

# STATE ECONOMIC HANDBOOK

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# KEY POINTS *Leaders solid and laggards stabilising*

- Growth will remain solid across the large south-eastern states, while there are signs of stabilisation in mining states as the end of the downswing in resource-related investment approaches.
- Looking forward, Victoria and New South Wales will remain ahead of the pack in terms of state final demand growth, although Queensland will experience the strongest growth overall thanks to resource exports. While momentum has slowed a little from the rapid growth rates in 2015-16, Victoria and NSW will continue to benefit from buoyant population growth (especially Victoria), strong services activity and infrastructure expenditure. Non-mining business investment in these states has also started to strengthen and will gradually pick up speed, although this will be offset by residential construction peaking and no longer contributing as fervently to growth. **The ACT economy is also gradually improving** thanks to a more stable labour market and stronger housing demand.
- Queensland and WA (and to a lesser extent NSW) are currently receiving an income boost from higher bulk commodity prices, which are flowing through to corporate profits and state government revenue. Resource export volumes will also add strongly to real gross state product in Queensland, WA and the NT as large (mostly LNG) projects are completed through 2017. These states and territories are also well advanced through the downswing in mining investment, although the outlook for mining investment is unlikely to improve given our expectation that the current surge in bulk commodity prices will be temporary. Job losses in mining (and weaker population growth) will continue to pose a challenge to domestic demand, particularly dwelling construction in mining regions and consumer spending in WA, the NT, and parts of Queensland. That said, stabilisation in some high frequency data indicates that the worst of the downturn may be behind us.
- Tourism spending (both domestic and international) and education exports will continue to expand in most states and territories, although the pace of growth is easing somewhat and will be dependent on the path of the Australian dollar.
- Infrastructure spending is also ramping up, particularly in NSW and Victoria, financed in part by strong growth in stamp duty revenue and royalties in some states. **The SA government is attempting to utilise infrastructure** spending to offset the impact of the closure of auto manufacturing and until shipbuilding activity picks up. That said, for SA, as for Tasmania, demographics and a concentrated industry structure will remain challenges.
- In 2016, agriculture enjoyed a generally wet winter and spring, especially in NSW, Victoria, Queensland, SA and Tasmania, although WA was dryer. Looking ahead to 2017, the Bureau of Meteorology forecasting a hot, dry autumn for the whole continent (except far north Queensland and northern NT) and likely El Nino by winter – a worrying outlook for all farmers.
- 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 on the right.

## CONTENTS

[3 | Summary outlook and forecasts](#)

[4 | Charts](#)

## LINKS TO INDIVIDUAL STATE PACKS

[New South Wales](#)

[Victoria](#)

[Queensland](#)

[Western Australia](#)

[South Australia](#)

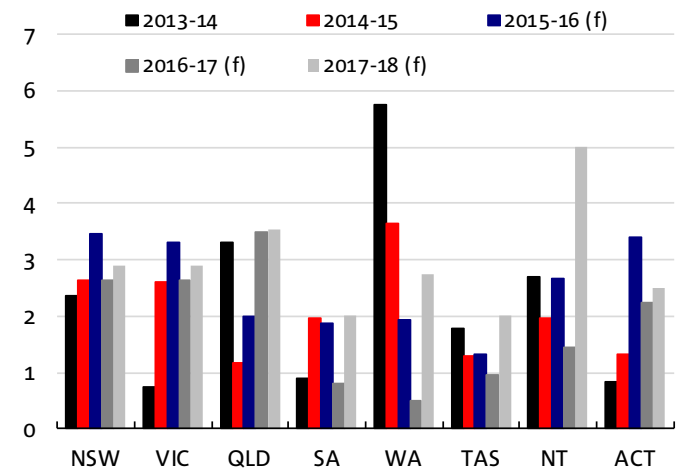
[Tasmania](#)

[Australian Capital Territory](#)

[Northern Territory](#)

## GROSS STATE PRODUCT FORECASTS

Annual % change



# SUMMARY OUTLOOK *and forecasts*

- The **New South Wales** economy will remain neck and neck with Victoria as one of the country's leading economies in terms of state final demand. While growth is expected to moderate and the latest partial data is indicating a mixed picture, we expect strong population growth, infrastructure spending and a further recovery in non-mining business investment to support growth. The anticipated peak in the housing construction boom will pose a challenge to growth going forward.
- **Victoria** will also remain a standout across the states despite some moderation expected, with growth neck and neck with NSW. Employment and population growth (particularly from overseas and interstate migration) is expected to continue, while infrastructure spending, services activity and exports and a gradual recovery in non-mining investment will be key pillars of growth. Residential building approvals have peaked, and dwelling construction is not expected to add as significantly to growth going forward.
- **South Australia** will experience moderate growth, with infrastructure spending and shipbuilding providing some offset to the impact of auto manufacturing closures this year. While employment and consumer spending are holding up for now, long-term challenges such as the narrow industrial base, ageing population and negative interstate migration will weigh.
- The **Australian Capital Territory** economy has strengthened, with greater stability in public sector employment supporting population growth and housing demand and construction. We expect moderate growth going forward and low unemployment.
- **Queensland** will experience the strongest rate of economic growth in 2016-17 owing to a surge in LNG exports and strength in tourism and education exports. Business and labour market conditions however will remain mixed, with south-eastern Queensland outperforming regional areas, and falling mining investment will drag on state final demand. High coal prices are boosting nominal income growth and state government revenues, although the flow on effects to investment and employment will be limited given the temporary nature of the commodity price surge.
- The mining cycle continues to dominate economic trends in **Western Australia**, although the unexpected partial rebound in commodity prices since last year adds to the uncertainty around the outlook. Overall, we expect very weak real GSP growth in 2016-17 and a moderate rebound in 2017-18 as LNG exports add to growth. The current surge in iron ore prices is unlikely to spur additional investment or employment, but is having a positive impact on government finances.
- The **Tasmanian** economy has slowed into 2016-17 despite strength in tourism, agricultural and fisheries industries, although should improve moderately into 2017-18. An ageing population, low levels of educational attainment and a concentrated industry structure remain headwinds.
- In the **Northern Territory**, employment, wages, household consumption and dwelling prices are starting to struggle as the Ichthys LNG project approaches completion. With NT's growth base narrow, these challenges will intensify although export volumes will boost GSP growth in 2017-18.

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
<b>Australia</b>	<b>2.4</b>	<b>2.7</b>	<b>2.1</b>	<b>3.0</b>	<b>6.2</b>	<b>5.9</b>	<b>5.7</b>	<b>5.7</b>

# BUSINESS SURVEY DATA SHOWING STABILISATION IN MOST STATES



*... although Queensland has pulled back*

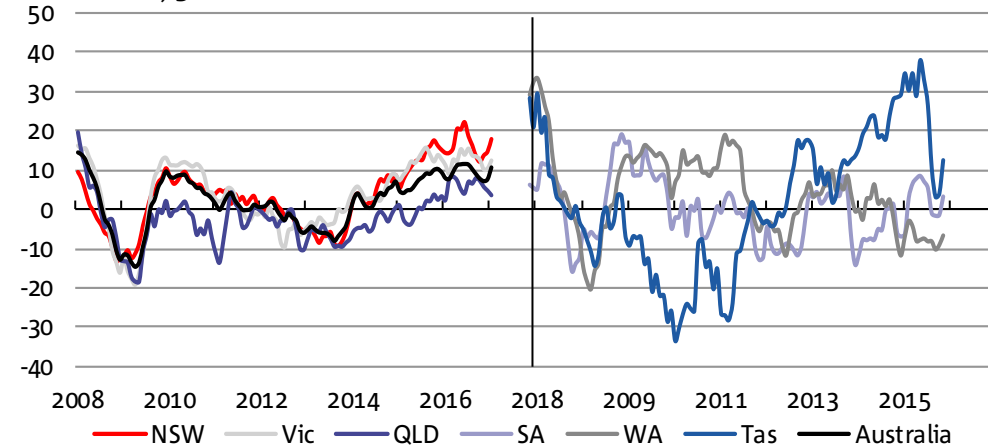
The non-mining states of NSW, Victoria and Tasmania continue to boast the strongest business conditions, while conditions have stabilised at low levels in WA and SA. Qld continues to underperform in terms of business conditions, though remains one of the most confident alongside Vic and NSW.

