

State Update: Australian Capital Territory– January 2016

NAB Group Economics



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Key points

- **The ACT economy is gradually recovering from the recent fiscal tightening and public sector job cuts.** The labour market has shown promising signs of improvement, which in turn has resulted in stronger household consumption growth. With the improving labour market and population growth, dwelling investment is likely to improve as well in line with higher building approvals. **We forecast GSP to be 2% 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 the national average. While the economy is still recovering from recent downsizing of the Australia Public Service, declining Federal government investment has detracted from economic growth, however that effect is likely to be temporary.

- The labour market has shown signs of improvement, with job vacancies in both the public and private sectors on the rise. Employment growth has steadily gathered pace, and job gains were observed in services industries including education, arts and construction.

- The higher employment growth has also resulted in stronger household consumption growth. The low interest rate environment and rising house prices will continue to support consumption growth while the labour market improves.

- Better jobs prospects are also attracting interstate migrants back into the territory, with population growth increasing.

- **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. With the improvement in the labour market, further house price growth is expected. As a result, residential approvals have been relatively strong.

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Chart 1: State GDP Growth Forecasts

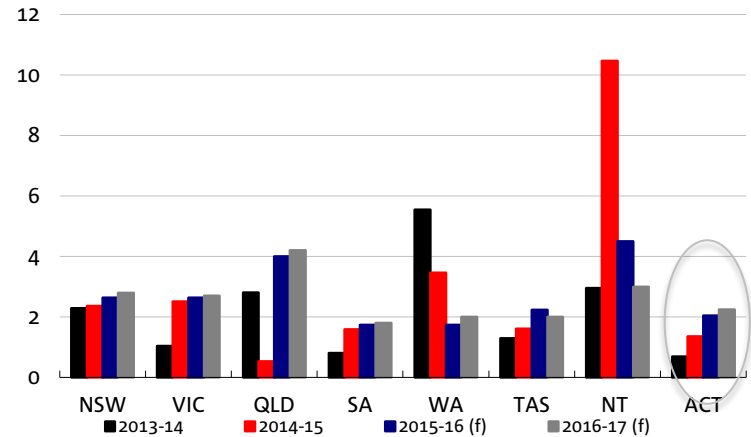
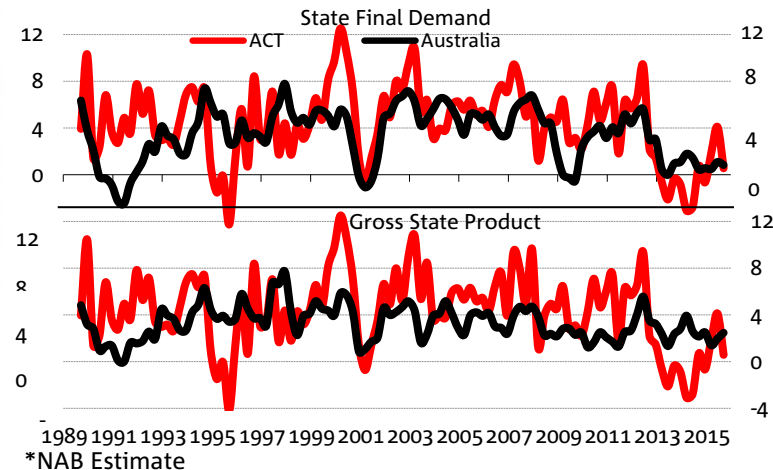


Chart 2: State Growth



Source: ABS , NAB Economics



ACT economy dependent on Federal public sector

The ACT economy is very dependent on Federal government employment and spending. Public sector employment, in terms of government consumption, has been the biggest contributor to or detractor from state final demand.

As the large scale job cuts came to an end and the labour market slowly improves, household consumption is improving and adding to economic growth. A large decline in federal government investment detracted the most from state final demand in Q3 2015 (Chart 3).

