



State of the States

State & territory economic performance report

- **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 decade averages to determine the level of "normal" interest rates; we have done the same with the economic indicators. For each state and territory, latest readings for the key indicators were compared with decade averages – that is, against the "normal" performance.**
- **There are two stand-out economies: Western Australia & the Northern Territory. Western Australia still is the best performing economy in the nation but the gap has closed to second-placed Northern Territory.**
- **Western Australia comes out top on four of the eight criteria: retail trade, equipment investment, construction work done and population growth. Western Australia is still second on two of the eight indicators, third on another and fifth on dwelling starts.**
- **The Northern Territory is ahead of the ACT, and then there is a gap to Queensland, Victoria and NSW with little to separate them. Then there is a sizeable break to South Australia followed by Tasmania.**
- **Looking ahead, CommSec expects little change in the rankings but the Northern Territory has the greatest scope for further improvement. Some rebuilding work will provide a boost to the Tasmanian economy.**

Western Australia is the strongest economy ahead of the Northern Territory

- Western Australia remains Australia's best performing economy, ahead of the Northern Territory and both economies are likely to hold their top positions over 2013, underpinned by rising population growth.
- Western Australia leads the way on construction work, retail trade, population growth, construction work done and equipment investment. It is second strongest on retail trade and housing finance and third strongest on unemployment and finished fifth on dwelling starts.

STATE OF STATES - January 2013

	<i>Strength</i>	<i>Weakness</i>
NSW	Job market	Economic growth
Victoria	Housing finance	Equipment investment
Queensland	Equipment investment	Unemployment
South Australia	Population	Housing finance
Western Australia	Various	Dwelling starts
Tasmania	Equipment investment	Various
Northern Territory	Unemployment	Population
ACT	Dwelling starts	Unemployment

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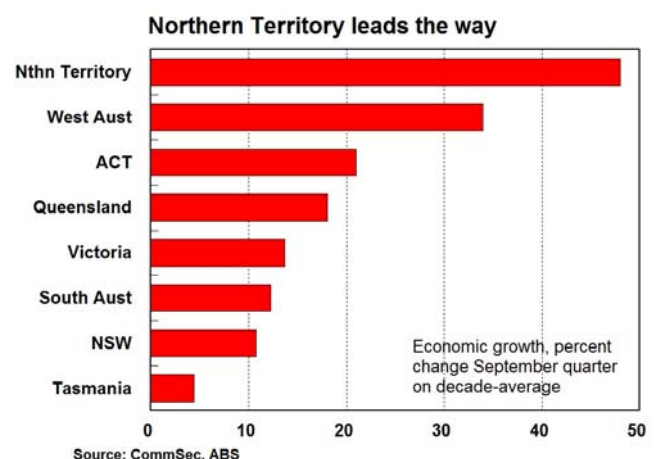
- Northern Territory is the next strongest of state and territory economies, with top rankings on overall economic growth and unemployment and is second strongest on retail trade and dwelling starts.
- The ACT economy remains third with the main strengths being dwelling starts and population growth. But while unemployment is still lower than most states, it is well above “normal” for the ACT.
- There is still little to separate the three largest states: Victoria, Queensland and NSW. Victoria is supported by its housing sector but is losing momentum. Queensland is strongest on construction work and equipment investment but its performance is restrained by a historically-high reading on unemployment. NSW benefits from having historically-low unemployment, and together with rising population growth, the factors are in place for a lift in housing activity in 2013.
- There is still a sizeable gap in the rankings to South Australia. But population growth in South Australia is rising and is well above its longer-term average, potentially boosting housing demand, non-residential and engineering investment and retail spending.
- Tasmania remains at the bottom of the Australian economic performance table. Tasmania lags all other economies on four of the eight indicators: overall economic growth, retail trade, population growth and construction work done. The best ranking is fourth on equipment investment.

How was performance judged?

- 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 was to find how each economy was 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 consistently have 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 4.2 per cent is lower than all economies except the Northern Territory. But compared with its ‘normal’ or decade-average rate of 3.4 per cent, the jobless rate is actually higher in percentage terms than all other economies affecting activity in the retail sector. Trend measures of the economic indicators were used to assess performance rather than more volatile seasonally adjusted or original estimates.

