

State Update: Australian Capital Territory– September 2015

NAB Group Economics



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Key points

- **The ACT economy is likely to recover gradually in the next few years. The economy will continue to feel the effects of recent fiscal tightening and job cuts at the Federal level, with GSP growth remaining low at 1½% in 2015-16, before improving a little to 2½% in 2016-17. The ACT unemployment rate is expected to remain below the national average at 4.3% and 4.0% in 2015-16 and 2016-17 respectively.**
- The economic structure of the Australian Capital Territory (ACT) is heavily reliant on the Australian Public Service (APS), with Canberra being the national capital, surrounded by a small rural area. Around 33% of ACT’s employment and economic value-add are concentrated in the public administration sector, a number much higher than the national average.
- Due to its reliance on Federal government funding and employment, ACT’s economic growth tends to be more volatile than national average. The recent spending cuts by the Commonwealth Government and downsizing of the APS poses significant challenges to the ACT economy.
- **State final demand grew by a slower-than-average 3.0% in 2014-15, with employment falling by 0.7%.** The large job cuts to the APS also resulted in job losses in services industries including hospitality and communications services.
- **Despite negative employee earnings growth, household consumption has remained resilient.** The low interest rate environment and rising house prices will continue to support consumption growth while the labour market improves.
- **Strong dwelling investment will continue to contribute to ACTs economic growth.** The previous under supply in the housing market has resulted in positive price growth in Canberra dwellings. Residential approvals have been relatively strong as a result. Recent public sector job cuts and declining population growth did see approvals numbers fall back, but the beginning of 2015 saw approvals numbers pick up strongly again.
- **Looking ahead, the end of the Commonwealth Government hiring freeze will see the labour market recover,** and private sector employment is already showing promising signs. As the jobs prospects improve, population growth will also recover, supporting the growth in residential approvals. Non-dwelling investment has fallen from previous high levels. Its recovery is also dependent on Federal government funding levels and jobs growth in the ACT.

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Chart 1: State GDP Growth Forecasts

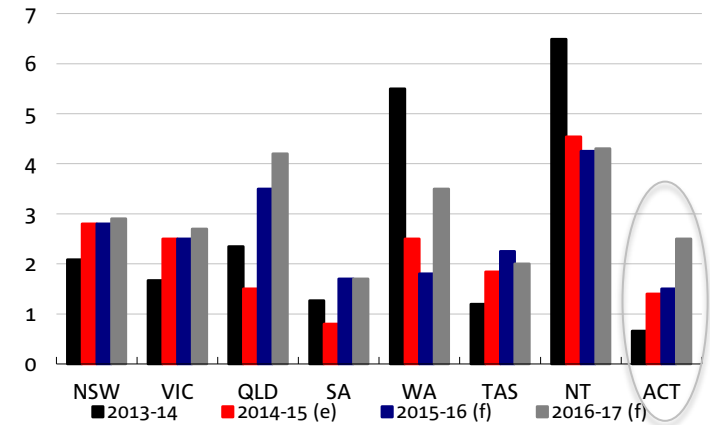
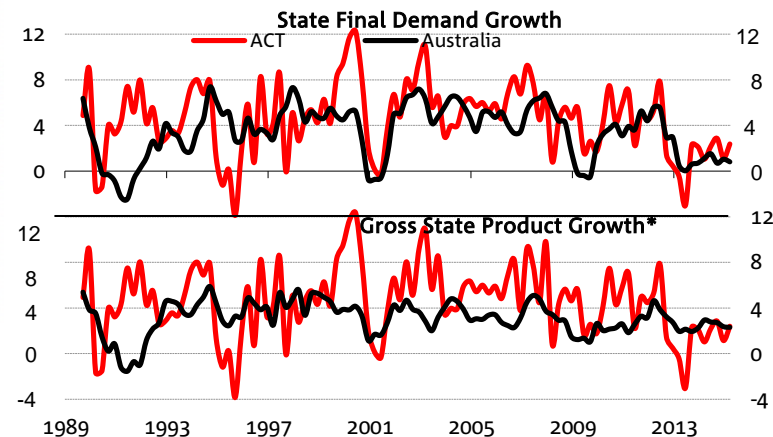


Chart 2: State Growth



*NAB Estimate

Source: ABS , NAB Economics



ACT's economy is dominated by the public sector

As home to Australia's Federal Parliaments and large numbers of public servants, ACT's economic growth is largely driven by Federal government decisions. Government consumption has been the largest driver of ACT's state final demand growth (Chart 3).

The recent large scale job cuts in the Australian Public Service (APS) has seen employment and overall economic growth slow in the ACT (Chart 4).

The Australian Capital Territory has a unique economic structure, with the public administration industry dominating both in terms of employment and economic contribution (Chart 5).

Related services industries including construction, hospitality and retail trade also provide many employment opportunities in the ACT.

