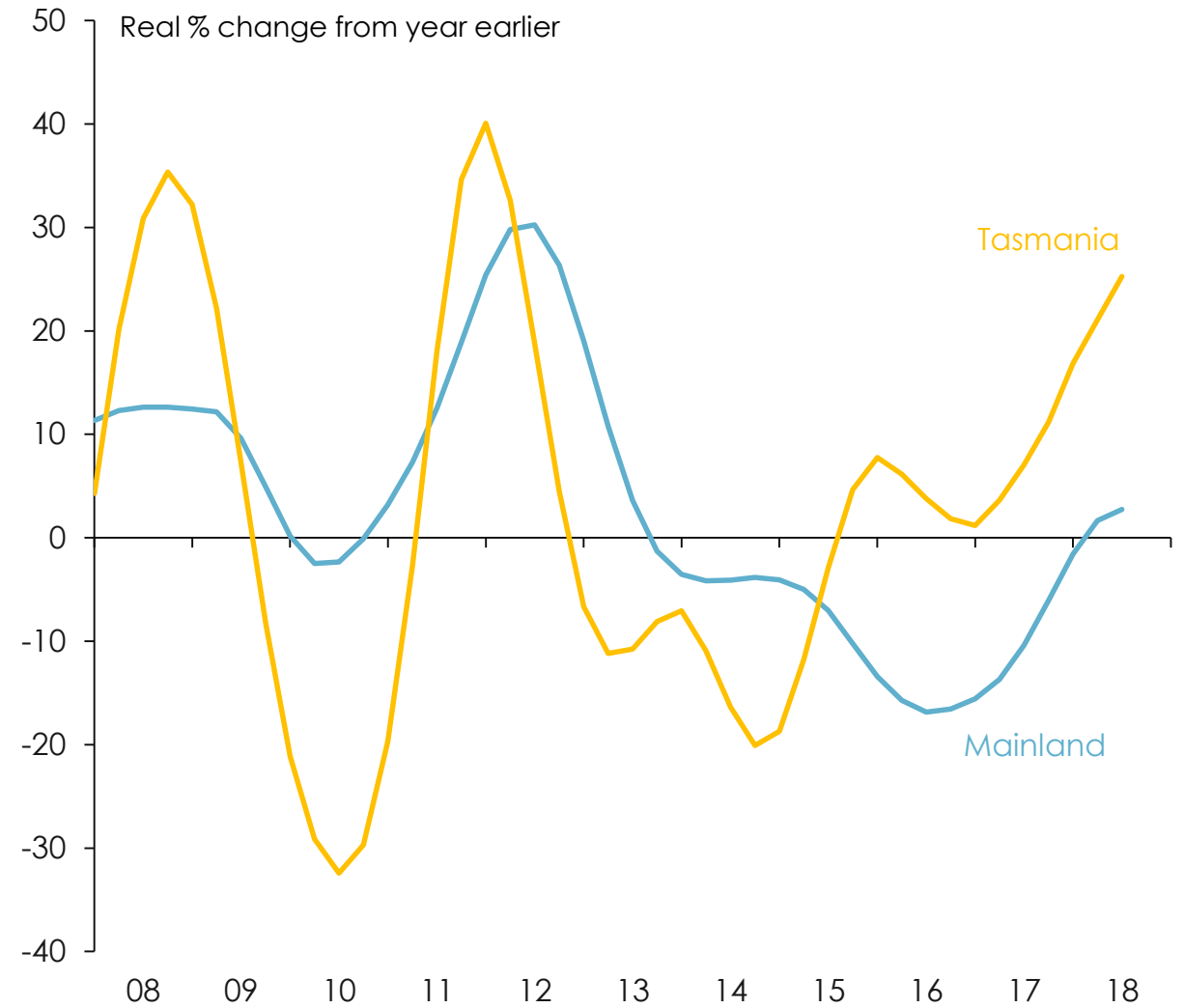


Tasmanian business confidence is at a high level – and that is underpinning strong growth in business investment

SME business confidence

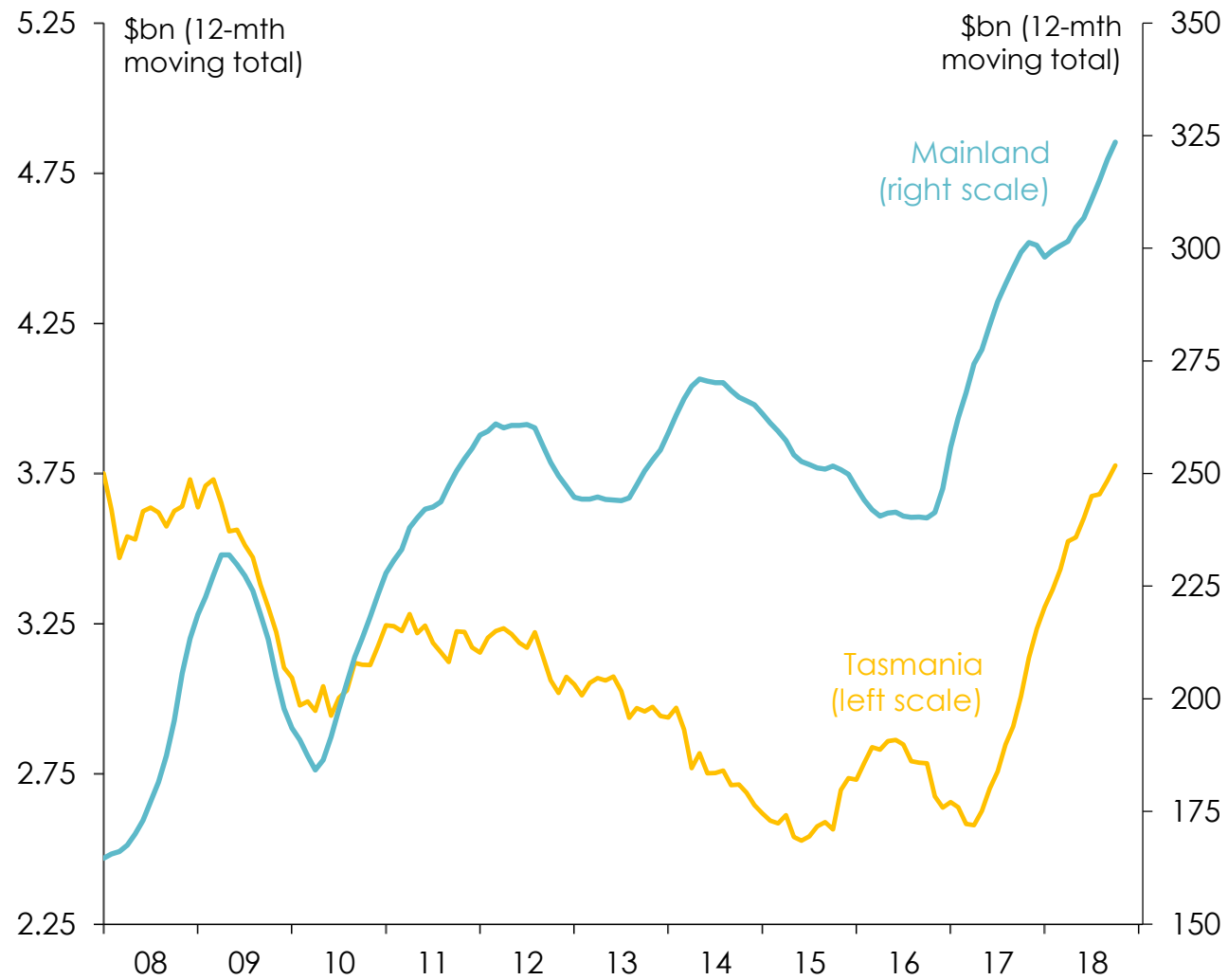


Business investment

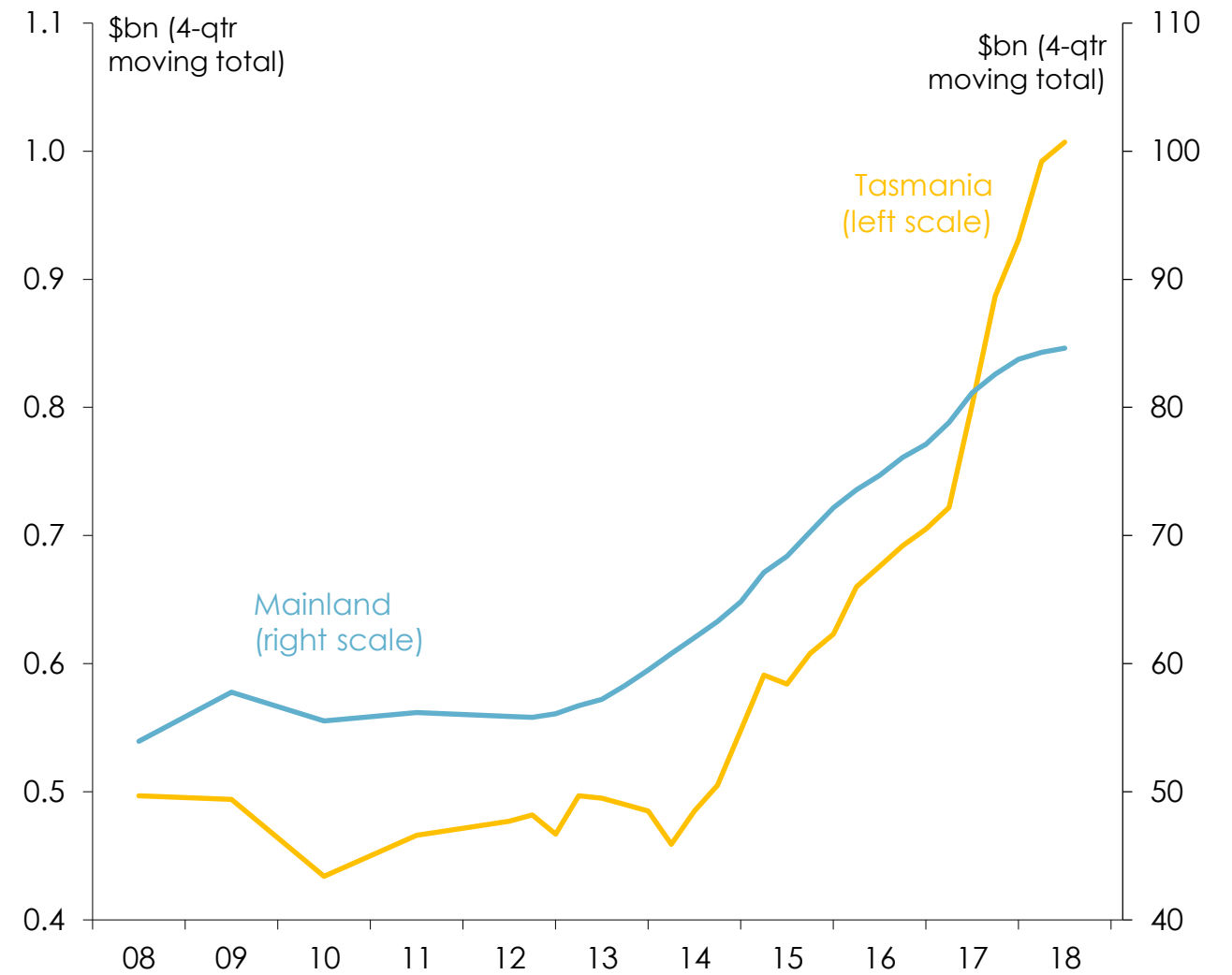


Tasmania's exports have picked up strongly, even though there was no 'mining boom' here – and services exports are booming

Exports of goods

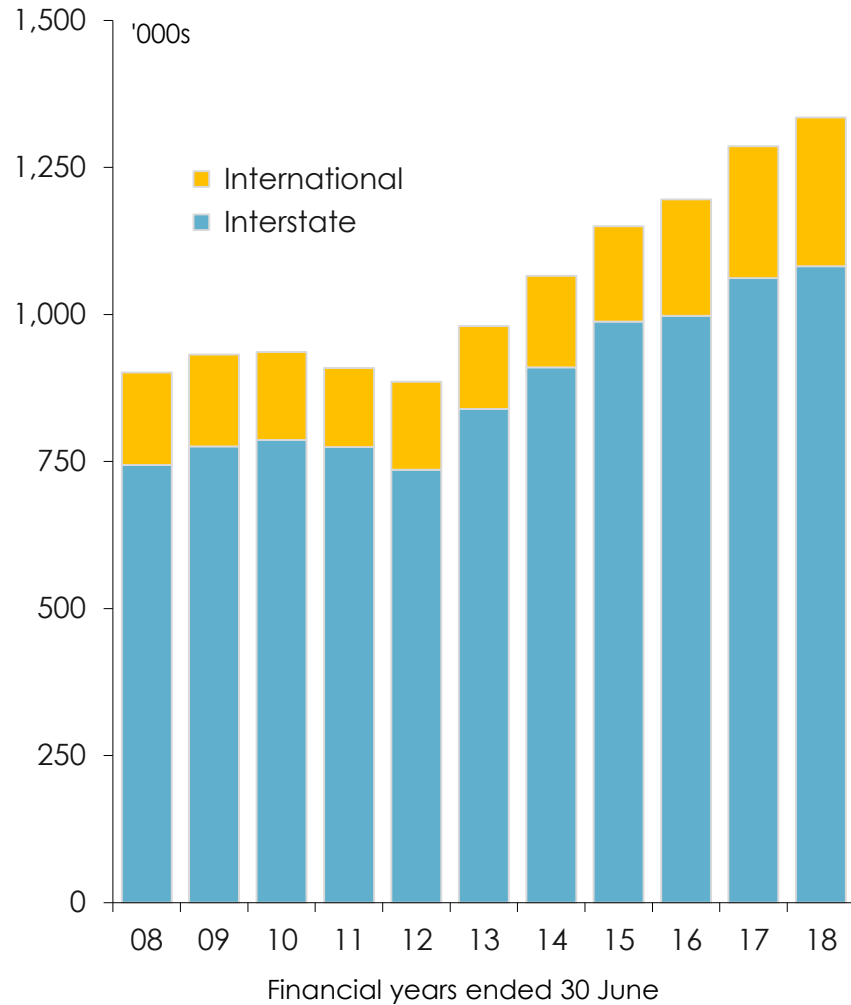


Exports of services

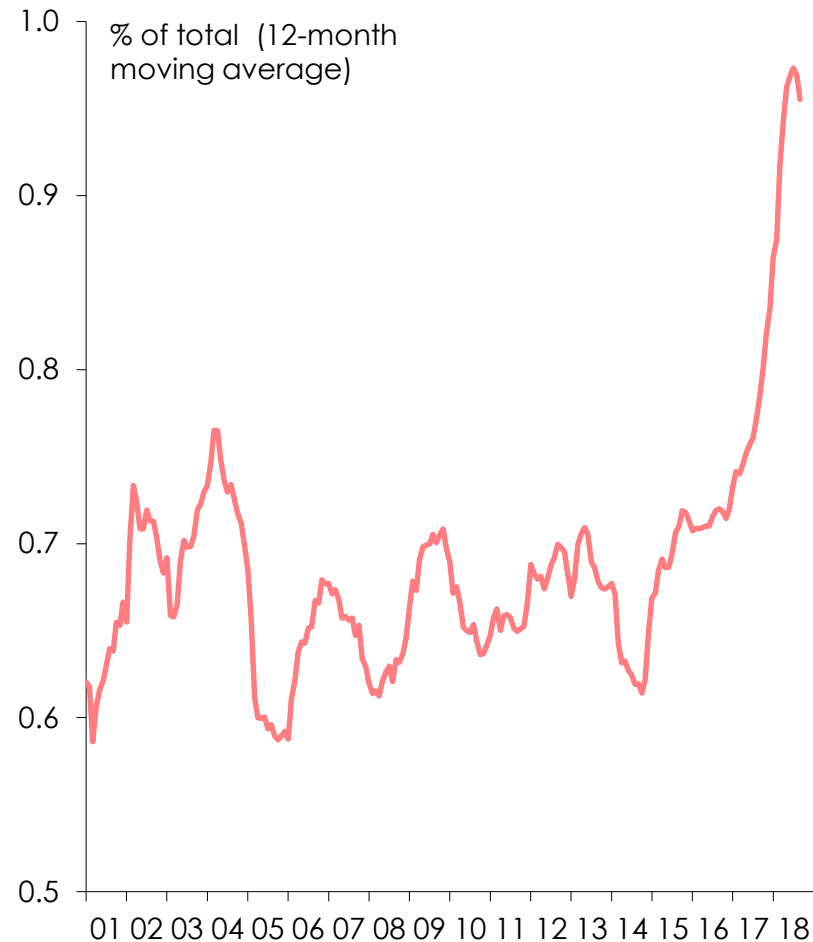


Tourism is making a substantial contribution to the improvement in Tasmania's economic conditions

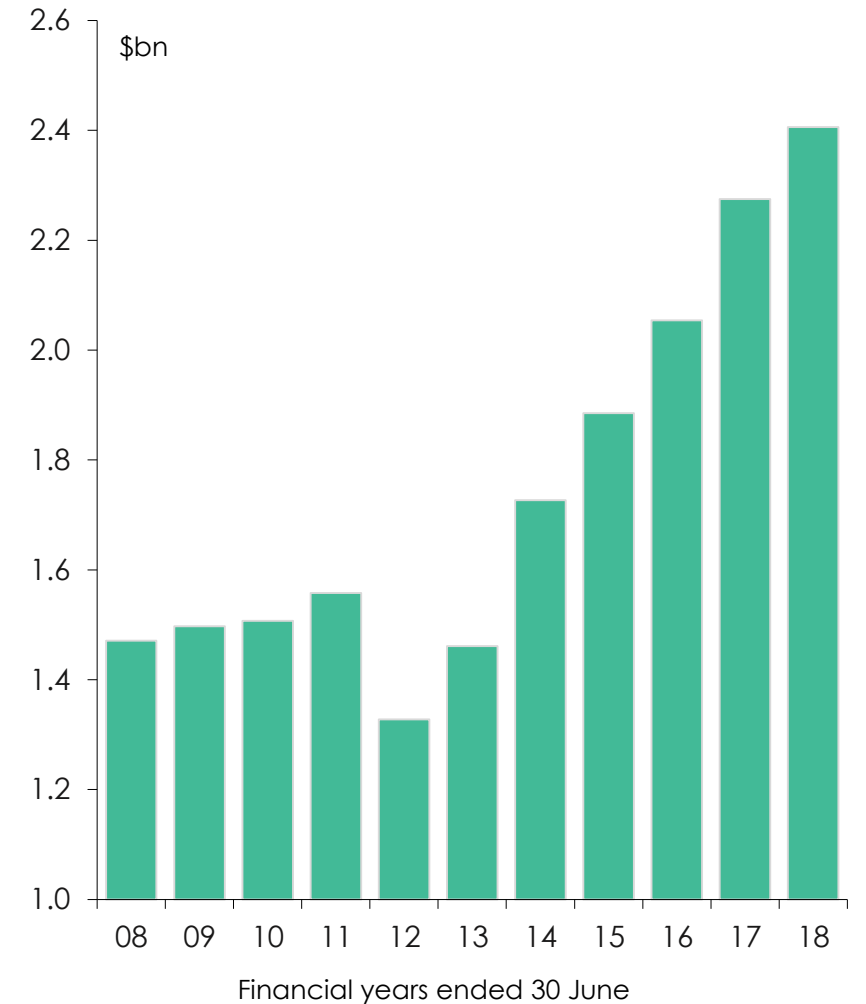
Interstate and international visitors to Tasmania



