

STATE HANDBOOK: TASMANIA

OCTOBER 2017



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Photo Mai Thai

KEY POINTS

Tasmanian economy enjoying a revival, but risks remain

CHART 1: STATE GSP GROWTH FORECASTS

Annual growth, per cent

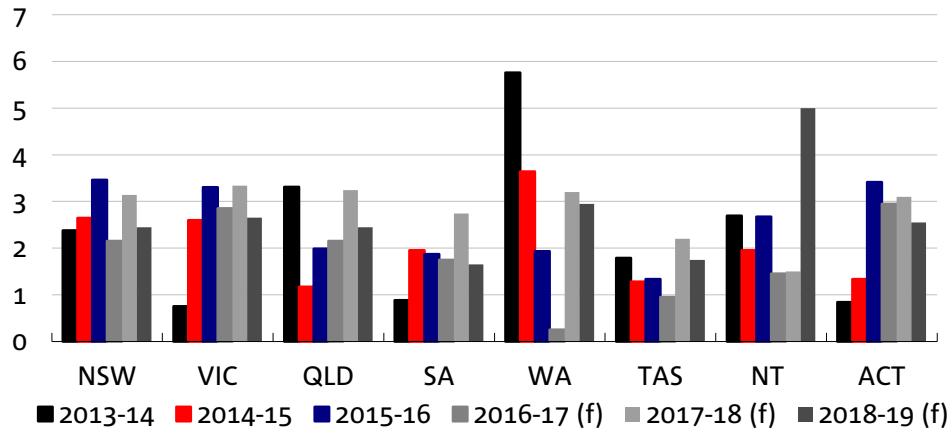
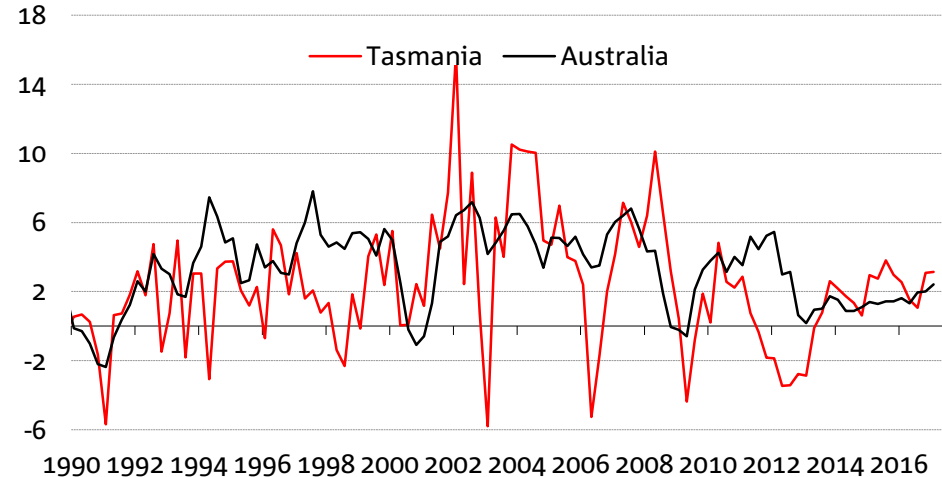


CHART 2: STATE FINAL DEMAND GROWTH

Per cent



Source: ABS and NAB Group Economics

Tasmania has been enjoying quite a revival over the past couple of years, with strong tourism and agriculture growth pushing growth in state final demand from below the national average to at or above the rest of Australia.

State final demand growth has been fairly strong, reflecting strength in government spending and business investment, with consumer spending remaining subdued. Price growth in the Hobart housing market continues unabated, although wage growth remains very sluggish. In many ways this reflects conditions seen in eastern Australia. The unemployment rate remains elevated and its downward trend has been halted this year, although there are signs of life in job ads. Consumer spending is slow and signs that consumers are drawing down savings to fund consumption are of some concern.

There are regional disparities, with much of the growth focussed on southern Tasmania. Hobart's tourism boom reflects a diversity of high quality attractions such as MONA. 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 2015 and 2016) and supportive government policy. However, seasonal conditions this year are quite patchy. Parts of the state continue to face high unemployment, low educational attainment and intergenerational poverty. Living conditions for some remain well below the national average.

Looking ahead, we forecast that GSP will grow by 2.2% in 2017-18 before falling to 1.8% in 2018-19. This reflects in large part strong quarterly growth in Q1 and Q2. To reach this forecast, there will need to be more life in consumer spending, but the recent uptick in building approvals should provide some further support. Business investment will likely find support from a growing tourism industry, particularly if the AUD recedes to a mid-low 70s range. Given seasonal conditions, agriculture is likely to be a challenge to this forecast. **We see the unemployment rate in the 6.0% range in 2017-18 and 2018-19**, which combined with slow income growth remains a risk for consumption.

IN FOCUS

Mixed season and prices point to a somewhat tougher year for agriculture

Agriculture is the biggest single part of the Tasmanian economy – representing almost 10% of the State’s GSP. Dairy, beef and horticulture are the biggest industries, although wool, sheep meat and broadacre crops are also well represented. Tasmania’s cold climate and premium product focussed wine industry is set for continued growth, with mainland producers increasingly using the state as a hedge against climate change risks on the mainland. Brown Brothers (of Milawa Victoria) have notably expanded in Tasmania.

2015 was a bad drought year for Tasmania, while 2016 was so wet that flooding was a major problem. 2017 has brought mixed conditions, with the east coast especially dry. The dairy industry – Tasmania’s biggest agricultural sector in 2015-16 – has faced challenges over the past two years. Major issues include disappointing farmgate milk prices and industry transition as Murray Goulburn shrinks, closing a factory at Edith Creek in northern Tasmania. Recent news that MG may be bought by Fonterra or others has added to uncertainty. Beef prices are falling, although the State’s increasing focus on MSA graded premium beef provides something of a buffer.

