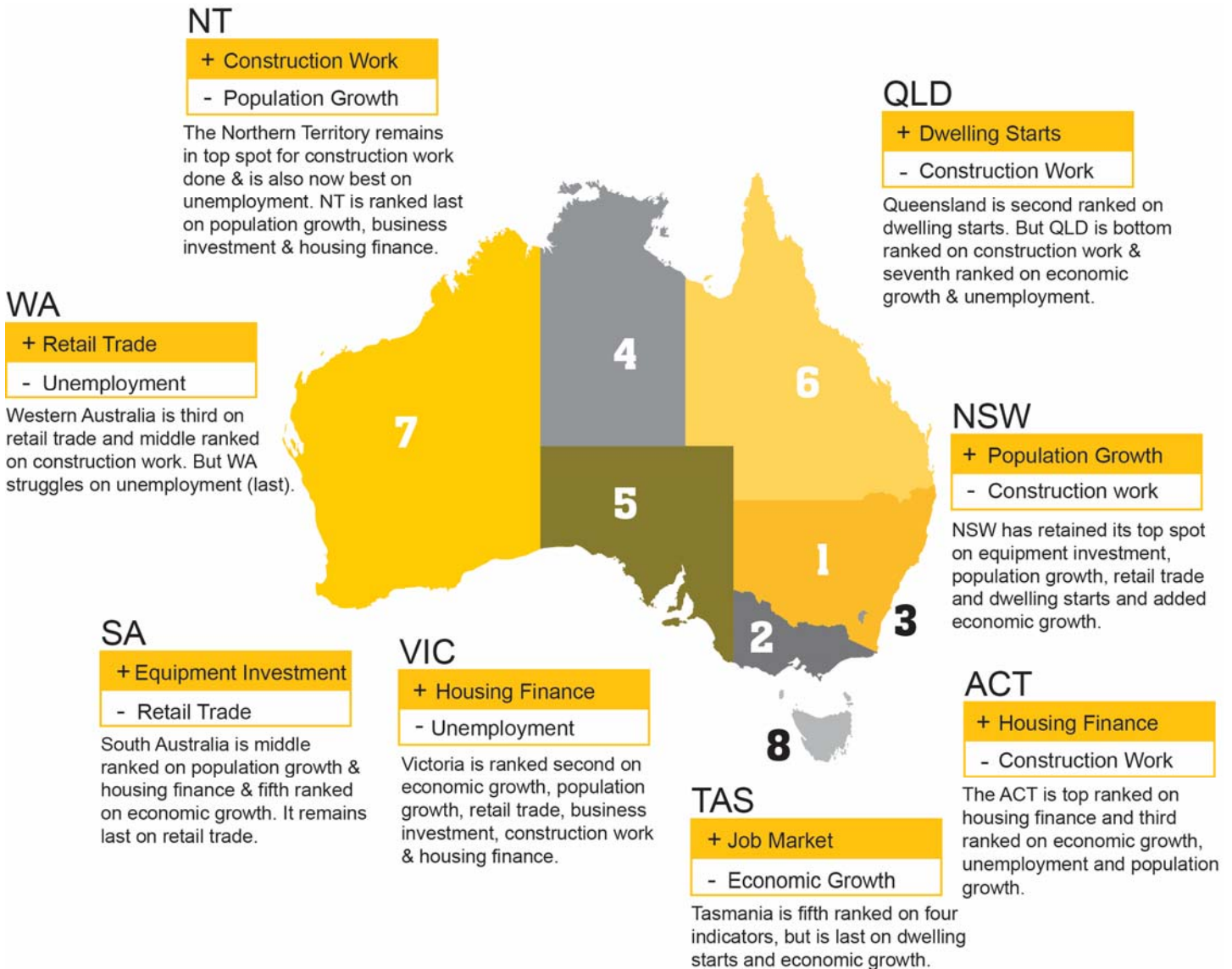


State of the States

July 2016 State & territory economic performance report.
Executive Summary



NSW STILL ON TOP; WA FALLS TO SEVENTH POSITION

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.

NSW has retained top spot as the best performing economy. Victoria has held on to second spot, but moved a touch further away from NSW. Both states are maintaining a healthy lead over the other states and territories.

