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Economics | July 20 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.
- In the last quarterly report, 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 with the latest results
- Western Australia comes out top on six of the eight criteria. The worst results were being ranked fifth on dwelling starts and third on housing finance. So when discussing the Australian economy it is still best to focus on two concepts: total Australia, and Australia excluding Western Australia.
- ACT, Victoria, Queensland and Northern Territory are in the next grouping of economies, and then there is a break to NSW and South Australia and then another gap to Tasmania.
- Looking ahead, CommSec expects further improvement in Queensland and Northern Territory but potential slippage in Victoria with a softer job market.

Western Australia first, daylight second

- Western Australia is clearly Australia's best performing economy. So much so, that it is probably more appropriate to look at two concepts to measure the national economy: Australia; and Australia less Western Australia.
- Western Australia leads the way on economic growth, construction work, unemployment, retail trade, population growth and equipment investment. The only real weakness is dwelling starts (fifth ranked) and housing finance

STATE OF STATES - July 2012

	<i>Strength</i>	<i>Weakness</i>
NSW	Job market	Economic growth
Victoria	Dwelling starts	Equipment investment
Queensland	Construction	Dwelling starts
South Australia	No stand-outs	Housing finance
Western Australia	All criteria	Dwelling starts
Tasmania	Equipment investment	Unemployment
Northern Territory	Retail spending	Population
ACT	Dwelling starts	Equipment investment

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(third ranked).

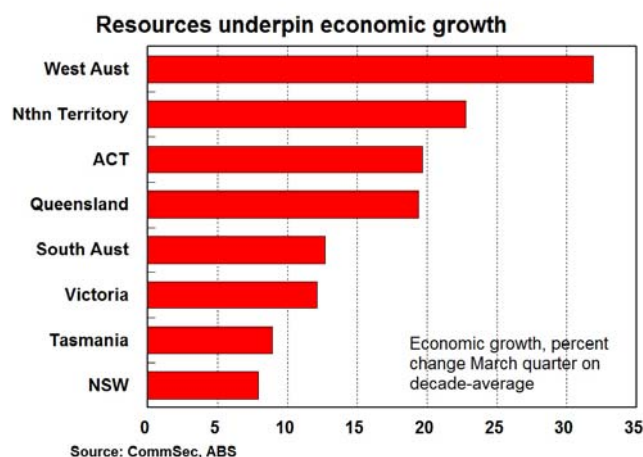
- Remaining in the second tier of economies are ACT and Victoria, but they are now joined by Northern Territory and Queensland.
- Strongest areas for the ACT are housing finance and dwelling starts, flowing from above-average population growth and a strong job market.
- Northern Territory is the next strongest of state and territory economies, courtesy of solid economic growth, a strong job market and firm retail spending.
- Queensland and Victoria are together on the economic rankings. Queensland is benefitting from rebuilding work, which is flowing through to retail spending and investment. Victoria continues to out-perform on housing market indicators although the performance is slipping on retail spending, investment and unemployment.
- NSW and South Australia are next and are also close together on the economic rankings. NSW is out-performing on jobs but under-performing on dwelling starts. South Australia is middle ranked on all economic indicators but is tending to under-perform on housing market indicators.
- There is now a sizeable gap in the economic rankings between NSW/South Australia and Tasmania. Tasmania is lagging all other economies on five of the eight indicators. Weak population growth and rising unemployment are restraining retail spending and overall economic growth. The clear area of out-performance is equipment investment with the hope that this could provide the spark to economic momentum.

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 3.6 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 one 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. Exclusion of 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 but Northern Territory has lifted to second strongest from the ACT and Queensland. Western Australia’s economic output was just under 32 per cent higher than the state’s decade average level of output. Northern Territory’s output was up by 22.8 per cent on its long-term average, followed by ACT (up 19.7 per cent) and Queensland (up 19.4 per cent).
- At the other end of the scale, economic activity in NSW in the March quarter was just 7.9 per cent above its decade average while Tasmanian activity

