WESTPAC
Coast-to-Coast
December 2023.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

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States

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Inflation to fall, but squeeze on households to continue

The Australian economy in 2023 confirmed that the effects of global supply shocks on inflation are receding. After peaking at the end of 2022, CPI inflation moderated significantly over 2023, from 7.8% over 2022 to 5.4% over the year to the September quarter and, we expect, to 4.3% over calendar 2023. Because the inflation remaining in the system is largely domestically-sourced and demand-driven, the next leg of the disinflation process is likely to be slower. Even so, further moderation is in prospect for 2024. Westpac Economics forecasts CPI inflation to reach 3.2% by end-2024.

The domestic economy is stuck in the slow lane and is likely to remain so in the first half of 2024. We expect GDP growth to ease to 1% over the year to the June quarter 2024, and still be only 1.6% over calendar 2024. Domestic demand is forecast to be particularly weak in the first half of 2024, before picking up gradually from the September quarter.

Much of the weakness has been driven by consumption, and this too is likely to remain the case for a while yet. Real consumption was flat in the September quarter, with one-off effects from electricity subsidies and motor vehicle deliveries offsetting. We are forecasting slow growth from here, reaching 1.6% over calendar 2024. While the public sector is currently a source of growth in demand, we expect some of the momentum to ease over 2024. Likewise, we expect business investment to be weaker over the period ahead than it was in the first half of 2023. Machinery and equipment investment was not resilient to the expiry of tax incentives, and we expect this will largely offset the pulse from infrastructure activity and investment in energy transition. In this Report, we highlight that the softening of business investment in the September quarter was apparent in most states - the key exception being the mining state of WA, where investment is up strongly, supported by higher commodity prices.

Unfortunately for households, the combined effects of higher taxation and interest rates has compounded the drag coming directly from high inflation. The expiry of the low and middle-income tax offset is part of this. Even more importantly, inflation (and a tight labour market) has pushed people into higher tax brackets. Real household disposable income has declined significantly over the course of 2023 in Australia. We expect that this drag will continue into 2024. Over time, as inflation declines, so will the drag on household spending power from this source. The Stage 3 tax cuts will also help. And if we are right that the RBA is on hold from here, and starting to cut rates from later in 2024, then household budgets will start to see some relief. But for most of the year, households will continue to feel squeezed. In this Report, we assess that the weak consumer picture is evident across the states.

The international border reopening in both Australia and China led to a surge in migration at the beginning of 2023. Students who had previously been studying online returned to in-country, in-person studies in something of a rush, while the number of new student visa applications also rose strongly. Compounding this, there has not been the usual flow of departing graduates to offset the inflow. The resulting surge in net migration has now peaked. Population growth is therefore set to recede even without this week's policy changes. One aspect of that turnaround is that the surge in hours worked and slump in measured productivity should reverse. We saw some of that reversal in the September quarter national accounts and expect this to continue.

The subsiding migration surge should also see some easing in the pressures it has induced in the housing market. Rents are likely to increase strongly for a while yet, though, and vacancy rates are likely to remain below average given the capacity issues in the housing construction industry. In the established market, housing price growth is already starting to roll over in Sydney and Melbourne. We are forecasting housing prices to continue increasing over 2024, but at a slower pace than seen earlier this year. Even so, the economics of housing construction remain difficult and, as noted, the industry is supply constrained. We are therefore forecasting dwelling investment to decline over the next year or so, before starting to turn around over 2025. This implies that the existing backlog of homes already approved will be worked down only slowly.

The tight labour market is easing, with a soft landing the most likely outcome. Unemployment has risen a little, broadly in line with the RBA's and our forecasts at the beginning of the year. Perhaps more noteworthy has been the strength in labour supply. The participation rate and hours worked reached record highs in 2023. Part of the story has been that people have been encouraged into (or to stay in) the labour force by the tight labour market and resulting job opportunities. Another part has been that people have sought more income as cost-of-living pressures mounted; the share of workers holding multiple jobs has increased significantly. With slow growth and declining inflation expected for 2024, both demand for and supply of labour will slow. The unemployment rate will increase – Westpac Economics is forecasting it to reach 4½% by end-2024. However, lower average hours worked and a softer trajectory for participation will also be part of the adjustment.

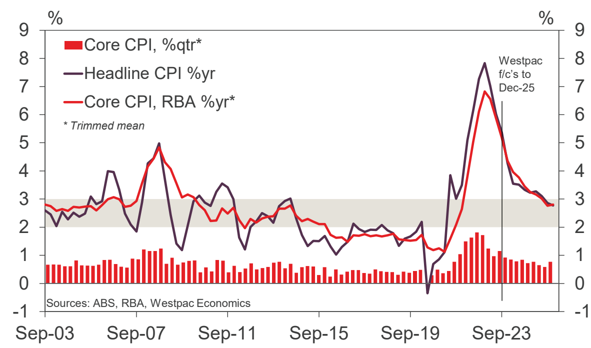
Our views on the growth outlook are contingent upon the path of inflation and policy rates in 2024. In the lead-up to the next meeting in February, the RBA Board will be assessing whether inflation is declining fast enough to reach the 2–3% target in 2025. Given the revised Statement on the Conduct of Monetary Policy, the Board will soon also need to articulate when it expects inflation to reach 2½%. The RBA has made it clear that it is ready to raise rates again if inflation does not decline as fast as the Board intends. It has no tolerance for further delays in the return of inflation to target beyond this date. The February meeting should therefore be considered live if there is an upside surprise in the December quarter CPI data.

That said, the odds of further rate rises from here are diminishing. Soft activity data and welcoming signs on goods price inflation are supportive of an inflation outlook, in line with or even better than the RBA's expectations. The RBA Board has recently highlighted the encouraging signs of progress towards its objectives. As a result, the bar to further rate increases in rising. Westpac Economics' central forecast is for no further increases in the cash rate from here. Assuming inflation declines as we and the RBA expect, then as the year progresses, the RBA Board should start to see scope to make monetary policy less contractionary than it is at present. Our current forecasts see the cash rate starting to decline from September 2024. The pace of that decline is fairly moderate, at only 25bps per quarter. By end-2024, we expect the cash rate to be 3.85%.

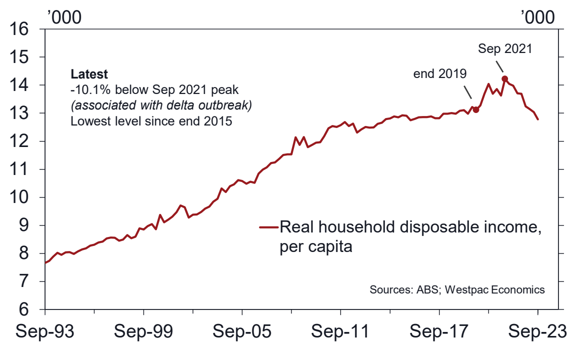
Luci Ellis, Chief Economist Westpac Group

Australian Economic Outlook

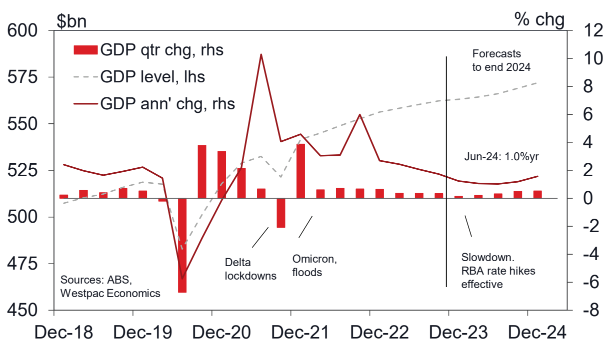
CPI inflation



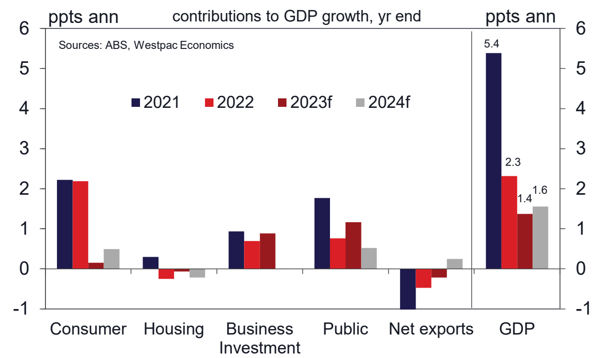
Real household disposable income, per capita



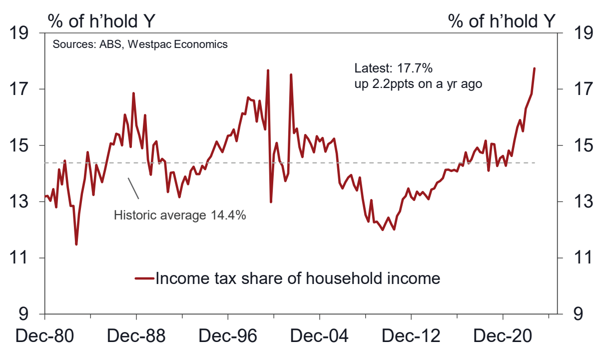
Australian economy: growth at stalling speed



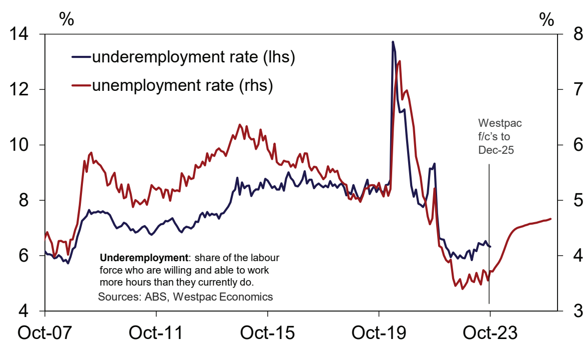
Australia: the growth mix



Household income tax climbs to historic high



Unemployment turning



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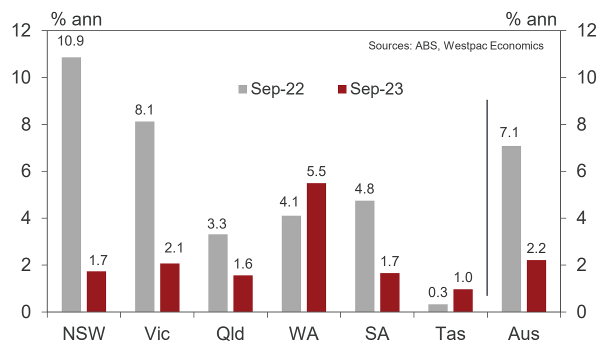
Consumer spending stalls ...

