Westpac Coast-to-Coast December 2019

An update on Australia's state economies

Westpac Institutional Bank

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The Year Ahead

Global growth slowed in 2019, coming from a heady pace in 2017 and 2018 when there was a degree of synchronisation in the developed world and Chinese growth was still benefitting from the accommodative policy of previous years. Prospects for 2020 are not encouraging. OECD growth slowed from 2.3% in 2018 to 1.7% in 2019. We are expecting that slowdown to extend into 2020 with OECD growth slowing further to 1.2%. That shift will be across the board with US growth slowing from 2.3% to 1.6%; Japan from 0.8% to 0.1%; and Europe from 1.2% to 1.0%. In 2020, Australia is not expected to lift its very disappointing growth rate of 2019, holding at 2.1% in 2020.

Further complicating the outlook is an expected continuation of the growth slowdown in China. GDP growth is forecast to moderate from 6.6% in 2018 to 6.1% in 2019 and 5.8% in 2020, although much of this has already occurred through 2019 with growth prospects in China appearing to have stabilised at this lower overall pace.

The dominant themes for 2020 will be developments in global trade disputes (which are not confined to US–China); the impact of the US Presidential election on business and consumer confidence; and policy responses, both fiscal and monetary.

We have already seen disturbing slowdowns in business investment in the major economies partly in response to trade uncertainties and partly, more fundamentally, reflecting risk aversion and general caution. Trade uncertainty and political risks are unlikely to allay those concerns in 2020. We are expecting this development to be particularly important for the US. Businesses, troubled by the trade and political uncertainties, are likely to scale back employment plans impacting household income growth and eventually slowing consumer spending. That slowdown will complement the headwinds from the traded sector and business investment. While some regions, particularly Europe and China, are likely to embrace some fiscal stimulus we expect that fiscal policy will be largely neutral in the US.

Australia's growth prospects will be impacted by this difficult global environment. Business investment growth is likely to remain constrained as businesses respond to a challenging global outlook and weak domestic demand.

Monetary policy will be stretched to its maximum – two more cash rate cuts from the RBA, to reach the effective lower bound for the overnight cash rate of 0.25%, to be followed by open ended Quantitative Easing. This policy is likely to be restricted to purchases of Commonwealth government securities and semi government paper. With limited supply of 'free' CGS the RBA will have to be strategic rather than using the heavy handed approaches we have seen in other markets.

The Bank of International Settlements recently released a report from the Committee on the Global Financial System which analysed the success of unconventional monetary policy tools used offshore. It concluded that asset purchases successfully operated through portfolio rebalancing, bank lending, direct pass through and an exchange rate channel. The study concluded that "the evidence on asset purchases affecting market prices, especially yields, is favourable". The test for the likely RBA approach of 'only' $2–3bn in purchases per month is whether this volume will be sufficient. However, judged as the proportion of available bonds (probably limited to around $150bn) and the open–ended nature of the commitment, prospects for such a policy impacting yields and the currency are reasonable.

A continued resurgence in house prices in 2020, while at a slower pace than we have seen in the second half of 2019, will provide some 'wealth associated boost' through the second half of 2020, given a likely one year gap from the timing of the recovery in house prices. We expect consumer spending growth will lift from a 1.5% annualised pace in the first half of 2020 to a 2% pace in the second half.

We do not expect this lift in prices to unnerve the authorities. Regulators are focussing on credit growth. Housing credit growth is currently running at around 3%yr. That is likely to lift to 4–4.5%yr, at the most, over the year ahead – not a sufficient boost to trouble regulators. If regulators did become concerned about house prices it is likely that some form of macro prudential policy would be adopted – targeting one specific part of the economy while avoiding the broader impact of monetary policy.

The drag in the residential construction cycle will also ease. With the pace of contraction easing from an annualised 10% in the first half to 5% in the second half. Over–building in the housing market will transition to under–building in the first half of 2021.

Fiscal policy needs to play a role in boosting the economy in 2020. Westpac has argued in favour of bringing forward the second round of legislated tax cuts from July 2022 to July 2020 in two stages. With the second round of tax cuts featuring changes in thresholds giving tax payers regular income increases rather than a lump sum adjustment it is likely there would be a more immediate boost to spending. Presently those tax cuts are not priced into our growth forecasts .We will await more tangible signals of official support for this very sensible policy.

Not surprisingly there are the usual uncertainties around the economic and market outlook for 2020. Policies will need to be pro–active including fiscal policy. Some of the headwinds around trade and politics are likely to have eased through the year, while monetary policies, and in some regions fiscal policies, will be more stimulatory laying the foundation for a more constructive global scene in 2021.

Bill Evans, Chief Economist

Australian economic outlook

Chart 1.

Australian output per capita: 0.2%yr

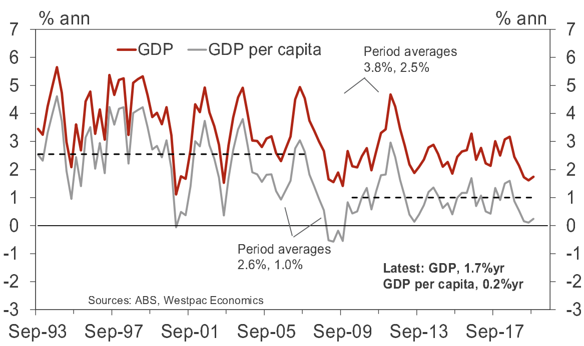


Chart 2.

Australia: the growth mix

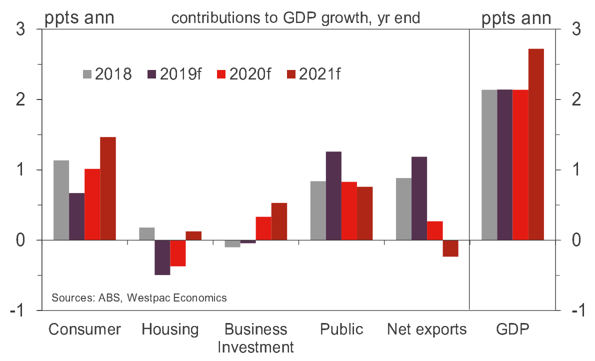


Chart 3.

Real wages weakness: a key structural challenge

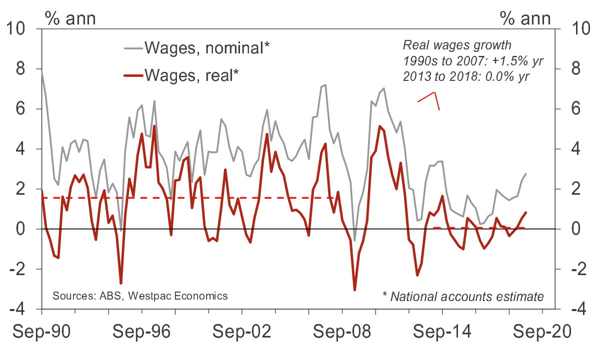


Chart 4.

Australian consumers rein in spending

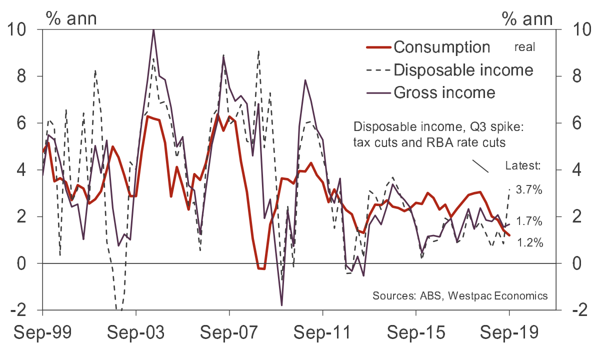


Chart 5.

Dwelling approvals: slump deepened in 2019

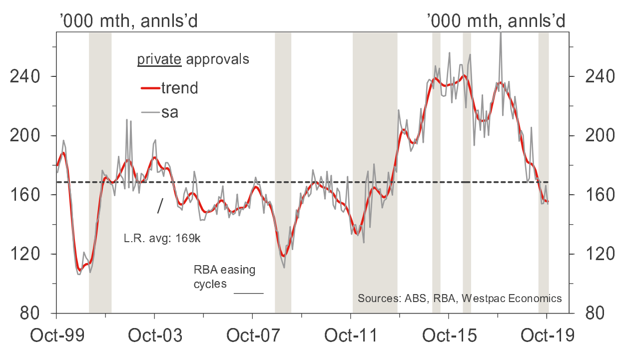
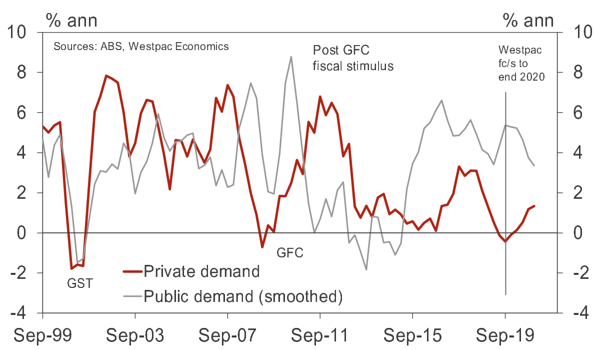


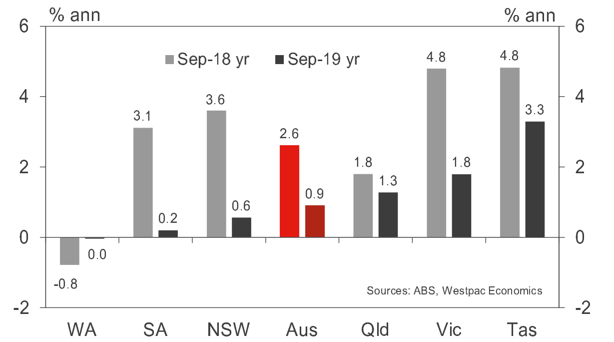
Chart 6.

