

State of the States

April 2017 State & territory economic performance report.
Executive Summary



NSW REMAINS ON TOP; ACT LIFTS TO 2ND

How are Australia's states and territories performing? Each quarter CommSec attempts to find out by analysing eight key indicators: economic growth; retail spending; business investment; unemployment; construction work done; population growth; housing finance and dwelling commencements.

Just as the Reserve Bank uses long-term averages to determine the level of 'normal' interest rates; we have done the same with key economic indicators. For each state and territory, latest readings for the key indicators were compared with decade averages – that is, against the 'normal' performance.

The State of the States report also includes a section comparing annual growth rates for the eight key indicators across the states and territories as well as Australia as a whole. This enables another point of comparison – in terms of economic momentum.

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

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

The ACT has moved into second spot, improving its relative position on five of the eight indicators.

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

Tasmania remains in fourth spot just ahead of **Queensland, Northern Territory and South Australia**. The rankings haven't changed in the last quarter.

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

- NSW has retained its top rankings on business investment, retail trade and dwelling starts. NSW is in second spot on unemployment, construction work and economic growth. NSW is in third spot on housing finance and unemployment.
- The ACT has lifted to second spot and is now top-ranked on housing finance. The Territory is second on two indicators and third on another three.
- Victoria is in third spot, easing in its relative position on business investment and housing finance. Victoria leads on population growth.
- There is little to separate other economies and there have been no changes in rankings.
- Tasmania holds its position in fourth spot but there is little to separate it from Queensland, Northern Territory and South Australia. Tasmania is now in second spot for unemployment.
- Queensland remains in fifth position on the economic performance rankings. Queensland is benefitting from strong export growth which will boost overall growth of Gross State Product (economic growth). Exports are growing at a 43 per cent annual rate.
- The Northern Territory remains in sixth position on the economic performance rankings. The Territory is still ranked first on construction work done and unemployment and is now also top-ranked on economic growth. But on forward-looking indicators like population growth, housing finance and home starts, the Territory lags other economies.
- The South Australian economy is in seventh position. South Australia is middle-ranked on business investment and fifth-ranked on dwelling starts.
- The economic performance of Western Australia continues to reflect the ending of the mining construction boom. But unemployment has eased over the last three months.

Methodology

Each of the states and territory economies were assessed on eight key indicators: economic growth; retail spending; business investment; unemployment, construction work done; population growth; housing finance and dwelling commencements.

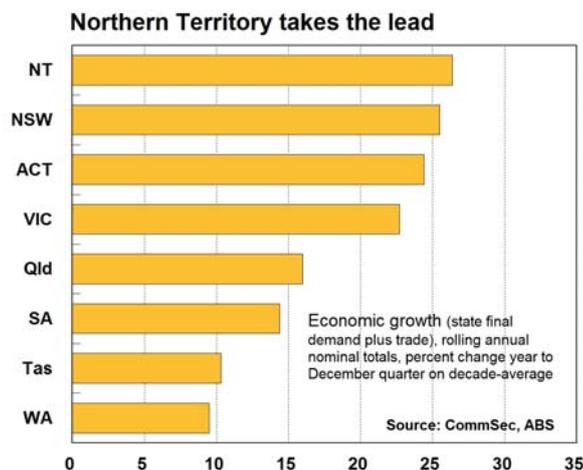
The aim is to find how each economy is performing compared with “normal”. And just like the Reserve Bank does with interest rates, we used decade-averages to judge the “normal” state of affairs. For each economy, the latest level of the indicator – such as retail spending or economic growth – was compared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

While we also looked at the current pace of growth to assess economic momentum, it may yield perverse results to judge performance. For instance retail spending may be up sharply on a year ago but from depressed levels. Overall spending may still be well below “normal”. And clearly some states such as Queensland and Western Australia traditionally have had faster economic growth rates due to historically faster population growth. So the best way to assess economic performance is to look at each indicator in relation to what would be considered ‘normal’ for that state or territory.

For instance, the trend jobless rate in the ACT of 3.7 per cent is the second lowest of all economies. But this jobless rate is 0.2 per cent higher than its ‘normal’ or decade-average rate, ranking it fourth on this indicator.

