STATE ECONOMIC OVERVIEW

APRIL 2019

National Australia Bank

CONTENTS

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Photo **Mai Thai**

STATE ECONOMIC OVERVIEW

- The Australian economy slowed notably in the second half of 2018, with a pull-back in household spending and the beginnings of a relatively sharp fall in the residential dwelling construction cycle. Mining investment also continued to decline as the construction phase of the last large LNG projects wind down, contributing to weak economic indicators in mining regions such as WA and the Northern Territory.
- The NAB Monthly business survey and consumption indicators suggest that there has been little improvement in growth in the first quarter of 2019. Over the next couple of years we see economic growth supported by ongoing increases in public sector investment (both infrastructure and NDIS related), rising business investment, a near term lift in LNG exports, and a waning drag from falling mining investment. Against this, household consumption is expected to only grow modestly and a substantial fall in dwelling investment, alongside the ongoing cooling in the housing market, will detract from growth as the dwelling construction cycle turns down.
- Overall we expect somewhat below trend growth. This also means there is unlikely to be much further near-term improvement in the labour market, and in the out years the unemployment rate is likely to rise a little.
- The slowdown in activity has been evident across most of the states. The decline in business conditions seen in the NAB monthly business survey has been broad based across states and industries, although to varying degrees.

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			
	17-18f	18-19f	19-20f	20-21f	17-18f	18-19f	19-20f	20-21f
NSW	2.6	2.1	2.0	2.1	4.8	4.3	4.4	4.6
VIC	3.5	2.3	2.2	2.3	5.7	4.6	4.9	5.3
QLD	3.4	2.3	2.2	2.2	6.0	6.0	5.9	6.1
SA	2.0	1.3	2.2	1.9	5.8	5.6	5.4	5.6
WA	1.9	2.3	2.9	2.5	6.0	5.8	5.6	5.6
TAS	3.3	2.1	1.6	1.7	6.0	5.7	5.8	6.1
NT	1.7	2.2	3.5	2.2	4.2	4.7	4.4	4.4
ACT	4.0	2.7	2.9	2.9	3.9	3.4	3.5	3.6
Australia	**2.8**	**2.2**	**2.3**	**2.2**	**5.5**	**5.0**	**5.0**	**5.3**

Sources: ABS, NAB

- Economic growth in **NSW** has slowed, and business conditions have fallen over the last year, although they showed signs of stabilising in March. Business investment, public infrastructure and service exports are expected to be the key drivers of growth against a soft consumer sector and falling dwelling construction.
- The **Victorian** economy has been performing well, but momentum has slowed. House prices and building approvals have come off, retail spending is subdued, unemployment has risen a little and business conditions have weakened. On the other hand, we should see strong infrastructure spending for years to come.
- **Queensland's** economy has been losing momentum with State Final Demand below the national average. Confidence too has been declining. With consumption growth modest, service exports, government spending and parts of business investment will assume greater significance.
- Growth in **S.A.'s** economy has decelerated. While business investment indicators are still reasonable, consumption growth has softened. Dwelling and public investment have been strong but there are signs activity may be close to its peak. The slowdown is starting to spill over into the labour market.
- Economic conditions in **W.A.** deteriorated over much of 2018 and into 2019. This partly relates to a renewed decline in (mining) business investment, although this should stabilise soon. Consumption growth was also very weak and housing remains under pressure. Export growth should support state GSP growth.
- The **Tasmanian** economy has continued to perform relatively well although growth has eased a little over the past year. Strong population growth has supported house prices and is being met with ongoing infrastructure investment in the state. While labour market conditions have weakened slightly Tasmania has consistently outperformed in the NAB business survey.
- The **NT** is struggling to adjust to the end of the mining construction boom with large falls in business investment and even consumption declining. LNG exports will likely keep measured state economic growth up this year but this may disguise underlying weakness.
- The **ACT** has been one of the better performing regions in recent years, but has lost some momentum more recently. The ACT's unemployment rate of 3.5% is the lowest of any state/territory.

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DETERIORATION IN CONDITIONS IN MOST STATES, WITH CURRENT MOMENTUM NEGATIVE

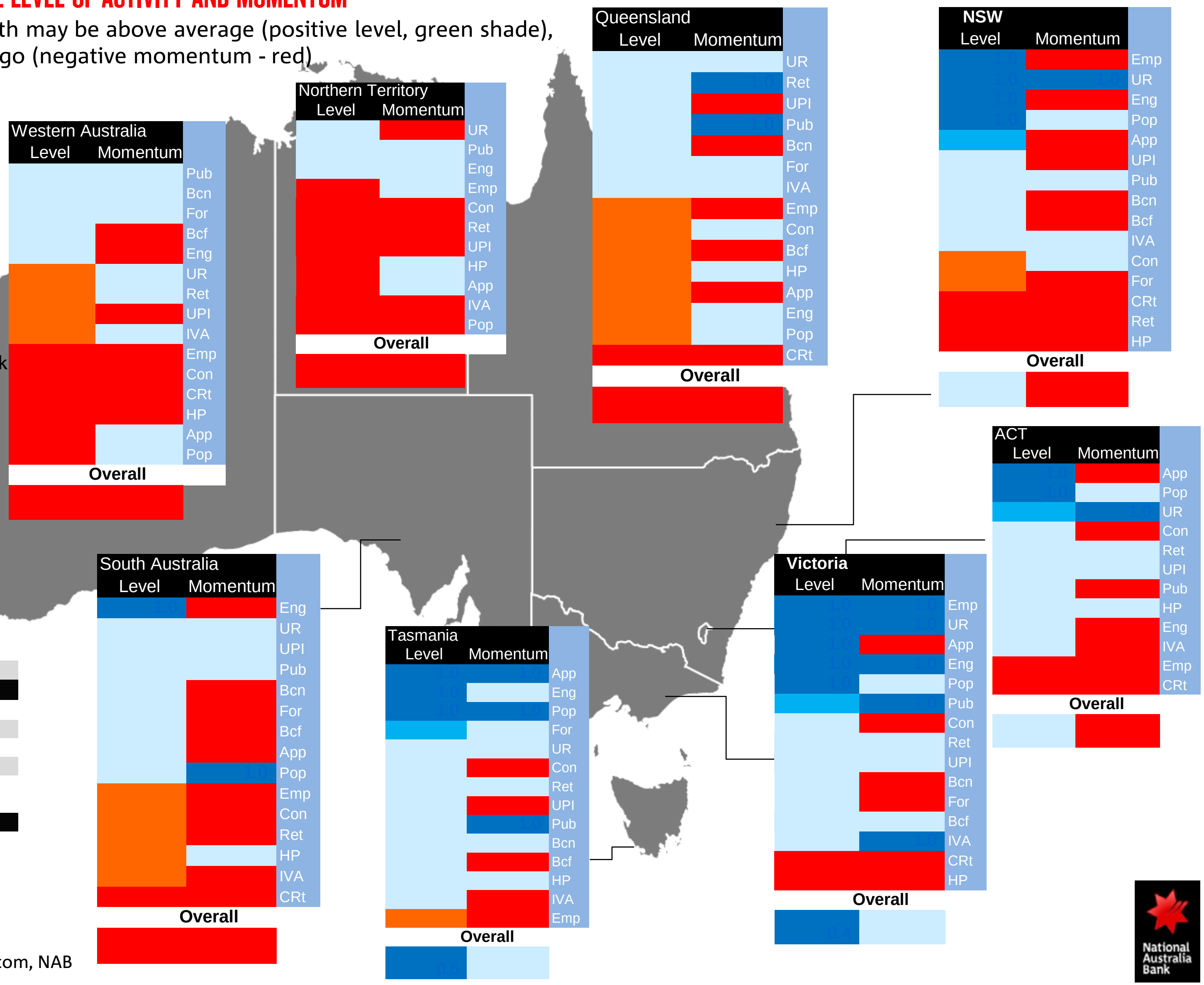
Victoria and Tasmania have held up best

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 blue)	well above average
(light blue)	modestly above average
(pale blue)	around average
(orange)	modestly below average
(red)	well below average

	Momentum
(dark blue)	well above 12mths ago
(pale blue)	around the same as 12 mths ago
(red)	well below 12mths ago

Sources: ABS, CoreLogic, Simplemaps.com, NAB

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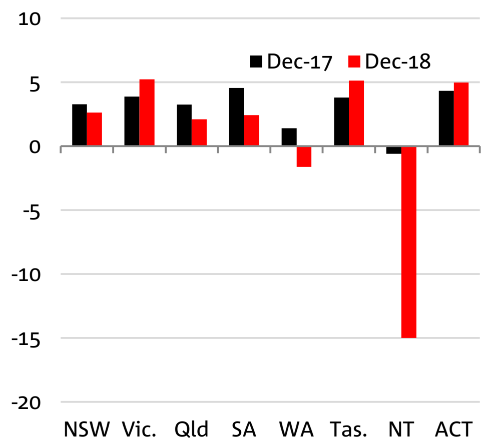
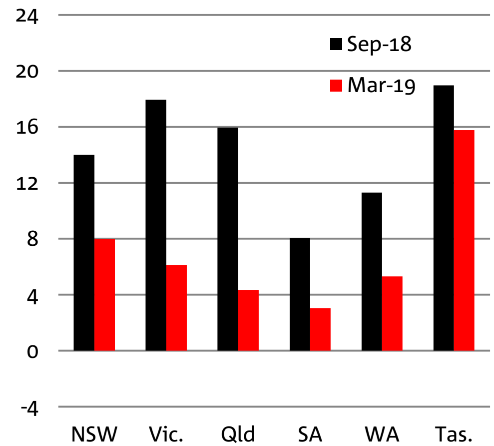
STATE DEMAND, INVESTMENT, CONSUMPTION AND EXPORTS

Household sector weakness evident, investment still ok (outside mining), while agri. facing easing prices & needs rain

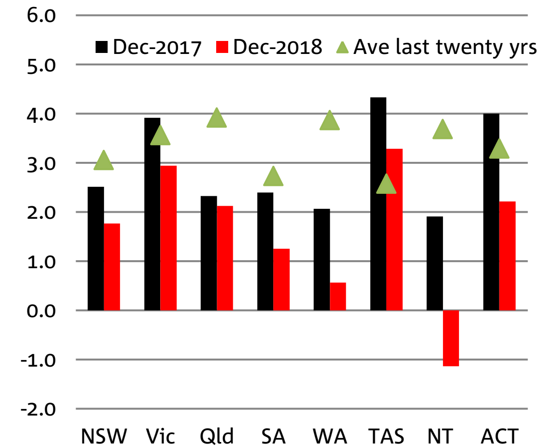
State final demand growth weakest in mining regions, mixed elsewhere
SFD, s.a., chain-volume, y/y%



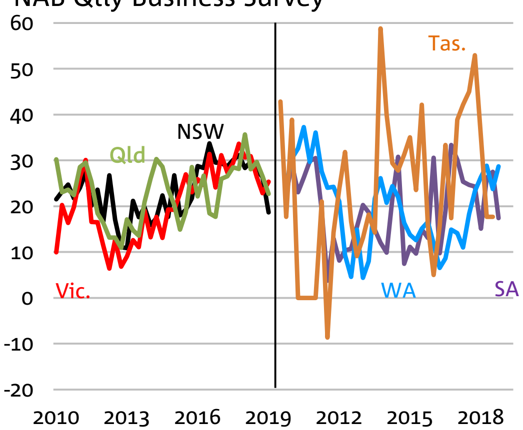
Broad based slowing in business conditions over the last six months
NAB Monthly Business Survey, trend conditions