The ACT economy has improved over the quarter and held onto third spot.

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

The Queensland economy has moved down one rung from fifth to sixth.

The big change over the past quarter has been another drop in the Western Australian economy, this time to seventh position (previously sixth) just ahead of the Tasmanian economy. There is little to separate the bottom three ranked economies.

- NSW has retained its top rankings on population growth, equipment investment, retail trade, and dwelling starts and added economic growth. But NSW drifted to second spot on unemployment. NSW improved to third ranked on construction work and drifted to third on housing finance (previously second).
- Victoria is solidly in second spot on the economic performance rankings. Victoria is ranked second on a number of indicators (economic growth, population growth, retail trade, business investment, construction work and housing finance). Victoria has moved from second ranked to fourth ranked on unemployment.
- The ACT remains the third ranked economy but has improved considerably. The ACT is top ranked on housing finance and third ranked on economic growth, unemployment and population growth. Housing finance is up 26.2 per cent on a year ago.
- The Northern Territory holds fourth position and remains in top spot for construction work done and is also now best on unemployment. However the Territory economy is losing momentum, ranked last on population growth, business investment and housing finance, while sixth ranked on retail trade.
- The South Australian economy is now fifth-ranked (previously sixth) and improved in the quarter. South Australia is middle ranked on population growth and housing finance and fifth ranked on economic growth. It remains last on retail trade.
- Queensland shifts from fifth to sixth spot on the economic performance rankings. While second-ranked on dwelling starts, it is bottom-ranked on construction work and seventh-ranked on economic growth and unemployment.
- Western Australia is now seventh and near the bottom of the Australian economic performance table. In two years the mining state has gone from first to seventh. WA is third on retail trade and is middle-ranked on construction work. But WA struggles on unemployment (last) and is ranked seventh on business investment, population growth, and housing finance.
- Tasmania is in eighth position. The “Apple Isle” is fifth ranked on four indicators but is last on dwelling starts and economic growth.

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.

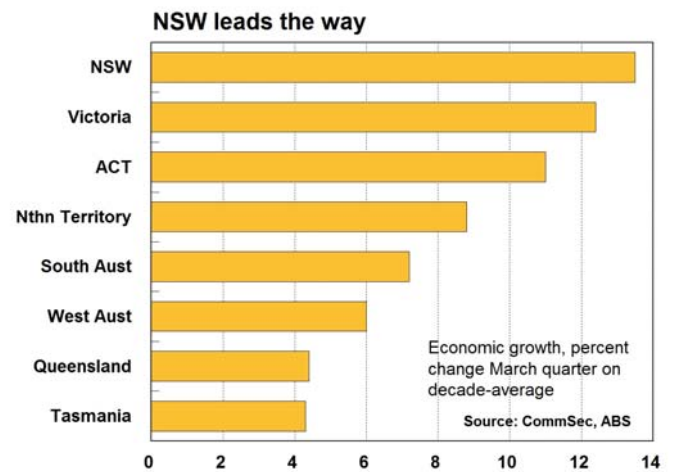
The aim is to find how each economy is performing compared with “normal”. And just like the Reserve Bank does with interest rates, we used decade-averages to judge the “normal” state of affairs. For each economy, the latest level of the indicator – such as retail spending or economic growth – was compared 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 3.6 per cent is the lowest of all economies. But this jobless rate is 1.1 per cent lower than its ‘normal’ or decade-average rate of 3.7 per cent, ranking it third on this indicator.

