

State Economic Handbook: Shifting sands



National
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NAB Group Economics

Key points

- Economic activity is shifting back to the eastern seaboard as the economy transitions towards non-mining sources of growth.
- Domestic demand will be **strongest in New South Wales and Victoria**, the states experiencing the fastest growth in residential property prices and construction and which have the most diversified industrial bases.
- This will not be enough to drive a nationwide acceleration in domestic demand. **In Western Australia, Queensland and the Northern Territory, weak commodity prices will weigh on investment, government revenue and the labour market. Resource exports (particularly LNG) will be surging in these states however**, adding substantively to national export growth.
- The lower AUD is benefiting export-oriented and import-competing firms across all states. **This is particularly apparent across services sectors, including tourism expenditure and international student enrolments.** While downside risks emanating from the global economy are pronounced, more Australians are also choosing to travel domestically, and the lower AUD will help redirect retail sales onshore. This could explain some of the recent improvement in the Tasmanian labour market, as well as some pockets of the Queensland economy.
- **The outlook for non-mining business investment is disappointing nationwide.** This partly reflects a shift towards services sectors, which by their very nature are more labour intensive (rather than capital intensive). In addition, cautious attitudes towards investment are a constraint, with high hurdle rates demanded for new investment decisions. **Confidence in the commercial property sector meanwhile is improving in NSW, Vic and Qld** although the level of approvals is low. **Infrastructure spending will provide some offset to lower mining investment, but is mainly concentrated in NSW.**
- **Forecasts for all states and territories are dependent on further gradual improvement in consumer spending.** While the wealth effect will provide some support in NSW and Victoria, high household debt levels, particularly in NSW, suggest some downside risks in the medium term as interest rates begin to rise. Weak household income growth is also reason for caution, having not kept pace with strengthening consumption in some states (including Tasmania and Victoria). Recent equity market wobbles could see another step-up in consumer caution.
- **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 provided on the right.**

September 2015

Individual state packs

[New South Wales](#)

[Victoria](#)

[Queensland](#)

[South Australia](#)

[Western Australia](#)

[Tasmania](#)

[Australian Capital Territory](#)

[Northern Territory](#)

Contact

riki.polygenis@nab.com.au

Authors

Riki Polygenis, Head of Aus Economics

James Glenn, Senior Economist

Vyanne Lai, Economist

Amy Li, Economist

Phin Ziebell, Economist

Skye Masters, Head of Int Rate Strategy

Re-convergence

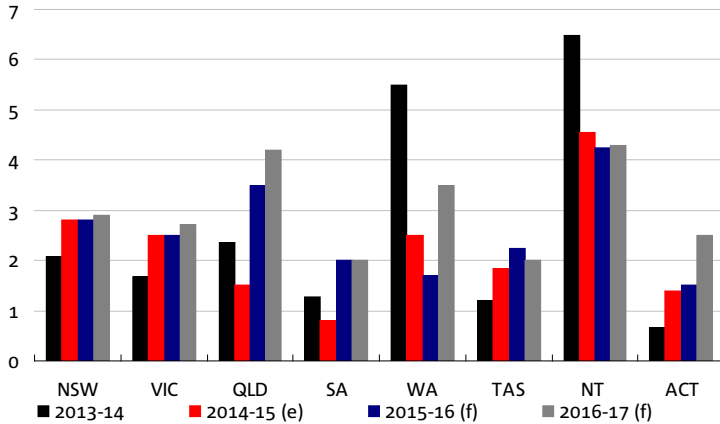
- **NSW** state final demand is forecast to be robust, while exports will remain subdued before slowly improving. NSW is the only state experiencing above-average capacity utilisation. There is some risk however that rising interest rates (from late 2016) will weigh more heavily on NSW given its relatively high debt levels.
- Business conditions in **Victoria** are almost as strong as in NSW, dwelling construction will support growth and foreign student enrolments are rising. Spare capacity in the labour market and weak wages growth however will be somewhat of a constraint.
- **Queensland's** economic landscape remains challenging as the economy shifts from mining investment-led growth to one driven by resource exports, tourism and (in time) the household sector. The transition will be supported by the lower AUD and interest rates, while weaker commodity prices (particularly for coal and oil/LNG) will be a significant drag on incomes. Strong export volumes will see GSP growth stronger than the national average, while domestic demand remains weak.
- The **Australian Capital Territory** is expected to recover gradually, as the effects of recent fiscal tightening and job cuts continue to weigh, especially in 2015-16.
- While a surge in mineral production and exports will contribute to **Western Australia's** growth, falling employment and a lack of offsetting non-mining business and dwelling investment means domestic demand will be very weak. Lower iron ore prices will continue to dent the state government's coffers, limiting expansionary fiscal policy. GSP growth will slow in 2015-16, before ramping up in 2016-17.
- **South Australia** will continue to underperform amidst substantial spare capacity. Business conditions remain tepid, although there are some tentative green shoots emerging in the retail and tourism space.
- The **Northern Territory** economy will be dominated by developments in the LNG sector, as construction of the Ichthys LNG project draws to a close and a surge in export volumes follows. Tourism will also respond positively to the lower AUD.
- The outlook for **Tasmania** has improved over the past year, thanks in large part to a domestic tourism renaissance amidst a weaker AUD. Nevertheless, growth will remain below the national average, and the demographics challenging.

