

The Tasmanian economy: challenges and opportunities

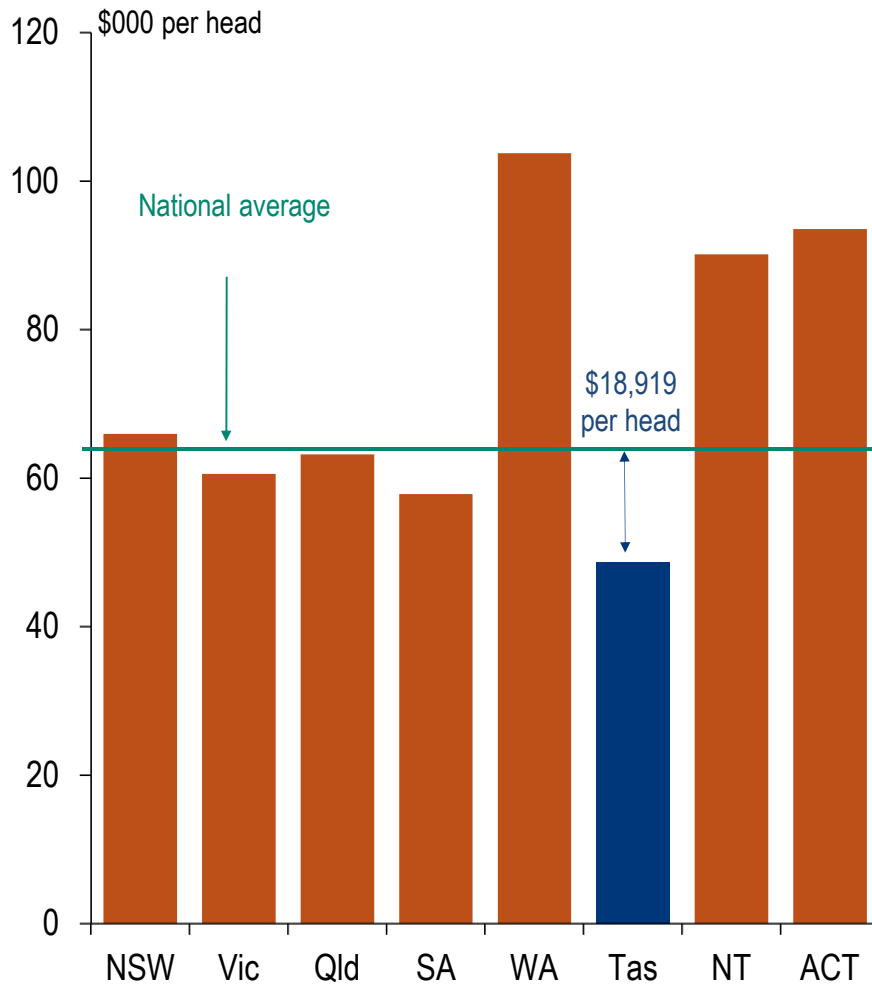
Presentation to Tasmanian Leaders' Forum

Saul Eslake

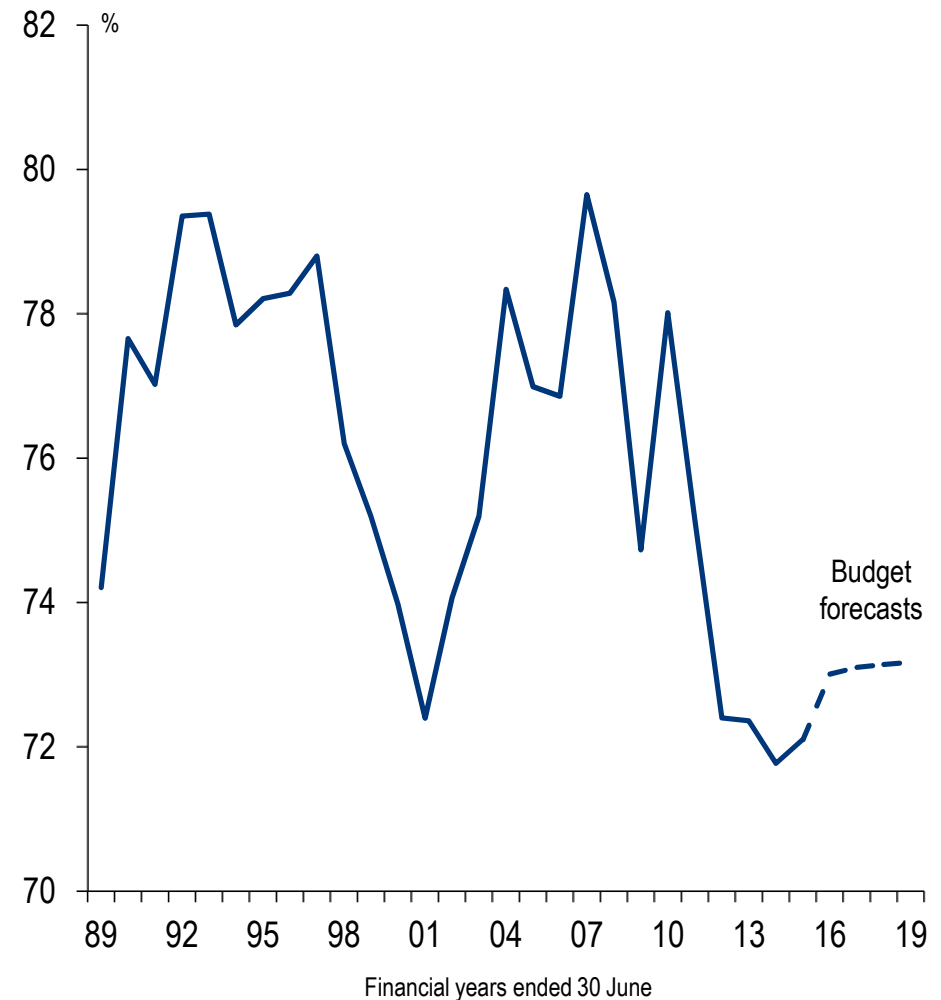
Launceston,
19th June 2015

Tasmania is Australia's poorest State, by a large and generally increasing margin

Gross State product per head



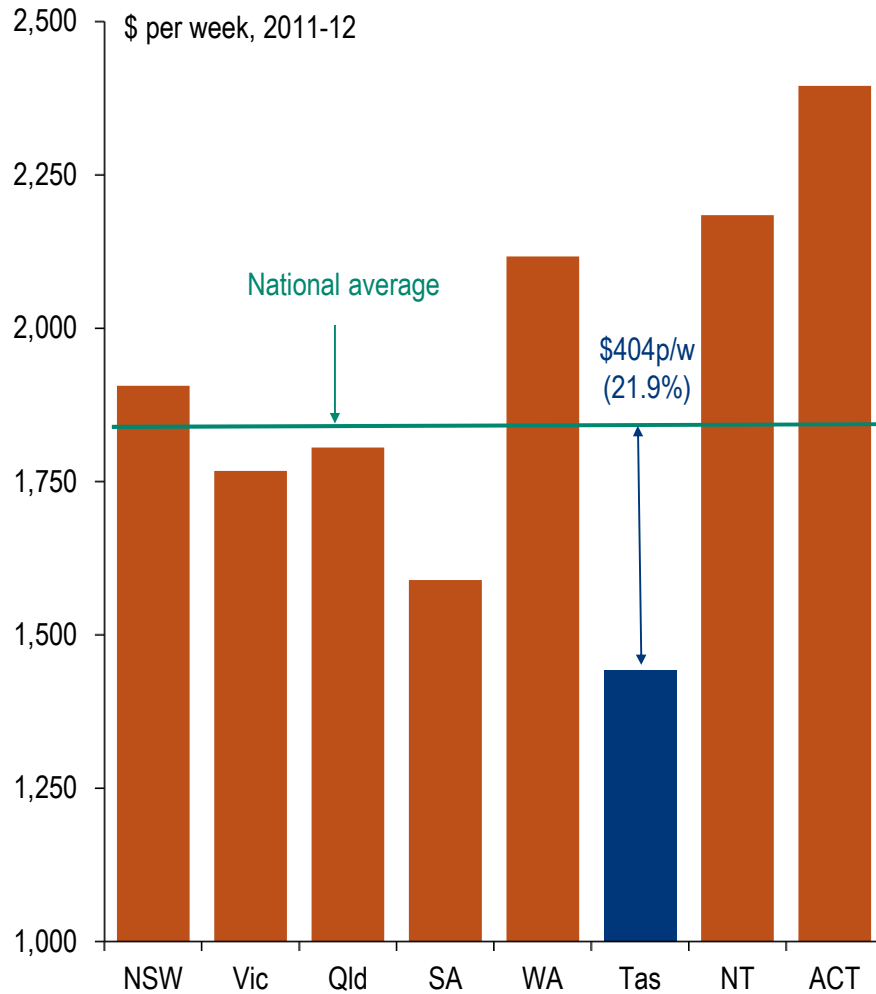
Tasmania's per capita GSP as a pc of mainland average



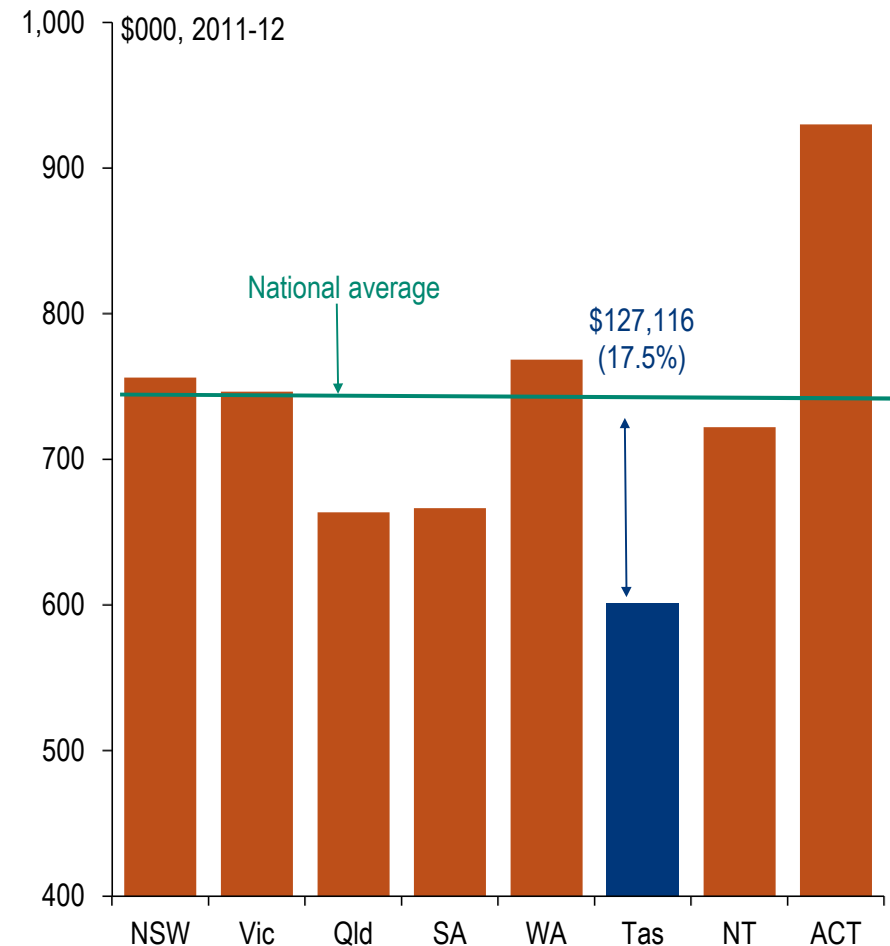
Source: ABS, State Accounts.

