WESTPAC Coast-to-Coast September 2023.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

CONTENTS

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Overview

States

Growth slows to a sub-trend pace in 2023

The Australian economy expanded by 0.4% in the June quarter with annual output growth slipping from 2.4% to 2.1%. That was in line with our expectations particularly in light of the partial data we had seen leading up to the announcement. However, the March quarter result was upgraded from 0.2% to 0.4%.

After reviewing our forecast for GDP growth in 2023 we have lifted our forecast for 2023 from 1% to 1.2%, a still well below trend pace, mainly reflecting the March quarter upgrade. Apart from that we see no reason for any further changes to the GDP forecasts for 2023.

Household consumption growth is forecast to print at 0.3% for both the September and December quarters, following outcomes of 0.3% for March and only 0.1% for June. Consumer spending grew by 1.5% in the year to June, well below the 2.4% increase in population. This ongoing insipid consumption growth reflects contracting real disposable income as the rising cost of living; an increasing tax burden and higher mortgage rates weigh on households.

As we discuss in this Report, the dynamic of declining per capita consumer spending is most apparent across major states, which tend to be more interest rate sensitive. Over the past three quarters, per capita spending contracted in Victoria, –1.9%. NSW, –1.4%, and Qld, –1.3%. Weakness is not limited to these states, with per capita spending over this period down in Tasmania, –0.5%, while in WA, over the past half year, per capita spending fell by 0.8%.

The deceleration of annual domestic demand growth, from 4.5% in mid-2022 to 2.2% currently, is further evidence of the economic downturn. This deceleration is evident across most states but absent from the mining state of WA. State demand growth is subdued, at a sub-2% pace in the non-mining states, whereas it is more resilient in the mining states of WA, at 3.7%, and Qld, at 2.9% – as we discuss and assess in this Report.

Over the course of the next year to June 2024 we expect consumer spending will grow by only 0.8% even as interest rates are expected to remain on hold. Average mortgage rates are set to rise further as cheap fixed rate loans mature and move on to much higher variable rates. While this profile reaches its highest intensity in the second half of 2023, there will still be more modest increases in average rates in the first half of 2024.

The RBA's recognition of this insipid growth over the year to June 2024 is one factor supporting our call that the first rate cut will come at the August meeting.

In recognition of the current resilience of the labour market, we recently revised up our profile for employment growth in the second half of 2023, boosting household income growth and consumption. We saw no reason for any further upward revision and also maintain our expectation that the labour market will weaken in the first half of 2024 (–0.2% employment growth compared to 0.6% growth in the labour force and a rise in the unemployment rate from 3.7% to 4.5%).

That expected deterioration in the labour market will also resolve some of the mismatch between hours worked and output as firms finally pare back employment in the face of weak productivity and profitability. That weakening will slow the growth in labour income, weighing on consumer spending while the pressures from higher rates and rising tax burden will continue.

We have lifted our forecast for output growth in 2024 from 1.4% to 1.6% due to a modest uplift in growth in the second half.

We confirm our expectation that consumer spending will slow to 0.1% per quarter in the first half of 2024, on an expectation that household incomes will remain under pressure. As we have seen in the US, a potential upside risk to this view is if the labour market holds up in 2024, thereby providing more support to incomes and consumption.

We assess that prospects for the second half of 2024 are likely to be more constructive, supported by policy easing and with the labour market expected to stabilise around an unemployment rate of 4.5%. We have revised up our forecast for household spending in the second half of 2024 from 0.7% to 0.9%, reflecting an upgraded view on the positive impact on consumption of the introduction of the Stage 3 income tax cuts; the beginning of the RBA's rate cut cycle; and some potential for further fiscal stimulus.

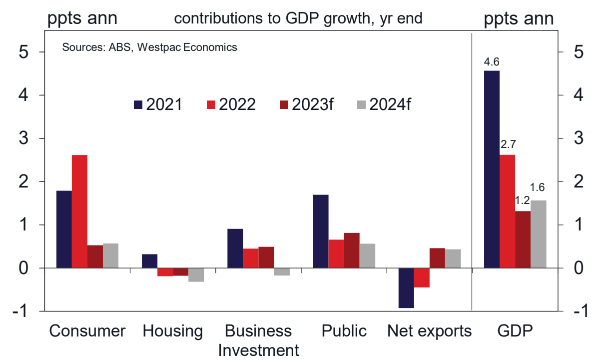
For businesses, the June quarter national accounts revealed a significant deterioration in profitability. This was in the broader context of a downturn in national income. Recall that as global commodity prices climbed to record highs in mid-2022, Australia's annual nominal GDP growth accelerated to 12% in the June quarter 2022 and was still elevated at 9.5% in the March quarter 2023. However, with commodity prices receding from their highs, the terms of trade fell by 7.9% in the June quarter 2023 and nominal GDP contracted by 1.2% in the period, such that annual growth slowed to 3.6%. Company profits took a big hit, contracting by 8.6% in the June quarter, to be 6.8% below the level of a year ago. Falling company profits went beyond the mining sector, with non-mining profits reportedly down by around 5% in the latest quarter.

Businesses are expected to respond to the ongoing soft demand conditions and deteriorating profitability with a substantial slowing in plant and equipment investment in the second half of 2023 and first half of 2024. Over the year to the June quarter 2024, plant and equipment investment is expected to contract by 13% following a lift of 6.3% in the year to June 2023. Overall, business investment is forecast to contract by 2.7% in the next four quarters, with the drag from equipment being partly offset by solid conditions in infrastructure (+5.4%) and commercial building (+3.3%).

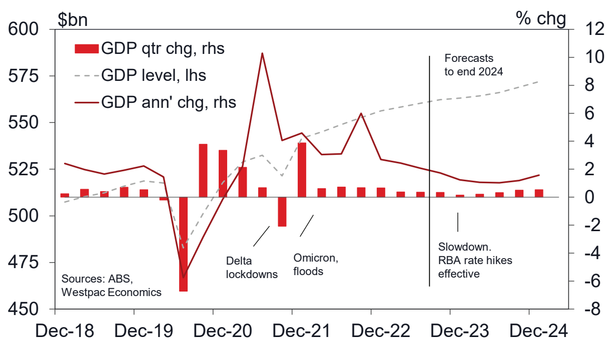
Bill Evans, Chief Economist Westpac Group

Australian Economic Outlook

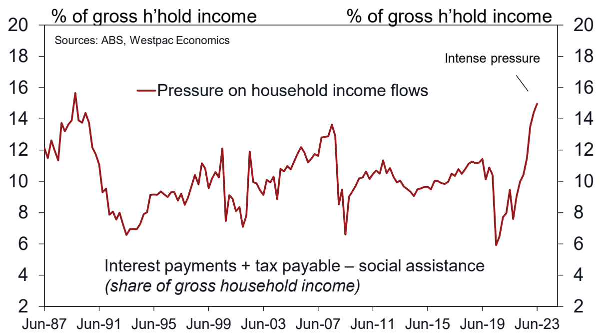
Australia: the growth mix



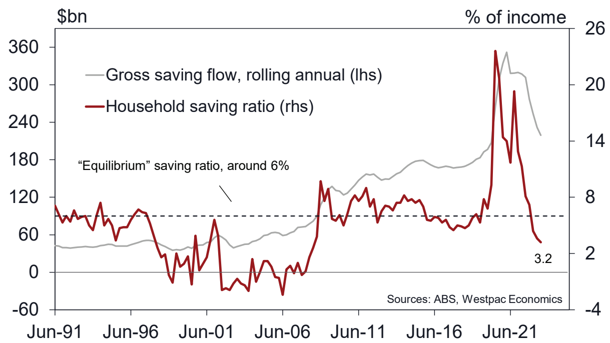
Australian economy: sharp slowdown underway



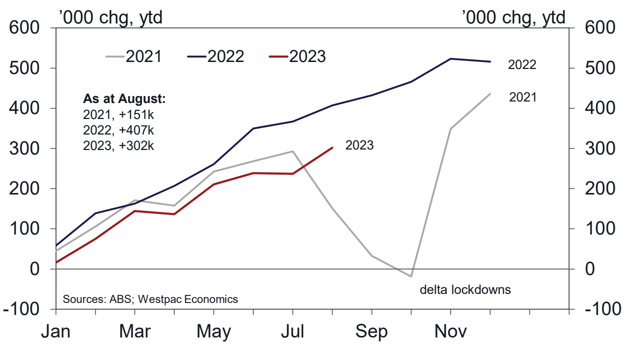
Pressure on household income flows



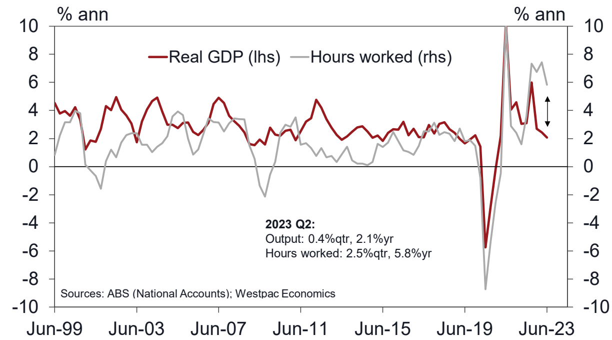
Household saving ratio and gross saving flow



Employment paths: strength in 2023 H1



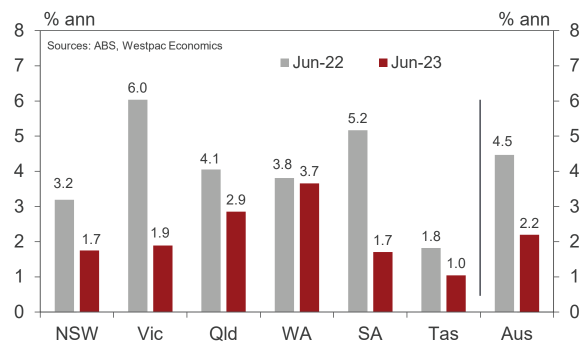
Output and hours worked: productivity hit



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.

