

State Update: Tasmania – January 2016

NAB Group Economics



National
Australia
Bank



Content

Key points	2
In Focus: Tasmania's school completion rates	3
Domestic tourism	4
Consumer and household sector	5
Business sector	6
Residential property	7
Labour market	8
Demographics	9
Economic structure	10
Fiscal, semi government bonds and credit outlook	11



Key points

- **While the Tasmanian economic outlook has improved over the last year, thanks in large part to a pick-up in business investment and strong domestic tourism, recent data suggest that the recovery may be losing some steam.**
- While manufacturing continues its structural decline and the mining sector continues to struggle amid softer global demand for zinc and aluminium, we are optimistic about some of Tasmania's biggest sectors. Agriculture, forestry and fishing accounts for almost 10% of Tasmania's GSP (compared to around 2% nationally) and is the state's largest sector. While forestry is in structural decline, agriculture is becoming more important and enjoying very favourable conditions thanks to a cool climate and expanding irrigation schemes (particularly for dairy).
- Likewise, Tourism Tasmania reports that tourism directly and indirectly accounts for 9.1% of Tasmanian GSP, the highest in Australia. **The lower AUD is likely to continue to boost tourism and agriculture, making domestic holidays more attractive for Australians and improving local prices for farmers.** There are some downside risks to international travel should the global economy slow more sharply than anticipated, although international arrivals have made up a relatively small proportion of total visitor arrivals in recent years.
- 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). **Unemployment has ticked up recently but wages are still trending upward (although wage growth was slightly lower in Q3) and household consumption continues to grow.** Population growth has also been slow, weighing on the state's output share in Australian production, which has gradually eroded over time. Stronger activity in dwelling construction is also expected to contribute positively to growth, although approvals look to have peaked for now. Nevertheless, growth remains below the national average. **We forecast that GSP will grow 2.2% in 2015-16 and 2.0 % in 2016-17 (Chart 1).**
- Tasmania's education system, which has much lower year 12 completion rates than other states, has also been an issue for the state and will continue to weigh on potential growth, with no improvement in completion rates over the last decade.

Contact

Phin Ziebell, Economist
 Riki Polygenis, Head of Australian Economics
 Skye Masters, Head of Interest Rate Strategy

Chart 1: State GSP Growth Forecasts

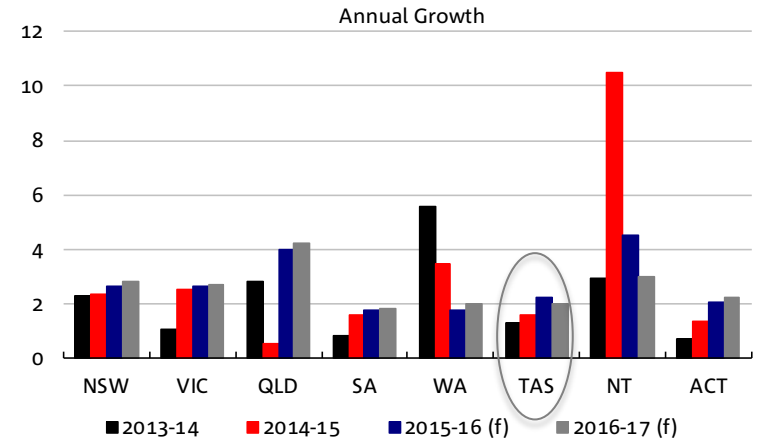
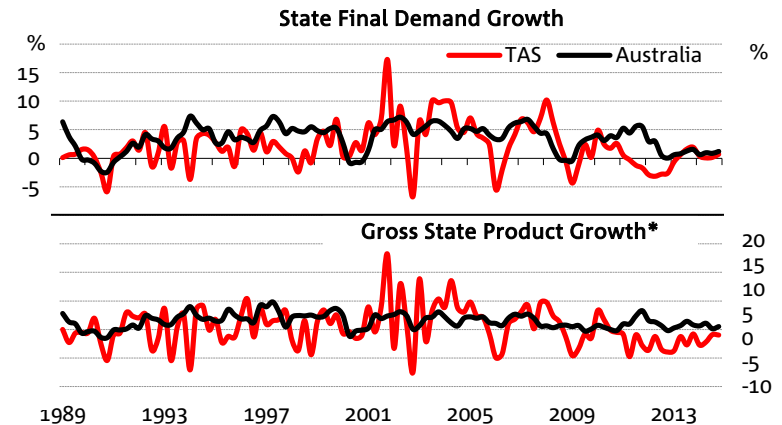


Chart 2: State Final Demand and GSP Growth *(%)



*NAB Estimate

Source: ABS and NAB Group Economics



In Focus: Tasmania's school completion rates

- Education is a key factor in economic development and necessary to boost productivity growth. This is especially important given Tasmania's unfavourable demographics.
- Tasmania's public education system is based around a model highly uncommon in Australia: students attend a high school until year 10 but to complete years 11 and 12 must attend one of only eight "colleges" (or alternatively a private school or one of 12 regional schools with a very limited range of subjects).
- Partly as a result of this system, and despite the Tasmanian Department of Education's advice that *completing Year 12 or equivalent qualifications should be the aim of all students in Tasmanian Government schools*, Tasmania has consistently the lowest year 12 or equivalent attainment rates in the Commonwealth. In 2015, only 58.1% of 20-24 year olds had attained year 12 (or equivalent qualifications) compared to the national average of 78.7%. In every other state and territory the rate was in excess of 70%.
- Just as concerning is the lack of improvement over time. The proportion of Tasmanian 20-24 year olds with year 12 or equivalent was *lower* in 2015 than in 2005.
- The Tasmanian Chamber of Commerce and Industry's *Tasmania Report 2015*, authored by Saul Eslake, considers the State's education system in some detail. The report finds that Tasmania's low school completion rates are not the result of lower funding. Indeed, Tasmania and the Northern Territory are tied equal first on government education spending as a per cent of GSP (both just over 4% compared to the national average of 2.7%). Spending is also above the national average per FTE student.
- It is unlikely that Tasmania will be able to improve educational attainment without an expansion of years 11-12 to most secondary schools. The Tasmanian Government has sought expressions of interest from schools to expand to years 11 and 12. So far 13 schools have taken up this offer, but it is unclear how many more schools will choose to do so.

