

# STATE HANDBOOK: AUSTRALIAN CAPITAL TERRITORY

OCTOBER 2017

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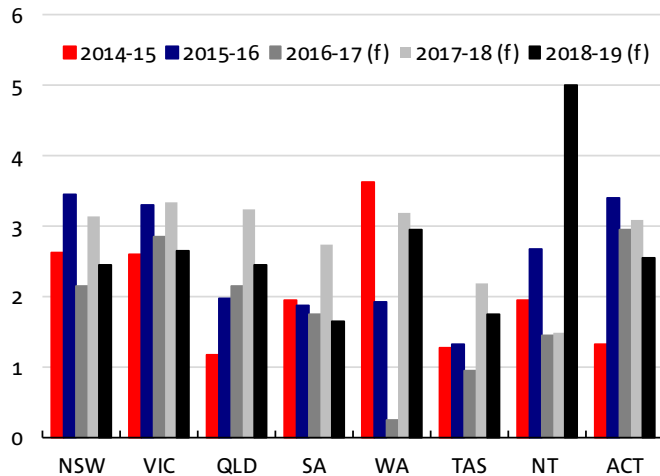
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# KEY POINTS

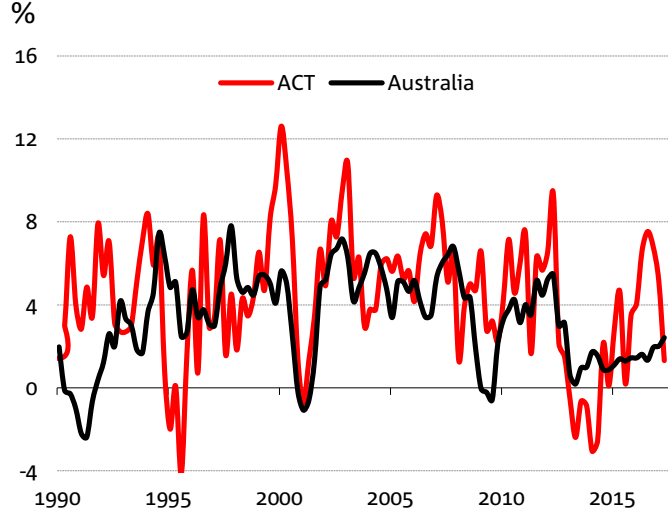
## Steady growth in a period of fiscal consolidation

### 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 expand, albeit at a slower rate. While it remains heavily reliant on the Commonwealth government sector, the economy has seen improvements across the board. The labour market has continued to expand as the public sector staffing levels stabilise and the private sector contributes more to jobs creation. Stronger labour market outcomes have flowed on to increased population growth, household consumption and dwelling construction. GSP growth is estimated to have picked up to 3.25% in 2016-17. **Overall, we forecast the economy to expand by 3.1% in 2017-18 and 2.6% in 2018-19. The unemployment rate is forecast at 4.4% in coming years, below the national average, despite increasing somewhat from recent lows.**
- The Federal government remains committed to fiscal consolidation and creating a smaller and more efficient public sector, and the Federal Budget estimates stable public service staffing levels in 2017-18 compared to 2016-17. The public sector therefore is not expected to be the a driver of employment growth going forward. It is particularly encouraging to see private sector job vacancies have risen at a time when public sector vacancies are on the decline. The business services industry, for example, added the most jobs over the past year.
- Better labour market outcomes and higher total employee earnings have translated to improved household consumption growth. However, wages growth remains subdued at both the private and public sectors, a trend observed nationally. Until wages growth improves, a further pickup in household consumption growth might be limited.
- Due to a period of under supply in the housing market and increasing population growth, there has been increased activity in residential construction, especially in units and apartments, supporting dwelling investment growth. More residential investment is expected going forward. Business investment, however, remains subdued, but there are some bright spots. Office building approvals have increased significantly, as office vacancy rates fell. The increase in public investment and further funding commitments to improve infrastructure are expected to more than offset the weakness in private business investment. The ACT government has also pledged \$2.8 billion in infrastructure investment over the forward estimates, including new investment on public housing, public schools and road infrastructure.
- Overall, the dominance of the Federal government and the lack of an active private sector in the ACT will likely see the economy grow at a steady but moderate rate in a period of fiscal consolidation.

# IN FOCUS:

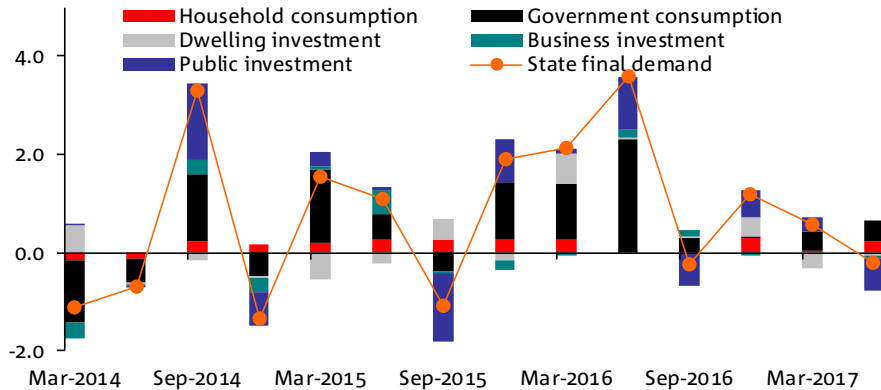
## *It's (mostly) about the public sector and the labour market*

With Canberra being the Commonwealth government's administrative and policy-making centre, ACT's economy is heavily skewed towards public administration, with the industry providing around 30% of total employment and industry value add. The significant public sector job cuts of 2014-15 are now behind us and the ACT's labour market has recovered, with job gains in both the public and private sectors.