NAB growth and unemployment rate forecasts for the states						
	Gross State Product YoY			Unemployment Rate		
	14/15e	15/16f	16/17f	14/15	15/16f	16/17f
NSW	2.8	2.8	2.9	5.9	5.8	5.5
VIC	2.5	2.5	2.7	6.4	6.2	6.0
QLD	1.5	3.5	4.2	6.5	6.5	6.2
SA	0.8	1.7	1.7	6.9	7.6	7.7
WA	2.5	1.8	3.5	5.4	6.3	6.0
TAS	1.8	2.3	2.0	6.9	6.7	6.5
NT	4.5	4.3	4.3	4.2	4.5	4.5
ACT	1.4	1.5	2.5	4.5	4.3	4.0
Australia	2.4	2.4	3.1	6.1	6.1	5.8

Demand growth most prevalent in states with strong housing markets

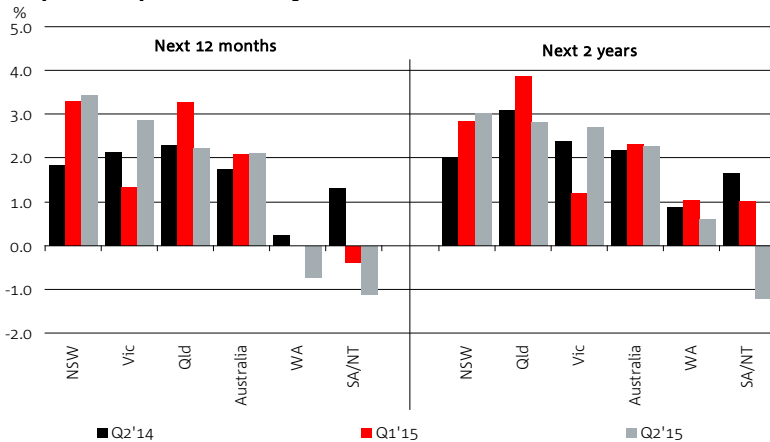
Qld and the NT will be the fastest-growing as LNG exports come on stream. NSW and Vic will outperform the national average, while the outlook for WA and SA is subdued. Tasmania is picking up.

GSP forecasts by state (annual growth, %)



House price expectations for the next 12 months are positive in the eastern mainland states, and positive for all states over the next two years. Prices are expected to outperform in NSW, Vic and Qld.

