

STATE ECONOMIC HANDBOOKS

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KEY POINTS *A more synchronised recovery*

- **The gradual non-mining recovery is becoming increasingly synchronised across the states and territories.** Economic growth in most states is expected to strengthen somewhat in 2017-18 before moderating a little in 2018-19 as dwelling investment and LNG exports peak. The unemployment rate is forecast to decline in most states and territories with the exception of the ACT and the NT.
- **Victoria and New South Wales will remain ahead of the pack in terms of state final demand growth**, as non-mining business investment, infrastructure spending and services spending support growth as dwelling construction peaks. However, **Victoria is forecast to experience the strongest growth in Gross State Product (just!) in 2017-18**, thanks to faster population growth, despite the closure of key automotive manufacturing plants this year. Queensland and WA will also experience very strong growth in 2017-18 in particular as exports surge. **NSW however will see a lower rate of unemployment, bettered only by the NT and the ACT** (although unemployment is forecast to rise in both territories).
- **LNG exports will add significantly to growth in both Queensland and Western Australia, especially in 2017-18.** There are also signs of stabilisation in WA as mining projects reach completion, although a pick up towards solid domestic demand growth remains somewhat off. Domestic demand in Queensland meanwhile has rebounded strongly, although will slow somewhat now that the 3 large LNG projects have completed construction and support from dwelling investment starts to wane.
- **Not only has the recovery in growth broadened across the states, it has also broadened across industries in most jurisdictions.** This is particularly the case in NSW and Victoria, but also in South Australia where state final demand and business conditions have rebounded strongly. Tasmania and South Australia now boast the strongest business conditions.
- **The outlook for investment has improved the most for NSW and Victoria**, with private capex expectations higher for 2017-18. **Government infrastructure spending is also running at record levels in NSW, Victoria and SA**, although will add less to growth from 2018-19 based on the current pipeline.
- **Consumer spending is outpacing household income growth across all states and territories**, as wages growth remains weak across the country, suggesting that households are dipping into their savings to fund spending (with the notable exception of Tasmania). With wages growth to pickup only gradually, we expect only gradual acceleration in consumer spending growth in most states, despite the widespread pick up in employment growth. Consumer spending is strongest in the NT, but likely to weaken there as population growth slows as the Ichthys LNG project is completed. Meanwhile, high household debt levels will also be cause for consumer caution, particularly in the largest south-eastern states.
- **Tourism spending (both domestic and international) and education exports will continue to expand in most states**, particularly if our forecasts for renewed AUD depreciation prove correct.
- **After shooting the lights out in 2016, agricultural conditions are likely to be much more challenging this year.** Parts of NSW and Queensland have seen record breaking temperatures in close proximity to frosts, while southern WA, and more recently south-east Queensland, have seen soaking rains. We have again cut our wheat production forecast to 18.7 million tonnes – the lowest in a decade.
- **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.**

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LINKS TO INDIVIDUAL STATE PACKS

[New South Wales](#)

[Victoria](#)

[Queensland](#)

[Western Australia](#)

[South Australia](#)

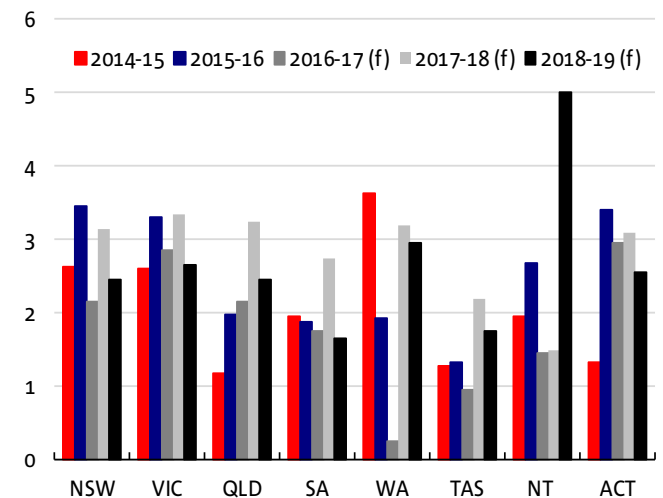
[Tasmania](#)

[Australian Capital Territory](#)

[Northern Territory](#)

GROSS STATE PRODUCT FORECASTS

Annual % change



SUMMARY OUTLOOK *and forecasts*

- We are relatively upbeat about the outlook for **New South Wales**, despite recent surprise slowing in state final demand. Business investment should rebound somewhat, bolstered by a combination of solid business conditions, and public infrastructure spending is at record levels, which will help to offset the shrinking contribution (and eventual headwinds) that is likely to come from dwelling investment as the construction cycle approaches its peak. After leading the pack in terms of state final demand in recent years however, NSW is likely to be overtaken by Victoria.
- **Victoria** will be the key standout across the states in 2017-18, thanks to strong population growth (particularly from overseas migration) and a positive outlook for business and government investment which will help offset headwinds from declining auto manufacturing and peaking dwelling construction (although stronger than expected demand will support housing prices). Strong jobs growth should continue to support consumer spending, as will tourism, although low wages and productivity growth will be headwinds.
- **South Australia** is experiencing a cyclical recovery, with infrastructure spending, international education and tourism, and manufacturing (outside of auto and steel, including wine) performing well. There are some key challenges ahead however, including the closure of auto manufacturing, and a peak in dwelling construction and infrastructure investment, although the National Shipbuilding Plan will provide a welcome boost in coming years.
- The **Australian Capital Territory** economy will continue to expand at a healthy pace, albeit more moderately than in the past few years, while the unemployment rate is forecast to remain below the national average.
- **Queensland** continues to transition post the resources investment boom towards more broad-based economic growth. However while the labour market has strengthened, the economy remains prone to external shocks such as weather and global demand changes. Growth is forecast to pick up in 2017-18 as exports surge - to almost rival Victoria - and then moderate in 2018-19 as the contribution from LNG exports and dwelling construction flatten off while the domestic economy slowly recovers.
- The headwinds from the mining sector continue to be felt across **Western Australia**. While there are some encouraging signs that the worst has passed, many economic indicators have stabilised, and there are tentative signs of improvement in non-mining business investment, it will likely take quite some time before domestic demand can rebound. Overall, while economic growth will pick up from here, this is largely due to a very large contribution from LNG exports.
- **Tasmania** continues to experience rapid rates of state final demand, as well as strong tourism and agriculture growth. The unemployment rate however remains elevated, much of the growth has been concentrated in southern Tasmania and demographic challenges remain. Noting that agricultural production will come under pressure, real GSP growth is expected to be higher in 2017-18, but will remain below the national average.
- The **Northern Territory**, economy has surprised on the upside, although the approaching completion of the Icthus LNG project will likely see downward pressure on population growth, the labour market, domestic demand and the housing market, despite exports driving above-national growth in GSP.

