WESTPAC Coast-to-Coast June 2024.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

CONTENTS

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Overview

States

Australian economy remains soft …

The Australian economy limped into 2024, with economic activity expanding just 0.1% over the first three months of the year. Over the year to the March quarter, the economy expanded 1.1%yr – the slowest pace since the early 1990s recession, outside of the pandemic. The extent of the weakness is particularly telling when considered against population growth, which is running at 2.4%yr. Australia has now recorded four consecutive quarters of declining per capita GDP.

The main surprise in the quarter was a larger-than-expected contribution from household consumption, up 0.4% over the March quarter. Some of this looks to have been a temporary boost relating to one-off events – the Taylor Swift concerts and Formula 1 – which will drop out of the picture in the June quarter.

Significant upward revisions to historical estimates of spending suggest consumers may be more cautious over the year ahead. These revisions relate to estimates of Australian tourism spending abroad. The total mark-up adds just over $22bn to the last five quarters of spending estimates and lifts the annual growth profile of total consumer spending by about 1 percentage point (ppt). However, it also implies a much larger run-down in reserves carried over from the pandemic. Nearly half of this pandemic related "excess savings" now looks to have been depleted. That suggests households may be less inclined to spend and more inclined to rebuild savings buffers as their incomes recover.

Meanwhile, the recovery in incomes remains slow, with real household disposable income flat in the quarter and up just 0.4%yr. The various headwinds to income – from the rising cost-of-living, higher interest rates and higher tax payments – are moderating but with only a muted recovery in incomes so far.

Overall, domestic demand edged 0.2% higher over the quarter with solid growth in public demand balancing near-flat private demand, which includes assistance to households in the form of electricity subsidies. As a share of the economy, public demand reached 27.2% of GDP, eclipsing the pandemic peak of 27.1% and well above the pre-pandemic average of just over 22%, illustrating the growing size of public demand in the economy.

The near-flat result for total private demand reflected weakness in dwelling investment and business investment, the latter centred on construction activity. The forward view here remains mixed. Home-building is expected to remain weak in the near term, with dwelling approvals still around 12yr lows, backlogged work rolling off, and a range of capacity and cost issues still weighing heavily on the sector. These issues are also having some impact on business investment. However, the project pipeline in this space remains elevated, with the March quarter Capex survey also showing non-mining businesses are planning solid increases in spending in 2024-25 (over and above rises that might come from higher costs).

Net exports were a large 0.9ppt drag on activity in the March quarter, again reflecting the strength of outbound tourism flows and a catch-up in imports more generally (also evident in a rise in inventories). Total import volumes surged 5.1%, far exceeding the 0.7%qtr gain in exports. This pattern is expected to partially reverse in the June quarter.

The national accounts also provided an update on closely-watched measures of productivity and the domestic cost base. These show both continuing to improve. Hours worked tracked GDP in the quarter with labour productivity flat on a year ago (subdued but an improvement on outright declines). Growth in unit labour costs also slowed materially – unit labour costs are now running around pre pandemic rates in six-month annualised terms.

The latest labour market data continues to show a gradual slowdown. Looking through some residual seasonal volatility month to month (a positive in May), employment growth has slowed to around 2.6%yr, down from 3.8%yr a year ago and basically in line with population growth. Unemployment has been tracking a slight up-trend. The muted rises look to be a mix of legacies from previously very tight conditions (making employers reluctant to shed workers) and businesses responding to slower demand through adjustments to hours worked rather than headcount (total hours worked have been about flat year to date). Underemployment and unemployment in more cyclically-sensitive segments continue to show more of a softening.

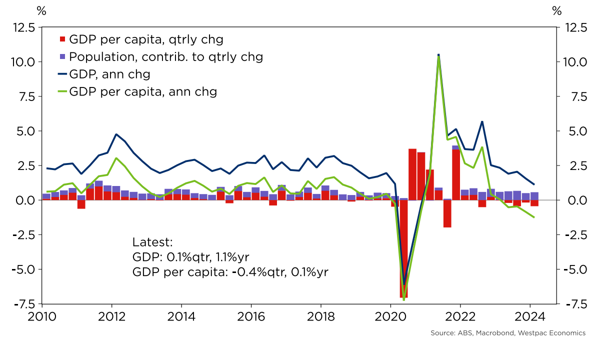
Looking ahead, the economy is expected to see some improvement as consumer headwinds continue to subside and policy provides more support as tax cuts and other fiscal support measures which started to flow from 1 July. An eventual easing in interest rates is also expected to come through, beginning in November at the earliest but with potential delays, especially if high inflation is slow to subside. Another key risk for growth is how consumer spending responds to policy support with low savings rates and some survey responses suggesting they may favour rebuilding savings buffers over spending any additional income.

The improved growth situation is expected to be broad based across the states. The outlooks presented in state budgets show a tepid improvement in conditions in the second half of 2024, which gathers momentum in 2025 and beyond. By 2025-26, most states expect to be growing at, or close to, trend. There are exceptions. Queensland expects to maintain above-trend growth in activity this financial year and in 2024-25 (at around 3.0%). Strong public demand, which includes an elevated pipeline of infrastructure projects, underpins much of this resilience. The unemployment rate is expected to drift higher across most states. By the end of 2025-26, sates are forecasting their economies to be growing at around trend, unemployment to be around 4.5% (much lower than pre pandemic rates) and for inflation to be back within the RBA's target – this would constitute a remarkable outcome with much of the pandemic-era employment gains remaining in place.

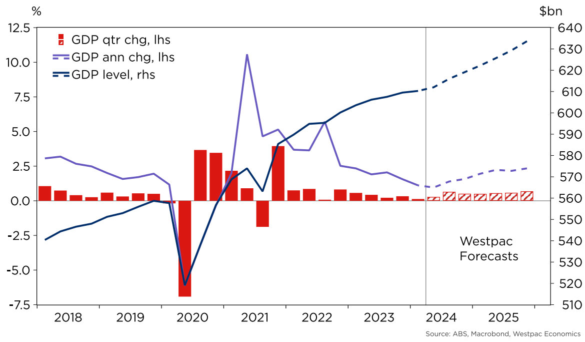
Matthew Hassan and Pat Bustamante, Senior Economists

Australian Economic Outlook

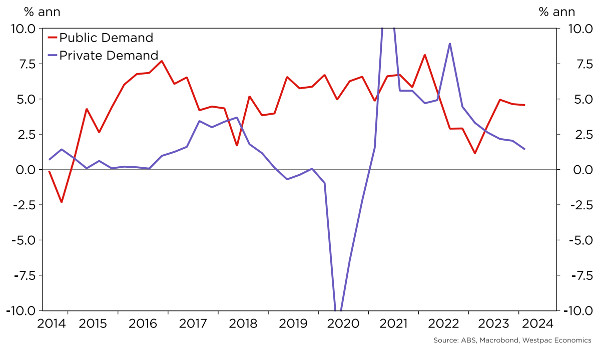
Australia: deep per capita recession



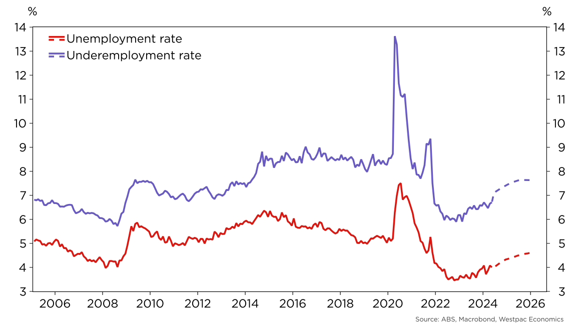
Australian economy slows to a crawl



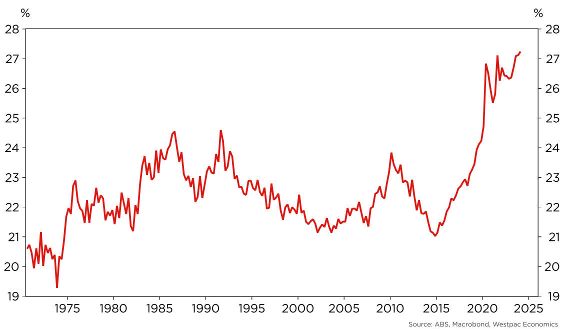
Public vs private growth divergence



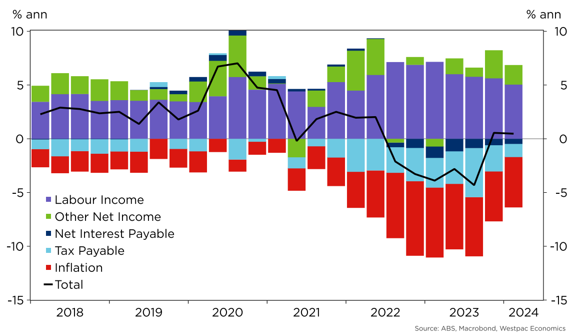
Labour market gradually cooling



Public demand as a share of GDP at record high

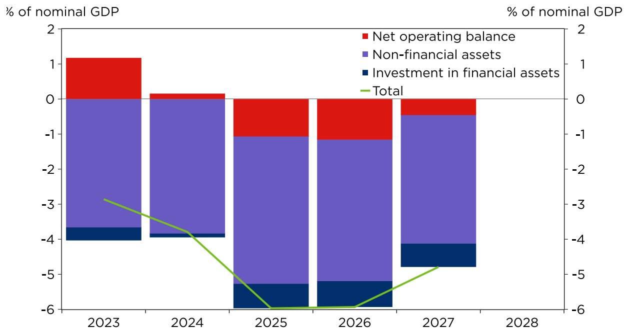


Household disposable income growth stabilising



States adding substantively to fiscal impulse...

