

# Tasmania's Recent Economic Performance

A Longer Term Perspective

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## Introduction

This paper was developed as part of the Tasmanian Budget 2013–14 and was included in Budget Paper No.1, Chapter 2, Appendix 2.1 *Tasmania's Recent Economic Performance – A Longer Term Perspective*.

Tasmania's economic conditions are currently unfavourable. State final demand has been in decline in recent quarters and the value of international exports remains well below the levels before the global economic downturn. As a result, it is expected that Tasmania will experience negative economic growth in 2012–13 and some further weakening in the labour market, following relatively modest economic growth in recent years.

Some commentators make the comparison between the current economic climate in Tasmania and the period of rapid growth from 2001 to 2006, when the growth rates of some key economic indicators, such as investment, employment and final demand, were similar to that of Australia as a whole.

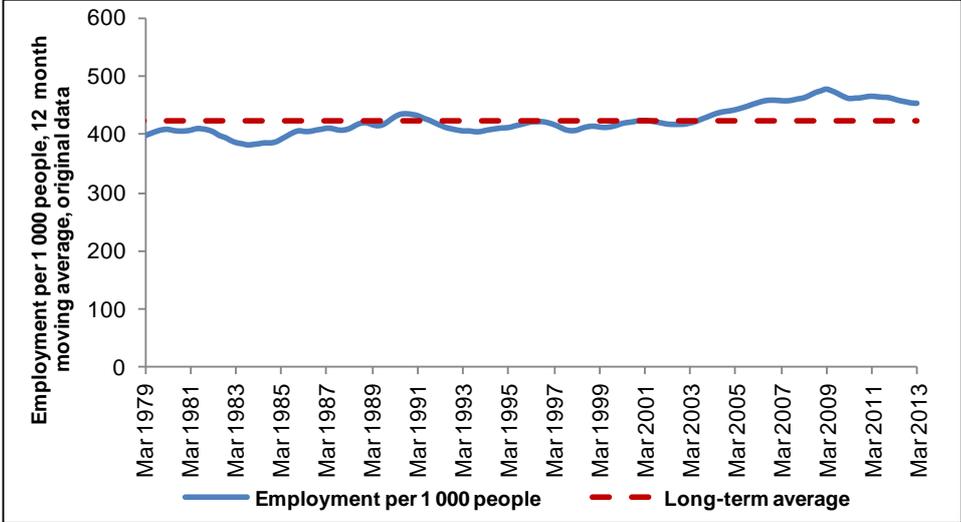
This paper examines Tasmania's recent economic performance against the longer term trends. It does this through examining the three principal ways in which Tasmanian households engage in the economy. Firstly, they offer labour. Secondly, households purchase and consume goods and services. Thirdly, households benefit from services provided by councils, the State Government and the Australian Government.

Rather than focusing on quarterly or annual changes in the key economic indicators for the State as a whole, the approach taken has been to examine changes in the levels of these indicators as they affect Tasmanian households.

# Tasmania’s Recent Economic Performance: A Longer Term Perspective

Over recent decades, the percentage of the population in employment has been very stable (Chart 1).

