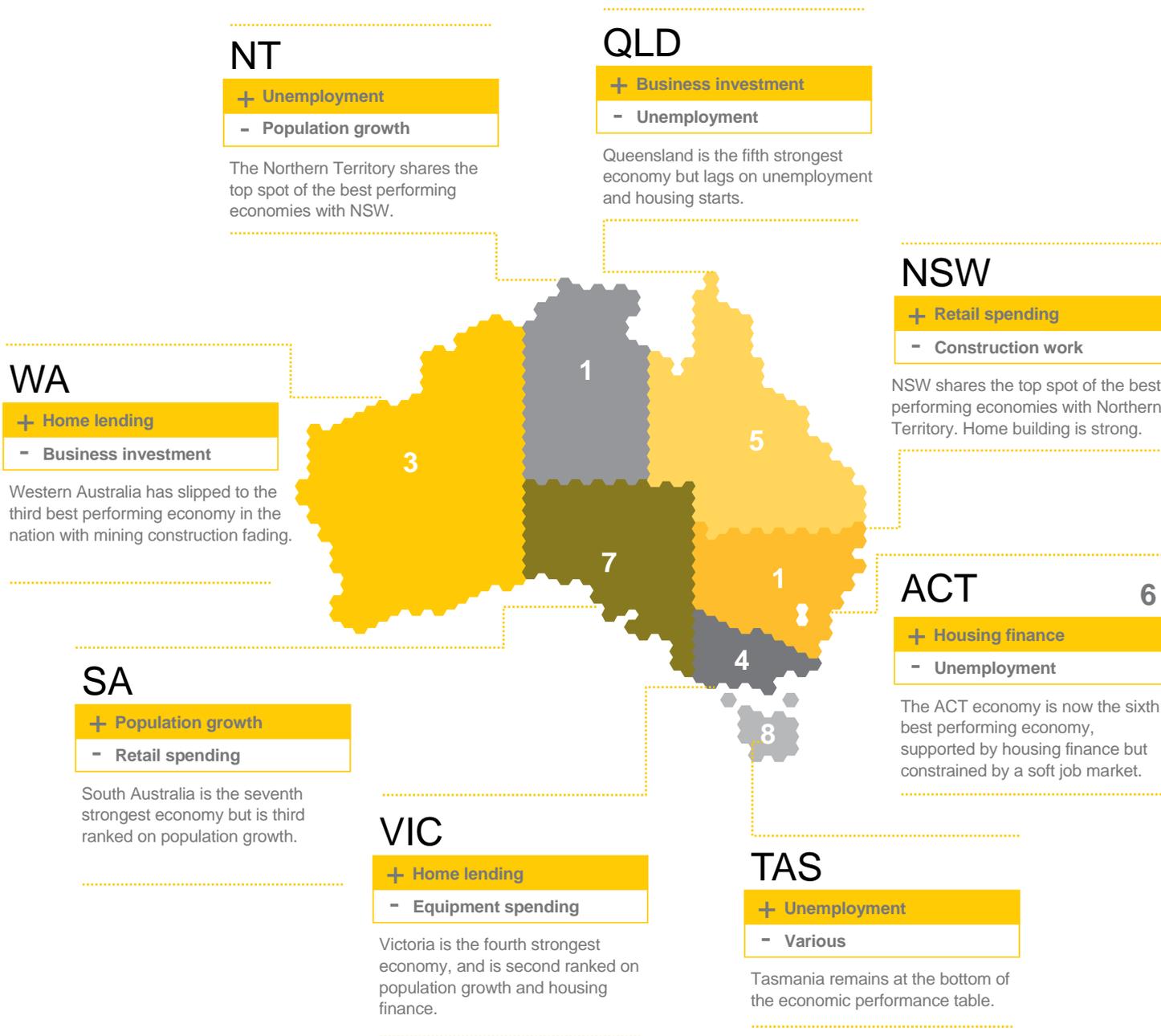


# State of the States

January 2015 State & territory economic performance report.  
Executive Summary



Craig James, Chief Economist, CommSec

## NSW & NORTHERN TERRITORY ON TOP

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 stood on top of Australia's economic performance rankings for the first time since July 2011. And NSW has maintained its position this quarter. But it has been joined on top by the Northern Territory with Western Australia slipping to third.

