

STATE ECONOMIC OVERVIEW

AUGUST 2018

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Overview and forecasts

New South Wales

Victoria

Queensland

South Australia

Western Australia

Tasmania

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STATE ECONOMIC OVERVIEW

- Our expectation for the Australian economy is that GDP will increase by just under 3.0% in 2018 and 2019, with growth driven by mining exports, public infrastructure investment and a continued recovery in non-mining business investment (which will receive some support from spill overs from public infrastructure investment). These trends are evident across most of the states, although the upturn in commodity exports as mining projects move to the production phase is concentrated in Western Australia, Queensland and the Northern Territory.
- However, household consumption growth will likely remain soft and dwelling investment is likely to ease, although it should remain at a high level given the large pipelines of work across many states. Severe drought conditions in NSW, and parts of Queensland (and NT to a lesser extent) are also a drag on activity.
- We think the balance of risks has shifted a little to the downside. The NAB Monthly Business Survey showed that business conditions continued their downward trend evident since earlier in the year and this trend has been broadly based across states.
- A partial recovery in commodity prices has contributed to a convergence in economic conditions across the states. While still not out of the woods, WA business conditions in particular have improved as mining sector prospects have lifted. However, we expect that economic fundamentals will lead to further falls in overall USD commodity prices through to end-2019, which may limit the upside for mining regions.

NAB STATE & TERRITORY ECONOMIC FORECASTS

GSP - % change on previous year; unemployment rate - year average rate %

NAB growth and unemployment rate forecasts for the states								
	Gross State Product YoY				Unemployment Rate			
	16-17	17-18f	18-19f	19-20f	16-17	17-18	18-19f	19-20f
NSW	2.9	2.9	2.7	2.8	5.0	4.8	4.8	4.6
VIC	3.3	2.9	2.9	2.8	5.9	5.6	5.3	5.0
QLD	1.8	2.6	3.0	2.8	6.2	6.0	6.1	5.7
SA	2.2	2.2	2.3	2.3	6.7	5.8	5.6	5.3
WA	-2.7	2.4	3.1	3.3	6.2	6.1	6.1	5.7
TAS	1.1	3.4	2.3	2.0	6.1	6.0	6.1	5.9
NT	3.9	2.5	2.2	-0.4	3.4	3.9	4.5	4.2
ACT	4.6	4.3	3.6	3.5	3.8	3.9	3.8	3.8
Australia	2.1	2.7	2.8	2.7	5.7	5.5	5.3	5.0

Sources: ABS, NAB

- From being an outperformer, activity in **NSW** is showing signs of easing, reflecting a weakening consumer sector as well as drought in rural NSW. The economic outlook is steady, with business investment and service exports to be the key drivers of growth.
- The **Victorian** economy is performing generally quite well: state final demand growth has been strong, Melbourne's population is growing quickly which has necessitated a large pipeline of infrastructure investment and unemployment is falling. However, house prices are declining, wages are growing only slowly and business confidence is well below business conditions.
- **Queensland's** economy has improved and is growing broadly in line with the national average. Steady consumption growth, robust business investment and surging coal prices have led to stronger economic outcomes. While coal prices are likely to slacken, service exports (tourism and education) will continue to provide support.
- The **South Australian** economy remains in reasonable shape with business conditions still solid (despite recent easing), an improving labour market, tourism rising and a high level of government infrastructure investment. However, low population growth, a mixed business investment outlook & easing dwelling investment will constrain growth.
- A recovery in commodity prices has helped **Western Australia**. Consumption, dwelling investment and government infrastructure investment have improved, while the headwind from falling mining investment should ease. Export growth will support GSP growth.
- The **Tasmanian** economy has grown relatively strongly recently, supported by growth in consumption, business investment and public sector infrastructure investment. The business sector appears relatively healthy with survey measures of business conditions at very high levels. While housing market has cooled slightly, prices have held up relatively well over the past year.
- The **Northern Territory** economy is showing signs of strain as the Ichthys LNG project nears completion. Unemployment, while still low, is off its 2017 lows, population growth is very low, parts of the Territory are affected by a lack of rainfall and overseas visitor numbers have dropped off.
- The **ACT** economy is in good shape as can be seen by its low unemployment rate. The government's infrastructure program peaked in 2017/18 but growth should remain solid.



SOUTH-EAST. STATES HAVE BEEN DOING BETTER...BUT SOME LOSS OF MOMENTUM RECENTLY

Vic. And Tas. in good shape, NSW, SA, ACT strong but losing some momentum, Qld OK, WA/NT still struggling but some positive signs

HEAT MAPS ILLUSTRATE BOTH THE LEVEL OF ACTIVITY AND MOMENTUM

For example, the level of growth may be above average (positive level, green shade), but slower than it was a year ago (negative momentum - red).

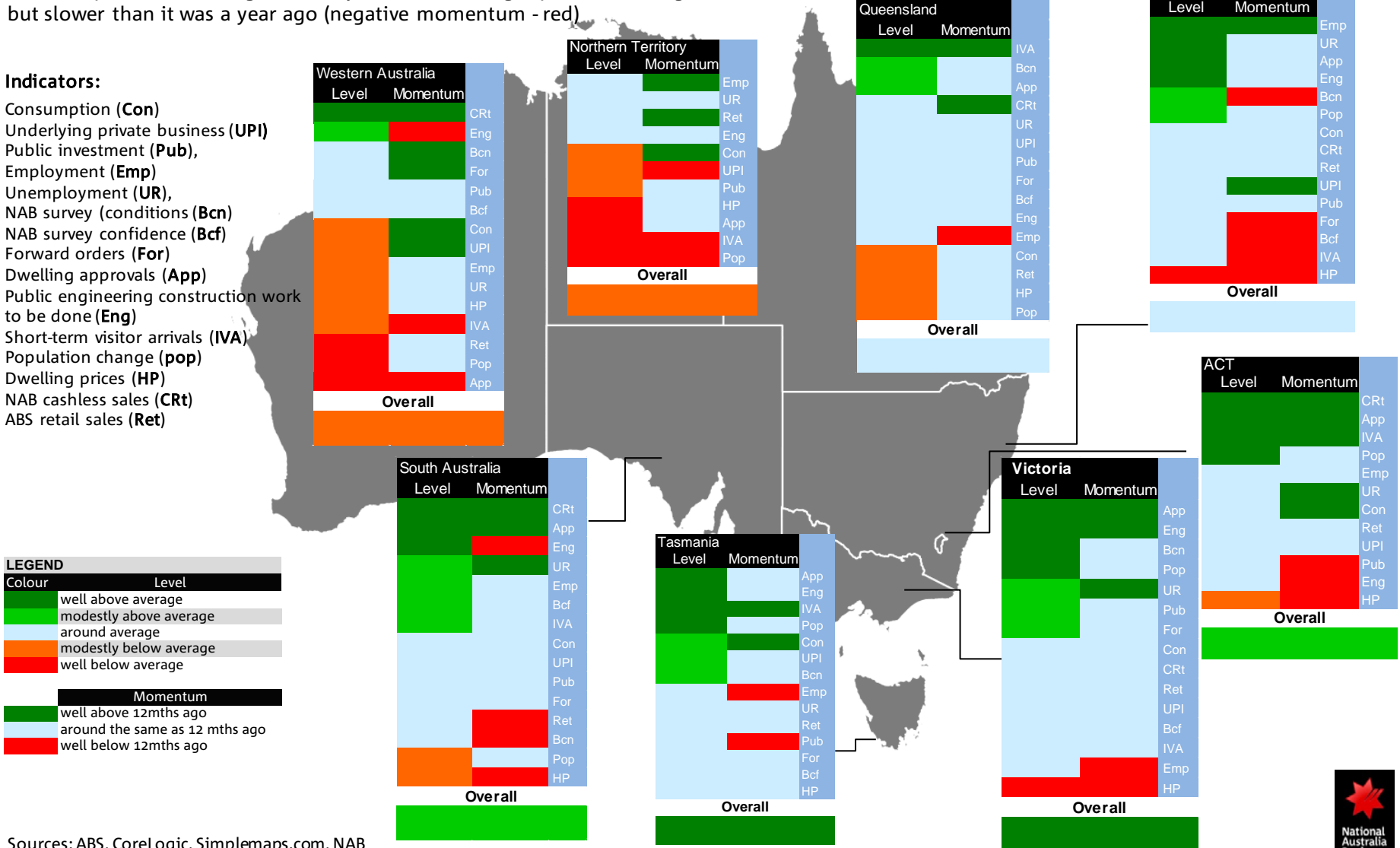
Indicators:

Consumption (**Con**)
Underlying private business (UPI)
Public investment (**Pub**),
Employment (**Emp**)
Unemployment (**UR**),
NAB survey (conditions (**Bcn**)
NAB survey confidence (**Bcf**)
Forward orders (**For**)
Dwelling approvals (**App**)
Public engineering construction work to be done (**Eng**)
Short-term visitor arrivals (**IVA**)
Population change (**pop**)
Dwelling prices (**HP**)
NAB cashless sales (**CRt**)
ABS retail sales (**Ret**)

LEGEND

Colour	Level
Dark Green	well above average
Light Green	modestly above average
White	around average
Light Blue	modestly below average
Red	well below average

	Momentum
Dark Green	well above 12mths ago
Light Green	around the same as 12 mths ago
Red	well below 12mths ago

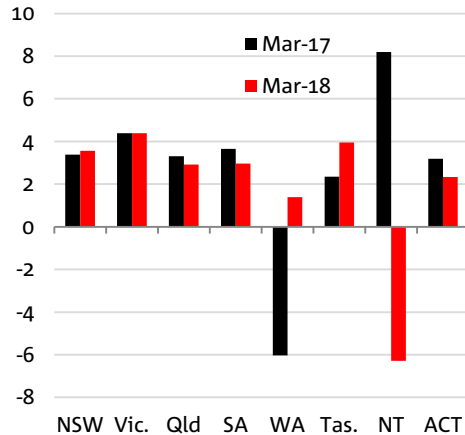


STATE DEMAND, INVESTMENT, CONSUMPTION AND EXPORTS

Some convergence in activity across states - investment & exports key drivers, while housing invest. has peaked

