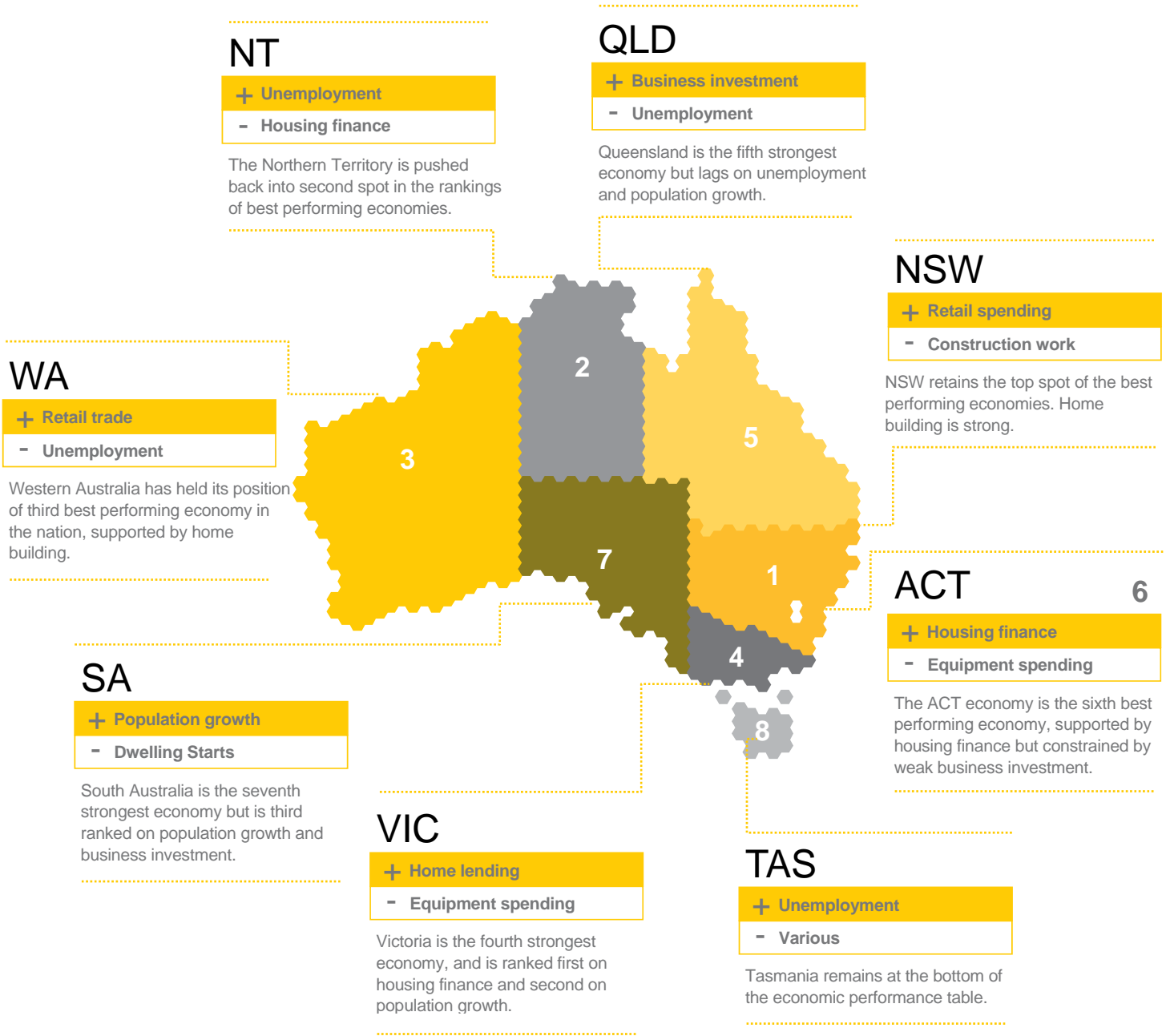


State of the States

April 2015 State & territory economic performance report.
Executive Summary



NSW TOPS THE RANKINGS

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 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.

Last quarter NSW shared the top spot of Australia's economic performance rankings alongside the Northern Territory. However this time around NSW has edged ahead to take sole ownership of the top ranking.

In second place is the Northern Territory. The next grouping is Western Australia and Victoria.

Queensland holds on to fifth spot. The ACT and South Australia are closely grouped in sixth and seventh respectively. Tasmania is ranked eighth.