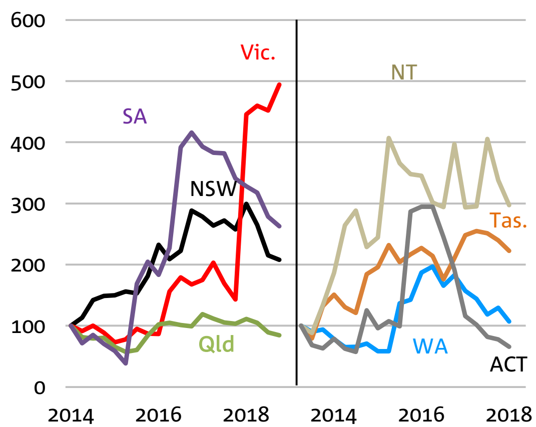
Broad based weakening in consumption growth in 2018
Household consumption, chain vol., y/y%



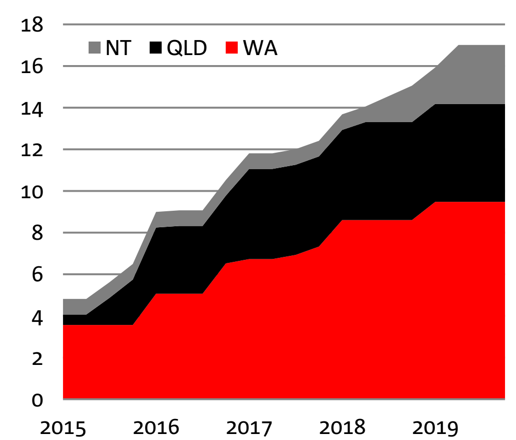
Investment intentions still reasonable but have come off a bit overall
12-month capex intentions, net balance, NAB Qtly Business Survey



Public infrastructure pipeline off peaks in most states/terr. but Vic. an exception
Public Engineering construction work yet to be done (March 2014 = 100)



LNG capacity coming on stream will boost exports
Adjusted LNG contracted volumes, MTPQ



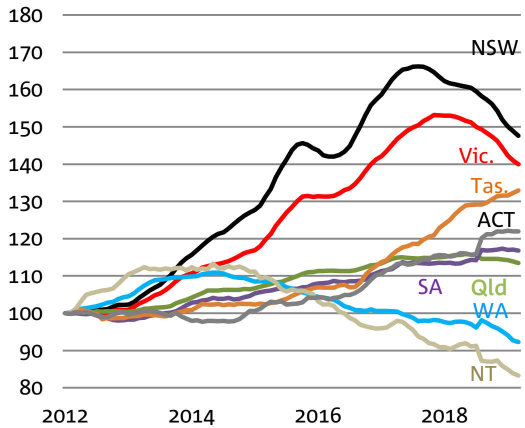
Sources: ABS, Bloomberg, NAB,

PROPERTY & LABOUR MARKETS, POPULATION AND AGRICULTURE

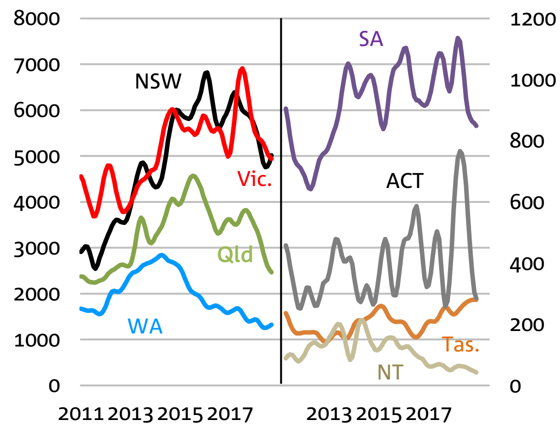
Housing sector downturn, population growth centred on the eastern states, agricultural prices easing

Dwelling prices remain under pressure – particularly NSW, Vic., WA & NT

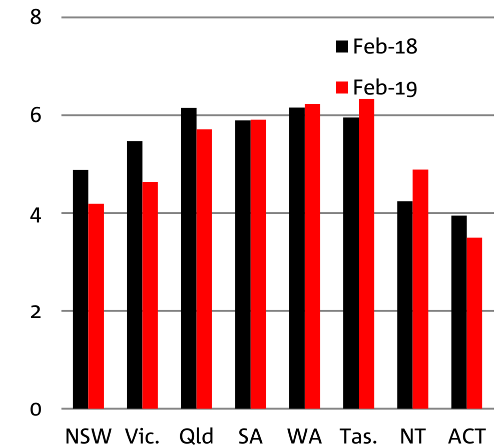
January 2012 = 100



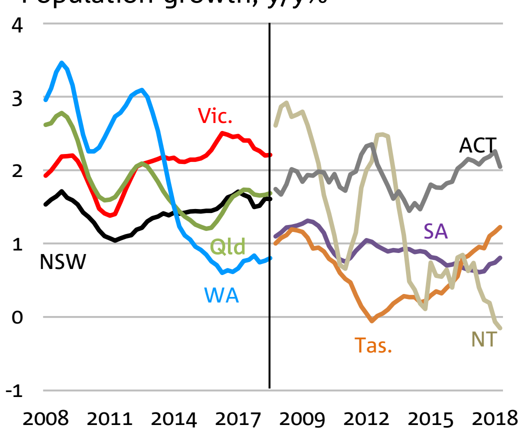
Dwelling approvals have also moderated across most states/territories
Number (trend)



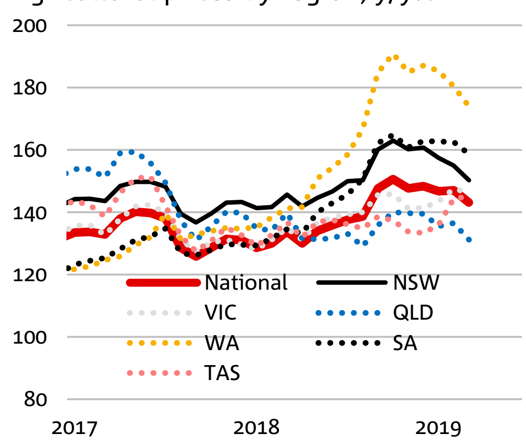
Fall in Australia's unemployment rate over last 12 months limited to the east coast
Unemployment rate, trend basis



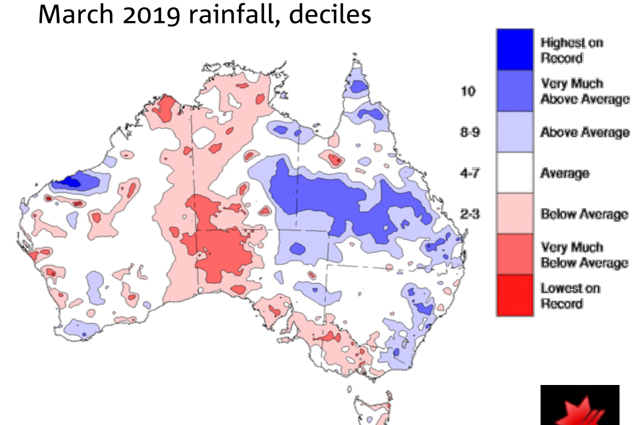
Population growth strongest in Eastern states
Population growth, y/y%



Grain prices up last year helping WA…but have come off in recent mths
Agricultural prices by region, y/y%



Some rainfall recently but more needed ahead of planting season
March 2019 rainfall, deciles



Sources: ABS, Bureau of Meteorology, ABARES, MLA, Australian Pork, Ausmarket, Bloomberg, Profarmer, CoreLogic, NAB

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CHALLENGES AND OPPORTUNITIES: BY STATE

	Opportunities	Challenges
NSW	Infrastructure activity Tourism, including conferences Education exports	Weak housing market – prices and construction Momentum in the economy has slipped
Victoria	Strong population growth High levels of infrastructure spending, likely to continue over coming years	Declining property market spill overs Congestion will get worse before it gets better
Queensland	Net interstate migration Defence/hi-tech manufacturing Tourism	Parts of construction weakening Fiscal position
South Australia	Leveraging Federal Defence investment Education exports growing strongly	Adjusting to manufacturing base decline Infrastructure pipeline falling
Western Australia	Mining sector trough in sight; housing correction well advanced (but national factors a headwind) Agriculture has been outperforming rest of Aust. (but subject to vagaries of weather)	Exposure to mining cycle – boom/bust Recent weak population growth
Tasmania	Strong population growth Healthy housing market Momentum in the tourism industry	Exposure to slowdown in the global economy Weakening labour market
Northern Territory	Mineral exploration rising Scope for stronger tourism contribution Proximity to growing Asia region	Managing end of the mining construction boom Population decline Repairing Territory Government's budget position
A.C.T.	Education exports Strong population growth	Reducing reliance on Federal govt. spending Housing boom won't last forever; infrastructure cycle may already be turning down

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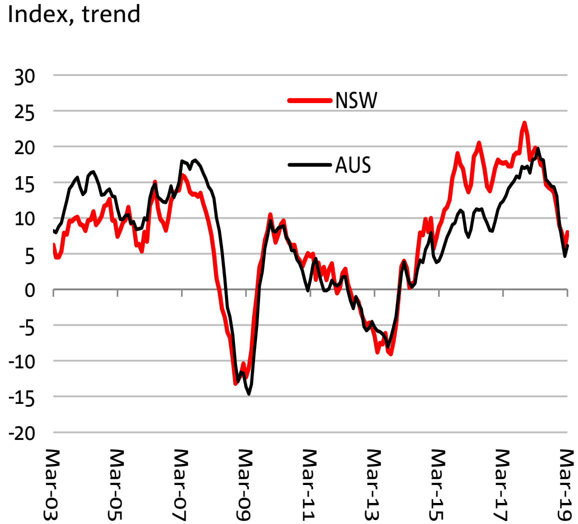
STATE REVIEWS

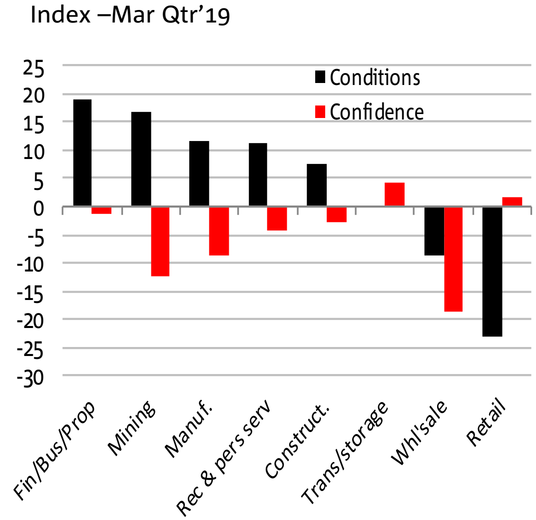
NEW SOUTH WALES

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

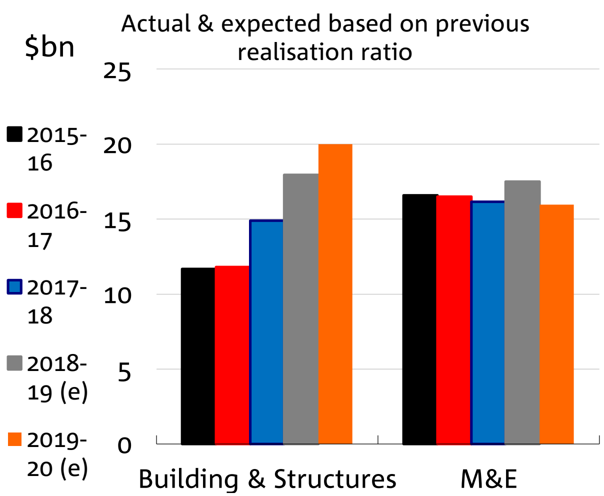
BUSINESS CONDITIONS DOWN FROM LAST YEAR BUT STABILISED IN MARCH



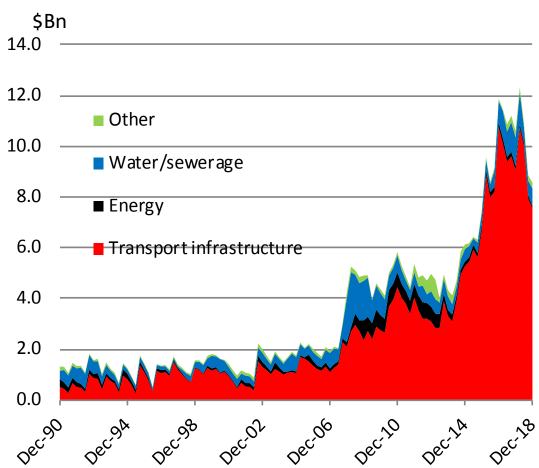
NSW INDUSTRY – CONFIDENCE & CONDITIONS



BUILDING INVESTMENT: SOLID OUTLOOK



VERY STRONG INFRASTRUCTURE PIPELINE



Sources: ABS; NAB Economics

Growth in NSW has slowed, and business conditions have fallen over the last year, although they showed signs of stabilising March. Business investment, public infrastructure and service exports are expected to be the key drivers of growth against a soft consumer sector and falling dwelling construction.

