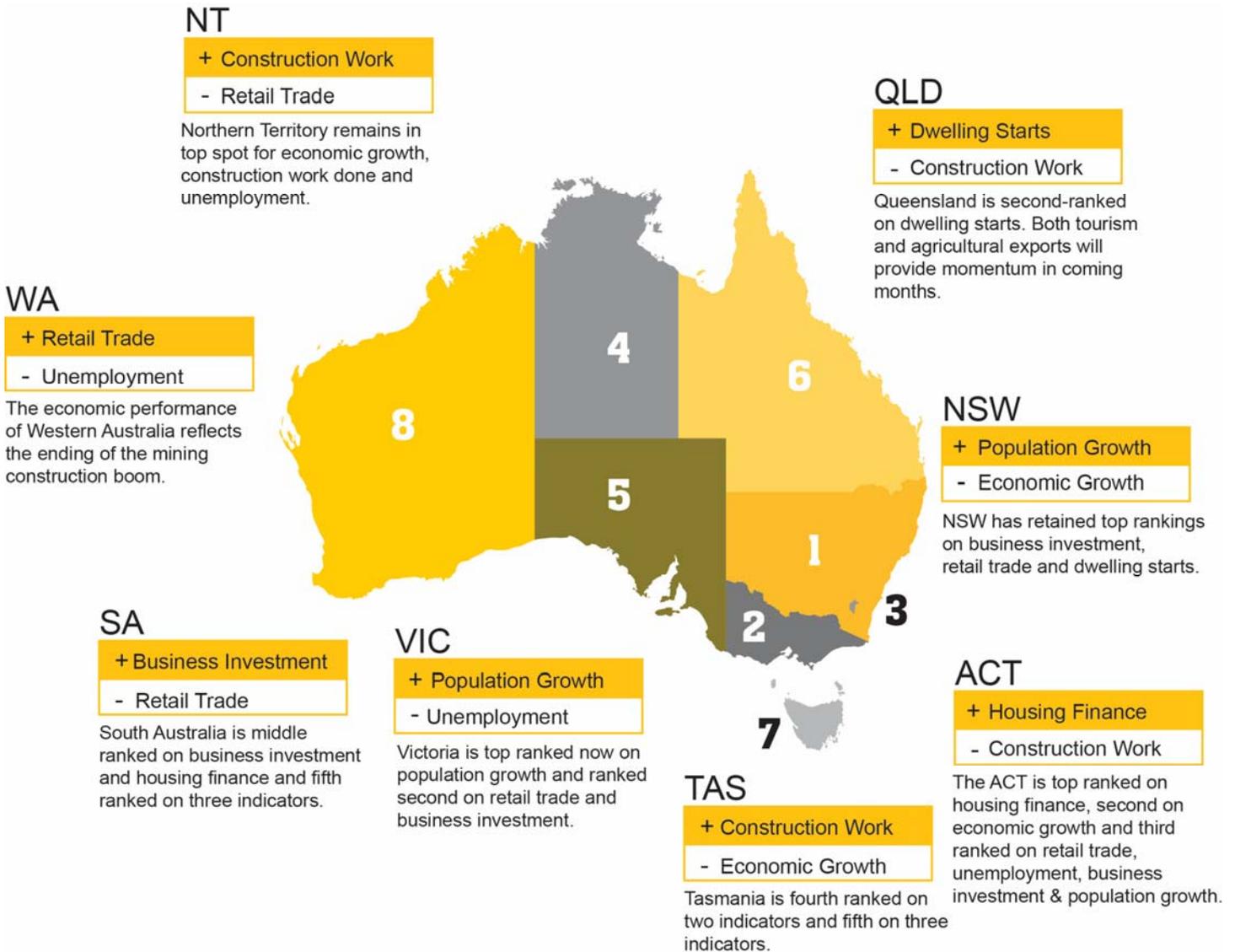


State of the States

October 2016 State & territory economic performance report.
Executive Summary



NSW, VICTORIA AND ACT LEAD

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 latest 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.

NSW has held on to the position as the best performing economy, supported by strong construction activity.

Victoria remains solidly in second spot, but may consolidate or improve its position over the coming year.

The ACT economy remains in third spot on the economic performance rankings with higher home prices and home loans adding momentum.

The Northern Territory economy is still being supported by commercial and engineering activity but economic momentum is weakening.

