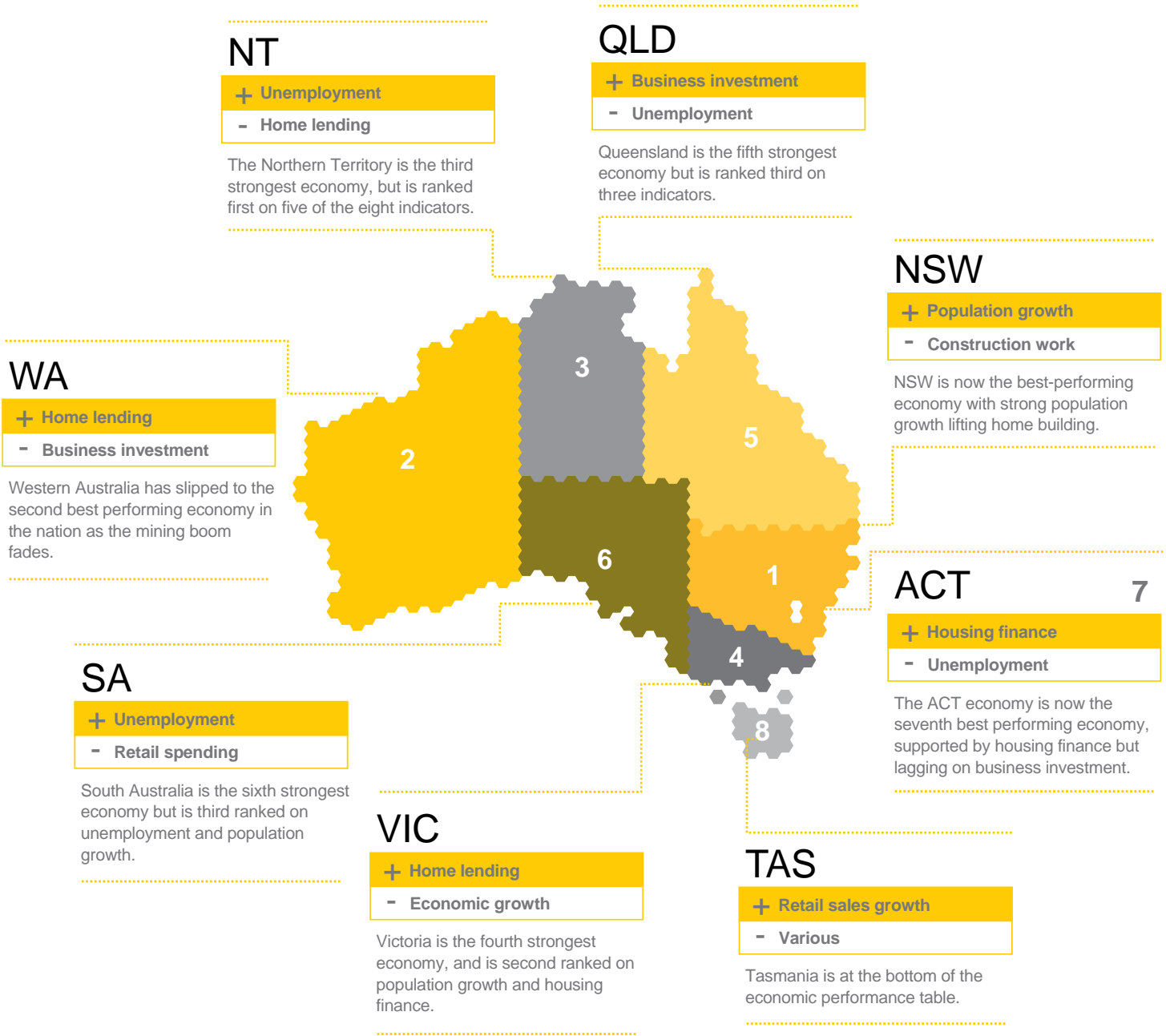


State of the States

October 2014 State & territory economic performance report.
Executive Summary



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A NEW LEADER

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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.

And for the first time since the July 2011 report, there is a new leader at the top of Australia's economic performance rankings: NSW.

However it is close at the top of the rankings with NSW ahead of Western Australia (previously the top-ranked economy) and Northern Territory.

