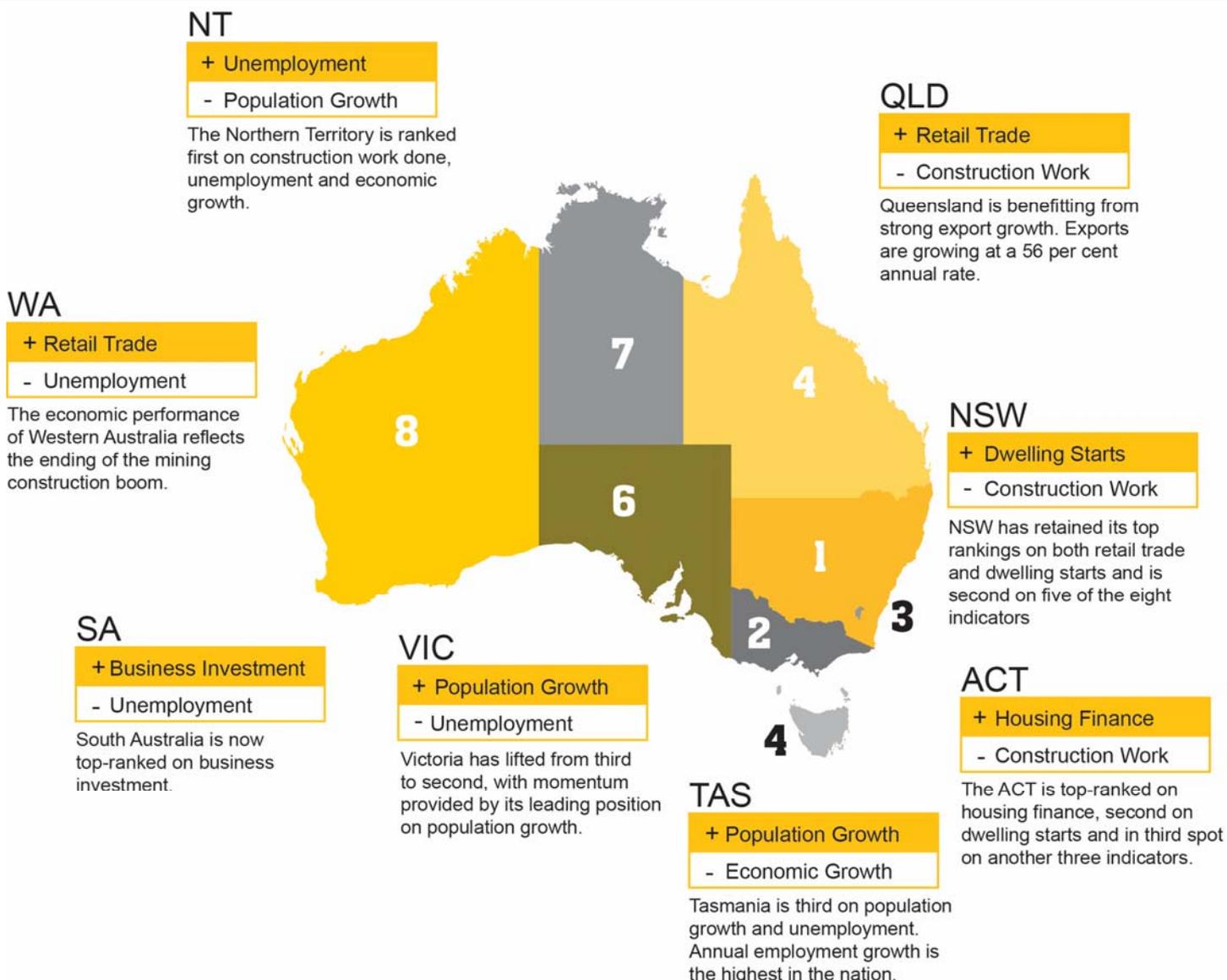


State of the States

July 2017 State & territory economic performance report.
Executive Summary



NSW ON TOP; VICTORIA LIFTS TO 2ND

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 confirms a multi-speed national economy. NSW is solidly on top with little to separate Victoria and the ACT. Then there is a gap to Tasmania, Queensland, South Australia and Northern Territory and then another gap to Western Australia.

