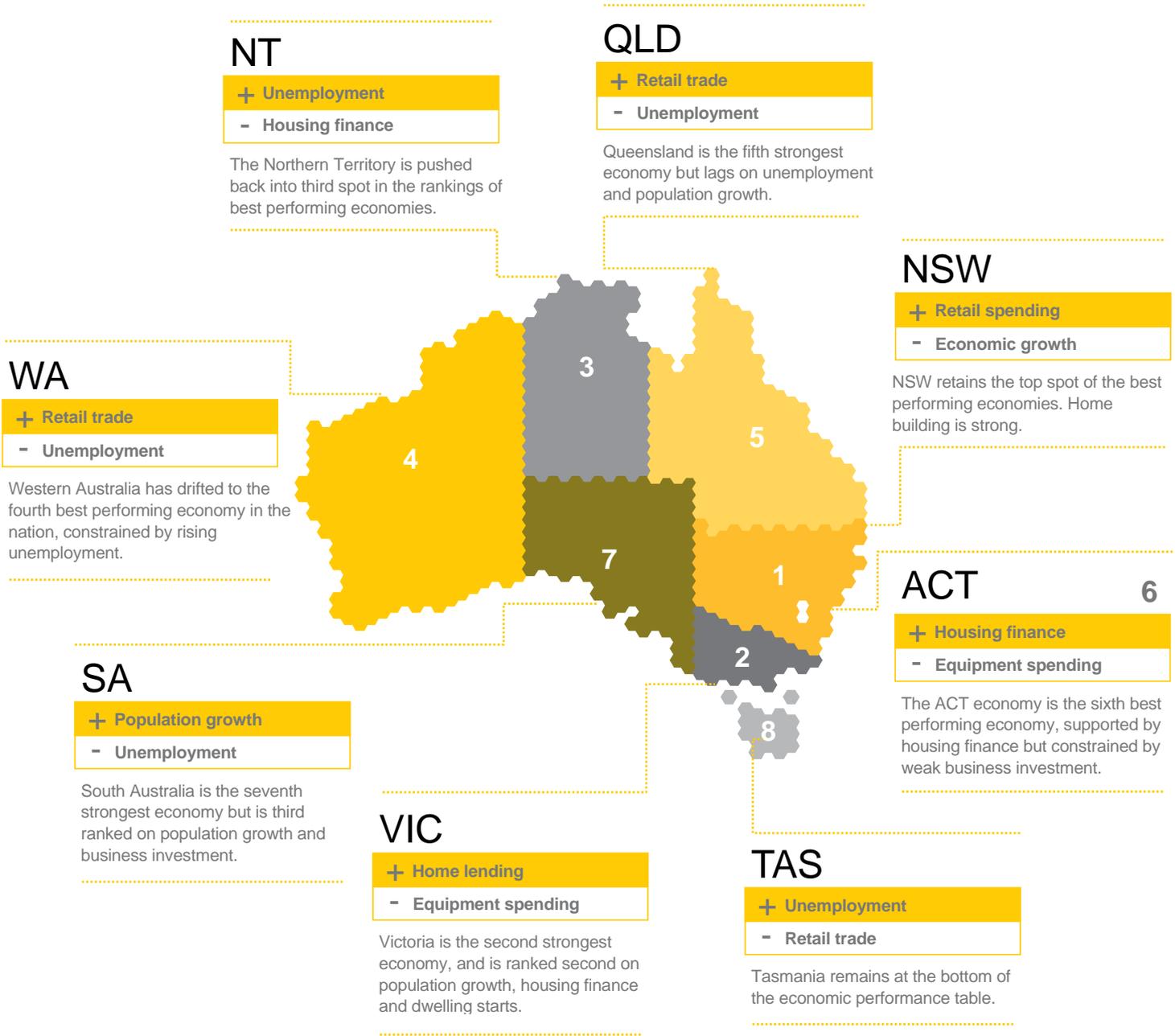


State of the States

July 2015 State & territory economic performance report.
Executive Summary



NSW ON TOP; VICTORIA NOW 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.

In the latest results NSW has consolidated its spot at the top of the economic rankings and there is now a wider gap to the next grouping of states and territories.