National fiscal position

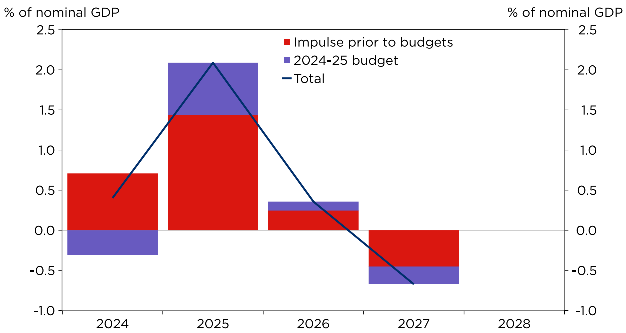


Source: ABS, Federal and States budget papers, Macrobond, Westpac Economics. General government operating balance and non-financial public sector investment. Financial years.

The Australian economy limped into 2024, with economic activity expanding just 0.1% over the first three months of the year. State final demand outcomes varied considerably across the nation, ranging from: robust growth in Qld (0.6%) and NSW (0.5%); subdued gains across SA (0.2%) and Tas (0.1%); a flat result in Vic (0.0%); and a surprisingly large decline in WA (–1.0%). The slowdown across the states has largely been driven by the private sector, and in particular subdued growth in consumer spending. On the other hand, public demand, in the form of public consumption and investment, continues to provide a partial offset.

Strength in public demand is set to remain an important facet of the broader economic narrative. Against this backdrop of slowing activity, the Federal, and most sate governments, delivered their 2024-25 budgets, which provide additional cost-of-living support as well as funding in response to the pressures emanating from a rapidly growing population.

Federal government fiscal impulse



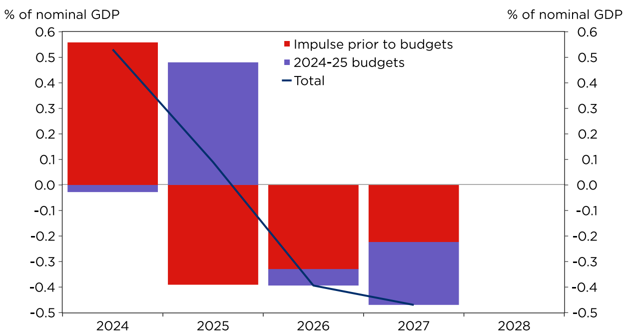
Source: ABS, Federal and States budget papers, Macrobond, Westpac Economics. General government operating balance and non-financial public sector investment. Financial years.

Compared to the mid-year updates, recurrent expenses across the Federal and state budgets have increased by around $100.2bn (2.5% of GDP) over the four years to 2026-27. Public capital spending – which sits outside recurrent expenses – is expected to increase by $20.5bn over the next four years.

Partly offsetting this, higher than expected nominal income on the back of elevated commodity prices and solid growth in payrolls, have delivered a combined revenue windfall of around $68.5bn. These estimates show we have clearly reached the part of the cycle where revenue upgrades have become insufficient to fully cover spending pressures.

As a result, the total national fiscal impulse is expected to contribute around 2.2ppts to the economy in 2024-25 – a significant impulse in line with the fiscal stance recorded in 2009-10 during the GFC.

Fiscal impulse across the states



Source: ABS, Federal and States budget papers, Macrobond, Westpac Economics. General government operating balance and non-financial public sector investment. Financial years.

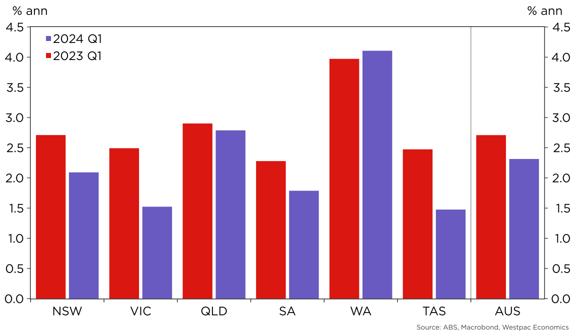
The key question for the broader outlook is whether the impulse is appropriate given where Australia is in the economic cycle. As we have noted there are significant headwinds hitting the economy. Household incomes are being squeezed by cost-of-living pressures and the global economy is clearly slowing. This has seen economic growth in Australia slow broadly to a standstill.

Going forward, the picture will likely become even more mixed. Some of these headwinds are moderating (inflation is moderating and interest rates have stabilised), but some of the tailwinds we have seen over the last two years will also be easing, most notably the surge in population growth and rapid tightening in labour market conditions.

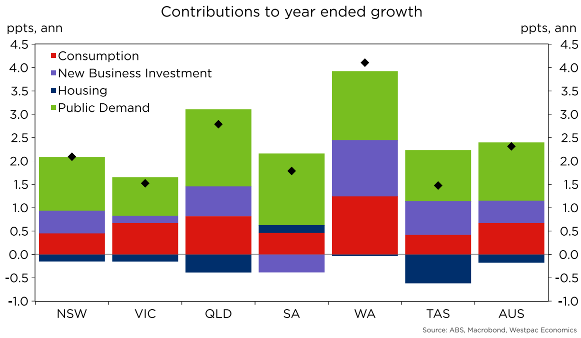
The growing fiscal impulse will be an additional support. But it adds to inflation risks, particularly in areas where there are existing capacity constraints, such as the construction sector.

... and to near term uncertainty

Domestic demand: slow down in 2023

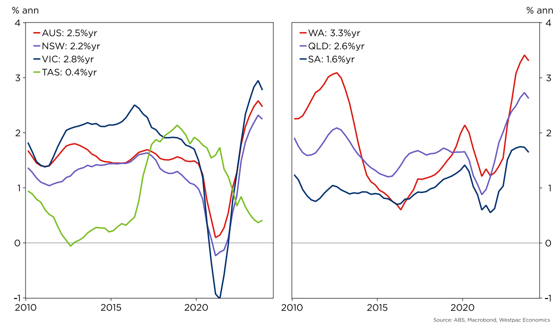


State final demand, contributions

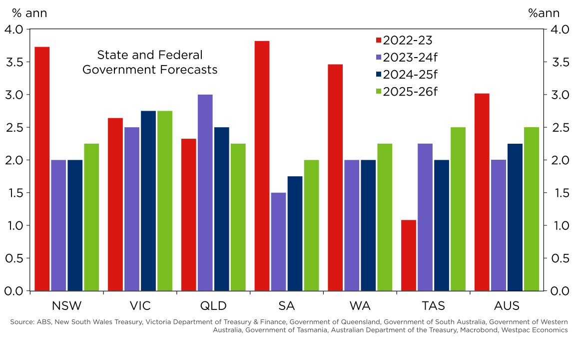


Per capita growth strongest in Tasmania

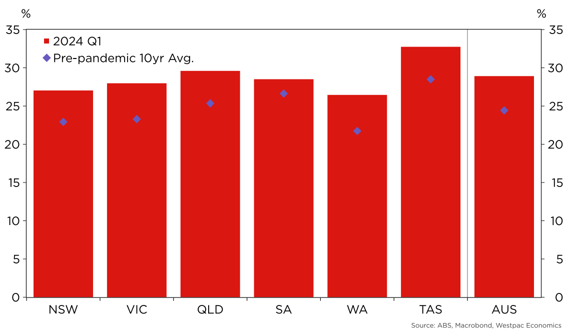
Population state trends



Growth outlook by state: GSP



Public demand as a share of SFD

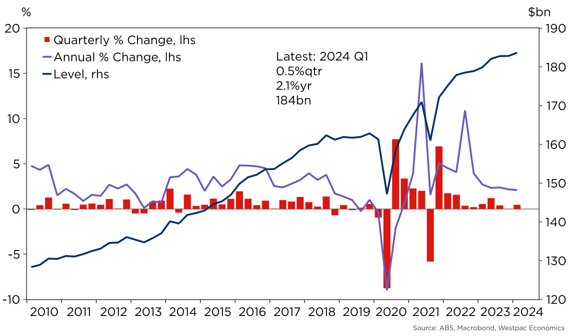


Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

NEW SOUTH WALES

A brighter start to 2024 ...