Capacity utilisation is now above average in most states with the exception of Qld and WA.

Despite robust confidence levels, measures of capital expenditure expectations have eased off a little in most states. That said, capacity utilisation rates are above historical averages in NSW, Vic and SA which suggests upside risk to business investment in those states (see page 5 for further discussion). The outlook for investment in WA and some parts of Qld is weak.

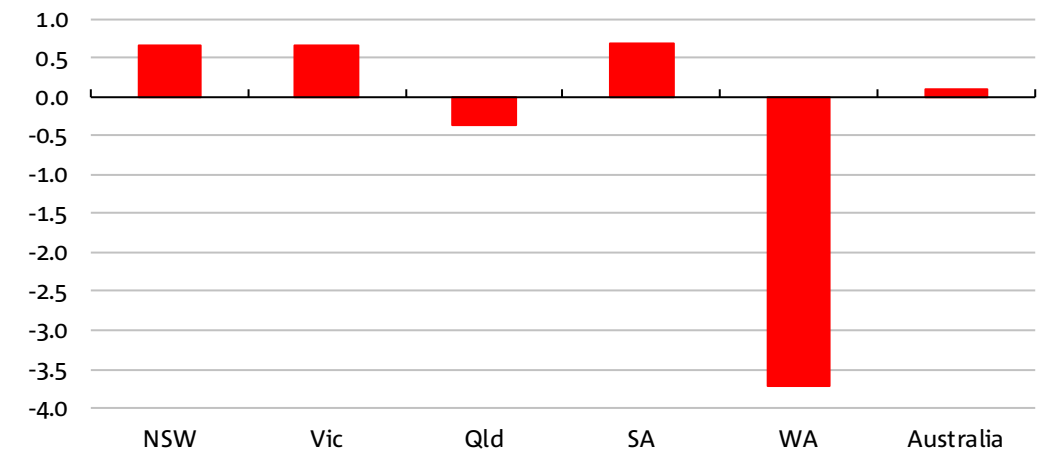
## BUSINESS CONDITIONS BY STATE

Net balance, 3mma



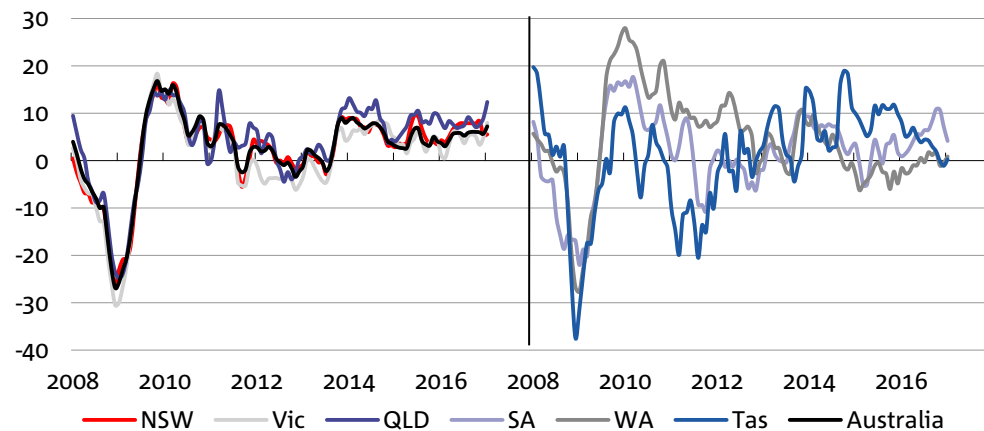
## CAPACITY UTILISATION BY STATE

Percentage point deviation from LR average



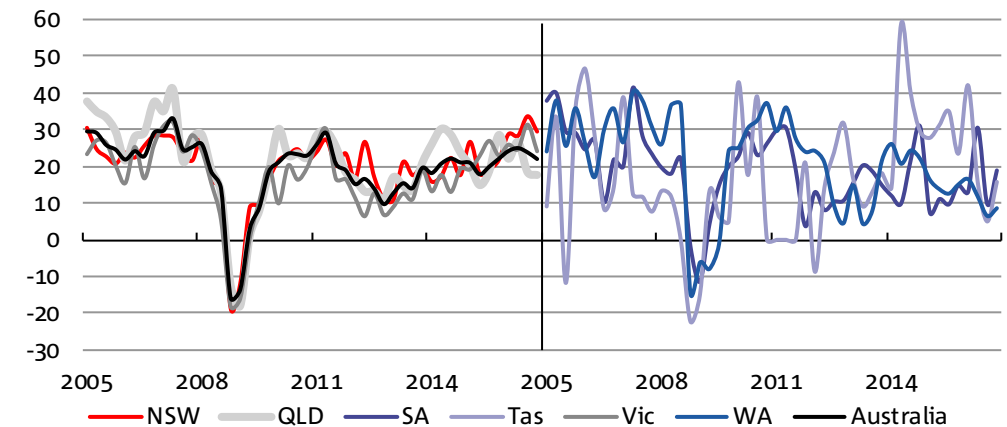
## BUSINESS CONFIDENCE BY STATE

Trend



## CAPITAL EXPENDITURE EXPECTATIONS BY STATE (NAB SURVEY)

Next 12 months, net balance



Source: NAB, ABS

# CONSTRUCTION AND INVESTMENT - Dwelling construction will add less to growth in large SE states, while declines in mining investment easing



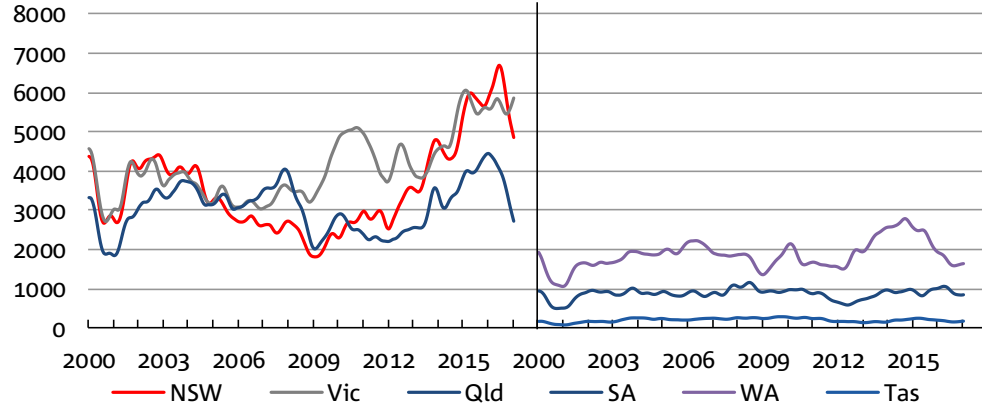
Residential building approvals have peaked in all states. This suggests that dwelling construction will not add as significantly to growth in Victoria (even though activity will remain at a high level), and may start to decline in NSW and Qld, and continue to decline in WA. There may be some offset from non-dwelling construction, with non-residential building approvals trending upwards across most states. Capital

expenditure expectations suggest a pick up in 2017-18 in NSW and to a lesser extent Victoria.