Domestic demand: a private / public divide



States overview

Domestic final demand: sharp deceleration



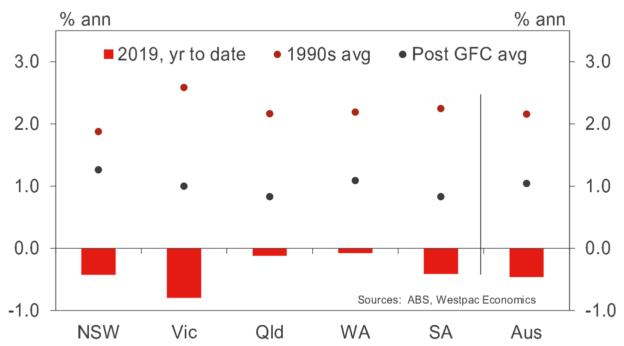
The Australian economy lost considerable momentum over the past year, a trend evident across the states (with the exception of WA, where demand was already soft).

Nationally, domestic demand growth slowed to a subdued 0.9% from 2.6% a year earlier. In per capita terms, demand contracted over the past year (-0.7%) and is contracting in all states, ranging from -1.0% for WA to -0.3% for Victoria. The exception is Tasmania, where per capita demand grew by a brisk 2% over the year.

The home building downturn and declining per capita consumer spending, as well as the global slowdown are powerful headwinds.

The home building boom-to-bust cycle is most evident in NSW - with further downside. Over the past year, activity in the sector slumped by 17.4% in NSW, with falls in other states ranging from -8% in WA to -2.7% in Victoria. Tasmania is the exception, with activity still at a high level.

Consumer spending, per capita: in decline

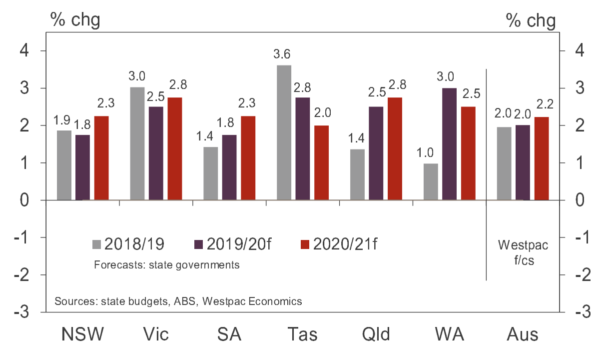


The household sector is under pressure from sustained weakness in real wages growth, softening non-wage incomes, high debt levels and, until recently, falling house prices. Not surprisingly, in this environment, households have rediscovered thriftiness.

In 2019, for the year to date, per capita consumer spending is contracting nationally, -0.5%, a dynamic evident in all states. Spending was weak in the September quarter as households opted to save the modest tax rebate. House prices have rebounded in Sydney and Melbourne but this has yet to translate into stronger spending - with consumer confidence fragile.

Business investment trends vary - contributing to the recent growth divergence across the regions. The mining states underpeformed, with investment over the past year falling in WA, -6%, and in Qld, -7%, while it was flat in SA. Gains were evident in NSW, Victoria and Tasmania, which have experienced relatively stronger population growth.

Growth outlook by state: GSP



The outlook for Australia and the various state economies is uncertain. How quickly and to what extent conditions respond to the recent modest policy stimulus is unclear.

Each mainland state governments delivered their mid-year budget update in December. Each downgraded their growth forecasts - after 2018/19 outcomes generally surprised to the downside (Victoria being an exception).

Westpac Economics is forecasting Australian output growth, which was 2.0% in 2018/19, to be stuck at that pace in 2019/20, then edging higher to 2.2% in 2020/21.

The states are more optimistic, with a weighted average forecast of 2.3% and 2.5% for the two years. The Westpac view points to downside risks to the state forecasts - across the board. The risk is that the 2019/20 slowdown in NSW and Victoria (centred on housing and the consumer) is deeper and that the anticipated rebound in Qld and WA (on more favourable investment trends) disappoints.

States overview

Chart 1.

State jobs markets

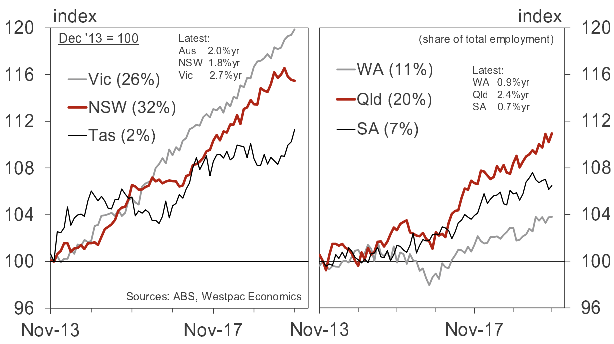


Chart 2.

State final demand, contributions

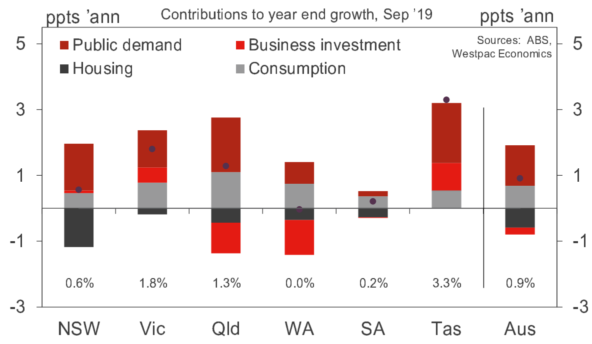


Chart 3.

Dwelling prices: rebound

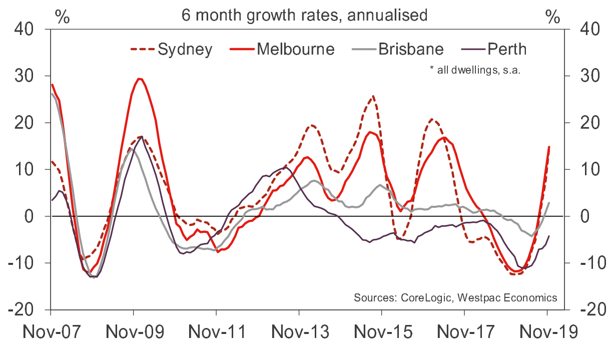


Chart 4.

Dwelling approvals: downtrend in eastern states

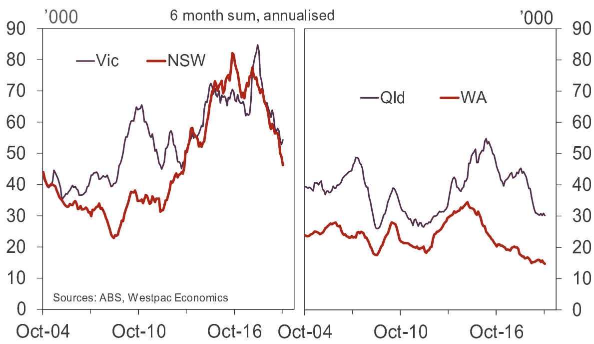


Chart 5.

Public construction work pipeline

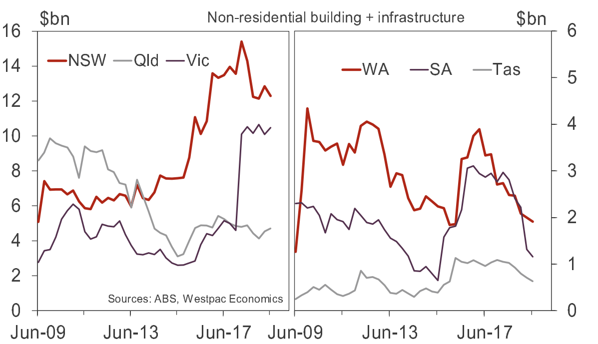
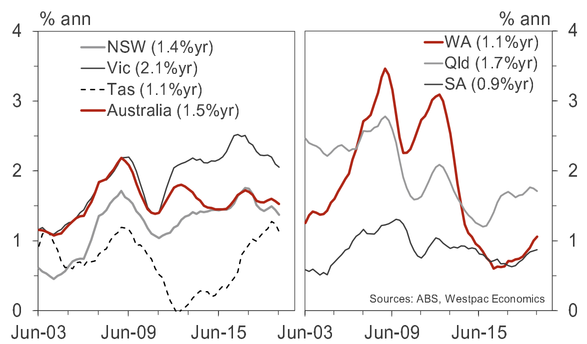


Chart 6.

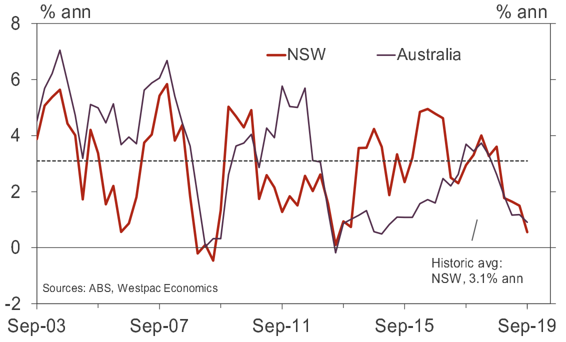
Strong population growth: 1.5% nationally



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

NSW: spending slows to "stall speed" ...

NSW state final demand: sharp slowdown



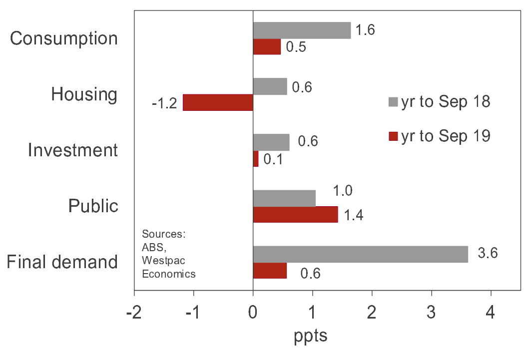
Spending across the NSW economy has slowed to "stall speed" as powerful headwinds impact. State final demand grew by only 0.6% in the year to September. That represents a decline in per capita terms (-0.9%) and a sharp loss of momentum from 3.6% growth a year earlier.