Domestic demand decelerates across the states …

Domestic demand decelerates across states

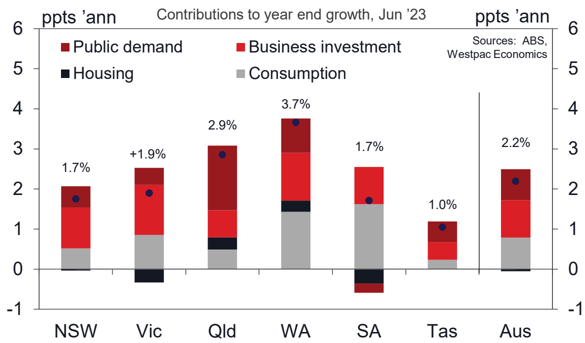


Conditions across the Australian economy have slowed. The strength evident during 2021 and 2022, on the reopening effect and propelled by substantial policy stimulus, has given way to below trend output growth in 2023. The intense headwinds of high inflation and sharply higher interest rates are being felt.

The deceleration in domestic demand growth is evident across the states, with the exception of the mining state of WA. Nationally, annual demand growth has throttled back from 4.5% a year ago to 2.2% currently and is a subdued sub-2% in the non-mining states but is more resilient in the mining states, with Qld at 2.9% and WA at 3.7%.

The economic downturn is centred on consumer spending, where annual growth nationally has slowed from 5.3% in mid-2022 to 1.5% currently – notwithstanding population growth lifting to 2.4%. The deceleration is also around public demand, with the unwinding of the spike in COVID-19 related spending.

State final demand, contributions

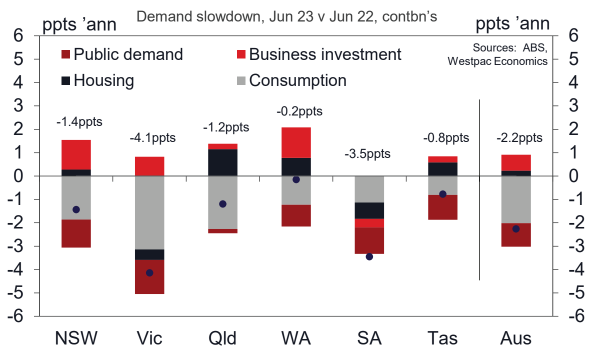


The dynamic of declining per capita consumer spending is most apparent across the three eastern states, with falls over the past three quarters as follows: Victoria, –1.9%, NSW, –1.4%, and Qld, –1.3%. Over this period, Tasmania reported a decline of –0.5%. Even in WA, weakness is apparent, with a decline of –0.8% over the past half year.

The deceleration of public demand is across the delta states of NSW and Victoria – annual growth currently is 2.0% and 1.6%, respectively. It is also apparent in the smaller state of Tasmania and SA – annual growth currently is 1.6% and –0.8%. The mining states are faring better, boosted by higher commodity prices – a public demand slowdown is largely absent in Qld, with growth currently running at a brisk 5.7%.

Beyond domestic demand, the service export recovery is a positive growth dynamic, evident across the states – with a return of international students and tourists.

State demand: contributions to slowdown



The economic outlook is a challenging one, with the below trend output growth evident over the first half of calendar 2023 set to continue in coming quarters.

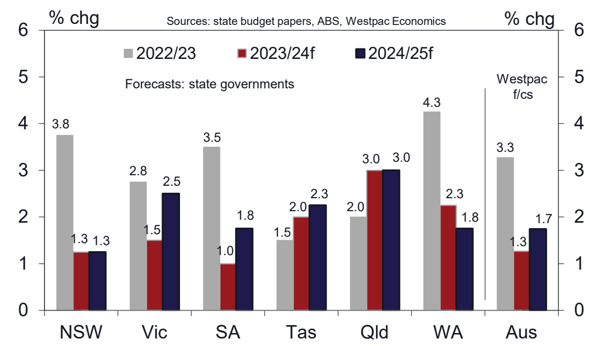
If correct, then the state budgets are, in aggregate, mildly too optimistic on their economic growth forecasts for the 2023/24 and 2024/25 financial years.

State government forecasts from the round of annual budgets, imply that output growth nationally will slow from the 3.3% outcome for 2022/23 to 1.8% in 2023/24 and edge a little higher to 2.0% in 2024/25.

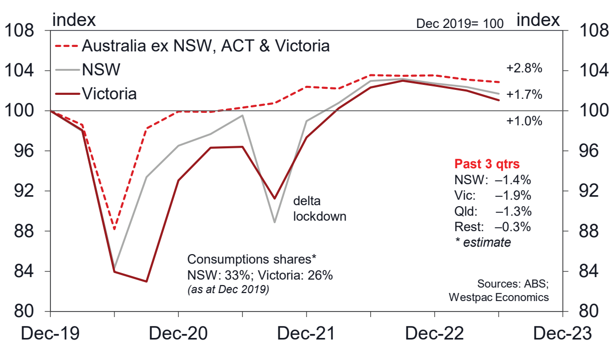
Westpac Economics anticipates a somewhat more pronounced cycle – with growth to slow to 1.3% for 2023/24 and then lift to a still modest 1.7% in 2024/25. That recovery in 2024/25 is contingent upon a taming of inflation such that the RBA is able to embark upon an easing cycle from the September quarter 2024. That policy u-turn, along with the Stage 3 tax cuts beginning from July 2024, will provide a boost to consumer spending and economic growth. Westpac is forecasting the growth pace to lift from 1% annualised in the first half of calendar 2024 to 2% over the second half of 2024.

... mining states show more resilience

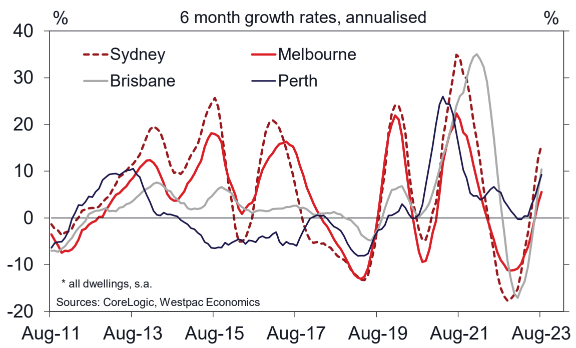
Growth outlook by state: GSP



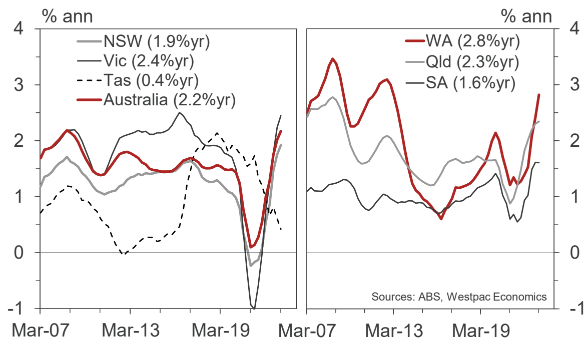
Consumer spending per capita



Dwelling prices: rebound

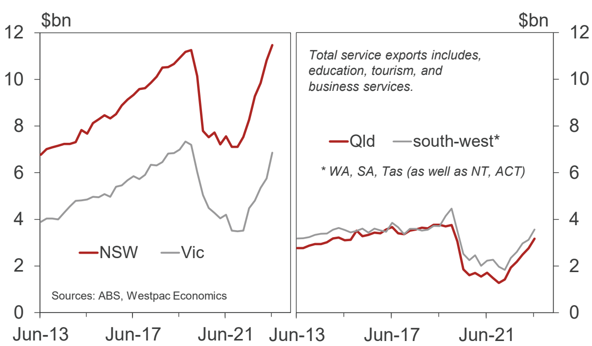


Population state trends



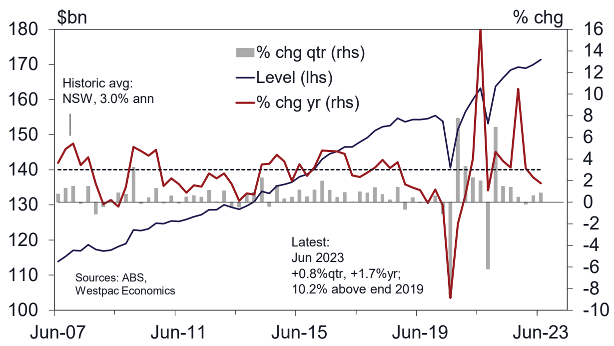
New home building activity

Total service exports: recovery by state



Demand slow and patchy …

NSW demand: up, but mixed, during 2023 H1



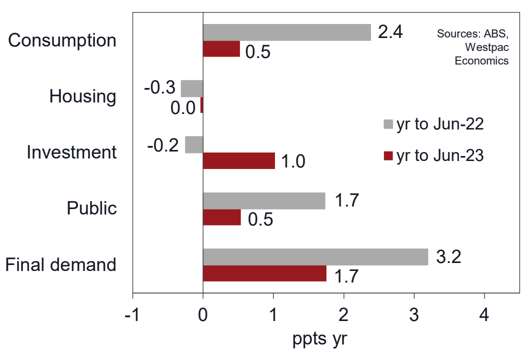
The NSW economy is in the midst of a marked slowdown, albeit uneven across sectors and across quarters. State demand annual growth has moderated from an around trend pace of 3.2% in mid-2022 to a subdued 1.7% currently.

