

STATE ECONOMIC OVERVIEW

APRIL 2020



National
Australia
Bank

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STATE ECONOMIC OVERVIEW

No state or territory will be spared from Covid-19 economic fall-out

Efforts to contain the Covid-19 virus are having a very sharp impact on the Australian economy, as highlighted by the March NAB Monthly Business Survey. Business confidence plummeted to record lows (around twice as bad as the bottom of the 1990 recession). Similar un-precedented results were reported for falls in forward orders and, while not quite at record lows, business conditions also collapsed – and no doubt will fall further from here.

The depth and duration of the recession underway will depend on how long the virus takes to get under control, the extent of containment measures and the timing of the phasing back to normal. Given the risks of a second phase of the virus we are expecting a conservative approach by the authorities. Our forecasts essentially assume that the economy will be turning the corner by the fourth quarter and bounce back very strongly in growth rate terms.

We expect Q1 GDP growth will be a small negative with supermarket retail hoarding helping to offset losses elsewhere in services and hospitality. The big hit is in Q2 where we can see GDP falling by 7%. The economy is not expected to start growing again until Q4. We expect year-average growth of -4.3% in 2020 and 3½% in 2021. Even with the recovery in 2021, these forecasts don't see the level of GDP recorded in Q4 2019 exceeded until early 2022.

The usual lag from growth to unemployment is likely to disappear in current circumstances, with an immediate impact on unemployment likely. We expect that the “Job Keeper” package will help to contain unemployment at around 11¾% by mid-year with little improvement in the back half of 2020. State and territory governments have also initiated a wide range of measures to support their economies. With a protracted recovery in the level of activity and the expiry of some fiscal packages we see unemployment still at around 7½% by end-2021. This will in turn see even weaker wage growth.

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			
	17-18	18-19f	19-20f	20-21f	17-18	18-19	19-20f	20-21f
NSW	2.5	1.9	-0.2	-2.2	4.8	4.4	6.2	9.9
VIC	3.4	3.0	-0.3	-2.7	5.6	4.6	6.4	10.9
QLD	3.7	1.4	-0.3	-2.7	6.0	6.1	7.6	11.6
SA	2.3	1.4	-0.2	-2.1	5.8	5.8	7.8	11.3
WA	2.5	1.0	-0.3	-2.5	6.1	6.1	7.4	11.3
TAS	3.5	3.6	-0.3	-2.0	5.9	6.3	7.5	10.5
NT	2.0	-1.5	-0.7	-4.1	4.2	4.5	7.2	9.2
ACT	3.7	3.0	-0.3	-1.5	3.9	3.6	4.7	7.0
Australia	2.9	2.0	-0.3	-2.5	5.5	5.1	6.8	10.7

No state/territory will be immune from the fall-out. Large falls in business conditions occurred across all states in March. Business confidence and forward orders fell to record lows in most states except Tasmania (but it had the worst conditions).

Even before Covid-19 containment measures ramped growth across most states & territories was sluggish. There were signs of an improvement in the more mining focussed regions (WA/NT) highlighted by increased mineral exploration and a number of new projects had been mooted, but the large falls in commodity markets – particularly energy - means this will largely go on hold.

It is difficult to identify industries that will be unaffected, although public sector (at least in terms of employment), agriculture and ICT will likely be the most resilient. In aggregate, these sectors are most important in the smaller regions (NT, ACT, Tasmania). In part, this may simply mean problems are deferred till the time the large Covid-19 fiscal packages are replaced by cost-cutting to bring budgets under control, a notable concern for the NT given its weak budget position. Agriculture is one area where, after a long drought in some regions (mainly NSW/Qld), things have brightened due to improved growing conditions and AUD prices rising, although there are [risks](#) to the sector.

Travel and hospitality were some of the first affected sectors, and February overseas visitor data (only partially affected by travel bans) saw large falls outside of WA/NT, including in international student arrivals. The provision of education services to overseas students has been an important source of growth in recent years, particularly in NSW, Vic, Tas and the ACT. How well this sector recovers when restrictions are lifted is a source of uncertainty, given the potential to substitute on-line for in-person teaching. For tourism the risk is that it may be the last sector to have restrictions removed but with more Australian's going overseas than coming here, there are opportunities as well. While overseas tourism is more directed at the larger regions, domestic tourism is more important to the smaller ones and for the immediate future will be feeling the impact of domestic travel restrictions.

More broadly the impact on population growth will be important to watch as it has implications for a wide range of sectors including retail and housing. Vic and Qld have had the fastest population growth rates due to both positive net interstate and overseas migration, and will be more affected the longer travel restrictions remain in place. For NSW, SA, WA & NT who have negative net interstate migration the short-term impact will be less severe but ultimately opportunities in a region will drive flows.