Tasmanian households have lower gross income and net worth than households in any other State or Territory

Average household gross weekly income, 2011-12



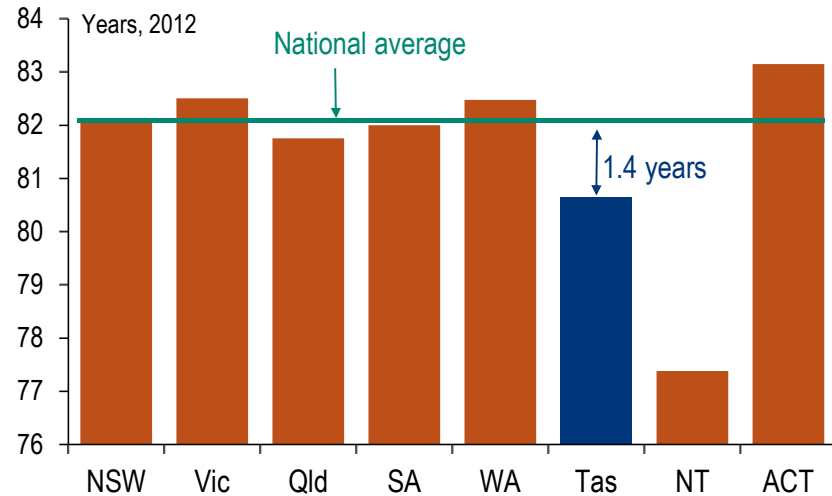
Average household net wealth, 2011-12



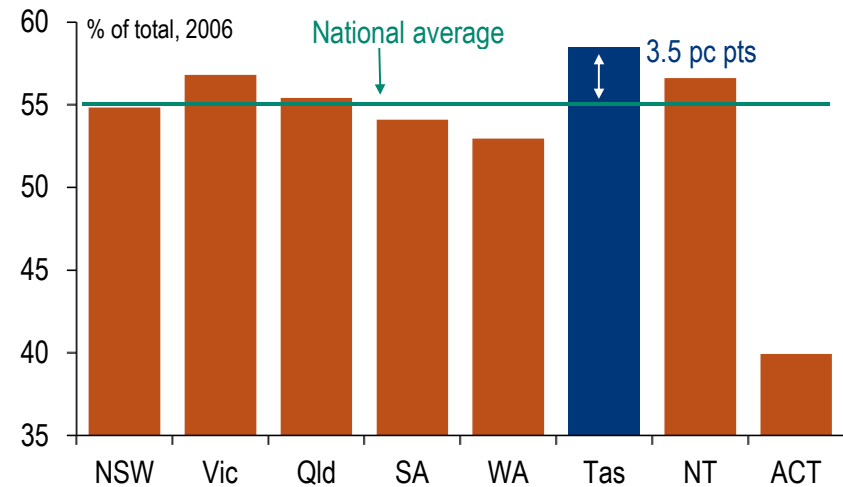
Note: 'Average' in these charts denotes 'mean', not 'median'. Source: ABS.

And although GDP isn't everything, other social indicators tell much the same story

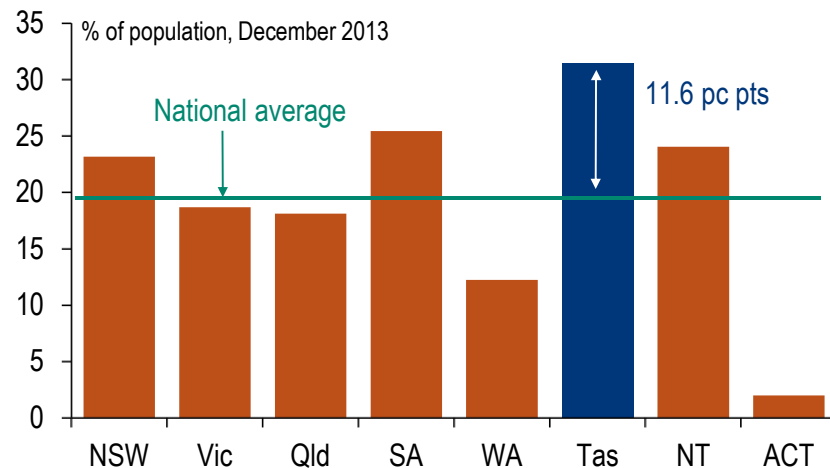
Life expectancy at birth



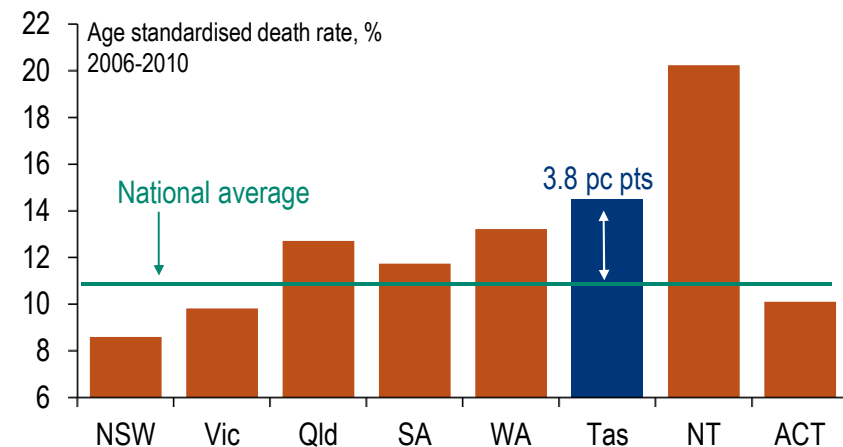
Adults with below-average literacy & life skills



Population in lowest SES quintile



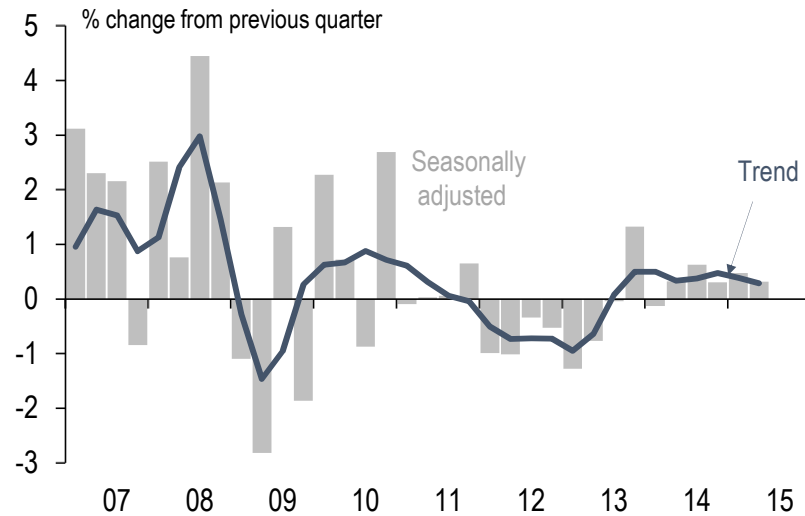
Suicide rates



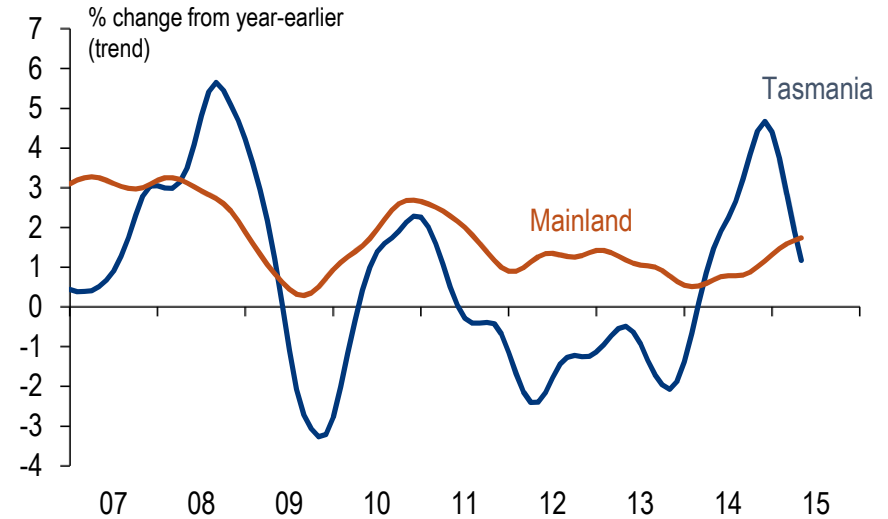
Notes: 'Life expectancy at birth' is average for males and females. 'Adults with below average literacy & life skills' is the proportion of adults in the lowest two of five skill levels, averaged across five dimensions. 'SES' means socio-economic status. Sources: ABS, Commonwealth Grants Commission.

Tasmania's economy has been recovering from a recession in 2011-12, but appears to have slowed over the past six months

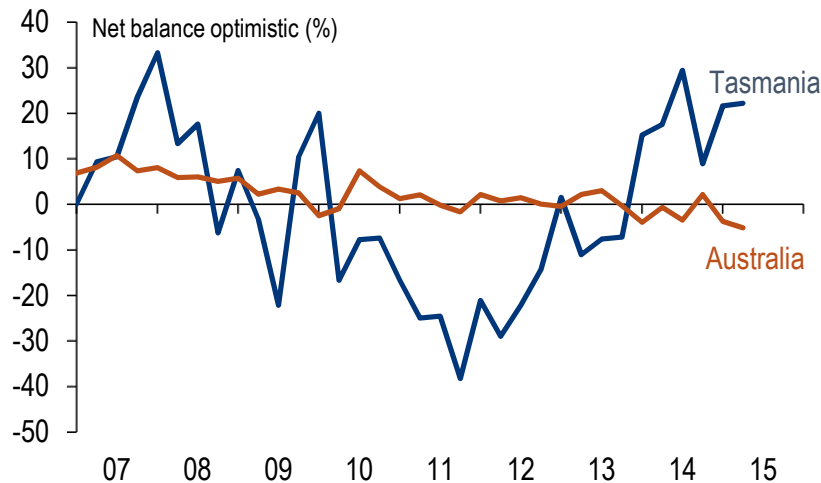
State final demand



Employment growth



NAB Survey 'business conditions'



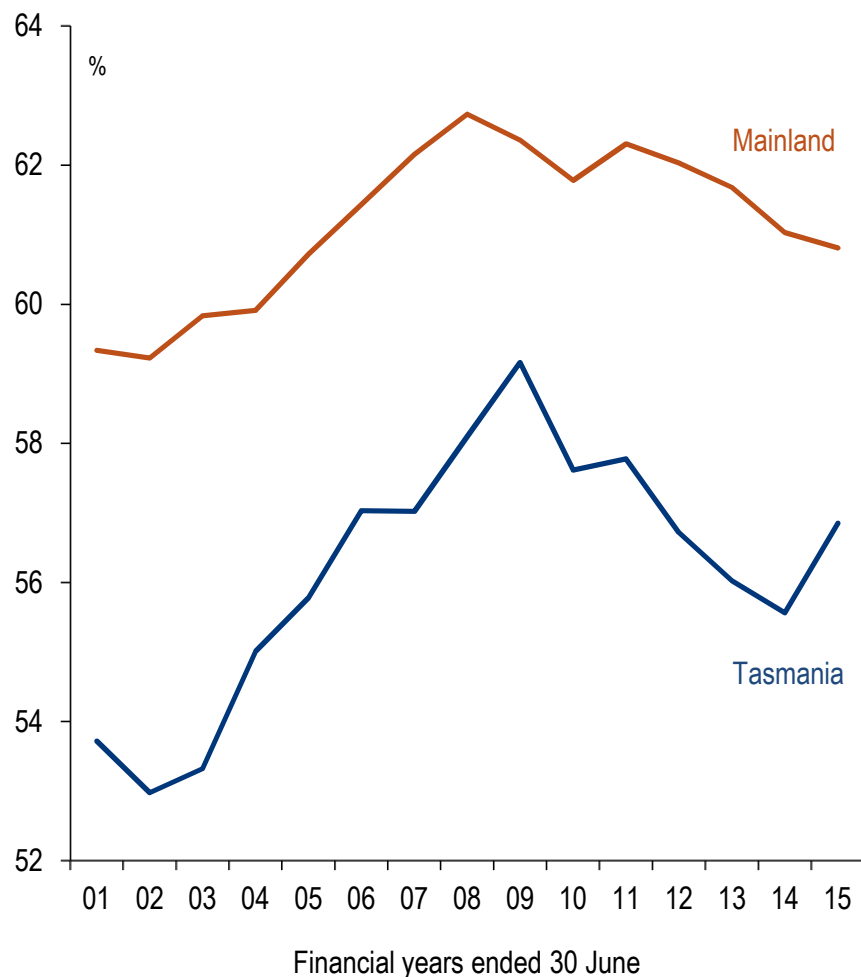
Unemployment rate



Notes: 'State final demand' is the sum of household, business and government spending. It does not include interstate or international trade, or changes in inventories – and hence is not a proxy for gross State product. Sources: ABS, Nation Australia Bank.