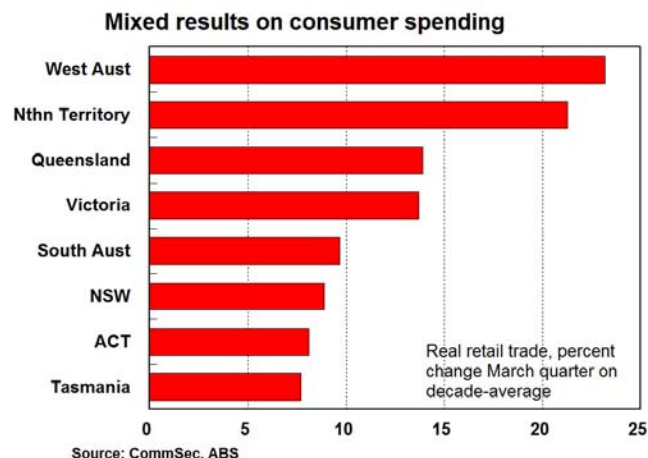


was up almost 8.9 per cent on its “normal” or average output over the past decade.

- The Northern Territory now has the fastest annual economic growth rate in the nation at a stunning 10.4 per cent, ahead of Western Australia with 8.6 per cent and Queensland with annual growth of 7.9 per cent. Then there is a huge gap to the ACT with 3.1 per cent annual growth.
- The weakest trend economic growth rate was recorded in Tasmania (-0.6 per cent) followed by South Australia and NSW.

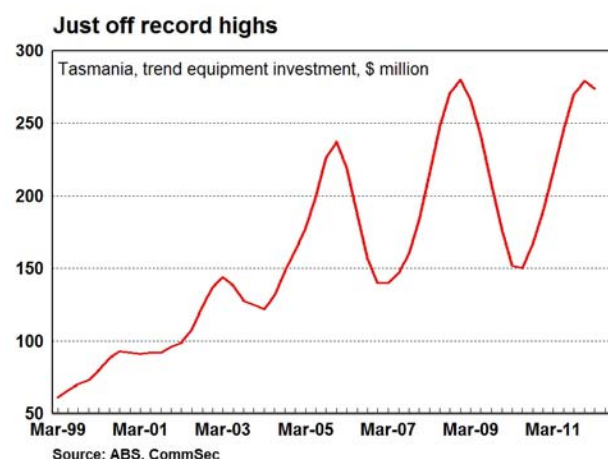
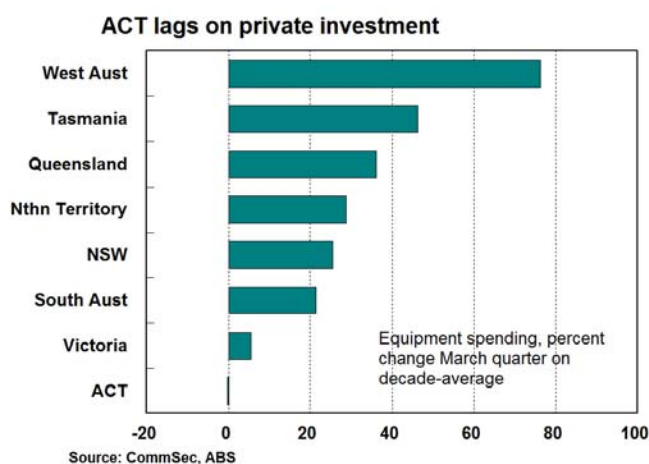
Retail trade

- The measure used was real (inflation-adjusted) retail trade in trend terms with March quarter data the latest available. Monthly retail trade was also assessed (May data available) to provide further information on trends. There were no real differences in the rankings, whether measured in trend or seasonally adjusted terms, providing confidence about the overall results on consumer spending.
- Western Australia retains top spot on the retail rankings from Northern Territory with spending in the March quarter just over 23 per cent above decade average levels. Low unemployment and firm wage growth are clearly underpinning spending.
- Northern Territory was next strongest, again courtesy of low unemployment, with spending 21.3 per cent above decade-average levels.
- Queensland was next strongest, with spending 13.9 per cent above decade averages, closely followed by Victoria (up 13.7 per cent).
- Tasmania has the weakest result on retail spending, up 7.7 per cent on the decade average, just above ACT with growth of 8.1 per cent).
- In terms of the monthly retail trade series, Western Australian spending is 9.8 per cent higher than a year ago, well in front of Queensland with 4.8 per cent growth. Tasmanian and Victorian spending are up by less than 1 per cent on a year ago.