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
Australia	2.7	2.0	3.2	2.5	5.9	5.7	5.4	5.3

THE BUSINESS SECTOR

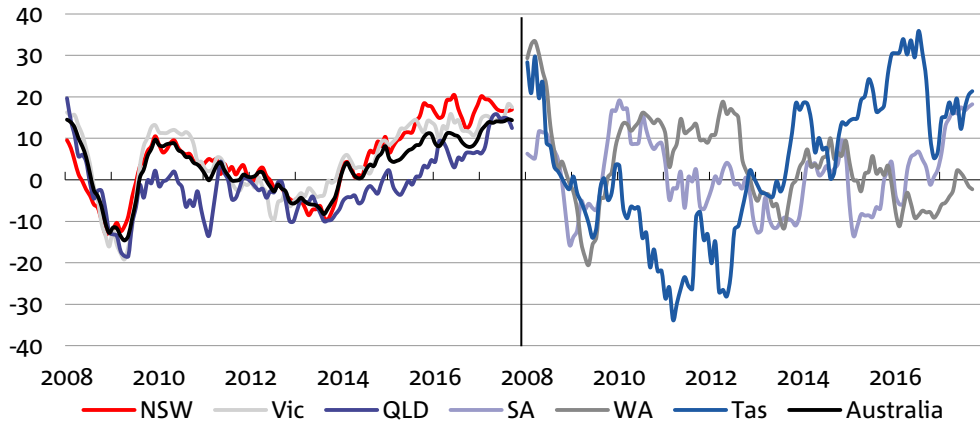
Strength in conditions and investment indicators increasingly broad-based



Business conditions data suggest that gradual economic recovery is becoming more broad-based across the states. While business conditions remain high in NSW, Victoria and Tasmania, there has been an encouraging lift in Queensland and South Australia, while business conditions in WA are not as deeply negative as through 2016 and the first few months of 2017. In fact all states with the exception of WA are reporting business conditions above their respective long-run average. Business confidence has also trended upwards in most states except Tasmania of late.

BUSINESS CONDITIONS BY STATE

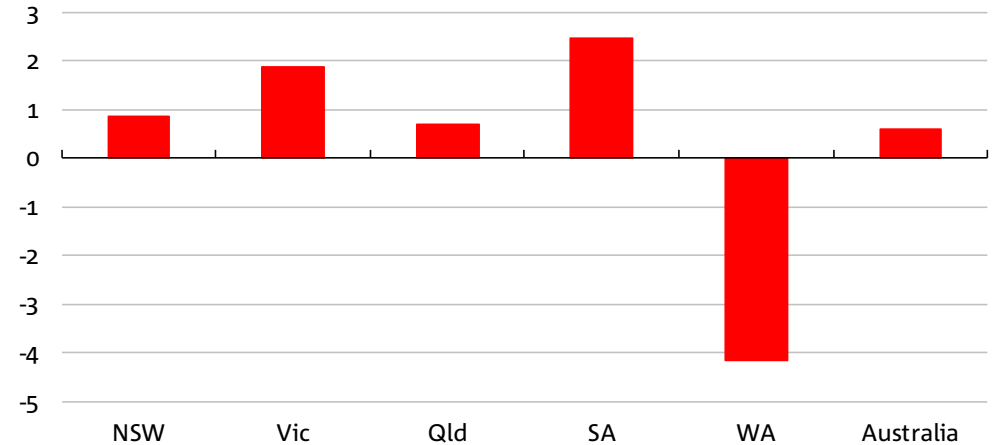
Net balance, 3mma



Consistent with the improvement in conditions and confidence, measures of capacity utilisation are above the long-run average across all states with the exception of WA. This should support employment, and is also translating through to generally stronger capital expenditure expectations across most states with the exception of WA and Tasmania according to the NAB survey measure. The ABS measure of capex expectations has generally suggested a softer outlook, but is now finally suggesting a pick up in NSW and Victoria in 2017-18 (see page 5).

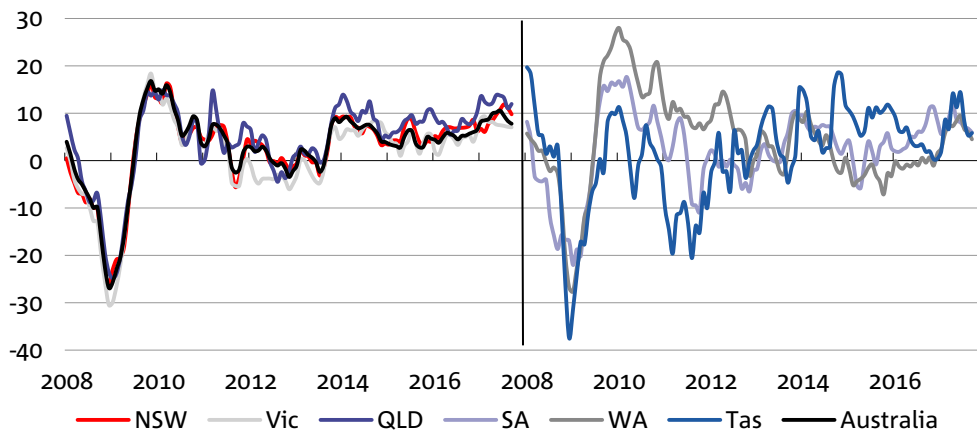
CAPACITY UTILISATION BY STATE

Percentage point deviation from LR average



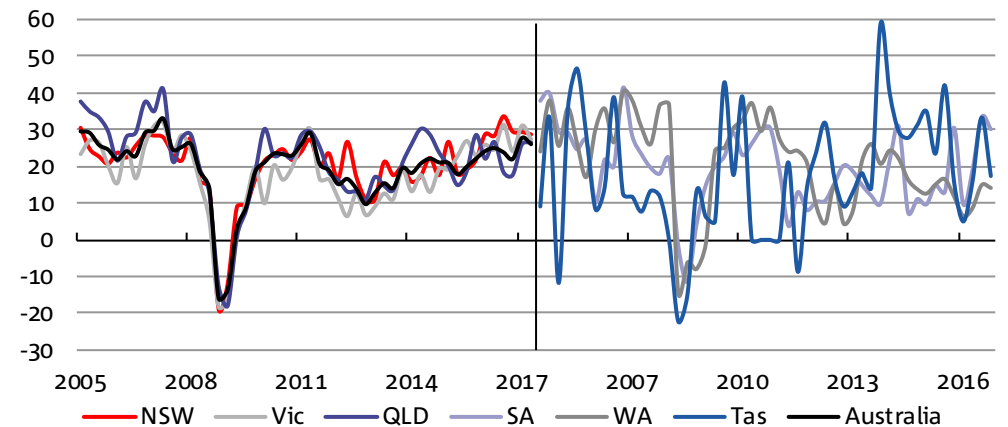
BUSINESS CONFIDENCE BY STATE

Net balance, 3mma



CAPITAL EXPENDITURE EXPECTATIONS BY STATE (NAB SURVEY)