**Chart 1: Employment per 1 000 People – Tasmania**

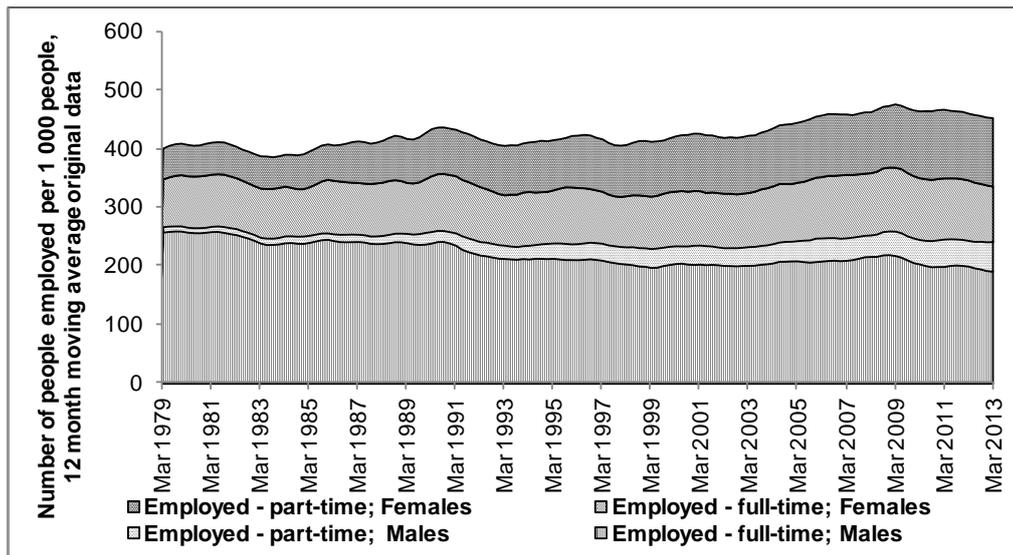


Source: Calculated statistics based on *Labour Force*, ABS Cat No 6202.0 and *Australian Demographic Statistics*, ABS Cat No 3101.0.

The long-term average is around 425 persons per 1 000 people in the population, which includes children under 15 years and those aged 65 years and over. In recent years, this number has been above the long-term average, including the entire period since the global economic turndown in 2008.

A closer examination of the composition of employment in Tasmania since 1979 reveals that male employment, as a share of the total population, has fallen, particularly males in full-time employment, while female employment has increased markedly (Chart 2). The share of males employed fell from 27 per cent of the population in the March quarter 1979 to 24 per cent in the March quarter 2013, which was more than offset by the increase in the share of females employed, from 13 per cent to 21 per cent.

**Chart 2: Employment per 1 000 People by Sex and Status – Tasmania**



Source: Calculated statistics based on *Labour Force Detailed*, ABS Cat No 6291.0.55.001 and *Australian Demographic Statistics*, ABS Cat No 3101.0.

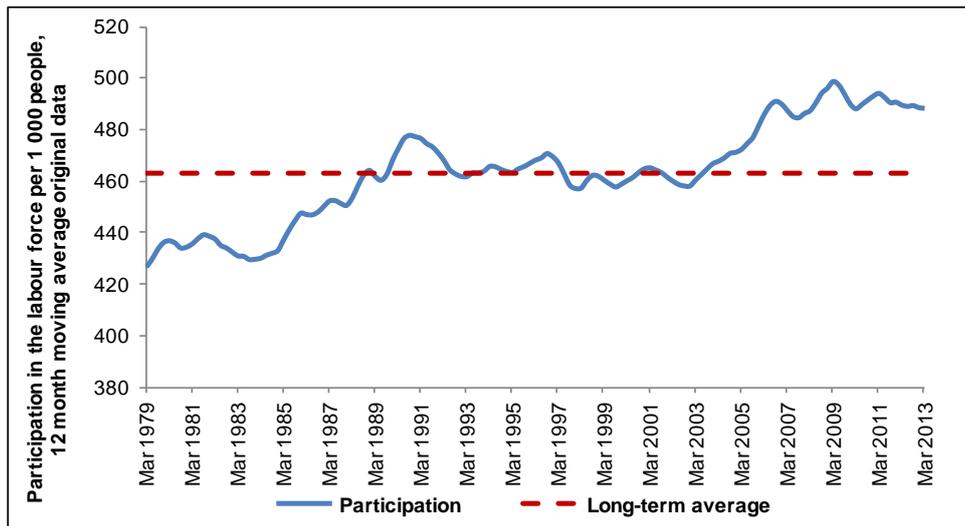
These trends reveal an increase in employment opportunities overall for households over this period, and greater engagement of households in the labour market. Importantly, there has been no sharp decline in these trends in recent quarters and the current share of the total population in employment remains above the long-term average.