The next grouping is Victoria and Queensland. The ACT has now overtaken South Australia into sixth spot while Tasmania is ranked eighth.

Over the past quarter, NSW has improved its position on retail spending to consolidate its position at the top of the economic performance rankings.

- NSW has retained its top ranking on population growth and is also now also number one on retail trade. It is second placed on business investment, dwelling starts and unemployment. NSW is fourth on housing finance and overall construction work and fifth on economic growth.
- The Northern Territory has overtaken Western Australia to now share the mantle of best performing economy. The NT is top on five indicators including the job market, but it's sixth on housing finance and seventh on population growth as well as being third on retail trade. Huge gas projects are driving the NT economy.
- Western Australia is second-strongest on three indicators – economic growth, retail trade and construction work. The state has slipped to third on both housing finance and dwelling starts and has fallen to seventh on unemployment.
- Victoria is still the fourth-ranked economy. Victoria is best on population growth and housing finance (second ranked). But it's sixth ranked on economic growth and seventh on equipment investment.
- Queensland remains close to Victoria in the performance rankings, retaining fifth position. Queensland does best on equipment investment and overall construction work done. But it is sixth ranked on the leading indicators of population growth and dwelling starts and also sixth on unemployment.
- The ACT economy has regained its position in sixth spot on the economic performance rankings. The ACT has improved its position on housing finance, economic growth and equipment investment.
- South Australia is the seventh ranked on economic performance. The state is third ranked on population growth but seventh ranked on economic growth, dwelling starts, housing finance and construction work.
- Tasmania remains at the bottom of the Australian economic performance table. But it has held its third-ranked position on unemployment – in fact the jobless rate is at 28-month lows. And construction work is expanding at the fastest annual rate in eight 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.

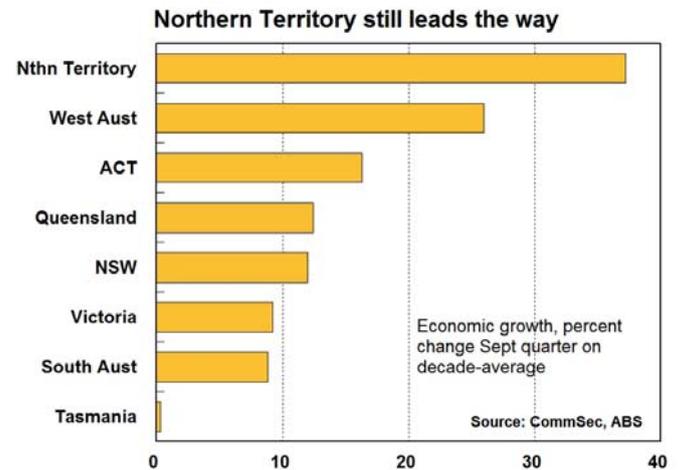
The aim was to find how each economy was performing compared with "normal". And just like the Reserve Bank does with interest rates, we used decade-averages to judge the "normal" state of affairs. For each economy, the latest level of the indicator – such as retail spending or economic growth – was compared 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 4.9 per cent is second lowest of all economies. But this jobless rate is actually up 41.2 per cent on its 'normal' or decade-average rate of 3.5 per cent, making it the worst performing economy 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.