Tasmania's share of visitors to Australia



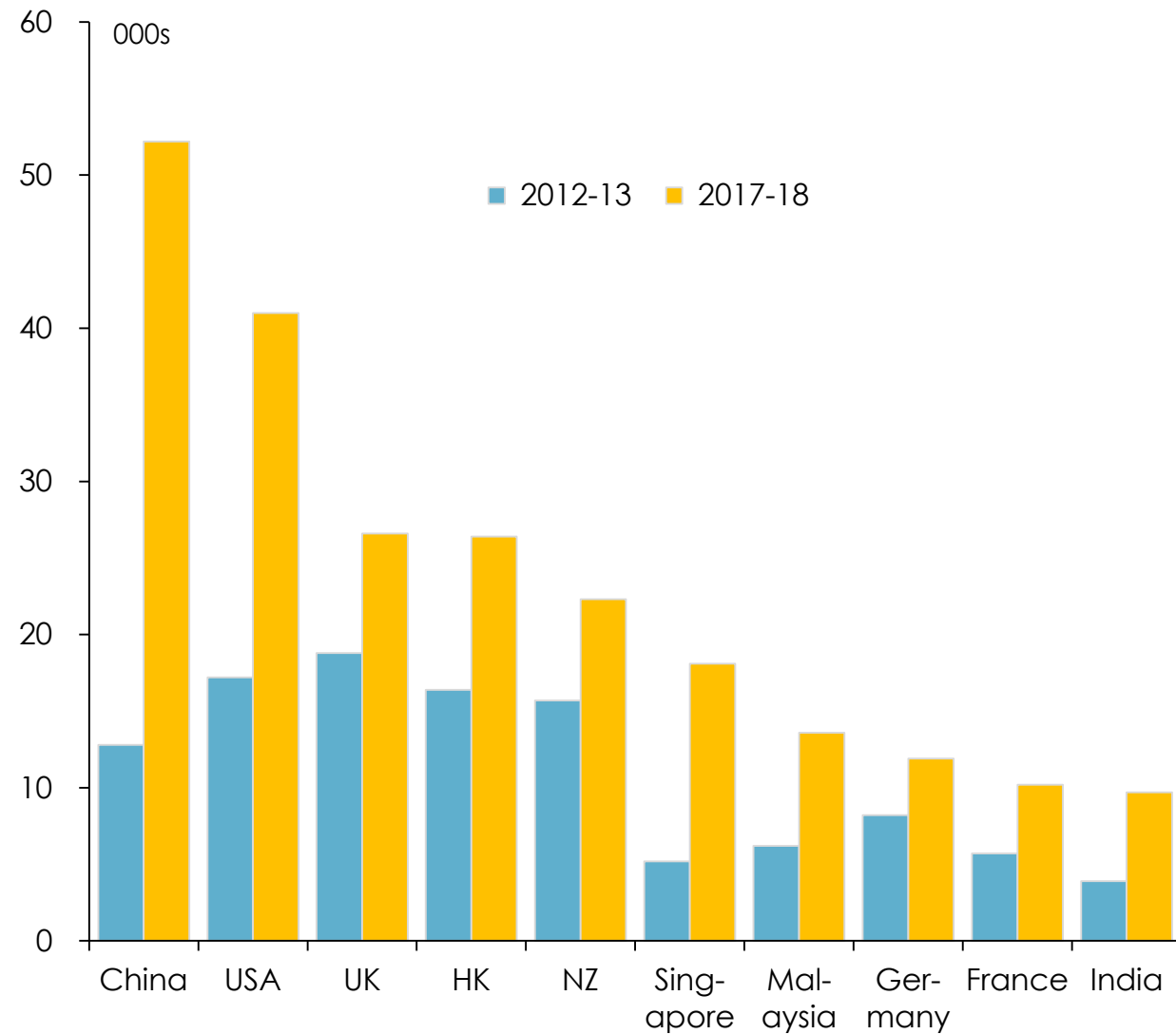
Spending by visitors to Tasmania



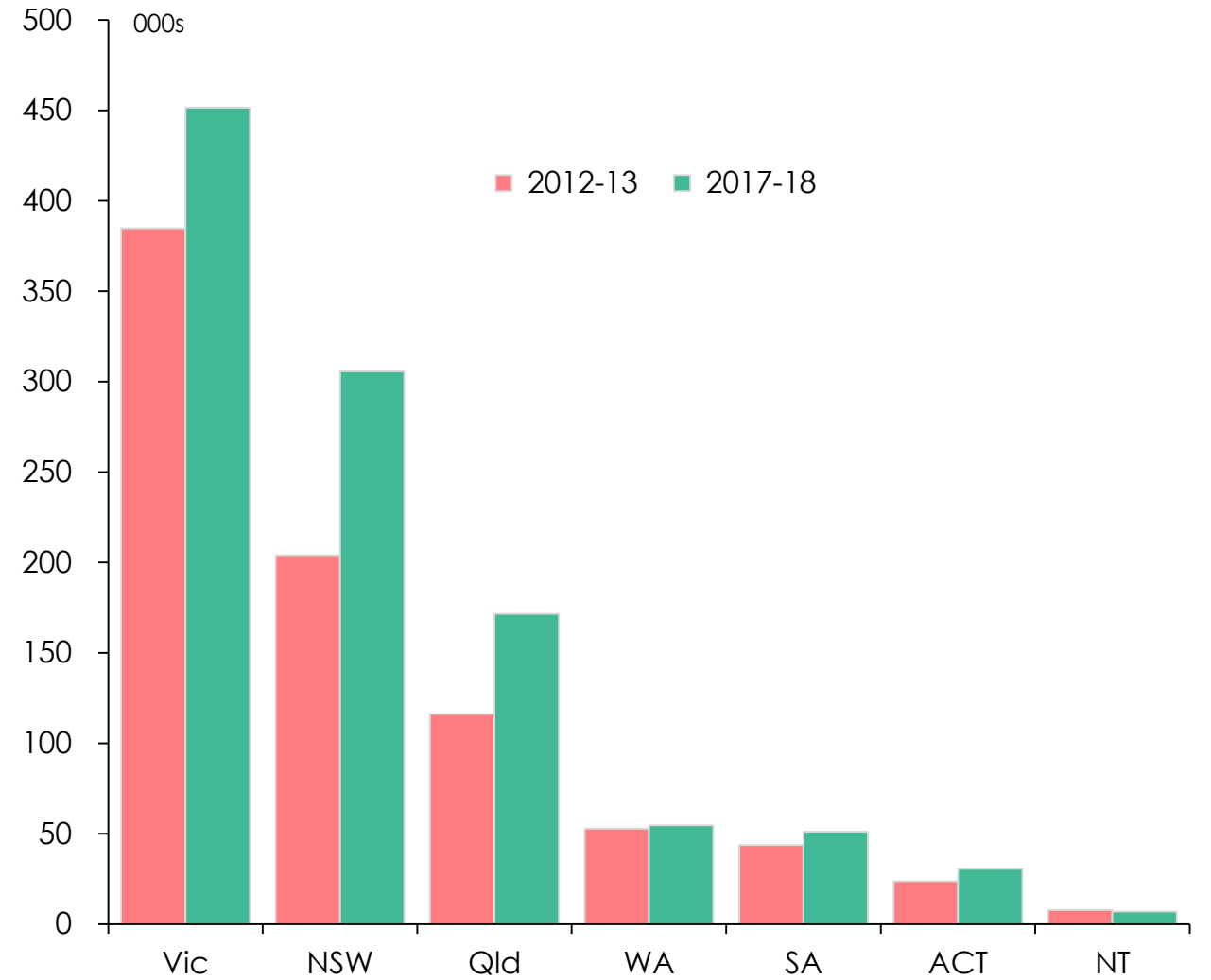
Sources: Tourism Tasmania ; ABS.

There's been a massive increase in tourism from China, other Asian countries and the US – and from NSW and Queensland

International visitor by country of origin



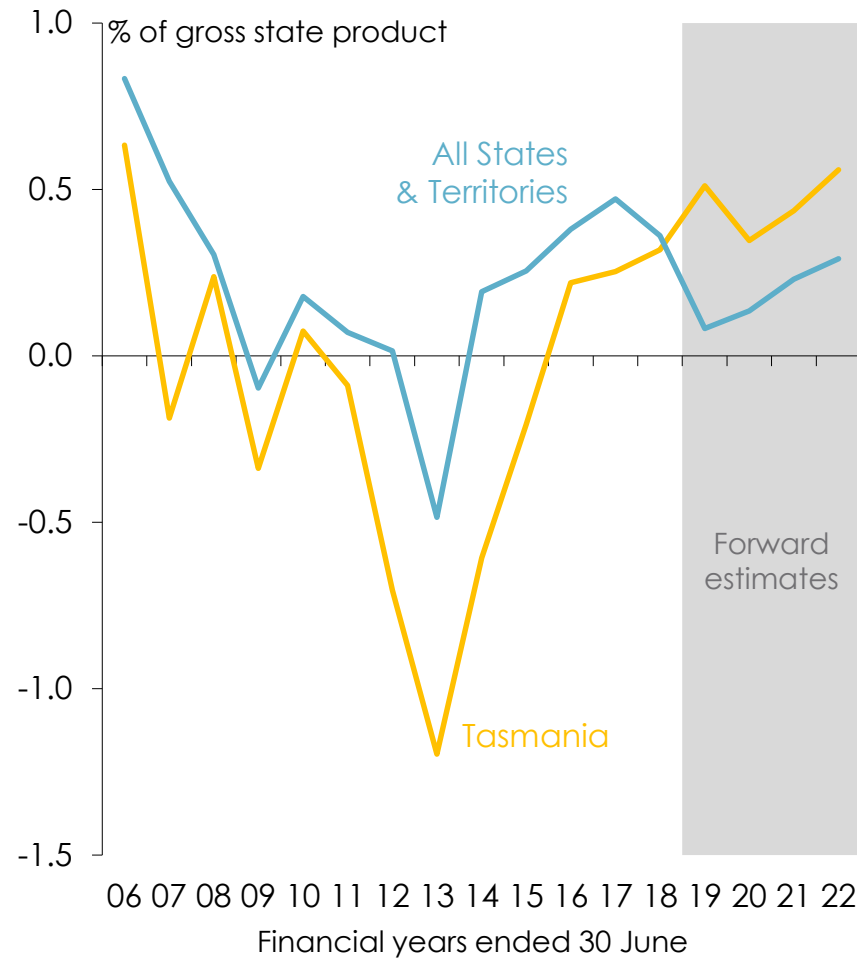
Mainland visitors by state/territory of origin



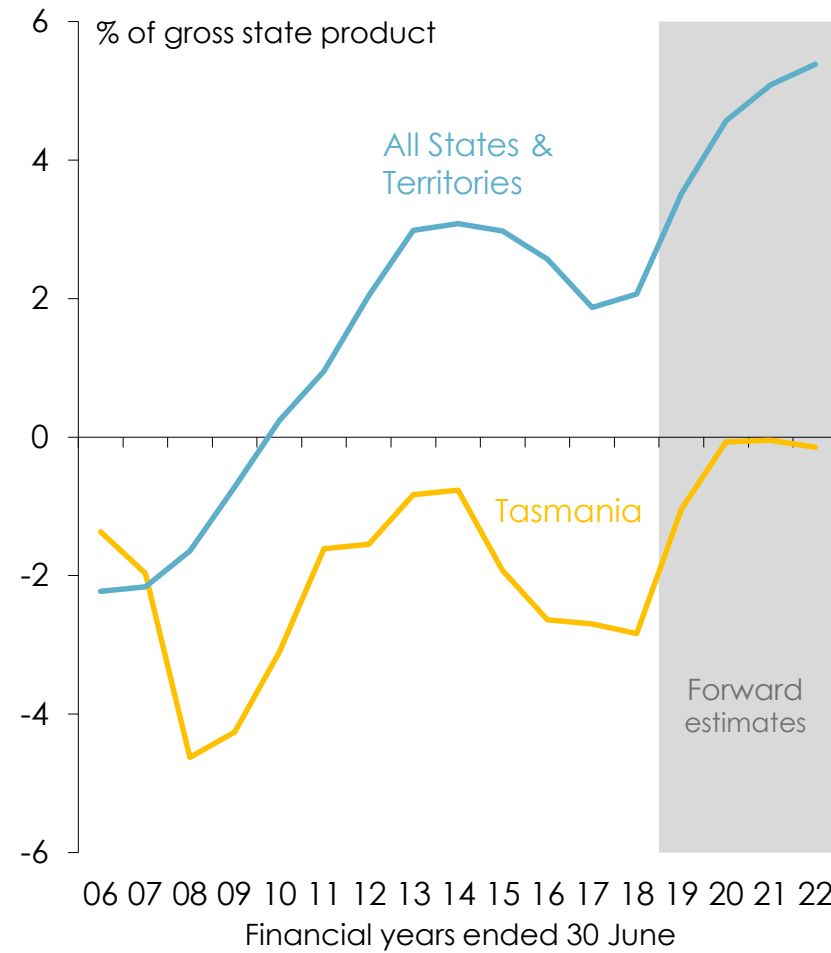
Source: Tourism Tasmania.

Tasmania's public finances are now (in most respects) in a stronger condition than those of other states and territories

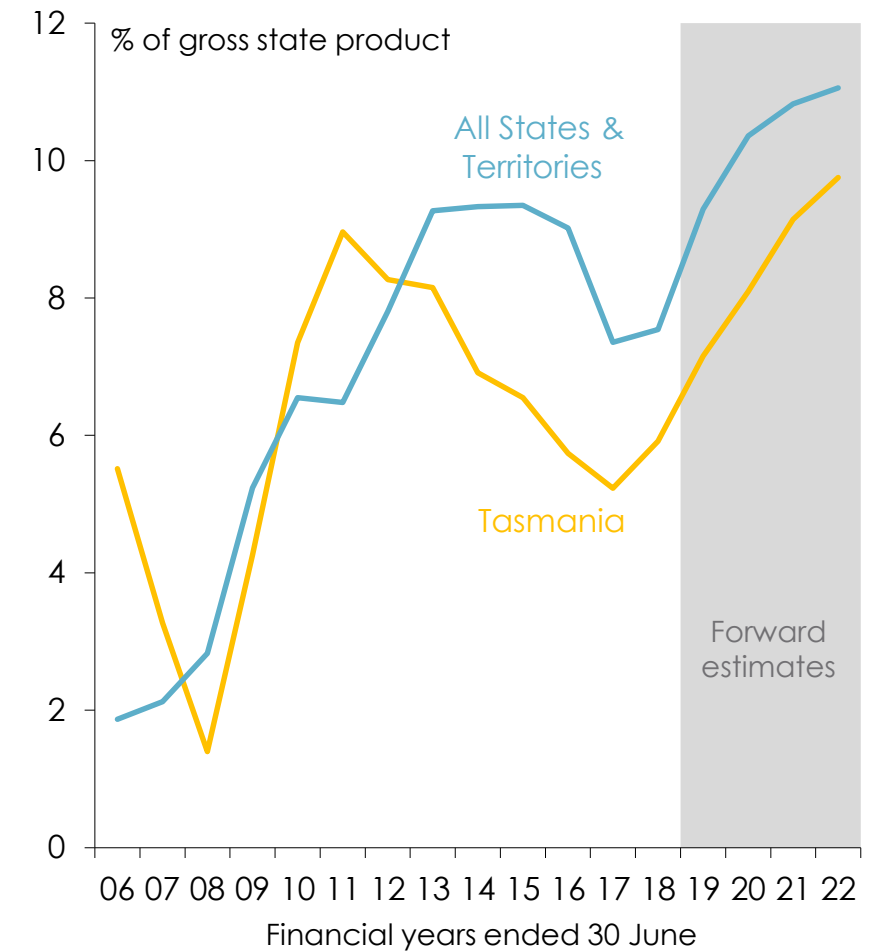
'General government' net operating balance



'General government' net debt



Total public non-financial sector net debt



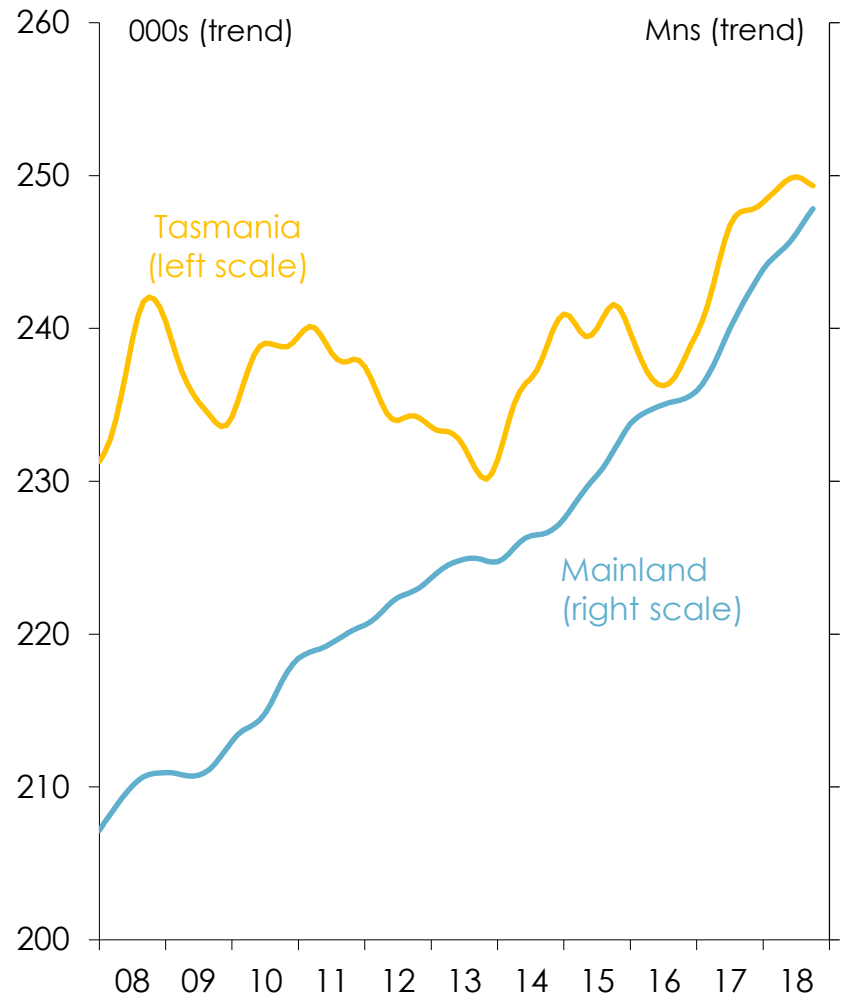
Note: 'General government' refers to 'core' government departments and agencies, funded primarily by tax revenues and grants, rather than sales revenue.

'Net operating balance' is the difference between 'operating' revenue and expenses, and in particular excludes capital expenditures.

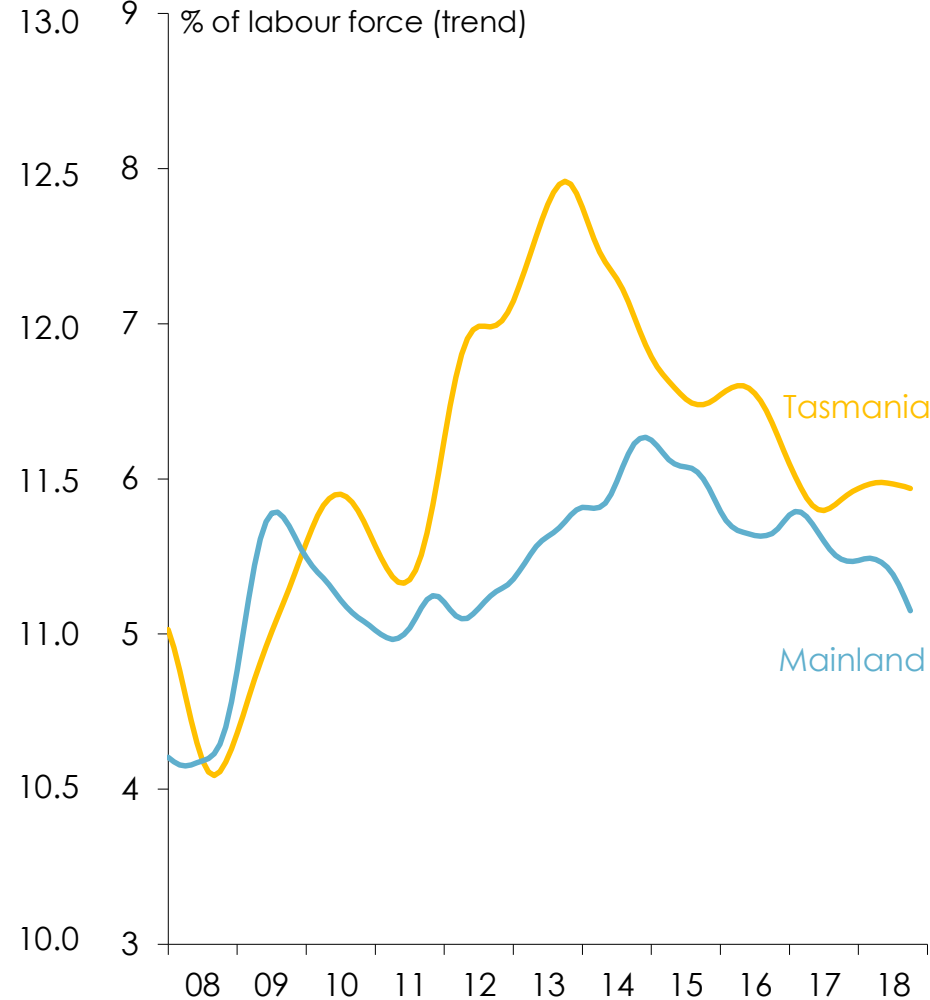
Sources: State and Territory Government Budget Papers for 2018-19; ABS; Corinna Economic Advisory.