There has been an increase in part-time employment for males and females. However, the average number of hours worked per week each year, expressed in terms of Tasmania's entire population and not just those employed, has been higher in recent months than for many years since 1978–79. In March 2013, the average number of hours worked per week was 13.6, not significantly below the average over the entire period of 13.9 hours per week.

The overall trend has been some substitution of female employment for male employment within households, with very little change in average number of hours worked, expressed in terms of the population as a whole.

As the composition of the population changes over time, the size of the potential labour force will also change. The participation rate measures the share of the working age population (which includes those aged 65 years and over) that are in employment or are unemployed. This labour force participation, expressed as a share of the total population, has been increasing in recent decades (Chart 3). The increase is due, in part, to demographic change, with the share of persons aged under 15 years declining sharply and the share of those aged 65 years and over accelerating over this period.

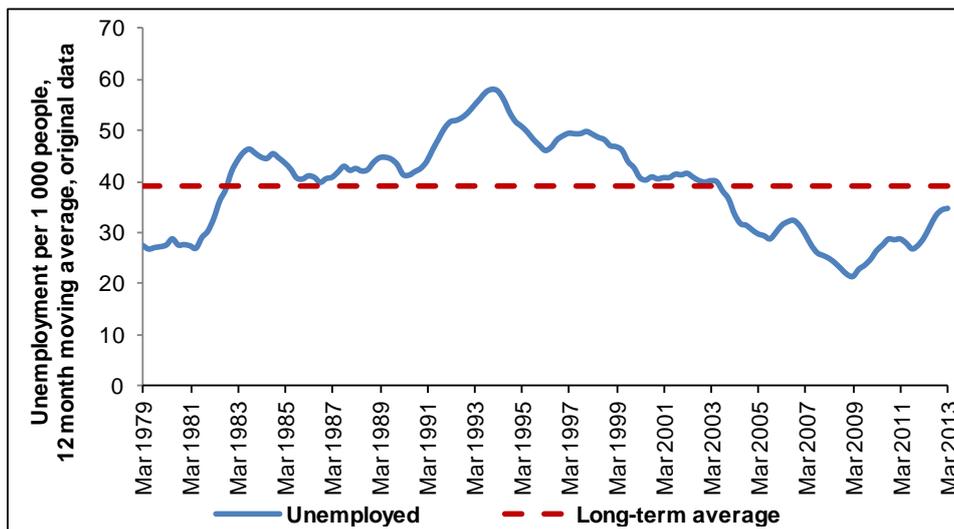
**Chart 3: Labour Force Participation per 1 000 People – Tasmania**



Source: Calculated statistics based on *Labour Force*, ABS Cat No 6202.0 and *Australian Demographic Statistics*, ABS Cat No 3101.0.

Despite the growth in the labour force and the weaker labour market in recent years, the number of persons unemployed, expressed as share of the population, has been relatively low since 2003 (Chart 4).

