September 2024

WESTPAC COAST-TO-COAST

Your quarterly report on Australia and the global economy.

WESTPAC COAST TO COAST – SEPTEMBER 2024

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Economic growth remains sluggish …

Matthew Hassan
Head of Australian Macro-Forecasting
Pat Bustamante
Senior Economist

The Australian economy remained sluggish in the June quarter, growing just 0.2%qtr and 1.0%yr. While the outcome was broadly in line with expectations, the mix contained some surprises that suggest private demand is more fragile and will be slower to lift once the surge in government demand has topped out.

The biggest surprise was consumer spending which declined 0.2%qtr – the largest quarterly decline since the GFC, excluding the COVID period. This was particularly weak given population growth of 0.7%qtr which was the second strongest quarterly gain on record. Annual growth in spending slowed to just 0.5%yr.

This protracted period of weakness in consumer spending is clearly weighing on businesses – new investment increased by 0.1%qtr and 2.2%yr in the June quarter, a further step down on March's 4.5%yr and well below the 10.1%yr recorded in the June quarter of 2023.

In stark contrast, public demand continued to grow strongly and is now at a record 27.3% share of the economy, surpassing the previous peak set during COVID. Public consumption, which includes the provision of subsidised goods and services, grew 1.4%qtr and 4.7%yr, reflecting the expansion of government programs such as the NDIS and higher public sector wages. More growth can be expected as another round of cost-of-living measures come into effect at both state and federal level.

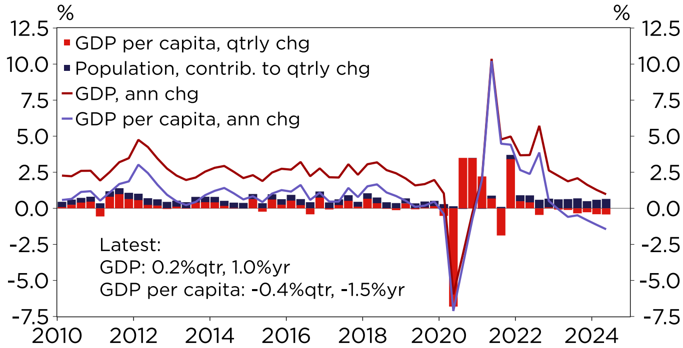
Growth forecasts downgraded

Economy-wide, the annual pace of growth is well below trend and is the slowest since the early 1990s recession (excluding the COVID period). Growth is particularly weak in per capita terms given population growth running at around 2.5%yr. Indeed, Australia has now recorded six consecutive quarters of declining per capita GDP – the longest stretch on estimates back to 1959.

We have previously flagged downside risks to growth in private demand. The accounts show those risks materialising.

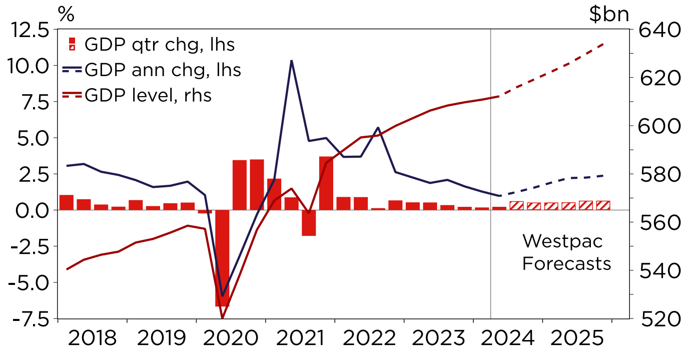
The 'triple squeeze' on household incomes from high inflation, rising interest rates and a higher tax take has seen real disposable income per capita fall a whopping 10% from its 2021 peak. We are now of the view that it will take more time for real incomes to recover and for consumption to regain momentum, particularly given some normalisation in savings rates from their very low starting point. Accordingly, we have revised our consumption forecasts lower, by ½ppt in 2025 and 1ppt in 2026.

GDP Headline vs Per Capita



Source: ABS, Macrobond, Westpac Economics

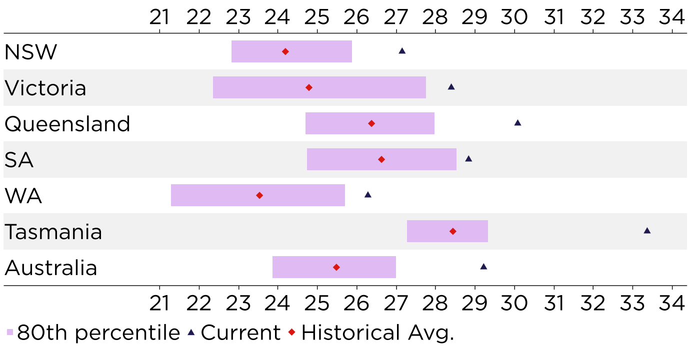
Gross Domestic Product



Source: ABS, Macrobond, Westpac Economics

Public Demand

% Share of state final demand



Source: ABS, Macrobond, Westpac Economics

... recovery in private demand to take longer

More of this weakness is expected to spill over to businesses. Investment has been a bright spot this cycle, with businesses increasing capital spend strongly once supply chains normalised. This reflected several underlying drivers including: a need to expand capacity to keep pace with strong population growth; the transition to net zero; and technology-driven investment such as the construction of new data centres.

However, the accounts showed business investment slowed materially in the June quarter, especially across industries at the coal face of the consumer-led slowdown. With the recovery in consumer spending pushed back, this drag on investment will last longer. Accordingly, we have pared back our profile for new business investment by ½ppt in 2025 and 1ppt in 2026.

Public demand is expected to offset this weakness in private demand in the near term. Based on our previous work suggesting the national fiscal impulse would be 2.2ppts of nominal GDP in 2024-25, we have revised up our forecast by 1.7ppts in 2024, 1.1ppts in 2025. Growth in new public demand is expected to be lower in 2026, but the level of activity will remain elevated compared with our previous set of forecasts.

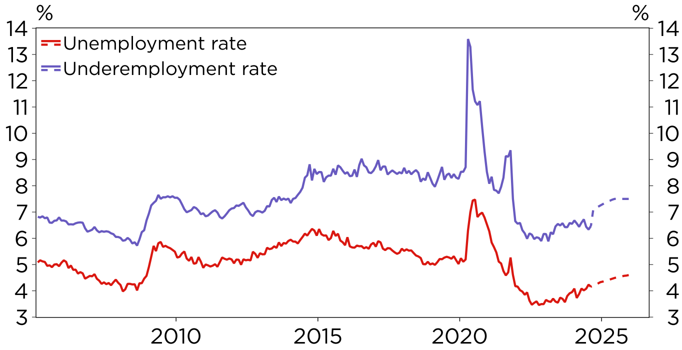
Putting this all together, our GDP forecasts are broadly unchanged for 2024 and 2025 but have been lowered from 3.5% to 2.4% for 2026. What this boils down to is a much shakier 'handover' of growth – public demand topping out at a structurally higher level but the pick-up in private sector activity coming through more slowly. Our revised profile means that by end-2026 Australia will have seen five years of below-trend growth with GDP essentially flat in per capita terms – a longer stagnation than was seen during the early 1990s recession.

State performances diverge

All of these themes are evident at a state level but are playing out to varying degrees. At one extreme sits WA where growth has only slowed marginally and looks set to pick up as a surge in dwelling construction combines with strong public investment. Conditions are less exuberant but still relatively firm in Qld, where consumer spending has also been resilient, and in SA and Tas, where the surge in public demand have been stronger. At the other end of the range sit NSW and Vic which have both been hit harder by the consumer squeeze, state unemployment rates showing a more pronounced rise.

While policy easing and other shifts should see some of these gaps narrow, conditions are likely to continue to vary widely in 2025. Soft demand will be an enduring issue for some states but in others tight capacity and labour shortages will the more pressing concerns.

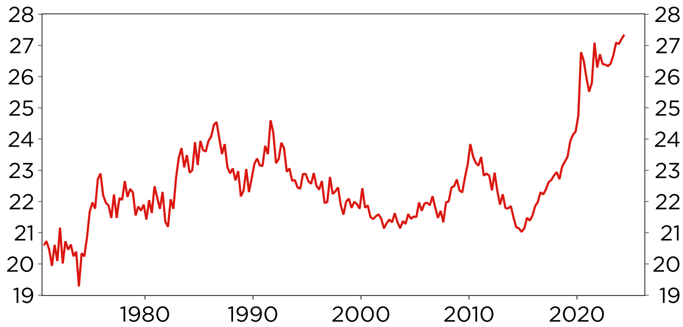
Unemployment and underemployment rates



Source: ABS, Macrobond, Westpac Economics

New Public Demand

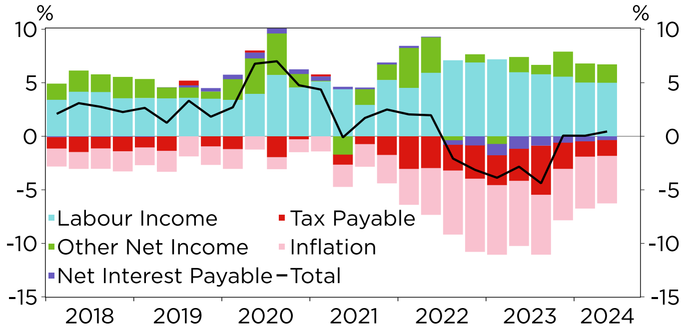
% Share of GDP



Source: ABS, Macrobond, Westpac Economics

Household Real Disposable Income Growth

Contributions to Annual Growth



Source: ABS, Macrobond, Westpac Economics

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.

Economy running at two speeds...

Pat Bustamante
Senior Economist

The Australian economy has slowed noticeably in recent times, but the picture can vary widely under the surface, at state level. Looking at growth in state demand, labour market conditions and fiscal outcomes Western Australia is clearly outperforming. On these metrics, Queensland is a distant second, but we expect this difference to narrow going forward as the Queensland Government's cost of living measures kick in and the "Queensland's Big Build" infrastructure program gathers momentum.

Why have both these states outperformed? Population! Population growth in the mining states has outpaced growth elsewhere. Over the period Q4 2019 to Q2 2024, working age population has grown 12% in WA and just over 11% in Qld, or at an annualised pace of around 2.5% in both states. Victoria comes in at a distant third (up 7% over the same period, or growing at an annualised pace of 1.5%), with the divergence continuing to increase.

