

Productivity, Prosperity and Tasmanian Living Standards

Presentation to a lunch hosted by the
Tasmanian Liberals

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ANZ

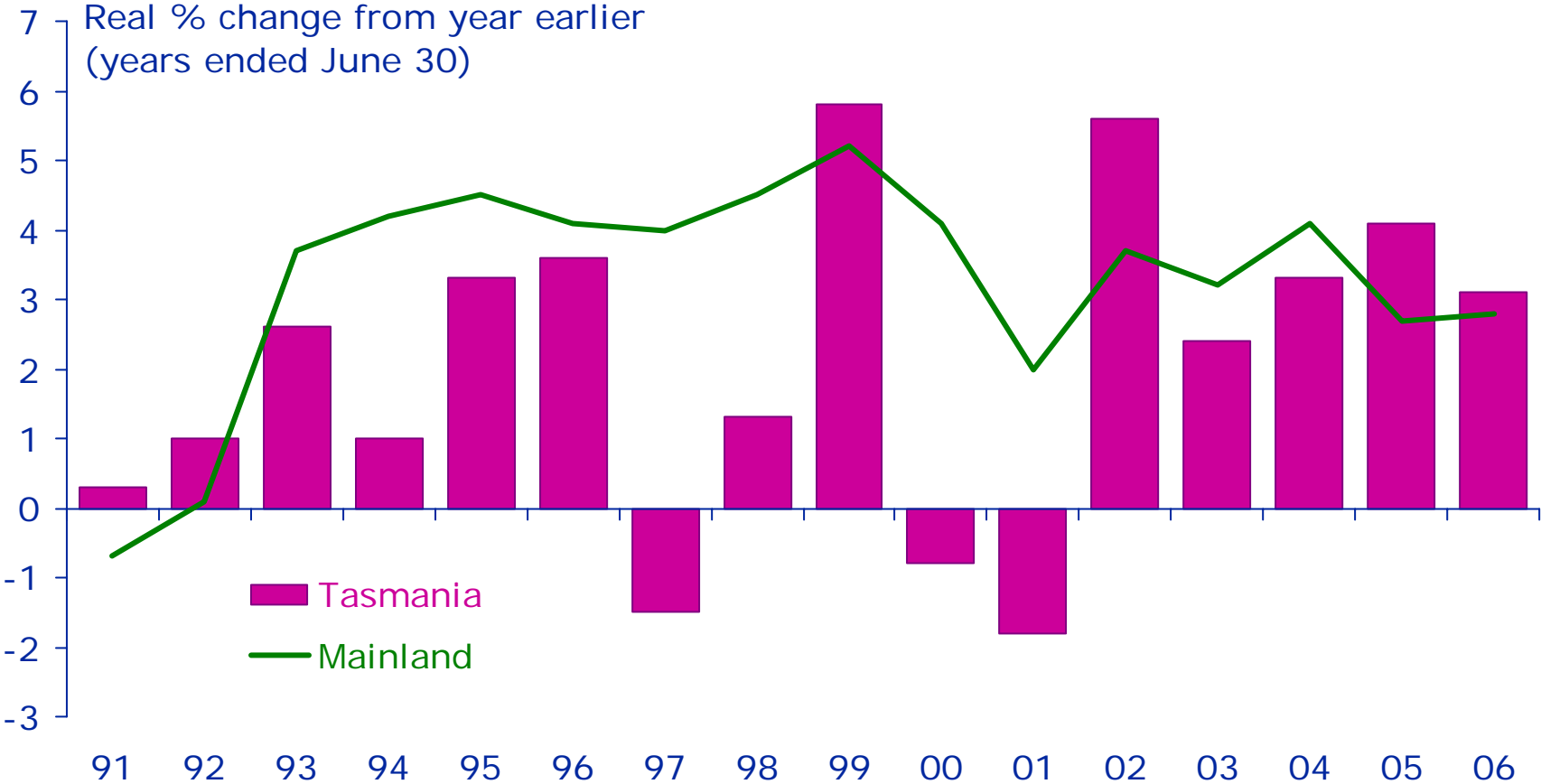
Matson's
Launceston
26th February 2007

www.anz.com/go/economics

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Tasmania's economy has grown faster than that of the mainland over the past five years

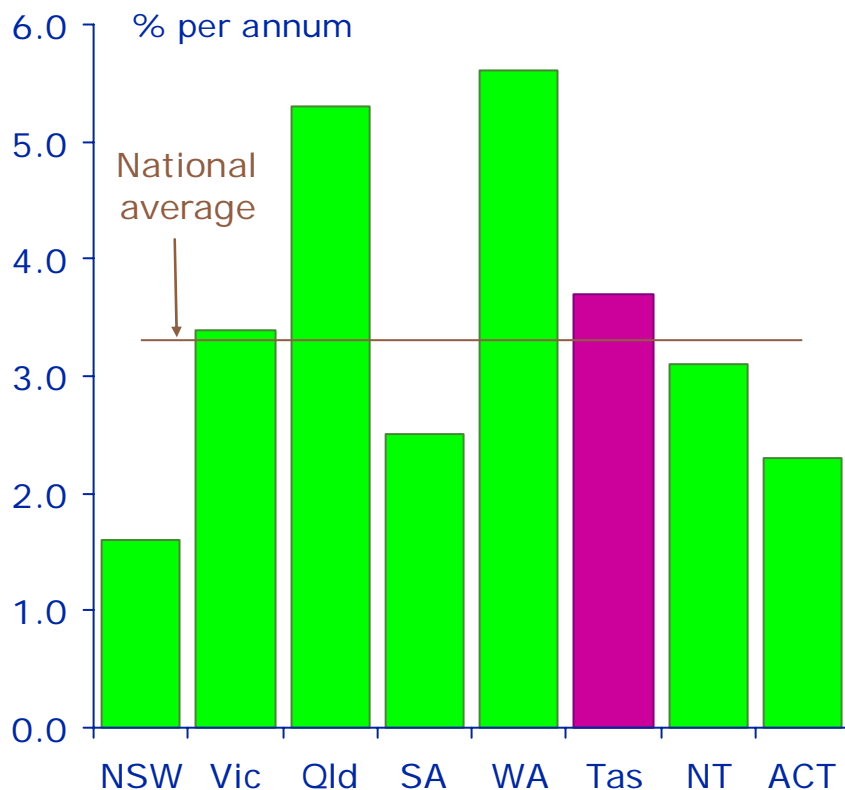
Growth in real gross State product



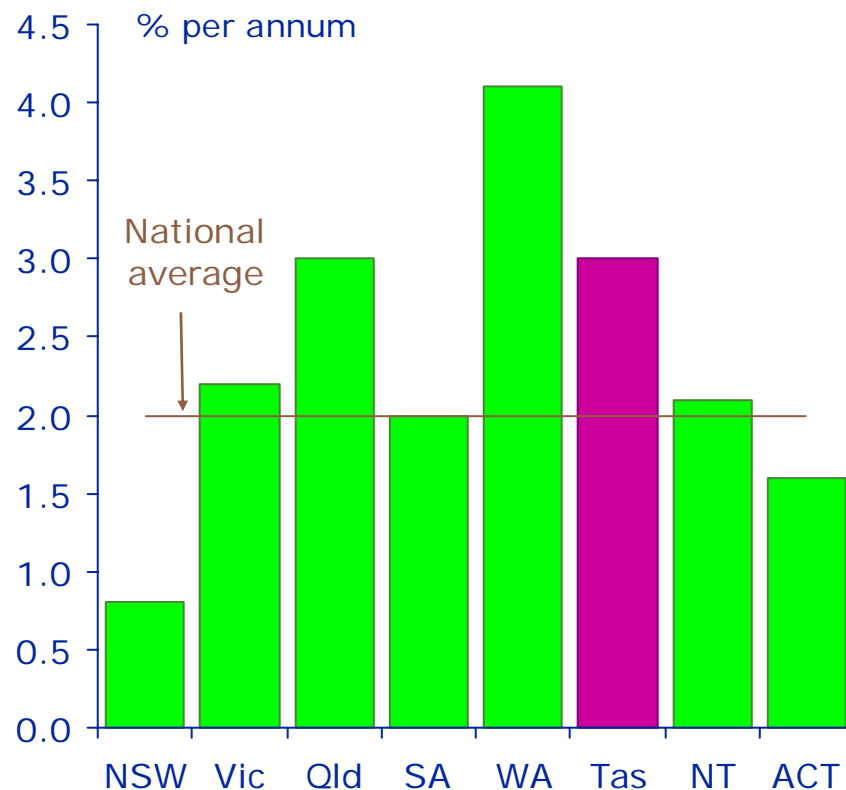
Sources: ABS State Accounts (5220.0) 2005-06;
Economics@ANZ

Tasmania has again grown faster than any of the other 'non-resource-rich' States since 2000-01

Real GSP growth five years to 2005-06



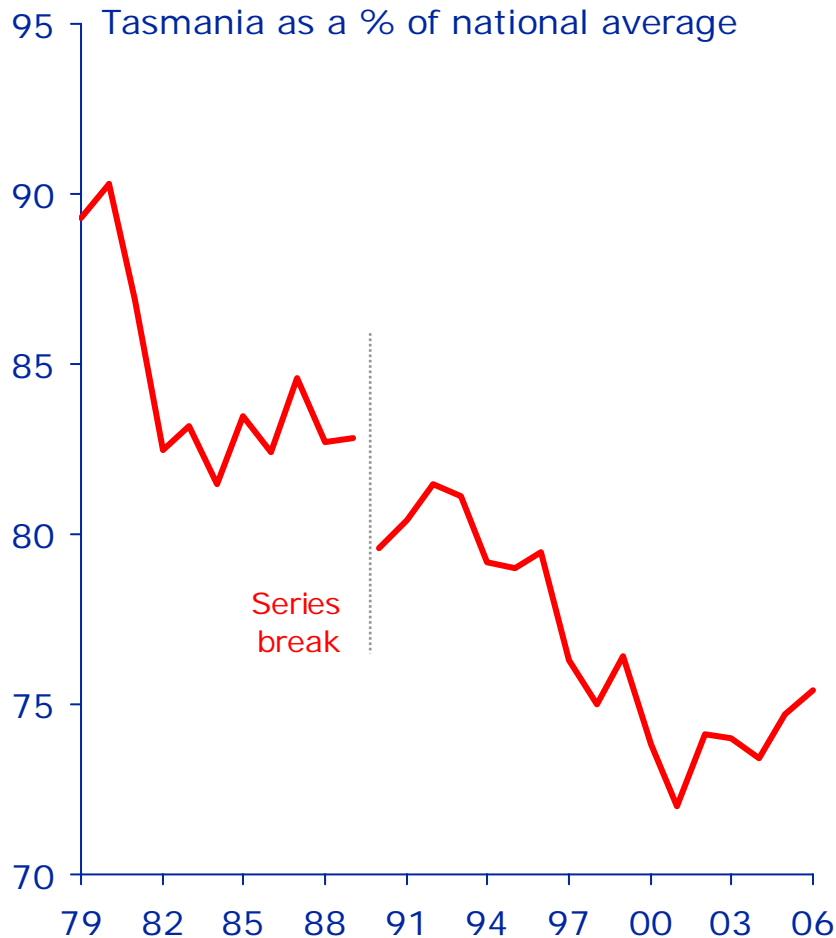
Real per capita GSP growth five years to 2005-06



