

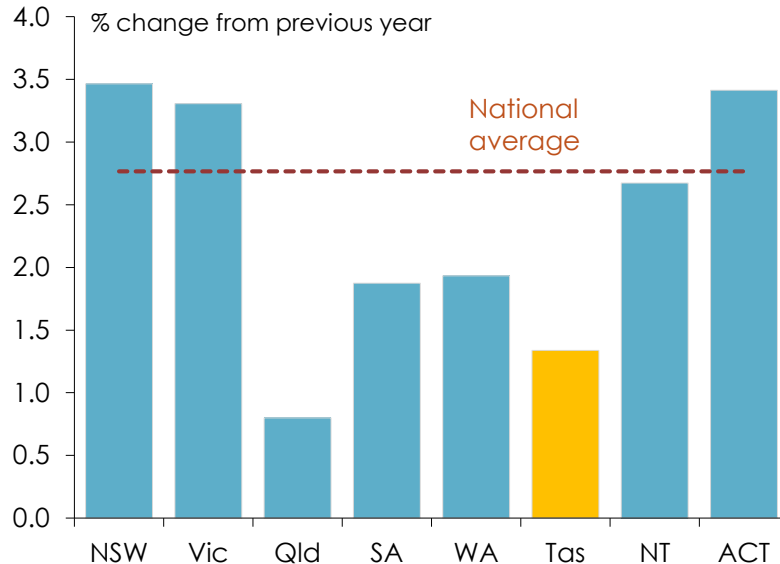
Tasmania Report

Wednesday, 14 December 2016

Prepared and presented by
Saul Eslake

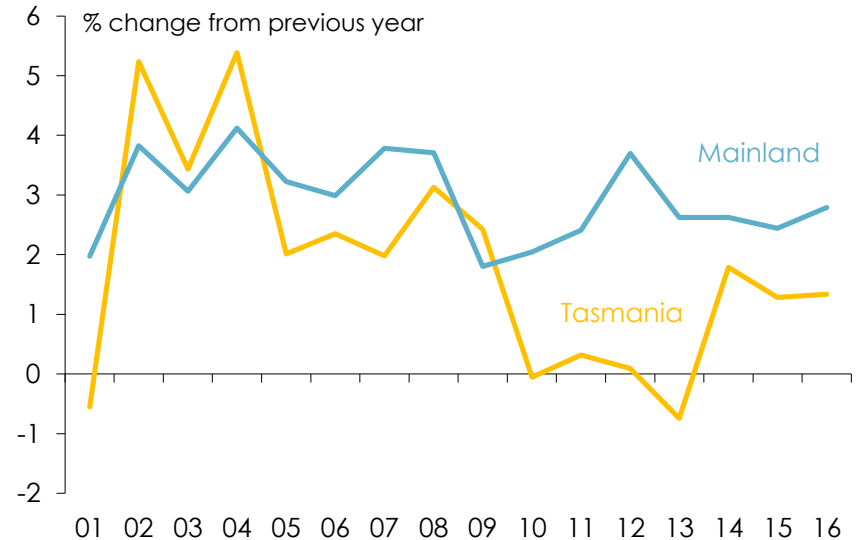
Tasmania's 2015-16 growth performance disappointed ...

Growth in real gross State product (GSP), by State & Territory, 2015-16



Source: Australian Bureau of Statistics.

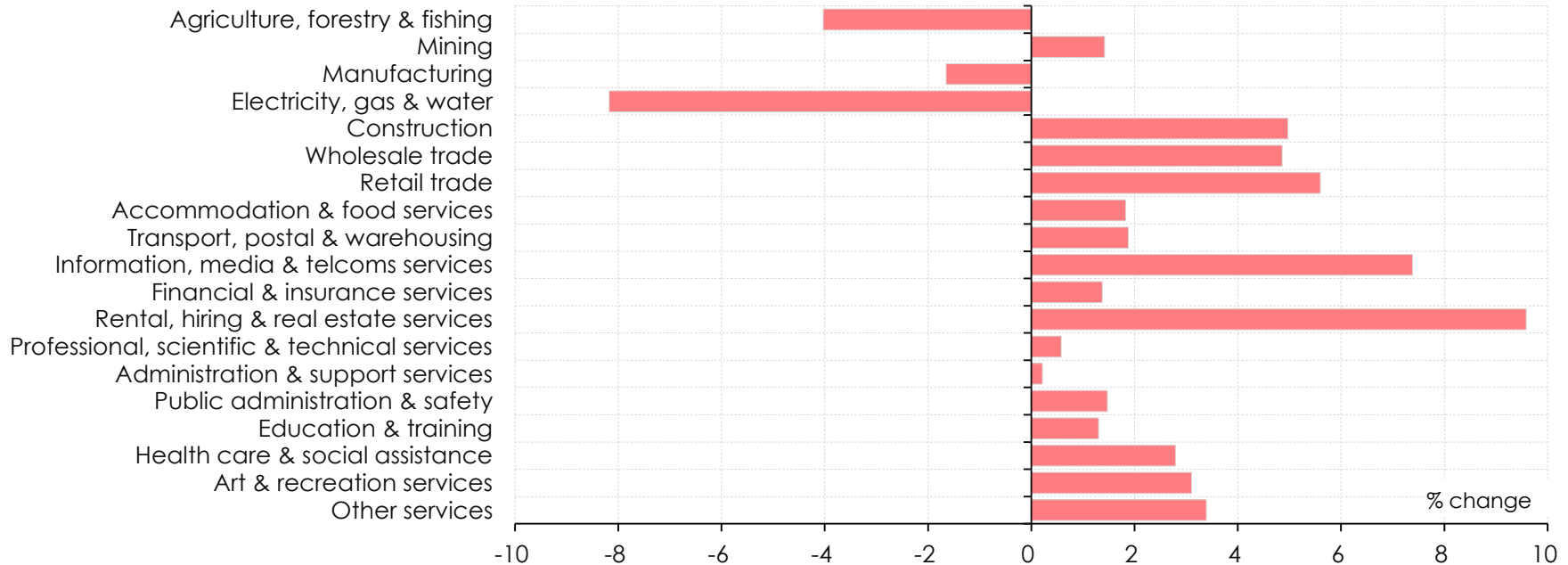
Growth in real gross State product (GSP), Tasmania & mainland, 2001-2016



Financial years ended 30 June

... but largely due to drought, floods & energy concerns

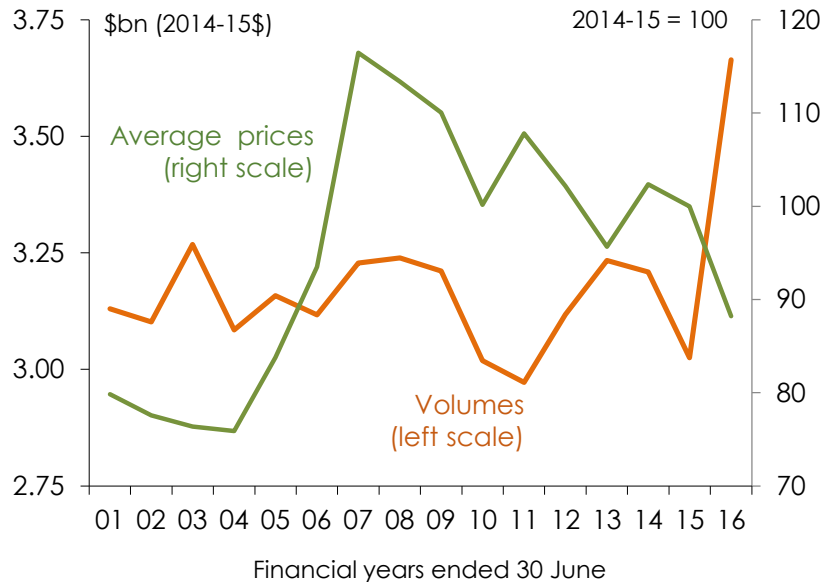
Change in real gross value added by industry, 2015-16



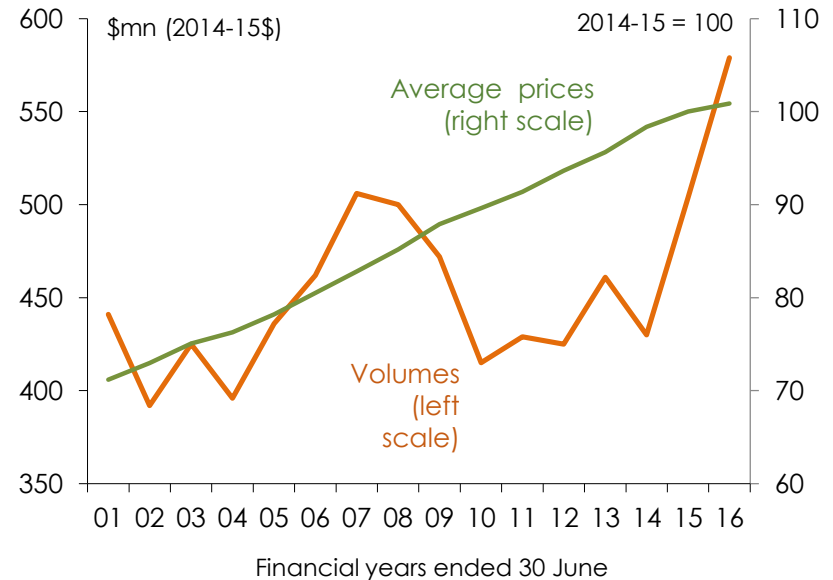
Source: Australian Bureau of Statistics.

Tasmanian exports have continued to do very well

International exports of goods



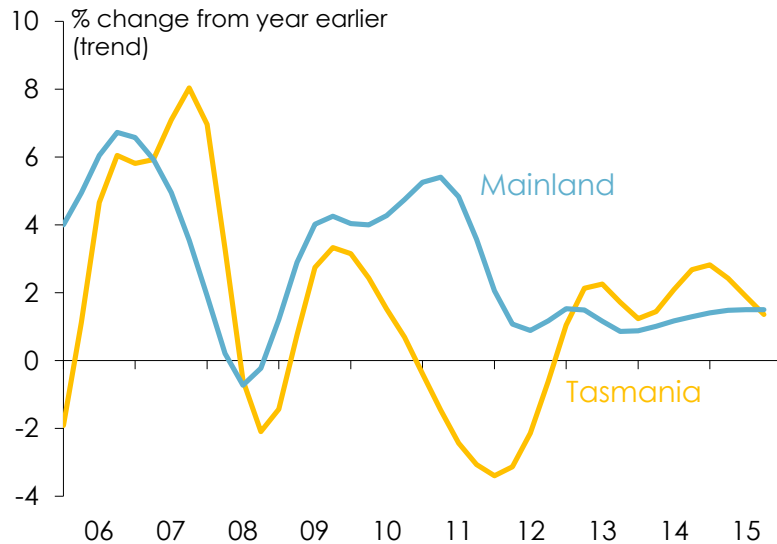
International exports of services



Source: Australian Bureau of Statistics.

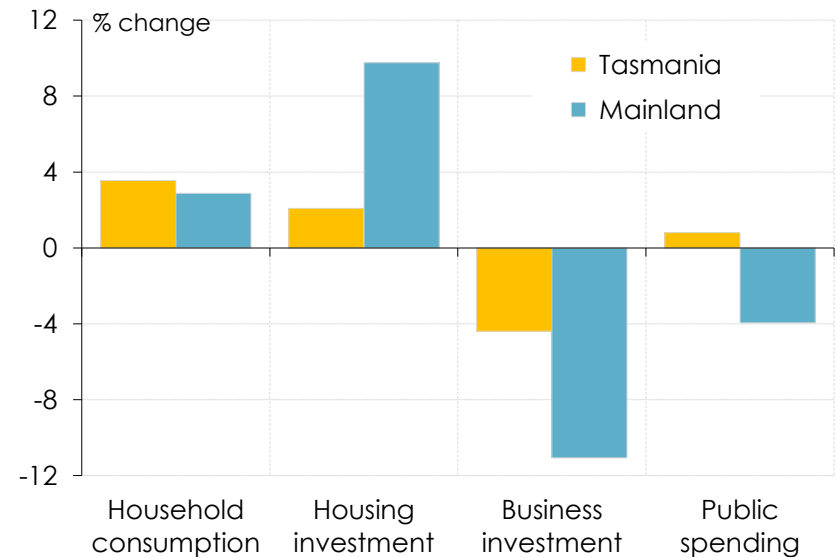
... but 'final demand' was weaker than in 2014-15

Growth in final demand (household, business and government spending)



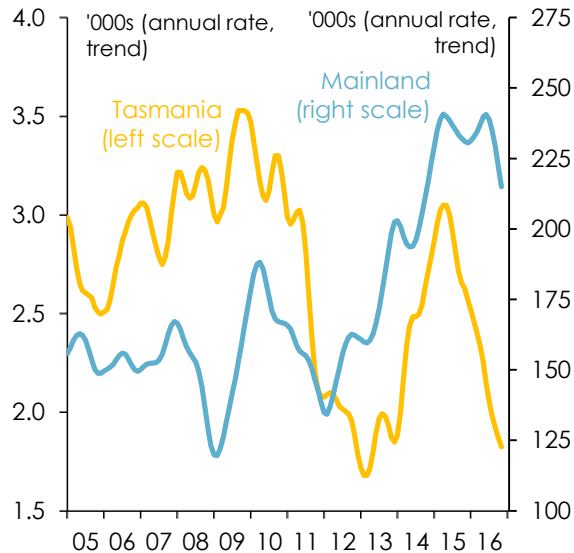
Source: Australian Bureau of Statistics.

Components of growth in final demand, Tasmania vs mainland, 2015-16

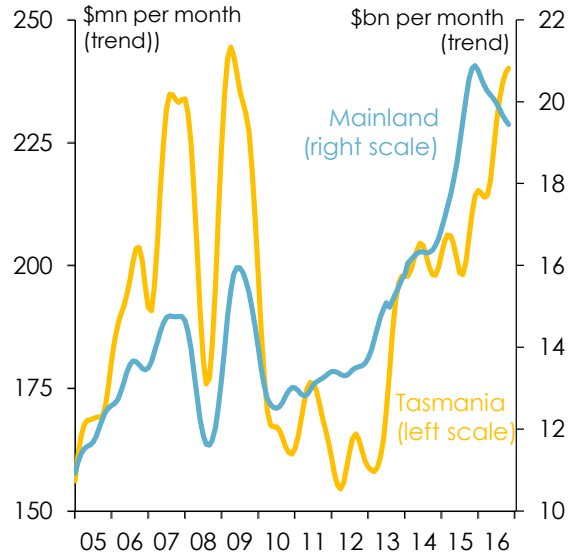


Housing activity has declined despite strong lending

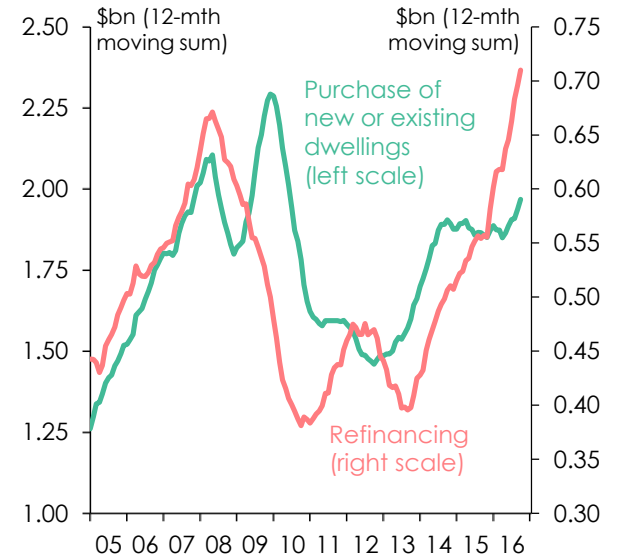
Residential building approvals



Housing finance to owner-occupiers



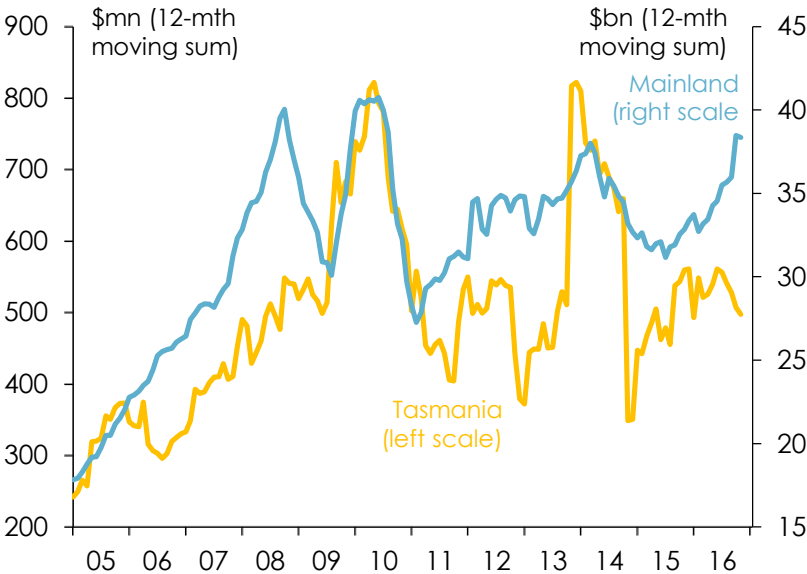
Re-financing vs new purchases, Tasmania



Source: ABS.

