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Economics | October 19 2012

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.
- For the past two quarterly reports, we judged that Australia's multi-speed economy could more accurately be described as 'Western Australia first and daylight second'. And we see no reason to change that judgement but Northern Territory is coming up fast.
- Western Australia comes out top on four of the eight criteria, but has slipped over the past three months after coming out on top in six criteria last report. Western Australia is still first or second on seven of the eight indicators, clearly well ahead of other state or territory economies.
- The Northern Territory has passed the ACT to take second spot. The other big improver is NSW, now ranked alongside Victoria and Queensland. Then there is a sizeable break to South Australia and then another sizeable gap to Tasmania.
- Looking ahead, CommSec expects further strength from the Northern Territory but potential slippage in the ACT to bring it back into a grouping with the three largest states.

Western Australia leads, but here comes the Northern Territory

- Western Australia remains Australia's best performing economy. But Northern Territory is coming up fast; with the Inpex natural gas project providing strong momentum to the 'top end' economy.
- Western Australia leads the way on construction work, retail trade, population growth and equipment investment.

STATE OF STATES - October 2012

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

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The only real weakness is dwelling starts (seventh).

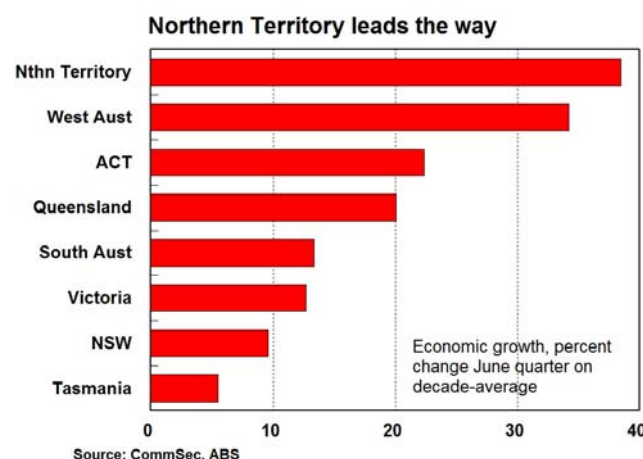
- Northern Territory is the next strongest of state and territory economies, courtesy of solid economic growth, a strong job market, firm retail spending and stronger dwelling starts.
- The ACT economy is little changed from three months ago, supported by solid dwelling starts and above-average population growth. But simply the Northern Territory has more momentum at present.
- There is now little to separate the three largest states. NSW has moved from fifth to fourth alongside Victoria and Queensland. Firmer population growth and relatively low unemployment have boosted dwelling starts in NSW from a low base. Victoria has seen some slippage due to higher unemployment. Queensland also has lost ground because of a weaker job market, affecting housing finance.
- There is then a sizeable gap in the rankings to South Australia. The best ranking of South Australia is fourth on population growth but mostly it ranks fifth or sixth on most indicators and is weakest on dwelling starts. The decision by BHP Billiton not to proceed on the Olympic Dam expansion in the short term will affect momentum in the economy.
- And there is another sizeable gap in the economic rankings between South Australia and Tasmania. Tasmania is lagging all other economies on five of the eight indicators. Weak population growth and rising unemployment continue to restrain retail spending and overall economic growth.

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 all but two 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

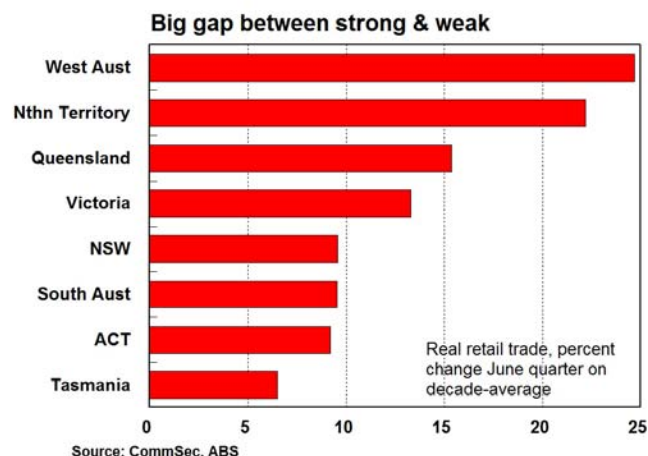
- Ideally gross state product (GSP) would be used to assess broad economic growth. But the data isn’t available quarterly. Rather state final demand (household and business spending) is added to exports less imports to act as a proxy for GSP. Exclusion of the trade sector would provide an incorrect assessment of growth for economies such as Western Australia and Queensland.
- The Northern Territory now leads the rankings on economic activity. Activity in the ‘top end’ is almost 39 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 22.4 per cent) and Queensland (up 20.1 per cent).
- At the other end of the scale, economic activity in Tasmania in the June quarter was just 5.5 per cent above its decade average while NSW activity was up almost 10 per cent on its “normal” or average output over the past decade.



