

Productivity: the key to sustaining Tasmania's economic renaissance

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

**Saul Eslake
Chief Economist
ANZ Bank**

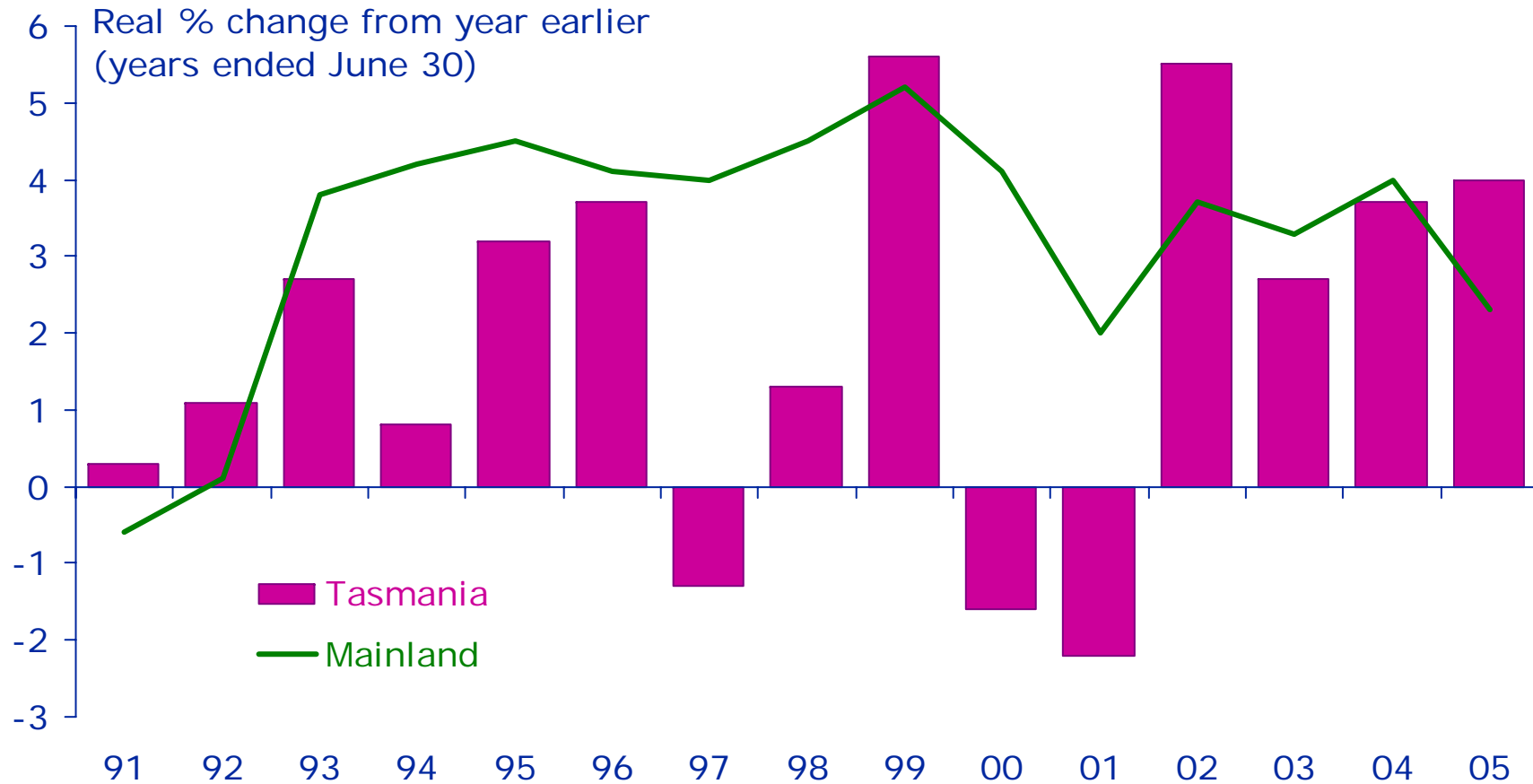
**Tasmanian Function
& Conference Centre
Hobart
9th December 2005**

www.anz.com/go/economics

economics@

Tasmania's economy grew faster than that of the mainland in 2004-05

Growth in real gross State product



Sources: ABS State Accounts (5220.0) 2004-05;
Economics@ANZ

Queensland can produce quarterly GSP data – can't Tasmania at least do it annually?

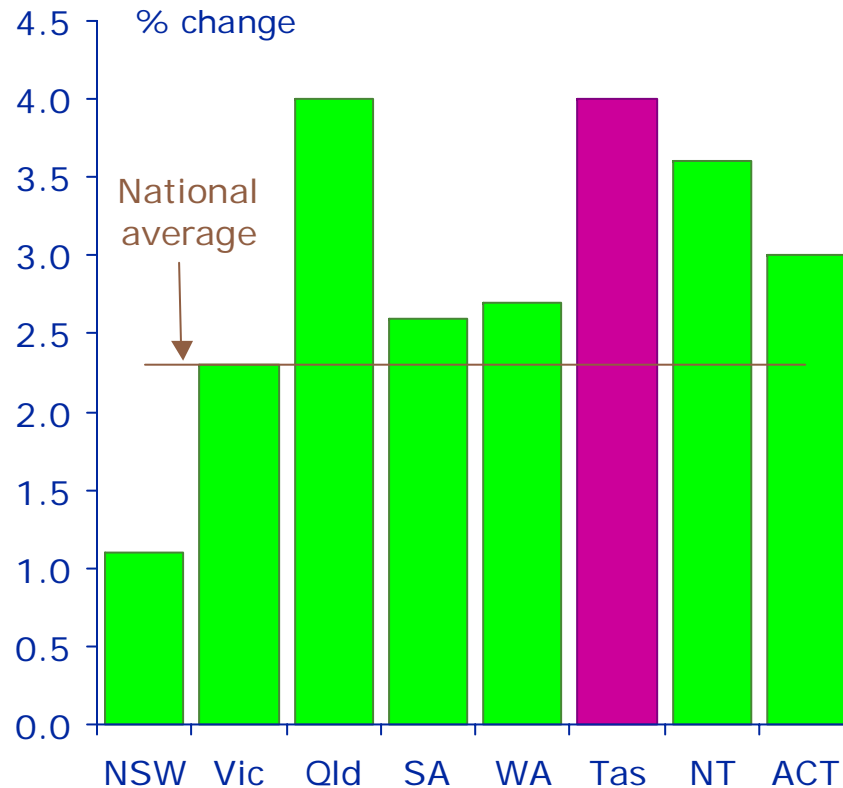
Table 6 Queensland domestic production account: Seasonally adjusted, chain volume measures*, \$m

	Quarter								
	Jun-03	Sep-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05
	— \$m —								
Household final consumption expenditure	20,324	20,739	21,613	22,144	22,223	22,545	22,482	22,899	22,931
General government final consumption	6,055	6,158	6,201	6,222	6,302	6,390	6,382	6,397	6,495
Private gross fixed capital formation	7,852	8,304	9,062	8,579	8,993	9,409	9,232	9,255	9,628
Dwellings	2,959	3,068	3,586	3,346	3,503	3,530	3,531	3,584	3,597
Other buildings and structures	1,256	1,202	1,567	1,305	1,551	1,524	1,608	1,544	1,599
Machinery and equipment	2,389	2,644	2,454	2,552	2,708	3,104	2,909	2,912	3,188
Livestock	91	168	168	168	168	185	185	185	185
Intangible fixed assets	292	290	304	313	313	329	331	344	344
Ownership transfer costs	867	935	986	897	752	738	669	687	717
Public enterprises gross fixed capital formation	761	221	596	550	622	755	794	791	845
General government gross fixed capital formation	547	849	1,002	1,051	1,018	1,018	1,041	1,018	1,212
Change in inventories	422	441	371	267	33	113	-46	254	261
Statistical discrepancy (E)	39	-75	45	-31	71	164	150	165	-80
Gross state expenditure	36,000	36,636	38,890	38,782	39,262	40,394	40,034	40,778	41,292
Exports of goods and services	10,333	10,472	10,852	10,309	10,851	10,864	10,929	10,972	11,175
Exports of goods and services, overseas	6,500	6,482	6,862	6,611	7,093	6,947	6,985	7,132	7,357
Exports of goods and services, interstate	3,831	3,988	3,988	3,696	3,756	3,915	3,942	3,837	3,815
less Imports of goods and services	12,000	12,347	13,969	13,643	14,051	14,833	14,313	14,627	15,052
less Imports of goods and services, overseas	5,201	5,419	5,621	6,163	6,307	6,523	6,710	6,716	7,079
less Imports of goods and services, interstate	6,800	6,929	8,349	7,481	7,745	8,312	7,604	7,913	7,975
Expenditure on gross state product	34,332	34,761	35,773	35,448	36,063	36,424	36,650	37,123	37,414

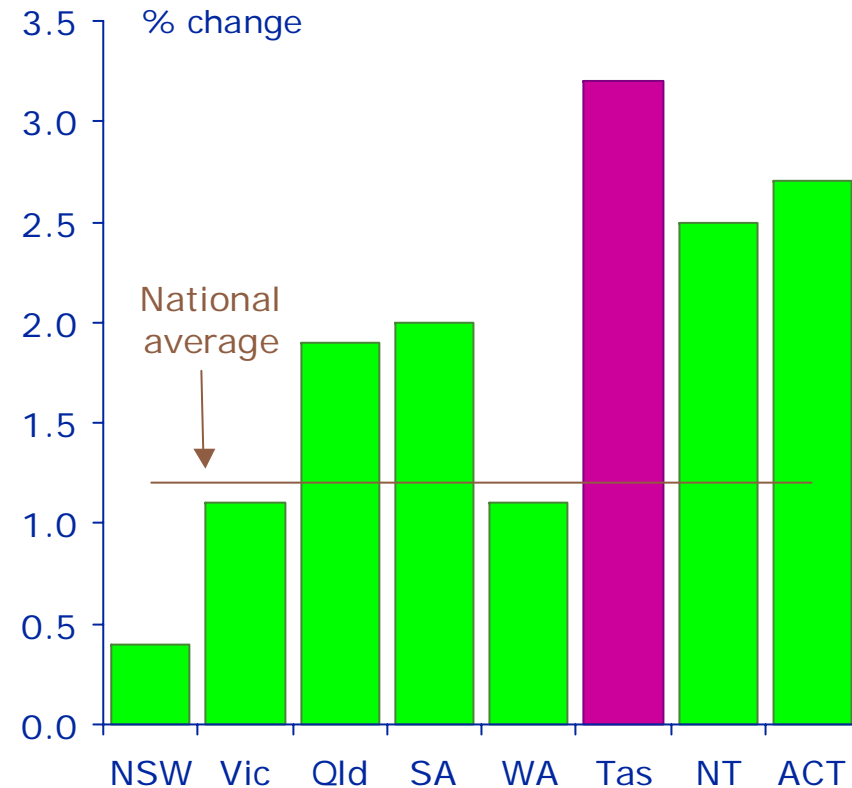
Source: Queensland Treasury Office of Economic and Statistical Research (www.oesr.qld.gov.au)

Tasmania matched Queensland as the fastest-growing State - and beat it in per capita terms

