

# State of the States

## State & territory economic performance report

- How are Australia's states and territories performing? CommSec has attempted 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, indicators were compared with decade averages – that is, against the "normal".
- It is clear that the ACT has the stand-out economy at present. In the ACT, unemployment is low, with housing activity, construction, population growth and economic growth all above average. The only blots on the copybook are retail spending and business investment.
- The Western Australian economy had also been an out-performer but it has slipped back to the pack. While construction work is the clear driver, population growth has slowed, dragging on the housing sector. Unemployment is low compared with other states but it has been drifting higher.
- There is little to separate Victoria, South Australia, Northern Territory, Tasmania and NSW. Certainly NSW has been a major improver over the last quarter led by above-average population growth and firmer business investment. But both the Queensland and NSW suffer from weak housing markets – the only two economies where dwelling starts are below decade averages.

### ACT is the stand-out; throw a blanket over the rest

- Three months ago it was clear that the ACT and Western Australian economies were out-performing other states and territories. Now it is just the Australian Capital Territory that leads the pack. The ACT economy may be small, but effectively all engines of growth are firing. Population growth is above average, fuelling demand for homes and other infrastructure. And solid activity levels are keeping the jobless rate near record lows. The two areas of under-performance are retail spending and spending by private businesses on machinery.
- Western Australia has lost momentum over the last quarter with unemployment trending slightly higher in response to slower housing activity. But commercial & engineering building remains at high levels, investment is strong and overall economic growth is the strongest in the nation.

### STATE OF STATES - January 2011

	<i>Strength</i>	<i>Weakness</i>
NSW	Investment	Housing
Victoria	Housing	Investment
Queensland	Investment	Housing
South Australia	Population	Retail spend
Western Australia	Construction	Housing
Tasmania	Job market	Investment
Northern Territory	Retail spend	Construction
ACT	Housing	Investment

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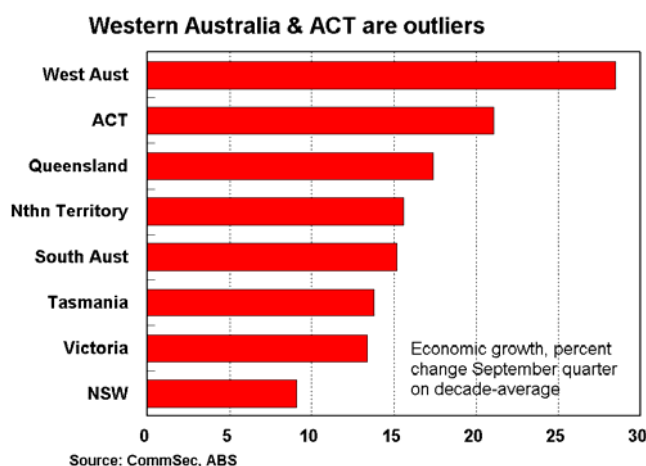
- After the ACT and Western Australia, you can effectively throw a blanket over the other states. Certainly there is little to separate South Australia, Victoria, Northern Territory and Tasmania. And the NSW economy is not far away from the pack, with momentum supplied by stronger business investment in equipment.
- The Victorian economy has the strongest housing market of the state economies. In fact dwelling starts are 20 per cent above decade averages while housing lending continues to grow, in contrast to the other states. The area of relative weakness is the job market where Victorian unemployment is slightly above decade averages, in contrast to other states where it is lower.
- The South Australian economy is supported by historically-high population growth, underpinning activity across a number of sectors. Overall construction work is almost 47 per cent above decade averages, with current annual growth second only to the ACT, up 20 per cent.
- The relatively-small Northern Territory economy continues to be under-pinned by very low unemployment together with firm retail spending. The unemployment rate of 3.1 per cent remains well below the 4.9 per cent decade average. The areas of under-performance are construction work, which has slowed markedly since early 2009, and housing finance.
- The performance of the NSW economy continues to be restrained by the construction sector – both new home building as well as commercial and engineering activity. But high population growth relative to decade averages points to the need to build more homes in coming quarters. Business investment in equipment & machinery is strongest in NSW of the states & territories – either compared with “normal” levels or annual growth rates.
- In Tasmania the areas of strength are relatively-low unemployment and above-average dwelling starts while retail spending and business investment tend to lag behind other states and territories.
- The performance of the Queensland economy continues to be hampered by historically-low population growth, affecting building and construction activity. But business investment in plant & equipment is 28 per cent above longer-term averages and spending in the latest quarter was over 7 per cent higher than a year ago. And rebuilding activity following the floods will substantially boost construction activity in coming months.