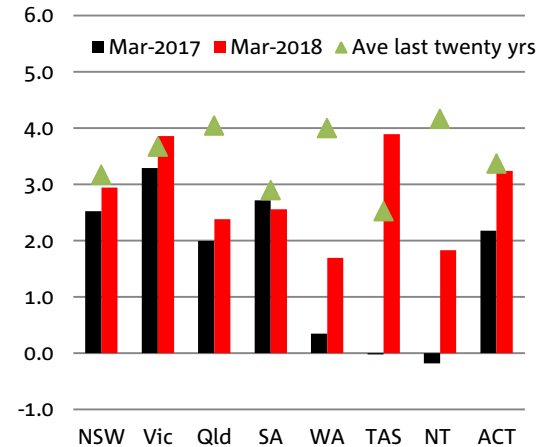
Some convergence in state final demand growth over last year (except NT)

Private consumption, chain-volume, y/y%



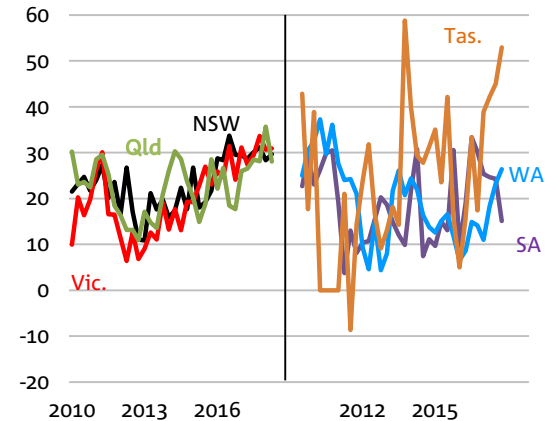
Consumption growth has picked up, but still soft in some states/terr.

Household consumption, chain vol., y/y%



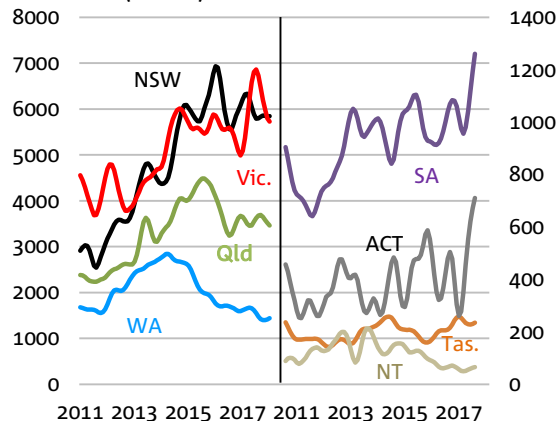
Positive signs for non-mining business investment across most states

12-month capex intentions, net balance, NAB Qtly Business Survey



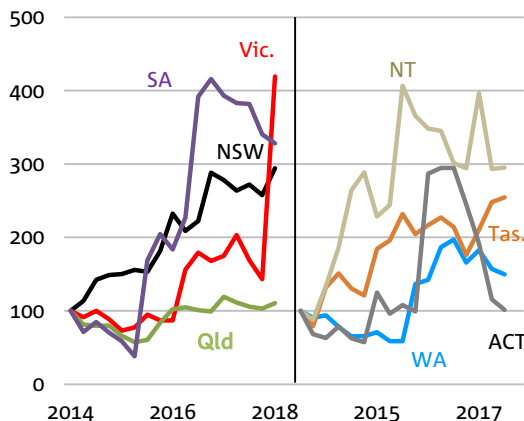
Dwelling approvals at high levels in S.East; Qld still solid but big correction in mining regions (NT/WA)

Number (trend)



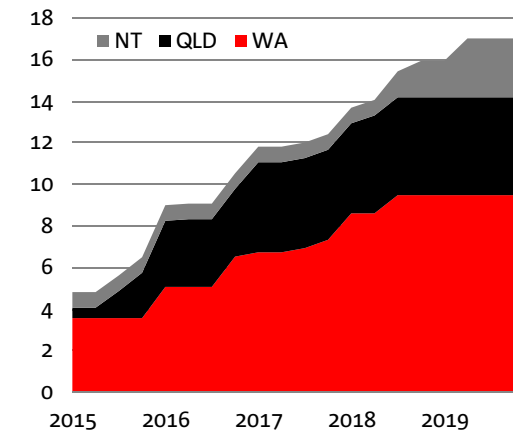
Elevated public infrastructure pipeline across most states

Public Engineering construction work yet to be done (March 2014 = 100)



LNG capacity coming on stream will boost exports

Adjusted LNG contracted volumes, MTPQ



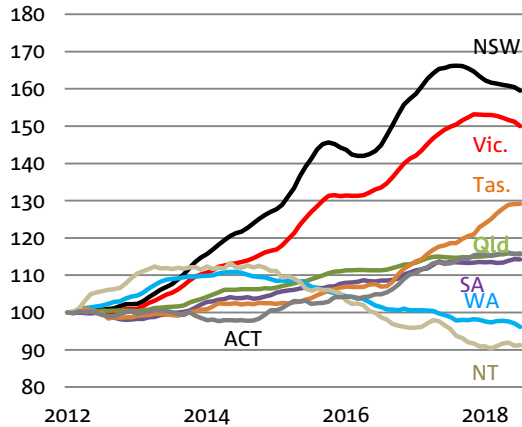
Sources: ABS, Bloomberg, NAB,

PROPERTY MARKETS, TOURISM, AGRICULTURE AND POPULATION

House prices under pressure, commercial property mixed, tourism mostly a positive but drought a problem in some states

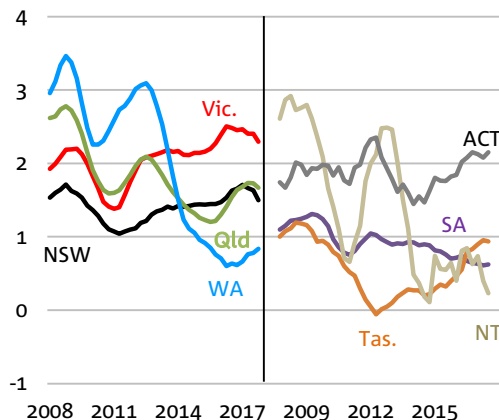
Dwelling prices flat or falling

January 2012 = 100



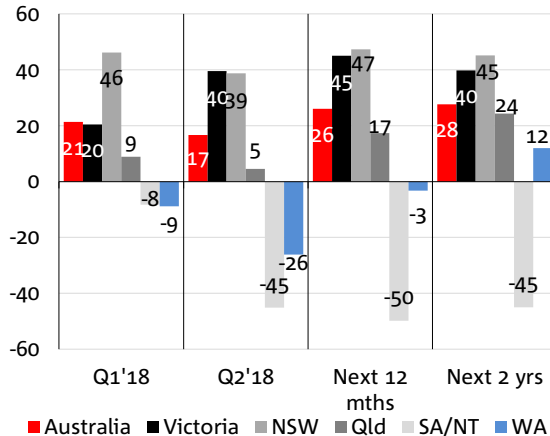
Population growth strongest in Eastern states, WA has stabilised

Population growth, y/y%



Commercial property sentiment varies widely

NAB Commercial Property Index

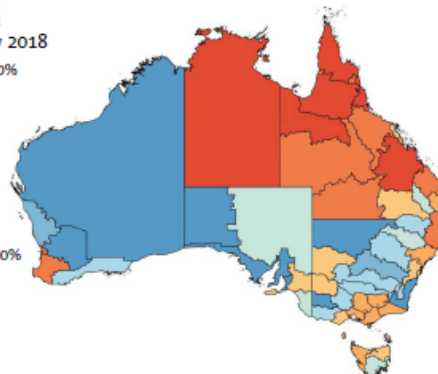
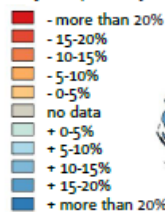


Crop prices up, but Qld/NT hit hard by falling beef prices

Agricultural prices by region, y/y%

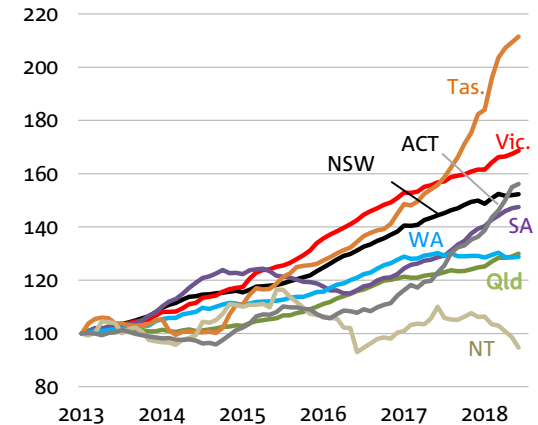
YEAR ON YEAR

July 2017 to July 2018



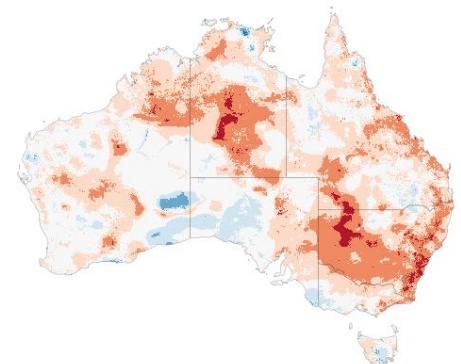
International tourism generally a positive, particularly in Tas., ACT & SA recently

Short-term visitor arrivals, Jan 2013 = 100, 12mth m.a.