CHART 3: NAB REGIONAL PRICE INDICATORS – TASMANIA

y/y % change to September 2017

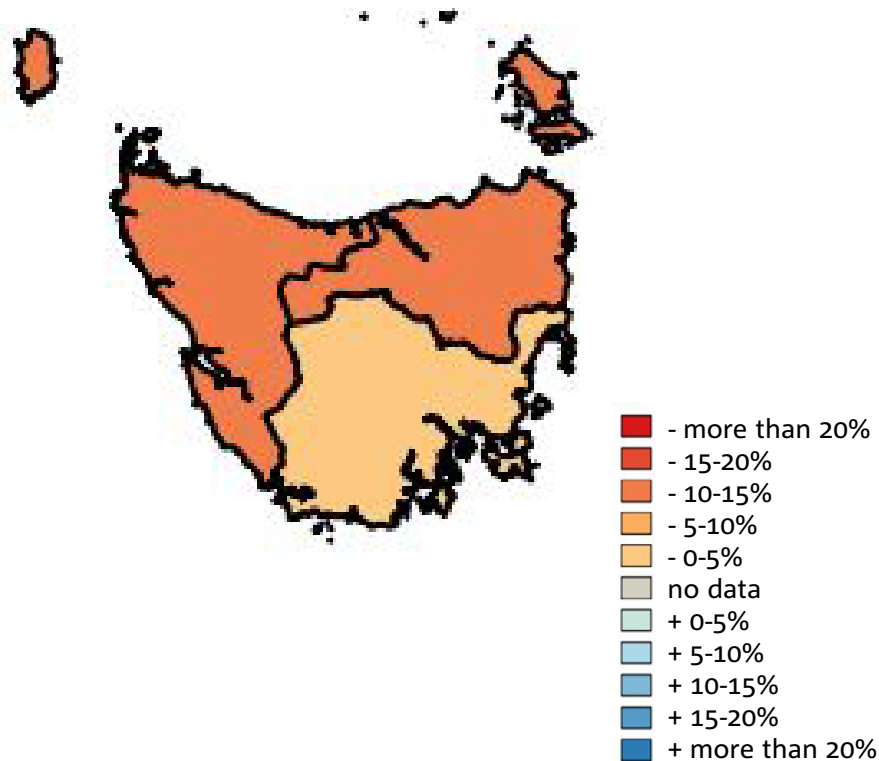


CHART 4: TASMANIA’S BIGGEST AGRICULTURAL INDUSTRIES

% share of total value 2015-16

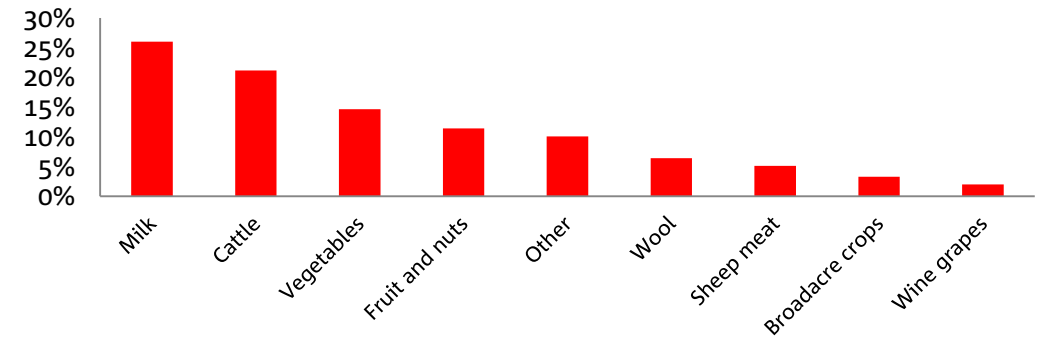
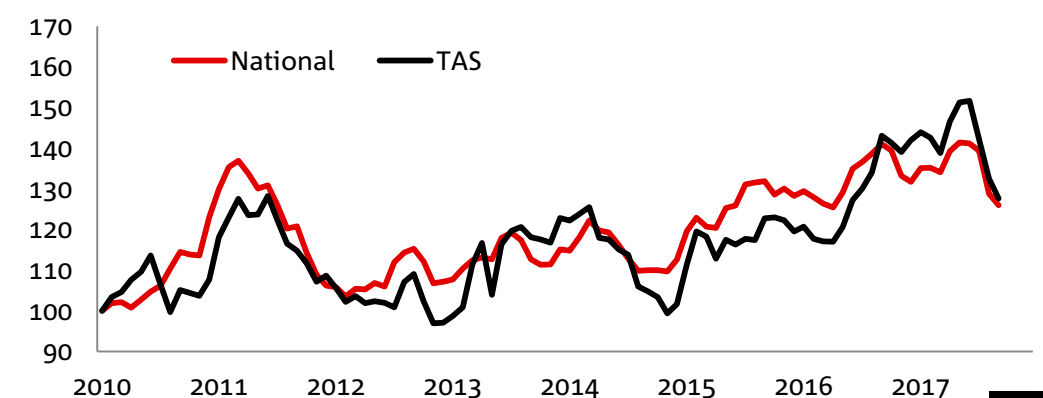


CHART 5: NAB RURAL COMMODITIES INDEX, NATIONAL AND TASMANIA

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

TOURISM

Continues to grow strongly, but for how long?

Tasmania without a doubt boasts some of Australia's best tourism attractions, combining natural beauty with an increasingly appealing mix of cultural attractions centred around MONA in Hobart.

In 2016-17, Tasmania enjoyed the strongest growth in international tourists of any Australian state or territory - running at 13% for the year with around a quarter of a million international visitors reaching the state. The largest single source of visitors remains Victoria, with around 430,000 visitors in 2016-17.

CHART 6: INTERSTATE TOURISM SPENDING BY TYPE

\$ million

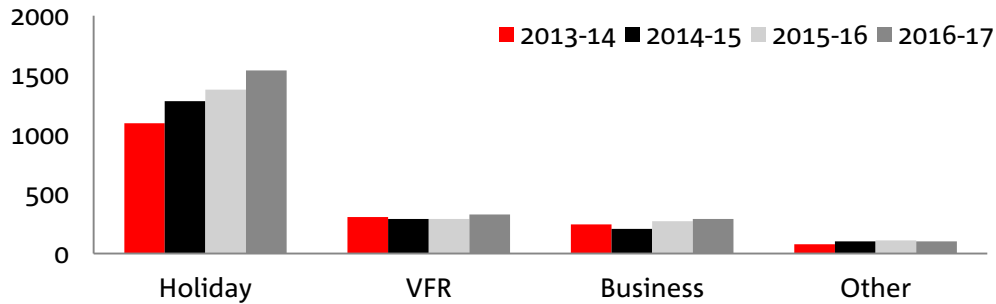
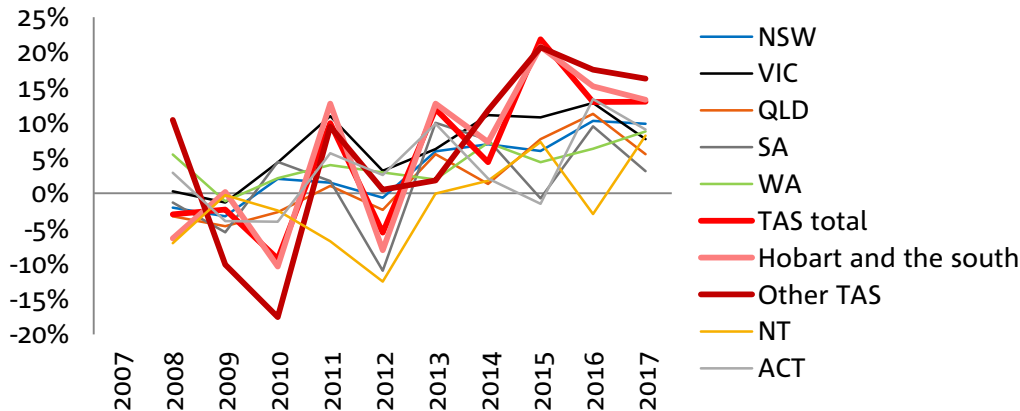


CHART 7: INTERNATIONAL VISITORS TO AUSTRALIA BY STATE

y/y % change



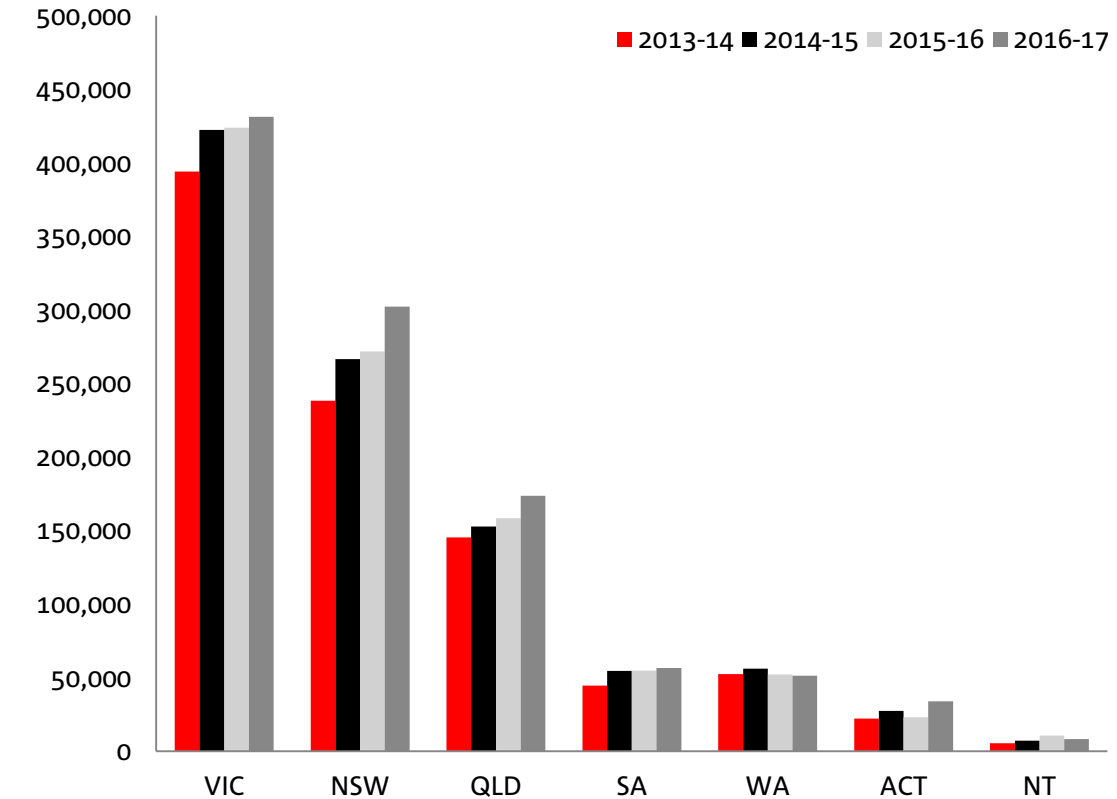
Source: Tourism Tasmania, Austrade and NAB Group Economics

Growth in the Victorian tourism market remains slow at 2% a year, while New South Wales and Queensland surged with 11% and 10% growth respectively.

