

# 2 TASMANIAN ECONOMY

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## *Features*

- Tasmania's recent economic performance has been characterised by:
  - improved rates of economic growth and solid growth in final demand;
  - sustained growth in overseas merchandise exports, to record levels;
  - higher levels of both full time and part time employment;
  - a modest reduction in unemployment; and
  - a return to population growth, primarily as a result of higher levels of interstate in-migration.
- The key feature of the Tasmanian economy over the past two years has been the very strong growth in private investment (incorporating business and dwellings investment).
- Consistent with the improvement in economic performance over the past three years, business confidence has recently been on a generally rising trend, notwithstanding the impact of the slowdown in key overseas economies.
- The fiscal stimulus package announced by the State Government in the 2001-02 and 2002-03 Budgets has contributed to the growth in the Tasmanian economy.
- The Economic Outlook section highlights a number of positive developments that are expected to underpin continued solid economic and employment growth in Tasmania in 2003-04. These include projects that will be funded from the newly created Economic and Social Infrastructure Fund.
- Tasmania's economic outlook is positively influenced by the impact of the purchase of the two Bass Strait ferries, the commencement of the distribution stage of the Tasmanian Natural Gas Project, the commencement of Basslink construction, and other energy projects such as wind generation.
- Monetary conditions remain favourable for future growth, with low and stable inflation and historically low levels of interest rates.
- As an open economy, the Tasmanian economy is exposed to issues outside the State's control, including global market conditions and exchange rates. The recent appreciation of the Australian dollar against the US dollar may have a negative impact on the State's economy, especially if there is further appreciation, as it increases export prices and may place some pressure on profit margins of Tasmanian exporters.

# INTRODUCTION

This Chapter provides an account of the recent performance of Tasmania's economy and provides projections of key economic variables for 2003-04.

The first section provides a comprehensive analysis of the State's recent economic performance and this is compared with the performance of the Australian economy as a whole. A brief overview of Tasmania's relative performance over the past five years is also presented.

The final section presents an overview of Tasmania's economic outlook for 2003-04.

## *Note*

- All data measured in dollars, unless otherwise indicated, are expressed in real (2000-01) prices.

# RECENT ECONOMIC PERFORMANCE

## Overview

This section provides a brief overview of Tasmania's economic performance since the mid-1990s and a more detailed analysis of recent economic trends.

Following the 1991-92 national recession, the Tasmanian economy fell behind the national average on nearly all measures of economic performance and this gap widened over subsequent years. Some of the factors that contributed to the State's relatively subdued economic performance over much of the 1990s include:

- an industry structure that lacked sufficient growth sectors;
- job shedding in the private and public sectors;
- the centralisation of financial services and corporate management in Sydney and Melbourne and restructuring in the finance industry more generally;
- the continued poor economic performance of Japan, the State's largest single export market;
- a period of generally low prices for some of the State's key commodity exports, including beef, wool, aluminium and copper;
- low levels of private business investment; and
- negative population growth for the latter half of the 1990s.

The Tasmanian economy has not kept pace with the very strong national economic performance over the past decade, although there has been a marked improvement more recently across most economic indicators.

Tasmania's total production is distributed across three areas of demand: about half to local markets; around 20 per cent as overseas exports; and the remainder as exports to the rest of Australia. Demand for around half of the goods and services produced in this State is therefore vulnerable to changes in external factors, and there is little or nothing that local businesses or the State Government can do to influence these factors.

Japan is the State's largest overseas export market and has been in recession for a number of years. The slowdown in the US (and most Western economies) since early 2001 has been exacerbated by uncertainty in global markets due to terrorism, war and other geopolitical factors. In addition, growth in the Australian economy was halved in the year following the introduction of the GST. While there has been a subsequent recovery and the underlying fundamentals of the Australian economy appear robust, concerns remain over future economic performance in the face of the uncertain global economic environment.

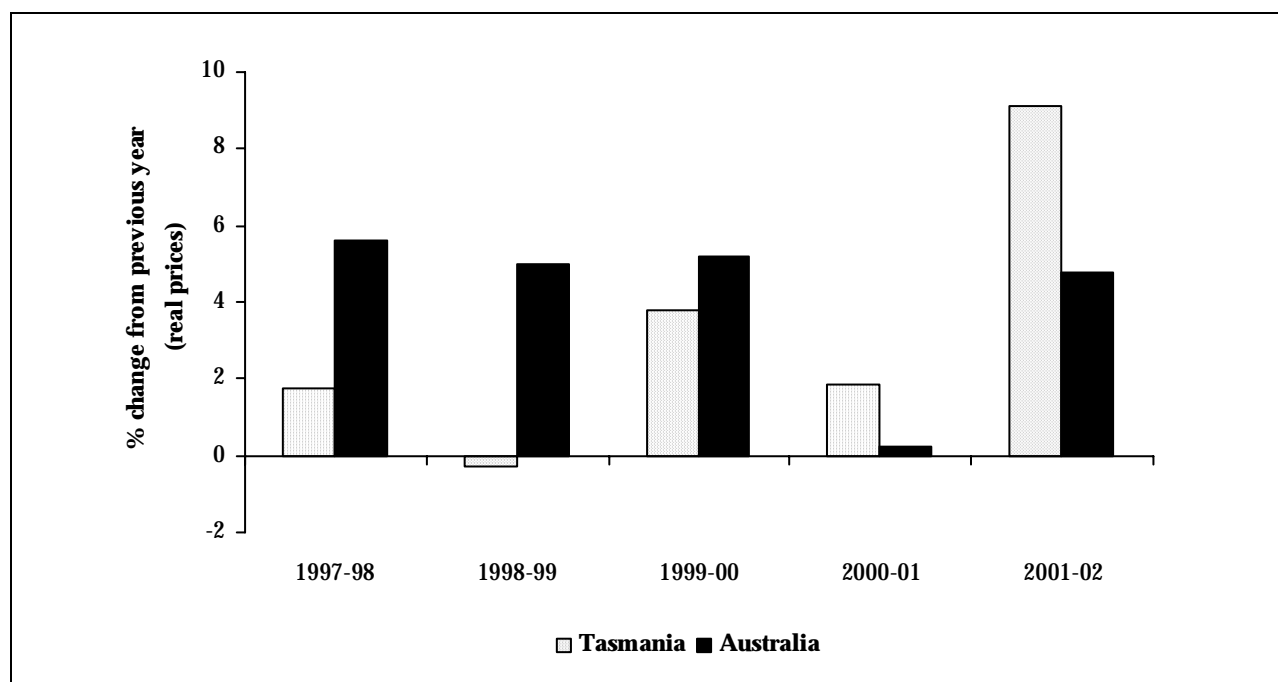
In terms of reported economic growth rates, Treasury urges caution in the use of the most recent state Gross State Product (GSP) data from the Australian Bureau of Statistics (ABS). State GSP data, especially for a small economy such as Tasmania, tend to be quite volatile and often subject to substantial revision. The GSP data have not always been consistent with partial economic indicators over recent years and the ABS continues to classify this series as 'experimental'.

According to ABS estimates, the Tasmanian economy contracted by 1.9 per cent in the two years to 2000-01. However, other partial economic indicators show that the State's economy has been growing over this

period. For example, the same set of national accounts containing the GSP estimates reported that state final demand (the aggregate level of spending on goods and services in Tasmania by residents and visitors to the State) rose by 5.7 per cent in that two year period. Similarly, employment rose by 2.8 per cent (or 5 400 jobs) in the two-year period and the total number of hours worked in Tasmania in 2000-01 was 4.5 per cent higher than in 1998-99.

The ABS's estimates of state final demand are also an indicator of Tasmania's performance, but are more transparent in terms of their components than GSP estimates. Chart 2.1 shows the percentage change in State and national final demand in recent years.

**Chart 2.1: Economic Performance – Final Demand: Tasmania and Australia**



Source: *Australian National Accounts, State Accounts*, ABS Cat No 5220.0.

The components of state final demand are consumer spending, private sector investment and total expenditure by the public sector. Over the past four years, the average annual Tasmanian growth rate has been higher than the national average for private sector investment and public sector spending, but lower than the national average for consumer spending. The relatively better performance for private sector investment and public sector spending is due, in part, to spending on the transmission stage of the natural gas project, a recovery in dwelling investment and the purchase of the new Bass Strait ferries in 2001-02.

Historically, the total amount spent in Tasmania on goods and services has exceeded the total value of goods and services produced in the State (as measured by GSP). In the four years to 2001-02, the level of GSP was, on average, 87.7 per cent of the level of state final demand, compared to 99.5 per cent nationally. Despite concerns over the reliability of GSP estimates, it is clear that aggregate production is not matching aggregate spending in Tasmania. Setting aside any inventory changes, it is likely that the value of imports from interstate and overseas has been exceeding, by some margin, the value of Tasmania's exports.

In a small open economy such as Tasmania, exports to other regions can contribute significantly to economic growth, especially in an environment where growth in state final demand has been constrained due to weak population growth. The extent to which Tasmania's economy is open to overseas markets is

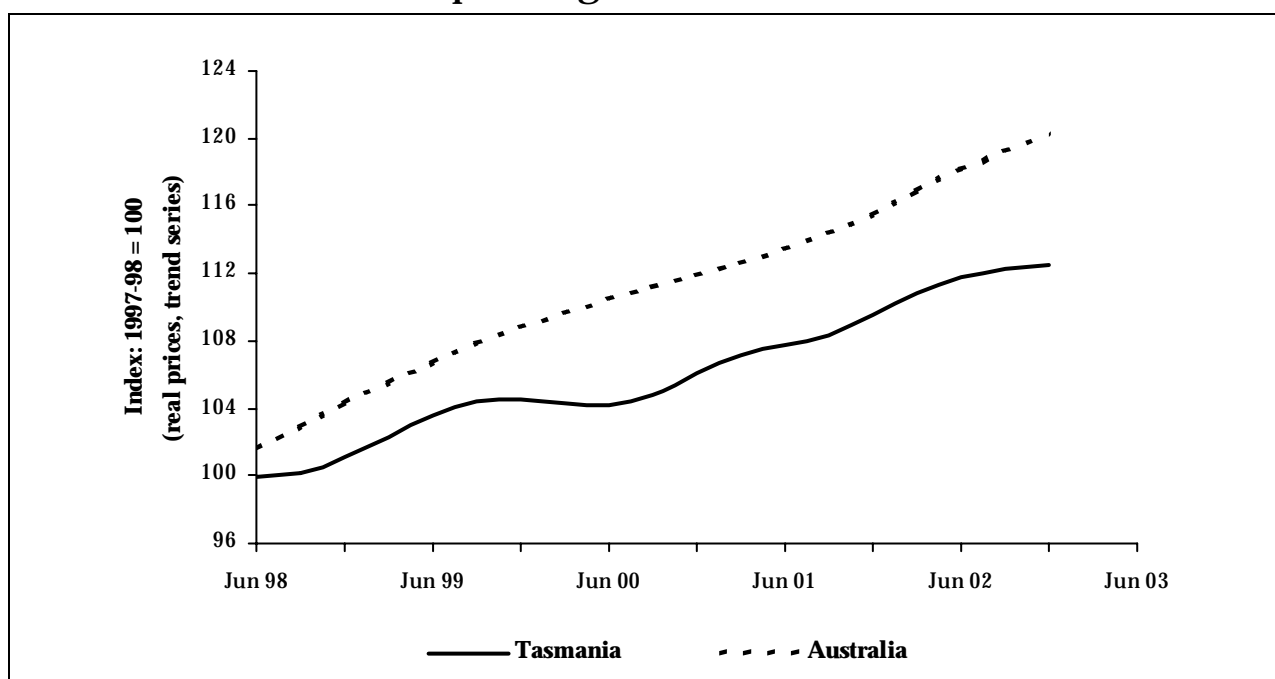
about the same as that for the nation as a whole, with overseas exports comprising about 20.9 per cent of Tasmanian GSP in 2001-02, compared with 21.7 per cent for Australia.

## Consumer Spending

Consumer spending, or household final consumption expenditure (HFCE), represents approximately 60 per cent of final demand and has been one of the stronger performing components of the Tasmanian economy over recent years.

In real terms, growth in consumer spending in Tasmania has risen at an annual average rate of 2.4 per cent since 1997-98 compared with an average growth rate of 3.4 per cent in state final demand. Although still below the growth rates recorded nationally (as shown in Chart 2.2), HFCE has been the economic indicator that has most consistently and closely tracked the national average.

Chart 2.2: Consumer Spending: Tasmania and Australia



Source: *National Income, Expenditure and Product, ABS Cat No 5206.0.*

In 2001-02, real HFCE increased by 3.2 per cent in Tasmania, above the increase of 2.0 per cent recorded in 2000-01. National growth in consumer spending also improved over the same period, from 3.0 per cent in 2000-01 to 3.8 per cent in 2001-02. The increased growth in Tasmania in 2001-02 is likely to have resulted from a combination of growth in average earnings, employment, private investment activity and population.

Retail trade in Tasmania has experienced positive growth in recent years, averaging 3.2 per cent annually in the past four years in real terms; however, this is below the average growth rate of 6.2 per cent nationally. In 2001-02, Tasmania experienced strong growth in retail sales of 5.0 per cent, but less than the national growth of 8.0 per cent.

Growth in consumer spending has consistently exceeded growth in retail turnover since the mid-1990s. This implies sustained growth in non-retail spending, such as for health care, recreation and motor vehicle purchases. Data on nominal HFCE show strong gains over the past four years in expenditure on

communications (49.2 per cent); health (40.5 per cent); alcoholic beverages and tobacco (38.3 per cent); education services (29.6 per cent); and recreation and culture (20.7 per cent).