That 1.7% outcome included a weak second half of 2022 (quarterly results of 0.5% and –0.2%), followed by some resilience in the first half of 2023 (0.6% and 0.8%). That resilience is likely to prove fleeting, flattered by an equipment spending burst, 2.3% and 7.5%, ahead of tax incentives ending.

As highlighted previously, the deceleration of growth from mid-2022 is centred on consumer spending (from 4.3%yr to 0.9%yr) and public demand (from 6.7% to 2.0%).

Real household disposable income is contracting, hit by high inflation, higher interest rates and additional tax obligations. Consumer spending per capita in NSW contracted by 1.2% over the past year, including a fall of 1.4% over the past three quarters – the weakest of all the states, except Victoria.

NSW: contributions to state final demand

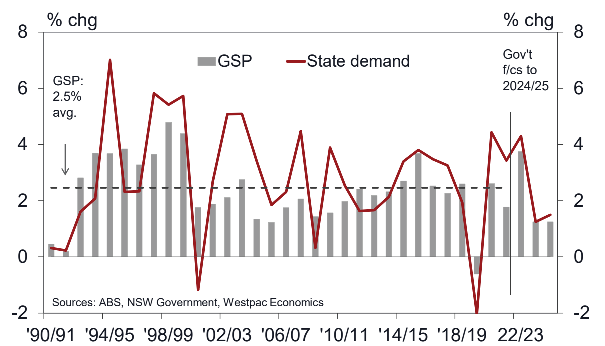


The NSW housing sector is mixed. The established property market is experiencing a rebound in prices. Demand has strengthened, alongside an acceleration in annual population growth to 1.7%, while supply remains limited.

New home building activity went backwards in NSW during the pandemic, contracting by 12% between end-2019 and September 2022, impacted by disruptions and shortages. Over the past three quarters, as shortages eased, work lifted by 7.2% to still be 5.7% below end-2019. Renovations followed a different path, with a boom during COVID-19, which is now deflating.

Business construction activity advanced over the past year, up by 7.6%, and has further upside. Public investment also moved higher over the past year, increasing by 4.2%. The key theme – the need to expand the capital stock to meet the demands of a growing population. This is particularly the case with regards to public transport infrastructure.

NSW outlook: a period of sub-trend growth



Another positive growth dynamic is that NSW, along with other states, is benefiting from a strong recovery in foreign student numbers, as well as a lift in international tourism, with the reopening of the national border.

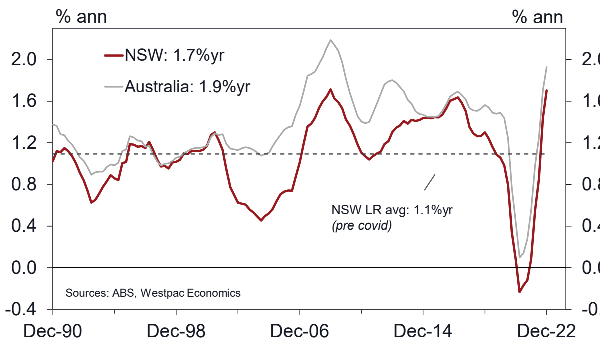
Following the March 25 state election, the newly elected government handed down the annual budget on September 19. The official growth forecasts have been downgraded from those in the March Pre-election Budget Update, recognising the more challenging outlook.

State output growth is forecast to slow from an estimated 3.75% for 2022/23 to 1.25% in 2023/24 (lowered from 1.5%) and hold at 1.25% in 2024/25 (down from 2.25%). That view for 2024/25 is particularly cautious – we anticipate that growth nationally will lift to 1.7%, from 1.3% for 2023/24, aided by an easing of policy.

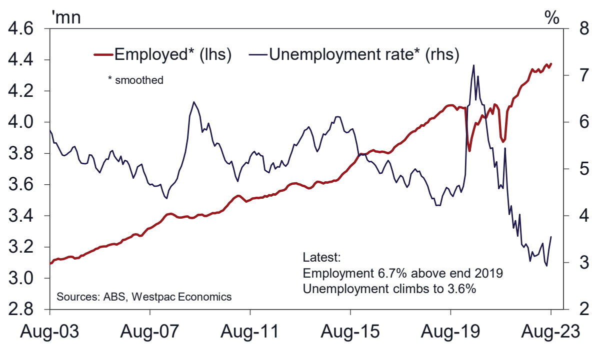
The state budget papers forecast expenses to increase by 3.4% in 2023/24 (more than reversing a 2.1% decline the year prior). The budget deficit narrows slightly in 2023/24, from $10.1bn to $7.8bn, on the back of a 5.8% revenue surge.

… consumer spending and public demand lead downturn

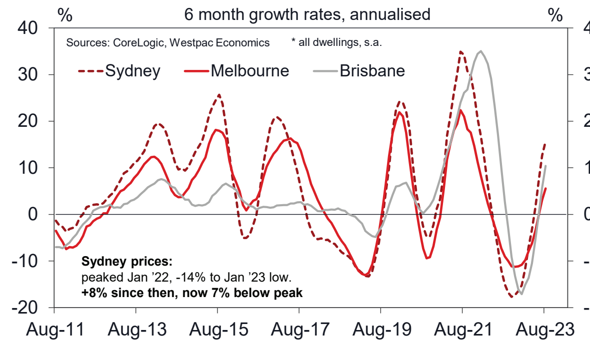
NSW population growth rebounds, to above par



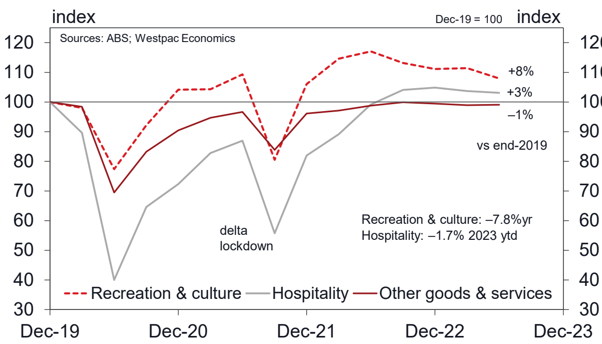
NSW: job gains, volatile around slowing trend



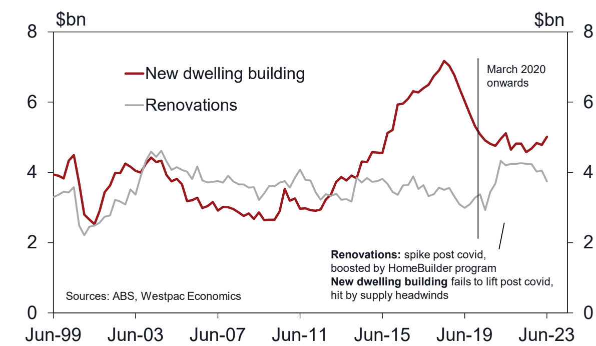
Sydney dwelling prices: rebound



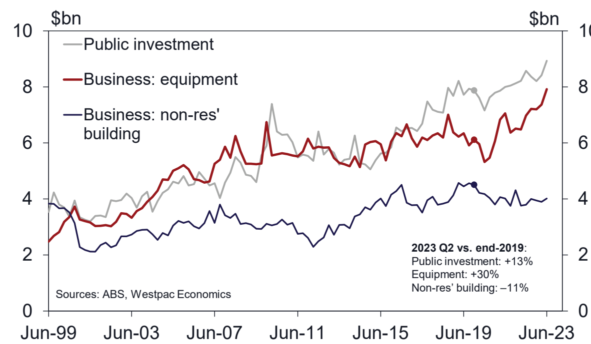
NSW: consumer spending trends



NSW housing activity: a tale of two cycles

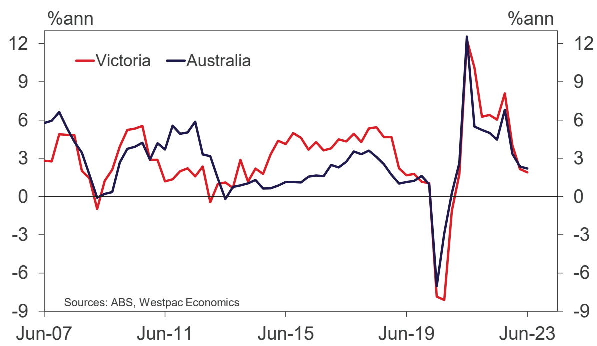


Investment cycles



Demand slows abruptly as consumer flat-lines ...