Chart 3: Contributions to state final demand growth

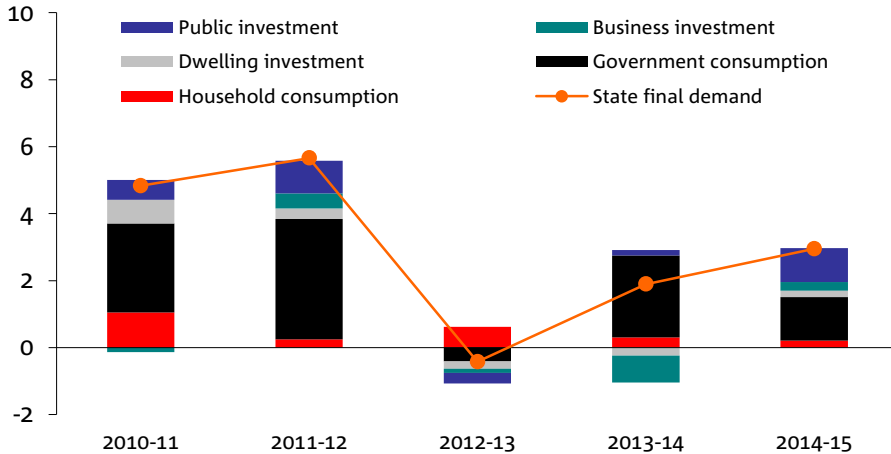
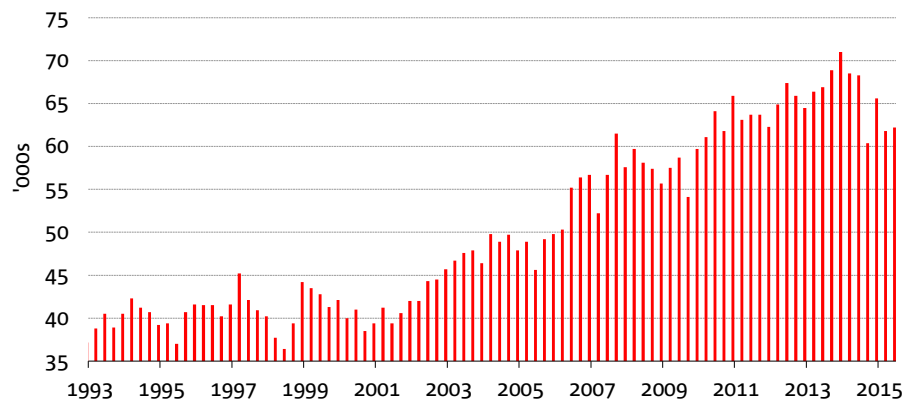
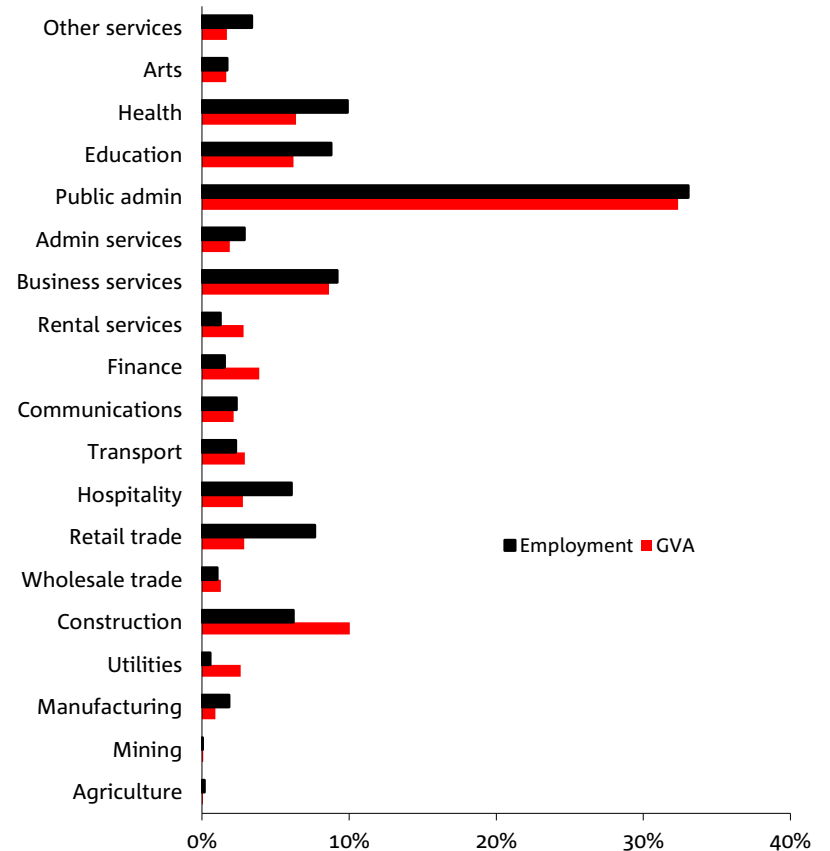


