

# State Update: Tasmania – September 2015

NAB Group Economics



National  
Australia  
Bank



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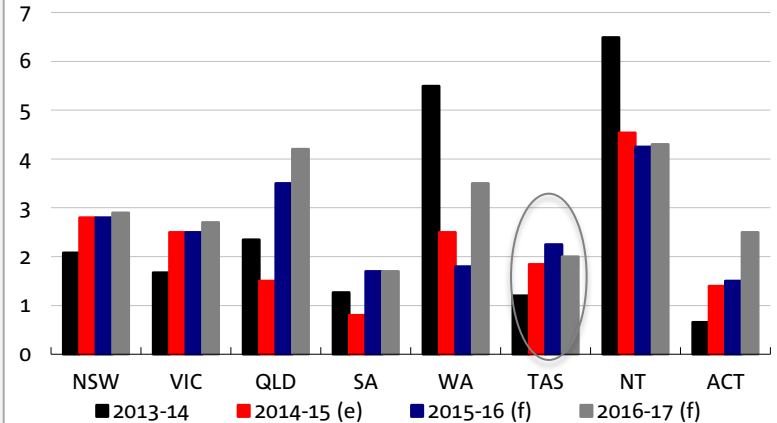
## Key points

- **The Tasmanian economic outlook has improved over the last year, thanks in large part to a strong pick-up in business investment and domestic tourism renaissance.** Public investment and net exports were the biggest detractors to growth, reflecting lower scheduled public spending and export volume of copper ore exports. The latter has been trending down due to the closure of a major mine and softer global demand for zinc and aluminium commodities.
- **This trend is set to continue as the AUD falls, making domestic holidays more attractive for Australians. Meanwhile, a falling unemployment rate alongside a rising participation rate suggest that the fundamentals in the Tasmanian labour market are improving.** This is further supported by a slowing rate of interstate migration which point to a stabilising labour force. Stronger activity in dwelling construction is also expected to contribute positively to growth. Nevertheless, growth remains below the national average. **We forecast that GSP will grow 2.4% in 2015-16 and 2.0 % in 2016-17 (Chart 1).**
- Tasmania’s annual GSP growth has mostly been below the national average since the early 1990s, with the gap widening substantially in the post-GFC era (chart 2). A sustained structural decline in manufacturing sector, one of its traditional pillars, was further undermined by a strong AUD during the period, which weighed on its other main sectors of tourism and primary exports. Population growth has also been slow. These factors continue to weigh on the state’s output share in Australian production, which has gradually eroded over time.
- The timber industry continues to contract, generating a smaller exportable volume of woodchips. We expect native forest logging to remain under pressure as major purchasers shift to domestic plantations and offshore timber sources.

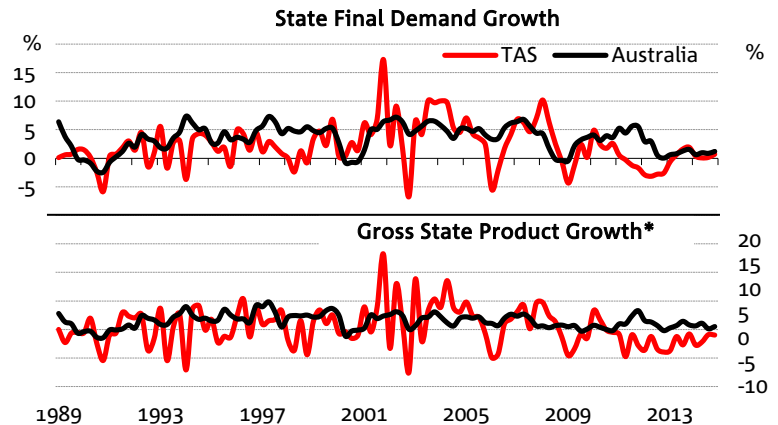
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### Chart 1: State GSP Growth Forecasts



### Chart 2: State Final Demand and GSP Growth \*(%)



\*NAB Estimate

Source: ABS and NAB Group Economics



## In Focus: Domestic tourism

- Tasmania is enjoying a domestic tourism revival, with strong growth in visitor numbers. Total domestic visitor numbers were up 4.1% in the year ended March 2015 as strong growth from South Australia and Queensland pushed up total visitors (chart 3). Visitors are increasingly attracted by new destinations within Tasmania, such as MONA. Tourism Tasmania reports that 28% of visitors to Tasmania visited MONA last year, an increase of 3% on the previous year.

- Total visitor spending continues to outpace growth in the number of visitors (chart 4). Total spending was up 12% to \$1.88 billion in the year ended March 2015. The strongest spending growth is holidays – up 20% to \$1.26 billion. With the AUD set to fall further, Australians are more likely to take domestic holidays. Tasmania is well placed to capitalise on this trend, although the reliance on Victoria (over 40% of interstate visitors) exposes the state to any Victorian economic headwinds.