NSW: domestic demand plateaus

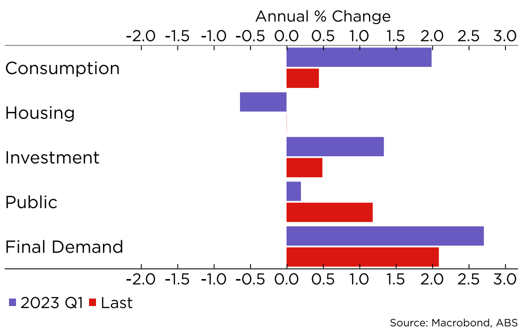


New South Wales, like most states, has not been immune to the broader macroeconomic headwinds facing the Austrlian economy. Tepid consumption growth has underpinned a wider slowdown in economic acitivty as household incomes remain under a tight, albeit gradually loosening, strain from elevated inflation, a larger tax take and higher intrest rates.

Over the year to the March quarter state final demand, expanded a lukewarm 2.1% - broadly matching annual growth in the last four quarters. This is noticably below the average annual pace of the last 10 years (around 3.0%) and ranks New South Wales in third position among all six states.

Narrowing in on the March quarter, New South Wales had a more constructive start to the year compared to the close of 2023. State final demand expanded 0.5% in the quarter, marking the strongest quarterly growth in 12-months and trailing only Queensland as the fastest growth state in the quarter.

NSW: contributions to state final demand

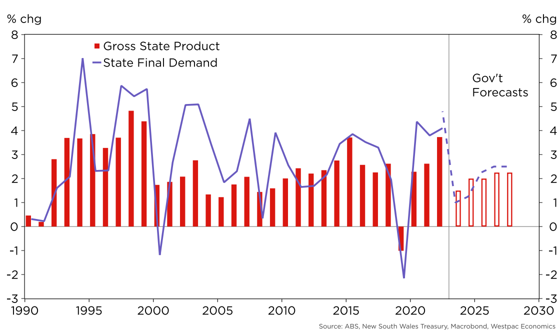


While the improvement in activity over the first quarter of 2024 is encouraging, the underlying demand impulse remains fairly weak by historical standards. The bounce in activity in the March quarter should, therefore, be interpreted as economic growth stabilising at a weak rate, rather than a more decisive acceleration in growth.

Household consumption in the state remains subdued, despite a strong tailwind from overseas migration. Consumption rose 0.3% in the quarter to be just 0.8% higher through the year. Broadly speaking, the level of real consumption in New South Wales has drifted sideways since the middle of 2022 when the reopening boost to spending took its last breath of air.

Put in the context of a rapidly expanding population, household spending per person is going backwards at a rate of knots. However, as population growth tapers off and household incomes gradually recovery, the consumption backdrop should also find a more stable footing.

NSW outlook: a period of sub-trend growth



The consumer may not be a bright spot in New South Wales, but solid business investment and robust demand from the public sector are helping wheather a deeper slow down.

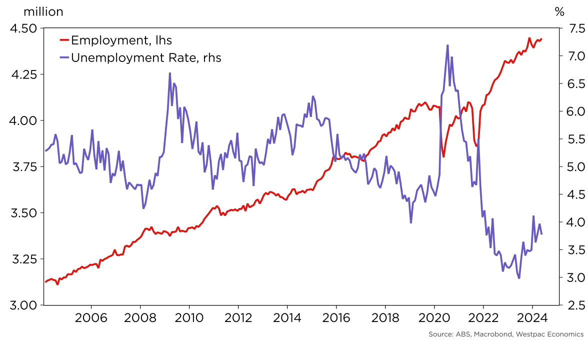
The real value of business investment struck a fresh record high in the March quarter. As a share of state final demand, total business invesmtent lifted to it's highest level since the June quarter of 2013, which marked a record high for the series. A larger population and input cost pressures are driving businesses to invest in capacity and productivity enahncements.

Similarly, the public sector is investing solidly to keep up with a growing population and higher levels of government consumption are becoming entrenched after the pandemic-driven spike. Excluding pandemic lockdowns, public demand is at its highest share of state final demand since the late 1980's.

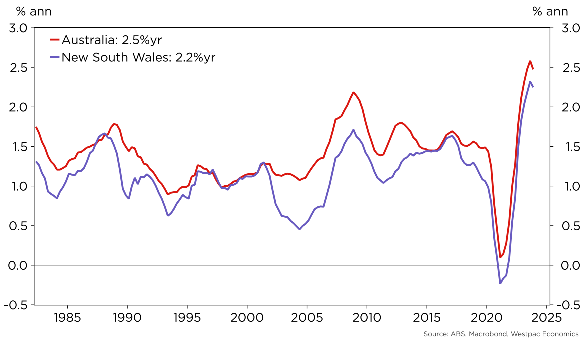
Dwelling construction activity remains weak as capacity constraints prevent a faster rate of completions. There remains a solid pipeline of residential construction work yet to be completed. However, weak dwelling approvals point to enduring weakness for dwelling construction activity.

... but underlying demand remains tepid

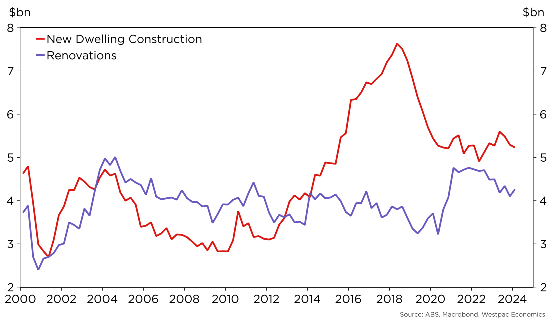
NSW labour market cooling but growing



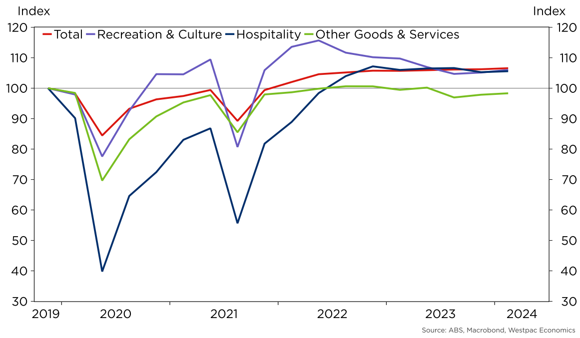
NSW population surge has passed its peak



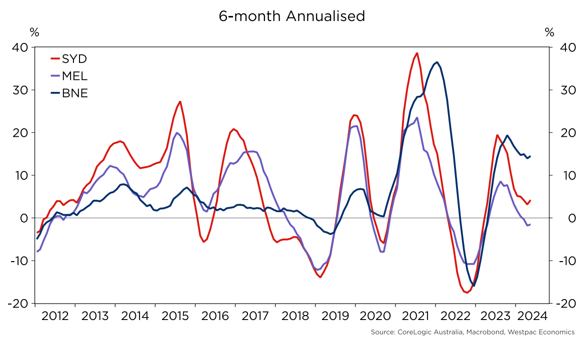
Housing activity: reno's crowding out supply



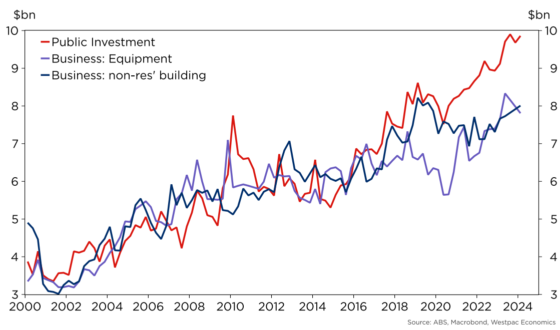
NSW: consumer spending has stalled



Sydney dwelling prices: affordability dragging

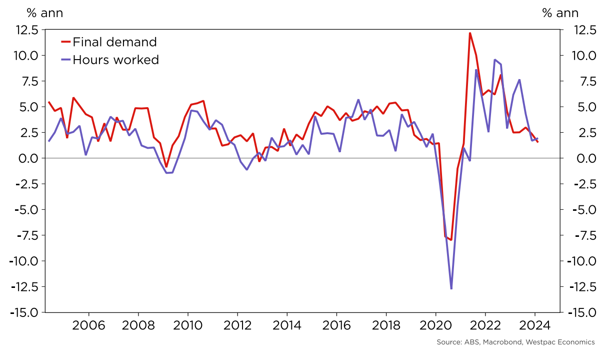


Investment: growing with the population



A material slowdown ...

Victoria: final demand and hours worked

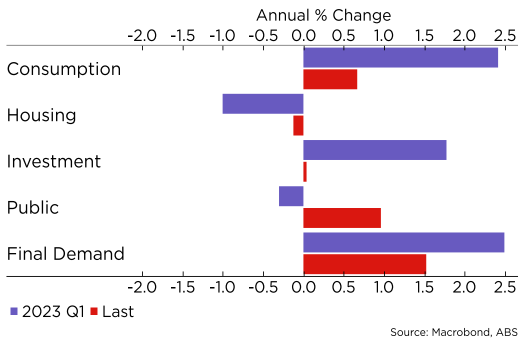


The Victorian state economy has slowed materially over the last year as stalling demand has combined with an end to the post-COVID rebound in service exports.