Economic growth

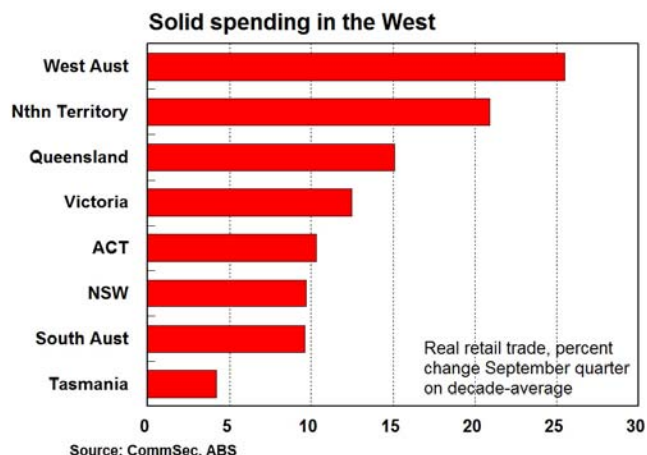
- Ideally gross state product (GSP) would be used to assess broad economic growth. But the data isn’t available quarterly. Rather state final demand (household and business spending) is added to exports less imports to act as a proxy for GSP. Exclusion of the trade sector would provide an incorrect assessment of growth for economies such as Western Australia and Queensland.
- The Northern Territory continues to lead the rankings on economic activity. Activity in the ‘top end’ is 48 per cent above its ‘normal’ or decade-average level of output.
- Next strongest is Western Australia, with output around 34 per cent higher than the decade average level of output. Then follows the ACT (up 21 per cent) and Queensland (up 18.1 per cent).
- At the other end of the scale, economic activity in Tasmania in the September quarter was just 4.4 per cent above its decade average while NSW activity was up almost 11 per cent on its “normal” or average output over the past decade.
- There would be little change in the rankings if “final demand” was used instead. But Western Australia would take top spot, ahead of the Northern Territory and ACT. And South Australia would slip to second last, similar to its overall economic performance ranking.



- The Northern Territory also has the fastest annual economic growth rate in the nation, up by a stunning 35.4 per cent on a year ago, ahead of Western Australia with 11.1 per cent, the ACT (6.2 per cent) and NSW (4.1 per cent).
- The weakest trend economic growth rate was recorded in Tasmania (-3.2 per cent) followed by South Australia (1.9 per cent) and Victoria (2.7 per cent).

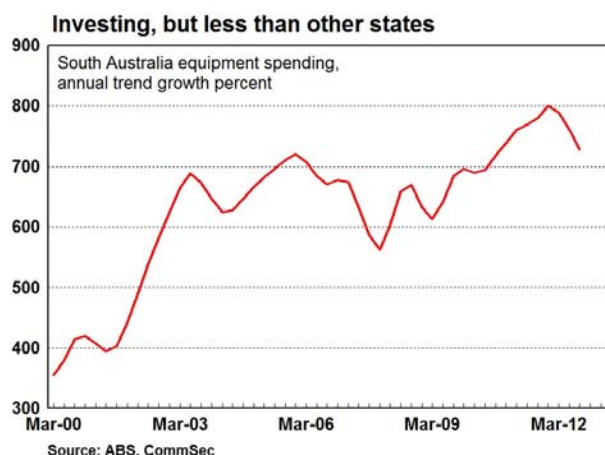
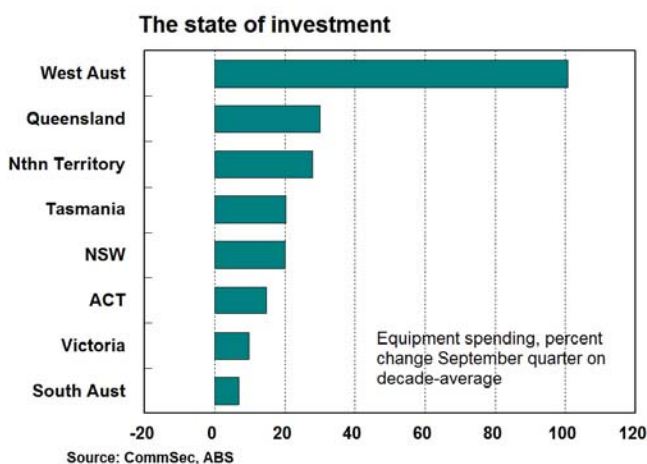
Retail trade

- The measure used was real (inflation-adjusted) retail trade in trend terms with September quarter data the latest available. If monthly retail trade was assessed instead (November data available), there would be no difference in the rankings. This provides added confidence about the overall results on consumer spending.
- Western Australia retains top spot on the retail rankings from Northern Territory with spending in the September quarter 25.5 per cent above decade average levels. Low unemployment, solid population growth and firm wage growth underpins the relative strength in consumer spending.
- Northern Territory was next strongest, again courtesy of low unemployment, with spending almost 21 per cent above decade-average levels.
- Queensland was next strongest, with spending 15.1 per cent above decade averages, followed by Victoria (up 12.5 per cent).
- Tasmania has the weakest result on retail spending, up 4.2 per cent on the decade average, below South Australia with growth of 9.6 per cent.
- In terms of the monthly retail trade series, Western Australian spending is 9.5 per cent higher than a year ago, well in front of Queensland with 5.0 per cent growth and the ACT with 4.6 per cent growth and. At the other end of the scale, Tasmanian spending is 5.1 per cent down on a year ago and South Australian spending is up by just 0.5 per cent.