The next grouping is Victoria and Queensland followed by South Australia, the ACT and Tasmania.

While NSW is the big improver, up from third to first, the ACT economy has moved from a grouping with Victoria and Queensland to the third tier of state and territory economies.

- NSW is top of rankings on population growth and dwelling starts and second on retail trade, business investment and unemployment. NSW is also third on housing finance and fourth on overall construction work and economic growth.
- Western Australia has lost ground on retail trade, equipment investment and population growth – a consequence of the fading of the mining boom. But Western Australia is still best performing on housing finance – the new economic driver.
- The Northern Territory is now the third best performing economy. In fact the NT is top on five indicators with low unemployment and equipment investment driving growth. But it is also third on dwelling starts, sixth on population growth and eighth on housing finance.
- There is little to separate Victoria and Queensland on the economic performance rankings.
- Victoria continues to record solid population growth compared with its decade average, thus sustaining home purchase and construction. But commercial and engineering activity and engineering investment are both fifth ranked of the states and territories.
- By contrast, the key strengths of the Queensland economy are non-residential building and business investment (both third ranked). But relative high unemployment is holding back momentum.
- South Australia is now above the ACT in the performance rankings. South Australia is generally ranked sixth to eighth on the key indicators but is third ranked on unemployment and population growth.
- The ACT economy is supported by housing finance but rising unemployment has affected growth of consumer spending and business investment.
- Tasmania remains at the bottom of the Australian economic performance table. Tasmania is seventh or eighth on six of the economic indicators although it currently is has the second strongest annual growth rate of retail spending of the states and territories.

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.

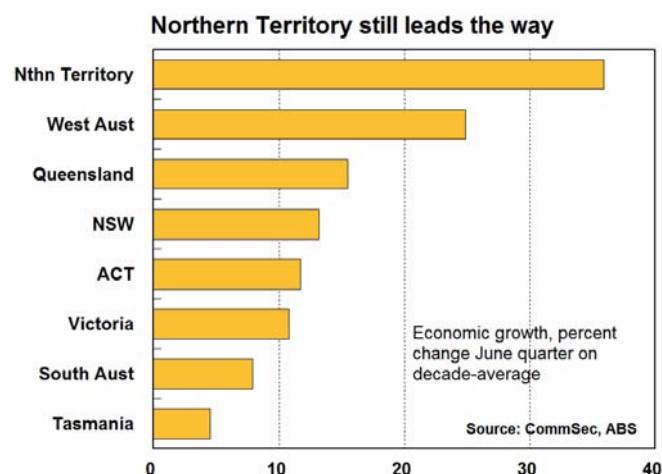
The aim was to find how each economy was performing compared with "normal". And just like the Reserve Bank does with interest rates, we used decade-averages to judge the "normal" state of affairs. For each economy, the latest level of the indicator – such as retail spending or economic growth – was compared 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 4.6 per cent is second lowest of all economies. But this jobless rate is up 34.2 per cent on its 'normal' or decade-average rate of 3.4 per cent, whereas the jobless rate in Northern Territory is just 1.5 per cent above its decade-average level.