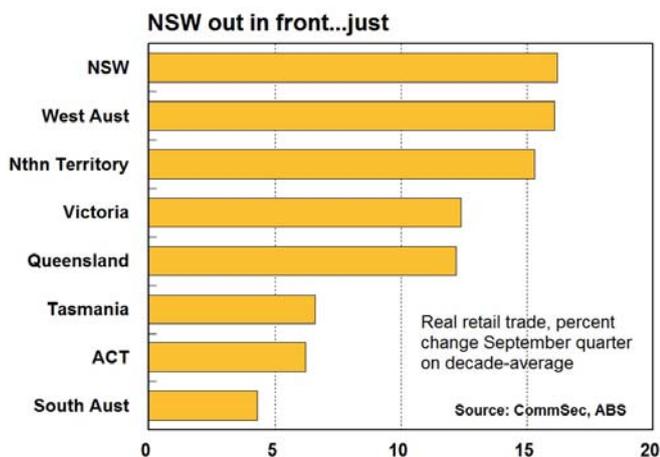
## ECONOMIC GROWTH



- 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 over 37 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 16.3 per cent) from Queensland (up 12.4 per cent).
- At the other end of the scale, economic activity in Tasmania in the September quarter was just 0.3 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.
- NSW has the fastest annual economic growth rate in the nation, up by 3.9 per cent on a year ago, ahead of Western Australia with 2.6 per cent and ACT (2.5 per cent).
- By contrast, the Northern Territory economy is down 1.0 per cent on a year ago, while Queensland economic activity is down 0.4 per cent on a year ago with the Tasmania economy down 0.3 per cent on a year ago.

*“...the Northern Territory economy is down 1.0 per cent on a year ago, while Queensland economic activity is down 0.4 per cent on a year ago with the Tasmania economy down 0.3 per cent on a year ago.”*

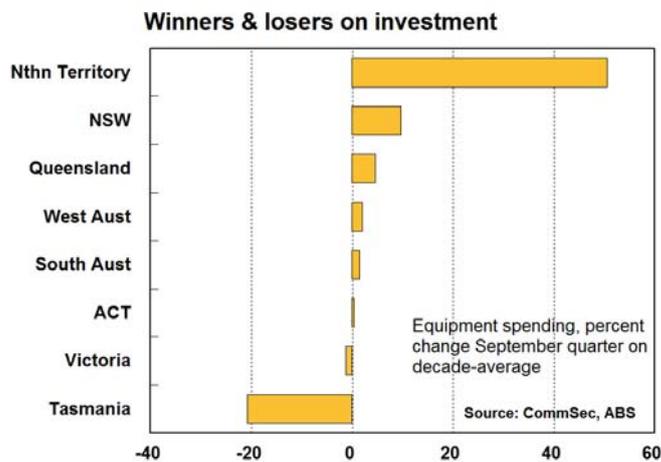
## RETAIL SPENDING



- The measure used was real (inflation-adjusted) retail trade in trend terms with September quarter data the latest available.
- NSW has secured the top spot on the retail rankings from Western Australia and Northern Territory with spending in the September quarter 16.2 per cent above decade average levels. Solid activity in the housing sector is supporting spending.
- Western Australia was next strongest, up 16.1 per cent above decade-average levels. Unemployment remains relatively low while record building approvals supports spending on household goods.
- Northern Territory was next strongest, with spending 15.3 per cent above decade averages, followed by Victoria (up 12.4 per cent).
- South Australia still has the weakest result on retail spending, up just 4.3 per cent on the decade average and below the ACT with 6.2 per cent growth and Tasmania at 6.6 per cent growth.
- If monthly retail trade was assessed instead to calculate the rankings (November data available), the rankings would be exactly the same, except Tasmania would be at the bottom of the rankings, below South Australia and ACT.
- In terms of annual growth of real retail trade, NSW is strongest, up 6.4 per cent, from Tasmania, up 5.1 per cent.
- In terms of monthly retail trade, NSW spending is up 8.2 per cent over the year from Victoria, up 4.8 per cent.