Next 12 months, net balance



Source: NAB, ABS

CONSTRUCTION AND INVESTMENT - Dwelling investment peaking in most states. Business investment outlook improving in NSW and Vic

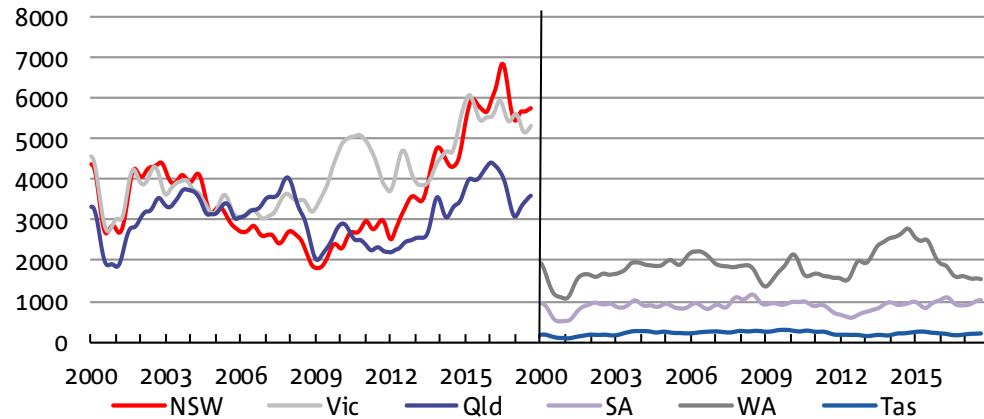


Residential building approvals have peaked in all states, suggesting that the dwelling construction cycle will not be contributing further to economic growth going forward. That said, dwelling construction activity is likely to remain at a high level across most states, and approvals have turned up again more recently in NSW, Queensland and to a lesser extent South Australia, suggesting a more elongated cycle and little subtraction from growth either in coming years.

The outlook for business investment has improved in NSW and Victoria in particular, with non-residential building approvals surging and ABS capex expectations rising for the first time for 2017-18 (with the latter excluding fast-growing industries such as health suggesting further upside). These data also imply subdued private investment in Tasmania and SA (although there may be some upside risk to SA given the recent surge in NAB survey capex expectations) (page 4). Private investment will fall in WA and Qld as LNG projects reach (or have reached) completion.

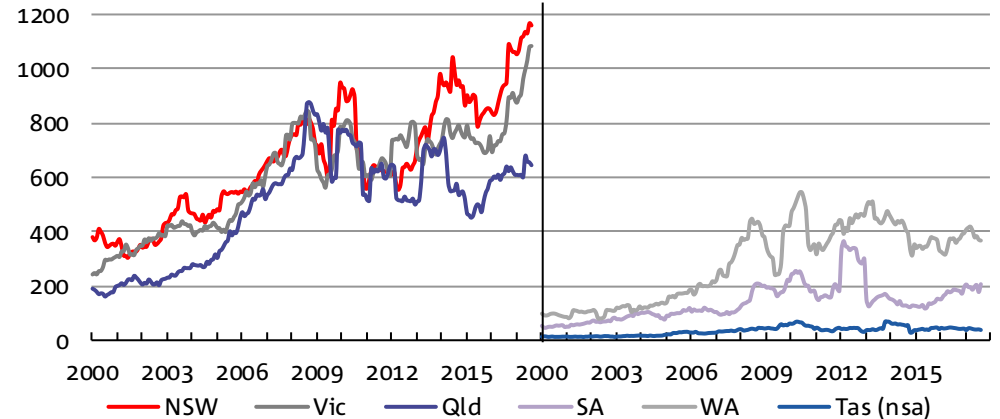
RESIDENTIAL BUILDING APPROVALS BY STATE

Thousands, rolling annual



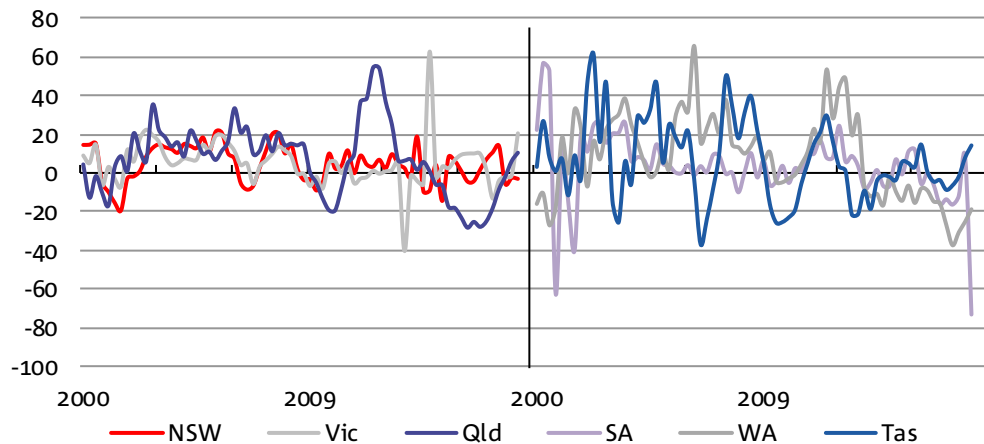
NON-RESIDENTIAL BUILDING APPROVALS BY STATE

\$m



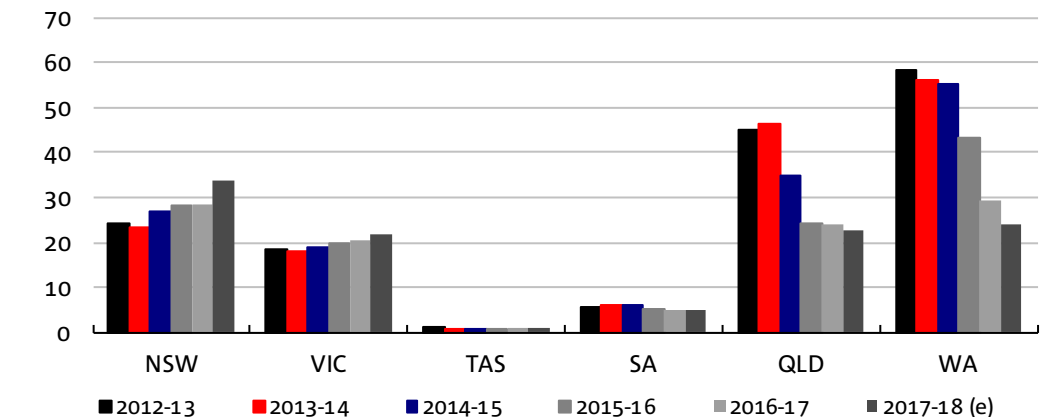
BUSINESS INVESTMENT BY STATE

Year-ended % change (includes transfers to public sector)