Private sector spending is contracting, with a Q3 result of -0.5%qtr, -1.1%yr ~ the weakest result since the GFC.

The home building downturn is sharpest in NSW, where the cycle has swung from boom-to-bust. Activity in the sector contracted by 17.4% over the year, directly subtracting 1.2ppts from overall state demand. The peak contribution was back in 2016, at +1.1ppts. Over the past year, home building activity across the rest of the nation fell by 5%.

The NSW home building downturn will extend well into 2020, centred on the high rise market. Dwelling approvals in recent months are tracking almost 40% below levels prevailing during the first half of 2018.

NSW: contributions to state final demand



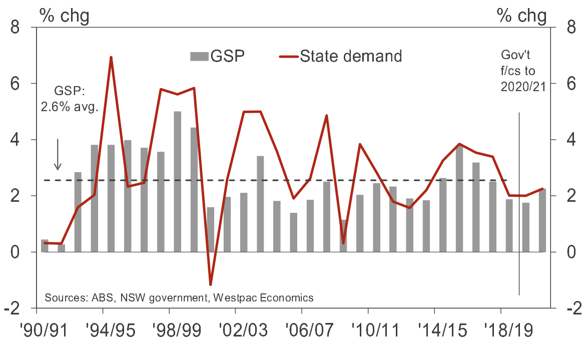
Consumers in NSW are being frugal, with spending inching only 0.1% and 0.2% higher in the past two quarters. Annual growth has slowed from 2.7% a year ago to 0.8%. In per capita terms, spending is falling, at -0.3%qtr, -0.6%yr in Q3.

Incomes are under pressure from the home building downturn and the drought. Wage incomes were robust over the year, up by 5.3%. However, with jobs momentum cooling this is unlikely to be sustained - indeed employment contracted over the past half year. A plus, house prices are now rebounding, boosted by lower interest rates.

Businesses investment is faltering in this challenging environment, falling during the past six months to be little changed over the year.

Government spending, as well as exports, are the growth drivers of the state economy. Public demand surged by a blistering 6.6% over the year, including a 4% rise in investment (with a focus on transport infrastructure).

NSW economic performance & outlook



The state government downgraded the economic outlook in their mid-year budget review of December 12.

The economy surprised to the downside in 2018/19, with output growth at 1.9% (vs a Budget forecast of 2.25%) and demand grew by 2% (vs a forecast 2.5%).

Output growth is set to remain below trend, slowing to 1.75% in 2019/20 (-0.5% vs Budget), lifting to 2.25% in 2020/21 (-0.25%). Demand growth is a forecast 2% this year, lifting to 2.25% in 2020/21 (both downgraded from 2.5%).

The home building downturn, the drought and the global slowdown are all negatives. Consistent with this, the two year profile for household consumer spending has been marked down. Dwelling prices have rebounded but the extent of any near-term flow-on effects to the real economy are unclear. Government spending and exports will continue to drive activity, supported by the lower dollar.

… home building sharp downturn continues

Chart 1.

NSW: population growth above par, but off highs

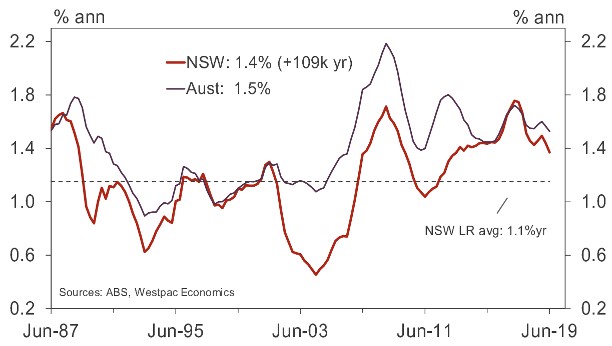


Chart 2.

NSW: consumer spending slump

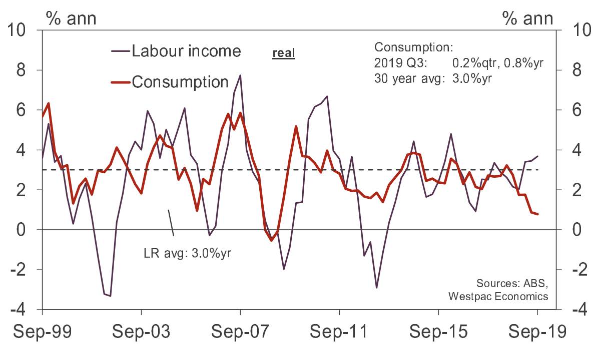


Chart 3.

Dwelling prices: sharp rebound

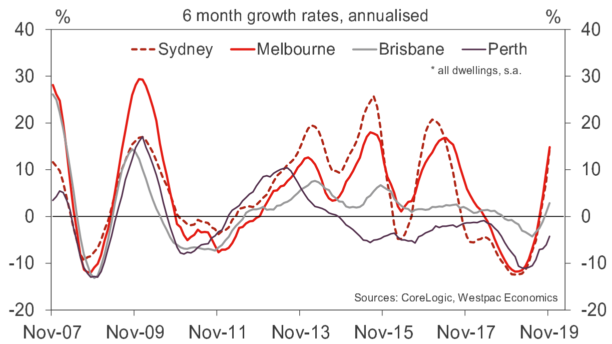


Chart 4.

NSW home building downturn deepens

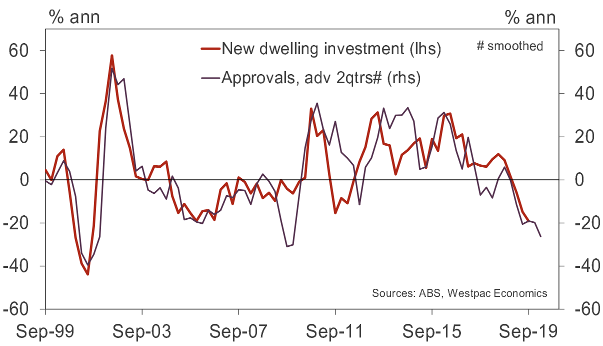


Chart 5.

Dwelling approvals: NSW & Victoria

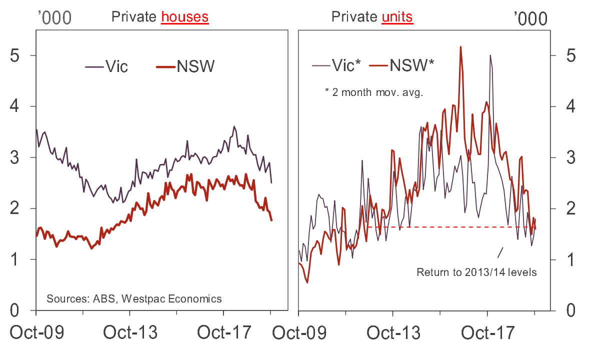
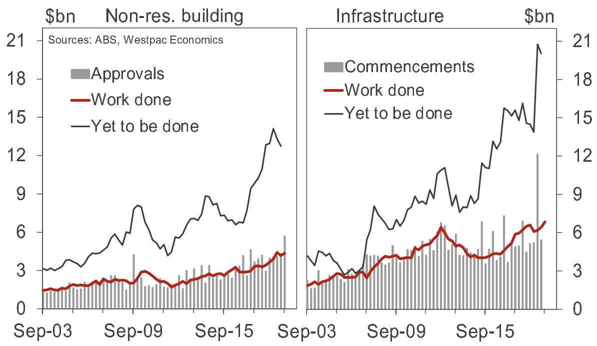


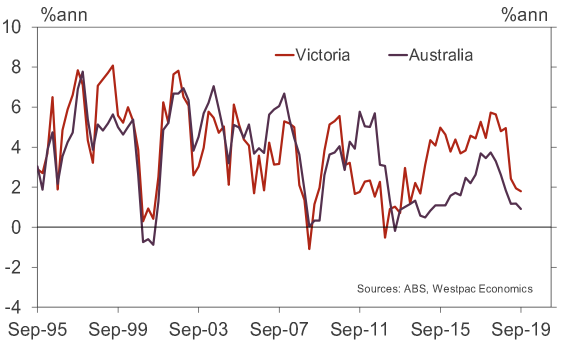
Chart 6.

Construction (non-res): a sizeable work pipeline



Victoria: housing headwinds ...

Victorian state demand: abrupt slowdown

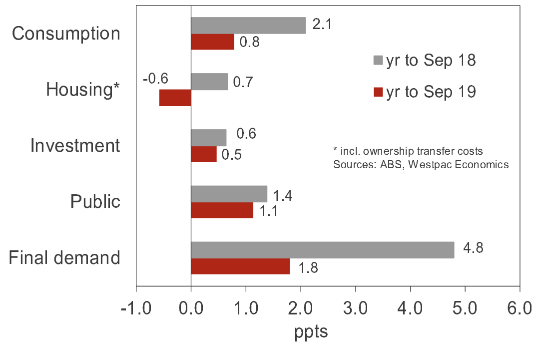


The Victorian economy continues to see markedly slower growth with an abrupt step-down between 2018 and 2019. As with the picture nationally, the main driver has been a housing downturn that has impacted both dwelling investment and consumer spending.

While the Melbourne property market is now showing a clear price recovery, new building looks set to fall further in the year ahead, particularly as a large pipeline of high rise projects starts to reach completion.

Other aspects of the state economy remain supportive – public demand and service exports in particular but also with some momentum evident within business investment. However the overall mix looks likely to see a material slowing in the Vic labour market with the associated drag on household incomes partially offsetting boosts from tax relief and lower interest rates. Vic continues to be the best performing mainland state although much of this relates to the state's stronger population growth.

