

# STATE UPDATE: AUSTRALIAN CAPITAL TERRITORY

JULY 2016

## CONTENTS

- 2 | Key points
- 3 | In Focus: Improved employment and dwelling investment driving economic growth
- 4 | Consumer & household sector
- 5 | Labour market
- 6 | Demographics
- 7 | Business sector
- 8 | Residential property
- 9 | Fiscal outlook & semi market

## CONTACTS

**Amy Li**  
Economist  
+61 3 8634 1563  
Amy.li@nab.com.au

**Riki Polygenis**  
Head of Australian Economics  
+61 3 8697 9534  
riki.polygenis@nab.com.au

**Skye Masters**  
Head of Interest Rate Strategy  
+61 2 9295 1196  
skye.masters@nab.com.au

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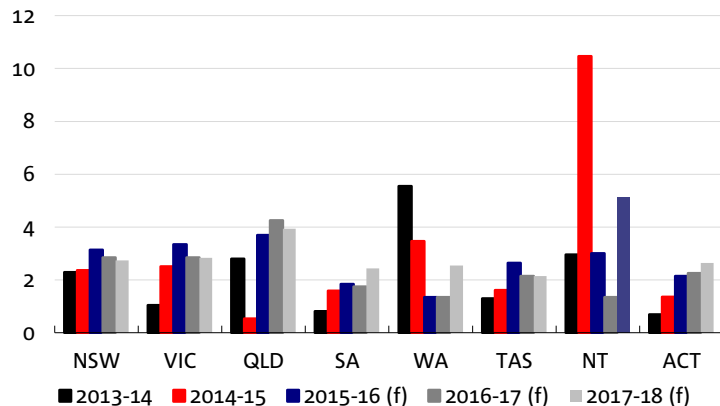


