WESTPAC Coast-to-Coast June 2022.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

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Westpac Coast-to-Coast produced by Westpac Economics

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This issue was finalised on 29 June 2022.

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A pronounced slowdown in prospect for 2023

Following the release of the March quarter national accounts for Australia, published on June 1, we slightly lowered our growth forecasts for 2022 and 2023. The 2022 growth rate is lowered from 4.5% to 4.0%; 2023 is reduced from 2.5% to 2.0%; while 2024 is lifted from 2.0% to 2.5%.

In the March quarter national accounts, we saw strong consumer spending growth of 1.5% which was largely funded by a fall in the savings rate from 13.4% to 11.4% releasing $6bn to finance the $8.5bn in additional consumer spending.

At 11.4% currently, the household savings rate remains well above the 6% 'equilibrium' rate near where we expect the rate to settle by year's end. That fall in the savings rate is likely to release a further $15-20bn a quarter to support household spending through the year.

Overall, we expect household spending to increase by a solid 6% over the course of 2022 highlighted by 2.6% and 1.1% growth in the June and September quarters to supplement the (disrupted) 1.5% increase in the March quarter.

That is down from a forecast 6.2%. We are now expecting a more abrupt slowing in the December quarter (revised down from 0.9% to 0.7%) as the reopening effect fades and the boost from a lower savings rate eases; and as the drag from rising interest rates, weak sentiment and house price declines intensifies.

Consumer confidence is likely to remain weak in the face of higher costs and rising interest rates. This is evident from the Westpac-MI Consumer Sentiment Index which slumped to 86.4 in June, with a broad based deterioration across the states. However, confidence in job security is likely to remain high and household balance sheets have been strengthened by the accumulation of around $250bn in excess savings over the past two years.

Perceived job security and the balance sheet buffer will allow households to maintain spending plans at a higher level than would have been the case in the current environment of rising living costs and increases in interest rates.

As we saw in the March quarter, there is considerable 'opening up' momentum in the household sector despite the material disruptions from omicron and the floods.

The June and September quarters are likely to continue to see that boost, with momentum lifting further in the absence of those disruptions in the March quarter.

As we discuss in this Report, there is still scope for considerable 'catch up' – discretionary services consumption is still 12% below pre-COVID levels. The major states – NSW and Victoria – which were most impacted by lockdowns in 2021 will still be in catch up. While nationally, overall spending is 2.5% above pre-COVID levels, it is 5.3% above pre-COVID levels outside NSW and Victoria.

However, by the December quarter, with the savings rate converging on that 6% equilibrium level and households becoming increasingly stretched by further increases in the cost of living (food; rents; energy); rising interest rates and falling house prices we anticipate that momentum in consumer spending will slow appreciably. That lacklustre momentum will extend into 2023 with consumer spending growth likely to slow from 6% in 2022 to a below trend 2.5% in 2023.

In turn, businesses, who are currently generally quite upbeat, will have to review their investment plans. We expect business investment growth to slow from 8% in 2022 to 4% in 2023.

Another key factor behind our downward revisions to growth in both 2022 and 2023 is the dwelling construction cycle.

Detached house dwelling approvals have been signalling a very strong cycle, but dwelling construction contracted for the second quarter in a row in the March quarter. Activity has been clearly impacted by labour/material shortages, and runaway costs.

Projects are taking longer to complete while some are being shelved. We have lowered our forecast for dwelling construction growth from 9.4% to 5.6% in 2022; pushed some of the backlogged HomeBuilder related activity into 2023 but severely written-down the new pipeline of work, which will show through more clearly in a weakening over the second half of 2023.

Supply and demand for new dwellings is expected to dry up under the weight of high costs; labour shortages; interest rate rises and correction in the wider housing market.

These forecasts are heavily reliant on our policy; wages; and inflation forecasts.

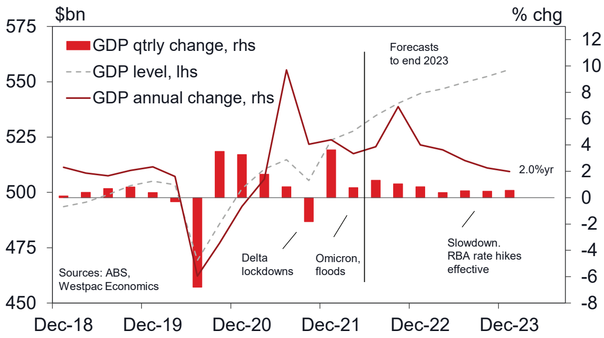
We anticipate an aggressive RBA tightening cycle in response to a significant inflation challenge. The cash rate is expected to quickly return to around neutral levels, to be at 1.85% after the August meeting. From there, the cash rate increases further, in more gradual steps, to a forecast peak of 2.60% in February 2023.

In this environment we anticipate: a peak to trough fall in house prices of 14% to mid 2024; inflation moving back toward the target zone by end 2023; wages growth to peak in 2023; the unemployment rate to bottom out at 3.3% by end 2022 and increasing in the second half of 2023 as demand slows and overseas migration returns to pre-COVID levels by end 2024.

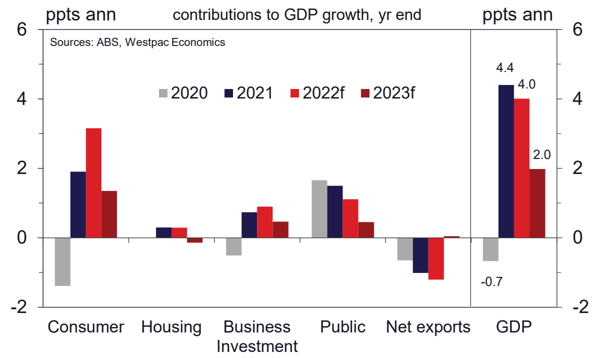
Bill Evans, Chief Economist

Australian Economic Outlook

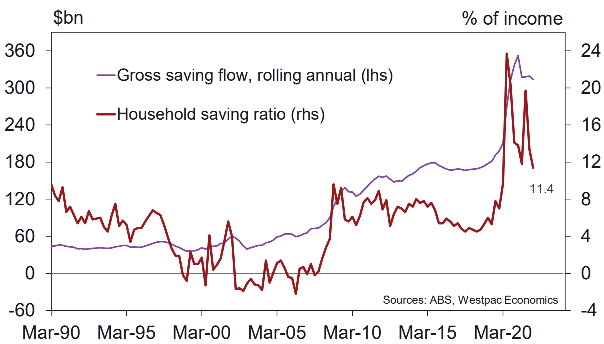
Australia: volatile path navigating covid



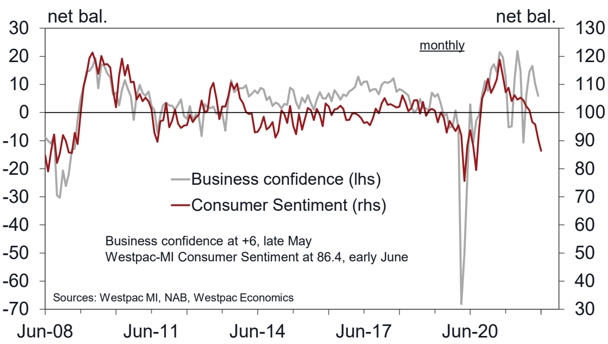
Australia: the growth mix



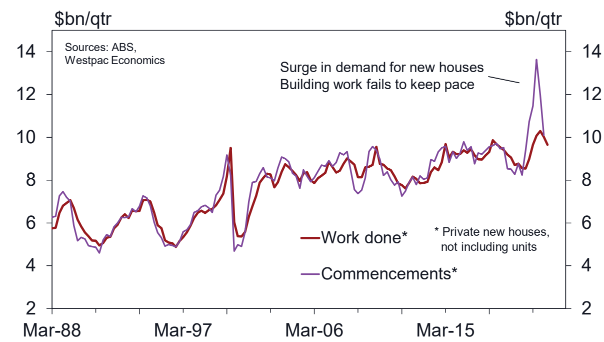
Household saving ratio and gross saving flow



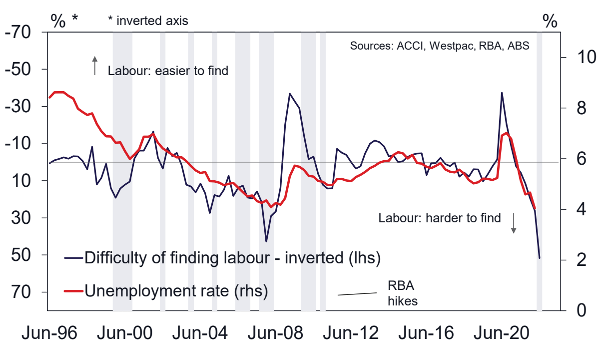
Consumer sentiment slumps: to 86.4 in June



New house building*: hit by bottlenecks

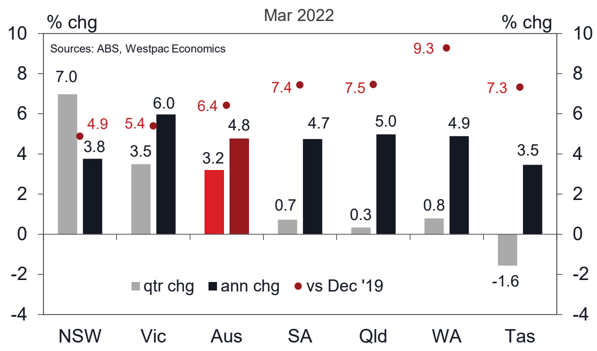


Labour market tightens further in 2022



Reopening recovery further to run in 2022 ...