Drought weighing on NSW, and parts of Qld/NT

Root zone soil moisture, relative to average, 26 August 2018



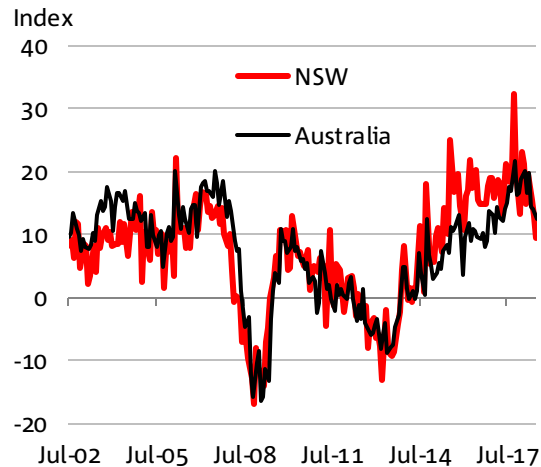
STATE REVIEWS



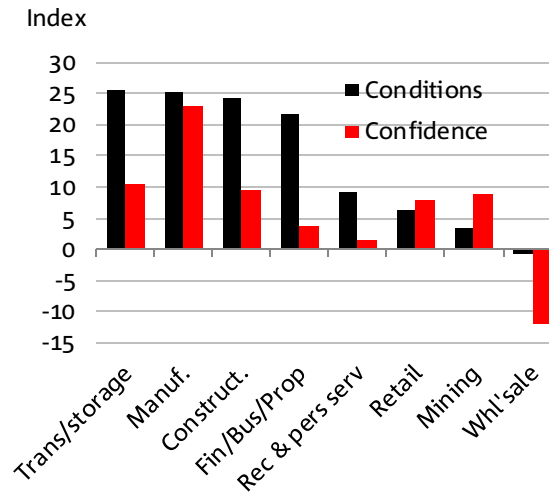
NEW SOUTH WALES

Business investment and service exports will be the key drivers of growth in the future, with consumption easing

BUSINESS CONDITIONS – FALLING & BELOW NATIONAL AVG.



RETAIL AND RECREATIONAL SERVICES WEAK



From being an outperformer, activity in NSW is showing signs of easing. A weakening consumer sector, combined with drought, partly explain this trend. The economic outlook is steady, with business investment and service exports to be the key drivers of growth.

The NSW economy expanded by 3.7% yoy to March 2018 (using the **State Final Demand** measure), somewhat quicker than the 3.2% yoy for Australia as a whole.

State GSP grew by 2.9% in 2016-17, with a similar figure anticipated for 2017-18. GSP also includes trade – both overseas and intrastate – and inventory changes.

NAB's **Business Conditions** Index – a measure of activity – has revealed slowing activity, with NSW weaker than the national average. This contrasts with 2014-17 period when NSW outperformed the national average.

By **sector**, conditions remain weak in retail, wholesale, and recreational services, indicating weakness in the consumer sector. The **drought** is also having a negative impact on agricultural production and incomes.

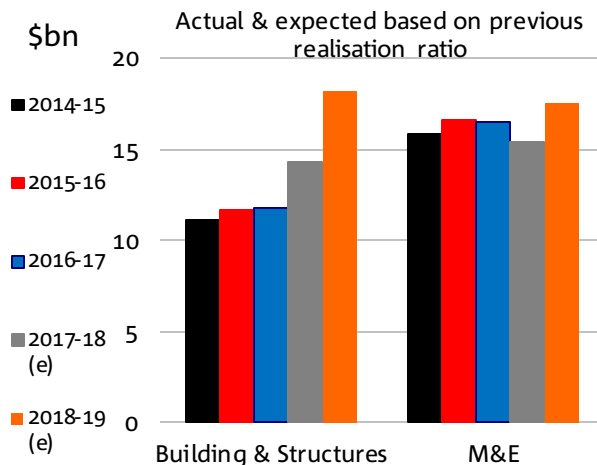
The **economic outlook** is steady with GSP growth of around 2¾% anticipated over the next 2 fiscal years.

Consumption will soften with weakening house prices. Dwelling construction is expected to contract. However, business investment – particularly in buildings – will stay robust, as will state spending on infrastructure, particularly transport programs. Key projects include Sydney Metro, WestConnex and a host of other transport and health projects.

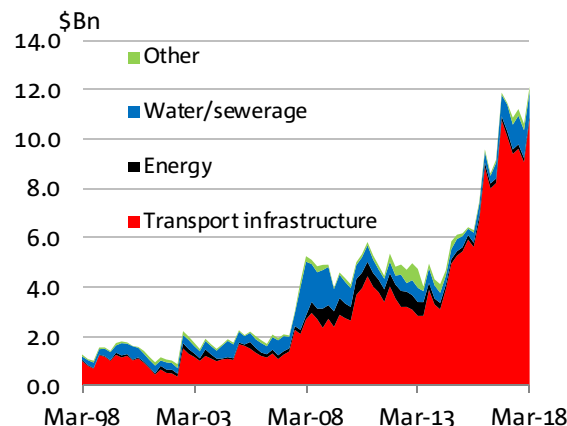
Another strong area for growth includes **service exports**, namely tourism & education, with NSW attracting the largest number of international students across the States.



BUILDING INVESTMENT: SOLID OUTLOOK



VERY STRONG INFRASTRUCTURE PIPELINE

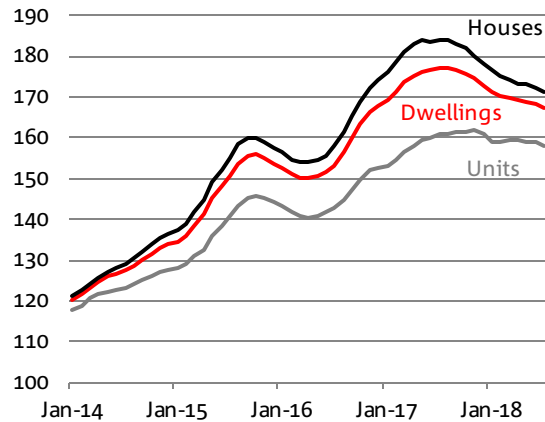


NEW SOUTH WALES (CONT.)

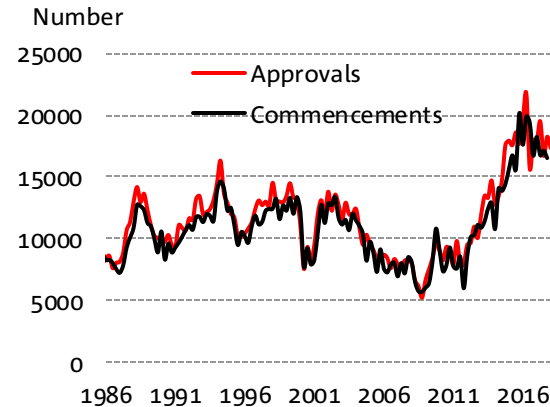
Falls in house prices and dwelling construction to be cushioned by a favourable labour market; State fiscal position good, but medium-term challenges remain.

SYDNEY DWELLING PRICES FALLING

Dec 2009 = 100



HOUSING CONSTRUCTION SLOWING



The **dwelling construction** cycle has peaked and is expected to decline going forward. This is evident in the approvals data, although actual completions might hold up for a little while longer due to construction lags, particularly for large construction projects.

Sydney **dwelling prices** commenced falling in 2017, and were down -5.4% yoy to July 2018. Regional prices have held up somewhat better.

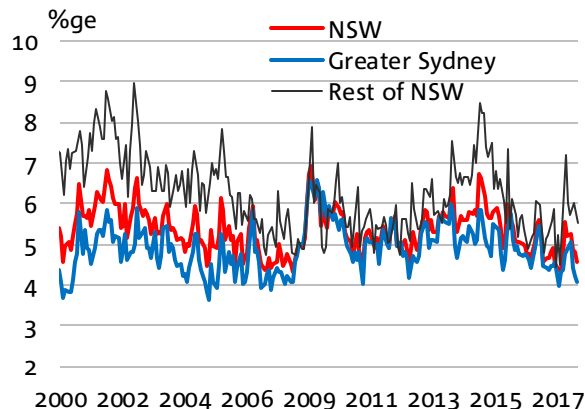
NAB's Residential property survey (of property professionals) is predicting further declines in NSW prices over the next 2 years, with NSW underperforming the national average. We also expect further weakness in Sydney dwelling prices, with units expected to remain weaker for longer.

The **labour** market has remained robust, with employment (in trend terms) growing by 3.2% over the year to July 2018. The unemployment rate has also fallen to 4.9%, from a recent peak of 6.2% in January 2015. Some regional areas like Newcastle have performed admirably, with unemployment falling from close to 10% in January 2015 to 4.3% currently. However, agricultural-dependent regions such as the Central West have recorded a rise in the unemployment rate to 8.5% - reflecting the negative impact of the drought.

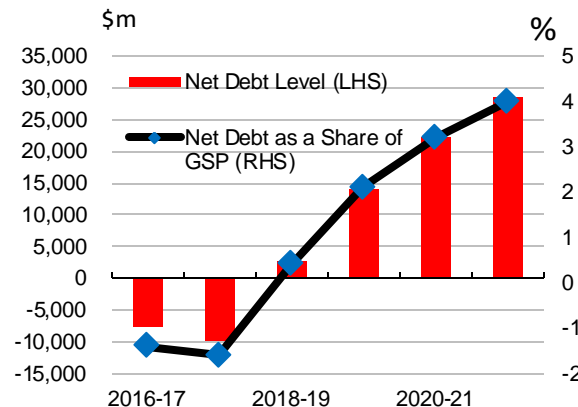
By **sector**, employment growth has been most visible in the health, construction and education sectors, and somewhat weaker in agriculture, finance and manufacturing.

