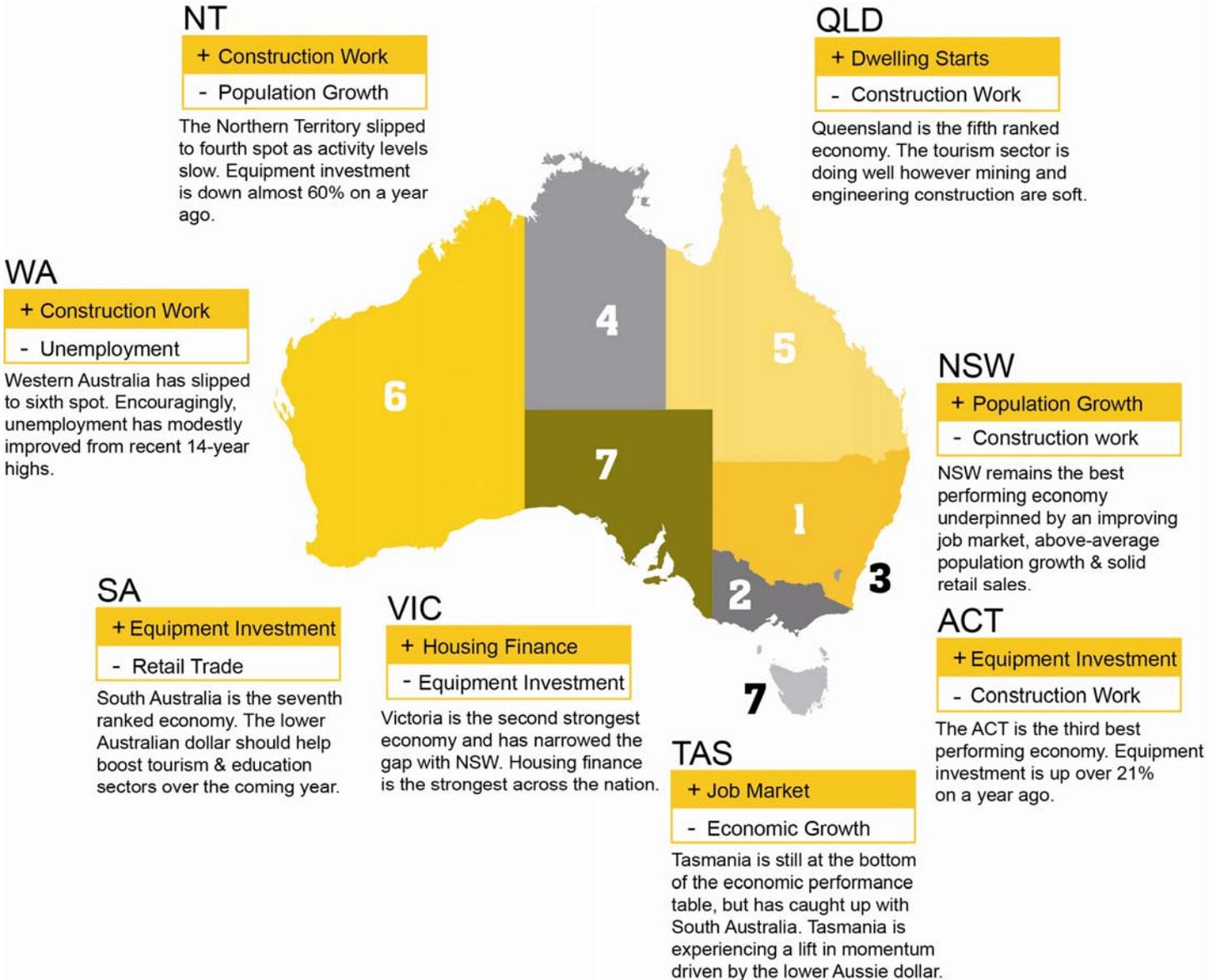


State of the States

April 2016 State & territory economic performance report.
Executive Summary



NSW ON TOP; WA EASES TO SIXTH

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.