Employment has been slower to pick up – unemployment remains above the national average, but it's no longer the highest in Australia

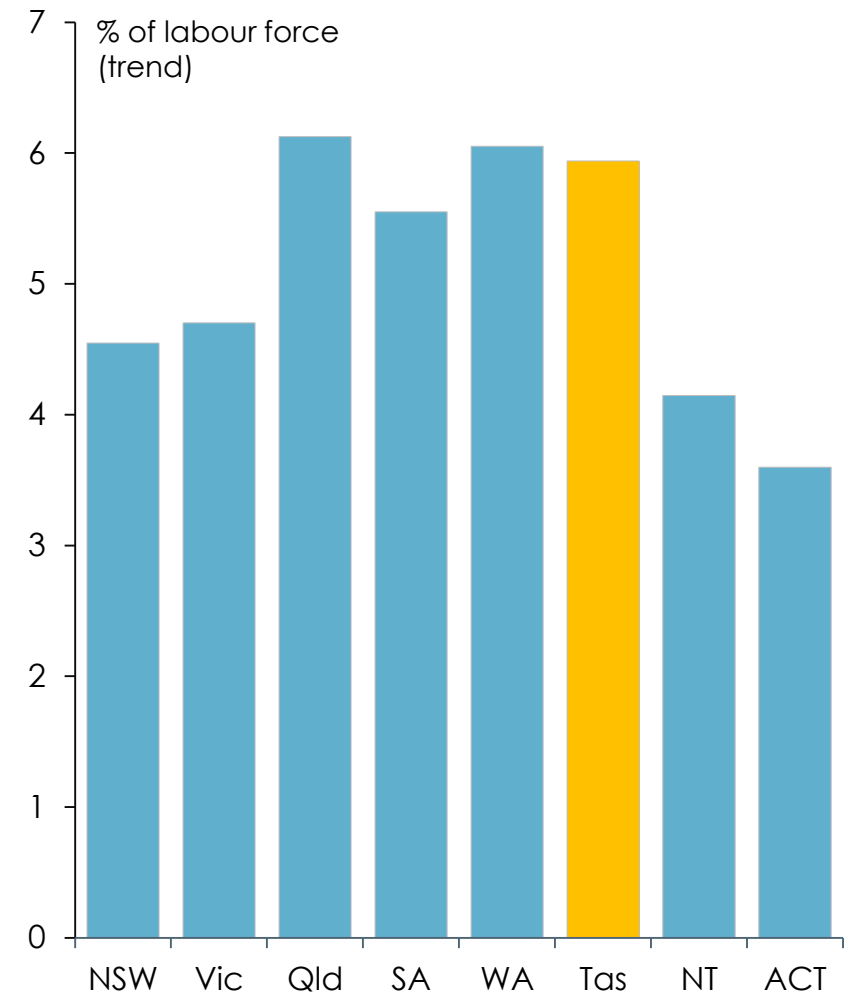
Employment



Unemployment rate



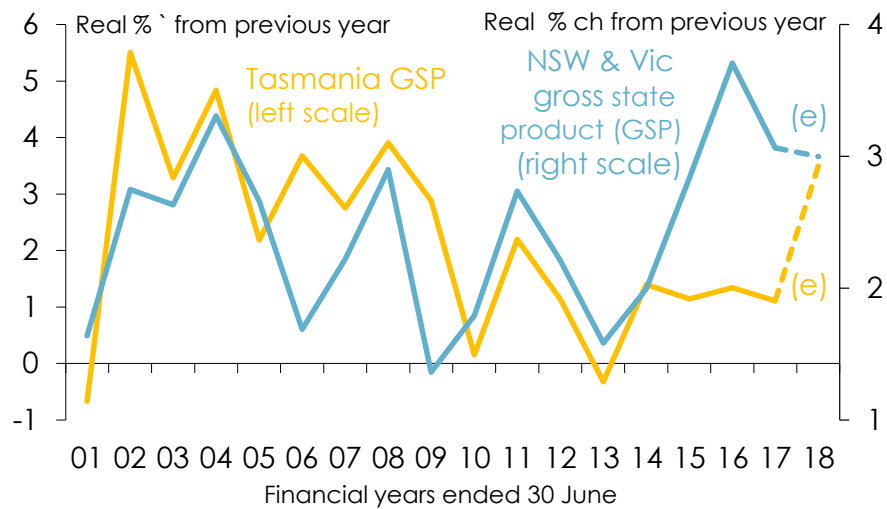
Unemployment, States and Territories, September 2018



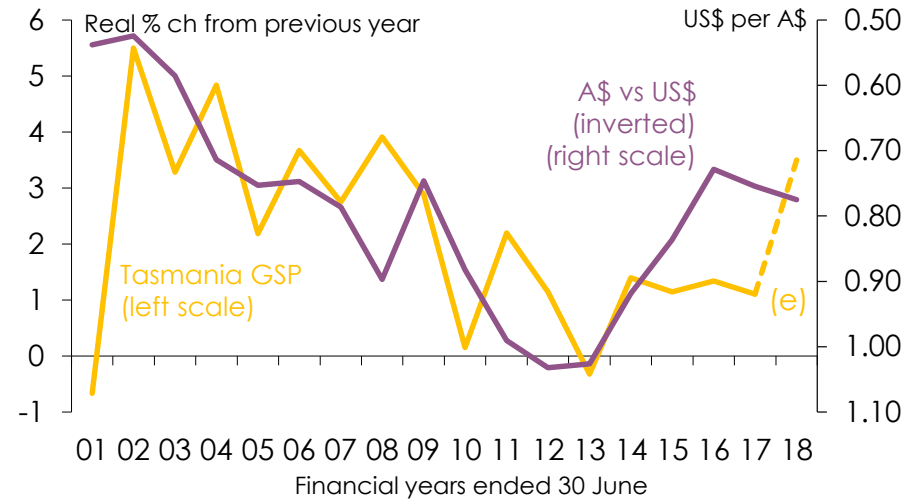
Source: ABS.

The improvement in Tasmania's economic performance largely reflects fortuitous external factors – but the State Gov't can also claim some credit

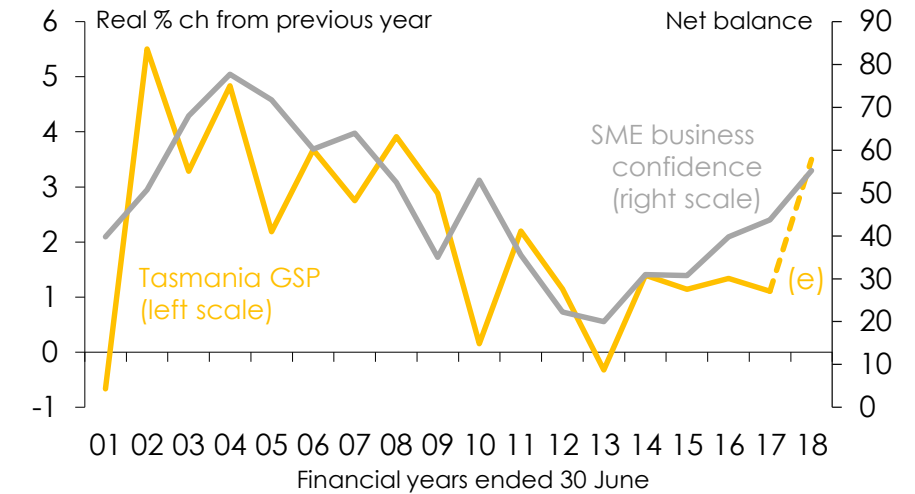
Pick-up in NSW & Victoria



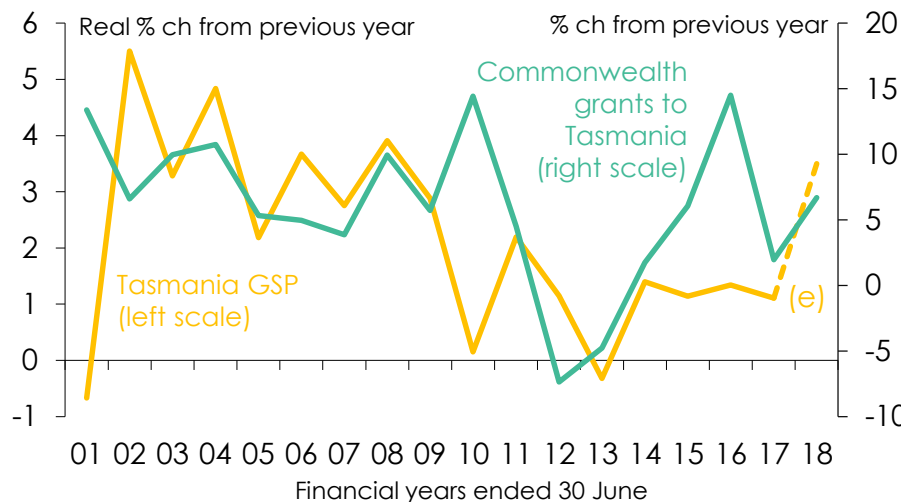
A more competitive A\$



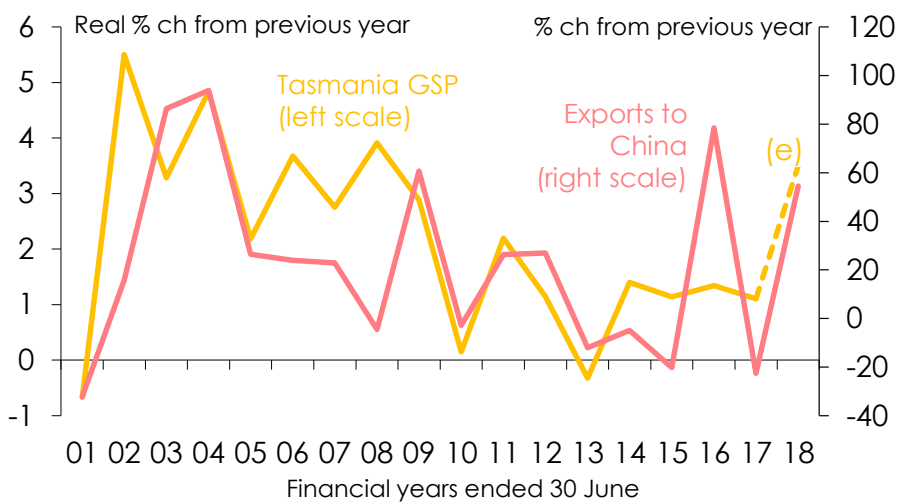
A lift in business confidence ...



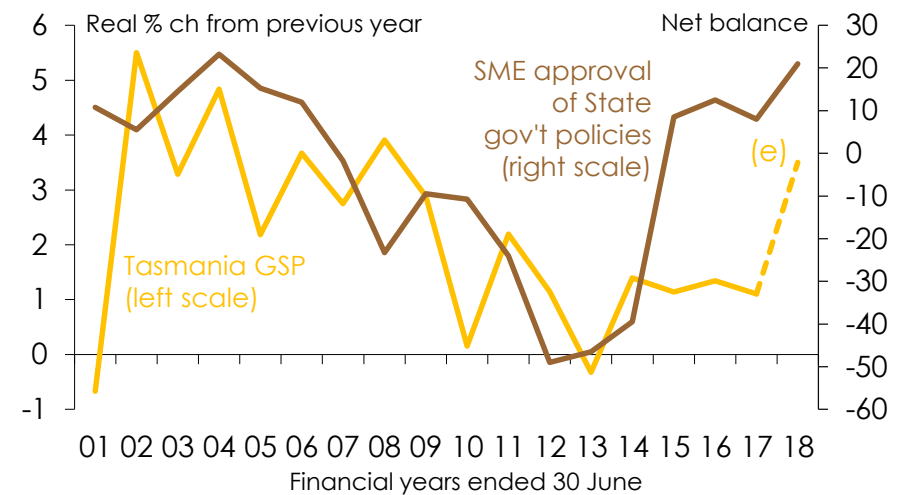
Flow of federal money



Exports to China



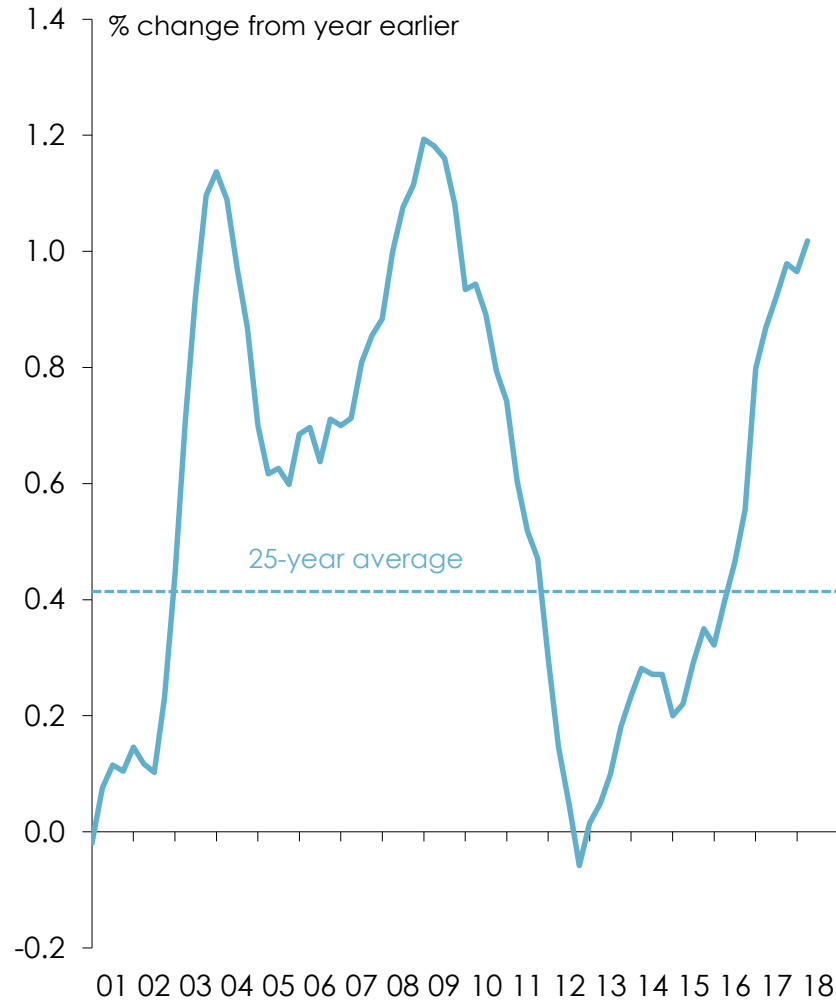
... following the 2014 election



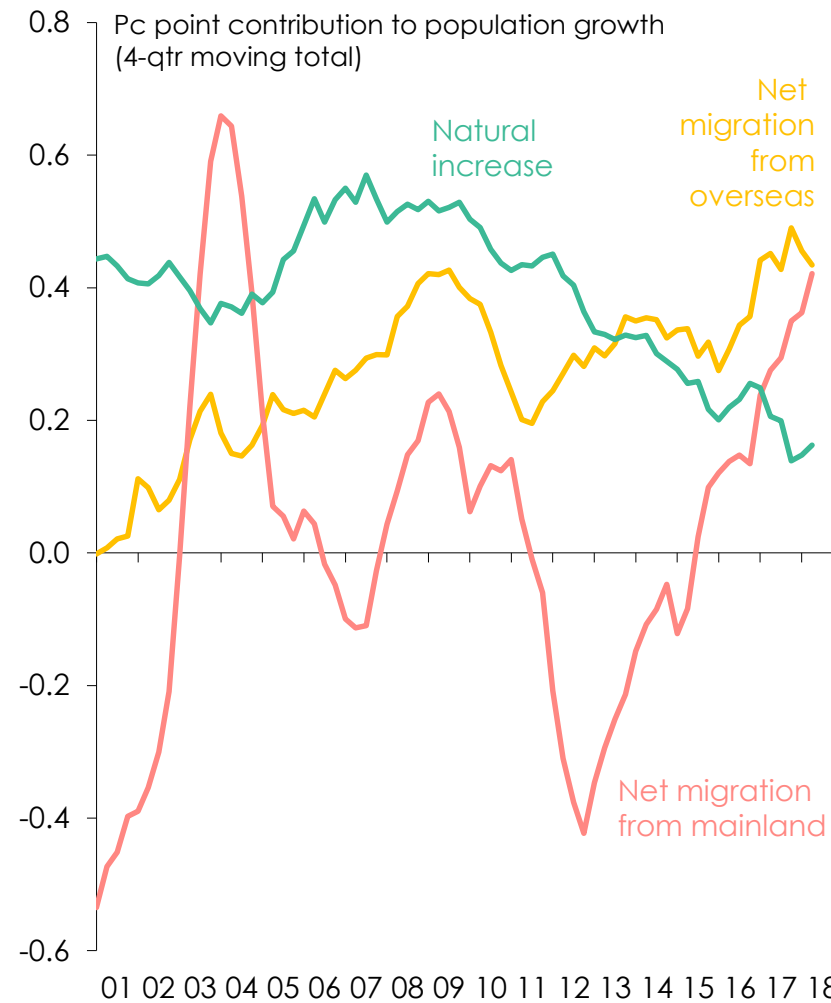
Note: Commonwealth grants excludes payment of \$740mn in 2016-17 as part of transfer of Mersey Community Hospital back to Tasmania.
Sources: ABS; Tasmanian Treasury ; Commonwealth Budget Papers ; Thomson Reuters Datastream ; Sensis Business Survey.

One important consequence of all this is that more people want to move to Tasmania – so population is growing at its fastest rate in a decade

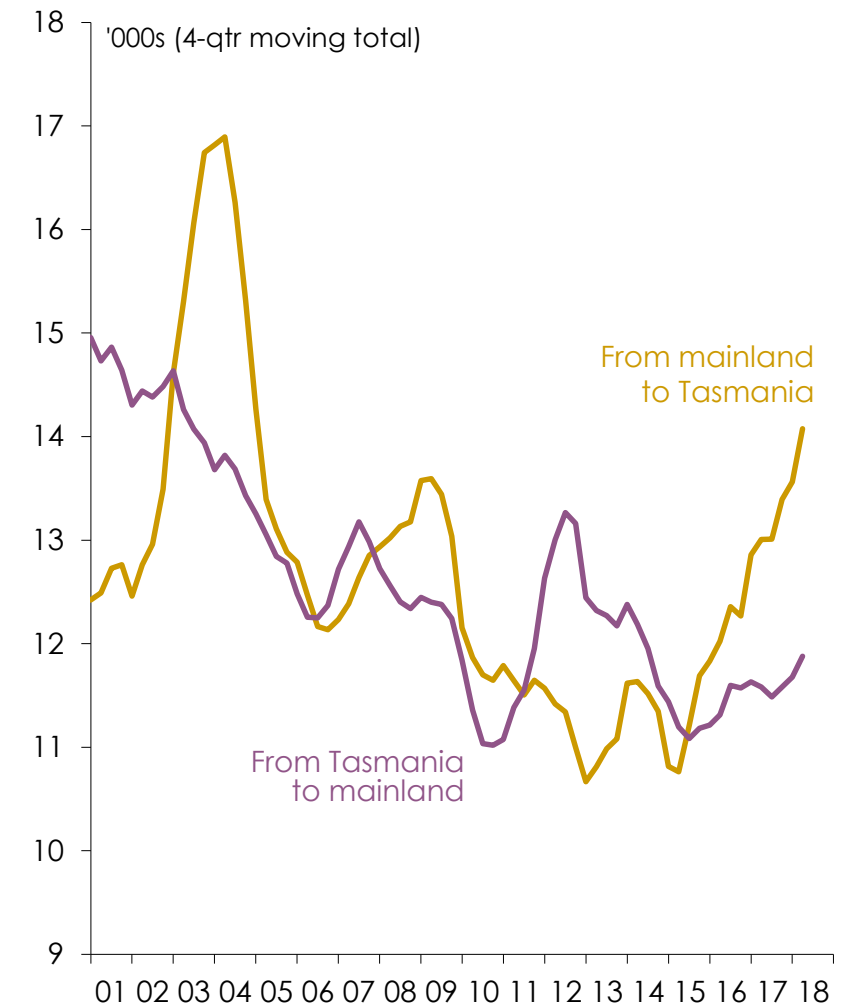
Population growth – Tasmania



Sources of Tasmanian population growth



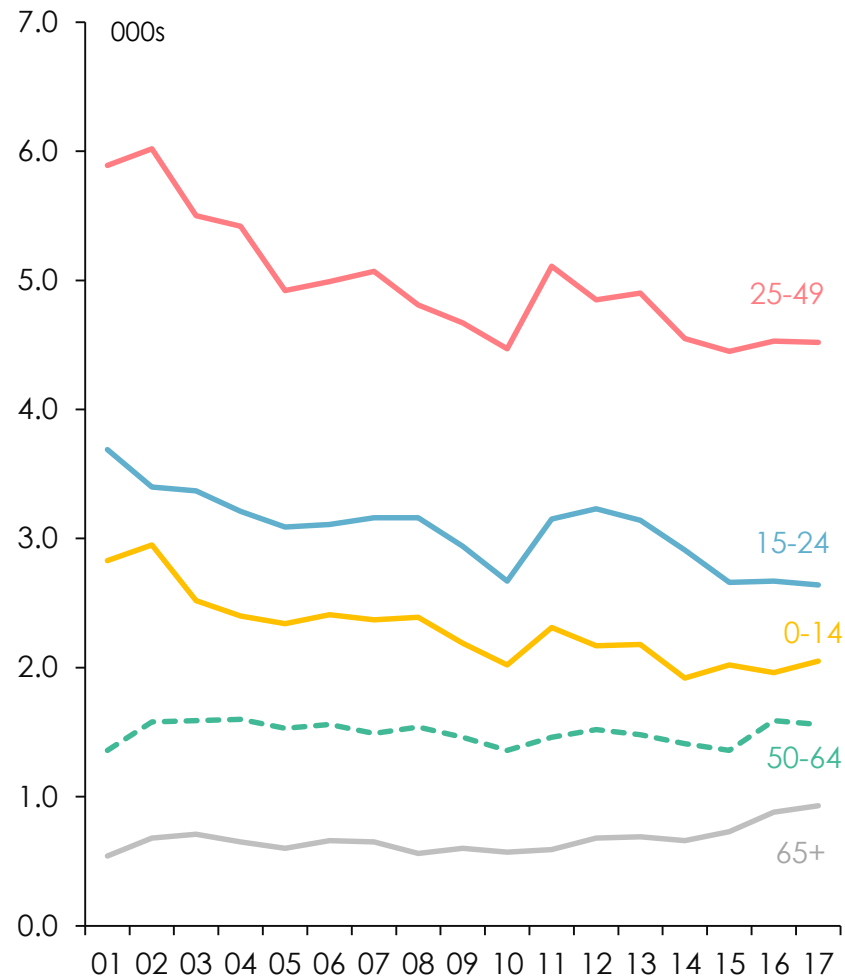
Migration between Tasmania & the mainland