Final domestic demand: across the states

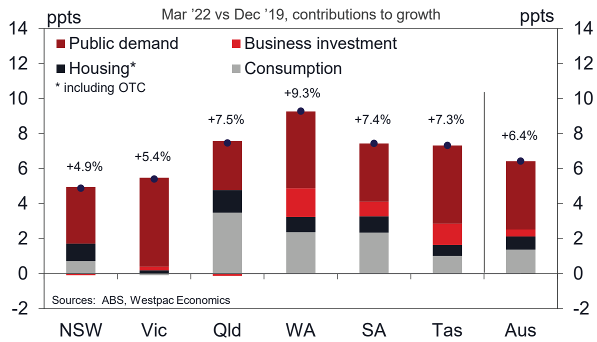


The recovery on the reopening from the delta lockdowns continues and has further to run in 2022 - particularly in the most impacted states of NSW and Victoria.

Nationally, domestic demand grew by 1.6% in the March quarter 2022, building upon the 3.2% expansion in the final months of 2021 as the nation emerged from a 1.8% contraction in the September quarter 2021 associated with the delta outbreak. Recent strength in the labour market indicates that spending expanded further in the June quarter 2022.

Relative to pre-covid levels, at the end of 2019, domestic demand across the nation excluding the laggards of NSW and Victoria, is some 8.1% higher. The remote mining state of WA leads the way, up 9.3%. NSW trails, at only 4.9%, with Victoria at 5.4%. Consumer spending understandably has, to date, been weaker in NSW and Victoria. Weaker population growth in the two major states is another factor.

State final demand: vs pre covid



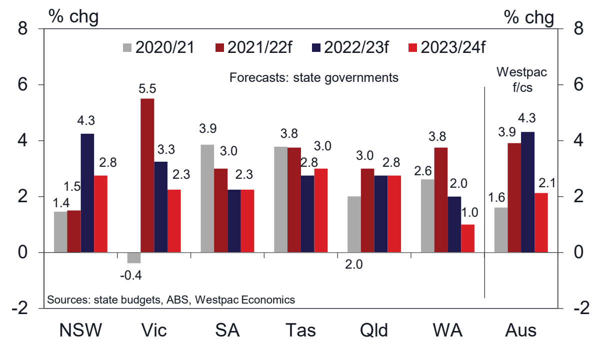
In the March quarter 2022, Victoria made some progress on closing the gap, with state demand up by 2.4% - the strongest performance of all the states.

NSW disappointed, with state demand up by a relatively modest 1.2%. The omicron wave and wet weather/flooding held back the recovery in the period. The June quarter is shaping up to be a much better one for the state, with hours worked up sharply (+7.7%, based on data to May).

The reopening recovery is running into capacity constraints, with acute labour shortages - the labour market being the tightest since 1974. This, and a bout of inflation, has the RBA embarking on an aggressive tightening cycle.

The impacts of higher inflation and higher rates will be felt across the states moving into 2023 - as evident by the broad based slump in consumer sentiment.

Growth outlook by state: GSP



The state governments handed down their annual budgets, across May and June.

The output growth forecasts across the states vary, see opposite. Understandably the contours of the forecast profile differ by state reflecting the varied covid experiences.

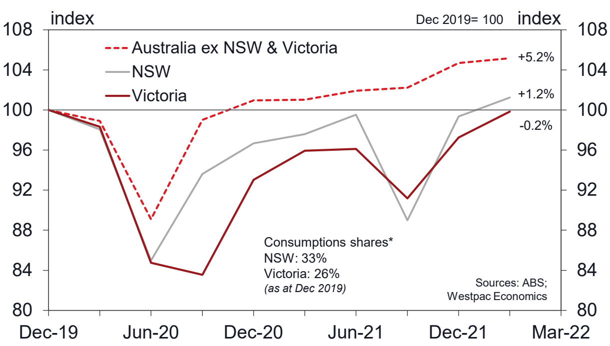
NSW anticipates year average growth will be strongest in 2022/23. The other states (including Victoria) expect year average growth to slow between 2021/22 and 2022/23. Taken together, the weighted average view of the states is that growth holds steady at 3.25% for the two financial years.

That outlook appears to be on the cautious side - although given the uncertainties globally and domestically, some caution in framing government budgets is understandable. Westpac's two year view has growth higher and accelerating, from 3.9% to 4.3%. The RBA has a similar profile, at 3¾% and 4½%.

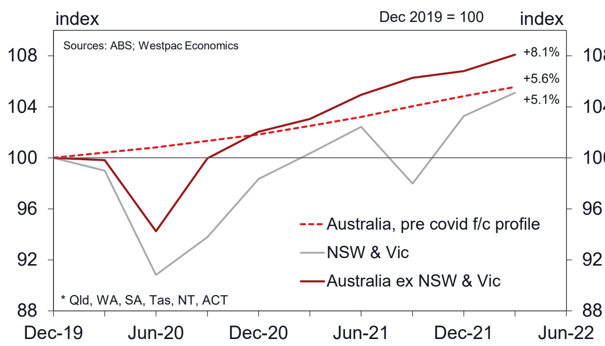
As to prospects for the 2023/24 financial year, there is broad agreement. The states are at 2.3%, Westpac at 2.1% (with risks potentially to the downside) and the RBA is at 2%.

… inflation bout and higher rates to bite in 2023

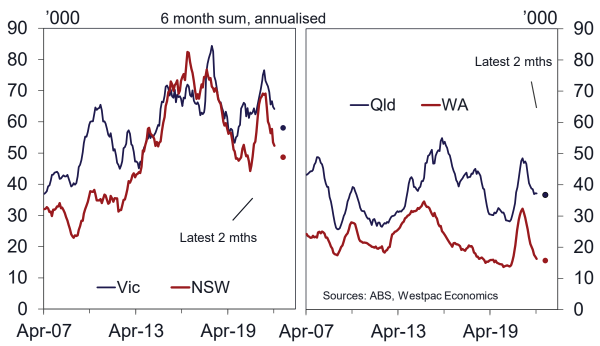
Consumer spending paths diverge



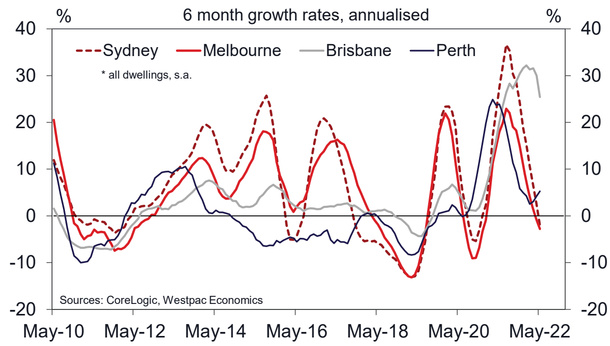
Domestic demand: paths diverge



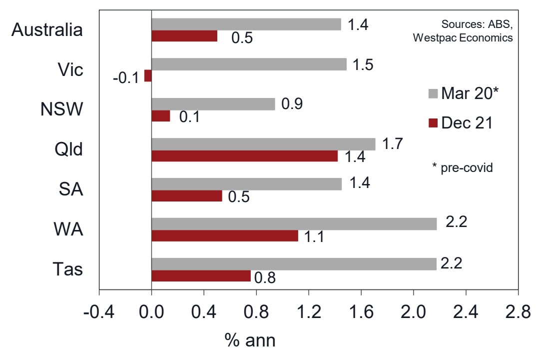
Dwelling approvals: post HomeBuilder let down



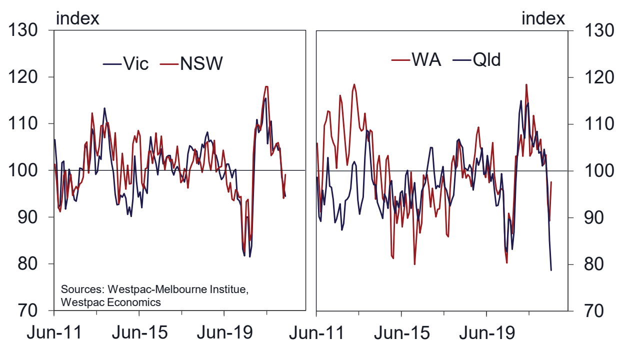
Dwelling prices: rising rates a force in 2022



Population growth, an uneven slow-down

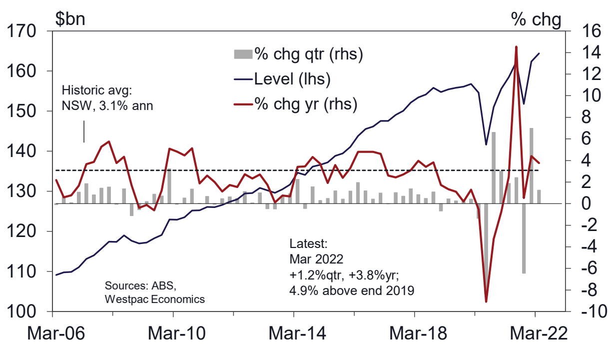


Consumer sentiment



Playing catch-up ...