Over the past quarter, NSW has improved its position on housing finance and dwelling starts to consolidate its position at the top of the economic performance rankings.

- NSW has retained its top ranking on population growth and retail trade and is also now number one on dwelling starts. It is second placed on business investment, and housing finance. NSW is fourth on overall construction work, unemployment and fifth on economic growth.
- The Northern Territory has drifted to second place, giving up the mantle of best-performing economy. The NT is top on four indicators including the job market, and third on retail trade. But NT is seventh on population growth and eighth on housing finance. Huge gas projects are driving the NT economy.
- Western Australia is second-strongest on four indicators – economic growth, retail trade, construction work and dwelling starts. The state has slipped to fourth on housing finance and is now fifth on equipment investment. Being ranked last on unemployment was the biggest drag.
- Victoria is still the fourth-ranked economy but is closing fast on Western Australia. Victoria is best on housing finance and second ranked on population growth. But Victoria is sixth ranked on both economic growth and equipment investment.
- Queensland retains fifth position. Queensland does best on overall construction work done. But Queensland is seventh ranked on unemployment and sixth ranked on population growth.
- The ACT economy is the sixth ranked on economic performance. The territory ranks third on housing finance and economic growth but seventh ranked on equipment investment, dwelling starts, and construction work.
- South Australia holds seventh spot on the economic performance rankings. South Australia has improved its position on retail trade, equipment investment, and construction work. But it is eighth ranked on dwelling starts.
- Tasmania remains at the bottom of the Australian economic performance table. But it is now ranked second on unemployment. The Tasmanian jobless rate is now holding at 39-month low of 6.5 per cent. In addition dwelling starts are up 50 per cent on a year ago – the fastest growth rate in 12 years.

Methodology

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.

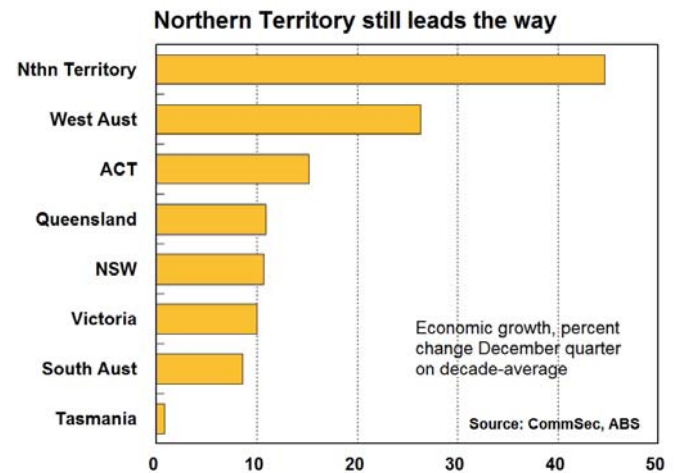
The aim was to find how each economy was performing compared with “normal”. And just like the Reserve Bank does with interest rates, we used decade-averages to judge the “normal” state of affairs. For each economy, the latest level of the indicator – such as retail spending or economic growth – was compared 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 4.4 per cent is second lowest of all economies. But this jobless rate is actually up 26.2 per cent on its ‘normal’ or decade-average rate of 3.5 per cent, ranking it sixth on this indicator – that is, it is doing relatively poorly compared with other states & territories.