Housing activity was slowing pre-Covid-19 and this is set to continue. While house prices had started to turn (particularly Sydney, Melbourne), we now expect to see a fall in 10-15% nationally.

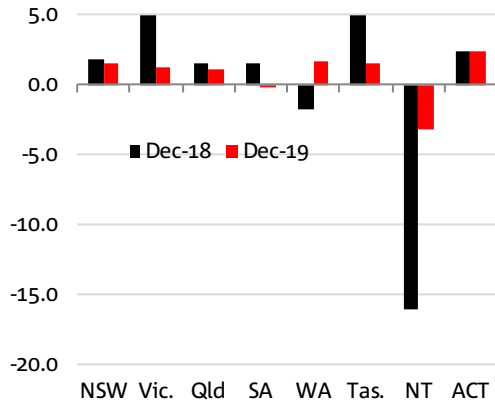


STATE OVERVIEW IN CHARTS (1)

Lower commodity prices bad news for mining regions, consumer sentiment plunges and employment tumbling

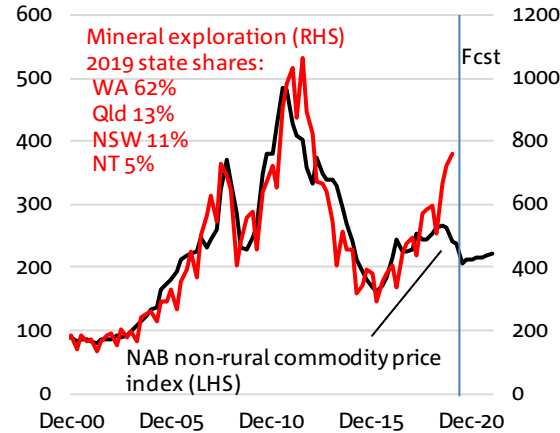
State demand growth generally eased last year...signs of recovery in mining states

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



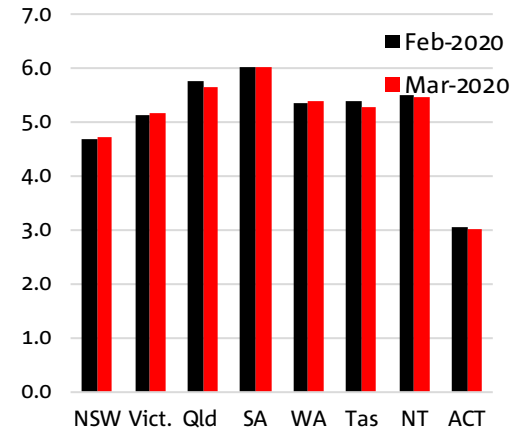
Global recession and fall in commodity prices will put mining investment on hold

Mineral exploration expenditure (\$m), NAB USD
non-rural commodity price index



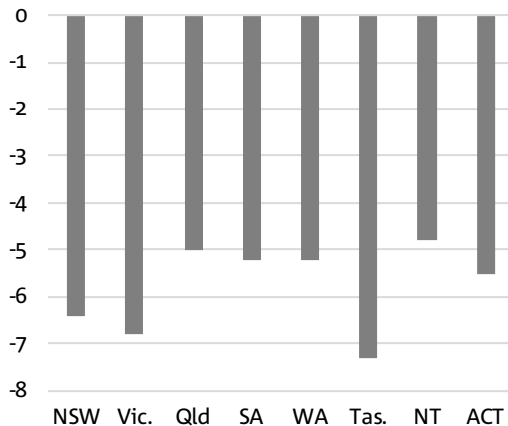
Unemployment rate little changed in March – survey before ramping up of virus containment

Unemployment rate (%), trend basis



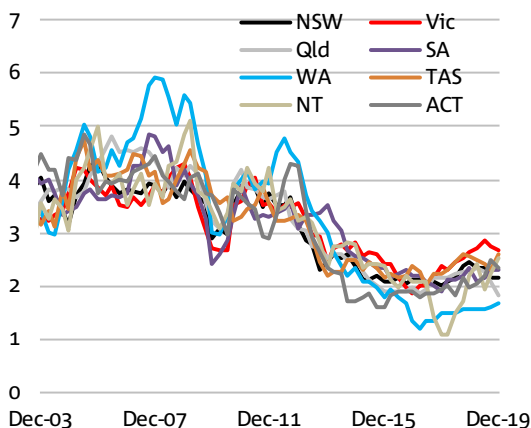
Huge jobs losses evident across all states & territories in just a few weeks