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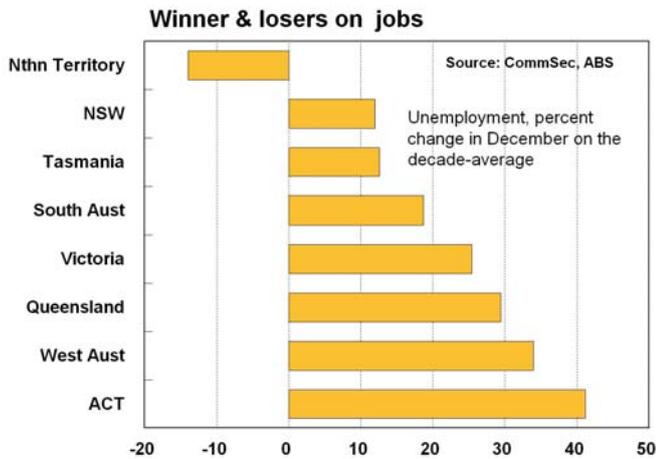
## EQUIPMENT INVESTMENT



- Northern Territory remains well out in front of the other states and territories when it comes to equipment investment. Spending in the September quarter was a massive 50.6 per cent above ‘normal’ – or decade-average levels.
- In past quarters, resource-driven economies have led the way on investment. However NSW was in second spot with equipment spending 9.6 per cent above decade-averages.
- Equipment investment in Queensland was up 4.6 per cent above decade-average levels, followed by Western Australia (up 2.1 per cent).
- By contrast, new equipment spending in Tasmania was 20.8 per cent below its longer-term average in the September quarter after being down 29.5 per cent on the ‘normal’ level in the June quarter.
- Equipment spending is also below decade-average levels in Victoria (down 1.3 per cent).
- On a shorter-run analysis, equipment investment in the September quarter was lower than a year ago in four of the state and territory economies (last quarter, seven states and territories had equipment spending down on a year ago).
- Equipment investment is down the most on a year ago in Tasmania (down 12.9 per cent), followed by Queensland (down 10.6 per cent) and Western Australia (down 9.9 per cent).
- By contrast new equipment investment in Northern Territory was up 39.2 per cent on a year ago followed by NSW, up 9.2 per cent, and the ACT, up 8.1 per cent.

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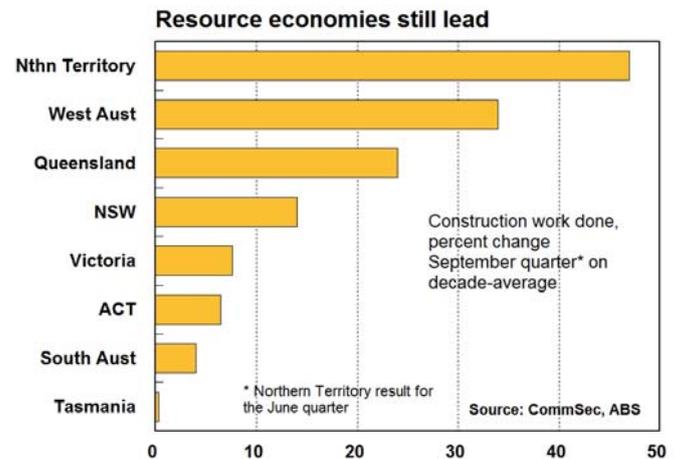
## UNEMPLOYMENT



- 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 (3.6 per cent), but its jobless rate is 14 per cent below its 'normal' or decade average level of 4.2 per cent.
- At the other end of the scale is the ACT. While trend unemployment is the second lowest in the nation at 4.9 per cent, this is over 41 per cent higher than the 3.5 per cent 'normal' or decade-average rate level – the worst performance in the nation.
- In all states and territories apart from the Northern Territory, the latest unemployment rates are above their decade-average levels. In NSW, unemployment stands at 5.9 per cent, up 12 per cent on its 'normal' or decade-average level of 5.2 per cent.
- The Tasmanian jobless rate has fallen from 8.2 per cent in August 2013 to a 28-month low of 6.8 per cent in December. As a result, Tasmania is ranked third on unemployment with the current jobless rate up almost 13 per cent on the decade average level of 6.0 per cent.
- Next best is South Australia where its 6.5 per cent jobless rate is almost 19 per cent above the decade-average.
- Victoria's 6.7 per cent jobless rate is 25.4 per cent above its decade average of 5.3 per cent.
- Queensland's 6.6 per cent jobless rate is up 29.4 per cent on the 'normal' level. And Western Australia's 5.6 per cent jobless rate is 34 per cent above its 4.2 per cent 'normal' level.

