

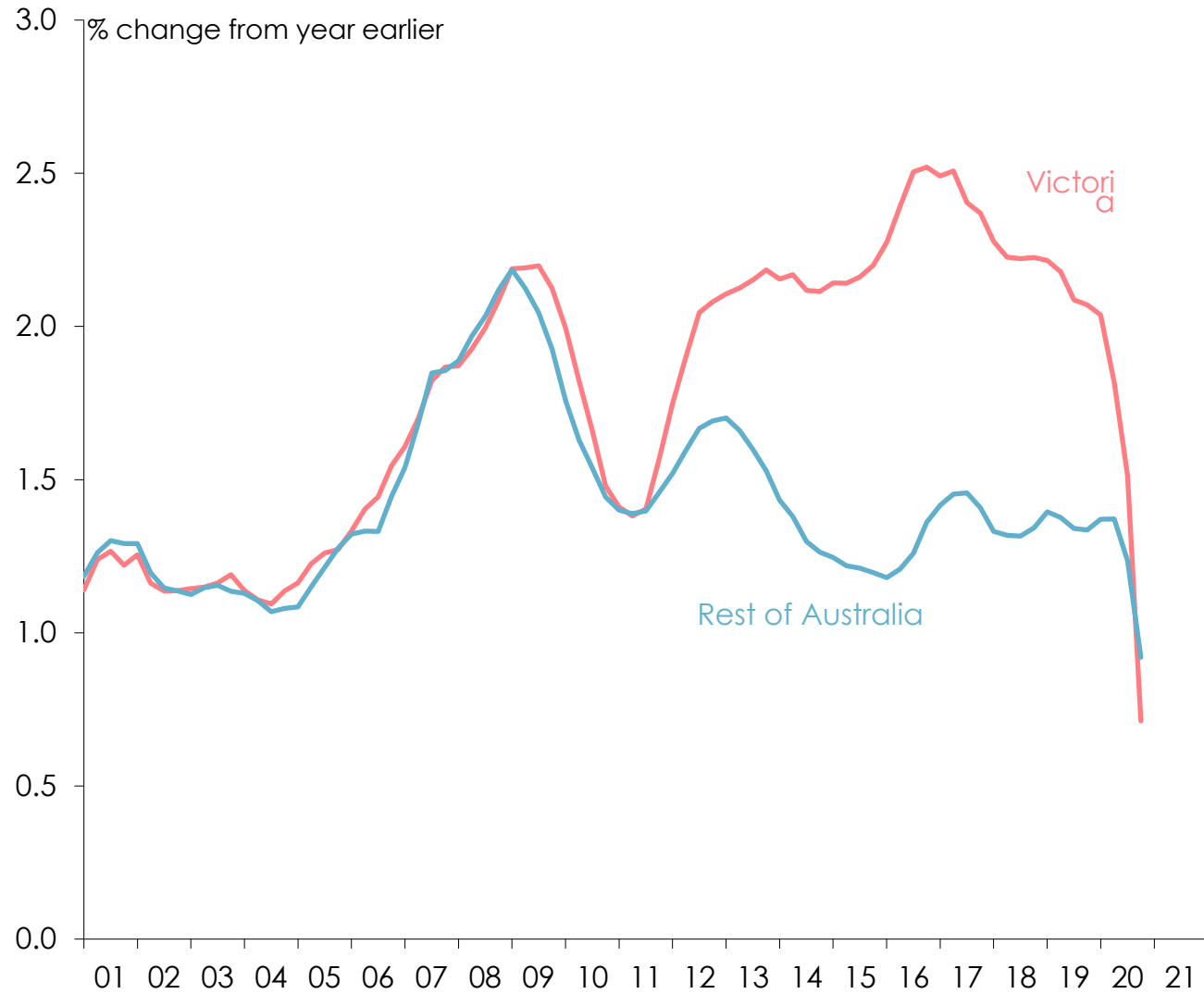
VICTORIA'S ECONOMIC PERFORMANCE OVER THE PAST DECADE

31ST MAY 2021

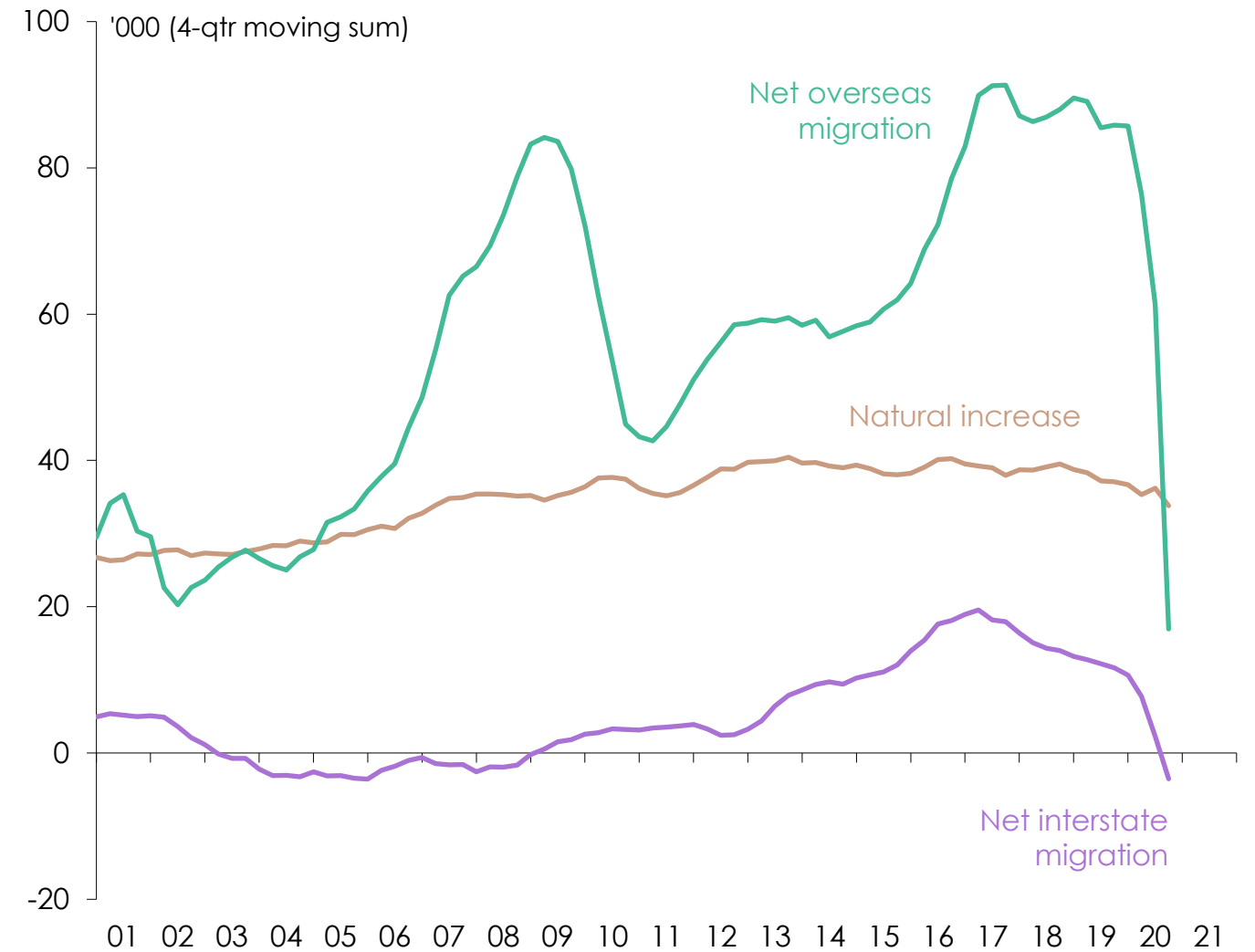
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

Over the past decade Victoria's economy has become increasingly dependent on population growth, through immigration ...

