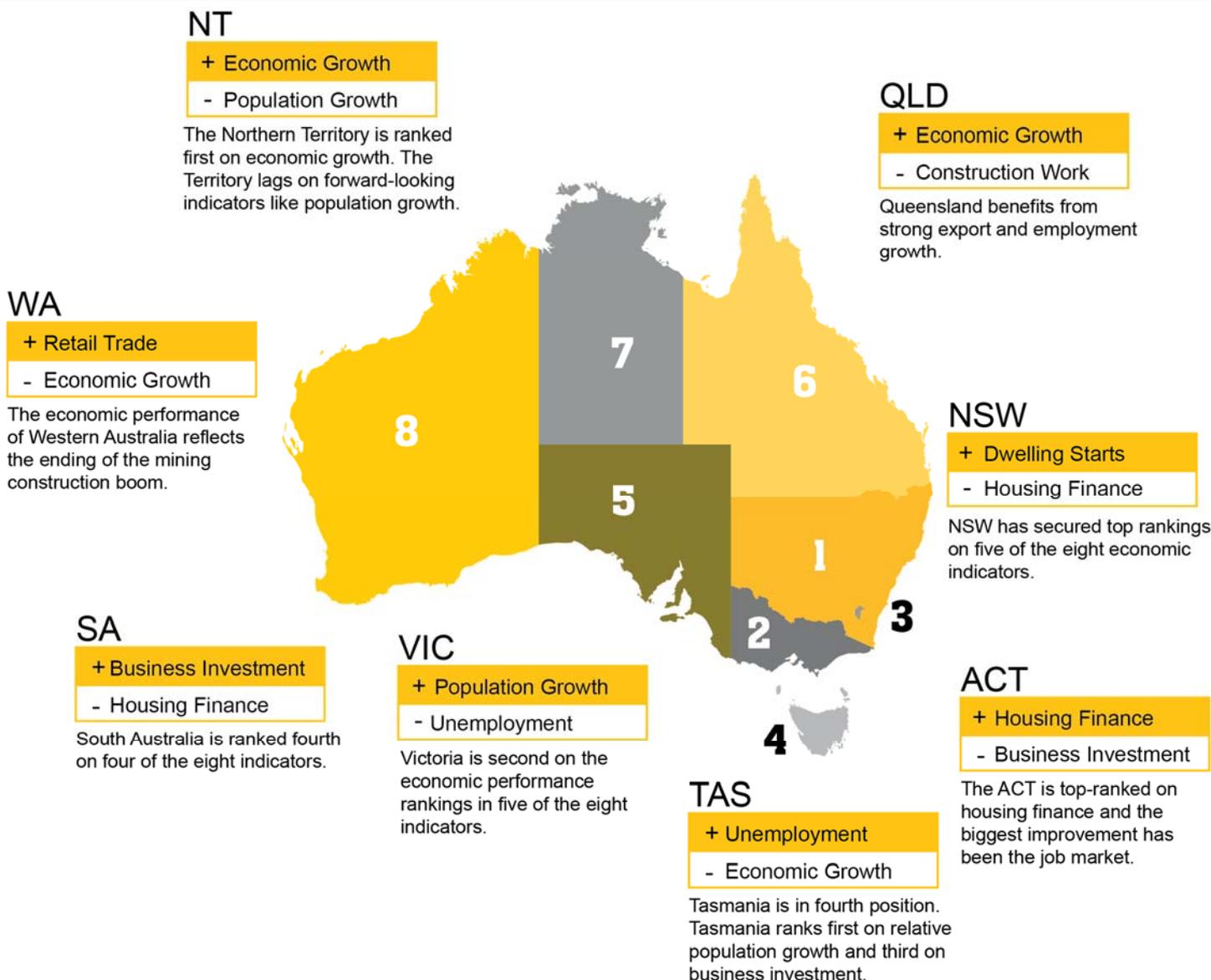


State of the States

January 2018 State & territory economic performance report.
Executive Summary



NSW SOLIDLY ON TOP FROM VICTORIA

How are Australia's states and territories performing? Each quarter CommSec attempts to find out by analysing eight key indicators: economic growth; retail spending; business 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 with some differences in relative performance. NSW remains solidly on top of the economic performance rankings from Victoria while the ACT holds down third spot. Then there is a gap to Tasmania, South Australia and Queensland, and then a gap to the Northern Territory and Western Australia.

