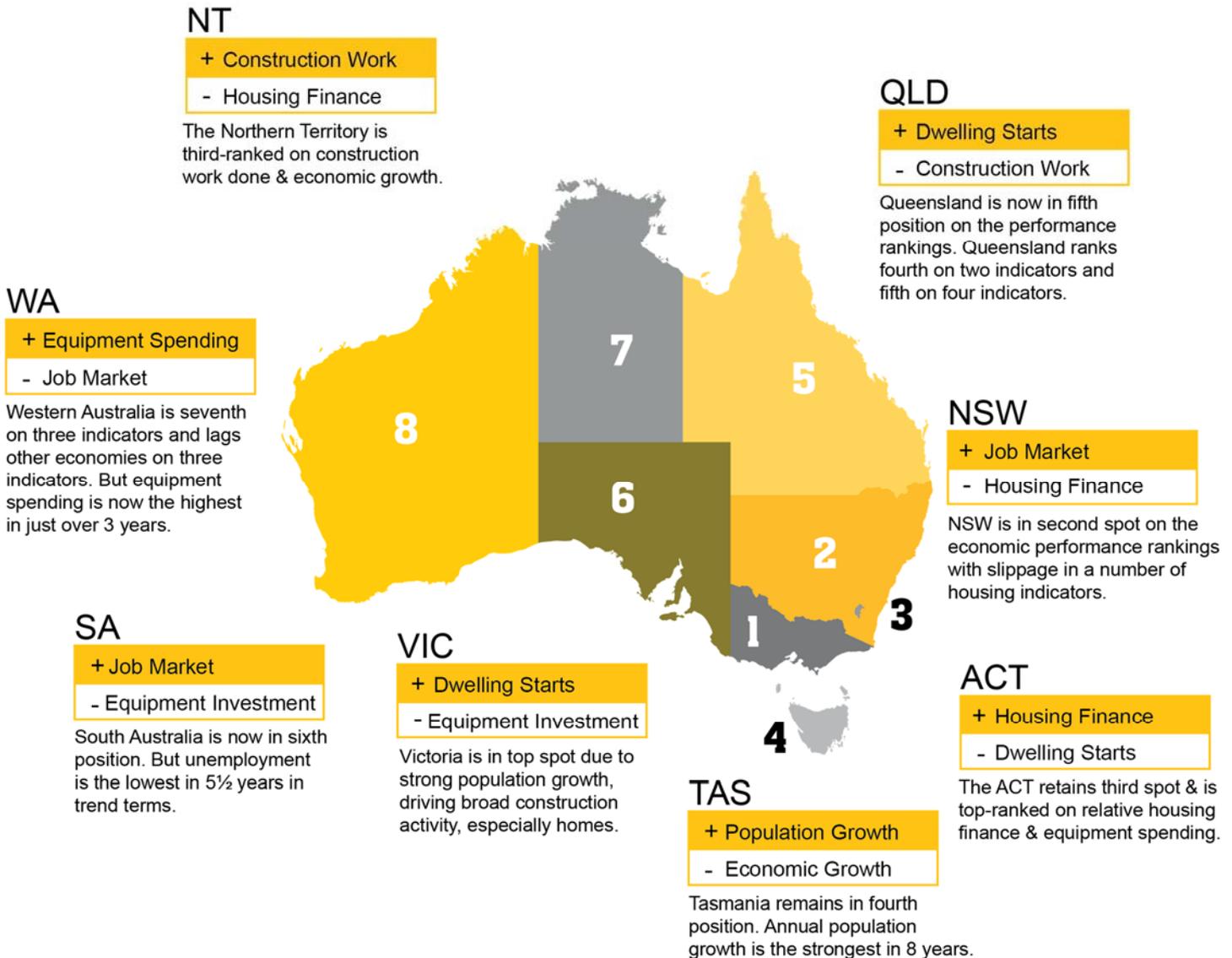


State of the States

July 2018 State & territory economic performance report.
Executive Summary



VICTORIA TOPS RANKINGS FOR THE FIRST TIME

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.

