

# STATE ECONOMIC OVERVIEW

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National  
Australia  
Bank

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# STATE ECONOMIC OVERVIEW

## *Latest restrictions will hit Victoria's economy hard, but COVID-19 has impacted all states*

The move in early August to stage 4 restrictions Melbourne, and stage 3 for the rest of the State, and fears of further spread, has led to a significant downgrading of our economic outlook.

Our internal data and the NAB Monthly Business survey suggest that consumption and the broader economy was maintaining its recovery momentum until late July. That said capacity levels were still well down from late last year, forward orders did not really improve in July and confidence retreated significantly – all before the Victorian stage 4 restrictions.

The restrictions in Victoria could well reduce Victorian output by around 15% in Q3. Nationally that would take around 3 per cent off Q3 GDP. Over the course of 2020 we now see output down around 5.7% nationally including a fall of 6.25% in Q2 (-3.8% in year average terms). With the withdrawal of current fiscal stimulus in early 2021 we don't really see a rebound in growth till mid 2021. As a result we see GDP rising by around 3% through 2021 –but less than 1 per cent in year average terms, with GDP not returning to its end 2019 level until early 2023.

Consequently, unemployment is expected to peak at around 9.6% in early 2021, and to still be around 7.6% by end 2022. One implication of this is wages growth will remain lower for longer, as will inflation. We also expect house prices to fall by around 10-15%; while prices are likely to fall in all states this will be led by Sydney and Melbourne which will be impacted by slowing population growth and increased supply. We also expect to see more substantial falls in commercial property prices –especially in retail & office in Sydney / Melbourne CBDs.

While the focus is currently on Victoria due to introduction of stage 4 restrictions, no state/territory is immune from the fall-out of COVID-19. While

### **NAB STATE & TERRITORY ECONOMIC FORECASTS**

#### **NAB growth forecasts for the states & territories**

	Gross State Product YoY			
	18-19f	19-20f	20-21f	21-22f
NSW	1.9	-0.5	-2.7	1.5
VIC	3.0	0.2	-9.2	7.9
QLD	1.4	0.0	-0.8	1.7
SA	1.4	-1.5	-1.3	1.5
WA	1.0	1.3	-0.8	1.9
TAS	3.6	-1.4	-2.4	1.4
NT	-1.5	-1.7	-1.4	1.8
ACT	3.0	1.4	-2.6	1.1
<b>Australia</b>	<b>2.0</b>	<b>0.0</b>	<b>-3.5</b>	<b>3.0</b>

high frequency indicators such as NAB's internal data and google mobility have notably weakened in Victoria, they have softened in the other states as well.

While business conditions have improved in recent months (prior to Victoria's latest restrictions) - particularly in WA, SA, Tas. and, to a lesser extent, Qld - forward looking indicators are generally softer, and business investment expectations have plummeted. While business confidence and forward orders in WA have returned to positive levels (and to a lesser extent in Tas.), its mining sector won't escape the fallout as commodity prices have softened due to the downturn in the global economy. Structural changes accelerated by COVID-19 such as on-line retail and more work from home will also disrupt existing business models across all states & territories.

Labour markets have deteriorated across all regions as has wage growth and consumer sentiment, which will result in ongoing headwinds to consumer spending and housing market activity. Similarly, the slowdown in population growth due to international border restrictions will impact all states. For some (NSW, SA, WA, ACT and, particularly, the NT) this may be partly offset by lower net interstate emigration while cross-state restrictions remain in place, although the reverse is true for Victoria, Qld and Tasmania.

Travel restrictions have also led to a collapse in international tourism and interstate border restrictions will make it more difficult to offset through domestic tourism (and for Victoria, with the current restrictions this won't be a source of relief either). The loss of interstate tourists will mostly likely be felt by Queensland, W.A. and NT as more travellers come in from interstate than go out to other states. That said, a lot of domestic tourism is actually intra-state.

The provision of education services to overseas students has been an important source of growth in recent years, particularly in NSW, Vic, Tasmania and the ACT. The longer term implications of Covid-19 to this sector are still unclear. While current enrolments have held up, new student numbers are down for these states (except Tas.) and course deferrals are up.

Australian agriculture has been spared many (but not all) of the pandemic impacts so far. Seasonal conditions and the AUD are the biggest considerations at present. Some cropping areas are short of rain but the outlook is for a very wet spring in eastern Australia and a 70% chance of La Nina.