Similar to the ACT, South Australia is being assisted by stronger home prices and home loan activity.

The Queensland economy has scope to lift, supported by home building, tourism and rural exports.

The Tasmanian economy has improved over the past quarter in relative terms. Population growth is close to the fastest annual pace seen in five years.

The economic performance of Western Australia reflects the ending of the mining construction boom.

- NSW has retained its top rankings on business investment, retail trade, and dwelling starts. But NSW is now second spot on unemployment, construction work, population growth and housing finance. NSW is in third spot on economic growth.
- Victoria remains in second spot on the economic performance rankings. Victoria is top ranked now on population growth and ranked second on retail trade and business investment. Victoria is third ranked on construction work, housing finance and dwelling starts.
- The ACT also has held on to its position as the third ranked economy. The ACT is top ranked on housing finance, second on economic growth and third ranked on retail trade, unemployment, business investment and population growth. Retail trade is up 5.1 per cent on a year ago.
- The Northern Territory holds fourth position and remains in top spot for economic growth, construction work done and unemployment. However the Territory economy is losing momentum, ranked last on four indicators – population growth, business investment, housing finance and retail trade.
- The South Australian economy is in fifth position. South Australia is middle ranked on business investment and housing finance and fifth ranked on three indicators.
- Queensland is in sixth place on the economic performance rankings. The economy is second-ranked on dwelling starts and population growth is lifting. Both tourism and agricultural exports will provide momentum in coming months and higher coal prices are encouraging.
- Tasmania has improved from eighth position to seventh on the rankings. Tasmania is fourth ranked on two indicators and fifth on three indicators. Annual growth on home lending is strongest in the nation at 10.3 per cent.
- The economic performance of Western Australia reflects the ending of the mining construction boom. But income levels will lift in line with record mining export volumes and the recent improvement in resource prices.

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.

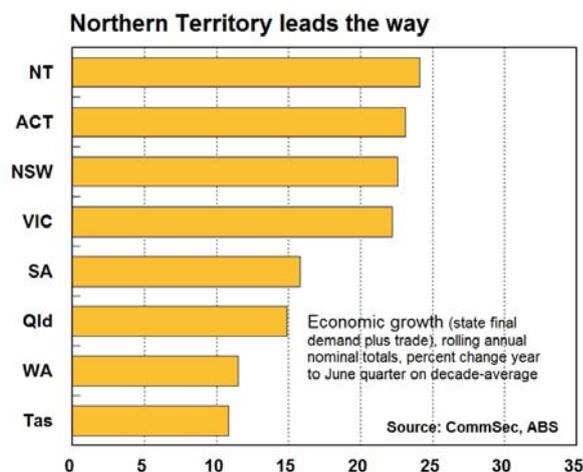
The aim is to find how each economy is performing compared with “normal”. And just like the Reserve Bank does with interest rates, we used decade-averages to judge the “normal” state of affairs. For each economy, the latest level of the indicator – such as retail spending or economic growth – was compared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

While we also looked at the current pace of growth to 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 3.5 per cent is the second lowest of all economies. But this jobless rate is 4.2 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.

