



National
Australia
Bank

TRANSPORT INFRASTRUCTURE UPDATE

VICTORIA

GROUP ECONOMICS
SEPTEMBER 2018

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INTRODUCTION

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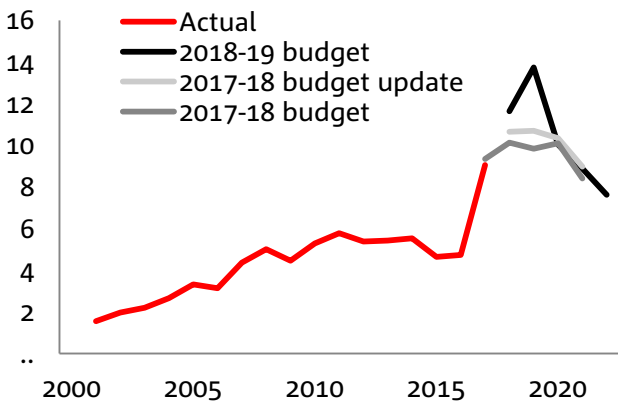
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Melbourne’s rapid population growth has put pressure on existing infrastructure, leading to considerable new government infrastructure spending. As a result, gross Victorian Government infrastructure spending has ramped up significantly, jumping from \$4.7b in 2015-16 to a forecast \$13.7b in 2018-19 (excluding depreciation).

While not all of this spending is for roads and railways (for example, school building is a major spending item), transport makes up a considerable portion.

TOTAL VIC GOVT INFRASTRUCTURE SPEND

\$ billion, ex depreciation



Source: Victorian Budget Papers, Australian Bureau of Statistics and NAB Group Economics

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In addition, a number of projects are being undertaken as PPPs, such as West Gate Tunnel and Melbourne Metro.

With a state election due in November, both major parties have made a number of transport spending commitments, with more likely to come. Airport rail is likely to go ahead, as are further improvements to outer suburban and regional rail. While there are some differences in priorities – for example the ALP does not support East West Link – we expect that the pipeline of investment will remain at very elevated levels irrespective of who forms government.

If built as scheduled (but not yet budgeted), projects like North East Link, airport rail and stage 1 of the suburban rail loop, could see the current spending spike continue well into the 2020s, although labour and material shortages could become even greater issues.

IMPLICATIONS FOR THE VICTORIAN ECONOMY

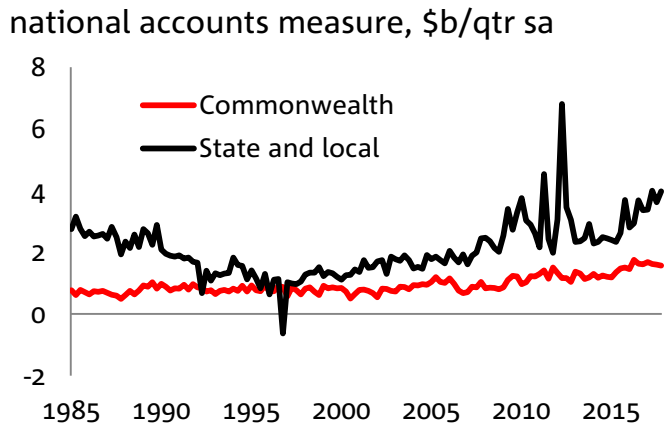
The Victorian economy has been one of Australia’s fastest growing this year. State final demand grew 1.2% in the June quarter, the third fastest nationally, while in March Victoria was the fastest growing state. While household was the biggest contributor to growth in the June quarter, state government consumption and capital spending were also solid contributors.

Given the scope of construction projects now ramping up, including Metro tunnel (\$11b) and West Gate Tunnel (\$6.7b), it is likely that transport infrastructure spending will continue to contribute strongly to Victorian growth over the next year.

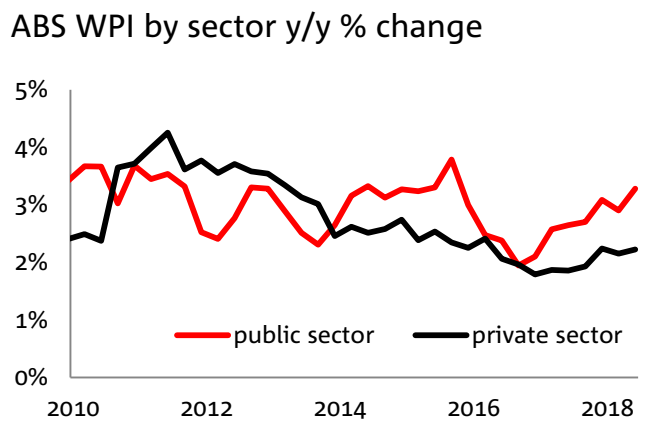
Based on the 2018-19 Budget, this financial year will be the strongest for Victorian government infrastructure spending, followed by a sharp drop in 2019-20. However, there is considerable announced spending which is not incorporated in the forward estimates, which – if it occurs – should keep infrastructure spending high.