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

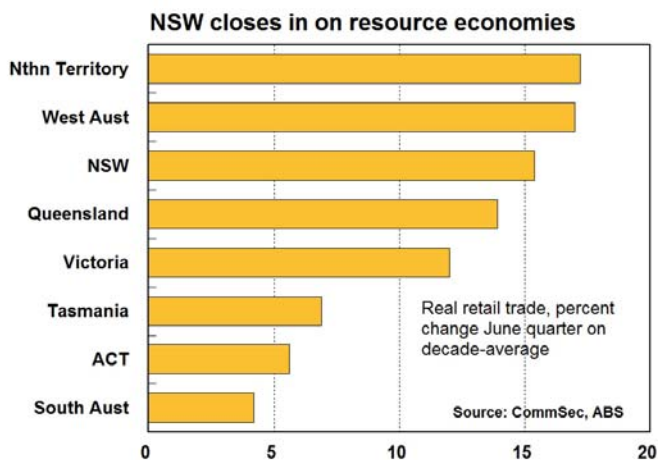
ECONOMIC GROWTH



- 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 just over 34 per cent above its 'normal' or decade-average level of output.
- Next strongest is Western Australia, with output around 28 per cent higher than the decade average level of output. Then follows Queensland (up 15.1 per cent) from NSW (up 13.2 per cent).
- At the other end of the scale, economic activity in Tasmania in the June quarter was just 1.9 per cent above its decade average while South Australian activity was up just over 9 per cent on its "normal" or average output over the past decade.
- NSW has the fastest annual economic growth rate in the nation, up by 6.3 per cent on a year ago, ahead of Western Australia with 3.3 per cent and Victoria (1.7 per cent).
- By contrast the Northern Territory economy is down 1.2 per cent on a year ago, suggesting that its top-ranking for economic activity compared with the decade average may be at risk.

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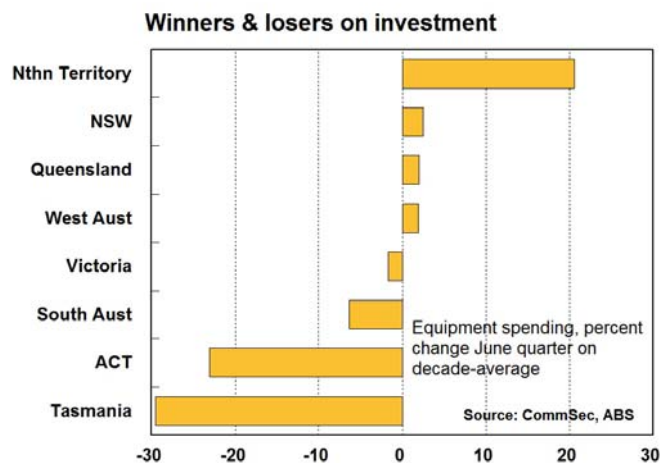
RETAIL SPENDING



- The measure used was real (inflation-adjusted) retail trade in trend terms with June quarter data the latest available.
- The Northern Territory has secured the top spot on the retail rankings from Western Australia with spending in the June quarter 17.2 per cent above decade average levels. Low unemployment and firm wage growth are key factors supporting spending.
- Western Australia was next strongest up 17 per cent above decade-average levels. Unemployment remains relatively low while housing activity underpins consumer spending on household goods.
- NSW was next strongest, with spending 15.4 per cent above decade averages, followed by Queensland (up 13.9 per cent).
- South Australia still has the weakest result on retail spending, up just 4.2 per cent on the decade average and below the ACT with 5.6 per cent growth and Tasmania at 6.9 per cent growth.
- If monthly retail trade was assessed instead to calculate the rankings (August data available), the rankings would be exactly the same, giving added confidence about the relative retail trade performances.
- In terms of annual growth of real retail trade, Tasmania continues to lead the way, with spending up 6.6 per cent, from NSW with 6.2 per cent growth. Western Australian spending is 1.2 per cent below year-ago levels.
- In terms of monthly retail trade, NSW spending is up 8.4 per cent over the year from Tasmania with 7.7 per cent.

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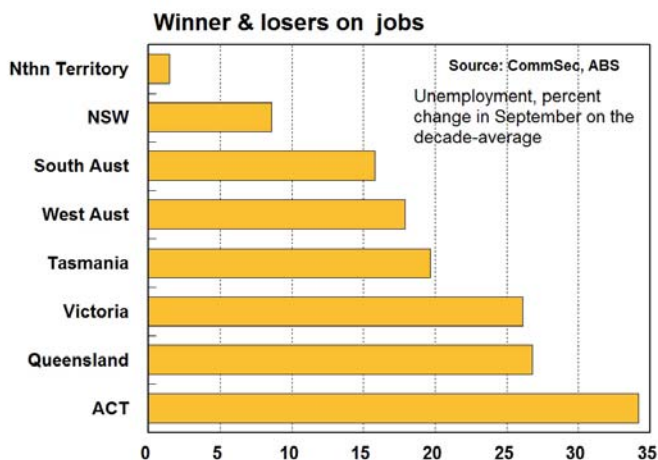
EQUIPMENT INVESTMENT



