

# Tasmania's economy: How much change is enough?

Presentation to the  
Economic Society of Australia's  
Tasmanian Economic Forum

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**Tasmanian Function  
& Conference Centre  
Hobart  
6<sup>th</sup> December 2007**

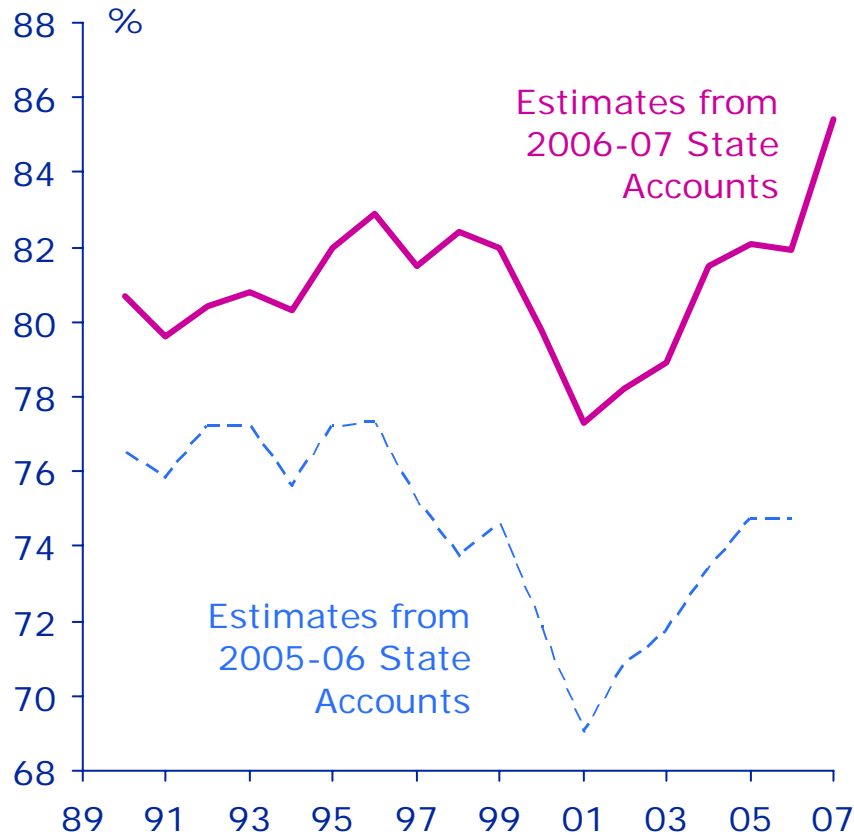
[www.anz.com/go/economics](http://www.anz.com/go/economics)

*economics@*

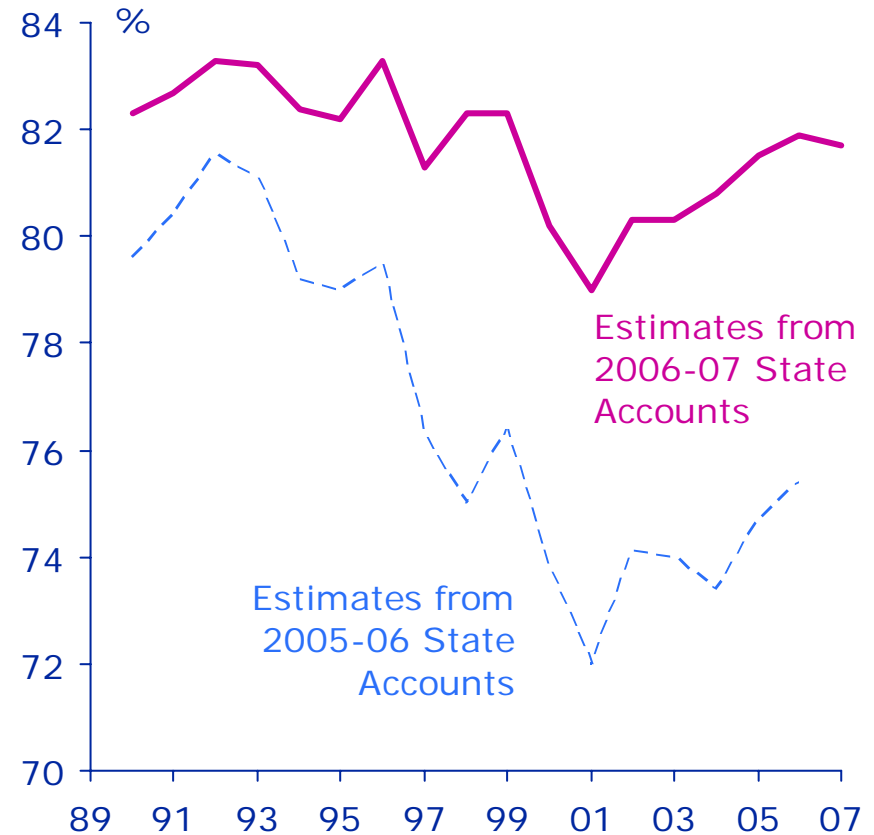
# Tasmania's per capita GDP relative to the national average has been revised upwards quite a bit

## Tasmanian GDP per capita relative to national average

Based on nominal GDP



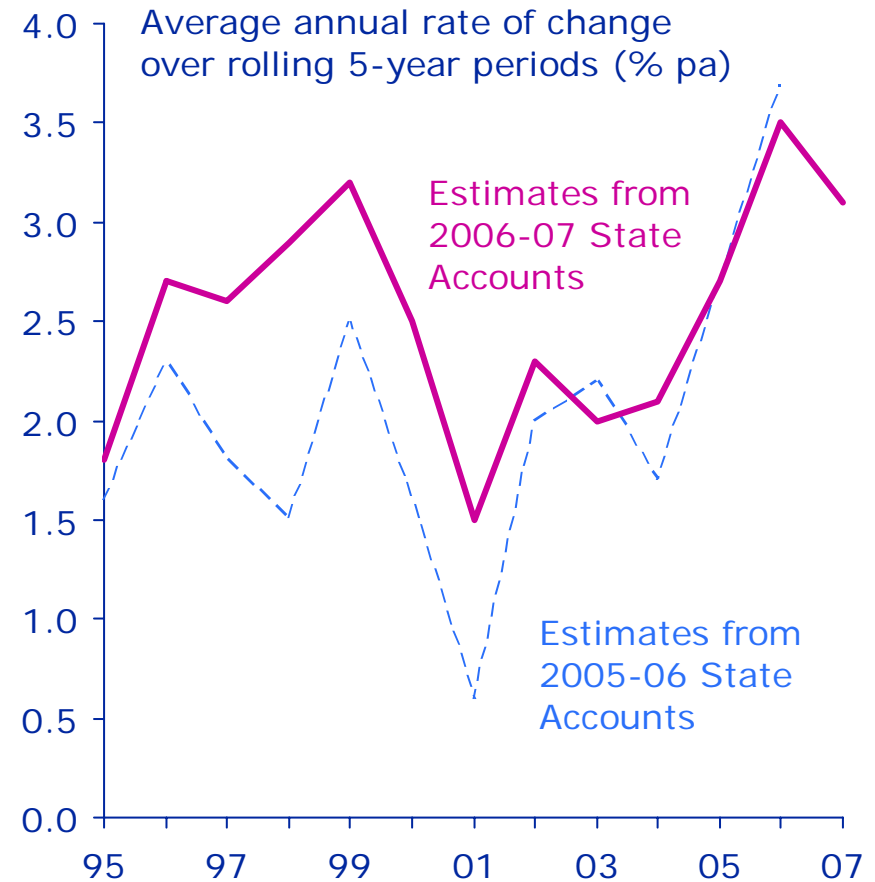
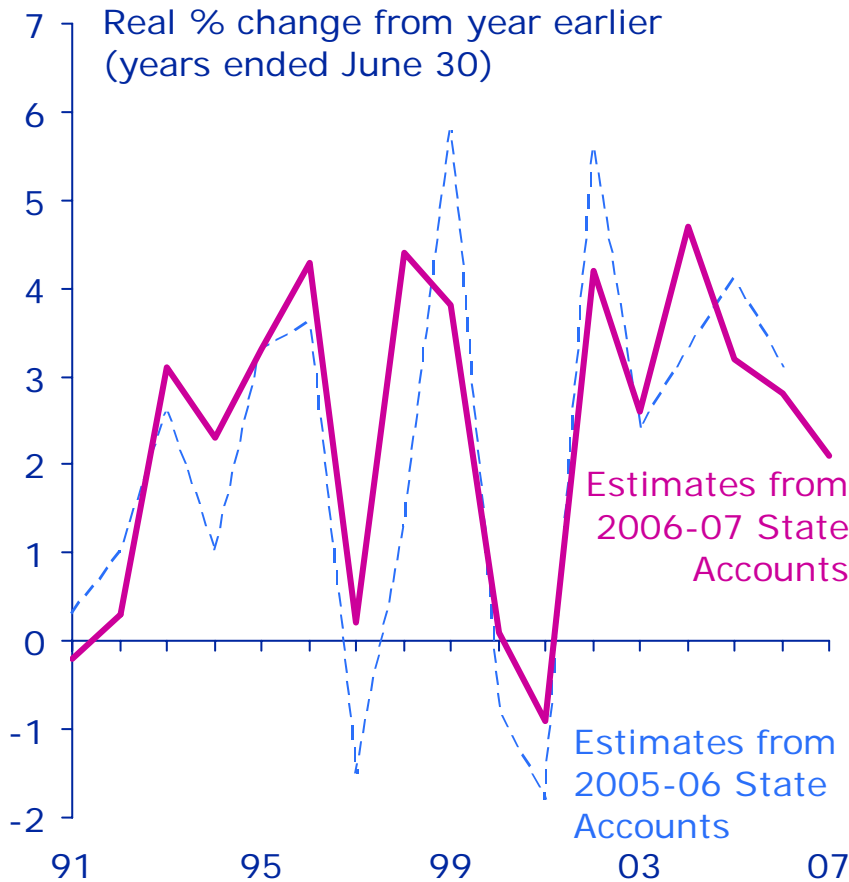
Based on real GDP



Sources: ABS State Accounts (5220.0) 2005-06 and 2006-07; Economics@ANZ

# Latest State Accounts present a slightly better view of Tasmania's medium-term performance

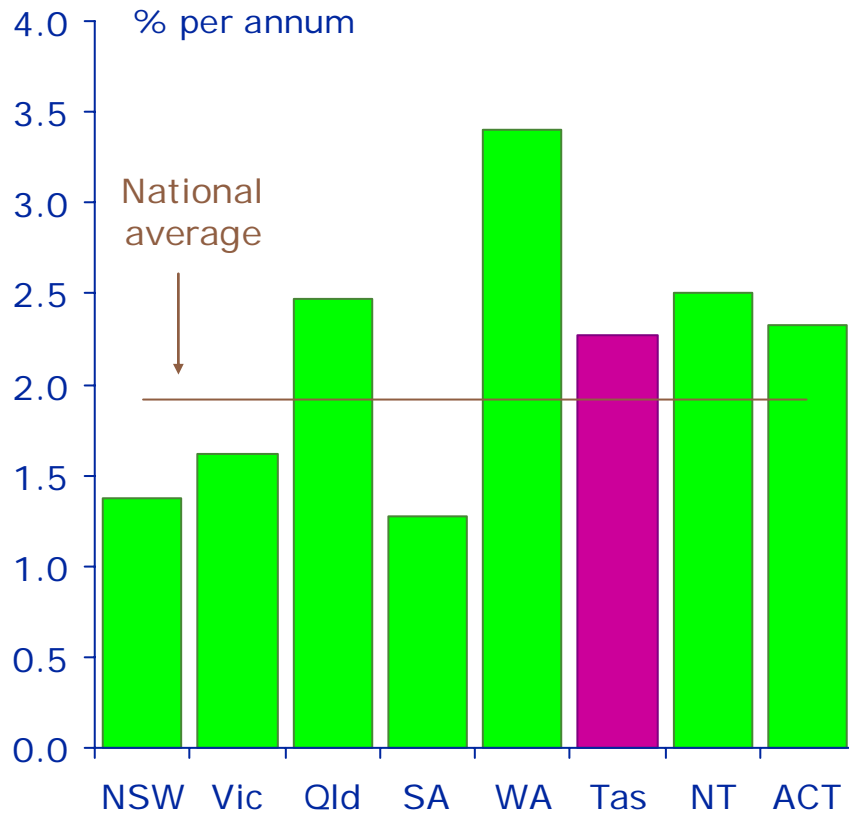
## Growth in real gross State product



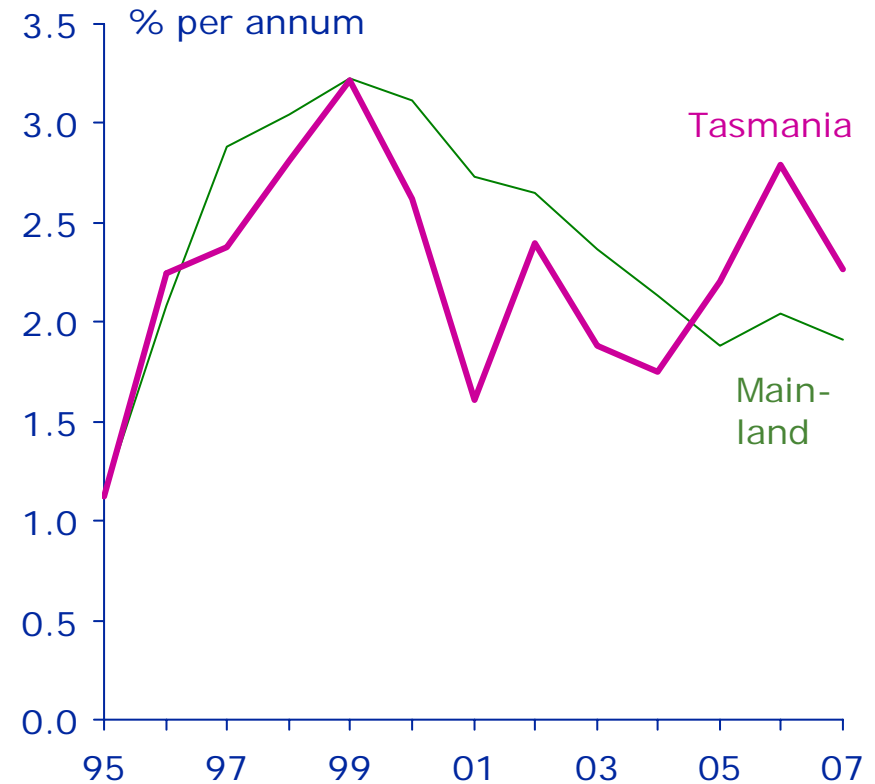
Sources: ABS State Accounts (5220.0) 2005-06 and 2006-07; Economics@ANZ