Chart 3: Per cent of Tasmanian residents with year 12 or equivalent by age group, 2015

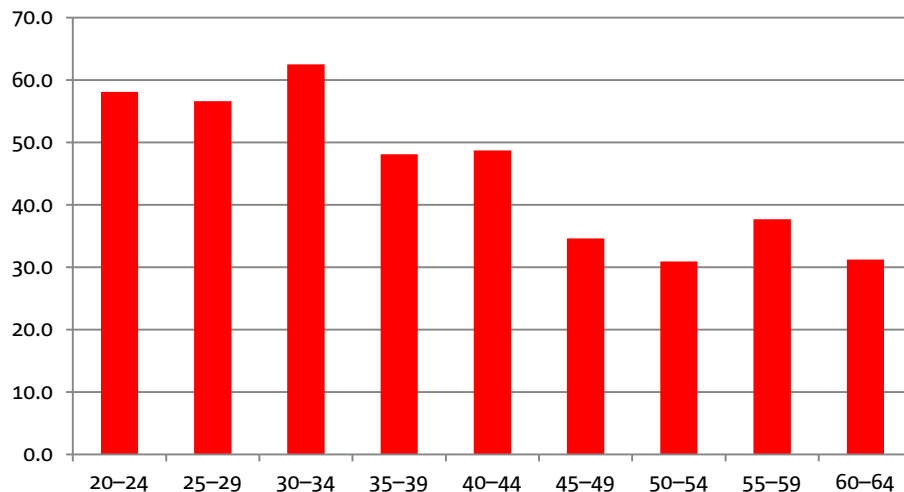
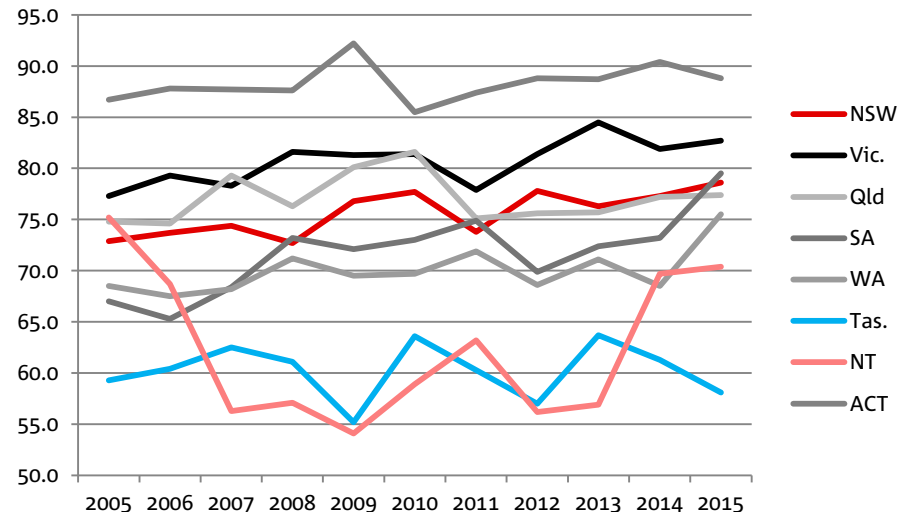


Chart 4: Per cent of 20-25 year olds with year 12 or equivalent





Domestic tourism continues to grow strongly

- Tasmania is highly dependent on tourism – Tourism Tasmania reports that tourism directly and indirectly accounts for 9.1% of Tasmanian GSP, the highest in Australia.
- Thanks in part to a lower Australian dollar, Tasmania is enjoying a domestic tourism revival. Total domestic visitor numbers were up 10% in the year ended September 2015. Visitors are attracted by new destinations within Tasmania, such as MONA.

- Total visitor spending has kept pace with visitor growth, with total spending 10% to \$1.91 billion in the year ended September 2015 (chart 6). Spending on holidays continues to outperform– up 15% to \$1.29 billion. With the AUD set to fall further (current NAB forecasts put the AUD at a low of 66 US cents at the end of Q2 2016), Australians are more likely to take domestic holidays. Tasmania is well placed to capitalise on this trend, although Tasmania is very reliant on tourism from neighbouring Victoria.