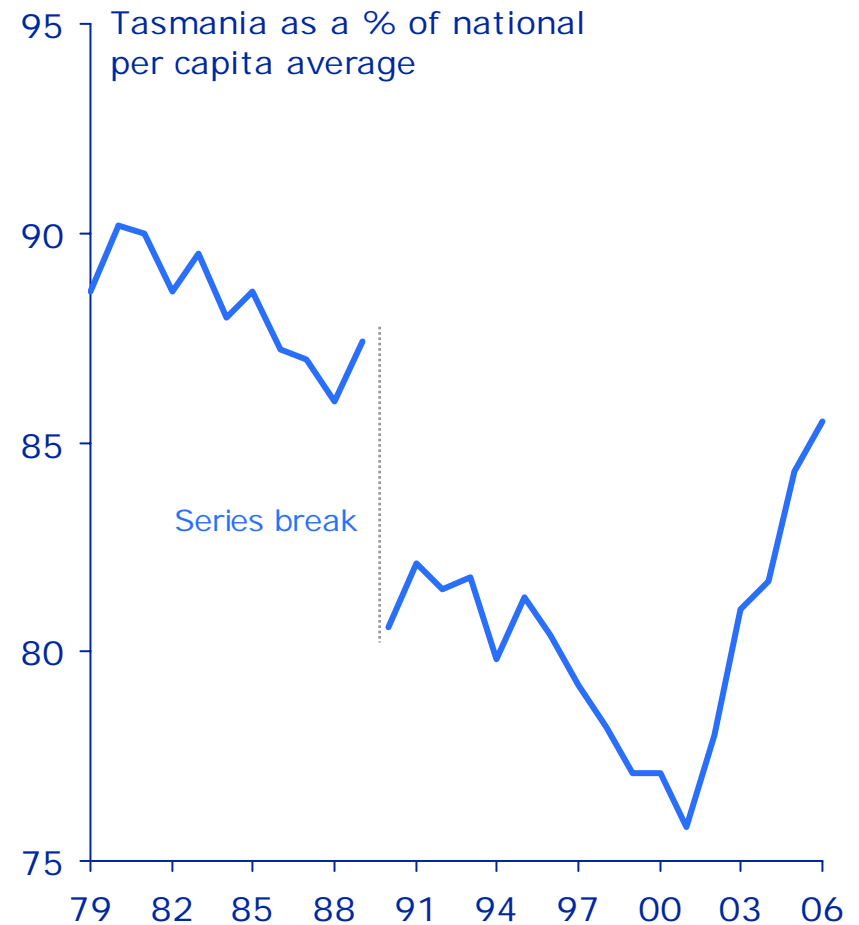
Sources: ABS State Accounts (5220.0) 2005-06;
Economics@ANZ

Tasmania's per capita GSP and household income have begun to rise relative to national averages

Per capita State product



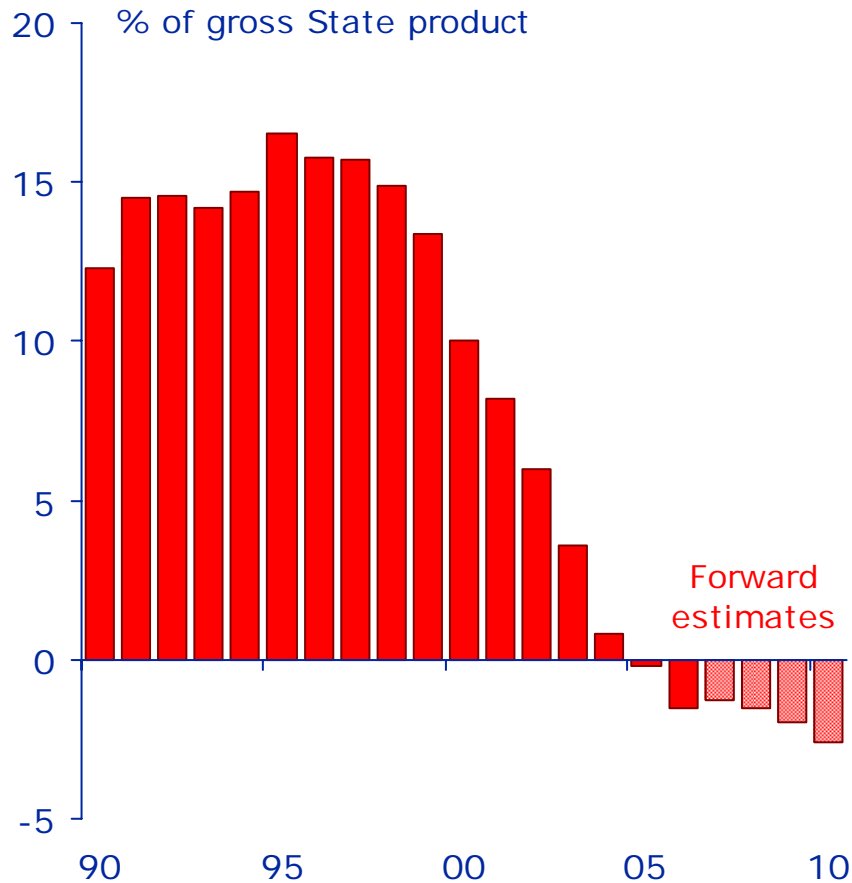
Household disposable income



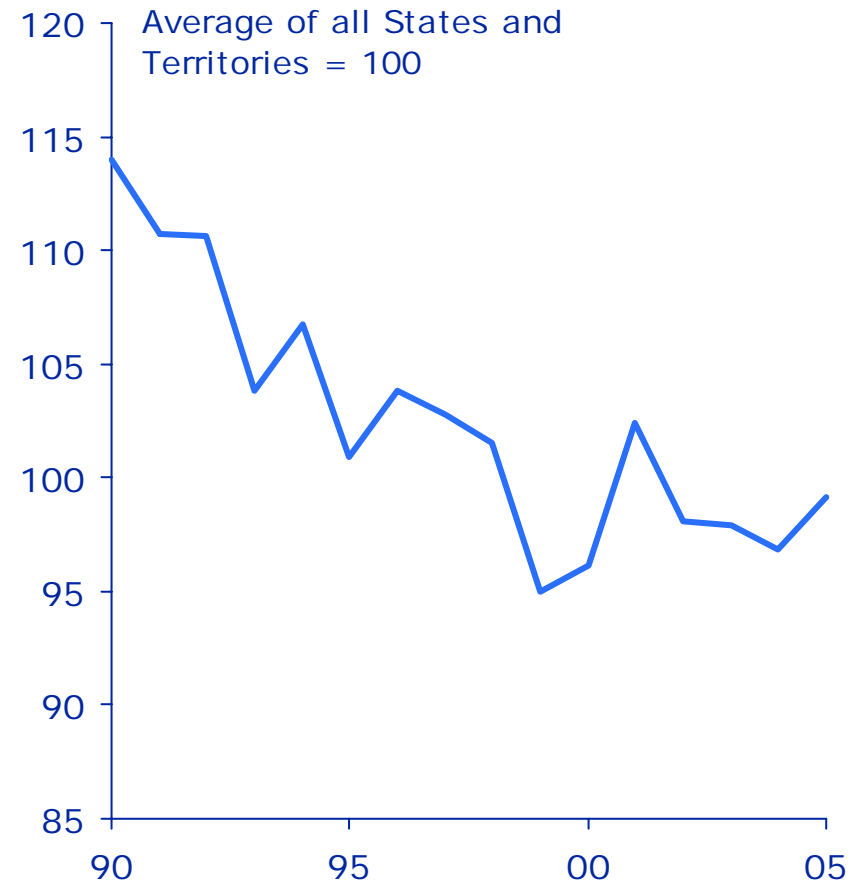
Sources: ABS State Accounts (5220.0) 2005-06;
Economics@ANZ

Tasmania has eliminated general government debt whilst reducing its relative tax burden

Tasmanian 'general government' sector net debt



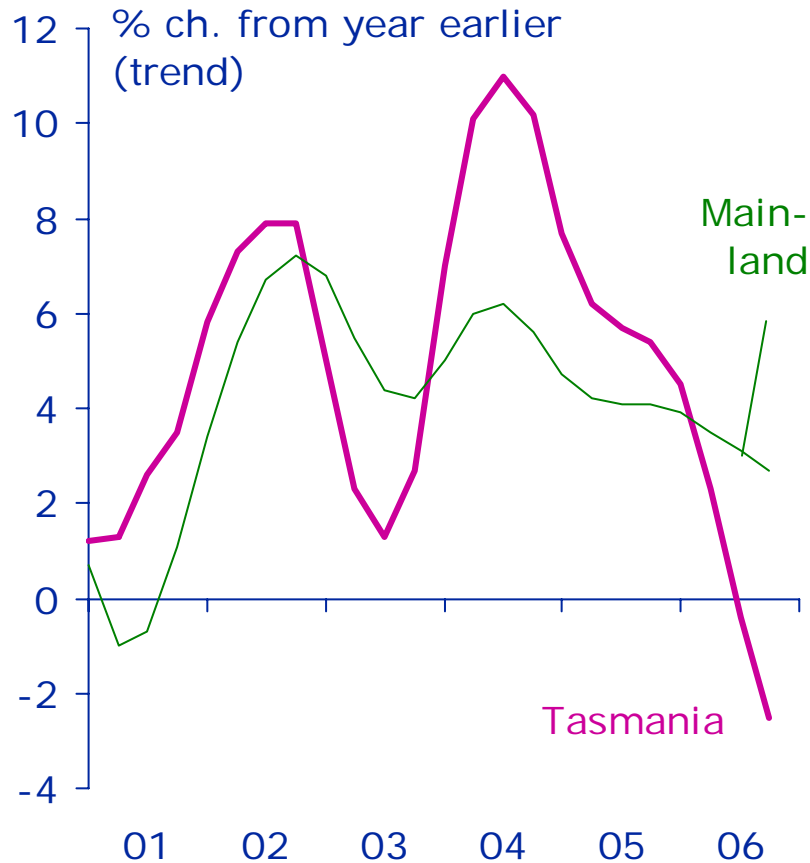
Tasmanian State tax 'severity ratio'