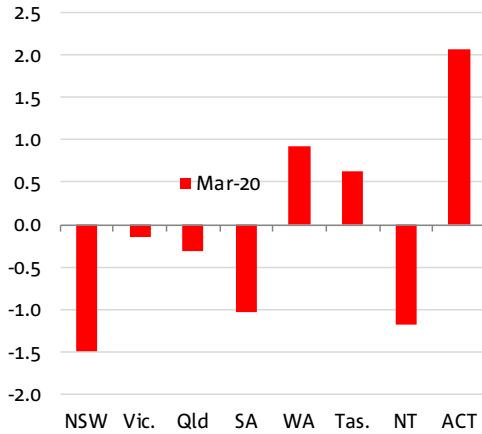
Our forecasts are based on restrictions currently in place but clearly as events in Vic and New Zealand have shown the situation can change rapidly. Not surprisingly, our forecasts are generally stronger in 2020-21 for those states that have had more success in containing the virus. The quick recovery in China will help support export volumes (particularly important for WA/NT).

# STATE OVERVIEW – Q1 WEAKNESS AS COVID-19 HITS ECONOMIES

*Q1 decline in Aus. economy mainly reflected in weak private demand along east coast & SA; larger falls certain in Q2*

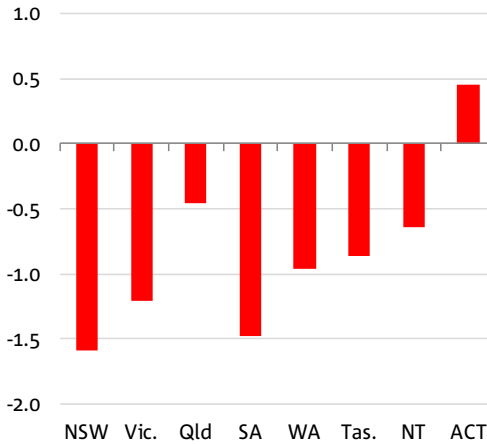
## State final demand – declines along east coast and NT as COVID-19 takes its toll

March quarter 2020, State final demand, s.a., chain-volume, q/q%



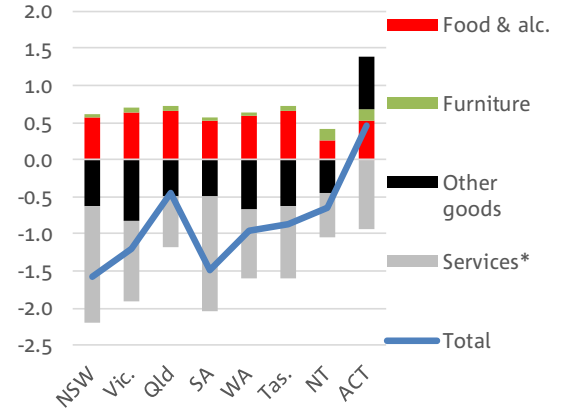
## Household consumption fell across most states/territories in Q1

March quarter 2020, Household consumption, s.a., chain-volume, q/q%



## Services/discretionary goods hard hit; ACT boosted by MV sales following hail damage

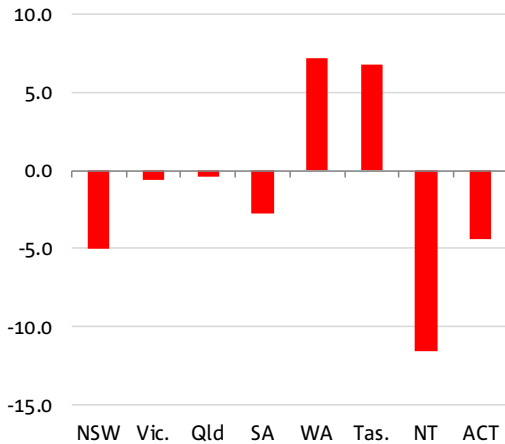
March quarter 2020, Household consumption categories, s.a., chain-volume, q/q%



\* includes 'other goods & services' category

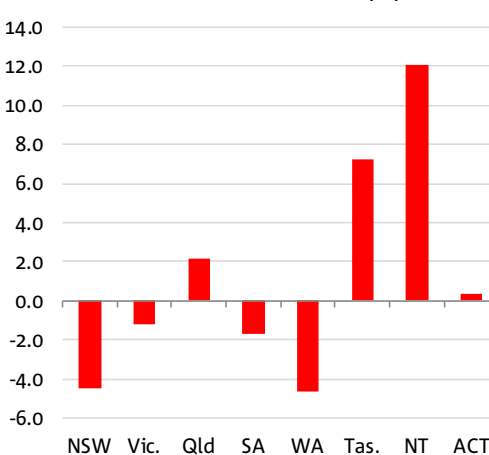
## Business investment under pressure; WA supported by mining sector in Q1