Chart 4: Employed persons, public admin & safety, 000s



Source: ABS

Chart 5: Share of industry GVA & Employment, ACT, 2013-14



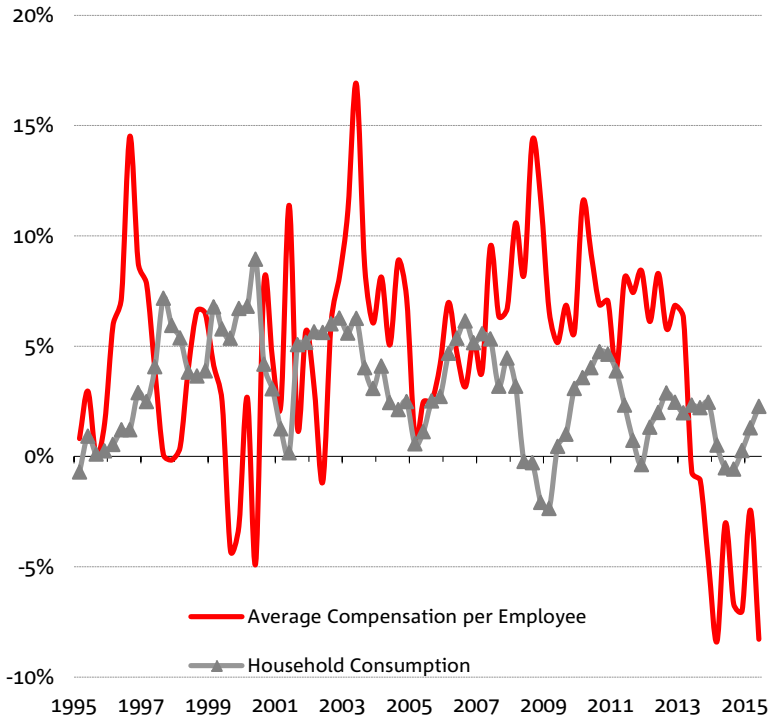


Households remain cautious with stagnant wages growth

With large-scale public sector job cuts, employee earnings growth in the ACT have been negative. Despite this, household consumption growth has picked up (Chart 6).

Rising house prices and higher share market prices have provided a boost to household wealth, which may be underlying the recovery in retail sales and consumption (Charts 7 & 8).

Chart 6: Average Compensation and Household Consumption Growth (YoY%)



Source: ABS, RP Data

Chart 7: Capital city dwelling prices

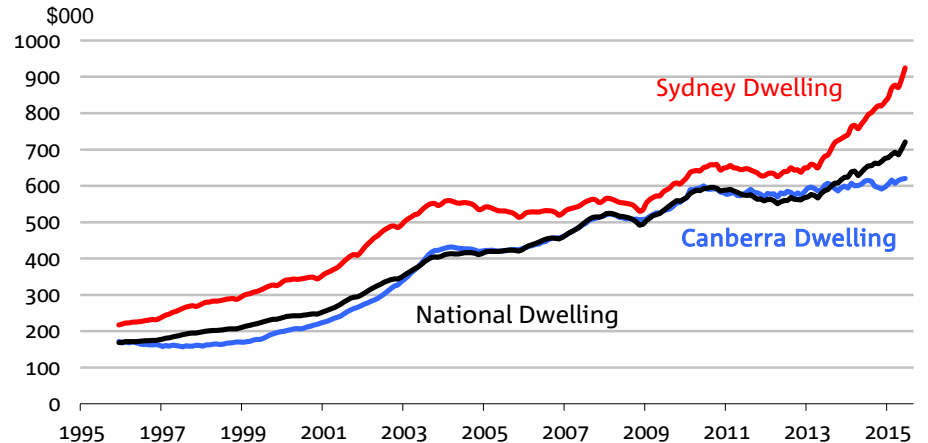
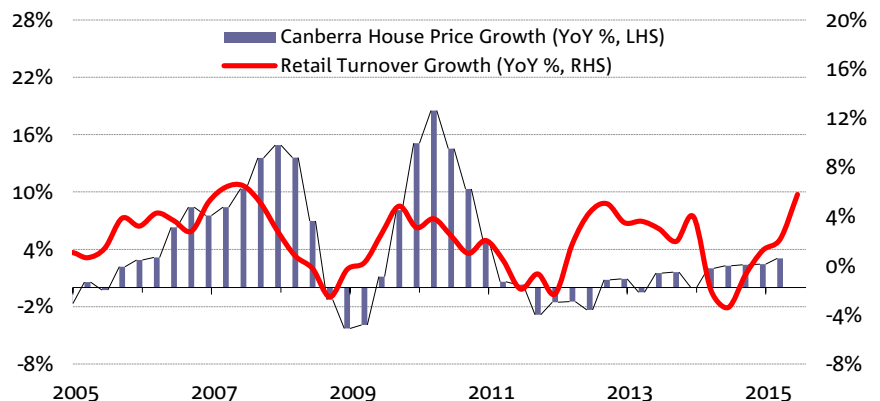


Chart 8: House price growth and retail turnover growth





Non-dwelling investment is weakening

With office vacancy rates continuing to rise in recent years, new office approvals numbers remain subdued. However, as the labour market improves, office vacancy rates have started falling back. This will likely see office approvals pick up again (Chart 9).

