WESTPAC Coast-to-Coast March 2024.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

CONTENTS

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Overview

States

The slow lane in the tunnel

The big–picture themes from the Australian national accounts for the December quarter were largely as expected. The Australian economy is soft, expanding just 0.2% in the quarter and 1.5% over 2023 as a whole. Domestic demand in the December quarter was weaker still, especially in the private sector. All of the 0.1% increase in domestic demand in the quarter came from the public sector.

Our forecast profile for output growth is unchanged. We expect economic growth to be 1.6% for 2024, then lift to an around–trend pace of 2.5% for 2025. Notably, growth slowed from a 2% annualised pace over the first half of 2023 to a tepid 1% pace over the second half. It is expected to inch up to a 1.3% pace over the first half of this year before recovering to a 2% pace over the second half of 2024, supported by less restrictive policy settings.

Much of 2023's weakness stemmed from the household sector. Consumption has been weak, and this remained the case in the December quarter, with growth of only 0.1%qtr, 0.1%yr. Discretionary spending continues to decline, with overseas holidays especially weak. Part of this might be the result of shifting seasonal patterns in spending and holidaying. Even so, households are objectively limiting their spending in the face of income pressures. Consumption per person has been falling in Australia, unlike in most peer economies. No wonder consumer sentiment has been so depressed.

We have been highlighting these income pressures for some time. The triple squeeze of a rising cost of living, increasing tax take and higher interest rates has required households to respond.

It has been less recognised that the squeeze from rising taxation as a share of income has been greater than from rising net interest payments (indeed, the ABS revised down the interest flow series this week, relative to previous releases). This does not mean monetary policy has done little to slow the economy or combat inflation – there are other channels of monetary policy transmission beyond the immediate effect on household cash flows – but it does put the role of fiscal policy, and particularly bracket creep, into perspective.

The softness of the Australian economy, as evident from the near stalling of spending nationwide in the December quarter, is particularly evident across the non-mining states – as we have highlighted previously in our Coast-to-Coast Report and as we emphasise again in this update. State demand contracted in both NSW and SA in the December quarter, while it was flat in both Victoria and Tasmania. By contrast, state demand advanced in the mining states of WA, 0.8%, and Qld, 0.6%, supported by public demand and business investment. As to the consumer spending picture, on a per capita basis, declines through 2023 are evident across each of the mainland states, most notably on the eastern seaboard of Victoria, NSW and Qld, with falls in the order of 2.7%yr.

There is light at the end of the tunnel for households. As inflation has declined, the squeeze on real household incomes from this source has diminished. The drag from taxation and net interest payments has also eased a little, although some of the former might reflect timing effects for tax return lodgements rather than a sustained shift, and the latter has yet to fully capture the effects of the RBA's November cash rate on net payments.

Notably, the net result saw real household disposable income increase in the December quarter. It was only barely above the level a year previously, though. And once growth in population over the same period is accounted for, real household disposable income is still going backwards – having now returned to around 2019 levels.

Inflation's grip on households' spending power will continue to ease over the course of 2024. That is the desired outcome. With tax cuts – and, we believe, some reductions in the cash rate – coming in the second half of the year, the 'triple squeeze' will truly begin to unwind.

It would not be appropriate to interpret the coming turnaround in real incomes as an upside risk that threatens an upsurge in demand–driven inflation. Rather, it represents an extraordinary phase in the household sector's experience coming to a close. Two years of declining real incomes in the face of a tight labour market is not a combination that should be regarded as normal. Moreover there will be some offsets to this easing in inflation and policy pressures, especially from the labour market, which is expected to slow with a lag given current slow growth in activity. There are also some increases in net interest payments yet to come through.

Outside of the household sector, the accounts showed softness spreading to some other cyclically sensitive areas.

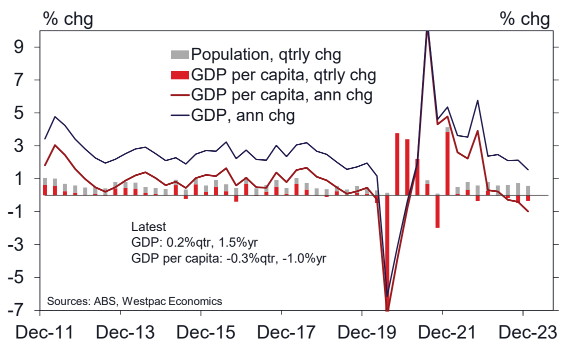
New home building activity contracted in the December quarter, down by –3.5%qtr, –1.2%yr. While other factors are also at play – sharp rises in building costs in particular – the softness is partly a response to the higher interest rate environment and, for the RBA, a clear sign that housing supply problems are set to continue. The renovation segment of the housing sector also weakened in the December quarter, contracting by –4.2%qtr, –5.8%yr. Prospects are for some further softening of home building activity in 2024, ahead of an emerging recovery in 2025 as policy becomes less restrictive and supported by pent–up demand.

Businesses have also adjusted to slow demand. Some of them have run down their inventories, while investment in new equipment also declined in the quarter. Consistent with our forecasts, the resilience that was believed to have prevailed in the first half of 2023 has not carried through into the second half. Activity in non–residential construction has held up, and opportunities in energy transition, resources and elsewhere remain. But with ongoing cost pressures and soft demand, many businesses would understandably seek to delay or rationalise their spending on new equipment. Moving through 2025, business investment is set to recover, as firms respond to the emerging economic upswing and supported by business balance sheet strength.

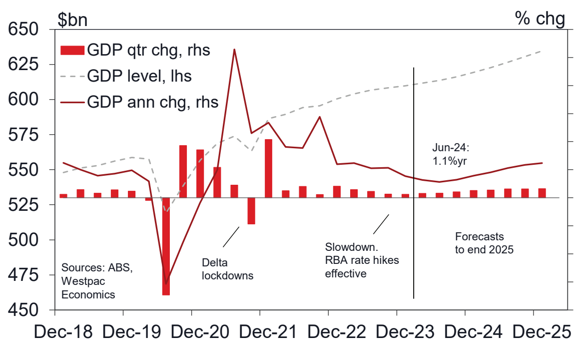
Luci Ellis, Chief Economist Westpac Group

Australian Economic Outlook

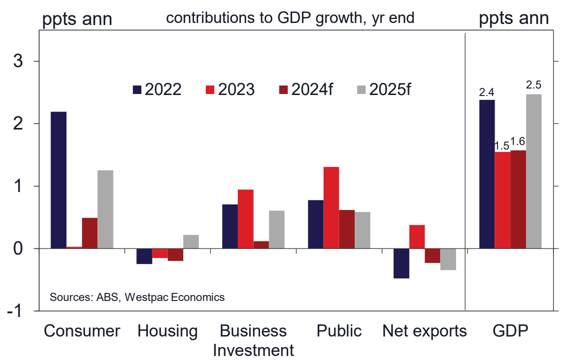
Australia: per capita output declines



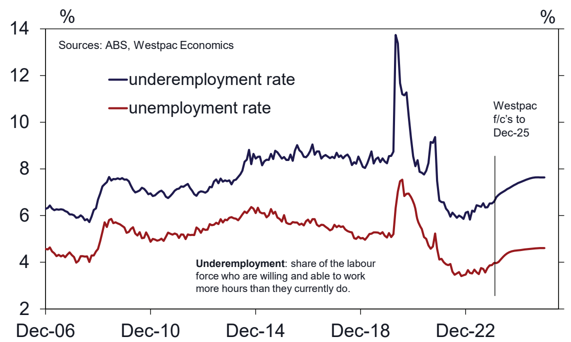
Australian economy, growth slows to a crawl



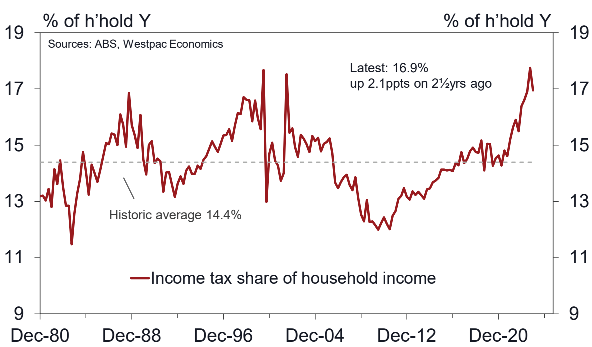
Australia: the growth mix



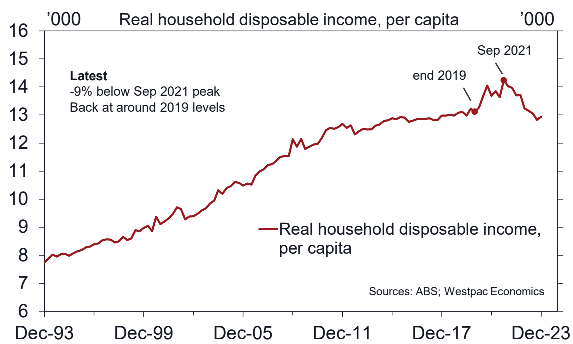
Unemployment turning higher



Household income tax climbs to historic high



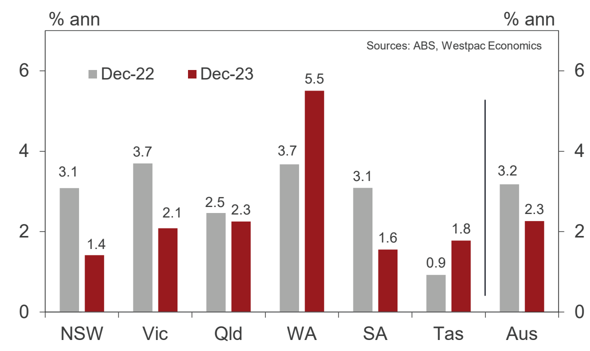
Household disposable income takes a hit



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.