### 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 current 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, that can yield perverse results. For instance retail spending may be up sharply on a year ago but from depressed levels. And clearly some states such as Queensland and Western Australia consistently have faster 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, South Australia’s population growth of 1.2 per cent is slower than most other states and territories. But compared with its ‘normal’ or decade-average rate of 0.9 per cent, South Australia’s population growth is far stronger than other economies, underpinning retail spending growth.
- 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 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.
- Western Australia continues to lead the rankings on economic activity from the ACT. In the September quarter, Western Australia’s economic output was almost 29 per cent above the state’s decade average level of output. ACT output was up 21.1 per cent on its long-term

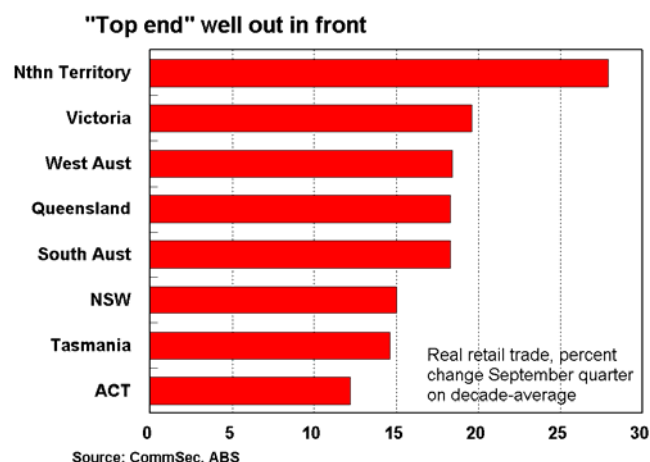


average, followed by the and Queensland (up 17.4 per cent) and Northern Territory (up 15.6 per cent)

- Outside the ACT and Western Australia, the level of economic activity in all other states and territories in the September quarter were between 9-18 per cent higher than the long-term average.
- Western Australia also possesses the fastest annual economic growth rate in the nation at 7.6 per cent, followed by ACT with 4.2 per cent growth. South Australia comes next with 3.5 per cent annual economic growth.
- The weakest trend economic growth rates were recorded in the Northern Territory, NSW and Victoria.

## 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. The main difference would be that the Northern Territory would have a lower ranking if the monthly series was used while the position of South Australia would be slightly improved.
- Still leading the retail rankings is Northern Territory with spending in the September quarter 28 per cent above decade average levels. Spending has been supported by a strong job market and rising home prices, and annual growth of retail trade is firm at 4.0 per cent. But spending has slowed markedly in the 'top end' since mid 2010.
- Victoria was next strongest, with flow-on spending from a strong housing market. Western Australia, South Australia and Queensland were next strongest with little to separate their performances. The ACT remains at the bottom of the leader-board and the pace of growth has also consistently eased over the past year.
- In terms of the pace of monthly retail spending – as opposed the actual level of real spending – Victoria leads the rankings with 5.5 per cent trend growth over the year to November, ahead of the ACT and South Australia. In contrast, trend monthly retail sales are lower than a year ago in Tasmania and Northern Territory.