This figures only partly incorporate public infrastructure projects, which will be largely (though not entirely) publicly funded. Infrastructure spending will add the most to growth in NSW, Vic and SA.

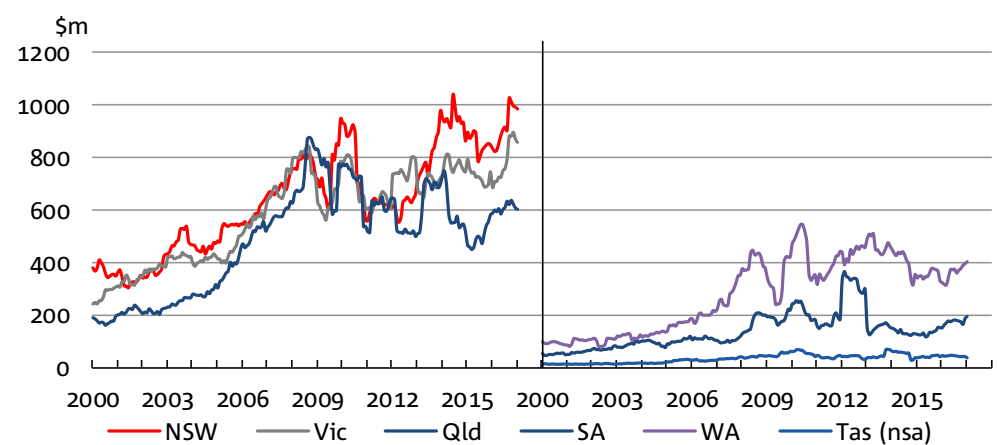
## RESIDENTIAL BUILDING APPROVALS BY STATE

Thousands, rolling annual



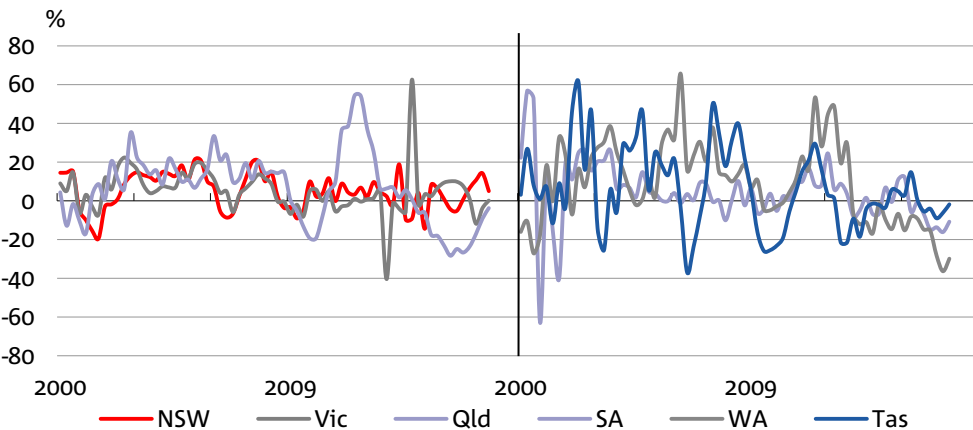
## NON-RESIDENTIAL BUILDING APPROVALS BY STATE