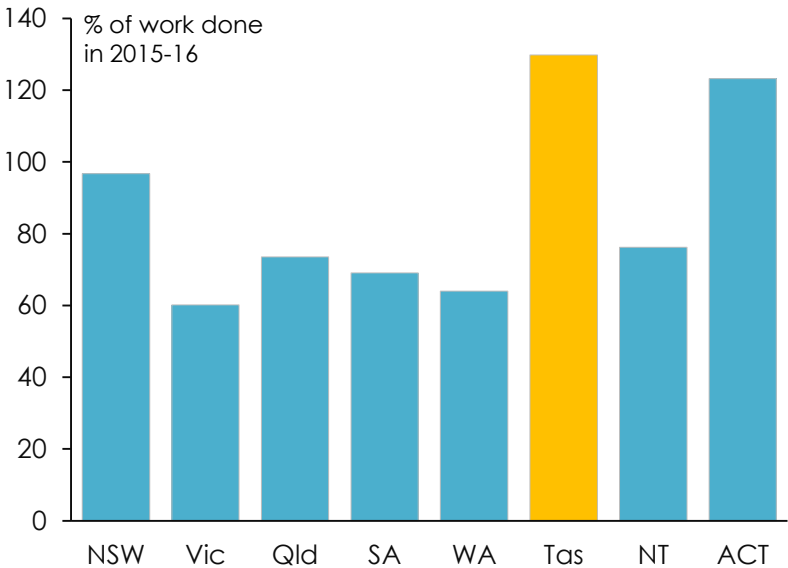
However non-residential building looks strong

Non-residential building approvals



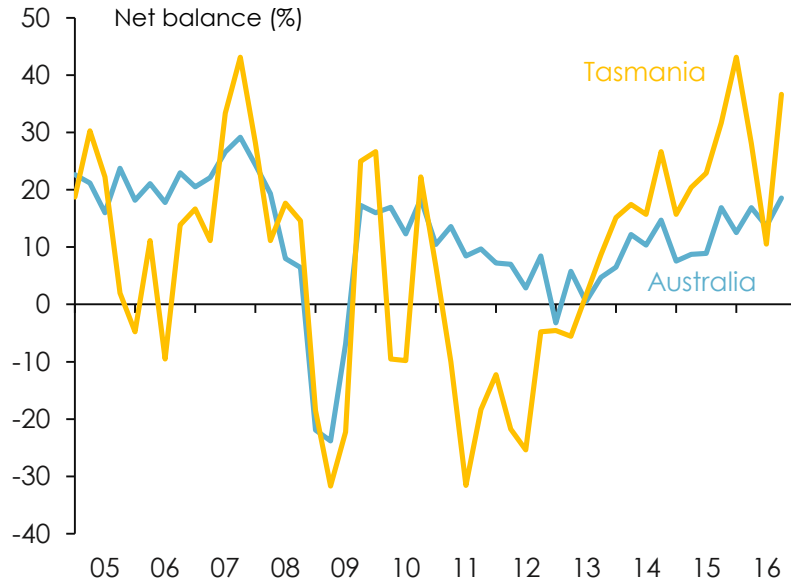
Source: Australian Bureau of Statistics.

'Pipeline' of non-residential building work as at June 2016

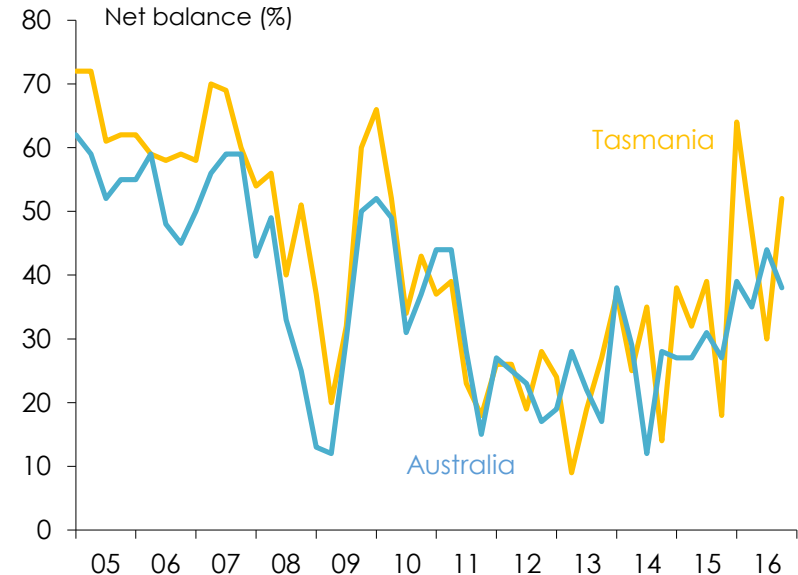


Business confidence has bounced back

NAB survey business expectations



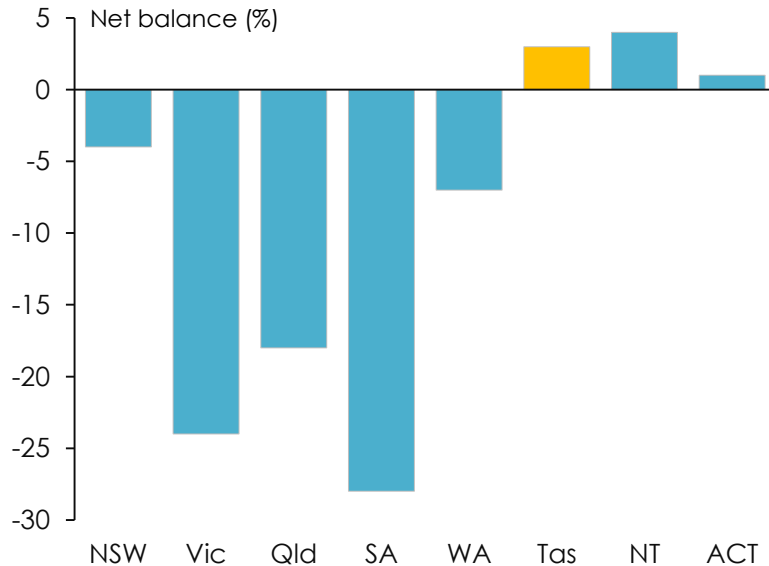
Sensis survey SME business confidence



Sources: National Australia Bank; Sensis.

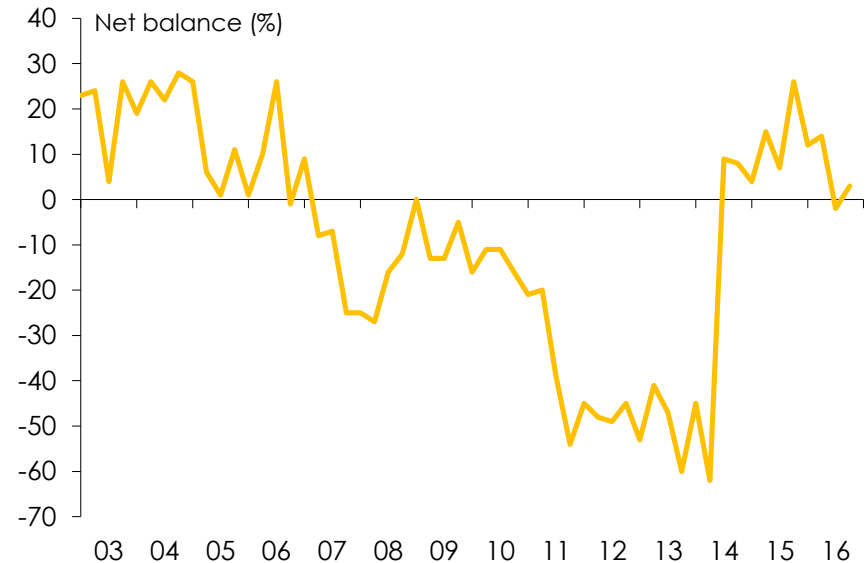
SMEs generally satisfied with State government policies

SME approval of State & Territory government policies towards business



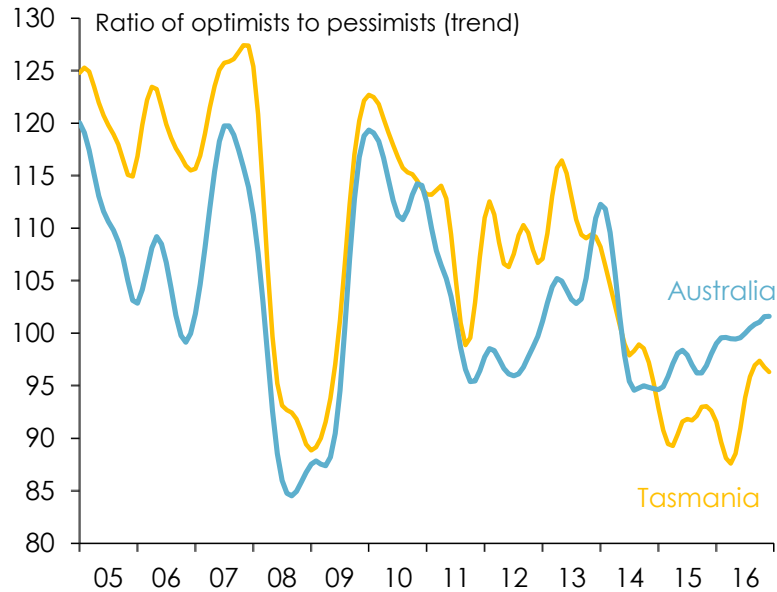
Sources: Sensis.

SME approval of Tasmanian Government policies towards business

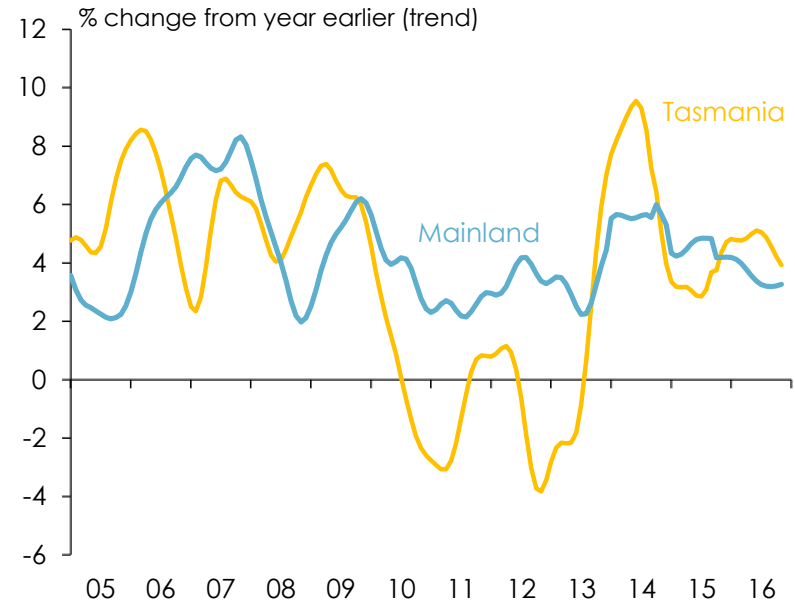


Consumer confidence subdued and retail sales slowing

Consumer confidence



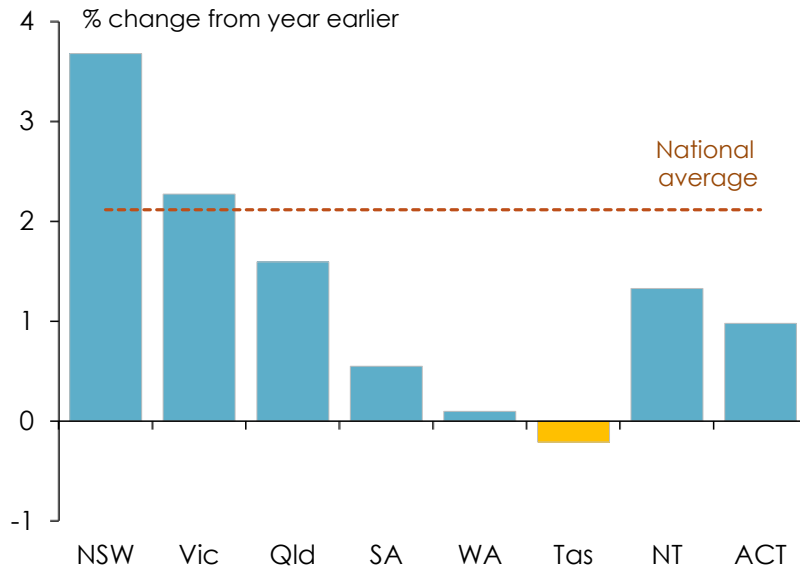
Retail sales



Sources: Westpac=Melbourne Institute; ABS.

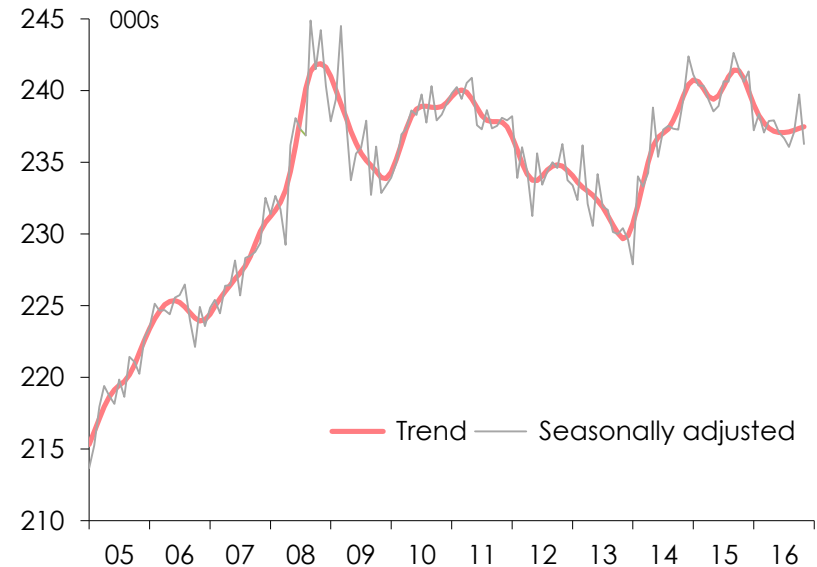
Employment growth very disappointing in 2015-16

Employment growth, by State & Territory, 2015-16



Source: Australian Bureau of Statistics.

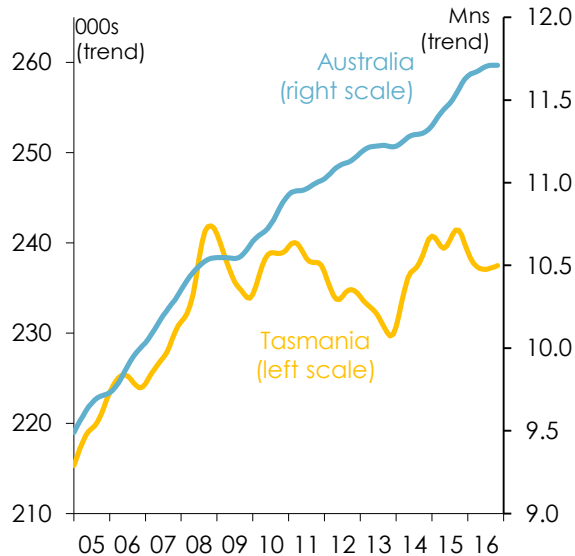
Employment, Tasmania



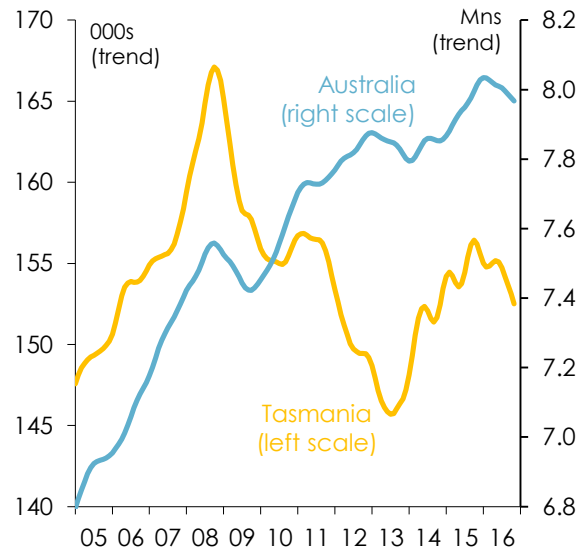
There's been no net jobs growth in Tasmania since 2008