NAB’s Infrastructure Survey, released in July this year, shows that transport is a major concern. Electricity (45%) and roads (44%) were perceived as having the biggest impact (either positively or negatively), while public transport was an issue for 32%.

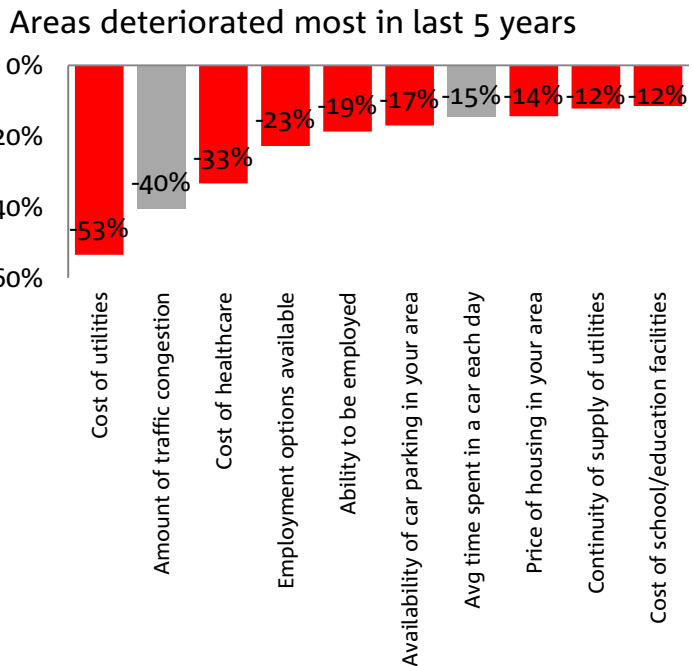
PUBLIC CAPITAL SPENDING



VICTORIAN WAGE GROWTH



NAB INFRASTRUCTURE SURVEY



Source: Australian Bureau of Statistics and NAB Group Economics

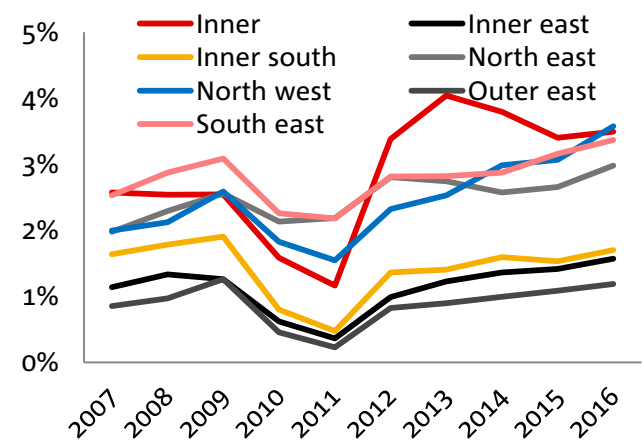
POPULATION AND PLANNING

Melbourne has been Australia’s largest 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.

While various government urban planning blueprints have encouraged urban consolidation and increased public transport use, the city’s transport task remains dominated by the private car. The second half of the 2000s saw rapid growth in public transport use, although growth in public transport system use has been lower since.