NSW and smaller states the laggards in 2023 ...

Domestic demand: slow down in 2023

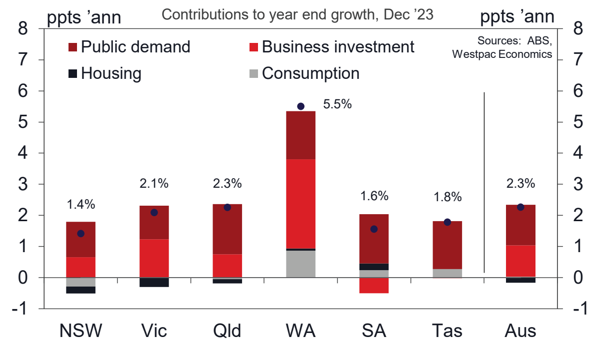


The Australian economy slowed materially in the second half of 2023 and ended the year on a soft note. Spending all but stalled in the December quarter – with domestic demand nationally inching 0.1% higher, while private demand was flat, following a rise of 0.1% in the September quarter.

As highlighted in the previous edition of this Report, the picture of soft demand is most apparent across the non-mining states. This was also the case in the December quarter – with state final demand flat in Victoria and Tasmania, and contracting by 0.4% in both NSW and SA. The mining states fared better, with WA advancing by 0.8% and spending in Qld increasing by 0.6%.

The interest rate sensitive state of NSW, as well as the smaller states of Tasmania and SA (which outperformed in the early part of the pandemic) were the laggards in 2023. Annual state final demand growth was sub 2% in these states: NSW at 1.4%, SA at 1.6%, and Tasmania at 1.8%.

State final demand, contributions



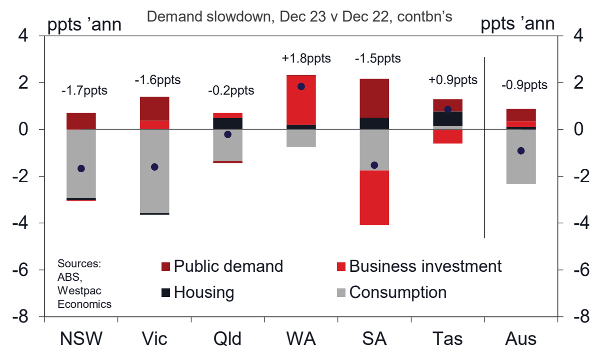
These are challenging times – as tight policy settings (higher interest rates and additional tax obligations), in response to high inflation, squeeze household incomes.

In per capita terms, consumer spending nationally contracted by 2.4% in 2023. That was led by the interest rates sensitive eastern mainland states, Victoria, –2.8%, and NSW and Qld, both –2.7%. Declines were recorded for WA, –1.6%, and SA, –1.2%, while in Tasmania, spending partially rebounded, up 0.2%, after a 0.4% decline the year before.

Across the mainland eastern states overall household demand was particularly weak in 2023, representing a drag on activity: in NSW, –0.4ppts, Victoria, –0.2ppts, and in Qld, –0.1ppt.

For SA and Tasmania, the key headwind was business investment, with the cycles there having already peaked.

State demand: contributions to slowdown



Annual state demand growth held above 2% in 2023 for Victoria, with a material boost from business investment, and in Qld, with a sizeable boost from public demand, as well as a contribution from business investment.

The mining state of WA experienced strength across household demand (with population growth there the strongest, at around 3.4%), business investment and public demand, with government coffers overflowing with commodity revenues.

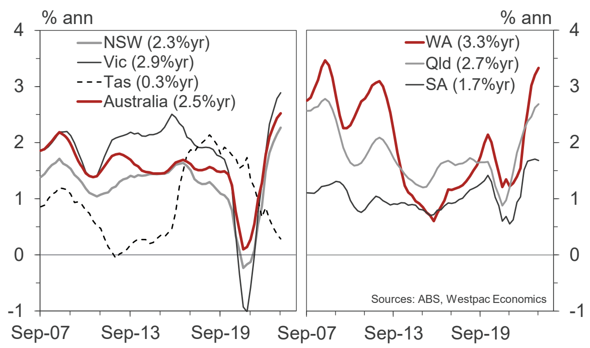
Westpac is forecasting national output growth to slow from the 3.2% outcome for the 2022/23 financial year to a below trend 1.5% for 2023/24 and remain below trend at 1.7% for 2024/25.

The state budgets, on a weighted average basis, anticipate that growth will fare a little better than this for the two years, at a forecast 1.8% for 2023/24 and 2.0% for 2024/25 – a wedge of 0.3% per year.

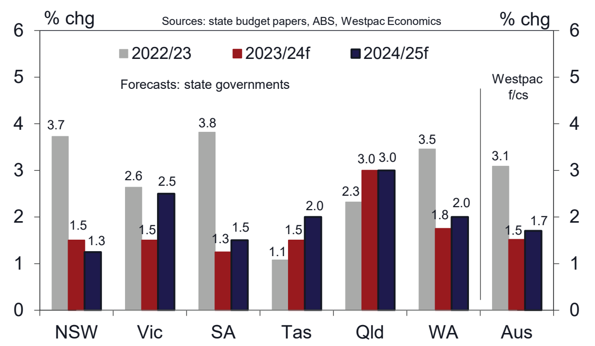
We suspect that the December quarter national accounts represented a downside surprise for the states – at least in terms of domestic demand, with spending trends to date tracking below forecast for NSW and Qld, and with downside risks for SA.

... mid-year policy pivot anxiously awaited

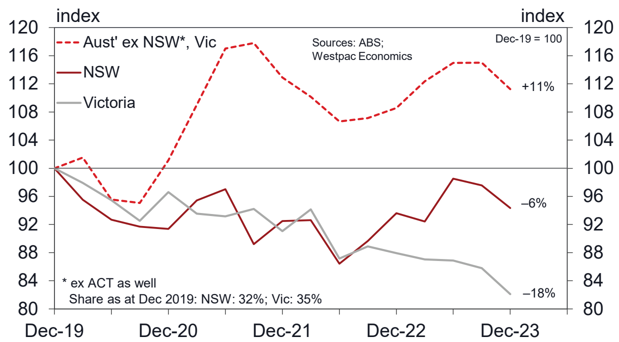
Population state trends



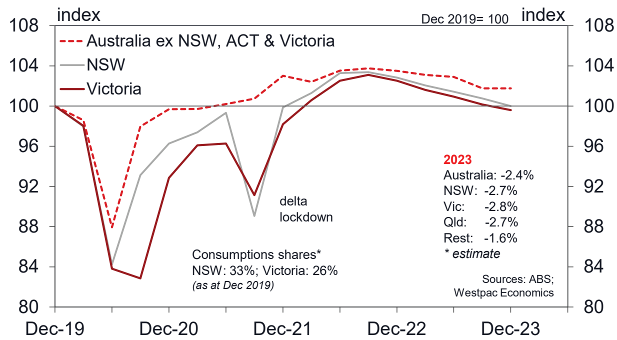
Growth outlook by state: GSP



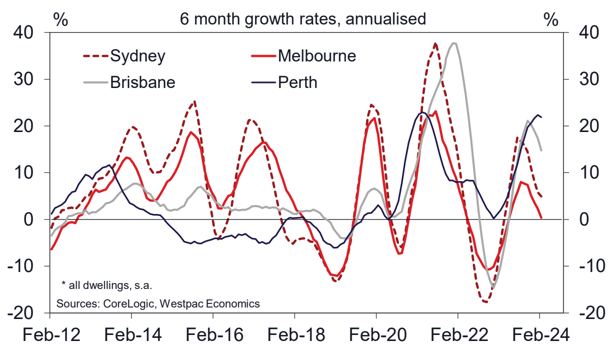
New home building activity



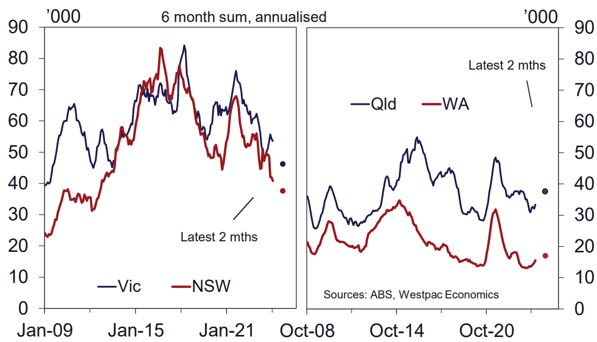
Consumer spending per capita



Dwelling prices: gains slow as move into 2024



Dwelling approval at lows late into 2024



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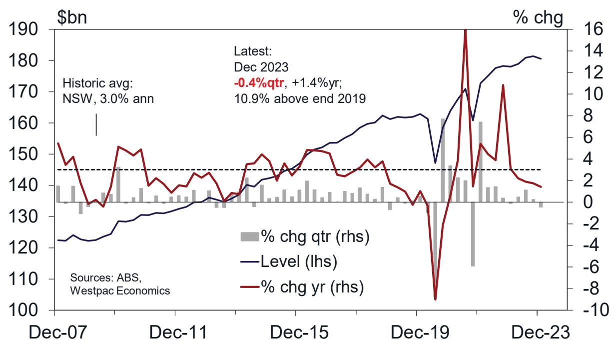
Spending contracts at year end ...