Visitors (tourist and business arrivals) to Tasmania also contribute to consumer spending. In 2001-02, visitor expenditure was estimated to account for 8.0 per cent of Tasmanian HFCE. Data from Tourism Tasmania show that visitor numbers have risen at an average annual rate of 2.4 per cent over the four years to 2001-02. Visitor expenditure has risen by 6.2 per cent per annum in nominal terms for the same period, despite a reduction in the duration of the average stay. In 1997-98, visitors to Tasmania stayed an average of 9.3 nights, but by 2001-02 the average stay had fallen to 9.0 nights.

Visitor arrivals are expected to have increased strongly in 2002-03. This can be attributed to the introduction of the two Bass Strait ferries in the September quarter 2002 and anecdotal evidence of a decreased propensity for holidaymakers to venture overseas due to uncertainty in the international environment. The impact of the Iraqi conflict and the outbreak of the Severe Acute Respiratory Syndrome (SARS) may see increased travel to Tasmania by mainland Australians as they forego overseas travel opportunities and instead take their holidays interstate.

Major determinants of changes in consumer spending include growth in earnings and employment, and population trends. The increase in HFCE in 2001-02 was supported by a continuation of the employment growth that had been evident since January 1999 and a return to population growth from the beginning of 2001. These factors were aided by consistent growth in average earnings. Trends in each of these components are examined below. Other determinants of spending, such as direct taxation rates and interest rates, are not discussed in this Chapter.

## Wages

The rate of wages growth in Tasmania has not kept pace with that of Australia as a whole over recent years, although it has held up comparatively well during those periods when the State's labour market has been subdued.

In the four years to 2001-02, average total earnings in Tasmania rose at an average annual rate of 2.4 per cent in nominal terms, below Australia's 3.6 per cent growth rate. While the change in full time average weekly ordinary time earnings (AWOTE) is the benchmark measure for growth in wage rates, changes in total earnings provide a better guide to movements in average income levels as this includes juniors, part time workers and overtime payments. It is also particularly relevant in the Tasmanian context, given the relatively high proportion of employed persons in part time work.

The level of average total earnings in Tasmania has been the lowest of all the Australian states and territories since 1993-94. The level of Tasmanian total earnings was 85.5 per cent of the Australian average in 2001-02 (\$582.00 per week in Tasmania compared to \$680.88 nationally), down from an average of 95 per cent prior to the mid-1990s. This decline is due, in part, to the greater importance of part time labour in Tasmania relative to Australia as a whole. In 2001-02, part time positions accounted for 30.9 per cent of all jobs in Tasmania (28.0 per cent nationally), up from 25.6 per cent a decade earlier (23.1 per cent nationally).

Tasmanian AWOTE has recorded considerably stronger growth than average total earnings since the mid-1990s and has risen by an average (nominal) rate of 3.3 per cent in the four years to 2001-02, compared to the national growth rate of 4.5 per cent. The level of AWOTE in Tasmania remains below the national average at just over 91 per cent of the Australian level (\$778.90 per week compared with \$853.63).

# Labour Market

## *Employment and Hours Worked*

Through most of the 1990s, one of the most obvious areas of the State's economic underperformance was weakness in the labour market, with Tasmania recording a slower rate of employment growth than the national average in each year since 1990-91. There has, however, been a general, underlying improvement in the State's employment performance since the most recent trough in late 1998. This improvement has continued, notwithstanding downturns in the first half of 2001 due to the GST-induced slowdown in the national economy, and from late 2001 to early 2002 as global economic prospects deteriorated following the 11 September 2001 terrorist attacks in the US.

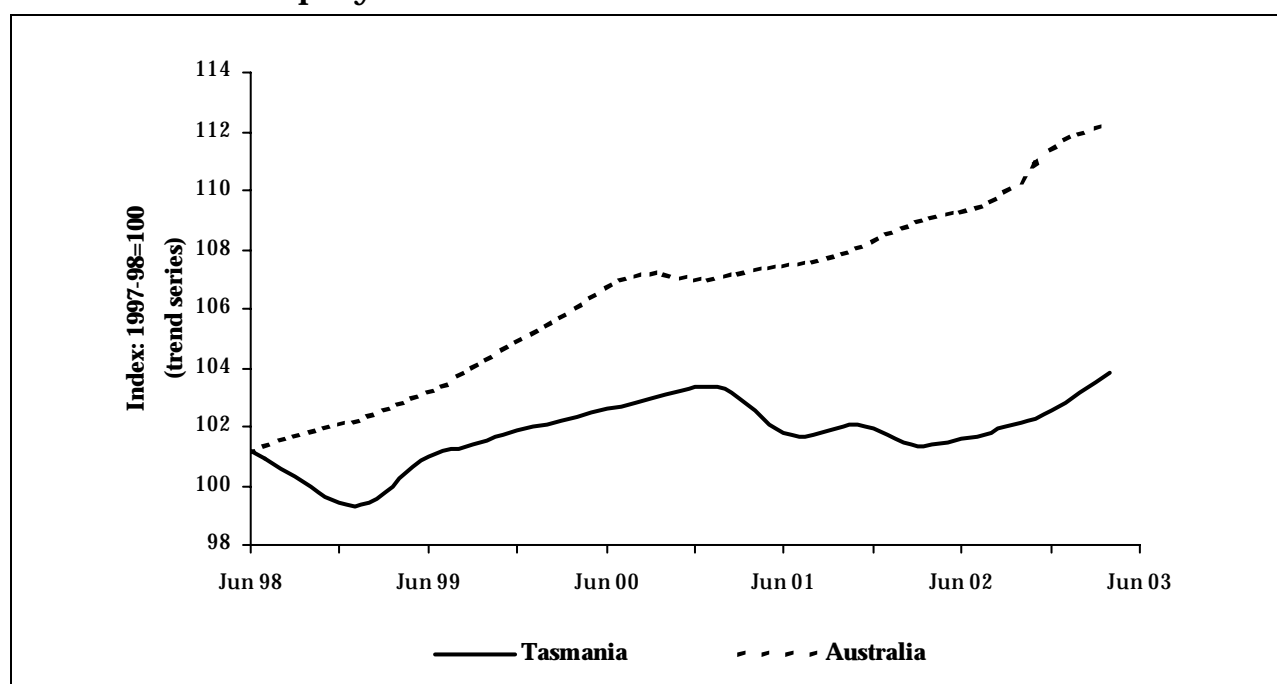
**Table 2.1: Tasmanian Employment**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03 Estimate	2003-04 Forecast
<b>Total Employment (year average, '000s)</b>	195.3	195.3	198.8	200.7	198.4	200.3	204.7
<b>Total Employment (per cent change)</b>	(1.1)	0.0	1.8	1.0	(1.2)	0.9	2.2

Source: *The Labour Force, Australia, Preliminary Data on Floppy Disk*, ABS Cat. No 6271.0 and Department of Treasury and Finance.

Employment fell in the two years to 1997-98, and was unchanged in the following year, before increasing solidly in 1999-00 and 2000-01. The decline in 2001-02 has been reversed by further improvement in 2002-03, which is expected to continue in 2003-04. This is reinforced by Chart 2.3, which shows that employment has recorded steady growth since early 2002.

**Chart 2.3: Employment: Tasmania and Australia**



Source: *The Labour Force, Australia, Preliminary Data on Floppy Disk*, ABS Cat. No 6271.0.

The labour market weakened in early 2001 as a result of the national economy slowing considerably. The arrest of the decline in mid-2001 reflects, in part, the \$152 million stimulus package introduced by the State Government as part of the 2002-03 Budget to counter the impact of the national and international economic slowdown. Notwithstanding the economic stimulus package, further erosion of the State's key markets saw employment fall again from late 2001, easing by 1.2 per cent in 2001-02, the first such decline in four years, as highlighted in Table 2.1. As explained in the Economic Outlook section, it is expected that the recovery in 2002-03 will be followed by stronger growth in 2003-04.

In January 1999, total trend employment in Tasmania slumped to 193 800, a decline of 4 300 from only nine months earlier and 8 500 below the State's employment peak of 202 300 persons in May 1990. However, in the two years to January 2001, employment grew by 7 900 to reach a level of 201 700 – only marginally below the May 1990 peak. After declining through much of 2001 and early 2002, trend employment has risen in each of the past 12 months to be currently at 202 600 persons (April 2003). In the period since early 1999, employment growth in Tasmania has totalled 4.6 per cent, equivalent to 8 900 jobs.

The weakness in employment in the late 1990s was due to a decline in full time positions. The level of full time employment in 1998-99 (135 900 persons) was the lowest for the State in at least 20 years, having fallen for three consecutive years. In 1999-00, however, there was a solid recovery in the average level of full time employment for the year (140 100 persons), which was 3.1 per cent (or 4 200 persons) above the level of 1998-99 and the biggest rise in a decade. Since then, full time employment has continued to ease, but remains above the 1998-99 low. While there has been a long-term easing in full time employment levels in Tasmania, there has been a solid improvement from early 1999, with the trend level of full time employment in March 2003 (139 500 persons) up by around 3.5 per cent (or 4 700 persons).

In contrast to the decline in full time employment, the level of part time employment in Tasmania has generally continued to rise. The number of part time positions rose in each of the 17 years to 1998-99 but fell in 1999-00, coinciding with the strongest growth in full time employment in a decade. Part time employment rose by 6.4 per cent (or 3 700 persons) in 2000-01 to establish a new record level of 62 400. Despite the occasional period of decline, the long-term trend towards greater use of part time labour continues, with the number in part time work in April 2003 (63 400 persons) greater by 7.4 per cent (or 4 400 persons) than the level of early 1999.

The improvement in employment recorded since the beginning of 1999 is therefore attributable to growth in both full and part time positions. Further analysis reveals that this has been shared between male and female employment, with female employment setting a new record level in March 2003 and male employment reaching a peak in December 2000, its highest level since March 1997.

While Tasmania's labour market under performed in the mid to late 1990s, particularly following the cessation of Working Nation funding by the Commonwealth Government in 1996, the strategies put in place by the State Government to address Tasmania's relative economic underperformance (including the Industry Development Plan) have had a positive impact on the State's labour market.

The impact of the relative decline in full time employment over the late 1990s is evident in Tasmanian hours worked data. The aggregate number of hours worked in Tasmania stood at a six-year low in 1998-99, having fallen for four consecutive years. While there was solid growth in part time employment and hence part time hours worked, this was more than offset by the decline in full time hours.

Consistent with the improvement in the State's labour market since early 1999, the hours worked series has since rebounded quite strongly. Aggregate hours worked rose by 4.7 per cent in 1999-00, above the 3.4 per cent growth recorded nationally, to 6.535 million hours per week, which is the second highest level

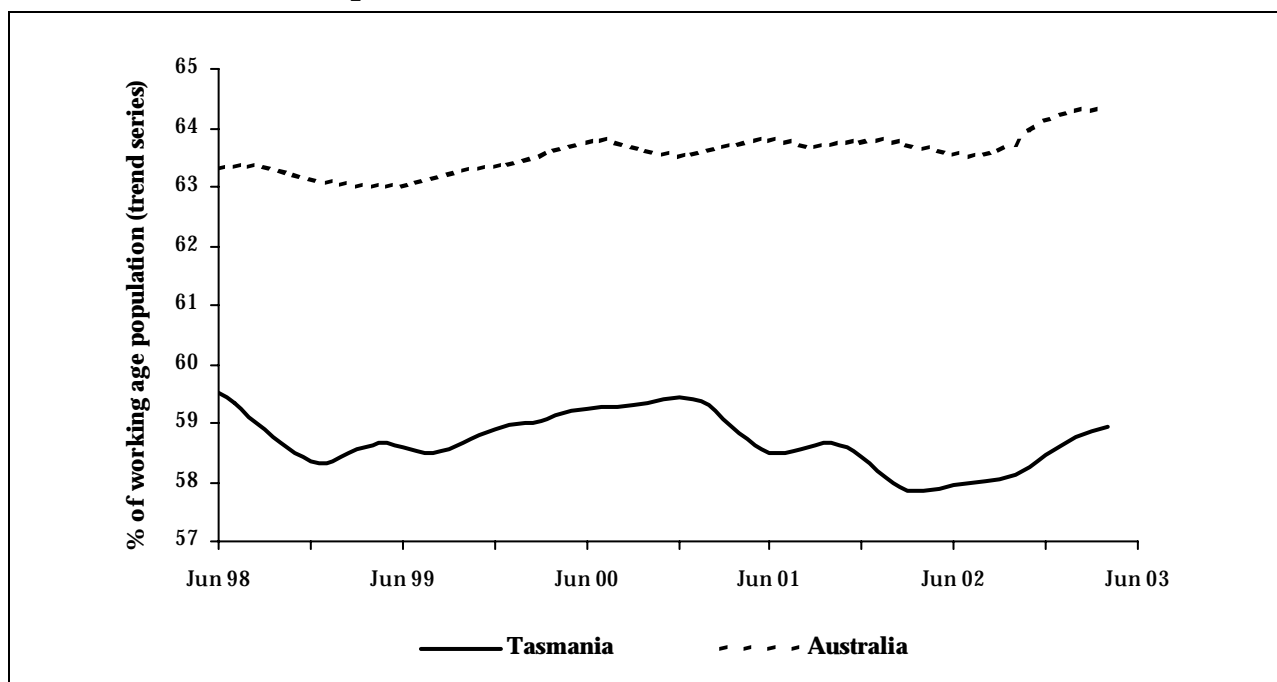
on record. While the aggregate hours series eased 0.2 per cent lower in 2000-01, it remained at a historically high level. The 1.9 per cent fall in 2001-02 reflects reductions in employment resulting from the impact of weaker national and international economies. Data for the 2002-03 year to date indicate that aggregate hours worked has recovered, with an average of 6.426 million hours worked per week in the year to March 2003.