These trends point to Tasmania – already one of the most tourism dependent parts of Australia – becoming even more reliant on the industry. A re-appreciation of the AUD would be a risk for Tasmania, deterring international visitors and making it cheaper for Australians to holiday overseas. However, we see the AUD falling somewhat in the coming months.

CHART 8: INTERSTATE VISITORS TO TASMANIA

Number



CONSUMER SPENDING

Low income growth and rising house prices bode ill

Wage growth remains exceedingly sluggish, reflecting a trend that has been occurring nationally for some time. The unemployment rate has drifted somewhat this year (now 6.0%, although data is volatile) after a prolonged decline, keeping wage pressures muted. With household consumption growth seemingly running ahead of income, some consumers look to be running down savings (although the NAB Consumer Anxiety Survey shows a strong focus on paying down debt). Recent retail sales data are not encouraging at a state or national level. This comes despite booming tourism, suggesting that domestic consumers remain very cautious.

CHART 9: COMPENSATION OF EMPLOYEES AND H-HOLD CONSUMPTION

Growth, y/y %, nominal

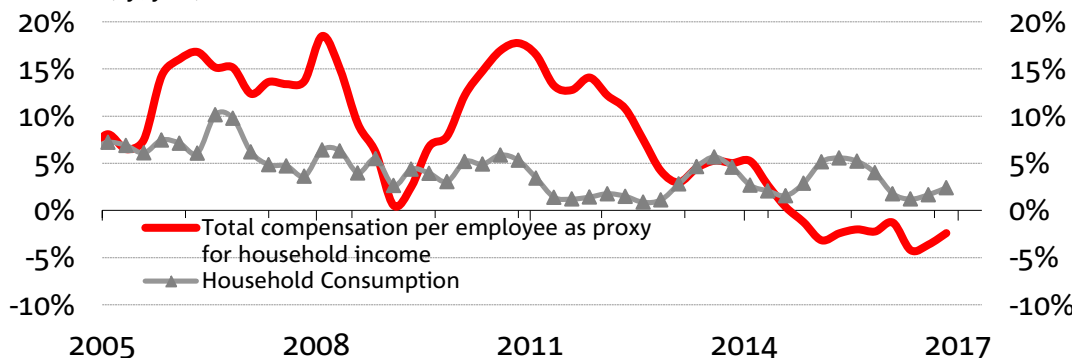
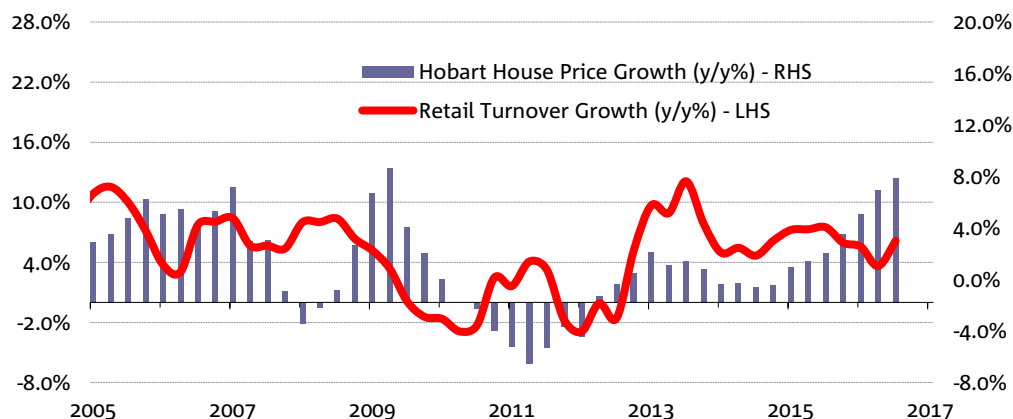


CHART 10: RETAIL TURNOVER AND HOUSE PRICE GROWTH

y/y %



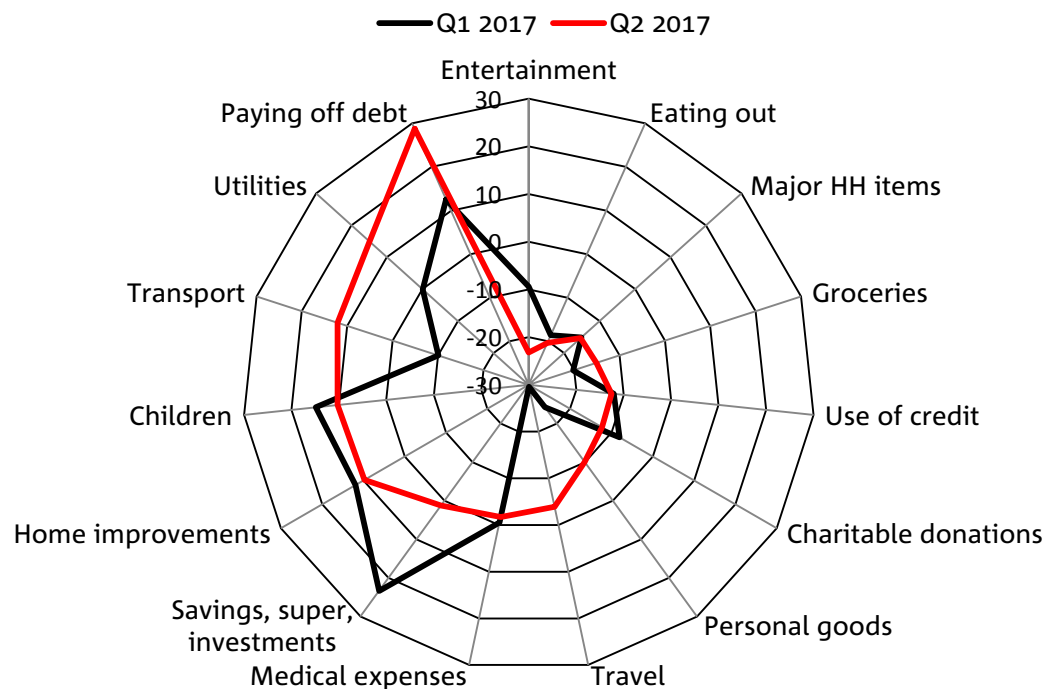
Source: ABS and NAB Group Economics

Hobart house price growth has been very strong since late 2015, recording double digit growth over the last 12 months, with latest data showing house prices up 14% and units up 12% over the last 12 months.

While this boost to house prices is certainly good news for property owners (and consumer spending via the wealth effect), it does present a double edged sword as new buyers face a need to save bigger deposits and are ultimately saddled with bigger mortgages.

CHART 11: NAB CONSUMER ANXIETY SURVEY - CONSUMER SPENDING PREFERENCES

Points



NAB CUSTOMER SPENDING BEHAVIOURS:

Spending growth highest in the south and east

Customer spending grew 5.1% y/y in Hobart metro (6.2% y/y in Q1 2017), and by 1.6% y/y in regional TAS (2.5% y/y in Q1 2017). Tasmania was the only state where customer spending growth slowed in both metro and regional areas. Average monthly spending rose \$28 to \$1,873 in Hobart metro and by \$31 in regional TAS to \$1,736. By postcode, growth was fastest by some margin in Woodbridge 7162 (69.2%), followed by Scottsdale 7260 (30.7%) and Cygnet 7112 (28.5%).

Overall spending growth (metro & regional) was fastest for Arts & Recreation (30.7%), Accommodation & Food Services (11.0%) and Administrative & Support Services (10.1%). It fell in 8 of 15 categories, led by Rental, Hiring and Real Estate Services (-10.4%) and Construction (-10.2%).