Victorian demand: sharp slowdown

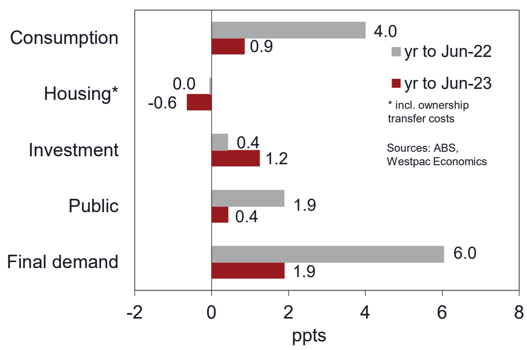


The Vic state economy has slowed abruptly since the start of the year, led by flat-lining consumer demand. The slowdown in final demand has been slightly more pronounced than in other states but is much weaker when viewed in per capita terms – Vic's population growth having accelerated to 2.7%yr.

The economy's performance looks to have been a little better than the state final demand figures suggest. In particular, a strong surge in service exports, led by education, has provided some offset to the weak domestic demand picture. This likely accounts for some of the wedge between weak demand and the more resilient picture coming from growth in employment and hours worked, although some of this is also be due to backlogged hiring and lags in the response to weaker demand.

Looking ahead, prospects are mixed. Vic consumers will remain under intense pressure but surging population growth should provide an offset. Labour markets remain a key area to watch.

Vic: contributions to state final demand

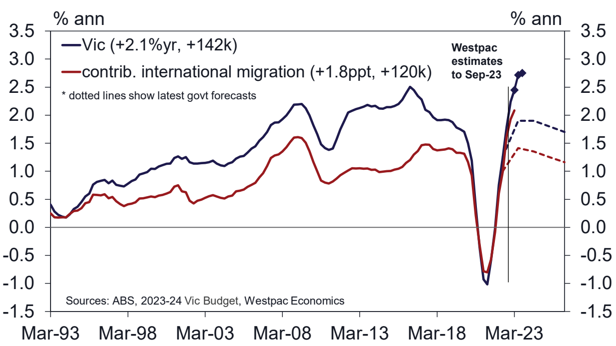


Annual growth in state final demand slowed to just 1.9% in June, down from 6% a year ago, 3ppts of the slowdown coming from consumer spending which basically stalled flat in the first half of 2023, up 0.3% in Q1 and declining 0.2% in Q2. The hit from higher interest rates, higher tax payments and higher prices has been substantial. Household savings rates appear to have fallen more significantly in Vic than in other states, implying that pandemic savings are also being drawn down at a faster pace.

Dwelling investment has recorded a sustained decline over the last five quarters to be down 8.1% on a cumulative basis to June. Approvals point to more weakness to come on this front.

Growth in public demand has also moderated, centred on a sharp turnaround in COVID-related spend. Public investment has sustained strong growth with the pipeline of infrastructure work still very large. However, some moderation is likely near term given the state government's recently announced 'pause'.

Vic's popn growth: outstripping expectations

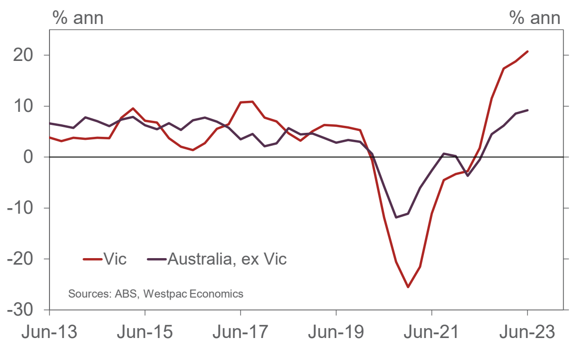


As noted, the state demand figure do not tell the full story as they exclude inventories, interstate and international trade. The latter is particularly important for Vic at the moment with export volumes up over 20%yr led by a 50%+ surge in service exports. Easing border restrictions have allowed the state's large foreign education sector to return to full operation. Adding net exports to state demand lifts annual growth from 1.9%yr to 3.5%yr, we estimate. Note that comprehensive annual GSP estimates released in late November will provide a full wash-up including inventory and interstate trade effects as well.

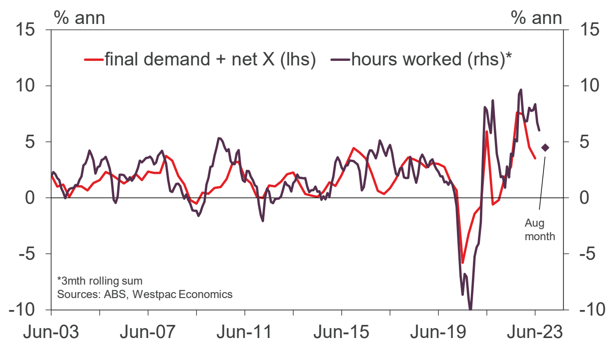
Vic's labour market has continued to outperform despite the slowdown in domestic demand. Employment growth continues to run at a very strong 3.8% annual pace, with the unemployment rate holding at just 3.5%. Other measures suggest the labour market is starting to see more slack emerge: growth in hours worked moderating, Vic's underemployment rate up about 1ppt vs. last year's lows and job vacancies down from last year's high.

… despite surging population growth

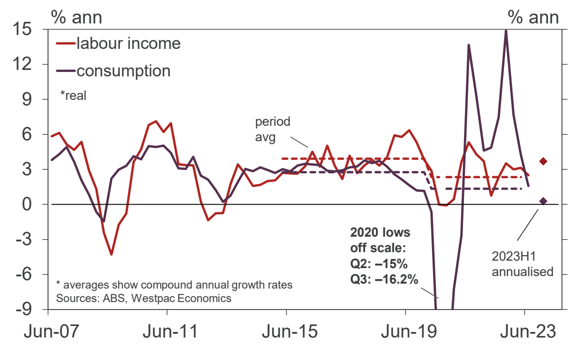
Exports: Vic vs rest of Australia



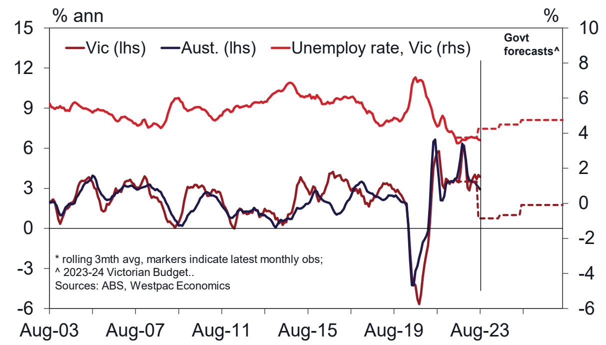
Victoria: final demand and hours worked



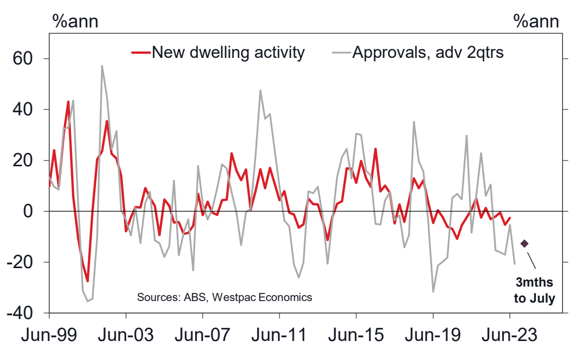
Vic households: incomes and spending



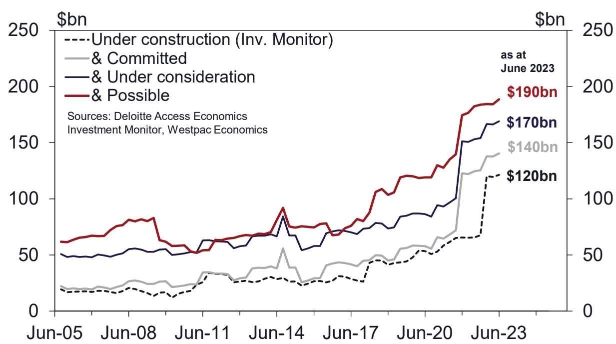
Victoria: jobs growth and unemployment



Vic housing construction

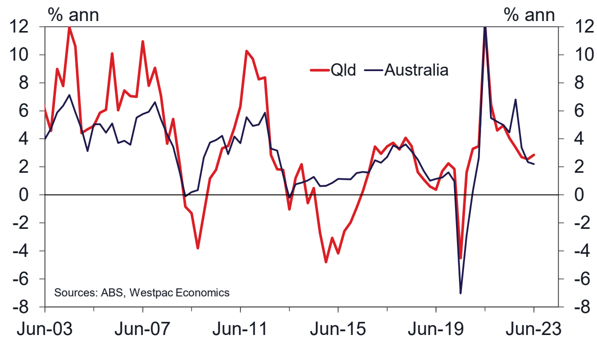


Vic's project pipeline: still very large



Slowdown less pronounced ...

State final demand: Qld vs Australia

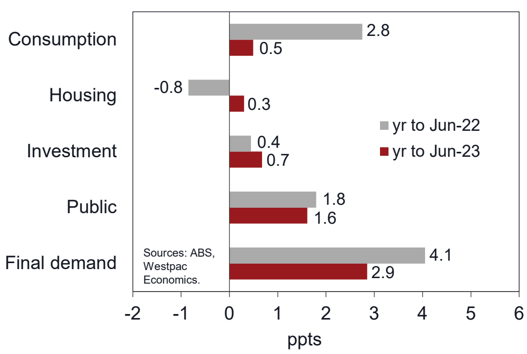


The resilience in Queensland's economic performance over the last twelve months stands in stark contrast to most other states. From Q3 2022 to Q2 2023, state final demand in Queensland has moderated only slightly, from 3.4%yr to 2.9%yr.

