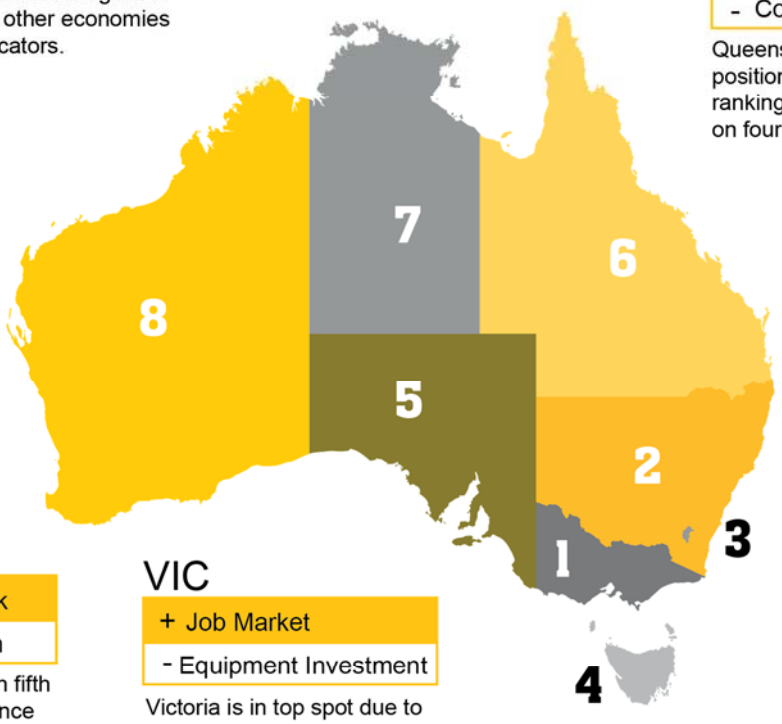
State of the States

October 2018 State & territory economic performance report.
Executive Summary

CommSec



NT
+ Job Market
- Dwelling Starts

The Northern Territory is third-ranked on economic growth but lags all other economies on five indicators.

QLD
+ Dwelling Starts
- Construction Work

Queensland is now in sixth position on the performance rankings. Queensland ranks fifth on four of the eight indicators.

WA
+ Equipment Spending
- Retail Trade

Western Australia is seventh or eighth on all indicators (eighth on three indicators).

NSW
+ Retail Trade
- Housing Finance

NSW is second on the overall economic performance rankings. NSW is in top spot for retail spending and dwelling starts.

SA
+ Construction Work
- Population Growth

South Australia is now in fifth position in the performance rankings and is third-ranked on construction work done.

VIC
+ Job Market
- Equipment Investment

Victoria is in top spot due to strong construction activity and the lowest jobless rate in a decade.

ACT
+ Housing Finance
- Dwelling Starts

The ACT retains third spot on the performance rankings and is top-ranked on relative housing finance.

TAS
+ Population Growth
- Economic Growth

Tasmania remains in fourth position but is closing the gap with the ACT.

VICTORIA LEADS FROM NSW

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, the 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.

Victoria remains in top spot on the economic performance rankings ahead of NSW. However there is little to separate the two economies. There are four groups of 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 construction activity and the lowest jobless rate in a decade.

NSW is in second spot on the economic performance rankings and has held its relative position on most indicators.

The ACT retains third spot on the performance rankings but **Tasmania** is closing the gap, improving its relative position on four of the eight indicators.

South Australia is now in fifth spot ahead of **Queensland,** with the former picking up its relative position on business investment.