Vic: contributions to state final demand

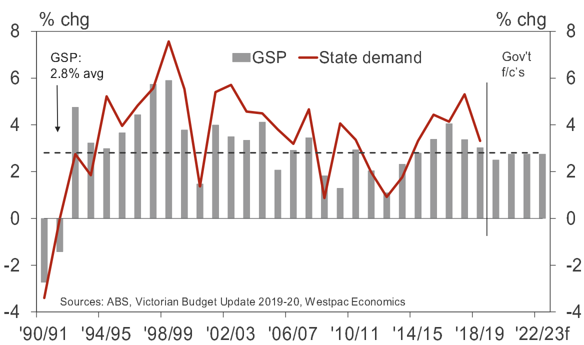


State final demand rose 0.4% in Q3 to be up 1.8%yr, down sharply on the 5.0%yr averaged through 2017 and 2018. Indeed, growth over the first three quarters of 2019 has been running at an annualised pace of just 1.4%.

Most of the slowdown is due to weaker consumer spending and a turnaround in housing activity. Household consumption growth slowed to 1.3%yr, down materially from the 4%yr peak in mid-2018 and a 0.7% contraction in per capita terms (population growth is running at 2.1%yr).

The household income picture is mixed - with weakness in non-wage income but a lift in labour income growth over the same period, from 2.8%yr to 3.6%yr. On balance, this likely implies a rise in saving – consistent with a 'wealth effect' influencing decisions, likely overlaid with some increase in risk aversion. To the extent that negative wealth effects are at play, the sharp recovery in Melbourne house prices since mid-year should see these diminish over the course of 2020. That said, a softer labour market it likely to see income pressures intensify.

Vic economic performance & outlook



New dwelling investment is likely to weaken further. Vic dwelling approvals have fallen 20% over the first three quarters of 2019. Moreover, the high concentration of high rise dwellings – accounting for 25% of all approvals in 2015-18 – and the longer lags on these projects mean Vic's dwelling construction pipeline is set to contract sharply in 2020 with annual declines projected to run at 15-20%yr.

Business investment has held up better in the state rising 4.1%yr with all components up over the year. Approvals suggest non res building will see further gains.

It is the public sector that is becoming the cornerstone for state growth. Notably public investment rose 2.7% in Q3, ending something of a lull over the previous three quarters. The state government's latest budget update forecasts a 21.5% rise in infrastructure investment in 2019-20. More generally the state government pared back its output growth forecast to a below trend 2.5%yr with the unemployment rate now expected to rise to 5%.

... point to mixed performance

Chart 1.

Melbourne house prices

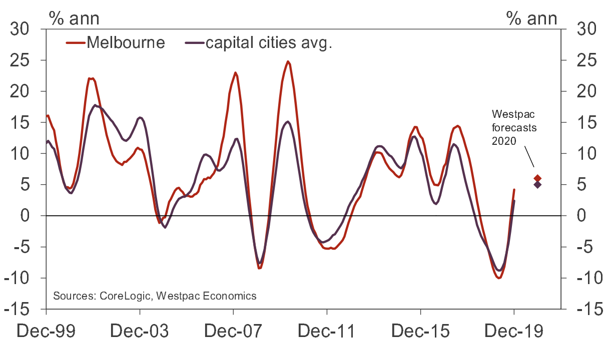


Chart 2.

Vic dwelling construction: projection

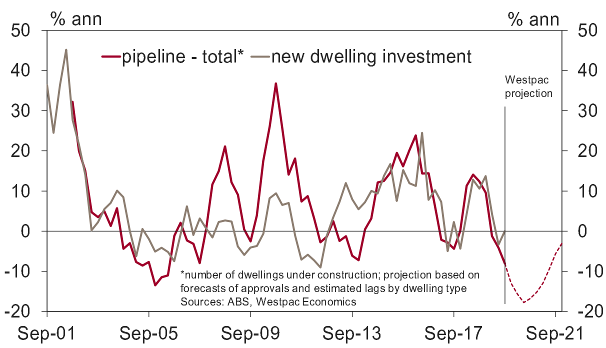


Chart 3.

Victorian labour market

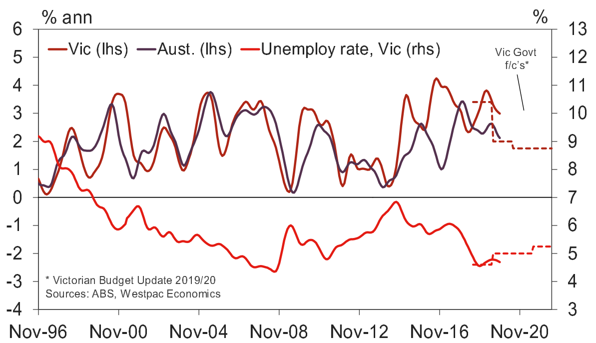


Chart 4.

Vic household income & spending well balanced

Chart 5.

Vic's non-res construction pipeline soars

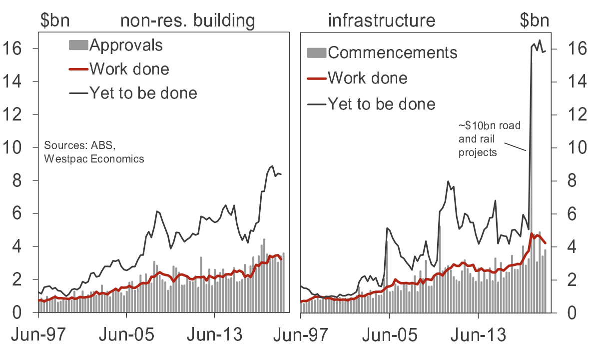
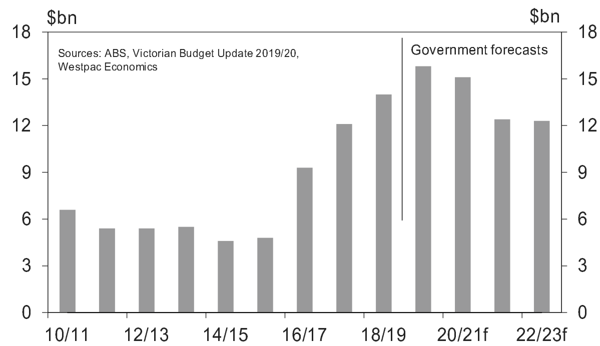


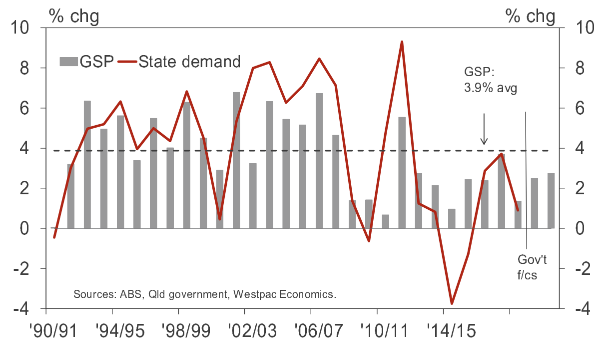
Chart 6.

State government infrastructure investment



Queensland: investment dents growth …

Qld economic performance & outlook

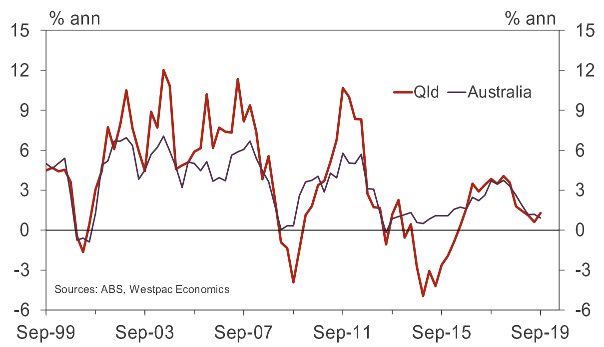


After a 4% uplift in the economy in 2017/18, the 2018/19 annual state accounts confirmed a sharp deceleration in the Queensland economy as both business and dwelling investment contracted. Output grew just 1.4% in 2018/19 compared to 3.9% in 2017/18. At its December budget update, the state Government revised down the 2019/20 GSP forecast to 2.50% from 3.00% at Budget time.

The 2019/20 year has begun on a still sombre tone with Qld recording a second consecutive 0.1% quarterly increase in state demand in the September quarter. This indicates that the internal economy has by and large stagnated over the past six months.

Yet, due to base effects, annual state demand growth picked up to 1.3%yr from 0.6%yr. While that is still below Qld population growth of 1.7%yr, it is stronger relative to national average domestic demand growth of 0.9%. Key here has been resilient household consumption growth of 2.0%yr compared to the national average of 1.2%yr.

Qld domestic demand slows

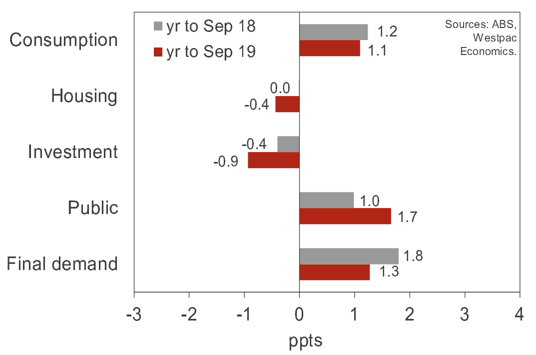


However, with Qld consumption growth stalling in the September quarter, the question going forward will be whether consumers continue to spend amidst clear softening in the economy.

A mildly accelerating trend in population growth remains supportive of consumption but employment growth has been running short of labour supply. As a result, the trend unemployment rate has lifted to 6.4% from a recent low of 6.0% in February 2019. Needless to say, to arrest this trend, the economy needs stronger demand, because the further unemployment deepens, the more consumers will start to tighten their purse strings and reinforce the slowdown.

In that respect, prospects for a better demand picture in 2020 look in sight. That is largely due to a reduced drag from dwelling and business investment which has taken 1.3ppts off state demand growth in the year to September 2019. That should more than offset a gradual slowing in public demand as it cools from a 6.8%yr pace.

