

WHAT'S HAPPENING IN THE ECONOMY, NATIONALLY AND IN TASMANIA

PRESENTATION TO THE GOVERNANCE INSTITUTE OF AUSTRALIA

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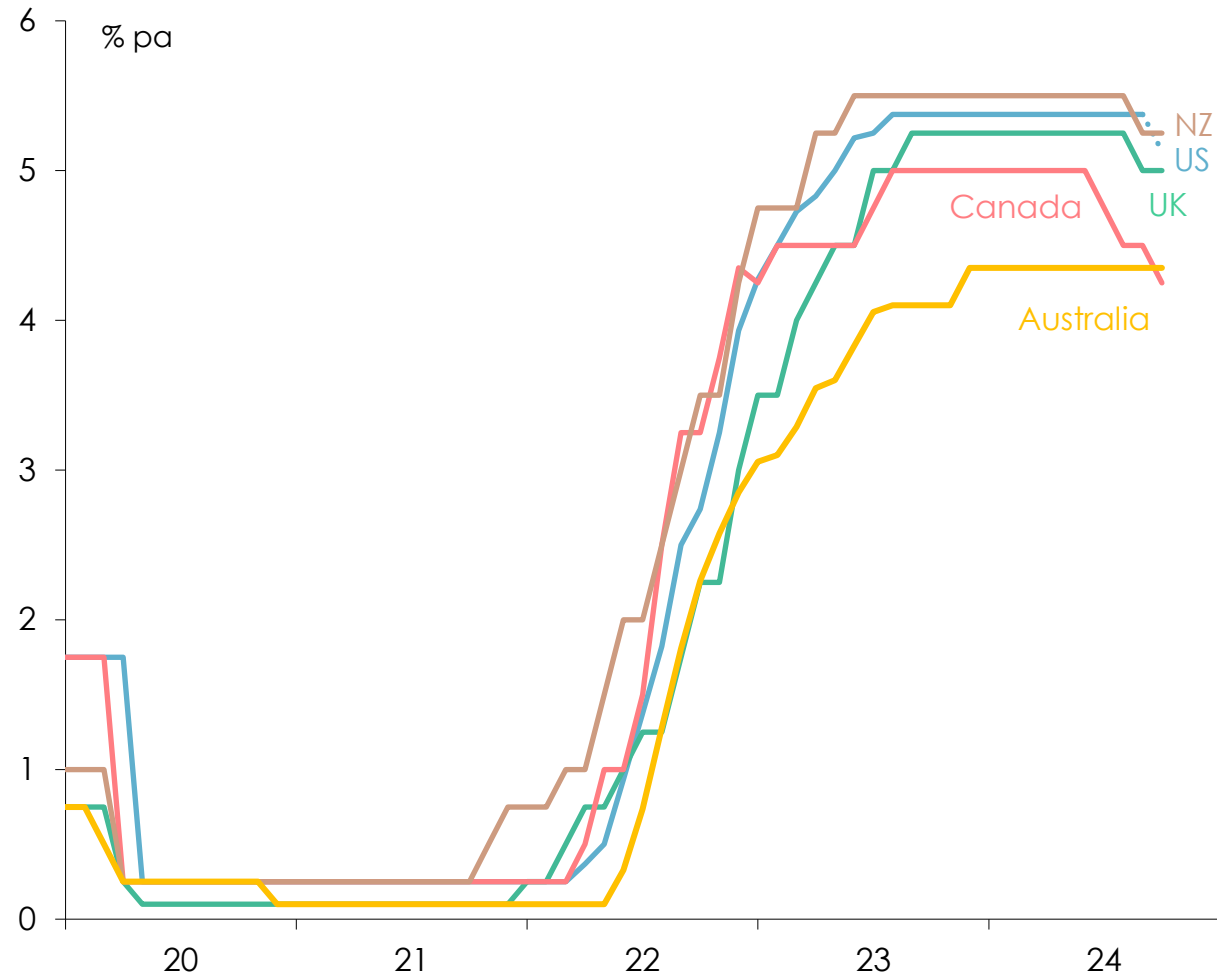
SAUL ESLAKE

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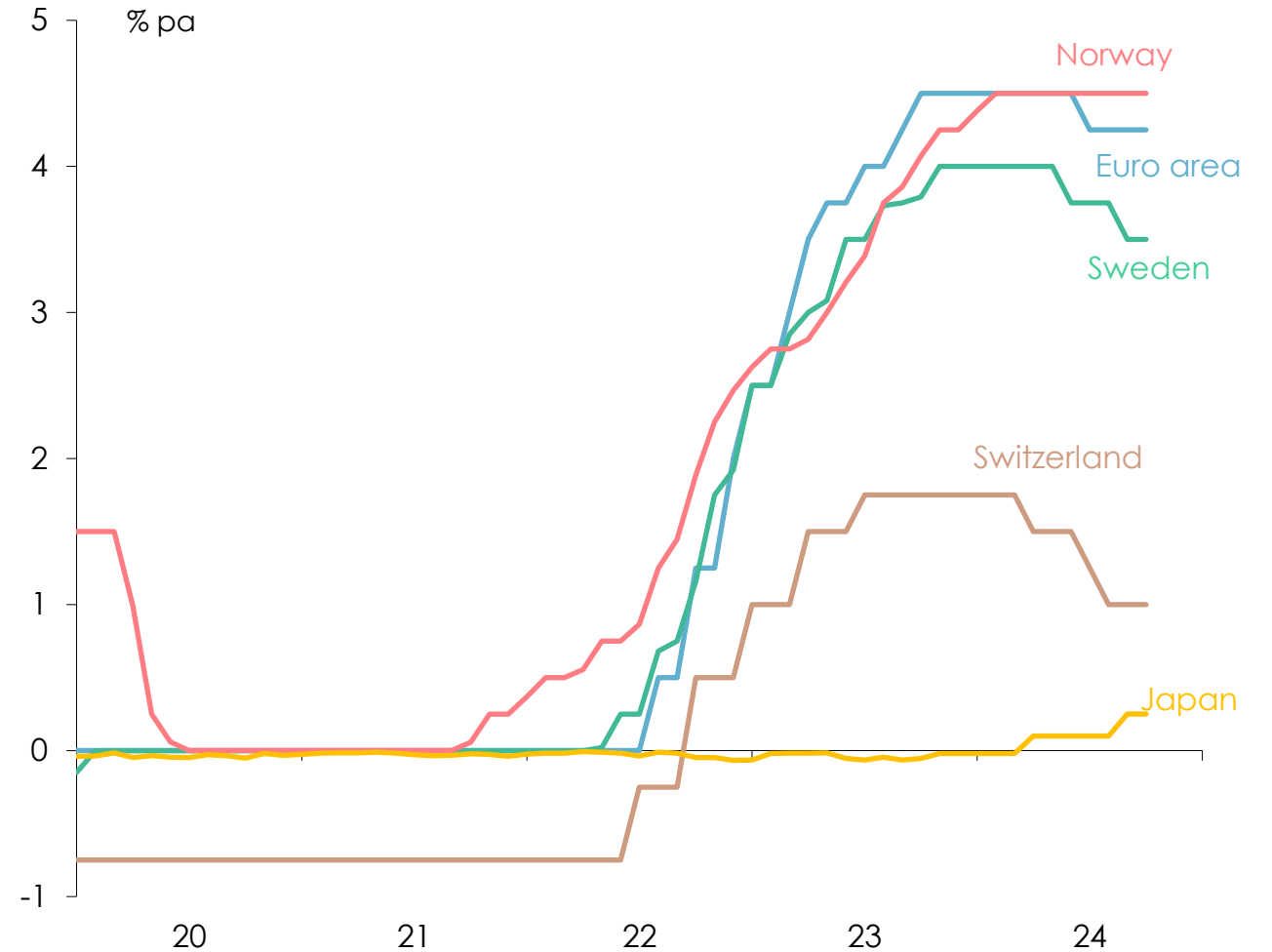
Australia

Most other central banks (apart from the Bank of Japan) have begun cutting interest rates – but the RBA hasn't

Monetary policy interest rates – Australia and comparable countries



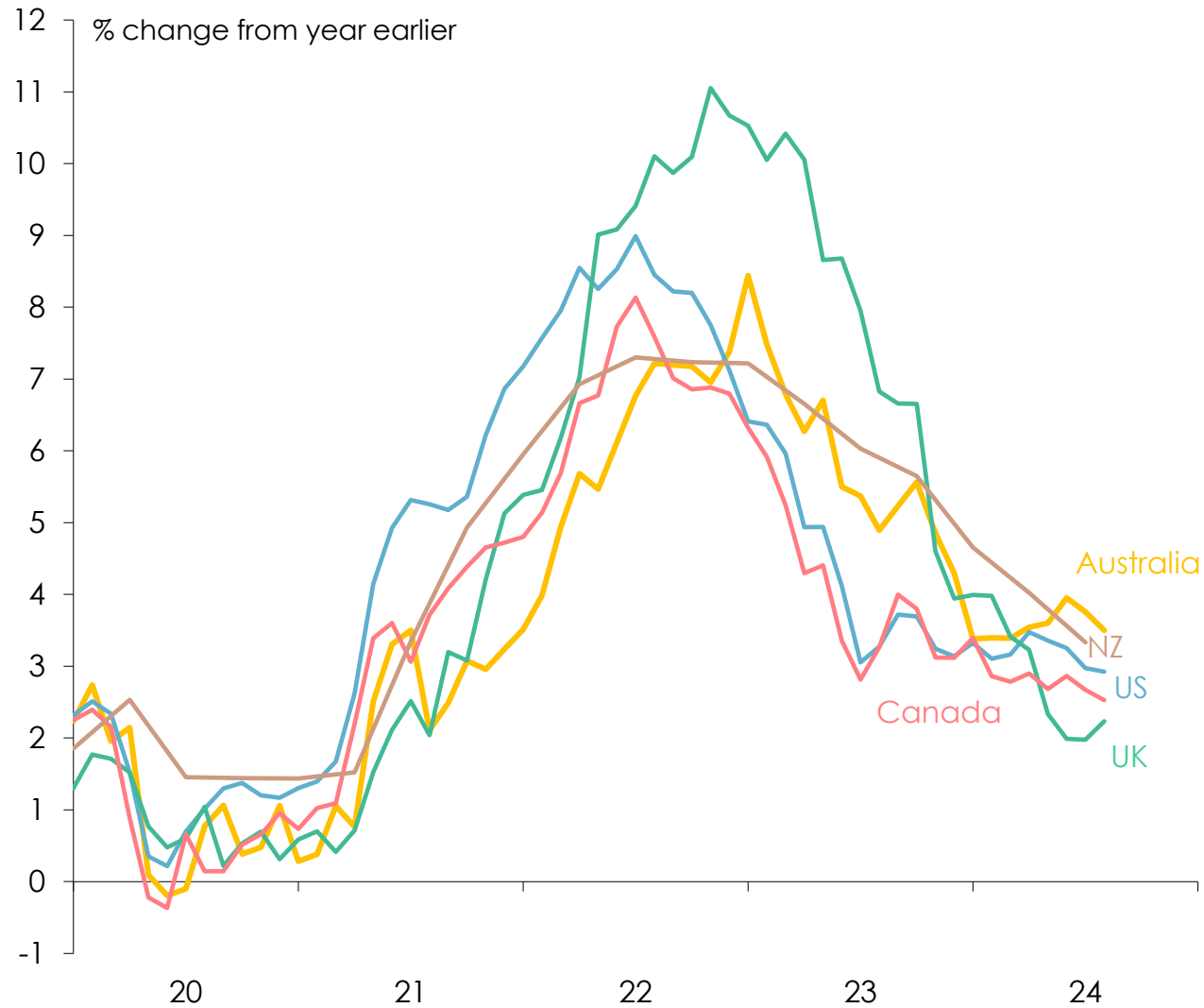
Monetary policy interest rates – Europe and Japan



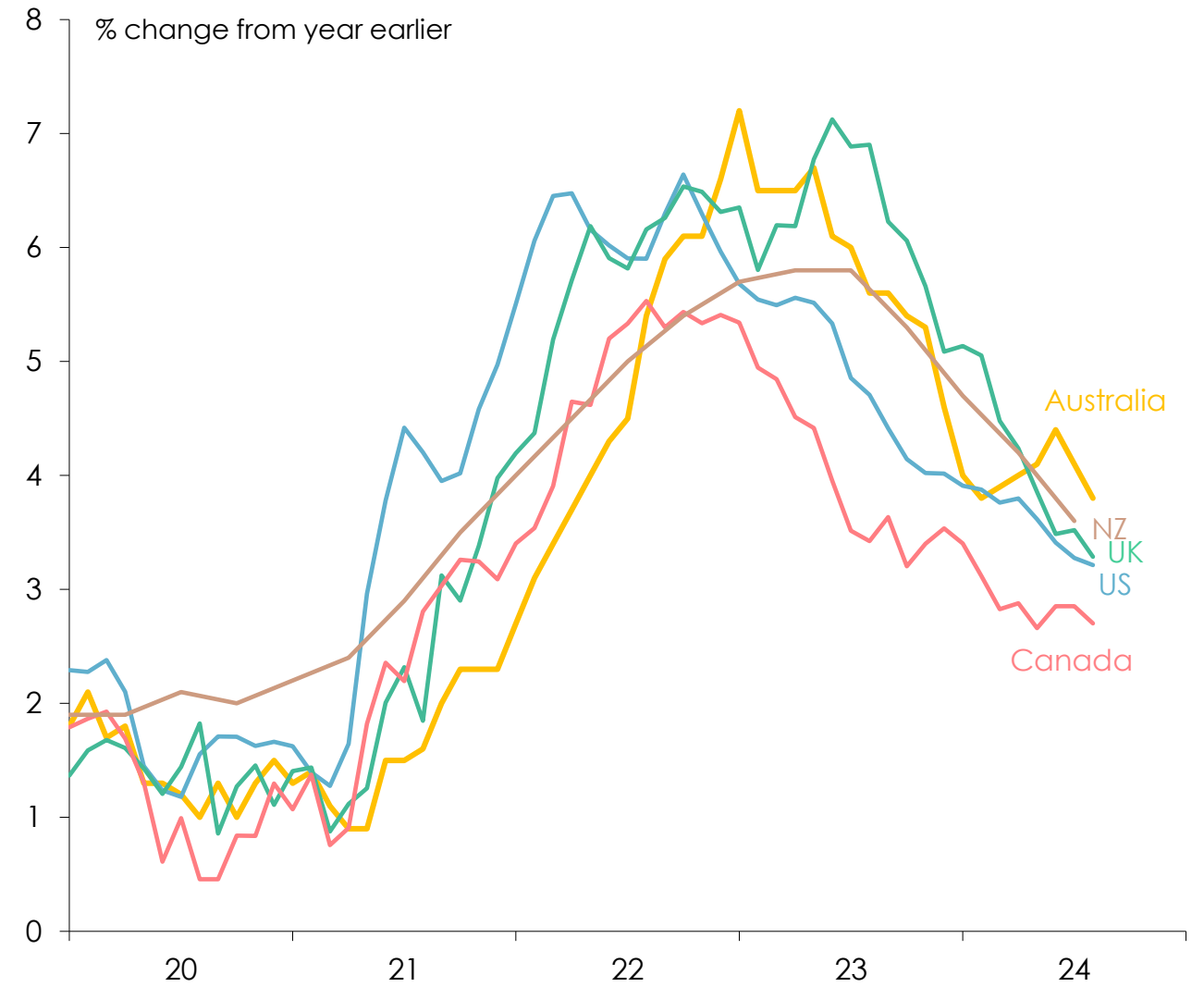
Sources: US Federal Reserve; Bank of Canada; European Central Bank; Bank of England; Reserve Bank of Australia; Reserve Bank of New Zealand; European Central Bank; Sveriges Riksbank; Norges Bank; Schweizerische Nationalbank; Bank of Japan.

Inflation hasn't fallen as much in Australia as it has done in the US, the UK, Canada and New Zealand

'Headline' inflation



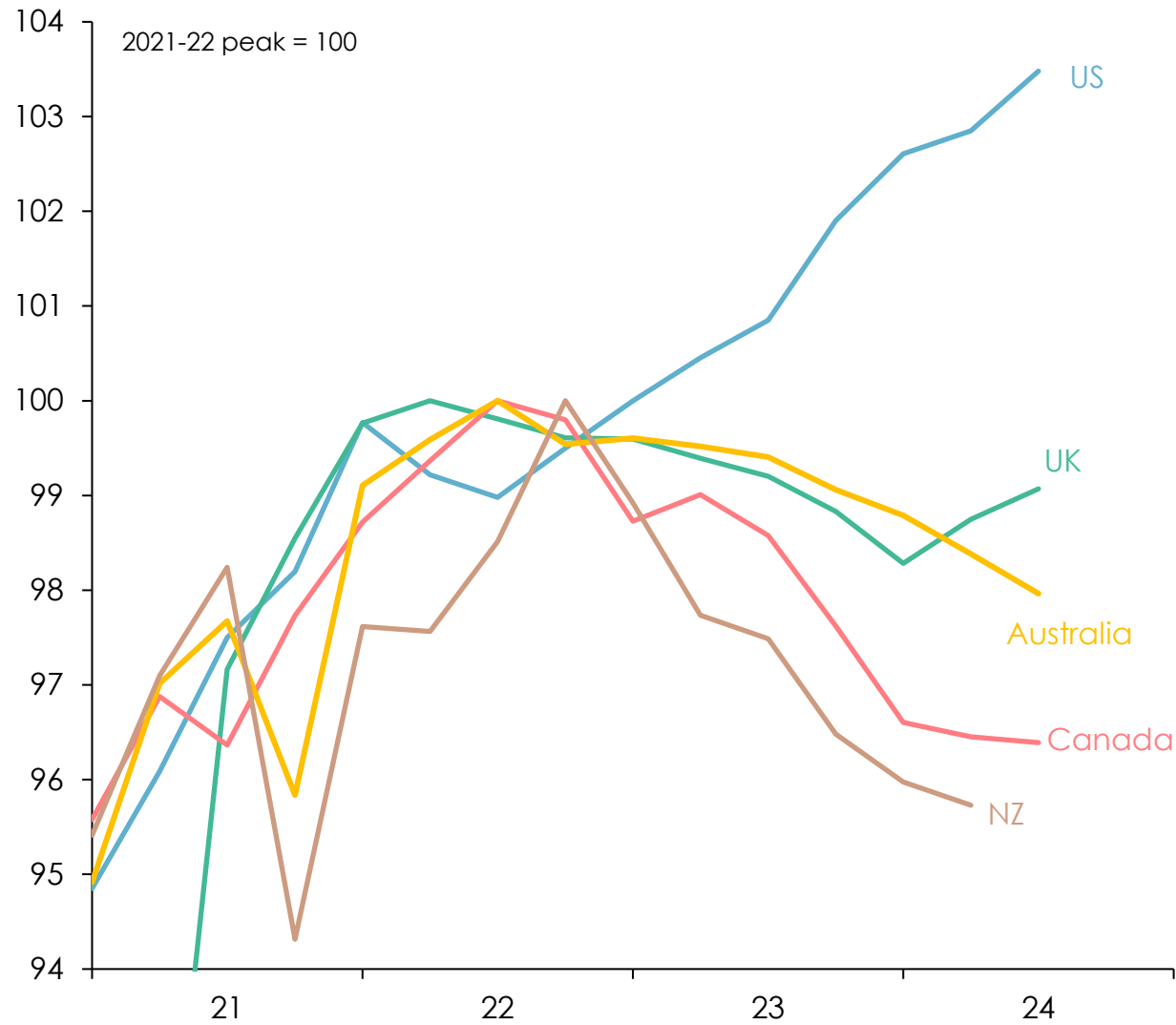
'Core' or 'underlying' inflation



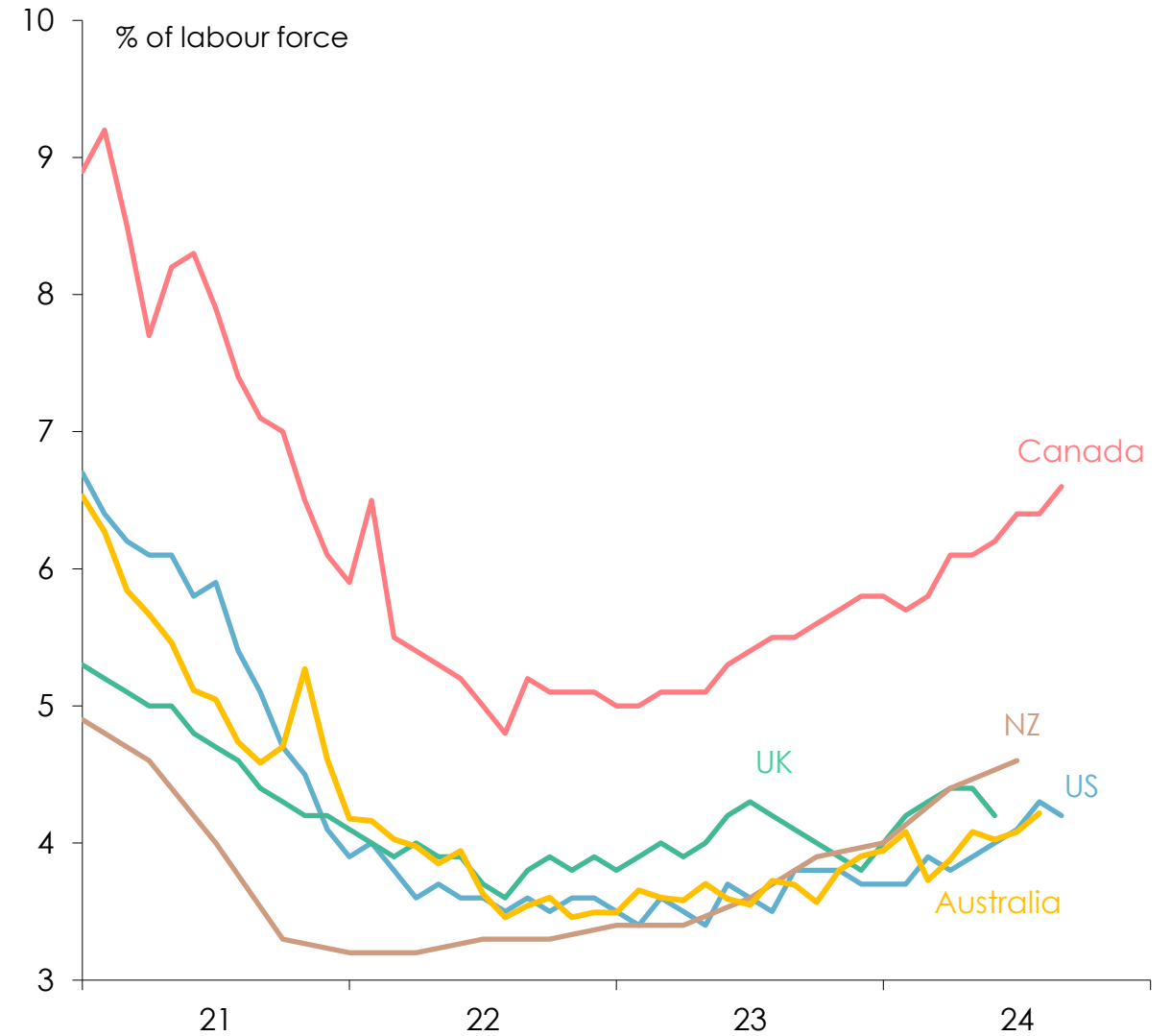
Note: 'Core' inflation in the US, UK and Canada is the annual change in the CPI excluding food & energy; 'underlying' inflation in Australia is the 'trimmed mean' and in NZ is derived from a statistical model. Sources: US [Bureau of Labor Statistics](#); [Statistics Canada](#); UK [Office for National Statistics](#); [ABS](#); [StatsNZ](#); [RBNZ](#).

