

# STATE ECONOMIC OVERVIEW

SEPTEMBER 2019

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Overview and forecasts

New South Wales

Victoria

Queensland

South Australia

Western Australia

Tasmania

Northern Territory

A.C.T.

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National  
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# STATE ECONOMIC OVERVIEW

- The **Australian economy** grew by 1.4% over the year to the June 2019, its weakest growth since 2009 – i.e. the GFC. Overall domestic demand is being supported by government spending - both in infrastructure spending as well as consumption due to Federal spending on disability (NDIS) and aged care services - while private sector demand is very weak.
- The NAB Monthly business survey indicates that both **business confidence and conditions** remain weak and are below their long-run average. The decline in conditions has been broad-based across industries since mid-2018. Mining sector conditions have held up better than in other industries, supported by higher commodity prices (although the level of mining investment has only recently shown signs of stabilising). Retail remains particularly weak. Forward looking indicators suggest that there is unlikely to be an imminent turnaround in conditions.
- We expect to see a period of below-trend growth – with a forecast for **GDP growth** of around 1.7% in 2019, 2¼% in 2020 and 2½% in 2021 (as more expansionary policy kicks in). The key dynamics continue to be a weak household sector, with only modest growth in consumption and declining dwelling investment offset by strength in public spending, business investment and exports in the near term.
- With growth set to be below trend, we see the **unemployment rate** rising slightly, reaching 5.5% by mid to end-2020 and staying at around this level in 2021. Wage growth is expected to remain subdued.
- Conditions and confidence continue to deteriorate in **NSW**. The labour market is strong in terms of jobs growth and the unemployment rate is relatively low. The record infrastructure pipeline should sustain the economy, along with business investment and exports.
- Momentum in the **Victorian** economy has slowed significantly, with weaker business conditions, negative forward orders, falling building approvals and unemployment starting to increase. Retail spending is also subdued, reflecting high consumer debt levels and weak wage growth. Government spending – particularly for infrastructure – continues to be a major support to the economy.
- Business confidence, conditions and domestic demand continue to weaken in **Queensland**, with the State weaker than the national average. Employment growth has been steady, and there has been a convergence in regional unemployment rates. The public sector, exports and business investment will be the key drivers of growth.
- **S.A.** economic growth has continued to slow through 2019 with a broad based slowing in domestic demand and declining exports resulting in a deterioration in the labour market. However, despite the weakness in business conditions and confidence, business investment is holding up and public investment may lift in 2019-20.
- Economic conditions in **W.A.** have continued to deteriorate. That said, business conditions have improved recently, public spending is increasing, mining sector investment may have bottomed out, and unemployment has fallen. However, weakness in survey leading indicators is a concern.
- The **Tasmanian** economy has continued to grow at a reasonable rate. However, growth has slowed and recent weakness in business conditions suggests that this may have further to go. Moreover, the unemployment rate has risen. Education, tourism and non-residential construction should help support activity.
- The **Northern Territory** economy continues to struggle, with a broad based decline in domestic demand, and falling employment and population. There are some positive signs - the drag from mining looks to have run its course, tourism is showing improvement and public investment may pick-up.
- The **ACT** hasn't escaped the nationwide slowdown. Investment has fallen and consumption growth has been soft. However, population growth is still solid and unemployment is low.

## NAB STATE & TERRITORY ECONOMIC FORECASTS

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

	Gross State Product YoY				Unemployment Rate			
	17-18	18-19f	19-20f	20-21f	17-18	18-19	19-20f	20-21f
NSW	2.6	2.0	1.6	2.3	4.8	4.4	4.6	4.8
VIC	3.5	2.6	1.9	2.5	5.6	4.6	4.8	5.1
QLD	3.4	1.8	2.1	2.5	6.0	6.1	6.4	6.5
SA	2.0	1.4	1.8	2.0	5.8	5.8	6.4	6.6
WA	1.9	1.4	2.5	2.7	6.1	6.1	6.1	5.9
TAS	3.3	2.2	1.9	1.8	6.0	6.3	6.4	6.5
NT	1.7	-0.2	3.8	3.7	4.2	4.5	5.0	5.0
ACT	4.0	3.4	2.1	2.9	3.9	3.6	3.7	3.9
<b>Australia</b>	<b>2.9</b>	<b>2.0</b>	<b>2.0</b>	<b>2.4</b>	<b>5.5</b>	<b>5.1</b>	<b>5.3</b>	<b>5.5</b>



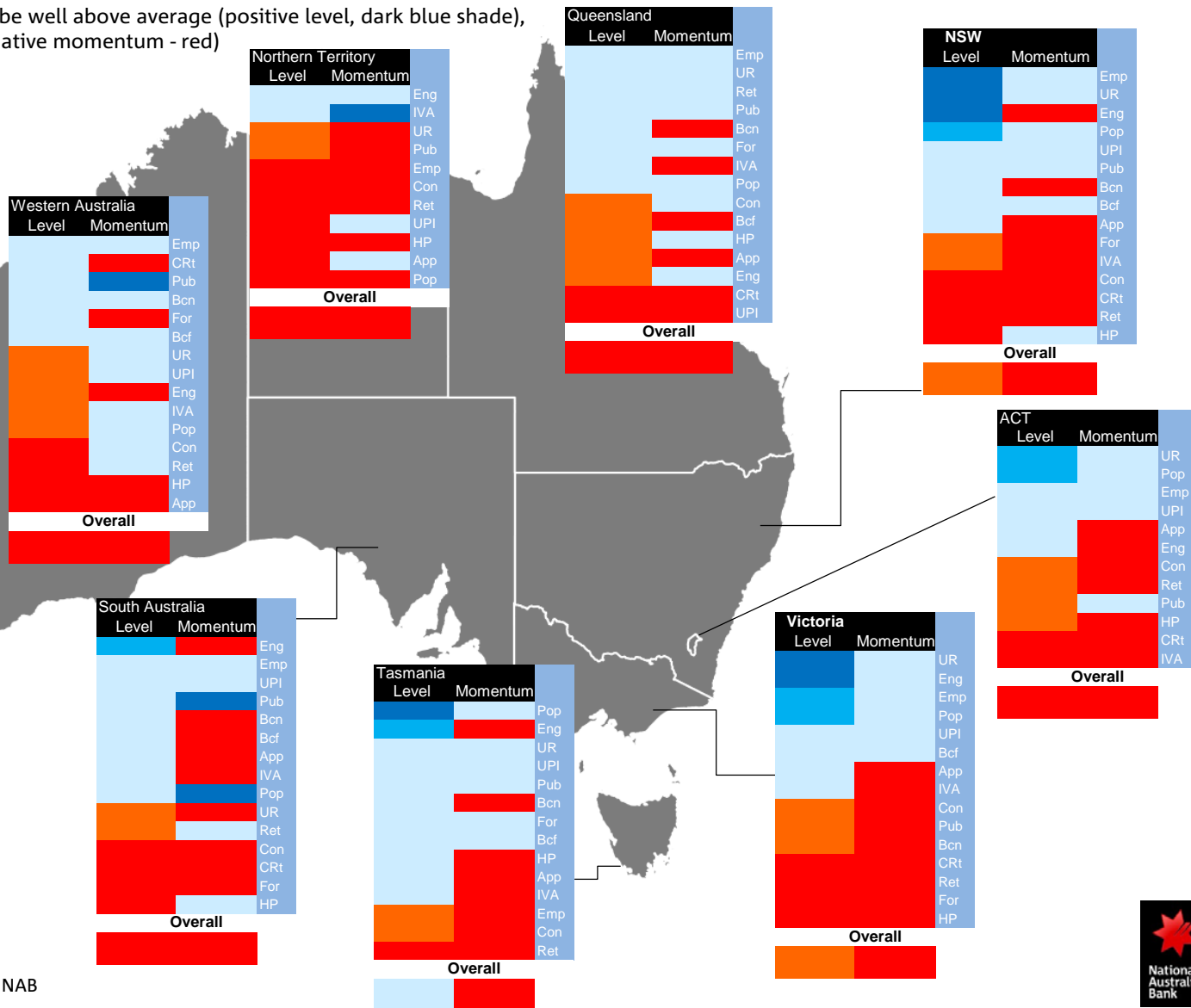
## CONDITIONS GENERALLY WEAK AND NOT GETTING BETTER

## HEAT MAPS ILLUSTRATE BOTH THE LEVEL OF ACTIVITY AND MOMENTUM

For example, the level of growth may be well above average (positive level, dark blue 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**)

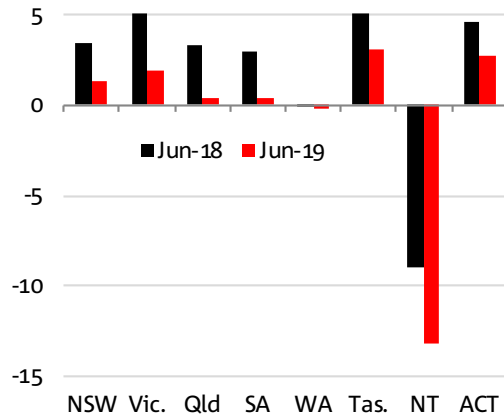


# STATE OVERVIEW IN CHARTS

*State growth/bus. conditions down over last 6 months; leading indicators soft but investment (especially public) a support*

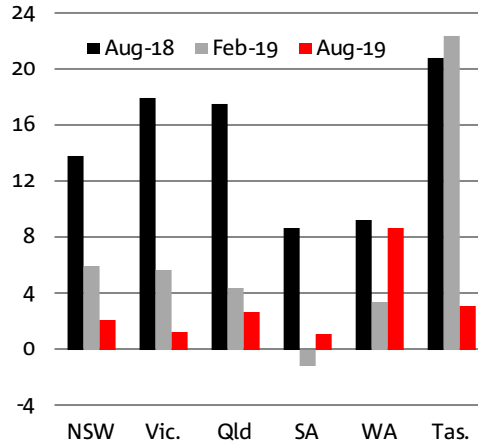
**State demand growth has eased across the board; weakest in mining states**

State final demand, s.a., chain-volume, y/y%



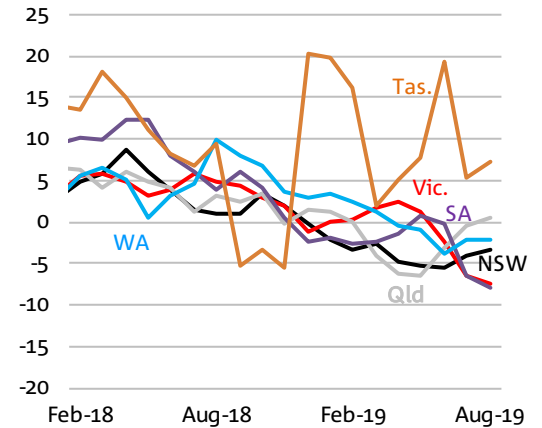
**Business conditions continued to ease over the last six months in eastern states & Tas.**