This report is particularly timely. Released just ahead of the Federal Budget and a possible July election it provides insights on the shape of state and territory economies.

NSW has retained top spot as the best performing economy. However Victoria has edged a little closer to top spot. Both states are maintaining a healthy lead over the other states and territories.

The ACT economy has held onto third spot.

And while the Northern Territory economy has held onto fourth place, there is now little now separating Queensland (fifth) from the 'top end' economy.

The big change over the past quarter has been another drop in the Western Australian economy, this time to sixth position (previously fifth).

And the Tasmanian economy has moved up the rankings into equal seventh with South Australia. There is little to separate the bottom three ranked economies.

- NSW has retained its top rankings on population growth, retail trade, dwelling starts, and unemployment but has drifted to second spot on housing finance. NSW improved to second ranked on economic growth and is still fourth-ranked on construction work done.
- Victoria has gained substantial ground on NSW and is solidly in second spot on the economic performance rankings. Victoria's main strength is housing finance and is ranked second on a number of indicators (population growth, retail trade, unemployment, and dwelling starts).
- The ACT remains the third ranked economy. The ACT is second ranked on equipment investment and third ranked on population growth, housing finance, and retail trade. Equipment investment is up 21.1 per cent on a year ago.
- The Northern Territory is fourth ranked and remains in top spot for economic growth and construction work done. However the territory economy is losing momentum, now ranked last ranked on population growth, business investment and housing finance.
- Queensland is in fifth spot on the economic performance rankings. While third ranked on dwelling starts, it is bottom ranked on construction work and seventh ranked on economic growth.
- Western Australia shifts from fifth to sixth ranked. The mining state is second ranked on construction work and fourth ranked on retail trade. But WA struggles on unemployment (last) and is ranked seventh on business investment, population growth, and housing finance.
- Tasmania is now equal seventh at the bottom of the Australian economic performance table – with South Australia. Tasmania is seeing a modest lift in momentum, now seventh ranked on retail trade (previously eighth). The "Apple Isle" is also fourth ranked on unemployment.
- South Australia does best on population growth and equipment investment (both fourth ranked) but is seventh or eighth on three indicators

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.

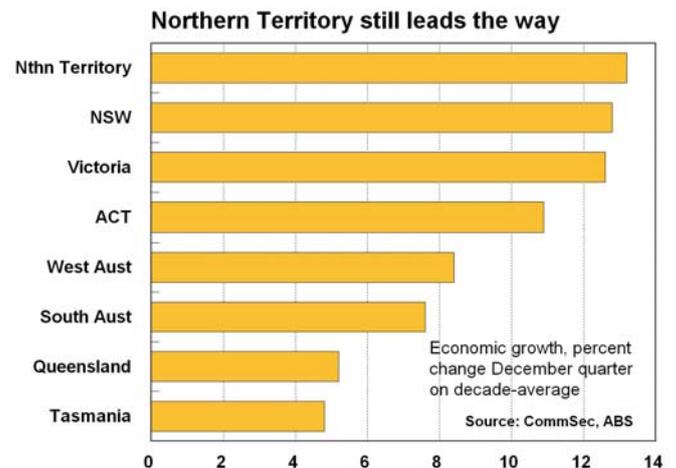
The aim is to find how each economy is performing compared with "normal". And just like the Reserve Bank does with interest rates, we used decade-averages to judge the "normal" state of affairs. For each economy, the latest level of the indicator – such as retail spending or economic growth – was compared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

While we also looked at the current pace of growth to look at 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 4.3 per cent is the lowest of all economies. But this jobless rate is actually up 18.5 per cent on its 'normal' or decade-average rate of 3.6 per cent, ranking it sixth on this indicator – that is, one of the worst, not best performing states & territories on the indicator.