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

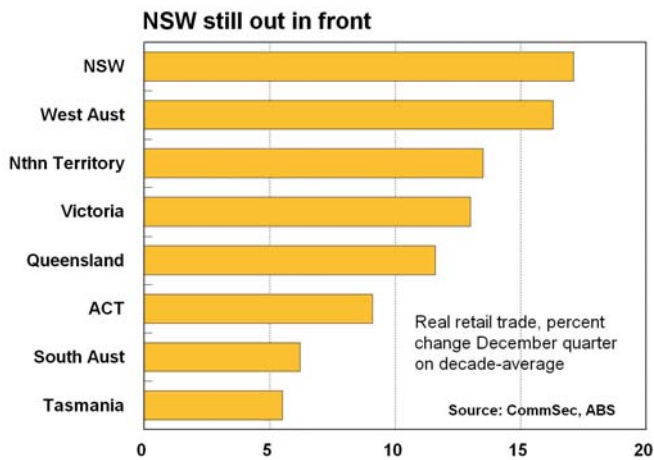
ECONOMIC GROWTH



- 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 just under 45 per cent above its ‘normal’ or decade-average level of output.
- Next strongest is Western Australia, with output around 26 per cent higher than the decade average level of output. Then follows ACT (up 15.2 per cent) from Queensland (up 10.9 per cent).
- At the other end of the scale, economic activity in Tasmania in the December quarter was just 0.8 per cent above its decade average, while South Australian activity was up just under 9 per cent on its ‘normal’ or average output over the past decade.
- Northern Territory also has the fastest annual economic growth rate in the nation, up by 3.2 per cent on a year ago, ahead of Western Australia with 3.1 per cent and NSW (2.7 per cent).
- By contrast, the Queensland economy is down 1.1 per cent on a year ago, while Tasmanian economic activity is up just 0.3 per cent on a year ago with the South Australian economy up 1.2 per cent on a year ago.

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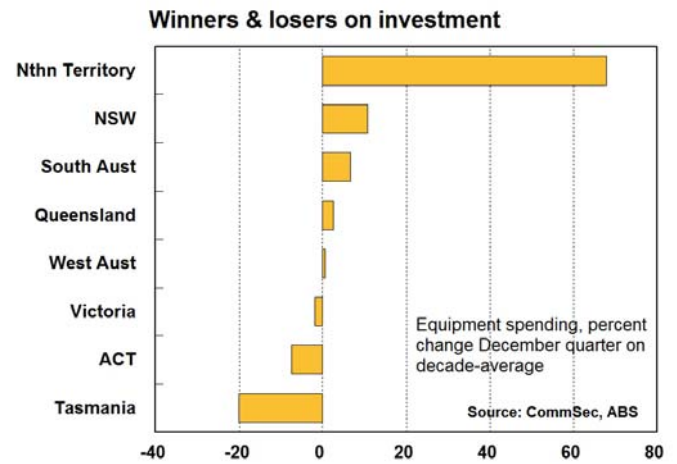
RETAIL SPENDING



- The measure used was real (inflation-adjusted) retail trade in trend terms with December quarter data the latest available.
- NSW has held onto the top spot on the retail rankings from Western Australia and Northern Territory with spending in the December quarter 17.1 per cent above decade average levels. Solid activity in the housing sector and higher home prices are supporting spending.
- Western Australia was next strongest, up 16.3 per cent above decade-average levels. Unemployment remains below that of other states, while home building is solidly up on decade averages.
- Northern Territory was next strongest, with spending 13.5 per cent above decade averages, followed by Victoria (up 13.0 per cent).
- Tasmania now has the weakest result on retail spending, up just 5.5 per cent on the decade average and below South Australia with 6.2 per cent growth and the ACT with 9.1 per cent growth.
- If monthly retail trade was assessed instead to calculate the rankings (February data available), the rankings would be exactly the same, except Queensland would be ahead of joint 4th, Northern Territory and Victoria
- In terms of annual growth of real retail trade, NSW is strongest, up 6.3 per cent, from Victoria, up 4.1 per cent, and Tasmania, up 2.4 per cent. NSW has also the fastest annual growth in monthly retail trade, up 5.5 per cent over the year.

“In terms of annual growth of real retail trade, NSW is strongest, up 6.3 per cent, from Victoria, up 4.1 per cent, and Tasmania, up 2.4 per cent.”

