



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.
- The stand-out result is that two economies are out-performing: Western Australia and the Northern Territory. And two economies are under-performing: Tasmania and South Australia. Arguably the size of the gap between Western Australia and Tasmania can't get any greater.
- Western Australia comes out top on three of the eight criteria – actually a slippage from last quarter when it came top on four of the eight indicators. Western Australia is still second on three of the eight indicators, third on another, and fifth on dwelling starts.
- The Northern Territory is next placed, ahead of the ACT which has largely re-joined the grouping of NSW, Victoria and Queensland. Then there is a widening gap to South Australia and then to Tasmania.
- Looking ahead, CommSec expects the three-speed nature of the economy to become even more apparent.

Western Australia remains the strongest economy ahead of the Northern Territory

- Western Australia remains Australia's best performing economy, ahead of the Northern Territory. And as noted last quarter, both economies are likely to hold their top positions over 2013.
- Western Australia leads the way on retail trade, population growth, and equipment investment. It is second strongest on economic growth, construction work done and housing finance; third on unemployment; and finished

STATE OF STATES - April 2013

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

Craig James – Chief Economist (Author)

fifth on dwelling starts.

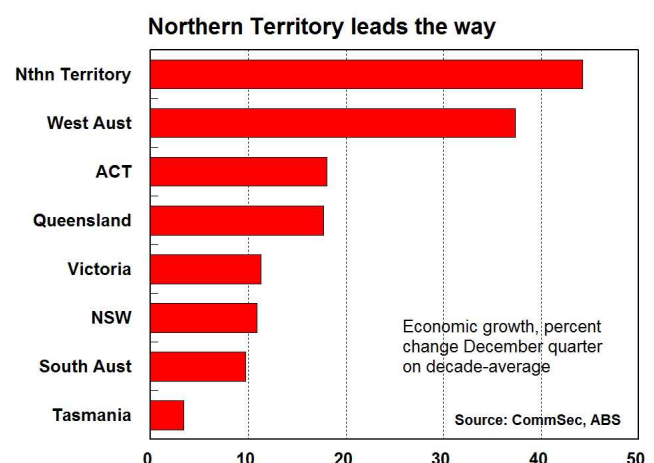
- The Northern Territory actually finished on top on four indicators: economic growth, unemployment; dwelling starts and construction work done and was second strongest on retail trade.
- The ACT economy remains third with the main strengths being dwelling starts and population growth. But the territory is weakest on unemployment with the current jobless rate furthest away from “normal” (decade average) than other economies.
- While the ACT is third strongest, it is only modestly ahead of the three largest states: NSW, Victoria and Queensland. NSW is second strongest on unemployment, and third strongest on population growth. Victoria is strongest on housing finance and dwelling starts. And Queensland has high rankings on equipment investment, construction work done and retail spending.
- There is then a widening gap in the rankings to South Australia. The hope is that ‘above-normal’ population growth could lift housing demand and retail spending and then, in turn, lift activity in other sectors.
- Tasmania remains locked at the bottom of the Australian economic performance table. Tasmania lags all other economies on seven of the eight indicators and is second weakest on the other indicator. A joint effort is required from the Federal and State governments to lift the performance of the economy.

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 in the ACT of 4.5 per cent is lower than all economies except the Northern Territory and Western Australia. 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 other economies, affecting activity in the retail sector. Trend measures of the economic indicators were used to assess performance rather than more volatile seasonally adjusted or original estimates.

Economic growth

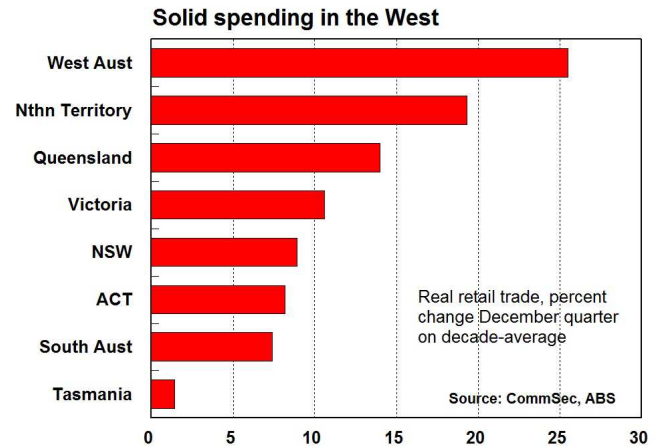
- Ideally gross state product (GSP) would be used to assess broad economic growth. But the data isn’t available quarterly. Rather state final demand (household and business spending) is added to exports less imports to act as a proxy for GSP. Exclusion of the trade sector would provide an incorrect assessment of growth for economies such as Western Australia and Queensland.
- The Northern Territory continues to lead the rankings on economic activity. Activity in the ‘top end’ is 44 per cent above its ‘normal’ or decade-average level of output.
- Next strongest is Western Australia, with output around 37 per cent higher than the decade average level of output. Then follows the ACT (up 18.1 per cent) and Queensland (up 17.7 per cent).
- At the other end of the scale, economic activity in Tasmania in the December quarter was just 3.4 per cent above its decade average while South Australian activity was up almost 10 per cent on its “normal” or average output over the past decade.
- There would be little change in the rankings if “final demand” was used instead. But NSW would move ahead of Victoria in fifth spot while Queensland would move ahead of the ACT in third spot.