- The Northern Territory also has the fastest annual economic growth rate in the nation, up by a stunning 26.3 per cent on a year ago, ahead of Western Australia with 10.7 per cent and Queensland with annual growth of 6.8 per cent and the ACT with 6.4 per cent annual growth.
- The weakest trend economic growth rate was recorded in Tasmania (-2.9 per cent) followed by South Australia and Victoria (both 2.4 per cent).

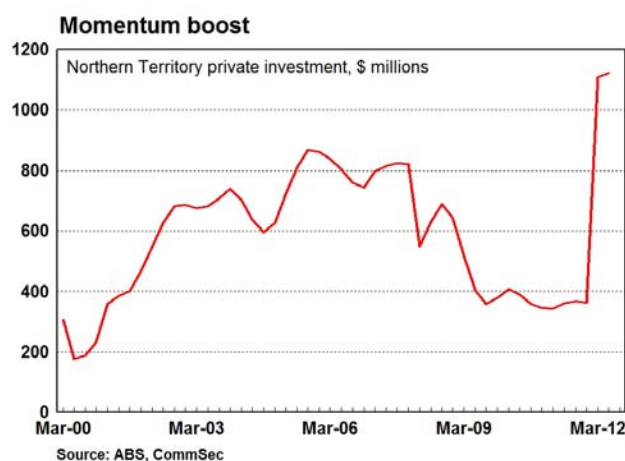
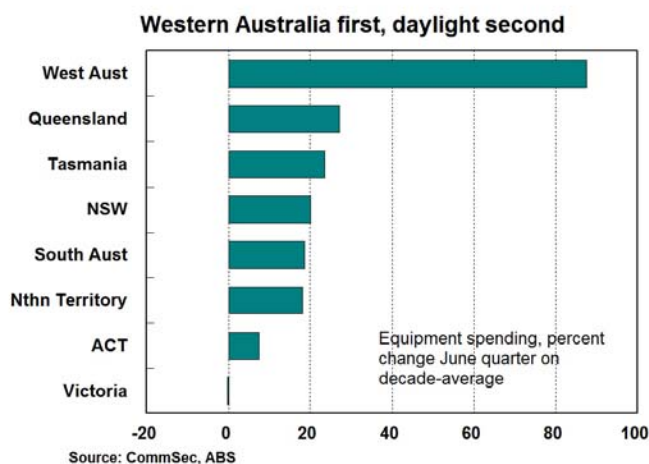
Retail trade

- The measure used was real (inflation-adjusted) retail trade in trend terms with June quarter data the latest available. If monthly retail trade was assessed instead (August data available), the only difference would be that the ACT would swap positions with South Australia. 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 June quarter just under 25 per cent above decade average levels. Low unemployment and firm wage growth, especially in resources, continue to underpinning spending levels.
- Northern Territory was next strongest, again courtesy of low unemployment, with spending 22.2 per cent above decade-average levels.
- Queensland was next strongest, with spending 15.4 per cent above decade averages, followed by Victoria (up 13.3 per cent).
- Tasmania has the weakest result on retail spending, up 6.5 per cent on the decade average, below the ACT with growth of 9.2 per cent.
- In terms of the monthly retail trade series, Western Australian spending is 9.2 per cent higher than a year ago, well in front of the ACT with 5.6 per cent growth and Queensland with 5.0 per cent growth. At the other end of the scale, Tasmanian spending is 2.6 per cent down on a year ago and Victorian spending is up by just 1.2 per cent.



