

STATE HANDBOOK: AUSTRALIAN CAPITAL TERRITORY

MARCH 2017

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KEY POINTS

CHART 1: STATE GSP GROWTH FORECASTS

%, annual growth

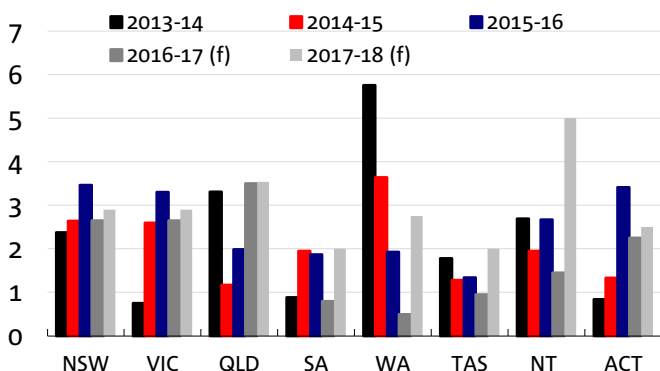
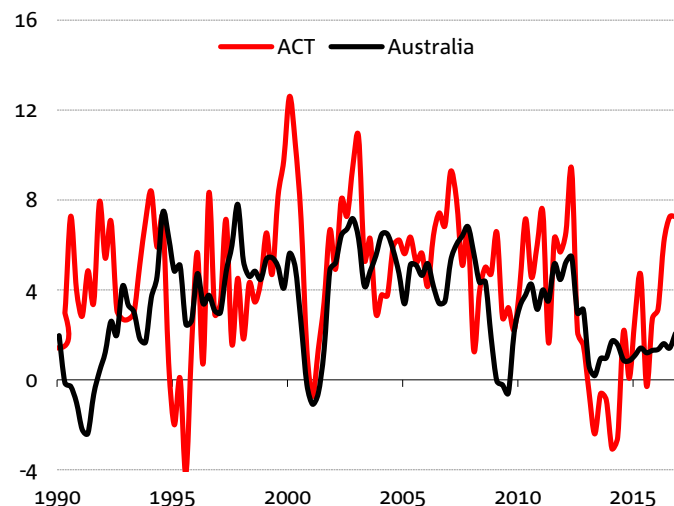


CHART 2: STATE FINAL DEMAND GROWTH

%



Source: ABS and NAB Group Economics

- The ACT economy continues to improve post the earlier Federal public sector job cuts and has recorded stronger state final demand growth over the past two years. With more stability expected in Commonwealth staffing levels, the ACT labour market has continued to improve, with increased job vacancy numbers in both the public and private sectors. Better labour market conditions have also helped underpin higher, albeit still subdued, wages growth. As a result, population growth is forecast to increase, especially net interstate migration, which tends to have a high correlation with wages growth in the ACT. Overall, stronger labour demand and population growth will support dwelling investment, with dwelling approvals on the rise again.
- We expect the ACT economy to continue to recover, with higher population growth, stronger household consumption and increased dwelling investment underpinning its GSP growth. However with Federal Budget repair still very much on the radar, downside risks remain. In addition, income growth is likely to remain subdued given the policy uncertainties, overall weakness in labour income growth across the country and an expectation that the current rally in the terms of trade will not be sustained. We expect GSP growth to pick up modestly to 2¼% and 2½% in 2016-17 and 2017-18. The ACT unemployment rate is expected to remain below the national average at 4.3% in 2016-17 and 2017-18.
- 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. There have been promising signs of improvement in the commercial office market, with vacancy rates falling and office approvals on the rise again.
- While private business investment remains soft, residential investment has improved significantly. The previous undersupply 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. 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. Private sector vacancy numbers have also improved.

Consequently, employment growth in the ACT picked up strongly, overtaking the national average.

CHART 3: JOB VACANCIES

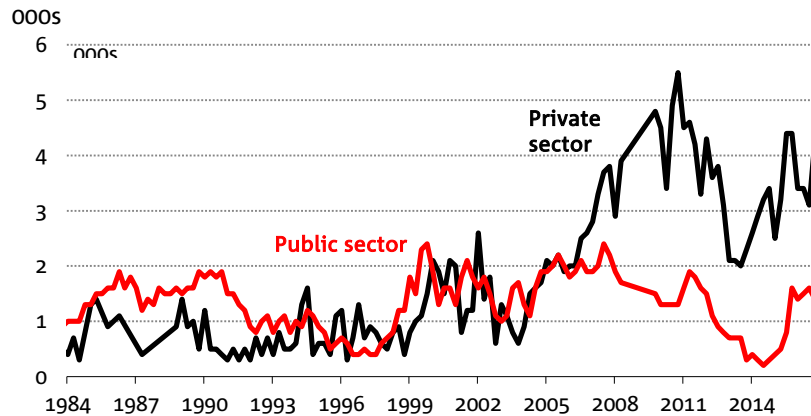
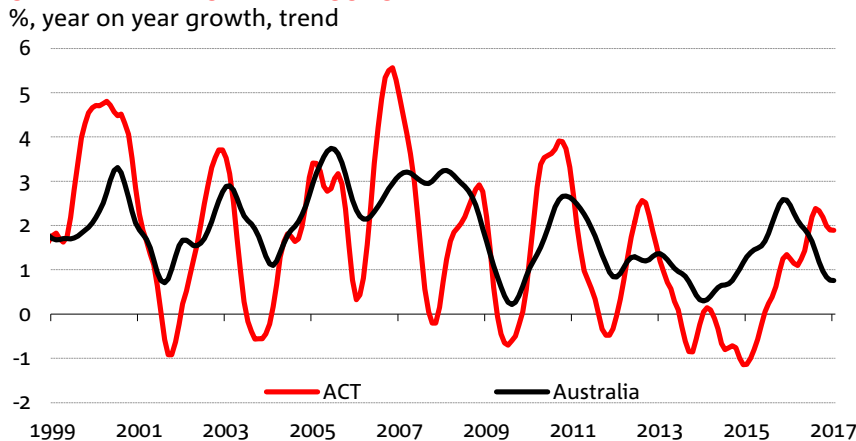


CHART 4: EMPLOYED PERSONS



Source: ABS

Wages growth has improved in line with better labour market conditions. Given the mobile nature of the ACT's workforce, higher wages growth is correlated with higher net interstate migration and population growth.