37½% of the difference between Tasmanian per capita GSP and the mainland average is due to lower participation in employment

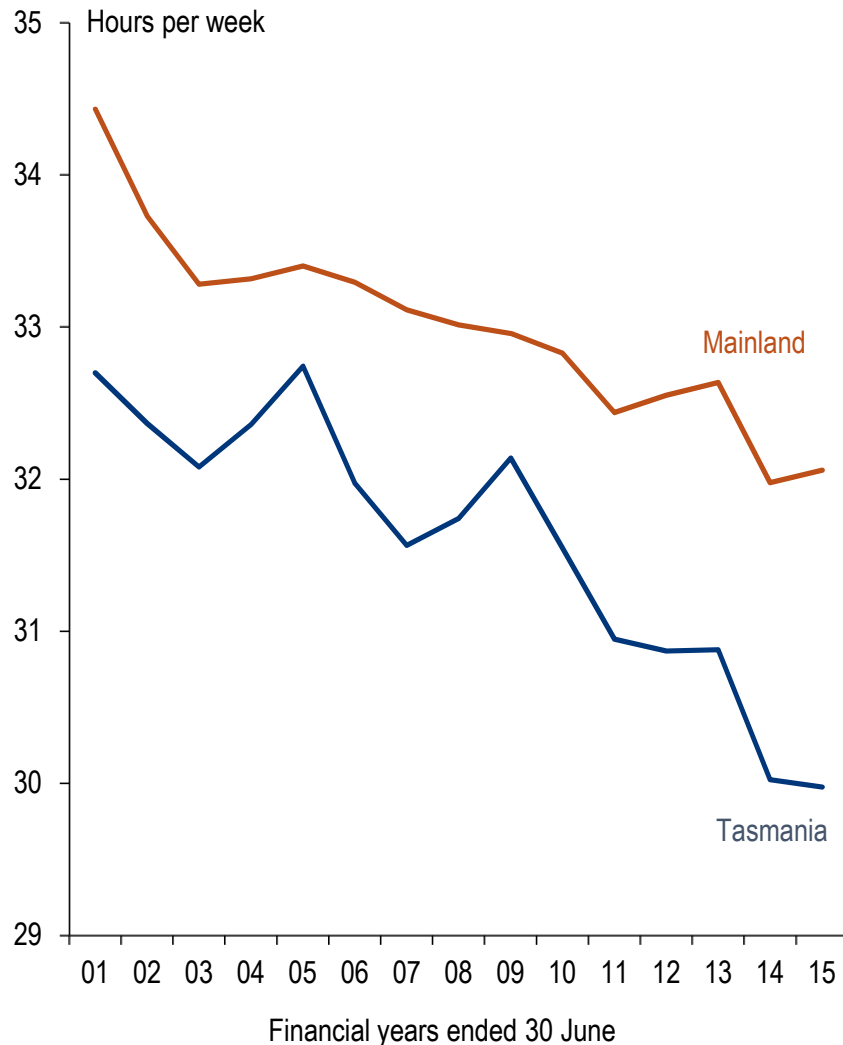
Employment as a p.c. of the working-age (15+) population



- A lower workforce participation rate and a higher unemployment rate adds up to an employment-working age population ratio that was 4 pc pts lower in Tasmania than on the mainland in 2013-14 (compared with a gap of 3 pc points in 2008-09)
- The difference in employment participation accounted for \$7,350 (or 37.4%) of the \$19,608 difference between Tasmanian and mainland per capita gross State product in 2013-14
- About half of the difference in employment participation is due to Tasmania's greater above-average share of population over 65 – and there's not much that can (or should) be done about that
- However the other half is largely due to an above-average incidence of work-restricting disabilities, and below-average levels of educational attainment – and there are things that can (and should) be done about that

40½% of the difference between Tasmanian per capita GSP and the mainland average is because Tasmanians work fewer hours

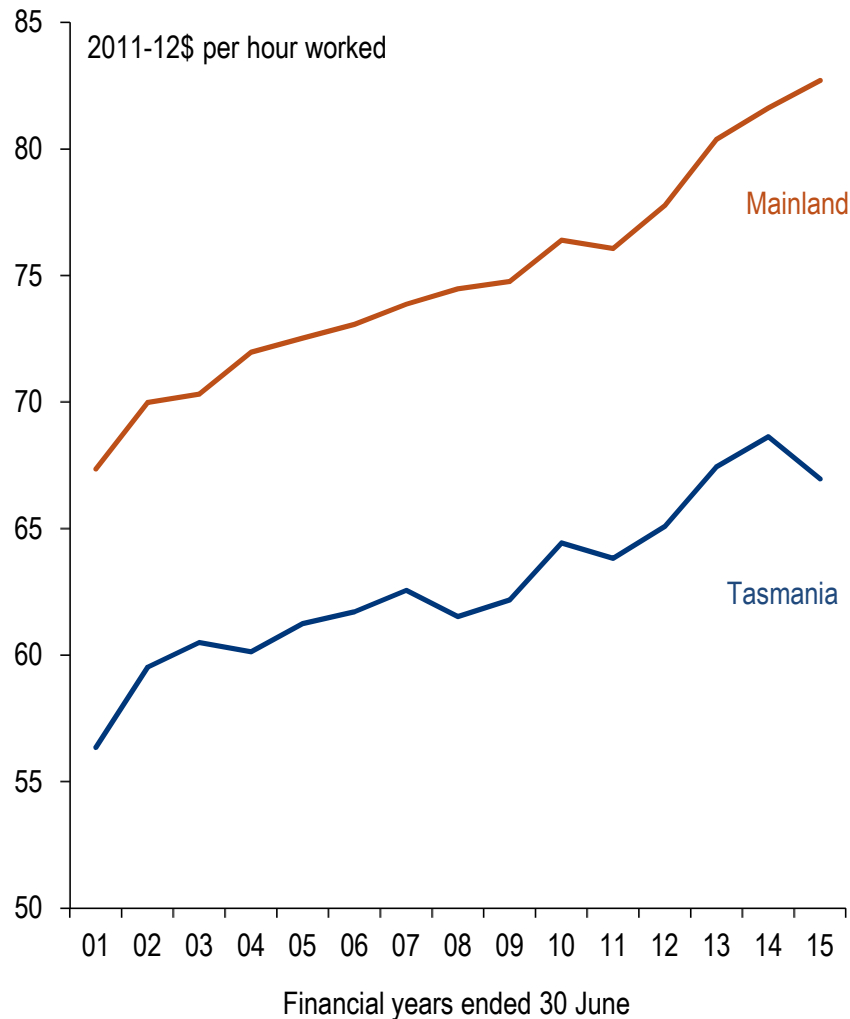
Average hours worked



- Employed Tasmanians worked an average of 2.1 fewer hours per week than employed people on the mainland in 2013-14
- Over the course of a year that represents a difference in time worked of 111 hours, or almost 20 working days
- The shortfall in average hours worked between Tasmania and the mainland has widened substantially over the past decade
- It's not clear whether the difference in average hours worked reflects employee choices, or is the inevitable outcome of the type of work available
- The difference in average hours worked accounted for \$7,950 (or 40.5%) of the \$19,608 difference between Tasmanian and mainland per capita gross State product in 2013-14

... and 22% of the difference between Tasmanian and mainland per capita GSP is attributable to lower labour productivity

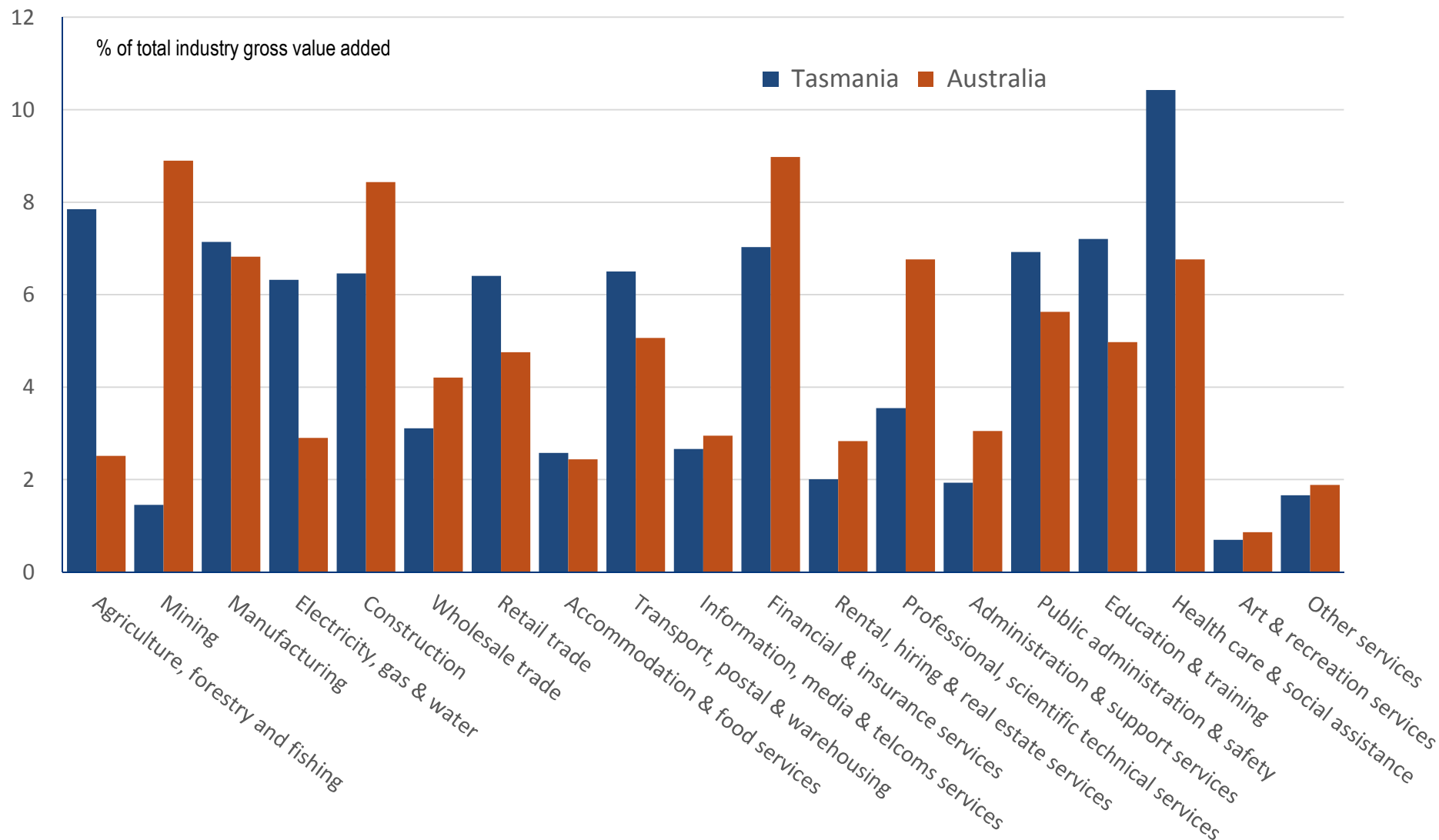
Output per hour worked (labour productivity)