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

- **Victoria** remains the top of the economic performance rankings. Victoria ranks first on economic growth, unemployment and construction work done.
- **NSW** is second on the overall economic performance rankings but still holds top spot for retail spending and dwelling starts. NSW is second ranked on three other indicators.
- **The ACT** has held on to third spot in the rankings. The ACT is top-ranked on relative housing finance and second-ranked on population growth and business investment.
- **Tasmania** is in fourth position on the economic performance rankings, but is closing the gap on the ACT. Tasmania is ranked first on the relative position on population growth and business investment and is in second spot on housing finance.
- **South Australia** is now in fifth position on the performance rankings ahead of Queensland. But there is still little to separate the two economies. South Australia is third-ranked on construction work done and fourth on two other indicators.
- **Queensland** is now in sixth position. Queensland ranks fifth on four of the eight indicators.
- **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 economic growth. But it lags all other states and territories on five of the indicators. The good news is that employment has now been growing for the past five months.
- **Western Australia** is seventh or eighth on all indicators (eighth on three indicators). But equipment spending is now the highest in 3½ 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.

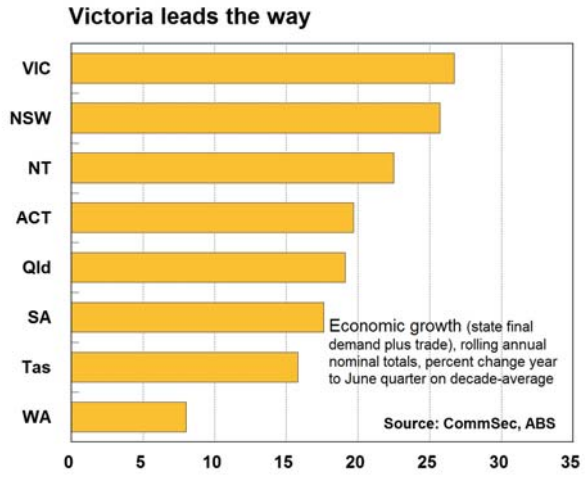
The aim is to find how each economy is performing compared with "normal". And just like the Reserve Bank does with interest rates, we used decade-averages to judge the "normal" state of affairs. For each economy, the latest level of the indicator – such as retail spending or economic growth – was compared 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 3.6 per cent is the lowest of all economies. And this jobless rate is 8 per cent lower than its 'normal' or decade-average rate. However Victoria's unemployment rate, while higher at 4.7 per cent, is actually 17.4 per cent below its decade average, putting it ahead of the ACT on this indicator. The Victorian jobless rate is actually at decade lows in trend terms.

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.

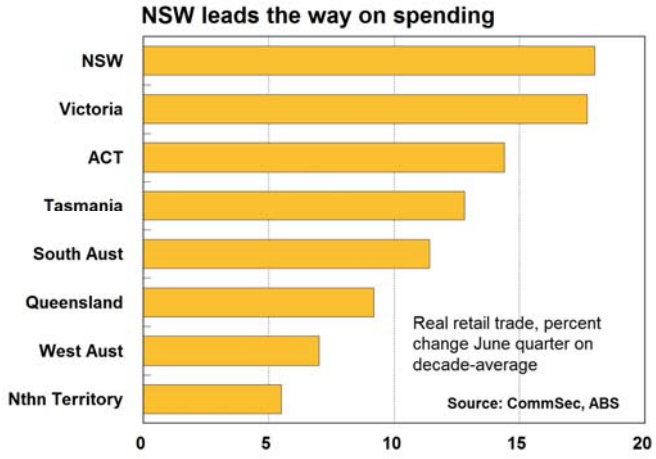
ECONOMIC GROWTH



- 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 maintained top spot on relative economic growth. Economic activity in Victoria in the June quarter was 26.7 per cent above its 'normal' or decade-average level of output, ahead of NSW, with output 25.7 per cent above the 'normal' level of output.
- The Northern Territory retains third position (up 25.6 per cent) from ACT (up 19.7 per cent) and Queensland (up 19.1 per cent).
- At the other end of the scale, economic activity in Western Australia in the June quarter was just 8.0 per cent above its decade average while Tasmanian activity was up 15.8 per cent, behind South Australia (up 17.6 per cent).
- Tasmania is strongest on the pace of economic growth. Tasmania's economy grew by 7.1 per cent over the year to June, ahead of Victoria (up 5.9 per cent), South Australia (up 5.6 per cent) and Queensland (up 4.8 per cent).
- The weakest nominal annual growth rates are in Northern Territory (down by 0.5 per cent) and Western Australia (up 0.9 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 maintained top spot on relative economic growth."