March quarter 2020, Underlying business investment, s.a., chain-volume, q/q%



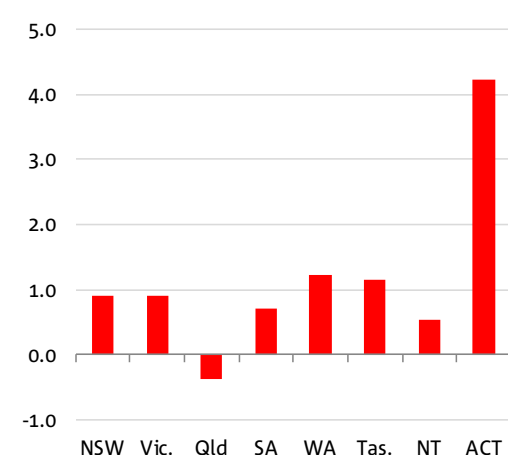
## Dwelling investment also falling in most states

March quarter 2020, Underlying business investment, s.a., chain-volume, q/q%



## Government spending still generally a support

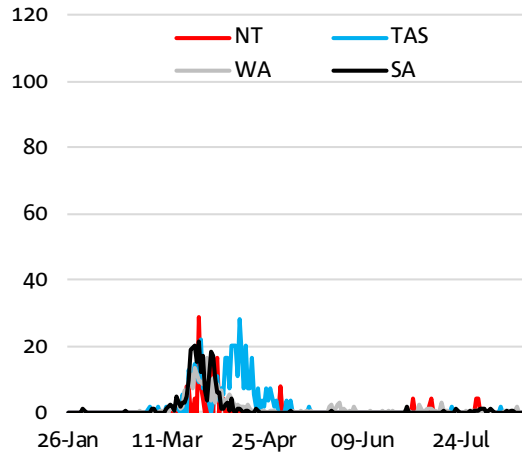
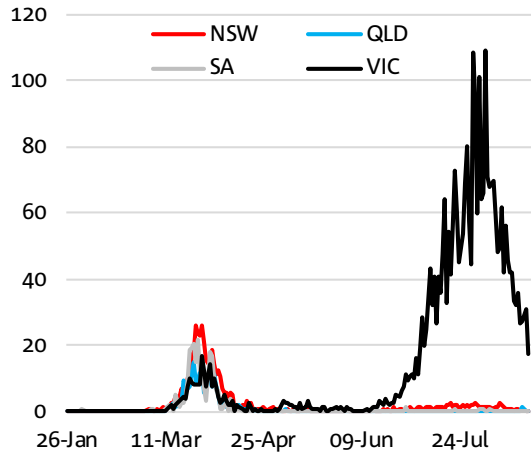
March quarter 2020, Underlying public demand, s.a., chain-volume, q/q%



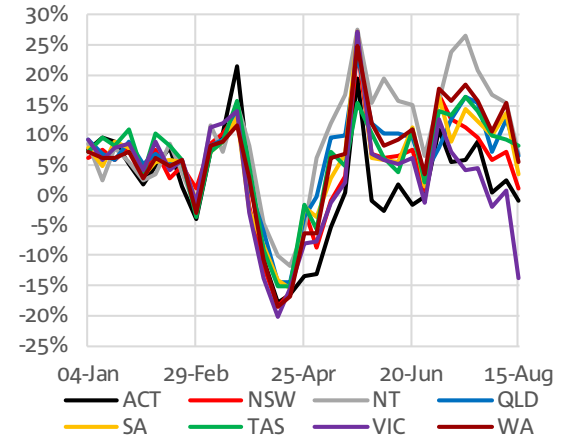
# COVID-19 CASES AND HIGH FREQUENCY INDICATORS

*The impact of the re-introduction of COVID-19 containment measures in Victoria in early July and August is evident in high frequency indicators – Victoria will be worst affected but other states not immune*

Increasing case numbers in Victoria led to the re-introduction of restrictions in Victoria in early July (Melbourne/Mitchell shire) and then further restrictions in early August. Interstate border restrictions also tightened as a result  
Daily change in confirmed cases per million residents

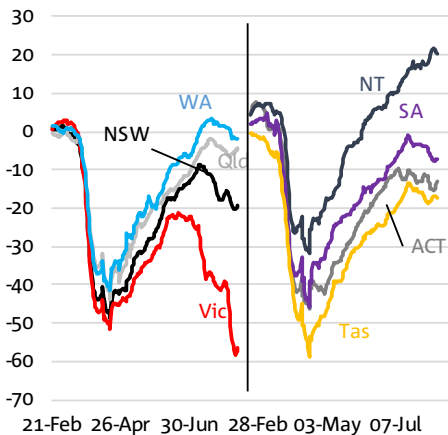


Vic July restrictions followed by sharp decline in spending ...other states slowing as well  
Consumption spending, % change on year earlier\*