Interestingly, Victoria has now taken second spot, leaping both Northern Territory and Western Australia. While there is little to separate these three economies, Northern Australia is in third spot while Western Australia is fourth ranked.

Queensland barely holds on to fifth spot from the ACT (sixth). They effectively constitute a third tier of economies. The fourth tier of economies is made up of South Australia (seventh) and Tasmania (eighth).

- NSW has retained its top rankings on population growth, retail trade and dwelling starts. It is now second placed on unemployment and is also second strongest on equipment investment. The other rankings are: housing finance (third); construction work (fourth) and economic growth (fifth).
- Victoria has now lifted into second spot on the economic performance rankings. Victoria's main strengths are population growth and housing demand but lags on equipment investment (fifth).
- The Northern Territory is now the third ranked economy, drifting down from equal first to second and now to third in recent surveys. While the Northern Territory is ranked first on four indicators including economic growth and the job market, it is eighth on population growth and housing.
- Western Australia has now drifted to fourth spot on the performance rankings. Western Australia is second ranked on economic growth but slower population growth and higher unemployment are affecting economic performance.
- Queensland retains fifth position on the economic performance table. Queensland does best on retail trade and equipment investment. But Queensland is sixth ranked on unemployment, construction work and economic growth.
- The ACT economy has retained sixth position on economic performance. The territory ranks first on housing finance and third on economic growth but is eighth ranked on equipment investment.
- South Australia retains seventh spot on the economic performance rankings but is close to Tasmania on the leader-board. South Australia does best on population growth and equipment investment (both third ranked) but is eighth on construction work done.
- Tasmania remains at the bottom of the Australian economic performance table. While the state is ranked third on unemployment it is either seventh or eighth on five of the criteria assessed.

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.

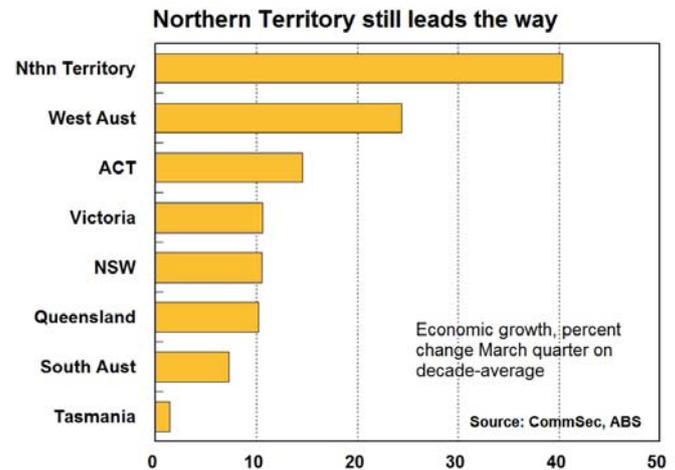
The aim is to find how each economy is performing compared with "normal". And just like the Reserve Bank does with interest rates, we used decade-averages to judge the "normal" state of affairs. For each economy, the latest level of the indicator – such as retail spending or economic growth – was compared 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 4.1 per cent is lowest of all economies. But this jobless rate is actually up 16.7 per cent on its 'normal' or decade-average rate of 3.5 per cent, ranking it fourth on this indicator – that is, it is middle-ranked 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.

