

# STATE HANDBOOK: TASMANIA

MARCH 2017



National  
Australia  
Bank

## CONTENTS

- 2 | Key points
- 3 | In Focus: dairy industry
- 4 | Tourism
- 5 | Consumer & household sector
- 6 | NAB consumer spending behaviours
- 7 | Business sector
- 8 | Residential property
- 9 | Labour market
- 10 | Demographics
- 11 | Fiscal outlook & semi market
- 12 | Economic structure and trade
- 13 | Forecasts

## CONTACTS

**Phin Ziebell**  
Economist  
+61 (0) 475 940 662  
phin.ziebell@nab.com.au

**Riki Polygenis**  
Head of Australian  
Economics  
+61 3 8697 9534  
+61 475 986 285  
riki.polygenis@nab.com.au

**Skye Masters**  
Head of Interest Rate Strategy  
+61 2 9295 1196  
skye.masters@nab.com.au

### 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.

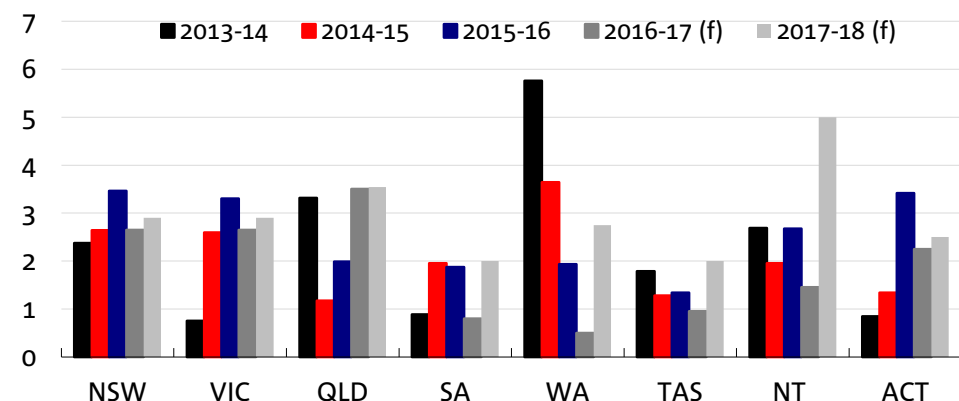
NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Please click [here](#) to view our disclaimer and terms of use.

Photo Mai Thai

# KEY POINTS

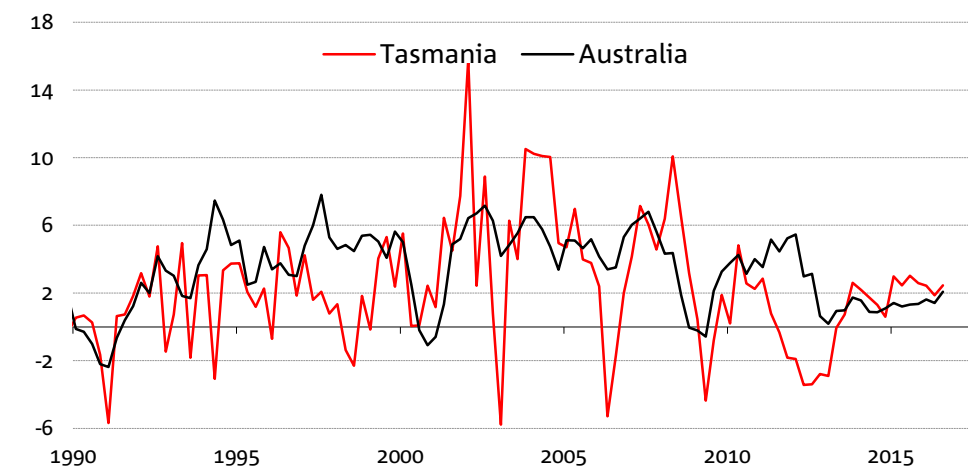
## CHART 1: STATE GSP GROWTH FORECASTS

Annual growth, per cent



## CHART 2: STATE FINAL DEMAND GROWTH

Per cent



Source: ABS and NAB Group Economics

Since the mining investment boom, there has been much discussion of Australia's 'two speed' economy. During the boom, Western Australia and Queensland outperformed, whereas more recently New South Wales and Victoria have enjoyed stronger growth as construction surged and mining investment lagged. While Tasmania has been largely left out of this national discussion, somewhat similar dynamics are at play within the state itself.

On one hand, Hobart has enjoyed the fruits of a tourism boom, reflecting a diversity of high quality attractions such as MONA. Likewise, agricultural and fisheries industries have capitalised on Tasmania's very strong reputation for quality and food safety, as well as the advantages of a cool climate (notwithstanding setbacks from climatic extremes in 2016) and expanding irrigation schemes.

On the other hand, parts of the state face high unemployment, low income growth, low educational attainment and living conditions well below the national average. Areas highly dependent on native forestry have struggled with a structural downturn in the sector and mining continues to face challenges.

Reconciling these competing forces will be a major challenge, given the geographic concentration of growth industries and Tasmania's demographics, reflecting a much older population than the mainland.

Strength in the Hobart housing market coincides with reasonably solid economic conditions in Tasmania for much of the past couple of years, with unemployment trending lower and household consumption increasing. However, some economic indicators appear to have lost momentum in H2 2016, including a notable moderation in business conditions (from the NAB Monthly Business Survey), although State Final Demand improved in Q4 2016.

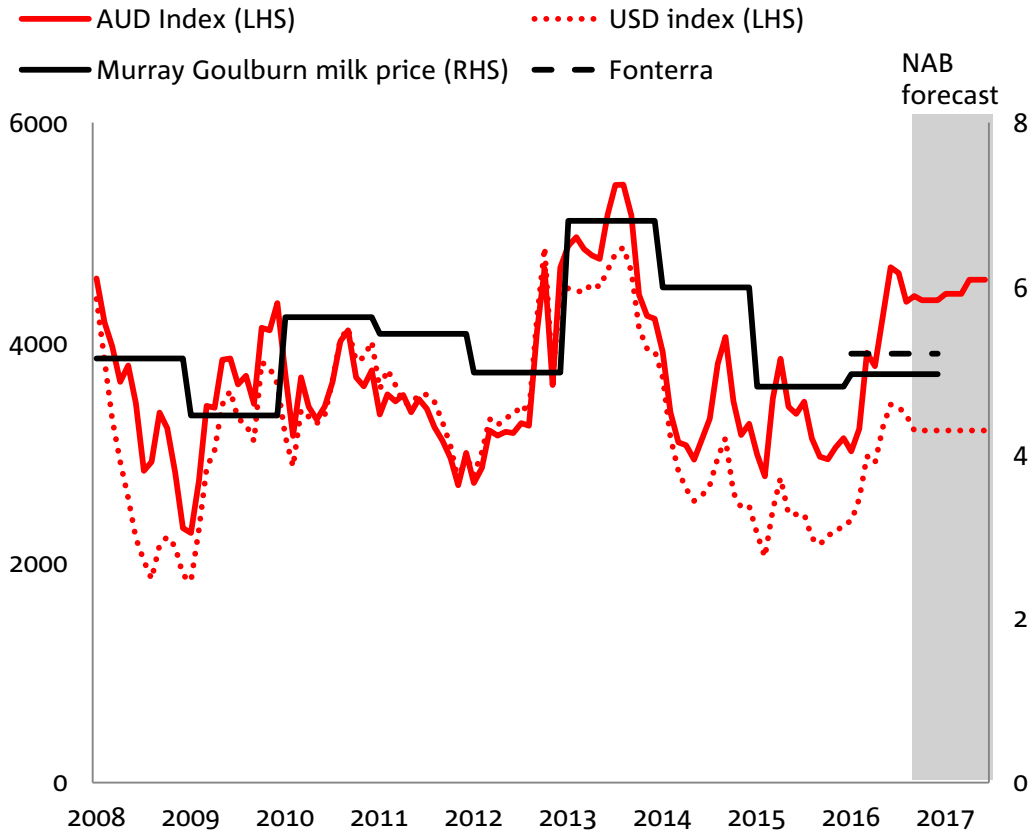
**We forecast that GSP will grow 1% in 2016-17 and 2% in 2017-18,** noting downgrades to agricultural production in 2016. The unemployment rate will remain elevated near 6½%, which combined with slow income growth is a risk for consumption.