# Tasmania's per capita economic growth rate has exceeded the mainland average in recent years

Real per capita GSP growth five years to 2006-07



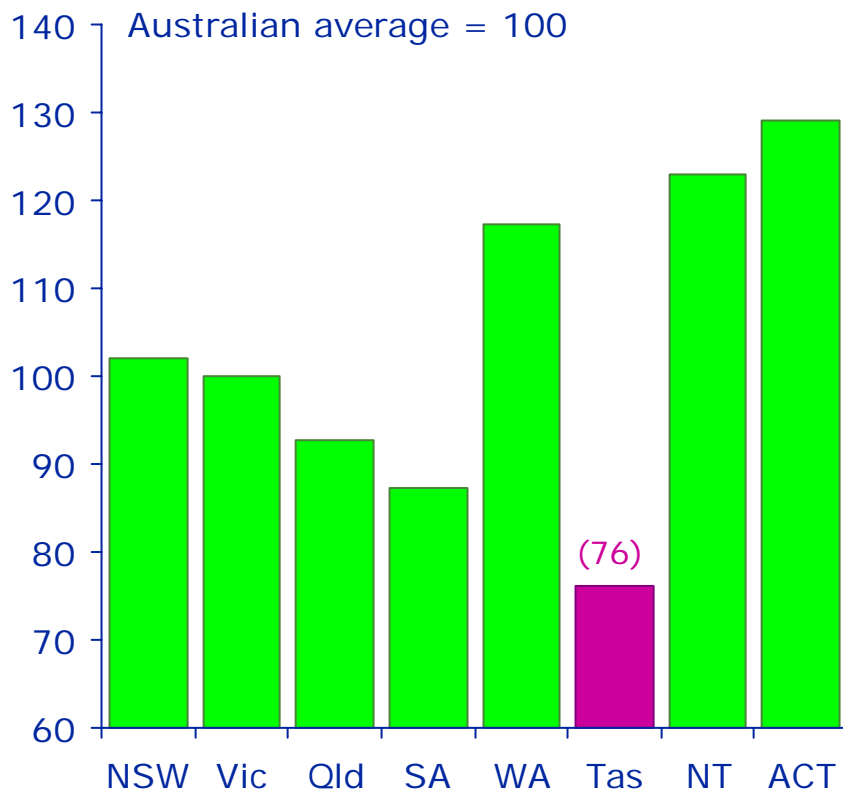
Real per capita GSP growth over rolling five-year periods



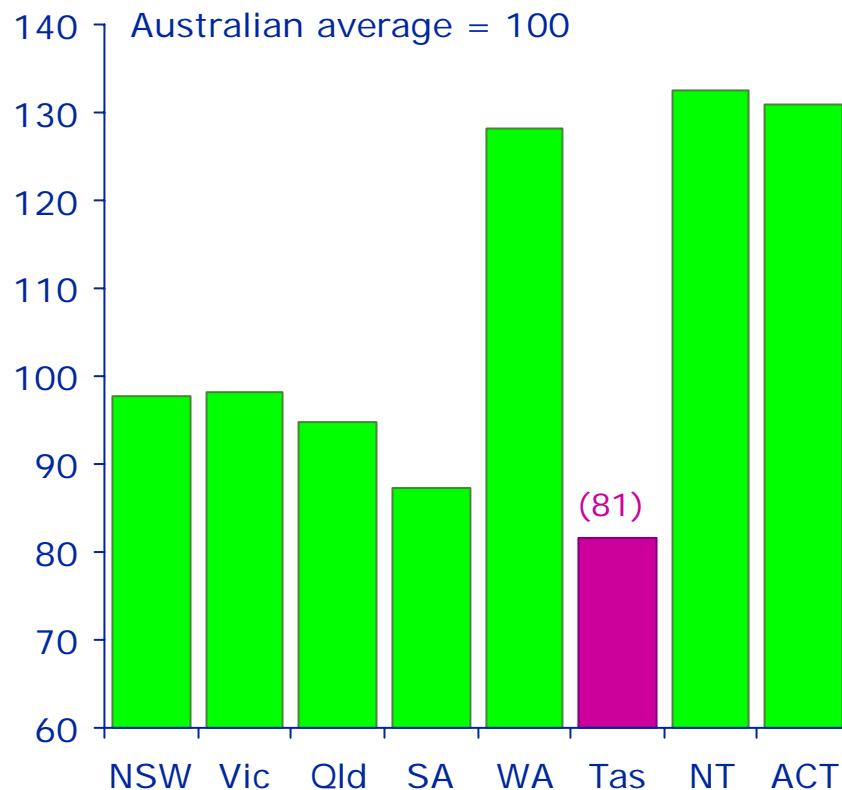
Sources: ABS State Accounts (5220.0) 2006-07; Economics@ANZ

# Tasmania still has the lowest per capita GSP of any State – but by a smaller margin than before

## GSP per capita based on 2005-06 estimates



## GSP per capita based on 2006-07 estimates



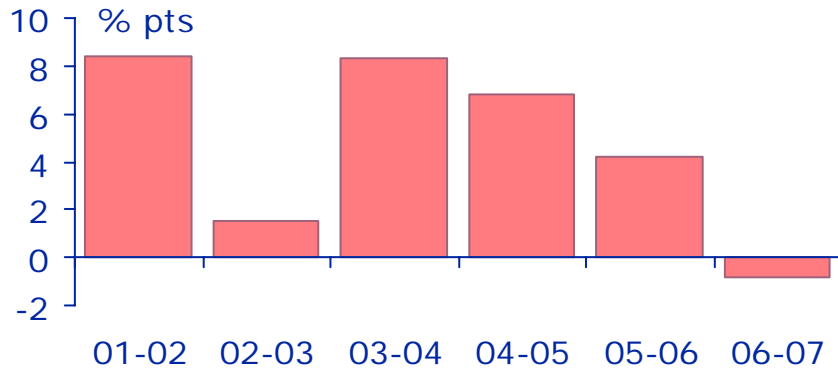
Note: estimates based on chain-volume GSP.

Sources: ABS State Accounts (5220.0) 2005-06 and 2006-07;  
Economics@ANZ

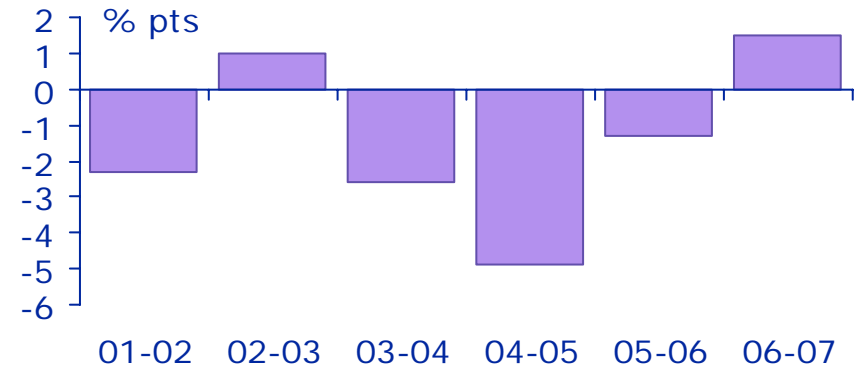
# 2006-07 economic growth appears to have been due entirely to overseas and interstate trade

## Contributions to annual change in real gross State product

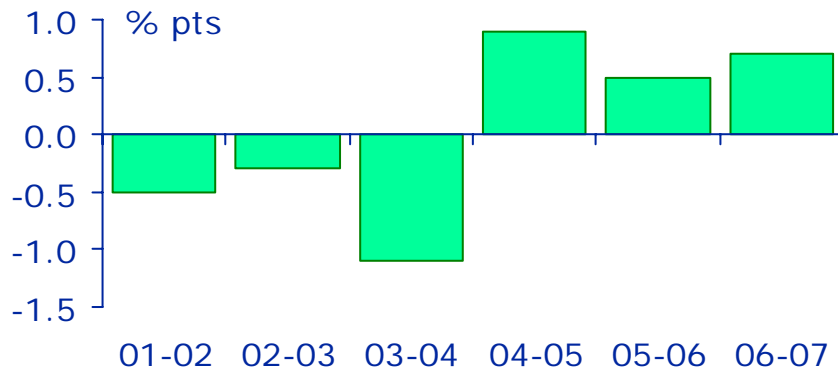
### State final demand



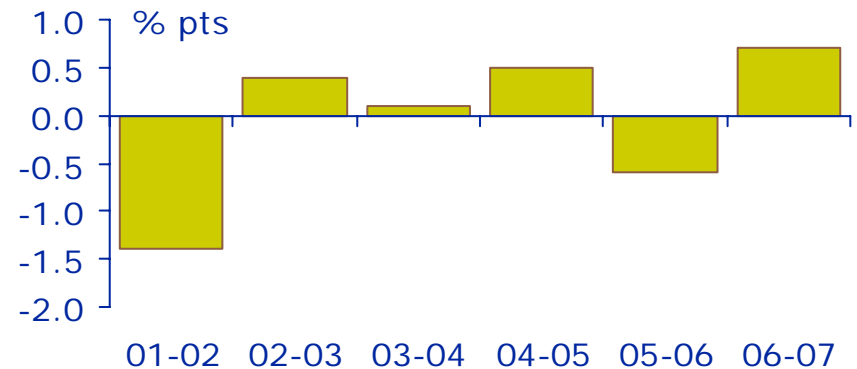
### 'Balancing item'