Population growth – Victoria vs rest of Australia



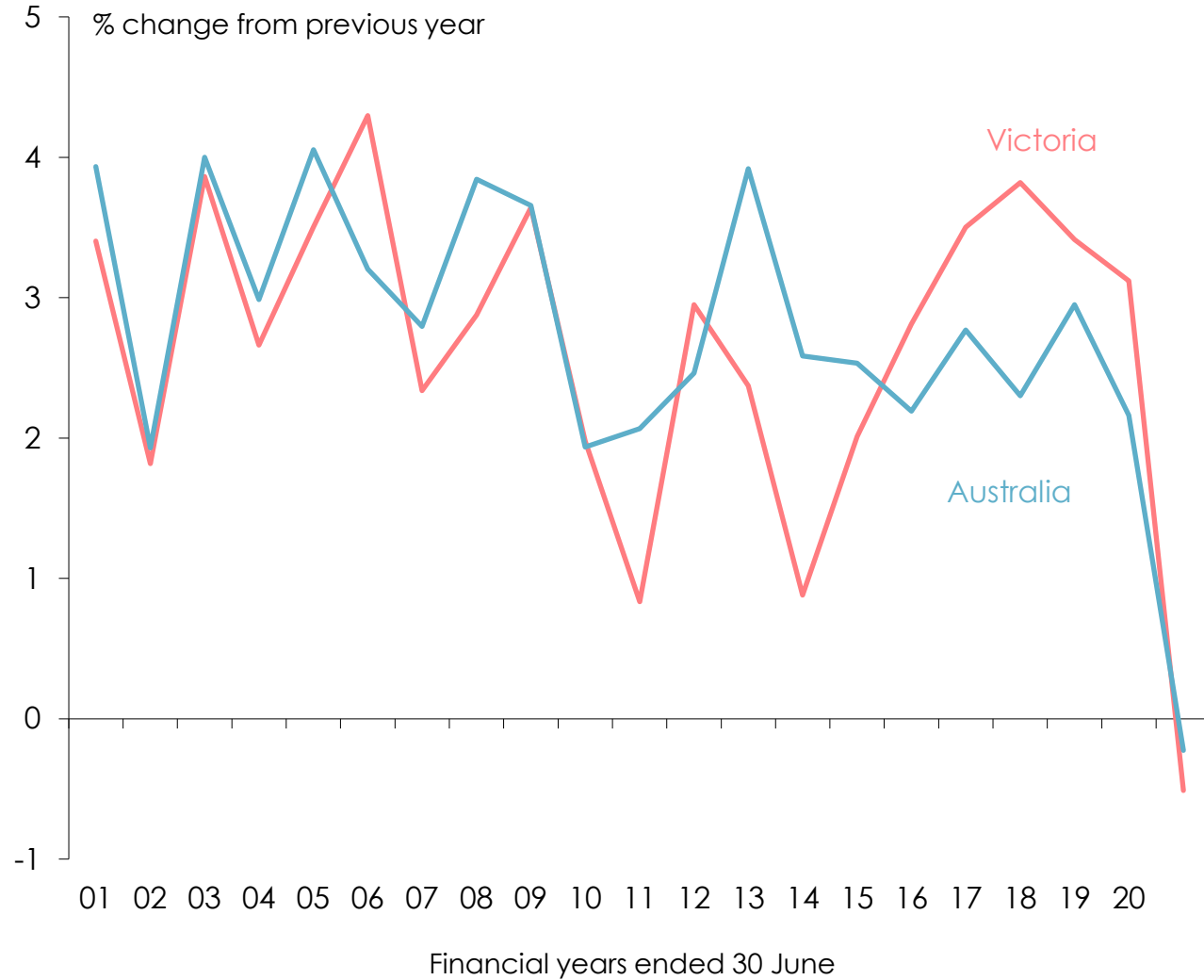
Sources of Victoria's population growth



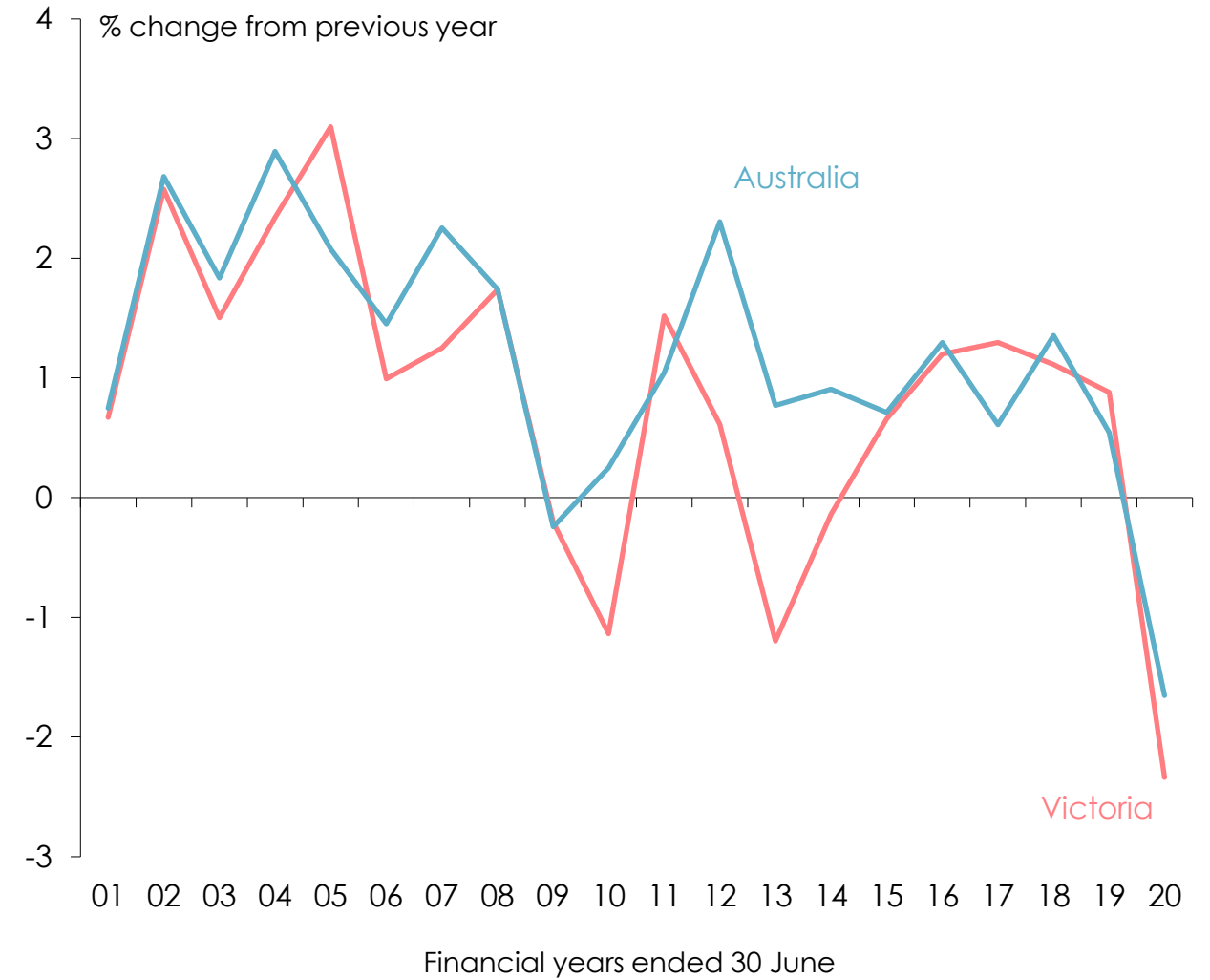
Source: ABS, [National, state and territory population](#), September 2020.

So what seems like an above-average economic performance on Victoria's part doesn't look so good when you take population growth out

Real gross state product growth – Victoria vs Australia



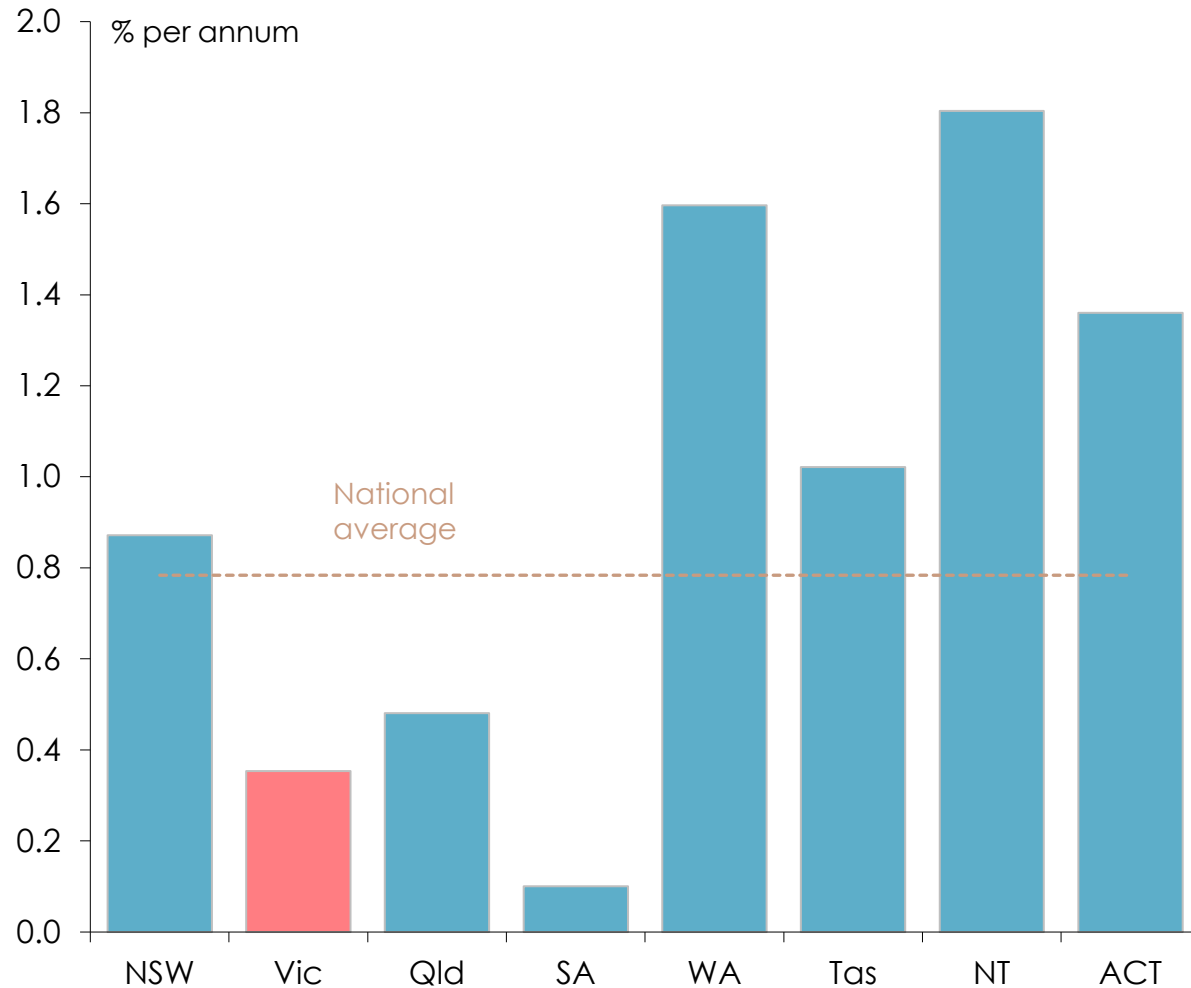
Real per capita gross state product growth – Victoria vs Australia



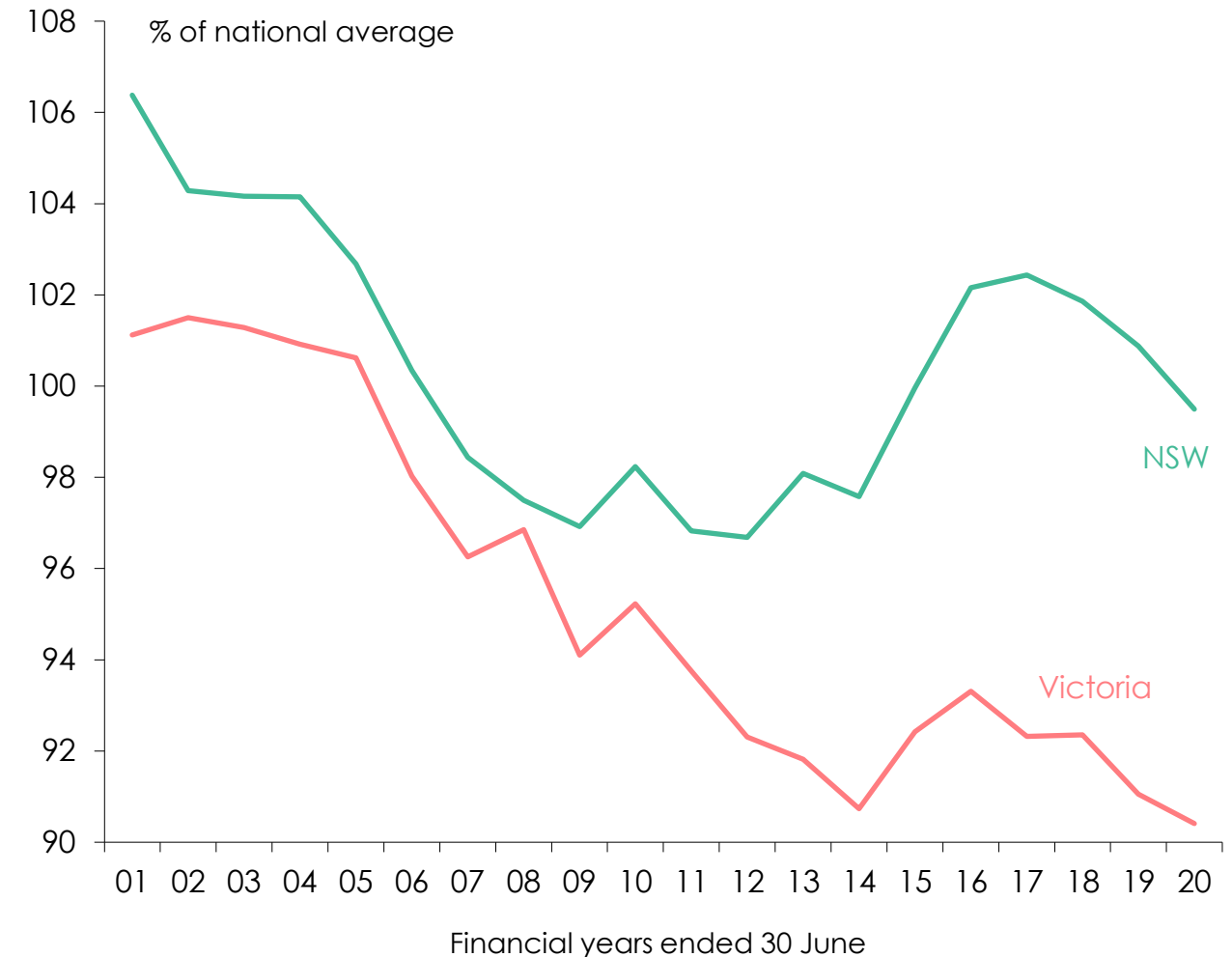
Source: ABS, [Australian National Accounts: State Accounts](#), 2019-20.