But economic activity hasn't contracted as much in Australia as in NZ or Canada, and unemployment has risen by less than in the US or UK

Real per capita gross domestic product

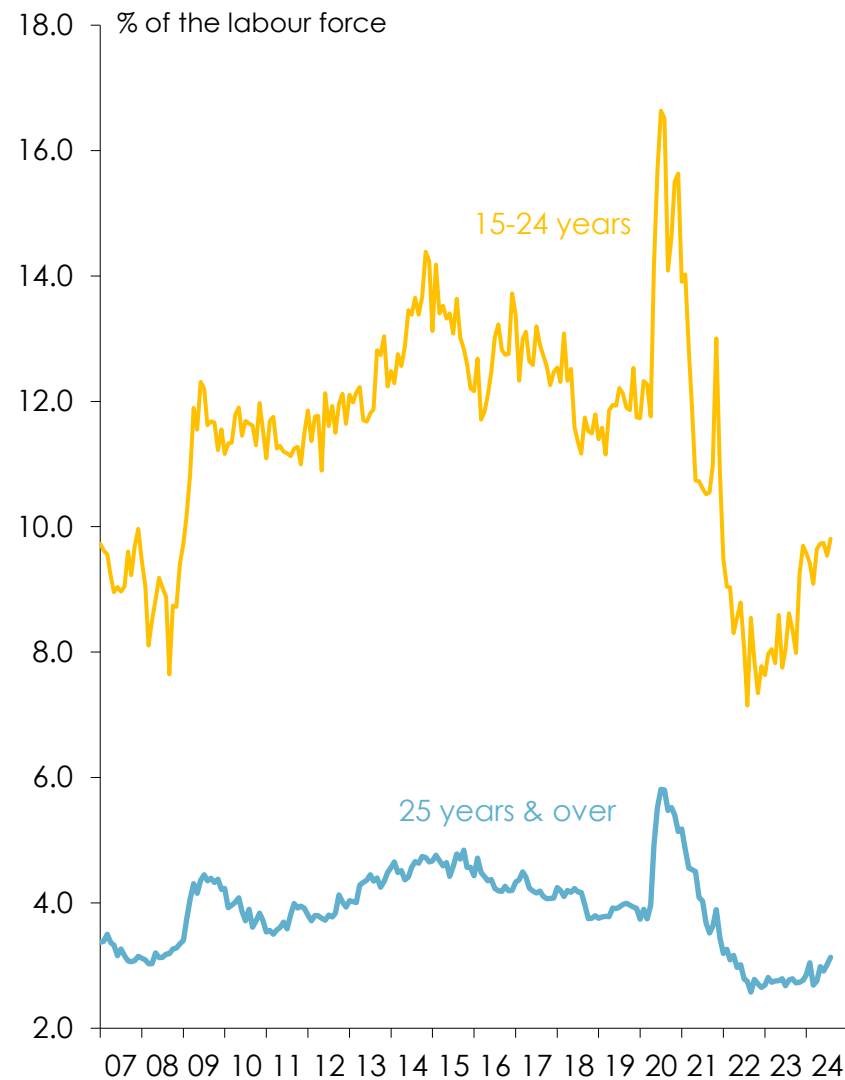


Unemployment rates

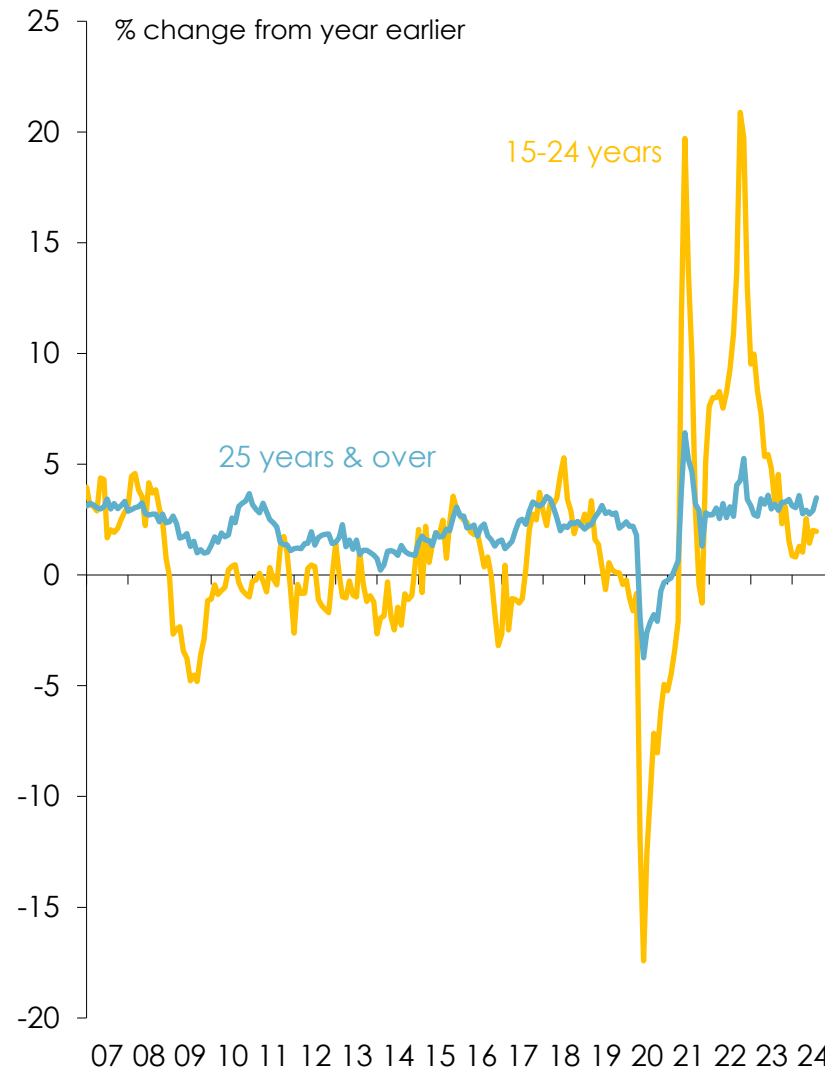


The rise in unemployment in Australia has been concentrated among 15-24 year-olds – because there are a lot more of them

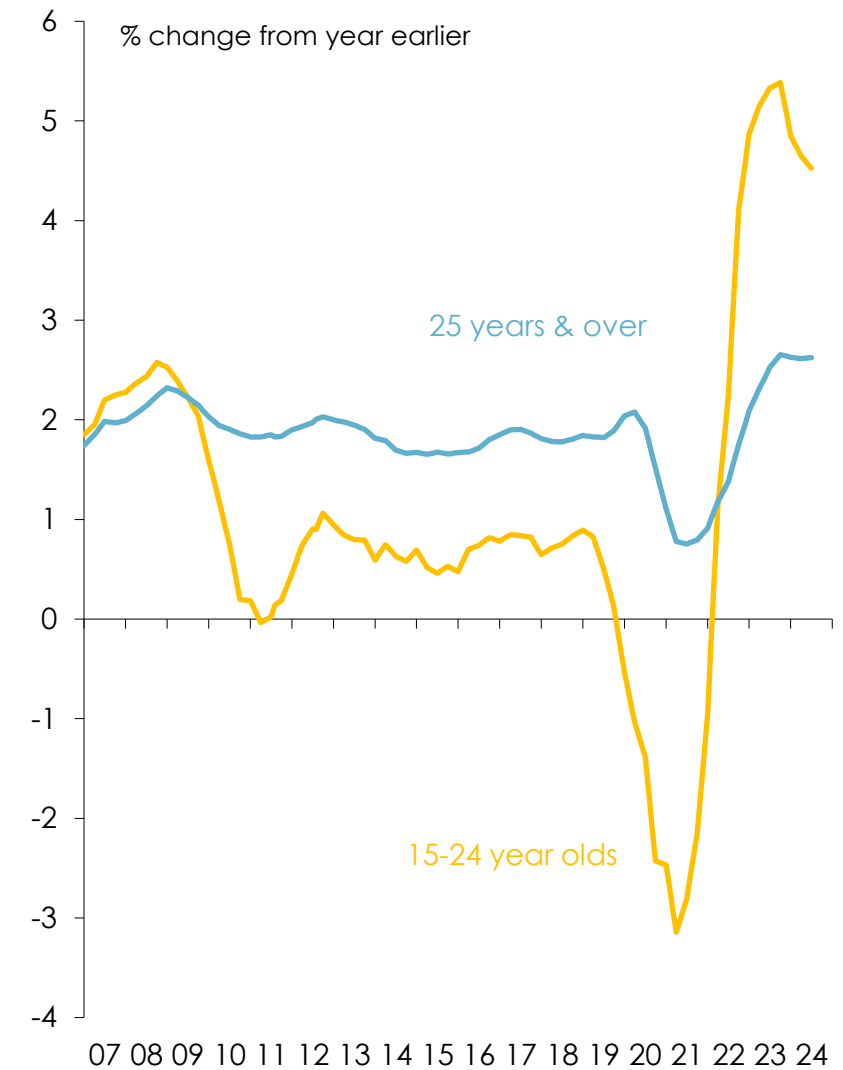
Unemployment rates by age



Employment growth by age



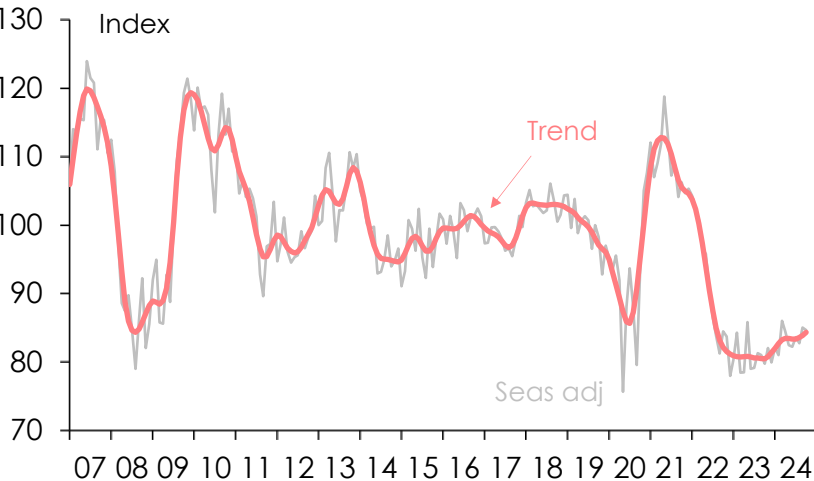
Working-age population growth by age



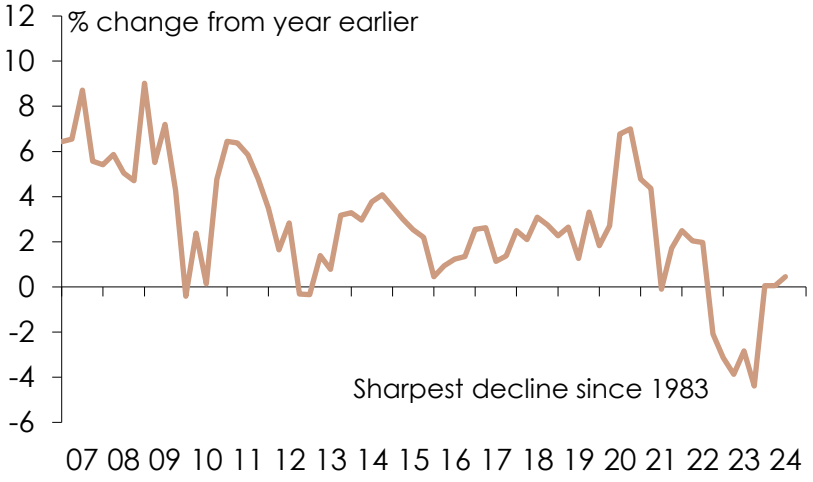
Sources: ABS, [Labour Force](#), July 2024, and ABS, [Labour Force, Australia, Detailed](#), July 2024.

Household finances are under pressure from falling real incomes, rising interest rates and an increasing income tax burden

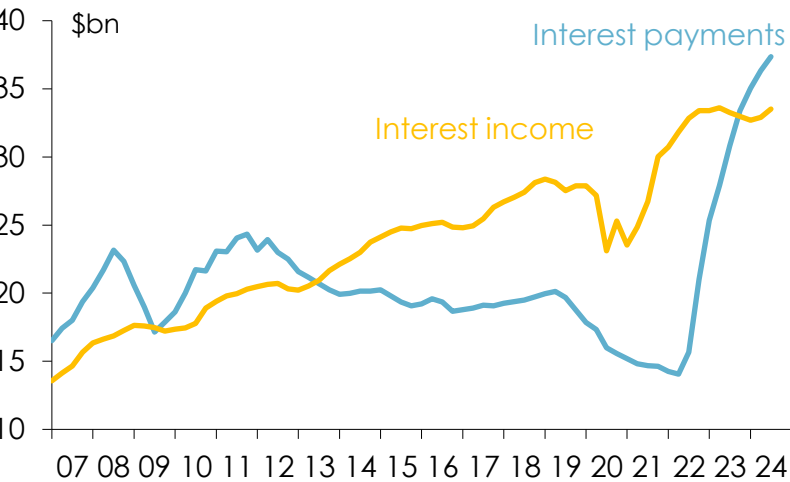
Consumer confidence



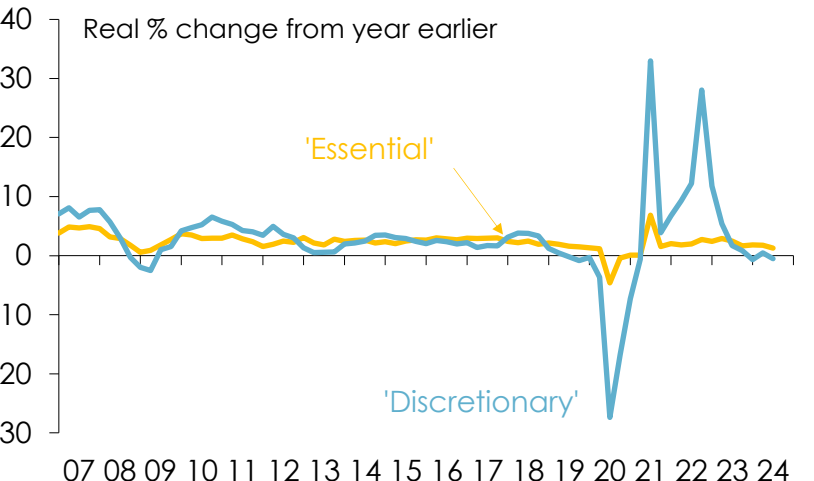
Real household disposable income



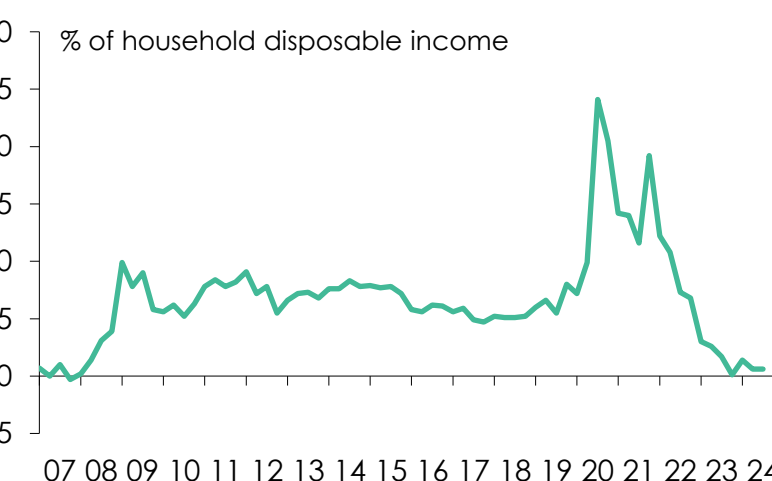
Interest income and payments



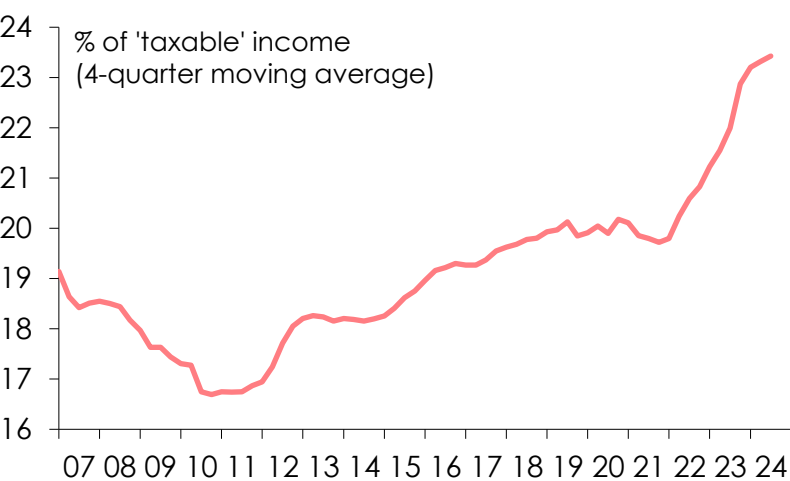
Real consumer spending



Household saving



Personal income tax payments

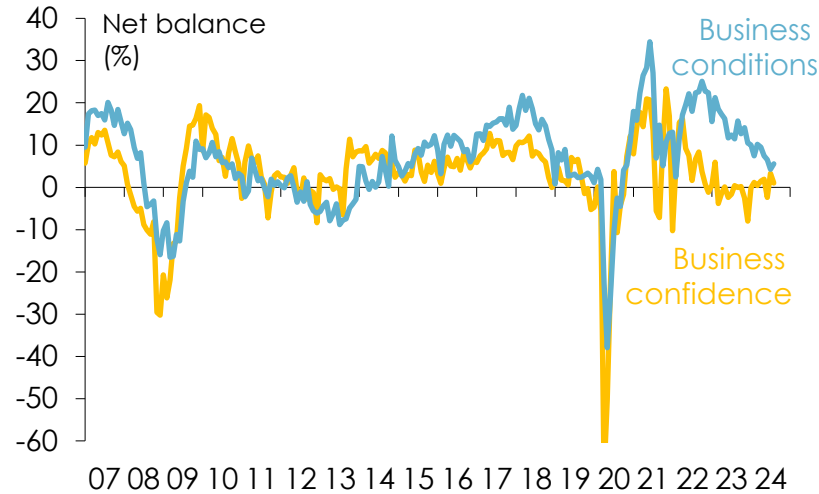


Sources: Westpac, [Westpac-MI Consumer Sentiment](#), August 2024; ABS, [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2024.