Real GSP growth 2004-05



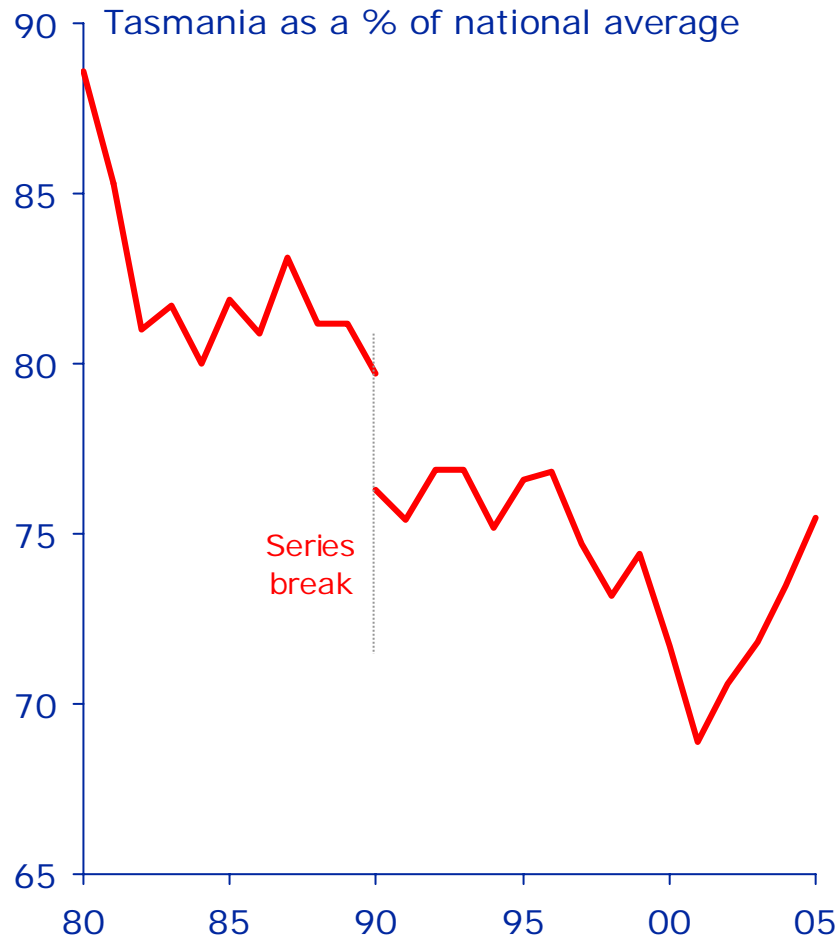
Real per capita GSP growth 2004-05



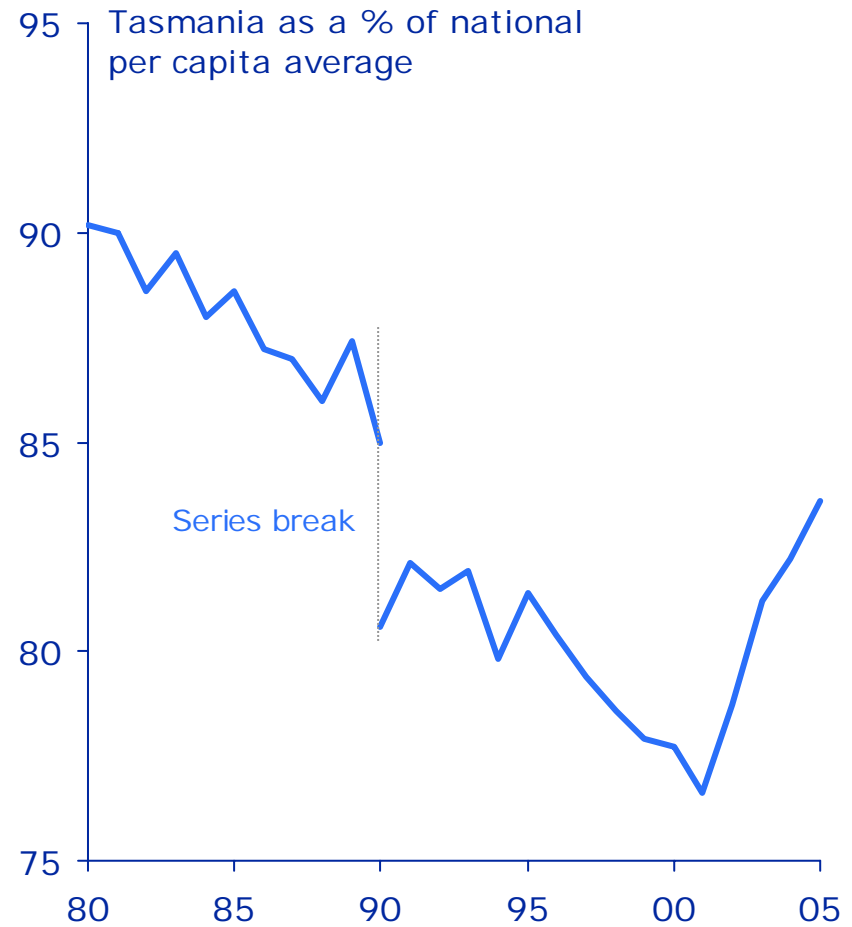
Sources: ABS State Accounts (5220.0) 2004-05;
Economics@ANZ

Tasmania's position relative to the mainland, though still low, has improved significantly

Per capita State product



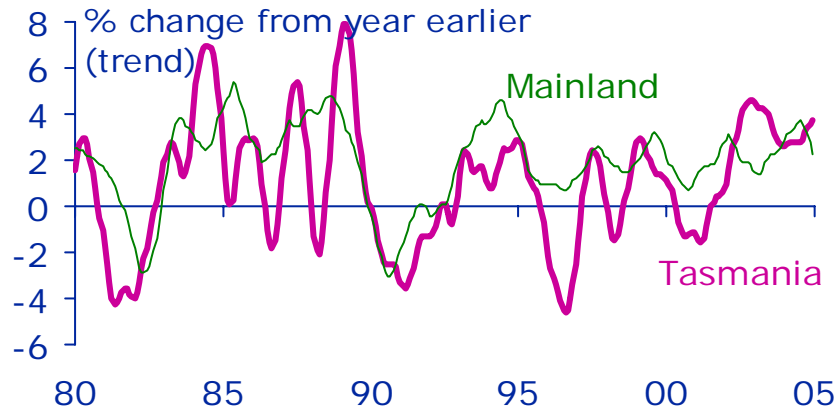
Household disposable income



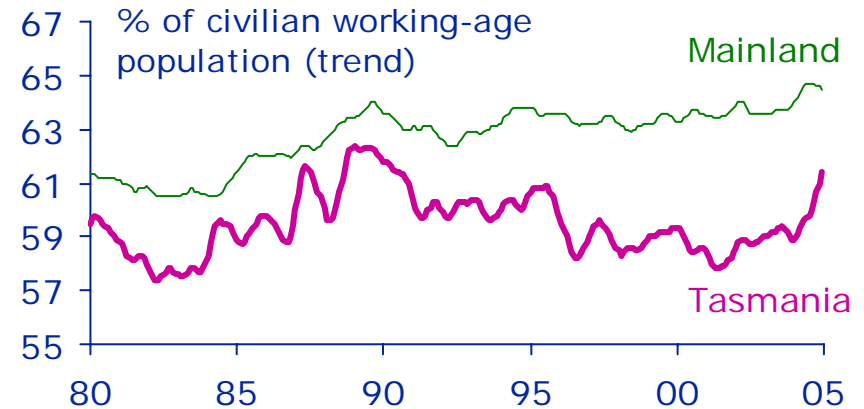
Sources: ABS State Accounts (5220.0) 2004-05;
Economics@ANZ

The improvement in economic growth is (broadly) mirrored in improving labour market indicators

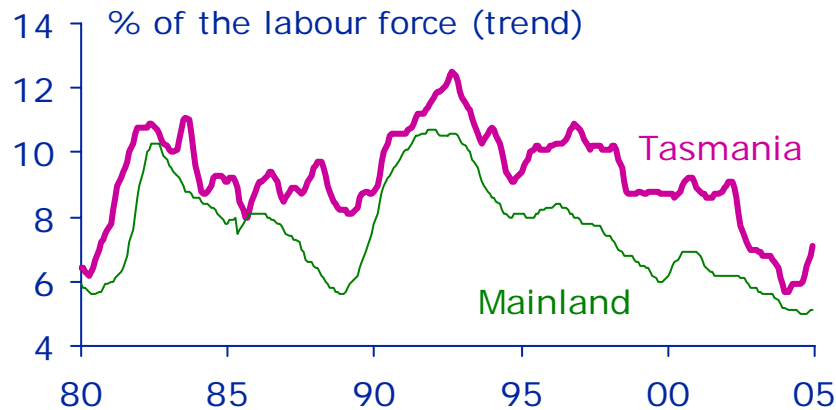
Employment growth



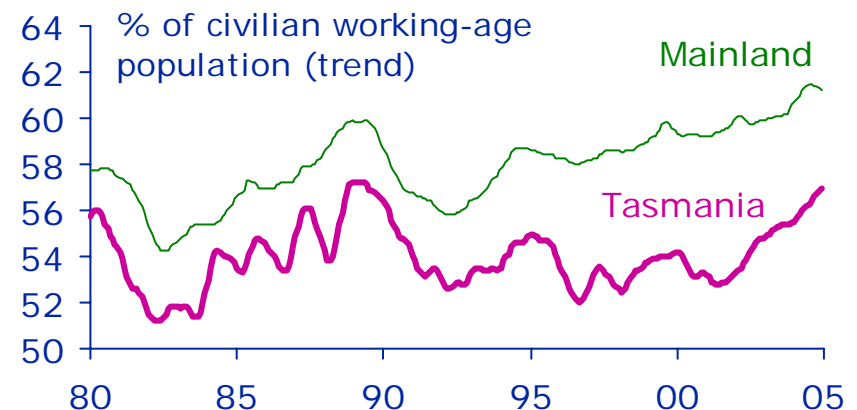
Participation rate



Unemployment rate



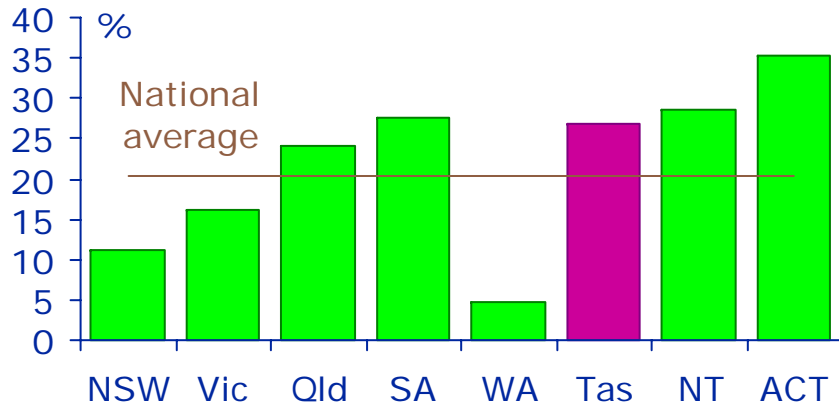
Employment-population ratio



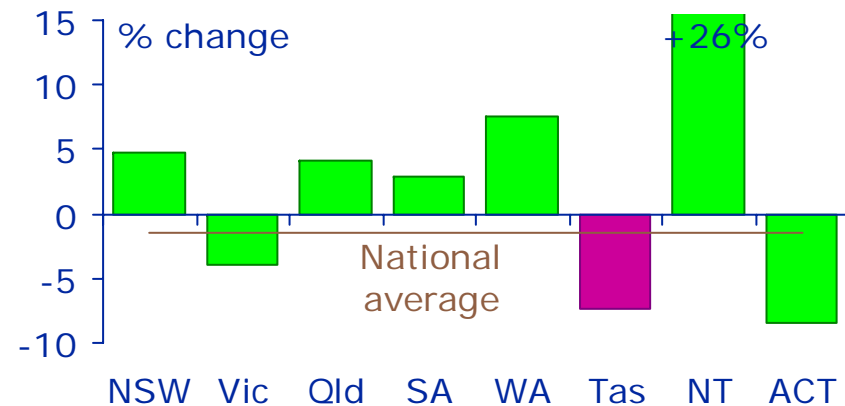
Sources: ABS The Labour Force (6202.0);
Economics@ANZ

Tasmania's housing boom is over ...