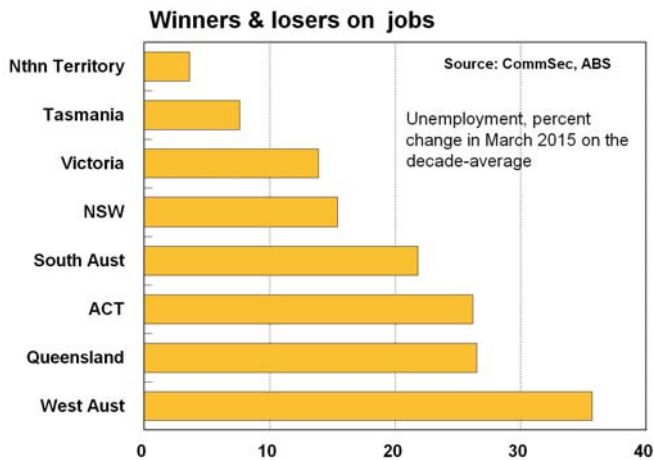
EQUIPMENT INVESTMENT



- Northern Territory remains well out in front of the other states and territories when it comes to equipment investment. Spending in the December quarter was a massive 67.9 per cent above ‘normal’ – or decade-average levels.
- Up until the September quarter, resource-driven economies led the way on investment. However NSW remained in second spot for a second quarter with equipment spending 10.7 per cent above decade-averages.
- Equipment investment in South Australia was up 6.6 per cent above decade-average levels, followed by Queensland (up 2.6 per cent).
- By contrast, new equipment spending in Tasmania was 20.1 per cent below its longer-term average in the December quarter after being down 20.8 per cent on the ‘normal’ level in the September quarter.
- Equipment spending is also below decade-average levels in ACT (-7.4 per cent) and Victoria (-1.9 per cent).
- On a shorter-run analysis, equipment investment in the December quarter was higher than a year ago in six of the state and territory economies (last quarter, four states and territories had equipment spending up on a year ago).
- Equipment investment is up the most on a year ago in Northern Territory (up 51.5 per cent), followed by ACT (up 16.7 per cent) and South Australia (up 12.3 per cent).
- By contrast new equipment investment in both Western Australia and Queensland were down 4.9 per cent on a year ago.

“On a shorter-run analysis, equipment investment in the December quarter was higher than a year ago in six of the state and territory economies.”

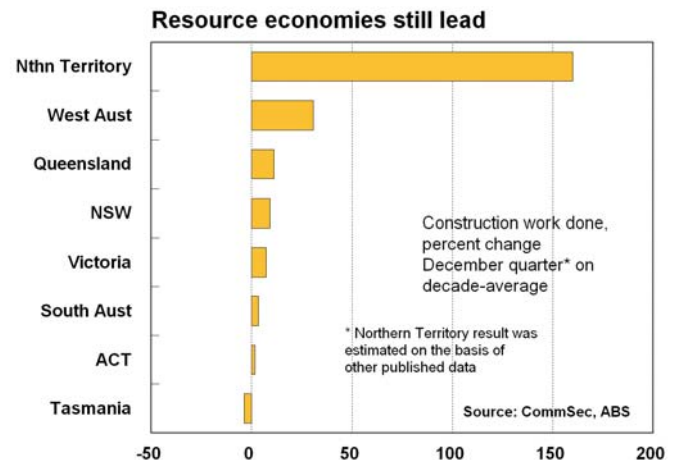
UNEMPLOYMENT



- The Northern Territory has retained the position of strongest job market in the nation. Not only is unemployment in the Northern Territory the lowest in the nation in trend terms (4.3 per cent), but its jobless rate is only 3.6 per cent below its 'normal' or decade average level of 4.2 per cent.
- At the other end of the scale is the Western Australia. While trend unemployment is the third lowest in the nation at 5.7 per cent, this is over 35 per cent higher than the 4.2 per cent 'normal' or decade-average rate level – the worst performance in the nation.
- The Tasmanian jobless rate has fallen from 8.1 per cent in August 2013 to a 39-month low of 6.5 per cent in March. As a result, Tasmania is ranked second on unemployment with the current jobless rate up almost 7.6 per cent on its "normal" or decade average level of 6.0 per cent.
- Across all the states and territories, the latest unemployment rates are above their decade-average levels. In Victoria, unemployment stands at 6.1 per cent, up 13.9 per cent on its decade average of 5.4 per cent.
- Similarly in NSW the jobless rate is holding at 6.1 per cent, but it is 15.4 per cent above its decade average level of 5.3 per cent.
- Next best is South Australia where its 6.7 per cent jobless rate is almost 22 per cent above the decade-average.
- The ACT has the second lowest unemployment rate across the nation at 4.4 per cent but it 26.2 per cent above its decade average of 3.5 per cent.
- Queensland's 6.5 per cent jobless rate is up 26.5 per cent on the 'normal' level.

"The Tasmanian jobless rate has fallen from 8.1 per cent in August 2013 to a 39-month low of 6.5 per cent in March."