Whether the worst of the slowdown has passed remains unclear with the outlook fairly mixed. On the positive side, slowing inflation, tax cuts and an eventual easing in interest rates should put household incomes on a better footing, with a solid pipeline of public and private investment projects continuing to provide wider support as well. Against this, population growth is set to moderate and any recovery in the state's housing sector still looks to be a long way off. Meanwhile, the state government's finances remain under pressure with a return to an operating surplus still several years off and little scope for stimulatory fiscal measures.

Even if things go well, growth may be slow to recover in Victoria.

Vic: contributions to state final demand

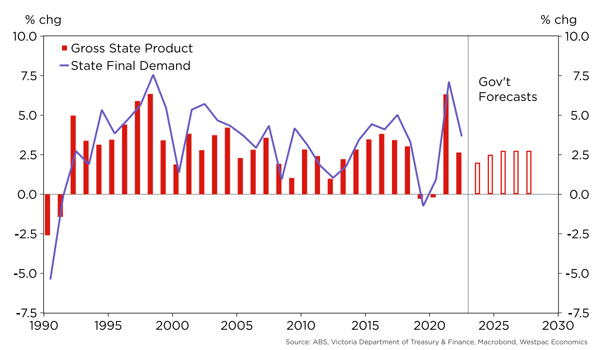


Victoria's state final demand has stagnated over the last six months with a slight decline in Q4 2023 (–0.1%) followed by a flat result in Q1 2024. Annual growth has slowed sharply, from 2.3%yr to 1.5%yr, the weakest pace across the nation.

As noted in previous reports, state demand excludes several items such as the contribution from net exports, which in the case of Victoria have been a solid positive in recent years as the border reopening has seen a resurgence in the state's service exports, including foreign education. That positive is now waning with export growth dropping notably over the last six months.

Labour market conditions provide a 'sense-check' here and suggest that activity has still been ticking over despite flat state final demand. Both employment and hours worked have sustained solid gains, albeit with growth slowing and the state's unemployment rate drifting higher, to around 4.25%.

Vic economic performance and outlook



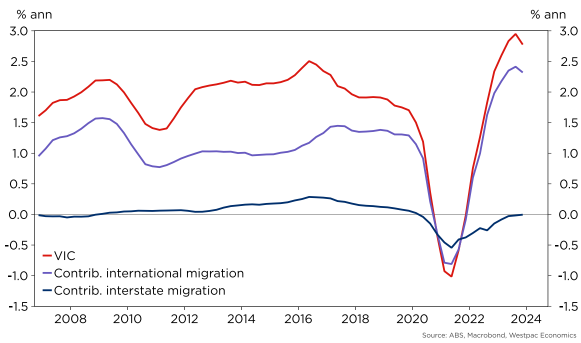
Turning back to the domestic demand picture, the slowdown in Victoria has been more broadly based than in other states. Consumers are again at the forefront with spending growth coming from a stronger starting point in Victoria. Private investment has stalled as well although there is still a solid pipeline of non residential building and infrastructure work providing support on this front.

Victoria's public demand profile stands in contrast to the rest of the nation, weakest both in the quarter and over the year (0.1%, 3.0%yr). That stems from a sharp pull-back in public investment reflecting the state government's decisions to curtail or delay spending on certain projects.

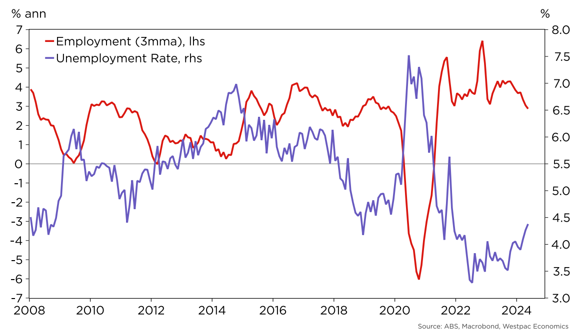
The 2024-25 state budget is more optimistic on prospects, state GSP growth expected to have bottomed-out at 2% in 2023-24 (slightly higher than its previous forecast of 1.5%) and gradually recover back to 2.75% by 2025-26. Policy-wise, the state government is aiming for a slow consolidation with a return to surplus in year two and a reduction in net debt from year four. That leaves very little wriggle-room, especially if growth disappoints and/or high inflation proves to be more persistent.

... and an uncertain outlook

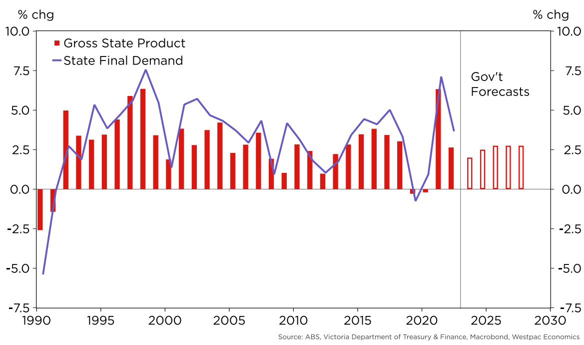
Vic's popn growth: surge starting to slow



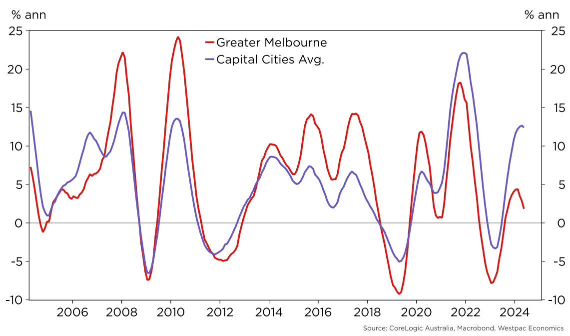
Victoria: jobs growth and unemployment



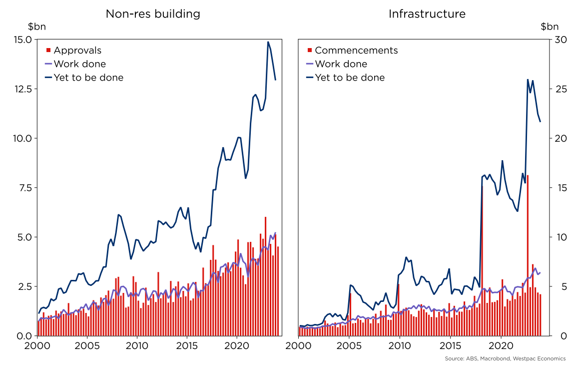
Vic economic performance and outlook



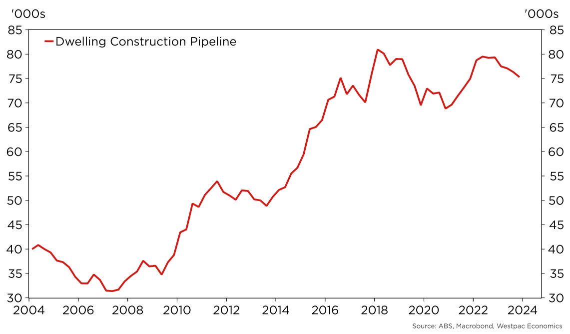
Melbourne house prices



Vic's non-res construction pipeline



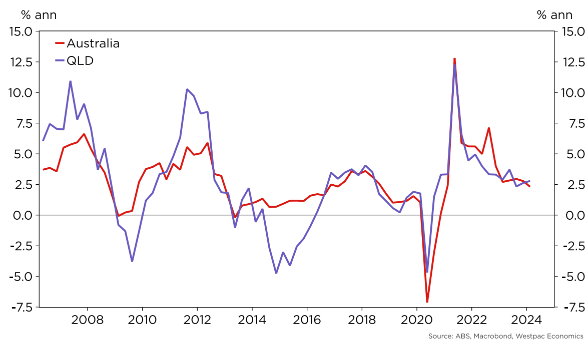
Vic residential construction pipeline



QUEENSLAND

Public demand to remain a key pillar ...

State final demand: Qld vs Australia

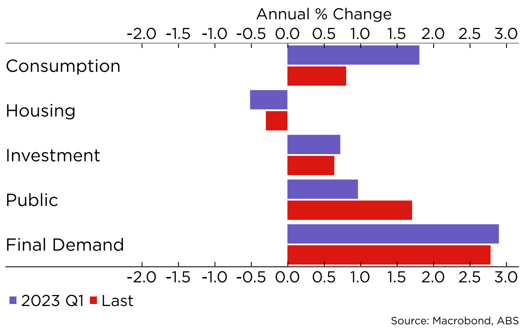


Queensland's economy exhibited the strongest performance across the states in the March quarter and was second only to Western Australia on an annual basis, with state final demand rising 0.8% to be 2.8% higher over the year to March 2024.