Data on hours worked per employee show that those in full time and part time employment are working a relatively large number of hours. In the year to March 2003, average hours worked per week by part time employees is at a record level of 15.84 hours. The average working week for full time employees, however, has been trending down over recent years, from the record level of 40.32 hours per week in 1999-00 to 39.62 hours in the year to March 2003. These trends are indicative of the structural change in the labour market towards the increased use of part time labour, with those in part time employment working, on average, more hours per week, and less overtime for full time workers.

### *Labour Force Participation and Unemployment*

The weakness in the labour market during the late 1990s is reflected in the State's low labour force participation rate. Tasmania's recorded participation rate has always been below the national average, but the gap widened around the middle of the 1990s.

**Chart 2.4: Participation Rate: Tasmania and Australia**



Source: *The Labour Force, Australia, Preliminary Data on Floppy Disk, ABS Cat. No 6271.0.*

As shown in Chart 2.4, there has been an underlying upward trend in the national participation rate over the past few years while the Tasmanian rate has been more volatile, increasing slowly in 1999 and 2000, falling sharply in two periods to early 2002 and rising solidly since late 2002. Since the mid-1990s, the gap between the Tasmanian and national participation rates has widened from 3.1 percentage points in 1995-96 to 5.4 percentage points in 2001-02. Tasmania's average participation rate in 2001-02 of 58.3 per cent was the lowest annual rate since the early 1980s. As with the employment series, the participation rate had improved from the downturn in 2001 and early 2002. In March 2003, the trend participation rate reached 58.9 per cent, its highest level since early 2001.

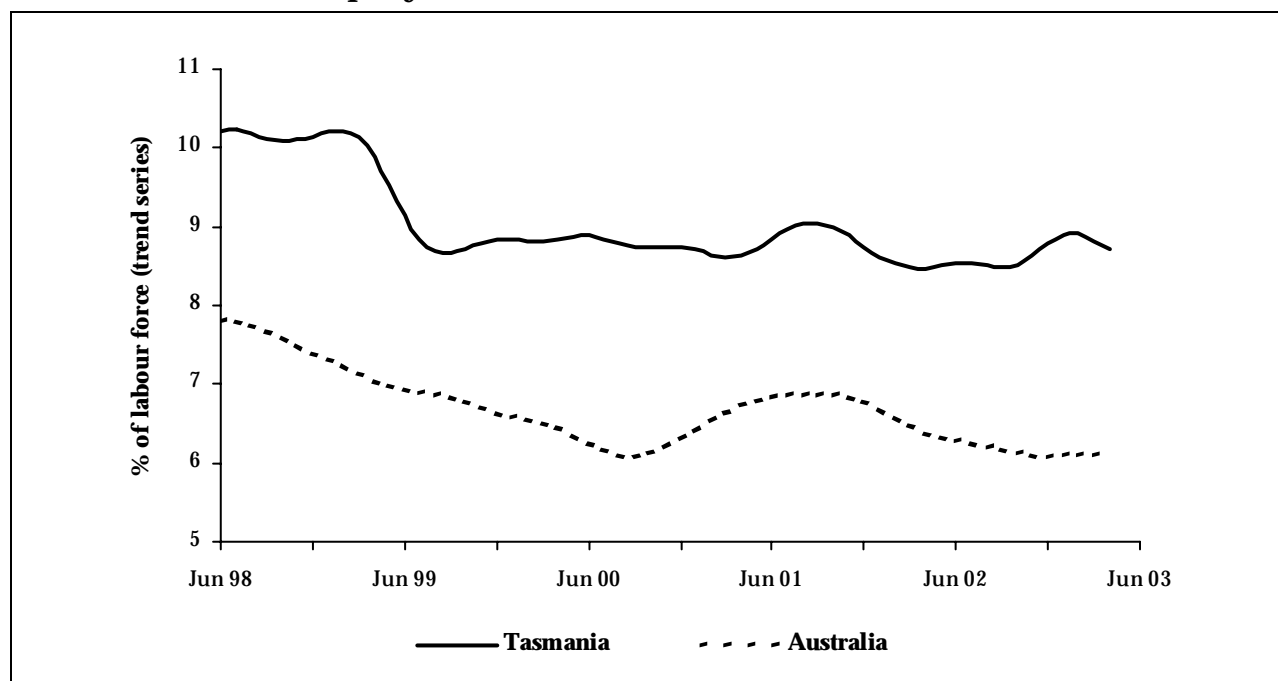
The participation rate measures the proportion of the population aged 15 and above that are either working or actively seeking employment. There are many possible reasons why Tasmania has a lower participation rate than the nation as a whole, apart from labour market conditions, including:

- the State's relatively older population base;
- the lower cost of living (particularly housing), which may reduce the necessity for a second income in a household, allowing one partner not to work; and
- the higher proportion of people on disability pensions, which effectively removes them from the labour force.

The recent weakness in the State's participation rate is likely to reflect, in part, a trend towards increased post-secondary education as students generally withdraw from the labour force.

Not surprisingly, Tasmania's employment record since the mid-1990s is reflected in the highest unemployment rate in Australia, although the rate has been fairly stable since mid-1999, as shown in Chart 2.5. In late 2002 the State's unemployment rate started to rise, even though employment had been increasing. This was because employment growth was unable to match the strong growth in the labour force. More recently, however, employment growth has strengthened to surpass labour force growth, reducing unemployment.

**Chart 2.5: Unemployment Rate: Tasmania and Australia**



Source: *The Labour Force, Australia, Preliminary Data on Floppy Disk, ABS Cat. No 6271.0.*

Tasmania's unemployment rate averaged 8.8 per cent in 2001-02, which was 2.1 percentage points above the Australian average, but only slightly above the 11 year low of 8.7 per cent recorded in 2000-01. This is a significant improvement on the 10.5 per cent unemployment rate recorded in 1997-98. As at April 2003, the State's trend unemployment rate stood at 8.7 per cent and remains the highest rate of all the states and territories.

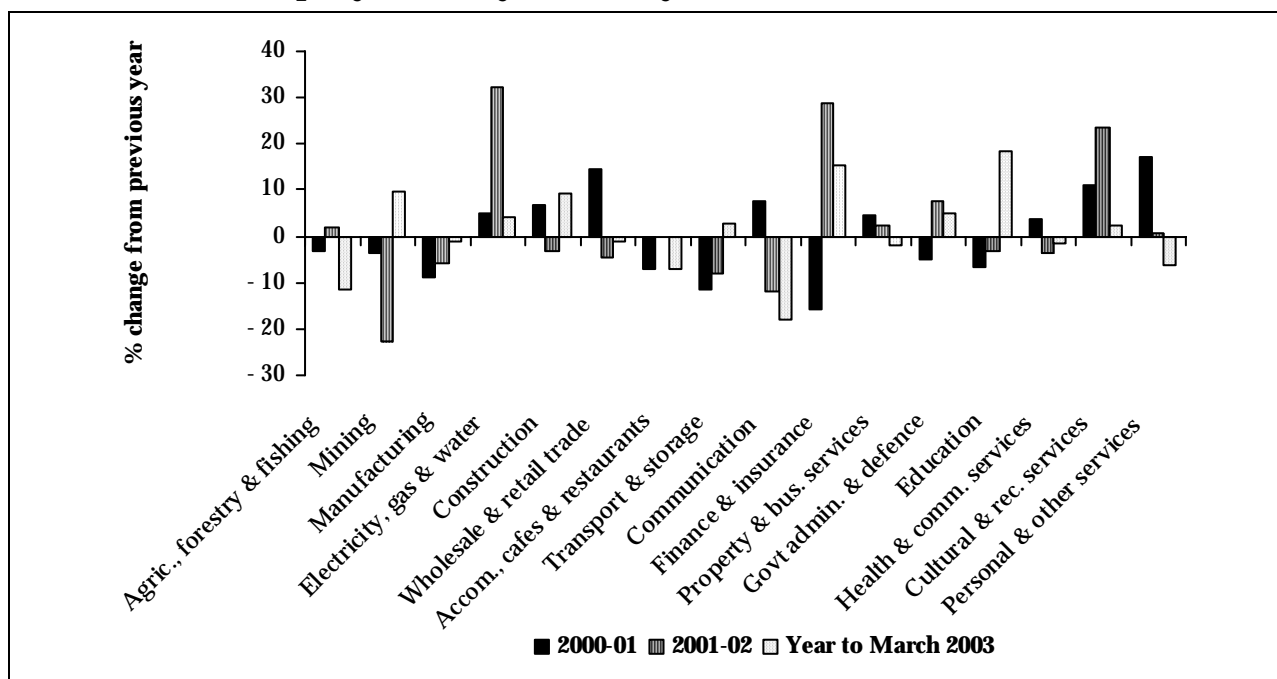
Consistent with movements in the unemployment rate, there was an underlying reduction to early 2002 in the number of persons unemployed, with a 12 year low recorded in April 2002. The number unemployed averaged 19 000 in 2001-02, which was the lowest annual level since 1989-90, and as at April 2003 there were 19 400 persons unemployed. The labour force rose by 4 200 persons in the six months to April 2003, which is above the strong rise in employment of 3 400 over the same period. As a result, the number of persons unemployed has risen by 800 in the six months to April 2003, with the unemployment rate increasing by 0.2 percentage points to 8.7 per cent over this period.

### Industry and Regional Developments

The growth in employment since early 1999 has been evident in most of the major sectors of the economy, indicative of the general improvement in business confidence in Tasmania. The volatility of the industry data, however, makes it difficult to draw firm conclusions about the short term performance of some sectors. Despite this, there appear to be only a couple of industry sectors, according to ABS data, that have recorded a fall in employment over this period.

Chart 2.6 shows the trends in employment by industry sector over the past three years. Over this period, employment grew solidly in property and business services and in agriculture, forestry and fishing, with smaller increases in: electricity, gas and water supply; wholesale trade; retail trade; communication services; government administration and defence; cultural and recreational services; and personal and other services. The manufacturing sector experienced the largest decline in employment in the past three years, while other sectors to have recorded lower employment in this period include: mining; construction; accommodation, cafés and restaurants; transport and storage; education; and health and community services.

**Chart 2.6: Employment by Industry Sector: Tasmania**



Source: *Labour Force, Selected Summary Tables, Australia*, ABS Cat. No 6291.0.55.001.

In terms of regional labour market performance within Tasmania, the strongest growth in employment over the past year according to ABS data has been in the North-West region, with employment rising 4.3 per cent in the 12 months to March 2003 relative to the previous 12 month period. Much of this improvement, however, is simply a reversal of previous declines in employment in the North-West region, and this

remains the region with the lowest participation rate and the highest unemployment rate. Employment rose by 0.1 per cent in the Southern region but fell by 2.5 per cent in the Northern region over the same period. Similarly, much of this decline is a reversal of previous strong jobs growth in the Northern region.

A summary of the performance of the State's regional labour markets over the past year is shown in Table 2.2.

**Table 2.2: Regional Labour Market Statistics<sup>1</sup>**

	South	North	North-West	Total State
<b>Employment</b>				
Average in 12 mths to March 2003 ('000)	95.2	59.1	45.1	199.3
% change from year to March 2002	0.1	(2.5)	4.3	0.2
<b>Participation Rate</b>				
Average in 12 mths to March 2003 (%)	58.1	59.5	57.1	58.2
% point change from year to March 2002	0.3	(1.1)	(0.2)	(0.2)
<b>Unemployment Rate</b>				
Average in 12 mths to March 2003 (%)	8.3	8.5	9.7	8.7
% point change from year to March 2002	(0.5)	0.6	(0.3)	(0.1)

Source: Labour Force, Selected Summary Tables, Australia, ABS Cat. No 6291.0.55.001.

Note:

1. The regional labour force data need to be interpreted with caution due to volatility in the series and unexplained variations in working age population in the three regions.

Earlier and current changes in employment in the Northern region mirror those changes in the North-West, with much less variability evident in the aggregate employment series for the North and North-West. This mirroring of changes to regional data series, where one series rises and another falls by a similar magnitude over the same period, has generated concerns about the reliability of ABS regional labour market data for Tasmania.

Notwithstanding issues related to the measurement of region labour market estimates, some of the changes in these series can be explained by changes in Tasmania's industrial structure. Within the manufacturing sector, for example, the basic processing of primary industry output (notably minerals and forest products) remains important to the State. However, the sector has evolved over the past decade and has been increasingly dominated by the production of high value, high-speed catamarans and other marine vessels and value-added food and beverage production. In part, this is a natural progression following the closure of a number of the State's older, more 'traditional' manufacturing plants over the past decade, such as the Burnie pulp mill, Tioxide (minerals processing) and Coats Patons (textiles). Generally this has represented a regional shift in economic activity to the South from the North-West and, to a lesser extent, from the North.

To this end, there has been a greater focus within Government over recent years on attracting location-neutral, technology-based activities to Tasmania. The State's call centre attraction strategy is an example of this and there are currently between 3 500 to 4 000 people employed in the State's call centre industry, mostly in the Northern and Southern regions.

Despite falling by 1.1 percentage points in the year to March 2003 to 59.5 per cent, the Northern region has the highest labour force participation rate in the State. The participation rate rose in the Southern region by 0.3 percentage points in the year to March 2003, but eased in the North-West.