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

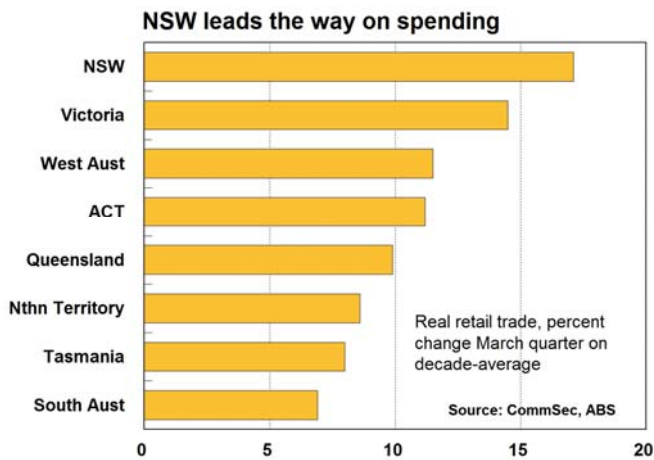
ECONOMIC GROWTH



- Ideally Gross State Product (GSP) would be used to assess broad economic growth. But the data isn't available quarterly. And 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.
- NSW has taken top spot on economic activity. Activity in the ‘Premier state’ is 13.5 per cent above its ‘normal’ or decade-average level of output.
- Next strongest is Victoria, with output 12.4 per cent higher than the decade average level of output. Then follows the ACT (up 11 per cent) from the Northern Territory (up 8.8 per cent) - it had held the top spot last quarter.
- At the other end of the scale, economic activity in Tasmania in the March quarter was just 4.3 per cent above its decade average while Queensland activity was up 4.4 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 sixth place.
- Victoria has the fastest annual economic growth rate in the nation, up by 3.6 per cent on a year ago, ahead of NSW (up 3.5 per cent) and the ACT (up 2.2 per cent).
- The weakest final demand annual growth rates are in the Northern Territory (down 16.9 per cent on a year ago) followed by Western Australia (down 4.7 per cent) and Queensland (down 1.5 per cent).

“Victoria now has the fastest annual economic growth rate in the nation, up by 3.6 per cent on a year ago....”

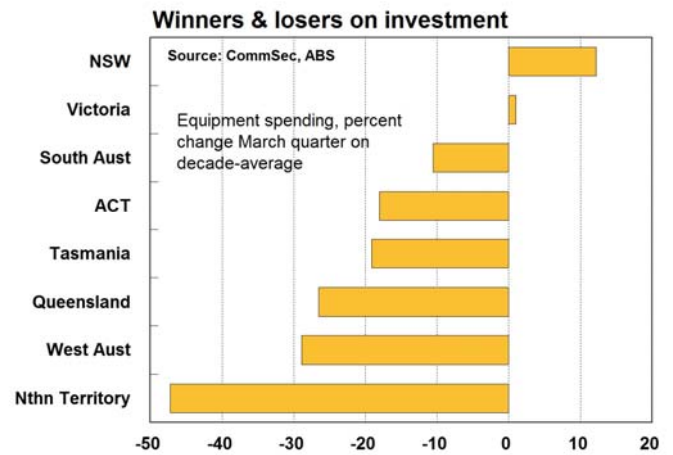
RETAIL SPENDING



- The measure used was real (inflation-adjusted) retail trade in trend terms with March quarter data the latest available.
- NSW has held on to the top spot on the retail rankings, followed by Victoria, with Western Australia holding on to third spot. Spending in NSW was 17.1 per cent above decade-average levels in the March 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 11.5 per cent on the decade average, followed by ACT (up 11.2 per cent). In fifth spot was Queensland with spending 9.9 per cent above decade averages.
- South Australia recorded the weakest result on retail spending, up 6.9 per cent on the decade average, just below Tasmania with 8 per cent growth and the Northern Territory with 8.6 per cent growth.
- If monthly retail trade was assessed instead to calculate the rankings (May data available), the rankings would be very similar with the only significant change being that Tasmania would move up to sixth spot and the Northern Territory down to seventh position.
- In terms of annual growth of real retail trade, the ACT is strongest (up 4.5 per cent), from Victoria (up 4.1 per cent), and the Tasmania (up 3.5 per cent).
- And looking at monthly retail trade, the strongest annual growth is the ACT (up 6.3 per cent) from Tasmania (up 5.2 per cent) and NSW and Victoria (both up 4.6 per cent).

“NSW has held on to the top spot on the retail rankings, followed by Victoria, with Western Australia holding on to third spot.”