NSW's fiscal position is sound with the state running a positive operating balance, which is expected to continue in the years ahead. It is a pioneer in asset recycling (leasing assets to private companies). That said, with **net debt** set to rise, there is a medium term fiscal challenge which needs to be addressed.

UNEMPLOYMENT TRENDING LOWER



MEDIUM TERM FISCAL CHALLENGES

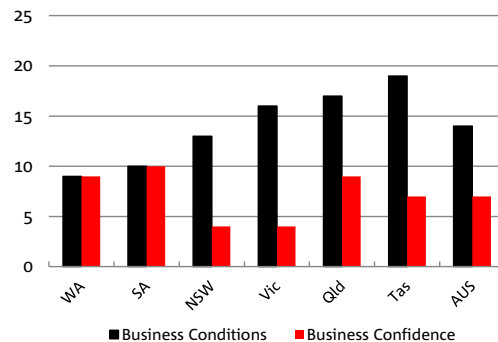


VICTORIA

Growing strongly, infrastructure spending ramp-up to continue

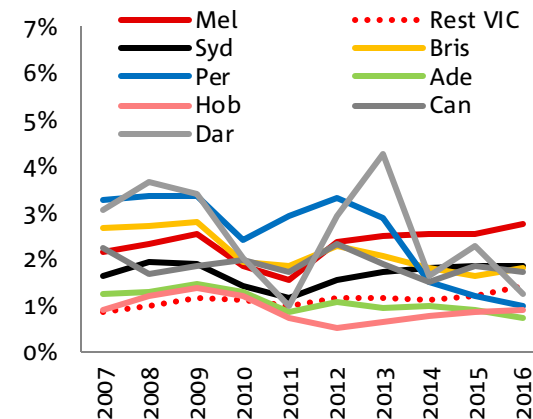
BUSINESS CONDITIONS STRONG

...but confidence is weak
(net balance, trend)



POPULATION GROWTH

Melbourne, rest of VIC and national
(y/y%)



The Victorian economy is performing generally quite well: state final demand growth has been strong, the population of Melbourne is growing quickly which has necessitated a large pipeline of infrastructure investment and unemployment is falling. On the other hand, house prices look to have peaked and are now in decline, wages are growing only slowly and business confidence is well below business conditions.

State final demand growth is generally buoyant, up 4.9% y/y and 1.9% q/q in the March quarter. On a y/y basis, public sector consumption and capital spending have been major drivers; the former led by Commonwealth spending (partly reflecting the NDIS rollout) and to a somewhat lesser degree the state, whereas capital spending has largely been driven by the state government, and private sector non-dwelling construction (i.e. infrastructure). Household spending has been somewhat weaker, up 3.9% y/y.

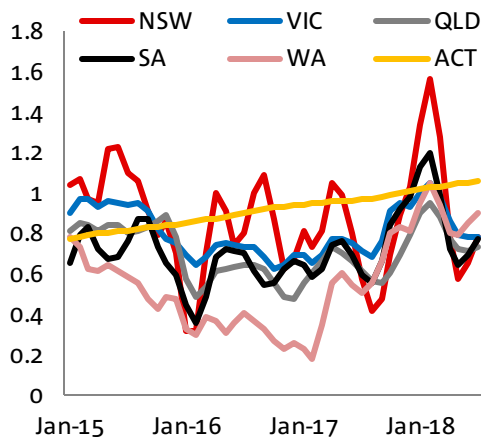
Melbourne has been Australia's fastest growing city since 2014. The **population** of Greater Melbourne grew 2.7% in the year to June 2017, compared to 2.0% in Sydney and Brisbane. In the last decade the city has grown by almost a million people and Victorian Government projections point to a population of over 8 million by the middle of the century.

The pressure on existing **infrastructure** has necessitated considerable new government infrastructure spending. As a result, gross Victorian Government infrastructure spending has ramped up significantly, jumping from \$4.7b in 2015-16 to a forecast \$13.7b in 2018-19 (excluding depreciation).

There is a **state election** due in November this year. So far, both major parties have promised further infrastructure projects beyond what is funded in the 2018-19 Budget. While the major parties have some differences around priorities, it is likely that there will be further infrastructure spending.

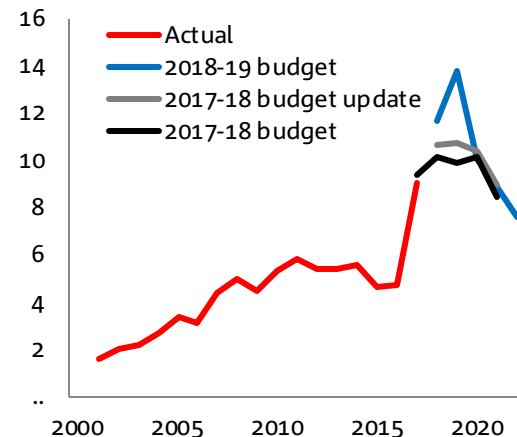
RETAIL SPENDING CONVERGING

NAB cashless retail, m/m, trend



VIC. GOV. INFRASTRUCTURE RAMPING UP

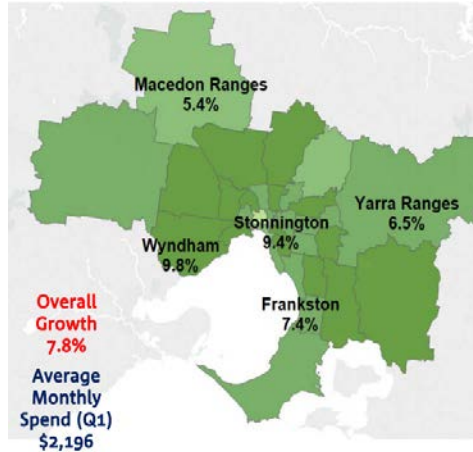
\$ billion, 2018-19 budget, ex depreciation



VICTORIA (CONT.)

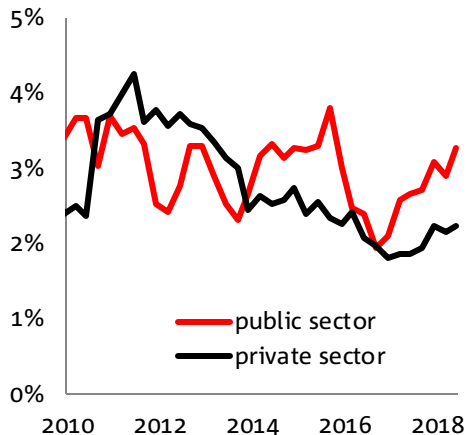
NAB CONSUMER SPENDING BEHAVIOURS

y/y % change Q1 2018



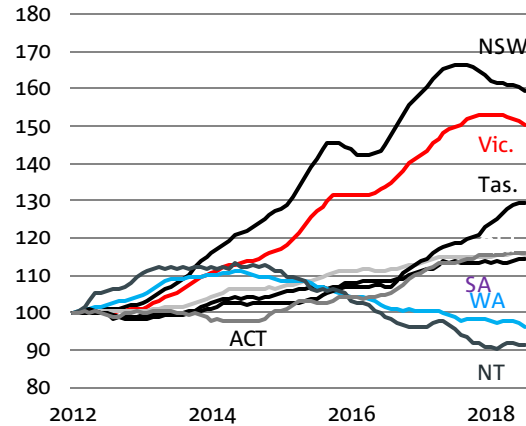
PUBLIC SECTOR DRIVING WAGE GROWTH

ABS WPI by sector y/y % change



HOUSE PRICE FALL CONTINUING

Index, Jan 2012 = 100



The 2018-19 **Budget** forecasts a general government operating result of \$1.4 billion in 2018-19, with surpluses expected to increase over the forward estimates. The budget has been buoyed by the boom in Melbourne's property market, with land transfer duty (stamp duty) estimated to have grown around 11% in 2017-18. However, the government expects land transfer duty growth to moderate to 3.8% in 2018-09 and on average 3.2% over the forward estimates, reflecting a moderating property market.

The **NAB Monthly Business survey** paints a mixed picture: while business conditions were third highest nationally (after Tasmania and Queensland) in July, confidence was equal worst (with New South Wales).

Unemployment has been trending lower since mid-2017, falling to 5.0% (s.a) in July – the second lowest state unemployment rate (after New South Wales at 4.9%) and somewhat below the national figure of 5.3%. However, the unemployment data can be volatile - Victorian budget forecasts from May point to an unemployment rate of 5.75% in 2018-19 and 5.50% thereafter, although we are expecting it to be lower than this.

Mirroring a broader national (and indeed international) trend, **wage growth** has been middling. Growth has been somewhat stronger since late 2016, although public sector wage growth strongly outpaces the private sector (3.3% y/y compared to 2.2%).

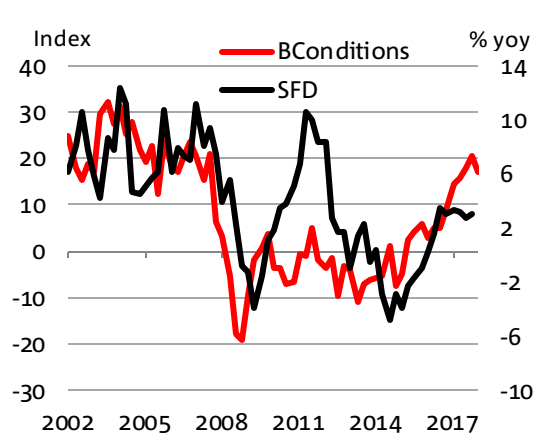
Melbourne **house prices** saw a very strong run over the past few years, but that has come to an end. The latest CoreLogic data shows Melbourne prices down 1.8% over the last quarter, the biggest drop nationally over the period. This accelerated in July, down almost 1% for the month. Performance across the market is somewhat disparate, with the top quartile of the market lagging but the bottom quartile continuing to grow. In the 12 months to July, bottom quartile dwelling values are up 7.5% while the top quartile is off 4.5%.