### Net overseas exports



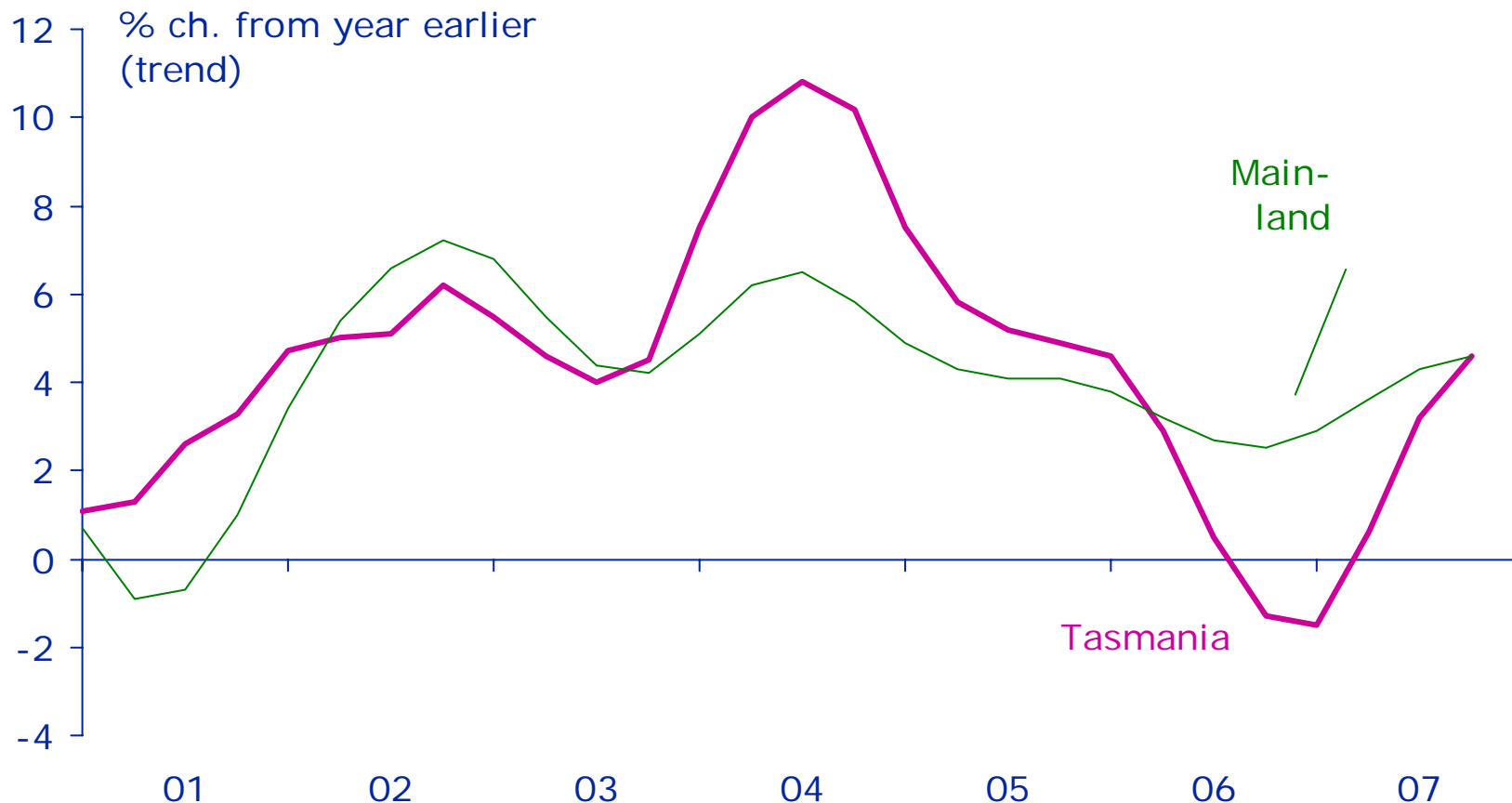
### 'Statistical discrepancy'



Note: 'Balancing item' conceptually comprises net interstate exports and the change in inventories; the statistical discrepancy is the difference between the expenditure-based and average measures of real GSP. Sources: ABS *State Accounts* (5220.0) 2006-07;

# However growth in state final demand has considerable momentum going into 2007-08

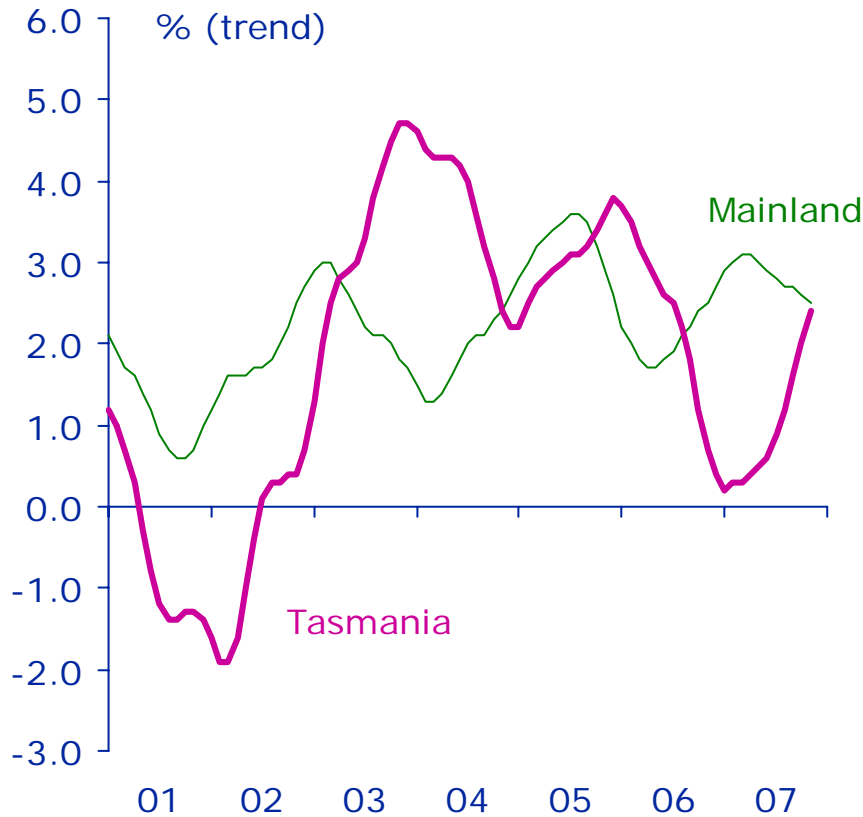
## State final demand



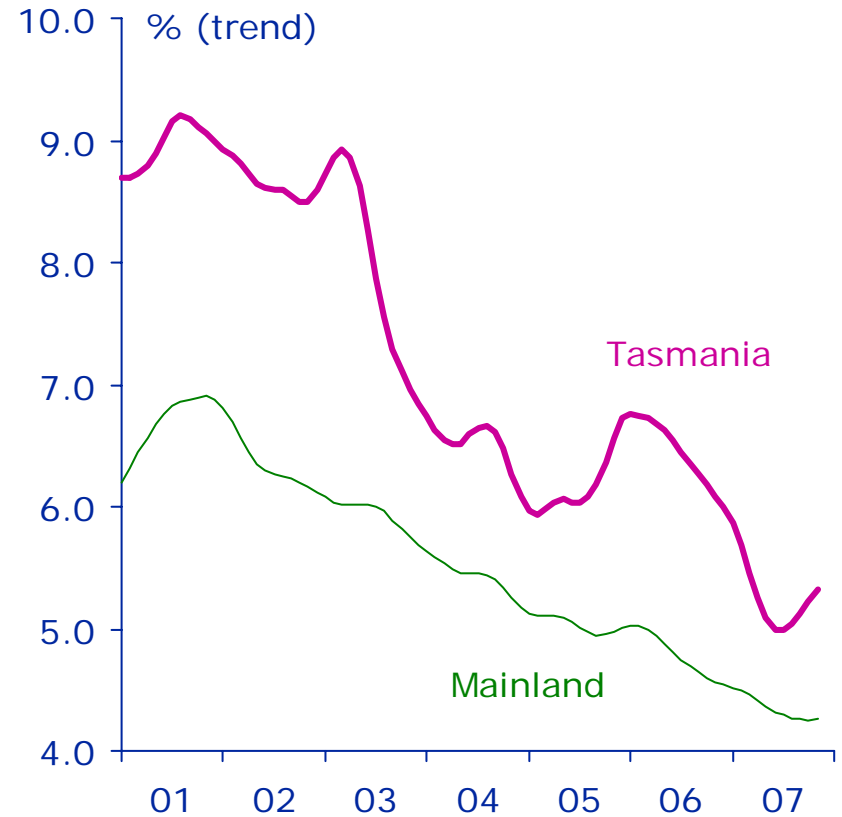
Sources: ABS, Australian National Accounts: State Details (5206.0).