*"The Tasmanian jobless rate has fallen from 8.2 per cent in August 2013 to a 28-month low of 6.8 per cent in December."*

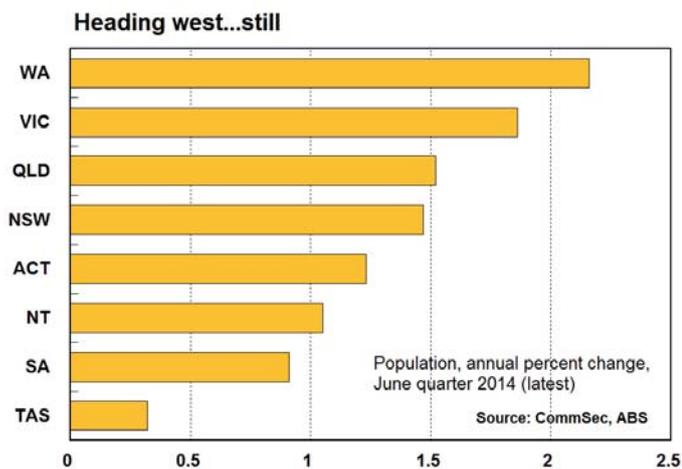
## CONSTRUCTION WORK



- The measure used for analysis was the total amount of residential, commercial and engineering work actually completed in trend terms in the September quarter.
- One problem was that the ABS couldn't provide an estimate for the Northern Territory. But given its strength and overall rating for building work, we've elected to use the June quarter result for Northern Territory construction.
- In all states/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 (in the June quarter) was 47 per cent above its decade average. In the September quarter, Western Australian construction was up 34 per cent on 'normal' levels followed by Queensland (up 24 per cent).
- In Tasmania, overall new construction work completed is now 0.3 per cent above the decade average after being down 6.2 per cent on its decade average in the June quarter.
- Next weakest to Tasmania is South Australia where construction work is just 4.0 per cent above decade averages, followed by the ACT (up 6.5 per cent).
- NSW is fourth ranked with construction work 14 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, Tasmanian construction work done in the September quarter was up 15.4 per cent on a year ago – the best growth in eight years. Tasmania was followed by NSW (up 3.2 per cent).

*"Tasmanian construction work done in the September quarter was up 15.4 per cent on a year ago – the best growth in eight years."*

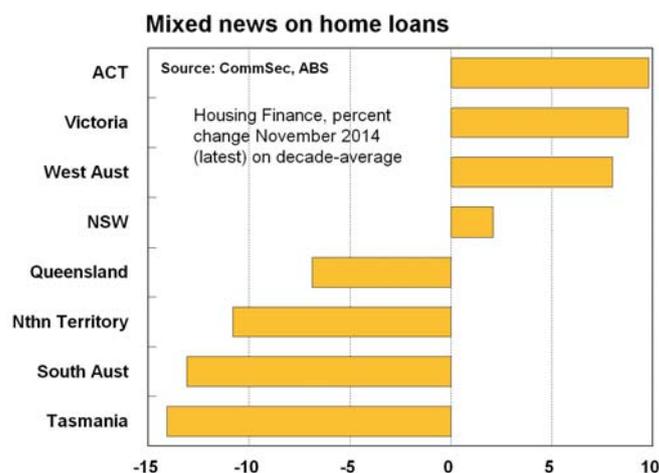
## POPULATION GROWTH



- 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 Tasmania in the past quarter.
- While NSW has only the fourth fastest annual growth rate at 1.47 per cent, this is 22.8 per cent above the decade average (last quarter was 32.1 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 1.86 per cent higher than a year ago and this growth rate is 10.1 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 2.16 per cent – but the slowest in eight years. And population growth is 18.2 per cent below decade-average levels.
- At the other end of the leader-board is Tasmania where the annual population growth of 0.32 per cent was 50.4 per cent below the decade average rate of 0.65 per cent but annual growth is the strongest in 2½ years. Next lowest was the Northern Territory with population growth of 1.05 per cent, down 45.3 per cent on the decade average.

