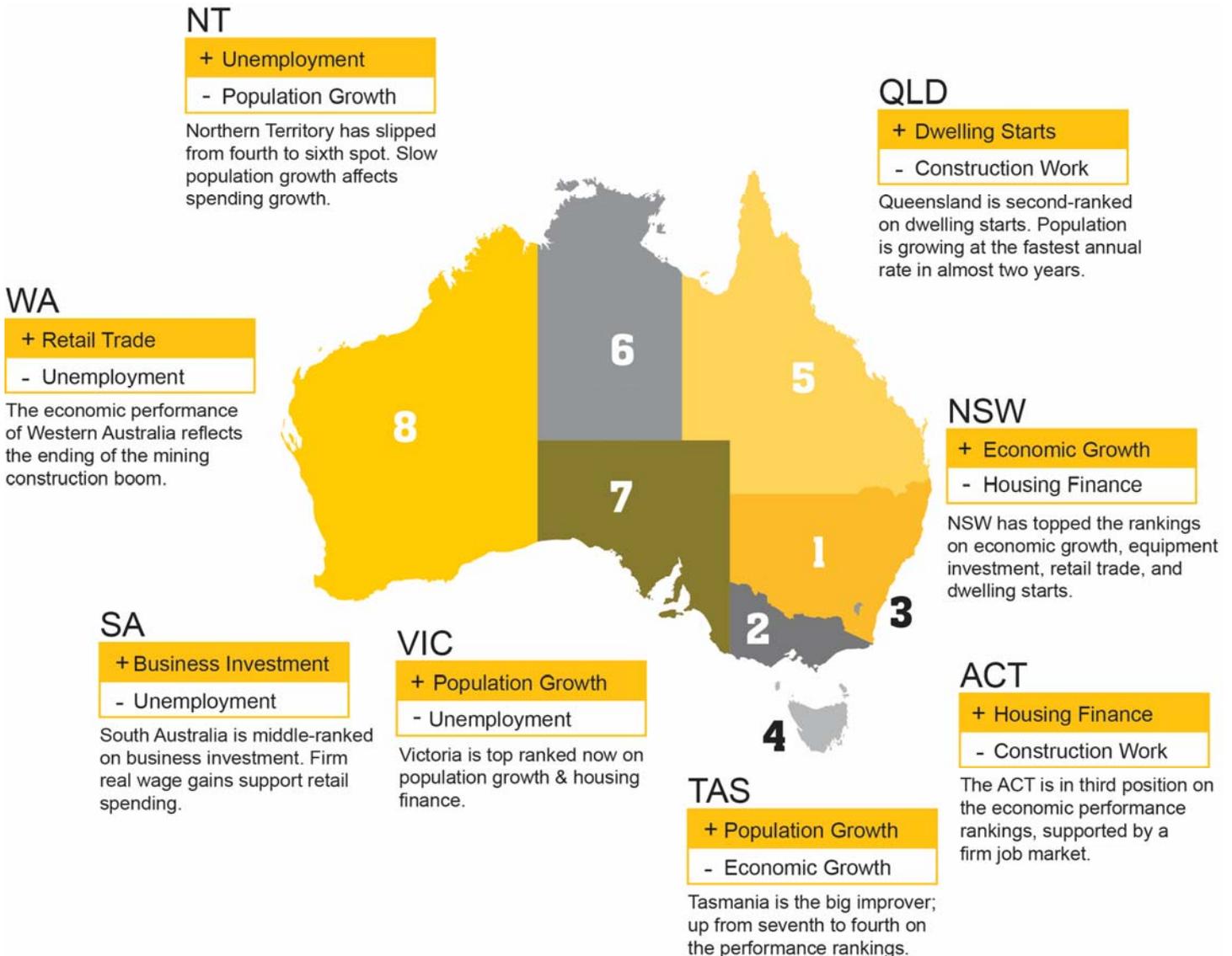


# State of the States

January 2017 State & territory economic performance report.  
Executive Summary



## NSW ON TOP; TASMANIA JUMPS TO 4TH

How are Australia's states and territories performing? Each quarter CommSec attempts to find out by analysing eight key indicators: economic growth; retail spending; business investment; unemployment; construction work done; population growth; housing finance and dwelling commences.

