

STATE ECONOMIC OVERVIEW

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Bank

AUTHORS

Senior Economist - Australia
Gareth Spence

Senior Economist
Tony Kelly

Senior Economist, Research
Kaixin Owyong

STATE ECONOMIC OVERVIEW

Recovery from COVID-19 continues across Australia

The recovery from the pandemic-driven recession is well underway across all states and territories, although COVID-19 outbreaks continue to disrupt state economies as they arise. Assuming a successful vaccination program and continued fiscal and monetary policy support, and despite all the considerable uncertainties, we are expecting a strong recovery over 2021.

The Q3 2020 national accounts showed a strong rebound in economic activity across the country, with the exception of Victoria which had significant virus-related restrictions in place that quarter. However, since then, higher frequency data shows that once restrictions were removed, activity lifted significantly in Victoria – a similar experience to elsewhere. Similarly high frequency data show only short-lived impacts from the brief South Australia (November) and Queensland (January) shutdowns, while the impact on NSW of the milder but longer northern beaches shutdown (and broader Greater Sydney measures) is less noticeable, although NSW is lagging on some of these indicators.

These data show that the major hit to activity across the states came through household consumption – particularly in spending on services. Services consumption has seen a broad-based rebound across the states, though both international and domestic border restrictions as well as ongoing work from home policies are likely to see a slower recovery in travel services.

There was less uniformity in the other components of state final demand. Dwelling construction saw large hits in Victoria, NT and the ACT. Business investment declined in all states but saw larger falls in Vic, Tas and the ACT than the other states over the first three quarters of 2020. Government consumption saw the strongest gains in the ACT and the largest three states.

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	2.6	-0.7	0.0	2.7
VIC	3.1	-0.5	-2.9	6.3
QLD	0.9	-1.1	1.0	3.5
SA	1.1	-1.4	0.5	3.5
WA	1.6	1.4	2.0	3.0
TAS	3.3	0.3	-0.7	4.1
NT	-1.3	5.3	4.2	1.5
ACT	3.8	2.4	0.3	3.0
Australia	2.2	-0.2	-0.1	3.8

Business conditions have recovered relatively quickly across the states, after reaching a trough in May. The recovery has been strongest in WA and Tasmania but NSW, QLD and SA are also now firmly back in positive territory. Victoria has improved but remains negative with a delayed improvement following ongoing lockdowns. In a levels sense, capacity utilisation shows that activity has also seen a notable recovery, though it has a little further to go to reach pre-COVID levels in NSW, Victoria and QLD and WA. Forward looking indicators suggest ongoing improvements across the states.

In addition to the fiscal support provided by the federal government and impact of record low interest rates, state governments have also provided significant support. For NSW and Victoria this is largely an infrastructure story while most have sought to provide tax relief and support to small business – particularly those hard-hit by recent lockdowns.

The recovery is also evident in labour markets. In December, the level of employment was around or higher than its pre-COVID (Feb.) level in Queensland, WA, SA and the ACT. Victorian employment has also rebounded strongly post lockdown but NSW lost some ground at the end of 2020, while NT and Tasmania have stalled. More timely payrolls data, indicate that payroll jobs at the start of 2021 were higher than a year ago, with the exception of Tasmania and only just in the case of Victoria. Moreover, unemployment rates still remain higher than their pre-COVID-19 level in most states and territories. This will likely represent a headwind to wages growth, which in Q3 2020 fell to very low levels across the all state and territories.

International border restrictions remain a constraint, while state borders continue to be affected by COVID outbreaks. These controls have implications for state population growth and sectors of the economy such as tourism and education (overseas students). Population growth has slowed notably in Victoria, the NSW and ACT; in contrast population growth in WA has picked up (temporarily) and the outflow from the NT has stabilised.

While international tourism is still basically non-existent, increased domestic tourism will provide some partial offset, particularly for regional Australia. However, education exports remain weak, and this is particularly important for NSW, Victoria, Tasmania and the ACT.

The agricultural sector is a more positive story with prices generally still at high levels and a solid winter crop in Western Australia and a bumper crop in the east coast (particularly NSW) expected.

STATE BY STATE

NSW

The NSW economy is rebounding from the impacts of bushfires and COVID-19 in the first half of 2020. While the state has seen periodic COVID-19 outbreaks, targeted restrictions and contact tracing has been sufficient to contain the virus – but has effectively seen a border closure as a result of other states' actions.