NSW has retained the position as the best performing economy, at or near the top of all indicators.

Victoria holds second spot on the economic performance rankings with strength provided by high population growth, boosting housing demand.

The ACT retains third spot on the performance rankings, supported by a stronger job market.

Tasmania has lifted from fifth to fourth spot, ahead of **South Australia** with a similar gap to **Queensland**.

Northern Territory remains in seventh position.

Western Australia continues to lag other economies and annual growth rates remain below national averages on seven of eight indicators surveyed.

- **NSW** has secured top rankings on five of the eight economic indicators: retail trade, dwelling starts, equipment investment, construction work and unemployment. NSW is second on economic growth and in third spot on population growth and housing finance.
- **Victoria** is second on the economic performance rankings for five of the eight indicators: retail trade, housing finance, population growth, construction work done and equipment investment. The lowest ranking is fifth on the unemployment rate.
- **The ACT** held on to third spot on the rankings. The biggest improvement has been the job market, with annual employment growth now the strongest in almost a decade. The ACT is top-ranked on housing finance.
- There is little to separate three of the next economies with a further gap to Northern Territory and Western Australia.
- **Tasmania** has lifted from fifth to fourth position. Tasmania now is top-ranked on relative population growth and is third-placed on equipment investment and unemployment. Population growth is the strongest in 6½ years.
- **South Australia** has eased from fourth to fifth on the performance rankings. South Australia is ranked fourth on four of the eight indicators.
- **Queensland** remains in sixth position. But the outlook is promising with annual employment growth the fastest in the nation and just off the fastest for the state in over a decade.
- **The Northern Territory** retains its seventh position on the economic performance rankings.
- The Territory is top ranked on economic growth but now lags all other economies on six of the eight indicators. Employment is now lower than a year ago in trend terms. The good news is that exports are growing strongly, up 35 per cent on a year ago.
- The economic performance of **Western Australia** continues to reflect the ending of the mining construction boom. But employment growth was just off the strongest levels seen in five years. And annual population growth has lifted for the past four quarters.

Methodology

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

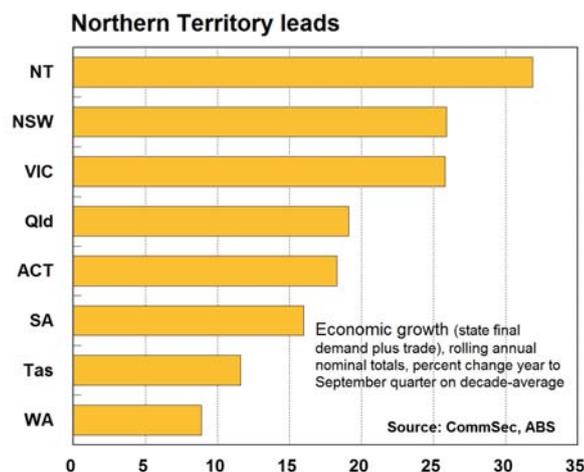
The aim is to find how each economy is performing compared with “normal”. And just like the Reserve Bank does with interest rates, we used decade-averages to judge the “normal” state of affairs. For each economy, the latest level of the indicator – such as retail spending or economic growth – was compared 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 ACT of 3.7 per cent is the lowest of all economies. And this jobless rate is 3.5 per cent lower than its ‘normal’ or decade-average rate. However NSW’s unemployment rate is actually 11.9 per cent below its decade average, putting it ahead of the ACT on this indicator.

