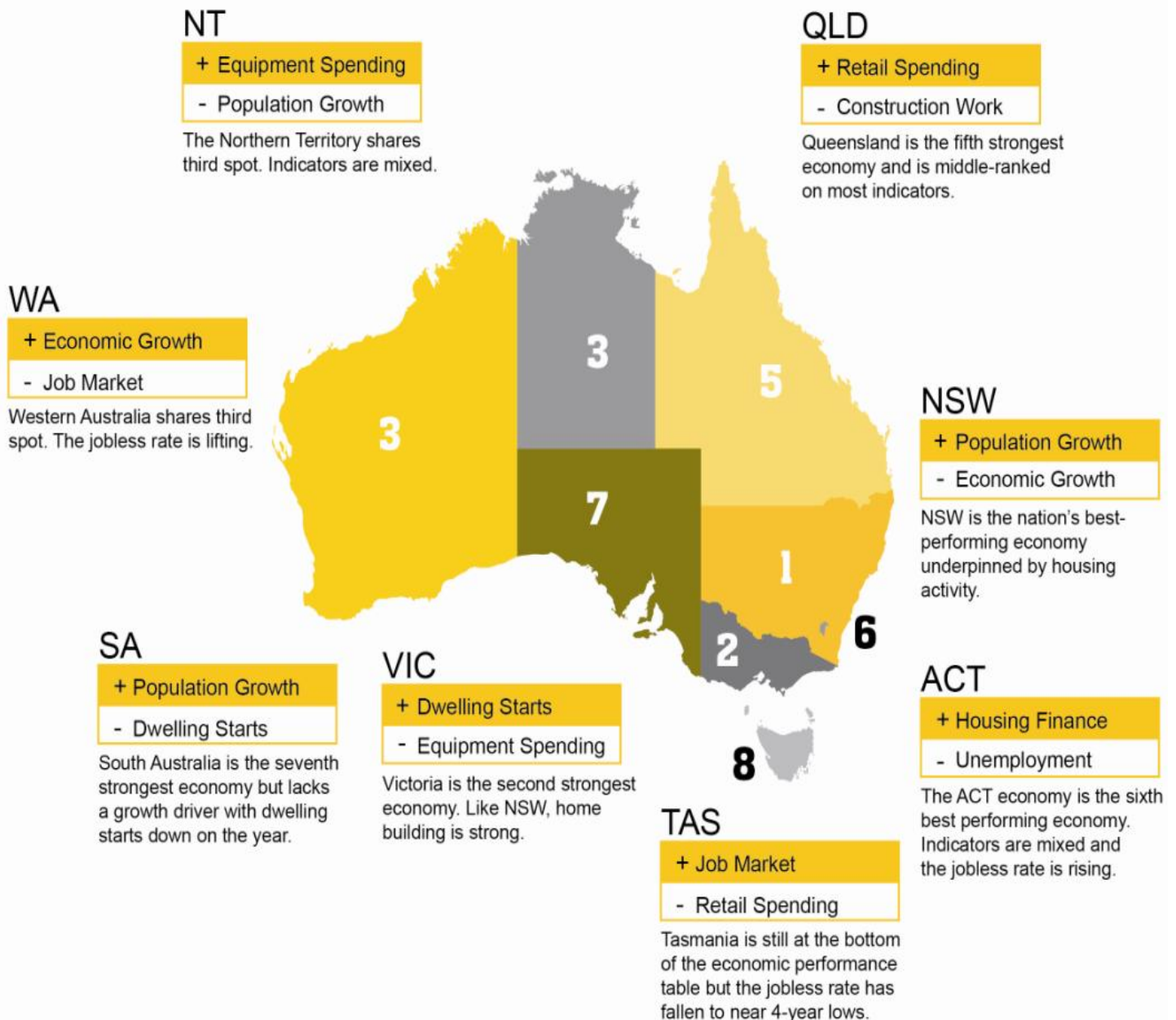


State of the States

October 2015 State & territory economic performance report.
Executive Summary



NSW STILL ON TOP; VICTORIA SECOND

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.

There has been little change in the latest rankings. NSW has retained top spot as the best performing economy while Victoria has consolidated second spot, with no states pushing further ahead of the other states and territories.

The next grouping of economies is the Northern Territory and Western Australia which now share third spot in the performance rankings.

