# WESTPAC Coast-to-Coast June 2023.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

# CONTENTS

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## Overview



## States

# Growth forecasts lowered

In March, when we last revised our economic forecasts, we expected growth of 1% in 2023 to be followed by a tepid 1.5% in 2024. That was based on an RBA cash rate peak of 4.1% in May with an easing in the cash rate beginning in February 2024. Those growth forecasts were well below consensus at the time (the RBA had 1.6% growth for 2023) while the cash rate outlook was also above consensus.

Following the release of the March quarter National Accounts early in June, Westpac lowered its growth forecasts for the Australian economy to 0.6% in 2023 and 1.0% in 2024. The latest Accounts confirmed that a sharp slowdown of the Australian economy is underway, with output growth of only 0.2% for the March quarter, a marked step down from the 0.6% outcome the period prior. The Accounts also revealed a significant deceleration of domestic spending from the middle of 2022. Nationally, domestic demand growth has moderated from 4.5% in the year to June 2022 to 1.5% annualised over the three quarters to March. As highlighted here in this Report on the state economies, the deceleration in domestic spending is broadly based across the mainland states - albeit with a more modest adjustment in the mining state of WA.

The key driver of this insipid growth outlook for the Australian economy is household consumption which we now expect to grow by just 0.3% in 2023 and 0.6% in 2024 (the latter consisting of a –0.3% contraction in H1 and +0.9% lift in H2). This consumption profile is consistent with the very weak measures of Consumer Sentiment we have seen since the onset of high inflation and rising interest rates in 2022.

The forecasts mean per capita spending recessions in both 2023 and 2024 of -1.5% in 2023 followed by –1.0% in 2024. It also implies GDP per capita recessions of –1.2% in 2023 and –0.6% in 2024. This consumption profile is decidedly weaker than consumption growth during the deep recession years of the early 1990s when annual growth remained positive (+1.2% in 1990 and +1.9% in 1991).

The main difference between the outlook for 2023-24 and the deep recession of 1990-91 is around business investment which contracted by 13.3% in 1990 and 16.7% in 1991 compared to our forecasts of +4.7% and –3.9% for 2023 and 2024 respectively. The difference in the business investment profile is attributed mainly to forecasts of solid investment growth in infrastructure; renewables; and mining investment. However, we do expect businesses to respond to the weakening sales outlook with a 15% reduction in equipment investment in the year to June 2024.

Following the RBA's decision to raise the cash rate to 4.1% in June, we lifted our forecast for the cash rate peak to 4.35% on the expectation of a further immediate 0.25% increase in July while noting that there was "considerable risk" of a follow-on move in August. Then, strength in the May Labour Force Survey tipped the balance on our August call. This extension of the tightening cycle, with the ongoing evidence of a tight labour market, has rates peaking at 4.60% (and it is the peak in rates that is of most significance) and now indicates that the beginning of the easing cycle which we anticipated for February 2024 will be delayed to May.

Next year, with labour markets remaining tight for longer than we expected back in March, the RBA Board will require further convincing that the inflation path will land within the 2-3% target zone by June 2025. They will have little choice but to hold-off on the much-needed rate relief by three months. Accordingly, we now expect 25 basis point rate cuts in May; August and November 2024 prior to further cuts in 2025 eventually bringing the cash rate below 3%, our estimate of 'neutral', by year-end.

Given the higher interest rate path than we expected in March, it is reasonable to have considered an even larger downside revision to our growth forecasts. But a number of offsetting factors are at play including: higher population growth than expected back in March; a much lower AUD (now forecast to be at USD0.69 by year's end compared to March forecast of USD0.74); stability in the housing market rather than a further year of house price falls; and upsides to household income growth as labour markets remain tighter for longer, wage setting arrangements are adjusted in favour of higher wage outcomes, and fiscal measures provide some additional support.

Consistent with our views in March, our forecasts are based on an additional gradual increase in average mortgage rates over the next year coming from 'fixed rate roll-offs' as up to 30% of fixed-rate loans transition to much higher floating rates (increases generally from 2% to 5.5-6.0%). With the RBA's rate increases from May, June, and (expected) July and August also being passed on, the average mortgage rate over the next year or so will rise by at least 150 basis points – nearly 40% of the current tightening cycle of 400 basis points.

This weaker growth profile has also seen us raise our target unemployment rate for end 2024 from 5% to 5.3%.

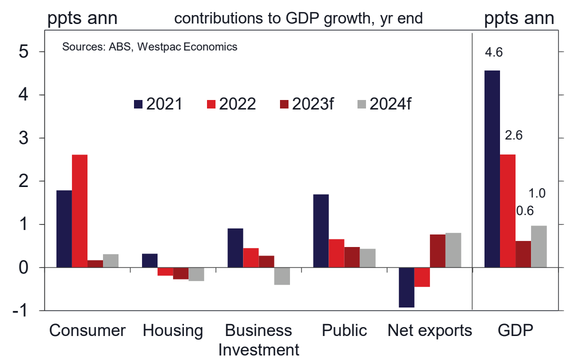
Do these growth adjustments constitute a recession? The standard definition of a 'technical recession' is two consecutive negative quarters of GDP growth. Our forecasts now contain one negative quarter – the March quarter of 2024 (–0.2%) while our forecasts for the adjacent quarters – December quarter 2023 (+0.1%) and June quarter 2024 (+0.2%) – are still positive although well within the range of forecast error. Consequently, on this definition, we are not forecasting a technical recession but recognise the high degree of uncertainty.

There are a range of other ways to define a recession. An increase in the unemployment rate from 3.5% at the beginning of 2023 to 5.3% at the end of 2024 might fit an alternative definition of a recession although we are unaware of any formal definition. As noted, our forecasts also imply per capita spending and GDP recessions in 2023 and 2024, which is sometimes used as an alternative measure of recession.

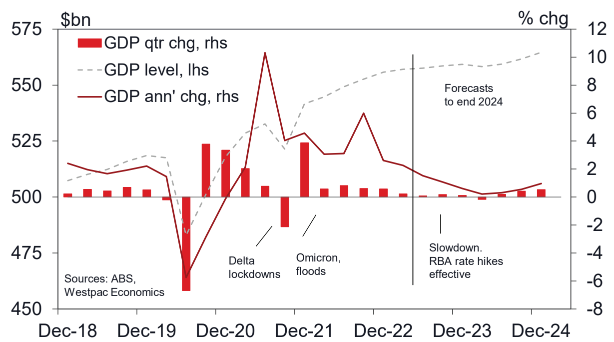
**Bill Evans, Chief Economist Westpac Group**