NAB Monthly Business Survey, trend conditions



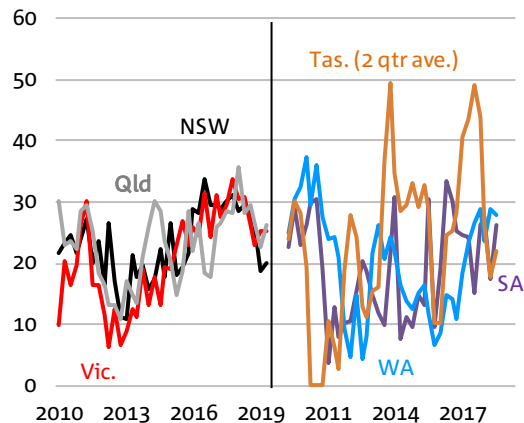
**Leading indicators point to continuing soft conditions**

NAB Mthly Business Survey, trend forward orders



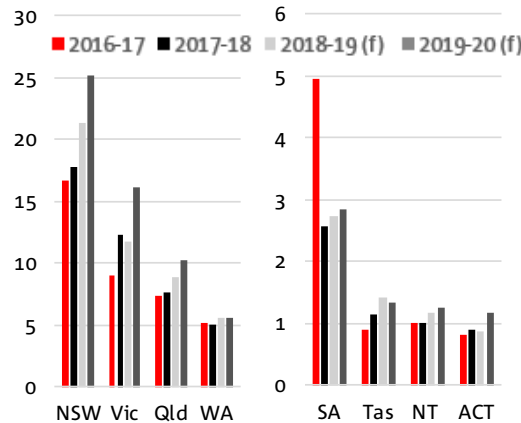
**Investment intentions have come down outside W.A. but still solid**

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



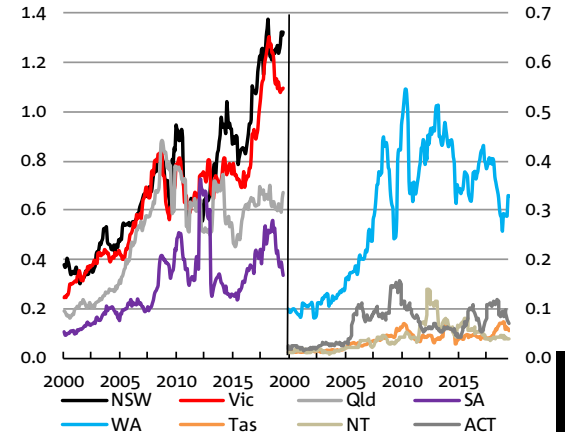
**Public infrastructure ramp up continues – particularly in Eastern states**

Purchases of non-financial assets, non-financial public sector (\$ billion)



**Non-residential investment approvals still solid, but off highs outside NSW**

Non-residential building approvals (\$b, 12mth m.a.)

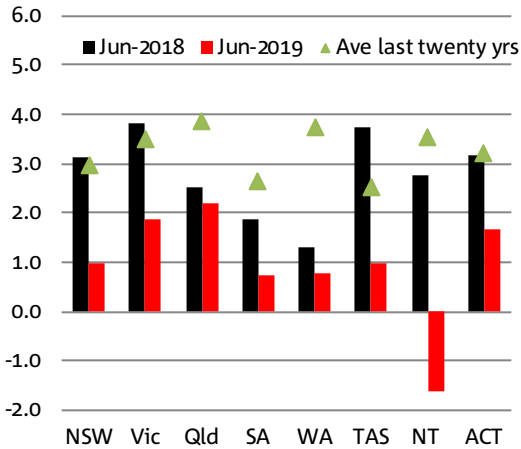


# STATE OVERVIEW IN CHARTS (2)

*Consumption weak, housing activity falling even as prices stabilise while unemployment rate is rising*

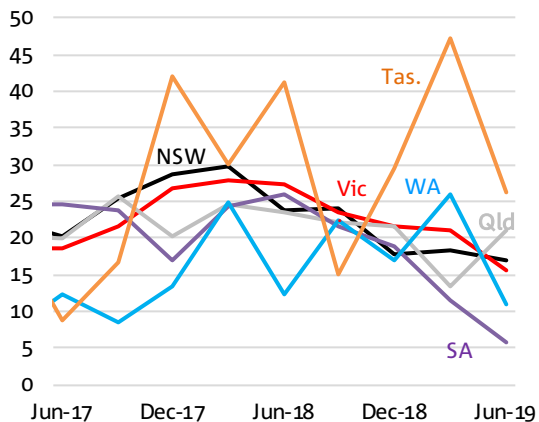
## Consumption growth - weak and getting weaker

Household consumption, chain vol., y/y%



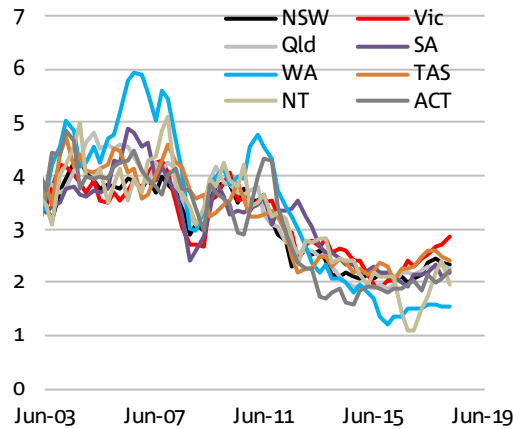
## Employment intentions have generally eased but still decent

Employment in 12 months, net balance, NAB Qtly Business Survey



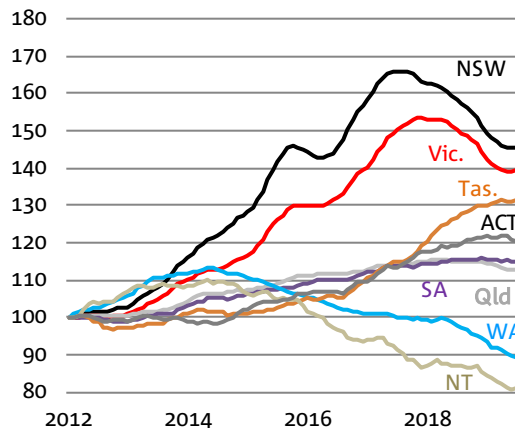
## As wage growth remains low across the board

Wage Price Index, hourly, ex bonuses, y/y%



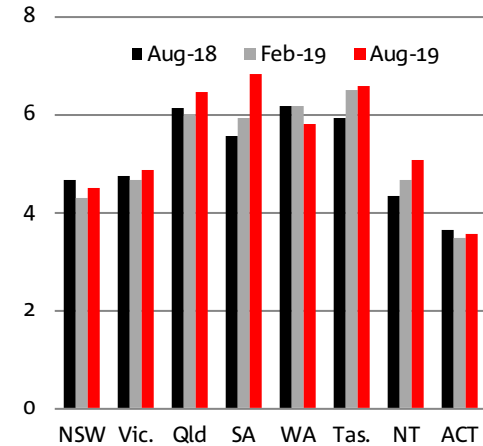
## Dwelling prices stabilising...WA a notable exception

CoreLogic HVI, dwellings, Jan. 2012 = 100



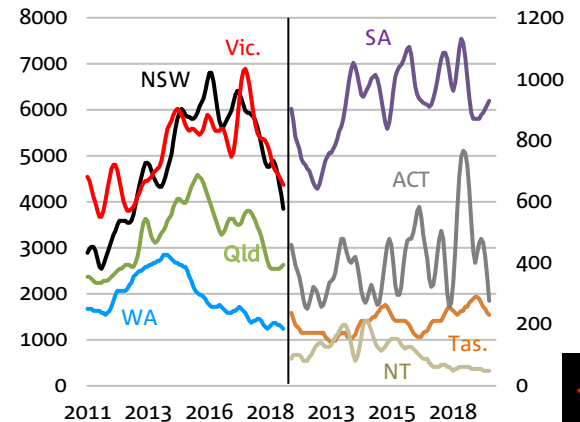
## Unemployment rate up in all states/territories – excluding WA - over last six months

Unemployment rate (%), trend basis



## Dwelling approvals down...pointing to lower dwelling construction ahead

Dwelling approvals, number (trend)



# STATE OVERVIEW IN CHARTS (3)

*Property markets expected to improve, tourism growth soft, agriculture still facing headwinds*

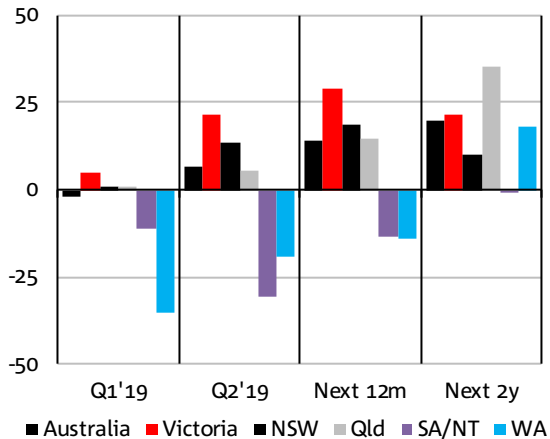
## Broad based turnaround in residential property sentiment

NAB Residential Property Index

	Q1'19	Q2'19	Next 1yr	Next 2yrs
VIC	-21	-8	25	45
NSW	-36	-27	5	29
QLD	-9	8	42	56
SA/NT	32	-18	18	25
WA	-8	-3	48	61
AUST	-15	-8	27	45

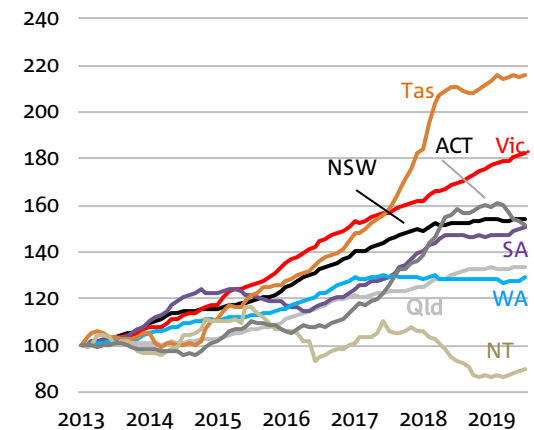
## Commercial property – signs of improvement; weak in SA/WA but expected to improve

NAB Commercial Property Index



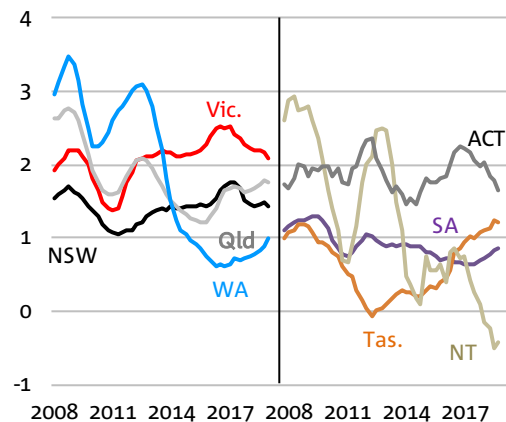
## Growth in overseas tourists generally weaker

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



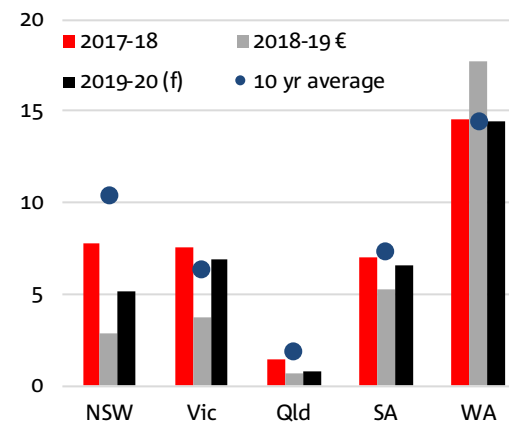
## Population growth strongest in Eastern states

Population growth, y/y%



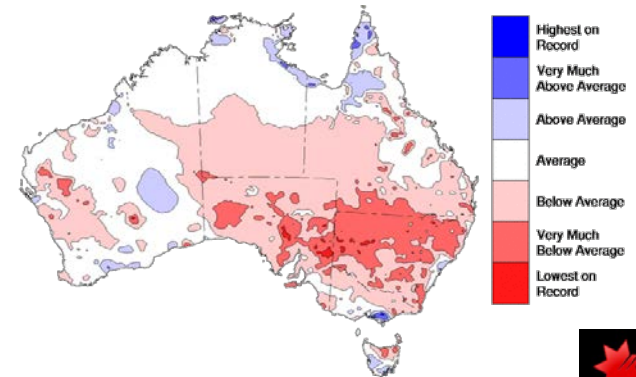
## Around average crop expected outside drought affected NSW/Qld...