Qld: contributions to state final demand



Dwelling investment declined by 7.6% in the year to September, with a 14.6% fall in new building outweighing a 3%increase in renovations. The fall in new building follows the plunge in approvals between mid-2018 to early 2019. Since then, approvals have levelled out, suggesting the worst is behind us.

Regarding business investment, private infrastructure is down 27%yr, which essentially reflects normalisation from a 27%yr increase in the year to June 2018. Elsewhere, equipment investment remains on a gradual uptrend while a rebound in private non-residential building approvals indicate activity is set to turn around from the current 7.2%yr contraction.

Public demand will also remain strong during the 2020 state election year. The MYFER confirmed the $51.8bn infrastructure pipeline and there has also been a coincident pick up in public non-residential approvals.

... but drag likely to moderate in 2020

Chart 1.

Qld business investment: infrastructure in decline

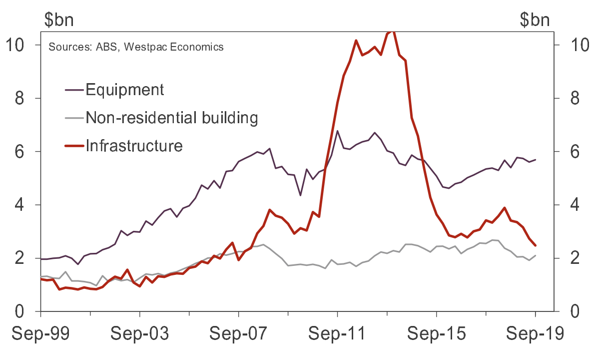


Chart 2.

Qld net migration has rallied off historic lows

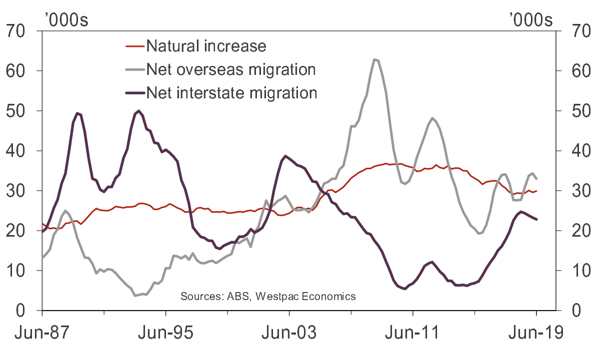


Chart 3.

Qld dwelling approvals stabilise at lower base

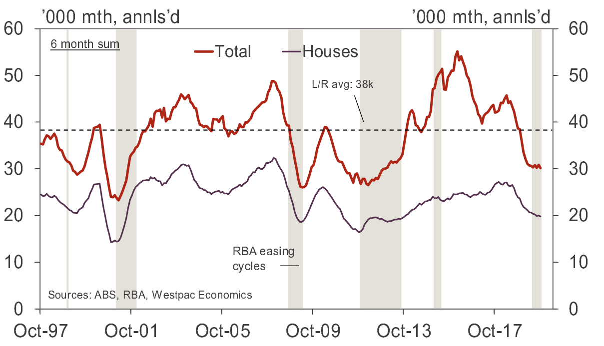


Chart 4.

Qld: employment's share of population stagnates

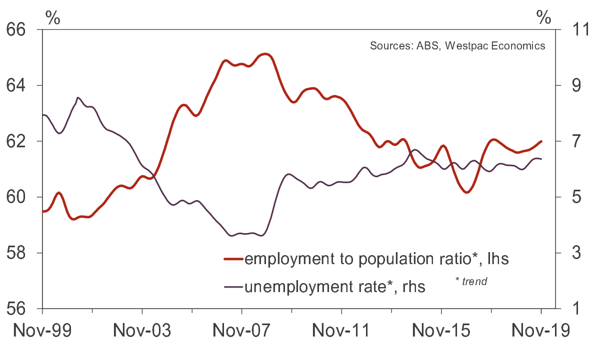


Chart 5.

Qld: Labour income and consumption

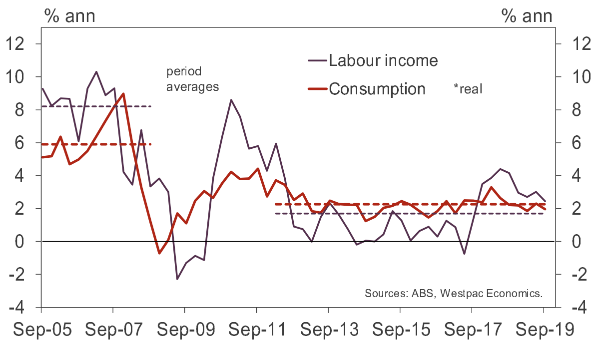
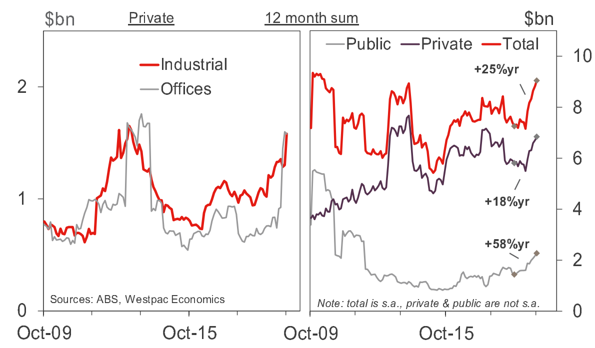


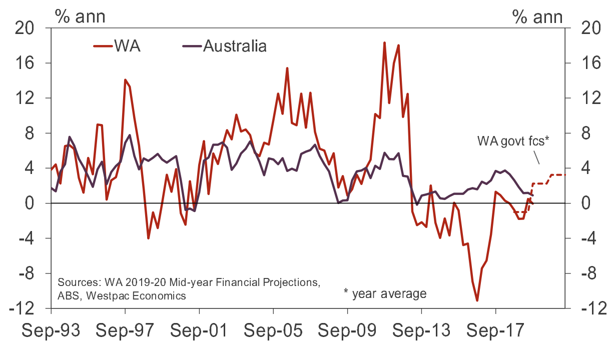
Chart 6.

Qld non-res' building approvals: rebound



Western Australia: treading water ...

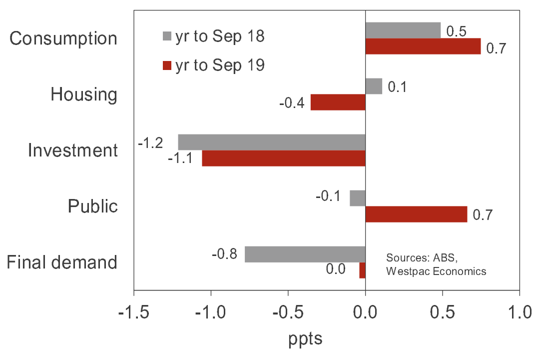
WA state demand: a firmer footing?



The WA economy was largely treading water in 2019 – the recovery from 2016-17's recession (GSP contracted 1.7%) continuing but at a slower, and relatively sluggish, pace. State final demand has essentially stalled flat and jobs growth has cooled, albeit with labour market conditions holding up relatively well to date, providing some support to incomes. Household finances continue to come under intense pressure from house price declines although even here there are tentative signs that WA's long-running price correction may finally be coming to an end.

The more hopeful signals are emanating from the state's mining sector. Incomes have received a substantive boost from recent high commodity prices, iron ore in particular. A 22% surge in WA's terms of trade contributed directly to a 10.6% rise in state income in 2018-19, the strongest gain since 2010-11. So far this has had relatively little flow through to households but it has bolstered state government finances and looks to be spurring a rise in new mining projects, albeit more so at the preliminary 'possible' stage.

WA: contributions to state final demand

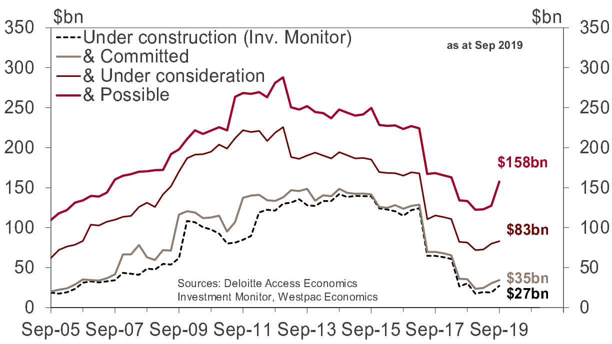


WA state demand contracted 0.2% in Q3 to be flat on a year ago with a choppy profile in recent quarters. Consumer demand has been relatively stable, rising 1.4%yr, a slight improvement on the pace 12 months ago and a contrast to the abrupt slowing in the south eastern states.

Housing investment entered a renewed decline in 2019. Dwelling approvals point to further slippage in the first half of 2020, albeit at a milder pace than in 2016-17. The state government introduced a 75% stamp duty discount for buyers of new off-the-plan apartments that should provide some support at the margin. More generally, Perth's housing market recorded a hefty 9% price decline over the year to September but has seen prices stabilise in Q4.

Low population inflows remain a restraining factor for the state. While population growth has lifted from the 0.6%yr low in 2015-16, at 1.1%yr it is still well below the 1.5%yr pace nationally and WA's long run average of 1.9%yr. Perversely, this accounts for the decline in WA's trend unemployment rate to 5.8% that has come despite slowing jobs growth.

WA's project pipeline: first meaningful lift in 8yrs



Business investment has continued to weaken, recording a further 5.8% decline over the year to September. While improved conditions in the mining sector are seeing some lift in private infrastructure activity, the pipeline of non residential building has continued to shrink. Relatively slow population growth is also an underlying restraint for investment in non-mining sectors.

Government demand has provided some support over the last year with gains in investment (+1.8%yr) and Federal spending offsetting fiscal restraint at the state and local government level.