- For each hour that they worked in 2013-14, Tasmanian workers produce about \$13 (or 16% less) of goods and services than mainland workers
- This difference in labour productivity accounted for about \$4,300 (or 24.1%) of the \$19,608 difference between Tasmanian and mainland per capita GSP in 2013-14
- The 'productivity gap' is partly because a below-average proportion of Tasmanians are employed in intrinsically high-productivity sectors (such as mining & financial services), and there's not much that can be done about that ...
- ... but it's also partly because in many industries - including mining, construction, retailing, information & telecommunications services, rental hiring & real estate, professional & technical services, and public administration & safety – the productivity of Tasmanian workers is significantly below that of the same industries on the mainland ...
- ... and there are things that can (and should) be done about that

High-productivity industries are 'under-represented', and low-productivity industries 'over-represented' in Tasmania's economy

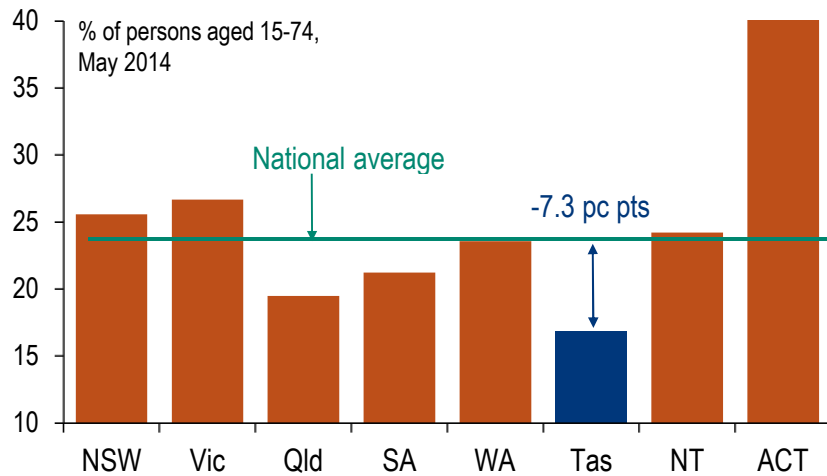
Industry composition of the Tasmanian and national economies, 2013-14



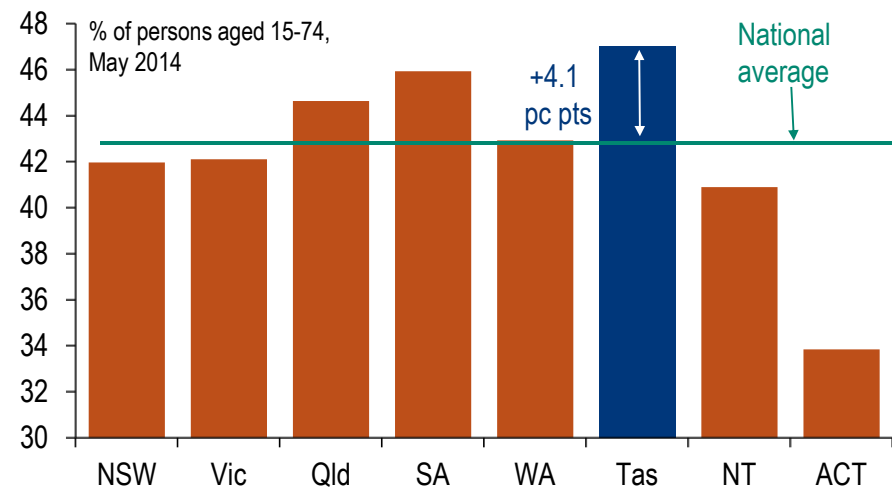
Note: 'industry gross value added' is gross product excluding ownership of dwellings, net indirect taxes and the statistical discrepancy between the production- and average measures of gross product. Sources: ABS; author's estimates and calculations.

Low levels of educational participation and attainment are probably the most important reason for Tasmania's poor outcomes

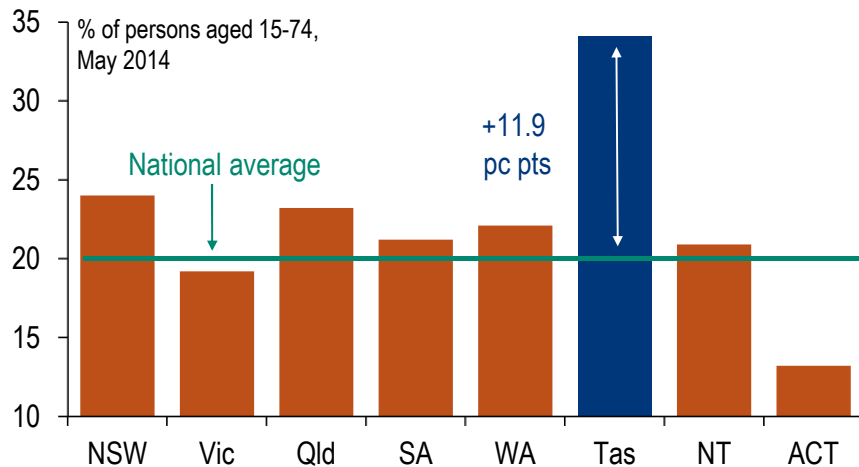
15-74 year olds with a university degree



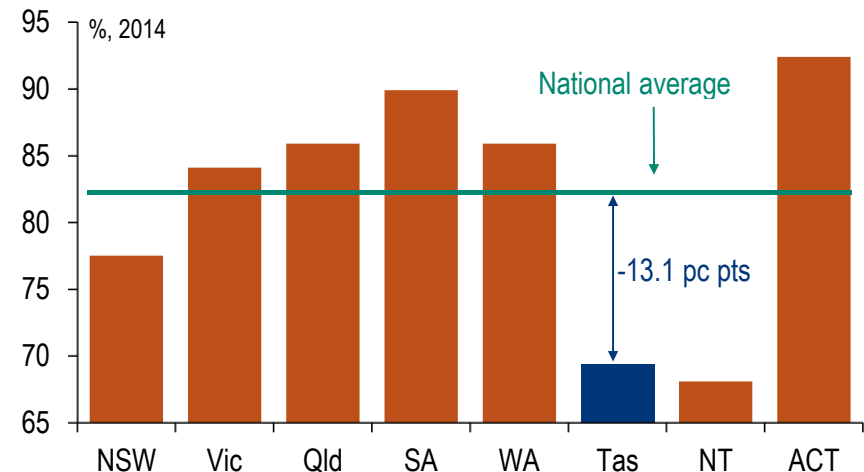
15-74 year olds with no post-school qualifications



15-74 year olds whose highest level of schooling is Year 10 or below



Apparent retention rates from Year 10 to Year 12



Source: ABS.

There's a very clear correlation between educational attainment and employment prospects

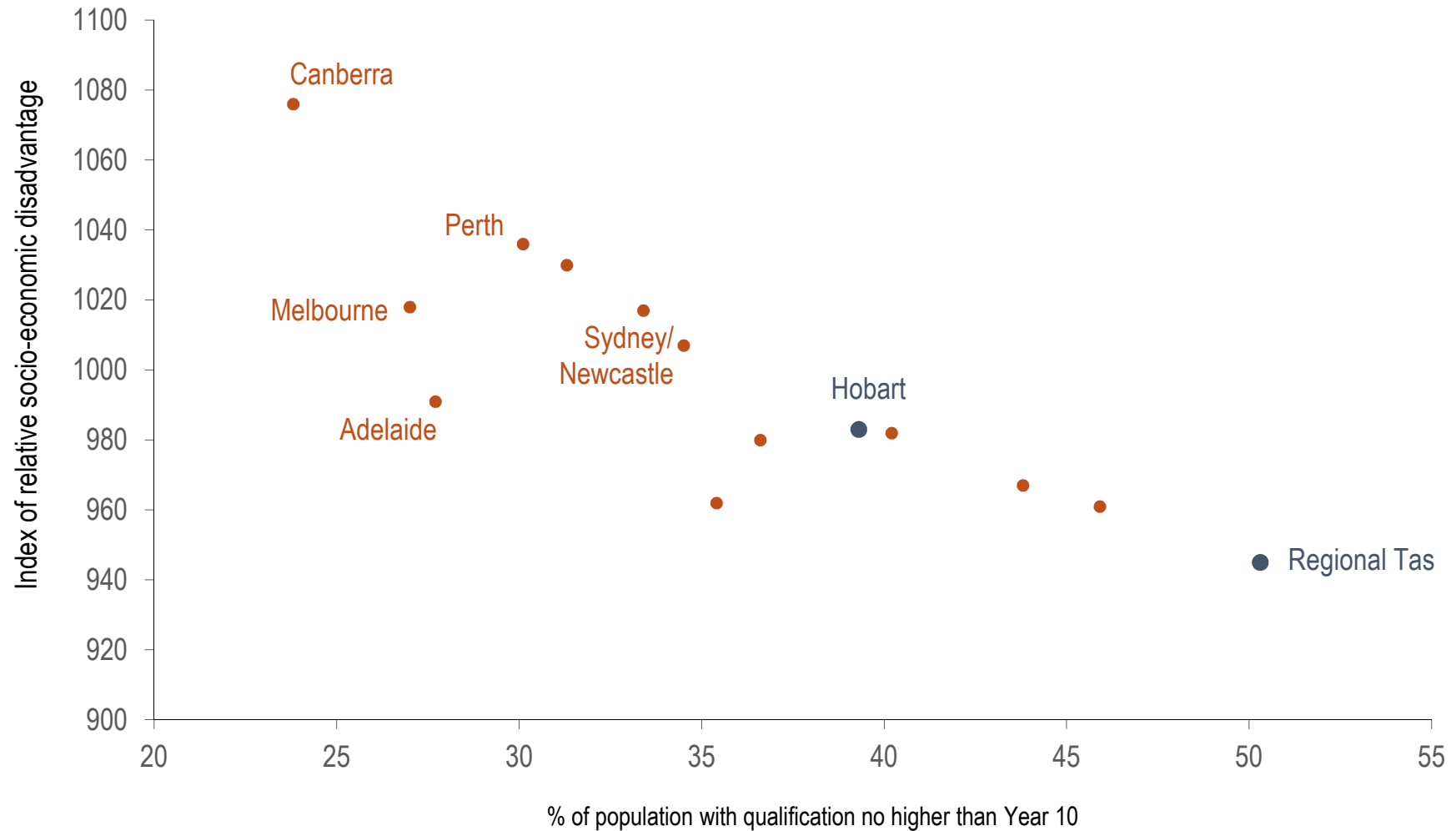
Educational attainment and labour force status, May 2014



Sources: ABS; author's estimates and calculations.