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

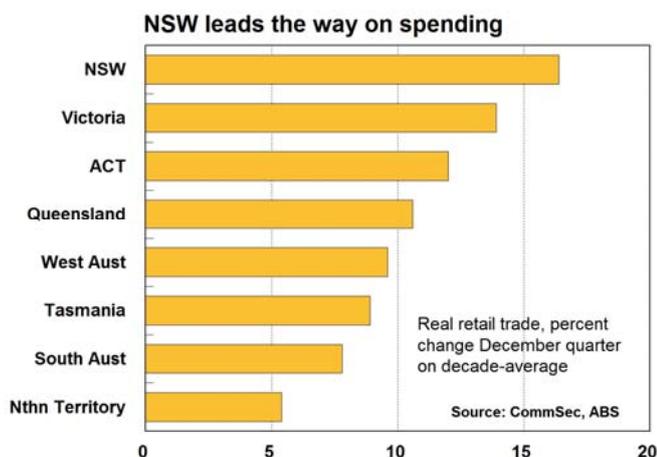
ECONOMIC GROWTH



- Ideally Gross State Product (GSP) would be used to assess broad economic growth. But the data isn't available quarterly. And we have previously used state final demand (household and business spending) and exports less imports to act as a proxy for GSP. But the Bureau of Statistics has ceased calculation of state trade data in real terms. So we now use state final demand plus trade in nominal terms and rolling annual totals are used to remove seasonality.
- The Northern Territory has regained top spot on economic growth. Economic activity in the ‘Top End’ is 26.4 per cent above its ‘normal’ or decade-average level of output.
- Next strongest is NSW, with output 25.5 per cent higher than the decade average level of output. Then follows the ACT (up 24.4 per cent) from Victoria (22.7 per cent).
- At the other end of the scale, economic activity in Western Australia in the December quarter was just 9.5 per cent above its decade average while Tasmanian activity was up 10.3 per cent, behind South Australia (up 14.4 per cent) and Queensland (up 16.0 per cent).
- NSW has the fastest nominal annual economic growth rate in the nation, up by 7.5 per cent on a year ago, ahead of ACT (up 6.9 per cent), Victoria (up 4.8 per cent) and Queensland (up 3.5 per cent).
- The weakest nominal annual growth rates are in Western Australia (down 2.4 per cent) and South Australia (up 0.7 per cent).
- In terms of economic growth, if trend State Final Demand in real terms is used, comparing the latest result with decade averages then reveals some subtle changes in the rankings. Queensland performs better using the nominal data including trade due a strong lift in exports. In the December quarter, Queensland exports were up 43 per cent on a year ago.

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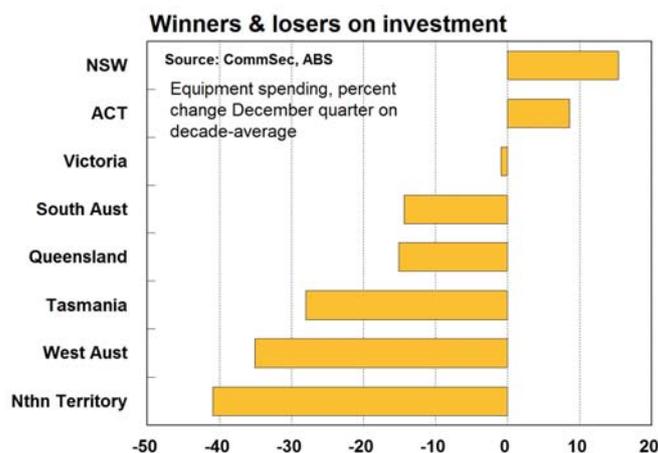
RETAIL SPENDING