NSW: domestic demand contracts



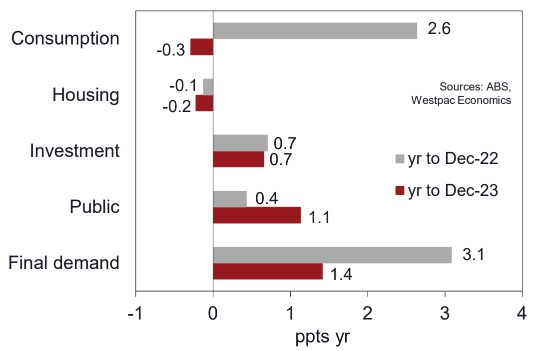
The NSW economy ended the 2023 year on a weak note, as the trilogy of high inflation, higher interest rates and additional tax obligations placed considerable strain on consumer income flows, with negative spill-over effects to other sectors.

The economy lacks momentum heading into the first half of 2024. A policy pivot to less contractionary fiscal and monetary policy from mid-2024 will provide much needed support.

Spending across the NSW economy went backwards in the final months of 2023, contracting by 0.4%. Annual state final demand growth slowed to a subdued and well below trend 1.4%. Outside of the pandemic period, that is the slowest annual pace in a decade, since 2013.

Consumer spending is particularly weak, having been flat to declining for the past five consecutive quarters, including a December quarter outcome of –0.2%qtr, –0.5%yr. Outside of the pandemic years of 2020 and 2021, that is the weakest outcome since the GFC.

NSW: contributions to state final demand

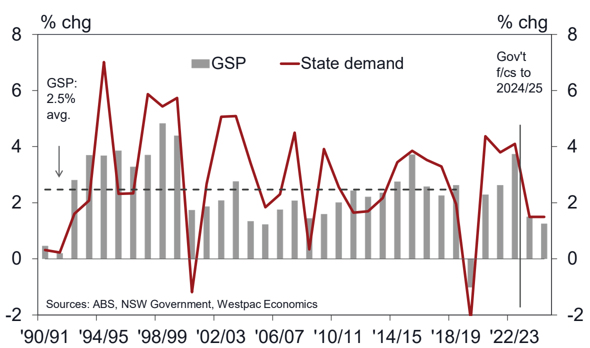


The state, and in particular Sydney, faces a home building challenge – with a lack of supply at a time of brisk population growth, which was 2.3% over the year to the September quarter. The state government is looking to boost potential supply by modernising planning arrangements for Sydney. This is a medium term challenge that the state must address.

Currently, new home building activity remains at relatively low levels. Work declined by 3.3% in the December quarter to be flat over the year and notably, 5.7% below pre-pandemic levels. The renovation boom continues to deflate, with work 15% below that at end 2021, including a December quarter outcome of –7.3%qtr, –9.7%yr.

Business investment contracted over the second half of 2023, with Q3 and Q4 declines of –1.4% and –1.1%, in sharp contrast to the temporary burst over the previous two quarters, gains of 3.6% and 4.8%.

NSW outlook: a period of sub-trend growth



NSW businesses are understandably more cautious in their spending decisions, trimming expenditure in the face of declining household demand, which contracted by –0.7%qtr, –0.8%yr in the December quarter. Equipment spending contracted by –5.6% and –5.9% over the past two quarters.

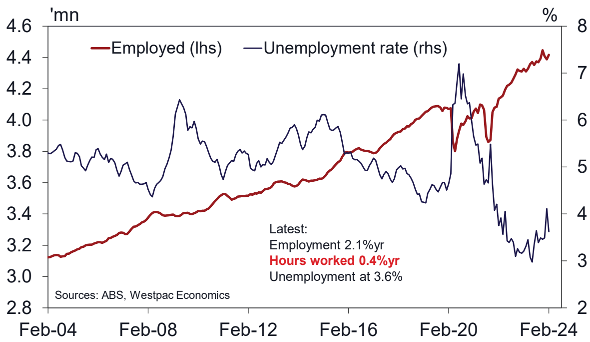
Public demand, which represents 27% of the economy, remained a key growth engine in 2023, expanding by 4.4%, directly accounting for 80% of the increase in state demand. The upswing in public investment continued, with an 8.2% increase in 2023, centred on much needed work to modernise the state's transport network, notably metro rail lines in Sydney.

The state government in the December 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. On the demand front, the risks to the government's forecast are to the downside given the weak end to calendar 2023. State output will receive some support from service exports, but here as well there is a recent loss of momentum.

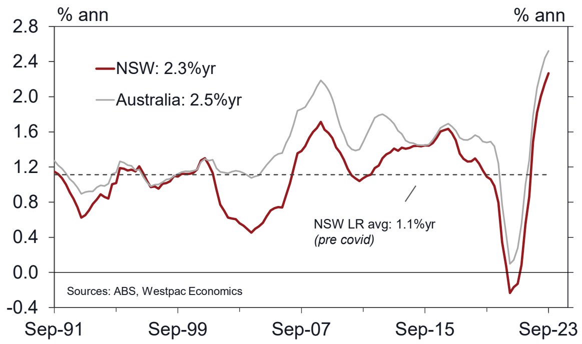
NEW SOUTH WALES

... led by declining consumer spending

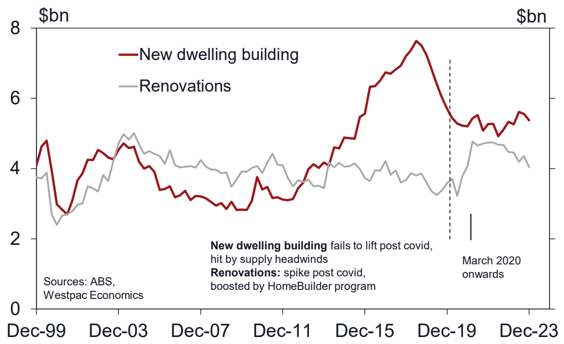
NSW job numbers up on increased supply



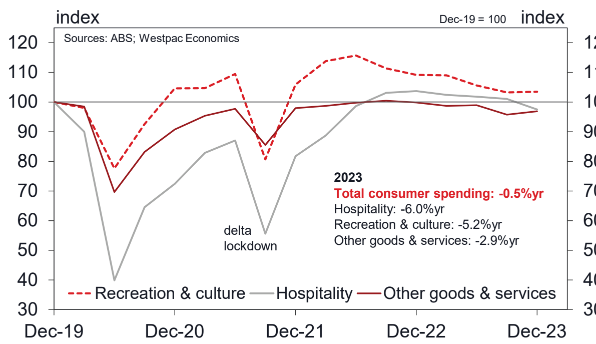
NSW population surge in 2023



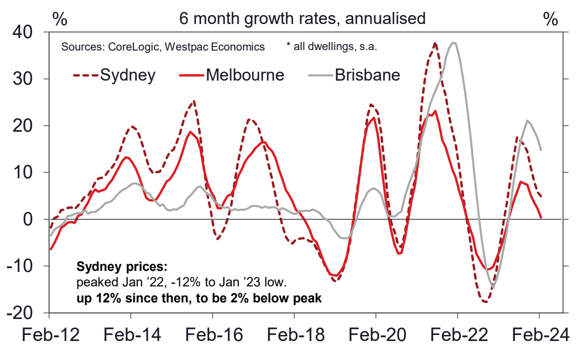
NSW housing activity: a tale of two cycles



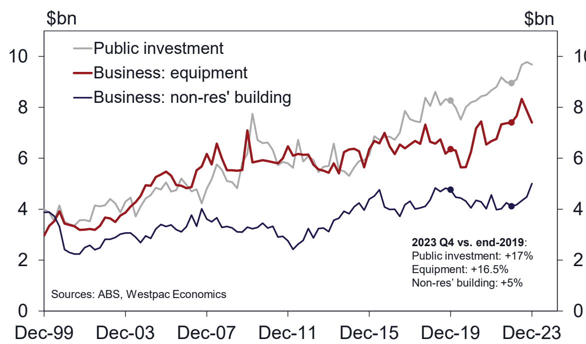
NSW: consumer spending contracted in 2023



Sydney dwelling prices: monthly gains slow

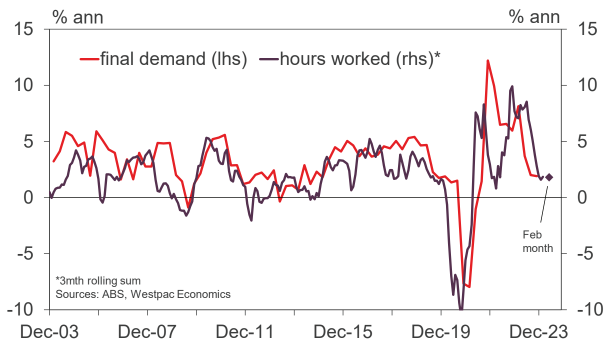


Investment cycles: public leads way higher



Stalling on consumer, housing sector weakness ...