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# KEY POINTS

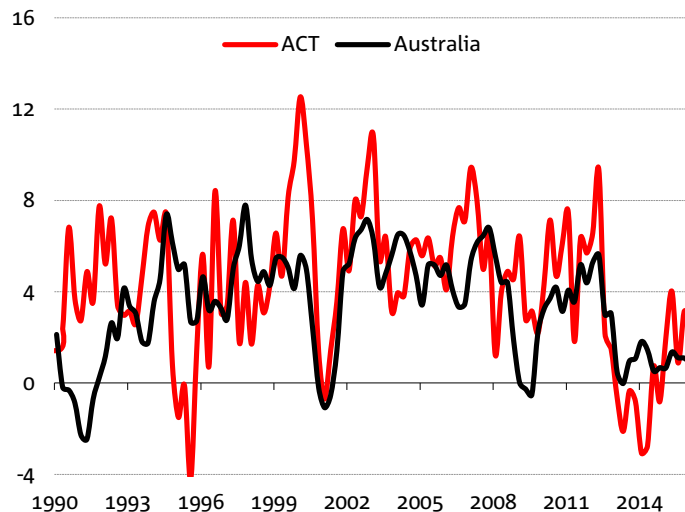
## CHART 1: STATE GSP GROWTH FORECASTS

%, annual growth



## CHART 2: STATE FINAL DEMAND GROWTH

%



Source: ABS and NAB Group Economics

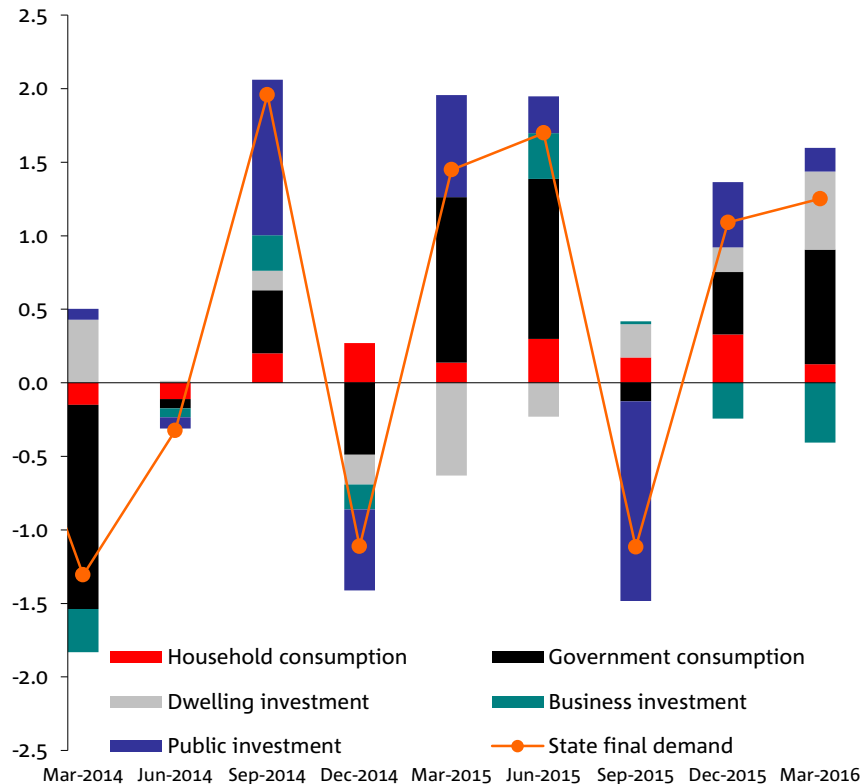
- The ACT economy has emerged from the recent fiscal tightening and large scale public sector job cuts. The labour market has improved resiliently, in turn driving higher population growth and increased demand for dwellings. With new residential building approvals on the rise, dwelling investment is expected to contribute further to domestic demand. Household consumption is also recovering as income levels rise and higher dwelling prices improve household wealth.
- We have not fundamentally changed our expectation that the ACT economy will continue to gradually recover from the impact of previous fiscal tightening, but with Budget repair still very much on the radar, the outlook is still unclear. **At this stage, we expect GSP growth to pick up modestly to 2¼% and 2½% in 2016-17 and 2017-18 from 2% in 2015-16.** The ACT unemployment rate is expected to remain below the national average at 4.4%, 4.3% and 4.3% in 2015-16, 2016-17 and 2017-18 respectively.
- With the end of the Federal government hiring freeze on 1 July 2015, there has been more certainty in the labour market, and as a result broad-based improvement in both public and private sector employment. However, wages growth is expected to remain subdued with spare capacity still remaining and inflation low – the Australian Public Service wage bargaining negotiations are still under way.
- Consumption growth has recovered on the back of stronger labour market conditions and higher income and population growth. Low interest rates and higher housing prices should further support consumer sentiment and drive moderate consumption growth.
- While public investment has been committed to support the ACT's economic growth, private business investment growth remains sluggish. The recent job cuts are having a lingering effect on the commercial office market, with vacancy rates only recently starting to fall. Retail sales have also been weak, which has limited retail business investment.
- While private business investment remains soft, residential investment has improved significantly. The previous under supply in the housing market has resulted in positive price growth for Canberra dwellings and more attractive rental yields compared to the national average. With the improvement in the labour market, **further dwelling investment is expected to contribute positively to economic growth**, especially as the government is scheduling to release more residential land.

# IMPROVED EMPLOYMENT AND DWELLING INVESTMENT DRIVING ACT ECONOMIC GROWTH

The ACT has emerged from large scale public sector job cuts in financial year 2013-14 to record stronger economic growth in 2015-2016 (Chart 3). With the Federal government hiring freeze ending on 1 July 2015, job vacancies and the number of employed people in the public sector have risen again (Chart 4). As a result, government consumption is again making a positive contribution to the territory's domestic demand.

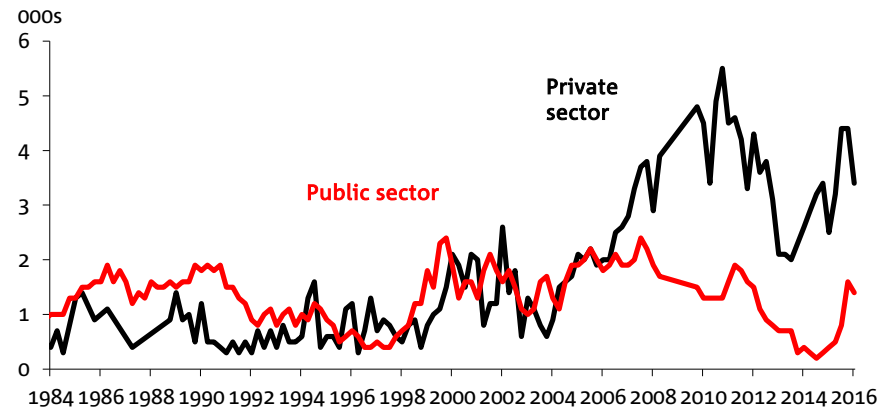
The improvement in the labour market is happening across sectors, and in turn driving stronger population growth and demand for housing. The value of residential approvals and construction has improved significantly and with more land releases scheduled, dwelling investment is expected to continue to support economic growth.