# Employment growth slowed sharply in 2006-07 although it has picked up again so far in 2007-08

## Employment growth



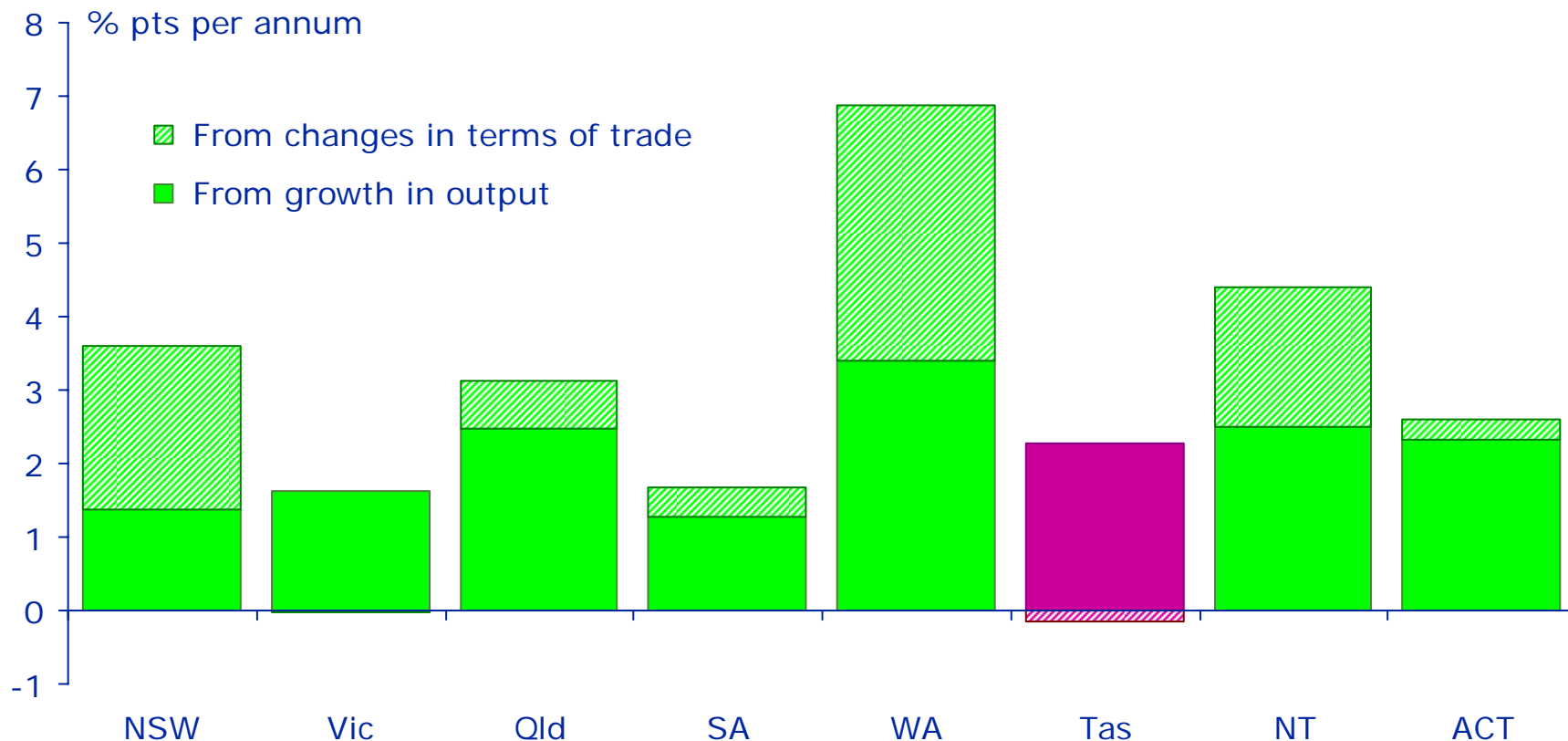
## Unemployment



Sources: ABS The Labour Force (6202.0);  
Economics@ANZ

# Tasmania has derived very little benefit from terms of trade gains over the past five years

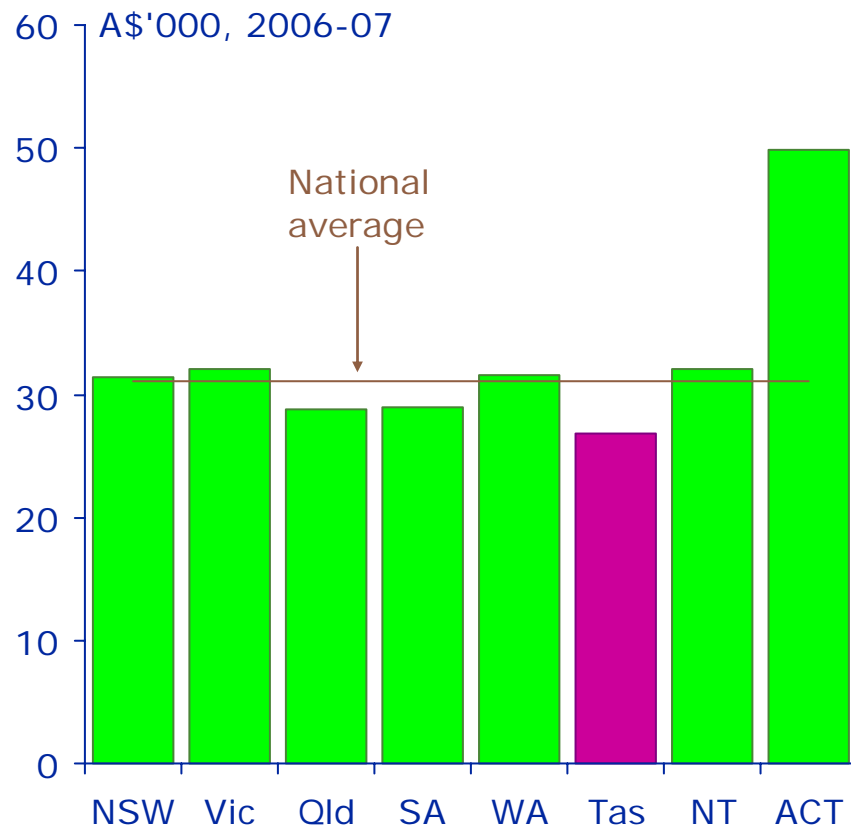
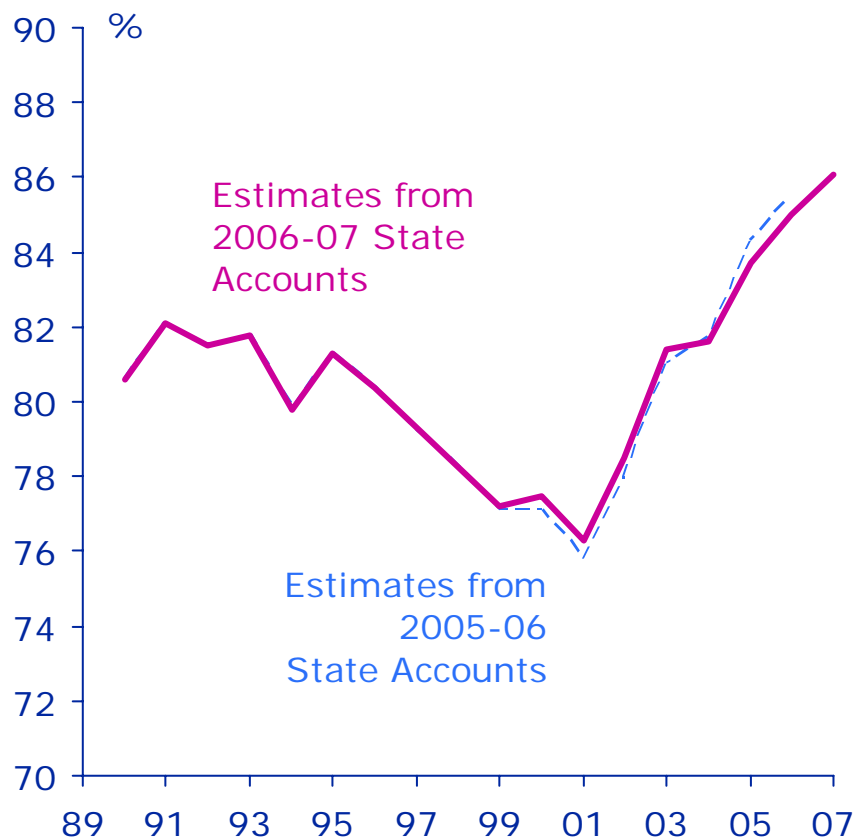
## Contributions to changes in real per capita gross income 2002-03 to 2006-07



Sources: ABS State Accounts (5220.0) 2006-07;  
Economics@ANZ

# Data revisions haven't affected greatly affected estimates of household disposable income

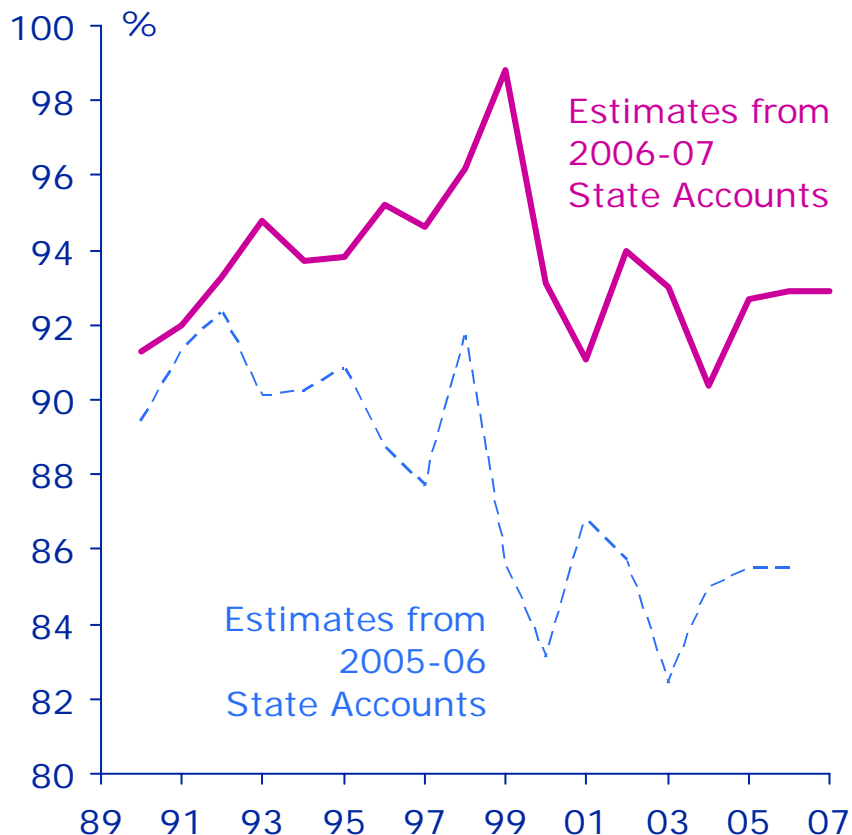
## Tasmanian household disposable income per capita relative to national average



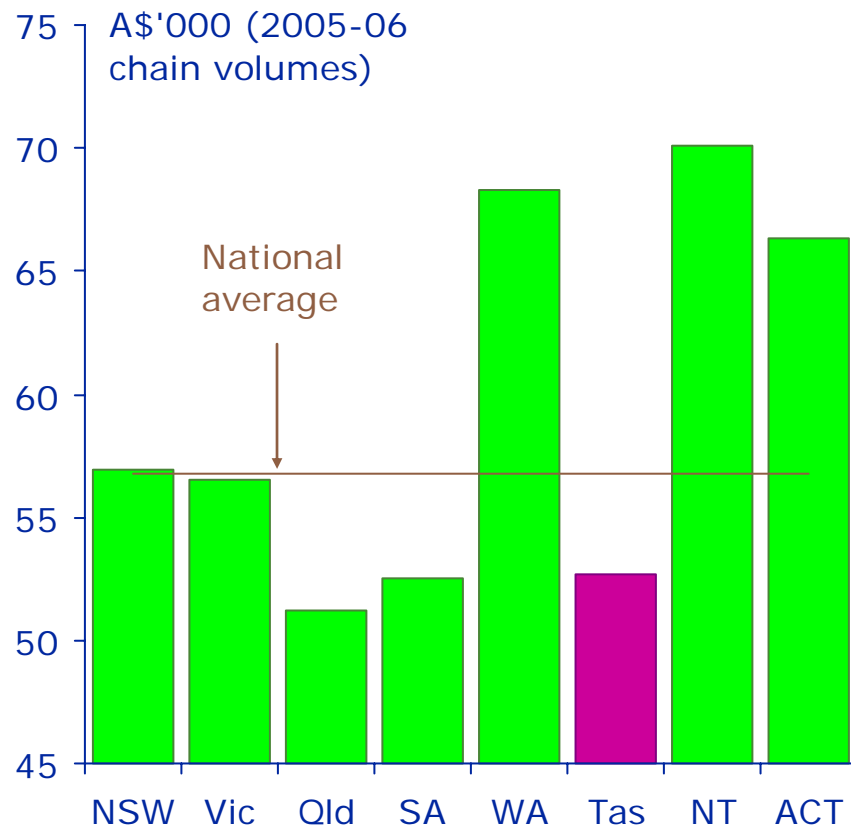
Sources: ABS State Accounts (5220.0) 2005-06 and 2006-07; Economics@ANZ

# Estimates of Tasmanian labour productivity have been revised upwards, above Qld and SA levels

## Tasmanian labour productivity relative to national average



## Labour productivity by State, 2006-07

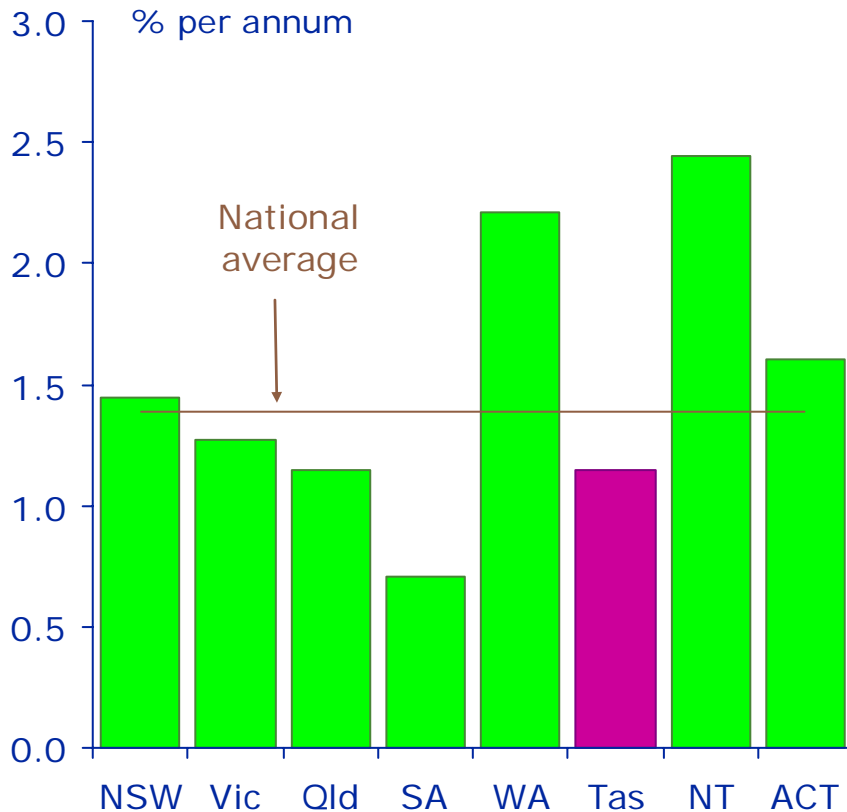


\* Productivity defined as real gross State product per hour worked.

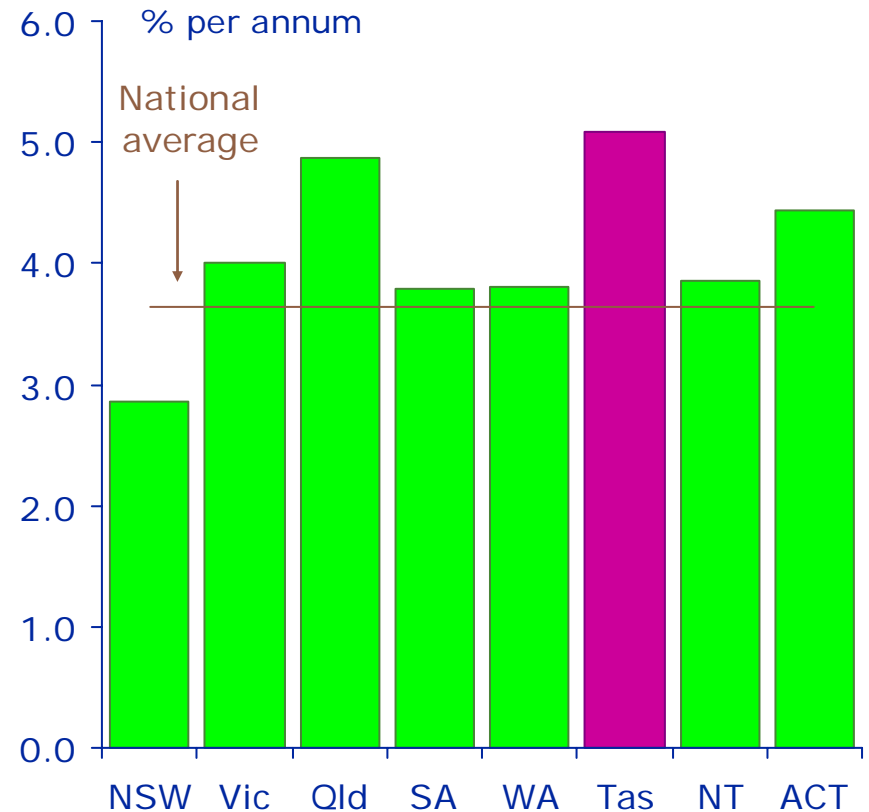
Sources: State Accounts (5220.0); ABS Employed persons by sex, age, hours worked, state (6291.0.55.001); Economics@ANZ.

