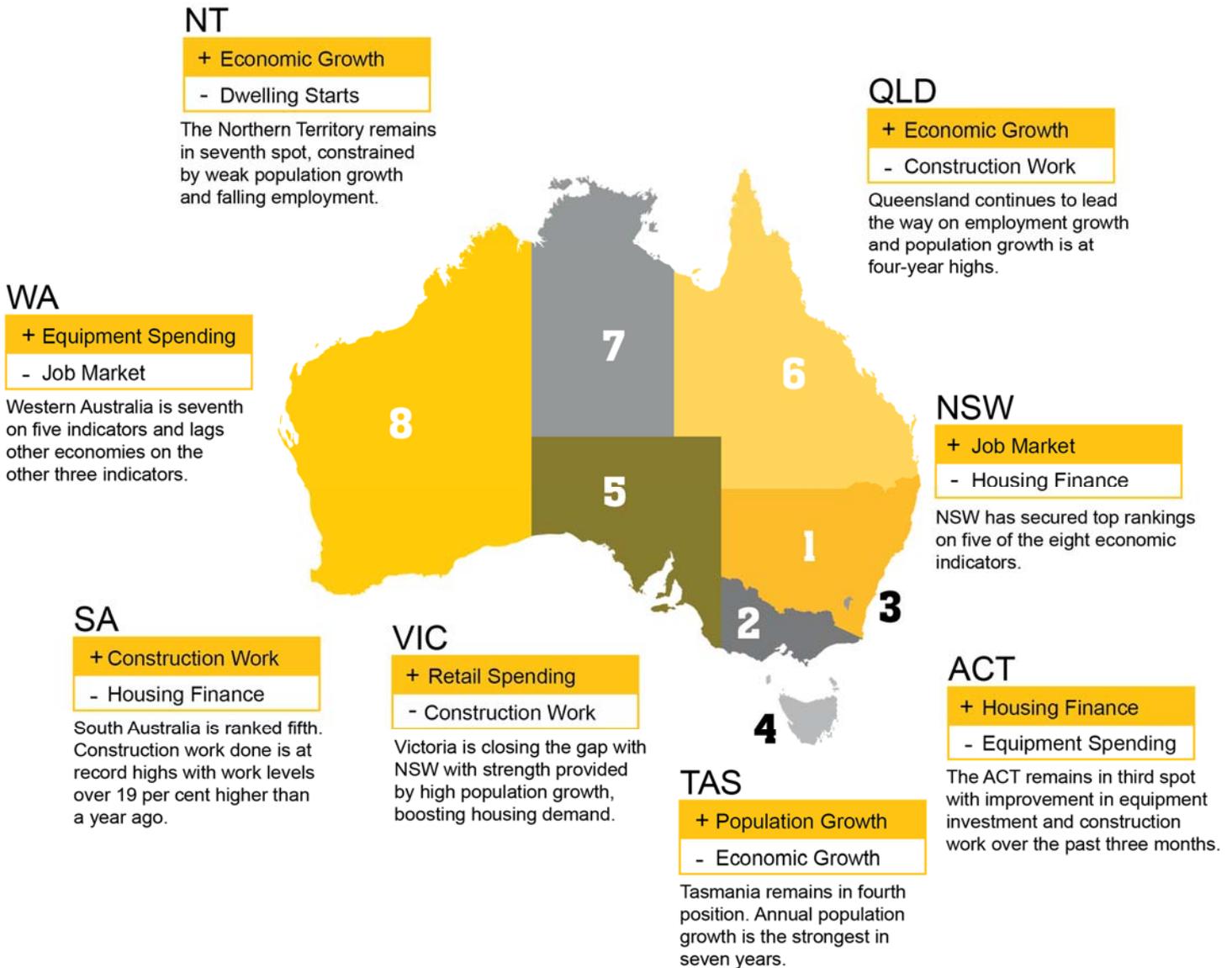


State of the States

April 2018 State & territory economic performance report.
Executive Summary



VICTORIA EDGES CLOSER TO TOP SPOT

How are Australia's states and territories performing? Each quarter CommSec attempts to find out by analysing eight key indicators: economic growth; retail spending; equipment investment; unemployment; construction work done; population growth; housing finance and dwelling commencements.

Just as the Reserve Bank uses long-term averages to determine the level of 'normal' interest rates; we have done the same with key economic indicators. For each state and territory, latest readings for the key indicators were compared with decade averages – that is, against the 'normal' performance.