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

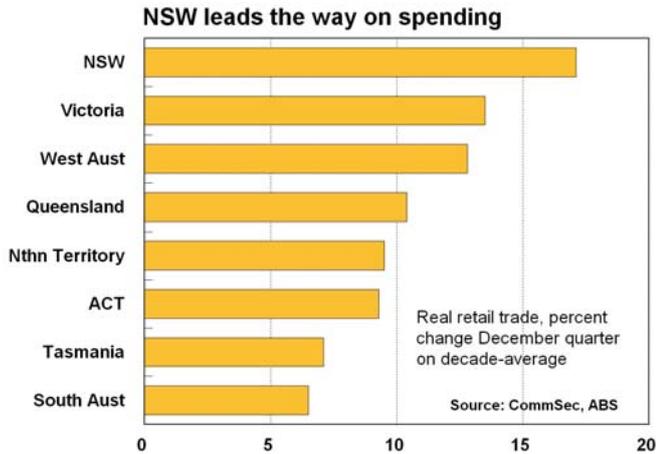
ECONOMIC GROWTH



- Ideally Gross State Product (GSP) would be used to assess broad economic growth. But the data isn't available quarterly. And up to the September quarter we 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 now we will use state final demand to assess "economic growth" – certainly not an optimal situation.
- The Northern Territory continues to lead the rankings on economic activity. Activity in the 'top end' is 13.2 per cent above its 'normal' or decade-average level of output.
- Next strongest is NSW, with output almost 13 per cent higher than the decade average level of output. Then follows Victoria (up 12.6 per cent) from the ACT (up 10.9 per cent).
- At the other end of the scale, economic activity in Tasmania in the December quarter was just 4.8 per cent above its decade average while Queensland activity was up 5.2 per cent on its "normal" or average output over the past decade. No doubt if exports and imports were considered, Western Australia would have been amongst the strongest growing economies rather than in fifth place.
- Victoria has the fastest annual economic growth rate in the nation, up by 4.3 per cent on a year ago, ahead of NSW (up 3 per cent) and Tasmania (up 2.8 per cent).
- The weakest state final demand annual rates are in Northern Territory (down 14.6 per cent) followed by Western Australia (down 3.5 per cent) and Queensland (down 1.7 per cent on a year ago).

“Victoria now has the fastest annual economic growth rate in the nation, up by 4.3 per cent on a year ago....”

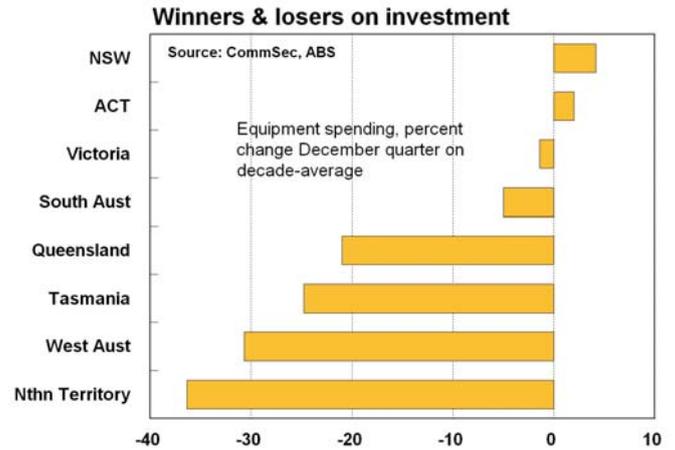
RETAIL SPENDING



- The measure used was real (inflation-adjusted) retail trade in trend terms with December quarter data the latest available.
- NSW has held on to the top spot on the retail rankings, with Victoria edging ahead of Western Australia, Spending in NSW was 17.1 per cent above decade-average levels in the December quarter. Solid activity in the housing sector, lower unemployment and higher home prices are supporting spending.
- Spending in Victoria was 14.5 per cent above decade-average levels once again supported by home building and the strength in employment.
- Spending in Western Australia was up 12.8 per cent on the decade average followed by Queensland (up 10.4 per cent). In fifth spot was the Northern Territory with spending 9.5 per cent above decade averages.
- South Australia recorded the weakest result on retail spending, up 6.5 per cent on the decade average, just below Tasmania with 7.1 per cent growth and the ACT with 9.3 per cent growth.
- If monthly retail trade was assessed instead to calculate the rankings (February data available), the rankings would be very similar with the only significant change being that the ACT would move up to third spot and Queensland in fifth position.
- In terms of annual growth of real retail trade, Victoria is strongest (up 4.1 per cent), from NSW (up 3.3 per cent), and the ACT (up 2.8 per cent).
- And looking at monthly retail trade, the strongest annual growth is the ACT (up 7.7 per cent) from Victoria (5.1 per cent) and NSW (up 4.8 per cent).