Trend measures of the economic indicators were used to assess performance rather than more volatile seasonally adjusted or original estimates.

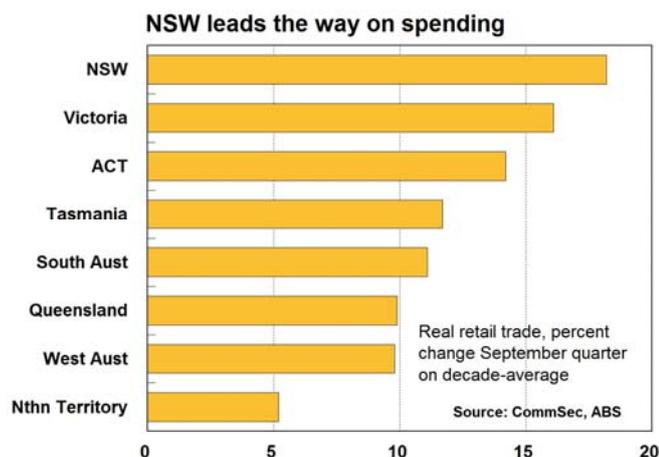
ECONOMIC GROWTH



- 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 business 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 we now use 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 31.9 per cent above its ‘normal’ or decade-average level of output.
- Next strongest is NSW, with output almost 26 per cent higher than the decade average level of output. Then follows Victoria (up 25.8 per cent) from Queensland (19.1 per cent).
- At the other end of the scale, economic activity in Western Australia in the September quarter was just 8.9 per cent above its decade average while Tasmanian activity was up 11.6 per cent, behind South Australia (up 16 per cent) and the ACT (up 18.3 per cent).
- The Northern Territory also has the fastest nominal annual economic growth rate in the nation, up by 11.9 per cent on a year ago, ahead of Queensland (up 9.3 per cent), NSW (up 6.7 per cent) and Victoria (up 6.2 per cent).
- The weakest nominal annual growth rates are in Tasmania (up 3.5 per cent) and Western Australia (up 3.6 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 performs better using the nominal data including trade due to strong exports. In the year to September, exports from both Queensland and the Northern Territory were up by 35 per cent on a year ago.

“In the year to September, exports from both Queensland and the Northern Territory were up by 35 per cent on a year ago.”

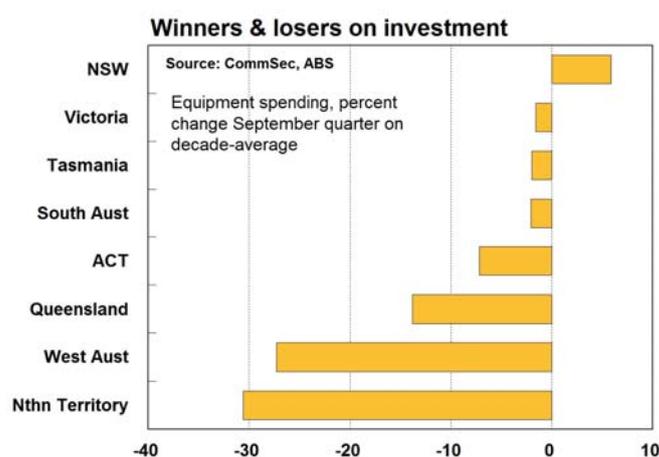
RETAIL SPENDING



- The measure used was real (inflation-adjusted) retail trade in trend terms with September 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 18.2 per cent above decade-average levels in the September quarter. Solid activity in the housing sector, low unemployment and higher home prices continue to support spending.
- Spending in Victoria was 16.1 per cent above decade-average levels, once again supported by home building, population growth and firm employment.
- Spending in the ACT was up 14.2 per cent on the decade average, followed by Tasmania (up 11.7 per cent). In fifth spot was South Australia with spending 11.1 per cent above decade averages followed by Queensland, with spending up by 9.9 per cent.
- Northern Territory recorded the weakest result on retail spending, up 5.2 per cent on the decade average, below Western Australia with 9.8 per cent growth.
- If monthly retail trade was assessed instead to calculate the rankings (November data available), there would be no change in the relative positions of the states and territories.
- In terms of annual growth of real retail trade, Victoria is strongest (up 3.7 per cent), from South Australia (up 3.5 per cent) and NSW (up 3.0 per cent).
- Looking at monthly retail trade, South Australia is strongest (up 3.6 per cent) from Victoria (up 3.3 per cent) and Tasmania (up 2.8 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.”