# However productivity growth has been below the national average over the past five years

**Growth in real GSP per hour worked, five years to 2006-07**



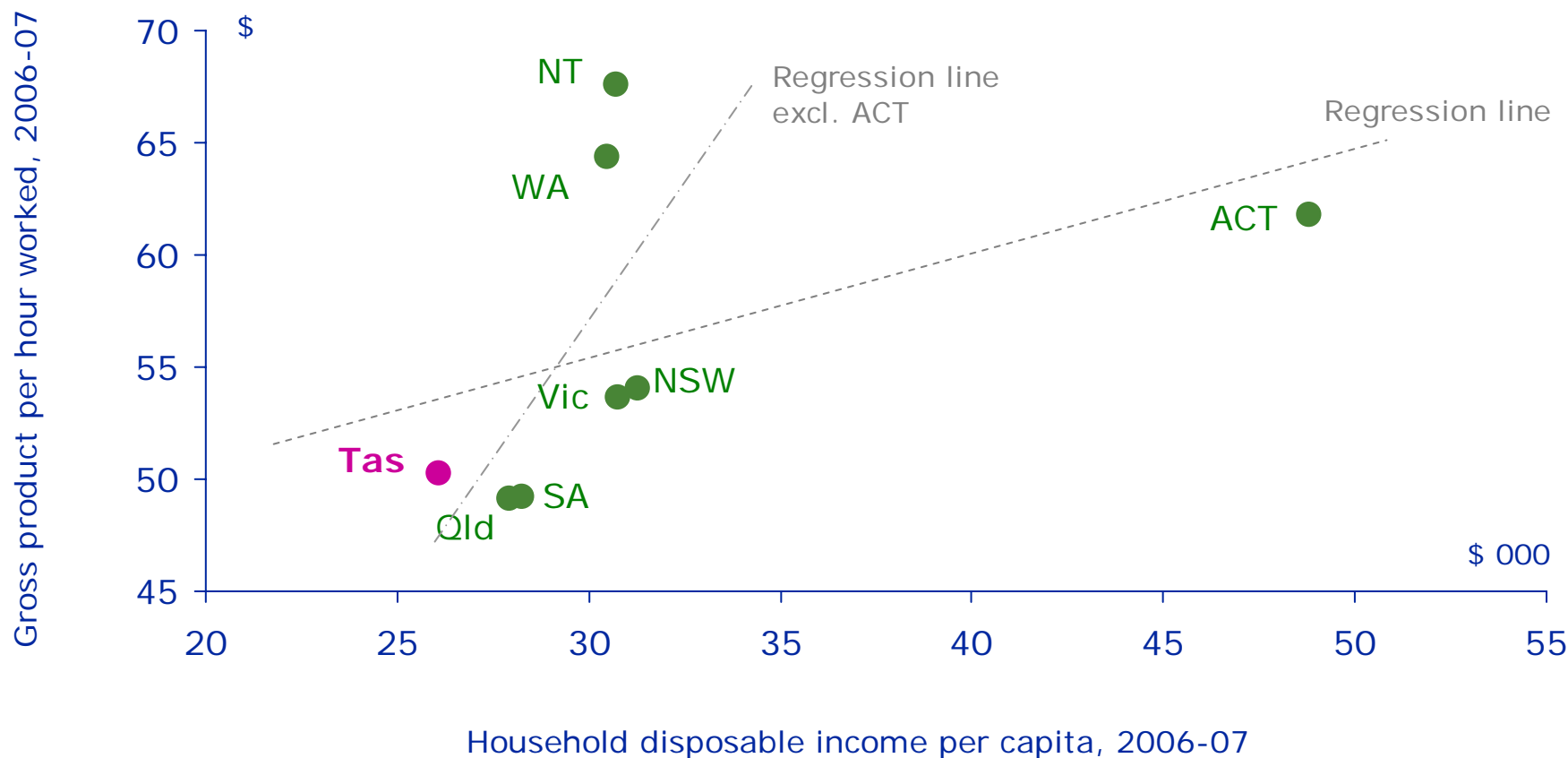
**Growth in unit labour costs, five years to 2006-07**



\* Productivity defined as real gross State product per hour worked. Unit labour costs defined as employee compensation per hour worked divided by output per hour worked. Sources: as for previous slide.

# The relationship between productivity and per capita income still looks very strong

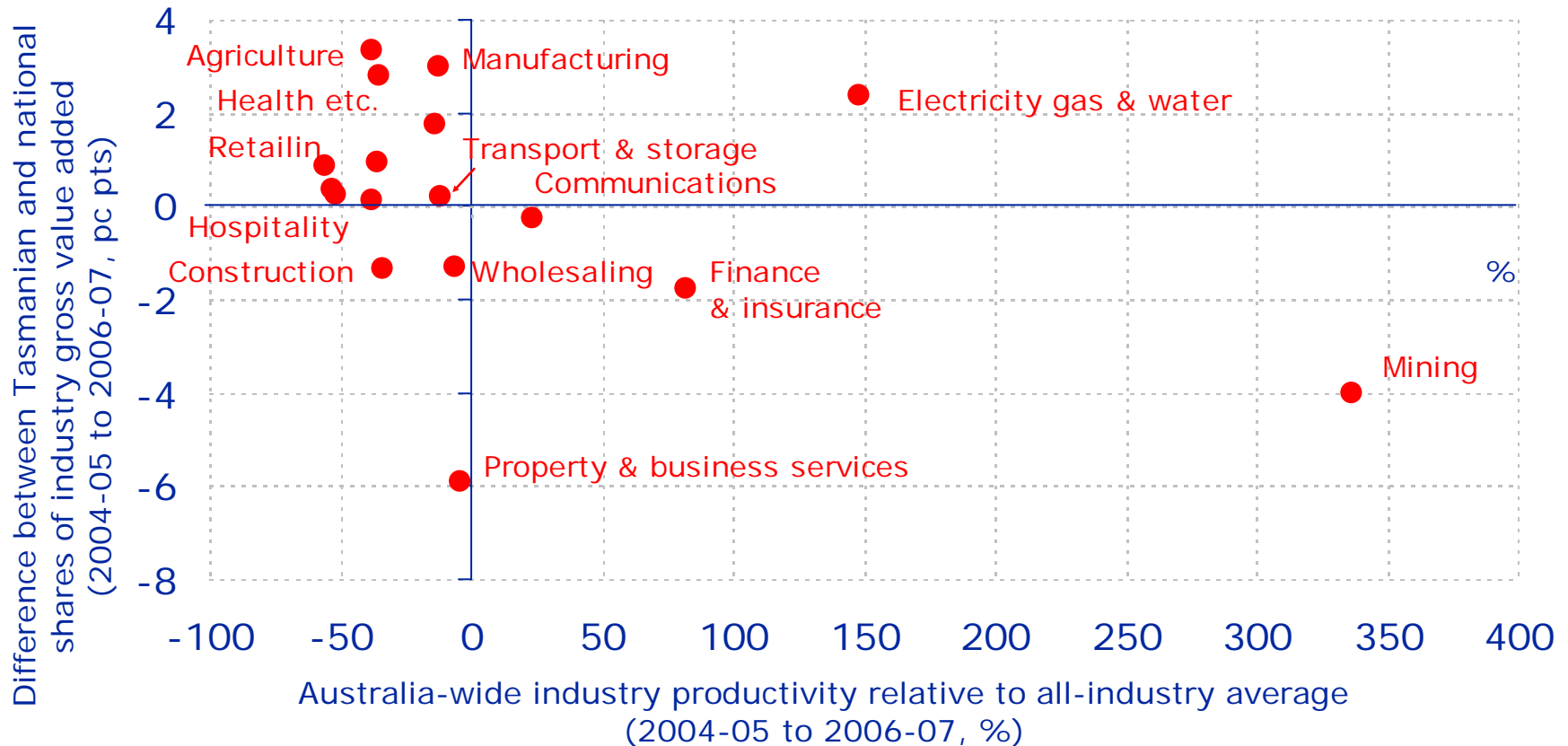
## Productivity and per capita income, 2006-07



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

# Tasmania has an above average share of sectors in which productivity nationally is below average

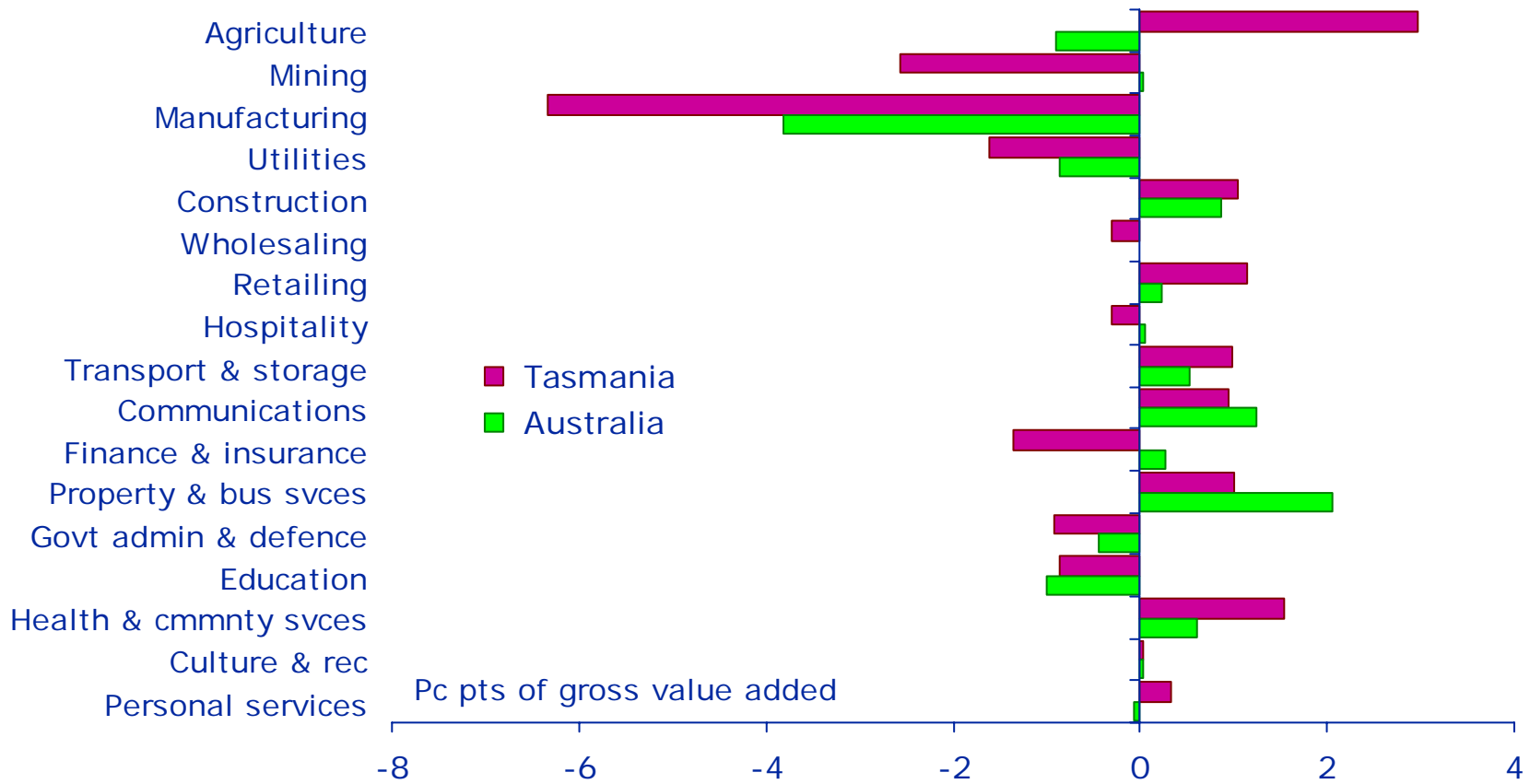
National industry productivity levels and the industry composition of the Tasmanian economy compared with the national average



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

# By one measure there's been more change in Tasmania's economic structure than Australia's

Change in industry shares of gross value added, 1989-90 to 2006-07



# By this measure Tasmania has seen more structural change than any other State

Mean absolute change in industry shares of gross value added, by State, 1989-90 to 2006-07