“NSW has held onto the top spot on the retail rankings with Victoria edging ahead of Western Australia, Spending in NSW was 17.1 per cent above decade-average levels in the December quarter.”

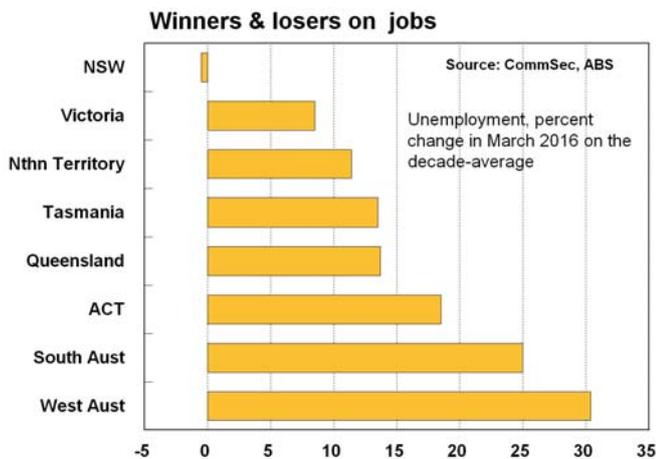
EQUIPMENT INVESTMENT



- NSW has held top spot on equipment investment from the ACT. The biggest move in the quarter was the Northern Territory, shifting from second position to eighth - further highlighting the transition in the economy after the resources boom.
- In NSW, equipment spending in the December quarter was 4.2 per cent above decade-average levels, while the ACT was up 2 per cent on the decade average.
- By contrast, other states and territories had equipment spending below decade averages in the December quarter. Weakest was the Northern Territory (down 36.4 per cent). In the September quarter Northern Territory equipment spending had been 1.5 per cent above decade-averages.
- Next weakest was Western Australia (down 30.7 per cent) followed by Tasmania (down 24.8 per cent) and Queensland (down 21 per cent).
- Victoria (down 1.4 per cent on decade-average levels) has edged ahead of South Australia (down 5 per cent) into third spot.
- On a shorter-run analysis, equipment investment in the December quarter was higher than a year ago in only two of the state and territory economies (last quarter, three states and territories had equipment spending up on a year ago).
- Equipment investment is up the most on a year ago in the ACT (up 21.1 per cent), followed by Victoria (up 1.2 per cent).
- By contrast new equipment investment in the Northern Territory was down 59.2 per cent on a year ago while spending in Western Australia was down 26.3 per cent with Queensland down 21.5 per cent.

“NSW has held top spot on equipment investment. The biggest move in the quarter was the Northern Territory, shifting from second position to eighth.”