# IN FOCUS

## The dairy industry faced a tumultuous 2016; prices are recovering

Tasmania's dairy industry has been expanding at a time when the industry has been flat or contracting nationally, with a favourable climate and expanding irrigation schemes boosting the state's dairy sector. However, 2016 was a very tough year for many Tasmanian producers, with farmers beginning the year amid extremely dry conditions in key dairy regions and steep cuts to farmgate prices, followed by damaging floods. However, since the middle of 2016, we have seen steady improvements in export prices, with NAB's weighted dairy export price indicator now showing AUD dairy prices at their highest level since March 2014 (chart 3)

**CHART 3: NAB WEIGHTED DAIRY EXPORT PRICE INDICATOR**  
 \$/tonne (export price, LHS) AUD/kg milk solids (farm gate price RHS)

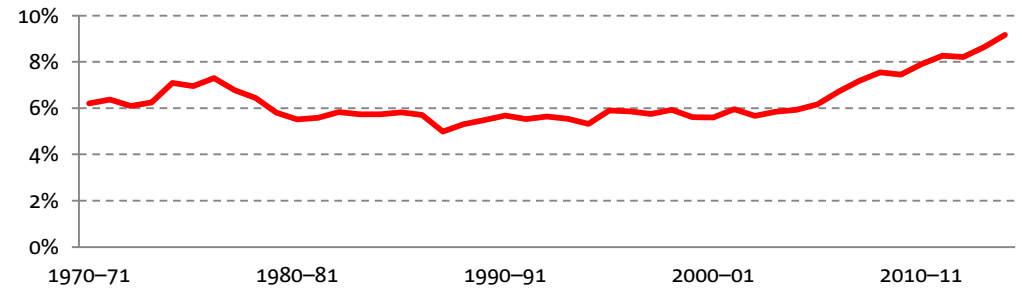


Source: Global Dairy Trade, ABARES, Dairy Australia, ABS and NAB Group Economics

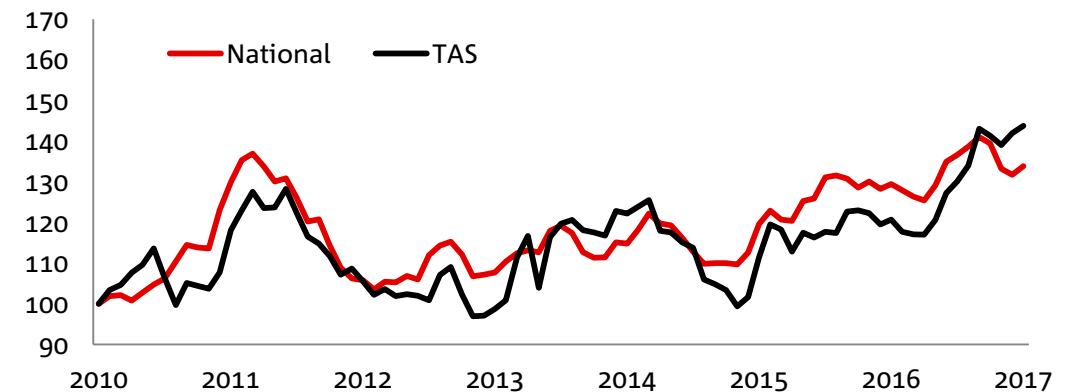
Australian milk production plunged last year, with Tasmania seeing among the steepest falls. The season so far is tracking 8% below last season.

In the longer term, it is likely that Tasmania will continue to boost its share of Australia's dairy industry. Agriculture accounts for nearly 10% of Tasmania's GDP, compared to less than 2% nationally. The dairy industry is the largest agricultural industry in Tasmania.

**CHART 4: TASMANIA'S SHARE OF AUSTRALIAN WHOLEMILK PRODUCTION**  
 % share



**CHART 5: NAB RURAL COMMODITIES INDEX, NATIONAL AND TASMANIA**  
 Index



# TOURISM

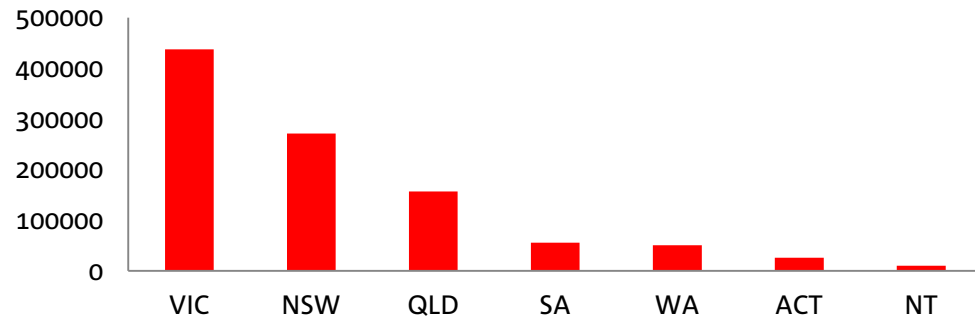
## Continues to grow strongly

Tasmania is undoubtedly an exceedingly appealing destination for tourists and features attractions aplenty. The state is the most tourism dependent in Australia, with direct tourism GVA reaching 4.4% of total state GVA in 2014-15.

In the year ended September 2016, total visitor numbers were up 4% to 1.19 million while interstate visitors were up 3%. International visitors to Tasmania were up 14.8% in the year ended September 2016, the highest for any state in Australia.