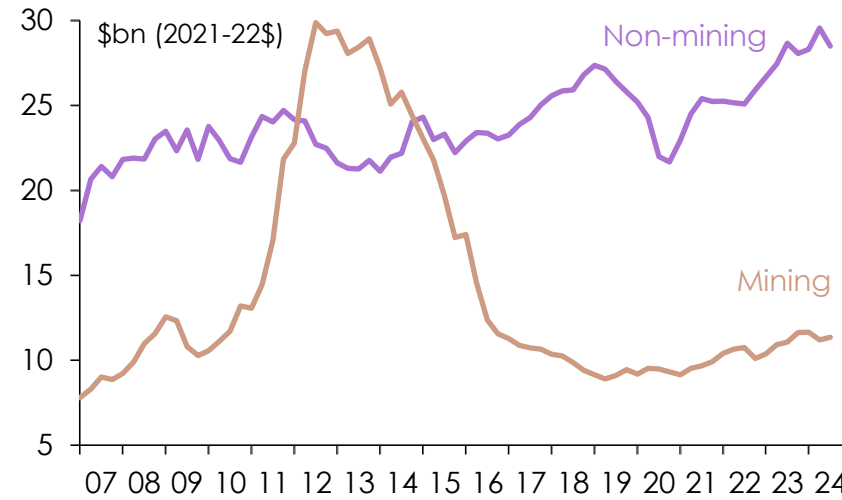
Note: 'essential' spending comprises housing, food, fuel & power, medical & health care, ground transport, communications and education services; 'taxable' income is gross household income excluding gross operating surplus of dwellings, workers' compensation premiums and interest paid by unincorporated enterprises.

Business investment is picking up despite the deterioration in business sentiment

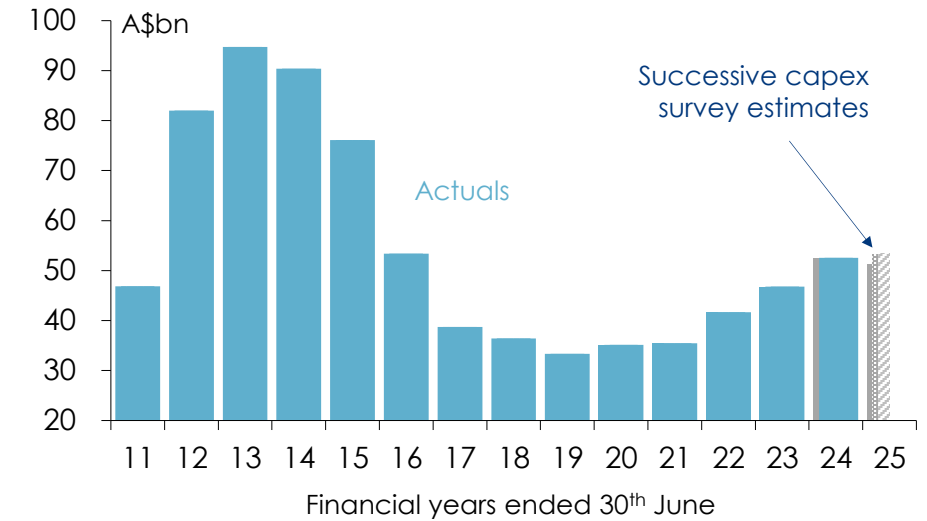
Business conditions & confidence



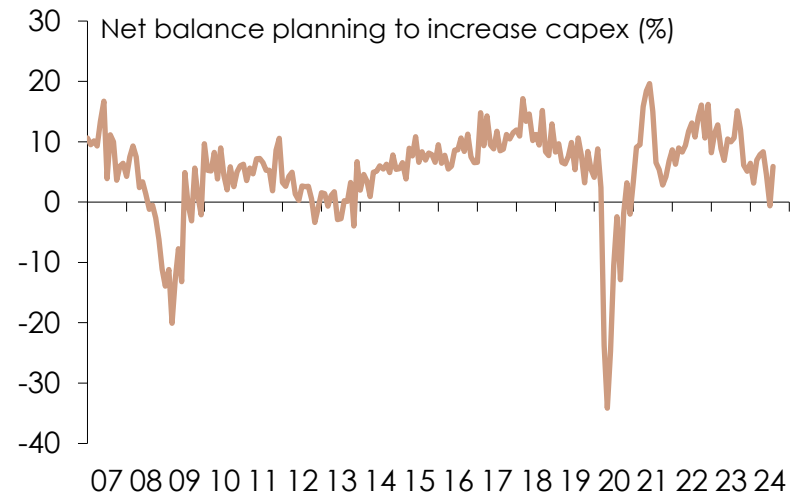
Capital expenditure by sector



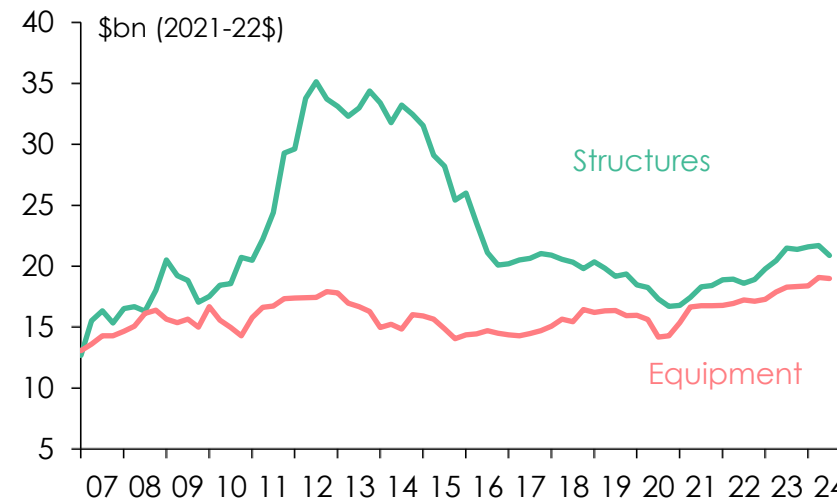
ABS capex intentions - mining



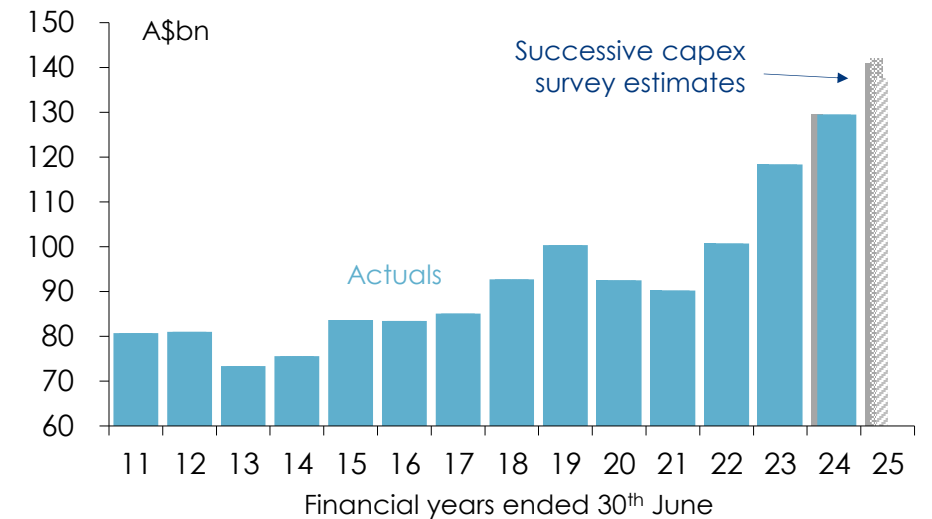
NAB Survey capex intentions



Capital expenditure by asset



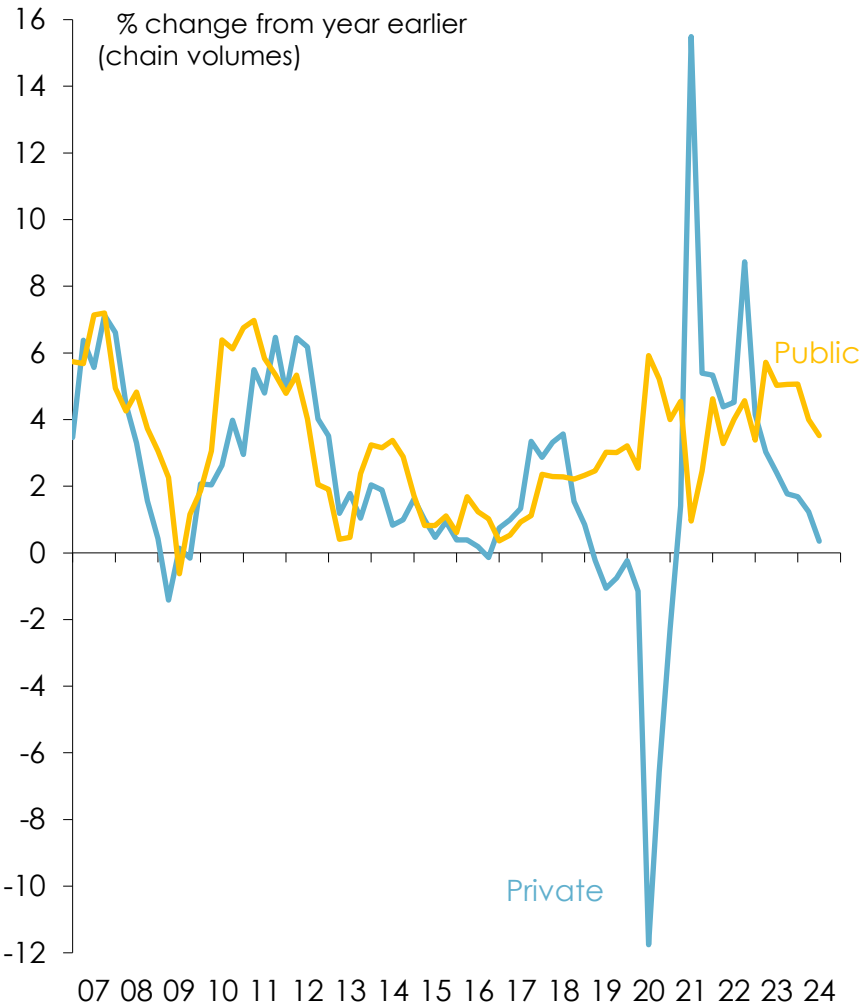
ABS capex intentions - non-mining



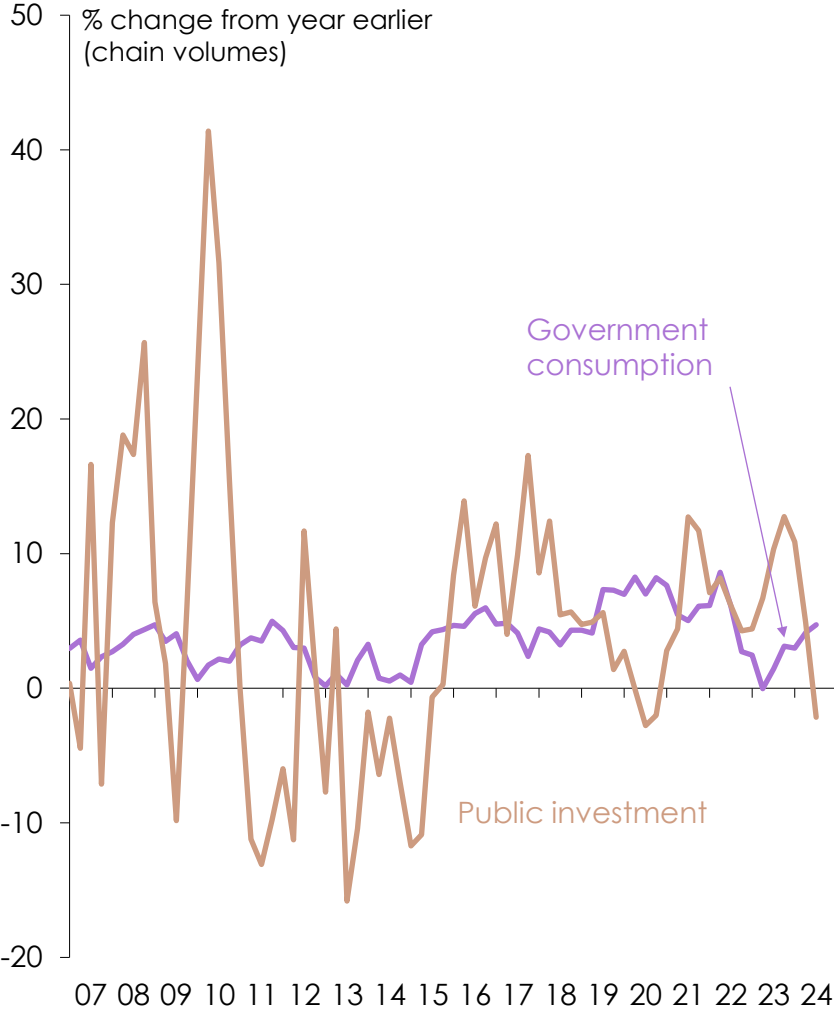
Sources: NAB, [Monthly Business Survey](#), August 2024; ABS, [Private New Capital Expenditure and Expected Expenditure](#), June quarter 2024. Note: estimates of capex in 2024-25 assume that successive expectations are realized to the same extent as they have been on average over the five years to 2023-24.

The Reserve Bank is right in noting the contribution made by public sector spending to the level of and growth in aggregate demand

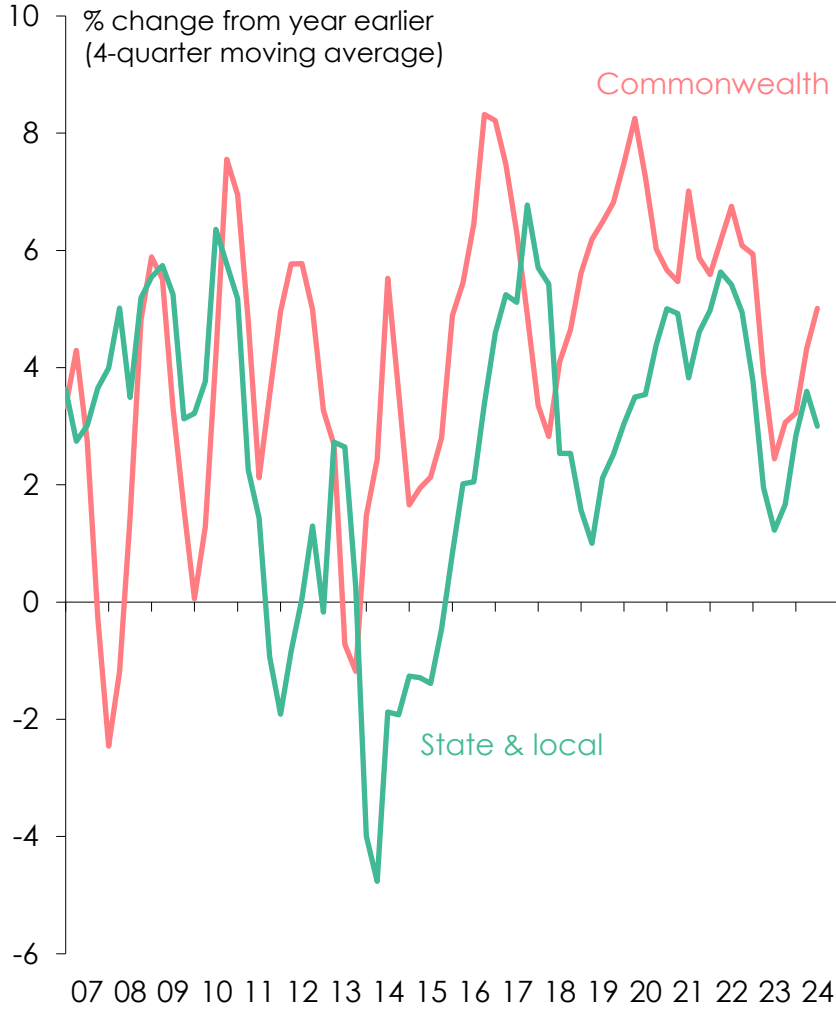
Private vs public sector demand



Government consumption and public investment



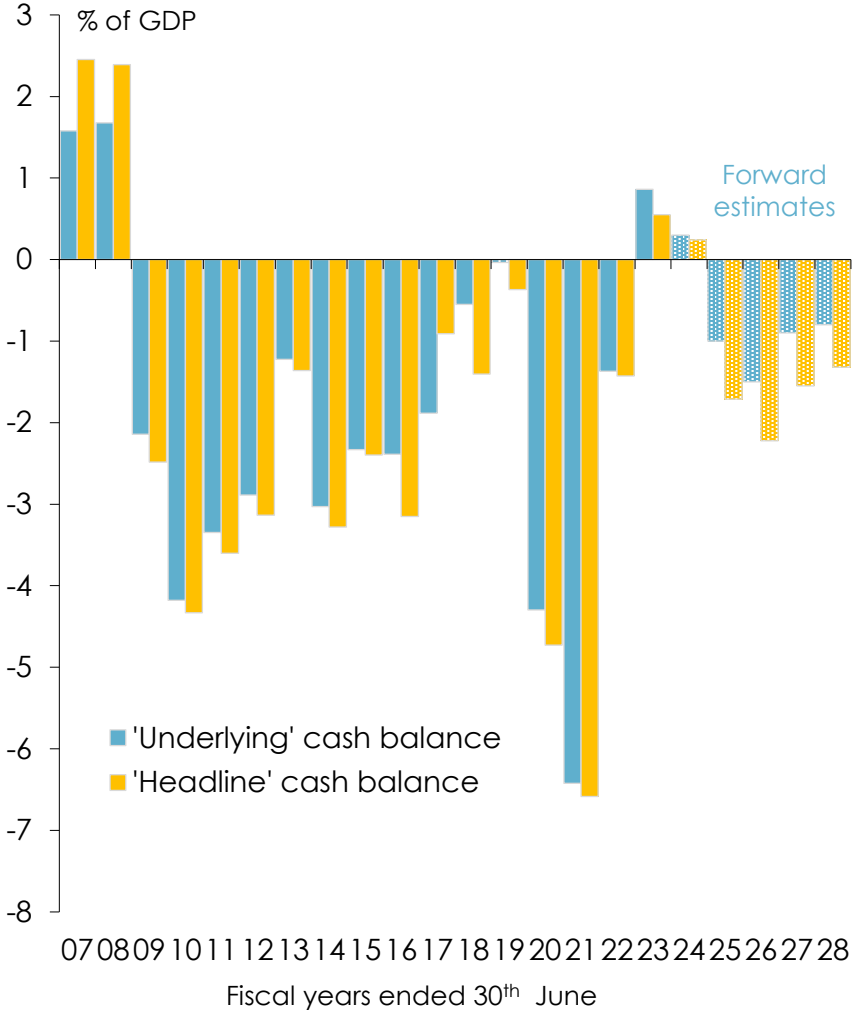
Commonwealth vs state and local public demand



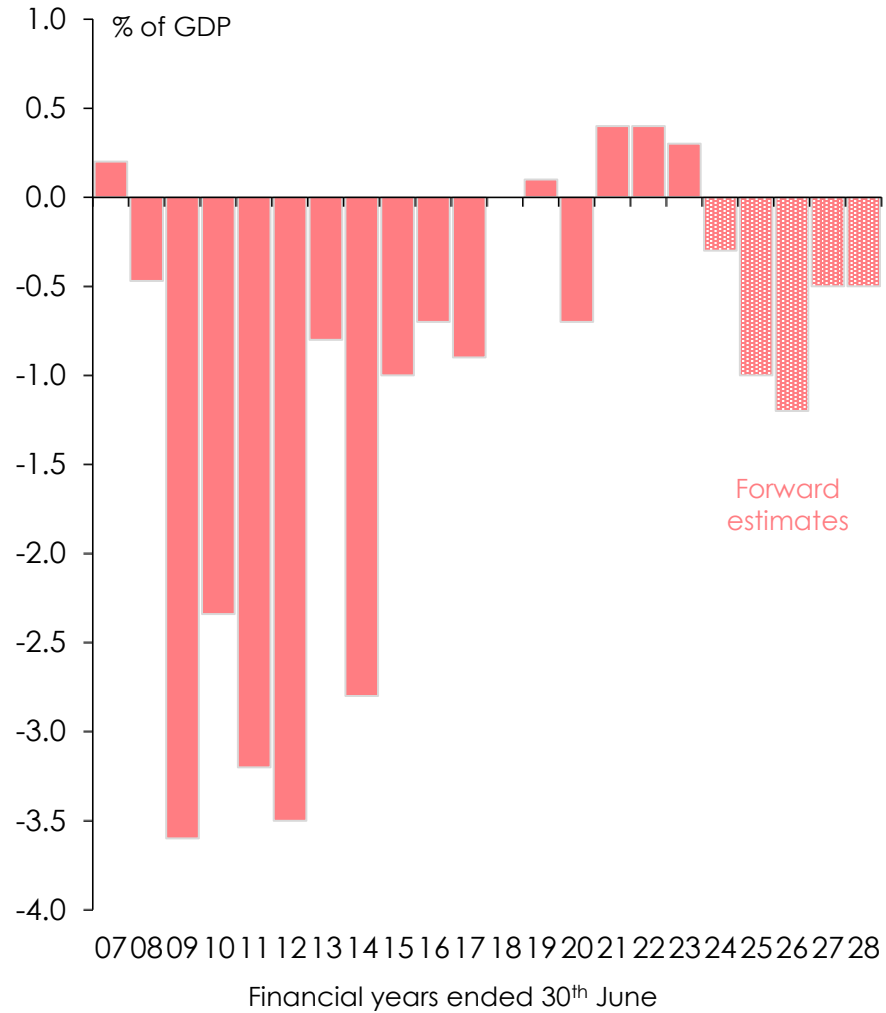
Note: 'demand' in these charts means 'expenditure on goods and services' (as recorded in the national accounts), and does not include cash transfers to individuals, businesses or other governments). Excludes transactions in second-hand assets between the public and private sectors. Includes public financial and non-financial corporations. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2024.