That compares to a sharp loss of momentum across the nation (6.8%yr to 2.2%yr), in part a reflection of the fading post-delta rebound in NSW and Vic, but more broadly speaking to the intensifying impact of interest rate and cost-of-living pressures.

That is not to say Queensland is immune to these headwinds. At 0.9%yr, consumption growth has slowed abruptly over the past year, with cutbacks in spending clearly evident in discretionary categories – household contents (–9.1%yr) and recreation/culture (–3.8%yr) of note. While this has been partially offset by some lifts in essentials spending, including rent/dwelling services (+2.7%yr) and health (+2.3%yr), it has not been enough to annul the broader slowdown in housing spending at hand.

Qld: contributions to state final demand

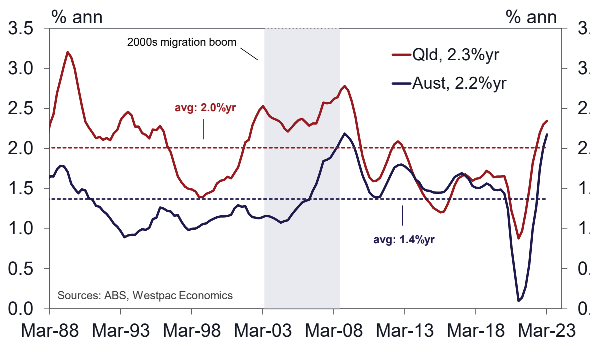


Where Queensland's state economy has stood out, however, is in the strength of housing and resilience in public demand.

Benefiting from a sizeable backlog of work, dwelling investment has sustained a clear uptrend in Queensland over the last twelve months (+6.1%yr). It looks as though the 'hangover' in renovation activity, following the expiration of HomeBuilder, has begun to fade (+1.2% year-to-date), while new housing construction has continued to forge ahead (+14.8%yr).

This is an encouraging development in the context of rapid population growth and a growing need for further housing capacity. Indeed, recent evidence from the Labour Force Survey suggests Queensland's working age population is growing at a historic rate of 3.3%yr as of August. Compared to the pace of 2.8%yr across Australia – which itself is also a record – highlights the appeal of Queensland as an attractive destination for both overseas and interstate migrants.

Population growth forging ahead at pace



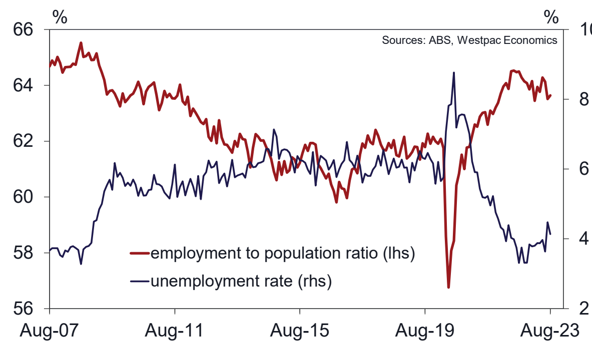
Additionally, public demand in Queensland has shown few signs of deceleration, the sector's growth running at 5.7%yr in the state compared to 2.7%yr nationally. It is worth emphasising the difference in investment, having surged from 2.2%yr in Jun-22 to 17.6%yr in Jun-23 in Queensland, compared to a more moderate gain nationally, up from 5.3%yr to 9.4%yr over the same period.

The state's project pipeline has been lifting, centred on key industries such as resources, transport and health. Looking forward, there are still a number of new construction projects and upgrades associated with the Olympics that are yet to enter the pipeline or begin commencement.

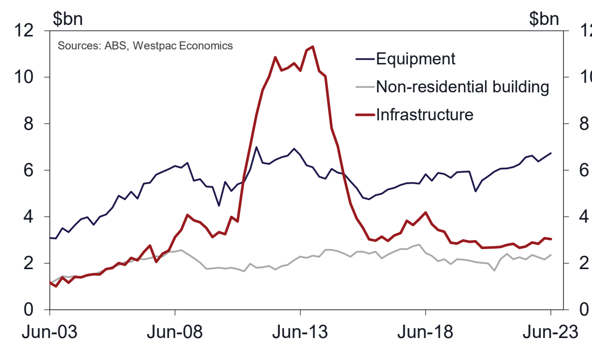
The large backlog of construction projects will continue to deliver an underlying level of support over the medium-term and provide a worthwhile expansion of Queensland's housing and capital stock over time. That said, current headwinds facing the economy are broad and fierce. Further near-term slowing in growth – centred on the consumer – will be difficult to avoid.

... but headwinds are intensifying

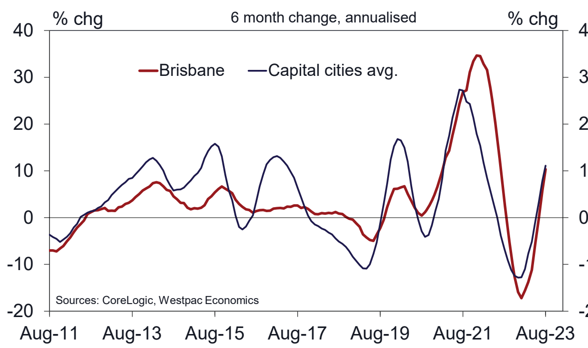
Qld labour market in robust health



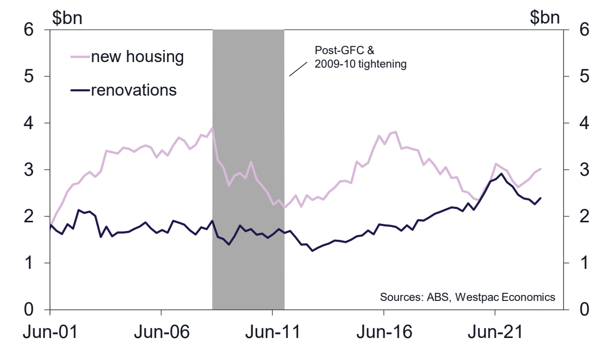
Qld business investment has been supportive



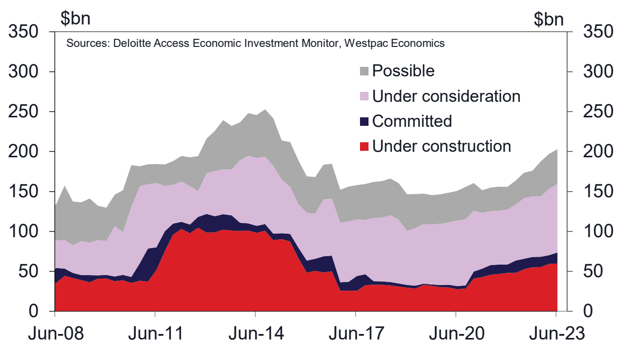
Brisbane's housing market has turned



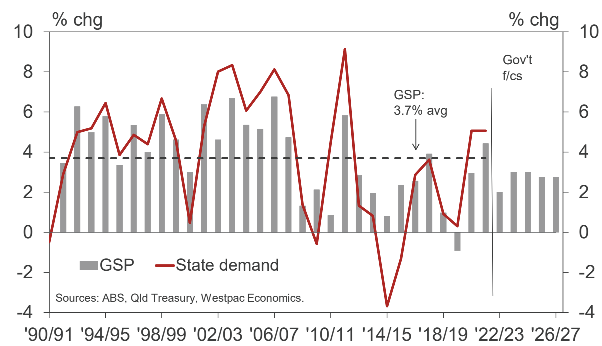
Housing investment: nascent strength



Queensland's project pipeline is building

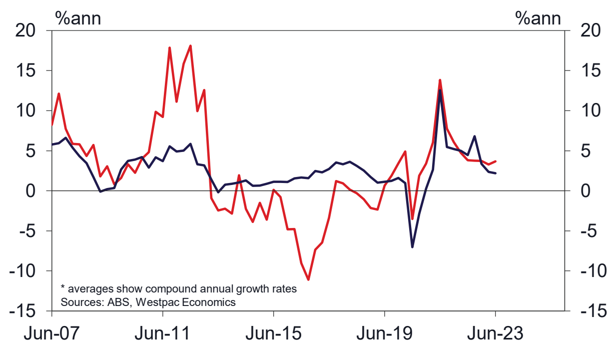


Qld economic performance & outlook



Demand resilient, at a near trend pace ...

State final demand: WA vs Australia

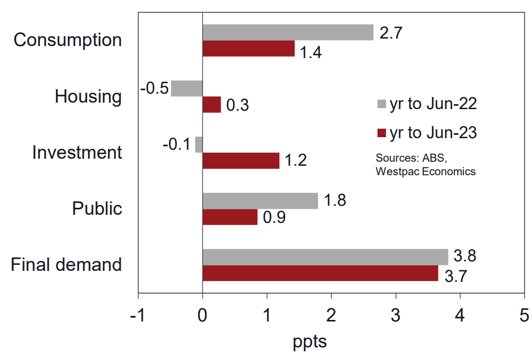


The demand slowdown has been much milder in WA than in other states. Indeed, annual growth held steady at a near long-run trend pace, rather than weakening further over the past year. Cooling consumer activity has been offset by a pick-up in business investment.