**CHART 3: CONTRIBUTIONS TO STATE FINAL DEMAND GROWTH %**

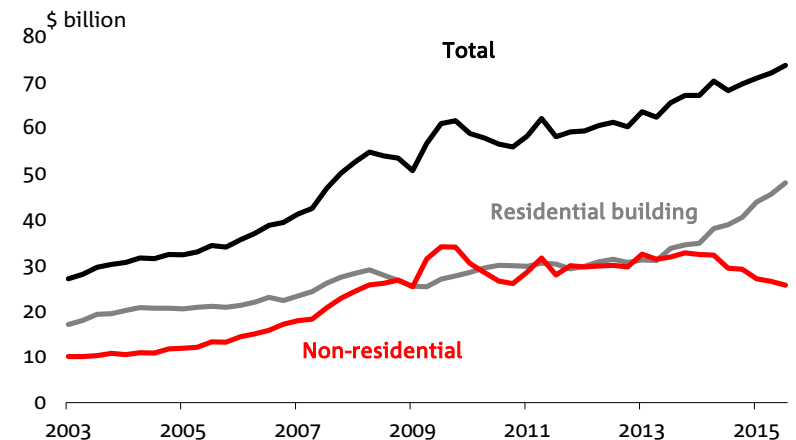


Source: ABS

**CHART 4: JOB VACANCIES, 000S**



**CHART 5: WORK IN THE PIPELINE, NOMINAL VALUE, \$ BILLIONS**



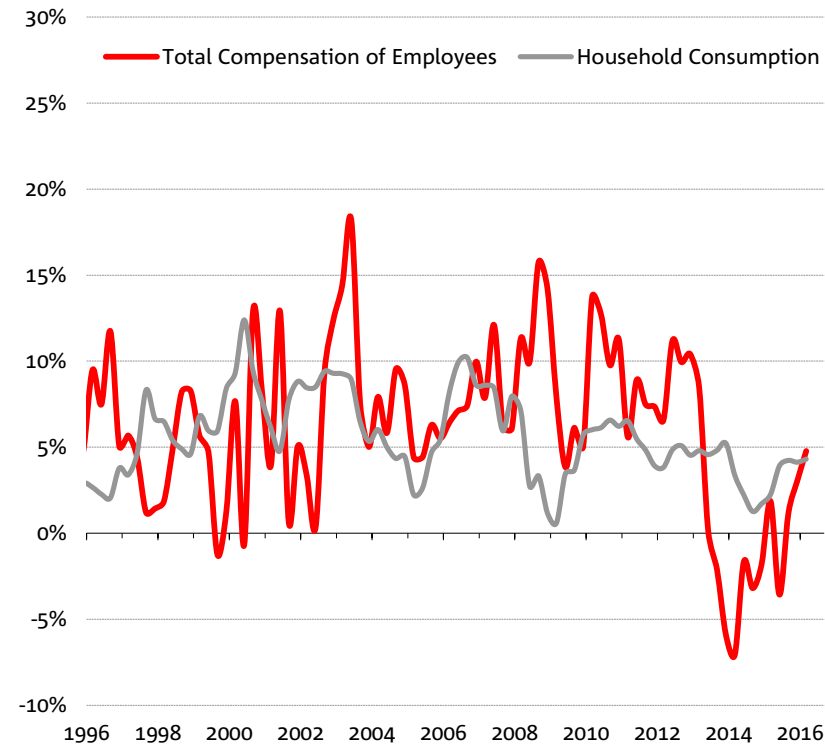
# CONSUMER SPENDING

## Household consumption shows signs of improvement

As the labour market improves in the ACT, incomes levels have started rising again. In addition, population growth has picked up. The combination of the two have lead to improved household consumption growth (Chart 6).

However, mild wages growth is likely to persist, given the delays in Australian Public Service bargaining processes, which will limit household consumption growth going forward.

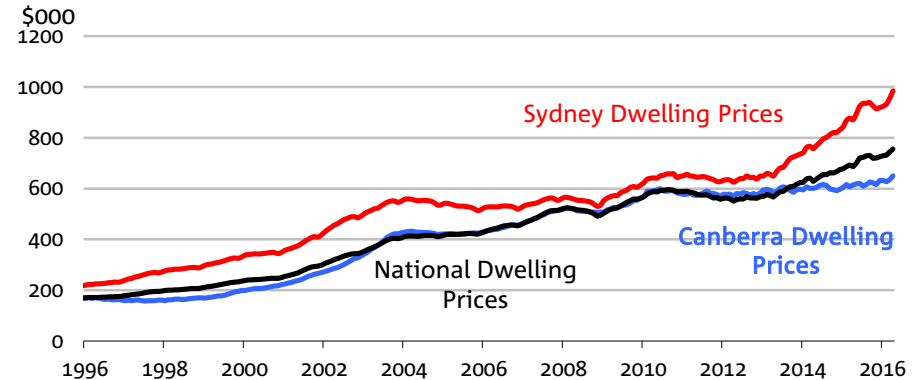
**CHART 6: TOTAL EMPLOYEE COMPENSATION & NOMINAL HOUSEHOLD CONSUMPTION GROWTH (YoY%)**



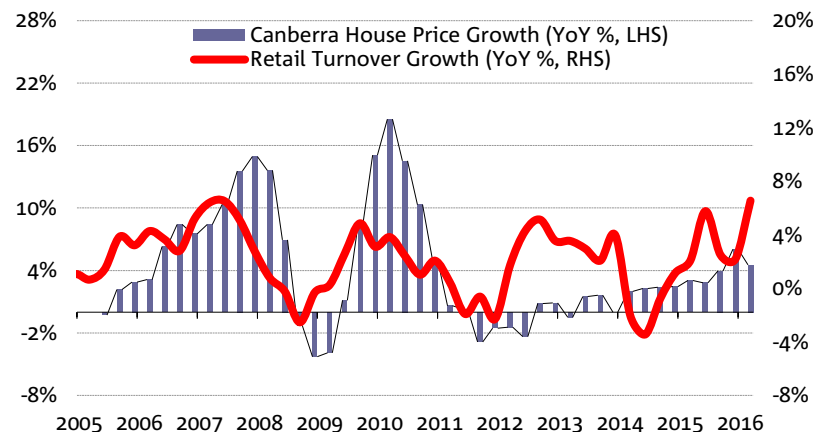
Source: ABS, RP Data

Growth in Canberra house prices has also picked up. Combined with the low interest rate environment and improved labour market conditions, consumers are likely feeling more upbeat. This has translated to stronger retail sales growth in Q1 2016.