There's a very clear correlation between educational attainment and socio-economic advantage or disadvantage

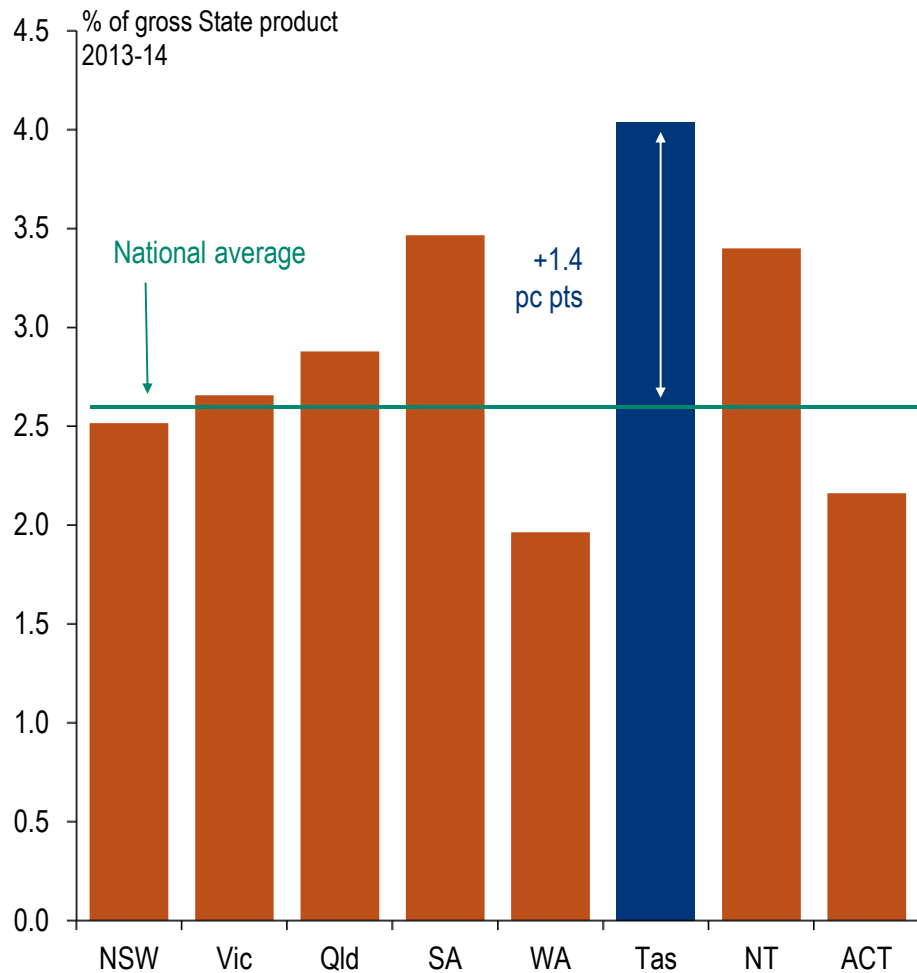
Educational attainment and socio-economic status, 2013



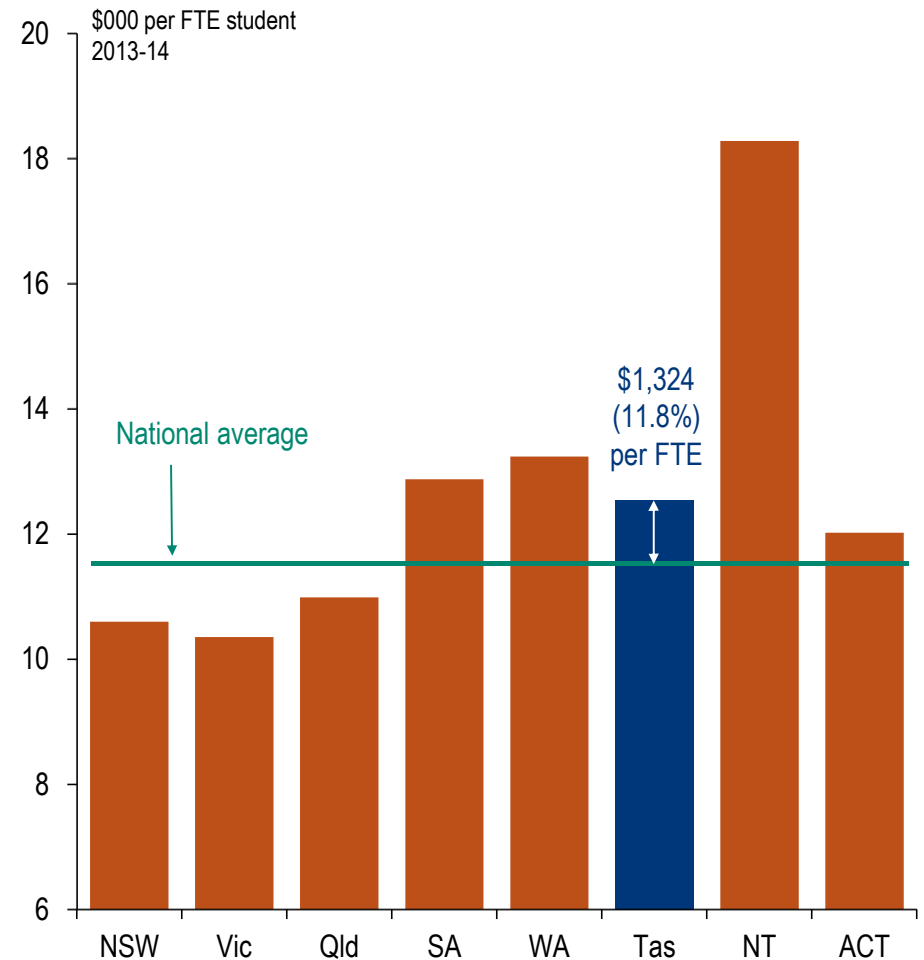
Sources: Michael Rowan & Eleanor Ramsay; *Social Atlas of Australia*.

Tasmania's poor educational outcomes aren't the result of insufficient government spending on education

Government spending on primary & secondary education as a pc of GSP

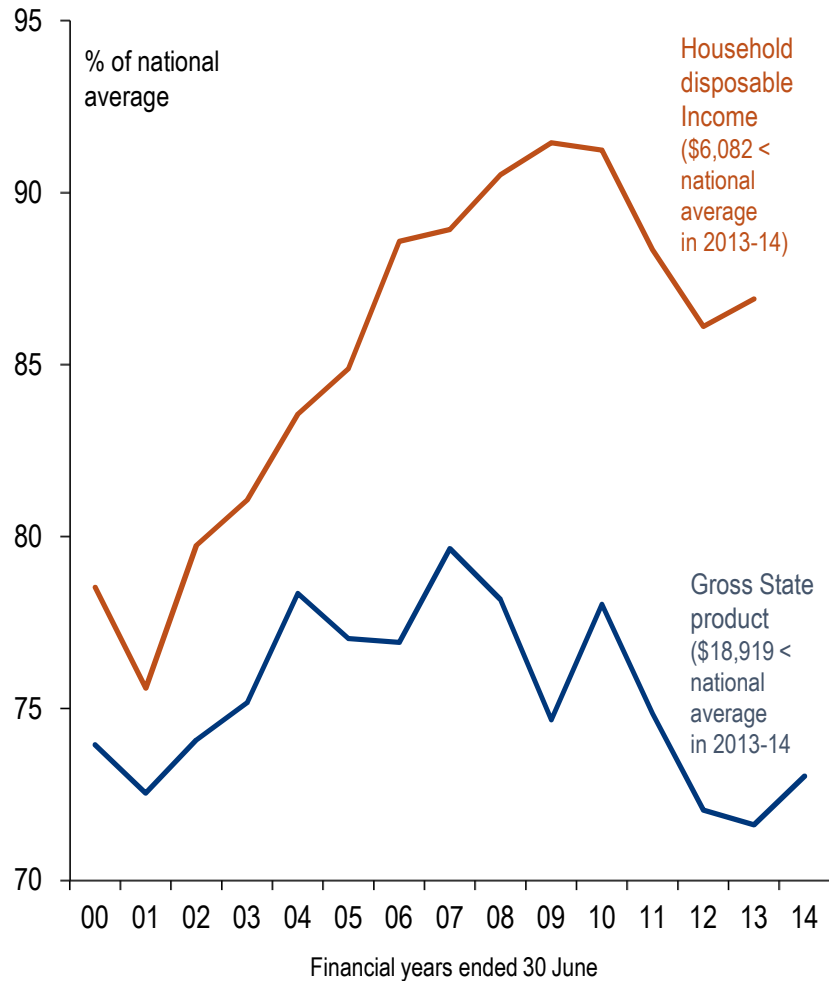


Government spending on primary & secondary education per student

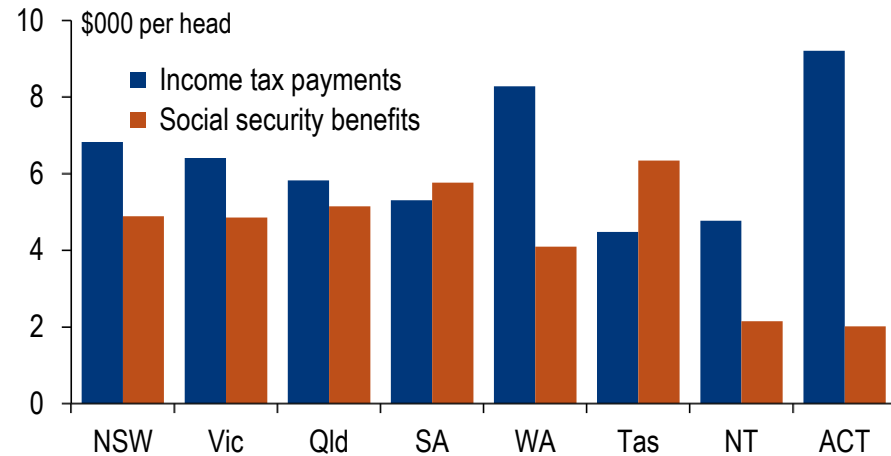


Tasmanians are somewhat insulated from the full effects of the State's poor economic performance ...

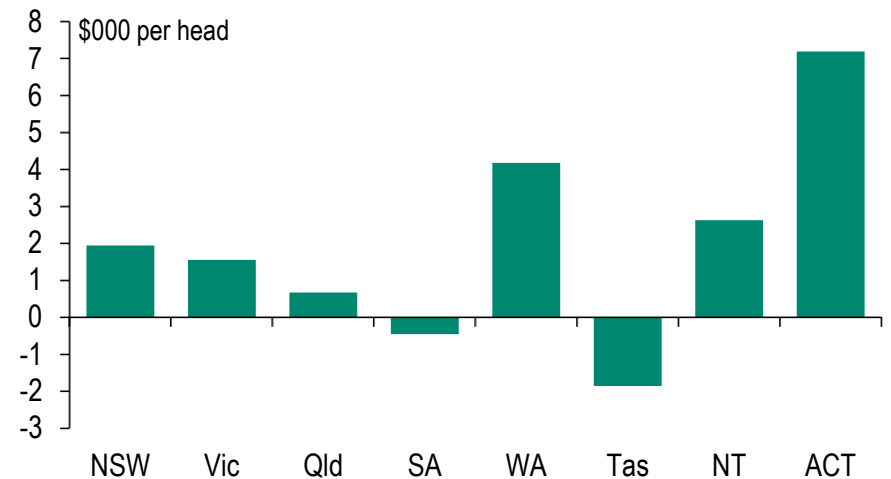
GSP and household disposable income per head as pc of national averages