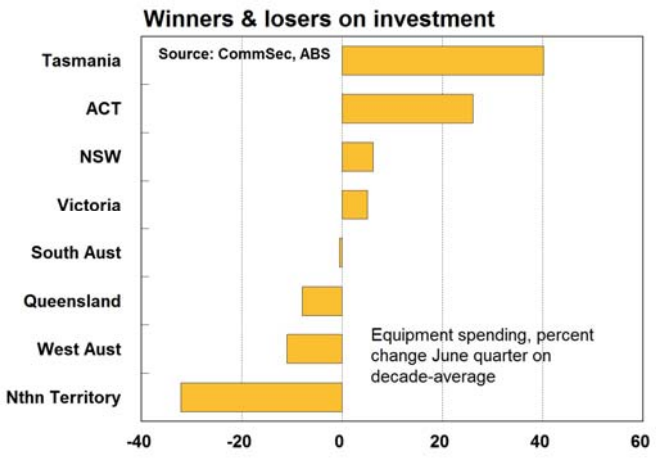
RETAIL SPENDING



- The measure used was real (inflation-adjusted) retail trade in trend terms with June quarter data the latest available.
- NSW has maintained the top spot on the retail rankings, extending its lead over Victoria.
- Spending in NSW was 18 per cent above decade-average levels in the June quarter. Solid home building, low unemployment, increased job security and infrastructure building are key supports for retail spending.
- Spending in Victoria was 17.7 per cent above decade-average levels, once again supported by home building, population growth and firm employment.
- Spending in the ACT was up 14.4 per cent on the decade average, followed by Tasmania (up 12.8 per cent). In fifth spot was South Australia with spending 11.4 per cent above decade averages followed by Queensland, with spending up by 9.2 per cent.
- Northern Territory recorded the weakest result on retail spending, up 5.5 per cent on the decade average, below Western Australia with 7.0 per cent growth.
- If monthly retail trade was assessed instead to calculate the rankings (August data available), there would be no change in the relative rankings. NSW remains ahead of Victoria.
- 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 5.6 per cent) is ahead of Tasmania (up 5.3 per cent) and the ACT (up 4.3 per cent).

"NSW has maintained the top spot on the retail rankings, extending its lead over Victoria."

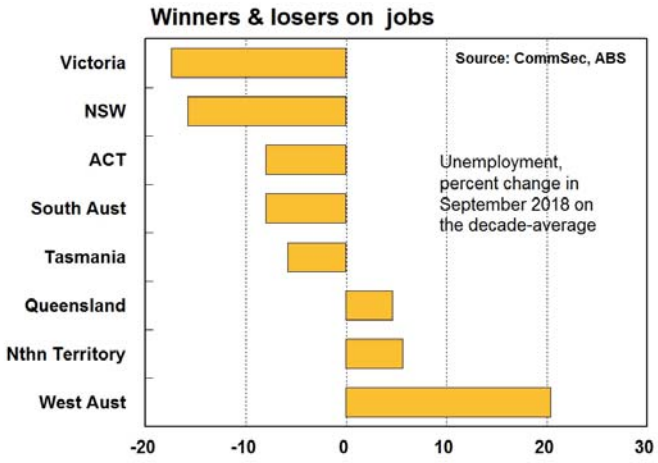
EQUIPMENT INVESTMENT



- The measure of equipment investment is spending on new plant and equipment in trend terms with June quarter data compared with decade averages (the 'normal' performance).
- In the June quarter four states and territories had equipment spending above decade-average levels – the same result as the March quarter.
- Tasmania had equipment investment up 40.2 per cent on the decade average ahead of the ACT (up 26.1 per cent).
- NSW has retained third spot, up 6.2 per cent, from Victoria (up 5.1 per cent).
- By contrast, other states and territories had equipment spending below decade averages in the June quarter. Weakest was Northern Territory (down 32.1 per cent) with completion of the investment stage for a number of gas projects.
- Next weakest was Western Australia (down 11 per cent) followed by Queensland (down 7.9 per cent) and South Australia (down 0.5 per cent).
- On a shorter-run analysis, equipment investment in the June quarter was up on a year ago in seven of the state and territory economies – the same as the March quarter.
- Equipment investment was up the most on a year ago in Tasmania (up 58.5 per cent) from the ACT (up 51.6 per cent) and Western Australia (up 18.6 per cent).
- Notably, equipment investment in Tasmania was at 9-year highs in trend terms with Victoria at 7-year highs and Western Australian investment at 3½-year highs.
- By contrast new equipment investment in the Northern Territory was down 2.9 per cent on a year ago.