Equipment investment

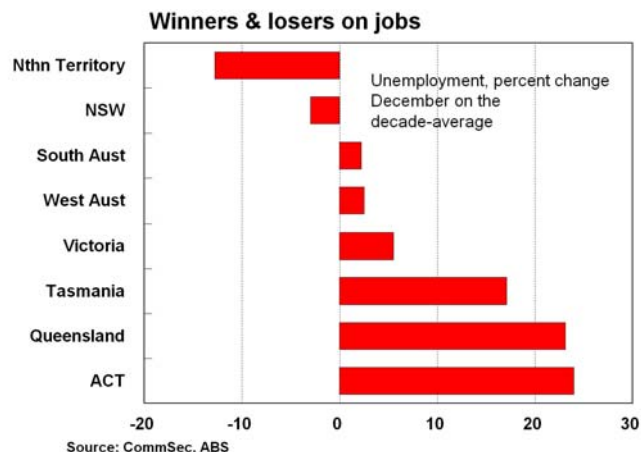
- Western Australia remains heads and shoulders above other states and territories when it comes to equipment investment. Spending in the September quarter was double (100.7 per cent) the “normal” – or decade-average levels. Next placed were Queensland (up 30.1 per cent), Northern Territory (27.8 per cent), Tasmania (up 20.3 per cent), NSW (up 20.0 per cent) and ACT (up 14.7 per cent).
- By contrast, equipment spending in South Australia was 6.8 per cent above its decade-average while Victoria had business investment 9.8 per cent above its longer-term average in the September quarter.
- On a shorter-run analysis, equipment investment in the September quarter was lower than a year ago in five of the state and territory economies. Currently equipment investment is down on a year ago in Tasmania (down 14.3 per cent), South Australia (down 6.7 per cent), Queensland (down 4.5 per cent), NSW (down 1.8 per cent) and Victoria (down 1.3 per cent). Northern Territory leads growth in equipment investment (32.3 per cent) from



Western Australia (up 30.5 per cent) and the ACT (up 18.9 per cent).

Unemployment

- The Northern Territory and NSW have the strongest job markets in the nation but Western Australia continues to perform well. In the Northern Territory the trend jobless rate of 3.8 per cent is at an 18-month low and 12.8 per cent below the decade average. And in NSW the 5.1 per cent trend unemployment rate is 3 per cent below the long-term average.
- In Western Australia the trend jobless rate remains low at 4.4 per cent, but is 2.5 per cent above the decade average. The South Australian job market is also encouraging with the jobless rate just 2.2 per cent above the decade average.
- In the ACT the trend jobless rate is lower at 4.2 per cent. But unemployment has crept higher from 3.5 per cent in the past eight months and is now 24 per cent above the “normal” level or decade-average of 3.4 per cent.
- The next weakest job market to the ACT is in Queensland where the trend jobless rate is 6.3 per cent and 23.1 per cent above its decade average. Next weakest is Tasmania where the trend unemployment rate is the highest in the nation at 7.0 per cent and 17.1 per cent above the decade-average level of 6.0 per cent.

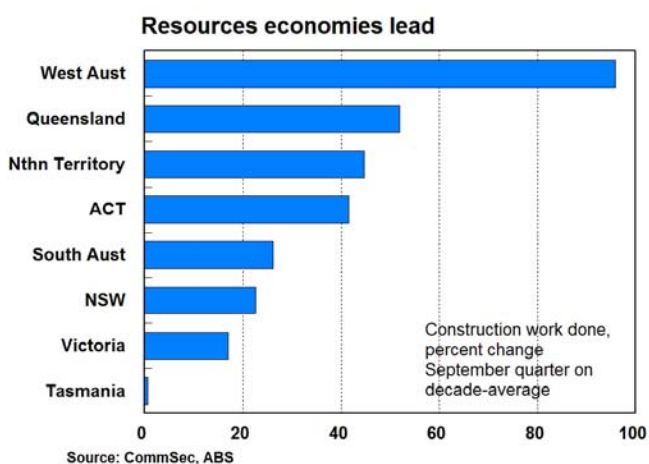
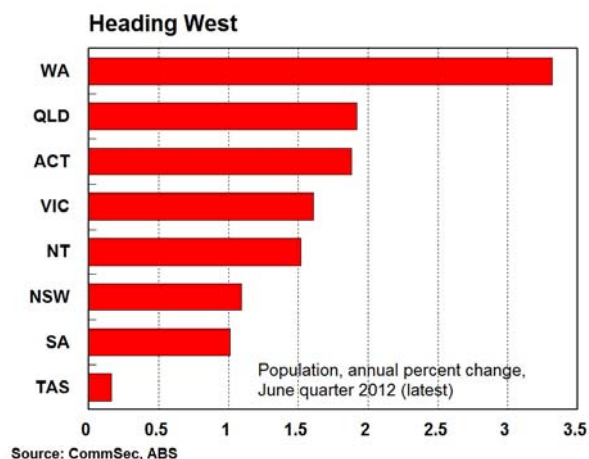