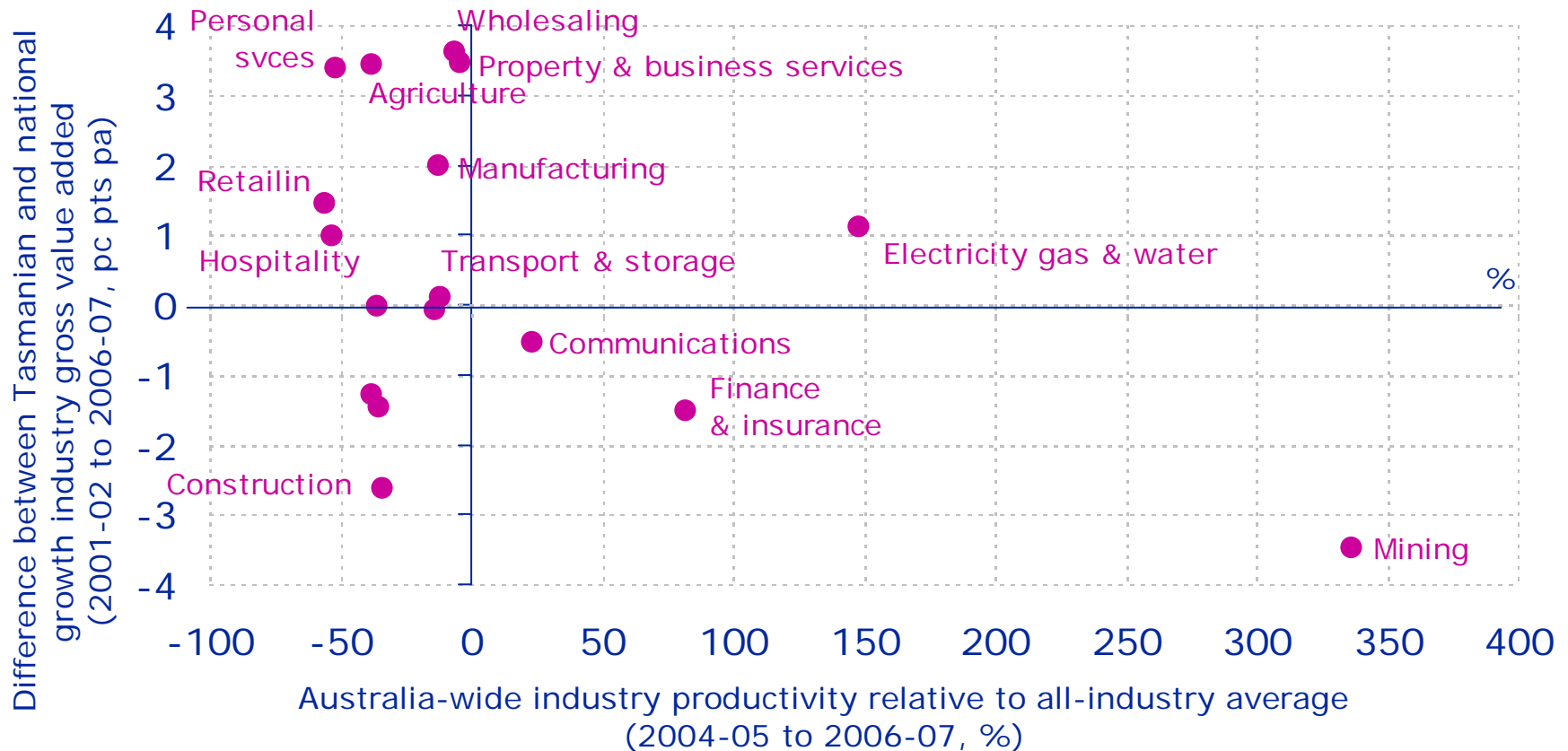


'Mean absolute value' means average value of changes in industry shares of GVA ignoring sign (positive or negative)

Sources: ABS State Accounts (5220.0); Economics@ANZ.

# Tasmanian economic growth has been concentrated in sectors with below-average productivity

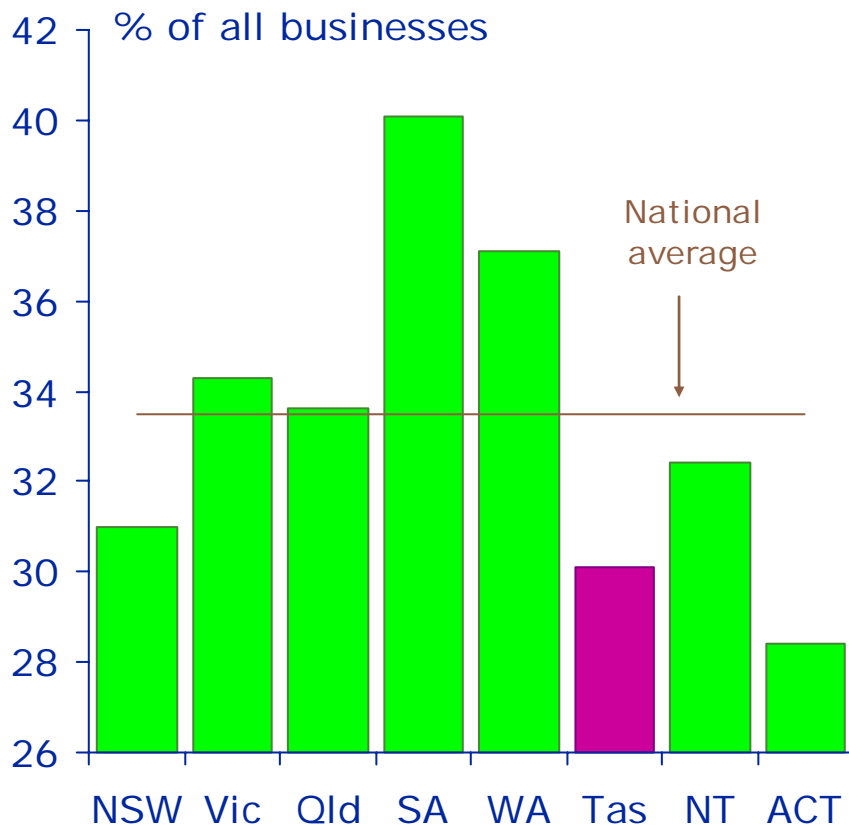
## Tasmanian economic growth by sector and national industry productivity levels



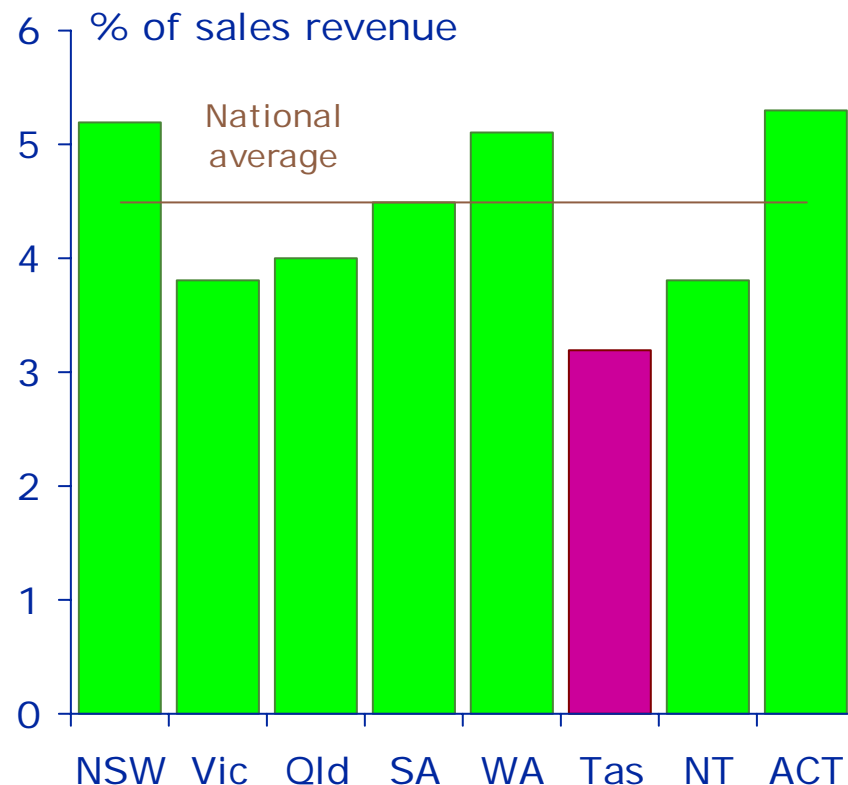
Sources: ABS State Accounts (5220.0); Employed persons by sex, age, hours worked, state (6291.0.55.001); Economics@ANZ.