"In the June quarter four states and territories had equipment spending above decade-average levels, the same result in the March quarter."

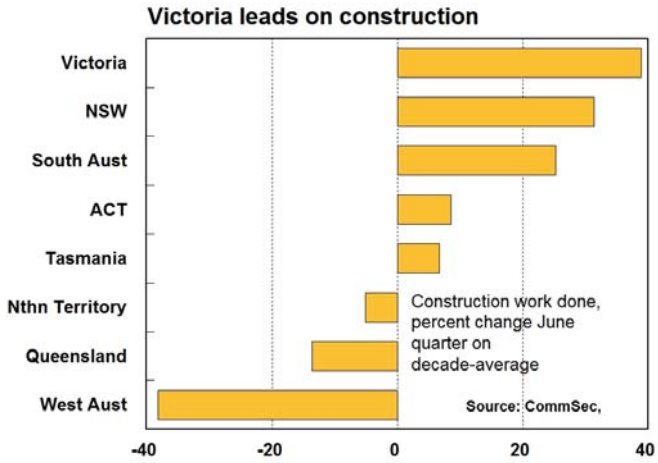
UNEMPLOYMENT



- 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, Victoria has the strongest job market. Trend unemployment in Victoria stands at 4.7 per cent, a rate 17.4 per cent below the decade average. Employment is also 13 per cent above the decade average.
- Next best is NSW, its 4.5 per cent jobless rate being almost 16 per cent below the decade average. The ACT comes next from South Australia and Tasmania – all with jobless rates below their relative decade averages.
- Next is Queensland – the 6.1 per cent jobless rate is 4.6 per cent higher than the long-term average. The Northern Territory jobless rate of 4.1 per cent is 5.6 per cent above the 3.9 per cent decade average.
- The Western Australian jobless rate of 6.1 per cent is over 20 per cent above the 5.1 per cent decade-average. On a 20-year average Western Australia still has the weakest job market of all states and territories.
- NSW has the strongest annual employment rate (up 3.4 per cent), above Victoria (up 2.6 per cent) and Queensland (up 1.6 per cent).
- In NSW the trend unemployment rate equals the rate existing from January to April 2008 which is the lowest rate in monthly data back to 1978.
- In Victoria, the trend unemployment rate is the lowest in a decade. In South Australia the trend unemployment rate has sat at 6-year lows for the past four months.

"In NSW the trend unemployment rate equals the rate existing from January to April 2008 which is the lowest rate in monthly data back to 1978."