The WA state government's Mid-year Financial Projections pared back its near term forecasts – output growth now expected to run at 3% rather than 3.5% in 2019-20 and both jobs and wages growth expected to be a touch slower. However, high iron ore prices more than offset the effect on state finances with improved revenues lifting the budget operating surplus to $2.6bn in 2019-20 and allowing for a handful of 'targeted' measures worth about $1bn.

… hopes riding on mining sector revival

Chart 1.

WA households: income growth weak

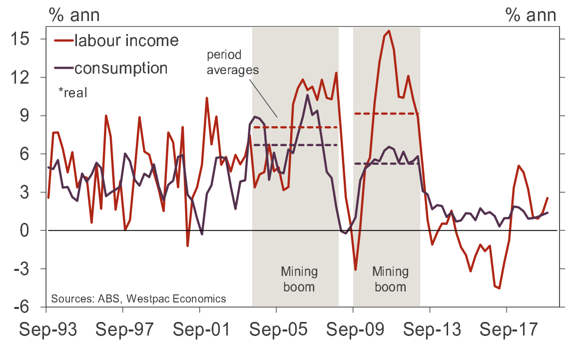


Chart 2.

House prices: Perth declines persist

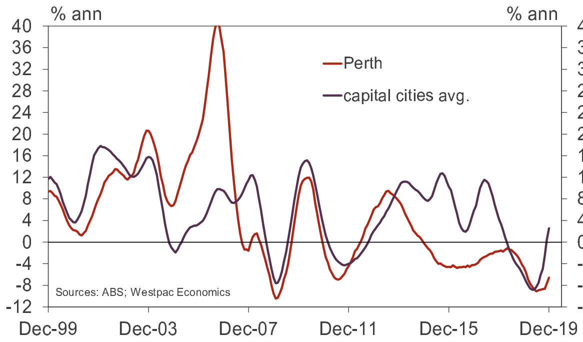


Chart 3.

Jobs market: recovery struggles to gain traction

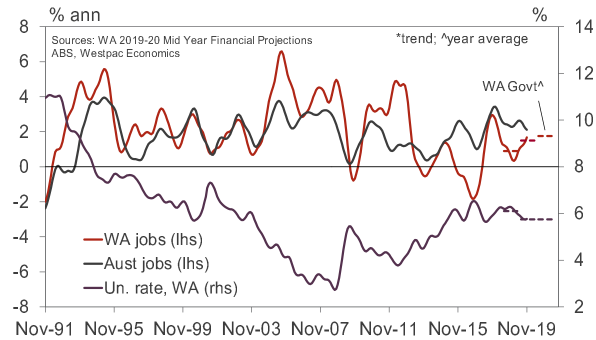


Chart 4.

Construction: wind down over

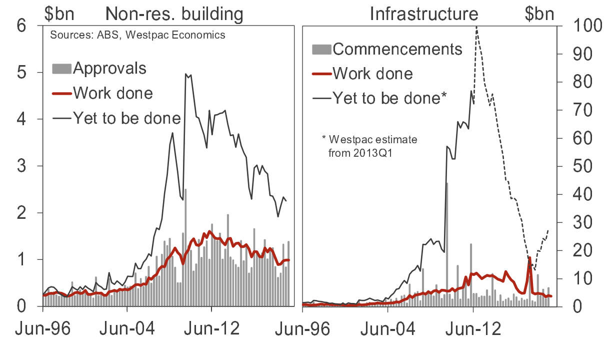


Chart 5.

WA's terms of trade vs state income

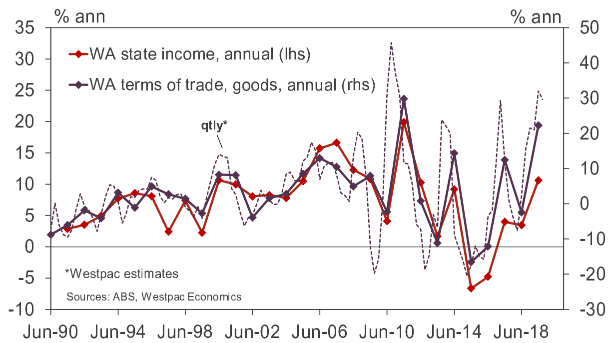
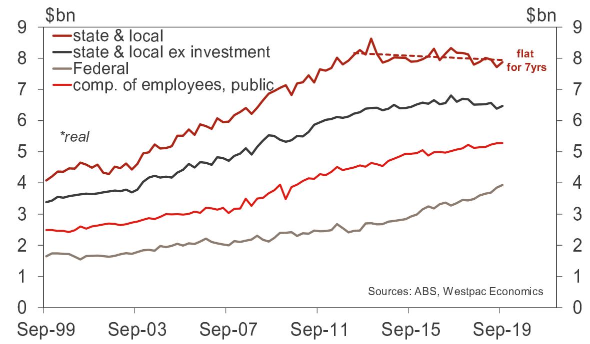


Chart 6.

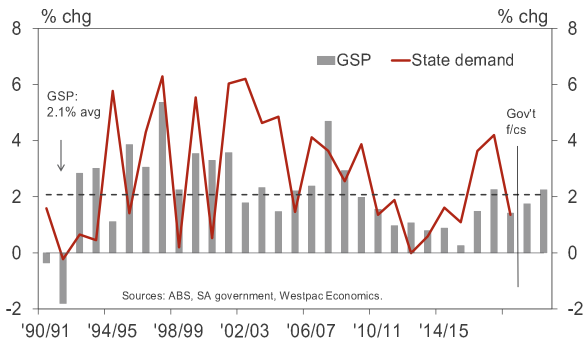
Government demand & wage spend



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

South Australia: private sector similarly ...

SA economic performance & outlook

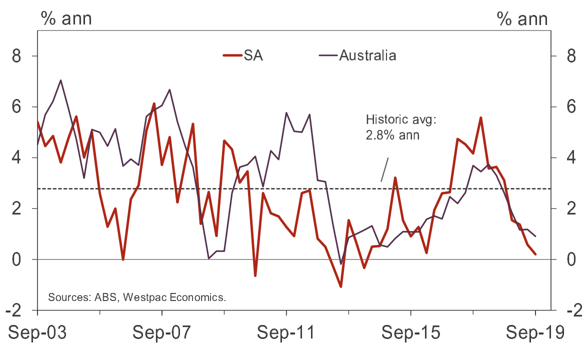


The annual state national accounts showed SA output grew by a subdued 1.4% in 2018/19. That is off from 2.3% in 2017/18. The slowdown is associated with weak household consumption growth – as seen across Australia more broadly – and a 16% decline in the winter crop production.

The 2019/20 year has begun on a feeble footing. State demand in the September quarter declined by 0.3%, seeing the annual pace slow to 0.2%yr. That reflects a continuation of recent trends, household consumption growth declining 0.1% to be up just 0.6%yr. It should be noted that, on a per capita basis, the SA consumption growth result for the past year is a little better than for the larger states of NSW and Victoria.

Other areas of demand have largely offset each other. A 6.0%yr decline in dwelling investment has taken 0.3ppt off annual growth. Business investment is flat, while public demand is up 0.6%, adding 0.2ppt. Unlike the boom in other states, public demand growth is tepid in SA.

State final demand growth decelerating

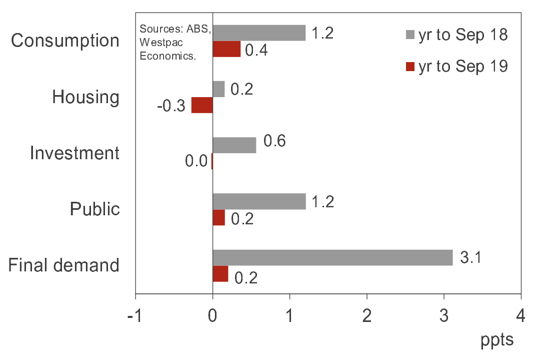


Subdued business investment largely relates to a sharp unwinding in private infrastructure activity. From a peak in March 2019, infrastructure has fallen 30%. In level terms it is back to being around the average seen through 2011 to 2017, having previously spiked in 2018.

Working the other way, non-residential building has been a strong uptrend, with activity levels returning back to where they were in 2014, prior to the downturn in 2015 and 2016. The non-residential approvals pipeline has moved lower, suggesting activity growth should flatten in 2020.

Outside of business investment, the sharp decline in dwelling investment is driven by new building, while renovations have been flat over the year. In contrast to the rest of Australia, the dwelling approvals pipeline for SA is broadly flat compared to continued declines through 2020 for NSW and Vic.

SA contributions to state final demand



In regards to households, employment has weakened in recent months, partially reversing the hiring burst earlier in the year, and the unemployment rate has trended higher, rising to around 6.3% from about 5.5% in mid-2018. The resulting insecurity around the general economic situation is clearly weighing on a leveraged household sector.

Looking ahead, the key uncertainty surrounds whether consumers will spend income gains relating to interest rate cuts and tax offset receipts. For Australia-wide, we expect consumers to remain cautious in the near-term, with policy stimulus to have a gradual and protracted impact. That will keep GDP growth below trend in 2020.

The SA state government is looking for a pick-up in output growth. The forecast for 2019/20 published in the December mid-year update is 1¾ per cent, downgraded from 2½ per cent published in the Budget. The government remains on track to deliver operating surpluses, having made adjustments in response to reduced GST receipts.

... weak but limited public demand boost

Chart 1.

South Australia: choppy demand profile

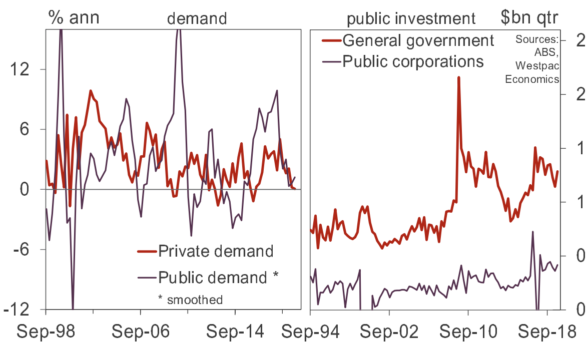


Chart 2.