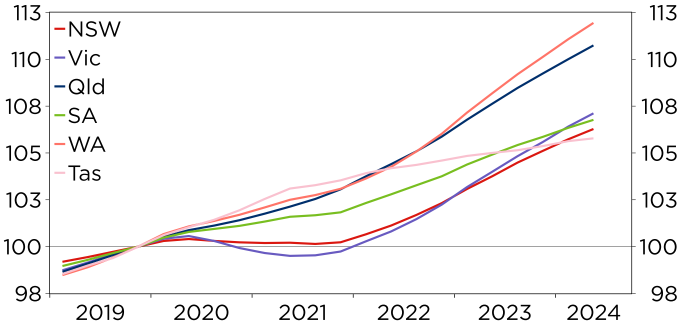
In the case of WA, stronger population growth has combined with stronger per-capita demand. This has been spread across a broad base with consumption, dwelling construction, business investment and public demand all showing solid growth. In per capita terms, private spending has been soft in Qld, with public spending continuing to support activity. Public spending per capita has also been strong Tas and Vic, up 21% and 19% respectively since Q4 2019. WA is up 15% over the same period.

State domestic demand is only part of the growth picture as it excludes net exports and interstate trade. Net export performances have differed somewhat across states – a hidden support in Vic but more of a drag in WA as growth in mining output has slowed. As such, labour market conditions provide a good sense check on how state economies are performing.

WA's strong performance is also visible in the labour market with the underutilisation rate (those unemployed and employed workers looking for more hours to work) well down on pre pandemic levels – by around 5.4ppts compared with the average over 2019. Qld comes in third with the underutilisation rate 3.6ppts below 2019 levels. Labour market conditions have softened the most in NSW and Vic – with the underutilisation rate around 1.9ppts lower than 2019 levels. It is becoming clearer that weak demand conditions are spilling over into the labour market, with softening occurring at a faster pace in NSW and Vic, approaching 2019 conditions where the economy was operating below potential (and full employment).

Working age population

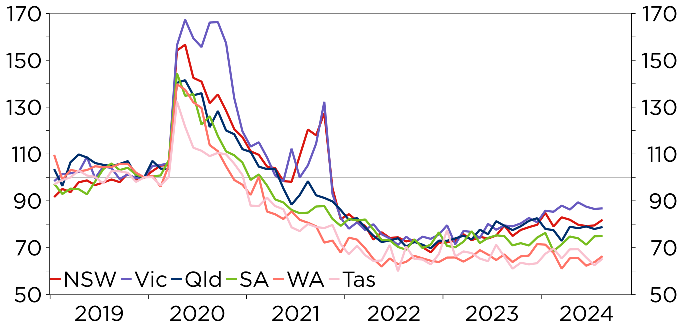
Index: Dec 2019 = 100



Source: ABS, Macrobond, Westpac Economics

Underutilisation rate by state

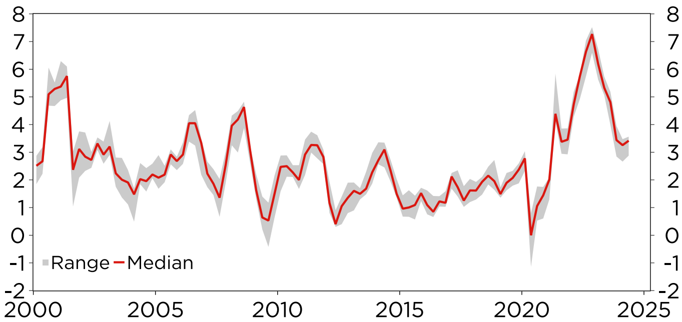
Index: Dec 2019 = 100



Source: ABS, Macrobond, Westpac Economics

Headline inflation excluding housing

Year-ended % change. Range across states.



Source: ABS, Macrobond, Westpac Economics

... but inflation continues at the one speed

If demand is more resilient in the mining states and we're at "capacity" then we should expect to see inflation remain elevated in these states.

Remarkably, inflation rates are quite similar across states, both currently and during previous episodes where state variations have been more extreme. A notable exception here is around housing, which includes the cost of purchasing newly built dwellings and rents. Indeed, one of the difficulties in comparing inflation outcomes across states at the moment is accounting for how policy differences, particularly related to electricity rebates, are directly impacting the CPI.

We have done this by generating our own measure of underlying inflation (both trimmed mean and weighted median), and also by looking at the evolution of inflation when we exclude the CPI group most significantly impacted by policy (housing). Headline inflation excluding housing shows differences across states are minor and, if anything, have converged more recently (all state CPI measures are based on capital city prices).

However, the picture changes when you look at housing costs. Here the spread between states is at its largest on record. In those states with strong population, we have seen home building costs reaccelerate – running at close to 20%yr in Perth. Rental growth is also strong in Perth but is negative in Hobart.

What's behind this conundrum?

Why are conditions diverging but underlying inflationary pressures converging? One explanation could be that conditions have not diverged by enough or for long enough to really drive a difference in inflation rates.

Another factor is that some of the drivers of strong demand, including interstate migration, bring additional supply capacity as well, at least for labour. Outside the housing sector (since people can't bring a house with them when they move), the net effect on pricing pressures is therefore likely to be small. We saw a similar pattern emerge during the mining investment boom where strong conditions in WA led to a population boost and non-housing inflation rates did not differ much.

Another possible explanation is that changes in prices and wages are mainly set at the national level, with less consideration for local supply and demand conditions.

Businesses with a national footprint operating across state lines would hesitate to adopt significantly different pricing policies across different geographies. It would be hard to make it stick in a world of online commerce, and they could risk being labelled price gougers. Note that this does not preclude significant differences in price levels for things bought locally such as restaurant meals. Fuel prices are perhaps the best example – the price of oil tends to impact changes in the price of petrol at the bowser in similar ways across states and territories, even though levels may differ.

And critically, where Australia differs from other G7 and OECD countries, is that wage setting is more likely to be collective – awards or EBAs. Workers on individual arrangements are also often covered by awards or EBAs as a baseline or minimum standard. These agreements can apply across state borders, equalising wages growth irrespective of local conditions. In the US, around 10% of the workforce is on collective agreements – this is more than 60% of the workforce in Australia.

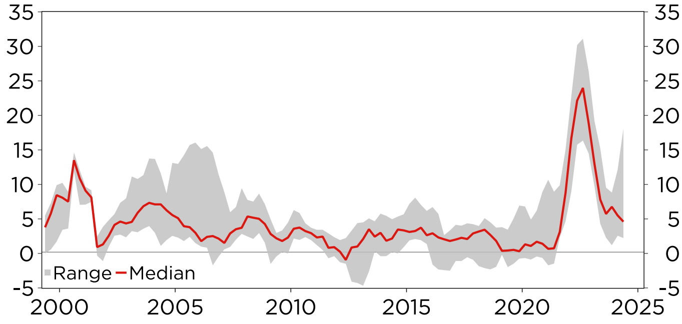
If prices and wages are mostly set nationally, the implications could be quite profound. Regionally specific demand shocks would affect volumes and activity more than prices. And the supply response from interstate migration would take time and bring with it even more demand. Having just one national-level instrument to deal with inflation pressures – monetary policy – makes sense when the inflation pressures themselves are mostly national. But it does speak to the need for other arms of policy to deal with regional differences in demand and activity.

What about housing?

This still leaves the housing problem. More people generate the need for more buildings, infrastructure and homes. Growing demand for housing has pushed up the price of dwellings (new and existing) and rents. This has not (yet) brought forth a supply response because of capacity constraints, and because the resulting higher construction costs have damaged confidence that individual construction projects will complete on budget. The solution to this long-standing problem requires input from all levels of governments.

New dwelling purchases (CPI component)

Year-ended % change. Range across states.



Source: ABS, Macrobond, Westpac Economics

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NSW taking a backward step ...

Jameson Coombs
Economist, Westpac Group

NSW is serving as the poster child for the broader challenges facing Australia's economy. Aggregate growth is continuing to be supported by strong population rises and swelling public sector expenditure. But even with this the NSW economy contracted in the June quarter under the weight of faltering private sector demand and deeply depressed housing investment.

State final demand fell 0.4% in the June quarter, the weakest result across the nation. The state was also bottom of the league table through the year, growing just 0.2% over the 2023-24 financial year. When adjusting for growth in the population, annual growth went backwards at its fastest pace since the early 2000s, even outstripping the poor outcomes recorded during the Global Financial Crisis.

Central to the slowdown was a 0.6% contraction in consumer spending in the June quarter, leaving household consumption unchanged over the year. While the headwinds facing the consumer from elevated (albeit slowing) inflation, bracket creep and restrictive monetary policy are present nationally, NSW has experienced the largest slowdown in nominal labour income growth which has compounded the 'triple squeeze' on disposables.

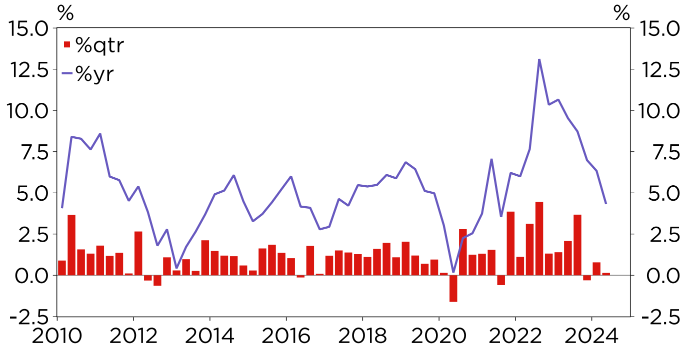
A weak consumer has been spilling over to businesses with new business investment stagnating since the middle of 2023 and expanding just 0.1% in the June quarter to be 0.3% higher in annual terms.

Housing investment was by far the weakest segment of the economy in the June quarter, an ominous signal in the context of soaring dwelling prices and surging rents which are at the centre of a broader housing crisis.

Dwelling investment sank 4.1% in the June quarter, to the lowest level since March 2015 (outside of the pandemic). Given the backlog outstanding residential developments, the weak outcome highlights the significant capacity constraints haunting the residential construction sector.

