



Embargo: Available for Reporting and Publication on Monday April 23 2012

Economics | April 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 two quarterly reports, we judged that Australia's multi-speed economy could more accurately be described as a three-speed economy. But in the latest report the best way to describe the situation is Western Australia first and daylight second.
- Western Australia comes out top on five of the eight criteria. The worst results were being ranked fourth on two of the eight indicators. So when discussing the Australian economy it is best to focus on two concepts: total Australia, and Australia excluding Western Australia.
- ACT and Victoria are in the next grouping of economies, and then there is a break to Queensland, NSW and South Australia and then another gap to the Northern Territory and Tasmania.
- Looking ahead, CommSec expects further improvement in both Queensland and NSW with the latter potentially benefitting from a stronger job market and a pick-up in housing activity.

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 and equipment investment and second-ranked on population growth. Only in terms of dwelling starts and housing

STATE OF STATES - April 2012

	<i>Strength</i>	<i>Weakness</i>
NSW	Population	Economic growth
Victoria	Dwelling starts	Equipment investment
Queensland	Economic growth	Dwelling starts
South Australia	Unemployment	Housing finance
Western Australia	All criteria	No real weakness
Tasmania	Dwelling starts	Unemployment
Northern Territory	Unemployment	Population
ACT	Home building	Retail spending

Craig James – Chief Economist (Author)

(02) 9118 1806 (work); 0419 695 082 (mobile), (02) 9525 2739 (home) | craig.james@cba.com.au; Twitter: @craigjamesOZ

Produced by Commonwealth Research based on information available at the time of publishing. We believe that the information in this report is correct and any opinions, conclusions or recommendations are reasonably held or made as at the time of its compilation, but no warranty is made as to accuracy, reliability or completeness. To the extent permitted by law, neither Commonwealth Bank of Australia ABN 48 123 123 124 nor any of its subsidiaries accept liability to any person for loss or damage arising from the use of this report. The report has been prepared without taking account of the objectives, financial situation or needs of any particular individual. For this reason, any individual should, before acting on the information in this report, consider the appropriateness of the information, having regard to the individual's objectives, financial situation and needs and, if necessary, seek appropriate professional advice. In the case of certain securities Commonwealth Bank of Australia is or may be the only market maker. This report is approved and distributed in Australia by Commonwealth Securities Limited ABN 60 067 254 399 a wholly owned but not guaranteed subsidiary of Commonwealth Bank of Australia. This report is approved and distributed in the UK by Commonwealth Bank of Australia incorporated in Australia with limited liability. Registered in England No. BR250 and regulated in the UK by the Financial Services Authority (FSA). This report does not purport to be a complete statement or summary. For the purpose of the FSA rules, this report and related services are not intended for private customers and are not available to them. Commonwealth Bank of Australia and its subsidiaries have effected or may effect transactions for their own account in any investments or related investments referred to in this report.

finance is Western Australia middle-ranked across Australia's state and territory economies.

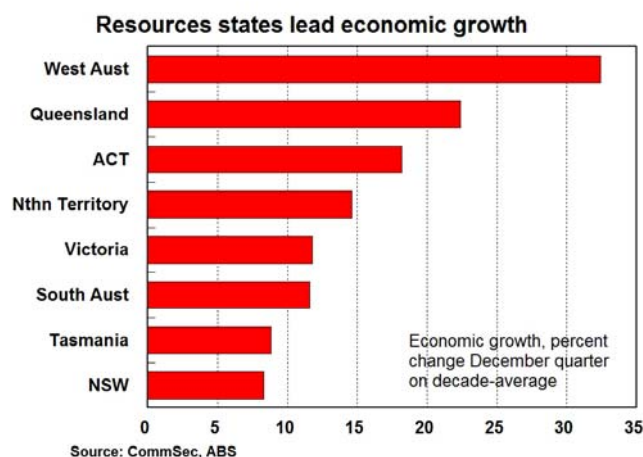
- Remaining in the second tier of economies are ACT and Victoria, with little separating them. Both economies outperform on housing indicators while Victoria is also solid on retail spending.
- Weakest areas for the ACT are equipment investment and retail trade while Victoria lags on equipment investment, unemployment and overall construction work (includes engineering and commercial work).
- Queensland continues to creep up the performance rankings, together with NSW, and they are now alongside South Australia. Queensland is benefitting from rebuilding work while it is also second ranked on economic growth. NSW is solid in a relative sense on population growth and housing finance. South Australia does best on unemployment while it remains middle ranked on other indicators.
- Tasmania has slipped down the economic performance rankings, lacking momentum in key areas of the economy. Tasmania is now alongside Northern Territory. Tasmania is best on dwelling starts and equipment investment – both leading indicators that point to better growth ahead.
- Northern Territory has very low unemployment and strong retail spending but it is lagging on housing indicators and population growth. However while population growth and construction work are below long-term averages, this is likely to change with the construction of 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 3.6 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 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