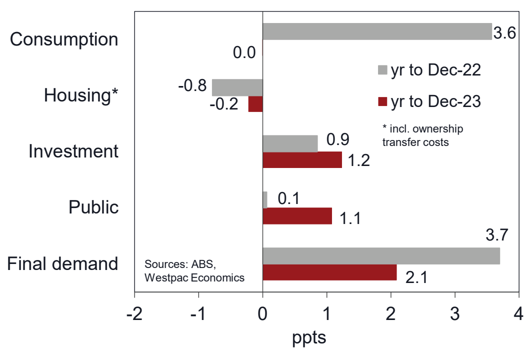
Victoria: final demand and hours worked



The Victorian state economy has seen a more volatile post-COVID performance. A stronger initial reopening surge in domestic demand in 2022 was followed by a more pronounced lift from the resumption of foreign student inflows in 2022-23 (more evident in hours worked than in final demand). That second boost has been waning just as the full hit from a surge in the cost-of-living and rapid policy tightening has come through. The combined effect is seeing growth stall. That said, labour market conditions have continued to hold up better than expected in 'head count' terms, employment growth still running at a rollicking 3.5%yr – associated with brisk population growth.

Looking ahead, migration is set to slow further in 2024. Dwelling approvals also point to further declines in dwelling investment. However, both business investment and public demand look better placed, supported by a still large pipeline of major investment projects.

Vic: contributions to state final demand

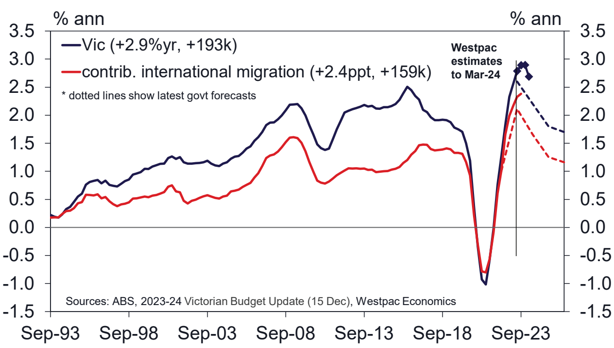


State final demand came in flat for the final quarter of 2023, taking annual growth to 2.1%yr, down from 3.7%yr in 2022.

All of the slowdown is due to consumer spending which stalled flat in 2023, having risen 3.6% in the year prior. The result implies a large 3% decline in per capita terms. Note that while annual growth in real labour income has lifted, total household disposable incomes (i.e. after tax and interest) look to have declined in the order of 3% in year on year terms.

The other area of weakness in Vic – albeit not contributing to the 2023 slowdown – is around housing. Dwelling investment fell 5.1%yr in 2023 to be 11.8% below the peak in early 2022. Dwelling approvals have continued to move lower at around 10%yr, pointing to more declines in early 2024. Housing markets more generally have also softened, Melbourne price growth stalling into year-end. Some of this relates to investors selling holdings following state government tax changes introduced in July.

Vic's popn growth: surge starting to slow



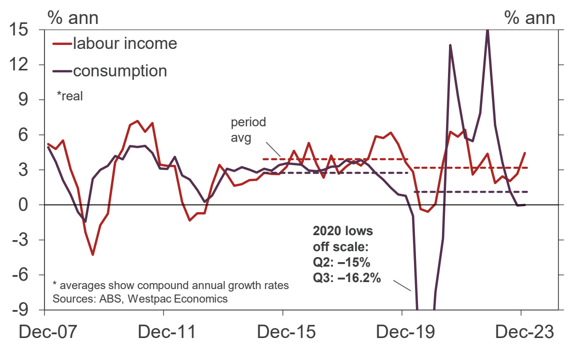
Business investment remains a key highlight in the state, posting a 0.8% gain in Q4 to be up 11.3%yr. The rise has been broadly based, non-residential building up 11%yr, infrastructure work up 10%yr and machinery & equipment investment up 15%yr – a more consistent rise than in most other states. Equipment spend dipped in the final quarter, suggesting some softening in this more cyclical component. However the pipeline of work yet to be done remains high at around $36bn.

Public demand has also been somewhat supportive, dipping in the final quarter of 2023 but still up 4%yr, led by an 11.7%yr surge in public investment. Here again, the pipeline of work looks to have further to run although it may start to taper off into 2025, particularly given the state government's ongoing fiscal pressures.

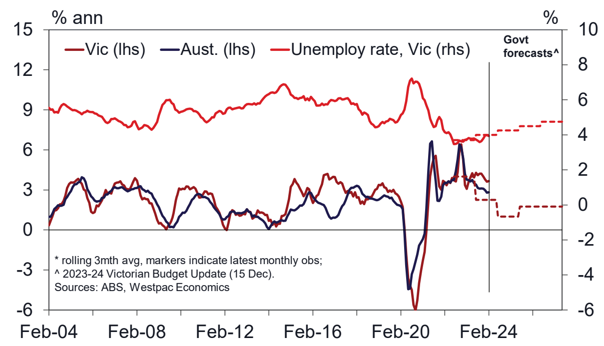
Latest figures suggest the state's population growth peaked in late 2023 with signs of a moderation starting to show through. Growth in the working age population has eased a touch and foreign student commencements look to be 'topping out' at a high level.

... but business investment, public demand still tracking gains

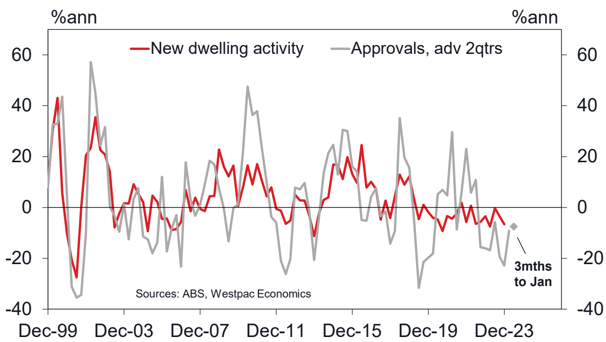
Vic households: incomes and spending



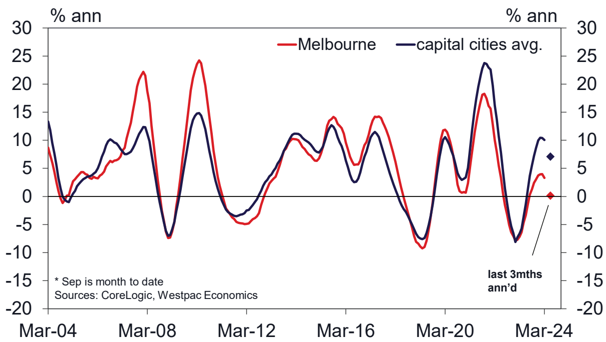
Victoria: jobs growth and unemployment



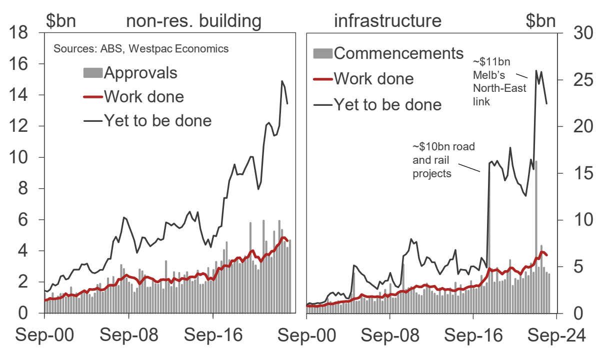
Vic housing construction



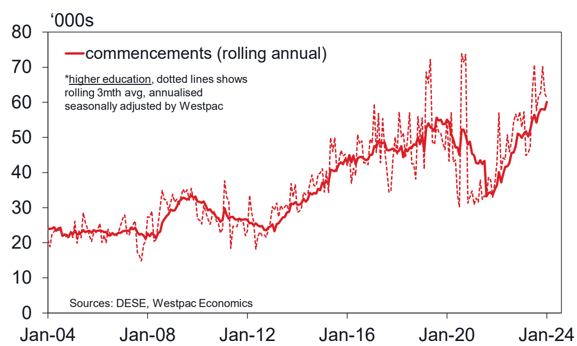
Melbourne house prices



Vic's non-res construction pipeline

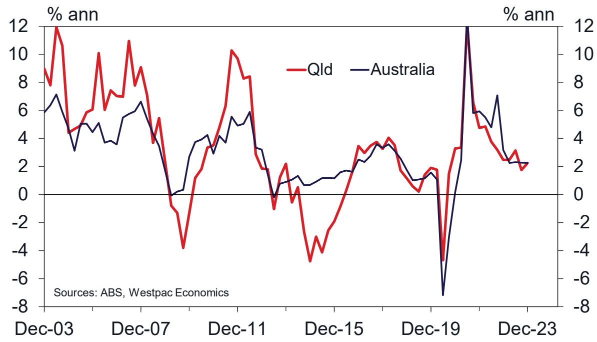


International students: Victoria



Decent finish to a challenging year ...

State final demand: Qld vs Australia

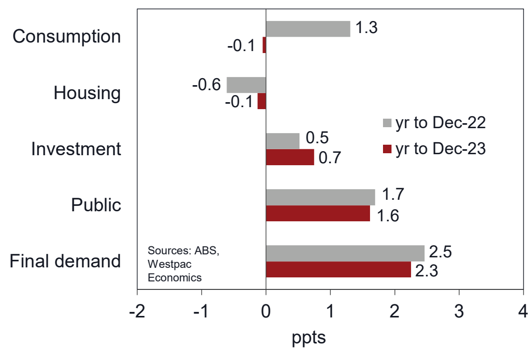


Queensland's economy posted a decent finish to the year, the rise in state final demand both in Q4 (0.6%) and over 2023 (2.3%yr) being second only to WA. Interestingly, growth momentum is little-changed from 2022 (2.5%yr). However, the underlying composition has clearly evolved in response to the raft of pressures looming over the state economy.