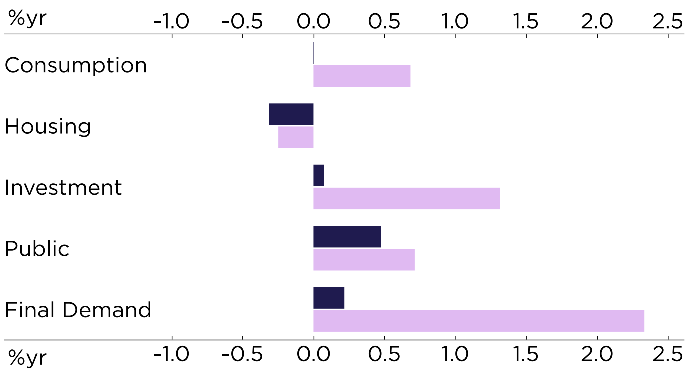
Arguably more concerning is that surging prices and rents have not yet materialised in an increase in new dwelling approvals (to be added to the back of the pipeline) as elevated construction costs and significant project uncertainty deters new investment. This is likely to mean it will be some time yet before any new supply starts to come online.

NSW Compensation of Employees

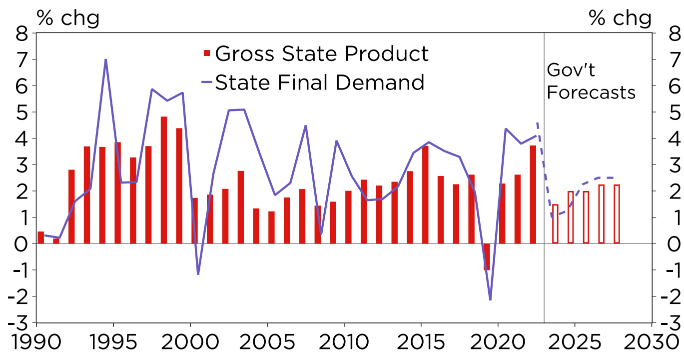


Source: ABS, Macrobond, Westpac Economics

NSW: contributions to state final demand



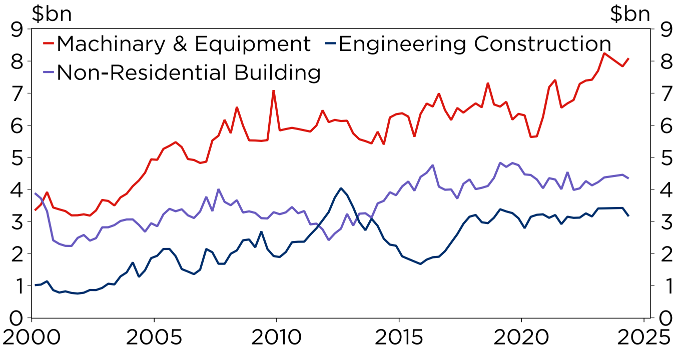
NSW Gross State Product & Final Demand



Source: ABS, New South Wales Treasury, Macrobond, Westpac Economics

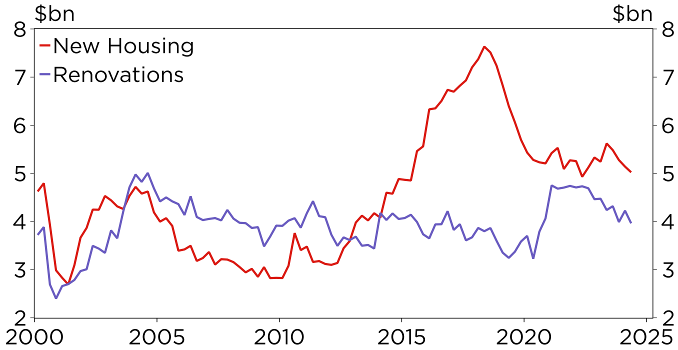
... even with a swelling population

NSW New Business Investment



Source: ABS, Macrobond, Westpac Economics

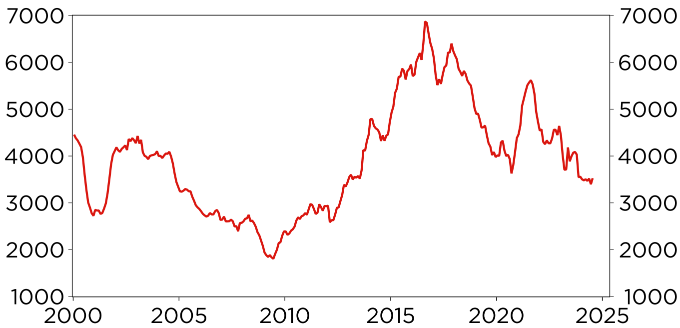
NSW New Housing vs Renovations



Source: ABS, Macrobond, Westpac Economics

NSW private sector dwelling approvals

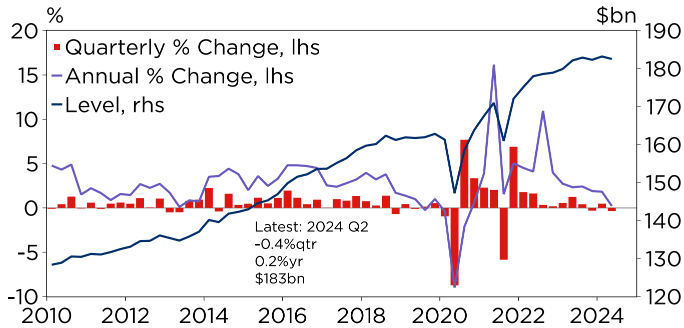
Number, 6-month moving average



Source: ABS, Macrobond, Westpac Economics

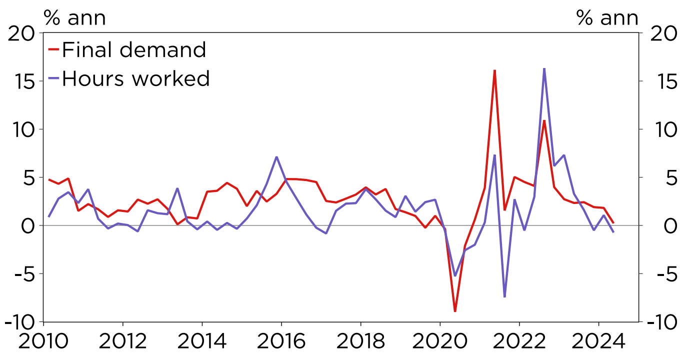
NSW State Final Demand

Chain Volume Measures



Source: ABS, Macrobond, Westpac Economics

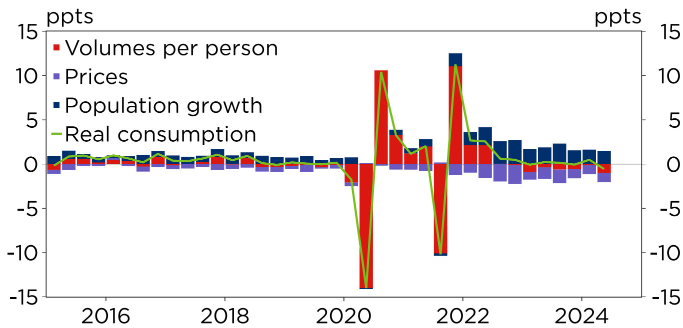
NSW State Final Demand vs Hours Worked



Source: ABS, Macrobond, Westpac Economics

NSW Household Consumption

Contribution to quarterly % change



Source: ABS, Macrobond, Westpac Economics

Growth stalls ...

Matthew Hassan
Head of Australian Macro-Forecasting, Westpac Group

The Vic state economy is looking decidedly out of sorts. Growth has all but stalled with the state's labour market showing a material weakening over the last 12 months. Public demand is providing some support but is softer than elsewhere as the state government cuts or delays investment due to budget pressures.

A lacklustre housing market and new caps set to be introduced on foreign student numbers from 2025 are also posing some challenges going forward. On balance, the combined effect of these negatives looks more likely to prolong the current period of soft growth rather than lead the state into outright contractions, especially with the tax relief and the prospect of lower interest rates providing a little more support as we head into 2025.

State demand looked slightly better in the June quarter, upward revisions and a reasonably solid 0.6% rise holding annual growth at 1.4%yr, broadly in line with the national average. Note that this measure excludes net exports which for Vic has swung from being a significant tailwind in 2023 (led by a 30% reopening surge in service exports) to about flat as at mid-2024.

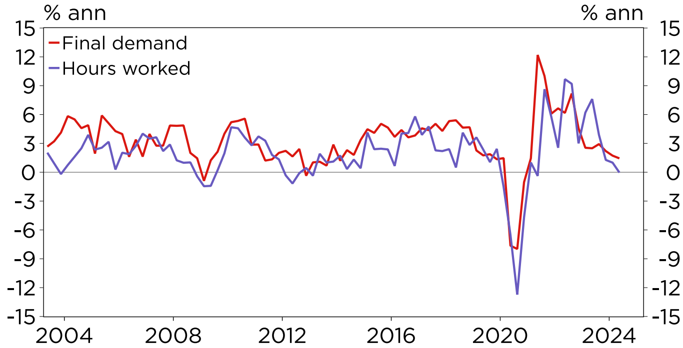
As elsewhere, the slowdown in Vic state demand has centred around private activity and been partially offset by a lift in public demand. Household consumption has been weak, annual growth slowing to just 0.5%yr – in line with the pace nationally but despite Vic's population growth running 0.5ppt faster. Latest population estimates show growth starting to soften in Vic although labour force figures point to only a slight moderation as at August. Vic's unemployment rate has risen to around 4.5%, up 1ppt over the last 12mths.

Private investment has been very patchy, although the outlook is mixed rather than negative.

Dwelling investment has stabilised, recovering slightly over the last year, approvals also moving off recent lows. The main downside risks here centre on renewed slippage in dwelling prices, which may discourage new dwelling construction and also dampen consumer spend.