Chart 3: Tasmanian interstate visitor numbers by state of origin

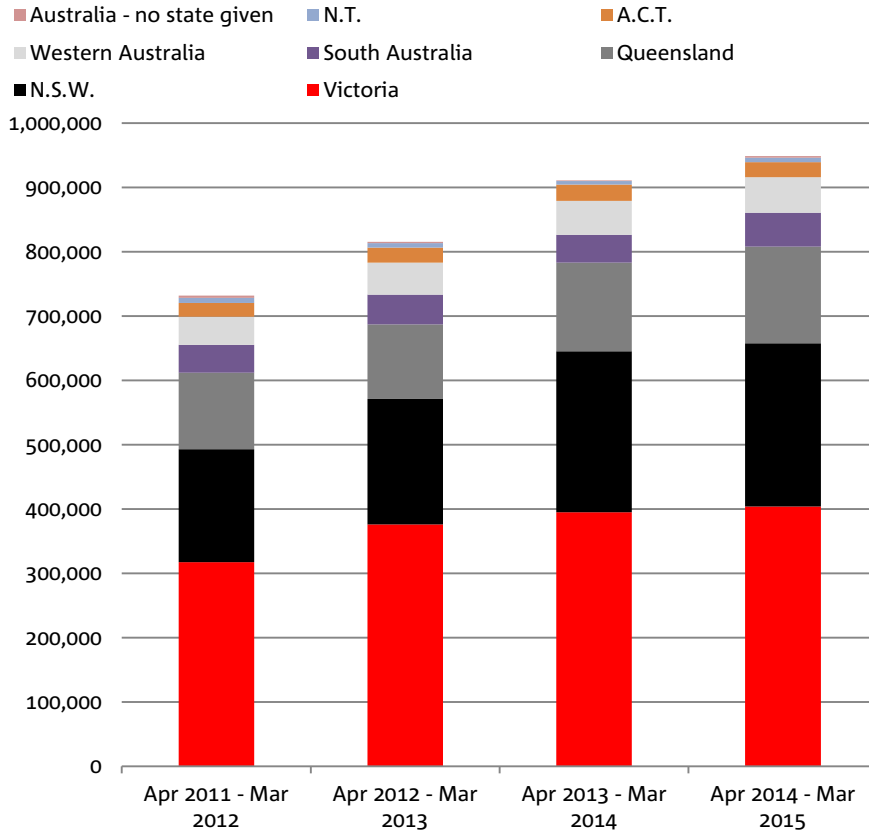
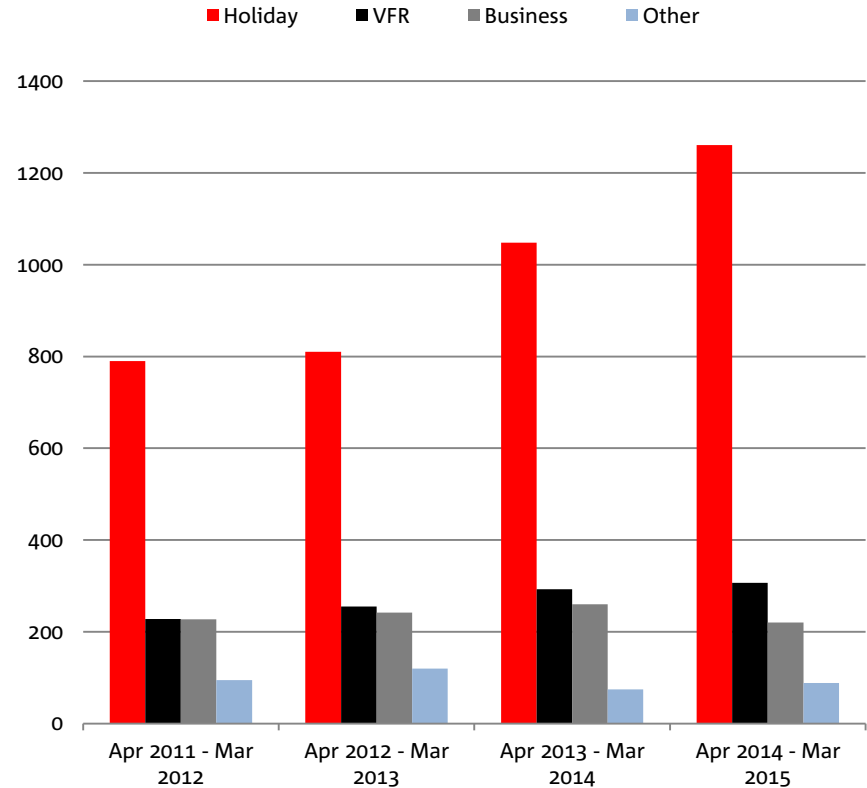


Chart 4: Tasmanian visitor spending by visitor type (\$ million)



Source: Tasmanian Visitor Statistics database, Tourism Tasmania.

\*VFR: Visiting friends and relatives

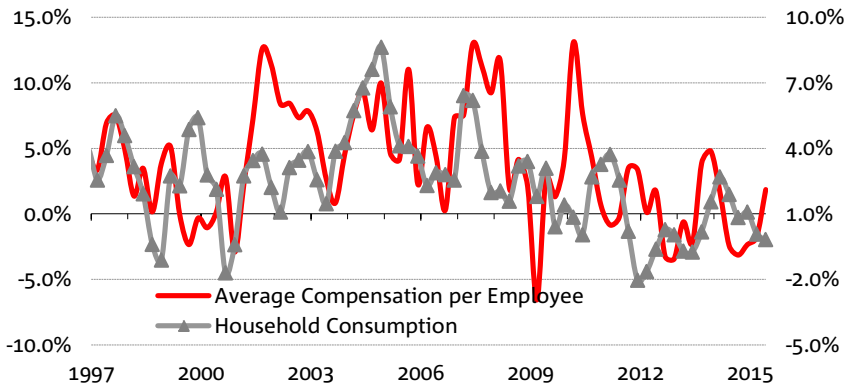


# Consumers remain cautious on spending

- A moderation in the unemployment rate corresponded with a notable household spending-driven improvement in economic activity, partly reflected in the robust growth in retail sales in late 2013 and early 2014 (charts 5 and 6). That said, wages growth remains anaemic (chart 5), although the slowdown appears to have stabilised and is expected to improve as employment growth picks up from a tentative recovery in the housing construction and tourism sectors.