Just as the Reserve Bank uses long-term averages to determine the level of 'normal' interest rates; we have done the same with key economic indicators. For each state and territory, latest readings for the key indicators were compared with decade averages – that is, against the 'normal' performance.

The State of the States report also includes a section comparing annual growth rates for the eight key indicators across the states and territories as well as Australia as a whole. This enables another point of comparison – in terms of economic momentum.

The latest data indicates a two-tiered national economy with strength in the south-east states and territories, while there is little to separate the other state and territory economies.

**NSW** has solidly held the position as the best performing economy, with strength very much broad-based.

**Victoria** remains firmly in second spot, supported by strong population growth and housing activity.

The **ACT** economy remains in third spot on the economic performance rankings with spending underpinned by higher home prices and a firm job market.

**Tasmania** has been the big improver, moving from seventh to fourth with improving population growth providing momentum.

**Queensland** has moved from sixth to fifth, underpinned by robust home construction.

**Northern Territory** has eased from fourth to sixth spot but ahead of **South Australia** and **Western Australia**.

- NSW has retained its top rankings on business investment, retail trade, and dwelling starts and is now top-ranked on unemployment and economic growth. NSW is in second spot on construction work and population growth. NSW is in third spot on housing finance.
- Victoria remains solidly in second spot on the economic performance rankings. Victoria is top-ranked on population growth and housing finance and ranked second on retail trade and business investment. Victoria is third ranked on construction work and dwelling starts.
- The ACT also has held on to its position as the third ranked economy. The ACT is ranked second on housing finance, and ranked third on four other indicators.
- There is little to separate other economies, but there have been subtle changes in rankings.
- Tasmania is the big improver, up from seventh position to fourth on the rankings. Tasmania is fourth-ranked on three indicators and fifth-ranked on one indicator. Annual growth on home lending is strongest in the nation at 10.3 per cent.
- Queensland has lifted from sixth to fifth place on the economic performance rankings. The economy is second-ranked on dwelling starts and population growth is lifting. The strong level of home building will support the job market as well as consumer and business spending. Queensland should also benefit from higher revenues from tourism and rural exports.
- The Northern Territory has slipped from fourth to sixth position on the economic performance rankings. The Territory is still ranked first on construction work done and unemployment and second-ranked on economic growth. But on forward-looking indicators like population growth, housing finance and home starts the Territory lags other economies.
- The South Australian economy is in seventh position. South Australia is middle ranked on business investment and fifth ranked on three indicators.
- The economic performance of Western Australia continues to reflect the ending of the mining construction boom. But the recent strong recovery in metal and mining prices and record mining export volumes are encouraging developments. Housing affordability also continues to improve with the consolidation in home prices.

## Methodology

Each of the states and territory economies were assessed on eight key indicators: economic growth; retail spending; business investment; unemployment, construction work done; population growth; housing finance and dwelling commencements.

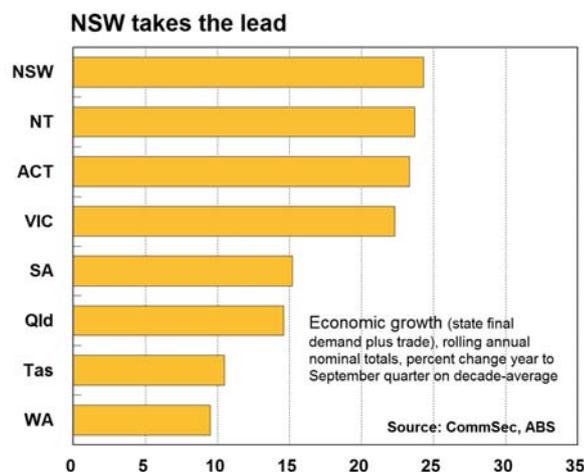
The aim is to find how each economy is performing compared with “normal”. And just like the Reserve Bank does with interest rates, we used decade-averages to judge the “normal” state of affairs. For each economy, the latest level of the indicator – such as retail spending or economic growth – was compared 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 traditionally have had 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 in the ACT of 3.7 per cent is the second lowest of all economies. But this jobless rate is 0.7 per cent lower than its ‘normal’ or decade-average rate, ranking it third on this indicator.

Trend measures of the economic indicators were used to assess performance rather than more volatile seasonally adjusted or original estimates.