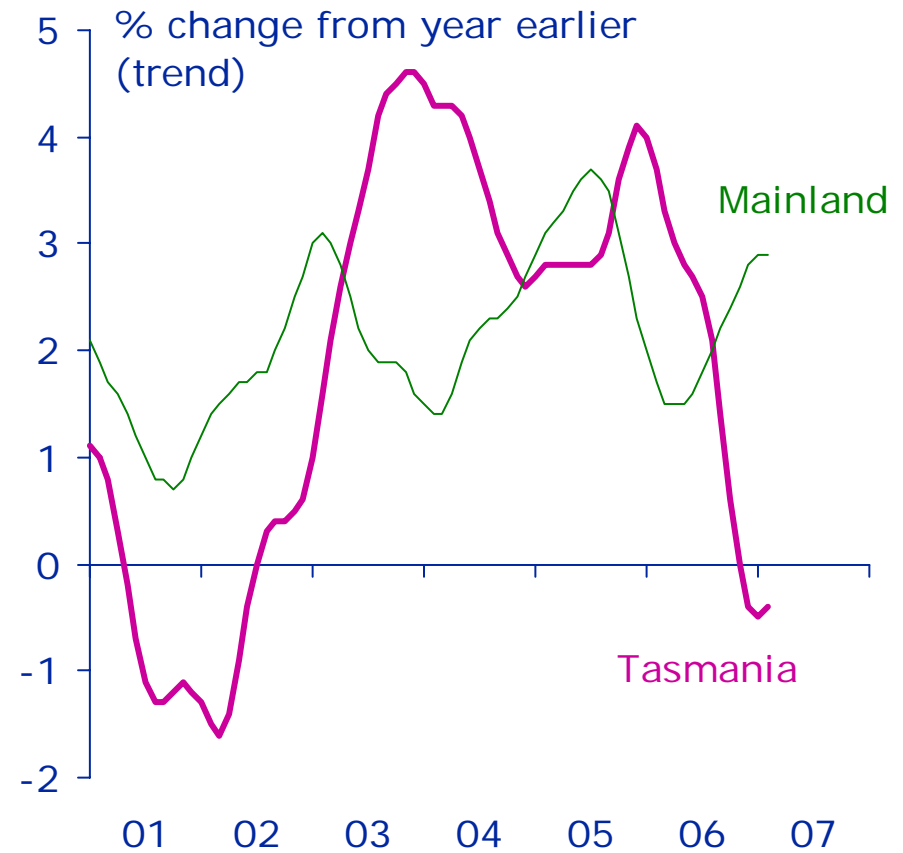
Sources: Tasmanian Budget Papers and 2006-07 Mid-Year Review; Commonwealth Grants Commission.

Growth in the Tasmanian economy slowed quite markedly during 2006

State final demand



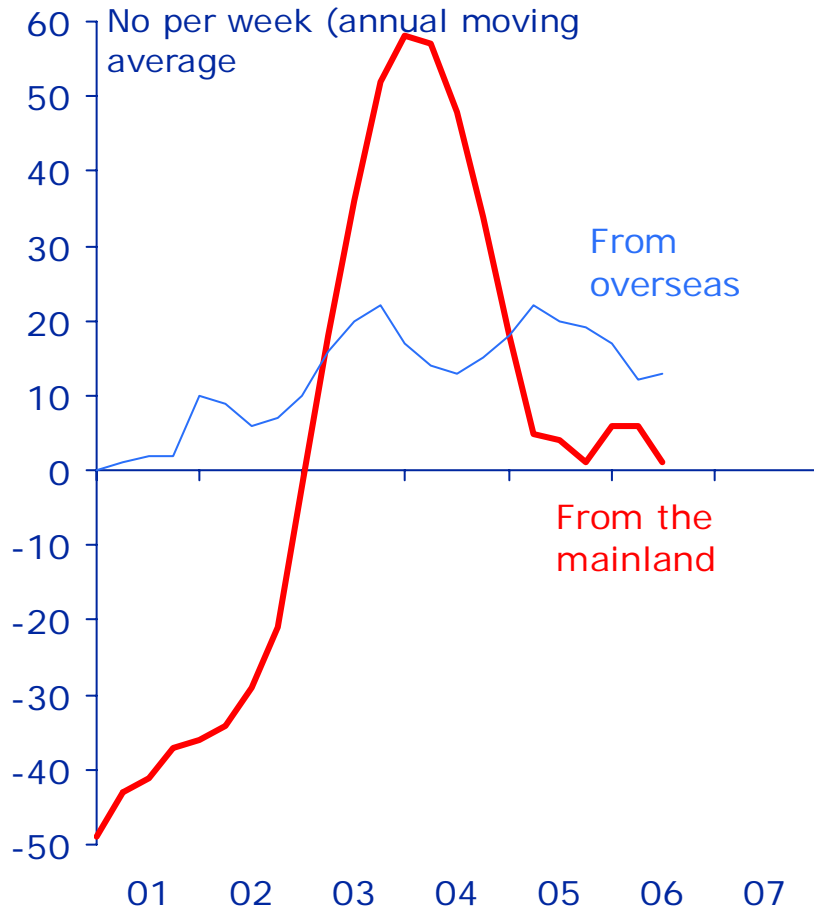
Employment



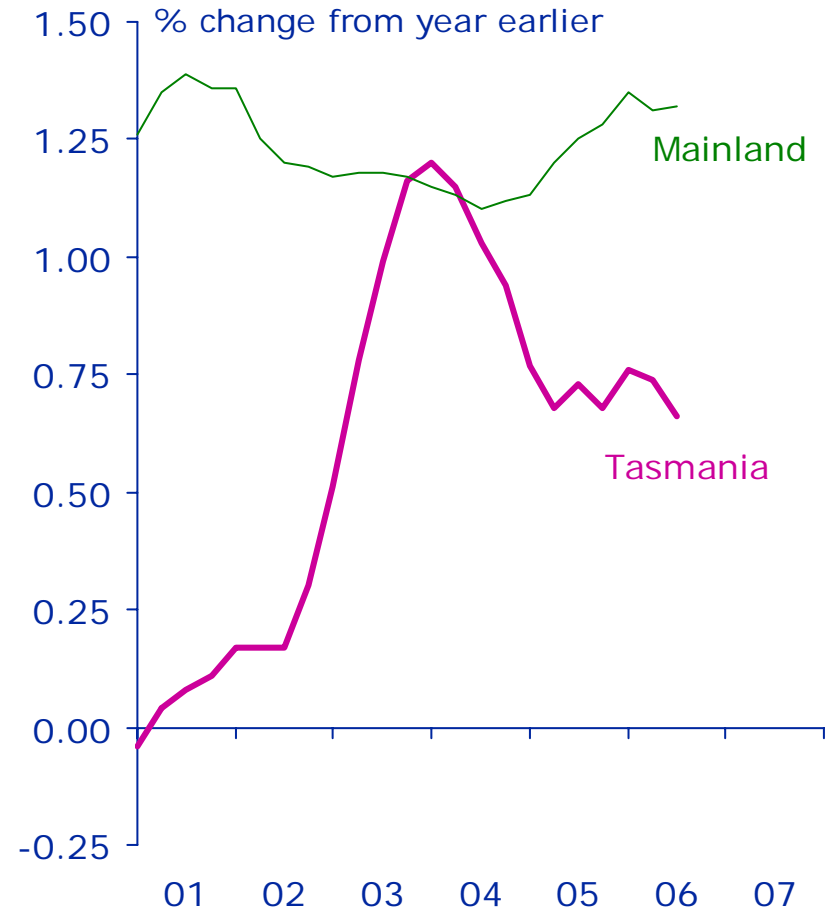
Sources: ABS, Australian National Accounts: State Details (5206.0); Labour Force (6202.0); Economics@ANZ.

Interstate migration to Tasmania has slowed to a trickle ...