- The Northern Territory also maintains the fastest annual economic growth rate in the nation, up by a stunning 27.5 per cent on a year ago, ahead of Western Australia with 12.8 per cent and NSW (4.1 per cent).
- The weakest trend economic growth rate was recorded in Tasmania (-3.3 per cent) followed by South Australia (-1.2 per cent) and Victoria (0.2 per cent).

Retail trade

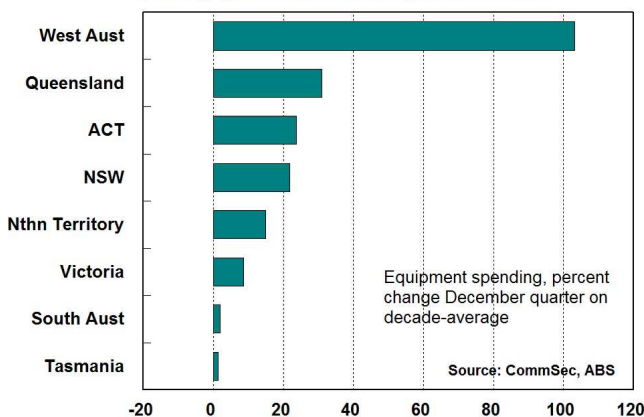
- The measure used was real (inflation-adjusted) retail trade in trend terms with December quarter data the latest available. If monthly retail trade was assessed instead (February data available), NSW and ACT would trade places in fifth and sixth spot. This provides added confidence about the overall results on consumer spending.
- Western Australia retains top spot on the retail rankings with spending in the December quarter 25.5 per cent above decade average levels. Low unemployment, solid population growth and firm wage growth underpins the relative strength in consumer spending.
- Northern Territory was next strongest, again courtesy of low unemployment, with spending just over 19 per cent above decade-average levels.
- Queensland was next strongest, with spending 14 per cent above decade averages, followed by Victoria (up 10.6 per cent).
- Tasmania has the weakest result on retail spending, up just 1.4 per cent on the decade average, below South Australia with growth of 7.4 per cent.
- In terms of the monthly retail trade series, Western Australian spending is 6.0 per cent higher than a year ago, just in front of Queensland with 5.5 per cent growth, the ACT with 3.6 per cent growth and Northern Territory and NSW, up 3.4 per cent. At the other end of the scale, Tasmanian spending is 1.4 per cent down on a year ago and South Australian spending is lower by 0.9 per cent.



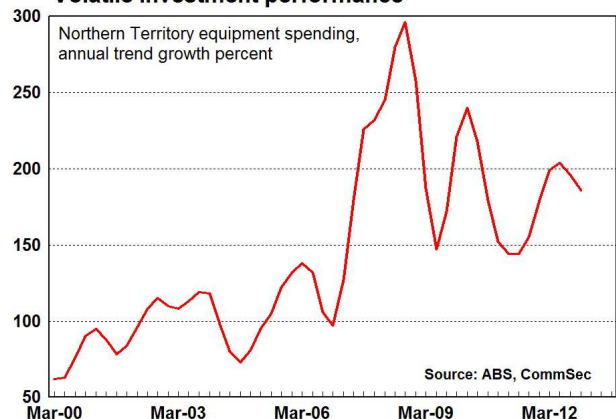
Equipment investment

- Western Australia remains well above other states and territories when it comes to equipment investment. Spending in the December quarter was more than double (103.2 per cent) the “normal” – or decade-average levels. Next placed were Queensland (up 31 per cent), ACT (up 23.7 per cent), NSW (up 21.8 per cent), Northern Territory (up 14.8 per cent), and Victoria (up 8.7 per cent).
- By contrast, equipment spending in South Australia was 2.0 per cent above its decade-average while Tasmania had business investment 1.3 per cent above its longer-term average in the December quarter.
- On a shorter-run analysis, equipment investment in the December quarter was lower than a year ago in four of the state and territory economies. Currently equipment investment is down on a year ago in Tasmania (down 28.0 per cent), South Australia (down 12.9 per cent), Queensland (down 1.0 per cent) and NSW (down 0.4 per cent). Western Australia leads growth in equipment investment (31.8 per cent) from the ACT (up 25.7 per cent) and the Northern Territory (up 3.9 per cent).