The State of the States report also includes a section comparing annual growth rates for the eight key indicators across the states and territories as well as Australia as a whole. This enables another point of comparison – in terms of economic momentum.

The latest data shows Australia's economies to be in good shape but there are broad differences in relative performance. NSW remains on top of the economic performance rankings but Victoria has closed the gap. In the second group is ACT and Tasmania. The third group is South Australia and Queensland. And then there is a gap to the Northern Territory and Western Australia.

NSW remains at or near the top of most indicators.

Victoria holds second spot on the economic performance rankings with strength provided by high population growth and improvement in the job market.

The ACT retains third spot on the performance rankings ahead of **Tasmania** which is benefitting from faster population growth.

South Australia is in fifth spot ahead of **Queensland**. Queensland job growth is the fastest in the nation.

Northern Territory remains in seventh position just ahead of **Western Australia**. Stronger export activity in both economies is boosting incomes.

- **NSW** has retained top rankings on five of the eight economic indicators: retail trade, dwelling starts, equipment spending, construction work and unemployment. NSW is in third spot on economic growth, population growth and housing finance.
- **Victoria** is second on the economic performance rankings for five of the eight indicators and in third spot on the other three indicators. Biggest improvement has been the job market with unemployment now almost 3 per cent below the decade average.
- **The ACT** has held on to third spot on the rankings. The ACT is top-ranked on housing finance, and in second spot on the job market.
- **Tasmania** has held fourth position and it can be broadly grouped with the ACT. Tasmania is top-ranked on relative population growth and is second on equipment investment. Population growth is the strongest in 7 years.
- **South Australia** remains in fifth position on the performance rankings and it can be broadly grouped with Queensland. South Australia is ranked fourth on dwelling starts and fifth on three other indicators. Construction work done is at record highs.
- **Queensland** remains in sixth position. But annual employment growth is the fastest in the nation. Population growth is at 4-year highs. And the annual total of export receipts is up more than 26 per cent over the year.
- **The Northern Territory** retains its seventh position on the economic performance rankings and can be broadly grouped with **Western Australia**. Both are facing challenges with the transition of resource projects moving from the production to the export phase.
- **The Northern Territory** is top ranked on economic growth and ranked second construction work done. But it lags all other states and territories on five of the indicators. The good news is that exports are growing strongly, up 22 per cent on a year ago.
- **Western Australia** is seventh on five indicators and lags other economies on the other three indicators. But equipment spending and exports are posting firm annual growth rates.

Methodology

Each of the states and territory economies were assessed on eight key indicators: economic growth; retail spending; equipment investment; unemployment, construction work done; population growth; housing finance and dwelling commencements.

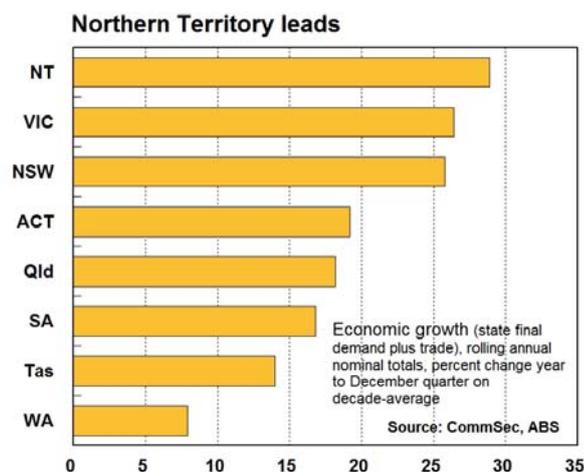
The aim is to find how each economy is performing compared with “normal”. And just like the Reserve Bank does with interest rates, we used decade-averages to judge the “normal” state of affairs. For each economy, the latest level of the indicator – such as retail spending or economic growth – was compared with the decade average.

While we also looked at the current pace of growth to assess economic momentum, it may yield perverse results to judge performance. For instance retail spending may be up sharply on a year ago but from depressed levels. Overall spending may still be well below “normal”. And clearly some states such as Queensland and Western Australia traditionally have had faster economic growth rates due to historically faster population growth. So the best way to assess economic performance is to look at each indicator in relation to what would be considered ‘normal’ for that state or territory.

For instance, the trend jobless rate in the Northern Territory of 3.9 per cent is the lowest of all economies. But this jobless rate is 1.5 per cent higher than its ‘normal’ or decade-average rate. However NSW’s unemployment rate is actually 8.3 per cent below its decade average, putting it ahead of the Northern Territory on this indicator.