Other non-residential building approvals have also been declining (Chart 10).

While residential building construction will continue to contribute to ACT's economic growth, non-residential construction has declined in value (Chart 11).

Engineering construction work yet to be done remains at elevated levels, although is starting to decline (Chart 12).

Chart 9: ACT Office Market Conditions

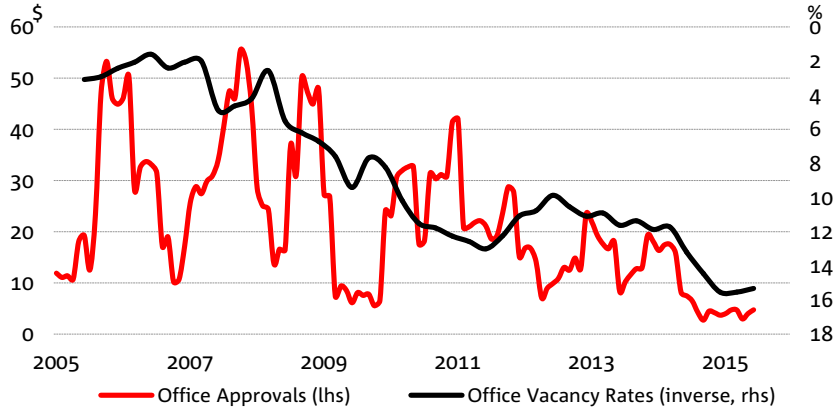


Chart 11: Work in the pipeline, nominal value, \$ billions

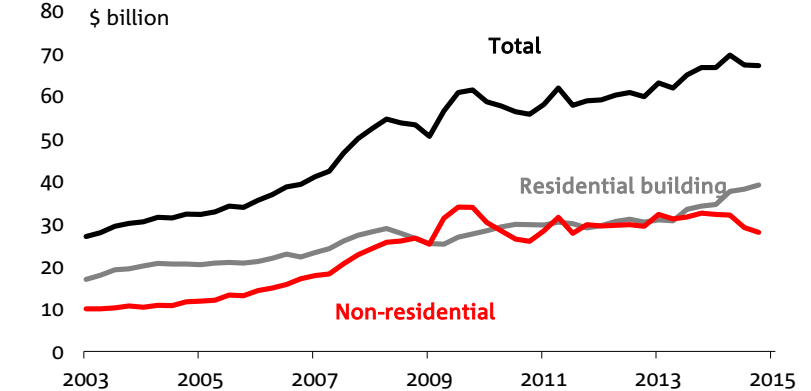


Chart 10: Non-residential Building Approvals (\$ 000s)

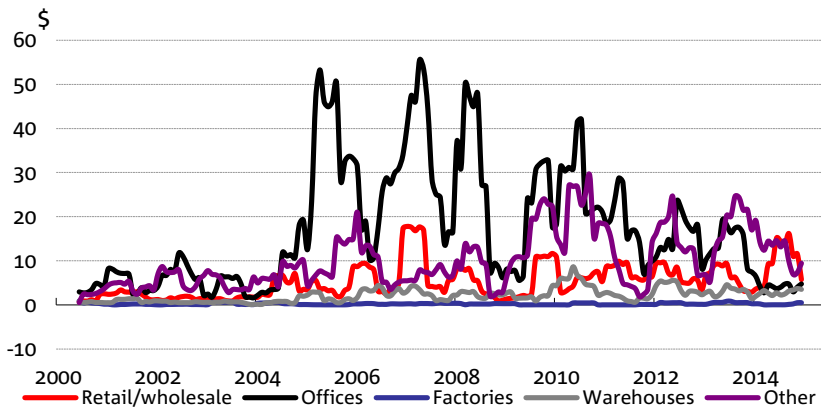
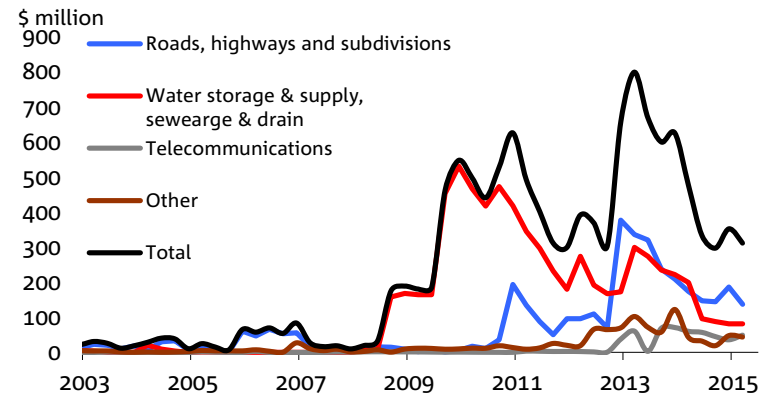


Chart 12: Engineering construction work yet to be done (private & public)





Significant job losses in the Australian public sector but private sector showing signs of improvement

Labour market conditions in the ACT have deteriorated significantly in the face of Australian Public Sector job cuts. The number of those employed in public admin& safety shrank by 10,000 from the peak in Dec 2013 to the trough in Sep 2014. Total employment in the ACT was 212,000 in the June quarter 2015, largely unchanged from its 2012 levels (Chart 13).