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

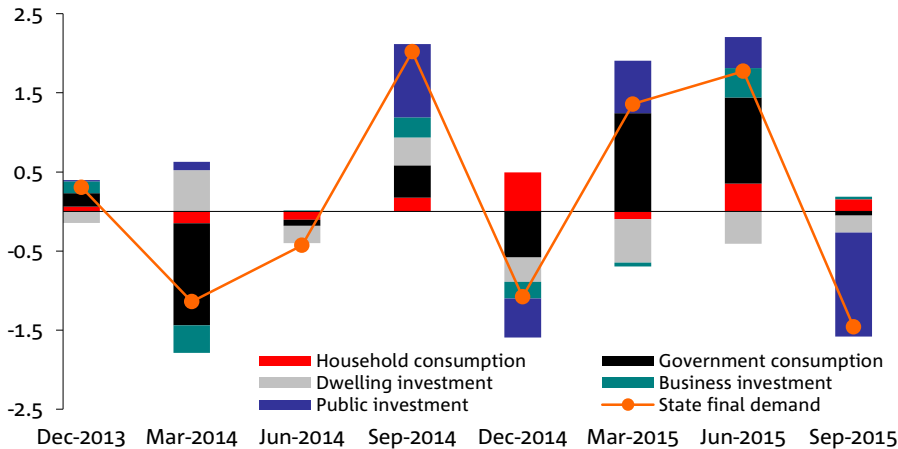
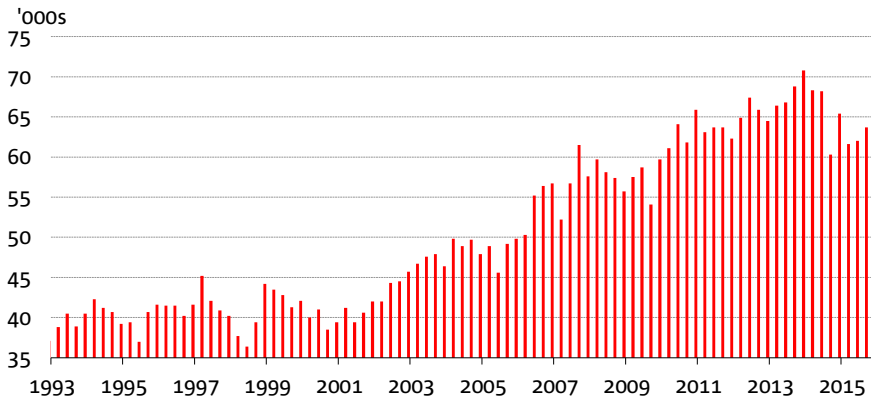
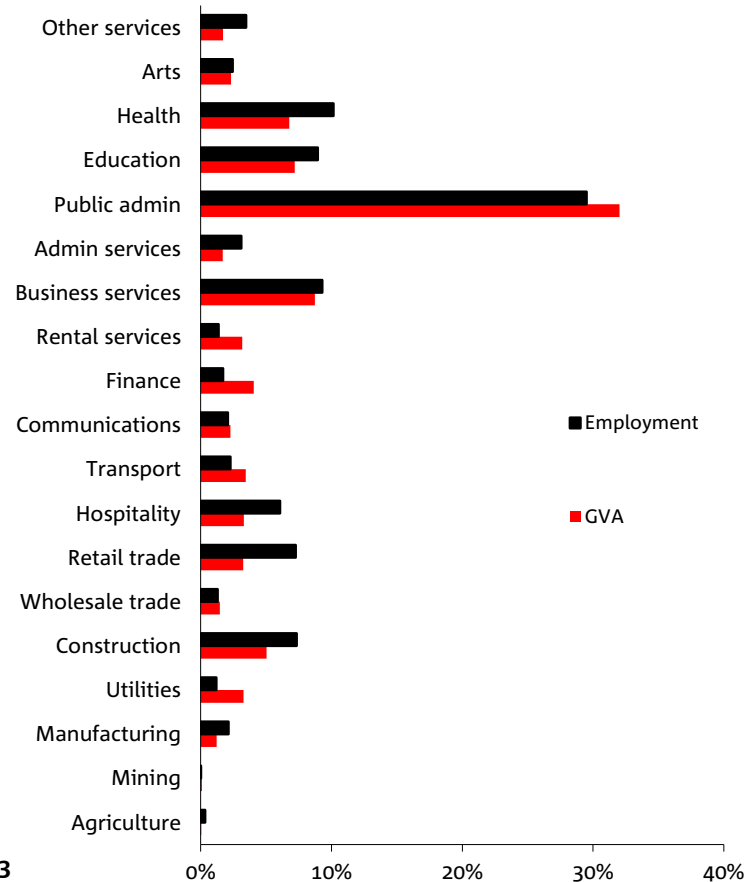