Change in employee jobs 14 Mar to 4 April



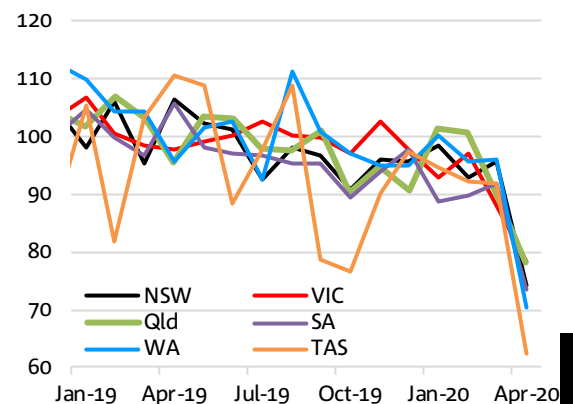
Wage growth, already weak, will come under pressure, restraining consumption

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



Consumer sentiment declined sharply in all States in April

Westpac/Melbourne Institute Consumer Sentiment

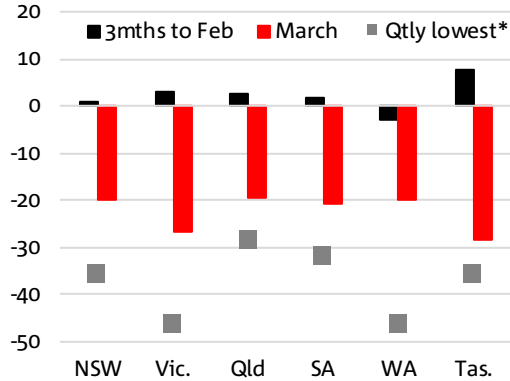


STATE OVERVIEW IN CHARTS (2)

Business confidence and conditions plunged in March; travel one of worst affected sectors and popn flows set to stall

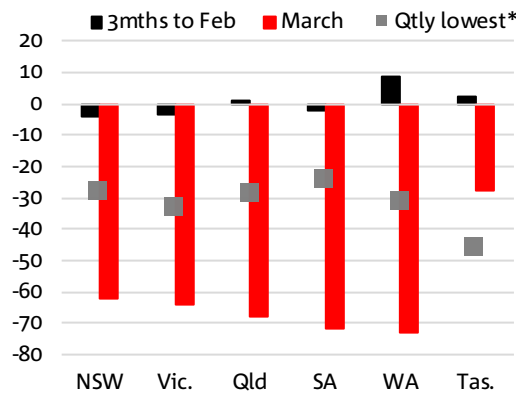
March business conditions fell off a cliff...but virus containment only ramped up in 2nd half of March – forward orders and business confidence indicate April will be worse. No state will be immune

NAB monthly business survey (Qtly survey dots)
Business conditions (s.a.)



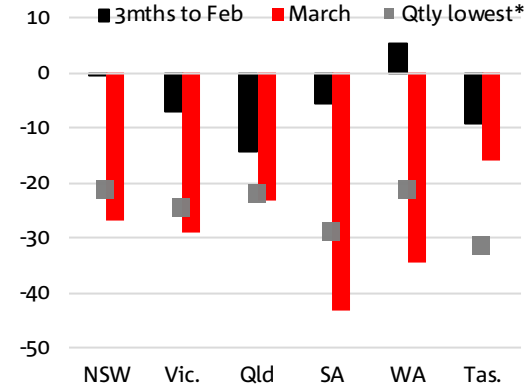
* Lowest qtlly survey reading since 89 (2000 Q2 Tas)

Business confidence (s.a.)



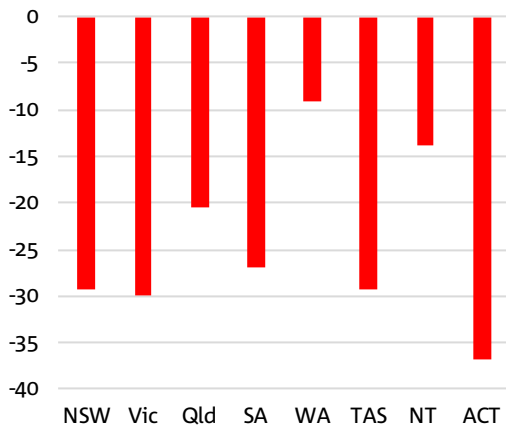
* Lowest qtlly survey reading since 89 (2000 Q2 Tas)

Forward orders (s.a.)