For the first time since CommSec introduced the 'State of the States' economic performance rankings, Victoria has taken top spot ahead of NSW. However there is little to separate the two economies.

In the second group is ACT and Tasmania. The third group is Queensland and South Australia. And then there is a gap to the Northern Territory and Western Australia.

Victoria is in top spot due to strong population growth, driving broad construction activity, especially homes.

NSW is in second spot on the economic performance rankings with slippage in a number of housing indicators.

The ACT retains third spot on the performance rankings ahead of **Tasmania** which is benefitting from firmer activity in home buying and building.

Queensland is now in fifth spot ahead of **South Australia**, but there is little to separate the two economies.

Northern Territory remains in seventh position just ahead of **Western Australia**. There are positive trends for both economies, especially with regard to investment.

- **Victoria** is now at the top of the economic performance rankings. Victoria ranks first on economic growth, dwelling starts and construction work done.
- **NSW** is second on the overall economic performance rankings but still holds top spot for retail spending and the relative performance on unemployment.
- **The ACT** has held on to third spot on the rankings. The ACT is top-ranked on relative housing finance and equipment spending and second-ranked on population growth and unemployment.
- **Tasmania** has held on to fourth position on the economic performance rankings and it can be broadly grouped with the ACT. Tasmania is ranked first on the relative position on population growth, a position that is driving strength in home building.
- **Queensland** is now in fifth position on the performance rankings ahead of South Australia but there is little to separate the two economies. Queensland ranks fourth on two indicators and fifth on four indicators
- **South Australia** is now in sixth position. But unemployment is the lowest in 5½ years in trend terms.
- **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 third-ranked on construction work done and economic growth. But it lags all other states and territories on four of the indicators. The good news is that employment is growing again in annual terms.
- **Western Australia** is seventh on three indicators and lags other economies on three indicators. But equipment spending is now the highest in just over three years.

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.

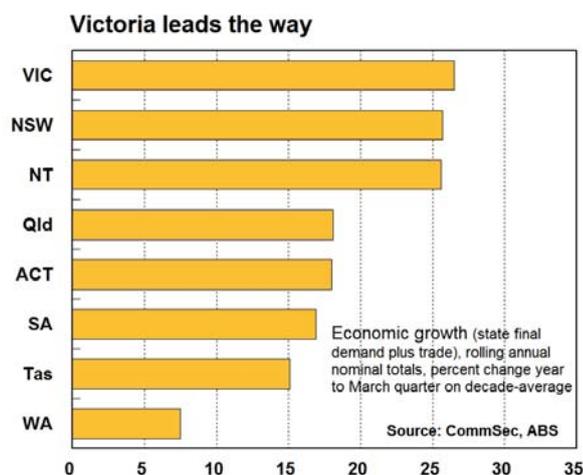
The aim is to find how each economy is performing compared with “normal”. And just like the Reserve Bank does with interest rates, we used decade-averages to judge the “normal” state of affairs. For each economy, the latest level of the indicator – such as retail spending or economic growth – was compared 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 ACT of 3.5 per cent is the lowest of all economies. And this jobless rate is almost 10 per cent lower than its ‘normal’ or decade-average rate. However NSW’s unemployment rate, while higher at 4.8 per cent, is actually 10.3 per cent below its decade average, putting it ahead of the ACT on this indicator.