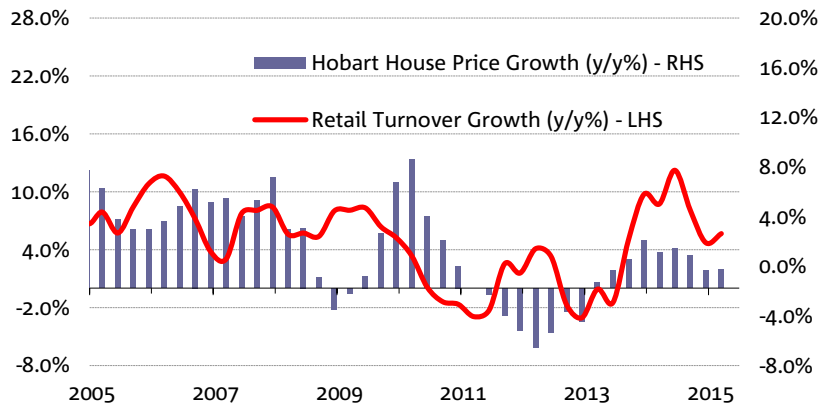
- Consumer behaviour in Tasmania remains cautious. Similar to other states, survey respondents are more inclined towards spending on essential goods and services such as groceries, transport and utilities, while demonstrating more prudent intentions in longer-term financial management strategies to focus on savings, super and investment, as well as paying down debt (chart 6).

Chart 5: Average Compensation of Employees and Household Consumption Growth (y/y%)



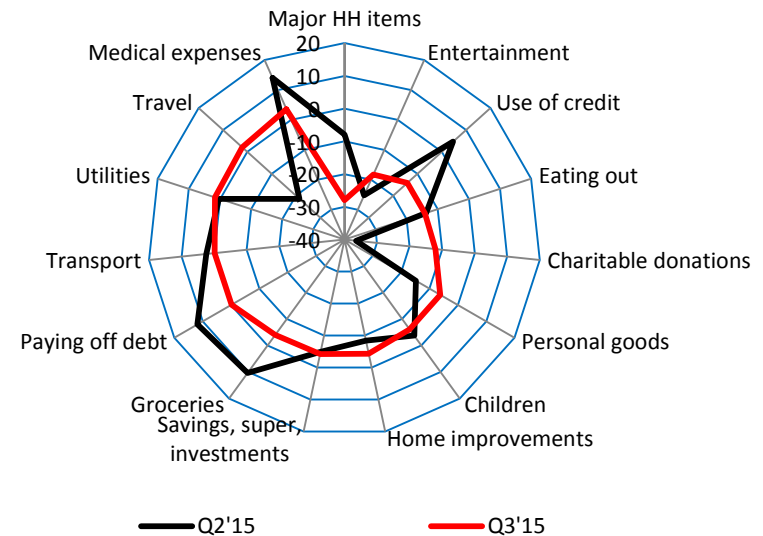
Source: ABS, NAB Group Economics

Chart 7: Retail Turnover and House Price Growth (y/y%)



Source: ABS, NAB Group Economics

Chart 6: NAB Consumer Anxiety Survey - Consumer Spending Preferences





# Business Sector and commercial property showing signs of life, despite structural changes

- Tasmania's business sector has been under pressure in recent years due to a structural decline in the manufacturing sector, one of its traditional pillars, and was further undermined by a strong AUD, which weighed on its other main sectors of tourism and primary exports. A lower AUD since 2014 may not reverse the structural decline in manufacturing but should improve the tourism sector. Non-residential building approvals, while volatile, show a notable uptick in offices and other building (chart 8).

- The timber industry continues to contract, generating a smaller exportable volume of woodchips (chart 9). The value of Tasmanian timber exports has steadily declined over the last several years, particularly for woodchips, for which purchasers have become increasingly concerned about environmental impacts. We expect native forest logging to remain under pressure as major purchasers shift to domestic plantations and offshore timber sources.

Chart 8: Non-residential Building Approvals (\$ million)