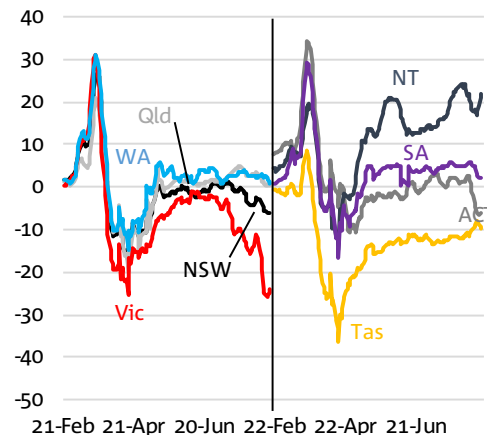
Similar story with google retail/rec.visits data – but Vic noticeably worse

Google mobility report - visits: recreation. & retail (% devn from baseline, 7day ma)

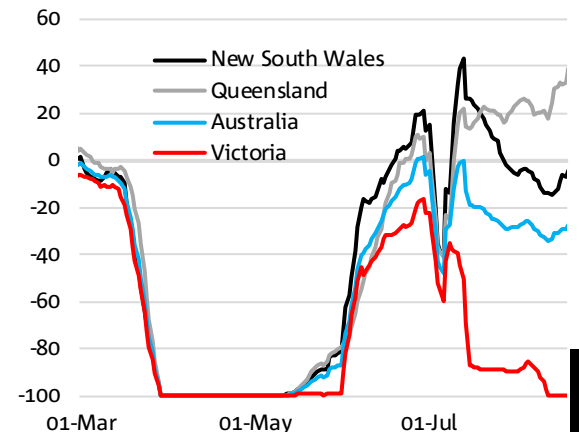


Temporary boost from hoarding not evident in Vic second time around

Google mobility report - visits: grocery & pharm (% devn from baseline, 7day ma)



Restaurants in Victoria hard hit by renewed restrictions; NSW traffic has also eased  
OpenTable, seater diners, y/y (7 day m.a.)

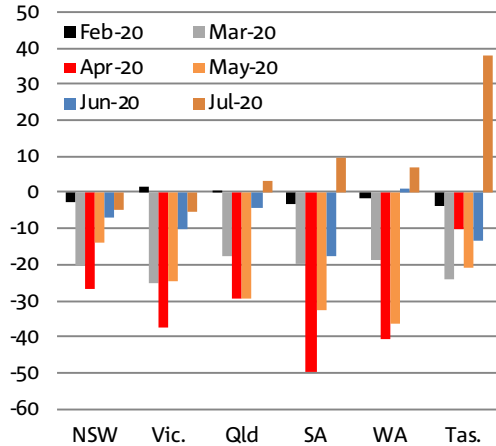


# BUSINESS SECTOR

*Business conditions recovering prior to Vic stage 4 restrictions – but forward looking indicators weak & confidence fragile*

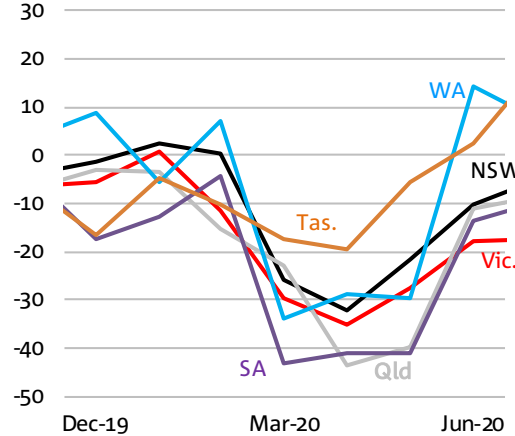
**Business conditions plummeted...recovery underway, but still weak in NSW and VIC, even before latest Vic restrictions**

NAB Business Survey, Business conditions, s.a.



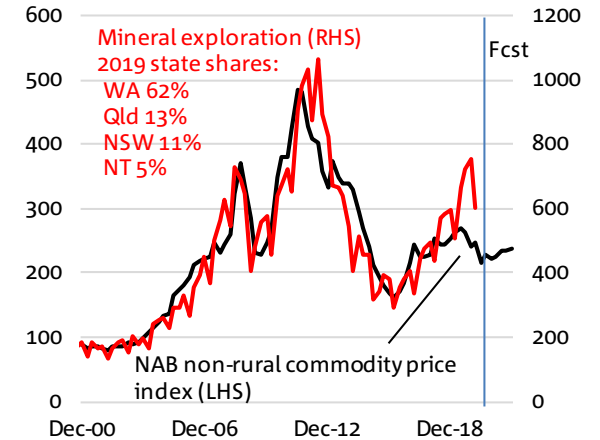
**Forward looking indicators have also improved but still very weak outside WA/TAS**

NAB Business Survey, Forward orders, s.a.