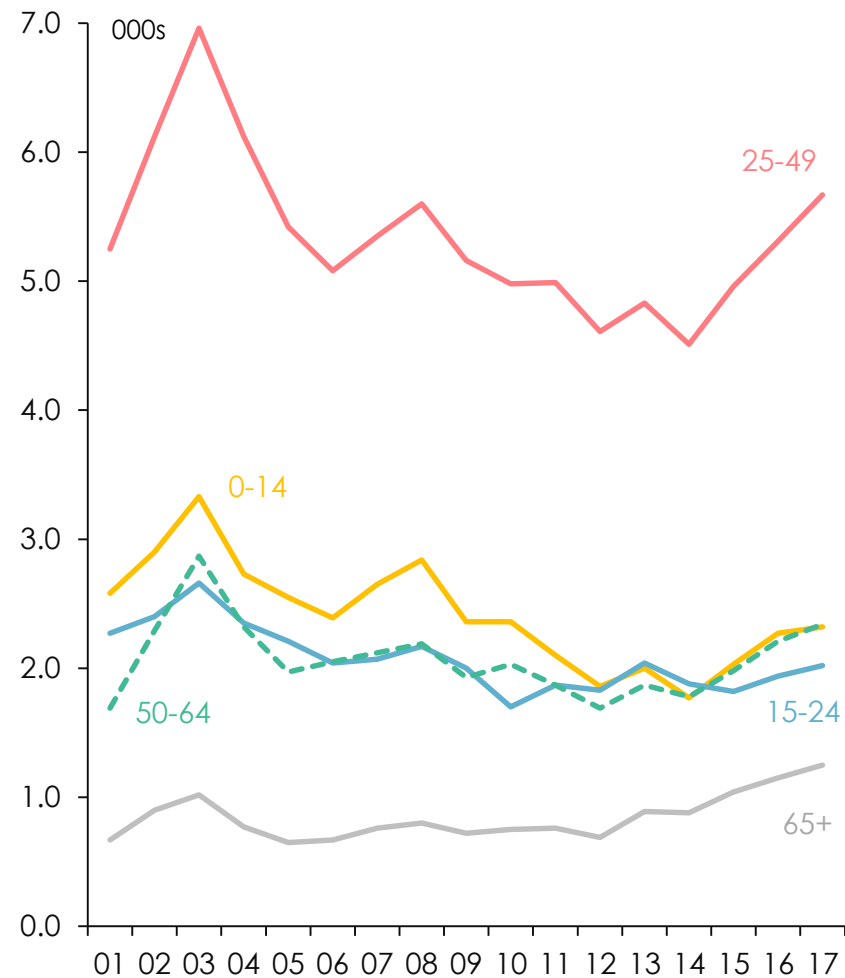
Source: ABS.

The age profile of Tasmanians moving to the mainland hasn't changed much – but the number of 25-50 year-olds moving here has picked up

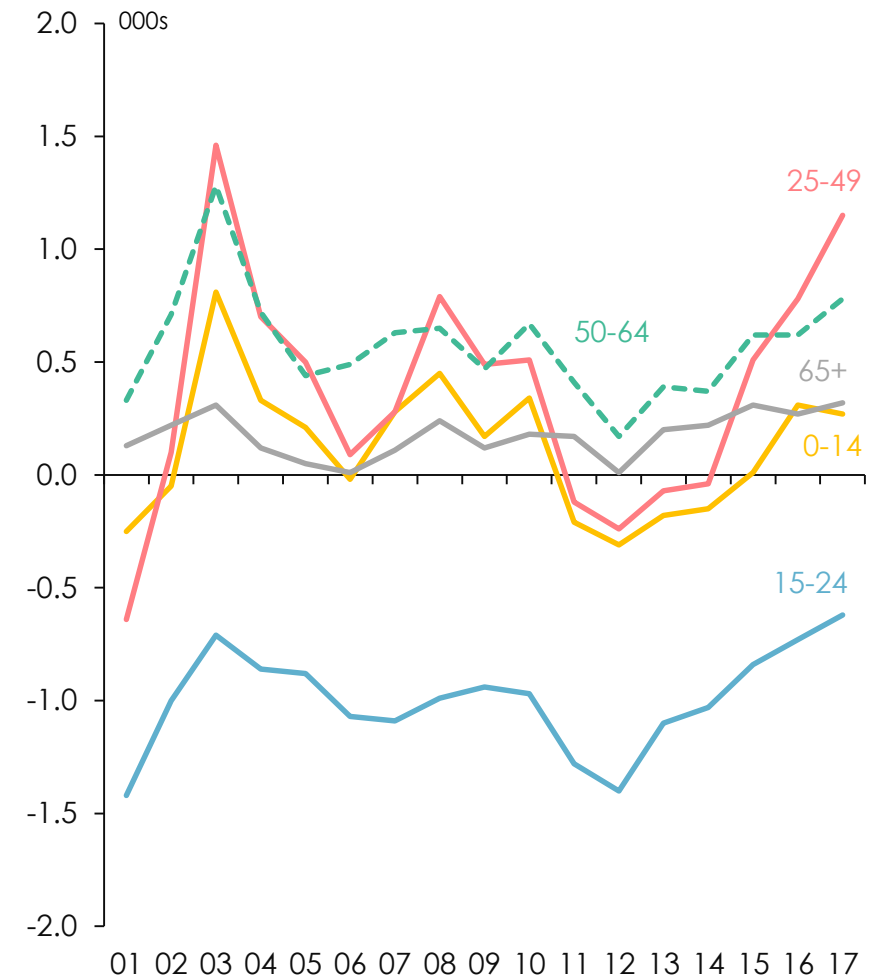
Tasmanians moving to the mainland, by age group



Mainlanders moving to Tasmania, by age group



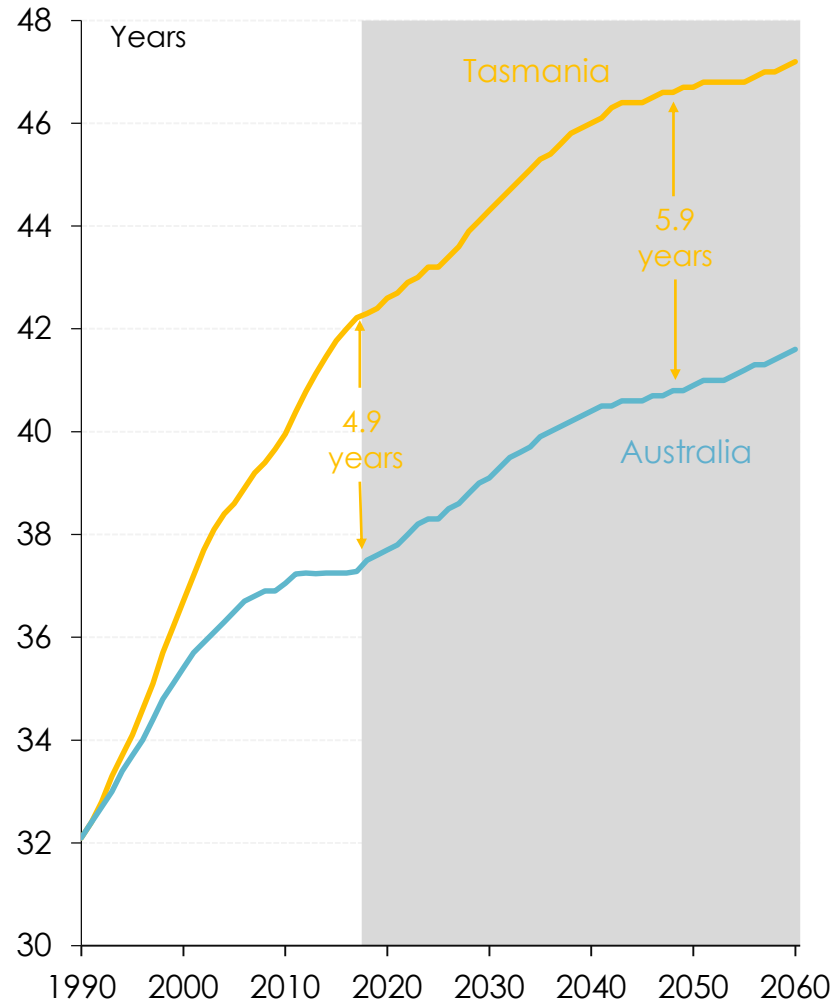
Net migration across Bass Strait, by age group



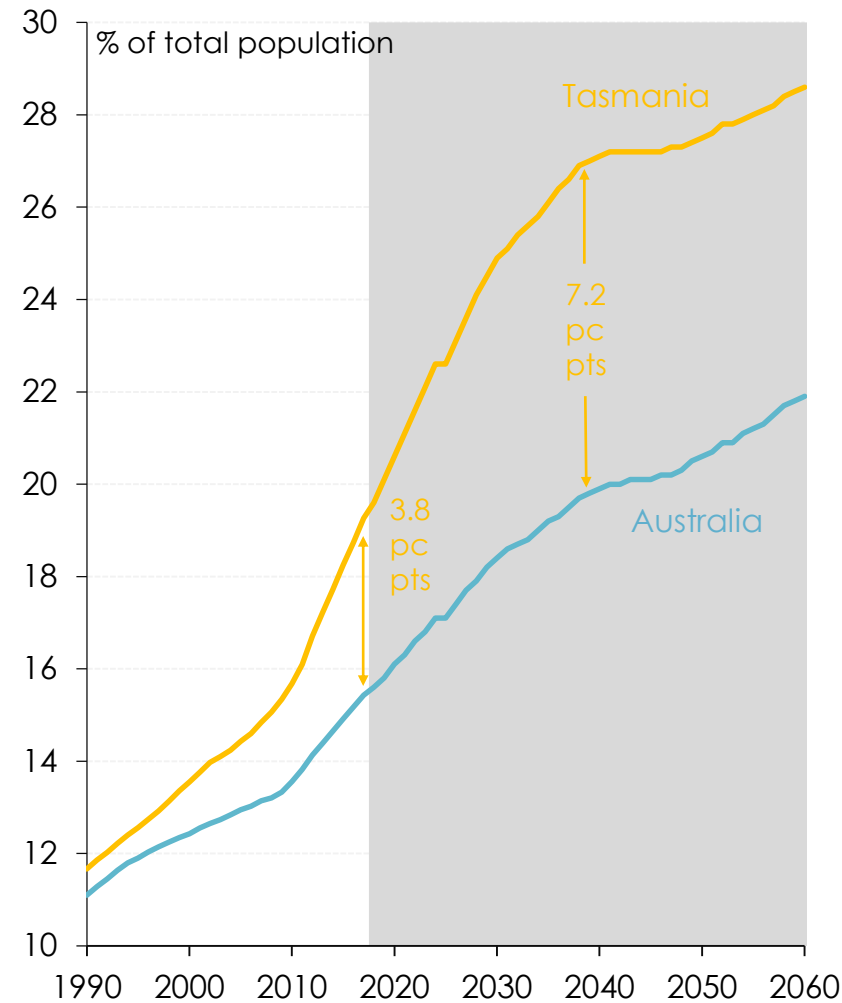
Source: ABS Stat-beta.

Difference in the age profile of people moving across Bass Strait has been the major reason for the more rapid ageing of Tasmania' population

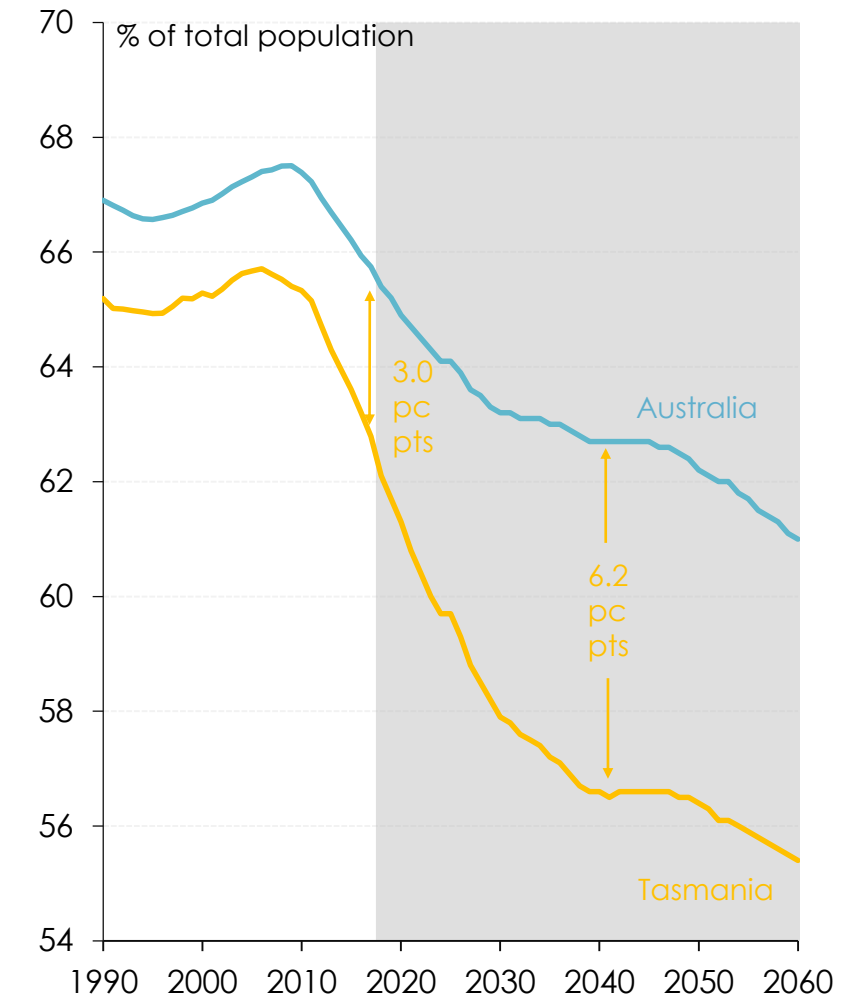
Median age



Proportion of population aged 65 and over



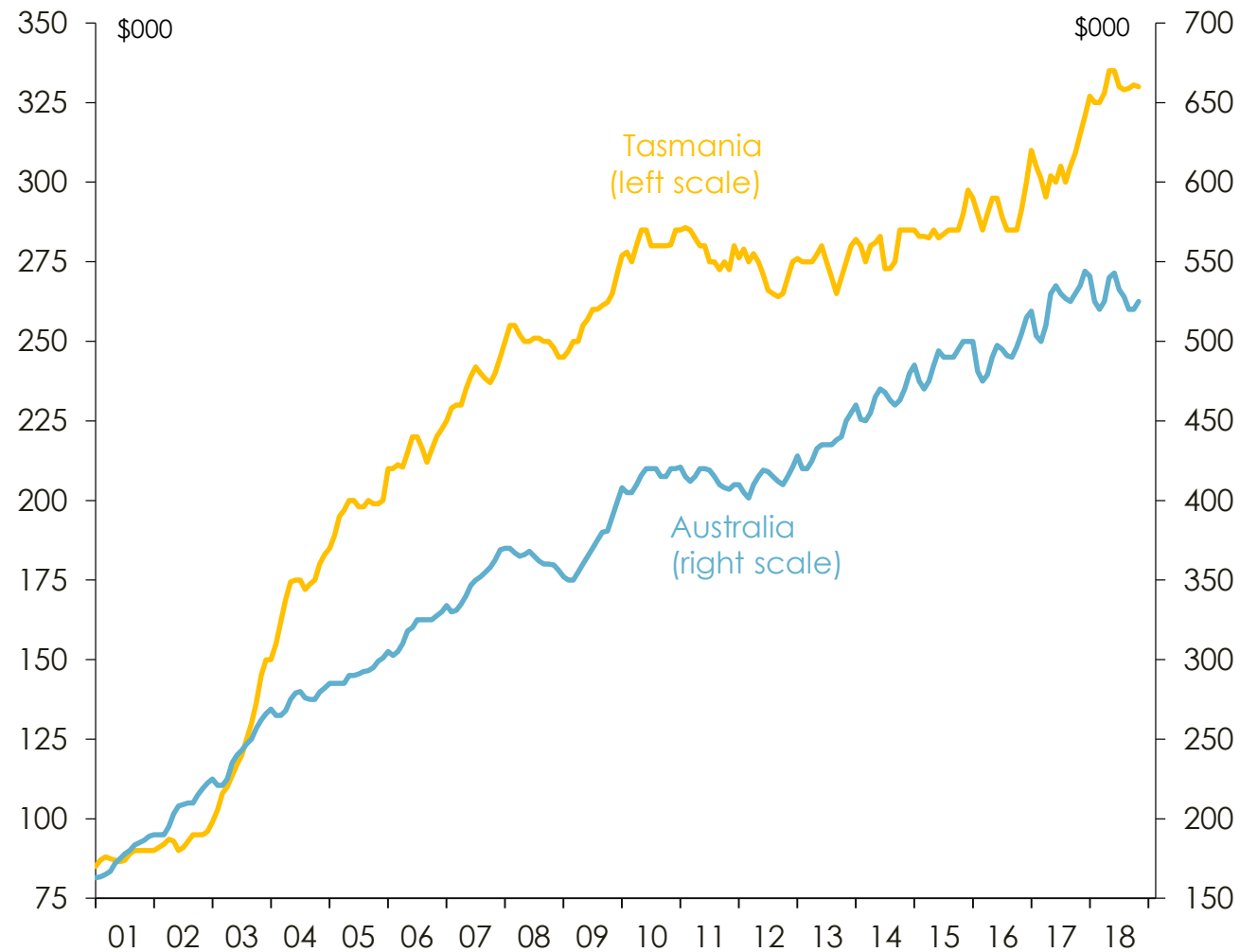
Proportion of population aged 15-64



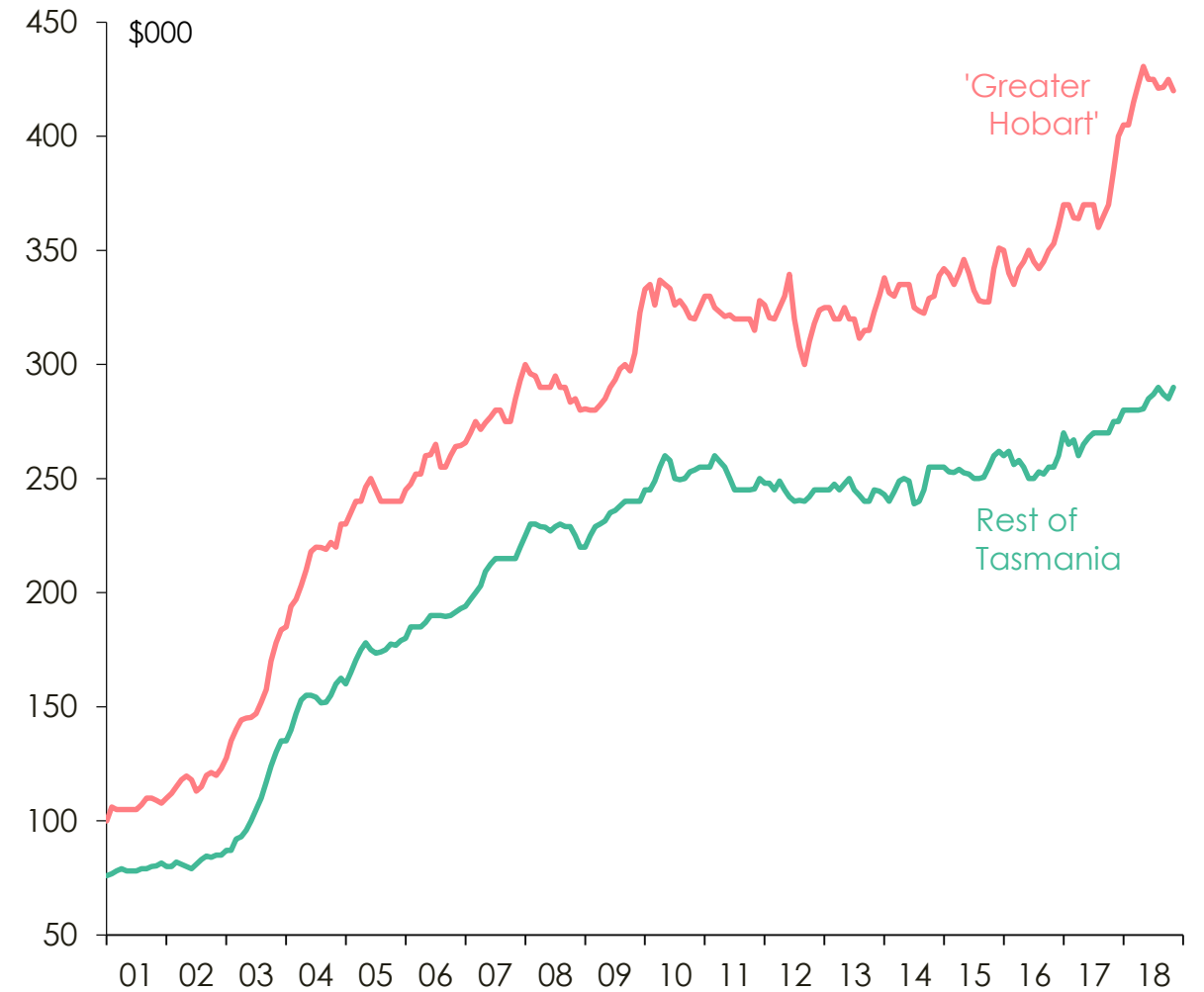
Sources: ABS, Australian Demographic Statistics (3101.0), June 2017 and Population Projections, Australia, 2012 to 2101 (3222.0). Note these projections were published in November 2013, after the 2011 Census. Post 2016 Census projections have not yet been published.