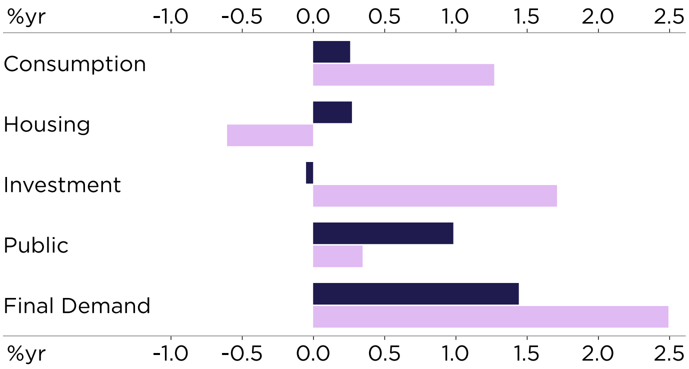
Around business investment, the pace of gains has slowed sharply as infrastructure activity has levelled out and equipment spending has swung into a decline. On construction, non residential building looks set to decline further (office vacancy rates at 20% amongst a range of discouraging factors) but there is still close to $25bn of infrastructure work still in the pipeline with around $130bn in total committed projects once public activity is included.

VIC State Final Demand vs Hours Worked

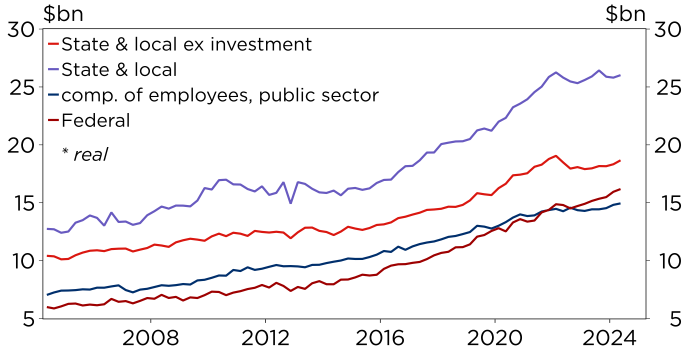


Source: ABS, Macrobond, Westpac Economics

Vic: contributions to state final demand



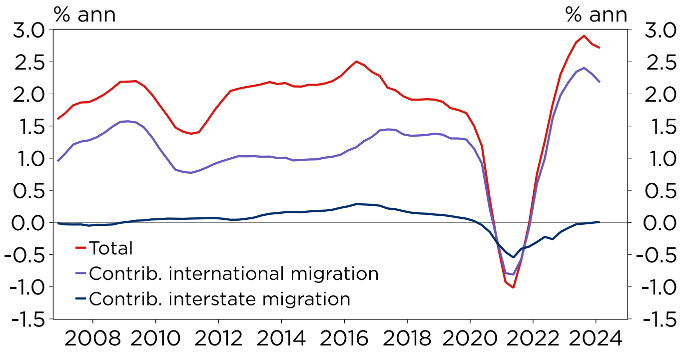
Government demand & wage spend



Source: ABS, Macrobond, Westpac Economics

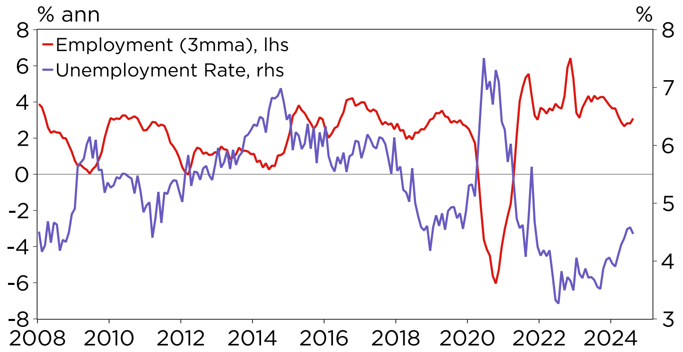
... and an uncertain outlook

Vic's popn growth: surge starting to slow



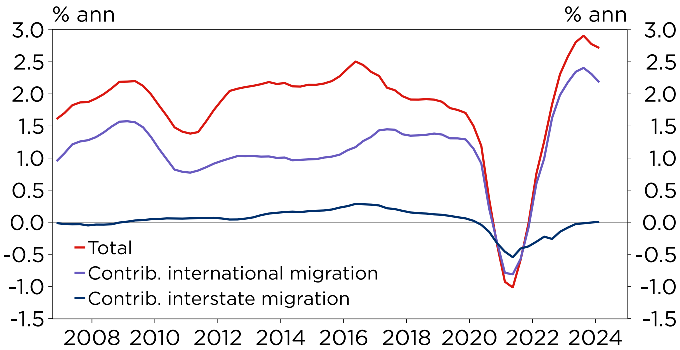
Source: ABS, Macrobond, Westpac Economics

Victoria: jobs growth and unemployment



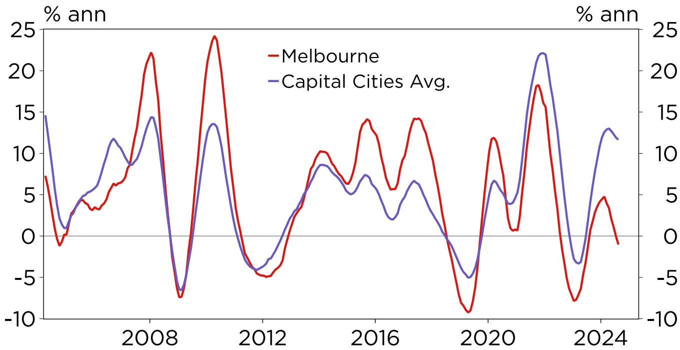
Source: ABS, Macrobond, Westpac Economics

Vic's popn growth: surge starting to slow



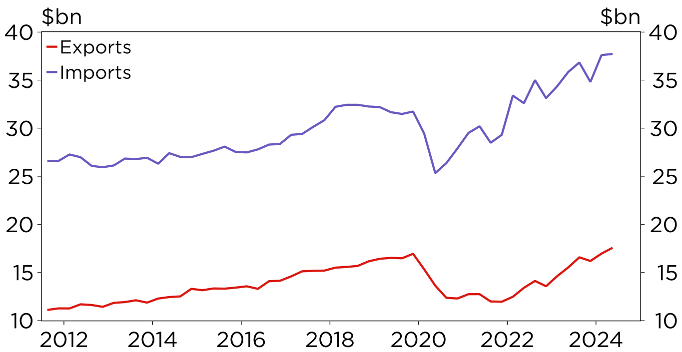
Source: ABS, Macrobond, Westpac Economics

Prices falling in Melbourne



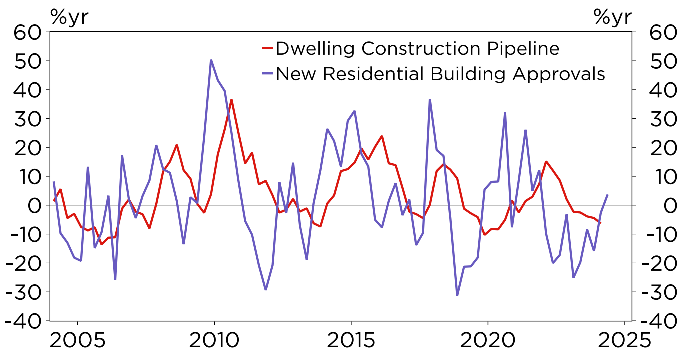
Source: CoreLogic Australia, Macrobond, Westpac Economics

Victoria's international trade



Source: ABS, Macrobond, Westpac Economics

Vic's residential construction pipeline



Source: ABS, Macrobond, Westpac Economics

Economic momentum edges lower ...

Neha Sharma
Economist, Westpac Group

Queensland's economy continued to outperform Australia despite fading momentum in the June quarter. State final demand was up 1.8%yr (0.4%qtr) to be broadly in-line with its pre-COVID 10-year average.

Like other states, Queensland has benefited from a surge in population growth and remains the state of choice for interstate movers. Though this has upheld the economy in aggregate, per capita demand has contracted -0.9%yr, the weakest performance outside of the big eastern states of NSW and Victoria.

Growth in private sector demand is about midway through the ranks, up 0.4%qtr and 0.9%yr.

Consumption rose 1.1%yr, second only to WA. This was underpinned by a 9.8%yr rise in the compensation of employees – the strongest of any state – supported by solid labour demand and wage increases. Additionally, dwelling prices saw robust growth of 16%yr through to June, boosting household wealth. Indeed, against this backdrop, the consumption increase looks surprisingly grim, implying a 1.6%yr fall in per capita terms. The weakness suggests some combination of smaller COVID-era savings reserves and a reluctance to draw down on these may be weighing on spending.

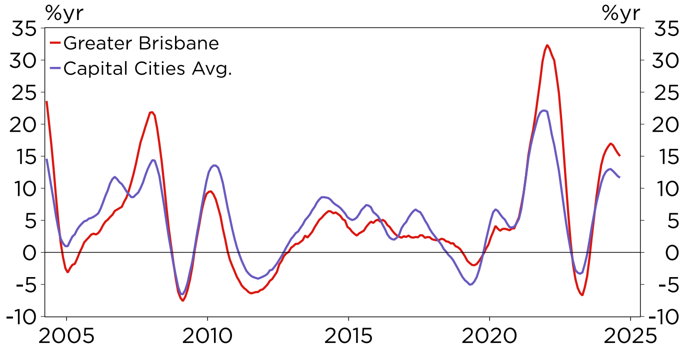
New business investment was a key detractor in the quarter, retreating -0.5%qtr (1.1%yr). Falls were recorded in both non-dwelling construction and machinery and equipment investment.

The bright spot was dwelling investment, increasing 4.3%qtr. However it was still down -3.2%yr as the sector struggles with post-pandemic labour and material shortages. A solid pipeline of residential projects remain which should support activity as capacity constraints ease. Increased state government assistance for first home buyers will also add to demand at the margin.

Consistent with national trends, the public sector was responsible for offsetting private sector weakness. In Queensland, the public sector accounted for a near-record 30.1% of state final demand in the June quarter. Public demand has been centred on government consumption, up 6.5%yr, as several cost-of-living measures were rolled out. New public investment fell the sharpest of any state, down -5.9%qtr (-6.0%yr).

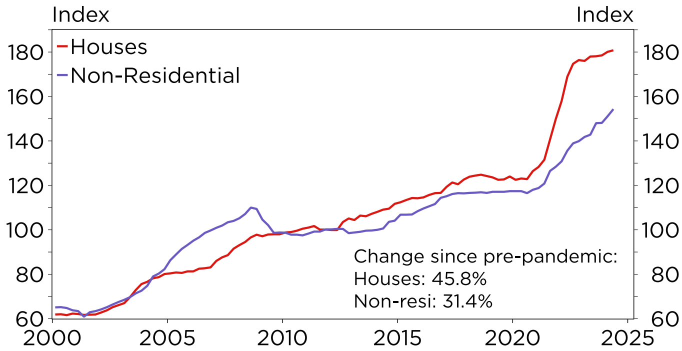
Looking ahead, moderating population growth and elevated construction costs may temper growth near-term. The public sector will likely remain a key pillar of growth until real household disposable incomes and consumption start to regain some traction.