Wide gaps in investment performance

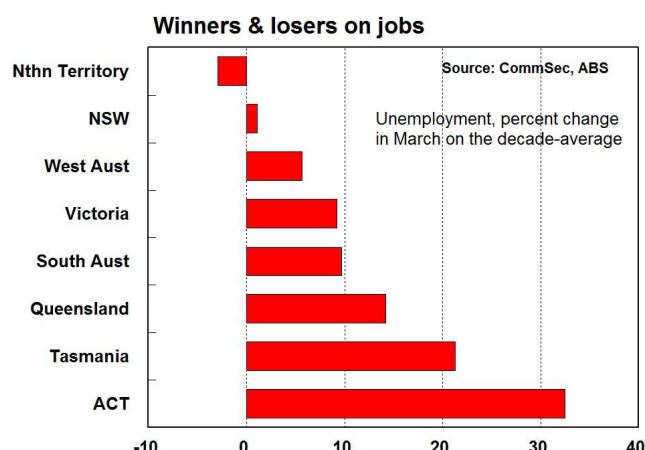


Volatile investment performance



Unemployment

- The Northern Territory and NSW have the strongest job markets in the nation followed by Western Australia. In the Northern Territory the trend jobless rate of 4.2 per cent is the lowest in the nation and 2.9 per cent below the territory's decade average. In NSW the 5.3 per cent trend unemployment rate is only 1.1 per cent above the long-term average.
- In Western Australia the trend jobless rate remains equal lowest in the nation at 4.5 per cent, but is 5.7 per cent above the decade average. Next best is Victoria (9.2 per cent above the decade average) followed by South Australia, the jobless rate almost 10 per cent above the decade-average.
- In the ACT the trend jobless rate is low at 4.5 per cent. But unemployment has lifted from 3.5 per cent over the past year and is now 32 per cent above the "normal" level or decade-average of 3.4 per cent.
- The next weakest job market to the ACT is in Tasmania where the trend jobless rate is the highest in the nation at 7.2 per cent and 21.3 per cent above its decade average. Next weakest is Queensland where the trend unemployment rate is 5.8 per cent and 14.2 per cent above the decade-average level of 5.1 per cent.

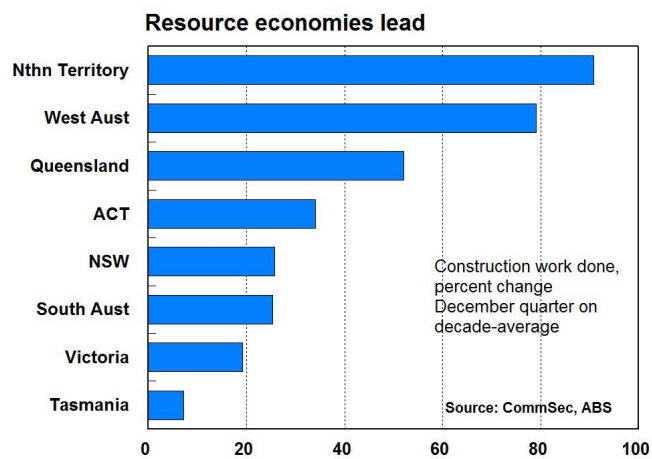
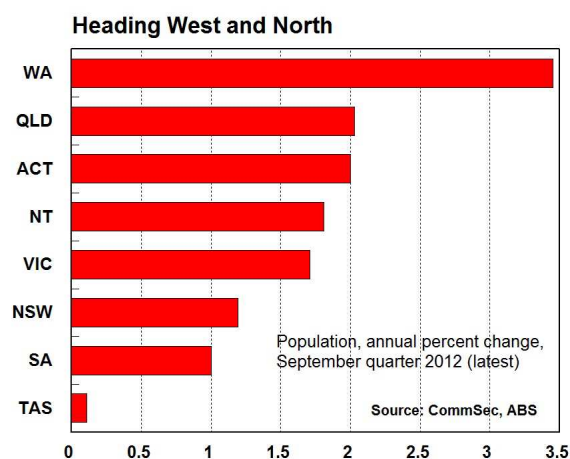