**Chart 4: Number of Unemployed per 1 000 People – Tasmania**

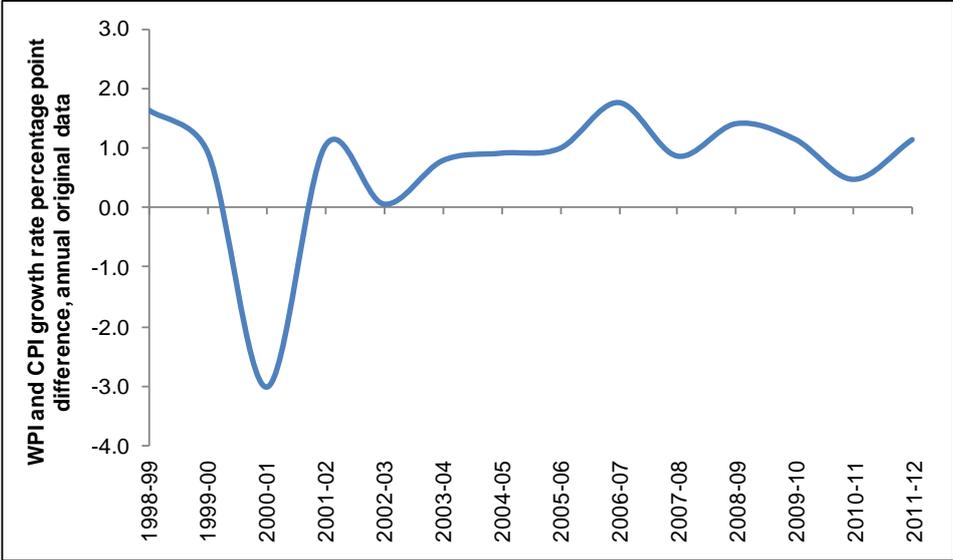


Source: Calculated statistics based on *Labour Force*, ABS Cat No 6202.0 and *Australian Demographic Statistics*, ABS Cat No 3101.0.

The average number of unemployed persons, per 1 000 of the population, has been around 39 persons since 1979. This reached as high as 58 persons in the December quarter 1993, after which the trend was downwards for almost two decades to around 21 persons in the March quarter 2009. While the number has recently increased, to 35 persons in the March quarter 2013, it remains below the long-term average.

The final factor in examining households' engagement with the labour market is the real wage rate. Real income, per hour worked, increases when the nominal wage rate increases by more than the rate of increase in prices. Since 1997–98, the average wage rate in Tasmania has consistently increased by more than the increase in the Consumer Price Index, except in 2000–01 (Chart 5). The CPI increase in 2000–01 was artificially high, due to the introduction of the GST, for which households were compensated by lower income tax rates and the removal of some other taxes. This has meant that household real income has been steadily increasing over this period, including in recent years.

**Chart 5: Difference Between Growth of Wage Price Index and Consumer Price Index – Tasmania**



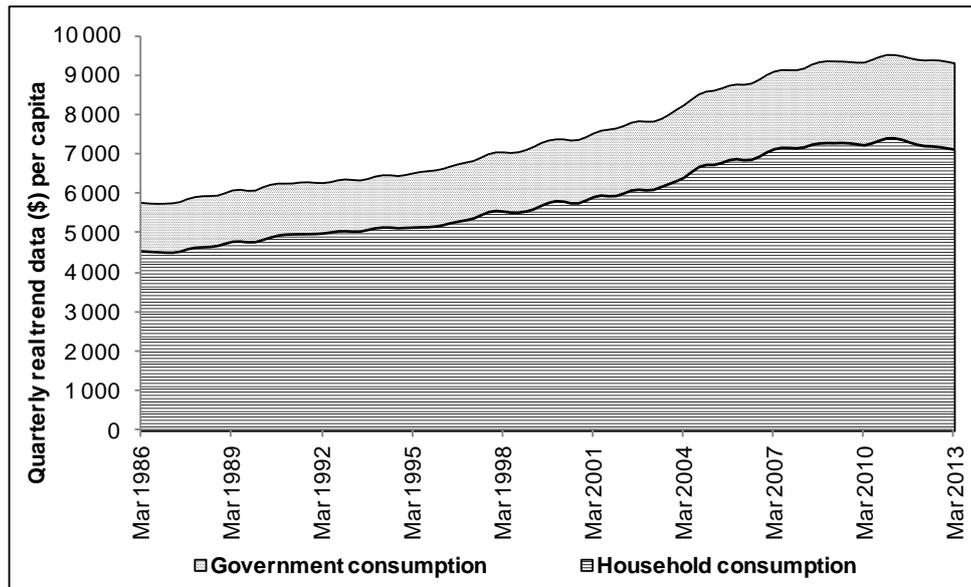
Source: Calculated statistics based on *Wage Price Index*, ABS Cat No 6345.0 and *Consumer Price Index*, ABS Cat No 6401.0.