Chart 5: Tasmanian interstate visitor numbers by state of origin

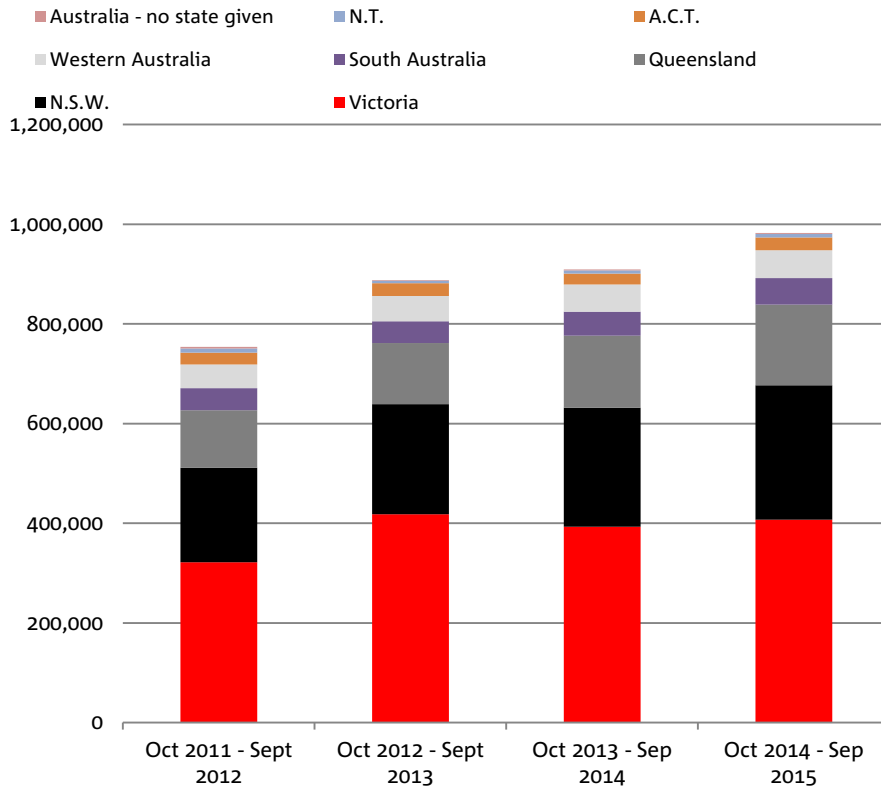
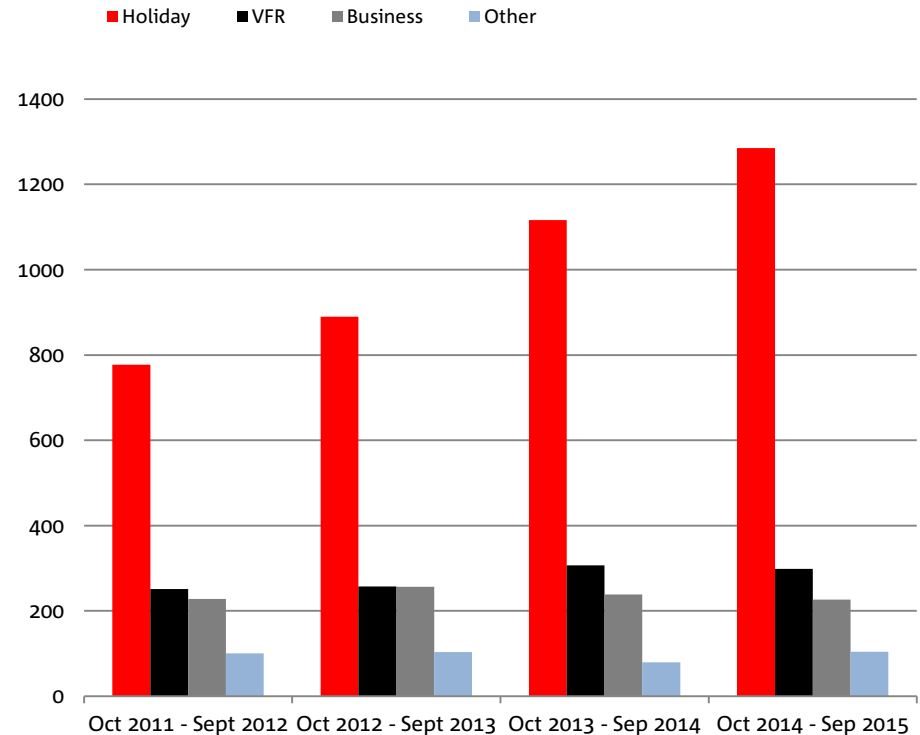


Chart 6: Tasmanian visitor spending by visitor type (\$ million)

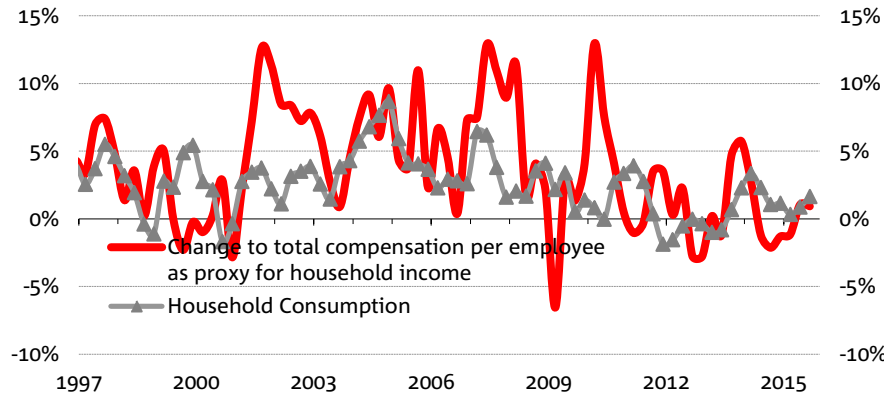




Consumers remain cautious on spending, but conditions are slowly improving

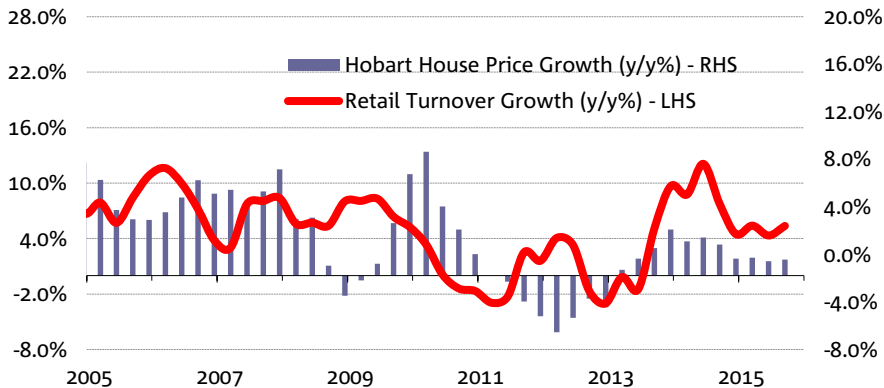
- Household consumption has slowed since 2013-14, although retail sales remain robust, perhaps due to tourism expenditure.
- Wage growth is subdued but wages are still trending upwards (albeit very slowly and that Q3 data show a slight fall in average compensation per employee). The recent uptick in unemployment may bring the prospect of slowing wage growth, although the volatility of labour force data gives some pause in reaching this conclusion.
- Consumer behaviour in Tasmania remains cautious but the NAB Consumer Anxiety Survey showed a pick-up in Q4 2015 with the exception of travel. 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 9).