While WA is not getting the export boost the big eastern states are seeing from foreign education, migration inflows are driving a major lift in the state's population growth, which at 2.8%yr is already outstripping the state government's budget forecasts by over 1ppt. The state's consumers look relatively well-placed, with real labour incomes still posting solid gains and a much milder correction in dwelling prices.

Prospects are broadly positive for the state's mining sector. While some commodity prices have weakened in recent months, prices for iron ore and crude oil remain high. There has been little change to the project pipeline to date but demand is likely to be strong longer term, particularly relating to the carbon transition.

WA: contributions to state final demand

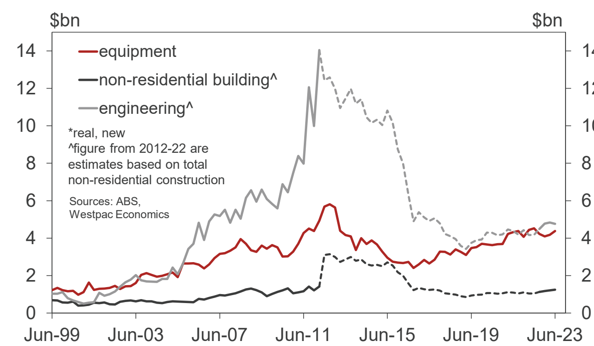


State final demand outperformed in the first half of 2023, posting a 1.1% rise in Q1 and a 0.4% rise in Q2, lifting annual growth to 3.7%yr - approaching the state's long-run average of 3.9%.

Consumption has held up better than in other states, rising 1% over the first half of the year compared to flat results elsewhere. That said, growth has slowed materially over the year, to 2.9%yr from 5.4%yr in June 2022, and spending in per capita terms has declined in 2023. Positives are that real labour income growth has lifted, supported by a lift in hours worked and wages growth. Household savings rates have only declined marginally, we estimate, and are still slightly above pre-COVID levels.

Housing activity showed a surprisingly strong lift in the first half of the year, gains in new building more than offsetting continued weakness in renovations. That likely reflects the work on backlogged HomeBuilder-related jobs. The forward view from approvals suggest activity will soften again once this passes.

WA business investment



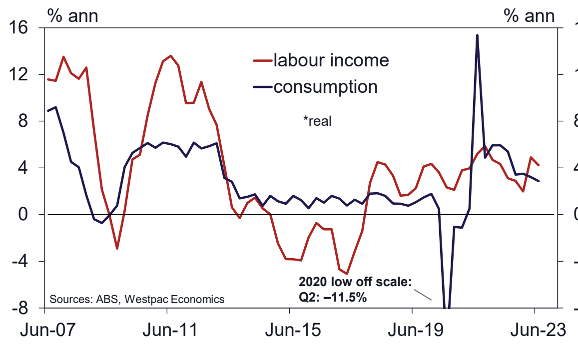
Business investment has posted a modest acceleration over the last year, lifting 6.3%yr after holding about flat in 2021-22. Gains in the first half of the year have been led by equipment and non-residential building with engineering construction about flat.

The project pipeline has seen little or no change over the last year and a half, suggesting new projects are not about to drive a sharp ramp higher in investment, although maintenance and refurbishment spending may still sustain recent gains.

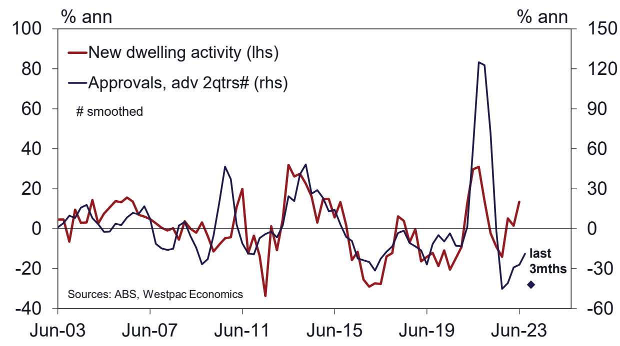
WA's labour market remains very tight with the state's unemployment rate holding around 3.6% and underemployment at 6%, markedly lower than in the major eastern states where it ranges from 6.6% to 7.3%. Employment growth has moderated to around 2%yr suggesting the surge in population growth is yet to make inroads on a still large backlog of vacancies. Notably, wages growth has lifted to 4.2%yr in WA, outstripping other states by 0.5ppt-1.0ppt.

... mining investment pipeline still dormant

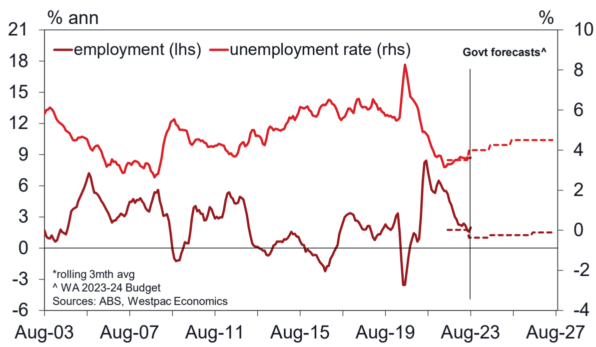
WA households: incomes and spending



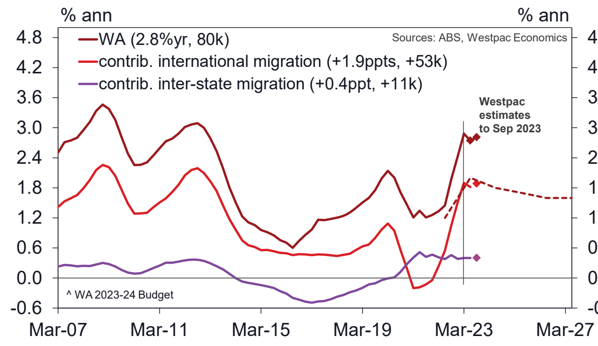
New dwelling inv. cycling big HomeBuilder surge



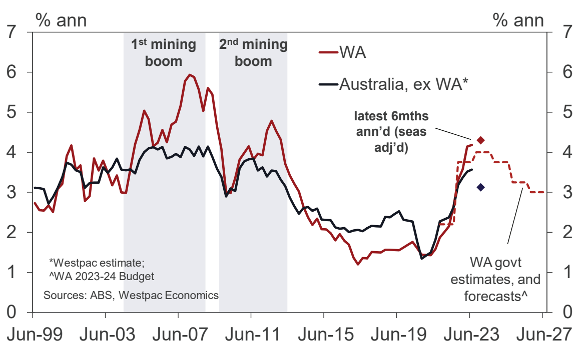
WA labour market



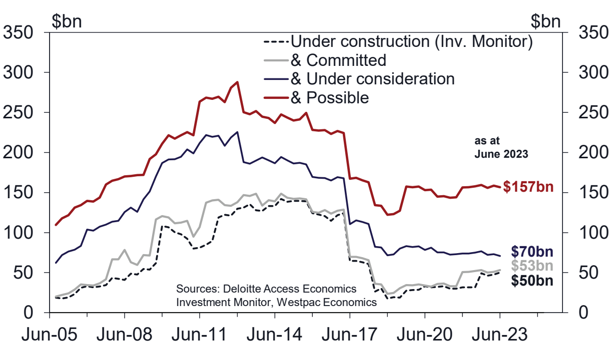
WA's population growth



WA wages growth lifting

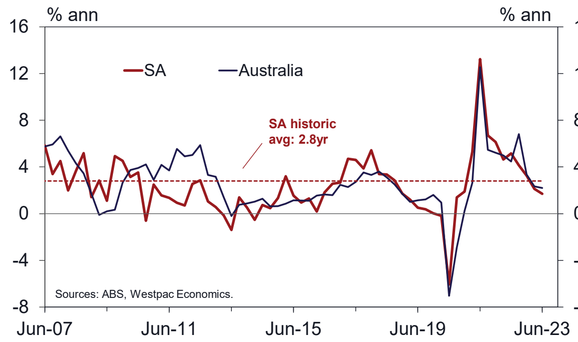


WA's project pipeline: largely unchanged



Households show resilience …

State final demand: SA vs Australia

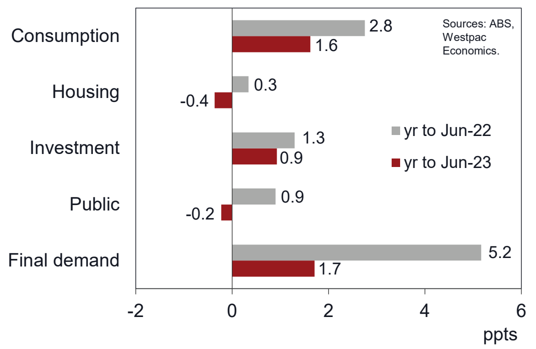


Growth in South Australia bounced notably in Q2 2023, state final demand rising 1.3%. However, this follows a run of patchy and generally lacklustre reads over the preceding nine months, leaving annual growth in South Australia up just 1.7%yr.