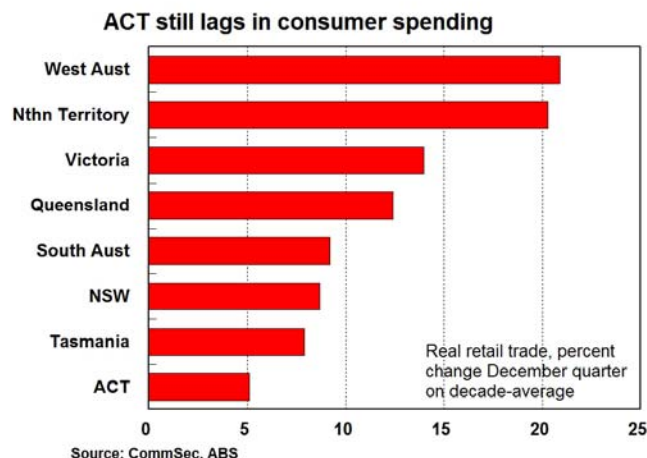
- Ideally gross state product (GSP) would be used to assess broad economic growth. But the data isn't available quarterly. Rather state final demand (household and business spending) is added to exports less imports to act as a proxy for GSP. Exclusion of the trade sector would provide an incorrect assessment of growth for economies such as Western Australia and Queensland.
- Western Australia continues to lead the rankings on economic activity from Queensland and the ACT in the December quarter. Western Australia's economic output was just over 32 per cent higher than the state's decade average level of output. Queensland's output was up 22 per cent on its long-term average, followed by ACT (up 18.2 per cent)
- At the other end of the scale, economic activity in NSW in the December quarter was just 8.3 per cent above its decade average while Tasmanian activity was up almost 8.8 per cent on its "normal" or average output over the past decade.
- Queensland has the fastest annual economic growth rate in the nation at a stunning 9.8 per cent, ahead of Western Australia with 9.1 per cent. Then there is a huge gap to Victoria with 1.4 per cent.



- The weakest trend economic growth rate was recorded in Tasmania (-1.6 per cent) followed by NSW and Northern Territory.

Retail trade

- The measure used was real (inflation-adjusted) retail trade in trend terms with December quarter data the latest available. Monthly retail trade was also assessed (February data available) to provide further information on trends. There were significant differences in the rankings despite the monthly data being two months advanced on the real, quarterly readings. Queensland and ACT would each be one notch higher on the monthly readings.
- Western Australia has taken top spot on the retail rankings from Northern Territory with spending in the December quarter almost 21 per cent above decade average levels. Relatively low unemployment and overall strength of the economy is underpinning spending. In February, monthly trend spending was almost 32 per cent above decade averages.
- Northern Territory was next strongest, courtesy of low unemployment, with spending 20 per cent above decade-average levels. Solid gains in home prices in recent years are still supporting spending.
- Victoria was next strongest, with spending 14 per cent above decade averages, followed by Queensland and South Australia. ACT is at the bottom of the leader-board, with spending up just 5.1 per cent on the decade average but it is vying with Tasmania which has weakest growth on monthly retail trade compared with decade averages. NSW and ACT have weakest annual trend growth rates on monthly retail trade.



