WESTPAC Coast-to-Coast December 2022.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

CONTENTS

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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.

Australian economy likely to stall in the second half of 2023

The recent national accounts for the September quarter were largely in line with our expectations and they further emphasised some of the key developments we see in the Australian economy that will lay the foundations for a modest growth outlook in 2023 and 2024. We continue to forecast a slowdown in the growth profile for the Australian economy from 2.6% in 2022 to 1.0% in 2023 and 2.0% in 2024.

The key to this profile is the consumer. Household consumption is forecast to slow from around 2% (6 month annualised) in the first half of 2023 to near zero in the second half. That would see growth through the year of 1.0%. The first half will benefit from the spill-over of the momentum in the second half of 2022, which is expected to run at around a 4% pace (six month annualised) while the building negative forces of a rising interest rate burden; the fading reopening of the economy; a much more modest fall in the savings rate than we saw in 2021 and 2022; a damaging negative wealth effect from falling house prices and negative real wages growth will weigh heavily on the household sector.

Consistent with a depressing outlook for domestic sales and the expiry of the tax allowances in June, business equipment investment is forecast to contract by around 7% in the second half of 2023. This hit to activity will be compounded by a contraction in new residential investment and in home renovation activity.

A six month period of a stagnant economy and no growth in household spending will alert the RBA to the need to ease policy settings in 2024. Overall output growth in 2024 is forecast to improve to 2%, with the bulk of that expansion (1.5%) coming in the second half of the year.

The sharp economic slowdown in 2023 will be partly engineered by the need for the RBA to continue lifting the cash rate in the first half of 2023 as wages growth and inflation remain uncomfortably high and growth holds at a 'respectable pace' in the opening quarter.

The themes from the September quarter national accounts – discussed below – are expected to extend through 2023. Risks to the profile are evenly balanced. Inflation and wages may fall much more quickly than we envisage, allowing the RBA to bring forward the rate cuts and avoid the last hike (to 3.85%) we are anticipating for May. On the other hand, inflation throughout 2023 may be stickier than we expect. The RBA would be unable to cut rates in 2024, as anticipated, condemning the Australian economy to another very difficult year with weak growth and no prospect of any interest rate relief.

Recent evidence on the evolution of the economy are supportive of our assessment.

The Australian economy expanded by 0.6% in the September quarter for annual growth of 5.9%. Household spending growth slowed in the quarter, from 2.1% in the June quarter, to 1.1%, although it did still contribute all of the 0.6ppts of overall growth. Motor vehicles sales and operations (0.4ppts); hotels, cafés and restaurants (0.4ppts); and transport services (0.3ppts) contributed most of the 1.1ppt growth in household consumption. While not as strong as in the June quarter, the opening up effect was once again apparent as a key driver of consumer spending.

Part of this lift in spending was funded by a further fall in the household savings rate from 8.3%, in June, to 6.9% (which freed up $4.2bn), although the major fall from a peak of 19.4% in September 2021 (associated with the delta lockdowns) has largely worked its way through.

The impacts of high inflation and rising interest rates are becoming increasingly apparent. Households were challenged by a sharp increase (2.0%) in the household consumption deflator up from 1.5% in the June quarter and the fastest quarterly gain since March 1988. Moreover, while nominal household incomes rose by $8.2bn in the quarter, there was a substantial leakage of $5.1bn in higher interest payments (up from $1.4bn last quarter) as rising interest rates bite.

Prospects for growth in consumer spending are easing as the reopening effect fades and the savings rate settles back at a more normal level. However, given the accumulated $260bn in excess household savings, it is likely that the savings rate will fall below equilibrium (judged to be around 6%) as households draw on these excess balances. We expect that through 2023 that savings rate can drift down to around 3% but our forecasts anticipate that the boost to available spending power will be more than offset by the rising interest cost.

Some specific drag on activity is apparent from the weak real estate market, which subtracted 0.2ppts from growth in the September quarter.

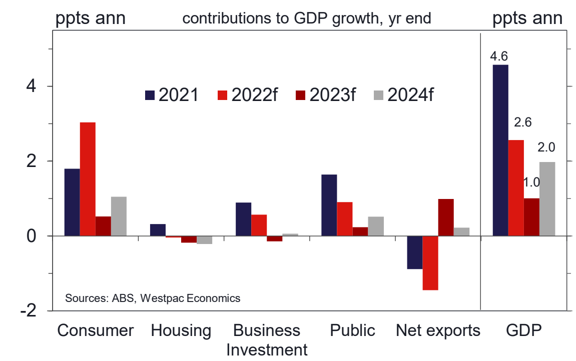
In summary, as we move forward, the reopening effect will fade; property weakness will linger; the savings rate will find a floor; and consumer spending growth will continue to slow. In addition, the drag on incomes from rising interest rates will intensify through 2023.

The economic slowdown will be felt nationally, as consumers across each of the states reign in spending. Here in this Report, we assess current trends across the state economies and consider the prospects for the year ahead as the headwinds intensify.

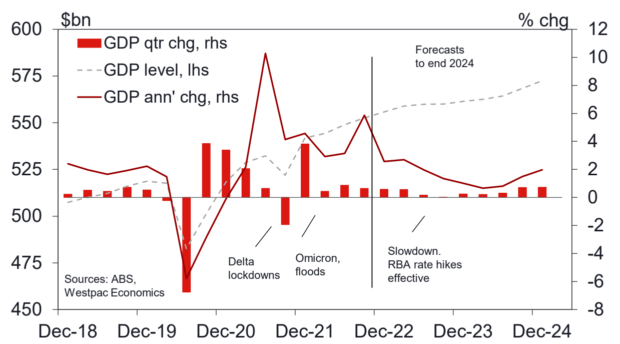
Bill Evans, Chief Economist

Australian Economic Outlook

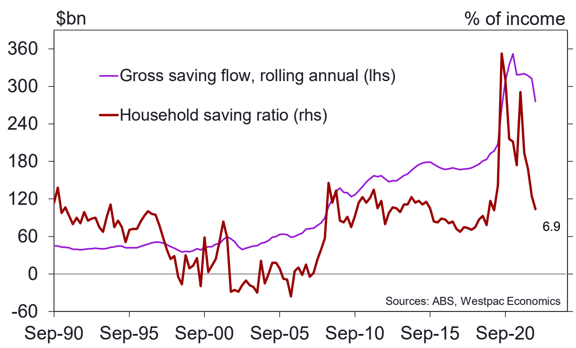
Australia: the growth mix



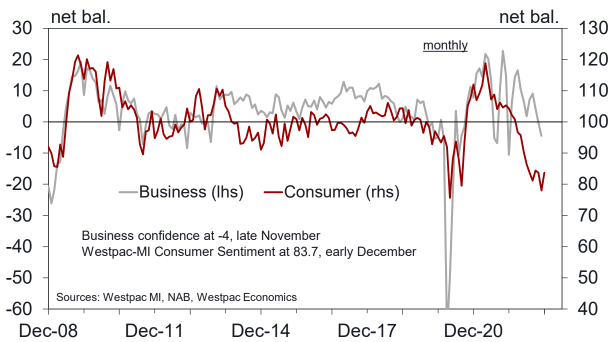
Australian economy: sharp slowdown ahead



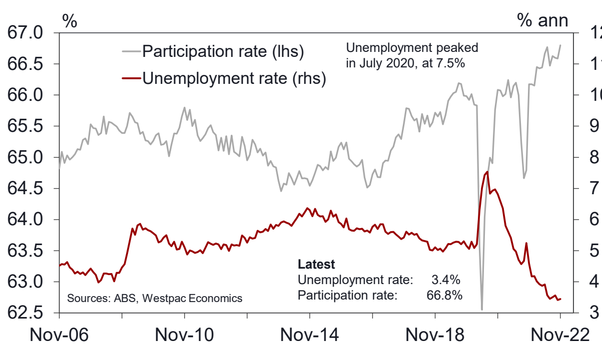
Household saving ratio and gross saving flow



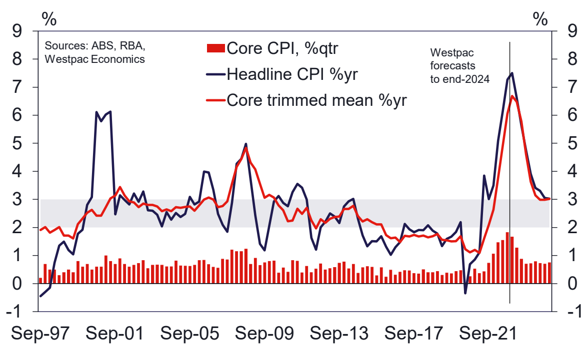
Confidence: consumers and businesses



Unemployment at 3.4%, a 48 year low



CPI inflation to hit 7.5%yr in Q4 2022



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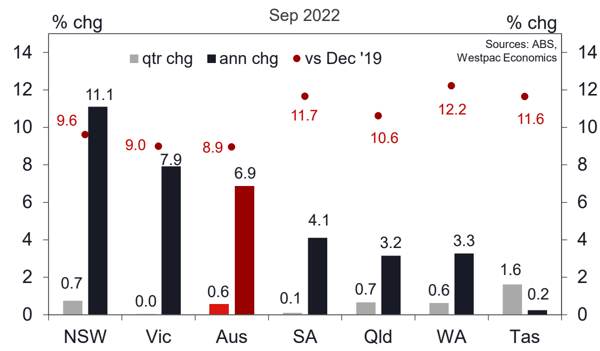
Demand growth cools, a fading reopening effect ...