Victoria's per capita economic growth over the past decade was half the national average, so Victoria's relative living standards declined

Real per capita GSP growth, states and territories, 2009-10 to 2019-20



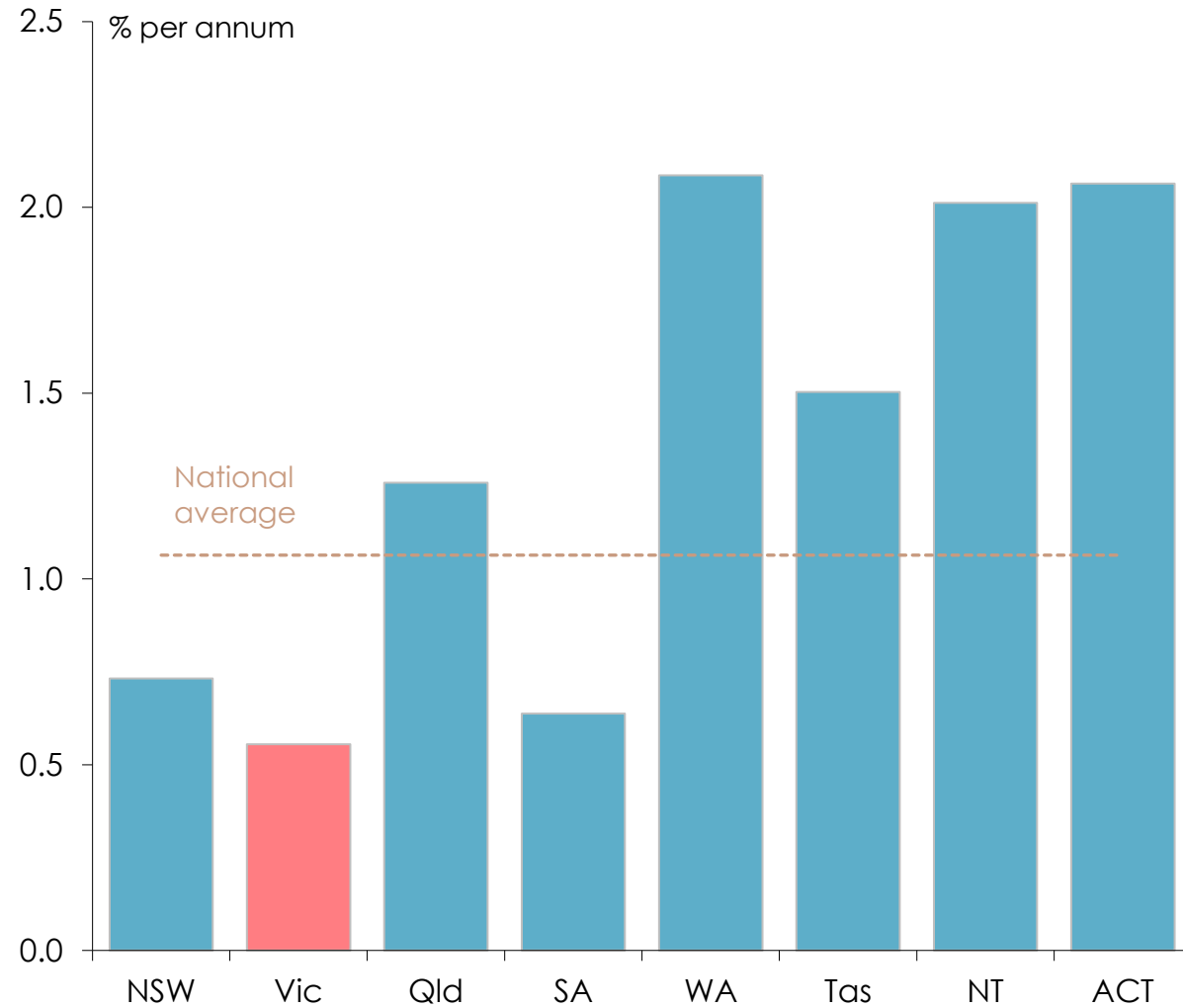
Victoria's per capita gross product as a pc of the national average, compared with NSW



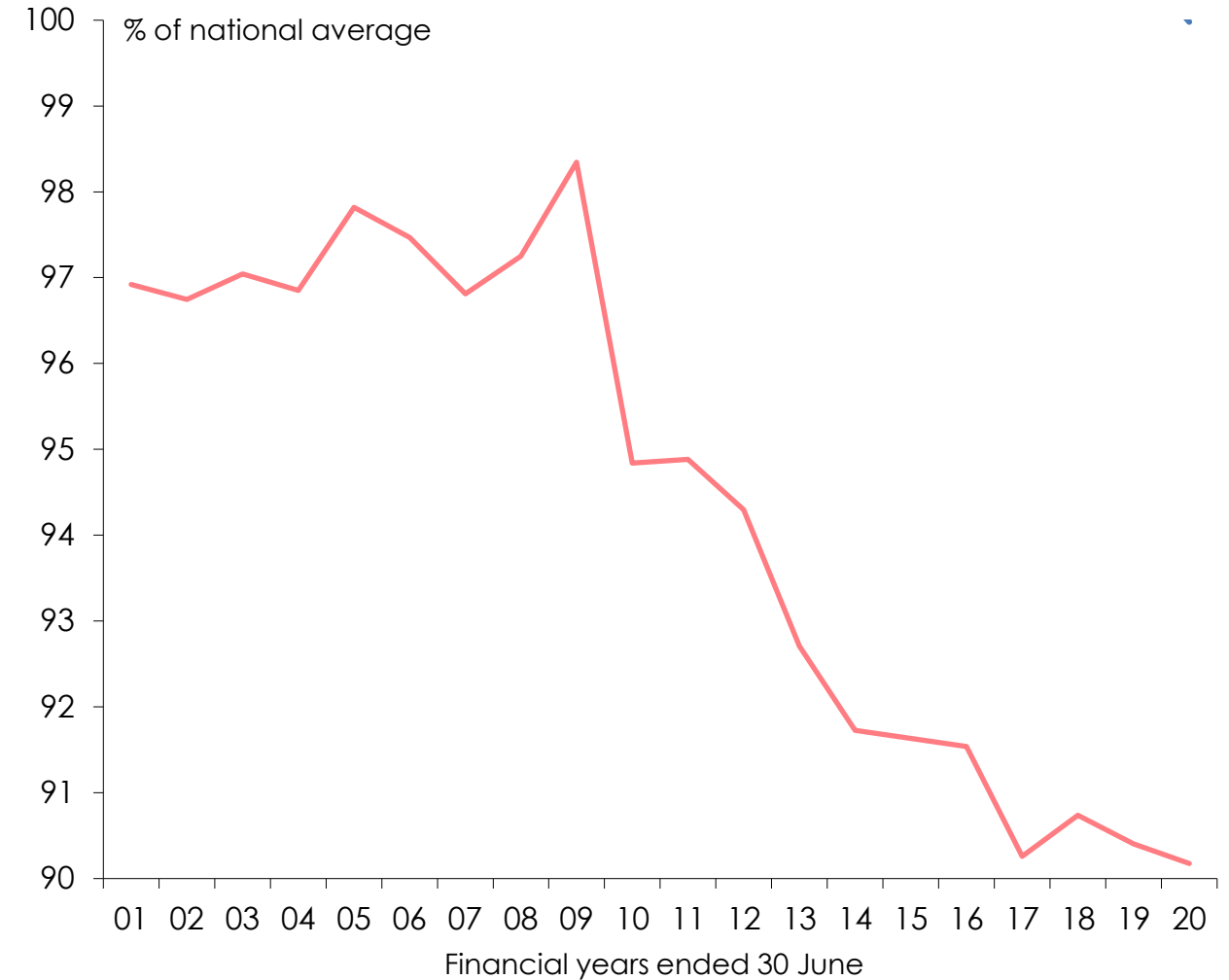
Source: ABS, [Australian National Accounts: State Accounts](#), 2019-20.

The principal reason for the decline in Victoria's per capita gross product relative to the rest of Australia is its poor productivity performance

Labour productivity growth, states and territories, 2009-10 to 2019-20



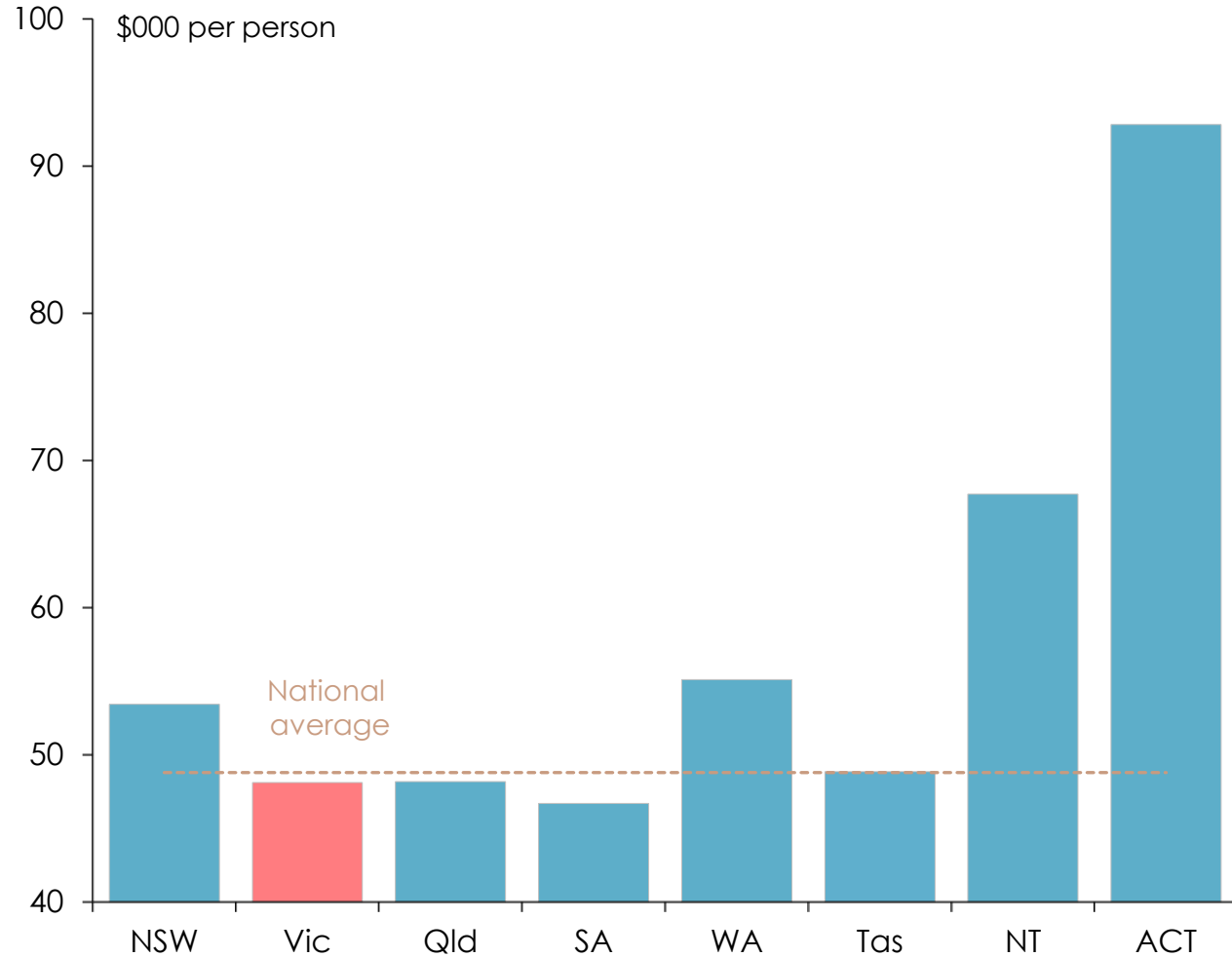
Victoria's labour productivity as a pc of the national average



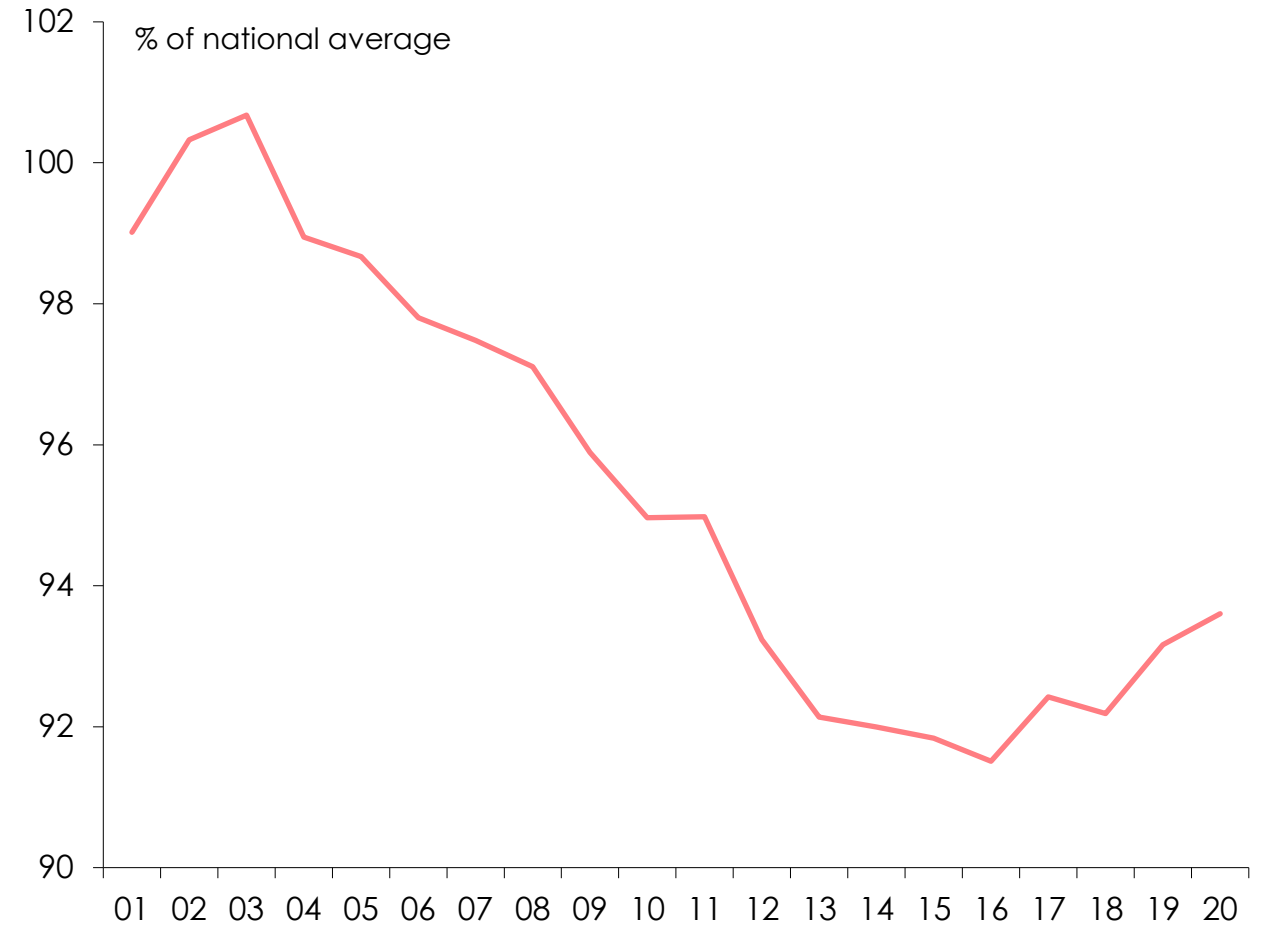
Source: ABS, [Australian National Accounts: State Accounts](#), 2019-20.