One crucial reason behind Queensland's strength relative to the other 'eastern' states (albeit in the context of broadly subdued outcomes nationwide) is its household sector, with consumption rising by a solid 0.6% (1.5%yr).

That employment growth in Queensland (3.6%yr) is notably stronger compared to the rest of the nation (2.3%yr) suggests households, in aggregate, are benefitting from resilient labour market conditions. Measures of nominal income – both wages growth (4.6%yr) and the broader concept of total compensation of employees (8.9%yr) – are indeed tracking well above national averages (4.1%yr and 7.1%yr respectively).

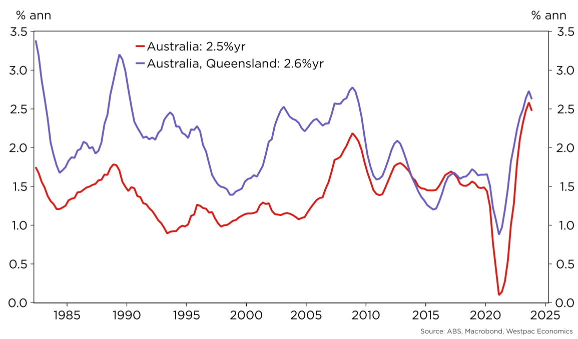
Qld: contributions to state final demand



An important point to emphasise however, is that even in the 'Sunshine State', the broader economic context is still gloomy. Households in Queensland are not immune to the squeeze on incomes from high inflation, higher interest rates and a larger tax take. In response, the consumption mix in Queensland has become uneven, with households forced to pull-back spending on discretionary categories (–0.1%yr) and allocate more expenditure to essentials (2.0%yr), leaving consumption in a relatively more fragile state overall.

Queensland's public sector has provided immense support to the state economy against this soft backdrop, with public demand rising 0.8% (5.8%yr). Over the past year, this support has been delivered increasingly in the form of government consumption – capturing spending on essential services and subsidies like the electricity rebates – seeing Queensland run well ahead of the rest of the states on a combined basis in this segment (6.2%yr vs. 3.7%yr).

Population growth approaching a peak



Public demand will continue to play a crucial role in the state's economic recovery over 2024/25. Policy initiatives announced as part of Queensland's State Budget, such as $1,000 energy rebates, 50¢ public transport and the 20% reduction in vehicle registration fees, will provide an Queensland households with an additional 'cushion' against cost-of-living pressures.

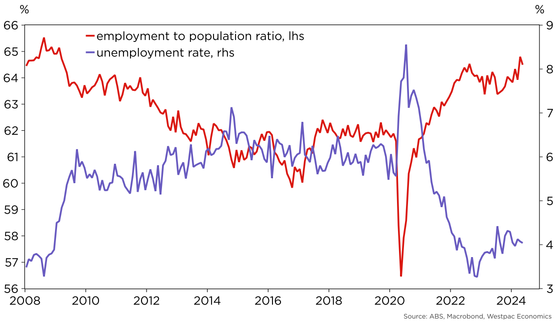
The relief – in addition to measures announced by the Federal Government – is likely to facilitate a recovery in discretionary spending, although its precise impact is highly uncertain given the difficulties in estimating households' saving preferences.

Other areas of the Queensland economy were mixed. Headline new business investment has been constructive over recent quarters (5.4%yr), due in large part to strength in equipment spending (12.7%yr), suggesting businesses are preparing for a recovery in consumption ahead. Housing investment has consistently disappointed however (–5.4%yr), with declines broad-based across new dwelling construction (–7.6%yr) and renovation activity (–6.2%yr).

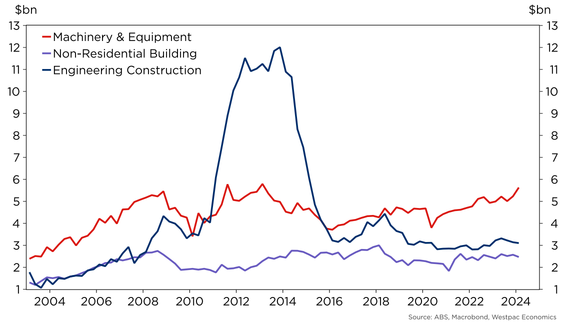
QUEENSLAND

... of growth into 2024/25

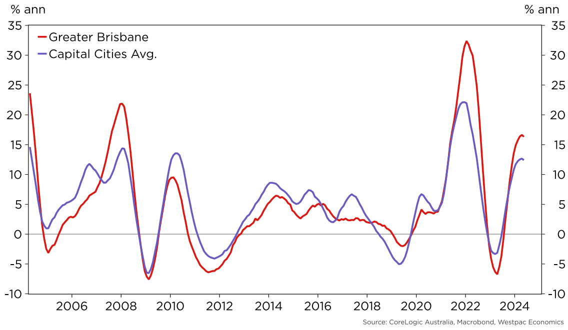
Qld unemployment up from historic lows



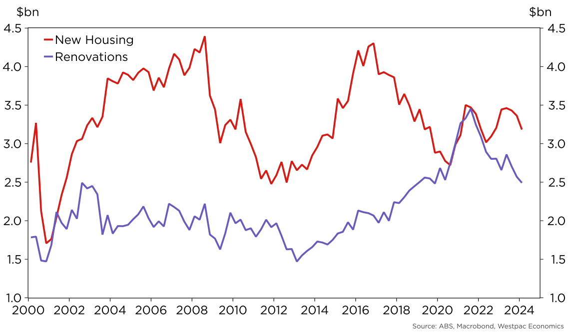
Qld machinery and equipment investment rising



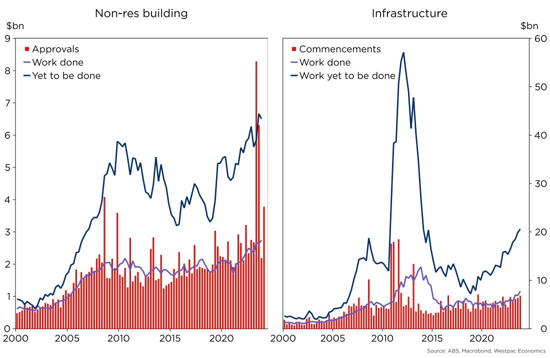
Brisbane's house price boom starting to cool



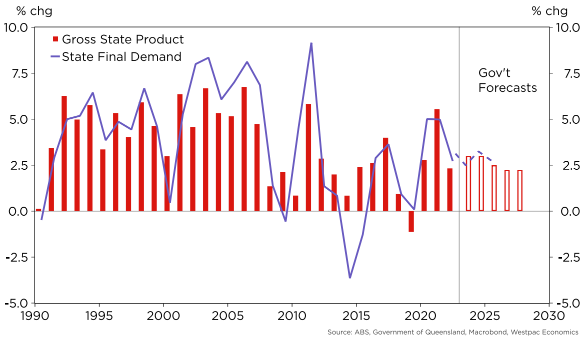
Housing investment momentum turning



Qld's growing non-res construction pipeline

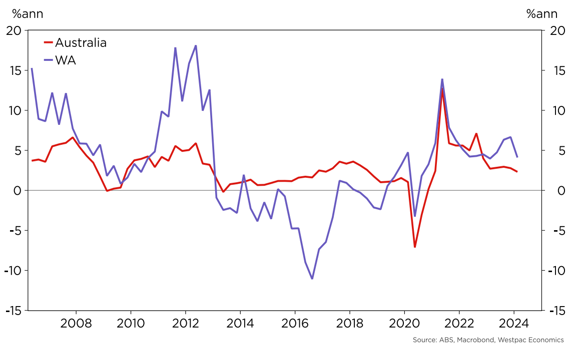


Qld economic performance & outlook



Softest of soft landings ...

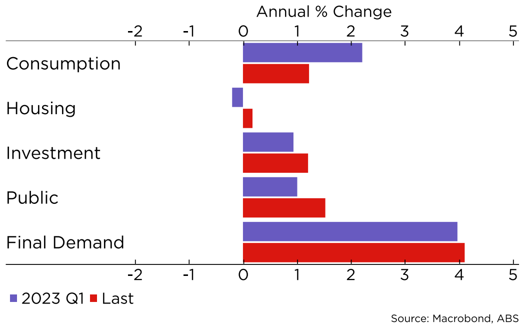
State final demand: WA vs Australia



While not quite smooth sailing, WA has continued to experience a much milder economic slowdown than the other major states – almost no slowdown at all on some measures. State demand accelerated over 2023 and continues to track a robust 4.1%yr pace in early 2024 despite a material step-down in consumer spending. Sustained rises in public investment and business investment have been key supports and remain relatively well-placed for more gains. With WA's housing sector also showing strong gains that are starting to lift new dwelling investment, and the state government's surpluses allowing it to provide ample cost of living support, this is shaping as the softest of soft landings.

The main caveats continue to be around stretched capacity, and tight labour markets in particular. Slowing population growth will tend to compound many of these problems. The state's export performance may also be a drag – elevated commodity prices have offset lacklustre volumes in recent years but are expected to decline over the next two years.