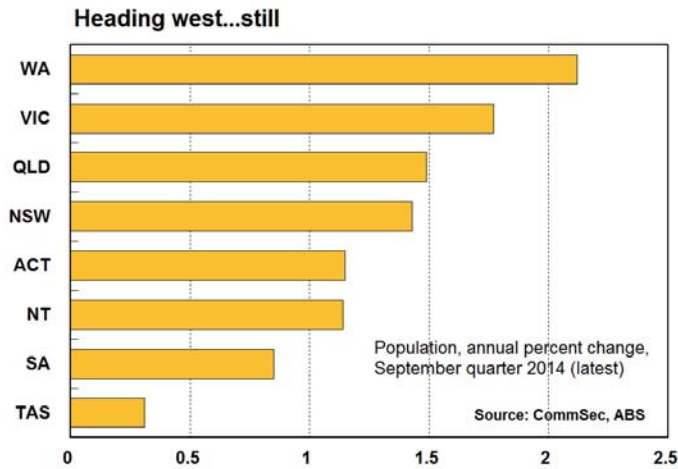
CONSTRUCTION WORK



- The measure used for analysis was the total amount of residential, commercial and engineering work actually completed in seasonally adjusted terms in the December quarter.
- The Bureau of Statistics couldn't provide a trend estimate for the Northern Territory. But we assessed both the seasonally adjusted and other trend results and it is clear that the rankings are the same while growth rates were very close between both estimates.
- In six states and territories, construction work is higher than decade averages. And there still remains a large gap between the strongest states (the resource states) and weakest state (Tasmania).
- Construction work done in the Northern Territory was almost 171 per cent above its decade average, ahead of Western Australia (up 33.4 per cent) while Queensland construction was up 10.7 per cent on 'normal' levels.
- In Tasmania, overall new construction work completed is now 4.7 per cent below the decade average after being up 0.3 per cent on its decade average in the September quarter.
- Next weakest to Tasmania is ACT where construction work is just 0.2 per cent below decade averages, followed by South Australia (up 3.3 per cent).
- NSW is fourth ranked with construction work 10 per cent above decade averages. Victoria is fifth ranked with construction work almost 8 per cent above 'normal' levels.
- In terms of annual growth rates, Northern Territory construction work done in the December quarter was up 113 per cent on a year ago, followed by Tasmania, up 7 per cent, and Victoria, up 4 per cent.

"In terms of annual growth rates, Northern Territory construction work done in the December quarter was up 113 per cent on a year ago, followed by Tasmania, up 7 per cent, and Victoria, up 4 per cent."

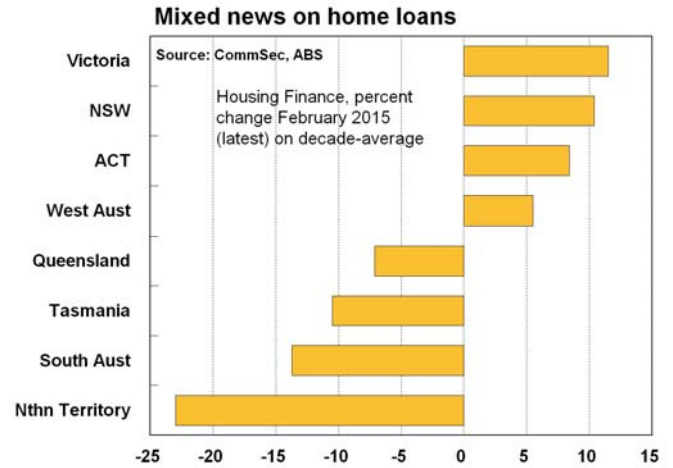
POPULATION GROWTH



- To assess population performance we looked at the current annual growth rate and compared it with each economy's decade-average ('normal') growth pace.
- It is clear that population growth is not providing the same boost to economic activity that it provided in recent years. In fact population growth is only above 'normal' or the decade-average in two states and annual growth has eased in all except Northern Territory in the past quarter.
- While NSW has only the fourth fastest annual growth rate at 1.43 per cent, this is 17 per cent above the decade average (last quarter was 22.8 per cent above 'normal'.)
- Victoria is second strongest in annual population growth as well as the differential with the decade-average rate. Victoria's population is 1.77 per cent higher than a year ago and this growth rate is 3.8 per cent higher than the 'normal' or decade-average level.
- Western Australia is the clear leader in population growth with an annual growth rate of 2.12 per cent – but the slowest in more than eight years. And population growth is 20.3 per cent below decade-average levels.
- At the other end of the leader-board is Tasmania where the annual population growth of 0.31 per cent was 51.2 per cent below the decade average rate of 0.64 per cent but annual growth was just below the strongest rate in 2½ years. Next lowest was Northern Territory with population growth of 1.14 per cent, down 40.9 per cent on the decade average.