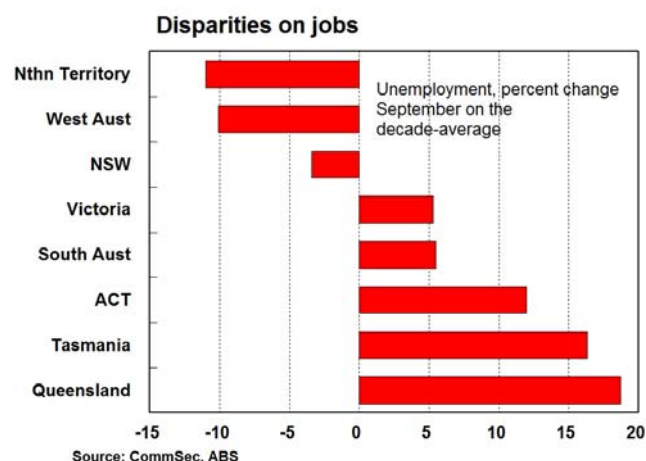
Equipment investment

- Western Australia is heads and shoulders above other states and territories when it comes to equipment investment. Spending in the June quarter was almost 88 per cent above “normal” – or decade-average levels. Next placed was Queensland (up 27.2 per cent), Tasmania (up 23.5 per cent), NSW (up 20.2 per cent), and South Australia (up 18.7 per cent).
- By contrast, equipment spending in Victoria was 0.3 per cent below its decade-average while the ACT had business investment just 7.5 per cent above its longer-term average in the June quarter.
- On a shorter-run analysis, equipment investment has softened in a number of the state and territory economies. Currently equipment investment is down on a year ago in Victoria (down 13.5 per cent), Tasmania (down 4.5 per cent), Queensland (down 3.4 per cent) and NSW (down 0.4 per cent). Northern Territory leads growth in equipment investment (28.6 per cent) from Western Australia (up 25.3 per cent).



Unemployment

- The Northern Territory and Western Australia have arguably the strongest job markets in the nation. In the Northern Territory the trend jobless rate of 3.9 per cent is 11 per cent below the decade average of 4.4 per cent. And in Western Australia the 3.9 per cent trend unemployment rate is just over 10 per cent below the long-term average.
- In the ACT the trend jobless rate is lower at 3.8 per cent. But unemployment has crept higher from 3.5 per cent in the past five months and is now 12 per cent above the “normal” level or decade-average of 3.4 per cent.
- In NSW the trend jobless rate of 5.1 per cent is actually 3.4 per cent below the decade average of 5.3 per cent.
- The weakest job market is in Queensland where the trend jobless rate is 6.1 per cent and almost 19 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 16.3 per cent above the decade-average level of 6.0 per cent.

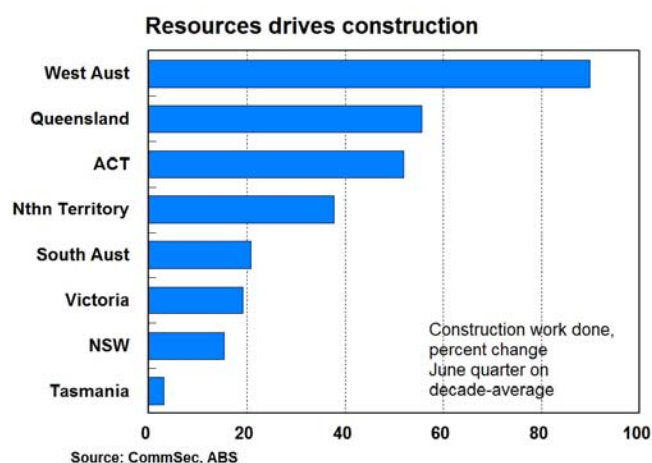
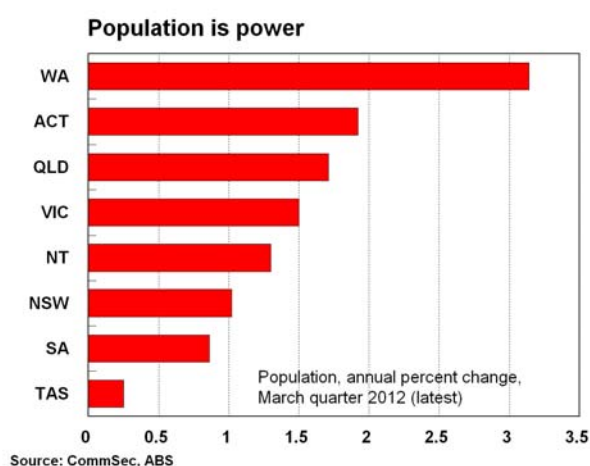