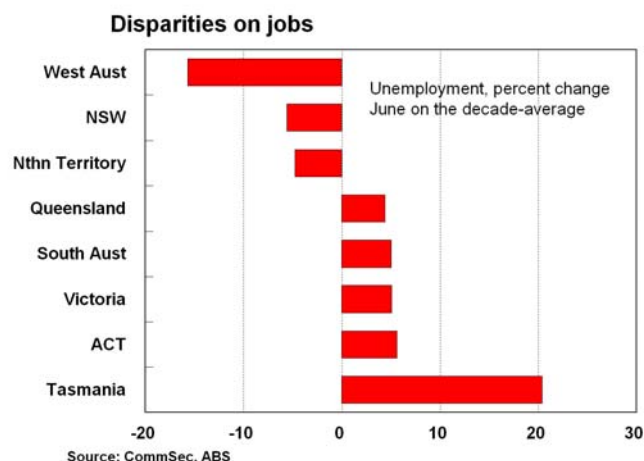
Equipment investment

- Compared with longer-term averages, Western Australia remains well above other states and territories on equipment investment with spending in the March quarter, just over 76 per cent above “normal” – or decade-average levels. Next placed is Tasmania (up 46.3 per cent), Queensland (up 36.2 per cent), Northern Territory (up 28.7 per cent), and NSW (up 25.5 per cent).
- By contrast, equipment spending in the ACT was 0.2 per cent below its decade-average while Victoria had business investment just 5.5 per cent above its longer-term average in the March quarter.
- On a shorter-run analysis, equipment investment was only lower than a year ago in just one of the state and territory economies – Victoria (down 8.4 per cent). Northern Territory is leading annual growth rates on equipment investment (up 39.9 per cent) from Tasmania (up 26.9 per cent) and Western Australia (up 26.1 per cent).



Unemployment

- Western Australia has the strongest job market in the nation but NSW is the big improver. In Western Australia the trend jobless rate of 3.7 per cent is the lowest in 3½ years as well as being 15.7 per cent below its decade average.
- In NSW the trend jobless rate has been 5.0 per cent for the past four months and stands 5.6 per cent below the decade average. The jobless rate in the Northern Territory is lower at 4.2 per cent and is 4.8 per cent below its long-term average. But the jobless rate has crept higher over the past three months from 4 per cent.
- The jobless rate stands at 3.6 per cent in the ACT – the lowest in the nation. But that jobless rate is actually 5.6 per cent higher than its “normal” level or decade-average.
- The trend jobless rate in Queensland is 5.4 per cent, up 4.4 per cent on the decade average. The jobless rate in South Australia is 5.0 cent above the “normal” or longer-term average while unemployment in Victoria is 5.1 per cent above average.
- The weakest job market is in Tasmania where the trend unemployment rate is the highest in the nation at 7.3 per cent and 20.4 per cent above the decade-average level of 6.1 per cent.

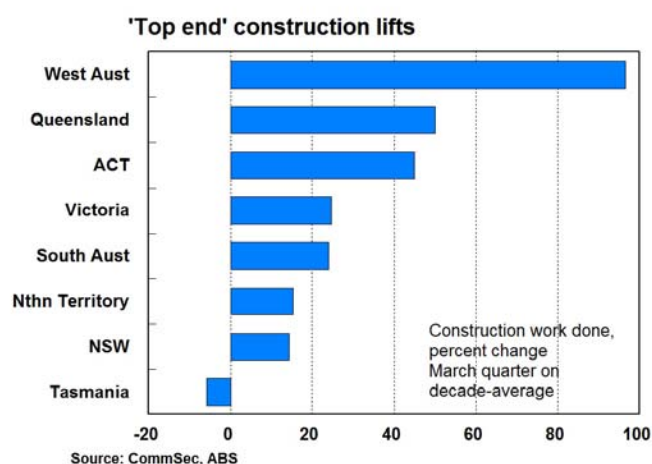
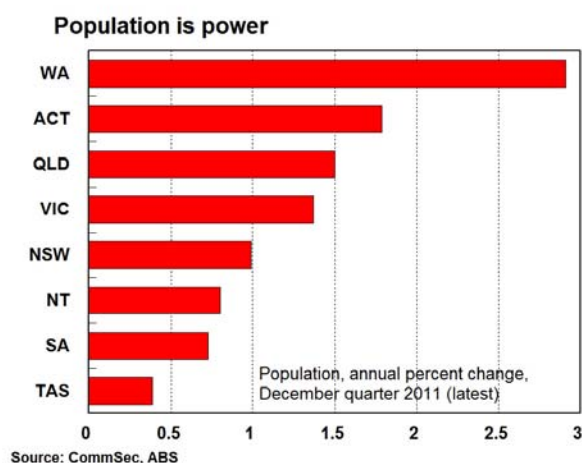