# Australian Economic Outlook

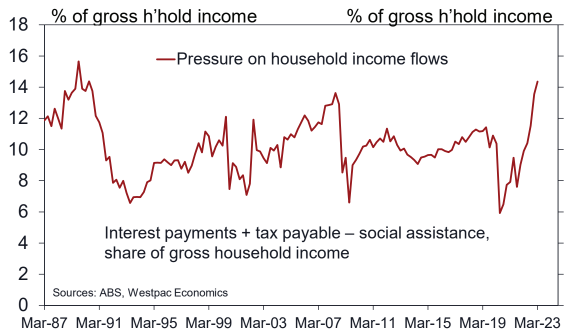
## Australia: the growth mix



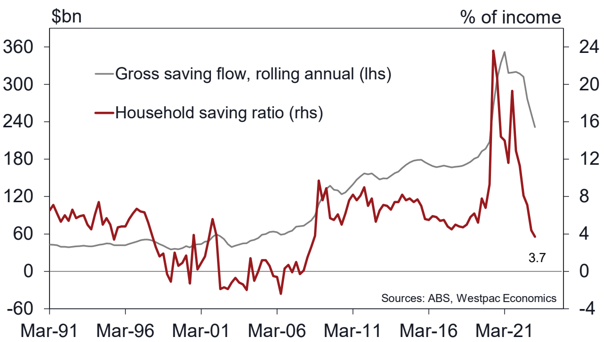

## Australian economy: sharp slowdown underway



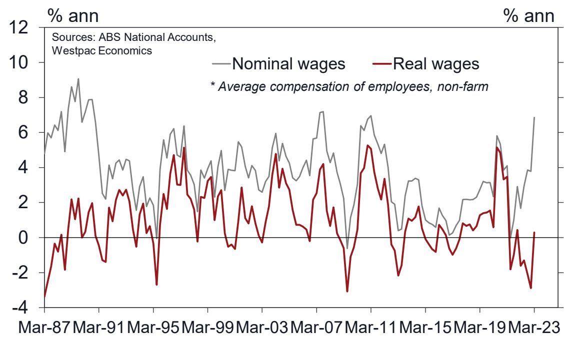

## Pressure on household income flows



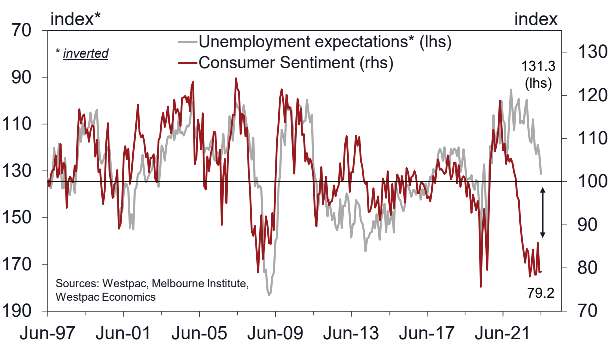

## Household saving ratio and gross saving flow




## Wages – inflation squeeze

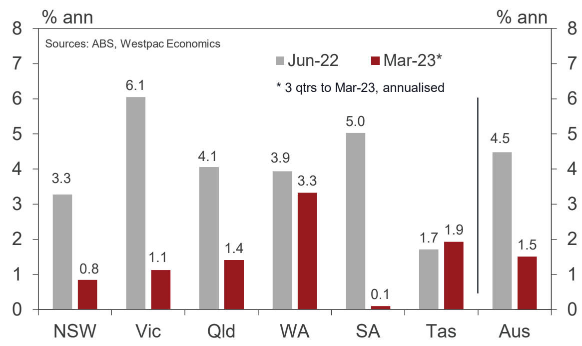



## Consumers: Sentiment & unemploy' expectations



# Domestic spending decelerates ...

## Domestic demand decelerates



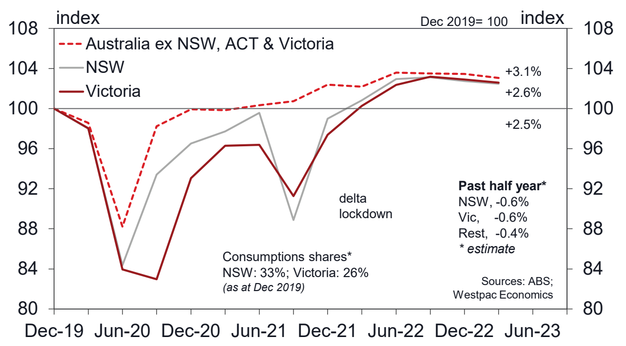

Recent data provides confirmation that a sharp slowdown of the Australian economy in 2023 is underway – the boost from the reopening post delta has long since faded.

The intense headwinds of high inflation and sharply higher interest rates are triggering a slowing in spending – albeit cushioned by households' sizeable savings buffer, current labour market strength, plus the jump in population growth.

The March quarter national accounts reported that output nationally grew by 0.2% in the period, a step-down from 2022 outcomes of 0.6%, 0.8%, 0.6% and 0.6%. That March result included a 0.6% increase in domestic demand – which expanded by a modest 1.1% over the past three quarter (1.5% annualised), decelerating from 4.5% growth in the year to June 2022.

As to be expected, the deceleration in domestic demand is broadly based across the states – albeit less pronounced in the mining state of WA (slowing from 3.9%yr to 3.3% annualised).

## Consumer spending per capita



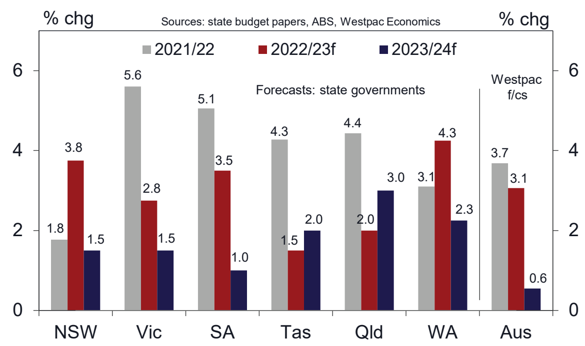

The deceleration in spending since mid-2022 is led by the consumer, as well as public demand – with the unwinding of the earlier spike of COVID-related spending.

Consumer spending per capita is contracting nationally, declining in each of the past two quarters. This dynamic is particularly evident across the three mainland eastern states (NSW, Victoria and Qld), while elsewhere trends are subdued.

In housing, renovation work is moderating after the earlier HomeBuilder program inspired boom – a dynamic contributing to the slowing of spending across each of the states

The abrupt slowing of public demand growth is centred in the delta impacted states of NSW and Victoria, as well as SA. The slowing is much less pronounced in the mining states of Qld and WA (as well as Tasmania), where tax revenue has been boosted by higher commodity prices.

## Growth outlook by state: GSP




The economic outlook is a challenging one, as the aggressive tightening of monetary policy in response to the greatest inflation challenge in a generation is set to trigger a slowing – a sharp one at that – of the Australian economy.

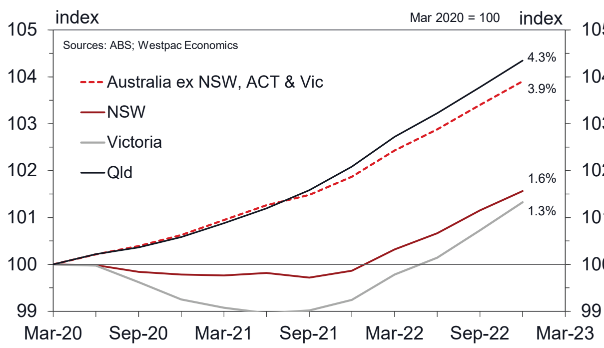
If correct, then the state budgets are, in aggregate, too optimistic on their economic growth forecasts for the 2023/24 financial year.

In the latest round of state budget updates, growth forecasts for the 2022/23 financial year were downgraded across the eastern states, but upgraded in WA and SA (both around exports). The states now anticipate that output growth for 2022/23 will be around 3.2%, in line with Westpac's forecast of 3.1%.

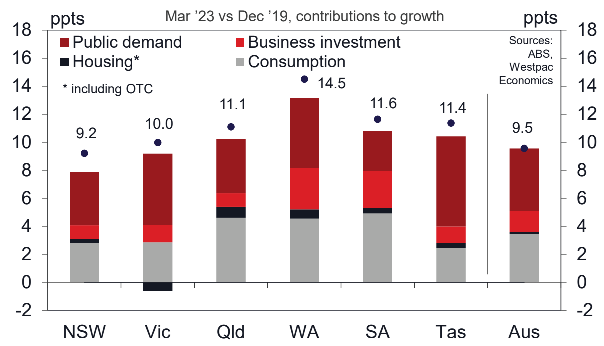
For the 2023/24 year, Westpac anticipates that output growth nationally will slow abruptly, to a well below trend 0.6% (associated with annual growth for calendar 2023 slowing to 0.6% and with weakness in the first half of calendar 2024). The view of the states, in aggregate, is that growth will be a relatively resilient 1.9% (albeit that figure may come down a little when NSW releases their annual budget in September).

# … led by consumers and public demand

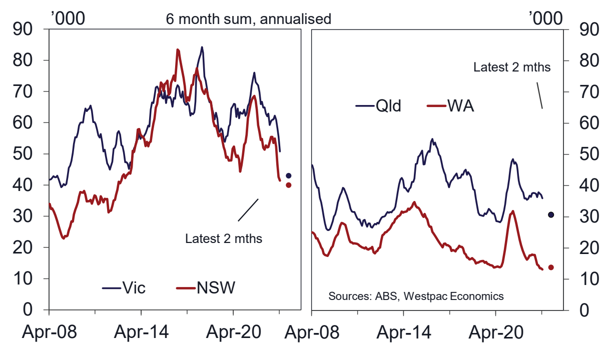
## Population trends



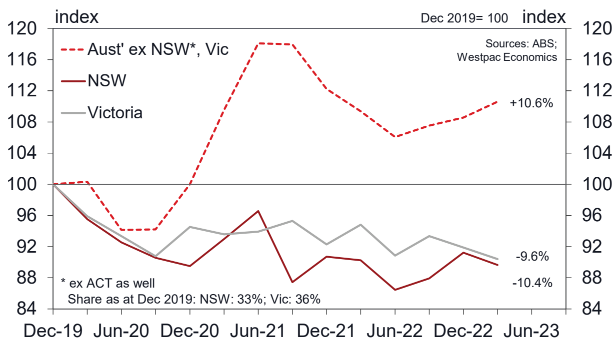

## State final demand: vs pre covid



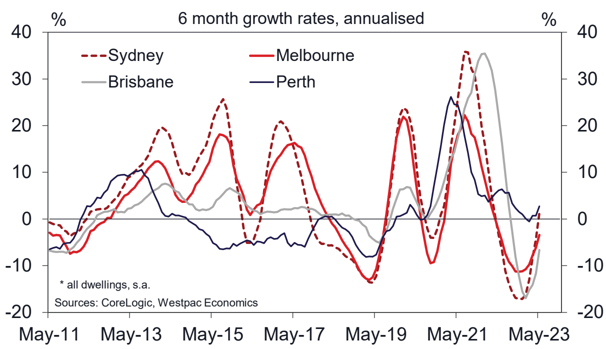

## Dwelling approval downturn continues



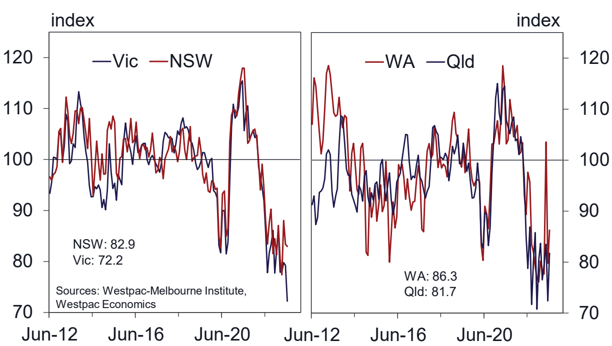

## New home building activity




## Dwelling prices: up off lows in 2023

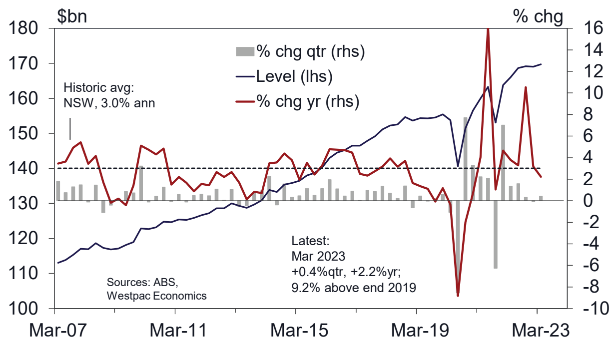



## Consumer sentiment



# Weak spending growth ...

## NSW demand: slows to sluggish growth



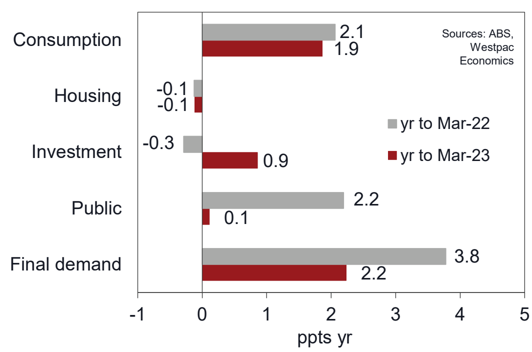

As we described previously, the NSW economy is in transition, moving beyond the post-delta rebound, with a sharp slowdown in prospect for 2023.