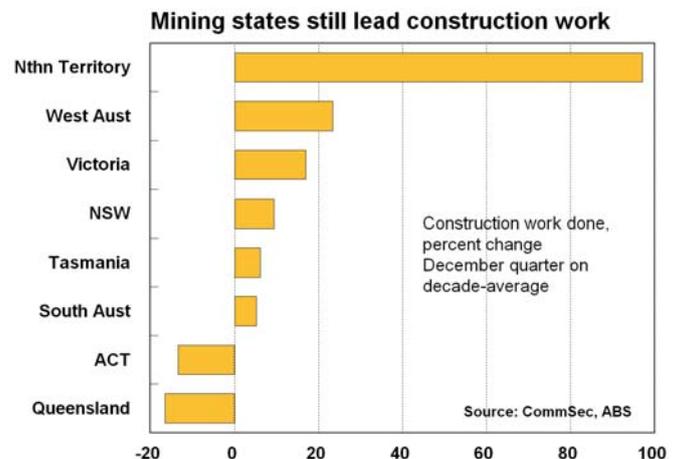
UNEMPLOYMENT



- Which state or territory has the strongest job market in the nation? It is not an easy question to answer. The lowest trend unemployment rate in Australia can be found in the ACT at 4.3 per cent from the Northern Territory (4.5 per cent) and NSW (5.3 per cent).
- But the ACT jobless rate is almost 19 per cent above its decade average. And Northern Territory's jobless rate is over 11 per cent above its decade average ("normal") jobless rate. However the NSW jobless rate is actually 0.5 per cent lower than the decade average.
- In further comparing current jobless rates in each state and territory with their respective decade averages, Victoria follows NSW; its 5.9 per cent jobless rate is 8.5 per cent above the decade average.
- In Tasmania, unemployment stands at 6.9 per cent, up 13.5 per cent on its decade average of 6.1 per cent.
- At the other end of the scale is Western Australia. Trend unemployment stands at 5.7 per cent, 30.4 per cent higher than the 4.4 per cent 'normal' or decade-average.
- Next weakest is South Australia with the trend unemployment rate 25 per cent above the decade average. As noted above the ACT jobless rate is 18.5 per cent above the decade average, while Queensland is mid pack – its 6.0 per cent jobless rate is up 13.7 per cent on the 'normal' level.
- Unemployment rates in Victoria, Western Australia, and the ACT all eased in trend terms in the past three months. Unemployment rates were steady in NSW and Queensland over the past three months.

"Unemployment rates in Victoria, Western Australia, and the ACT all eased in trend terms in the past three months. Unemployment rates were steady in NSW and Queensland over the past three months."

CONSTRUCTION WORK



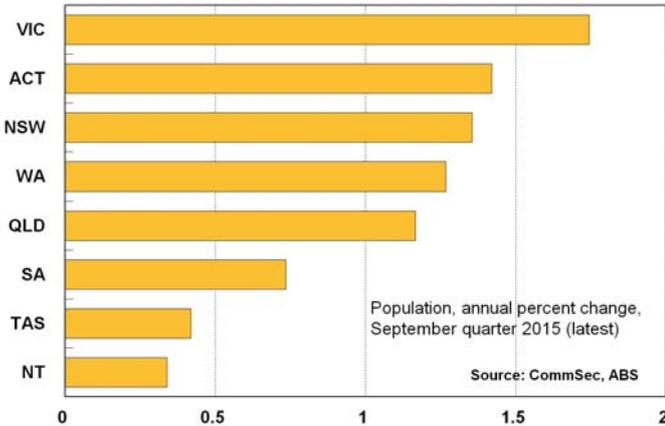
- The measure used for analysis was the total real value of residential, commercial and engineering work actually completed in trend terms in the December quarter.
- In six of the states and territories, construction work was higher than decade averages.
- Leading the way was the Northern Territory with construction work done 97 per cent above its decade average with activity associated with the gas projects providing solid support. However construction work in the Northern Territory was down 14.7 per cent in the December quarter compared with a year ago – highlighting a shift in momentum.
- Next strongest was Western Australia (up 23.4 per cent) while construction work done in Victoria was up by 17 per cent on 'normal' levels in trend terms. Construction work done in both economies was well up on a year ago in the December quarter.
- NSW is fourth ranked with construction work 9.4 per cent above decade averages. Tasmania is fifth ranked with construction work 6.2 per cent above 'normal' levels, followed by South Australia (up 5.2 per cent).
- In Queensland, overall new construction work completed in the December quarter was almost 17 per cent below the decade average.
- Next weakest to Queensland was the ACT where construction work was 13.5 per cent below decade averages.
- In terms of annual growth rates, Victorian construction work done in the December quarter was up 9 per cent on a year ago, followed by Western Australia (up 6.8 per cent). Three economies had construction work lower than a year ago, led by Queensland (down by 21.2 per cent).