However, the Federal government is committed to fiscal consolidation and creating a smaller and more efficient public sector, and the Federal Budget predicted stable public sector staffing levels in 2017-18. It is therefore encouraging to see private sector job vacancies have risen at a time when public sector vacancies are on the decline. The better labour market has also supported population growth and dwelling investment. Household consumption growth is also steady despite subdued wages growth.

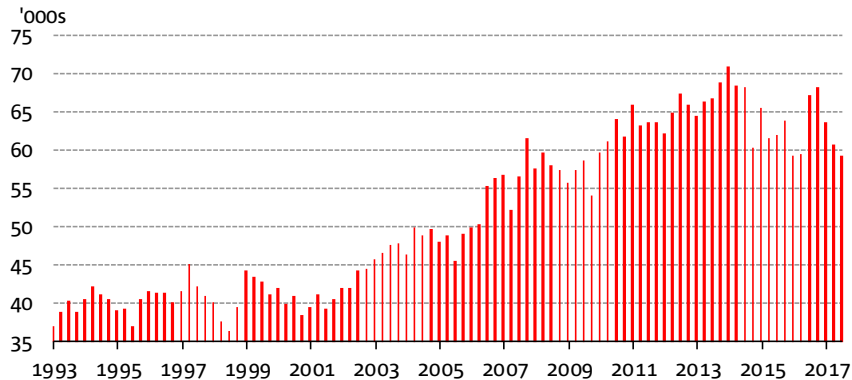
### CHART 3: CONTRIBUTIONS TO STATE FINAL DEMAND GROWTH

% , quarter on quarter growth



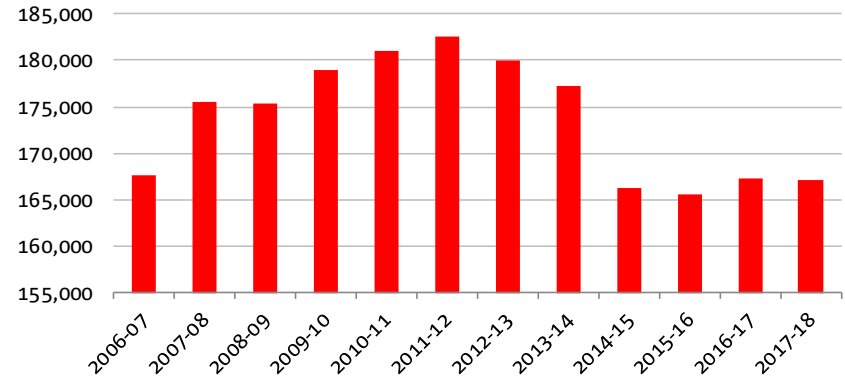
### CHART 4: EMPLOYED PERSONS

% , year on year growth, trend

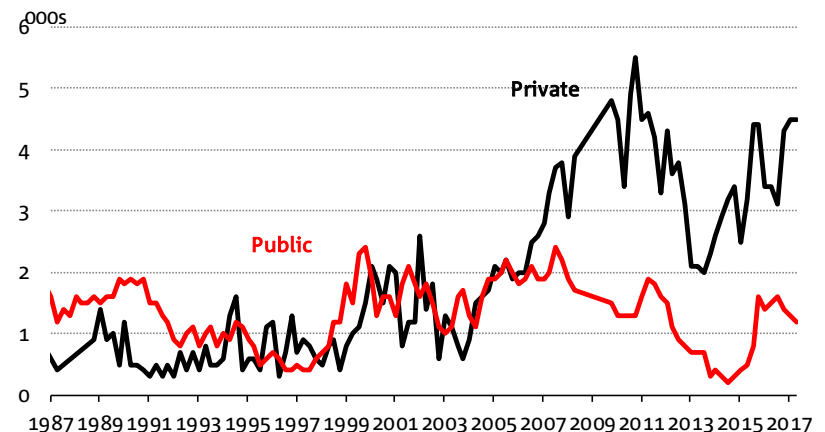


Source: ABS, Federal Budget 2017-18

### CHART 5: ESTIMATES OF AUSTRALIAN PUBLIC SERVICES STAFF



### CHART 6: JOB VACANCIES



# HOUSEHOLD CONSUMPTION

## Expanding household consumption despite weak income growth

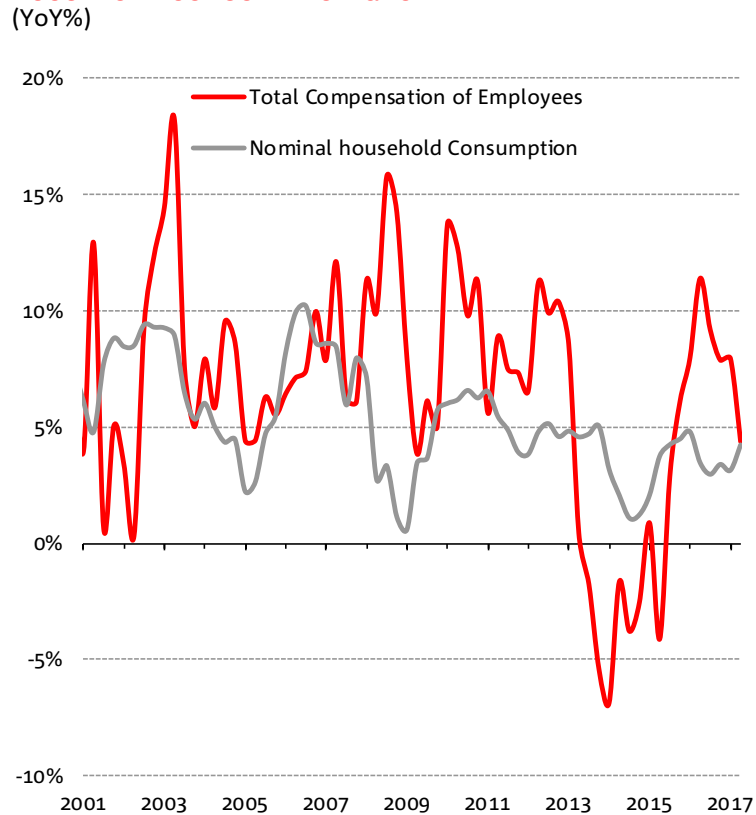
The stronger labour market and higher total employee earnings have translated to improved household consumption growth. Year on year consumption growth was 4.2% in Q2 2017 (in nominal terms), an improvement from 2016.