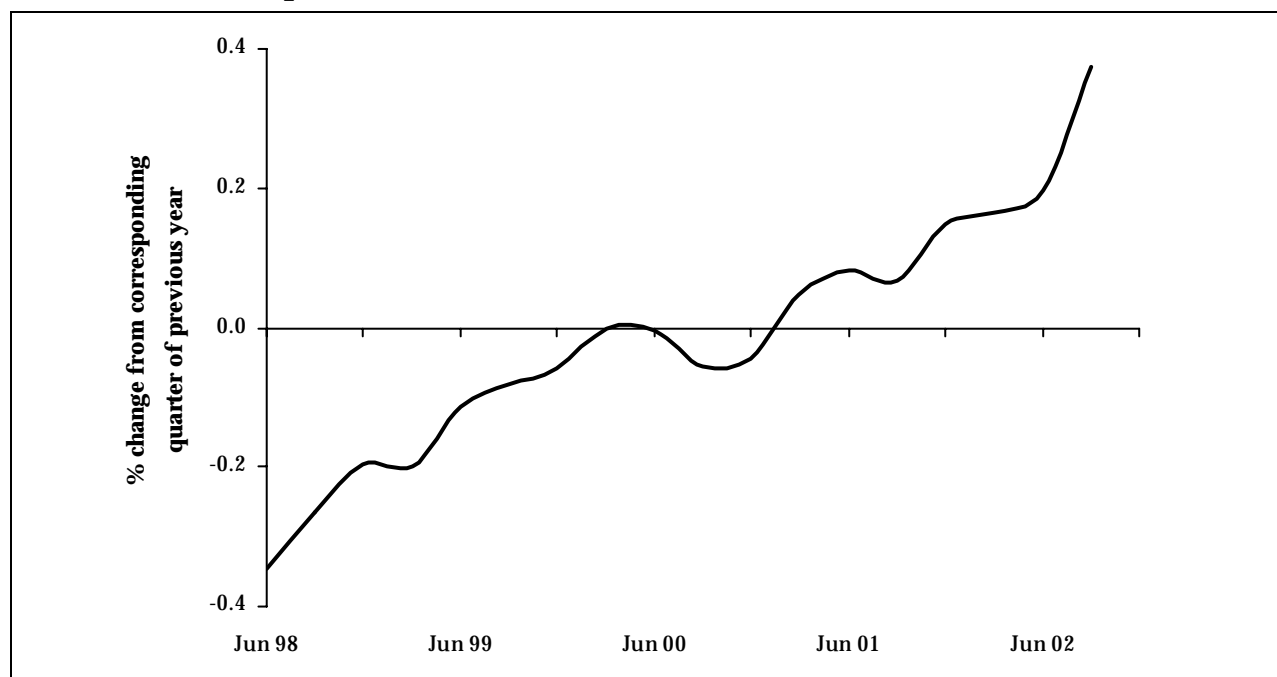
The unemployment rate in the Southern region fell by 0.5 percentage points in the year to March 2003 to 8.3 per cent, which is a 16-year low. In the North-West, the unemployment rate fell by 0.3 percentage points to 9.7 per cent, slightly above the record low recorded in the year to November 2002. The unemployment rate for the Northern region rose by 0.6 percentage points to 8.5 per cent and the region no longer has the State's lowest unemployment rate.

## Demographics

A consequence of Tasmania's subdued economic performance through the 1990s was a downward trend in the State's population, caused by a sharp rise in interstate out-migration. However, revised data released incorporating the results of the 2001 Census of Population and Housing indicate that the State's recovery in population growth has continued unabated since March 2001.

In June 1997, following several years of relative economic decline, the State's population declined for the first time since 1941. In the three years to 2000-01, Tasmania's total population declined by an annual average rate of 0.07 per cent, in contrast to the 1.19 per cent growth recorded nationally. As a result of this decline, Tasmania's share of the Australian population slipped to 2.44 per cent in 2000-01 from 2.60 per cent five years earlier.

**Chart 2.7: Population Growth: Tasmania**

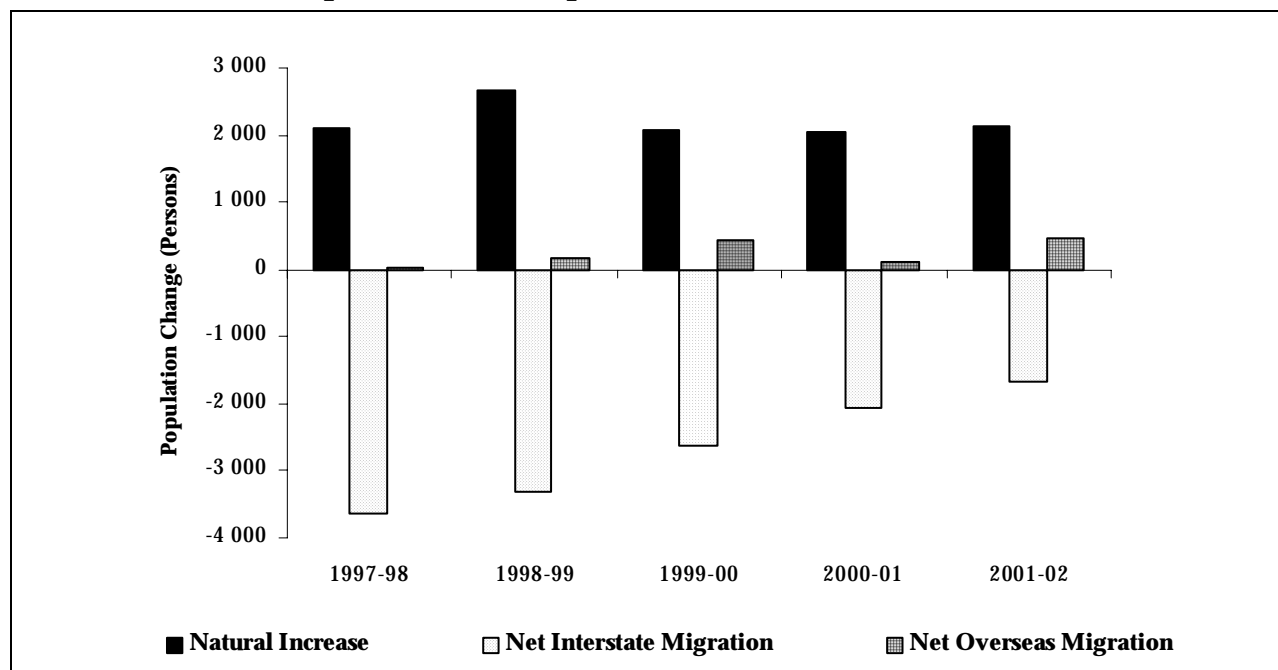


Source: *Australian Demographic Statistics, ABS Cat No 3101.0.*

However, as shown in Chart 2.7, data revised after the release of the results of the 2001 Census indicate that the State has returned to population growth, with Tasmania's population as at 30 September 2002 being 1 761 persons higher than one year earlier. In 2001-02, Tasmania's population increased by 682 persons, compared with an average annual population decline of 353 persons in the three years to 2000-01. This recent improvement reflects, in part, the underlying recovery in the State's labour market and the stimulus and increased confidence provided by higher levels of private investment. Further improvements in the performance of the labour market, together with the likely lag between changes in the labour market and changes in net migration, suggest that population growth will continue.

Tasmania's natural population increase (2 139 persons in 2001-02) has contributed around 0.5 per cent per annum to total population in recent years, similar to the national average of 0.6 per cent. The contribution of net inward migration from overseas fell during the 1990s. Net overseas migration currently has only a marginal, though increasing, impact on changes in the State's population, averaging 297 persons in the four years to 2001-02. This compares to an average of 235 over the 1990s.

**Chart 2.8: Components of Population Growth: Tasmania**



Source: *Australian Demographic Statistics, ABS Cat No 3101.0.*

In recent years, the most significant influence on changes in the State's population has been the level of net out-migration interstate as Chart 2.8 shows. In 2001-02, net interstate out-migration totalled 1 691 persons, or 0.4 per cent of the State's population. In the first half of the 1990s, the average annual level was around 1 146 persons. Nevertheless, the 2001-02 total represents a notable improvement on the peak year of 1997-98, when there was a net loss of 3 633 persons interstate. The improvement has been due to an increase in the number of interstate arrivals to a 21-year high of 13 284 in 2001-02, coupled with no significant change in the number of interstate departures, which stood at 14 975 in 2001-02. This decline in net interstate out-migration is the primary reason for the improvement in Tasmania's population trend.

Data reveal that the rise in out-migration through the 1990s included a higher proportion of people in the 5 to 14 year and 20 to 34 year age groups (that is, young adults and young families). This suggests that economic factors were the primary reason for the increase in out-migration. Consistent with the stabilisation of gross out-migration in 2001-02, more recent data show a reduction in the numbers of persons leaving the State in most of these age groups. This is likely to be a result of the State's improved overall economic performance. However, losses in the 25-29 and 35-39 year age groups have accelerated over the past three years and now represent the major proportion of out-migration.

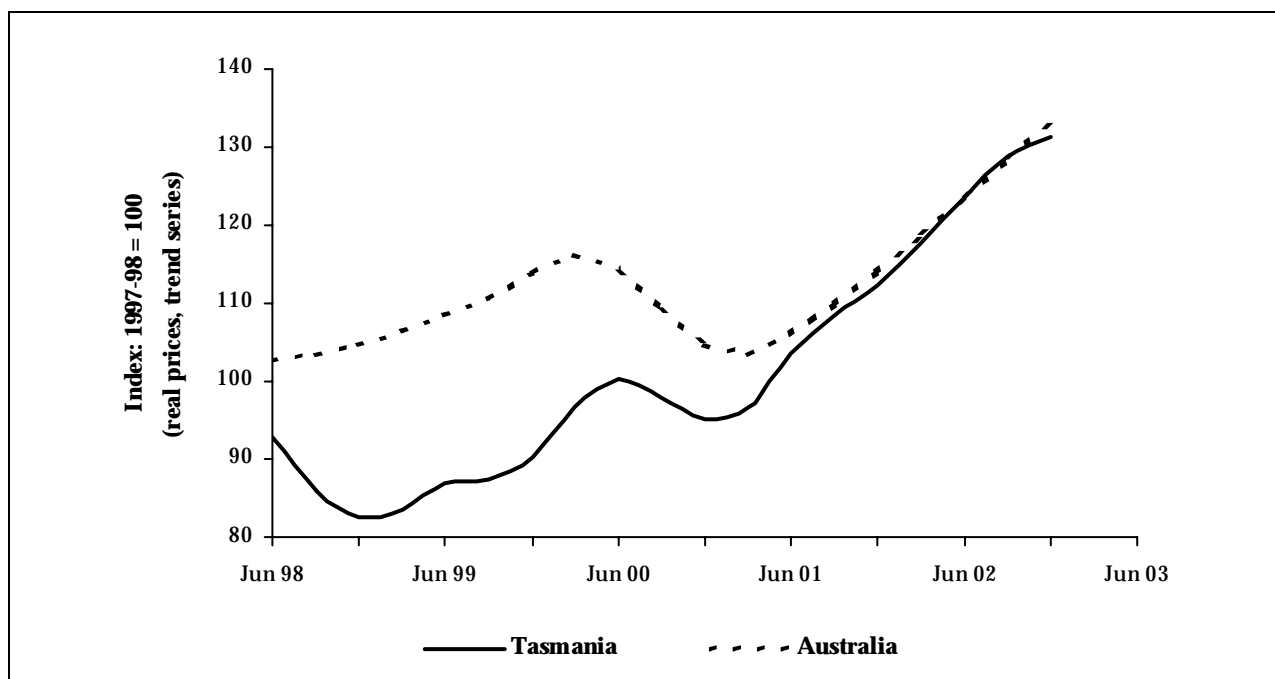
Net interstate out-migration is not unique to Tasmania. All states and territories except Victoria and Queensland recorded net interstate out-migration in 2001-02. In the medium to long-term, sustained population growth will depend, to a large extent, on sustained improvement in the State's economic performance.

The impact of Tasmania's population on the level of Commonwealth payments to Tasmania is covered in Chapter 10 of this Budget Paper.

## Private Sector Investment

A key feature of the Tasmanian economy over the past two years has been the very strong growth in private investment (incorporating business and dwellings investment). In 2001-02, private investment grew by 32.1 per cent, the strongest increase since 1988-89. Data for the September and December quarters of 2002 indicate a continuation of this trend.

**Chart 2.9: Private Sector Investment: Tasmania and Australia**



Source: *National Income, Expenditure and Product, ABS Cat No 5206.0.*

After the trough in early 1999, investment levels in Tasmania have recovered significantly, as highlighted in Chart 2.9. The improvement reflects an increase in both business investment and dwelling investment. The only period when investment levels eased was in the second half of 2000, although not to the same extent as nationally, due primarily to the post-GST decline in dwelling investment.