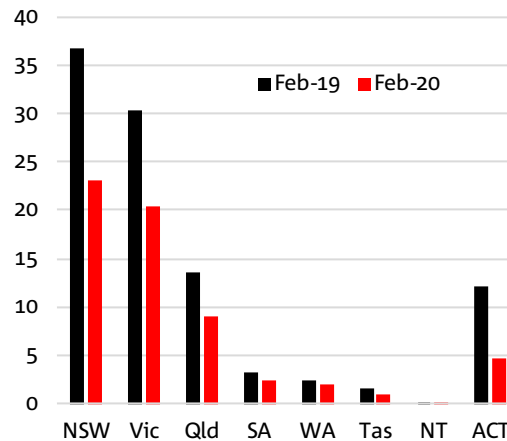


* Lowest qtlly survey reading since 2000 Q2

Travel one of the first affected sectors – Feb data bad, worse to come
Overseas short-term visitor arrivals, y/y%

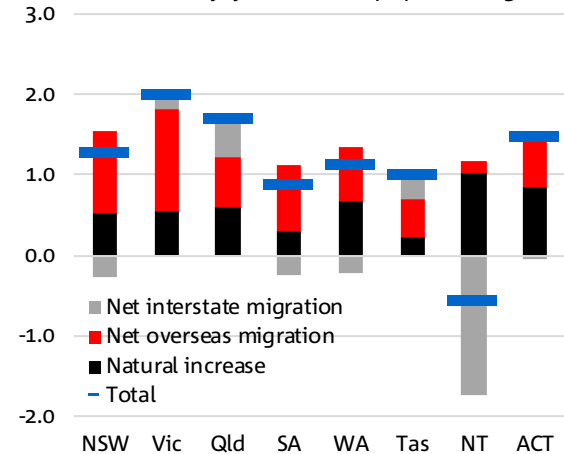


Including large falls in arrivals of international students
International student visa arrivals, '000s



Travel restrictions likely to slow popn. flows – Vic/Qld likely most impacted. Longer term what happens to overseas migration?

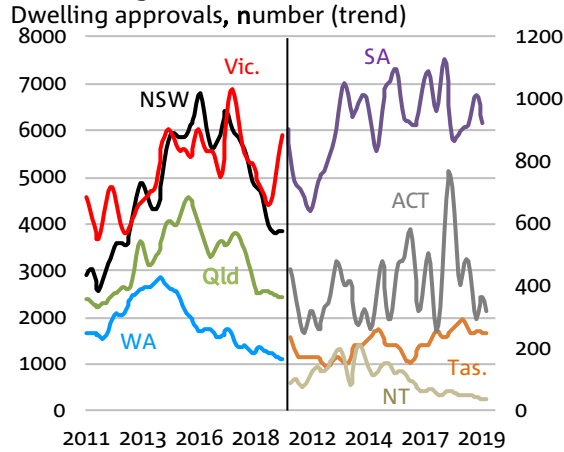
Contribution to y/y residential population growth



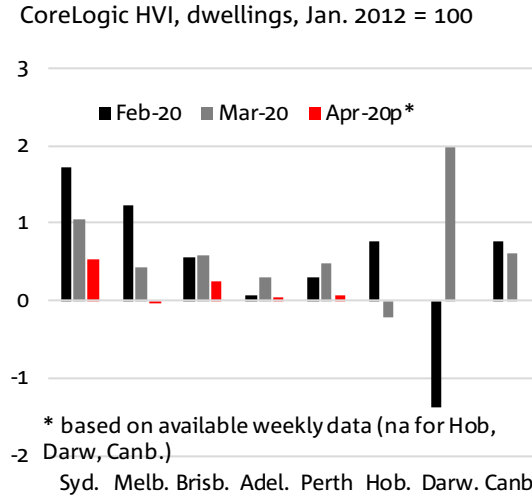
STATE OVERVIEW IN CHARTS (3)

Housing activity already declining pre-Covid-19, but recovery in house prices likely to be reversed; agri doing better

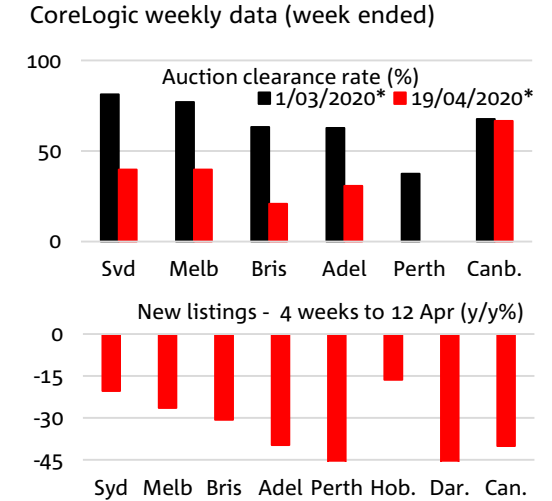
Popn growth part of growth story for many sectors...housing construction already weakening ahead of Covid-19