CAPITAL EXPENDITURE, ACTUAL & EXPECTATIONS BY STATE (ABS)

\$bn, based on previous realisation ratio



CONSUMER SPENDING AND LABOUR MARKET/WAGES *Stronger employment supporting modest consumer spending, despite widespread low wages growth*

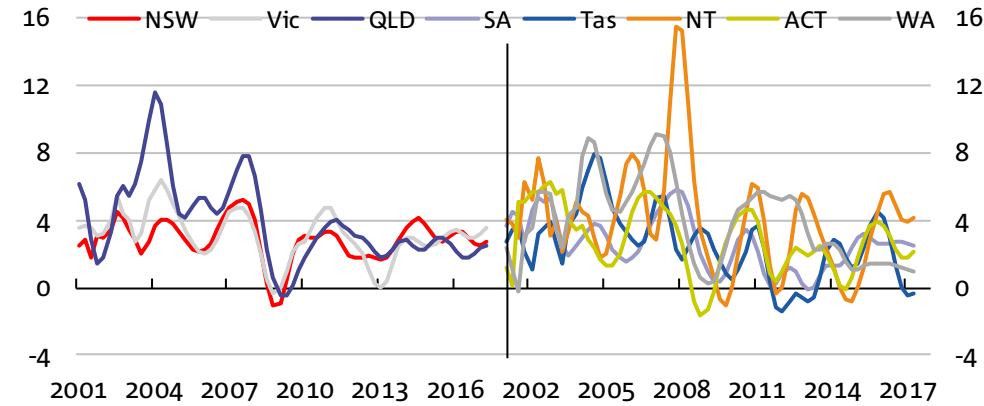


The pace of growth in household consumption has generally ticked up a little across most states and territories, in line with improved employment outcomes. Spending is surprisingly fastest in the NT although is expected to slow, and surprisingly weak in Tasmania despite the general pickup in economic growth in the state. Retail spending is more mixed, particularly after some particularly weak figures in July and especially August.

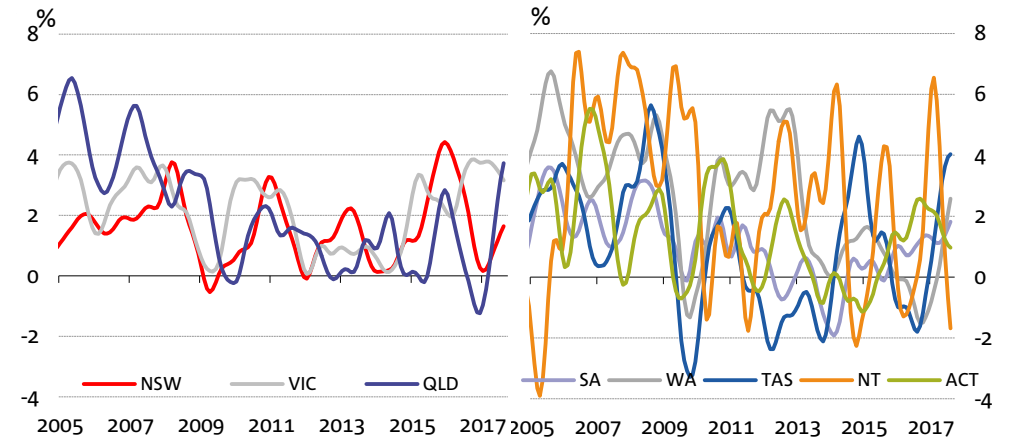
Consumer spending is generally running faster than measures of the wages bill in each state (a function of employment and wages), suggesting households are generally saving less (outside of Tasmania). Growth in consumer spending is expected to improve only gradually across most states (outside of the NT) as labour market conditions remain strong and wages growth slowly picks up.

HOUSEHOLD CONSUMPTION BY STATE (REAL)

y/y % change, trend

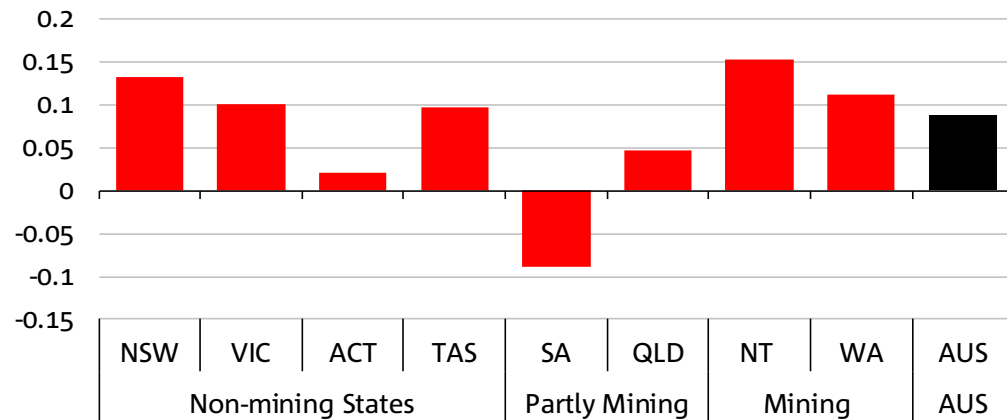


EMPLOYMENT GROWTH BY STATE



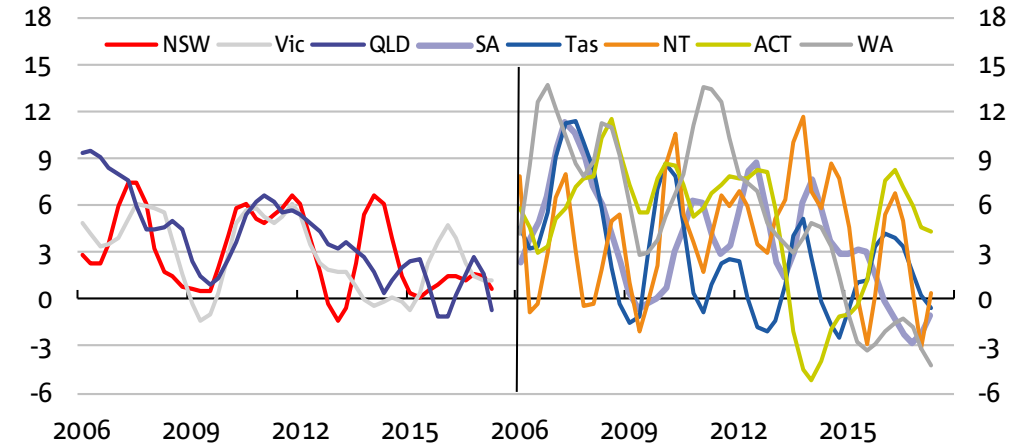
RETAIL TRADE BY STATE (NOMINAL)