Domestic demand decelerates across states



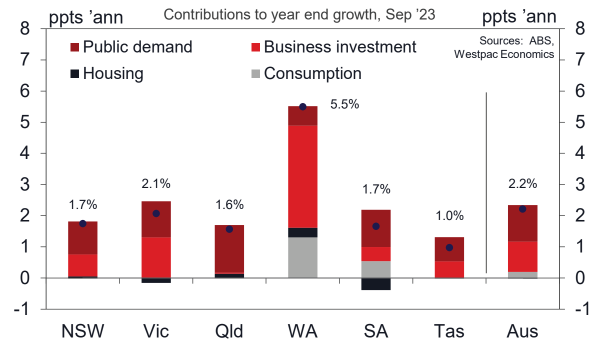
Conditions in 2022 were shaped by the reopening from covid disruptions, including the delta lockdowns. Demand surged, running well ahead of supply.

High inflation and higher interest rates to combat the inflation challenge shaped a marked economic slowdown in 2023.

This marked shift in fortunes between 2022 and 2023 is evident across the states - most notably the delta states of NSW and Victoria. The mining state of WA is the exception, conditions strengthening in 2023, supported by higher commodity prices.

Nationally, output growth slowed to a weak 0.2% in the September quarter. That result included a 0.5% rise in domestic demand, which was centred on a lift in public demand while consumer spending was flat. By state, domestic final demand growth was subdued in the interest rate sensitive states of NSW and Victoria in the September quarter, a 0.3% and 0.4%, but exhibited strength in WA, at 2.4%qtr, 5.5%yr.

State final demand, contributions

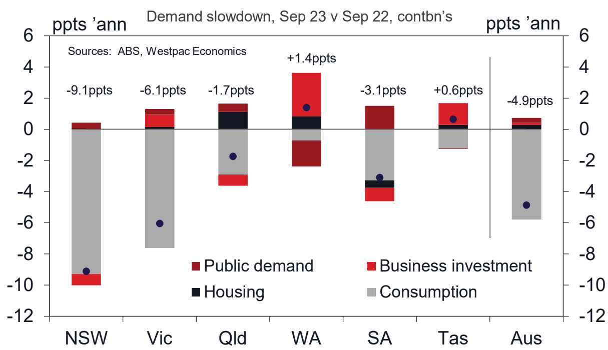


Flat consumer spending nationally was the stand-out result for the September quarter, representing a decline in per capita terms of -0.6%. Real household disposable income contracted further and sharply, as high inflation, higher interest rates and additional tax obligations impacted.

That weak consumer picture is evident Coast-to-Coast. In the September quarter, per capita consumer spending declined in all mainland states. Over the past year, the decline ranges from Vic and Qld, at -2.7%, NSW at -2.1%, and WA at -0.5%.

Business investment set the states apart in the September quarter. The spending burst evident over 2023H1, in part a catch-up (improved supply) and a bring forward (ahead of tax changes on 1 July) was followed by falls in Q3 in NSW, Vic and Qld. In WA, investment surged further, up 8.6%qtr, 17.1%yr as the state benefits from higher commodity prices.

State demand: contributions to slowdown



Two growth drivers are public demand and service exports, both of which are broadly based across the states.

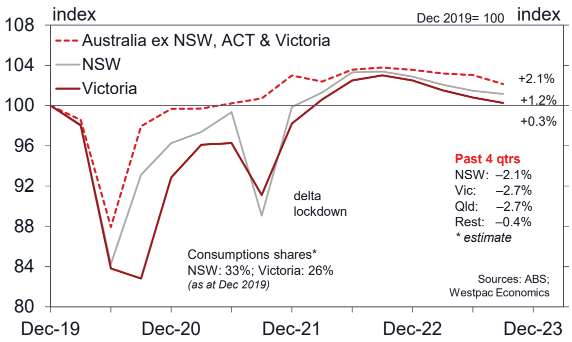
Nationally, public demand (representing 28% of the economy) grew 4.2% over the past year, accounting for half of overall economic growth. Across the states, annual public demand growth is 4% plus, with the exception of WA, at 2.4%, and Tasmania, at 2.5%. Governments continue to provide support to the household sector and, more notably, are embarking upon much needed transport infrastructure investment.

Westpac anticipates that national output growth will slow from the 3.1% increase for the 2022/23 financial year to a modest 1.4% for 2023/24. That would represent a soft landing as the RBA combats high inflation. Growth is then forecast to lift to 1.7% for the 2024/25 financial year supported by policy stimulus - with the Stage 3 tax cuts and expected interest rate cuts.

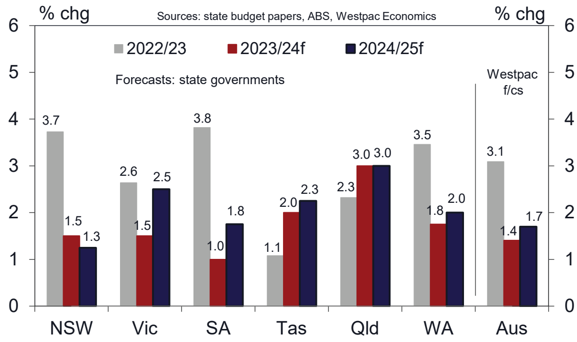
Currently, the state budgets - in aggregate (on a weighted average basis) are pointing to growth nationally of around 1.8% for 2023/24 and 2.1% for 2024/25. This profile likely understates the downside risks to growth this year, ahead of any policy relief.

… as incomes squeezed

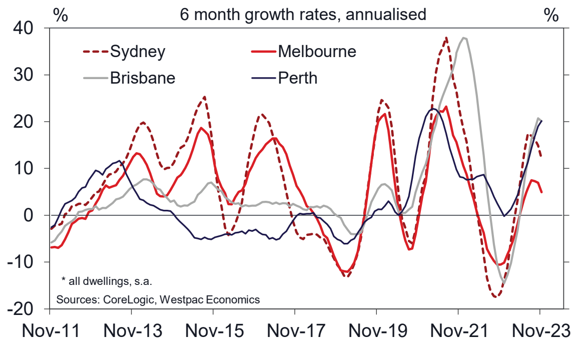
Consumer spending per capita



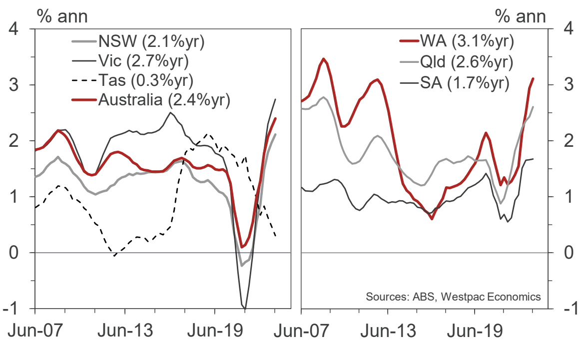
Growth outlook by state: GSP



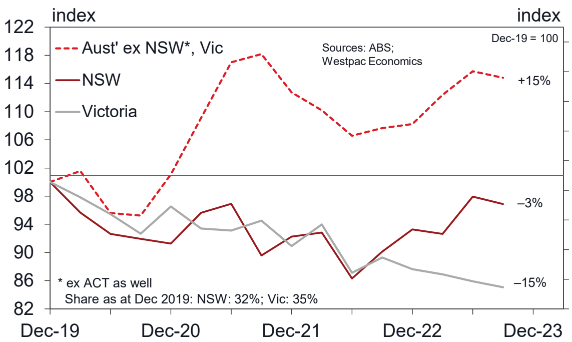
Dwelling prices: rebounded in 2023



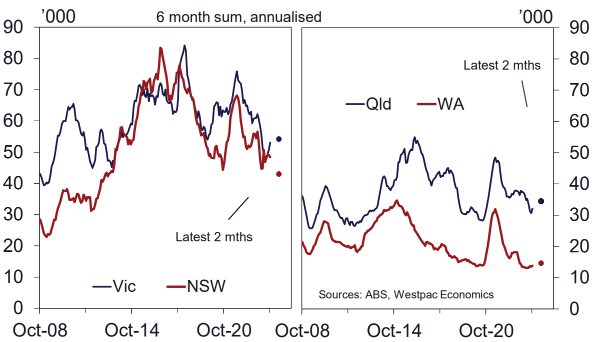
Population state trends



New home building activity



Dwelling approval at lows late in 2023



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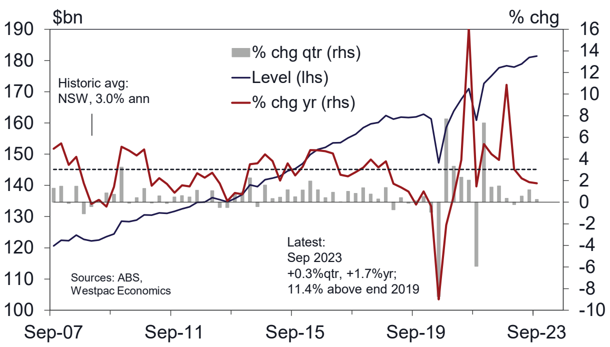
Consumer spending flatlines ...