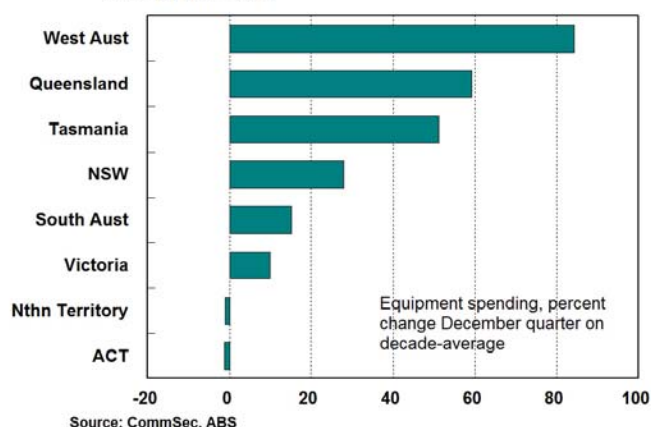
Equipment investment

- Compared with longer-term averages, Western Australia remains well above other states and territories on equipment investment with spending in the December quarter, over 84 per cent above "normal" – or decade-average levels. Next placed is Queensland (up 59 per cent), followed by Tasmania (up 51 per cent), and NSW (up 28 per cent).
- By contrast, equipment spending in the ACT was 1.1 per cent below its decade-average alongside the Northern Territory (down 1.0 per cent). Next weakest economy – Victoria – had business investment 9.9 per cent above its longer-term average in the December 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 3.2 per cent). Western Australia is leading annual growth rates on equipment investment (up 45.8 per cent) from Tasmania (up 45.3 per cent) and Queensland (up 40.7 per cent).

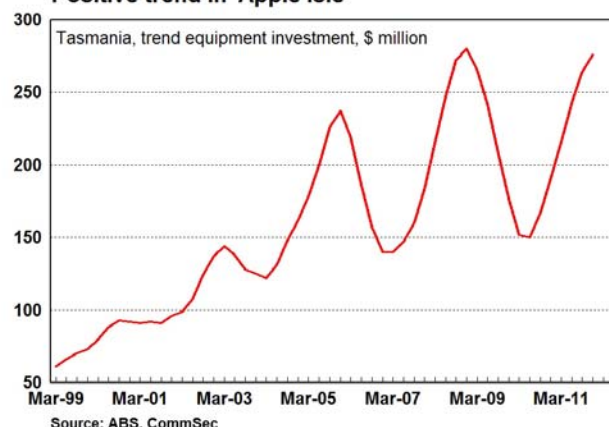
Unemployment

- Western Australia and the Northern Territory can lay claim to having the strongest job markets in the nation. In Western Australia the trend jobless rate of 4.0 per cent is 10.1 per cent below its decade average. In Northern Territory the 4.0 per cent trend jobless rate is 9.9 per cent below the long-term average.

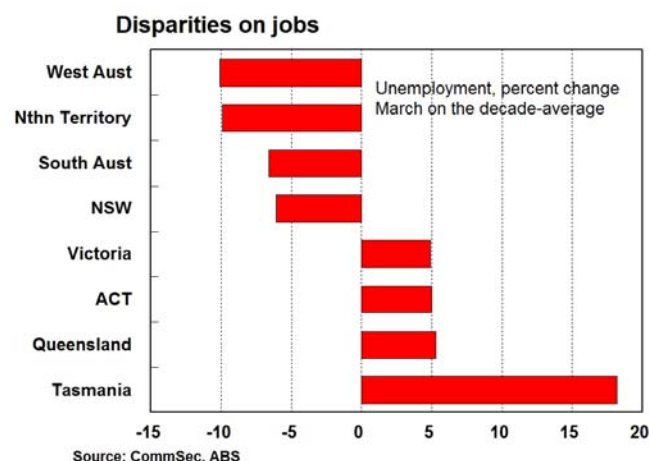
Best in the West



Positive trend in 'Apple Isle'