Final domestic demand: across the states



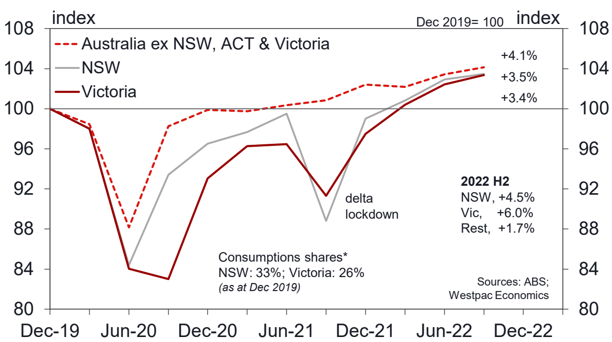
Domestic demand nationally expanded by 0.6% in the September quarter, progressively slowing over the past year (from 3.4% for Q4 2021, to 1.7% and 1.0% for Q1 and Q2 2022) as the post delta rebound fades and as high inflation and sharply higher interest rates impact.

Across the states, WA, Qld and NSW all grew in line with the national outcome for the September quarter, while demand was broadly flat in Vic and SA.

Annual demand growth figures highlight the reopening effect from delta lockdowns, with NSW and Victoria leading the way at 11.1%yr and 7.9%yr respectively. It is a sizeable step-down to SA (4.1%yr), and then WA and Qld (at around 3.2%yr).

Even with the post delta catch-up, NSW and Victoria still lag the other states on growth in the post covid period, at 9.6% and 9.0% respectively - with Qld next at 10.6%.

Consumer spending per capita

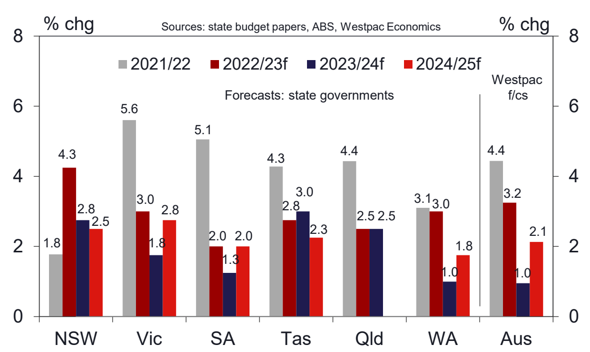


Spending by consumers has been at the centre of the reopening effect - with fewer restrictions enabling a rebound in services expenditure, particularly hospitality and travel.

Nationally, consumer spending grew by 1.1% in the September quarter, following outcomes of 6.4%, 1.8% and 2.1%. In NSW, consumer spending is 17.9% higher over the past year, followed by Vic, 14.8%yr, and then back to SA, 6.9%yr. Here, the catch-up is largely complete - with spending in NSW and Vic on a per capita basis during the post covid period (+3.5% and +3.4%) converging on that across the rest of the nation, +4.1%.

New home building activity rebounded nationally in the September quarter, +3.4%, on fewer disruptions (covid and flooding). The post covid experience for this segment has been vastly different across the states. Work in NSW and Victoria is below pre-covid levels, –11.5% and –7.3% respectively, hit by material and labour shortages, while it is up elsewhere, +6.4%.

Growth outlook by state: GSP



Headwinds from high inflation and sharply rising interests are becoming increasingly apparent. In the September quarter, consumer spending on retail goods was squeezed by a loss of purchasing power and the real estate sector weakened.

As these headwinds intensify, growth is set to slow appreciably in 2023. This will be a national trend and will be lead by consumer spending, with spill-overs to business.

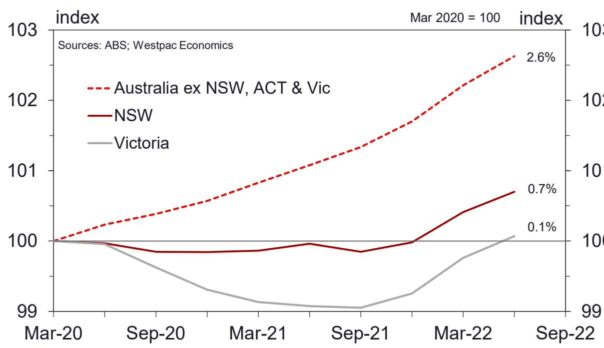
Westpac Economics is forecasting output growth nationally to slow from 2.6%yr for December 2022 to 1.0%yr for December 2023, then lift to 2.0%yr for December 2024. On a financial year basis, year average growth is forecast to slow from 3.2% for 2022/23 to 1.0% for 2023/24 and then around 2% for 2024/25.

As we finalise this Report (December 20) mid-year budget reviews were available from Qld, WA and SA, as well as the end October Victorian pre-election update. The NSW update is from June, Tasmania from May.

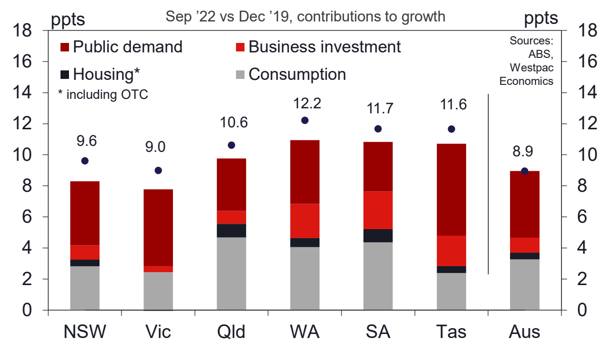
On our reading of the economy, the risks to the state government growth forecasts are tilted to the downside for the 2023/24 financial year - see chart opposite.

... and headwinds intensify

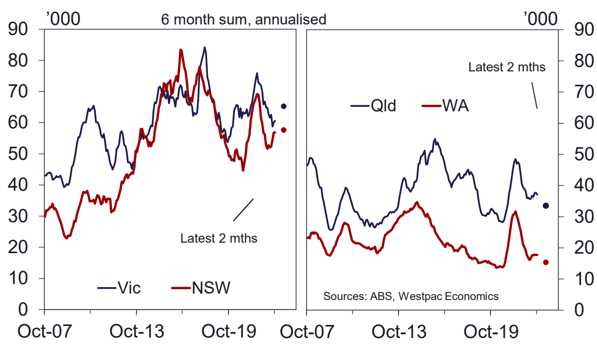
Population trends



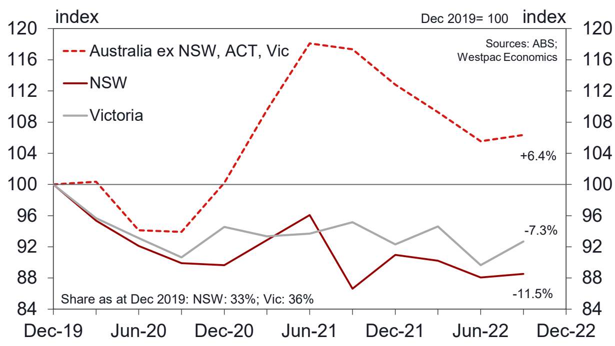
State final demand: vs pre covid



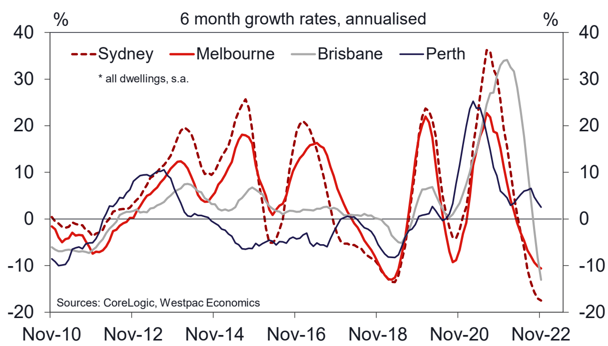
Dwelling approvals: post HomeBuilder let down



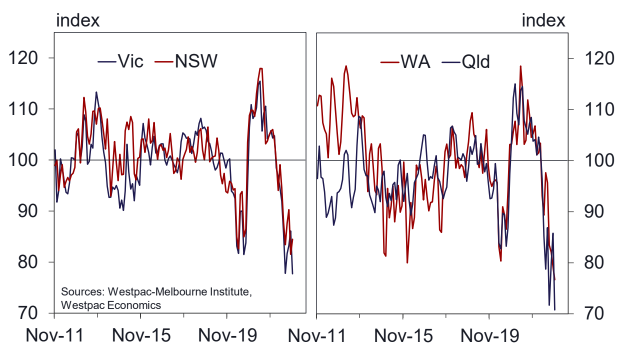
New home building activity



Dwelling prices: retreat on rapid rate rises

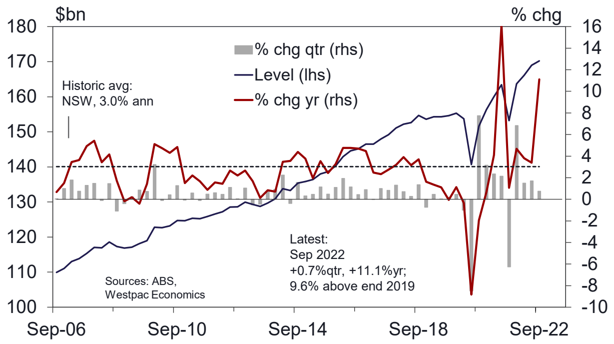


Consumer sentiment



Reopening effect continues ...