In summary, in recent decades there has been a gradual increase in the share of the population in employment, with the number of hours worked remaining relatively stable and the real wage increasing consistently over this period. In the recent years, this trend has continued, with very little change except for the increase in the number unemployed, though this remains below the long-term average.

The growth in real household income, in average terms, is reflected in the very strong increase in real household consumption. Since 1985–86, when the current series commenced, real per capita household spending has increased by just under 55 per cent, from around \$4 600 per quarter in late 1985 to \$7 100 in late 2012 (Chart 6). There has been a very recent decrease of just under 4 per cent from the peak of \$7 400 in early 2011.

Recent levels of real expenditure remain greater than in all the years before 2007. For some indicators there has been little recent change, such as new motor vehicle sales (which includes fleet sales), where the number of vehicles purchased in the December quarter 2012 was above the long-term average.

**Chart 6: Consumption (Household and Government Spending by Households) per Person – Tasmania**



Source: Calculated statistics based on *Australian National Accounts: National Income, Expenditure and Product*, ABS Cat No 5206.0.

Household living standards are determined, in part, by the government services that are provided, including health and community services, education, housing support and welfare payments. The value of these services provided to households has also increased in recent decades. Chart 6 also includes an indicative estimate of the value of these services per person in Tasmania, set at 70 per cent of total public consumption, and shows how the value of these services has increased since 1986. According to this estimate, the total value of goods and services consumed per person has increased from around \$5 700 in late 1986 to a very recent peak of just over \$9 500 in late 2010, with a decline of just under 2.0 per cent from this level in late 2012. At the same time, the total savings by households in Tasmania has been increasing sharply, as discussed below.

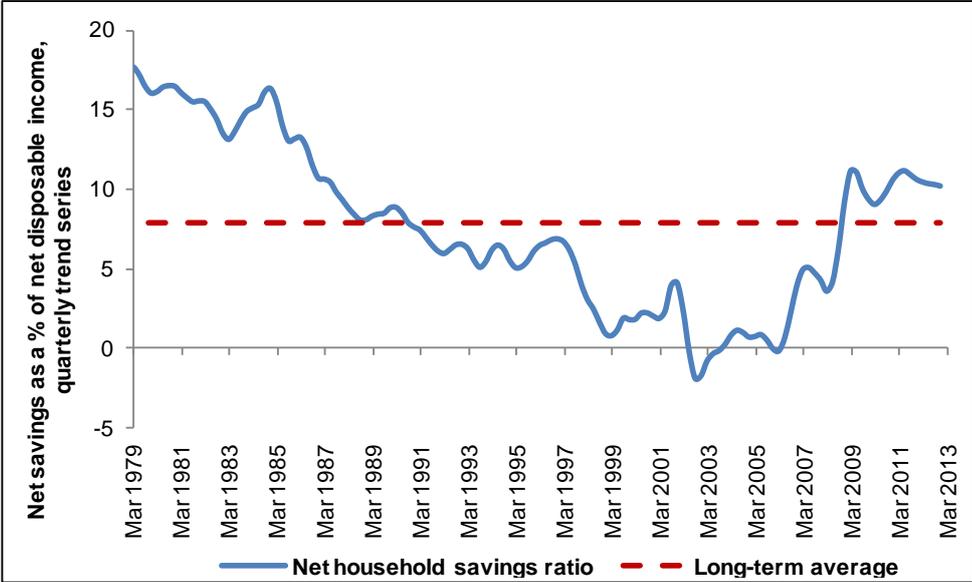
The data strongly suggest that the overall living standards of Tasmanian households have eased only very marginally in recent quarters and they remain very high, when a long-term perspective is taken and allowance is made for the increased household savings. This is consistent with the data on the engagement of Tasmanian households with the labour market where, for most indicators, there has been only a very modest decline recently.