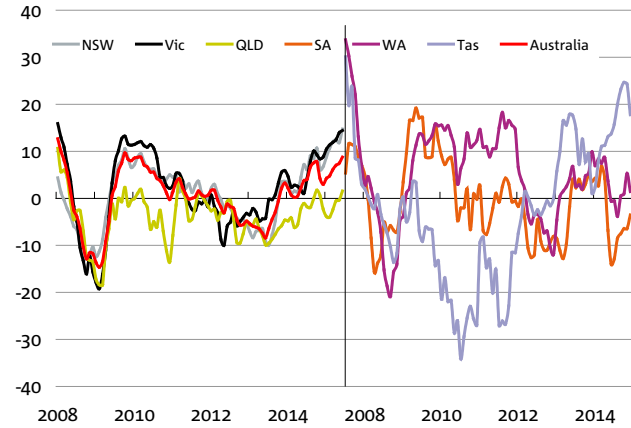
House price expectations by state



Source: ABS, NAB

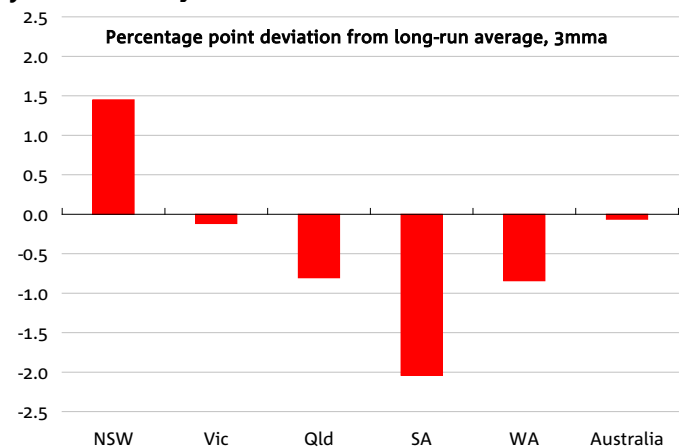
Business conditions are strongest in NSW and Vic, and have turned positive in Qld. Conditions are negative in SA but improving, and easing in WA. Tas is strong, although is losing momentum.

Business conditions by state (net balance)



NSW is the only state experiencing above-average capacity utilisation. This bodes well for employment and investment in the state.

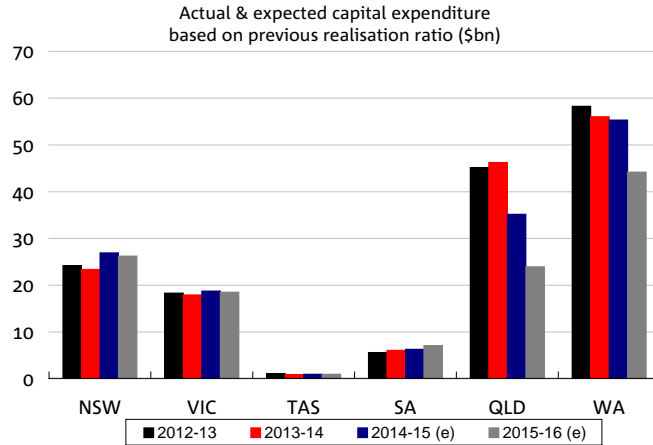
Capacity utilisation by state



Lower unemployment in the east encouraging. Some bright spots in services and commercial property

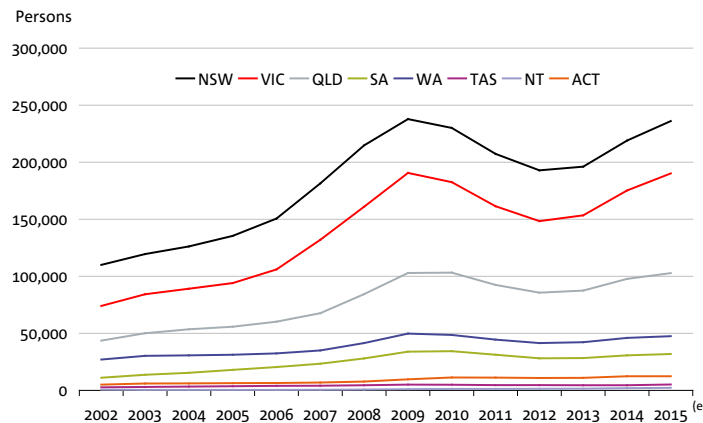
The outlook for capital expenditure in non-mining states remains disappointing, with high hurdle rates for new investment a constraint. Investment in mining states will fall sharply.