**CHART 7: CAPITAL CITY DWELLING PRICES**



**CHART 8: HOUSE PRICE GROWTH AND RETAIL TURNOVER GROWTH**



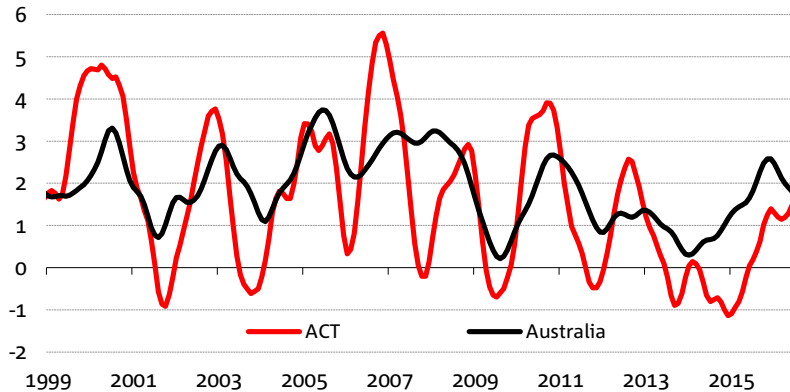
# LABOUR MARKET

## Labour market resilient post public sector job cuts

The ACT's labour market has proven resilient post large scale public sector job cuts in 2013-14, and while still weak, has shown signs of recovery. As the Commonwealth Government hiring freeze ended on 1 July 2015, employment in the public administration sector started improving again. Overall employment has also shown positive growth again and the unemployment rate trended below 4%.

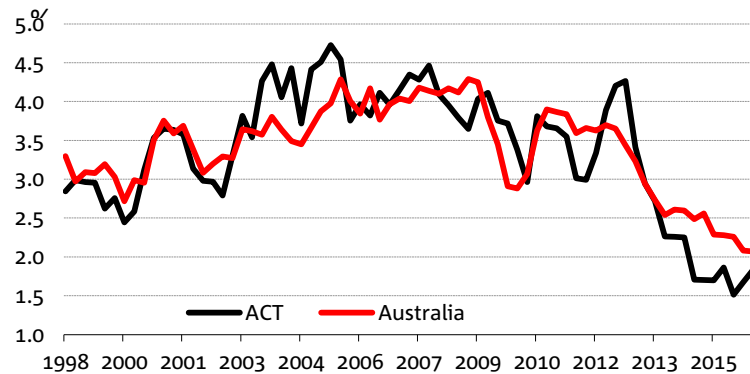
### CHART 9: EMPLOYED PERSONS

%, year on year growth, trend



### CHART 10: WAGE PRICE INDEX

%, year on year growth



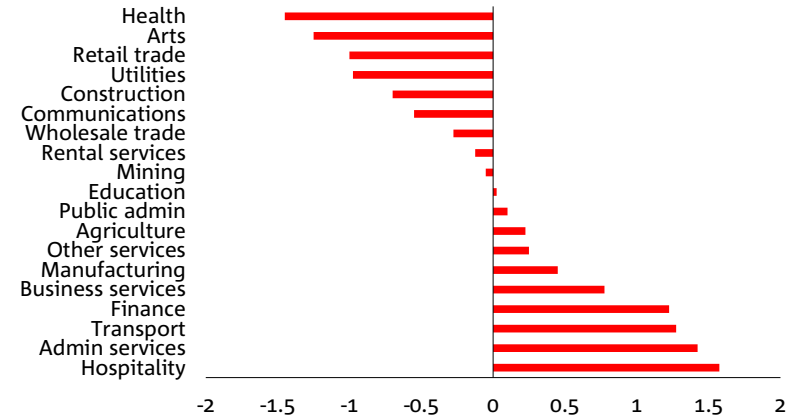
Source: ABS

The latest 2016-17 Federal Budget has not planned further significant cuts to staffing levels and as a result job vacancies have increased in the public sector.

In the past 12 months, services industries including education, administration and other services have added more jobs. As the labour market recovery is on the way across the sectors, more private sector jobs are expected to be added, as we have already seen in the increase in job vacancies.

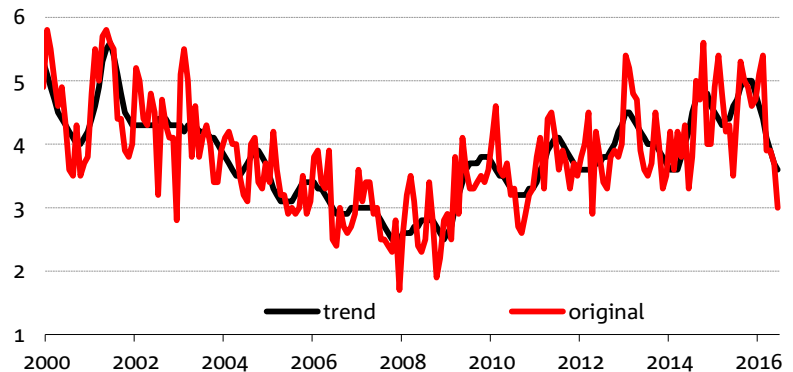
### CHART 11: CHANGE IN EMPLOYMENT BY INDUSTRY