An improving economy, and increasing population growth, have underpinned Tasmanian property prices even as mainland prices often

Median sales prices – Tasmania vs Australia

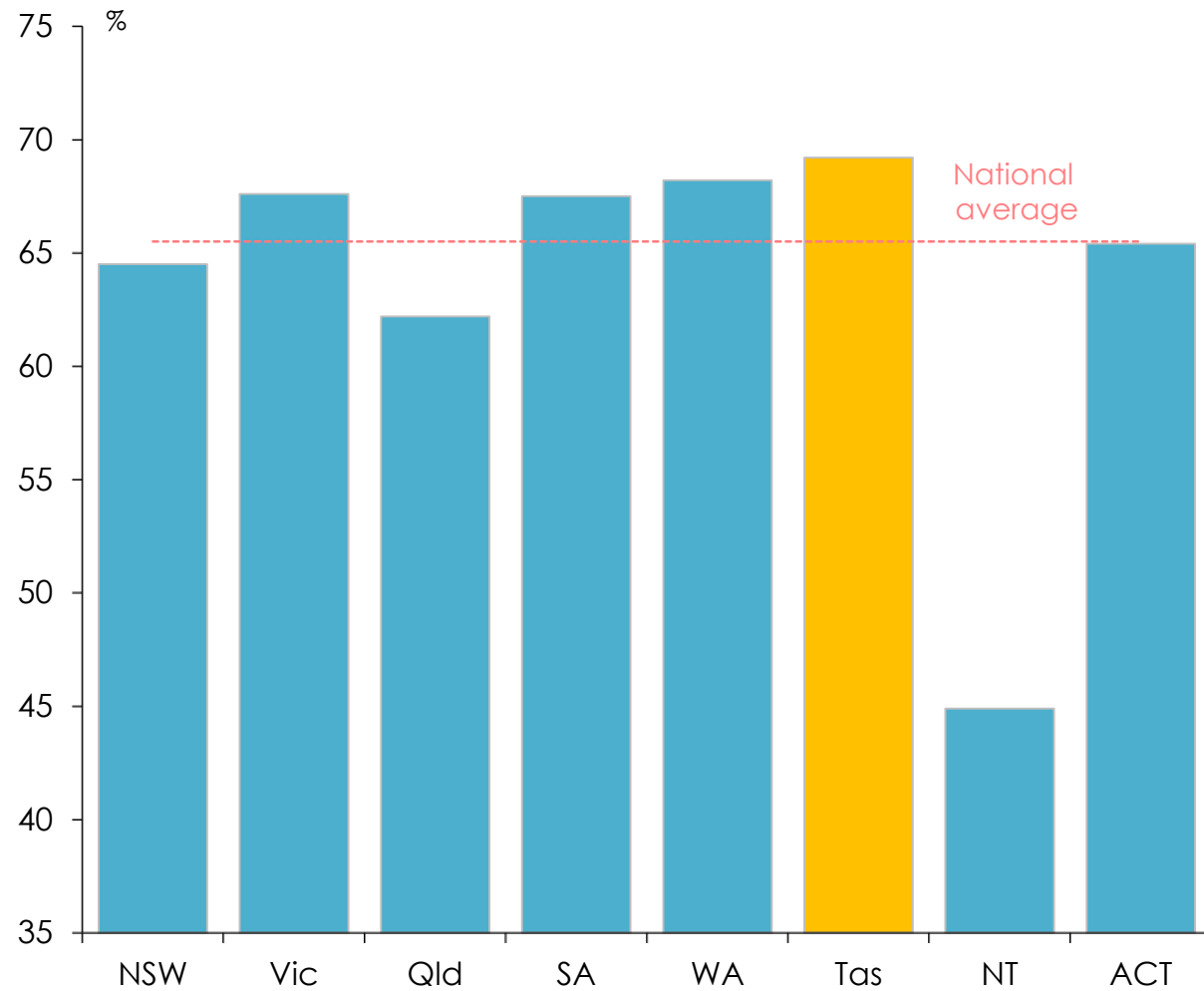


Median sales prices – Hobart vs rest of Tasmania

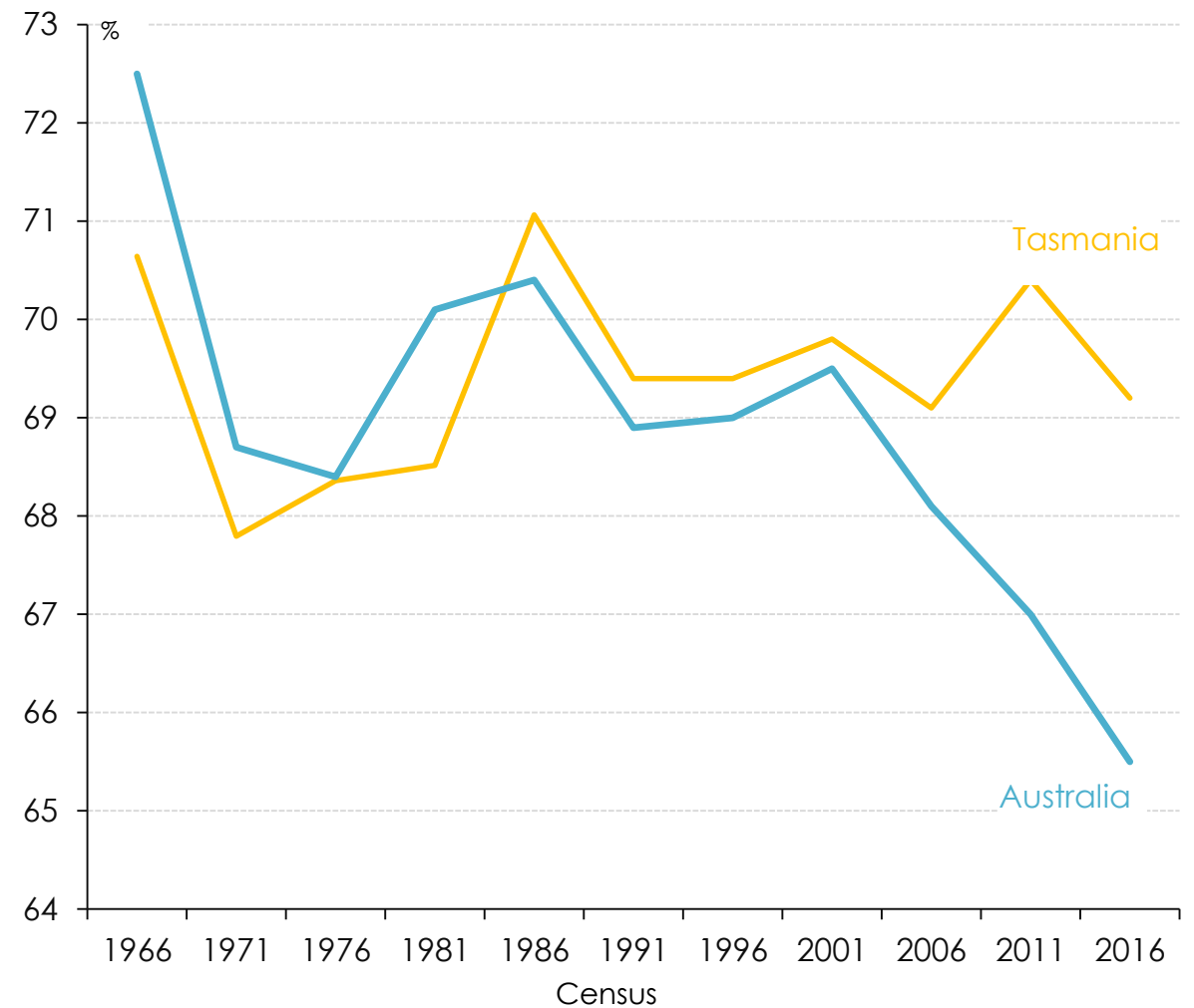


Tasmania has the highest home ownership rate in Australia – it's been fairly steady over the past thirty years unlike the rest of Australia

Home ownership rates, States and Territories, 2016 Census

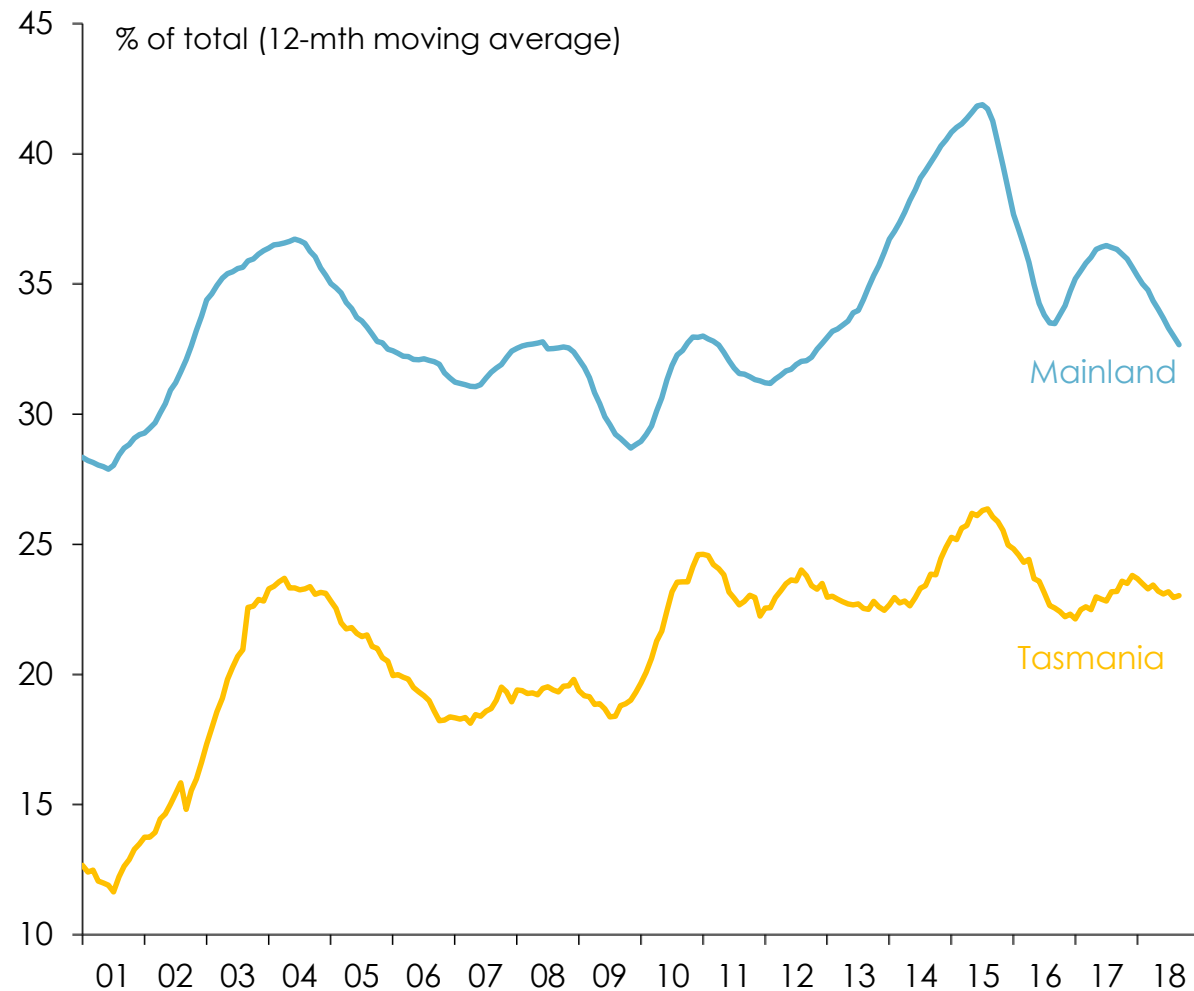


Home ownership rates, Tasmania and Australia, 1966-2016

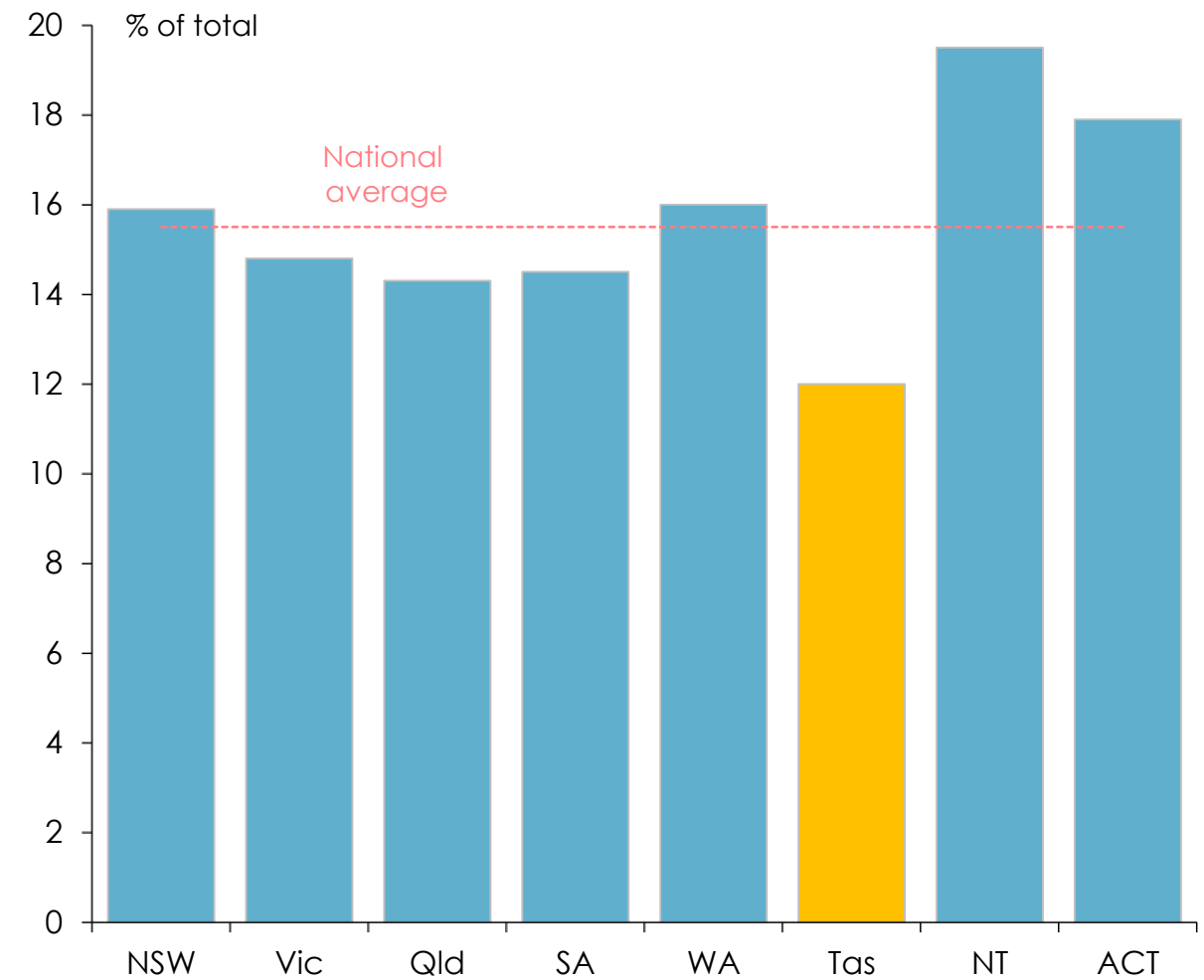


Conversely investors have played a much smaller role in the Tasmanian property market than they have elsewhere in Australia

Investor share of total housing finance commitments

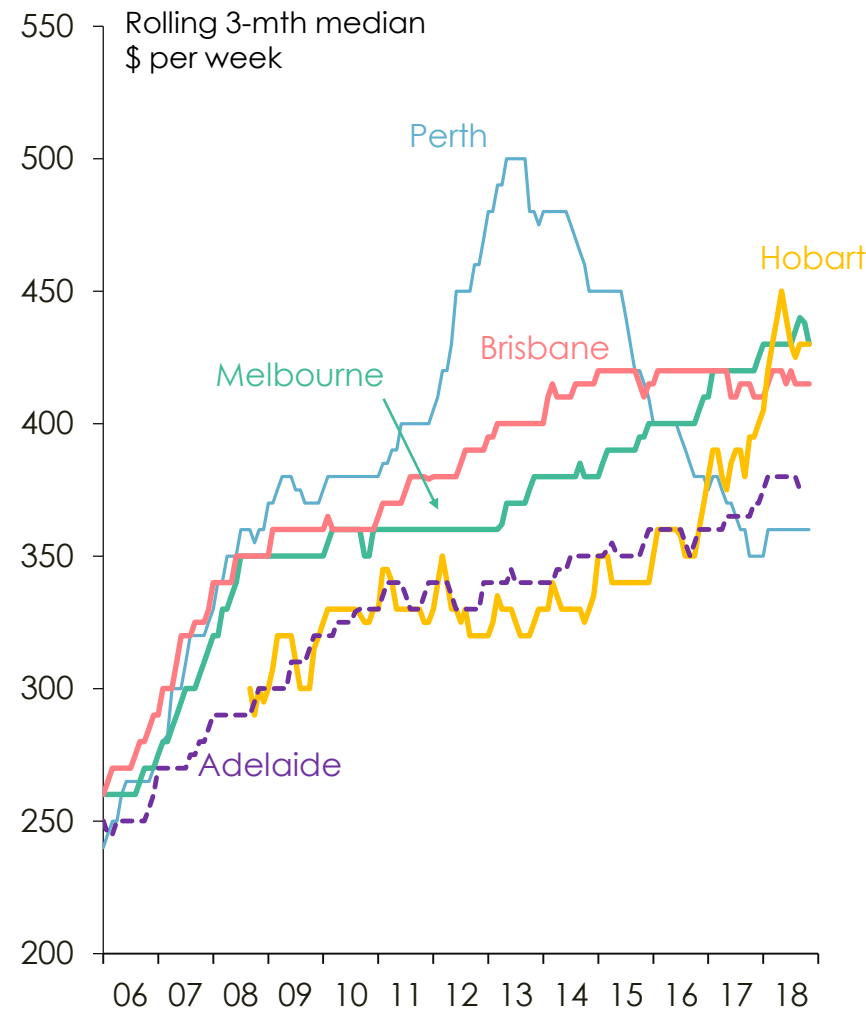


Individual property investors as a pc of total taxpayers, 2015-16

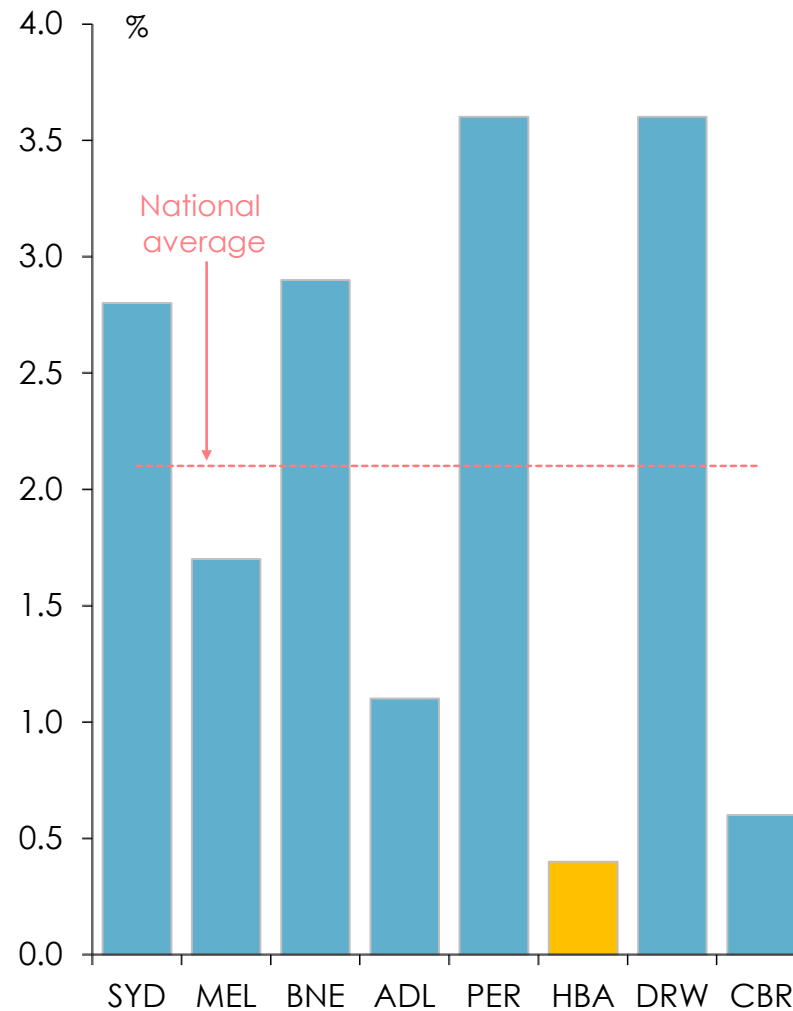


One adverse consequence of Hobart's buoyant property market is that renting has become very difficult, especially for low-income households