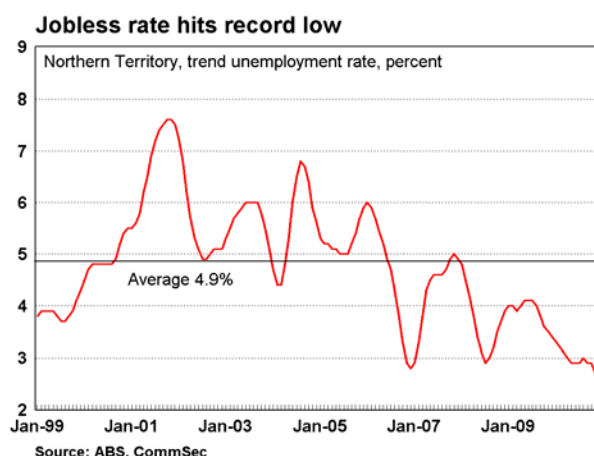
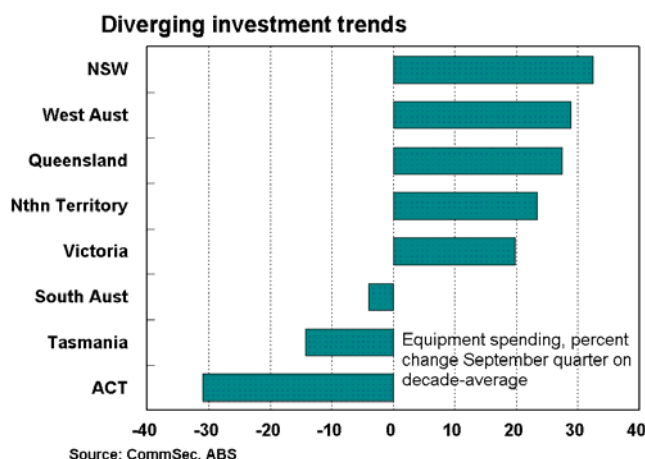


## Equipment investment

- Compared with longer-term averages NSW has the highest levels of investment spending of all the states and territories, up almost 34 per cent on long-term averages. Next placed is Western Australia (up 28.9 per cent) and Queensland (up 27.4 per cent).
- By contrast equipment spending in both Tasmania was just over 14 per cent below its longer-term average in the September quarter with spending in the ACT down 31 per cent.
- Equipment investment was only higher than a year ago in two state/territories: NSW (up 9.7 per cent) and Northern Territory (up 5.6 per cent).
- In the ACT, equipment investment has collapsed since the ending of the government tax breaks last year, down 74 per cent compared with a year earlier.

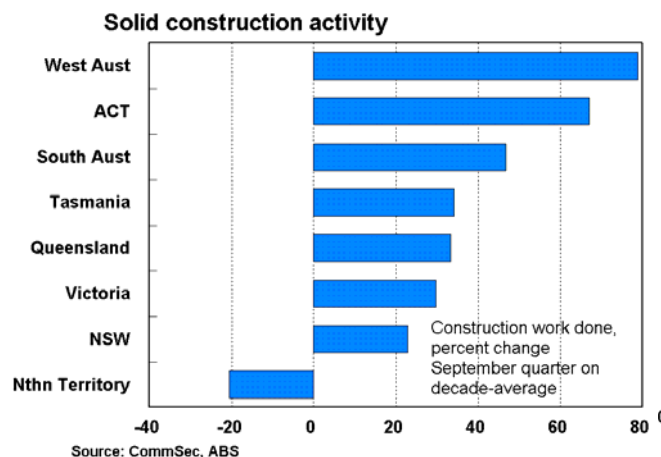
## Unemployment

- The territories continue to lead the way in the job stakes together with Western Australia. Trend unemployment in



the Northern Territory stands at 2.6 per cent – 46 per cent below the decade average of 4.8 per cent.