However, wages growth remains subdued, which could limit further household consumption growth. Consistent with national trend, both the private and public sectors are reporting below average wages growth.

Private sector wages growth has shown signs of picking up while public wages growth remains subdued.

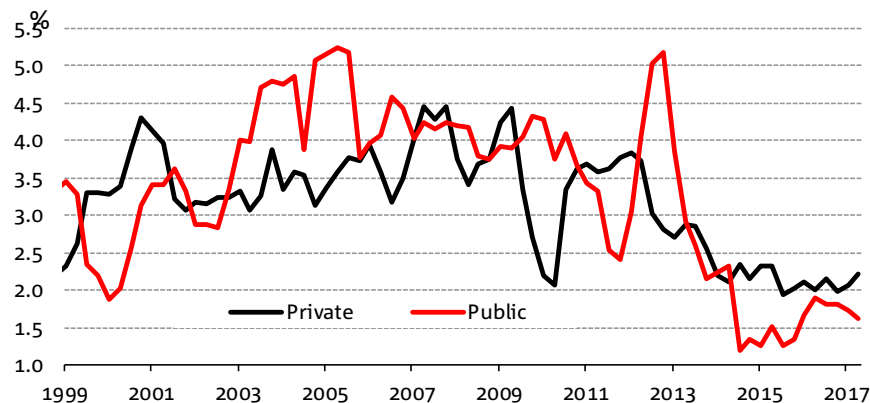
Retail sales growth has picked up and the increase in dwelling transactions could drive more consumption of household furnishings and consumer durables.

### CHART 7: TOTAL EMPLOYEE COMPENSATION & NOMINAL HOUSEHOLD CONSUMPTION GROWTH (YoY%)

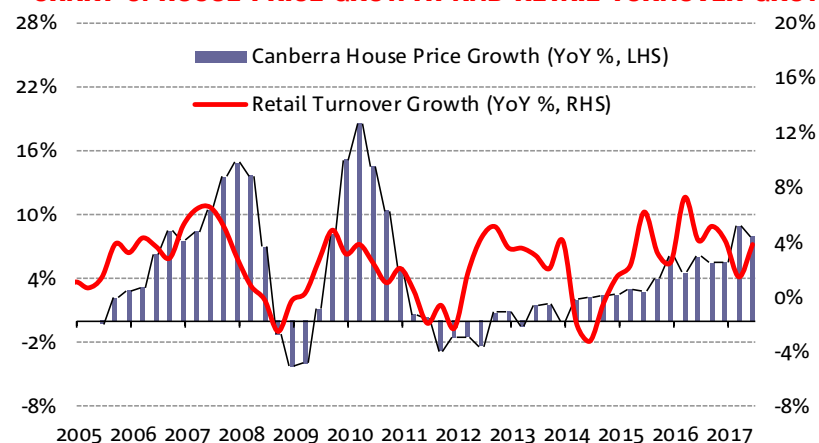


Source: ABS

### CHART 8: WAGE PRICE INDEX GROWTH



### CHART 9: HOUSE PRICE GROWTH AND RETAIL TURNOVER GROWTH



# NAB CUSTOMER SPENDING BEHAVIOURS

## Arts & Recreation spending increases

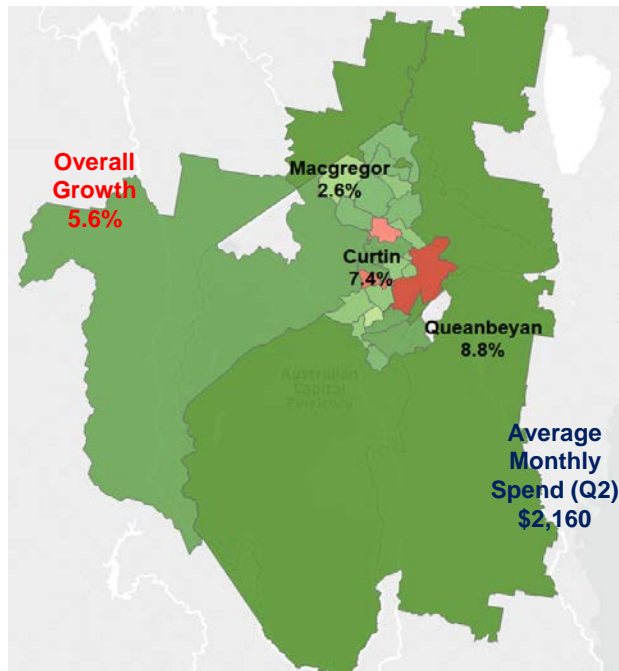
Customer spending in the ACT grew 5.6% y/y in Q2 2017, up from 5.2% y/y in Q1 2017.

Average monthly spending rose \$57 to \$2,160.