Chart 7: Average Compensation of Employees and Household Consumption Growth (y/y%)



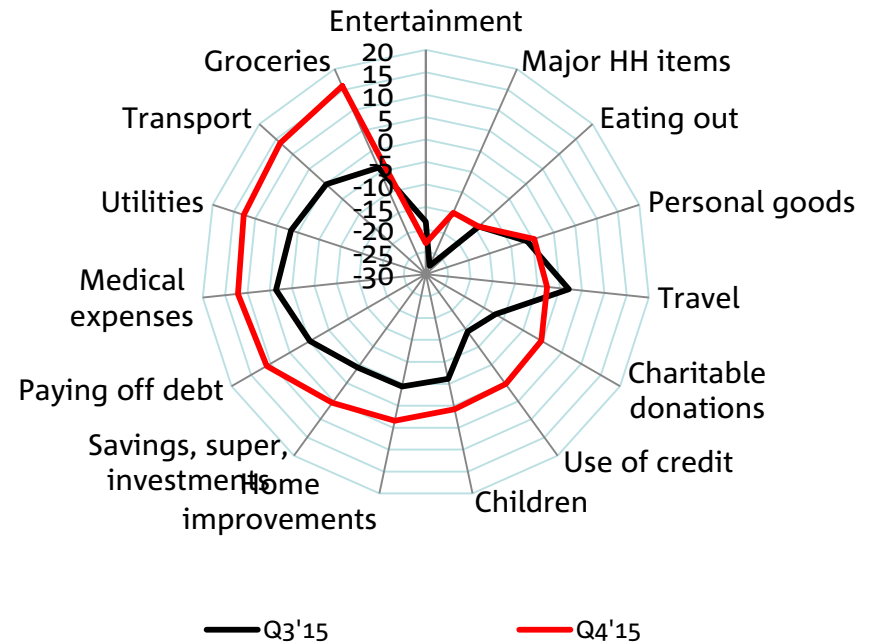
Source: ABS, NAB Group Economics

Chart 8: Retail Turnover and House Price Growth (y/y%)



Source: ABS, NAB Group Economics

Chart 9: NAB Consumer Anxiety Survey - Consumer Spending Preferences





Business sector and commercial property under pressure, agriculture growing

- In recent years, investment has been undermined by a strong AUD, which weighed on tourism and primary exports. A structural decline in the manufacturing sector has further weighed on sentiment. However, while a lower AUD since 2014 may not reverse the structural decline in manufacturing, it should improve the tourism sector. Non-residential building approvals, while volatile, show a slowdown in all categories except 'other' (Chart 10).
- Agriculture, forestry and fishing accounts for almost 10% of Tasmania's GSP (compared to around 2% nationally) and is the state's largest sector. Most of Tasmania's growth last year came from agriculture, forestry and fishing as well as construction. While forestry faces many structural problems, agriculture is becoming more important, especially dairy. Tasmania's share of national milk production hovered below 6% for most of the 1980s and 90s, but has since grown and is now over 9% of national production (Chart 11) and irrigation expansion allows for further growth. Tasmania's cool climate winemaking industry is also of importance.

Chart 10: Non-residential Building Approvals (\$ million)

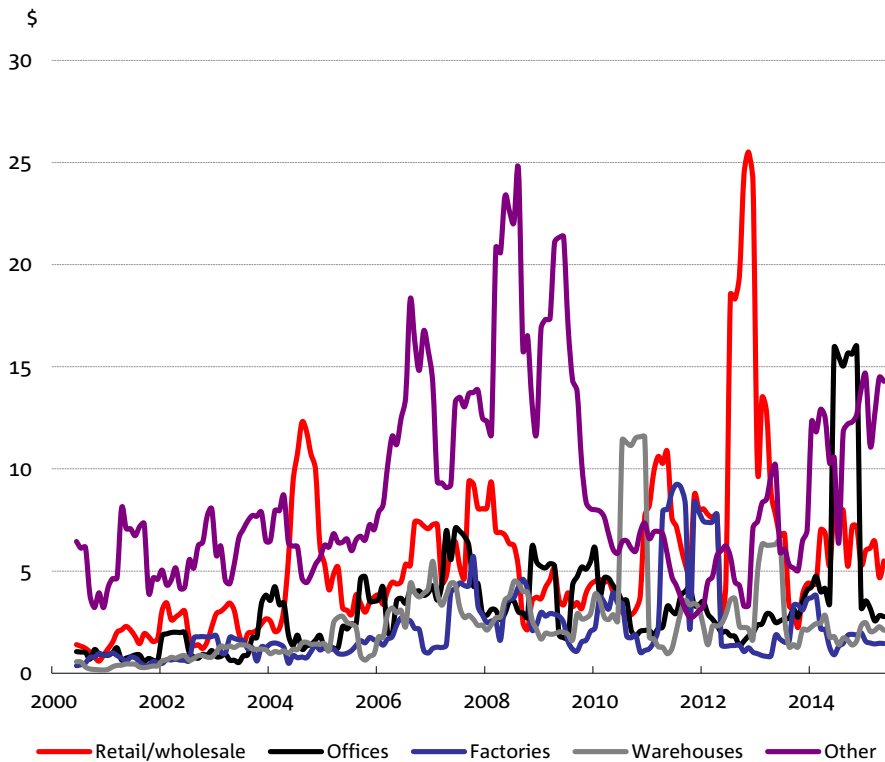
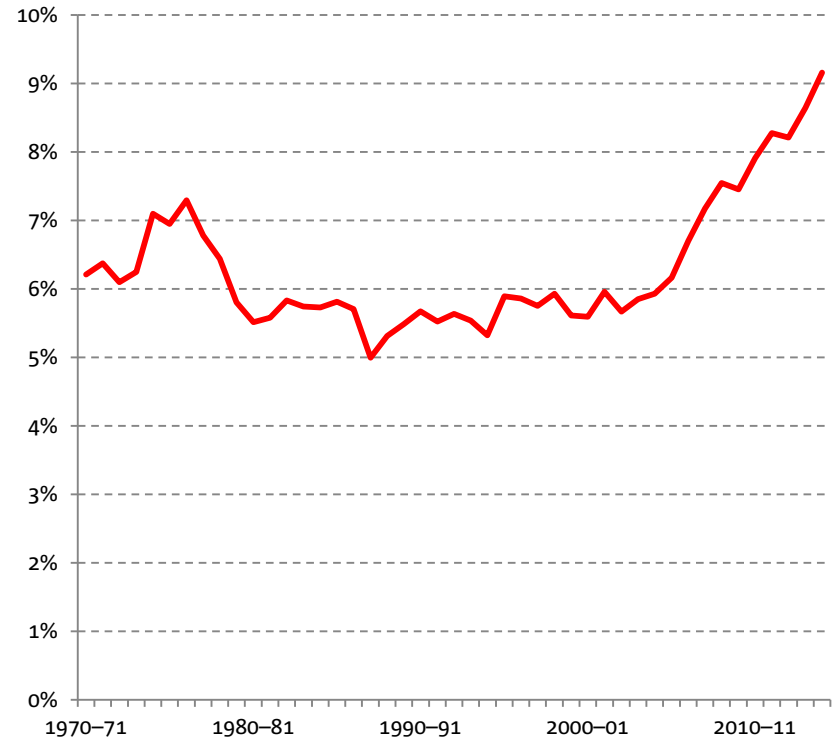