The intensifying headwinds of high inflation and rapid fire RBA rate hikes are clearly impacting consumers. Against that, household balance sheet strength (with a very large saving buffer) and an unemployment rate at historic lows (currently just 3.0% for the state) will cushion the downturn.

State final demand grew by 3.3% in the year to June 2022, a result including the 6.3% slump in September 2021 (due to the delta lockdowns) and the 7.0% rebound the following quarter.

Over the past three quarters to March 2023, state demand grew by an anaemic 0.6% (0.8% annualised), including a 0.4% rise in the latest quarter. That is a weak result given that annual state population growth has spiked to 1.7% with the reopening of the national border permitting an influx of students.

## NSW: contributions to state final demand



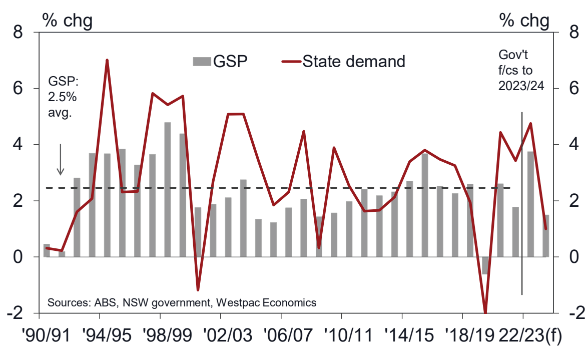

Consumer spending, which rose 4.3% in the year to June 2022, grew by 0.9% over the past three quarters, including outcomes of flat for the December quarter and +0.2% for the March quarter. Declines in per capita consumer spending over the past half year (also recorded in Victoria and Qld) are evidence of the intense pressure on household income flows from high inflation, increased debt servicing costs and additional tax payments.

The surge in public demand has given way to a cresting of public spending at a high level. The spike in COVID-related spending is unwinding. In the year to June 2022, public demand grew by 6.8%, over the past three quarters if fell by –0.1%.

Home building is also soft, edging up by only 0.4% over the past three quarters – with downside risks from here, as interest rates bite and the boom in renovation work deflates.

Business investment, for now, is a source of resilience, given some strength in the construction cycles, notably infrastructure.

## NSW economy: looming downturn




Ahead of the March 25 state election, the economic forecasts were refreshed in December and again on March 8 (the pre-election document). With the change of government, the annual state budget has been delayed until September 19.

In March, the growth outlook was downgraded, marked lower in response to a more aggressive RBA tightening cycle. Since then, the RBA has extended the tightening cycle.

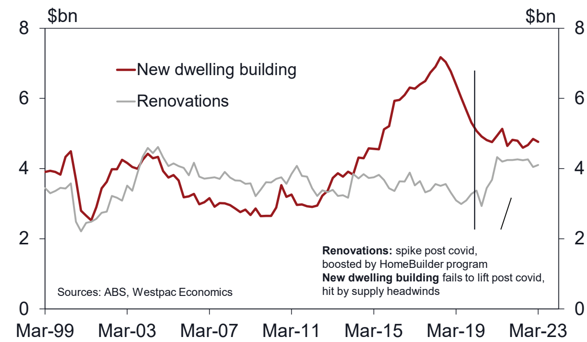
State final demand growth is expected to slow from 4.75% this year (downgraded from 5.5%) to a well below trend 1% in 2023/24 – with the risks to the 2022/23 view to the downside.

Output growth is a forecast 3.75% this year (down from 4.25%) slowing to 1.5% next year (from 2.75%) – with exports to be a positive for growth.

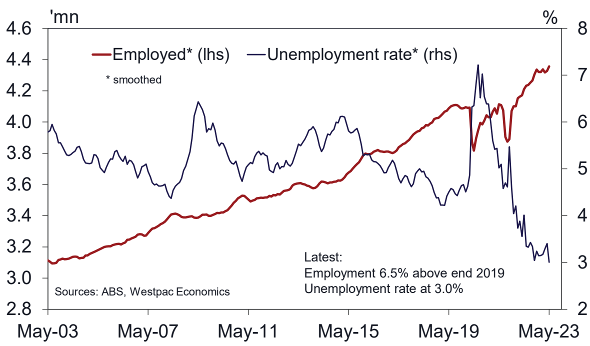
Activity in the state will be cushioned by the ongoing recovery in international student numbers and international tourists, with the national border having reopened in February 2022. The Australian dollar trading below the US70¢ mark is also a positive, making Sydney and NSW a more attractive, competitive destination.

# ... as consumer spending per capita contracts

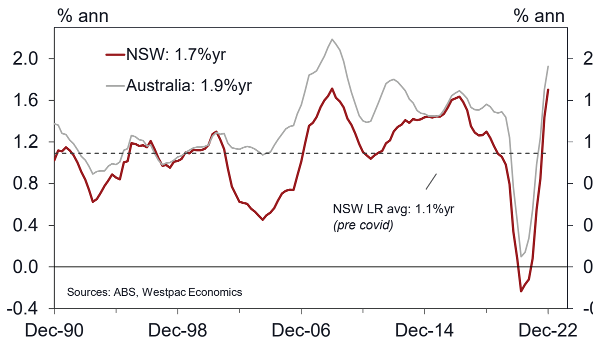
## NSW housing activity: a tale of two cycles



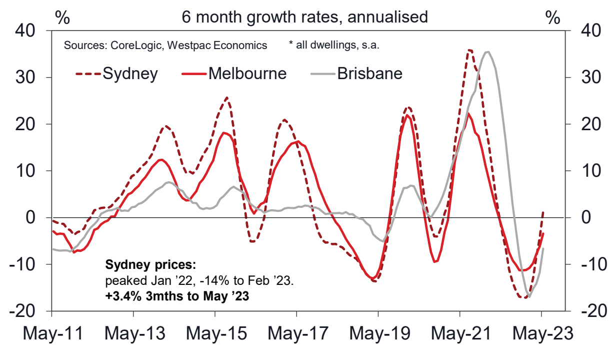

## NSW: employment upward trend stalling



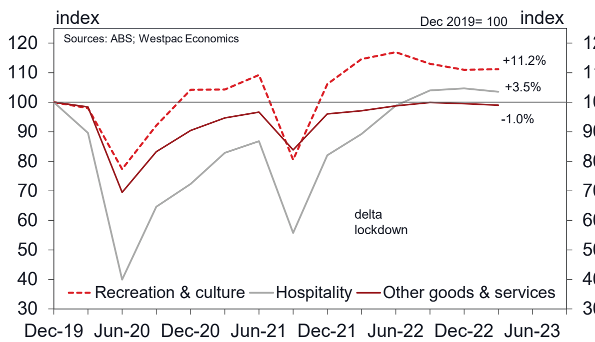

## NSW population growth rebounds, to above par



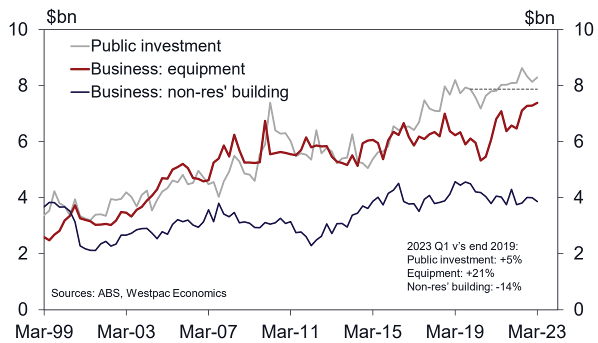

## Sydney dwelling prices: edge up from lows




## NSW: consumer spending trends

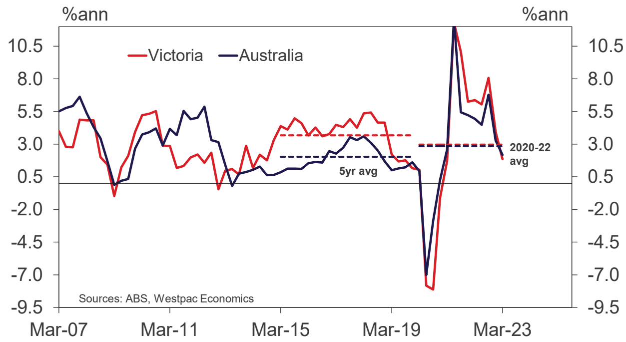



## Investment cycles



# Significant loss of momentum ...

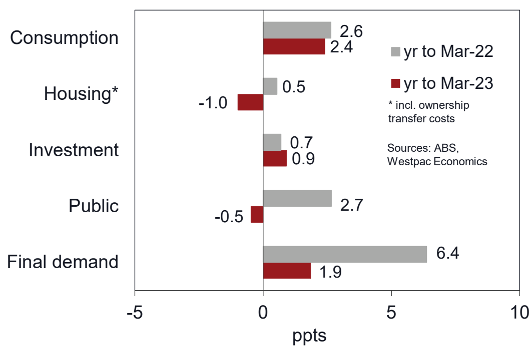
## Victorian demand: sharp slowdown




A strong post-COVID rebound through to the first half of 2022 has given way to a significant loss of momentum for the Victorian economy. Public demand and housing have been the main drivers of the slowdown to date. With more declines for dwelling investment ahead, the full impact of rapid rate rises and cost of living pressures yet to flow through to consumer spending and some fiscal tightening from the state government also in the mix, near term prospects look challenging. That said, a resurgence in migrant inflows and a large pipeline of infrastructure work suggest two key growth supports remain in place.