The NSW economy expanded by 2.6% yoy to December 2018 (using the **State Final Demand** measure), similar to the 2.5% yoy for Australia as a whole. For NSW, this was the slowest pace of expansion since June 2017,

Similarly, NAB's Monthly Business survey, indicates that **business conditions** have eased notably from their end 2017/early 2018 highs. However, there was some improvement in March, leaving conditions in trend terms a little above the national average.

Conditions in Q1 2019 were strongest in the Finance, business and property sector and mining; retail and wholesale were the weakest.

During 2017-18 NSW's **Gross State product** (which includes domestic & foreign trade and inventories) rose by 2.6%. In line with the projected slowdown in the national economy, we expect more modest growth in 2018/19 and 2019/20.

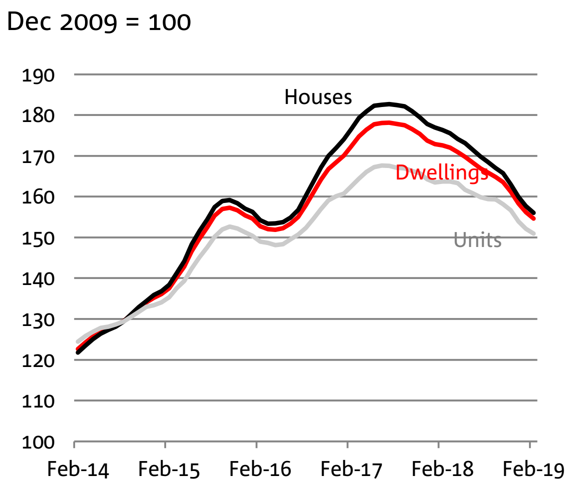
Consumption is being held back by low wage growth, and dwelling construction is expected to contract. However, business investment – particularly in non-residential buildings (offices, warehouses, health) – will stay robust, as will state spending on infrastructure, particularly transport programs. Key projects include capital works at Liverpool Hospital and Light rail projects in Sydney, Newcastle & Parramatta.

Another strong potential area for growth includes **service exports**, which grew 8% in 2018. **Tourism & education**, in particular, offer strong opportunities, with NSW attracting the largest number of international students.

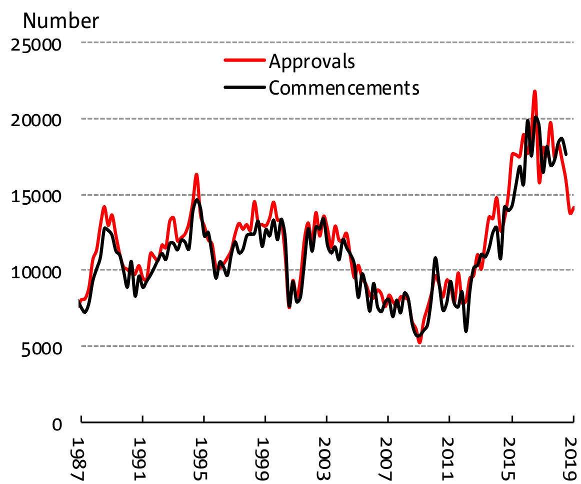
NEW SOUTH WALES (CONT)

Falls in house prices and dwelling construction accelerating, although cushioned somewhat by a strong labour market. Commercial property looking much better than Residential.

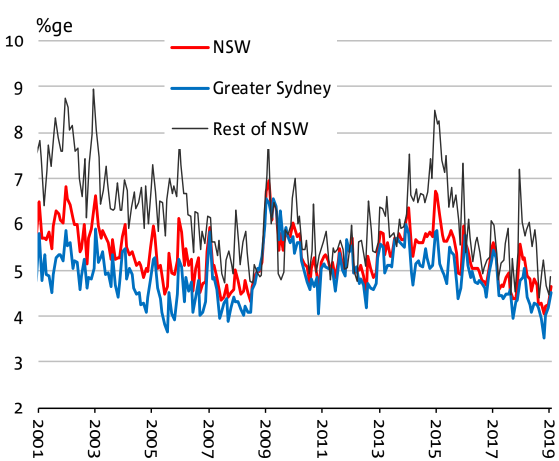
SYDNEY HOUSE PRICES CONTRACTING



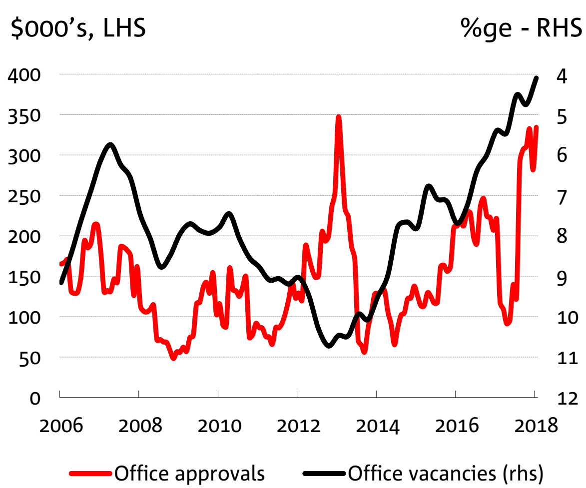
STEEP DROP IN HOUSEBUILDING APPROVALS



LOW UNEMPLOYMENT PROVIDES SUPPORT



OFFICE MARKET FUNDAMENTALS REMAIN SOUND



Sources: ABS;NSW Treasury, NAB Economics

The **dwelling construction** cycle is contracting sharply, and this is clearly visible in the housing approvals data. Approvals are particularly weak in the apartment sector. Commencements have also started trending lower.

Sydney **house prices** commenced falling in 2017, and were down by -10½% yoy to February 2019. 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. Our own forecasts indicate declines of around -8.4% for Sydney houses over 2019, weaker than the national average (-6.1%). The greater-than-average house price declines in NSW could manifest in softer consumption due to 'negative wealth effects'.

The **labour** market has remained robust, with employment growing by 3.4% over the year to February 2019. This pushed the unemployment rate down to 4.3% (from 4.8%) – against a backdrop of rising labour force participation (up 0.6% to 65.2%). Some of the regions with the lowest unemployment rates in NSW include parts of Sydney: Inner West, Northern Beaches and Eastern suburbs. This accords with some of the strong **sectors** for employment growth: business services, health, and finance. The strong labour market will help to attenuate headwinds emerging from a weak housing market.

The commercial property market, particularly **offices**, remains in a healthy state. This is reflected in tight office vacancy rates and a strong pipeline of new office construction activity. Leasing demand remains firm across technology, legal services and government, according to *Knight Frank*.

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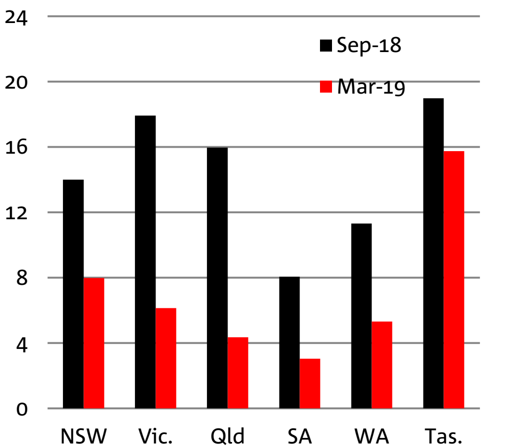
VICTORIA

Travelling quite well, but challenges emerging

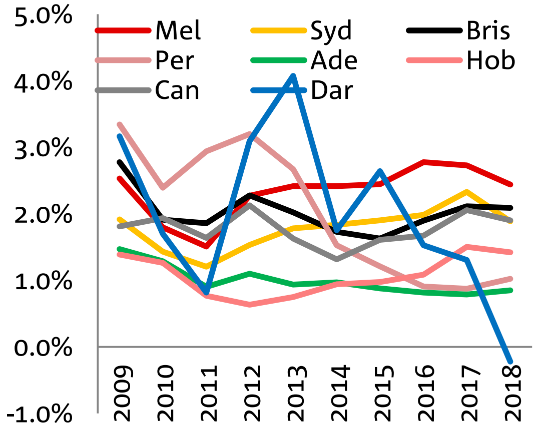
BUSINESS CONDITIONS HAVE WEAKENED

Monthly Business Survey trend conditions



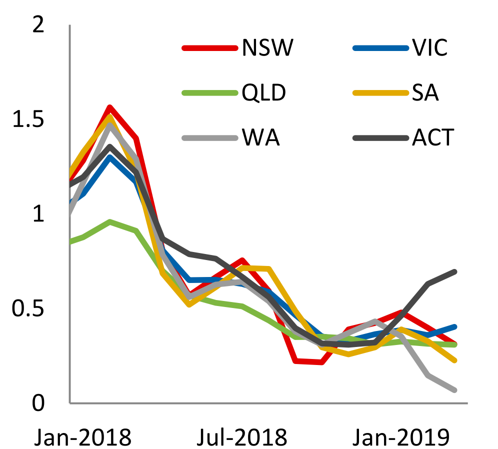
POPULATION GROWTH

Capital cities, annual % change



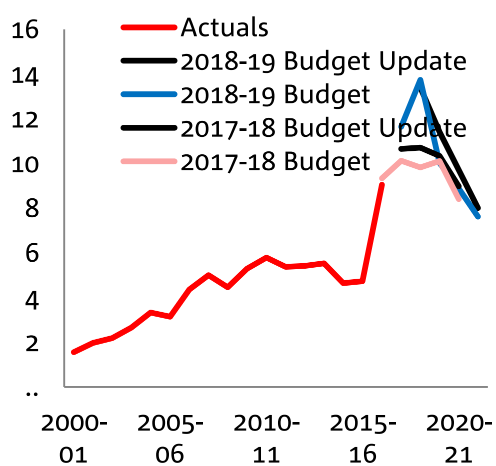
RETAIL SPENDING WEAKENING

NAB cashless retail, m/m, trend



VIC GOV INFRASTRUCTURE RAMPING UP

$ billion, 2018-19 budget update



Sources: ABS, Victorian Government, Datastream, NAB

The Victorian economy has been performing well, but since late 2018 momentum has slowed in a number of key areas. House prices and building approvals have come off, retail spending is subdued, unemployment has risen a little (albeit from very low levels) and the NAB Business Survey shows weakening business conditions. On the other hand, private sector wage growth is increasing and there is a very large pipeline of infrastructure investment, which will see strong infrastructure spending for years to come.