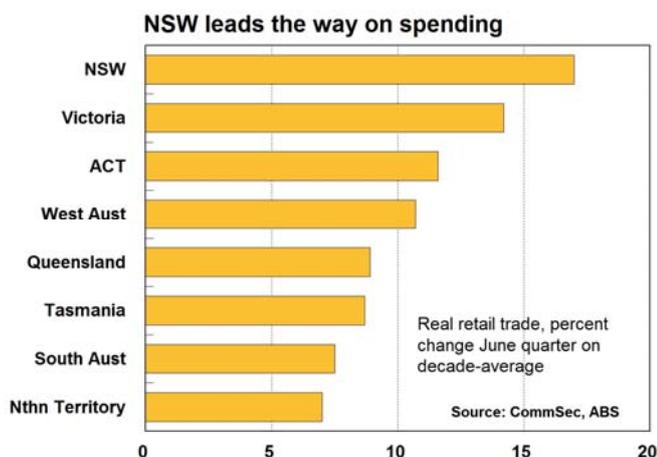
ECONOMIC GROWTH



- Ideally Gross State Product (GSP) would be used to assess broad economic growth. But the data isn't available quarterly. And 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 now we will use state final demand plus trade in nominal terms and rolling annual totals will be used to remove seasonality.
- The Northern Territory is in the top spot on economic activity. Nominal activity in the ‘Top End’ is 24.1 per cent above its ‘normal’ or decade-average level of output.
- Next strongest is the ACT, with output 23.1 per cent higher than the decade average level of output. Then follows NSW (up 22.6 per cent) from Victoria (22.2 per cent).
- At the other end of the scale, economic activity in Tasmania in the June quarter was just 10.8 per cent above its decade average while Western Australian activity was up 11.5 per cent, behind Queensland (up 14.9 per cent) and South Australia (up 15.8 per cent).
- Victoria has the fastest nominal annual economic growth rate in the nation, up by 5.4 per cent on a year ago, ahead of ACT (up 5.1 per cent), Tasmania (up 4.8 per cent) and NSW (up 4.5 per cent).
- The weakest nominal annual growth rates are in the Northern Territory (down 11.5 per cent on a year ago) followed by Western Australia (down 5.9 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 the top four don't change only the relative ranking: ACT (5.5 per cent) from NSW (4.5 per cent), Victoria (3.5 per cent) and Tasmania (1.6 per cent).

“Victoria has the fastest nominal annual economic growth rate in the nation, up by 5.4 per cent on a year ago...”

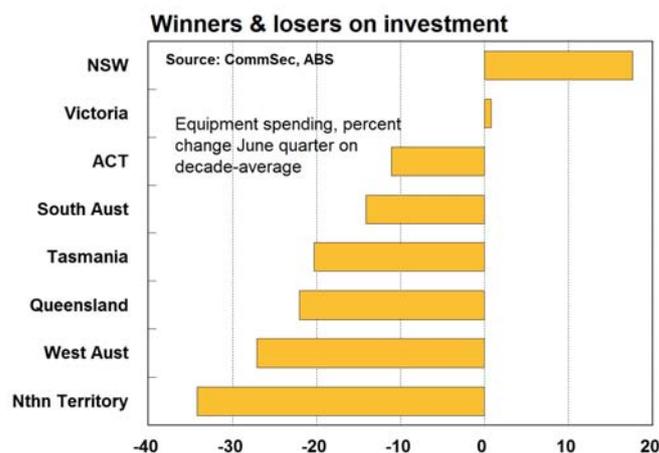
RETAIL SPENDING



- The measure used was real (inflation-adjusted) retail trade in trend terms with June quarter data the latest available.
- NSW has held on to the top spot on the retail rankings, followed by Victoria, with the ACT moving ahead of Western Australia to third spot. Spending in NSW was 17 per cent above decade-average levels in the June quarter. Solid activity in the housing sector, lower unemployment and higher home prices are supporting spending.
- Spending in Victoria was 14.2 per cent above decade-average levels, once again supported by home building and the strength in employment.
- Spending in the ACT was up 11.6 per cent on the decade average, followed by Western Australia (up 10.7 per cent). In fifth spot was Queensland with spending 8.9 per cent above decade averages.
- Northern Territory recorded the weakest result on retail spending, up 7 per cent on the decade average, just below South Australia with 7.5 per cent growth and Tasmania with 8.7 per cent growth.
- If monthly retail trade was assessed instead to calculate the rankings (August data available), the rankings would be very similar with the only significant change being that the Northern Territory would move up to sixth spot ahead of South Australia and Tasmania.
- In terms of annual growth of real retail trade, the ACT is strongest (up 5.1 per cent), from Tasmania (up 3.7 per cent) and Victoria (up 3.4 per cent).
- And looking at monthly retail trade, the strongest annual growth is the ACT (up 5.8 per cent) from Tasmania (up 4.3 per cent) and South Australia (up 4.2 per cent).