### CHART 6: INTERSTATE VISITORS TO TASMANIA

Number, annual to September 2016, by state of origin



### CHART 7: INTERNATIONAL VISITORS TO AUSTRALIA BY STATE

y/y % 12 months to September 2016

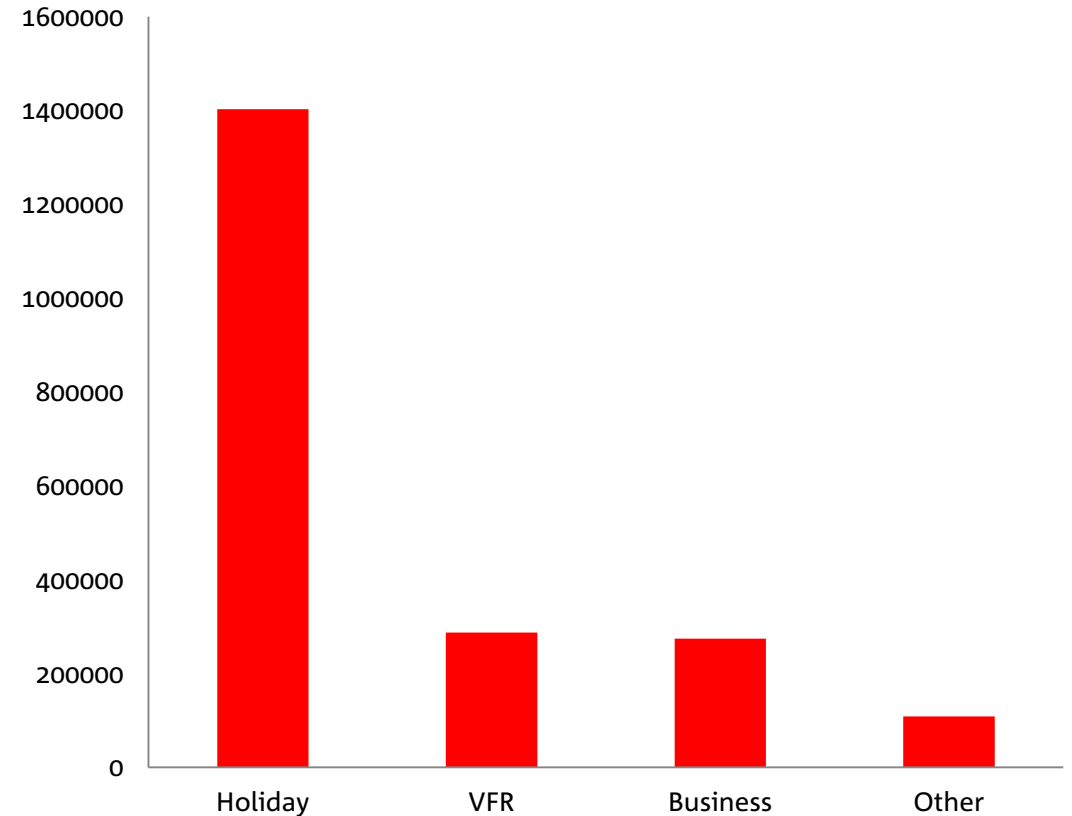


Source: Tourism Tasmania, Austrade and NAB Group Economics

The lower Australian dollar since 2014 has been a great boost to Tasmania's tourism industry. This has made domestic holidays relatively cheaper, reflected in the greater diversity of state of origin for domestic visitors. Victoria continues to be the biggest single source of domestic tourism, which is unsurprising given it is the closest state to Tasmania. It is less clear whether the appreciation in the AUD throughout 2016 was damaging to Tasmanian tourism. November airport arrival data was up 3.7% y/y for Hobart but off 1.1% for Launceston.

### CHART 8: TOURISM SPENDING BY TYPE

\$ million, annual to September 2016



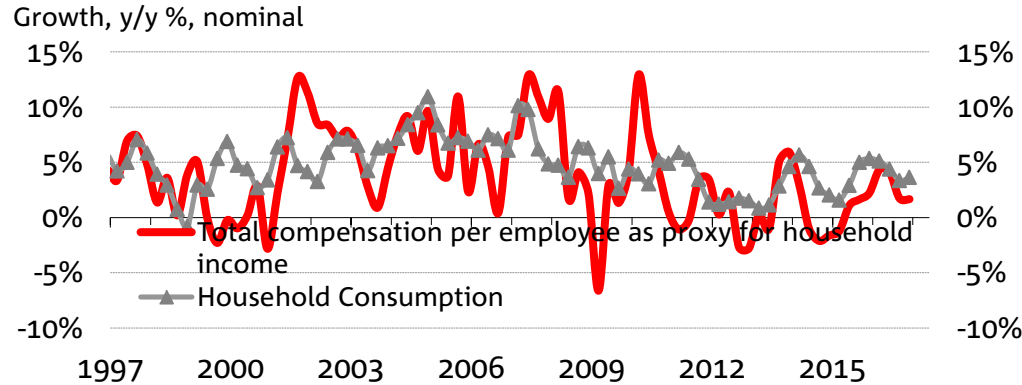
# CONSUMER SPENDING

## Tasmanians remain cautious, but conditions continue to improve

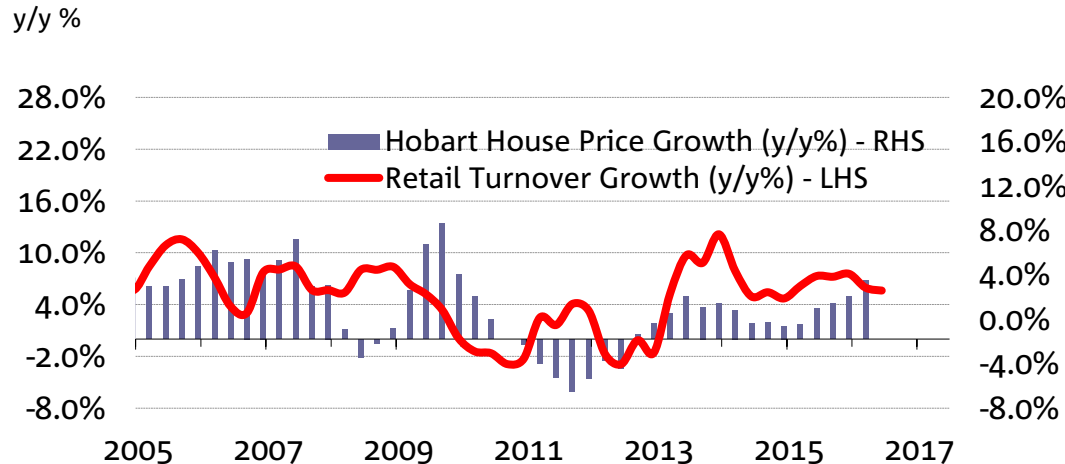
Wage growth and household consumption remain positive, continuing a trend that began in 2014 although national wage growth remains very very sluggish. Improvement in the unemployment rate (especially in Hobart, although the trend in the rest of the state is also encouraging) may present some further upside.

Retail sales remain solid, although look to have lost some momentum of late. The solid performance is perhaps due to tourism expenditure, although the improving Hobart property market is also a compelling explanation.

### CHART 9: COMPENSATION OF EMPLOYEES AND H-HOLD CONSUMPTION



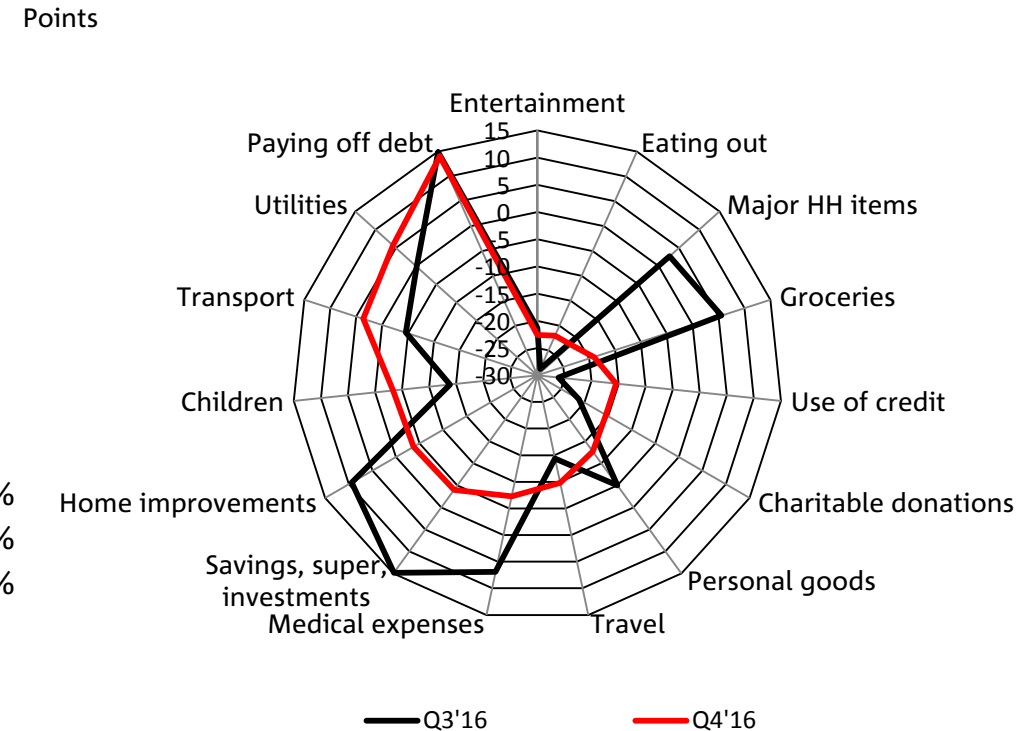
### CHART 10: RETAIL TURNOVER AND HOUSE PRICE GROWTH



Source: ABS and NAB Group Economics

Consumer behaviour in Tasmania remains cautious and Q4 2016 data from the NAB Consumer Survey shows a renewed focus on the basics. Survey respondents continue to spend on essential goods and services such as transport and utilities, while continuing a very strong focus on paying down debt (which was the first consumer spending preference in Q4). Home improvements, savings and medical expenses also featured prominently in Q3.