NSW state final demand: reopening recovery

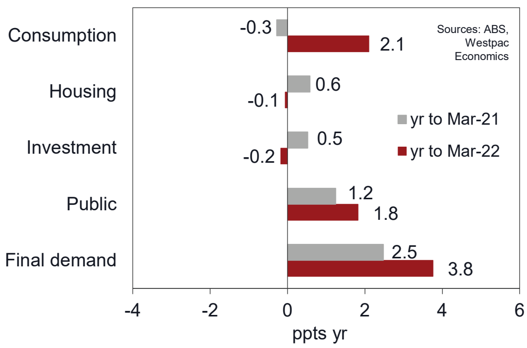


The NSW economy is still playing catch-up after the extended delta lockdown in the September quarter 2021. Moving into 2022 and over the coming couple of quarters, NSW will be benefiting from a reopening recovery.

Domestic demand in NSW contracted by a particularly sharp 6.4% in the September quarter of 2021, hit by the delta lockdown. That was followed by a snap-back in the December quarter, demand up by 7%, and then a disappointing 1.2% rise in the March quarter of 2022. The omicron wave hit in January and wet weather/flooding occurred through February and March, together temporarily holding back the recovery. The June quarter appears to be a strong one, with hours worked up sharply (+7.7%, based on data to May).

Relative to the end of 2019, pre-pandemic, domestic demand in NSW is up by 4.9%. That is the weakest performance of all states, even trailing Victoria, at 5.4%, and well behind the rest of the nation, at 8.1%.

NSW: contributions to state final demand

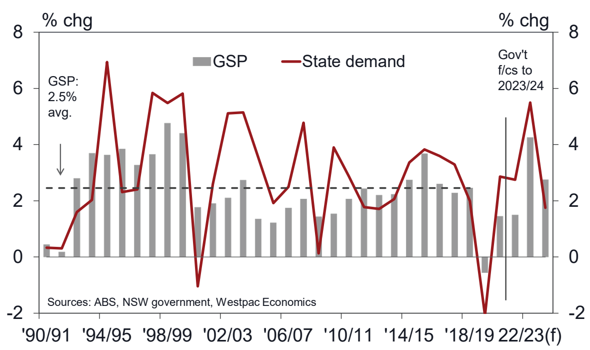


Consumers are spending more freely - notably on services, particularly domestic travel (as evident in April), with fewer covid restrictions. Strengthening wage incomes (employment and wages) and a correction lower in an elevated household saving ratio are supportive of additional consumer spending near-term.

However this strength is unlikely to last. A bout of inflation and the RBA responding from May with what will be an aggressive interest rate tightening cycle will see growth slow appreciably from late 2022, into 2023. The downturn will be led by the consumer and the interest rate sensitive housing sector.

A souring of the consumer mood is already apparent in NSW and across the nation. The Westpac-MI Consumer Sentiment index slumped to be at a weak 86.4 in June. Views on whether it is a "good time to buy a dwelling" have swung deeply into negative territory in NSW and nationally, with a June reading of 75, down from a well above par 125 late in 2020, into early 2021.

NSW economic performance & outlook



The NSW government handed down the state budget on June 22, ahead of the next state election, on March 25, 2023.

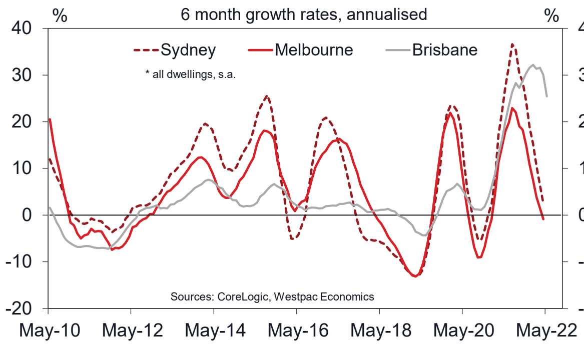
The 2022 Budget had a focus on reform and investing in the future (stamp duty and early childhood learning) - with a view to boosting productivity and participation. Expenses in 2022/23 are now expected to be $11.7bn higher than anticipated in the December half yearly update. In part, this is funded by a $4.1bn upside revenue surprise.

The government expects output growth to be a brisk 4.25% for the 2022/23 financial year on the reopening. That is up from a sub-trend 1.5% expected for 2021/22 and then slowing to a still above par 2.75% in 2023/24.

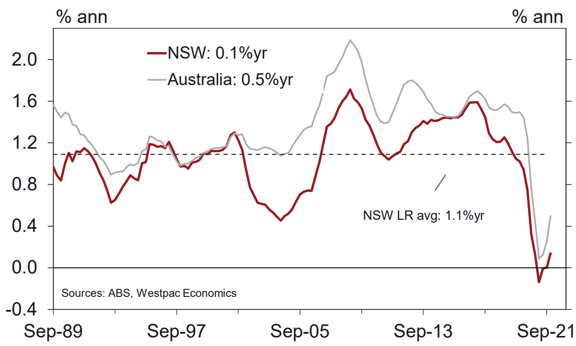
The expectation of above trend growth reflects strong near-term momentum in the labour market, which will drive higher wages, and the resilient state of aggregate balance sheets. That said, the budget papers recognise that "the outlook remains subject to an unusually high degree of uncertainty and risks, primarily to the downside". We concur - the persistence of inflation pressures and the peak in the RBA cash rate will be critical to the outlook.

... inflation and interest rates key to the outlook

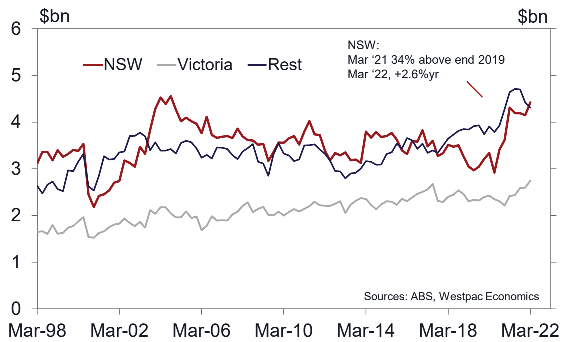
Sydney dwelling prices, downturn underway



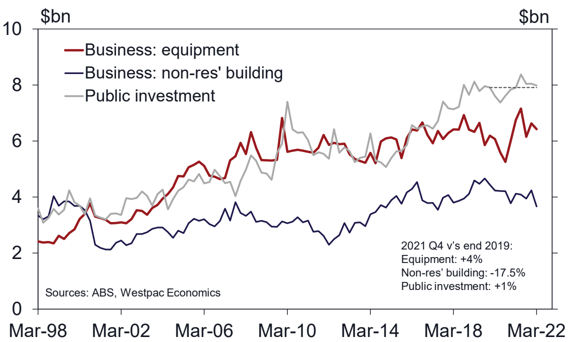
NSW population stalls



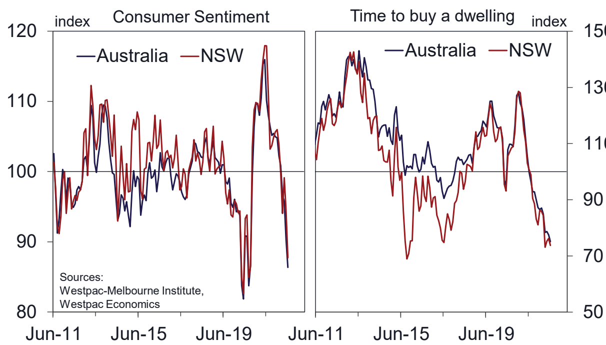
Home renovations: NSW a stand-out



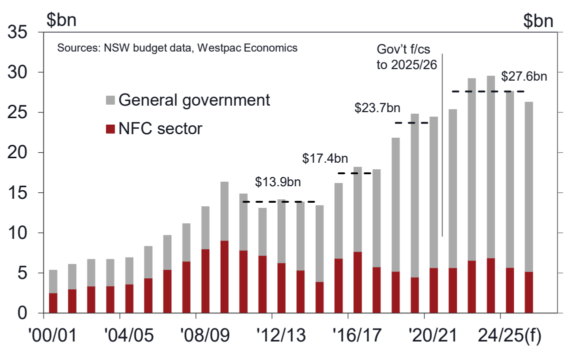
Investment cycles: delta disruption



Consumer confidence

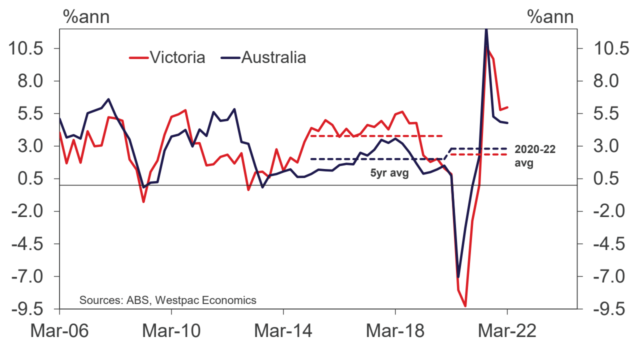


NSW government capital expenditure



Post-COVID recovery continues ...

Victorian demand: underperformance

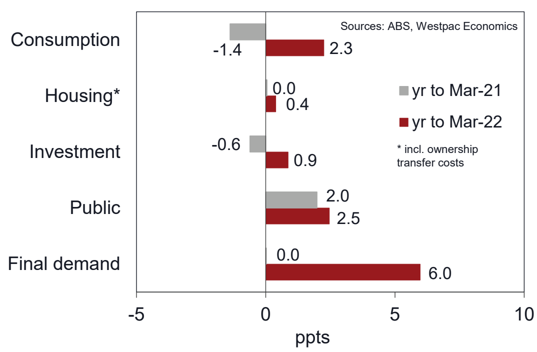


Vic's economic recovery from what was a longer and more difficult series of COVID-related contractions has gained momentum in H1 2022. Activity is now only tracking 1-2ppts behind the rest of Aus, a gap that should close up by mid-year.