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

Victoria has lifted to second spot on the economic performance rankings but there is little to separate the state from the ACT.

The ACT has dropped from second spot to third due to a softening of the job market in recent months.

Tasmania remains in fourth spot and is joined by **Queensland**. There is then a small gap to **South Australia**, in sixth position followed by **Northern Territory** in seventh.

Western Australia continues to lag other economies and annual growth rates remain below national averages on all indicators.

- NSW has retained its top rankings on both retail trade and dwelling starts. NSW is second on five of the eight indicators. The lowest NSW ranking is third on construction work.
- Victoria has lifted from third to second on the economic performance rankings with momentum provided by its leading position on population growth. Victoria is second on two indicators and in third spot on another two indicators.
- The ACT has dropped from second spot to third on the rankings. The ACT is top-ranked on housing finance, second on dwelling starts and in third spot on another three indicators. But the ACT has slipped to seventh on the unemployment ranking.
- There is little to separate four of the other economies with a further gap to Western Australia.
- Tasmania retains its position in fourth spot but is joined by Queensland. And South Australia has edged its way into sixth on the performance rankings from the Northern Territory.
- The highest positions for Tasmania are third on population growth and unemployment. Queensland is benefitting from strong export growth which will boost overall growth of Gross State Product (economic growth). Exports are growing at a 56 per cent annual rate.
- South Australia is now top-ranked on business investment. But the next best ranking is fifth on dwelling starts and housing finance.
- The Northern Territory eases from sixth to seventh position on the economic performance rankings.
- The Territory is still ranked first on construction work done, unemployment and economic growth. But on forward-looking indicators like population growth, housing finance and home starts the Territory lags other economies.
- The economic performance of Western Australia continues to reflect the ending of the mining construction boom. But unemployment has eased over the last three months.

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.

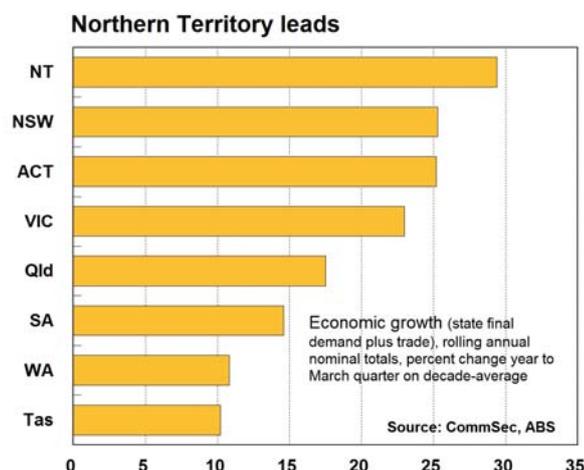
The aim is to find how each economy is performing compared with "normal". And just like the Reserve Bank does with interest rates, we used decade-averages to judge the "normal" state of affairs. For each economy, the latest level of the indicator – such as retail spending or economic growth – was compared 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 4.4 per cent is the second lowest of all economies. But this jobless rate is 18.2 per cent higher than its 'normal' or decade-average rate. In contrast, NSW's unemployment rate is actually 10 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.