m/m % change, trend



AVERAGE COMPENSATION OF EMPLOYEES BY STATE

y/y % change, trend



NAB CUSTOMER SPENDING BEHAVIOURS BY STATE



Regional areas continuing to outpace metro in most states and territories

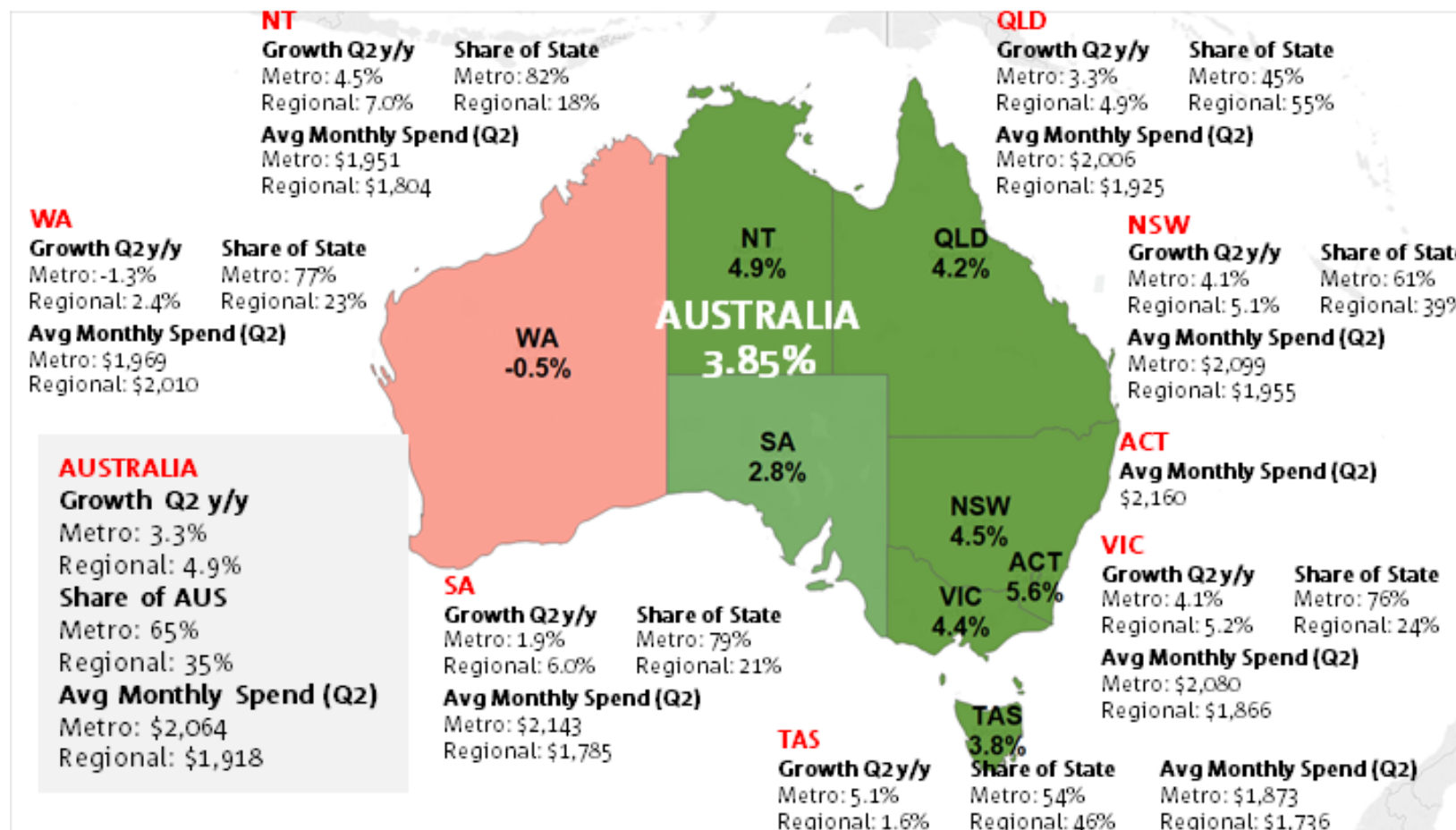
NAB's Customer Spending Behaviours explores the spending behaviours of our customers by examining roughly 2.7 million transactions per day. Given the size of NAB's customer base, this data provides a strong indication of national and regional trends. Key findings include:

By **capital city area** (based on ABS definitions), spending growth accelerated in all cities relative to Q1 except in Hobart (still fastest overall at 5.1% y/y). Darwin (4.5%), Sydney (4.1%) and Melbourne (4.1%) were next fastest, and Perth (-1.3%) and Adelaide (1.9%) slowest.

Spending growth accelerated in all regional areas relative to Q1 (except TAS). Overall growth in **regional areas** (4.9%) continued to outpace Greater Metropolitan or "City" areas (3.3%). Regional growth was fastest in NT (7.0%), SA (6.0%), VIC (5.2%), NSW (5.1%) and QLD (4.9%) and slowest in TAS (1.6%) and WA (2.4%).

NAB CUSTOMER SPENDING BEHAVIOURS

Q2 2017



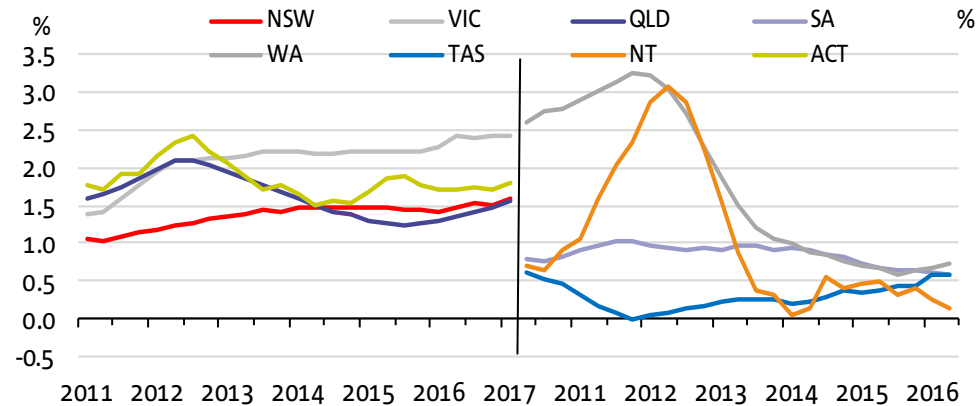
LABOUR MARKET AND DEMOGRAPHICS *Labour markets generally stronger and population growth picking up/stabilising across most states*



Population growth has picked up across all jurisdictions with the exception of the NT and SA. Victorian population growth is far outstripping the rest of the nation, thanks to very strong international migration and a surge in interstate migration. Population growth is also strong and rising in NSW, the ACT and Queensland, with the latter showing an encouraging lift in interstate migration. Meanwhile, very negative interstate migration is dragging down SA's population growth, although WA's population growth has managed to pick up despite increasingly negative outflow to other states.