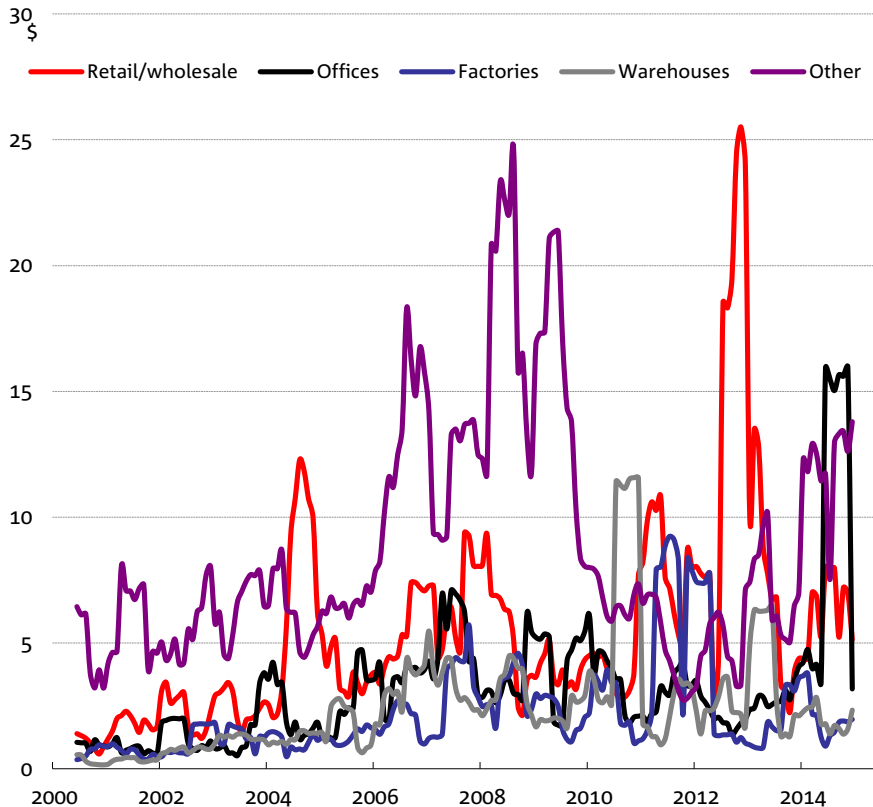
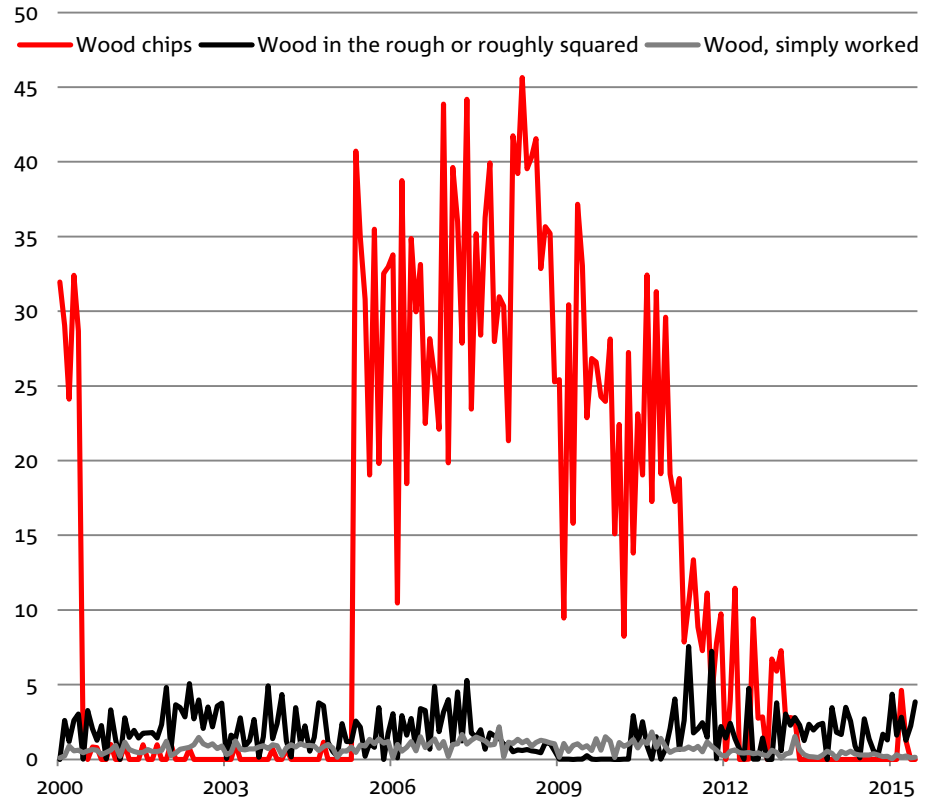


Chart 9: Value of monthly woodchip and timber exports (\$ million)



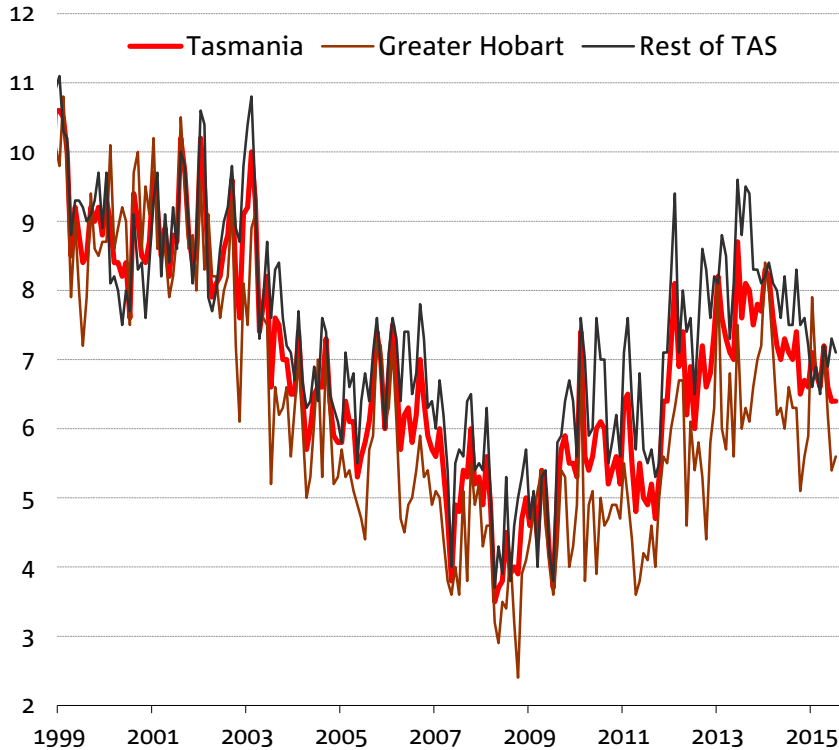


## Employment recovering in most sectors

- Slower economic growth saw the Tasmanian unemployment rate rise steadily in the aftermath of the GFC from 2008 to 2013 despite weak population growth over the period. It started trending downwards from its peak of 8.7% in June 2013 to be currently around 6.4% (Chart 10).