NSW state final demand: up sharply



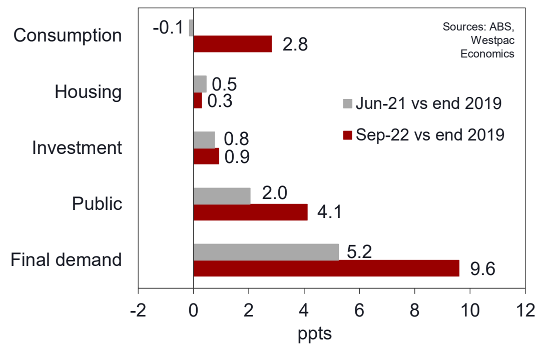
The NSW economy recorded a robust result for the September quarter as the reopening effect continued, building upon the brisk post delta rebound of the previous nine months.

State demand grew by 0.7% in the quarter, following outcomes of -6.3% for the corresponding quarter a year ago (the delta lockdown) and then +6.8%, +1.5% and +1.7%.

Annual demand growth in NSW lifted to 11.1%, the strongest of any of the states - with Victoria next at 7.9%. However, the level of activity, which is 9.6% above that pre-covid (December 2019), is the weakest of the states (except Victoria, at 9.0%).

Consumers are spending more freely on services but ongoing supply headwinds, around labour and material shortages, remain a constraint. In addition, the impacts of high inflation and sharply higher interest rates are becoming more apparent - a dynamic which will see growth slow abruptly in 2023. Also, with the national border reopening, many more residents are holidaying abroad, taking their spending dollars with them.

NSW: contributions to state final demand

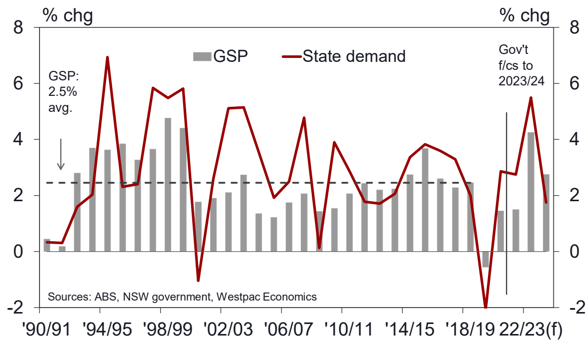


For the September quarter, the 0.7% increase in state demand reflected broad based gains in spending - across consumers (0.9%), home building (0.9%), business investment (2.8%) and public demand (0.7%). The real estate sector, hit by rising interest rates, was a major drag, with turnover 15.5% lower in the quarter, directly subtracting 0.3ppts from state demand.

Consumer spending grew by 17.9% over the past year, recovering from the delta lockdowns. Hospitality in NSW continued its recovery in the September quarter, up by a further 6.4%. On a per capita basis, total consumer spending in NSW is 3.5% above that pre-covid, converging towards the national figure (ex NSW, Vic, ACT) of +4.1%.

The new home building sector, hit by shortages and disruptions in NSW, remains an under performer in the covid period - with work actually lower, down by –11.5%, while it is higher across the rest of the nation (ex NSW, Vic, ACT), up by 6.4%.

NSW economic performance & outlook



The business and public investment cycles also provide insights into the dynamics of the NSW economy.

Up to the September quarter, businesses expanded spending on equipment investment - to be a sharp 19% above pre-covid levels. Firms have responded to rising domestic demand, limited spare capacity and a scarcity of labour. This contrasts with non-residential building activity, which is 6% below pre-covid levels, impacted by supply headwinds.

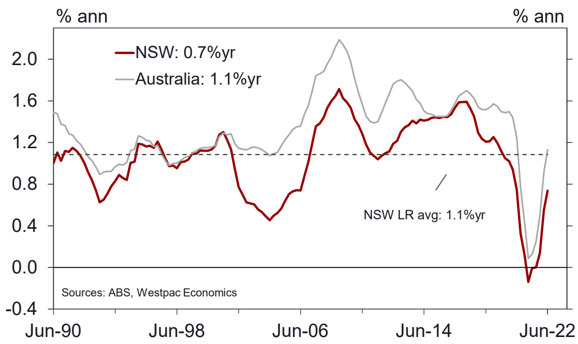
State fiscal policy has been supportive of the economy, including an upswing in public investment focused on transport infrastructure. Public investment is 9% above pre-covid levels.

The 2023 year will be a challenging one for the NSW economy, as evident from the deeply pessimistic mood of consumers - with sentiment in the state at 81.3 in December. Dwelling prices have retreated by 11% from the January high, with the risk of further downside as the RBA continues to raise interest rates.

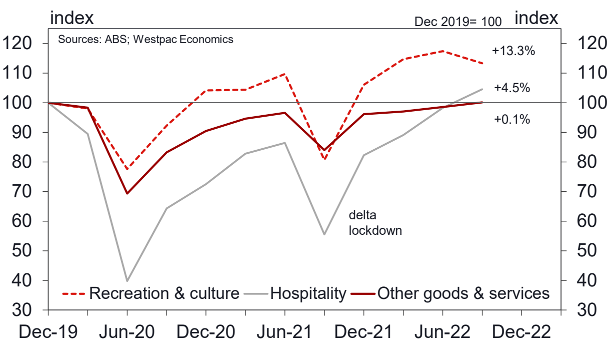
Consumer spending strength of 2022 will give way to a potentially stalling over the second half of 2023, which will have negative spill-over effects to business spending.

... ahead of a challenging 2023

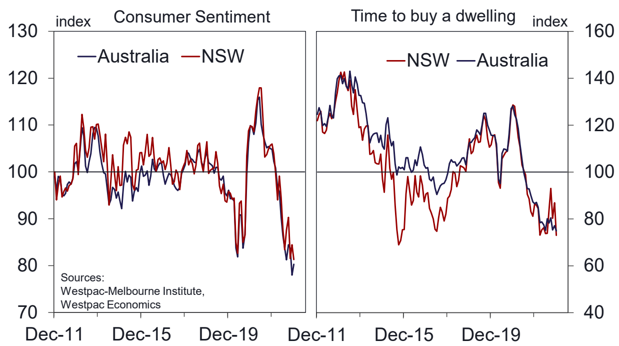
NSW population growth rebounds



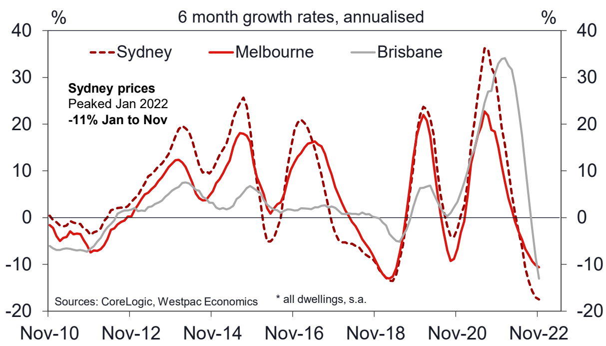
NSW: consumer spending trends



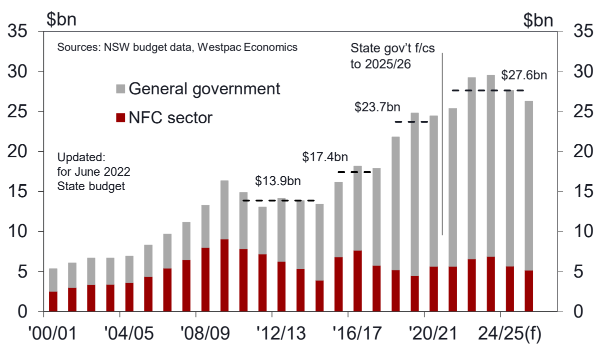
Consumer confidence: deeply pessimistic



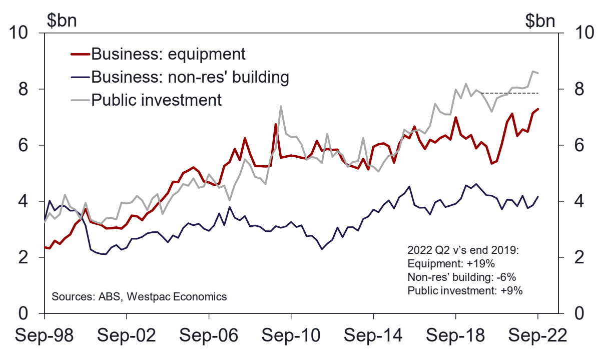
Sydney dwelling prices: in retreat



NSW government capital expenditure

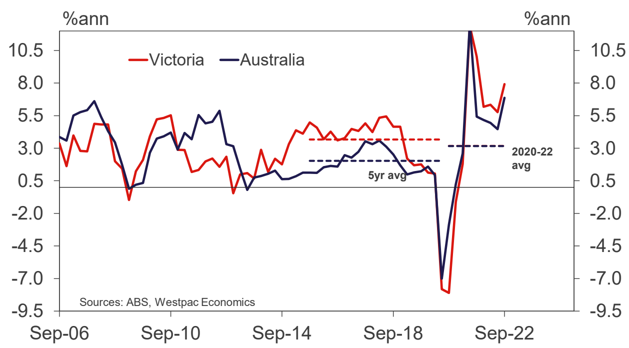


Investment cycles



Turbulence ahead ...