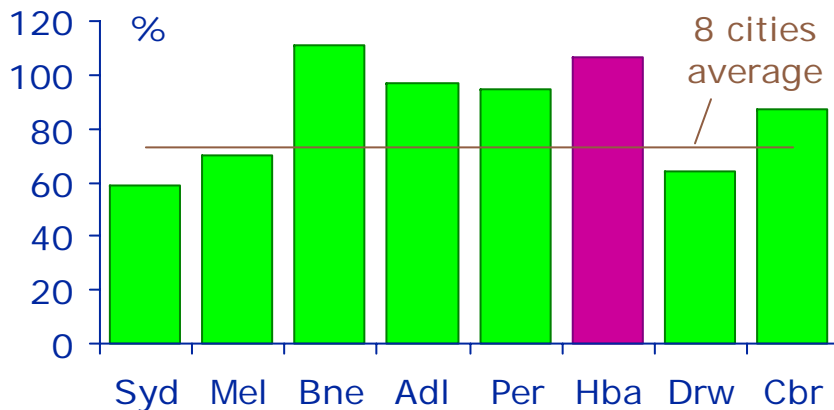
Dwelling investment's share of GDP growth 2001-02 to 2003-04



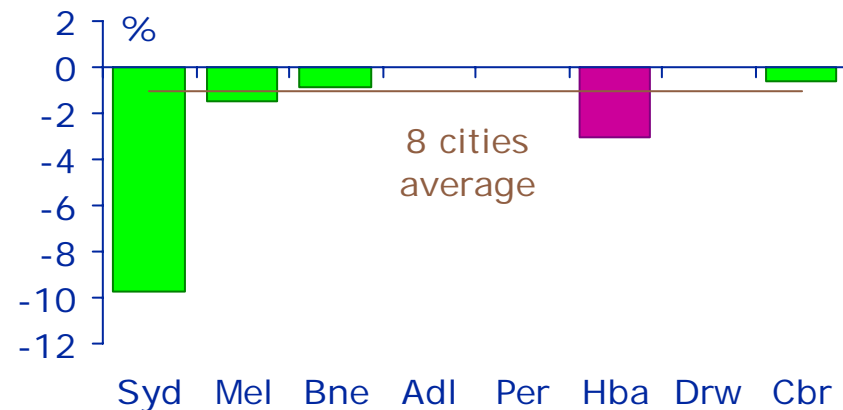
Change in real dwelling investment 2004-05



Established house prices – Dec 1999 to peak



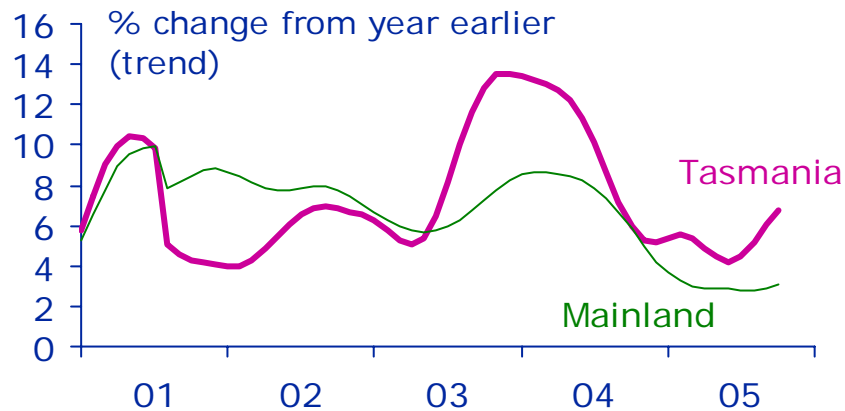
Established house prices – peak to Sep 2005



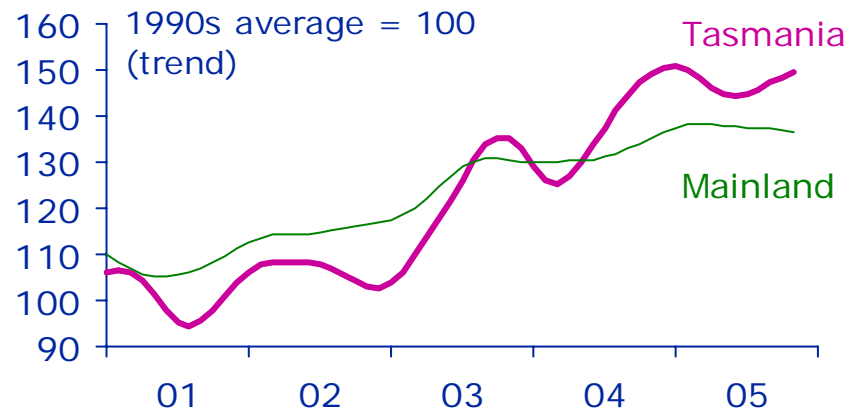
Sources: ABS, State Accounts (5220.0); House Price Indexes (6416.0); Economics@ANZ.

... but the State's economy is still doing OK in most other respects

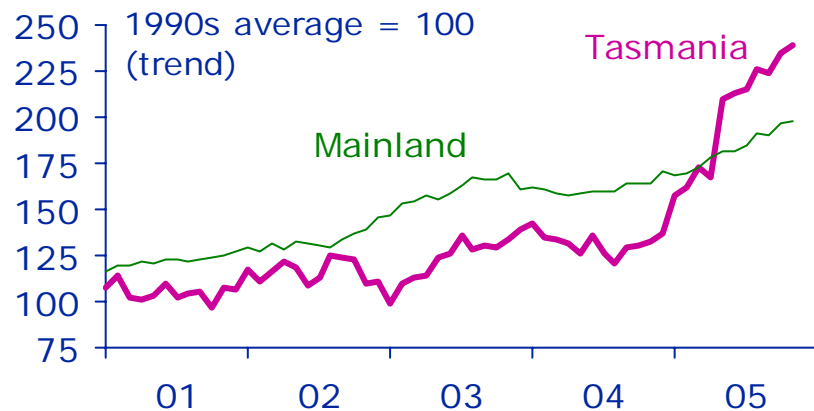
Retail sales



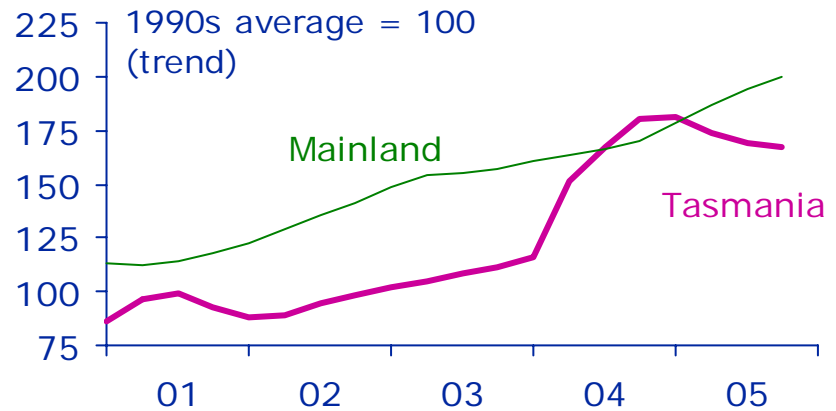
New motor vehicle sales



Non-residential building – value approved



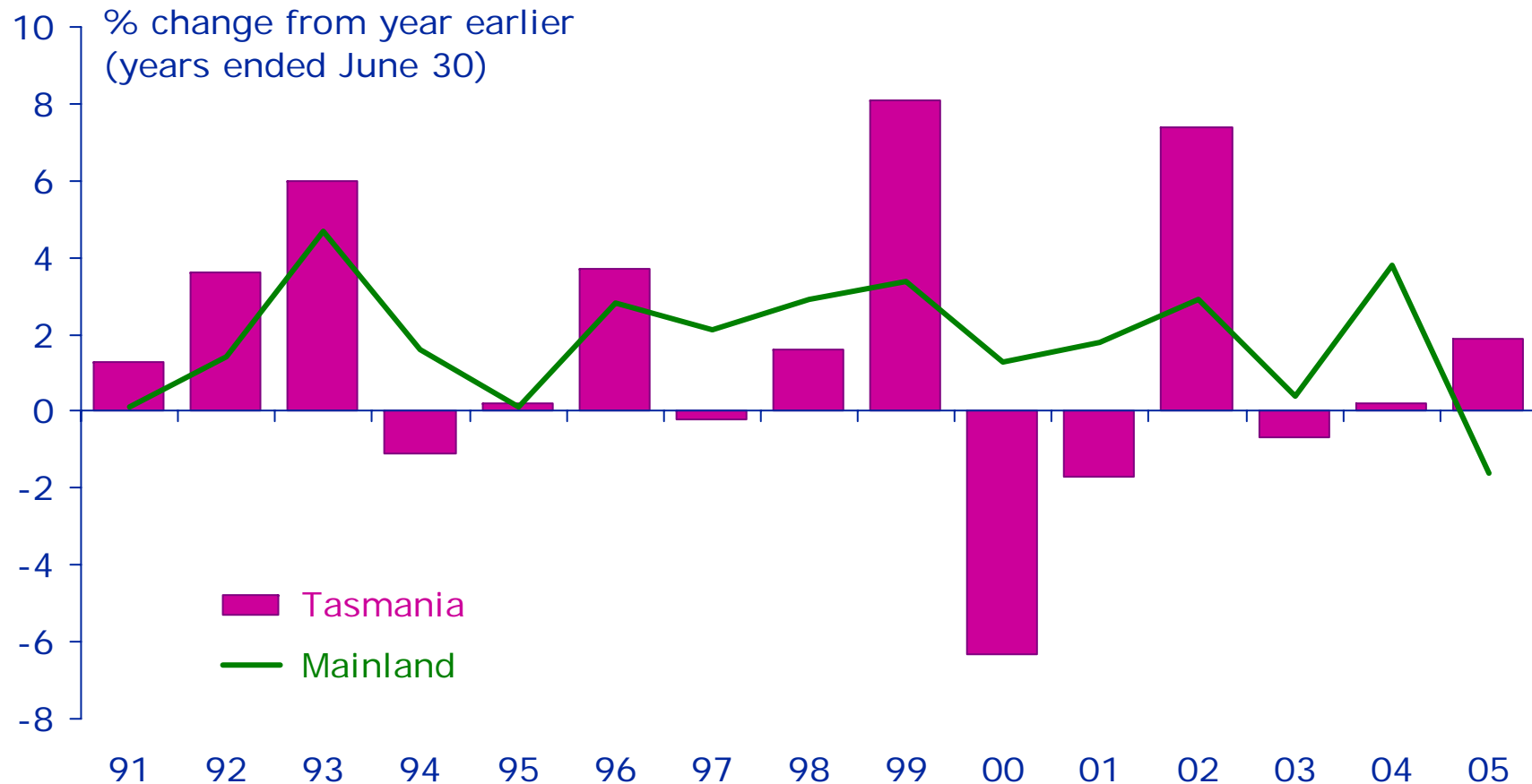
Engineering construction – real value of work done



Sources: ABS Retail Trade (8501.0); Sales of New Motor Vehicles (9314.0); Building Approvals (8731.0); Construction Work Done – Preliminary (8755.0); Economics@ANZ

Labour productivity rose in Tasmania in 2004-05 for the first time in three years

Labour productivity growth – Tasmania vs the mainland

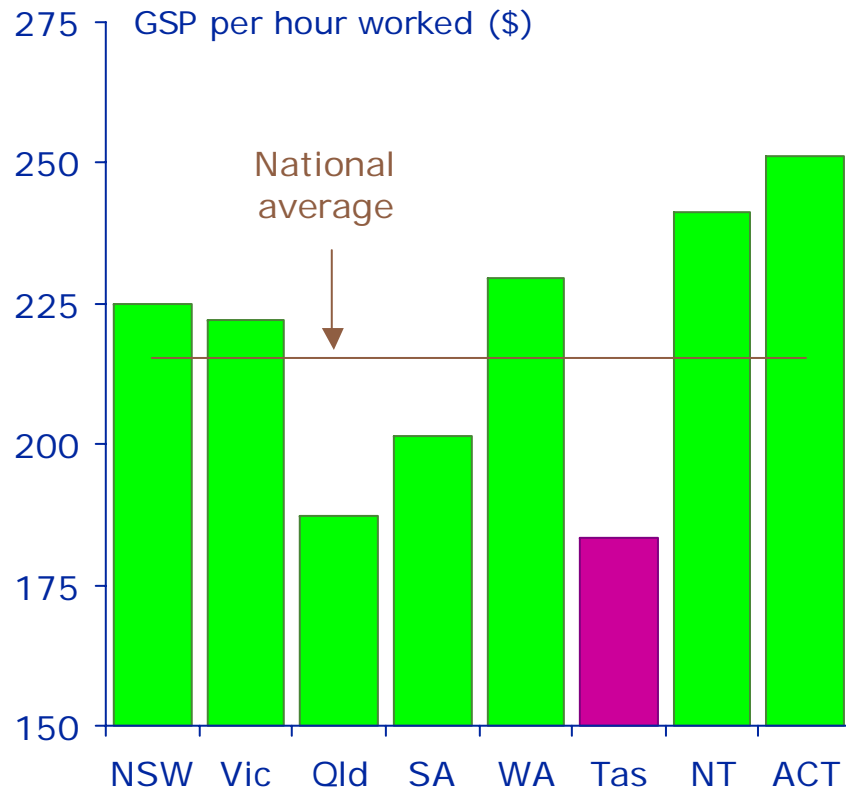


* Labour productivity defined as real gross State product per hour worked.