Construction work

- The measure used for analysis was the total amount of residential, commercial and engineering work actually completed in trend terms in the September quarter.
- In all states/territories construction work is higher than decade averages. But there is a huge gap between the strongest and weakest states or territories. The weakest state is Tasmania, where overall construction activity is just 0.6 per cent above its decade average.
- Next weakest is Victoria where construction work is 17.0 per cent above decade averages, followed by NSW (up 22.6 per cent on the decade average).
- At the other end of the scale is Western Australia where construction work is a stunning 95.9 per cent above decade averages and up 22.9 per cent higher than a year ago. In Queensland, construction activity has been supported by flood rebuilding work over the past year and work done in the September quarter was 52.0 per cent above its decade average.
- In terms of annual growth rates, Northern Territory construction has the strongest momentum, up 77.7 per cent on a year ago. At the other end of the scale, construction work done in Victoria in the September quarter was 2.9 per cent lower than a year ago with construction work in both Tasmania and South Australia also down over the year.

Population growth

- To assess population performance we looked at the current annual growth rate and compared it with each economy’s decade-average growth pace. And the good news is that population growth is above ‘normal’ in five



states or territories and growth has picked up in six jurisdictions over the past quarter.

- Western Australia is the clear leader in population growth. Not only is the annual growth rate of 3.32 per cent the strongest in the nation, it is also more than 46 per cent above the decade average. Next strongest is the ACT. Annual population growth of 1.88 per cent is third strongest and this is 27.5 per cent above "normal".
- In South Australia current annual population growth of 1.01 per cent is 22 per cent above the decade average.
- At the other end of the leader-board is Tasmania where the annual population growth of 0.16 per cent is the weakest in almost 11 years and a massive 80 per cent below the decade average rate of 0.81 per cent.

Home loans slump



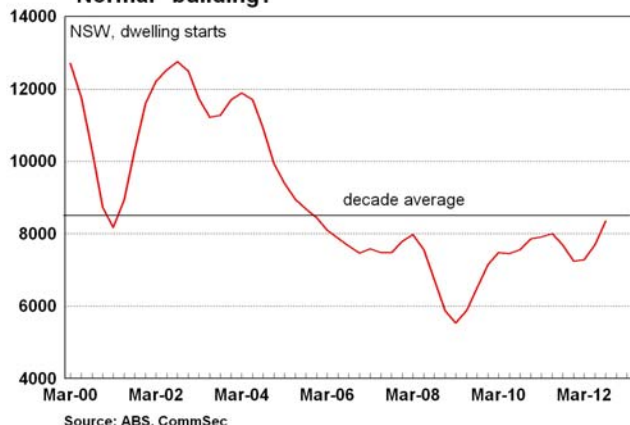
Housing finance

- The measure used was the trend number of housing finance commitments and this was compared with the decade-average for each respective state and territory.
- Housing finance is not just a lead indicator for real estate activity and housing construction but also is 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.
- Across all states and territories, trend housing finance commitments are below decade averages. But encouragingly commitments in November were above year-ago levels in six of the economies.
- In the strongest state of Victoria, the number of housing finance commitments was just 1.7 per cent below the decade-average level and commitments in November were 4.5 per cent higher than a year ago.
- Western Australia was in second spot for housing finance, with the number of commitments 2.5 per cent below the long-term average. And importantly the market has momentum with home lending 10.9 per cent higher than a year ago in trend terms to a 37-month high.
- The ACT remains in third spot on housing finance, down 6.0 per cent on the decade average followed by NSW (down 12.4 per cent).
- South Australia is the weakest economy for housing finance with trend commitments 26.8 per cent lower than its decade average, while commitments are also 4.7 per cent lower than a year ago. Next weakest was Tasmania with trend commitments down 26.7 per cent on the decade average although up 0.4 per cent on a year ago.