CHART 12: TASMANIA STATE

Year-ended growth to Q2 2017

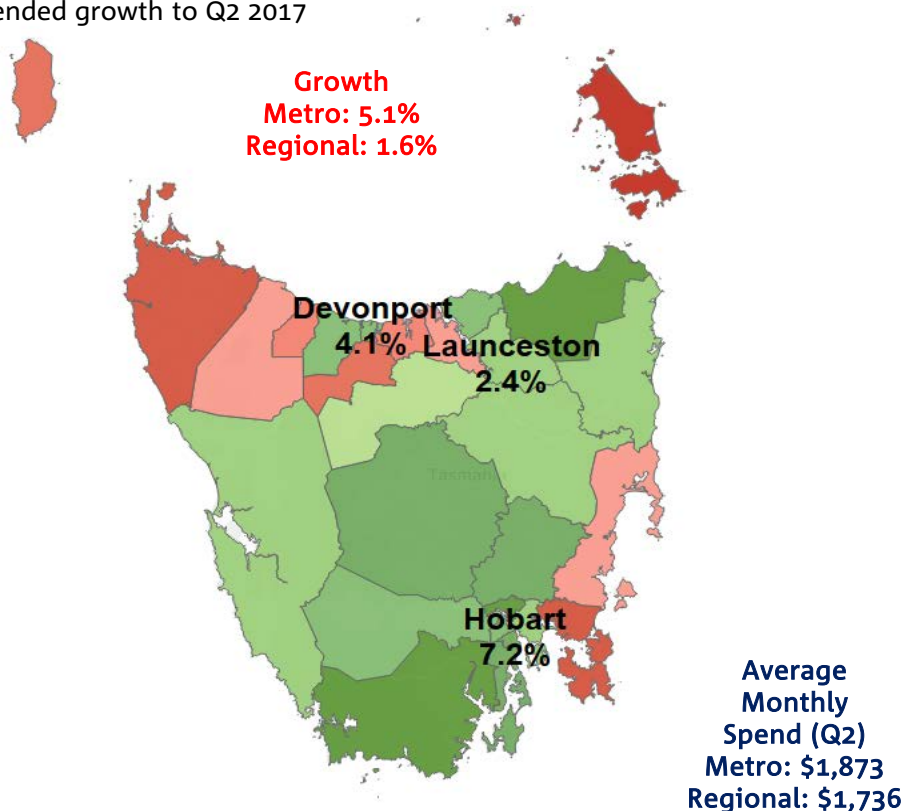
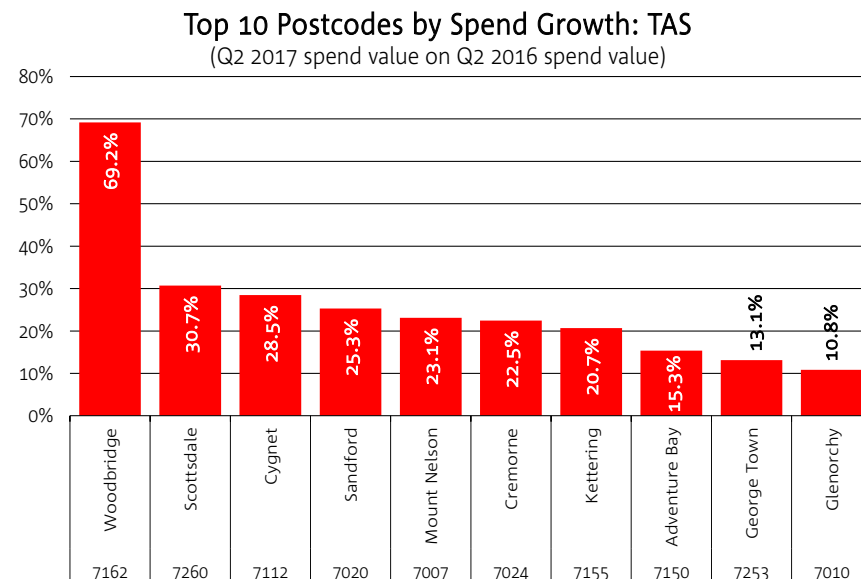


CHART 13: TOP 10 GROWING POSTCODES FOR SPENDING



BUSINESS CONDITIONS

Divergence between manufacturing and tourism, agriculture

Divergence across Tasmania's major industries looks set to continue. 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 advantages in market access. On the other hand, structural decline continues in Tasmania's native logging industry and manufacturing remains weak.

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

CHART 14: GROSS VALUE OF TASMANIAN AGRICULTURAL PRODUCTION
2015-16, \$ millions

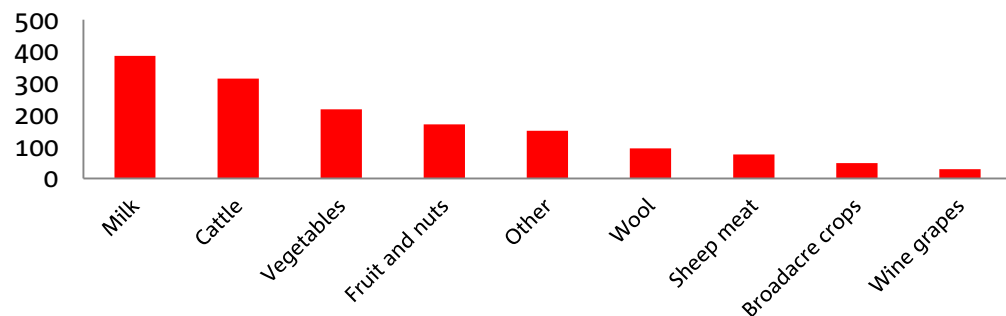
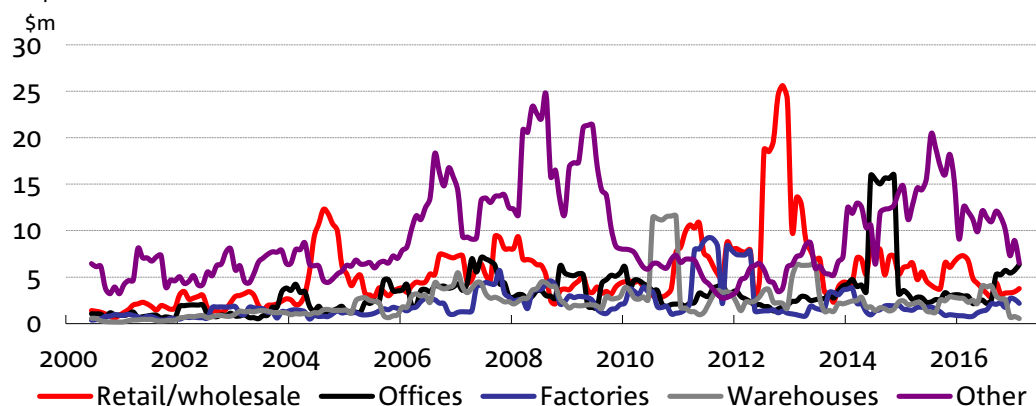


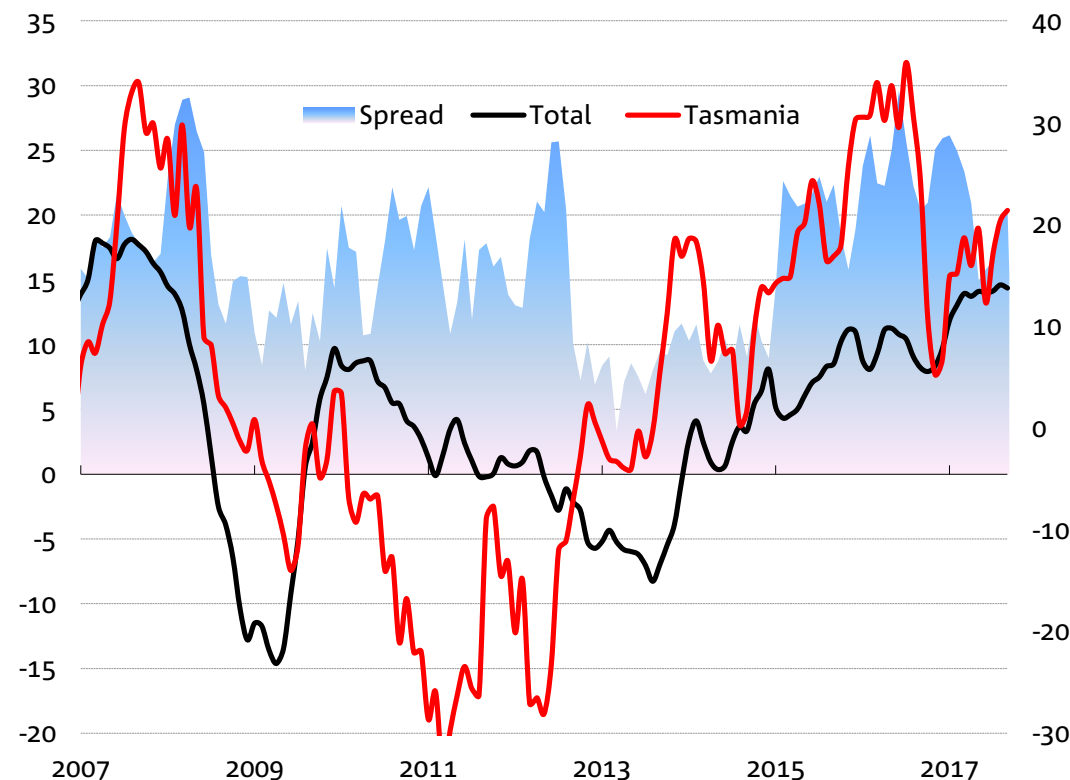
CHART 15: NON-RESIDENTIAL BUILDING APPROVALS
\$ million