Federal and state & territory fiscal policy will become more expansionary in 2024-25 and remain so in subsequent years

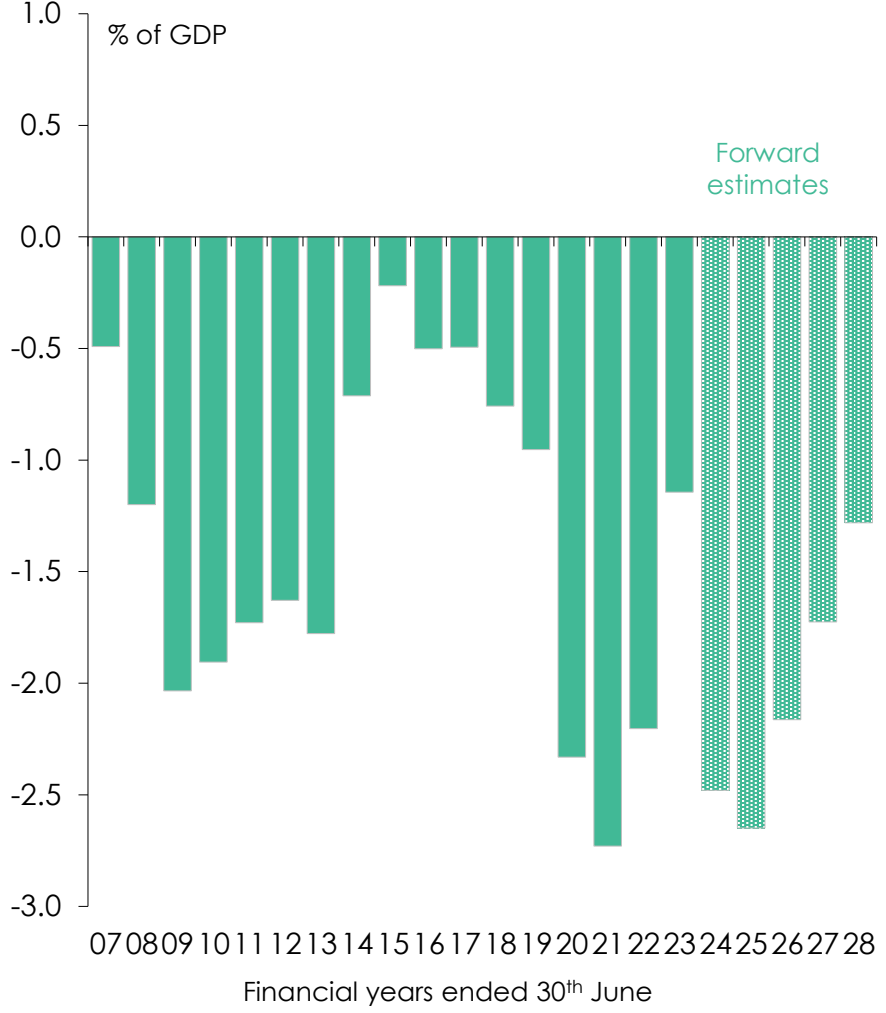
Commonwealth government budget balance



Commonwealth government 'structural' budget balance



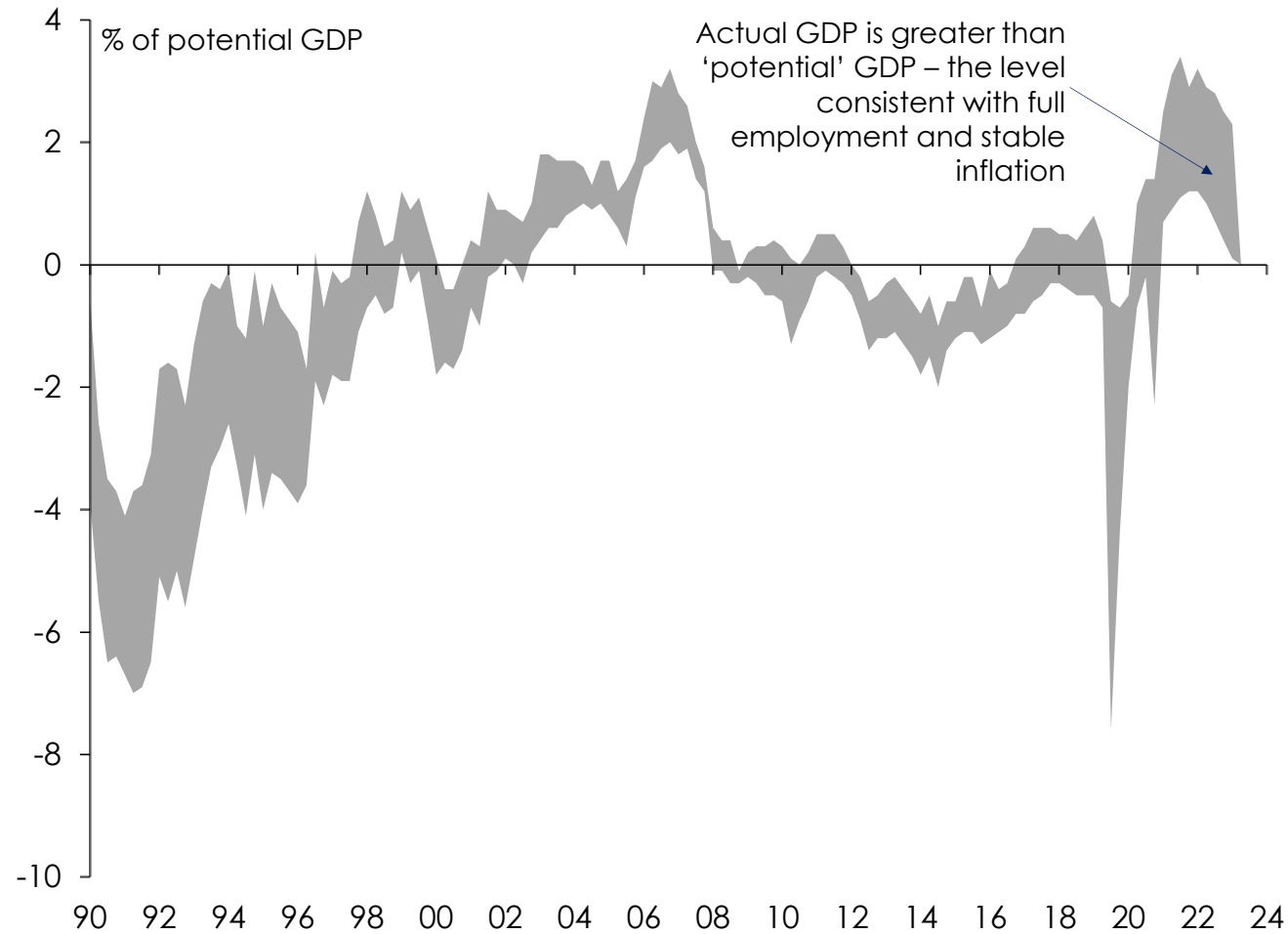
State and territory cash budget balances



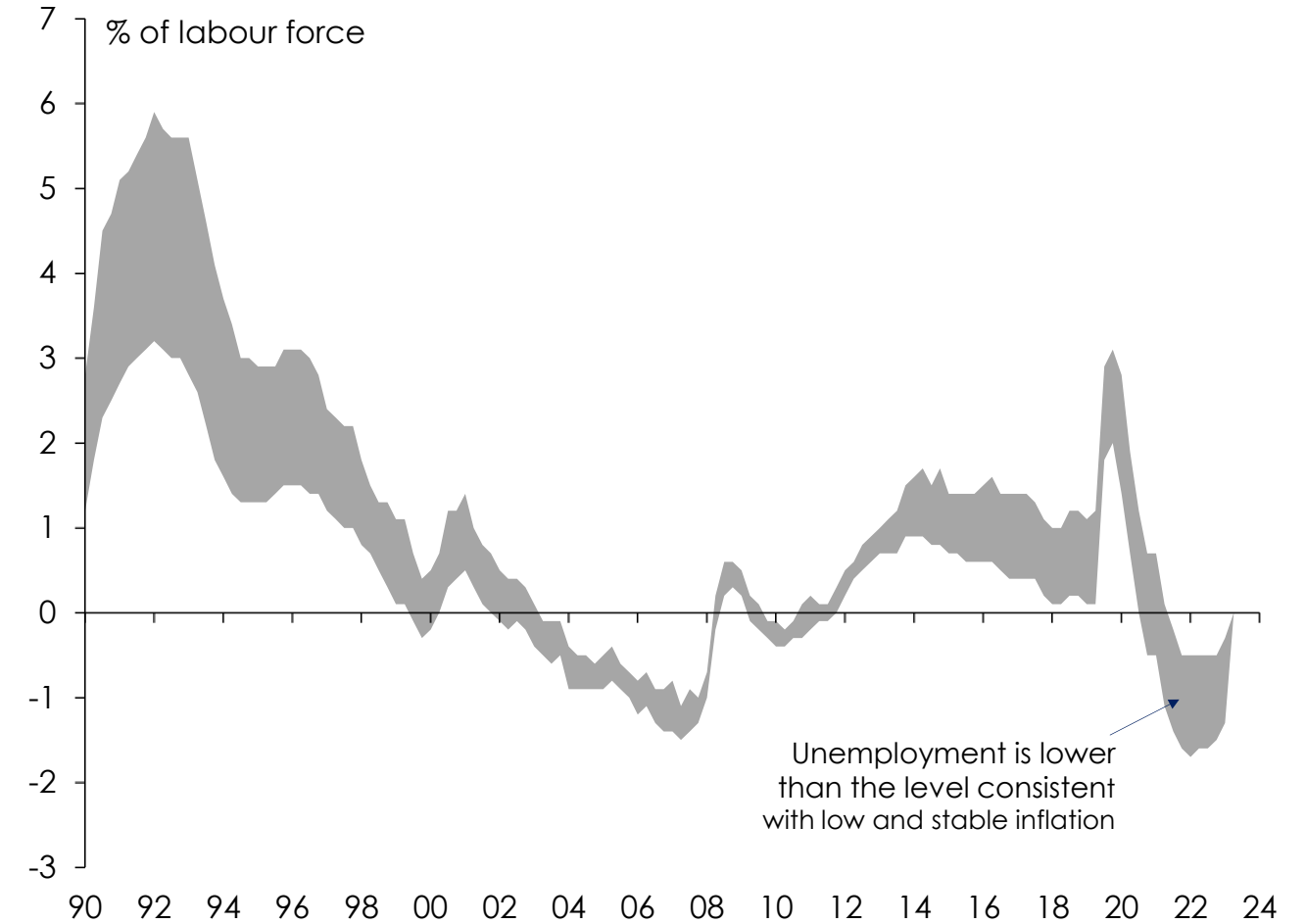
Note: Commonwealth budget data are for the 'general government' sector only; State and territory budget data include public non-financial public corporations. 2027-28 estimates for states and territories excludes Tasmania. Sources: Australian Government, [2024-25 Budget Paper No. 1: Budget Strategy and Outlook](#) and equivalents for states and territories (or 2023-24 Mid-Year Review for Tasmania, which is yet to present its 2024-25 Budget).

Despite the slowing in economic growth and rise in unemployment, the RBA assesses that the economy is still running at 'above normal' capacity

Estimates of the 'output gap' (the difference between actual and 'potential' real GDP)



Estimates of the difference between actual unemployment and 'full employment'

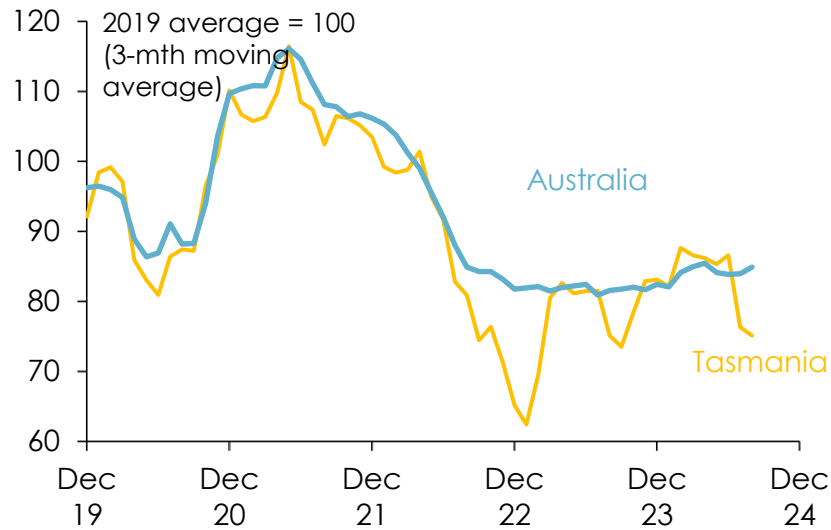


Note: Shaded regions show illustrative ranges of central gap estimates from a range of models encompassing different measures and definitions of 'potential GDP' and 'full employment'; the estimates are subject to 'substantial uncertainty'. Sources: Reserve Bank of Australia, [Statement on Monetary Policy: Assessment of spare capacity](#), 6th August 2024.

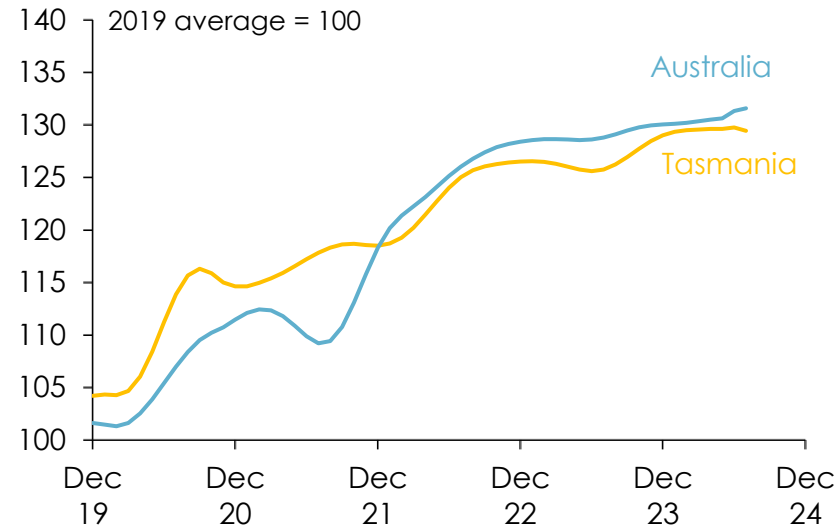
Tasmania

On a wide range of metrics, Tasmania is no longer 'leading the nation'

