



# TASMANIA REPORT

MONDAY 11 DECEMBER 2017

Book now [www.tcci.com.au](http://www.tcci.com.au)

Prepared and presented by  
**Saul Eslake**



**MERCURY**

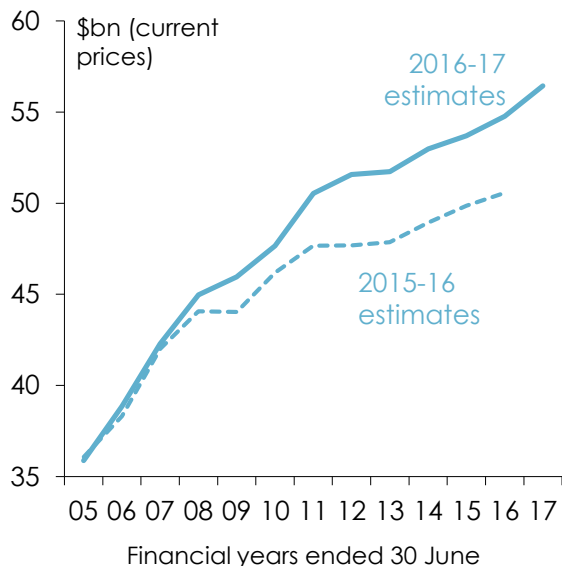


# First – the good news

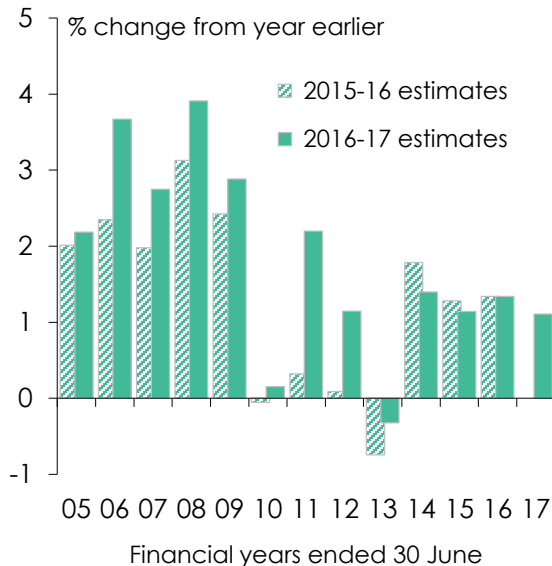


# Tasmania's economy is bigger than we knew

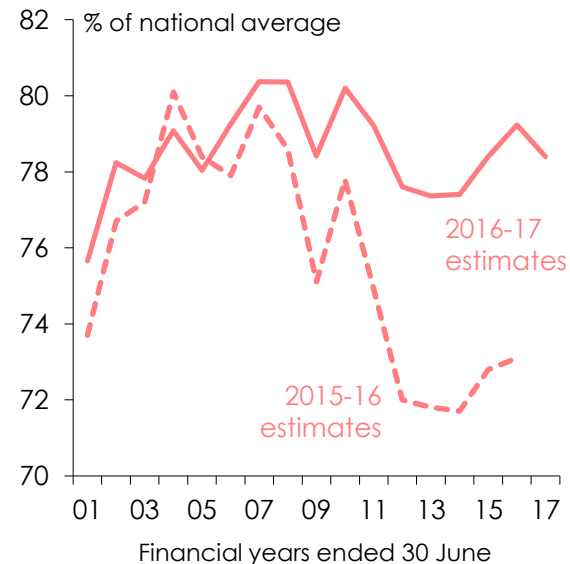
## Tasmania's gross state product – before & after



## Real growth in GSP – before & after



## Tasmania's per capita GSP as pc of national average



Source: ABS State Accounts.

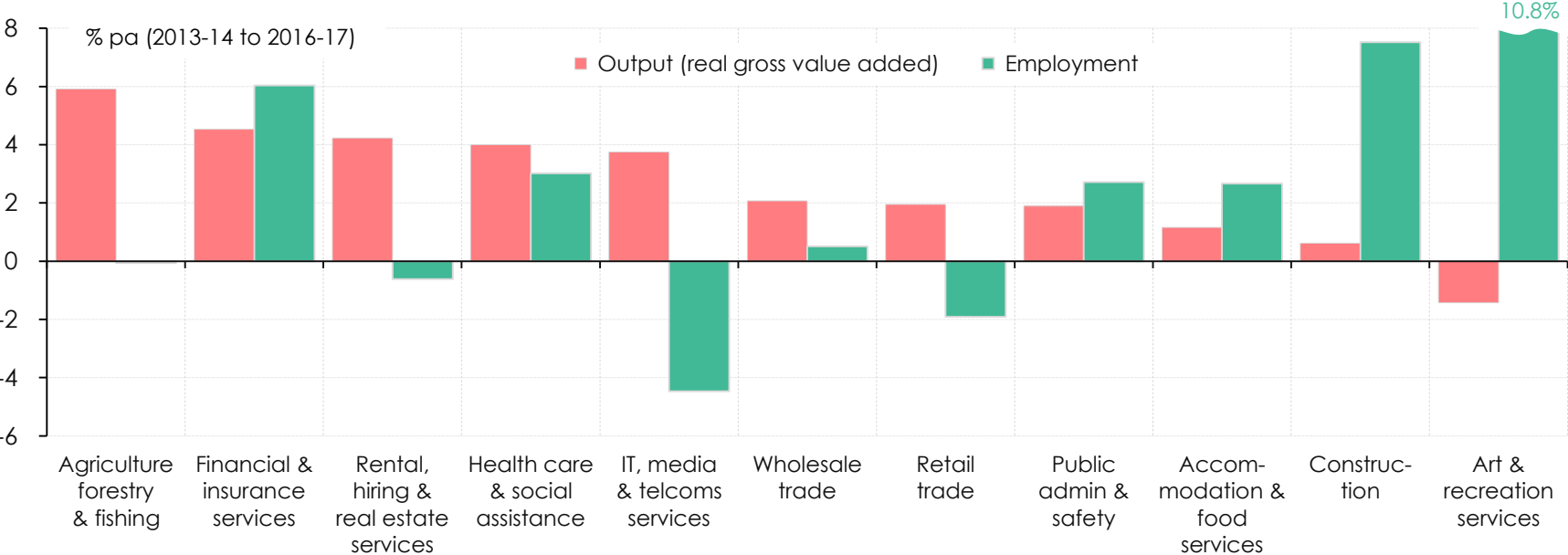


**MERCURY**



# Some sectors of the economy have been doing very well

## Sectors of Tasmania's economy with above-average growth in output and/or employment over the past three years

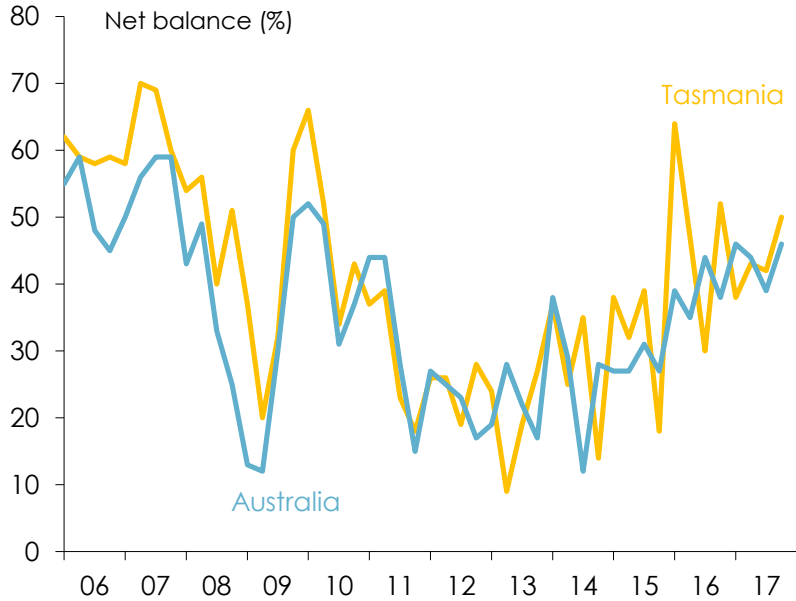


Source: ABS State Accounts.

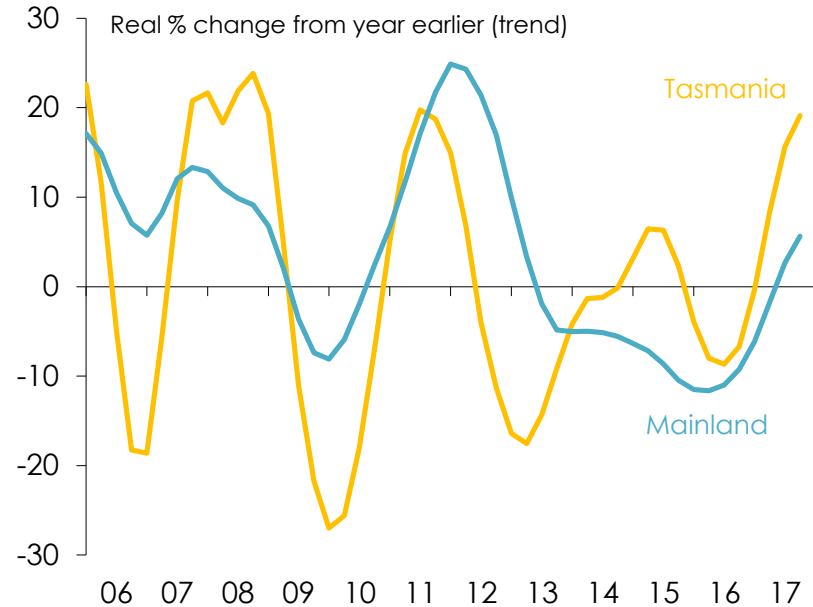


# Business is confident ... and it's investing

## SME business confidence



## Business investment



Sources: Sensis; ABS.

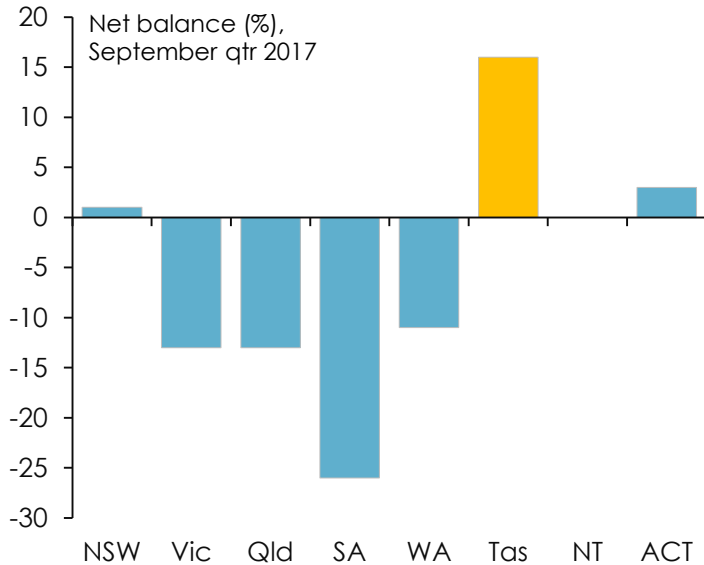


**MERCURY**



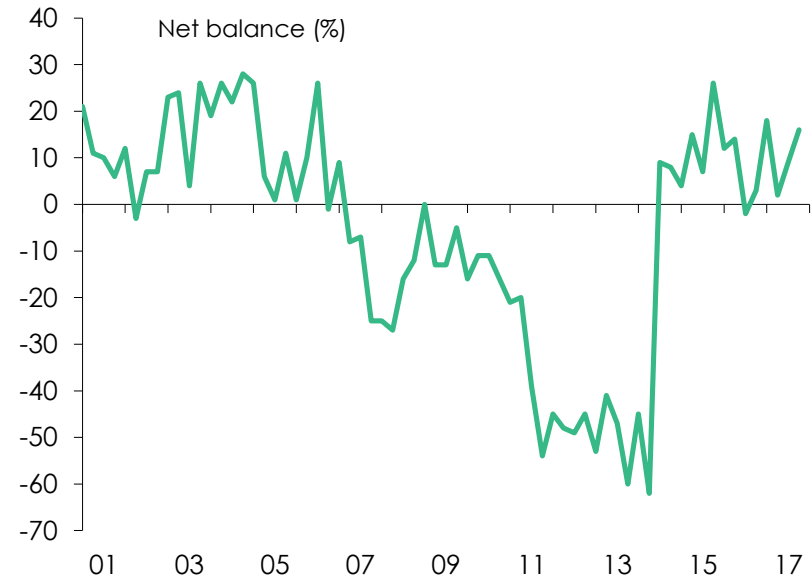
# Confidence in State Government policies is high

## SME confidence in state/territory government polices, Sep qtr 2017



Source: Sensis

## SME confidence in Tasmanian government policies

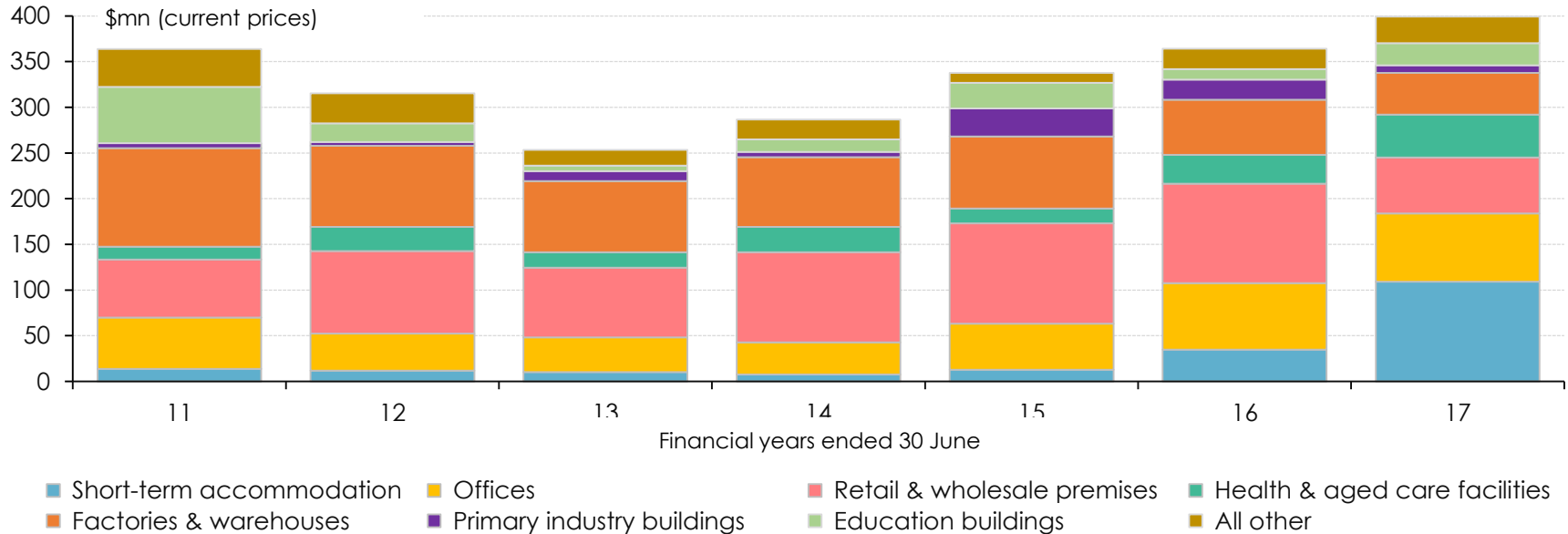


**MERCURY**



# Commercial construction is at a six-year high

## Value of non-residential building work done



Source: ABS.

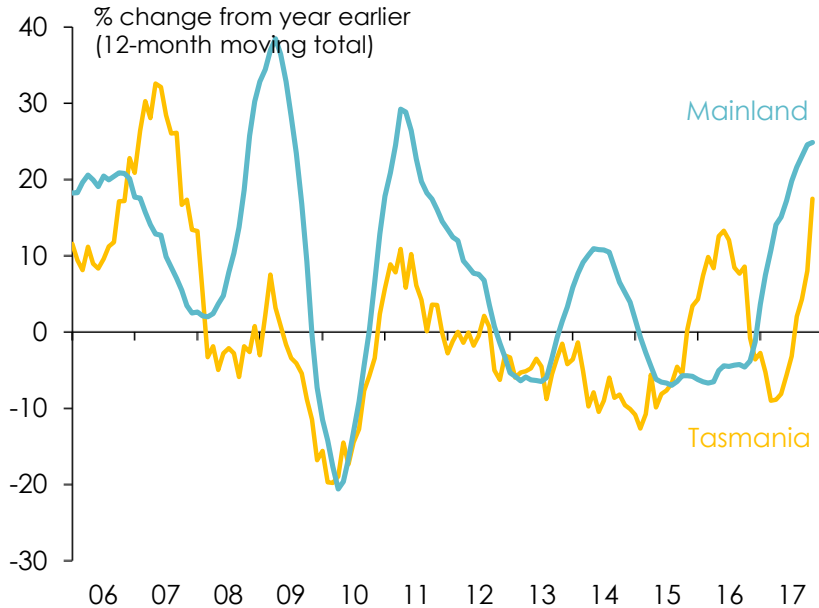


**MERCURY**



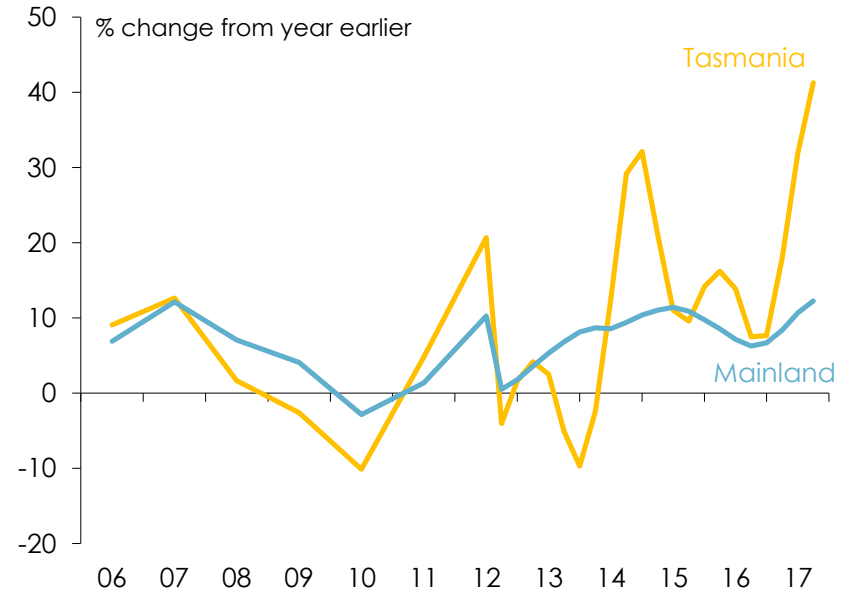
# Goods exports are rebounding, services are booming

## Merchandise exports



Source: ABS.