BUSINESS INVESTMENT

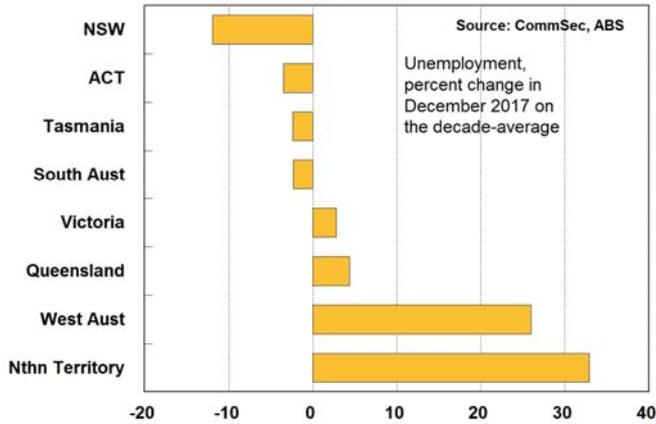


- The measure of business investment is spending on new plant and equipment in trend terms with September quarter data compared with decade averages (the ‘normal’ performance).
- Only NSW had business spending in the September quarter above decade-average levels with NSW equipment investment up 5.9 per cent. Still, equipment spending in Victoria was only 1.6 per cent lower than the decade average with Tasmania and South Australia both only 2.0 per cent below the longer-term average.
- By contrast, other states and territories had business spending solidly below decade averages in the September quarter. Weakest was the Northern Territory (down 30.6 per cent) with completion of the investment stage for a number of gas projects.
- Next weakest was Western Australia (down 27.3 per cent) followed by Queensland (down 13.8 per cent) and the ACT (down 7.2 per cent).
- On a shorter-run analysis, equipment investment in the September 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).
- Business investment was up the most on a year ago in Tasmania (up 32.6 per cent) from Northern Territory (up 13.4 per cent), South Australia (up 12.4 per cent) and Western Australia (up 7.2 per cent).
- Notably equipment investment in Tasmania was at 5-year highs in trend terms with Queensland and South Australian investment at 2-year highs.
- By contrast new business investment in NSW was down 5.5 per cent on a year ago with ACT investment down 15.7 per cent.

“Only NSW had business spending in the September quarter above decade-average levels with NSW equipment investment up 5.9 per cent.”