- Northern Territory is well out in front of the other states and territories when it comes to equipment investment. Spending in the June quarter was 20.6 per cent above “normal” – or decade-average levels.
- The resource-driven economies continue to lead the way on investment. However NSW has split the rankings – in second spot with equipment spending 2.5 per cent above decade-averages.
- Equipment investment in Queensland is now just 2.0 per cent above decade-average levels followed by Western Australia (up 1.9 per cent).
- By contrast, new equipment spending in Tasmania was 29.5 per cent below its longer-term average in the June quarter with the ACT down by 23.1 per cent.
- Equipment spending is also below decade-average levels in South Australia (down 6.4 per cent) and Victoria (down 1.9 per cent).
- On a shorter-run analysis, equipment investment in the June quarter was lower than a year ago in all of the state and territory economies except Northern Territory (up 21.3 per cent).
- Equipment investment is down the most on a year ago in the ACT (down 33.1 per cent), followed by Western Australia (down 19.3 per cent). By contrast new equipment investment in NSW was down by just 0.6 per cent and was down by 4.0 per cent in Victoria and down by 9.2 per cent in South Australia.

“The resource-driven economies continue to lead the way on investment. However NSW has split the rankings - in second spot with equipment spending 2.5 per cent above decade-averages.”

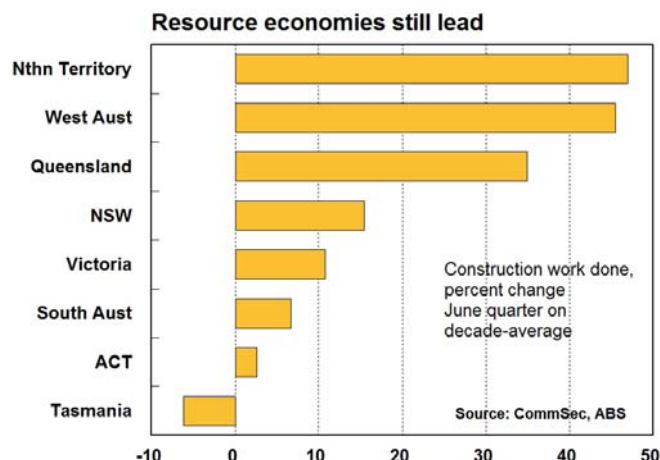
UNEMPLOYMENT



- The Northern Territory has the strongest job market in the nation. Not only is unemployment in the Northern Territory the lowest in the nation in trend terms (4.3 per cent), but this jobless rate is only 1.5 per cent above its “normal” or decade average level of 4.2 per cent.
- In the ACT, trend unemployment is second lowest in the nation at 4.6 per cent, but this is up from 3.5 per cent in April and is now just over 34 per cent above its “normal” or decade-average rate level – the worst performance in the nation.
- In all states and territories, the latest unemployment rates are all above their decade-average levels. In NSW, unemployment stands at 5.7 per cent, up almost 9 per cent on its “normal” or decade-average level of 5.2 per cent.
- The South Australian jobless rate has fallen from 6.8 per cent in May to a 15-month low of 6.3 per cent in September. As a result, South Australia is ranked third on unemployment with the current jobless rate up almost 16 per cent on the decade average level of 5.4 per cent.
- Next best is Western Australia where its 4.9 per cent jobless rate is almost 18 per cent above the decade-average.
- Tasmania’s 7.2 per cent jobless rate is the lowest in 20 months, although still almost 20 per cent above the decade average.
- Victoria’s 6.7 per cent jobless rate is 26.1 per cent above its decade average while Queensland’s 6.4 per cent jobless rate is up 26.8 per cent on the “normal” level.

“The South Australian jobless rate has fallen from 6.8 per cent in May to a 15-month low of 6.3 per cent in September.”