Chart 11: Tasmania's share of national wholemilk production





Residential approvals may have peaked, commencements strong

- Low population growth combined with continuous growth in housing supply over most of the 2000s drove the dwelling to population ratio higher over time, which has limited house price growth (Chart 13). Unlike the mainland capital cities, Hobart house prices have been largely stagnant to mildly downward trending since 2008, with the median hedonic price in Hobart now around half of the weighted average of all capital city prices.
- The pick-up in housing approvals since 2013, associated with looser supply fundamentals, has also kept a lid on house price growth. Recent data show a downturn in approvals but a significant jump in commencements. (Chart 12). Tasmania is also noteworthy for the relatively low level of unit approvals compared to the rest of Australia (Chart 14).

Chart 12: Tasmania Residential Approvals & Commencements

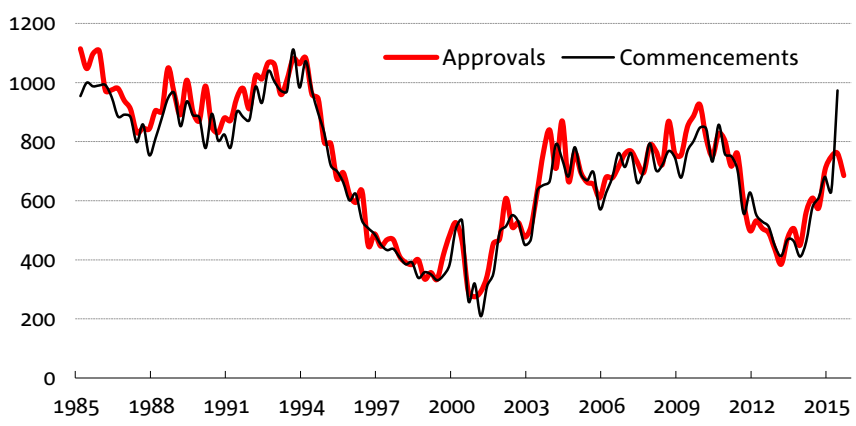


Chart 13: Price growth by region (% change from previous qtr)

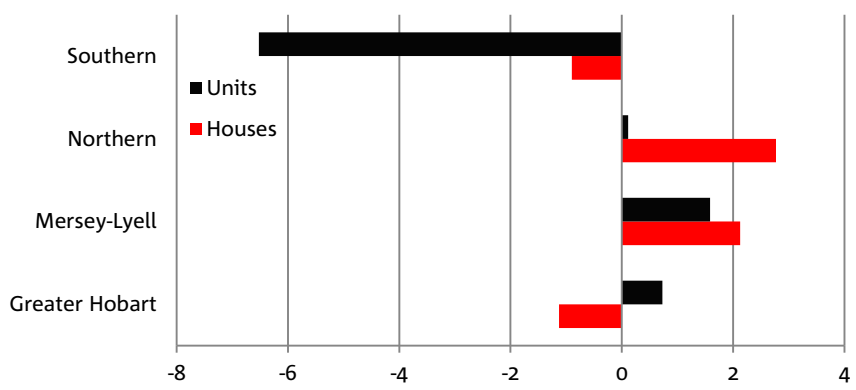
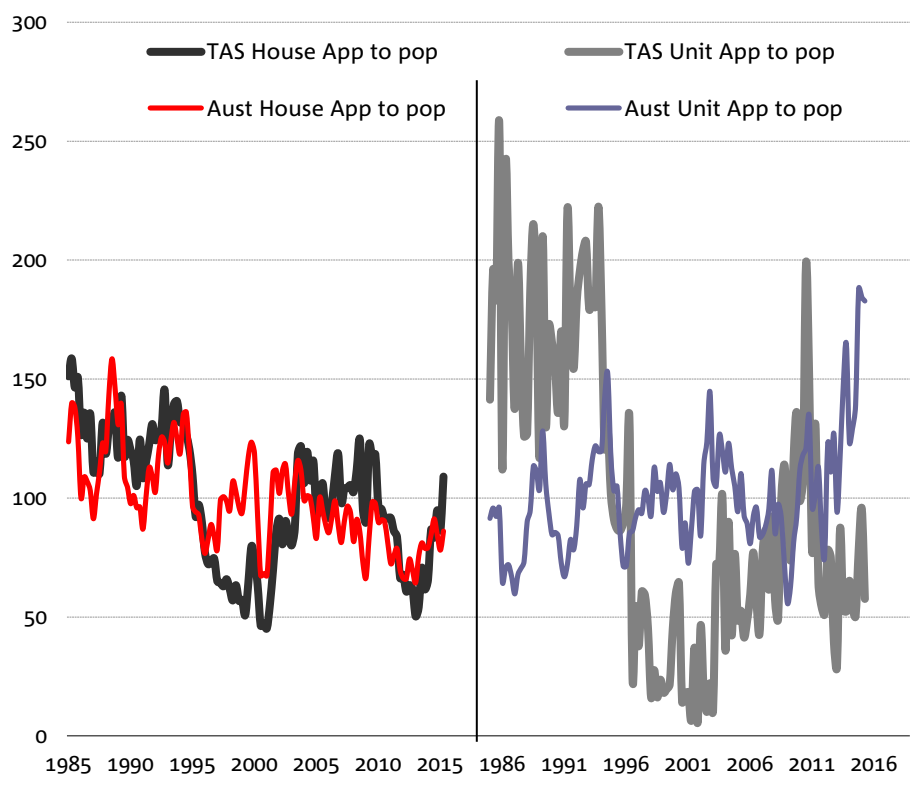


Chart 14: Building Approvals relative to population (LRA = 100)



Source: ABS, RP-Data, NAB Group Economics



Unemployment trending lower, but recent data show an uptick

- 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 a low of 5.8% in September 2015. While we note volatility in the data, an upward trend since September (to 6.8% in December 2015), driven largely by a fall in employment, suggests that there is a downside risk for employment in 2016 (Chart 15).
- Over the 12 months to the December quarter 2015, education, health, finance and transport saw the biggest employment gains. Construction suffered the largest number of job losses, followed closely by mining. (Chart 17). Looking over the last three years, the biggest job losses have been in construction and agriculture despite these sectors contributing considerably to GSP growth.