Chart 5: Capital expenditure expectations



AUD depreciation is driving higher foreign student enrolments, with the largest concentrations in NSW and Vic

Chart 7: Foreign student enrolments

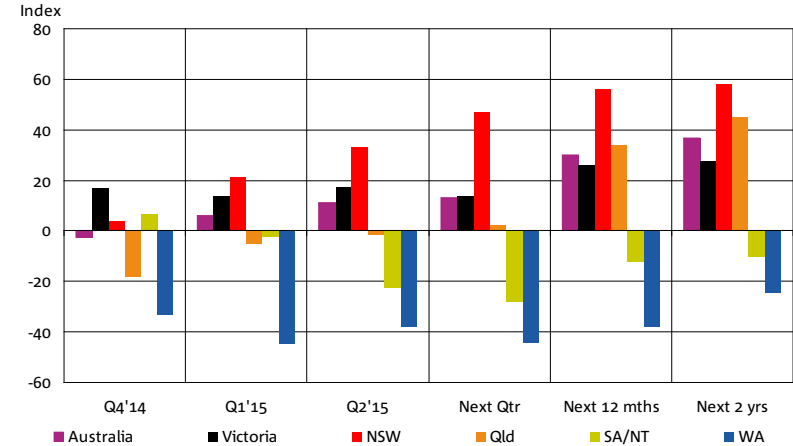


Note: Figures for 2015 are estimated based on monthly flows to Jun-15

Source: ABS, NAB, Australian Education International

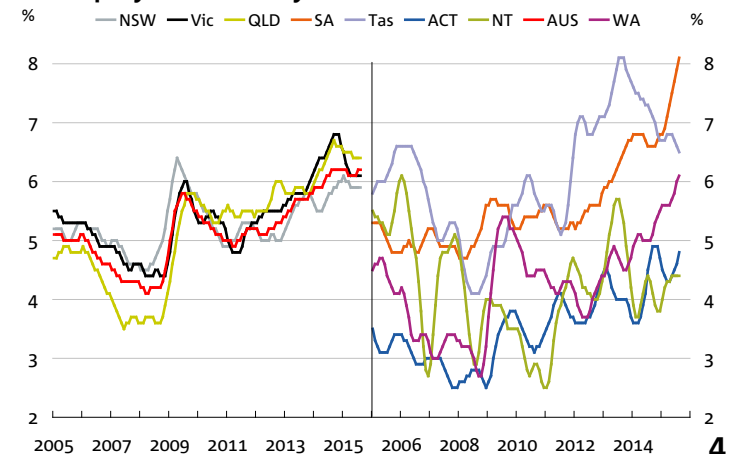
Confidence in the commercial property sector has improved in recent quarters, and the outlook is positive in the eastern mainland states, mostly in retail property.

Chart 6: Commercial property survey



The unemployment rate has trended downwards in NSW, Vic, Qld and Tas, and risen in SA and WA.

Chart 8: Unemployment rate by state



Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Australian Economics and Commodities

Riki Polygenis
Head of Australian Economics
+(61 3) 8697 9534

James Glenn
Senior Economist – Australia
+(61 3) 9208 8129

Vyanne Lai
Economist – Australia
+(61 3) 8634 0198

Amy Li
Economist – Australia
+(61 3) 8634 1563

Phin Ziebell
Economist – Agribusiness
+(61 4) 75 940 662

Industry Analysis

Dean Pearson
Head of Industry Analysis
+(61 3) 8634 2331

Robert De Iure
Senior Economist – Industry Analysis
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Industry Analysis
+(61 3) 8634 3837

Karla Bulauan
Economist – Industry Analysis
+(61 3) 86414028

International Economics

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+(61 3) 9208 5049

Gerard Burg
Senior Economist – Asia
+(61 3) 8634 2788

John Sharma
Economist – Sovereign Risk
+(61 3) 8634 4514

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

David de Garis
Senior Economist
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

FX Strategy

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Emma Lawson
Senior Currency Strategist
+61 2 9237 8154

Interest Rate Strategy

Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Rodrigo Catril
Interest Rate Strategist
+61 2 9293 7109

Credit Research

Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 29237 1076

Distribution

Barbara Leong
Research Production Manager
+61 2 9237 8151

New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Markets Economist
+64 4 474 6923

Kymerly Martin
Senior Market Strategist
+64 4 924 7654

Raiko Shareef
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

Asia

Christy Tan
Head of Markets Strategy/Research, Asia,
+ 852 2822 5350

UK/Europe

Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+ 44207710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 2155

Derek Allassani
Research Production Manager
+44 207 710 1532

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