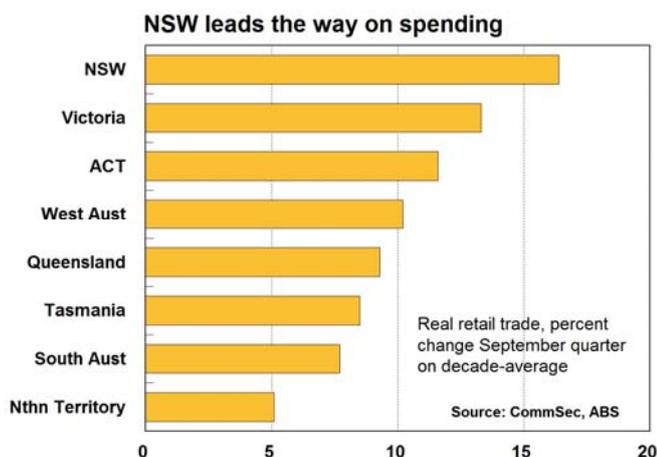
## ECONOMIC GROWTH



- Ideally Gross State Product (GSP) would be used to assess broad economic growth. But the data isn't available quarterly. And we have previously used state final demand (household and business spending) and exports less imports to act as a proxy for GSP. But the Bureau of Statistics has ceased calculation of state trade data in real terms. So we now use state final demand plus trade in nominal terms and rolling annual totals are used to remove seasonality.
- NSW has now taken top spot on economic growth. Economic activity in NSW is 24.3 per cent above its ‘normal’ or decade-average level of output.
- Next strongest is the Northern Territory, with output 23.7 per cent higher than the decade average level of output. Then follows the ACT (up 23.3 per cent) from Victoria (22.3 per cent).
- At the other end of the scale, economic activity in Western Australia in the September quarter was just 9.5 per cent above its decade average while Tasmanian activity was up 10.5 per cent, behind Queensland (up 14.6 per cent) and South Australia (up 15.2 per cent).
- NSW also has the fastest nominal annual economic growth rate in the nation, up by 6.4 per cent on a year ago, ahead of ACT (up 5.5 per cent), Victoria (up 4.7 per cent) and Tasmania (up 3.7 per cent).
- The weakest nominal annual growth rates are in the Northern Territory and Western Australia (both down 5.6 per cent on a year ago).
- In terms of economic growth, if trend State Final Demand in real terms is used, comparing the latest result with decade averages then the rankings don't change except NSW and Northern Territory change places. And clearly the two economies are close to each other on both measures.