In 2019-20, Victoria's per capita household disposable income was the second-lowest in Australia, though the decline occurred before 2016

Household disposable income per capita, states and territories, 2019-20



Victoria's per capita household disposable income as a pc of the national average

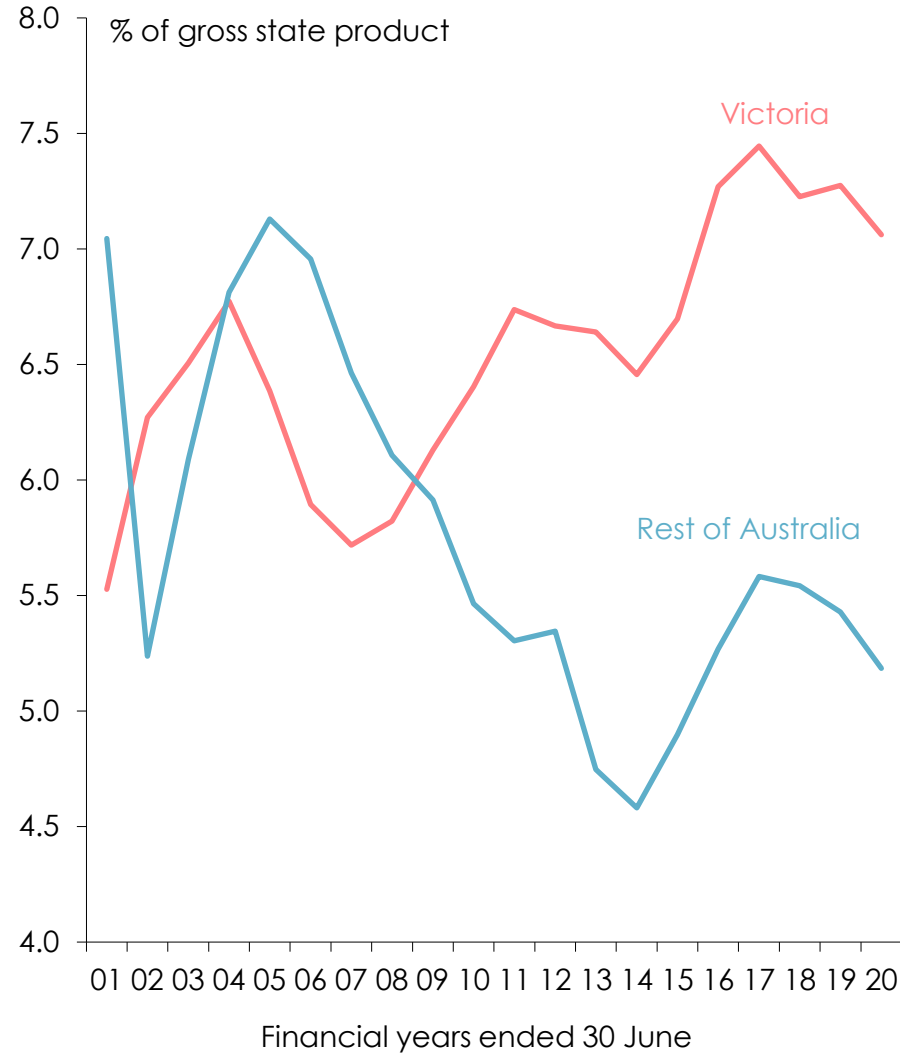


Financial years ended 30 June

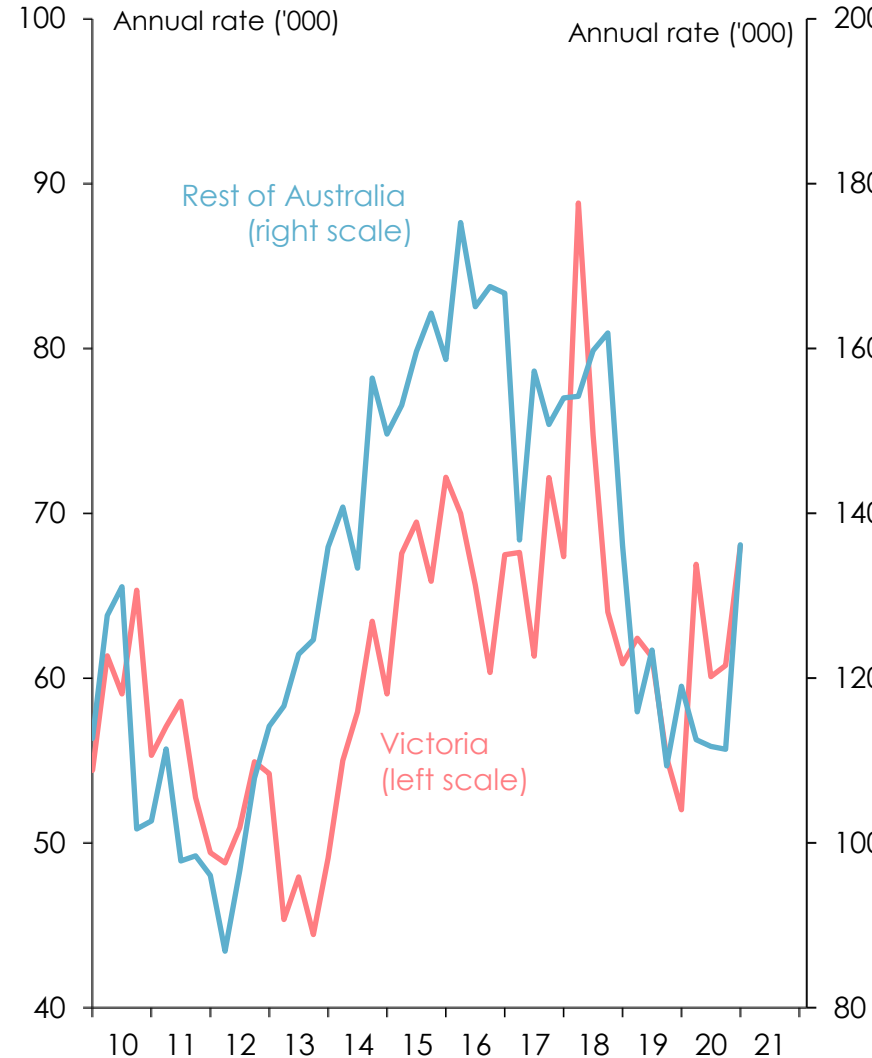
Source: ABS, [Australian National Accounts: State Accounts](#), 2019-20.

Reflecting its greater reliance on population growth as an economic growth driver, housing accounts for a larger share of Victoria's economy

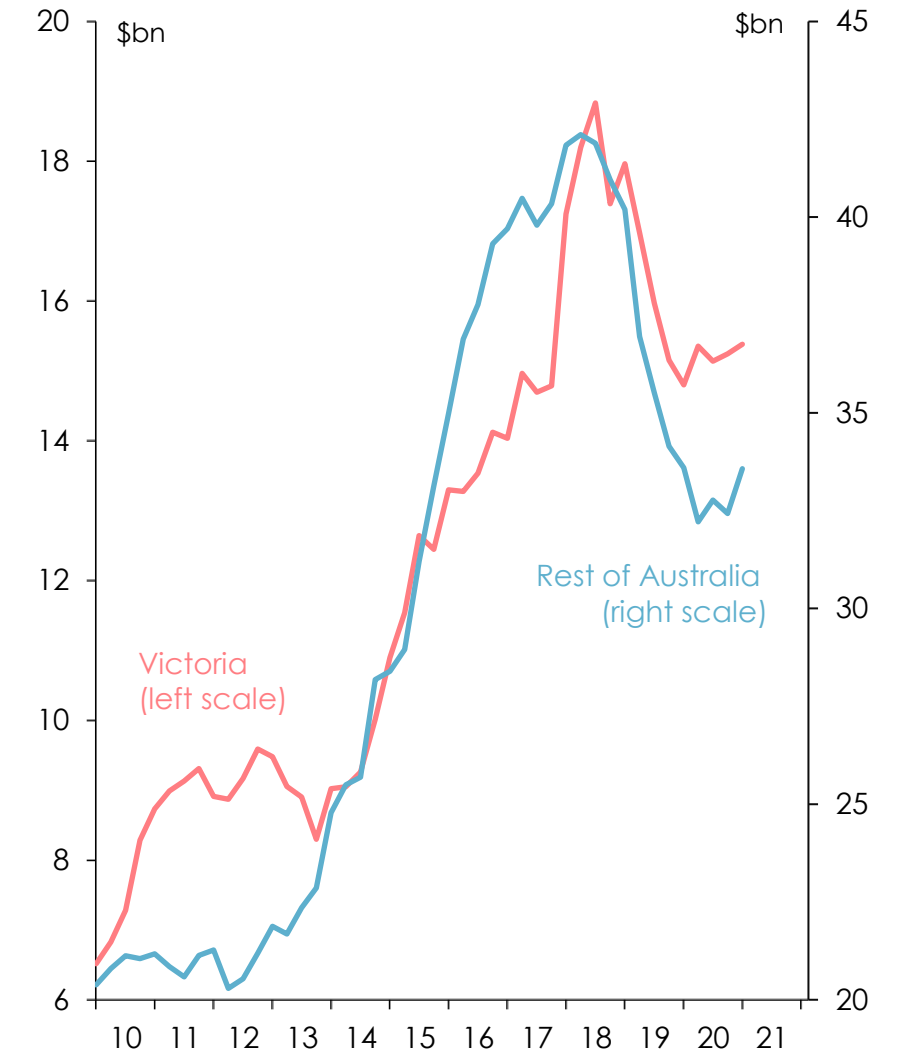
Dwelling construction as a pc of gross product