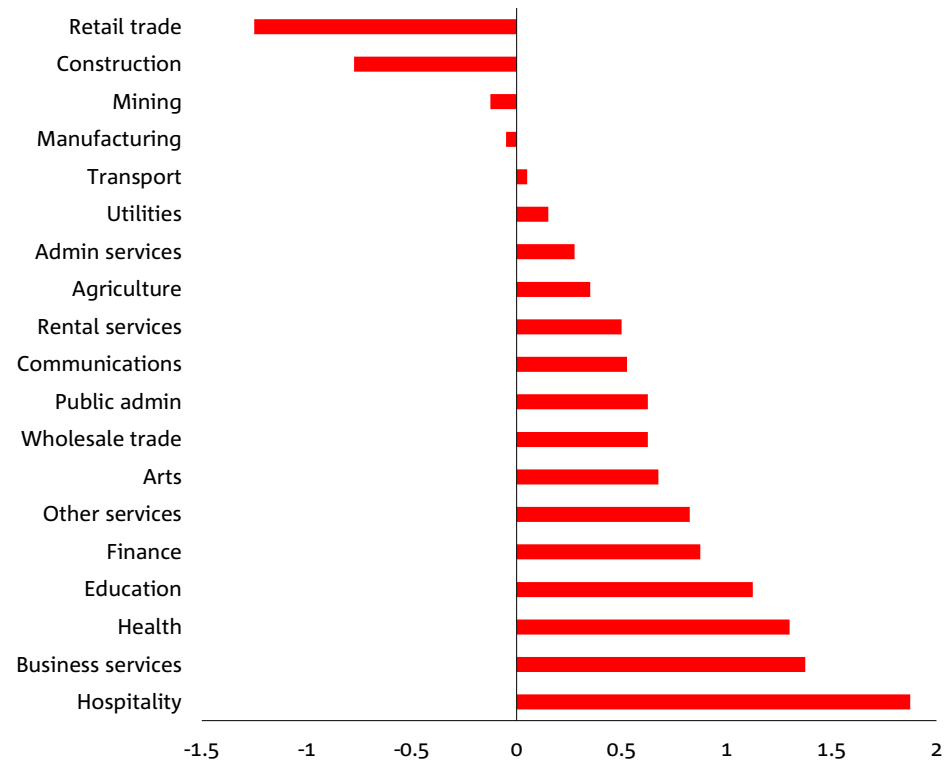
- Over the 12 months to the June quarter 2015, hospitality, business services, health, education and finance saw the biggest employment gains. Retail suffered the largest number of job losses, despite stronger consumer spending, while employment in construction, mining and manufacturing also declined (Chart 11). Looking over the last three years, the biggest job losses have been in agriculture, utilities, manufacturing, finance, construction, retail services, wholesale and transport.

Chart 10: Unemployment Rate by Region, %



Source: ABS, NAB Group Economics

Chart 11: Change in employment by industry, last 12 months to Jun 2015, Tas, '000





# Population growth remains below the national average

- Weak GSP growth over the post-GFC period (except for 2013-14) saw a reversal in the tide of interstate migration from net positive to negative, with the net outflow of Tasmanian residents to other states peaking in September 2012 at around 2,800 people in the quarter. This has since moderated, while net overseas arrivals remains at a relatively stable level, resulting in a net positive migration flow (chart 12).
- Similar to the trends in output, Tasmania's share of the Australian population is falling over time. Its population is also older than the national average, with a notably smaller proportion of the population aged 20 to 40. Not only is the Tasmanian resident population ageing, the population is growing at a significantly slower rate than the national average (chart 13).

Chart 12: Tasmania Population Growth Drivers ('000s, over the year)

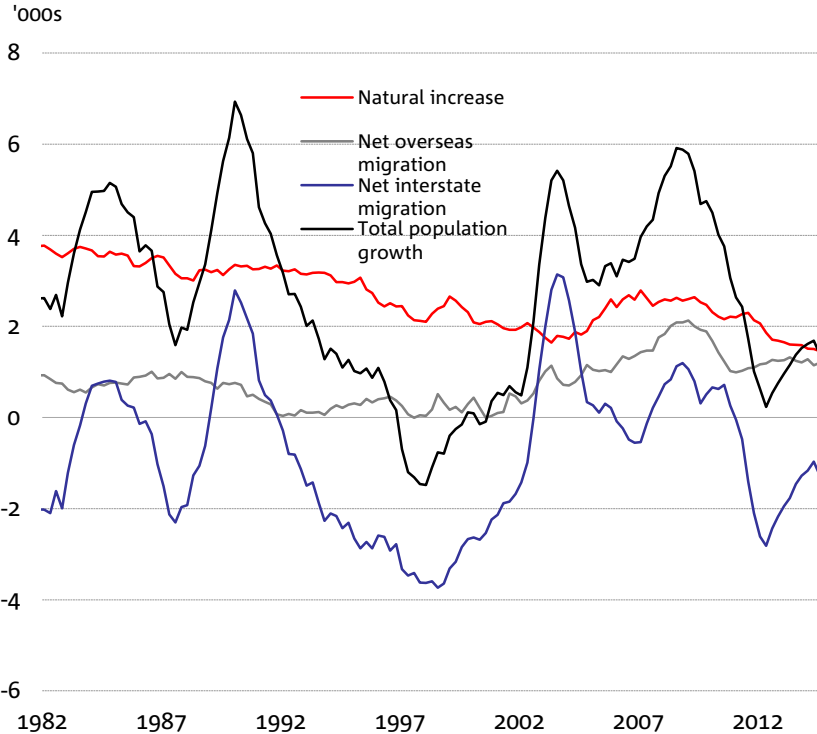
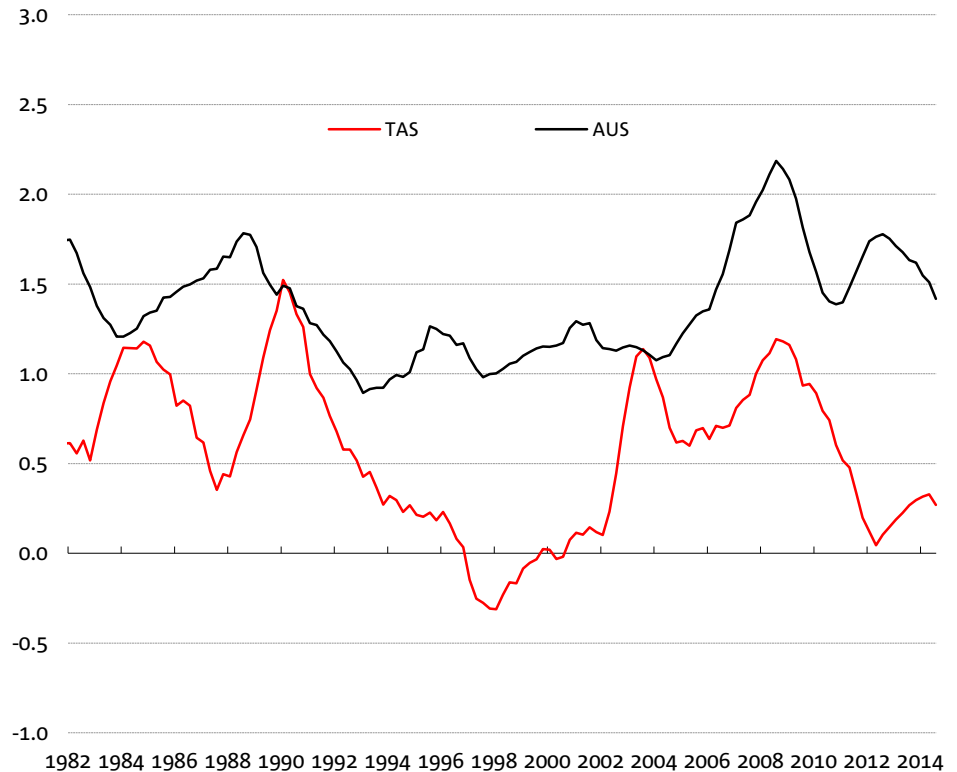