- Next best was Tasmania with the current unemployment rate of 5.0 per cent, 23 per cent below the long-term average of 6.5 per cent. And the unemployment rate in NSW stands at 4.9 per cent, below the 5.4 per cent long-term average.
- At the other end of the scale is Queensland with trend unemployment of 5.7 per cent – 2.5 per cent higher than the long-term average of just under 5.6 per cent.
- Trend rates of unemployment have fallen in NSW, Victoria, Tasmania and the Northern Territory in recent months. But the good news is that unemployment is lower in all states and territories apart from South Australia over the past year.

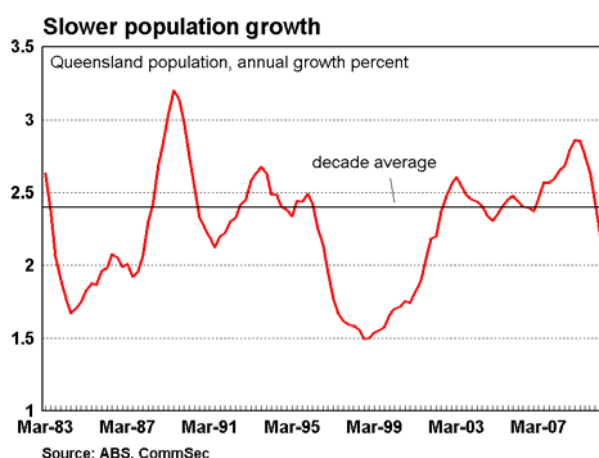
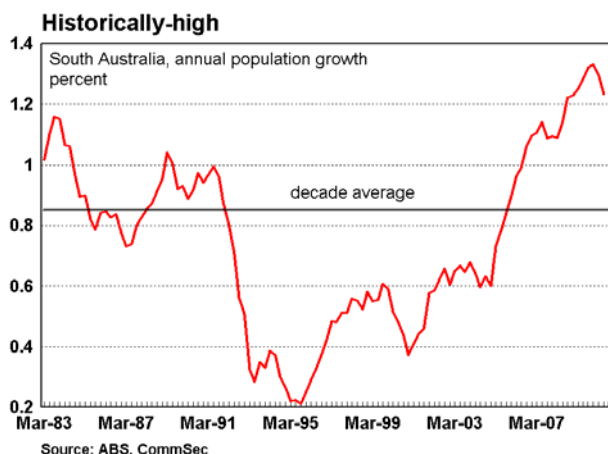


## Construction work

- 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 substantially higher than decade averages. Construction peaked earlier in the 'top end', hitting record highs in the March quarter 2009. 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 20 per cent on the decade average.
- In Western Australia construction work done in the September quarter was 79 per cent above the decade average. Next strongest was ACT with construction work 67 per cent higher than decade averages. Construction work in the ACT is also up 28.1 per cent on a year ago – the fastest rate in the nation.
- Construction work is higher than a year ago in all states/territories except Northern Territory (down 50 per cent) and Queensland (down 3.5 per cent). But the level of construction work done in Queensland is still 33.3 per cent higher than its decade average.

## Population growth

- Across the states and territories the current annual rate of population growth was compared with each economy's decade-average growth pace. And currently population growth is above 'normal' in all states and territories except Queensland and the Northern Territory.
- Population growth is fastest in Western Australia (2.18 per cent) followed by Queensland (2.01 per cent) with both states consistently leading the rest of the nation, especially over the past three years. But actually other states and territories are getting more momentum from population growth with current rates far higher than 'normal'.
- At the top of the rankings on the population growth leader board is South Australia with current annual population growth of 1.24 per cent, well above the 0.9 per cent decade average. Next best was ACT followed by NSW and Tasmania.
- In NSW the 1.48 per cent population growth is well above the 1.1 per cent decade-average growth pace. But importantly the current growth pace is around double the rate of growth existing around four years ago.



