

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.
- In the last report in October 2011, we judged that Australia's multi-speed economy could more accurately be described as a three-speed economy. And that has been further accentuated in the latest report.
- Western Australia remains clearly out in front, underpinned by strong economic growth, construction and equipment spending. But the second group is now just two economies – Victoria and the ACT – with both states underpinned by solid housing activity.
- The next level of economies is comprised of Tasmania, Queensland, South Australia, NSW and the Northern Territory. South Australia has slipped from the second group to the third level. Queensland has moved up the rankings while the Northern Territory has slipped.
- Looking ahead, CommSec expects further improvement in economic conditions in Queensland, buoyed by on-going rebuilding activity and strong activity in mining and energy sectors. The Northern Territory economy has also received a huge boost from approval of the \$34 billion Inpex LNG project.

The three-speed Australian economy

- Western Australia has consolidated its position as the nation's strongest economy. Western Australia leads the way on economic growth, construction work, unemployment and equipment investment while also possessing strong readings on retail spending and population growth. Only in terms of dwelling starts and housing finance is Western Australia middle-ranked across Australia's state and territory economies.
- In the second tier of economies are Victoria and ACT, with little separating them. Both economies benefit from above average dwelling starts and overall housing finance – for new as well as established dwellings. But while Victoria also has performed well on retail spending, the ACT lags in this area. The ACT also leads in terms of population growth compared with the long-term average. But while unemployment is low, it is now above its long-term average.

STATE OF STATES - January 2012

	<i>Strength</i>	<i>Weakness</i>
NSW	Population	Economic growth
Victoria	Dwelling starts	Unemployment
Queensland	Economic growth	Housing finance
South Australia	Construction	Equipment investment
Western Australia	Equipment investment	Housing finance
Tasmania	Unemployment	Retail spending
Northern Territory	Retail spending	Population
ACT	Home building	Unemployment

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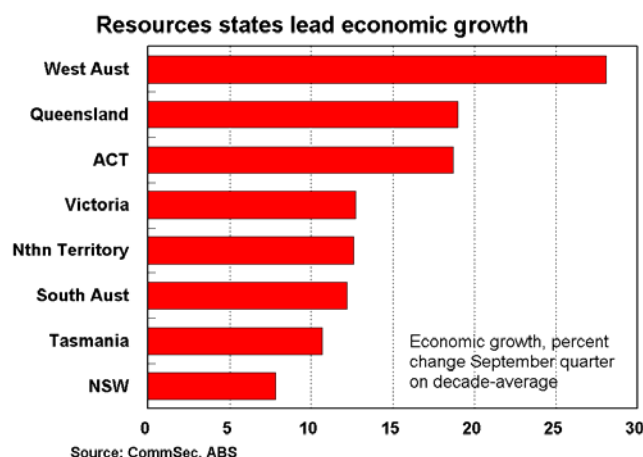
- There is little to separate Tasmania, Queensland, South Australia and NSW. And while there is a modest gap to Northern Territory, it is not far off the other economies. So it is best to think of the five economies in a single grouping.
- Tasmania out-performs with a relatively low unemployment reading, solid growth in equipment investment and better relative performance on dwelling starts than other economies. But it under-performs on retail spending and overall economic growth.
- Queensland has been the big improver over the last three months with rebuilding serving to boost equipment investment and construction work and overall economic growth. But Queensland lags other states on housing activity.
- South Australia was positioned in the second tier of economies in the previous report but it has lost ground in terms of overall economic growth, population growth and housing finance. South Australia continues to be largely middle-ranked on the eight key indicators – neither significantly lagging nor leading the other economies. While unemployment remains reasonably low, other states and territories have better relative performances on economic growth.
- NSW benefits from above-average population growth and firmer growth in housing finance. Equipment investment is basically middle-ranked. But dwelling starts remain below normal while economic growth is slower in relative terms than other economies.
- Northern Territory has slipped in a few areas relative to other economies such as its ranking on economic growth and dwelling starts. But it continues to out-perform with low unemployment and solid growth of retail spending. While population growth and construction work are below long-term averages this is likely to change with the approval to build the \$34 billion Inpex LNG plant.

