

KEY POINTS Divergence in reverse



- Solid growth across the large south-eastern states has become increasingly entrenched over the past year, while difficult conditions in the mining sector are having a more pervasive impact across Western Australia, the Northern Territory and parts of Queensland.
- Looking forward, New South Wales and Victoria will remain in the lead in coming years in terms of state final demand, and real gross state product growth will be neck and neck. Services activity (including but not limited to tourism and education exports) is clearly outperforming, while both states are benefiting from strong population growth, high levels of housing construction, infrastructure expenditure and a modest pick up in wages. The challenge for both states will be to sustain momentum as the impetus to growth from the lower AUD and housing construction starts to tail off.
- The combination of low commodity prices and lower mining investment is having a more pronounced impact on WA, the NT and parts of Queensland to differing degrees. The labour market adjustment in particular, and negative impact on labour incomes, will become more marked over coming years, with flow on effects to consumer spending, business investment and government revenue. In terms of timing, the drag will come earlier in Queensland, where all three major LNG projects have started shipping or are due for completion in 2016. While state final demand will remain weak however, real gross state product in these states will be supported by the surge in LNG export volumes currently underway.
- Strength in tourism spending (both domestic and international) and education exports remain bright spots for most states and territories, including Queensland, Tasmania, SA and the larger states of NSW and Victoria – the NT however has not received the same boost over the past year. Higher income levels in Asia, coupled with Australia's stable geopolitical environment should sustain tourism activity, although the pace of growth may ease as the pace of AUD depreciation diminishes.
- Recent policy announcements in SA are also encouraging, and there are some greenshoots emerging in the monthly data. The capacity for growth to pick up in SA will be constrained by the more limited industrial base and ageing population – similar challenges remain for Tasmania.
- Conditions in the ACT have also improved as public sector hiring freezes have been lifted. although fiscal pressure will remain a risk for the ACT given its dependence on the public sector.
- Better rainfall will be positive for broadacre crop production and exports in WA, SA and NSW, although the low dairy price is a concern for Victoria and Tasmania.
- The main area for which there is potential upside is private non-mining business investment. Even in the more diversified economies, forward-looking indicators are mixed, despite business confidence holding up (for now) and business conditions solid. There will however be offset from infrastructure expenditure in NSW and Victoria in particular, while initiatives to support the submarine industry will boost investment in SA and help offset the impact of imminent declines in car manufacturing.
- A snapshot of the outlook for each state and territory is on the following page. Links to individual handbooks for each state and territory are on the right.

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LINKS TO INDIVIDUAL STATE PACKS

New South Wales

Victoria

Queensland

Western Australia

South Australia

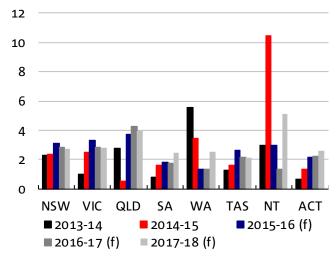
Tasmania

Australian Capital Territory

Northern Territory

GROSS STATE PRODUCT FORECASTS

Annual % change



SUMMARY OUTLOOK and forecasts



- The New South Wales economy will remain one of the standouts, as the
 rebalancing back towards the non-mining sectors continues. Growth in state
 final demand has been supported by household consumption, a high level of
 dwelling investment and improved business investment, while services exports
 have been particularly robust. Infrastructure investment will also support NSW,
 although growth will ease somewhat as momentum from the housing sector
 and AUD depreciation begins to fade.
- The broadening non-mining recovery is also benefiting Victoria, especially
 through the pick-up in the services sector. Strong employment and housing
 market growth are propping up household consumption and dwelling
 investment. Strong relative population growth and infrastructure spending will
 maintain economic growth at a healthy rate above the national average,
 although it will ease back slightly owing to reduced currency depreciation and
 slower growth in residential property construction.
- Green shoots are emerging in South Australia, while recent policy announcements at the state and federal level aimed at promoting growth and jobs are encouraging. A limited industrial base and an ageing population will continue to constrain growth however, while the closure of a key car manufacturing plant is imminent.
- The Australian Capital Territory economy has emerged from the recent fiscal tightening and large scale public sector job cuts. While ongoing pressure for fiscal consolidation will remain a risk, we expect moderate growth going forward and low unemployment.