NSW: domestic demand slows in 2023



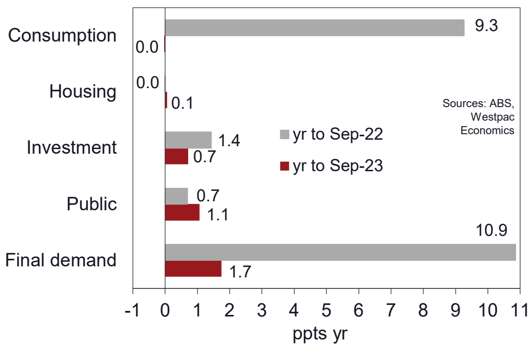
The economic environment across NSW in 2023 is vastly different from the year prior - as the pandemic and its legacies continue to play out. The spending burst of 2022, with the reopening from the delta lockdown, has given way to weakness in 2023, as consumers bear the brunt of high inflation and higher interest rates.

Consumer spending rebounded 17.8% in the year to September 2022 (to be 4.9% above that at end 2019, prior to the pandemic). Since then consumer spending has flatlined - to be at the same level in September 2023 as a year earlier.

Over these periods, annual state final demand growth slowed from 10.9% to 1.7%. Excluding consumption, annual growth lifts a little from 3.3% to 4.0%, boosted by public demand.

Momentum has slowed. State demand rose a tepid 0.3%qtr, 1.7%yr in the September quarter - including soft consumer spending, +0.2%qtr, 0.0%yr, and a decline in business investment, -2.2%qtr.

NSW: contributions to state final demand

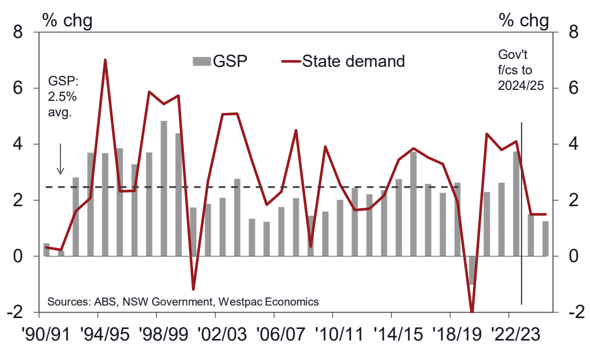


The housing sector is mixed. Prices in the established market advanced in 2023, despite higher interest rates, squeezed higher by strong demand and a lack of supply. State population growth jumped to 2.1% but is likely to moderate in 2024.

New dwelling activity edged higher over the past year with some easing of supply headwinds - to be back at the level in mid-2021 (prior to delta) but still below pre-covid levels, down by some 3%. Lifting housing supply is a key priority of the state government - however, labour remains relatively scarce for the sector, with the state unemployment rate at a low of 3.4%.

Business investment momentum has cooled, facing into flat household demand. Spending grew 12% in the year to June 2023 but fell 2.2% in Q3 on a 7% drop in equipment spending, with the end of tax incentives. Beyond short term downside, positives include: the need to grow the capital stock to meet a rising population; a productivity focus; and the green transition.

NSW outlook: a period of sub-trend growth



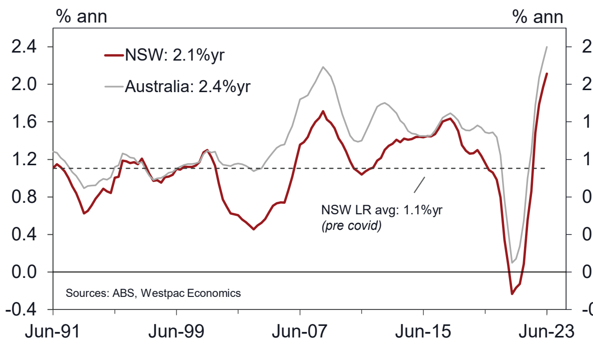
State output growth strengthened in the 2022/23 financial year, expanding by 3.7%, up from 2.6% the year prior. That was associated with state demand growth of 4.1%, up a little from 3.8%. The state benefited from reopening from lockdowns and the reopening of the national border, permitting a return of international students. Those outcomes for 2022/23 were broadly as anticipated in the State Budget.

The state government in the Mid-Year Review nudged up forecast growth for 2023/24, up by 0.25% to 1.50% for both state output and state demand. That is below trend growth but would represent a soft landing as the RBA attempts to reduce inflation down from current highs returning it to the target band.

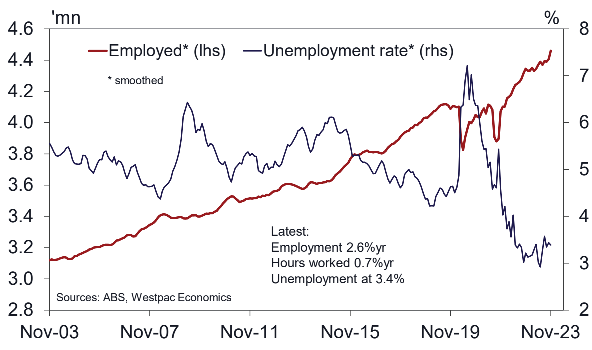
While prospects for consumer spending per capita are downbeat ahead of any policy relief, economic conditions will be supported by high population growth, services exports (with a focus on students and tourism) and public investment (with a focus on transport infrastructure). The economy is likely to lift in the second half of calendar 2024, boosted by Stage 3 income tax cuts and potentially interest rates declining to more normal levels.

… sub-trend growth to extend into 2024

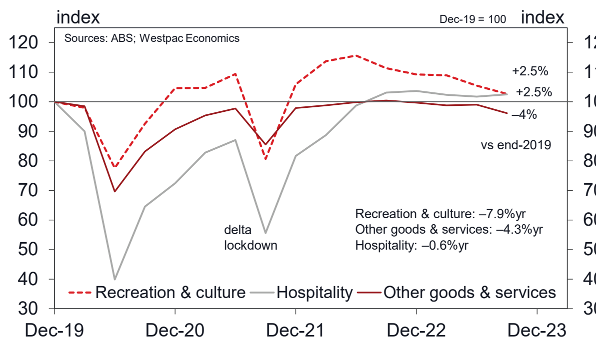
NSW population surge



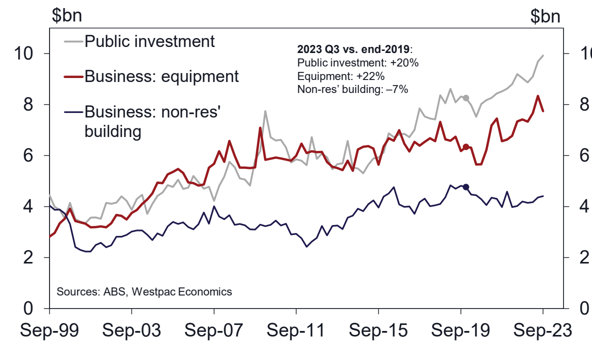
NSW jobs: lift late 2023 despite slowing demand



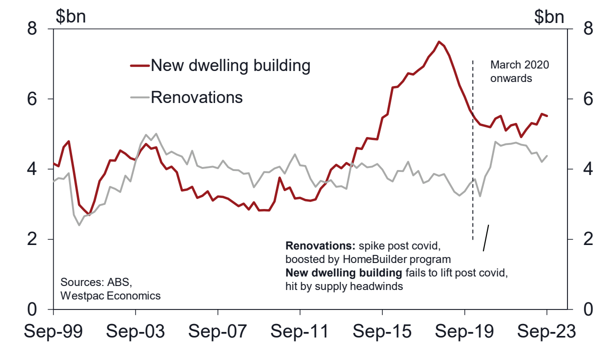
NSW: consumer spending trends



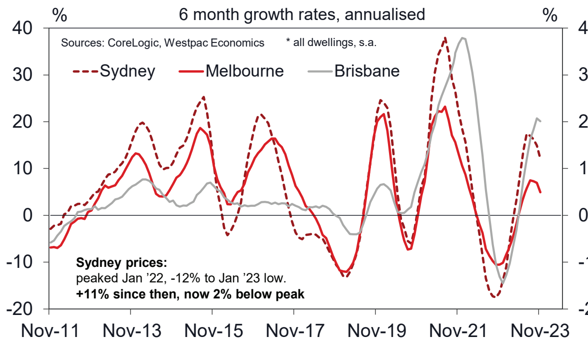
Investment cycles: public leads way higher



NSW housing activity: a tale of two cycles

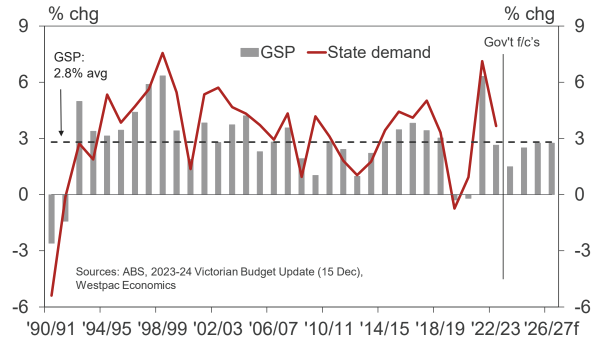


Sydney dwelling prices: monthly gains slow



Sharp slowdown ...