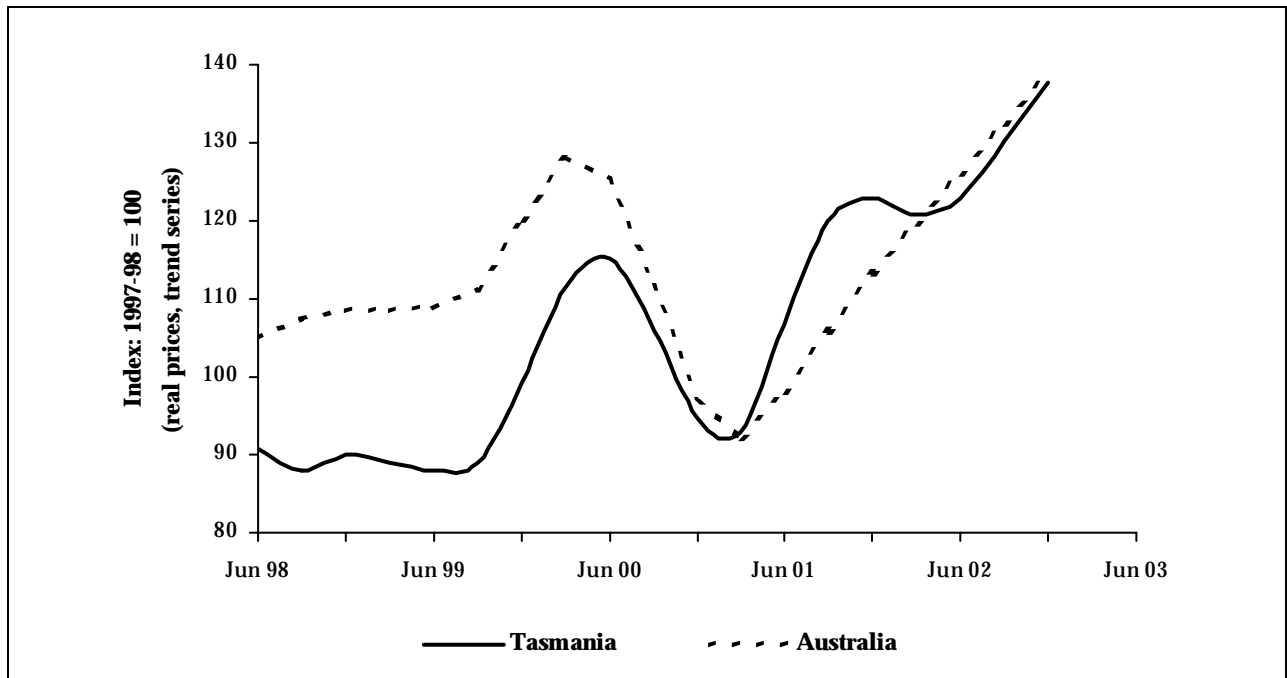
Since the beginning of 2001, private sector investment has grown strongly, closely tracking the national average growth. This improvement reflects the investment associated with the natural gas project and substantial growth in dwelling construction, as well as increased investment more generally by businesses in Tasmania. Reasons for the recent trend include increased confidence in the Tasmanian economy, the return to population growth since the beginning of 2001, the low interest rate environment and the impact of the First Home Owners Scheme (FHOS).

Trends in the major components of private investment are discussed in further detail below.

## *Dwelling Investment and Construction*

Levels of dwelling investment have been volatile over the past five years, due largely to the impact of the GST. Investment in new houses grew sharply in 1999-00, both in Tasmania and nationally, as decisions were brought forward to avoid the increase in cost associated with the introduction of the GST on building services. Immediately following the introduction of the GST, housing investment slumped, exerting a negative influence on state final demand for three consecutive quarters. As evident in Chart 2.10, the level of dwelling investment has subsequently displayed strong growth.

**Chart 2.10: Dwelling Investment: Tasmania and Australia**



Source: *National Income, Expenditure and Product*, ABS Cat No 5206.0.

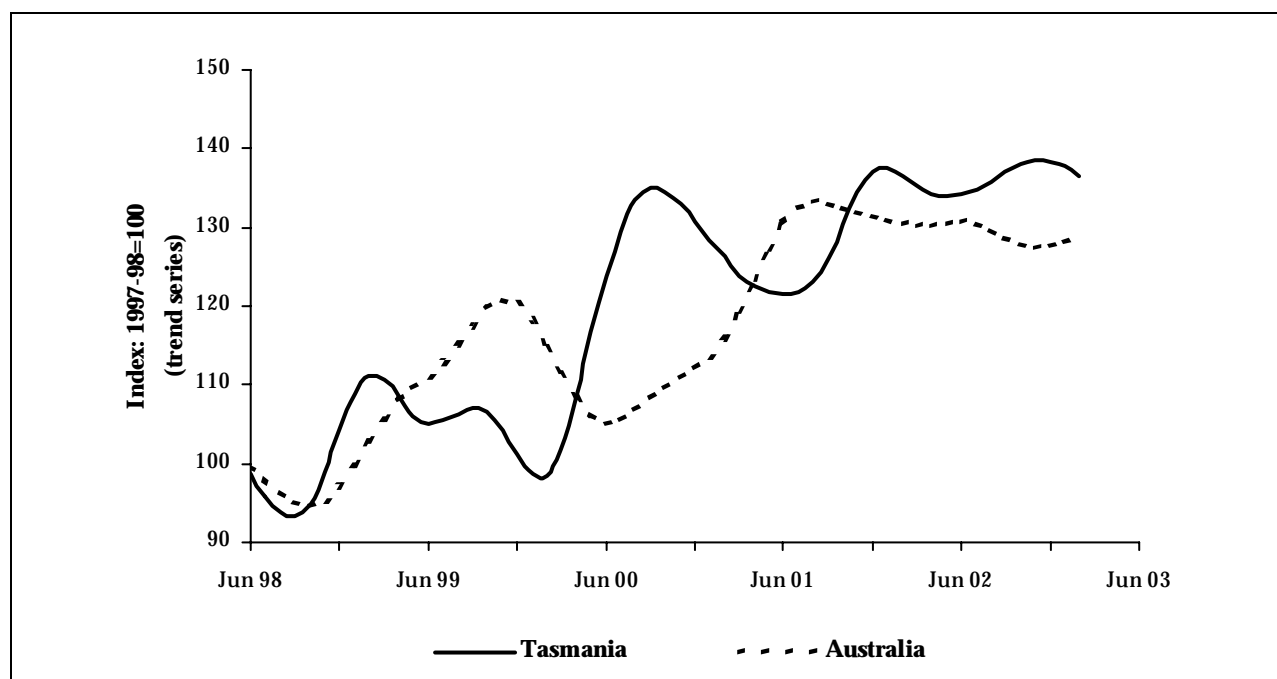
The FHOS is a \$7 000 payment introduced as part of the Commonwealth Government's tax reform package on 1 July 2000 to compensate first home buyers for the additional GST-related cost of purchasing a dwelling. In response to the significant drop in dwelling construction in the second half of 2000, the Commonwealth Government introduced an additional FHOS payment in March 2001 for those building a new home or substantially renovating an existing dwelling. The additional FHOS was initially a further \$7 000, but this was reduced to \$3 000 from 1 January 2002 and was phased out completely on 30 June 2002.

The introduction of the FHOS and the additional FHOS for new homes has been one of several factors that have accounted for the strong recovery in dwelling investment. In particular, the FHOS grants have assisted some people who were previously unable to enter the housing market. Other factors include low and stable interest rates, a return to population growth and increasing confidence in the State's economic prospects. This increased confidence is reflected in the greater demand from interstate buyers for the more expensive dwellings in Tasmania, either as investment properties or as principal residences.

Dwelling approval numbers in Tasmania increased by 10.2 per cent in the 12 months to February 2003, compared with an 11.5 per cent increase nationally. The number of dwelling approvals for Tasmania has declined, in trend terms, in recent months from the most recent peak experienced in July 2002, which is likely to reflect the phasing out of the additional FHOS in June 2002. A similar decline has occurred at the national level.

As shown in Chart 2.11, housing finance commitments rose strongly prior to the introduction of the GST in June 2000 and rebounded from the post-GST slump, albeit with some delay, after the introduction of the additional FHOS in March 2001. The number of housing finance commitments has fallen slightly in Tasmania in recent months after reaching the highest level on record in November 2002, but remains at a historically high level. The high level of housing finance commitments is primarily the result of commitments for the purchase of established dwellings, rather than for new dwellings. By comparison, the national housing finance series peaked in August 2001 and has experienced some decline since that time.

**Chart 2.11: Secured Housing Finance Commitments: Tasmania and Australia**



Source: *Housing Finance for Owner Occupation, Australia*, ABS Cat No 5609.0.

Following the pre-GST rush on building services and subsequent slump in new dwelling unit commencements, the number of commencements rebounded from a March 2001 trough to reach its highest level in June 2002 for over seven years.

Notwithstanding the inherent difficulties in estimating changes in house prices due to the varied nature of the housing stock, all evidence indicates house prices have risen strongly in Tasmania over recent years, following a relatively long period of modest increases in house prices. Increased house prices reflect the strength in the housing market in Tasmania at present and this has been coupled with very high occupancy rates in rental housing, which is likely to stimulate further dwelling investment.

Activity in the housing market is expected to remain buoyant over the next year in line with continuing low interest rates, further population growth and continued confidence in the Tasmanian economy.

### *Business Investment*

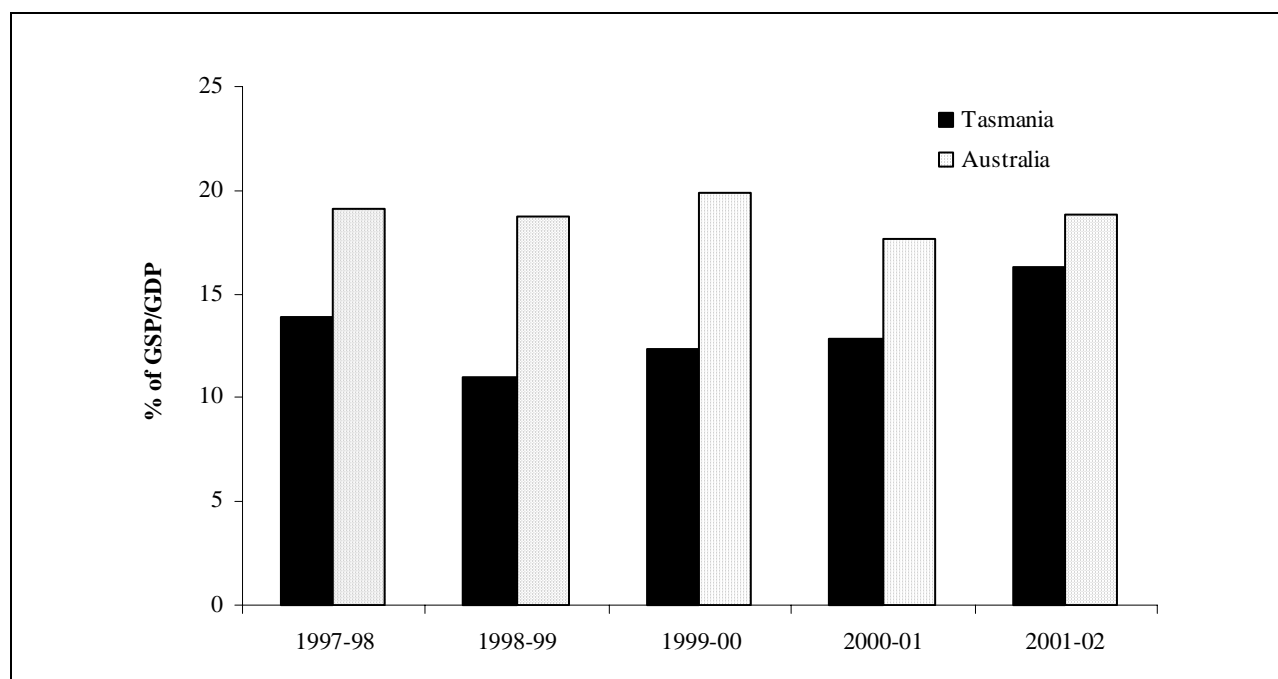
The level of business investment in Tasmania is very important for the Tasmanian economy, both as a component of economic activity and as a source of productivity improvements. High levels of business investment lead to increased competitiveness, growth in output and employment, and in higher real wages as a consequence of improved productivity.

Since the early 1990s, growth in private business investment in Tasmania has lagged well behind the national average. As a result, the level of business investment in Tasmania, measured per capita or as a proportion of GSP, has been significantly below the national average. As a result, Tasmania's private capital stock has not grown at the same rate as nationally, and growth in employment and real wages have consequently been below national levels.

One reason for the relatively low levels of local business investment is that those industries which have expanded in Tasmania in recent years have tended to be labour intensive rather than capital intensive, including transport and equipment manufacturing (eg Incat), cultural and recreational services, finance and insurance and property and business services (such as call centres). The performance of business investment may also reflect the relative decline of the State's more traditional capital-intensive sectors, such as wood and paper products manufacturing. In part, however, the relative weakness in investment has reflected a perception among Tasmania's larger companies – many of which are owned by national or international interests – that there had been a lack of attractive investment opportunities in Tasmania, or insufficient incentives for expansion, over much of the 1990s. One example is the low level of investment in mining in recent years.

Chart 2.12 shows that over the past five years, private investment in Tasmania as a percentage of GSP has been significantly below the national equivalent. The chart also shows, however, that since 1998-99, the share of GSP accounted for by private investment has increased and has been approaching the national share. This indicates a deepening of Tasmania's capital stock, which will lead to improvements in productivity and Tasmania's competitiveness, and to further growth in employment and real wages.