Business investment: infrastructure uplift

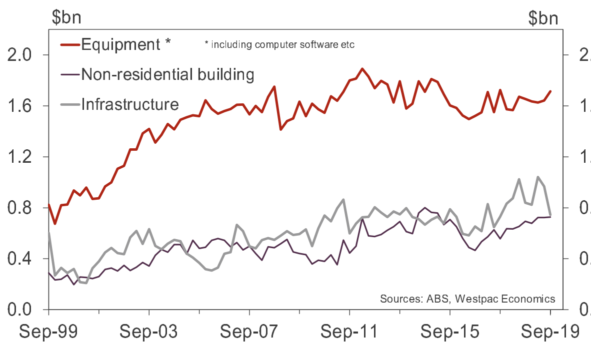


Chart 3.

Adelaide house prices stabilising

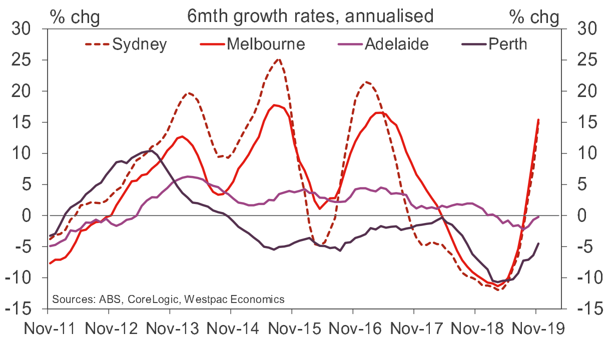


Chart 4.

Dwelling approvals: SA vs Australia

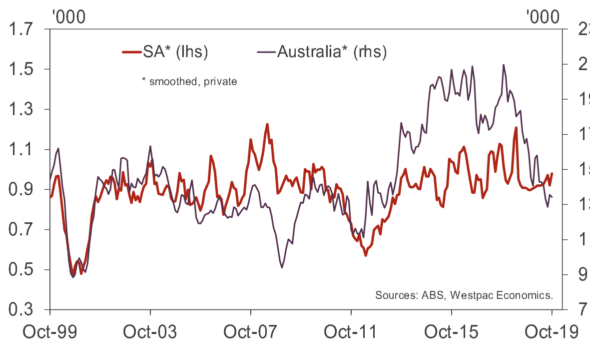


Chart 5.

SA employment's share of population off lows

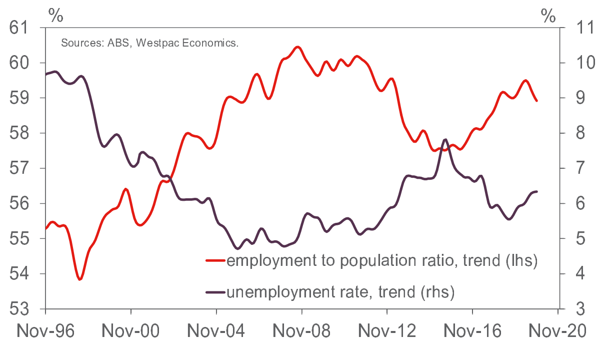
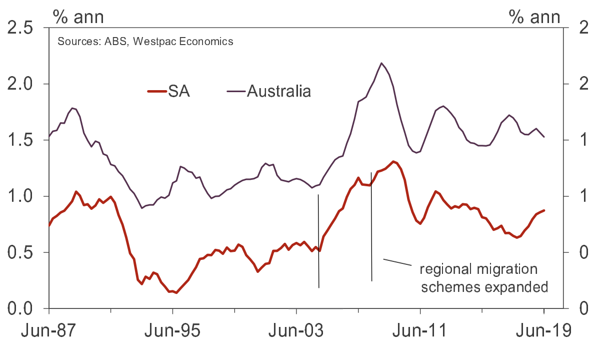


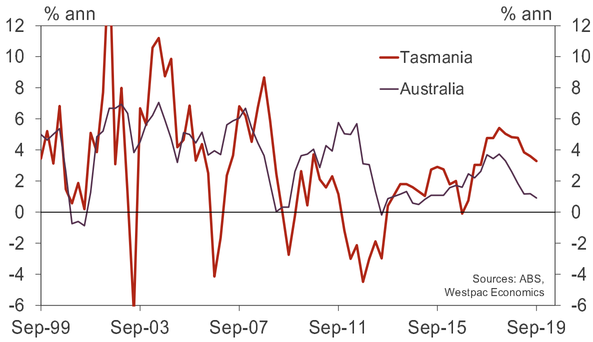
Chart 6.

Tepid population growth a lasting concern



Tasmania: a loss of altitude ...

Tasmania: domestic demand, loss of altitude



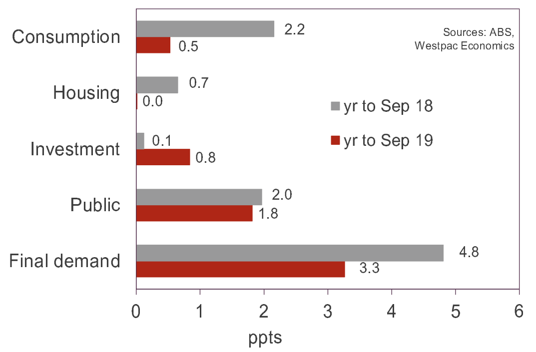
In our last quarterly report, we wrote that Tasmania's "growth spurt (is) fading". Three months on and there is further confirmation of a loss of altitude.

State demand growth peaked at 5.4% for the year to March 2018, at a time of double digit gains in both home building activity and business investment.

Currently, state demand growth has moderated to a still above trend 3.3% - which is the strongest of any of the states (next is daylight and then Victoria on 1.8%).

Notably, the home building cycle is cresting in Tasmania, with activity unchanged from a year earlier. Dwelling approvals are proving to be resilient supported by relatively strong population gains and low vacancy rates in Hobart. This points to home building activity remaining at high levels. By contrast, in all other states activity in the sector is in decline.

Tasmania: contributions to state demand

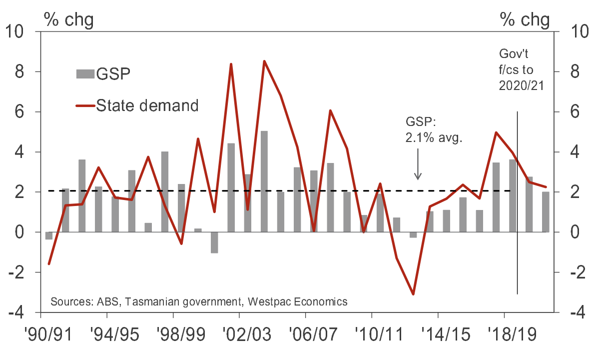


Business investment is trending higher in the eastern states of NSW and Victoria, as well as in Tasmania - while in the mining states of Qld and WA, investment moved lower.

Over the past year, business investment increased by 10% in Tasmania, to be 36% above the low at the end of 2016. Recent strength has been centred on a doubling of infrastructure work. There is a focus on renewable energy investment, including the $300mn Cattle Hill and $280mn Granville Harbour windfarms.

Public demand is also expanding at a brisk clip, up 6.6% over the past year, directly contributing 1.8ppts to overall activity. Public investment is in a strong uptrend, up 40% on 3 years earlier. The state government is boosting investment in transport infrastructure, including the Midlands highway upgrade ($535mn) and freight revitalisation ($2.39mn).

Tasmanian economic performance & outlook



Tasmanian state output expanded by a brisk 3.6% in 2018/19, matching the 2017/18 outcome (of 3.5%). That was comfortably above the state budget forecast of 2.75% (on a smaller than anticipated net export drag). State demand grew by 4% in 2018/19 (matching the budget forecast), moderating from a 5% rise in 2017/18.

In the May 2019 Budget, the state government forecast state demand growth to throttle back to 2.5% in 2019/20 and projected a 2.25% rise in 2020/21. Output growth for the two years is expected to be 2.75% and 2.00%.

The lower Australian dollar, low interest rates, relatively strong population gains and rising public spending are all supportive of activity. Key growth industries are agriculture, tourism and education. It is notable that service exports have surged over the past five years, increasing by 120% over the period - including a 19% rise in 2018/19, which directly added 0.6ppts to growth.

... outlook remains sound

Chart 1.

Tasmania: population growth at historic highs

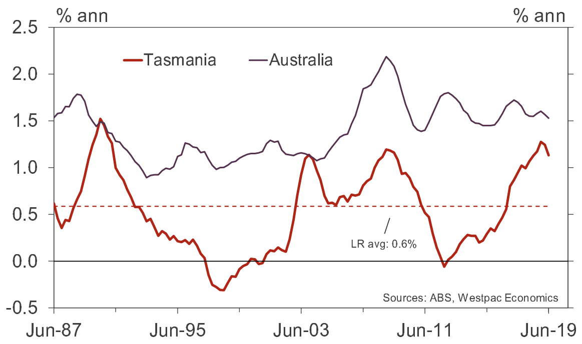


Chart 2.

Tasmanian state demand

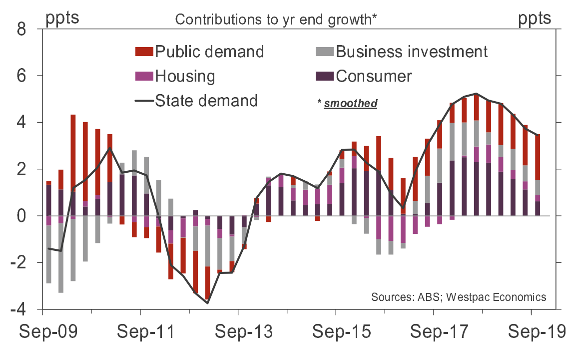


Chart 3.