*“At the other end of the leader-board is Tasmania where the annual population growth of 0.32 per cent was 50.4 per cent below the decade average rate of 0.65 per cent.”*

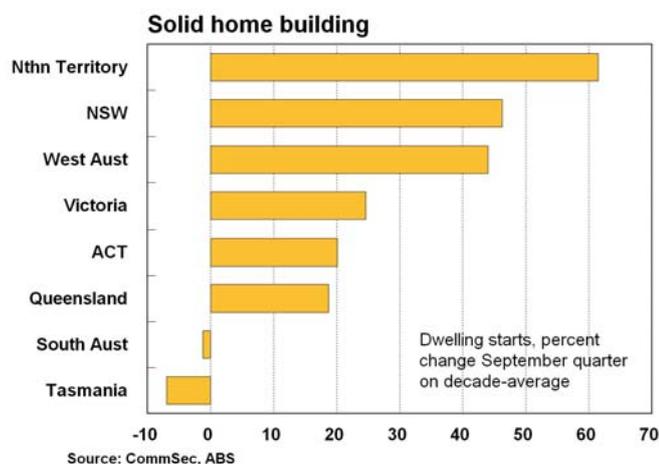
## HOUSING FINANCE



- 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 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 – ACT, Victoria, Western Australia and NSW – trend housing finance commitments are above decade averages. And in five of the eight economies, trend commitments in November were above year-ago levels in all states and territories.
- The ACT has now taken top spot for housing finance, with the number of commitments 9.8 per cent above the long-term average. Next strongest was Victoria, up 8.8 per cent on the decade-average.
- Western Australia has slipped from first to third spot on housing finance, up 8.0 per cent on the decade average, followed by NSW (up 2.1 per cent).
- Tasmania is now the weakest for housing finance with trend commitments 14.1 per cent lower than its decade average. Next weakest was South Australia with trend commitments down 13.1 per cent on the decade average. In the Northern Territory, home loan commitments are 10.8 per cent below decade averages. But encouragingly commitments are growing – up 14.2 per cent on a year ago.

*“The ACT has now taken top spot for housing finance, with the number of commitments 9.8 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 six of the states and territories and starts are above levels of a year ago in all but the ACT.
- Northern Territory has taken the mantle of the strongest in the nation for new home construction, with starts over 61 per cent above decade averages. In addition in the September quarter the number of dwellings started was 30.5 per cent higher than a year earlier.
- In second spot was NSW, with starts 46.3 per cent above decade averages, followed by Western Australia with starts up 44 per cent on decade averages and Victoria, up 24.6 per cent.
- At the other end of the scale, Tasmanian dwelling starts were 7 per cent below decade averages. However on a positive note starts in the September quarter were 39.1 per cent higher than a year earlier – the strongest growth in a decade. Next weakest was South Australia (down 1.3 per cent on the decade average), Queensland (up 18.7 per cent) and the ACT (up 20.1 per cent).
- Momentum has eased somewhat in South Australia with starts up 10.2 per cent on a year – the weakest growth in 18 months.

*“Northern Territory has taken the mantle of the strongest in the nation for new home construction, with starts over 61 per cent above decade averages”*

## OTHER INDICATORS

### WAGES & PRICES\*

	Wages	Consumer Prices	Home Prices
NSW	2.6	2.2	12.4
Victoria	2.7	2.0	7.6
Queensland	2.5	2.6	4.8
South Australia	2.7	2.1	4.3
Western Australia	2.2	2.6	2.1
Tasmania	2.5	1.9	3.5
Northern Territory	2.8	2.7	1.6
ACT	1.7	2.0	-0.6