Migration to Tasmania

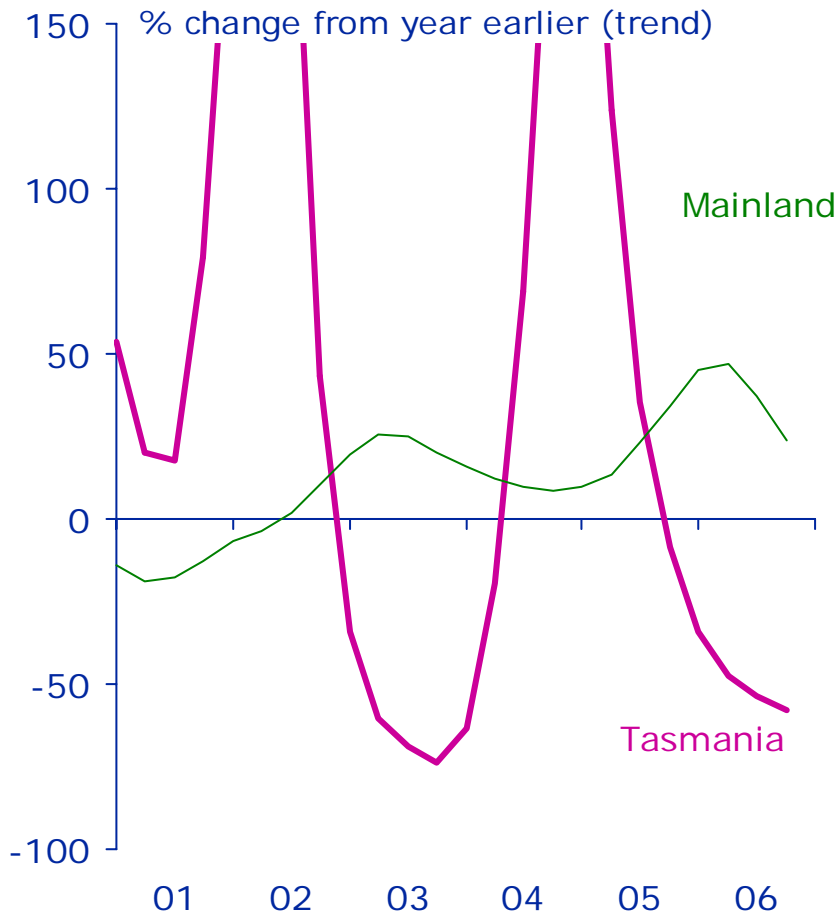


Population growth

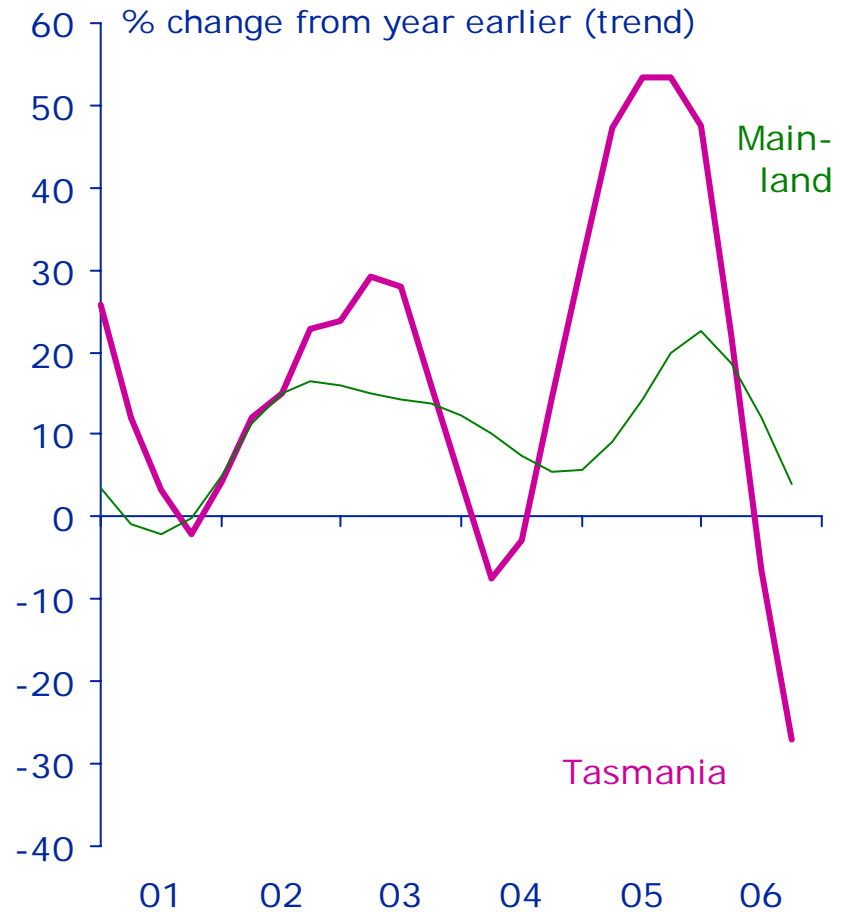


... and business investment has slowed sharply as major energy projects have been completed

Buildings and structures



Equipment, plant and machinery



Productivity is 'what you get out for what you put in' - and it matters

“Productivity is the prime determinant in the long run of a nation’s standard of living, for it is the root cause of per capita national income

High productivity not only supports high levels of income but allows citizens the option of choosing more leisure instead of working longer hours.

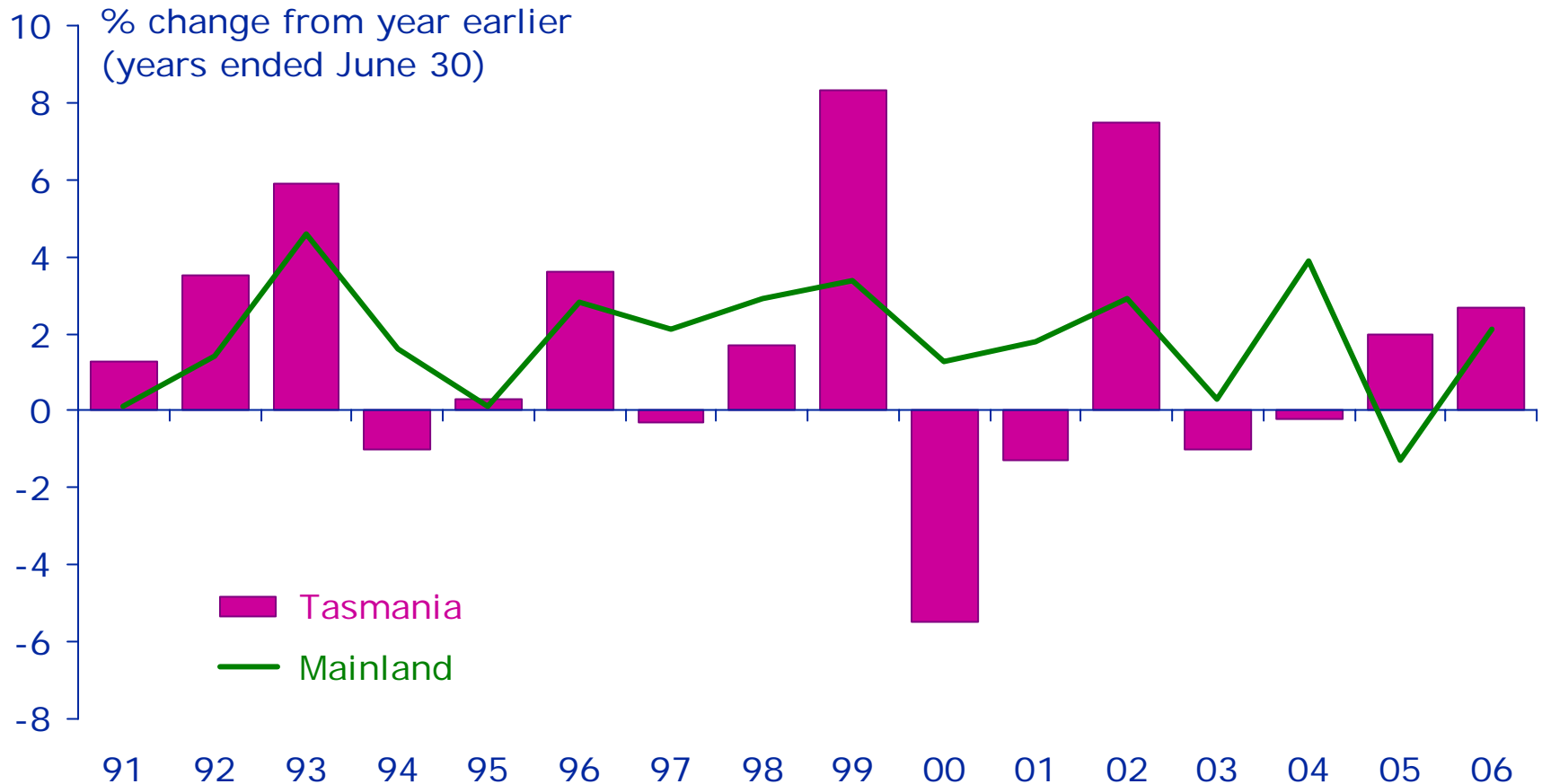
It also creates the national income that is taxed to pay for public services which again boosts the standard of living

The capacity to be highly productive also allows a nation’s firms to meet stringent social standards which improve the standard of living, such as in health and safety, equal opportunity and environmental impact”

– Michael E. Porter, *The Competitive Advantage of Nations* (1991), page 6

Tasmanian labour productivity has risen faster than the mainland in three of the past five years

Labour productivity growth – Tasmania vs the mainland

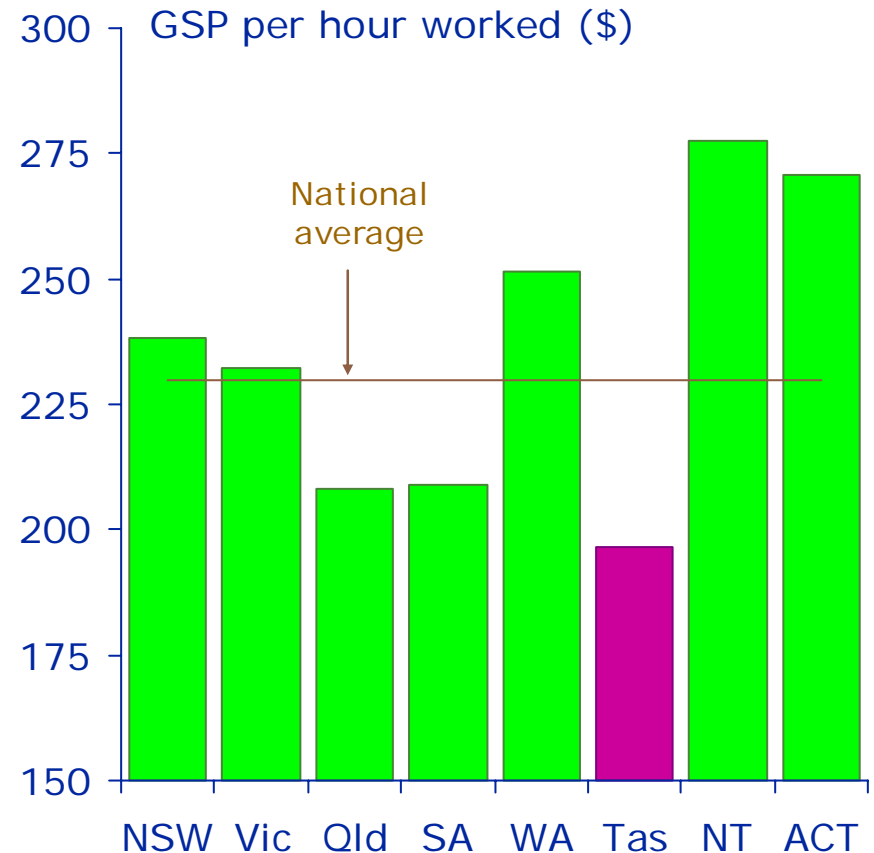
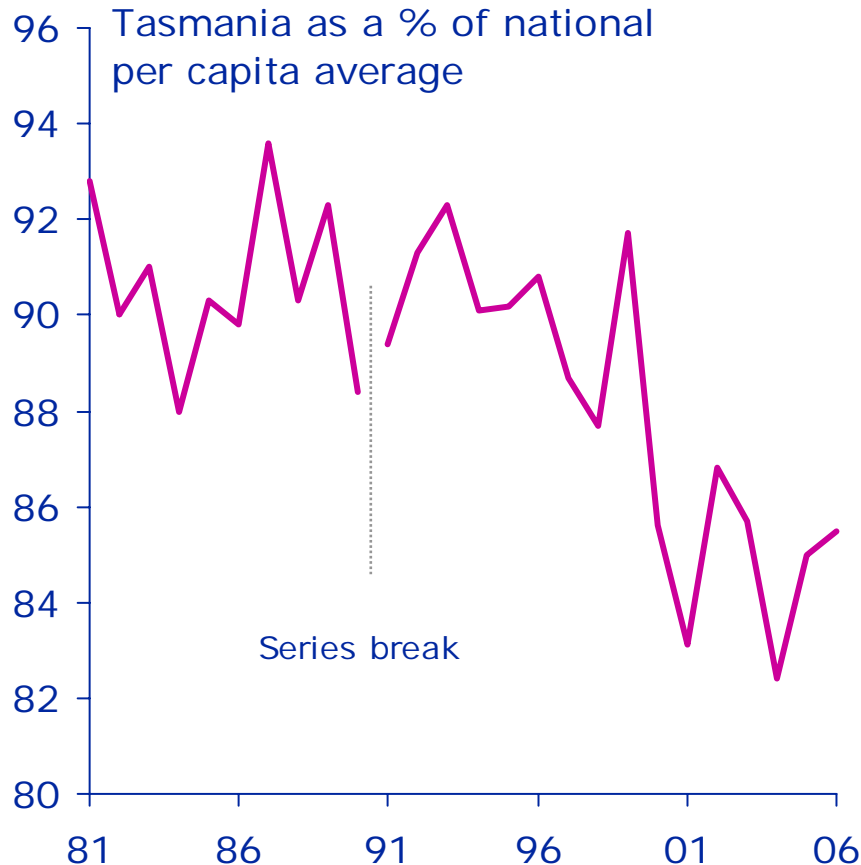


* Labour productivity defined as real gross State product per hour worked.