Winter crop production, kt ('000s)  
ABARES estimates



## ...but this outlook being challenged by recent unfavourable conditions

August Rainfall - deciles



# CHALLENGES AND OPPORTUNITIES: BY STATE

	Opportunities/strengths	Challenges
NSW	Infrastructure activity High level of jobs growth Education exports	Very weak housebuilding activity Momentum in the economy has slipped Crippling drought
Victoria	Strong population growth High levels of infrastructure spending, likely to continue over coming years	Congestion will get worse before it gets better Weak building approvals Apartment over supply
Queensland	Net interstate migration Strong public infrastructure program Tourism	Very weak Residential construction High level of public sector borrowings Weakening economic momentum
South Australia	Education exports Leveraging defence expenditure	Broad based slowing in growth underway Adjusting to manufacturing base decline
Western Australia	Mining sector trough in sight Recovery in population growth	Exposure to mining cycle – boom/bust Exposed to further slowing in Global economy through commodity prices
Tasmania	Strong population growth Business investment solid Education exports	Business conditions starting to slip Weakening labour market
Northern Territory	Mineral exploration rising Scope for stronger tourism contribution Proximity to growing Asia region – Australia/Indonesia Free Trade Agreement	Managing mining/commodity cycles Population decline Long term risks to live cattle exports
A.C.T.	Consistent strong performer Strong population growth	Reducing reliance on Federal govt. spending Managing a downturn in the construction cycle



A photograph of four kangaroos in a grassy field. The kangaroos are grey-brown with long tails and powerful hind legs. They are captured in various poses, suggesting movement. The text 'STATE REVIEWS' is overlaid in red, bold, sans-serif capital letters in the center-left of the image.

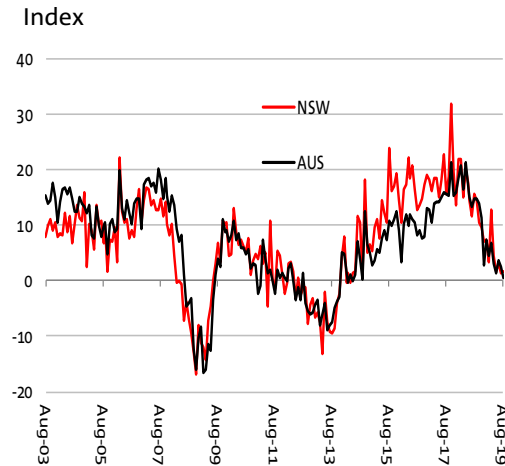
**STATE REVIEWS**



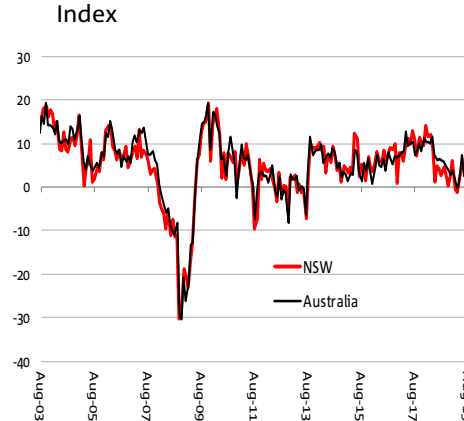
# NEW SOUTH WALES

*NSW will be relying on its very strong infrastructure pipeline, solid exports growth and an upturn in business investment to drive growth against a backdrop of subdued consumer demand*

**Business conditions deteriorating, in line with national experience**



**Business Confidence weakening, but still positive**



*Business conditions and confidence continue to deteriorate in NSW, but remain above the national average. The labour market is strong in terms of jobs growth and the unemployment rate is relatively low. The improvement in house prices should provide some relief. The record infrastructure pipeline should sustain the economy, along with business investment and exports.*

The NSW economy expanded by 1.3% yoy to June 2019 (using the **State Final Demand** measure). This is a slowdown from 3.5% a year ago. The only solace is that activity in NSW is stronger than the national average of 1% yoy.

NAB's **Business Conditions** Index has also weakened, both in NSW and Australia. In general, conditions were strong in the Finance/Business/Property sector, but very weak in retail and wholesale.

Moreover, businesses are only mildly optimistic about the future, with **Business confidence** deteriorating, albeit slightly positive.

The NSW State Government has committed to a substantial infrastructure spend of over \$93bn over 4 years, including transport infrastructure, health and educational projects, which should be a key driver of future growth and productivity improvements. Projects under construction include Sydney Metro South-West and West Connect stage 2.

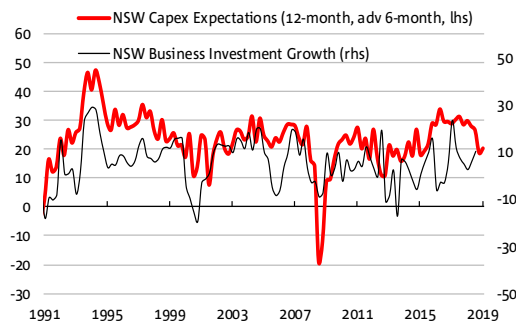
Looking ahead, growth is expected to be driven largely by the public sector, exports and business investment.

**Consumption** remains subdued due to modest wage growth, and dwelling construction is expected to contract. Wealth effects from falling house prices may also have had an impact, but in recent months house prices have stabilised and started to rise.

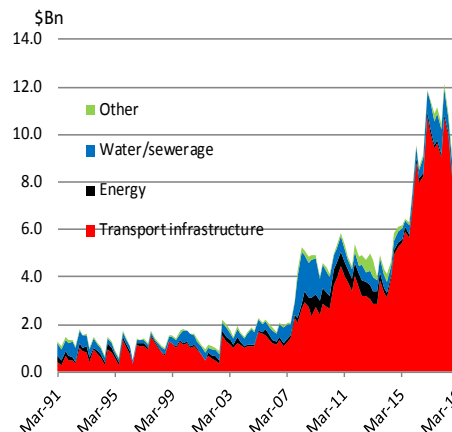
Our **Capex** expectations survey indicates a modest upturn in business investment, driven largely by non-residential building.

**Exports** of both goods and services (such as tourism and education) should benefit from a weaker Australian dollar. However, there has been a slowdown in growth in international visitor arrivals (only 0.7% yoy over 7 months to July 2019) and in international student enrolments. Global trade tensions pose somewhat of a risk.

**Private Investment: Modest upturn**



**Very strong infrastructure pipeline**

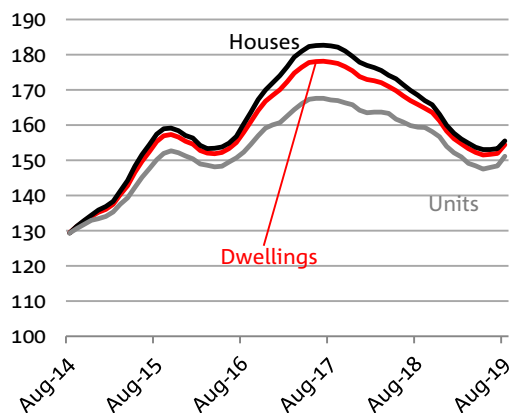


# NEW SOUTH WALES...CONTD.

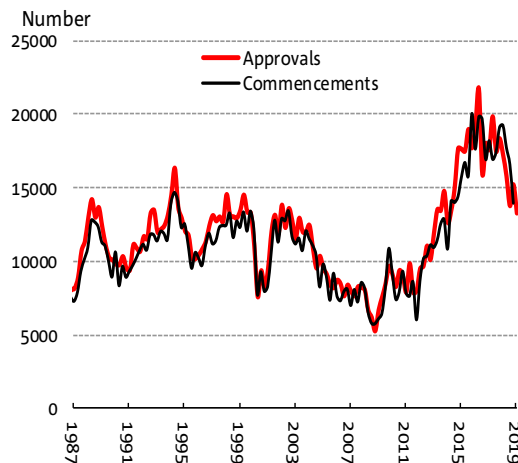
*Housebuilding activity continues to plunge, but prices have started to pickup, assisted by rate cuts. Labour market solid with low unemployment; office conditions sound, but expected to ease.*

## House prices have turned the corner

Dec 2009 = 100



## Housebuilding sector very weak



The **dwelling construction** cycle is contracting sharply, and this is clearly visible in the housing approvals and commencement data. Housebuilding will detract from growth, although the construction sector will be well supported by strong level of activity in the non residential and infrastructure segment.

The pace of decline in Sydney house prices has eased noticeably, assisted by recent RBA rate cuts. In April, Sydney prices fell by -10.9% yoy; in August this eased to -6.9%.

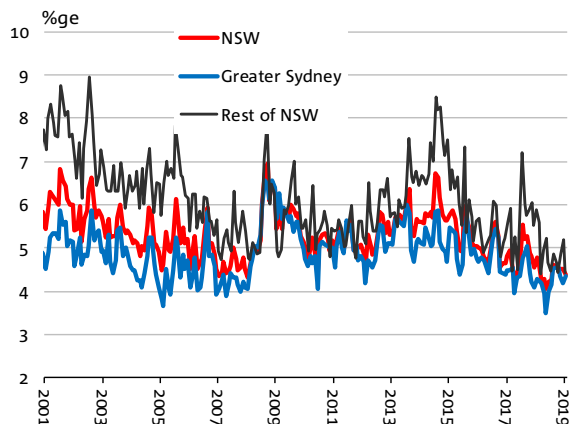
The **labour** market is strong, with employment growing by 3.3% over the year to August 2019. The unemployment rate fell by 0.4ppts over the last year, despite an increase in the labour participation rate, reflecting the strength of NSW labour's market. Business services, health and education recorded some of the strongest growth in employment across sectors.

The Eastern suburbs of Sydney had some of the lowest unemployment rates, benefitting from solid employment growth in business services. Drought is also affecting certain regions and the NSW Government launched an \$800 million package to help drought-assisted farmers, including providing rebates for transport of fodder, stock and water.