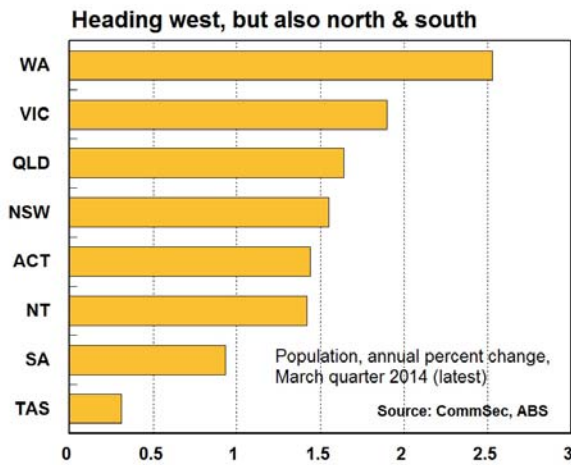
CONSTRUCTION WORK



- The measure used for analysis was the total amount of residential, commercial and engineering work actually completed in trend terms in the June quarter.
- In all states/territories except Tasmania, construction work is higher than decade averages. And there remains a large gap between the strongest states (the resource states) and weakest state (Tasmania).
- In Tasmania, overall new construction work completed is 6.2 per cent below its decade average. By contrast construction work done in Northern Territory is 47 per cent above its decade average followed by Western Australia (up 45.5 per cent) and Queensland (up 34.9 per cent).
- Admittedly construction growth has slowed in the resource states compared with other economies.
- Next weakest to Tasmania is the ACT where construction work is just 2.6 per cent above decade averages, followed by South Australia (up 6.7 per cent on the decade average).
- NSW is fourth ranked with construction work just over 15 per cent above decade averages. Victoria is fifth ranked with construction work almost 11 per cent above “normal” levels.
- In terms of annual growth rates, Tasmanian construction work done in the June quarter was up 5.2 per cent on a year ago – the best growth in four years. Tasmania was followed by NSW (up 2.4 per cent) and Victoria (up 2.1 per cent). Weakest annual growth in construction work done was Northern Territory (down by 20.7 per cent).

“Tasmanian construction work done in the June quarter was up 5.2 per cent on a year ago – the best growth in four years.”

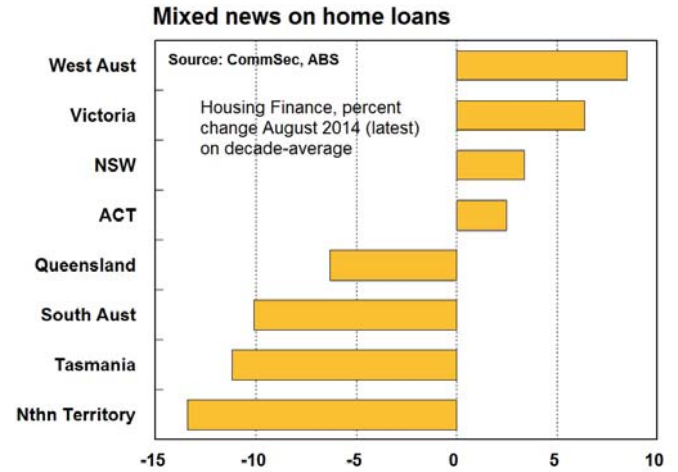
POPULATION GROWTH



- To assess population performance we looked at the current annual growth rate and compared it with each economy's decade-average growth pace.
- And it is clear that population growth is not providing the same boost to economic activity that it has provided in recent years. In fact population growth is only above 'normal' or the decade-average in two states and annual growth has eased in five economies over the past quarter.
- While NSW has only the fourth fastest annual growth rate at 1.55 per cent, this is 32.1 per cent above the decade average. And annual population growth is the fastest in five years.
- Victoria is second strongest in annual population growth as well as the differential with the decade-average rate. Victoria's population is 1.90 per cent higher than a year ago and this growth rate is 13.8 per cent higher than the "normal" or decade-average level.
- South Australia's population growth of 0.93 per cent is the fastest in 18 months although 3.3 per cent below decade-average levels.
- Western Australia is the clear leader in population growth with an annual growth rate of 2.53 per cent – but the slowest in almost four years. And population growth is 3.5 per cent below decade-average levels.
- At the other end of the leader-board is Tasmania where the annual population growth of 0.31 per cent was 53.6 per cent below the decade average rate of 0.67 per cent but annual growth is the strongest in 27 months.

"While NSW has only the fourth fastest annual growth rate at 1.55 per cent, this is 32.1 per cent above the decade average. And annual population growth is the fastest in five years."