Residential dwelling commencements



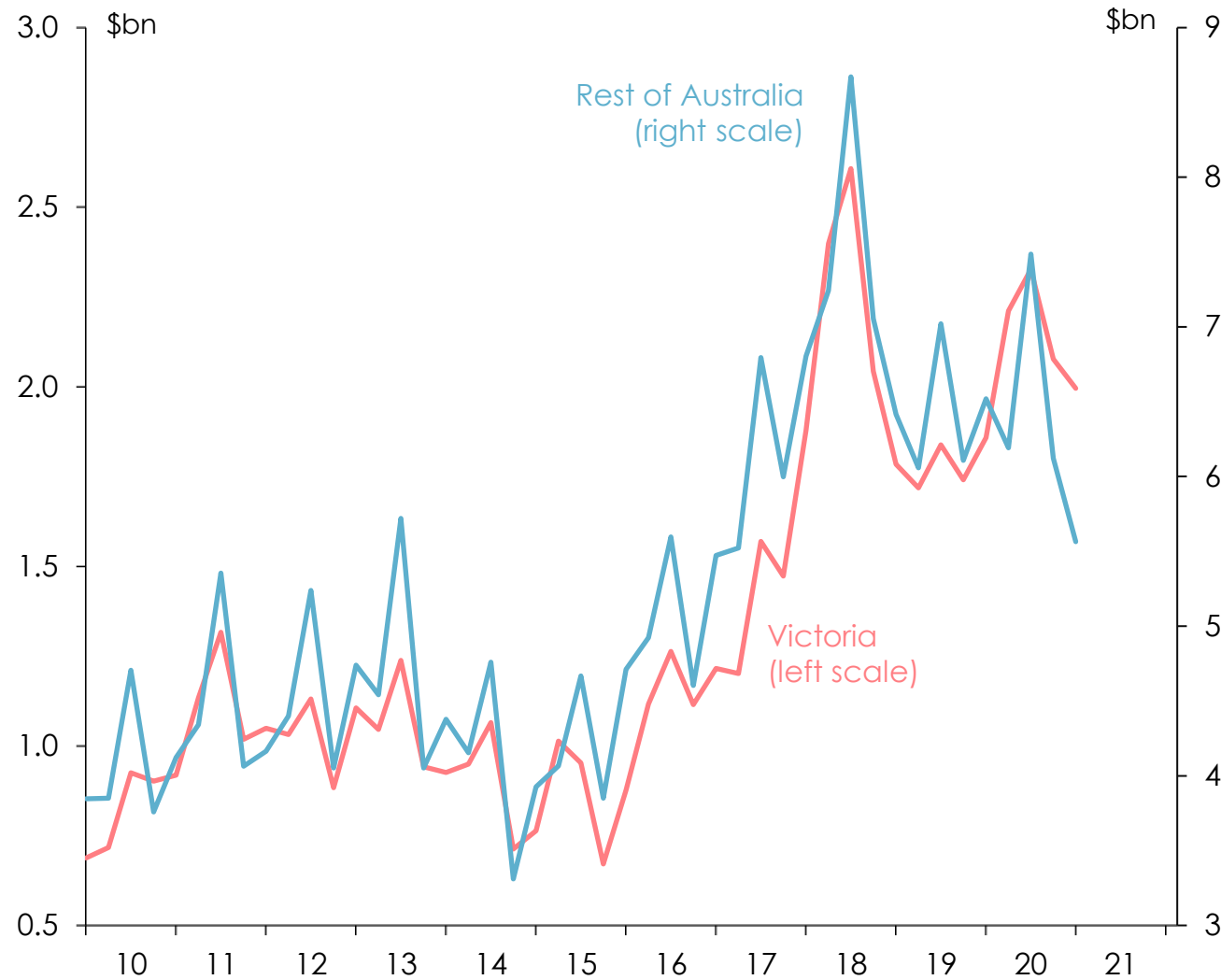
'Pipeline' of residential building work yet to be done



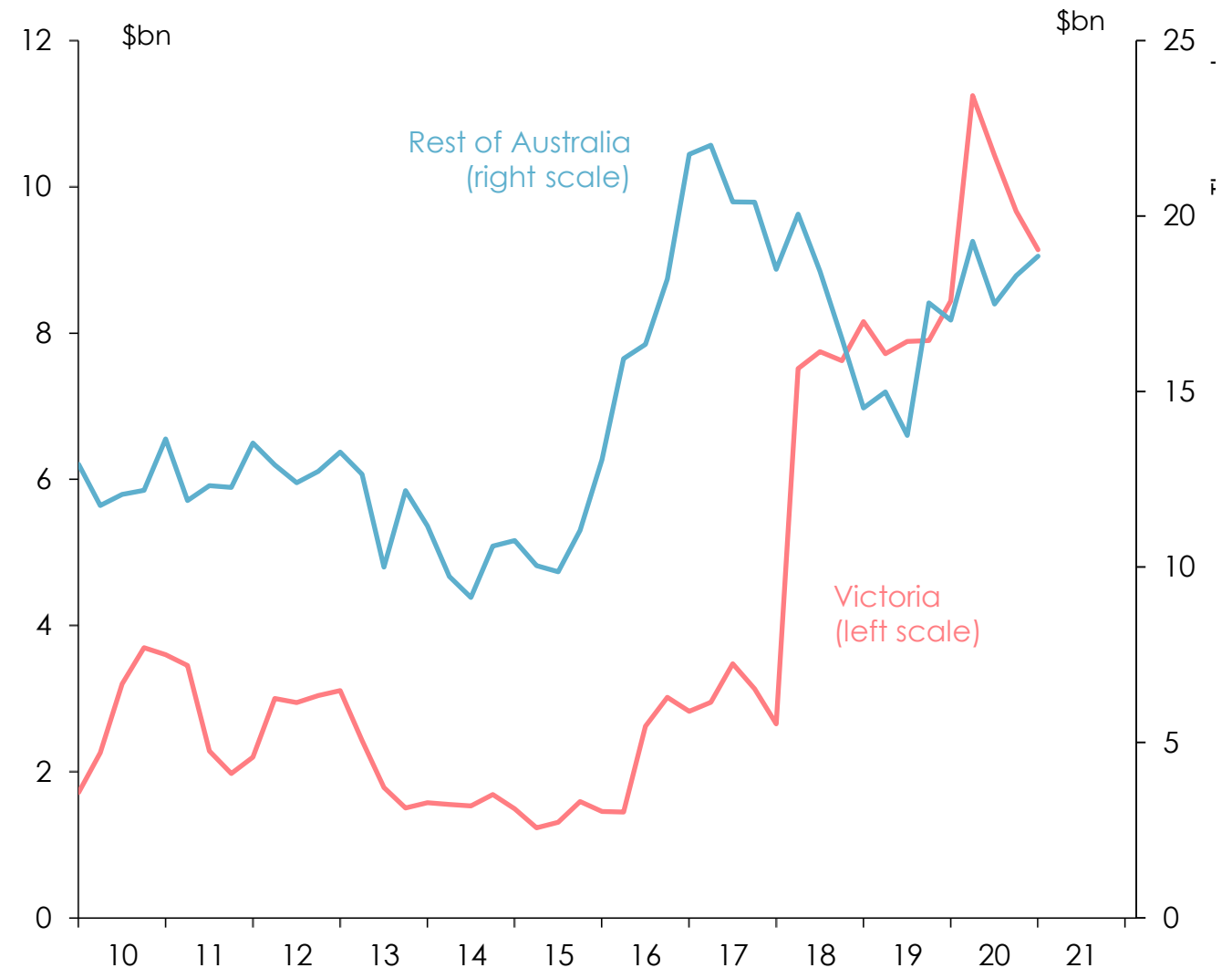
Source: ABS.

Victoria does have a strong pipeline of infrastructure construction work

Infrastructure construction work done



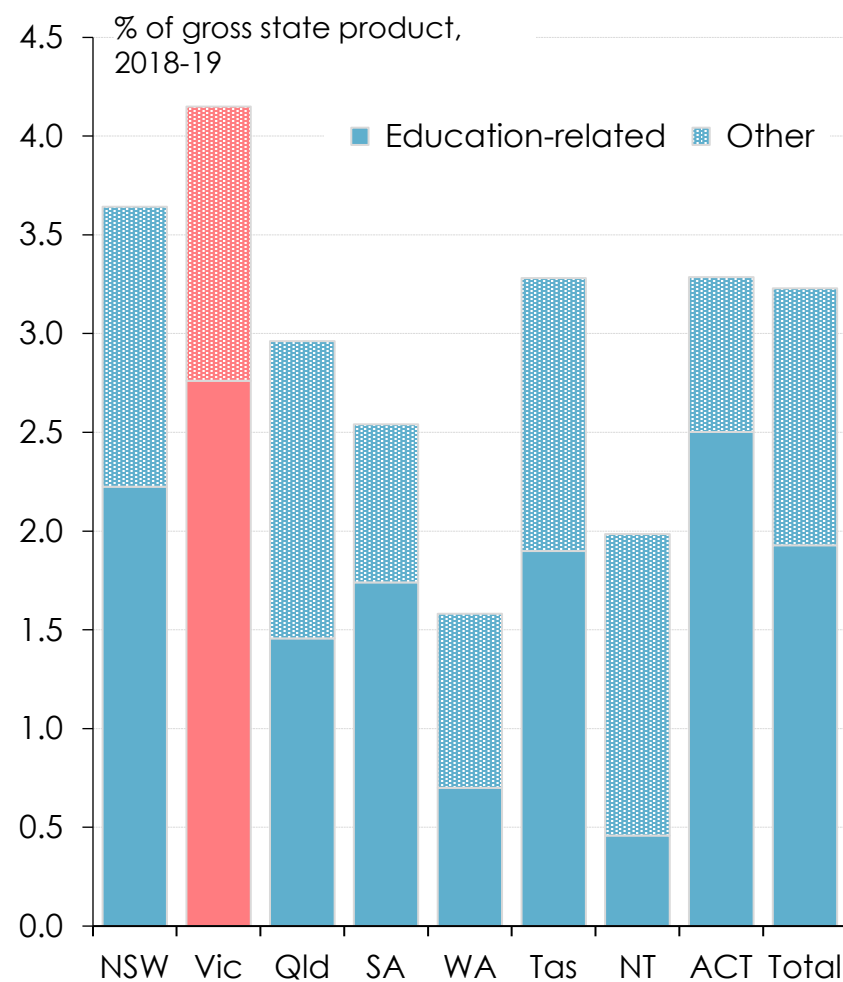
'Pipeline' of infrastructure construction work yet to be done



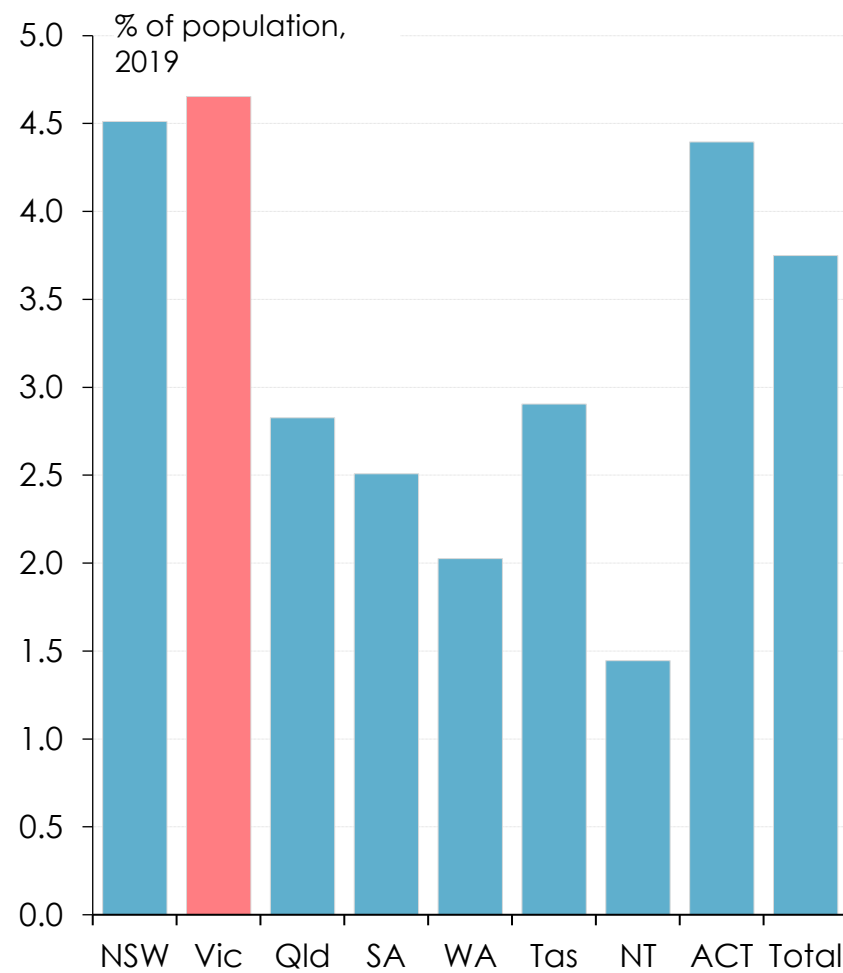
Note: 'infrastructure construction' is engineering construction work done by or for the public sector, excluding electricity and heavy industry. Source: ABS.