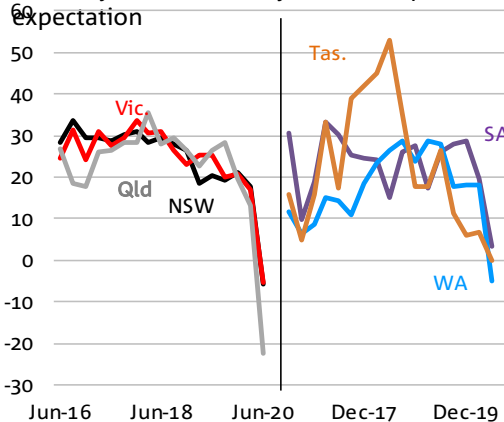
**In time, the downturn in commodity prices will be a headwind, particularly for the 'mining states' (WA/NT)**

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



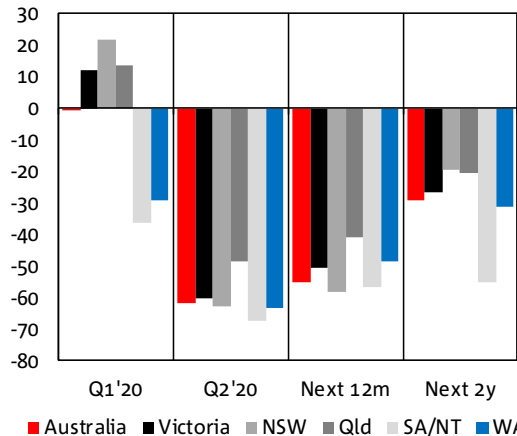
**Investment expectations plunge across the board in Q2 – uncertain outlook & decline in profits will hit investment**

NAB Qtly business survey, 12 mth capex expectation



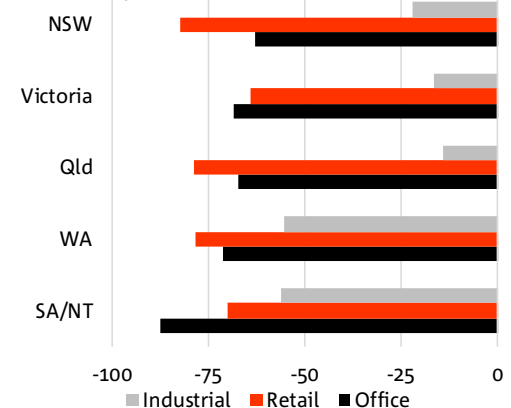
**Commercial property in the doldrums and likely to be weak for extended time**

NAB Commercial Property Survey, Commercial property index



**Office, retail & hotels worst hit – due to travel & other restrictions, online sales/remote work**

NAB Commercial Property Survey, Commercial property index

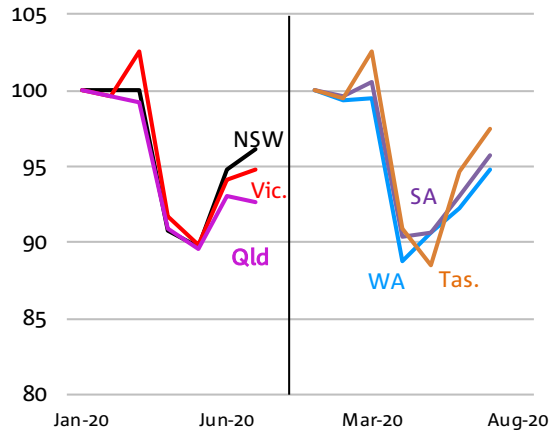


# LABOUR MARKET

*Labour market recovery incomplete and possibly stalling even prior to Melbourne stage 4; wage growth weakens further*

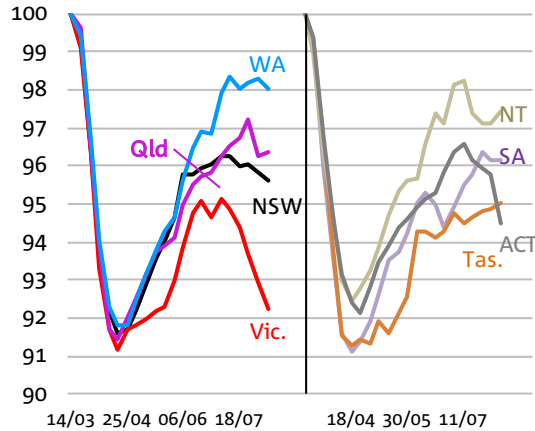
## Partial recovery in monthly labour market data