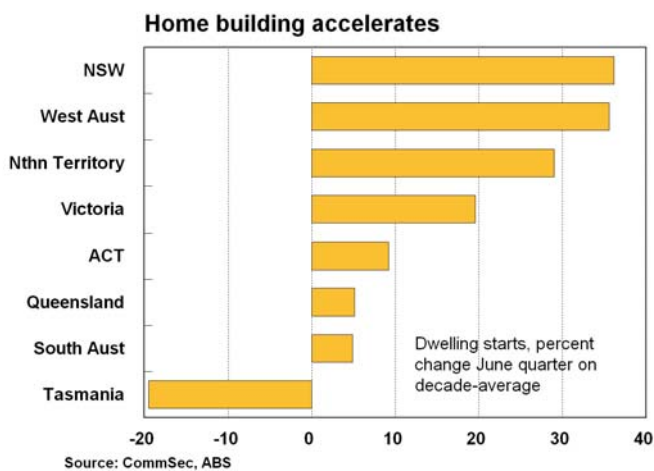
HOUSING FINANCE



- 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.
- In four of the states and territories – Western Australia, Victoria, NSW and the ACT – trend housing finance commitments are above decade averages. And in six of the eight economies, trend commitments in August were above year-ago levels in all states and territories.
- Western Australia remains in top spot for housing finance, with the number of commitments 8.5 per cent above the long-term average – highlighting the fact that housing is taking over from mining as a growth driver. Next strongest was Victoria, up 6.4 per cent on the decade-average.
- NSW is now in third spot on housing finance, up 3.4 per cent on the decade average followed by ACT (up 2.5 per cent).
- Northern Territory remains the weakest economy for housing finance with trend commitments 13.4 per cent lower than its decade average. Next weakest was Tasmania with trend commitments down 11.2 per cent on the decade average. But encouragingly home loans in the Northern Territory are up 7.4 per cent over the year with Tasmania next best, up 6.9 per cent.

"...encouragingly home loans in the Northern Territory are up 7.4 per cent over the year with Tasmania next best, up 6.9 per cent."

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 housing construction continues to strengthen, underpinned by low interest rates and strong demand by investors. Dwelling starts are above decade averages in seven of the states and territories and starts in six states and territories are above levels of a year ago.
- NSW remains the strongest in the nation for new home construction, with starts over 36 per cent above decade averages. In addition in the June quarter the number of dwellings started was 7.3 per cent higher than a year earlier.
- In second spot was Western Australia, with starts 35.6 per cent above decade averages followed by the Northern Territory with starts up 29 per cent on decade averages and Victoria, up 19.6 per cent.
- At the other end of the scale, Tasmanian dwelling starts were 19.5 per cent below decade averages. However on a positive note starts in the June quarter were 19.3 per cent higher than a year earlier. Next weakest was South Australia (up 4.9 per cent on the decade average), Queensland (up 5.1 per cent) and the ACT (up 9.2 per cent).
- However encouragingly Queensland starts were 17.3 per cent higher than a year ago with South Australian starts up 25.5 per cent and Western Australian starts up 20.8 per cent.

“NSW remains the strongest in the nation for new home construction, with starts over 36 per cent above decade averages”

OTHER INDICATORS

	Wages	Consumer Prices	Home Prices
NSW	2.5	2.8	14.3
Victoria	2.8	3.2	8.1
Queensland	2.6	3.2	6.4
South Australia	3.1	3.1	5.8
Western Australia	2.4	3.3	3.2
Tasmania	2.3	2.8	4.6
Northern Territory	2.8	3.3	7.1
ACT	2.3	2.2	1.7

* Annual % change. Source: ABS, RP Data, CommSec
Wage Price Index and Consumer price Index June quarter 2014
Home Price Index September 2014

- In the March quarter, real wages were positive in just one of the eight state and territory economies. In the June quarter, a similar result was achieved, but in one other state wage growth matched prices.
- The only economy recording real wage growth was the ACT with wages up 2.3 per cent, outstripping a 2.2 per cent lift in prices. Wage growth was equal slowest in the nation but inflation was the lowest in the nation.
- In South Australia wage growth of 3.1 per cent – fastest in the nation – matched the 3.1 per cent growth of consumer prices over the year.
- Even using “underlying” inflation rather than “headline” inflation, real wages were either flat or slightly negative in most economies, putting pressure on retail spending. Only Victoria and the Northern Territory may have joined South Australia with zero real wage growth.
- But as has been the case for much of the past year, home prices are higher than a year ago in all capital cities, boosting wealth levels and serving to offset slight falls in real wages.
- Strongest growth in home prices was in Sydney (up 14.3 per cent) followed by Melbourne (up 8.1 per cent).
- At the other end of the scale, home prices in Canberra are up just 1.7 per cent on a year ago while in Perth home prices are up 3.2 per cent and Hobart prices are up 4.6 per cent.