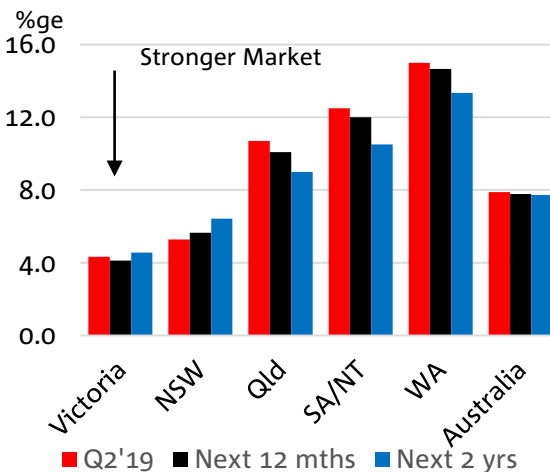
The Government has committed to maintaining fiscal surpluses, including measures such as capping consultant fees. While net debt is forecast to increase to 5.2% of State GSP by 2022-23 (currently State Net debt is non-existent), the Government has indicated it would continue with asset recycling (sell assets to fund infrastructure) to limit borrowings.

The Sydney office market remains sound. However, the **NAB Commercial Property Survey** expects a slightly easing in conditions, reflecting, in part, the strong expected pipeline of new office supply, which should lead to an increase the vacancy rate.

## Low unemployment provides support



## Office market sound, but expected to ease

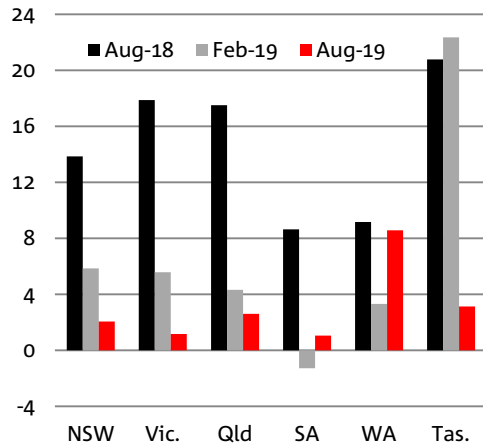


# VICTORIA

## Government spending supporting economy, but risks increasing

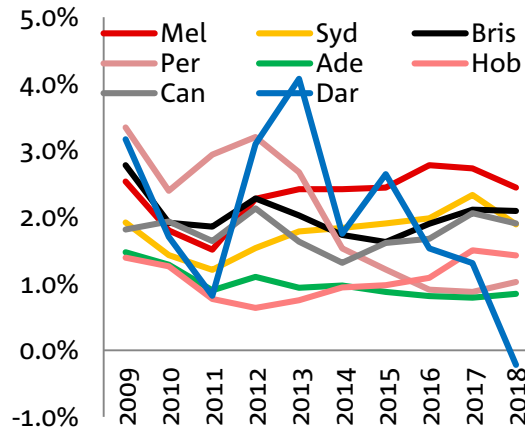
### Business conditions have weakened

Monthly Business Survey trend conditions



### Population growth

Capital cities, annual % change



*The Victorian economy has been one of Australia's best performers, but momentum slowed significantly, with weaker business conditions, negative forward orders, falling building approvals and unemployment starting to increase. Melbourne house prices have bottomed out and recent auction results have been generally stronger, albeit on lower volumes. Reflecting trends seen nationally, retail spending is subdued, reflecting high consumer debt levels and weak wage growth. Government spending – particularly for infrastructure – continues to be a major support to the economy, although we are a little nervous as to whether this will be sustained beyond the forward estimates.*

Melbourne remains **Australia's fastest growing city**, although the pace of growth has slowed a little since 2016. 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.

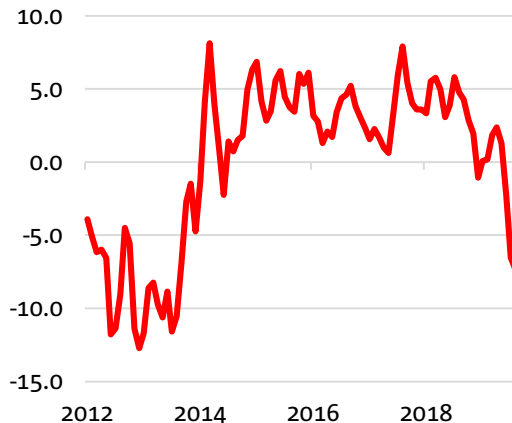
**State final demand** annual growth was the third strongest nationally in the June quarter, up 1.9% y/y. The quarterly growth rate was 0.5% q/q, largely a result of strong government consumption and investment spending on infrastructure. Meanwhile, private investment declined, reflecting lower building and engineering construction,

**Victoria's infrastructure boom continues**, with Victorian government infrastructure investment (excluding depreciation) increasing from \$4.7b in 2015-16 to \$12.1b in 2017-18. The 2019-20 forecasts infrastructure investment to stay around this (very elevated) level for the duration of the forward estimates.

However, the Victorian government faces heightened revenue pressures, partly due to lower Land Transfer Duty receipts (reflecting lower house prices and lower sales volumes). The Commonwealth remains fairly reluctant to inject major new fiscal stimulus, suggesting that it will be harder to fund new infrastructure projects without further increasing debt.

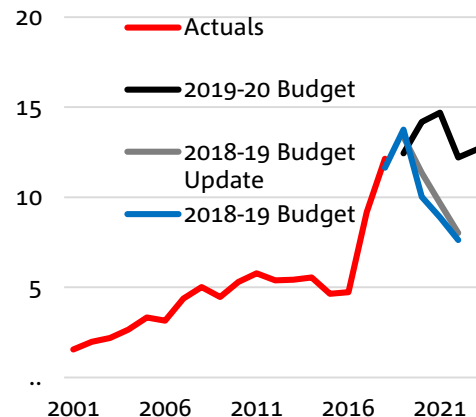
### Forward orders weaker

Monthly Business Survey measure



### Infrastructure Pipeline

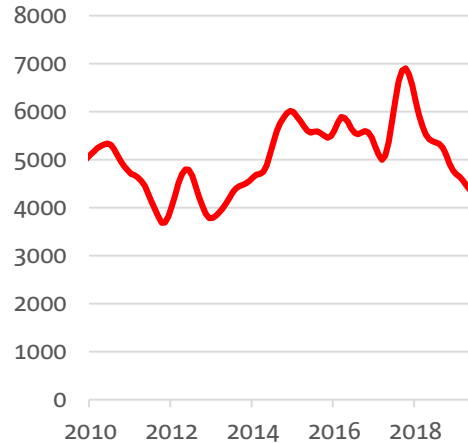
\$b, 2019-20 budget (ex. depreciation)



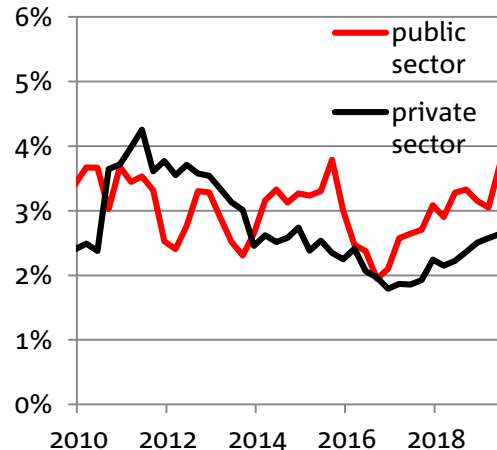


# VICTORIA (CONT.)

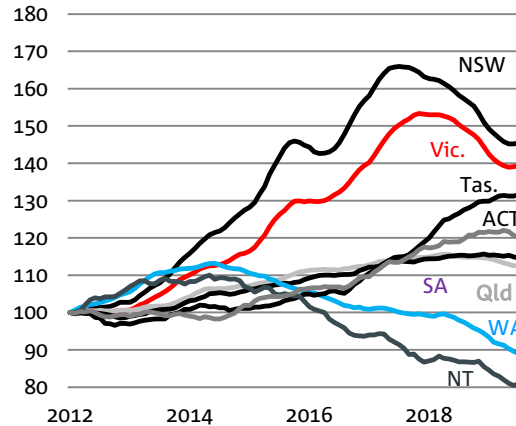
**Residential building approvals continuing to fall**  
Number



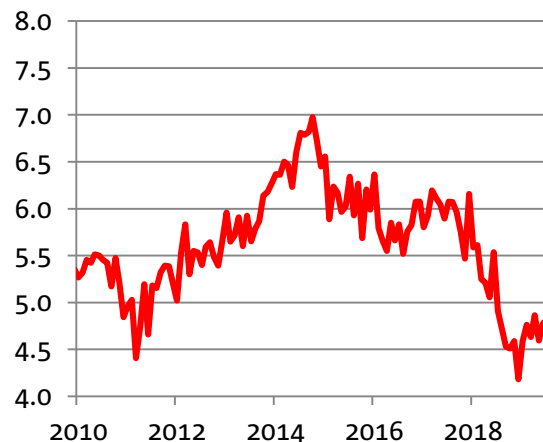
**Public sector driving wage growth**  
ABS WPI by sector y/y % change



**House price fall arrested**  
Index, Jan 2012 = 100



**Unemployment now increasing**  
Unemployment rate, seasonally adjusted



The decline in Melbourne **house prices** from early 2018 to mid-2019 now looks to be over. Prices have come back to life and auction clearance rates are surging. Melbourne has recently seen clearance rates in excess of 75% - up from mid-50s this time last year.

That said, listings are down and supply is scarce. The stabilisation in the property market offers some respite for sellers and existing homeowners, but disappointment for prospective first home buyers. Residential building approvals continue to fall, with oversupply in the apartment market an ongoing concern.

It is far from clear that the stabilisation in property prices will see an improvement in consumer sentiment though. **Retail spending** remains under pressure from high debt levels and muted wage growth, although our Cashless Retail Sales Index shows improving trend retail sales in Victoria from a low in March this year. Fundamentally, we remain concerned that there has been little growth in real consumption nationally so far in Q3, with limited prospects for pick-up in the short term.

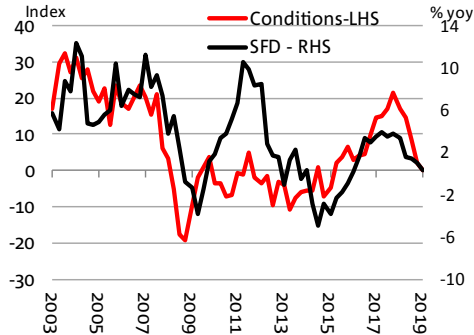
The private sector continues to show signs of weakness. Victorian trend **business conditions** in the NAB Monthly Business Survey stood at +1 in August 2019, down from +18 a year prior. Victorian forward orders have weakened significantly, falling from +1.3 in June to -7 in August. This is consistent with a weak private sector overall, with limited prospects for pick up in the short term.

**Wage growth** has been increasing, albeit from a low base and the strongest wage growth remains in the public sector. **Unemployment** is now increasing from a low point seen at the end of last year. While Victoria's unemployment rate remains below the national average, if the trend continues it is unlikely that wage pressures will be present.