Victorian demand: post-delta rebound ends

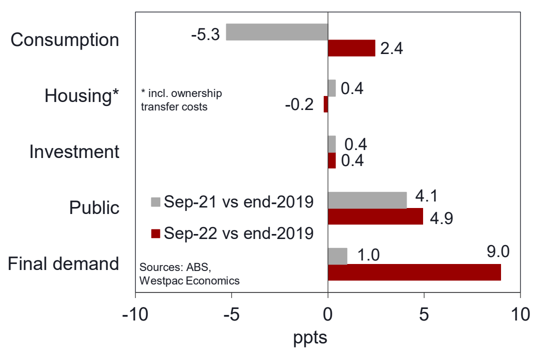


The Victorian economy rebounded strongly in 2022 after two 'lost years' during the COVID-19 pandemic. GSP surged 5.1% in 2021-22 after recording no net growth over 2019-20 and 2020-21, the virus outbreak hitting the state considerably harder than others. Activity is now comfortably above pre-COVID levels.

The pace of gains from here will depend on the extent to which a resurgence in migration-driven population growth offsets the shock from a rapid rise in interest rates – the Vic state economy being more sensitive than most to both of these drivers.

Both themes are already becoming apparent, with the interest rate hit to the state's housing sector impacting in the September quarter and resurgent migration inflows lifting annual growth in Vic's working age population to 1.9%, from –0.2% a year ago. Rate rises are likely to dominate but consumer spending will be a key guide to how these two forces are netting out in 2023.

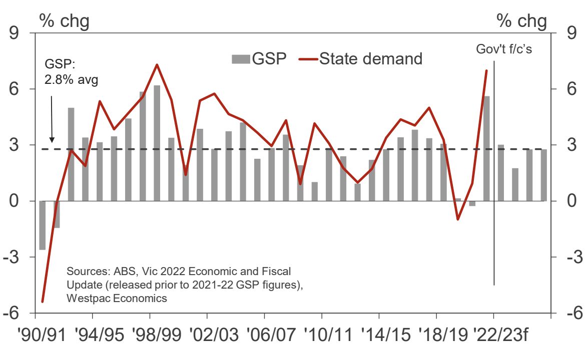
Vic: contributions to state final demand



State final demand stalled flat in Q3. Consumer spending slowed (+0.7% vs +1.2% in Q2) and there were sharp falls in renovation activity (–9.7%), equipment investment (–8.2%) and ownership transfer costs (mainly real estate transactions, –10.4%). Note that the quarter pre-dated weather disruptions, floods affecting much of the state and parts of Melbourne in October. Detailed labour force data also suggests disruptions from weather and COVID-related illness were in line with previous quarters.

Annual growth lifted to 7.9% but is flattered by base effects, 'delta' lockdowns impacting heavily in Q3 2021. The quarter did still see some gains: infrastructure spending up 8.2%qtr, new dwelling investment up 3.4%qtr and public investment up 1.8%. However, other components were flat and public consumption continued to cycle lower, –1.4%qtr, mainly reflecting the unwind of pandemic-related health spending. The state's labour market remains very tight, the unemployment rate hovering around 3.7% and wages growth starting to lift in line with the rest of Australia.

Vic economic performance & outlook

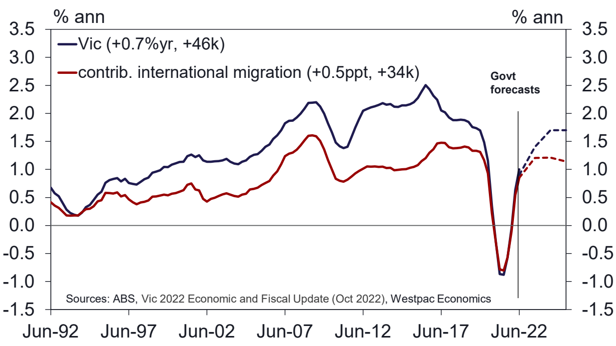


The consumer spending outlook for 2023 is challenging, notwithstanding resurgent population growth lifting the base for total spend. Price increases and a rapid rise in interest rates are clearly squeezing budgets. Victorian households appear to be more leveraged than their interstate peers and have run lower savings rates over the last three years, suggesting their accumulated financial buffers may be smaller. Housing-related drags also look set to intensify with dwelling approvals pointing to a weakening in new dwelling construction and continued price falls raising the risk of a significant 'negative wealth effect' on consumer spending.

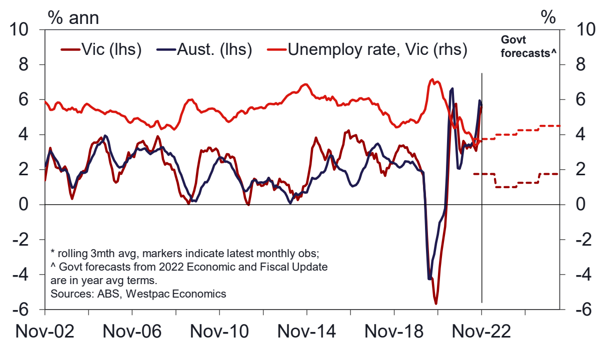
The state government's latest forecasts – released at the end of October prior to the state election – have GSP growth slowing materially from 5% in 2021-22 to 3% in 2022-23 and 1.75% in 2023-24 but with a slightly tighter labour market and firmer wage growth throughout. The poll saw the ALP state government re-elected, with key commitments around increased funding for health (costed by the DTF at $5bn) and transport ($2.3bn) partially funded by reduced payments towards the state government's unfunded super liabilities ($3bn).

… rate rise shock hitting just as population resurgence begins

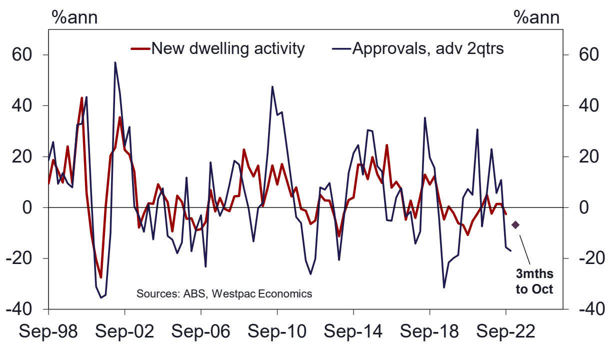
Vic's population growth: rebounding



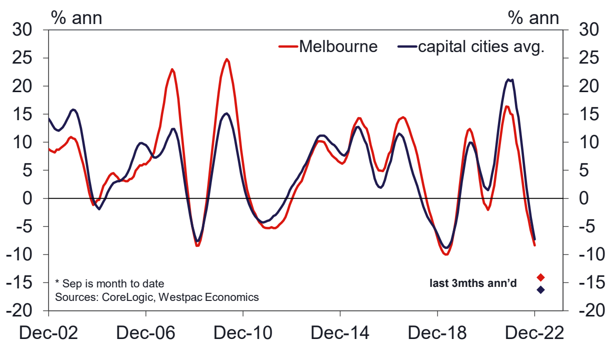
Victoria: jobs growth and unemployment



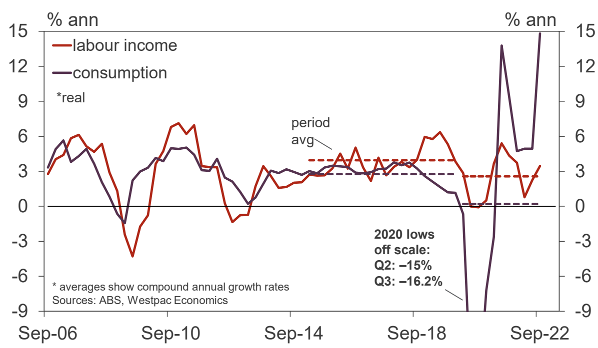
Vic housing construction



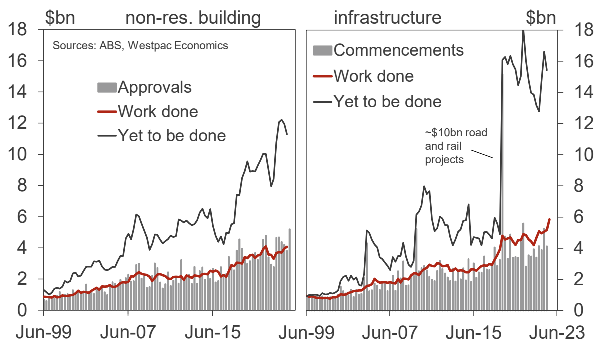
Melbourne house prices



Vic households: incomes and spending

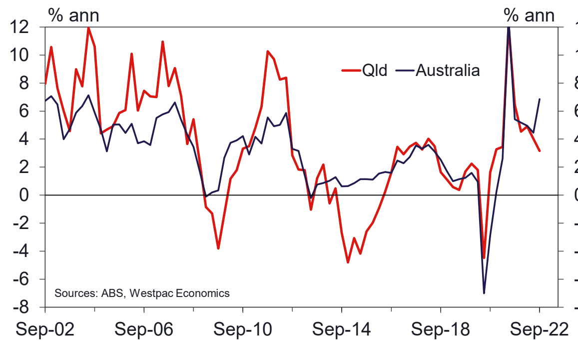


Vic's non-res construction pipeline: cost rises



Opportunities to be found ...

State final demand: Qld vs Australia



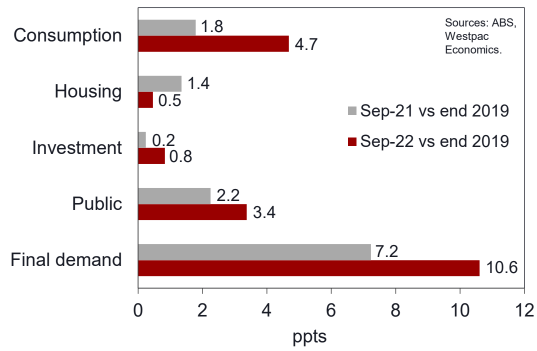
Queensland's state economy grew at a sound pace in Q3, with state final demand advancing 0.7%. Having avoided the brunt of the 'delta' lockdowns, annual growth is relatively more subdued (3.2%yr), but compared to end-2019, state growth in Queensland is still ahead of NSW and Victoria at 10.6%.