## Services exports



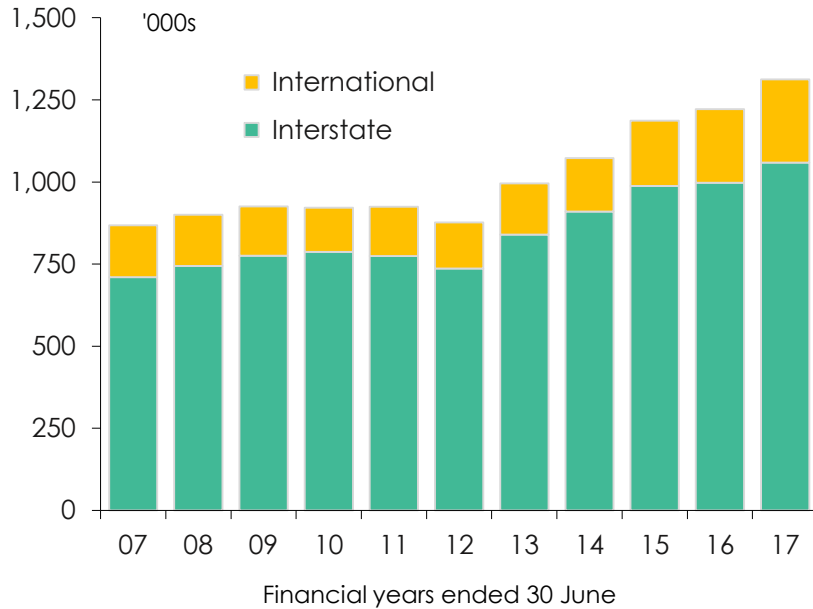
**MERCURY**



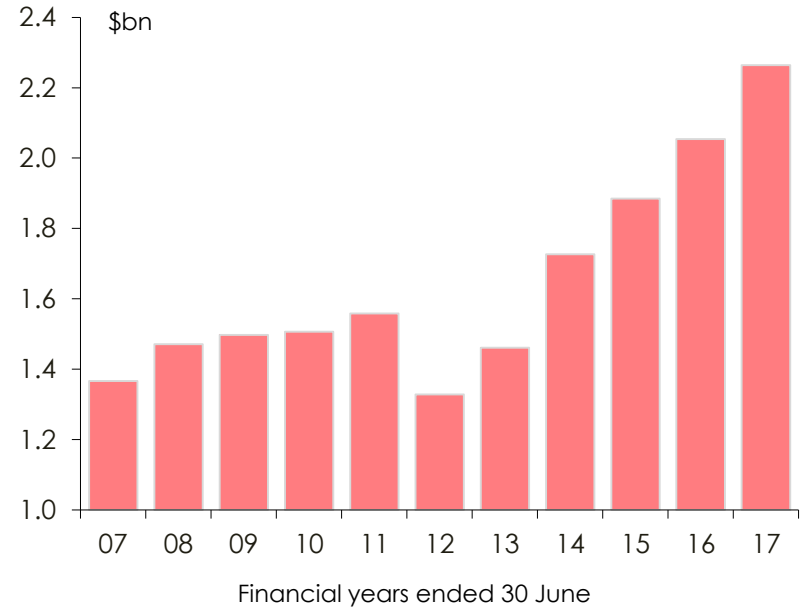


# Tourism is the major driver of the services exports boom

## Visitors to Tasmania



## Spending by visitors to Tasmania

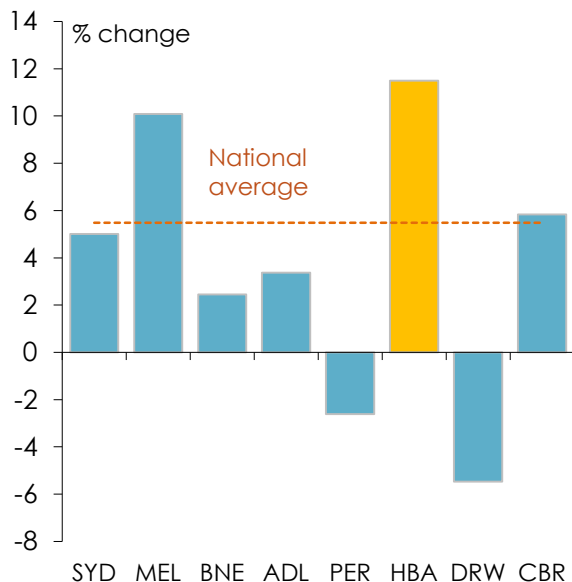


Source: Tourism Tasmania.

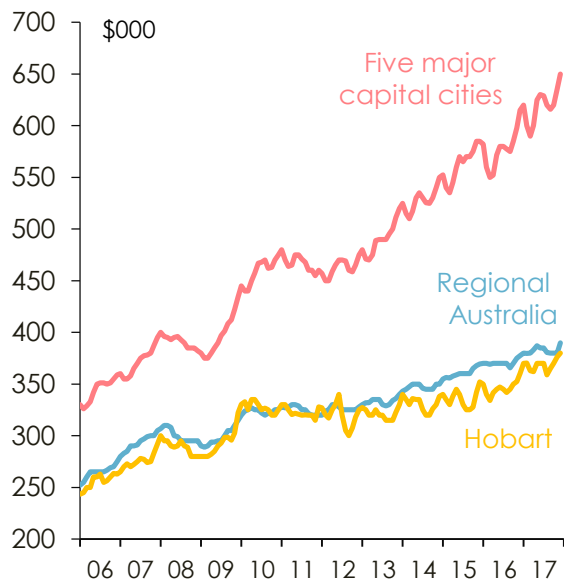


# Tasmania's property market is doing well

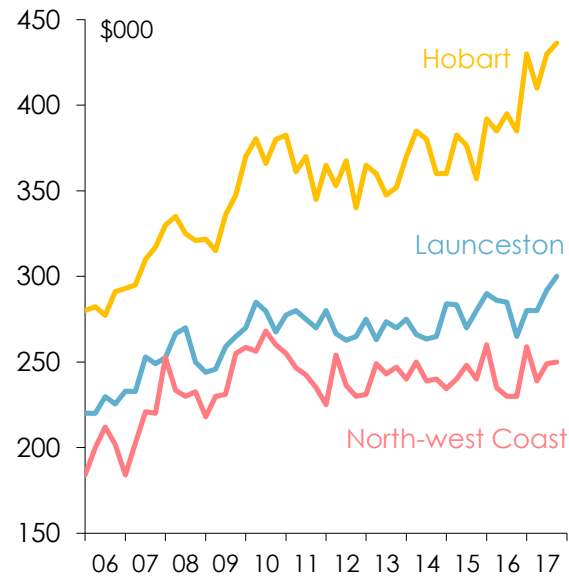
## Capital city home values – year to November



## Median sales prices – Hobart vs mainland



## Median sale prices – Hobart and regions



Source: CoreLogic ; REIT.

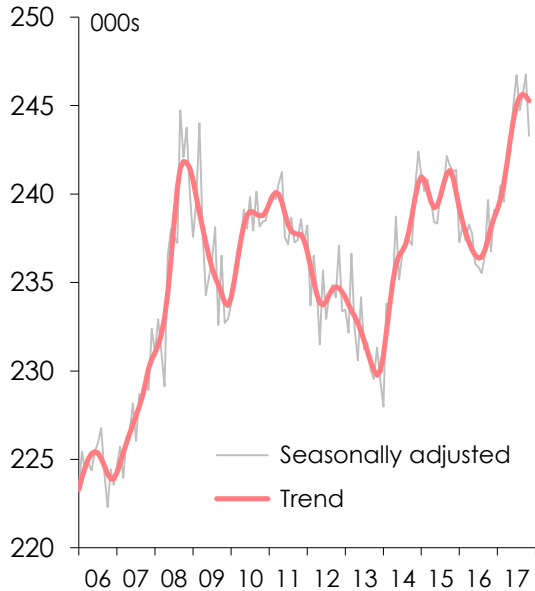


**MERCURY**

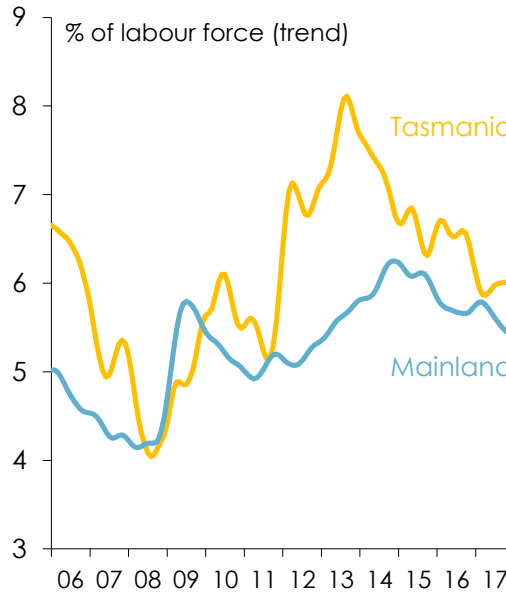


# Tasmania's labour market is improving

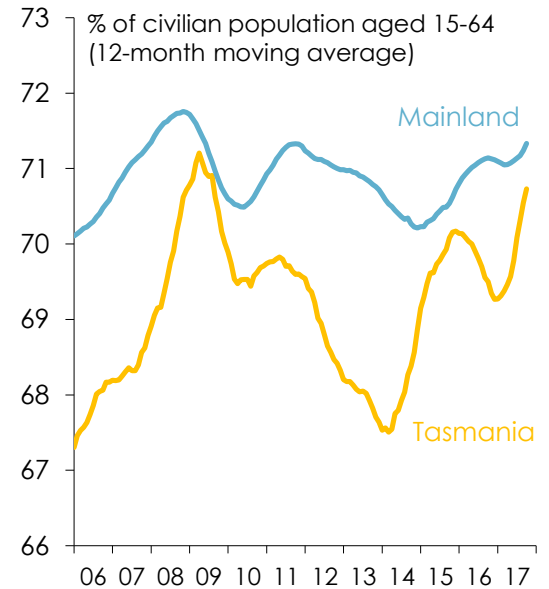
## Employment



## Unemployment rate



## Proportion of 15-64 year olds in employment



Source: ABS.

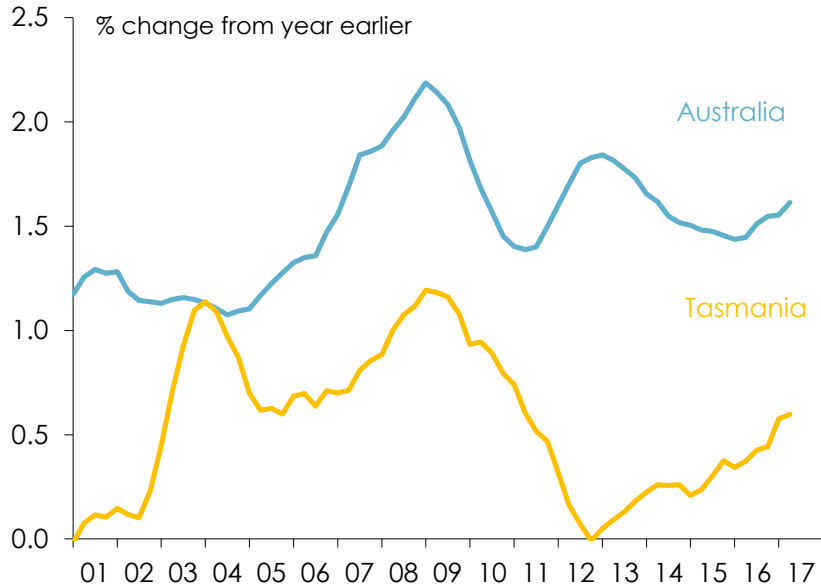


**MERCURY**



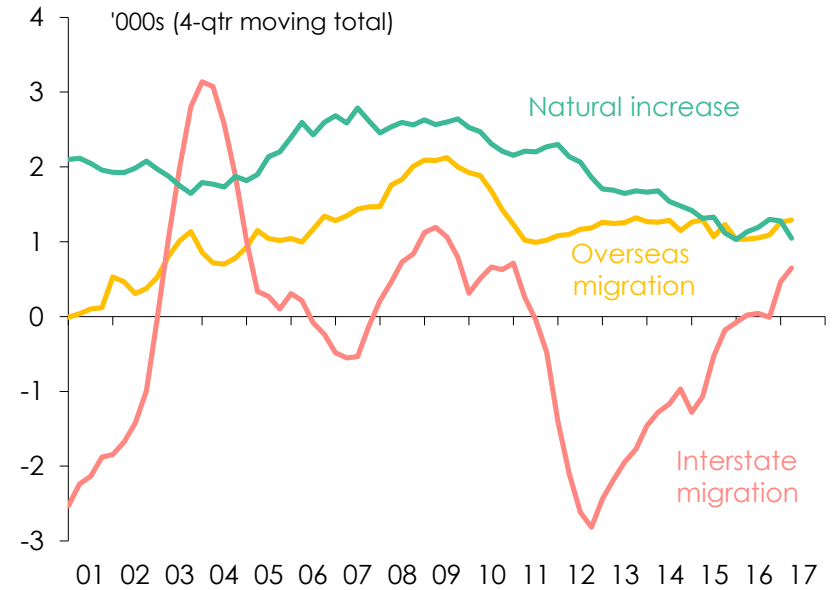
# The state's population growth is picking up

## Population growth



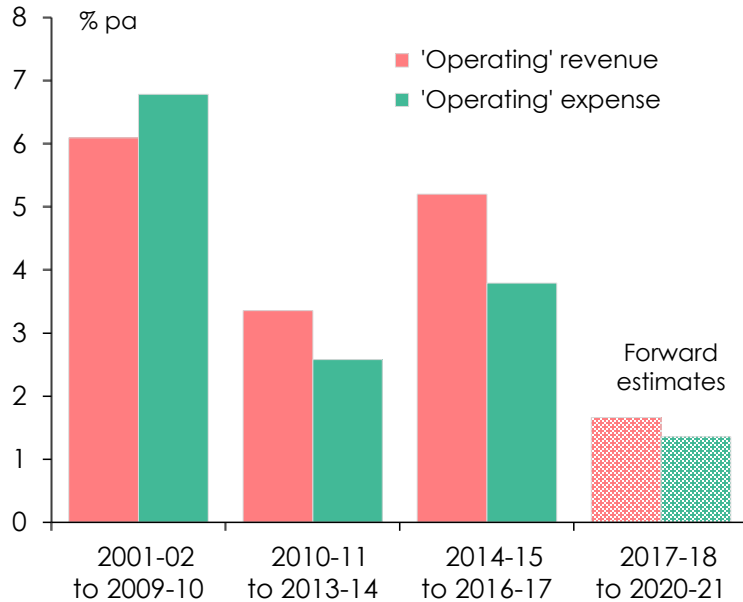
Source: ABS.