Sources: State Accounts (5220.0); ABS Employed persons by sex, age, hours worked, state (6291.0.55.001); Economics@ANZ.

However Tasmanian productivity is still more than 14% below the national average

Tasmanian productivity relative to national average

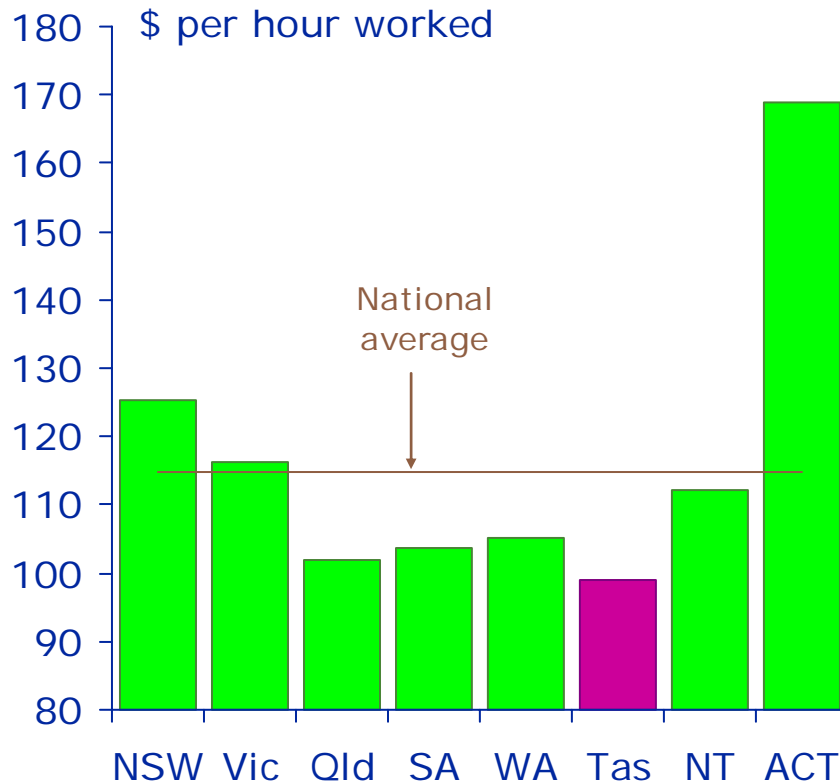


* Productivity defined as real gross State product per hour worked.

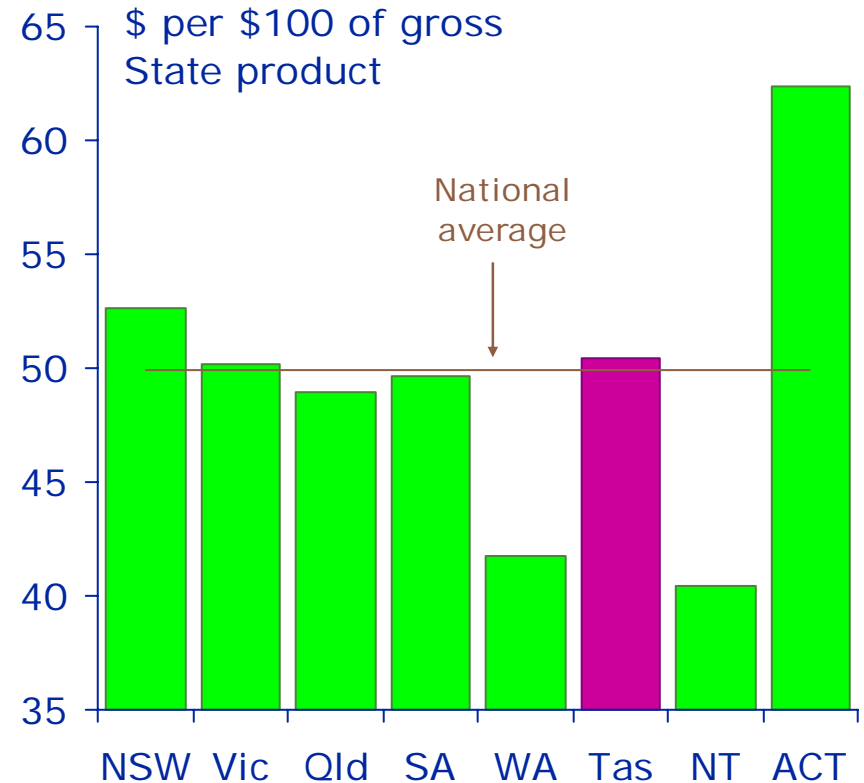
Sources: State Accounts (5220.0); ABS Employed persons by sex, age, hours worked, state (6291.0.55.001); Economics@ANZ.

Below-average productivity eliminates the 'advantage' of below-average labour costs

Labour cost per hour worked
2005-06



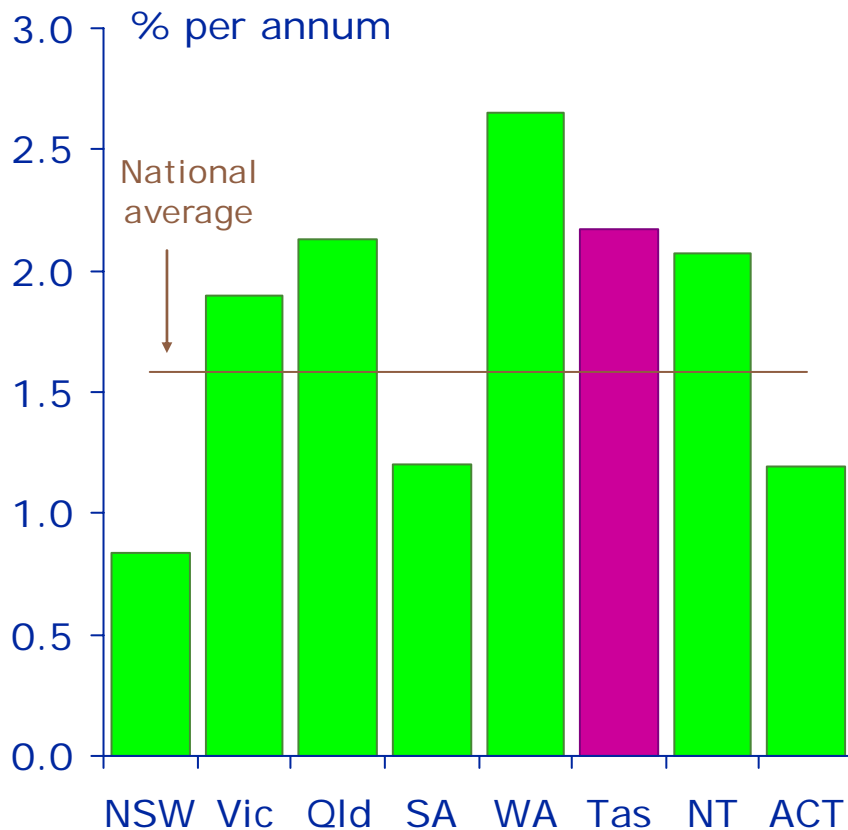
Labour cost per unit of output
2005-06



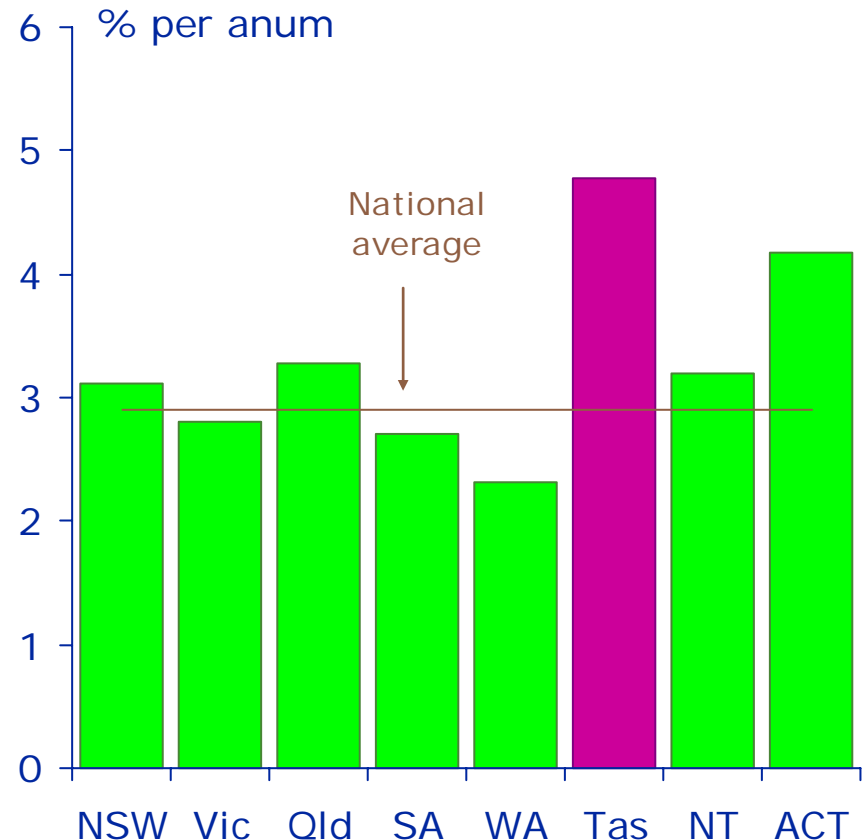
Sources: ABS State Accounts (5220.0); Employed persons by sex, age, hours worked, state (6291.0.55.001); Economics@ANZ.