State final demand growth remains quite strong, up 0.6% q/q in the December quarter, following a rise of the same magnitude in the September quarter. Government and household spending were strong contributors to growth, and business investment in non-dwelling construction and machinery and equipment also contributed. On a y/y basis, state final demand was up 5.2% in the December quarter.

Melbourne remains **Australia's fastest growing city**, although the pace of growth has slowed a little since 2016. Melbourne grew 2.4% in 2017-18, compared to 1.9% growth in Sydney. Victorian Government projections point to a population in the order of 8 million by the middle of the century. While such projections are fraught, it is clear that a good deal more infrastructure will be needed to accommodate growth.

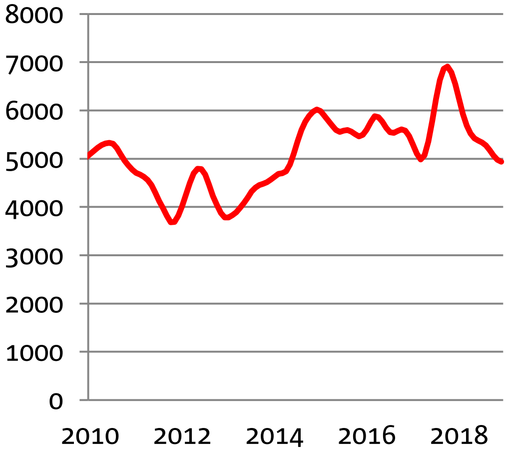
The pressure on existing **infrastructure** has necessitated considerable new government infrastructure spending. Gross Victorian Government infrastructure spending ramped up significantly, jumping from $4.7b in 2015-16 to a forecast $13.7b in the 2018-19 budget (excluding depreciation).

The **state election** last November saw the incumbent Labor government returned with a greatly increased majority. Considerable spending commitments were made during the campaign, including a suburban rail loop, which could cost upwards of $50b and take until 2050 to complete.

VICTORIA (CONT.)

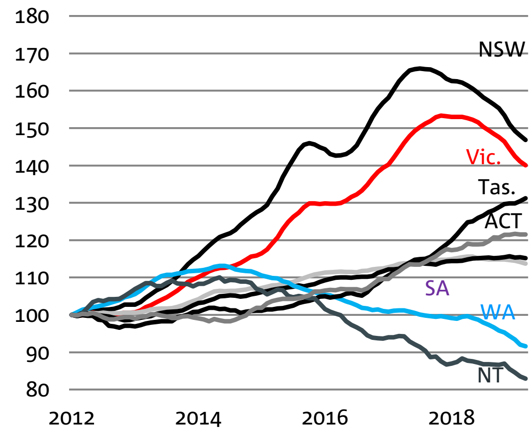
RESIDENTIAL BUILDING APPROVALS OFF

Value, monthly



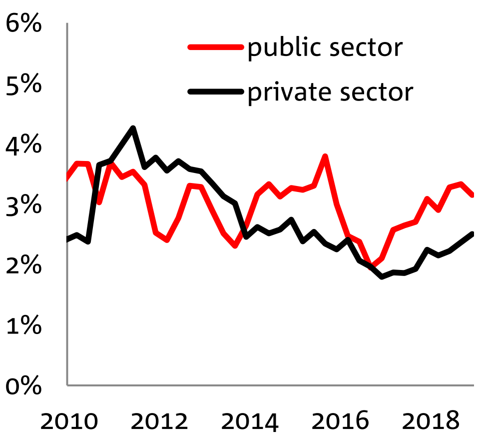
HOUSE PRICE FALL CONTINUING

Index, Jan 2012 = 100



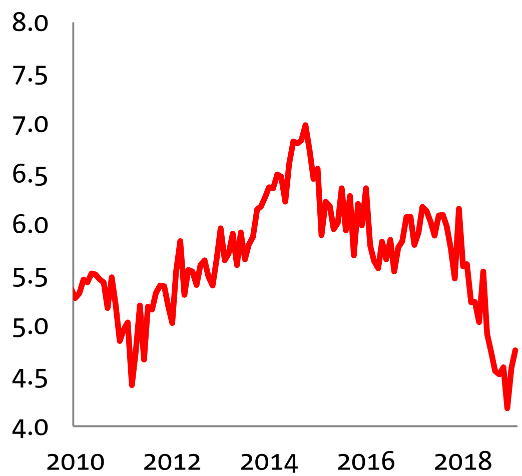
PUBLIC SECTOR DRIVING WAGE GROWTH

ABS WPI by sector y/y % change



UNEMPLOYMENT FALLING

Unemployment rate, seasonally adjusted



Sources: ABS, NAB

Due to the federal election, the 2019-20 **Victorian Budget** has been postponed from 30 April to 27 May 2019. In previous years, the budget had been buoyed by the boom in Melbourne's property market, with land transfer duty growing substantially. However, declining property values and just as importantly fewer property transactions are likely to put pressure on the budget in coming years. This weakness is coming at a time of increased infrastructure spending pressure on account of high population growth and a long standing infrastructure deficit.

Melbourne **house prices** saw a very strong run until early 2018 but this is well and truly over. Melbourne house prices are now down over 10% since their 2017 peak. Our view is that prices will decline further over the next year or so - led by further declines in Sydney and Melbourne. We now expect Sydney to decline by around 20% from peak to trough, while Melbourne is expected to fall around 15%.

Unemployment had been trending lower since late-2017 to late 2018. The unemployment rate fell from 6.2% in December 2017 to just 4.2% in December 2018 – the lowest rate since 2008. However, the January and February 2019 prints have been higher – 4.6% and 4.8% respectively. This remains low by historic standards and the series can be volatile, but we will be watching closely for any upward trend.

Wage growth has increasing, albeit from a low base and remains fairly subdued. While public sector wage growth has been the main driver, it has moderated a little recently while private sector growth has strengthened.

Consumer spending has been under pressure, reflecting subdued wage growth, high debt levels and wealth effects going into reverse with lower property prices. NAB's cashless retail spending data shows spending growth in all states trending lower over the last year. Unless wage growth picks up further, consumers are unlikely to increase discretionary spending much.

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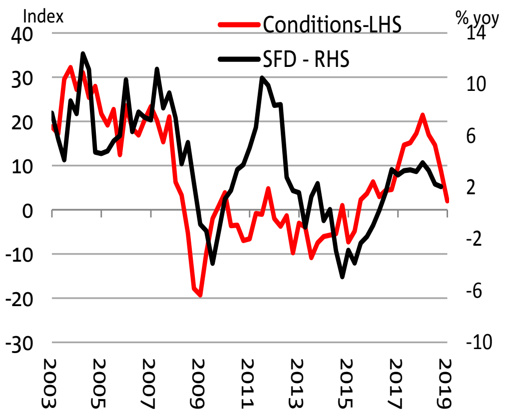
QUEENSLAND

Activity has been weakening along with confidence . Exports, Government spending and parts of business investment to drive growth.

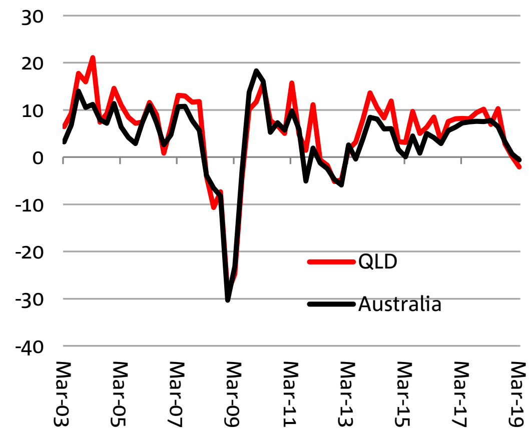
CONDITIONS TRACKING LOWER

State final Demand & Business conditions



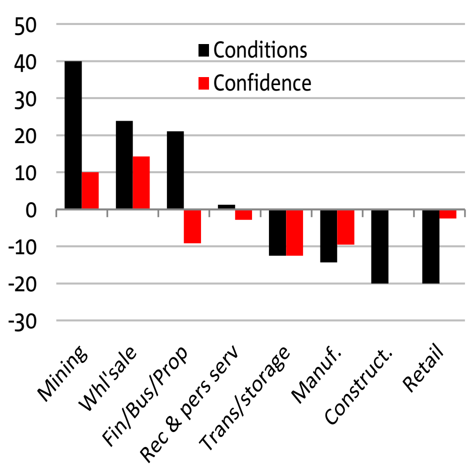
BUSINESS CONFIDENCE ON THE WANE

Index, Quarterly Business Survey



MINING STRONG BUT RETAIL WEAK

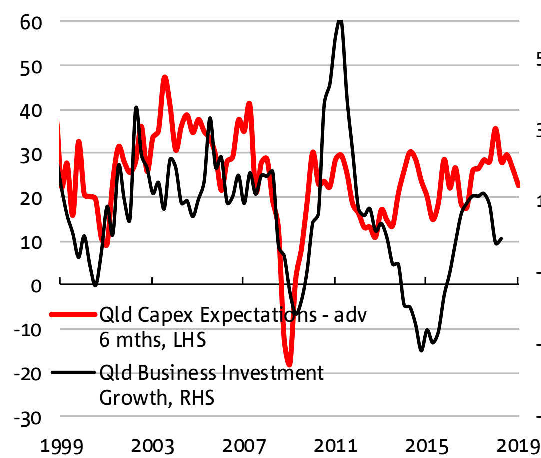
Net balance s.a. – Mar Qtr'19



Sources: ABS, Datastream, NAB

BUSINESS INVESTMENT – PROSPECTS REMAIN FIRM, DESPITE EXPECTED EASING

Capex index and yoy (%) growth



Queensland's economy has been losing momentum with State Final Demand below the national average. Confidence too has been declining. With consumption growth modest, service exports, government spending and parts of business investment will assume greater significance.

Queensland's **state final demand** rose by 2.1% yoy in December quarter 2018, below the national average, 2.5%. This is the weakest outcome since September 2016, and it broadly tracks NAB's **Business conditions** index – an activity measure, which too is trending down. NAB's B**usiness confidence** index has also revealed waning confidence among Queensland businesses.

By **sector**, conditions remained strongest in mining and finance, business and property services, and weakest in construction and retail. Mining confidence was somewhat modest, perhaps due to uncertainty about Chinese demand for coal.

Gross State Product – which includes inventories and trade (both international and inter-state) – grew by a solid 3.4% in 2017-18.

Further ahead, activity is likely to be modest in line with the national average. In terms of components of growth, consumption growth will be moderate and dwelling investment will likely remain weak as well. In terms of business investment, our survey indicates some easing, albeit at a high level. Machinery and equipment investment, parts of non-residential building (particularly factories & warehouses) and renewable energy investment will underpin growth. Conversely, the slowdown in new building approvals in 'Other Non-Residential' (e.g. social & community) indicates expected weakness in that segment. Queensland government spending on capital works such as Cross River Rail is expected to remain robust.

Service exports (namely tourism and education) will continue to provide opportunities,.