Chart 4: Employed persons, public admin & safety, '000s



Source: ABS

Chart 5: Share of industry GVA & Employment, ACT, 2014-15



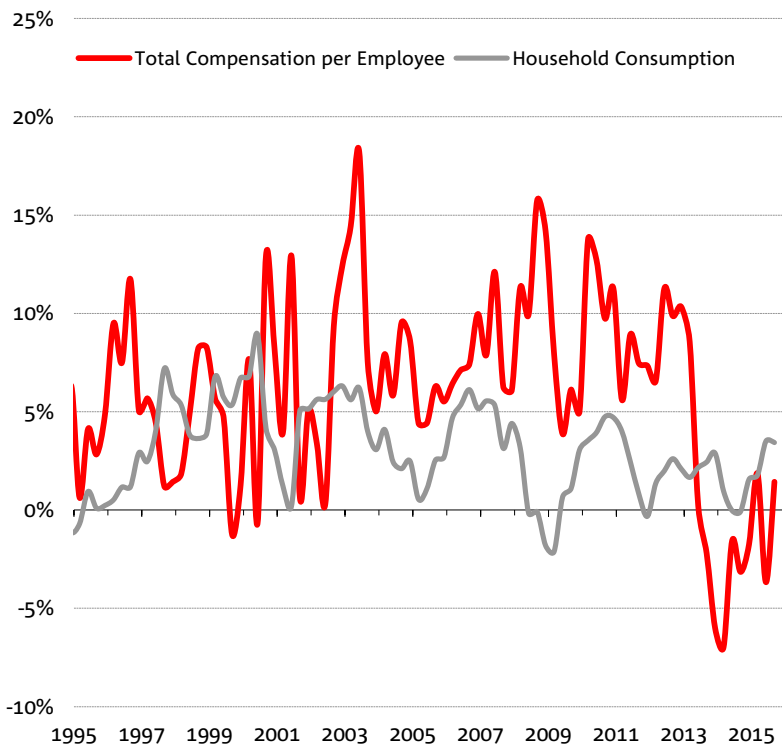


Household consumption shows signs of improvement

As the labour market slowly improves in the ACT, incomes growth has recovered, which in turn contributed to positive household consumption growth (Chart 6).

While the labour market remains weak, house price growth in Canberra remains subdued compared to national average. The wealth effect arising from higher house prices is also less prominent in the ACT, resulting in moderate retail sales growth (Charts 7 & 8).

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



Source: ABS, RP Data

Chart 7: Capital city dwelling prices

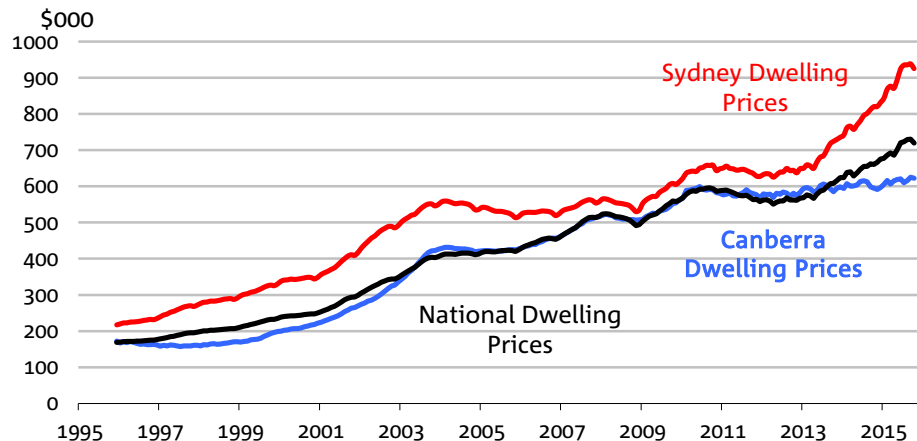
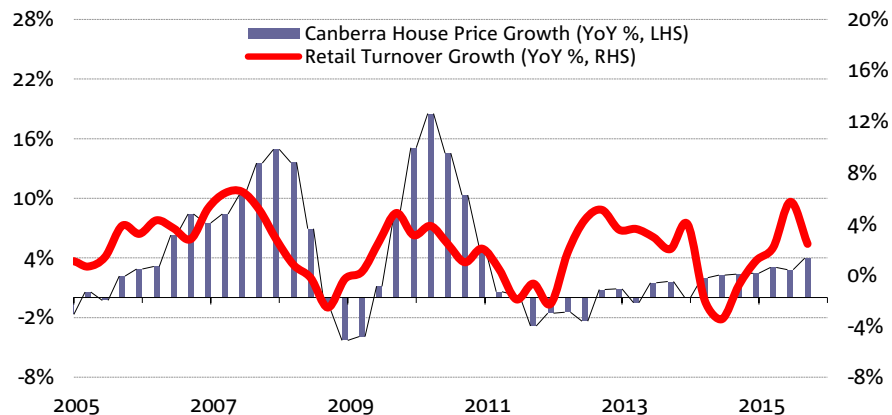


Chart 8: House price growth and retail turnover growth





Labour market recovering in both the public and private sectors

As its economy slowly recovers from the large Australian Public Sector job cuts during 2013-14, labour market conditions are improving in the ACT. Employment growth has picked up speed again (Chart 9). Job vacancies in both the public and private sectors have increased significantly (Chart 10), which bodes well for employment growth in the coming months.

Since over 30% of ACT jobs are in the public sector, the industry worst affected by the Federal Government job cuts was Public Admin, which lost over 6000 jobs in the past 12 months. Related administration services, education and hospitality industries also suffered job losses (Chart 11). While the unemployment rate has fallen below 5% in original terms, the trend unemployment rate has been rising (Chart 12), as labour force increases strongly.