### CHART 11: NAB CONSUMER ANXIETY SURVEY - CONSUMER SPENDING PREFERENCES



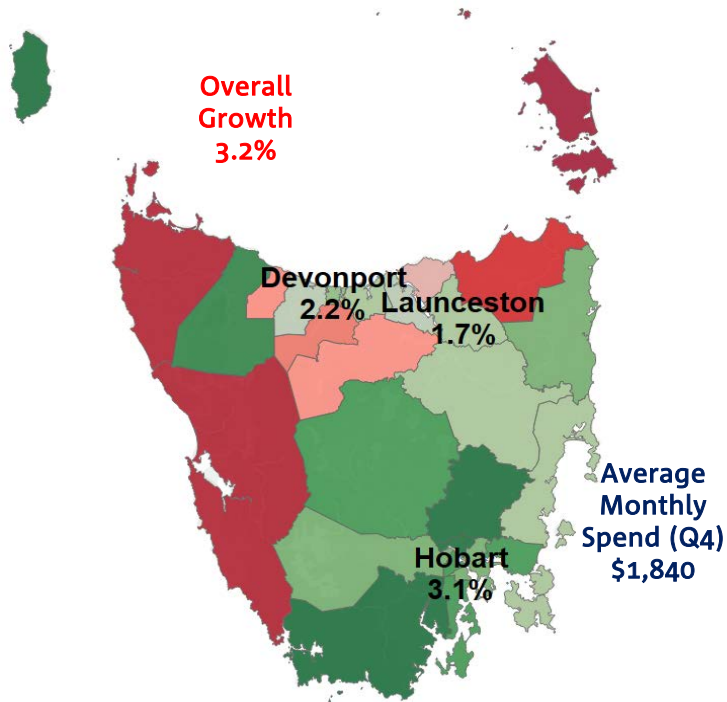
# NAB CUSTOMER SPENDING BEHAVIOURS:

## Spending growth highest in the south and east

NAB customer spending behaviour data shows that southern and eastern Tasmania is consistently outperforming the north and the west. This is reflected across a number of indicators, including much stronger airport traffic growth in Hobart than Launceston.

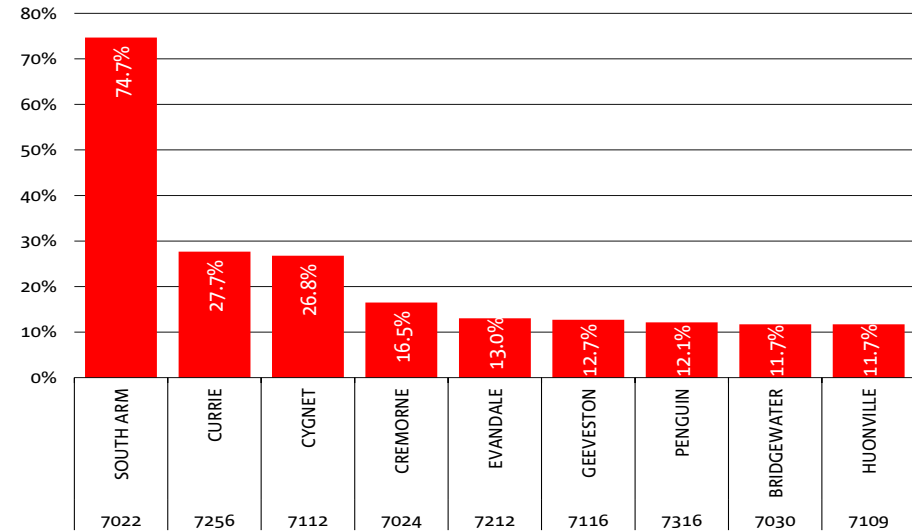
### CHART 12: TASMANIA STATE

Year-ended growth to Q4 2016



### CHART 13: TOP 10 GROWING POSTCODES FOR SPENDING

Top 10 Postcodes by Spend Growth: TAS  
(Q4 2016 spend value on Q4 2015 spend value)



# BUSINESS CONDITIONS

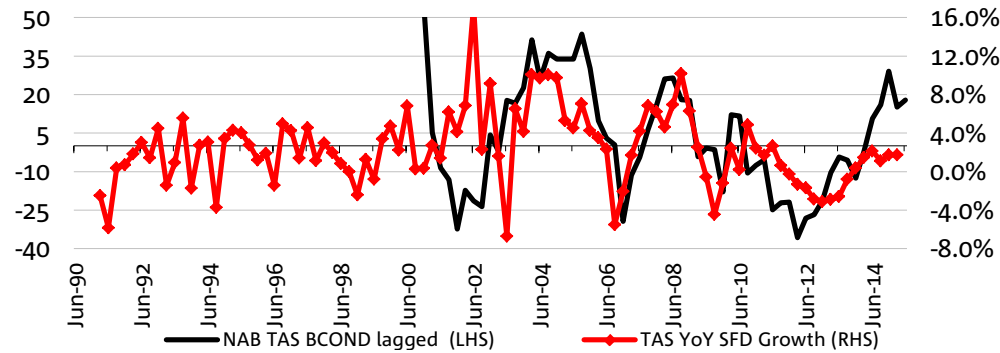
## Divergence between manufacturing and tourism, agriculture

Divergence continues across Tasmania's major industries. Hobart has enjoyed the fruits of a tourism boom, reflecting a diversity of high quality attractions such as MONA. Likewise, agricultural and fisheries industries have capitalised on Tasmania's very strong reputation for quality and food safety. On the other hand, structural decline continues unabated in Tasmania's native logging industry and manufacturing remains weak.

Non-residential building approvals, while volatile, continue to show a slowdown.

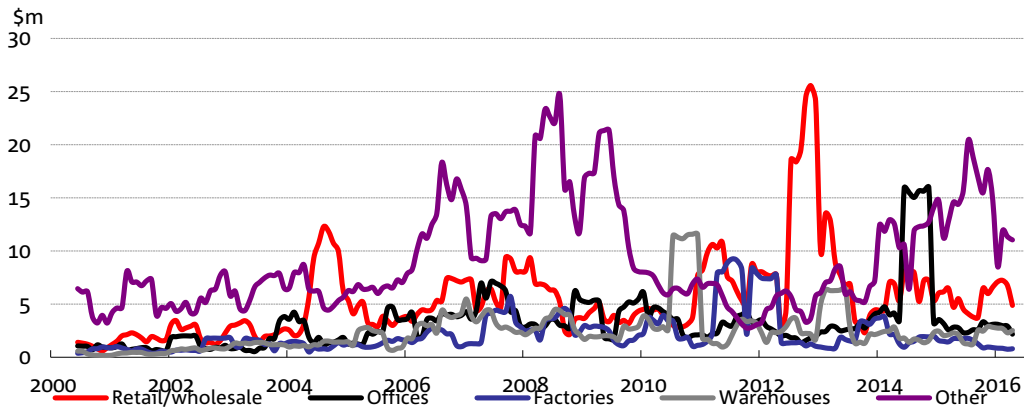
### CHART 14: NAB BUSINESS CONDITIONS AND SFD GROWTH

Index and % change



### CHART 15: NON-RESIDENTIAL BUILDING APPROVALS

\$ million

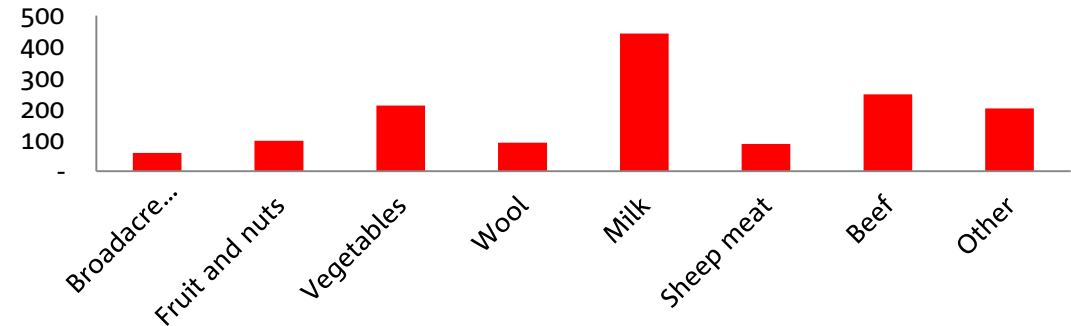


Source: ABS, ABARES and NAB Group Economics

Agriculture, forestry and fishing accounts for almost 10% of Tasmania's GDP (compared to around 2% nationally) and is the state's largest sector. The dairy sector is the biggest agricultural sector and has seen considerable growth. The state's share of national milk production has been steadily increasing over the last decade. Also prominent are beef and vegetables. We expect Tasmania's wine industry to grow more rapidly than the mainland as the state's cool climate becomes increasingly appreciated.