With a rising population, demand for dwellings has improved again. There has been increased activity in the residential building sector, contributing significantly to the territory's economic growth.

CHART 5: NET INTERSTATE MIGRATION AND WPI GROWTH

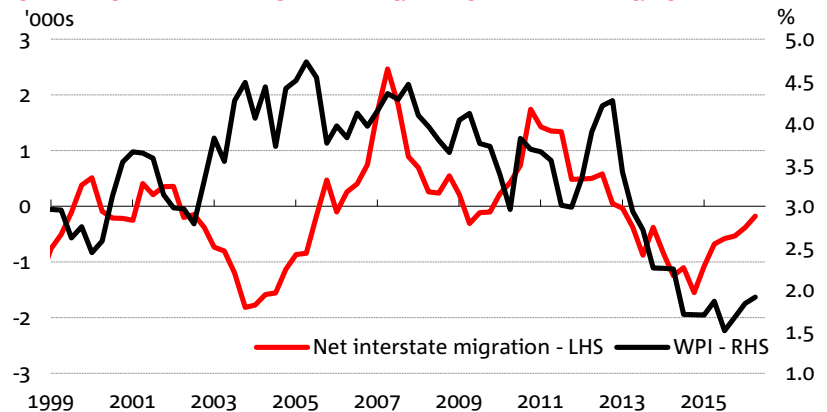
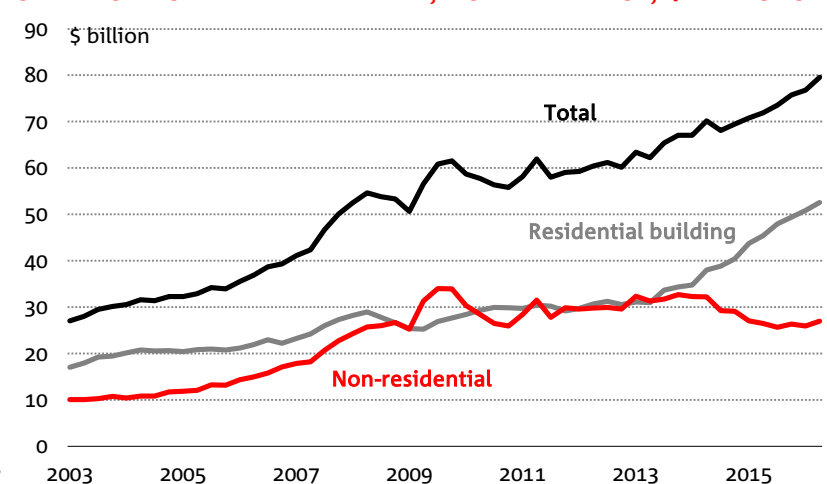


CHART 6: WORK IN THE PIPELINE, NOMINAL VALUE, \$ BILLIONS



LABOUR MARKET

Labour market continues to improve

The labour market recovery in the ACT continues to gain traction, with stronger employment growth, a stabilising participation rate and a much lower unemployment rate. Employment growth in the ACT has overtaken the national average and the unemployment rate seems to have stabilised at around 3.7%.

CHART 7: EMPLOYED PERSONS

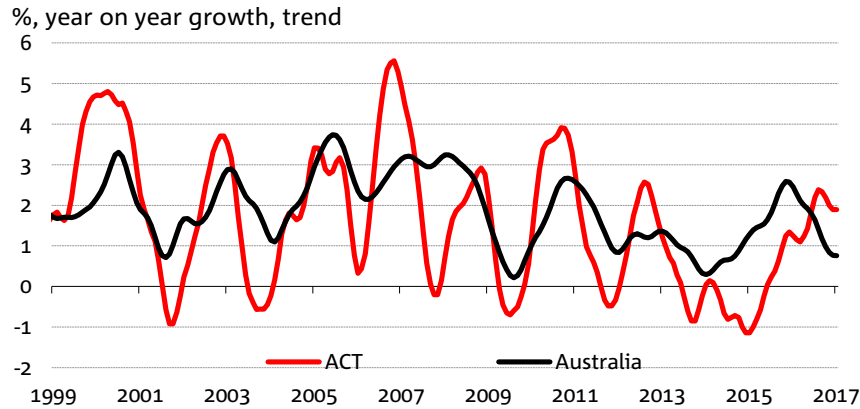
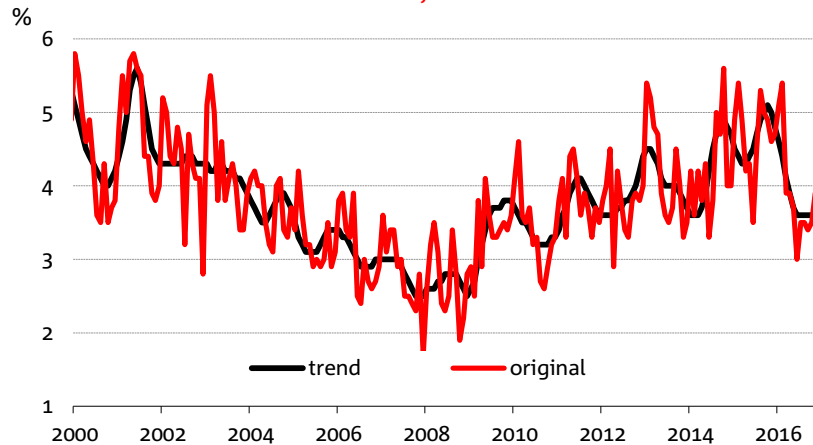


CHART 8: UNEMPLOYMENT RATE, ORIGINAL AND TREND SERIES



Source: ABS

According to the 2016-17 Federal Budget and data from the Australian Public Service Commission, staffing levels are estimated to stabilise in 2016-17. However given ongoing fiscal consolidation, a significant increase in Federal public sector employment is unlikely either.