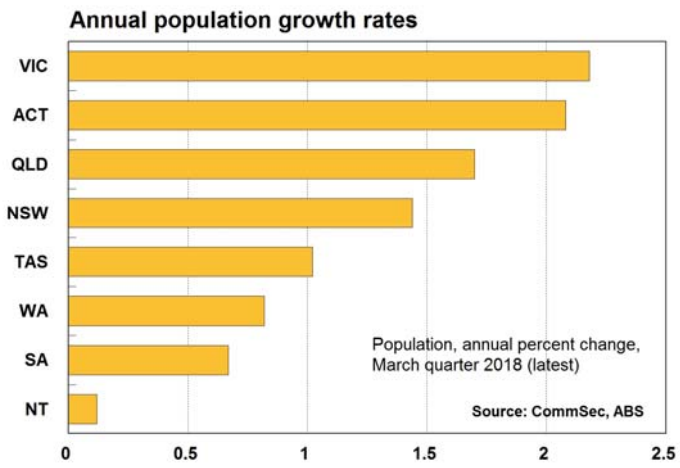
CONSTRUCTION WORK



- The measure used for analysis was the total real value of residential, commercial and engineering work completed in trend terms in the June quarter.
- In five of the states and territories, construction work in the June quarter was higher than the decade average (the same number as the previous quarter).
- Victoria has retained top spot with construction work done almost 39 per cent above its decade average. NSW construction was next strongest, 31.4 per cent above the 'norm' or decade-average followed by South Australia (up 25.3 per cent).
- In NSW, Victoria and South Australia construction work done was at record highs in the June quarter.
- The ACT is now in fourth position with construction work 8.5 per cent above decade averages followed by Tasmania (up 6.7 per cent).
- At the other end of the scale, Western Australian construction work done in the June quarter was 38.2 per cent below the decade-average, behind Queensland, with construction work down 13.6 per cent on decade averages and the Northern Territory (down 5.1 per cent).
- In terms of annual growth rates, South Australian construction work done in the June quarter was up 23.4 per cent on a year ago followed by Victoria (up 18.2 per cent) and NSW (up 9.9 per cent).
- Two economies had construction work lower than a year ago (one economy in the March quarter) led by the Northern Territory with construction down by 19.3 per cent
- Western Australian construction was down by 0.8 per cent on a year ago. However the rate of decline has fallen over the past 18 months.

"Victoria has retained top spot with construction work done almost 39 per cent above its decade average."

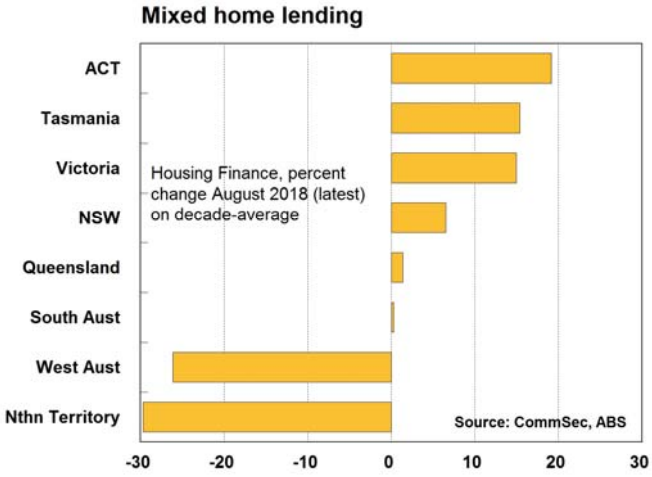
POPULATION GROWTH



- 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 1.02 per cent annual population growth rate almost 78 per cent above the decade-average rate.
- Population growth in the ACT is 9.3 per cent above the decade average, followed by Victoria (up 5.4 per cent) and NSW (up 1.9 per cent).
- Annual population growth rates in the other states and territories were below decade averages: Queensland (-5.5 per cent); South Australia (-26.6 per cent); Western Australia (-57.9 per cent); and Northern Territory (-90.9 per cent).
- The state with the fastest *absolute* annual population growth is still Victoria (up 2.18 per cent). Next strongest is the ACT (up 2.08 per cent); Queensland (up 1.70 per cent) and NSW (up 1.44 per cent).
- The state or territory with the slowest annual population growth is the Northern Territory, up just 0.12 per cent on a year ago.
- Tasmania's annual population growth of 1.02 per cent is fastest rate in 8½ years.
- Western Australia's annual population growth of 0.83 per cent is the fastest rate in 2½ years.

"Tasmania is strongest on the relative population measure, with its 1.02 per cent annual population growth rate almost 78 per cent above the decade-average rate."