QUEENSLAND

Activity has been improving, and businesses remain confident – albeit less so than earlier. Exports, business investment and Government spending to drive growth.

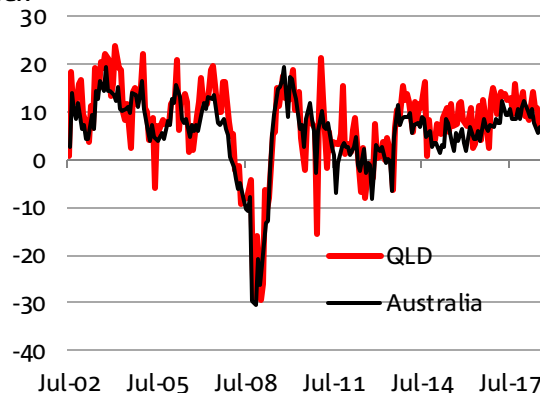
CONDITIONS & SFD IMPROVING

State final Demand & Business conditions



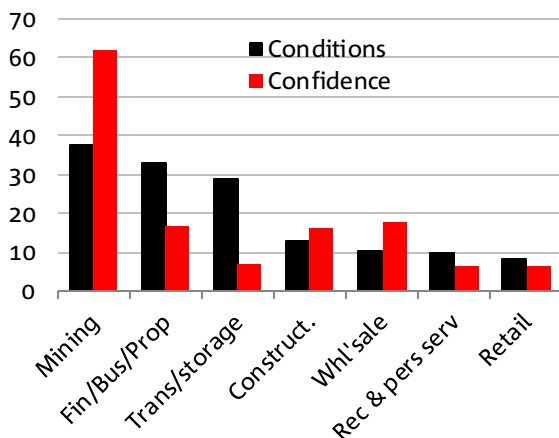
CONFIDENCE ABOVE NATIONAL AVERAGE – BUT EASING

Index



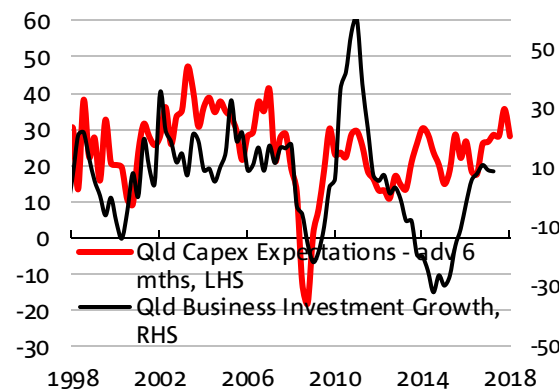
MINING STRONGEST; REC & RETAIL WEAKEST

Net balance s.a. – JunQtr'18



BUSINESS INVESTMENT – PROSPECTS REMAIN SOLID

Capex index and yoy (%) growth



Queensland's economy has improved and is growing broadly in line with the national average. Steady consumption growth, robust business investment and surging coal prices have led to stronger economic outcomes. While coal prices are likely to slacken, service exports, namely tourism and education, will continue to provide support. AUD weakness – driven partly by EM & trade woes – could further boost exports. Conversely, rising global trade tensions could crimp export growth.

Queensland's **state final demand** rose by 3.1% yoy in March quarter 2018, slightly below the national average. This is in stark contrast to the negative outcomes experienced between September 2014 and March 2016. NAB's Business conditions index – an activity measure – also reflects the general improvement in Queensland, although it has eased recently. NAB's **Business confidence** index has revealed businesses in Queensland are more optimistic than businesses nationally, although this has tempered somewhat of late.

By **sector**, confidence remains the strongest in mining, and to a lesser extent, construction and wholesale. Conditions in mining also remained strong. Retail and recreational services recorded weak confidence and conditions.

Gross State Product – which includes inventories and trade (both international and inter-state) – grew by a modest 1.8% in 2016-17. Strong growth in coal and LNG exports, and high levels of business investment spending is expected to push up gross state product to around 3.0% in 2018-19.

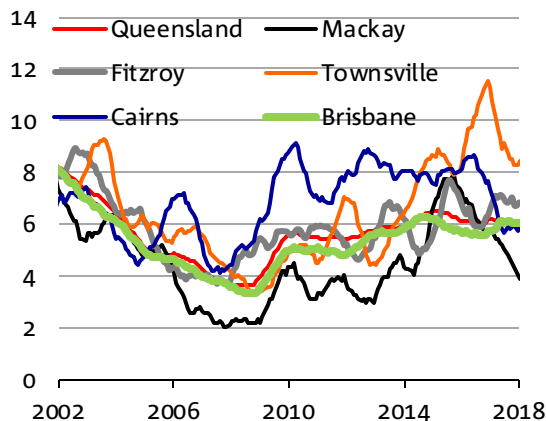
Further ahead, a 2.8% expansion is projected for 2019-20. Service exports (particularly tourism and education) and business investment (particularly in machinery & equipment and non residential building (e.g. education and health) will support growth. Dwelling investment will remain modest due to declining apartment construction, and fading momentum from mining exports.

QUEENSLAND

Solid employment growth to cushion softness in the housing market.

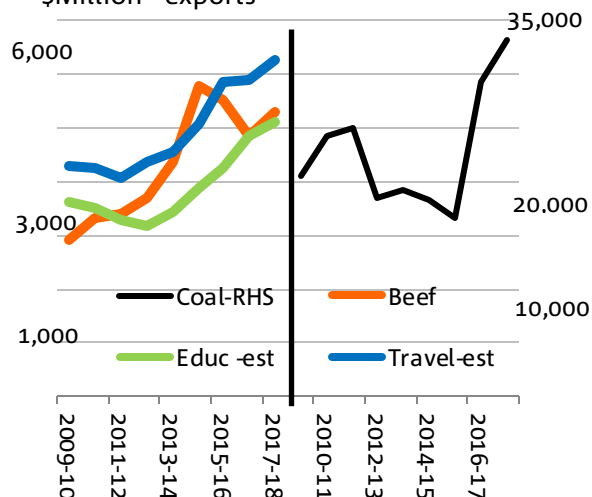
TOURISM & MINING AREAS EXPERIENCING BETTER EMPLOYMENT CONDITIONS

Unemployment rate, %, 12-mth moving avq.



COAL & TOURISM EXPORTS GROWING STRONGLY

\$Million - exports

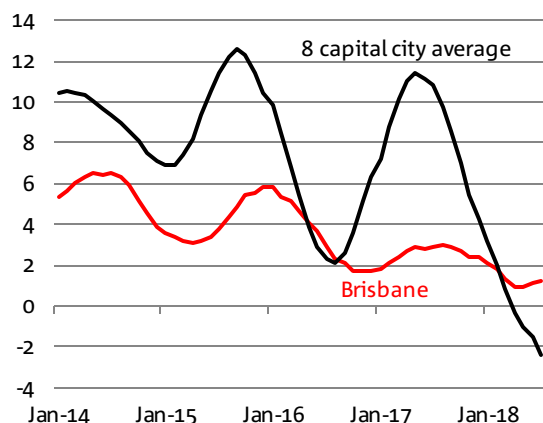


Employment growth was strong during 2017-18 financial year, with a 4.1% yoy expansion. This has flowed through to **lower unemployment** rates. In general, regions exposed to mining and tourism have generally fared better than agricultural-exposed areas due to drought-like conditions existing in parts of the state. This is seen in the relative improvement in the labour markets in Mackay, Cairns and Townsville, while there has been some deterioration in Fitzroy.

The value of **coal** exports have been very strong (although will ease in line with lower prices), and **beef** exports have recovered somewhat. **Tourism** and **education** exports (estimated) have benefitted from increasing numbers of Asian tourists and students. **Vegetable** exports, however, slumped by -45% during 2017-18, reflecting agricultural weakness.

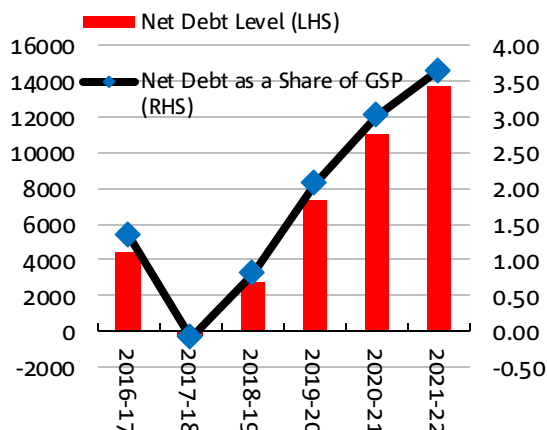
Employment growth in Queensland is expected to remain solid, although strong population growth (interstate migration) and high levels of labour force participation will limit the decline in the unemployment rate.

DWELLING PRICES – BETTER THAN NATIONAL AVG. y/y%



RIISING GENERAL GOVT DEBT

Level (\$M) & share of GSP (%ge)



In line with broad national trends, the **housing market** in Queensland has lost momentum. However, the NAB Residential Property Survey reveals that property market professionals expect the Queensland housing market to perform slightly better than the national average. Our own forecasts anticipate a flat house price outlook for Brisbane, although there are likely to be pockets of weakness such as small, high-rise apartments in Brisbane, which could experience further price declines.

Queensland's 2018-19 **Budget** reflects a strong focus on infrastructure, health, education and support for households which should support the economy. However, borrowings for the public non financial sector are expected to increase to \$83b by 2021-22. Ratings agency Moody's has flagged the possibility of a downgrade if there is fiscal slippage in the future.