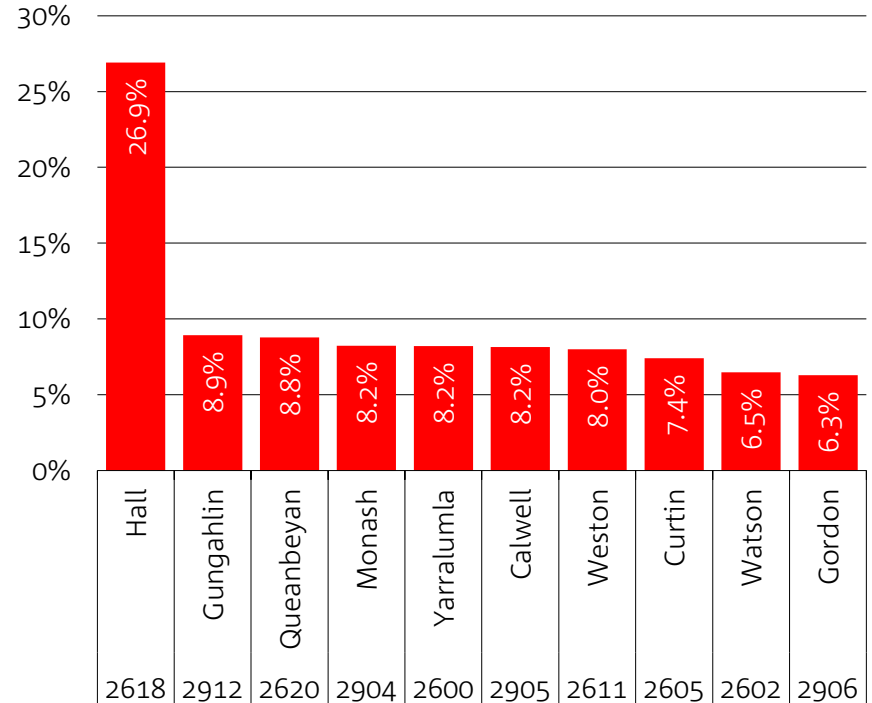
Spending growth was fastest in Arts & Recreation (28.4%), Accommodation & Food Services (13.6%), Financial & Insurance Services (13.4%) and Administrative & Support Services (11.3%).

### CHART 10: ACT

Year-ended growth to Q2 2017



### CHART 11: TOP 10 GROWING POSTCODES FOR SPENDING



# DEMOGRAPHICS

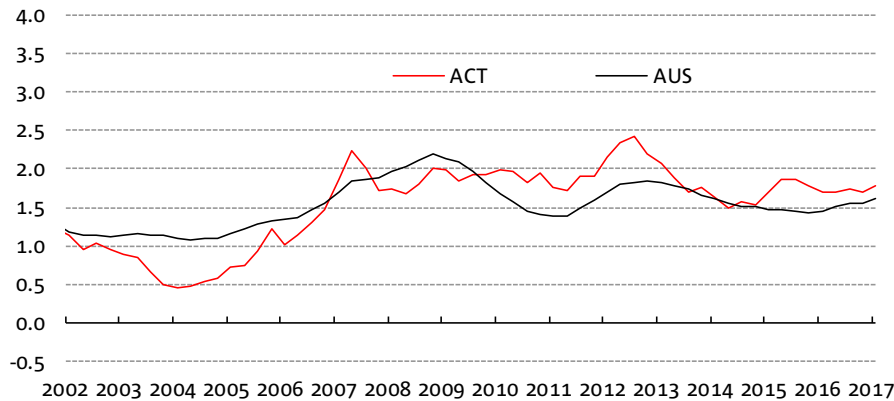
## Natural increase still the biggest population driver while migration increases

Total population in the ACT grew by 7,170 persons in the year to Q1 2017, or 1.8% higher than a year ago, a rate faster than overall population growth in Australia.

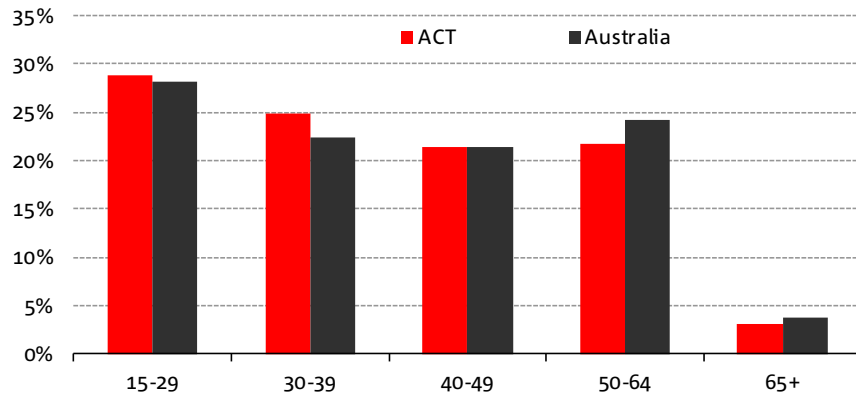
Given the concentration of the public admin and higher education sectors in the ACT, its labour force has a younger composition compared to the rest of the country. The proportions of 15-29 and 30-39 year olds in the ACT labour force tend to be higher.