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

## Businesses innovating, 2004 and 2005

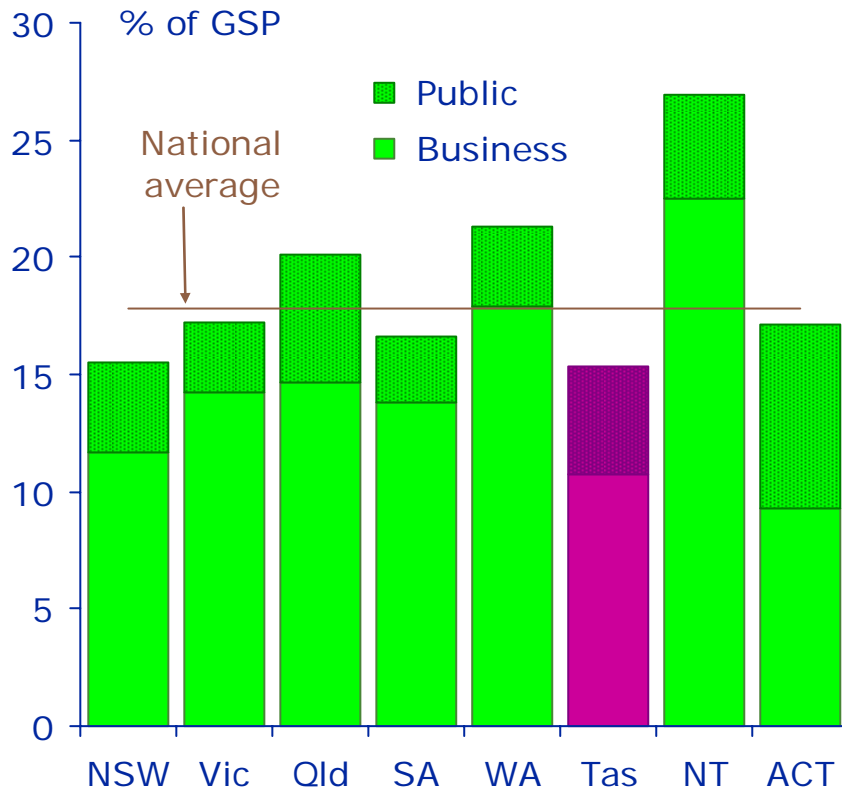


## Sales revenue from new or significantly improved products

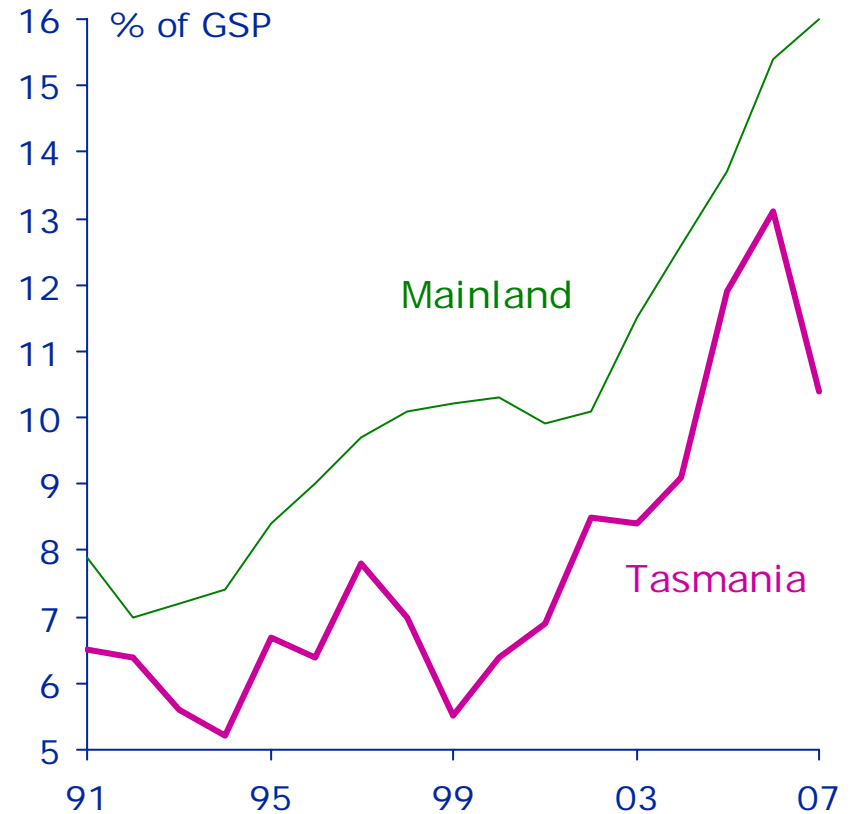


# The 2006-07 business investment slump, if not reversed, bodes ill for productivity growth

## Investment as a share of GSP 2001-02 to 2006-07



## Business investment as a share of GSP

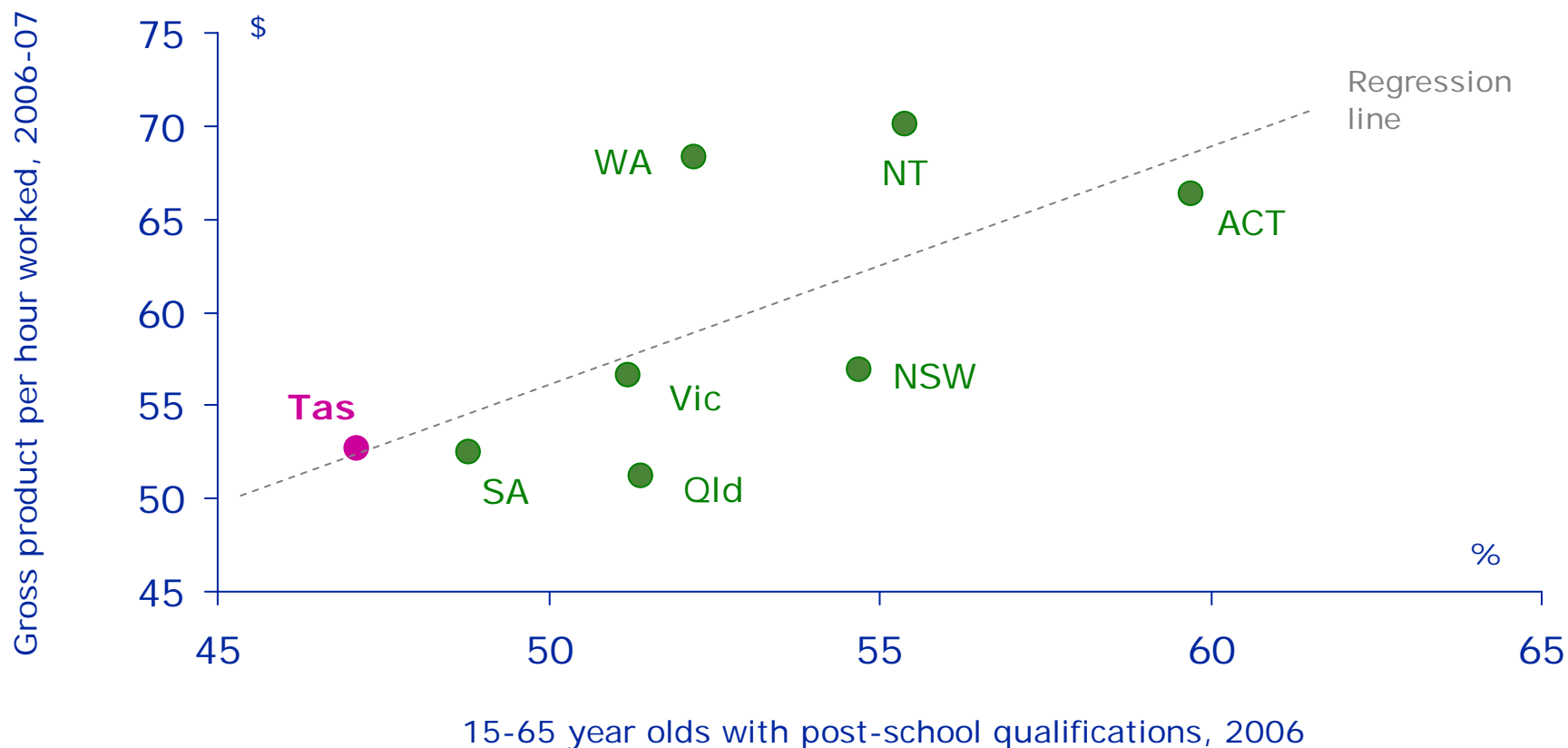


Note: 'Investment' refers here to non-residential fixed capital expenditure, ie excluding housing and stocks. Business investment excludes purchases of second-hand assets from the public sector.

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

# Educational attainment and productivity are closely related

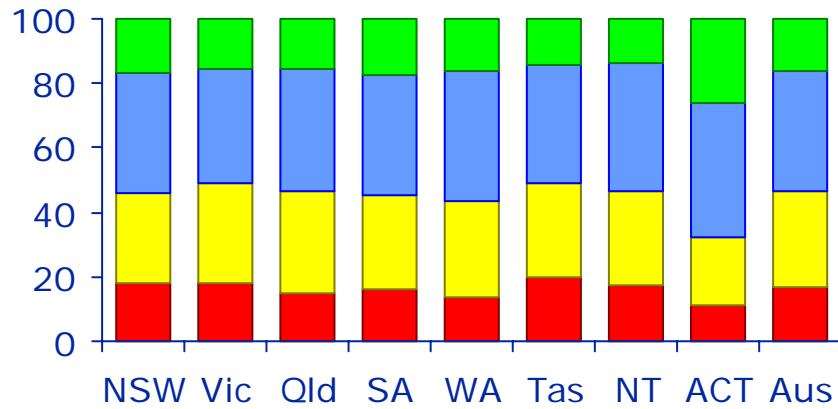
## Educational attainment and productivity, 2006-07



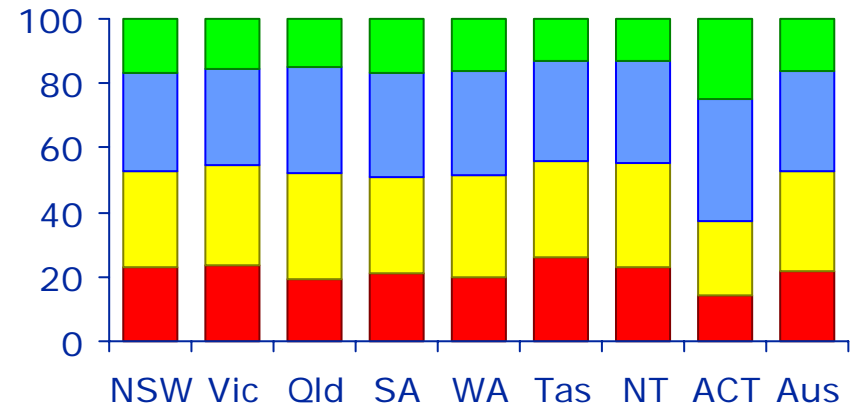
Sources: ABS State Accounts (5220.0); Economics@ANZ.

# Relatively low literacy and other 'life skills' among Tasmanian adults detracts from productivity

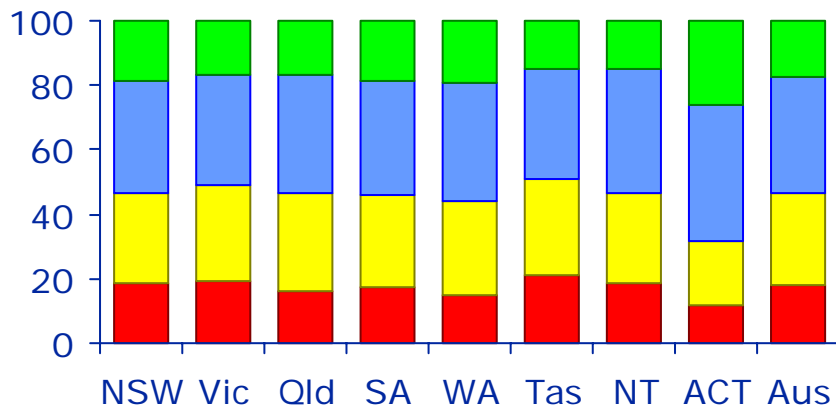
## Prose literacy



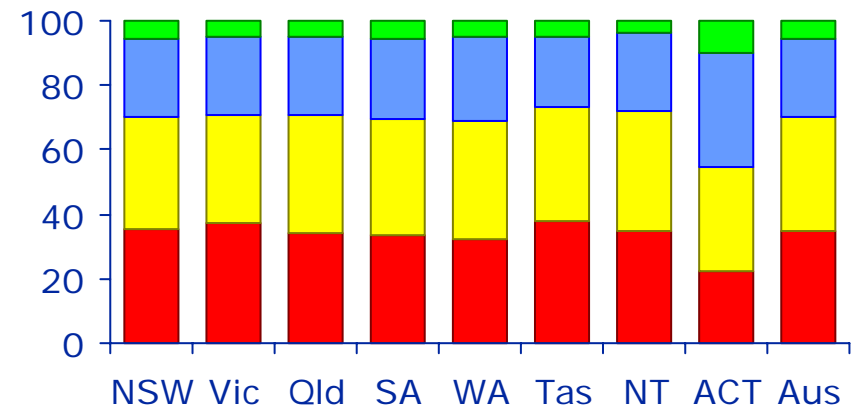
## Numeracy



## Document literacy



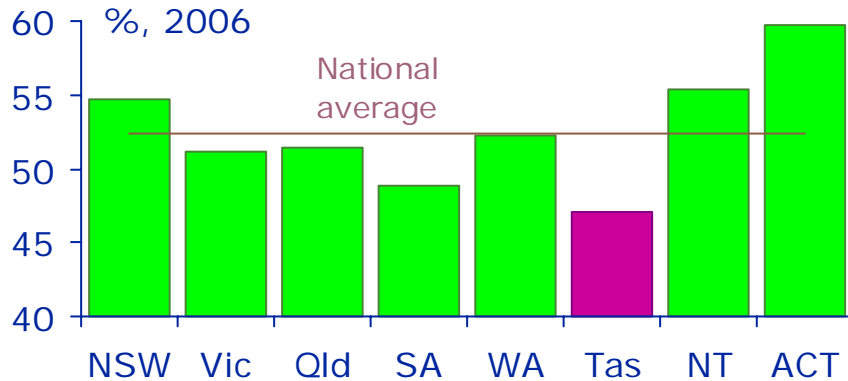
## Problem solving ability



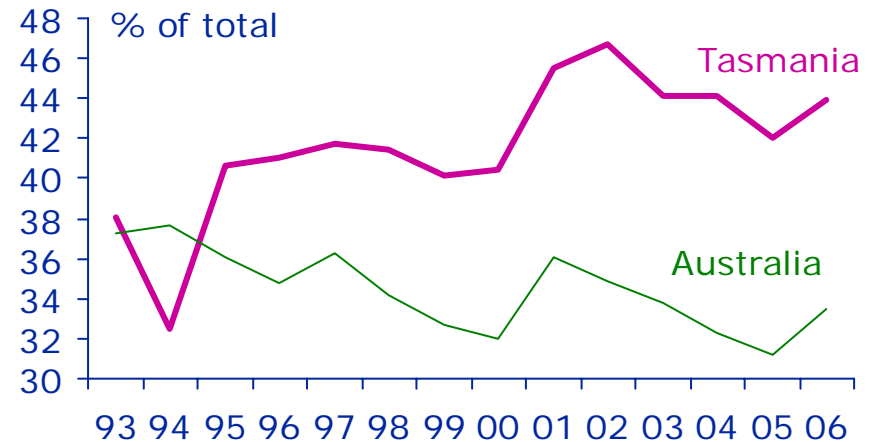
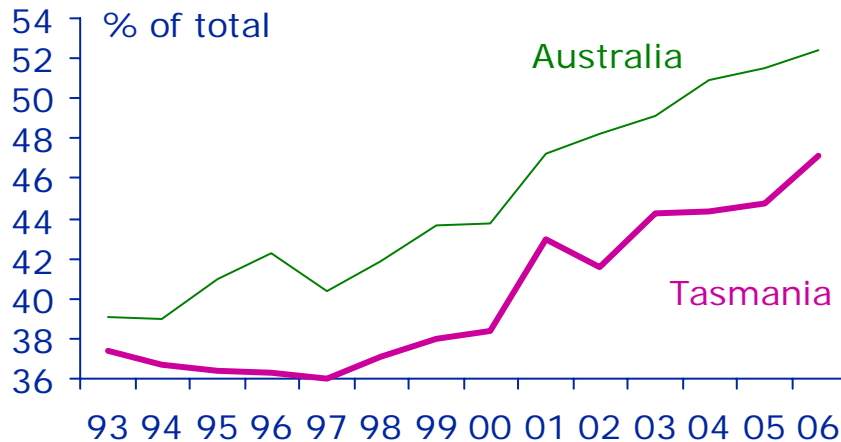
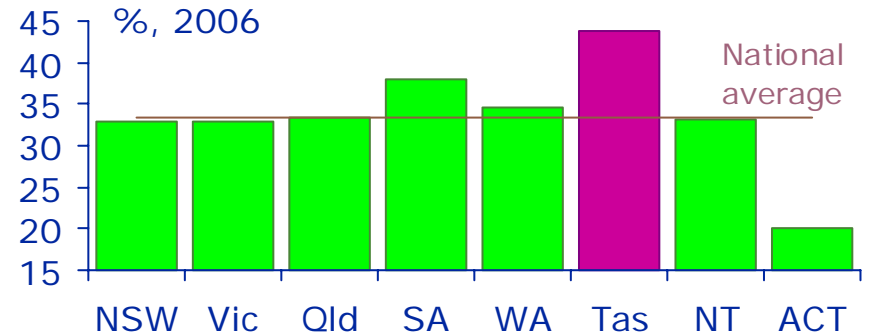
■ Level 1 (lowest)   
 ■ Level 2   
 ■ Level 3 ('minimum required to meet the complex demands of everyday life and work')   
 ■ Levels 4 & 5