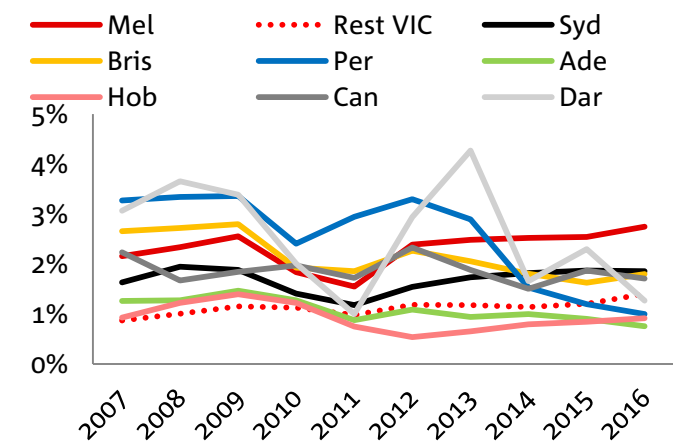
MELBOURNE POPULATION GROWTH

Year ended by region



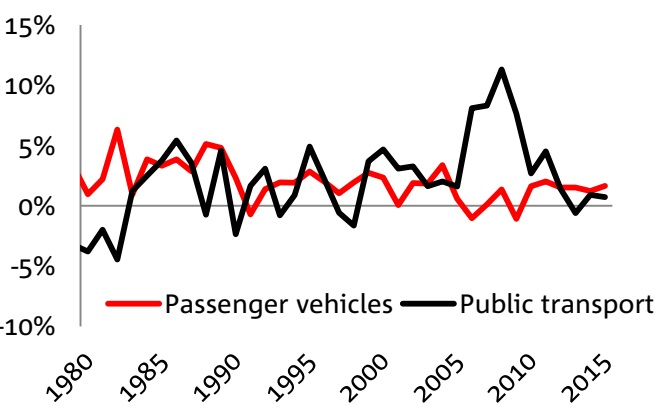
POPULATION GROWTH

Victoria, Melbourne and national



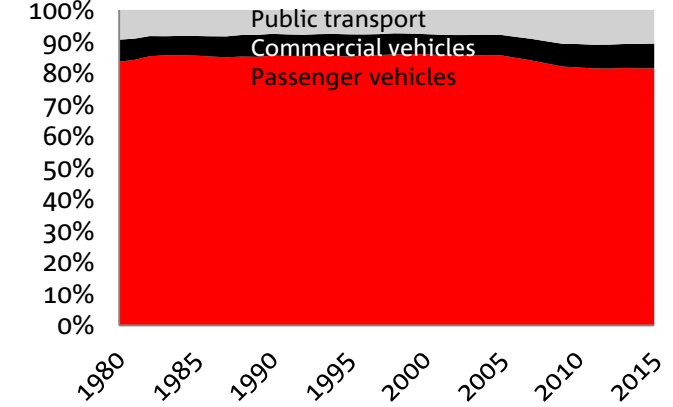
MELBOURNE SYSTEM GROWTH

Year ended, total vehicle km travelled



MELBOURNE TRANSPORT MODE SHARE

Share of total vehicle km travelled



Source: Victorian Budget Papers, BITRE, Australian Bureau of Statistics and NAB Group Economics

MELBOURNE POPULATION GROWTH 2006-2016

Over the last decade, Melbourne’s population has increased by over 960,000. This growth has been focussed primarily in greenfield estates on the city’s fringes in the west, north and south-east, as well as substantial new apartment construction in the CBD, Southbank and inner north, west and south. Many middle band suburbs which are relatively well serviced by roads and public transport have seen relatively low population growth.