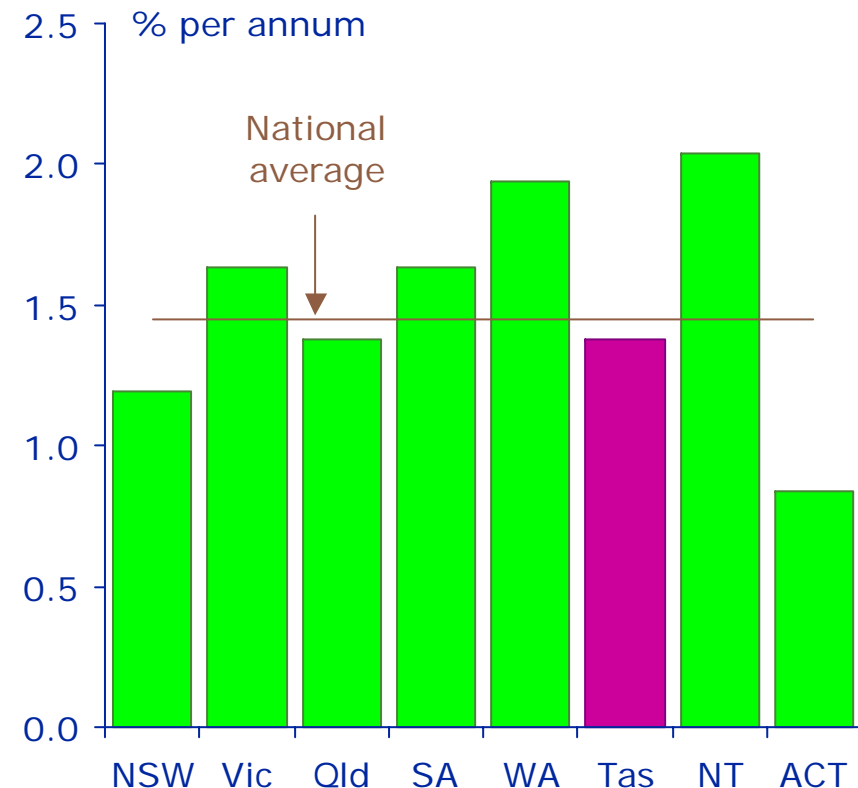
Sources: State Accounts (5220.0); ABS Employed persons by sex, age, hours worked, state (6291.0.55.001); Economics@ANZ.

Tasmanian productivity growth has improved, but the level remains the lowest in Australia

Level of labour productivity
2004-05



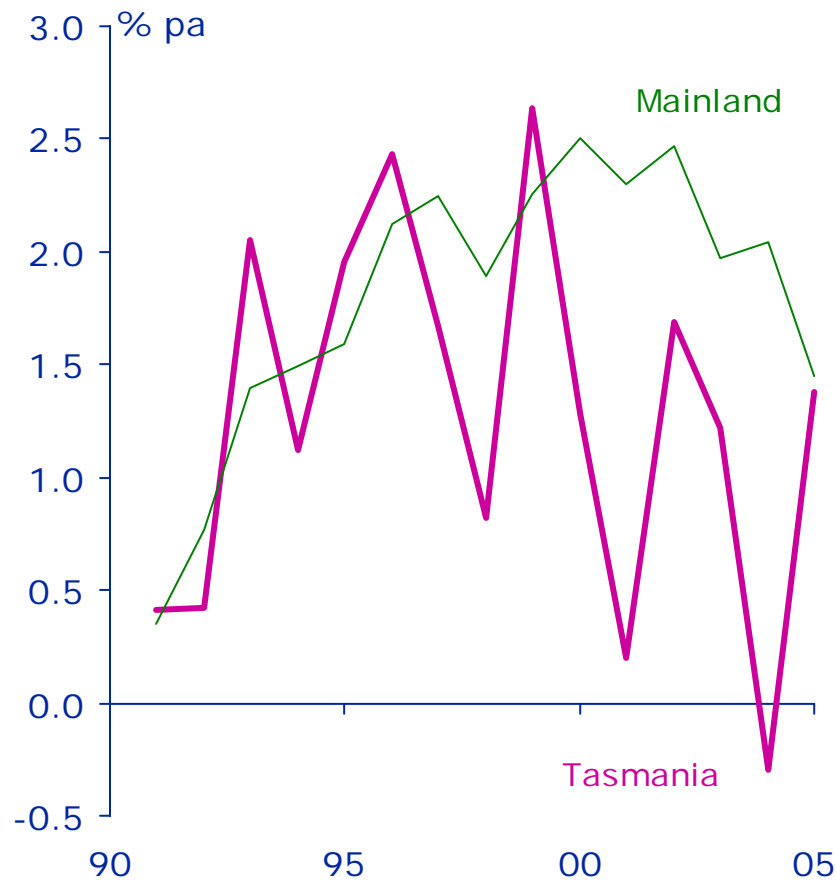
Labour productivity growth
1999-00 to 2004-05



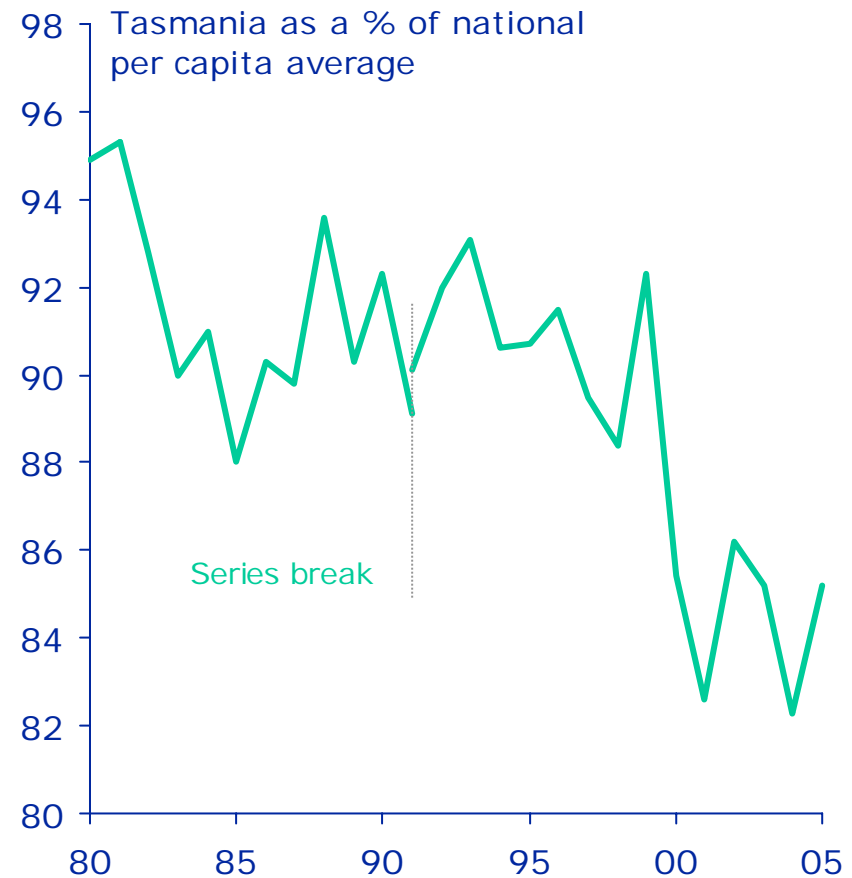
* Productivity defined as real gross State product per hour worked.
Sources: State Accounts (5220.0); ABS Employed persons by sex, age, hours worked, state (6291.0.55.001); Economics@ANZ.

The recent improvement in productivity growth has come after a decade of poor performance

Productivity growth over rolling 5-year periods



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.

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.

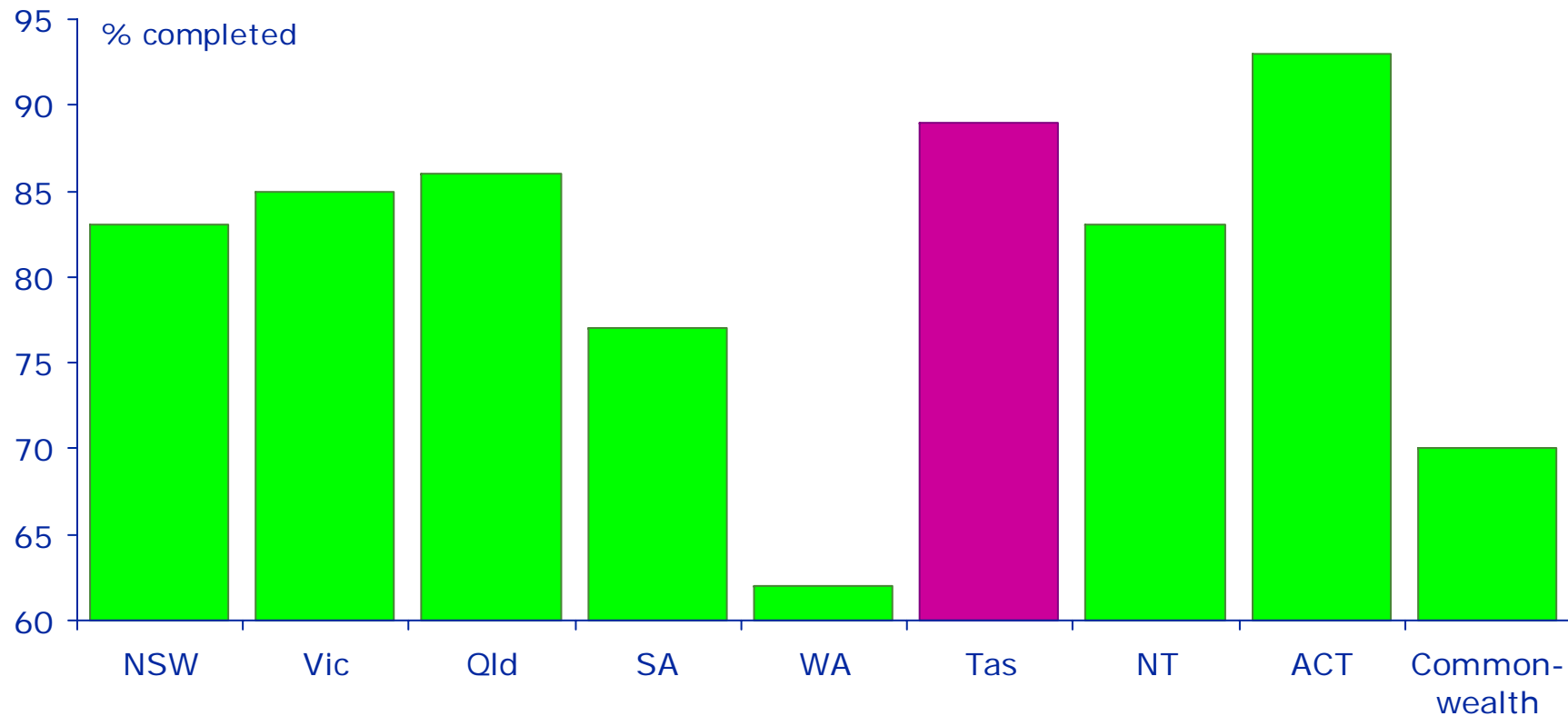
It also creates the national income that is taxed to pay for public services which again boosts the standard of living

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

Tasmania has done better than most other governments in implementing competition policy

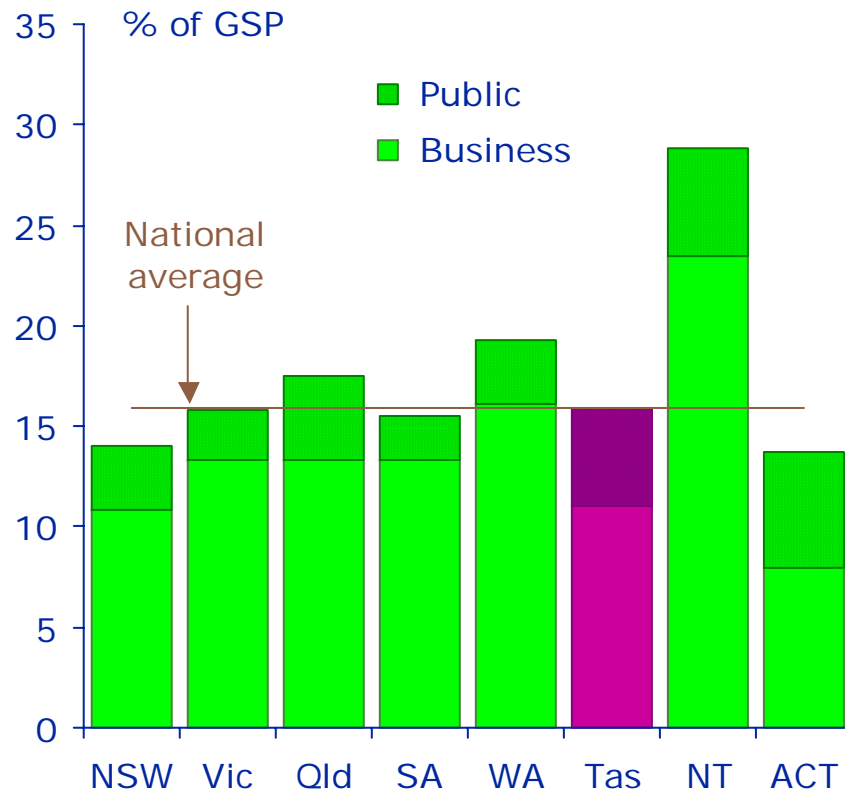
Progress in reviewing and reforming legislation for anti-competitive effects