State demand growth has slowed sharply from a rollicking 8.1%yr in mid-2022 to just 1.9%yr in Q1 of 2023, dipping below population growth which is set to come in a touch above 2%yr. That said, as we are seeing elsewhere, demand measures are overstating weakness due to the exclusion of exports, which are currently rising strongly in Vic (+18.3%yr), led by tourism and education service exports.

## Vic: contributions to state final demand

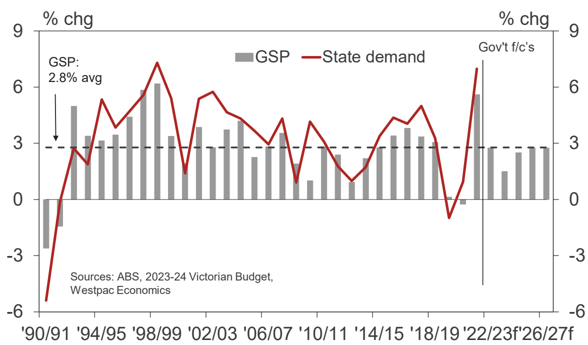



Labour market measures suggest the slowing in activity has been much milder, employment still up 4%yr and annual growth in hours worked in the 6-7%yr range.

In terms of domestic demand, two thirds of the slowdown is due to public demand and the remaining third dwelling investment. The former is unwinding high COVID-related levels of activity. Dwelling investment is facing into more declines with approvals off sharply in early 2023 and Vic's pipeline less supportive (a backlog of detached housing offset by very low apartment work).

Consumer spending has been fairly resilient in annual growth terms – the 4.5%yr gain over the year to March comparable to the 4.9%yr a year ago – but this hides the reopening burst that saw growth hit 15%yr in Q3 last year, and a much weaker 1.2% annual pace over the last two quarters – tracking behind labour income growth for the first time since reopening. The latter suggests Vic consumers are drawing down on savings at a much slower pace.

## Vic economic performance & outlook



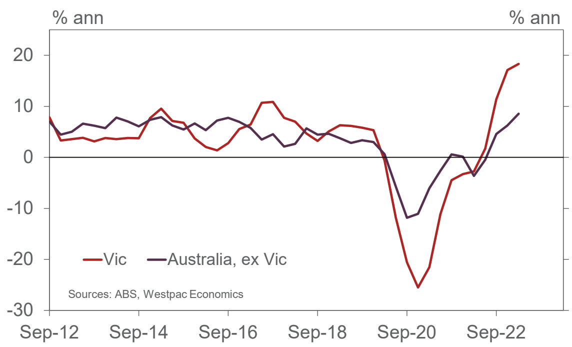

The state government is bracing for a substantial slowdown, the 2023-24 budget forecasting state GSP growth to fall from 5.6%yr in 2021-22 to 2.75% in 2022-23 and 1.5% in 2023-24.

The budget itself included significant measures aimed at improving the state's financial position as a precursor to stabilising the state's debt levels. A COVID Debt Levy has been introduced that includes additional payroll tax for large businesses and increases to land tax – while temporary, these measures are set to run for the next decade and are expected to raise $8.6bn in additional revenue over the next four years. This is projected to deliver a return to surplus by 2025-26, stabilising the state's debt to GSP ratio the following year.

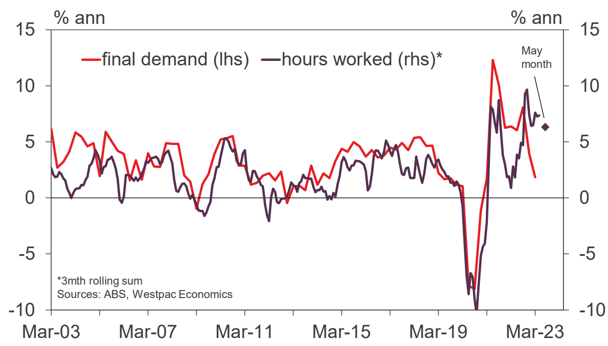
The remainder of the state budget has also been re-jigged. On the one hand, public sector workers and consultants have been trimmed, saving $2.1bn, and delays to some projects are expected to prevent cost-driven rises in infrastructure spend. But on the other hand, the budget provides additional cost-of-living relief focussed on electricity costs and additional funding for health, education and roads.

# ... with further slowdown looming

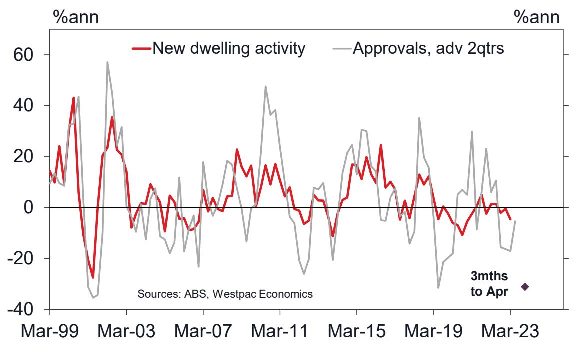
### Exports: Vic vs rest of Australia



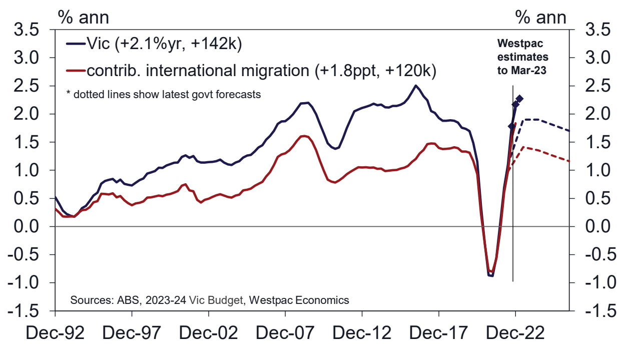

### Victoria: final demand and hours worked



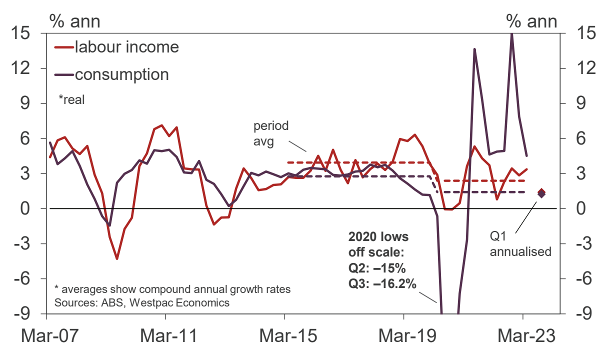

### Vic housing construction



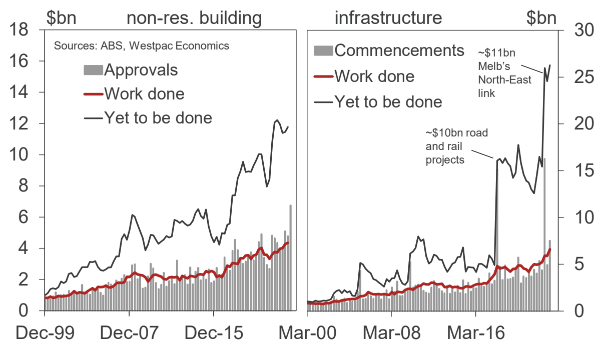

### Vic's popn growth: outstripping expectations




### Vic households: incomes and spending



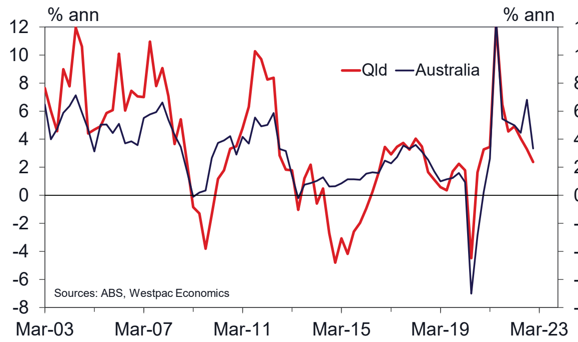

### Vic's non-res construction pipeline




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.