Levels of employment, Tasmania vs mainland, 2005-2016

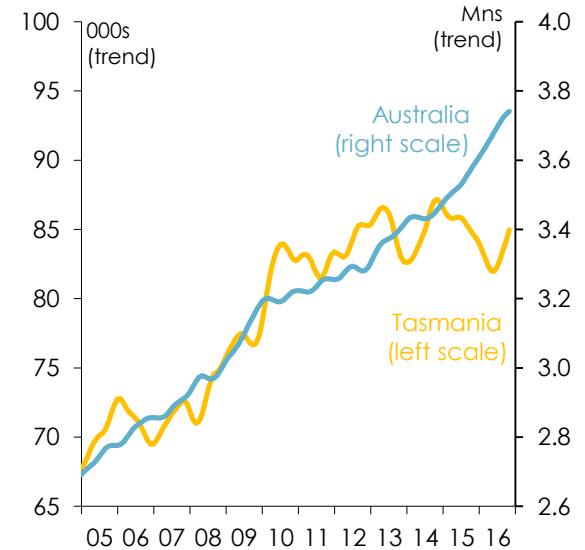
Total



Full-time



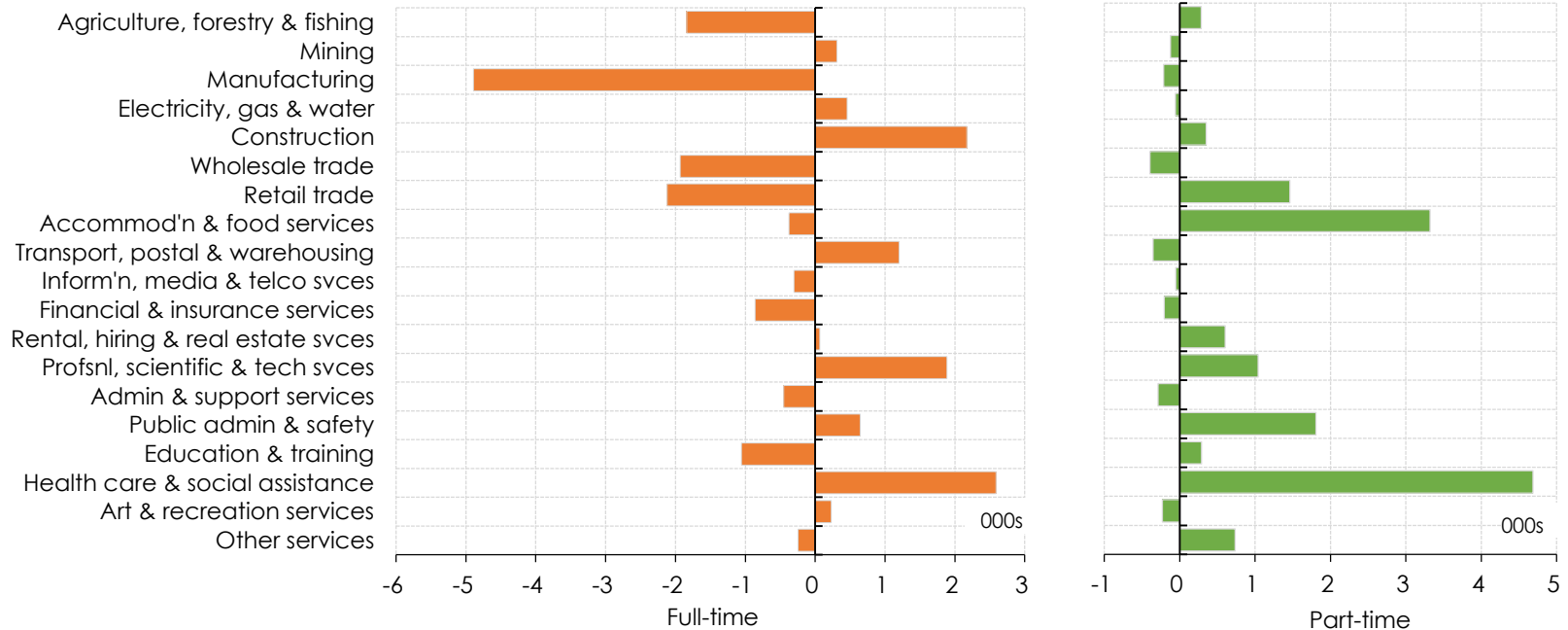
Part-time



Note: Left and right are scaled to be of equal proportions. Source: ABS.

Employment losses concentrated in four main sectors

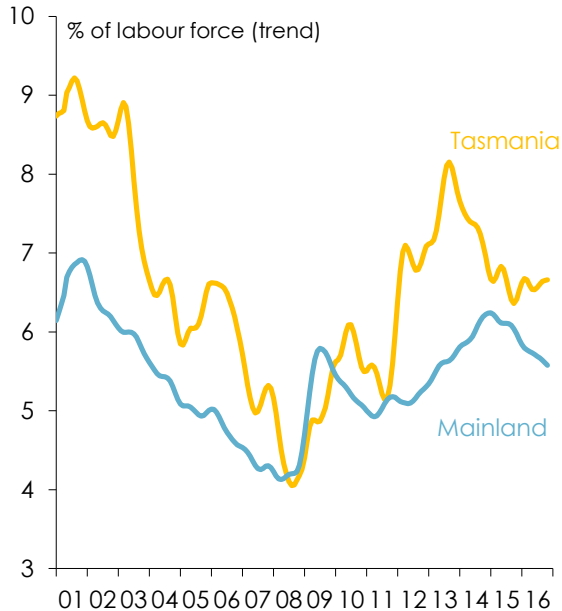
Change in Tasmanian employment by industry between 2008-09 and 2015-16



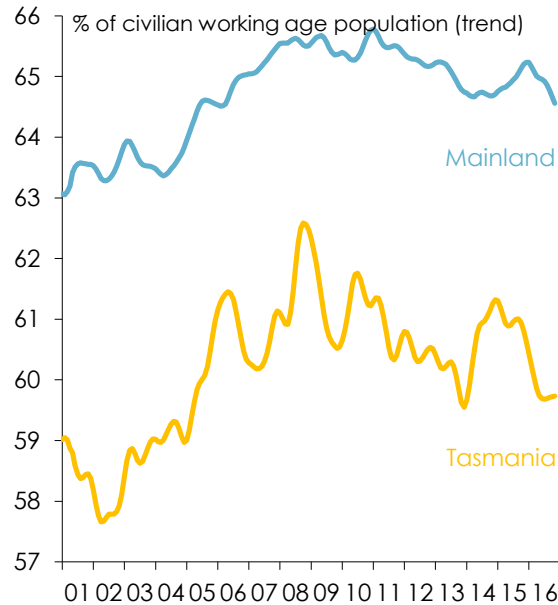
Employment figures for 2008-09 and 2015-16 are the averages of original data for August, November, February and May. Source: ABS.

Unemployment has risen and participation has declined

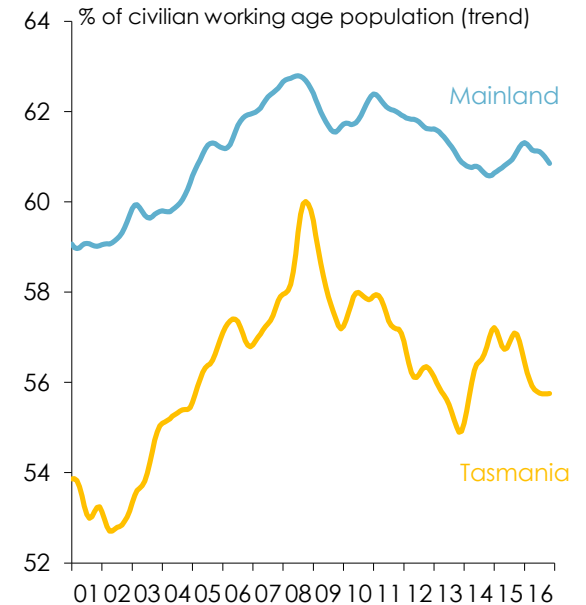
Unemployment rate



Participation rate



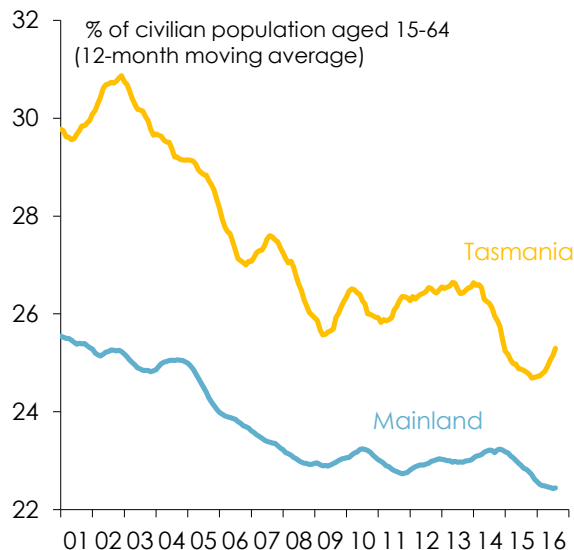
'Employment rate'



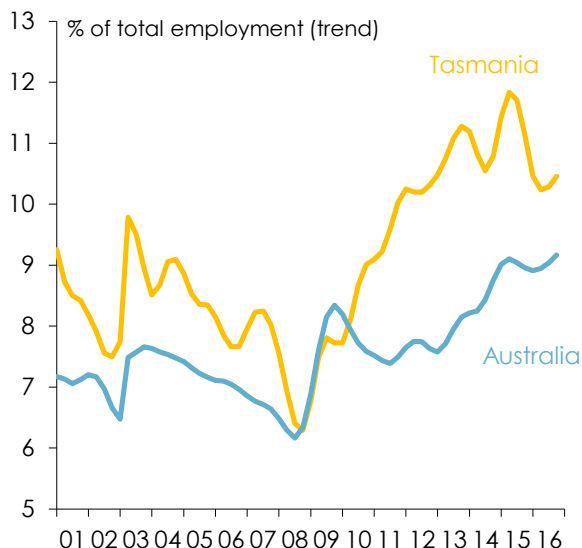
Source: ABS.

'Hidden unemployment' is higher in Tasmania

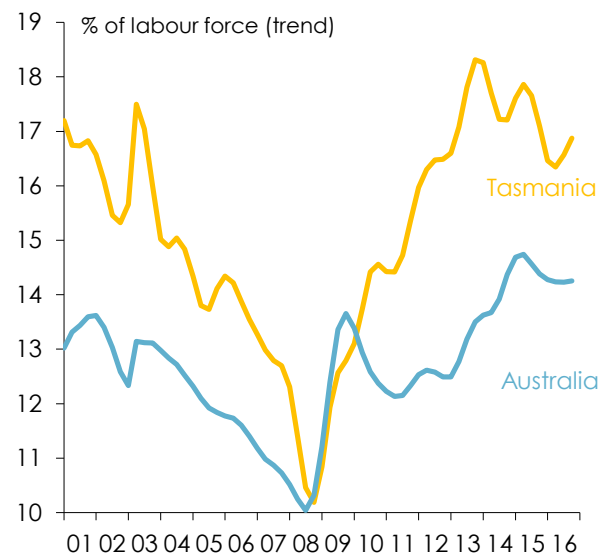
15-64 year olds not in the labour force



'Under-employment' ratio



Labour force 'under-utilization' rate

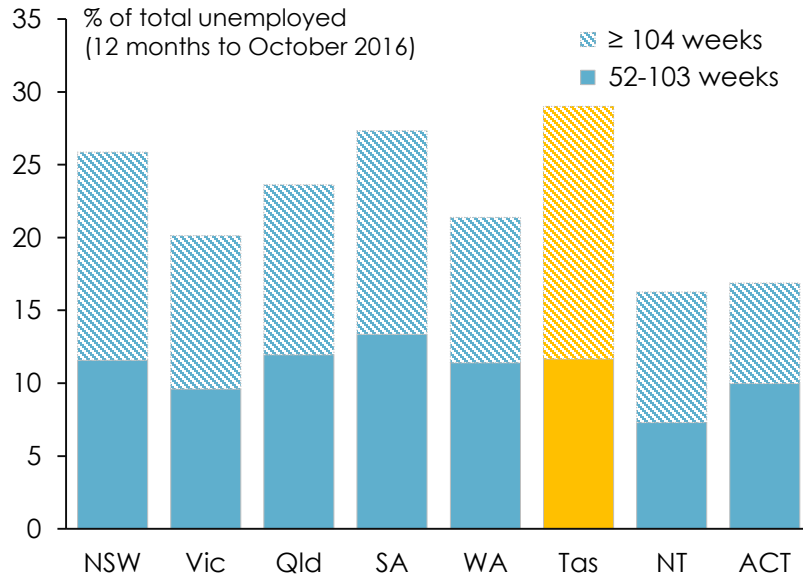


Note: 'Under-employment' is the percentage of those in employment who are working part-time and are willing and able to work more hours.

'Under-utilization' is the sum of unemployed and 'under-employed' as a pc of the workforce. Source: ABS.

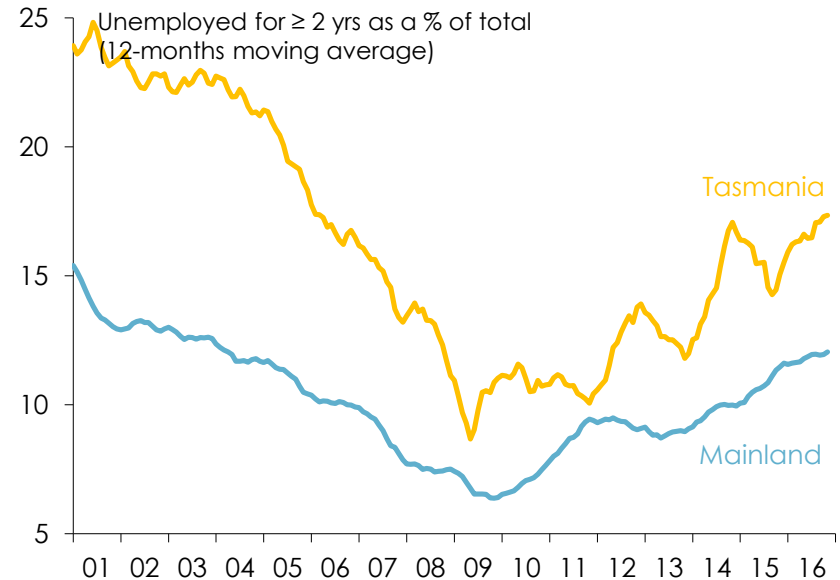
So is long-term unemployment

Long-term unemployment, year ended October 2016



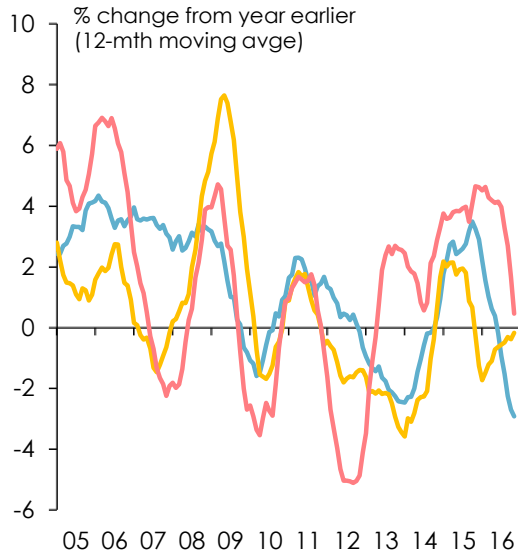
Source: ABS.

Very long-term unemployment rates, Tasmania and mainland

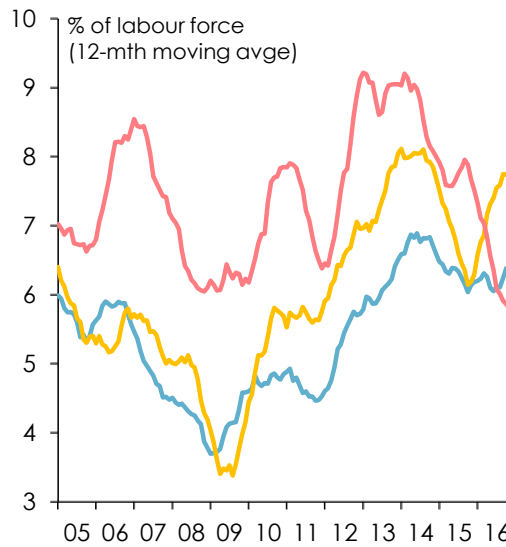


It's no longer true that all the jobs action is in Hobart

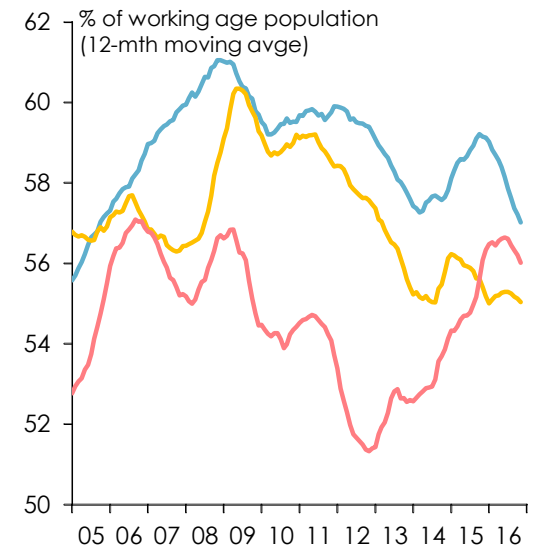
Employment growth



Unemployment rates



Employment-to-population ratios



— Greater Hobart — Launceston & North-East — North-West & West

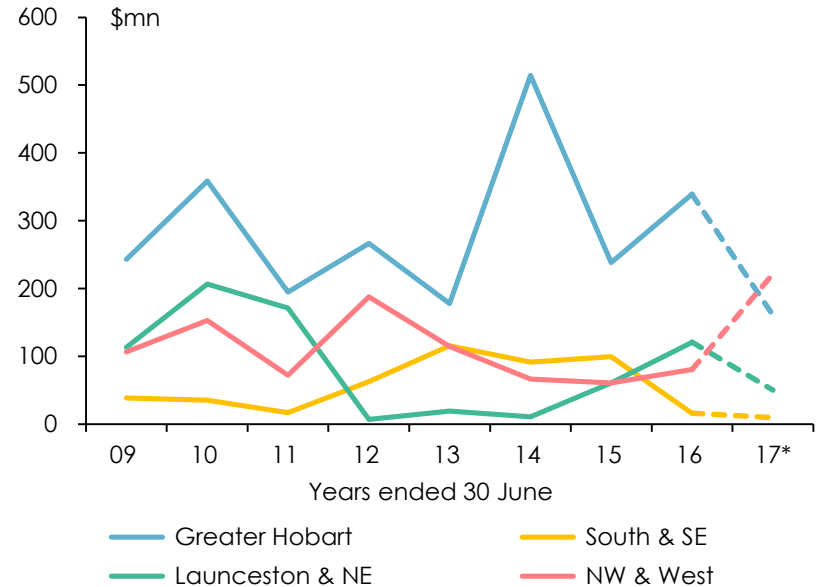
Source: ABS.