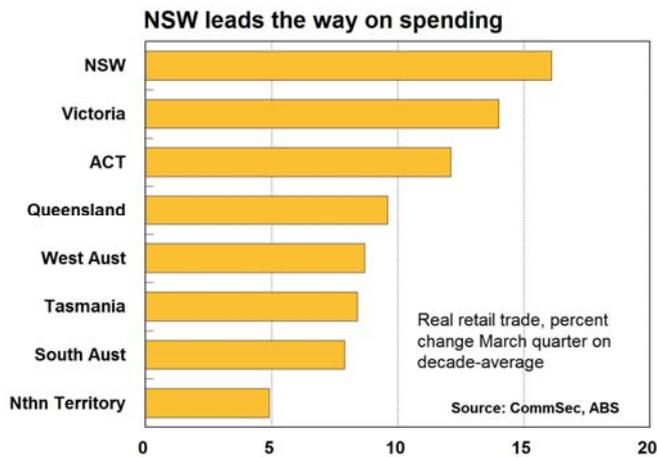
ECONOMIC GROWTH



- 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 29.4 per cent above its 'normal' or decade-average level of output.
- Next strongest is NSW, with output 25.3 per cent higher than the decade average level of output. Then follows the ACT (up 25.2 per cent) from Victoria (23 per cent).
- At the other end of the scale, economic activity in Tasmania in the March quarter was just 10.2 per cent above its decade average while Western Australian activity was up 10.8 per cent, behind South Australia (up 14.6 per cent) and Queensland (up 17.5 per cent).
- The Northern Territory also has the fastest nominal annual economic growth rate in the nation, up by 10.4 per cent on a year ago, ahead of the ACT (up 7.3 per cent), NSW (up 6.9 per cent) and Queensland (up 5.9 per cent).
- The weakest nominal annual growth rates are in South Australia (up 1.6 per cent) and Tasmania (up 1.9 per cent).
- In terms of economic growth, 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 a strong lift in exports. In the year to March, Queensland exports were up 56 per cent on a year ago. Similarly Western Australian exports were up by 27 per cent on a year ago.

"In the year to March, Queensland exports were up 56 per cent on a year ago."

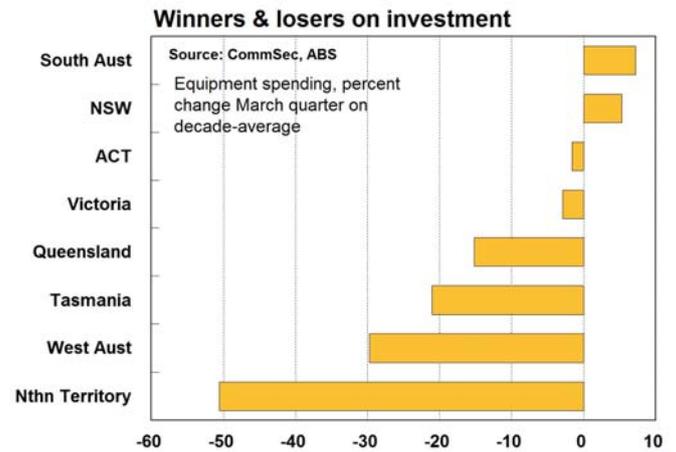
RETAIL SPENDING



- The measure used was real (inflation-adjusted) retail trade in trend terms with March quarter data the latest available.
- NSW has maintained the top spot on the retail rankings, followed by Victoria. In fact there were no changes in the rankings over the past three months.
- Spending in NSW was 16.1 per cent above decade-average levels in the March quarter. Solid activity in the housing sector, low unemployment and higher home prices continue to support spending.
- Spending in Victoria was 14 per cent above decade-average levels, once again supported by home building and the strength in employment.
- Spending in the ACT was up 12.1 per cent on the decade average, followed by Queensland (up 9.6 per cent). In fifth spot was Western Australia with spending 8.7 per cent above decade averages.
- Northern Territory recorded the weakest result on retail spending, up 4.9 per cent on the decade average, just below South Australia with 7.9 per cent growth and Tasmania with 8.4 per cent growth.
- If monthly retail trade was assessed instead to calculate the rankings (May data available), there are subtle changes with Tasmania in fourth position from South Australia, Queensland and Western Australia.
- In terms of annual growth of real retail trade, the ACT is strongest (up 2.4 per cent), from South Australia (up 2.1 per cent) and Queensland (up 1.7 per cent).
- But looking at monthly retail trade, Victoria is strongest (up 4.6 per cent), from the ACT (up 4.5 per cent) and South Australia (up 4.3 per cent).