10 YEAR % POPULATION CHANGE TO 2016 BY SA2

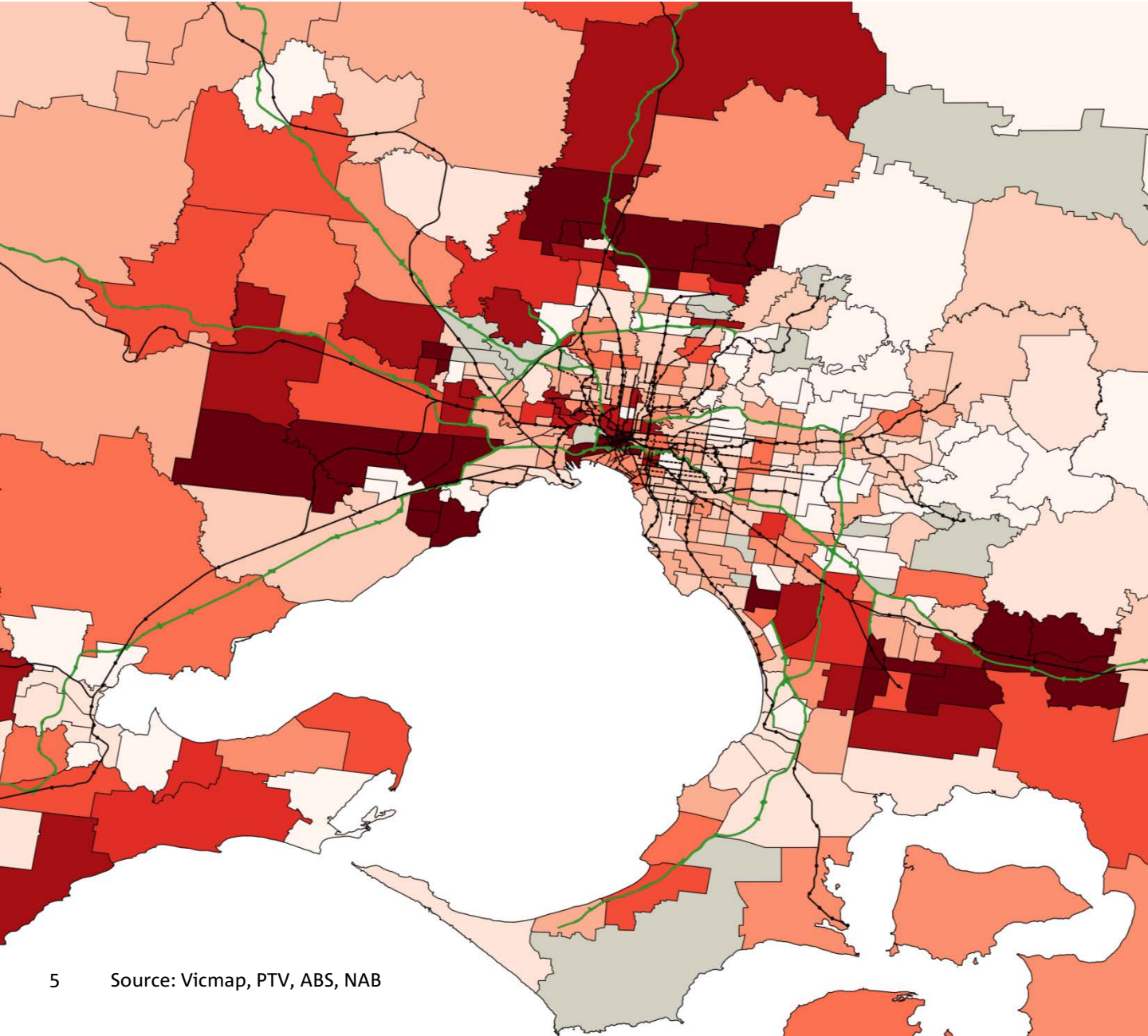
Legend

Transport

- Railway
- Tram
- Freeway

Population change (%)

- negative
- 0-5
- 5-10
- 10-15
- 15-20
- 20-25
- 25-30
- 30-35
- 35-40
- 40-45
- 45-50
- 50+



FUTURE MELBOURNE POPULATION GROWTH

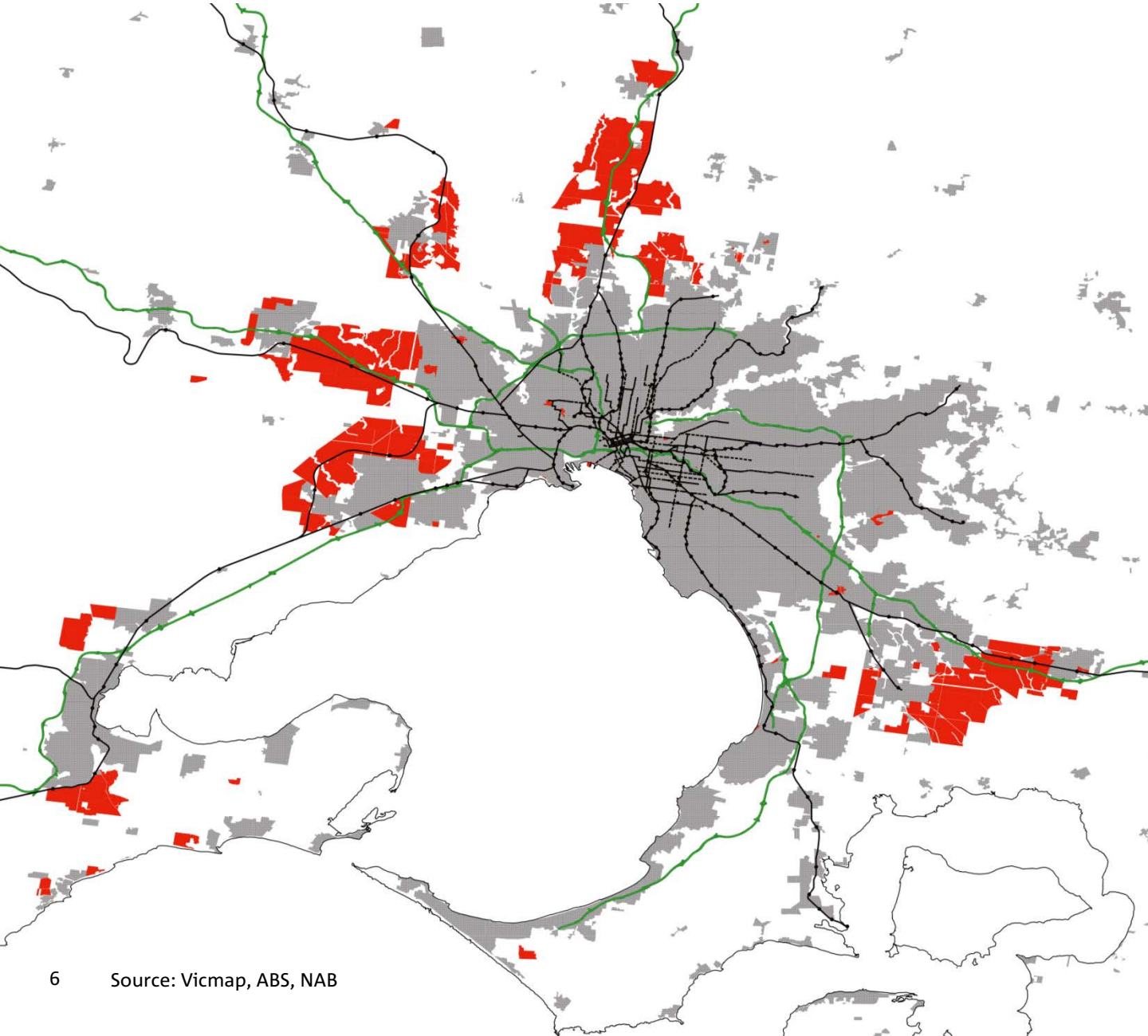
While the Victorian Government has a policy of urban consolidation, much of the growth in Victoria's population over the coming decades will be concentrated in greenfield estates in the outer north (from Craigieburn to Wallan and from Epping to Mernda and Wollert), the outer west (North of Werribee and from Caroline Springs to Melton) and the south east (towards Pakenham and east of Cranbourne). These new growth areas will require substantial new transport infrastructure.