Chart 15: Unemployment Rate by Region, %

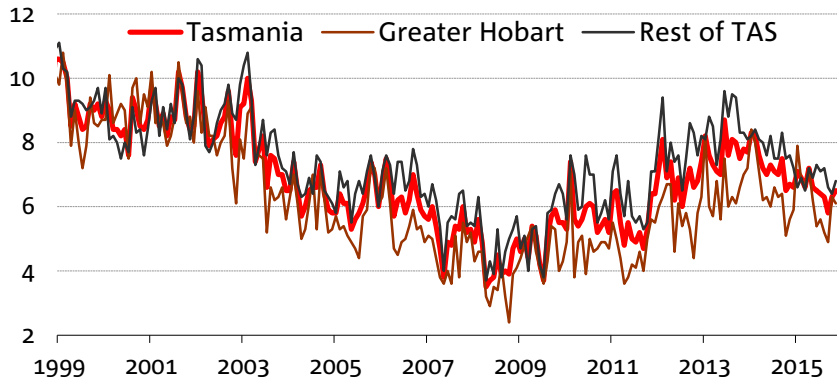
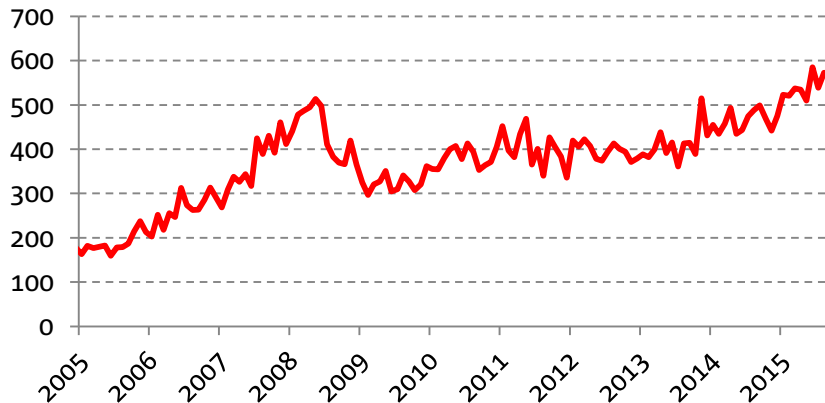
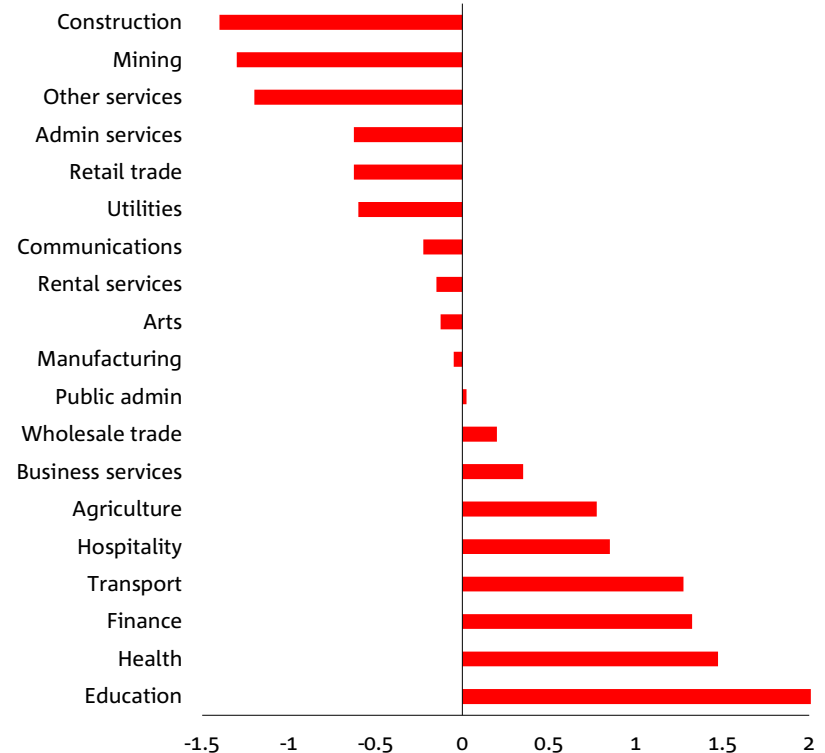


Chart 16: Seek new job ads posted, seasonally adjusted, Tasmania



Source: ABS, NAB Group Economics

Chart 17: Change in employment by industry, last 12 months to December 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 migration remains at a relatively stable level, resulting in a net positive migration flow (chart 18).
- 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 19).

Chart 18: Tasmania Population Growth Drivers ('000s, over the year)