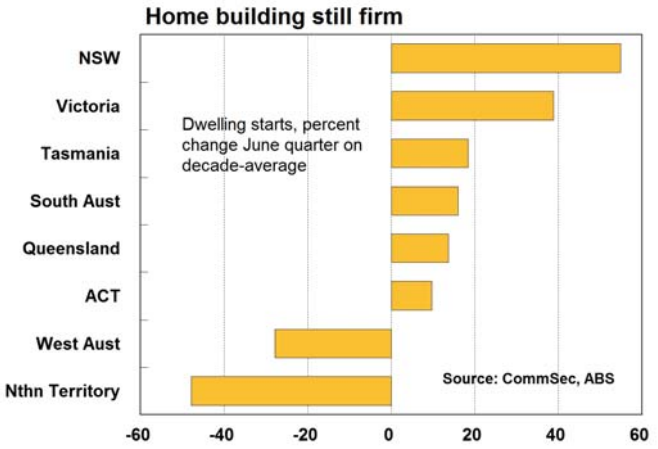
HOUSING FINANCE



- 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 Victoria into second position. In six of the states and territories trend housing finance commitments are above decade averages. But in all but one states or territory, trend housing finance is below year-ago levels.
- The ACT remains in top spot with the number of commitments up by 19.2 per cent on the long-term average. Next strongest is Tasmania (up 15.4 per cent on decade averages) followed now by Victoria (up 15 per cent) ahead of NSW (up 6.5 per cent).
- Queensland is next strongest (up 1.4 per cent) ahead of South Australia (up 0.3 per cent).
- Northern Territory remains the weakest for housing finance with trend commitments 29.7 per cent lower than its decade average. Commitments in Western Australia are down 26.1 per cent on the decade-average.
- Home lending activity has softened and annual growth of home loans is now present in only Tasmania (up 3.6 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 one state or territory, 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 then there is a fair gap to the other states and territories. Interestingly, four of the eight states and territories posted a lift in trend starts in the June quarter after the majority reported softer starts in the March quarter.
- NSW has taken back top spot for dwelling starts from Victoria. Starts in NSW are 54.9 per cent above decade-averages, ahead of Victoria (up 38.9 per cent on the "normal" or decade-average level of starts).
- Tasmania is now in third spot with starts up 18.4 per cent on decade averages from South Australia (up 16 per cent), Queensland (up 13.7 per cent) and the ACT (up 9.7 per cent).
- At the other end of the scale, dwelling starts in the Northern Territory were 47.8 per cent below decade averages. And activity continues to ease with trend starts at the lowest levels in almost 28 years. Next weakest was Western Australia (down 27.8 per cent).
- In terms of annual growth, five of the states and territories had starts above a year earlier in the June quarter, up from three in the March quarter. Dwelling starts in Tasmania are up 29.1 per cent on a year ago to 7-year highs. Starts in Victoria are up 24.3 per cent on a year earlier.
- At the other end of the scale, starts in the Northern Territory are down 29.3 per cent on a year earlier.

"NSW has taken back top spot for dwelling starts from Victoria."

OTHER INDICATORS

WAGES & PRICES*

	Wages June Qtr	*CPI June Qtr*	*Home Prices September*
NSW	2.1	2.1	-4.8
Victoria	2.5	2.5	-2.4
Queensland	2.2	1.7	0.5
South Australia	2.1	2.7	0.8
Western Australia	1.5	1.1	-3.0
Tasmania	2.5	2.4	8.8
Northern Territory	1.5	1.2	-1.9
ACT	1.8	2.8	2.0

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

CPI - Consumer Price Index

Wages - Wage Price Index

- 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 and annual wage growth are historically low across capital cities.
- To assess real wage growth, June quarter data is used. And the biggest positive gap between wage growth and inflation was recorded in Queensland with wages 0.5 percentage points higher than consumer prices.
- By contrast wages were 1.0 percentage points below consumer prices in the ACT. South Australian wages were also 0.6 percentage points below consumer prices.
- Wage growth in the year to June was strongest in both Victoria and Tasmania (2.5 per cent) ahead of Queensland (up by 2.2 per cent) while wages in Northern Territory and Western Australia were up by only 1.5 per cent.
- Turning to home prices, in September 2018 four of the capital cities recorded annual declines in home prices, up from three economies for the year to the June quarter.
- The strongest annual growth in home prices was in Tasmania (up 8.8 per cent), followed by the ACT (up 2.0 per cent), South Australia (up 0.8 per cent) and Queensland (up 0.5 per cent).
- Home prices were lower than a year ago in NSW (down by 4.8 per cent) from Western Australia (down 3.0 per cent), Victoria (down 2.4 per cent) and Northern Territory (down 1.9 per cent).