## Contributors to Tasmania's population growth

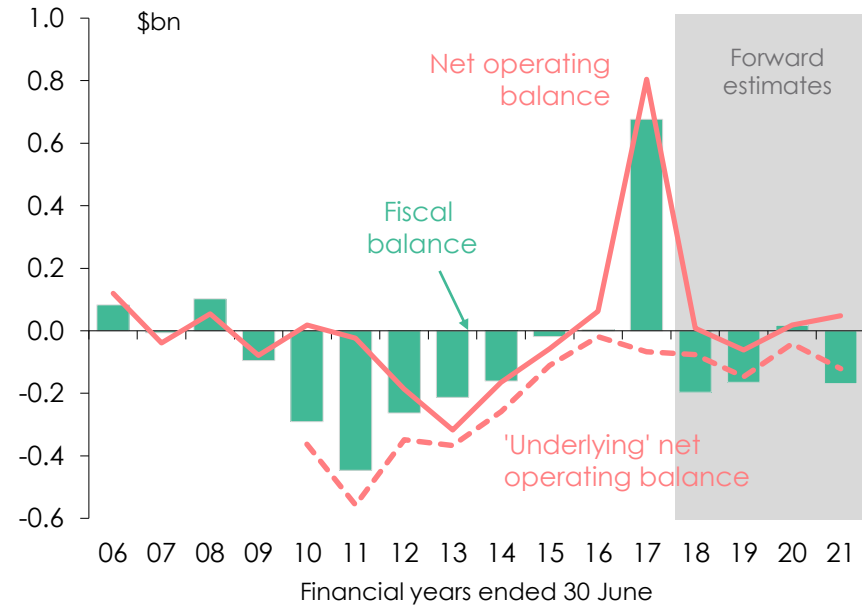


# Tasmania's public sector finances are in good shape

## 'Operating' revenues and expenses



## 'Bottom line' measures

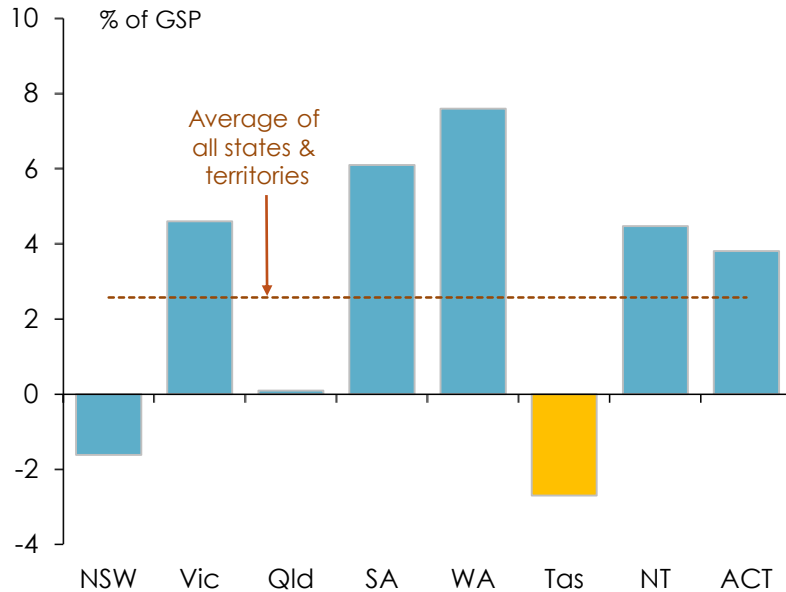


Source: Tasmanian Government Budget Papers and Treasurer's Annual Financial Report.

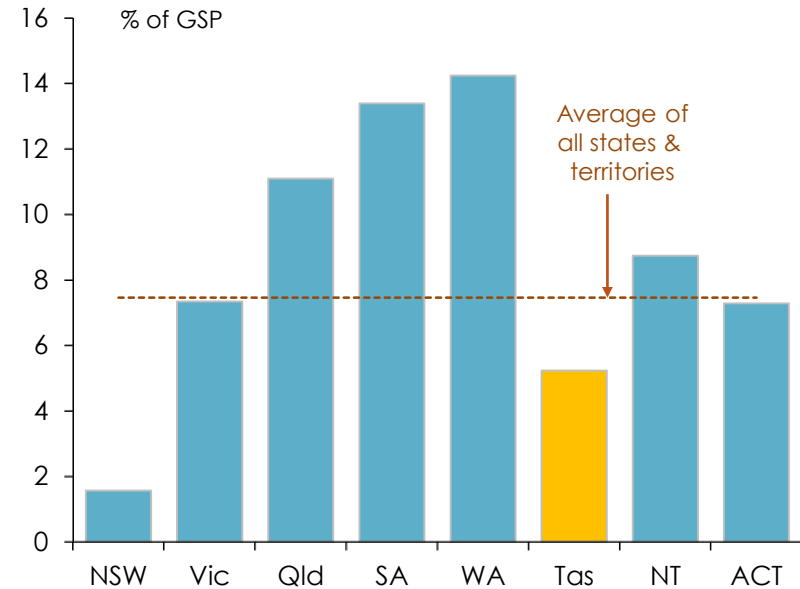


# Tasmania's public sector finances are in good shape (mostly)

## 'General government' net debt, 30 June 2017



## Total non-financial public sector net debt, 30 June 2017



Source: State and Territory Government Annual Financial Reports 2016-17, exc. for Qld & SA, 2017-18 Budget Papers.

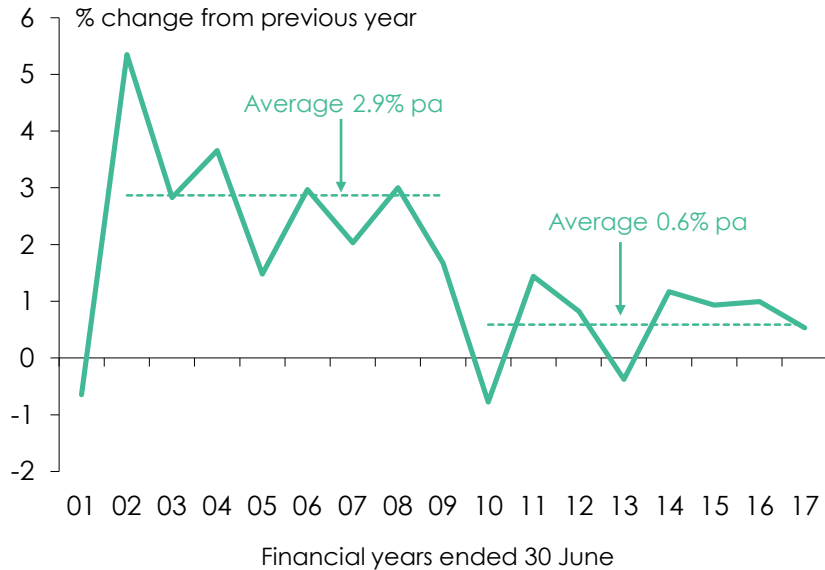


But it's not all good news



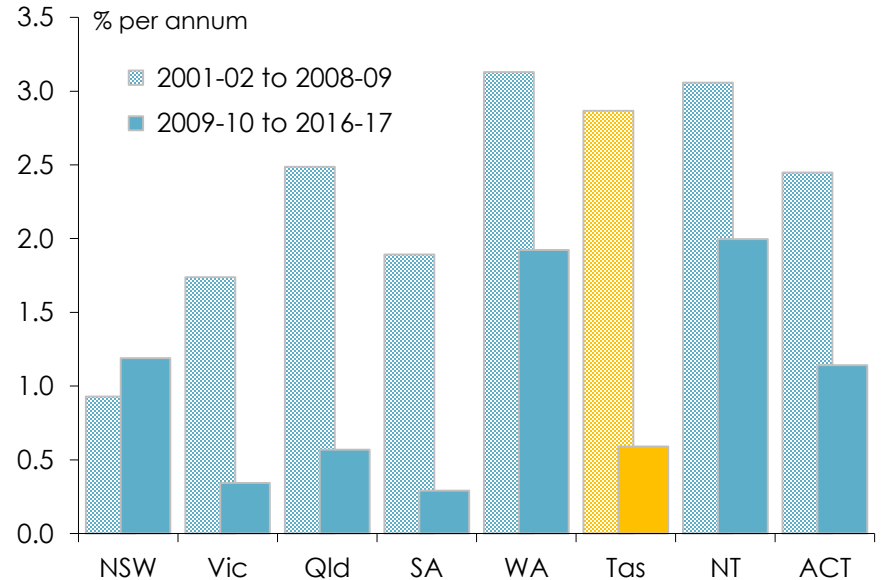
# Tasmania's per capita economic growth rate remains low

## Real per capita growth in Tasmanian gross state product (GSP)



Source: ABS

## Real per capita GSP growth in states and territories pre- and post-GFC



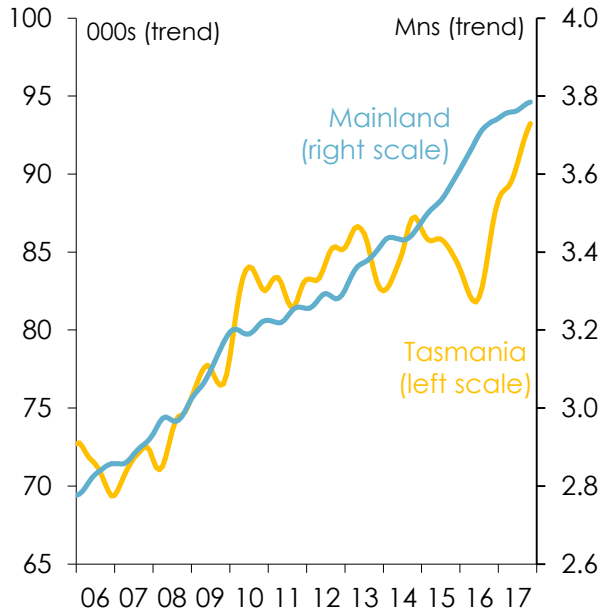
**MERCURY**



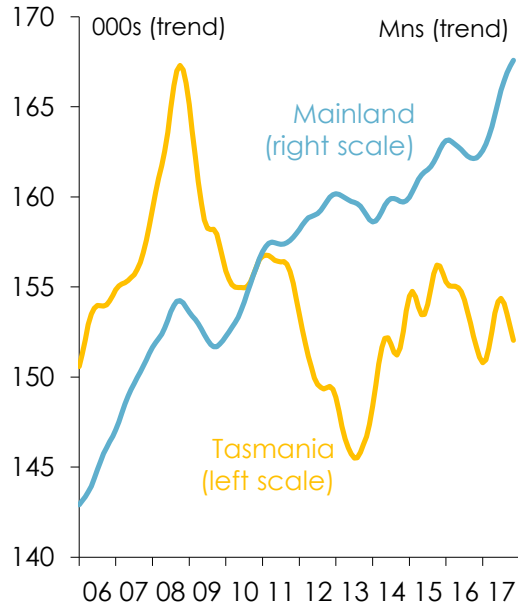


# Most of the employment growth has been in part-time jobs

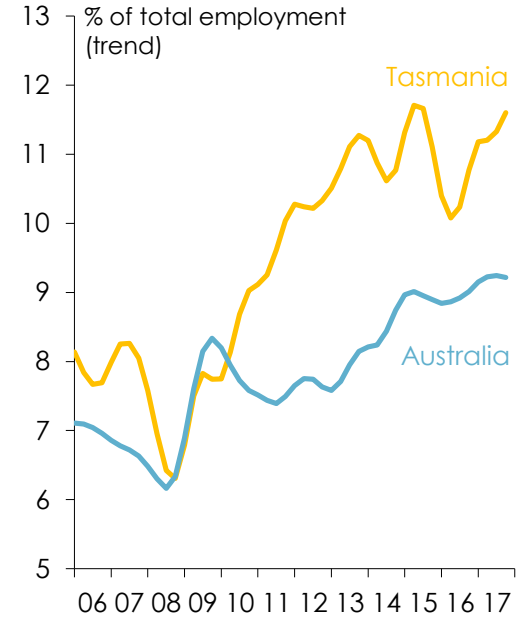
## Part-time employment



## Full-time employment



## 'Under-employment'

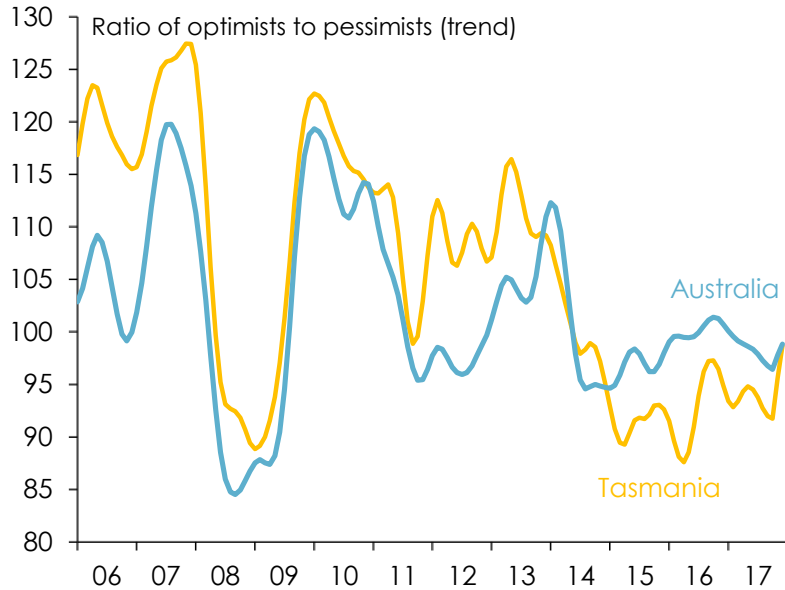


Source: ABS.

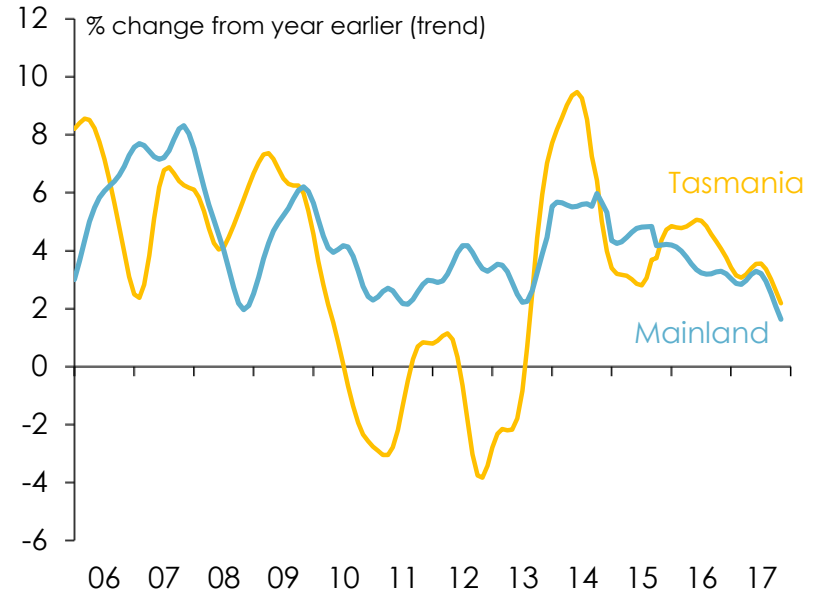


# Household spending remains soft

## Consumer confidence



## Retail sales



Sources: Westpac/Melbourne Institute ; ABS.

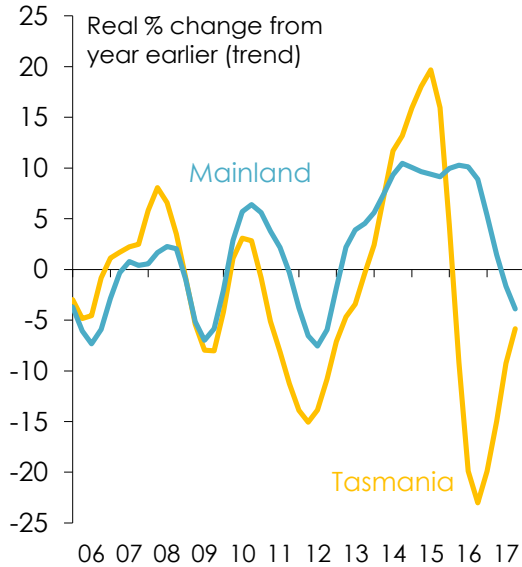


**MERCURY**

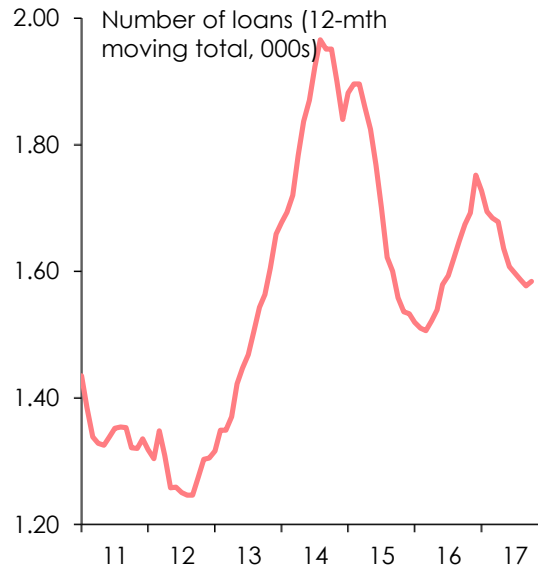


# Housing activity has been particularly weak (and grants to first home buyers don't work)

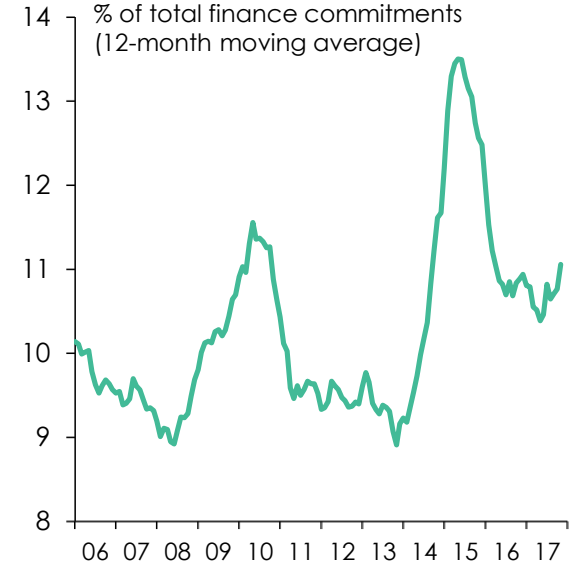
## Residential building activity



## Lending to Tasmanian first home buyers



## Lending for construction or purchase of new homes



Source: ABS.