This caused negative employment growth for the ACT. However, job vacancies numbers show promising recovery in the private sector (Chart 14).

Since over 30% of ACT jobs are in the public sector, the industry worst affected by the Federal Government job cuts was Public Admin, who lost over 6000 jobs in the past 12 months. Related admin services, education and hospitality industries also suffered job losses.

Chart 13: Employed persons, YoY % growth, trend

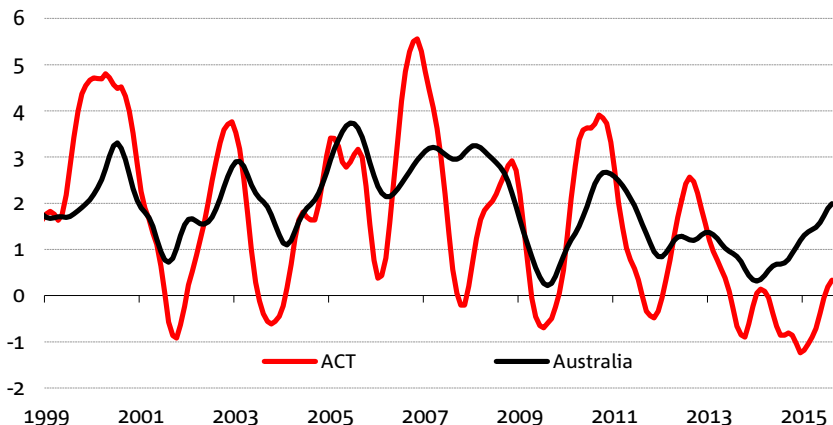


Chart 14: Job vacancies, 000s, ACT

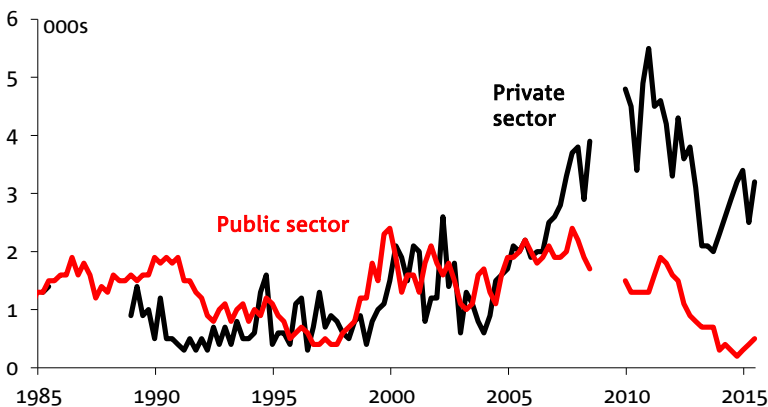


Chart 15: Change in employment by industry, last 12 months to Jun 2015, '000

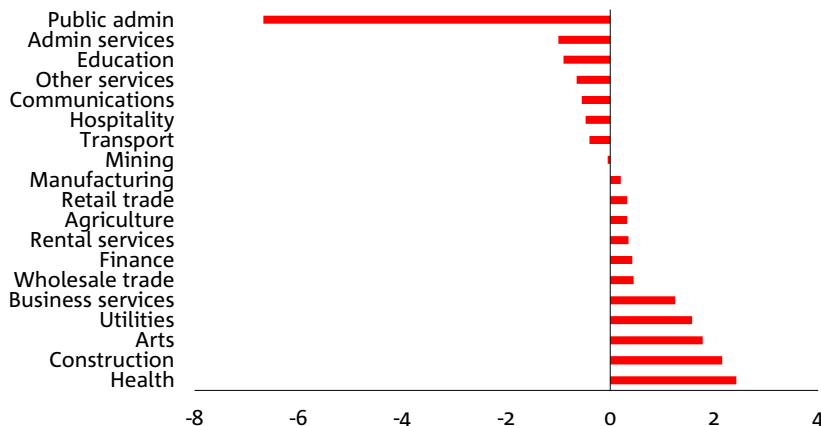
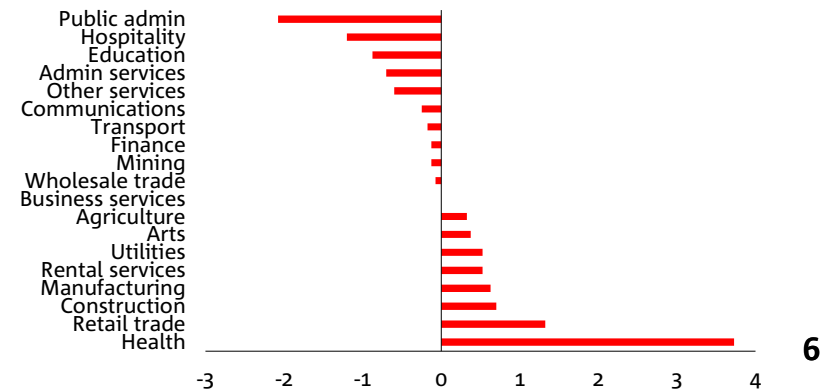


Chart 16: Change in employment by industry, last three years to Jun-15, '000





Population growth slowed with weaker labour market

Population growth in the ACT has lagged behind national average in the past few years. The recent mining boom attracted population influx to the mining states while ACT was faced with the Federal government’s fiscal consolidation and job cuts, losing its appeal to interstate migrants (Chart 17). Net overseas migration has declined across the country, while net interstate migration to the ACT has been volatile and declined significantly as the jobs prospects in the ACT worsened (Chart 18).