In terms of highlights, the resilience in household spending has been one of South Australia's consistent bright spots. While cracks have begun to emerge more clearly at a national level (0.1%qtr; 1.5%yr) – a consequence of rapid interest rate rises and cost-of-living pressures – household consumption in South Australia has arguably remained buoyant (0.6%qtr; 3.0%yr).

An emerging tension noted earlier in the year was the stark contrast between public and private business investment, the former having posted six consecutive quarterly declines to Q4 2022. It was therefore encouraging to see another increase in public investment, the 6.9% quarterly gain seeing annual growth snap-back from –12.2%yr in Q1 to +1.7%yr in Q2.

SA contributions to state final demand

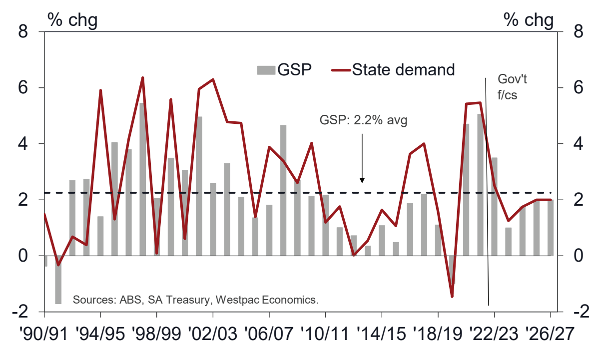


Private business investment remains supportive too, rising 3.4% (7.9%yr), although the detail has pointed to ongoing choppiness in equipment investment figures (4.0%yr) and a cooling in non-residential construction (14.0%yr) and engineering work (6.5%yr), albeit from a high base.

We expect further upside for construction near-term – given the need for more capital stock amidst brisk population growth – but at the same time, equipment investment will likely trend downwards as demands conditions continues to soften.

The outlook for housing looks less promising. The 1.5% lift in housing investment could not offset a run of weak reads over the past year (–7.8%yr), evenly shared between new dwelling construction (–6.7%yr) and renovation activity (–7.8%yr). A large pipeline of work can provide some medium-term support, but its clear that momentum is hard to generate within the context of a broader economic slowdown.

SA economic performance & outlook



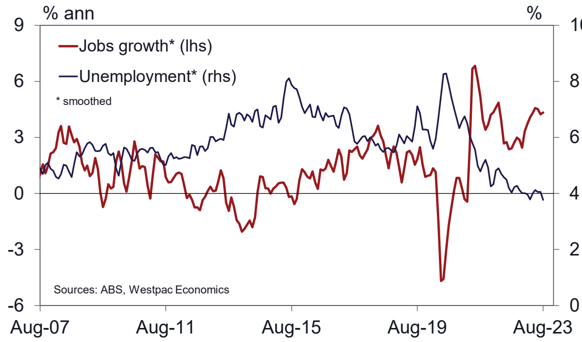
On the housing market, South Australia has been underpinned by an extremely tight supply-side, with total on-market listings still running at less than two months of sales and rental vacancy rates holding in the sub-0.5% range.

The SA Consumer Housing Sentiment index is pointing to further gains over the near-term – particularly in the context of very tight supply – but given the stretched starting point for affordability and the state's lower exposure to the migration surge, the medium-term outlook looks more subdued, with prices expected to rise by only 3% in both 2024 and 2025.

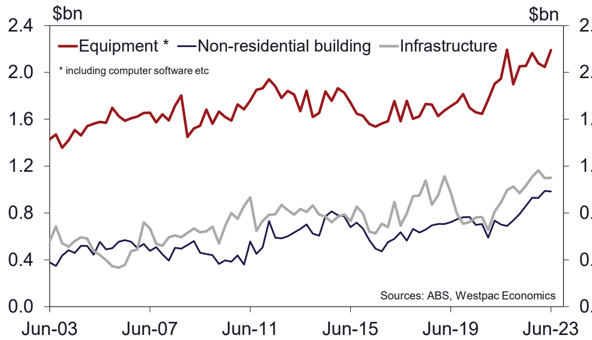
Ultimately, in a context where the impact of the RBA's rapid tightening cycle is gradually materialising and growth is slowing across the nation, a focus on upholding momentum in public investment can act as a near-term support to activity, providing jobs and incomes to households under pressure, whilst establishing a strong foundation for a recovery over the medium-term, once current headwinds begin to fade.

... outlook remains gloomy

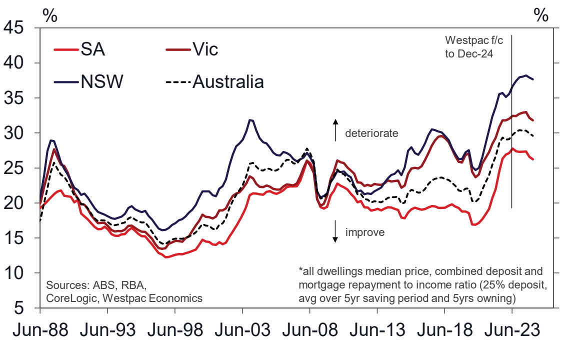
SA's labour market is tight



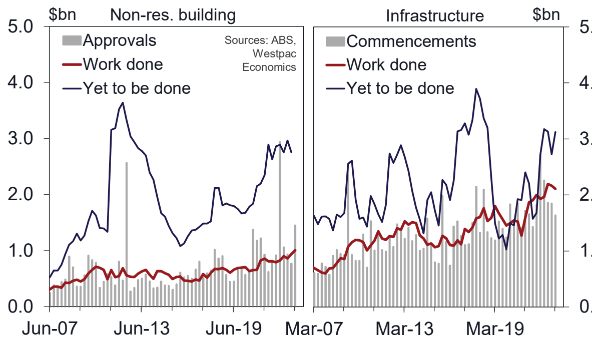
Business investment has strength



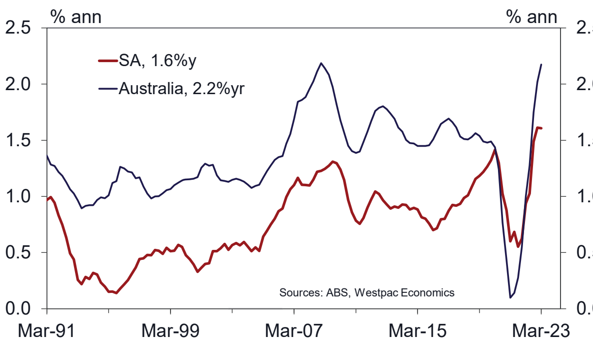
Housing affordability in favour of SA



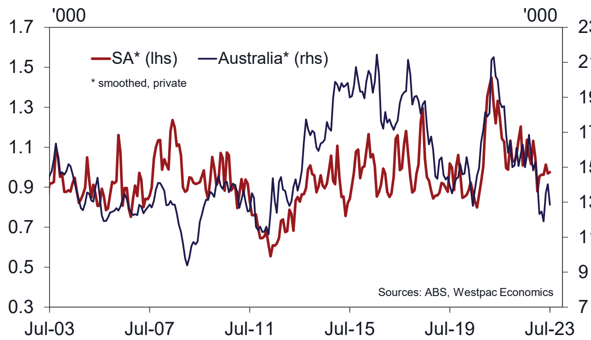
Construction benefitting from renewables



SA population growth climbs to historic high

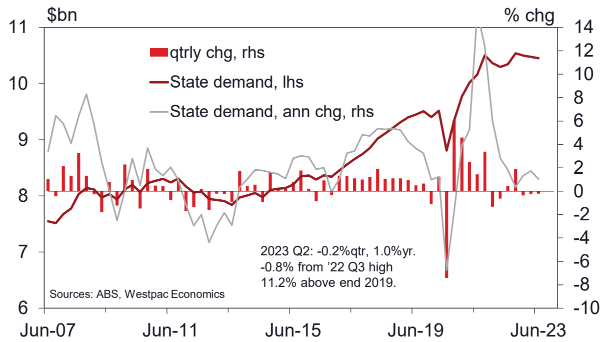


SA housing construction: pipeline positive



Economy continues to cool ...

Tasmania: demand slips, down from '22 Q3 high

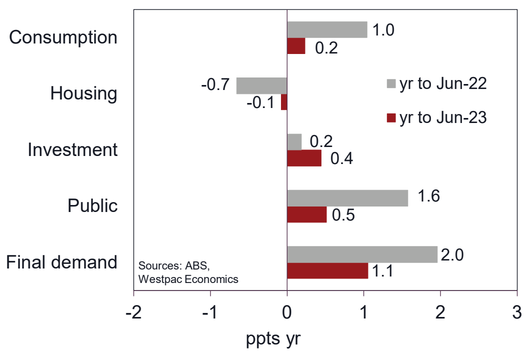


Tasmania is experiencing a flattening of demand, albeit with some quarterly volatility (notably in equipment spending). Annual state demand growth has slowed to 1.0%, with a 0.8% decline over the past three quarters (including a 0.2% fall in June), outweighed by a 1.9% burst in September 2022.

The performance of recent quarters 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 substantial COVID stimulus – notably in new home building and business equipment investment. The level of state demand currently is some 0.5% below that at the high of September 2021, which marked the end of a period of brisk growth propelled by the substantial stimulus measures.