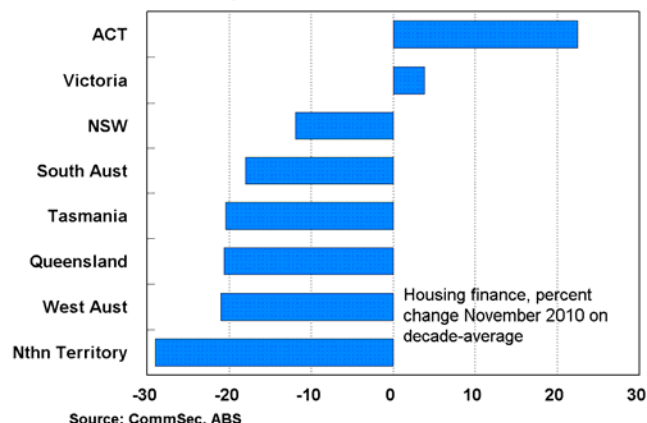
Population growth stands at 1.78 per cent in the ACT and 0.86 per cent in Tasmania.

- In Victoria, population growth has eased from near 50-year highs of 2.28 per cent to 1.82 per cent, but this is still well above the longer-term average of 1.6 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 an 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.
- Far away in top position for housing finance is the ACT. The number of housing finance commitments in the ACT is 22.5 per cent higher than the decade-average at a time when most other states and territories are recording negative growth. The high level of activity is positive for financial institutions, real estate agents and builders in the territory.
- And while housing lending in the ACT has slowed in line with every other state and territory, the rate of decline has been narrowing with loans in the latest month down just 6 per cent on a year earlier.
- Victoria is in second spot for housing finance, with the number of commitments 3.8 per cent above the long-term average. While finance is falling in line with other states, just like the ACT the annual decline of 5.1 per cent is better than other state and territory economies.
- NSW was third on housing finance followed by South Australia and Tasmania.
- The Northern Territory is the weakest economy for housing finance with trend commitments 29 per cent lower than its decade average. In addition, housing finance commitments in November were almost 28 per cent down on a year ago. Western Australia is next weakest, confirming that the housing market is acting as a braking force on the broader Western Australian economy.