Victoria is also more dependent on foreign tourists and students than any other state or territory

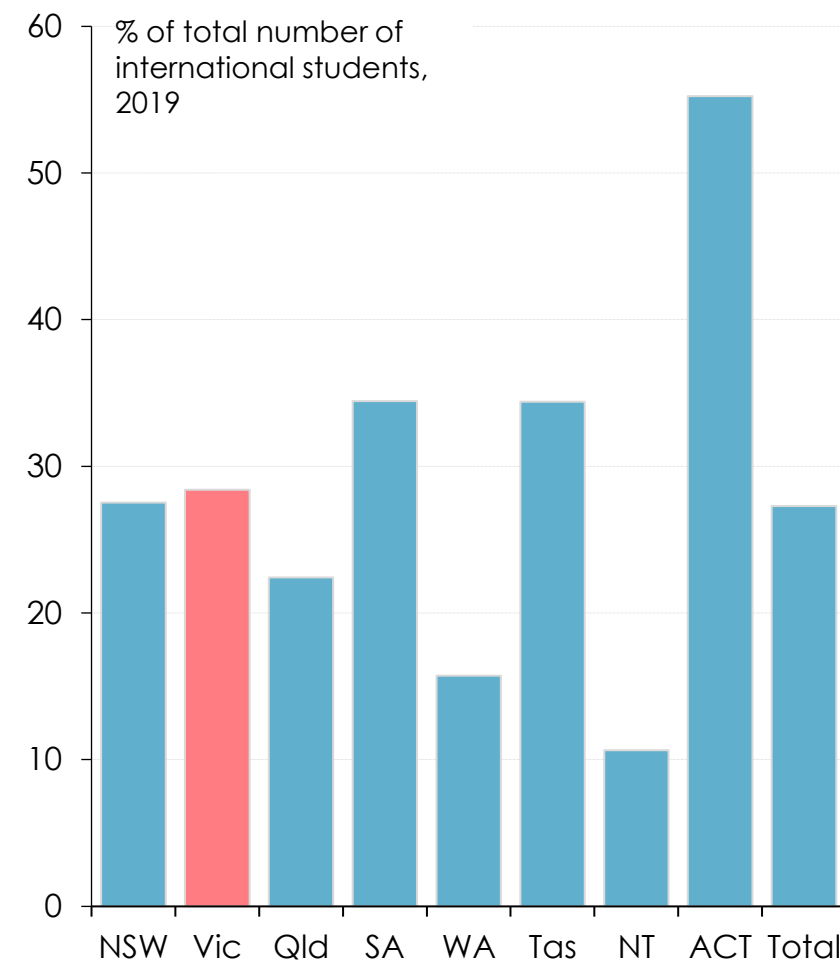
Travel services exports as a pc of gross state product, 2018-19



International students as a pc of population, 2019



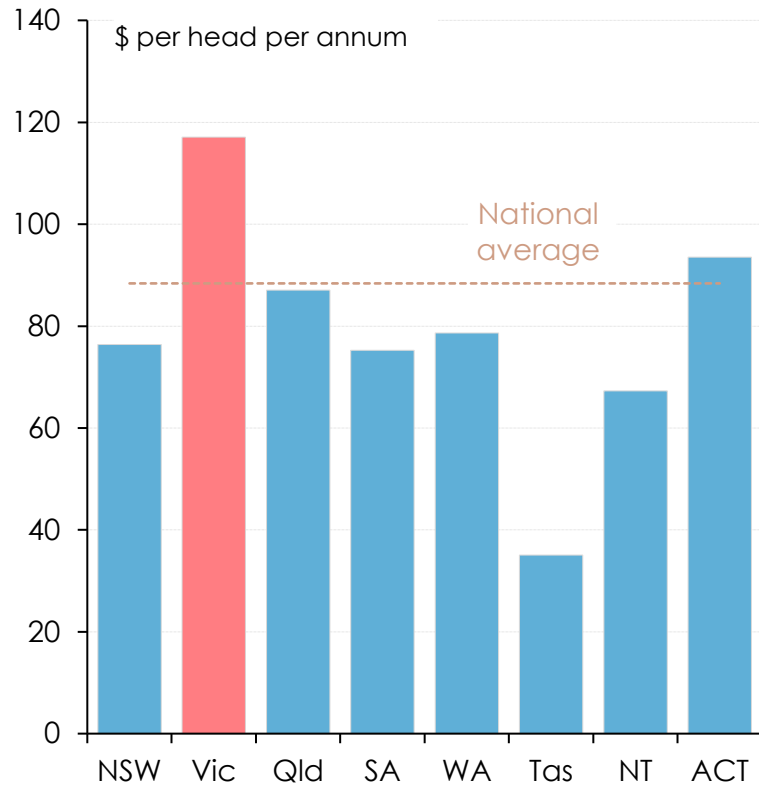
Chinese students as a pc of total international students, 2019



Sources: ABS; Australian Department of Education, Skills and Employment.

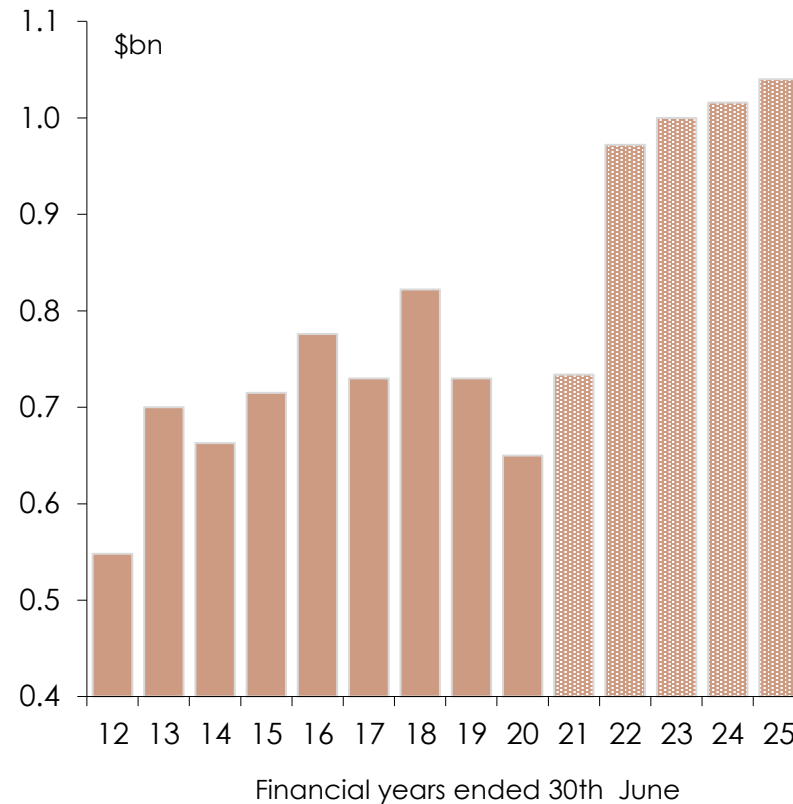
Victoria uses its police force as a revenue-raising agency to a much greater extent than any other state or territory

Revenue from fines per head, states and territories



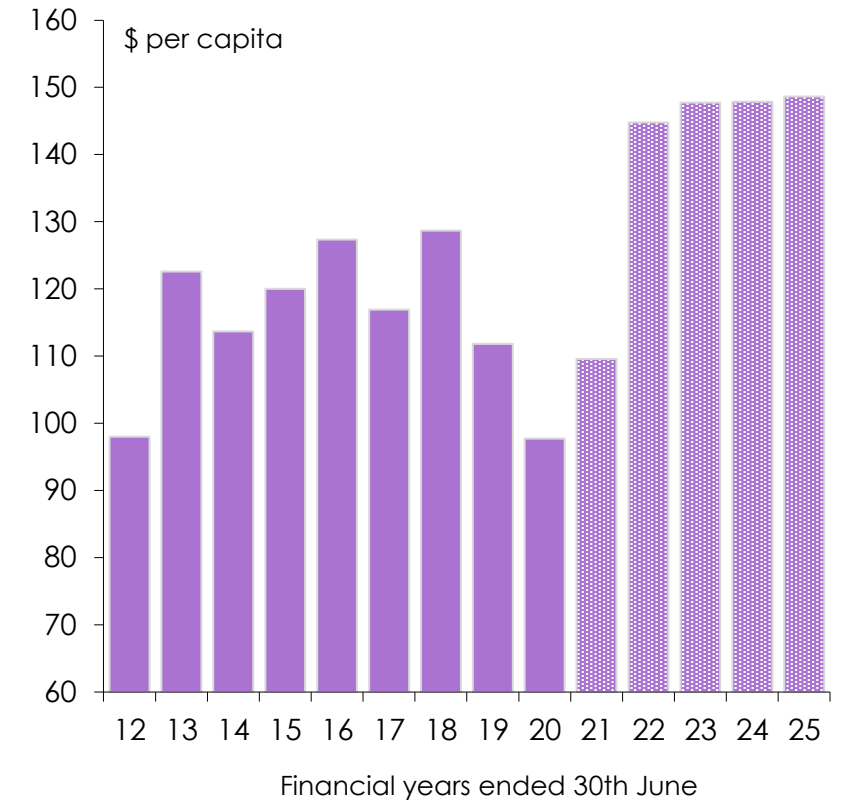
❑ Victoria fined its citizens an average of \$117 per annum in the six years to 2019-20 – almost double the \$60 average of all other states and territories

Victoria's fines revenue



❑ The Victorian Government derives 1.03% of its total revenue from fining its citizens – cf. the average for all other states and territories of 0.30%

Victoria's fines revenue per head of population

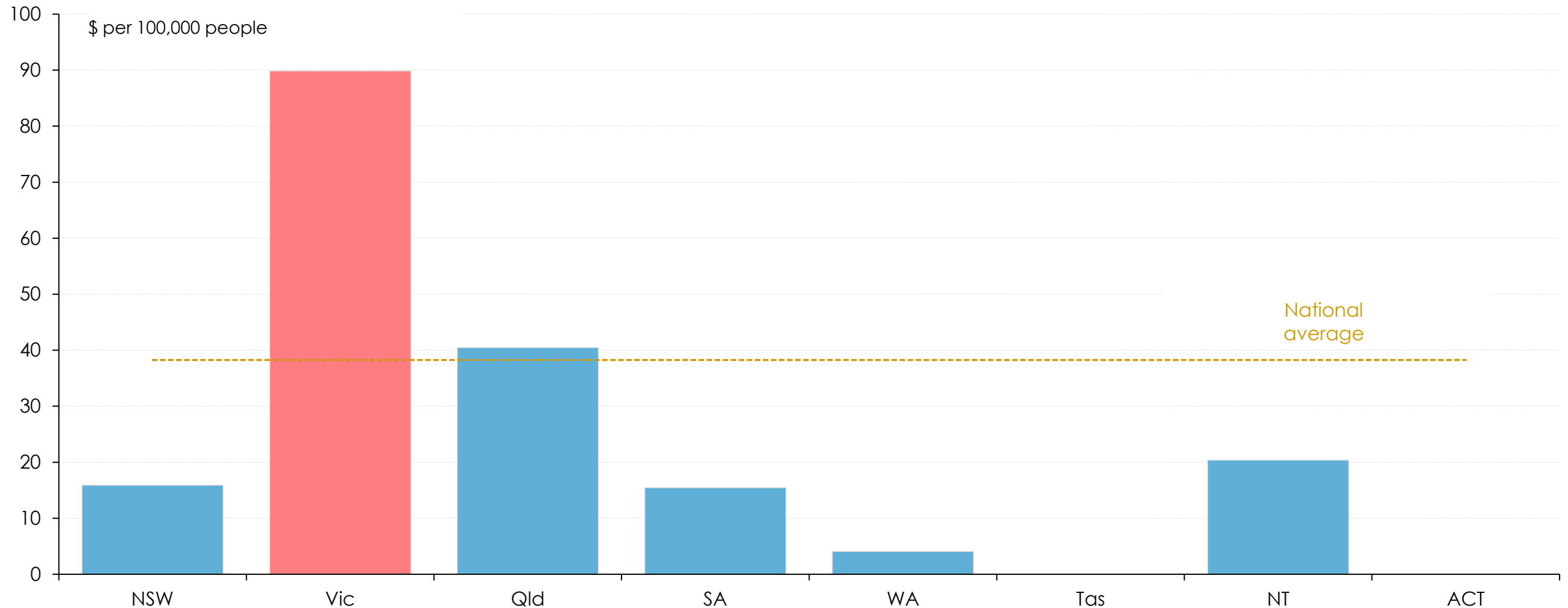


❑ Last week's Victorian State Budget predicts that Victorians will be paying almost \$150 each in fines by 2024-25 – an increase of 36% from 2020-21

Sources: Victorian Government, [2019-20 Financial Report](#) and [2021-22 State Budget - Strategy and Outlook](#) (and corresponding publications for earlier years, and equivalent documents for other states and territories; Corinna. [Return to "What's New"](#)).