“Western Australia is the clear leader in population growth with an annual growth rate of 2.12 per cent – but the slowest in more than eight years. And population growth is 20.3 per cent below decade-average levels.”

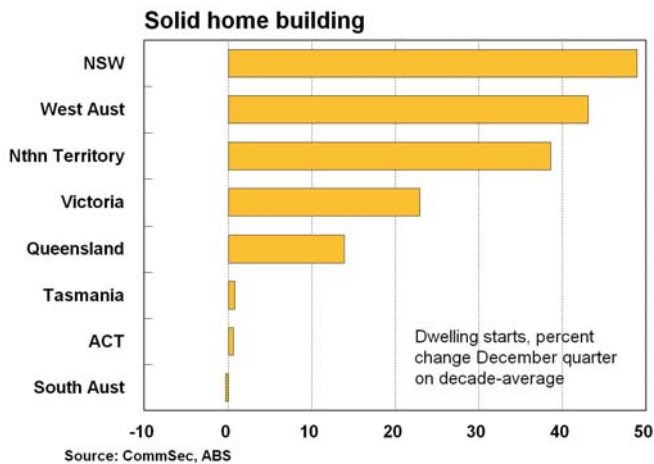
HOUSING FINANCE



- 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 leading 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.
- In four of the states and territories – Victoria, NSW, ACT, and Western Australia – trend housing finance commitments are above decade averages. And in four of the eight economies, trend commitments in February were above year-ago levels.
- Victoria has now taken top spot for housing finance, with the number of commitments 11.5 per cent above the long-term average. Next strongest was NSW, up 10.4 per cent on the decade-average.
- The ACT has slipped from first to third spot on housing finance, up 8.4 per cent on the decade average, followed by Western Australia (up 5.5 per cent).
- Northern Territory is now the weakest for housing finance with trend commitments 23 per cent lower than its decade average. Next weakest was South Australia with trend commitments down 13.7 per cent on the decade average. In Tasmania, home loan commitments are 10.8 per cent below decade averages. But encouragingly commitments are growing – up 0.7 per cent on a year ago.

“Victoria has now taken top spot for housing finance, with the number of commitments 11.5 per cent above 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 housing construction remains positive with interest rates low and the job market improving. Dwelling starts are above decade averages in seven of the states and territories and starts are above levels of a year ago in all but the ACT.
- NSW has taken the mantle of the strongest in the nation for new home construction, with starts almost 49 per cent above decade averages. In addition in the December quarter the number of dwellings started was 9.3 per cent higher than a year earlier.
- In second spot was Western Australia, with starts 43.1 per cent above decade averages, followed by Northern Territory with starts up 39 per cent on decade averages and Victoria, up 22.9 per cent.
- At the other end of the scale, South Australian dwelling starts were 0.3 per cent below decade averages. And even in the December quarter starts were only 0.1 per cent higher than a year earlier. Next weakest was the ACT (up 0.6 per cent on the decade average), and Tasmania (up 0.8 per cent). On a positive note Tasmanian dwelling starts were up 50 per cent in the December quarter compared with a year ago – the strongest growth in 12 years.

“NSW has taken the mantle of the strongest in the nation for new home construction, with starts almost 49 per cent above decade averages”

OTHER INDICATORS

	Wages	Consumer Prices	Home Prices
NSW	2.4	1.7	13.9
Victoria	2.8	1.4	5.6
Queensland	2.6	2.0	2.7
South Australia	2.6	1.7	2.2
Western Australia	2.3	2.0	-0.1
Tasmania	2.5	1.1	-0.3
Northern Territory	2.8	1.9	-0.8
ACT	1.7	1.2	1.5

* Annual % change. Source: ABS, CoreLogic-RP Data, CommSec
Wage Price Index and Consumer price Index December quarter 2014
Home Price Index March 2015