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 of 3.8 per cent in the ACT is lower than in all other economies. But compared with its ‘normal’ or decade-average rate of 3.4 per cent, the jobless rate is actually higher in percentage terms than any other economy, 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. Excluding the trade sector would provide an incorrect assessment of growth for economies such as Western Australia and Queensland.
- Western Australia continues to lead the rankings on economic activity from Queensland and the ACT in the September quarter. Western Australia's economic output was just over 28 per cent higher than the state's decade average level of output. Queensland's output was up 19 per cent on its long-term average,

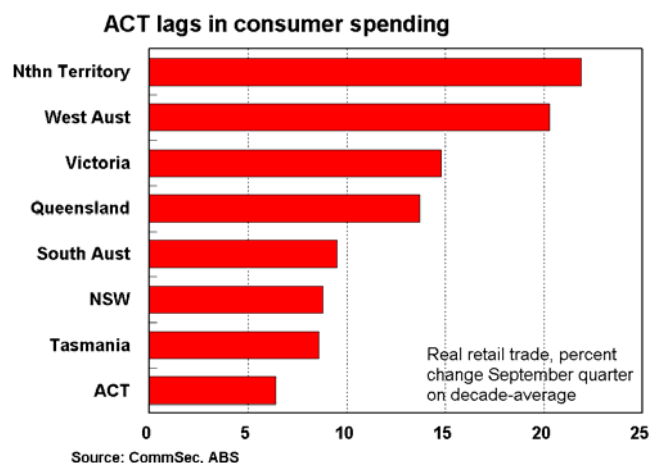


followed by ACT (up 18.7 per cent)

- At the other end of the scale, economic activity in NSW in the September quarter was just 8 per cent above its decade average while Tasmanian activity was up almost 11 per cent on its “normal” or average output over the past decade.
- Western Australia has the fastest annual economic growth rate in the nation at 5.6 per cent, ahead of Queensland with 4.7 per cent and Victoria with 1.9 per cent.
- The weakest trend economic growth rate was recorded in the Northern Territory (-1.9 per cent) followed by Tasmania and South Australia.

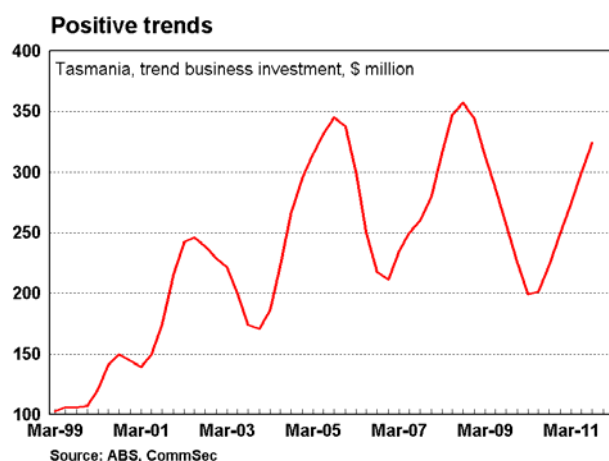
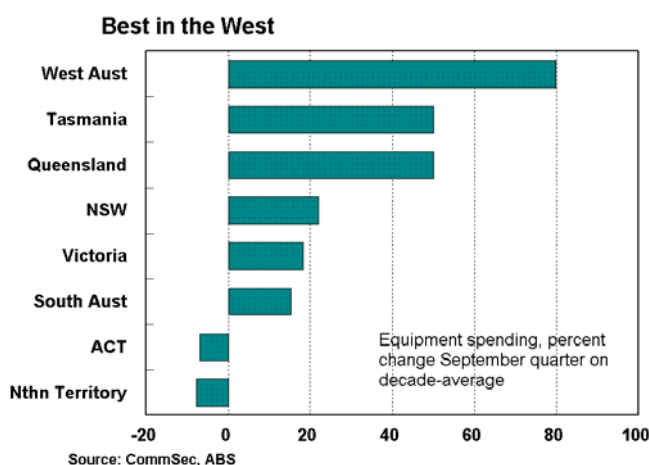
Retail trade

- The measure used was real (inflation-adjusted) retail trade in trend terms with September quarter data the latest available. Monthly retail trade was also assessed (November data available) to provide further information on trends. There were no differences in the rankings despite the monthly data being two months advanced on the real, quarterly readings.
- Still leading the retail rankings is Northern Territory with spending in the September quarter almost 22 per cent above decade average levels. Supporting spending is a strong job market and the gains recorded in home prices over 2008-10. And spending in the “top end” is actually 2.1 per cent higher than a year ago in real terms, second only to Western Australia.
- Western Australia was next strongest, courtesy of low unemployment, with spending 20 per cent above decade-average levels. Western Australia also has the strongest growth in real retail spending, up a stunning 6.8 per cent on a year ago.
- Victoria was next strongest, with spending 15 per cent above decade averages, followed by Queensland and South Australia. ACT is now at the bottom of the leader-board, with spending up just 6.4 per cent on the decade average. Spending is also 2.7 per cent lower than a year ago. And real retail spending in South Australia is 3.1 per cent lower than a year ago – the weakest performance of the states and territories.