Vic economic performance & outlook

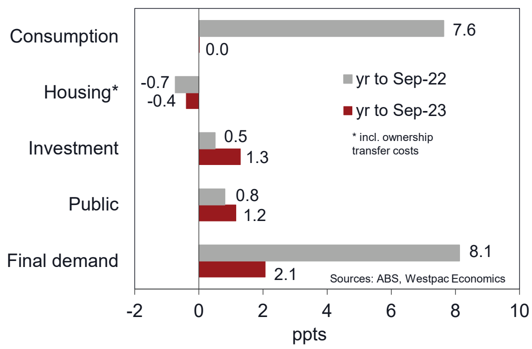


The Vic state economy has seen a more abrupt slowdown than other states with activity coming off a much stronger post-COVID rebound in 2022. That rebound in turn reflected a deeper and more protracted contraction during the pandemic.

Vic was the only state to record back-to-back GSP declines in 2019-20 (–0.3%yr) and 2020-21 (–0.2%yr), mainly reflecting its more prolonged run of lockdowns but also its higher exposure to the sudden stop in foreign student and net migration inflows. The reopening rebound saw Vic GSP surge 6.3% as these negatives turned positive in 2021-22. That has been followed by a 'whiplash' slowdown, growth dropping back to just 2.6%yr in 2022-23, with quarterly and monthly data pointing to a further slowdown into year-end.

As seen nationally, consumers are at the centre of the Vic slowdown, spending stalling flat over the year to September despite a strong migration-driven surge in population growth.

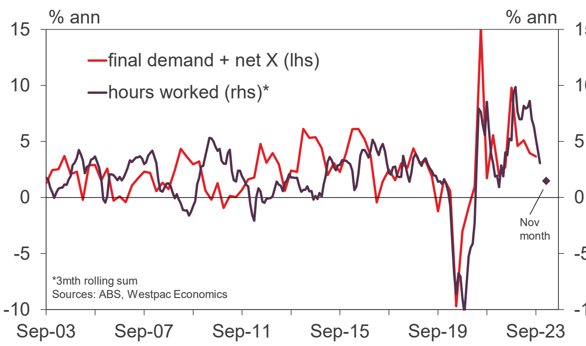
Vic: contributions to state final demand



State final demand rose 0.4% in the September quarter to be up 2.1%yr. However, the detail was poor. All of the quarterly gain came from public demand with private demand flat. Consumer spending was essentially flat in both the quarter and over the year, the latter following a very strong 7.6% gain over the previous twelve months. With Vic's population growth running at over 2.7%yr, the flat result constitutes a very large decline in per capita terms. Notably, core labour incomes are posting reasonable gains, rising 2.7%yr in real terms. However, this has not been enough to keep pace with sharply higher interest and tax payments. Both real household disposable incomes and savings rates appear to have come under more pressure in Vic than in other states.

Vic's housing sector is also weak. Dwelling investment rose 0.7% in Q3, rise led by renovations, but activity is still down 2.6%yr. While there is a sizeable backlog of dwellings under construction, new approvals point to sharp falls once this runs off. Melbourne dwelling prices are also showing a more muted recovery.

Victoria: final demand and hours worked



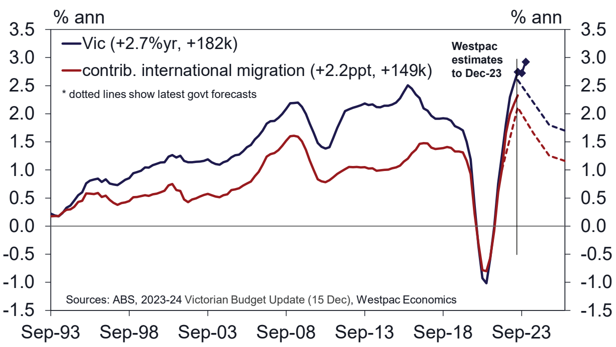
One aspect not captured by the state final demand figures is the impact of the recovery in Vic's exports, particularly the reopening effect on its foreign eduction sector. Vic's exports are up nearly 17%yr, with the surge running three times faster than the rest of Australia. While that suggests activity is tracking a little better than state demand suggests, this process also looks to have slowed materially – exports only rising 2.6% in Q3 – and has likely now run its course.

Vic's labour market suggest conditions are passing a tipping point. The adjustment is coming via hours worked, growth of which has been sharply weaker since mid-year. The state's unemployment rate remains low at 4.0% but has lifted from lows around 3.5%. That said, employment growth, buoyed by surging labour supply, has outstripped expectations.

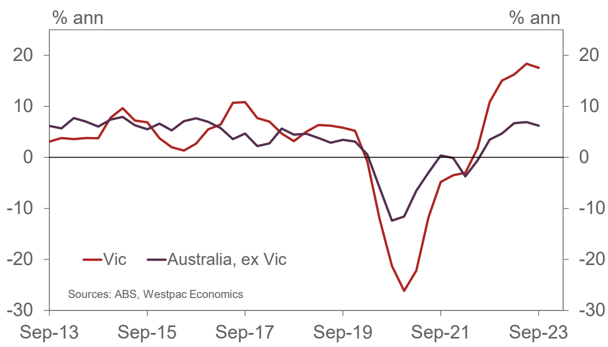
The state government's budget update acknowledged the more challenging economic environment but retained its forecast for GSP growth to bottom out at 1.5% in 2023-24 and lowered the trajectory for unemployment by ¼ppt. Stronger population growth has offset other negatives but is now rolling over.

... offset from surging population starting to fade

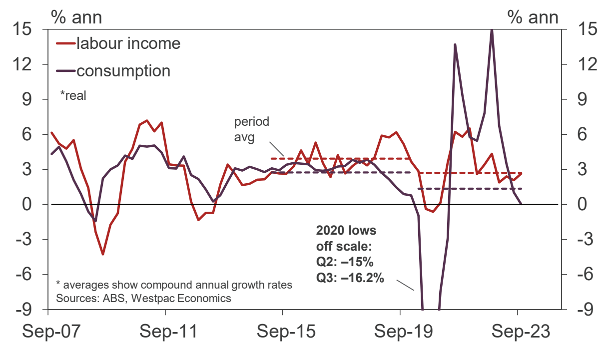
Vic's popn growth: outstripping expectations



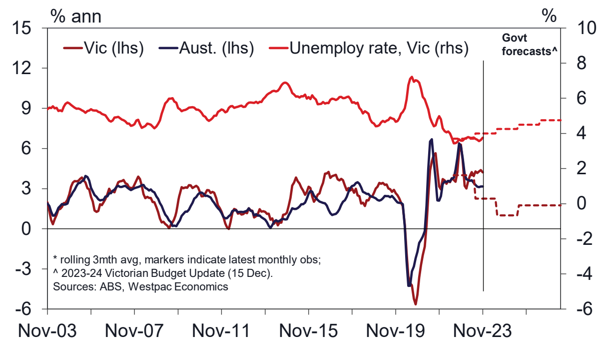
Exports: Vic vs rest of Australia



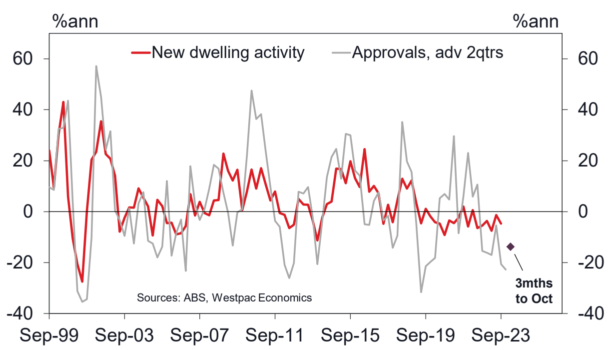
Vic households: incomes and spending



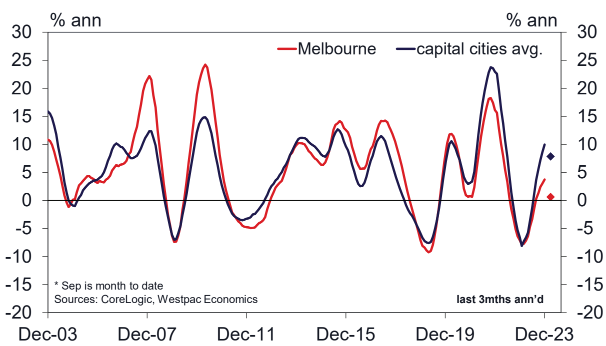
Victoria: jobs growth and unemployment



Vic housing construction



Melbourne house prices



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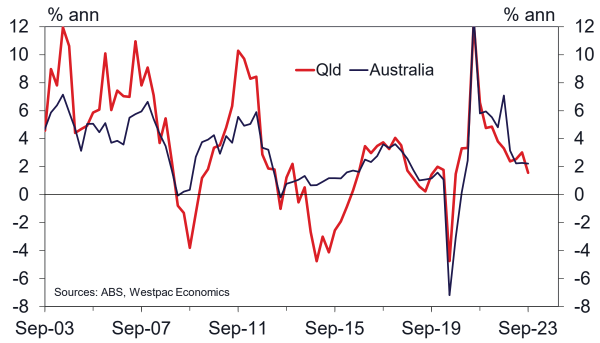
Growth remains afloat ...