- In Queensland, real gross state product will grow solidly on the back of strong LNG exports and tourism. State final demand, however, will continue to contract as mining investment falls. In addition, income levels will remain subdued owing to lower commodity prices and a soft labour market. The economic transition post the mining boom is producing differing results across regions, industries and occupations. South-east Queensland with its larger population base and more diverse economy is outperforming, while mining regions are struggling.
- In Western Australia, the evolution of the mining cycle continues to drive economic conditions. Lower commodity prices and falling mining investment are having a momentous impact, well beyond the mining sector itself. The true impact of these events have been somewhat masked by the offsetting impact from net export volumes, while domestic demand, nominal growth and incomes are very weak. These trends will continue given the lack of momentum in non-mining sectors.
- The Tasmanian economic outlook has improved over the past year, although there is likely to be divergence in major industries: tourism continues to perform well, while farmgate price cuts will continue to put pressure on the state's hitherto burgeoning dairy industry.
- In the **Northern Territory**, the positive impact of the Icthys LNG project is tailing off and employment, wages, business investment and dwelling prices are starting to struggle. This will worsen upon project completion next year, although export volumes will boost GSP growth in 2017-18.

NAB growth and unemployment rate forecasts for the states								
	Gross State Product YoY				Unemployment Rate			
	14-15	15-16f	16-17f	17-18f	14-15	15-16f	16-17f	17-18f
NSW	2.4	3.1	2.9	2.7	5.9	5.4	5.1	5.3
VIC	2.5	3.3	2.9	2.8	6.4	6.0	5.6	5.8
QLD	0.5	3.7	4.3	3.9	6.5	6.2	6.2	5.8
SA	1.6	1.8	1.8	2.4	6.9	7.3	7.0	6.8
WA	3.5	1.3	1.4	2.5	5.4	6.0	6.5	6.5
TAS	1.6	2.6	2.2	2.1	6.9	6.5	6.7	6.8
NT	10.5	3.0	1.3	5.1	4.2	4.6	5.0	5.0
ACT	1.4	2.1	2.3	2.6	4.5	4.4	4.3	4.3
Australia	2.3	3.0	2.7	3.0	6.1	5-9	5.6	5.7

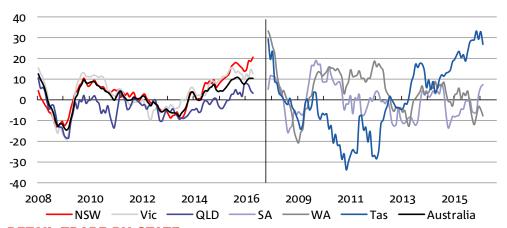
SOUTH-EASTERN STATES OUTPERFORMING

with strongest business conditions, consumer spending and labour markets

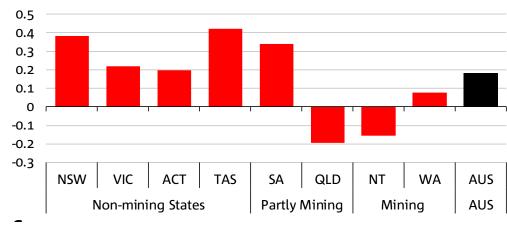
Business conditions are well above average in the south-eastern states of NSW, Vic and Tas. Activity is being driven by labour-intensive non-mining sectors (particularly services), which is supporting local labour markets in these states, as well as in the ACT, as reflected in lower rates of unemployment. Broad-based wages measures such as average compensation of employees are also starting to tick up in response. to support retail trade and consumer spending more broadly.