And there is little to separate economies in the third grouping of state and territory economies. Queensland is fifth ranked, ahead of the ACT (sixth) followed by South Australia (seventh) and Tasmania (eighth).

- NSW has retained its top rankings on population growth, retail trade and dwelling starts but now adds housing finance to the list. NSW is still second placed on unemployment and is also second strongest on equipment investment. The other rankings are: construction work (fourth) and economic growth (fifth).
- Victoria has consolidated second spot on the economic performance rankings. Victoria's main strengths are population growth, housing finance and dwelling starts (second ranked on each indicator.)
- The Northern Territory remains the third ranked economy, but has fallen further behind Victoria and now shares the third ranking with Western Australia.
- Northern Territory is top ranked on economic growth, business investment and construction work done. But the 'top end' economy is last ranked on population growth, housing finance and dwelling starts.
- Western Australia is second on retail trade, economic growth and construction work, but higher unemployment (eighth ranked) has impacted housing activity.
- Queensland retains fifth position on the economic performance table but it is clear that it is now in a third grouping of economies with the ACT, South Australia and Tasmania. Queensland is middle ranked on most indicators.
- The ACT economy has retained sixth position on economic performance. The territory ranks third on economic growth and housing finance but is seventh ranked on three indicators.
- South Australia has held seventh spot on the economic performance rankings but Tasmania is showing better momentum. South Australia does best on population growth and equipment investment (both third ranked) but is seventh ranked on three indicators.
- Tasmania remains at the bottom of the Australian economic performance table. But importantly Tasmania is now top ranked on unemployment and third ranked on housing finance.

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.

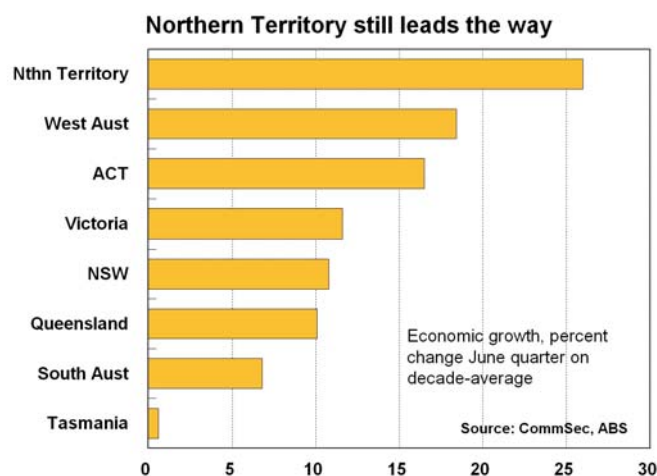
The aim is to find how each economy is performing compared with "normal". And just like the Reserve Bank does with interest rates, we used decade-averages to judge the "normal" state of affairs. For each economy, the latest level of the indicator – such as retail spending or economic growth – was compared 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 5.1 per cent is second lowest of all economies. But this jobless rate is actually up 43.3 per cent on its 'normal' or decade-average rate of 3.6 per cent, ranking it seventh on this indicator – that is, one of the worst, not best performing states & territories on the indicator.