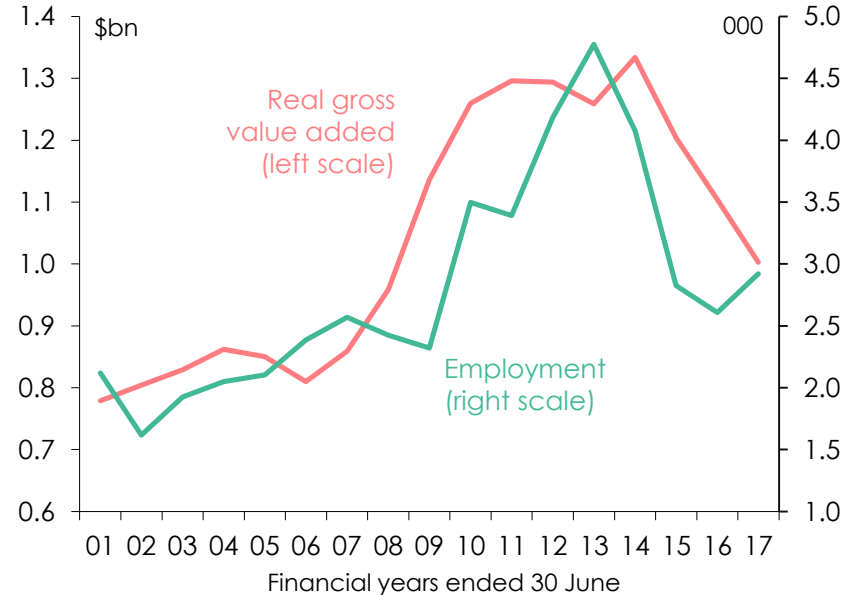


# Manufacturing and mining are still struggling

## Tasmanian manufacturing



## Tasmanian mining



Source: ABS.

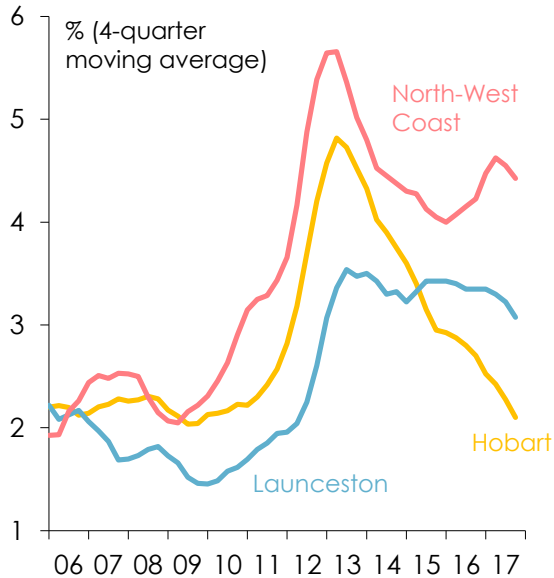


**MERCURY**

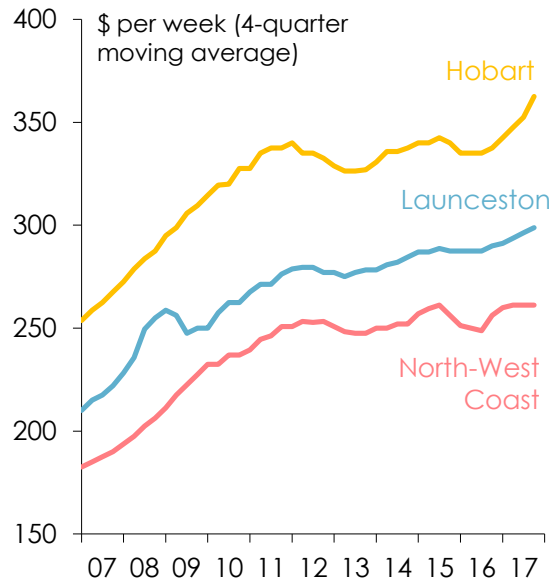


# Hobart's rental market is getting very tight

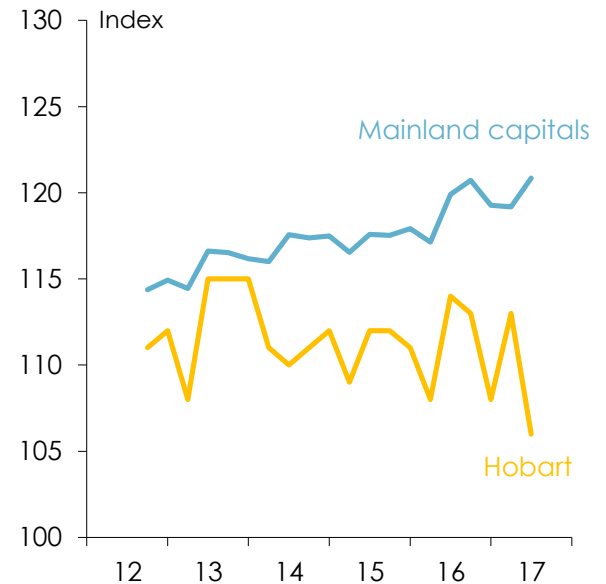
## Rental vacancy rates



## Median rents (3br houses)



## Rental affordability (low-income households)



Sources: REIT; SGS Economics & Planning

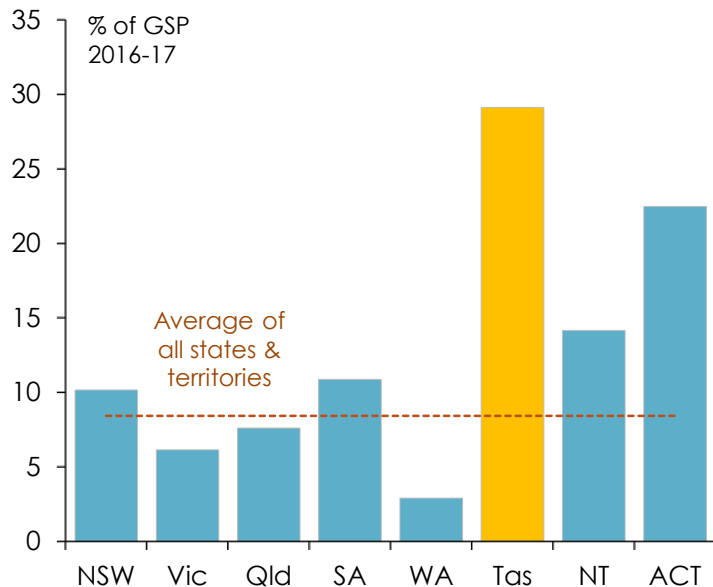


**MERCURY**



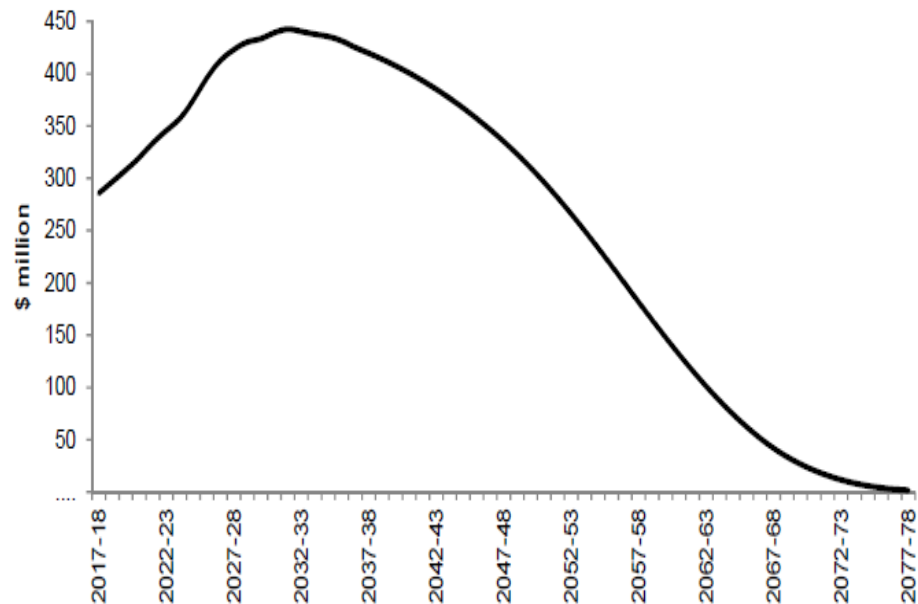
# Tasmania has a huge unfunded superannuation liability

## Unfunded superannuation liabilities (as at 30 June 2017)



Source: State and Territory Annual Financial Reports and Budget Papers.

## Annual cost of superannuation payments



**MERCURY**



# Tasmania faces a huge risk from the possibility of changes to the GST revenue-sharing arrangements

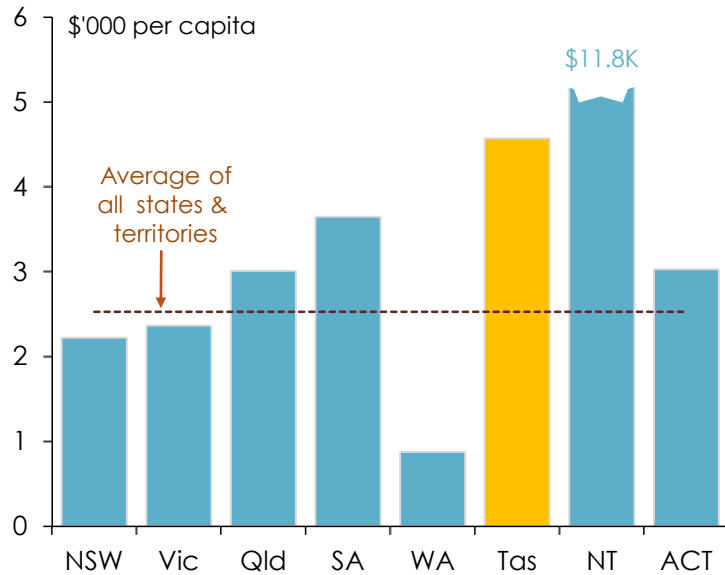


**MERCURY**

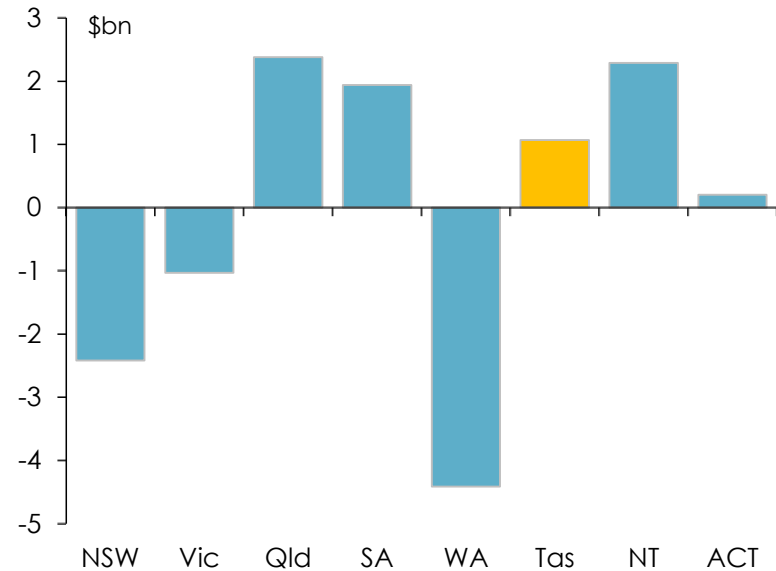


# Tasmania does very well out of the existing arrangements

## GST revenue shares per head of population, 2017-18



## Differences in state & territory GST revenue shares from equal per capita



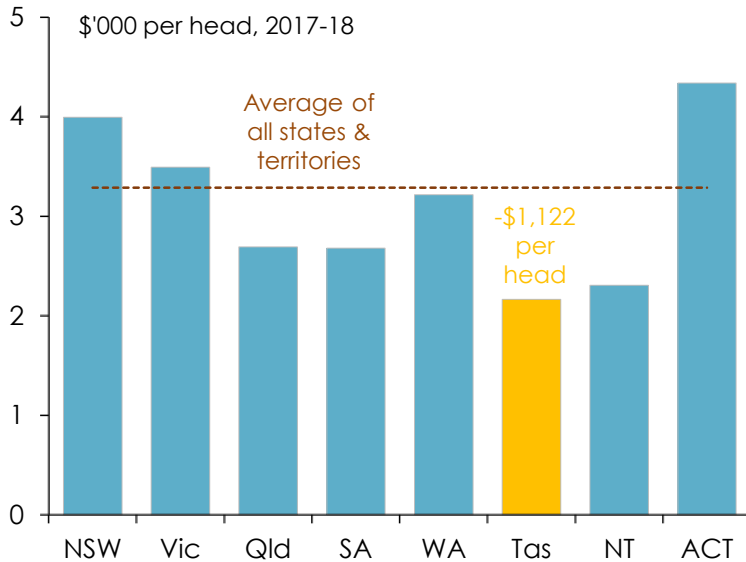
Source: Federal Government Budget Paper No. 3, 2017-18; Commonwealth Grants Commission.



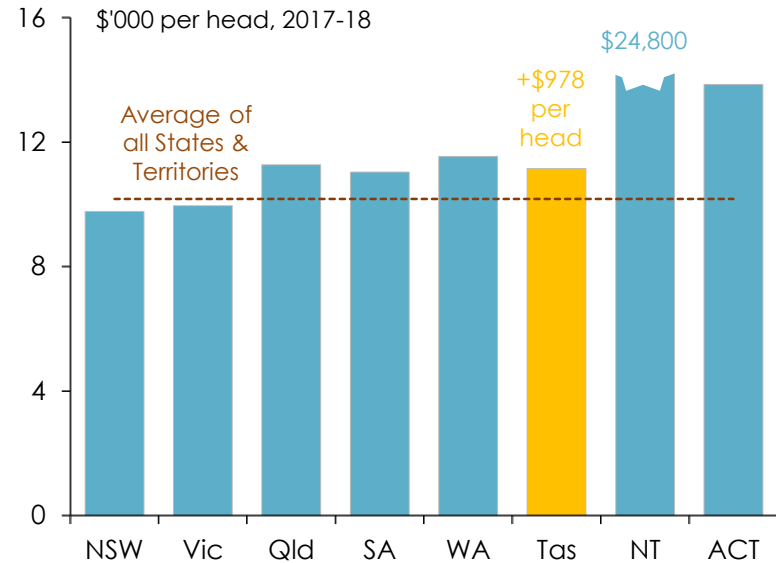


# Otherwise Tasmania would have to tax more & spend less

## State taxation revenue per head of population, 2017-18



## Government 'operating' expenses per head of population, 2017-18



Source: State and Territory Governments, 2017-18 Budget Papers; ABS.



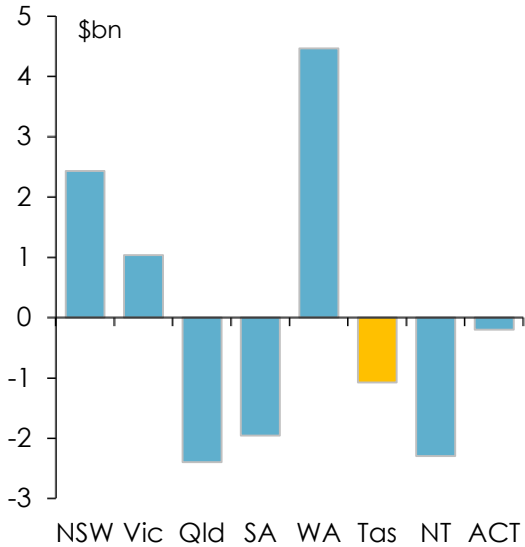
**MERCURY**



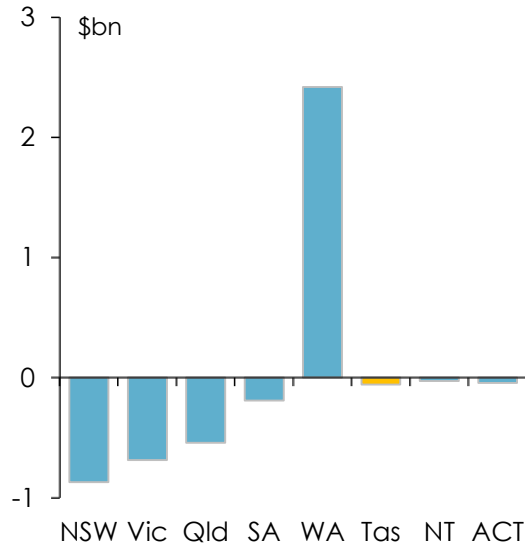
# Who would lose so that WA can get more?

## Impact of alternative options on states' and territories' 2017-18 GST revenues

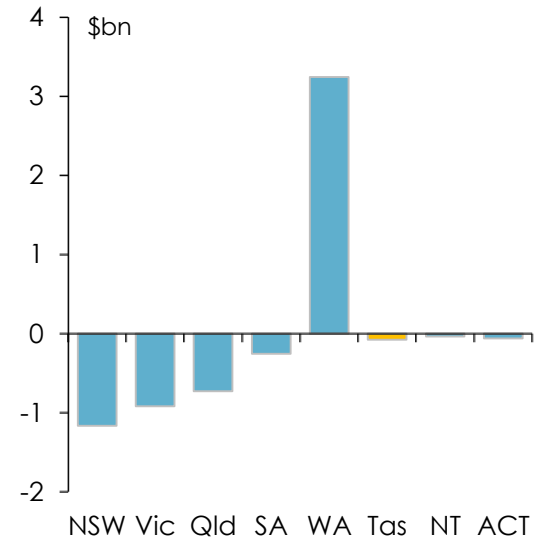
### Equal per capita



### 70% floor



### Equalization to second strongest state



Source: Productivity Commission.