“NSW has maintained the top spot on the retail rankings, followed by Victoria. In fact there were no changes in the rankings over the past three months.”

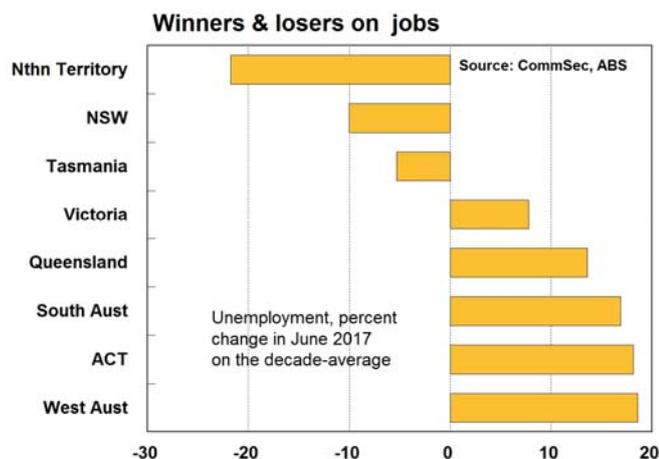
BUSINESS INVESTMENT



- The measure of business investment was spending on new plant and equipment in trend terms with March quarter data compared with decade averages (the ‘normal’ performance).
- Only South Australia and NSW had business spending in the March quarter above decade-average levels: South Australia (7.2 per cent) and NSW (5.3 per cent). Still, equipment spending in the ACT was only 1.6 per cent lower than the decade average with Victoria only down by 2.9 per cent.
- By contrast, other states and territories had business spending solidly below decade averages in the March quarter. Weakest was the Northern Territory (down 50.6 per cent) with completion of the investment stage of a number of gas projects.
- Next weakest was Western Australia (down 29.7 per cent) followed by Tasmania (down 21.0 per cent) and Queensland (down 15.2 per cent).
- On a shorter-run analysis, equipment investment in the March quarter was higher than a year ago in four of the state and territory economies (up from three economies in the previous quarter).
- Business investment was up the most on a year ago in South Australia (up 19.3 per cent) from the ACT (up 11.6 per cent), Queensland (up 9.9 per cent) and Tasmania (up 3.6 per cent).
- It was the second positive annual growth in equipment investment in Queensland in the past four years.
- By contrast new business investment in the Northern Territory was down by 20.8 per cent on a year ago, followed by NSW (down 6.1 per cent), Victoria (down 4.2 per cent) and Western Australia (down 2.7 per cent).

“Only South Australia and NSW had business spending in the March quarter above decade-average levels.”