Hours worked s.a., Jan 2020 = 100



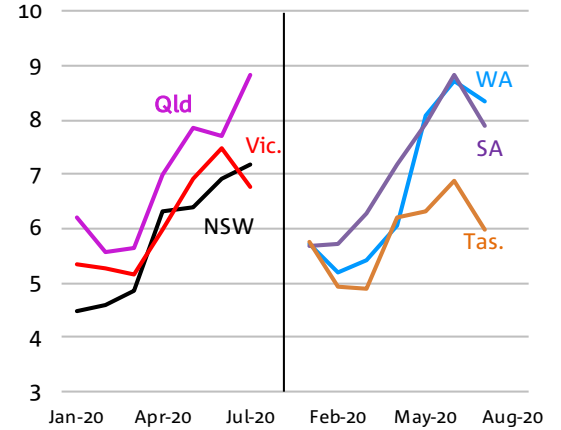
## Weekly payrolls suggests recovery stalling; Vic. going backwards following restrictions

Weekly payroll jobs, 14 March = 100, n.s.a.  
Data to 8 August



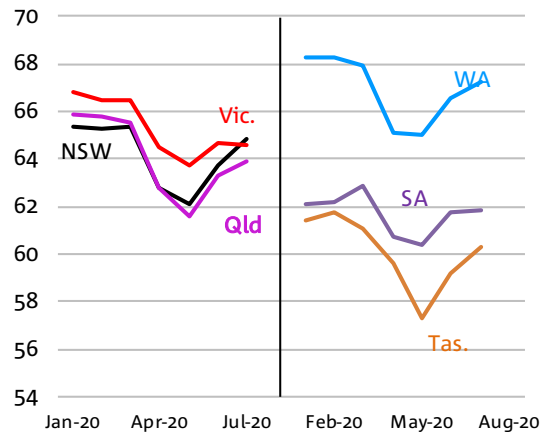
## Unemployment rate up, but eased in some states in July...will continue to come under pressure...

Unemployment rate (%), s.a.



## ...from latest Vic restrictions and people returning to labour market

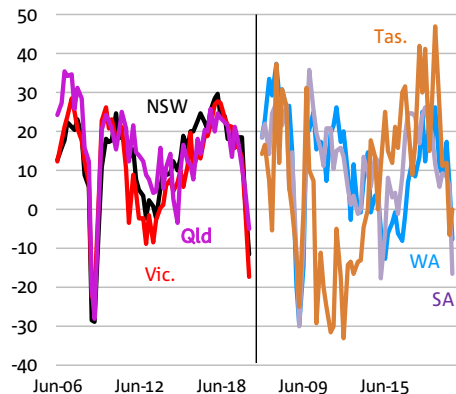
Workforce participation rate (%), s.a.



Sources: ABS, NAB

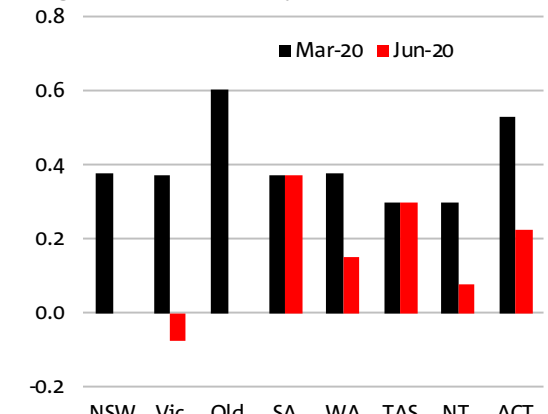
## Employers will be reticent to take on staff given uncertain path ahead

NAB Qly Business Survey (Q2 2020), employment expectation in 12 months



## Wage growth slows abruptly in Q2, particularly for NSW, Vic & Qld; but weak labour market will affect all

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

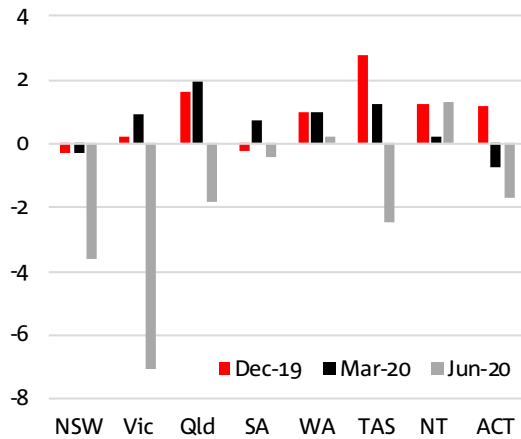


# HOUSEHOLDS – CONSUMPTION & HOUSING MARKET

*Weak wage growth & labour market, lower popn growth & low confidence big headwinds to consumer spending/housing*

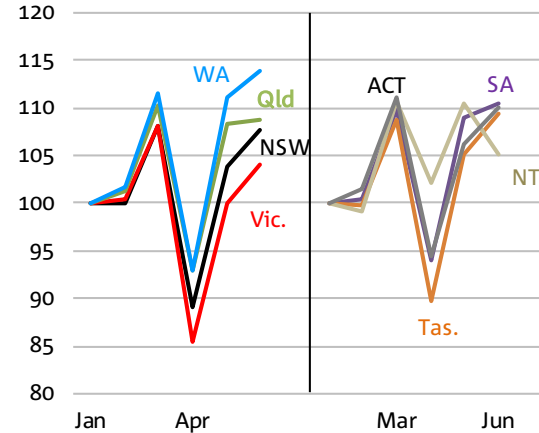
**Big falls in retail sales (volumes) in Q2; particularly along east coast**