\$m



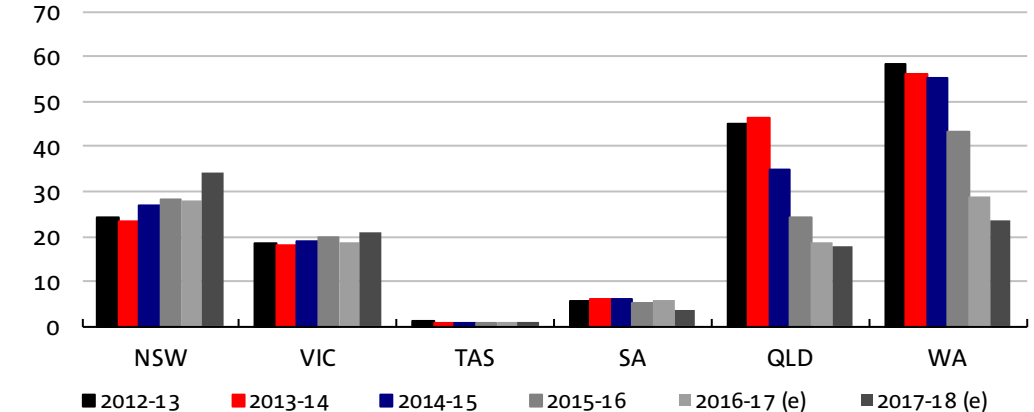
## BUSINESS INVESTMENT BY STATE

Year-ended % change



## CAPITAL EXPENDITURE, ACTUAL & EXPECTATIONS BY STATE (ABS)

\$bn, based on previous realisation ratio



Source: ABS

# NAB CUSTOMER SPENDING BEHAVIOURS BY STATE



## Regional areas outperforming metro in most states and territories

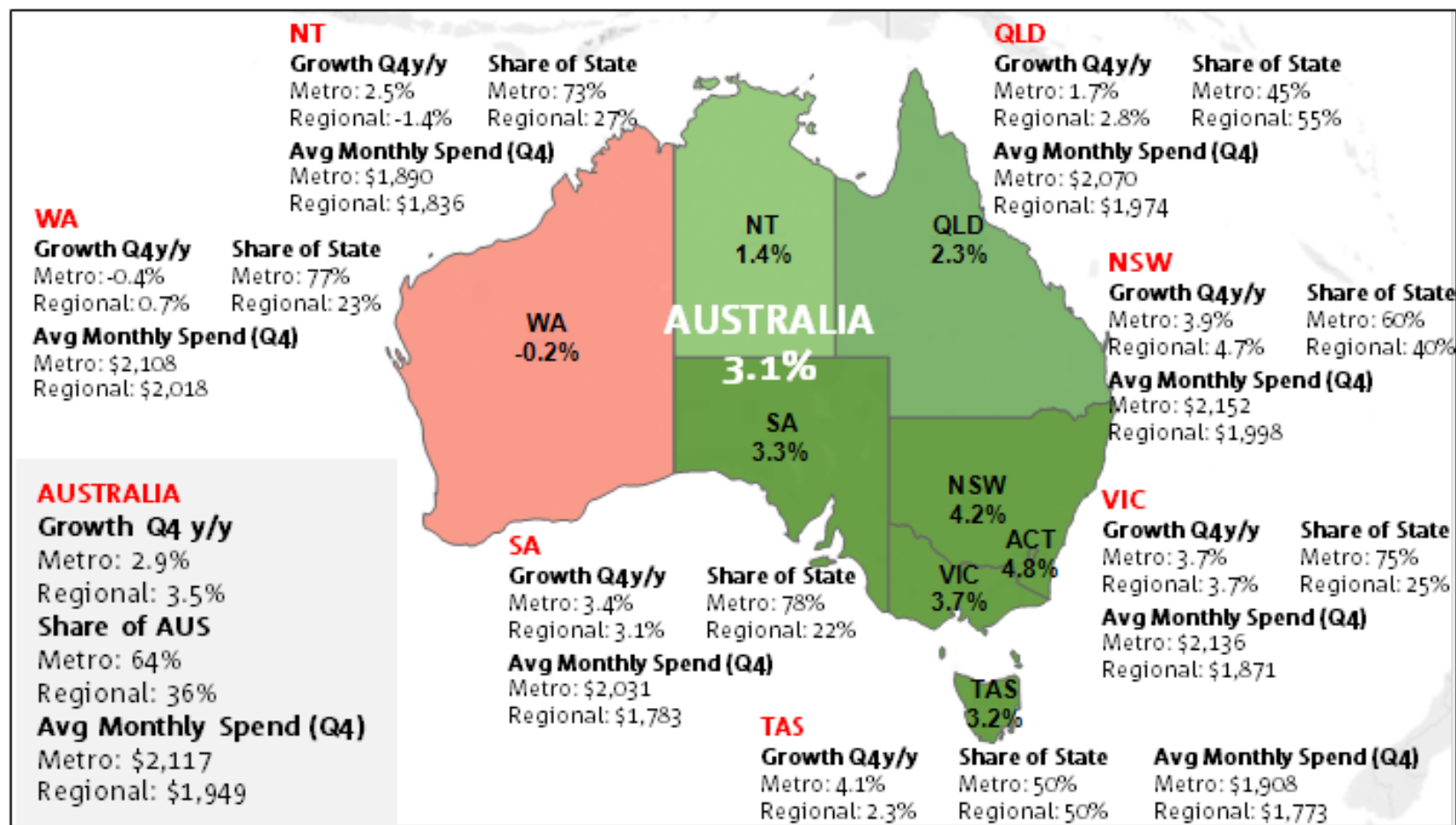
In a new report NAB has explored the spending behaviours of our customers. By examining around 4 million daily transactions, we show where spending is growing fastest and in which industry groups. Given the size of NAB's customer base, this data provides a strong indication of national and regional trends. Key findings include:

- By **capital city area** (based on ABS definitions), spending growth was **fastest in Hobart (4.1%), Sydney (3.9%) and Melbourne (3.7%)** and **slowest in Perth (-0.4%) and Brisbane (1.7%)**. In **regional areas**, it was **fastest in NSW (4.7%) and VIC (3.7%)** and **slowest in NT (-1.4%) and WA (0.7%)**.

- Spending was dominated by the **Eastern states** - with NSW, VIC and QLD accounting for around 80% of total spending. **Sydney, Melbourne and Brisbane** accounted for over half (50.1%) of total NAB customer spending.
- Cities accounted for 64% of all spending and regions 36%**. Cities accounted for the biggest share of spending in all states, particularly **Adelaide (78%), Perth (77%), and Melbourne (75%)**. Spending in **Regional areas** accounted for a comparatively bigger share of total state spending in **TAS (50%), QLD (55%) and NSW (40%)**.

### NAB CUSTOMER SPENDING BEHAVIOURS

Q4 2016



# CONSUMER SPENDING AND DRIVERS OF HOUSEHOLD INCOME



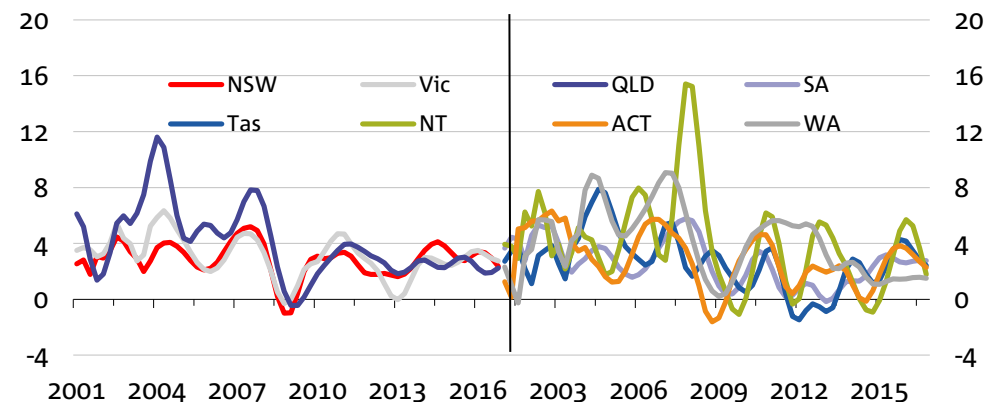
## *A mixed picture given varying employment and income trends*

The pace of growth in household consumption has slowed to a moderate pace across most states and territories, in line with subdued growth in household incomes and reflecting subdued growth in wages (see chart on bottom RHS of average compensation of employees). The main exception is Queensland, where household consumption growth has picked up moderately and average wage growth has improved in recent times.

High frequency data on consumer spending has been mixed and volatile however. Trend growth in retail sales is currently very strong in Victoria, the ACT and SA, consistent with strong employment growth in those states. However it is low in NSW, and Queensland where employment has been weak, and negative in NT as population growth slows (see page 8).