Business services and public admin recorded the biggest increases in employment over the past 12 months, however employment in public admin remains below levels seen three years ago.

CHART 9: CHANGE IN EMPLOYMENT BY INDUSTRY

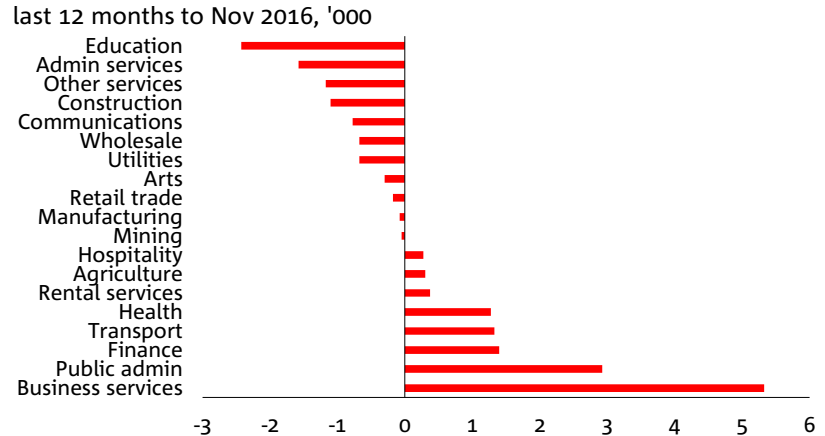
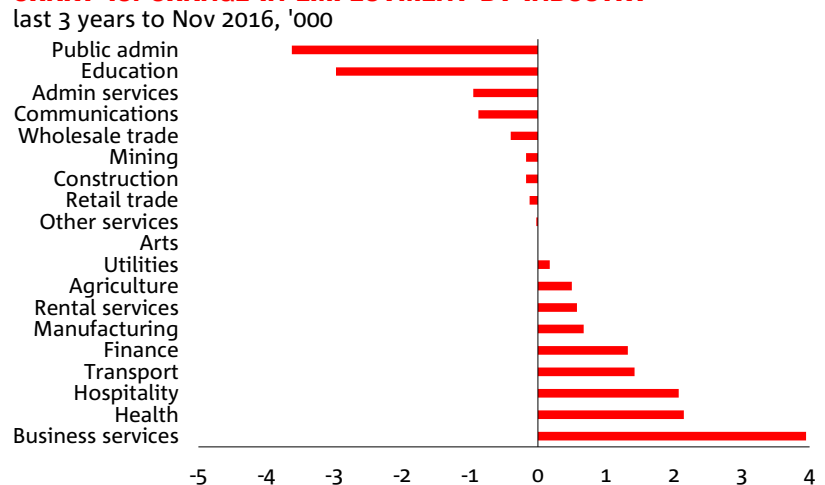


CHART 10: CHANGE IN EMPLOYMENT BY INDUSTRY



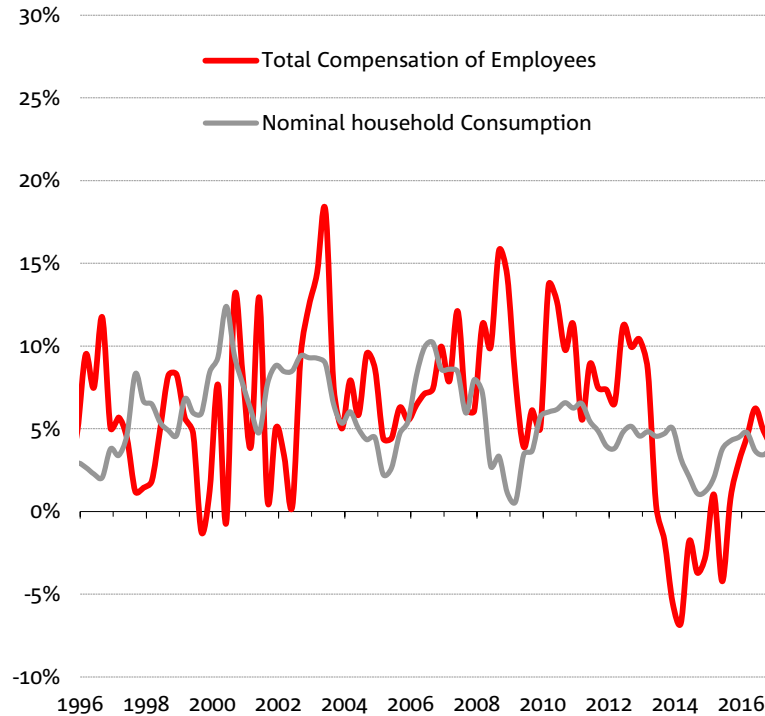
HOUSEHOLD CONSUMPTION

Rising incomes support household consumption growth

As the labour market improves in the ACT, incomes levels have started rising again. Total employee income (a proxy for household income) rose a strong 5% year on year in the September quarter. This in turn has supported household consumption growth.

In addition, Canberra dwellings continue to enjoy positive price growth. 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.