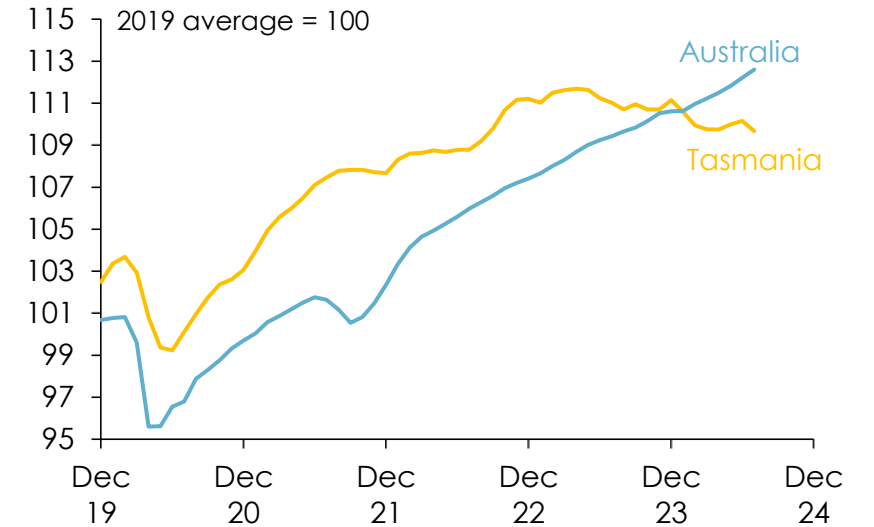
Consumer confidence



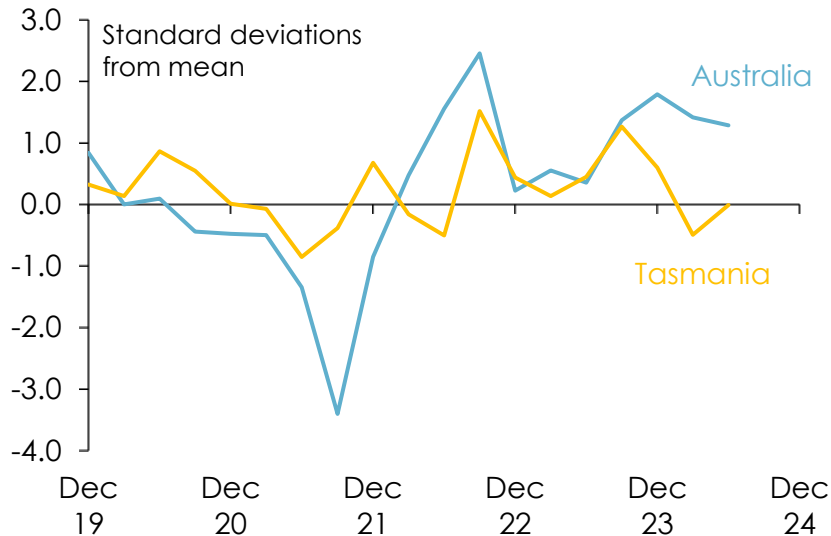
Retail sales



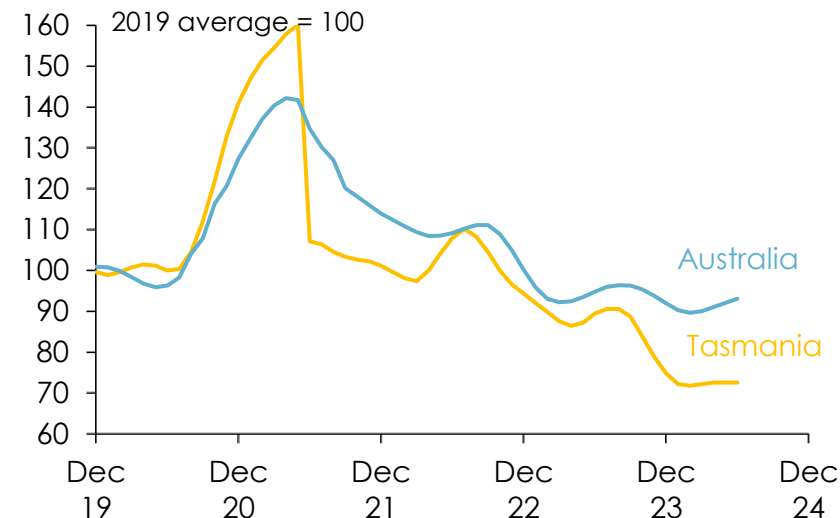
Employment



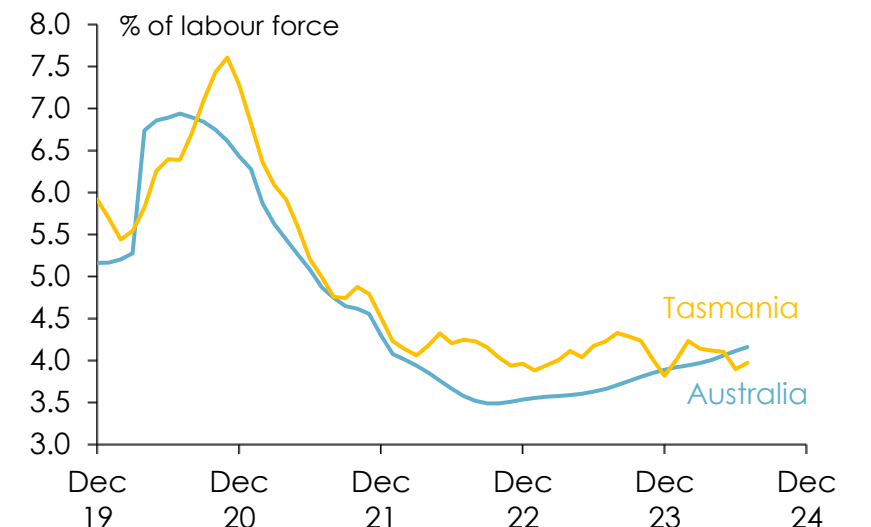
Business confidence



Residential building approvals



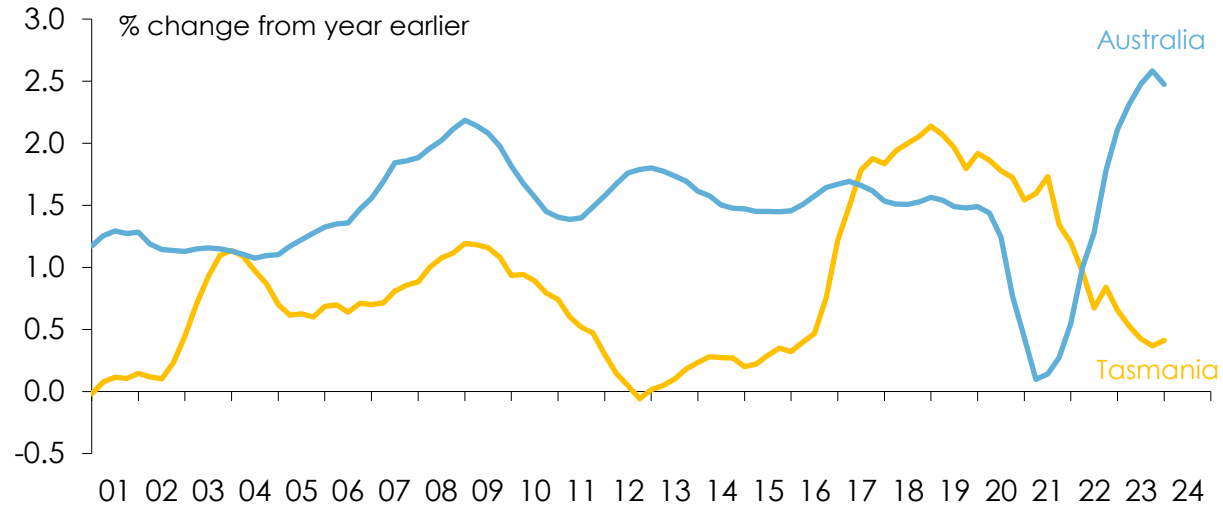
Unemployment



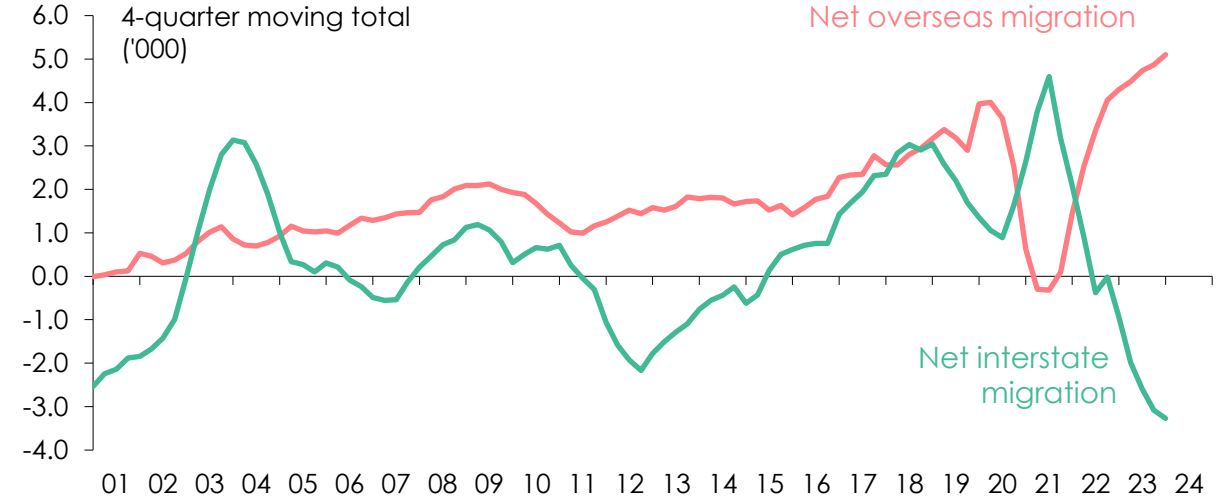
Note: all data except for consumer and business confidence are derived from trend estimates. Sources: National Australia Bank, [Quarterly Business Survey](#), June quarter 2024; Westpac-Melbourne Institute, [Westpac-MI Consumer Sentiment](#), August 2024; ABS, [Retail trade](#), July 2024; [Building Approvals](#), June 2024; and [Labour Force](#), July 2024.

A major difference between Tasmania and the rest of Australia over the past two years has been population growth

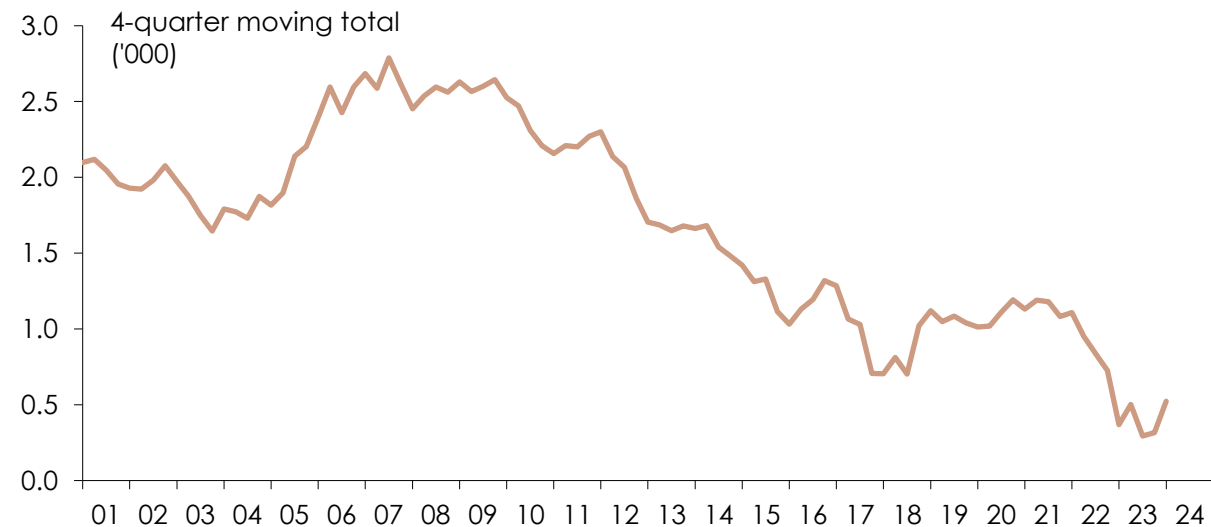
Population growth



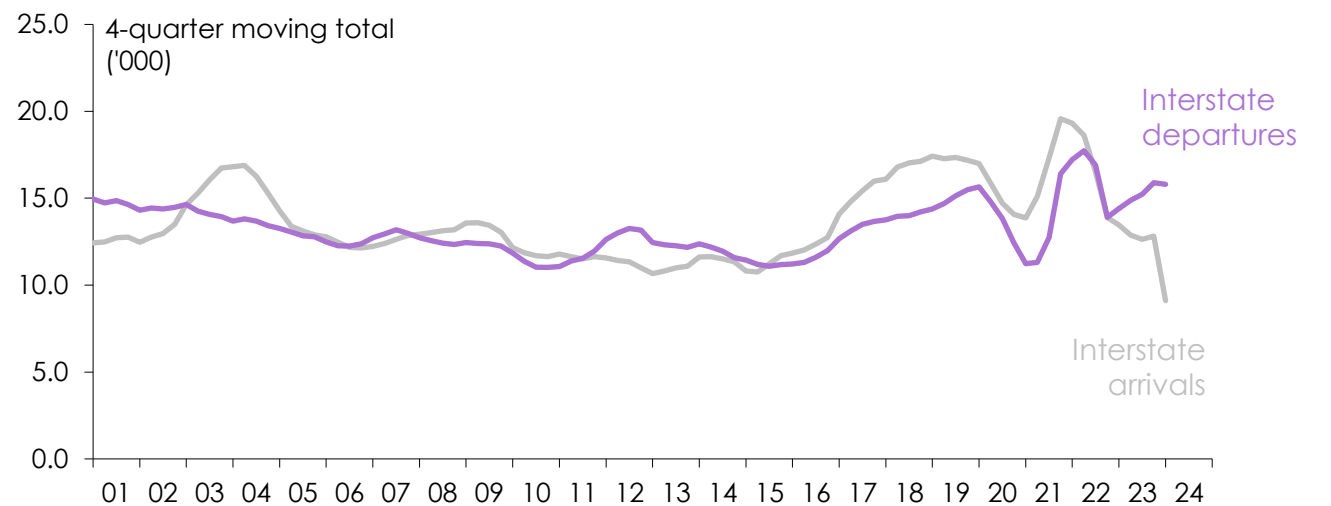
Net migration to Tasmania



Natural increase (births minus deaths)



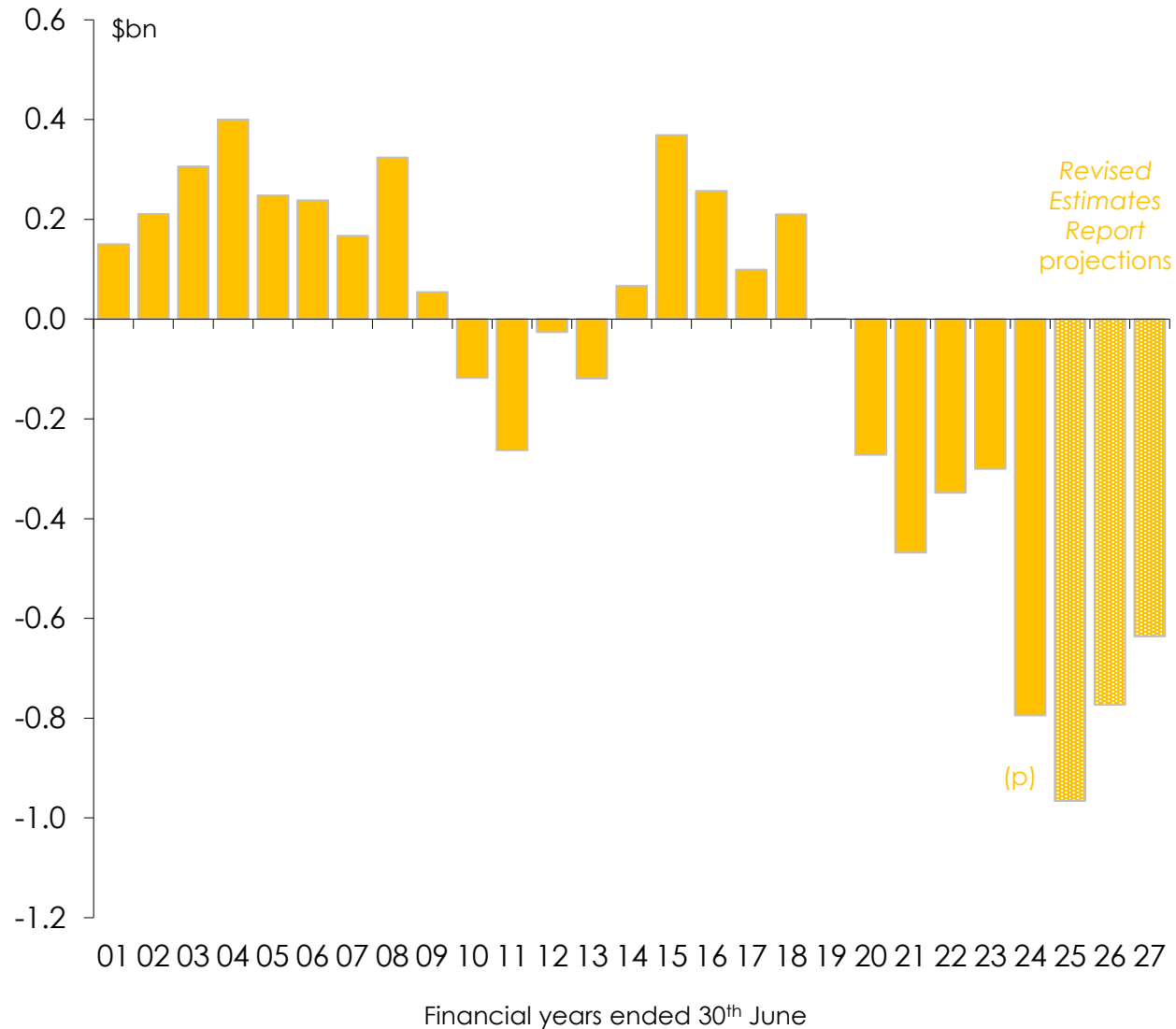
Interstate arrivals and departures



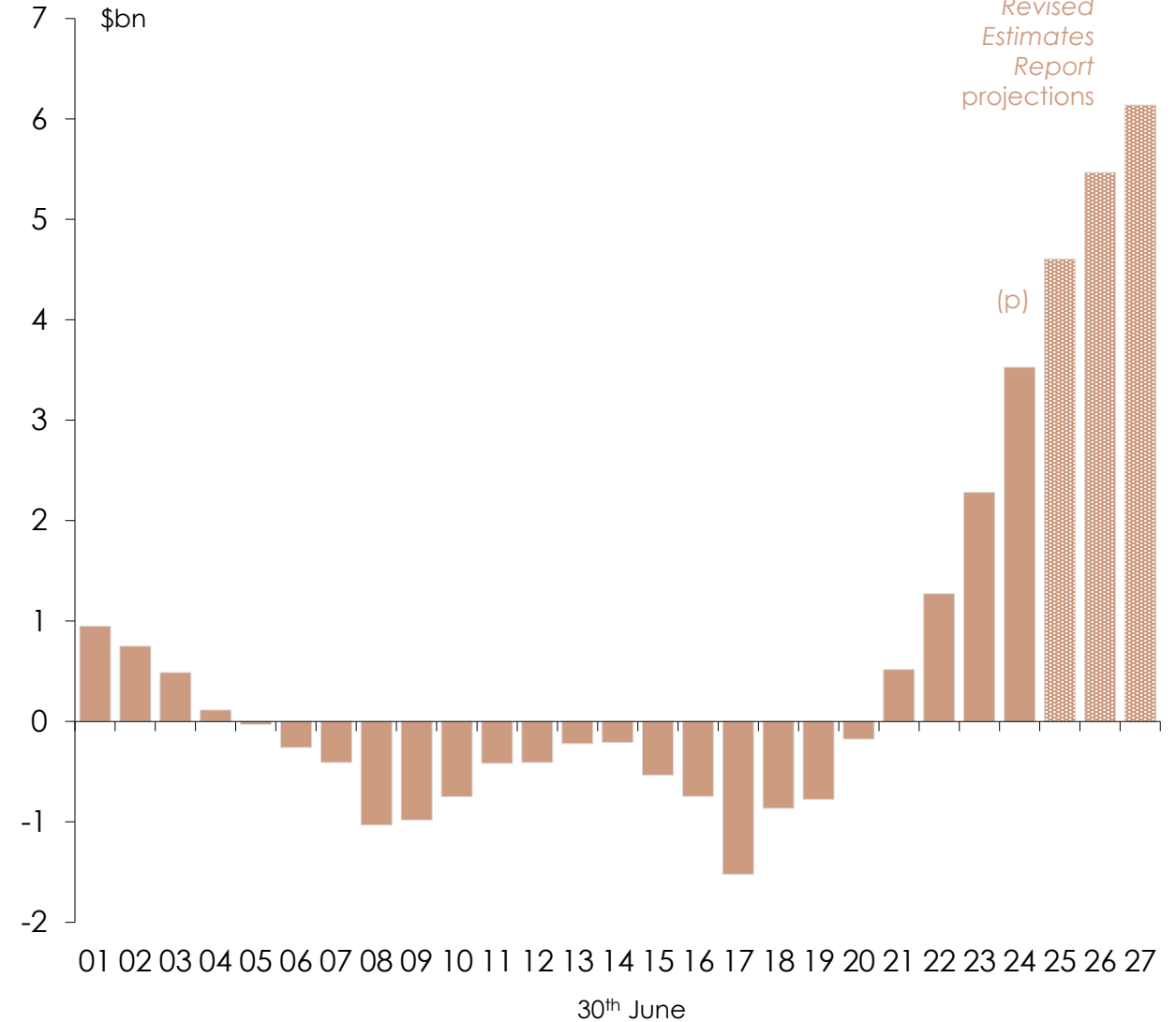
Sources: ABS, [National, state and territory population](#), December 2023.

Tasmania's 'general government' finances have deteriorated sharply over the past six years, and will do so further over the next three years