The labour market has performed relatively well, with NSW recording one of the lowest unemployment rates at the end of 2020, while employment as recovered over 80% of its fall in April/May 2020. International education exports are the second largest export (after coal) for NSW and while most students remained in the state through the pandemic, enrolments have declined sharply. Tourism is the third largest export and has collapsed completely.

In addition to the Federal government's support measures, NSW has benefited from a range of state specific programs – with the centrepiece the bring-forward of planned infrastructure spending. There is also an increasing focus on longer term reforms – notably plans to phase out stamp duty.

Victoria

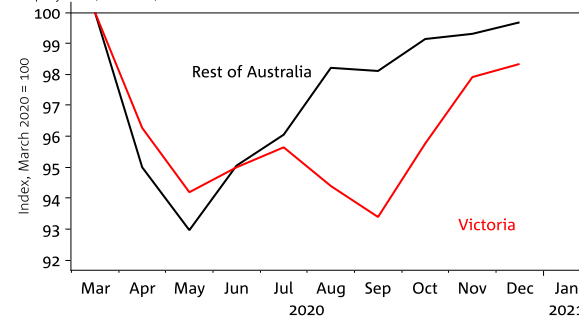
The successful containment of Victoria's second wave has seen restrictions lift and kickstarted the economic recovery. Employment has rebounded to be 1.4% below pre-virus levels, up from the 6.4% trough reached amid Melbourne's stage 4 lockdown. Further, Victorian retail sales rose by a sharp 22% in November (albeit supported by Black Friday sales) marking the largest post-lockdown rise of all the states. While there was a correction in December this still left sales above its pre-virus levels consistent with a notable recovery but also reflecting the change in spending patterns caused by the virus.

This rebound in activity is encouraging and suggests the recovery in Victoria should broadly follow the path of other states, albeit with a lag.

That said, significant stimulus from the Victorian government will be needed to support activity as Victoria faces additional headwinds given its extended lockdown and relatively large exposure to inbound migration. On this front, the Victorian government has announced stimulus worth \$25.4bn in the next three years to FY23, the biggest package of any state or territory. This should help support a steady recovery such that we expect annual GSP to exceed pre-virus levels in FY22.

Employment in Victoria is catching up

Employment, indexed, March 2020 = 100



Source: National Australia Bank, ABS

Queensland

Queensland saw one of the smaller hits to activity in early 2020 but still marked a sizable 6.1% decline in domestic final demand (activity excluding trade) as, like the rest of Australia, consumer spending fell at the start of the pandemic. Elsewhere, mining exports (coal and LNG) have seen a COVID-related hit, as has international tourism and education exports (the

latter of which will have a peak impact in early 2021). In addition to the impact of international border closures, the state border remained closed to both NSW and Victoria for a significant part of the last year, which has seen sectors reliant on domestic tourism seeing ongoing impacts.

The labour market has seen a very welcome rebound, with QLD one of only two states to have more than recovered its pre-virus employment levels. Households will likely see a recovery in spending habits in the near term, before spending growth slows to broadly match income growth.

With the housing market less reliant on the international and investment segments, the fluctuation in prices has been less pronounced than in Sydney and Melbourne. In addition, the construction sector which has also seen a less pronounced cycle in recent years appears to have held up. Further, building approvals have seen an large pick-up on the back of the Federal Governments HomeBuilder program pointing to a growing pipeline of work in the state.

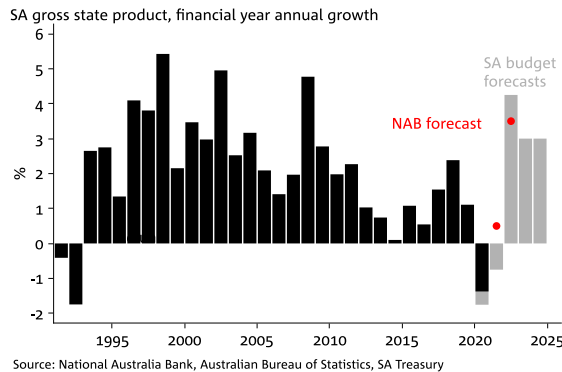
South Australia

The SA economy contracted 1.4% in 2019-20, the largest fall of any state or territory. While SA saw one of the biggest hits to demand in Q2 2020, this outcome also partly reflects softer growth in the lead up to the pandemic. Domestic demand has since rebounded, to be just 1% below pre-virus levels, similar to most other states, except Victoria and NSW, which continue to lag behind.