How the Vic economy fares beyond this catch-up – and whether it sees a return to the sustained outperformance over the five years that preceded the pandemic – depends in large part on the extent to which the state's previously strong migration-driven population growth resumes. The jury is still out on this. Net migration flows have stabilised and there are some promising early signs from student visa applications, but a lot depends on how other segments of inbound and outbound migration behave.

The state's prospects are more mixed in other respects. Vic consumers are likely carrying a larger accumulated reserve from the COVID years, but the state looks to have a higher exposure to the housing correction now rolling through.

Vic: contributions to state final demand

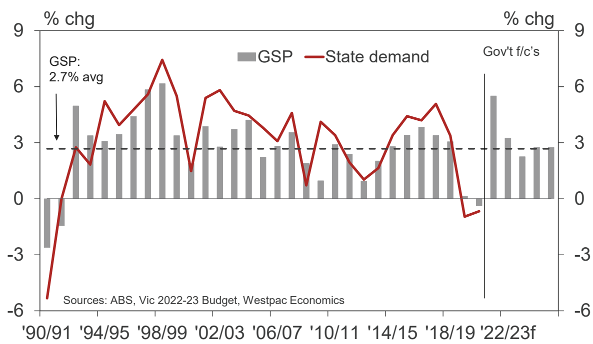


Vic has seen a strong rebound in final demand, up 3.5% in Q4 and 2.4% in Q1, having suffered a 1.7% contraction during the 'delta' lockdown in Q3 last year. The gains have lifted annual growth to 6%, with activity in Q1 5.4% above its pre-COVID level in Q4 2019.

Consumers have been the driving force, reopening allowing for a 9.5% surge over the six months to March. This dynamic has likely carried into the June quarter – despite the strong gains, the level of spending in Vic in the March quarter was still 5% below that in other states not affected by delta lockdowns in 2021.

Other components have been more mixed. Dwelling investment has been choppy, down 2.5% in Q4, recovering 2.4% in Q1 to be up 3%yr, supported by a strong gain in renovation work (14%yr). The pipeline is less promising than in other states, with work associated with the tail end of Melbourne's high-rise boom still rolling off, a much more muted boost from HomeBuilder and rate rises already tipping the wider Melbourne market into a correction.

Vic economic performance & outlook



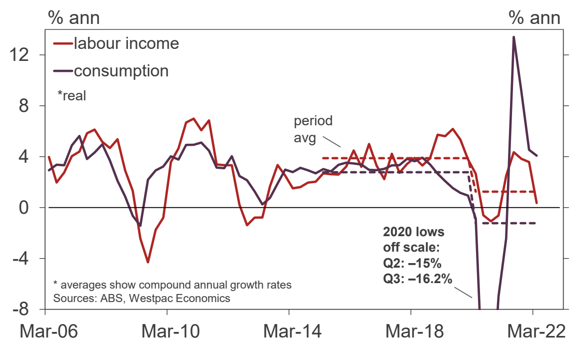
Around business investment, activity has posted a robust annual gain, up 8.4%yr despite disruptions. Both non residential building and infrastructure work have posted a double digit annual rise and continue to carry a substantial backlog of work yet to be done. Gains in equipment spend has been more intermittent and may falter again as confidence comes under pressure.

The Vic jobs market is extremely tight, the unemployment rate falling to 3.7% in May, a record low on monthly reads back to 1978.

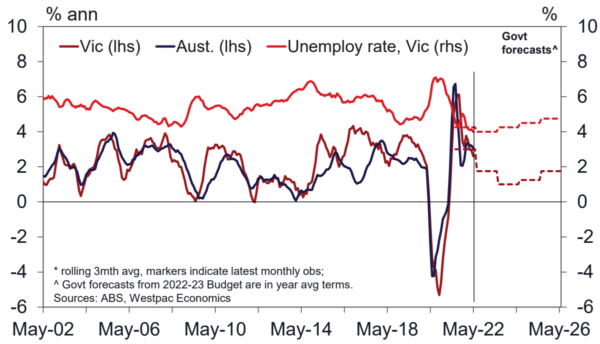
The Vic state budget, released in May, sets out an upbeat near term view on growth, GSP forecast to rise 3.25% in 2022-23 and 2.25% in 2023-24. That said, the economic forecasts are already badly dated with the benign outlook for inflation in the 2-3% range now untenable and a rapid interest rate tightening underway. Policy-wise, the focus is on consolidating Vic's economic recovery and improving the budget bottom line while 'shoring-up' spending on health. State GST allocations are also singled out as major bone of contention. An undershoot on growth could make things interesting ahead of the state election on Nov 26.

… migration key to returning to pre-COVID outperformance

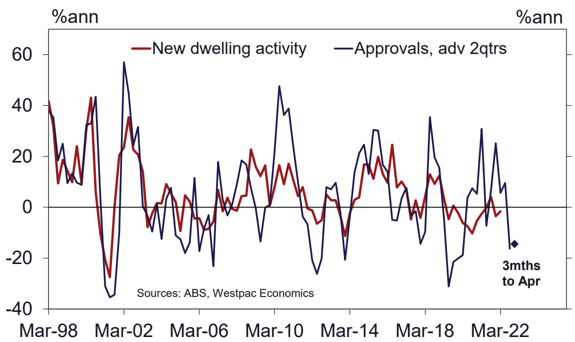
Vic households: incomes and spending



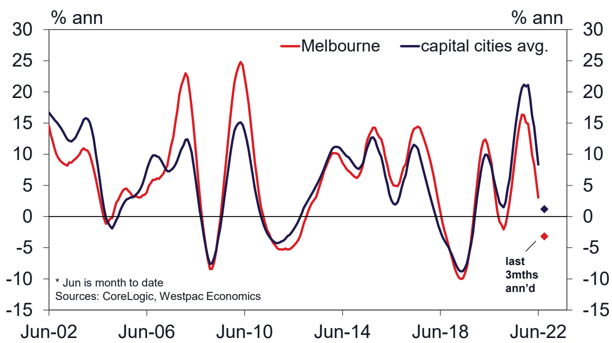
Victorian labour market



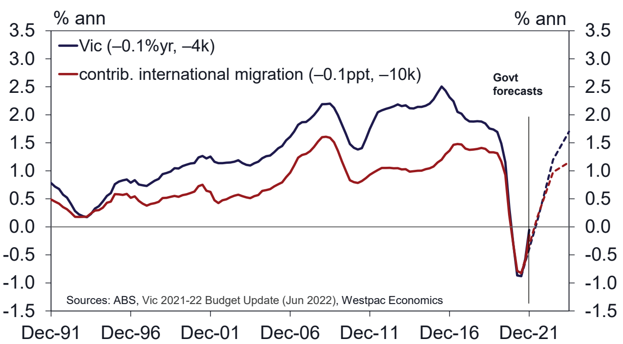
Vic housing construction



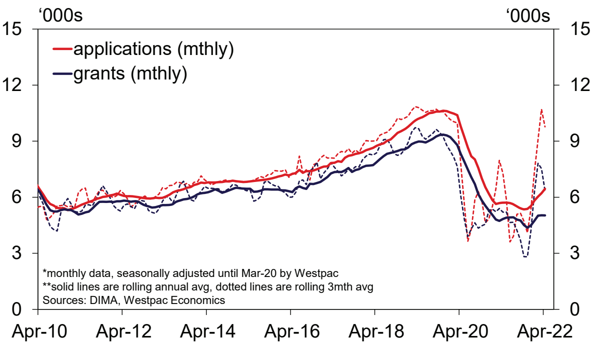
Melbourne house prices



Vic's population growth: migration outflow ends



Victoria: student visa applications and grants



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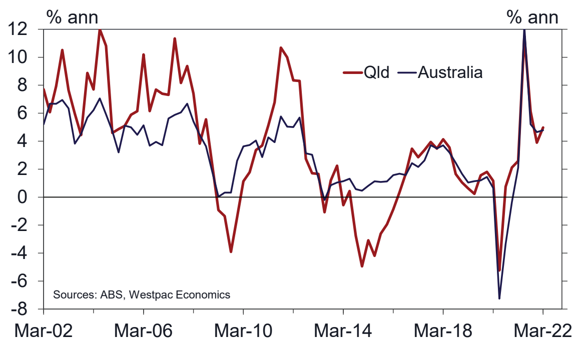
A brisk economic rebound ...

Qld: state demand resilient through disruptions



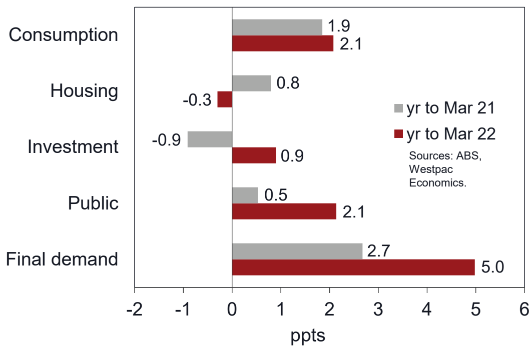
Queensland's state economy grew at a sound pace in the first quarter of 2022. State final demand advanced 0.8% in Q1 to be 5.0% higher over the year to March.

Household consumption posted a soft gain of 0.4% in Q1. Lifts in hospitality (+5.5%qtr), vehicle (+14.1%qtr) and transport (+37.3%qtr) spending modestly outweighed broad-based falls across other goods categories, indicative of the material effects from omicron and weather related disruptions over the quarter.