Trend measures of the economic indicators were used to assess performance on all measures except economic growth rather than more volatile seasonally adjusted or original estimates. Rolling annual nominal data was used to assess economic growth.

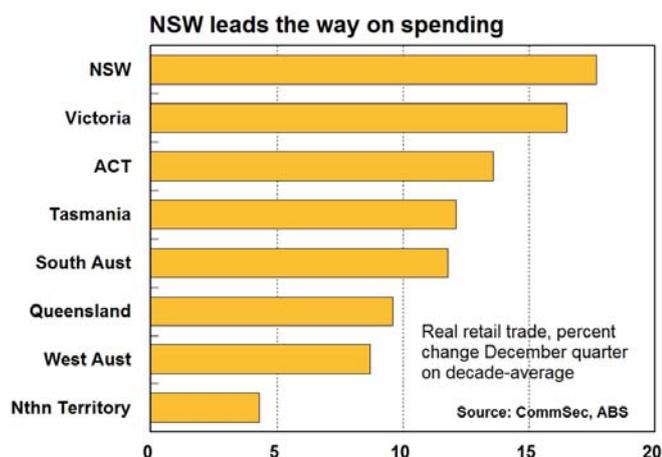
ECONOMIC GROWTH



- Ideally Gross State Product (GSP) would be used to assess broad economic growth. But the data isn’t available quarterly. And we have previously used state final demand (household and equipment spending) and exports less imports to act as a proxy for GSP. But the Bureau of Statistics has ceased calculation of state trade data in real terms. So state final demand plus trade in nominal terms and rolling annual totals are used to remove seasonality.
- The Northern Territory has retained top spot on economic growth. Economic activity in the ‘Top End’ is 28.9 per cent above its ‘normal’ or decade-average level of output.
- Moving past NSW into second place is Victoria, with output 26.4 per cent higher than the decade average level of output. Then follows NSW (up 25.8 per cent) from the ACT (up 19.2 per cent).
- At the other end of the scale, economic activity in Western Australia in the December quarter was just 7.9 per cent above its decade average while Tasmanian activity was up 14 per cent, behind South Australia (up 16.8 per cent) and Queensland (up 18.2 per cent).
- The Northern Territory also has the fastest nominal annual economic growth rate in the nation (although slowing significantly over the past year), up by 7.6 per cent on a year ago, ahead of Tasmania (up 6.6 per cent) from Victoria (up 6.5 per cent) and Queensland (up 6.2 per cent).
- The weakest nominal annual growth rates are in Western Australia (up 2.3 per cent) and the ACT (up 4.8 per cent).
- If trend State Final Demand in real terms is used, comparing the latest result with decade averages reveals some subtle changes in the rankings. Queensland and the Northern Territory perform better using the nominal data including trade. In the year to December, exports from both Queensland and the Northern Territory were up more than 20 per cent on a year ago.

“Economic activity in the ‘Top End’ is 28.9 per cent above its ‘normal’ or decade-average level of output.”