Income tax payments and social security benefits per head, 2013-14

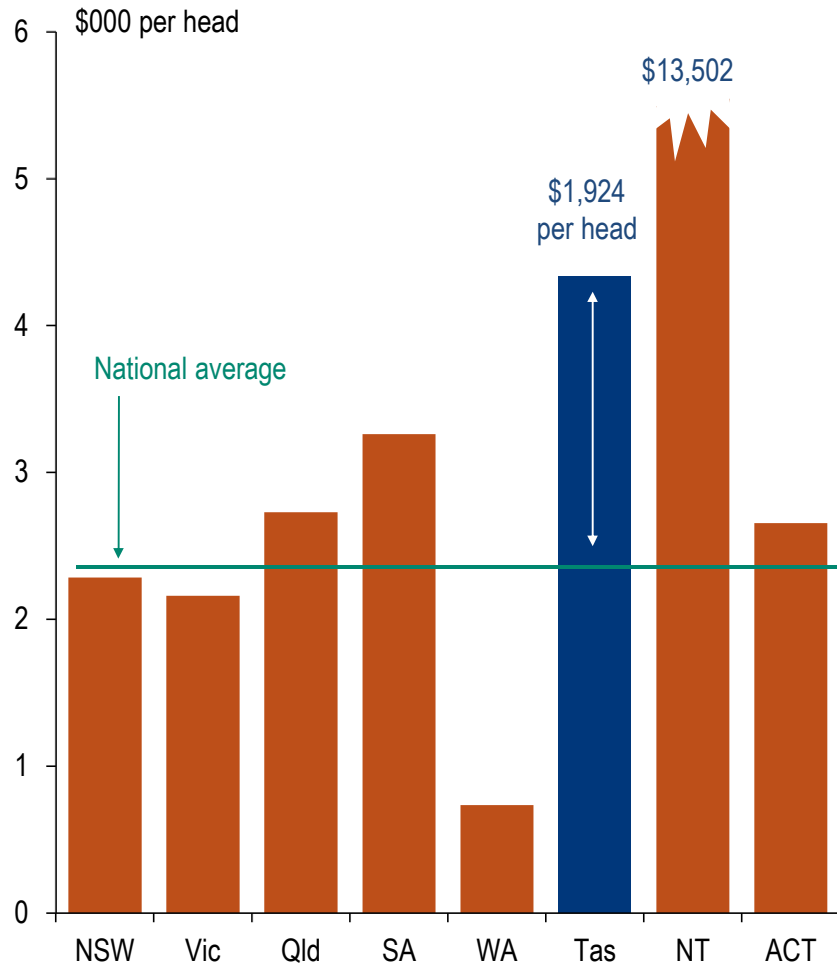


Net tax-transfer payments per head, 2013-14

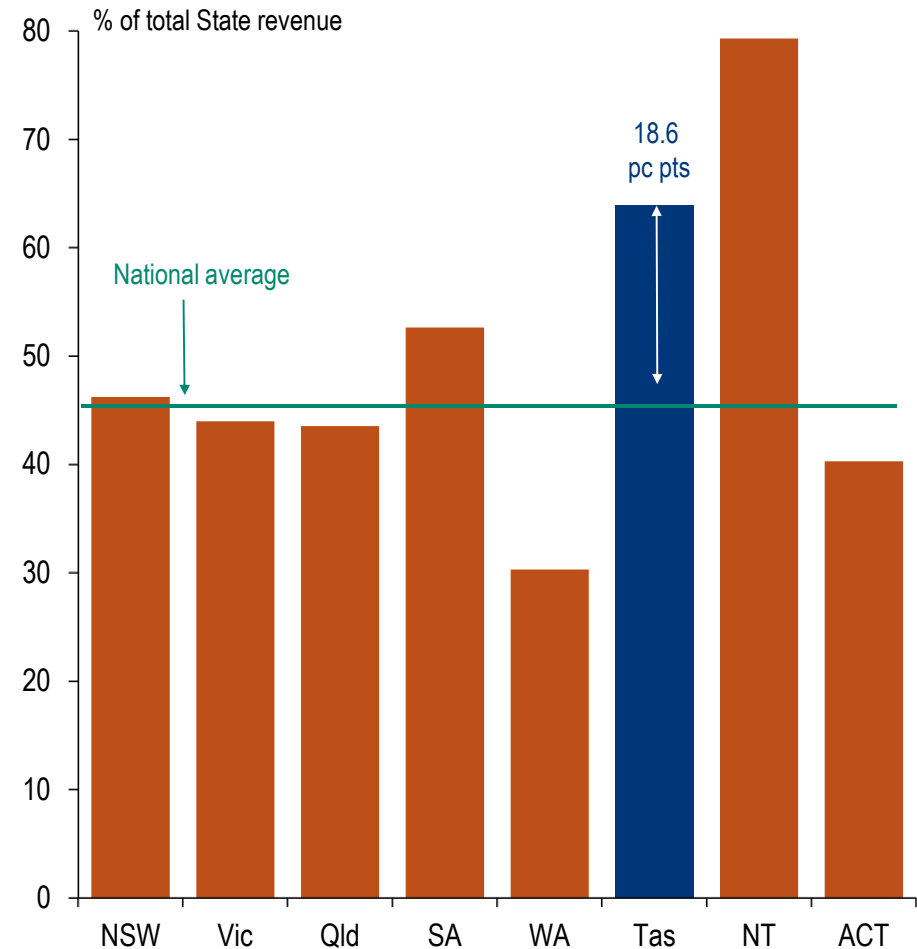


... and so is the State Government

GST revenue shares per head 2014-15

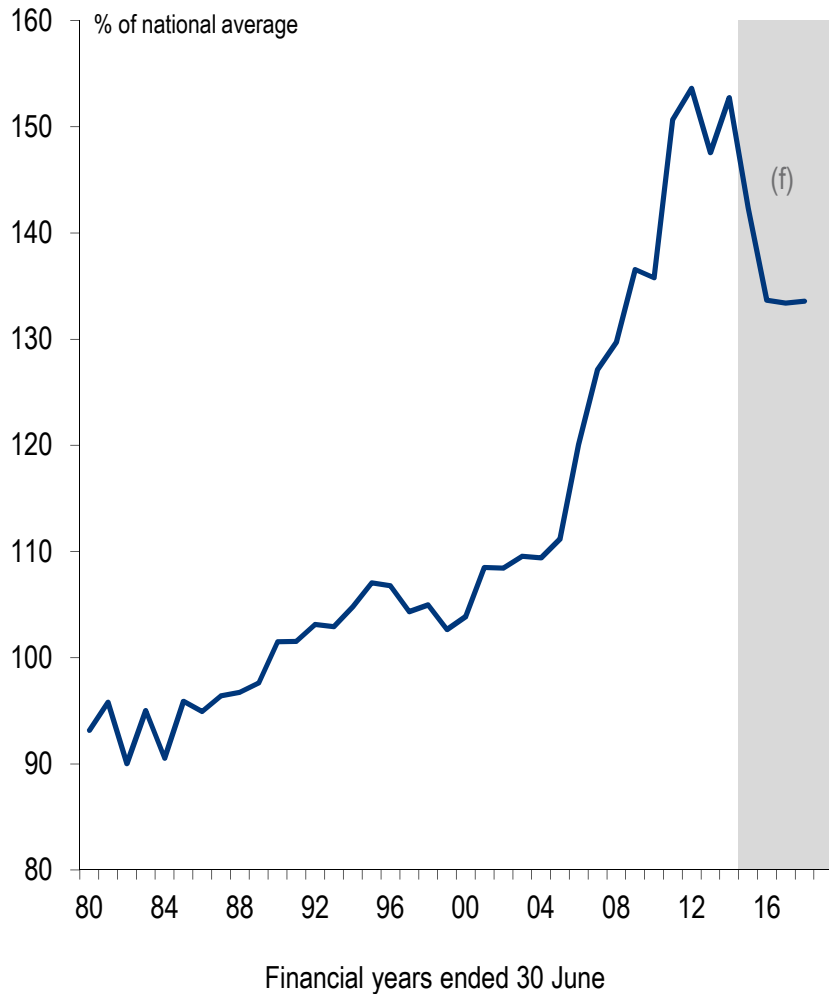


Commonwealth payments as a pc of total State Government revenue, 2013-14

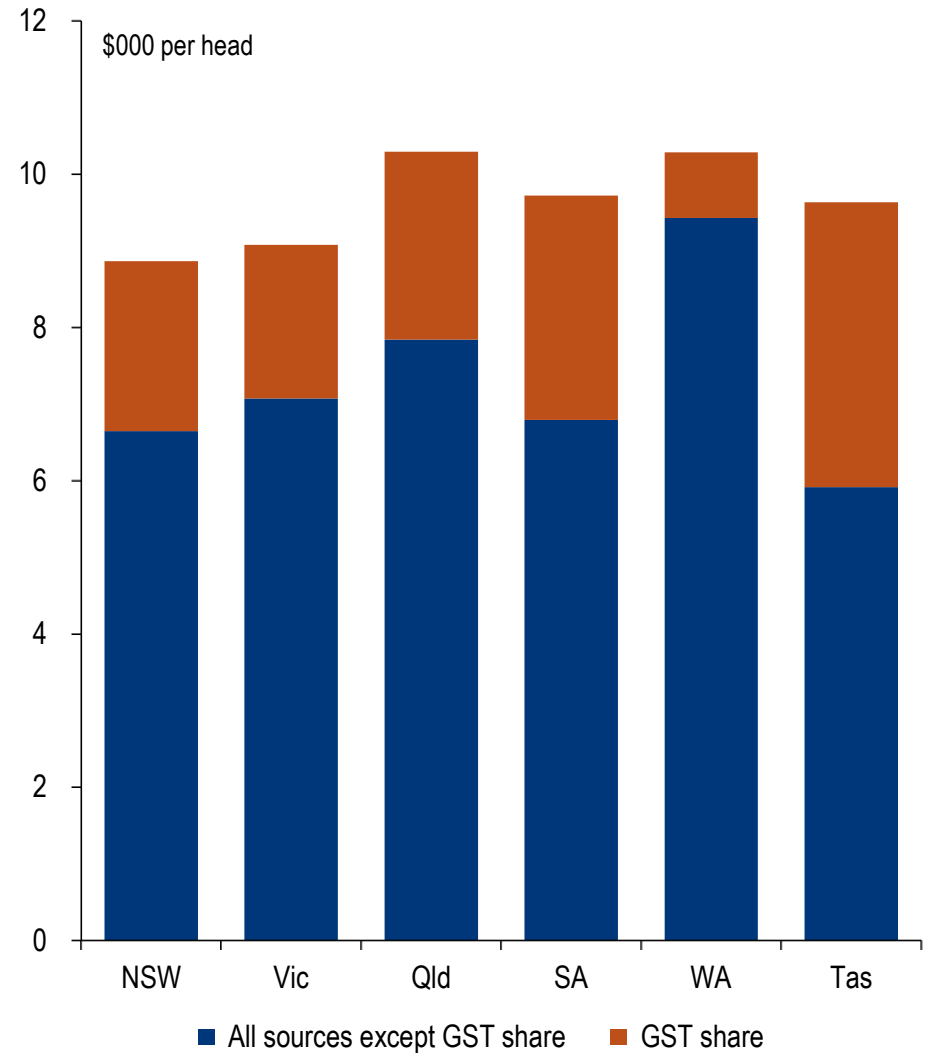


WA's share of GST revenues is bound to rise – even if there aren't any changes to the revenue-sharing formula (as there might be)