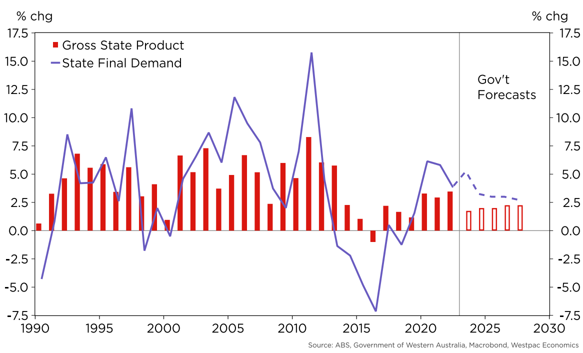
WA: contributions to state final demand



WA recorded a surprise contraction in final demand in Q1, a –1.0%qtr fall but with the annual growth pace still running at robust pace, double that of the rest of the states (4.1%yr vs 2.0%yr). The Q1 decline centred on a 6.7%qtr contraction in new business investment. This likely relates to lumpiness, which can be common in WA's large mining-related project pipeline. At 6.1%yr annual growth in business investment remains robust and the pipeline has been holding steady at around $52bn of definite projects, with over $40bn in work yet to be done on commenced non res building and infrastructure works.

Private consumption has been more resilient than in other states, recording a subdued 0.5% gain in Q1 but still up 2.5%yr. Temporary factors again look to be at play in the latest quarter – a brief stalling in hours worked in particular. Robust wage growth remains a notable support. Housing activity also looks to be providing more impetus, booming Perth house prices boosting household wealth and dwelling approvals lifting solidly.

WA economic performance & outlook



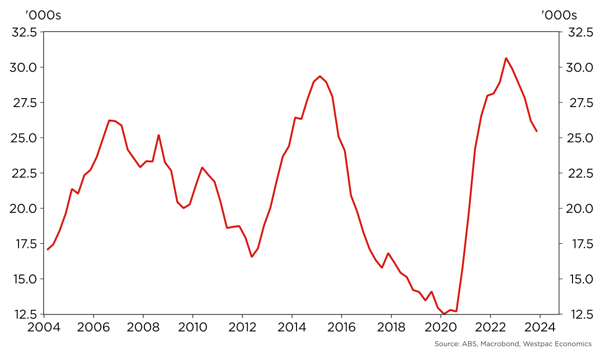
The WA state government booked a $3.2bn surplus in 2023-24, a sixth consecutive surplus with the state expected to stay firmly in the black in 2024-25 despite lower commodity-related revenues (iron ore assumed to drop back to US$71/t). The strong starting point again allowed for more cost-of-living support, with $762m in total, most of which came in the form of additional energy bill relief ($492m). Government infrastructure investment is expected to top $42.4bn over the next four years.

Growth-wise, the WA state government expects GSP growth to hold around 2% in 2024-25 and 2025-26, lifting slightly to 2.25%yr in the following two years. To the extent that there is a slowdown this is mostly coming off normalising population growth and a consolidation in investment activity at high levels.

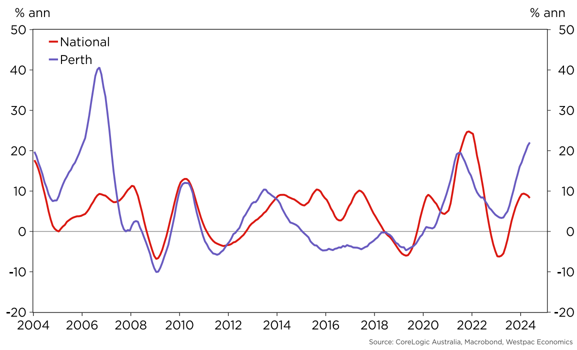
The main challenges look to be around capacity constraints. WA business are already operating at high utilisation levels, limiting resource exports. Business investment should expand capacity over time but is drawing in more imports near term. Labour supply may see more enduring problems with the unemployment rate expected to be in the 4-4.5% range.

... capacity constraints likely to be recurring theme

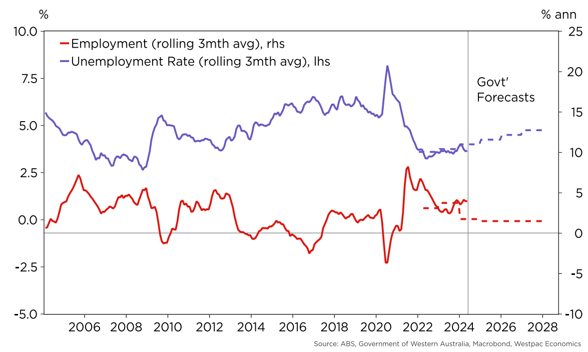
WA: dwelling construction pipeline



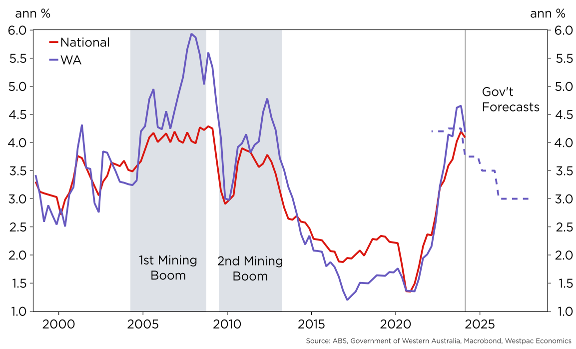
Perth house prices: booming



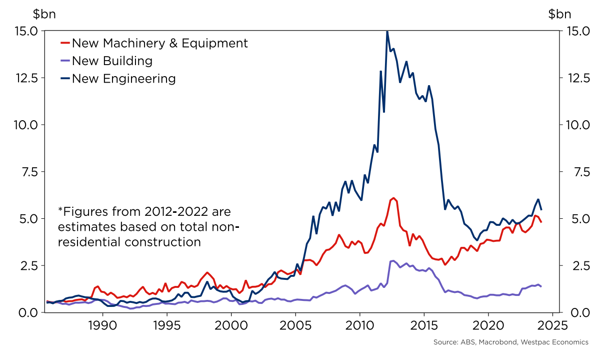
WA labour market



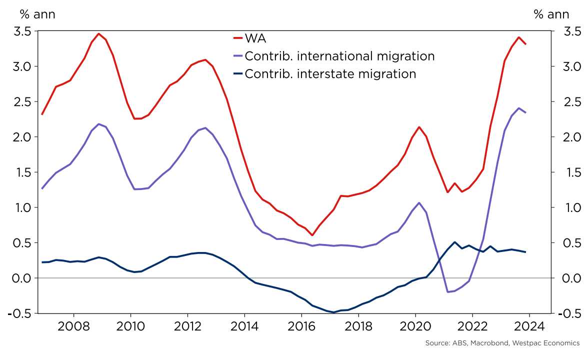
WA wages growth lifting



WA business investment

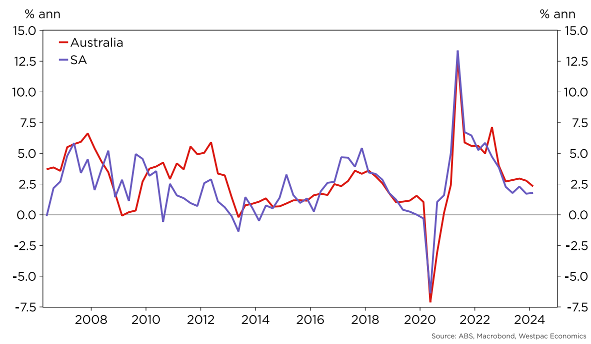


WA's population growth



Stuck in the slow lane ...

State final demand: SA vs Australia

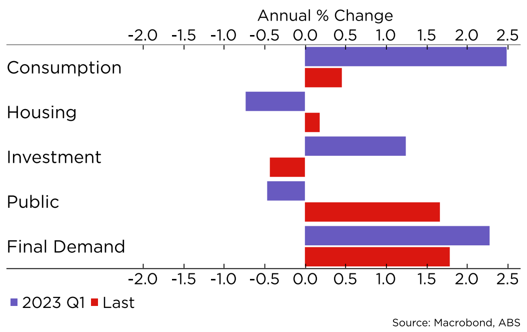


South Australia grew in line with the national average over the three months to March, with state final demand advancing a modest 0.2% to be up 1.8%yr, having now oscillated around the 2.0%yr mark since the start of 2023.

Of all the states, the contrast between private and public demand is perhaps most stark in South Australia (0.3%yr vs. 5.7%yr), with the latter being responsible for almost all of the growth in state final demand over the year to March 2024.

Inspecting the public demand profile, growth in government consumption was softer in Q1 (0.2%) but remains solid on an annual basis (3.6%yr). Amid an emerging slowdown in public investment across the states, South Australia managed to post its sixth consecutive quarterly gain to be tracking an impressive pace of 18.5%yr, reflecting continued spending on the state's critical infrastructure including transport, health, social housing, and more recently, education buildings and defence.