Construction work

- The measure used for analysis was the total amount of residential, commercial and engineering work actually completed in trend terms in the March quarter.
- In all states/territories except Tasmania, construction work is higher than decade averages. In Tasmania, overall construction activity is 5.8 per cent below its decade average while construction is also 17.7 per cent down on a year ago.
- Next weakest is NSW where construction work is 14.3 per cent above decade averages, followed by Northern Territory (up 15.4 per cent on the decade average). But Northern Territory is the big improver, courtesy of new resources projects. Currently construction work is up 80.9 per cent on a year ago.
- At the other end of the scale is Western Australia where construction work is a stunning 96.6 per cent above decade averages and up 37.1 per cent higher than a year ago. In Queensland, flood rebuilding work is well under way with construction work now 50 per cent above its decade average.

Population growth

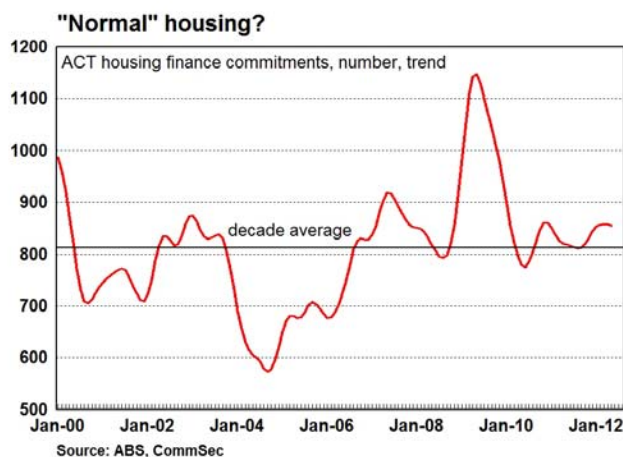
- To assess population performance we looked at the current annual growth rate and compared it with each economy's decade-average growth pace. And after outperforming from 2007-2010, currently population growth is above 'normal' in only three states or territories.
- Western Australia is the clear leader in population growth. Not only is the annual growth rate of 2.91 per cent the strongest in the nation, it is also 33.6 per cent above the decade average. Next strongest is the ACT. Annual population growth of 1.79 per cent is second strongest and this is 24.7 per cent above “normal”.



- In NSW the current annual population growth of 0.99 per cent is 6.1 per cent above the decade average.
- At the other end of the leader-board is Tasmania where the annual population growth of 0.39 per cent is the weakest in a decade and 51.9 per cent below the decade average rate of 0.81 per cent.

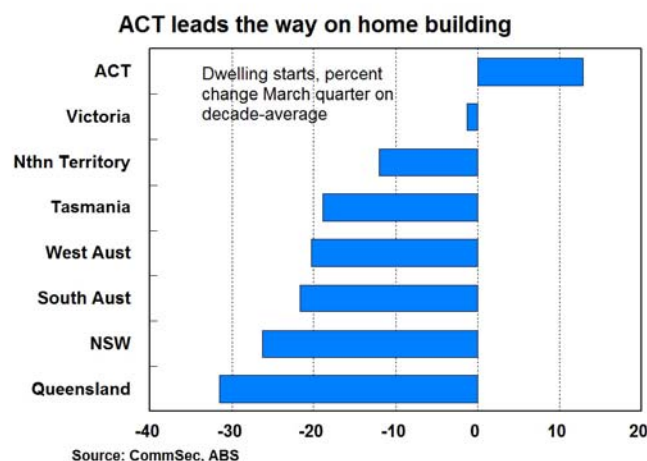
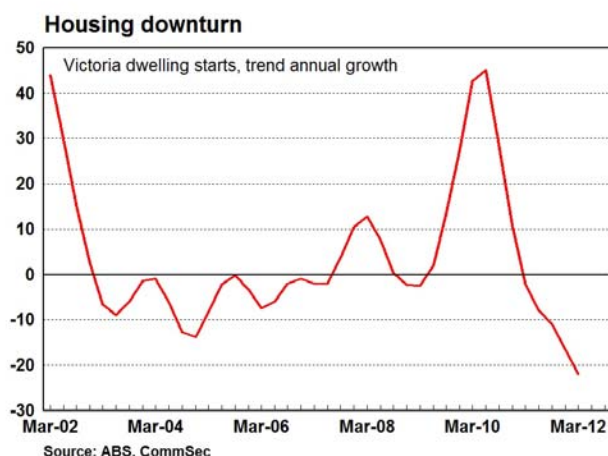
Housing finance