### CHART 12: POPULATION GROWTH

%, yoy growth



### CHART 13: LABOUR FORCE COMPOSITION, BY AGE, 2016-17

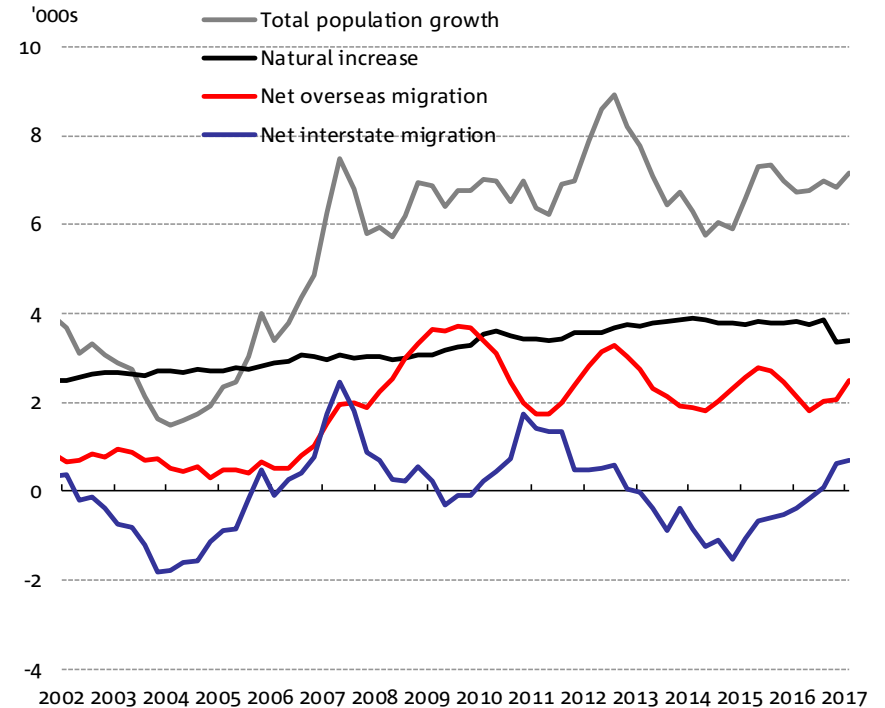


Source: ABS

Natural increase has been the biggest contributor to population growth in the past however both net interstate and overseas migration have picked up recently. Its education sector continues to attract overseas students, while the recovery of the local labour market is seeing the return of positive net interstate migration.

### CHART 14: ACT POPULATION GROWTH

'000s, over the year



# LABOUR MARKET

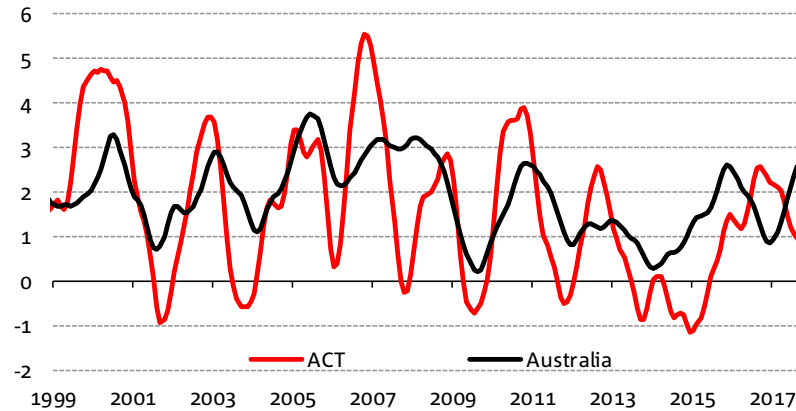
## Private sector drives labour market improvement

The labour market in the ACT continues to recover, albeit at a slower rate. The trend participation rate has risen slightly and with a slower job creation rate, the trend unemployment rate edged up to 4.7%, although still remains well below the national average. As the public sector continues to streamline its staff and processes, the private sector has been driving the labour market improvement. Job vacancies in the private sector have risen while falling in the public sector.

According to the 2017-18 Federal Budget, staffing levels in the public service are estimated to remain stable in 2017-18 compared to 2016-17. Business services recorded the biggest increase in employment over the past 12 months. Despite a small increase in public admin employment over the past 12 months, it declined the most compared to three years ago when the public sector consolidation began. ACT's unemployment rate trended up since 2016 but remains well below national average.