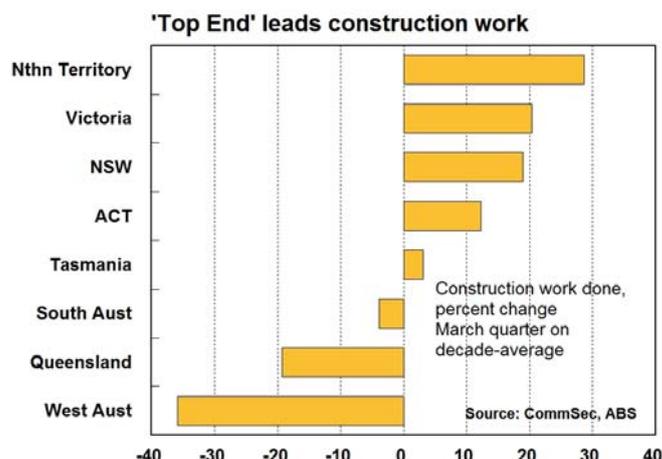
UNEMPLOYMENT



- The Northern Territory has the strongest job market in the nation. Not only is the jobless rate in the Northern Territory the lowest in the nation (3.1 per cent) but it is almost 22 per cent below its decade average. The NSW jobless rate of 4.8 per cent is 10 per cent below its decade average ('normal') jobless rate.
- While the ACT jobless rate is low at 4.4 per cent, this is actually 18.2 per cent higher than the decade average of 3.7 per cent. So the ACT has eased from fourth to seventh on the unemployment performance ranking.
- Tasmania is now ranked third on unemployment as its 5.8 per cent jobless rate is 5.3 per cent below the "normal" (decade-average) of 6.1 per cent. Tasmania also has the strongest annual employment growth at 3.8 per cent – the fastest growth in 2½ years.
- In Victoria, unemployment stands at 6.0 per cent, up 7.8 per cent on its decade average of 5.56 per cent. But annual trend employment growth is second only to Tasmania at 3.3 per cent.
- At the other end of the scale is Western Australia. Trend unemployment stands at 5.6 per cent, almost 19 per cent higher than the 4.7 per cent 'normal' or decade-average. Going further back, the 20-year average jobless rate in Western Australia is 5.0 per cent.
- Next weakest is the ACT (as noted above) from South Australia – its trend unemployment rate is almost 17 per cent above the decade average. Queensland's jobless rate of 6.3 per cent is 13.6 per cent above the decade average.
- Unemployment rates in Western Australia, NSW, Tasmania, Queensland and Northern Territory eased over the past three months. Unemployment rates rose in other states but the jobless rate was stable in Victoria.

"Not only is the jobless rate in the Northern Territory the lowest in the nation but it is almost 22 per cent below its decade average."

CONSTRUCTION WORK

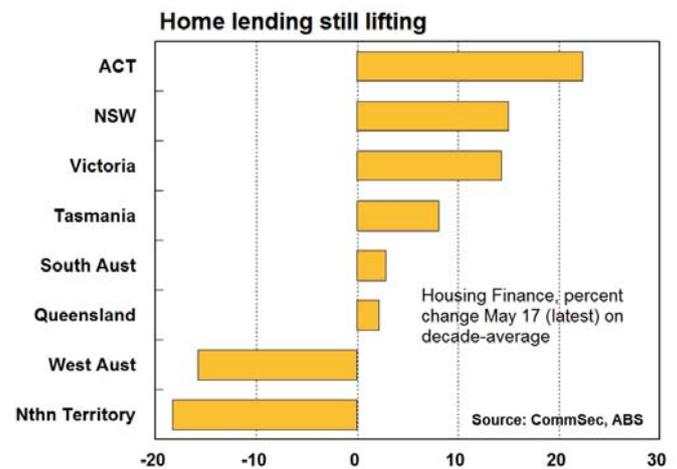
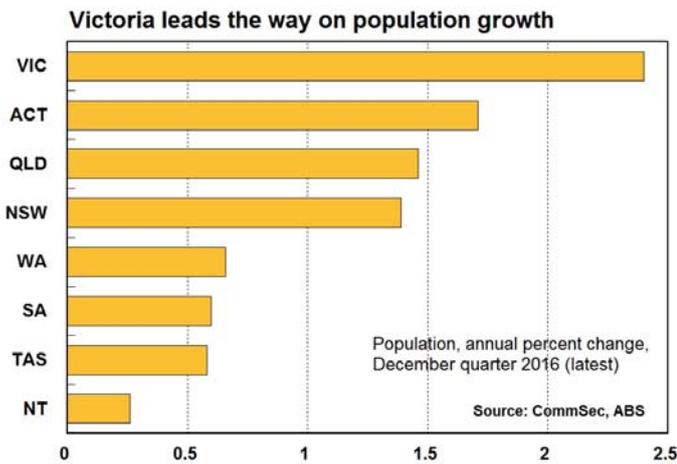