Chart 9: Employed persons, YoY % growth, trend

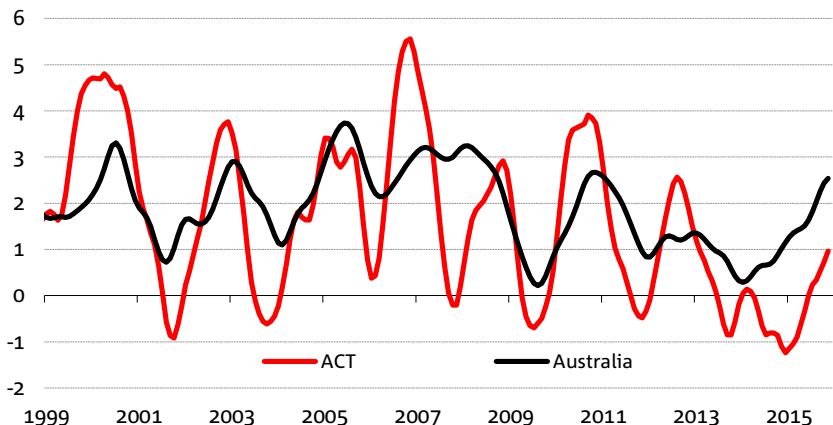
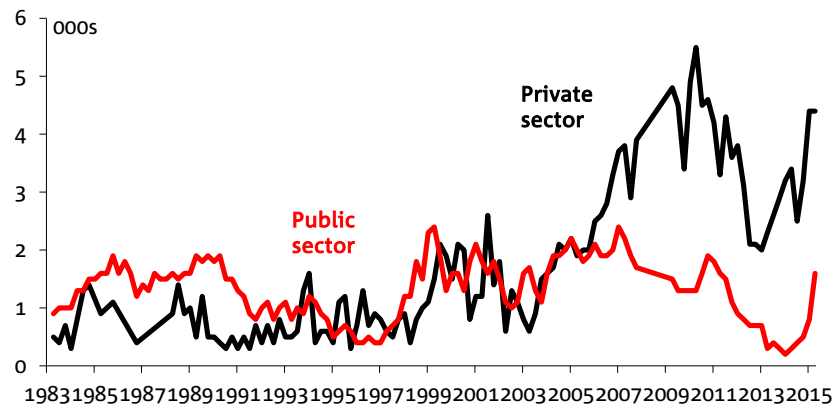


Chart 10: Job vacancies, 000s, ACT



Source: ABS

Chart 11: Change in employment by industry, last 12 months to Dec 2015, '000

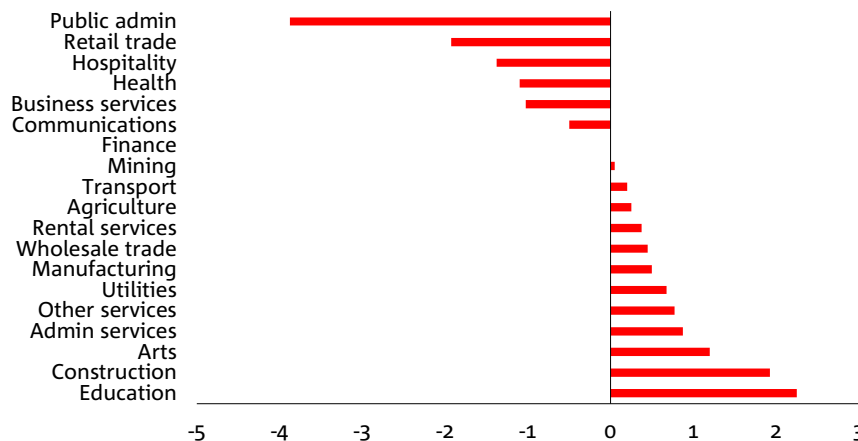
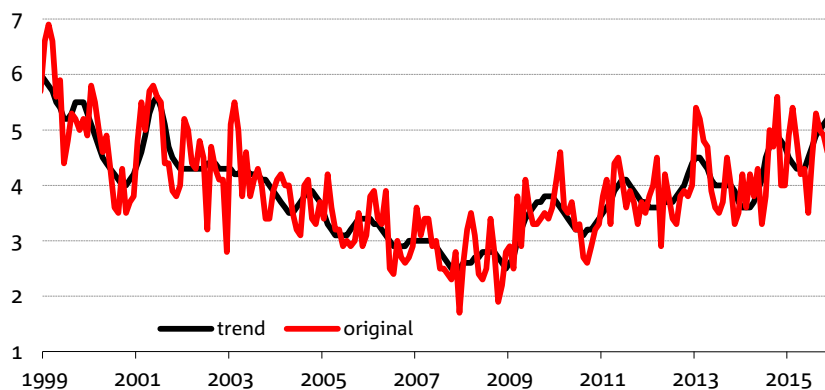


Chart 12: Unemployment rate, original and trend series





Population growth also improves with better labour market conditions

While population growth in the ACT lagged behind the national average in the past few years, it has improved recently as the labour market slowly improves (Chart 13).

Net interstate migration was previously the biggest detractor from ACT's population growth, but as jobs prospects improve again in the ACT and worsens in the mining states, we are seeing an improvement in net interstate migration again (Chart 14).

Given its close proximity to both the major capitals of Sydney and Melbourne, interstate migration can be volatile as people move to where the jobs are. As a result, 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. (Chart 15).

In recent years, net interstate migration has declined alongside falling wages growth (Chart 16).