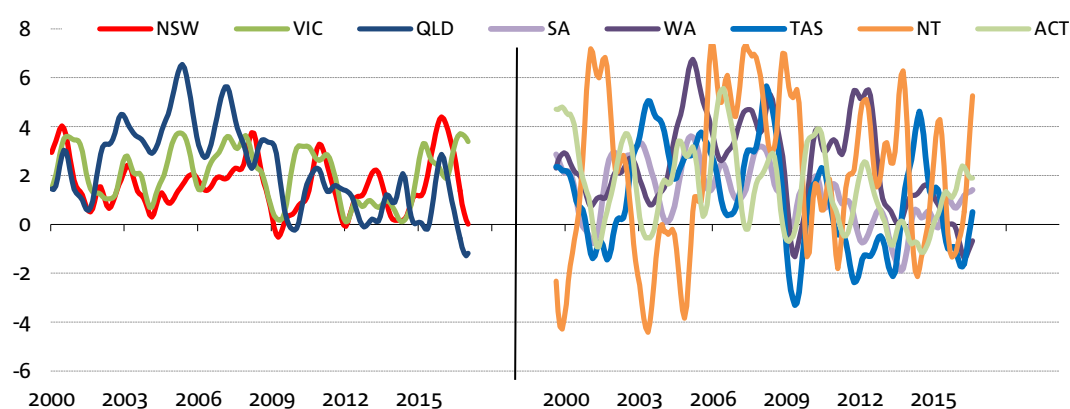
### HOUSEHOLD CONSUMPTION BY STATE

y/y % change, trend



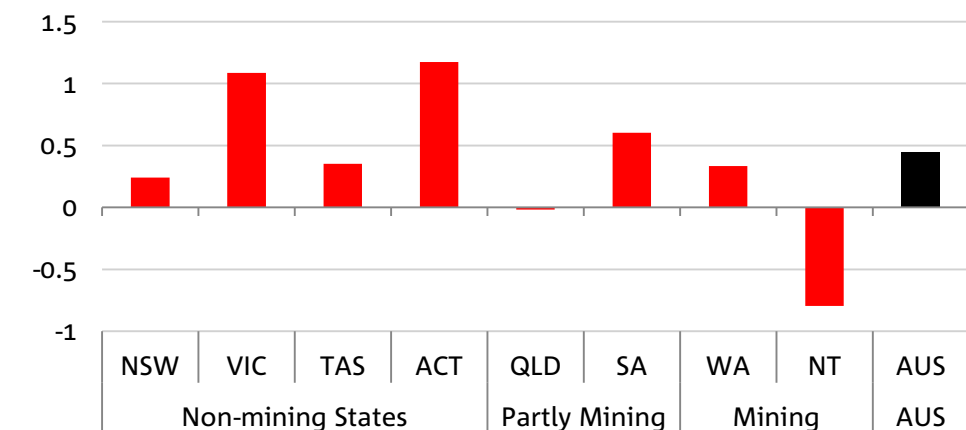
### EMPLOYMENT GROWTH BY STATE

y/y % change, trend



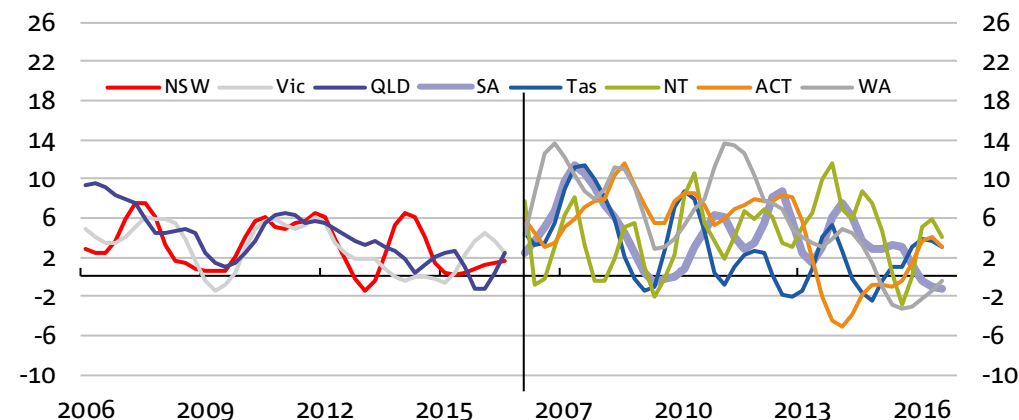
### RETAIL TRADE BY STATE

m/m % change, trend



### AVERAGE COMPENSATION OF EMPLOYEES BY STATE

y/y % change, trend



# LABOUR MARKET AND DEMOGRAPHICS



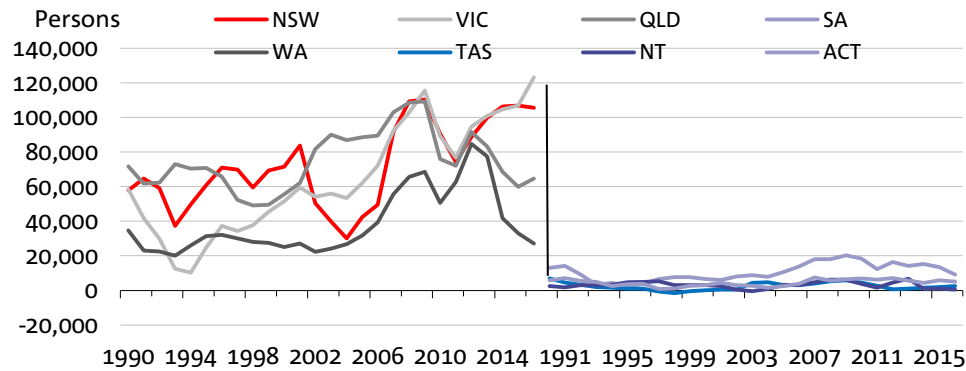
## Shifts in population growth preventing larger changes to unemployment

Population growth has remained strong in Victoria and NSW. Victorian population growth in particular has been supported by positive net interstate migration and overseas migration, leading to the unemployment rate remaining stubbornly high despite very strong employment growth (see chart on p7). Meanwhile the unemployment rate in NSW has declined despite poor employment growth, with the labour force participation rate declining.

Interstate migration has also started to pick up in Queensland while it is negative WA, the NT and SA; in WA, this is helping to prevent a more marked rise in unemployment as mining employment subsides, while slower population growth has seen the SA unemployment rate decline somewhat. Looking forward, the unemployment rate is expected to be broadly stable in most states and territories, with the exception of Qld where it should improve modestly, and the NT where it will rise further (see p2 for forecasts).