Growth in state demand was finely balanced in Q3, with private business investment and public demand contributing solidly in the context of a softer read for consumption.

Indeed, consumption was the weakest across the nation in Q3 (0.6%). Aided by easing supply chain issues, spending on new vehicles (+14%qtr) and operations (+6.5%qtr) managed to offset the decline in energy (–33%qtr) from state energy rebates.

The public sector remained supportive in Q3 (0.9%), with solid growth in public consumption (+0.9%qtr) and public investment (+1.0%qtr) adding 0.3ppts to growth in the quarter.

Qld: contributions to state final demand

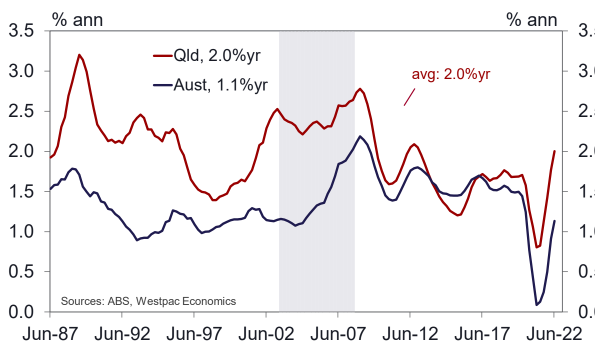


Dwelling investment continues to lag the broader recovery, stalling to 0.1% growth in Q3 with weakness shared evenly between new home building (–16%yr) and renovations (–12%yr).

On housing, Queensland's property market has abruptly turned from a vigorous boom to steep declines. As noted in our latest Housing Pulse, turnover, prices and sentiment in Qld have all moved sharply weaker into the later half of this year, and this weakness is set to persist until early-2023. Strong fundamentals should provide some resilience in the correction though, with prices expected to fall less in Qld than in NSW/Vic in 2023.

It is therefore constructive that new business investment forged ahead in Q3 (+2.1%), supported by strength in engineering work (+3.1%qtr), non-residential construction (+5.7%qtr) and an up-trend in equipment investment (+0.9%qtr). The sizeable pipeline of investment projects can provide some level of support over the medium-term, but the outlook remains challenging.

Pop. growth rebound above national average



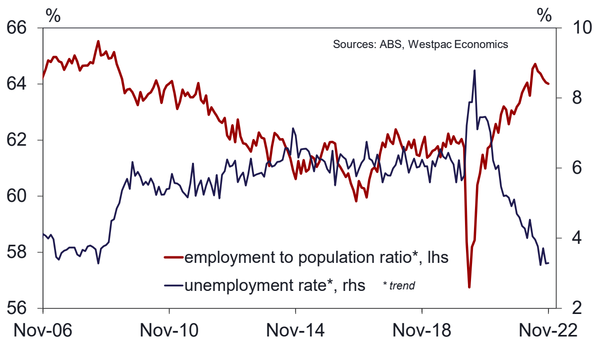
Regarding the recovery in population growth, Qld remains the clear front-runner nationally. Qld's state population has returned to its long-run average in Q2, at 2.0%yr, well above the national average of 1.1%yr. Driving the result is a sustained increase in net interstate migration from NSW and Victoria, though overseas migration flows are also holding at an appreciably strong pace.

Into the longer-term, the focus on productivity and capacity growth will be aided by targeted investment and the recovery in migration. On the former, it was encouraging to see the 2022/23 Budget Update deliver a $3bn upgrade to regional infrastructure investment as a result of additional coal royalties.

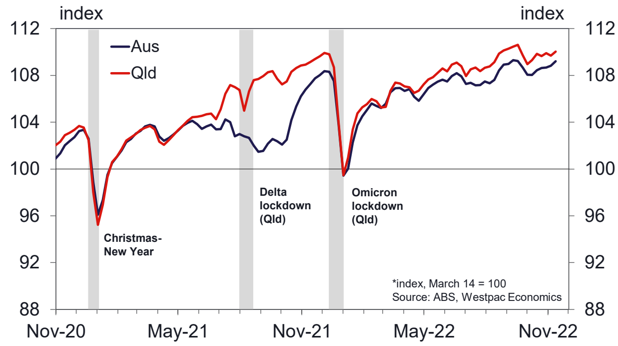
It is worth noting that Qld has the highest underemployment rate and lowest participation rate and employment-to-population ratio across the major eastern states. For the investment to therefore prove sustainable, it must complement migration's strength in Qld's key sectors and support growth in household income through a diversification of job creation.

… in sustainable investment and the migration recovery

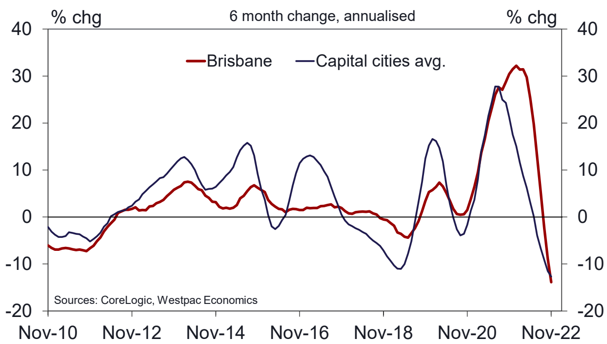
Qld labour market in robust health



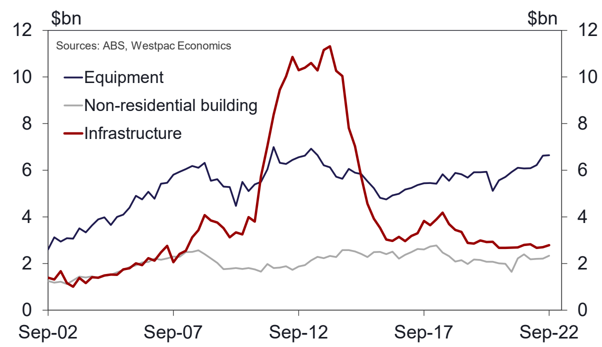
Payrolls: Qld continues to outperform



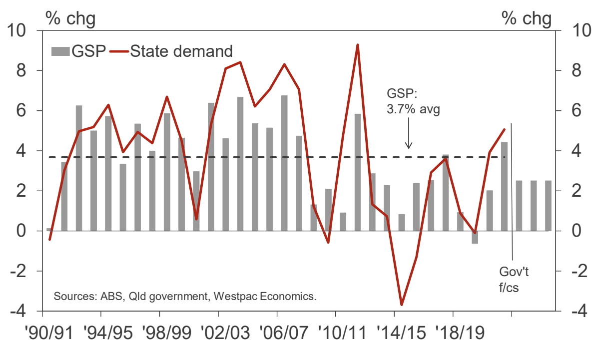
Brisbane housing market correction deepening



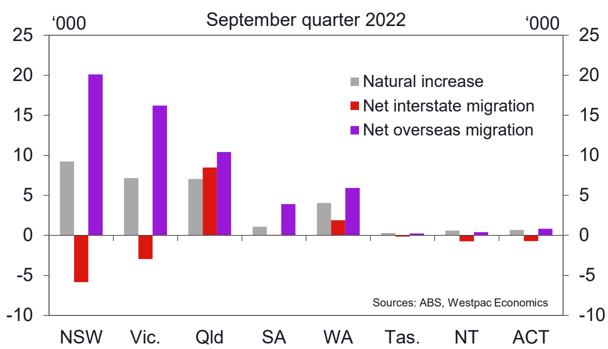
Qld business investment has nascent strength



Qld economic performance & outlook

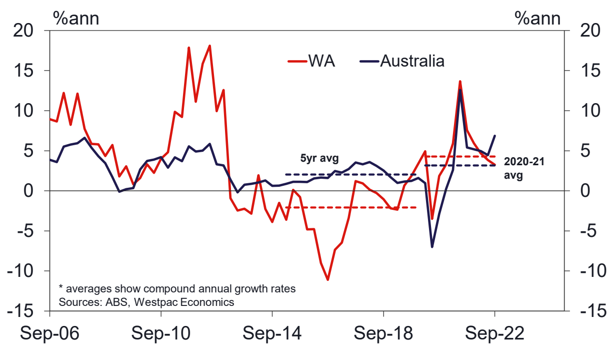


Promising return of overseas migration



Solid finish to 2022 but domestically-driven slowing ahead ...

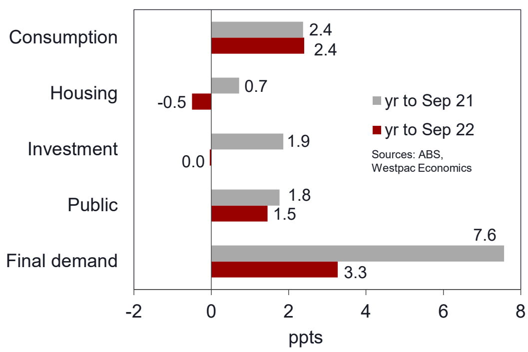
State final demand: WA vs Australia



WA largely dodged the COVID disruptions that drove sharp economic contractions in 2020 and 2021. Annual average GSP growth held at a 3-3.5% pace through 2020-21 and 2021-22. Momentum slowed over the first half of 2022, several factors at play including COVID disruptions to workforces, rising inflation and a downturn in previously booming dwelling construction. However, activity appears to be lifting again into year-end.