*“NSW has now taken top spot on economic growth.”*

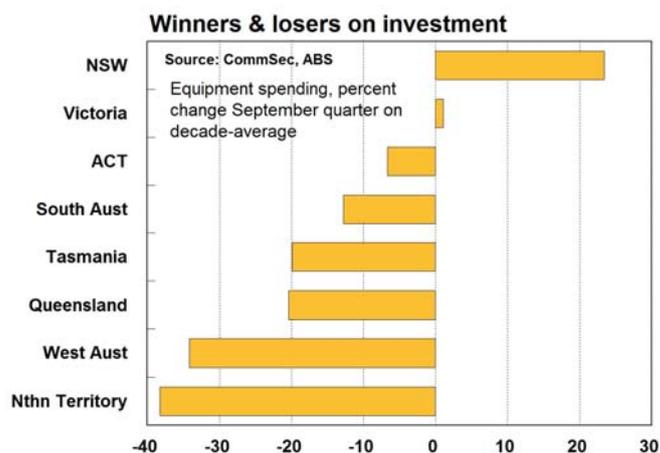
## RETAIL SPENDING



- The measure used was real (inflation-adjusted) retail trade in trend terms with September quarter data the latest available.
- NSW has maintained the top spot on the retail rankings, followed by Victoria. In fact there were no changes to the rankings overall for retail spending compared with the June quarter. Spending in NSW was 16.4 per cent above decade-average levels in the September quarter. Solid activity in the housing sector, lower unemployment and higher home prices continue to support spending.
- Spending in Victoria was 13.3 per cent above decade-average levels, once again supported by home building and the strength in employment.
- Spending in the ACT was up 11.6 per cent on the decade average, followed by Western Australia (up 10.2 per cent). In fifth spot was Queensland with spending 9.3 per cent above decade averages.
- Northern Territory recorded the weakest result on retail spending, up 5.1 per cent on the decade average, just below South Australia with 7.7 per cent growth and Tasmania with 8.5 per cent growth.
- If monthly retail trade was assessed instead to calculate the rankings (November data available), the rankings would be very similar with the only significant change being that Queensland and Western Australia would trade places.
- In terms of annual growth of real retail trade, the ACT is strongest (up 4.5 per cent), from Tasmania (up 3.0 per cent) and South Australia (up 2.7 per cent).
- And looking at monthly retail trade, the ACT is strongest (up 6.3 per cent), from Queensland (up 4.3 per cent) and NSW (up 4.0 per cent).

*“NSW has maintained the top spot on the retail rankings, followed by Victoria. In fact there were no changes to the rankings overall for retail spending compared with the June quarter.”*

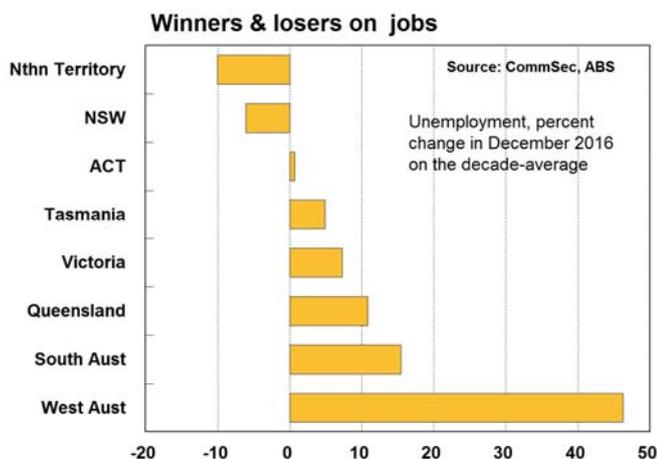
## BUSINESS INVESTMENT



- There has been no change in the rankings on business equipment spending.
- Only NSW and Victoria had business spending in the September quarter above decade-average levels: NSW (23.4 per cent) and Victoria (1.1 per cent).
- By contrast, other states and territories had business spending below decade averages in the September quarter. Weakest was the Northern Territory (down 38.3 per cent). Next weakest was Western Australia (down 34.2 per cent) followed by Queensland (down 20.4 per cent) and Tasmania (down 19.9 per cent).
- The ACT (down 6.7 per cent on decade-average levels) remained ahead of South Australia (down 12.8 per cent) in third spot.
- On a shorter-run analysis, equipment investment in the September quarter was higher than a year ago in only three of the state and territory economies (up from two economies in the previous two quarters).
- Business investment is up the most on a year ago in the NSW (up 19.4 per cent), followed by Victoria (up 1.5 per cent) and Tasmania (up 1.4 per cent).
- By contrast new business investment in the Northern Territory was down 26.2 per cent on a year ago while spending in South Australia was down 11.2 per cent.
- Business spending in Western Australia was down 8.4 per cent, followed by Queensland (down 7.3 per cent) and the ACT (down 6.5 per cent).

*“...equipment investment in the September quarter was higher than a year ago in only three of the state and territory economies...”*