# Households under pressure ...

### State final demand: Qld vs Australia



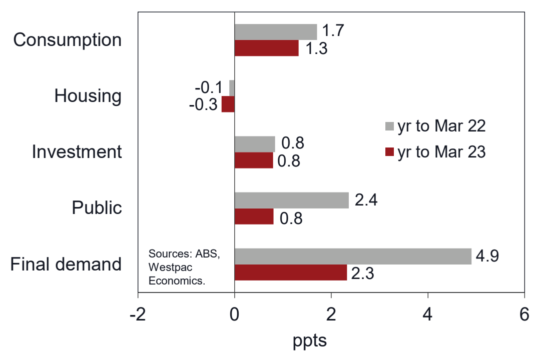

Queensland's state economy grew at a modest pace in Q1, with state final demand advancing 0.4% to be up 2.3%yr, broadly in line with the national average but still a touch stronger than the 'delta' impacted states of NSW and Vic.

Consumption in Queensland is among the weakest in the nation, having effectively stalled flat over the last nine months, leaving household spending up only +2.5%yr compared to the national average of +3.5%yr.

The spending detail highlights the intense pressures facing Queensland households, chiefly evinced by the near-50% lift utilities spending in March, offsetting the declines in spending observed over the prior two quarters.

In response, the Queensland Government recently announced another cost-of-living rebate on household's electricity bills as part of their 2023-24 Budget, going some way to provide relief.

### Qld: contributions to state final demand

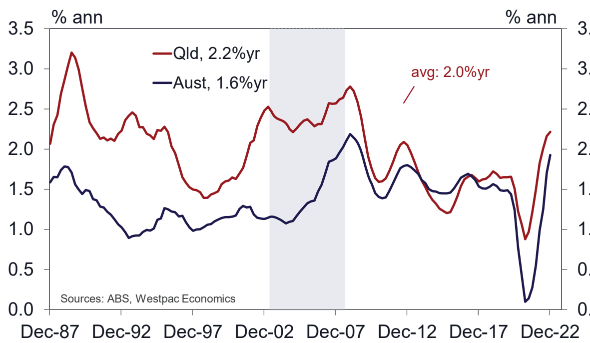



While the cost of living is as significant a concern in Qld as it is elsewhere, arguably the broader weakness in consumer spending is also a consequence of the state fairing well through the COVID-19 lockdowns and therefore not having the same degree of catch-up in consumption growth as NSW and Vic.

Indeed, households look to be holding back on big ticket items, with renovation activity down –6.1%qtr (–15%yr). New dwelling construction has acted as a partial offset (+2.8%qtr; +4.7%yr), but the momentum in housing investment is generally lacklustre, down 5.0% over the year to March.

The sizeable pipeline of residential investment projects can provide some level of support over the medium-term, especially given the surge in net migration (see below), but it is unlikely to generate a substantial lift in activity near-term given the headwinds facing the sector.

### Pop. growth rebound above national average




It was therefore encouraging to see non-housing related investment act as key contributors to growth. Public investment lifted by a substantial +6.8%qtr (+12%yr) upon completions for several transport infrastructure and building projects.

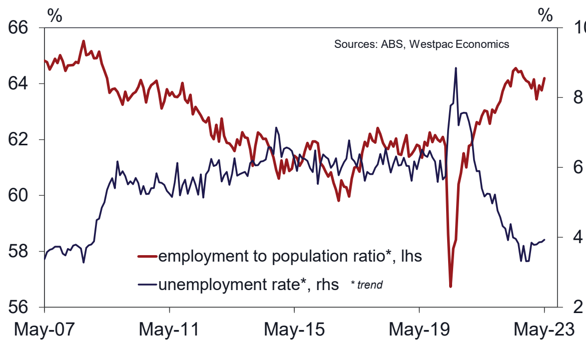
Business investment was also constructive, up 3.4%qtr (+7.1%yr) as a result of an ongoing uptrend in equipment investment (+7.8%yr) and engineering work (+19%yr), although non-dwelling construction has acted as a partial offset (–4.4%yr).

While the broader outlook for the rest of 2023 is certainly challenging, the recovery in net migration and should serve as a key positive for Queensland into the longer-term.

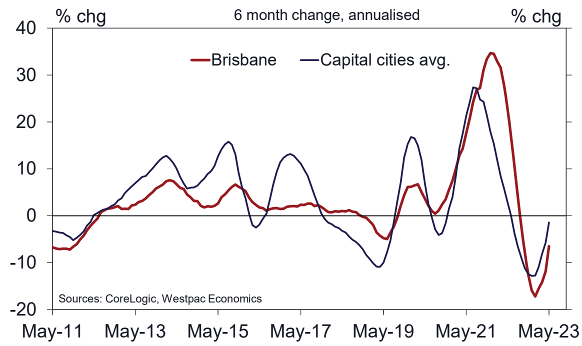
Queensland remains at the front of the pack, annual population growth of 2.2%yr above the national average of 1.9%yr. Underlying this is strength in both net overseas migration and net interstate migration, highlighting the clear opportunities to be found in Queensland as headwinds fade.

# ... amid broadening headwinds

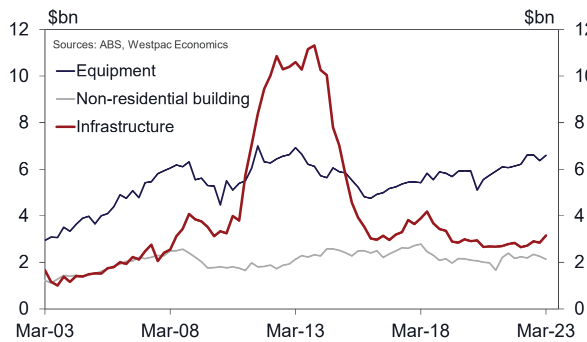
## Qld labour market in robust health



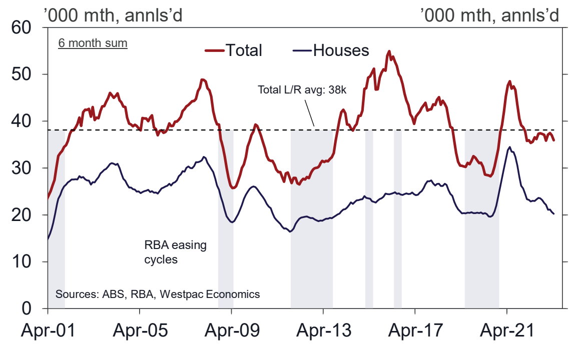

## Brisbane's housing market is turning



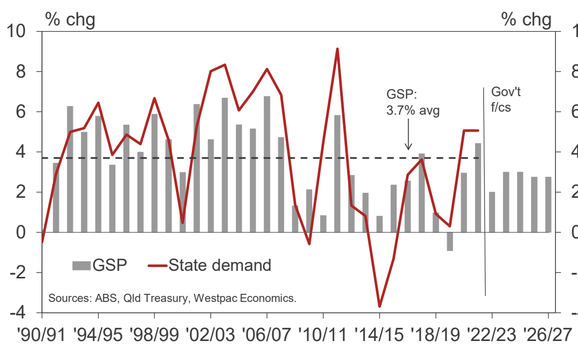

## Qld business investment has been supportive



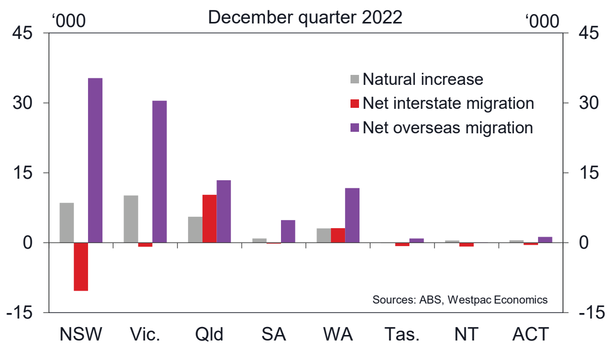

## Dwelling approvals: supply limiting new pipeline




## Qld economic performance & outlook

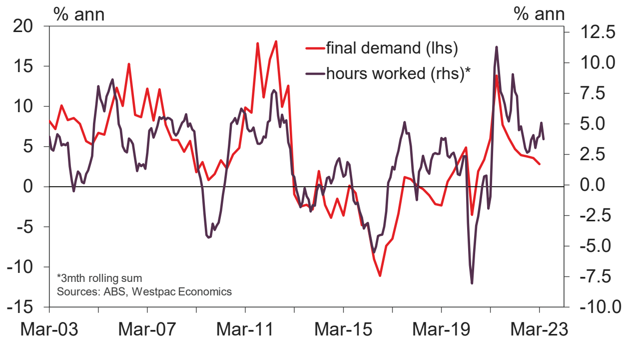



## Promising return of overseas migration



# A relatively soft landing as exports surge ...

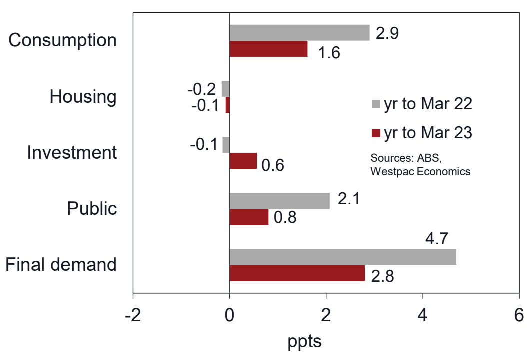
### WA: state final demand vs hours worked




The WA state economy has continued to see growth cool, albeit with what looks to be a gentler slowing than that seen nationally. While high inflation and higher interest rates are clearly biting, activity in WA has several notable offsets including: buoyant conditions for its large mining sector; the related boost to state government finances that is allowing for more substantive fiscal support; a significantly larger backlog of residential building and a milder correction in dwelling prices that already looks to be over; and a more benign situation for some domestic sources of inflation, most notably energy.