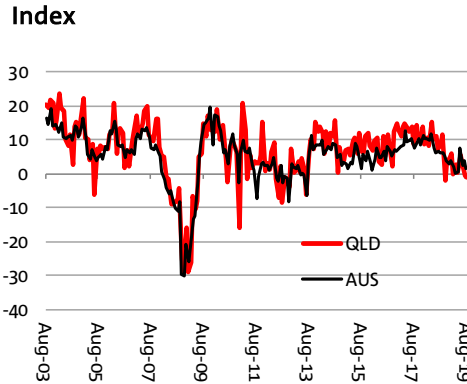
# QUEENSLAND

*Activity and Confidence remain weak. Government spending, exports and an improvement in business investment expected to drive growth*

## Activity tracking lower



## Business Confidence on the Wane

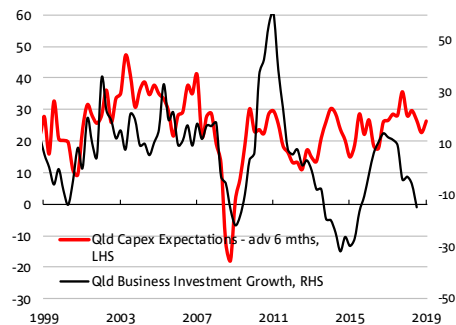


*Business confidence, conditions and domestic demand continue to weaken in Queensland, with the State weaker than the national average. Employment growth has been steady, and there has been a convergence in regional unemployment rates. The public sector, exports and business investment will be the key drivers of growth, along with the receding (negative) impact of floods in Northern Queensland.*

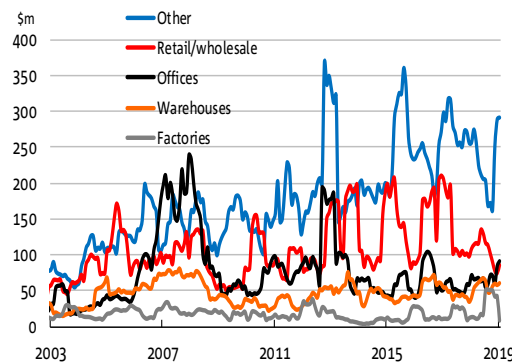
Activity levels in Queensland continue to deteriorate, as evidenced by both the ABS State Final demand measure, and our own measure of activity, Business Conditions. State final demand, a measure of domestic activity, expanded by 0.4% yoy to June quarter, 2019 (1% nationally). This was partly due to floods in North Queensland. Business Confidence also remains low, and businesses in Queensland are slightly more pessimistic than businesses nationally.

## Private business investment weak, but expected to improve

Capex index and yoy (%) growth



## Non-Residential building approvals strong in 'other' categories



Queensland has benefitted strongly from the exports of minerals (primarily coal and LNG). In the NAB Business Survey, the mining sector continues to be one of the better-performing in terms of **both** confidence and conditions. Looking ahead, Queensland should benefit from additional mines such as the Dugald River Zinc mine. However, a softening in the price of coking coal, as well as a 2.5% increase in the oil and gas royalty rate, might temper some of the optimism. Service exports, particularly education and international tourism, are also important. Data on services for the first half of 2019 suggests a slowing (but still positive) pace of growth in student enrollments as well as in overseas visitor arrivals. A lower Australian dollar will help, although global trade tensions might dampen international prospects. Moreover, Queensland continues to benefit as a popular domestic tourism destination. The consumer sector remains restrained due to modest wage growth, consumer caution and weakness in the housing market. Recent stabilisation in house prices might assist somewhat.

Our capex expectations indicator suggests that private business investment is likely to pickup, assisted by recent rate cuts. The public sector will be a key growth driver, including \$49.5bn infrastructure allocated over 4 years. This includes: CrossRiver rail project to ease bottlenecks in SE Qld., upgrades to the Bruce Highway, Ipswich Hospital Redevelopment and the Logan Hospital expansion.

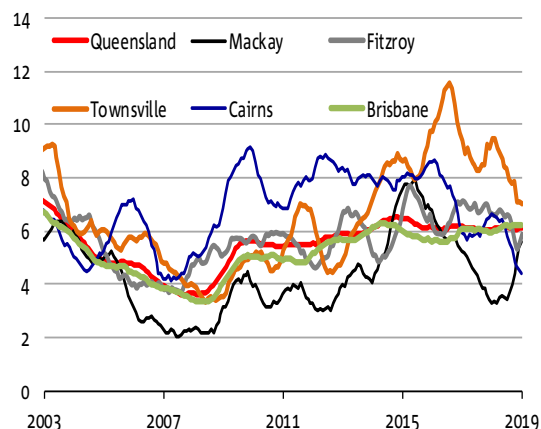
In fact, building activity is expected to expand more in areas such as education and health, and less in retail and industrial buildings.

# QUEENSLAND...CONTD

*Unemployment has converged across the regions. A recovery in housing should help consumption and State finances, although substantial borrowings in the future might challenge the State's fiscal position.*

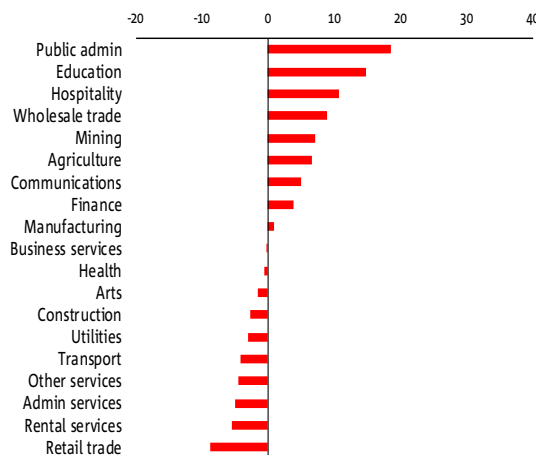
## Unemployment converging across the regions

Unemployment rate, %, 12-mth moving avg.



## Public sector & education recording fastest jobs growth

%ge (1Year growth)



Employment grew by 1.4% during the year to August 2019. With a largely stable participation rate, there was a slight uptick in unemployment to 6.4%. What is interesting is the high degree of convergence in unemployment rates. From an outperformer, unemployment in Mackay has risen notably due to weakness in retail and hospitality. By contrast, Townsville and Cairns have improved. Townsville has benefitted from flood recovery efforts and projects such as the port expansion project, while Cairns is a favoured domestic tourist destination. Brisbane's diversified economy has ensured its unemployment rate is around the State average.

**By sector,** public administration and education were the best-performing in terms of generating employment. The beleaguered retail and property sectors, by contrast, shed jobs over the past year.

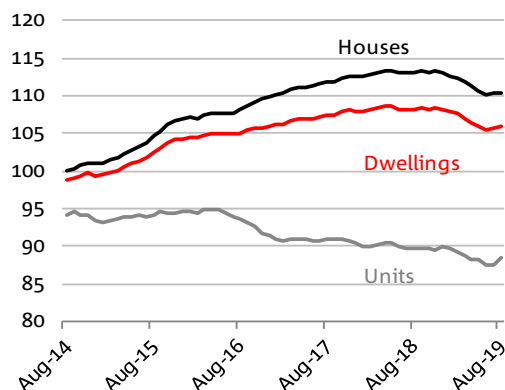
The Queensland government has prioritised improvements to Regions as part of the **Jobs and Regional Growth Fund**, which should particularly benefit regional SME's. However, payroll taxes will rise by 0.2% for businesses with payrolls above \$6.5m, which might act as a slight disincentive for such enterprises.

Further, the Government's expansion of frontline services in health and enhancing both physical infrastructure and educational opportunities (e.g. new TAFEs) should increase Queensland's productive capacity. However, the concern is that the public sector's borrowing needs would swell to \$82.9bn by 2022-23, which could pose challenges in the event of an unexpected downturn in activity.

While weak, Queensland's **housing** market appears to have turned the corner. Prices for houses, and particularly units, ticked up in August. Some easing in lending rules and the recent falls in interest rates have helped. However, residential construction remains perniciously weak, with approvals in June 2019 over 20% lower than year-ago levels. Consumption activity appears to be improving, but will require a continuous improvement in wages to remain durable.

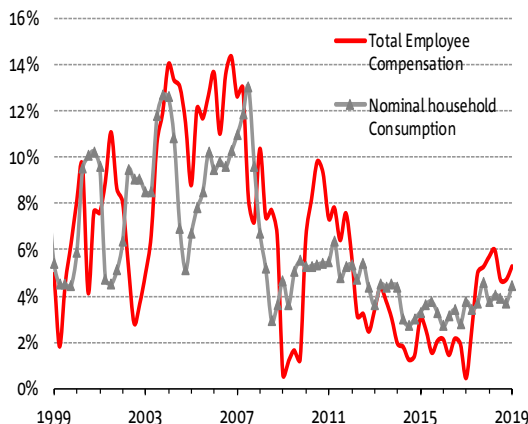
## Houses (and particularly unit) prices no longer declining

Dec 2009 = 100



## Consumption growth modest

y/y%



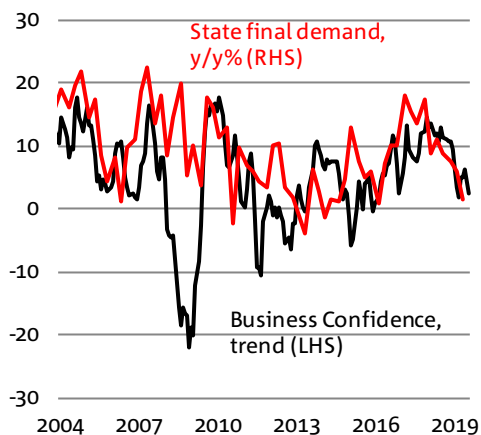


# SOUTH AUSTRALIA

*Growth slowdown has continued through 2019, leading to labour market deterioration*

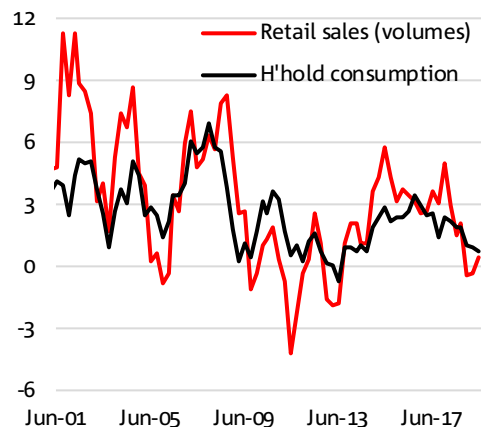
## Growth has slowed & surveys not pointing to a near term recovery

State final Demand y/y%, NAB Business survey Forward orders (net balance)



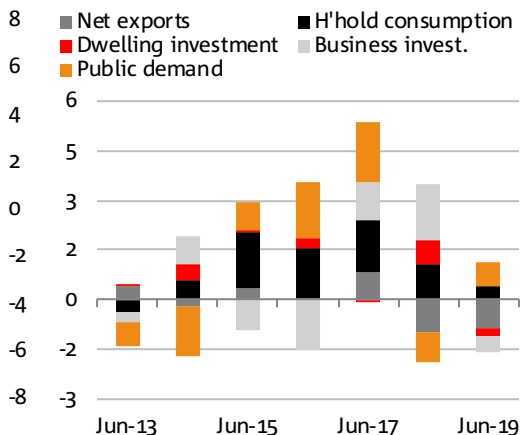
## Consumption down, with retailers Particularly hard hit