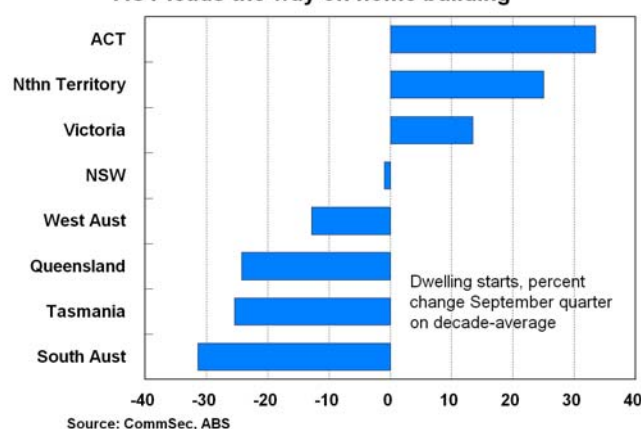
Dwelling starts

- The measure used was the trend number of dwelling commencements (starts) with the comparison made with 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 housing construction remains weak although there are reasons for optimism. Dwelling starts are still above decade averages in three of the states and territories and again starts in three states and territories are above levels of a year ago.

"Normal" building?



ACT leads the way on home building



- The ACT is in the strongest position for new housing construction, but activity continues to ease from highs. In the September quarter the number of dwellings started was 33.5 per cent higher than its decade average although starts in the quarter were almost 15 per cent down on a year earlier.
- In second spot was the Northern Territory, with starts almost 25 per cent above decade averages. And starts in the quarter were up 57.7 per cent on a year ago. In Victoria, dwelling starts in the September quarter were up 13.5 per cent on the ‘normal’ or “decade average” level.
- At the other end of the scale, South Australian dwelling starts were 31.4 per cent below decade averages, while starts in the September quarter were 23.5 per cent down on a year earlier. Next weakest was Tasmania (down 25.4 per cent), closely followed by Queensland and Western Australia. In NSW starts were just 1 per cent below decade averages, and in the September quarter starts were actually 8.7 per cent higher than a year earlier.

Other indicators

- Real wages were positive in all economies in the September quarter. Strongest growth occurred in the ACT (2.7 percentage points). Next strongest real wage growth was in Tasmania at 2.6 percentage points, followed by Western Australia (2.5 percentage points).
- Even using “underlying” inflation than “headline” inflation, real wages are growing by around 1.0 percentage points.
- Home prices are lower than a year ago in all but three of the state and territory capital cities. Strongest growth in home prices was in Darwin (up 8.9 per cent) followed by Sydney (up 1.5 per cent) and Perth (up 0.8 per cent).

	<i>Wages</i>	<i>Consumer Prices</i>	<i>Home Prices</i>
NSW	3.7	2.3	1.5
Victoria	3.5	1.8	-2.9
Queensland	3.3	1.7	-0.8
South Australia	3.6	1.7	-0.8
Western Australia	4.5	2.0	0.8
Tasmania	3.3	0.7	-0.1
Northern Territory	3.6	2.1	8.9
ACT	4.3	1.6	-0.3

* Annual % change. Source: ABS, RP Data, CommSec
 Wage price index (September Q); Consumer prices (September Q)
 Home prices (December 2012)

Implications and outlook

- The last quarter was a period of “consolidation” in the economic performance rankings with few changes. Western Australia has held its position at the top of the economic leader-board from Northern Territory while Tasmania remains fixed at the bottom end of the scale behind South Australia.
- The Northern Territory does have momentum on its side and has potential to overtake Western Australia at the top of the leader-board especially with faster growth in investment and population growth.
- The ACT remains the third strongest economy, but the softer job market could have knock-on effects across the economy, especially in retail trade and housing. But strong real wages will provide solid support.
- Victoria, Queensland and NSW remain close in terms of economic performance and it is uncertain which state will break away in coming months. The NSW economy is supported by historically-low unemployment and slightly above-average population growth. Home building is also higher than a year ago, boosted in part by state government grants, and that will have multiplier effects on the economy in 2013. The Victorian economy is certainly still being helped by relative strength in home building. And the Queensland economy is being propelled by equipment, commercial and engineering investment.
- In South Australia, population growth has lifted – at 2-year highs and 22 per cent above long-term averages – and this has potential to lift the state via retail and housing-related activity.
- The Tasmanian economy is still struggling. But there will be rebuilding activity in some areas following recent bushfires. Equipment investment is still above decade averages although spending growth has weakened. And the unemployment rate has flattened near 7 per cent over the past year.

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