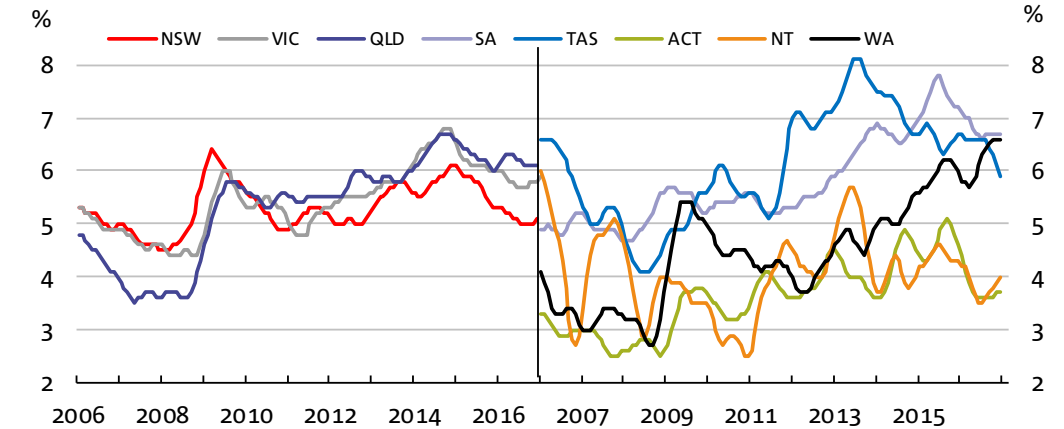
### POPULATION GROWTH BY STATE

Annual change, 000s



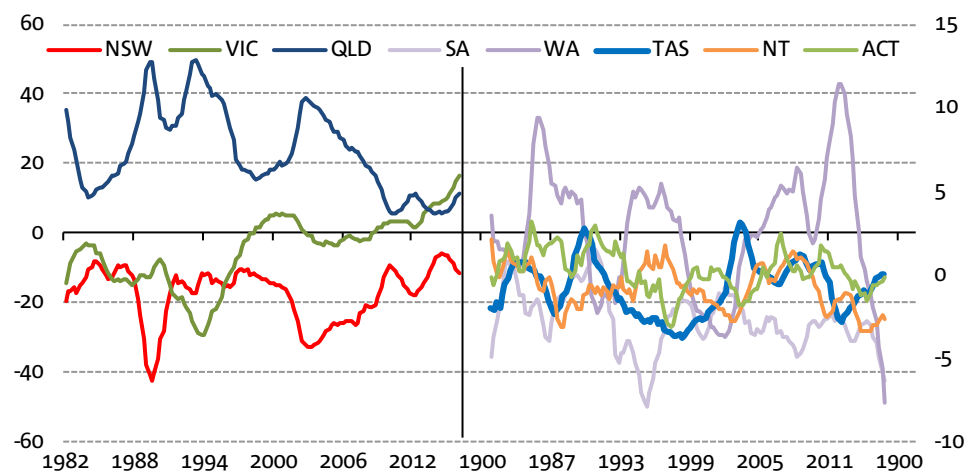
### UNEMPLOYMENT RATE BY STATE

% of labour force



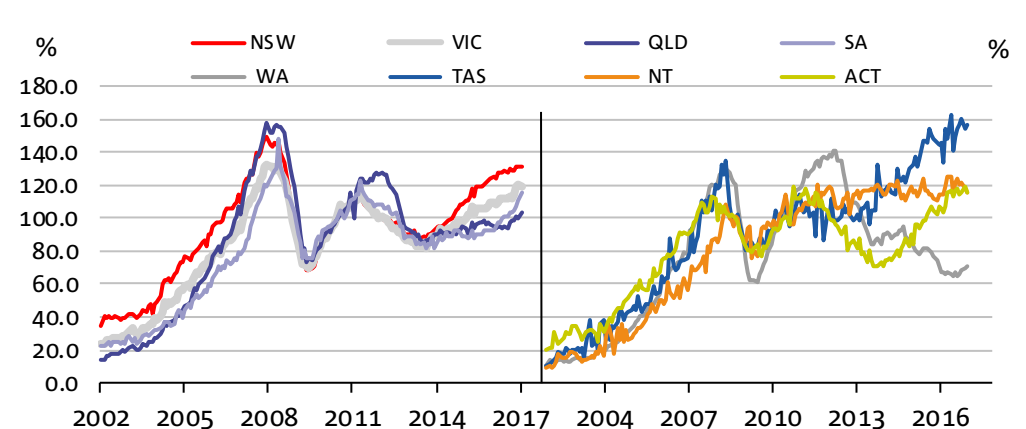
### INTERSTATE MIGRATION BY STATE

000s, 12-month rollina sum



### SEEK JOB ADVERTISEMENTS BY STATE

Index



Source: ABS, Seek



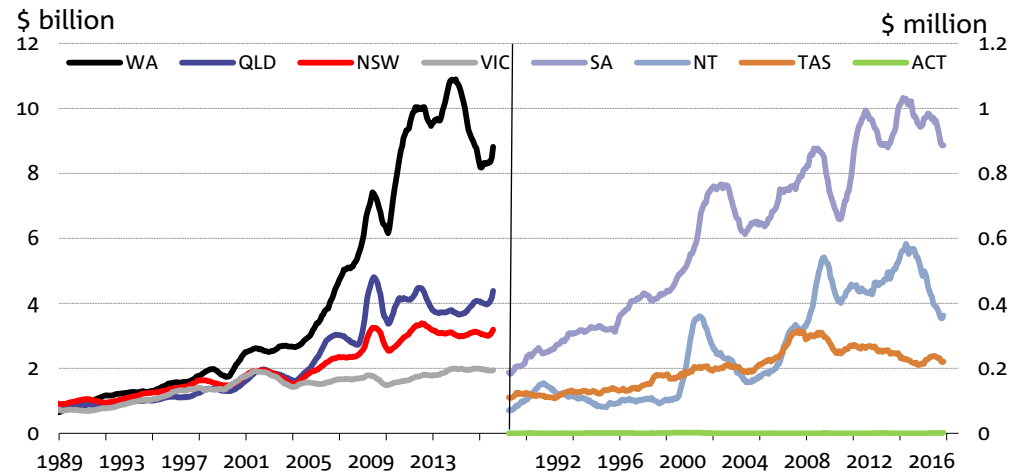
# EXPORT EARNINGS CONTINUE TO SURGE ...led by LNG and services export volumes and a (temporary) spike in bulk commodity prices



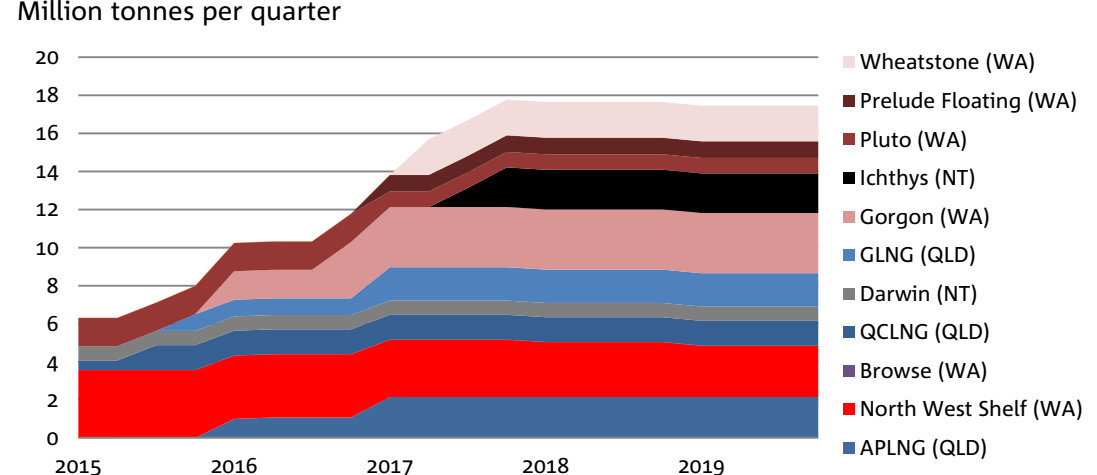
Estimates of merchandise export earnings in WA and Qld have started to pick up in response to current strength in coal and iron ore prices. Our estimates of contracted LNG supply suggests a surge in export volumes in Qld, WA and the NT. Meanwhile, most states will continue to benefit from stronger services exports including education exports and foreign and domestic tourism, although the pace of growth in visitor arrivals and average spend is likely to slow a little and is dependant on the AUD.

Agriculture enjoyed a generally wet winter and spring, especially in NSW, Vic, Qld, SA and Tas, although WA was dryer. The Bureau of Meteorology is however forecasting a hot, dry autumn for most of the continent in 2017 which will be problematic for most areas, although WA has flooded of late. In addition, our rural commodities price index has declined for most states which will weigh on farmer earnings.