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

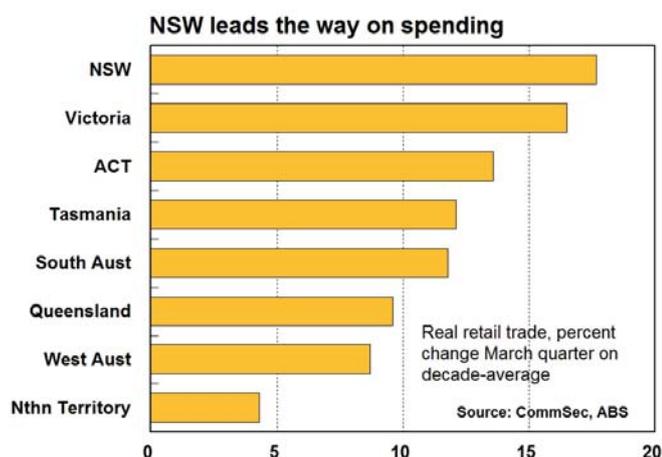
ECONOMIC GROWTH



- 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) plus 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 is assessed with rolling annual totals used to remove seasonality.
- Victoria has moved past Northern Territory to take top spot on economic growth. Economic activity in Victoria is 26.5 per cent above its ‘normal’ or decade-average level of output.
- Also moving past Northern Territory into second place is NSW, with output 25.7 per cent higher than the decade average level of output. Then follows Northern Territory (up 25.6 per cent) from Queensland (up 18.2 per cent) and the ACT (up 18.0 per cent).
- At the other end of the scale, economic activity in Western Australia in the March quarter was just 7.6 per cent above its decade average while Tasmanian activity was up 15.1 per cent, behind South Australia (up 16.8 per cent).
- Interestingly Tasmania has the fastest annual pace of economic growth, up by 7.5 per cent on a year ago, ahead of Victoria (up 6.4 per cent) from South Australia (up 5.6 per cent) and NSW (up 5.1 per cent).
- The weakest nominal annual growth rates are in Western Australia (up 0.7 per cent) and Northern Territory (up 2.4 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. Victoria still leads from NSW but with ACT in third spot from South Australia and Tasmania.

“Victoria has moved past Northern Territory to take top spot on economic growth.”

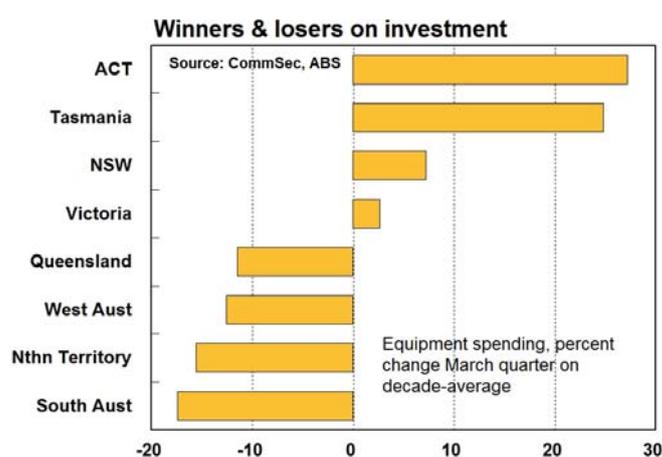
RETAIL SPENDING



- 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, but only after taking the percentages to two-decimal points.
- Spending in NSW was 17.04 per cent above decade-average levels in the March quarter. Solid home building, low unemployment and infrastructure building are key supports for retail spending.
- Spending in Victoria was 16.97 per cent above decade-average levels, once again supported by home building, population growth and firm employment.
- Spending in the ACT was up 13.0 per cent on the decade average, followed by South Australia (up 11.5 per cent). In fifth spot was Tasmania with spending 11.2 per cent above decade averages followed by Queensland, with spending up by 9.4 per cent.
- Northern Territory recorded the weakest result on retail spending, up 3.3 per cent on the decade average, below Western Australia with 7.4 per cent growth.
- If monthly retail trade was assessed instead to calculate the rankings (May data available), there would be subtle changes of relative positions with Tasmania ahead of South Australia and Northern Territory ahead of Western Australia.
- In terms of annual growth of real retail trade, Victoria is strongest (up 4.2 per cent), from South Australia (up 3.1 per cent) and NSW (up 2.2 per cent).
- Looking at monthly retail trade, Victoria (up 4.7 per cent) is ahead of the Northern Territory (up 3.5 per cent) and Tasmania (up 3.2 per cent).