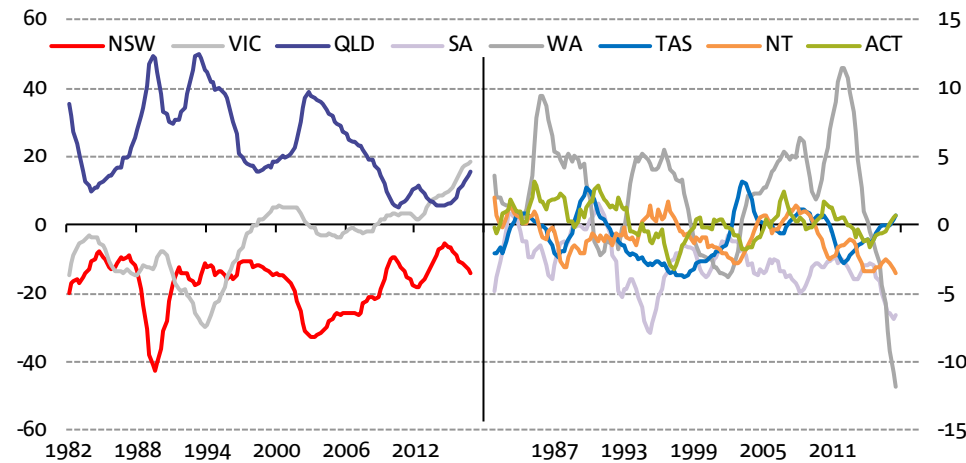
POPULATION GROWTH BY STATE

yoy % change



INTERSTATE MIGRATION BY STATE

000s, 12-month rolling sum

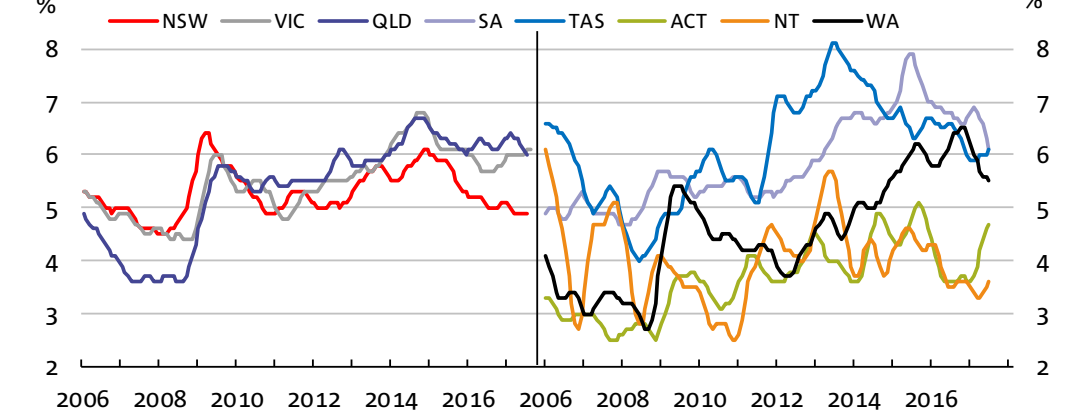


Source: ABS, Seek

A pickup in employment has seen the unemployment rate track down or stabilise across most states and territories, although exceptionally strong population growth and rising labour force participation has been an offset in Victoria and the ACT where unemployment has crept up. The unemployment rate is currently the lowest in the NT and the ACT, followed by NSW. The outlook for employment in the next six months remains strong across all states except for WA and the NT, with the NAB employment index (from the Monthly Business Survey) and job advertisements growing strongly – this should put gradual downward pressure on unemployment.

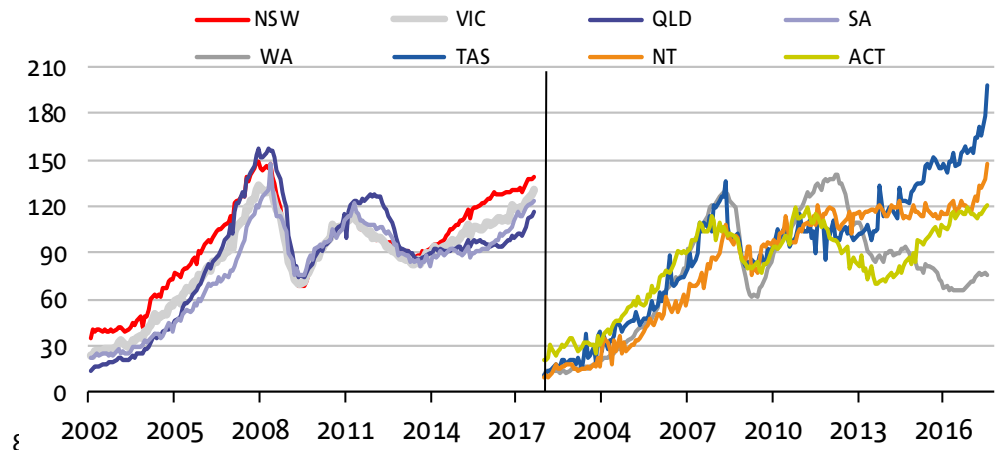
UNEMPLOYMENT RATE BY STATE

% of labour force



SEEK JOB ADVERTISEMENTS BY STATE

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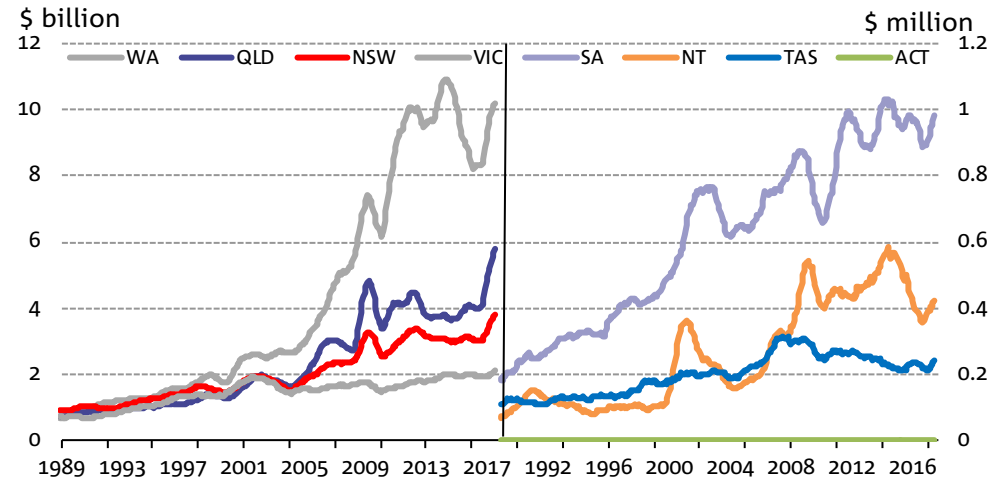
EXPORTS AND COMMODITIES *LNG exports to drive further export growth; a positive outlook for services exports, but agri conditions challenging*