The public sector was responsible for the vast majority of growth. Public investment rose 3.8% (3.2%yr) and government consumption advanced 3.2% (8.6%yr) in order to support the economy through these disruptions.

Housing activity subtracted from output in Q1 (-6.0%), with a sharp decline in new dwelling construction (-9.7%qtr) mirroring the nation-wide trend as skilled labour and material shortages collide with rising costs and squeezed profit margins.

Qld: contributions to state final demand

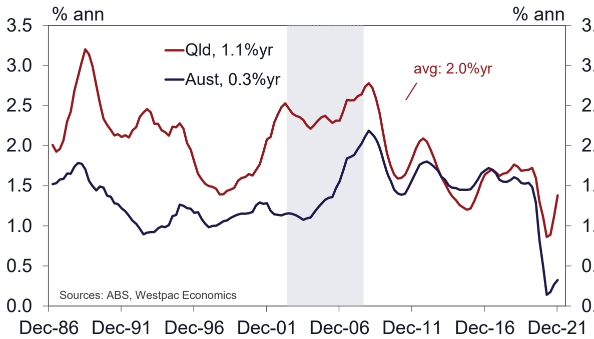


On housing, the correction phase in Australia's property sector will be more limited in Qld. Over the past 18 months, Qld's house prices have risen 40%, easily outperforming the other major states. Turnover and price momentum have since come off their highs, but not to the same extent as in NSW/Vic. The extremely tight supply-demand balance will provide support in Qld, such that house prices are expected to only fall 7.6% to end-2024.

The 2022-23 Queensland Budget revealed an upgraded current fiscal position and forward estimates. The FY22 operating balance is now expected to print a $1.9bn surplus, a marked improvement from the $1.5bn deficit forecast in December. The FY23 deficit is forecast at $1.0bn, down from $2.4bn, and by FY24, there should be a return to a slim surplus of $137mn.

Regarding revenues, the surge in coal/oil prices and the newly planned royalty rate structure for FY23 is expected to generate an aggregate $6.5bn in royalty and land rents over FY22-25.

Pop. growth rebound above national average



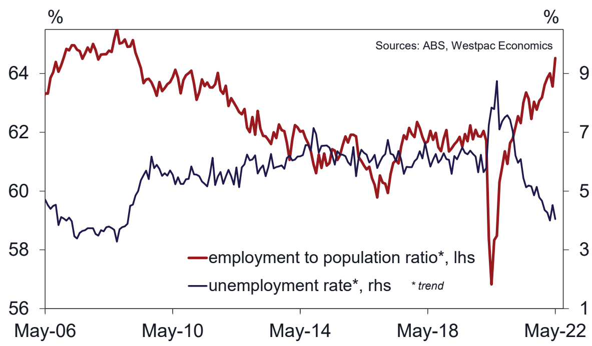
Queensland Treasury's improved fiscal outlook also came with stronger labour market projections, with the unemployment rate now expected to be 4.5% in FY22 (prev 5.25%) and 4.25% in FY23 (prev 5.0%). The inflation outlook has materially worsened though, at 5.25% in FY22 (prev 3.0%) and 3.75% (prev 2.5%).

In the longer term, migration will play a major role in both the labour market and inflation outlook. Population growth advanced in Q4 2021, up 1.4%yr, well above the national average of 0.3%. Both interstate migration away from NSW/Vic and the recent lifts in short-term visitor arrivals has facilitated demand-side growth in hospitality, retail and leisure; notably, tourism-related services exports surged 27% nationally in April.

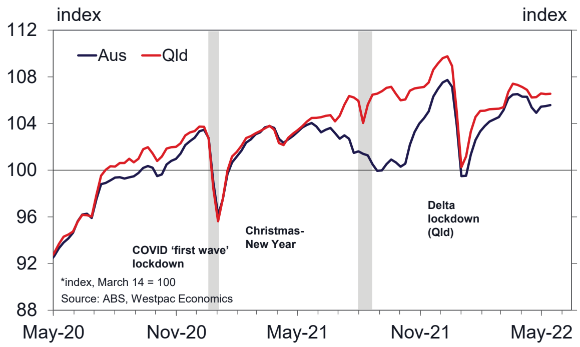
While it is promising to see the international border reopening start to materially impact domestic demand, particularly in sectors that are key to Qld growth, the alleviation of supply-side constraints around labour will ensure the long-term health of the national and Qld state economy.

... to see budget in surplus by 2023–24

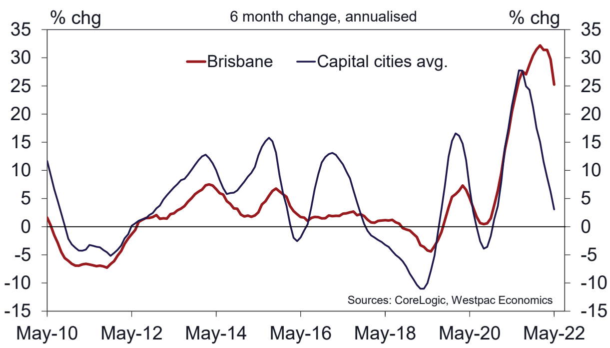
Qld labour market shaking off COVID disruptions



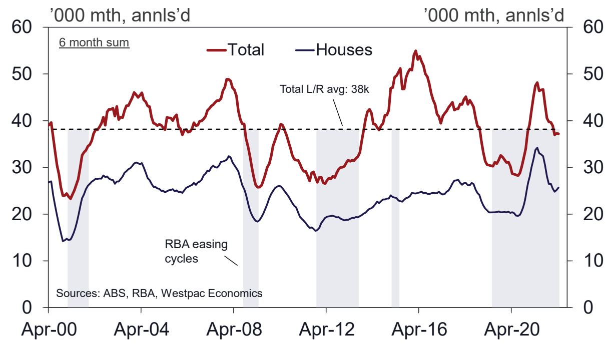
Payrolls: Qld continues to outperform



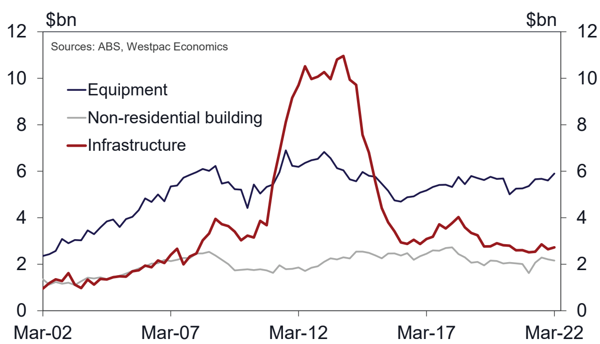
Brisbane house prices are well insulated



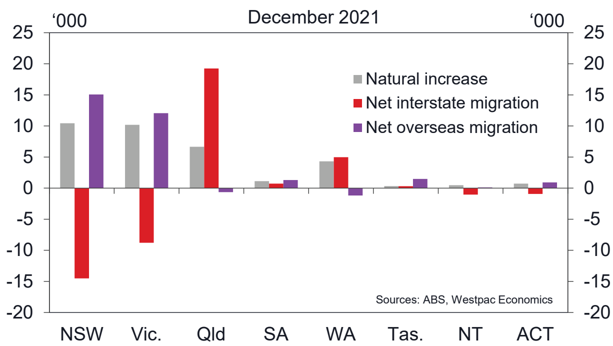
Dwelling approvals: supply limiting new pipeline



Qld business investment has nascent strength



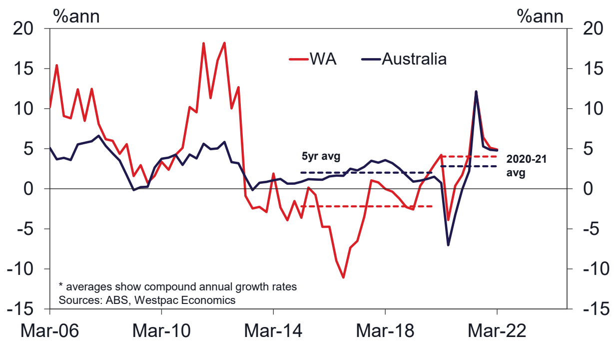
Pop. growth driven by interstate migration



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.

Starting to fire on all cylinders ...

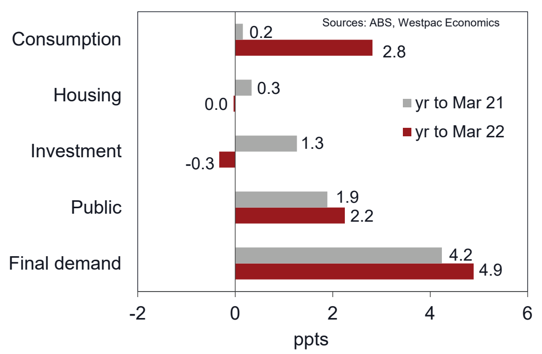
State final demand: WA vs Australia



WA's economic recovery from COVID disruptions is considerably more advanced, the state having only endured relatively mild pandemic disruptions in 2020 and with strong consumer and housing-led gains well entrenched through 2021. Adding to this, the state is also benefiting from a sizeable commodity price windfall. This may also set off a new round of investment in the state's dominant mining sector although the project pipeline has only seen a muted lift to date with total business investment declining over the year to March 2022.

The subdued mining investment picture may well be a blessing in disguise. The state would likely struggle to cope with a strong lift in the sector given already badly stretched capacity and acute labour shortages – both near the extremes seen during the state's epic mining boom in the mid-2000s. Resources should free up a little in the coming year as the housing sector cycles a very large round of HomeBuilder driven activity and migration inflows resume, but problems are likely to endure.