"Wage growth in the year to June was strongest in both Victoria and Tasmania (2.5 per cent)..."

ANNUAL GROWTH RATES

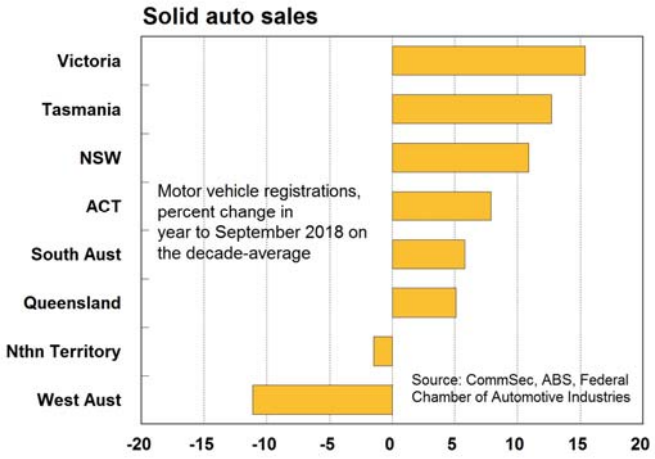
TREND ANNUAL GROWTH %

	Economic Growth	*Retail* Trade	*Equip.* Invest	Employ-ment
NSW	4.7	2.7	3.3	3.4
VIC	5.9	4.9	9.2	2.6
QLD	4.8	1.0	4.3	1.6
SA	5.6	2.3	3.0	1.3
WA	0.9	-0.7	18.6	1.0
TAS	7.1	3.0	58.5	0.6
NT	-0.5	1.7	-2.9	1.2
ACT	5.4	2.5	51.5	0.4
AUST	***4.0***	***2.5***	***8.2***	***2.4***

	Constuct Work	*Pop-ulation*	*Housing Finance*	*Home Starts*
NSW	9.9	1.44	-9.2	8.1
VIC	18.2	2.18	-4.4	24.3
QLD	4.1	1.70	-6.4	3.4
SA	23.4	0.67	-2.6	5.6
WA	-0.8	0.82	-16.8	-14.2
TAS	5.2	1.02	3.6	29.1
NT	-19.3	0.12	-16.1	-29.3
ACT	-0.1	2.08	-6.8	-5.5
AUST	***9.1***	***1.55***	***-7.6***	***9.6***

- 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 and NSW lead the way on one measure each.
- When looking across growth rates for the states and territories, Victoria exceeded the national-average on all of the eight indicators from Tasmania (five) and NSW and ACT (four).
- At the other end of the scale, Northern Territory under-performed the national result on all indicators. Western Australia out-performed the national growth rate on one indicator.

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).
- Last quarter Victoria topped the economic performance rankings for the first time in the 9-year history of the surveys. And in the latest quarter Victoria remains just ahead of NSW. Both states have broad-based economic strength, underpinned by population growth, construction and investment activity.
- There is little to separate Victoria from NSW. It is possible the two states could exchange rankings over the next year. Strong job markets provide support for local economies although it is expected that home building will soften in the period ahead.
- NSW picked up one spot on dwelling starts but dropped one place on unemployment. Victoria lifted three spots on unemployment but eased one spot on both housing finance and dwelling starts.
- The ACT remains in third spot with changes in positions on five indicators but little change overall.
- Tasmania is still in fourth position but closing in on the ACT. Tasmania has improved its relative performance on four indicators.
- South Australia lifts from sixth to fifth position. Queensland has dropped in its relative position on four indicators. South Australia shifted its relative position on a number of indicators but especially lifted on business investment.
- The Northern Territory remains in seventh spot with Western Australia in eighth position. There has been slippage for both economies in terms of the relative positions with other economies.
- Encouragingly unemployment remains low in Northern Territory and there has been a drop in trend unemployment in Western Australia and a lift in dwelling approvals.

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