Looking forward, a renewed slowdown is likely in 2023, driven by domestic factors. The downturn phase in WA's housing sector has further to run although prices have held up relatively well to date. WA consumers will also be impacted by higher interest rates but are better-placed than their interstate peers. The state's large mining sector is the main wildcard. Conditions here have been mixed – commodity prices elevated but volatile against an uncertain global and policy backdrop, and capex plans subdued. The stars may yet align for a more material upturn in mining investment but at this point this looks to be some way off.

WA: contributions to state final demand

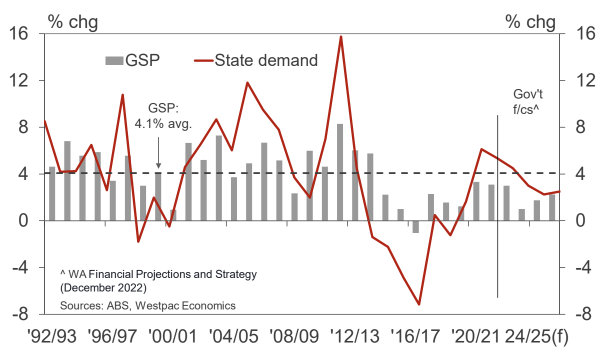


State demand has had a patchy year, a 1.8% burst in Q1 followed by a subdued 0.2% gain in Q2 and a 0.6% rise in Q3. Some of this relates to virus impacts on workforce availability with 20% of the state's employees working fewer hours due to sickness in Q2. Hours worked recovered in Q3 and lifted further in Oct-Nov.

Consumption growth has maintained a relatively strong pace, running at 4.8%yr through to Q3 (noting the base for comparison is unaffected by the delta lockdowns). Gains have been sustained despite a moderation in real income growth, as higher inflation has eaten into purchasing power. WA consumers have been dipping into savings buffers to sustain spending. That said, savings rates appear to be significantly higher in the west.

Dwelling investment has turned down sharply, falling 13%yr after a 20%+ gain the year prior. The state-supplemented Federal HomeBuilder scheme had a very large impact in WA that is now unwinding. Approvals point to more unwind to come.

WA economic performance & outlook

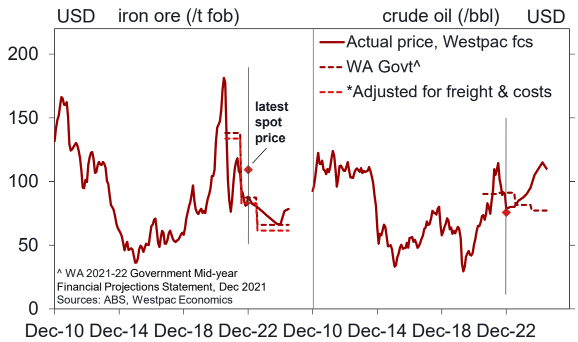


Business investment stalled in 2022, having held up well in 2020 and posted a strong gain in 2021. The detail shows a volatile quarterly profile with component swings offsetting. Non-residential construction had a strong Q3 after a weak first half (+6.0%qtr; 5.9%yr). Conversely, equipment spend fell sharply in Q3 after strong gains in the first half (–9.6%qtr, –5%yr). Surveyed CAPEX plans point to a solid 11% increase in mining investment in 2022-23 although some of this will reflect rising costs.

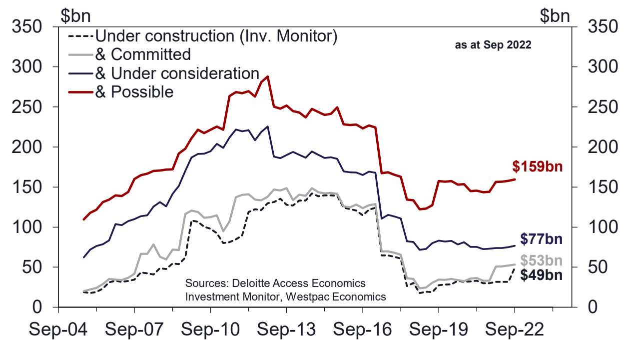
Public demand remains a solid support for activity, up 5.7%yr led by public consumption spend rather than investment. That said, public infrastructure work is set to lift. The State government booked a record surplus of $6bn in 2021-22, its credit rating subsequently upgraded to AAA by S&P. The Government plans to invest heavily in infrastructure over the next four years, with a record $35bn in projects, about half of which is road and transport. The government expects GSP growth to slow back to just 1%yr in 2023-24.

... as conditions remain mixed for mining sector.

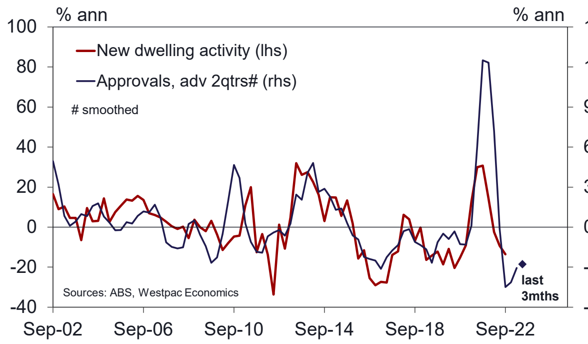
Commodity prices: iron ore & crude oil



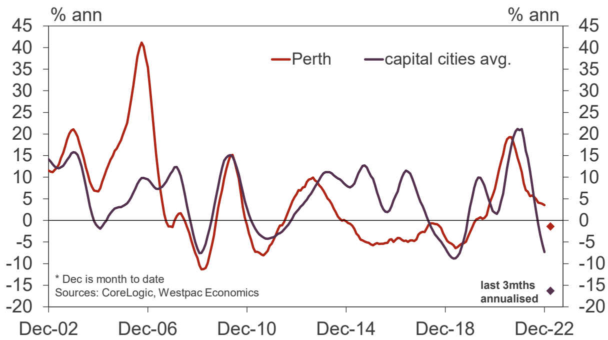
WA's project pipeline: slight lift



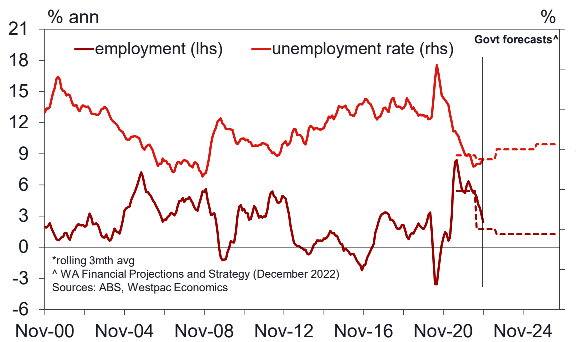
New dwelling inv. cycling big HomeBuilder surge



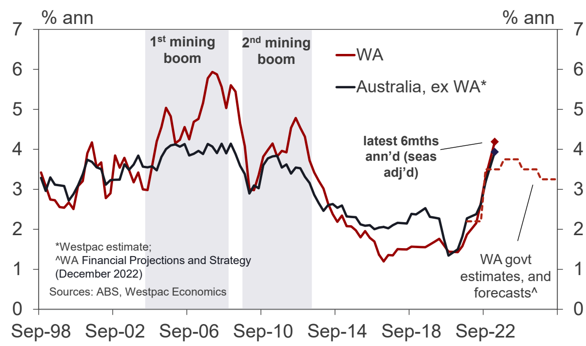
Perth house prices: less exposed to correction



WA labour market extremely tight

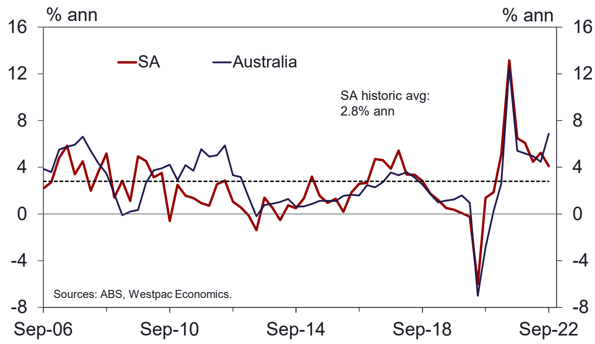


WA wages growth lifting



A patchy performance ...

State final demand well above pre-COVID level



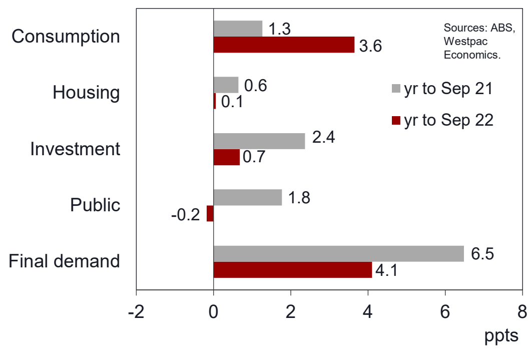
Growth in South Australia fell nearly flat in Q3, state demand rising by only 0.1% to be up 4.1%yr. Underlying these results was a patchy performance across the state's economy.

Household consumption continues to be the key highlight in South Australia (+1.5%qtr; +6.9%yr), outpacing the other 'delta-insulated' states of Qld and WA, supported by the recovery in hospitality (+3.3%qtr) and recreation (+2.6%qtr) spending.