Chart 13: Tasmania Population Growth (Year-ended Growth)



Source: ABS, NAB Group Economics



# Residential approvals improving

- Unlike the mainland capital cities, Hobart house prices have been largely stagnant to mildly downward trending since 2008, with the median hedonic prices in Hobart now around half of the weighted average of all capital city prices. Continuous growth in housing supply over most of the 2000s combined with low population growth drove the dwelling to population ratio higher over time, limiting house price growth (chart 16).
- A further pick-up in housing approvals since 2013 is expected to also be associated with looser supply fundamentals and thus expected to keep a lid on upward house price mobility in the near to medium term (chart 14). Tasmania is also noteworthy for the relatively low level of unit approvals compared to the rest of Australia (chart 15).

Chart 14: Tasmania Residential Approvals & Commencements

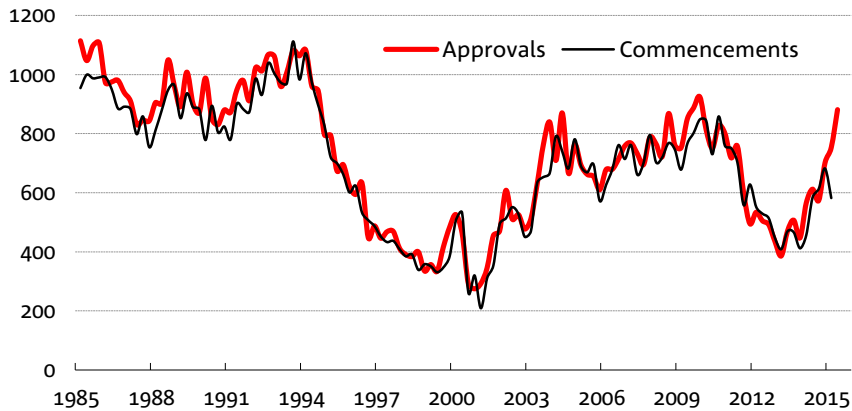
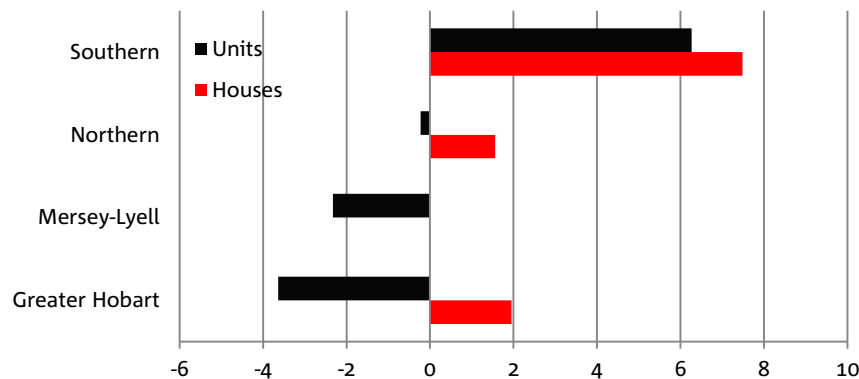
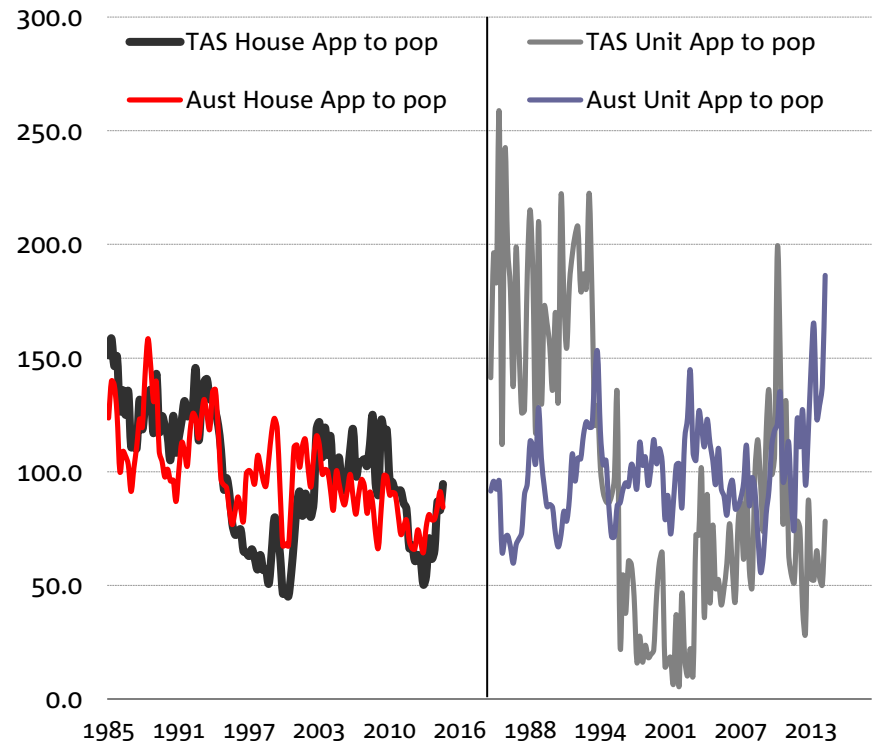