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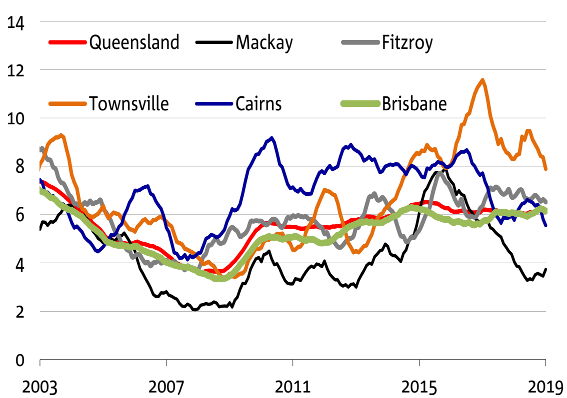
QUEENSLAND (CONT.)

Solid employment growth to cushion softness in the housing market and fiscal challenges.

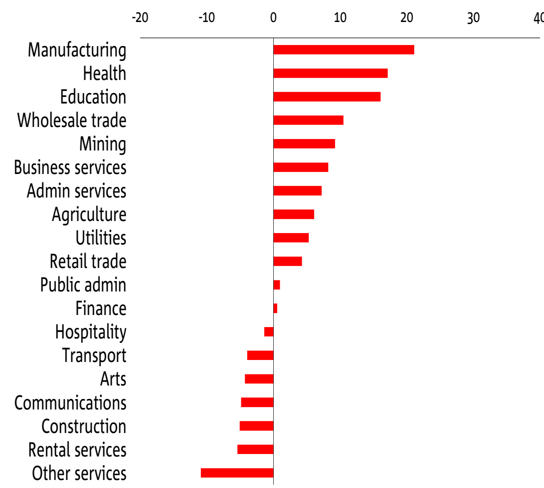
UNEMPLOYMENT DECLINING, PARTICULARLY IN MINING & TOURISM REGIONS

Unemployment rate, %, 12-mth moving avg.



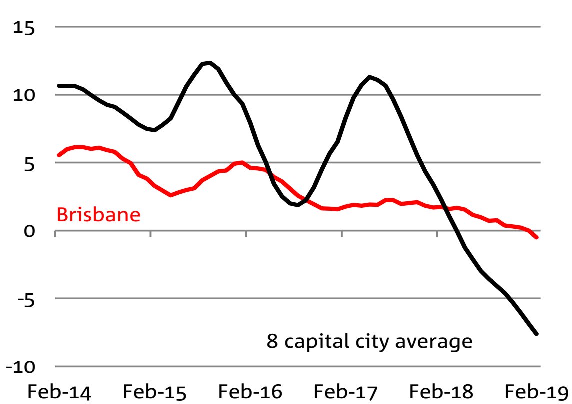
HEALTH, EDUCATION AMONG THE FASTEST GROWING SECTORS FOR JOBS

$%ge (1Year growth)



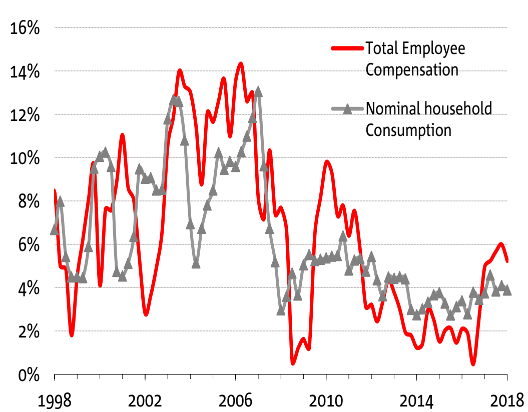
HOUSE PRICES – BETTER THAN NATIONAL AVG.

Dwelling prices, y/y%



CONSUMPTION GROWTH MODEST

y/y%



Sources: ABS, NAB; Core Logic; Queensland Treasury

Employment grew by a solid 2.0% during the year to February, 2019. This pushed the unemployment rate down slightly to a recent low of 5.4% (from 6.2% a year ago), although it was assisted somewhat by a lower labour force participation rate (65% vs 66.3%). Brisbane's unemployment rate was in line with the State average; Mackay had the lowest unemployment rate and benefitted from the mining sector. Tourism has provided some support for Townsville, while Fitzroy has been impacted by drought-like conditions. **By sector,** health and education are among the sectors which have experienced the strongest jobs growth. The services sector, in general, remains a key priority export sector for Queensland, with services exports rising 3.7% to $72.6bn in 2018, with significant contributions from tourism and education exports. Manufacturing also experienced very strong employment growth. Besides food and beverage manufacturing, Queensland is home to a number of aerospace and defence firms, including Rheinmetall Defence Australia. The **public sector** has recorded strong jobs growth over recent months as part of the State government's spending priorities.

In line with broad national trends, the **housing market** in Queensland has lost momentum. However, conditions in Queensland are better than the national average. That said, NAB Economics is forecasting a 1.8% outcome for Brisbane house prices in 2019. By contrast, house prices are expected to decline nationally by 6.1%. The negative 'wealth effect' from the housing market is expected to be comparatively lower in Queensland. When combined with steady income growth, the impact on consumption will likely be muted.

One potential area of concern is the State's **fiscal position**. Ratings agency Moody's has indicated the State's spending plans and debt levels could 'challenge Queensland's credit profile'.

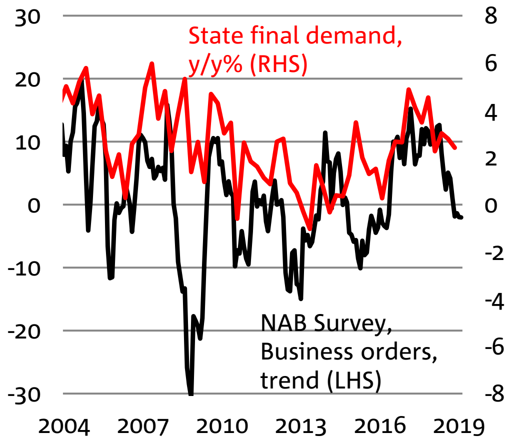
National Australia Bank

SOUTH AUSTRALIA

Growth slow down over 2018 looks to have continued into early 2019 and being reflected in a softer labour market

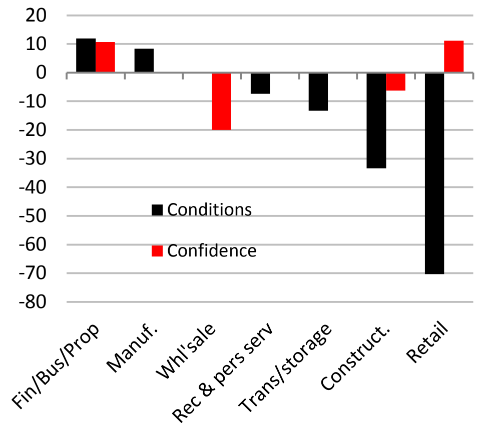
GROWTH SLOWDOWN

State final Demand & NAB Business survey



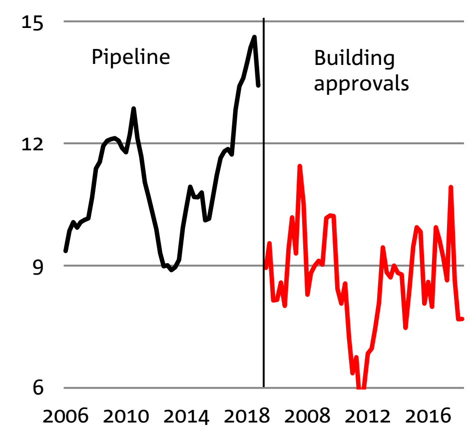
INDUSTRY CONDITIONS – Q1 2019

NAB Quarterly business survey – Conditions & confidence by industry



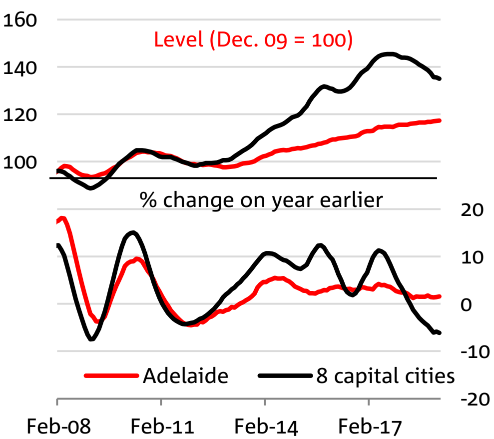
DWELLING PIPELINE HIGH BUT SET TO FALL

Pipeline* and building approvals – dwellings ('000s)



HOUSE PRICES LEVELLING OFF

Core Logic dwelling Prices



Sources: ABS, Core Logic, NAB. * Pipeline = dwellings under construction & approved but not yet commenced

Growth decelerated in 2018 and this trend appears to have carried over into early 2019. Consumption growth softened over the year, as did business investment although leading indicators remain reasonable. Dwelling and public investment have been strong but there are signs activity may be close to its peak. The slowdown in growth is starting to spill over into the labour market where indicators have softened.

After a strong year in 2017, **economic growth** decelerated in 2018, with state final demand through the year to Q4 2018 of 2.4% y/y, almost half the 2017 pace (4.5%). There was a notable slowing in consumption growth, and underlying business investment and government consumption also moderated. However, dwelling and public investment strengthened.

NAB's monthly Business Survey suggests that the slowdown has further to go. Trend **business conditions** are well off their 2018 highs and it is a similar story for the forward looking orders index.

By **industry**, business conditions remain positive in Finance, business & property services, as well as manufacturing, but are weak across all other sectors. As is the case nationally, retail is the weakest sector, although retailers remain relatively optimistic despite this.

One bright note was continued strength in **dwelling investment**, which rose 7.3% y/y in Q4 2018. However, it was basically flat over the second half of the year, and while the pipeline of work is very high, dwelling approvals have fallen significantly since mid-2018, suggesting that dwelling investment growth is set to ease. As is the case across the states, **dwelling price** growth has eased, and was only 0.8% y/y in March (with a slight decline in recent monthly data). Having avoided a large run up in prices, the slowdown has been much more modest than the national average. We expect only a very modest increase in prices over 2019 and 2020.

Government capital investment should remain at solid levels given a very large pipeline of work. However, the pipeline has been falling and the state government's latest infrastructure projections point to spending staying at a high level but down from its 2018-19 peak. That said, Federal Government defence spending should provide support to SA industry for an extended time.

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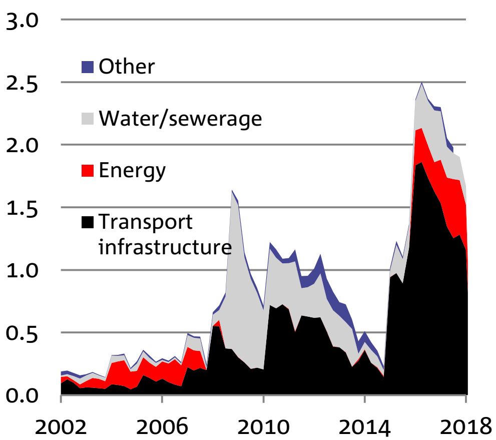
SOUTH AUSTRALIA (CONT.)