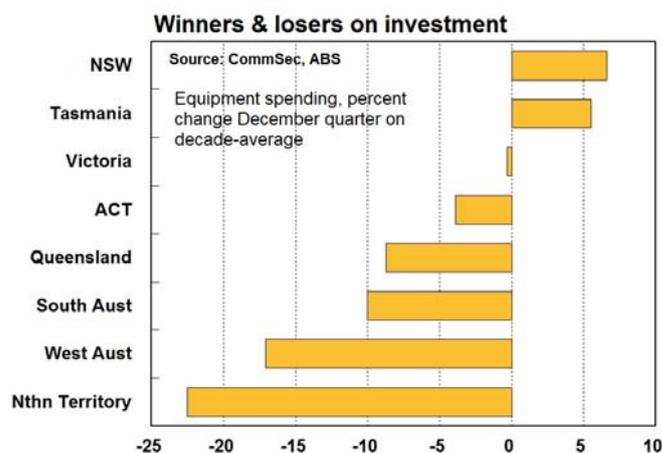
RETAIL SPENDING



- The measure used was real (inflation-adjusted) retail trade in trend terms with December quarter data the latest available.
- NSW has maintained the top spot on the retail rankings, followed by Victoria. The remainder of the retail rankings are unchanged on the previous quarter.
- Spending in NSW was 17.7 per cent above decade-average levels in the December quarter. Solid activity in the housing sector, low unemployment and still high home prices continue to support spending.
- Spending in Victoria was 16.5 per cent above decade-average levels, once again supported by home building, population growth and firm employment.
- Spending in the ACT was up 13.6 per cent on the decade average, followed by Tasmania (up 12.1 per cent). In fifth spot was South Australia with spending 11.8 per cent above decade averages followed by Queensland, with spending up by 9.6 per cent.
- Northern Territory recorded the weakest result on retail spending, up 4.3 per cent on the decade average, below Western Australia with 8.7 per cent growth.
- If monthly retail trade was assessed instead to calculate the rankings (February data available), there would be subtle changes in the relative positions of the states and territories. Victoria would be on top from NSW and South Australia would move ahead of Tasmania.
- In terms of annual growth of real retail trade, Victoria is strongest (up 4.1 per cent), from South Australia (up 4.0 per cent) and NSW (up 2.9 per cent).
- Looking at monthly retail trade, Victoria (up 4.9 per cent) is again ahead of South Australia (up 3.8 per cent).

“NSW has maintained the top spot on the retail rankings, followed by Victoria. The remainder of the retail rankings are unchanged on the previous quarter.”

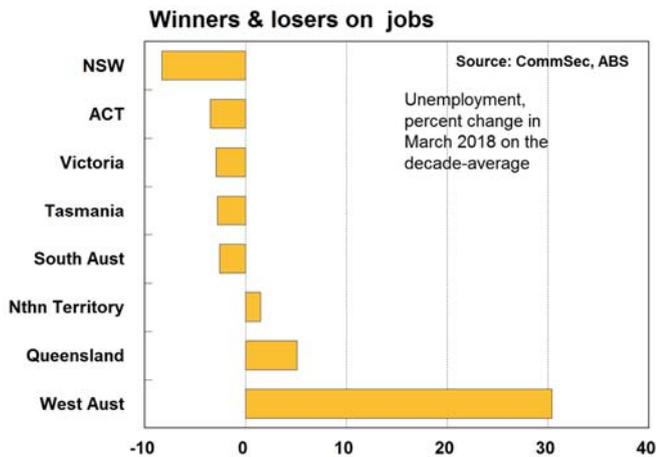
EQUIPMENT INVESTMENT



- The measure of equipment investment is spending on new plant and equipment in trend terms with December quarter data compared with decade averages (the ‘normal’ performance).
- Only NSW and Tasmania had equipment spending in the December quarter above decade-average levels. NSW had equipment investment up 6.6 per cent on the decade average from Tasmania (up 5.5 per cent).
- Not far behind was Victoria (down just 0.3 per cent) from the ACT (down 3.9 per cent).
- By contrast, other states and territories had equipment spending solidly below decade averages in the December quarter. Weakest was the Northern Territory (down 22.5 per cent) with completion of the investment stage for a number of gas projects.
- Next weakest was Western Australia (down 17.1 per cent) followed by South Australia (down 10 per cent) and Queensland (down 8.7 per cent).
- On a shorter-run analysis, equipment investment in the December quarter was higher than a year ago in six of the state and territory economies (the same number of economies as in the previous quarter).
- Equipment investment was up the most on a year ago in Tasmania (up 44.3 per cent) from Northern Territory (up 29.3 per cent) and Western Australia (up 21.7 per cent).
- Notably equipment investment in Tasmania was at 5-year highs in trend terms with Queensland and Western Australian investment both at 2½-year highs.
- By contrast new equipment investment in South Australia was down 1.1 per cent on a year ago with NSW investment down 0.8 per cent.

“Only NSW and Tasmania had equipment spending in the December quarter above decade-average levels.”