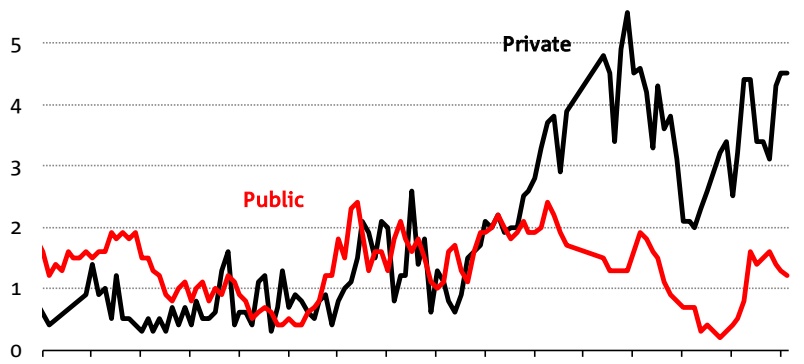
### CHART 15: EMPLOYED PERSONS

%, year on year growth, trend



### CHART 16: JOB VACANCIES

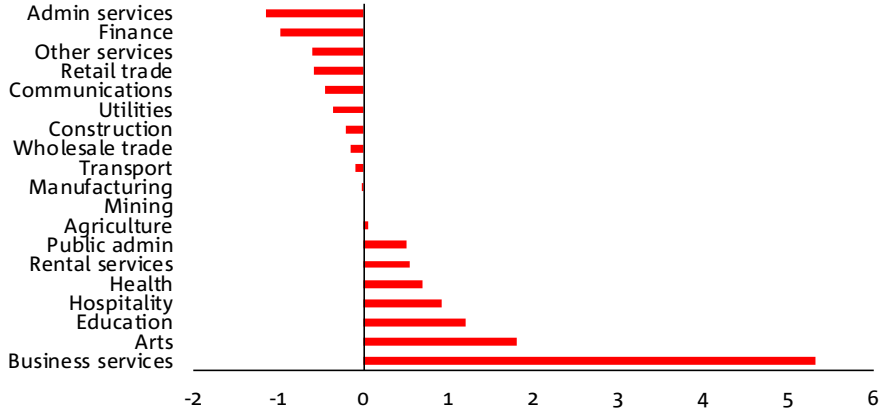
'000s



Source: ABS

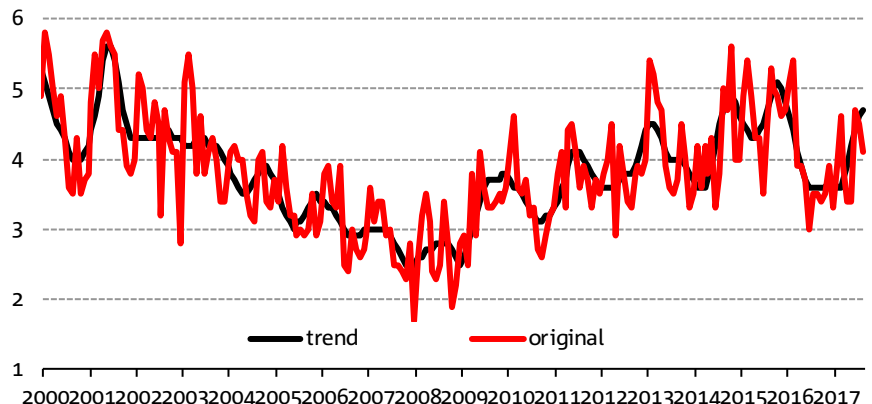
### CHART 17: CHANGE IN EMPLOYMENT BY INDUSTRY

last 12 months to August 2017, '000



### CHART 18: UNEMPLOYMENT RATE, ACT

%



# INVESTMENT

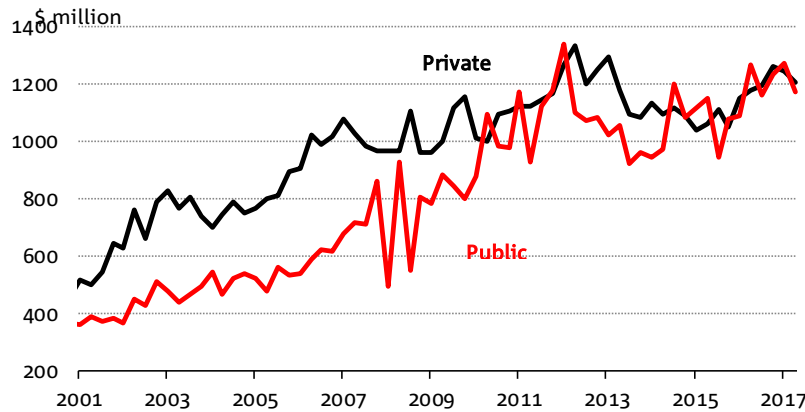
## Dwelling investment underlies ACT investment growth

Both private and public investment have been growing steadily in the ACT. Increased activity in the housing market in particular has seen residential building construction increase rapidly. On the other hand, growth in non-residential construction has been more subdued. Most of the new non-residential building approvals are for office buildings.

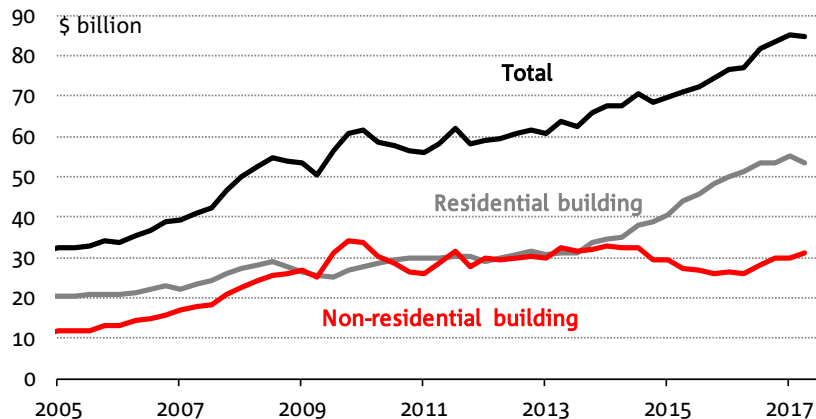
Office building approvals rose significantly in 2017, driven by falling office vacancy rates at a time of an improving labour market.

The ACT government has also pledged \$2.8 billion in infrastructure investment over the forward estimates, including new investment on public housing, public schools and road infrastructure.