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

ECONOMIC GROWTH

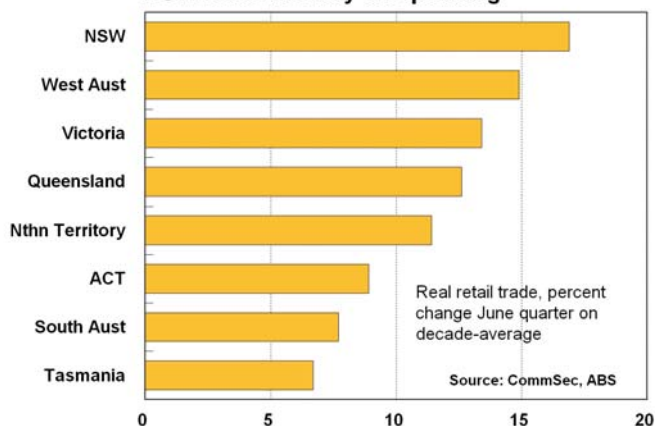


- Ideally gross state product (GSP) would be used to assess broad economic growth. But the data isn't available quarterly. Rather, state final demand (household and business spending) is added to exports less imports to act as a proxy for GSP. Exclusion of the trade sector would provide an incorrect assessment of growth for economies such as Western Australia and Queensland.
- There have been no changes in the rankings on economic activity. The Northern Territory continues to lead the way, up 26 per cent above its 'normal' or decade-average level of output.
- Next strongest is Western Australia, with output just over 18 per cent higher than the decade average level of output. Then follows ACT (up 16.5 per cent) from Victoria (up 11.6 per cent) and NSW (up 10.8 per cent).
- At the other end of the scale, economic activity in Tasmania in the June quarter was just 0.6 per cent above its decade average, while South Australian activity was up almost 7 per cent on its 'normal' or average output over the past decade. Queensland economic activity was up by around 10 per cent on the decade average.
- The ACT now has the fastest annual economic growth rate in the nation, up by 4.0 per cent on a year ago, ahead of Victoria with 3.9 per cent and NSW (1.4 per cent).
- By contrast, the Northern Territory economy is down 7.4 per cent on a year ago, while Western Australian economic activity is down 2.0 per cent on a year ago with the Queensland economy down 0.2 per cent on a year ago.

"The ACT now has the fastest annual economic growth rate in the nation, up by 4.0 per cent on a year ago, ahead of Victoria with 3.9 per cent and NSW (1.4 per cent)."

RETAIL SPENDING

NSW leads the way on spending

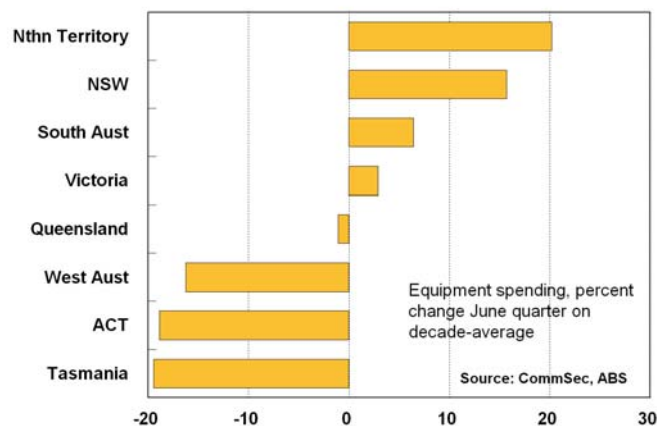


- The measure used was real (inflation-adjusted) retail trade in trend terms with June quarter data the latest available.
- NSW has held onto the top spot on the retail rankings from Western Australia and Victoria with spending in the June quarter 16.9 per cent above decade average levels. Solid activity in the housing sector and higher home prices are supporting spending.
- Spending in Western Australia was almost 15 per cent above decade-average levels. Unemployment is still relatively low compared with other states, while home building is solidly up on decade averages.
- Spending in Victoria was up 13.4 per cent on the decade average followed by Queensland (up 12.6 per cent). In fifth spot was the Northern Territory with spending 11.4 per cent above decade averages.
- Tasmania continues to record the weakest result on retail spending, up just 6.7 per cent on the decade average and below South Australia with 7.7 per cent growth and the ACT with 8.9 per cent growth.
- If monthly retail trade was assessed instead to calculate the rankings (August data available), the rankings would be exactly the same. That is, comparing August spending with the decade average.
- In terms of annual growth of real retail trade, NSW is strongest, up 4.1 per cent, from the ACT, up 4.0 per cent, and Victoria, up 3.9 per cent.
- And looking at monthly retail trade, the strongest annual growth is in NSW (up 5.5 per cent) from Victoria (up 4.7 per cent) and the ACT (up 4.4 per cent). So it is clear which states are leading the way on consumer spending.

“If monthly retail trade was assessed instead to calculate the rankings (August data available), the rankings would be exactly the same.”