Equipment investment

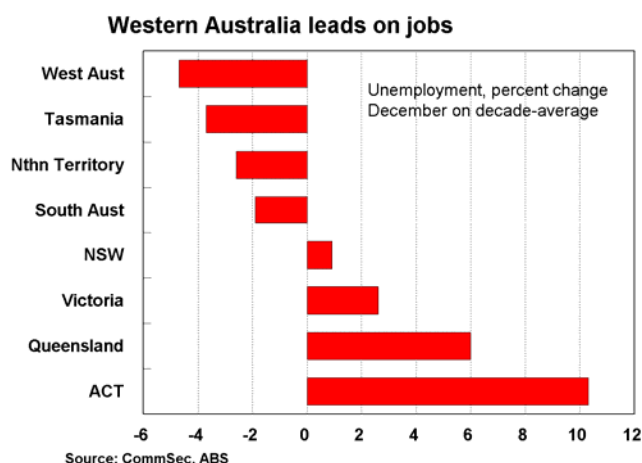
- Compared with longer-term averages, Western Australia currently is head and shoulders above other states and territories on equipment investment with spending in the September quarter almost 80 per cent above “normal” – or decade-average levels. Next placed is Tasmania (up 50.1 per cent), followed by Queensland (up 50 per cent), and NSW (up 22 per cent).
- By contrast, equipment spending in the Northern Territory was 7.8 per cent below its decade-average. Next weakest economy – ACT – had business investment 6.9 per cent below its longer-term average in the September quarter.
- On a shorter-run analysis, equipment investment was only lower than a year ago in just two of the state and territory economies – Northern Territory (down 21.7 per cent) and NSW (down 3.5 per cent).
- Tasmania is leading annual growth rates on equipment investment (up 59.9 per cent) from Western Australia (up



50.2 per cent) and Queensland (up 29.8 per cent).

Unemployment

- Arguably Western Australia has the strongest job market in the nation. Not only is the 4.3 per cent jobless rate the second lowest in the nation behind the ACT, but it is also below the long-term average.
- Next best is Tasmania. While the trend jobless rate is the highest in the nation at 5.9 per cent, unlike most other states and territories unemployment is below the “normal” or longer-term average.
- Unemployment is low in the Northern Territory at 4.4 per cent, and is also below the decade average of 4.5 per cent.
- At the other end of the scale, while the jobless rate in the ACT is the lowest in Australia at 3.8 per cent, historically it does maintain a lower rate than other states or territories. But the ACT jobless rate is actually more than 10 per cent above its decade average of 3.4 per cent, constraining retail spending. Queensland, Victoria and NSW also have jobless rates above longer-term averages.

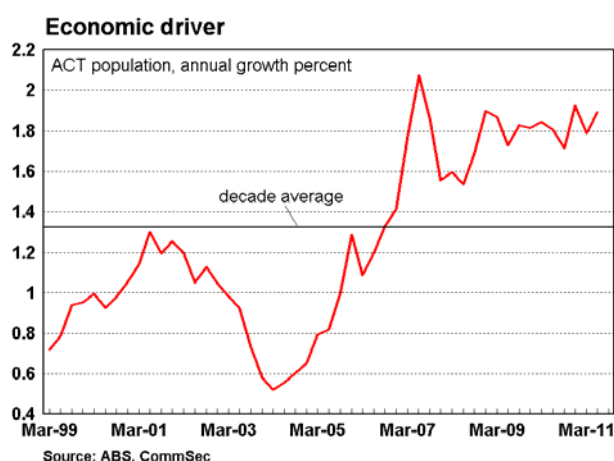
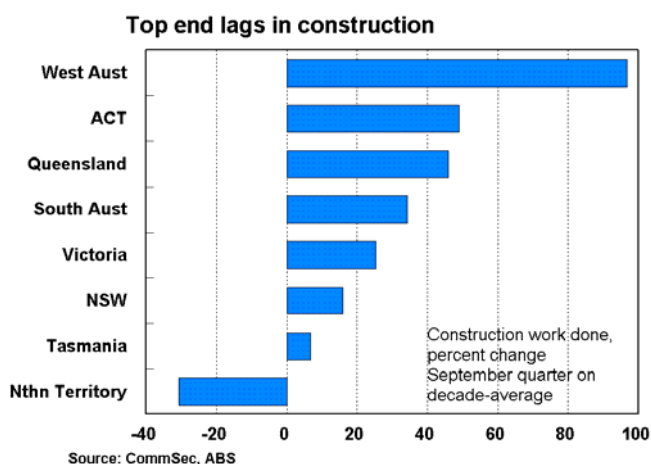