Export earnings in WA, Queensland and NSW have surged this year, thanks to higher prices for bulk commodities (iron ore and coal). Further acceleration is likely in Queensland in coming months, and in WA in 2018 as large LNG export projects are completed according to our estimates of contracted LNG supply. Meanwhile, most states will continue to benefit from stronger services exports including education exports and foreign and domestic tourism, although this will be dependent on the path of the AUD.

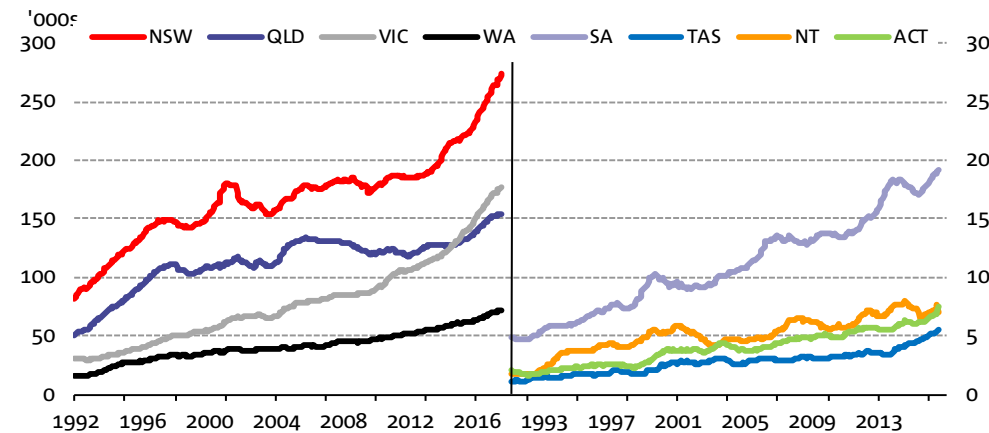
After shooting the lights out in 2016, agricultural conditions are much more challenging this year. Seasonal conditions are “all over the shop”, and our rural commodity price index is down across all states. Parts of NSW and Queensland have seen record breaking temperatures in close proximity to frosts, while southern WA, and more recently south-east Queensland, have seen soaking rains. We have cut our wheat production forecasts for 2017-18 to 18.7mt – the lowest in a decade.