"In six of the states and territories, construction work was higher than decade averages."

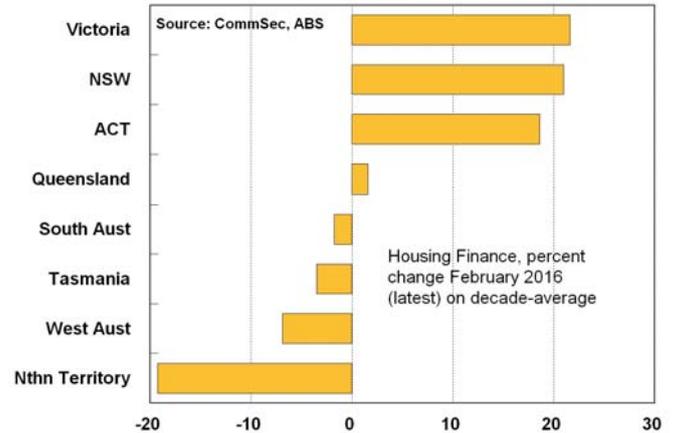
POPULATION GROWTH

HOUSING FINANCE

Victoria leads the way on population growth



Home lending is mixed



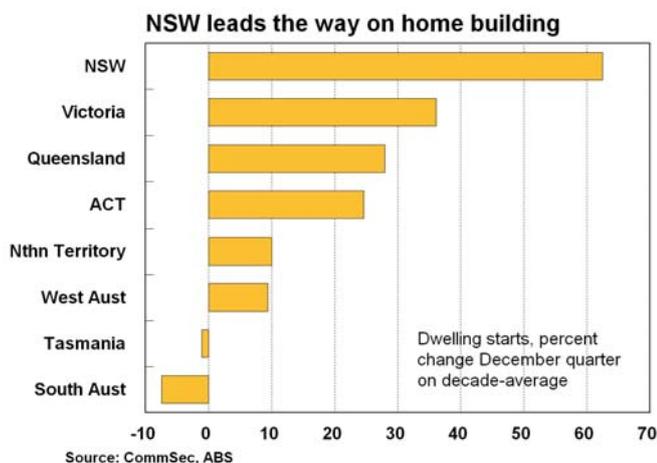
- To assess population performance we looked at the current annual growth rate and compared it with each economy's decade-average ('normal') growth pace.
- Population growth is clearly an important driver of the broader economy, especially retail spending and housing demand. The key point being that only one state now has population growth above long-term averages.
- NSW has only the third highest annual growth rate of its population at 1.36 per cent, but this is still 5 per cent above the decade average (last quarter, population growth was 7.1 per cent above 'normal').
- Victoria continues to record the strongest annual population growth and is still second on the differential with the decade-average rate. Victoria's population is 1.75 per cent higher than a year ago although this growth rate is 0.2 per cent below the 'normal' or decade-average level.
- The ACT is now second on population growth with an annual growth rate of 1.42 per cent. Population growth stands at 1.27 per cent in Western Australia, down over 50 per cent on decade-average levels.
- The state or territory with the slowest annual population growth is no longer Tasmania but the Northern Territory, up just 0.34 per cent on a year ago and down 80.2 per cent on the decade average – the weakest in the nation.
- Tasmania's annual population growth lifted from 0.36 per cent to 0.42 per cent in the September quarter but this was 31.1 per cent down on the decade average.

“NSW has only the third highest annual growth rate of its population at 1.36 per cent, but this is still 5 per cent above the decade average...”