Legend

- Transport
- Railway
- - -

 Tram
- Freeway
- Urban area
- Growth zones
- Existing urban area

MAJOR TRANSPORT CORRIDORS AND GROWTH AREAS



COMMITTED ROAD CONSTRUCTION

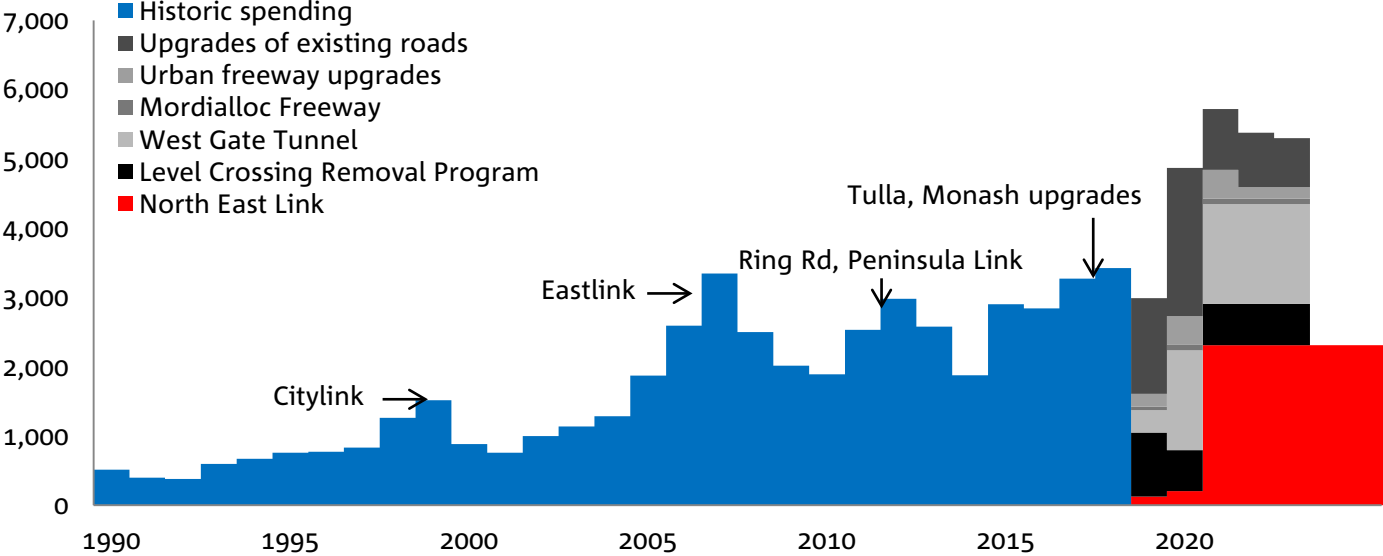
The 2018-19 Budget provides for a number of large road projects, including the \$6.7b West Gate Tunnel, initial funding for North East Link (which will eventually cost \$16.5b), Mordialloc Freeway, the ongoing \$6.8b Level Crossing Removal Program (of which around \$3.5b has already been spent), as well as a variety of metropolitan and regional freeway and road upgrades. Upgrades to the Tullamarine freeway and Western Ring Road are approaching completion and the Monash upgrade stage two will commence this year.

The chart below shows historic road construction spending (as reported by the ABS), followed by forecasts based on the 2018-19 Victorian Budget capital statement. It is important to note that the ABS data includes local government and private developer road construction for new estates. Further, our forecast values and phasings do not match the forward estimates. This is due to two factors:

- Many large projects are being built as PPPs, (such as the West Gate Tunnel) with private sector contributions during construction in addition to budgetary appropriations; and
- Annual phasings are not available for all projects, so we have taken a straight line allocation over the life of construction.