Consumption, retail sales (y/y%)



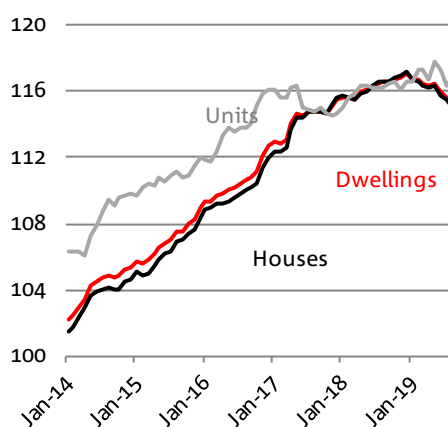
## Private consumption, Investment and net trade weak

Contribution to State final Demand & net exports y/y% growth (ppts)



## House prices have eased modestly so far over 2019

CoreLogic dwelling house value index



*Economic growth has continued to slow through 2019 with a broad based slowing in domestic demand and declining exports, resulting in a deterioration in the labour market. More positively, despite the weakness in business conditions and confidence, business investment is holding up and public investment may lift in 2019-20.*

The deceleration in state final demand growth that started in 2018 continued through the first half of 2019. State final demand, which was growing at a solid 3.0% y/y in Q2 2018, was only 0.4% y/y in Q2 2019. Looking at quarterly growth rates presents an even bleaker picture – state final demand fell 0.2% q/q in each of Q1 and Q2. Net exports (exports less imports) continued to deteriorate with export volumes down 11% y/y signalling that **overall economic activity** (Gross State Product) growth may have been even weaker.

The slowdown in state final demand was broad based across the major components. Consumption growth softened further while dwelling investment, underlying investment (both public and private) declined. Only government consumption growth showed any strength, rising to 4.4% y/y mainly on the back of Federal government spending likely reflecting (as is the case nationally) NDIS roll-out.

Similarly, NAB's monthly Business Survey **business conditions** indicator has been falling since April 2018 (trend basis); and the latest reading suggests conditions have all but stalled. Business confidence is also well below average. The forward orders index - is even weaker suggesting that the slide in growth has further to run.

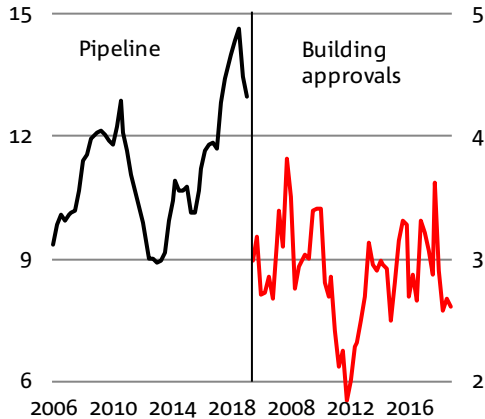
Consumption growth, at 0.7% y/y, was its weakest in five years. Retail sales volumes have been even harder hit, adding to the pressures on a sector facing large structural change. Weak wages growth is likely a key factor, but household wealth - under pressure from declining house prices – and lower residential investment constraining housing-related consumption, are additional factors.

Compared to Sydney and Melbourne the fall in Adelaide dwelling prices has been very modest (-1.5% from their end 2018 peak). However, unlike those two cities, Adelaide continues to see small declines. While in Q2 2019 NAB's Residential Property Index for improved for most states, it declined sharply for SA. Interest rate reductions should help the market and we expect only modest further declines in prices.

# SOUTH AUSTRALIA (CONT.)

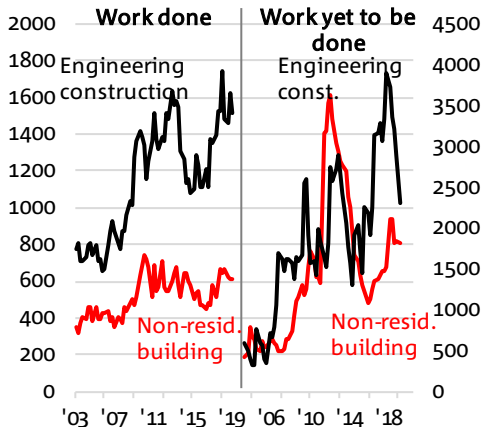
## Residential investment under pressure

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



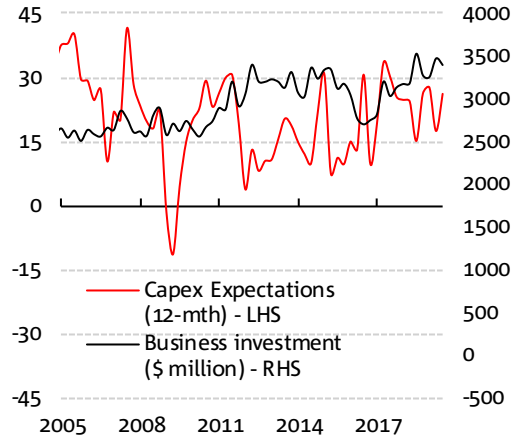
## Non-res. construction has peaked at a high level as pipeline falls

Work done (Chain vol., millions) and Work yet to be done (\$m)



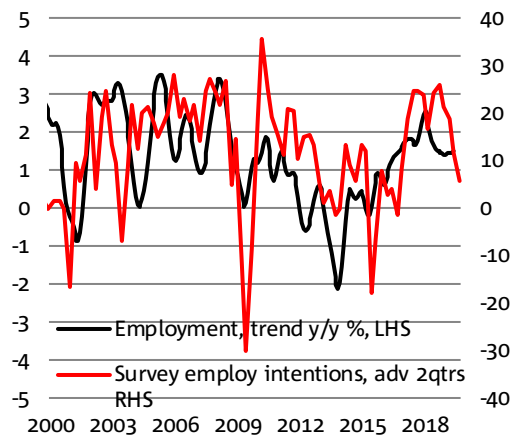
## Business investment expectations solid

NAB Qtly Business Survey capex expectations & ABS underlying business investment



## Labour mkt softening likely to continue

ABS employment & NAB Qtly survey 12mth employment expectation



**Residential investment** has come off its peaks – down almost 5% y/y in Q2 2019 – but remains at a high level. Building approvals have also fallen, as has the pipeline for dwelling construction, suggesting that residential investment will continue to ease, albeit off a high base.

Indicators of **business investment** are mixed. While there was a small decline over the year to Q2 2019, this is positive in that the surge in investment in Q2 last year has been largely maintained. The Quarterly NAB Business Survey's capex in 12 months index also points to ongoing solid levels of investment.

That said there has been a notable decline in engineering construction work yet to be done. Moreover, **commercial property** market sentiment in SA/NT was very weak in Q2 2019, although some improvement is expected. The Adelaide office vacancy rate remains high and the improvement seen since end 2016 has stalled.

Underlying **public investment** also declined over the year to Q2 2019 to its lowest level since 2015. Public sector engineering construction work yet to be done also fell (and in Q1 was only 60% of its level two years ago). That said, this year's 2019-20 State budget projects a modest increase in state government purchases of non-financial assets (a capital expenditure proxy) which will help put a floor under overall public investment. Defence ship building will also be supportive over time.

Goods and services **export volumes** declined by over 10% in the year to Q2 2019, after a similar decline the previous year. However, education and tourism exports are increasing. International student commencements through to June 2019 are well above 2018 levels and overseas visitor arrivals are also growing, albeit only modestly.

In **agriculture**, ABARES are estimating a rebound in crop production in 2019-20 after a poor 2018-19. However, over the last month conditions have become more challenging.

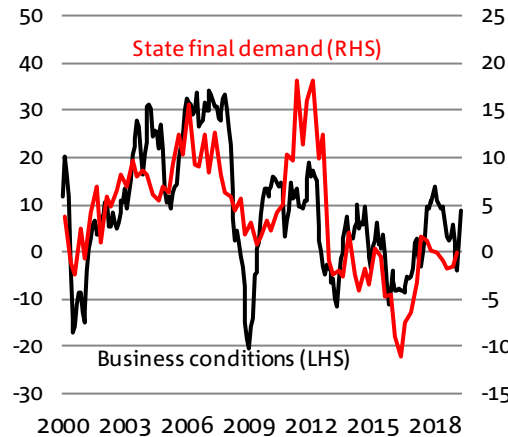
With growth slowing, **labour market** indicators have deteriorated. The unemployment rate (trend basis) has increased sharply from a low of 5.6% in late 2018 to 6.8% in August. Employment growth has also slowed since 2018, but it has stabilised this year. However, the Quarterly NAB Business Survey points to a softening in the jobs growth in the months ahead.

# WESTERN AUSTRALIA

*Economic activity remains under pressure but there are some tentative positive signs*

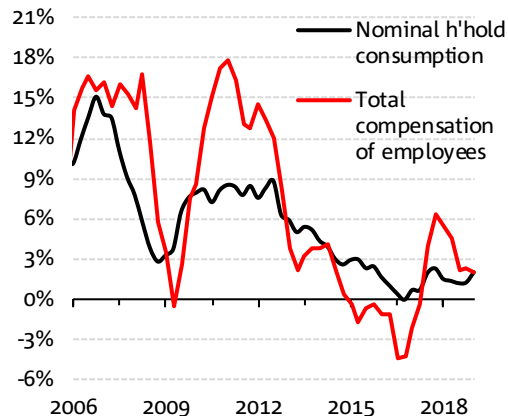
## Demand remains weak

State final Demand (y/y%) & NAB Business Survey – business conditions (trend)



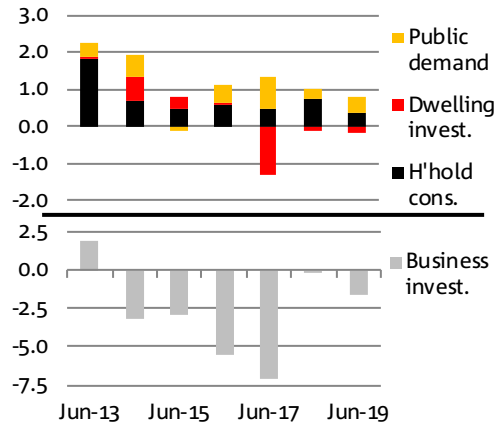
## Household income and consumption remain weak

y/y%



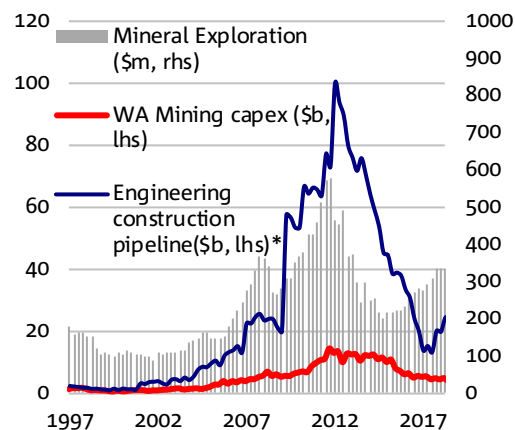
## Mining Less of a drag, but housing negative and consumption weak

Ppt contribution to y/y growth in domestic final demand



## Positive signs in mining sector

Mining investment indicators & engineering construction



*Economic conditions in W.A. have continued to deteriorate with business and dwelling investment falling and consumption growth weak. That said, business conditions have improved recently, public spending is increasing, mining sector investment may have bottomed out, and unemployment has fallen. However, weakness in survey leading indicators is a concern. Export growth should support state GSP growth.*

State final demand (SFD) declined marginally over the year to Q2 2019 (-0.1% y/y), an improvement -1.8% y/y seen in Q4 2018. The major driver of SFD has been underlying business investment, although the headwind from this source has faded. However, dwelling investment is falling and household consumption growth remains very weak. Public demand – both consumption and investment – has accelerated recently providing some support.