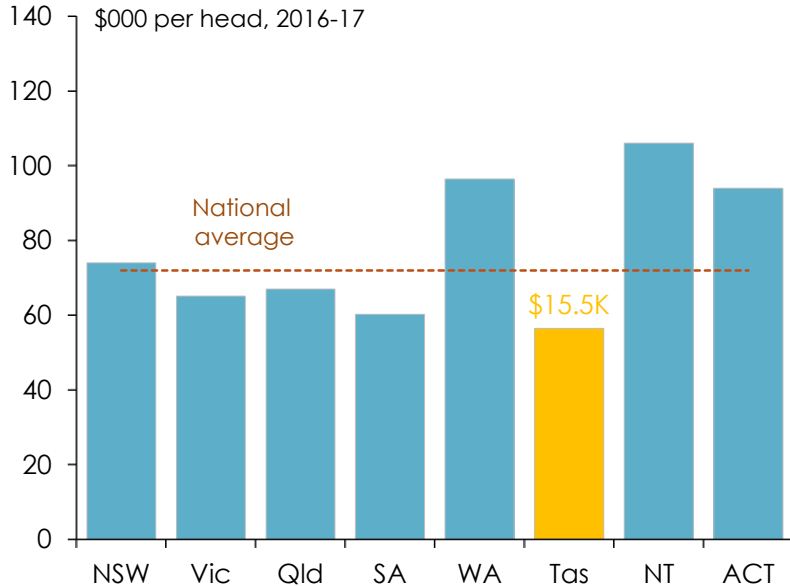


# Tasmania's longer-run economic challenge remains daunting

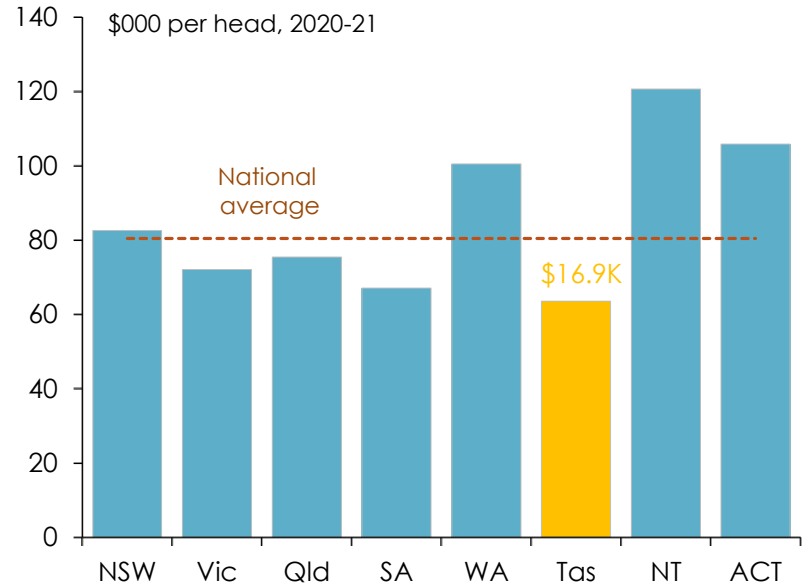


# We are Australia's poorest state - and still will be in 2020-21

## Gross state product per head, 2016-17



## Gross state product per head, 2020-21 (budget forecasts)

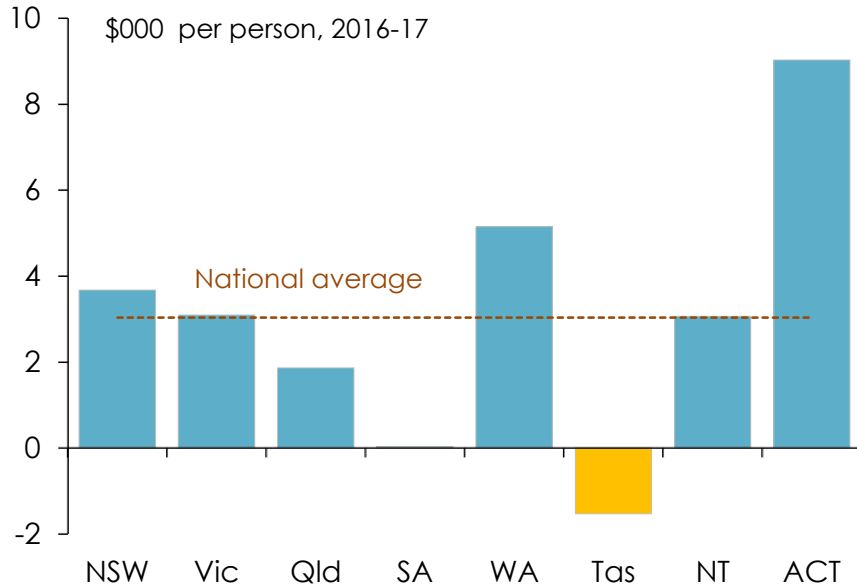


Source: ABS; State and Territory Governments, 2017-18 Budget Papers.

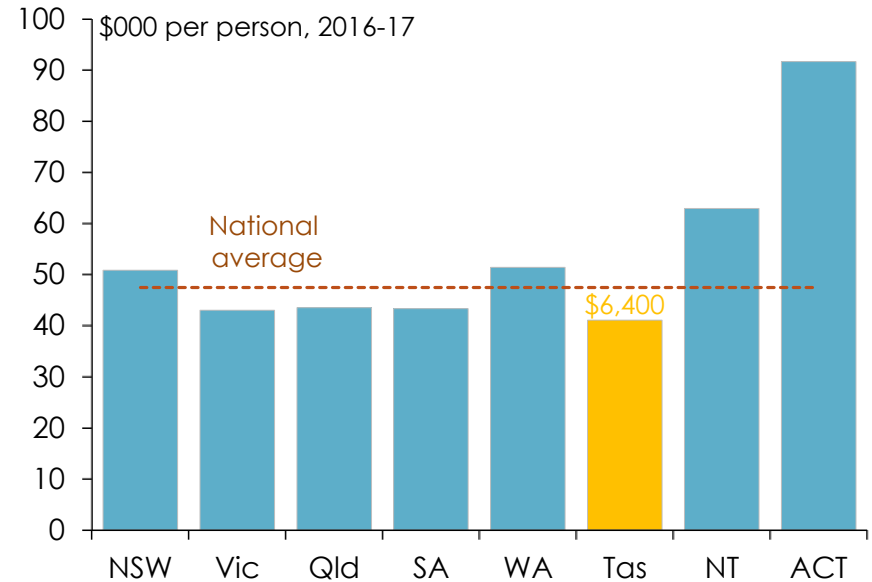


# The federal tax-transfer system insulates us to some extent

## Personal income tax payments less social security income, 2016-17



## Household disposable income per person, 2016-17

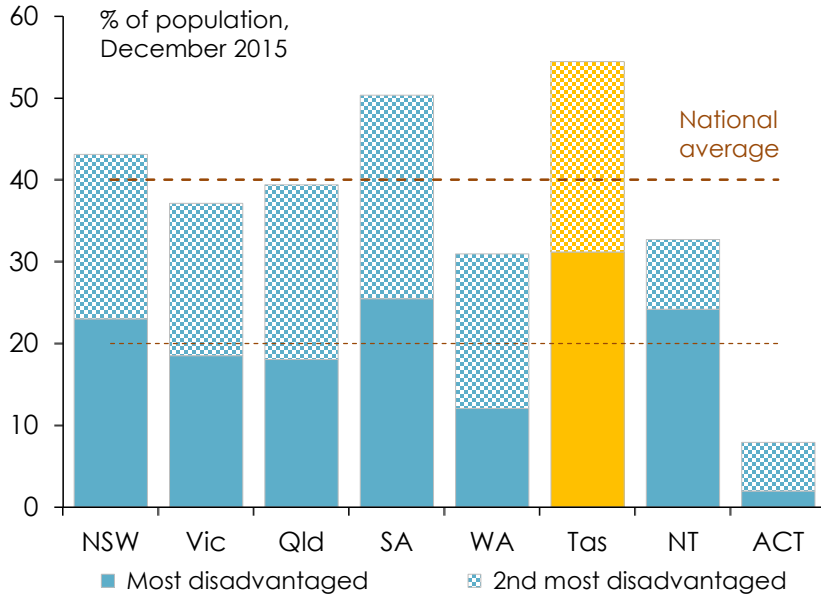


Source: ABS; State and Territory Governments, 2017-18 Budget Papers.

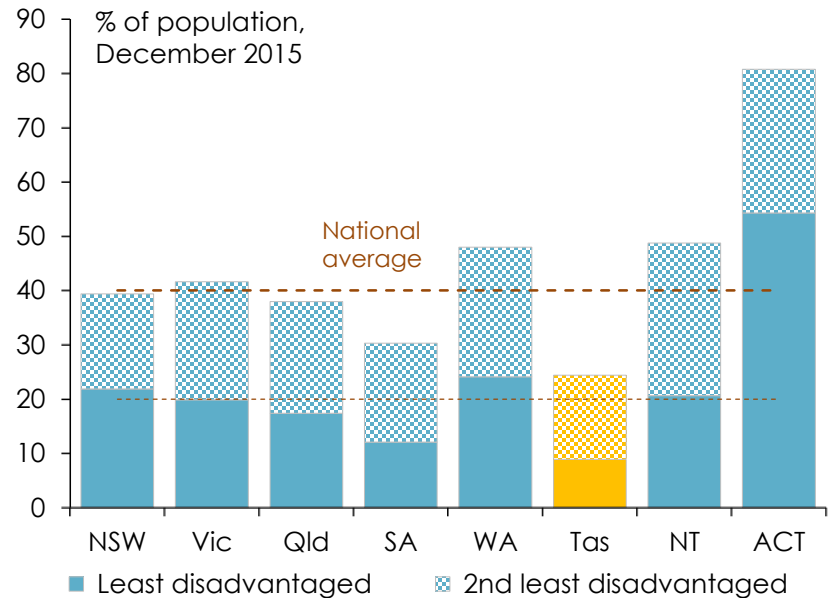


# Poor (rich) households are 'over'- ('under'-) represented

## Low socio-economic status households, 2015



## High socio-economic status households, 2015



Source: Commonwealth Grants Commission.



# Why is there a \$15,500 or 21½% 'GSP gap'?

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

The diagram shows the cancellation of 'employment' terms between the first and second fractions, and 'total hours worked' terms between the second and third fractions. Red diagonal lines indicate the cancellation of 'employment' in the top and bottom of the second fraction. Blue diagonal lines indicate the cancellation of 'total hours worked' in the top and bottom of the second fraction.



**MERCURY**



# Why is there a \$15,500 or 21½% 'GSP gap'?

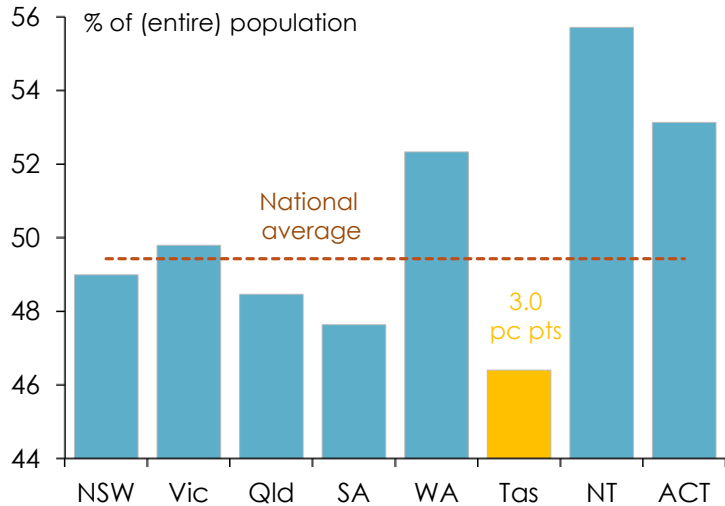
$$\begin{array}{rcc}
 \frac{\text{gross State product}}{\text{population}} & = & \frac{\text{employment}}{\text{population}} \times \frac{\text{total hours worked}}{\text{employment}} \\
 & & \times \frac{\text{average hours worked}}{\text{labour productivity}} \\
 & & = \text{participation rate} \times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



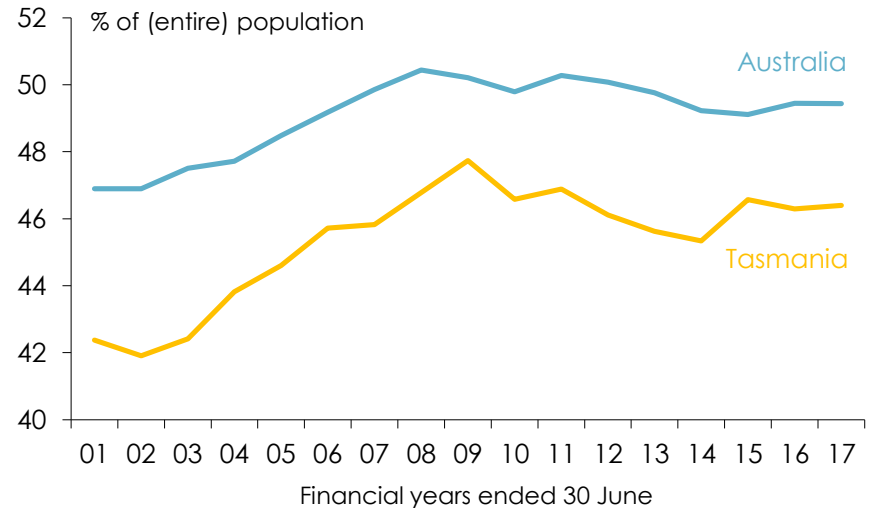


# The 'employment gap' accounts for 37% of the 'GSP gap'

## Employment as a pc of population, States & Territories, 2016-17



## Employment as a pc of population, Tasmania & Australia, 2000-01 to 2016-17



The 3 pc point gap in employment participation rates accounts for \$5,775 or 37% of the difference in per capita GSP between Tasmania and the national average

Source: ABS.

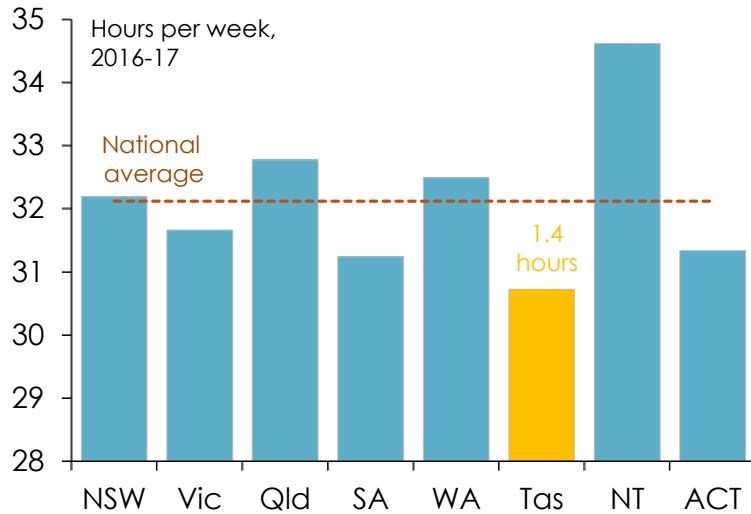


**MERCURY**

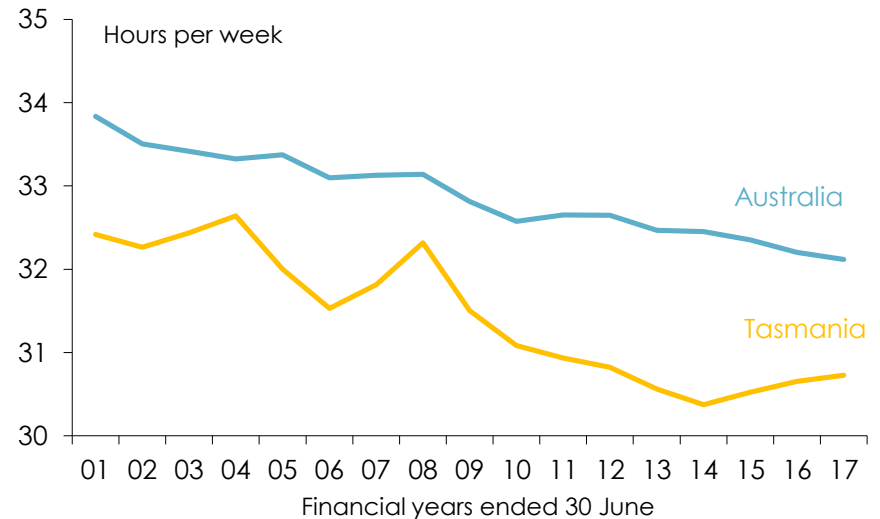


# The 'hours worked gap' accounts for 42% of the 'GSP gap'

## Average weekly hours worked, States & Territories, 2016-17



## Average weekly hours worked, Tasmania & Australia, 2000-01 to 2016-17



The 1.4 hours per week gap in average hours worked (equivalent to more than 11 days per annum) accounts for \$6,450 or 42% of the difference in per capita GSP between Tasmania and the national average

Source: ABS.