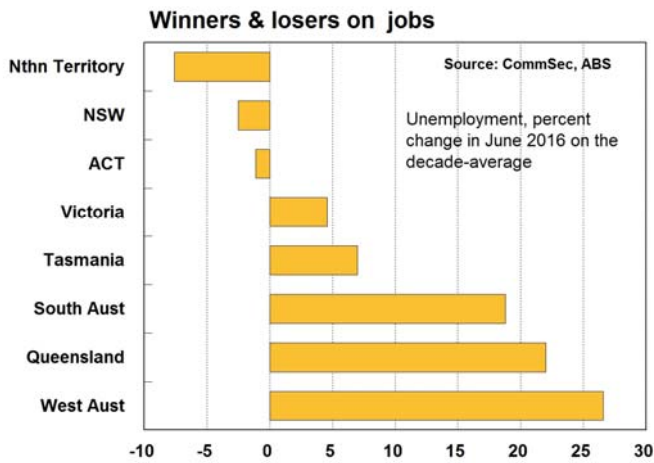
EQUIPMENT INVESTMENT



- NSW has held top spot on equipment investment from Victoria. The biggest move in the quarter was the ACT, shifting from second position to fourth. Queensland moved from fifth to sixth.
- In NSW, equipment spending in the March quarter was 12.2 per cent above decade-average levels, while Victoria was up 1 per cent on the decade average.
- By contrast, other states and territories had equipment spending below decade averages in the March quarter. Weakest was the Northern Territory (down 47.2 per cent). Six months prior, equipment spending in the Northern Territory had been 1.5 per cent above decade-averages.
- Next weakest was Western Australia (down 28.9 per cent) followed by Queensland (down 26.5 per cent) and Tasmania (down 19.1 per cent).
- South Australia (down 10.5 per cent on decade-average levels) has edged ahead of the ACT (down 18 per cent) into third spot.
- On a shorter-run analysis, equipment investment in the March quarter was higher than a year ago in only two of the state and territory economies (similar to last quarter).
- Equipment investment is up the most on a year ago in the Victoria (up 3 per cent), followed by NSW (up 1.7 per cent).
- By contrast new equipment investment in the Northern Territory was down 63.9 per cent on a year ago while spending in Queensland was down 25.1 per cent. Equipment spending in Western Australia was down 16.9 per cent - further highlighting the transition in the economy after the resources boom.

“NSW has held top spot on equipment investment from Victoria. The biggest move in the quarter was the ACT, shifting from second position to fourth. Queensland moved from fifth to sixth.”

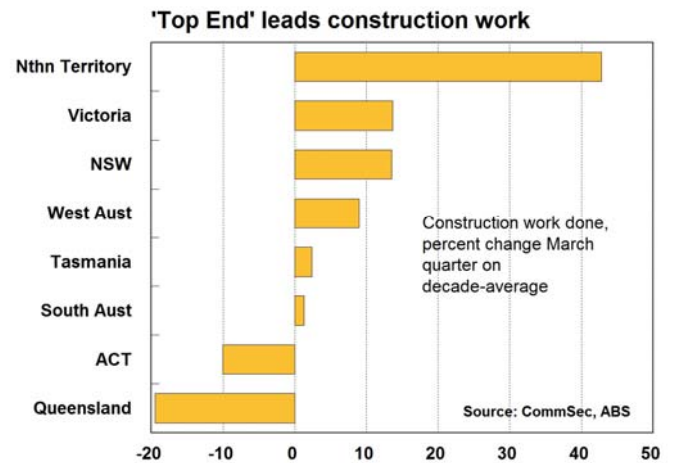
UNEMPLOYMENT



- 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 3.6 per cent from the Northern Territory (3.7 per cent) and NSW (5.2 per cent).
- And while the ACT jobless rate is 1.1 per cent below its decade average, the Northern Territory's jobless rate is an even greater 7.6 per cent below its decade average ("normal") jobless rate. And even the NSW jobless rate is actually 2.5 per cent lower than the decade average, ahead of the ACT.
- Interestingly Victoria follows the ACT; its 5.7 per cent jobless rate is 4.6 per cent above the decade average.
- In Tasmania, unemployment stands at 6.5 per cent, up 7 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 5.6 per cent, 26.6 per cent higher than the 4.4 per cent 'normal' or decade-average.
- Next weakest is Queensland with the trend unemployment rate 22 per cent above the decade average. South Australia's jobless rate is 18.8 per cent above the decade average.
- Unemployment rates in all states and territories except for Queensland eased over the past three months.