UNEMPLOYMENT

Winners & losers on jobs

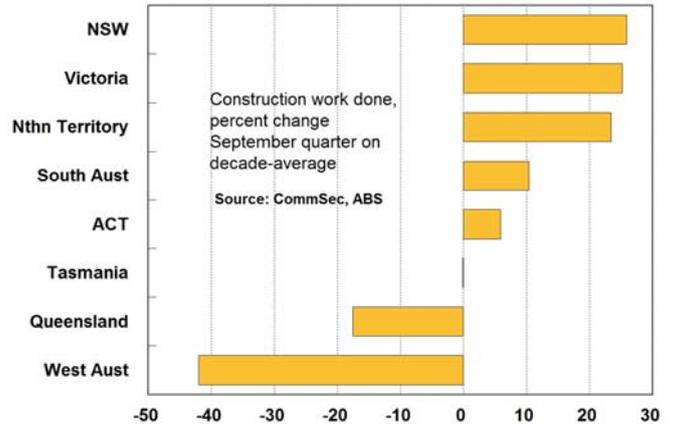


- NSW has the strongest job market in the nation. While the jobless rate is lower in trend terms in the ACT, the NSW trend jobless rate of 4.7 per cent is almost 12 per cent below its decade average. And the NSW jobless rate also equals the lowest rate seen in nine years.
- The ACT is now second-ranked on unemployment. The 3.7 per cent trend jobless rate is 3.5 per cent below the “normal” (decade-average). The ACT also has the lowest unemployment rate in the nation.
- Tasmania ranks third, its 6.0 per cent jobless rate is 2.4 per cent below the decade average.
- South Australia also has a jobless rate below its decade-average. The state’s jobless rate of 5.9 per cent is 2.3 per cent below its decade-average.
- In fifth spot is Victoria with the trend jobless rate of 5.8 per cent only 2.8 per cent above the decade-average of 5.6 per cent.
- At the other end of the scale is the Northern Territory. Trend unemployment stands at a 4-year high of 5.2 per cent, almost 33 per cent higher than the 3.9 per cent ‘normal’ or decade-average.
- Next weakest is Western Australia, its jobless rate is 26.0 per cent above the 4.8 per cent decade-average.
- In the middle of the pack is Queensland. The 5.9 per cent jobless rate in Queensland is still just 4.4 per cent higher than the long-term average. But the trend jobless rate is holding near 5-year lows.
- Queensland and the ACT have the strongest annual employment rates (both 4.6 per cent) and above NSW (3.5 per cent).
- At the other end of the scale, employment in the Northern Territory is falling at a 2.8 per cent annual rate.

“Queensland and the ACT have the strongest annual employment rates (both 4.6 per cent) and above NSW (3.5 per cent).”

CONSTRUCTION WORK

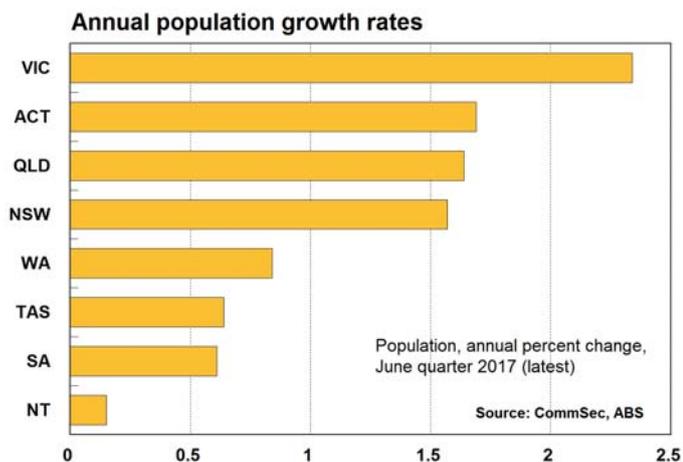
NSW takes the lead on construction work



- The measure used for analysis was the total real value of residential, commercial and engineering work completed in trend terms in the September quarter.
- In five of the states and territories, construction work was higher than decade averages in the September quarter (previously six states).
- Leading the way was NSW with construction work done 25.9 per cent above its decade average followed by Victoria with activity up by 25.2 per cent. These states have consolidated their positions ahead of the Northern Territory due to solid home building and rising infrastructure demand.
- Victorian construction work done was also up 10.7 per cent on a year ago – the strongest growth in 7 years. And NSW construction was up 8.9 per cent on a year earlier.
- In third spot was the Northern Territory with activity up 23.4 per cent on the decade average.
- South Australia is now in fourth position with construction work 10.4 per cent above decade averages followed by the ACT (up 5.9 per cent).
- At the other end of the scale, Western Australian construction work done in the September quarter was 42 per cent below the decade average, behind Queensland, with construction work down 17.6 per cent on decade averages and Tasmania (down 0.1 per cent)
- In terms of annual growth rates, South Australian construction work done in the September quarter was up 22.8 per cent on a year ago followed by Victoria (up 10.7 per cent) and NSW (up 8.9 per cent) – both noted above.
- Only two economies had construction work lower than a year ago (previously four): Western Australia (down 22.2 per cent) and the ACT (down 0.8 per cent).