SA contributions to state final demand

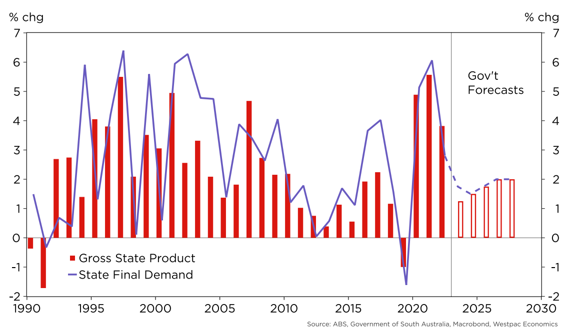


The South Australian Budget announced various measures targeted at improving housing market accessibility specifically for first home buyers, including scrapping stamp duty for new builds and removing the cap on the first home buyers grant.

These policy initiatives come at a time where activity in South Australia's broader housing market has quickened notably. As detailed in our latest Housing Pulse, South Australia has been less exposed to the rapid recovery in population growth that took place across the 'eastern' states. Despite that, growth in turnover has re-accelerated as on-market supply has fallen to record lows, seeing price growth in Adelaide surge +14%yr.

In this context, a sustained expansion of the state's housing capacity will prove crucial into the medium-term. Current dynamics are in the state's favour – new housing construction robust at +7.9%yr (vs. –1.6%yr nationwide) and a large pipeline of housing projects is set to support future construction activity.

SA economic performance & outlook



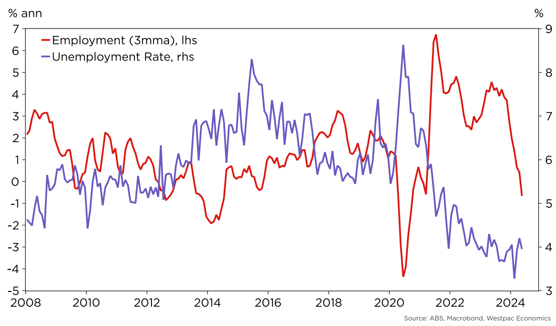
Other areas of South Australia's private economy are lacking momentum, however. The solid gain in household consumption in Q1 (+0.5%) was certainly welcome, but the headwinds continuing to squeeze South Australian households – high inflation, higher interest rates and a rising tax take – have clearly had its impact, consumption growth tracking a soft 0.8%yr.

There also remain significant volatility in business investment on a quarterly basis. The latest quarter featured a material correction in non-residential construction (–14%), a small decline in infrastructure works (–0.6%) alongside a large increase in equipment spending (+8.1%). On balance, South Australian businesses are holding back on new investment more so than other states, reflecting heightened uncertainty (–3.0%yr).

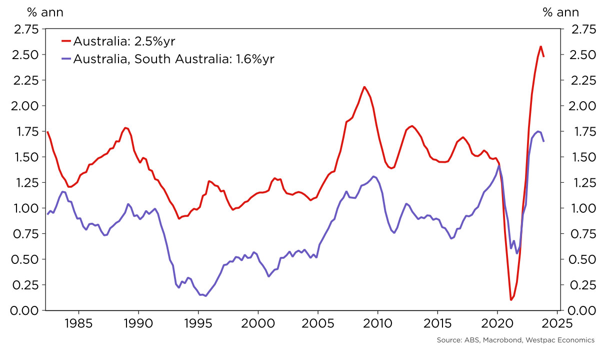
The extent to which these emergent trends persist will have an important bearing over South Australia's economic performance over the next year. The step up in policy support from mid-year will limit some of the downside risks to activity.

... as the private economy approaches stalling speed

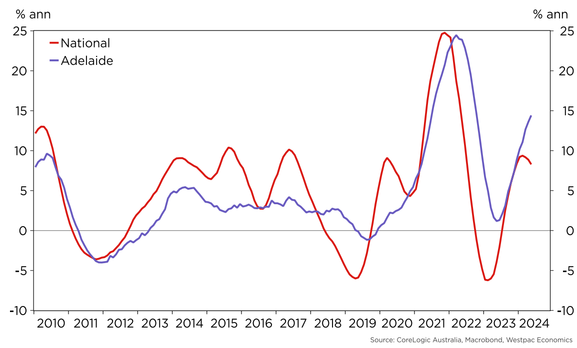
SA's labour market remains tight



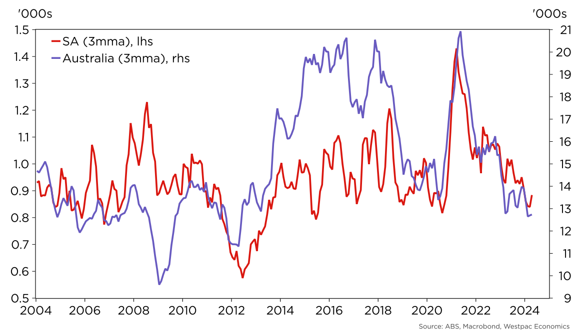
SA population growth has reached its peak



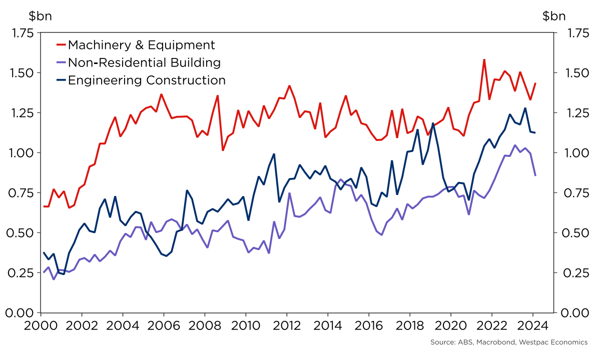
Adelaide house prices: outperforming



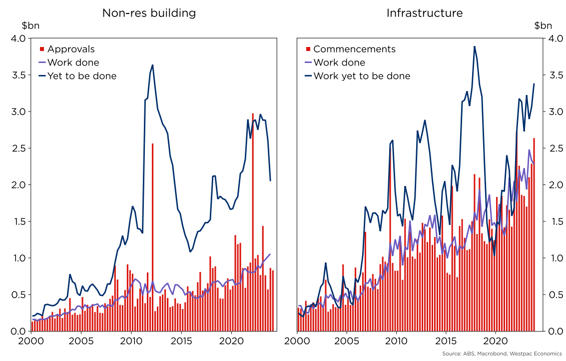
SA housing construction: pipeline positive



SA business investment is cresting



SA infrastructure pipeline growing strongly

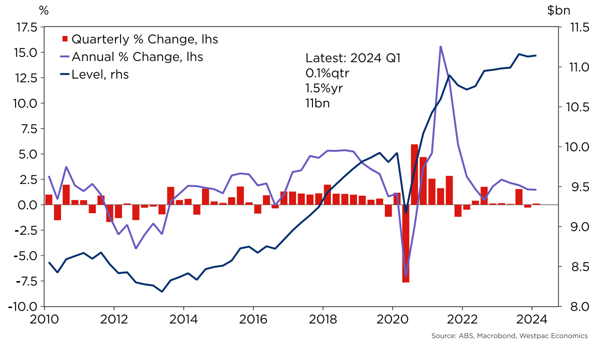


Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

TASMANIA

A quiet achiever ...

Tasmania: low and slow



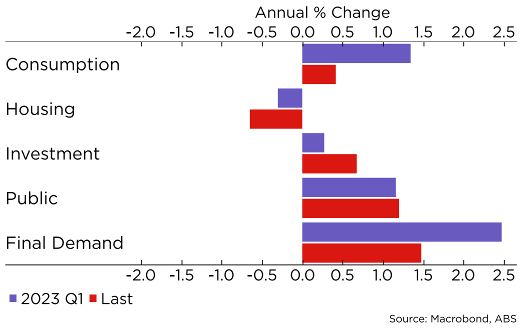
There is a glaringly obvious divide between the experience of Tasmania compared with the mainland states. While population growth nationally is running at an annual pace of around 2.4%, the population in Tasmania expanded by just 0.4% over 2023.

Since reopening from the pandemic, population growth in Tasmania has trended in the opposite direction to the rest of the country. But within this aggregate story there is a deeper narrative. Tasmanians are leaving the state at the fastest rate since the late 1990's but these outflows are being more than offset by record inflows of overseas migrants.

So the state is not missing out on the record inflows of overseas arrivals, it's just that existing residents are fleeing at an equally rapid clip.

Diverging population fortunes help explain Tasmaina's weak economic growth. Over the year to the March quarter, the economy expanded just 1.5%, the weakest of all states.