Construction work

- 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. But there remains a large gap between the strongest and weakest states or territories. The weakest state is Tasmania, where overall construction activity is 7.2 per cent above its decade average.
- Next weakest is Victoria where construction work is 19.2 per cent above decade averages, followed by South Australia (up 25.3 per cent on the decade average).
- At the other end of the scale is Northern Territory where construction work is almost double (up 90.9 per cent) on the decade average as well as being up 97.7 per cent on a year ago. Next strongest is Western Australia (up 79.2 per cent on the decade average), Queensland (up 52.1 per cent) and the ACT (up 52.1 per cent).
- In terms of annual growth rates, NSW is second to the Northern Territory, up 13.1 per cent on a year ago, followed by Tasmania (up 9.3 per cent), Queensland (up 8.7 per cent) and Western Australia (up 7.9 per cent over the year).

Population growth

- To assess population performance we looked at the current annual growth rate and compared it with each economy's decade-average growth pace. And the good news is that population growth is above 'normal' in six states or territories while growth has also picked up in six jurisdictions over the past quarter.
- Western Australia is the clear leader in population growth. Not only is the annual growth rate of 3.45 per cent the

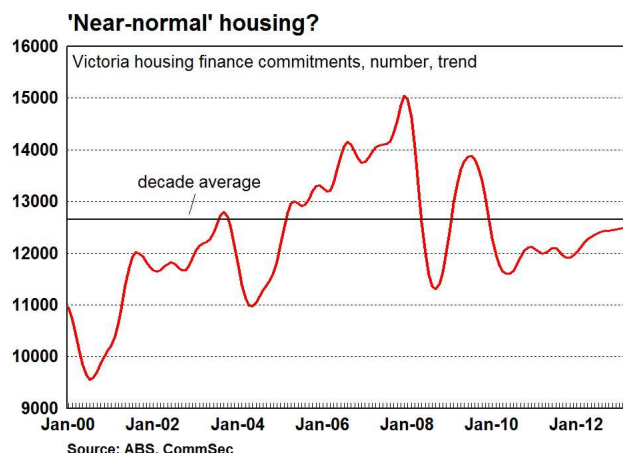


strongest in the nation, it is also more than 48 per cent above the decade average. Next strongest is the ACT. Annual population growth of 2.00 per cent is third strongest and this is 34 per cent above "normal".

- In NSW current annual population growth of 1.19 per cent is 25 per cent above the decade average.
- At the other end of the leader-board is Tasmania where the annual population growth of 0.11 per cent is the weakest in over 11 years and a massive 87 per cent below the decade average rate of 0.80 per cent.

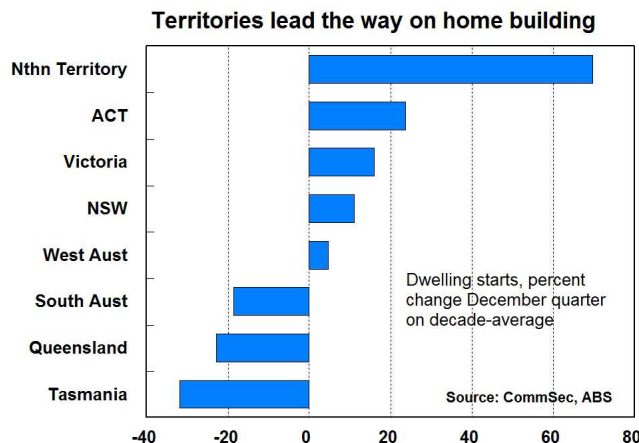
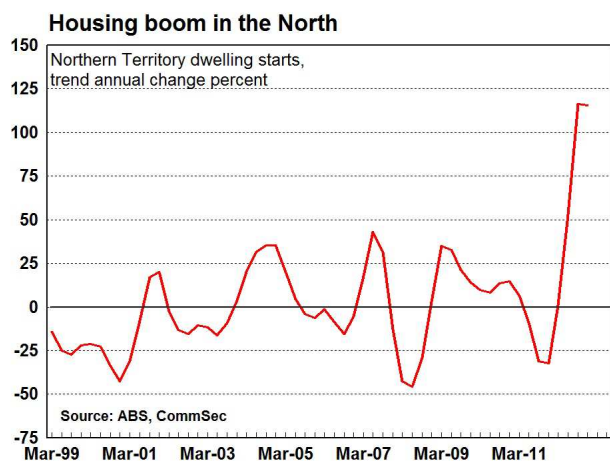
Housing finance