last 12 months to May 2016, '000



### CHART 12: UNEMPLOYMENT RATE, ORIGINAL AND TREND SERIES

%



# DEMOGRAPHICS

## Population growth recovers with better labour market conditions

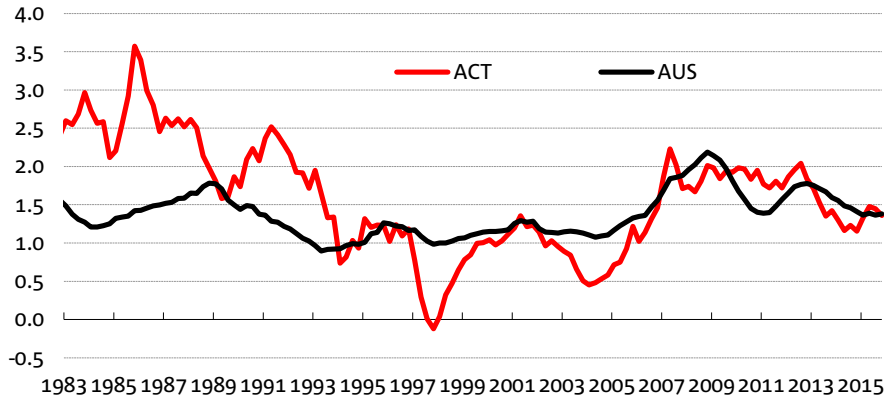
Population growth in the ACT tends to be driven by its labour market conditions. Since the employment market is 30% dominated by the public administration sector, population growth can fluctuate depending on commonwealth government staffing decisions.

As the labour market improves, population growth has picked up again. Wages growth remains subdued however, while net interstate migration has remained negative, despite improving significantly.

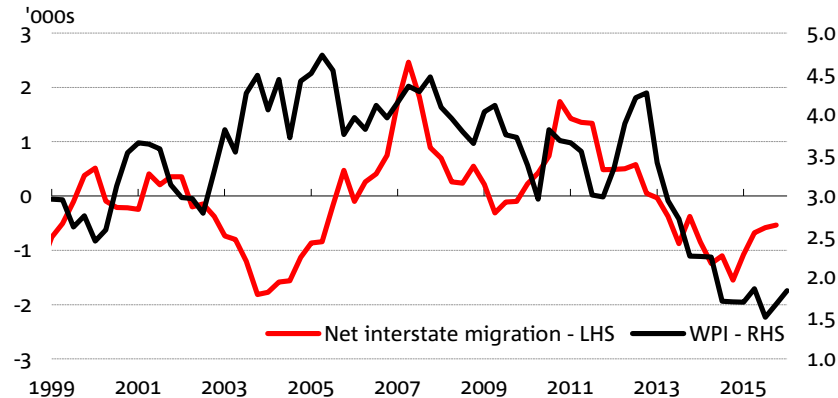
Net overseas migration has offset some of the weakness in interstate migration, with international student enrolment numbers on the rise.

### CHART 13: POPULATION GROWTH

%, yoy growth



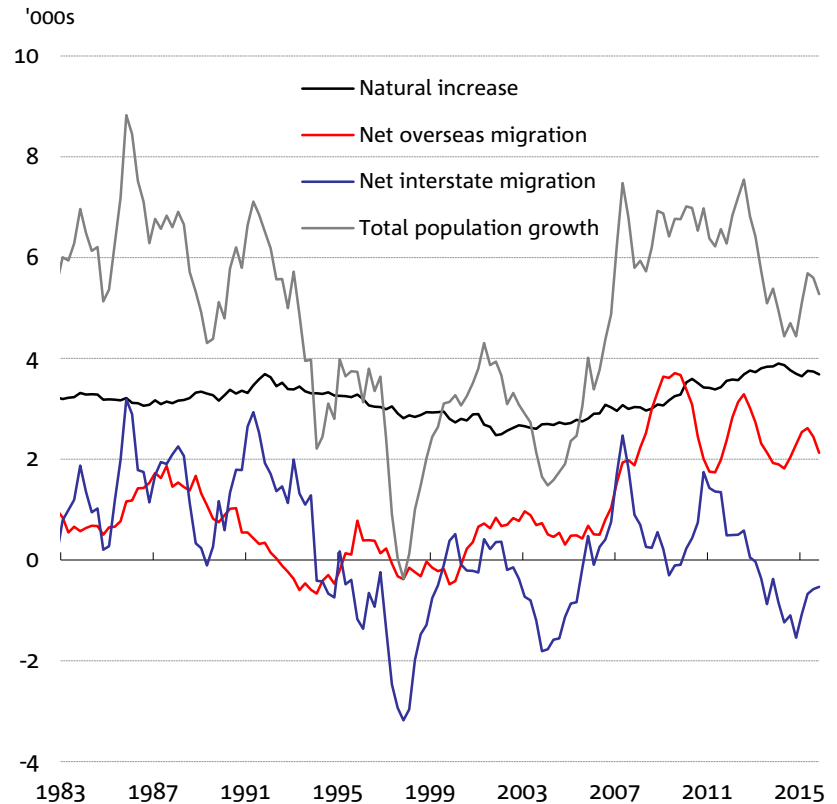
### CHART 14: NET INTERSTATE MIGRATION AND WPI GROWTH