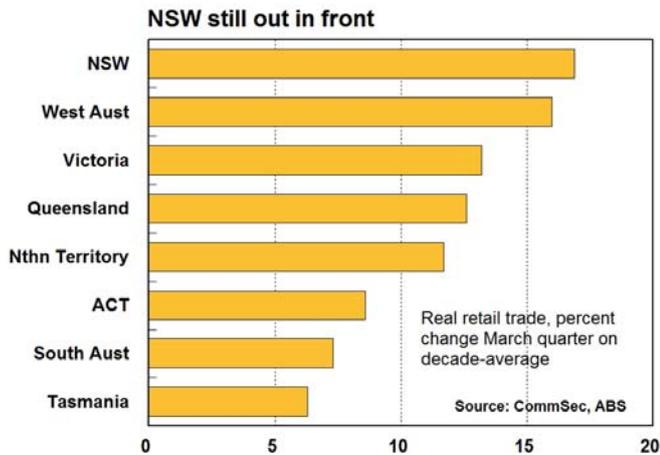
ECONOMIC GROWTH



- 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 more than 40 per cent above its 'normal' or decade-average level of output.
- Next strongest is Western Australia, with output around 24 per cent higher than the decade average level of output. Then follows ACT (up 14.6 per cent) from Victoria and NSW (up 10.6 per cent).
- At the other end of the scale, economic activity in Tasmania in the March quarter was just 1.4 per cent above its decade average, while South Australian activity was up just over 7 per cent on its 'normal' or average output over the past decade.
- Interestingly Victoria has the fastest annual economic growth rate in the nation, up by 2.9 per cent on a year ago, ahead of Western Australia with 2.7 per cent and NSW, Northern Territory and the ACT (1.9 per cent).
- By contrast, the Queensland economy is down 0.9 per cent on a year ago, while South Australian economic activity is up 0.6 per cent on a year ago with the Tasmania economy up 1.1 per cent on a year ago.

“Victoria has the fastest annual economic growth rate in the nation, up by 2.9 per cent on a year ago, ahead of Western Australia with 2.7 per cent and NSW, Northern Territory and the ACT (1.9 per cent).”

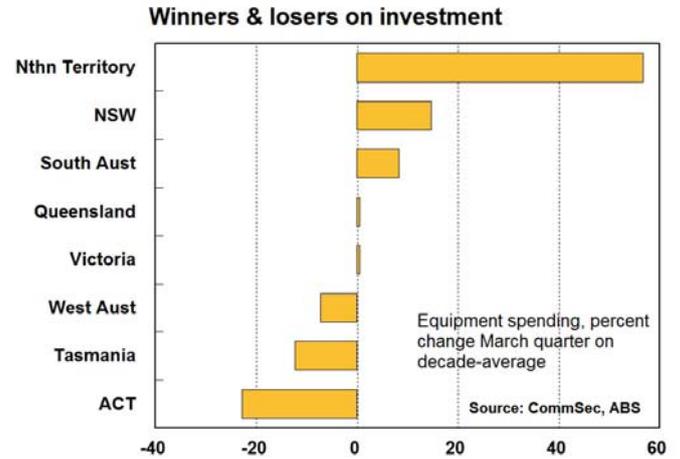
RETAIL SPENDING



- The measure used was real (inflation-adjusted) retail trade in trend terms with March 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 March quarter 16.9 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 per cent above decade-average levels. Unemployment remains below that of other states, while home building is solidly up on decade averages.
- Victoria (up 13.2 per cent) and Queensland (up 12.6 per cent) have now leap-frogged the Northern Territory which has dropped to fifth position, with spending 11.7 per cent above decade averages.
- Tasmania now has the weakest result on retail spending, up just 6.3 per cent on the decade average and below South Australia with 7.3 per cent growth and the ACT with 8.6 per cent growth.
- If monthly retail trade was assessed instead to calculate the rankings (May data available), the rankings would be exactly the same, except Queensland would be just ahead of Victoria.
- In terms of annual growth of real retail trade, NSW is strongest, up 4.7 per cent, from South Australia, up 4.1 per cent, and Victoria, up 3.6 per cent. Interestingly the ACT has the fastest annual growth in monthly retail trade, up 6.0 per cent over the year with solid growth in just the last three months.

“In terms of annual growth of real retail trade, NSW is strongest, up 4.7 per cent, from South Australia, up 4.1 per cent, and Victoria, up 3.6 per cent.”