Chart 16: Price growth by region (% change from previous qtr)



Source: ABS, RP-Data, NAB Group Economics

Chart 15: Building Approvals relative to population (LRA = 100)







## Economic structure & trade

- Tasmania is an island state located south of the Australian mainland. It is Australia's smallest state, having a population of just over 500,000. This combination of remoteness and low population presents a number of economic challenges. Health is the biggest employer, followed by retail, education, hospitality and public administration. This reflects Tasmania's reliance on government services delivery employment and tourism. Manufacturing and construction are also major employers (chart 22).
- Tasmania's external trade is focussed on East Asia and ASEAN countries are the biggest source of exports and imports, followed by China. The top six countries for Tasmanian exports are all located in East and South East Asia (chart 23).

Chart 22 : Composition of employment & GVA, 2013-14

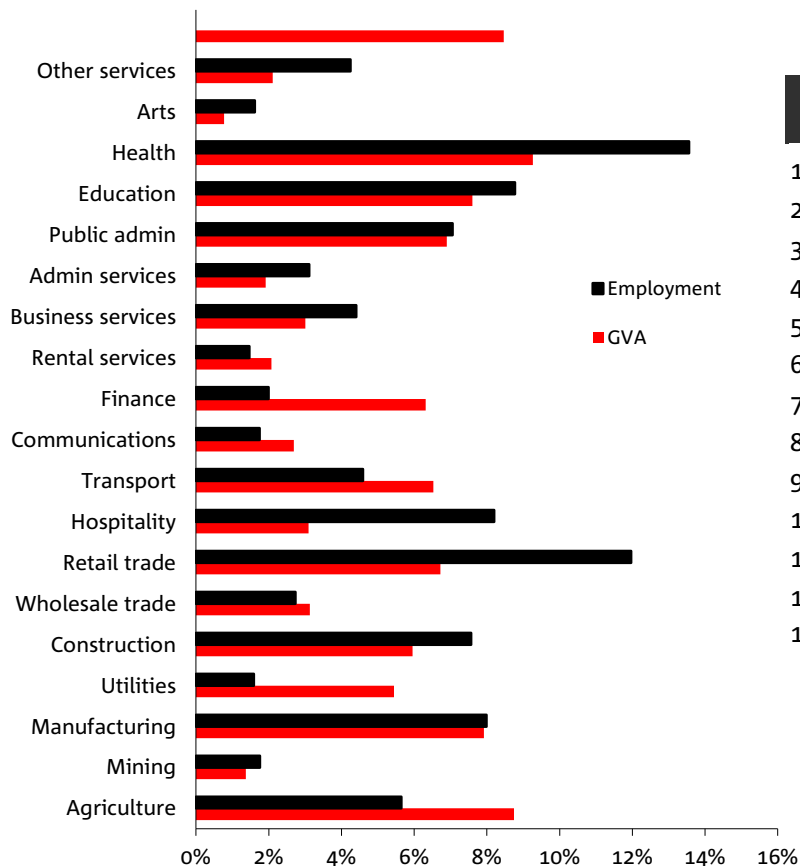


Chart 23: Top Tasmania export destinations and import source countries, 12 months to July 2015

Value of exports (\$m)		Value of imports (\$m)	
1	ASEAN	714	184
2	China	485	132
3	Taiwan	335	126
4	Japan	213	88
5	US	185	85
6	HK	151	49
7	Korea	126	23
8	New Zealand	93	22
9	India	75	16
10	Singapore	60	13
11	EU	58	9
12	UK	6	0
13	Germany	2	0



## Fiscal outlook: return to surplus forecast but reliance on Commonwealth transfers remains

- The Tasmanian government has consistently run budget deficits for several years, a result forecast to be repeated in 2015-16, with Tasmanian Treasury forecasting a net operating result of -\$58.5 million for the year. However, Treasury forecasts a return to surplus in 2016-17 on lower expenditure, and predicts growing surpluses for the remainder of the forward estimates (chart 17).

- Tasmania is highly dependent on transfers from the Commonwealth. 42% of Tasmanian government revenue comes from GST allocations (compared to less than a quarter for Victoria) and a further 23% of revenue is from other grants from the Commonwealth (chart 18). Own source taxation revenue constitutes less than 20% of total revenue. This leaves Tasmania vulnerable to changes to the GST distribution and lower indexation of Commonwealth tied grants.