Source: ABS

### CHART 15: ACT POPULATION GROWTH

'000s, over the year



# INVESTMENT

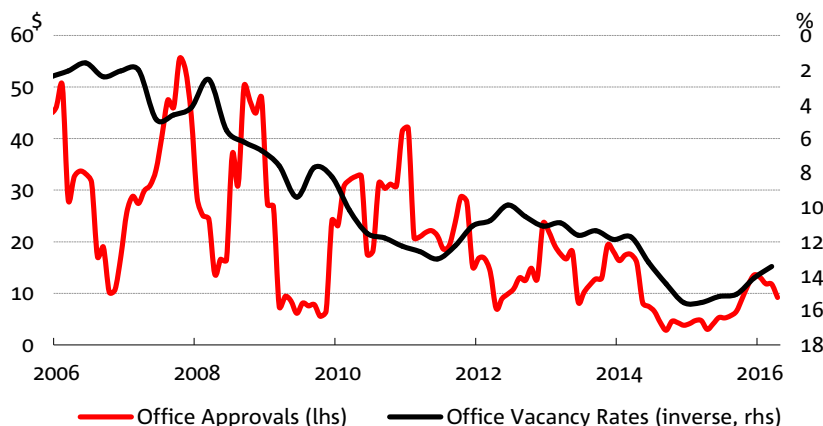
## Non-residential investment faces uncertainty while residential improves

Non-residential investment in the ACT can be bulky in nature. The latest Federal fiscal consolidation since 2013-14 saw office vacancy rates rise, with office approvals falling. The end of the job cuts have stabilised office vacancy rates and we might expect office approvals to recover somewhat.

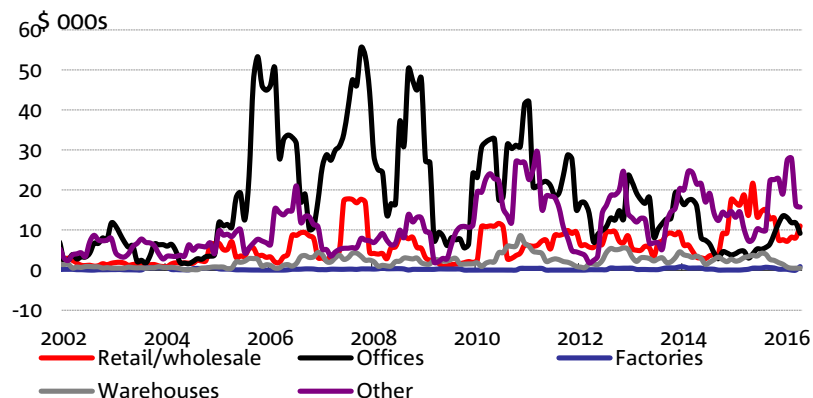
Retail/wholesale building approvals have also recovered with better labour market conditions.

On the other hand, residential construction has improved significantly. The ACT government's land release program is expected to further underpin housing construction activity, with a total of 17,780 new dwelling sites released over four years to 2019-20.