BUSINESS CONDITIONS BY STATE

Net balance, 3mma

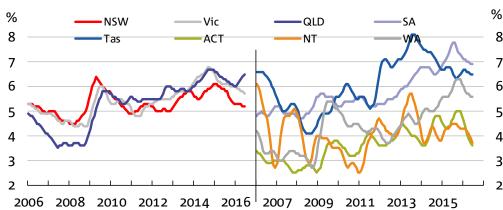


m/m % change, trend



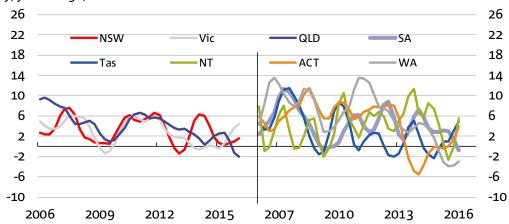
Meanwhile, business conditions in Qld have started to trend down and unemployment up, with the unwinding of LNG investment and associated employment becoming more pronounced. Conditions are also persistently negative in WA, although outflow of workers has seen the unemployment rate stabilise, as in the NT. On a more encouraging note, conditions in SA have turned up, as have retail which together with strong population growth and services exports should continue sales, although the improvement in unemployment reflects lower labour force growth owing to negative interstate migration.

% of labour force, trend



AVERAGE COMPENSATION OF EMPLOYEES BY STATE

y/y% change, trend



Source: ABS, NAB

BUSINESS CONFIDENCE HOLDING UP IN MOST STATES

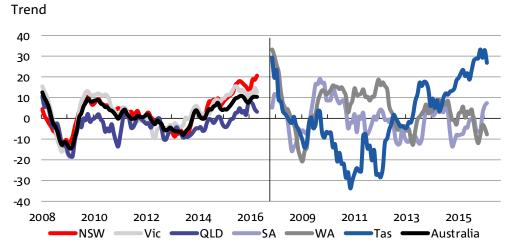
... but indicators of investment intentions mixed



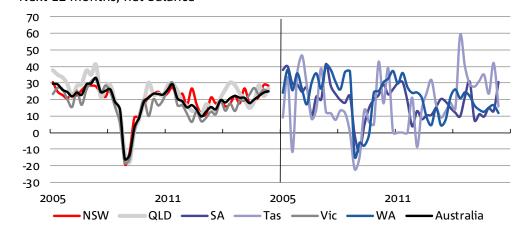
Non-mining states continue to experience the strongest business confidence, although confidence has eased in Tasmania.

Confidence is also trending downwards in Qld, although has bounced in WA – the latter may reflect higher iron ore prices of late, which we do not expect to be sustained.

BUSINESS CONFIDENCE BY STATE



CAPITAL EXPENDITURE EXPECTATIONS BY STATE (NAB SURVEY) Next 12 months, net balance

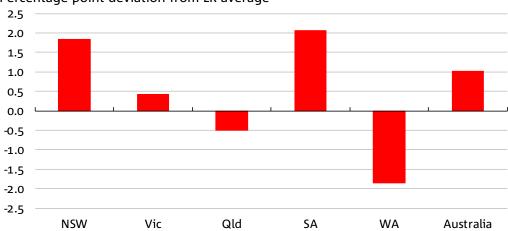


Source: NAB, ABS

Despite confidence levels, measures of capital expenditure expectations are mixed in most states. The NAB survey measures look more upbeat, while ABS measures suggest little to no growth in business investment, even in the non-mining states. While the ABS data do not include stronger performing industries such as health and education, the outlook for non-mining investment remains uncertain across most states, although capacity utilisation rates have improved recently.

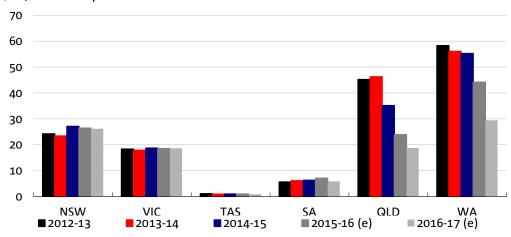
CAPACITY UTILISATION BY STATE

Percentage point deviation from LR average



CAPITAL EXPENDITURE, ACTUAL & EXPECTATIONS BY STATE (ABS)