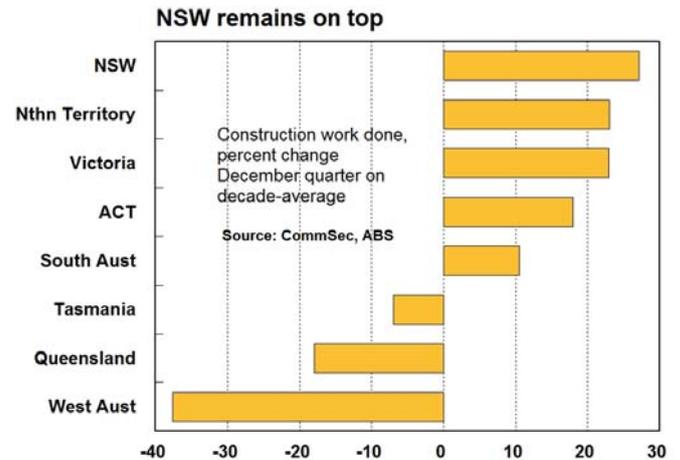
UNEMPLOYMENT



- What state or territory has the strongest job market in the nation? It is not an easy answer. But we have looked at unemployment rates across economies, comparing the rates with decade averages.
- On this measure, NSW has the strongest job market. Trend unemployment in NSW stands at 4.9 per cent, a rate 8.3 per cent below the decade average. Employment is also nearly 10 per cent above the decade average.
- Next best is the ACT, its jobless rate being 3.5 per cent below the decade average. Victoria comes next from Tasmania and South Australia – all with jobless rates almost 3 per cent below their relative decade averages.
- At the other end of the scale, the Western Australian jobless rate of 6.4 per cent is over 30 per cent above the 4.9 per cent decade-average. On a 20-year average, Western Australia still has the weakest job market.
- Next is Queensland – the 6.0 per cent jobless rate is still 5.1 per cent higher than the long-term average. The Northern Territory jobless rate of 3.9 per cent is 1.5 per cent above the 3.8 per cent decade average.
- Queensland has the strongest annual employment rate (up 4.3 per cent), above ACT (up 3.9 per cent) and NSW (up 3.6 per cent).
- In Victoria, employment growth has slowed to a 2.5 per cent annual rate but the jobless rate of 5.5 per cent is holding at 5½ lows in trend terms and at 6-year lows in seasonally adjusted terms.
- At the other end of the scale, employment in the Northern Territory is falling at a 2.2 per cent annual rate. Construction of the Inpex gas project is winding down, leading to an outflow of fly-in-fly out workers, reduced labour force participation and little change in the civilian workforce for the past year.

“Trend unemployment in NSW stands at 4.9 per cent, a rate 8.3 per cent below the decade average.”

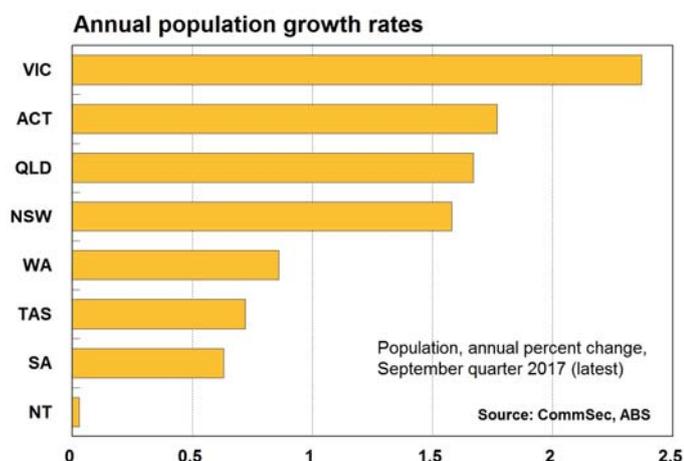
CONSTRUCTION WORK



- The measure used for analysis was the total real value of residential, commercial and engineering work completed in trend terms in the December quarter.
- In five of the states and territories, construction work was higher than decade averages in the December quarter (the same number as the previous quarter).
- Leading the way was NSW with construction work done 27.1 per cent above its decade average followed now by Northern Territory (up 23 per cent), moving ahead of Victoria with activity up by 22.9 per cent.
- In NSW and Victoria, construction work done were both at record highs in the December quarter in trend terms with Northern Territory activity near 2-year highs.
- The ACT is now in fourth position with construction work 18 per cent above decade averages followed by South Australia (up 10.5 per cent).
- At the other end of the scale, Western Australian construction work done in the December quarter was 37.6 per cent below the decade average, behind Queensland, with construction work down 18 per cent on decade averages and Tasmania (down 7 per cent).
- In terms of annual growth rates, South Australian construction work done in the December quarter was up 19.1 per cent on a year ago followed by NSW (up 10.8 per cent) and Victoria (up 7.4 per cent).
- Only two economies had construction work lower than a year ago (the same as the September quarter): Tasmania (down 9.1 per cent) and Western Australia (down 7.6 per cent).

“In NSW and Victoria, construction work done were both at record highs in the December quarter in trend terms with Northern Territory activity near 2-year highs.”