“NSW has maintained the top spot on the retail rankings, followed by Victoria, but only after taking the percentages to two-decimal points.”

EQUIPMENT INVESTMENT

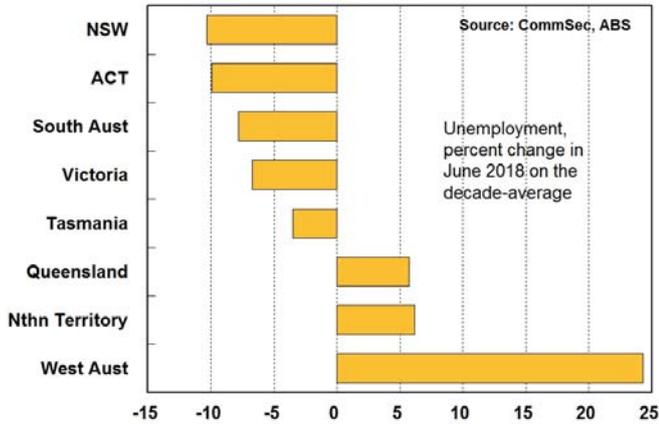


- The measure of equipment investment is spending on new plant and equipment in trend terms with March quarter data compared with decade averages (the ‘normal’ performance).
- In the March quarter four states and territories had equipment spending above decade-average levels, up from two economies in the December quarter.
- The ACT had equipment investment up 27.2 per cent on the decade average from Tasmania (up 24.8 per cent).
- NSW is now down to third spot (from first) (up 7.2 per cent) from Victoria (up 2.6 per cent).
- By contrast, other states and territories had equipment spending below decade averages in the March quarter. Weakest was South Australia (down 17.4 per cent).
- Next weakest was Northern Territory (down 17.1 per cent) with completion of the investment stage for a number of gas projects followed by Western Australia (down 12.6 per cent) and Queensland (down 11.5 per cent).
- On a shorter-run analysis, equipment investment in the March quarter was higher than a year ago in seven of the state and territory economies (up from six economies in the previous quarter).
- Equipment investment was up the most on a year ago in Tasmania (up 55.8 per cent) from the ACT (up 43.6 per cent) and Northern Territory (up 34.6 per cent).
- Notably equipment investment in Tasmania was at 6-year highs in trend terms with Victoria at 6½-year highs and Western Australian investment at 3-year highs.
- By contrast new equipment investment in South Australia was down 14.1 per cent on a year ago.

“In the March quarter four states and territories had equipment spending in the above decade-average levels, up from two economies in the December quarter.”