Most notably, the 'trifecta' of high inflation, elevated interest rates and additional tax obligations have presented as major headwinds, detracting substantially from robust nominal income gains and leaving many households in a fragile state.

Queensland households have pulled-back spending accordingly, consumption in the state broadly flat over 2023 (–0.1%yr). Most of the weakness has appeared in discretionary spending, with recreation and culture (–2.3%yr), hospitality (–1.7%yr) and cigarettes, tobacco and alcohol (–8.0%yr) all declining.

Qld: contributions to state final demand

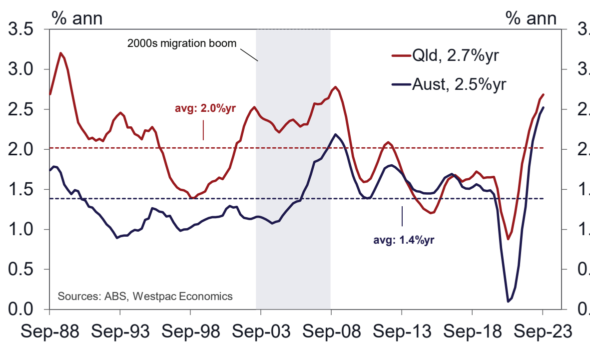


It is worth highlighting that the picture for consumption would have been much weaker if it were not for the combination of tight labour market conditions and the sizeable increase in the minimum wage/awards. In Queensland, this saw wages growth accelerate to 4.8%yr, the strongest pace across the nation.

However, with labour market tightness now fading – the state's unemployment rate up from a low of 3.3% to 3.9% – wages growth is set to decelerate. Promisingly for households, that will likely coincide with an easing in income pressures, as inflation continues to moderate and prospects for tax cuts and interest rate easing move in scope for H2 2024.

Moving beyond the consumer, the public demand was a key pillar of support in 2023 (5.7%yr). Public investment was a key contributor (+15%yr), spending on key infrastructure projects including renewable energy and utilities being a highlight.

Population growth approaching a peak



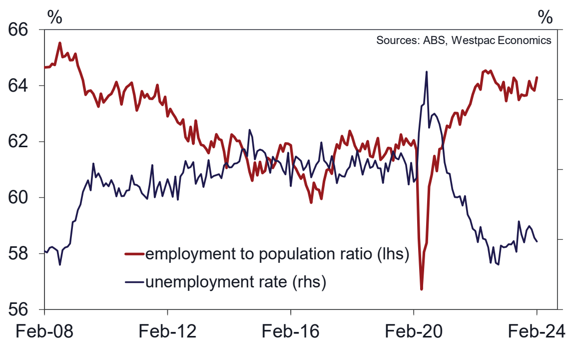
In contrast, parts of Queensland's private investment profile have begun to soften. This is particularly apparent within housing investment, the 4.8% gain over H1 2023 giving way to a sizeable –6.8% decline over H2 2023 – a transition evident across both new dwelling construction and renovation activity. New business investment was more supportive over 2023 (+6.4%yr) but a softening from H1 (6.4%) to H2 (flat) was also evident, driven by infrastructure and non-res construction.

These results, in part, speak to the broad set of headwinds facing Queensland's construction sector – elevated cost pressures, intense competition for resources and lingering capacity constraints to name a few.

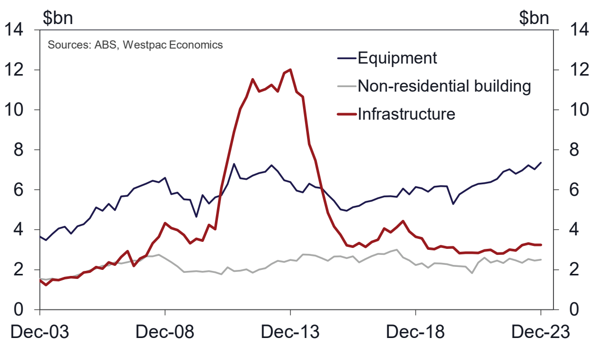
The extent to which these emergent trends persist will have an important bearing over Queensland's economic performance near-term. Policy support from mid-year will limit some of the downside risks to activity. Public investment, with an emphasis on productivity gains and capacity expansion, will provide a solid basis for recovery once current headwinds begin to fade.

… made possible by public demand and business investment

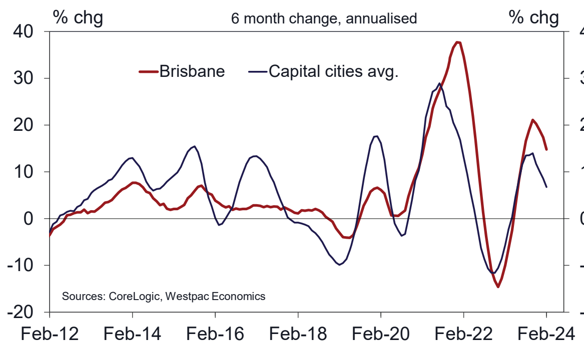
Qld unemployment up from historic lows



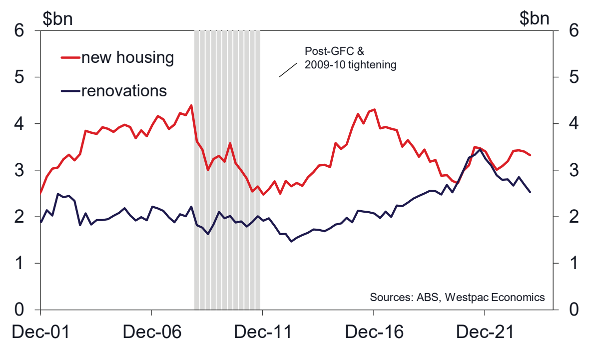
Qld business investment is cresting



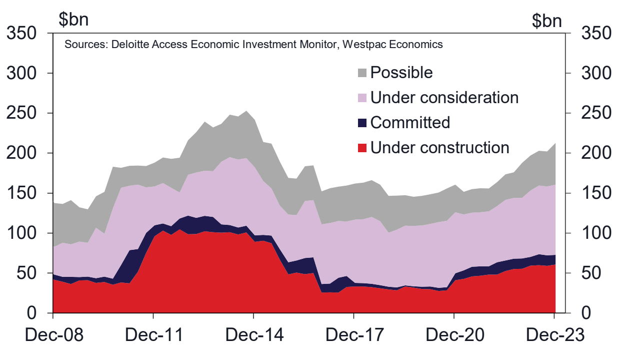
Brisbane's house price boom starting to cool



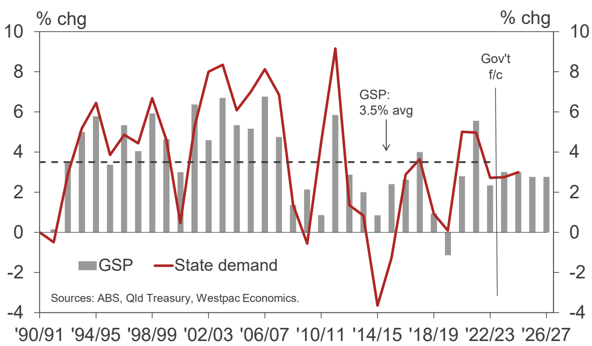
Housing investment momentum turning



Queensland's project pipeline is building

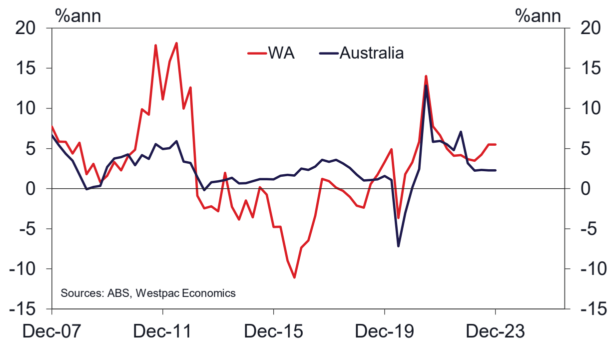


Qld economic performance & outlook



Bucking the wider trend …

State final demand: WA vs Australia

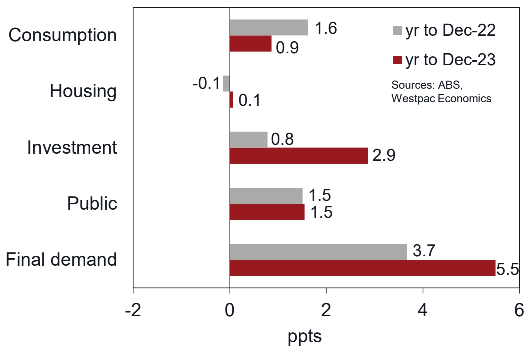


The WA state economy has continued to outperform peers, state demand accelerating over 2023 led by a surge in business investment and continued steady growth in public demand. Consumer demand has also been more resilient in the west, cost-of-living and policy tightening not biting quite as hard. With a solid project pipeline and WA's housing market also starting to turn, prospects for a continued outperformance look reasonable with the main challenges likely to be around stretched capacity and tight labour markets.