State final demand: Qld vs Australia

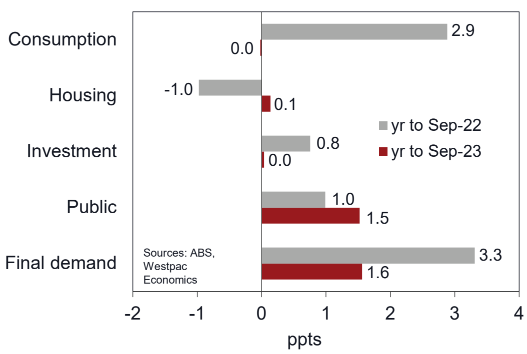


Following a robust run of growth over the first half of the year, Queensland's state economy buckled in the September quarter. Growth in state final demand contracted (–0.3%), and with earlier strength cycling out, annual growth is running at a tepid pace of 1.6%yr, the softest performance outside of Tasmania.

Somewhat strikingly, almost all of Queensland's growth over the past year was a result of public spending, up 5.5%yr to contribute 1.5ppts to state final demand. It is also interesting to note that both public investment (+15%yr) and government consumption (+3.5%yr) have contributed similar amounts to annual growth in public demand over the past year.

Public investment's strength is reflective of the Government's ambition to remain in pursuit of capacity – an extended uptrend in investment associated with critical infrastructure and services – in order to meet the needs of a growing population.

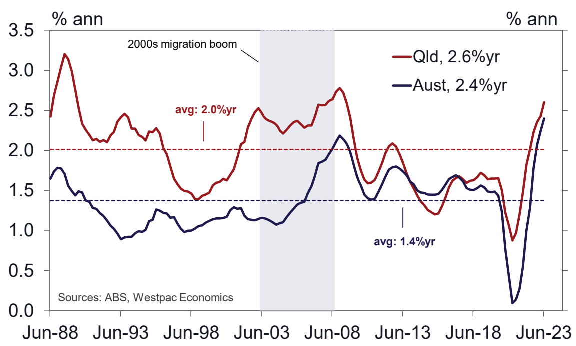
Qld: contributions to state final demand



The latest evidence suggests that Queensland's working age population is growing at a historic rate of 3.3%yr – the fastest pace out of the major eastern states. It is clear that population growth will remain a critical determinant of Queensland's relative success – both with respect to its ability to buoy state demand at an aggregate level over the near-term, and to the extent in which it will act as a drag on growth over the medium-term, as migration flows return to more familiar dynamics.

Onto more discouraging developments, the key downside surprise was household consumption, declining –0.2% over the three months to September to be flat versus a year ago. There were large swing factors at the tail-ends – namely Government rebates for household energy bills reducing utilities spending (–24%qtr), and an improvement in vehicle order backlogs (+11%qtr) – but overall, they effectively offset each other.

Population growth forging ahead at pace



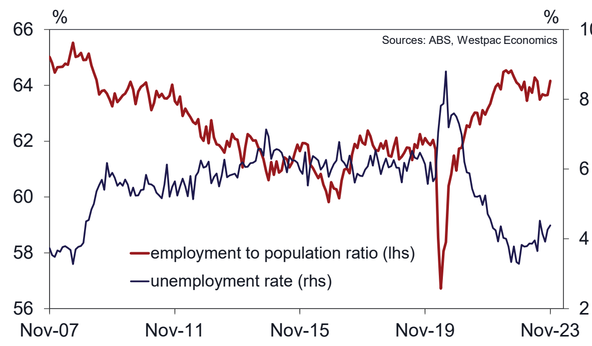
That makes for a particularly stark underlying picture, with rises in hospitality spending (1.6%qtr) and transport services (3.6%qtr) – supported by the ongoing tourism rebound – were unable to make up for weakness elsewhere.

The trifecta of elevated inflation, high interest costs and, most prominently, a rising tax burden, are wiping out any growth in households' gross nominal income – a dynamic that is set to continue weighing on consumption over the coming quarters.

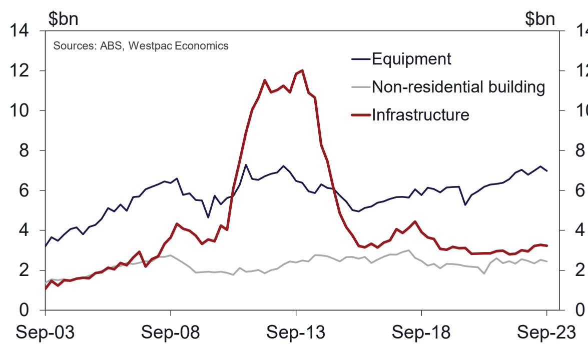
There were few bright spots elsewhere in the state economy. New business investment is now virtually flat versus a year ago (0.3%yr) on weakness in non-residential construction (–4.5%yr) and equipment investment (–4.4%yr). However, strength in infrastructure spending (+7.6%yr) presents as a silver lining, as does the uptrend in new dwelling construction (+8.8%yr), both trends being supportive of the need for capacity expansion over the medium-term.

... supported by rebates and resilient public investment

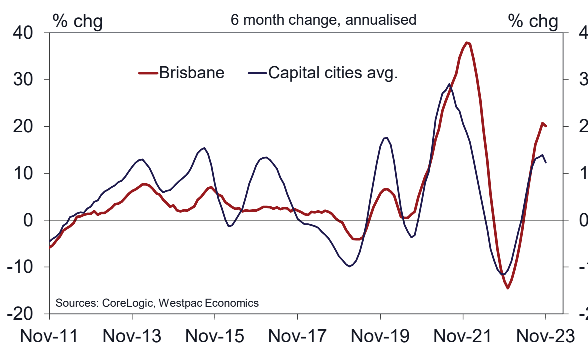
Qld, unemployment up from historic lows



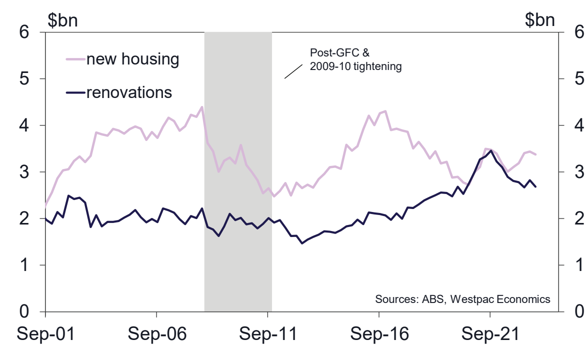
Qld business investment is cresting



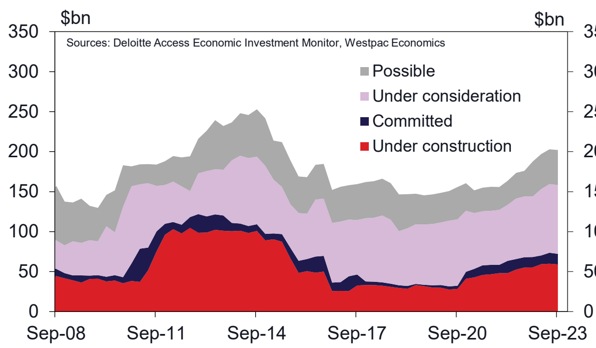
Brisbane's house prices reflect tight supply



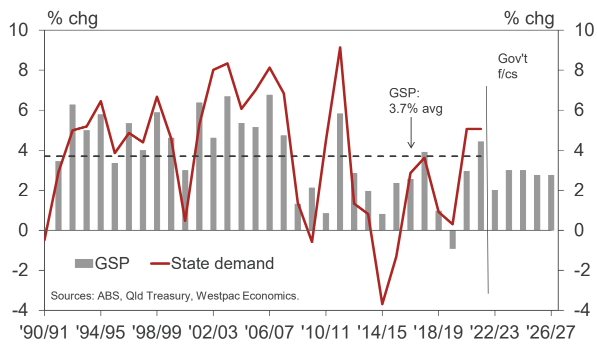
Housing investment: nascent strength



Queensland's project pipeline is building



Qld economic performance & outlook



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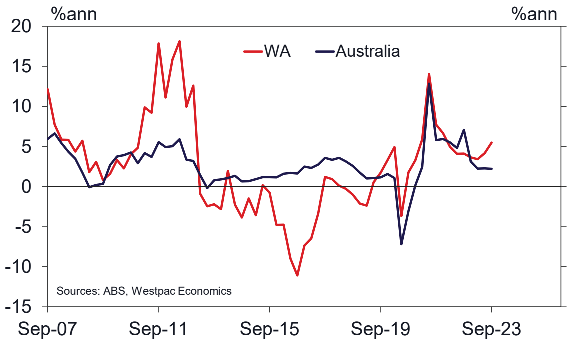
Charting a different course ...