CHART 11: TOTAL EMPLOYEE COMPENSATION & NOMINAL HOUSEHOLD CONSUMPTION GROWTH (YoY%)



Source: ABS, RP Data

CHART 12: CAPITAL CITY DWELLING PRICES

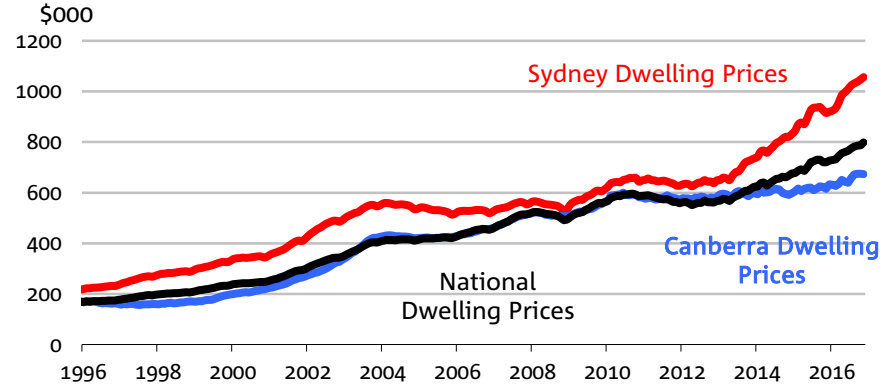
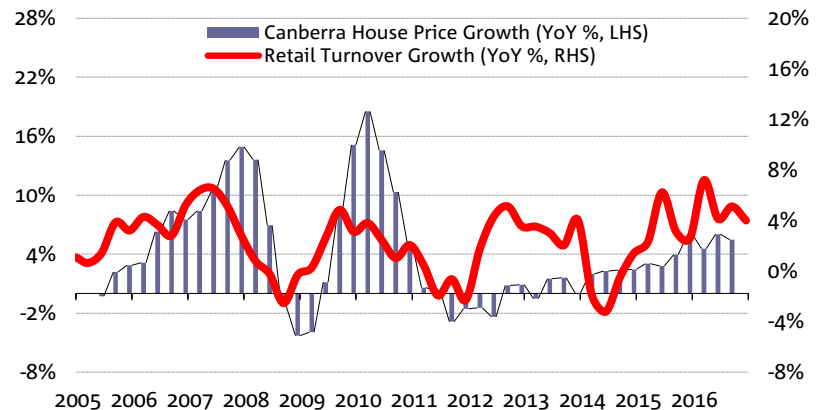


CHART 13: HOUSE PRICE GROWTH AND RETAIL TURNOVER GROWTH



NAB CUSTOMER SPENDING BEHAVIOURS

Hospitality spending increases

By postcode, spending growth in the ACT was fastest in Hall 2618 (19.8%) and Greenway (19.0%).

Customer spending growth in the ACT was fastest for Accommodation, Cafes, Pubs & Restaurants (14.5%).

CHART 14: ACT

Year-ended growth to Q4 2016

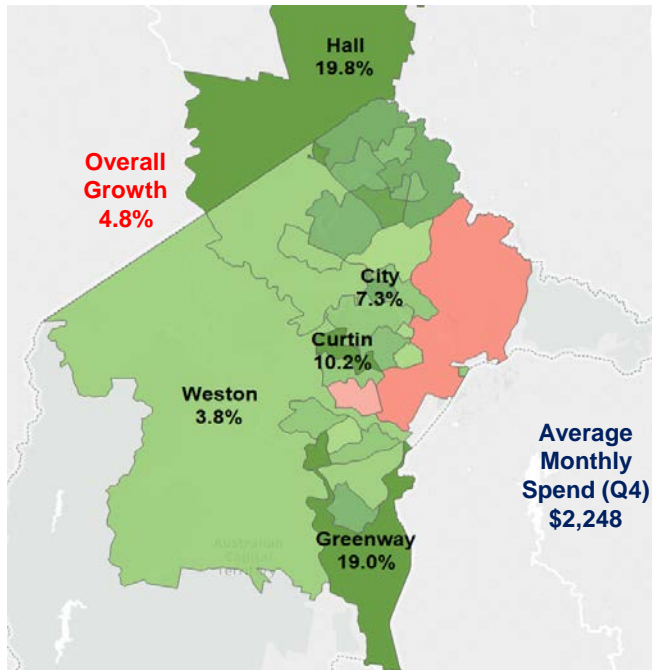
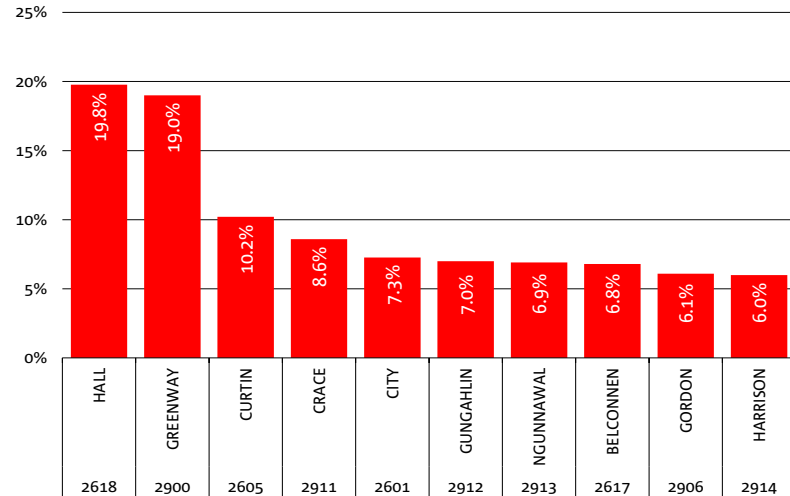


CHART 15: TOP 10 GROWING POSTCODES FOR SPENDING

Top 10 Postcodes by Spend Growth: ACT
(Q4 2016 spend value on Q4 2015 spend value)



DEMOGRAPHICS

Improved labour market conditions should underpin faster population growth

Published population growth numbers up to the June quarter 2016 still show subdued growth in the ACT. However population growth is expected to pick up as the labour market improvement continues.