### CHART 19: UNDERLYING INVESTMENT

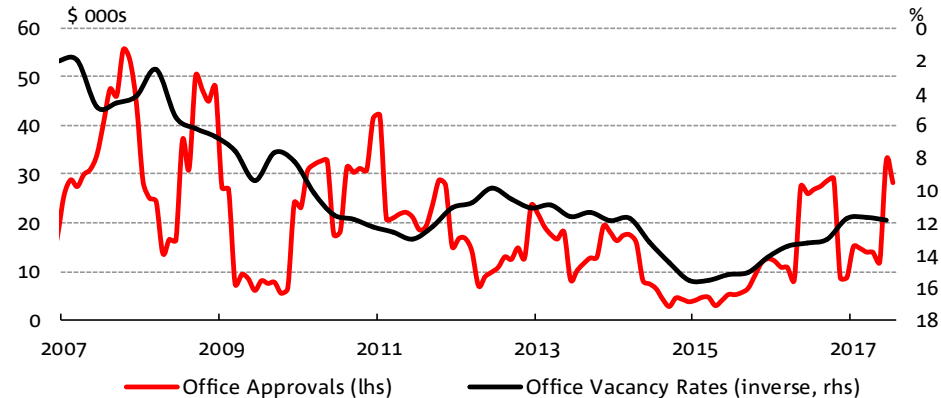


### CHART 20: WORK IN THE PIPELINE, NOMINAL VALUE

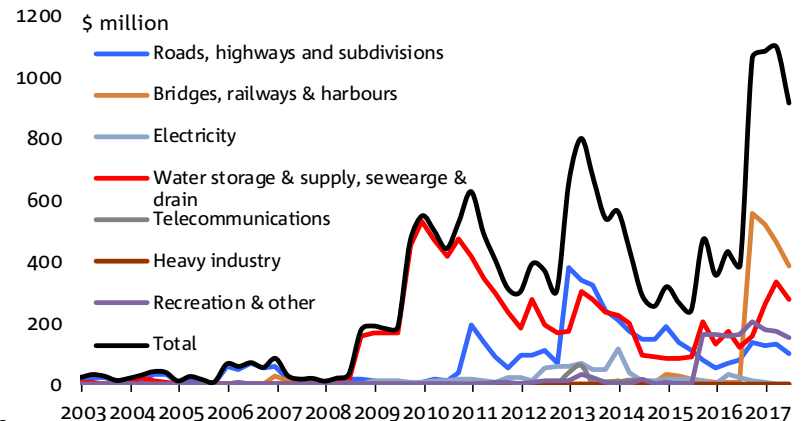


Source: ABS, JLL

### CHART 21: OFFICE MARKET CONDITIONS



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





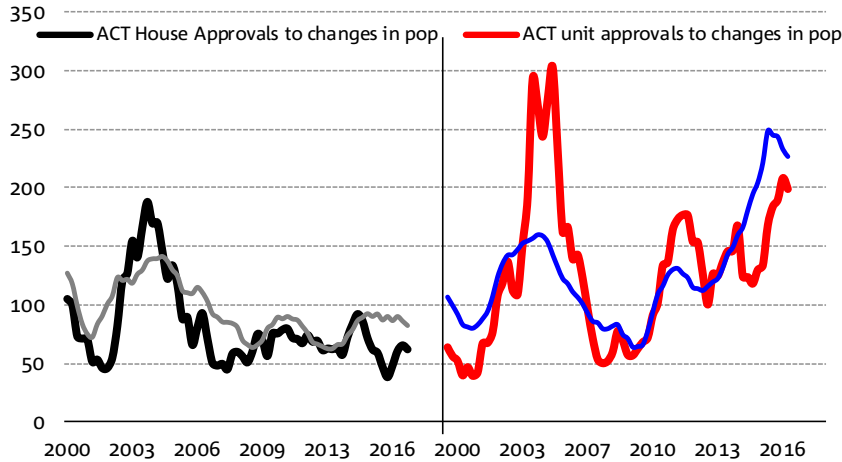
# HOUSING

## Improved house price growth while unit price growth limited

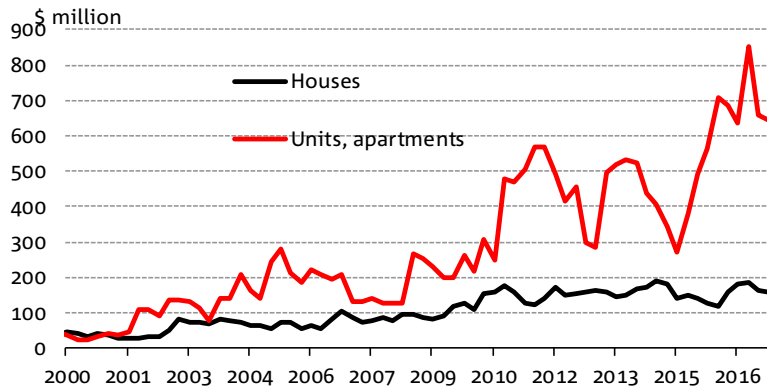
ACT has had a period of underbuilding and under supply of houses. While houses approvals have increased somewhat, they remain below the national average compared to the changes in population. On the other hand, significant new approvals for units and apartments have seen an increase in unit approvals relative to population growth.

As a result, house price growth in Canberra and the broader ACT has been faster than unit price growth. While house price growth was positive for all areas in the past year, unit price growth was negative for the Woden Valley and North Canberra.