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

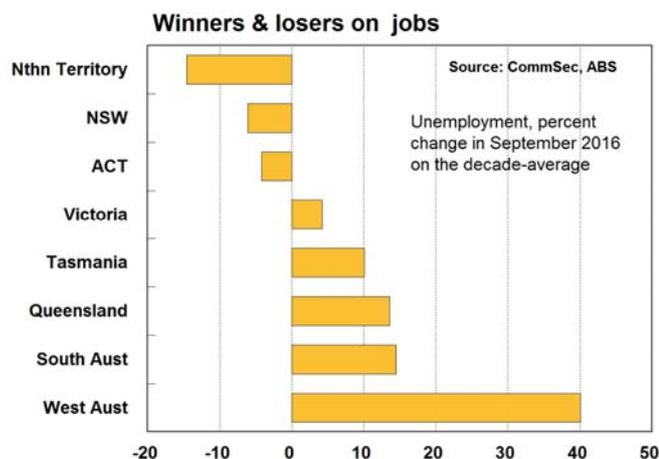
BUSINESS INVESTMENT



- NSW has held top spot on business investment from Victoria. The only move in the quarter was the ACT, shifting from fourth position to third.
- Only NSW and Victoria had business spending in the June quarter above decade-average levels: NSW (17.6 per cent) and Victoria (0.8 per cent).
- By contrast, other states and territories had business spending below decade averages in the June quarter. Weakest was the Northern Territory (down 34.2 per cent). Nine months prior, business spending in the Northern Territory had been 1.5 per cent above decade-averages.
- Next weakest was Western Australia (down 27.1 per cent) followed by Queensland (down 22 per cent) and Tasmania (down 20.3 per cent).
- The ACT (down 11.1 per cent on decade-average levels) remained ahead of South Australia (down 14.1 per cent) in third spot.
- On a shorter-run analysis, business investment in the June quarter was higher than a year ago in only two of the state and territory economies (similar to last two quarters).
- Business investment is up the most on a year ago in the NSW (up 10.7 per cent), followed by Victoria (up 1.7 per cent).
- By contrast new business investment in the Northern Territory was down 43.0 per cent on a year ago while spending in South Australia was down 17 per cent. Business spending in Western Australia was down 4.8 per cent - further highlighting the transition in the economy after the resources boom.

“Only NSW and Victoria had business spending in the June quarter above decade-average levels: NSW (17.6 per cent) and Victoria (0.8 per cent).”

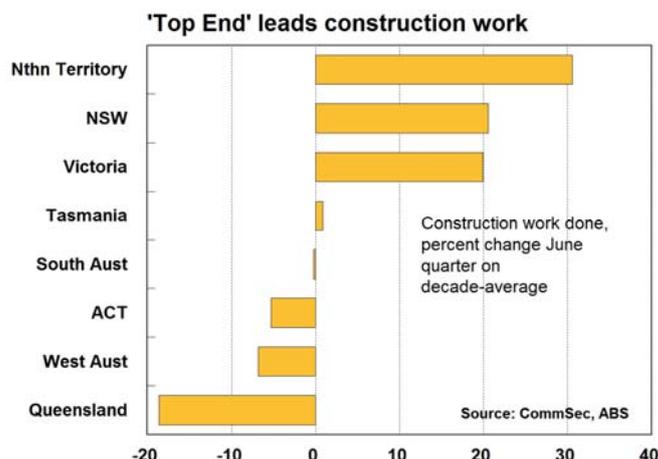
UNEMPLOYMENT



- Which state or territory has the strongest job market in the nation? At present it does seem like the Northern Territory, but it is not an easy question to answer. The lowest trend unemployment rate in Australia can be found in the Northern Territory at 3.4 per cent from the ACT (3.5 per cent) and NSW (5 per cent).
- The jobless rate in the Northern Territory is 14.6 per cent below its decade average, the ACT's jobless rate is 4.2 per cent below its decade average ("normal") jobless rate. However the NSW jobless rate is actually 6.1 per cent lower than the decade average, ahead of the ACT.
- Interestingly Victoria follows the ACT; its 5.7 per cent jobless rate is 4.2 per cent above the decade average of 5.5 per cent.
- In Tasmania, unemployment stands at 6.7 per cent, up 10.1 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 6.3 per cent, 40.1 per cent higher than the 4.5 per cent 'normal' or decade-average.
- Next weakest is South Australia with the trend unemployment rate 14.5 per cent above the decade average. Queensland's jobless rate is 13.6 per cent above the decade average.
- Unemployment rates in NSW, Queensland, the Northern Territory and the ACT eased over the past three months. Unemployment rates held steady across Victoria and South Australia in the three months to September, while trend unemployment rates rose in Western Australia and Tasmania.

"Unemployment rates in NSW, Queensland, the Northern Territory and the ACT eased over the past three months, while holding steady in Victoria and South Australia."