- The jobless rate stands at 3.6 per cent in the ACT but that is actually 5.0 per cent higher than its “normal” level or decade-average.
- Next best to Western Australia and the Northern Territory is South Australia. The trend jobless rate in South Australia is 5.1 per cent, a result that is actually 6.6 per cent below the “normal” or longer-term average of 5.45 per cent.
- The only other economy with unemployment below the decade-average is NSW. The jobless rate of 5.0 per cent is below the decade-average of 5.3 per cent.
- The biggest deterioration in jobs has occurred in Tasmania. In the space of seven months the trend jobless rate has lifted from 5.1 per cent to 7.2 per cent – now 18 per cent above the decade-average level of 6.1 per cent.

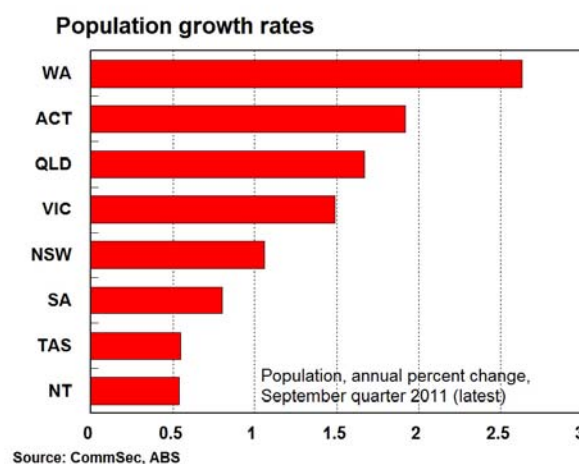
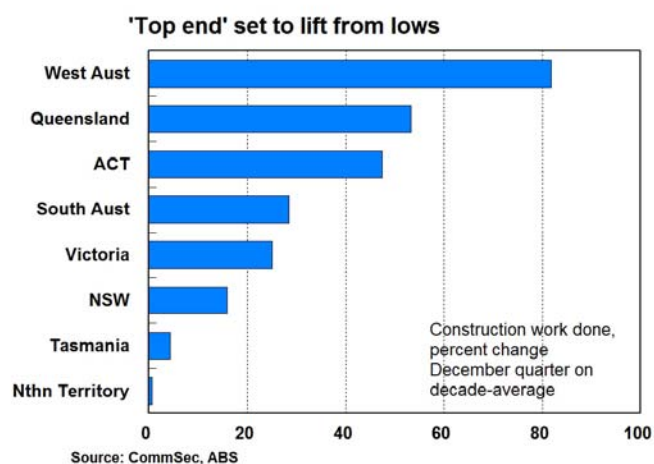


Construction work

- The measure used for analysis was the total amount of residential, commercial and engineering work actually completed in trend terms in the December quarter.
- In all states/territories, construction work is higher than decade averages with engineering the driving force. In Western Australia construction work is a stunning 82 per cent above decade averages, underpinned by a 116 per cent gain in engineering. Next best in Queensland with construction work 53 per cent above decade averages (engineering up 120 per cent) followed by ACT (up 47 per cent with engineering up 97 per cent).
- At the other end of the scale is Northern Territory. Construction work is just 0.6 per cent above decade averages while engineering work is down by 4.6 per cent. Still that performance is likely to improve. In the December quarter construction work hit a two-year high and is now up 43 per cent on a year ago – the fastest growth in the nation.
- In Tasmania, construction work is just 4.4 per cent above decade averages and ominously the amount of spending in the December quarter is down 12.2 per cent on a year ago.