- 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 four of the states and territories – Victoria, NSW, the ACT and Queensland – trend housing finance commitments are above decade averages. And in six of the eight economies, trend commitments in February were above year-ago levels – the aforementioned economies, Tasmania and South Australia.
- Victoria edged ahead of NSW for housing finance, with the number of commitments 21.6 per cent above the long-term average. Next strongest was NSW, up 21 per cent on the decade-average.
- The ACT retains third spot on housing finance, with commitments 18.6 per cent higher than the decade average. Next strongest is Queensland (up just 1.6 per cent on decade averages).
- Northern Territory remains the weakest for housing finance with trend commitments more than 19 per cent lower than its decade average. Even more concerning, commitments are now 10.1 per cent lower than a year ago after being down 8.7 per cent in January.
- Trend commitments in Western Australia are down 6.9 per cent on the decade average behind Tasmania (down 3.5 per cent) and South Australia (down 1.8 per cent).

“Victoria edged ahead of NSW for housing finance, with the number of commitments 21.6 per cent above 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 remains strong over the next year but a slowdown can be expected later in 2016 as the surge in the supply of new homes meets pent-up demand. The slowdown in population growth will also restrain future home building.
- NSW retains the mantle of the strongest in the nation for new home construction, with starts almost 63 per cent above decade averages. In addition, in the December quarter the number of dwellings started was 13.1 per cent higher than a year earlier.
- Victoria has replaced the ACT in second spot, with starts 36.1 per cent above decade averages. Queensland starts are 27.9 per cent above decade averages and starts in the ACT are up 24.6 per cent.
- At the other end of the scale, South Australian dwelling starts were 7.5 per cent below decade averages. And in the December quarter starts were down 4.9 per cent on a year earlier. Next weakest was Tasmania (down 1.1 per cent from decade highs) from Western Australia (up 9.4 per cent on the decade average) and the Northern Territory (up 10 per cent on the decade average).
- In terms of annual growth, the ACT is strongest with dwelling starts easing from record highs in trend terms in the December quarter, but still up 35.3 per cent on a year ago.

“NSW retains the mantle of the strongest in the nation for new home construction, with starts almost 63 per cent above decade averages.”

OTHER INDICATORS

WAGES & PRICES*

| | Wages Dec Qtr | CPI Dec Qtr | CPI Mar Qtr | Home Prices March |
|--------------------|------------------|----------------|----------------|----------------------|
| NSW | 2.1 | 2.0 | 1.3 | 7.4 |
| Victoria | 2.4 | 1.9 | 1.7 | 9.8 |
| Queensland | 1.9 | 1.7 | 1.7 | 4.5 |
| South Australia | 2.3 | 1.0 | 0.7 | 3.2 |
| Western Australia | 1.8 | 1.5 | 0.7 | -2.0 |
| Tasmania | 2.2 | 1.8 | 1.3 | 4.8 |
| Northern Territory | 2.4 | 0.5 | -0.3 | -1.8 |
| ACT | 1.6 | 0.7 | 1.0 | 1.7 |

* Annual % change. Source: ABS, CoreLogic-RP Data, CommSec

CPI - Consumer Price Index

Wages - Wage Price Index

- Annual inflation was steady or fell across all capital cities in the March quarter except the ACT. The weakest result was in the Northern Territory with a 0.3 per cent fall in prices while Victoria and Queensland both recorded a 1.7 per cent lift in prices.
- However to compare real wage growth, the latest data is for the December quarter. And notably in that quarter, wage growth in all states and territories was above that of consumer prices.
- Strongest real wage growth was again recorded in the Northern Territory with wages 1.9 percentage points (pp) higher than consumer prices. Wage growth was highest (tied with Victoria) in the nation while inflation was the lowest.
- Real wage growth was next highest in South Australia, with wages 1.3pp above consumer prices (inflation).
- At the other end of the scale, NSW wage growth of 2.1 per cent was just above the 2 per cent annual growth of prices. Despite that, retail spending still remains firm in NSW. Real wages remains only modestly positive in Queensland (+0.2pp) and Western Australia (+0.3pp).
- Turning to home prices, in March six of the capital cities had positive annual growth of home prices. Back in December, four of Australia’s capital cities had home prices higher than a year earlier.
- Strongest growth in home prices was in Melbourne (up 9.8 per cent) followed by Sydney (up 7.4 per cent) and then there was a fair gap to the other capital cities.
- Next strongest was Hobart (up 4.8 per cent) and Brisbane (up 4.5 per cent), Adelaide (up 3.2 per cent) and Canberra with prices up 1.7 per cent on a year ago.
- Home prices were lower than a year ago in Perth (down 2 per cent), and Darwin (down 1.8 per cent).