'General government' sector cash balance



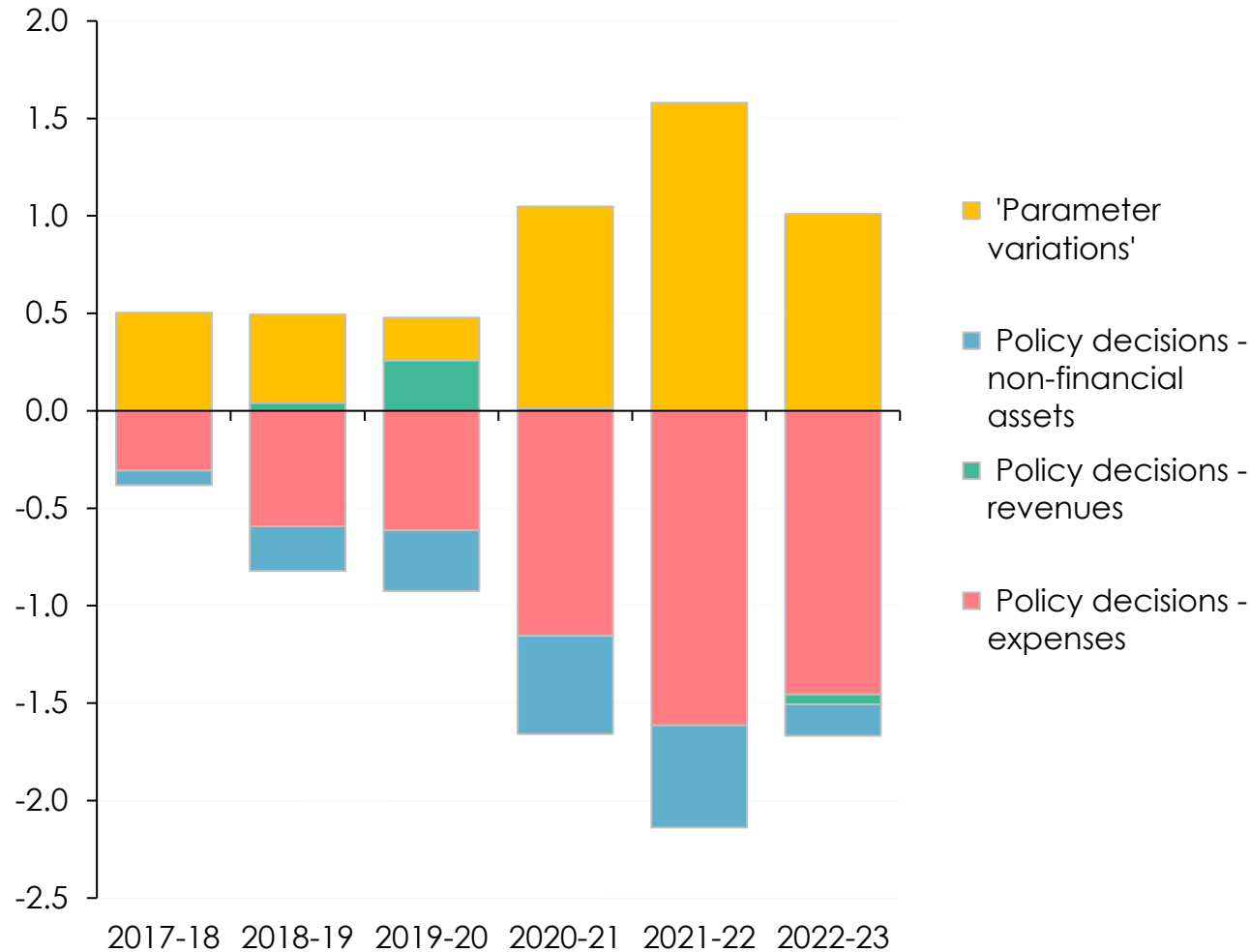
'General government' sector net debt



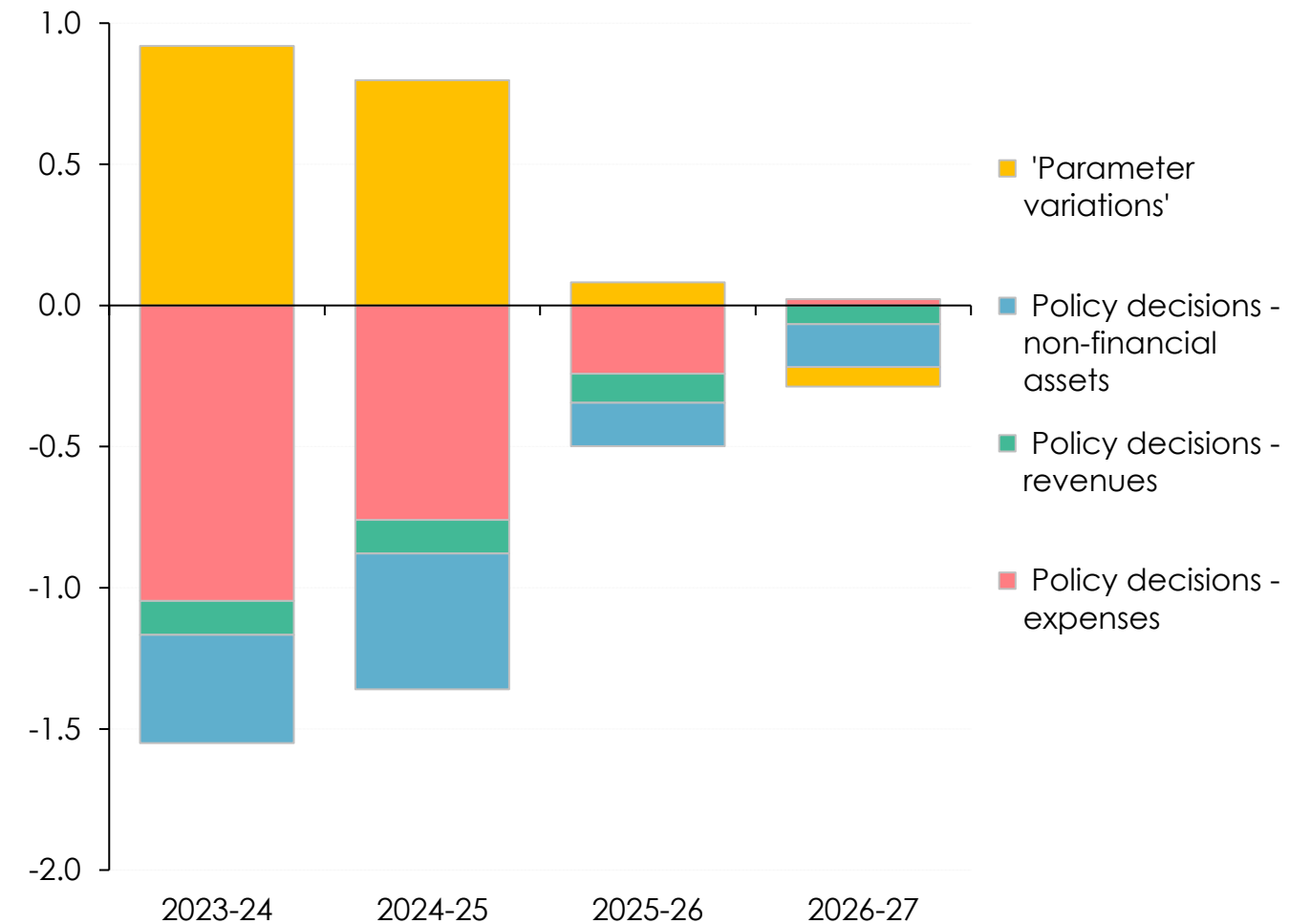
(p) Preliminary. Sources: Tasmanian Treasury, [Treasurer's Annual Financial Report 2022-23](#) and previous issues; [2023-24 Revised Estimates Report](#) and [Preliminary Outcomes Report 2023-24](#); [Independent Review of Tasmania's State Finances](#), August 2024.

The deterioration in Tasmania's public sector finances is entirely the result of conscious decisions to increase spending and cut taxes

Sources of changes in the fiscal balance from initial estimates, 2017-18 to 2022-23



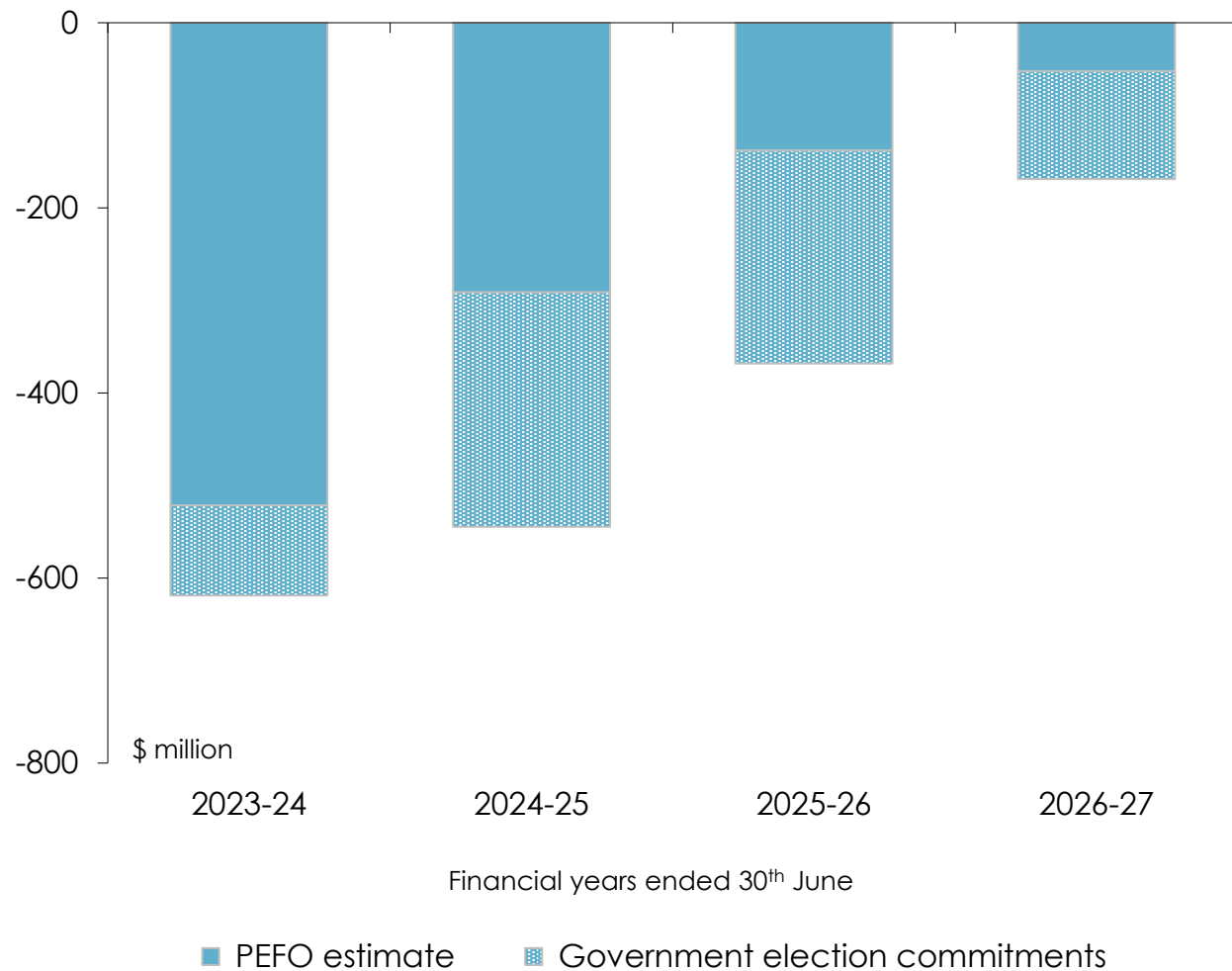
Sources of changes in forward estimates of the fiscal balance from initial estimates, 2023-24 to 2026-27



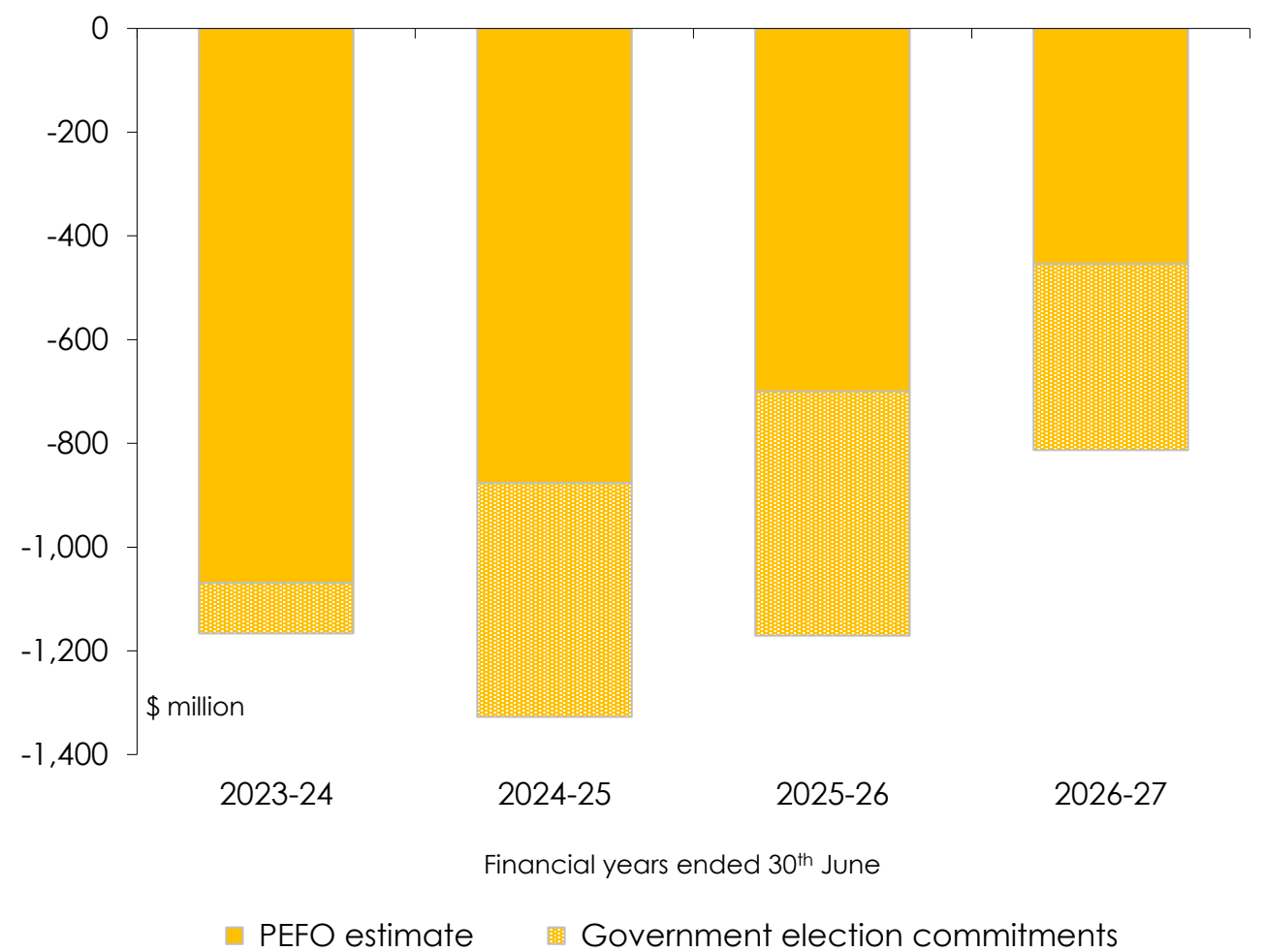
Note: 'Parameter variations' are changes in economic and other assumptions used in constructing forward estimates of expenses and revenues (including changes in GST revenues and other Commonwealth grants). 'Policy decisions' are conscious government decisions to increase or reduce operating expenses, 'purchases of non-financial assets' (ie, capital expenditures) and revenues. Source: [Independent Review of Tasmania's State Finances](#), August 2024.

And the Government continued doing that during the election campaign earlier this year, despite warnings from State Treasury

Impact of Government 2024 election commitments on the 'general government' net operating balance



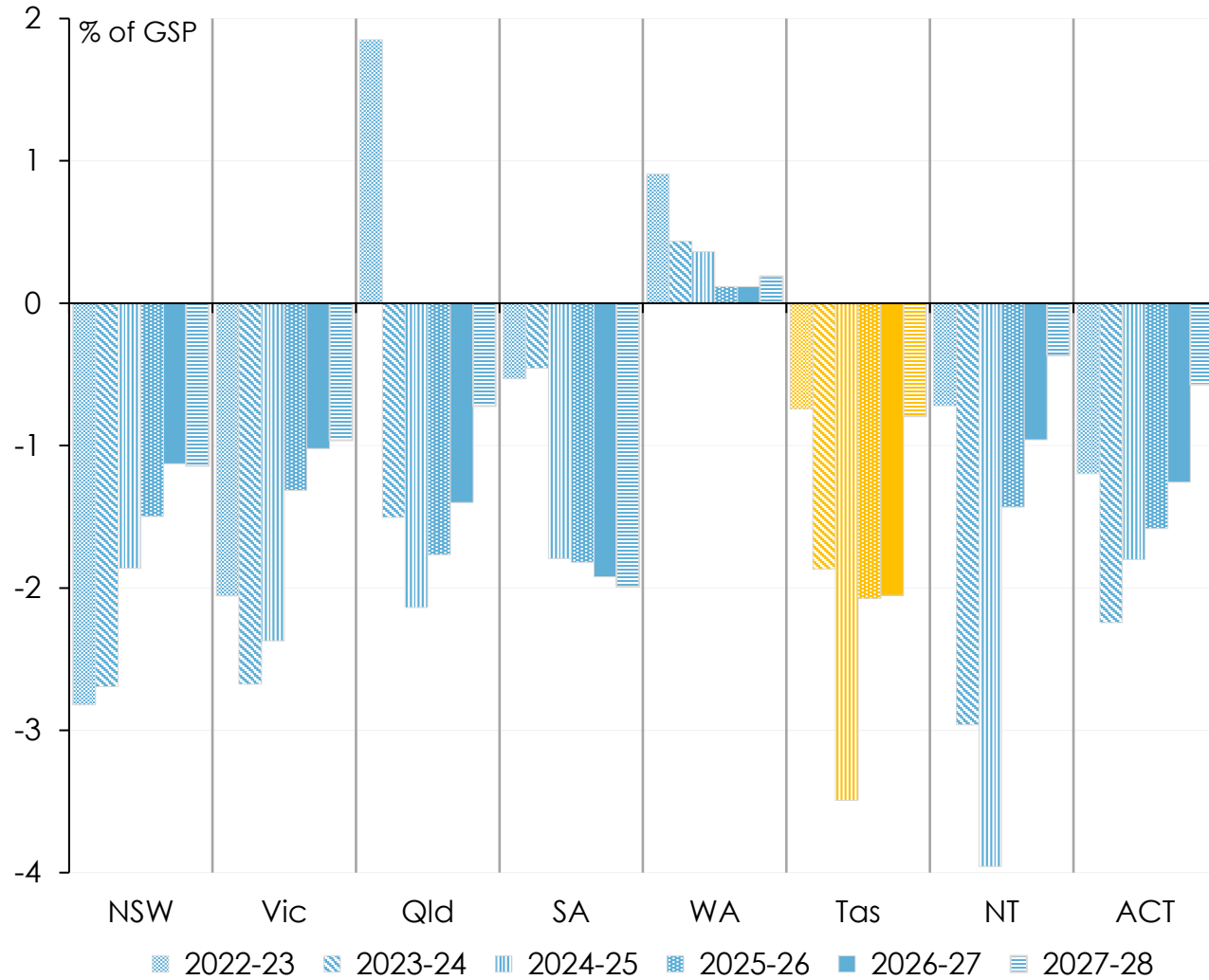
Impact of Government 2024 election commitments on the 'general government' fiscal balance



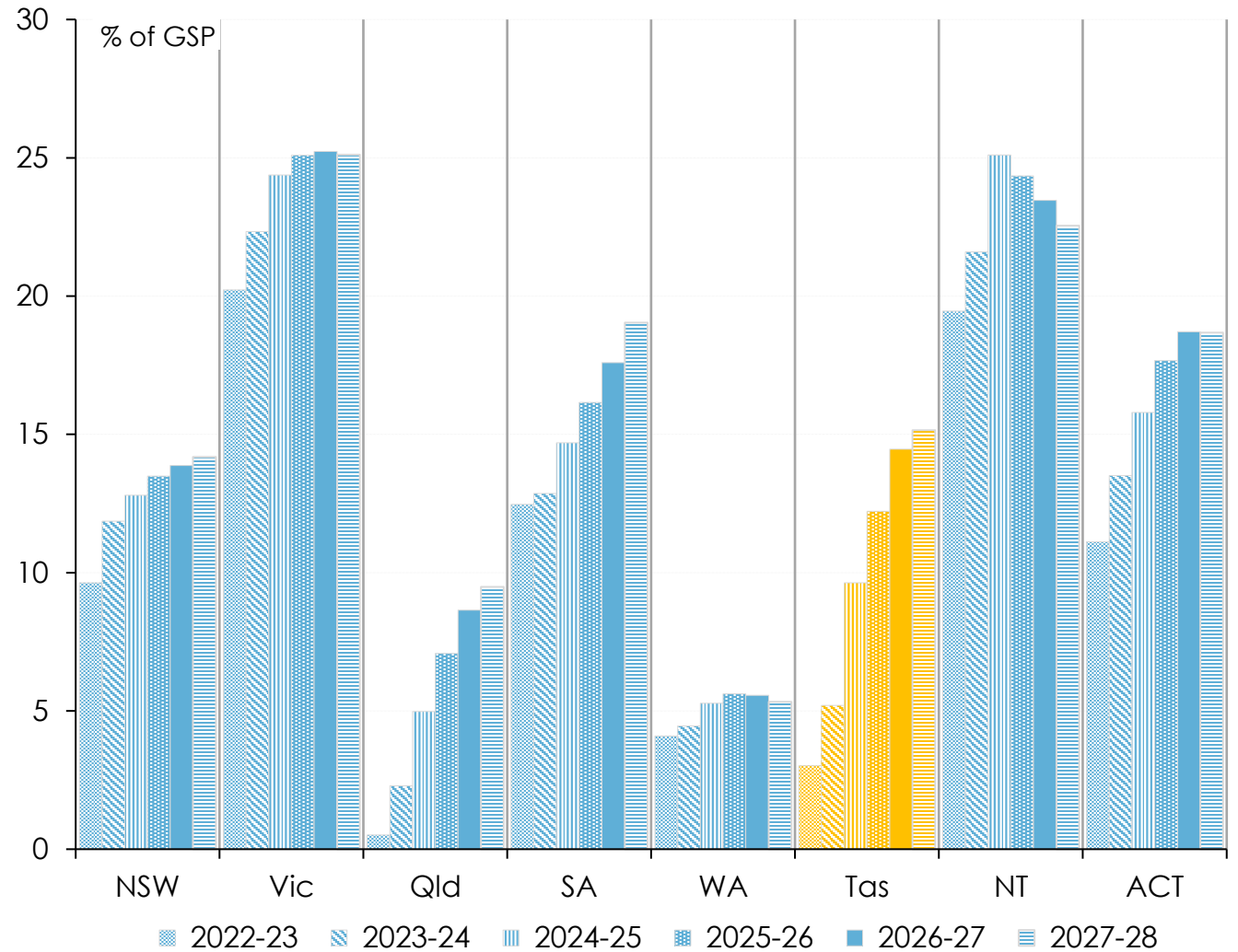
Sources: Tasmanian Treasury, [Pre-Election Financial Outlook Report - February 2024](#); Hon. Michael Ferguson MP, Treasurer, [Liberals Election Costings Confirm 2030 Strong Plan Can Be Delivered Without Increasing Taxes](#), March 2024; [Independent Review of Tasmania's State Finances](#), August 2024.