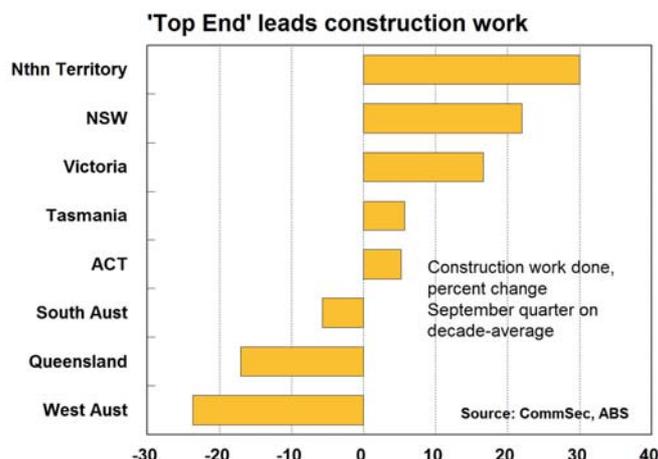
## UNEMPLOYMENT



- Which state or territory has the strongest job market in the nation? At present it does seem clear that it is the Northern Territory. The lowest trend unemployment rate in Australia can be found in the Northern Territory at 3.6 per cent ahead of the ACT (3.7 per cent) and NSW (5.0 per cent).
- Not only is the jobless rate in the Northern Territory the lowest in the nation but it is 10 per cent below its decade average. The ACT's jobless rate is actually 0.7 per cent above its decade average ('normal') jobless rate. In contrast the NSW jobless rate is actually 6.1 per cent lower than the decade average of 5.3 per cent.
- Interestingly, Tasmania follows the ACT; its 6.4 per cent jobless rate is only 4.9 per cent above the decade average of 6.1 per cent.
- In Victoria, unemployment stands at 5.9 per cent, up 7.3 per cent on its decade average of 5.5 per cent. But annual trend employment growth is second only to Northern Territory at 3.6 per cent.
- At the other end of the scale is Western Australia. Trend unemployment stands at 6.7 per cent – a 15-year high and over 46 per cent higher than the 4.6 per cent 'normal' or decade-average. Going further back, the 20-year average jobless rate in Western Australia is 5.2 per cent.
- Next weakest is South Australia with the trend unemployment rate 15.4 per cent above the decade average. Queensland's jobless rate is 10.8 per cent above the decade average.
- Unemployment rates in Queensland and Tasmania eased over the past three months. Unemployment rates held steady across NSW and the Northern Territory in the three months to December. But trend unemployment rates rose in Victoria, South Australia, Western Australia and the ACT.

*"...not only is the jobless rate in the Northern Territory the lowest in the nation but it is 10 per cent below its decade average"*

## CONSTRUCTION WORK



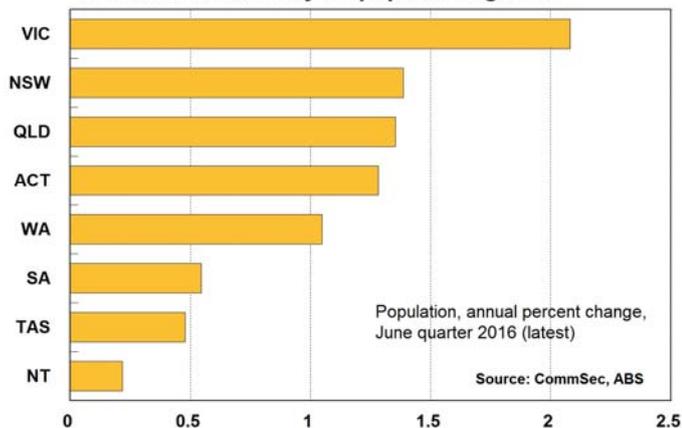
- The measure used for analysis was the total real value of residential, commercial and engineering work completed in trend terms in the September quarter.
- In five of the states and territories, construction work was higher than decade averages in the September quarter (previously four states).
- Leading the way was the Northern Territory with construction work done 30 per cent above its decade average with activity associated with the gas projects still providing solid support. However construction work in the Northern Territory was down 23.4 per cent in the September quarter compared with a year ago – highlighting the shift in momentum that is underway.
- Next strongest was NSW (up 22 per cent), while construction work done in Victoria was up by 16.6 per cent on 'normal' levels in trend terms. Construction work done in both state economies was higher than a year ago in the September quarter.
- Tasmania remains in fourth position with construction work 5.7 per cent above decade averages. And ACT construction work is 5.2 per cent up on 'normal'.
- In Western Australia, overall new construction work completed in the September quarter was almost 24 per cent below the decade average.
- Next weakest to Western Australia was Queensland where construction work was 17.1 per cent below decade averages. South Australia is sixth ranked with construction work 5.7 per cent below 'normal' levels.
- In terms of annual growth rates, ACT construction work done in the September quarter was up 20.8 per cent on a year ago, followed by NSW (up 13 per cent). Four economies had construction work lower than a year ago, led by Western Australia and the Northern Territory.