- The measure used was real (inflation-adjusted) retail trade in trend terms with December quarter data the latest available.
- NSW has maintained the top spot on the retail rankings, followed by Victoria. In fact the only change in rankings compared with the September quarter was Queensland leaping head of Western Australia.
- Spending in NSW was 16.4 per cent above decade-average levels in the December quarter. Solid activity in the housing sector, relatively low unemployment and higher home prices continue to support spending.
- Spending in Victoria was 13.9 per cent above decade-average levels, once again supported by home building and the strength in employment.
- Spending in the ACT was up 12 per cent on the decade average, followed by Queensland (up 10.6 per cent). In fifth spot was Western Australia with spending 9.6 per cent above decade averages.
- Northern Territory recorded the weakest result on retail spending, up 5.4 per cent on the decade average, just below South Australia with 7.8 per cent growth and Tasmania with 8.9 per cent growth.
- If monthly retail trade was assessed instead to calculate the rankings (February data available), the rankings would be exactly the same.
- In terms of annual growth of real retail trade, the ACT is strongest (up 3.3 per cent), from Tasmania and South Australia (both up 2.3 per cent).
- But looking at monthly retail trade, the South Australia is strongest (up 3.8 per cent), from Queensland and NSW (both up 3.2 per cent).

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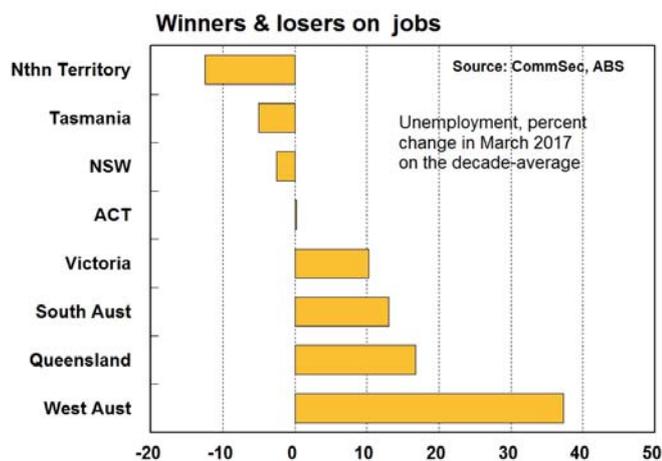
BUSINESS INVESTMENT



- The measure of business investment was spending on new plant and equipment in trend terms with December quarter data compared with decade averages (the “normal” performance).
- Only NSW and the ACT had business spending in the December quarter above decade-average levels: NSW (15.4 per cent) and ACT (8.6 per cent). However, equipment spending in Victoria was only 0.9 per cent lower than the decade average.
- By contrast, other states and territories had business spending solidly below decade averages in the December quarter. Weakest was the Northern Territory (down 40.9 per cent).
- Next weakest was Western Australia (down 35.1 per cent) followed by Tasmania (down 28.0 per cent), Queensland (down 15.1 per cent) and South Australia (down 14.4 per cent).
- On a shorter-run analysis, equipment investment in the December quarter was higher than a year ago in three of the state and territory economies (three economies also recorded positive growth in the previous quarter).
- Business investment was up the most on a year ago in the ACT (up 15.8 per cent), followed by NSW (up 9.2 per cent) and Queensland (up 6.7 per cent).
- It was the first positive annual growth in equipment investment in Queensland in 3½ years.
- By contrast new business investment in Western Australia was down 10.3 per cent, behind Northern Territory (down 9.8 per cent) and South Australia (down 8.7 per cent).
- Equipment investment has fallen in Western Australia in annual terms for the past four years.

“Only NSW and the ACT had business spending in the December quarter above decade-average levels”