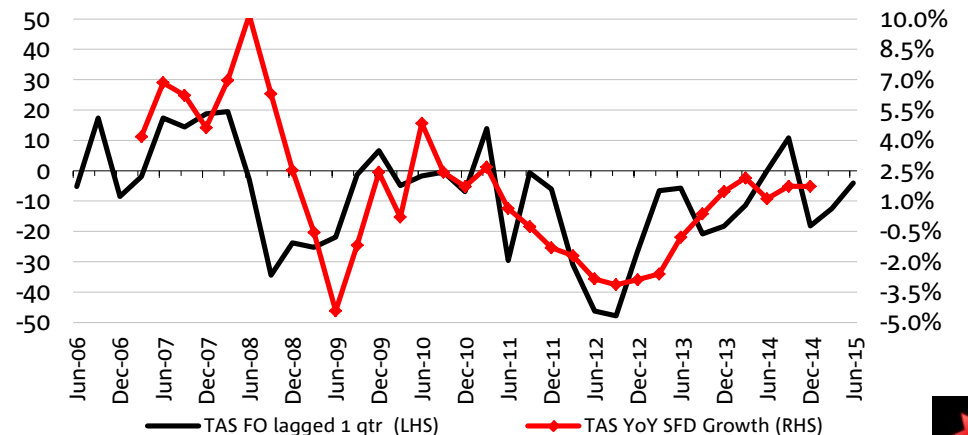
### CHART 16: GROSS VALUE OF TASMANIAN AGRICULTURAL PRODUCTION

2014-15, \$ millions



### CHART 17: NAB BUSINESS SURVEY FORWARD ORDERS (LAGGED 1 QTR)

Index and % change (SFD)



# RESIDENTIAL SECTOR

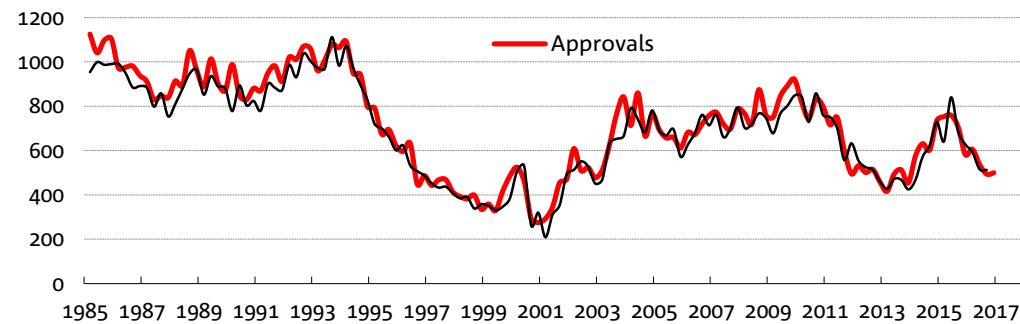
## Approvals and commencements are falling but prices are improving

The Hobart property market experienced a strong year in 2016, posting double digit price growth (11.2%) for the first time in over a decade in December. Strength in the housing market coincides with reasonably solid economic conditions in Tasmania for much of the past couple of years, while market fundamentals have generally been supportive.

On the supply side, despite solid price growth during most of 2016, housing approvals and commencements in Tasmania have slowed.

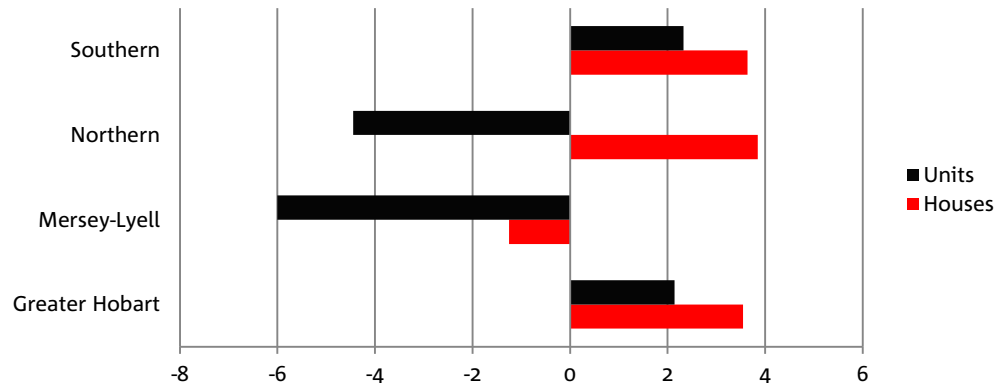
### CHART 18: RESIDENTIAL APPROVALS AND COMMENCEMENTS

Tasmania



### CHART 19: PRICE GROWTH BY REGION

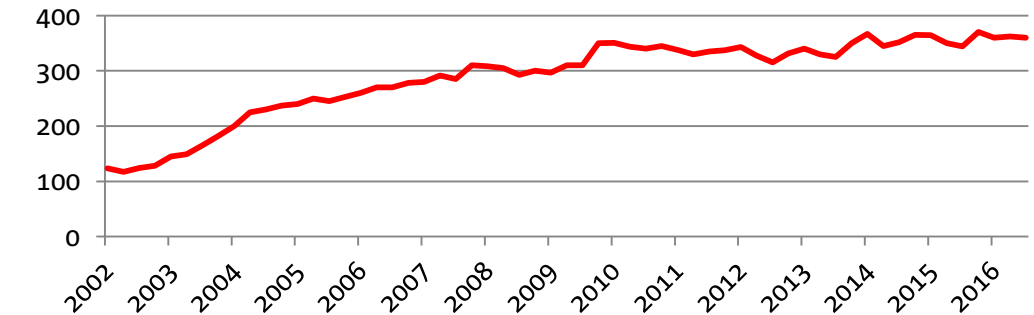
% change from previous quarter



The limited supply response is helping to offset subdued population growth to keep vacancy rates very low relative to most other capital cities – resulting in a positive trend for rents that is stronger than in any other capital city. Despite signs of an undersupplied market, the relative affordability of properties in Tasmania makes it an enticing destination for some buyers. Hobart in particular continues to enjoy the highest rental yields of all the major capital cities, which would be attractive to investors – especially given the added incentive from the recent strength in capital gains. We forecast that Hobart house prices will rise 3.5% in 2017.