Brisbane's housing price growth slowing



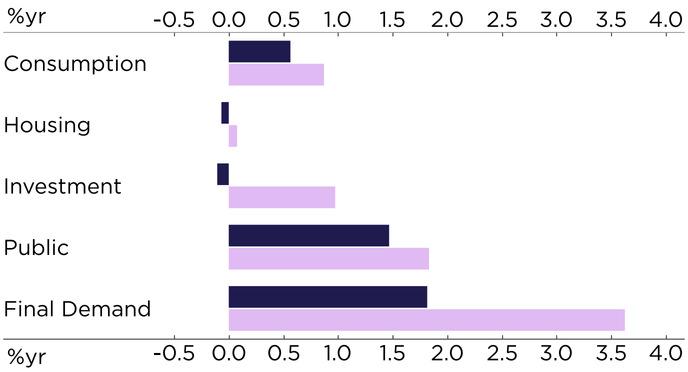
Source: CoreLogic Australia, Macrobond, Westpac Economics

Construction costs continue to lift



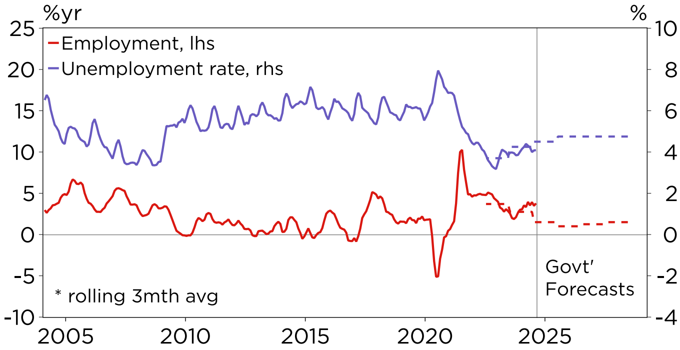
Source: ABS, Macrobond, Westpac Economics

Qld: contributions to state final demand



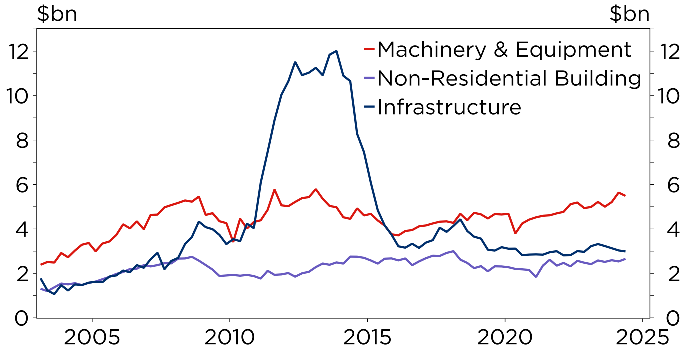
... but investment pipeline is positive

Employment growing above expectations



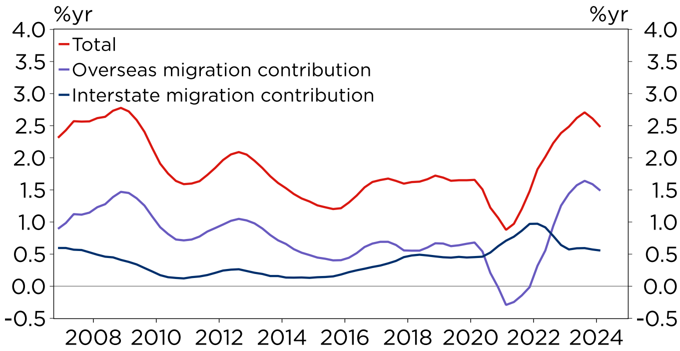
Source: ABS, Government of Queensland, Macrobond, Westpac Economics

M&E investment is on the rise



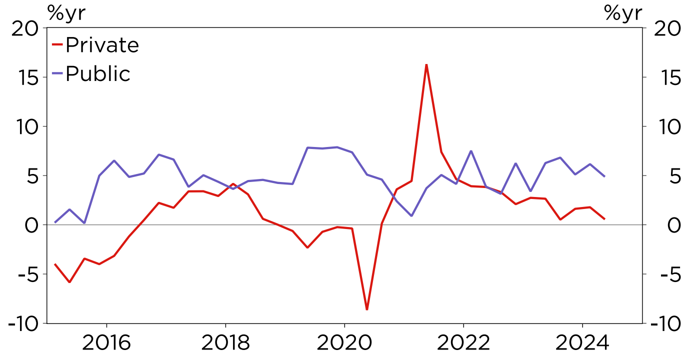
Source: ABS, Macrobond, Westpac Economics

Overseas migration peaked in 2023



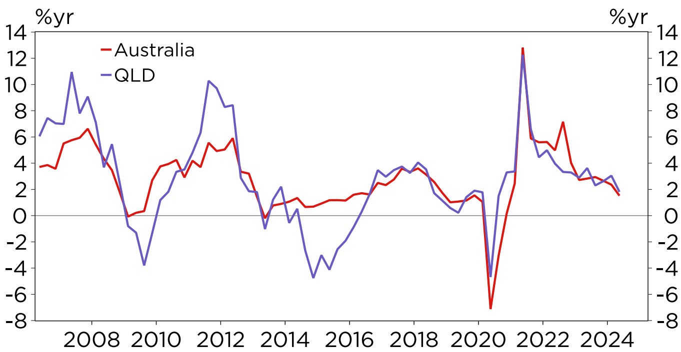
Source: ABS, Macrobond, Westpac Economics

Private demand continues to weaken



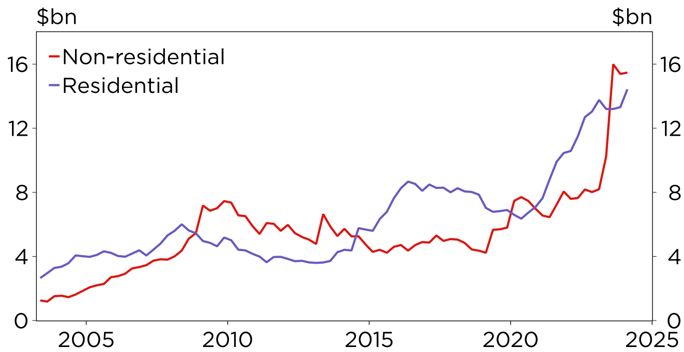
Source: ABS, Macrobond, Westpac Economics

State final demand: Qld vs Australia



Source: ABS, Macrobond, Westpac Economics

Construction pipeline remains solid



Source: ABS, Macrobond, Westpac Economics

Resilience continues ...

Matthew Hassan
Head of Australian Macro-Forecasting, Westpac Group

WA continues to see more resilient economic growth than other states, with a slowing in consumer demand cushioned by robust, broad-based gains across other components of state demand. Some of this reflects a supportive commodity price backdrop that is now starting to deteriorate. However, much of it is due to 'non-mining' drivers that look to be accelerating – housing-related activity in particular. As such, growth is likely to sustain at an above-trend pace near term and may well even pick up. Indeed, the state may well be on the verge of a very rare occurrence: a growth surge almost entirely unrelated to its mining sector.

State final demand rebounded in the June quarter, rising 0.9% to be up 3.9%yr – annual growth tracking more than two and half times faster than the pace nationally.

Household consumption has moderated but to a milder extent that in other states, tracking at 1.6%yr in the year to June, compared to 0.5%yr nationally. Notably, that is despite a comparable picture around real labour incomes suggesting the resilience has been due to some combination of a milder squeeze from policy tightening and a bigger draw down on savings reserves, the latter also a possible sign of 'wealth effects' driving spending.

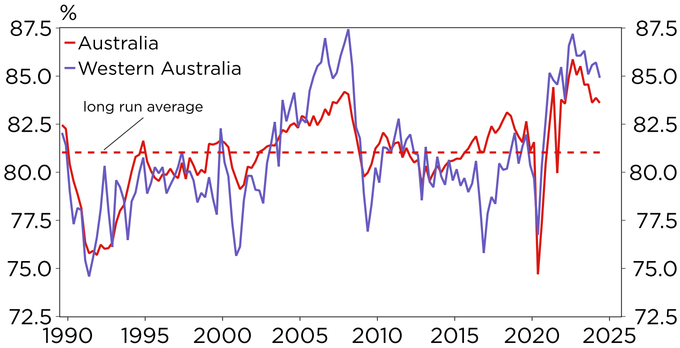
Certainly, WA's housing market is booming. Perth dwelling prices have risen by over 35% since late 2022, with a significant lift in investor activity over the last year. The surge is also starting to lift construction. Dwelling investment rose 5.8%yr over the year to June with a huge 68% surge in dwelling approvals over the same period pointing to even stronger gains ahead.

Business investment has been resilient, rising 6.3% over the year to June. The pipeline of major projects has been static since 2021 with just over $50bn of committed work. Importantly, recent high commodity prices have not generated any real lift in mining investment in recent years suggesting the that the latest declines are unlikely to trigger a corresponding decline.

Meanwhile, public sector investment has been ramping higher. Total government investment has surged 30% over the two years to June 2024. This has clearly bolstered the pipeline of non res construction which is running at over $44bn, up 60% since 2021.

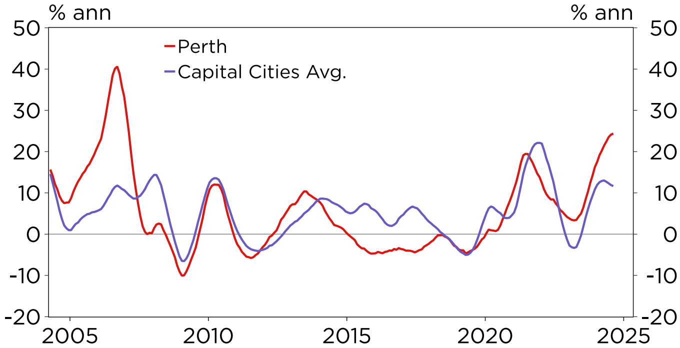
There are some downside risks around external conditions with declining volumes and prices set to weigh on mining revenues and net migration inflows expected to moderate. However, the far bigger challenge is likely to be around capacity and skilled labour, WA's unemployment rate still well below 4%.