However, households' strength was effectively offset by the weakness in public demand which continued to subtract from aggregate momentum in Q3 (–2.8%qtr). Of note, the down-trend in public investment remains well-entrenched (–20%yr).

More positively, strength in business spending continued to crystalise in Q3 (+2.8%qtr) with engineering work (+4.3%qtr), non-residential construction (2.8%qtr) and equipment investment (+2.5%qtr) all contributing to growth.

SA contributions to state final demand

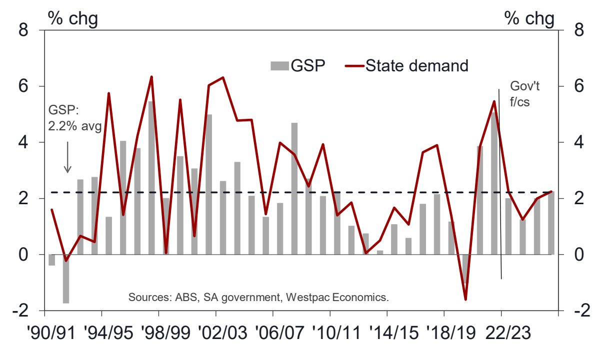


As is the case across the nation, South Australia is coming under pressure from a rapid rise in the cost of living and interest rates. Constructive for the South Australian economy however is their robust labour market and comparably affordable housing.

On the labour market, it is promising to see: the unemployment rate continue to trend downward after bouncing from the record low in August; the employment-to-population ratio rise to a historically high 61.0% in October; and the participation rate reach just 1ppt off the record 64.4%.

Both the current tightness of and prospects for the labour market crucially depends as much on population growth as it does job creation. It is therefore encouraging to see overseas migration begin to drive headline population outcomes in SA. This must however continue at pace in order to provide long-lasting gains, noting that South Australia's population growth (1.0%yr) remains a fraction under the national average (1.1%yr).

SA economic performance & outlook



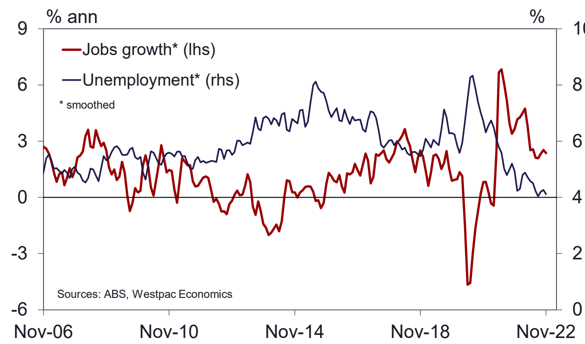
South Australia's housing market also remains a relative source of strength. This is most evident by the fact that unlike most of the nation, both turnover and prices will likely finish higher for the 2022 calendar year, supported by a very tight supply-demand balance and a favourable affordability setting.

Still, the shock from rapidly rising interest rates has begun to materialise in the final months of the 2022, with prices now declining and turnover flattening. The SA Consumer Housing Sentiment index has also weakened notably, pointing to a sharper loss of momentum heading into 2023.

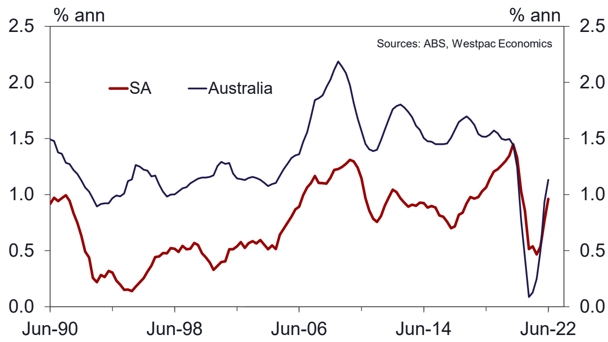
Indeed, the support from dwelling investment also continued to wane in Q3 (–4.3%qtr), led by sharp decline in renovation work (–9.1%qtr) as new dwelling construction posted a modest fall (–0.3%qtr). The substantial pipeline of housing construction projects should provide some level of support over the medium-term, though the outlook is becoming increasingly clouded by the emerging impacts of the RBA's rapid tightening cycle.

… amid broadening headwinds

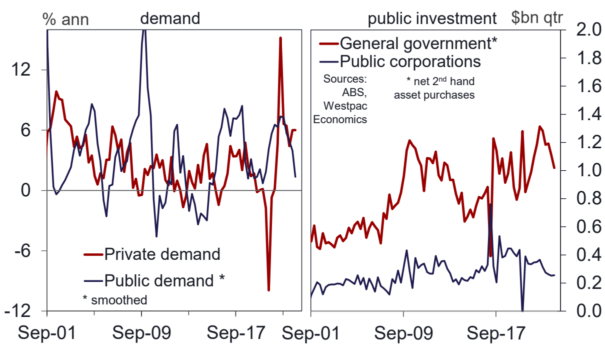
SA's labour market is tight



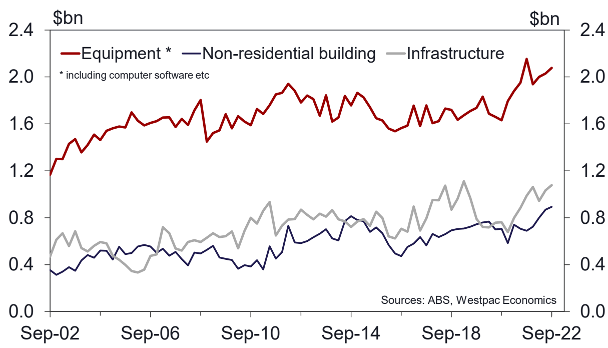
SA population growth beginning to recover



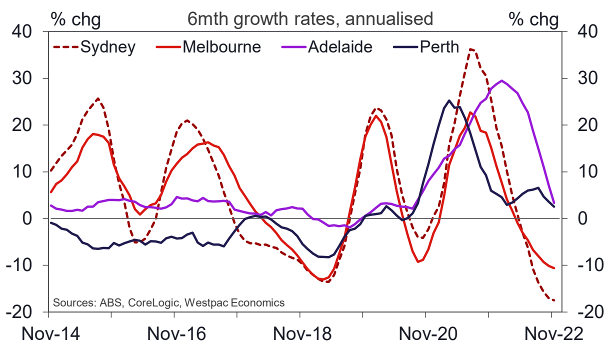
SA private sector momentum robust



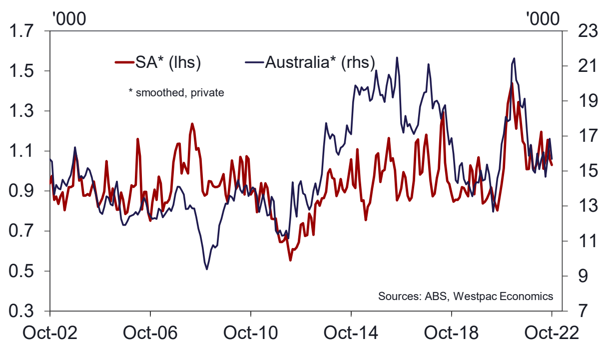
Business investment has strength



Home affordability in Adelaide's favour

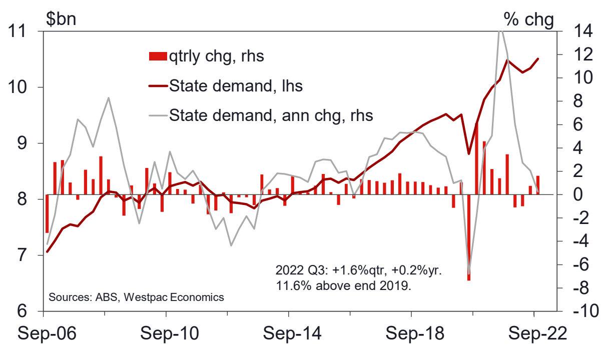


SA housing construction: pipeline positive



A stop-start 2022 ...

Tasmania: bounces into spring



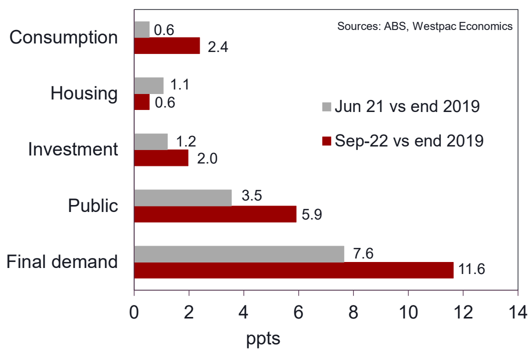
The past 12 months has been a stop-start period for the Tasmanian economy. The let down from the earlier stimulus fuelled spending burst was always going to be a bumpy transition.

State demand hit a peak in the September quarter 2021, with annual growth of 12.1% and the level of activity 11.4% above that pre-covid - which was the strongest at that point in time for any of the states (next was a distant WA at 8.7%). Tasmania benefited most from stimulus and endured fewer disruptions.

That was followed by back-to-back declines over the December 2021 and March 2022 quarters, –1.1% and –1.0%. Subsequently, the Tasmanian economy has shown some resilience, with state demand posting gains of 0.8% and 1.6%.

That is ahead of what is shaping up to be a gloomy 2023 - confidence has collapsed in the face of the challenges posed by high inflation and sharply higher interest rates.