ANNUAL ROAD CONSTRUCTION SPENDING

\$ million nominal, actual and forecast



Source: Victorian Budget Papers, Australian Bureau of Statistics and NAB Group Economics

FUTURE ROAD OPTIONS

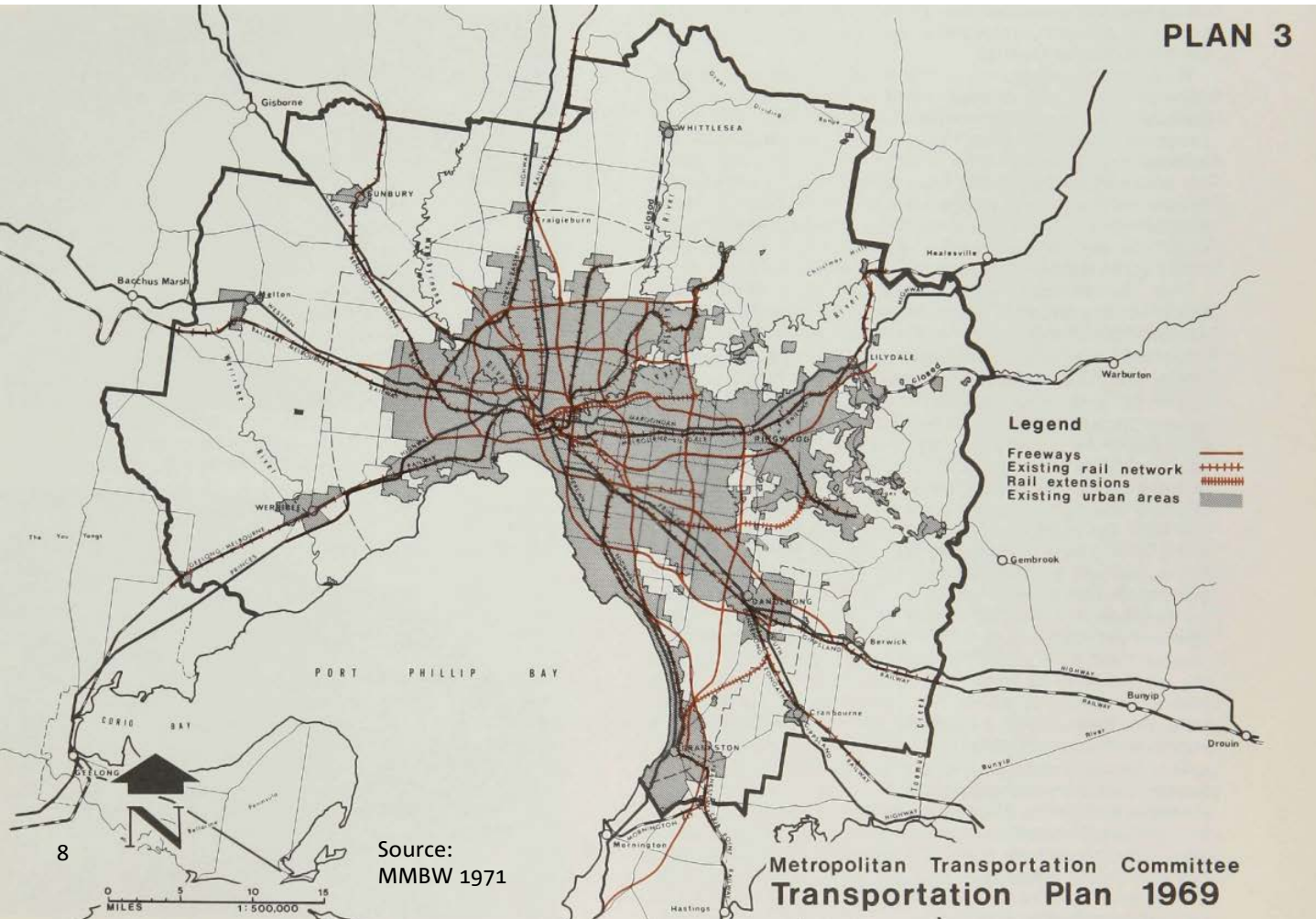
Beyond road construction committed in the budget, there are a considerable number of possible major road projects that have been proposed at one time or another.

Beginning with the 1954 MMBW planning scheme report – and ramped up considerably in the 1969 Transportation Plan – planners set about reserving and constructing an extensive urban freeway network for Melbourne. While a number of these proposed freeways were cancelled in the 1970s, most current proposals can trace their roots to 1969 or before. North East Link, East West Link (proposed by the Coalition but opposed by Labor) and the Mordialloc Freeway were all proposed in the 1969 plan.