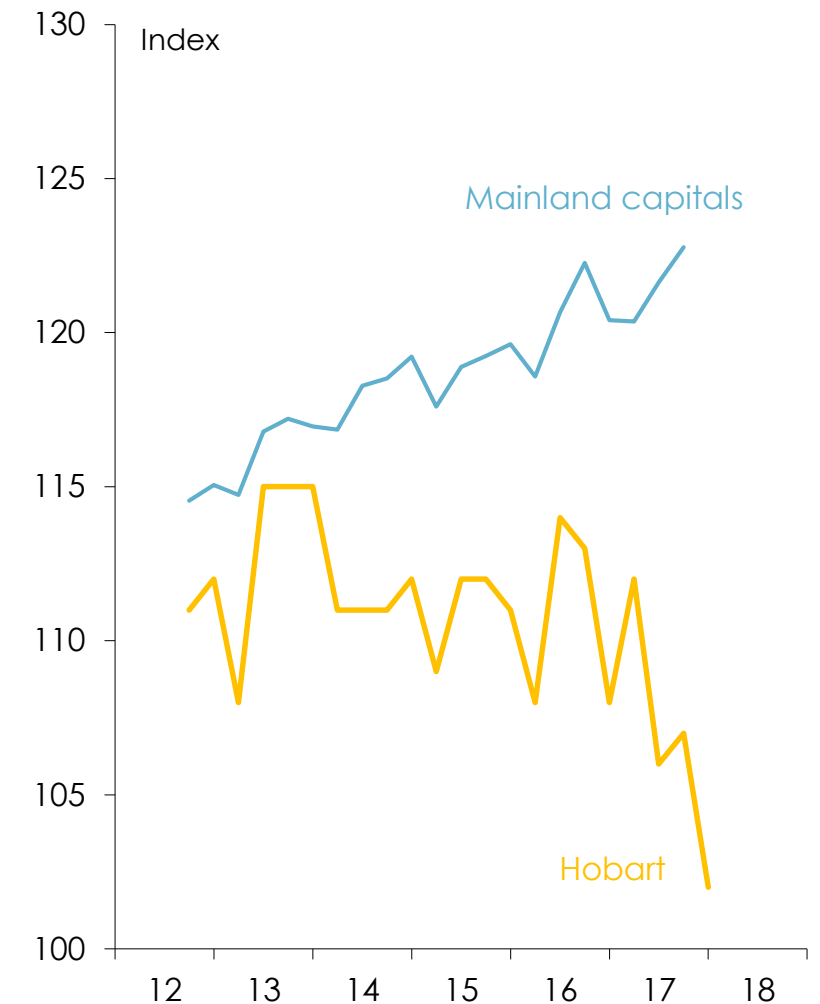
3-br house rents – Hobart and mainland capitals



Vacancy rates – capital cities, September 2018



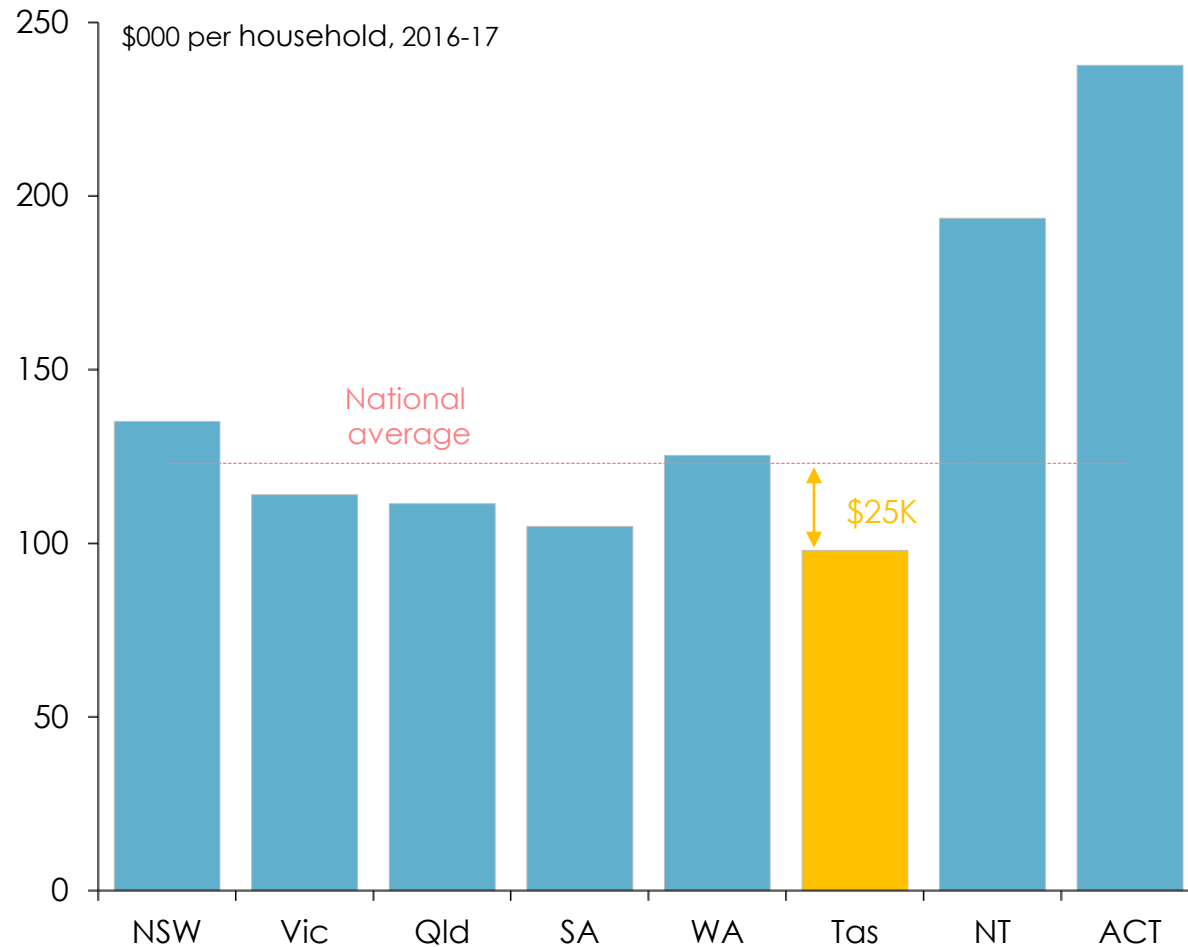
Rental affordability index – Hobart vs mainland capitals



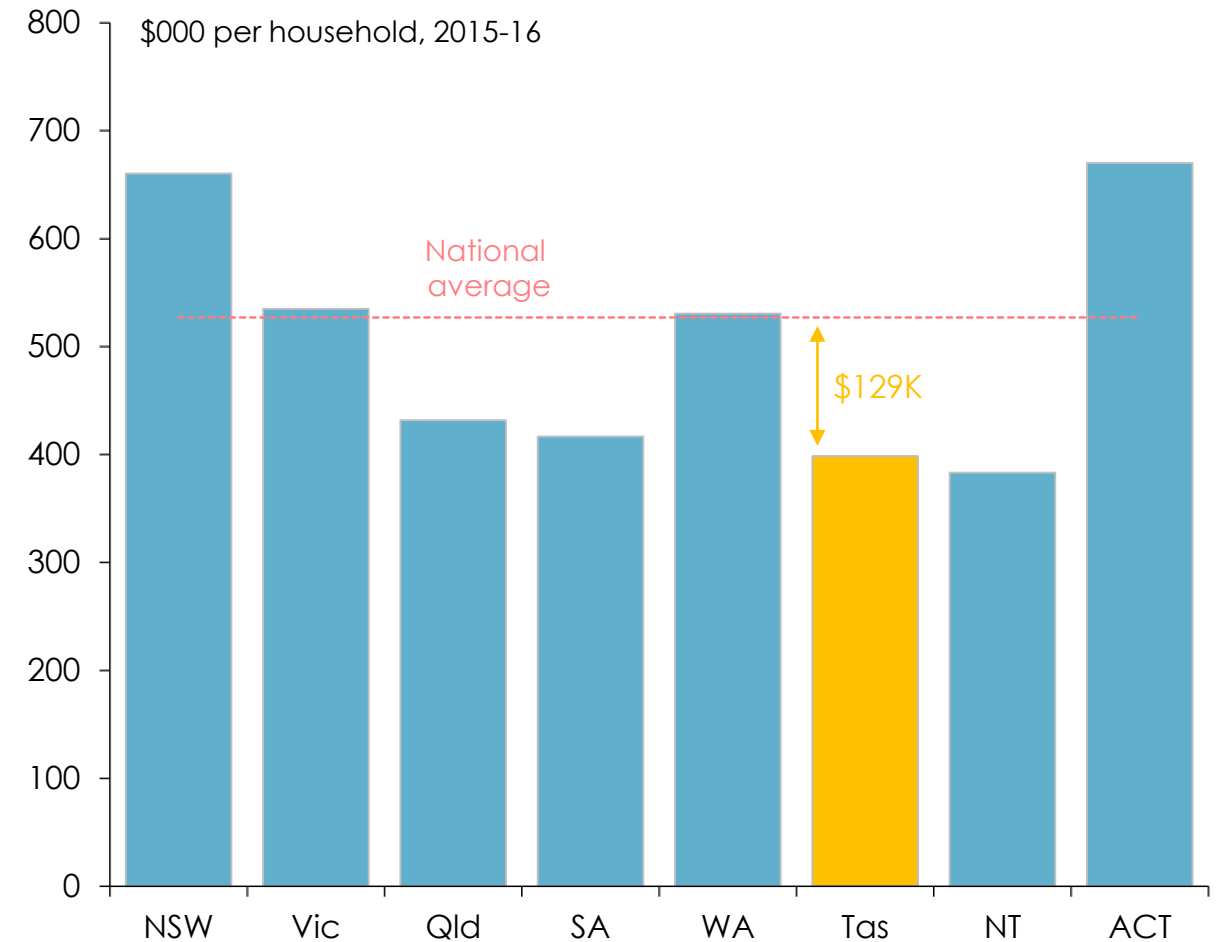
Sources: CoreLogic ; SQM Research ; SGS Economics & Planning and National Shelter. Note: The rental affordability index is the ratio of median income for 10 different types of low-income households as a proportion of the income at which rent would exceed 30% of income.

Tasmanians are poorer, on average, than the people of any other State or Territory

Household disposable income per household



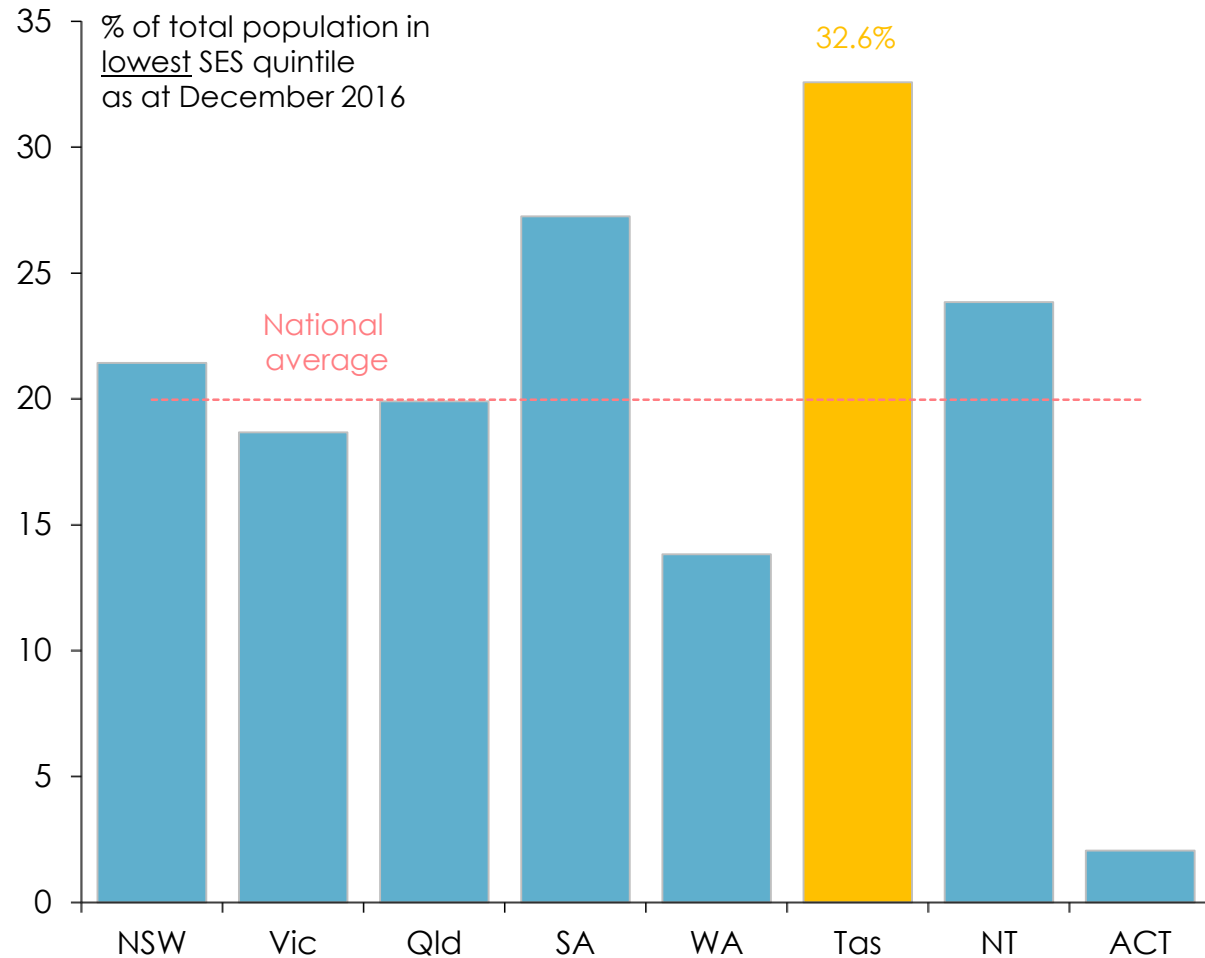
Household wealth per household



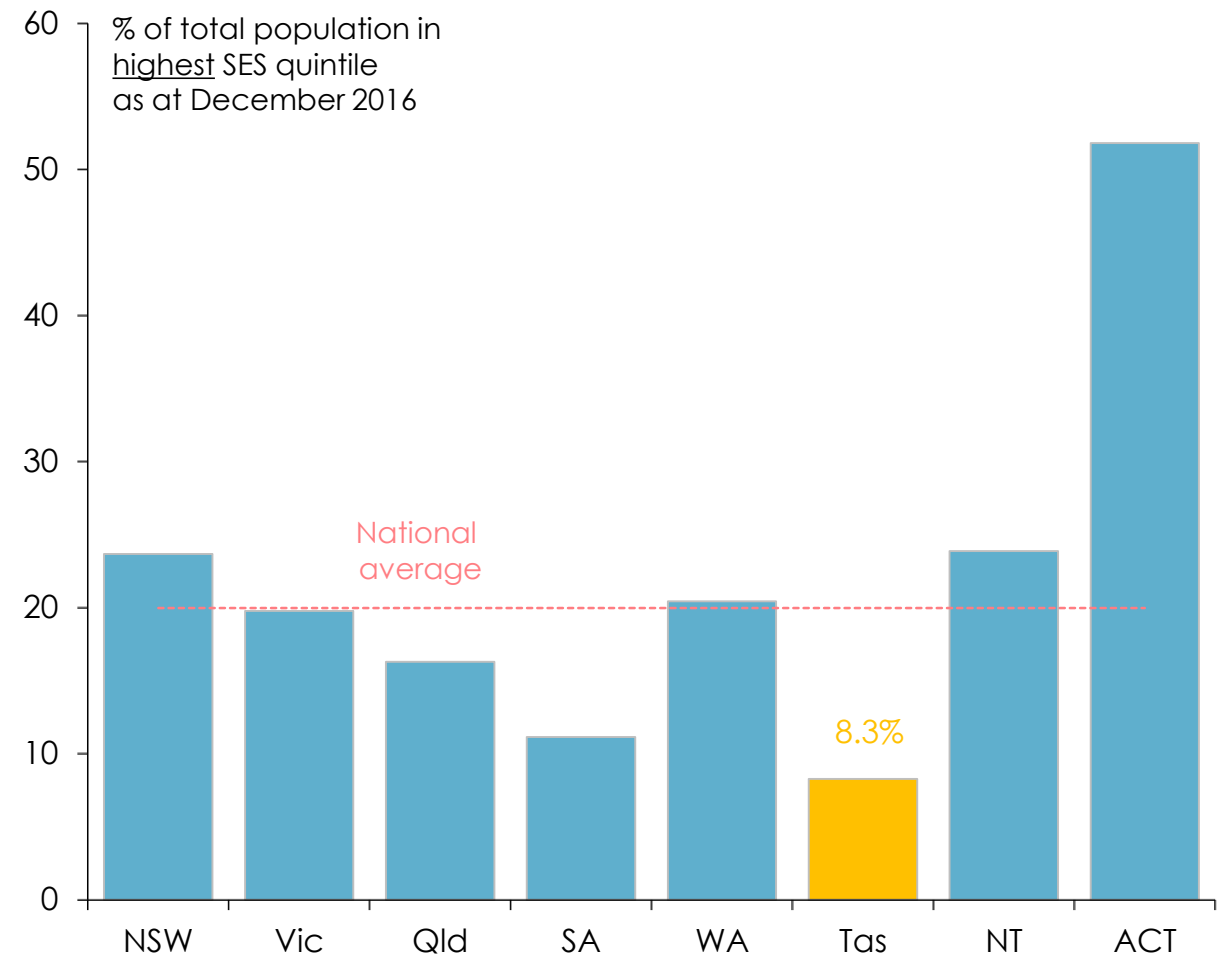
Source: ABS

Tasmania has an above-average share of Australia's most disadvantaged households, and a below-average share of the most advantaged

Proportion of population in lowest national socio-economic status (SES) quintile



Proportion of population in highest national socio-economic status quintile

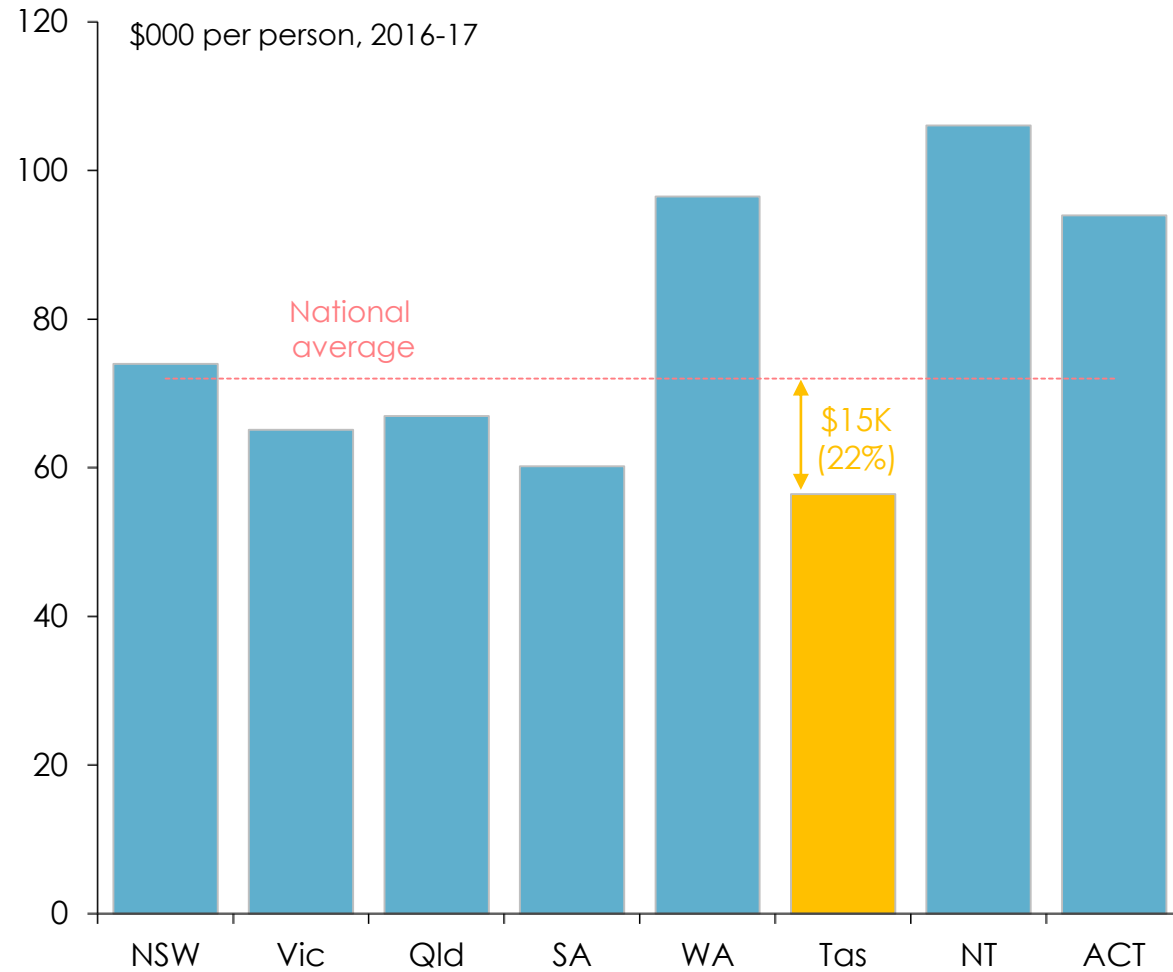


Note: Each 'quintile' contains 20% of Australia's total population. The charts show the proportion of each State and Territory's population in the lowest and highest fifth of Australian households ranked by socio-economic status, according to the Socioeconomic Indexes for Areas (SEIFA) compiled by the ABS. If socio-economic advantage and disadvantage were equally distributed across Australia then each State and Territory would have 20% of population in each quintile.