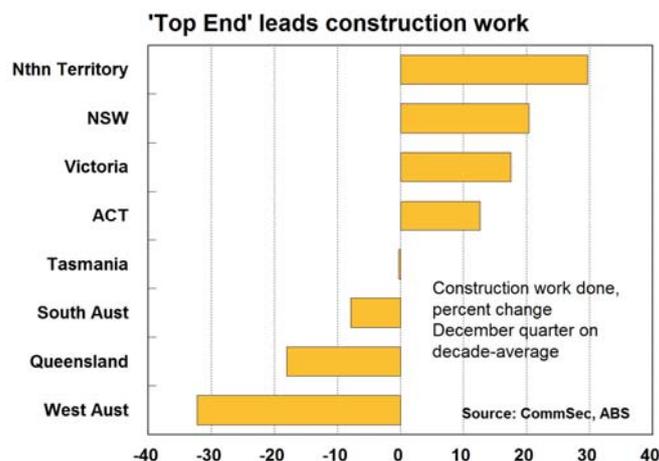
UNEMPLOYMENT



- Which state or territory has the strongest job market in the nation? The available data shows it is the Northern Territory. The lowest trend unemployment rate in Australia can be found in the Northern Territory at 3.5 per cent ahead of the ACT (3.7 per cent) and NSW (5.2 per cent).
- Not only is the jobless rate in the Northern Territory the lowest in the nation but it is 12.5 per cent below its decade average. The ACT's jobless rate is actually 0.2 per cent above its decade average ('normal') jobless rate. But the NSW jobless rate is 2.6 per cent lower than the decade average of 5.3 per cent.
- Interestingly, Tasmania now is ranked second on unemployment as its 5.8 per cent jobless rate is 5 per cent below the "normal" (decade-average) of 6.1 per cent.
- In Victoria, unemployment stands at 6.1 per cent, up 10.3 per cent on its decade average of 5.5 per cent. But annual trend employment growth is second only to Northern Territory at 3.3 per cent.
- At the other end of the scale is Western Australia. Trend unemployment stands at 6.4 per cent, just over 37 per cent higher than the 4.7 per cent 'normal' or decade-average. Going further back, the 20-year average jobless rate in Western Australia is 5.0 per cent.
- Next weakest is Queensland with the trend unemployment rate 16.8 per cent above the decade average. South Australia's jobless rate is 13 per cent above the decade average.
- Unemployment rates in Western Australia, Tasmania and Northern Territory eased over the past three months. Unemployment rates rose in other states but the jobless rate was stable in the ACT.

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CONSTRUCTION WORK



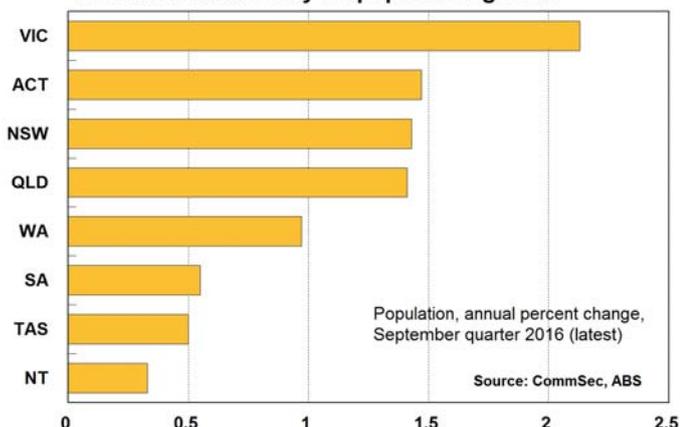
- The measure used for analysis was the total real value of residential, commercial and engineering work completed in trend terms in the December quarter.
- In four of the states and territories, construction work was higher than decade averages in the December quarter (previously five states).
- Leading the way was the Northern Territory with construction work done almost 30 per cent above its decade average with activity associated with the gas projects still providing solid support. However construction work in the Northern Territory was down 15.5 per cent in the December quarter compared with a year ago.
- Next strongest was NSW (up 20.4 per cent), while construction work done in Victoria was up by 17.5 per cent on 'normal' levels in trend terms. Construction work done in both state economies was higher than a year ago in the December quarter.
- The ACT lifted to fourth position with construction work 12.6 per cent above decade averages. But Tasmania has slipped to fifth and now construction work is broadly in line with 'normal' or the decade average.
- In Western Australia, overall new construction work done in the December quarter was over 32 per cent below the decade average.
- Next weakest to Western Australia was Queensland where construction work was 18.1 per cent below decade averages. South Australia is sixth-ranked with construction work 7.9 per cent below 'normal' levels.
- In terms of annual growth rates, ACT construction work done in the December quarter was up 27.4 per cent on a year ago, followed by NSW (up 8.3 per cent). Five economies had construction work lower than a year ago, led by Western Australia and the Northern Territory.

"In terms of annual growth rates, ACT construction work done in the December quarter was up 27.4 per cent on a year ago..."