## INTERNATIONAL MERCHANDISE EXPORT EARNINGS BY STATE

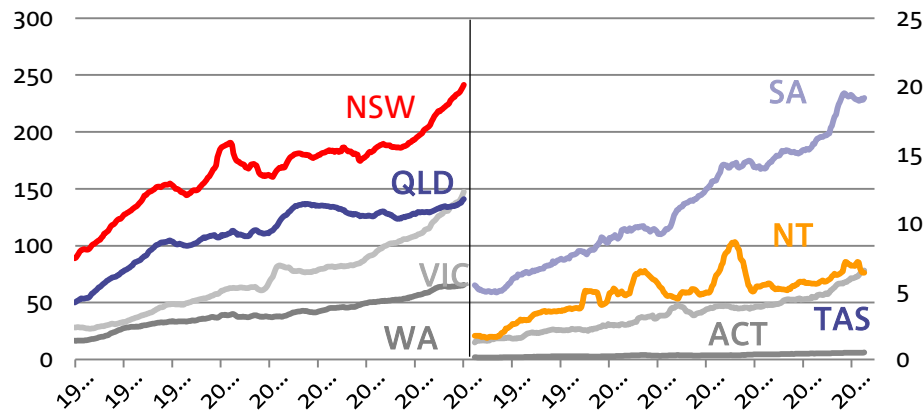


## LNG EXPORTS, CONTRACTED SUPPLY



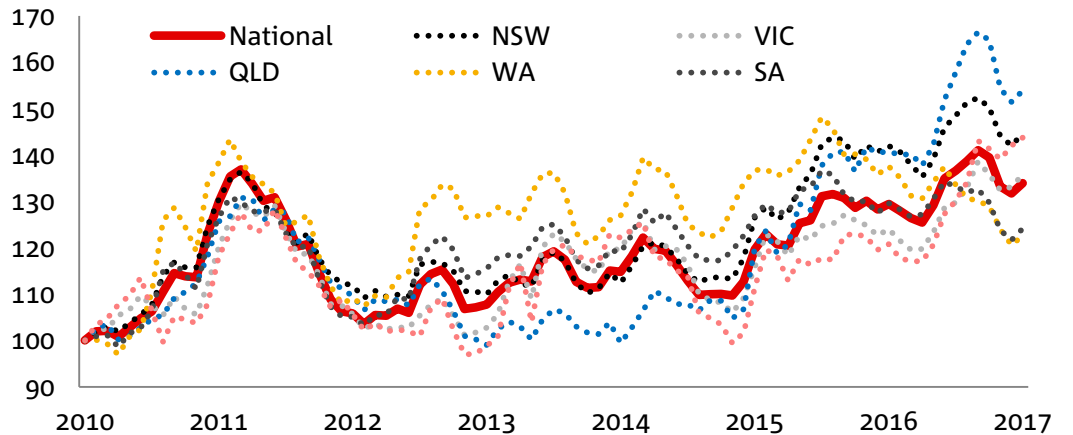
## SHORT-TERM VISITOR ARRIVALS BY STATE

State where spent most time, 000s, 12mma



## NAB RURAL COMMODITIES INDEX AND STATE INDICATORS

Index value, 2010 = 100



# PROPERTY MARKETS AND FISCAL OUTLOOK *Current momentum means upside risk to house price forecasts. Budget outlooks have improved slightly.*



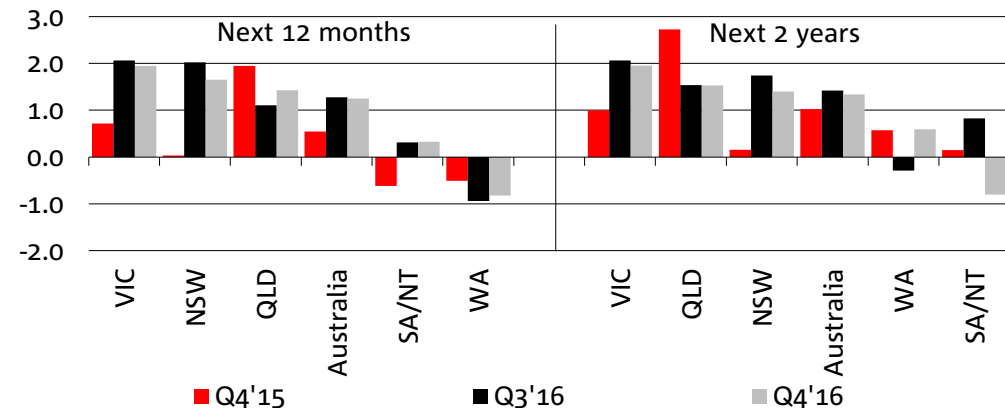
Growth in house prices has picked up strongly in Sydney and Melbourne in late 2016 and early 2017. While we expect some moderation through 2017, current momentum does suggest upside risks, particularly in Victoria where the government has recently announced a stamp duty exemption or reduction for first home buyers buying a property for under \$600K and a reduction for those between \$600-\$750K. Price growth for apartments is likely to be softer, and negative in Victoria and Brisbane where the supply response will be greatest. The outlook for houses and apartment prices remains negative in Perth, and subdued in Adelaide.

The commercial property index also suggests a solid outlook for Victoria and NSW. While soft in Qld and NT, and negative in WA, it is expected to improve modestly in 12 months and 2 years time.

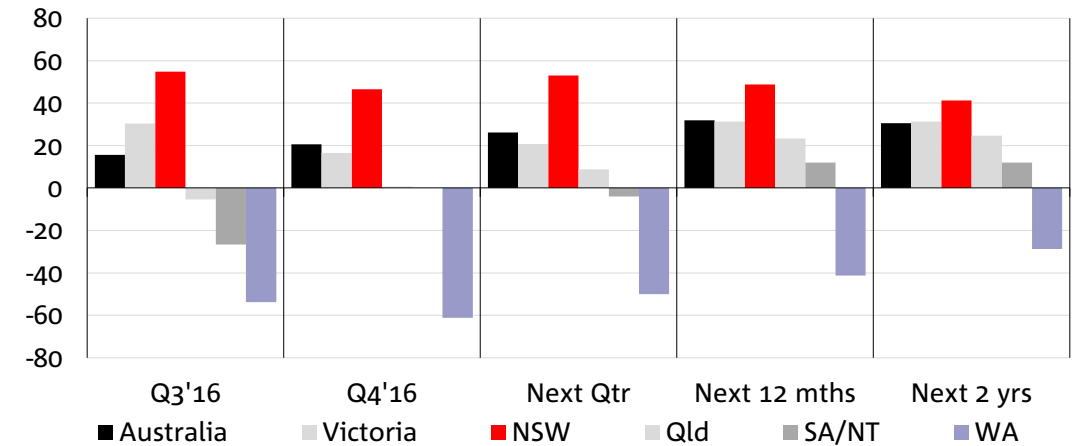
Operating budget balances in eastern states are strong owing to strong population growth and housing market activity, while the budget position in mining states is looking a little healthier (especially in 2016-17) thanks to resurgent coal and iron ore prices (a support which is temporary in our view).

## RESIDENTIAL PROPERTY SURVEY

Average Survey House Price Expectations (annual % change)