- 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 except the ACT, trend housing finance commitments are below decade averages. But encouragingly commitments in May were still above year-ago levels in all economies except Tasmania.
- In the ACT, the number of housing finance commitments is 5.0 per cent above the decade-average and commitments in May were also 4.4 per cent higher than a year ago.
- Victoria is in second spot for housing finance, with the number of commitments 0.4 per cent below the long-term average. And encouragingly home lending is 2.5 per cent higher than a year ago in trend terms – a ten month high.
- Western Australia was third on housing finance, down just 0.5 per cent on the decade average followed by NSW (down 15.5 per cent).
- Tasmania is the weakest economy for housing finance with trend commitments 26.7 per cent lower than its decade average, a consequence of weak population growth. And housing lending is 9.2 per cent lower than 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. Dwelling starts are only above decade averages in the ACT. And in all economies, starts in the March quarter were down on a year earlier.
- The ACT is in the strongest position for new housing construction, but even in this economy the position is deteriorating. In the March quarter the number of dwellings started was up 12.9 per cent on the decade average. But dwelling starts are now down 36 per cent on a year ago – the biggest slide in 11 years and the biggest decline of any of the state and territory economies.
- In second spot was Victoria with dwelling starts in the March quarter down 1.3 per cent on the 'normal' or "decade



average" level. And starts are 21.9 per cent lower than a year ago.

- At the other end of the scale, Queensland dwelling starts were 31.5 per cent below decade averages. And while starts in the March quarter were 7.2 per cent lower than a year ago, this was still the best result for the state and territory economies.

Other indicators

- Real wages were positive in all economies in the March quarter. Strongest growth occurred in the strongest economy – Western Australia (2.6 percentage points). And weakest growth was in the weakest state – Tasmania (1.1 percentage points).
- The annual rate of headline inflation is tipped to remain low around 2.0 per cent. In comparison, wages are likely to grow close to 3.5 per cent, pointing to higher real wages ahead.
- Home prices are lower than a year ago in all state capital cities. Strongest growth in home prices was in Canberra (up 1.3 per cent) followed by Darwin (up 0.2 per cent). Weakest annual growth in home prices was in Melbourne (down 6.6 per cent on a year ago).

WAGES & PRICES*

	Wages	Consumer Prices	Home Prices
NSW	3.5	1.6	-2.0
Victoria	3.4	1.4	-6.6
Queensland	3.7	1.3	-4.7
South Australia	3.4	1.8	-2.4
Western Australia	4.5	1.9	-1.4
Tasmania	3.2	2.1	-5.2
Northern Territory	3.4	1.7	0.2
ACT	3.3	1.6	1.3

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

Implications and outlook

- The Federal Treasurer calls it a "patchwork" economy. And it is hard to argue with the description. Western Australia is in strong shape, coming out on top in six of the eight indicators. At the other end of the scale is Tasmania, finishing at the bottom of five of the eight indicators.
- Within the extremes there has been some reshuffling. Northern Territory has lifted from seventh to third, underpinned by new resources projects. The significant scale of the huge \$34 billion Inpex liquefied natural gas project clearly has changed fortunes for this relatively small economy.
- South Australia has also lost ground, but largely because other economies are performing relatively better. South Australia didn't excel on any of the indicators, but it didn't fail either.
- The ACT remains the second strongest economy, benefiting from low unemployment and solid population growth. The housing market is losing momentum but the Territory government has trimmed taxes in an attempt to counteract weaker public service jobs.
- The Victorian economy has slipped from third to fourth and it will also have to weather a downturn in the housing market together with weakness in the manufacturing sector.
- The Queensland economy is now equal fourth, benefitting from rebuilding work after the floods as well as firm activity in resource regions of the state. But the housing market remains weak, restrained by below-average population growth.
- There has been no improvement in the performance of the NSW economy in relative terms compared with other state and territory economies. While unemployment is low and population growth is above long-term averages, this isn't translating into home construction with its very significant multiplier effects.
- Tasmania is under performing other state and territory economies and arguably is the number one candidate of any regional income redistribution as the Federal Government seeks to share the benefits of the mining boom across the broader Australian economy.

Volatile home prices



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