EQUIPMENT INVESTMENT

Winners & losers on investment



- Northern Territory continues to lead the way on equipment investment but the gap with other economies has narrowed. Spending in the June quarter was just over 20 per cent above ‘normal’ – or decade-average levels. In the previous March quarter, equipment spending was almost 57 per cent above “normal” levels.
- NSW remains in second spot on business investment or spending on new equipment. Spending is now almost 16 per cent above decade-averages.
- Next strongest on equipment investment was South Australia, up 6.4 per cent above decade-average levels, followed by Victoria (up 2.9 per cent).
- By contrast, other states and territories had equipment spending below decade averages in the June quarter. Weakest was Tasmania (down 19.5 per cent) followed by the ACT (down 18.9 per cent) and Western Australia (down 16.3 per cent).
- Equipment spending in Queensland was down on decade average levels, but just by 1.1 per cent.
- On a shorter-run analysis, equipment investment in the June quarter was higher than a year ago in five of the state and territory economies (last quarter, five states and territories had equipment spending up on a year ago).
- Equipment investment is up the most on a year ago in NSW (up 12 per cent), followed by South Australia (up 10.1 per cent) and Victoria (up 8.3 per cent).
- By contrast new equipment investment in Western Australia was down 16.1 per cent on a year ago while spending in the ACT was down 10.5 per cent with Northern Territory down 6.3 per cent.

“Northern Territory continues to lead the way on equipment investment but the gap with other economies has narrowed.”

UNEMPLOYMENT



- Which state or territory has the strongest job market in the nation? It is not an easy question. The lowest trend unemployment rate in Australia can be found in the Northern Territory at 4.9 per cent from the ACT at 5.1 per cent. But both territories have historically maintained low unemployment rates.
- The Northern Territory's jobless rate is 19 per cent above its decade average ("normal") jobless rate. And the ACT jobless rate is over 43 per cent above its decade average.
- Comparing current jobless rates in each state and territory with their respective decade averages, Tasmania is number one. Tasmania's 6.2 per cent jobless rate is just 2.1 per cent above its decade average level of 6.1 per cent.
- Next strongest is NSW with its jobless rate of 5.9 per cent just under 11 per cent higher than the 5.3 per cent decade average.
- In Victoria, unemployment stands at 6.2 per cent, up 14.7 per cent on its decade average of 5.4 per cent
- Northern Territory is next, as noted above its jobless rate is 19 per cent up on the decade average.
- At the other end of the scale is Western Australia. Trend unemployment stands at 6.2 per cent, 45.2 per cent higher than the 4.3 per cent 'normal' or decade-average.
- Next weakest is the ACT – as noted above the trend unemployment rate is 43.3 per cent above the decade average. South Australia's jobless rate is almost 42 per cent above the decade average, while Queensland is mid pack – its 6.3 per cent jobless rate is up 20.8 per cent on the 'normal' level.
- Interestingly South Australia's 8.0 per cent jobless rate stands at a 15-year high while Tasmania's 6.2 per cent jobless rate is approaching 4-year lows.

"Comparing current jobless rates in each state and territory with their respective decade averages, Tasmania is number one."

CONSTRUCTION WORK



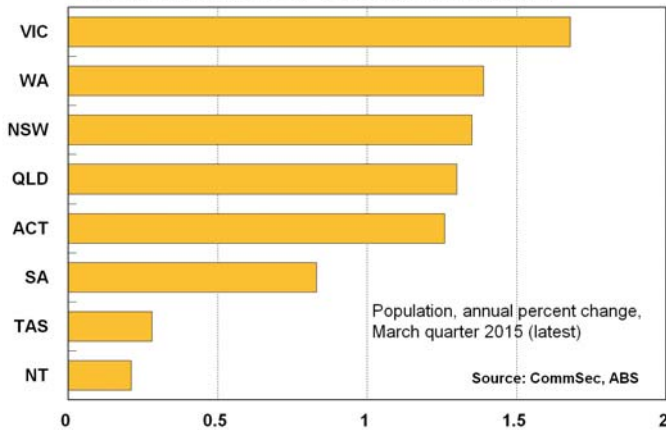
- The measure used for analysis was the total real value of residential, commercial and engineering work actually completed in trend terms in the June quarter.
- The Bureau of Statistics couldn't provide a trend estimate for the Northern Territory. But we assessed both the seasonally adjusted and other trend results and the rankings were broadly the same (the ACT and Queensland swapped places at the bottom) while growth rates were very close between both estimates.
- In five of the states and territories, construction work was higher than decade averages.
- Construction work done in the Northern Territory was around 125 per cent above its decade average, supported by gas projects, ahead of Western Australia (up 32.4 per cent) while Victoria construction was up 16.8 per cent on 'normal' levels in trend terms.
- NSW is fourth ranked with construction work 9.4 per cent above decade averages. Tasmania is fifth ranked with construction work 2.9 per cent above 'normal' levels.
- In Queensland, overall new construction work completed is now 11 per cent below the decade average after being up 0.5 per cent on its decade average in the March quarter.
- Next weakest to Queensland is the ACT where construction work is 7.5 per cent below decade averages, followed by South Australia (down 6.8 per cent).
- In terms of annual growth rates, Northern Territory construction work done in the June quarter was up 71.4 per cent on a year ago (seasonally adjusted), followed by Western Australia, up 14.1 per cent, and Victoria, up 6.8 per cent.