*"Leading the way was the Northern Territory with construction work done 30 per cent above its decade average."*

## POPULATION GROWTH

## HOUSING FINANCE

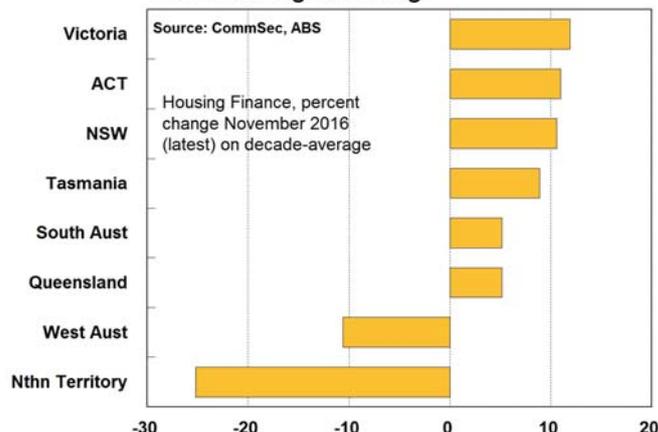
Victoria leads the way on population growth



- To assess population performance we looked at the current annual growth rate and compared it with each economy's decade-average ('normal') growth pace.
- Population growth is clearly an important driver of the broader economy, especially retail spending and housing demand. The key point being that only two states now have population growth above long-term averages.
- Victoria continues to record the strongest annual population growth as well as holding first place on the differential with the decade-average rate. Victoria's population is 2.07 per cent higher than a year ago and this growth rate is 15 per cent above the 'normal' or decade-average level.
- NSW has the second highest annual growth rate in Australia at 1.39 per cent, and this is 3 per cent above the decade average (last quarter, population growth was 2 per cent above 'normal').
- Queensland has held third place on population growth with an annual growth rate of 1.35 per cent – the strongest rate in almost two years. Still, this rate is over 30 per cent below the decade-average.
- The state or territory with the slowest annual population growth is the Northern Territory, up just 0.22 per cent on a year ago and down almost 87 per cent on the decade average – the weakest in the nation.
- Tasmania's annual population growth rose from 0.43 per cent to 0.48 per cent in the June quarter and was 19 per cent lower than its decade average – ranking third on this metric.

*“Victoria continues to record the strongest annual population growth as well as holding first place on the differential with the decade-average rate.”*

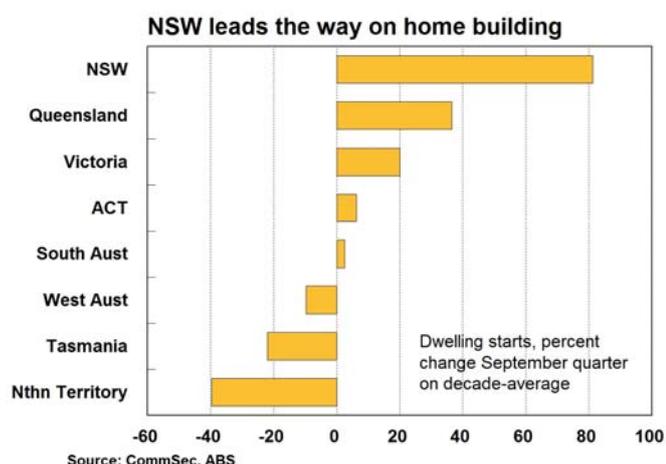
Home lending still lifting



- The measure used is the trend number of housing finance commitments and this is compared with the decade average for each respective state and territory.
- Housing finance is not just a leading indicator for real estate activity and housing construction but it is also 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.
- In six of the states and territories – the ACT, NSW, Victoria, South Australia, Tasmania and Queensland – trend housing finance commitments are above decade averages. But only in three of the eight economies were trend commitments above year-ago levels.
- Victoria is now in top spot with the number of commitments up by 11.9 per cent on the long-term average. Next strongest was ACT (up 11 per cent on decade averages) followed by NSW (up 10.6 per cent).
- Tasmania is now in fourth spot on housing finance, with commitments 8.9 per cent higher than the decade average. South Australia (up 5.2 per cent on decade averages) was the next strongest, just ahead of Queensland (when measured to second decimal place).
- Northern Territory remains the weakest for housing finance with trend commitments more than 25 per cent lower than its decade average. Even more concerning, commitments are now 17.6 per cent lower than a year ago.
- Commitments in Western Australia are down 10.6 per cent on the decade-average.
- Annual growth of home loans is strongest in Tasmania (up 12.7 per cent) from Queensland (up 3.5 per cent).