Retail sales, chain-value, s.a., q/q%



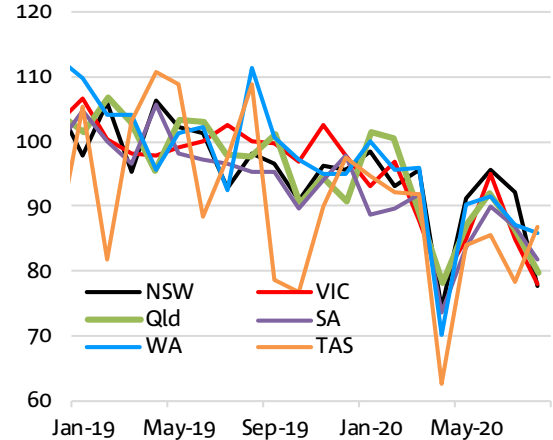
**Monthly retail sales (value) show recovery over May/June; Vic restrictions will bite**

Retail sales, Jan 2020 = 100



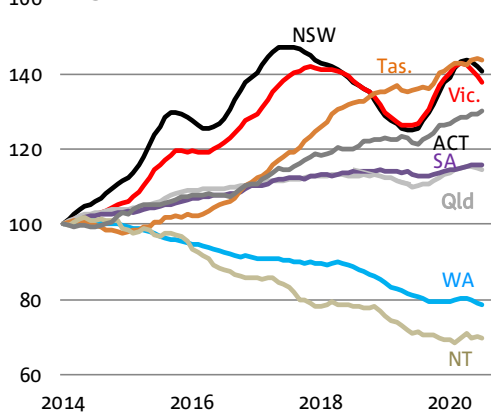
**Rise in Vic COVID cases & lockdown triggers widespread fall in consumer sentiment**

Westpac/Melbourne Institute Consumer Sentiment



**Weak labour market and lower population growth will take their toll on dwelling prices and construction. NSW, VIC likely to experience largest price falls, and approvals already moving down in larger states, although Federal state govts putting in place measures to support activity (HomeBuilder, subsidies, additional first home owner grants)**

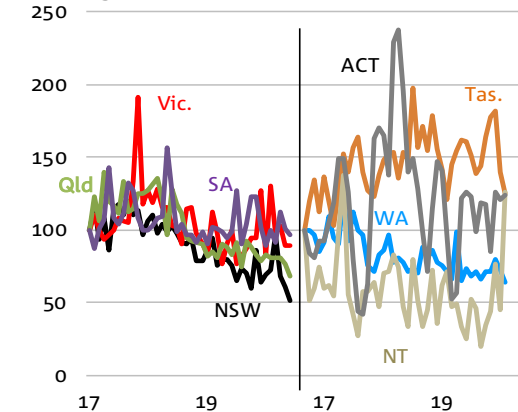
CoreLogic Home Value Index (Jan '14 = 100)



NAB Hedonic house price forecasts (y/y % chg to Dec.)

	2018	2019	2020f	2021 f
Sydney	-8.9	5.3	-4.7	-4.9
Melbourne	-7.0	5.3	-7.3	-6.5
Brisbane	0.2	0.3	-1.3	-1.5
Adelaide	1.3	-0.2	0.1	-1.2
Perth	-4.7	-6.8	-7.5	-4.6
Hobart	8.7	3.9	1.3	-2.4
Cap City Avg	-6.1	3.0	-4.6	-4.3

Building approvals (Jan 2017 = 100)

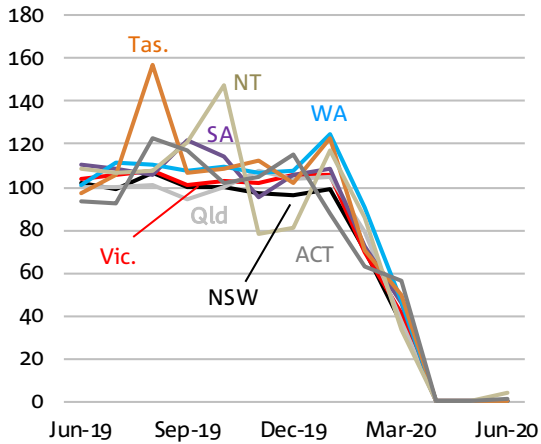


# TRAVEL, POPULATION AND AGRICULTURE

*Loss of overseas travellers can be offset by domestic tourism but border restrictions an impediment; popn growth to slow; agri reasonable*