The state's mining sector has been a key underlying support with high commodity prices driving strong revenue flows. That support is expected to fall away somewhat over the year ahead, potentially taking some of the heat out of demand.

An expected slowing in population growth will also have some moderating effect although this will also see more enduring problems around labour supply shortages.

WA: contributions to state final demand

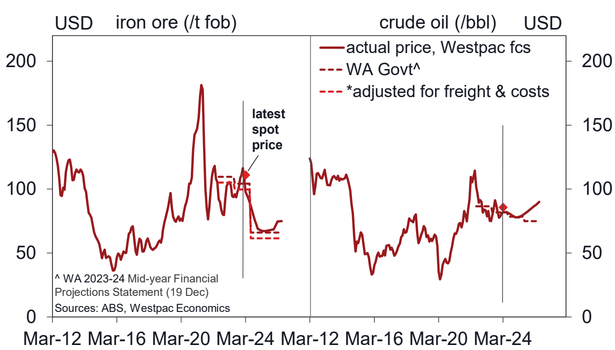


Western Australia bucked the wider slowdown trend in 2023, recording the strongest state final demand growth both in Q4 and over 2023. State demand rose 0.8% to be 5.5% higher than last year.

Consumption has been much more resilient, rising 1.7%yr compared to the flat result nationally. Behind this has been a combination of: stronger labour income growth; a lower sensitivity to rising interest rates due to lower levels debt; a slightly stronger lift in population growth; and a slightly milder inflation surge, especially around energy prices (reflecting a mix of milder baseline price rises and state government rebates).

Housing has been broadly neutral for state demand but may become more supportive. Dwelling investment rose just 1.9% in 2023, slowing abruptly in the last quarter. HomeBuilder related activity looks to be cycling off. However, approvals have lifted strongly, and investor activity and prices have surged.

Commodity prices: iron ore & crude oil



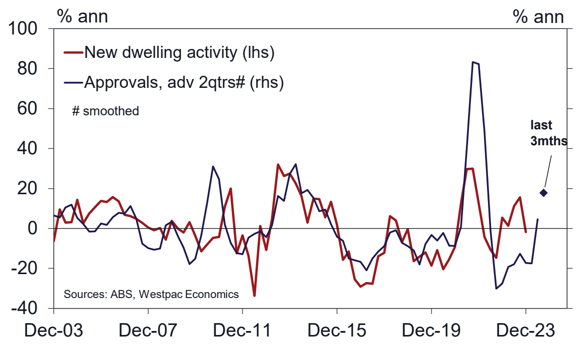
Demand over the last year has also been supported by a sustained up-trend in public demand (6.0%yr) led by surging public investment (25%yr) where Perth's $6bn Metronet rail project dominates. This is currently due to complete around mid-2025.

However, the stand-out area of strength has been business investment which surged 14.8%yr in 2023. While quarters have been uneven the annual gains has been broad-based, equipment spend up 19%yr, non-residential building up 17.2%yr and infrastructure up 12.9%yr. As noted, the state's mining sector has been flush with revenues thanks to buoyant commodity prices in recent years. That has seen a gradual lift in the project pipeline, which remains healthy. Outside of defined projects, there has likely also been a lift in recurrent 'maintenance' spending on capex.

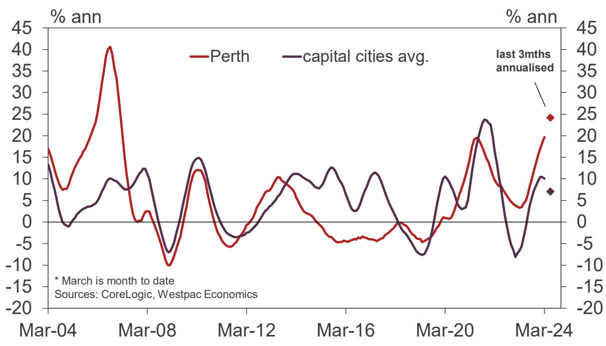
The pipeline suggests investment will continue to track higher although the funding side will be impacted by an expected retracement in commodity prices, iron ore in particular widely forecast to move back below US$100/t.

... business investment led surge and housing starting to lift

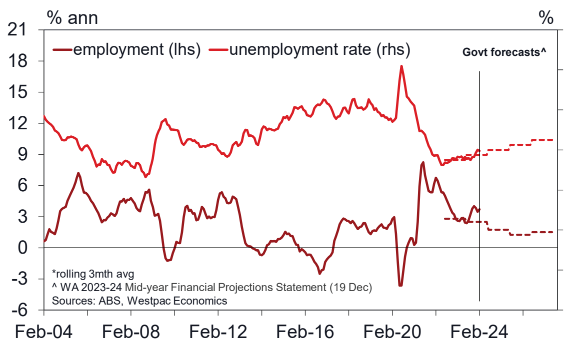
WA: dwelling investment



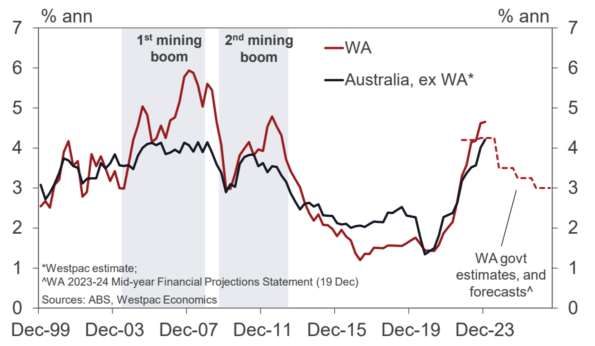
Perth house prices: booming



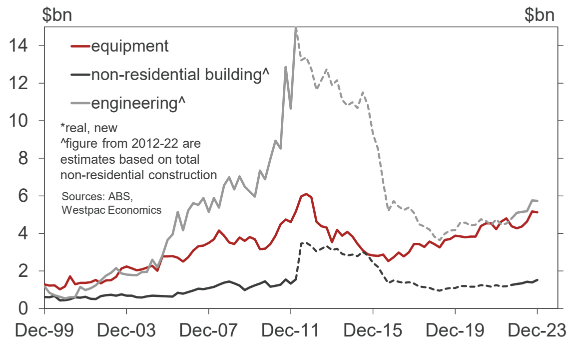
WA labour market



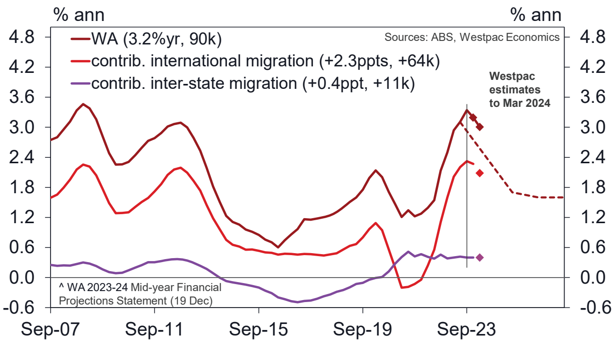
WA wages growth lifting



WA business investment

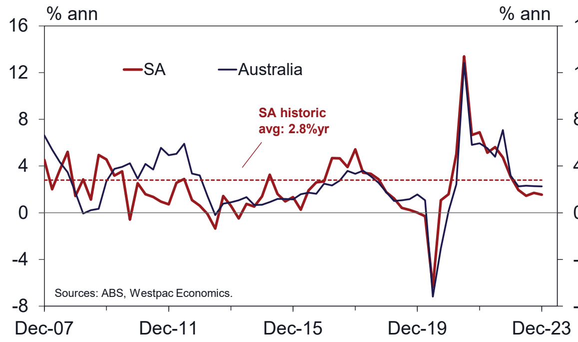


WA's population growth



Momentum falls away ...

State final demand: SA vs Australia

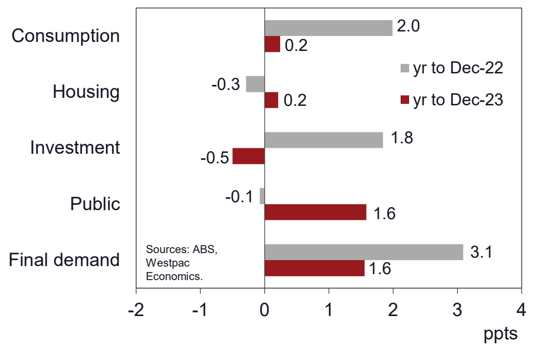


South Australia's state economy contracted –0.4% in Q4 after a solid performance over mid-year, including gains of 1.3% in Q2 and 0.6% in Q3. This marks an ongoing deceleration in state final demand, starting from 2021 (6.9%yr), all through 2022 (3.1%yr) and 2023 (1.6%yr).

One of the main takeaways from the Q4 National Accounts, from a nationwide perspective, was the broadening of the growth slowdown. Of all the states, South Australia is perhaps most emblematic of that dynamic.

Beginning with the consumer, household spending exhibited a sharp turnaround in 2023, a 1.3% gain over H1 giving way to a –0.8% decline in H2. The breadth of this transition illustrates the intense pressures mounting on South Australian households, with only a few 'pockets' of strength in health care, transport services and vehicle purchases working against outright declines across most discretionary spending categories.