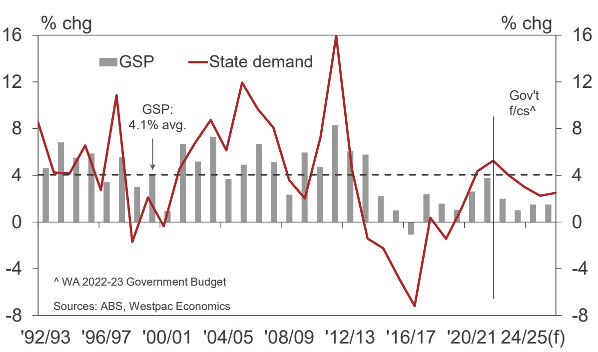
WA: contributions to state final demand



WA posted another strong quarter in Q1, state demand rising 2.2% to be up 5.0%yr and 9.3%yr above its pre-pandemic level, easily the strongest performance across the states. That said, the detail was a little more mixed. Consumer spending and housing investment both stalled, while business investment was also relatively soft, down 1.6%yr. Data on hours worked point to significant omicron-related headwinds in the quarter. These should prove to be mostly transitory.

Looking ahead, the consumer and housing sectors will clearly be impacted by rate rises over 2022 and 2023. However, the state may hold up better than others. Dwelling price gains were more muted in Perth which had also been in a prolonged correction phase prior to the lift. Hence, affordability is less stretched and households should be less sensitive to rate hikes than their inter-state peers. Around new building, approvals have fallen steeply but from a very high starting point, the huge HomeBuilder-related backlog likely to sustain dwelling investment near term.

WA economic performance & outlook

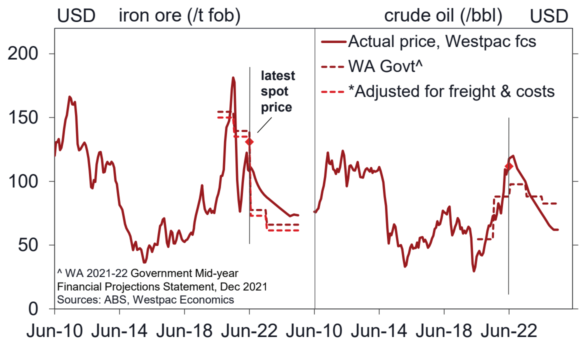


Mining-related developments have been a little more mixed in recent months. Iron ore, which accounts of over half of the WA's exports, has seen spot prices retrace from extreme highs above US$200/t to around US$130/t – albeit still well above the state government's budgeted assumptions of average prices below $US80/t. Oil has mostly tracked in the other direction, currently around US$110/bbl and again well above budget assumptions of average prices below US$100/bbl. Most other commodity prices important to WA have also been elevated.

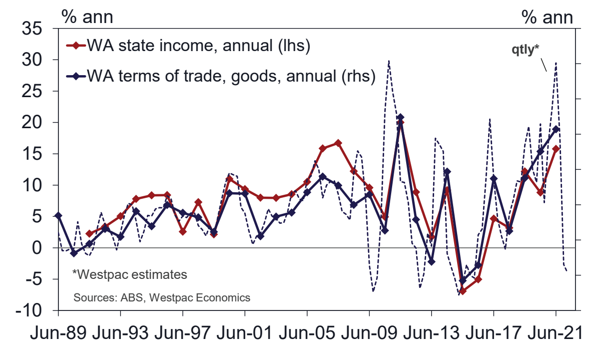
As noted, the mining project pipeline has shown little response to high prices so far, work yet to be done still barely a quarter of the levels seen during the mining boom. This remains a critical area to monitor for WA's growth prospects. It will also clearly have bearing on the extent of capacity problems. WA's unemployment rate dropped to just 3.1% in May. The latest population data shows some improvement around supply with a notable lift in interstate migration, but this is unlikely to plug what is already a large gap.

… and butting up against capacity & labour constraints

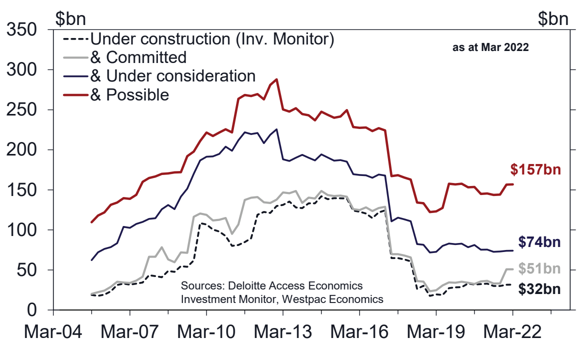
Commodity prices: iron ore & crude oil



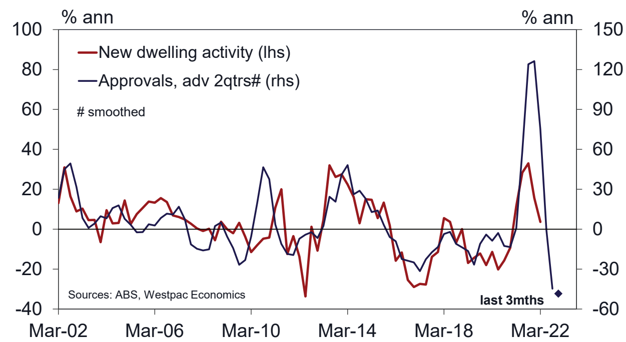
WA's terms of trade vs state income



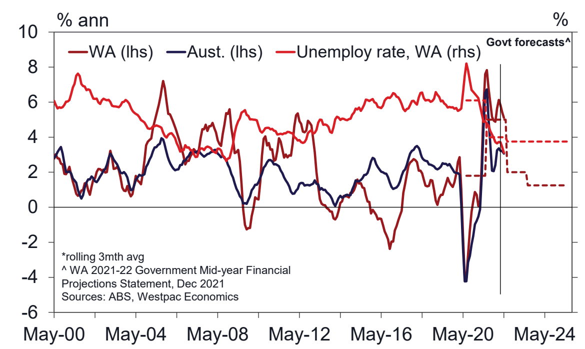
WA's project pipeline: slight lift



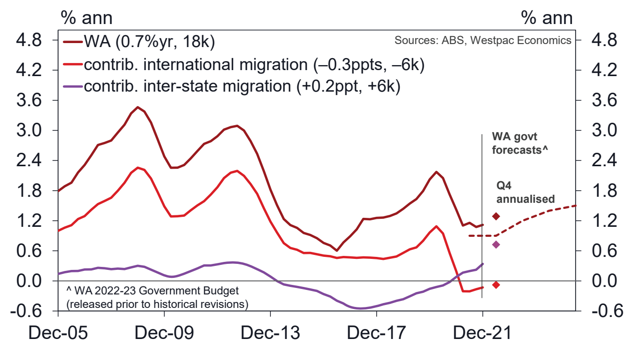
New home building: booming but end in sight?



WA labour market

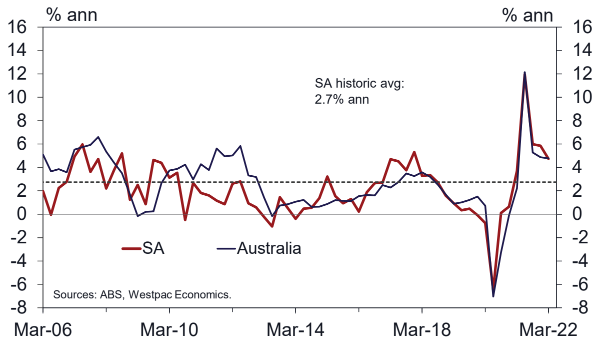


WA's population growth



A constructive outlook ...

State final demand well above pre-COVID level



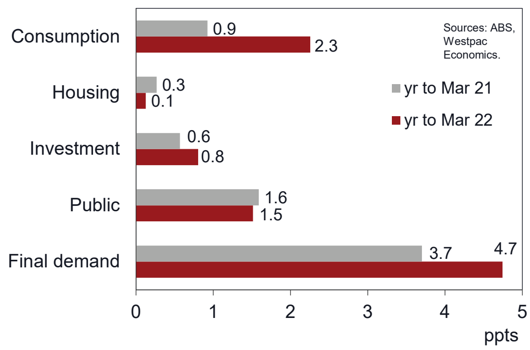
South Australia continued to show robust momentum in Q1 2022, state demand rising 0.8% in the three months to March to be 4.7% higher over the year. Behind these results was broad-based momentum across the state's economy.

Household consumption has been a key positive over the entire period (0.9%; 4.1%yr), so too housing construction (2.7%; 2.7%yr). While business investment was unchanged in Q1, it has shown strength over the past year, gaining 7.4%.

By type of investment, SA has recorded a 16%yr increase in non-dwelling construction; a 7.2%yr rise for engineering work; and a 3.4%yr lift in equipment spending.

Meanwhile, growth in public investment has been modest (1.1%yr); though public consumption has more than made up for this weakness, leaving public demand up 5.5%yr overall.