**Chart 2.12: Private Investment as a share of GSP/GDP: Tasmania and Australia**



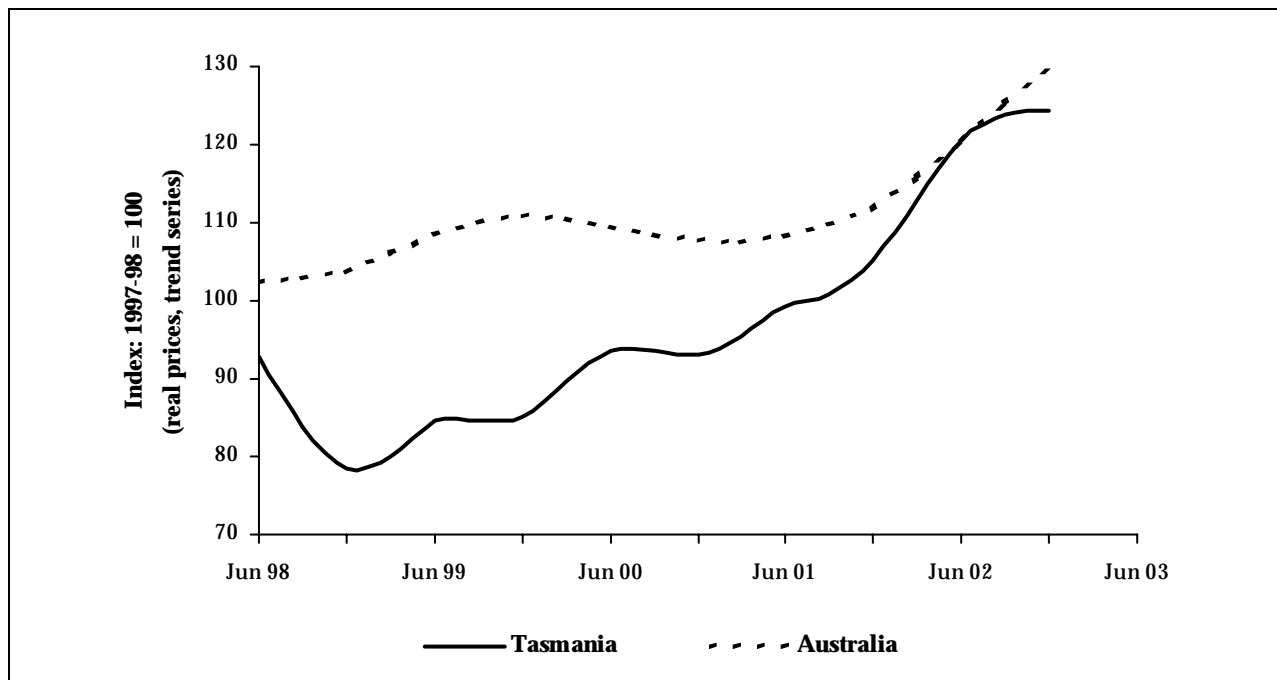
Source: *Australian National Accounts, State Accounts, ABS Cat No 5220.0.*

An example of this is the recent investment in natural gas infrastructure. While the one-off economic effects to Tasmania of the natural gas pipeline construction are major, of greater long term importance is the

impact of a new source of low cost energy on the competitiveness of Tasmanian businesses, in national and overseas markets and also within Tasmania, against imported goods.

Chart 2.13 shows the recent trends in private business investment, defined as private gross fixed capital formation (PGFCF) excluding dwelling investment and ownership transfer costs. The chart reveals the strong recent growth, which was 35.1 per cent in 2001-02, following earlier increases.

**Chart 2.13: Business Investment: Tasmania and Australia**



Source: *National Income, Expenditure and Product*, ABS Cat No 5206.0.

The significant improvement in 2001-02 was due to increased expenditure on all components of business investment, including non-dwelling construction, machinery and equipment, livestock and intangible fixed assets, such as copyrights, patents and mineral concessions. The largest component of business investment is expenditure on machinery and equipment (\$737 million in 2001-02), which includes expenditure on items such as plant, machinery and office equipment. In percentage terms, the most significant growth in business investment in 2001-02 was experienced in non-dwelling construction, which grew by 163.0 per cent, reflecting spending on natural gas and associated projects. Interest rates are likely to have supported the growth in investment over recent years as both nominal and real interest rates have been at historically very low levels during this period.

Surveys of business sentiment in Tasmania, such as the *Tasmanian Survey of Business Expectations* issued jointly by the Tasmanian Chamber of Industry and Commerce and the Commonwealth Bank of Australia, show that, despite some uncertainty surrounding the external environment, Tasmanian businesses are optimistic about their future performance and prospects for the economy are positive. The recent *Business Index* surveys by Yellow Pages and the *Australian Business Expectations* publications issued by the Australian Bureau of Statistics confirm these results. It is likely that business confidence has been boosted by the major energy projects in the State, the overall improvement in economic conditions and, most recently, the success of Incat in coming out of receivership and increasing its employment.

As detailed in the Economic Outlook section later in this Chapter, there are a number of significant developments on the horizon which are expected to support an increase in business investment over the coming year.

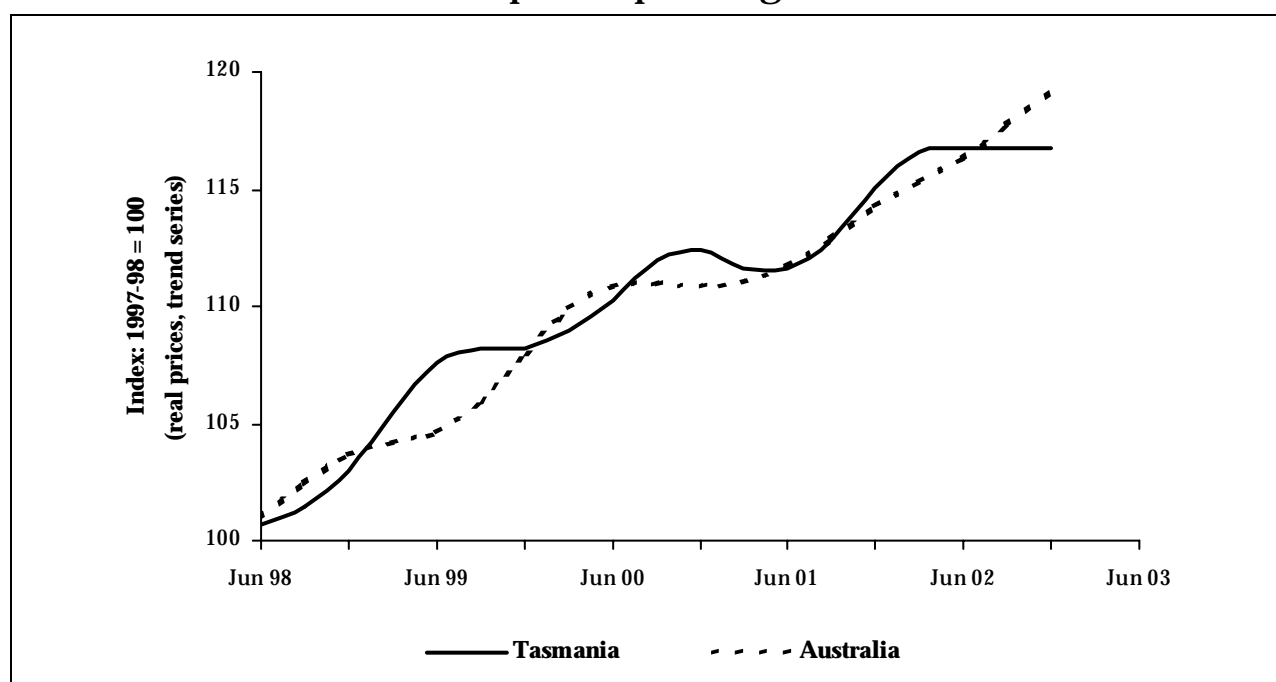
## The Public Sector in Tasmania

The public sector comprises the Commonwealth, State and Local Government sectors and includes government business activities.

The level of total public spending in Tasmania grew marginally through most of the 1990s. However, it has grown by a solid 21.6 per cent over the past four years, driven by a 12.3 per cent rise in 2001-02. The contribution of public spending to GSP in Tasmania has increased only marginally over the past decade, from an average of around 28 per cent in the early 1990s to 29 per cent over the past four years. By comparison, the contribution of the public sector at the national level to GDP has fallen from 24 per cent to below 22 per cent over the same period.

The largest component of public sector spending is government consumption expenditure, which has recorded significant rates of growth in recent years both nationally and in Tasmania, as Chart 2.14 shows. Over the past decade, government consumption expenditure has risen by an average annual rate of 3.0 per cent in Tasmania (2.9 per cent nationally), including an average increase of 3.8 per cent, in real terms, over the past four years.

**Chart 2.14: Public Consumption Spending: Tasmania and Australia**



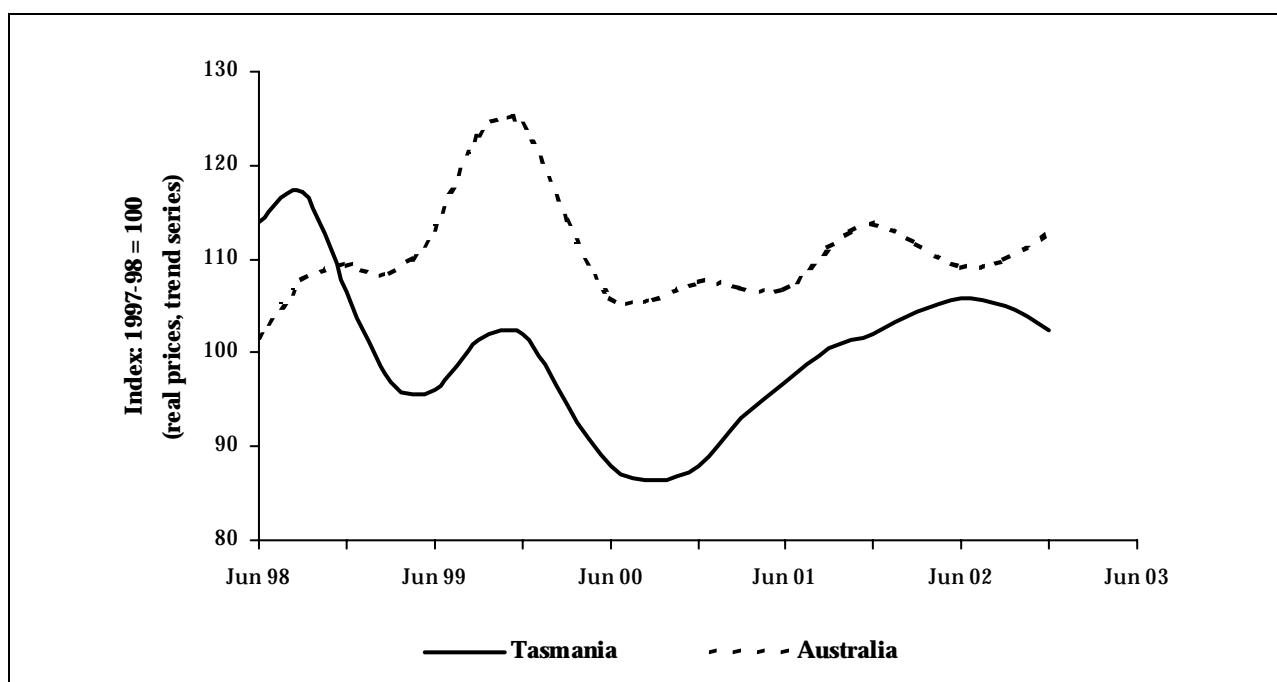
Source: *National Income, Expenditure and Product*, ABS Cat No 5206.0.

The significant increase in the level of public sector spending in Tasmania in 2001-02 was due to higher levels of public sector investment, particularly the purchase of the two Bass Strait vessels, combined with growth in government consumption expenditure. In 2001-02, public sector investment totalled \$784 million, equivalent to 6.5 per cent of GSP; 12 years earlier it was \$649 million or 6.5 per cent of GSP. Excluding the vessels, public sector investment in 2001-02 would have been close to the level of 2000-01, which was

4.2 per cent of GSP. While the cost of the vessels is included in the calculation of state final demand, it is not included in the calculation of GSP because the vessels are imported items.

The underlying decline in public sector investment since the early 1990s, as shown in Chart 2.15 (which excludes the purchase of the two Bass Strait ferries), reflects both some winding back of capital expenditure by the major government businesses - notably Hydro Tasmania - as well as a modest decline in investment by the General Government Sector. Nationally, there has been a sharp decline in investment by government businesses over the past decade due to a number of significant privatisations, including Qantas, the Commonwealth Bank, the airports and numerous electricity assets (Telstra remains classified as part of the public sector as less than 50 per cent of its shares are privately owned). To illustrate this point, capital expenditure by government businesses accounted for only 42 per cent of total public sector investment nationally in 2001-02, down from 53 per cent 10 years ago. The corresponding shares for Tasmanian government businesses were 66 per cent and 60 per cent respectively. Excluding the vessels, the figure for 2001-02 would have been close to the level of 2000-01, which was 45 per cent of public sector investment. The relatively greater importance of privatisations in other jurisdictions partly explains the slightly larger decline in the importance of the public sector nationally over the 1990s, relative to Tasmania.

**Chart 2.15: Public Investment: Tasmania and Australia**



Source: *National Income, Expenditure and Product*, ABS Cat No 5206.0.

The long-term trend towards a smaller public sector is reflected in the decline in public sector employment in Tasmania, which had been on a downward trend in the 11 years to 1999-00. Since 1999-00, there has been a moderate increase. The reduction of around 12 100 jobs over the 11 year period to 1999-00 was due to fewer jobs in both the state and Commonwealth sectors. In absolute terms, over 70 per cent of the job losses occurred at the state level, but in percentage terms the decline in Commonwealth Government employment in Tasmania had been nearly twice as large as the decline at the State level. The decline in State public sector employment in Tasmania reflected a program of redundancies undertaken by previous State Governments through the early to mid-1990s.