INTERNATIONAL MERCHANDISE EXPORT EARNINGS BY STATE



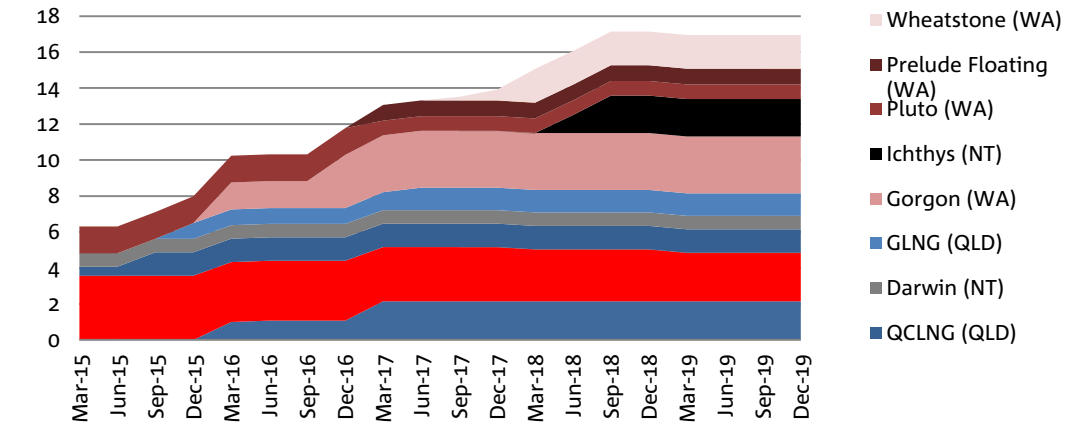
SHORT-TERM VISITOR ARRIVALS BY STATE

State where spent most time, 000s, 12mma



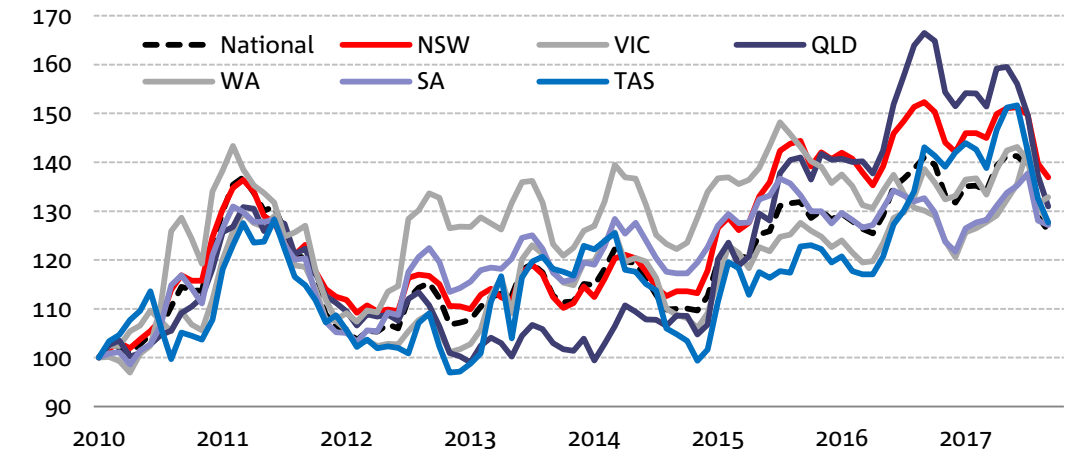
LNG EXPORTS, CONTRACTED SUPPLY

Million tonnes per quarter



NAB RURAL COMMODITIES INDEX AND STATE INDICATORS

Index value, 2010 = 100



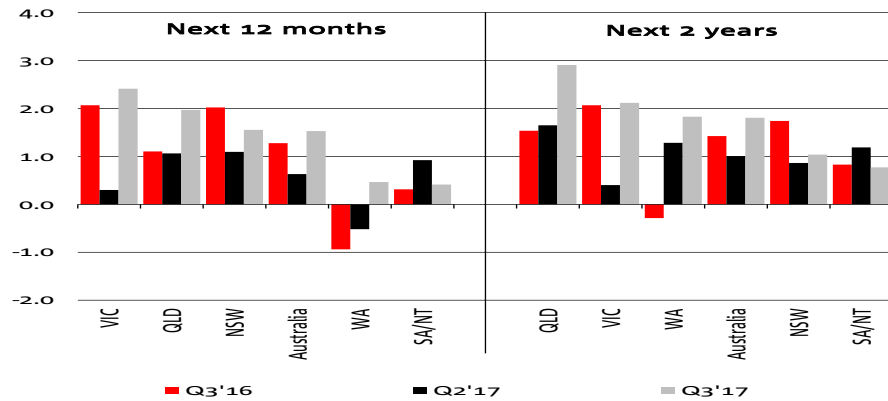
PROPERTY MARKETS AND FISCAL OUTLOOK *Housing prices to slow into 2018 and 2019. Commercial property outlook improving. State budgets mixed.*



An improvement in sentiment across most states (according to the NAB Residential Property Survey) suggests there may still be some legs left in the housing market. However, market conditions vary considerably across locations, with each city at very different stages of their housing cycles. Of particular note is a slowing in the Sydney market in recent months, while growth is exceptionally strong in Melbourne and Hobart. We forecast slower price growth across all states in 2018 and 2019, but no outright falls with the exception of units/apartments in Brisbane in 2018 and 2019, and Melbourne in 2019. Houses will uniformly outperform units/apartments.

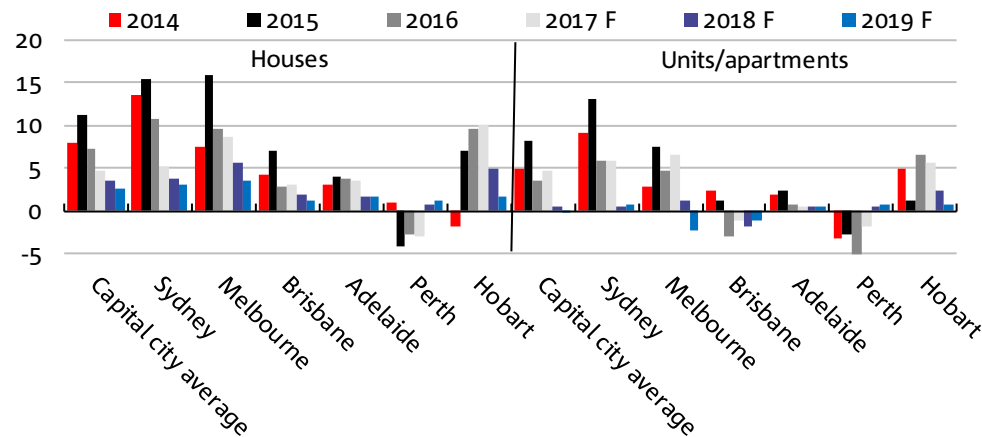
RESIDENTIAL PROPERTY SURVEY

Average Survey House Price Expectations (annual % change)



NAB ECONOMICS DWELLING PRICE FORECASTS

NAB House & Unit Price Forecasts (annual % change)

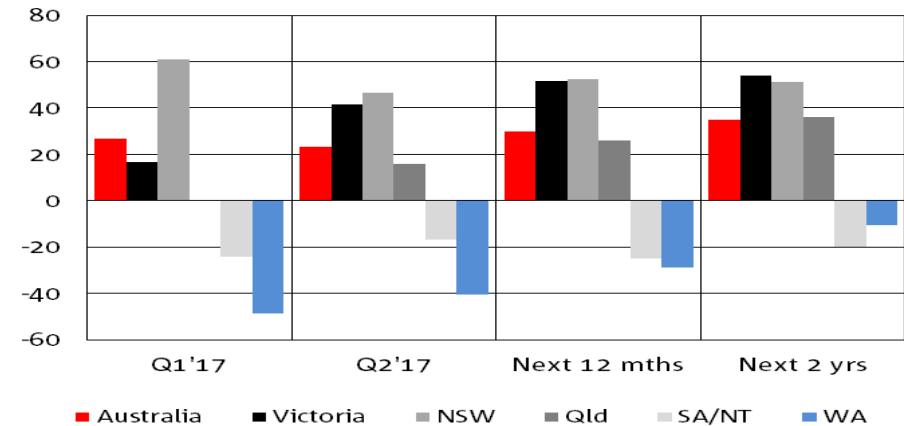


The commercial property index also suggests a solid outlook for NSW, Victoria and now Queensland, while the outlook for SA and WA has become less negative. Strength has mainly been concentrated in the office market, while the outlook for retail property remains challenging.

State budget outlooks have been stronger for those states such as NSW and Victoria benefiting from strong residential property prices flowing through to stamp duty receipts. WA's budget has deteriorated significantly, while operating surpluses have been revised down in SA.

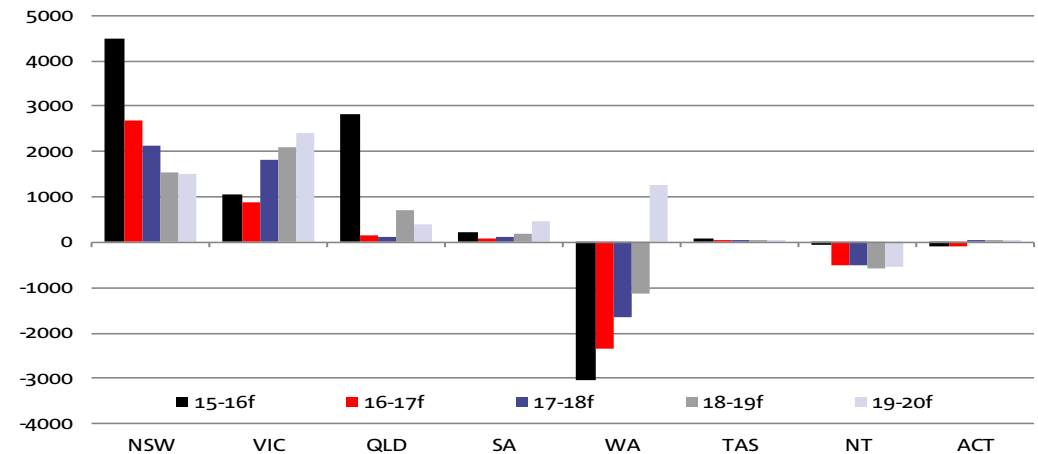
COMMERCIAL PROPERTY SURVEY

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BUDGET BALANCE BY STATE

Index, 2010=100



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