That's also the case with building

Residential building approvals



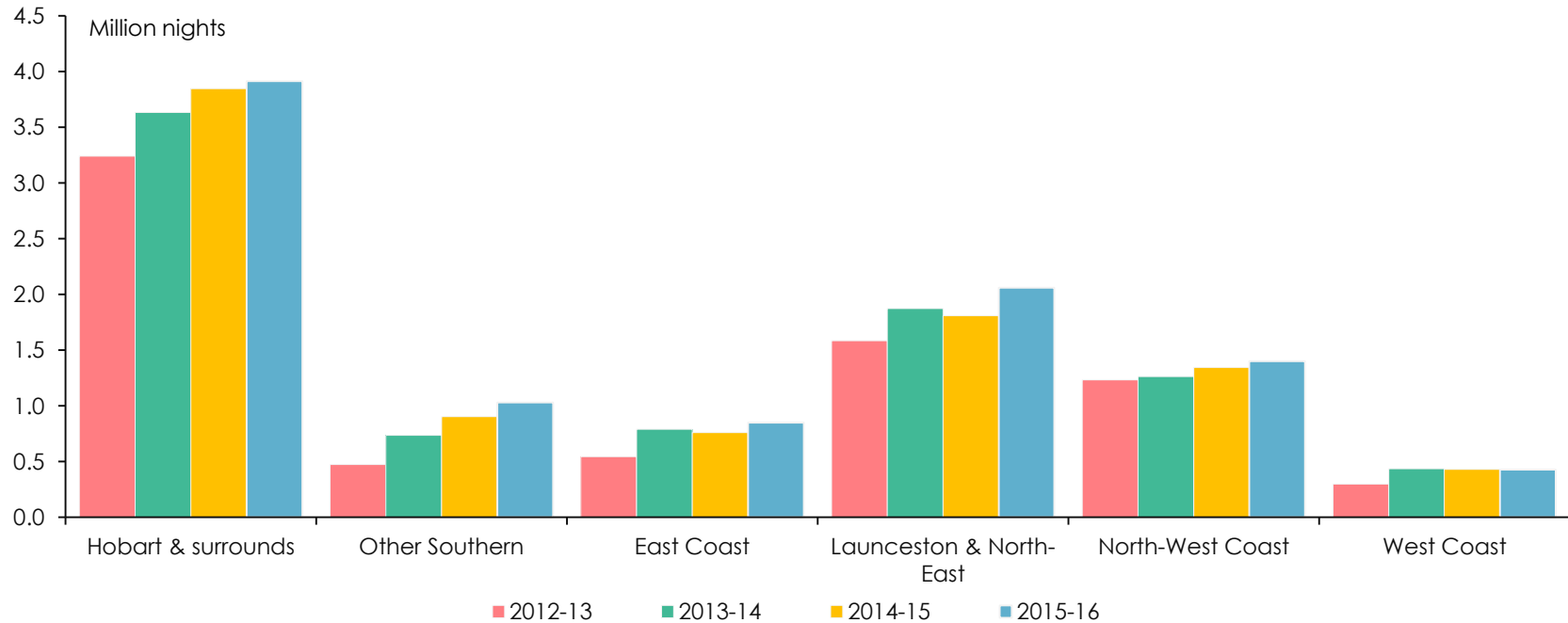
Non-residential building approvals



Note: 2016-17* is first four months at an annualized rate. Source: ABS.

Tourism growth is spreading out to most regions

Visitor nights by region, 2012-13 to 2015-16

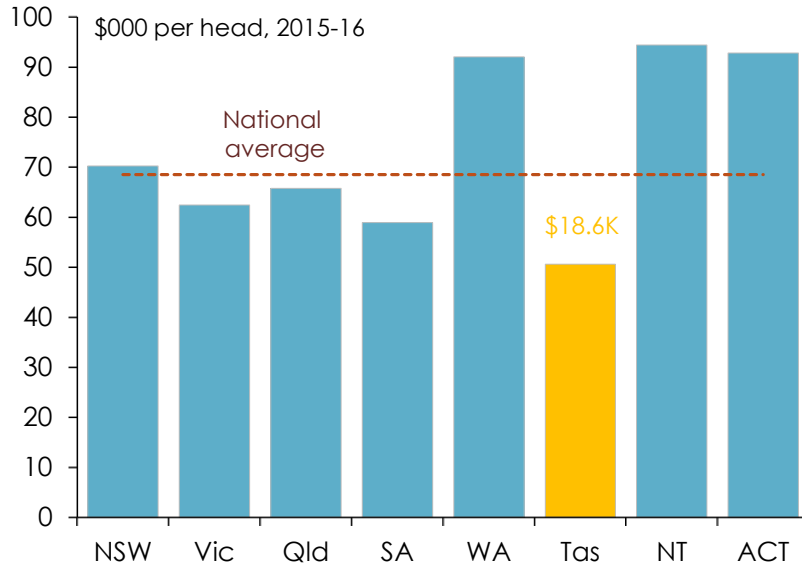


Source: Tourism Tasmania.

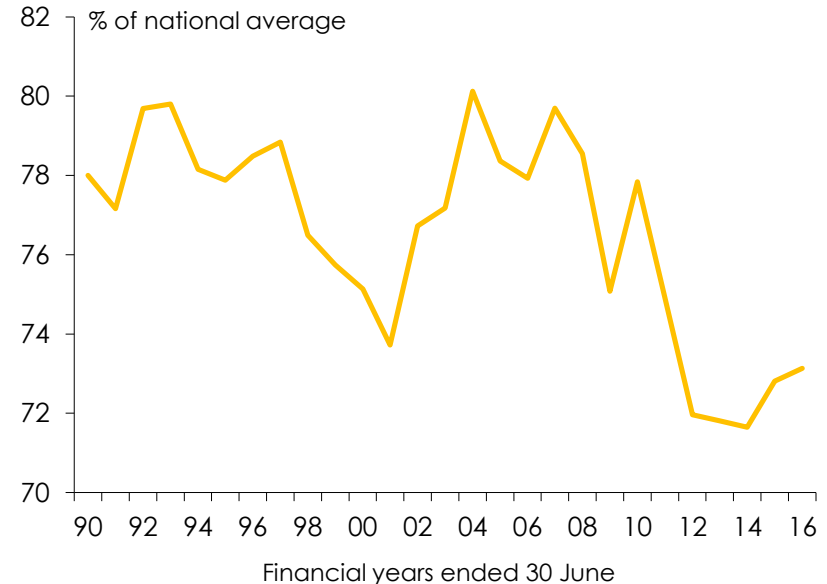


Tasmania's per capita GSP is 27% below average

Gross State product (GSP) per capita, States & Territories, 2015-16



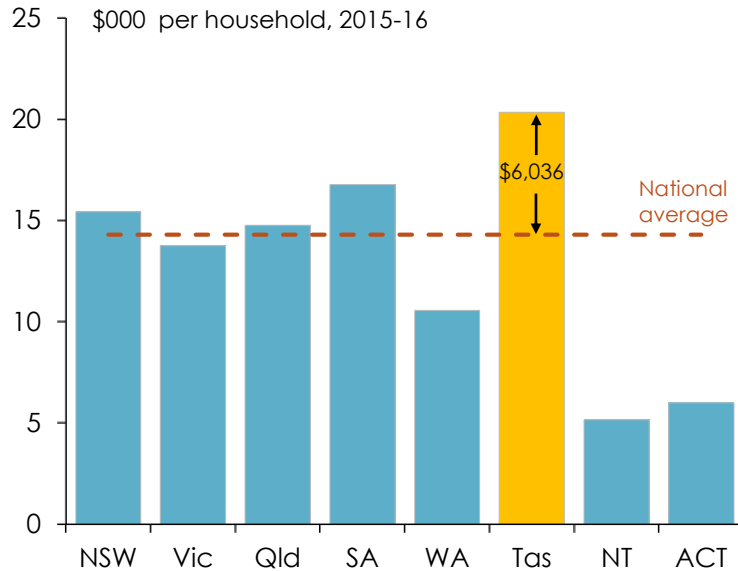
Tasmanian GSP per capita as a pc of national average, 1989-90 to 2015-16



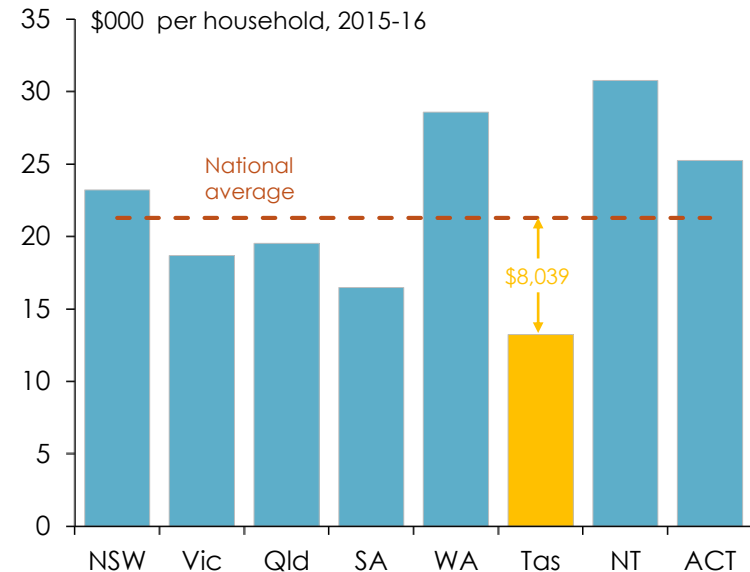
Source: ABS.

Thanks to the national social security and tax systems ...

Social security payments received per household, 2015-16



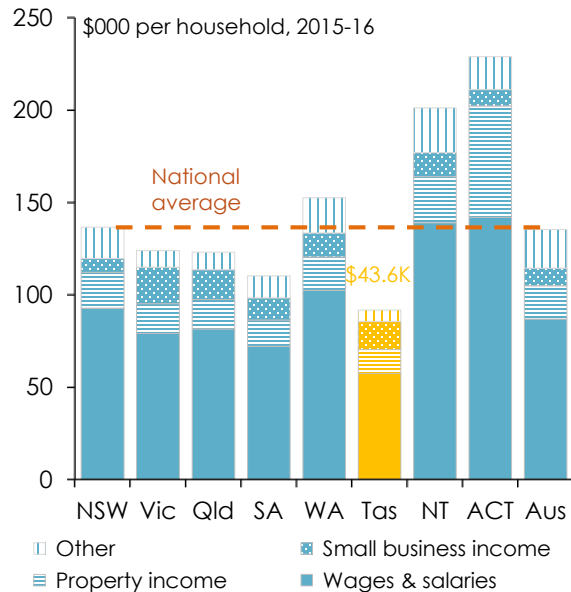
Personal income tax payments per household, 2015-16



Source: ABS.

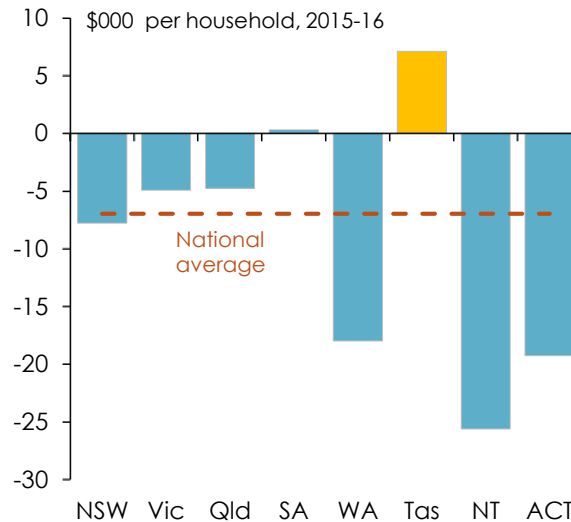
... Tasmanians don't feel the full effects of the 'GSP gap'

Gross income per household, 2015-16

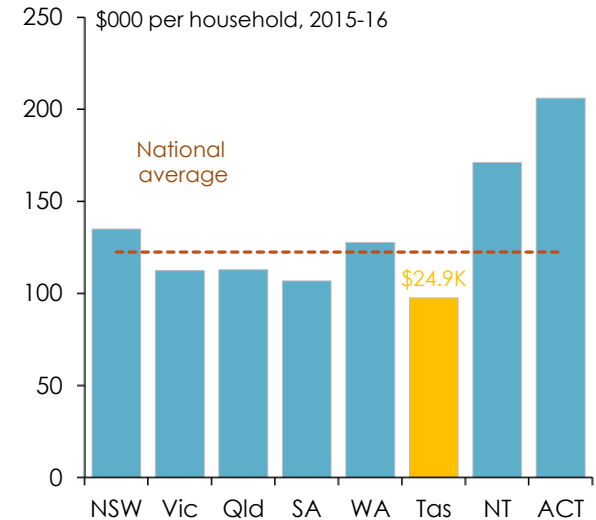


Source: ABS.

Income tax and social security benefits, 2015-16

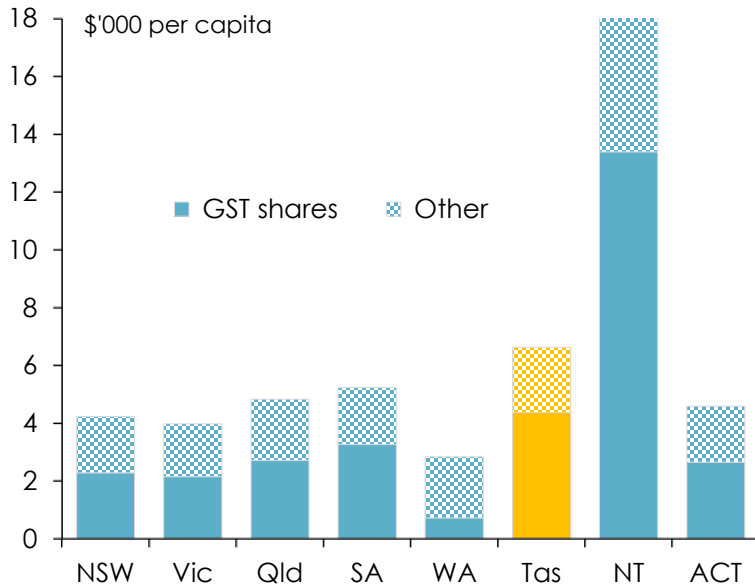


Disposable income per household, 2015-16



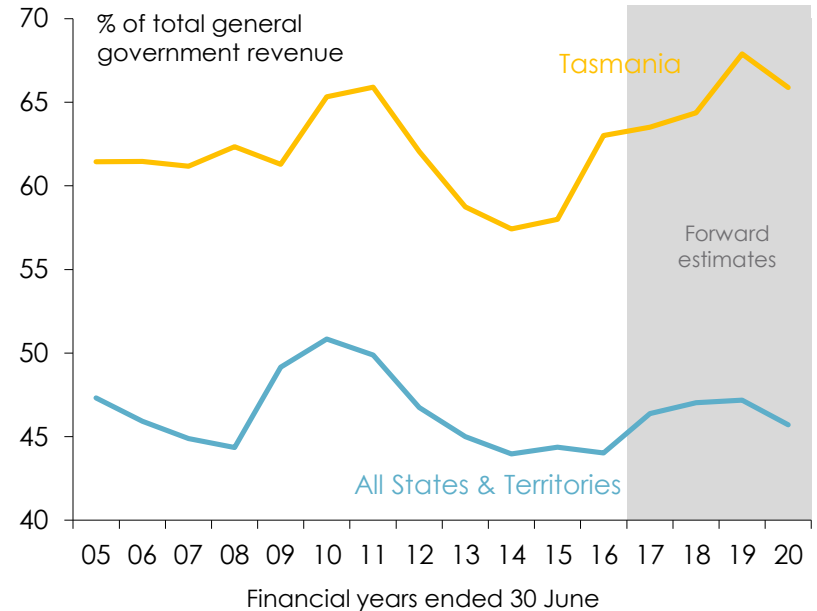
Federal-state financial relations allow Tasmanian gov'ts ...