The ACT has a fairly young and mobile workforce. The share of 30-39 year olds in its labour force is higher than the national average. Given its close proximity to both the major capitals of Sydney and Melbourne, people tend to move where the jobs are (Chart 19). In recent years, net interstate migration has declined alongside falling wages growth (Chart 20).

Chart 17: ACT Population growth (000s, over the year)

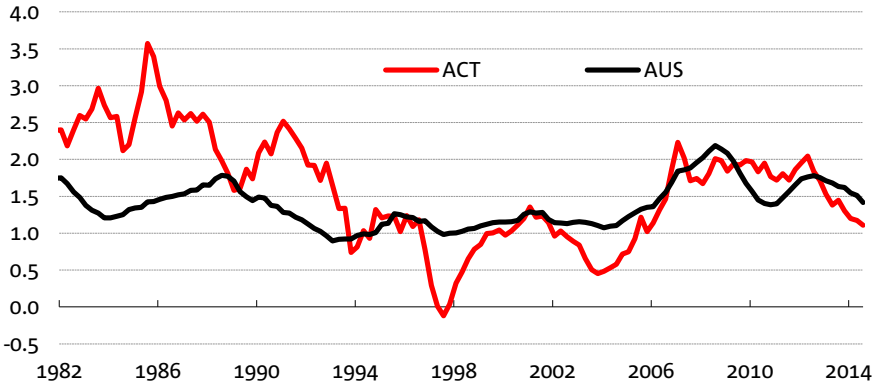


Chart 19: Distribution of labour force by age, ACT and Australia

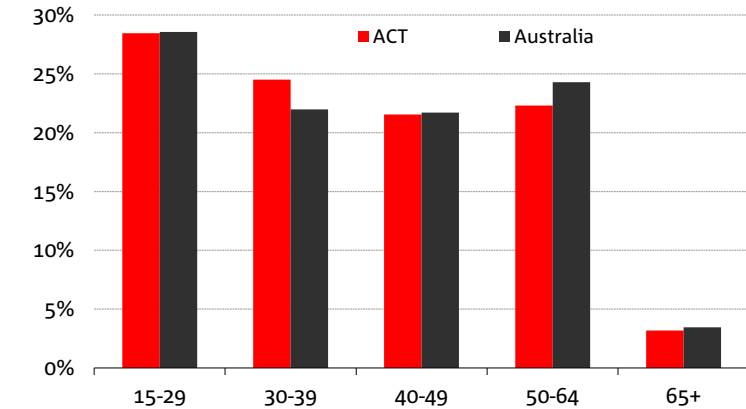


Chart 18: ACT Population growth (year-ended growth)

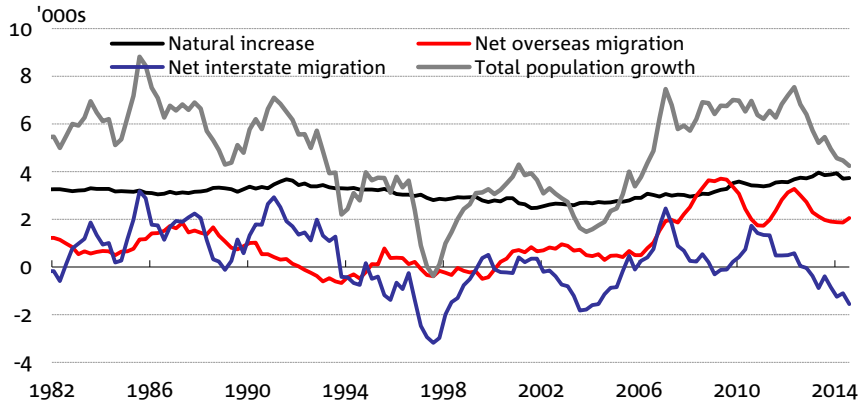
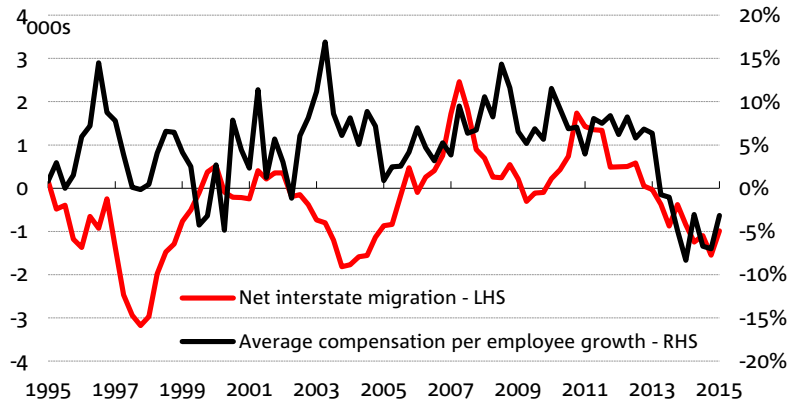