\$bn, based on previous realisation ratio

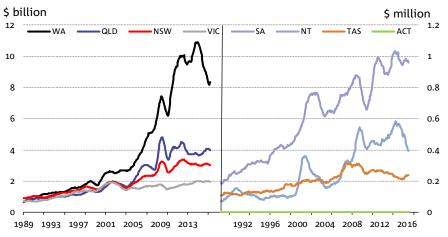


EXPORT VOLUMES TO SURGE

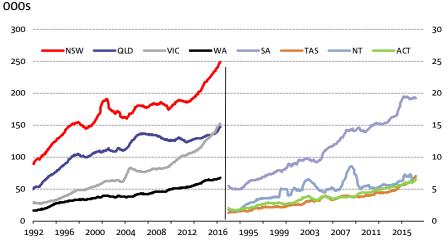
..led by LNG and services exports, while agri outlook mixed

volumes in Qld through the remainder of 2016 and WA in 2017, although this is not yet reflected in export earnings data. Meanwhile, most states are benefiting from stronger services exports including education exports (p7) and foreign and domestic tourism. Visitor arrivals data suggest NSW and Victoria have received the lion's share, although other states are benefiting, except for NT in the past year.

INTERNATIONAL EXPORT EARNINGS BY STATE



SHORT-TERM VISITOR ARRIVALS BY STATE

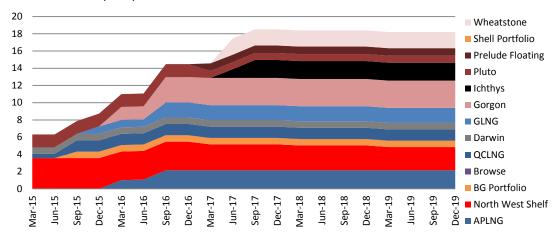


Source: ABS, NAB, Department of Industry, company reports

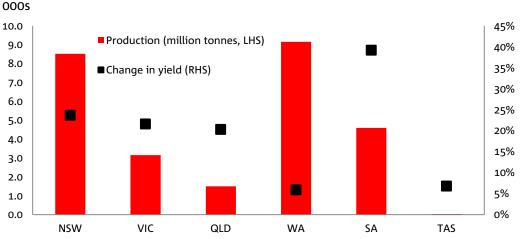
Our estimates of contracted supply for major LNG projects suggest a surge in export Good winter rainfall has boosted the outlook for agriculture across most of Australia. We expect wheat production in WA, NSW and SA to be generally above average. Surging cattle prices are flowing through Queensland, although volumes are likely to remain well below average and it may be difficult for some producers to restock at these prices. The low price outlook for dairy is a concern for Victoria – which accounts for around two-thirds of national production – as well as Tasmania.

LNG EXPORTS. CONTRACTED SUPPLY

Million tonnes per quarter



WHEAT PRODUCTION OUTLOOK BY STATE. 2016



DEMOGRAPHICS AND LABOUR MARKET

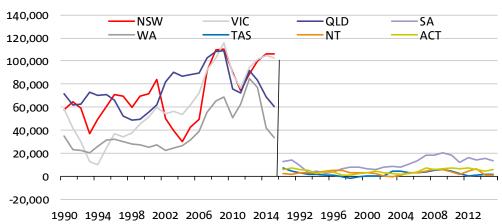
National Australia Bank

South-eastern states enjoying strongest population and employment growth

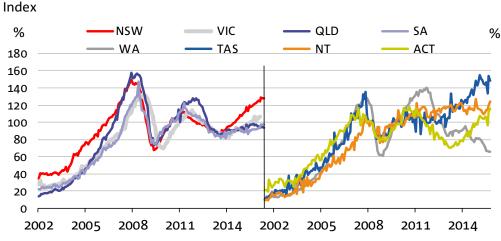
Population growth has strengthened in recent years in both **NSW** and **Victoria**. This has been driven in particular by net interstate migration (now positive in Vic and less negative in NSW) as workers return from WA and Qld in particular, or are attracted by better job prospects. These states also receive the greatest share of overseas migration. Trend employment growth is strongest in these states, particularly NSW, and job advertisements suggest a continuation near term.