Capacity utilisation



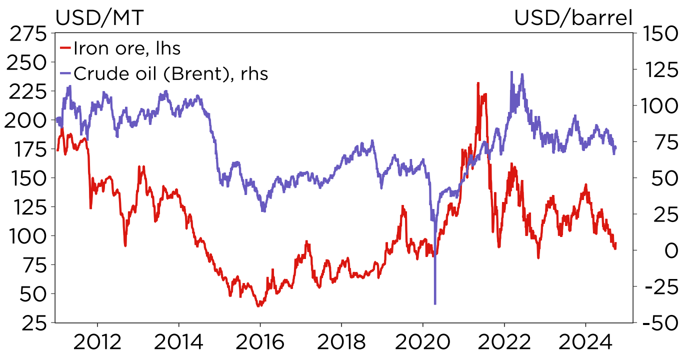
Source: NAB, Macrobond, Westpac Economics

Perth outperforms national average



Source: CoreLogic Australia, Macrobond, Westpac Economics

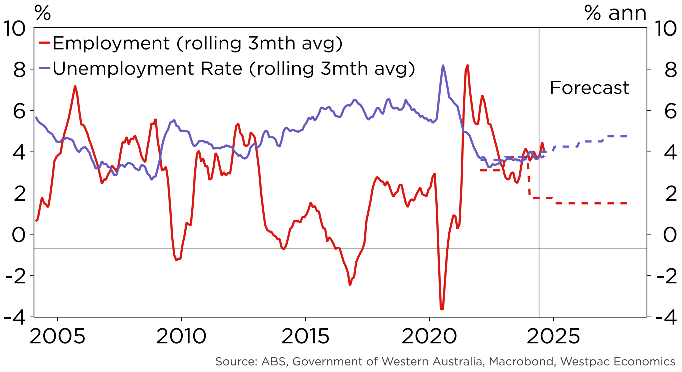
Commodity prices



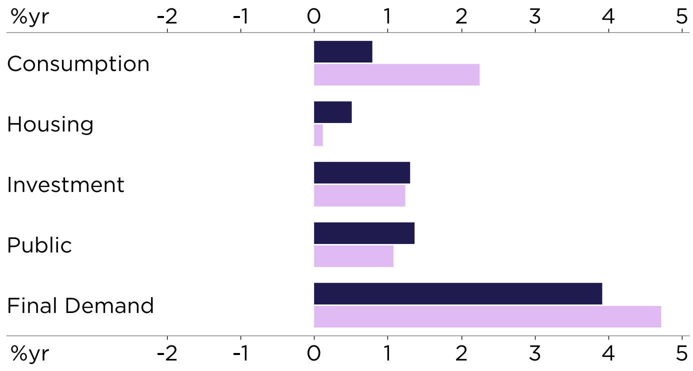
Source: CME Group, Macrobond, Westpac Economics

... growth to lift despite softer mining conditions

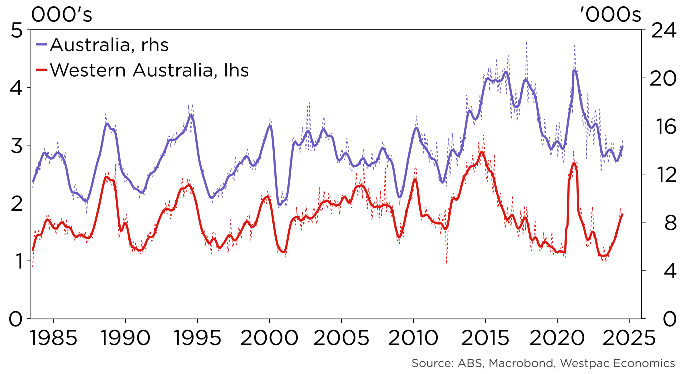
WA Employment and Unemployment



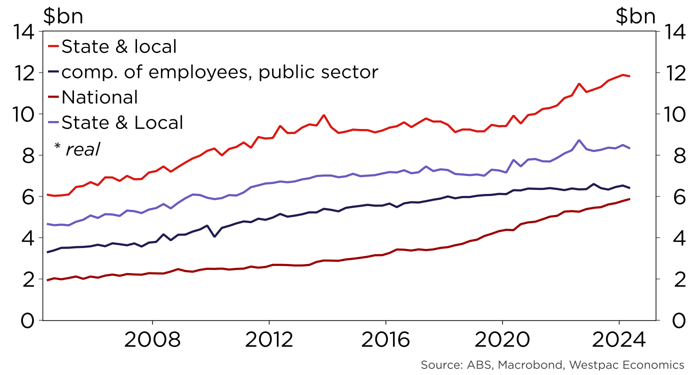
WA: contributions to state final demand



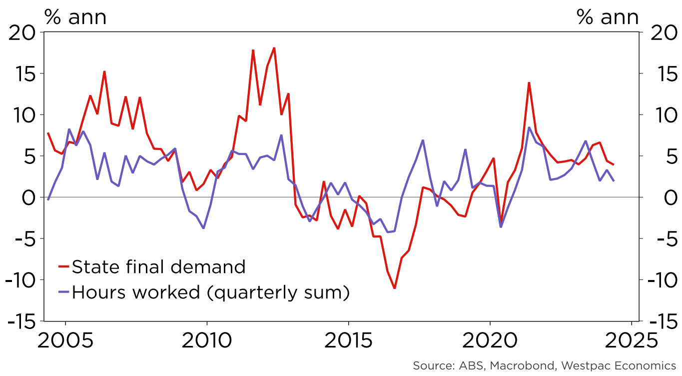
WA dwelling approvals surge



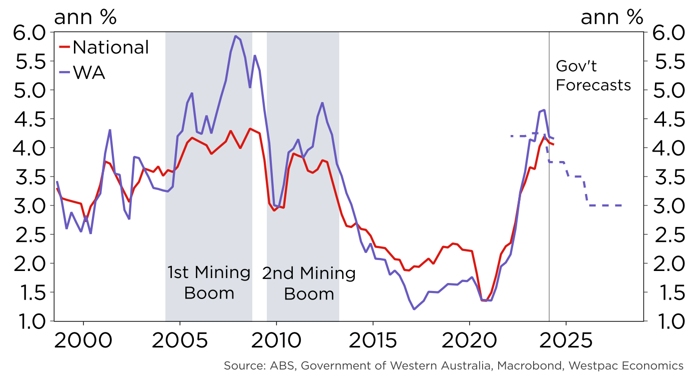
Government demand & wage spend



WA State Final Demand vs Hours Worked



Wage Price Index



Households under intense pressure ...

Ryan Wells
Economist, Westpac Group

South Australia exhibited the strongest performance in Q2, with state final demand rising 0.9%. This follows a very choppy growth profile over the past year, leaving annual growth in state demand in line with the nation-wide domestic demand, currently at 1.5%yr.

The sharp contrast between private and public sector demand is perhaps starkest in South Australia. At 6.2%yr, public demand is now responsible for all the state's demand growth, underscored by rapid growth in new investment in critical infrastructure (+18%yr) and government consumption (+4.3%yr).

With most of the state government's budget initiatives – including cost-of-living payments – only just starting to roll-through, the public sector will continue to put a floor under total state demand over the period ahead. However, the private economy remains incredibly weak, underpinned by a soft consumer, South Australia being the only state where household consumption is seeing outright declines on an annual basis (–0.2%yr).

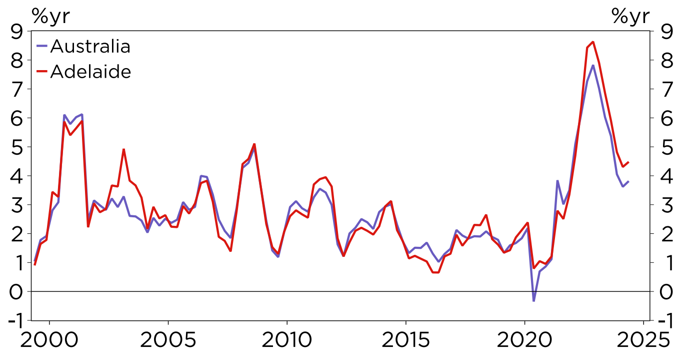
This is in a context where cost-of-living and real income pressures are particularly acute in the state. Indeed, South Australia ranks second-last (to Victoria) in wages growth (3.9%yr), while simultaneously, Adelaide is experiencing the second-highest (to Perth) pace of inflation across the capitals (4.5%yr).

If it were not for South Australia's robust labour market – as evinced by the state's unemployment rate currently being the lowest across the nation, despite having the highest unemployment rate pre-pandemic – the household sector could be much worse for wear.

One of the few bright spots in South Australia's private economy is its housing market. As discussed in our latest Housing Pulse, Adelaide is experiencing somewhat of a 'second-wind', as evinced by the surge in sales up to a pace of nearly 30%yr. In an environment of extremely tight supply, price growth has held to a 15%yr pace, remarkably seeing Adelaide's median dwelling price ($790k) surpass that of Melbourne's ($776k) for the first time on record.

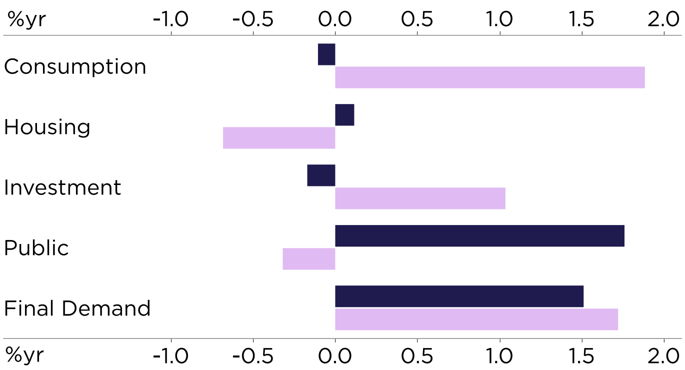
In this context, a sustained expansion of the state's housing capacity will prove crucial into the medium-term. It has therefore been encouraging to see new housing construction sustain a very strong pace, up 7.0%yr versus –2.4%yr nationwide. Current headwinds around SA Water and the State Government's ability to support new construction may hamper that progress.