- The measure used was the trend number of housing finance commitments and this was compared with the decade-average for each respective state and territory.
- Housing finance is not just a lead indicator for real estate activity and housing construction but also is a useful indicator of activity in the financial sector. It would be useful to compare figures on commercial, personal and lease finance, but unfortunately trend data is not available for states and territories.
- Across all states and territories, trend housing finance commitments are below decade averages. But encouragingly commitments in February were above year-ago levels in three of the economies.
- In the strongest state of Victoria, the number of housing finance commitments was just 1.6 per cent below the decade-average level and commitments in February were 3.1 per cent higher than a year ago.
- Western Australia was in second spot for housing finance, with the number of commitments 2.1 per cent below the long-term average. And importantly the market has momentum with home lending 4.8 per cent higher than a year ago in trend terms to a 40-month high.
- The ACT remains in third spot on housing finance, down 8.1 per cent on the decade average followed by Northern Territory (down 15.9 per cent).
- Tasmania is the weakest economy for housing finance with trend commitments 32.0 per cent lower than its decade average, but encouragingly commitments were only 0.4 per cent lower than a year ago. Next weakest was South Australia with trend commitments down 25.7 per cent on the decade average.



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 has improved, underpinned by state government grants for new construction and low interest rates. Dwelling starts are above decade averages in five of the states and territories and again starts in five states and territories are above levels of a year ago.
- The Northern Territory is in the strongest position for new housing construction, with starts 69.8 per cent above decade averages. In addition in the December quarter the number of dwellings started was more than double the



level of a year earlier (up 115.7 per cent).

- In second spot was the ACT, with starts almost 24 per cent above decade averages. But new construction is clearly off the boil with starts in the quarter down 14.1 per cent on a year ago. In Victoria, dwelling starts in the December quarter were up 16 per cent on the ‘normal’ or “decade average” level with starts in NSW up 11 per cent.
- At the other end of the scale, Tasmanian dwelling starts were 31.8 per cent below decade averages, while starts in the December quarter were 20 per cent down on a year earlier. Next weakest was Queensland (down 22.8 per cent), closely followed by South Australia (down 18.5 per cent). In Western Australia starts were just 4.6 per cent above decade averages, and in the December quarter starts were 29.5 per cent higher than a year earlier.

Other indicators

- Real wages were positive in all economies in the December quarter. Strongest growth occurred in the ACT (2.6 percentage points). Next strongest real wage growth was in Tasmania at 2.3 percentage points, followed by Western Australia (2.2 percentage points).
- Even using “underlying” inflation than “headline” inflation, real wages are growing by around 1.0 percentage points.
- Home prices are now higher than a year ago in all but Hobart (down 1.2 per cent). Strongest growth in home prices was in Darwin (up 7.3 per cent) followed by Perth (up 5.8 per cent) and Sydney (up 3.8 per cent).

WAGES & PRICES*			
	<i>Wages</i>	<i>Consumer Prices</i>	<i>Home Prices</i>
NSW	3.2	2.5	3.8
Victoria	3.5	2.1	0.3
Queensland	3.1	2.2	1.4
South Australia	3.1	2.1	0.3
Western Australia	4.3	2.1	5.8
Tasmania	3.3	1.0	-1.2
Northern Territory	3.2	2.5	7.3
ACT	4.3	1.7	3.4

* Annual % change. Source: ABS, RP Data, CommSec
 Wage price index (December Q); Consumer prices (December Q)
 Home prices (March 2013)

Implications and outlook

- Increasingly Australia’s state and territories appear to be breaking into three distinct groups. The key mining economies of Western Australia and the Northern Territory are performing strongly and are firmly fixed at the top of the economic leader-board.
- While the ACT is in third spot, weaker job and housing markets are weighing on economic performance, bringing the territory in line with the three largest states: NSW, Victoria and Queensland.
- Each of these economies has particular strengths but also areas where it could be performing better. For instance NSW has a solid job market and rising population growth, but overall economic growth is near the bottom of the leader-board with retail spending and construction work.
- Victoria continues to perform well on housing indicators – new finance commitments and dwelling starts. But commercial construction and engineering work are under-performing.
- In Queensland, the resources sector is supporting investment and engineering work while retail spending is in the top half of the states and territories. But housing activity is weaker than other economies while the jobless rate remains historically high.
- For the bottom grouping of states – Tasmania and South Australia – joint action by the Federal Government and the individual state governments will probably be necessary to lift economic momentum and overall performance. Without concerted action to boost economic activity, the risk is that a widening gap emerges between the strongest and weakest regions, entrenching problems over the medium and longer term.
- Encouragingly Taswegians are benefitting from higher real wage growth and improving housing affordability. Further, home prices have lifted solidly in four of the past five months, boosting wealth levels and potentially retail spending in coming months.

Craig James, Chief Economist, CommSec