Construction work

- 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 except the Northern Territory, construction work is higher than decade averages. Construction peaked in the ‘top end’ in March quarter 2009 at record levels. The relatively small Northern Territory economy is affected to a greater extent by the ‘lumpiness’ of major construction projects. Construction work in the Northern Territory is down just over 30 per cent on the decade average.
- By contrast, in Western Australia construction work done in the September quarter was a stunning 97 per cent above the decade average.
- Next strongest was ACT with construction work 49 per cent higher than decade averages, followed by Queensland, up 46 per cent, and South Australia, up 34 per cent.
- Construction work is higher than a year ago in four of the states/territories – Western Australia, Queensland, Victoria and South Australia.

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 after outperforming from 2007-2010, currently population growth is above ‘normal’ in only three states or territories.
- Population growth is above average in the ACT (current annual rate of 1.89 per cent) followed by Western Australia (2.44 per cent) and NSW (1.14 per cent). Western Australia and the ACT also have the fastest population growth rates in the land from Queensland (1.66 per cent). Encouragingly Queensland's population growth rose in the June quarter for only the first time in 2½ years.
- At the other end of the leader-board is the Northern Territory with its 0.39 per cent annual population growth rate

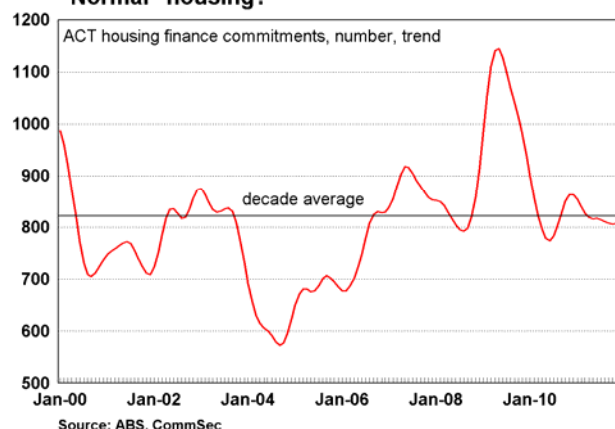


the slowest in 8 years, and three-quarters below its 1.56 per cent decade-average growth pace.

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 good to also use 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 in top-position is the ACT, where the number of housing finance commitments is 0.4 per cent below the decade-average. The high level of activity is positive for financial institutions, real estate agents and builders in the territory.
- But housing lending in the ACT is weakening, down 6.5 per cent over the year – the biggest decline of all state and territory economies. Next weakest is Queensland (down by 4.7 per cent) followed by Tasmania (down 3.4 per cent on a year ago).
- Victoria is in second spot for housing finance, with the number of commitments 4.2 per cent below the long-term average. But home lending is also slowing, down 2.7 per cent in trend terms compared with a year ago.
- NSW was third on housing finance, down 5.7 per cent on the decade average followed by Western Australia (down 12.0 per cent) and Tasmania (down 20.3 per cent).
- Northern Territory is the weakest economy for housing finance with trend commitments 28.6 per cent lower than its decade average, followed by Queensland (down 28.5 per cent on its decade average). However in trend terms, Northern Territory's housing lending is up 6.7 per cent on a year ago whereas Queensland commitments are down 4.7 per cent.

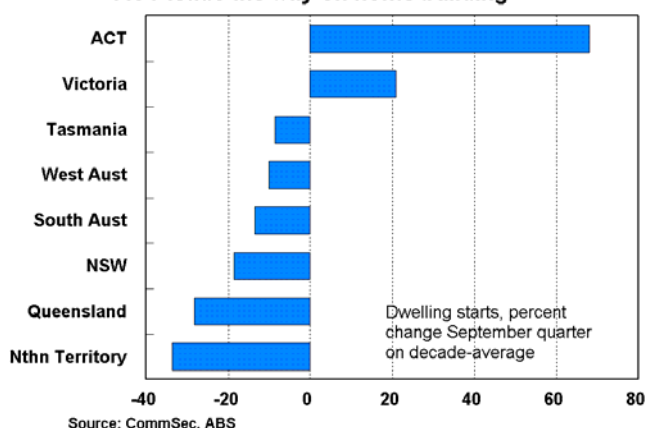
"Normal" housing?