As wages growth picks up again, net interstate migration is reversing the negative growth trend of recent years, when Federal government job cuts led to an outflow of workers.

The ACT labour market tends to attract a mobile interstate workforce. There has been a strong correlation between wage price growth and interstate migration into the capital territory.

CHART 16: POPULATION GROWTH

%, yoy growth

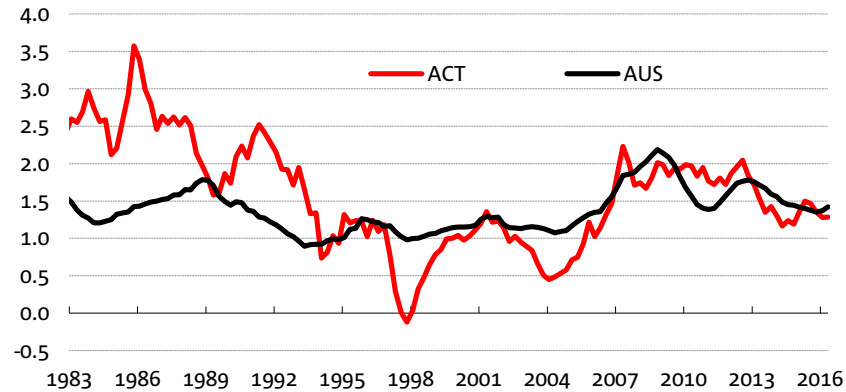
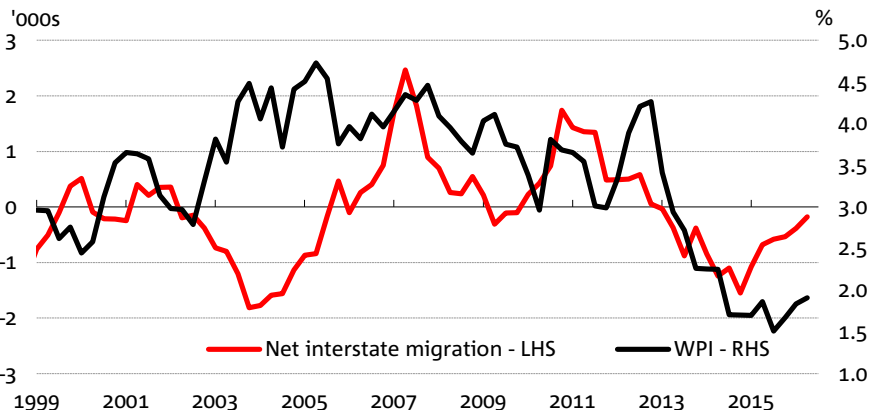


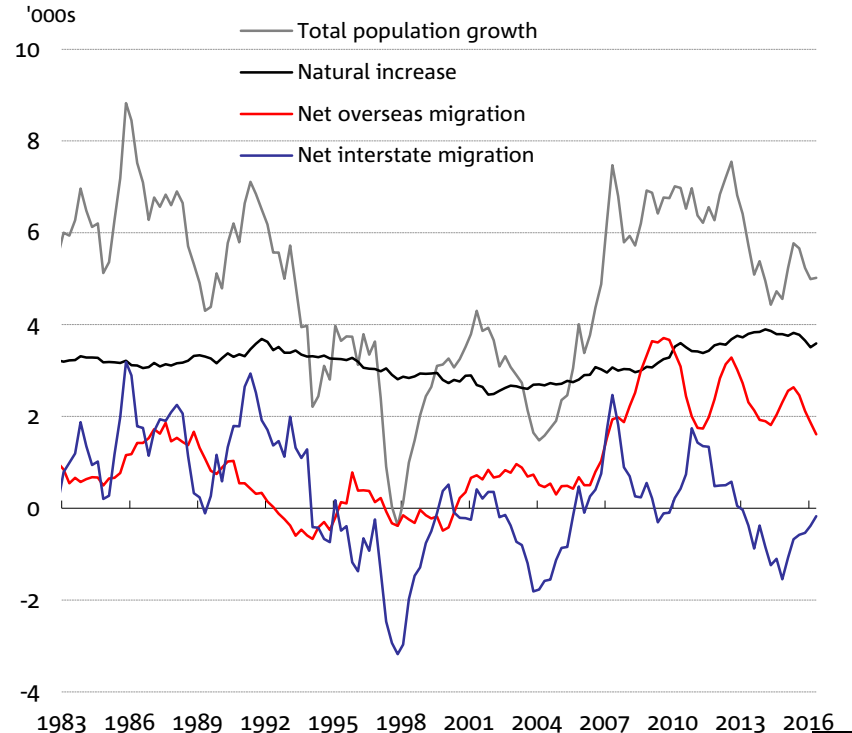
CHART 17: NET INTERSTATE MIGRATION AND WPI GROWTH



Source: ABS

CHART 18: ACT POPULATION GROWTH

'000s, over the year



INVESTMENT

Residential investment grows significantly

With the end of the Federal Government job cuts and the improving labour market, office vacancy rates have declined. As a result, office approvals have risen significantly.

Other non-residential building approvals including retail and wholesale have also shown signs of improvement, as income levels rise and consumption improves.