Sources: ABS, CoreLogic, Tourism Australia; Queensland Treasury, NAB

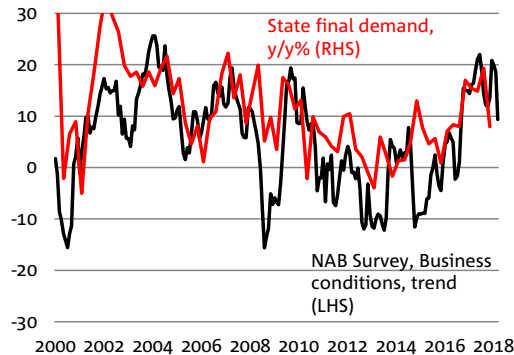


SOUTH AUSTRALIA

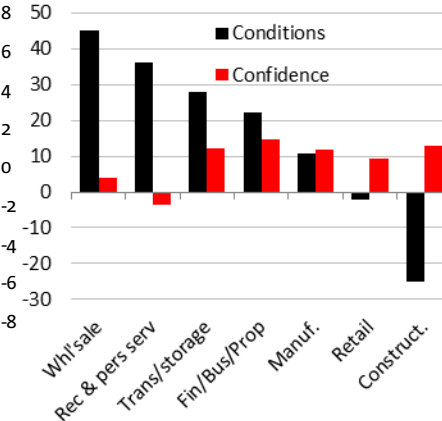
After a welcome up-turn in 2017, 2018 is looking softer

ACTIVITY PICKED UP IN 2017

State final Demand & NAB Business survey Net balance, s.a.



QTLY BUSINESS SURVEY BY INDUSTRY



Overall, the SA economy remains in reasonable shape with business conditions still solid (despite easing recently), an improving labour market, increasing tourism and a high level of government infrastructure investment. However, low population growth, a mixed business investment outlook & easing dwelling investment will constrain growth.

While economic activity accelerated in 2017, this good run came to an end in early 2018 with **state final demand** falling in Q1. The Q1 weakness was broad based – consumption growth slowed to a crawl, while business and dwelling investment, and government spending, fell.

NAB's Monthly Business Survey – with data up to July – paints a similar picture. **Business conditions**, which had been at around multi-year highs, have fallen back recently, although they remain at a solid level. Survey leading indicators have also eased.

By industry, business conditions are strongest in the service sectors such as wholesale trade, recreation & personal services, transport, and finance, property & business. As with the rest of Australia retail is weak, but somewhat surprisingly so is construction (although confidence is better).

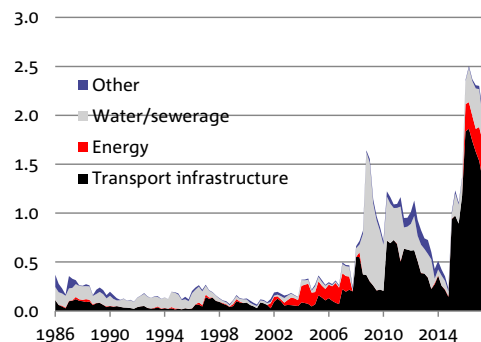
While **dwelling investment** growth has eased in recent quarters, the level of investment remains high. This is likely to remain the case in the short-term as residential building approvals are at high levels. Nevertheless, over time we expect to see an easing in dwelling investment, as the amount of supply that will come onto the market is high relative to population growth. Reflecting this, and policy changes which have tightened investor credit availability, **house price** growth has flattened out, and only small gains in SA dwelling prices over 2018 and 2019 are expected.

Government capital investment should remain at high levels given a very large pipeline of work, even though it has come off its peak. The state government's latest projections point to a pick up in capex spend in 2018-19 but a subsequent decline. The Federal Government's redevelopment of the Osborne Naval Shipyard should also provide a boost through to early 2020.

While the pipeline of private non-residential building and engineering construction work to be done is elevated, actual **capex** indicators from the NAB Business survey have declined recently, as has the 12-month capex expectations indicator.

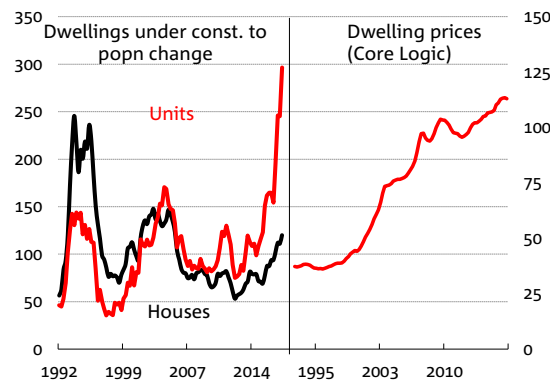
STRONG PUBLIC INFRASTRUCTURE PIPELINE

Public sector engineering construction work to be done (\$b)



LARGE RESIDENTIAL CONSTRUCTION PIPELINE

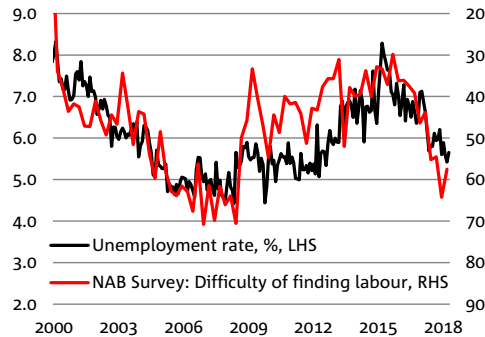
Ratio of dwellings under constr. to annual popn change



SOUTH AUSTRALIA (CONT.)

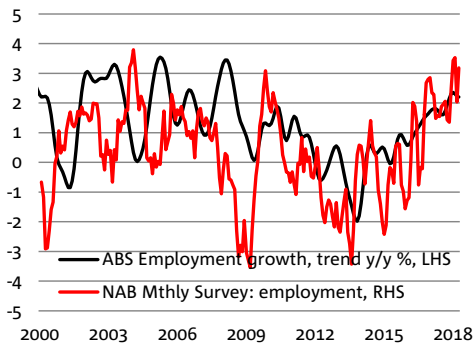
LABOUR MARKET TIGHTENING...

Unemployment rate & Difficulty of finding suitable labour



AS JOBS GROWTH PICKS UP

ABS employment growth and NAB employment net balance



Moreover, sentiment in the **commercial property** market in SA/NT is also very weak across all the segments – office, industrial and retail - with little improvement expected over the next two years.

Household **consumption** softened noticeably in Q1 and there are no obvious signs of an upturn with Q2 retail sales volumes growth matching its Q1 pace. Moreover, wage growth remains soft, and consumer sentiment (and budgets) have faced a headwind from rising utility costs. Reflecting this, NAB's Consumer Behaviour Survey found that consumer anxiety rose sharply in 2018 Q2.

After spiking higher in mid-2017, goods and services **exports** appear to have softened subsequently. The value of primary good exports (such as wine, wheat, copper, vegetables and meat), increased strongly in 2017, but manufactured exports declined for the third year in a row, in part due to falls in motor vehicle exports, and with the closure of the Holden factory in last October they are likely to fall in 2018 as well. In contrast wine exports have benefited from the fall in the dollar between 2012-2015 combined with global production challenges. The outlook for crops is heavily weather dependent, but after a large decline in production in the 2017-18 season (from an abnormally high level), ABARES is expecting a pick up in wheat and barley production in 2018-19.

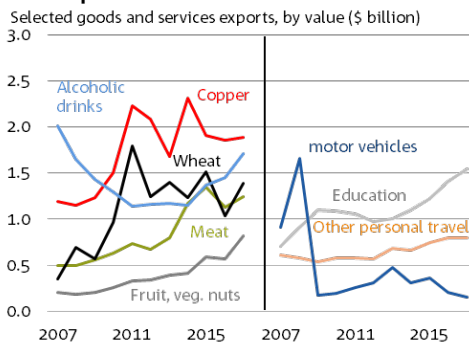
Service exports are dominated by education and tourism. While growth (in value terms) moderated in 2017, education service exports still grew solidly, but tourism exports declined slightly (after two strong years). So far in 2018, overseas student enrolments are growing at around their 2017 pace, while the number of tourists also appears to be increasing.

A positive development has been the improvement in the **labour market**. Annual employment growth (trend basis) is running at over 2% y/y, the strongest it has been since the GFC. Similarly, the employment indicator in NAB's Monthly Business Survey has also been at high levels, as are employment plans for the next twelve months according to the NAB's Quarterly Business Survey. As a result, the unemployment rate has been falling and is currently (on a trend basis) at its lowest level since 2012.

A constraining factor for the S.A. economy is likely to be continuing modest **population growth**, in large part due to net interstate migration. Population growth remains well below that of the rest of the country and has been easing over recent years.

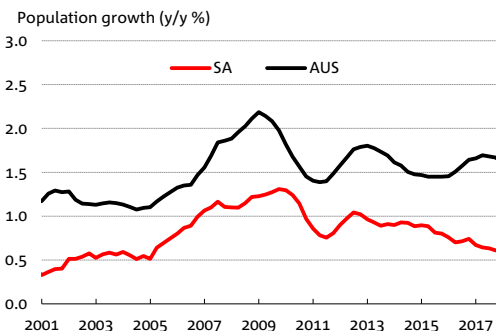
EXPORTS MIXED – DRINK BUT DON'T DRIVE

Education, tourism & agriculture the export drivers



POPULATION GROWTH RELATIVELY WEAK

Interstate migration remains a drag

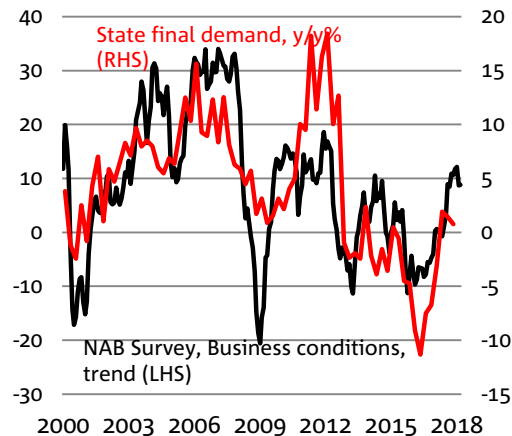


WESTERN AUSTRALIA

Higher commodity prices have lifted conditions and sentiment

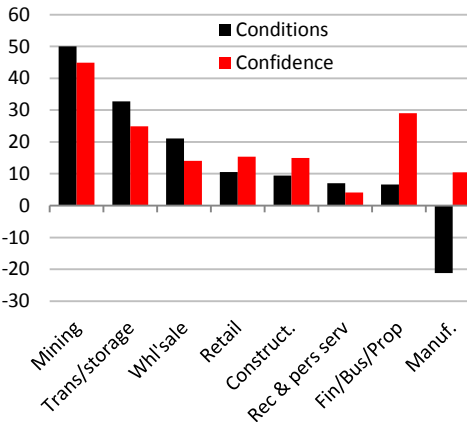
CONDITIONS HAVE IMPROVED

State final Demand & Business conditions



CONDITIONS STRONGEST IN MINING

Net balance, s.a.