### CHART 16: ACT OFFICE MARKET CONDITIONS

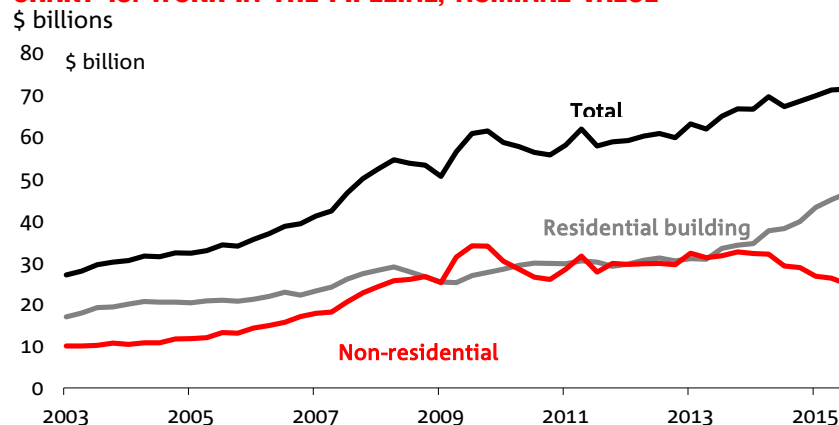


### CHART 17: NON-RESIDENTIAL BUILDING APPROVALS (\$ 000s)

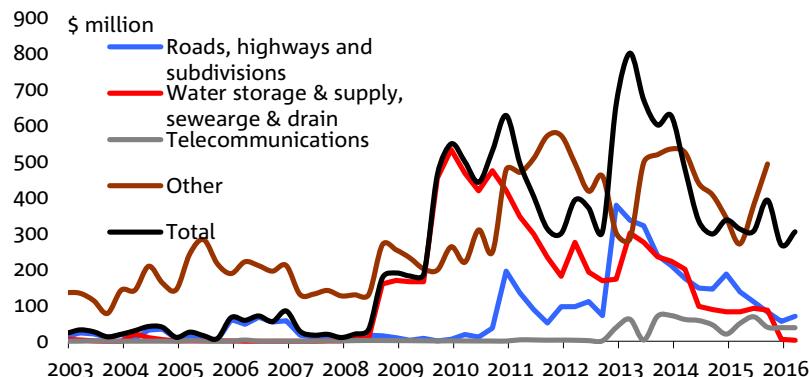


Source: ABS, JLL

### CHART 18: WORK IN THE PIPELINE, NOMINAL VALUE



### CHART 19: ENGINEERING CONSTRUCTION WORK YET TO BE DONE (private & public)



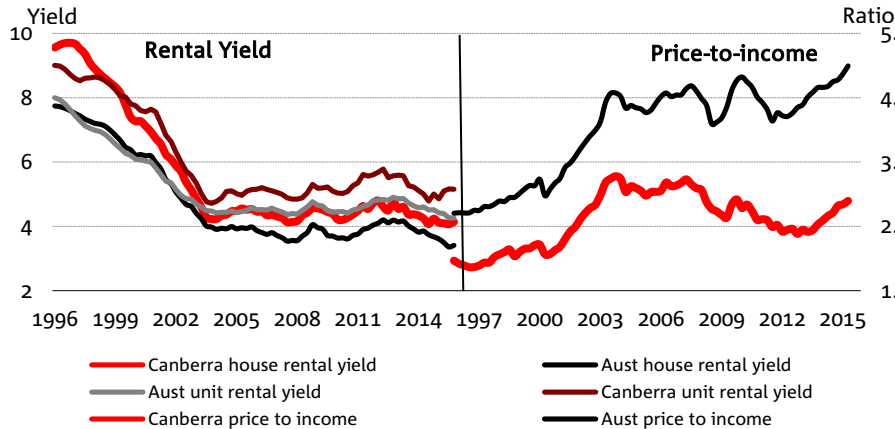
# HOUSING

## Added supply of units to limit price growth while house prices to rise further

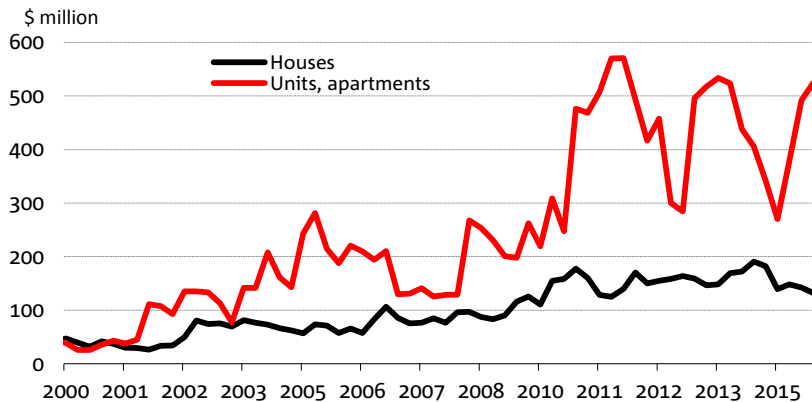
House price growth has picked up again as the labour market and population growth improves. The underlying fundamentals will likely support more house price growth, as Canberra enjoys higher rental yields and a lower price to income ratio than the national average.

There will be more construction under way of medium to high density dwelling compared to houses, a similar trend observed in other capital cities. As a result, while house price growth remains strong, price appreciation prospects for units and apartments are more uncertain.