CONSTRUCTION WORK



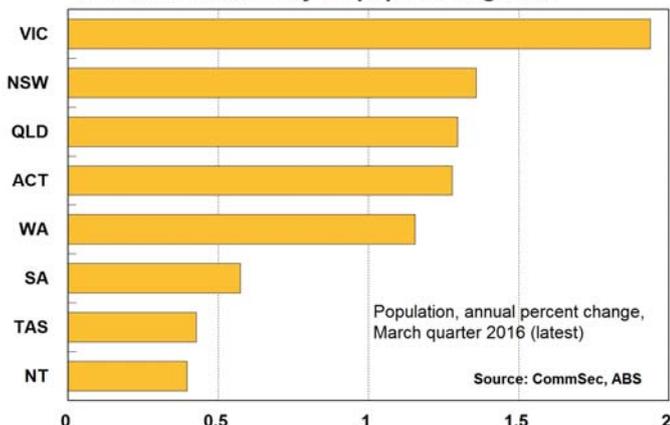
- The measure used for analysis was the total real value of residential, commercial and engineering work actually completed in trend terms in the June quarter.
- In four of the states and territories, construction work was higher than decade averages in the June quarter (previously six states).
- Leading the way was the Northern Territory with construction work done 30.6 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 28 per cent in the June quarter compared with a year ago – highlighting the shift in momentum that is underway.
- Next strongest was NSW (up 20.6 per cent), while construction work done in Victoria was up by 19.9 per cent on 'normal' levels in trend terms. Construction work done in both state economies was higher than a year ago in the June quarter.
- Tasmania is now fourth ranked (previously fifth) with construction work 0.9 per cent above decade averages.
- In Queensland, overall new construction work completed in the June quarter was almost 19 per cent below the decade average.
- Next weakest to Queensland was Western Australia (previously fourth) where construction work was almost 7 per cent below decade averages. The ACT is sixth ranked with construction work 5.3 per cent below 'normal' levels, followed by South Australia (down 0.2 per cent).
- In terms of annual growth rates, NSW construction work done in the June quarter was up 12.7 per cent on a year ago, followed by Victoria (up 6.9 per cent). Five economies had construction work lower than a year ago, led by Western Australia and the Northern Territory.

"In four of the states and territories, construction work was higher than decade averages in the June quarter (previously six states)."