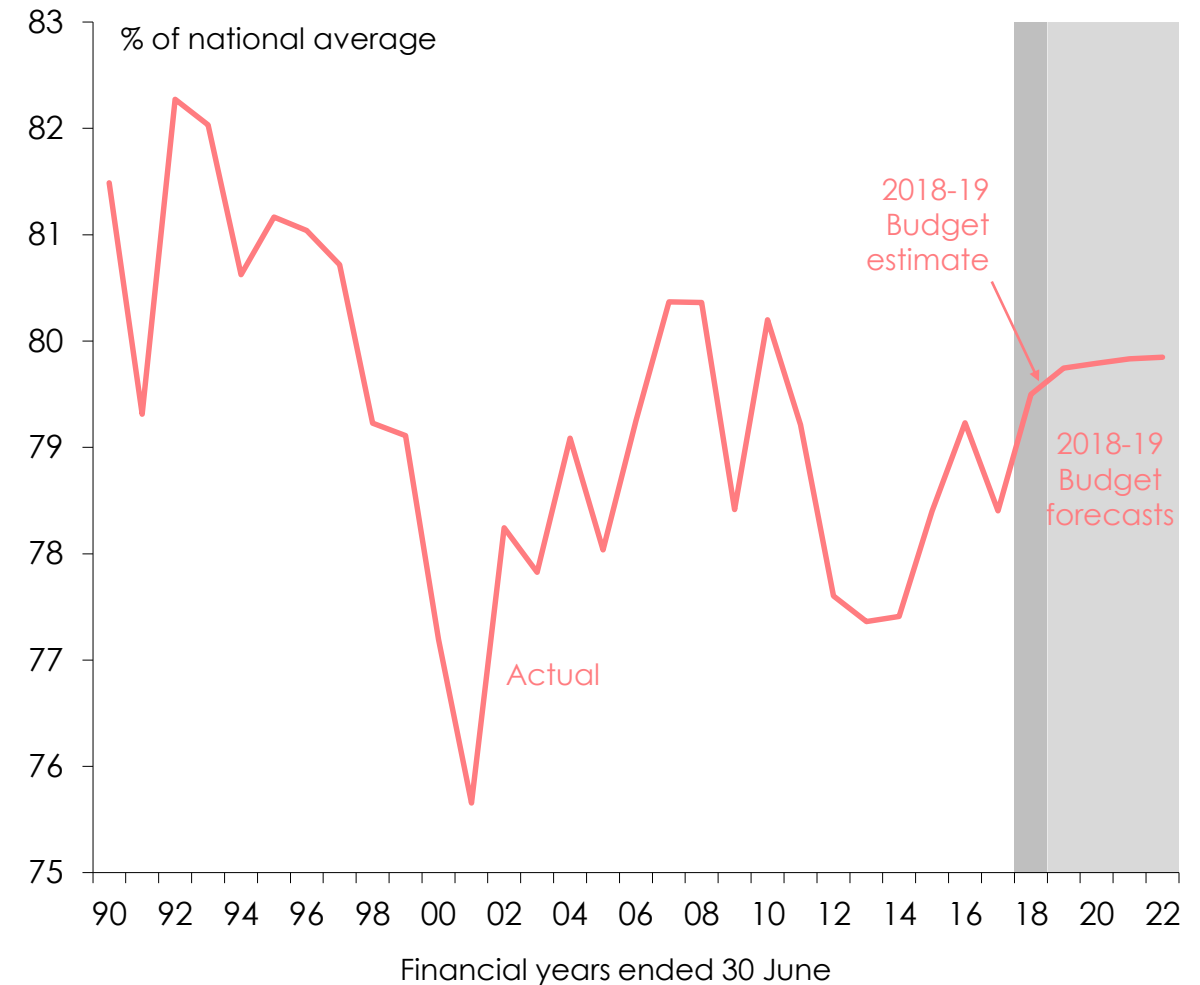
Source: Commonwealth Grants Commission.

Many of these shortcomings are ultimately attributable, at least in part, to Tasmania's relatively poor economic performance

Gross State product (GSP) per head of population, 2016-17



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



Source: ABS ; Tasmanian and Federal Governments, 2018-19 Budget Papers.

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 constituent parts. The first fraction, $\frac{\text{gross State product}}{\text{population}}$, is equal to the product of two fractions: $\frac{\text{employment}}{\text{population}}$ and $\frac{\text{total hours worked}}{\text{employment}}$. This product is then shown to be equal to the original fraction $\frac{\text{gross State product}}{\text{population}}$. Red diagonal lines are drawn through the 'employment' terms in the first and second fractions, and blue diagonal lines are drawn through the 'total hours worked' and 'employment' terms in the second and third fractions, respectively, to show the cancellation of these terms.

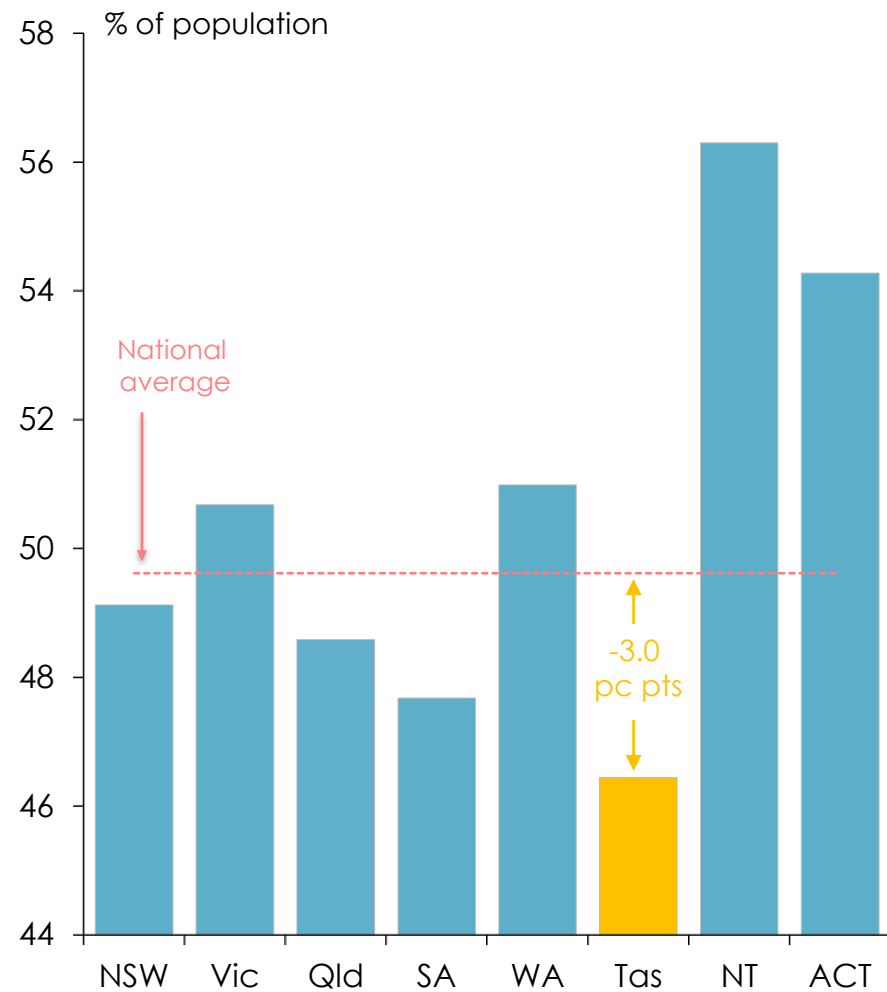
A useful way of thinking about the reasons for Tasmania's sub-par economic performance

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

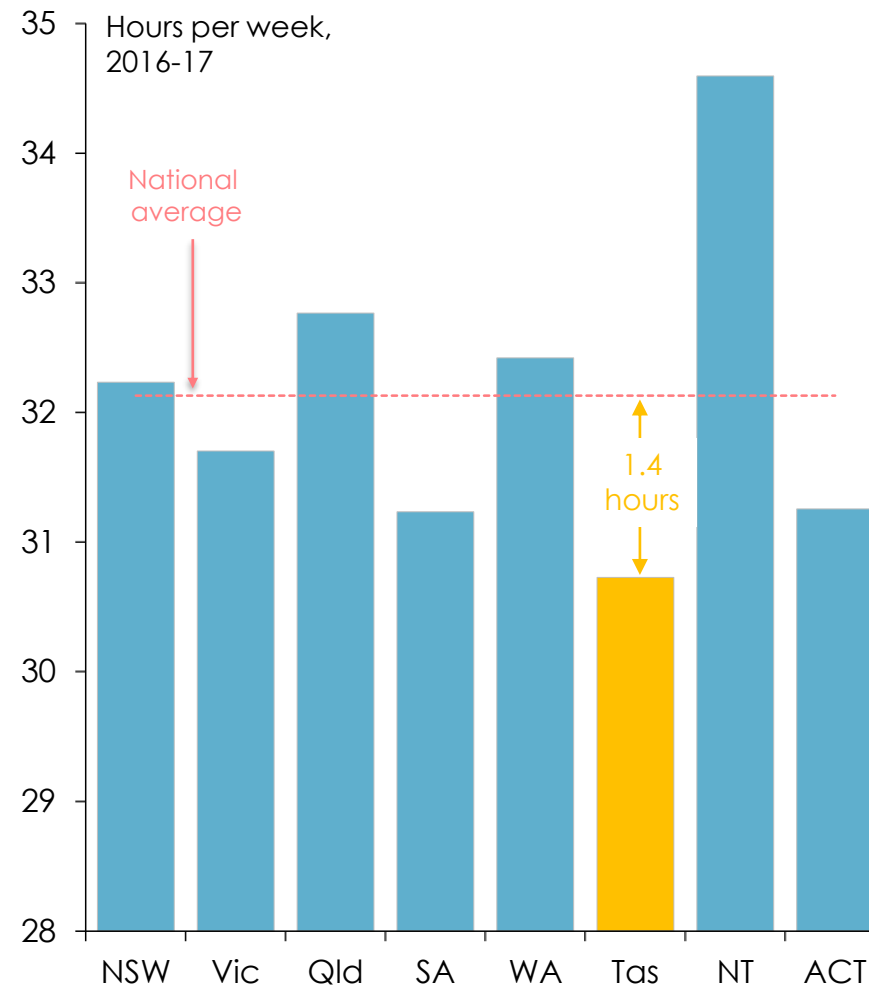
The diagram illustrates the decomposition of per capita gross state product into three components: employment rate, average hours worked, and labour productivity. It shows that per capita economic performance is the product of the proportion of the population employed, the average hours those employed work, and the productivity of that labour.

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

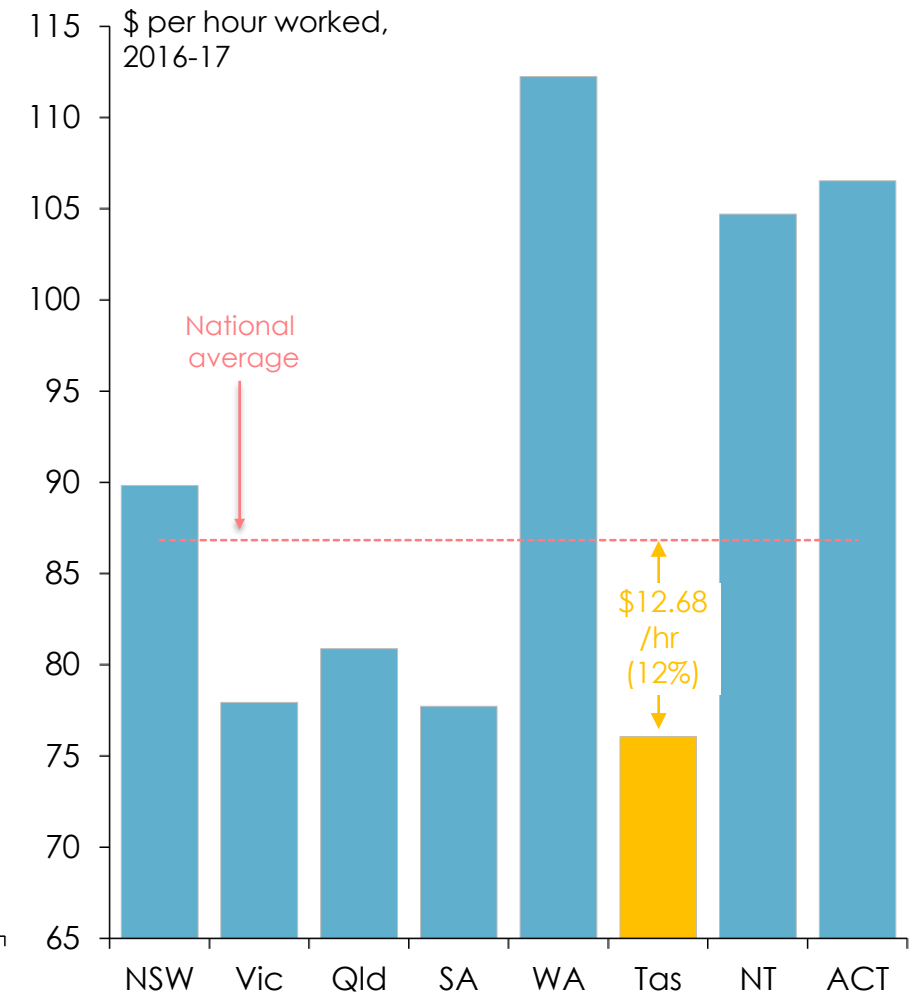
Employment-to-population ratio



Average weekly hours worked



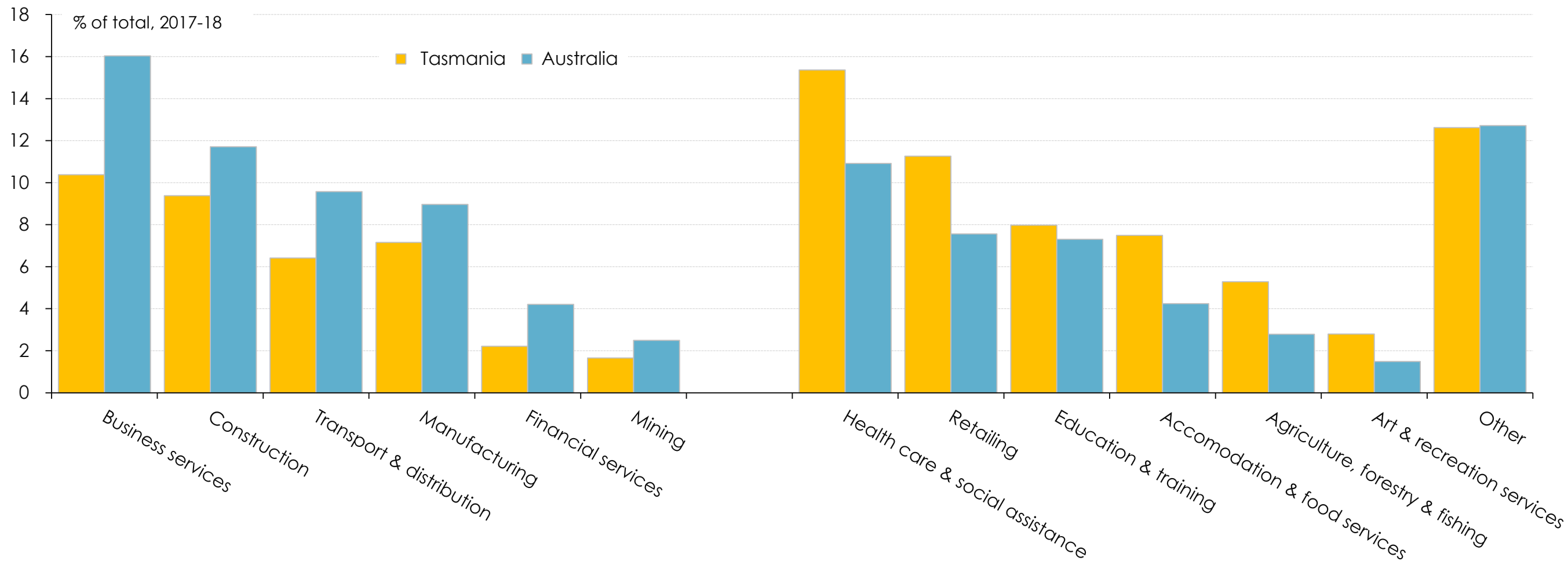
Output per hour worked (labour productivity)



Source: ABS.

Most 'high productivity' industries are under-represented in Tasmania

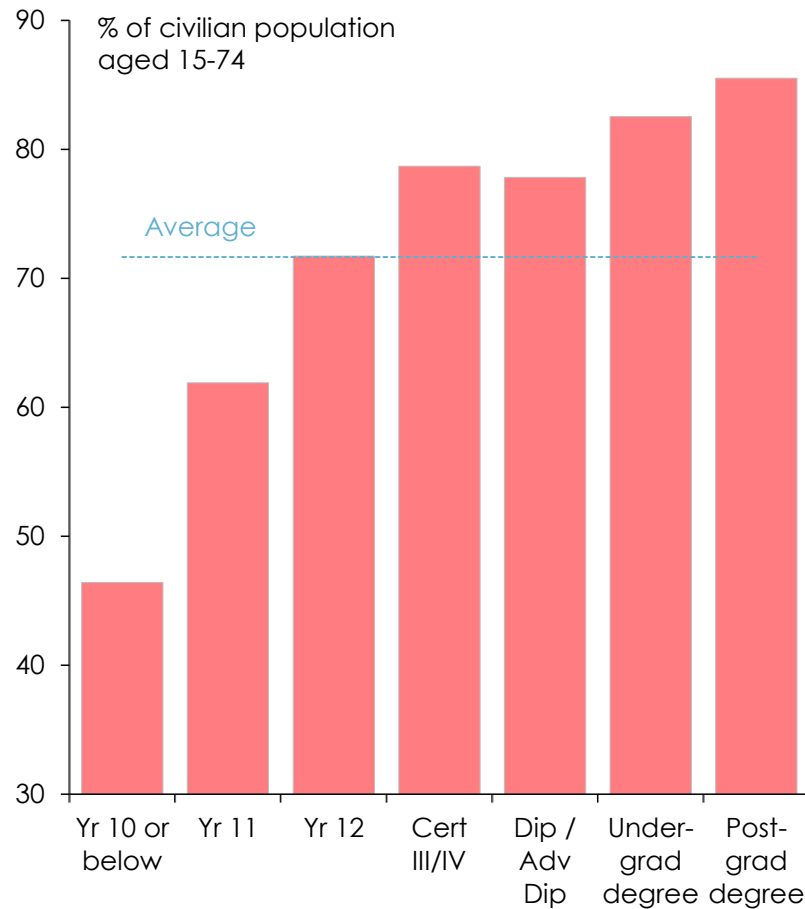
Industry structure of employment – Tasmania and Australia, 2017-18



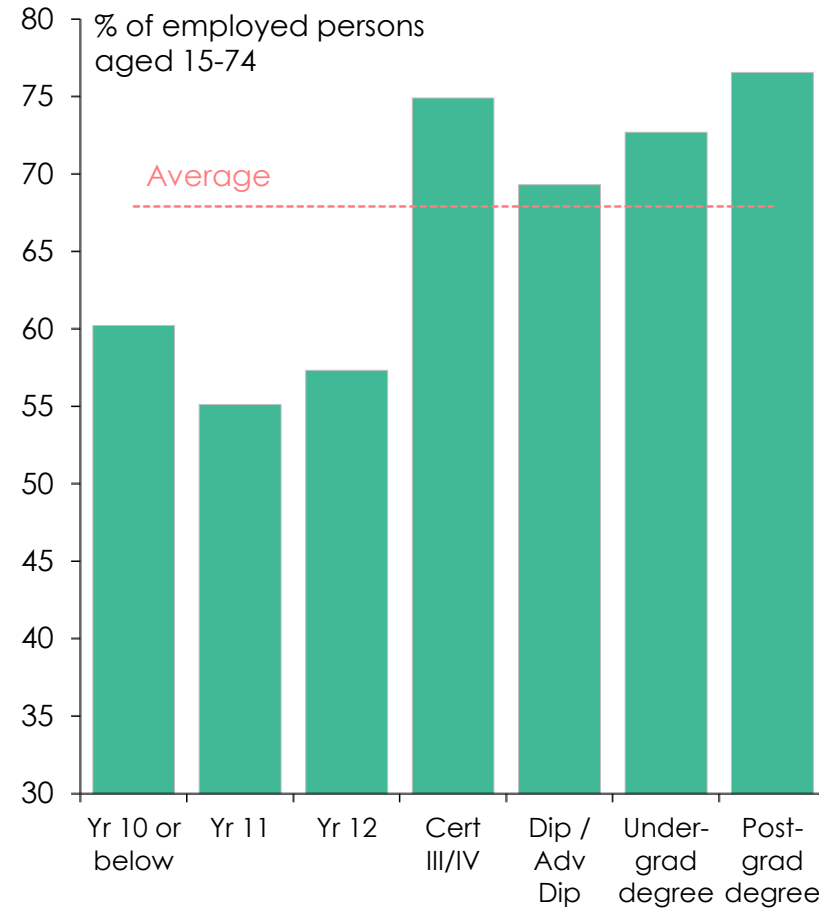
Note: 'Business services' includes information, media & telecommunications services; rental, hiring & real estate services; professional, scientific and technical services; and administration & support services. 'Transport & distribution' includes wholesale trade; and transport, postal and warehousing services. 'Other' includes electricity, gas, water and waste services; public administration & safety; and other services. Source: ABS.