Construction work

- The measure used for analysis was the total amount of residential, commercial and engineering work actually completed in trend terms in the June 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 3.1 per cent above its decade average.
- Next weakest is NSW where construction work is 15.4 per cent above decade averages, followed by Victoria (up 19.2 per cent on the decade average).
- At the other end of the scale is Western Australia where construction work is a stunning 89.9 per cent above decade averages and up 34.4 per cent higher than a year ago. In Queensland, flood rebuilding work continues with construction work now 55.7 per cent above its decade average.
- In terms of annual growth rates, Northern Territory construction has the strongest momentum, up 91.9 per cent on a year ago. At the other end of the scale, construction work done in Tasmania in the June quarter was 12.8 per cent lower than a year ago with South Australia and the ACT also with construction 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 after under-performing over 2011.
- Western Australia is the clear leader in population growth. Not only is the annual growth rate of 3.14 per cent the strongest in the nation, it is also more than 41 per cent above the decade average. Next strongest is the ACT. Annual population growth of 1.92 per cent is second strongest and this is 32 per cent above “normal”.

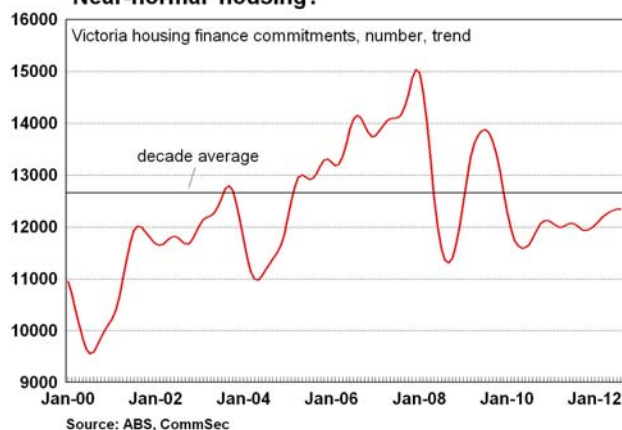


- In NSW the current annual population growth of 1.02 per cent is 9.5 per cent above the decade average.
- At the other end of the leader-board is Tasmania where the annual population growth of 0.25 per cent is the weakest in a decade and a massive 69 per cent below the decade average rate of 0.81 per cent.

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 August were above year-ago levels in five of the economies.
- In the strongest state of Victoria, the number of housing finance commitments were just 2.4 per cent below the decade-average level and commitments in August were 2.6 per cent higher than a year ago.
- Western Australia was in second spot for housing finance, with the number of commitments 3.0 per cent below the long-term average. And importantly the market has momentum with home lending 14.4 per cent higher than a year ago in trend terms to a 34-month high.
- The ACT has slipped to third on housing finance, down 8.4 per cent on the decade average followed by NSW (down 14.2 per cent).
- Tasmania is the weakest economy for housing finance with trend commitments 27.7 per cent lower than its decade average, a consequence of weak population growth. And housing lending is 3.5 per cent lower than a year ago, although the rate of decline has narrowed in the past five months.

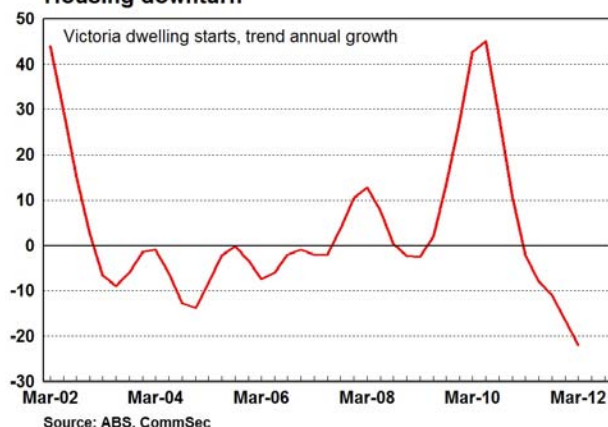
'Near-normal' housing?