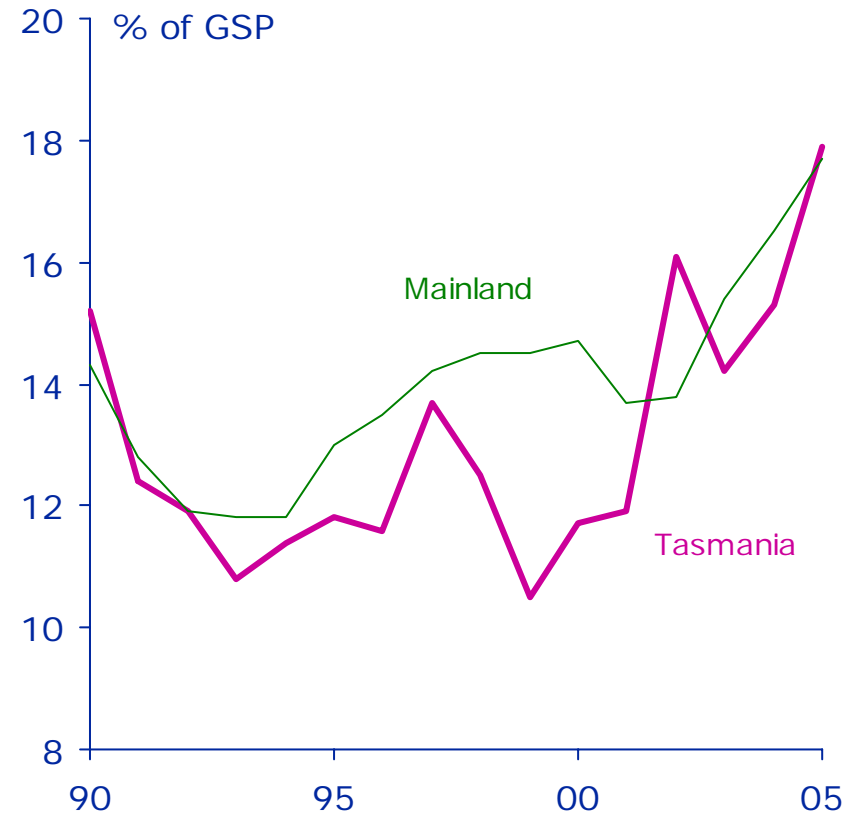
Source: National Competition Council, 2004 NCP Assessment.

Tasmania is now investing the same share of its income as the mainland

Investment as a share of GSP
2001-02 to 2004-05



Investment as a share of GSP
2001-02 to 2004-05

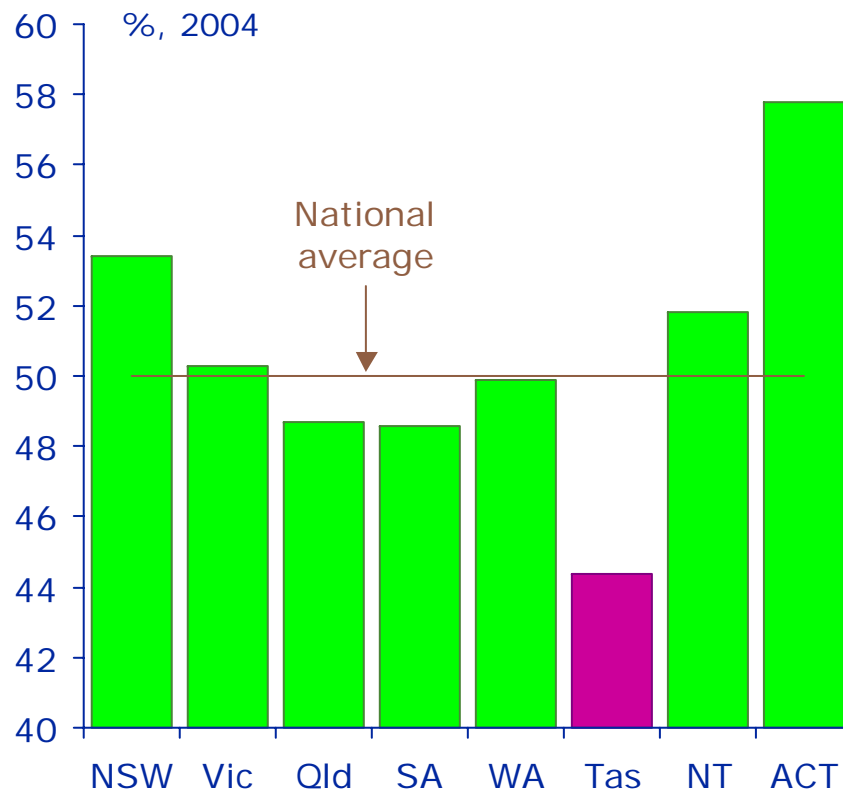


Note: 'Investment' refers here to non-residential fixed capital expenditure, ie excluding housing and stocks.

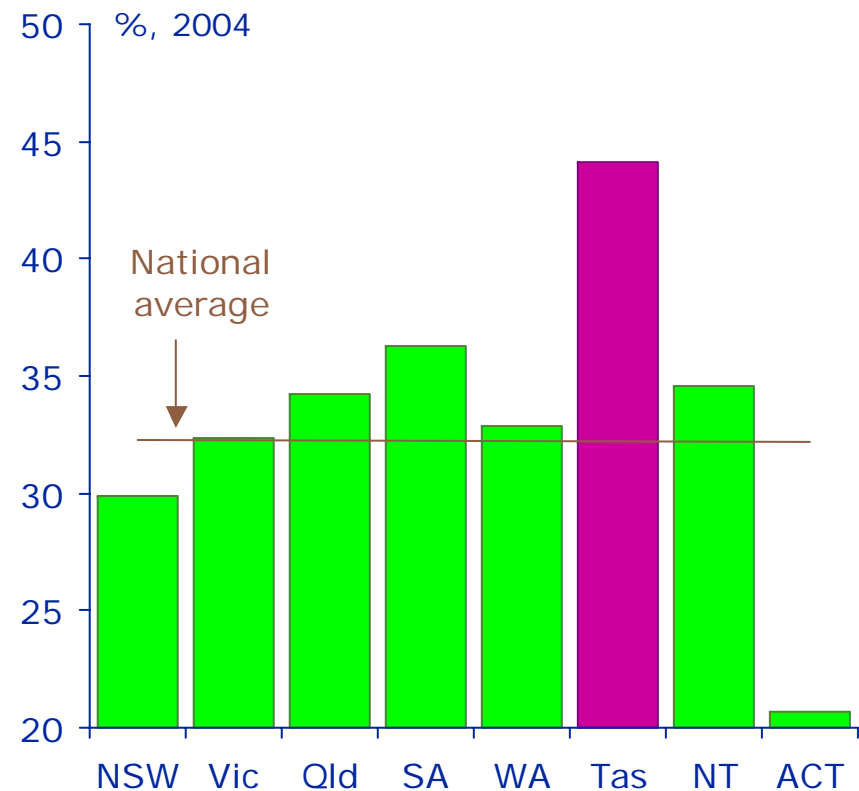
Sources: ABS State Accounts (5220.0) 2004-05; Economics@ANZ

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

15-64 year olds with post-school qualifications



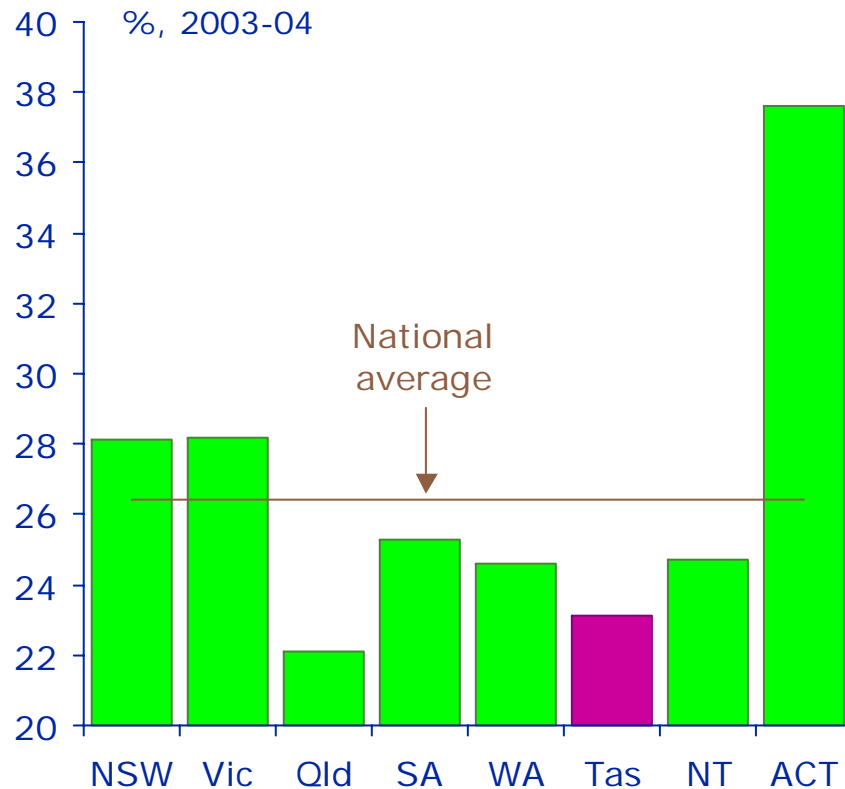
15-64 year olds who have not completed Year 12



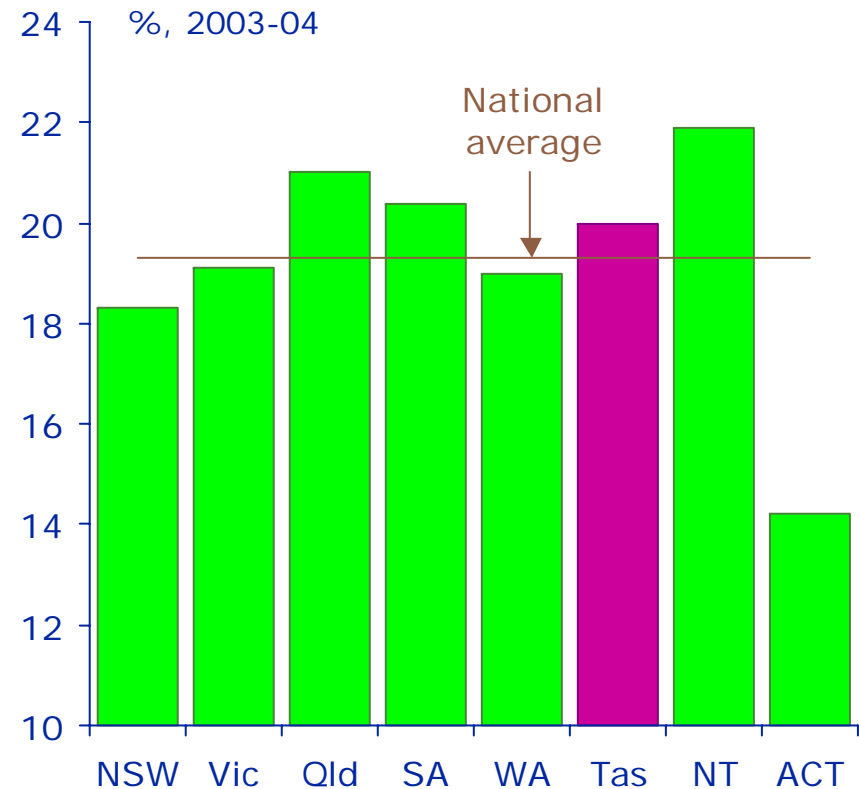
Source: ABS, *Education and Work, Australia*, (6227.0);
Australian Social Trends (4102.0) 2005.