Education is the one thing state governments can influence, which affects employment participation, average hours and productivity

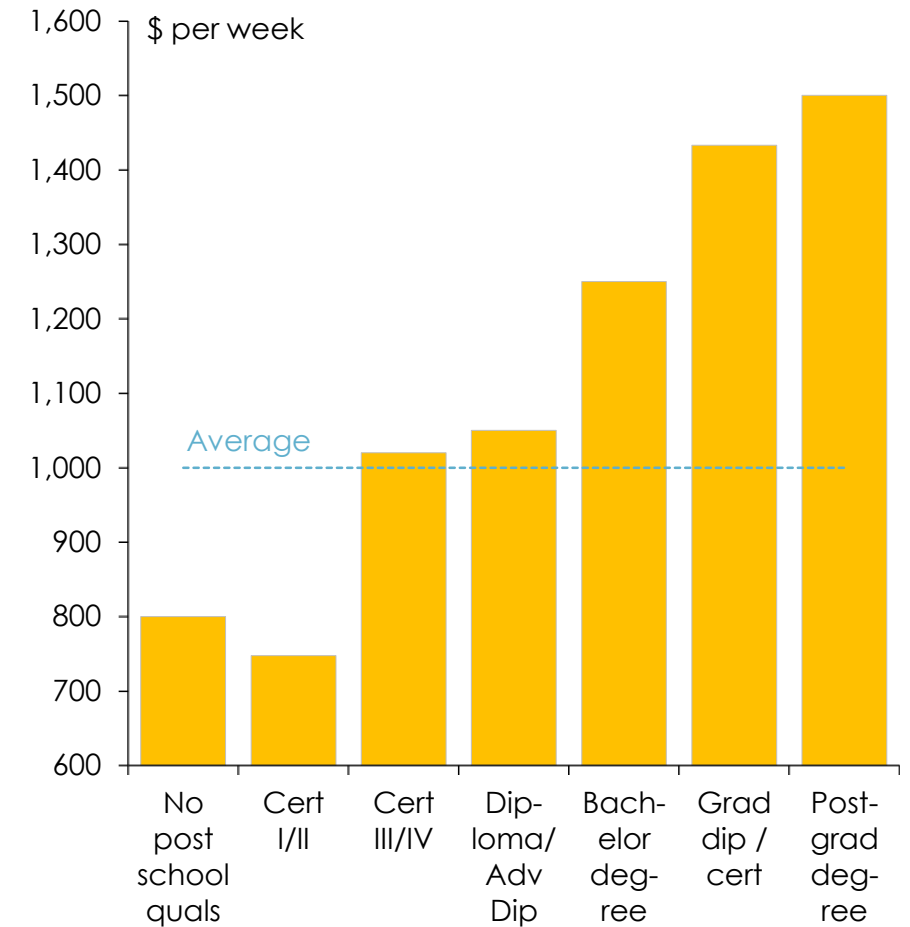
Employment-population rates by educational attainment, May 2018



Full-time employment as a pc of total, by educational attainment, May 2018



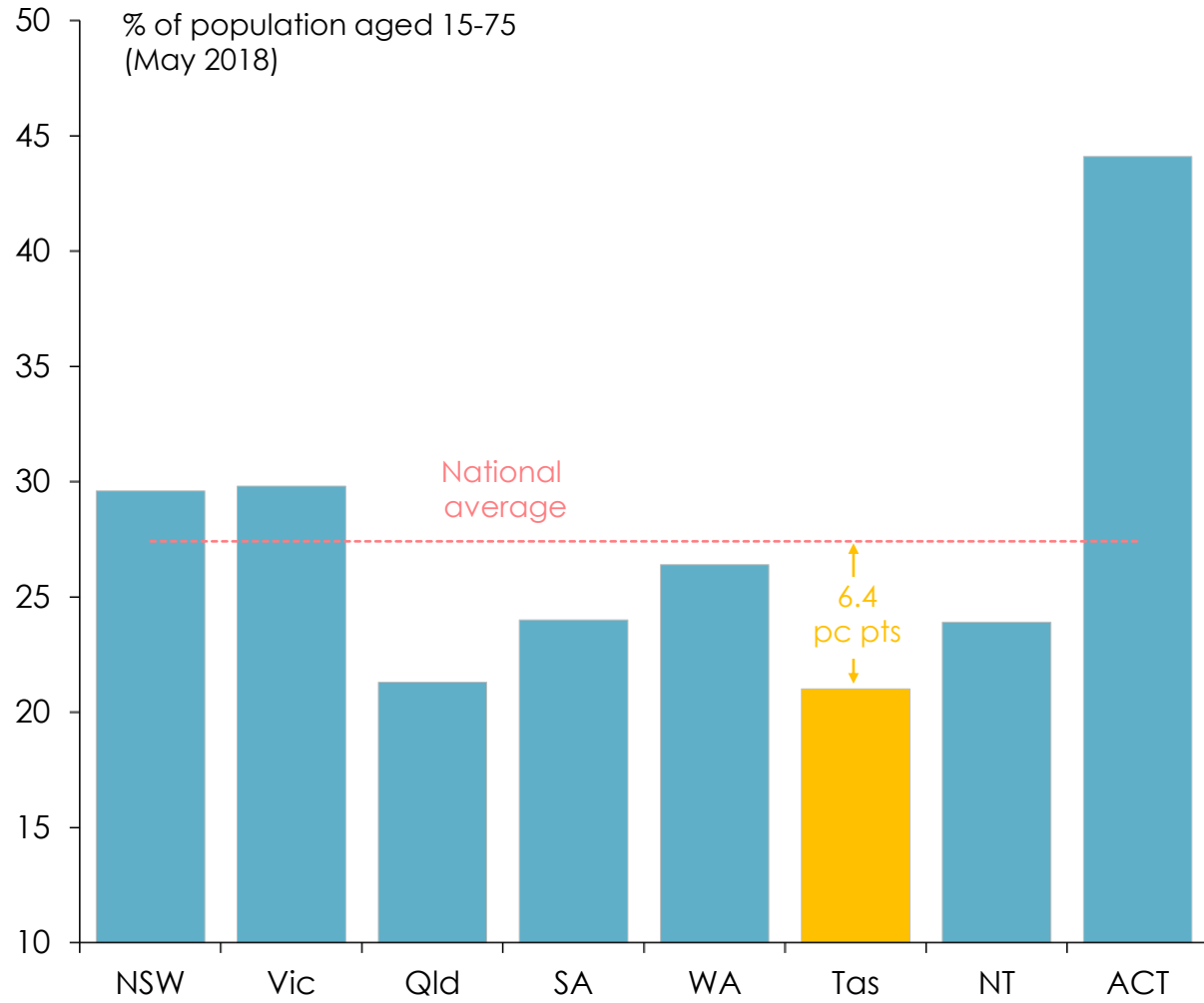
Median weekly earnings by educational attainment, August 2017



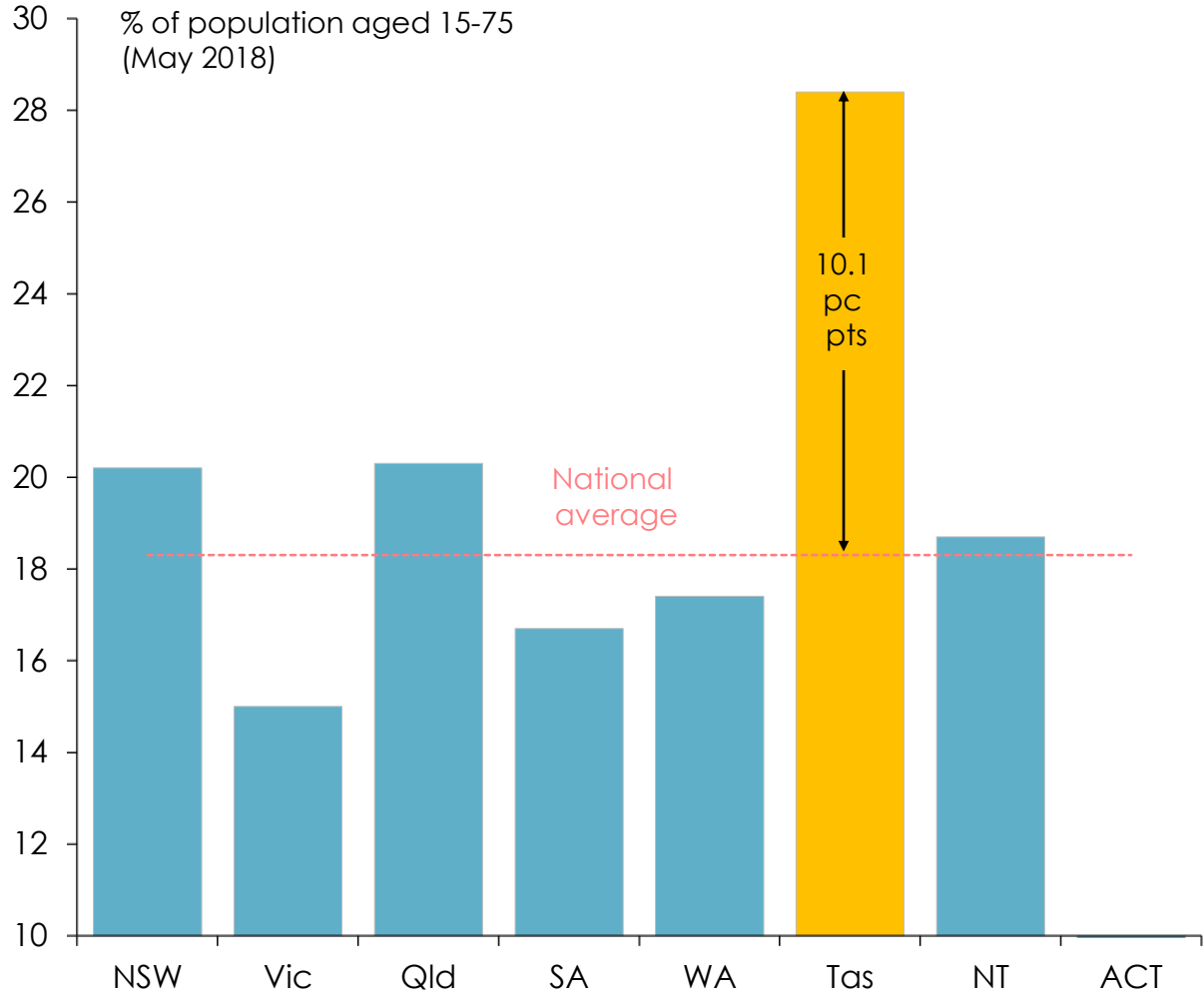
Sources: ABS, Education and Work (6227.0), May 2018; Characteristics of Employment (6333.0), August 2017.

Lifting Tasmania's bottom-of-the-pack educational attainment and participation rates is crucial to improving our economic performance

Population aged 15-74 with a bachelor's degree or higher



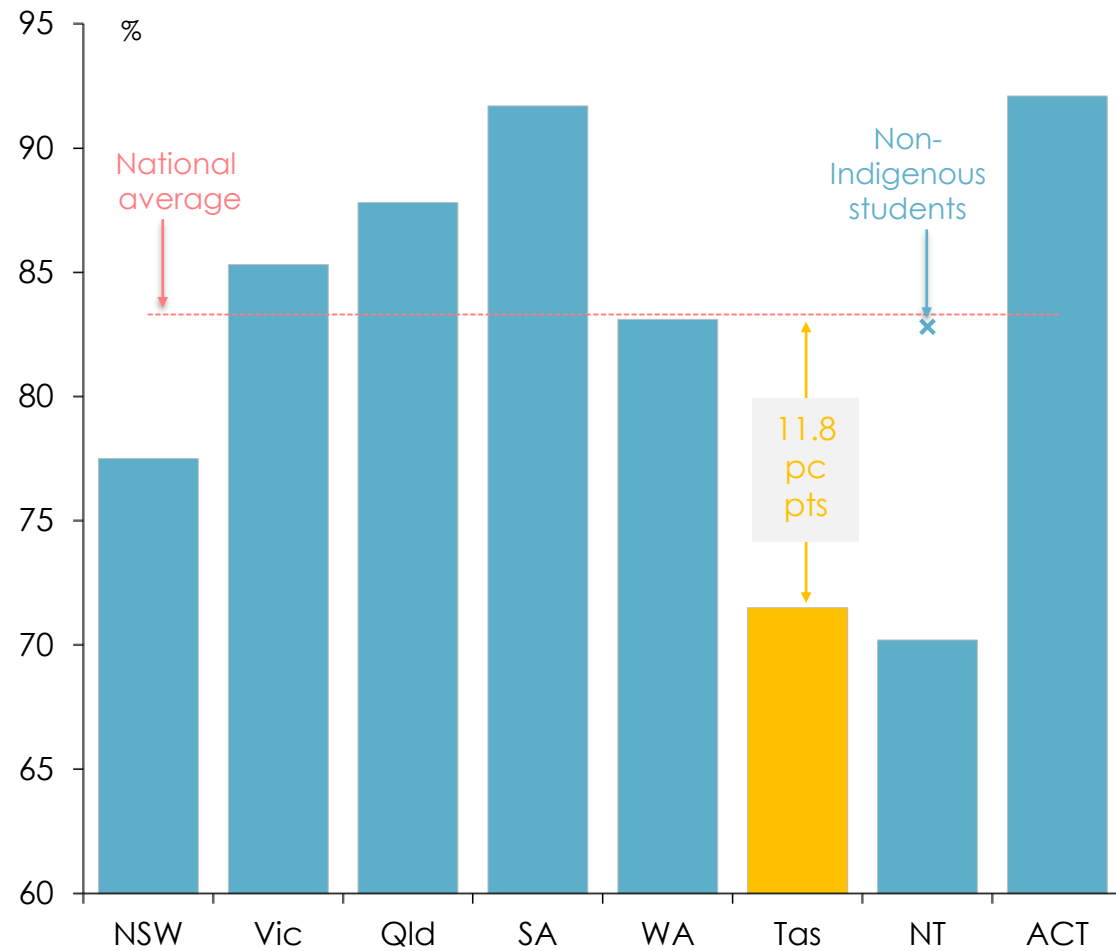
Population aged 15-74 with no qualification beyond Year 10 of high school



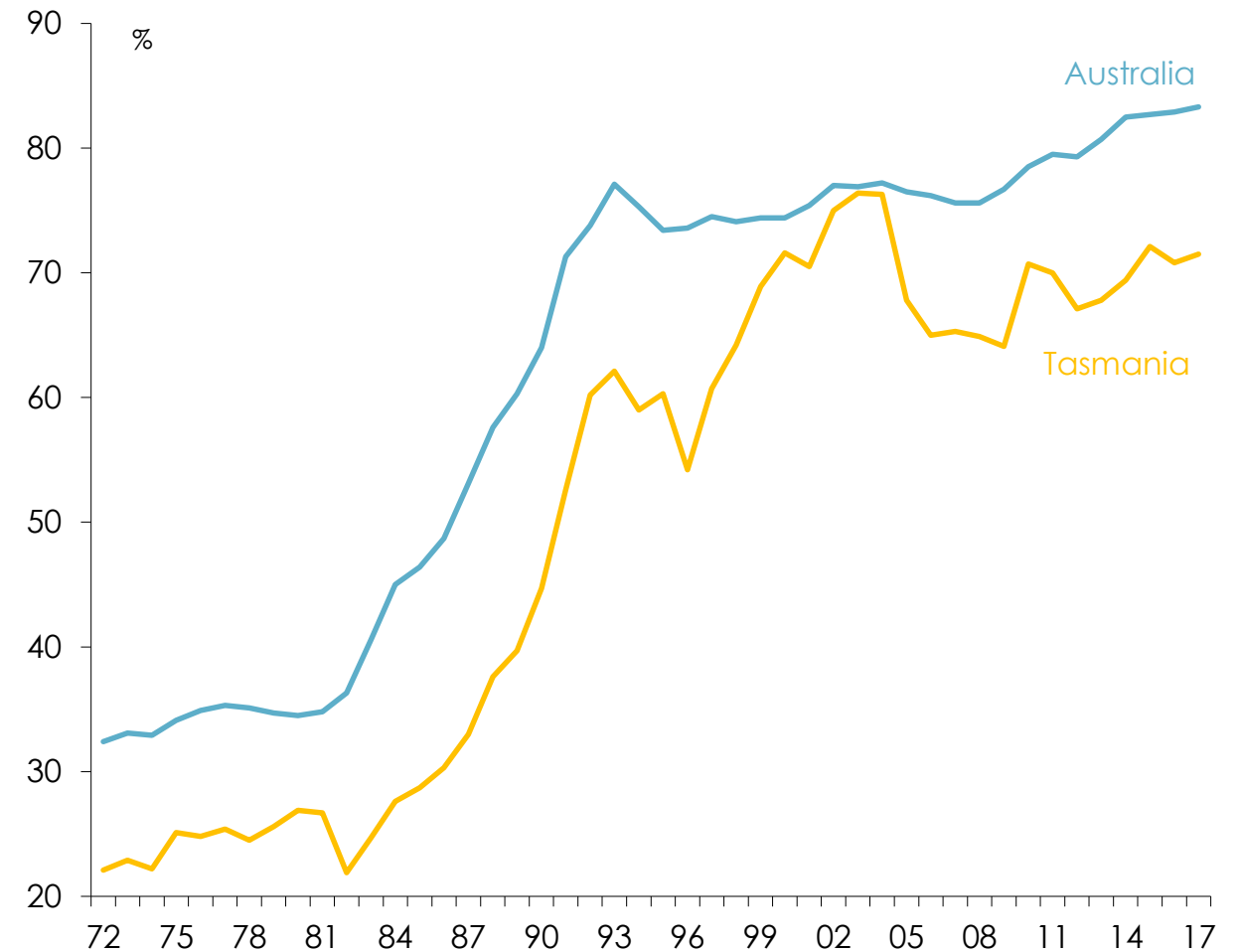
Source: ABS, Education and Work (6227.0), May 2018.

Tasmania's Year 12 retention rate has been rising but remains well below the national average and lower than any other state

Year 12 retention rates, States and Territories, 2017



Year 12 retention rates, Tasmania vs national average, 1972-2017



Note: The Y12 retention rate is the number of students enrolled in Year 12 in a given year as a proportion of the number who were in Year 10 two years earlier.
 Source: ABS, Schools Australia.

Some other challenges facing Tasmania

❑ State Government is heavily dependent on Commonwealth funding

- Over 60% of state government revenue comes from share of GST revenue and other federal grants, making Tasmania vulnerable to pressure from richer states for a bigger share of GST revenue and to other Federal Budget decisions

❑ Tasmania has too many local councils and councillors, but not enough State MPs

- there are 29 local governments in Tasmania, each with between 7 and 12 councillors
- but the lower house of state Parliament has only 25 MPs (reduced from 35 in 1998) – so with a ‘landslide’ victory delivering 15 seats, the ‘gene pool’ from which the Cabinet is drawn is very shallow, and both Ministers and Shadow Ministers are overworked
- Tasmania has very lax rules relating to political donations and freedom of information

❑ The health system is under enormous strain

- Tasmania has Australia’s oldest and sickest population (partly as a result of poor lifestyle choices which in turn stem from low levels of educational attainment)
- the state’s health system performs poorly by comparison with other states on most indicators – partly because of ‘under-spending’ by successive state governments

❑ Tasmania’s economy remains relatively narrowly based, and vulnerable to external shocks

- previous periods of relatively good economic fortune which Tasmania has enjoyed – such as in the early 2000s – have been short-lived
- not much is being done to enhance Tasmania’s resilience to external shocks

❑ Tensions between ‘development’ and ‘conservation’ are never far from the surface in Tasmania

- and we are yet to develop effective means of resolving these conflicts