Tasmania's general government sector cash balance and net debt positions aren't the worst in Australia, but they're no longer the best, either

'General government' cash balances, Tasmania and other states and territories, 2022-23 to 2027-28



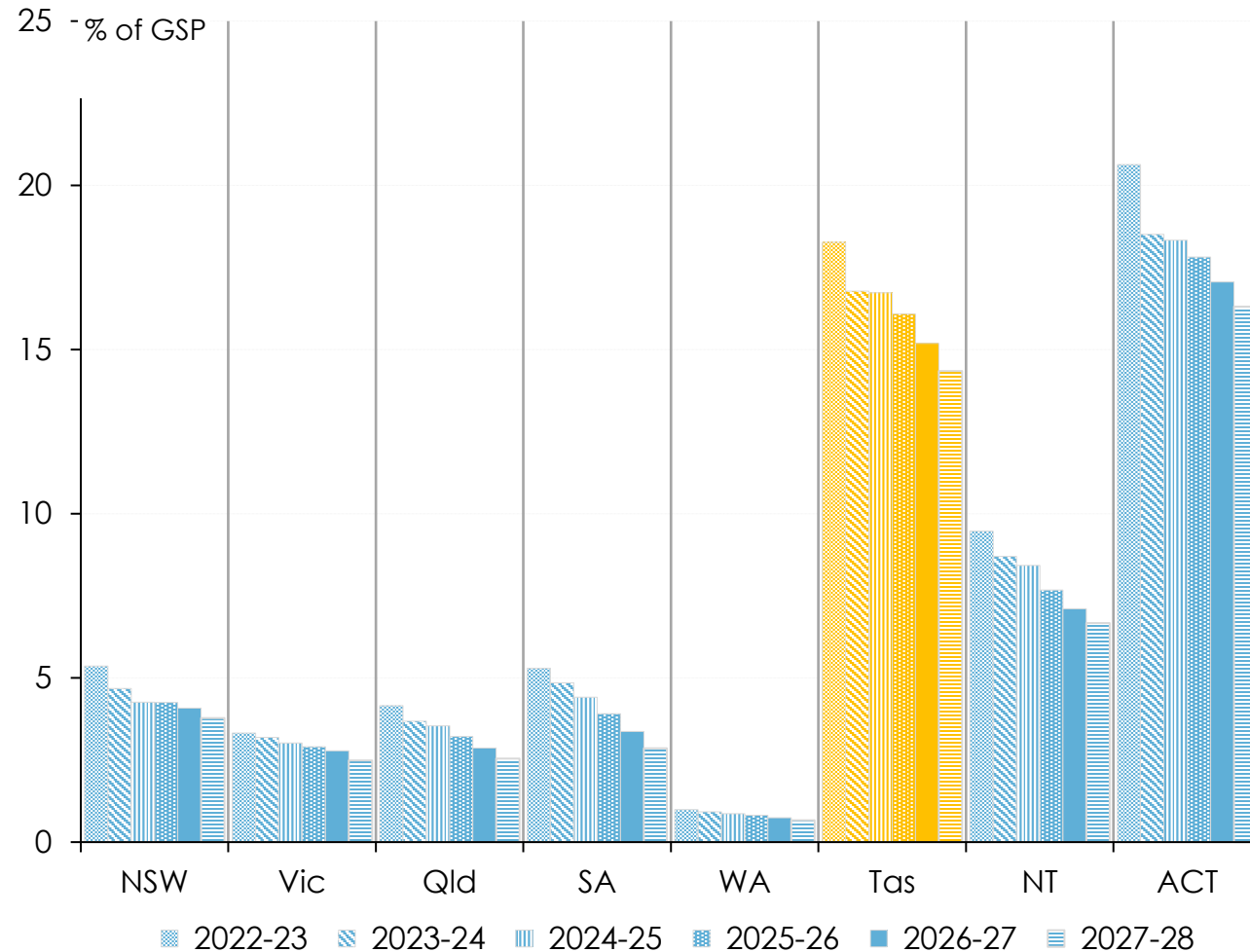
'General government' net debt, Tasmania and other states and territories, 2022-23 to 2027-28



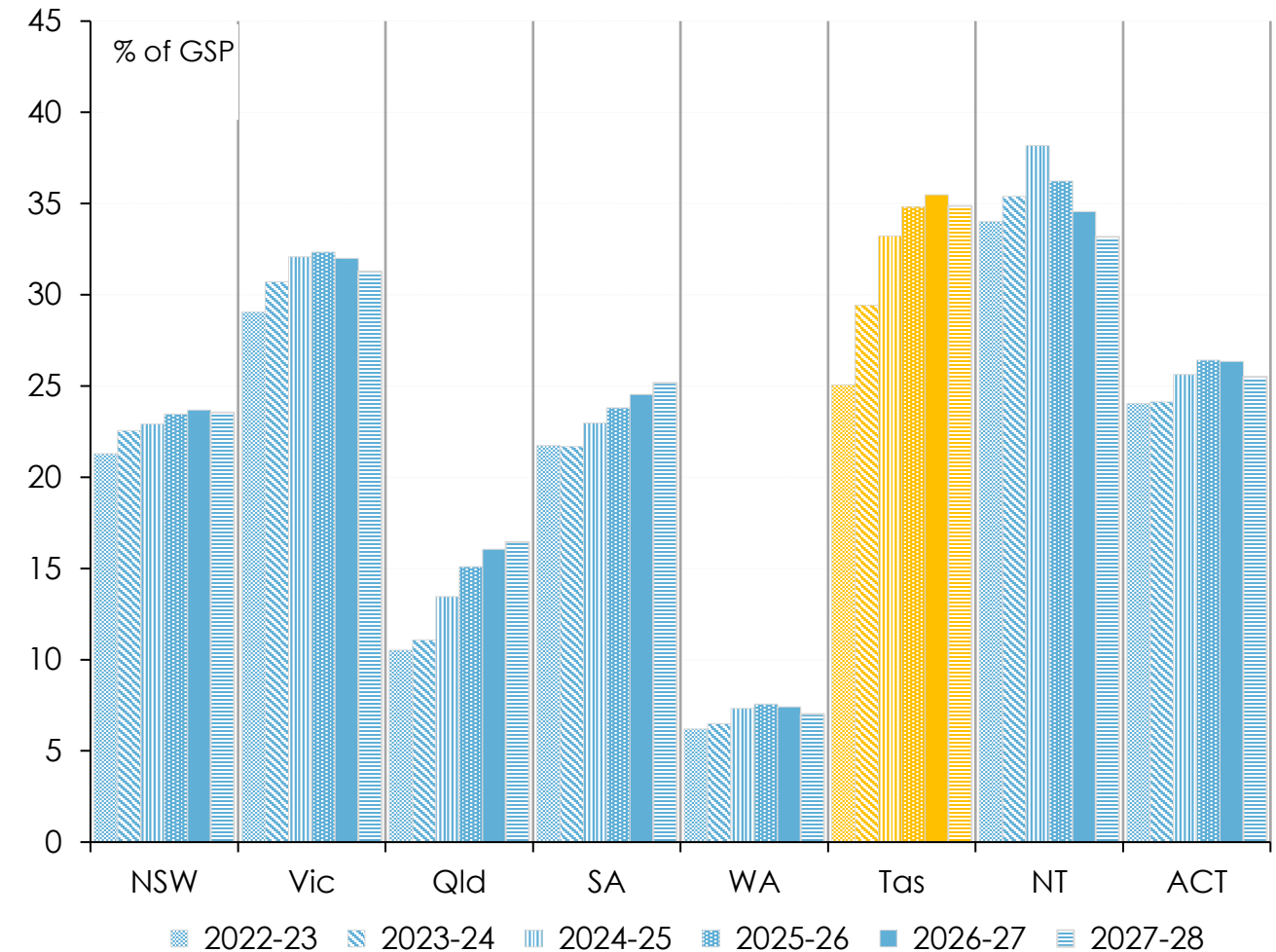
Sources: Tasmanian Treasury, [2024-25 Budget Paper No. 1](#); other state and territory 2024-25 Budget Papers; [Independent Review of Tasmania's State Finances](#), August 2024

Including Tasmania's outsized unfunded superannuation liability, 'general government' net financial liabilities are exceeded only by the NT

'General government' unfunded superannuation liabilities, 2022-23 to 2027-28



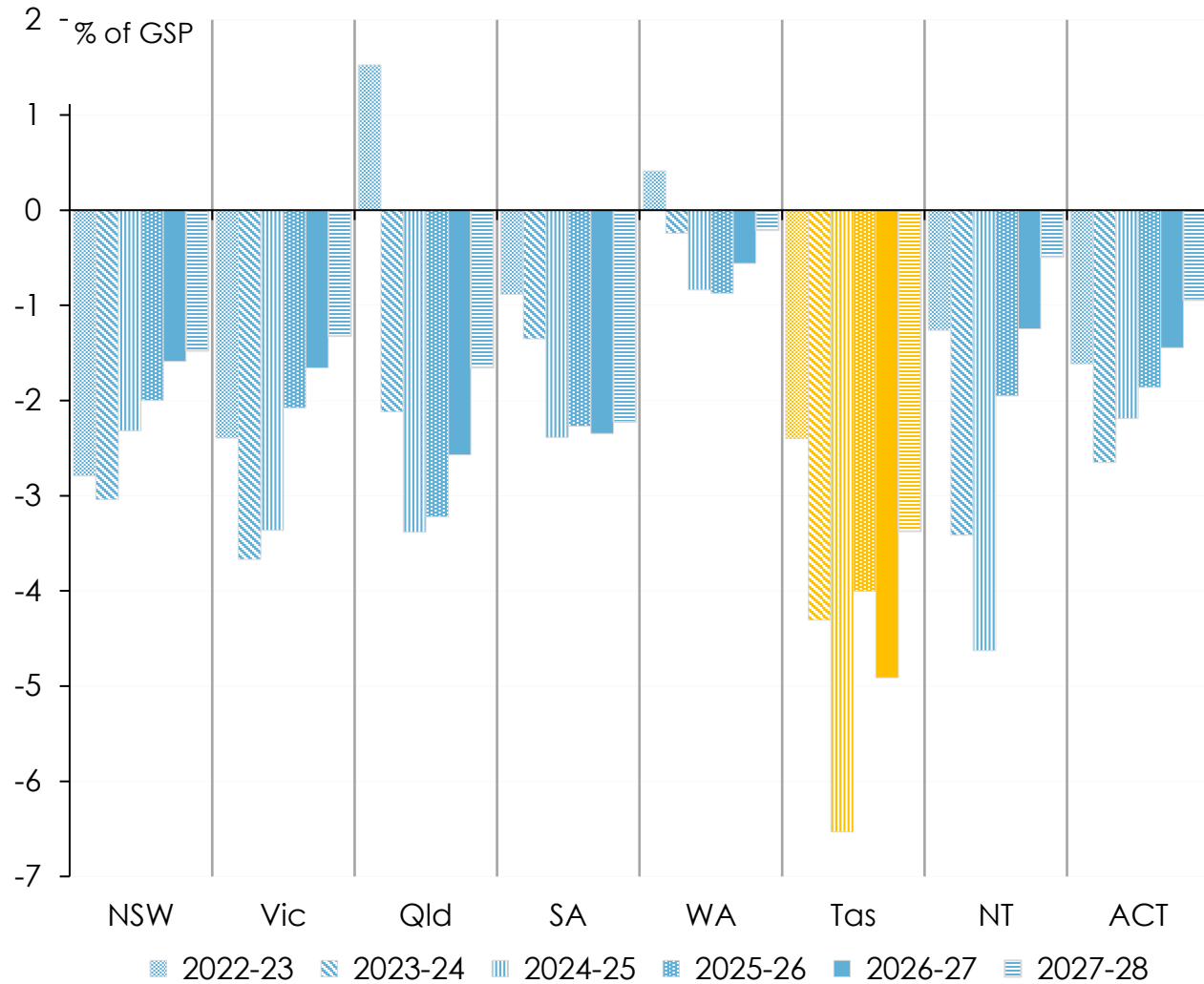
'General government' net financial liabilities, Tasmania and other states and territories, 2022-23 to 2027-28



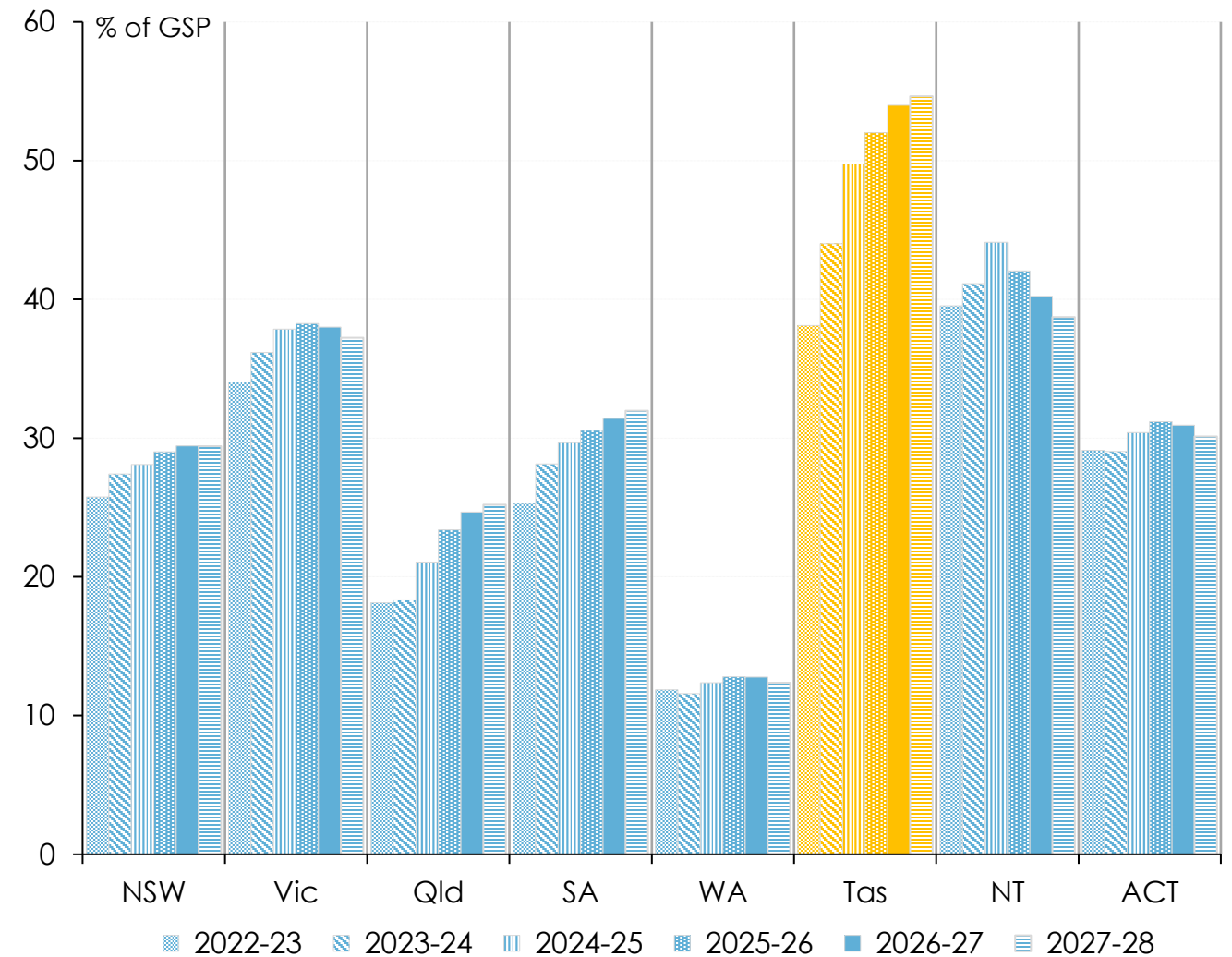
Note: The ACT's superannuation liabilities aren't as large as they appear in government finance statistics, because its employee superannuation arrangements are managed via the Commonwealth Government's superannuation fund, which precludes the ACT from including capital gains on its superannuation investments in its GFS financial statements, as the states and the Northern Territory do. 'Net financial liabilities' includes the unfunded superannuation liability. Sources: Tasmanian Treasury, [2024-25 Budget Paper No. 1](#); other state and territory 2024-25 Budget Papers; [Independent Review of Tasmania's State Finances](#), August 2024.

When government-owned businesses are included, Tasmania's fiscal position looks worse than even Victoria's and the Northern Territory's

Total non-financial public sector cash balances, 2022-23 to 2027-28



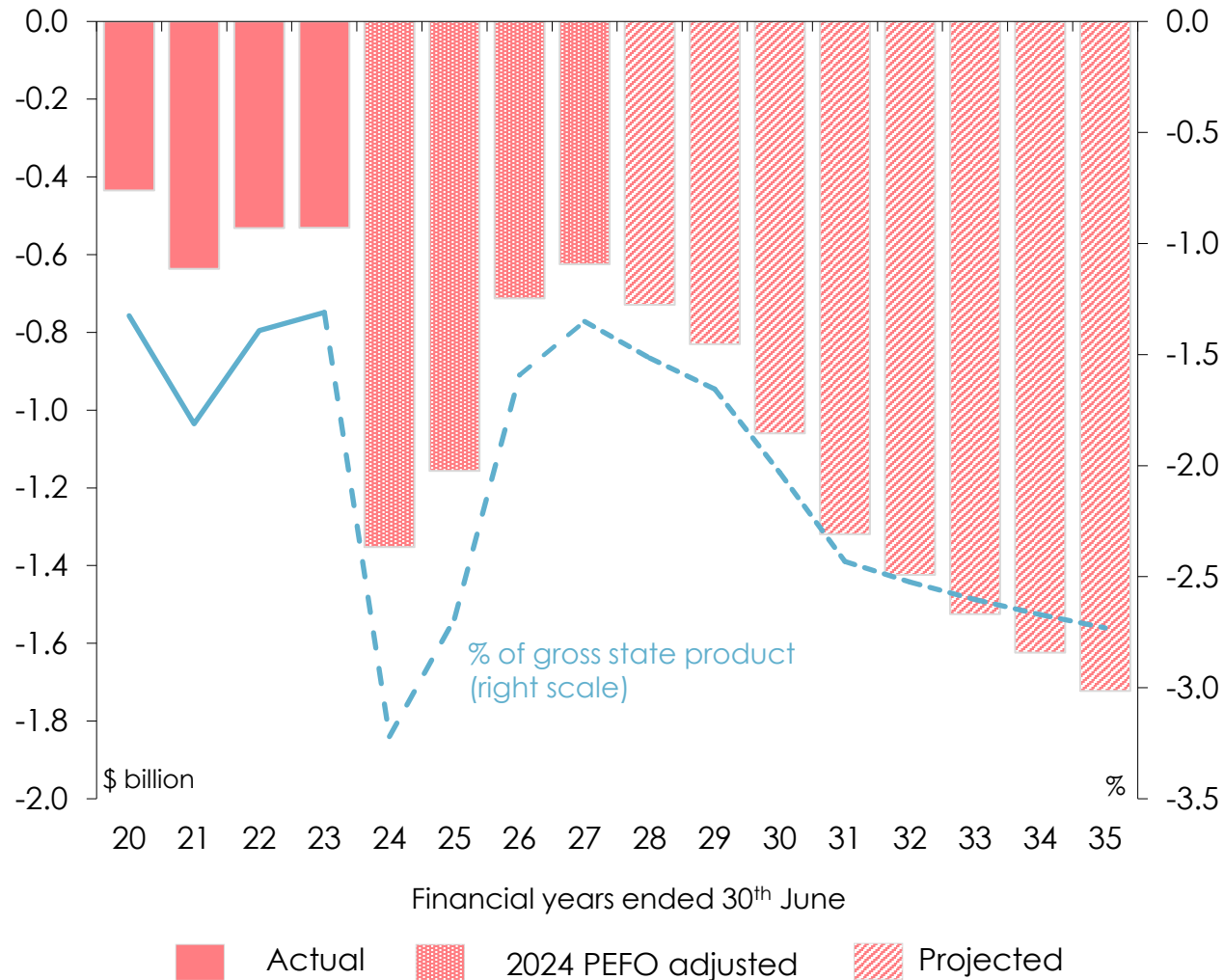
Total non-financial public sector net financial liabilities, 2022-23 to 2027-28



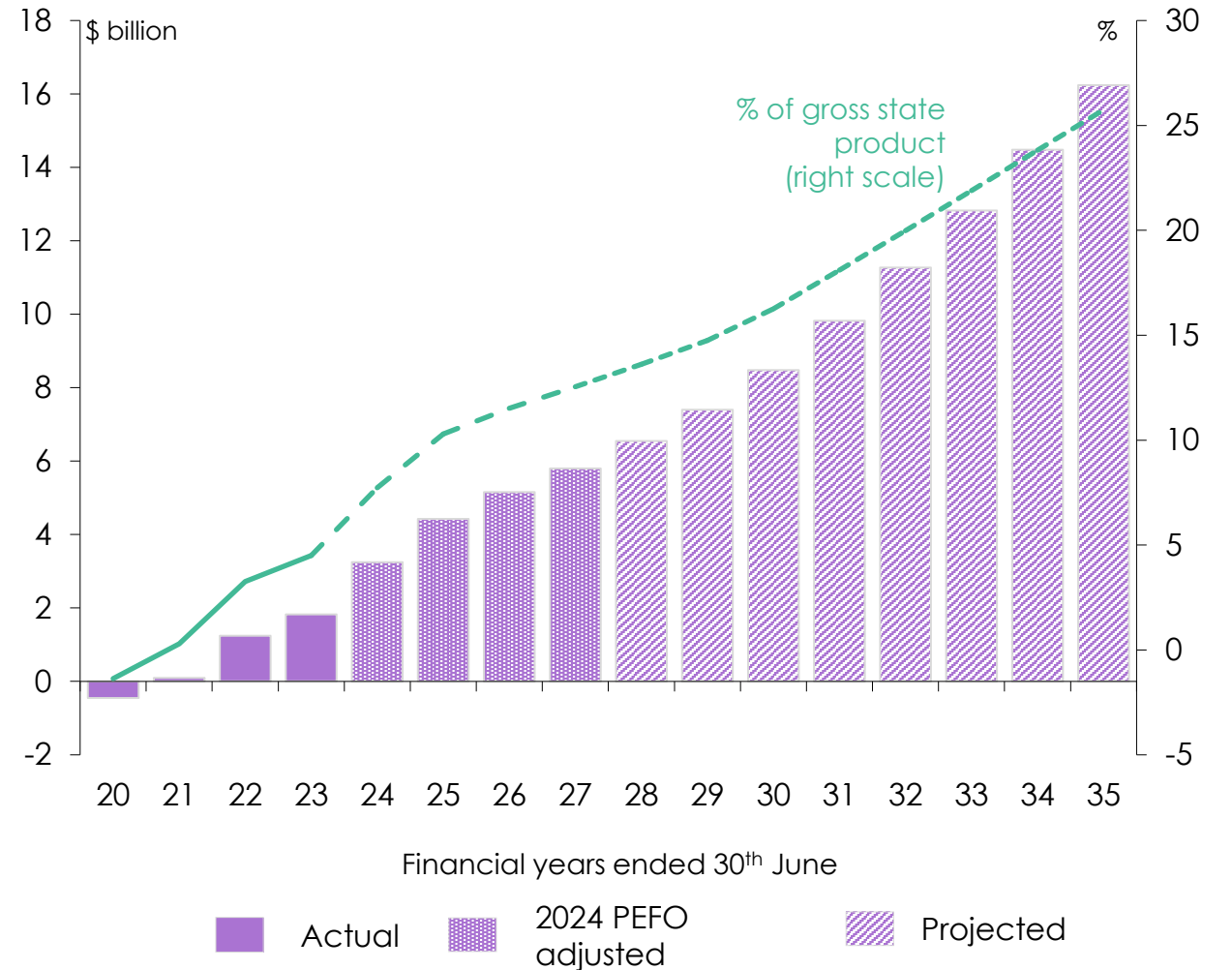
Sources: Tasmanian Treasury, [2024-25 Budget Paper No. 1](#); other state and territory 2024-25 Budget Papers; [Independent Review of Tasmania's State Finances](#), August 2024.