Chart 17: Net operating balance – Tasmanian general government sector (\$ million)

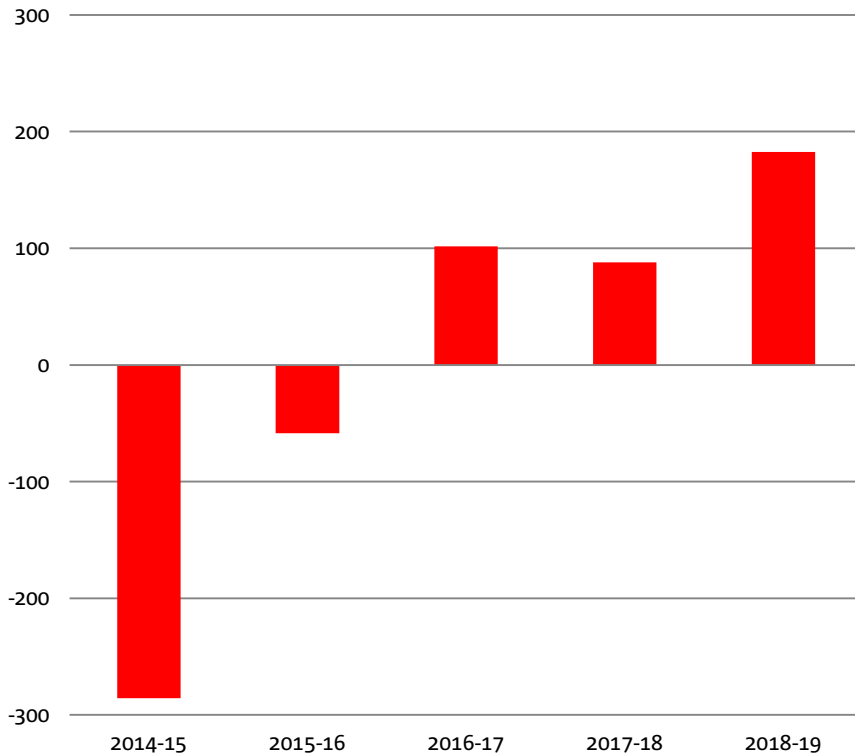
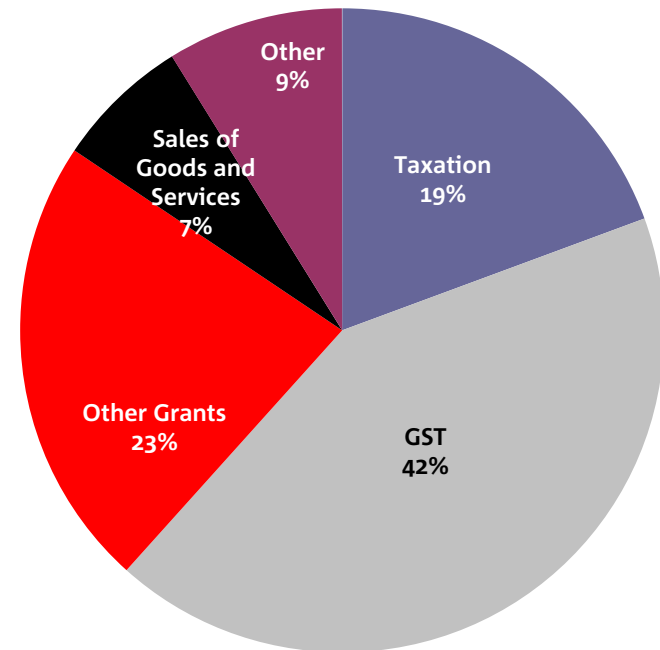


Chart 18: Composition of state revenues 2015-16



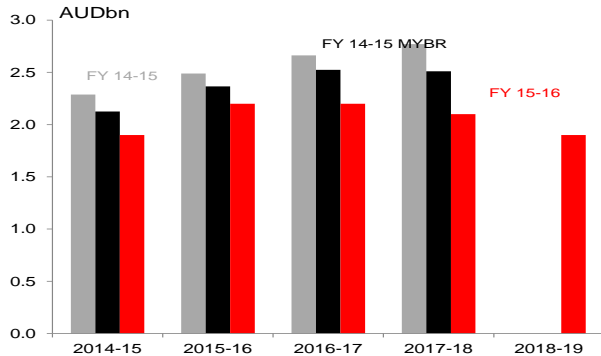


# Debt position improving; achieving low expense growth may be challenging

NFPS net debt is expected to remain steady. The focus is to continue to work on improving the financial position of the state and managing risks such as superannuation liabilities. The Government continues to meet the cash cost of defined benefit scheme (chart 19).

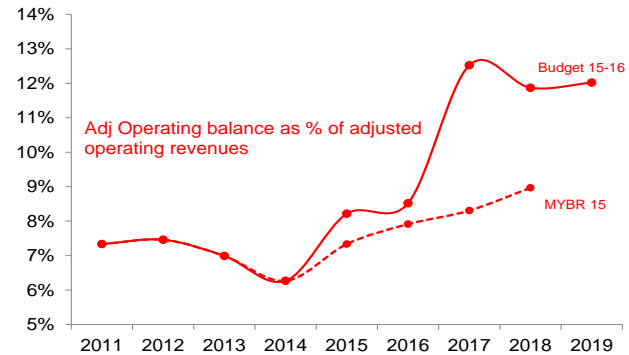
Following the 2015-16 Budget S&P affirmed the state's AA+ rating with stable outlook. The budget forecasts stronger performance than previously predicted but S&P believes it will be challenging to maintain wage and nonwage expense growth at a low rate (chart 20).

### Chart 19: Tasmania Non-Financial Public Sector net debt

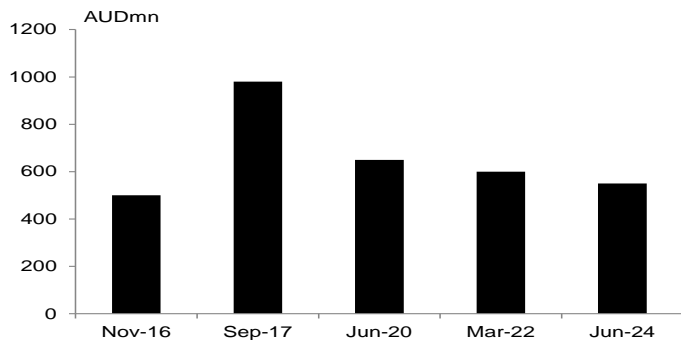


Tascorp has said that its borrowing programme for 2015-16 will total between AUD500-700m (chart 21).

### Chart 20: S&P credit metric: Operating balance as % of revenues



### Chart 21: Tascorp bonds outstanding



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