Chart 20: Net interstate migration and employee income growth



Source: ABS



Positive housing price growth and previous undersupply have supported residential approvals growth

With strong population growth since the early 2000s and an undersupplied housing market, rental yield and prices-to-income ratio continued to rise till post the GFC (Chart 21).

Residential approvals have been relatively strong in response to the housing undersupply. Recent public sector job cuts and declining population growth did see approvals numbers fall back in 2014, although the beginning of 2015 saw approvals numbers pick up strongly again (Chart 22).

Through most of the 2000s, inflows of new public servants and their families meant the existing housing stock struggled to meet their demands. Prices for both Canberra houses and units enjoyed healthy growth. Price growth has since fallen as population and employment growth slowed (Chart 23). Houses in general have enjoyed stronger price gains compared to units, but both remain behind the levels seen in Sydney and Melbourne.

Chart 21: Rental Yield (%) and Price-to-Income Ratio

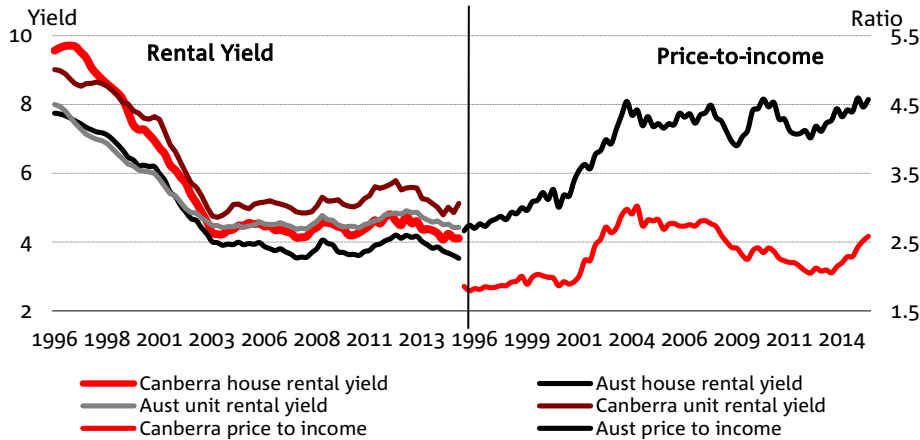