UNEMPLOYMENT

Winners & losers on jobs

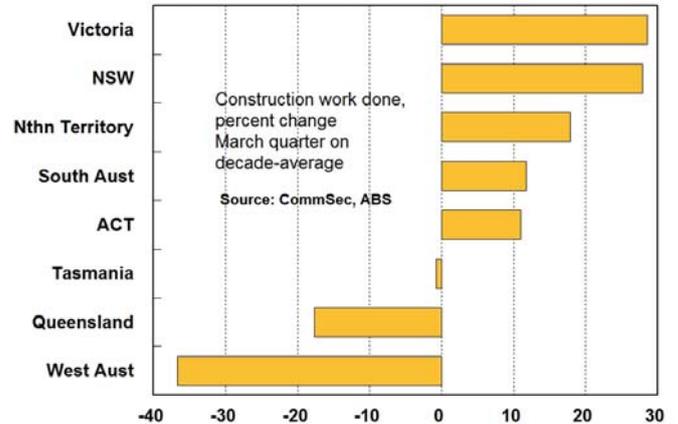


- What state or territory has the strongest job market in the nation? It is not an easy answer. But we have looked at unemployment rates across economies, comparing the rates with decade averages.
- On this measure, NSW has the strongest job market. Trend unemployment in NSW stands at 4.8 per cent, a rate 10.3 per cent below the decade average. Employment is also nearly 11 per cent above the decade average.
- Next best is the ACT, its 3.5 per cent jobless rate being almost 10 per cent below the decade average. South Australia comes next from Victoria and Tasmania – all with jobless rates below their relative decade averages.
- Next is Queensland – the 6.1 per cent jobless rate is 5.7 per cent higher than the long-term average. The Northern Territory jobless rate of 4.1 per cent is 6.2 per cent above the 3.9 per cent decade average.
- The Western Australian jobless rate of 6.2 per cent is over 24 per cent above the 5.0 per cent decade-average. On a 20-year average Western Australia still has the weakest job market.
- NSW has the strongest annual employment rate (up 3.7 per cent), above ACT (up 3.0 per cent) and Queensland (up 2.6 per cent).
- In Victoria, employment growth has slowed to a 2.0 per cent annual rate but the jobless rate of 5.3 per cent is just above the 6½-year low set in May.
- At the other end of the scale, employment in both Western Australia and Tasmania are up 1.3 per cent on a year earlier. Employment in the Northern Territory is now growing again with annual growth of 2.1 per cent at 13-month highs.

“In Victoria, employment growth has slowed to a 2.0 per cent annual rate but the jobless rate of 5.3 per cent is just above the 6½-year low set in May.”

CONSTRUCTION WORK

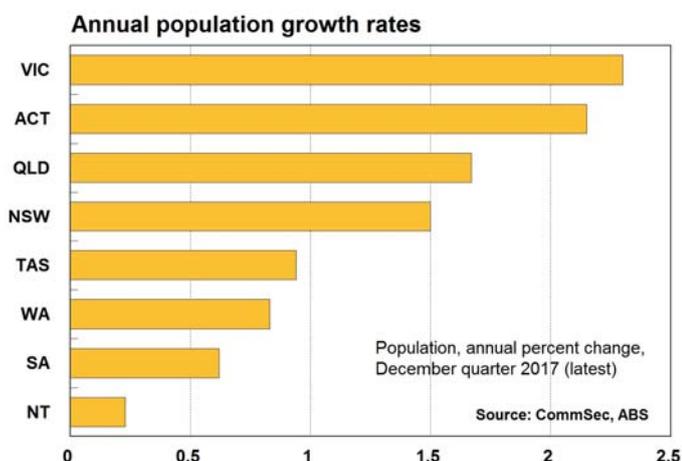
Victoria moves ahead



- 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 in the March quarter was higher than the decade average (the same number as the previous quarter).
- Victoria has moved past NSW into top spot with construction work done 28.6 per cent above its decade average. NSW construction was 27.9 per cent above the ‘norm’ or decade-average followed by Northern Territory (up 17.9 per cent).
- In NSW, Victoria and South Australia construction work done was at record highs in the March quarter.
- South Australia is now in fourth position with construction work 11.8 per cent above decade averages followed by the ACT (up 11.0 per cent).
- At the other end of the scale, Western Australian construction work done in the March quarter was 36.7 per cent below the decade-average, behind Queensland, with construction work down 17.7 per cent on decade averages and Tasmania (down 0.7 per cent).
- In terms of annual growth rates, South Australian construction work done in the March quarter was up 13.7 per cent on a year ago followed by Victoria (up 10.0 per cent) and NSW (up 9.8 per cent).
- Only one economy had construction work lower than a year ago (two economies in the December quarter): with Tasmania construction down by 3.8 per cent.
- After contracting in annual terms Western Australian construction in the March quarter was up 0.2 per cent on a year ago.

“Victoria moved past NSW into top spot with construction work done 28.6 per cent above its decade average.”