In the past four years, however, total public sector employment has risen by 2.4 per cent (or 1 000 persons), comprising a 3.8 per cent increase at the State Government level (about 1 200 persons), no notable change in Local Government employment, and a reduction of 3.7 per cent (or 200 persons) of those employed by the Commonwealth Government.

The privatisation of government enterprises is also relevant here, as it involves the transfer of employment from the public sector to the private sector. At the Commonwealth level for example, employees of Tasrail, Hobart and Launceston airports, the Commonwealth Bank and Qantas have been transferred to the private sector. Recently, the State Government announced its intention to sell the Civil Construction Corporation, the Tasmanian Grain Elevators Board and the Stanley Cool Stores Board, and to investigate the value of retaining non-core assets owned by Hobart Port Corporation, following a review of Government-owned businesses. This divestment activity will be reflected in the future transfer of employment from the public sector to the private sector.

There has also been a major reduction in employment in Tasmania's electricity supply industry, from 5 300 in the integrated Hydro-Electric Commission (then Tasmania's largest government business) at the peak of the dam building era to around 1 600 in the three electricity entities at present – that is, Hydro Tasmania (the generation business), Transend Networks Pty Ltd (the transmission business) and Aurora Energy Pty Ltd (the distribution/retail business).

While most key data are reported for 2001-02, the current year (2002-03) has seen a number of initiatives that will boost public sector spending and employment data. For example, in the 2002-03 Budget, the State Government announced a \$30 million Social Infrastructure Fund and significantly increased funding for the State's Capital Investment Program and recurrent agency allocations. Government business expenditure will also rise, reflecting increasing capital expenditure by Hydro Tasmania on wind generation projects, and expenditure by Transend on onshore Basslink related infrastructure and on substation upgrades and replacements throughout the state, including Norwood, Scottsdale, Derby, Mowbray, Risdon and Smithton. Information on the State's Capital Program is provided in Chapter 6 of this Budget Paper.

Further increases will be seen in 2003-04 with the announcement in the 2003-04 Budget of an Economic and Social Infrastructure Fund.

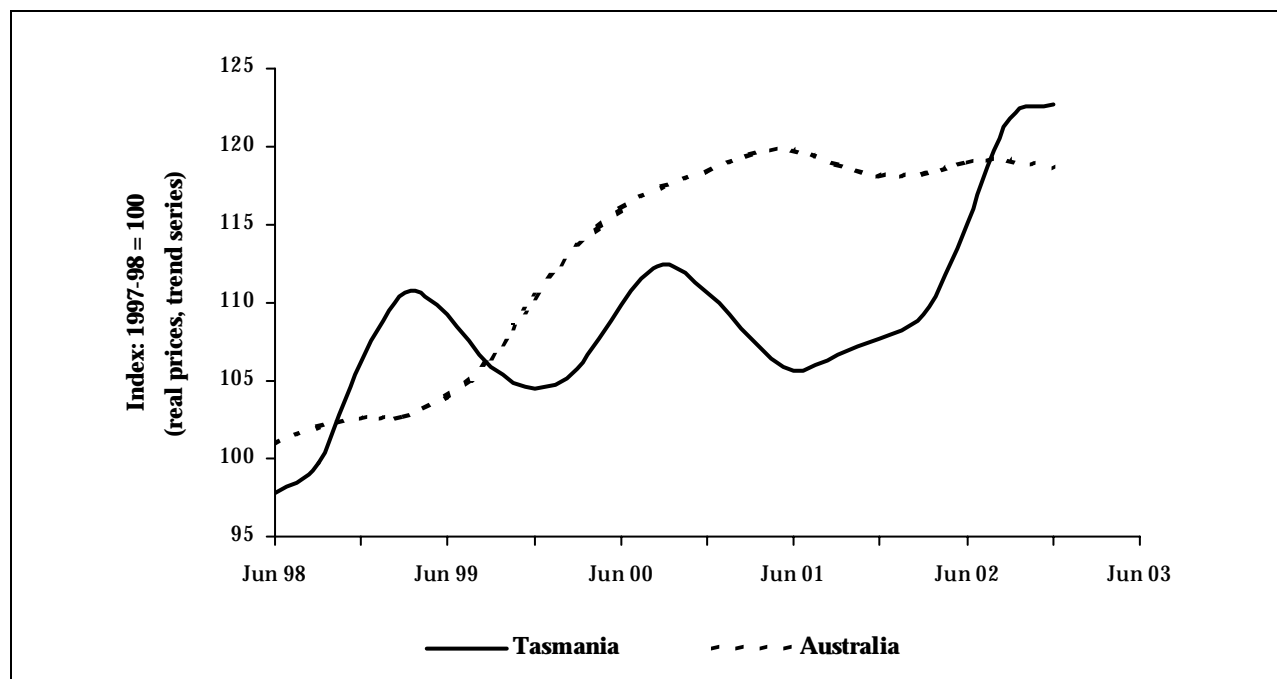
## Export Activity

As a small, open economy, exports (both overseas and interstate) have a major impact on the State's overall economic performance. While data are no longer officially compiled for the proportion of exports that are destined for interstate markets, it has been estimated that approximately half of Tasmania's output is exported, with around 60 per cent of the total value of these exports sent interstate and the balance to overseas destinations. The true extent of the State's overseas exports is understated by the available data, as a number of Tasmanian exports leave Australia via other states, and are therefore included in the export data of those states. It is not known how many of the State's exports are recorded in this manner, although some higher profile exports (such as Cadbury chocolates and Blundstone boots) are known to be treated this way.

Over the past four years, overseas exports of goods and services from Tasmania have averaged 20.8 per cent of the total value of State production, below the national average of 21.8 per cent. In 2001-02, this share was an estimated 20.9 per cent for Tasmania (21.7 per cent for Australia). Although a fall from the decade-high of 23.4 per cent recorded in 1997-98, this remains the third highest share of all the states and territories, behind the Northern Territory and Western Australia.

Growth in the real value of Tasmania's overseas exports began to decrease in the mid-1990s, despite growth at the national level. However, a return to positive growth occurred in 1996-97 and the real value of the State's overseas exports has subsequently increased at an average annual rate of 4.1 per cent. Nationally, the average annual rate of growth was 5.1 per cent over the same period.

**Chart 2.16: Real International Merchandise Exports – Tasmania and Australia**



Source: *National Income, Expenditure and Product*, ABS Cat No 5206.0.

Tasmania's export performance over the past 12 months has been particularly strong despite weakness in major global economies and the rising value of the Australian dollar. In the 12 months to March 2003, the (nominal) value of overseas merchandise exports rose by 7.3 per cent in year average terms to \$2 526 million, which is slightly below the record level of \$2 556 million recorded in the year to February 2003. Over this period, solid growth was recorded in exports to Hong Kong, Korea, the European Union (including the United Kingdom and Germany) and China.

The sale of catamarans has a significant impact on the value of exports for Tasmania. The change in export value for the year to March 2003 reflects the timing of catamaran sales as there were two catamarans from Incat Australia Pty Ltd and one from North West Bay Ships exported in the 12 months to March 2003, but only one exported in the previous year.

In 2001-02, Tasmania's major overseas merchandise export destinations were, in order of importance: Japan, ASEAN (which includes Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand), the United States, Hong Kong, South Korea, Taiwan, and the European Union. Japan remains Tasmania's largest single export market, accounting for 23.6 per cent (or \$548 million in nominal terms) of total merchandise exports in 2001-02. In terms of the remaining market share, ASEAN countries accounted for 14.7 per cent in 2001-02, the United States 12.3 per cent, Hong Kong 11.3 per cent, South Korea 9.0 per cent, Taiwan 6.5 per cent and the European Union 5.4 per cent. Over the past decade, the importance of Japan has declined, while export shares to Hong Kong and South Korea have increased.

The single most important export commodity category for Tasmania is 'Other and confidential items', which comprised 34.4 per cent of the value of total State merchandise exports in 2001-02. This category includes woodchip exports, pharmaceutical products and some catamaran exports. Other significant export categories in 2001-02 included non-ferrous metals (31.9 per cent), metallic ores (7.9 per cent) and seafood (7.3 per cent).

As a result of Tasmania's reliance on overseas exports, the State's economic outlook is heavily influenced by the growth prospects of its major trading partners as well as the prices of key commodity exports, notably aluminium, zinc, copper, tin, beef and wool.

Economic trends in the mainland states are also of key importance to Tasmania, given the large proportion of exports that go to interstate destinations. A slowdown in the national economy exerts a negative influence on the Tasmanian economy, often with a lag. This was evident with the national economic downturn in 2000-01 following the introduction of the GST in July 2000, which had an adverse effect on Tasmania's exports to the mainland, and thus on the State's overall economy.

## ECONOMIC OUTLOOK

Table 2.3 outlines Treasury's estimates for key economic variables for Tasmania for the current financial year and Treasury's forecasts for 2003-04. The forecasts show that the general recovery since early 1999 is expected to continue into 2003-04, despite some uncertainty surrounding the external environment. It is also anticipated that the recovery will extend into later years as a result of the economic benefits of the suite of energy and related infrastructure projects.

**Table 2.3: Tasmanian Economic Aggregates and Forecasts**

	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Forecast</b>
<b>State economic activity (real, % change)<sup>1</sup></b>	.... <sup>2</sup>	2.5	3.5
<b>Employment (year average, % change)</b>	(1.2)	0.9	2.2
<b>Level of employment (as at year end, trend, '000s)</b>	198.2	202.6	205.8
<b>Labour force participation rate (year average, %)</b>	58.3	58.5	59.2
<b>Unemployment rate (year average, %)</b>	8.8	8.8	8.4
<b>Consumer price index (year average, % change)</b>	2.1	2.9	2.3
<b>10 year Treasury bond rate (as at year end, %)</b>	5.95	5.25	5.90
<b>Population (year average, % change)</b>	0.14	0.25	0.30

Sources: Actual data - Australian Bureau of Statistics and Reserve Bank of Australia;  
Estimates and Forecasts - Department of Treasury and Finance.

Notes:

1. Treasury's estimates of growth in real state economic activity for 2002-03 and 2003-04 focus on the underlying movements in output and are derived from trend projections based on a variety of indicators. The estimates are not designed to be consistent with the experimental GSP series produced by the ABS, nor do they purport to forecast the ABS GSP estimates.
2. Actual unavailable. See note 1. The ABS GSP estimate for that year was 3.3 per cent.

## 2002-03 Estimates

On the basis of the financial year performance to date, Treasury expects that the Tasmanian economy will experience moderate economic growth in 2002-03. Growth is expected to be higher than forecast in the 2002-03 Budget (1.9 per cent), despite the generally negative external environment, including weakness in key global markets, the mainland drought and the uncertain geopolitical environment over the past year.

State final demand rose by 8.8 per cent in the year to December 2002 (the latest available data), with the strongest contributions from consumer spending and business investment. Dwelling investment also continued its trend of strong growth, which began in calendar 2001. This trend has been assisted by interest rates being maintained at low levels and by sharp falls in stock markets, which resulted in investors favouring property in their investment strategies.

The value of the Australian dollar has increased against the US dollar and some other major currencies since early 2002. Despite this, and a continued weakness in key global markets, Tasmania's overseas export performance since early 2002 has been relatively strong.

On current trends, employment is set to rise by around 0.9 per cent for 2002-03 in annual average terms, following an easing of 1.2 per cent in 2001-02. This equates to an expected increase of 4 400 jobs through the year to June 2003. Consistent with this rise in employment, the participation rate is expected to have increased from an average of 58.3 per cent in 2001-02 to an average of around 58.5 per cent in 2002-03, as more working age persons enter the job market with the confidence of finding work. An increase in the labour force can, in the short-term, have an adverse effect on the unemployment rate as there will be a lag between when persons enter the job market and when they secure employment. As such, a slight increase in the unemployment rate for 2002-03 is estimated.

Tasmania's population grew by 0.14 per cent in 2001-02 and, based on current data, it is expected that population growth will have strengthened to 0.25 per cent over 2002-03. The return to population growth has been a positive for the State's economy, as it has contributed to stronger consumer demand and investment. The growth in population also indicates confidence in the labour market, as it reflects more interstate (and overseas) people arriving and fewer Tasmanians leaving in search of job opportunities.

Treasury estimates that the increase in the Tasmanian CPI for 2002-03 will be 2.9 per cent. The estimate is below the most recent CPI increase of 3.2 per cent for the year to March 2003. The latest CPI increase is likely to be due, in part, to higher oil prices recorded in the March 2003 quarter in the lead up to the military conflict in Iraq, as well as the impact on prices of the mainland drought. Nationally, the CPI for the year to March 2003 increased by 3.1 per cent, although the Reserve Bank believes that the underlying rate of inflation is still within its target range of between 2 per cent and 3 per cent.

In terms of private sector activity, construction of the transmission phase of the Tasmanian Natural Gas Project was completed during 2002-03. Natural gas is now flowing via the undersea pipeline between Longford in Victoria and Bell Bay in northern Tasmania, with one unit of the Bell Bay Power Station successfully converted from oil to gas operation. The two transmission laterals of the pipeline have also been completed, linking the North-West and South of the State to Bell Bay, and some major customers have already been connected.

The Government has signed an agreement with a New Zealand company, Powerco, to commence the development of a gas distribution network. It is expected that the rollout of the gas network to major commercial customers will commence early in 2003-04. The availability of gas will provide a major stimulus to construction and related industries, and to the economy more generally, over a number of years. More

importantly, however, the arrival of gas in Tasmania will allow for the potential establishment of a new set of industries over the longer term.