We expect the recovery in SA to play out similarly to Australia as a whole. Going forward, we forecast growth of 0.5% in FY21 and 3.5% in FY 22. This would be a quicker recovery than forecast by SA Treasury.

STATE BY STATE

Beyond that, we expect SA to grow to slow. We would expect stronger growth than it's pre-virus post GFC average of 1.3%, reflecting infrastructure projects and shipbuilding, but a slower pace of growth than expected by SA Treasury.

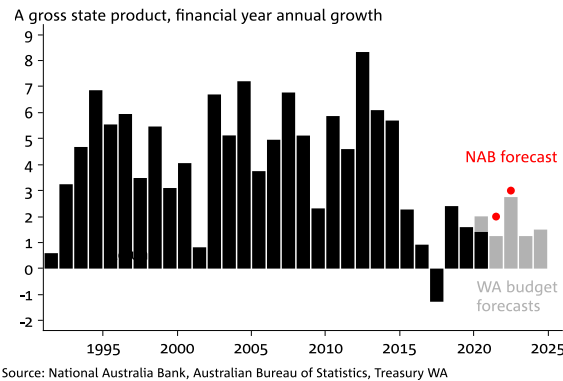


Western Australia

The WA economy grew by a solid 1.4% in 2019-20, in contrast to the contraction in other major states (NSW, Vic and Qld), as WA was able to control the virus relatively quickly in early 2020. Demand in WA has continued to recover and is now just 1% below pre-virus levels, although, consistent with the rest of the country, private demand remains weaker at 1.9% below pre-virus levels.

WA has also fared better than the other major states as population growth has remained relatively supported, as it is less exposed to overseas migration and the national border closures. As such, government home-building grants, have been able to spur a sharp rise in building approvals, which are at their highest

level since 2015. The expected turnaround in residential construction, a rise in mining investment (supported by high iron ore prices) and the rebound in consumer spending as the health outlook remains positive should see relatively strong economic growth in FY21. NAB forecasts growth of 2% in FY21, the second highest of the states of territories and for it to lift to 3.0% in FY22.



Tasmania

In Q3, Tasmanian final demand rebounded to be just 2.1% below pre-virus levels. This marks a solid start to its economic recovery and, alongside other data, suggests that the economic hit from the pandemic may not be as severe as the Tasmanian Treasury forecasts.

However, Tasmania's economic recovery faces headwinds from ongoing and intermittent border closures. The Tasmanian economy is relatively reliant on tourism, where prior to the pandemic tourism made up 5.4% of the state's economy and 9% of the labour force, compared

to 3.1% and 5.2% nationally. As such we forecast a slower start to the recovery in Tasmania, compared to many of the other states, with growth of -0.7% in FY21.

NT

Amid the impact of the pandemic – where the NT has fared relatively well compared with other jurisdictions – the NT economy has continued to transition away from the construction phase of the LNG boom to the export phase. The decline in business investment appears to have largely tailed off and the population appears to be stabilising as the labour force normalises.

The NT has benefited from the national economic supports but in addition has also seen a boost from additional defence spending, with a boost to construction sector from the government's base improvement program.

While volatile at the territory level, the NT has seen a relatively strong rebound in the labour market with the unemployment now broadly where it was pre-COVID.

ACT

The ACT was the only state/territory where domestic final demand remained above its end 2019 level over the first nine months of 2020, driven by public demand. Similarly, employment is up; while unemployment is still above where it was at the start of 2020 this reflects an increase in workforce participation.

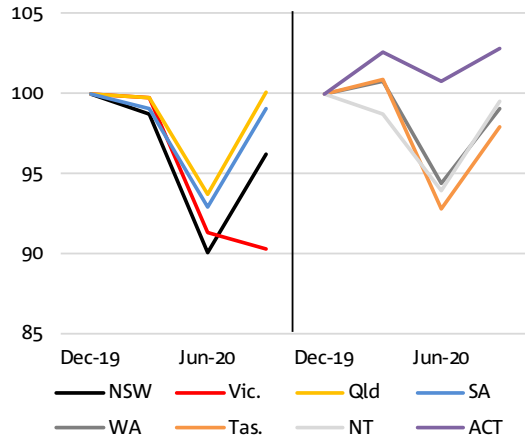
The ACT should benefit from the broader recovery underway, but a winding down in public spending and slower population growth will be headwinds and education exports may take time to recover even when the border re-opens.