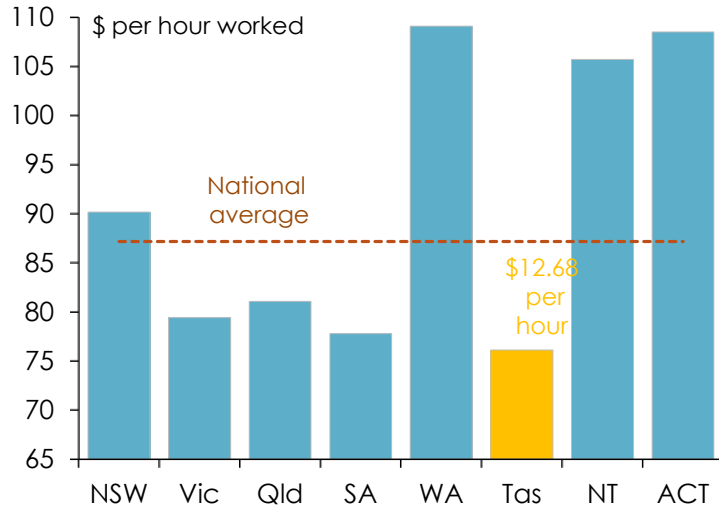


**MERCURY**

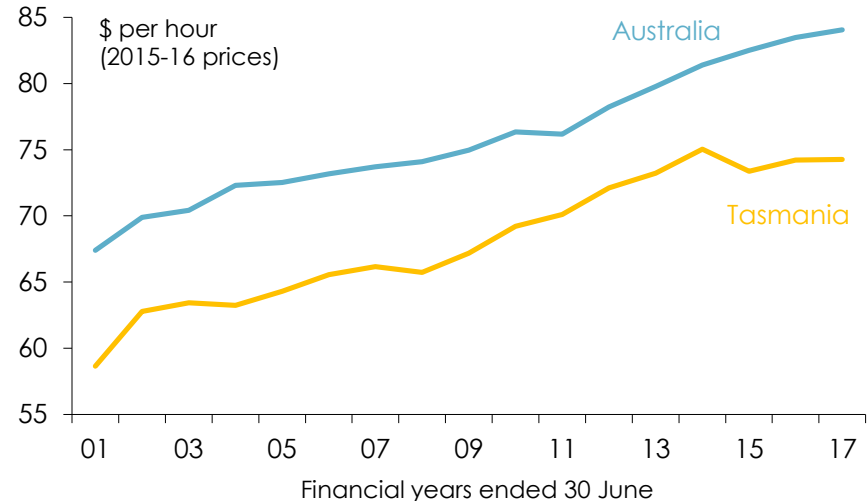


# The 'productivity gap' accounts for 21% of the 'GSP gap'

## Gross product per hour worked, States & Territories, 2016-17



## Gross product per hour worked, Tasmania & Australia, 2000-01 to 2016-17



The \$12.68 per hour (or 12%) 'productivity gap' accounts for \$3,225 or 21% of the difference in per capita GSP between Tasmania and the national average

Source: ABS.



**MERCURY**



# Summary of the reasons for the \$15,500 GSP gap

## Sources of the difference in per capita gross product between Tasmania and Australia, 2016-17



Source: ABS.



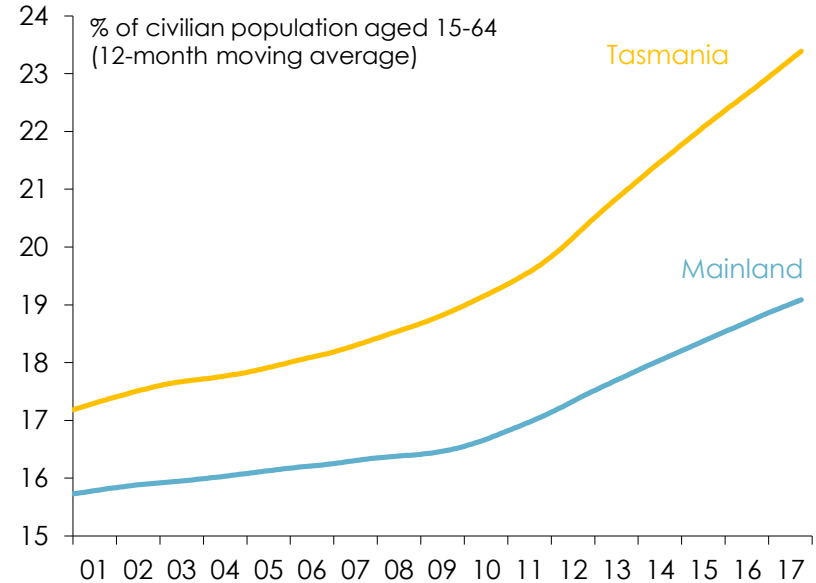
# Our 'employment rate' is affected by our age profile ...

## Median age, states & territories (2016 Census)



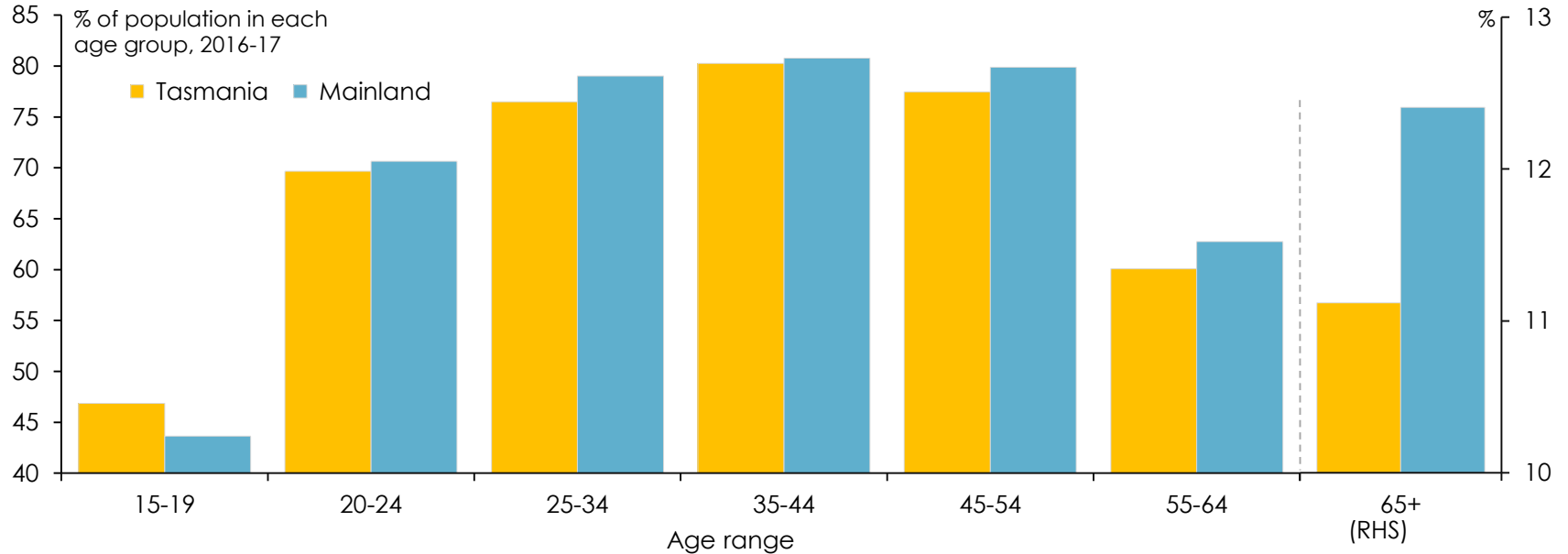
Source: ABS.

## Proportion of 'working age' population who are 65 or older



# ... but there is still room to lift employment rates

## 'Employment rates' by age group, Tasmania and mainland, 2016-17



Source: ABS.

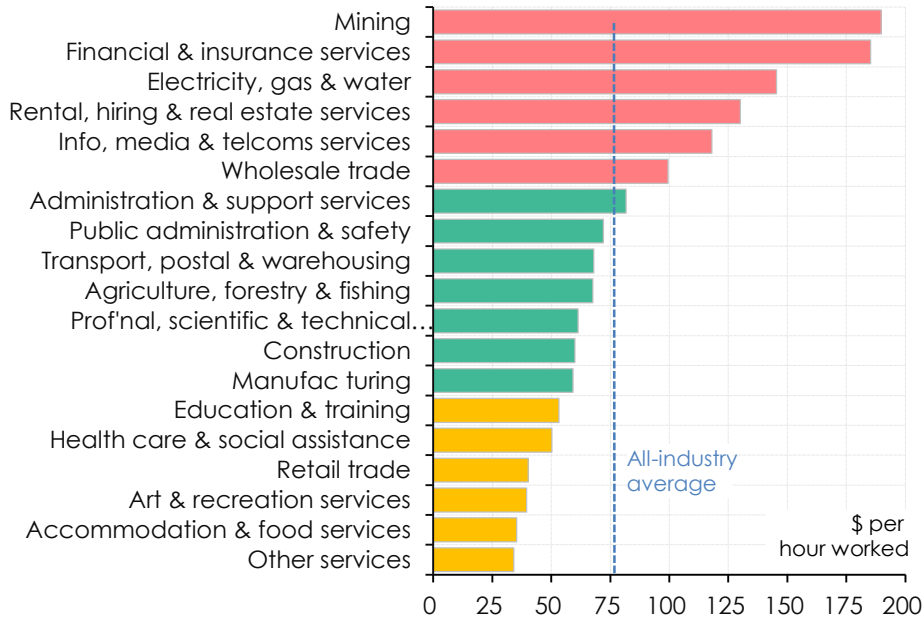


**MERCURY**



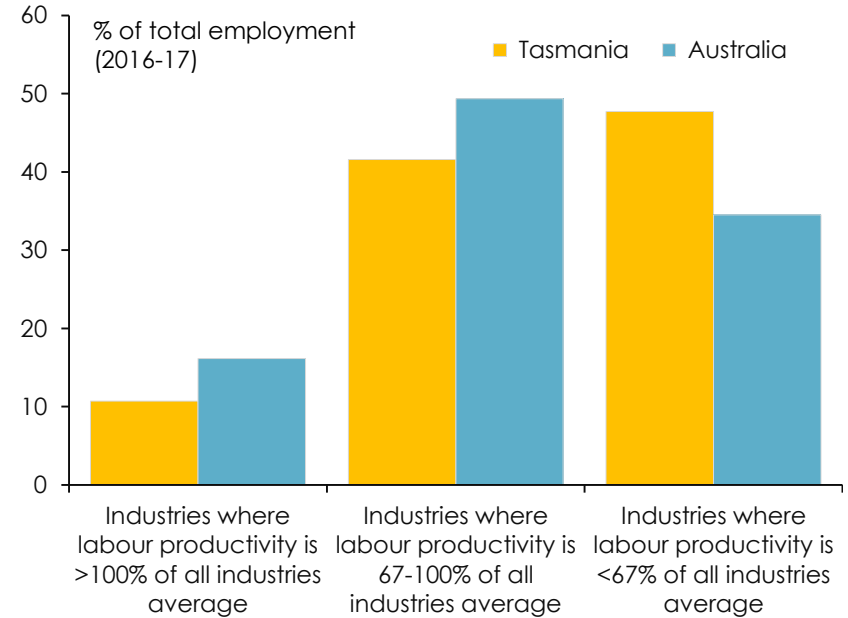
# High-productivity industries are 'under-represented' ...

## Labour productivity by industry, Australia, 2016-17



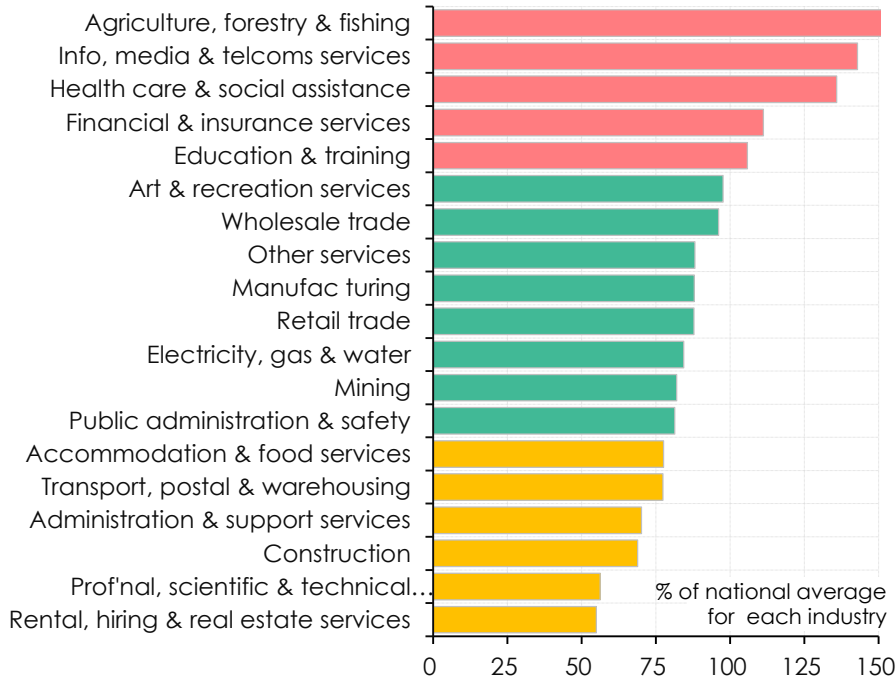
Source: ABS.

## Employment by high, medium and low productivity industries, 2016-17

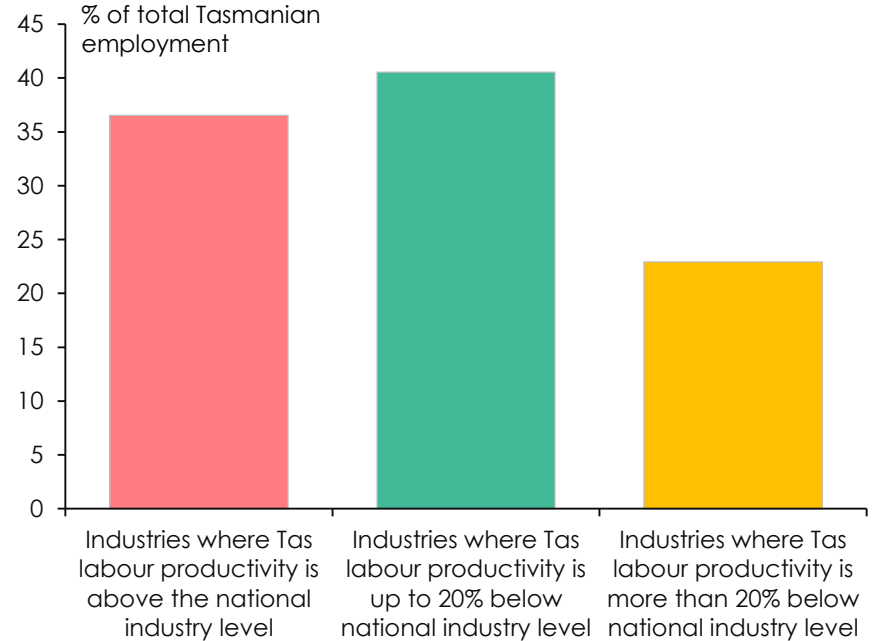


# ... but we could lift productivity in the industries we do have

## Tasmanian labour productivity as a pc of national industry averages, 2016-17



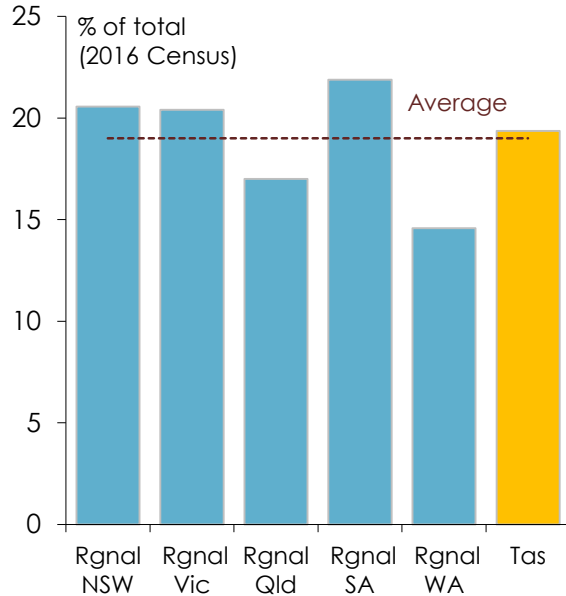
## Tasmanian employment by industry productivity as pc of national, 2016-17



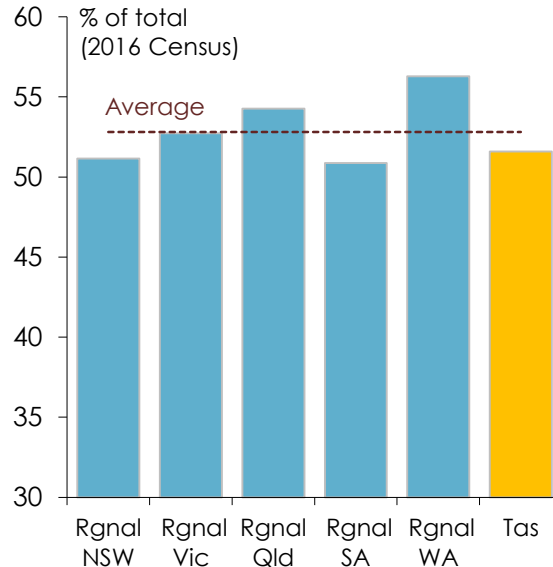


# Should we be satisfied with being just another 'region'?

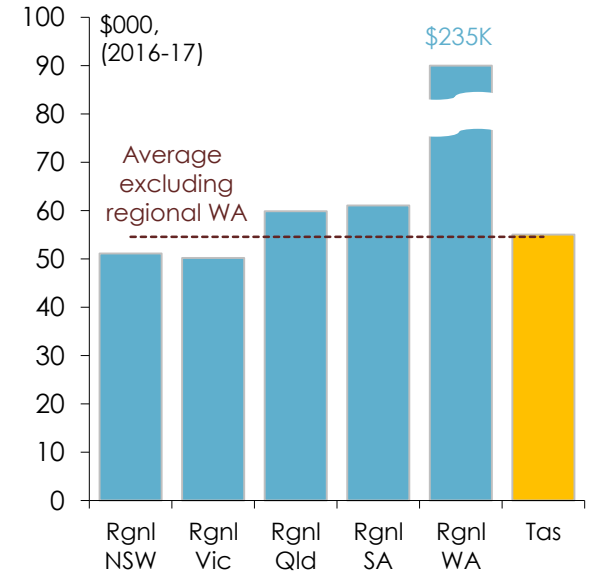
## Pc of population aged 65 & over



## Employment-population ratio



## Gross regional product per capita



Sources: ABS ; SGS Economics & Planning



**MERCURY**



Higher levels of educational participation and attainment would make a big difference to Tasmania's economic performance