- The measure used for analysis was the total real value of residential, commercial and engineering work completed in trend terms in the March quarter.
- In five of the states and territories, construction work was higher than decade averages in the March quarter (previously four states).
- Leading the way was the Northern Territory with construction work done almost 29 per cent above its decade average with activity associated with the gas projects still providing solid support. However construction work in the Northern Territory was down 4.2 per cent in the March quarter compared with a year earlier.
- Next strongest was Victoria (up 20.4 per cent), while construction work done in NSW was up by 19 per cent on 'normal' levels in trend terms. Construction work done in both state economies was higher than a year ago in the March quarter.
- The ACT has remained in fourth position with construction work 12.3 per cent above decade averages. And Tasmania has held fifth position with construction work up 3.1 per cent on 'normal' or the decade average.
- At the other end of the scale, in Western Australia, overall new construction work done in the March quarter was almost 36 per cent below the decade average.
- Next weakest to Western Australia was Queensland where construction work was 19.3 per cent below decade averages. South Australia is sixth ranked with construction work 3.9 per cent below 'normal' levels.
- In terms of annual growth rates, ACT construction work done in the March quarter was up 20.3 per cent on a year ago, followed by Victoria (up 5.5 per cent). Four economies had construction work lower than a year ago, led by Western Australia and the Northern Territory.

"In Western Australia, overall new construction work done in the March quarter was almost 36 per cent below the decade average."

POPULATION GROWTH

HOUSING FINANCE



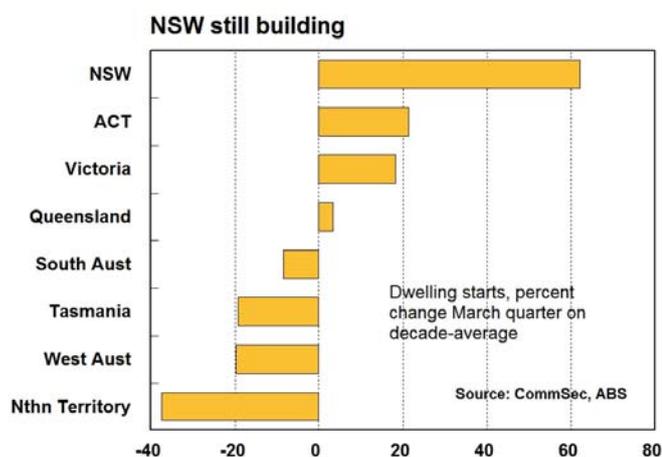
- To assess population performance we looked at the current annual growth rate and compared it with each economy's decade-average ('normal') growth pace.
- Population growth is clearly an important driver of the broader economy, especially retail spending and housing demand. The key point being that only three states have population growth above long-term averages.
- Victoria continues to record the strongest annual population growth as well as holding first place on the differential with the decade-average rate. Victoria's population is 2.40 per cent higher than a year ago (just short of the strongest growth in 56 years) and this growth rate is 19.4 per cent above the 'normal' or decade-average level.
- NSW has the fourth highest annual growth rate in Australia at 1.39 per cent, behind the ACT with 1.71 per cent and Queensland. But the NSW annual growth is 9.2 per cent above the decade average, ahead of the other two states.
- Tasmania's annual population growth rose from 0.44 per cent to a near 6-year high of 0.58 per cent in the December quarter and was 3.6 per cent higher than its decade average – ranking third on this metric.
- The state or territory with the slowest annual population growth is the Northern Territory, up just 0.26 per cent on a year ago and down over 83 per cent on the decade average – the weakest in the nation.