And Tasmania's public sector finances will get a lot worse over the next ten years if nothing is done

Cash balance



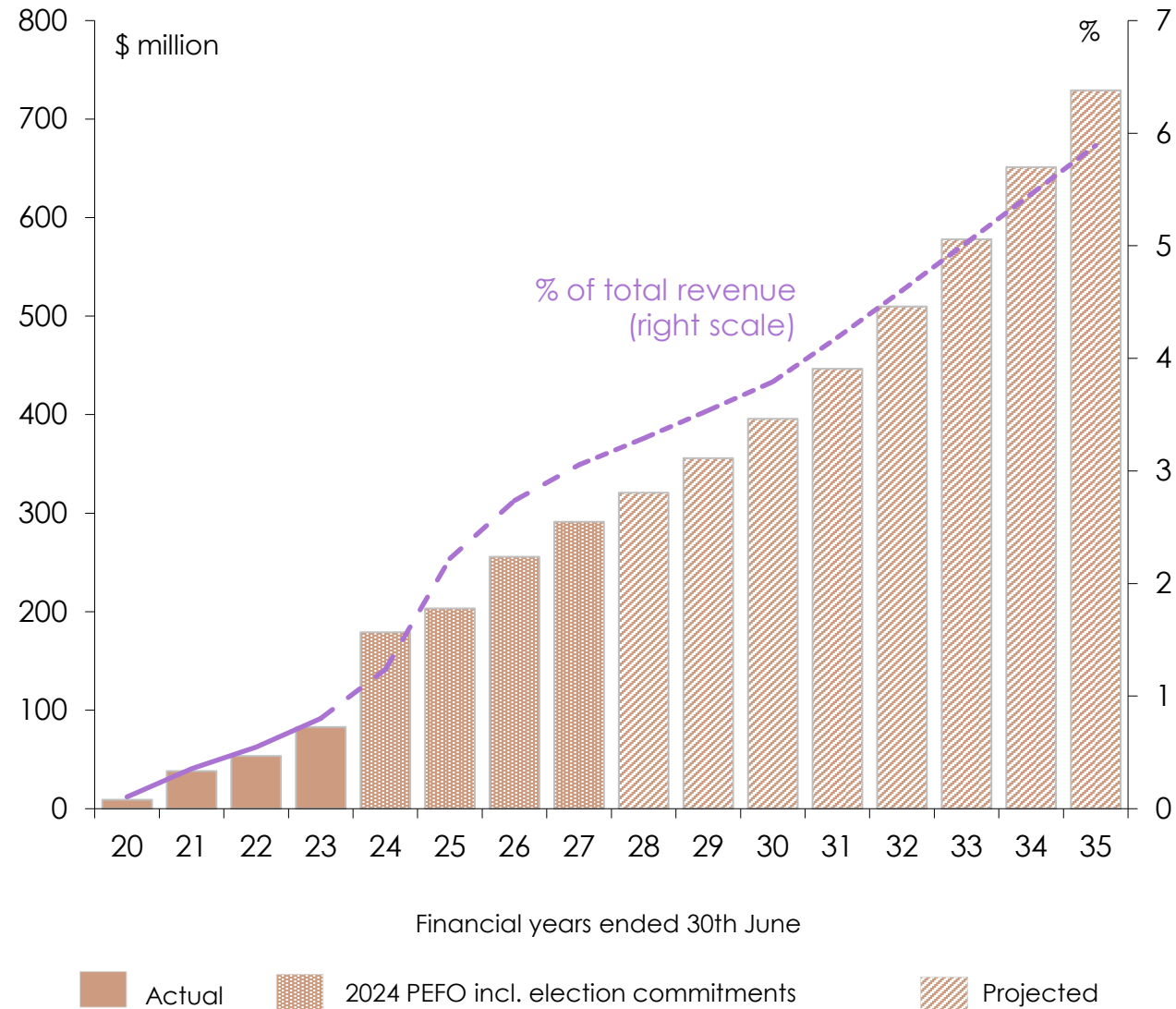
Net debt



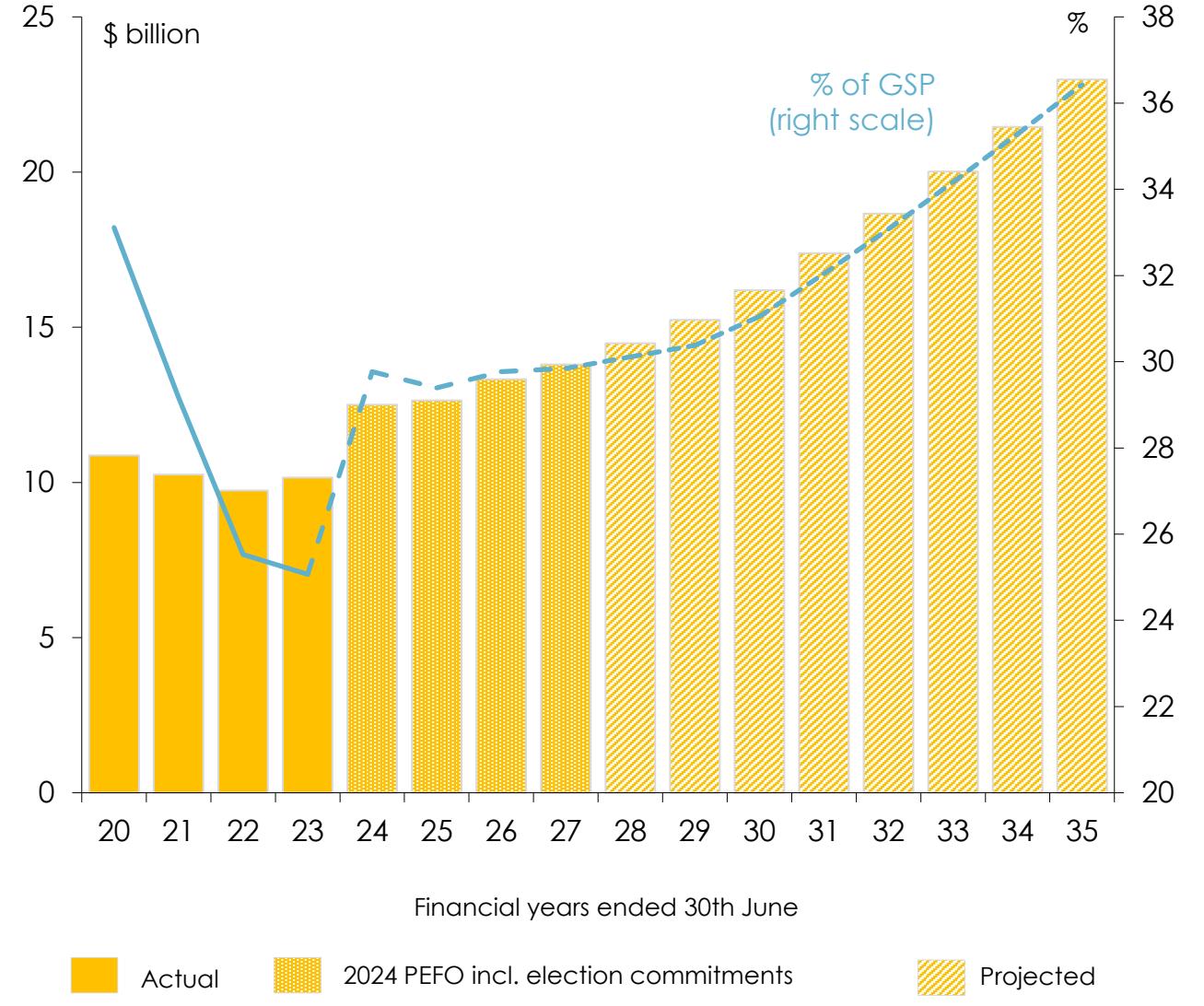
Note: figures shown are for the general government sector. Data shown in these charts do not incorporate the results for 2023-24 reported in the [Preliminary Outcomes Report 2023-24](#). Source: [Independent Review of Tasmania's State Finances](#), August 2024.

Tasmania's public sector finances will get a lot worse over the next ten years if nothing is done

Interest payments



Net financial liabilities



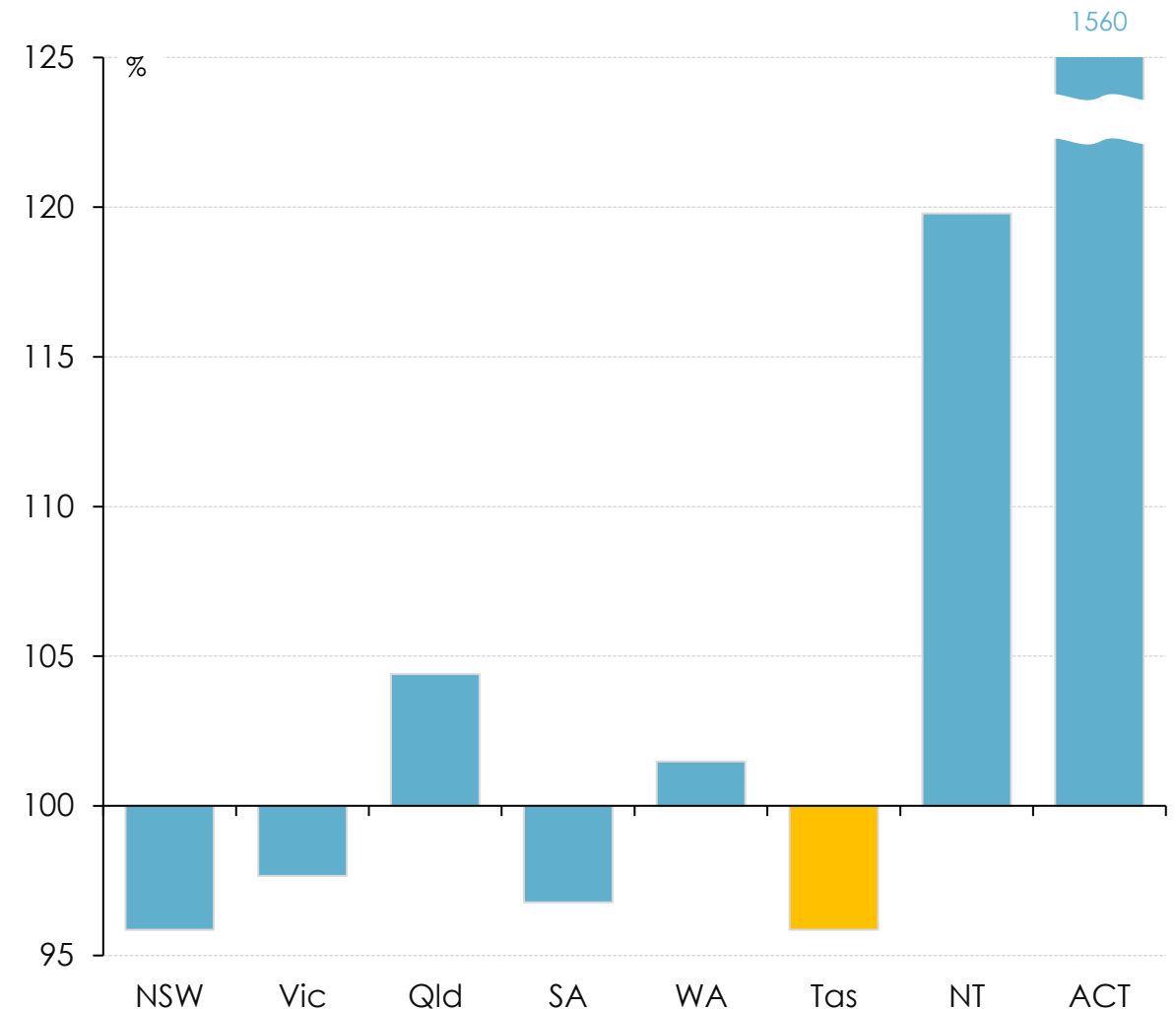
Note: figures shown are for the general government sector. Data shown in these charts do not incorporate the results for 2023-24 reported in the [Preliminary Outcomes Report 2023-24](#). Source: [Independent Review of Tasmania's State Finances](#), August 2024.

Tasmania's finances can't be restored to a sustainable position solely by cutting recurrent spending – state taxes will have to rise

Average 'level of service provision' ratios, 2019-20 to 2021-22



Average 'revenue-raising effort' ratios, 2019-20 to 2021-22

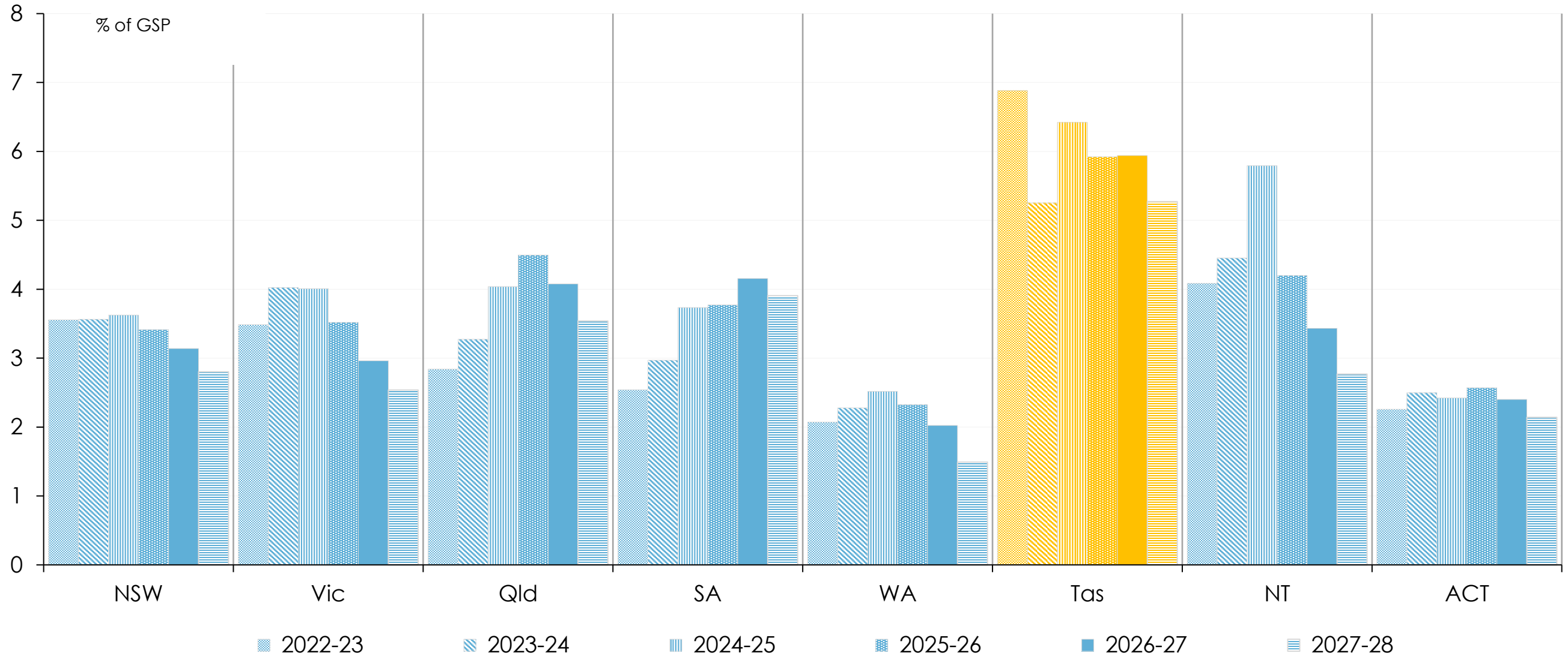


Note: The 'level of service provision' ratio is the ratio of total actual operating expenses by each state and territory to the Grants Commission's assessment of what it would need to spend in order to deliver the same level of services with the same 'efficiency' as the average of all states and territories. Similarly, the 'revenue-raising effort' ratio is the ratio of total taxation revenue actually raised by each state and territory to the Grants Commission's assessment of what it could raise if its tax regime were the same as the average of all states and territories.

Sources: Commonwealth Grants Commission, [2024 Update of GST relativities](#), April 2024; [Independent Review of Tasmania's State Finances](#), August 2024.

And Tasmania can't afford to run the nation's largest infrastructure spending program (relative to the size of our economy)

Total state non-financial public sector 'purchases of non-financial assets', 2023-24 to 2027-28



Note: 'Total state non-financial public sector' includes GBEs.

Sources: State and territory 2024-25 Budget Papers; [Independent Review of Tasmania's State Finances](#), August 2024.

What can be done?

- ❑ **There's not a lot of scope on the 'operating' (or recurrent) expenditure side**
 - on-going review of the continuing justification for, and efficiency and effectiveness of, existing spending programs
 - look for ways of moving remaining defined benefit superannuation members to SGC arrangements
 - 'efficiency dividends' and 'vacancy control' are a very poor way of achieving expenditure savings
 - big spending cuts will have a larger adverse impact (dollar-for-dollar) on economic activity and on the most vulnerable Tasmanians than equivalent revenue measures
- ❑ **Most of the 'heavy lifting' will have to be on the revenue side**
 - at least some of the impact of any increases in state taxes will be absorbed by reductions in company tax payments or reductions in household saving (hence less impact on economic activity)
- ❑ **Revenue-raising options**
 - reduce the tax-free threshold for payroll tax (which is the highest of any state, and which has done nothing to create jobs)
 - over the longer-term, replace stamp duties with a broadly based land tax (including owner-occupied homes)
 - in the near term, consider imposing a surcharge on council rates as a *de facto* extension of land tax
 - extend the stamp duty and land tax surcharges imposed on foreign investors to mainland investors in established residential real estate
 - increase motor vehicle registration fees and motor vehicle duty for more expensive motor vehicles
 - increase mineral royalties
- ❑ **Defer or reduce planned infrastructure spending and reform infrastructure budgeting processes**
 - first determine how much Tasmania can afford to spend on capex over 10 years and in each year of those ten
 - then select projects based on ranking of projects according to economic & social cost-benefit ratios

But the Government (and for that matter the Opposition) obviously know better

- ❑ **Both the Government and the Opposition were quick to rule out raising additional revenue in order to 'fix' the budget**
 - and yesterday's Budget continued the Government's infrastructure splurge (although they usually end up spending a lot less on infrastructure than they say they're going to)
- ❑ **That's disappointing – but not surprising**
 - there is no 'politically easy' way to restore Tasmania's finances to a sustainable position
 - it will require the expenditure of 'political capital' – something which the major parties were unwilling to spend when they had it, and which is now in very short supply
- ❑ **The Government wasn't prepared to consider how to pay for all this additional spending when Tasmania's economy was doing well, and when it had a majority in Parliament – and it's not prepared to consider how to pay for it when Tasmania's economy isn't doing well, and now that it doesn't have a majority in Parliament**
 - so when will it bite that bullet?
 - or will it be left to some future government?
 - and if so, under what circumstances?

Important information

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