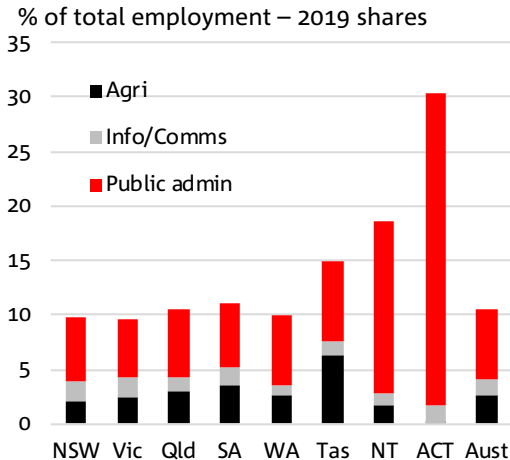
House prices starting to slow down, expect prices to fall due to recession



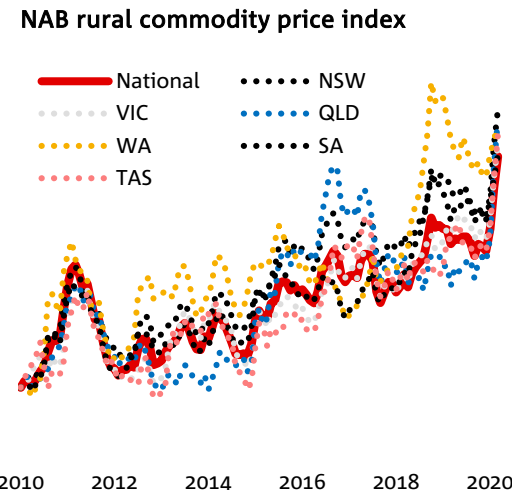
Turnover declining as well with auction clearances and new listings down



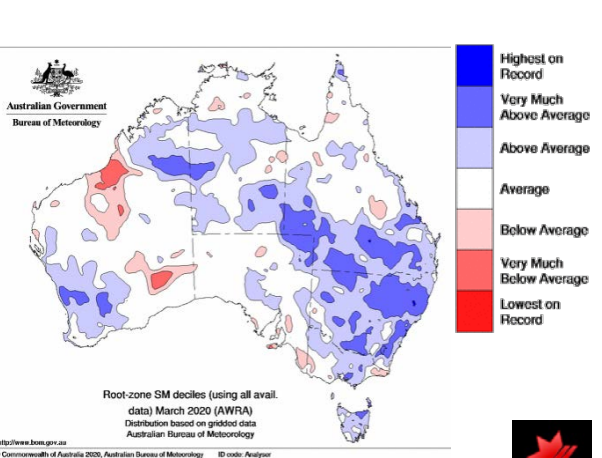
Hard to identify less affected industries – maybe agri, public, ICT & some retailers – helps smaller states at least for now



Agriculture one sector looking more positive with prices rising....



...and growing conditions looking good

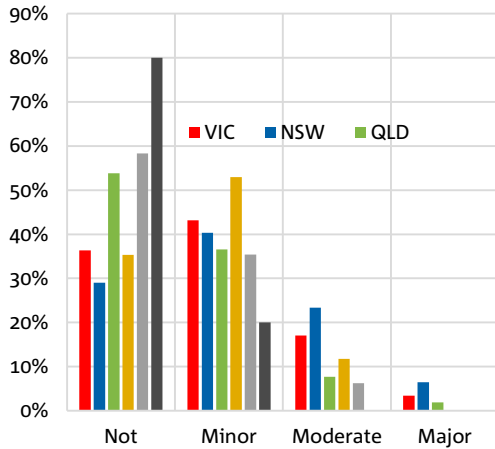


STATE OVERVIEW IN CHARTS (4) -

For some businesses, the Covid-19 impact comes after severe summer bushfires; state budgets to also feel the pinch

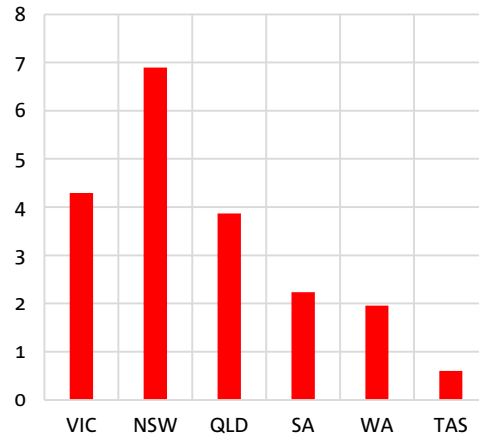
Bushfire disruptions minor for many but mod.-to-major NSW/Vic