Tasmanian productivity has been improving – but unit labour costs have been rising even faster

Labour productivity growth 2000-01 to 2005-06



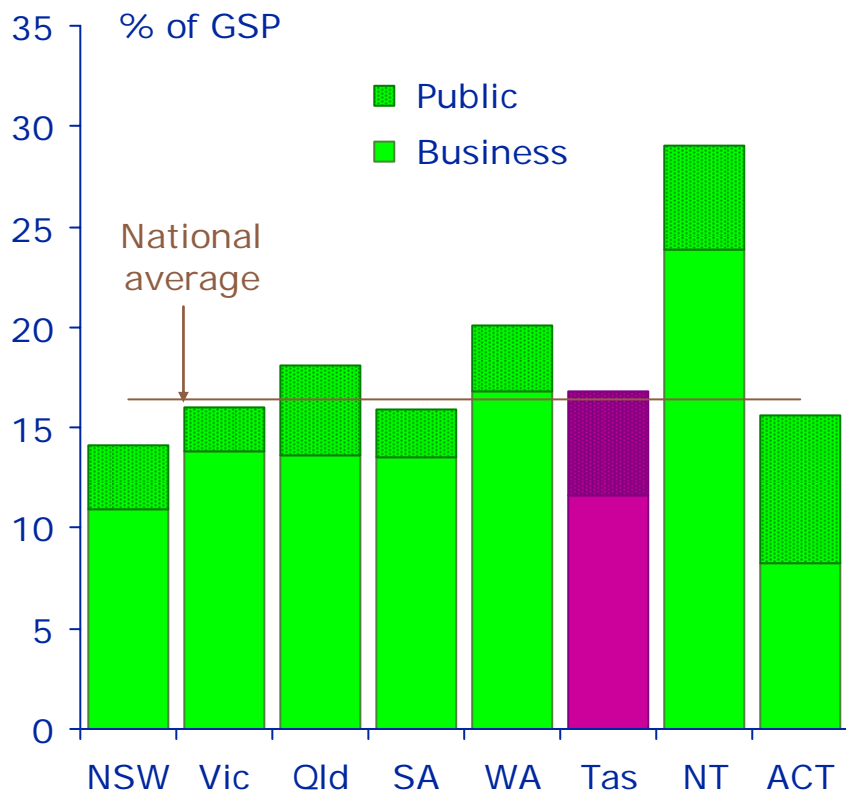
Unit labour cost growth 2000-01 to 2005-06



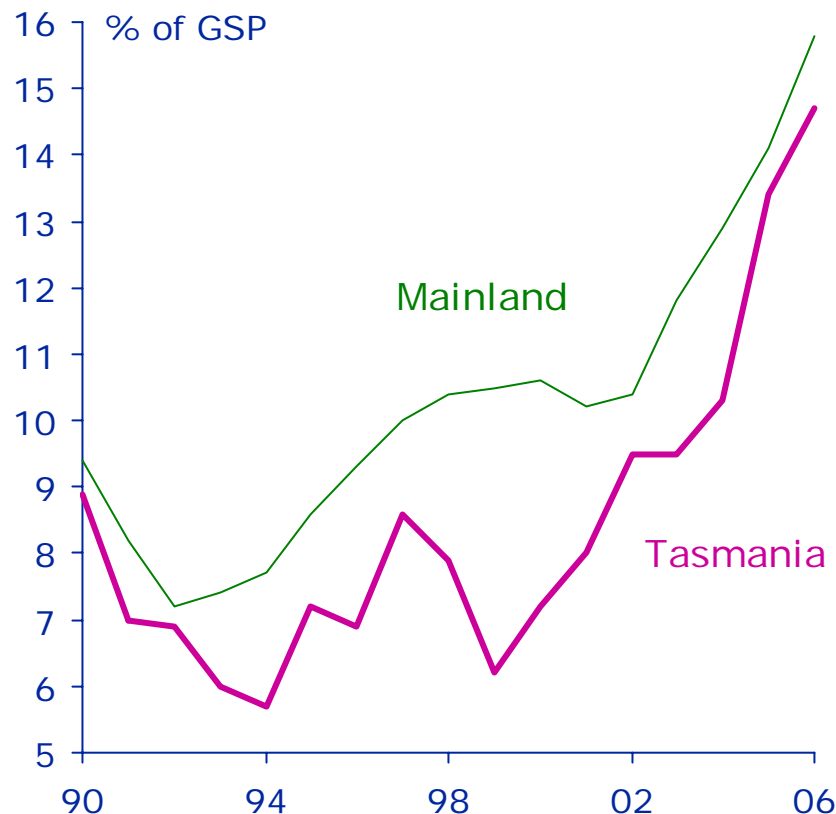
Definitions and sources as for preceding two charts.

By 2005-06, Tasmania was investing almost as large a share of its GSP as the mainland

Investment as a share of GSP 2001-02 to 2005-06



Business investment as a share of GSP

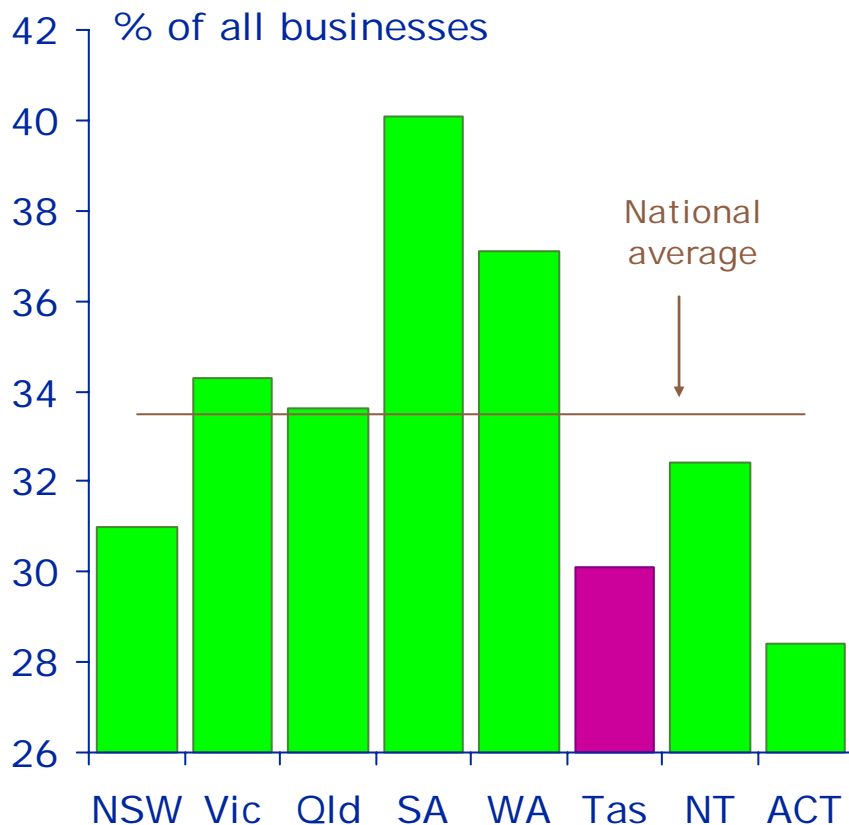


Note: 'Investment' refers here to non-residential fixed capital expenditure, ie excluding housing and stocks. Business investment excludes purchases of second-hand assets from the public sector.

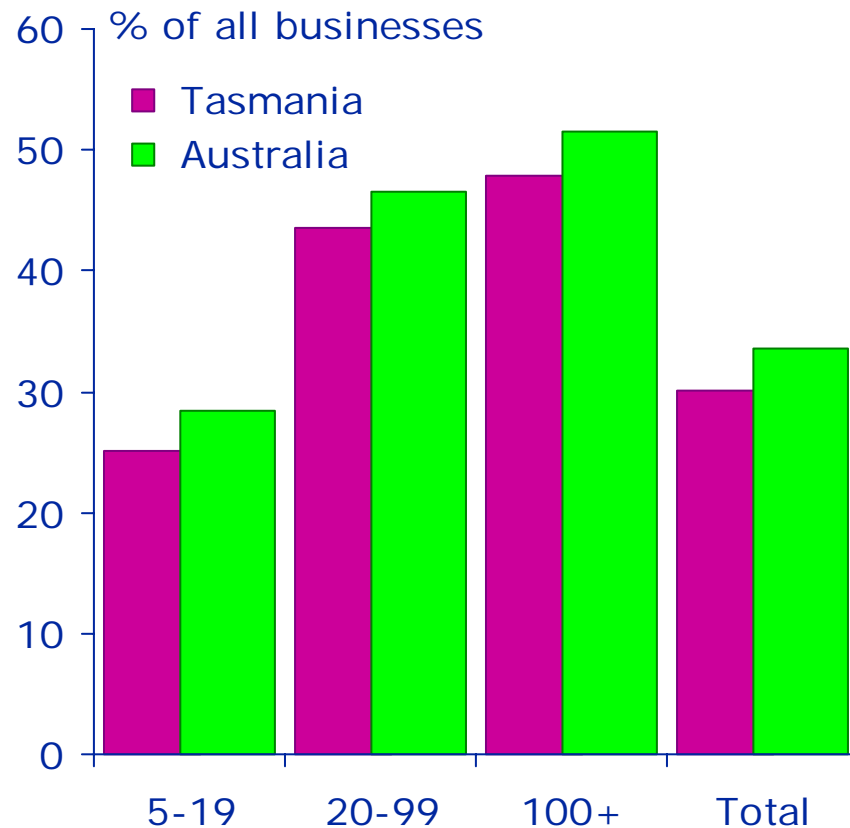
Sources: ABS State Accounts (5220.0) 2005-06; Economics@ANZ

Tasmanian businesses are the least innovative in Australia (apart from Canberra)