This state-wide analysis does not reveal the range of outcomes for different household types. In particular, many households face hardship as a result of personal circumstances as well as economic factors, such as short-term cyclical trends that result in redundancies. In addition, structural changes arise as the Tasmanian economy evolves and grows, which result in the growth of some industries but the decline of some others, most recently manufacturing and forestry-related industries. While attention will always be paid to the needs of those adversely affected by these changes, it remains important to identify the economy-wide trends and to focus on areas of potential growth.

In the early 2000s, Tasmania entered a period of growth that was similar to that of Australia as a whole. Between 2000–01 and 2005–06, private investment in Tasmania grew at almost twice the national rate, state final demand grew more strongly than national final demand, and employment growth rates in Tasmania and nationally were very similar. Business and consumer confidence levels were both high and much of this growth was driven by strong household spending.

The first observation is that the period from 2000–01 and 2005–06 was characterised by strong growth in household spending. This was due largely to the exceptionally low (and sometimes negative) net household savings (Chart 7). This compares with savings rates that were close to 20 per cent in the 1970s and averaged at around 8.0 per cent since 1979. This chart shows national household savings rates; Tasmanian households demonstrated a very similar pattern.

**Chart 7: Net Household Savings Ratio – Australia**



Source: Calculated statistics based on *Australian National Accounts: National Income, Expenditure and Product*, ABS Cat No 5206.0.

A large part of the recent reduction in expenditure by Tasmanian households is due to this increase in household savings. In recent years, households have chosen to build up their assets, or reduce their debts more quickly, rather than sustain very high levels of consumption.

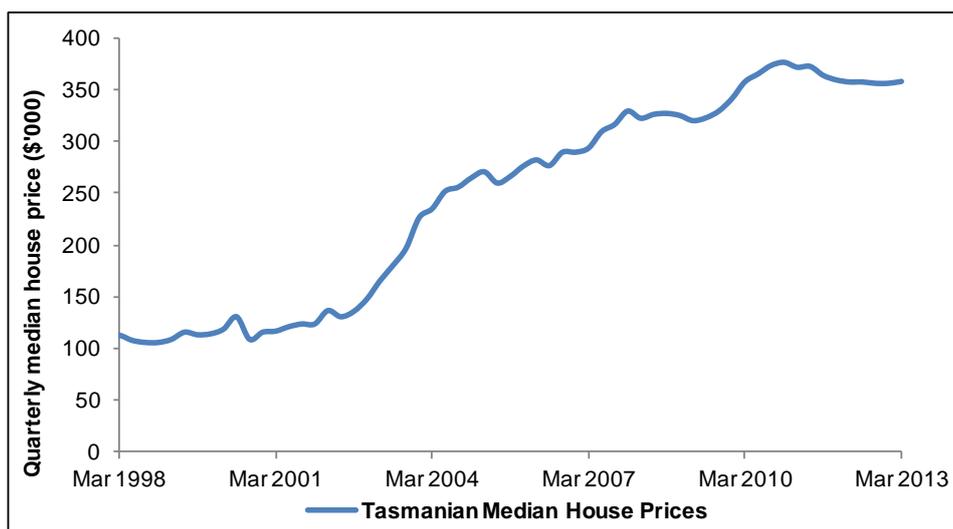
In part, the reduction in net savings arose as a result of the sharp increase in household wealth, due to strong growth in house prices and equity values. This wealth effect contributed to higher consumption and encouraged households to convert some equity in dwellings into debt at a time when debt servicing costs were relatively low. Household confidence levels were strong, supported by an expectation that property prices would continue to increase.

An additional factor that stimulated household spending, and the housing sector in particular, was increased interstate migration into Tasmania, which reached very high levels over this period and substantially boosted Tasmania’s population growth rate.