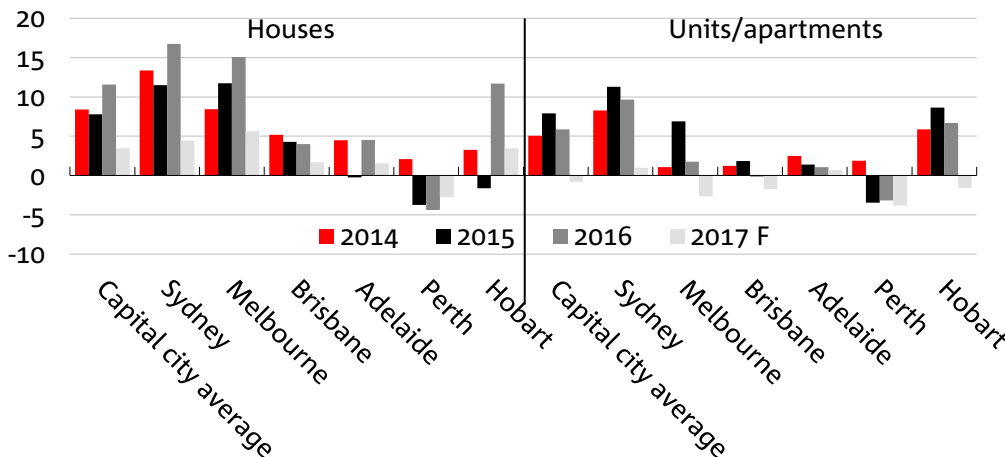


## COMMERCIAL PROPERTY SURVEY



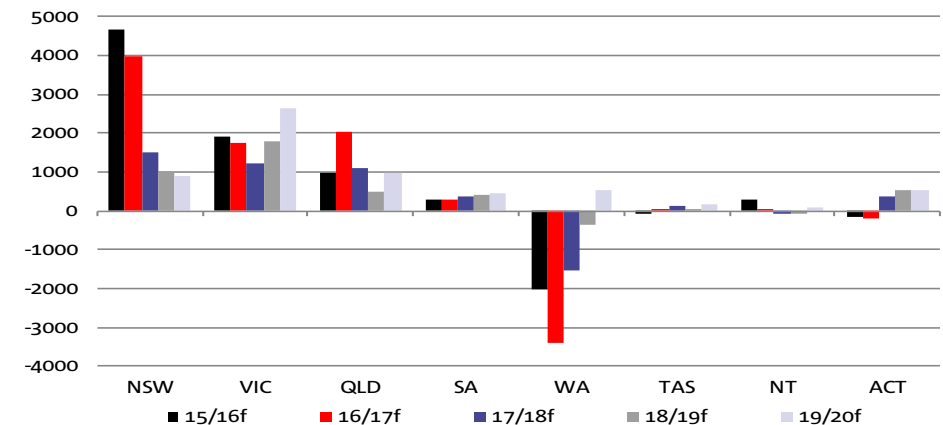
## NAB ECONOMICS DWELLING PRICE FORECASTS

NAB House & Unit Price Forecasts (annual % change)



## BUDGET BALANCE BY STATE

Index, 2010=100



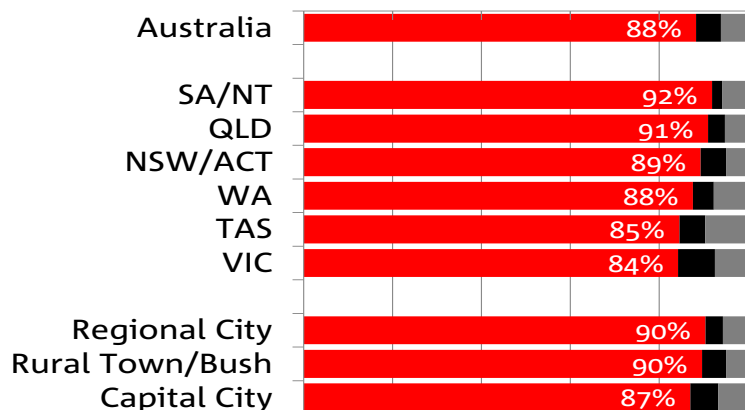
# LIFE IN THE “LUCKY COUNTRY”

*Is Australia a great place to live and do business, and will that continue?*

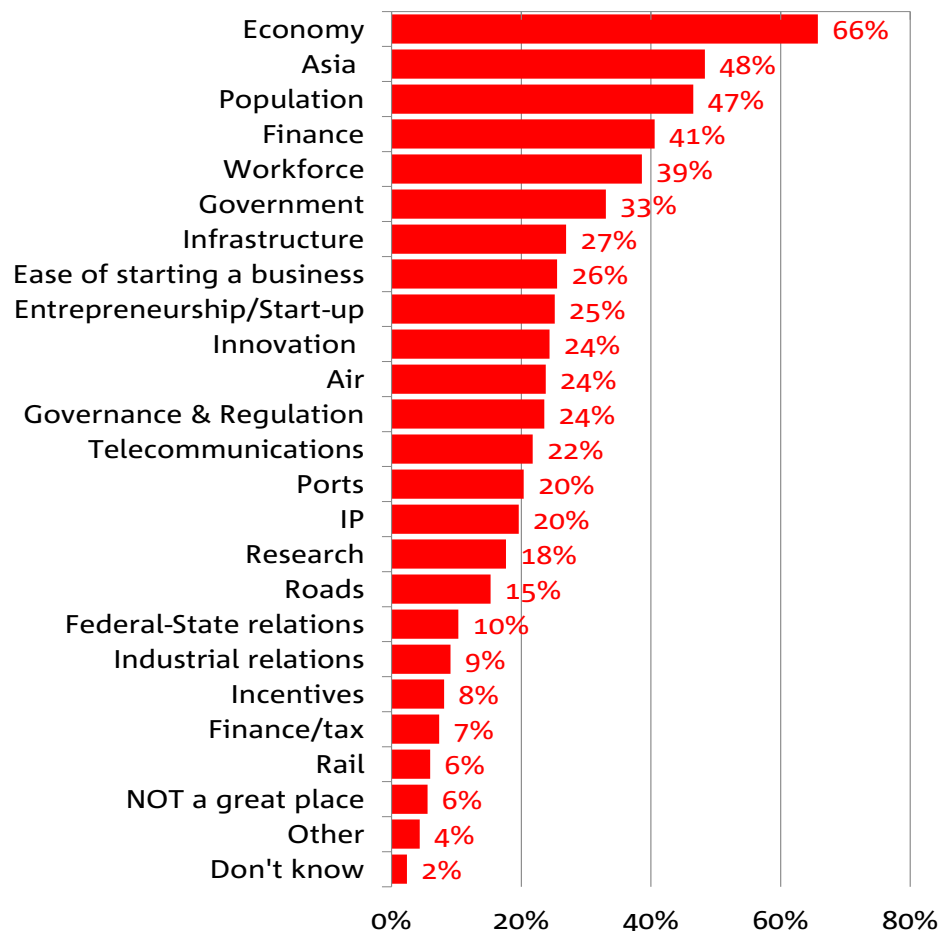


NAB recently released a report investigating whether Australians find Australia a great place to live and do business and their optimism for the future. Unfortunately, while most Australians and businesses currently view all Australian states and territories as a great place to live (9 out of 10) and to do business (8 out of 10), they are not so optimistic about the 10-year outlook. For further details about what Australians value, please see the [detailed report](#).

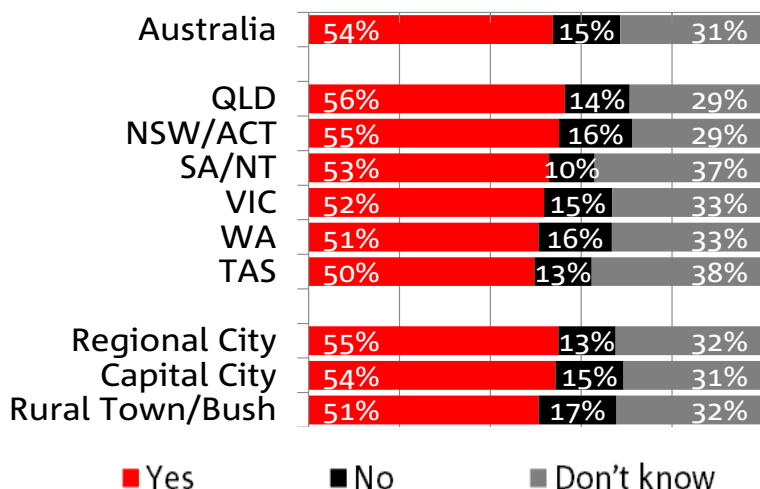
## 9 IN 10 OF US AGREE AUSTRALIA IS A GREAT PLACE TO LIVE



## WHAT DO BUSINESSES VALUE?



## ... BUT AUSTRALIANS FEAR THE LANDSCAPE IN 10-YEARS TIME



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