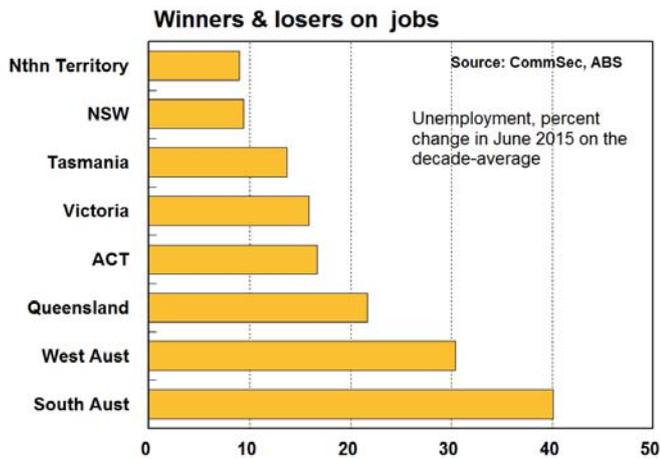
EQUIPMENT INVESTMENT



- Northern Territory remains well out in front of the other states and territories when it comes to equipment investment. Spending in the March quarter was a massive 56.8 per cent above ‘normal’ – or decade-average levels.
- Up until the September quarter last year, resource-driven economies led the way on investment. However that has changed with NSW in second spot for a third quarter with equipment spending 14.7 per cent above decade-averages.
- Equipment investment in South Australia was up 8.3 per cent above decade-average levels, followed by Queensland and Victoria (both up 0.5 per cent).
- By contrast, new equipment spending in the ACT was 22.9 per cent below its longer-term average in the March quarter, a sharp deterioration after being down 7.4 per cent on the ‘normal’ level in the December quarter.
- Equipment spending is also below decade-average levels in Tasmania (-12.3 per cent) while spending in Western Australia is now in negative territory (-7.2 per cent).
- On a shorter-run analysis, equipment investment in the March quarter was higher than a year ago in five of the state and territory economies (last quarter, six 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 38.1 per cent), followed by South Australia (up 18.1 per cent) and NSW (up 14.4 per cent).
- By contrast new equipment investment in the ACT was down 8 per cent on a year ago while spending in Western Australia was down 7.6 per cent on a year ago.

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

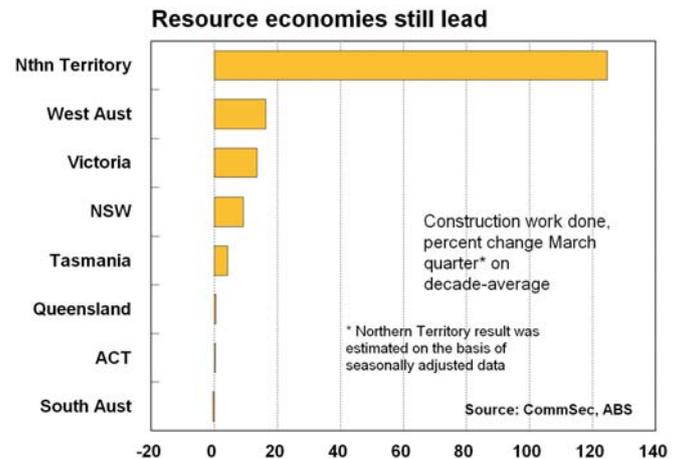
UNEMPLOYMENT



- The Northern Territory has retained the position of strongest job market in the nation. Not only is unemployment in the Northern Territory the second lowest in the nation in trend terms (4.5 per cent), but its jobless rate is only 9 per cent above its 'normal' or decade average level of 4.1 per cent.
- But across all the states and territories, the latest unemployment rates are above their decade-average levels. NSW has moved up the rankings taking the second spot from Tasmania with a jobless rate of 5.8 per cent, only 9.4 per cent above its decade average.
- In Tasmania the jobless rate is holding at 6.9 per cent, but it is 13.7 per cent above its decade average level of 6.1 per cent.
- In Victoria, unemployment stands at 6.2 per cent, up 15.9 per cent on its decade average of 5.4 per cent
- The ACT has the lowest unemployment rate across the nation at 4.1 per cent but it is 16.7 per cent above its decade average of 3.5 per cent.
- At the other end of the scale is South Australia. Trend unemployment is the highest in the nation at 7.8 per cent, this is over 40 per cent higher than the 5.6 per cent 'normal' or decade-average level – taking the mantle of the worst performance in the nation from Western Australia.
- In Western Australia the trend unemployment rate is the third lowest in the nation at 5.5 per cent, however this is over 30 per cent higher than the 4.2 per cent 'normal' or decade-average rate level.
- Queensland's 6.3 per cent jobless rate is up 21.7 per cent on the 'normal' level.

"The ACT has the lowest unemployment rate across the nation at 4.1 per cent but it is 16.7 per cent above its decade average of 3.5 per cent."