Commonwealth payments to States & Territories, 2015-16



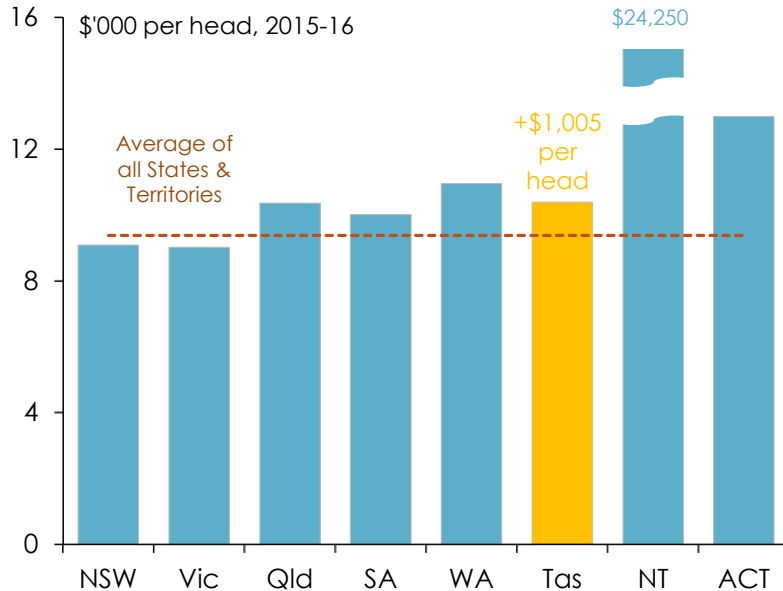
Source: Australian and Tasmanian Government Budget Papers.

Commonwealth payments as a pc of total 'general government' revenue

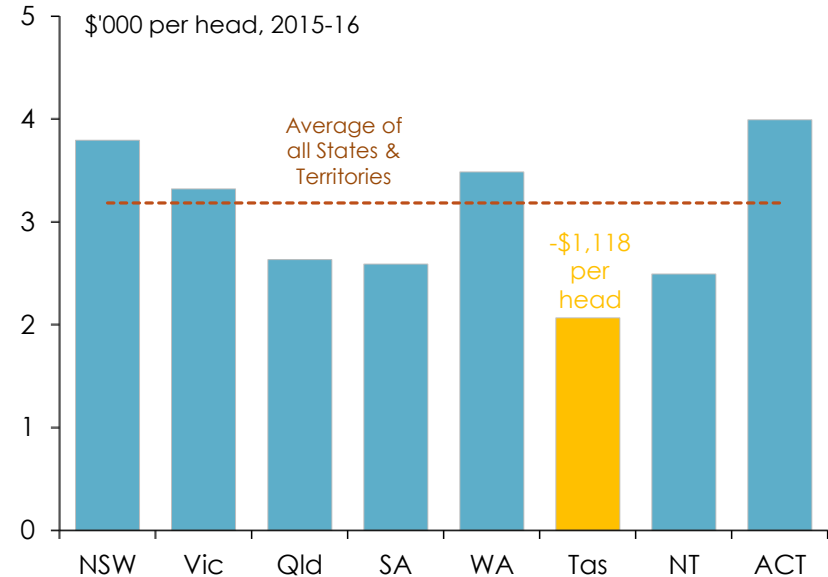


... to spend more while taxing less than other States

General government 'operating expenses' per capita, 2015-16



State taxation revenues per capita, 2015-16



Source: Australian, State & Territory Government Budget Papers; ABS.

Why is there an \$18,600 or 27% 'GSP' gap?

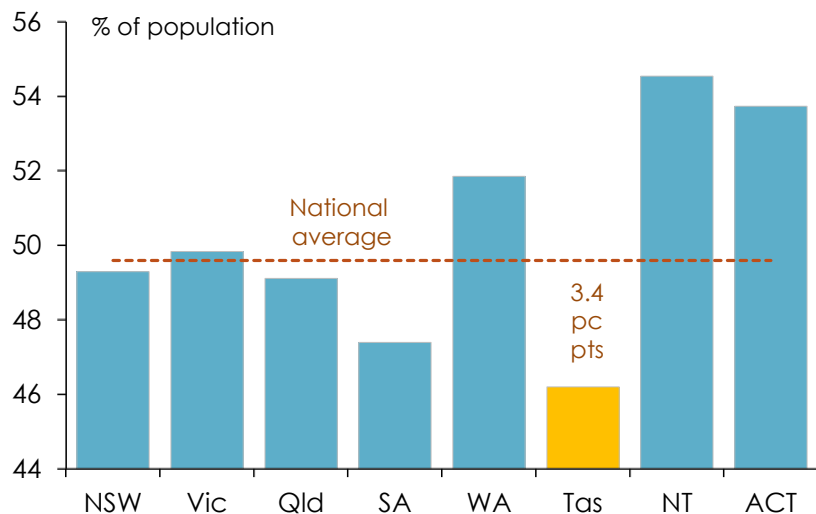
$$\frac{\text{gross State product}}{\text{population}} = \frac{\cancel{\text{employment}}}{\text{population}} \times \frac{\text{total hours worked}}{\cancel{\text{employment}}} = \frac{\text{gross State product}}{\text{population}}$$
$$\frac{\text{gross State product}}{\text{population}} = \frac{\text{gross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

Why is there and \$18,600 or 27% 'GSP gap'?

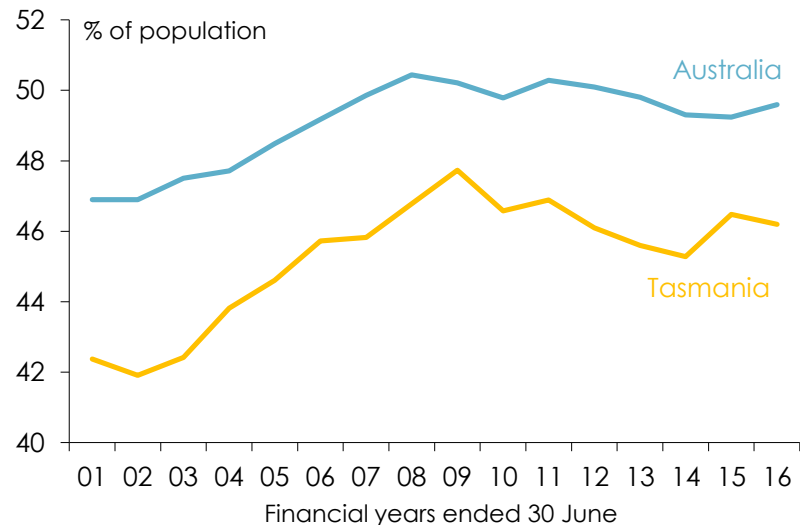
$$\frac{\text{gross State product}}{\text{population}} = \frac{\text{employment}}{\text{population}} \times \frac{\text{total hours worked}}{\text{employment}} = \frac{\text{participation rate}}{\text{average hours worked}} \times \frac{\text{labour productivity}}{\text{total hours worked}}$$

The 'participation gap' accounts for 39% of the 'GSP gap'

Employment as a pc of population, States & Territories, 2015-16



Employment as a pc of population, Tasmania & Australia, 2000-01 to 2015-16

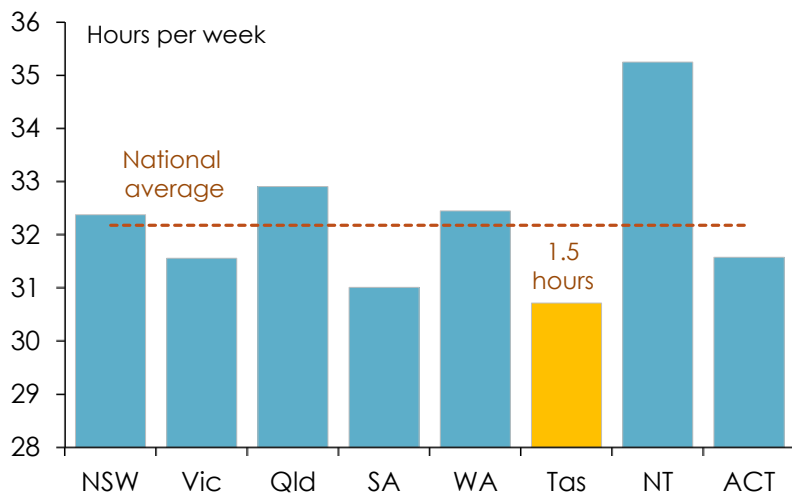


The 3.4 pc point gap in participation rates accounts for \$7,200 or 39% of the difference in per capita GSP between Tasmania and the national average

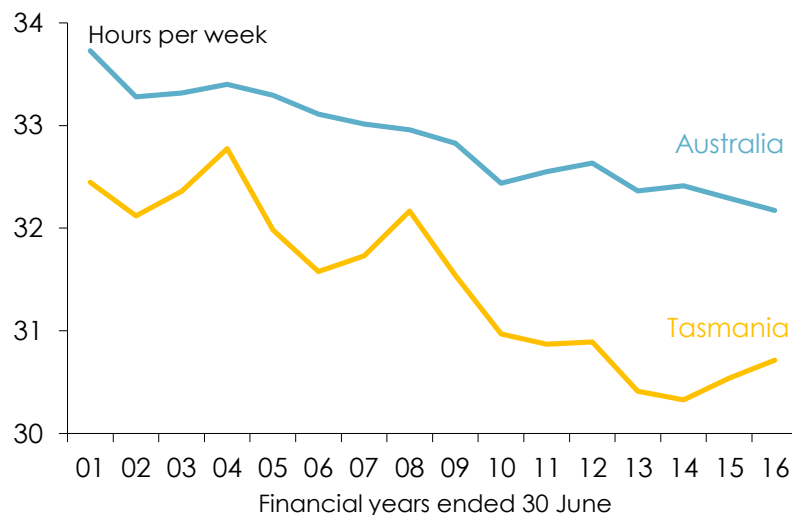
Source: Australian Bureau of Statistics.

The 'hours worked gap' accounts for 43% of the 'GSP gap'

Average weekly hours worked, States & Territories, 2015-16



Average weekly hours worked, Tasmania & Australia, 2000-01 to 2015-16

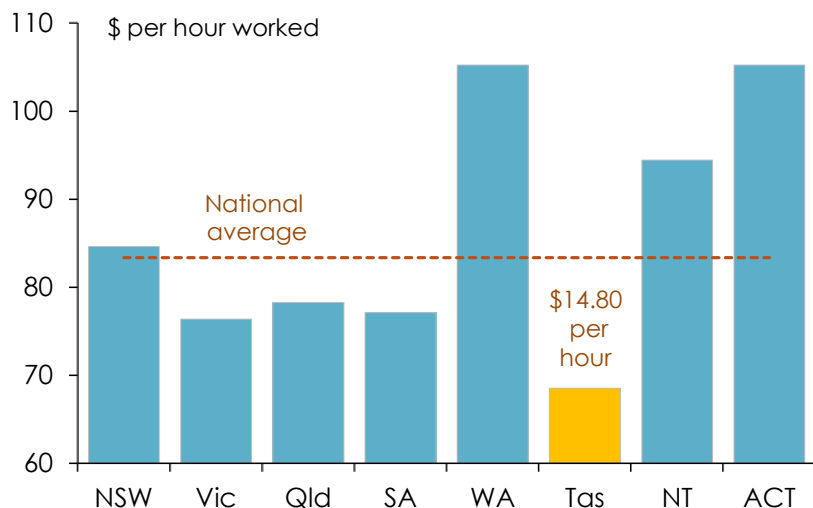


The 1.5 hours per week gap in average hours worked (equivalent to more than 12 days per annum) accounts for \$8,100 or 43% of the difference in per capita GSP between Tasmania and the national average

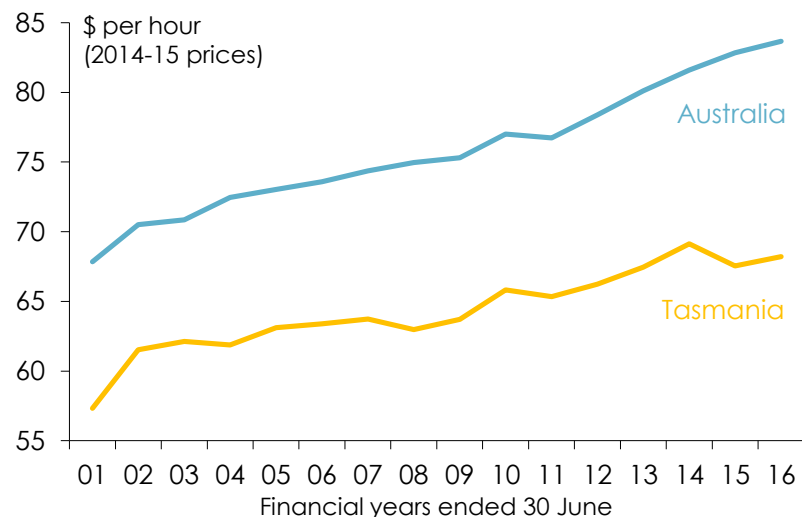
Source: Australian Bureau of Statistics.

The 'productivity gap' accounts for 18% of the 'GSP gap'

Gross product per hour worked, States & Territories, 2015-16



Gross product per hour worked, Tasmania & Australia, 2000-01 to 2015-16

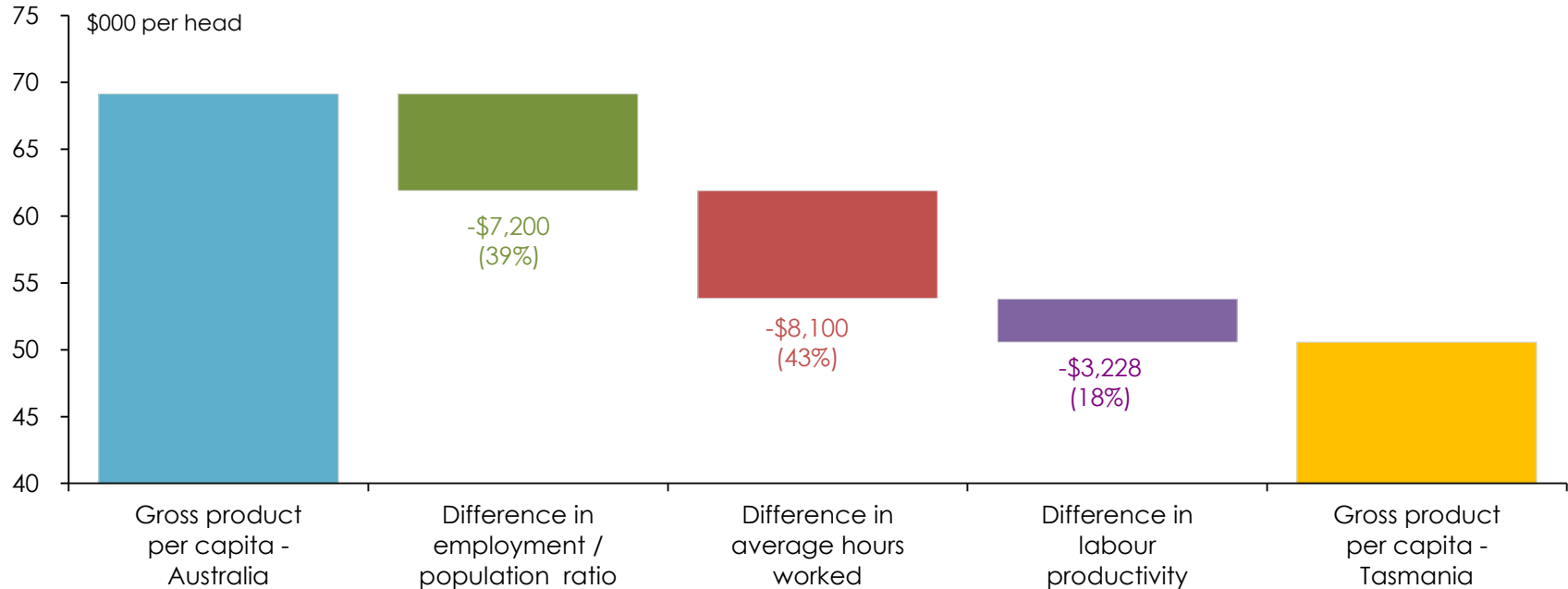


The \$15 per hour (or 18%) 'productivity gap' accounts for \$3,300 or 18% of the difference in per capita GSP between Tasmania and the national average

Source: Australian Bureau of Statistics.