Signs of a recent improvement are also evident in NAB's Monthly Business Survey. **Business conditions** – as for the rest of the country – had been declining since early-mid 2018, but have recovered over the last two months and are now higher than for all other states. However, leading indicators - subdued business confidence and negative forward orders - cast doubt on whether the recent improvement in conditions will be maintained particularly given the recent decline iron ore prices.

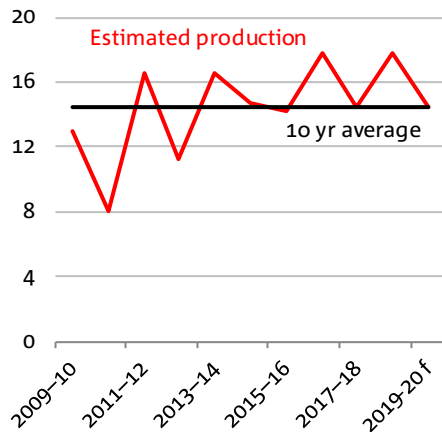
**Household consumption** growth remains very weak. It grew by 0.8% y/y in Q2 2019, less than one-third of its average over the last 10 years. A major factor holding back consumption is weak household income growth, as a result of weak wage growth. Wage Price Index growth nationally is low, and WA has the weakest growth rate of any state. Coupled with modest employment growth, this is constraining income growth. Wealth effects from falling house prices complete a bleak picture, particularly against the national backdrop of high household debt.

Indicators for **business investment** are starting to look more positive. On a quarterly basis, underlying business investment increased in Q2, driven by a rise in mining machinery & equipment investment. This is consistent with our view that mining sector investment is at, or close to, its trough. Mineral exploration is increasing and capex intentions from NAB's Quarterly Business Survey are at a solid level.



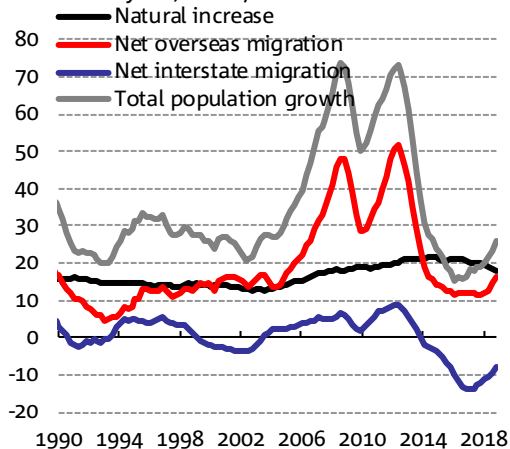
# WESTERN AUSTRALIA (CONT.)

**Winter crop production expected to decline in 2019-20, but level still solid**  
Wheat production, kt



**Population growth has stabilised**

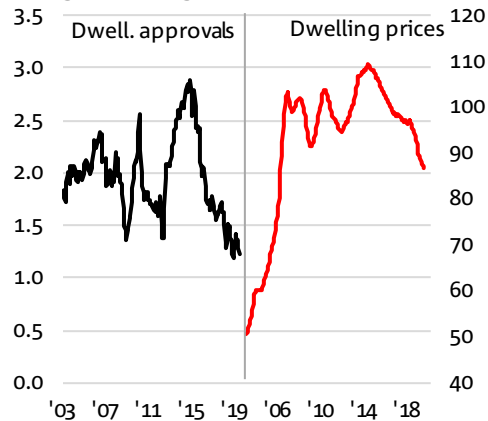
Source of population growth (change over the year, '000s)



Sources: ABS, ABARES, NAB

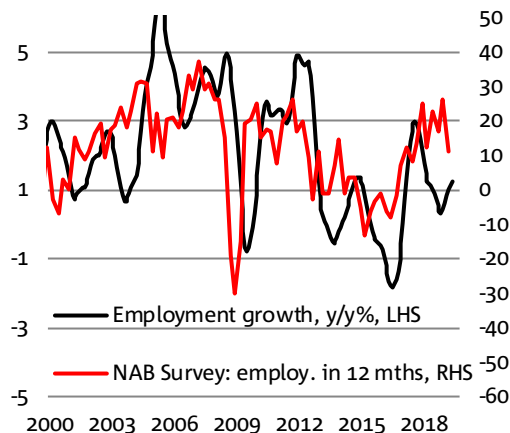
**Housing mkt – construction and prices falling**

Approvals ('000s, 3mth average), Core Logic dwelling home value index



**Jobs growth has been weak but future employment intentions more positive**

ABS employment and NAB Quarterly Business Survey employment in 12 mths index



**Goods and services export volumes** have been weak – falling by 2.1% over the year to Q2 2019. With resource exports expected to rise in coming years, this should support overall export growth. Service exports have also been under pressure in recent years – particularly business travel and professional/technical services – hinting out a broader fallout from the end to the mining boom, but they have stabilised in recent quarters.

**The outlook for agriculture** for 2019-20 is for lower crop production following last year's strong outcome. Moreover, domestic grain prices, while still elevated, have come-off their peaks somewhat. ABARES expects winter crop production to decline in 2019-20 to around average, but recent deteriorations in growing conditions suggest a weaker outcome.

There has been a big turnaround in underlying **public investment** – increasing 13% y/y in Q2 (from -9% y/y a year ago). The W.A. 2019-20 Budget anticipates strong growth in total public (Federal and state) investment in 2019-20 before moderating in subsequent years. Public consumption has also strengthened (to 2.9% y/y in Q2) with this solely driven by Federal government consumption (nationally, this has been driven by disability (NDIS) and aged care spending).

The **housing sector** continues to struggle. Dwelling investment fell 11.9% y/y in Q2 2019, with most of this occurring in the last two quarters. Building approvals are at low levels and the pipeline of work has also been falling. One positive is that population growth, while still subdued, has picked-up. The ratio of approvals to population change is back around its average level, which is a positive sign, but the on-going falls in house prices may yet put further downwards pressure on activity. **Perth dwelling prices** have been trending down since early 2014; from their peak prices are down 21%. In recent months there has been some deceleration in the pace at which prices are falling has decelerated and lower mortgage rates may also help, although we expect some further price falls this year and into 2020.

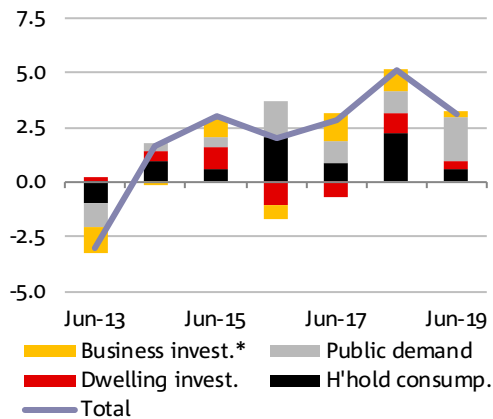
The **labour market** has shown some positive signs recently. Employment growth (trend basis) has recovered to a modest 1.3% in August – from a low of 0.3% earlier in the year, and the unemployment rate (trend basis) has moved below 6% (from 6.3% in late 2018). Moreover, despite some slippage in Q2 2019, the Quarterly NAB Business Survey employment in 12mths index remains at a solid level.

# TASMANIA

## Growth still reasonable but slowing

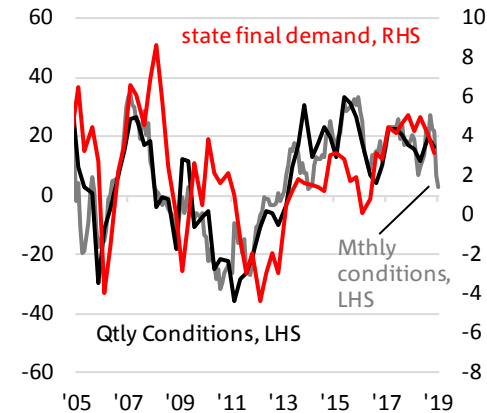
### Growth solid but easing

Ppt contribution to y/y% growth in state final demand



### Warning sign from business conditions

State final demand (y/y%), NAB Quarterly and Monthly Business survey – business conditions index



*The Tasmanian economy has continued to grow at a reasonable rate. However, growth has slowed and recent weakness in business conditions suggests that this may have further to go. Moreover, the unemployment rate has risen. Education, tourism and non-residential construction should help support activity.*

**State Final demand** growth has slowed, although it remains at a reasonable level. Growth of 3.1% y/y in Q2 2019 (compared to 5.1% y/y in Q2 2018) was still the strongest of any state or territory. As has occurred nationally, there has also been a rise in the unemployment rate (from around 6.0% in late 2018 to 6.6%)

Growth was supported by an acceleration in public demand, but private demand slowed considerably. The latter was mainly driven by very subdued **household consumption** growth. This likely reflects subdued wage growth but also a headwind from relatively higher price growth (the national accounts implicit consumption deflator was 1.9% y/y for Australia, but 2.8% for Tasmania).

While **residential investment** growth also slowed, its continued growth is in stark contrast to falling national investment. However, building approvals have fallen recently suggesting that the sector may come under pressure in the future, although the acceleration in population growth in recent years should support activity.

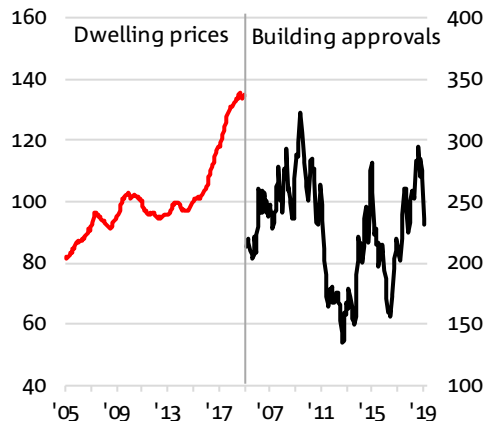
While underlying **business investment** has also slowed, an elevated pipeline for construction – driven by energy, accommodation (hotels), factory and warehousing projects – suggests investment should remain at a reasonable level. The recent weakness in investment has been in machinery and equipment and this may persist if the recent fall in business conditions were to continue.

Investment in accommodation reflects increased **tourism**. Overseas visitor arrivals have surged in recent years, but over the last year or so growth has started to moderate. **Education** services for international students has been another strong performer, and with international student commencements well up so far in 2019 (compared to 2018) this is set to continue.

The strength in **public demand** was evident in both consumption (service delivery) as well as underlying public investment (7.2% and 8.7% y/y respectively in Q2). However, the pipeline for public construction has declined and projections in the State's 2019-20 Budget point to the ramp-up in state investment in 2018-19 not being repeated in 2019-20.