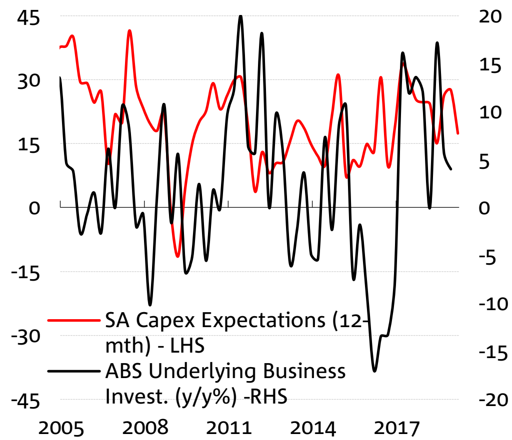
PUBLIC INV. SPENDING HAS PEAKED

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



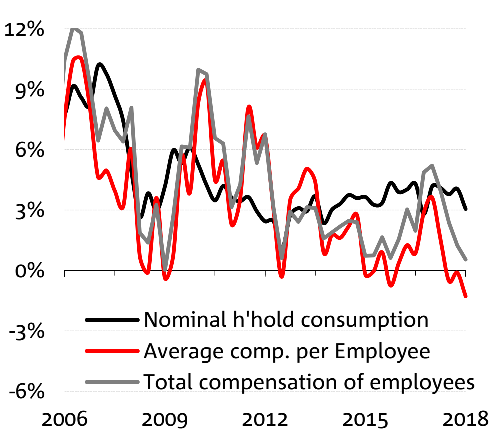
BUSINESS INVESTMENT SOLID

NAB survey expectations & ABS business investment



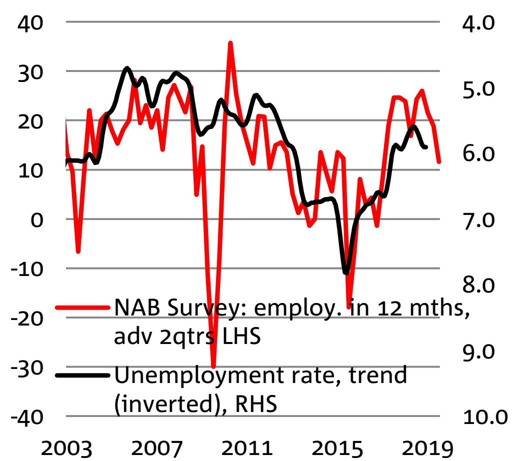
WEAK WAGES CONSTRAINS CONSUMPTION

Consumption & household income (y/y%)



LABOUR MKT SOFTENING

Unemployment rate & NAB 12mth employment expectation



Sources: ABS, Core Logic, NAB Economics

Signs for **business investment** are mixed but are reasonable overall. Underlying business investment growth slowed but remained solid growing by 4.0% y/y in Q4 2018. Both NAB Quarterly Business Survey 12 month capex intentions and ABS capex survey point to solid growth over the next year or two. However, **commercial property** market sentiment in SA/NT is very weak, particularly in the retail and office segments, and respondents to our Commercial Property Survey expect it to remain weak over the next two years. The Adelaide office vacancy rate remains high but has declined over the last year, although progress stalled at the end of 2018.

As with rest of Australia, consumer activity is constraining growth. Real household **consumption** growth slowed to only 1.3% y/y by the end of 2018, its weakest growth since 2014. Wage growth remains soft, constraining growth in household incomes, and consumer sentiment is far from positive. NAB's Consumer Anxiety Index has increased significantly since 2018 Q1, with the deterioration in Q4 due to concerns over job security, retirement funding and the cost of living.

Good and services **export volumes** declined over the course of 2018, a noticeable change from the double digit growth seen in 2018. While a breakdown of the volume data are not available, DFAT data for the 2017-18 year (on a value basis) provide some clues – in 2017-18, meat, vegetable and (not surprisingly given factory closures) motor vehicle exports declined. Winter crop production fell in 2017-18 and ABARES estimates a further fall in 2018-19. **Service exports** are dominated by education and tourism where signs are mixed. International student enrolments grew at a similar pace in 2018 as in 2017 (5-6%) but growth in the number of international visitor arrivals to South Australia slowed in 2018.

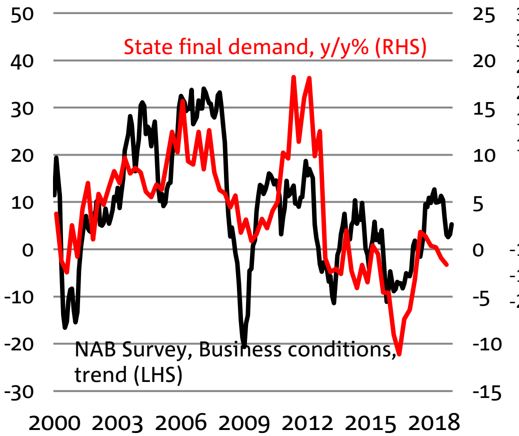
Labour market indicators are mixed, but overall point to some softening in conditions. ABS trend employment growth has slowed markedly since mid-2018 but the Monthly NAB business survey measure suggests a more moderate slowdown. Businesses are indicating that it is difficult to find suitable labour and the February unemployment rate (trend basis) was the same as a year ago at 5.9%. However, it is up a little from its mid-2018 level and according to the Q1 2019 NAB Quarterly Business Survey, 12 month employment intentions have eased, adding to the concern that slowdown in growth will increasingly spill over into the labour market.

WESTERN AUSTRALIA

Despite commodity prices holding up, growth has decelerated

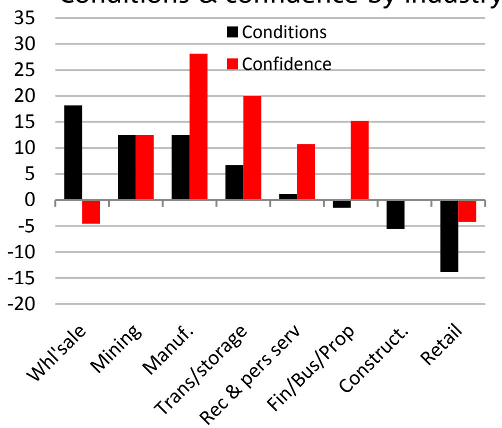
RECOVERY HAS STALLED

State final Demand & Business conditions



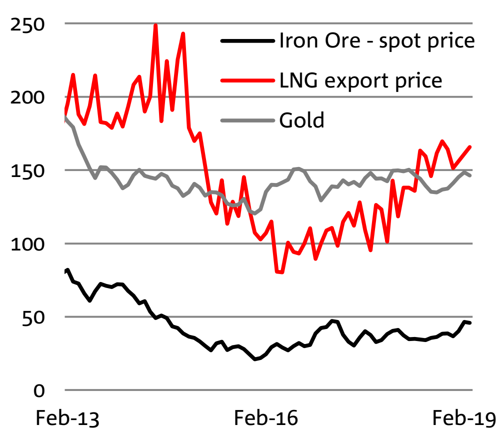
INDUSTRY CONDITIONS – Q1 2019

NAB Quarterly business survey – Conditions & confidence by industry



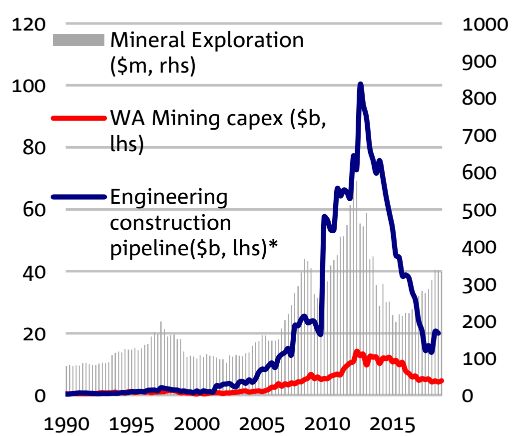
SLOWDOWN DESPITE COMM. PRICES

Commodity prices, Jan. 2008 = 100



MINING CAPEX CLOSE TO THE TROUGH

Mining investment indicators & engineering construction



Sources: ABS, Refinitiv, NAB. * W.A. and N.T. as data for W.A. alone are not available.

Economic conditions in W.A. deteriorated over much of 2018 and into 2019, despite commodity prices holding up and favourable agricultural conditions. This partly relates to a renewed decline in (mining) business investment, although there are indications this should stabilise soon. Consumption growth was also very weak and the housing sector remains under pressure. Export growth should support state GSP growth.

The recovery in **state final demand (SFD) growth** between late 2016 and end 2017 unwound over the course of 2018. SFD declined by 1.6% y/y in Q4 2018. This reflected a re-appearance of weakness in underlying business investment (-12% y/y), and noticeably slower growth in household consumption and public demand. Export volumes also increased over 2018, suggesting that Gross State Product (GSP) is holding up a little better, and this should continue to be a support to the economy.

NAB's monthly Business Survey also indicates that **business conditions** started easing in mid-to-late 2018., although trend conditions still remain above the average level seen over the last 3-4 years. Forward looking indicators have also come down, including orders and are slightly below their historical average. As with the rest of the country, conditions are weakest in the retail sector.

The slippage in conditions is despite **commodity prices** remaining reasonably supportive. Iron ore and gold prices early in 2019 were at the high end of the range experienced since 2016/2017. That said, we do expect to see iron ore prices ease over the next two years, and LNG prices are likely to fall this year given their link to oil prices.

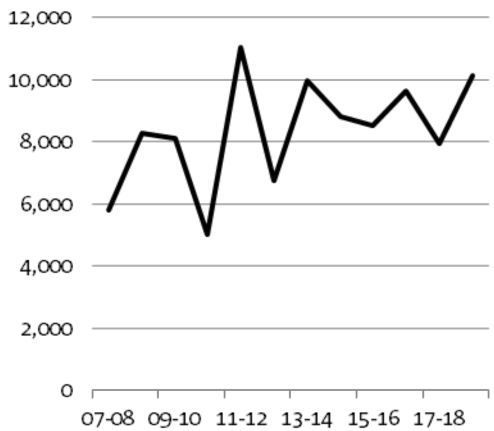
The renewed weakness in **business investment** in 2018 appears to be related to the completion of mining projects. However, the fall in mining investment appears close to reaching its end –mineral exploration in W.A. has been rising and the latest ABS capex survey shows an improvement in mining investment expectations. Some new projects have been announced and a higher level of sustaining capex will be required following the large expansion in capacity over recent years. **Public investment** in recent years did not ramped up to the same degree as in the rest of Australia as state government revenues were hard hit by the resources downturn. State government predictions do point to a pick up in spending in 2018-19 before moderating in subsequent years.

National Australia Bank

WESTERN AUSTRALIA (CONT.)

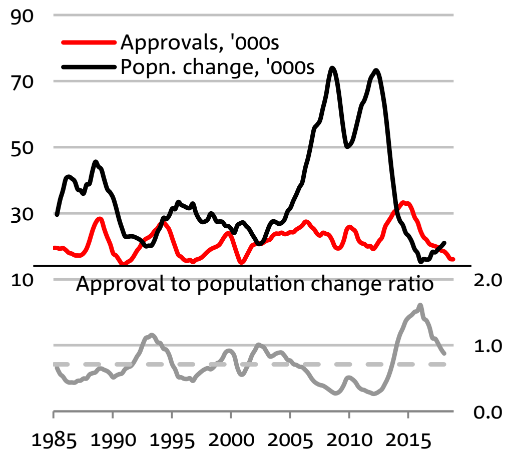
AGRI. HAS DONE WELL...BUT DRY START TO 2019

Wheat production, kt



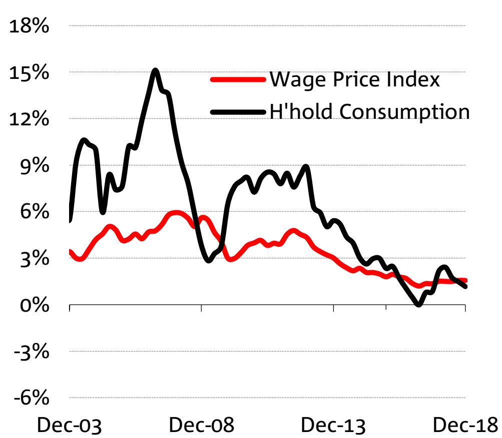
HOUSING MKT STILL UNDER STRAIN

Approvals & population change (4 quarter rolling sum)



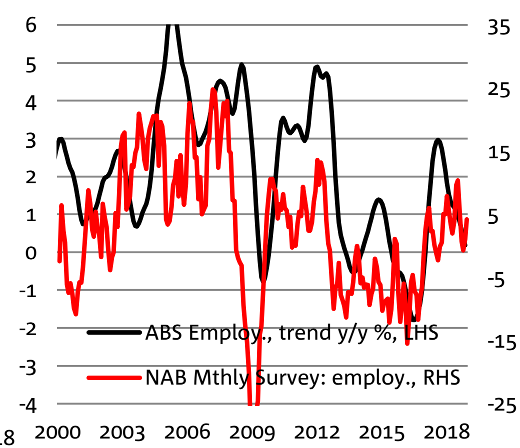
CONSUMPTION & INCOME GROWTH WEAK

Nominal consumption and wage growth (y/y%)



MIXED LABOUR INDICATORS

ABS employment and NAB Monthly Business Survey employment index



Sources: ABS, ABARES, NAB

Agriculture has benefited from a combination of good growing conditions and higher prices. Domestic grains prices in particular have reached high levels due to the on-going drought in large parts of Eastern Australia. ABARES estimates both wheat and barley production lifted in 2018-19 to their second highest and highest levels over the last ten years respectively. That said, conditions early in 2019 have been dry so what transpires in 2019-20 is at the mercy of the weather.