Businesses innovating, 2004 and 2005

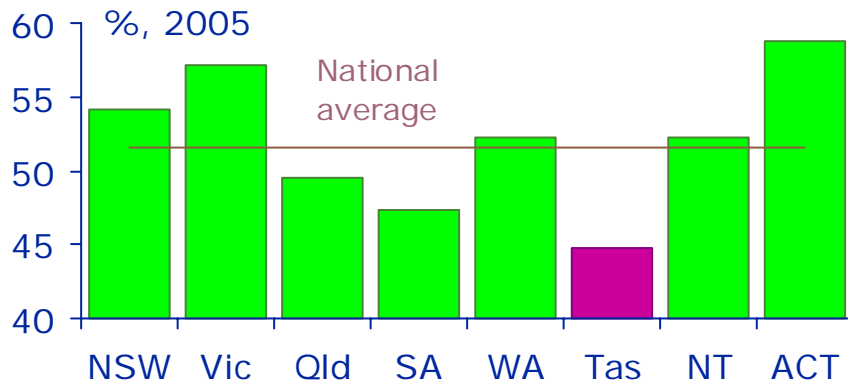


Businesses innovating, by number of employees

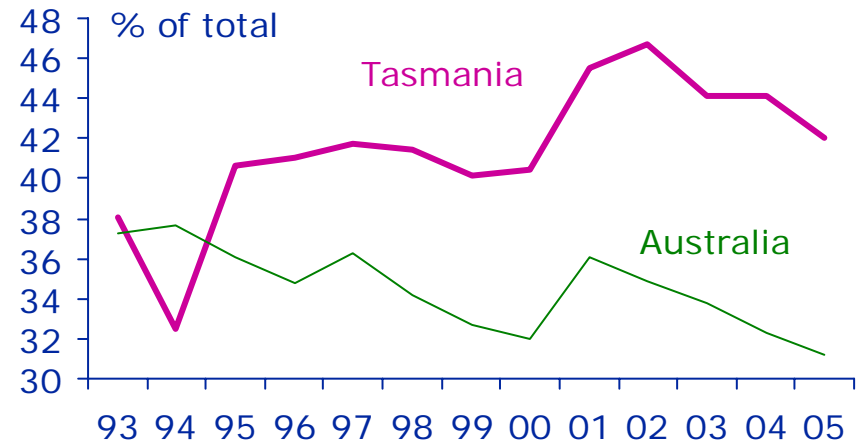
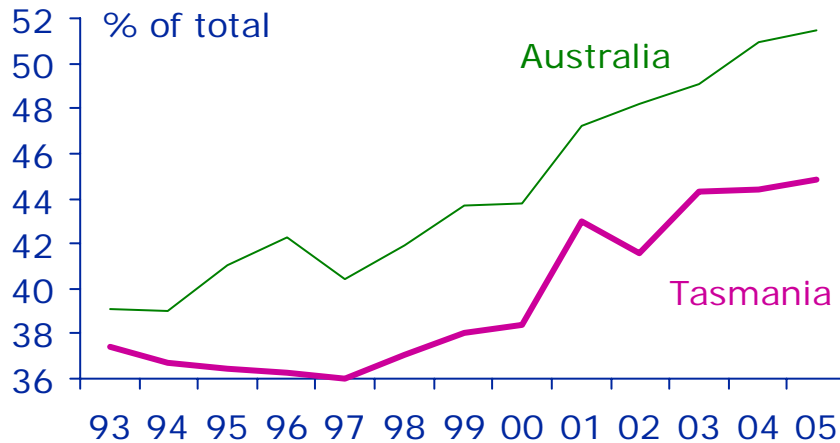
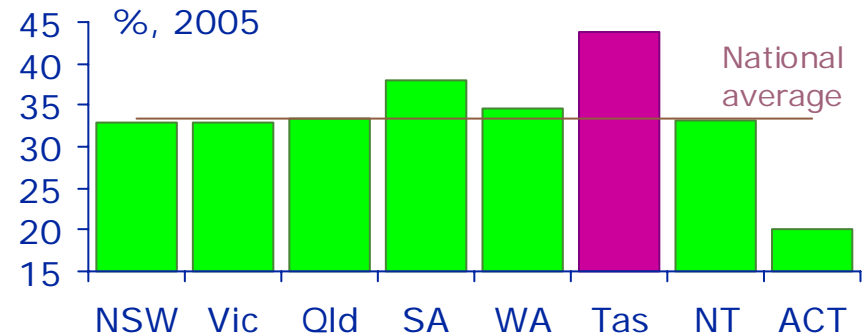


Tasmania has the poorest educational attainment rankings of any State or Territory

15-64 year olds with post-school qualifications



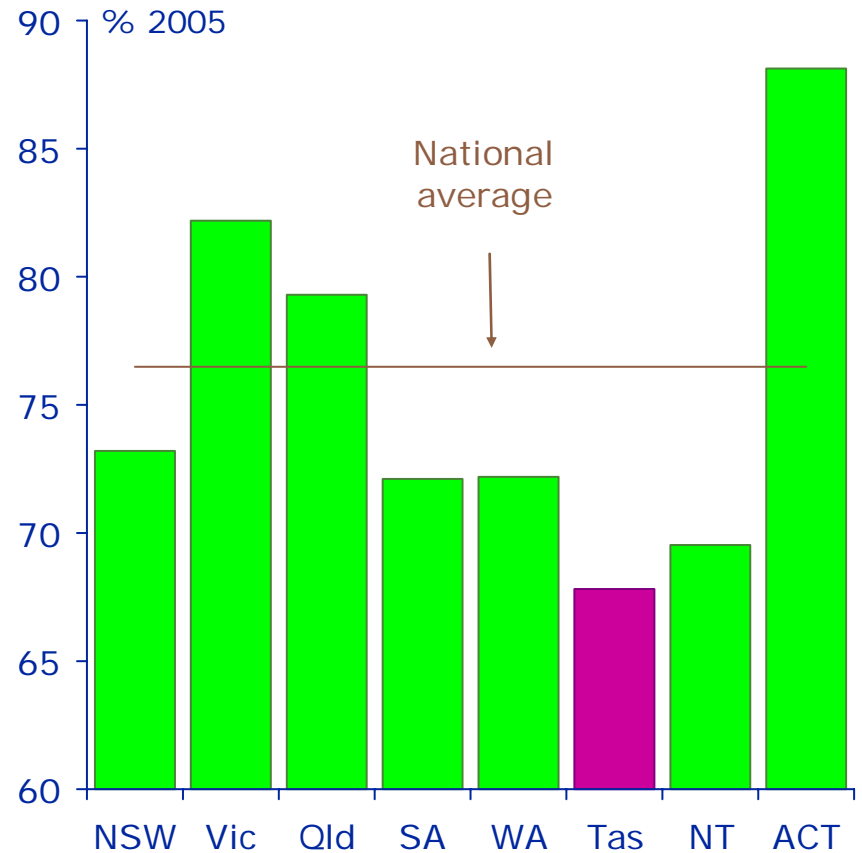
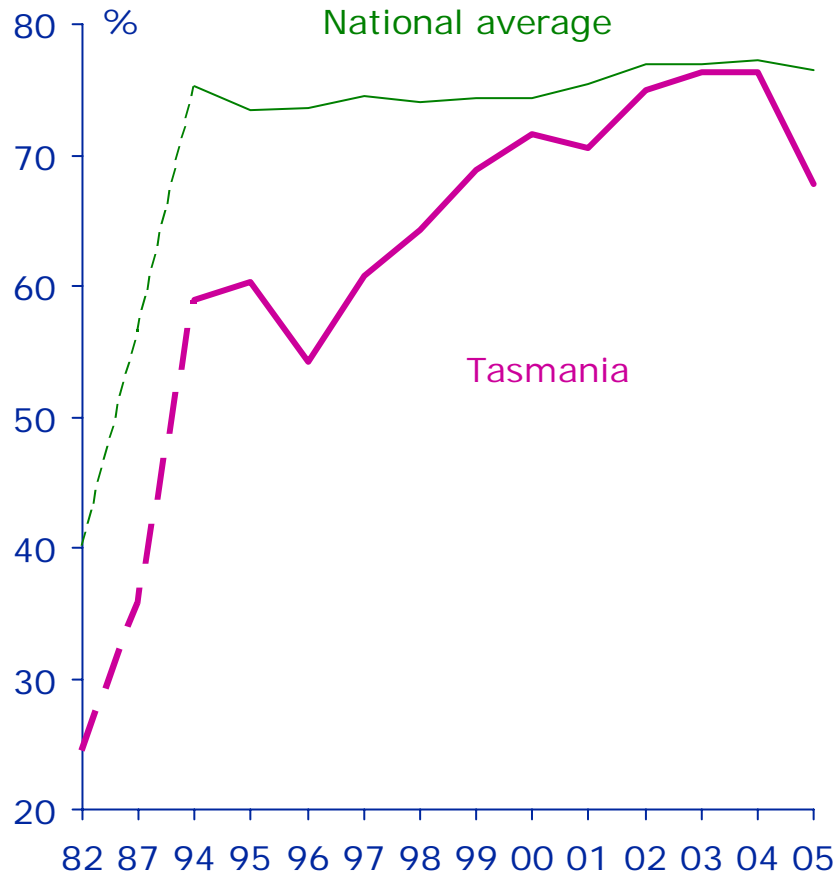
15-64 year olds who have not completed Year 12



Source: ABS, Education and Work, Australia, (6227.0); Australian Social Trends (4102.0).

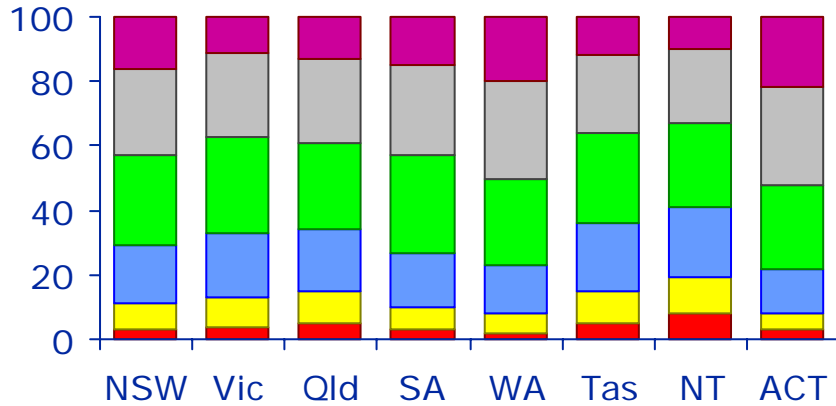
Disturbingly, the Year 12 retention rate slipped back last year to its lowest since 1998

School retention rates to year 12

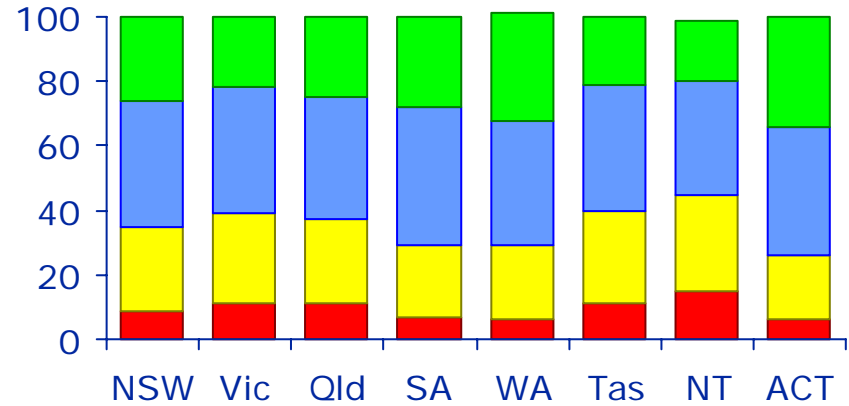


But it's also important to monitor quality of outcomes – where Tasmania isn't doing so well

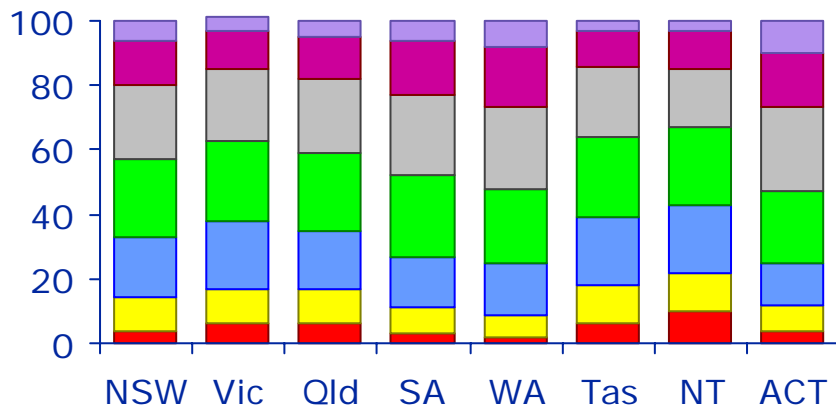
Reading literacy



Problem solving ability



Mathematical literacy



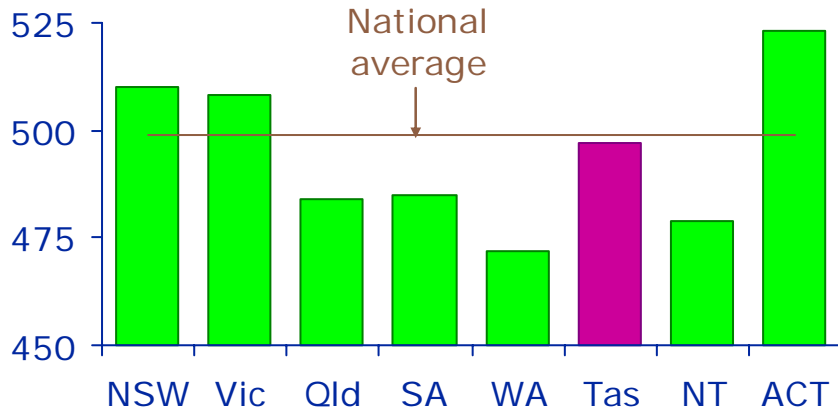
- Below Level 1 ('likely to be seriously disadvantaged in life beyond school')
- Level 1 (lowest)
- Level 2
- Level 3
- Level 4
- Level 5
- Level 6 (highest)

Results based on testing of 12,500 students from 321 schools randomly selected from across Australia in 2003 as part of an OECD-sponsored assessment involving 41 countries.