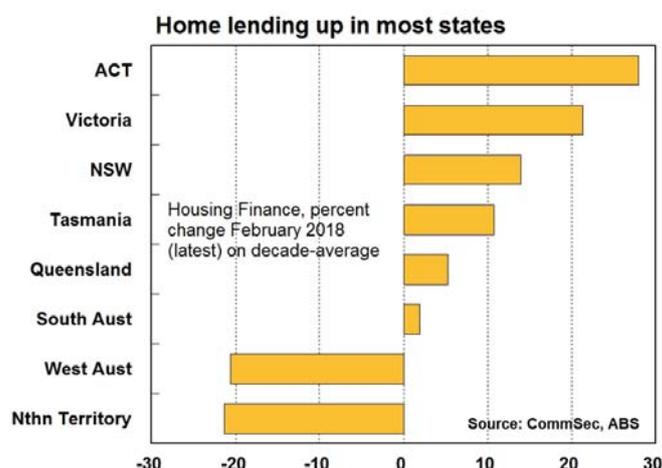
POPULATION GROWTH



- We assess relative population performance – the current annual growth rate and compare it with each economy’s decade-average (‘normal’) growth pace. This is most relevant to each state or territory’s economic performance.
- Population growth is clearly an important driver of the broader economy, especially retail spending and housing demand. The key point being that only three states have population growth above long-term averages.
- Tasmania is strongest on the relative population measure, with its 0.72 per cent annual population growth rate 32.5 per cent above the decade-average rate.
- Victoria’s population growth is 15.3 per cent above the decade average, followed by NSW (up 12.5 per cent).
- Annual population growth rates in the other states and territories were below decade averages: ACT (-4.2 per cent); Queensland (-9.4 per cent); South Australia (-33 per cent); Western Australia (-58.7 per cent); and Northern Territory (-97.9 per cent).
- The state with the fastest *absolute* annual population growth is still Victoria (up 2.37 per cent). Next strongest is the ACT (up 1.77 per cent); Queensland (up 1.67 per cent) and NSW (up 1.58 per cent).
- The state or territory with the slowest annual population growth is the Northern Territory, up just 0.03 per cent on a year ago. Next highest was South Australia (up 0.63 per cent).
- Tasmania’s population is 0.72 per cent up on a year earlier – the fastest rate in 7 years.
- Western Australia’s population in the September quarter was up by 0.84 per cent on a year ago – actually the fastest rate in 2½ years.

“Tasmania remains on top, with its 0.72 per cent annual population growth rate 32.5 per cent above the decade-average rate.”

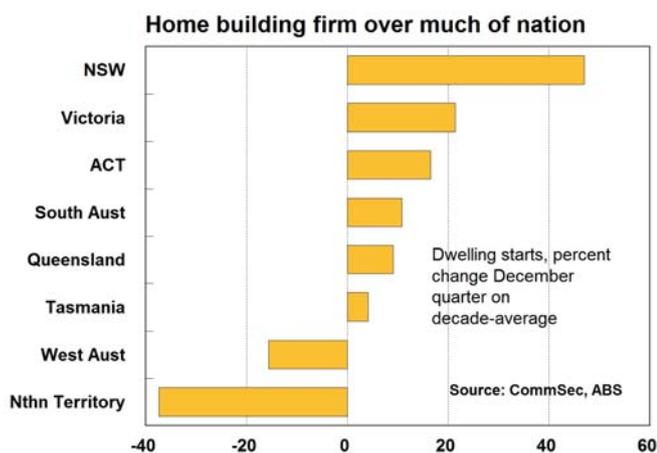
HOUSING FINANCE



- The measure used is the trend number of housing finance commitments (home loans) and this is compared with the decade average for each respective state and territory.
- Housing finance is not just a leading indicator for real estate activity and housing construction but it is also a useful indicator of activity in the financial sector. It would be useful to compare figures on commercial, personal and lease finance, but unfortunately trend data is not available for states and territories.
- There has been no change in the rankings. In six of the states and territories, trend housing finance commitments are above decade averages. But in five states and territories, trend housing finance is below year-ago levels.
- The ACT remains in top spot with the number of commitments up by 28 per cent on the long-term average. Next strongest is Victoria (up 21.3 per cent on decade averages) followed by NSW (up 14 per cent).
- Tasmania retains fourth spot on housing finance, with commitments 10.8 per cent higher than the decade average. Queensland is next strongest (up 5.3 per cent) ahead of South Australia (up 1.9 per cent).
- Northern Territory remains the weakest for housing finance with trend commitments 21.3 per cent lower than its decade average. Commitments in Western Australia are down 20.6 per cent on the decade-average.
- Annual growth of home loans is strongest in the ACT (up 8.4 per cent) from Victoria (up 6.7 per cent) and Tasmania (up 0.2 per cent). Weakest is Western Australia (down 10.9 per cent on a year earlier) from Northern Territory (down by 7 per cent).