STATE OVERVIEW – Q3 STATE FINAL DEMAND AND EXPORTS

Victoria hit hard by COVID-19 lockdown but otherwise a strong recovery in Q3 state demand led by consumption with ongoing support from public demand; investment and overseas exports are still under pressure

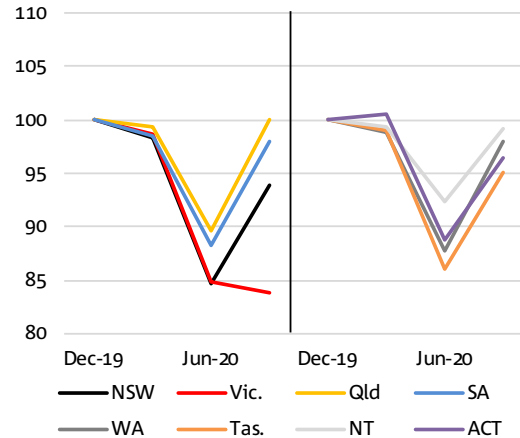
State final demand – strong recovery in Q3 ex Vic.; Qld, ACT above end '19 level

State final demand, s.a., chain-volume, Dec qtr '19 = 100



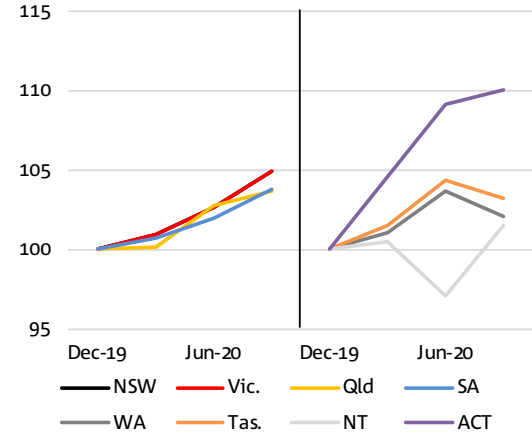
Similar pattern for private consumption; Qld back to pre-COVID level

Household consumption, s.a., chain-volume, Dec qtr '19 = 100



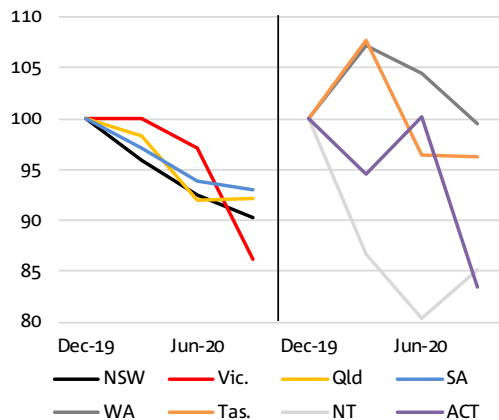
Support coming from public demand; particularly in the ACT

Underlying public demand, s.a., chain-volume, Dec qtr '19 = 100



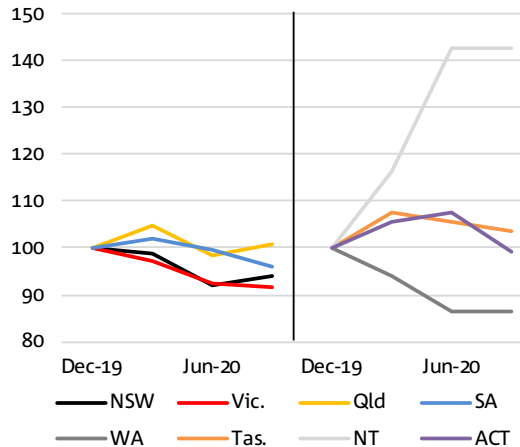
Business investment under pressure; WA falling in line as mining feels pinch