### CHART 20: HOBART MEDIAN DETACHED HOUSE PRICE

\$ '000 unstratified



### CHART 21: NAB HOUSE PRICE FORECASTS

Q4 2016

	2013	2014	2015	2016	2017
Sydney	15.2	13.4	11.5	16.7	4.5
Melbourne	8.5	8.4	11.7	15.1	5.6
Brisbane	5.3	5.2	4.3	4.0	1.7
Adelaide	3.0	4.5	-0.3	4.5	1.5
Perth	10.2	2.1	-3.8	-4.4	-2.7
<b>Hobart</b>	<b>2.9</b>	<b>3.3</b>	<b>-1.6</b>	<b>11.7</b>	<b>3.5</b>
Cap City Avg	9.9	8.4	7.8	11.6	3.4

Source: ABS and NAB Group Economics



# LABOUR MARKET

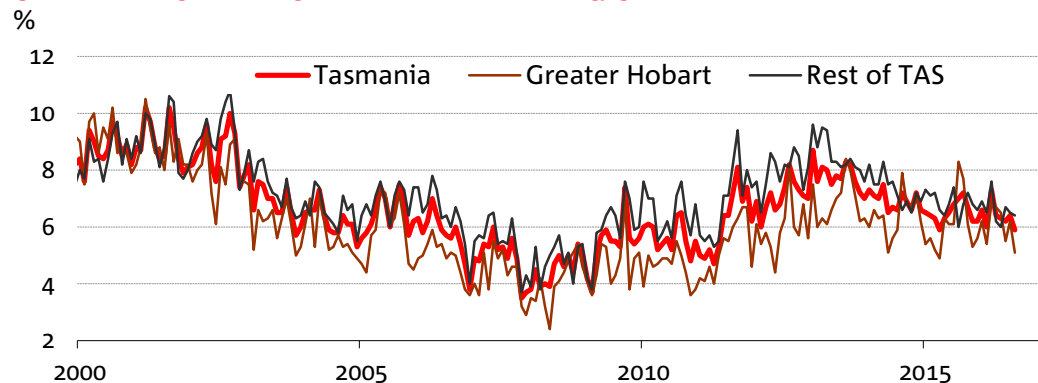
## Unemployment is falling, especially in Hobart

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. Unemployment peaked in mid-2013 and has tended downward, standing at 5.9% (trend) in January, down from 6.1% from the previous month. Seasonally adjusted data shows a bigger fall from 6.3% to 5.6%, although we note that the data is rather volatile. Hobart outperforms the rest of the state, although the sample size for the regional data is small.

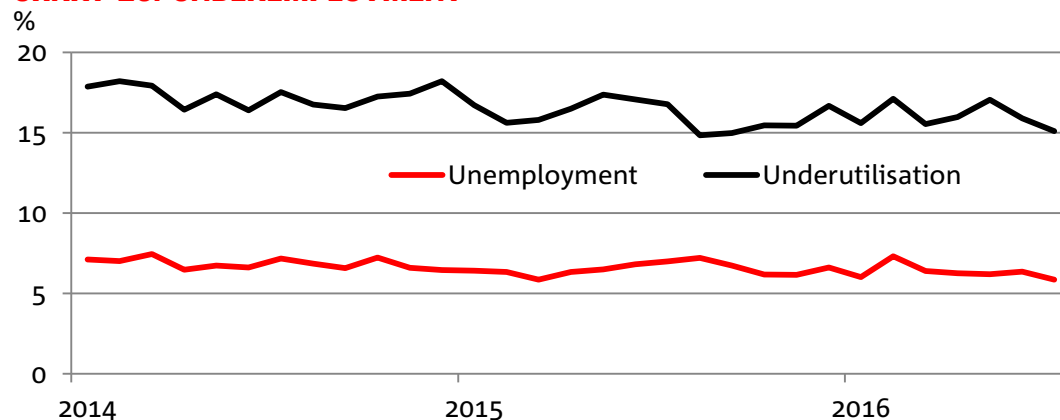
Over the 12 months to the December quarter 2016, construction, transport and health enjoyed the biggest employment gains. Mining, utilities and wholesale trade suffered the largest number of job losses. The recent fall in residential building approvals bodes somewhat ill for the construction industry, despite strong gains in the last 12 months.

Tasmania reflects the trend seen nationally, with employment growth coming largely in the form of part time rather than full time employment.

### CHART 22: UNEMPLOYMENT RATE BY REGION

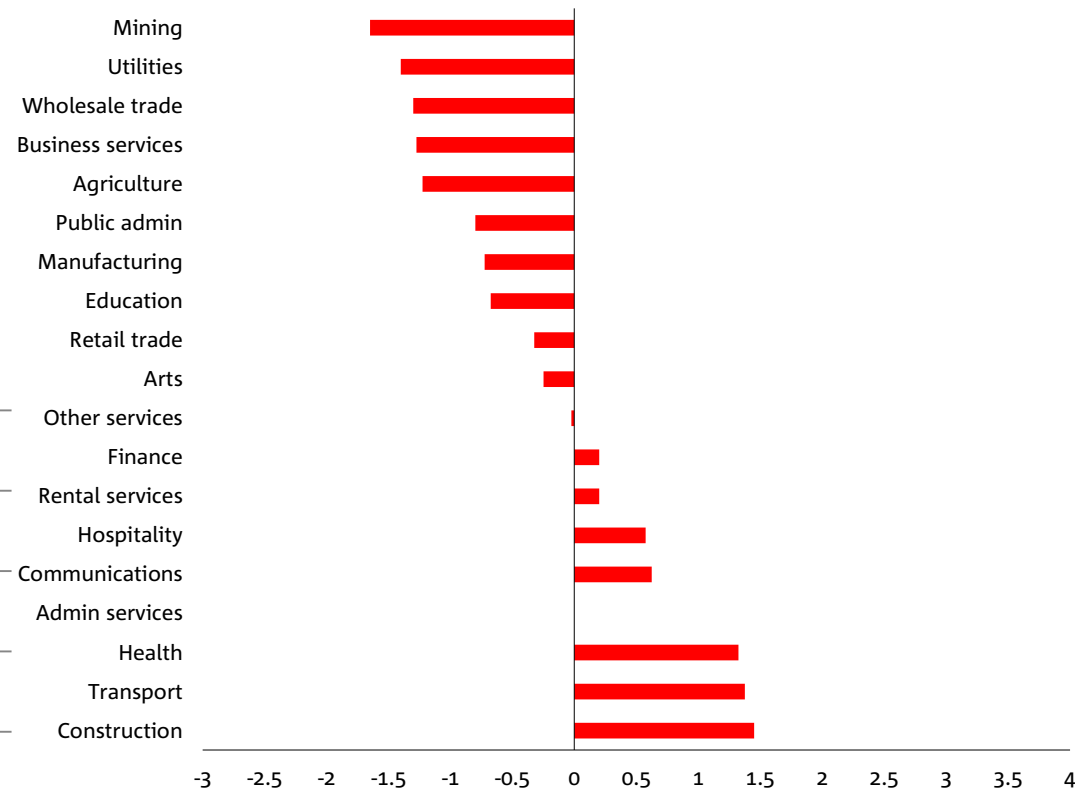


### CHART 23: UNDEREMPLOYMENT



### CHART 24: CHANGE IN EMPLOYMENT BY INDUSTRY

12 months to December 2016, Tasmania, '000



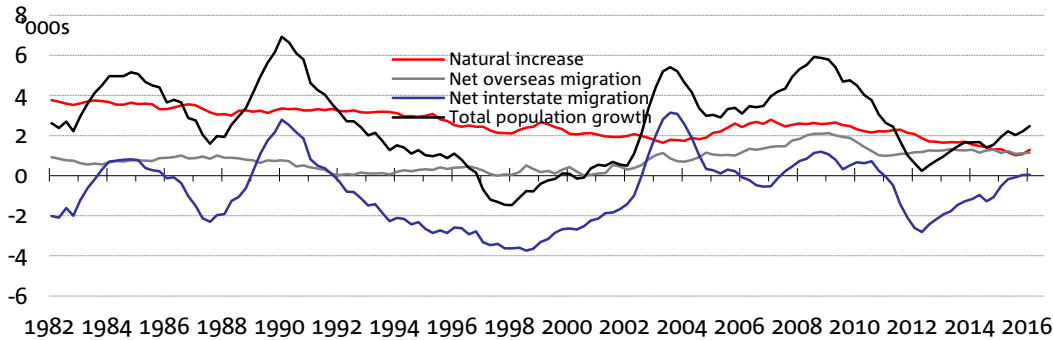
# DEMOGRAPHIC TRENDS

## Population growth remains below the national average

Population growth – albeit still very subdued – has steadily improved over recent years, largely driven by net interstate migration, which has recovered from a substantial deficit in the wake of the GFC. Net overseas migration has also picked up. This has not, however, contributed to employment growth, which actually declined over the year to November 2016. But despite the drop in employment, the unemployment rate has improved from the peaks of recent years, suggesting much of the state’s inward migration is of people not actively participating in the labour market.