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

- 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.
- Strongest real wage growth was in Victoria with wages up 2.7 per cent, outstripping a 2.0 per cent lift in prices. Real wage growth stood at 0.6 percentage points (pp) in both South Australia and Tasmania, 0.4pp in NSW and 0.1pp in Northern Territory.
- In Western Australia wage growth of 2.2 per cent fell well short of the 2.6 per cent annual growth of prices. Real wages were also negative in the ACT (-0.3pp) and Queensland (-0.1pp).
- Turning to home prices, in December all capital cities except Canberra had home prices higher than a year ago. Canberra home prices fell 0.6 per cent over the year.
- Strongest growth in home prices was in Sydney (up 12.4 per cent) followed by Melbourne (up 7.6 per cent).
- There was then a fair gap in home price growth from Australia’s most populous cities to the other capital cities. Brisbane home prices were up 4.8 per cent on a year ago, followed by Adelaide (up 4.3 per cent), Hobart (up 3.5 per cent), Perth (up 2.1 per cent) and Darwin (up 1.6 per cent).
- Across Australia there is clear evidence that annual growth of home prices has eased over the past quarter. Nationally home price growth peaked in April at 11.5 per cent and stood at 7.9 per cent in December.

*“In the September quarter, real wages were positive in five of the states and territories.”*

## STATE BY STATE BREAKDOWN

### NSW

“NSW has improved its position on retail spending to consolidate its position at the top of the economic performance rankings.”

### Northern Territory

“The NT is top on five indicators including the job market, but it’s sixth on housing finance and seventh on population growth...”

### Western Australia

“Western Australia is second-strongest on three indicators – economic growth, retail trade and construction work.”

### Victoria

“Victoria is best on population growth and housing finance (second ranked).”

### Queensland

“Queensland does best on equipment investment and overall construction work done.”

### South Australia

“...third ranked on population growth but seventh ranked on economic growth, dwelling starts, housing finance and construction work.”

### ACT

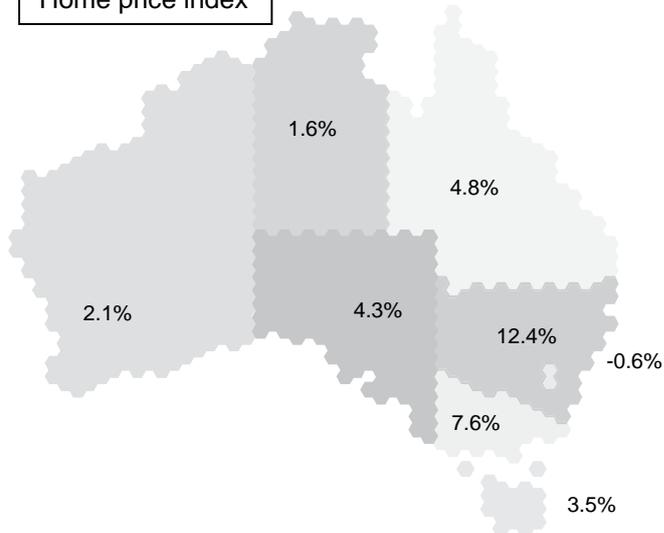
“The ACT has improved its position on housing finance, economic growth and equipment investment”

### Tasmania

“...construction work is expanding at the fastest annual rate in eight years.”

## IMPLICATIONS AND OUTLOOK

Home price index



- In July 2014 Western Australia ranked first in economic performance. In the next October 2014 report, Western Australia was passed by NSW. And in the latest January 2015 report, Western Australia has slipped to third, behind NSW and Northern Territory.
- 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 shares top spot with NSW. While the NT economy is top-ranked on five 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, high population growth is supporting home building activity but it is lacking in momentum that could enable it to move up 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.
- The ACT is top-ranked on housing finance but is bottom-ranked on unemployment. As a result the ACT economy lacks momentum.
- 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.
- There are brighter signs in Tasmania with the trend jobless rate at 28-month lows. Further, population growth has lifted and overall construction is growing solidly.

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