SA contributions to state final demand

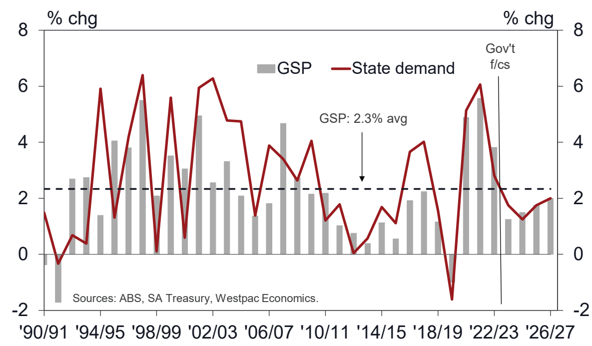


This sharp slowdown in consumer spending has now led to a broader softening in conditions across the private sector – in fact, private demand in South Australia stalled flat over 2023, the softest performance across the nation.

The chief culprit here is private business investment, South Australia recording the weakest result both in Q4 (–6.7%) and over 2023 (–3.9%yr). Looking past the sharp quarter-to-quarter swings, the trend is broad-based across equipment spending, infrastructure investment and non-residential construction – all of which have shown some form of 'cresting' over mid-year, before leading to declines into year-end.

Public demand was able to offset most of the weakness in the private economy in Q4 (1.7%) and over 2023 (5.8%yr). Increases across both consumption (3.1%yr) and investment (23%yr) highlights the Government's dual focus on supporting households and expanding the state economy's capacity.

SA economic performance & outlook



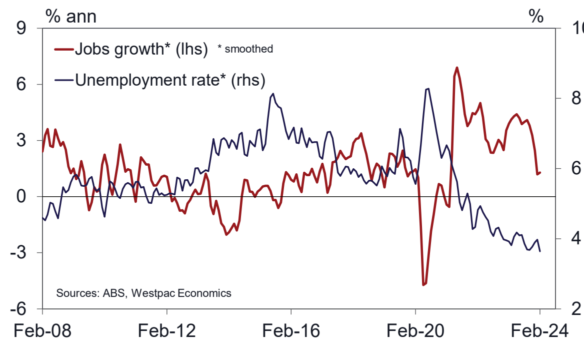
One bright spot worth highlighting is South Australia's housing sector. Adelaide's stellar run of price growth over 2023 looks to have continued into 2024, up 11.8% over the year to February – outperforming other smaller capitals like Hobart and Perth.

It was encouraging to see a sustained uptrend in new dwelling construction over 2023 (+10%yr). Coming off a period of severe weakness in 2022 (–7.4%yr), however, means that the supply-side overall remains unambiguously tight. South Australian buyers are rightly confident in expecting price momentum to persist near-term.

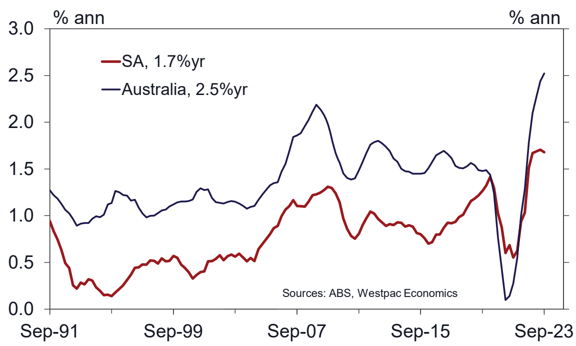
The sizeable pipeline for housing construction provides a solid basis for this uptrend to persist into the medium-term, so long as the sector is able to manage the cost pressures and resource constraints currently at hand. This, together with policy relief from mid-year and ongoing public investment targeted at enhancing the state's productive capacity, will place South Australia in a better position to weather the slowdown broadening through the private economy.

… as slowdown reverberates through the private economy

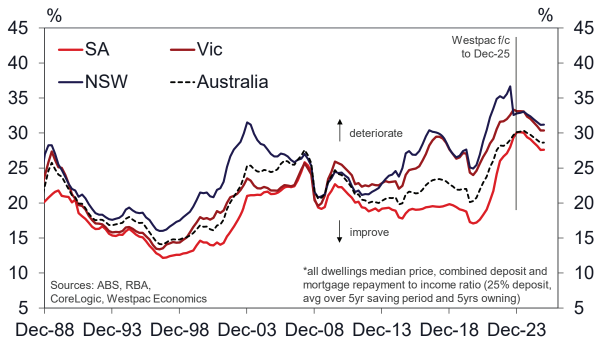
SA's labour market remains tight



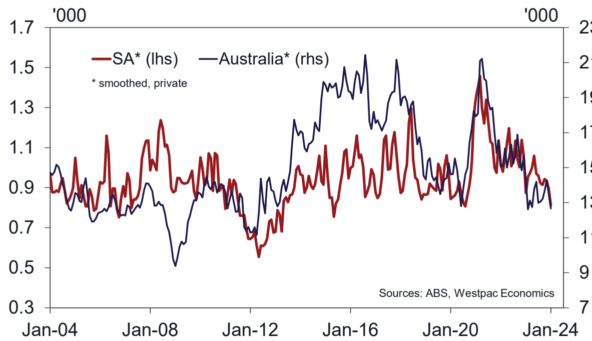
SA population growth has reached its peak



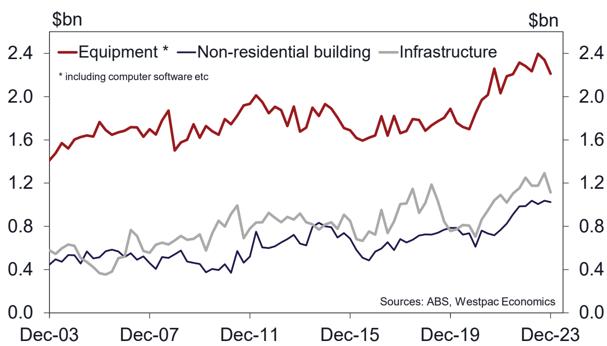
Housing affordability in favour of SA



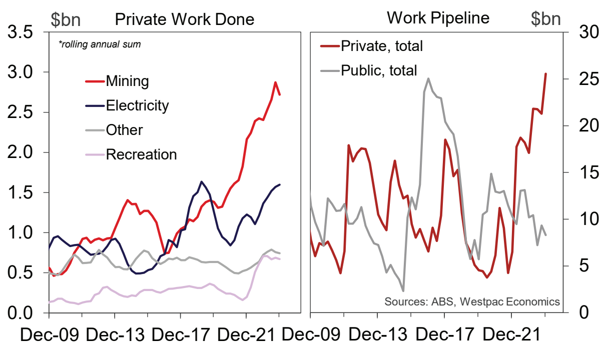
SA housing construction: pipeline positive



SA business investment is cresting

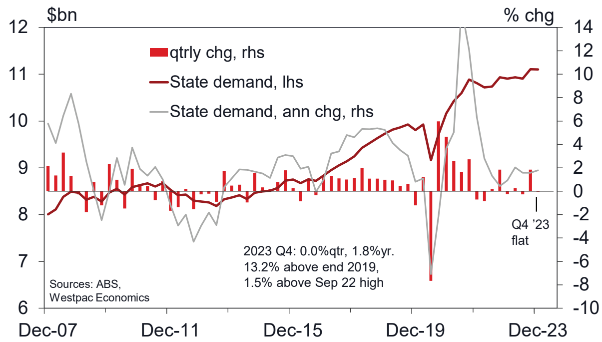


SA infrastructure, up on renewables and mining



Subdued, uneven growth ...

Tasmania: bumpy ride continues



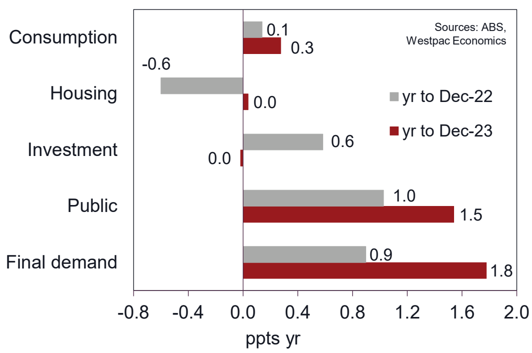
Tasmania's economy is navigating a period of subdued uneven growth, which is reliant upon an extended strong upward trend in public demand. The state government cut the growth forecasts to reflect this challenging backdrop.

In the December quarter, state demand was flat, continuing what has been a bumpy, lumpy growth profile over the last couple of years. In the past 9 quarters, state demand contracted in 4 quarters, was flat in 1, and coincidentally jumped by 1.8% in both the September 2022 and September 2023 quarters. The cumulative increase over the past 9 quarters is a modest 2.0%.

This is the period since the 9.2% surge in private demand from December 2019, pre-COVID, to September 2021, triggered by the aggressive policy stimulus in response to the pandemic.

Since then, private demand has gone backwards, contracting by 0.8% (albeit up 0.4% in 2023). The lift in domestic spending was entirely reliant upon a sizeable 8.3% increase in public demand.

Tasmania: contributions to state demand

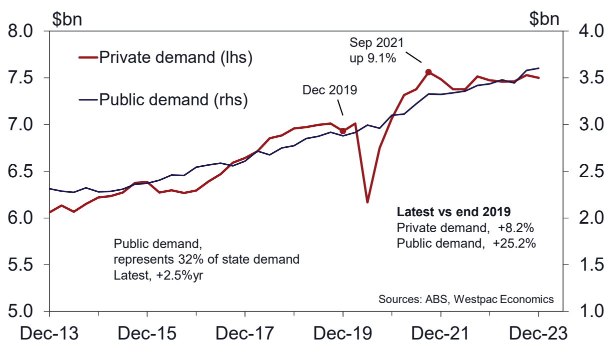


Consumer spending is expanding, at a modest pace, advancing by 0.3% through 2022 and then increasing 0.5% in 2023. That is a relatively resilient performance given the challenging backdrop of high inflation, higher interest rates and additional tax obligations. Adding to pressures on Tasmanian consumers, dwelling prices have trended lower since the boom to March 2022, and population growth for the state has slowed to an insipid 0.3%, in sharp contrast to the population surge across the mainland.