Summary of the reasons for the \$18,600 GSP gap

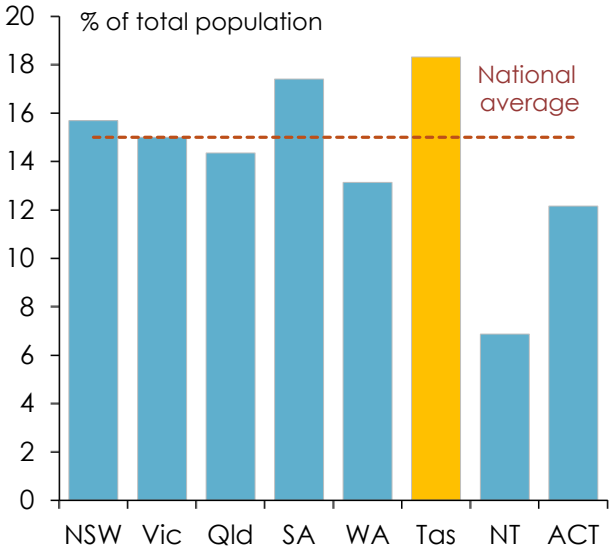
Sources of the difference in per capita gross product between Tasmania and Australia, 2015-16



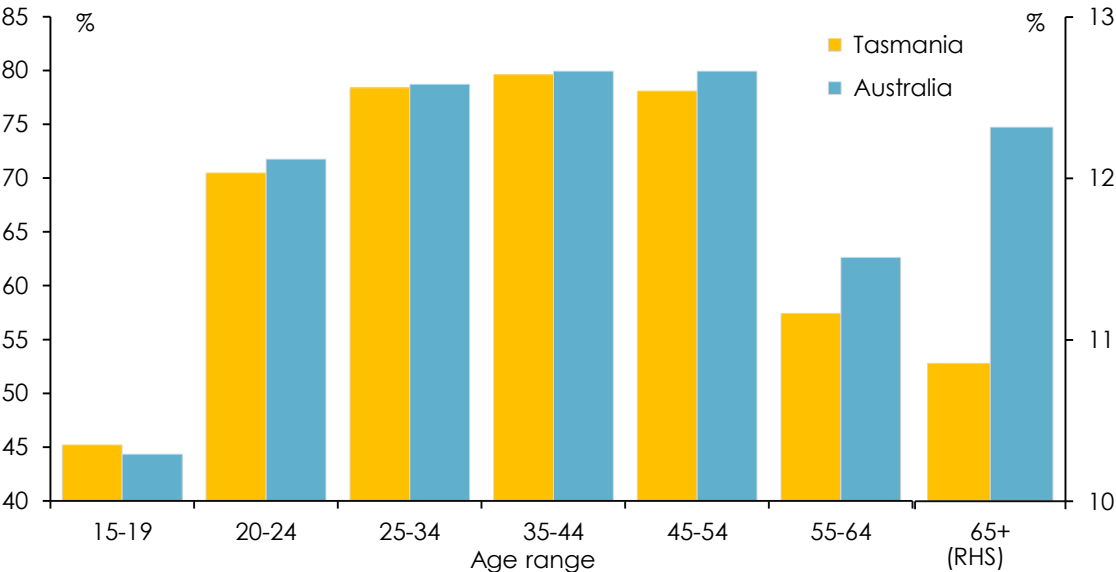
Source: ABS.

Employment gap partly a function of our age structure

Pc of population aged 65 and over, 2015



Employment as pc of population, by age group, 2015

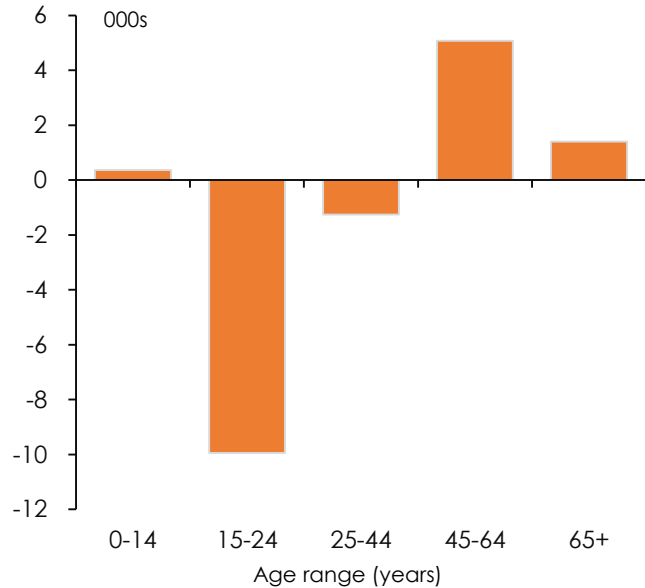


Source: ABS.

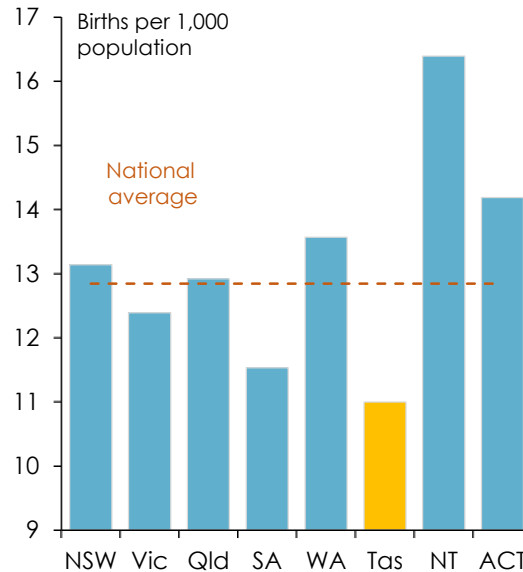


Reflecting interstate migration *and* 'natural' causes ...

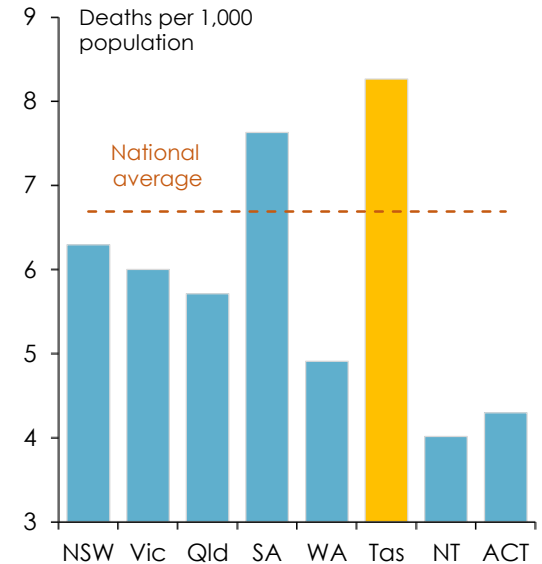
Net interstate migration to Tasmania, 2006-07 to 2014-15



Crude birth rate, 2015



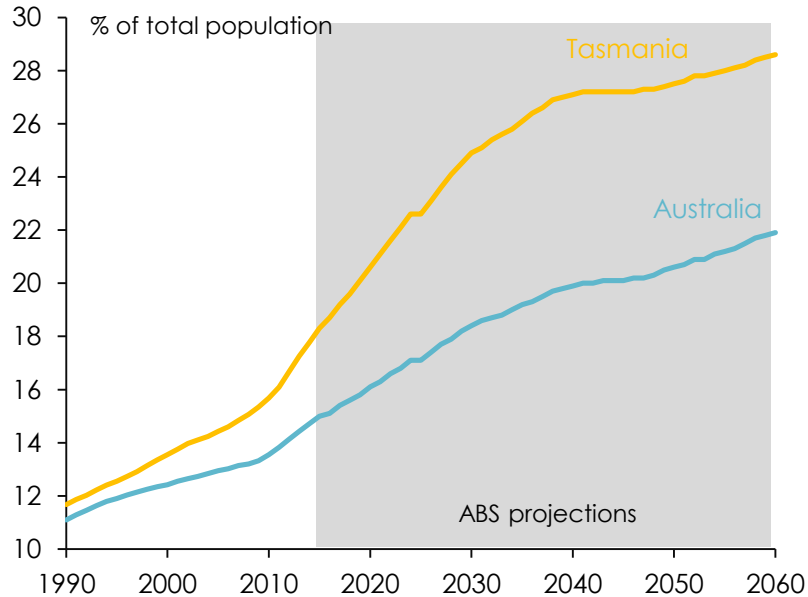
Crude death rate, 2015



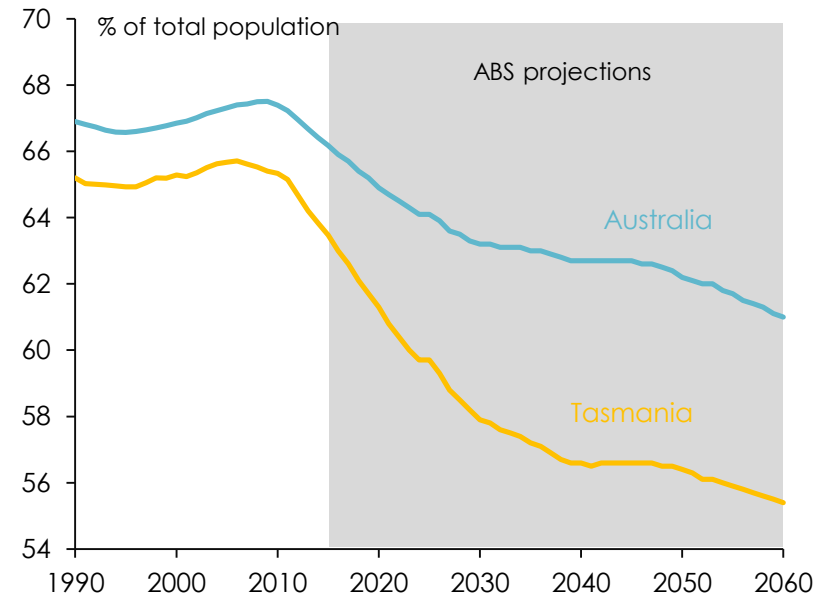
Source: ABS.

... Tasmania's population will age much more rapidly

Pc of population aged 65 and over



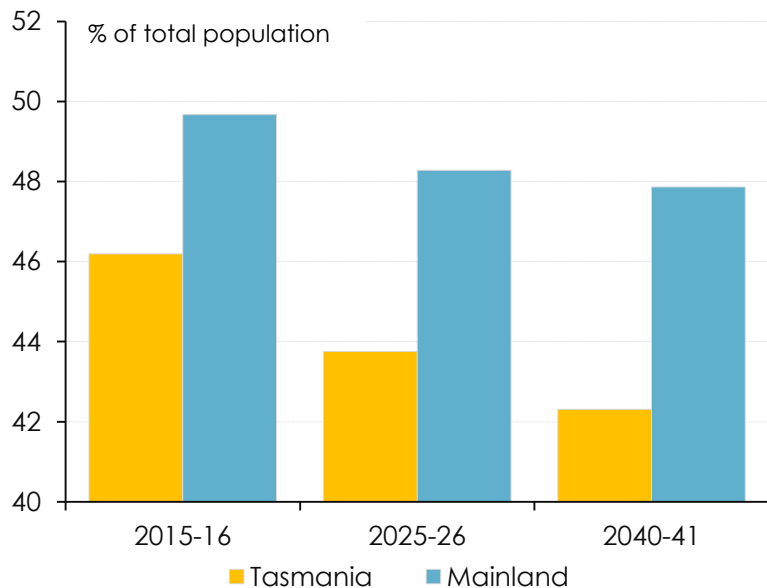
Pc of population aged 15-64



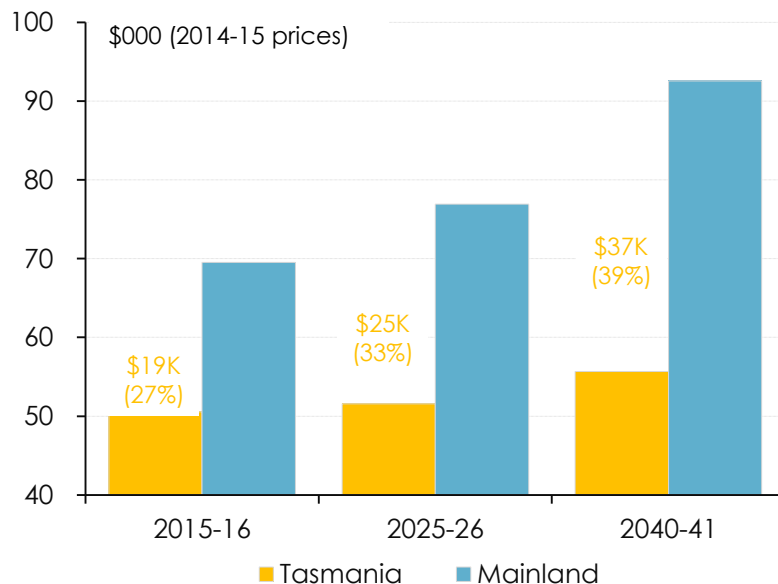
Source: ABS.

... and the 'GSP gap' will get bigger (all else being equal)

Projected employment rates, Tasmania and mainland



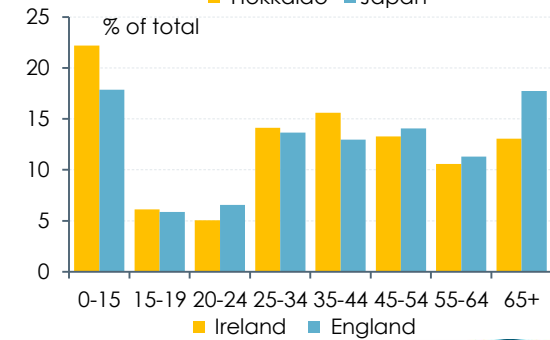
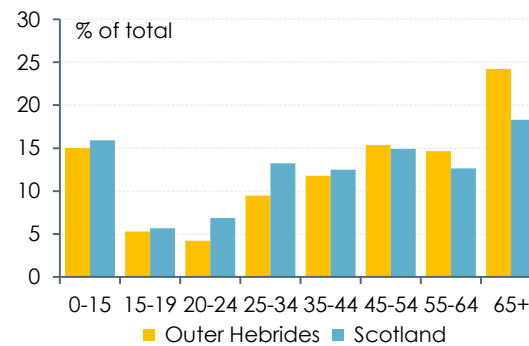
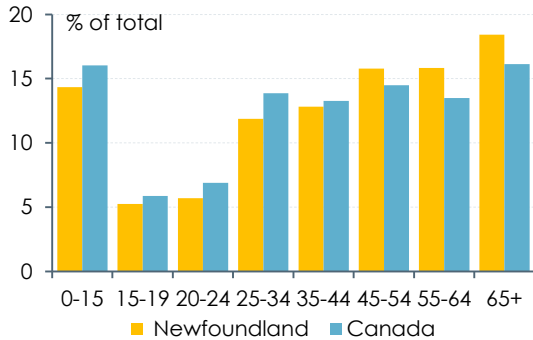
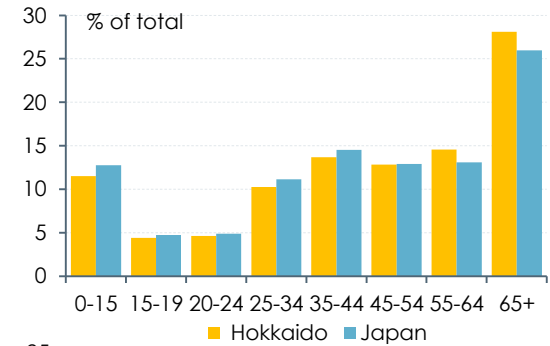
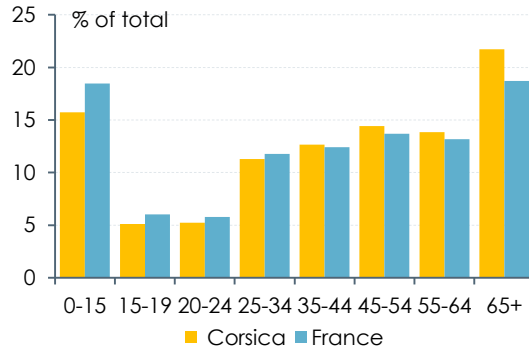
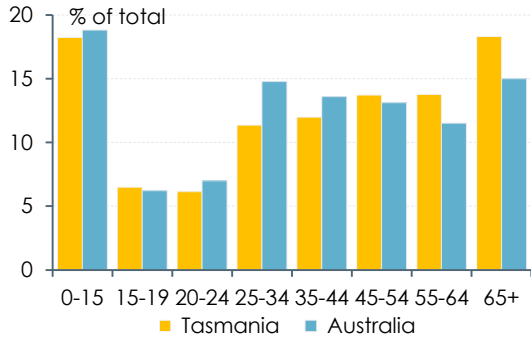
Projected levels of per capita GSP, Tasmania and mainland



Note: Per capita GSP projections assume average hours worked unchanged at 2015-16 levels, and productivity growth for Tasmania and mainland continuing at same rates as over ten years to 2015-16. Source: ABS.

Many islands around the world have a similar problem

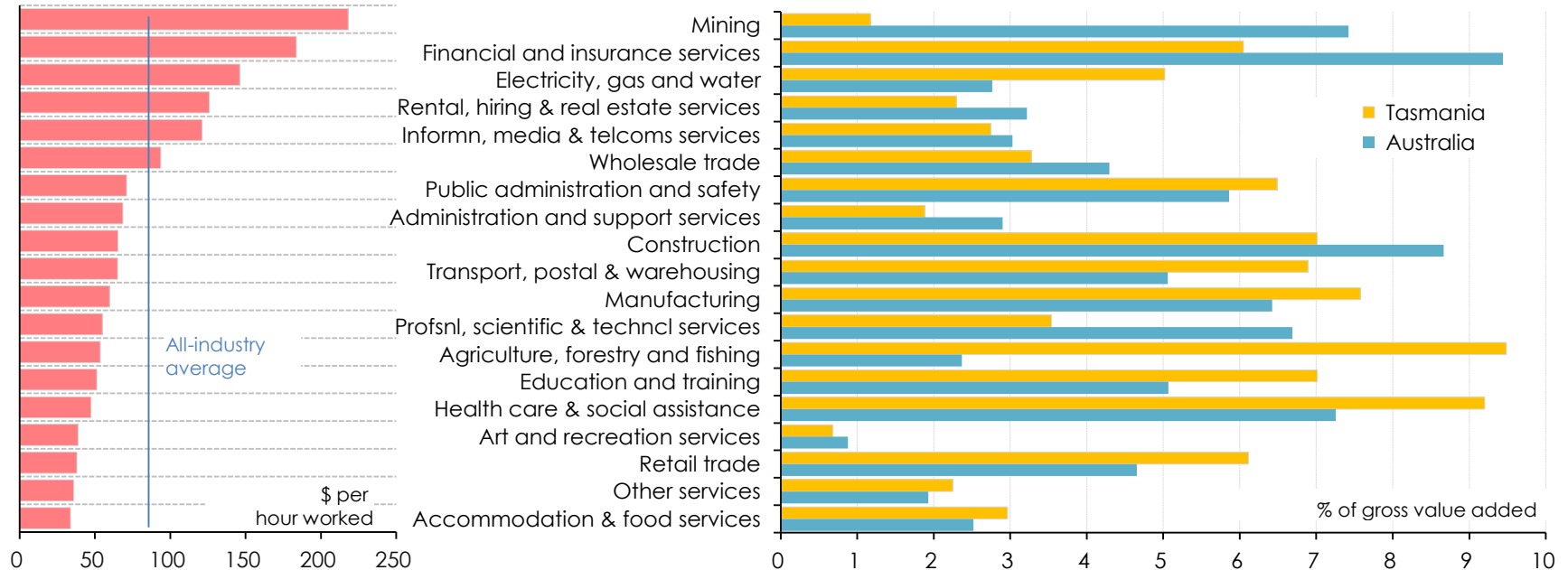
Age profiles of islands and their adjacent 'mainlands'



Sources: national statistical agencies.