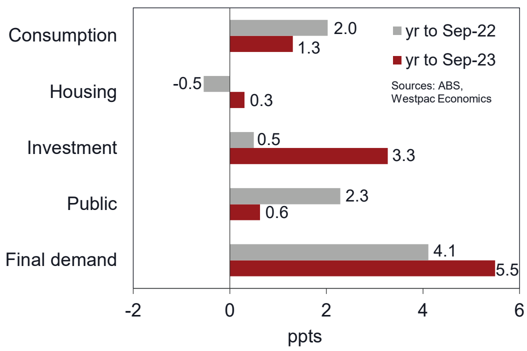
State final demand: WA vs Australia



The WA state economy continues to perform considerably better than other states with signs that this divergence is starting to widen in WA's favour. That in turn suggests the state may face different challenges as policy is set according to the wider economy. Tight labour markets, a stronger lift in wages growth and surging house prices already stand-out as potentially longer lasting issues in the west.

A more resilient consumer and housing sector has been the key to WA's outperformance in 2022-23. Going forward, business investment and publicly-funded activity look to be significant wildcards. The state's mining sector continues to enjoy strong revenue flows from relatively high commodity prices but so far has remained hesitant to move ahead with significant new investments. Likewise, the state government's coffers have also benefited greatly both from commodity-related tax revenues but also relatively buoyant state growth. These have seen a significant lift in the state's asset investment program although gains have also been put towards consolidating state finances.

WA: contributions to state final demand

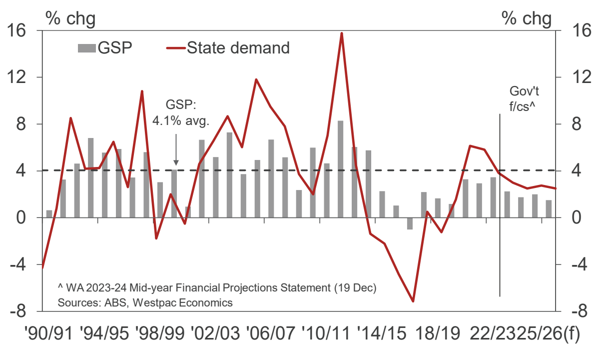


WA's GSP rose 3.5%yr in 2022-23, averaging 3.2%yr over the last three years after having been the only major state to avoid an outright contraction in 2019-20. Recent updates show a starker contrast in most recent quarters, state final demand surging 2.4% in the September quarter to be up 5.5%yr. That compares to the 0.5%qtr, 2.2%yr gain nationally.

Consumers are holding up a little better in the west. Spending is up 2.7% over the year but Q3 was weak, at -0.3% (-1.0% per capita). The picture on incomes suggests households have maintained spending without dipping as far into accumulated savings as in other states (bearing in mind that the WA has much smaller 'pandemic' reserves as disruptions were much smaller).

Dwelling investment declined 1.8%qtr but is still at a relatively high level, up 8.6%yr. WA's backlogged pipeline remains larger than elsewhere. New approvals are very subdued. However, extremely low vacancies, surging prices and rents may see that change.

WA economic performance & outlook



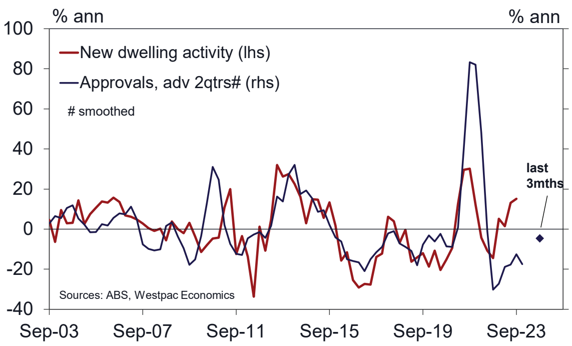
Business investment was the big point of difference in Q3, posting a strong 8.6%qtr rise to be up 17%yr. Equipment and infrastructure spend were the big movers although the pipeline of non res building remains relatively elevated. Looking ahead, there continues to be little change in the project pipeline indicating that gains are not likely to be a precursor to a rerun of the mining booms of the past. Nevertheless the situation bears watching closely given relative supportive commodity prices and projections of strong end-demand for some resources (especially those relating to the transition to net zero emissions).

WA's labour market remains very tight with the state's unemployment rate around 3.6%, in line with state's job vacancy rate. Notably, wages growth has shown a strong lift in WA, hitting 4.6%yr in the September quarter.

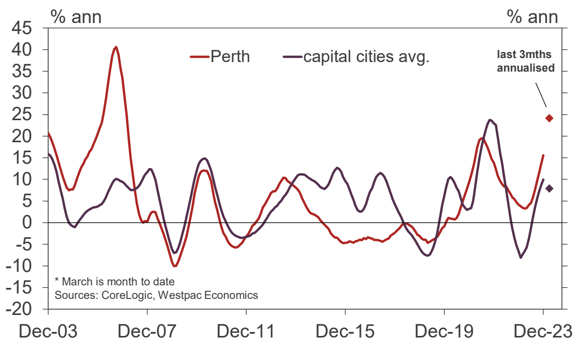
The state governments mid-year budget update saw significant positive revisions to state domestic demand growth and labour markets but also to wage and price inflation. A big mark-up to (very conservative) commodity assumptions also delivered a significant boost to the state's budget bottom line.

... set to face different challenges

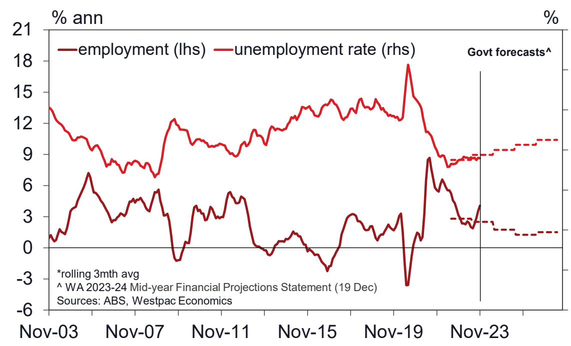
New dwelling inv. cycling big HomeBuilder surge



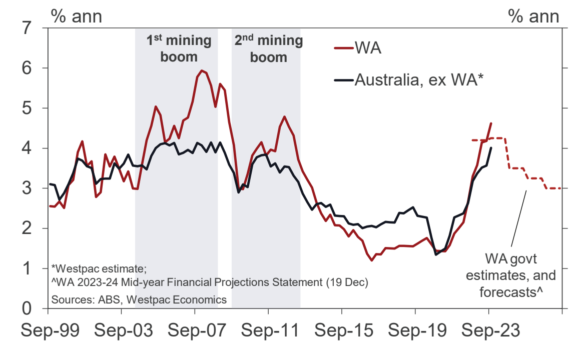
Perth house prices: strong rebound



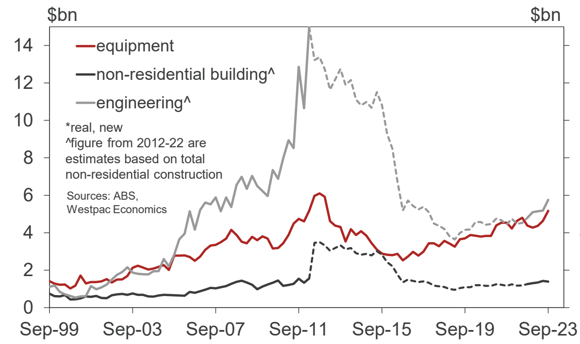
WA labour market



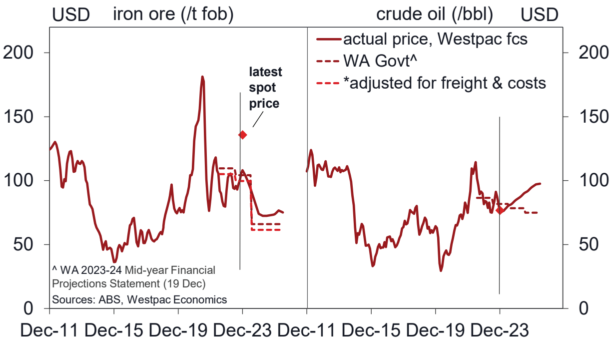
WA wages growth lifting



WA business investment



Commodity prices: iron ore & crude oil



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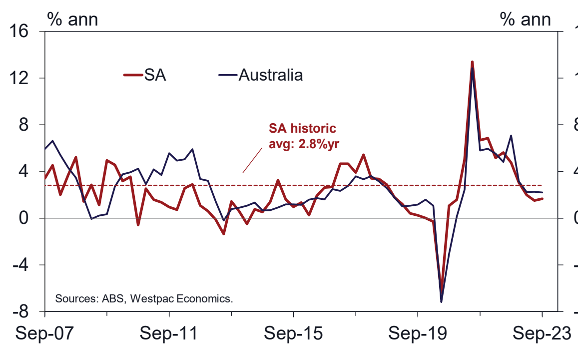
Momentum is fading...

State final demand: SA vs Australia

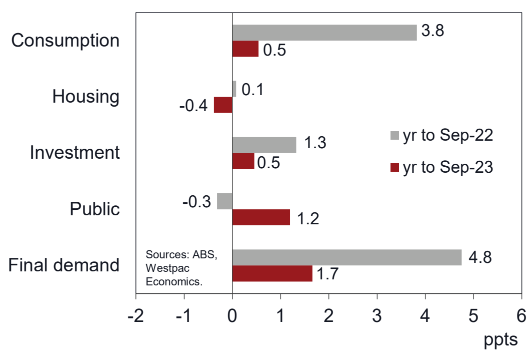


South Australia grew in line with the national average, state final demand rising 0.5% over the three months to September. That does, however, follow a relatively choppy profile over the prior nine months (–0.3% in December; 0.1% in March; 1.4% in June), leaving growth at a lukewarm 1.7% over the year to September.