### CHART 20: RENTAL YIELD (%) AND PRICE-TO-INCOME RATIO

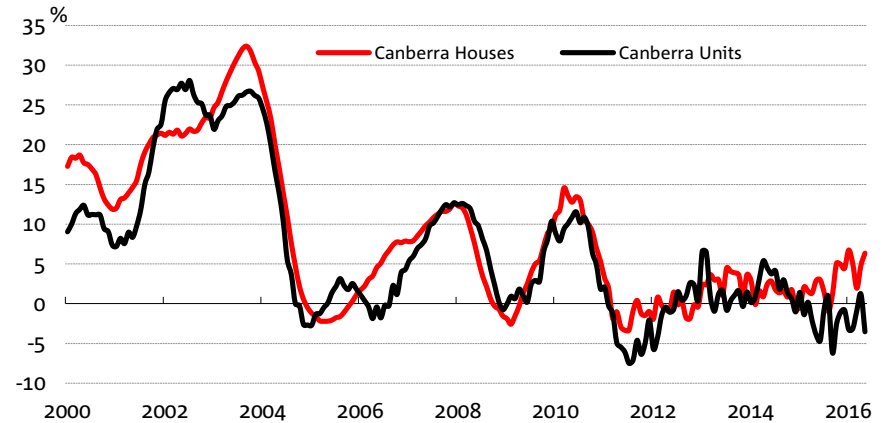


### CHART 21: ACT RESIDENTIAL WORK YET TO BE DONE, BY TYPE

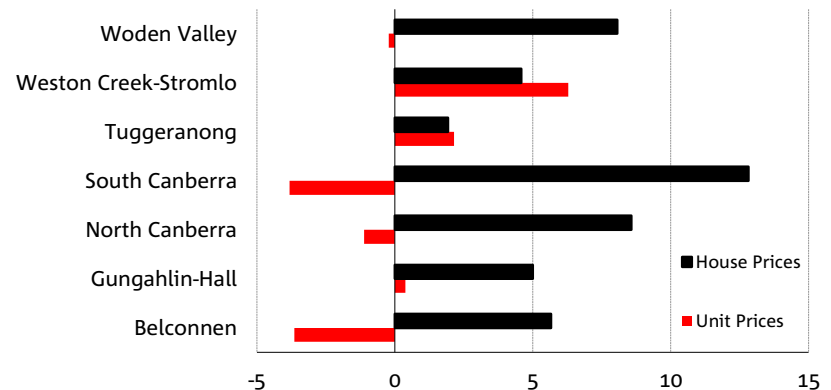


Source: ABS, RP Data

### CHART 22: CANBERRA RESIDENTIAL PROPERTY PRICE GROWTH



### CHART 23: CANBERRA - MEDIAN PROPERTY PRICE GROWTH (year to Q1 2016)





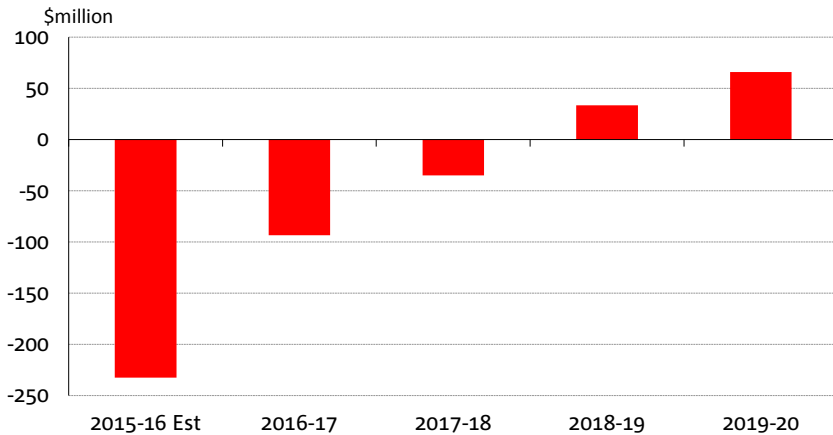
# FISCAL OUTLOOK

## Operating surplus expected in 2018-19

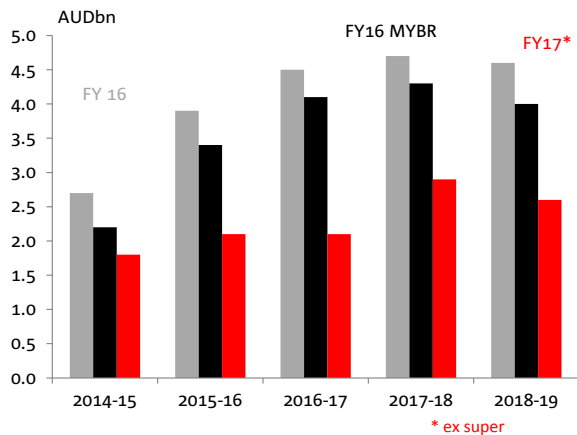
The ACT is forecasting an improved outlook for net debt. This improvement is driven by a decrease in borrowings and higher capital distributions in relation to forecast sales under the land rent scheme. Borrowings are lower due to the removal of the Light Rail – Stage 1 provision which was included as a debt-funded capital project in 2015-16 budget.

In terms of funding, ACT has a small amount of re-financing and minimal new debt requirement.

### CHART 24: HEADLINE NET OPERATING BALANCE



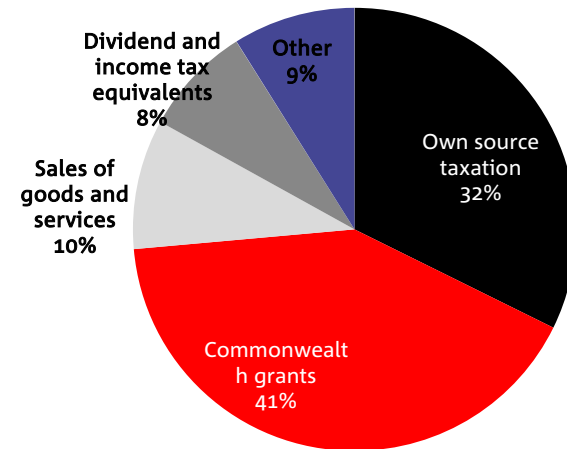
### CHART 25: ACT NON-FINANCIAL PUBLIC SECTOR NET DEBT



Source: ACT Budgets, Bloomberg

### CHART 26: GENERAL GOVERNMENT REVENUE SOURCES

2016-17 Budget



### CHART 27: ACT TERM BONDS OUTSTANDING AS AT END JUNE 2016