Tasmania: contributions to state demand

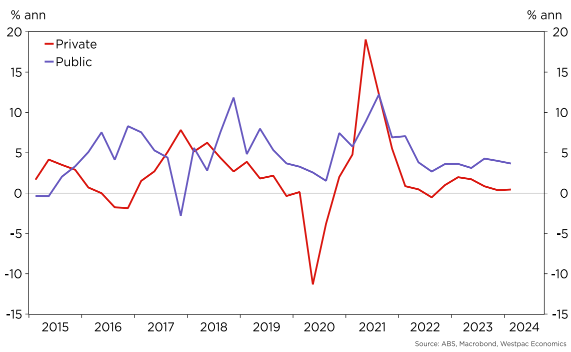


As always, there's more to this story than meets the eye. Tasmania may not have experienced the same injection of demand from population growth as most other states, but that doesn't necesserily mean it's got the weakest economy.

In fact, per-capita growth in demand, which is a better gauge of aggregate living standards, is stronger in Tasmania than any other state. Over the year to the March quarter, state final demand per-capita (based on working-age population) rose 0.7%. Per capita growth went backwards in every other state except for Western Australia.

So headline growth in the state may appear relatively soft, when adjusting for population, growth in per-capita demand in Tasmania is outperforming its peers, and is actually growing faster than the pre-pandemic average (0.5%) despite the broader macroeconomic headwinds.

Private / public demand



Beneath the bonnet, the Tasmanian economy is being driven by elevated public sector demand and solid business investment. Total business investment increased around 7.6% over the year to the March quarter, while public demand was 3.7% higher over the same period (compared to a flat outcome in the private sector).

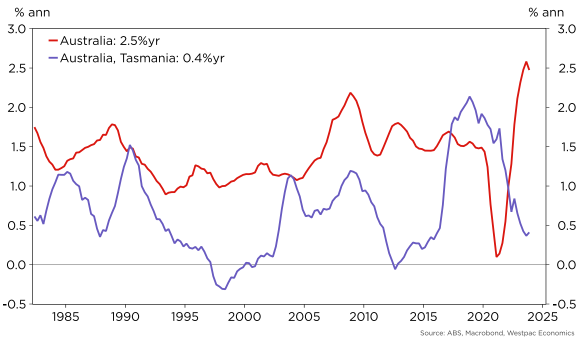
The public sector is particularly important to activity in Tasmania, representing 32.7% of state final demand in the March quarter. This is the highest of any state across the country.

Annual growth in household consumption came in at 0.8% in the March quarter, taking out a three-way tie for the weakest in the country - on par with South Australia and New South Wales. But this must also be squared against slower population dynamic in Tasmania, which is not supporting consumption as strongly as some other states.

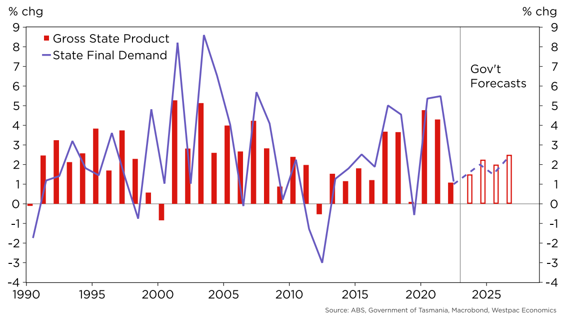
The biggest detractor from growth continues to be the housing sector. Residential construction activity is slowing rapidly as falling dwelling prices disincentivise new investment. Tasmania is the only state experiencing a persistent fall in dwelling prices as elevated valuations unwind in a more balance housing market.

... when factoring in slow population growth

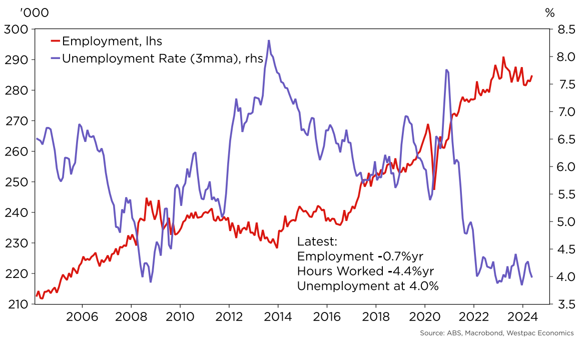
Tasmania: diverging population dynamics



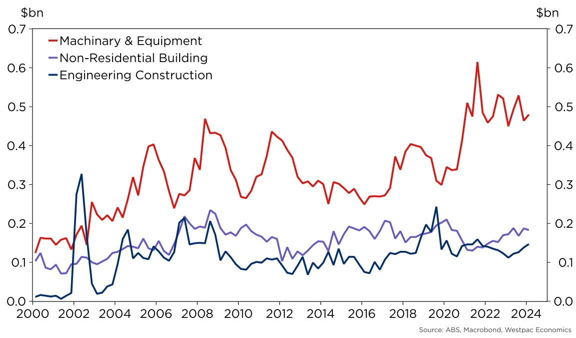
Tasmania economic performance & outlook



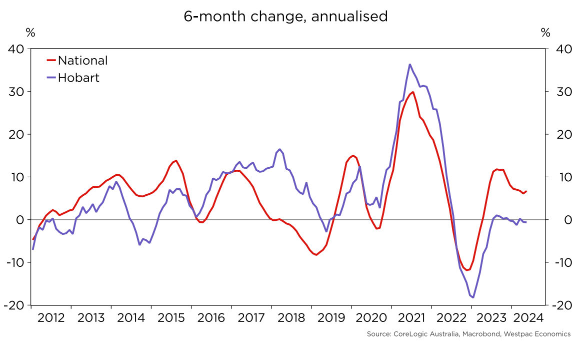
Tasmania: labour market still tighter than ever



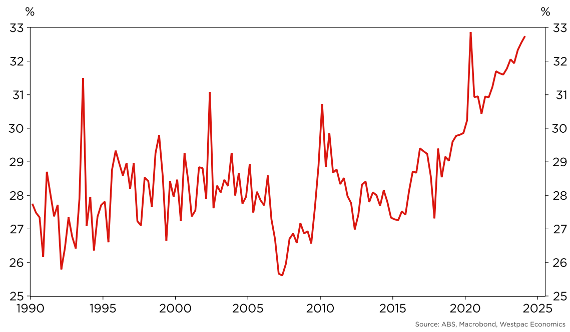
Equipment spending, still elevated



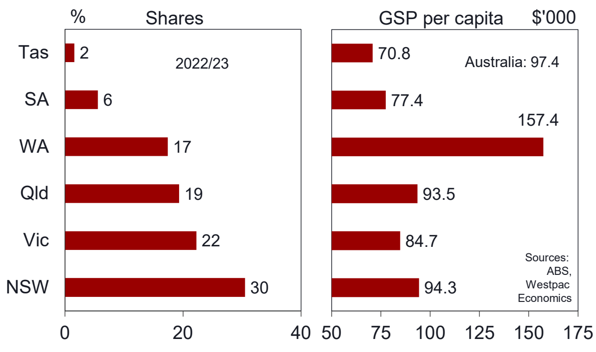
Hobart dwelling prices: unquestionably soft



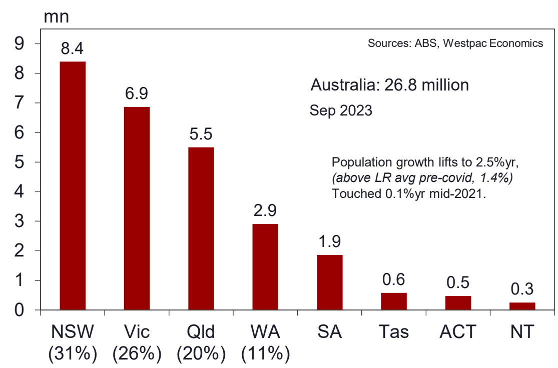
Tas: public sector as a share of state demand



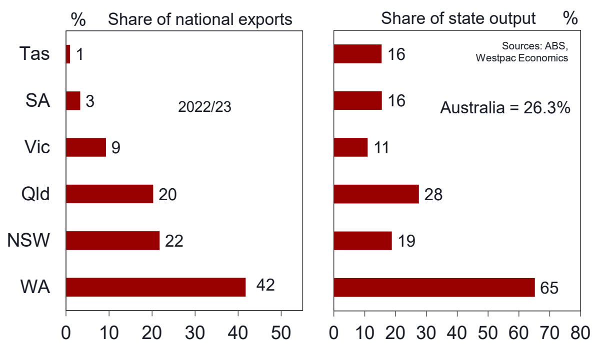
Gross State Product



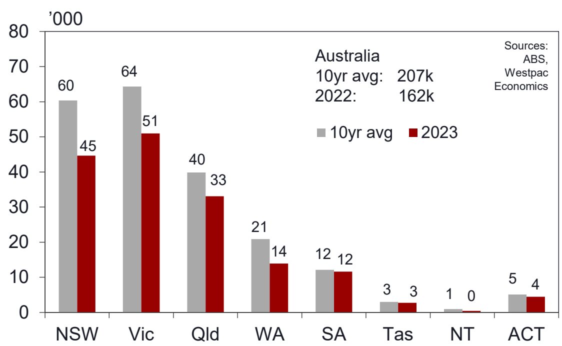
Population



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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