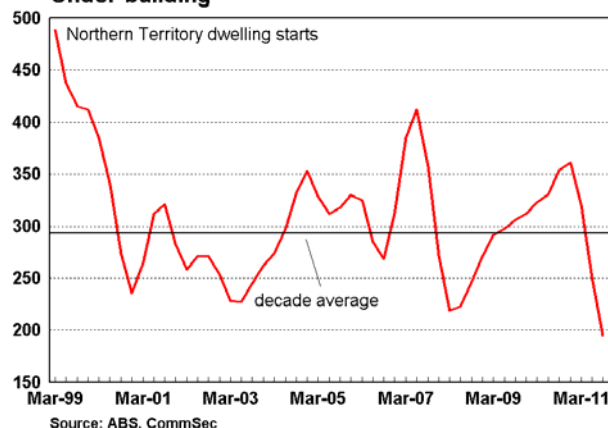
Dwelling starts

- 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 ACT remains head and shoulders above other economies on dwelling starts, supported by strong population growth. In the September quarter the number of dwellings started was up 68 per cent on the decade average. But it's worth noting that dwelling starts peaked in December quarter 2010 and starts are up just 0.6 per cent on a year ago.
- In second spot was Victoria with dwelling starts in the September quarter up 21 per cent on the 'normal' or "decade average" level. But starts are 7.9 per cent lower than a year ago.
- At the other end of the scale, Northern Territory dwelling starts were 33.7 per cent below decade averages while Queensland starts were 28.2 per cent down on a year ago.

ACT leads the way on home building



Under-building



- In NSW, dwelling starts were 18.5 per cent below decade averages in the September quarter, with starts in South Australia 13.6 per cent below its “normal” rate of activity.
- The ACT was the only economy to post stronger starts compared with a year ago, followed by NSW (down 5.8 per cent on a year ago), Victoria and Queensland.

Other indicators

- Real wages were flat to negative in four economies in the September quarter – NSW, Victoria, South Australia and the ACT. But ‘one-off’ factors such as cyclones and floods forced up food prices and overall inflation earlier in 2011. Underlying inflation is near 2.5 per cent.
- The annual rate of headline inflation is tipped to ease in coming quarters to 2.5-3.0 per cent. In comparison, wages are likely to grow close to 3.5-4.0 per cent, pointing to higher real wages ahead.
- Still, higher living costs such as electricity, gas and water rates have affected consumer confidence and retail spending over 2011. And falling home prices has exacerbated the pain for Aussie consumers.
- Home prices are lower than a year ago in all capital cities. However the latest data showed that home prices rose in November for the first time in 11 months. Rate cuts in November and December should boost housing activity and dwelling prices over 2012.

WAGES & PRICES*

	Wages	Consumer Prices	Home Prices
NSW	3.5	3.7	-0.5
Victoria	3.5	3.6	-5.6
Queensland	3.7	3.1	-7.0
South Australia	3.3	4.0	-5.0
Western Australia	4.0	2.8	-3.9
Tasmania	3.9	3.2	-3.0
Northern Territory	3.8	2.8	-3.7
ACT	2.9	3.7	-1.6

* Annual % change. Source: ABS, RP Data, CommSec

September Quarter 2011 - Wage price index; Consumer prices

November 2011 - home prices (except Tasmania - October 11)

Implications and outlook

- Australia has a three-speed economy. Western Australia leads the way with the ACT and Victoria in the second group and little separating the other economies in a third group.
- And while Western Australia is expected to hold its position in coming quarters, there is likely to be a shuffling of the other rankings. Queensland is moving its way up the rankings, underpinned by strength in resources and rebuilding. Only a soft housing market is holding back the economy.
- The ACT is at risk of slipping as housing activity eases. Still, population growth remains above long-term averages, preventing any major slowdown of the economy. Victoria could also experience some slippage from softer housing activity.
- The Tasmanian economy has momentum, underpinned by below-normal unemployment and improving retail spending. South Australia looks likely to retain its middle ranking on most indicators.
- The outlook for the NSW economy is more uncertain. Unemployment is steady and population growth is still slightly above long-term averages. But growth in equipment investment has slowed, retail spending is falling in real terms compared with a year ago, while dwelling starts are also down on a year ago. But housing finance is growing and rental markets remain tight.
- Northern Territory's economy lost momentum over 2011. In part this may reflect uncertainty about the huge \$34 billion Inpex liquefied natural gas project. But the recent approval will inject significant momentum into the economy through the building phase, lifting population and job growth, dwelling construction and retail spending.
- The two rate cuts in November and December should help housing activity across the nation. Queensland and NSW are likely to benefit most from this development. There are also signs of stabilisation in Europe. If the global economy picks up steam, this will benefit resources-dependent economies such as Western Australia, Queensland, South Australia and Northern Territory.

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