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 two states or territories.
- Population growth is above average in the ACT (current annual rate of 1.92 per cent) followed by Western Australia (2.63 per cent – a two year high). In NSW the current annual population growth of 1.06 per cent is unchanged on its decade average. Western Australia and the ACT also have the fastest population growth rates in the land from Queensland (1.67 per cent). Encouragingly Queensland's population growth is now the highest recorded over the past year and has lifted for two straight quarters.
- At the other end of the leader-board is the Northern Territory with its 0.54 per cent annual population growth rate well below its 1.55 per cent decade-average growth pace. Population growth in Tasmania stands just higher at

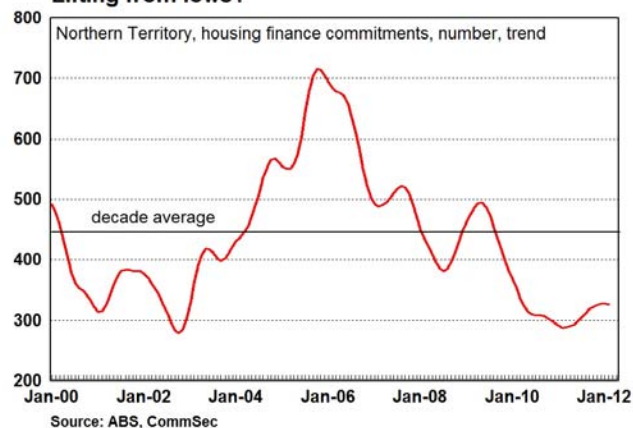


0.55 per cent and is below the decade average rate of 0.79 per cent.

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 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 except the ACT, trend housing finance commitments are below decade averages. But encouragingly commitments in February were above year-ago levels in all economies except Tasmania.
- In the ACT, the number of housing finance commitments is 6.2 per cent above the decade-average and commitments in February were also 3.3 per cent higher than a year ago.
- Victoria is in second spot for housing finance, with the number of commitments 2.3 per cent below the long-term average. But home lending is only 0.5 per cent higher in trend terms compared with a year ago.
- NSW was equal third on housing finance with Western Australia, down 5.5 per cent on the decade average followed by Queensland (down 22.1 per cent). In February Western Australian housing finance was up 19.8 per cent on a year ago with NSW finance up 16.4 per cent.
- Northern Territory is the weakest economy for housing finance with trend commitments 26.9 per cent lower than its decade average, a consequence of weak population growth. Still housing lending is up 13.6 per cent on a year ago – the fastest rate in 30 months, so recovery is clearly underway.

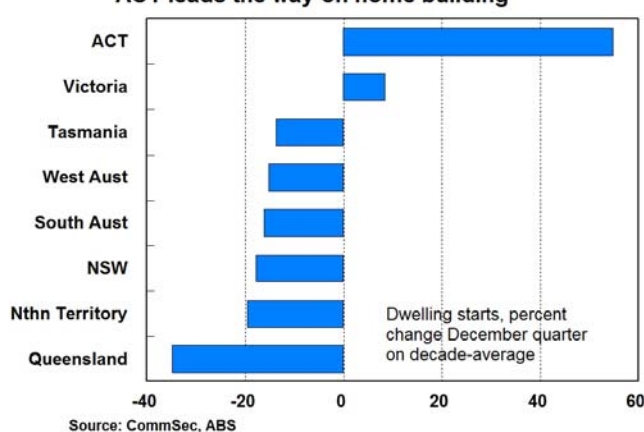
Lifting from lows?