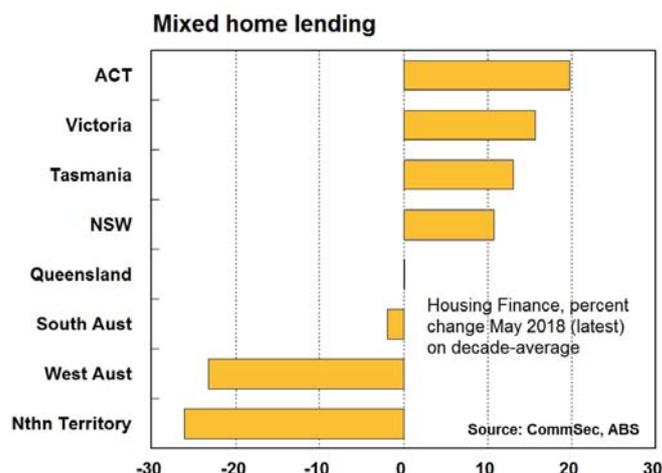
POPULATION GROWTH



- 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 four economies have population growth above long-term averages.
- Tasmania is strongest on the relative population measure, with its 0.94 per cent annual population growth rate almost 65 per cent above the decade-average rate.
- Population growth in the ACT is 14.2 per cent above the decade average, followed by Victoria (up 11.2 per cent) and NSW (up 6.2 per cent).
- Annual population growth rates in the other states and territories were below decade averages: Queensland (-8.4 per cent); South Australia (-33.1 per cent); Western Australia (-58.5 per cent); and Northern Territory (-83.7 per cent).
- The state with the fastest *absolute* annual population growth is still Victoria (up 2.30 per cent). Next strongest is the ACT (up 2.15 per cent); Queensland (up 1.67 per cent) and NSW (up 1.50 per cent).
- The state or territory with the slowest annual population growth is the Northern Territory, up just 0.23 per cent on a year ago.
- Tasmania’s annual population growth of 0.94 per cent is just shy of the fastest rate in eight years.
- Western Australia’s annual population growth of 0.83 per cent is the fastest rate in two years.

“Tasmania is strongest on the relative population measure, with its 0.94 per cent annual population growth rate almost 65 per cent above the decade-average rate.”

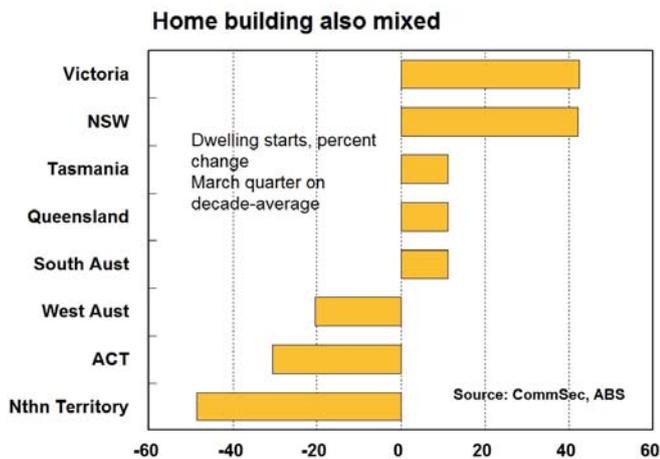
HOUSING FINANCE



- 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 just one change in the rankings with Tasmania moving past NSW into third position. In five of the states and territories trend housing finance commitments are above decade averages. But in all but two states and territories, trend housing finance is below year-ago levels.
- The ACT remains in top spot with the number of commitments up by 19.8 per cent on the long-term average. Next strongest is Victoria (up 15.7 per cent on decade averages) followed now by Tasmania (up 13 per cent) ahead of NSW (up 10.8 per cent).
- Queensland is next strongest (up 0.1 per cent) ahead of South Australia (down 1.9 per cent).
- Northern Territory remains the weakest for housing finance with trend commitments 26.1 per cent lower than its decade average. Commitments in Western Australia are down 23.2 per cent on the decade-average.
- Home lending activity has softened and annual growth of home loans is now present in only Tasmania (up 1.3 per cent) and Victoria (up 0.6 per cent). In all states and territories except South Australia and Tasmania, annual percentage changes have weakened in the past three months.