High-productivity sector are 'under-represented' in Tas

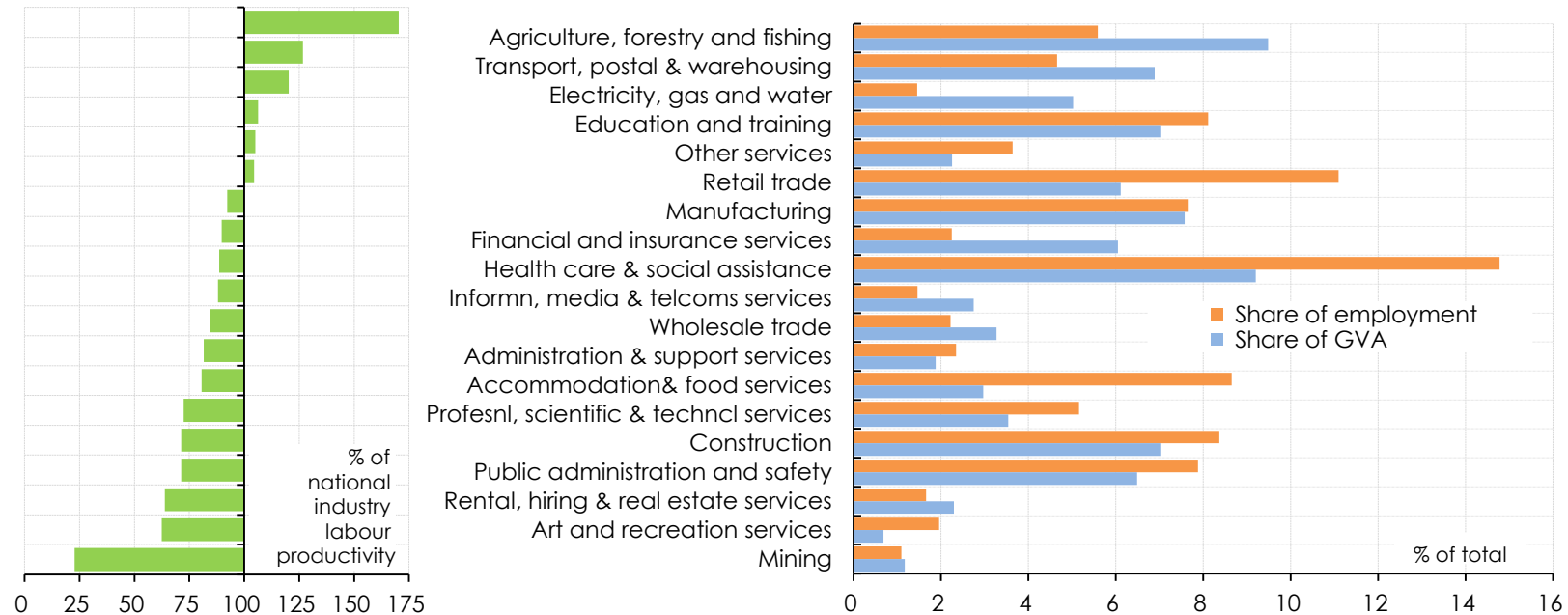
Industry sectors ranked by Australia-wide labour productivity, and shares of the Tasmanian and Australian economies, 2015-16



Source: ABS.

Most Tas sectors have below-average productivity

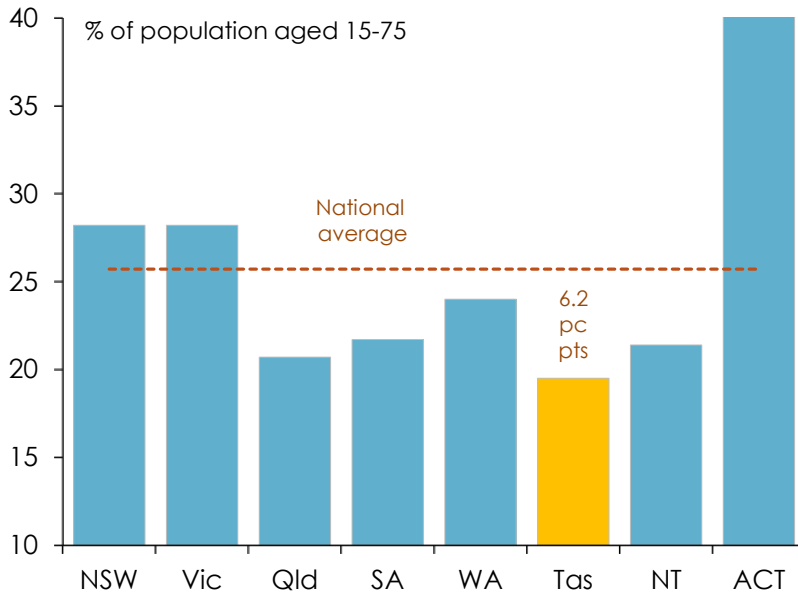
Industry sectors ranked by Tasmanian labour productivity as a pc Australia-wide averages, and shares of Tasmanian gross value added and employment, 2015-16



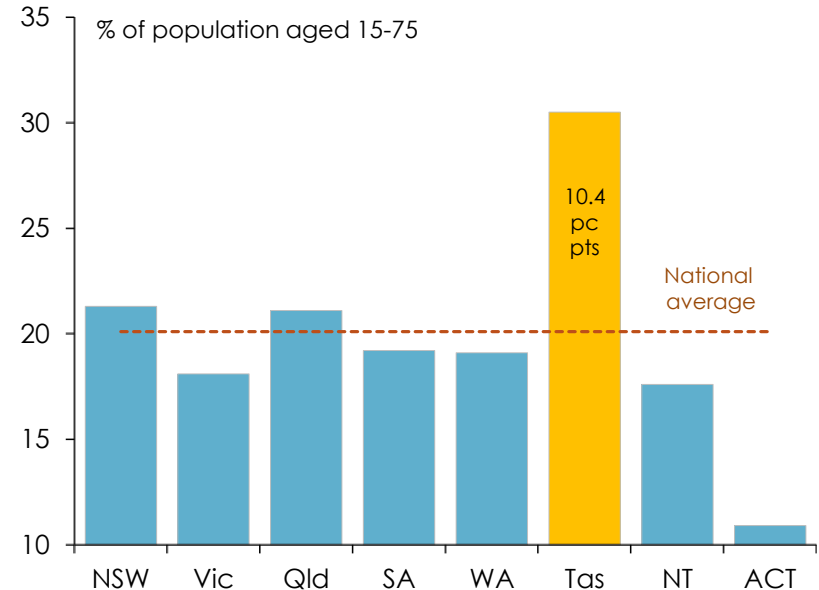
Source: ABS.

Low productivity is partly a function of low skills

15-75 year old population with bachelor degree or higher, 2016



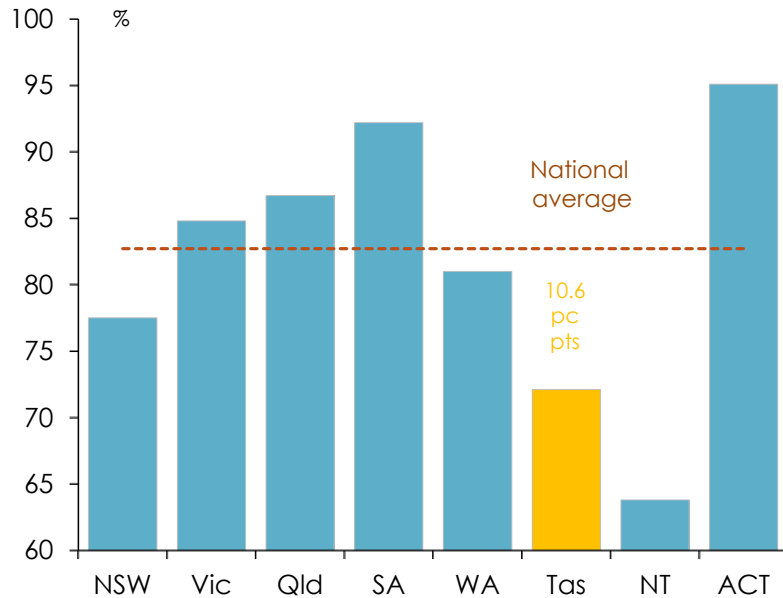
15-75 year old population with no qualification beyond year 10



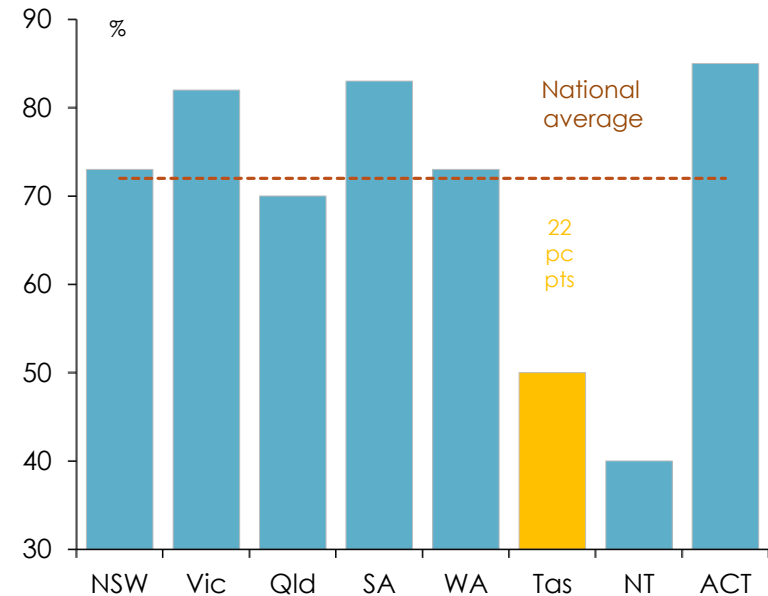
Source: ABS.

Skills won't improve without higher educational attainment

Year 12 retention rates, 2015



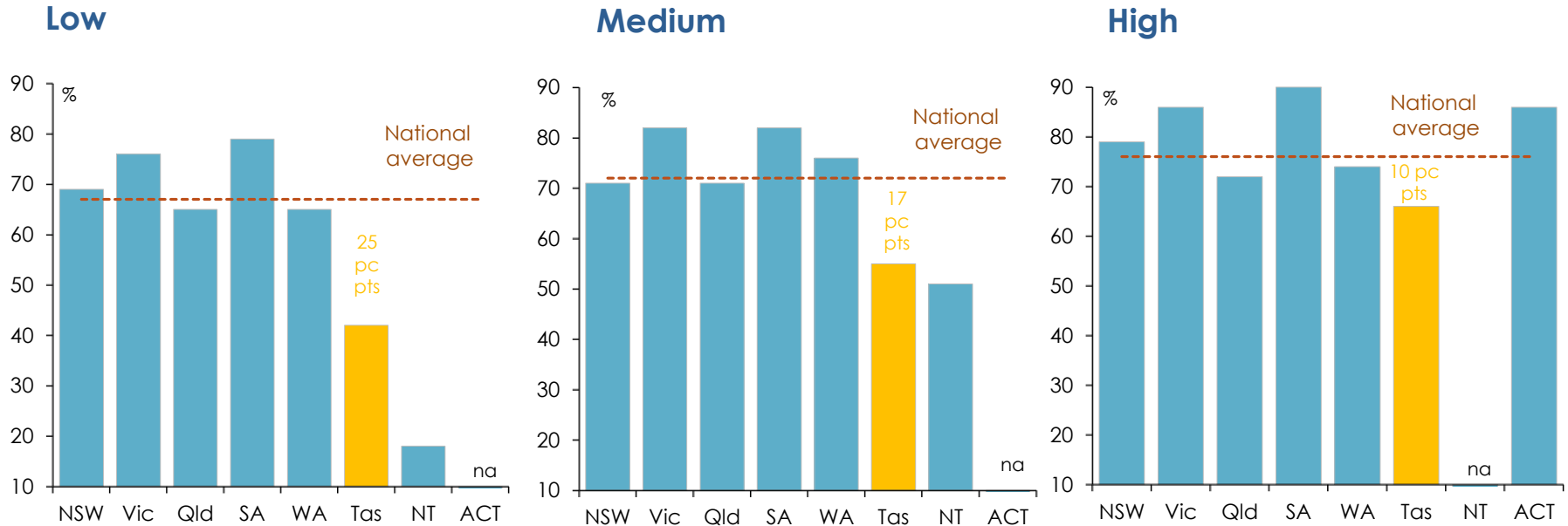
Year 12 completion rates, 2014



Source: ABS.; Productivity Commission.

Poor Y12 completion rates aren't due to kids' backgrounds

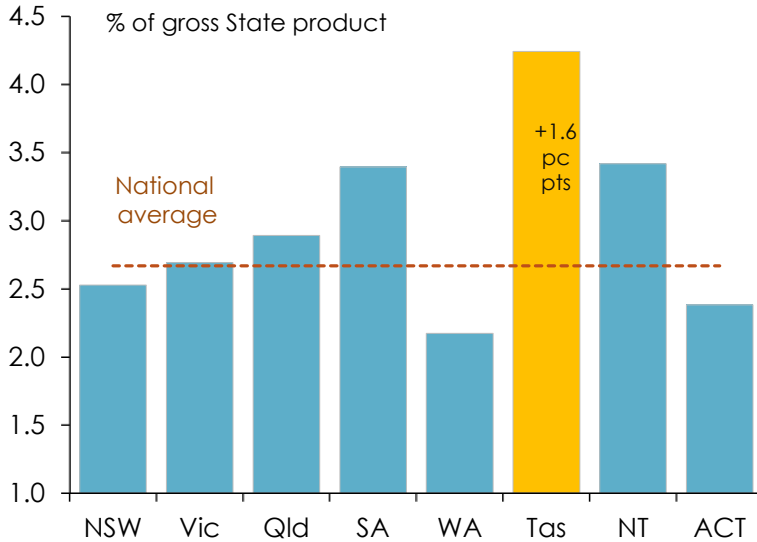
Year 12 completion rates by socio-economic status (SES), States & Territories, 2014



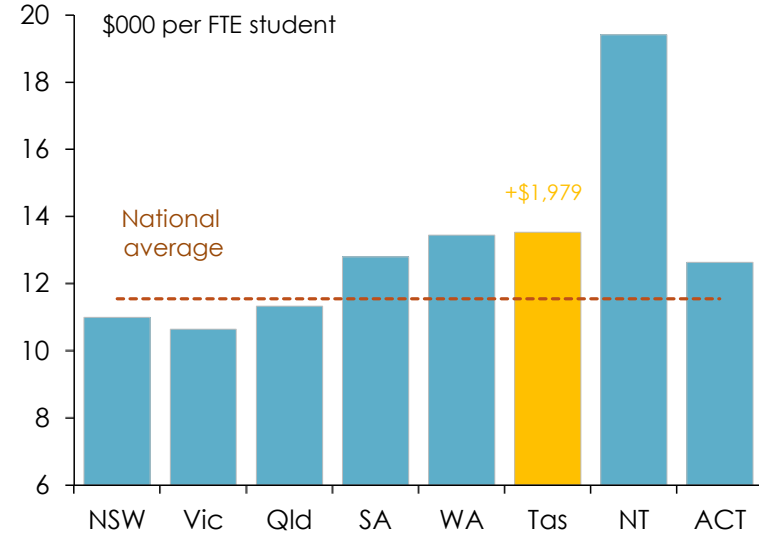
Note: Low socioeconomic status is the average of the three lowest deciles, medium socioeconomic status is the average of the four middle deciles and high socioeconomic status is the average of the three highest deciles. Source: Productivity Commission Report on Government Services 2016.