Chart 23: Canberra Residential Property Price Growth

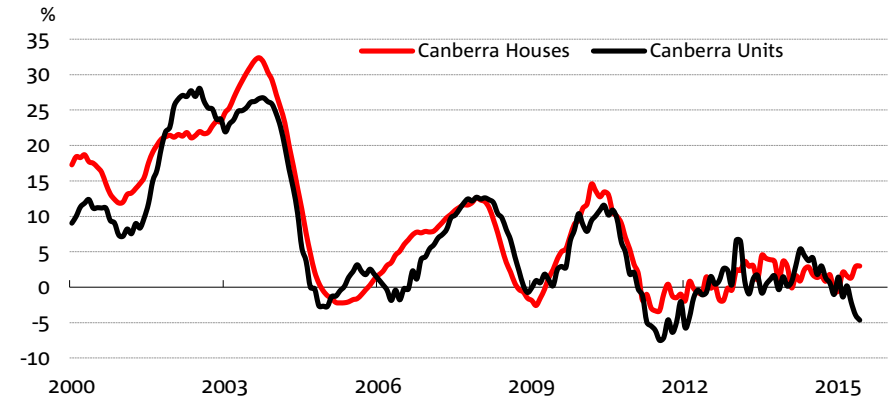


Chart 22: ACT Residential Approvals & Commencements

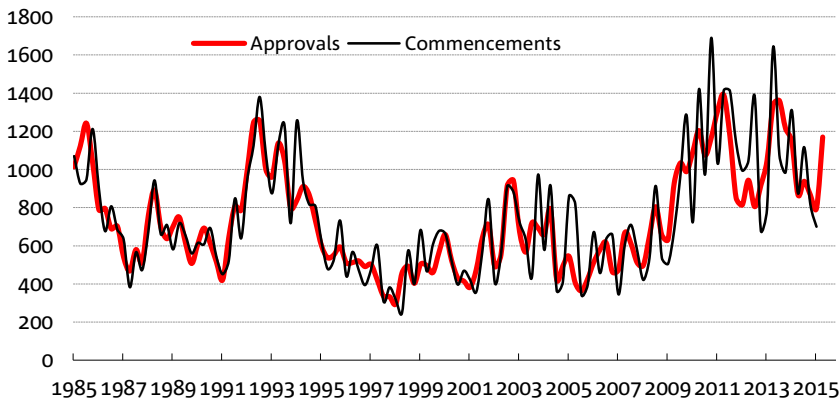
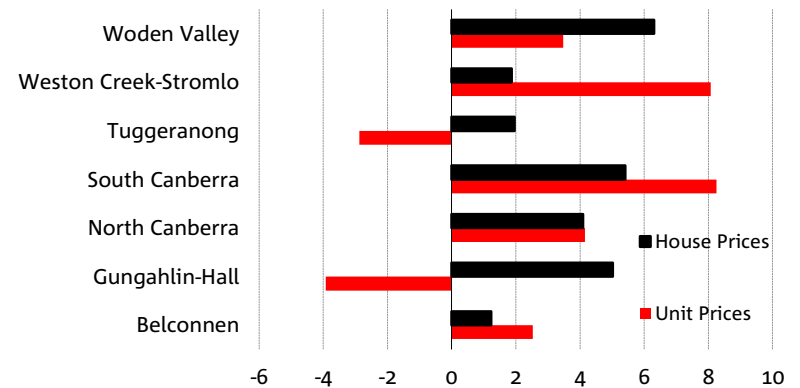


Chart 24: Canberra - Median Property Price Growth (year to Q1 2015)



Source: ABS, RP Data



Net debt to rise but sustainable given strength of balance sheet

The ACT's net debt position is expected to rise, reaching a peak in 2017-18. The level of debt is seen to be sustainable given the strength of the Territory's balance sheet.

The borrowing programme for 2015-16 is estimated to be AUD600-700m (Chart 28).

Chart 25: General government headline net operating balance

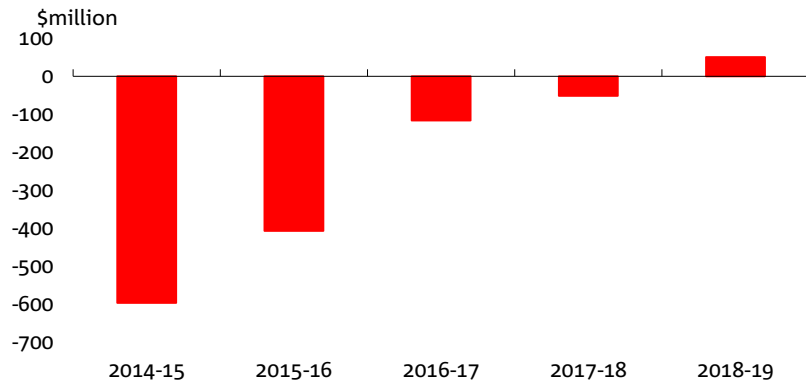


Chart 27: ACT Composition of state revenues

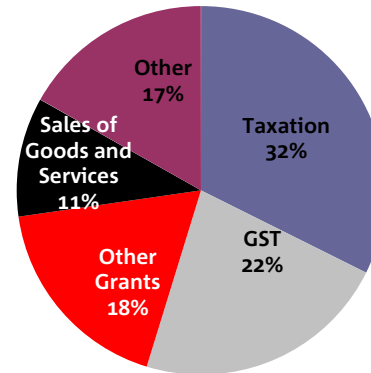


Chart 26: Australian Capital Territory Non-Financial Public Sector net debt

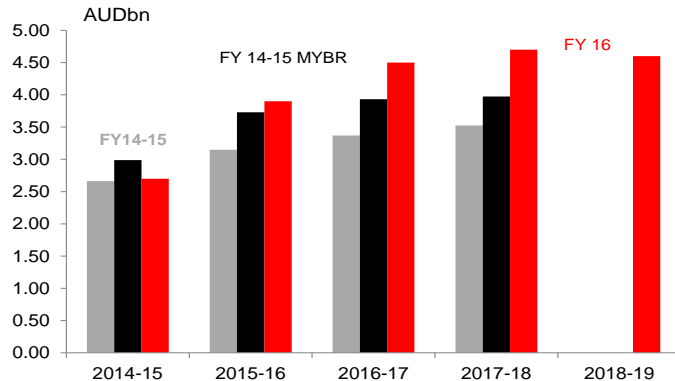
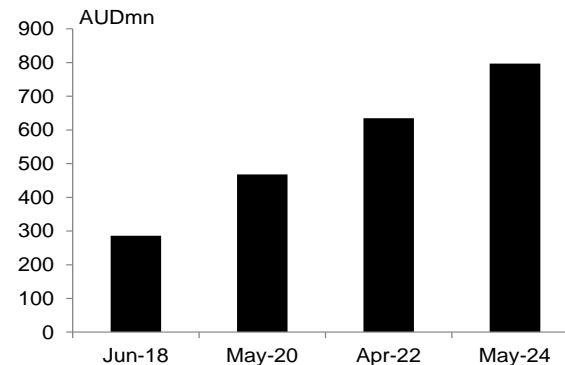


Chart 28: ACT bonds outstanding



Source: Australian Capital Territory budget papers, Bloomberg

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