Looking beyond projects proposed in the 1969 plan, the Outer Metropolitan Ring Road – E6 is a long term possible project and is already subject to a public acquisition overlay. The road would stretch from Manor, west of Werribee, north to Kalkallo and then head south to the Metropolitan Ring Road at Thomastown. This project includes the scope for a high speed rail line and is likely to cost several billion dollars.

Upgrades to existing roads is likely to feature also. The Coalition has committed to grade separating 55 road intersections in Melbourne and regional Victoria, mirroring the level crossing removal project but for solely road intersections.

1969 MELBOURNE TRANSPORTATION PLAN PROPOSED FREEWAY NETWORK



COMMITTED RAIL CONSTRUCTION

Victoria also has a very substantial amount of rail construction committed and/or underway.

The Metro Tunnel is the largest project underway, with 9km long tunnels and five new stations connecting to the Sunbury and Cranbourne/Pakenham lines. The project is underway at a cost of around \$11b and will be complete in the mid-2020s.

While we have included the Level Crossing Removal as a road project, it accrues benefits to rail users as well, largely through new stations and higher capacity in some instances .

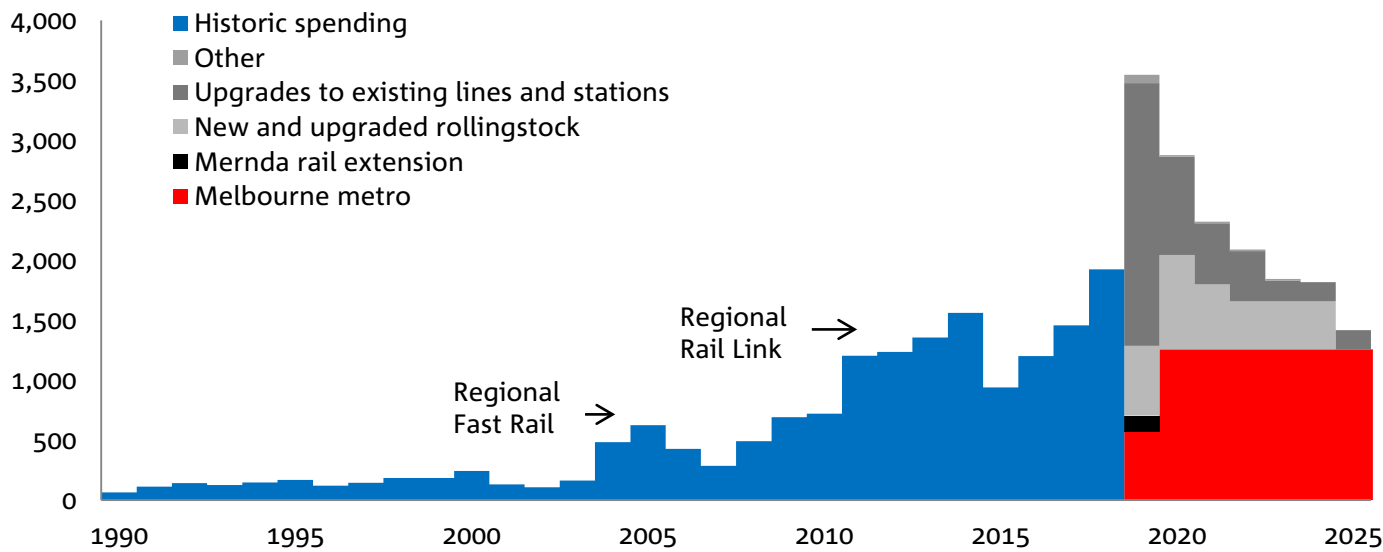
There are also a number of regional projects, including the \$1.75b Regional Rail Revival, to increase capacity on V/Line’s passenger network, and the \$440m Murray basin rail project.

The 2018-09 Commonwealth Budget provided \$5b for a Melbourne airport rail link subject to matched funding from Victoria. This has now been committed by Victoria, does not appear in the budget (the Victorian budget is released a week before the Commonwealth budget) and there is some disagreement about the preferred route. Given the entire Regional Rail Link – completed three years ago – cost less than \$4b, it is unclear how the proposed above-ground airport link via the Albion-Jacana alignment could cost \$10b.

The recently released plan for an extensive suburban rail loop (see overleaf) could cost over \$50b and it is possible that the government may seek to use these funds for stage 1 of the loop should it win the next state election.

ANNUAL RAIL CONSTRUCTION SPENDING

\$ million nominal, actual and forecast



Source: Victorian Budget Papers, Australian Bureau of Statistics and NAB Group Economics

FUTURE RAIL OPTIONS

With the state election due in November, there have already been several announcements from both major parties.

The ALP’s proposed 90km, \$50b+ long suburban rail loop – much of which will need to be tunnelled – represents by far the biggest single commitment to public transport in modern Victorian history.