Adelaide still experiencing relatively higher inflation

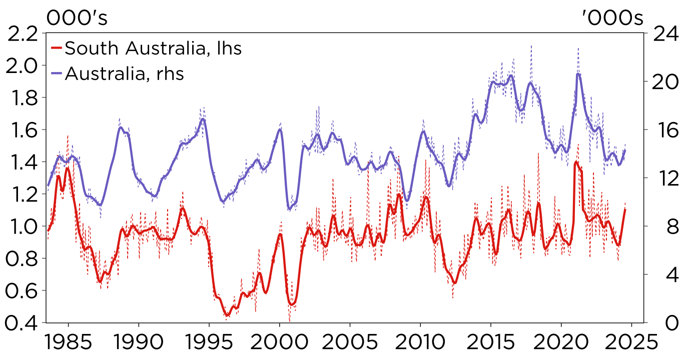


Source: ABS, Macrobond, Westpac Economics

SA: contributions to state final demand



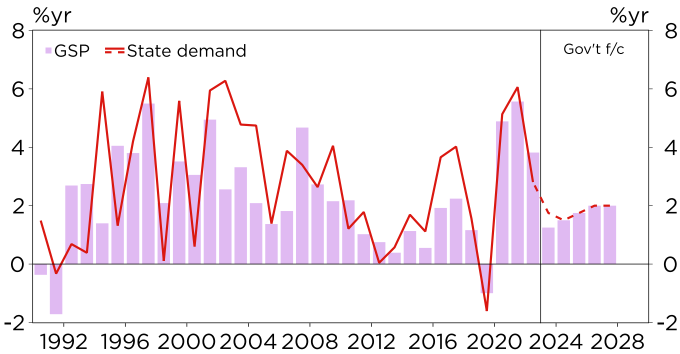
SA dwelling pipeline to provide medium-term support



Source: ABS, Macrobond, Westpac Economics

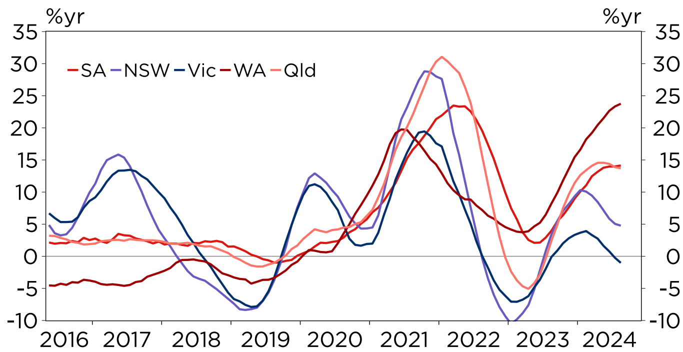
… from the acute cost-of-living squeeze

SA economic performance and outlook



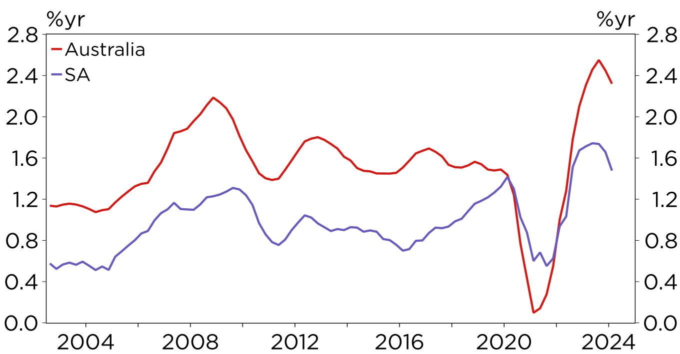
Source: ABS, Macrobond, Westpac Economics

SA housing market outperforming other states



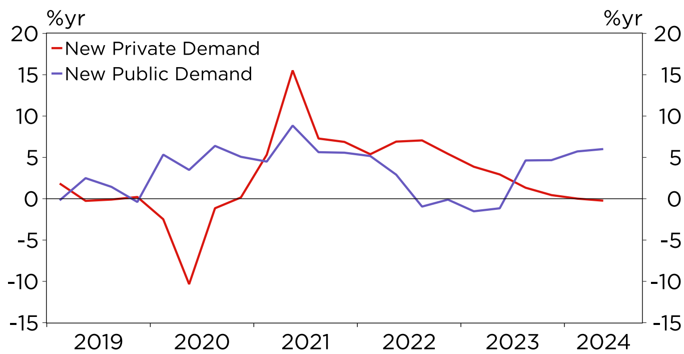
Source: CoreLogic Australia, Macrobond, Westpac Economics

SA population growth turning a corner



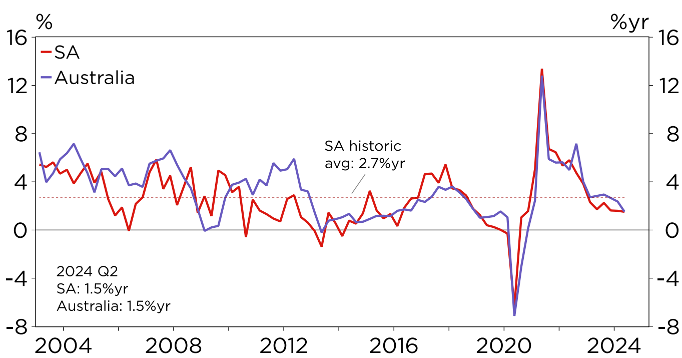
Source: ABS, Macrobond, Westpac Economics

SA's public sector responsible for all state final demand



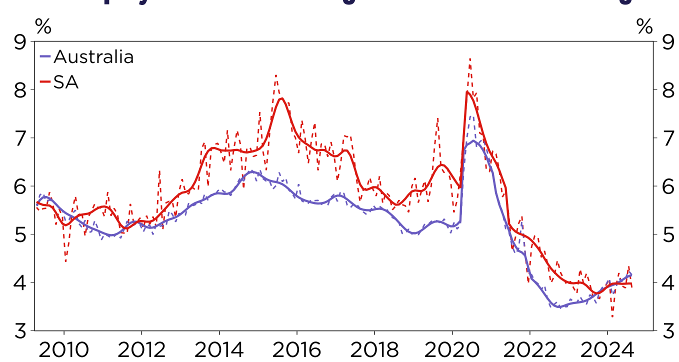
Source: ABS, Macrobond, Westpac Economics

State final demand: SA vs. Australia



Source: ABS, Macrobond, Westpac Economics

SA unemployment rate holding lower than national avg



Source: ABS, Macrobond, Westpac Economics

Record government spending ...

Jameson Coombs
Economist, Westpac Group

Tasmania was around the middle of the pack in the June quarter, expanding a respectable 0.6%. This was a decent improvement in the quarterly cadence following a 0.1% gain and a 0.5% fall in the March and December quarters. This saw annual growth accelerate to 1.8%, up from 1.4% in the two prior quarters.

The island state has not benefited from the same surge in population growth evident on the mainland, leaving little to counteract the consumer-led slowing in activity.

Despite this, state final demand per capita in Tasmania is the strongest of all the states, and by a decent stretch. After adjusting for population growth, the economy expanded 1.1% over the 2023-24 financial year, more than double the pace of the next best state, WA.

Like most of the country, the public sector has been carrying the team when it comes to growth. At 33.4%, the public sector is accounting for a record share of state demand and holds the mantle for the highest public sector share of demand across the nation. But it has not been public investment driving the gains – this fell 4.7% in the June quarter to be down 8.6%yr. Instead, public consumption is at record highs, having increased 3.8% in the June quarter to be 9.6% higher through the year.

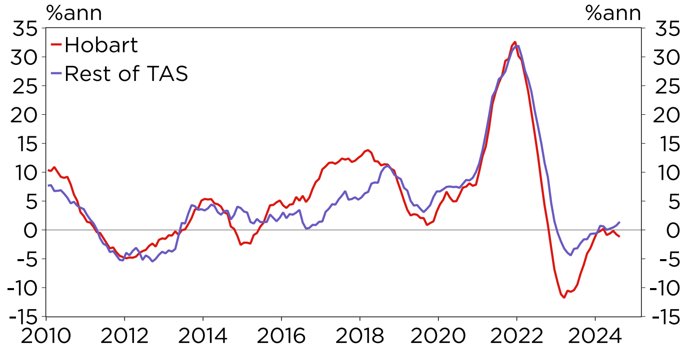
In contrast, the private sector is in the doldrums and has contracted for three consecutive quarters after a second consecutive 0.1% dip in the June quarter. Over the 2023-24 financial year, private demand declined 0.1%, a weak performance on any metric.

It's no surprise weak consumption is at the heart of the stagnation in private demand. Over the year to the June quarter, household consumption expanded just 0.2% after a string of alternating quarterly contractions and expansions which have largely offset.

Business investment has been a little more robust, rising at an annual pace of 2.6%. A decent expansion relative to most other states, apart from WA, but nothing to ring home about.

Housing investment is also providing little cause for optimism as soggy dwelling prices on a account of soft population growth has translated into weak investment outcomes. Housing investment contracted 2.4% in the quarter, the third consecutive quarterly fall taking the annual contraction to 10.5%, the weakest of the states.