The sustained correction in the **housing sector** activity and prices has continued into 2019. While the state accounts residential investment measure has been broadly stable since early 2017, building approvals continue to fall pointing to lower investment in the future, a trend which will be reinforced by continuing falls in house prices. However, the ratio of building approvals to population change is now in line with historic norms. The vacancy rate offers an alternative read on supply/demand imbalances and it has fallen to its lowest level since 2013, offering the prospect of improved conditions down the track.

Perth dwelling prices have been trending down since early 2014. Prices did stabilise in early 2018, but this proved to be short lived and if anything the falls in prices gathered speed early in 2019. This recent pattern matches the slowdown in broader economic conditions in W.A., but with prices sluggish or falling across all states national forces are at play too. These include tighter credit conditions and reduced foreign demand. We expect some further (but more modest) falls in prices over 2019 (and in 2020 for units).

Household **consumption** growth softened in 2018, growing by just 0.6% y/y in Q4 2018, the second lowest growth rate recorded since the GFC. As with the rest of Australia, weak wage growth is a factor. Indeed W.A. has the lowest wage growth of any state or territory. Consumer caution and weak population growth add to the headwinds. NAB's Consumer Anxiety Index for W.A. has risen since Q1 2018. Falling house prices will only reinforce the trend of sluggish consumption growth.

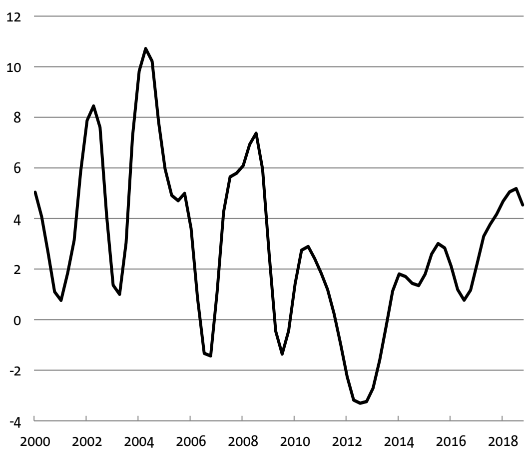
The impact of weak wage growth on consumer incomes was compounded by a sharp slowdown in **employment growth from** 3.0% y/y (trend basis) in late 2017 to almost flat by February 2019 (0.2% y/y). Despite this the (trend) unemployment rate has stayed stable over the last 12 months at just a bit above 6%. NAB's business survey indicators suggest the official statistics might have exaggerated the swings in employment growth and the unemployment rate.

TASMANIA

A solid performance and good outlook

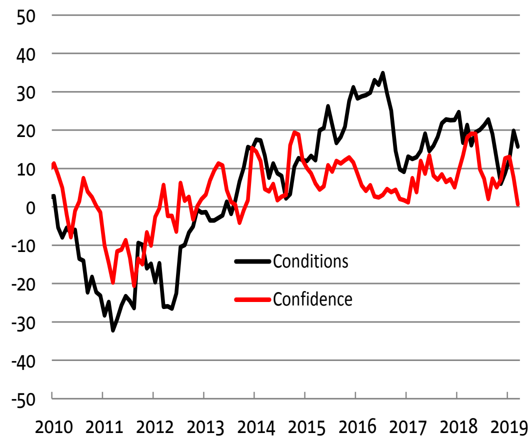
STRONG GROWTH

State final demand (y/y%)



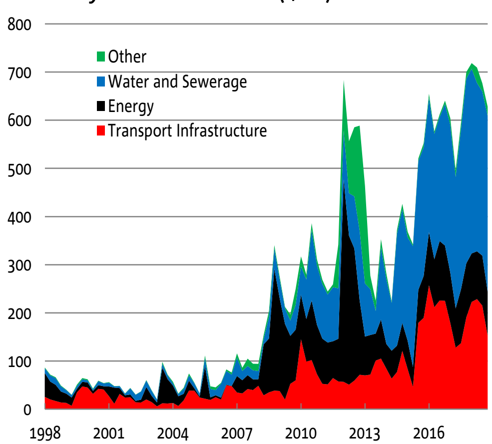
BUSINESS CONDITIONS AND CONFIDENCE

Net balance %, trend. March 2018



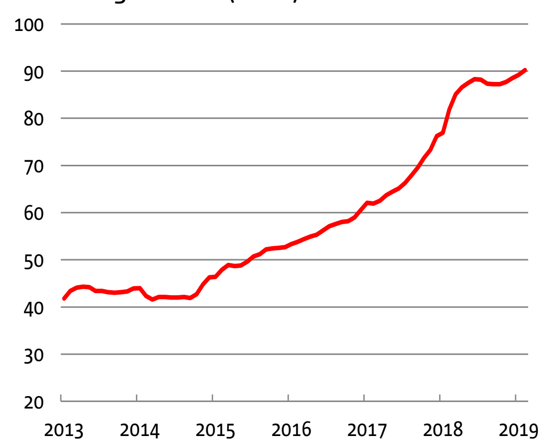
PUBLIC INFRASTRUCTURE PIPELINE

Work-yet-to-be done ($m)



GROWING SHORT-TERM ARRIVALS

Rolling annual (000s)



Sources: ABS, Datastream, NAB

The Tasmanian economy has continued to perform relatively well – though growth has eased a little over the past year. Strong population growth has supported house prices and is being met with ongoing infrastructure investment in the state, which has further supported growth. Labour market conditions have weakened slightly with employment growth slowing substantially and the unemployment rate reversing some of its prior gains. NAB business survey business conditions have held up relatively well in the state.

State Final demand growth continues to grow strongly in year-ended terms in Tasmania, though it has eased slightly in recent quarters. Over the past year growth has been supported by ongoing strong growth in household consumption (with stronger population and income growth) and strong growth in public final demand. Dwelling investment made a solid contribution over the year with ongoing strength in the property market. Business investment growth has eased in recent quarters, but still contributed to growth over the year.

Gross state product – though a lagging – rose by 3.3% in 2017/18. These figures highlighted the growing significance of Tasmania's international export growth in addition to strong growth in business investment. Consumption and public spending also made a contribution.

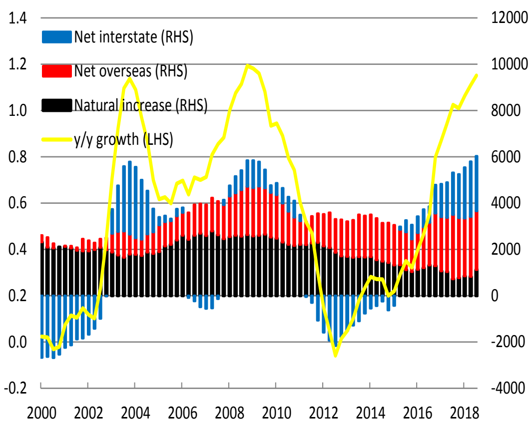
The strength in activity in Tasmania has continued to be reflected in the NAB Business Survey. While volatile, **Business conditions are** currently at high levels – and strongest of all states (in trend terms). Despite the strong readings on conditions, business confidence is currently the weakest of all states, suggesting that there may be some pull-back in conditions in the near-term.

The **tourism sector** has continued to expand and provide support to the Tasmanian economy. Short-term arrivals and visitor nights have continued to grow. Capacity continues to increase with business investment in the industry seeing 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.)

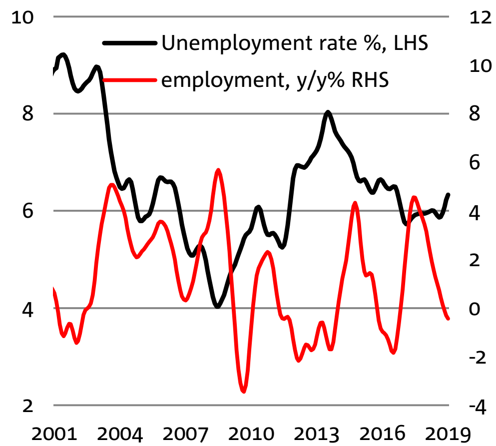
POPULATION GROWTH

Growth (number) and Y/Y% change total



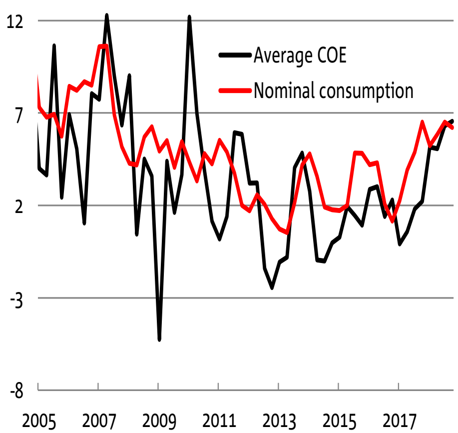
LABOUR MARKET

Employment and unemployment.



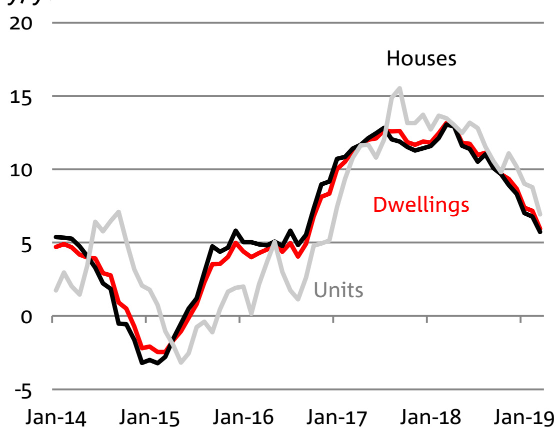
CONSUMPTION AND INCOME GROWTH

y/y%



HOUSE PRICES

y/y%



Sources: ABS, NAB

Population growth has continued to rise in Tasmania, with growth over the year to September 2018 reaching almost 1.2% - its strongest rate since the lead up to the GFC. The natural increase component has risen slightly, but net overseas migration has grown over recent years and after a period of subtraction, net interstate migration has risen solidly. The rise in population growth has supported household consumption and likely led to increased pressure on house prices. Alongside this, public infrastructure spending has risen to accommodate the growing population.