Source: ABS, ABARES and NAB Group Economics

Agriculture, forestry and fishing accounts for almost 10% of Tasmania's GSP (compared to around 2% nationally) and is the state's largest sector. The dairy sector is the biggest agricultural sector. After several years of expansion, dairy production has been muted amid poor farmgate prices and mixed seasonal conditions. 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 as a hedge against climate change.

CHART 16: BUSINESS CONDITIONS: TASMANIA AND NATIONAL
NAB Monthly Business Survey data (note spread excludes Tasmania)



RESIDENTIAL SECTOR

Approvals and commencements up, prices going great guns

The Hobart property market continues to boom. House prices grew 14% and units 12% over the last 12 months. Strength in the housing market coincides with reasonably solid economic conditions in southern Tasmania for much of the past couple of years, while market fundamentals have generally been supportive.

On the supply side, solid price growth during most of 2016 and 2017 looks to have supported housing approvals and commencements.

While there is likely to be an ongoing supply response, vacancy rates are likely to remain low relative to most other capital cities – resulting in a positive trend for rents. Despite signs of an undersupplied market, the relative affordability of properties in Tasmania makes it an affordable prospect for mainland (especially Sydney and Melbourne) buyers. Hobart in particular continues to enjoy strong rental yields, which would be attractive to investors in a low yield environment nationally.

CHART 17: RESIDENTIAL APPROVALS AND COMMENCEMENTS

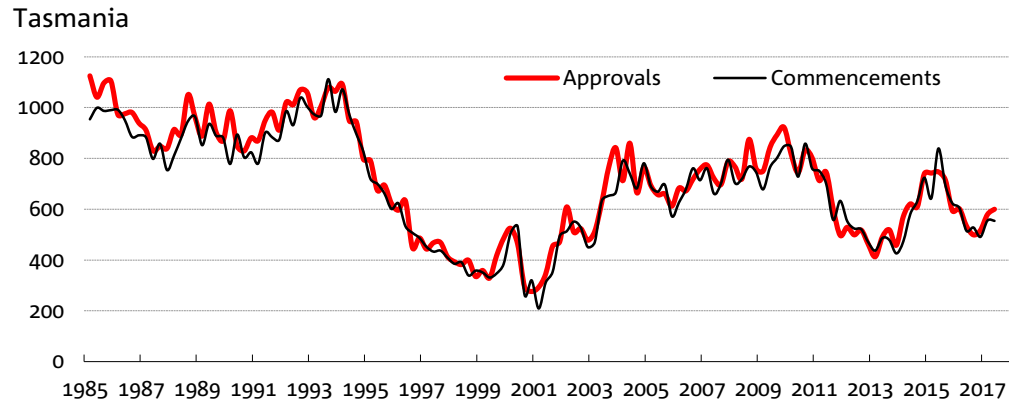


CHART 18: PRICE GROWTH BY REGION

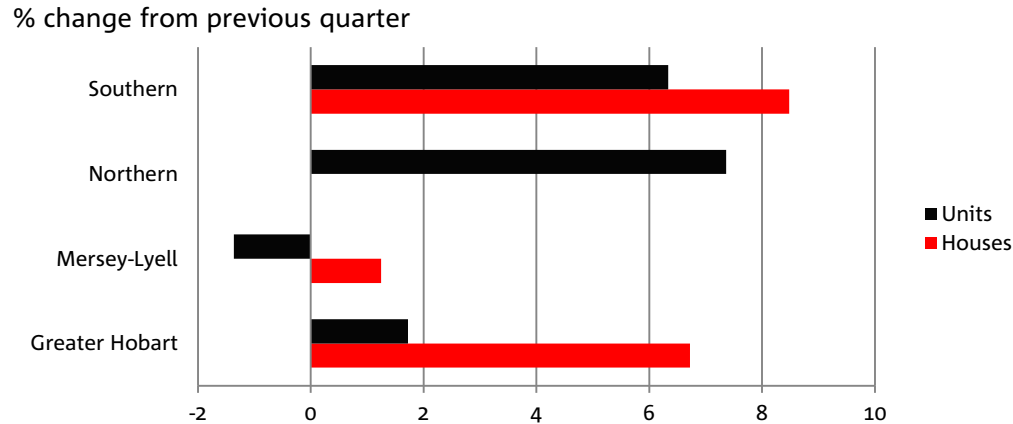
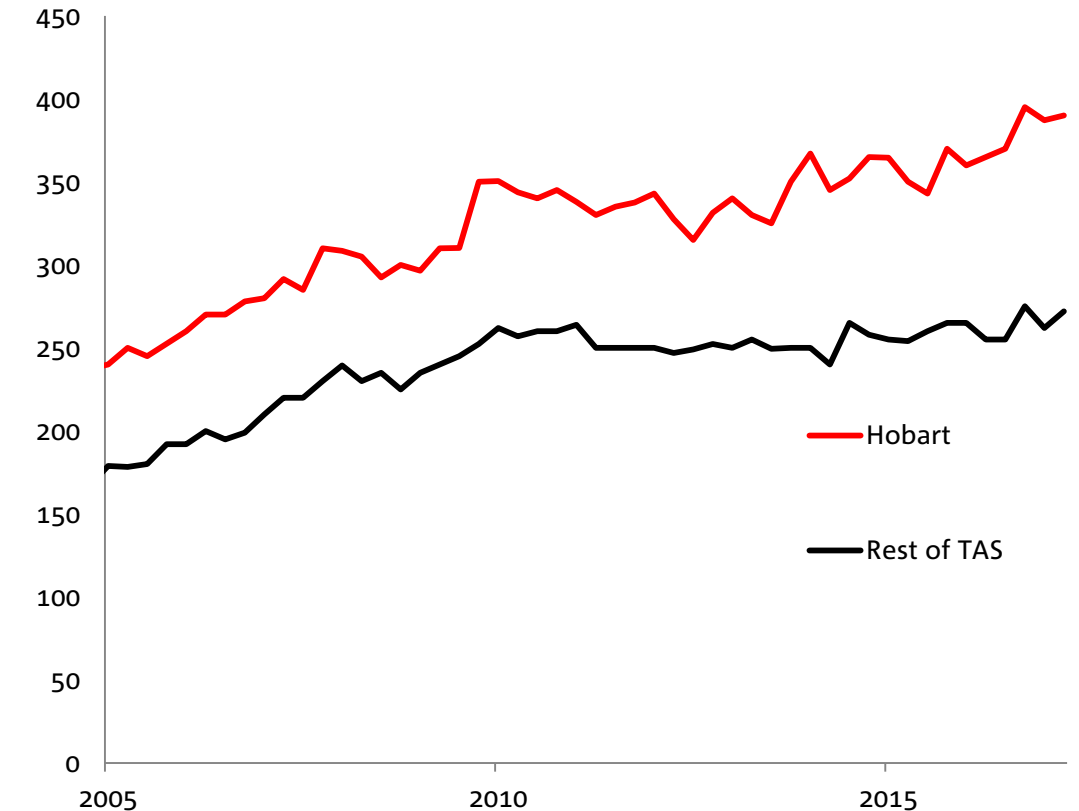


CHART 19: TASMANIA HOUSE PRICES

\$ '000 unstratified, existing dwelling transfers



Source: ABS and NAB Group Economics

LABOUR MARKET

Unemployment remains elevated, fails to make gains this year

The Tasmanian unemployment has fallen steadily since 2013, although data this year begs the question: is this coming to an end? The year began with the unemployment rate at 5.6% (the lowest rate since late 2011), while the latest data shows the rate at 6.0%. While this is still below unemployment over the last few years, it suggests some signs that the good news story has paused. On the other hand, Seek data suggests that Tasmanian job ads have jumped. The unemployment rate in Tasmania is equal highest in Australia (with Victoria and Queensland) in trend terms and second highest in seasonally adjusted terms.