The second observation is that house prices in Tasmania were very low at the start of this period. Prior to 2001, there had been an upward trend in mainland house prices, while in Tasmania there had been very little movement. Relative to wages and employment opportunities, house prices were particularly low in Tasmania compared to the mainland. There is some evidence that the disparity in housing affordability contributed to the increase in migration into Tasmania.

House prices increased rapidly in the five years to 2006, with the median house price more than doubling from \$116 000 to \$282 500 (Chart 8). There was also a sharp increase in the number of house sales. For some periods, around one third of house sales in Tasmania were to interstate purchasers.

**Chart 8: Median House Prices – Tasmania**

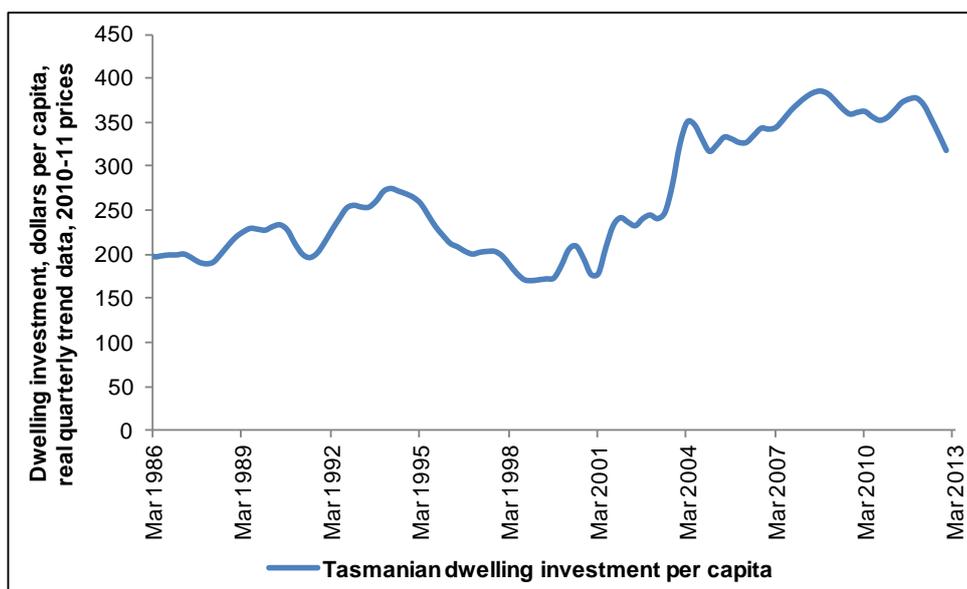


Source: *Market Facts*, Real Estate Institute of Australia.

The factors that led to the increase in house prices also fuelled strong growth in dwelling investment (Chart 9), which stimulated the construction sector where employment increased sharply.

The increased purchases of dwellings also led to increased spending on housing-related items such as white goods. In this period, spending on household goods was exceptionally high. The very large number of house purchases also boosted spending on real estate and legal services.