Level of disruptions (% responses)



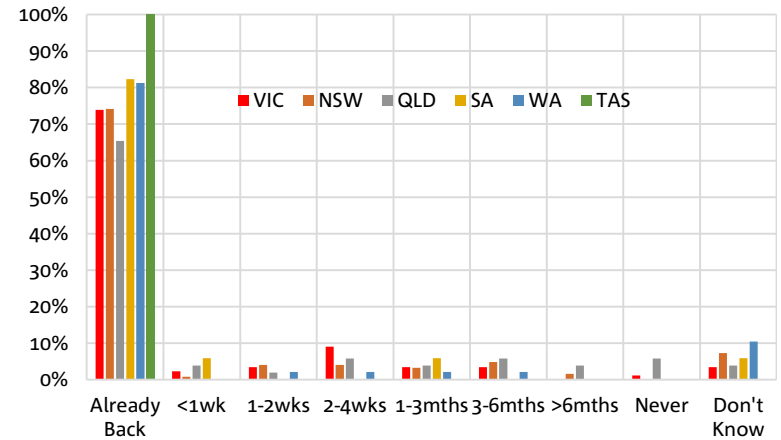
Average disruption highest NSW, Victoria, Qld

Days of disruption (average days)



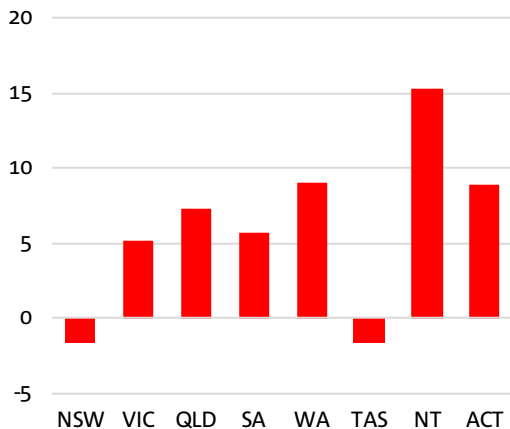
But almost 20% of respondents in Qld said it would take 1 month or more to recover (or never)

Time to recover (% of responses)



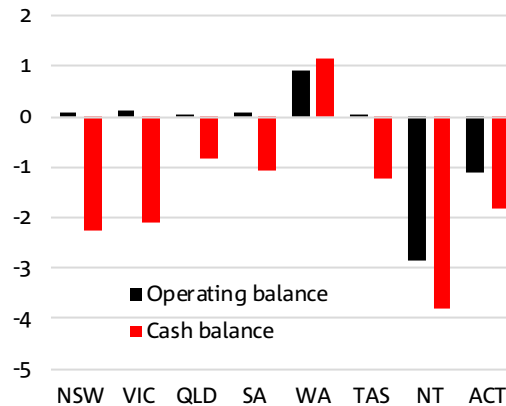
Most states net debt at reasonable levels in 2018-19; Tas, Vic strongest, NT highest

Gen. Govt net deb, % GSP, 2018-19



Pre-covid-19 most states expecting cash deficits...but generally under control (less than nominal GSP growth)

Gen. Govt budget balance, % GSP



However, Covid-19 adds budget pressures – support packages understate full impact due to revenue loss – overall NT the most main concern

NAB estimates of announced Covid-19 packages, % GSP



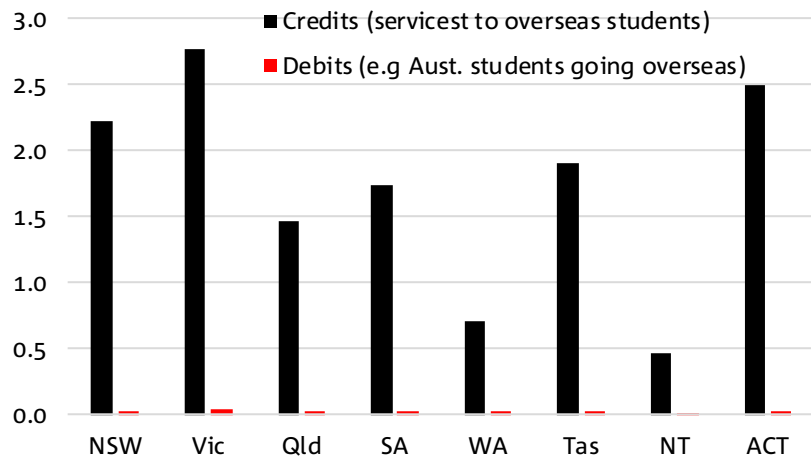
Sources: NAB. 2019-20 state government budget update or equivalent. * Only includes identified spending out of \$24.5b fund announced in April.