“...in all but two states and territories, trend housing finance is below year-ago levels.”

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 strong in NSW and Victoria due to above “normal” population growth, but there is then a fair gap to the other states and territories. But commencements are slowing with only Tasmania and Victoria posting a lift in trend starts in the March quarter.
- Victoria is now in top spot for dwelling starts, with commencements 42.5 per cent above the decade-average. Also, in the March quarter the number of dwellings started in Victoria was at record highs in trend terms.
- NSW is now in second spot behind Victoria, with starts 42.2 per cent above decade averages. Three states – Tasmania, South Australia and Queensland – have starts 11.2 per cent higher than the decade average. But the states hold third, fourth and fifth to two decimal points
- At the other end of the scale, dwelling starts in the Northern Territory were 48.6 per cent below decade averages. And activity continues to ease with trend starts at the lowest levels in almost 28 years. Next weakest was ACT (down 30.5 per cent from the decade average) from Western Australia (down 20.3 per cent).
- In terms of annual growth, three of the states and territories had starts above a year earlier in the March quarter. The stand-out is Tasmania with trend starts the highest in just over two years.

“Victoria is now in top spot for dwelling starts with commencements 42.5 per cent above the decade-average”

OTHER INDICATORS

WAGES & PRICES*

	Wages Mar Qtr	CPI Mar Qtr	CPI Jun Qtr	Home Prices June
NSW	2.1	2.1	2.1	-3.1
Victoria	2.3	2.2	2.5	1.5
Queensland	2.2	1.7	1.7	0.7
South Australia	2.1	2.3	2.7	0.9
Western Australia	1.5	0.9	1.1	-2.2
Tasmania	2.3	2.0	2.4	9.4
Northern Territory	1.1	1.1	1.2	-5.7
ACT	2.0	2.4	2.8	2.3

* Annual % change. Source: ABS, CoreLogic, CommSec
CPI - Consumer Price Index Wages - Wage Price Index
Home prices - States & Territories

- Inflation rates (annual changes of consumer prices) were either unchanged or higher across capital cities between the March and June quarters. Perth recorded the lowest annual increase in prices (up 1.1 per cent) while Darwin prices rose by 1.2 per cent over the past year.
- Canberra had the highest annual inflation rate in the June quarter at 2.8 per cent, ahead of Adelaide (2.7 per cent).
- Inflation rates remain historically low, but there is a fair gap between the capital cities with the highest and lowest inflation rates. Annual wage growth is also historically low across capital cities.
- To assess real wage growth, March quarter data must be used. And the biggest gap between wage growth and inflation was recorded in the Western Australia with wages 0.6 percentage points higher than consumer prices.
- Wage growth in the year to March was strongest in both Victoria and Tasmania (2.3 per cent) ahead of Queensland (up by 2.2 per cent) while wages in Northern Territory were up only 1.1 per cent.
- Turning to home prices, in June 2018 three of the capital cities recorded annual declines in home prices, the same as for the year to the March quarter.
- The annual change in home prices eased in five States and Territories in the past quarter, except Western Australia and Northern Territory, while in Tasmania price growth was steady at 9.4 per cent.
- The strongest annual growth in home prices was in Tasmania (up 9.4 per cent), followed by the ACT (up 2.3 per cent), Victoria (up 1.5 per cent), South Australia (up 0.9 per cent) and Queensland (up 0.7 per cent).
- Home prices were lower than a year ago in Northern Territory (down 5.7 per cent), NSW (down by 3.1 per cent) and Western Australia (down by 2.2 per cent)

“Canberra had the highest annual inflation rate in the June quarter at 2.8 per cent, ahead of Adelaide (2.7 per cent).”