POPULATION GROWTH

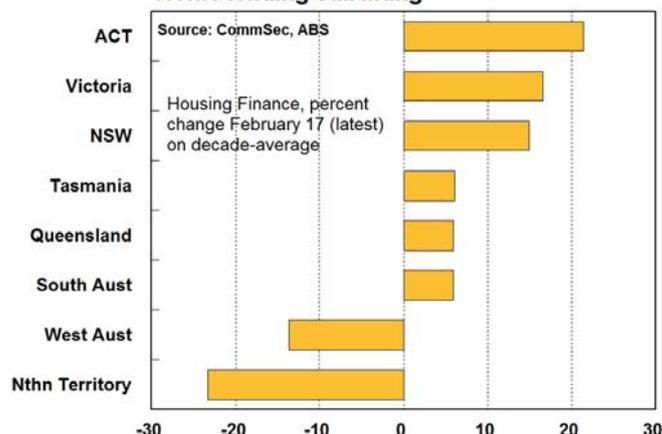
HOUSING FINANCE

Victoria leads the way on population growth



- 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.
- Victoria continues to record the strongest annual population growth as well as holding first place on the differential with the decade-average rate. Victoria's population is 2.13 per cent higher than a year ago (strongest growth in seven years) and this growth rate is 17.4 per cent above the 'normal' or decade-average level.
- NSW has the third highest annual growth rate in Australia at 1.43 per cent, behind the ACT with 1.47 per cent. But the NSW annual growth is 5.3 per cent above the decade average, putting it ahead of the ACT.
- So the ACT ranks third on population with the 1.47 per cent annual growth almost 13 per cent below the decade average.
- Tasmania's annual population growth rose from 0.48 per cent to 0.50 per cent in the September quarter and was 14 per cent lower than its decade average – ranking fourth on this metric.
- The state or territory with the slowest annual population growth is the Northern Territory, up just 0.33 per cent on a year ago and down over 79 per cent on the decade average – the weakest in the nation.

Home lending still lifting

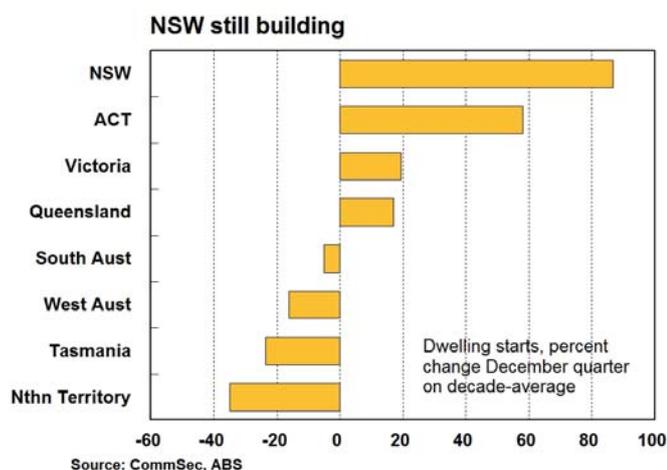


- The measure used is the trend number of housing finance commitments and this is compared with the decade average for each respective state and territory.
- Housing finance is not just a leading indicator for real estate activity and housing construction but it is also a useful indicator of activity in the financial sector. It would be useful to compare figures on commercial, personal and lease finance, but unfortunately trend data is not available for states and territories.
- In six of the states and territories – the ACT, NSW, Victoria, South Australia, Tasmania and Queensland – trend housing finance commitments are above decade averages. But only in four of the eight economies were trend commitments above year-ago levels.
- The ACT is now in top spot with the number of commitments up by 21.4 per cent on the long-term average. Next strongest was Victoria (up 16.6 per cent on decade averages) followed by NSW (up 14.9 per cent).
- Tasmania retains fourth spot on housing finance, with commitments 8.9 per cent higher than the decade average. Queensland (up 5.9 per cent on decade averages) was the next strongest, just ahead of South Australia (when measured to second decimal place).
- Northern Territory remains the weakest for housing finance with trend commitments 23.3 per cent lower than its decade average. But while commitments are 13.3 per cent lower than a year ago, the annual fall is shrinking.
- Commitments in Western Australia are down 13.6 per cent on the decade-average.
- Annual growth of home loans is strongest in Tasmania (up 8.3 per cent) from Victoria (up 1.5 per cent).