Western Australia's per capita gross product relative to national average

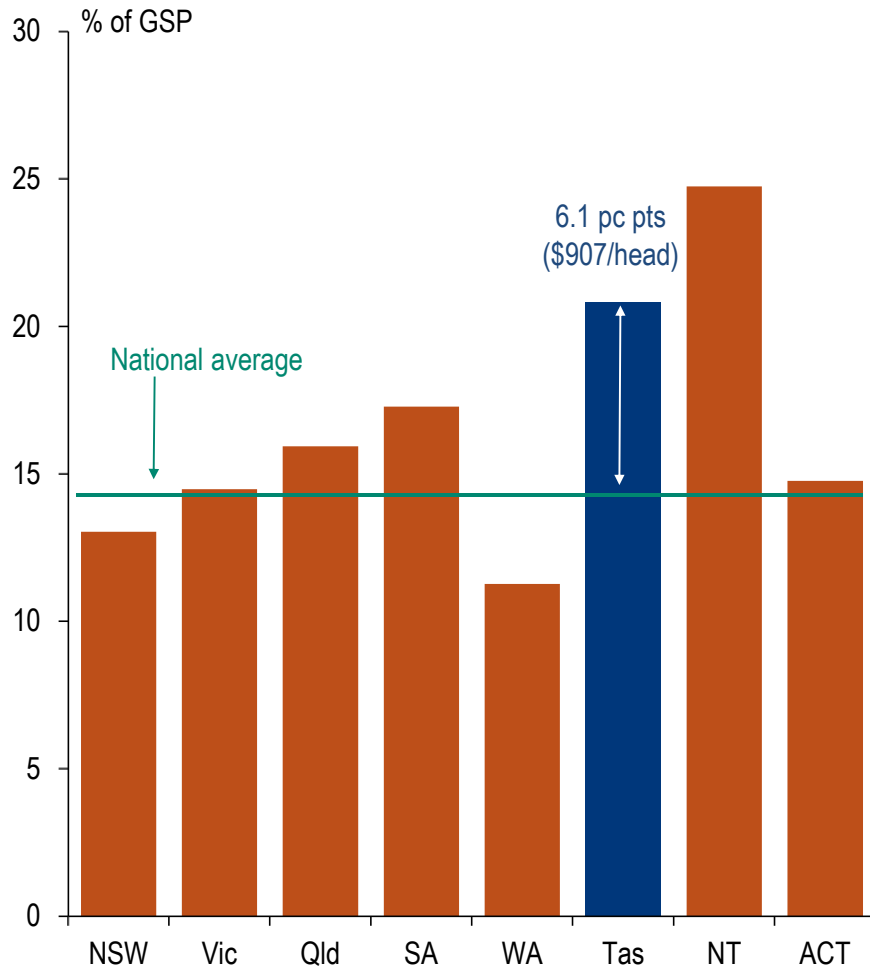


State revenue per capita, 2014-15

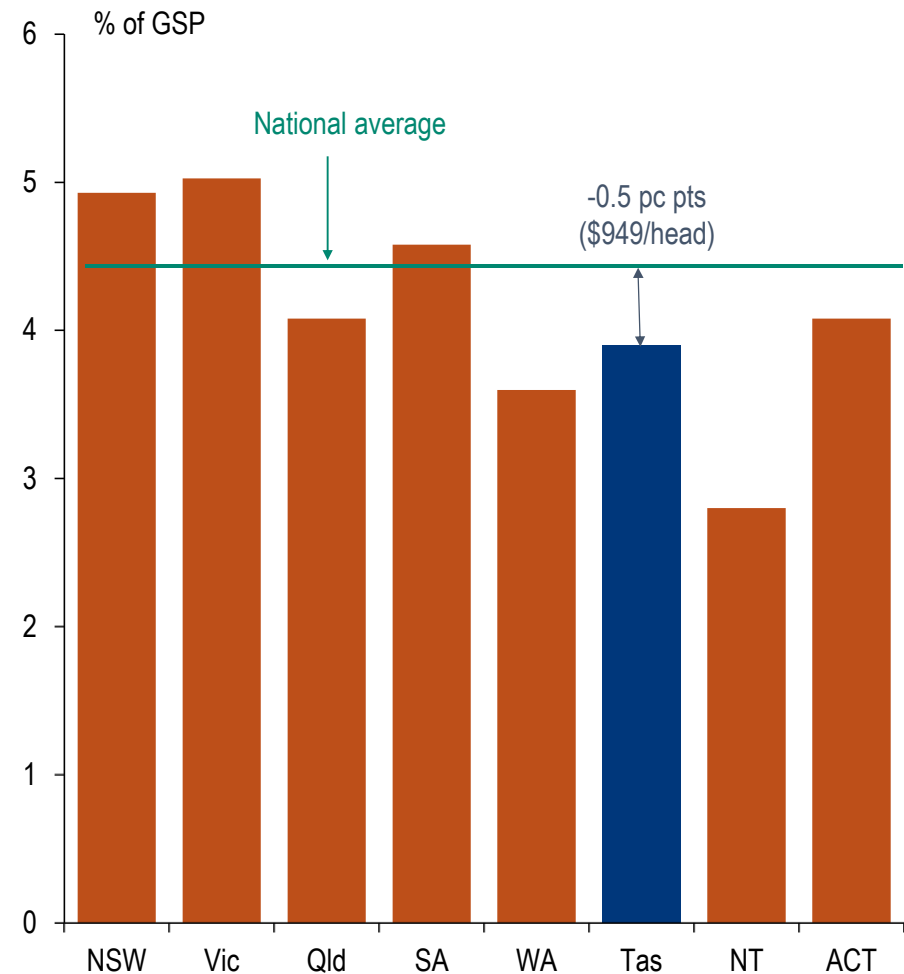


Tasmania might not be able to continue getting away with spending more and taxing less than other States

'General government' operating expenses, 2014-15

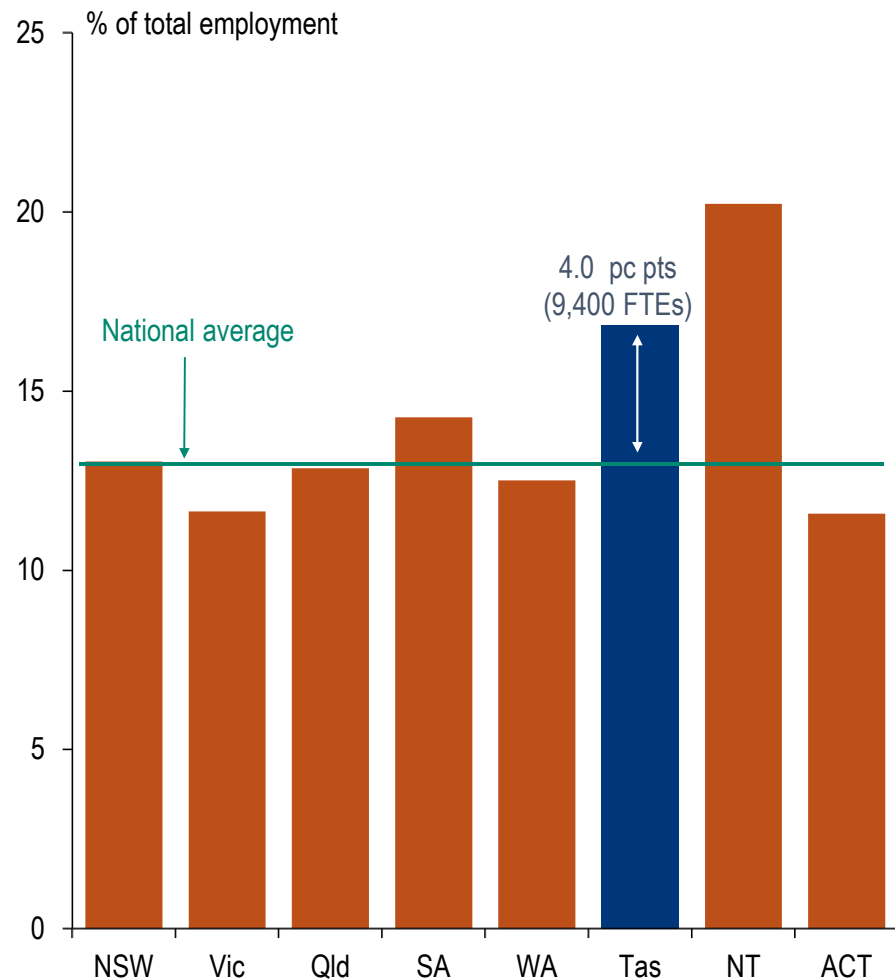


State taxation revenue, 2014-15

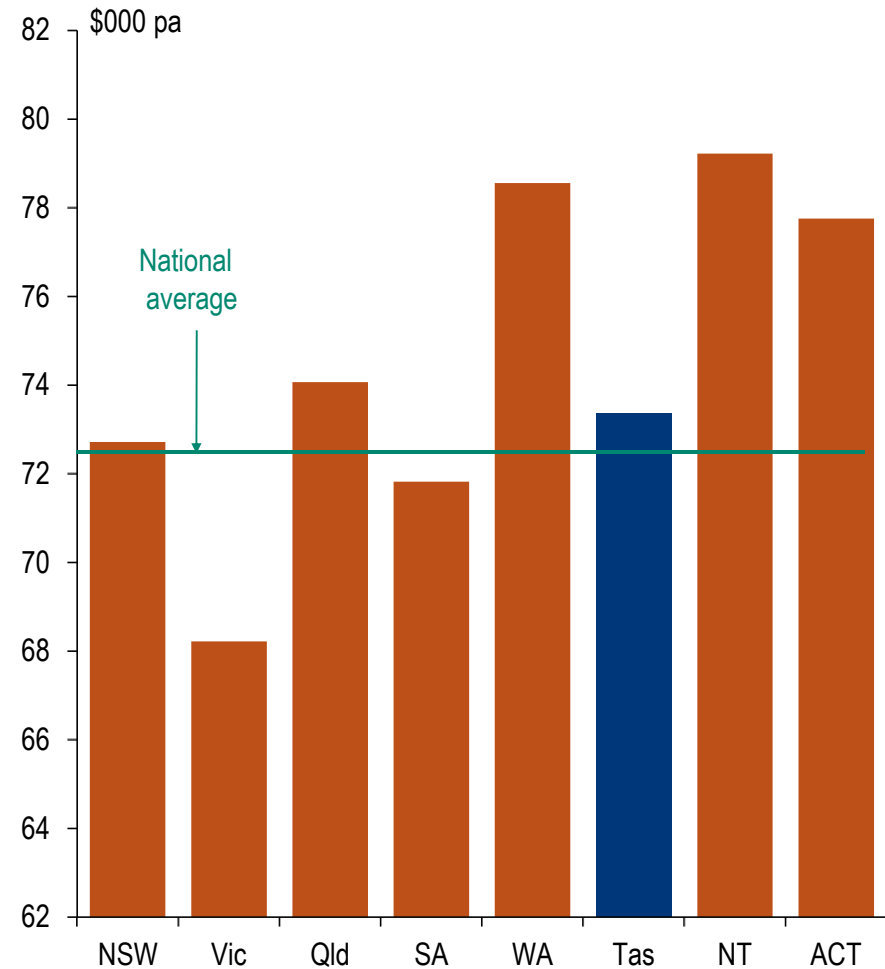


... and having relatively more State public servants, and paying them more, on average, than other States