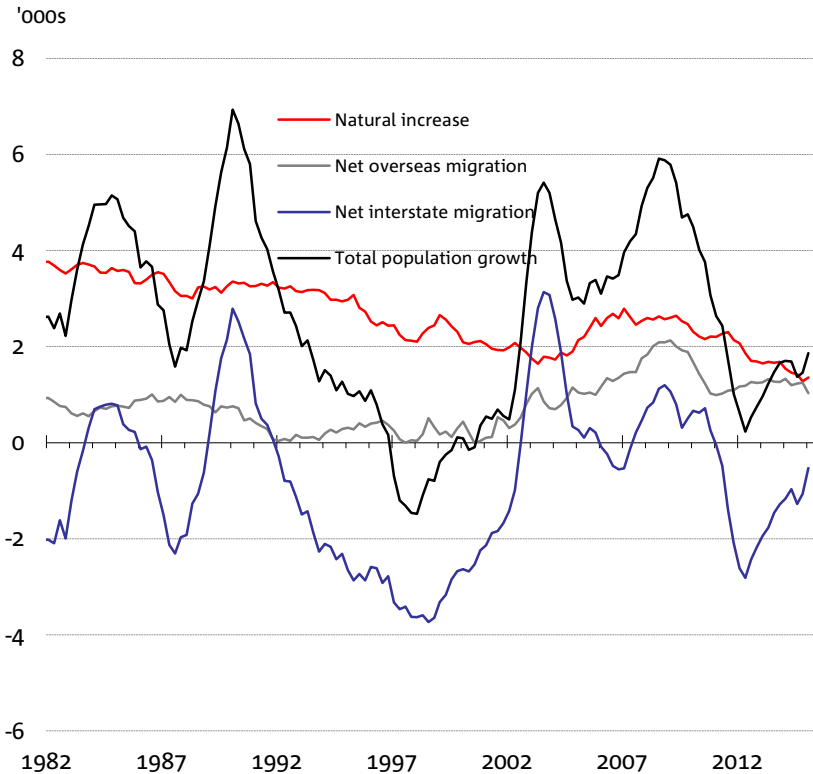
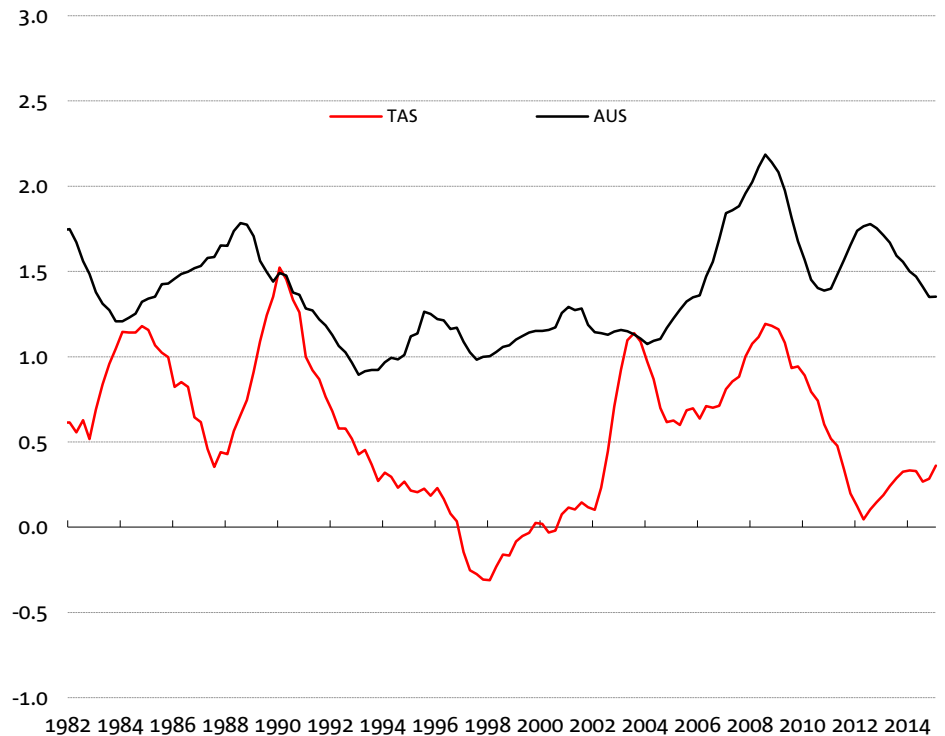


Chart 19: Tasmania Population Growth (Year-ended Growth)



Source: ABS, NAB Group Economics



Economic structure & trade

- Tasmania is an island located south of the Australian mainland. It is Australia's least populous 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, and retail, education, hospitality, manufacturing and public administration are also major employers. This reflects Tasmania's reliance on government services delivery employment and tourism (chart 20).
- Tasmania's external trade is focussed on East Asia. ASEAN countries are the biggest destination for exports and imports. Most of Tasmania's trade is with countries in East and South East Asia (chart 21).

Chart 20 : Composition of employment & GVA, 2014-15

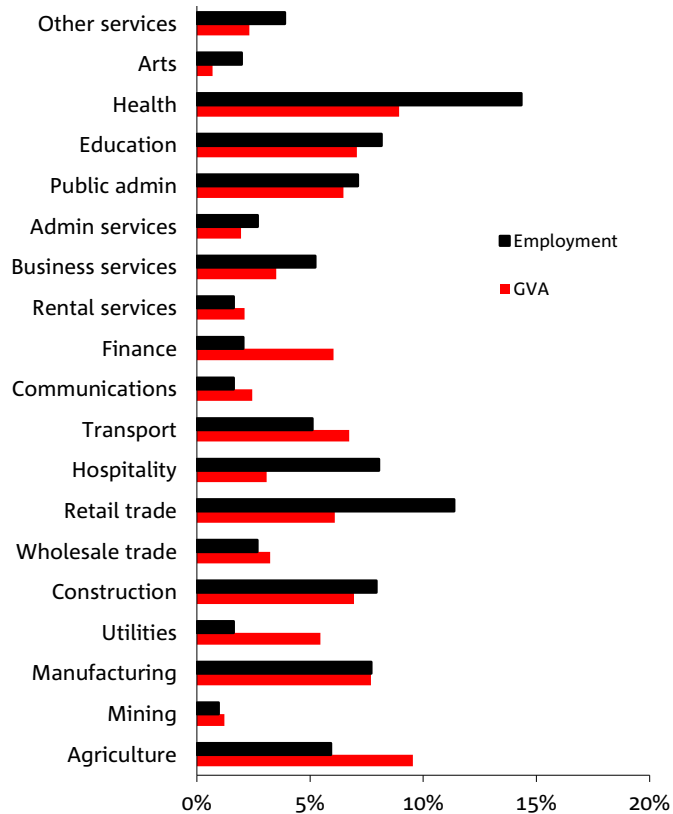


Chart 21: Top Tasmania export destinations and import source countries, 12 months to November 2015

Value of exports (\$m)		Value of imports (\$m)			
1	ASEAN	688	1	Korea	148
2	China	673	2	China	138
3	Taiwan	343	3	EU	86
4	US	208	4	ASEAN	80
5	Japan	198	5	US	58
6	HK	129	6	Singapore	24
7	Korea	114	7	New Zealand	19
8	New Zealand	94	8	Germany	18
9	India	77	9	Japan	18
10	EU	63	10	UK	13
11	Singapore	61	11	Taiwan	11
12	UK	8	12	HK	0



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

- Tasmania has not yet released its 2015-16 *Revised Estimates Report*. The 2015-16 budget forecasts a net operating result of -\$58.5 million for 2015-16, continuing the trend of budget deficits. Treasury forecasts a return to surplus in 2016-17 on lower expenditure, and predicts growing surpluses for the remainder of the forward estimates (chart 22).
- Tasmania is highly dependent on transfers from the Commonwealth. 42% of Tasmanian government revenue comes from GST allocations and a further 23% of revenue is from other grants from the Commonwealth.