- The measure used is the trend number of housing finance commitments 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, NSW, Victoria, Tasmania, South Australia and Queensland – trend housing finance commitments are above decade averages. But only in Tasmania was the trend number of commitments above year-ago levels.
- The ACT remains in top spot with the number of commitments up by 22.4 per cent on the long-term average. Next strongest was NSW (up 15 per cent on decade averages) followed by Victoria (up 14.3 per cent).
- Tasmania retains fourth spot on housing finance, with commitments 8.1 per cent higher than the decade average. South Australia (up 2.8 per cent on decade averages) was the next strongest, just ahead of Queensland (up 2.2 per cent).
- Northern Territory remains the weakest for housing finance with trend commitments 18.3 per cent lower than its decade average. But commitments are 6.5 per cent lower than a year ago, the smallest decline in 10 months.
- Commitments in Western Australia are down 15.8 per cent on the decade-average.
- Annual growth of home loans is strongest in Tasmania (up 7.0 per cent) from the ACT (down just 0.5 per cent).

“Tasmania’s annual population growth rose from 0.44 per cent to a near 6-year high of 0.58 per cent in the December quarter...”

“The ACT remains in top spot with the number of commitments up by 22.4 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.
- The outlook for home building is 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, starts in Western Australia are at the lowest levels in 4½ years.
- NSW remains in top spot for dwelling starts with commencements over 62 per cent above decade averages. But activity is slowing – in the March quarter the number of dwellings started was almost 4 per cent lower than a year earlier.
- The ACT remains in second spot behind NSW, with starts 21.4 per cent above decade averages. Victorian starts are 18.2 per cent above decade averages, followed by Queensland (up 3.4 per cent).
- At the other end of the scale, dwelling starts in the Northern Territory were over 37 per cent below decade averages. And in the March quarter, starts were down 40 per cent on a year earlier. Next weakest was Western Australia (down 19.8 per cent from decade averages) from Tasmania (down 19.3 per cent on the decade average) and South Australia (down 8.5 per cent).
- In terms of annual growth, only the ACT had dwelling starts up on a year earlier, up by just 3.5 per cent.

“In terms of annual growth, only the ACT had dwelling starts up on a year earlier, up by just 3.5 per cent.”

OTHER INDICATORS

WAGES & PRICES*

	Wages Mar Qtr	CPI Mar Qtr	Home Prices June
NSW	2.1	2.4	12.2
Victoria	2.0	2.5	13.7
Queensland	1.9	1.8	2.0
South Australia	2.2	2.0	2.4
Western Australia	1.2	1.0	-1.7
Tasmania	2.3	2.3	6.8
Northern Territory	2.1	0.5	-7.0
ACT	1.8	2.3	9.6

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

CPI - Consumer Price Index

Wages - Wage Price Index

- Annual inflation rates were higher across all capital cities in the March quarter. The weakest result was in Darwin, Northern Territory with prices up just 0.5 per cent over the year.
- Annual headline rates of inflation have been rising for the past nine months in response to higher petrol prices. 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 1.6 percentage points higher than consumer prices. Wage growth was little different than most of the other states or territories, however inflation was the lowest.
- Annual headline rates of inflation were generally higher in the capital cities of the strongest state and territory economies.
- Turning to home prices, in June 2017 six of the capital cities had positive annual growth of home prices. This result was in line with the report published three months ago for the month of March. Price growth in the south-eastern capital cities stand in contrast to other parts of the country.
- The strongest annual growth in home prices was in Melbourne (up 13.7 per cent), followed by Sydney (up 12.2 per cent), Canberra (up 9.6 per cent) and Hobart (up 6.8 per cent). Next strongest was Adelaide (up 2.4 per cent), followed by Brisbane (up 2.0 per cent).
- Home prices were lower than a year ago in Darwin (down 7.0 per cent) and Perth (down 1.7 per cent).

“Annual headline rates of inflation were generally higher in the capital cities of the strongest state and territory economies.”