**Chart 9: Dwelling Investment per Capita – Tasmania**

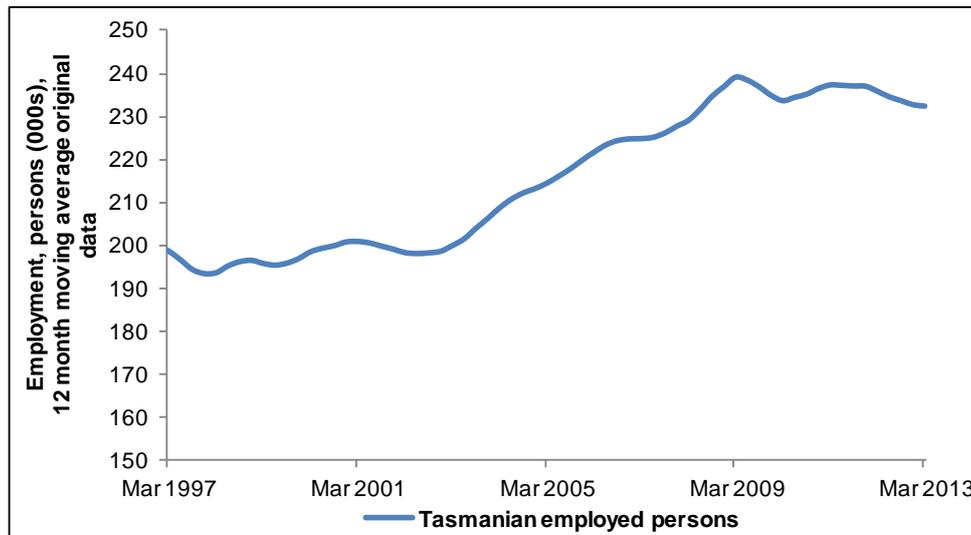


Source: Calculated statistics based on *Australian National Accounts: National Income, Expenditure and Product*, ABS Cat No 5206.0.

The cumulative effect of these influences was a large increase in household spending and dwelling investment from 2000–01 to 2005–06. Business investment also doubled in real terms over this period, increasing at a faster rate than nationally, and included some major energy-related projects such as the construction of Basslink and the transmission and distribution system for natural gas. The low value of the Australian dollar also encouraged some business investment, such as tourism-related ventures.

Employment growth was correspondingly high over this period (Chart 10). From 2003, business surveys reported that employers were facing increasing skills shortages, and that this was the principal constraint on further growth of their businesses.

**Chart 10: Employment Levels – Tasmania**



Source: *Labour Force*, ABS Cat No 6202.0.

Tasmania’s export sector did not contribute significantly to this period of rapid economic growth. The source of most of this growth was increased private spending.

The improved economic conditions in Tasmania resulted in significantly increased State Government tax receipts, particularly conveyance duty and land tax from the housing boom. At the same time, national household spending grew strongly, which boosted the State’s GST payments. The result was a large increase in State public spending, which provided further stimulus to the Tasmanian economy.

This period of growth arose due to some particular conditions that do not exist at the present time. Firstly, there were the very low household savings rates, which arose as a result of very strong consumer confidence from sustained growth in the value of household assets. The subsequent behaviour of households since 2005, especially after the global economic downturn, suggests they have a more cautious approach in their spending and investment decisions.

A second factor is the disparity in house prices between Tasmania and the mainland Australia. The rapid growth in house prices was always going to cease once there was a return to some parity, in terms of affordability, with mainland Australia. Average house prices in Tasmania have increased more slowly since 2005 and while they remain lower in Tasmania than in mainland states, the difference is relatively much smaller than in 2001.

Thirdly, some of the major energy projects were, by their nature, “one-off” projects. As a result of price increases and the impact of the decline in manufacturing in Australia, energy demand has fallen, Tasmania, particularly, has an excess supply in generation capacity as a result. There are currently no confirmed new initiatives in the energy sector of a similar magnitude.

Since the rapid growth from 2000–01 to 2005–06 the Tasmanian economy has been more subdued. This has led to State Government tax receipts increasing more slowly. Revenue from conveyance duty, for example, has been falling in recent years as the housing market has slowed. In addition, national GST receipts have been substantially lower in recent years than anticipated, resulting in lower than projected GST payments to the State. This has reduced the spending capacity of the Government.

Importantly, the major economic benefits from the early 2000s have largely continued through to the present, as the earlier part of this section has demonstrated. Tasmania's economic performance is currently close to the very high levels of recent years. Households, in particular, have been building up their financial assets through high levels of savings.

Consumer confidence remains relatively low in Tasmania and the media often reports the views of some interest groups that Tasmania's economy is in severe decline and is creating widespread hardship among households. While many households do face very challenging financial conditions, the economic data reveal that the State's economic performance, and household living standards, remain generally rather higher on the whole than these reports would suggest.