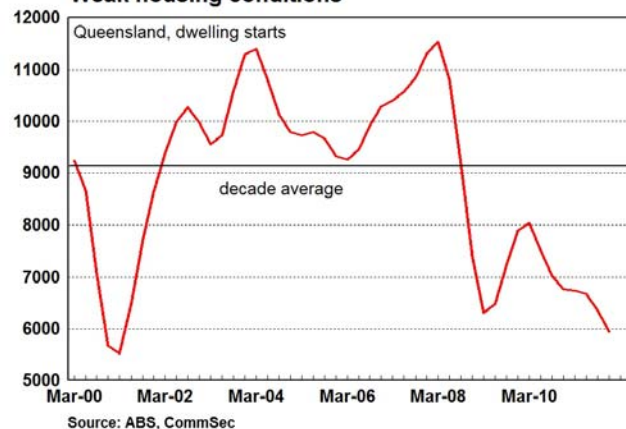
Dwelling starts

- 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 is weak. Dwelling starts are only above decade averages in the ACT and Victoria. And in all economies starts in the December quarter were down on a year earlier.
- The ACT remains head and shoulders above other economies on dwelling starts, supported by strong population growth. In the December quarter the number of dwellings started was up 55 per cent on the decade average. But dwelling starts peaked in December quarter 2010 and are now down 11.9 per cent on a year ago – the biggest rate of decline in 5½ years starts.
- In second spot was Victoria with dwelling starts in the December quarter up 8.4 per cent on the 'normal' or "decade average" level. But starts are 15.4 per cent lower than a year ago.
- At the other end of the scale, Queensland dwelling starts were 34.9 per cent below decade averages and starts in

ACT leads the way on home building



Weak housing conditions



the December quarter were also 12.1 per cent lower than a year ago.

- In Western Australia dwelling starts were 15.2 per cent below decade averages in the December quarter, but it was the only state or territory where the growth rate of starts was improving rather than deteriorating.

Other indicators

- Real wages were positive in all but two economies in the December quarter – South Australia and the ACT. Interestingly annual growth in retail spending is weakest in the ACT (flat) while in South Australia retail spending is up only 0.3 per cent, supported by below “normal” unemployment.
- The annual rate of headline inflation is tipped to ease in coming quarters to around 2.5 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 petrol prices and utility rates (electricity, gas and water rates) have served to restrain consumer confidence and retail spending over the past three months. And falling home prices has restrained wealth and the desire to spend.
- Home prices are lower than a year ago in all capital cities. However home prices have lifted in the past two months. A rate cut in May would further support a housing recovery in 2012.

WAGES & PRICES*

	Wages	Consumer Prices	Home Prices
NSW	3.8	3.2	-3.2
Victoria	3.6	3.1	-5.4
Queensland	3.6	2.4	-6.1
South Australia	3.3	3.6	-5.7
Western Australia	3.9	2.9	-3.5
Tasmania	3.6	3.2	-7.3
Northern Territory	4.2	2.4	-3.9
ACT	2.9	3.6	-0.3

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

Wage price index (DecQ); Consumer prices (DecQ)

Home prices (March 2012)

Implications and outlook

- Across Australia all state and territory economies except Western Australia are struggling for momentum. A common area of weakness is housing although engineering is serving to support the overall construction sector.
- Western Australia is expected to hold top spot in coming quarters, in fact the only areas of “weakness” – housing finance and dwelling starts – are showing encouraging signs, supported by population growth and low unemployment.
- The ACT continues to benefit from above-average population growth. So while the housing market is softening, it has fundamental supports in terms of population growth and relatively low unemployment. The ACT is most at risk from spending cuts in the Budget in May.
- The Victorian economy has maintained its top three spot despite a slowdown in the housing market. Greater public and private investment would be useful in sustaining momentum in the Victorian economy.
- The Queensland economy continues to improve but the ‘Achilles heel’ is housing with weak dwelling activity and below ‘normal’ level of unemployment and population growth.
- Both NSW and South Australia are likely to hold their middle rankings. Improvements in the job and housing markets will assist in maintaining momentum in the NSW economy. South Australia maintains relatively low unemployment but there are no other indicators that stand out – either positively or negatively.
- The Northern Territory has potential to claw its way higher in the economic rankings courtesy of resources projects, in particular the huge \$34 billion Inpex liquefied natural gas project that will have enormous multiplier effects on the economy.
- Tasmania has seen the greatest slippage in economic performance of any of the state and territory economies over the past three months. Business, government and community leaders need to focus on drivers of economic growth rather than being fixated on fiscal stringency.

Craig James, Chief Economist, CommSec
Work: (02) 9118 1806; Home: (02) 9525 2739;
Mobile: 0419 695 082; Twitter: @craigjamesOZ