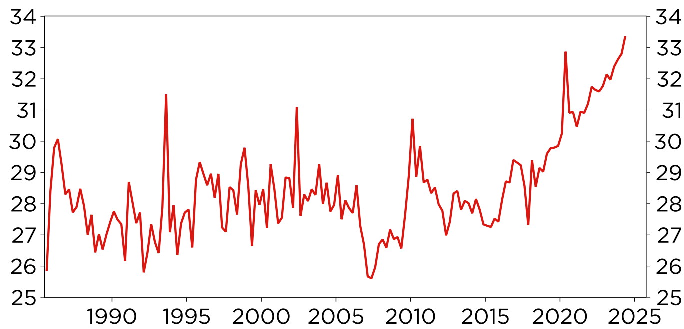
TAS Dwelling Prices



Source: CoreLogic Australia, Macrobond, Westpac Economics

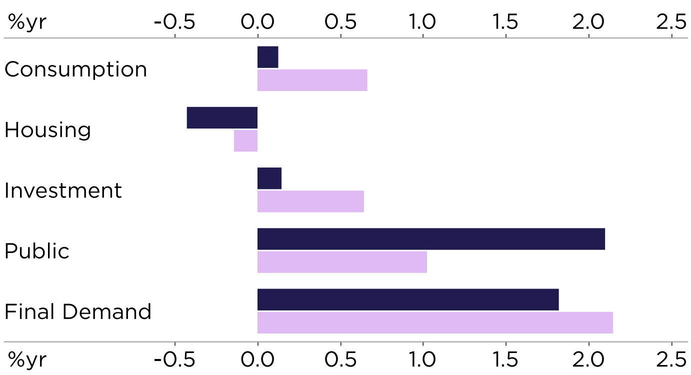
TAS Public demand

% share of state final demand



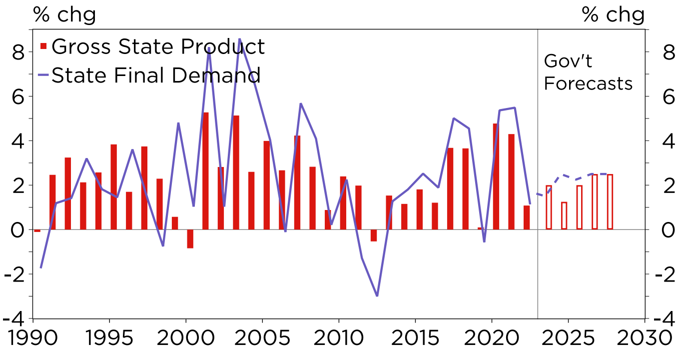
Source: ABS, Macrobond, Westpac Economics

Tas: contributions to state final demand



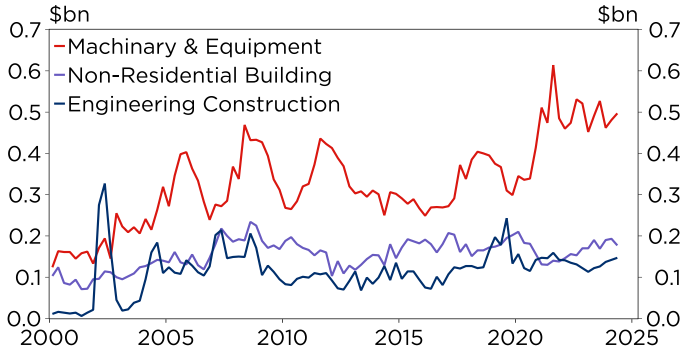
… offsetting weak population growth

TAS Gross State Product & Final Demand



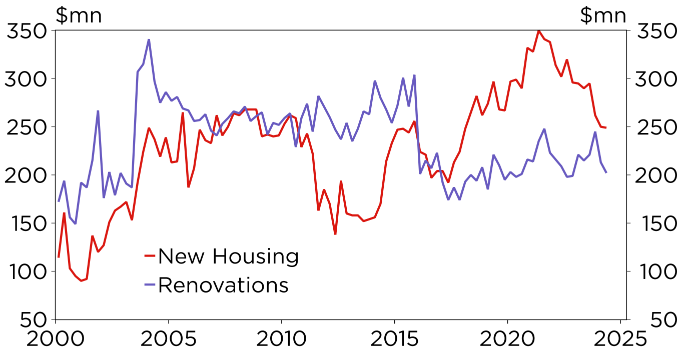
Source: ABS, Government of Tasmania, Macrobond, Westpac Economics

TAS New Business Investment



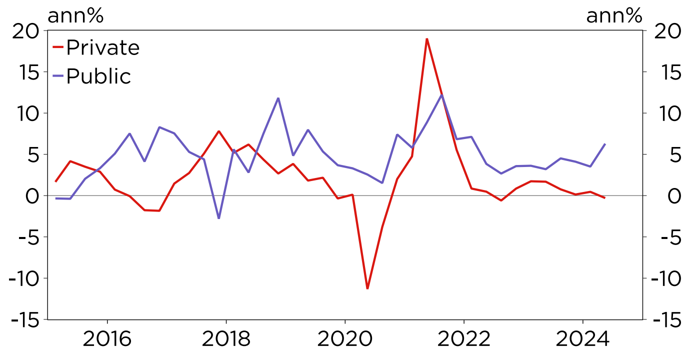
Source: ABS, Macrobond, Westpac Economics

TAS New housing vs renovations



Source: ABS, Macrobond, Westpac Economics

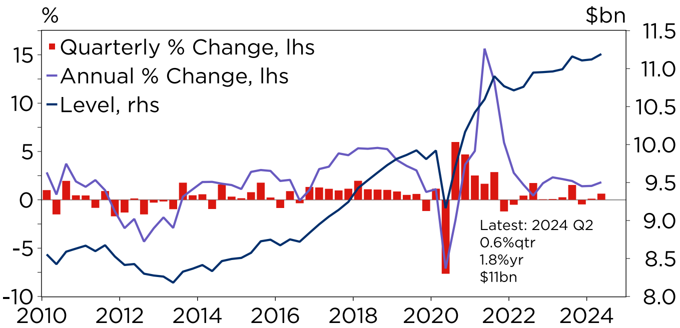
TAS Public vs Private Demand



Source: ABS, Macrobond, Westpac Economics

TAS State Final Demand

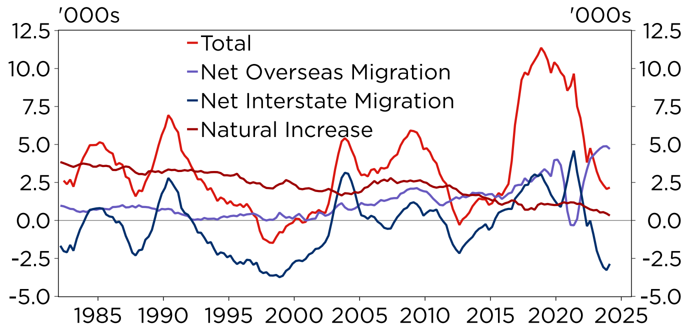
Chain Volume Measures



Source: ABS, Macrobond, Westpac Economics

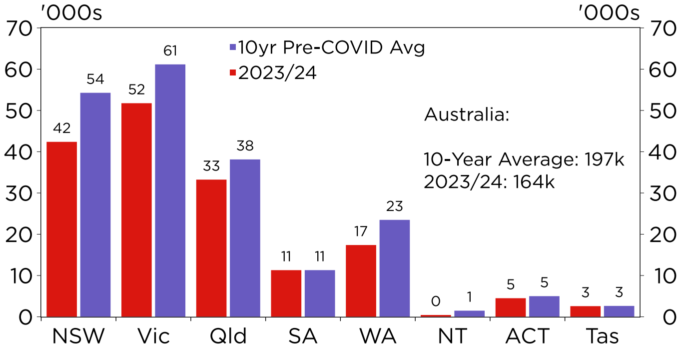
Tasmania Population

Rolling annual change



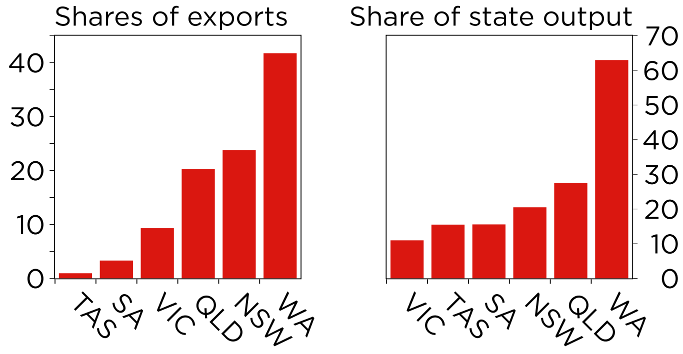
Source: ABS, Macrobond, Westpac Economics

Dwelling approvals



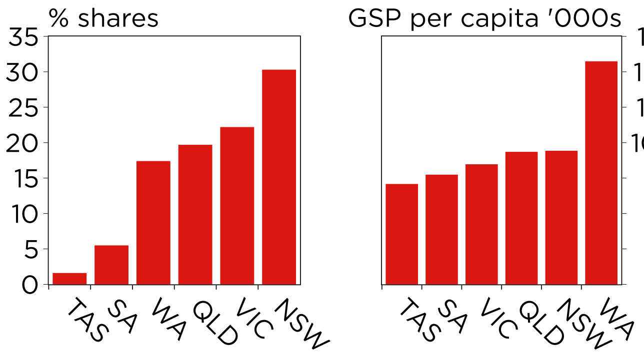
Source: ABS, Macrobond, Westpac Economics

Exports of Goods and Services



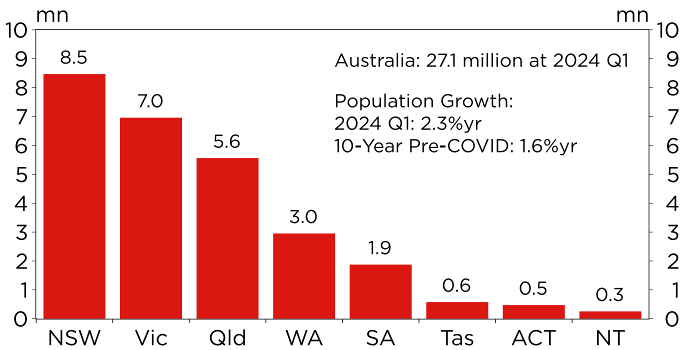
Source: Macrbond, ABS, Westpac Economics

Gross State Product



Source: Macrobond, ABS, Westpac Economics

Population



Source: ABS, Macrobond, Westpac Economics

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	42.5	3.6	4	25.6	0.1
Manufacturing	6	5.8	7	6.4	5.2	7	5.8	3.9	1
Construction	7.4	7.8	8.2	7.6	5.7	7.3	7	5.8	6.8
Transport, utilities	6.8	6.8	7.4	8.1	4.7	7.5	7.3	5	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	13.9	8.4	9.5
Education	5.2	5.3	5.8	5.5	3.2	6.4	6.2	5.1	6
Household services	4.6	4.8	4.5	5.3	3.4	5	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	20.4
Public administration	5.9	5.1	5.6	6	3.4	6.4	7.1	12.4	32
Ownership of dwellings	9.4	10.8	10	9.4	5.7	9.9	10.1	8.6	9

Sources: ABS, Westpac Economics. For the 2020/21 financial year.

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