## All states impacted by Australia's travel restrictions

Short-term visitor arrivals, % of year ago level



## Restrictions on interstate travel will hurt – Qld, WA and NT most exposed to loss of interstate travellers

Visitor nights, year to March 2020, % of total\*\*

Origin:	Origin:								inwards/ outwards*
Dest:	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	
NSW	59%	15%	14%	3%	3%	1%		4%	97%
Vic	17%	60%	9%	6%	4%	2%	1%	2%	64%
Qld	20%	16%	56%	2%	2%	1%	1%	1%	127%
SA	12%	20%	7%	52%	5%			1%	90%
WA	7%	10%	5%	4%	70%				132%
Tas									na
NT	19%	23%	18%	11%	7%		20%		185%
ACT	57%	17%	18%	3%					na

Travel (tourism) from state heavily restricted

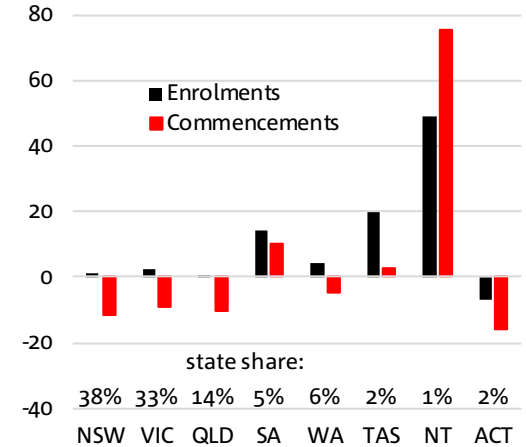
Outwards travel discouraged as hard to return

\*% of arrivals from interstate as % of trips to another state

\*\* Details of restrictions vary across states – consult state websites before travelling; based on NAB assessment as at 13/8. Look across a row (destination of travel) to see impact on state

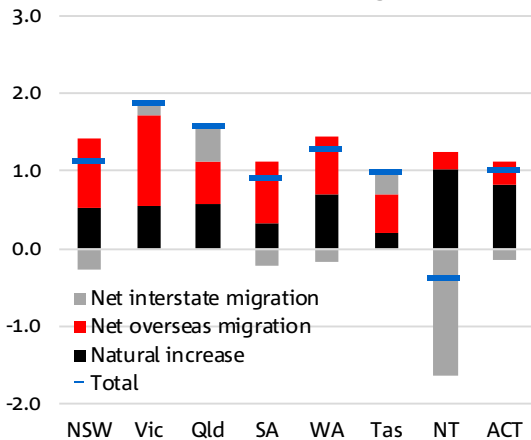
## Overseas student enrolments holding up, but commencements (new students) down in major markets...also a lot of deferrals

Visitor nights, year to March 2020, % of total



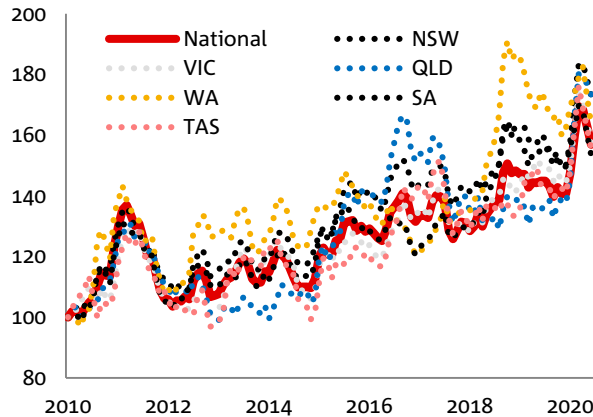
## Travel restrictions will impact population growth given large net flows from overseas

Contribution to 2019 population growth (%)



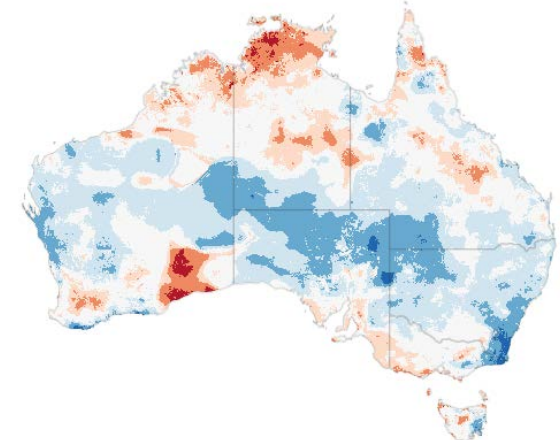
## Rural commodity prices have come off in recent months but still relatively good

NAB rural commodities price index m/m % change



## Root zone soil moisture generally good, but risks to WA and SA wheatbelts, western VIC

Root Zone soil moisture, 19 August relative to average





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