CHART 20: UNEMPLOYMENT RATE BY REGION

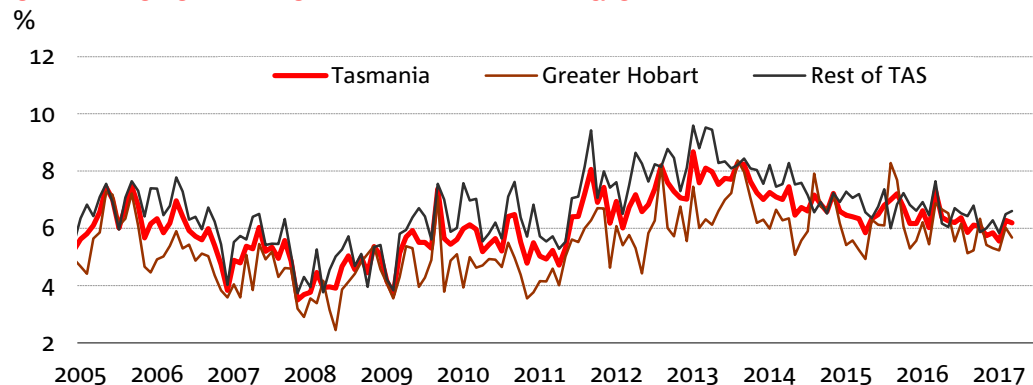
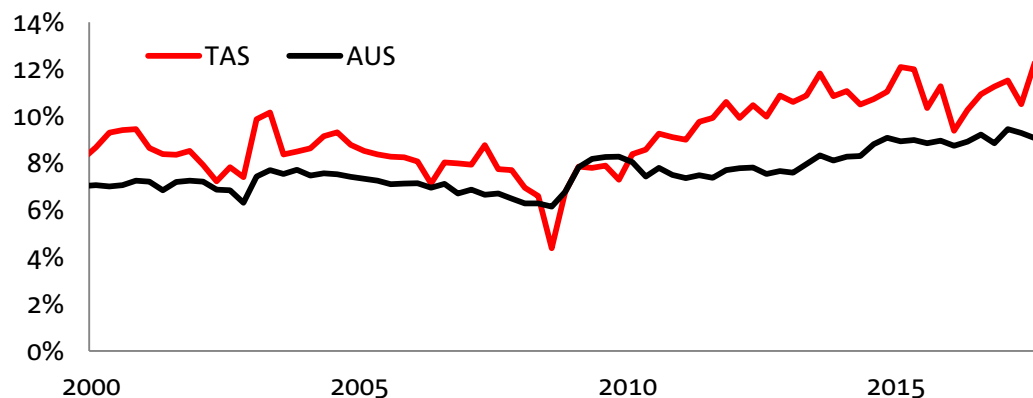


CHART 21: UNDEREMPLOYMENT RATIO

Proportion of employed persons



Source: ABS and NAB Group Economics

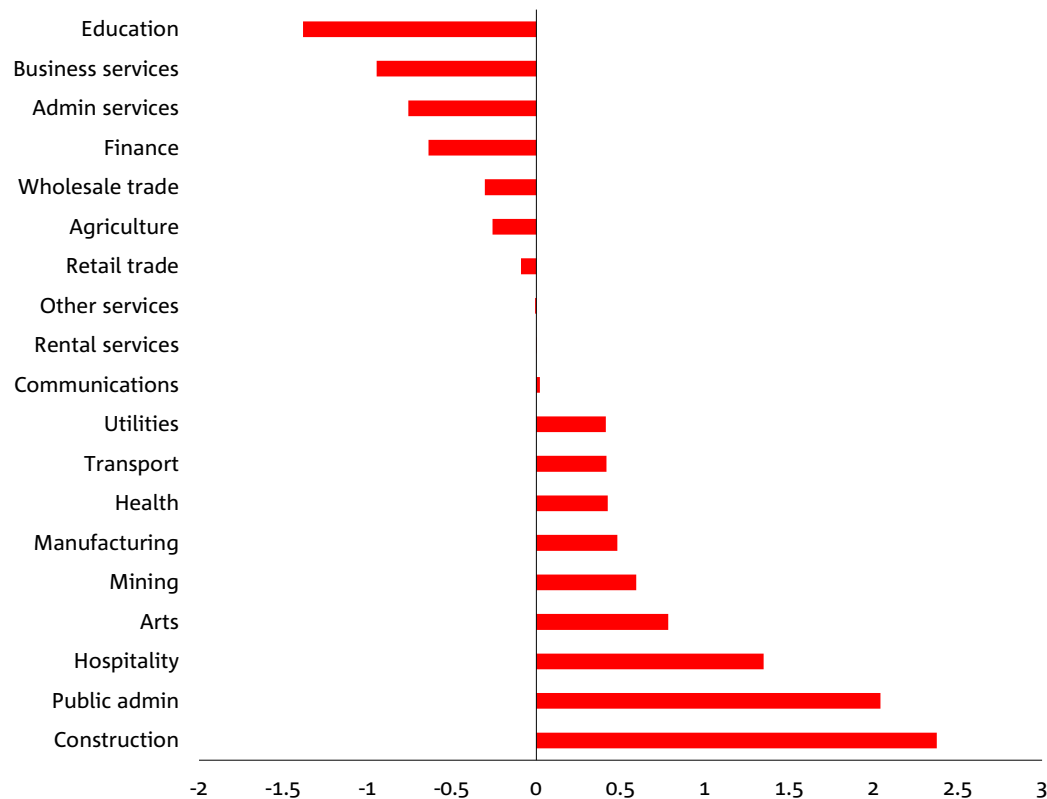
Over the last year, construction, followed by public administration, hospitality and the arts saw the biggest employment gains. This reflects the strength of the services based economy in Hobart and support it has given to the construction sector.

Education, business services, administration services and finance saw the biggest employment falls.

Tasmania reflects the trend seen nationally, with employment growth coming largely in services industries (see page 12), which are often relatively low wage.

CHART 22: CHANGE IN EMPLOYMENT BY INDUSTRY

Last 12 months, Tasmania, '000



DEMOGRAPHIC TRENDS

Population growth increasing as net interstate migration turns positive

Population growth continues to improve in Tasmania, with 2016 seeing an important milestone as net interstate migration turned positive for the first time since 2011. While population growth remains well below the national average, it is gaining fairly rapidly.

A key question however, is whether these interstate migrants are likely to enter the labour force in Tasmania. Anecdotal evidence suggests that there is an increasing trend of older people moving from the mainland to Tasmania to retire.