While growth in state final demand is now tracking in line with the rest of Australia, this likely understates conditions in WA due to the exclusion of exports, which for goods have posted a solid 6.3% rise over the last year and make a much bigger contribution to GSP growth in WA than in other states. With GSP estimates only produced annually with a lag, labour market conditions and hours worked can sometimes be a better proxy than demand.

### WA: contributions to state final demand

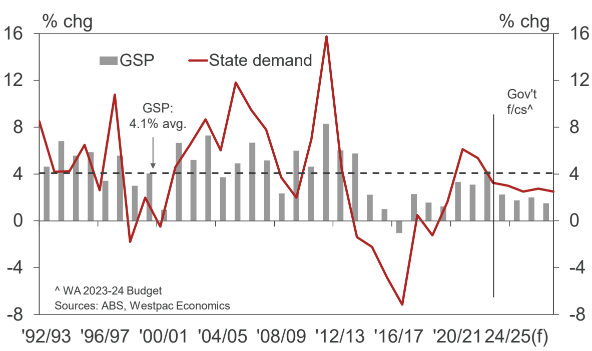



Limitations aside, state demand has slowed materially over the year to March, led by consumers and public demand. Total demand outperformed with a 0.8% gain in Q1 2023 but is tracking more in line with the national economy in annual growth terms (2.8%yr vs 2.2%yr). Some of the gap reflects stronger population growth in WA, running at 2.5%yr vs 1.9%yr nationally.

Household consumption has slowed from the rampant 5.9%yr pace a year ago but continues to track a reasonable 3.3%yr (albeit with a choppy profile over the last four quarters). Labour income posted a notable acceleration in Q1, a lift in employment and wage gains taking nominal growth above 5%yr.

Housing activity has also cooled but is better supported than in the big eastern states. New dwelling investment is down 2.2%yr but being supported by a very large backlog of unfinished work (27k dwellings under construction, 2.5 times pre-COVID levels). Perth house prices barely corrected in 2022 and are now lifting.

### WA economic performance & outlook

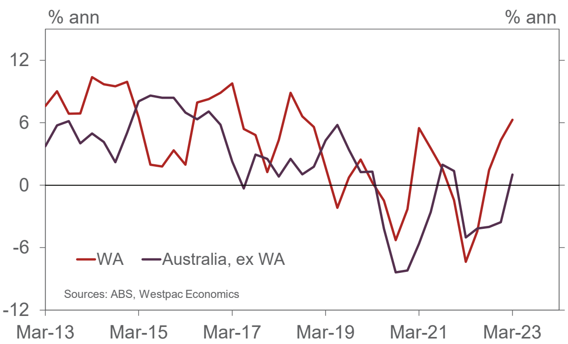



The State government booked a $4.2bn surplus in 2022-23, the better-than-expected result driven by iron ore prices outperforming assumptions. That said, surpluses are forecast to continue even with iron ore assumed to drop back to US$66/t. Key initiatives in the 2023-24 WA state budget include: $715m in relief for household energy costs; $3bn for decarbonising the state's main electricity grid; $5.3bn in additional spending on health, community support and education; and $750m aimed at boosting social housing. Government infrastructure investment is expected to top $39bn over the next four years.

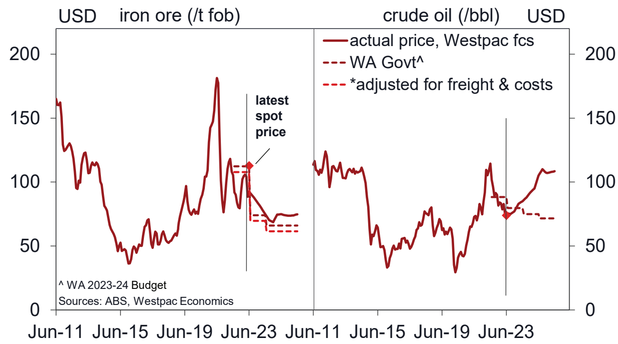
Nevertheless, the government expects GSP growth to slow from an upwardly revised 4.25% in 2022-23 to 2.25%yr in 2023-24 and 1.75% in 2024-25. Near-term weakness centres on consumer spending and a smaller boost from net exports. Further out, a modest recovery in consumer spend is partially offset by a delayed correction in housing investment.

# ... and a range of support cushion domestic slowdown

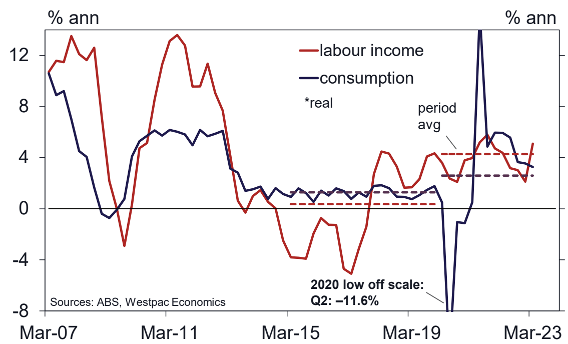
## Exports of goods



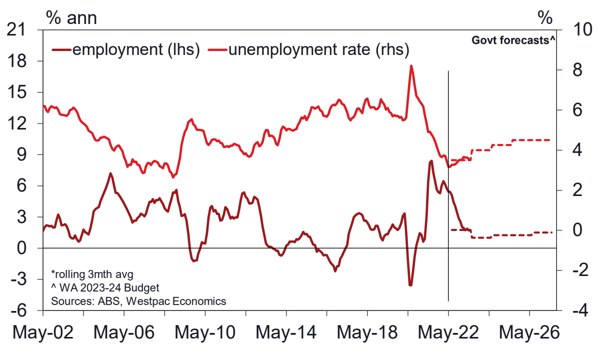

## Commodity prices: iron ore & crude oil



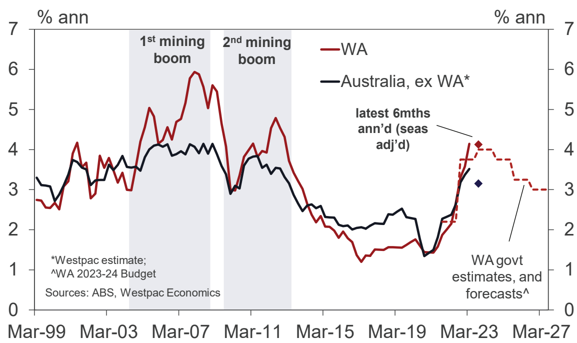

## WA households: incomes and spending



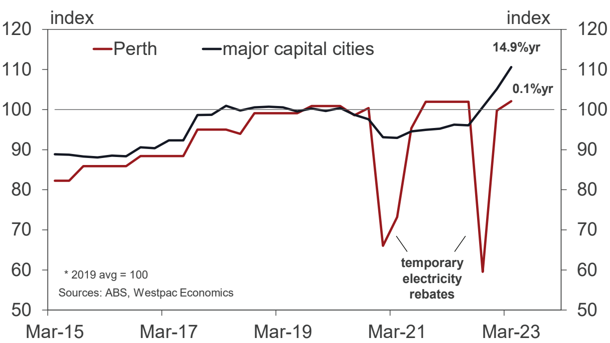

## WA labour market




## WA wages growth lifting



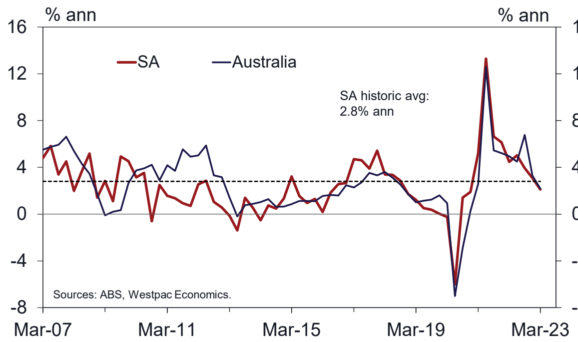

## CPI inflation, utilities: WA vs Australia



# SOUTH AUSTRALIA

## Variability in growth profile ...

### State final demand: SA vs Australia



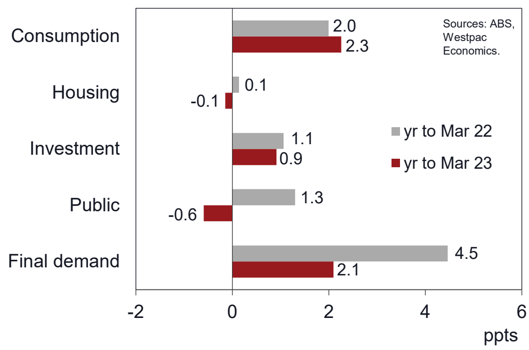

Growth in South Australia fell nearly flat in Q1 2023, state demand rising only 0.1% to be up 2.1%yr, reflecting yet another patchy performance across the state's key sectors.

Consumption in South Australia was the strongest across the nation in the opening quarter (0.8%qtr; 4.2%yr). With gains broadly-based and offsets minimal, household spending in SA outstripped the other 'delta-insulated' states of Qld and WA.

One of the reasons for household's strength likely centres on SA's favourable housing affordability setting, with household's debt servicing requirements comparably lower than the national average and well below that seen in NSW and Vic.