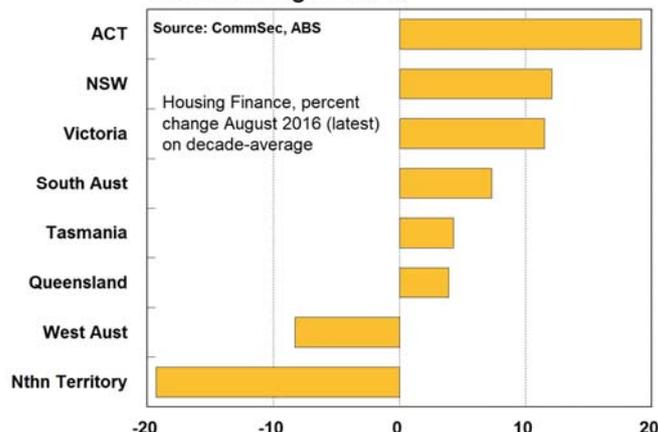
POPULATION GROWTH

HOUSING FINANCE

Victoria leads the way on population growth



Home lending is mixed



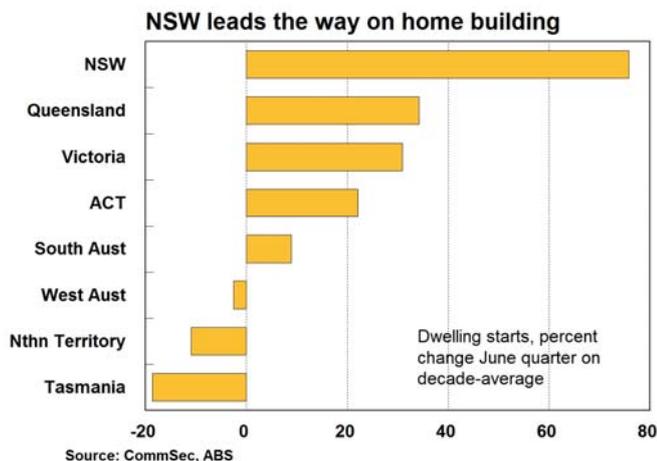
- To assess population performance we looked at the current annual growth rate and compared it with each economy's decade-average ('normal') growth pace.
- Population growth is clearly an important driver of the broader economy, especially retail spending and housing demand. The key point being that only two states now have population growth above long-term averages.
- Victoria continues to record the strongest annual population growth and is now also first on the differential with the decade-average rate. Victoria's population is 1.94 per cent higher than a year ago and this growth rate is 8.4 per cent above the 'normal' or decade-average level.
- NSW has the second highest annual growth rate in Australia at 1.40 per cent, and this is 2.2 per cent above the decade average (last quarter, population growth was 7 per cent above 'normal').
- Queensland is now third on population growth with an annual growth rate of 1.30 per cent. Population growth stands at 1.28 per cent in the ACT, down almost 24 per cent on decade-average levels.
- The state or territory with the slowest annual population growth is the Northern Territory, up just 0.40 per cent on a year ago and down 76 per cent on the decade average – the weakest in the nation.
- Tasmania's annual population growth rose from 0.40 per cent to 0.43 per cent in the March quarter and was almost 29 per cent lower than its decade average.

“Victoria continues to record the strongest annual population growth and is now also first on the differential with the decade-average rate.”

- 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. And in five of the eight economies, trend commitments in August were above year-ago levels.
- The ACT held onto top spot with the number of commitments 19.2 per cent above the long-term average. Next strongest was NSW (up 12.1 per cent on decade averages) which leap-frogged Victoria (up 11.5 per cent).
- South Australia held fourth spot on housing finance, with commitments 7.3 per cent higher than the decade average. Tasmania (up 4.3 per cent on decade averages) was the next strongest, moving ahead of Queensland (up 3.9 per cent on the decade average).
- 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 6.8 per cent lower than a year ago, after being down 5.9 per cent in July.
- Commitments in Western Australia are down 8.3 per cent on the decade average.

“The ACT held onto top spot with the number of commitments 19.2 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 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 76 per cent above decade averages. In addition, in the June quarter the number of dwellings started was 13.3 per cent higher than a year earlier.
- Queensland has held second spot from Victoria, with starts 34.2 per cent above decade averages. Victorian starts are 30.9 per cent above decade averages and starts in the ACT are up 22.1 per cent.
- At the other end of the scale, Tasmanian dwelling starts were 18.7 per cent below decade averages. And in the June quarter, starts were down 28.2 per cent on a year earlier. Next weakest was Northern Territory (down 11 per cent from decade averages) from Western Australia (down 2.6 per cent on the decade average) and South Australia (up 8.9 per cent on the decade average).
- In terms of annual growth, South Australia is strongest with dwelling starts at 2-year highs, and now up 15.5 per cent on a year ago.

“NSW retains the mantle of the strongest in the nation for new home construction, with starts almost 76 per cent above decade averages.”

OTHER INDICATORS

WAGES & PRICES*

	Wages Jun Qtr	CPI June Qtr	Home Prices Sept
NSW	2.2	0.9	10.2
Victoria	2.1	1.4	9.0
Queensland	1.9	1.5	3.0
South Australia	2.2	0.7	6.5
Western Australia	1.8	0.5	-7.0
Tasmania	2.2	1.2	8.7
Northern Territory	2.0	0.0	-6.0
ACT	1.9	0.8	9.0

* 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 June quarter except the Northern Territory. The weakest result was in the Northern Territory with a flat annual result in prices, while in contrast Queensland recorded a 1.5 per cent lift in prices.
- To compare real wage growth, the latest data is for the June 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 2.0 percentage points (pp) higher than consumer prices. Wage growth was the fifth highest in the nation, however inflation was the lowest.
- Real wage growth was next highest in Western Australia, with wages 1.3pp above consumer prices (inflation).
- At the other end of the scale, Queensland’s wage growth of 1.9 per cent was mildly above the 1.5 per cent annual growth of prices. Real wages remains near 1pp or higher in most of the other states and territories.
- Turning to home prices, in September six of the capital cities had positive annual growth of home prices. Back in June, a similar result was noted for Australia’s capital cities. However, price growth on the Eastern Seaboard has moderated in the past quarter.
- The strongest annual growth in home prices was in Sydney (up 10.2 per cent), followed by Melbourne and Canberra (both up 9 per cent) and Hobart (up 8.7 per cent), then there is a fair gap to the other capital cities.
- Next strongest was Adelaide (up 6.5 per cent), and Brisbane (up 3 per cent).
- Home prices were lower than a year ago in Perth (down 7 per cent), and Darwin (down 6 per cent).