And this over-the-top policing as revenue-raising in Victoria was also evident during the first lockdown last year

Fines for breaches of lockdown regulations, per head

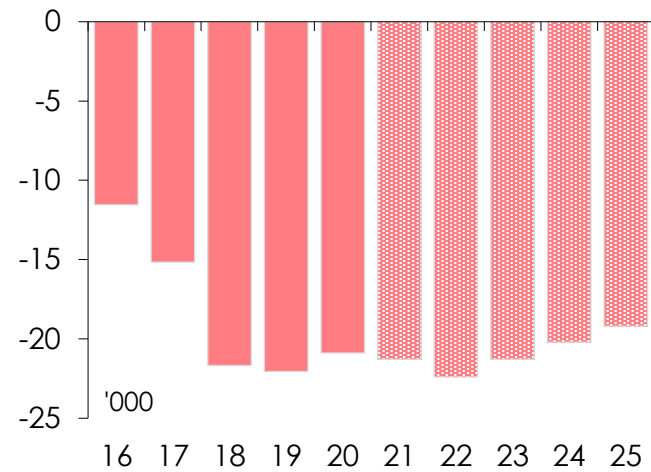


Note: fines for breaches of Covid-19 regulations are for the period between when 'stage 3' lockdowns started in late March to the last week of May.
Source: *The Age*, 28th May 2020;

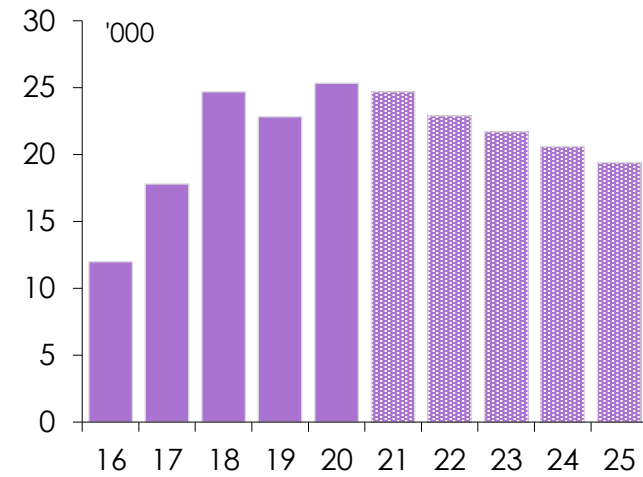
Federal Treasury thinks Victoria is going to have difficulty enticing people to move to it from other states at the same rate as before the pandemic