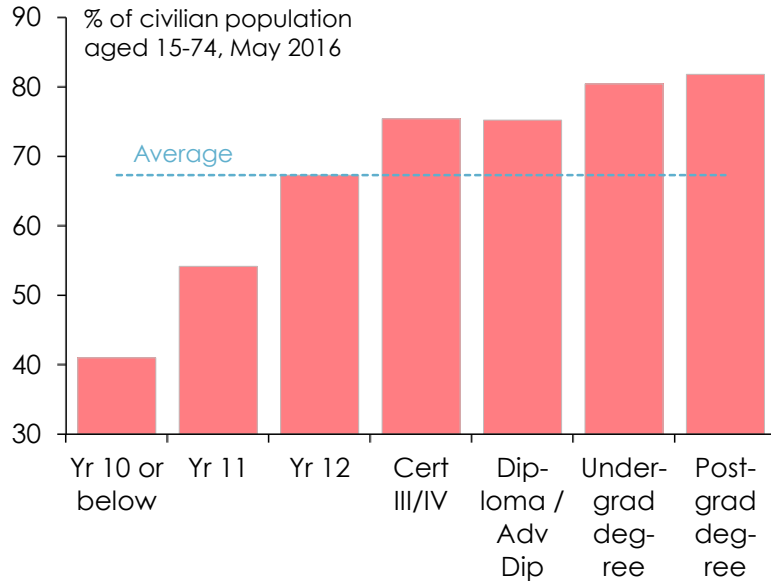


**MERCURY**

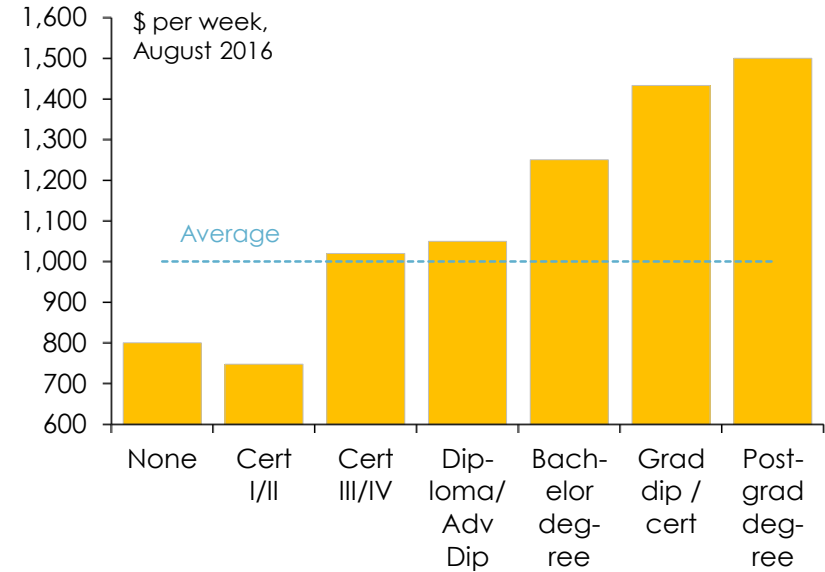


# Education boosts employment prospects and incomes

## Educational attainment and 'employment rate'



## Educational attainment and average earnings



Source: ABS

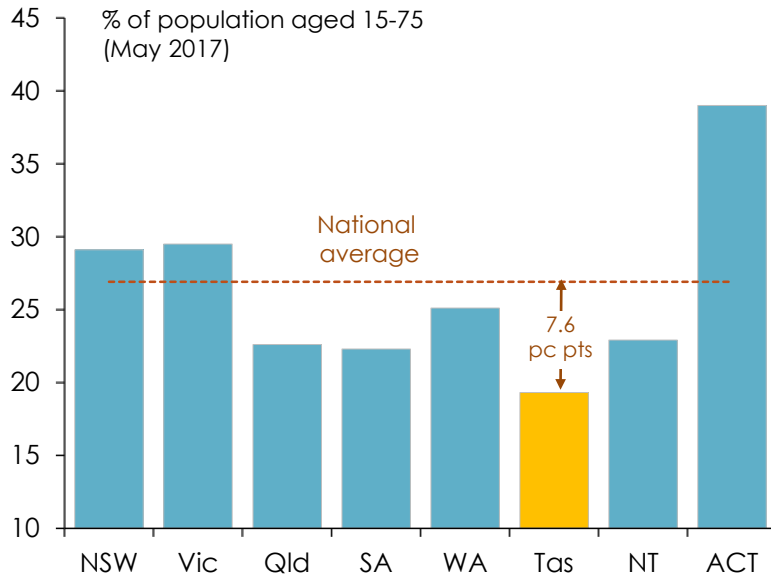


**MERCURY**

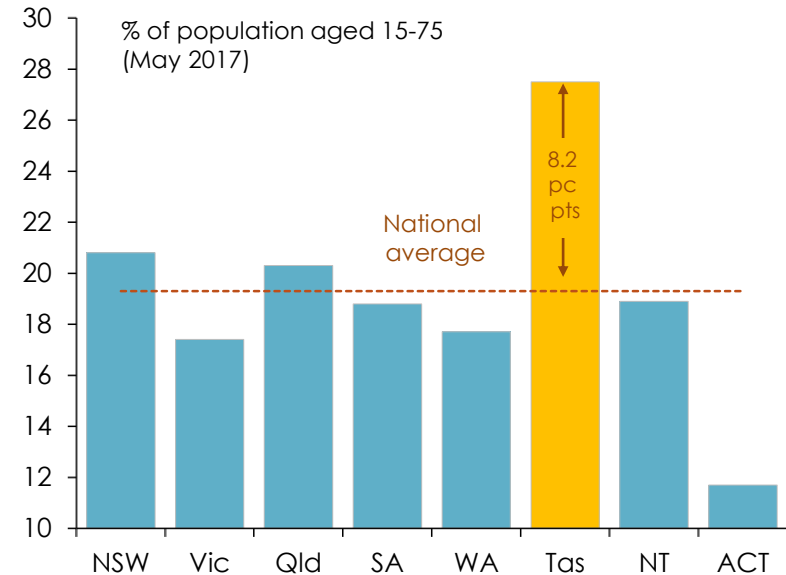


# Tasmania's population is the least educated in Australia

## Population aged 15-75 with bachelor degree or higher



## Population aged 15-75 with no qualification beyond Year 10



Source: ABS

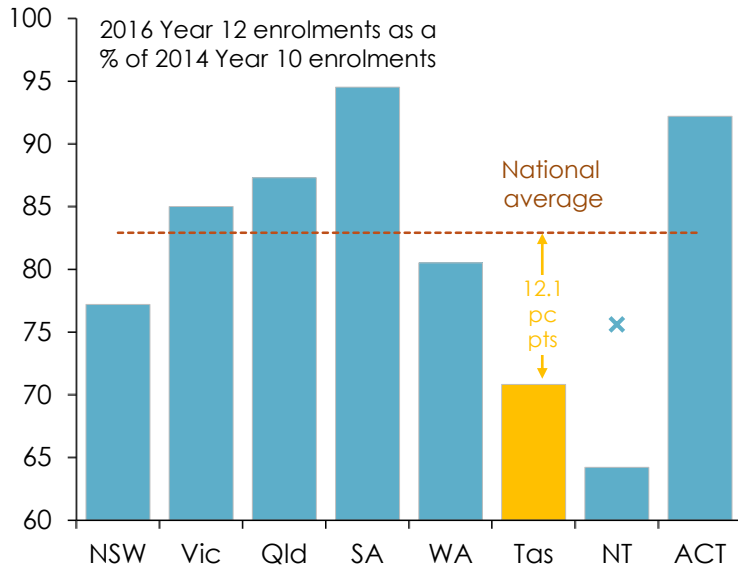


**MERCURY**

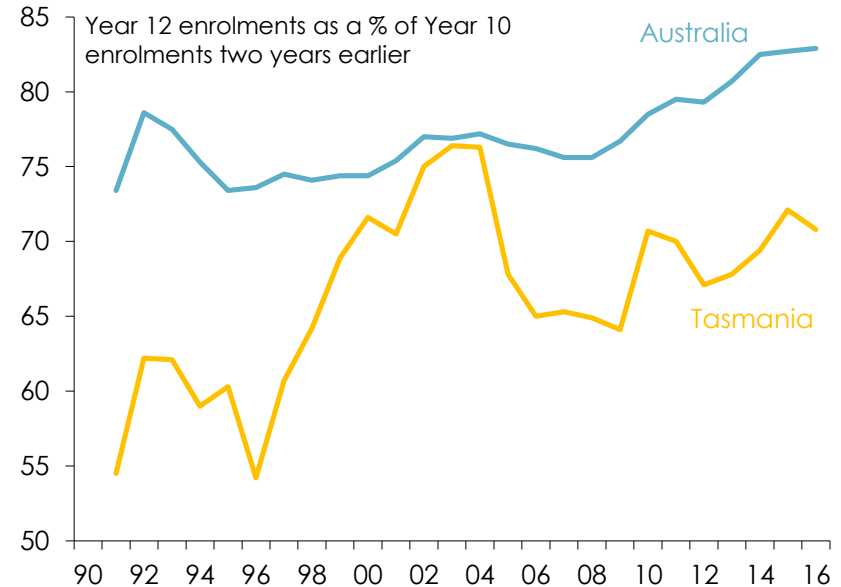


# Our Year 12 retention rates are still way below average

## Apparent retention rates to Year 12, 2016



## Apparent retention rates to Year 12, Tasmania and Australia

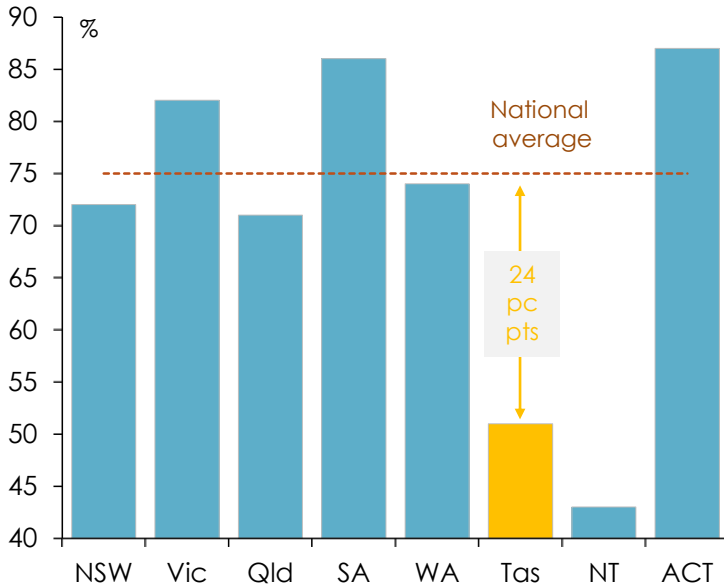


Source: ABS. 'X' is retention rate for NT non-Indigenous population.

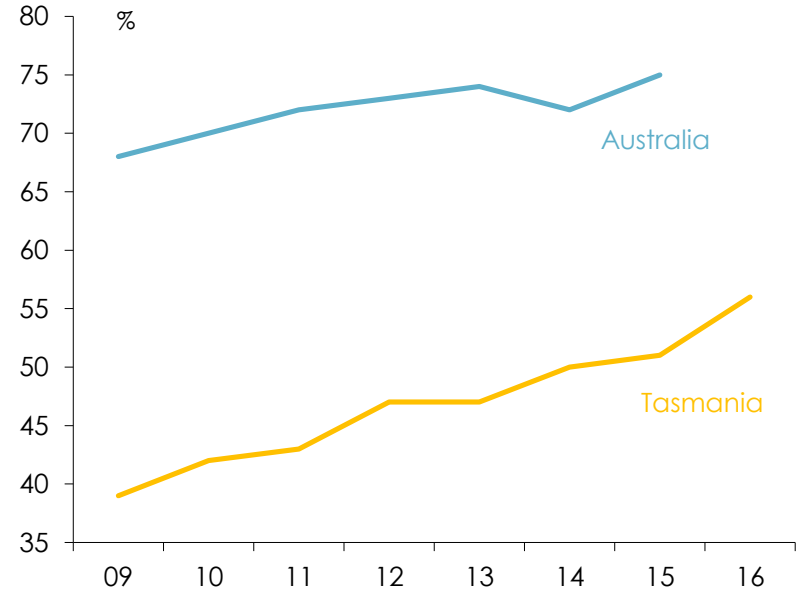


# Y12 certificate completion rates also well below average

## Year 12 completion rates, 2015



## Year 12 completion rates, Tasmania and Australia



Note: 'Completion rate' is the number of students meeting the Y12 Certificate or equivalent requirements as a pc of potential Y12 population (defined as one-fifth of the 15-19 population). Source: Productivity Commission.

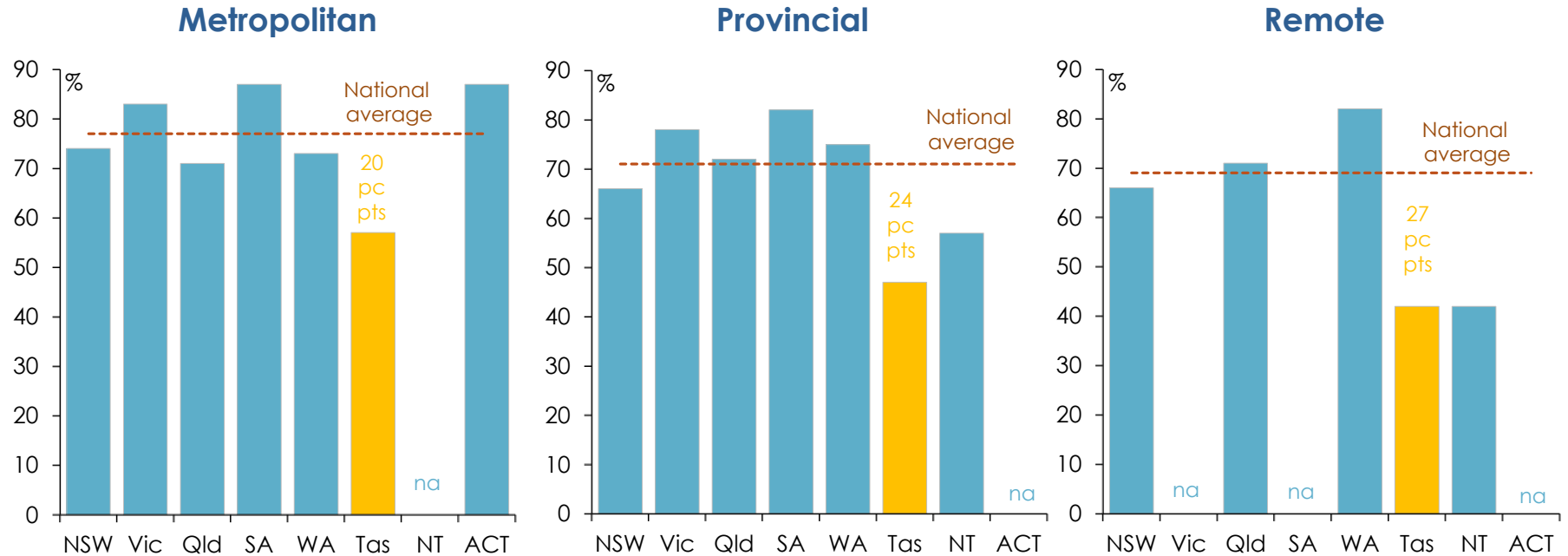


**MERCURY**



# This isn't because we have relatively more rural students

## Year 12 completion rates by location, States and Territories, 2015



Source: Productivity Commission. 'na' means population too small for statistical purposes.