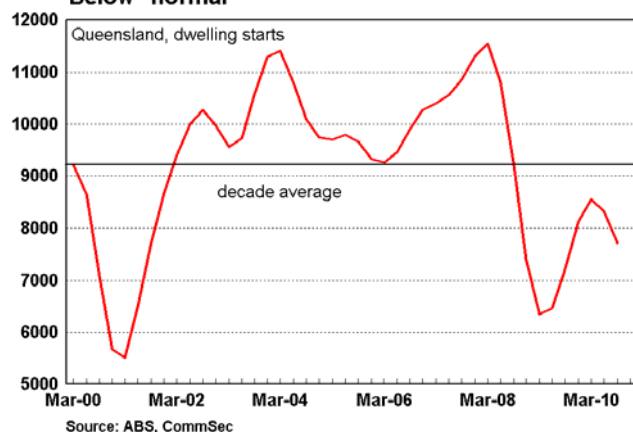
Finance plentiful in the ACT



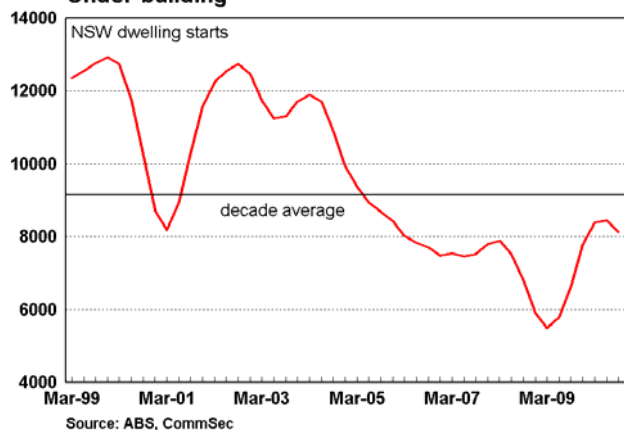
## Dwelling starts

- 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 or under-building in previous years can determine the current level of starts.
- The ACT continues to lead the pack on dwelling starts. In the September quarter the number of dwellings commenced stood at 1,088 in trend terms. Not only were starts over 64 per cent above the decade average, they were up on levels of 400-600 a quarter that predominated through most of the late noughties.
- In second spot was Victoria with dwelling starts at record highs in the September quarter and 39 per cent higher than 'normal' levels or the average of the past decade. Not only are starts at historically-high levels, but they are up 30.3 per cent on a year ago. Strong population growth is the key factor under-pinning dwelling activity in

Below "normal"



Under-building





Victoria.

- Victoria was followed by Tasmania, Northern Territory and South Australia with starts in each of these states between 17-22 per cent above respective decade averages. And annual growth rates of dwelling starts are higher than a year ago in each state except Tasmania (down just 1.4 per cent).
- NSW and Queensland were the only states to have dwelling starts below decade average starts. But in both states starts are higher than a year ago – up 22.4 per cent in NSW and 7.1 per cent in Queensland. Nationally starts fell in the September quarter although they were still 7.7 per cent higher than a year ago, largely due to higher activity in Victoria.

### Other indicators

- Consumers in all states and territories except South Australia continue to enjoy real wage gains (wages growing faster than prices). Still, if total earnings are used for comparison, rather than ordinary time earnings, then South Australian workers also would be recording real wage gains.
- An alternate measure of wages – the wage price index – lifted by between 3.2-3.9 per cent across states & territories over the past year, again indicating real wage gains.
- ACT workers are doing best no matter what measures are used for comparison.
- Home prices have continued to ease across Australia in recent months in response to an increased supply of new homes and softer demand. But growth rates vary markedly across economies. Melbourne continues to lead the way with home prices up 9.5 per cent on a year ago but in Brisbane, Perth and Hobart home prices are now lower than a year earlier.
- Real wage growth should be maintained across capital cities in 2011 but for those cities still recording solid growth in home prices, further softening can be expected with growth rates congregating between 3-5 per cent.

### WAGES & PRICES\*

	Wages	Consumer Prices	Home Prices
NSW	4.2	2.6	6.7
Victoria	4.7	3.1	9.5
Queensland	4.3	2.9	-0.7
South Australia	2.2	2.6	3.9
Western Australia	5.3	3.1	-2.3
Tasmania	6.4	2.8	-1.4
Northern Territory	7.2	2.3	8.4
ACT	7.0	2.1	6.9

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

Sept Quarter 2010 - Average weekly earnings (trend); Prices

November 2010 - home prices (except Tasmania-October 10)

### Implications and outlook

- There has been some levelling of the performances of state/territory economies over the past quarter. The ACT economy continues to out-perform on most measures, but Western Australia has slipped back towards the pack while the NSW economy has made up ground.
- The Queensland economy was already struggling across a range of measures before the floods. But while the floods will further serve to constrain activity in the short term, rebuilding and refurbishment activity as well as a recovery in coal production will give the economy a substantial lift over the second half of the year.
- A key challenge for most states & territories over 2011 is further tightening of the job market. The challenge is especially notable for the territories, with jobless rates near 3 per cent, and the resources states of Western Australia & Queensland in terms of securing workers for mining regions.
- All state and territory economies would stand to benefit from higher migration levels, and thus firmer population growth, providing much-needed momentum across a range of sectors such as housing. Housing construction is set to slow across the country as evidenced in weaker finance commitments and building approvals.
- The NSW economy has potential to strengthen further as the effects of the global financial crisis continue to recede. But weak construction activity is a key factor holding back economic momentum and needs to be addressed.

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### Western Australian "above-normal" growth