Chart 13: ACT Population growth (000s, over the year)

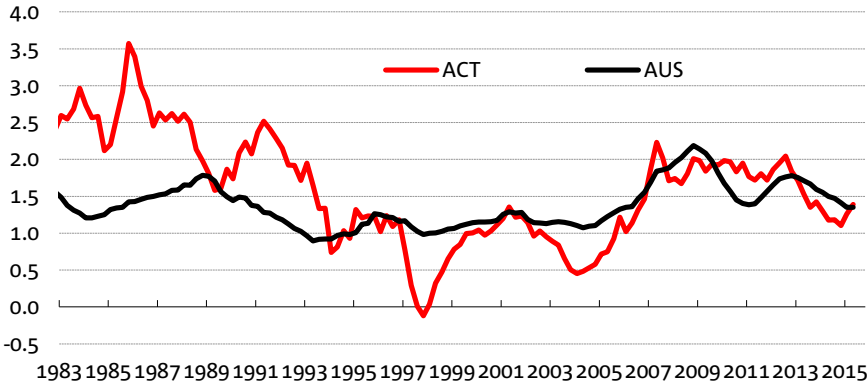


Chart 15: Distribution of labour force by age, ACT and Australia

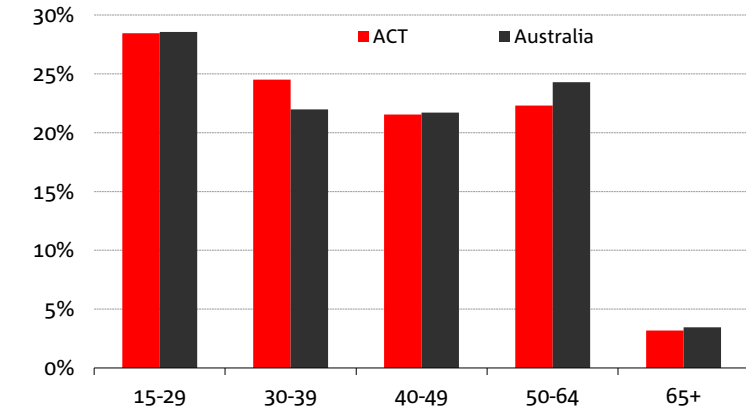


Chart 14: ACT Population growth (year-ended growth)

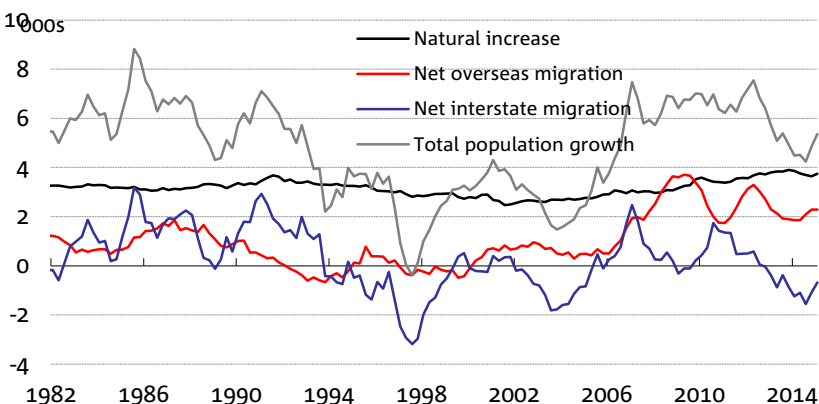
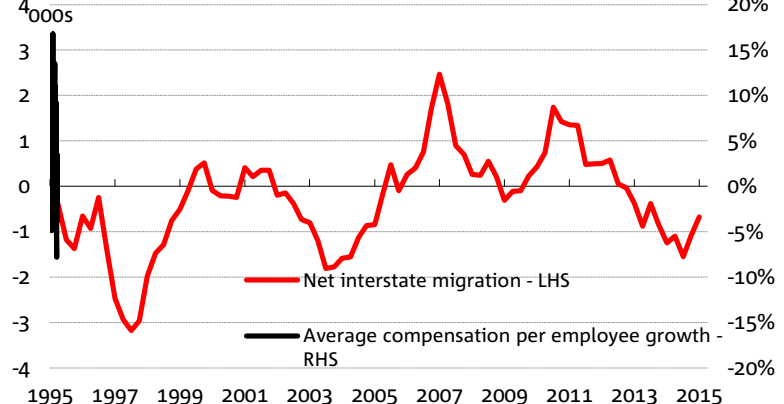


Chart 16: Net interstate migration and employee income growth





Residential construction improves while non-residential weakens

With the slow improvement of the labour market, office vacancy rates have started to fall back from an elevated level. As a result, office building approvals have shown a slight pickup (Chart 17).

Retail/wholesale building approvals have been on the decline while some other non-residential approvals improved (Chart 18).

Overall, work in the pipeline data show residential building work improves while non-residential is sluggish (Chart 19).

A strong increase in recreation & other construction work is driving a pickup in total engineering construction work (Chart 20).