SA contributions to state final demand

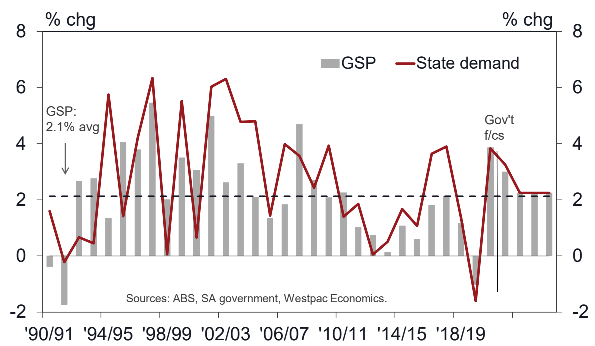


Like the rest of Australia, the SA economy is currently coming under pressure from a rapid rise in the cost of living and interest rates. Constructive for the SA economy however is their strong labour market and comparably affordable housing.

On the labour market, from its mid-2020 peak of 8.7%, the state's unemployment rate has now almost halved to 4.6% at May. Driving this trend is strong and persistent employment growth, the SA employment-to-population ratio rising almost 5ppts to 60.3%, a level broadly in line with the historic peak of the 2000's commodity boom.

The SA government expects this strength in jobs to persist, with annual employment growth forecast to hold at 1.0% through 2022-23 to 2025-26, a rate just above the long-run average for population growth but twice the gain reported for the state's population over the year to December 2021.

SA economic performance & outlook



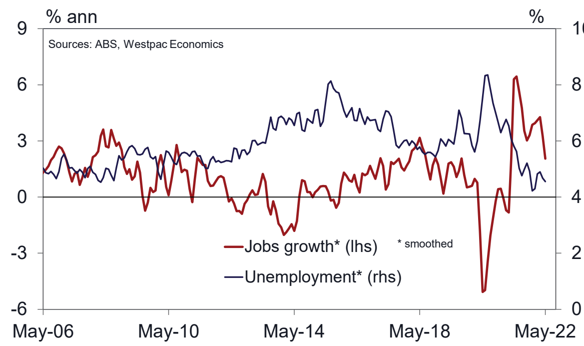
To achieve their ambitions with respect to employment and population growth, the SA Government is relying on an ambitious multi-year spending program across health and education as well as transport and energy infrastructure.

The 2022-23 Budget also sees a continuation of broad-based support for industry and job creation into the medium-term. And, to combat current cost of living pressures, there is also aid for household finances.

An additional support that the SA economy has versus the east coast is housing affordability. While Adelaide saw rapid price gains during the pandemic similar to the other capitals, prior underperformance means the level of prices is materially lower. Ahead, SA house prices are likely to hold up better and remain more attractive to new interstate migrants looking for a better quality of life. The post-pandemic formalisation of hybrid and remote working should aid this trend.

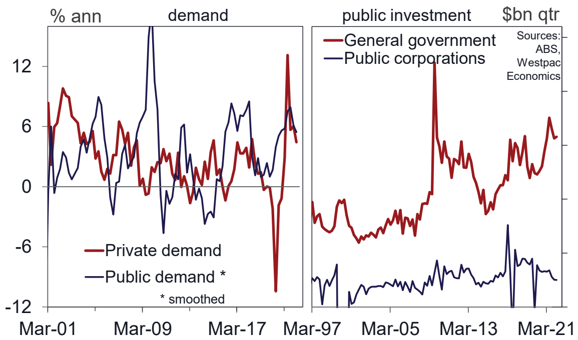
... founded on job creation and affordability

SA's labour market is tight

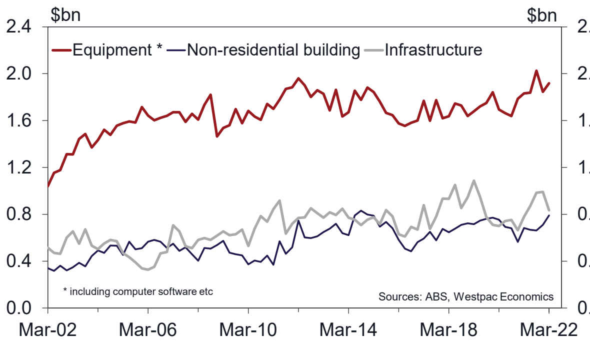


SA population growth has held up well

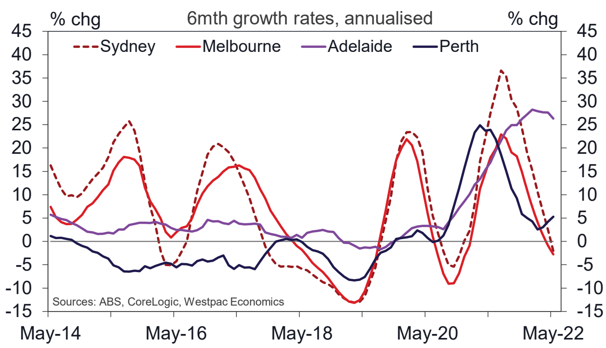
SA private sector momentum robust



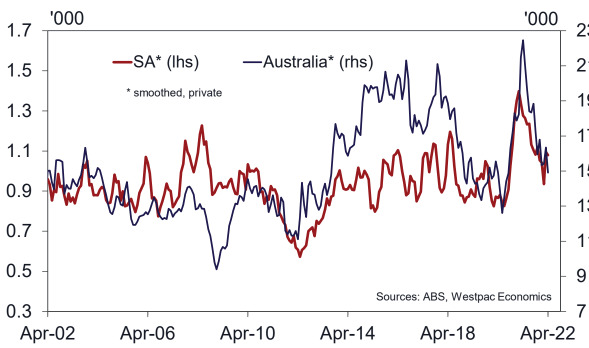
Business investment has strength



Home affordability in Adelaide's favour

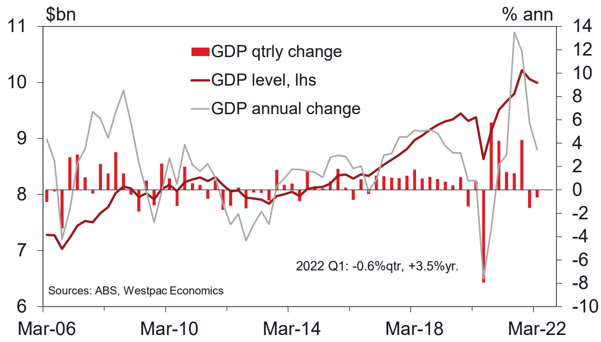


SA housing construction: pipeline positive



Pauses after sprinting ahead ...

Tasmania: pauses after sprinting ahead



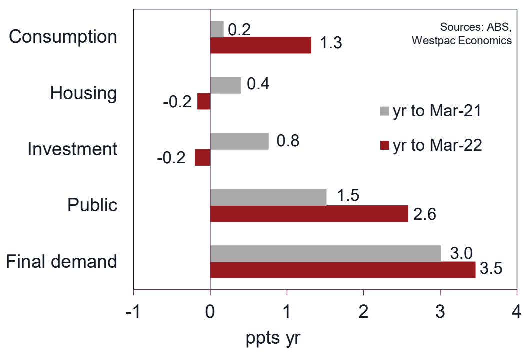
Tasmania's economy sprinted ahead during much of the covid period. The relatively smaller and isolated economy benefited most from stimulus and suffered less from covid disruptions.

As we foreshadowed, growth in Tasmania is set to throttle back after this period of outperformance. Indeed, over the past half year, there are signs Tasmania's economy paused for breath.

Domestic demand contracted in the December quarter, by -1.6%, and then fell by -0.6% in the March quarter, although in part this was due to omicron disruptions. Annual growth slowed to 3.5% after peaking at 13.5% in June 2021. Fewer disruptions point to activity rebounding in the June quarter.

Relative to the end of 2019, pre-pandemic, state domestic demand has increased by 7.3% - a little less than the national figure of +8.1% (after excluding the laggards of NSW and Victoria). Recall that as at September 2021, Tasmania was a clear stand-out, at +9.7% vs the rest (ex NSW and Vic) at +6.3%.

Tasmania: contributions to state demand

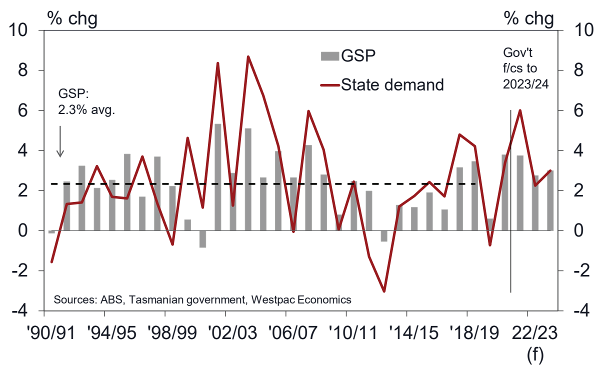


The softening of activity over the past half year reflects the fading impacts of earlier policy stimulus - a broadly based pattern across: home building, business investment, and public demand, as well as consumer spending.

The business equipment spending spree in response to very generous tax incentives has faded. Spending more than doubled between end 2019 and a spike in September 2021. Since then, spending is down 30%, subtracting 1.8ppts from activity.

New home building activity declined by 10% over the past half year despite a sizeable pipeline of work - with supply headwinds a factor. Near-term, that pipeline will act to support the level of activity. Approvals have retreated sharply - down 50% from their HomeBuilder program peak. This, and rising interest rates, which have already begun to bite, points to a downturn emerging in 2023 and beyond.

Tasmania economic performance & outlook



The Tasmanian government handed down the annual state budget on May 26. The government expects above trend output growth to endure across the forecast period. GSP grew by a brisk 3.8% in 2020/21 and then increased by an estimated 3.75% this year. Off this high base, growth is then forecast to be 2.75% in 2022/23 and 3% in 2023/24.