CHART 23: POPULATION GROWTH DRIVERS

'000 over the year

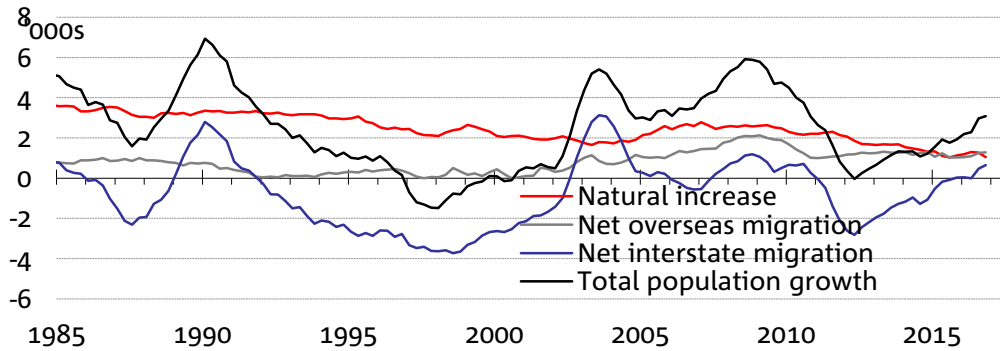
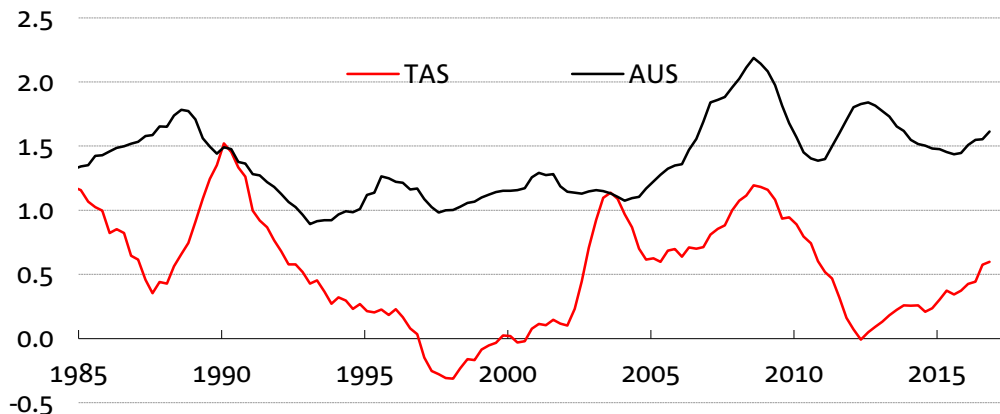


CHART 24: TASMANIA POPULATION GROWTH

Year ended growth

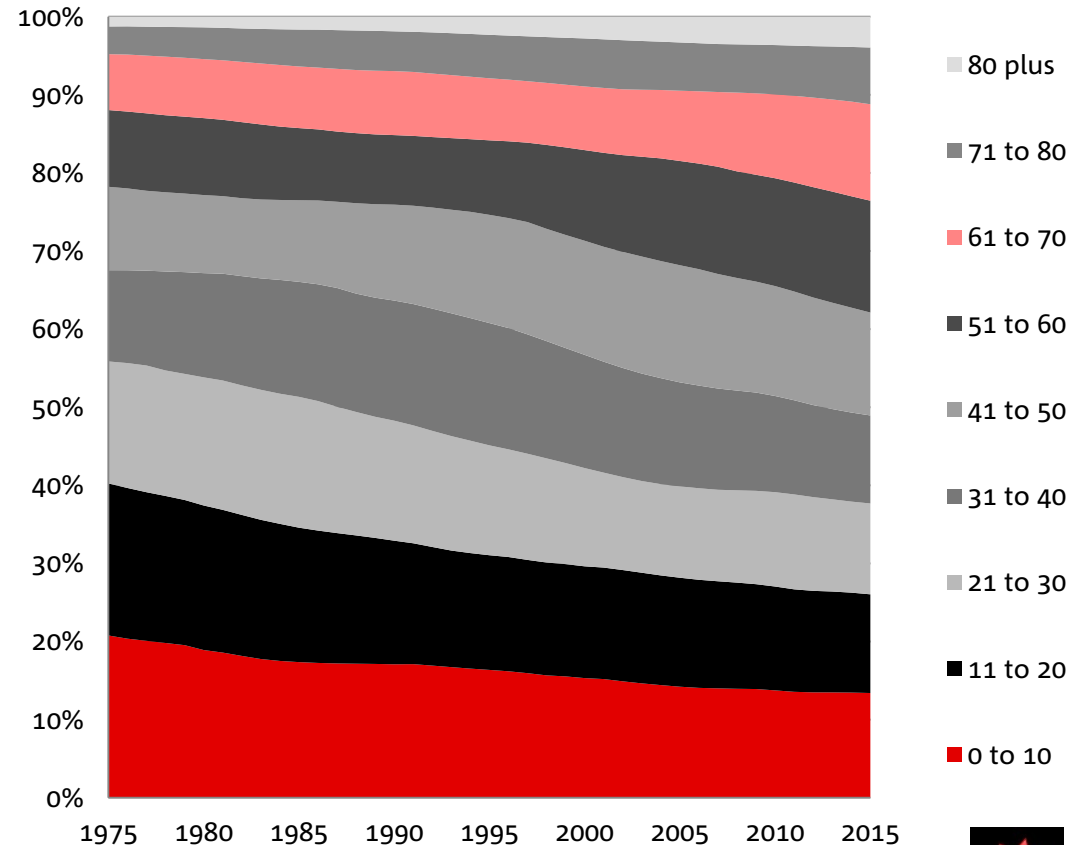


Source: ABS and NAB Group Economics

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. Tasmania receives significant redress for these issues through tied and untied Commonwealth grants, although changes to GST assessment under consideration by the Productivity Commission may affect government revenue.

CHART 25: POPULATION SHARE BY AGE

Share of Tasmania's estimated resident population



FISCAL OUTLOOK

The Tasmanian government forecasts the net operating balance will be in surplus throughout the 2017-18 Budget and forward estimates period. The large improvement in the 2016-17 general government operating balance reflects a one-off transfer of the Mersey Community Hospital to the state. Excluding one-off capital funding transfers from the Commonwealth, the underlying cash balance is forecast to remain in deficit over the forecast horizon. Net debt is forecast to remain modest – peaking at just \$2.4bn. Tasmania is rated AA+/stable from S&P. In August 2016 Moody's downgraded Tasmania to Aa2 (stable) from Aa1.

CHART 26: NET OPERATING BALANCE

General government sector, \$ million

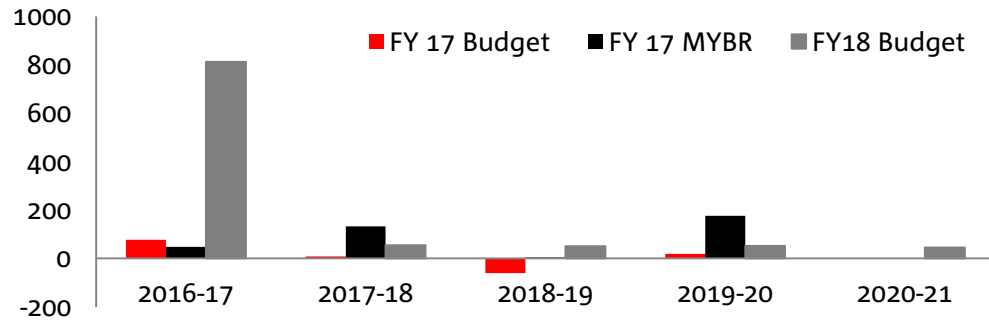
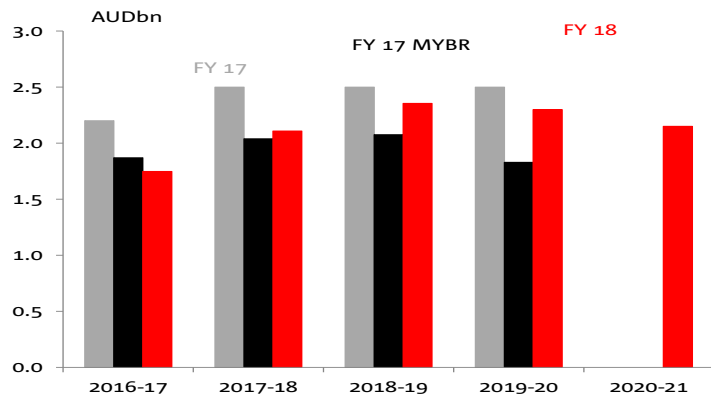