As was the case across the nation, household consumption was the main disappointment, with South Australia's quarterly decline of –0.3% being the largest across the nation. The sharp step-down in annual growth (3.0%yr to 1.0%yr) highlights the compounding stress on real household disposable incomes.

Outside of the major swing factors associated with utilities (softer, on Government rebates) and vehicles (larger, on improved backlogs), South Australia's weakness was perhaps the most broad-based, with continued declines evident across many essentials such as food (–4.8%yr) and clothing and footwear (–1.5%yr), and emerging softness in discretionary categories such as recreation and culture and hospitality.

SA contributions to state final demand

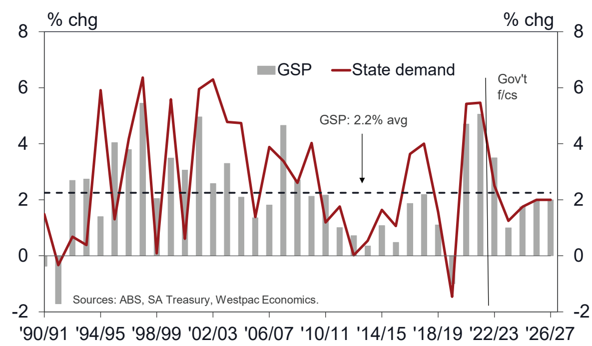


The converging trend between private and public investment outcomes has now transitioned to a divergence, as the former moderates from earlier strength, and the latter accelerates from earlier weakness.

Interestingly, despite an extension of downtrends in both non-residential construction and equipment investment (–3.4%qtr for both), new business investment managed to rise 1.4% in the quarter, entirely due to a burst in engineering construction (+11%) associated with mining projects. While some further momentum in construction is likely near-term, equipment investment will likely continue to soften as demand weakens.

Perhaps more encouragingly, growth in public investment has sustained its rapid uptrend (+16%yr). That reflects continued spending on critical infrastructure in transport and health, including a burst in expenditure on social housing.

SA economic performance & outlook



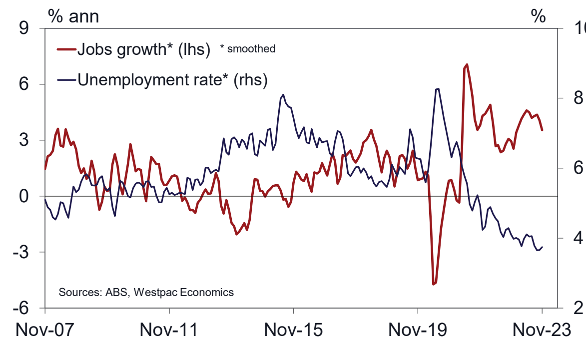
This comes at a time when outcomes for private housing investment have been particularly disappointing. Indeed, new dwelling construction is still tracking a very weak pace (–6.3%yr) and renovation activity is unlikely to improve materially anytime soon (–10%yr).

That said, the South Australia Consumer Housing Sentiment Index is pointing to further robust gains in house prices over the near-term. That is understandable in the context of very tight supply, but relative to other states, South Australia's lower exposure to the migration boom will likely not see Adelaide's house price upturn extend above its peers, as it did in 2021.

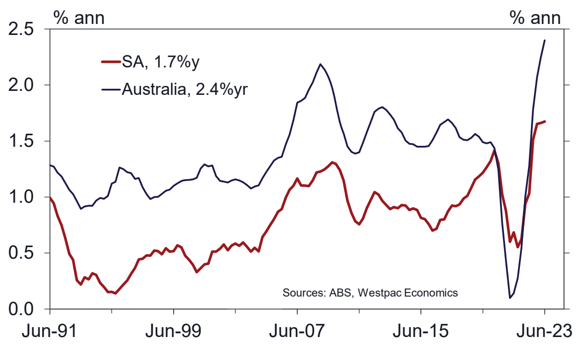
The large backlog of construction projects will continue to deliver an underlying level of support over the medium-term and provide a worthwhile expansion of South Australia's housing stock over time. However, current headwinds facing the economy are broad and fierce. Further near-term slowing in growth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

... and a further slowdown looms

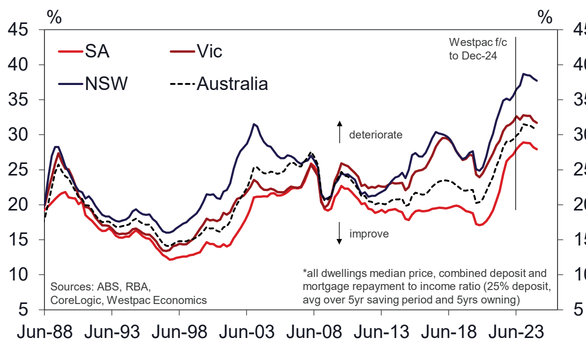
SA's labour market remains tight



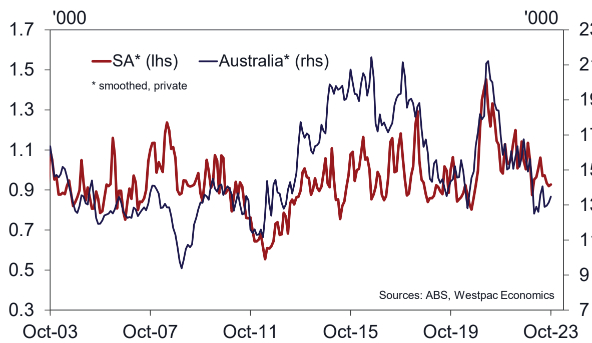
SA population growth climbs to historic high



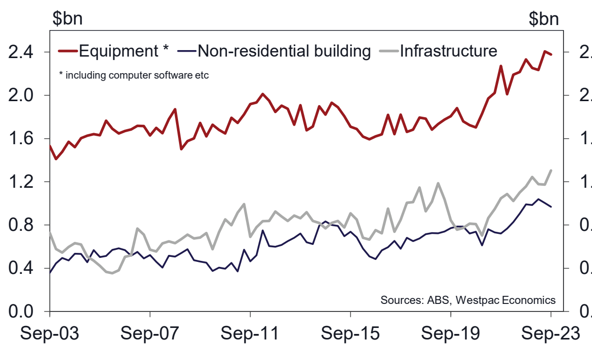
Housing affordability in favour of SA



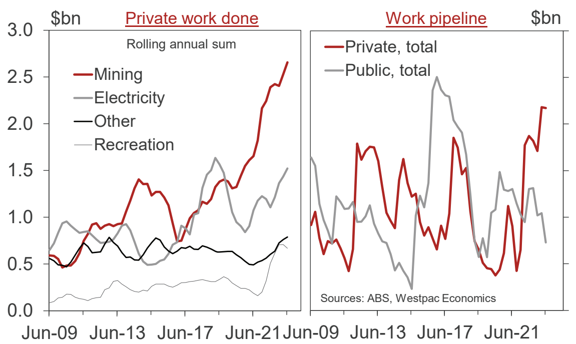
SA housing construction: pipeline positive



Business investment has strength



SA infrastructure, up on renewables and mining



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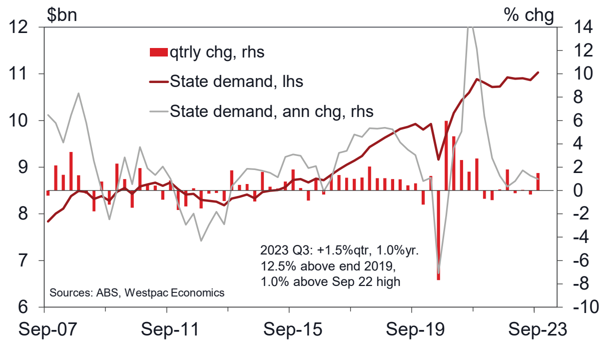
Slow, uneven growth ...

Tasmania: bumpy ride continues



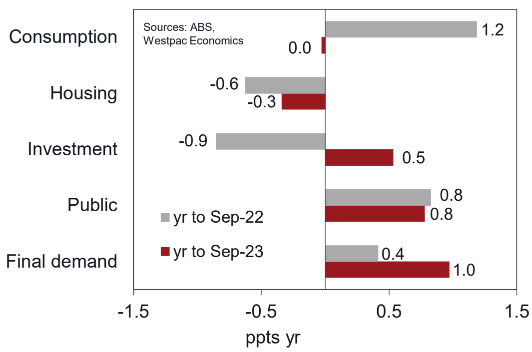
Tasmania's economy sprinted ahead in 2020 and 2021 - benefiting from substantial policy stimulus and relatively modest covid disruptions. Since then, conditions have cooled, impacted by the headwinds of high inflation and higher interest rates. Growth has throttled back to be in the slow lane. Conditions look set to remain subdued in 2024.

This broad narrative remains the case, notwithstanding some volatility quarter to quarter.

State population growth has slowed to a tepid 0.3% as more look to the mainland for opportunities. That is below the states long run average of 0.7%, is below the State Budget forecast of 0.9% and is in stark contrast to the population boom across the mainland states.

This slowing of population growth points to downside risks to the State budget forecasts - as discussed below.