"Unemployment rates across all the states and territories except for Queensland eased in trend terms in the past three months."

CONSTRUCTION WORK



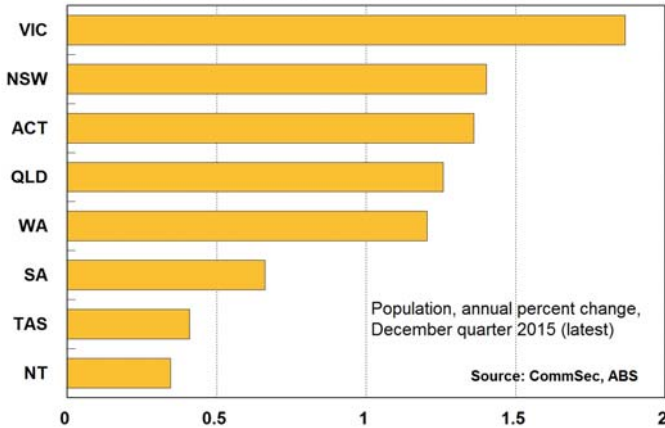
- The measure used for analysis was the total real value of residential, commercial and engineering work actually completed in trend terms in the March quarter.
- In six of the states and territories, construction work was higher than decade averages.
- Leading the way was the Northern Territory with construction work done 42.8 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 20.2 per cent in the March quarter compared with a year ago – highlighting a shift in momentum.
- Next strongest was Victoria (up 13.7 per cent), while construction work done in NSW was up by 13.5 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.
- Western Australia is now fourth ranked (previously second ranked) with construction work 9 per cent above decade averages. Tasmania is fifth ranked with construction work 2.4 per cent above 'normal' levels, followed by South Australia (up 1.3 per cent).
- In Queensland, overall new construction work completed in the March quarter was almost 20 per cent below the decade average.
- Next weakest to Queensland was the ACT where construction work was 10 per cent below decade averages.
- In terms of annual growth rates, Victorian construction work done in the March quarter was up 6.1 per cent on a year ago, followed by Victoria (up 2.5 per cent). Five economies had construction work lower than a year ago, led by Northern Territory and Queensland.