“...in the December quarter, wage growth in all states and territories was above that of consumer prices.”

STATE BY STATE BREAKDOWN

NSW

NSW has retained its top rankings on population growth, retail trade, equipment investment, dwelling starts, and unemployment and is in second spot on housing finance and economic growth.

Victoria

Victoria's strength is housing finance and is ranked second on a number of indicators: population growth, retail trade, unemployment, and dwelling starts.

ACT

The ACT is second ranked on equipment investment and third ranked on population growth and housing finance.

Northern Territory

The Northern Territory remains in top spot for economic growth and construction work. However the NT economy is ranked last on population growth, equipment investment and housing finance.

Queensland

While third ranked on dwelling starts, Queensland is bottom ranked on construction work and seventh ranked on economic growth.

Western Australia

The mining state is second ranked on construction work and third ranked on retail trade. But WA struggles on unemployment (last) and is seventh on equipment investment, population growth and housing finance.

South Australia

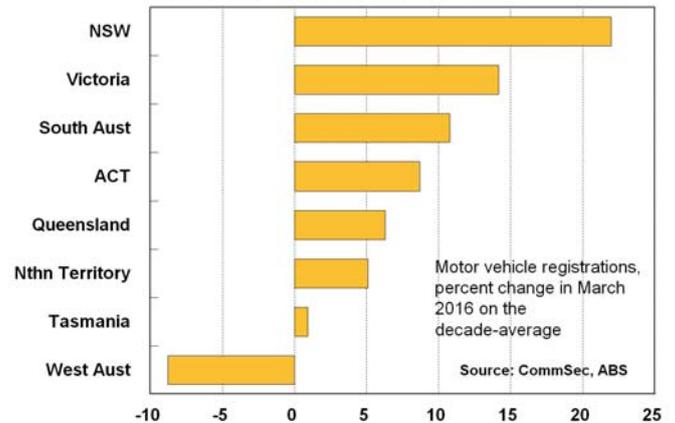
South Australia does best on population growth and equipment investment (both fourth ranked) but is seventh or eighth on three indicators.

Tasmania

Tasmania is seeing a modest lift in momentum, now seventh ranked on retail (previously eighth).

LOOKING AHEAD

Auto sales solid across the nation



- Currently we look at eight indicators to get the broadest assessment of economic performance. If we added new motor vehicle registrations to the list the only change in the overall economic rankings would be Western Australia shifting lower, giving up sixth spot to South Australia.
- NSW has a solid grip on the top ranking of economic performance. Unemployment has improved while population growth is above long-term averages, thus providing solid momentum to the economy.
- Victoria also still has a strong grip on the second ranking and has been able to narrow the gap with NSW. Victoria has solid population growth which is why housing finance is the strongest in the nation.
- The ACT has comfortably held onto third spot but remains well behind Victoria and NSW. Stronger housing activity and the strength in business investment will support the job market and retail spending over 2016.
- The Northern Territory will face challenges in the next few years as key resource projects are either completed or near completion. Slow population growth, weak demand for housing loans and a sharp fall in dwelling starts will constrain economic momentum.
- Queensland remains mid-ranked across economies just above Western Australia, South Australia and Tasmania. Encouragingly, the lower Australian dollar will support agricultural exports and more importantly the tourism sector in coming months.
- Western Australia continues to slip in the performance rankings, having relinquished top spot in October 2014. Slower population growth and higher unemployment will constrain activity in the housing market.
- The South Australian job market has improved in the past eight months. If the positive trend continues, then there is scope for an improvement in retail spending.
- The Tasmanian economy is seeing a lift in momentum. The lower currency on a year ago is providing a boost to an array of sectors, especially tourism.

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