CHART 27: TASMANIA NON-FINANCIAL PUBLIC SECTOR DEBT

\$ billion



Source: Tasmania budget papers

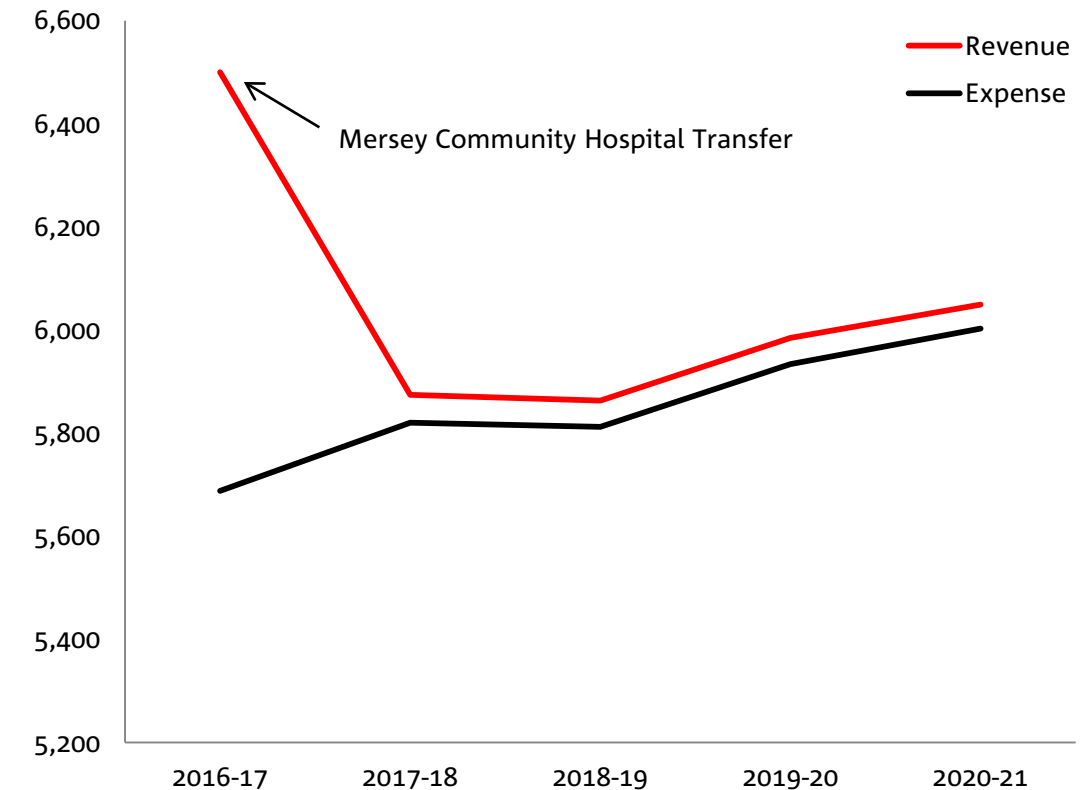
Source: Tasmanian budget papers, Tascorp, Bloomberg, NAB

Grants comprise around 62% of Tasmania's revenue, with GST the largest single source. Tasmania's own-source revenue (19.2% of 2017-18 total revenue) is forecast to grow at 2.0% from 2017-18 to 2020-21, mainly due to growth in the payroll and land tax bases. Expense growth is expected to average 2.2% in the four years to 2020-21.

Tascorp's total borrowing program for 2017-18 is \$450m – \$50m higher than 2016-17. Tascorp plans to launch a new 2028 bond in 2017-18.

CHART 28: GENERAL GOVERNMENT REVENUE AND EXPENSES

\$ million



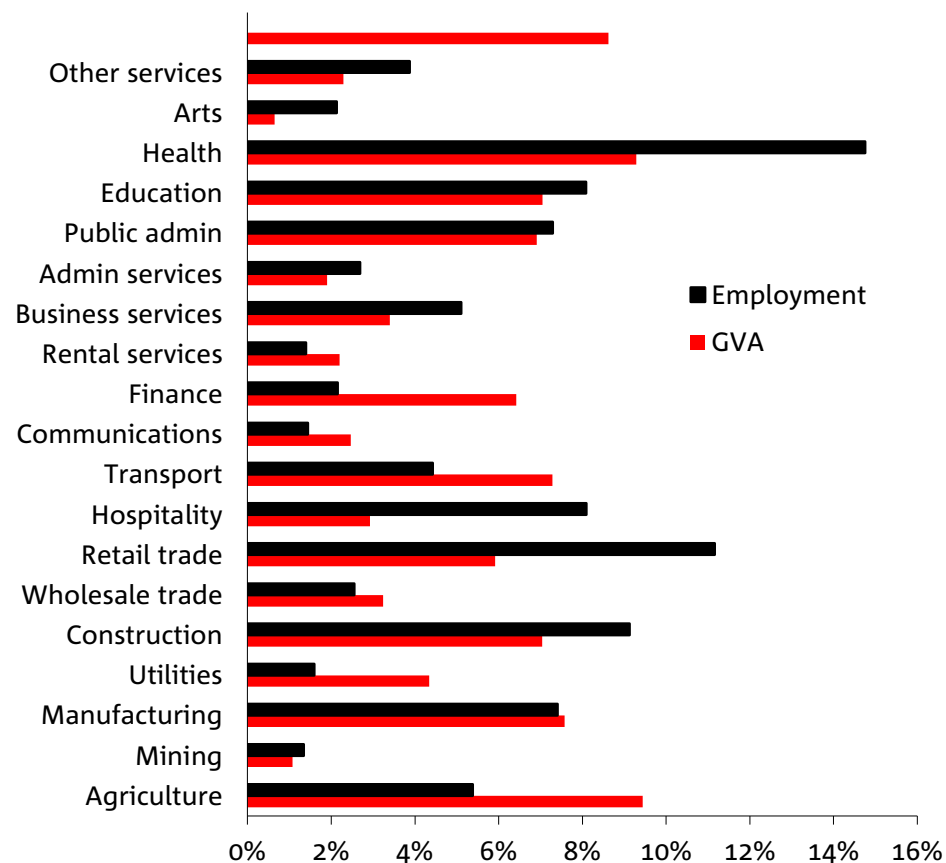
ECONOMIC STRUCTURE AND TRADE

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 29: 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 30: TOP TASMANIA EXPORT DESTINATIONS AND IMPORT SOURCE COUNTRIES

12 month average

Value of exports (\$m)		Value of imports (\$m)			
1	ASEAN	817	1	EU	160
2	China	674	2	China	151
3	Taiwan	250	3	ASEAN	140
4	Japan	225	4	US	77
5	US	160	5	UK	74
6	HK	128	6	Korea	69
7	India	123	7	Singapore	37
8	New Zealand	111	8	Germany	31
9	Korea	109	9	New Zealand	22
10	Singapore	44	10	Japan	11

FORECASTS BY STATE AND TERRITORY

A moderate growth outlook for Tasmania, though risks remain

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			
	15-16	16-17f	17-18f	18-19f	15-16	16-17	17-18f	18-19f
NSW	3.5	2.2	3.1	2.5	5.4	5.0	4.7	4.7
VIC	3.3	2.9	3.3	2.7	6.0	5.9	5.8	5.4
QLD	2.0	2.2	3.2	2.5	6.2	6.2	6.0	5.9
SA	1.9	1.8	2.7	1.7	7.3	6.7	6.5	6.5
WA	1.9	0.3	3.2	3.0	6.0	6.2	6.2	5.9
TAS	1.3	1.0	2.2	1.8	6.5	6.1	6.0	6.0
NT	2.7	1.5	1.5	5.0	4.2	3.5	4.0	4.2
ACT	3.4	3.0	3.1	2.6	4.5	3.8	4.8	4.8
Australia	2.7	2.0	3.2	2.5	5.9	5.7	5.4	5.3

HEDONIC HOUSE PRICE FORECASTS*

Through the year growth to Q4

	2015	2016	2017f	2018f	2019f
Sydney	15.5	10.7	5.1	3.7	3.0
Melbourne	15.8	9.5	8.6	5.5	3.4
Brisbane	6.9	2.7	3.1	1.9	1.2
Adelaide	3.8	3.8	3.4	1.7	1.7
Perth	-4.2	-2.9	-3.0	0.7	1.2
Hobart	7.0	9.6	10.0	4.9	1.7
Cap City Avg	11.2	7.3	4.6	3.4	2.5

HEDONIC UNIT/APARTMENT PRICE FORECASTS*

Through the year growth to Q4

	2015	2016	2017f	2018f	2019f
Sydney	13.1	5.8	5.9	0.5	0.6
Melbourne	7.5	4.7	6.4	1.2	-2.4
Brisbane	1.1	-3.0	-1.1	-1.8	-1.2
Adelaide	2.4	0.6	0.5	0.5	0.5
Perth	-2.8	-6.3	-1.9	0.4	0.7
Hobart	1.1	6.4	5.7	2.4	0.6
Cap City Avg	8.2	3.5	4.7	0.5	-0.3