Tasmania has an above- (below-) average proportion of workers in high- (low-) skill jobs

Workforce employed in highest-skill occupations



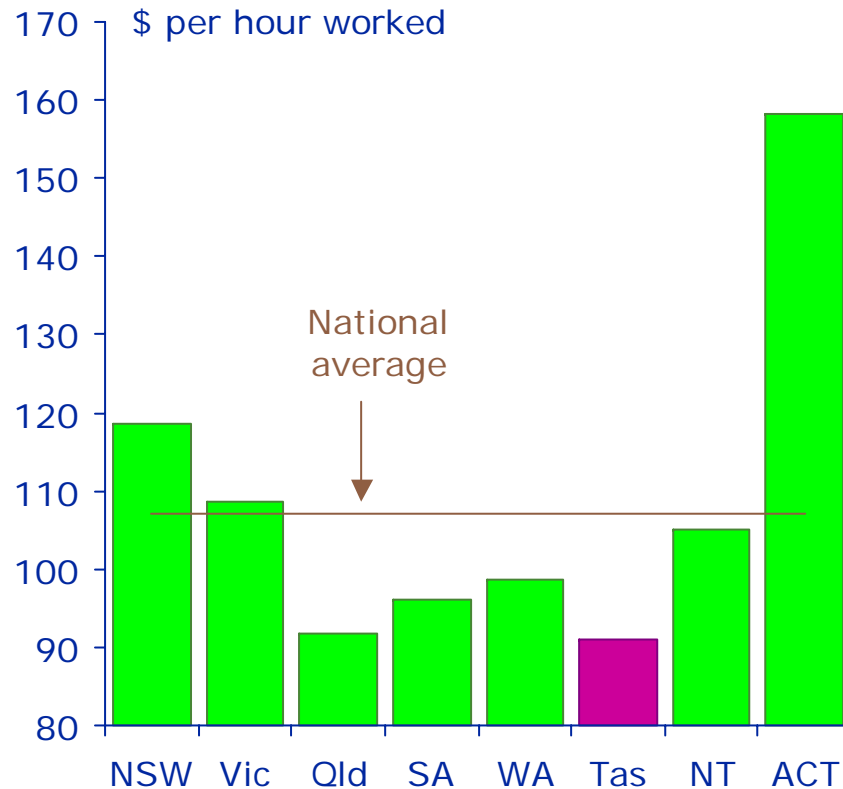
Workforce employed in lowest-skill occupations



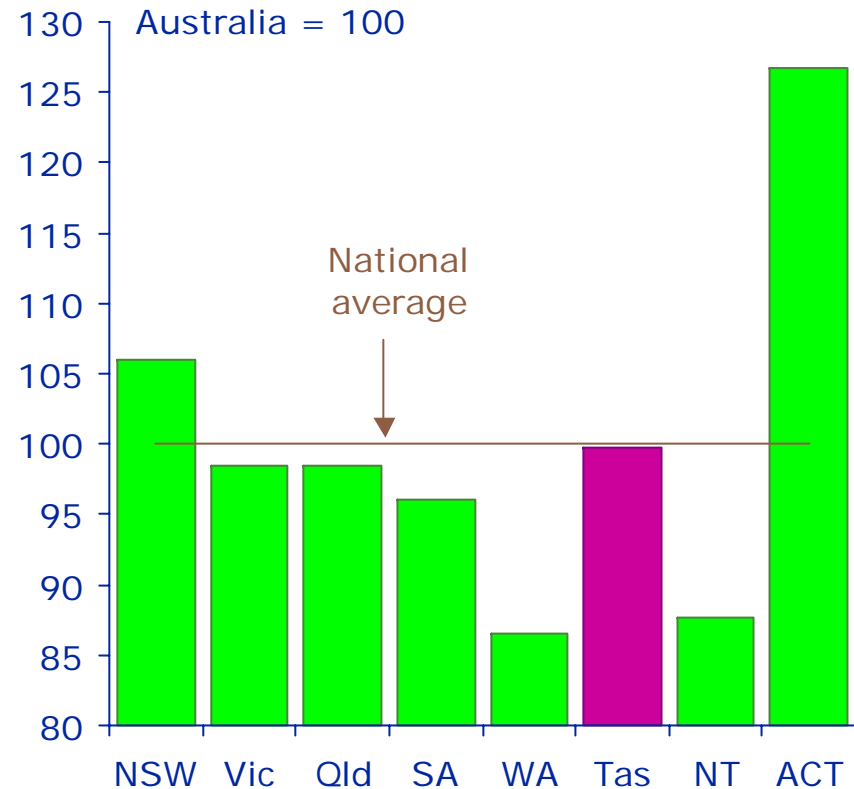
Source: ABS, Australian Social Trends (4102.0) 2005.

Having the lowest average wages in Australia may not actually be a source of comparative advantage

Employee compensation per hour worked, 2004-05



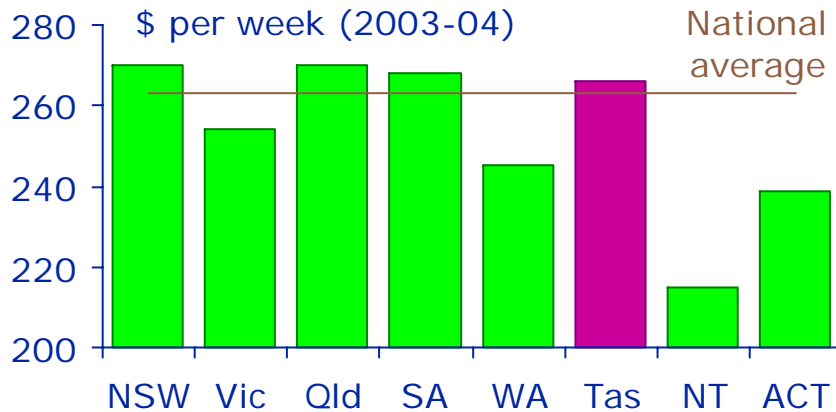
Unit labour costs*, 2004-05



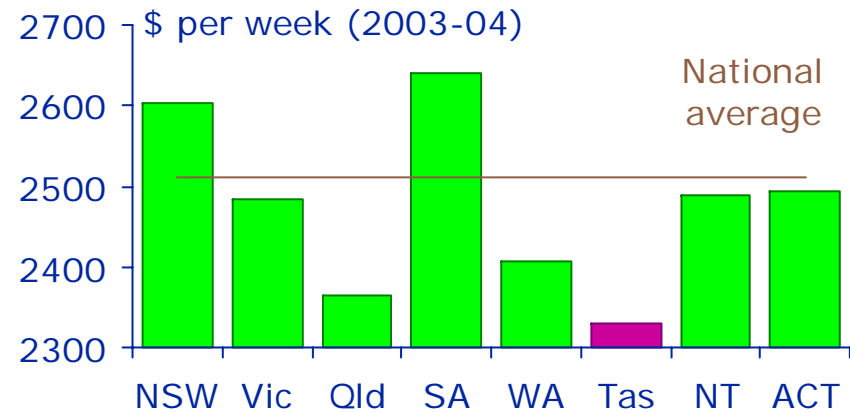
* Unit labour costs defined as employee compensation per hour worked divided by gross state product per hour worked. Sources: *State Accounts* (5220.0); *ABS Employed persons by sex, age, hours worked, state* (6291.0.55.001); Economics@ANZ.

This is the main reason why average incomes in Tasmania are lower than in any other State

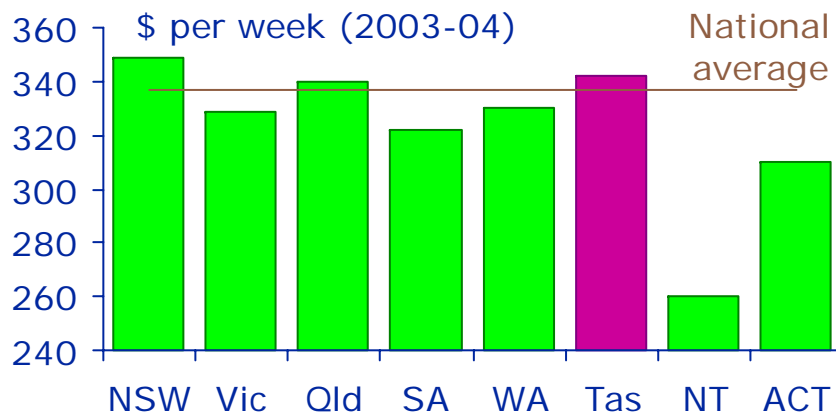
Average gross income of the bottom fifth of households



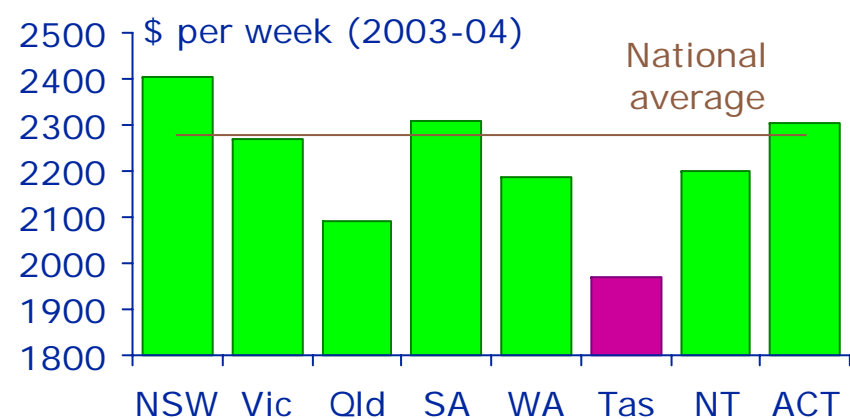
Average gross income of the top fifth of households



'Equivalized' gross income

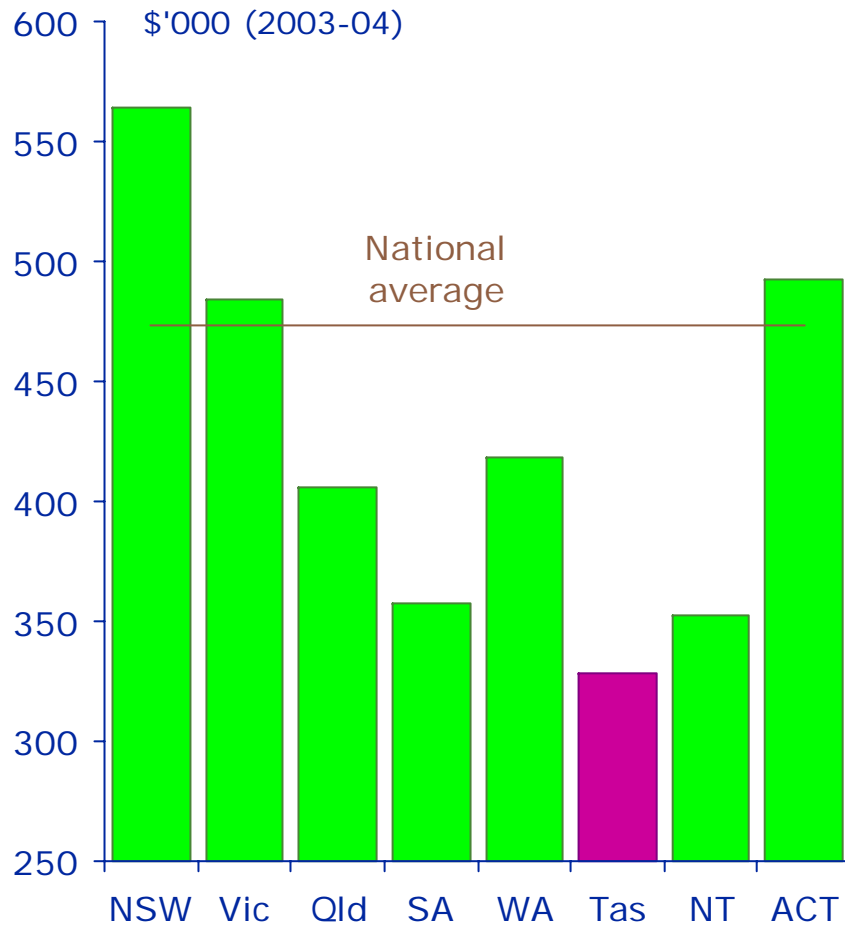


'Equivalized' gross income

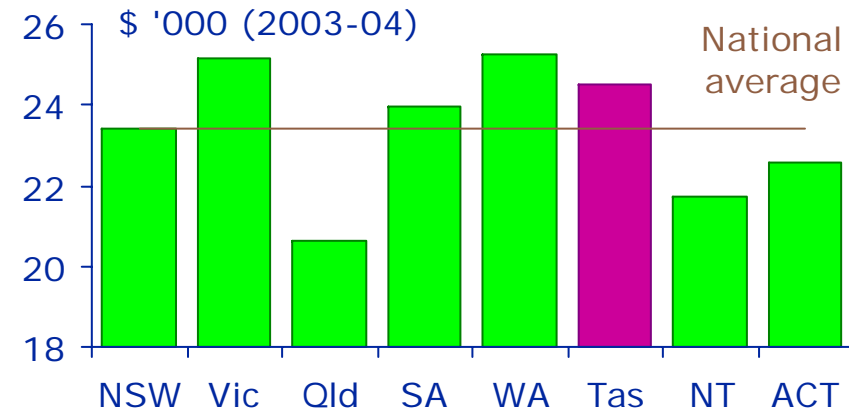


Similarly low average net worth isn't because the poor are poor, but because the rich aren't rich