“In terms of annual growth rates, South Australian construction work done in the September quarter was up 22.8 per cent on a year ago.”

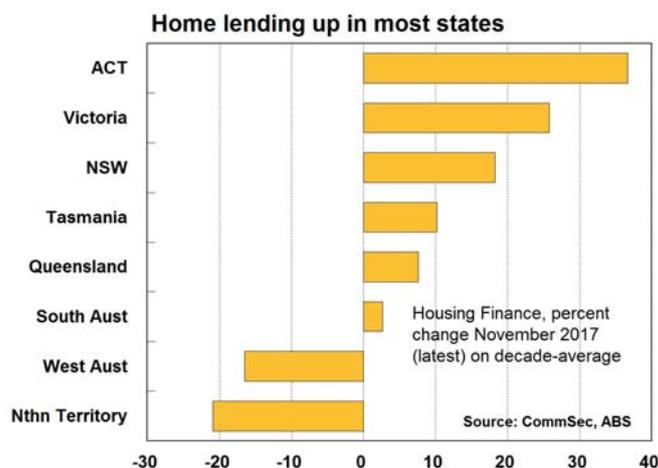
POPULATION GROWTH



- To assess relative population performance we looked at the current annual growth rate and compared it with each economy's decade-average ('normal') growth pace.
- 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 now on top, with its 0.64 per cent annual population growth rate 15.8 per cent above the decade-average rate.
- Victoria's population growth is 14.2 per cent above the decade average, followed by NSW (up 12.1 per cent).
- Annual population growth rates in the other states and territories were below decade averages: ACT (-8.5 per cent); Queensland (-12 per cent); South Australia (-35.6 per cent); Western Australia (-60.7 per cent); and Northern Territory (-90 per cent).
- The state with the fastest annual population growth is still Victoria (up 2.34 per cent). Next strongest was the ACT (up 1.69 per cent); Queensland (up 1.64 per cent) and NSW (up 1.57 per cent).
- The state or territory with the slowest annual population growth is the Northern Territory, up just 0.15 per cent on a year ago. Next highest was South Australia (up 0.61 per cent).
- Tasmania's population is 0.64 per cent up on a year earlier – the fastest rate in 6½ years.
- Western Australia's population in the June quarter was up by 0.84 per cent on a year ago – actually the fastest rate in two years.

"Tasmania is now on top, with its 0.64 per cent annual population growth rate 15.8 per cent above the decade-average rate."