Chart 17: ACT Office Market Conditions

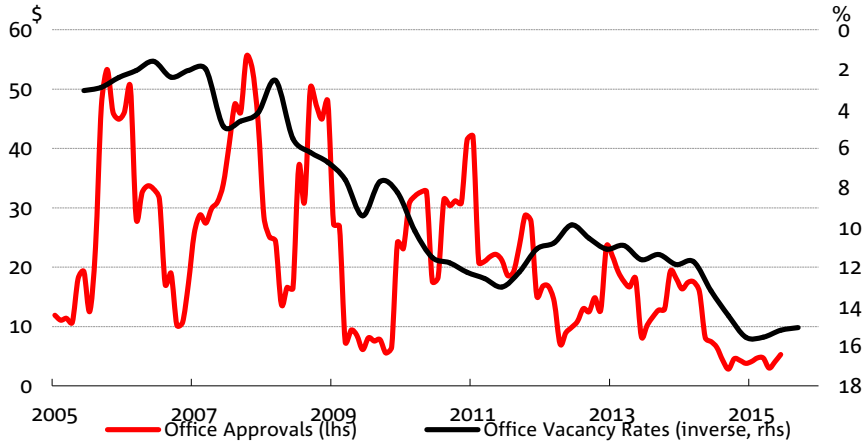


Chart 19: Work in the pipeline, nominal value, \$ billions

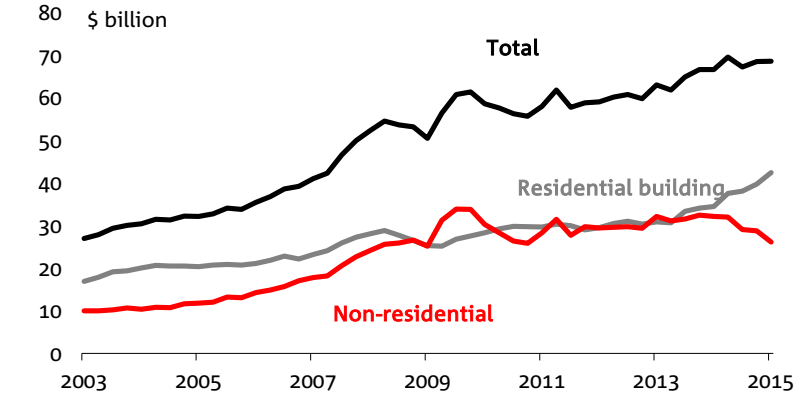


Chart 18: Non-residential Building Approvals (\$ 000s)

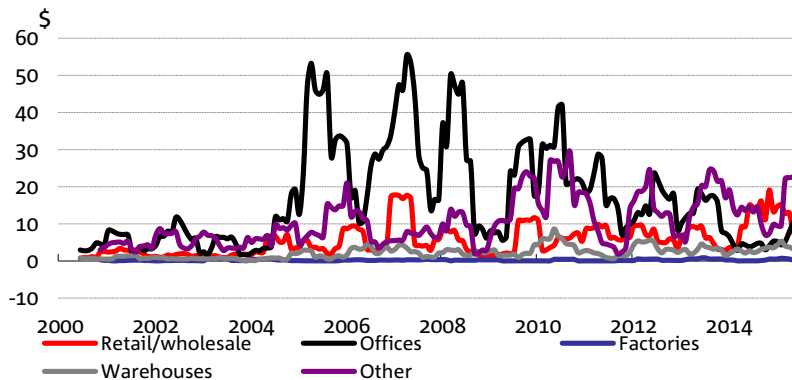
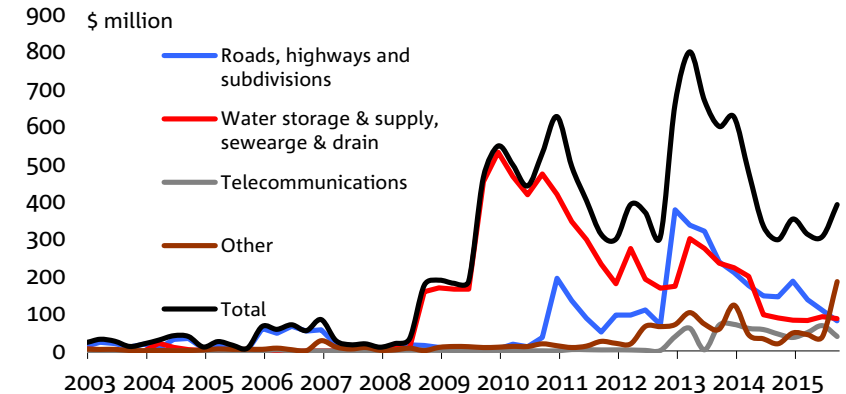


Chart 20: Engineering construction work yet to be done (private & public)





Positive housing price growth expected again as the economy and labour market improves

Canberra housing saw a period of undersupply till recent years as the Federal public sector expanded. Post the significant job cuts in 2013-14, many people have moved out of the ACT which resulted in weak house price growth. That growth will likely pick up again as the labour market and population growth improves. The underlying fundamentals still support more house price growth, as Canberra enjoy higher rental yields and a lower price to income ratio than the national average (Chart 21).