"In five of the states and territories, construction work is higher than decade averages."

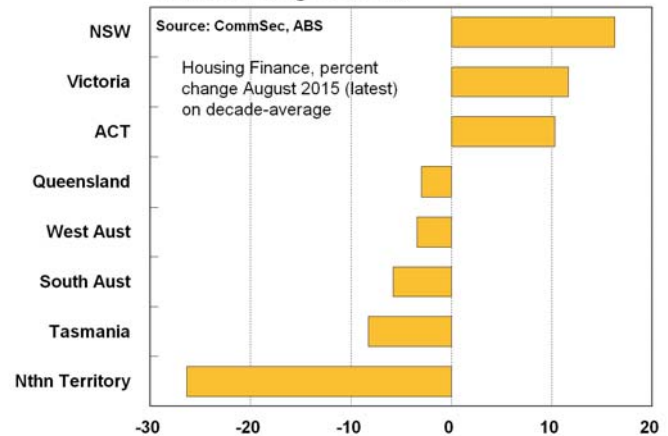
POPULATION GROWTH

HOUSING FINANCE

Victoria leads the way on population growth



Home lending is mixed



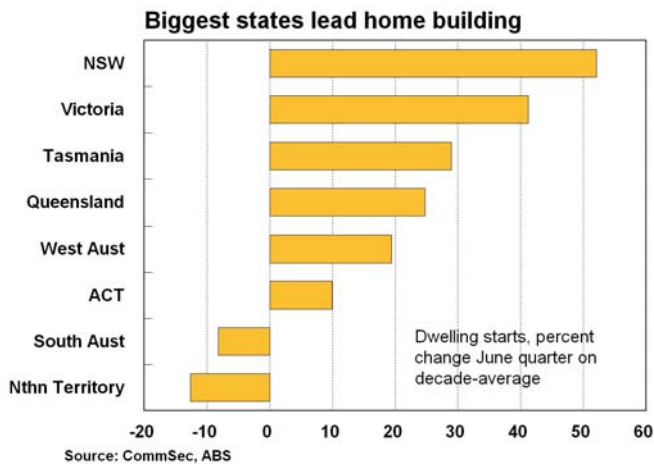
- To assess population performance we looked at the current annual growth rate and compared it with each economy's decade-average ('normal') growth pace.
- Population growth is clearly an important driver of the broader economy, especially retail spending and housing demand. The key point being that only one state now has population growth above long-term averages.
- NSW has only the third fastest annual growth rate at 1.35 per cent, but this is still 7.1 per cent above the decade average (last quarter, population growth was 11.2 per cent above 'normal').
- Victoria continues to record the strongest annual population growth and is still second on the differential with the decade-average rate. Victoria's population is 1.68 per cent higher than a year ago although this growth rate is 2.9 per cent below than the 'normal' or decade-average level.
- Western Australia remains second on population growth with an annual growth rate of 1.39 per cent – slowest pace in a decade. And population growth is almost 47 per cent below decade-average levels.
- The state or territory with the slowest annual population growth was Northern Territory, up just 0.21 per cent on a year ago. And this population growth is 88.7 per cent on the decade average – the weakest in the nation.
- Notably, Tasmania's annual population growth lifted from 0.26 per cent to 0.28 per cent in the March quarter. However this rate is still 54 per cent down on the decade average,

- 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 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 three of the states and territories – NSW, Victoria and ACT – trend housing finance commitments are above decade averages. And in six of the eight economies, trend commitments in August were above year-ago levels – all except Northern Territory and Western Australia.
- NSW has now taken top spot for housing finance, with the number of commitments 16.3 per cent above the long-term average. Next strongest was Victoria, up 11.7 per cent on the decade-average.
- The ACT has slipped from first to third spot on housing finance, but still up 10.3 per cent on the decade average, followed by Queensland (down 3.0 per cent).
- Northern Territory remains the weakest for housing finance with trend commitments more than 26 per cent lower than its decade average. And the 21.7 per cent annual decline in commitments is the weakest in almost five years. Next weakest was Tasmania with trend commitments down 8.3 per cent on the decade average.
- In South Australia, home loan commitments are 5.8 per cent below decade averages.