“The only economy recording real wage growth was the ACT with wages up 2.3 per cent, outstripping a 2.2 per cent lift in prices.”

STATE BY STATE BREAKDOWN

● NSW

“NSW is top of rankings on population growth and dwelling starts and second on retail trade, business investment and unemployment indicators.”

● Western Australia

“Western Australia has lost ground on retail trade, equipment investment and population growth – a consequence of the fading of the mining boom.”

● Northern Territory

“The Northern Territory leads the way on economic growth, business investment, unemployment and construction work.”

● Victoria

“Victoria continues to record solid population growth compared with its decade average, thus sustaining home purchase and construction.”

● Queensland

“The key strengths of the Queensland economy are non-residential building and business investment (both third ranked).”

● South Australia

“South Australia is generally ranked sixth to eighth on the key indicators...”

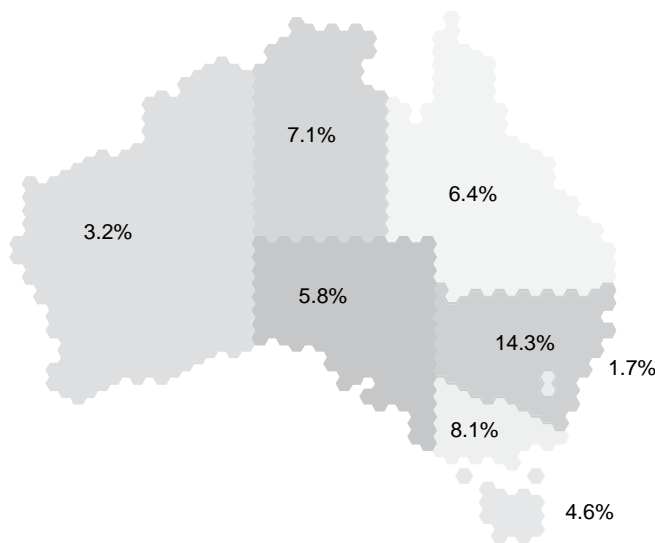
● ACT

“...rising unemployment has affected growth of consumer spending and business investment”

● Tasmania

“Tasmania... has the second strongest annual growth rate of retail spending of the states and territories.”

IMPLICATIONS AND OUTLOOK



- Last quarter we noted that “the baton is being passed from mining construction to mining production and home building”. And while the resource economies still led the nation on economic performance, momentum was with other economies.
- The momentum that we identified in NSW has propelled it to the top of the economic performance rankings. And the simple reason for the lift in the rankings is housing. NSW is currently “playing catch-up” after years of under-building – where demand for homes exceeded supply, pushing the rental vacancy rate to record lows.
- The Western Australian economy remains strong despite the fading of the mining boom. Western Australia is first or second on four of the eight criteria. And again home purchase and construction are vital ingredients in sustaining the economy together with commercial building.
- The Northern Territory economy is top-ranked on five of the eight economic indicators. And in the one area where it is the weakest in the nation – housing finance – annual growth of home loans is now the fastest in the nation. Attracting labour to the top end remains a constraint on growth.
- Relatively high unemployment is serving to cap growth in the Victorian economy although high population growth is underpinning home building.
- In Queensland the soft job market and relative under-performance on population growth are acting to constrain a broad-based lift in the economy.
- The ACT has lost momentum, a consequence of a weaker job market, lower consumer confidence and falling retail spending.
- There are some encouraging signs in both South Australia and Tasmania where unemployment has eased in recent months. Firmer population growth may support South Australian housing and retail sectors while retail spending has already lifted in Tasmania and commercial construction growth is the strongest in four years.

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