**CHART 23: BUILDING APPROVALS RELATIVE TO CHANGES IN POPULATION**  
(Long-run average = 100)

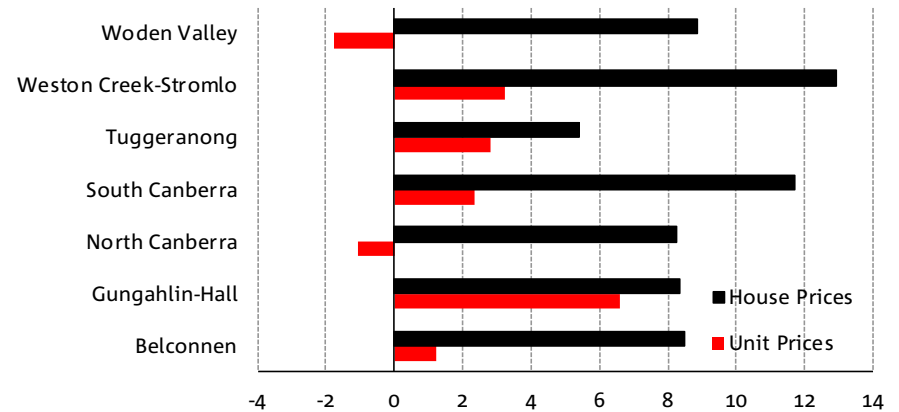


**CHART 24: ACT RESIDENTIAL WORK YET TO BE DONE, BY TYPE**

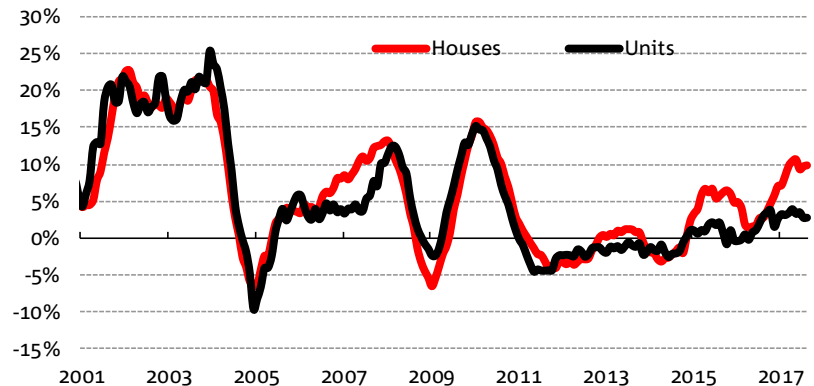


Source: ABS, RP Data

**CHART 25: CANBERRA RESIDENTIAL PROPERTY PRICE GROWTH**  
Year to Q2 2017



**CHART 26: PROPERTY PRICE GROWTH**  
Year-ended



# FISCAL OUTLOOK

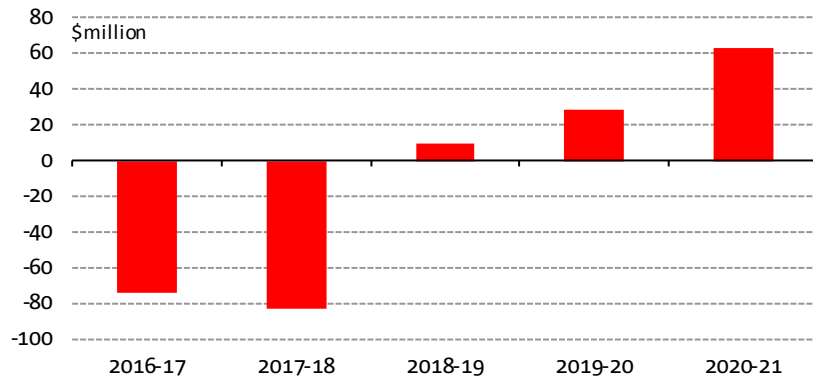
## Operating surplus expected in 2018-19 and modest debt growth

The ACT forecasts a return to operating surplus from 2018-19, but for 2017-18 a deficit of \$83m is expected.

Total state net debt is expected to increase from \$3.1bn in 2016-17 to \$4.6bn in 2020-21.

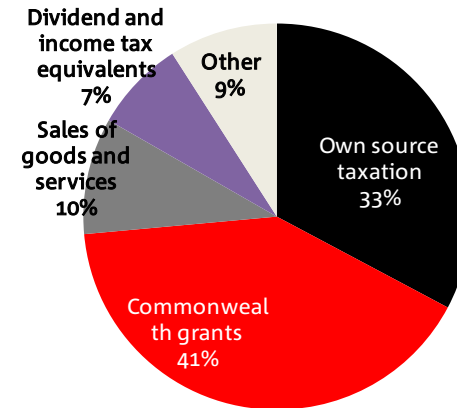
ACT has five benchmark lines with outstandings at around \$500-600m per bond.

### CHART 27: HEADLINE NET OPERATING BALANCE

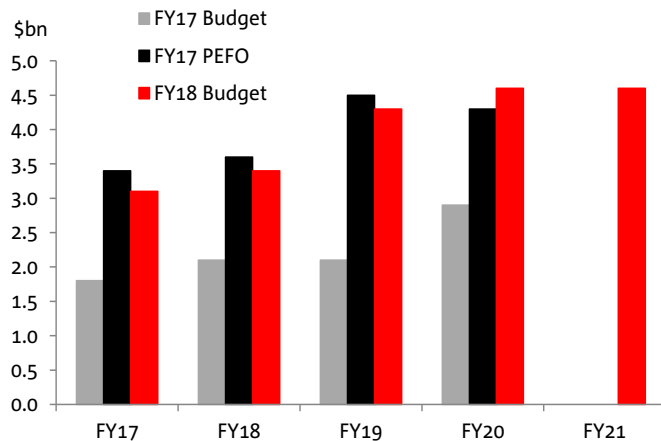


### CHART 29: GENERAL GOVERNMENT REVENUE SOURCES

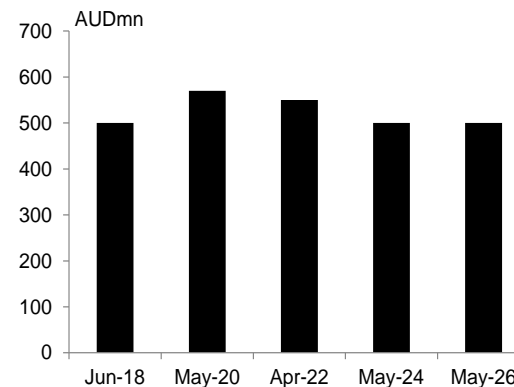
2017-18 Budget



### CHART 28: ACT NON-FINANCIAL PUBLIC SECTOR NET DEBT



### CHART 30: ACT TERM BONDS OUTSTANDING



Source: ACT Budgets, Bloomberg

# FORECASTS BY STATE AND TERRITORY

*ACT economy to grow at steady but moderate rate in a period of fiscal consolidation*

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			
	15-16	16-17f	17-18f	18-19f	15-16	16-17	17-18f	18-19f
NSW	3.5	2.2	3.1	2.5	5.4	5.0	4.7	4.7
VIC	3.3	2.9	3.3	2.7	6.0	5.9	5.8	5.4
QLD	2.0	2.2	3.2	2.5	6.2	6.2	6.0	5.9
SA	1.9	1.8	2.7	1.7	7.3	6.7	6.5	6.5
WA	1.9	0.3	3.2	3.0	6.0	6.2	6.2	5.9
TAS	1.3	1.0	2.2	1.8	6.5	6.1	6.0	6.0
NT	2.7	1.5	1.5	5.0	4.2	3.5	4.0	4.2
ACT	3.4	3.0	3.1	2.6	4.5	3.8	4.8	4.8
<b>Australia</b>	<b>2.7</b>	<b>2.0</b>	<b>3.2</b>	<b>2.5</b>	<b>5.9</b>	<b>5.7</b>	<b>5.4</b>	<b>5.3</b>