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DWELLING STARTS



- The measure used was the trend number of dwelling commencements (starts) with the comparison made to the decade-average level of starts. Starts are driven in part by population growth and housing finance and can affect retail trade, unemployment and overall economic growth. However, any over-building or under-building in previous years can affect the current level of starts.
- The outlook for home building is mixed across the nation. The NSW market remains strong, responding to rising population. And home building is also strong in the ACT and Queensland. By contrast, starts in Western Australia are at the lowest levels in more than four years.
- NSW remains in top spot for dwelling starts with commencements almost 87 per cent above decade averages. In addition, in the December quarter the number of dwellings started was 15.1 per cent higher than a year earlier.
- The ACT is now in second spot behind NSW, with starts 58.2 per cent above decade averages. Victorian starts are 19.4 per cent above decade averages, followed by Queensland (up 17 per cent).
- At the other end of the scale, dwelling starts in the Northern Territory were almost 35 per cent below decade averages. And in the December quarter, starts were down 42 per cent on a year earlier. Next weakest was Tasmania (down 23.6 per cent from decade averages) from Western Australia (down 16.2 per cent on the decade average) and South Australia (down 5.1 per cent).
- In terms of annual growth, only two states or territories had dwelling starts up on a year earlier: the ACT (up 22.9 per cent) and NSW (up 15.1 per cent).

“In terms of annual growth, only two states or territories had dwelling starts up on a year earlier...”

OTHER INDICATORS

WAGES & PRICES*

	Wages Dec Qtr	CPI Dec Qtr	Home Prices March
NSW	2.1	1.8	18.9
Victoria	1.9	1.5	15.9
Queensland	2.0	1.6	3.7
South Australia	2.2	1.3	3.4
Western Australia	1.4	0.4	-4.7
Tasmania	2.4	1.3	10.2
Northern Territory	2.1	-0.4	-4.4
ACT	1.9	1.8	12.8

* Annual % change. Source: ABS, CoreLogic-RP Data, CommSec
CPI - Consumer Price Index
Wages - Wage Price Index

- Annual inflation rates were steady or rose across all capital cities in the December quarter except Western Australia and the Northern Territory. The weakest result was in the Northern Territory with prices falling 0.4 per cent over the year.
- 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 remained above the growth of consumer prices.
- Strongest real wage growth was recorded in the Northern Territory with wages 2.5 percentage points (pp) higher than consumer prices. Wage growth was the equal third highest in the nation, however inflation was the lowest.
- Real wage growth was next highest in Tasmania, with wages 1.1pp above consumer prices (inflation).
- At the other end of the scale, NSW wage growth of 2.1 per cent was mildly above the 1.8 per cent annual growth of prices. Similarly for Victoria and Queensland, wages were 0.4pp higher than consumer prices. Real wages remain near 1pp in South Australia and Western Australia.
- Turning to home prices, in March 2017 six of the capital cities had positive annual growth of home prices, down from seven in January. Price growth in the south-eastern capital cities stand in contrast to other parts of the country.
- The strongest annual growth in home prices was in Sydney (up 18.9 per cent), followed by Melbourne (up 15.9 per cent), Canberra (up 12.8 per cent) and Hobart (up 10.2 per cent). Next strongest was Brisbane (up 3.7 per cent), followed by Adelaide (up 3.4 per cent).
- Home prices were lower than a year ago in Perth (down 4.7 per cent) and Darwin (down 4.4 per cent).

“Strongest real wage growth was recorded in the Northern Territory...”