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

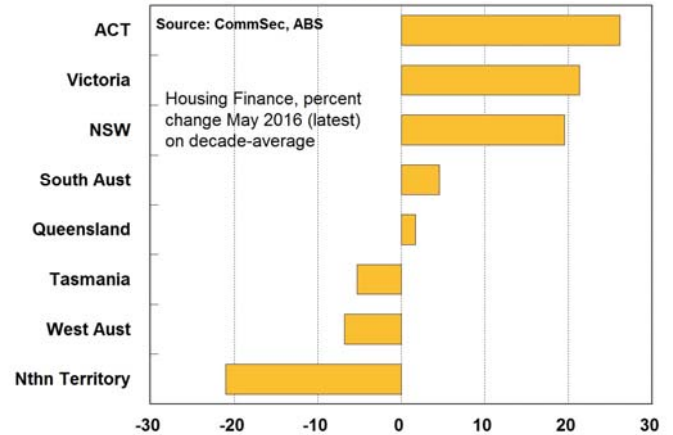
POPULATION GROWTH

HOUSING FINANCE

Victoria leads the way on population growth



Home lending is mixed



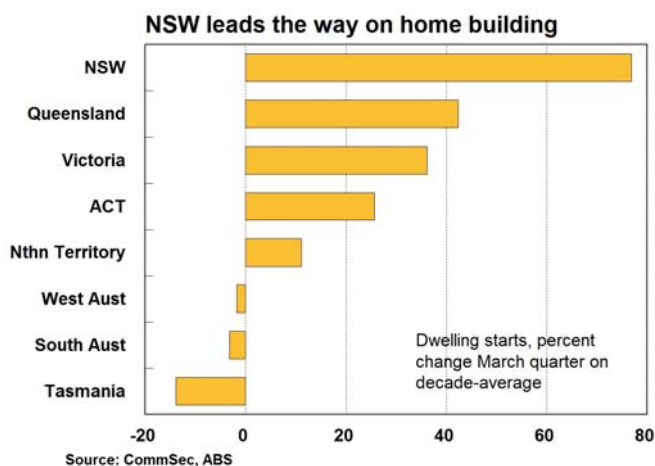
- To assess population performance we looked at the current annual growth rate and compared it with each economy's decade-average ('normal') growth pace.
- Population growth is clearly an important driver of the broader economy, especially retail spending and housing demand. The key point being that only two states now have population growth above long-term averages.
- NSW has the second highest annual growth rate in Australia at 1.40 per cent, and this is 7 per cent above the decade average (last quarter, population growth was 5 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 1.87 per cent higher than a year ago and this growth rate is 5.6 per cent above the 'normal' or decade-average level.
- The ACT is now third on population growth with an annual growth rate of 1.36 per cent. Population growth stands at 1.2 per cent in Western Australia, down almost 53 per cent on decade-average levels.
- The state or territory with the slowest annual population growth is the Northern Territory, up just 0.35 per cent on a year ago and down almost 80 per cent on the decade average – the weakest in the nation.
- Tasmania's annual population growth eased from 0.44 per cent to 0.41 per cent in the December quarter and was 32.1 per cent lower than its 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 five of the states and territories – the ACT, Victoria, NSW, South Australia and Queensland – trend housing finance commitments are above decade averages. And in six of the eight economies, trend commitments in May were above year-ago levels – with Tasmania added to the aforementioned economies.
- The ACT leapfrogged Victoria and NSW for housing finance, with the number of commitments 26.2 per cent above the long-term average. Next strongest was Victoria, up 21.3 per cent on the decade average.
- NSW moved down to third spot on housing finance, with commitments 19.5 per cent higher than the decade average. South Australia (up 4.6 per cent on decade averages) was the next strongest, moving ahead of Queensland (up 1.7 per cent on the decade average).
- Northern Territory remains the weakest for housing finance with trend commitments more than 21 per cent lower than its decade average. Even more concerning, commitments are now 9.7 per cent lower than a year ago, after being down 11.4 per cent in April.
- Commitments in Western Australia are down 6.8 per cent on the decade average with Tasmania (down 5.3 per cent).

“NSW has the second highest annual growth rate in Australia at 1.40 per cent, and this is 7 per cent above the decade average ...”

“The ACT leapfrogged Victoria and NSW for housing finance, with the number of commitments 26.2 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 over the later part of 2016 and into 2017, 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 77 per cent above decade averages. In addition, in the March quarter the number of dwellings started was 15.3 per cent higher than a year earlier.
- Queensland has replaced Victoria in second spot, with starts 42.3 per cent above decade averages. Victorian starts are 36.2 per cent above decade averages and starts in the ACT are up 25.6 per cent.
- At the other end of the scale, Tasmanian dwelling starts were 13.9 per cent below decade averages. And in the March quarter, starts were down 22.3 per cent on a year earlier. Next weakest was South Australia (down 3.2 per cent from decade averages) from Western Australia (down 1.8 per cent on the decade average) and the Northern Territory (up 11.1 per cent on the decade average).
- In terms of annual growth, the ACT is strongest with dwelling starts easing further from 4-year highs, but still up 22.0 per cent on a year ago.

“NSW retains the mantle of the strongest in the nation for new home construction, with starts almost 77 per cent above decade averages.”

OTHER INDICATORS

WAGES & PRICES*

	Wages Mar Qtr	CPI Mar Qtr	Home Prices June
NSW	2.1	1.3	11.3
Victoria	2.4	1.7	11.5
Queensland	1.9	1.7	5.3
South Australia	2.2	0.7	2.2
Western Australia	2.0	0.7	-4.7
Tasmania	2.2	1.3	6.2
Northern Territory	2.1	-0.3	-1.1
ACT	1.8	1.0	3.9