Canberra house price growth has improved significantly, while units prices are slow to catch up, despite higher rental yields (Chart 23).

Residential approvals have also increased, responding to better fundamentals (Chart 22).

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

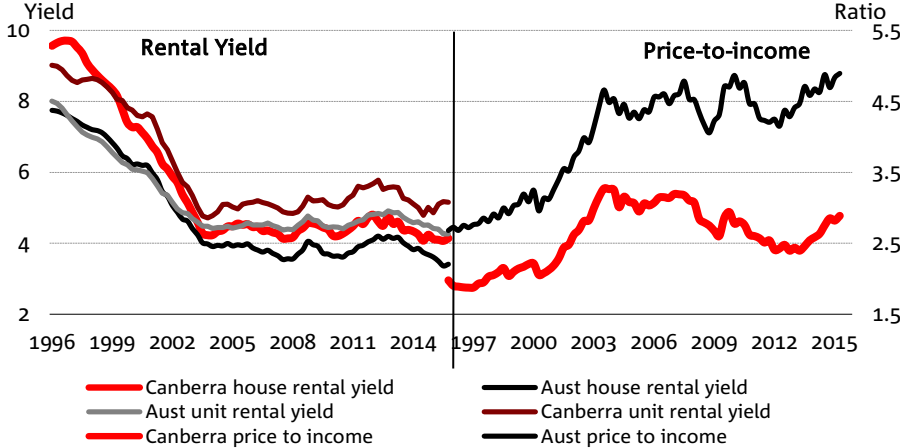


Chart 23: Canberra Residential Property Price Growth

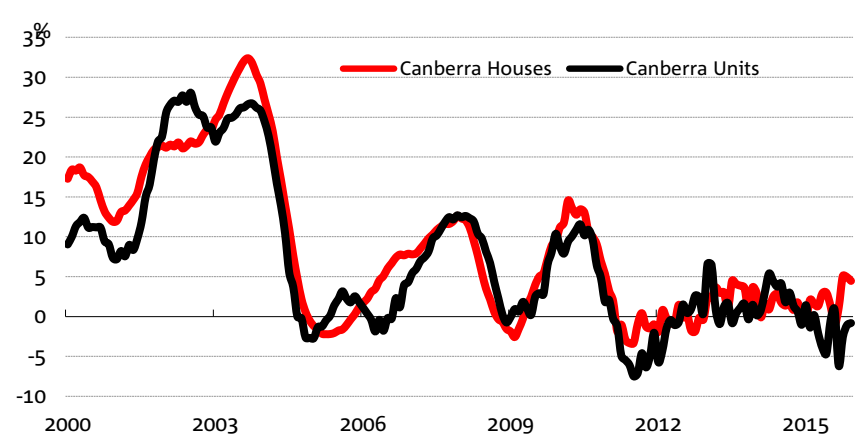


Chart 22: ACT Residential Approvals & Commencements

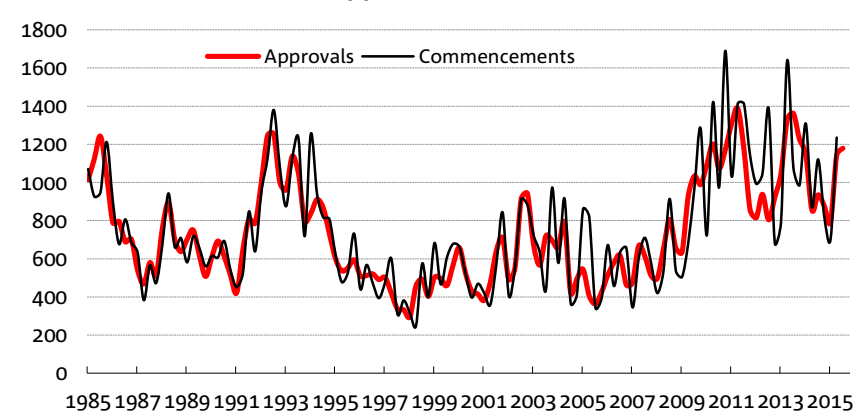
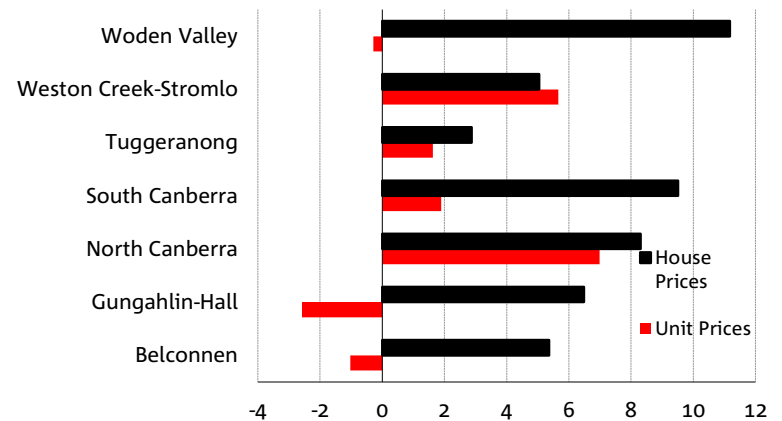


Chart 24: Canberra - Median Property Price Growth (year to Q1 2015)



Net debt projections revised lower

The mid year budget review (MYBR) shows a small deterioration in budget position. This deterioration is predominantly due to revised superannuation liability valuation due to the low interest rate. The Government continues to forecast a return to surplus by 2018-19. The Government aims to have its unfunded super fully funded by 2030.