A partial recovery in commodity prices has helped lift WA business conditions and sentiment. Consumption, dwelling investment and government infrastructure investment have improved, and the headwind from falling mining investment should ease. Export growth should continue to support state GSP growth.

Annual **state final demand growth** has been positive in each of the three quarters to Q1 2018 - the first time this has happened since 2012. The improvement reflects an upturn in consumption growth, dwelling investment stabilising, while the fall in business investment has slowed. However, the quarterly growth rate in Q1 2018 was negative; while quarterly data can be volatile it suggests that WA isn't fully out of the woods yet. A positive for Gross State Product has been, and will continue to be, rising exports, as the capacity put in place by the mining boom comes on stream.

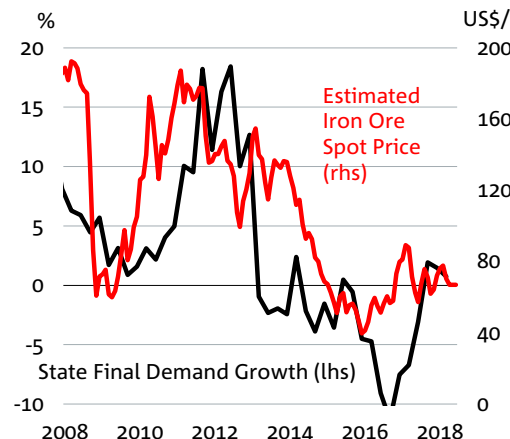
The improvement in the economy is also evident in NAB's monthly Business Survey. **Business conditions** turned positive in October 2017 and have stayed that way since. However, conditions (and confidence) have eased a little in recent months and leading indicators in the survey are also somewhat mixed. Forward orders remain above average but have eased in recent months, as has capacity utilisation.

The improvement in conditions has coincided with a rise in **commodity prices**. Iron ore spot prices almost doubled between end 2015 and early 2018. However, the boost to the economy from this source is fading: iron ore prices declined 17% between February and July. Moreover, we expect that, if anything, iron ore prices will ease a little further over the next year or so, although LNG prices are set to remain around current levels, with some upside in coming quarters.

With prices well off their 2015 low point, and the unwinding of the investment boom well advanced, the growth headwind from falling **mining investment** is fading (but not yet finished). There are some favourable signs – mineral exploration activity has increased and some possible new projects have been announced. Other, broader, **forward looking capex indicators** have become more positive. In particular, WA 12 month capex intentions reported in NAB's Quarterly Business Survey have been strengthening.

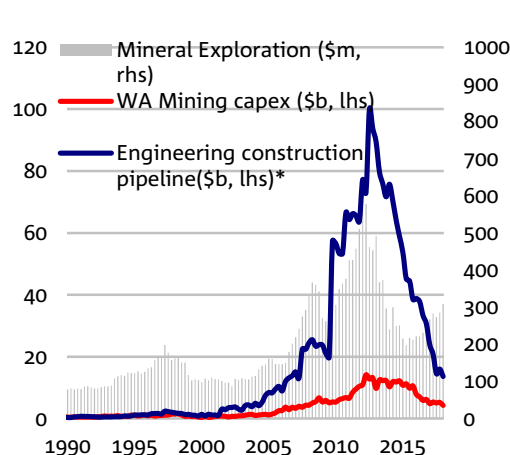
LIFT IN COMMODITY PRICES HAVE HELPED

State final demand (y/y%) & Iron ore price



MINING INVESTMENT...IS THE WORST OVER?

Mining investment indicators & engineering construction



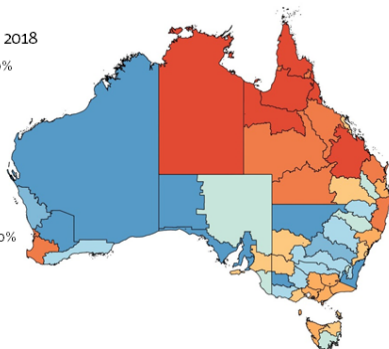
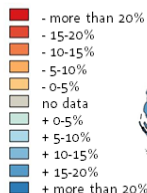
WESTERN AUSTRALIA (CONT.)

GRAIN PRICES A BOOST TO WA AGRICULTURE

Regional commodity prices; June 2018 % change on year earlier

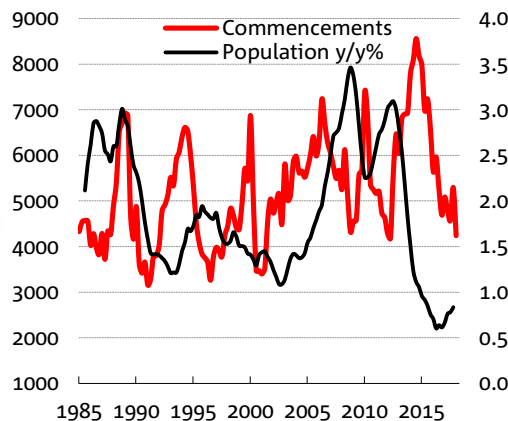
YEAR ON YEAR

July 2017 to July 2018



HOUSING MKT OVER-SUPPLY NARROWING

Dwelling commencements (number) and y/y% change in population



Commodity prices are also providing a boost to the **agricultural** sector. While wheat production is estimated to have declined in 2017-18 (to a more normal level from 2016-17's very large crop), and this season is well set up for an above average crop. Wheat prices have been increasing, as have barley prices.

The **housing sector** has also been undergoing a painful period of correction, but construction activity appears to be stabilising. Housing construction took off just as population growth slowed dramatically as lower commodity prices reverberated around the WA economy. More recently population growth has stabilised, as have dwelling approvals and, while still high, the rental vacancy rate has been declining.

Dwelling prices have been falling since mid-2014, with unit prices particularly hit hard - Perth unit prices in July 2018 were almost 20% below their peak. We expect that prices will experience further, but more modest, falls over the rest of this year and into 2019.

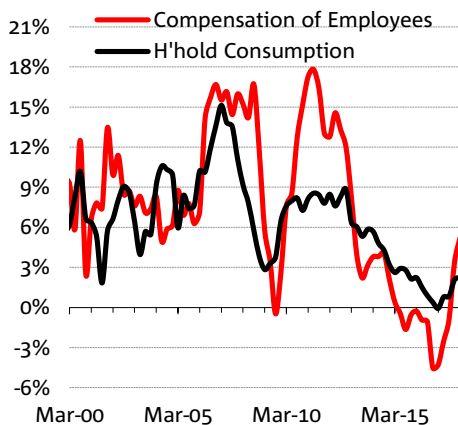
Household **consumption** growth also remains at a very low level but it too appears to have turned the corner. Real consumption growth reached a low of 0.4% y/y in Q1 2017, but by Q1 2018 it was at 1.7% y/y, a level last seen in 2014. The turn around in consumption has coincided with improvement in aggregate wage income. That said, compared to Q4 2017, consumption declined in 2018 Q1, retail sales data are soft, and falling house prices are a drag on household wealth, so the turnaround should not be overstated.

The improvement in aggregate wage income has been driven by a resumption of **employment growth**. Wages growth, while still the weakest of any state, has also moved a bit higher. As workforce participation has also increased, there hasn't been much of a fall in the unemployment rate from its late 2016 peak. However, employers are experiencing increasing difficulty in finding suitable labour, pointing to a tightening labour market.

The **Government's budget** was also hit hard by the downturn in the WA economy, but the budget outlook is starting to show improvement. While government consumption is projected to remain subdued, infrastructure investment lifted in 2017-18 and is expected to ramp up further in 2018-19.