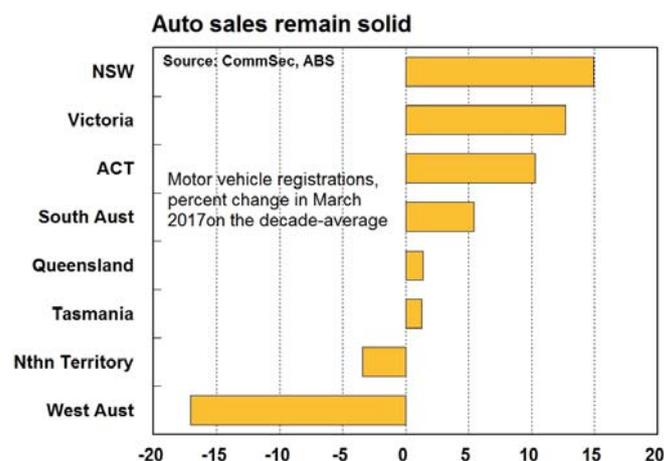
ANNUAL GROWTH RATES

TREND ANNUAL GROWTH %				
	Economic Growth	Retail Trade	Equip. Invest	Employment
NSW	7.5	1.8	9.2	-0.1
VIC	4.8	1.6	-1.5	3.3
QLD	3.5	2.1	6.7	-0.2
SA	0.7	2.3	-8.7	1.4
WA	-2.4	-0.7	-10.3	-0.3
TAS	2.6	2.3	-5.1	1.2
NT	3.0	-1.7	-9.8	6.9
ACT	6.9	3.3	15.8	1.9
AUST	4.2	1.6	2.2	1.0

	Construct Work	Pop-ulation	Housing Finance	Home Starts
NSW	8.3	1.43	-2.9	15.1
VIC	4.5	2.13	1.5	-8.4
QLD	-0.4	1.41	1.2	-11.5
SA	-8.9	0.55	0.4	-3.4
WA	-43.6	0.97	-11.5	-23.8
TAS	-1.7	0.50	8.3	-23.4
NT	-15.5	0.33	-13.3	-4.2
ACT	27.5	1.47	-0.3	22.9
AUST	-10	1.46	-1.5	-3.1

- The **State of the States** assesses economic performance by looking at the most recent result – such as retail trade or construction – and compares that with recent experience. And by ‘recent experience’, we define this as the decade average.
- A resident of the state or territory can therefore assess whether they are experiencing relatively better economic times. By comparing states or territories on the same criteria determines which state or territory is performing the best on a certain indicator.
- But as well as relative economic performance, some are also interested in economic momentum. That is, annual economic growth. A state/territory may have been under-performing, but if annual growth is rising, then this suggests that performance has scope to improve.
- On the eight indicators assessed, ACT tops growth on four measures; NSW, Victoria, Tasmania and the Northern Territory lead the way on the other four.
- When looking across growth rates for the states and territories, the ACT doesn’t under-perform the national average on any indicator while Victoria under-performs on only two indicators.
- At the other end of the scale, Western Australia has annual growth rates below the national average on all eight indicators while Northern Territory underperforms on seven indicators.

LOOKING AHEAD



- If new vehicle registrations are added to the list of indicators, ACT and Victoria become equal second; Tasmania and Queensland are equal fourth and Northern Territory and South Australia become equal sixth.
- NSW remains solidly on top of the economic performance rankings. Last quarter we said that NSW may experience a challenge from either Victoria or the ACT over the coming year. And that remains the case.
- The ACT has now lifted to third spot in the performance rankings. And economic momentum is on its side with firmer population growth, low unemployment and solid residential and engineering work.
- Victoria has eased to third spot on the performance rankings. But it continues to lead the nation on population growth and employment growth has lifted.
- NSW, Victoria and ACT represent the top-tier of economies with little to separate the economies in the second tier.
- Tasmania remains in fourth spot with rising population growth (fastest in five years) boosting housing demand and supporting the job market.
- Queensland is in fifth position but there is little to separate the State from Tasmania, Northern Territory and South Australia. Tourism, exports and housing activity are driving the Queensland economy. Post-flood rebuilding and repairs can also be expected.
- The Northern Territory remains in sixth position on the performance rankings. The job market is strong but population growth is weak, affecting consumer spending and housing demand.
- The South Australian economy retains potential to lift over the coming year. Employment is growing at close to the fastest annual rate in almost six years, lifting retail spending (fastest growth in the nation for monthly series).
- Western Australia is benefitting from higher mining and metal prices and record export volumes. Unemployment has also eased over the past three months. Tourism and agriculture both provide scope to drive growth.

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