Post the release of the 2015-16 Budget the ACT estimated its borrowing programme would be AUD600-700m.

Chart 25: Australian Capital Territory Non-Financial Public Sector net debt

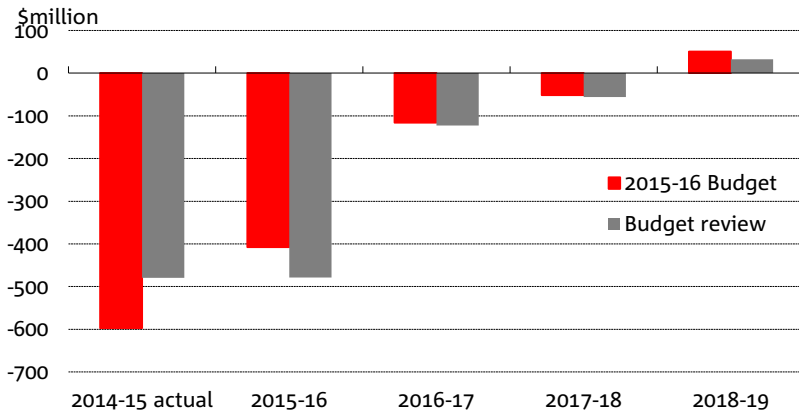


Chart 27: ACT net borrowing

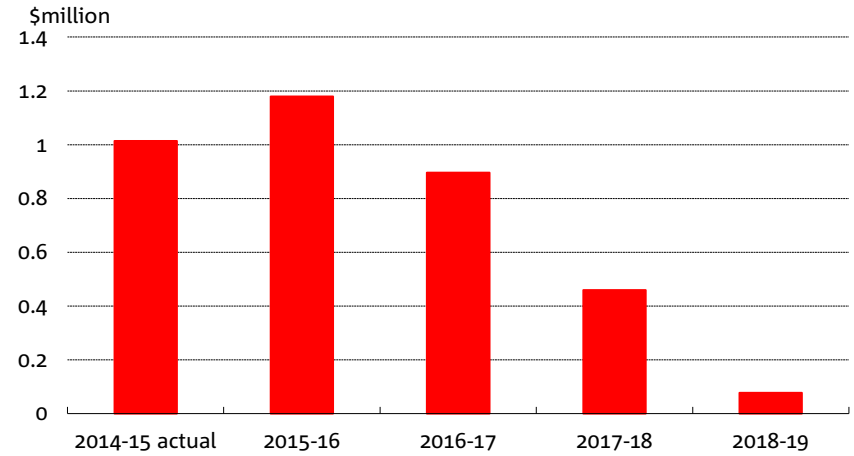


Chart 26: Australian Capital Territory Non-Financial Public Sector net debt

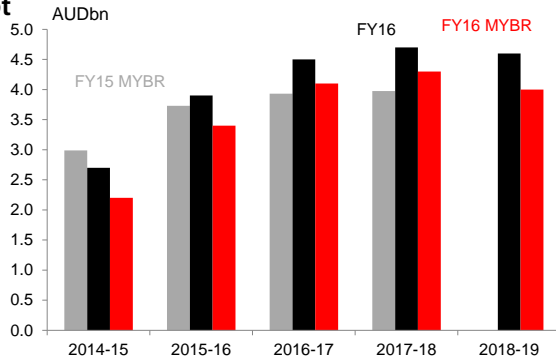
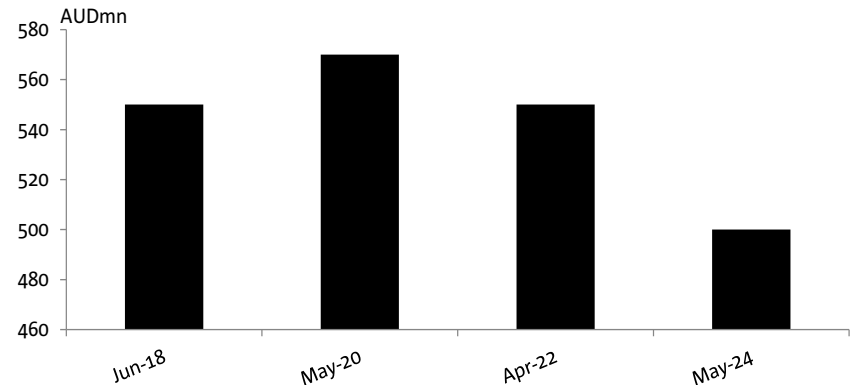


Chart 28: ACT bonds outstanding



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