“Annual growth of home loans is strongest in the ACT (up 8.4 per cent) from Victoria (up 6.7 per cent) and Tasmania (up 0.2 per cent).”

DWELLING STARTS



- The measure used was the trend number of dwelling commencements (starts) with the comparison made to the decade-average level of starts. Starts are driven in part by population growth and housing finance and can affect retail trade, unemployment and overall economic growth. However, any over-building or under-building in previous years can affect the current level of starts.
- Home building remains firm across most of the nation. The NSW market remains strong, responding to above “normal” population growth. And home building is also strong in the ACT and Victoria. The good news is that starts in Western Australia continue to lift from 4½-year lows.
- NSW remains in top spot for dwelling starts with commencements 47 per cent above the decade average. But the number of new starts is easing as demand is met. In the December quarter the number of dwellings started in NSW was at 2-year lows in trend terms.
- Victoria is back in second spot behind NSW, with starts 21.4 per cent above decade averages. ACT starts are 16.5 per cent above decade averages, followed by South Australia (up 10.9 per cent), Queensland (up 9.1 per cent) and Tasmania (up 4.1 per cent).
- At the other end of the scale, dwelling starts in the Northern Territory were 37.4 per cent below decade averages. And activity continues to ease with trend starts at the lowest levels in almost nine years. Next weakest was Western Australia (down 15.6 per cent from the decade average).
- In terms of annual growth, three of the states and territories had starts above a year earlier in the December quarter. The stand-out is Tasmania with trend starts up 29.1 per cent on a year ago – the fastest growth in 2½ years.

“The good news is that starts in Western Australia continue to lift from 4½-year lows.”

OTHER INDICATORS

WAGES & PRICES*

	Wages Dec Qtr	CPI Dec Qtr	CPI Mar Qtr	Home Prices March
NSW	2.0	2.2	2.1	-2.1
Victoria	2.4	2.2	2.2	5.3
Queensland	2.2	1.9	1.7	1.3
South Australia	1.9	2.3	2.3	1.7
Western Australia	1.5	0.8	0.9	-2.4
Tasmania	2.2	2.1	2.0	13.0
Northern Territory	1.1	1.0	1.1	-7.5
ACT	1.9	2.2	2.4	2.9

* Annual % change. Source: ABS, CoreLogic, CommSec

CPI - Consumer Price Index

Wages - Wage Price Index

- Annual changes of consumer prices (inflation) were mixed across capital cities in the March quarter. The weakest result was in Perth with prices up just 0.9 per cent over the year while Darwin prices rose 1.1 per cent.
- Canberra had the highest annual inflation rate in the March quarter at 2.4 per cent, ahead of Adelaide (2.3 per cent).
- Inflation rates remain historically low. But so are the annual changes in wages across the nation. As a result annual inflation rates in each capital city are generally little different from annual wage growth.
- To assess real wage growth, December quarter data must be used. And the biggest gap between wage growth and inflation was recorded in Western Australia with wages 0.7 percentage points higher than consumer prices.
- Wage growth in the year to December was strongest in Victoria (2.4 per cent) ahead of Queensland and Tasmania (all up by 2.2 per cent) while wages in Northern Territory were up only 1.1 per cent.
- Turning to home prices, in March 2018 three of the capital cities recorded annual declines in home prices, up from two capital cities in December 2017.
- Home price growth has slowed in all capital cities in the past quarter except Perth (price declines flattening out) and Hobart (price growth remains firm).
- The strongest annual growth in home prices was in Hobart (up 13.0 per cent) followed by Melbourne (up 5.3 per cent), Canberra (up 2.9 per cent), Adelaide (up 1.7 per cent) and Brisbane (up 1.3 per cent).
- Home prices were lower than a year ago in Darwin (down 7.5 per cent), Perth (down 2.4 per cent) and Sydney (down by 2.1 per cent).

“Canberra had the highest annual inflation rate in the March quarter at 2.4 per cent, ahead of Adelaide (2.3 per cent).”