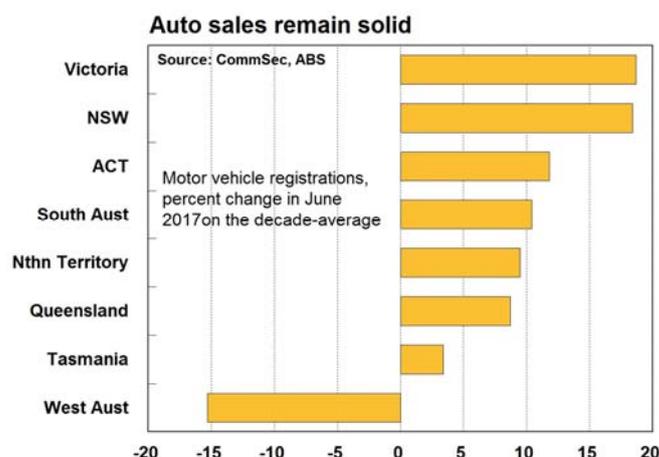
ANNUAL GROWTH RATES

TREND ANNUAL GROWTH %				
	Economic Growth	Retail Trade	Equip. Invest	Employment
NSW	6.9	1.5	-6.1	1.0
VIC	5.0	1.6	-4.2	3.3
QLD	5.9	1.7	9.9	1.8
SA	1.6	2.1	19.3	1.1
WA	2.5	-0.8	-2.7	1.7
TAS	1.9	1.3	3.6	3.8
NT	10.4	-1.0	-20.8	1.9
ACT	7.3	2.4	11.6	1.0
AUST	3.8	1.4	-1.2	1.9

	Construct Work	Pop-ulation	Housing Finance	Home Starts
NSW	3.3	1.52	-1.5	-3.9
VIC	5.5	2.40	-1.2	-6.5
QLD	-1.0	1.46	-4.3	-25.8
SA	-1.2	0.60	-6.4	-14.3
WA	-37.5	0.66	-12.2	-22.2
TAS	4.2	0.58	7.0	-9.9
NT	-4.2	0.26	-6.5	-39.9
ACT	20.3	1.71	-0.5	3.5
AUST	-6.8	1.55	-3.5	-11.4

- 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. By 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, ACT tops growth on three measures; Tasmania on two measures, and Victoria, Northern Territory and South Australia lead the way on the other three.
- When looking across growth rates for the states and territories, the ACT and Victoria out-perform the national average on all but one indicator.
- At the other end of the scale, Western Australia has annual growth rates below the national average on all eight indicators while Northern Territory underperforms on five indicators.

LOOKING AHEAD



- If new vehicle registrations are added to the list of indicators, then there would only be subtle changes in the rankings for Tasmania, Queensland, South Australia and the Northern Territory.
- NSW remains solidly on top of the economic performance rankings. For the past two surveys we said that NSW may experience a challenge from either Victoria or the ACT over the coming year. And that remains the case.
- Victoria has lifted from third spot to second on the performance rankings. But there has been little change in its performance rankings on the eight indicators.
- The ACT has eased to third spot. While economic momentum is on its side, especially with population growth and construction, the Territory has experienced a softer job market in recent months.
- NSW, Victoria and ACT clearly represent the top-tier of economies. But there is little to separate Tasmania, Queensland, South Australia and Northern Territory.
- Tasmania remains in fourth spot but is joined by Queensland. Tasmania is benefitting from rising population growth (fastest in six years), a solid market for established dwellings and an improving job market (strongest job growth in 2½ years).
- Queensland benefits from firmer tourism, exports and housing activity. Investment and population growth have the potential to drive further broader improvement.
- South Australia is in sixth position on the performance rankings. The South Australian economy is showing promising signs with investment lifting over the past quarter.
- The Northern Territory slips to seventh spot. The outlook for the Northern Territory is constrained by weak population growth.
- Western Australia is benefitting from generally good mining and metal prices and solid export volumes. Unemployment has also eased over the past three months. Tourism and agriculture have the potential to drive the economy in coming months.

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