* 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 annual fall in prices, while Victoria and Queensland both recorded a 1.7 per cent lift in prices.
- To compare real wage growth, the latest data is for the March quarter. And notably in that quarter, wage growth in all states and territories was above that of consumer prices.
- Strongest real wage growth was recorded in the Northern Territory with wages 2.4 percentage points (pp) higher than consumer prices. Wage growth was certainly not the highest in the nation, however inflation was the lowest.
- Real wage growth was next highest in South Australia, with wages 1.5pp above consumer prices (inflation).
- At the other end of the scale, Victoria's wage growth of 2.4 per cent was mildly above the 1.7 per cent annual growth of prices. Despite that, retail spending still remains firm in Victoria. Real wages remains only modestly positive in Queensland (+0.2pp).
- Turning to home prices, in June six of the capital cities had positive annual growth of home prices. Back in March, a similar result was noted for Australia's capital cities. However, price growth on the Eastern Seaboard and even Tasmania has strengthened in the past quarter.
- The strongest growth in home prices was in Melbourne (up 11.5 per cent), followed by Sydney (up 11.3 per cent) and then there was a fair gap to the other capital cities.
- Next strongest was Hobart (up 6.2 per cent), Brisbane (up 5.3 per cent), and Canberra (up 3.9 per cent) with Adelaide prices up 2.2 per cent on a year ago.
- Home prices were lower than a year ago in Perth (down 4.7 per cent), and Darwin (down 1.1 per cent).

In the March 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 business investment, population growth, retail trade and dwelling starts and added economic growth. But NSW has drifted to second spot on unemployment.

Victoria

Victoria is ranked second on a number of indicators - economic growth, population growth, retail trade, business investment, construction work and housing finance.

ACT

The ACT is top-ranked on housing finance and third-ranked on economic growth, unemployment and population growth.

Northern Territory

The Northern Territory remains in top spot for construction work done and is also now best on unemployment. However, the NT economy is ranked last on population growth, business investment and housing finance.

South Australia

South Australia is middle-ranked on population growth and housing finance and fifth ranked on economic growth. It remains last on retail trade.

Queensland

Queensland is second-ranked on dwelling starts, however it is bottom-ranked on construction work, and seventh-ranked on economic growth and unemployment.

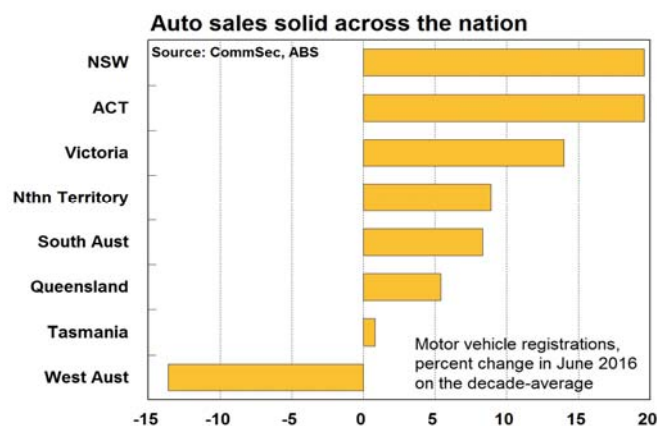
Western Australia

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

Tasmania

The "Apple Isle" is fifth ranked on four indicators, but is last on dwelling starts and economic growth.

LOOKING AHEAD



- 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 to equal seventh spot with Tasmania in the rankings.
- NSW has a solid grip on the top ranking of economic performance. Population growth is above long-term averages, thus providing solid momentum to the economy.
- Victoria still has a strong grip on the second ranking, although it has drifted marginally away from NSW. Victoria has solid population growth and is second ranked on a number of indicators.
- The ACT has comfortably held onto third spot in the performance rankings. Stronger housing activity and the lift in business investment will support the job market and retail spending over the coming year.
- The Northern Territory is losing momentum, and as key resource projects are completed, activity levels will slow further unless a lift in investment takes place. Slow population growth, weak demand for housing loans and a sharp fall in equipment investment will constrain economic momentum.
- The South Australian job market has improved in the past year and in particular the past quarter. If the positive trend continues, then there is scope for an improvement in retail spending.
- Queensland has slipped down the rankings to just above Western 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 moved from top spot (July 2014) to seventh in two years. Slower population growth and higher unemployment will constrain activity in the housing market
- The Tasmanian economy is seeing a modest lift in momentum. The lower currency on three months ago is providing a boost to an array of sectors, especially tourism.

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