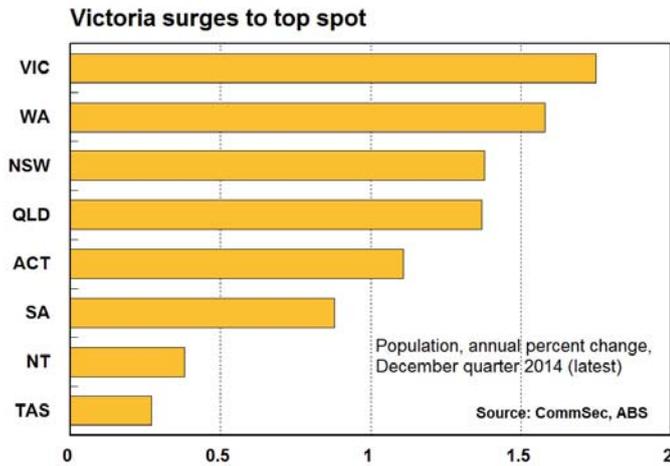
CONSTRUCTION WORK



- The measure used for analysis was the total amount of residential, commercial and engineering work actually completed in trend terms in the March 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 seven 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 (South Australia).
- Construction work done in the Northern Territory was almost 125 per cent above its decade average (seasonally adjusted), ahead of Western Australia (up 16.2 per cent) while Victoria construction was up 13.5 per cent on 'normal' levels.
- In South Australia, overall new construction work completed is now 0.6 per cent below the decade average after being up 3.2 per cent on its decade average in the December quarter.
- Next weakest to South Australia is the ACT where construction work is just 0.3 per cent above decade averages, followed by Queensland (up 0.5 per cent).
- NSW is fourth ranked with construction work 9.2 per cent above decade averages. Tasmania is fifth ranked with construction work 4.2 per cent above 'normal' levels.
- In terms of annual growth rates, Northern Territory construction work done in the March quarter was up 70 per cent on a year ago (seasonally adjusted), followed by Tasmania, up 11 per cent, and Victoria, up 7 per cent.

"In terms of annual growth rates, Northern Territory construction work done in the March quarter was up 70 per cent on a year ago (seasonally adjusted)."

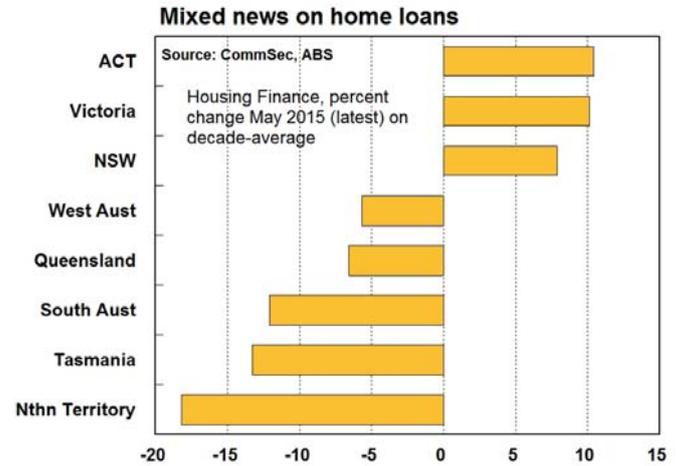
POPULATION GROWTH



- 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 South Australia in the past quarter.
- While NSW has only the third fastest annual growth rate at 1.38 per cent, this is 11.2 per cent above the decade average (last quarter was 17 per cent above 'normal'.)
- Victoria now has the strongest annual population growth and is second on the differential with the decade-average rate. Victoria's population is 1.75 per cent higher than a year ago and this growth rate is 2.2 per cent higher than the 'normal' or decade-average level.
- Western Australia is now second on population growth for the first time in nine years with an annual growth rate of 1.58 per cent. And population growth is 39.8 per cent below decade-average levels.
- At the other end of the leader-board is Tasmania where the annual population growth of 0.27 per cent was 57.1 per cent below the decade average rate of 0.63 per cent. Next lowest was Northern Territory with population growth of 0.38 per cent, down 79.7 per cent on the decade average.

“Western Australia is now second on population growth for the first time in nine years with an annual growth rate of 1.58 per cent.”