Home building activity is weakening and is set to weaken further. New home building activity continues to deflate from the historic high of mid-2021, declining by 12% in 2023 to be 24% lower over the past 2½ years. Renovation activity rebounded by 20% in 2023, up from the low levels prevailing at the end of 2022.

Business investment was flat over 2023, albeit volatile quarter to quarter. Equipment spending pulled back, down by 9%yr, but is still at relatively high levels, offsetting a rise in construction work.

Private / public demand



Public demand expanded by 4.9% in 2023, directly accounting for 87% of the increase in state demand over the period.

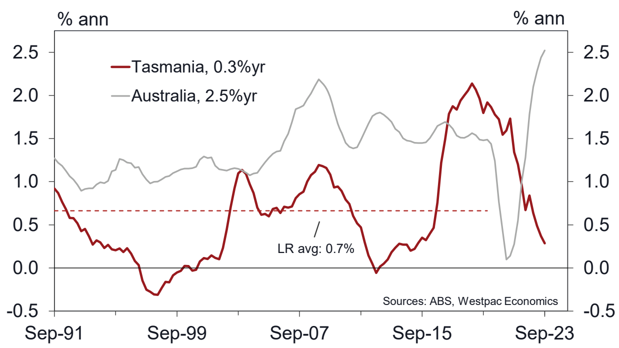
Strength in Tasmanian public demand over recent years has switched from consumption (which was up briskly in 2020 and 2021 on the response to COVID, both health and financial support) to investment. In 2023, public investment jumped by 20%, to be about a third higher than at the start of 2020. The budget papers suggest that strong government investment is expected over 2023/24 and 2024/25 reflective of the government's infrastructure pipeline.

In the February mid-year budget update, the official growth forecasts were marked lower, incorporating the current sluggish momentum in the state's economy. State final demand is now expected to expand by 1.5% in 2023/24 (lowered from 2.75%) and hold at that 1.5% in 2024/25 (lowered from 2%). Output growth for the two years is now expected to be 1.50% and 2.0%.

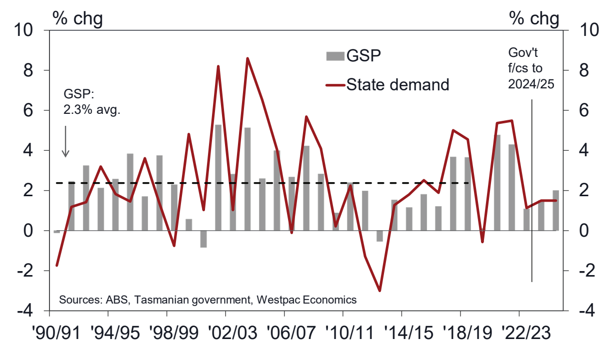
The state faces an uncertain political outlook, with the state election on March 23 resulting in a hung parliament. As we go to press, negotiations with the cross benches are continuing.

... reliant on public demand

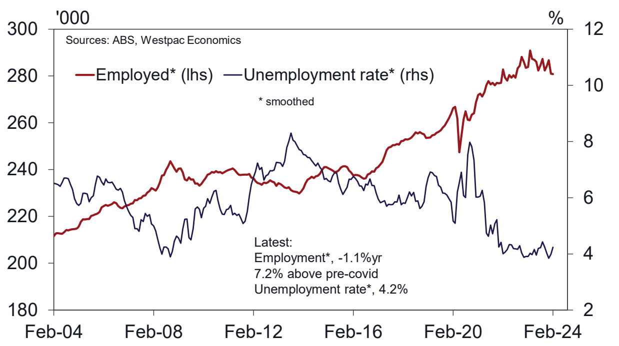
Tasmania: population growth insipid



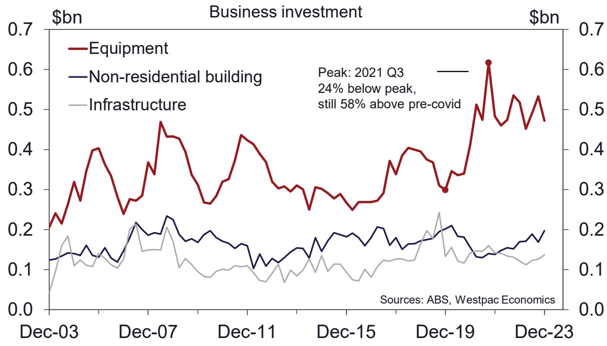
Tasmania economic performance & outlook



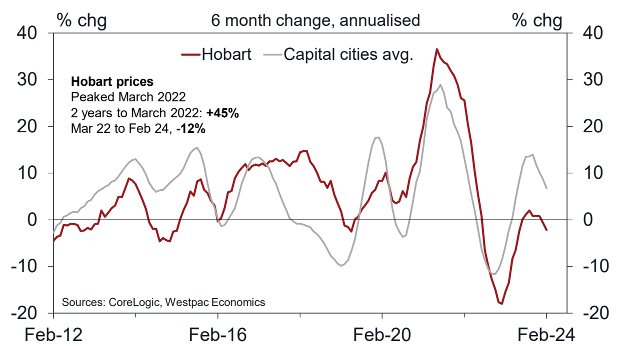
Tasmania: employment consolidated in 2023



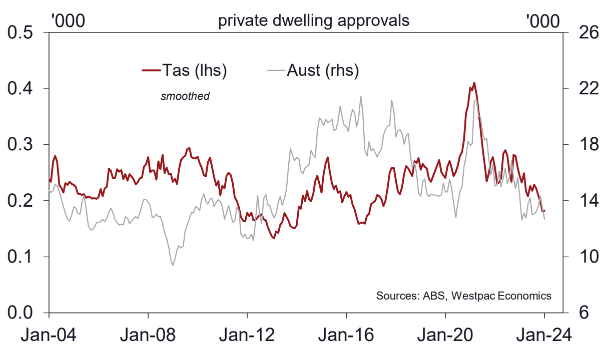
Equipment spending, still elevated



Hobart dwelling prices: retreat

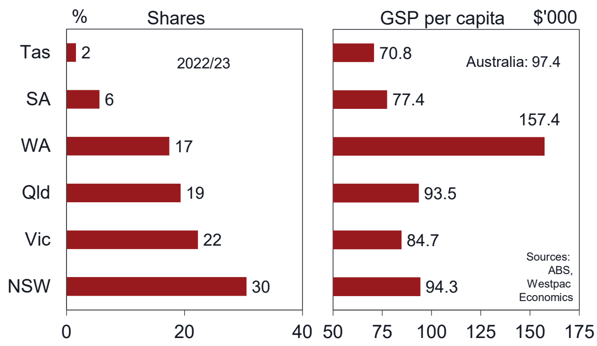


Tas: dwelling approvals slump to historic lows

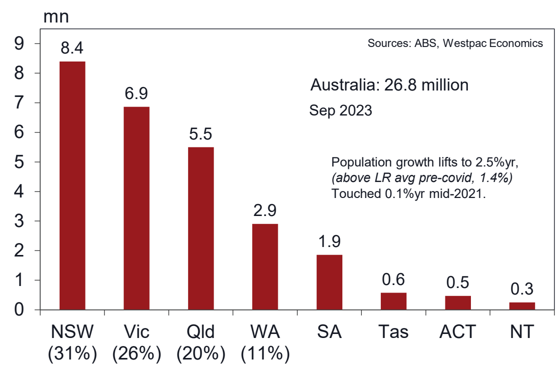


SUMMARY INDICATORS

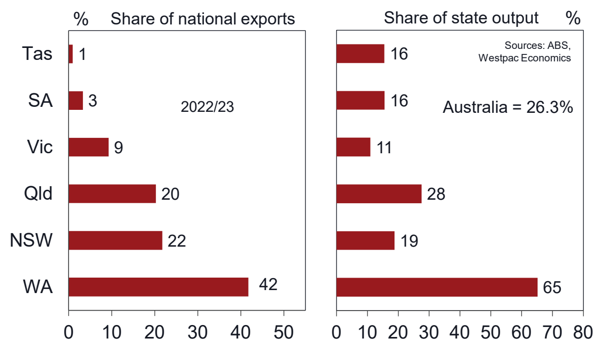
Gross State Product



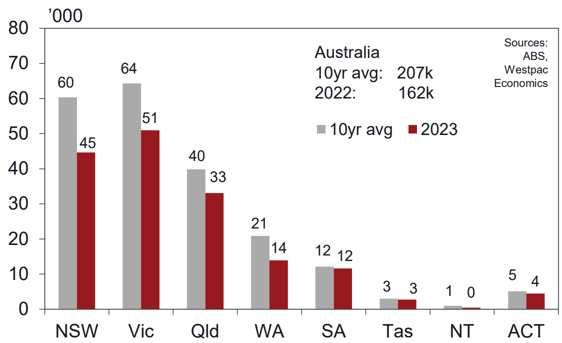
Population



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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