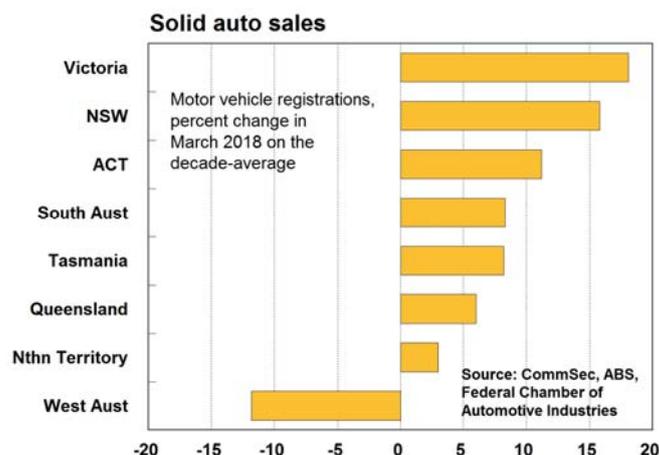
ANNUAL GROWTH RATES

TREND ANNUAL GROWTH %				
	<i>Economic Growth</i>	<i>Retail Trade</i>	<i>Equip. Invest</i>	<i>Employment</i>
NSW	5.5	2.9	-0.8	3.6
VIC	6.5	4.1	4.1	2.5
QLD	6.3	0.8	8.7	4.3
SA	6.2	4.0	-1.1	2.1
WA	2.3	0.4	21.7	2.0
TAS	6.6	2.9	44.3	2.1
NT	7.6	0.1	29.3	-2.2
ACT	4.8	1.9	0.9	3.9
AUST	4.6	2.6	6.5	3.1

	<i>Construct Work</i>	<i>Population</i>	<i>Housing Finance</i>	<i>Home Starts</i>
NSW	10.8	1.58	-0.7	-9.3
VIC	7.4	2.37	6.7	5.4
QLD	1.4	1.67	-2.6	-8.3
SA	19.1	0.63	-5.0	19.2
WA	-7.6	0.86	-10.9	-1.9
TAS	-9.1	0.72	0.2	29.1
NT	2.5	0.03	-7.0	-2.0
ACT	7.3	1.77	8.4	-3.6
AUST	4.7	1.63	-0.2	-2.3

- The **State of the States** assesses economic performance by looking at the most recent result – such as retail trade or construction – and compares that with the ‘normal’ experience. And by ‘normal experience’, we define this as the decade average.
- A resident of the state or territory can therefore assess whether they are experiencing relatively better economic times. Comparing states or territories on the same criteria determines which state or territory is performing the best on a certain indicator.
- But as well as relative economic performance, some are also interested in economic momentum. That is, annual economic growth. A state/territory may have been under-performing, but if annual growth is rising, then this suggests that performance has scope to improve.
- On the eight indicators assessed, Victoria and the Tasmania top growth on two measures each. South Australia, Northern Territory, Queensland and the ACT lead the way on the other four.
- When looking across growth rates for the states and territories, Victoria exceeded the national-average on six of the eight indicators.
- At the other end of the scale, Western Australia had annual growth rates below the national average on six of the eight indicators, Northern Territory under-performed on five indicators with NSW, Queensland and South Australia under-performing on four indicators.

LOOKING AHEAD



- If new vehicle registrations are added to the list of indicators, then there would be no change to the economic performance rankings. Victoria is the strongest on new vehicle sales, up 17.7 per cent on decade averages. And annual growth of sales is also the strongest in Victoria (up 5.5 per cent).
- NSW remains on top of the economic performance rankings, just ahead of Victoria. Both states have relatively high population growth, underpinning home building and retail spending.
- Victoria modestly closed the gap with NSW on the performance rankings with the job market improving over the past quarter. When assessing annual growth rates, Victoria exceeded the national-average on six of the eight indicators.
- The ACT remains in third spot with improvement in equipment investment and construction work over the past three months.
- Tasmania remains in fourth position, courtesy of firmer equipment investment and a further lift in population growth – now the strongest in seven years.
- South Australia remains in fifth spot on the performance ranking. Construction work done is at record highs and work levels are over 19 per cent higher than a year ago.
- Queensland remains in sixth position. But Queensland continues to lead the way on employment growth and population growth is at 4-year highs. The state is also still being buoyed by strong export activity.
- The Northern Territory remains in seventh spot. The outlook for the Northern Territory is constrained by weak population growth and falling employment but new projects provide scope to support economic activity.
- There are positive prospects for the Western Australia economy. Real estate professionals believe that the residential market has bottomed. In addition, exports are rising solidly and equipment investment has lifted to near 3-year highs.

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