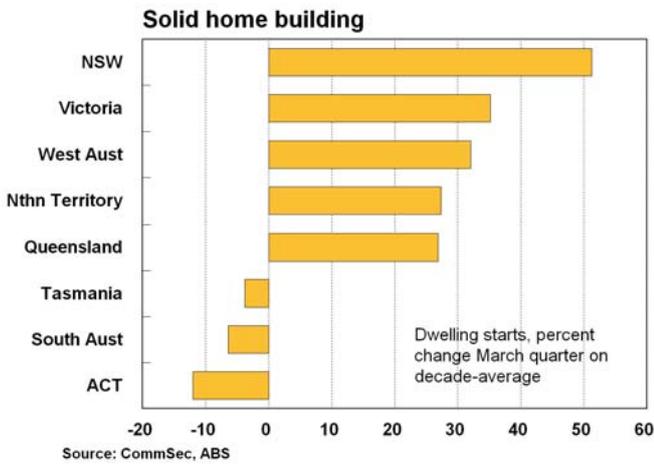
HOUSING FINANCE



- 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 three of the states and territories – ACT, Victoria and NSW – trend housing finance commitments are above decade averages. And in four of the eight economies, trend commitments in May were above year-ago levels – ACT, Victoria, NSW and Queensland.
- The ACT has now taken top spot for housing finance, with the number of commitments 10.4 per cent above the long-term average. Next strongest was Victoria, up 10.1 per cent on the decade-average.
- NSW has slipped from second to third spot on housing finance, up 7.9 per cent on the decade average, followed by Western Australia (down 5.7 per cent).
- Northern Territory remains the weakest for housing finance with trend commitments more than 18 per cent lower than its decade average. Next weakest was Tasmania with trend commitments down 13.3 per cent on the decade average. And the 4.6 per cent annual decline in commitments is the weakest in almost three years.
- In South Australia, home loan commitments are 12.1 per cent below decade averages.

“In three of the states and territories – ACT, Victoria and NSW – trend housing finance commitments are above decade averages.”

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 five of the states and territories and starts are above levels of a year ago in all but the ACT.
- NSW holds the mantle of the strongest in the nation for new home construction, with starts 51 per cent above decade averages. In addition in the March quarter the number of dwellings started was 11.6 per cent higher than a year earlier.
- Victoria moved past the resource states to take second spot, with starts 35.2 per cent above decade averages, followed by Western Australia with starts up 32 per cent on decade averages and Northern Territory, up 27.3 per cent.
- At the other end of the scale, ACT dwelling starts were 12 per cent below decade averages. And even in the March quarter starts were down almost 28 per cent on a year earlier. Next weakest was South Australia (down 6.4 per cent) from Tasmania (down 3.8 per cent on the decade average). On a positive note Tasmanian dwelling starts were up 32 per cent in the March quarter compared with a year ago.

“NSW holds the mantle of the strongest in the nation for new home construction, with starts 51 per cent above decade averages”

OTHER INDICATORS

WAGES & PRICES*

| | Wages | Consumer Prices | Home Prices |
|--------------------|-------|-----------------|-------------|
| NSW | 2.1 | 1.6 | 16.2 |
| Victoria | 2.6 | 1.0 | 10.2 |
| Queensland | 2.3 | 1.4 | 3.4 |
| South Australia | 2.5 | 1.1 | 4.5 |
| Western Australia | 2.1 | 1.4 | -0.9 |
| Tasmania | 2.3 | 0.9 | 0.8 |
| Northern Territory | 2.4 | 0.8 | -2.9 |
| ACT | 1.8 | 0.6 | 2.4 |