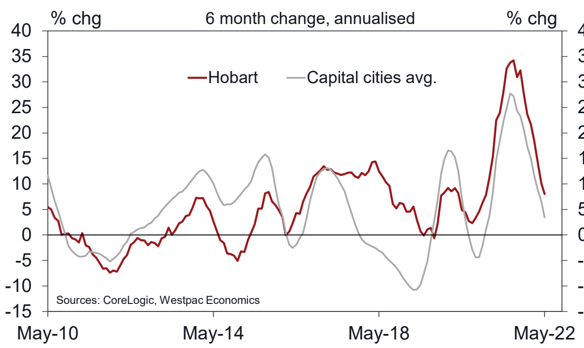
The expansion is expected to be driven by strong government expenditure, household consumption and increases in exports. The tourism and education sectors will be beneficiaries of the reopening of the national border, as well as increased domestic travel by those on the mainland.

Population growth - on the revised figures - is proving to be more resilient than previously thought, at 0.8% for 2021.

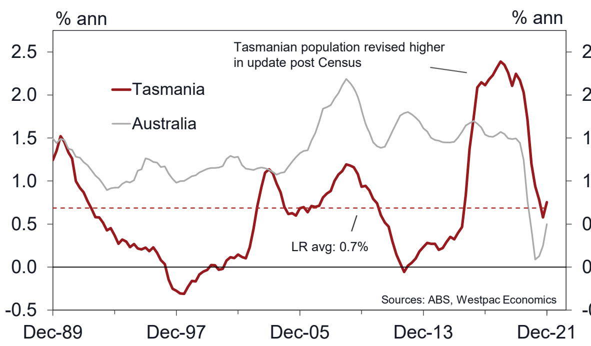
Potentially, there are downside risks to the three year growth view. The RBA tightening cycle is set to be more aggressive than appeared to be the case in late May. Higher rates will lead to a more pronounced loss of momentum in consumer spending and the interest rate sensitive housing sector.

... policy tightening to weigh on outlook

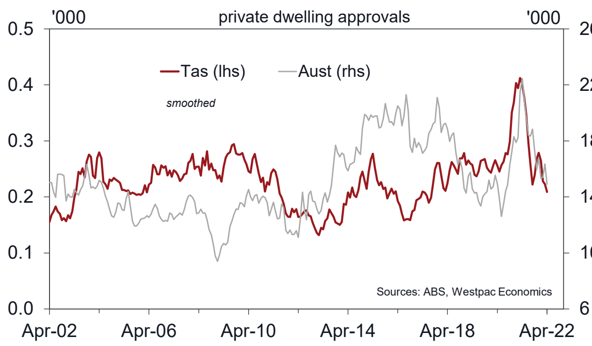
Hobart's red hot house prices: rapidly cooling



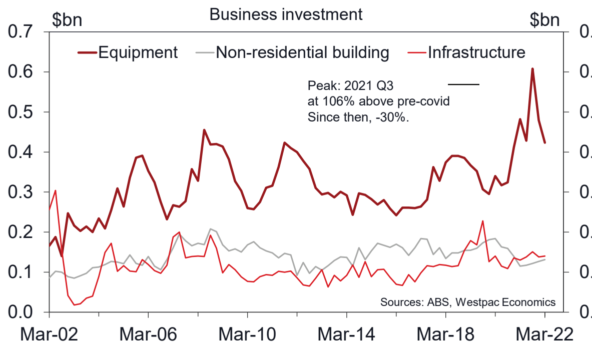
Tas population growth; slows to trend pace



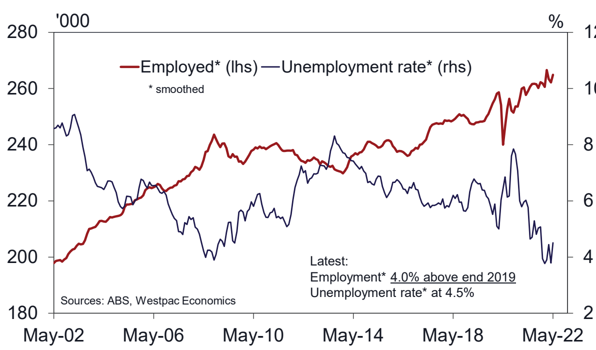
Dwelling approvals: post HomeBuilder let down



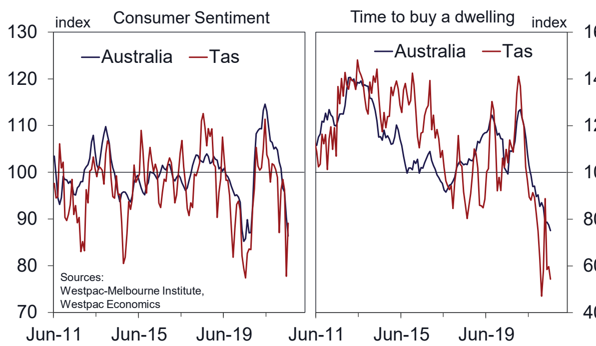
Equipment spending spree runs out of steam



Tasmania: employment, a strong uptrend

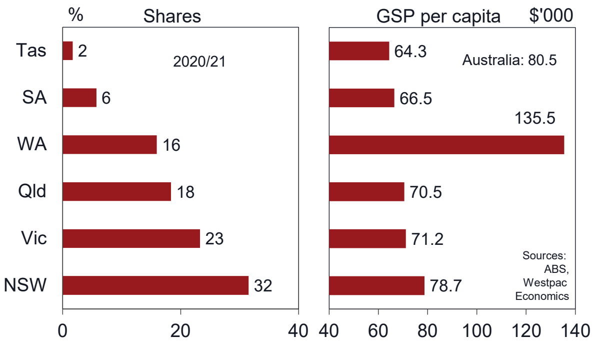


Consumer confidence

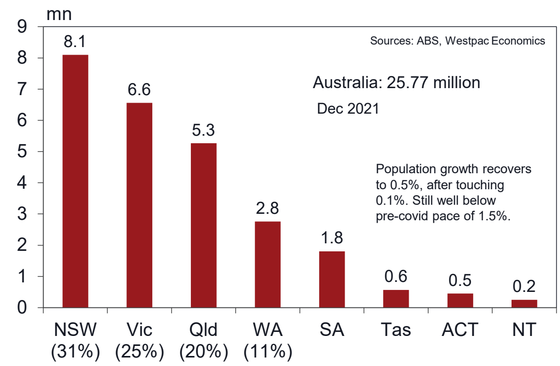


SUMMARY INDICATORS

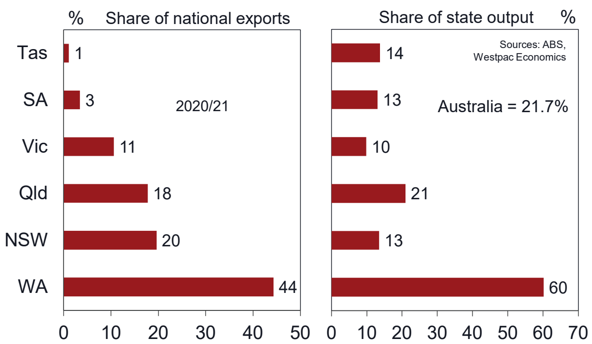
Gross State Product



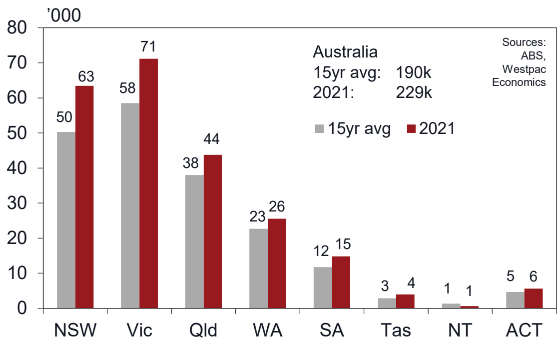
Population



Exports of goods & services



Dwelling approvals



Industry mix share of gross value add

	Australia	NSW	Vic	Qld	WA	SA	Tas	NT	ACT
Agriculture	2.6	1.9	2.4	2.9	2.1	5.6	11.2	3.7	0.1
Mining	10.6	2.3	1.1	11.0	42.5	3.6	4.0	25.6	0.1
Manufacturing	6.0	5.8	7.0	6.4	5.2	7.0	5.8	3.9	1.0
Construction	7.4	7.8	8.2	7.6	5.7	7.3	7.0	5.8	6.8
Transport, utilities	6.8	6.8	7.4	8.1	4.7	7.5	7.3	5.0	3.5
Wholesale, retail	8.8	9.6	10.5	8.6	5.4	10.2	7.7	6.3	4.7
Health, social assistance	8.2	7.6	8.8	9.2	5.5	11.0	13.9	8.4	9.5
Education	5.2	5.3	5.8	5.5	3.2	6.4	6.2	5.1	6.0
Household services	4.6	4.8	4.5	5.3	3.4	5.0	4.9	5.7	4.3
Finance	8.2	11.4	10.2	5.9	3.6	7.2	5.1	2.4	2.8
Business services	16.3	20.9	18.4	14.1	9.5	12.7	9.8	7.0	20.4
Public administration	5.9	5.1	5.6	6.0	3.4	6.4	7.1	12.4	32.0
Ownership of dwellings	9.4	10.8	10.0	9.4	5.7	9.9	10.1	8.6	9.0

Sources: ABS, Westpac Economics. For the 2020/21 financial year.

DISCLAIMER

Things you should know.

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