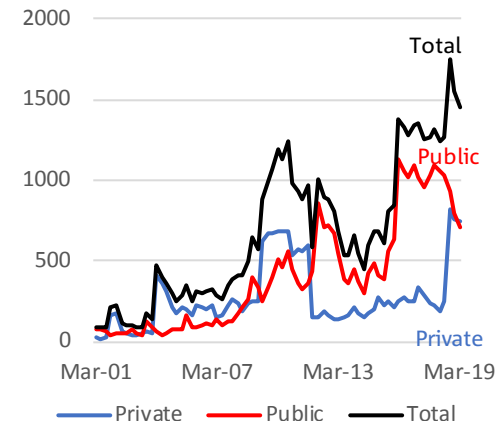
### Building approvals at a solid level but falling; house prices have levelled out

Non-residential building and engineering construction work yet to be done (\$m)



### High non-residential construction pipeline will support activity

Non-residential building and engineering construction work yet to be done (\$m)

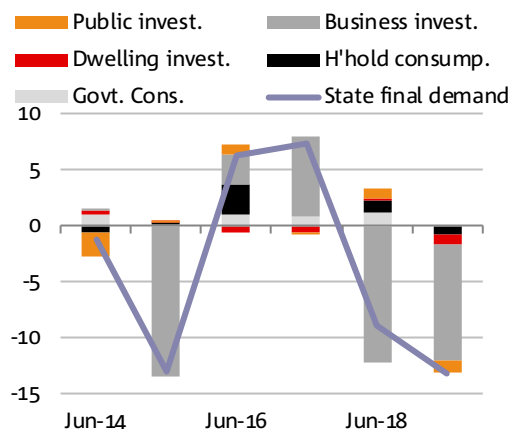


# NORTHERN TERRITORY

*Economy has weakened further over the last year... domestic demand, employment & population all falling*

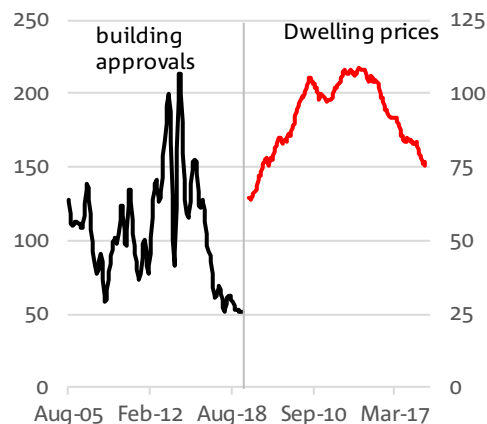
## Large, broad based, decline in demand

State Final Demand components – ppt contribution to y/y growth



## Housing – construction very low as prices continue to fall

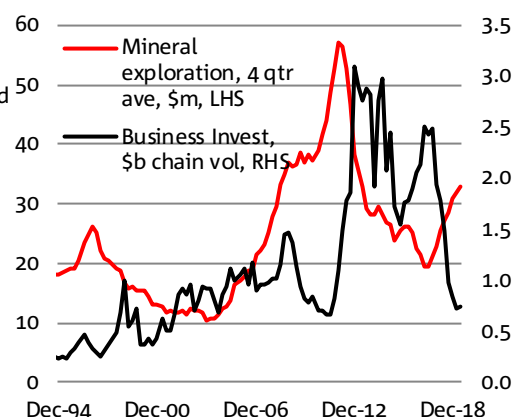
Dwelling approvals (trend), Core Logic HVI



Sources: ABS, Core Logic, NAB.

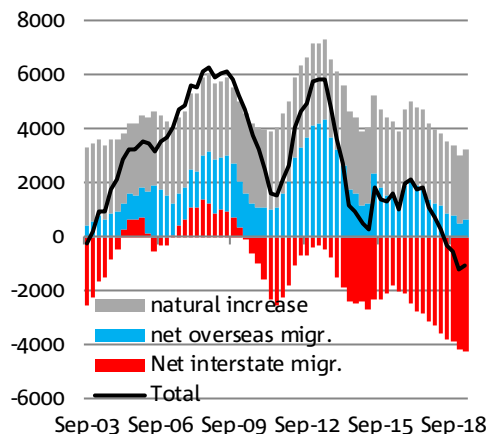
## Mining sector downturn bottoming out

Business investment and mineral exploration (ex petroleum) expenditure



## Population falling

Moving 12mth sum (number)



*The Northern Territory economy continues to struggle, with a broad based decline in domestic demand - led by falling business investment – falling employment and population. There are some positive signs - the drag from mining looks to have run its course, tourism is showing improvement and a flagged pick-up in public investment would also help.*

**State final demand** over the year to the June quarter 2019 declined by a large 13%, following on from a 9% fall the previous year. The main drag on demand continues to be business investment, which has fallen as the Ichthys LNG project reached the final stages of completion.

With a substantial part of investment demand met by imports, **Gross State Product** (GSP) will have held up better in 2018-19, but the broad based weakness in other segments of demand still points to a weak outcome for GSP in 2018-19. The ramping up of LNG production will support measured GSP growth in 2019-20.

Household **consumption** is being hit a combination of factors - weak wage growth, and falling employment and population. The large decline in dwelling prices since 2014 (a 30% fall from their 2014 peak) and the negative implications for wealth, is another headwind. These same factors have seen a large fall in **dwelling investment**, which fell by over 30% y/y in the June quarter 2019. Building approvals remain very low but in recent months have stopped falling, tentatively suggesting activity might be about to stabilise at a very low level.

**Public demand** also fell over the last year, due to a fall in state & local government consumption (service delivery) and investment. The Territory's 2019-20 Budget forecasts a pick-up in public investment but budget constraints will continue to weigh on consumption spending.

While business investment is well down over the last year, in Q2 (q/q) there was a small increase. Together with **mineral exploration** rising, the worse of the mining drag on growth may soon be over. Some major projects such as the Westin Darwin hotel and airport expansions will also help underpin the economy.

There are also tentative signs of improvement in **tourism** - overseas arrivals growth recently turning positive. Increased government spending directed towards tourism (e.g. for Jabiru and Kakadu) will also help the sector. For **agriculture**, while parts of the Territory are in drought the prospective Australia-Indonesia Free Trade Agreement offers the chance of improved future opportunities.

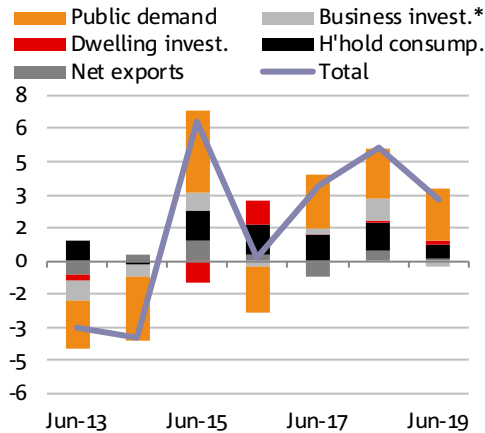


# AUSTRALIAN CAPITAL TERRITORY

*The ACT economy has slowed but it remains one of Australia's faster growing regions*

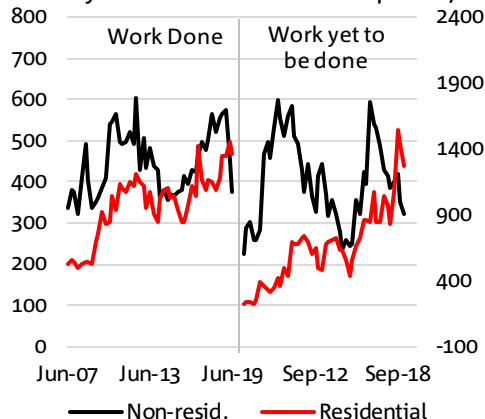
## Growth still solid but easing

Ppt contribution to y/y% growth in state final demand and net exports



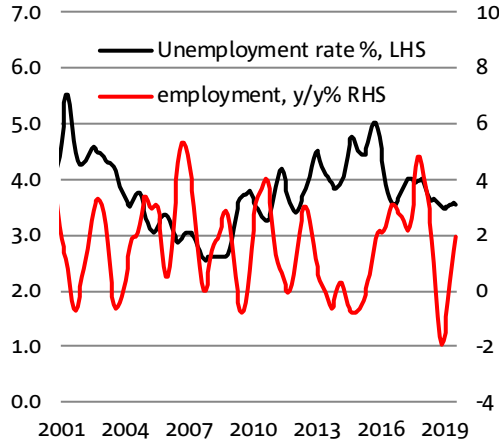
## Construction – housing still strong (for now) but other work is down

\$m (work done: chain prices; work yet to be done: current prices)



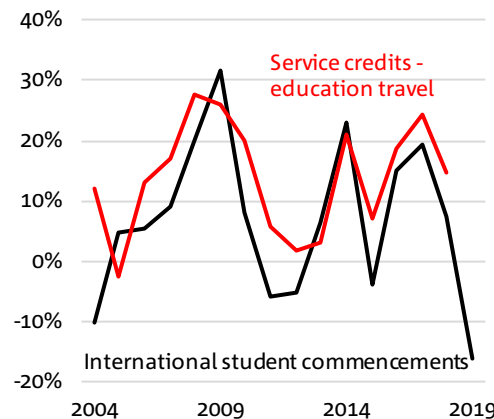
## Labour market in good shape

Unemployment rate and employment – trend basis



## Education exports have been strong...but 2019 not looking good

International services credits, international student commencements, y/y%\*



*The ACT remains one of the stronger regions but it hasn't escaped the nationwide slowdown. State demand growth has slowed due to falling investment and weak consumption. Construction indicators have softened, and education exports are under pressure. That said, population growth is still solid and unemployment is low.*

We expect the ACT in 2018-19 to record the strongest growth rate in Gross State Product of any state or territory (see page 2).

However, this does not hide the fact that the ACT economy, as is the case nationally, is slowing. State final demand grew by 2.7% over the year to the June quarter 2019, well down on a year ago and a broader range of indicators are weak or deteriorating (see p3).

The slowdown mainly reflects falls in both underlying business and public investment, and soft household consumption growth (in part due to subdued wage growth). Support from growth came from strong public consumption (service delivery) and growth in residential dwelling investment.

Residential construction activity is supporting the construction sector, notwithstanding a fall in Q2 2019. The pipeline of residential work also remains high but it has come off its peak and the decline in approvals to low levels by recent standards suggests residential investment will come under pressure. Still solid population growth will provide an ongoing support to the sector.

Non-residential building and engineering construction work has fallen sharply so far this year, and the pipeline of work is also relatively low. In 2019-20 some support will likely come from ACT government spending, with its budget projecting an increase in infrastructure spending after a fall the previous year (although the bulk of public investment is by the Federal government).

Export volumes continued their rapid growth over the year to Q2 2019 although import growth was also robust. Exports of goods and services by the ACT are almost entirely services, with education services the largest component (by value) and it has grown strongly in recent years. In this light, it is concerning that international student enrolments are well down so far this year.

The labour market is in good shape. The unemployment rate was a low 3.5% in August (trend basis), and employment growth has rebounded this year.

Sources: ABS, Core Logic, Department of Education, NAB. \*2019 observation is six months to June compared to same period in 2018.

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