Net interstate migration – Federal Budget forecasts for 2020-21 to 2024-25

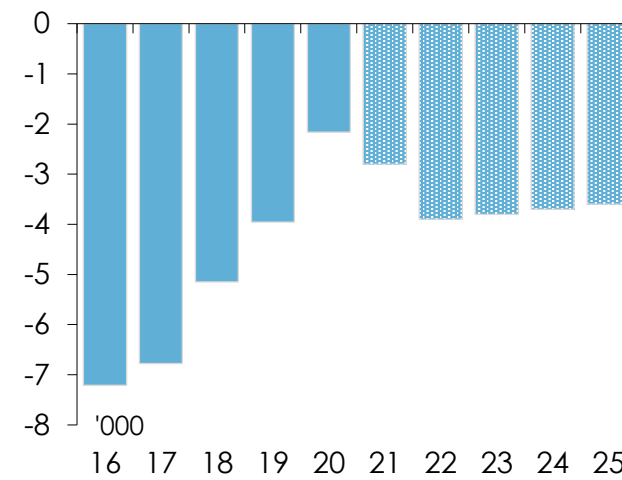
New South Wales



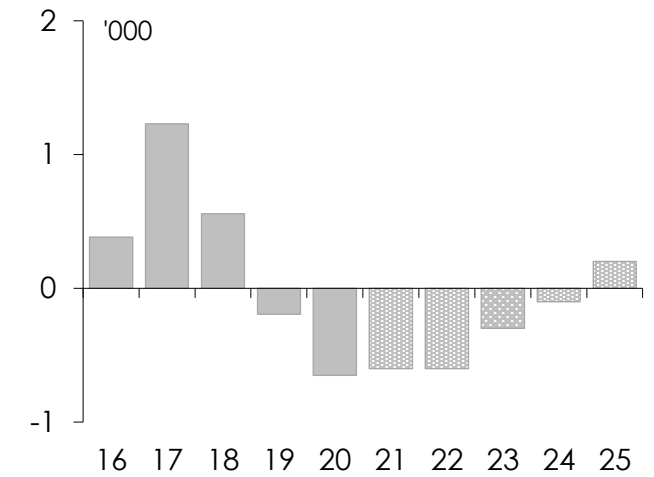
Queensland



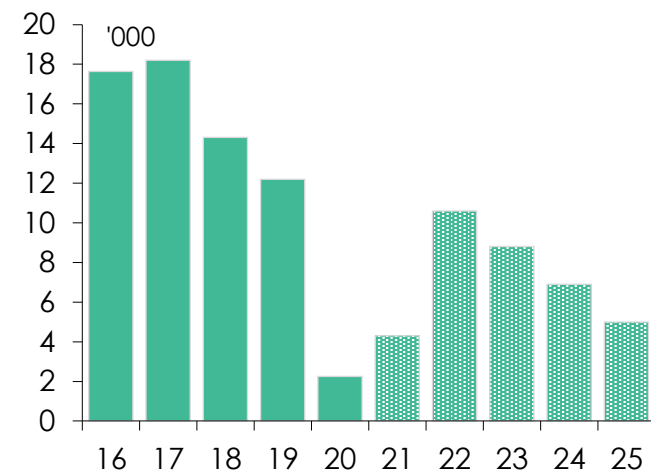
South Australia



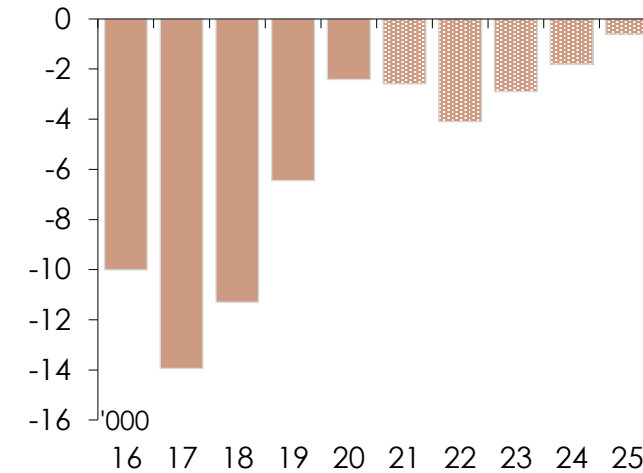
ACT



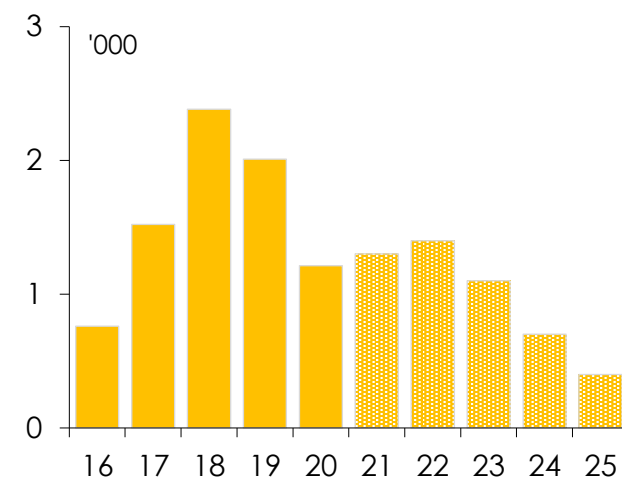
Victoria



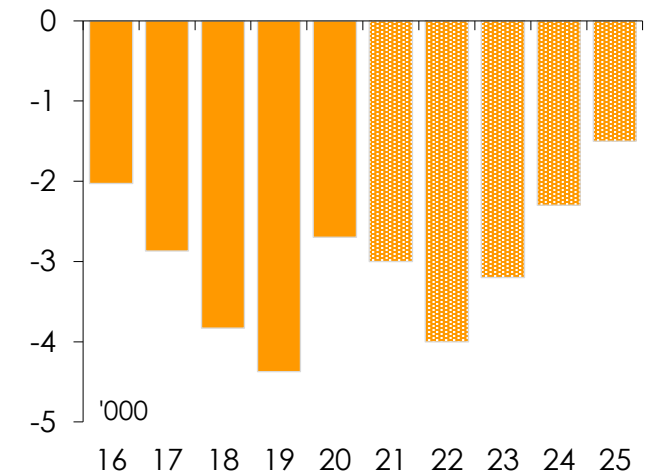
Western Australia



Tasmania



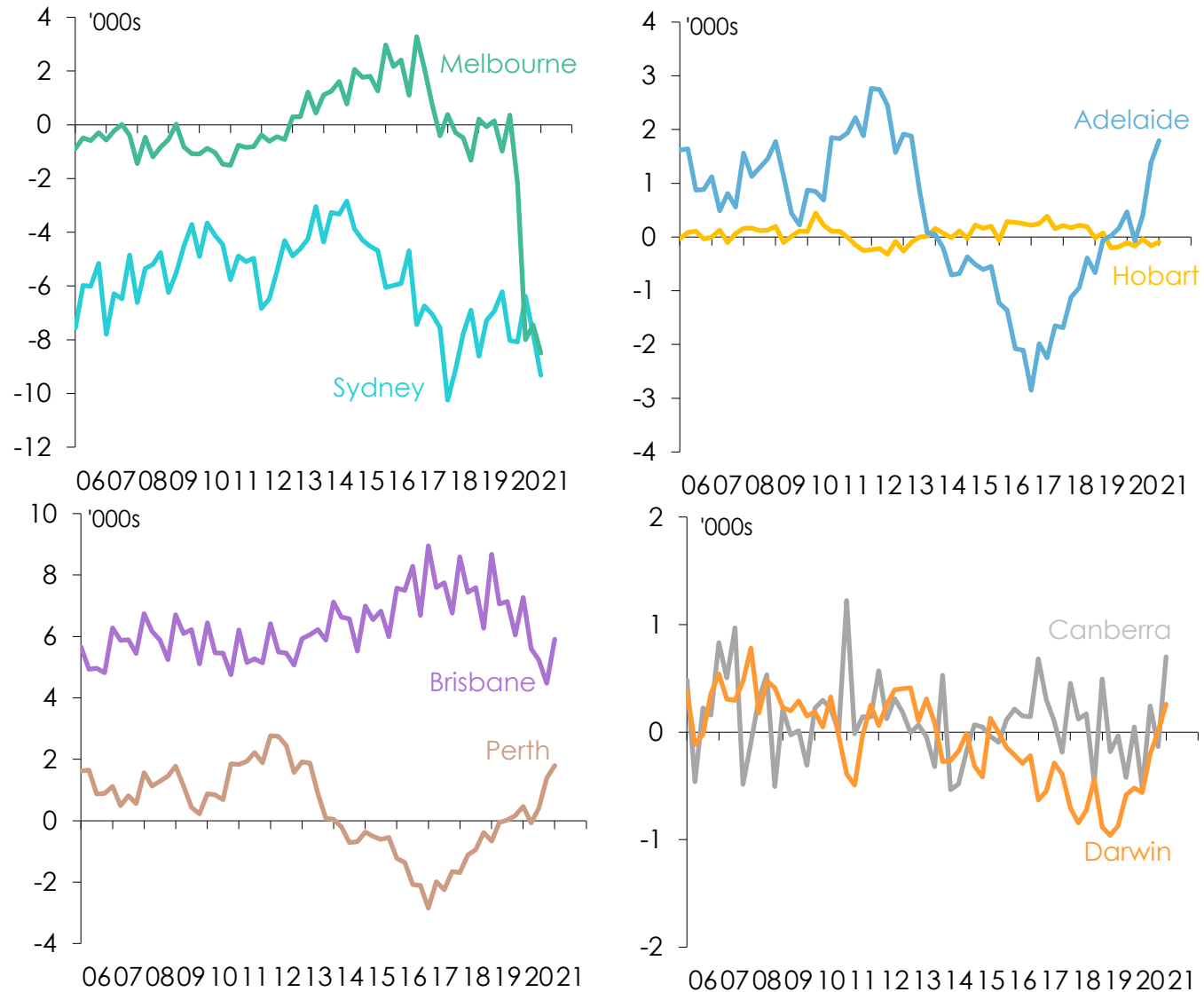
Northern Territory



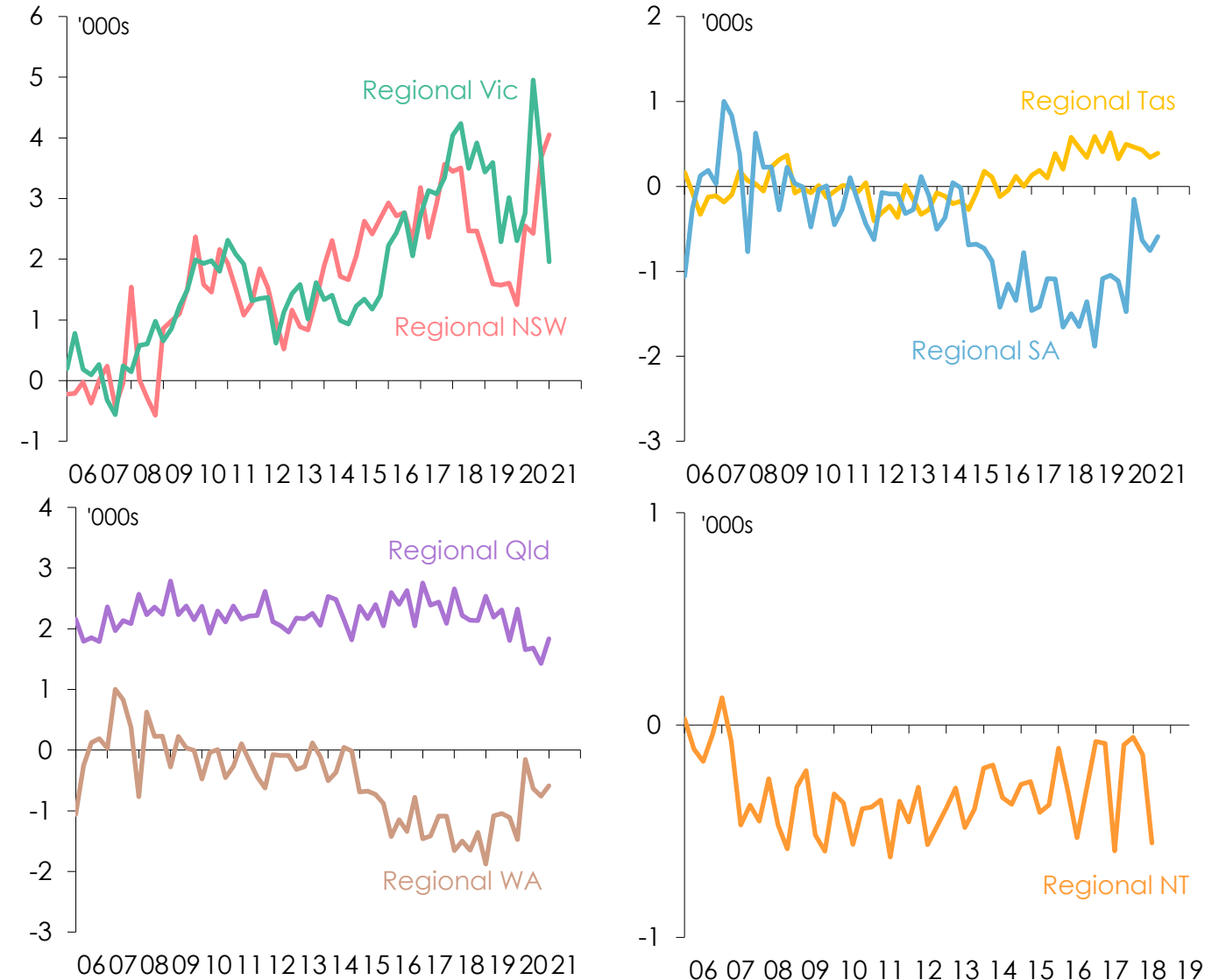
Sources: ABS, [National, state and territory population](#), September 2020; Australian Government, [2021-22 Budget Paper No. 3: Federal Financial Relations - Appendix A: Parameters and Further Information](#), May 2021.

But Federal Treasury's forecasts for interstate migration to Victoria might be too optimistic given recent trends

Net internal migration to or from Australia's capital cities



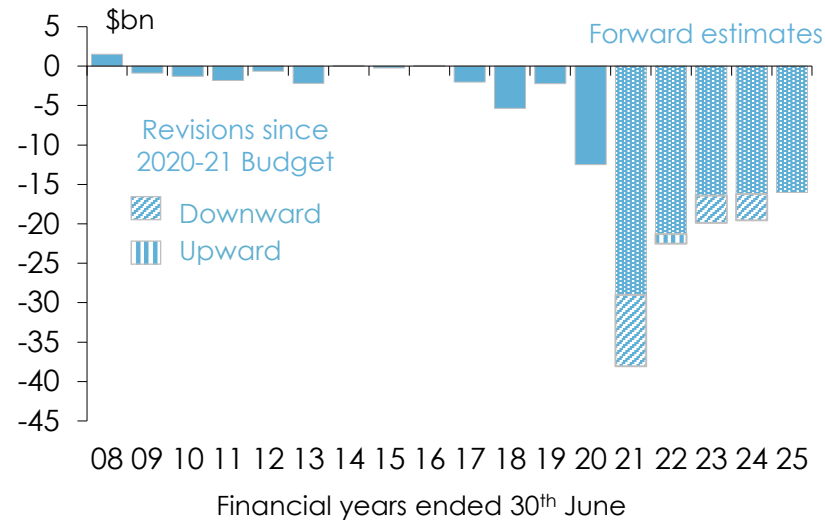
Net internal migration to or from Australia's regions



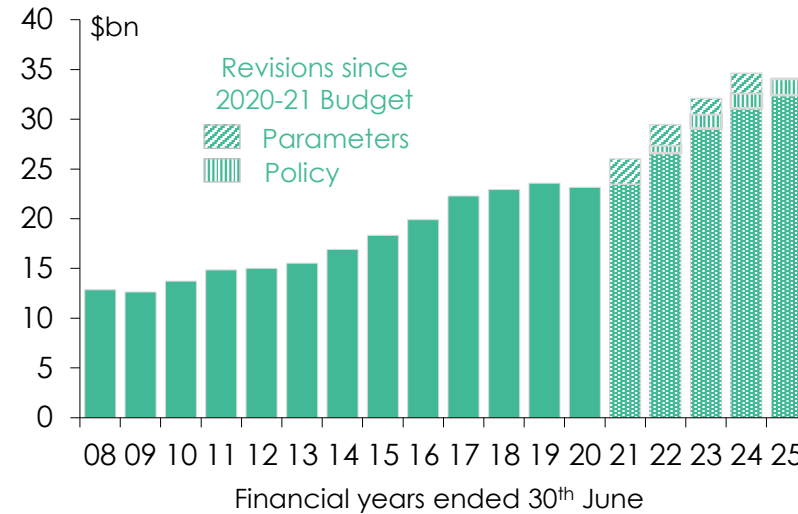
Note: 'internal migration' refers to the movement of people across specified boundaries (in this case, between 'greater capital city' areas and 'rest of state'), estimated using data from Medicare and (for military personnel) the Department of Defence. Source: ABS, [Regional internal migration estimates, provisional](#), December 2020.

Victoria's 2021-22 Budget raises taxes by \$5½bn over four years to fund increased spending and begin the 'budget repair' task

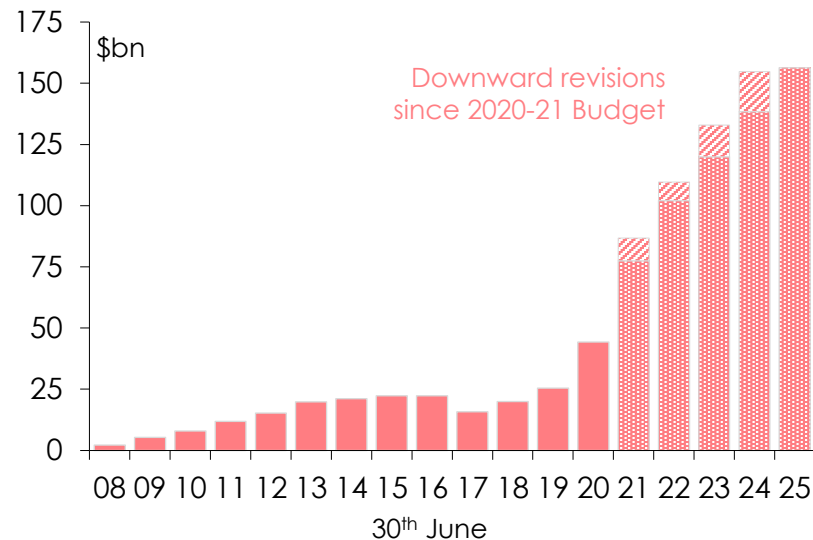
Cash balance



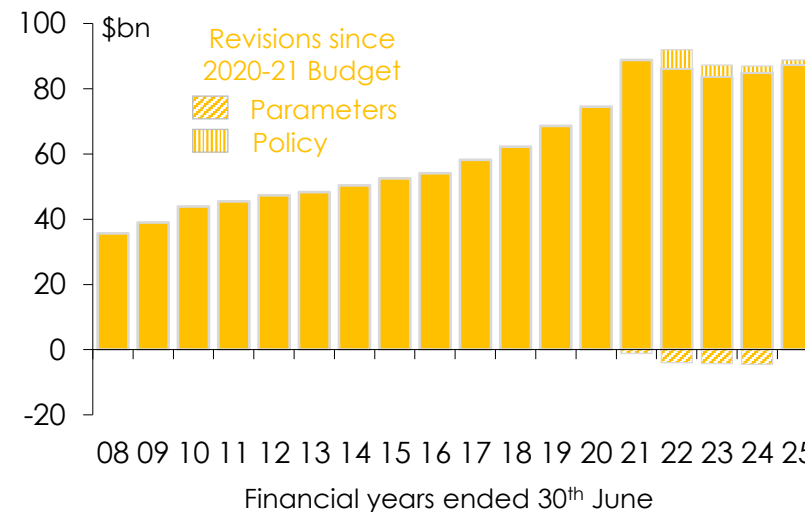
State taxation revenue



Net debt



'Operating' expenses



- ❑ 'Parameter variations' (changes in economic and other factors beyond the State Government's direct control) improved the 'bottom line' by around \$20bn over the four years to 2024-25
- ❑ The 2021-22 Budget presented by Treasurer Tim Pallas this Thursday applied these 'variations' and revenue measures raising \$5½ bn over four years to fund additional spending totalling \$12¾bn and to reducing the budget deficit and the build-up in net debt
- ❑ Net debt is now projected to be \$138bn (24.9% of Victoria's gross state product) by 30th June 2024 (\$16½bn or 4 pc pts of GSP less than forecast in last year's Budget) – but will still increase to \$156bn (26¾% of GSP) by June 2025
- ❑ The tax increases include a payroll tax surcharge on large companies (to fund increased investment in mental health programs), increased stamp duty and land tax on 'premium properties', a 50% 'windfall gains tax' on high-value land holdings ...
- ❑ ... and a 10% increase in all fines (which Victoria is much more adept at collecting than any other state or territory – see [next slide](#))

Note: Budgetary aggregates shown in the above charts refer to Victoria's 'general government' sector (ie, excluding public corporations). Source: Victorian Government, [2021-22 State Budget - Strategy and Outlook](#). [Return to "What's New"](#).