Tasmania: contributions to state demand

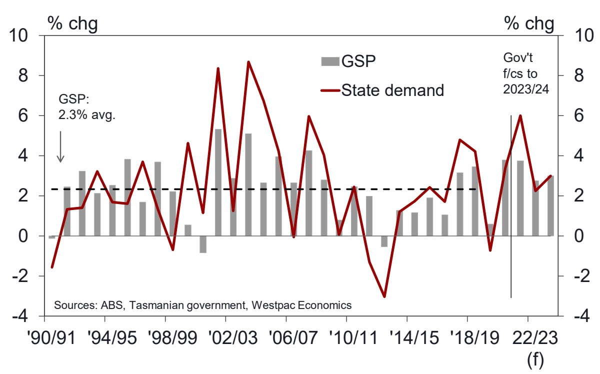


For the September quarter, the 0.7% increase in state demand reflected broad based gains in spending - across consumers (1.1%), home building (4.4%), business investment (5.3%) and public demand (1.4%). The real estate sector, hit by rising interest rates, was a major drag, with turnover 7.6% lower in the quarter.

Consumer spending grew a robust 2.4% over the past six months, matching the increase in state demand. Reopening dynamics were also evident in Tasmania, centred on increased travel with the reopening of state and national borders. Spending on travel services soared 37.6% over the six months (to be 13% below pre-covid) and hospitality rose 17.9% (to be 20.6% above pre-covid).

New home building activity, while up in the September quarter and having been a key growth driver post covid, is set to moderate in 2023 - down from record highs. The post HomeBuilder program let down in dwelling approvals is significant - they are 47% below the March 2021 peak.

Tasmania economic performance & outlook



The business and public investment cycles also provide insights into the dynamics of the Tasmanian economy.

Tasmanian businesses went on an equipment spending spree, responding to very generous tax incentives and strong demand - to lift productive capacity. Equipment investment doubled by Q3 2021, subsequently down by 15%, but remaining elevated.

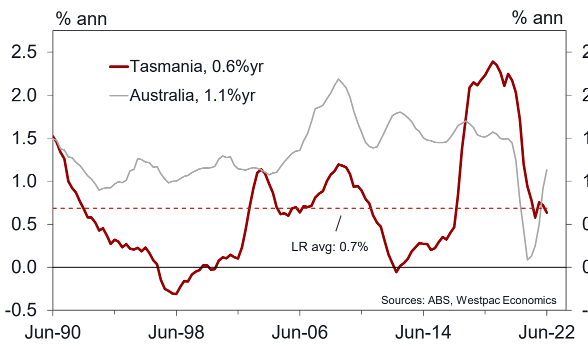
State fiscal policy has been supportive of activity, responding to covid and boosting investment - albeit the pace of growth has moderated, with public demand currently running at 3%yr.

The 2023 year will be a challenging one for the Tasmanian economy, as evident from the deeply pessimistic mood of consumers - with sentiment in the state at only 52.8 in December. Dwelling prices have retreated by 7% from the March high, with the risk of further falls as the RBA continues to raise interest rates.

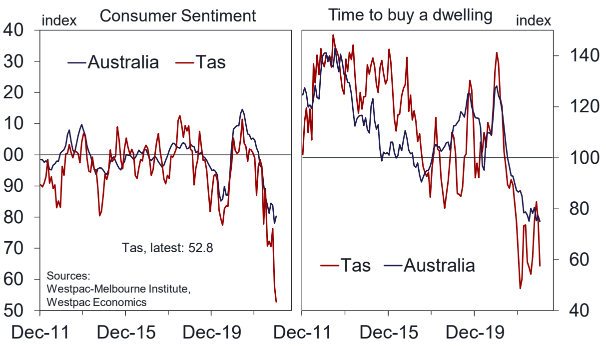
Consumer spending strength of 2022 will give way to a potentially stalling over the second half of 2023, which will have negative spill-over effects to business spending.

… consumer confidence collapses ahead of 2023

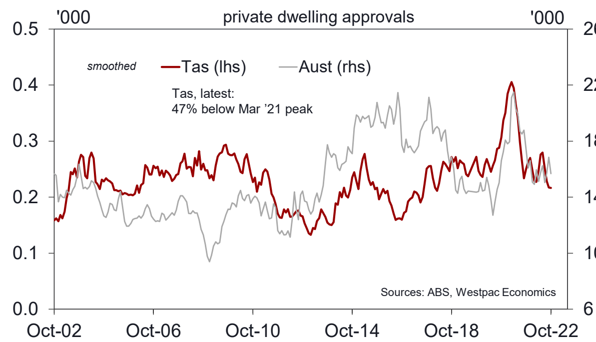
Tas population growth, consolidates



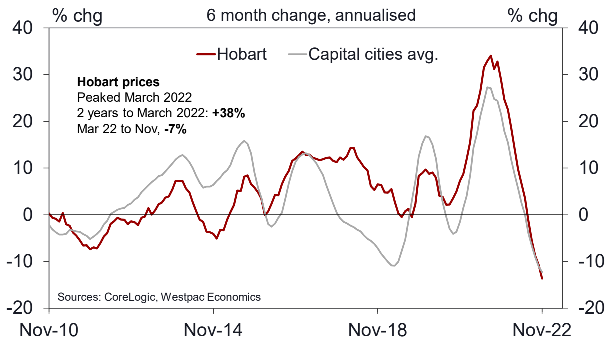
Consumer confidence collapses



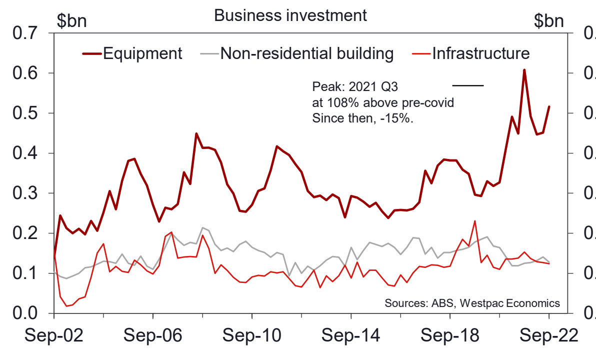
Dwelling approvals: post HomeBuilder let down



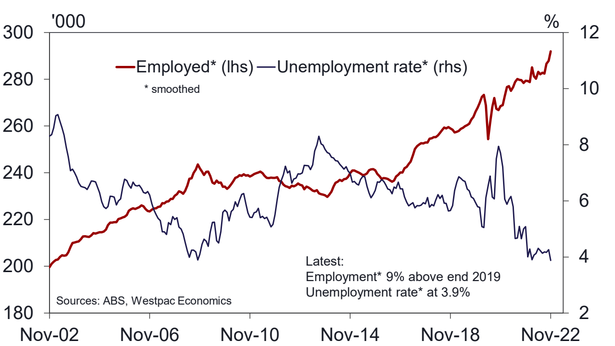
Hobart dwelling prices: down from peak



Equipment spending spree falters

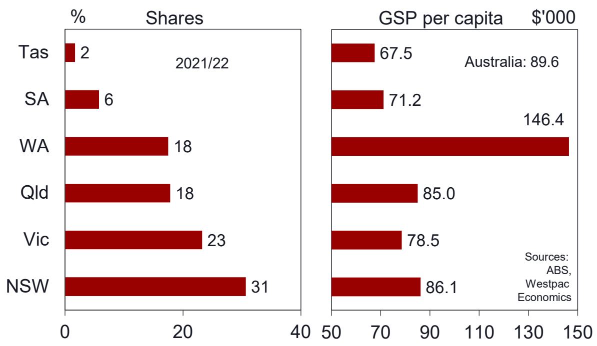


Tasmania: employment surges

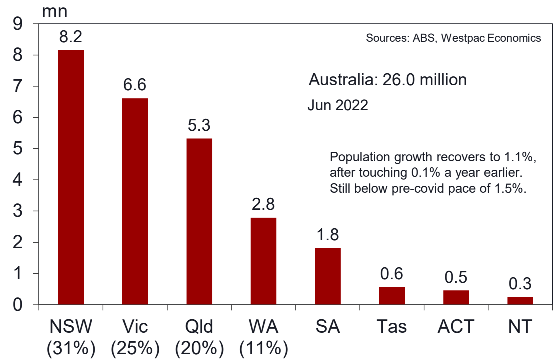


SUMMARY INDICATORS

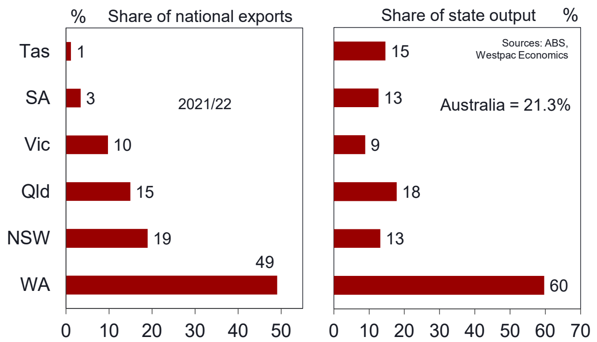
Gross State Product



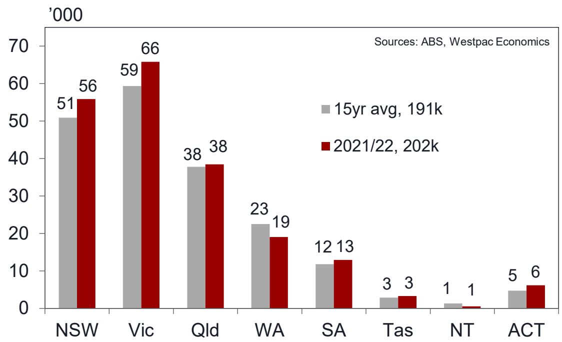
Population



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.

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Things you should know.

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