Construction of another of the State's major energy projects, the Basslink project, began in 2002-03 following final approval by the Tasmanian, Victorian and Commonwealth Governments and financial close. Basslink involves the construction of a 360 kilometre electricity cable (including a 295 kilometre undersea section) between Loy Yang in Gippsland, Victoria and Bell Bay. Basslink will link Tasmania to the National Electricity Market (NEM) and allow Tasmania to export up to 600 megawatts of hydro and wind power to Victoria during its peak summer months. The cable will be available to import electricity from the mainland, significantly reducing the exposure of the Tasmanian system to low rainfall periods. Linking the Victorian and Tasmanian electricity markets will create more competition in the State's energy market to the benefit of consumers.

While the construction phase of Basslink will provide jobs for Tasmanians, the main economic benefit to the State will come from a more competitive energy market (including gas) and the industry spin-off benefits that will derive from Hydro Tasmania's renewable energy expansion. In particular, Basslink will make wind energy generation (of which some capacity is already installed) viable as mainland retailers and consumers are able to access Tasmanian electricity. These projects are creating a significant number of construction jobs and ongoing jobs after construction. Basslink is expected to be commissioned in late 2005.

The introduction of the two Bass Strait ferries and downward pressure on air fares arising from the entry of Virgin Blue into the State have had a strong positive impact on the State's tourism industry. Visitor numbers have increased significantly and hotel occupancy rates are at very high levels. There is confidence in the industry that the current growth in the tourism industry is sustainable, with strong investment in tourism-related infrastructure projects either completed, underway or planned. These developments have contributed to employment growth, and it is expected that these impacts will continue into 2003-04 and beyond.

Treasury expects the underlying growth rate in the Tasmanian economy for 2002-03 to be 2.5 per cent. This may not be reflected in the ABS GSP estimate for Tasmania. As discussed earlier in this Chapter, Treasury urges caution in the use of the state GSP data from the ABS as they tend to be quite volatile and often subject to substantial revision, especially for a small economy such as Tasmania. These data have not always been consistent with partial economic indicators and hence the ABS continues to classify this series as 'experimental'. As outlined in the footnote to Table 2.3, Treasury's estimates of real state economic activity are designed to reflect the underlying movements in output and are not directly comparable to the ABS estimates.

## 2003-04 Forecasts

### *State Economic Activity and State Final Demand*

Despite a weak global economic environment, and the possibility of a subdued national economy, the Tasmanian economy is expected to remain relatively resilient over 2003-04. This forecast is based on a number of positive factors that are expected to insulate the State to a certain extent from the external environment.

These positives include spending by the State Government from the new Economic and Social Infrastructure Fund (ESIF). It is anticipated that approximately \$43.5 million will be spent from the ESIF in 2003-04. Positives also include the commencement of work on the distribution phase of the Tasmanian

Natural Gas Project, continuing construction of Basslink and energy projects (such as wind farms) that will link into Basslink, tourism-related infrastructure developments resulting from the introduction of the two Bass Strait ferries, and historically low levels of official interest rates. With some uncertainty surrounding the contribution that external growth will make to the Tasmanian economy in 2003-04, the State Government's additional fiscal stimulus in this Budget is designed to underpin Tasmania's economic performance and maintain the positive momentum in terms of output and employment growth that has developed since early 1999.

However, if there is prolonged weakness in the global economy, this may have a significant negative impact on the national economy, in turn impacting on Tasmania's economy, particularly through its exports. The rising value of the Australian dollar also has the potential to reduce demand for the State's exports or to erode profit margins for Tasmania's export industries. Furthermore, while Tasmania was relatively insulated from the severity of the drought, growth in the national economy will continue to be constrained until the farming sector has fully recovered from the drought's impact. As such, Tasmania's economy is likely to be affected by general flow-on effects from national economic conditions.

On current trends, Treasury expects that Tasmania's economic growth rate will be 3.5 per cent in 2003-04, a strong improvement on the estimated 2.5 per cent for 2002-03. Commonwealth Treasury, in its *Mid-Year Economic and Fiscal Outlook 2002-03*, estimates that Australia's GDP will increase by around 4.0 per cent in 2003-04. However, more recent private sector forecasts of growth are generally lower (around 3.0 to 3.5 per cent).

After strong growth in 2001-02, led primarily by the acquisition of the two Bass Strait ferries, it is likely that government spending will have declined in 2002-03. However, without the ferries, government spending would have recorded moderate growth in 2002-03. Government spending, as announced in the 2003-04 Budget (particularly through the Economic and Social Infrastructure Fund), is expected to continue to make a solid contribution to overall economic growth in 2003-04.

The anticipated impact of the energy and related infrastructure projects will continue to provide a major boost to the State's economy in 2003-04. In particular, the expected investment associated with the natural gas, wind power, water infrastructure and Basslink projects will have a significant impact on employment and output.

Driven by the energy and related infrastructure projects, the outlook for business investment has been very positive in recent business surveys. This is despite concerns over weakness in the international environment. As a result, Treasury expects that business investment will continue to be strong in 2003-04, supported by historically low official interest rates, the State Government's fiscal policies, and the impact of energy and related projects. However, there is a downside risk that the external economic environment may have a dampening effect on business investment decisions in the State. In relation to dwelling investment, it is expected that, after two very strong years, growth may not be as high in 2003-04. However, expectations of continued low interest rates in the short term at least, together with population growth and sustained interest in Tasmanian property from interstate investors, are likely to result in continued high levels of dwelling investment.

Growth in the other key component of final demand, consumer spending, is expected to continue in 2003-04. Consumer spending rose by 3.4 per cent in 2001-02 and the year to date performance for 2002-03 points to a similar increase, aided by relatively strong wages growth and population growth. Over the coming year, it is expected that consumer spending will remain strong, supported by solid growth in employment, relatively low interest rates and continued population growth. The downside risks to

consumer spending are the possibility of an adverse national and international environment, which may affect consumer confidence in Tasmania, and higher interest rates.

Consistent with the improved economic prospects, population growth is expected to strengthen to 0.3 per cent in 2003-04, following estimated growth of 0.25 per cent in 2002-03.

The State's overseas export performance is expected to continue to be relatively strong in 2003-04 following the strong performance during 2002-03. While some of the State's key overseas markets have experienced economic weakness in recent times, this has often not been reflected in a decrease in the State's exports to those markets. Tasmania also has the advantage that a major share of the State's overseas exports go to the East Asian region, which is currently the strongest growing economic region in the world.

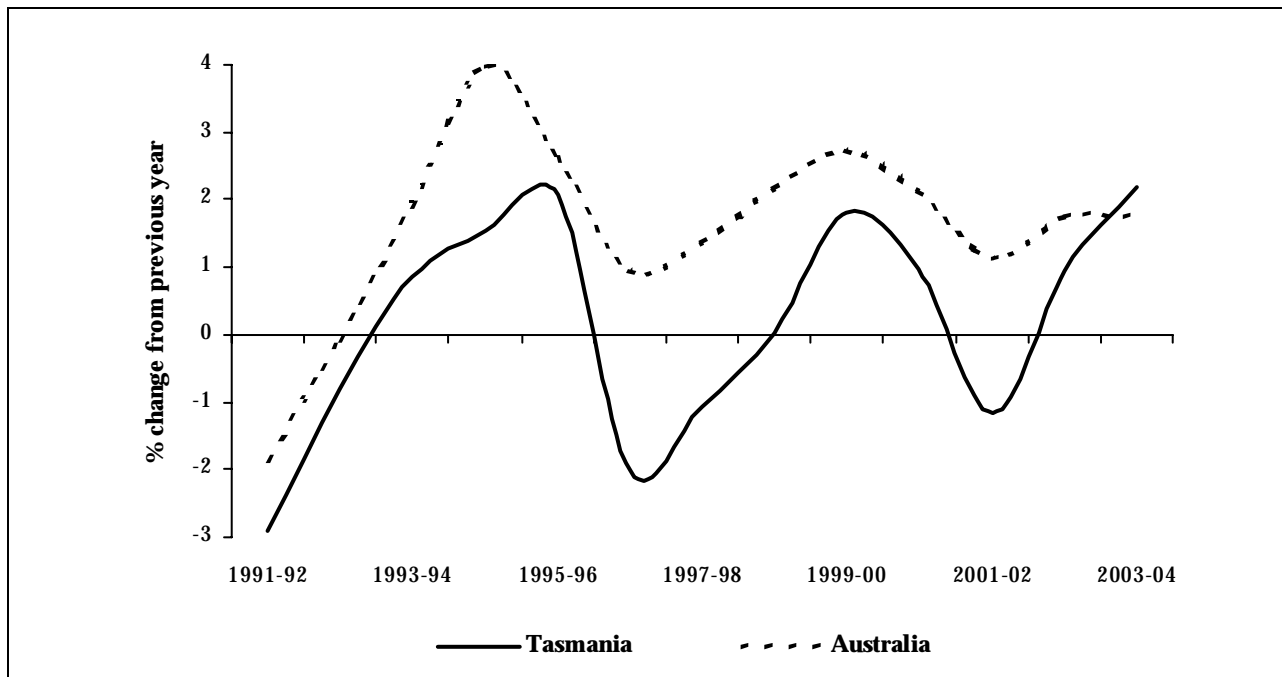
The general outlook for commodity prices in 2003-04 is for lower prices than in 2002-03. However, despite the general outlook, official projections by the Australian Bureau of Agricultural and Resource Economics (ABARE) point to an increase in the price of most of the State's key commodity exports next year. For 2003-04, ABARE expects increases in the \$US price of zinc (10.1 per cent), copper (9.3 per cent), lead (9.2 per cent), aluminium (7.9 per cent), tin (6.8 per cent), and silver (1.4 per cent). ABARE is also forecasting a 6.2 per cent increase in the price for beef (in \$US terms), but an 11.2 per cent decline in the price of wool. However, wool prices have been high in recent years and ABARE's forecast price for wool in 2003-04 is still at a historically high level.

The Australian dollar has appreciated significantly against the US dollar since the beginning of 2002. There is a consensus that further appreciation is likely during 2003, which will have a negative impact on Australia's exports. However, the Australian dollar's performance has been in part due to a weakening in the US dollar against most major currencies. As the Australian dollar has not appreciated significantly against other major currencies, Australia's relative competitive position has not changed significantly to date. Overall, the State's overseas exports are likely to record another year of underlying growth, though the year on year data may continue to be affected by the timing of catamaran sales.

### *Labour Market and Prices*

Based on current trends, Treasury expects employment to be 0.9 per cent higher in 2002-03 as a result of a stronger State and national economy. Treasury expects employment growth to further strengthen in 2003-04 to 2.2 per cent, which, as shown in Chart 2.17, is greater than the Commonwealth Government's forecast for the national employment growth rate.

**Chart 2.17: Annual Employment Growth – Actual and Forecast: Tasmania and Australia**



Sources: *The Labour Force, Australia, Preliminary Data on Floppy Disk*, ABS Cat. No 6271.0, Department of Treasury and Finance and Commonwealth Government.

There are a number of specific developments that Treasury has taken into account in formulating its employment forecast for 2003-04. These include:

- the impact of the State Government's fiscal stimulus from the past two Budgets and the 2003-04 Budget;
- commencement of construction of the distribution network for natural gas and the opportunities this will provide to businesses;
- continued expansion in the State's call centre industry;
- construction of Basslink, as well as Hydro Tasmania's wind energy projects; and
- a number of tourism developments, supported by the significant rise in visitor numbers following the success of the Bass Strait ferries and cheaper air fares, including the completion of the West Coast Wilderness Railway.

Against the backdrop of a stronger improvement in the labour market in 2003-04, the State's participation rate is forecast to average 59.2 per cent for the year. This will be the second consecutive annual improvement from an average level of 58.3 per cent in 2001-02 and the estimated average level of 58.5 per cent in 2002-03.

Treasury has forecast a fall in the unemployment rate in 2003-04 to an average level of 8.4 per cent, from an estimated 8.8 per cent in 2002-03, as the unemployed take some of the additional jobs.

Consistent with this improvement in the labour market, it is expected that the State's population will continue to grow at a slightly faster rate over the coming year. Treasury expects the recent trend in population growth to continue, with growth of 0.3 per cent in 2003-04.

In terms of the outlook for prices, Tasmania's CPI is forecast to increase by 2.3 per cent in 2003-04, following an anticipated rise of around 2.9 per cent in 2002-03. It appears that prices have now settled into a steady trend following the abnormal impact of the Commonwealth's tax reform package on the CPI. On the basis of CPI data to date, the local inflation rate is expected to be around the same as that for the rest of Australia. Nationally, inflationary pressures are expected to ease slightly in 2003-04 in line with expected lower oil prices, and the recovery from the national drought. Furthermore, the strengthening Australian dollar will also ease pressure on prices.

## Summary

The forecast economic growth rate of 3.5 per cent for 2003-04, following anticipated growth of 2.5 per cent in the current financial year, indicates that prospects for the Tasmanian economy remain strong after the downturn of the 1990s. While the external environment has been a cause for concern since 2001, the measures put in place by the State Government have been supporting the State's economic performance and maintaining the positive momentum, in terms of output and employment growth, that has emerged over the past four years.

The Tasmanian Natural Gas Project, Basslink and the investment arising from these infrastructure developments, together with sustained boosts to tourism due to improved sea and air access to Tasmania, have the potential to significantly boost the Tasmanian economy in the medium to longer term, such that the State's economic performance could again approach that of the national economy.