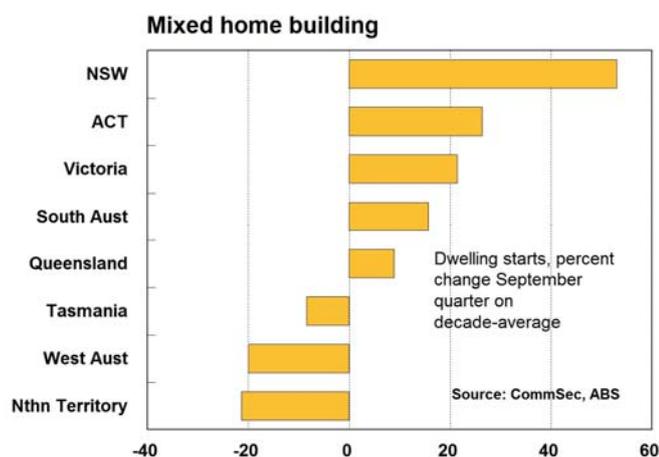
HOUSING FINANCE



- 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.
- In six of the states and territories – the ACT, Victoria, NSW, Tasmania, Queensland and South Australia – trend housing finance commitments are above decade averages. And in all these economies except Queensland and South Australia, the trend number of commitments are above year-ago levels.
- The ACT remains in top spot with the number of commitments up by 36.7 per cent on the long-term average. Next strongest was Victoria (up 25.8 per cent on decade averages) followed by NSW (up 18.3 per cent).
- Tasmania retains fourth spot on housing finance, with commitments 10.2 per cent higher than the decade average. Queensland is next strongest (up 7.6 per cent) ahead of South Australia (up 2.7 per cent).
- Northern Territory remains the weakest for housing finance with trend commitments 20.9 per cent lower than its decade average. Commitments in Western Australia are down 16.5 per cent on the decade-average.
- Annual growth of home loans is strongest in the ACT (up 20.2 per cent) from Victoria (up 12.3 per cent).

"The ACT remains in top spot with the number of commitments up by 36.7 per cent on the long-term average."

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 mixed across the nation. The NSW market remains strong, responding to above “normal” population growth. And home building is also strong in the ACT and Victoria. By contrast, trend starts in Western Australia are at the lowest levels for over five years.
- NSW remains in top spot for dwelling starts with commencements 53 per cent above the decade-average. Activity is easing – but only slowly – as demand is met. In the September quarter the number of dwellings started was 9.6 per cent lower than a year earlier.
- The ACT is now in second spot behind NSW, with starts 26.3 per cent above decade averages. Victorian starts are 21.4 per cent above decade averages, followed by South Australia (up 15.6 per cent) and Queensland (up 8.9 per cent).
- At the other end of the scale, dwelling starts in the Northern Territory were 21.4 per cent below decade averages. But the good news is that starts in the September quarter were up 16.5 per cent on a year earlier. Next weakest was Western Australia (down 20.1 per cent from the decade average) from Tasmania (down 8.5 per cent).
- In terms of annual growth, four of the states and territories had starts above a year earlier in the September quarter. In the previous June quarter only Tasmania had annual growth in dwelling starts.

“NSW remains in top spot for dwelling starts with commencements 53 per cent above the decade-average.”

OTHER INDICATORS

WAGES & PRICES*

	Wages Sep Qtr	CPI Sep Qtr	Home Prices Dec
NSW	2.1	1.9	3.1
Victoria	2.2	2.2	8.9
Queensland	2.2	1.5	2.4
South Australia	2.0	1.8	3.0
Western Australia	1.3	0.8	-2.3
Tasmania	2.2	2.0	12.3
Northern Territory	1.4	0.6	-6.5
ACT	1.9	2.1	4.9

* Annual % change. Source: ABS, CoreLogic, CommSec
CPI - Consumer Price Index
Wages - Wage Price Index

- Consumer prices were higher across all capital cities in the year to the September quarter. The weakest result was in Darwin with prices up just 0.6 per cent over the year. Prices in Perth were up by just 0.8 per cent on a year ago.
- While consumer prices are rising, annual rates of growth remain historically low. Currently annual inflation rates in each capital city are generally little different from annual wage growth.
- The biggest gap between wage growth and inflation was recorded in the Northern Territory with wages 0.8 percentage points higher than consumer prices. Actual wage growth was weaker than all states and territories except Western Australia, however inflation was the lowest.
- Melbourne had the highest annual inflation rate, ahead of Canberra and Hobart.
- Wage growth was highest in Victoria, Queensland and Tasmania (all up by 2.2 per cent) while wages in Western Australia were up just 1.3 per cent on a year ago.
- Turning to home prices, in December 2017 six of the capital cities recorded annual growth of home prices. This result was in line with the report published three months ago for the month of September.
- But price growth is starting to ease in previously high-flying capital cities such as Sydney and Melbourne. In December Sydney home prices fell by 0.9 per cent and Melbourne home prices fell by 0.2 per cent.
- The strongest annual growth in home prices was in Hobart (up 12.3 per cent) followed by Melbourne (up 8.9 per cent), Canberra (up 4.9 per cent), Sydney (up 3.1 per cent), Adelaide (up 3.0 per cent) and Brisbane (up 2.4 per cent).
- Home prices were lower than a year ago in Darwin (down 6.5 per cent) and Perth (down 2.3 per cent).