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

- For the second straight quarter, all states and territories recorded real wage growth, serving to support retail spending, housing demand and also home prices.
- Strongest real wage growth was recorded in both Victoria and Northern Territory with wages 1.6 percentage points (pp) higher than consumer prices. Real wage growth was also solid in both South Australia and Tasmania at 1.4pp.
- Real wage growth was next highest in the ACT at 1.2pp, followed by Queensland at 0.9pp.
- At the other end of the scale, in NSW wage growth of 2.1 per cent was only modestly above the 1.6 per cent annual growth of prices. Real wages were only modestly positive in Western Australia (+0.7pp).
- Turning to home prices, in June six of the capital cities had positive annual growth of home prices. Back in March three capital cities had home prices lower than a year earlier – Darwin, Hobart and Perth.
- Strongest growth in home prices was in Sydney (up 16.2 per cent) followed by Melbourne (up 10.2 per cent) and then there was a fair gap to the other capital cities.
- Next strongest was Adelaide with home prices up 4.5 per cent on a year ago, followed by Brisbane (up 3.4 per cent), Canberra (up 2.4 per cent) and Hobart (up 0.8 per cent).
- Home prices were lower than a year ago in Darwin (-2.9 per cent), and Perth (-0.9 per cent).
- Last quarter we observed that across Australia there appeared to evidence that annual growth of home prices had eased. But in the past three months, annual growth in home prices lifted from 7.4 per cent to 9.8 per cent.

“Turning to home prices, in June six of the capital cities had positive annual growth of home prices.”

STATE BY STATE BREAKDOWN

NSW

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

Victoria

Victoria is best on housing finance and population (second ranked). But the weakest position is on equipment investment (fifth).

Northern Territory

The NT is top on four indicators: construction work done, equipment investment, economic growth and unemployment.

Western Australia

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

Queensland

Queensland does best on retail spending and equipment investment (fourth). But the state is fifth or sixth on the other indicators.

ACT

ACT is strongest on housing finance but seventh on overall construction work done and eighth on equipment investment.

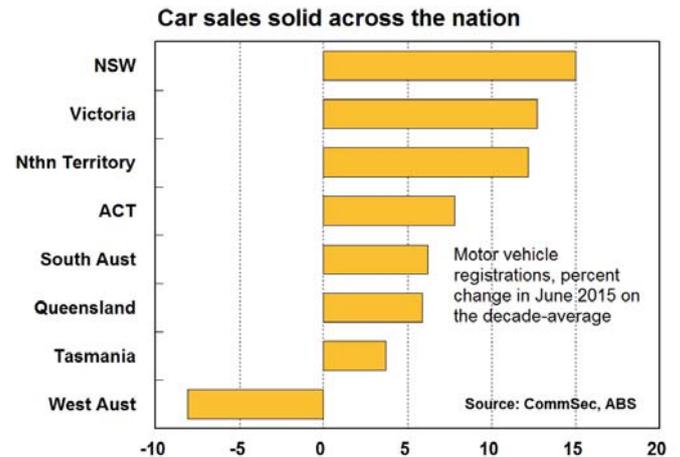
South Australia

South Australia is highest ranked (third) on population growth and equipment investment. But SA is eighth on the jobless rate and construction work done.

Tasmania

While Tasmania does best on unemployment (third ranked) it is seventh or eighth ranked on five criteria.

IMPLICATIONS AND OUTLOOK



- There is no doubt that NSW is the premier economic state at present. This is highlighted by an indicator that we haven't previously included in the State of States report – motor vehicle registrations.
- In fact the top three economies are also ranked top three on new car registrations (sales). And overall – looking at all the indicators – the current economic performance rankings seem to stack up.
- NSW is doing best because population is growing, leading to more homes built and bought and lifting retail spending.
- Victoria is also generating momentum through the similar channels of population growth and housing activity. But softness in the manufacturing sector is restraining momentum of the broader economy.
- In the Northern Territory, the difficulty in attracting workers is keeping the job market tight but it is restricting demand for new and existing homes. But the strength of activity in the gas sector is underpinning equipment investment and overall construction activity.
- In Western Australia, the ending of the mining construction boom continues to trim momentum and thus overall economic performance.
- Queensland retains fifth position. The Queensland economy is middle-ranking on most criteria but encouragingly the trend unemployment rate has hit a 13-month low.
- There are mixed conditions in the ACT. The Territory is strongest on housing finance but is eighth ranked on equipment investment. Unemployment is lowest in the nation at 4.1 per cent.
- There is little to separate the South Australian and Tasmanian economies in the performance rankings. South Australia does best on population growth versus the decade average but this hasn't yet lifted rankings for housing finance or construction work.
- Tasmanian unemployment hit a 3-year low in January, but has reversed course to an 8-month high in June.

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