Despite the ongoing healthy level of activity, conditions in the **labour market** have weakened somewhat recently. Employment growth has eased substantially, and the number of employed have fallen slightly over the past year. Consequently, the unemployment rate has risen again recently and is now around 6.3% in trend terms. Wage growth in Tasmania has risen to around 2.6% over the past year which, while still low, is above the national average. Looking forward, the ongoing strength in activity should support the labour market. The NAB Employment measure for Tasmania remains above average and job vacancies remain elevated in the state.

In contrast to Australia as a whole, **consumption growth** (in real terms) has held up at 4.0% over the past year supported by relatively strong growth in household income. Despite the strength in consumption, retail sales in Tasmania have eased since early 2018, and have been the worst performer of all states.

The **housing sector** has generally held up better in Tasmania than elsewhere in the country. House price growth has slowed, but prices are around 7% higher over the year. This is in contrast with cities like Sydney and Melbourne which have seen falls of around 10% over the past year. While Hobart did not see the strength in prices in the lead up to the recent slowing in the housing market generally, it is also likely less impacted by investors and foreign demand than the mainland states. Though the general factors of slowing income growth and tighter credit conditions will likely have some impact. Offsetting this would be the relatively strong growth in the population.

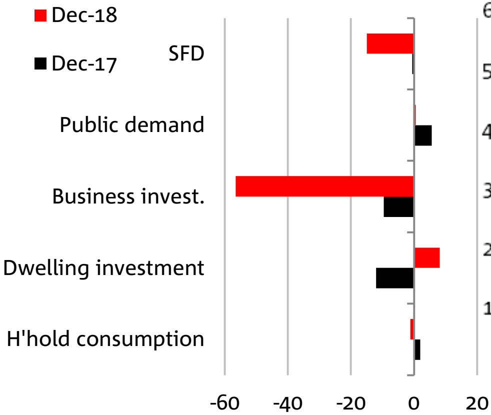
Government finances appear to be in relatively good shape, with low levels of gross debt and a negative net debt balance. Currently the budget is projected to run a net operating surplus with the overall budget to see a fiscal surplus in 2020/21.

NORTHERN TERRITORY

Indicators have been grim but turnaround in mineral exploration offers prospect of some improvement

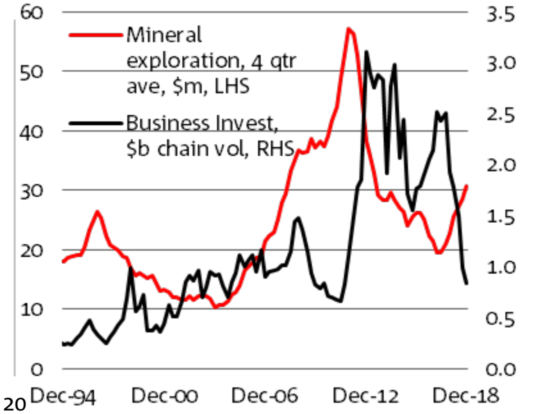
PLUNGE IN STATE DEMAND

State Final Demand and components, y/y%



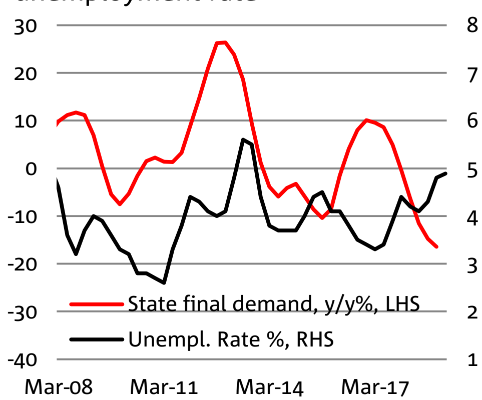
MINING SECTOR HEADWIND, BUT NEAR BOTTOM?

Business investment and mineral exploration expenditure

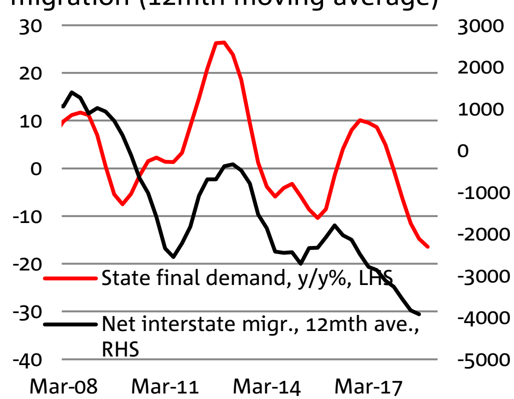


UNEMPLOYMENT STILL AROUND AUS. AVERAGE – BUT POPN OUTFLOWS ARE A MAJOR WAY THE NT LABOUR MARKET ADJUSTS TO A DOWNTURN

State final demand and unemployment rate



State final demand and net interstate migration (12mth moving average)



Sources: ABS, NAB.

The NT is struggling to adjust to the end of the mining construction boom with large falls in business investment and even consumption declining. LNG exports will likely keep measured state economic growth up this year but this may disguise underlying weakness.

The NT economy (as measured by GSP) grew by 1.8% in 2017-18, the lowest growth rate of any state (although only a bit below W.A., which also has a large mining sector).

State final demand declined by a staggering 15% y/y over the year to Q4 2018. The major source of weakness was in business investment which declined by more than 50% y/y. This likely relates to the winding down of construction on the Ichthys LNG project. The ramping up of LNG production will support measured GSP growth, although it will be less labour intensive than construction. There has been a pick-up in mineral exploration, however, suggesting that the worst of the mining drag on growth may soon be over.

The weakness in NT economic indicators is not limited to mining. Household consumption was 1% lower in Q4 2018 than a year ago and early indicators in 2019 for retail sales do not point to any improvement. Public spending also levelled off. Territory government projections point to a decline in 2019-20 and ongoing budget deficits limit the scope for new initiatives with budget repair now the focus.

There was some recovery in residential investment over 2018 mainly in the form of alterations and additions as new construction was broadly flat. However, building approvals continued to fall into early 2019 (on a trend basis), and with house prices declining and the NT's population flat or falling, 2019 looks like being a tough year.

Other sectors that might be expected to offset the headwind from the mining sector such as agriculture and tourism also appear to be struggling. The Territory generally saw a much drier than average wet season which will continue to be a challenge for the cattle industry. International visitor nights have declined over recent years and, while there was a welcome rise in domestic tourism, this appears to have levelled off more recently.

Despite the weakness in state demand, the lift in unemployment, has been relatively muted and is around the Australian average. However, the link between the unemployment rate and state demand is not strong, with the weakness in activity being more closely reflected in negative interstate migration.

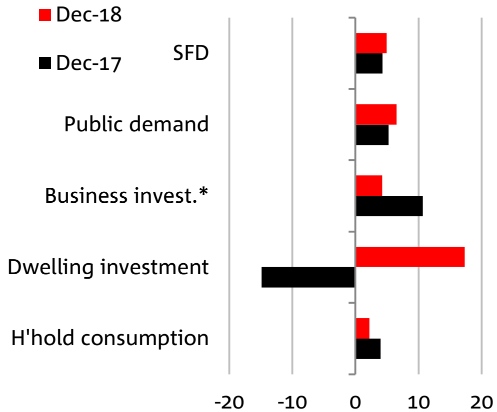
National Australia Bank

AUSTRALIAN CAPITAL TERRITORY

The ACT remains one of Australia's faster growing regions

GROWTH SOLID THROUGH 2018

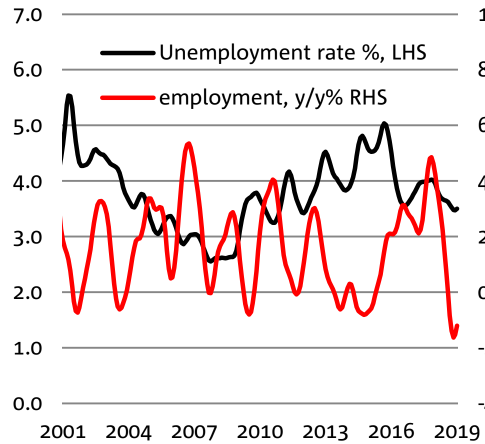
State final Demand and components, y/y%



* underlying basis

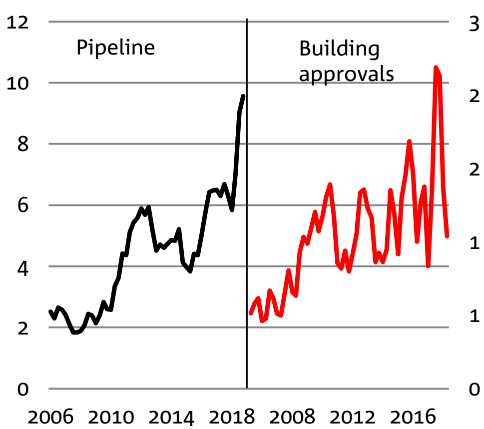
LABOUR MKT STRONG DESPITE MIXED INDICATORS

Unemployment and employment, trend basis



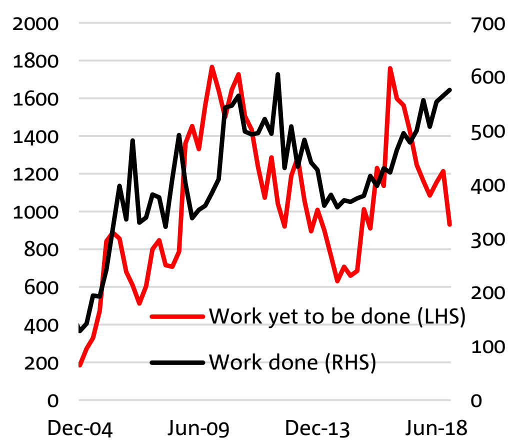
HOUSING CONSTRUCTIONS STRONG

Dwelling pipeline and approvals, number



AS IS OTHER CONSTRUCTION…FOR NOW

Engineering and non-residential building ($ million)



Sources: ABS, Core Logic, NAB. * Pipeline = dwellings under construction & approved but not yet commenced

The ACT has been one of the better performing regions in recent years, and this remained the case over 2018. Population growth is strong supporting robust building activity, although this may have peaked in the non-residential space. The ACT's unemployment rate of 3.5% is the lowest of any state/territory.

The ACT economy has been performing strongly for several years now. It recorded the strongest GSP of any state or territory in 2017-18 (after ranking second the prior two years). Over 2018, state final demand growth was the third strongest of any state/territory, and in the second half of the year it was the strongest. That said, a wider range of indicators indicate momentum has slowed more recently (see ACT heat map on page 3).

The strength in state final demand over 2018 was attributable to a surge in dwelling investment, while public consumption grew strongly. However, consumption growth and business investment growth moderated. The below average growth in consumption is consistent with the experience across Australia as low wage growth, and other factors such as elevated levels of anxiety, remain a headwind.

Construction activity remain robust, particularly in the housing sector where the pipeline of work is very high. Strong population growth is an ongoing support to the sector, and while the high level of activity may raise a query about future over-supply, the low rental vacancy rate suggests that is not yet a problem.

Non-residential building and engineering construction work has also been running at high levels. However, the pipeline of future work has come off its peak. Similarly, the ACT government projections suggest that its infrastructure spending program will peak this financial year.

Indicators for the labour market are mixed with a very low unemployment rate (at 3.5% in February, it's the lowest of all states/territories) but measured employment is falling. We consider the unemployment rate to be the more reliable indicator, a view supported by the high level of Job vacancies. The low unemployment rate is even more meritorious given that Commonwealth public service employment has declined since 2012-13.

Helping to fill the void have been overseas education exports which have more than doubled over the last four years.

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