*“Victoria is now in top spot with the number of commitments up by 11.9 per cent on the long-term average.”*

## DWELLING STARTS



- The measure used was the trend number of dwelling commencements (starts) with the comparison made to 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 home building is mixed across the nation. The NSW market remains strong, responding to rising population. And home building is also strong in Queensland with similar optimism about South Australia. By contrast starts in Western Australia are a 4-year lows.
- NSW remains in top spot for dwelling starts with commencements over 81 per cent above decade averages. In addition, in the September quarter the number of dwellings started was 13.2 per cent higher than a year earlier.
- Queensland retains second spot behind NSW, with starts 36.5 per cent above decade averages. Victorian starts are 20.1 per cent above decade averages, followed by ACT (up 6.3 per cent) and South Australia (up 2.5 per cent).
- At the other end of the scale, dwelling starts in the Northern Territory were almost 40 per cent below decade averages. And in the September quarter, starts were down a similar percentage on a year earlier. Next weakest was Tasmania (down 22 per cent from decade averages) from Western Australia (down 9.8 per cent on the decade average).
- In terms of annual growth, only three states or territories had dwelling starts up on a year earlier: NSW (up 13.2 per cent), South Australia (up 10 per cent) and Queensland (up 6.5 per cent).

*“NSW remains in top spot for dwelling starts with commencements over 81 per cent above decade averages.”*

## OTHER INDICATORS

### WAGES & PRICES\*

	Wages Sept Qtr	CPI Sept Qtr	Home Prices Dec
NSW	2.1	1.7	15.5
Victoria	2.0	1.4	13.7
Queensland	1.9	1.5	3.6
South Australia	2.3	1.2	4.2
Western Australia	1.7	0.5	-4.3
Tasmania	2.2	1.3	11.2
Northern Territory	2.2	0.0	0.9
ACT	1.9	1.4	9.3

\* Annual % change. Source: ABS, CoreLogic-RP Data, CommSec  
CPI - Consumer Price Index  
Wages - Wage Price Index

- Annual inflation rates were steady or rose across all capital cities in the September quarter. The weakest result was in the Northern Territory with a flat annual result in prices, while in contrast NSW recorded a 1.7 per cent lift in prices.
- To compare real wage growth, the latest data is for the September quarter. And notably in that quarter, wage growth in all states and territories was above that of consumer prices.
- Strongest real wage growth was recorded in the Northern Territory with wages 2.2 percentage points (pp) higher than consumer prices. Wage growth was the equal second highest in the nation, however inflation was the lowest.
- Real wage growth was next highest in Western Australia, with wages 1.2pp above consumer prices (inflation).
- At the other end of the scale, Queensland’s wage growth of 1.9 per cent was mildly above the 1.5 per cent annual growth of prices. Similarly for NSW, wages were 0.4pp higher than consumer prices, while in Victoria wages exceeded prices by 0.6pp. Real wages remains near 1pp in most of the other states and territories.
- Turning to home prices, in December seven of the capital cities had positive annual growth of home prices, up from six in October. Price growth on the Eastern Seaboard seemingly lifted in the latter part of 2016.
- The strongest annual growth in home prices was in Sydney (up 15.5 per cent), followed by Melbourne (up 13.7 per cent), Hobart (up 11.2 per cent) and Canberra (up 9.3 per cent). Then there was a gap to the other capital cities.
- Next strongest was Adelaide (up 4.2 per cent), followed by Brisbane (up 3.6 per cent) and Darwin (up 0.9 per cent).
- Home prices were lower than a year ago in Perth (down 4.3 per cent).