POPULATION GROWTH BY STATE

Annual change, '000 persons



SEEK JOB ADVERTISEMENTS BY STATE

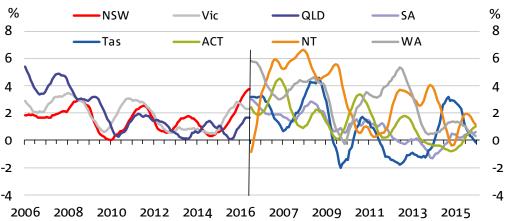


Source: ABS, Seek, Australian Education International

Analysis by NAB Economics suggests a further 50K mining job losses nationwide in coming years as mining investment tails off — concentrated in **Qld** and **WA**, although falls in Qld will come earlier with major LNG projects due for completion in 2016. Job ads have also turned down in Qld and WA, although worker outflow will minimise the impact on the unemployment rate. In **SA**, employment growth will remain weak given auto closures going forward, although support for the submarine industry and the recent pick up in job advertisements are encouraging signs.

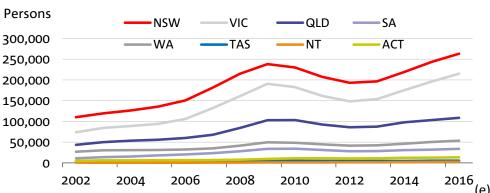
EMPLOYMENT BY STATE

y/y % change, trend



INTERNATIONAL STUDENT ENROLMENTS BY STATE

Persons, rolling annual sum



Note: The figure for 2016 has been estimated based on the historical seasonal patterns of international student enrolments

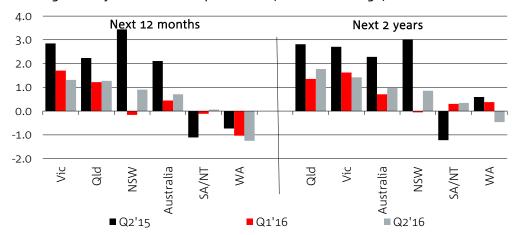
PROPERTY MARKETS AND FISCAL OUTLOOK ...also reflect mining/non-mining divide, with cooling in housing prices expected nationwide

WA

has been solid so far in 2016, with momentum picking up again in Sydney and Melbourne. Price growth for units/apartments has lagged. Renewed momentum in state housing markets is unlikely to be sustained given affordability constraints in the larger states and a strong supply response, particularly for apartments, coupled with tighter controls for foreign purchasers and macroprudential policies limiting investor credit growth. That said, while we expect dwelling prices to cool, the most

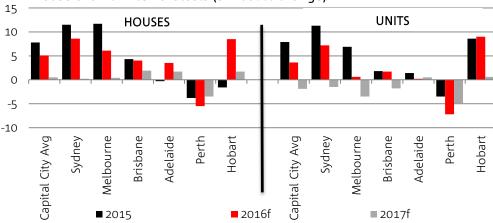
RESIDENTIAL PROPERTY SURVEY

Average Survey House Price Expectations (annual % change)



NAB ECONOMICS DWELLING PRICE FORECASTS

NAB House & Unit Price Forecasts (annual % change)



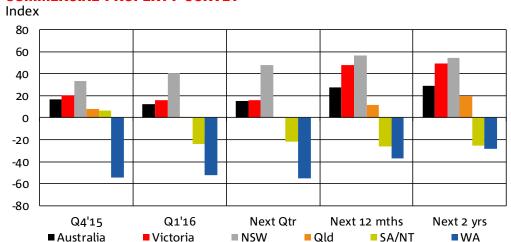
Source: NAB, ABS, individual state budget papers

With the exception of Perth where dwelling prices are declining, house price growth, likely outcome for most capital cities (except Perth) is for modest house price growth, and small apartment price declines.

> The commercial property index also suggests positive momentum in Victoria and NSW, but is clearly negative in mining/partly-mining states.

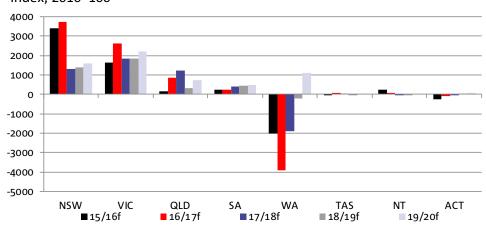
> Budget balances in eastern states are benefiting from strong population growth and housing market activity, while the budget position in mining states - especially WA has been heavily affected by lower royalties in the low commodity price environment.

COMMERCIAL PROPERTY SURVEY



BUDGET BALANCE BY STATE

Index, 2010=100



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