“Victoria continues to record the strongest annual population growth and is still second on the differential with the decade-average rate.”

“...in six of the eight economies, trend commitments in August were above year-ago levels.”

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.
- There is a mixed outlook for housing. Interest rates remain low while unemployment is showing signs of peaking. But population growth has slowed in recent quarters. And while dwelling starts are above decade averages in six of the states and territories, starts are above levels of a year ago in only half of the states and territories.
- NSW retains the mantle of the strongest in the nation for new home construction, with starts just over 52 per cent above decade averages. In addition, in the June quarter the number of dwellings started was 11.4 per cent higher than a year earlier.
- Victoria holds second spot, with starts 41.2 per cent above decade averages, followed by Tasmania with starts up 29 per cent on decade averages and Queensland, up 24.8 per cent.
- At the other end of the scale, Northern Territory dwelling starts were 12.6 per cent below decade averages. And even in the June quarter starts were down 39 per cent on a year earlier. Next weakest was South Australia (down 8.2 per cent) from ACT (up 9.9 per cent on the decade average) and Western Australia (up 19.4 per cent).
- In terms of annual growth, Tasmania is strongest with dwelling starts at 21-year highs, up 54.2 per cent on a year ago.

"In terms of annual growth, Tasmania is strongest with dwelling starts at 21-year highs, up 54.2 per cent on a year ago."

OTHER INDICATORS

WAGES & PRICES*

	Wages	Consumer Prices	Home Prices
NSW	2.1	2.2	16.7
Victoria	2.6	1.1	14.2
Queensland	2.1	1.5	4.6
South Australia	2.5	1.2	-0.3
Western Australia	2.1	1.2	-0.9
Tasmania	2.5	0.6	-0.2
Northern Territory	2.4	0.2	-3.9
ACT	1.9	0.8	0.6

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

- In the December quarter last year and March quarter this year, all states and territories recorded real wage growth. But in the June quarter, NSW was alone in recording a fall in real wages.
- Strongest real wage growth was recorded in the Northern Territory with wages 2.2 percentage points (pp) higher than consumer prices. Real wage growth was also solid in Tasmania at 1.9pp and Victoria at 1.5pp.
- Real wage growth was next highest in South Australia, up 1.3pp, the ACT, up 1.1pp, and Western Australia, up 0.9pp.
- At the other end of the scale, NSW wage growth of 2.1 per cent was below the 2.2 per cent annual growth of prices. Real wages were only modestly positive in Queensland (+0.6pp).
- Turning to home prices, in September four of the capital cities had positive annual growth of home prices. Back in June, six of capital cities had home prices higher than a year earlier.
- Strongest growth in home prices was in Sydney (up 16.7 per cent) followed by Melbourne (up 14.2 per cent) and then there was a fair gap to the other capital cities.
- Next strongest was Brisbane with home prices up 4.6 per cent on a year ago, followed by Canberra (up 0.6 per cent).
- Home prices were lower than a year ago in Darwin (down 3.9 per cent), Perth (down 0.9 per cent), Adelaide (down 0.3 per cent), and Hobart (down 0.2 per cent).

"...in September four of the capital cities had positive annual growth of home prices."

STATE BY STATE BREAKDOWN

NSW

NSW has top ranking on four indicators: retail trade, population growth, housing finance and dwelling starts. The lowest ranking is fifth on overall economic growth.

Victoria

Victoria is second ranked on housing finance, dwelling starts and population growth. But it is fourth on business investment and economic growth.

Northern Territory

The NT is top on three indicators: construction work done, equipment investment and economic growth. But it is eighth on another three indicators.

Western Australia

Western Australia is second ranked on three indicators: economic growth, retail spending and construction work done.

Queensland

Queensland does best on retail spending, dwelling starts and housing finance (fourth). But the state is eighth ranked on construction work done.

ACT

ACT is best on housing finance and economic growth (third) but seventh on construction work done, unemployment and equipment investment.