In the June quarter, wage growth in all states and territories was above that of consumer prices.

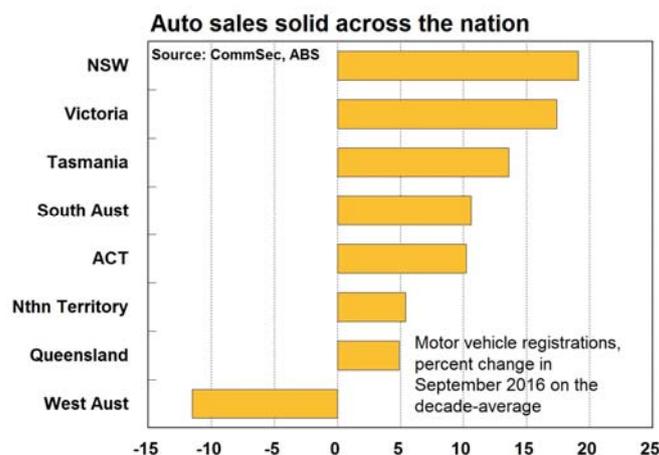
ANNUAL GROWTH RATES

TREND ANNUAL GROWTH %				
	<i>Economic Growth</i>	<i>Retail Trade</i>	<i>Equip. Invest</i>	<i>Employment</i>
NSW	6.1	3.1	10.7	1.6
VIC	6.4	3.4	1.7	3.5
QLD	1.0	-0.4	-16.0	-0.1
SA	2.6	2.4	-17.0	1.1
WA	-3.3	-0.7	-4.8	-1.4
TAS	4.0	3.7	-5.3	-1.4
NT	-8.9	-0.7	-4.3	0.5
ACT	5.1	5.1	-6.0	2.8
AUST	3.5	2.6	-2.2	1.3

	<i>Construct Work</i>	<i>Population</i>	<i>Housing Finance</i>	<i>Home Starts</i>
NSW	12.7	1.36	-5.4	13.3
VIC	6.9	1.94	0.9	0.3
QLD	-10.4	1.30	4.0	6.3
SA	-0.4	0.57	7.3	15.5
WA	-29.1	1.15	-7.5	-20.4
TAS	-5.3	0.43	10.3	-28.2
NT	-28.0	0.40	-6.8	0.6
ACT	5.0	1.28	3.2	4.5
AUST	-7.8	1.40	-1.2	2.2

- The **State of the States** assesses economic performance by looking at the most recent result – such as retail trade or construction – and compares that with 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, Victoria tops growth on three measures; NSW on two measures, and South Australia, Tasmania and the ACT lead the way on the other three.
- When looking across growth rates for the states and territories, Victoria under-performs the national average on only one indicator while the ACT and NSW under-perform on two indicators.
- At the other end of the scale, Western Australia and Northern Territory have annual growth rates below the national average on all eight indicators.

LOOKING AHEAD



- If new vehicle registrations is added to the list of indicators, the only change in the overall economic rankings would be South Australia moving to fourth spot with Tasmania in joint fifth with the Northern Territory.
- NSW remains on top of the economic performance rankings but it may experience a challenge from Victoria over the coming year. Overall construction work is providing solid momentum to the economy.
- Victoria remains in second spot on the performance rankings. And given solid growth on a number of key indicators, the state is well positioned to consolidate or improve its position.
- 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 business investment will constrain economic momentum.
- The South Australian housing market continues to lift as investors and owner-occupiers broaden their view. Annual growth of home starts and home loans are solid.
- Queensland is second strongest on dwelling starts and population growth is the fastest in 15 months. Both tourism and agricultural exports will provide momentum in coming months and higher coal prices are encouraging.
- The Tasmanian economy has improved over the past quarter in relative terms. Population growth is close to the fastest annual pace seen in five years. Both home loans and home prices are lifting.
- The economic performance of Western Australia reflects the ending of the mining construction boom. But income levels will lift in line with record mining export volumes and the recent improvement in resource prices.

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