CHART 19: ACT OFFICE MARKET CONDITIONS

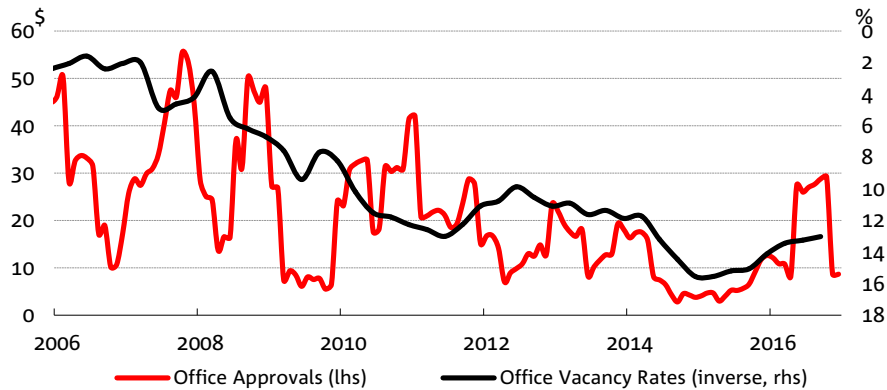
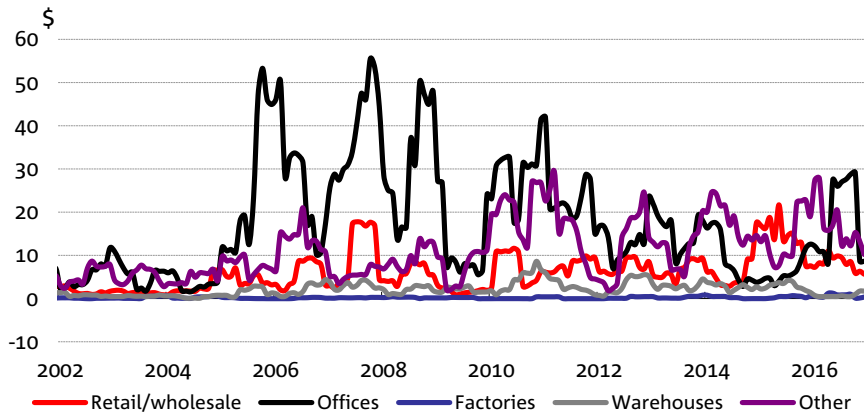


CHART 20: NON-RESIDENTIAL BUILDING APPROVALS (\$ 000S)



Source: ABS, JLL

With improved population growth and a previous period of underbuilding, residential construction has increased substantially. The ACT government's land release program is expected to further underpin housing construction activity, with a total of 17,780 new dwelling sites to be released over four years to 2019-20.

The ACT government has also invested in infrastructure projects to support the territory's growing population base.

CHART 21: WORK IN THE PIPELINE, NOMINAL VALUE

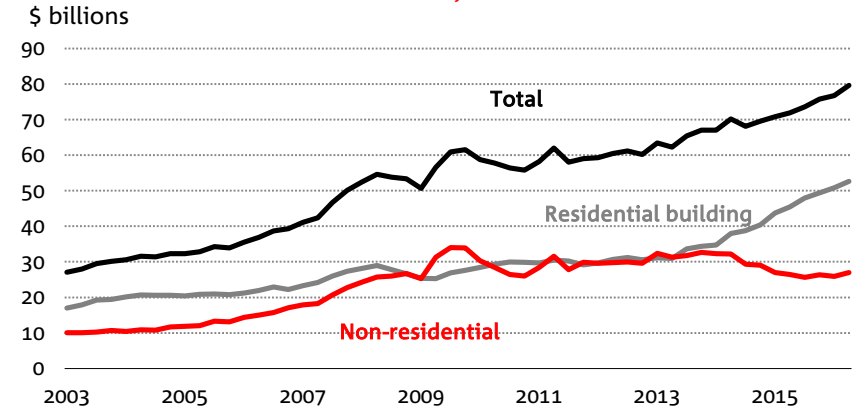
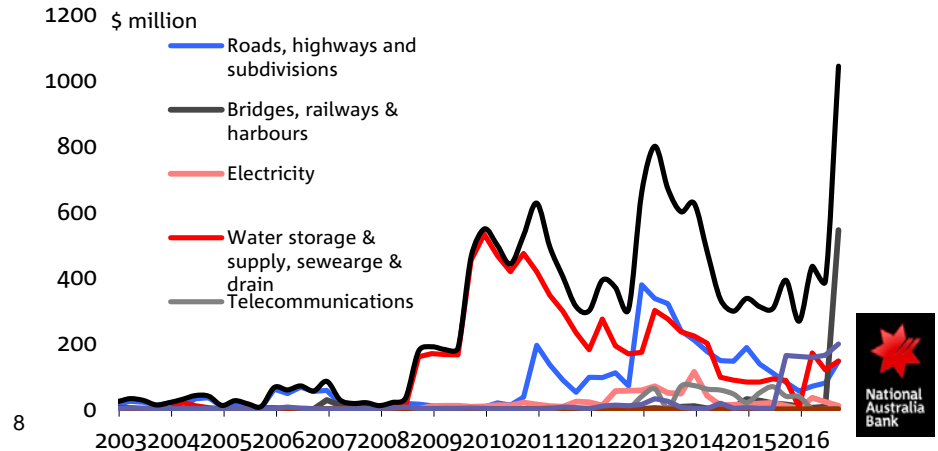


CHART 22: ENGINEERING CONSTRUCTION WORK YET TO BE DONE (private & public)



HOUSING

Improved dwelling price growth with significant new units construction

Both houses and units in Canberra still enjoy higher rental yields compared to the national average. Higher income levels in the ACT also mean the price-to-income ratios for Canberra are significantly lower than the national average, however they have risen with stagnant income growth and higher house prices.

Similar to other states, there is a significant increase in the construction of units and apartments in the ACT, while construction of new houses is only growing slowly.

This has limited price growth for units compared to houses. However, the improved local economy has lifted unit price growth out of negative territory since mid 2016.