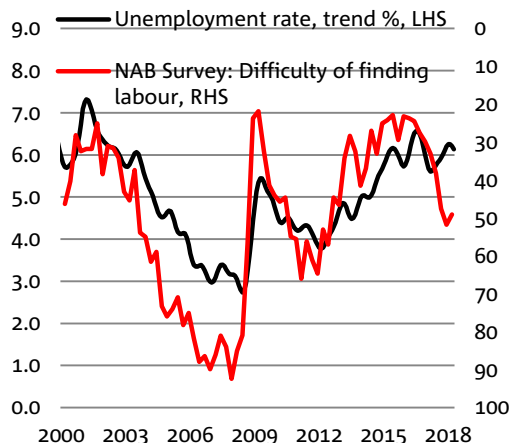
CONSUMPTION HAS TURNED THE CORNER

Nominal consumption and employee compensation y/y%



LABOUR MARKET CONDITIONS IMPROVING

Unemployment & difficulty in finding labour

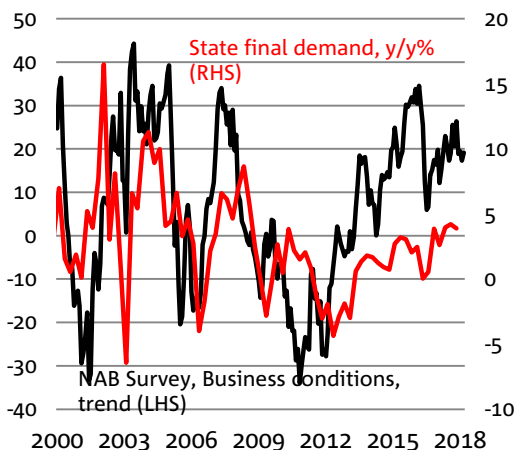


TASMANIA

A solid performance and good outlook

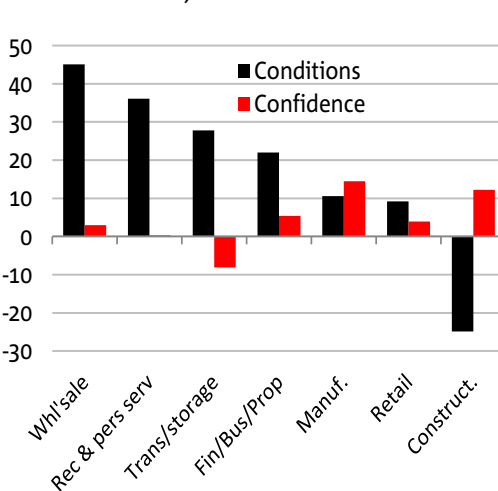
STRONG GROWTH AND CONDITIONS

State final Demand & Business conditions



CONDITIONS STRONGEST IN WHOLESALE

Net balance %, s.a. June 2018



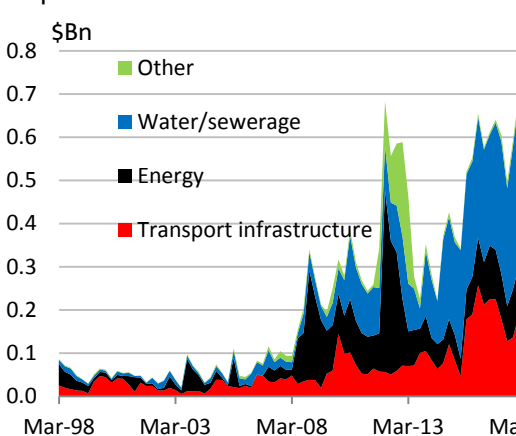
The Tasmanian economy has performed relatively well recently, with growth driven by household consumption, business investment and investment in public infrastructure. Reflecting this, businesses in Tasmania currently report the highest business conditions in the NAB Business survey of all states. Confidence is a little weaker, but is also above average.

State Final demand growth was solid in the March quarter, with continued strength in both public and private investment, while consumption eased a little. At just below 4.0% y/y, growth in Tasmania is relatively strong when compared to other states. Over the year growth, has been supported by consumption and both business and public sector infrastructure investment. Over the past few years the Tasmanian economy has become more exposed to the global economy with growth in exports of specialised products as well as tourism exports to countries such as China.

Projected **infrastructure** spending is expected to rise to \$1.57bn in 2018/19 (according to Infrastructure Tasmania). This largely includes projects in water, rail, airports and roads. There is also expected to be a lift in 'social' infrastructure investment with continuation of the Hobart hospital upgrade as well as the announcement of new prisons and school upgrades more generally across the state.

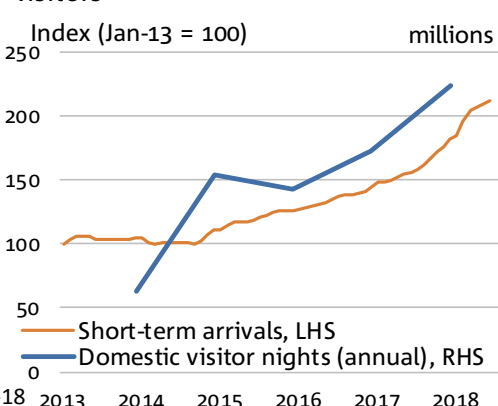
INFRASTRUCTURE

Pipeline



TOURISM BOOMING

Short-term arrivals and domestic visitors



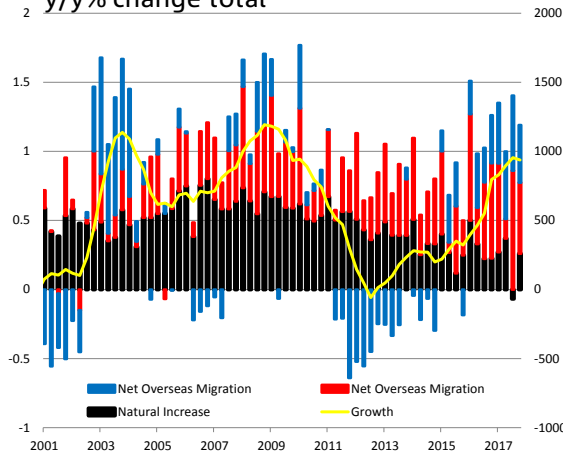
The strength in activity in Tasmania has been reflected **Business conditions** in the NAB monthly business survey, with the state currently recording the strongest conditions across the country (in trend terms). Although industry data from survey for Tasmania is volatile, conditions are currently strongest in wholesale, while most industries are currently recording positive outcomes. Business **confidence** remains lower than conditions, but it too, is above average.

The **tourism sector** has strengthened in recent years. Visitor nights and international short-term arrivals having increased sharply. Business investment in the industry has also risen with a number of new hotels and hotel refurbishments underway. Public sector infrastructure investment in airports and other transport is also likely to provide further support in the sector.

TASMANIA (CONT.)

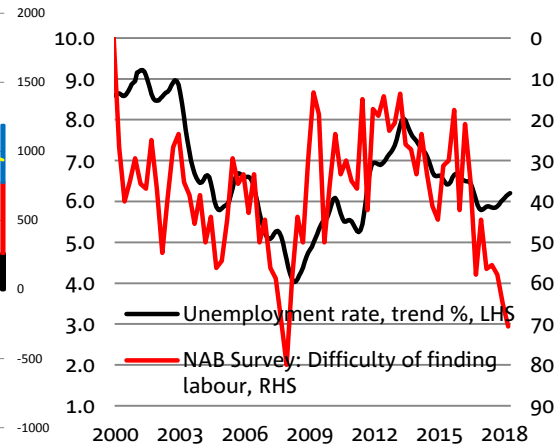
POPULATION GROWTH

Contributions to growth (number) and y/y% change total



LABOUR MARKET

Unemployment & difficulty in finding labour.

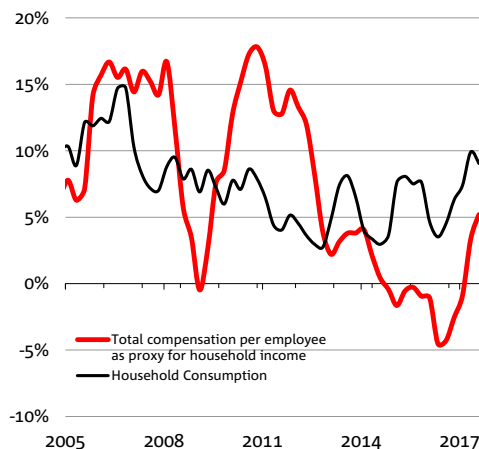


Population growth has lifted in Tasmania in recent years, with net interstate migration once again contributing to growth after a period of dragging on growth in the state. This rise in population growth is both likely to have supported growth in the state, as well as having been a response to growing employment opportunities in the growth sectors as well as relatively low cost of living pressures when compared with other states.

Along side the pick-up in population growth and robust economic performance, conditions in the **labour market** have generally improved. Employment has grown relatively strongly in 2017 and while the unemployment rate is higher than the mainland states, it has fallen from relatively high levels over the past few years. More recently, employment growth has slowed – though has remained higher than population growth – and the unemployment rate has drifted up a little, with the labour force participation rate also increasing. Businesses have reported an increase in the difficulty in finding suitable labour in recent years which suggests that labour market outcomes should generally remain favourable over coming months.

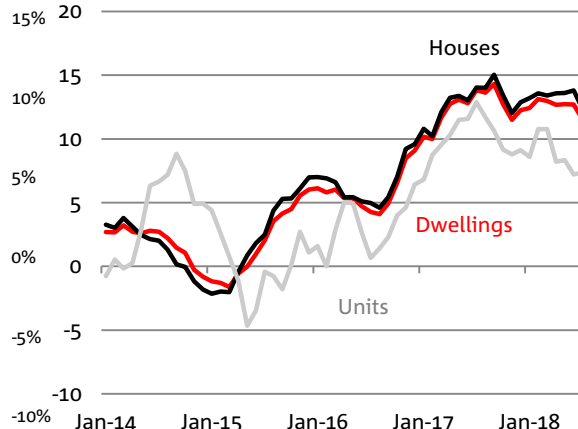
CONSUMPTION

Nominal consumption and employee compensation y/y%



HOUSE PRICES

y/y%



Growth in **household consumption** was relatively strong over the year to the March quarter after some weakness in recent years. NAB's quarterly survey of consumer behaviour suggests that of all the states, consumers remain least anxious in Tasmania.

Supported by stronger population growth and strong labour market conditions, the **housing sector** has held up more strongly than the mainland states. While house prices have weakened in Sydney and Melbourne and have generally been flat or falling in the other states, prices in Hobart have grown strongly over the last year. On the supply side, construction of new dwellings has been relatively robust but there is little indication of an overshoot at this place with only a moderate pickup in approvals, though their remains a relatively high pipeline of work on dwelling construction in train.

Government finances appear to be in relatively good shape, with low levels of gross debt and a negative net debt balance. Currently the budget is projected to run a net operating surplus with the fiscal balance measure also returning to surplus in 2020/21 (based on budget projections).

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