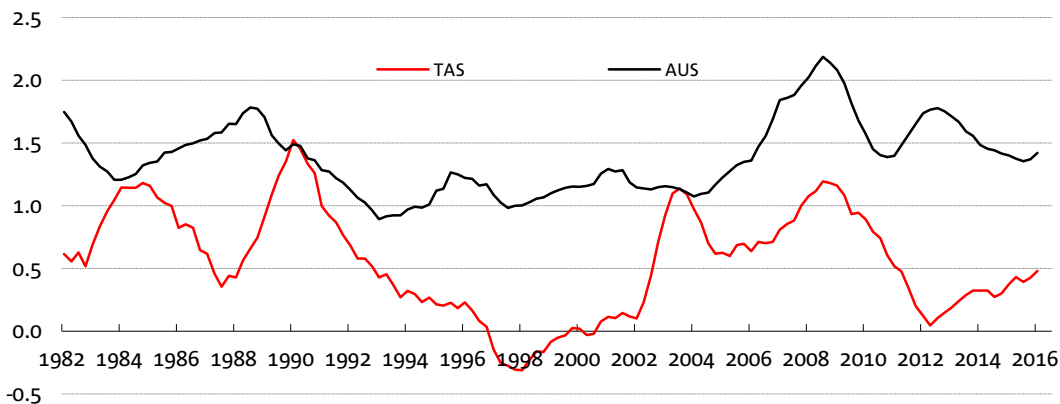
### CHART 25: POPULATION GROWTH DRIVERS

'000 over the year



### CHART 26: TASMANIA POPULATION GROWTH

Year ended growth

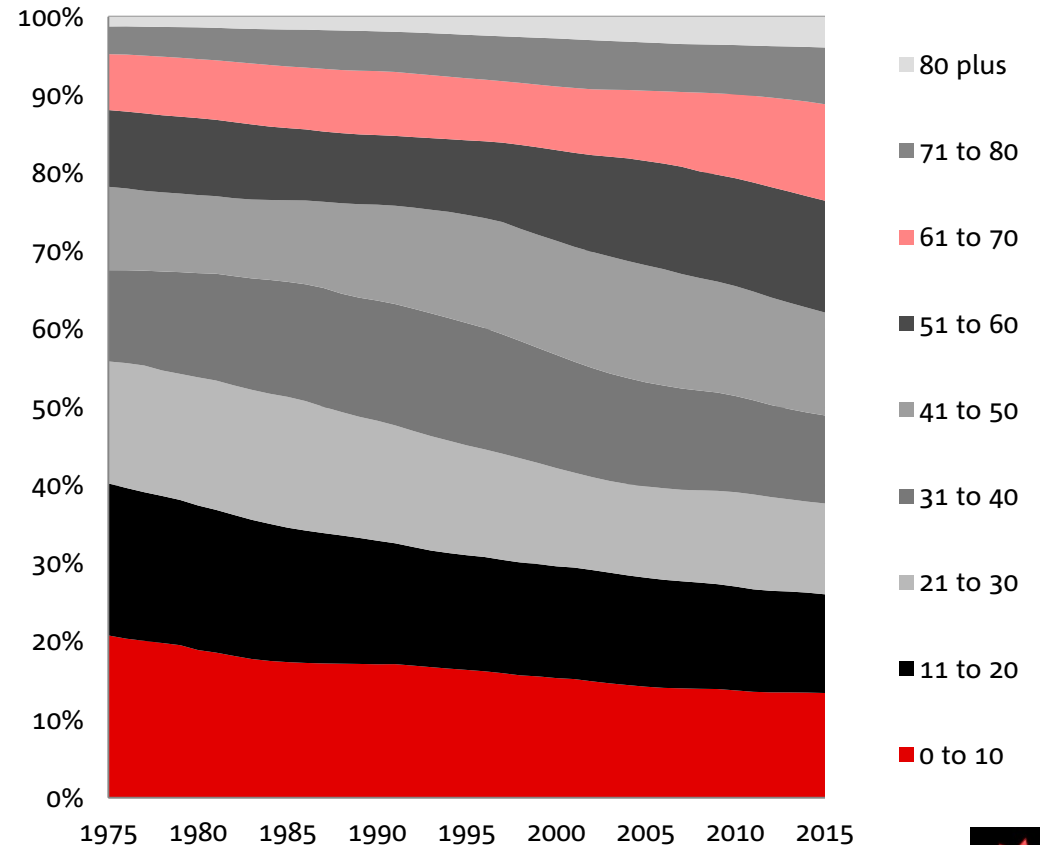


Source: ABS and NAB Group Economics

Tasmania’s population is older than the national average, with a notably smaller proportion of the population aged 20 to 40. This has clear implications for government revenue and health spending. Tasmania’s share of the Australian population is also falling over time. Not only is the Tasmanian resident population ageing, the population is growing at a significantly slower rate than the national average.

### CHART 27: POPULATION SHARE BY AGE

Share of Tasmania’s estimated resident population

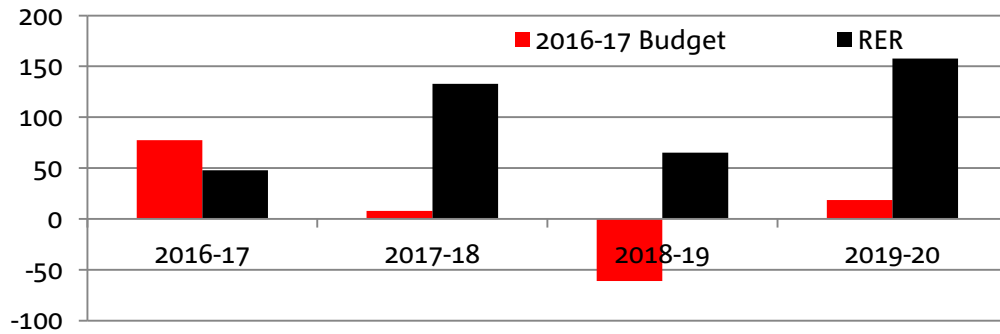


# FISCAL OUTLOOK

The 2016-17 Revised Estimates Report (RER) forecasts a smaller surplus in 2016-17 than the 2016-17 budget, but larger surpluses over the forward estimates period. Major changes since budget include an improved revenue position (from Commonwealth grants and own source revenue), partly offset by costs associated with floods and bushfires in 2016. The RER shows a significant improvement in the non-financial public sector net debt position. This reflects a significant improvement in the net debt position as at June 30 2016 and an improvement in the operating position.