Tasmania: contributions to state demand



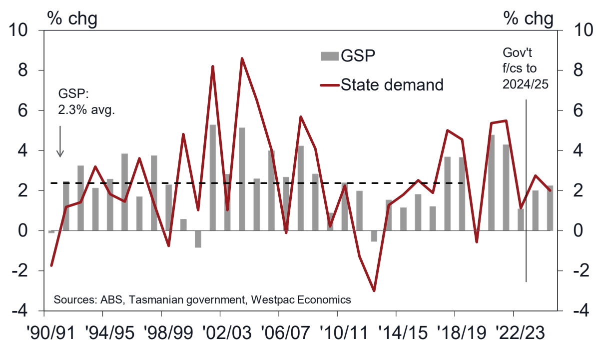
Divergent trends between private and public demand is striking for Tasmania. Private demand grew strongly for a time, but since the peak of September 2021, has hit the wall, with annual growth at 0.3% currently.

Public demand continues to trend higher, to be a very substantial 21.6% above pre-covid levels. But even here, momentum has cooled, with growth easing back from around 7½% for 2020 and 2021, to 3½% for 2022 and potentially around 2½% for 2023.

In the September quarter, state demand advanced by 1.5%, to be 1.0% above the level of a year earlier. Some 90% of that September quarter result was driven by a spike in equipment spending (which remains elevated) and a rise in public demand.

The consumer spending picture mirrors that on the mainland - with a flatlining of spending over the past year as consumers bear the brunt of high inflation and higher interest rates.

Tasmania economic performance & outlook



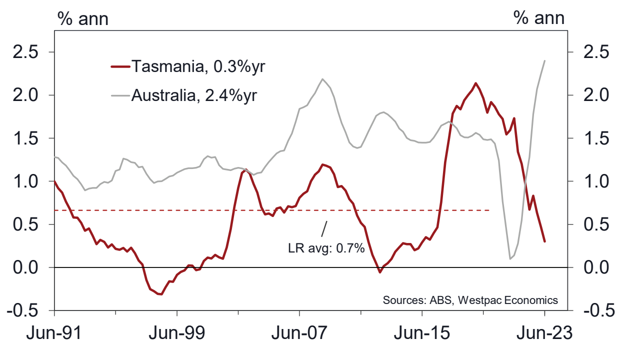
New dwelling activity has trended lower since climbing to historic highs in September 2021, propelled by substantial policy stimulus. Work is currently 16% below that peak, with further downside. Dwelling approvals are at five year lows and the outlook is clouded by weak population growth.

The annual state national accounts confirmed the loss of momentum in Tasmania's economy and that growth undershot the State Budget forecasts, as we foreshadowed. State output growth moderated from 4.8%, 2020/21, and 4.3%, 2021/22, to 1.1% for 2022/23 (below the official forecast of 1.5%). The state demand profile for this period was: 5.4%, 5.5% and 1.1%.

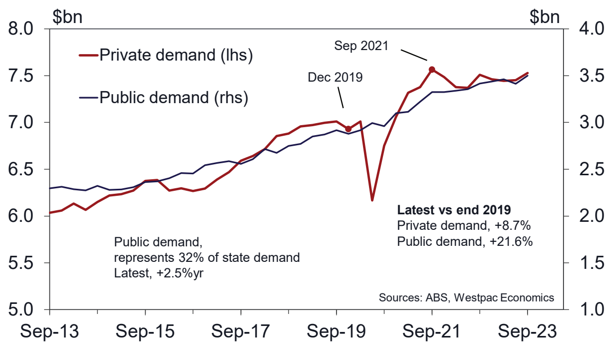
The State budget is forecasting output growth to bounce back to 2% this year and then 2.25% for 2024/25. The budget papers anticipate that growth will be driven by public demand (centred on infrastructure projects) and supported by service exports. However, with population growth substantially undershooting expectations, the risks are heavily skewed to the downside.

... growth likely stuck in the slow lane in 2024

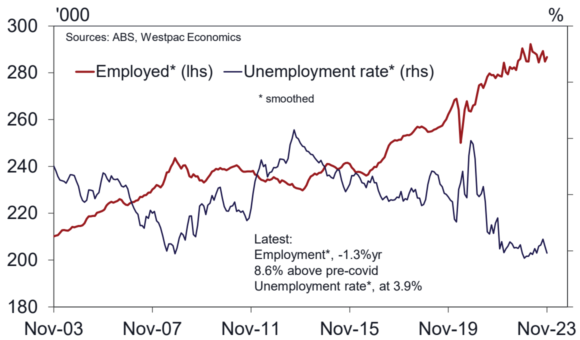
Tasmania: population growth insipid



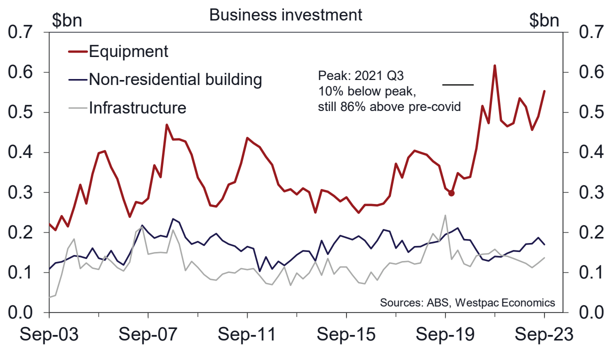
Private / public demand



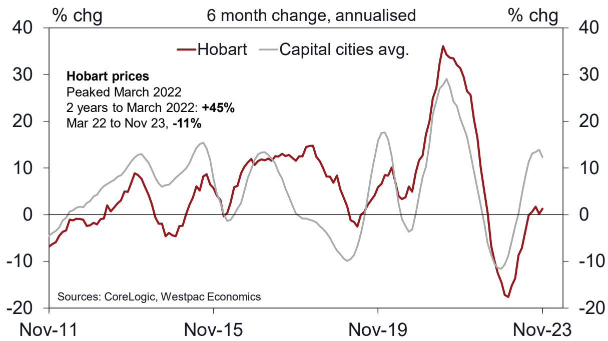
Tasmania: employment consolidates in 2023



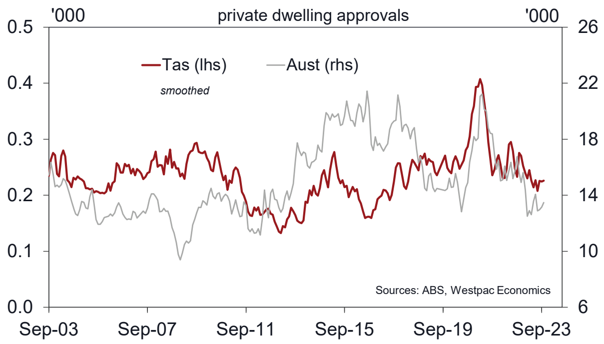
Equipment spending, still elevated



Hobart dwelling prices: edge higher 2023H2

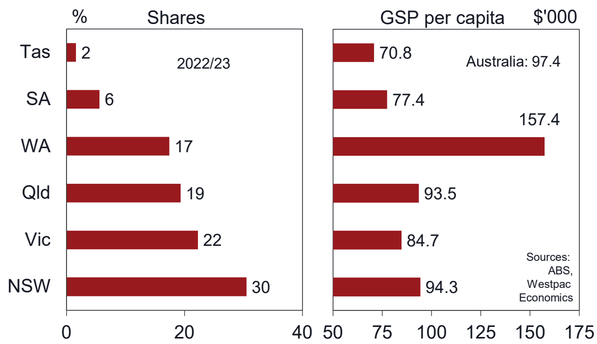


Tas: dwelling approvals slide to a 5-year low

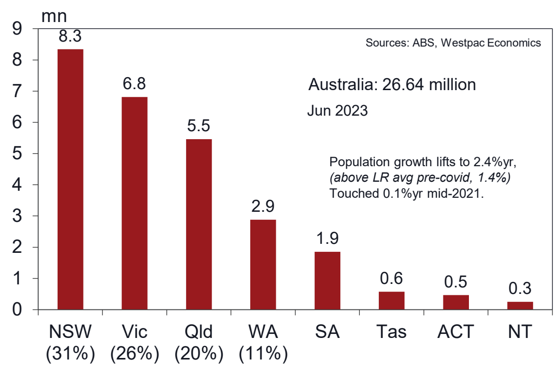


SUMMARY INDICATORS

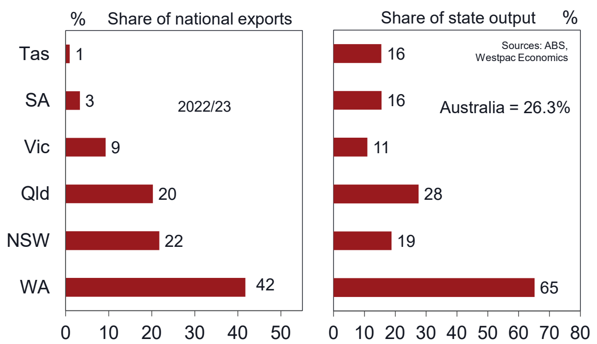
Gross State Product



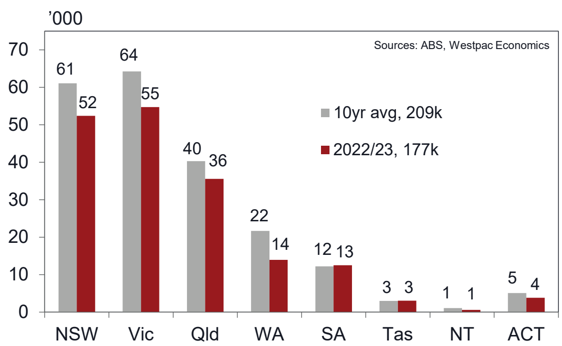
Population



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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