TOURISM & OVERSEAS STUDENT MARKETS FACE AN UNCERTAIN FUTURE

Uncertainty over how long travel restrictions will stay in place, tourism & overseas education face uncertain futures

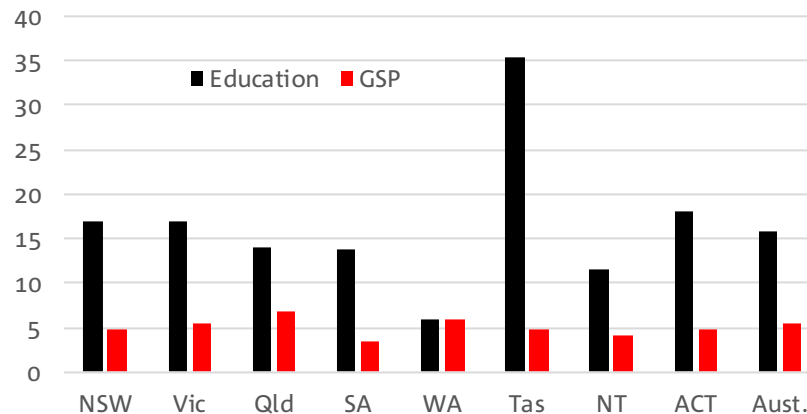
International students most important to NSW, Vic and ACT economies...relatively few Australian's study overseas so hard to make up if big, medium term impact from Covid-19

Education services credits and debits (% of nominal GSP)



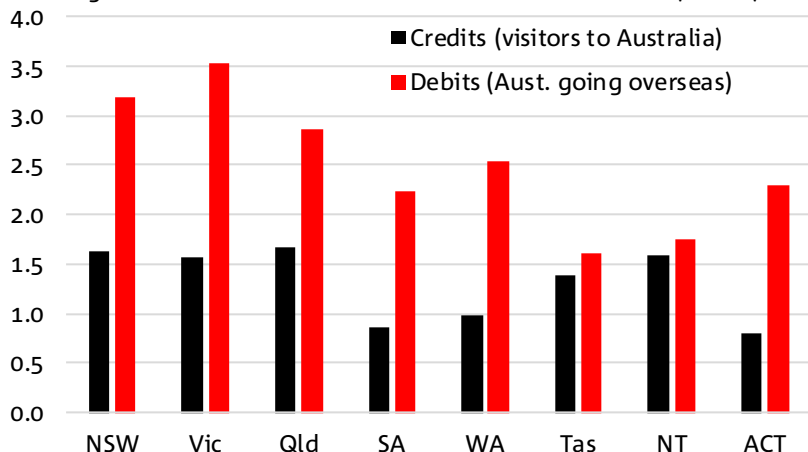
Education services for overseas students have been growing much faster than rest of economy in most state & territories (ex WA)...would be a big gap to fill

Annual average growth 2016-17 to 2018-19 in nominal values, %



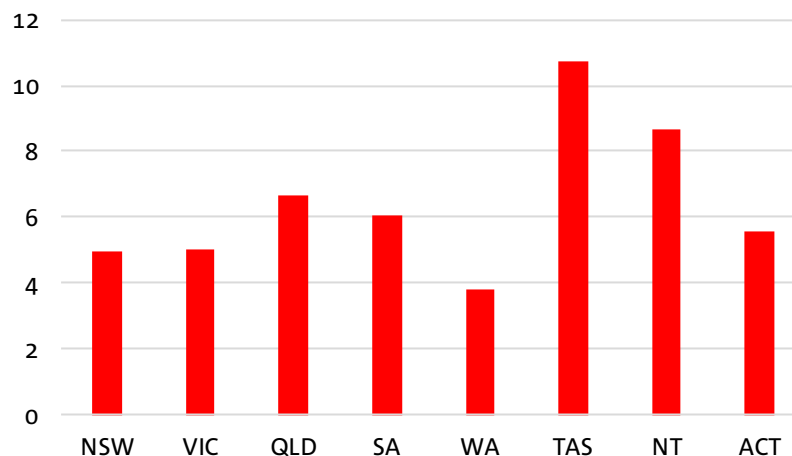
Overseas tourism & business travel larger than education, but scope to turn Aust. overseas holidays into domestic ones

Passenger and non-education travel service credits & debits (% GSP)



However, in near term domestic tourism will be significantly affected by travel restrictions – a concern to smaller states/terr.