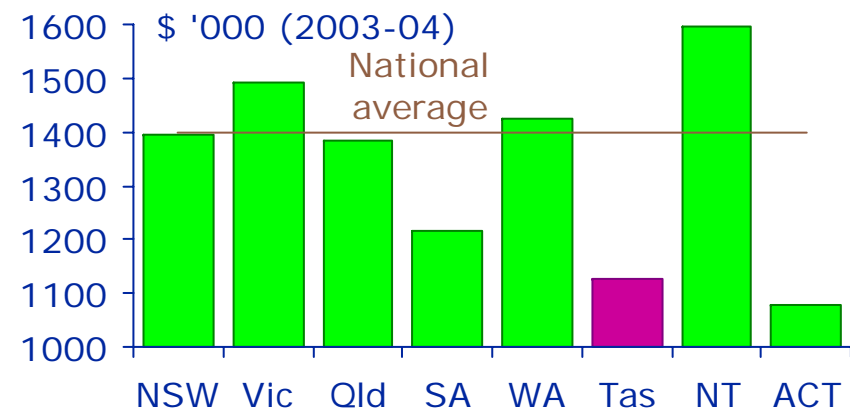
Average household net worth



Average net worth of the poorest fifth of households

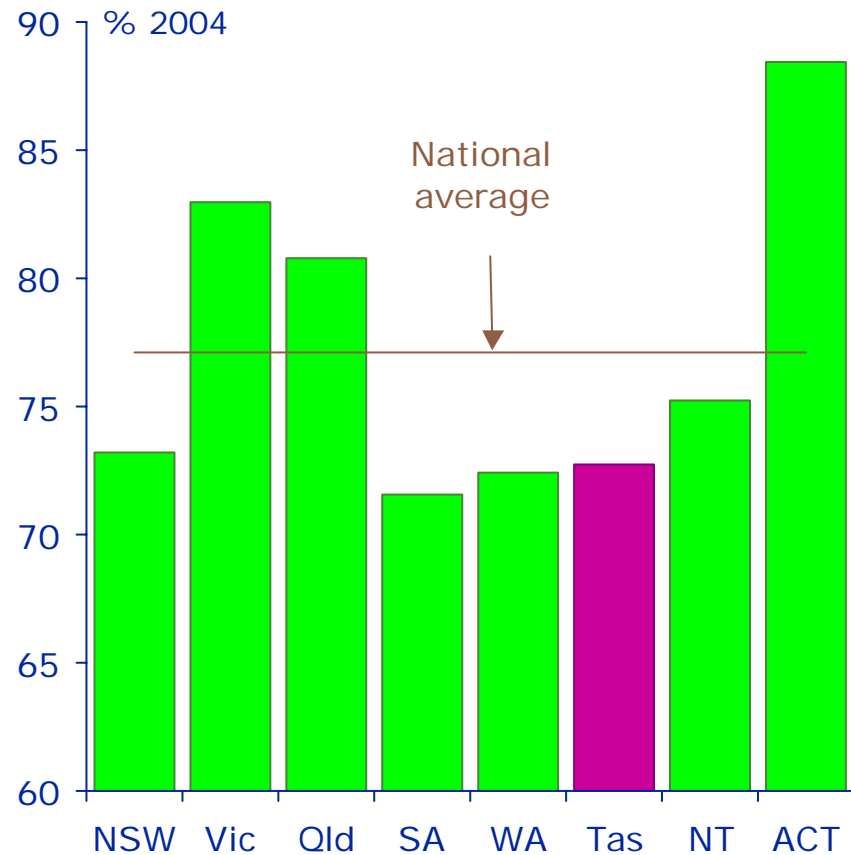
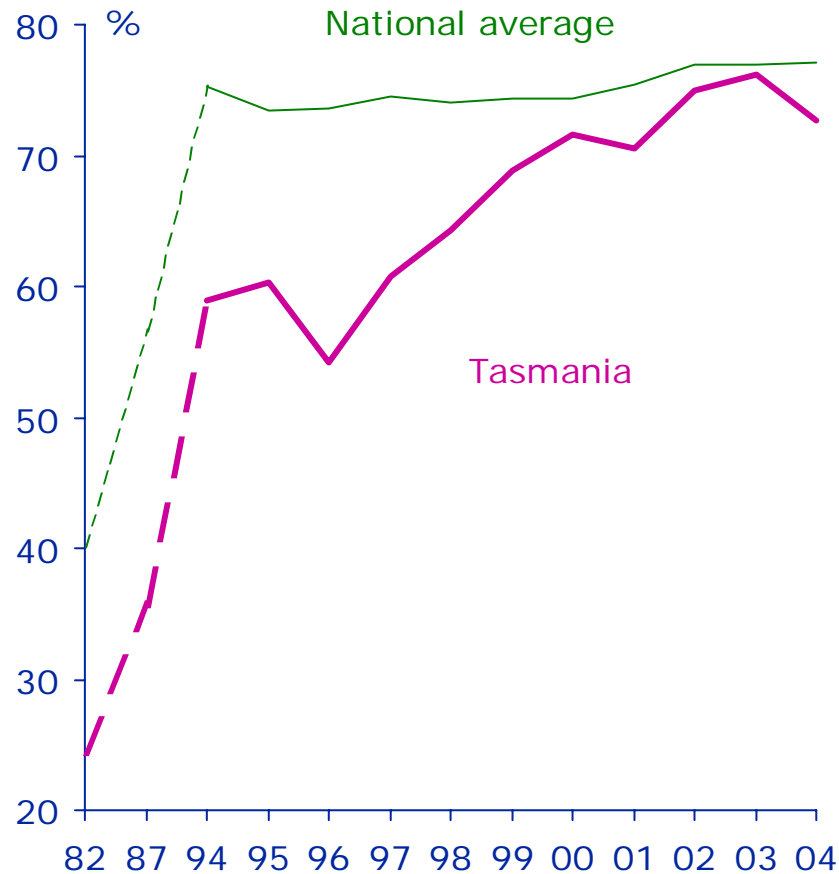


Average net worth of the wealthiest fifth of households



More Tasmanian Year 10 students are now going on to Year 12, which is encouraging

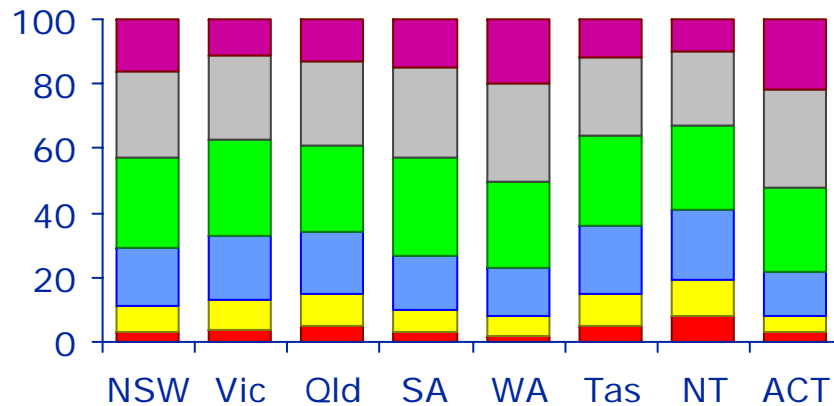
School retention rates to year 12



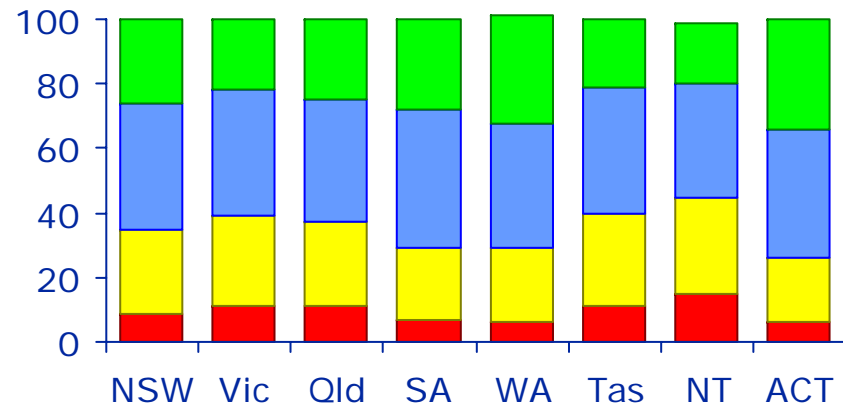
Source: ABS, *Schools Australia* (4221.0)
(Re-issue September 2005).

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

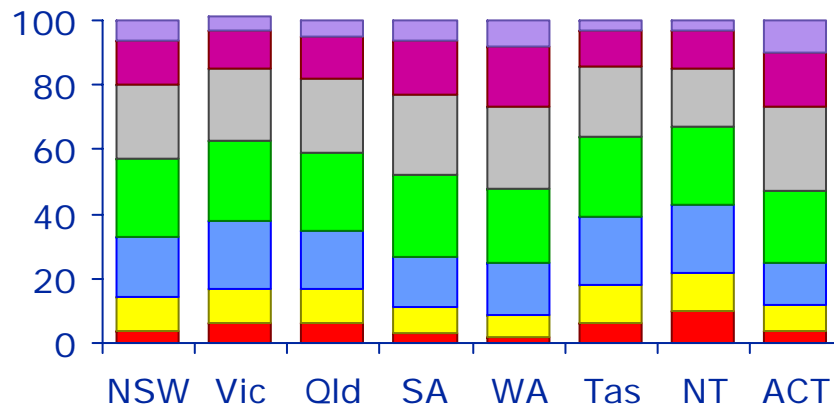
Reading literacy



Problem solving ability



Mathematical literacy

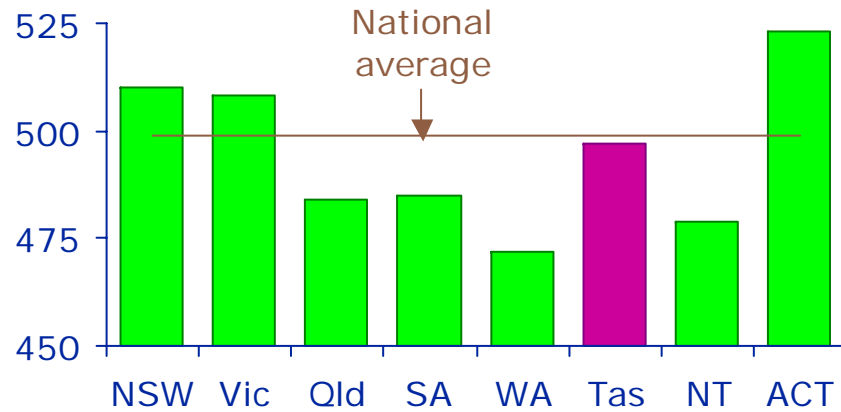


- Below Level 1 ('likely to be seriously disadvantaged in life beyond school')
- Level 1 (lowest)
- Level 2
- Level 3
- Level 4
- Level 5
- Level 6 (highest)

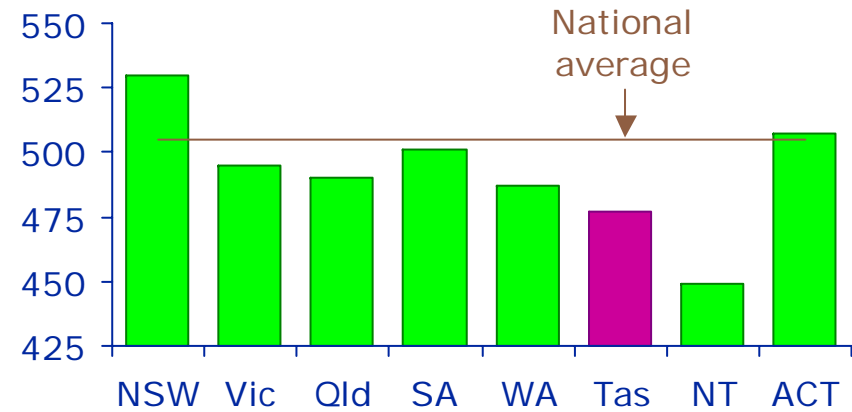
Results based on testing of 12,500 students from 321 schools randomly selected from across Australia in 2003 as part of an OECD-sponsored assessment involving 41 countries.