CHART 23: RENTAL YIELD (%) AND PRICE-TO-INCOME RATIO

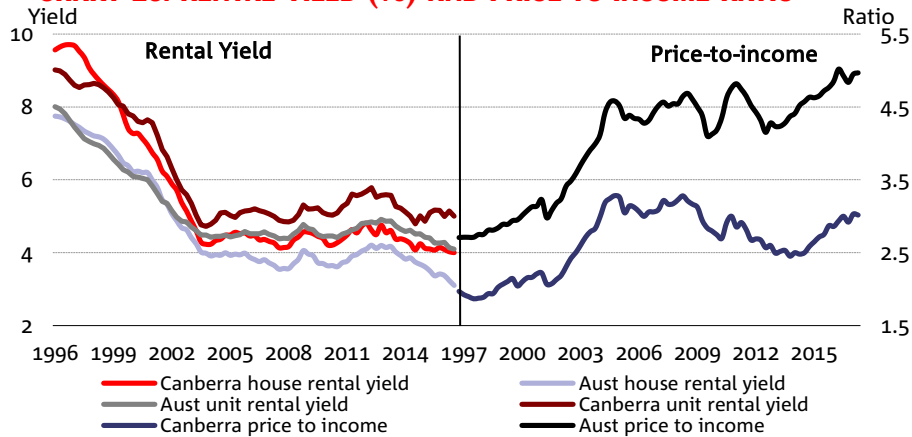
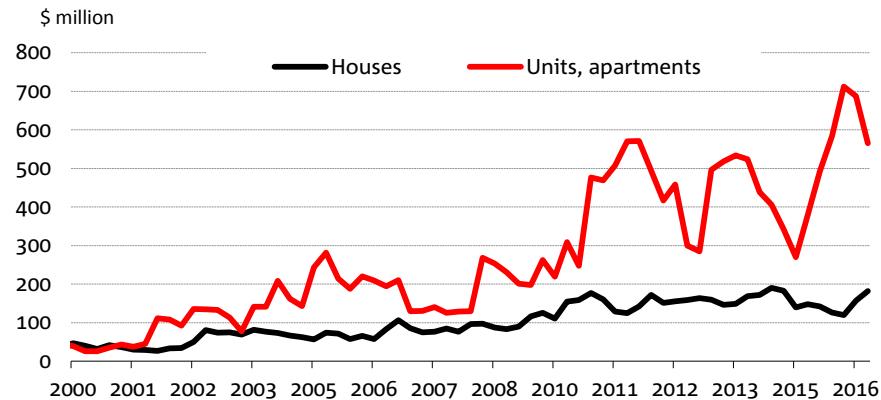


CHART 24: ACT RESIDENTIAL WORK YET TO BE DONE, BY TYPE



Source: ABS, RP Data

CHART 25: CANBERRA RESIDENTIAL PROPERTY PRICE GROWTH

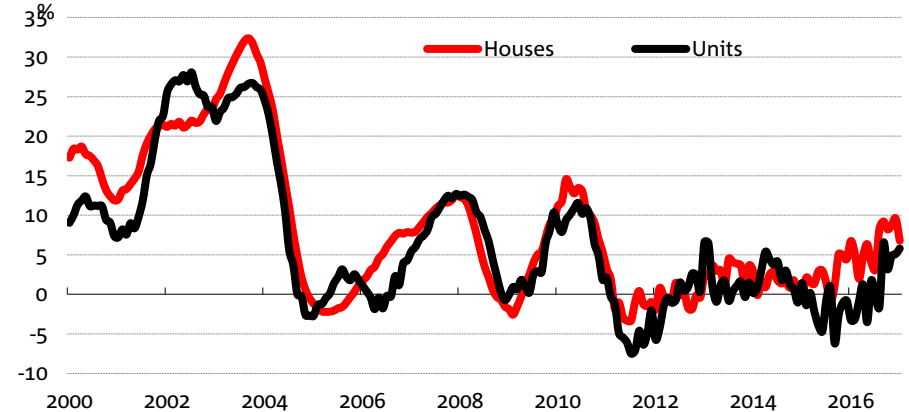
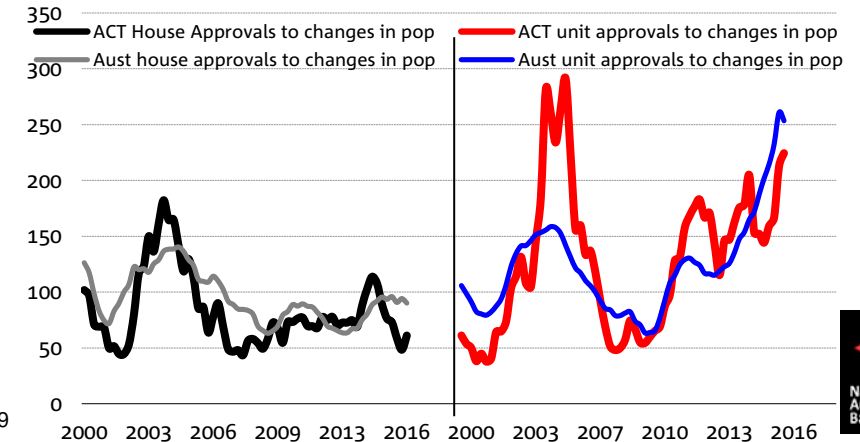


CHART 26: APPROVALS TO CHANGES IN POPULATION

ACT and Australia



FISCAL OUTLOOK

Operating surplus expected in 2018-19

The ACT net debt position is largely unchanged from budget time estimates. The small improvement for 2016-17 reflects higher investments for the Territory Banking Account which is consistent with lower cash drawdowns from agencies. The small lift in net debt in 2017-18 in part reflects lower GST payments.