Indeed, housing investment was supportive in Q1, albeit in the context of a broader national softening. Over the year to March 2023, new dwelling construction weakened (–6.3%yr) while renovation activity was subdued but strong compared to the rest of the nation (+0.4%yr in SA vs. –8.2%yr in Australia).

### SA contributions to state final demand



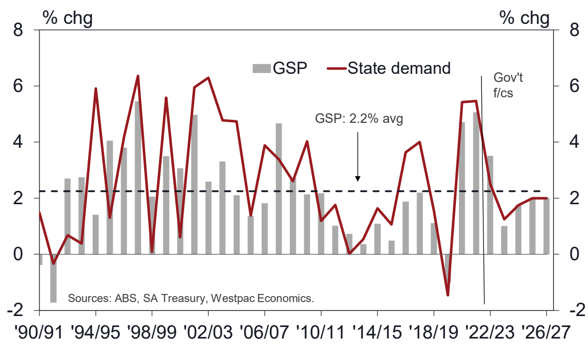

Constructive to the outlook for housing, private dwelling approvals have held up relatively well so far this year. Approvals in South Australia are up +1.2% compared to the steep –17% decline seen nationally on a rolling three-month average basis.

Although new housing construction in South Australia is currently the weakest across the country, it is encouraging to see a large existing backlog of work that can provide support to residential building activity over the medium-term.

Underpinning the variability in South Australia's growth profile, however, is the stark contrast between public and private business investment.

On the more positive side, new business investment has lifted 8.0% in the year to March as a result of persistent strength across both engineering work (+10%yr) and non-residential construction activity (+23%yr).

### SA economic performance & outlook



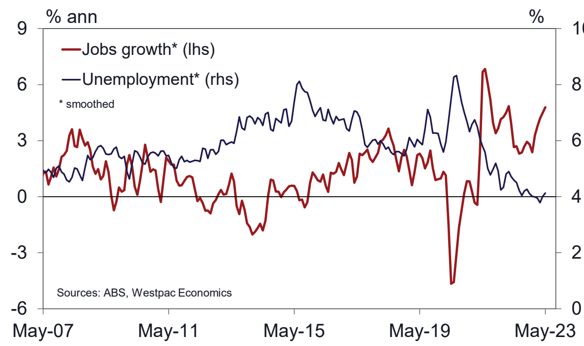

However, public investment has experienced a sustained period of weakness. The mild 1.0% gain in the March quarter was unable to offset the six consecutive quarters of declines observed prior, leaving it down –15%yr but also in complete contrast with the rest of the nation, at an average of +4.6%yr.

It was therefore encouraging to see the announcement of an ambitious multi-year investment programme as part of the 2023-24 Budget, including spending on roads, hospitals, transport and other essential infrastructure.

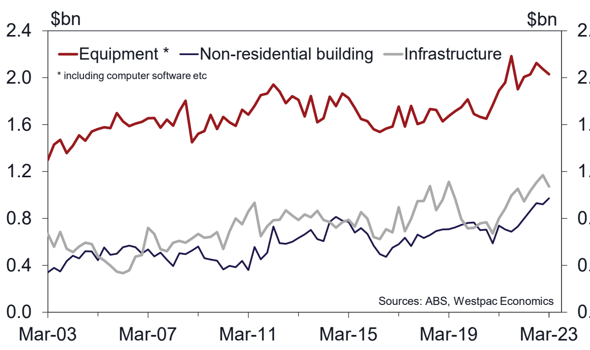
Like the rest of the nation, South Australia is facing a tough outlook given the cumulative impact of the RBA's rapid tightening cycle is yet to fully impact. Some level of underlying support will be found through public investment – an emphasis on productivity gains will not only allow for a greater retention in labour market outcomes, but it will also establish a stronger base for recovery once headwinds begin to fade.

# ... highlights opportunities and challenges

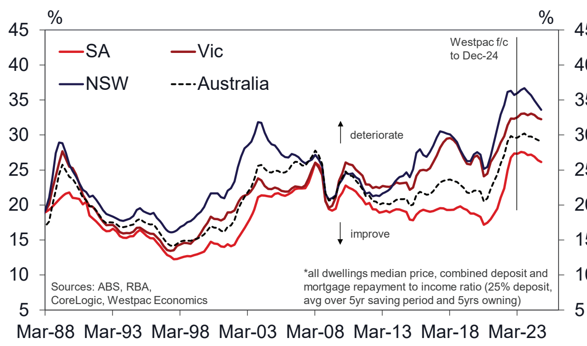
## SA's labour market is tight



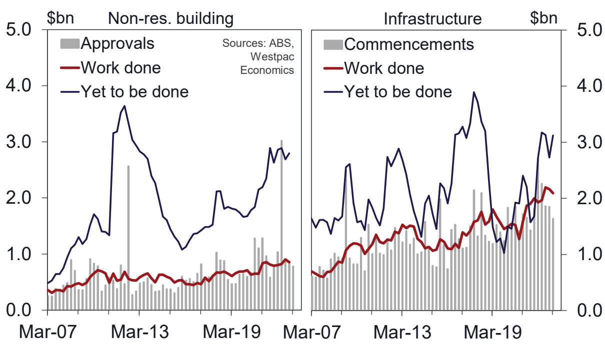

## Business investment has strength



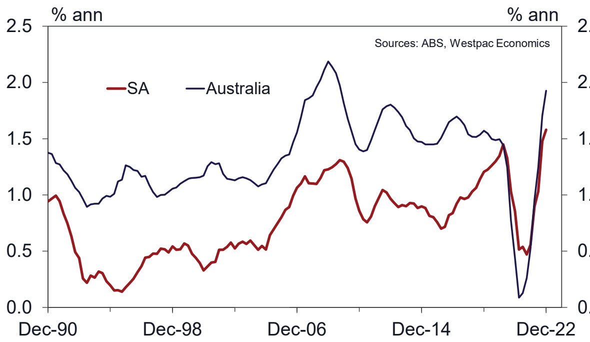

## Housing affordability in favour of SA



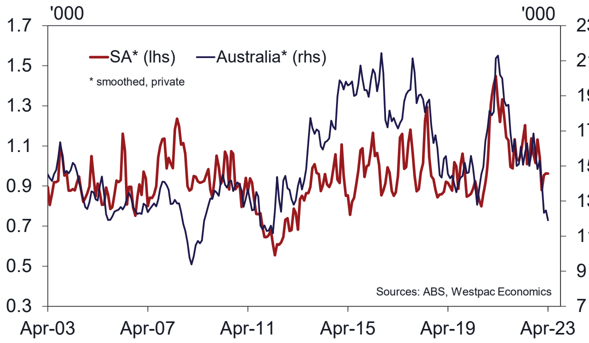

## Construction benefitting from renewables




## SA population growth beginning to recover

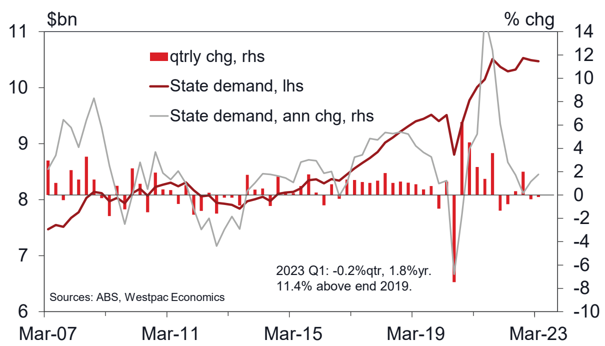



## SA housing construction: pipeline positive



# Demand flattens ...

### Tasmania: demand flattens over past half year

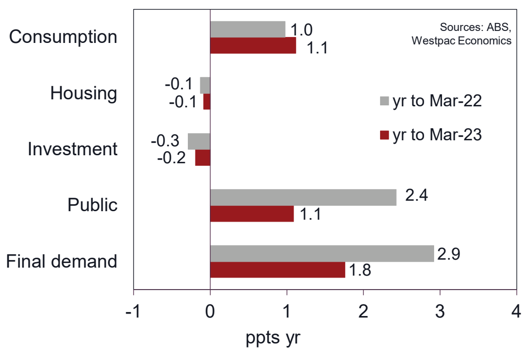



Tasmania experienced a flattening of state final demand over the half year to the March quarter 2023, after a strong 2.0% burst in the September quarter 2022. State demand contracted by 0.4% in the December quarter 2022 and then declined by a further 0.2% in the March quarter.

The performance of the past half year is against the backdrop of a slowing of the Australian economy as high inflation and sharply higher interest rates impact. In part, it also reflects some volatility – with the strength of the September quarter 2022 inflated by spikes in new home building and equipment spending, which then subsequently reversed.

Another element is the let down effect post the massive COVID stimulus – notably in new home building and business equipment investment. The level of state demand currently is some 0.4% below that at the high of September 2021, which was associated with the peak post COVID stimulus.