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

## 15-64 year olds with post-school qualifications



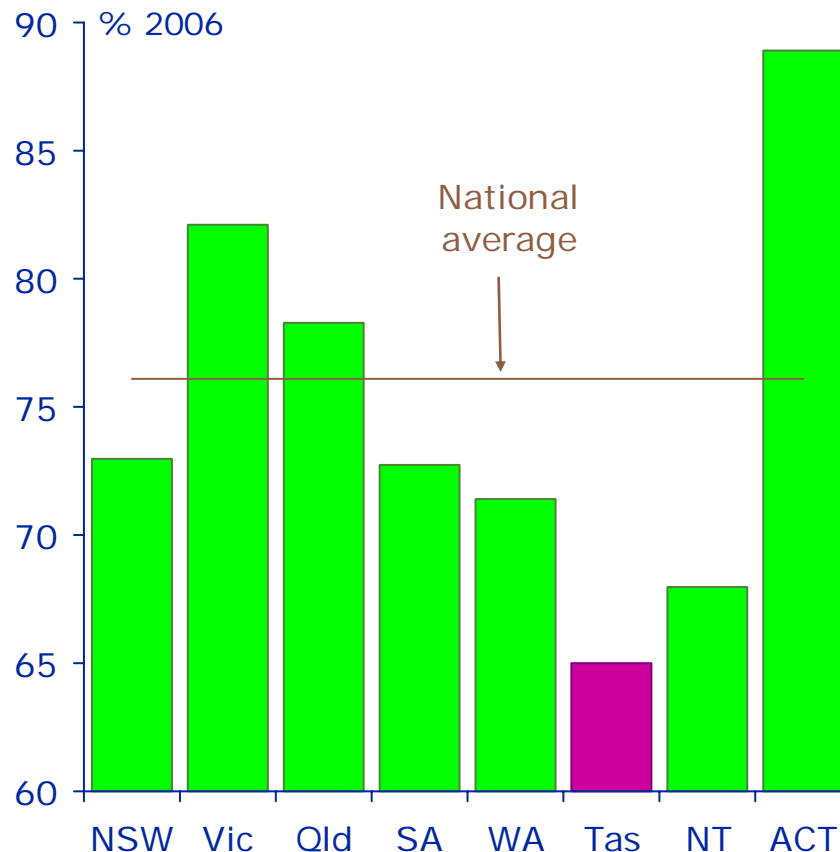
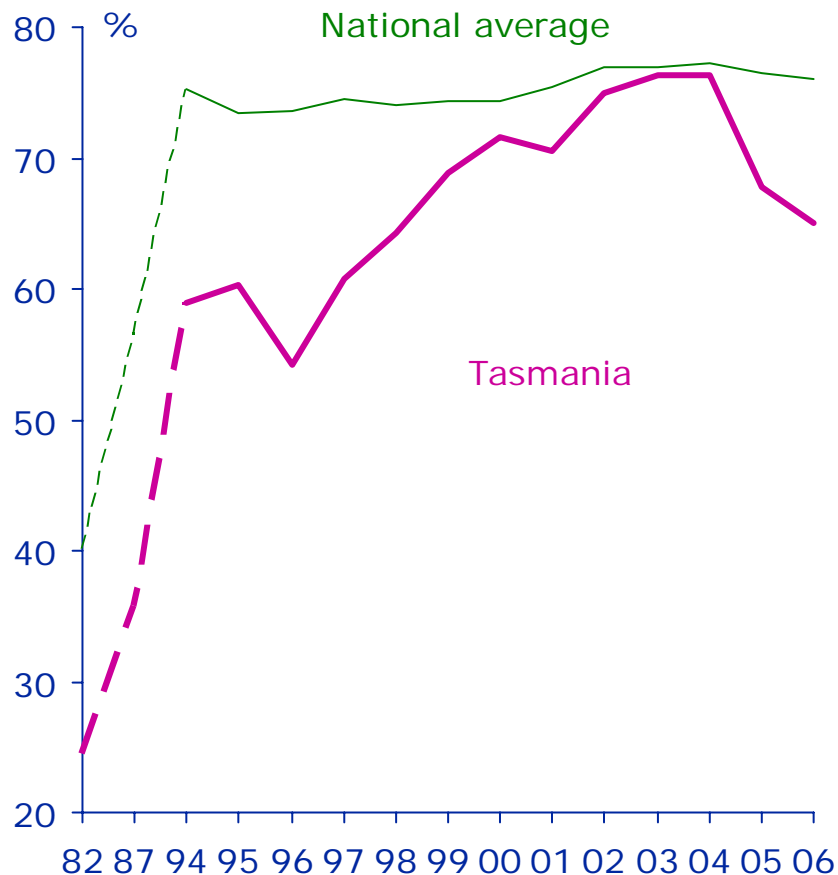
## 15-64 year olds who have not completed Year 12



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

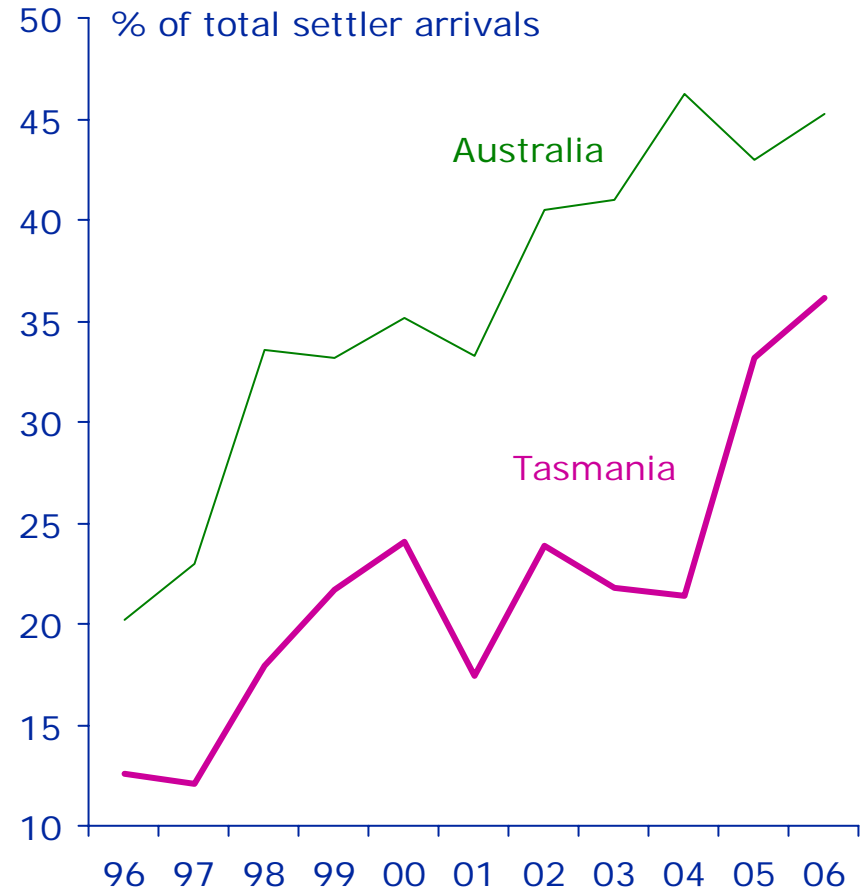
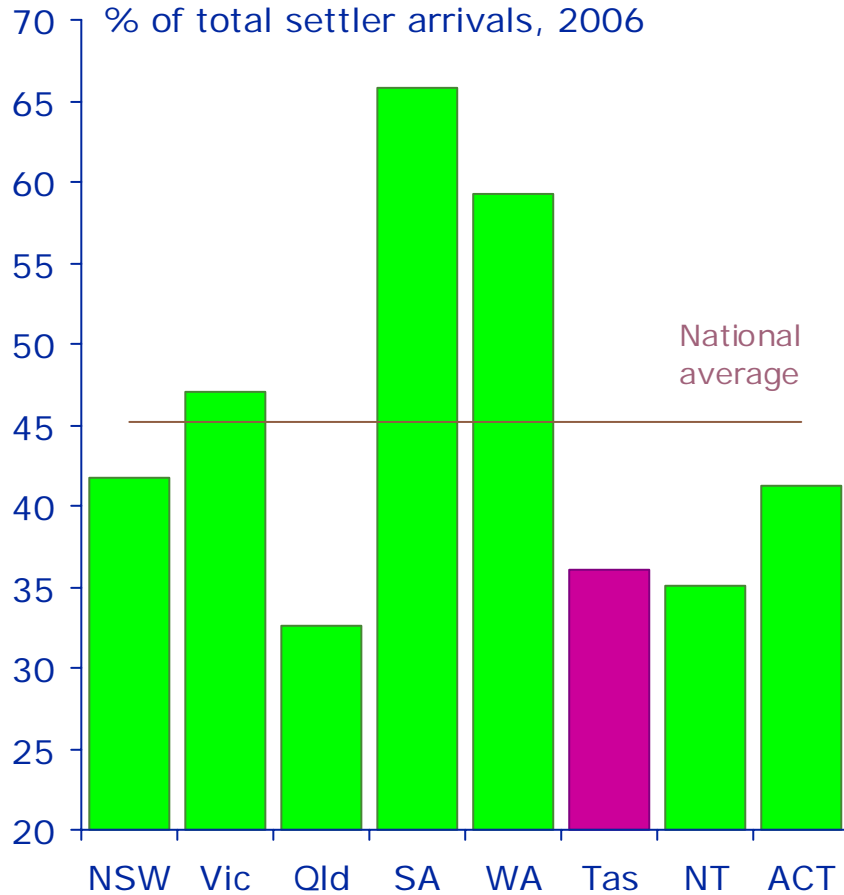
# ... and prospects for improving it in the near term aren't good judging by school retention rates

## Apparent student retention rates from year 10 to year 12



# Tasmania is attracting a below-average share of skilled overseas immigrants

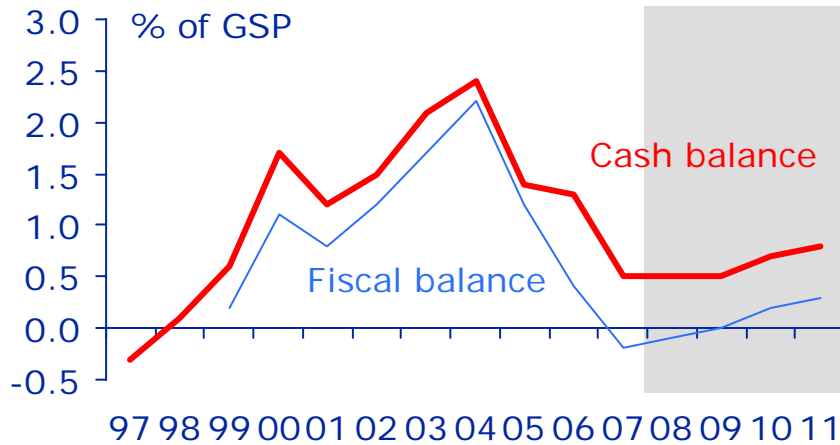
## Skilled immigrants to Australia



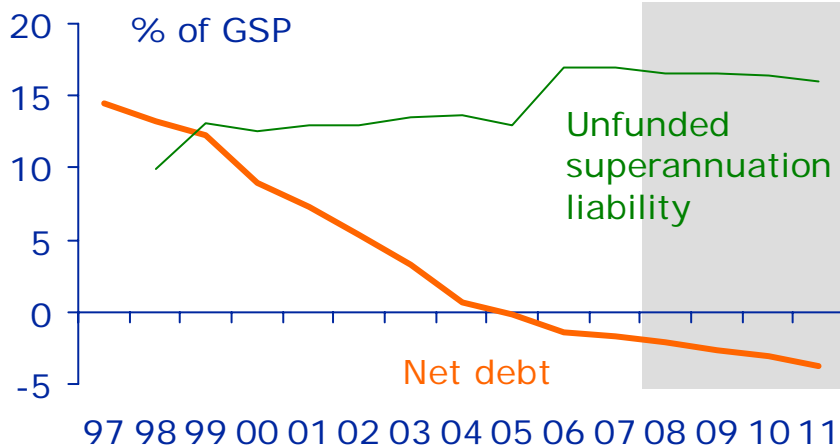
Source: ABS, Australian Social Trends (4102.0)

# There's no need for further significant changes in the structure of the State Budget

## 'General government' balance



## 'General government' liabilities



- The major structural problems in the State Budget have largely been 'fixed'
  - although it will be important that the current fiscal strategy targets are achieved
  - and the unfunded super liability needs to be managed down over time
- The Tasmanian Government shouldn't be afraid of funding major infrastructure spending partly through debt
  - although major asset sales should also play a role
- Health, education and micro-economic reform (eg water) should be major priorities for future budgets

Source: State Budget Papers.

# How much change is enough?

- **Some economic change is inevitable**
  - the result of technological progress, changes in preferences and tastes, demographic changes, and global or national economic & political forces
- **Some economic change needs to be driven by policy**
  - ‘market forces’ on their own don’t always produce socially, economically or environmentally optimal outcomes
  - economic institutions and structures (often the result of past policy choices) can become ossified and inhibit the capacity of an economy or society to respond flexibly to external changes
  - policy changes can help change underlying attitudes and incentives
- **Tasmania has experienced a considerable amount of economic change over the past decade**
  - in some cases (eg the State Budget) largely achieving what needed to be done
  - in others (eg productivity, infrastructure and education) there is still much more to be done
  - new frontiers for change (eg water, global warming) are emerging and will continue to do so