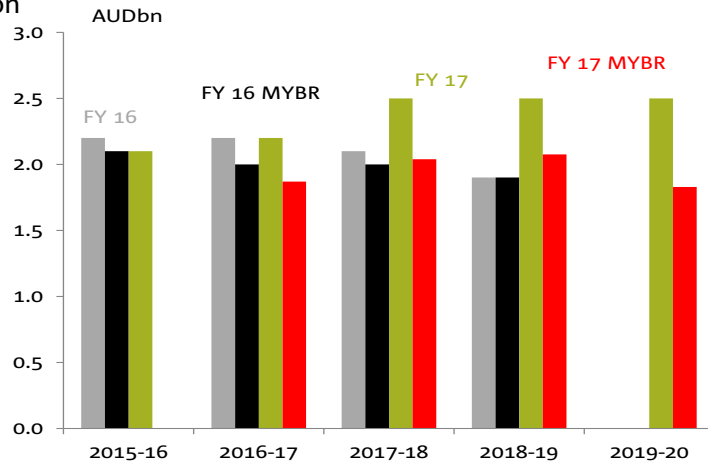
## CHART 28: NET OPERATING BALANCE

General government sector, \$ million



## CHART 29: TASMANIA NON-FINANCIAL PUBLIC SECTOR DEBT

\$ billion

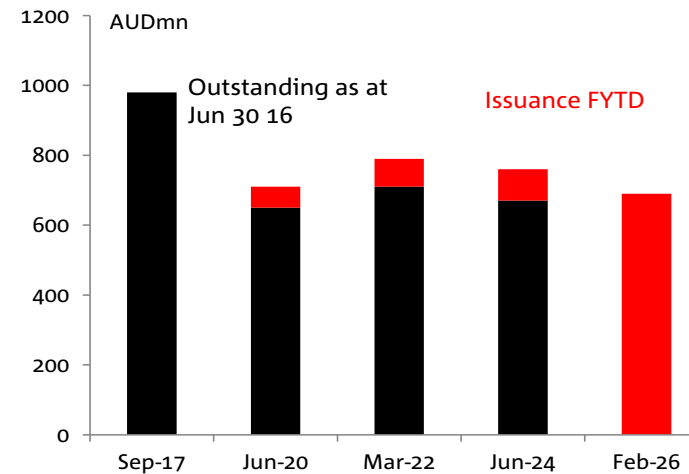


Source: Tasmanian budget papers, Tascorp, Bloomberg, NAB

The Government remains focused on its Strategic Action Plan of ensuring that annual servicing costs on general government debt and defined super liabilities will be less than six per cent of General Government cash receipts. In September 2016 S&P released a Ratings Direct report confirming Tasmania's AA+, stable outlook credit rating. Tasmania's low debt and fiscal discipline are seen to support the rating. Post the FY17 Budget Tascorp said its borrowing would total \$900m. It has issued a new Feb 26 bond line and including taps into existing lines is estimated to have met its funding programme for the year.

## CHART 30: TASCORP BONDS OUTSTANDING AS AT END JUNE 2016

\$ million



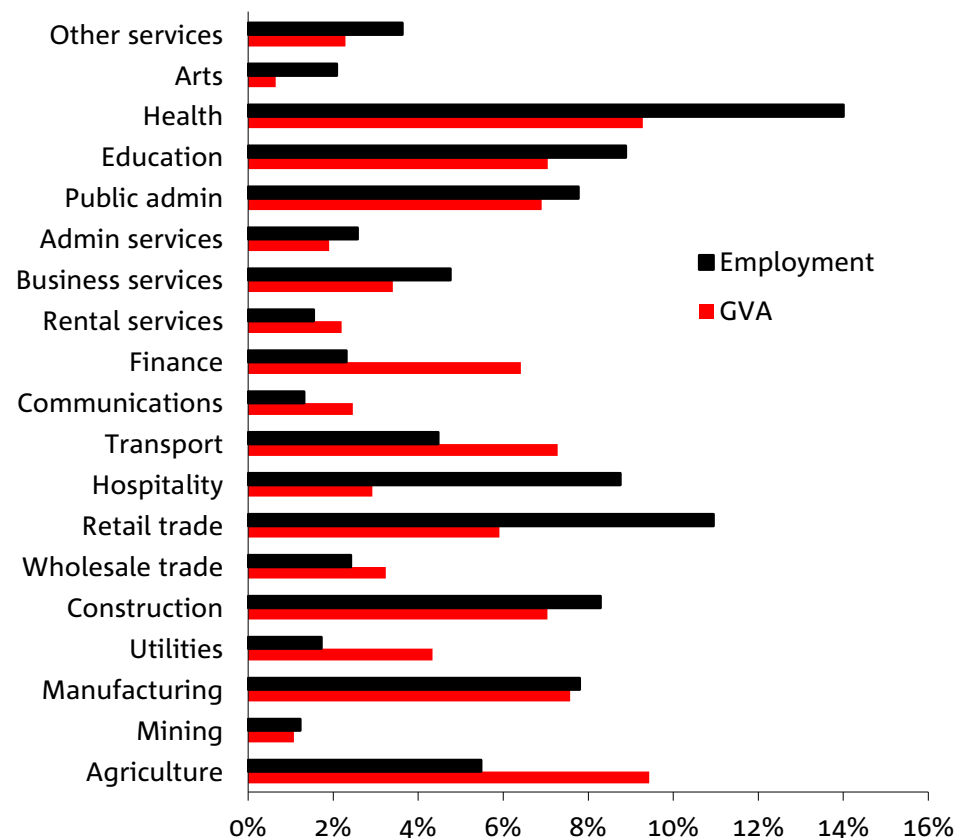
# ECONOMIC STRUCTURE AND TRADE

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. The public sector has an outsize role in the economy.

Health is the biggest employer, and retail, education, hospitality, manufacturing and public administration are also major employers. This reflects the importance of government services as well as industries associated with tourism.

## CHART 31: COMPOSITION OF EMPLOYMENT & GVA

2015-16



Source: ABS and NAB Group Economics

Tasmania's external trade is focussed on East Asia. ASEAN is the biggest export destination at present, although other nations in the East and South East Asian region feature prominently, particularly China. Outside Asia, The United States and New Zealand feature among the state's major trading partners.

## CHART 32: TOP TASMANIA EXPORT DESTINATIONS AND IMPORT SOURCE COUNTRIES

12 month average

Value of exports (\$m)		Value of imports (\$m)			
1	ASEAN	716	1	EU	139
2	China	693	2	China	124
3	Taiwan	252	3	ASEAN	111
4	Japan	212	4	Korea	72
5	Korea	133	5	US	61
6	HK	128	6	UK	53
7	US	119	7	Singapore	49
8	New Zealand	114	8	Germany	22
9	India	104	9	New Zealand	20
10	EU	52	10	Japan	12
11	Singapore	43	11	Taiwan	3
12	UK	6	12	HK	0
13	Germany	5			

# FORECASTS BY STATE AND TERRITORY:

*Tasmania underperforming national average, but picking up in 2017-18*

NAB's economic forecasts by state and territory are below. For a summary of the outlook by state, please see the [States Handbook – Overview](#) which contains links to the detailed handbook for each state and territory.

## REAL GROSS STATE PRODUCT AND UNEMPLOYMENT RATE FORECASTS

Annual average

NAB growth and unemployment rate forecasts for the states								
	Gross State Product YoY				Unemployment Rate			
	14-15	15-16	16-17f	17-18f	14-15	15-16	16-17f	17-18f
NSW	2.6	3.5	2.7	2.9	5.9	5.4	5.1	5.3
VIC	2.6	3.3	2.7	2.9	6.4	5.9	5.7	5.7
QLD	1.2	2.0	3.5	3.5	6.5	6.2	6.2	5.8
SA	2.0	1.9	0.8	2.0	6.9	7.3	7.0	7.0
WA	3.6	1.9	0.5	2.8	5.4	6.0	6.5	6.3
TAS	1.3	1.3	1.0	2.0	6.9	6.5	6.5	6.5
NT	2.0	2.7	1.5	5.0	4.2	4.2	4.0	4.8
ACT	1.3	3.4	2.3	2.5	4.5	4.5	4.3	4.3
<b>Australia</b>	<b>2.4</b>	<b>2.7</b>	<b>2.1</b>	<b>3.0</b>	<b>6.2</b>	<b>5.9</b>	<b>5.7</b>	<b>5.7</b>

## HEDONIC HOUSE PRICE FORECASTS\*

Through the year growth to Q4

	2013	2014	2015	2016	2017
Sydney	15.2	13.4	11.5	16.7	4.5
Melbourne	8.5	8.4	11.7	15.1	5.6
Brisbane	5.3	5.2	4.3	4.0	1.7
Adelaide	3.0	4.5	-0.3	4.5	1.5
Perth	10.2	2.1	-3.8	-4.4	-2.7
Hobart	2.9	3.3	-1.6	11.7	3.5
Cap City Avg	9.9	8.4	7.8	11.6	3.4

Source: ABS, CoreLogic/NAB Economics

## HEDONIC UNIT/APARTMENT PRICE FORECASTS \*

Through the year growth to Q4

	2013	2014	2015	2016	2017
Sydney	11.6	8.3	11.3	9.6	1.0
Melbourne	8.7	1.1	6.9	1.7	-2.7
Brisbane	3.5	1.2	1.8	-0.2	-1.8
Adelaide	0.6	2.5	1.4	1.1	0.7
Perth	6.3	1.9	-3.5	-3.2	-3.8
Hobart	-5.1	5.9	8.6	6.7	0.6
Cap City Avg	9.0	5.1	7.9	5.9	-0.8

SOURCE: CoreLogic, NAB Economics