At this stage, only \$300m has been committed for business case development, but it is envisaged that stage 1 – from Cheltenham to Doncaster – could begin construction by 2022.

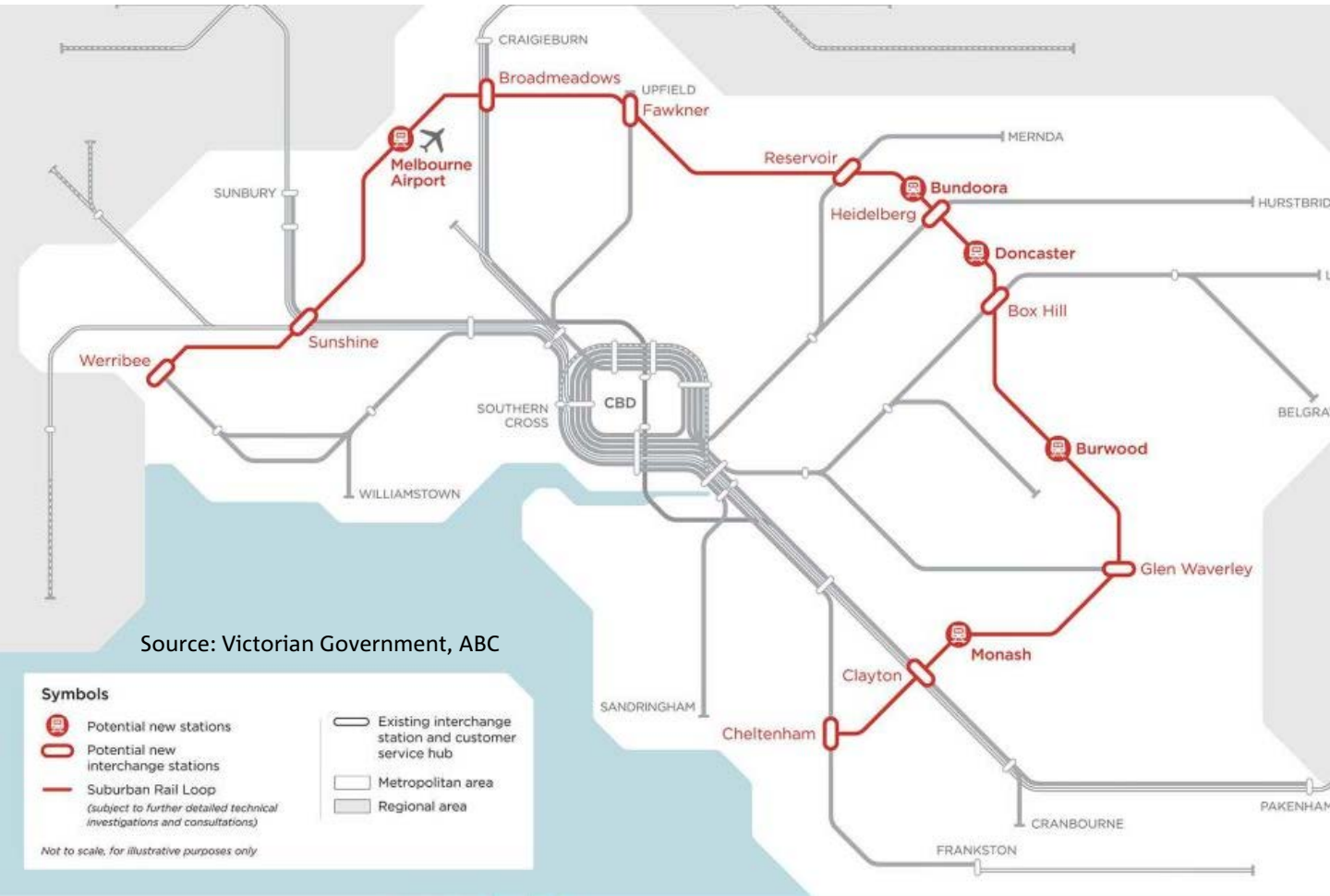
Other commitments by either the ALP or Coalition are largely focussed on shorter lines (Monash line – Coalition) or extensions and augmentations of the existing network,

such as Baxter and Clyde (Coalition) or Cranbourne duplication (ALP). The ALP has also promised to investigate a light rail line to Rowville.

Beyond this election cycle, Melbourne’s outward growth will necessitate extensions to the suburban system to Melton, Wallan and Clyde and further capacity augmentation works to allow the existing system to carry more trains.

A new underground line stretching from Newport, through Fishermans Bend and the CBD, Melbourne University and to Clifton Hill has been mooted in government planning documents and by various advocates. While the line is not currently funded or government policy, it is likely to attract further attention in coming years.

PROPOSED SUBURBAN RAIL LOOP



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