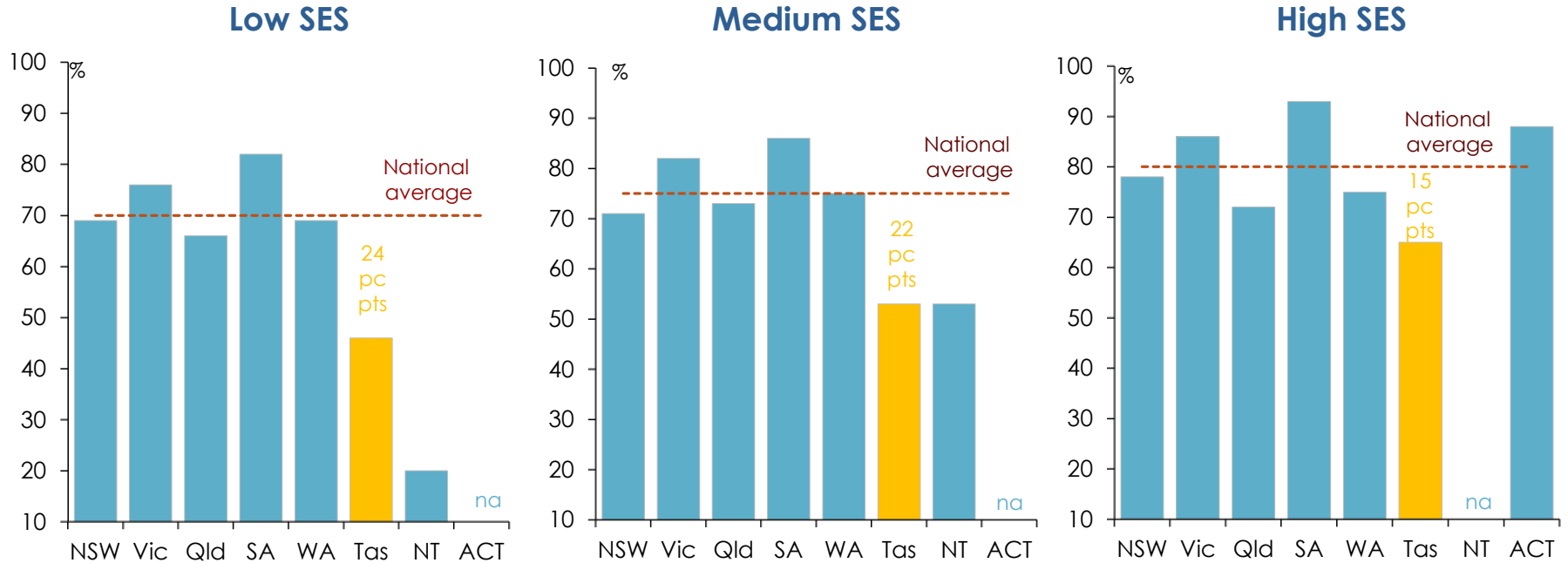


**MERCURY**



# Nor is it because we have more students from poor homes

## Year 12 completion rates by students' backgrounds, States and Territories, 2015



Source: Productivity Commission. 'na' means population too small for statistical purposes.



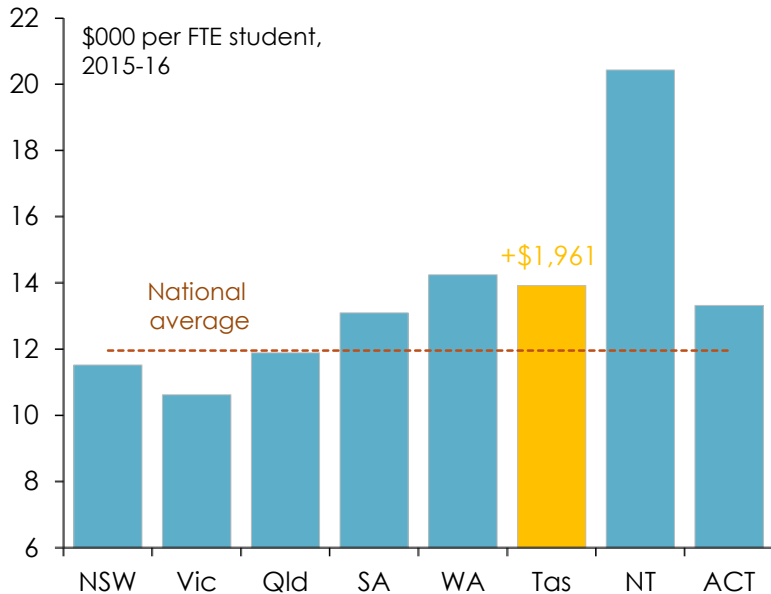
**MERCURY**



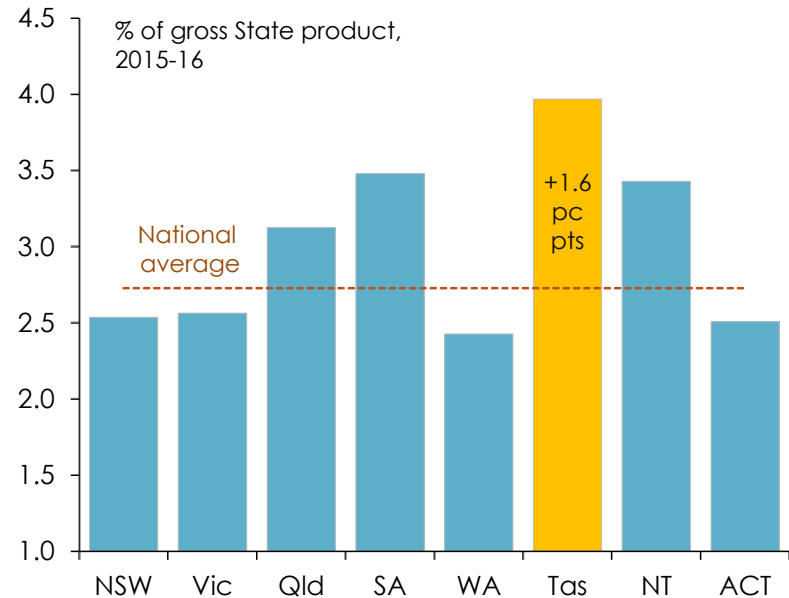


# Nor is it because we don't spend enough on education

## Government spending on school education per FTE student, 2015-16



## Government spending on school education as a pc of GSP, 2015-16



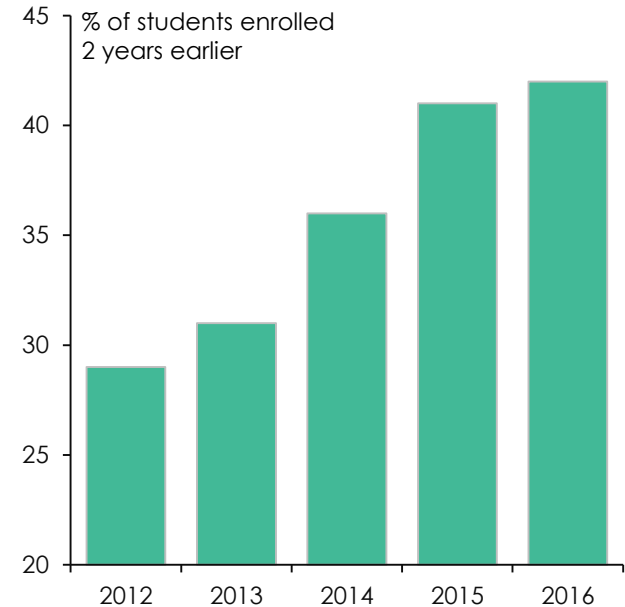
Source: ABS.



# The college system is no longer 'fit for purpose'

- The college system may do a 'good job' of providing Year 11 & 12 courses to the students who attend them
- But they are an expensive way of providing them ...
- ... and their existence represents an obstacle to matching the rest of Australia's Y12 attainment rates
- If Tasmania's college system is so good, why has no other state copied it (even for their regional areas)?
- The available evidence suggests that extending Y11 & 12 courses in rural & regional high schools has lifted completion rates ...
- Extending the same opportunities to students at urban high schools is a good idea
- That probably will make the colleges 'unsustainable' – convert them to, or merge them with, Y7-12 schools

## Y12 completion rates at 'extension schools'



Source: TASC.



**MERCURY**



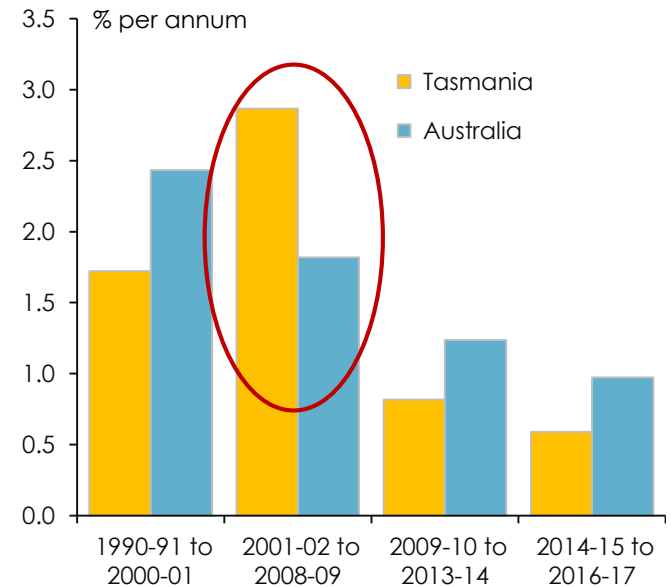
# Some other suggestions ...



# Set a target for Tasmania's economic performance

- It's highly unlikely that Tasmania could ever again achieve the same level of per capita gross product or income as the national average
- But we could, and should aim to, do better than we have been doing and are likely to do if nothing changes
- If we 'do nothing' then our demographic profile means that we will continue to fall further behind
- A demanding but achievable target might be to raise Tasmania's per capita GSP relative to the national average to where SA is now (ie from 78½% to 83½%)
- That could be accomplished by 2025-26 if Tasmania's economy grew ¾ pc pt pa faster than the national average ...
- ... which we have done before!

## Real per capita GSP growth – Tasmania and Australia



Source: ABS.

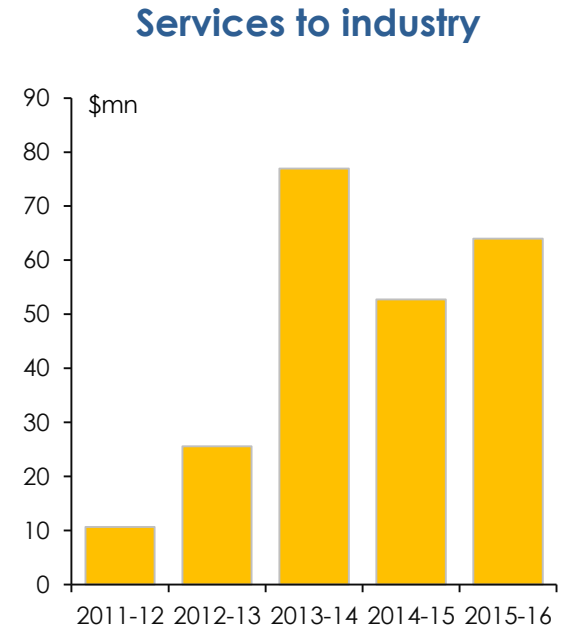
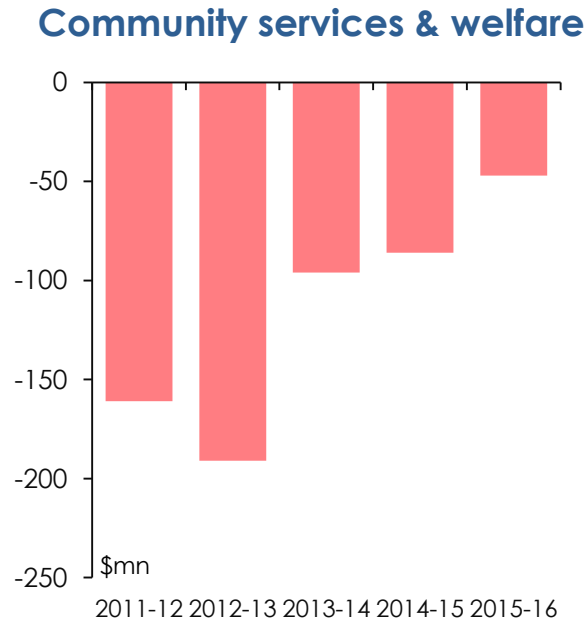
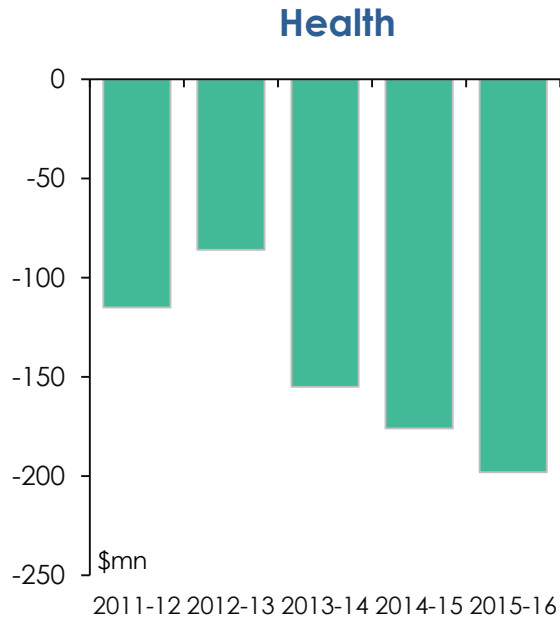


**MERCURY**



# Spend more on health and community services

Tasmanian government spending relative to Grants Commission benchmarks for 'service provision at the same level as the average of all states and territories'

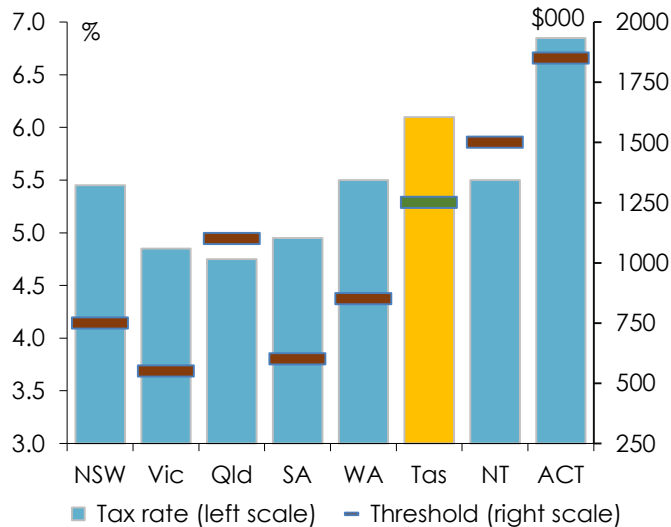


Source: Commonwealth Grants Commission.



# Do some serious state taxation reform

## Payroll tax rates and thresholds



Note: Qld, WA & NT phase out tax free thresholds on larger payrolls. WA to impose higher marginal rate of 6.5% on large employers from 2018-19 through 2022-23.  
Source: NSW Treasury.

- Tasmania has the highest payroll tax rate of any state, levied on the narrowest tax base of any state (ie, the highest threshold)
- If all businesses paid payroll tax the rate could be lowered to less than 4%, the lowest in Australia
- There really isn't any valid economic reason for small businesses to be exempt from payroll tax
- If it is thought necessary to offer some kind of concession or exemption, much smarter (and cheaper) to offer it to new businesses
- Every enquiry that's ever looked at property taxation recommends replacing stamp duties with a broader land tax – gradually, with transitional provisions and special provisions for 'asset-rich, income-poor' people
- Tasmania should be a pioneer of reform



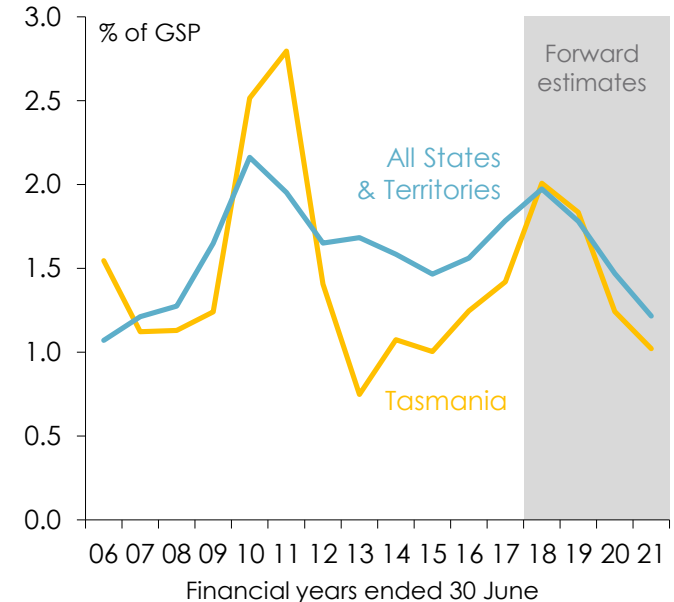
**MERCURY**



# Consider asset sales to offset the unfunded super millstone

- IMF, RBA, OECD and others all advise governments should be willing to borrow more at very low interest rates to fund worthwhile infrastructure investment
- Tasmania has very low public sector net debt – but its huge unfunded super liability is a major constraint on its ability to borrow for infrastructure spending
- The only ways of loosening this constraint are by running large budget surpluses or by selling assets and investing the proceeds to offset the liability
- Not all assets/businesses are suitable candidates – Hydro Tas, TT-Line, Metro, TasRail, TasWater(?)
- But others should be considered – TasNetworks, Aurora, TasPorts, MAIB – similar entities sold in other states, could be attractive to super funds, can be regulated so as to avoid failings of other ‘privatizations’

## ‘General government’ infrastructure investment



Source: State & Territory Budget Papers; ABS.



**MERCURY**



The economic and social challenges facing Tasmania, over the next four years and well beyond, cannot be addressed by a government which has sought a mandate for doing nothing more than 'minding the store', however competently they promise to do that.

Tasmania has made some genuine and tangible progress in recent years. There is a greater sense of optimism about what may be possible. This is a moment in Tasmania's history where those who seek to shape its future should be imaginative and bold, rather than cautious or timid. It is a time, to paraphrase Robert Kennedy, to think of what could be, and ask "why not?"



**MERCURY**





# Thank you to our event partners



**MERCURY**