State public sector employees 2013-14

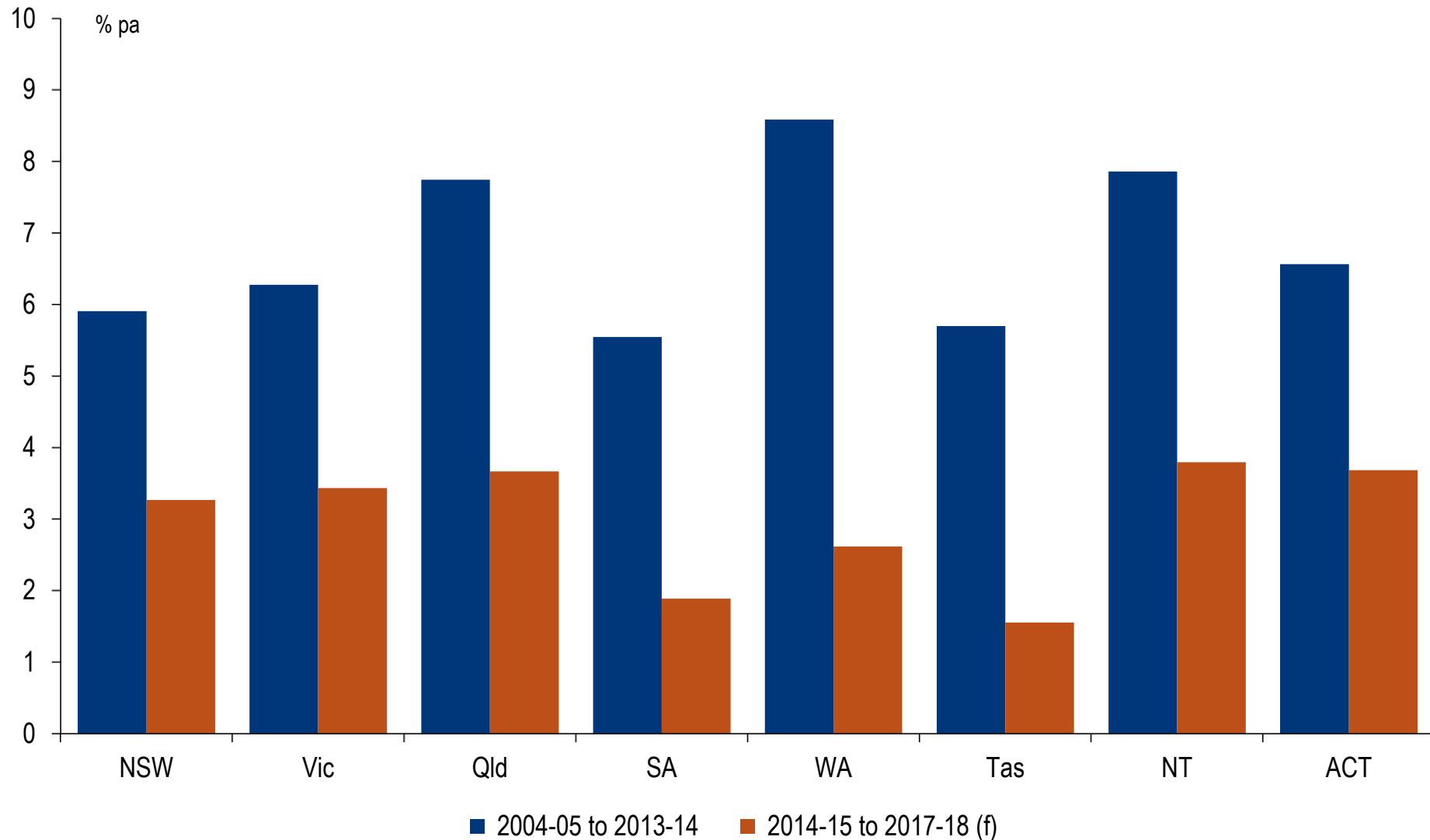


Average State public sector salaries, 2013-14



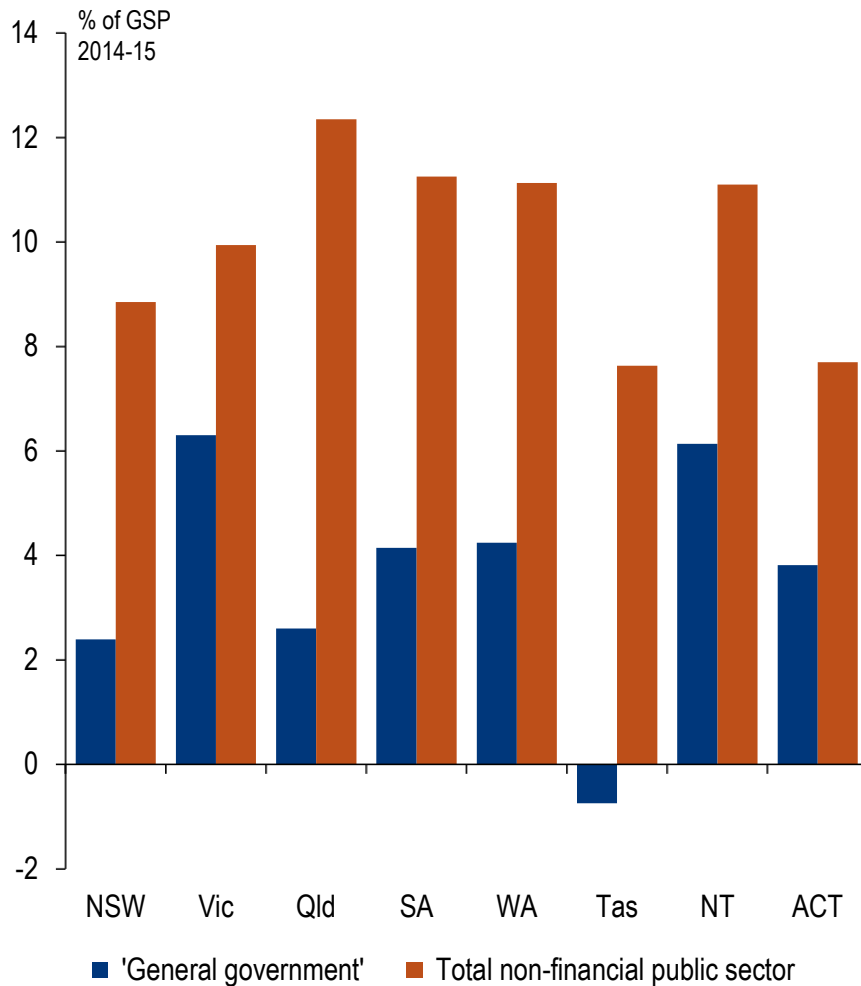
The new State Government is proposing to exercise very tight restraint on spending growth (as it should)

Growth rate of 'general government' operating expenses

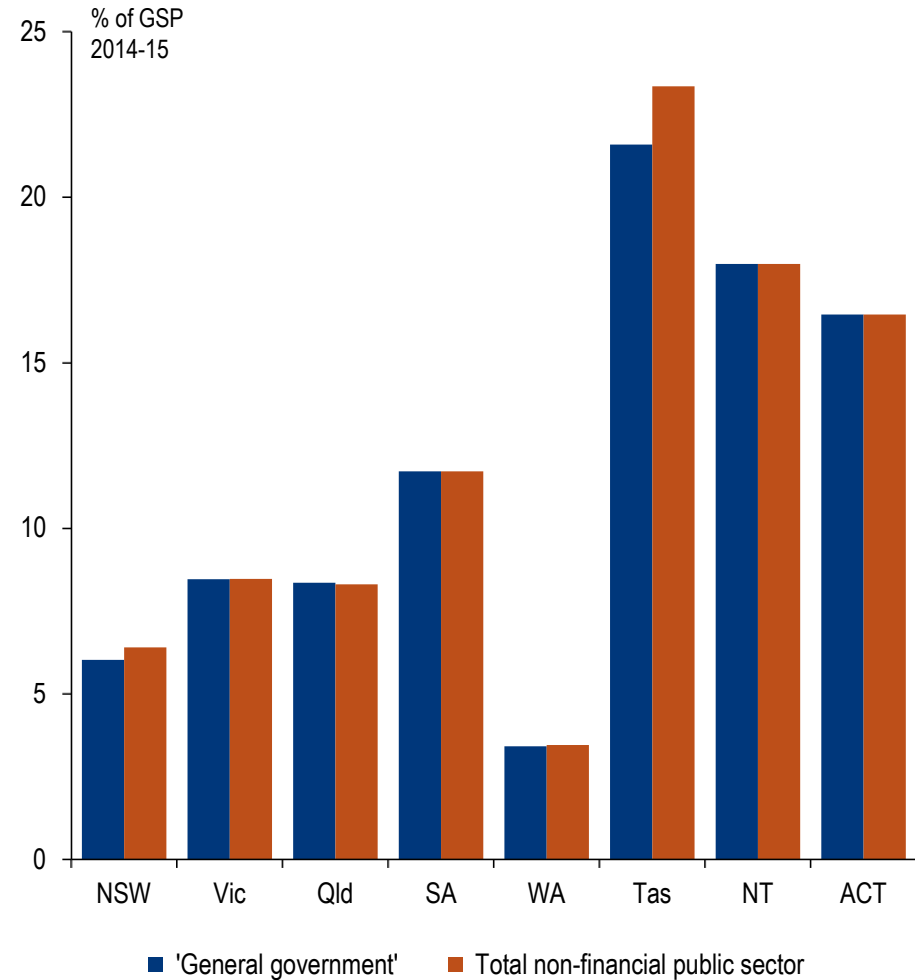


Tasmania doesn't have a lot of debt compared to other States – but it does have an awful lot of unfunded super liabilities

State & Territory Government net debt, 30 June 2015



State & Territory Government unfunded superannuation liabilities, 30 June 2015



Tomorrow's Tasmanian economy has to be different from yesterday's

- ❑ The 'old' Tasmanian economy that Bob Cosgrove and Eric Reece built – aided by Sir Allan Knight and Russ Ashton – and which Robin Gray tried to revive using borrowed money – was only ever sustainable when 'the world' (as far as Tasmania was concerned) consisted of other high-cost locations such as the rest of Australia, Europe, North America and Japan
- ❑ In the world that has been evolving since the mid-1980s – driven by 'globalization' and the rise of 'emerging markets', and rapid technological change – it's no longer economically sustainable for Tasmania to rely on the **volume production** of essentially **undifferentiated** commodities competing solely on the basis of **price**
 - at least, not without paying much lower wages and taxes, and further despoiling the environment
- ❑ Instead, Tasmania's economic prosperity will increasingly depend on its ability to produce **and market highly differentiated goods and services**, embodying a significant **intellectual content**, for which customers can be persuaded to pay **premium prices**
 - this is the only way producers based in Tasmania can overcome the disadvantages inherent in small scale and great distance from markets – whilst still being able to pay 'decent' wages, sufficient taxes to finance the public services Tasmanians want, and being able to maintain OHS, environmental and other standards
- ❑ That's not to say that there is no role for 'traditional' commodity-based / energy intensive industries in Tasmania – they make an important and valuable contribution to the economy and employment
 - but we can't realistically expect them to be major drivers of future growth

The 'eight Ws' of today's Tasmanian economy that illustrate what tomorrow's might look like

- ❑ **Wool:** for >150 years Tasmania has been producing the finest, most expensive wool in Australia
- ❑ **Water:** Hydro's renewable energy sold at high prices to mainland wholesale markets (and commanding an additional premium when carbon pricing returns) – plus irrigation (an enabler for expansion of the dairy industry) – plus premium water (from Cape Grim) in Qantas First Class and expensive restaurants – and products from water (like salmon and oysters – and boat-building, marine engineering etc)
- ❑ **Wine:** Tasmania now produces some of Australia's best, and most expensive, premium wines
- ❑ **Wasabi:** and other horticultural products (cherries, onions, turnips, truffles, etc) sold to at high prices to customers in Northern Hemisphere countries (Japan, Germany, France) who are used to paying high prices, in their off-seasons
- ❑ **Wagyu:** high-priced beef (retailing in Japan for >A\$80 per kilo)
- ❑ **Whisky:** high-priced distilled spirits branded using some of Tasmania's most distinctive characteristics
- ❑ **Walking:** unique experiences for which tourists will pay premium prices (should include adventure tourism like New Zealand)
- ❑ **Walshy:** the unique MONA experience (and others like it)

.. and a few others that don't start with 'W' ...

- ❑ **Dairying:** if additional management skills and capital can be combined with enhanced access to irrigation – and expanded opportunities in North Asia from Free Trade Agreements
- ❑ **Higher Education:** based on further development of research and teaching expertise in 'niche' areas and enhanced appeal to overseas (especially Chinese) students
- ❑ **Arts and culture:** Building on success on MONA and festivals – challenge to develop attractions outside of Hobart, and needs additional government and private investment
- ❑ **Antarctic science:** Hobart a natural base for growth but needs committed funding and support from Commonwealth Government
- ❑ **Information technology:** once NBN roll-out completed but contingent on vastly improved education participation and attainment
- ❑ **Football:** A Tasmanian AFL team could be a 'unifying' force within Tasmania, a source of pride for Tasmanians, and a significant generator of additional visitor numbers

Important information

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