“Melbourne had the highest annual inflation rate, ahead of Canberra and Hobart.”

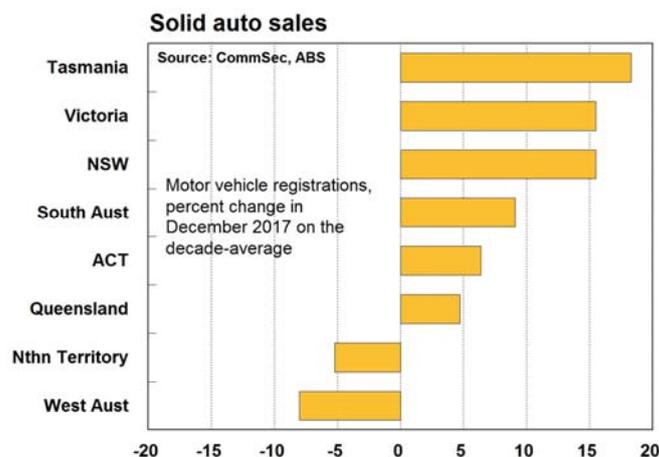
ANNUAL GROWTH RATES

TREND ANNUAL GROWTH %				
	<i>Economic Growth</i>	<i>Retail Trade</i>	<i>Equip. Invest</i>	<i>Employment</i>
NSW	6.7	3.0	-5.5	3.5
VIC	6.2	3.7	1.1	3.0
QLD	9.3	1.2	5.5	4.6
SA	5.0	3.5	12.4	1.2
WA	3.6	0.7	7.2	3.0
TAS	3.5	2.5	32.6	2.8
NT	11.9	0.6	13.4	-2.8
ACT	3.9	2.4	-15.7	4.6
AUST	5.6	2.5	1.7	3.3

	<i>Construct Work</i>	<i>Pop-ulation</i>	<i>Housing Finance</i>	<i>Home Starts</i>
NSW	8.9	1.57	5.0	-9.6
VIC	10.7	2.34	12.3	5.0
QLD	2.4	1.64	-1.8	-15.6
SA	22.8	0.61	-4.7	15.1
WA	-22.2	0.84	-8.9	-11.6
TAS	0.1	0.64	0.3	14.5
NT	0.2	0.15	-1.0	16.5
ACT	-0.8	1.69	20.2	-2.6
AUST	2.0	1.60	3.9	-5.2

- 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 recent experience. And by ‘recent 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 Northern Territory top growth on two measures each. South Australia, Tasmania, 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 seven of the eight indicators, Northern Territory and Tasmania under-performed on five indicators with 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. Tasmania is the strongest on new vehicle sales, up 18.3 per cent on decade averages. And annual growth of sales is also the strongest in Tasmania (up 10.9 per cent).
- NSW remains on top of the economic performance rankings, solidly ahead of Victoria. Both states have relatively high population growth, underpinning home building and retail spending.
- Victoria remains clearly in second on the performance rankings with few changes over the past quarter. Victoria also leads annual growth rates on two indicators.
- The ACT remains in third spot with solid improvement in the job market over the past quarter. The ACT also continues to lead other economies on home loans.
- Tasmania rises from fifth to fourth, courtesy of firmer business investment and a lift in population growth – now the strongest in 6½ years.
- South Australia eases from fourth to fifth, but rather than weakening, it loses fourth position to a strengthening Tasmanian economy.
- Queensland remains in sixth position. But as noted by the Reserve Bank, there are encouraging trends. Queensland employment growth is the strongest in the nation. 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.
- The outlook for the Western Australia economy is buoyed by stronger employment growth – the 3.0 per cent annual growth rate is now just off the strongest levels seen in five years. And annual population growth has lifted for the past four quarters.

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