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

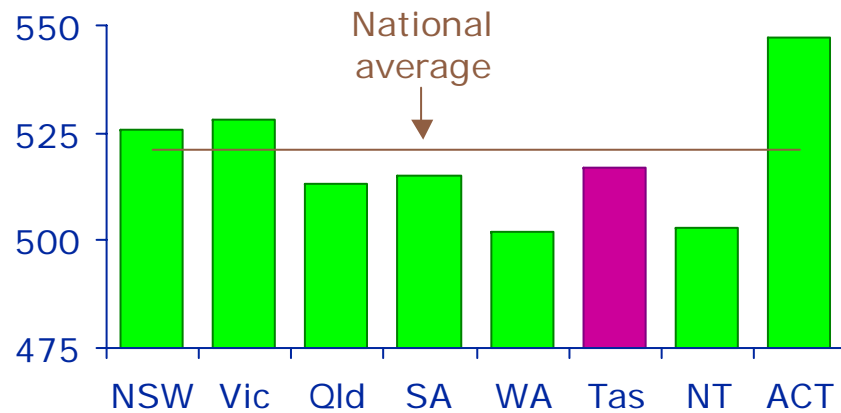
Average maths scores – Year 4



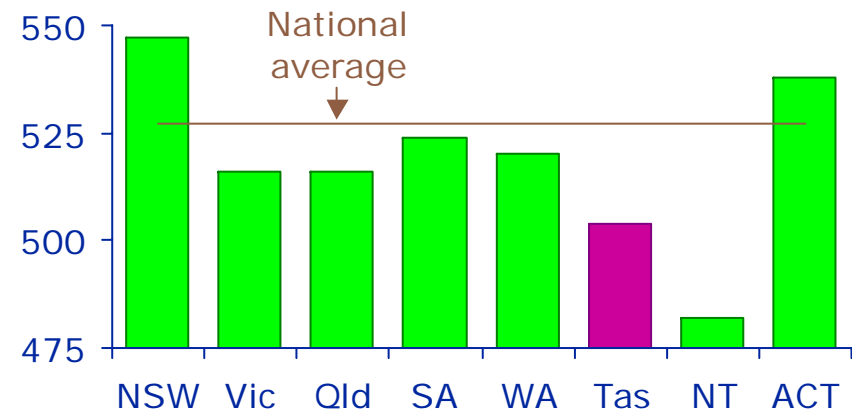
Average maths scores – Year 8



Average science scores – Year 4



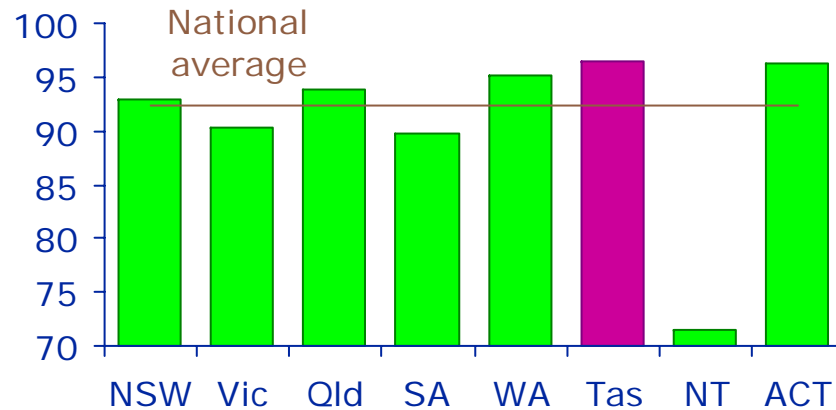
Average science scores – Year 8



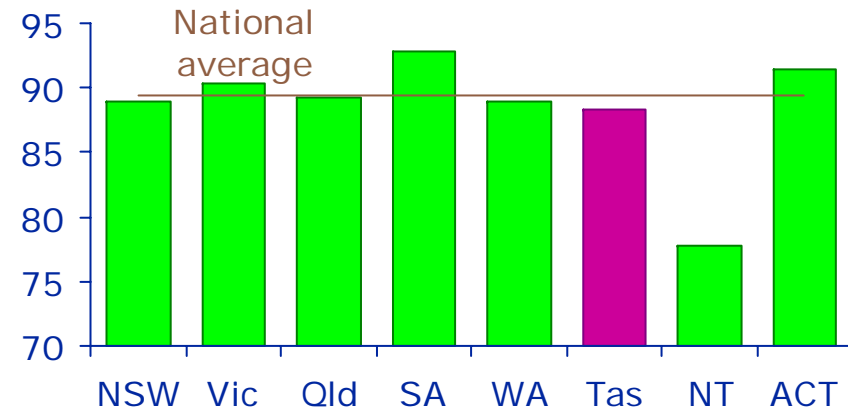
Source: Trends in International Mathematics and Science Study 2002-03

Even the Education Minister's preferred survey shows Tasmanian kids slip between Years 3 and 7

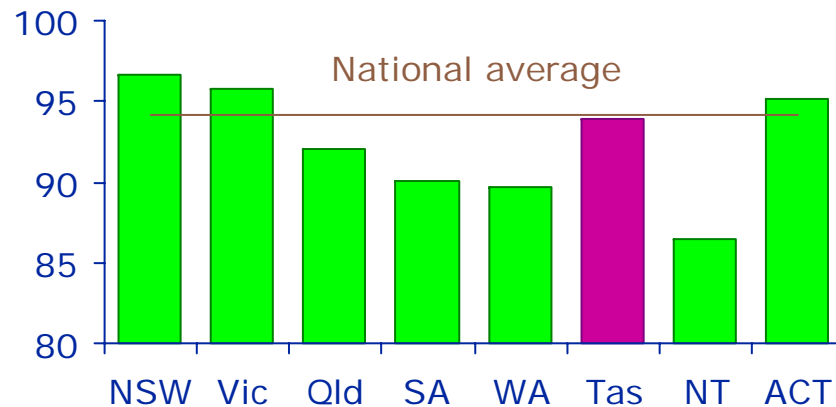
Year 3 - reading



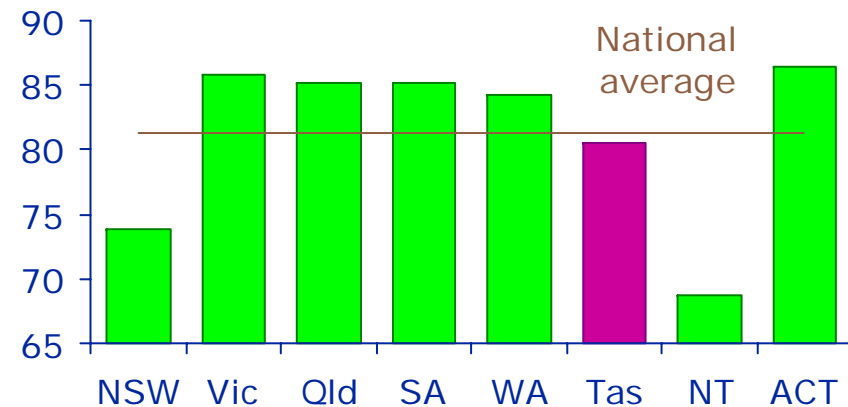
Year 7 - reading



Year 3 - numeracy



Year 7 - numeracy



Source: Ministerial Council on Education, Training, Employment and Youth Affairs, *National Report on Schooling in Australia* 2003.

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

The plight of Tasmanian potato growers illustrates this point aptly

Does any of this sound familiar?

- In Costa Rica (Central America) in 1999, small banana growers accounted for 58% of production
- They employed 40,000 people, paying them an average of US\$18 per day, plus housing, health and social security benefits
- Three multi-nationals bought most of their crop for export
- Growers were paid US\$5.20 per box, and had to pay an 18¢ per box export tax
- These growers began to face intense competition from growers in Uruguay ...
- ... who paid their workers US\$ 2-3 per day, with no benefits, and exported at US\$2.18 per box

Source: Raphael Kaplinsky (Food & Agricultural Organization, 2003).

If Costa Rican banana growers can solve their problems, so can Tasmanian potato growers

Costa Rican banana growers implemented four strategies:

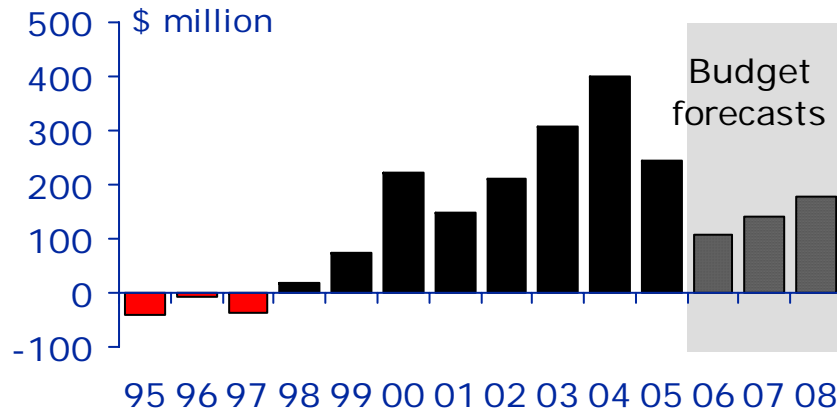
- Diversifying sales away from the three multinationals who had been the main buyers
- Undertook research into new varieties – and found a cure for a disease which caused bananas to ripen too quickly
- Marketed bananas to consumers in rich countries as being environmentally friendly and involving ethical work practices and paying reasonable wages
- Developed a brand name to differentiate these characteristics from bananas produced elsewhere

“Costa Rican bananas are not like others: they come with many social guarantees. We need to make this known to customers”

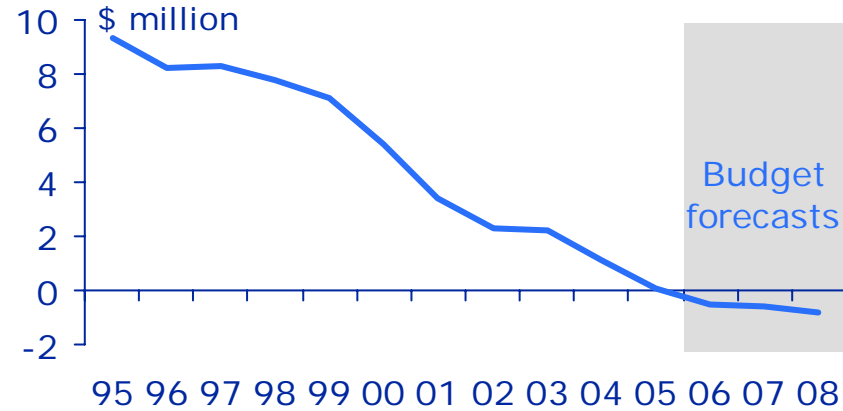
— General Manager of Costa Rica’s largest banana exporter,
—*Financial Times*, 17 November 2000

The Tasmanian Government is now in a very strong financial position

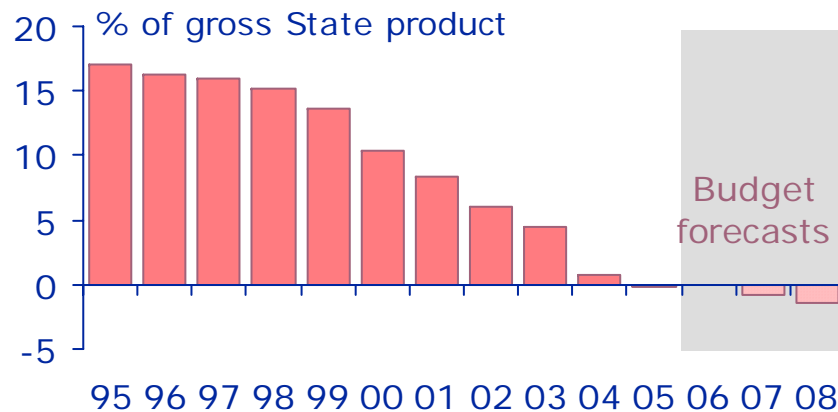
State budget cash balance*



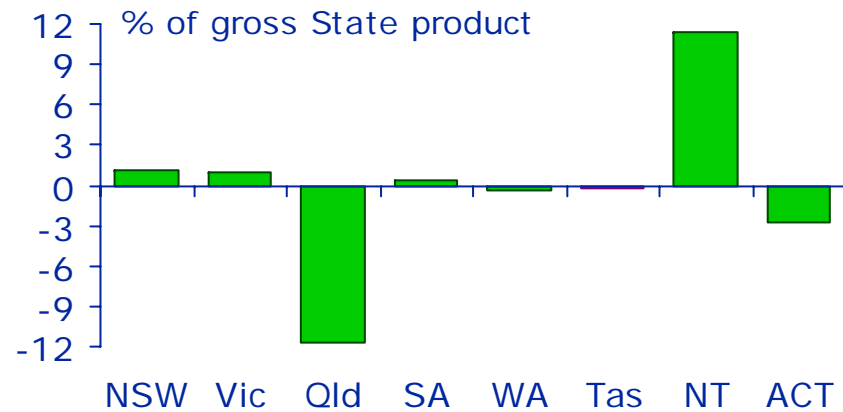
Interest as a pc of revenue*



State government net debt*



State net debt *, 30 June 2005



*General government sector. Sources: Tasmanian and interstate Budget Papers; Economics@ANZ.