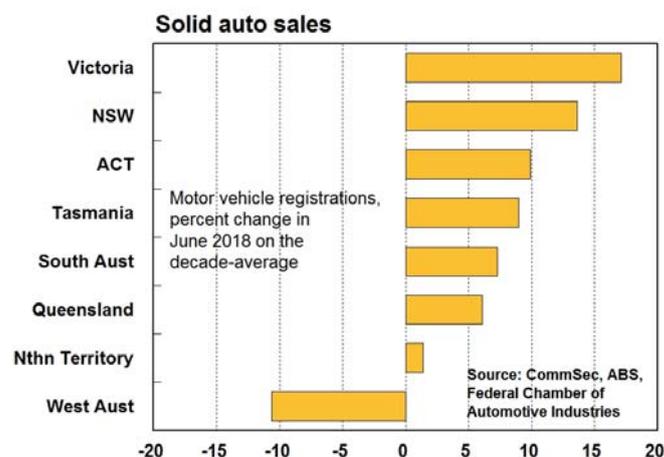
ANNUAL GROWTH RATES

TREND ANNUAL GROWTH %				
	Economic Growth	Retail Trade	Equip. Invest	Employment
NSW	5.1	2.2	3.2	3.7
VIC	6.4	4.2	7.2	2.0
QLD	5.0	0.8	2.6	2.6
SA	5.6	3.1	-14.1	2.3
WA	0.8	-0.6	24.0	1.3
TAS	7.5	1.8	55.8	1.3
NT	2.4	-0.8	34.6	2.1
ACT	4.1	1.1	43.6	3.0
AUST	3.7	2.1	8.4	2.6

	Construct Work	Pop-ulation	Housing Finance	Home Starts
NSW	9.8	1.50	-3.9	-7.9
VIC	10.0	2.30	0.6	24.2
QLD	0.4	1.67	-7.3	-2.3
SA	13.7	0.62	-6.1	11.5
WA	0.2	0.83	-13.4	-3.5
TAS	-3.8	0.94	1.3	31.4
NT	0.8	0.23	-14.2	-29.4
ACT	1.0	2.15	1.3	-41.4
AUST	6.1	1.59	-4.2	3.2

- 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 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, Tasmania tops growth on four measures, ahead of Victoria (top on two measures). South Australia, NSW and the ACT lead the way on one measure each.
- When looking across growth rates for the states and territories, Victoria exceeded the national-average on six of the eight indicators from NSW and the ACT (five).
- At the other end of the scale, Western Australia and the Northern Territory both had annual growth rates below the national average on seven of the eight indicators. Queensland under-performed on five indicators with South Australia and Tasmania 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 17.1 per cent on decade averages. And annual growth of sales is also the strongest in Victoria (up 3.5 per cent).
- So for the first time since the economic performance rankings were conceived almost nine years ago, Victoria is ranked No.1, just ahead of NSW. Both states have broad-based economic strength, underpinned by construction and investment activity.
- Victoria had been closing the gap with NSW on the performance rankings over the past year with construction and dwelling starts lifting over the past quarter. When assessing annual growth rates, Victoria exceeded the national average on six of the eight indicators.
- NSW drops from the No.1 spot for the first time in almost four years with slippage in five of the eight indicators.
- The ACT remains in third spot with a marked improvement in the relative performance of equipment investment.
- Tasmania remains in fourth position, courtesy of improvement in relative performance of housing finance and dwelling starts.
- Queensland has lifted to fifth position, ahead of South Australia with firmer population growth driving momentum.
- South Australia eases from fifth to sixth position but there is little to separate the economy from Queensland.
- The Northern Territory remains in seventh spot. The outlook for the Northern Territory is constrained by weak population growth. But encouragingly retail spending and employment growth have lifted in recent months.
- There are positive prospects for the Western Australia economy. Population growth is now the fastest in more than two years and equipment investment is at the highest levels in three years.

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CONTACTS

Craig James
Chief Economist
Twitter: @CommSec

Ryan Felsman
Senior Economist
Twitter: @CommSec