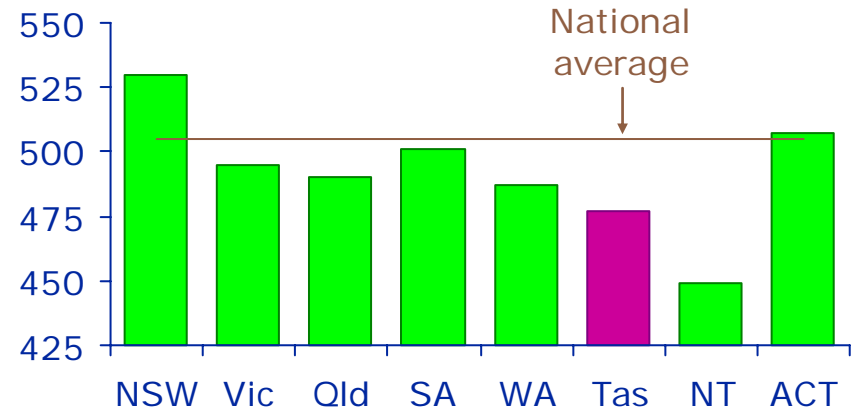
Source: Australian Council for Educational Research; Program for International Student Assessment (PISA).

Tasmanian students slip back relative to their mainland counterparts between Years 4 and 8

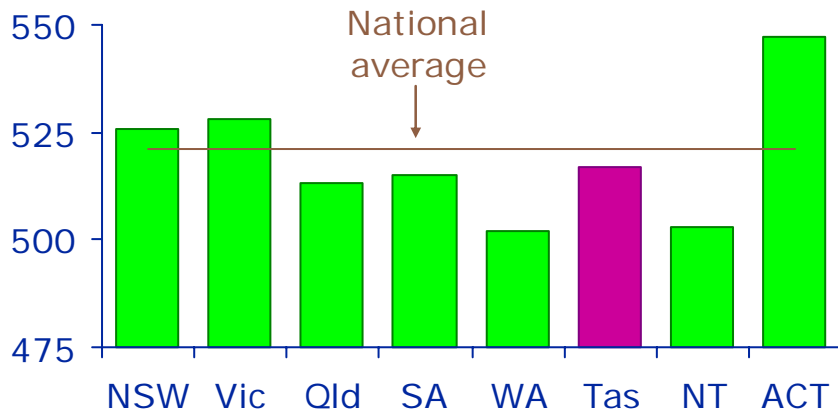
Average maths scores – Year 4



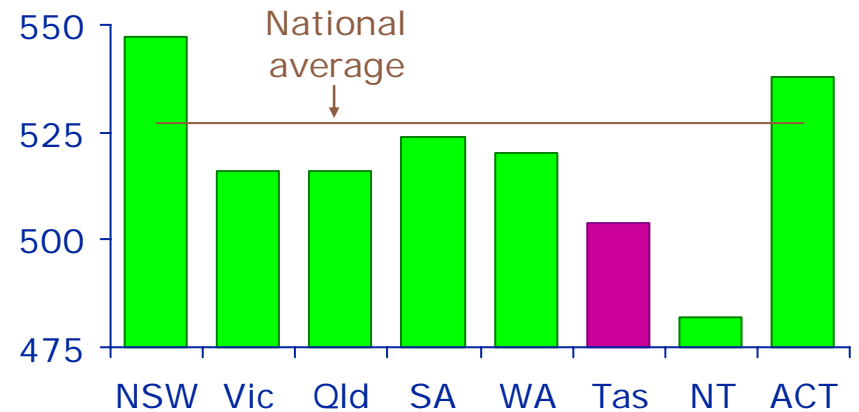
Average maths scores – Year 8



Average science scores – Year 4



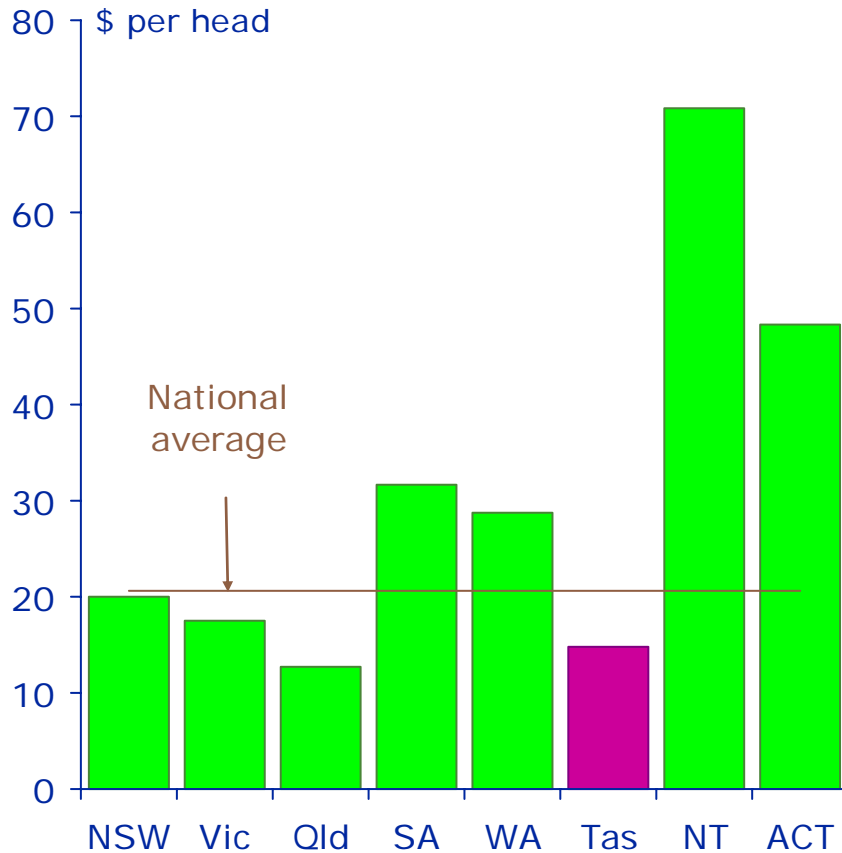
Average science scores – Year 8



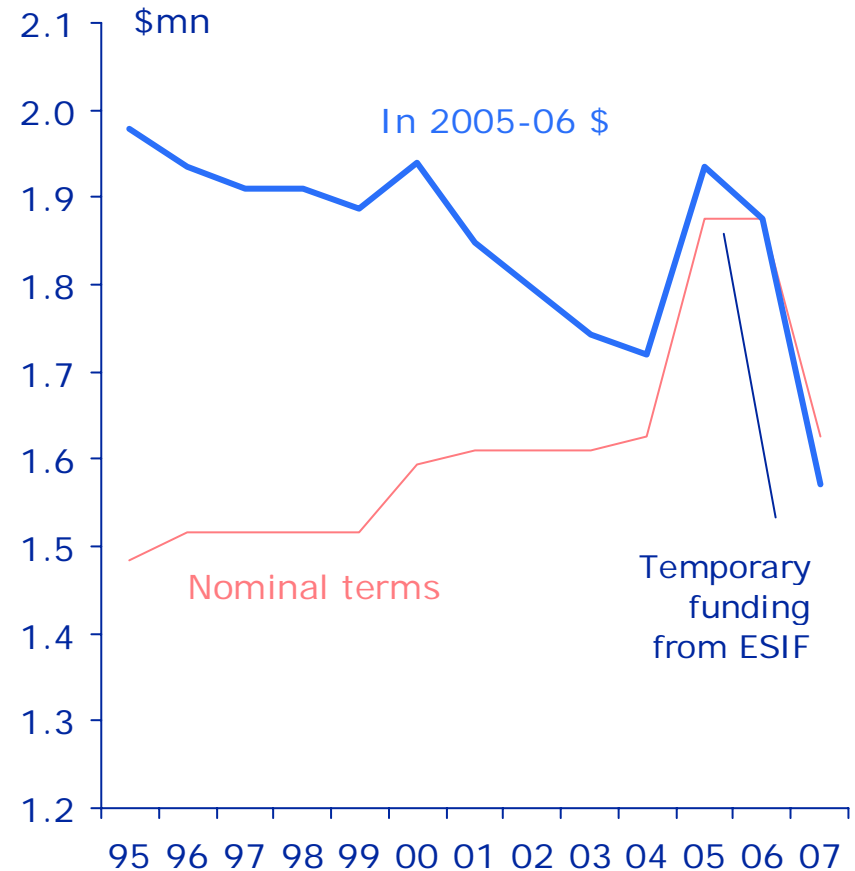
Source: Trends in International Mathematics and Science Study 2002-03

The arts could do with some extra funding too!

Per capita arts funding by State & Territory governments, 2004-05



Arts grants administered by Tas Arts Advisory Board



Source: ABS, Cultural Funding by Government 2004-05 (4183.0); Arts Tasmania.
 Disclosure: I'm also Chair of the Tasmanian Arts Advisory Board.

Tasmania's future ...

- ... cannot possibly lie predominantly in the volume production of essentially unprocessed commodities at lower prices than competitors with better access
 - to larger and cheaper resources of labour and capital
 - and to markets (by virtue of proximity of membership of trade blocs)
- ... but instead depends on its capacity to produce and market
 - highly differentiated goods and services
 - embodying a relatively high intellectual content
 - for which customers are willing to pay premium prices