- In the June quarter, real wages were positive in just one of the eight state and territory economies and flat in another. In the September quarter, real wages were positive in five of the states and territories. And in the December quarter all states and territories recorded real wage growth.
- Strongest real wage growth was recorded in both in Victoria and Tasmania with wages 1.4 percentage points (pp) higher than consumer prices. Real wage growth was also solid in both South Australia and Northern Territory at 0.9pp.
- In Western Australia wage growth of 2.3 per cent was only modestly above the 2.0 per cent annual growth of prices. Real wages were only modestly positive in the ACT (+0.5pp).
- Turning to home prices, in March only five of the capital cities had positive annual growth of home prices. Back in December it was only the ACT that had home prices lower than a year earlier.
- Strongest growth in home prices was in Sydney (up 13.9 per cent) and then there was a fair gap to Melbourne (up 5.6 per cent) and then another fair gap to the other capital cities.
- Next strongest was Brisbane with home prices up 2.7 per cent on a year ago, followed by Adelaide (up 2.2 per cent) and Canberra (up 1.5 per cent).
- Home prices were lower than a year ago in Darwin (-0.8 per cent), Tasmania (-0.3 per cent) and Western Australia (-0.1 per cent).
- Across Australia there continues to be evidence that annual growth of home prices has eased. Nationally home prices were up by 7.4 per cent on a year ago – the slowest growth in 18 months.

“Home prices were lower than a year ago in Darwin (-0.8 per cent), Tasmania (-0.3 per cent) and Western Australia (-0.1 per cent).”

STATE BY STATE BREAKDOWN

● NSW

NSW has improved its position on housing finance and dwelling starts to consolidate its position at the top of the economic performance rankings.

● Northern Territory

The NT is top on four indicators including the job market, but it's seventh on population growth and eighth on housing finance.

● Western Australia

Western Australia is second-strongest on four indicators – economic growth, retail trade, dwelling starts and construction work.

● Victoria

Victoria is best on housing finance and population (second ranked)."

● Queensland

Queensland does best on construction work and business investment.

● South Australia

South Australia is third ranked on population growth and business investment but seventh ranked on economic growth, retail trade, housing finance."

● ACT

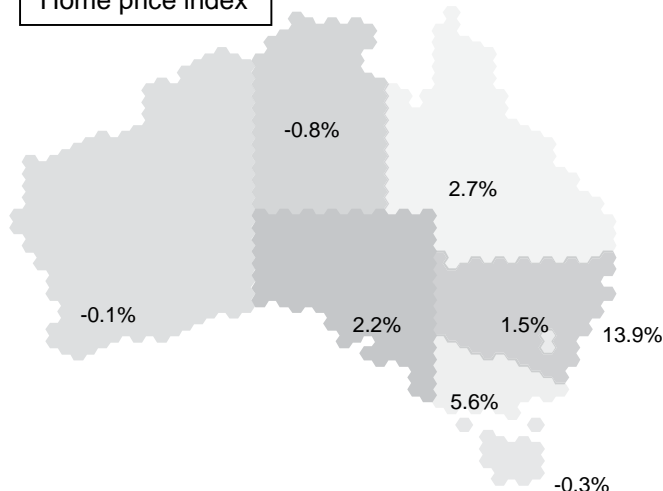
The ACT held its position on economic growth (third ranked) but drifted lower on housing finance, dwelling starts and business investment.

● Tasmania

"...the trend jobless rate is at a 39-month low ...dwelling starts are up 50 per cent on a year ago – the fastest growth rate in 12 years."

IMPLICATIONS AND OUTLOOK

Home price index



- In the October 2014 report, Western Australia was passed by NSW for the top spot. And in the January 2015 report, Western Australia had slipped to third, behind NSW and Northern Territory. In the latest report NSW improved its position, pushing Northern Territory into second place on the performance rankings.
- There will always be a changing of the guard in terms of economic performance as relative economic growth drivers variably strengthen or fade. The end of the mining construction boom should lead to more balanced growth in Western Australia.
- NSW is on top because population has been growing in recent years and now home construction is responding to the shortage of accommodation. NSW looks to be well supported by home construction and infrastructure spending over 2015.
- The Northern Territory is in second spot. While the NT economy is top-ranked on four of the eight economic indicators, it lags on population growth, thus affecting home building activity. Attracting labour to the 'top end' remains a constraint on growth.
- In Victoria, strong population growth is supporting home building activity and in turn employment. It is now showing signs of closing the gap on Western Australia in the economic performance ladder.
- In Queensland, overall construction work and equipment spending are supporting economic activity. But the soft job market and relative under-performance on population growth are constraining growth in home building.
- In South Australia, annual population growth is higher than a year ago and unemployment is middle-ranked. But the state underperforms on retail spending and home building and buying.
- The ACT is third ranked on housing finance but is sixth ranked on unemployment. As a result the ACT economy lacks momentum.
- There are brighter signs in Tasmania with the trend jobless rate at 39-month lows. Further, dwelling starts are up 50 per cent on a year ago – the fastest growth rate in 12 years.

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