South Australia

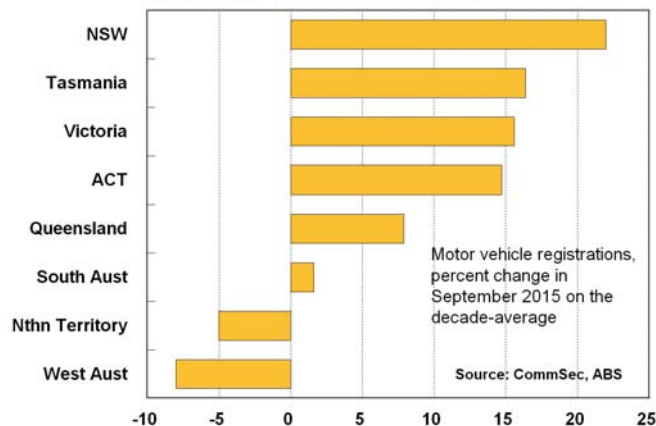
South Australia is highest ranked (third) on population growth and equipment investment. But SA is seventh on economic growth and retail trade.

Tasmania

While Tasmania is ranked first on unemployment it is seventh or eighth ranked on five other criteria.

LOOKING AHEAD

Auto sales solid across the nation



- NSW is currently the premier economic state and that is made even clearer by looking at another measure of consumer and business spending – motor vehicle registrations. In fact, the new car sales data (or registrations) also confirms the strong position of the Victorian economy.
- NSW has solid momentum. Population is above long-term averages and that is driving home purchase and construction and retail spending. As a result, jobs are being created, keeping the jobless rate stable.
- Victoria also possesses solid momentum through similar channels – rising population growth and housing construction. There is little to separate NSW from Victoria and both economies look to maintain their gap with the other economies.
- In contrast to NSW and Victoria, it is clear that both the Northern Territory and Western Australia are losing momentum. The mining and energy sectors are transitioning from the investment phase to production. But unlike NSW and Victoria, housing demand is not filling the void.
- The Northern Territory is ranked eighth on population growth, housing finance and dwelling starts. Similarly, Western Australia is ranked sixth on population growth and fifth on both housing finance and dwelling starts.
- There has been little movement in the position of Queensland in the state and territory rankings. The Queensland economy is middle-ranking on most criteria but encouragingly the trend unemployment rate is holding at 16-month lows.
- There are mixed conditions in the ACT. The Territory is third ranked on housing finance and economic growth but seventh ranked on three other indicators.
- Tasmania and South Australia have drawn closer to both the Queensland and ACT economies in the economic performance rankings over the past quarter. Tasmania has most potential to improve further, now ranked number one on unemployment and with dwelling starts up over 54 per cent on a year earlier.

Terms and conditions

Produced by Commonwealth Research based on information available at the time of publishing. We believe that the information in this report is correct and any opinions, conclusions or recommendations are reasonably held or made as at the time of its compilation, but no warranty is made as to accuracy, reliability or completeness. To the extent permitted by law, neither Commonwealth Bank of Australia ABN 48 123 123 124 nor any of its subsidiaries accept liability to any person for loss or damage arising from the use of this report.

The report has been prepared without taking account of the objectives, financial situation or needs of any particular individual. For this reason, any individual should, before acting on the information in this report, consider the appropriateness of the information, having regard to the individual's objectives, financial situation and needs and, if necessary, seek appropriate professional advice. In the case of certain securities Commonwealth Bank of Australia is or may be the only market maker. This report is approved and distributed in Australia by Commonwealth Securities Limited ABN 60 067 254 399 a wholly owned but not guaranteed subsidiary of Commonwealth Bank of Australia.

This report is approved and distributed in the UK by Commonwealth Bank of Australia incorporated in Australia with limited liability. Registered in England No. BR250 and regulated in the UK by the Financial Conduct Authority (FCA). This report does not purport to be a complete statement or summary. For the purpose of the FCA rules, this report and related services are not intended for private customers and are not available to them.

Commonwealth Bank of Australia and its subsidiaries have effected or may effect transactions for their own account in any investments or related investments referred to in this report.

CONTACTS

Craig James
Chief Economist
Twitter: @CommSec

Savanth Sebastian
Economist
Twitter: @CommSec