*“In the September quarter, wage growth in all states and territories was above that of consumer prices.”*

## ANNUAL GROWTH RATES

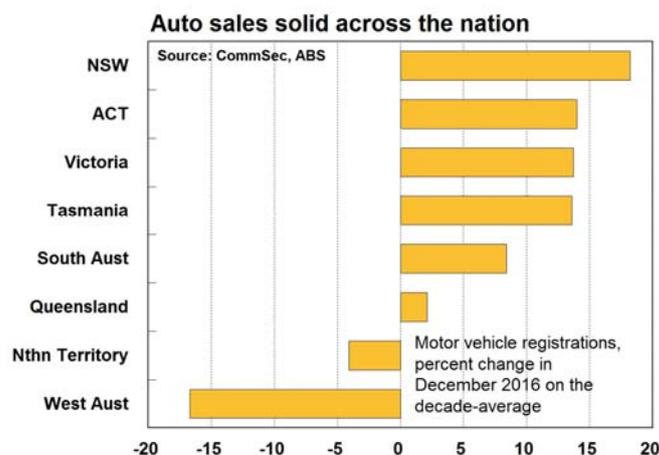
TREND ANNUAL GROWTH %				
	Economic Growth	Retail Trade	Equip. Invest	Employment
NSW	6.4	2.3	19.4	0.4
VIC	4.7	1.9	1.5	3.6
QLD	1.3	0.4	-7.3	-1.4
SA	1.0	2.7	-11.2	1.0
WA	-5.6	-0.5	-8.4	-1.2
TAS	3.7	3.0	1.4	-0.2
NT	-5.6	-2.2	-26.2	3.8
ACT	5.5	4.5	-6.5	2.0
<b>AUST</b>	<b>3.8</b>	<b>1.5</b>	<b>3.5</b>	<b>0.7</b>

	Construct Work	Pop-ulation	Housing Finance	Home Starts
NSW	13.0	1.39	-8.5	13.2
VIC	4.3	2.07	-1.8	-9.6
QLD	-2.4	1.35	3.5	6.5
SA	-7.1	0.55	2.6	10.0
WA	-41.7	1.05	-8.7	-22.0
TAS	1.7	0.48	12.7	-28.5
NT	-23.4	0.22	-17.6	-40.6
ACT	20.8	1.28	-7.4	-17.3
<b>AUST</b>	<b>-10</b>	<b>1.42</b>	<b>-3.3</b>	<b>-2.3</b>

- The **State of the States** assesses economic performance by looking at the most recent result – such as retail trade or construction – and compares that with recent experience. And by ‘recent experience’, we define this as the decade average.
- A resident of the state or territory can therefore assess whether they are experiencing relatively better economic times. By comparing states or territories on the same criteria determines which state or territory is performing the best on a certain indicator.
- But as well as relative economic performance, some are also interested in economic momentum. That is, annual economic growth. A state/territory may have been under-performing, but if annual growth is rising, then this suggests that performance has scope to improve.
- On the eight indicators assessed, NSW tops growth on three measures; ACT on two measures, and Victoria, Tasmania and the Northern Territory lead the way on the other three.
- When looking across growth rates for the states and territories, Victoria under-performs the national average on only two indicators while South Australia and NSW under-perform on three indicators.
- At the other end of the scale, Western Australia has annual growth rates below the national average on all eight indicators while Northern Territory underperforms on seven indicators.

## LOOKING AHEAD



- If new vehicle registrations is added to the list of indicators, the only change in the overall economic rankings would be South Australia moving to sixth spot with Northern Territory dropping from sixth to seventh.
- NSW remains solidly on top of the economic performance rankings but it may experience a challenge from either Victoria or the ACT over the coming year. Overall home building is providing solid momentum to the economy.
- Victoria remains in second spot on the performance rankings. And given solid growth in employment and population growth, the outlook for the economy remains encouraging.
- The ACT has comfortably held onto third spot in the performance rankings. The job market remains in good shape with consumer, business and housing spending providing solid support for the economy over the coming year.
- NSW, Victoria and ACT represent the top-tier of economies with little to separate the economies in the second tier.
- Tasmania has lifted from seventh to fourth spot with rising population growth boosting housing demand and supporting the job market.
- Similarly Queensland is also being underpinned by a modest recovery in population growth, driving home demand. In fact home starts are more than 36 per cent higher than the decade-average.
- As we warned last quarter, the Northern Territory is losing momentum and indeed the economy fell from fourth spot to sixth on the performance rankings. The job market is strong but population growth is weak, affecting consumer spending and housing demand.
- The South Australian economy has potential to lift over the coming year. Higher home prices and real wage gains should support consumer spending.
- Higher mining and metal prices and record export volumes serve to boost the outlook for the Western Australian economy. Rural incomes also have scope to rise.

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