ACT has five benchmark lines with outstandings at around \$500m per bond.

CHART 27: HEADLINE NET OPERATING BALANCE

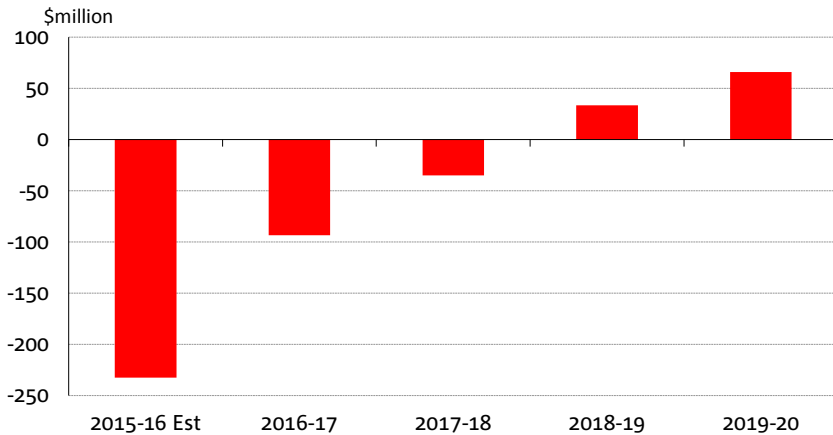
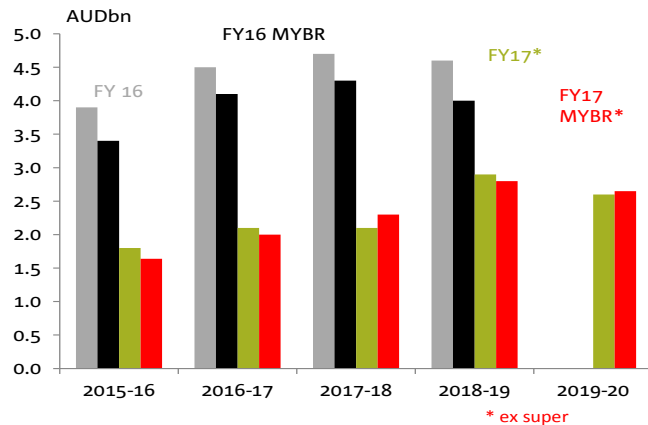


CHART 28: ACT NON-FINANCIAL PUBLIC SECTOR NET DEBT



Source: ACT Budgets, Bloomberg

CHART 29: GENERAL GOVERNMENT REVENUE SOURCES

2016-17 Budget

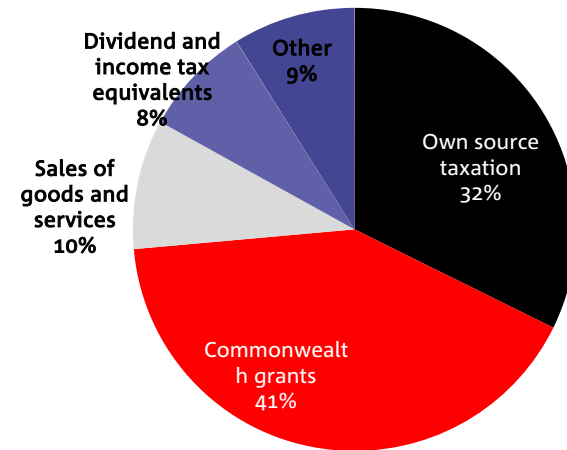
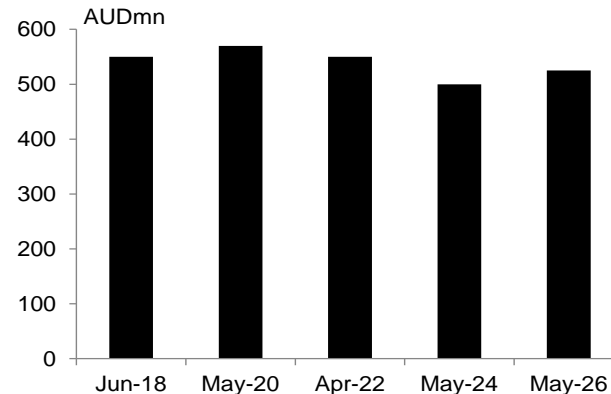


CHART 30: ACT TERM BONDS OUTSTANDING



FORECASTS BY STATE AND TERRITORY:

ACT economy to grow at a moderate pace relative to national aggregate in 2017-18

NAB's economic forecasts by state and territory are below. For a summary of the outlook by state, please see the [States Handbook – Overview](#) which contains links to the detailed handbook for each state and territory.

REAL GROSS STATE PRODUCT AND UNEMPLOYMENT RATE FORECASTS

Annual average

NAB growth and unemployment rate forecasts for the states								
	Gross State Product YoY				Unemployment Rate			
	14-15	15-16	16-17f	17-18f	14-15	15-16	16-17f	17-18f
NSW	2.6	3.5	2.7	2.9	5.9	5.4	5.1	5.3
VIC	2.6	3.3	2.7	2.9	6.4	5.9	5.7	5.7
QLD	1.2	2.0	3.5	3.5	6.5	6.2	6.2	5.8
SA	2.0	1.9	0.8	2.0	6.9	7.3	7.0	7.0
WA	3.6	1.9	0.5	2.8	5.4	6.0	6.5	6.3
TAS	1.3	1.3	1.0	2.0	6.9	6.5	6.5	6.5
NT	2.0	2.7	1.5	5.0	4.2	4.2	4.0	4.8
ACT	1.3	3.4	2.3	2.5	4.5	4.5	4.3	4.3
Australia	2.4	2.7	2.1	3.0	6.2	5.9	5.7	5.7