Tasmania: contributions to state demand

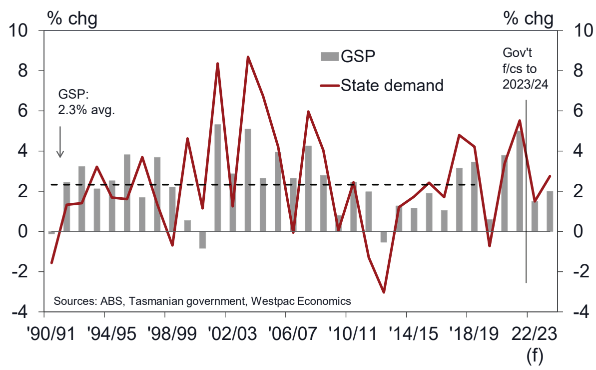


Households are under intense pressure from higher inflation, higher interest rates and additional tax obligations. Adding to these pressures in Tasmania, employment numbers have levelled off in 2023 (as demand has flattened), and annual population growth has slowed to 0.4%. Against this challenging backdrop, consumer spending in Tasmania was flat over the past half year.

Home building activity is moderating, after climbing to historic highs in 2021. New home building activity declined by 2.3% over the past year, while renovation work edged 1.1% lower, There is further downside over coming quarters, with dwelling approvals sliding to a five year low and given insipid population growth.

Business investment, although volatile, remains positive, rising 5% over the past year - adding to productive capacity. Equipment spending is still 58% above pre-COVID levels. Non-residential building, impacted by earlier COVID delays, is rebounding, with a 26% recovery over the past year.

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.

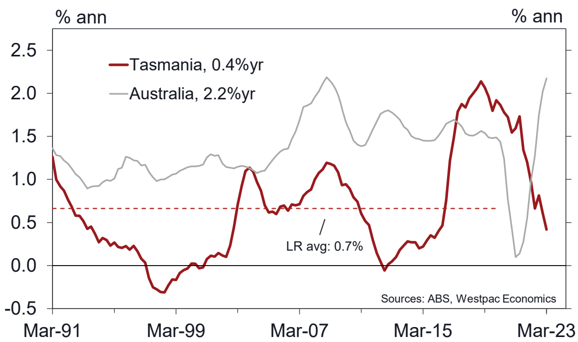
The government trimmed the 2022/23 growth forecasts, recognising the loss of momentum in the economy. Output growth was downgraded to 1.5% (from 2.75%) and state demand to 1.5% (from 2.25%). The slowdown has been more abrupt than this, state demand decelerating from 5.6% for 2021/22 to 1.1%.

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%.

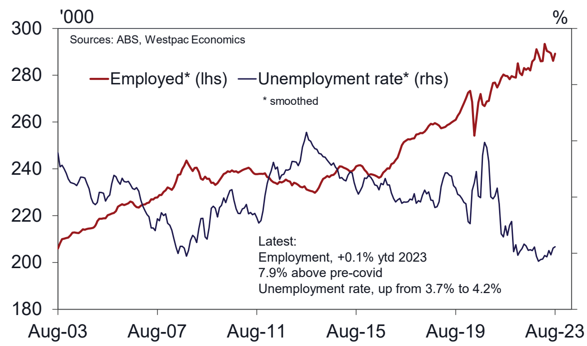
The budget papers acknowledge and anticipate further weakness in private sector demand (as is reasonable in the current environment) but assess that this will be more than offset by a lift in public demand. The risks appear to be the downside. While public demand continues to add to growth, the pace of annual growth has slowed from a brisk 8% at the start of 2022 to be 1.6% currently.

… following two years of rapid growth

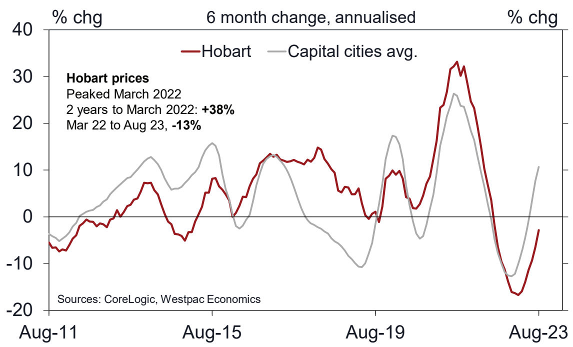
Tasmania: population growth insipid



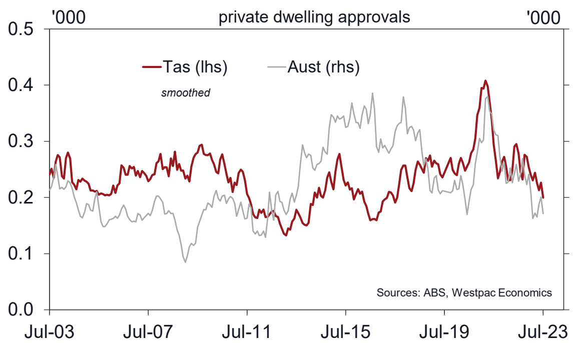
Tasmania: employment consolidates in 2023



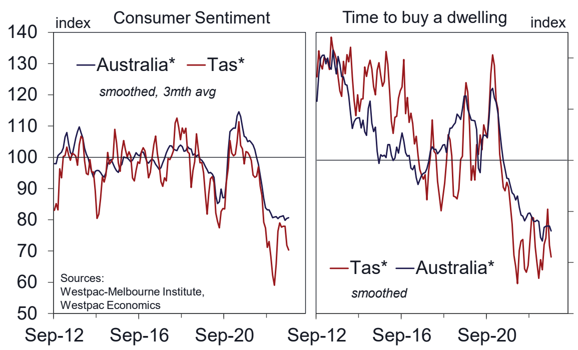
Hobart dwelling prices: stabilise



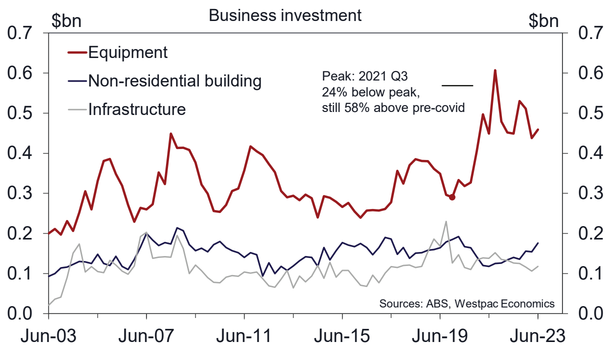
Tas: dwelling approvals slide to a 5-year low



Tasmanian consumers pessimistic

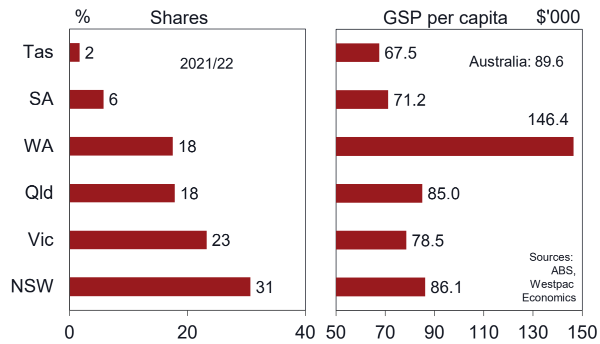


Equipment spending, still elevated

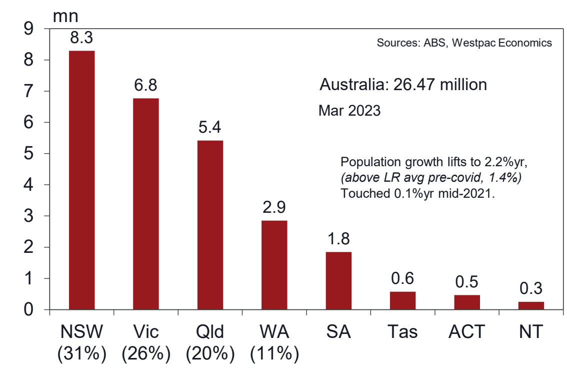


SUMMARY INDICATORS

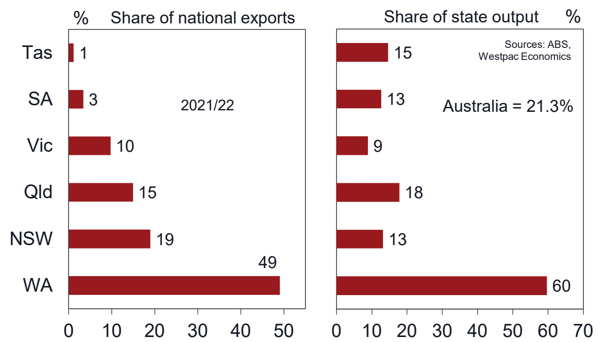
Gross State Product



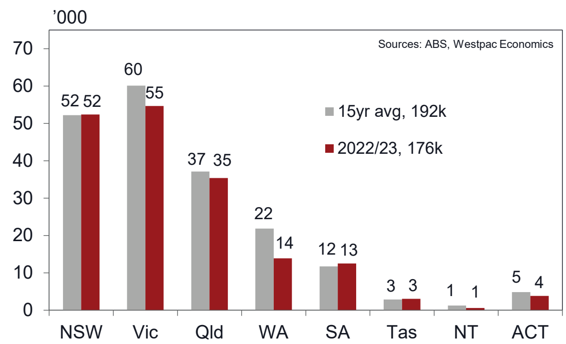
Population



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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Disclaimer continued

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