Nor are they the result of insufficient spending on education

Spending on school education as a pc of GSP, 2015-16



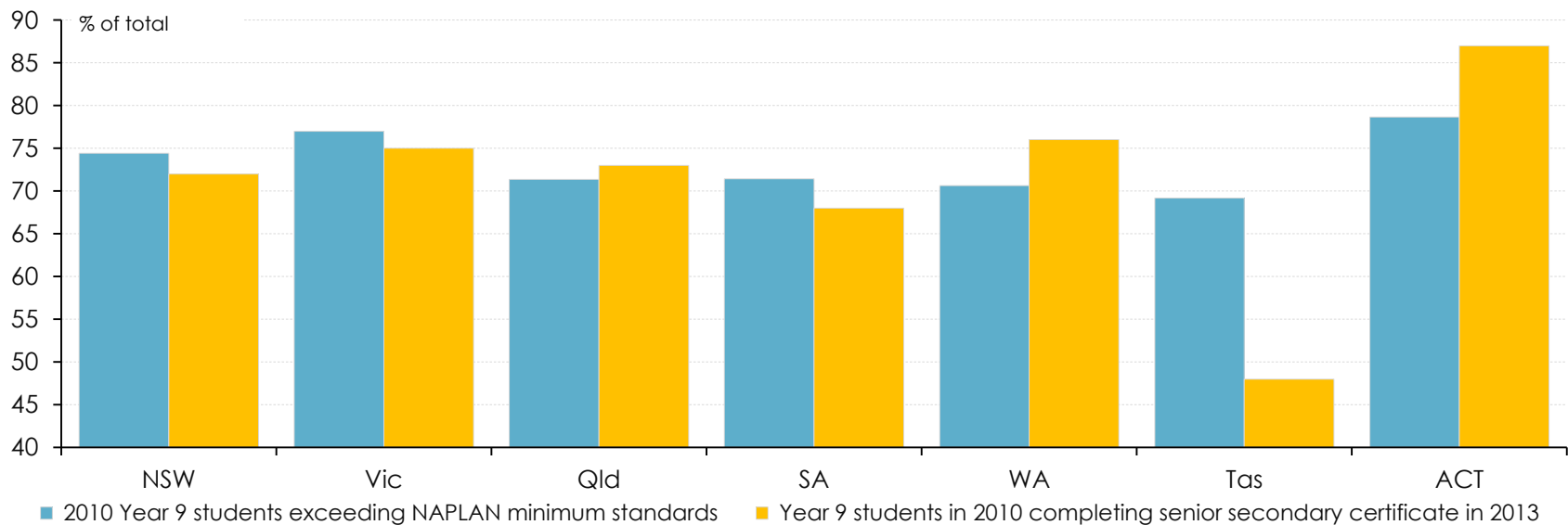
Spending on school education per EFT student, 2015-16



Note: 'Schools' refers to primary and secondary schools. 'EFT' means effective full-time (student) – ie adjusted for number of part-time students.
Source: Australian Bureau of Statistics.

Tasmanian students face barriers getting past Year 10

Conversion of above-minimum standard NAPLAN results at Year 9 to Year 12 certificates

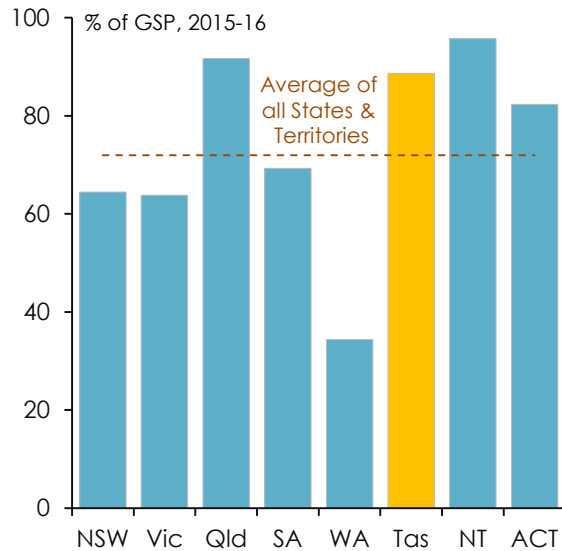


Source: Michael Rowan & Eleanor Ramsay (University of Tasmania and Education Ambassadors).

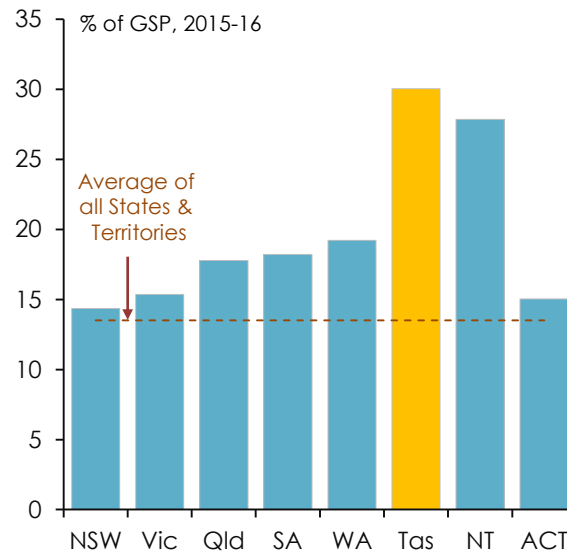


Tasmania has a relatively big public sector

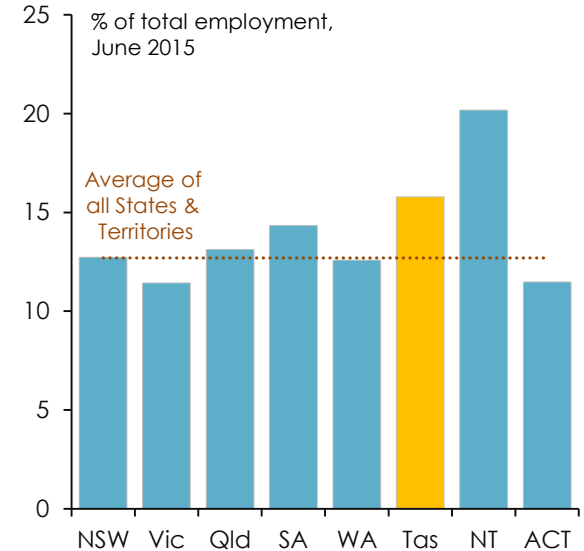
State public sector assets



State public sector 'operating expenses'



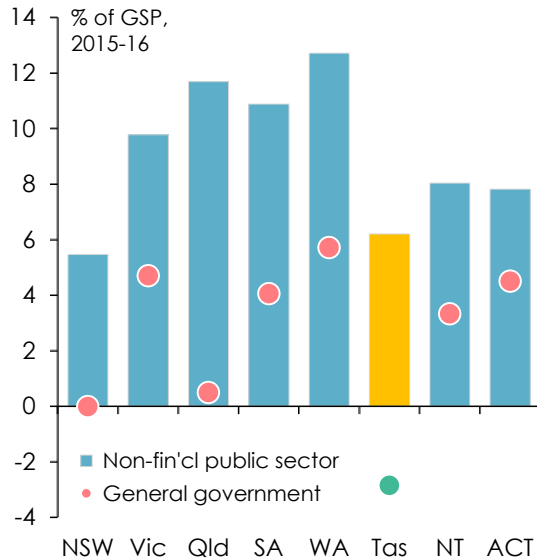
State public sector employment



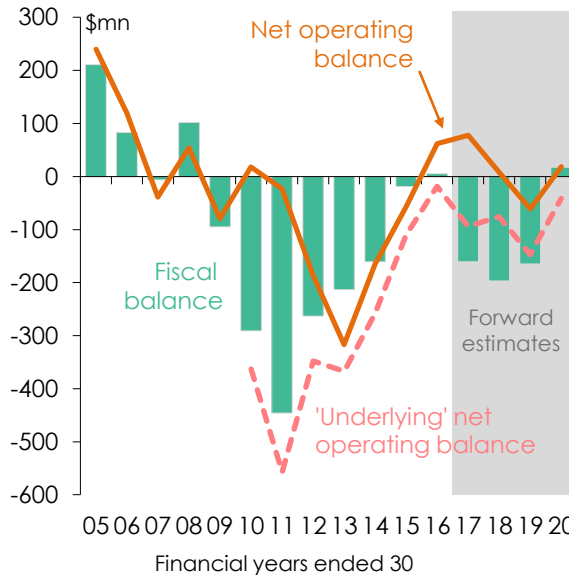
Source: State & Territory Treasurers' Annual Financial Reports, and Budget Papers; ABS.

In most respects – bar one – it's in reasonably sound shape

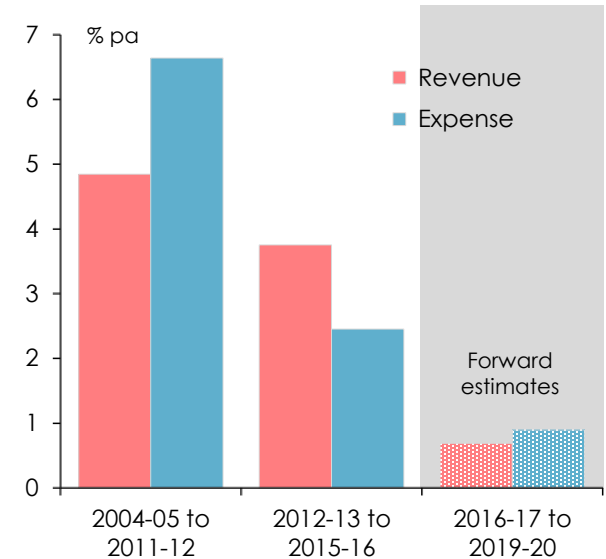
Net debt



Tasmanian government 'bottom lines'



Tasmanian government revenues & expenses

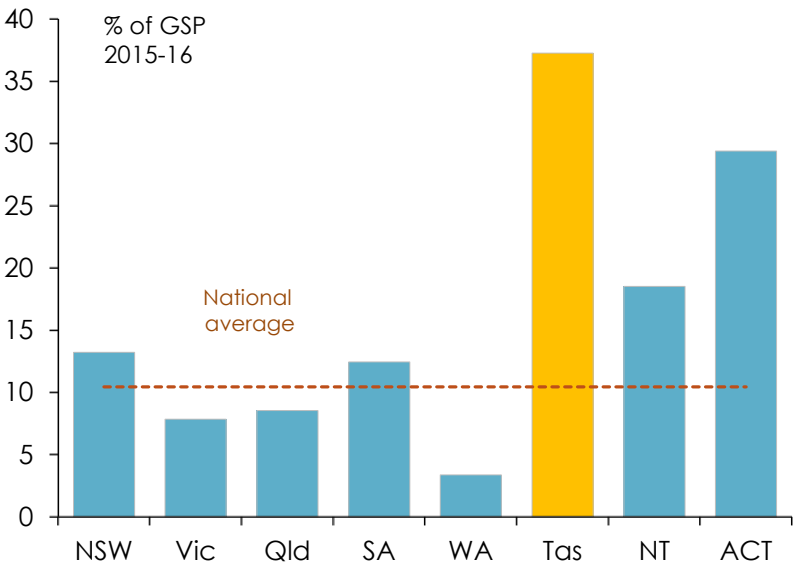


Note: Operating and fiscal balances, and revenue and expenses, are for the 'general government' sector.

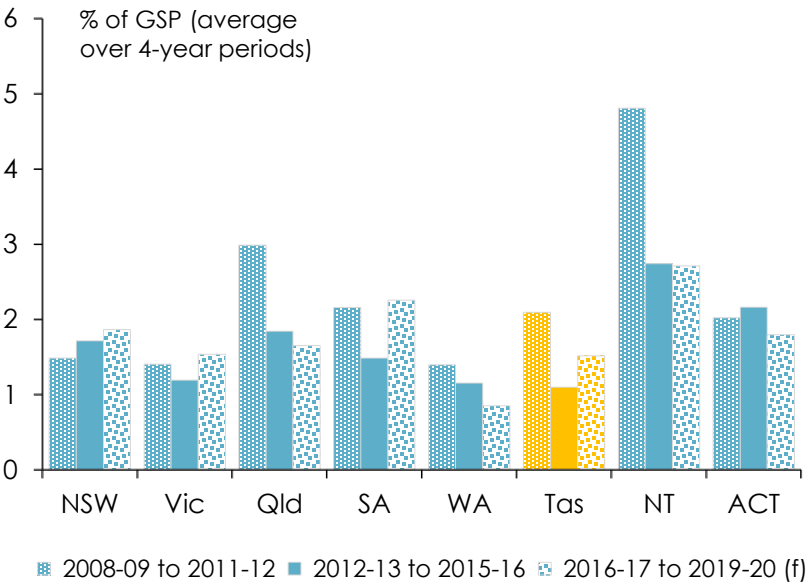
Sources: Tasmanian and other State or Territory Governments, 2015-16 Annual Financial Reports and 2016-17 Budget Papers.

The unfunded super liability is a major blemish

Unfunded public sector superannuation liabilities



State & Territory Government 'purchases of fixed assets'

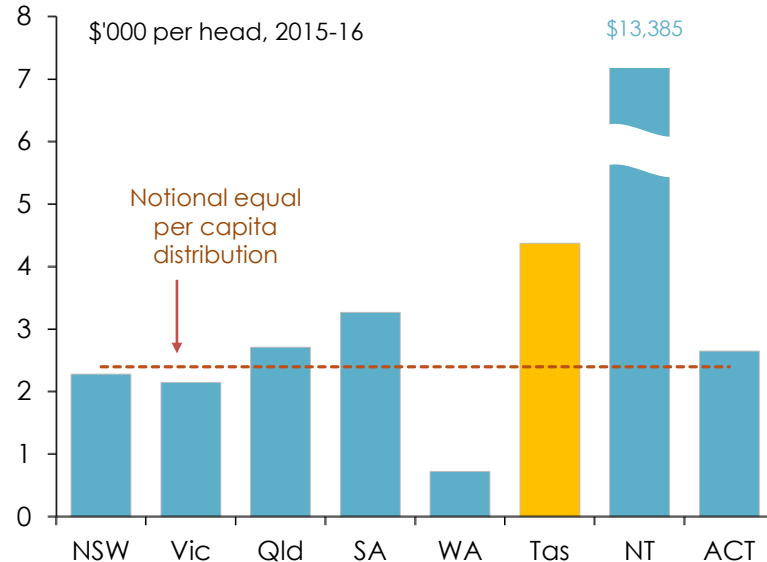


Sources: Tasmanian and other State or Territory Governments, 2015-16 Annual Financial Reports and 2016-17 Budget Papers.



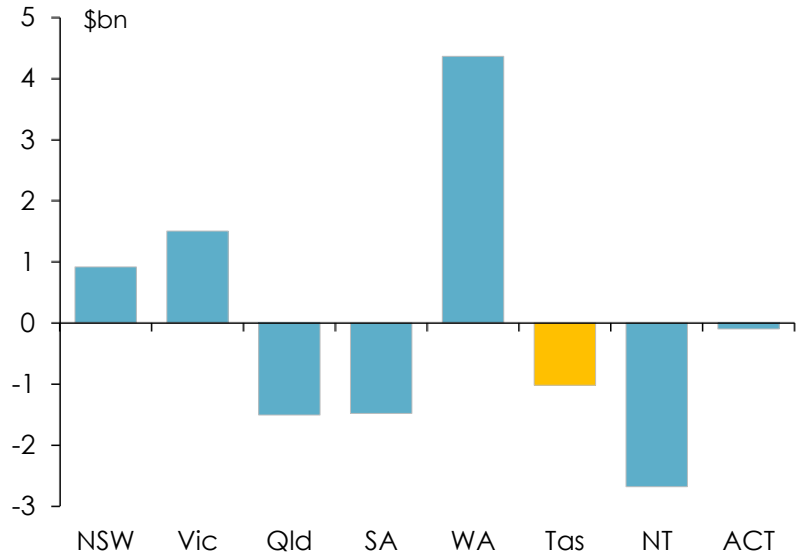
Tasmania would be in *big trouble* if WA ever got its way

Actual per capita distribution of GST revenues compared with a notional equal per capita distribution



Source: Australian Government, 2015-16 Final Budget Outcome

Impact on general government revenue in 2015-16 of hypothetical shift to equal per capita distribution of GST



Key findings

- ❑ Tasmania's economic performance in 2015-16 was a little disappointing
 - although that was largely the result of (hopefully) one-off factors
- ❑ Tasmania's economy isn't growing fast enough to generate sustained increases in employment
- ❑ Tasmania's economic performance as measured by per capita gross product is \$18,600 or 27% below the national average
 - reflecting large shortfalls in employment participation, working hours & productivity
- ❑ Rapid population ageing will make this gap even larger if nothing is done
 - Per capita GSP could be 40% below the national average in 25 years' time
- ❑ Below-average levels of educational participation and attainment are a key reason for below-average employment, hours worked and productivity
- ❑ National mechanisms (the tax and social security systems, and the GST sharing arrangements) shield Tasmanian households and the State Government from the full effects of economic under-performance

Some possible (but by no means complete) solutions

- ❑ A concerted effort to lift educational participation and attainment
 - which requires a willingness to do things differently from the way they've always been done in Tasmania, and more like the way things are done in places that do it better
 - ultimately, all high schools should offer a complete secondary education
 - The University's Northern Transformation Project is a potential 'game-changer' both for post-secondary education and for regional economic development
- ❑ Look for ways to reduce the 'productivity gap', industry by industry
 - where possible encourage investment in industries with above-average productivity
 - and seek to raise productivity in sectors where it's lowest relative to national averages
- ❑ Reduce the unfunded super liability so as to create 'headroom' for greater investment in productive infrastructure
 - sell or lease assets such as 'poles and wires' or ports to offset some of the liability
- ❑ Undertake a more detailed investigation into why the 'unit cost' of providing public services is often so much higher than in other States
- ❑ Consider the potential gains from wide-ranging State tax reform

Thank you to our event partners