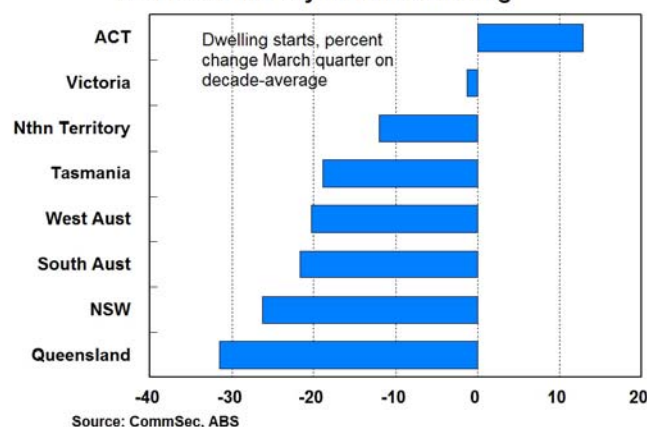
Dwelling starts

- 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 outlook for housing construction remains weak although there are signs of improvement. Dwelling starts are now above decade averages in three of the states and territories, up from one economy in the prior report
- The ACT is in the strongest position for new housing construction, but activity is slowing. In the June quarter the number of dwellings started was 31 per cent higher than its decade average although starts in the quarter was 22.7 per cent down on a year earlier – the biggest slide in six years.
- In second spot was the Northern Territory, with starts almost 22 per cent above decade averages. And starts in the quarter were up 30 per cent on a year ago – the only state or territory with positive annual growth in starts. In

Housing downturn



ACT leads the way on home building



Victoria, dwelling starts in the June quarter were up 5.0 per cent on the 'normal' or "decade average" level.

- At the other end of the scale, South Australian dwelling starts were 29.7 per cent below decade averages, while starts in the June quarter were 22.7 per cent down on a year earlier. Next weakest was Western Australia (down 27.1 per cent), closely followed by Queensland and Tasmania.

Other indicators

- Real wages were positive in all economies in the June quarter. Strongest growth occurred in the strongest economy – Western Australia (3.7 percentage points). Next strongest real wage growth was in the ACT at 2.8 percentage points while growth rates in other economies were broadly around 2 percentage points.
- The annual rate of headline inflation is historically low near 1 per cent but is likely to rise in coming quarters to around the rate of underlying inflation of closer to 2 per cent. In comparison, wages are likely to grow close to 3.5 per cent, pointing to continued growth of real wages ahead.
- Home prices are lower than a year ago in only half of the state capital cities. Strongest growth in home prices was in Darwin (up 2.9 per cent) followed by Sydney (up 0.9 per cent). Weakest annual growth in home prices was in Melbourne (down 3.8 per cent on a year ago).

WAGES & PRICES*

	Wages	Consumer Prices	Home Prices
NSW	3.5	1.3	0.9
Victoria	3.5	1.2	-3.8
Queensland	3.8	0.9	-2.5
South Australia	3.4	1.2	-1.8
Western Australia	4.8	1.1	0.8
Tasmania	3.2	0.8	0.1
Northern Territory	3.5	1.6	2.9
ACT	4.0	1.2	-1.6

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

Implications and outlook

- Over the past quarter Western Australia held its position at the top of the economic leader-board while Tasmania remains fixed at the bottom end of the scale. The big improvers have been the Northern Territory and NSW economies. Activity in the 'top end' is being driven by the \$34 billion Inpex liquefied natural gas project. Meanwhile the NSW economy is benefiting by some improvement in the housing market and below-average unemployment.
- While there has been some modest reshuffling of other positions, in general there hasn't been much change over the past three months.
- The Northern Territory is now second to Western Australia and it has potential to close the gap further in coming months. The large natural gas project continues to provide momentum. But in Western Australia, mining projects are being downgraded, shelved or mothballed, potentially leading to a softer job market and slower spending and investment activity.
- The ACT is now the third strongest economy, but the softening in the job market and weak investment spending may cause the economy to drift back alongside the three largest states.
- There is now little to separate NSW, Victoria and Queensland. NSW benefits from relatively low unemployment and slightly above-average population growth. If home building revives with state government grants then there will be multiplier benefits across the economy. Victoria is at some risk from weaker manufacturing activity. And the Queensland economy may suffer from higher unemployment.
- South Australia has felt the disappointment from BHP Billiton's decision to delay expansion of the Olympic Dam facility. But public sector investment will fill some of the gap.
- The Tasmanian economy continues to struggle and there are few signs of improvement on the horizon. The economy must exploit the relative advantages of a cheap property market and attractive agricultural export and tourism opportunities.

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