Chart 22: Net operating balance – Tasmanian general government sector (\$ million)

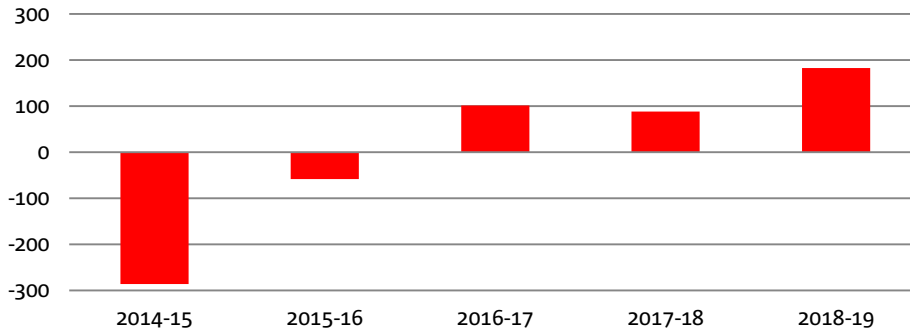
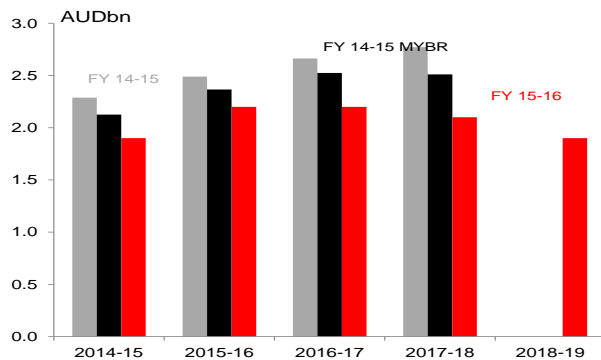


Chart 23: Tasmania Non-Financial Public Sector net debt



- 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 23).
- The 2015-16 budget forecasts stronger performance than previously predicted and S&P has affirmed the state's AA+ rating with stable outlook.

Chart 24: Tascorp bonds outstanding

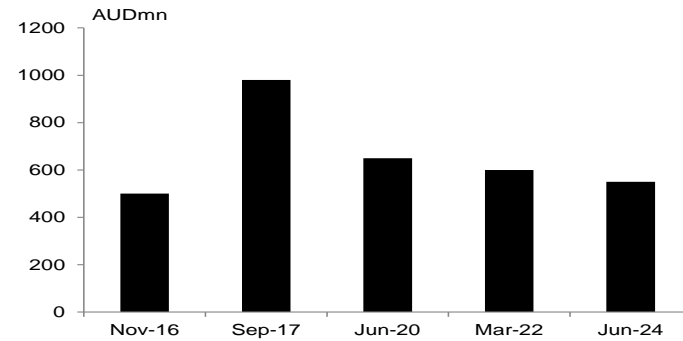
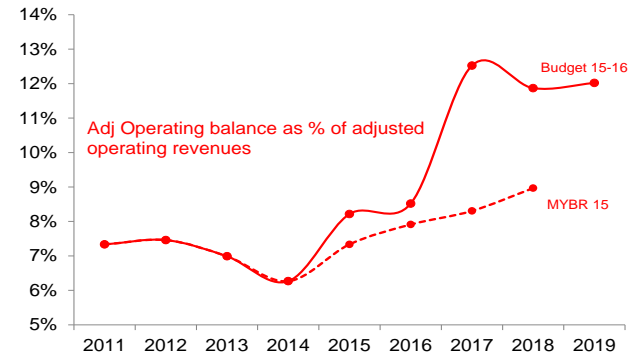


Chart 25: S&P credit metric: Operating balance as % of revenues



Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Australian Economics and Commodities

Riki Polygenis
Head of Australian Economics
+(61 3) 8697 9534

James Glenn
Senior Economist – Australia
+(61 3) 9208 8129

Vyanne Lai
Economist – Australia
+(61 3) 8634 0198

Amy Li
Economist – Australia
+(61 3) 8634 1563

Phin Ziebell
Economist – Agribusiness
+(61 4) 75 940 662

Industry Analysis

Dean Pearson
Head of Industry Analysis
+(61 3) 8634 2331

Robert De Iure
Senior Economist – Industry Analysis
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Industry Analysis
+(61 3) 8634 3837

Karla Bulauan
Economist – Industry Analysis
+(61 3) 86414028

International Economics

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+(61 3) 9208 5049

Gerard Burg
Senior Economist – Asia
+(61 3) 8634 2788

John Sharma
Economist – Sovereign Risk
+(61 3) 8634 4514

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

David de Garis
Senior Economist
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

FX Strategy

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril
Currency Strategist
+61 2 9293 7109

Interest Rate Strategy

Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Credit Research

Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 29237 1076

Andrew Jones
Credit Analyst
+61 3 8641 0978

Distribution

Barbara Leong
Research Production Manager
+61 2 9237 8151

New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Markets Economist
+64 4 474 6923

Kymerly Martin
Senior Market Strategist
+64 4 924 7654

Jason Wong
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

Asia

Christy Tan
Head of Markets Strategy/Research, Asia,
+ 852 2822 5350

Julian Wee
Senior Markets Strategist, Asia
+65 6632 8055

UK/Europe

Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+ 44 207 710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 2155

Derek Allassani
Research Production Manager
+44 207 710 1532

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Please click [here](#) to view our disclaimer and terms of use.