Regional trip expenditure, year ended Sep 19, day & overnight trips (% GSP)

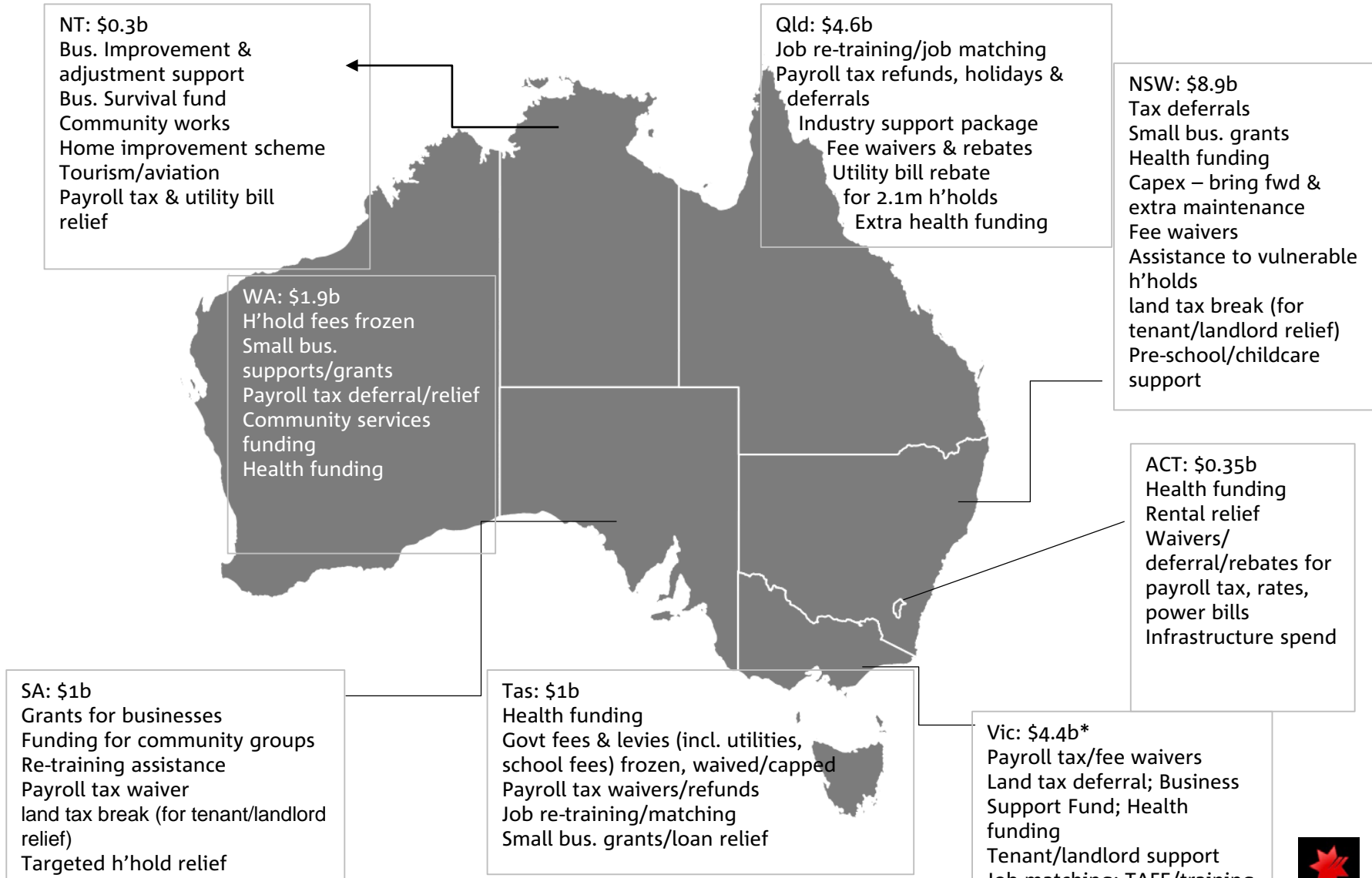


Sources: ABS, NAB. Note GSP has been used to scale the relative importance of different sectors to the states.



STATE GOVTS MOVING TO SUPPORT COMMUNITIES

\$320b of Commonwealth measures the main fiscal response, but state/territory government also supporting h'holds & businesses



Sources: Various state government websites, media reports. * Victoria has also set up a \$24.5b two year fund but only specific measures we have identified are listed

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