Hobart house prices: on the move

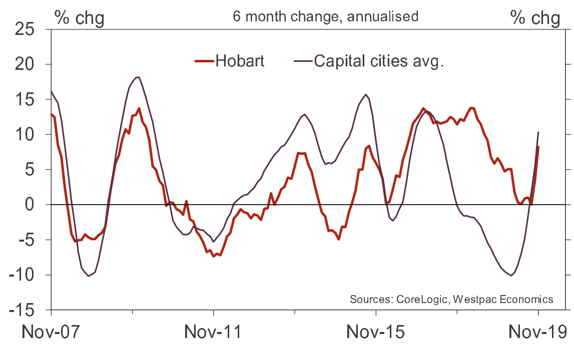


Chart 4.

Tasmania: dwelling approvals resilient

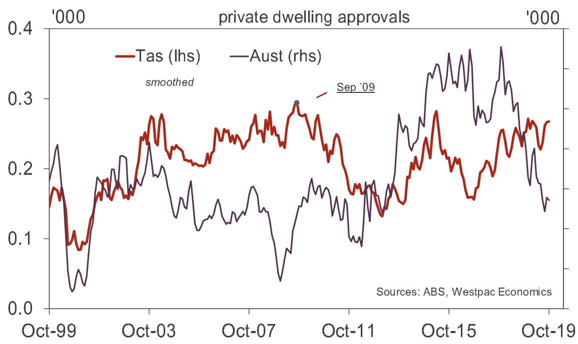


Chart 5.

Tasmania: employment uptrend resumes

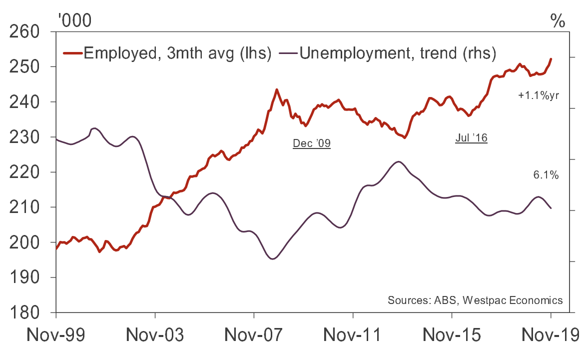
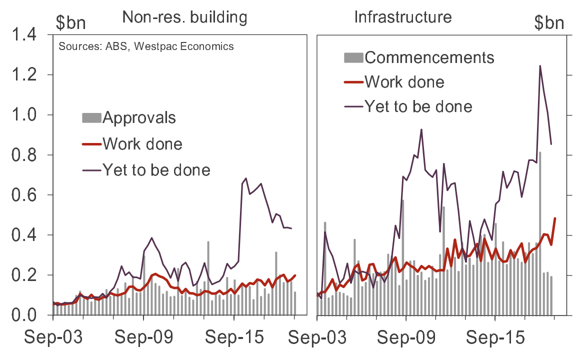


Chart 6.

Non-residential construction: sizeable pipeline



Summary indicators

Chart 1.

Exports of goods & services

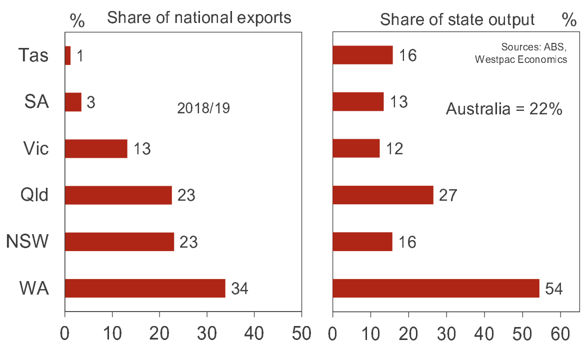


Chart 2.

Gross State Product

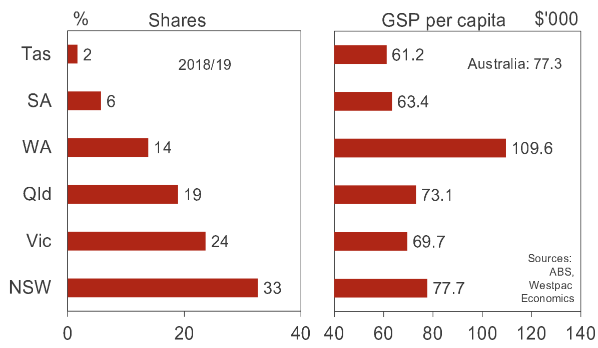


Chart 3.

Dwelling approvals

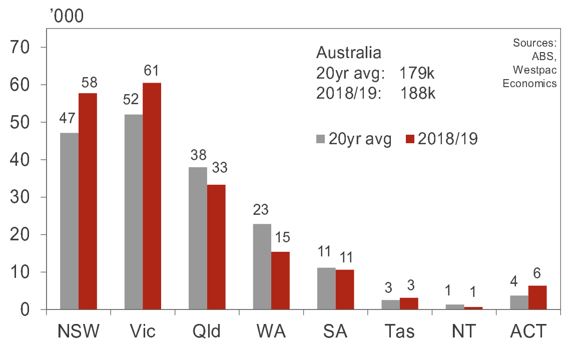
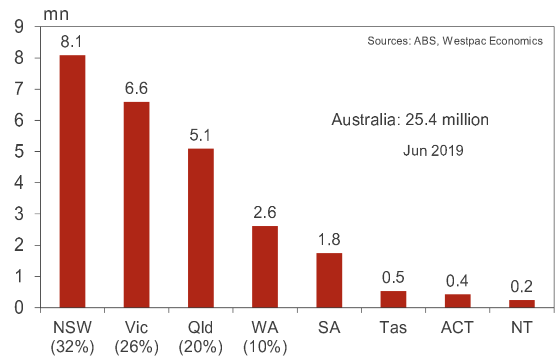


Chart 4.

Population



Industry mix: share of gross value add

	Australia	NSW	Vic	Qld	WA	SA	Tas	NT	ACT
Agriculture	2.3	1.6	1.9	2.5	2.4	5.2	10.2	3.1	0.1
Mining	9.1	3.3	1.3	12.9	33.6	3.2	3.7	20.8	0.1
Manufacturing	6.0	5.5	7.3	6.2	5.1	6.5	6.4	4.2	1.0
Construction	7.8	7.9	8.3	7.9	6.6	7.7	7.1	7.1	7.1
Transport, utilities	7.5	7.4	7.9	8.7	6.0	8.2	7.5	5.5	4.0
Wholesale, retail	8.5	8.8	9.7	8.2	6.6	9.9	8.0	5.3	4.6
Health, social assistance	7.8	6.7	8.6	8.1	5.8	10.8	13.2	7.5	12.4
Education	5.1	4.9	5.6	5.2	3.7	6.3	6.6	5.4	6.2
Household services	5.3	5.5	5.3	5.7	4.0	5.7	5.6	5.8	4.9
Finance	9.3	12.7	11.5	6.3	4.6	8.2	6.0	2.7	3.3
Business services	16.9	20.8	18.7	14.2	11.0	13.1	10.7	9.1	19.1
Public administration	5.6	4.8	4.8	5.5	4.1	5.9	6.1	14.3	29.0
Ownership of dwellings	8.9	10.1	9.1	8.4	6.4	9.2	8.9	9.2	8.2

Sources: ABS, Westpac Economics. For the 2018/19 financial year.

Forecasts: state activity and employment

		2018/19	2019/20f		2020/21f	
		actuals	Govt f/cs	Westpac	Govt f/cs	Westpac
Australia *	GDP	2.0	2.3	2.0	2.5	2.2
	Employment	2.4	1.6	1.7	1.5	1.5
NSW	GSP	1.9	1.75	1.6	2.3	2.1
	Employment	3.3	1.50	1.5	1.3	1.4
Vic	GSP	3.0	2.50	2.4	2.8	2.6
	Employment	3.4	2.00	2.3	1.8	2.0
Qld	GSP	1.4	2.50	2.2	2.8	2.3
	Employment	1.5	1.50	1.8	1.5	1.6
WA	GSP	1.0	3.00	2.2	2.5	2.0
	Employment	0.9	1.50	1.4	1.8	1.1
SA	GSP	1.4	1.75	1.4	2.3	1.6
	Employment	1.4	1.00	0.7	1.0	0.8
Tasmania	GSP	3.6	2.75	2.5	2.0	2.0
	Employment	0.1	0.75	1.3	1.0	1.0

* Government forecasts for Australia are a weighted average of the state government forecasts.
State government forecasts are from the most recent state budget update (the mid-year review for each of the mainland states).
Westpac's state numbers are calculated to be consistent with the national forecasts.

Gross State Product

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
NSW	2.3	1.9	1.8	2.6	3.8	3.2	2.5	1.9
Vic	2.0	1.1	2.3	2.8	3.4	4.1	3.4	3.0
Qld	5.5	2.7	2.1	1.0	2.4	2.4	3.7	1.4
WA	9.5	5.9	5.8	2.5	1.2	–1.7	2.5	1.0
SA	1.0	1.1	0.8	0.9	0.3	1.5	2.3	1.4
Tas	0.7	–0.3	1.0	1.1	1.7	1.1	3.5	3.6
Australia	3.9	2.6	2.5	2.2	2.8	2.4	2.9	2.0

Sources: ABS, Westpac Economics * GSP estimates are only on an annual basis.

Employment

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
NSW	0.6	1.7	0.5	1.3	3.8	1.1	3.2	3.3
Vic	1.0	1.2	0.9	2.4	2.7	4.0	2.8	3.4
Qld	1.3	0.2	1.3	0.2	1.7	0.2	4.1	1.5
WA	4.0	2.8	–0.1	1.0	–0.4	–0.9	2.2	0.9
SA	0.5	0.1	–1.3	0.4	0.5	1.4	2.2	1.4
Tas	–1.3	–1.0	–0.4	2.8	–0.2	0.8	3.0	0.1
Australia	1.2	1.2	0.5	1.2	2.3	1.5	3.0	2.4

Sources: ABS, Westpac Economics

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