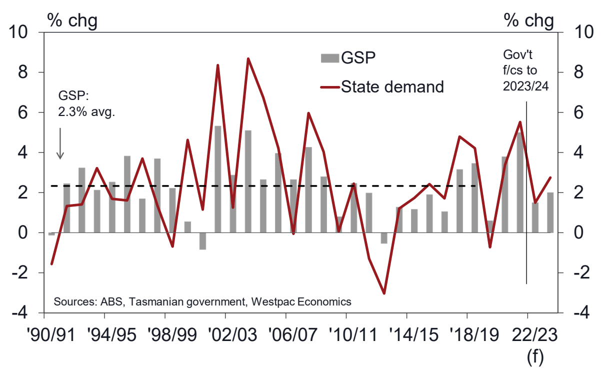
### Tasmania: contributions to state demand




Households are under intense pressure from higher inflation and higher interest rates, as well increased tax payments. In Tasmania, consumer spending – for now – is proving to be a little more resilient than on the mainland, with labour market strength a support. Over the past half year, consumer spending in Tasmania grew by a subdued 0.5%, while on a per capita basis it advanced by an estimated 0.4% – which is not greatly different from WA, +0.5%, and in contrast to declines across the three eastern states.

Currently, annual state final demand growth is 1.8%, slowing from 2.8% this time a year ago. Demand from the private economy is patchy, with annual growth at 1.0% currently. That result for the private sector includes a 2.1% rise in consumer spending, a decline in total home building activity, of –2.0%, and a fall in business investment, a –2.2%. The public sector is supporting overall activity, with annual growth at 3.4% currently (albeit that is well down from earlier highs), including a 5.7% increase in public investment and a 3.0% rise in public consumption.

### Tasmania economic performance & outlook




The state government released their annual budget on May 25, ahead of the March quarter national accounts and ahead of the RBA lifting interest rates further at the June meeting.

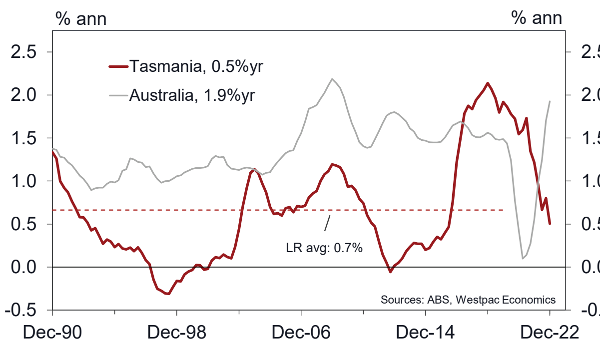
As discussed previously, the government highlights the particularly strong performance of Tasmania's economy over the past two financial years (2020/21 and 2021/22) – output growth of 5.0% and 4.3%, which (along with SA) was stronger than any of the major states.

In the May update, the government trimmed the growth forecasts for 2022/23 – in recognition of the loss of momentum after the September quarter 2022. Output growth was downgraded to 1.5% (from 2.75%) and state demand to 1.5% (from 2.25%) – with the risks arguably still tilted to the downside.

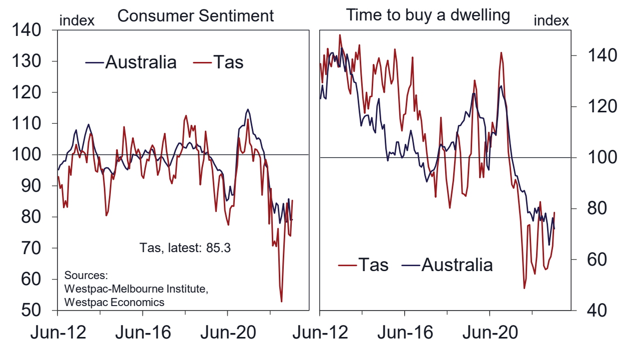
For the 2023/24 year, the state government anticipates that growth will strengthen – not weaken – with output growth lifting to 2.0% and state demand to 2.75%. The budget papers acknowledge and anticipate further weakness in private sector demand (as is reasonable in the current environment) but assess that this will be more than offset by a lift in public demand.

# ... challenging outlook for private sector

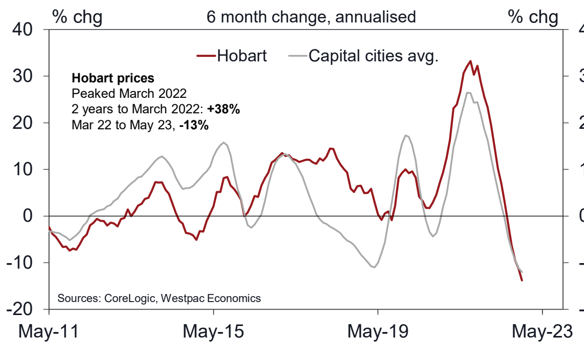
## Tasmania: population growth slips below par



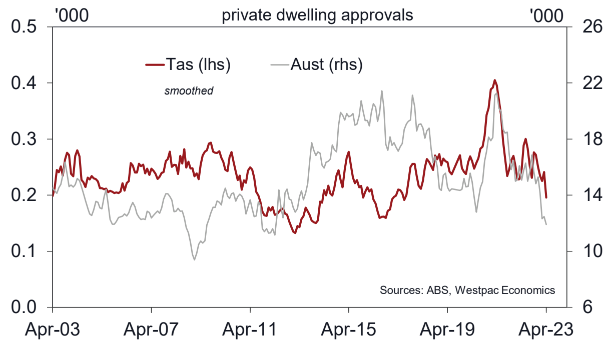

## Tasmanian consumers pessimistic



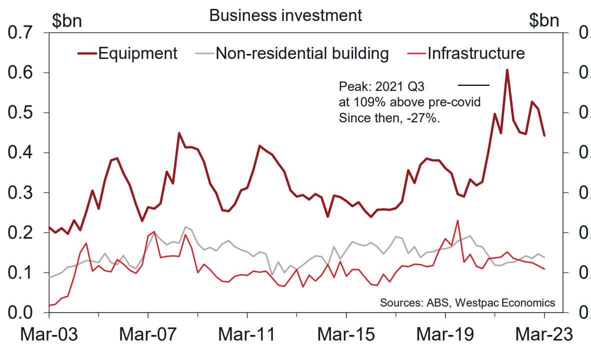

## Hobart dwelling prices: emerging stabilisation



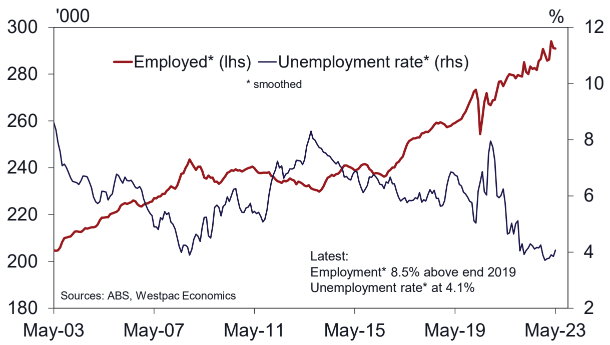

## Dwelling approvals: soften further in 2023



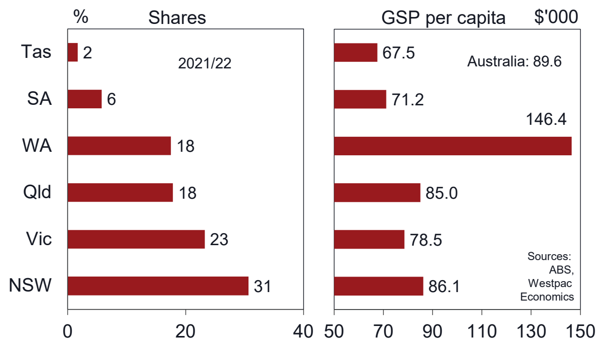

## Equipment spending, still elevated



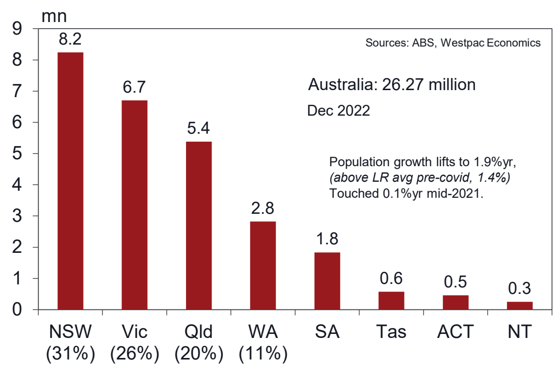

## Tasmania: employment upward trend



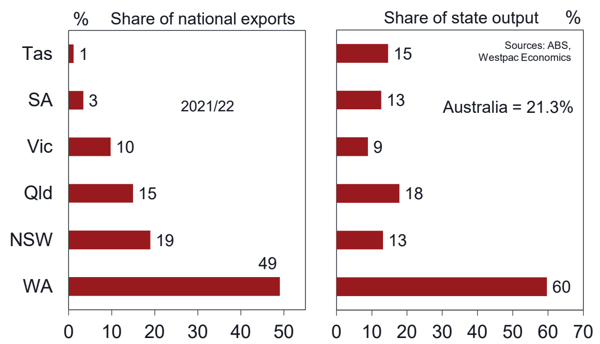
## Gross State Product



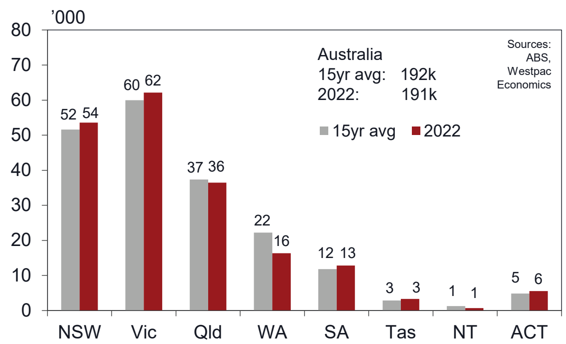

## Population




## 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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