Underlying business investment, s.a., chain-volume, Dec qtr '19 = 100



Dwelling investment showing mixed trends across the states

Dwelling GFCF, s.a., chain-volume, Dec qtr '19 = 100



Overseas exports well below pre-COVID-19 levels with services (travel) hardest hit

Exports, s.a., chain-volume, % change between Q4 2019 and Q3 2020

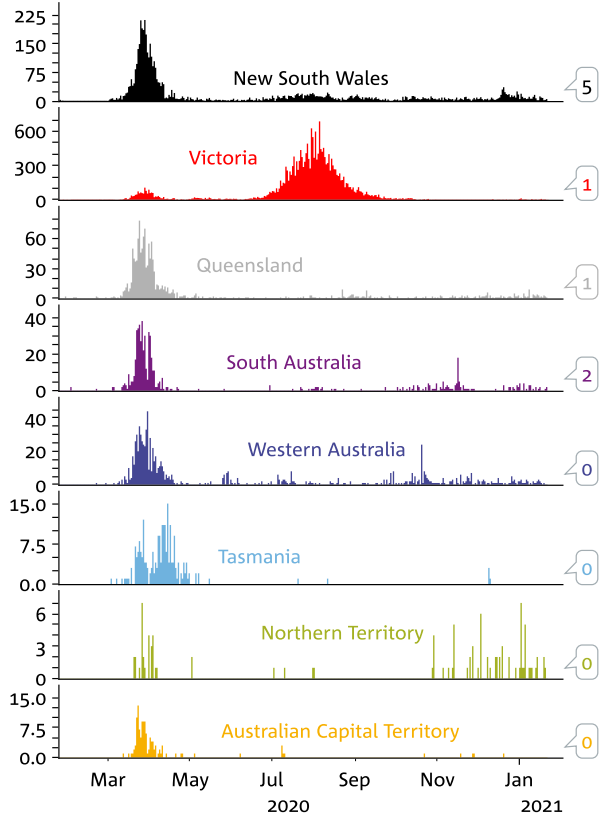


COVID-19 REMAINS A FOCUS

COVID-19 still well contained in Australia but occasional flare ups – and policy response – continue to disrupt state economies

Flare ups in COVID-19 cases continue but overall the virus remains under control
 Number of new cases, per day, up to 20 Jan. 2021

COVID-19 DAILY CONFIRMED CASES



Source: National Australia Bank, Australian Department of Health

In response to flare ups, governments continue to be aggressive in taking measures to suppress virus: Recent changes to restrictions

Victoria

State 're-opened' in states between Sept and November

South Australia

6 day lockdown announced by on 17 November; ended early on 21 November

NSW

Further roll back of COVID restrictions – 2 Dec.

Northern beaches – stay at home advisory 17 Dec., lockdown 19 Dec to 10 January

Limits on numbers at events/venues (hospitality, gyms, churches) for Greater Sydney; announced between 20 Dec. & 2 Jan

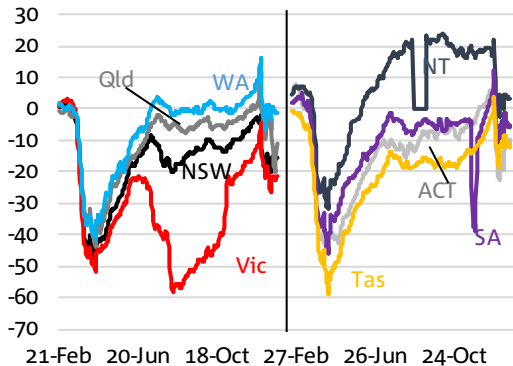
Other states placed (differing) restrictions on travel to their state by Sydney residents – December

Queensland

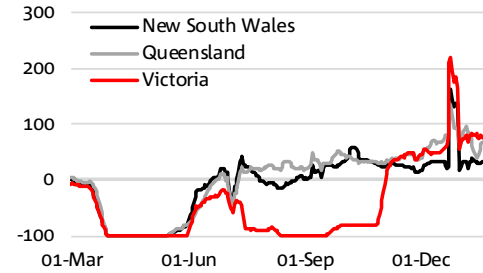
Greater Brisbane lockdown 8 Jan.- 11 Jan. followed by venue/gathering capacity restrictions for 10 days

Lockdown affects on mobility evident for SA, Qld, less so for NSW – Vic still lagging

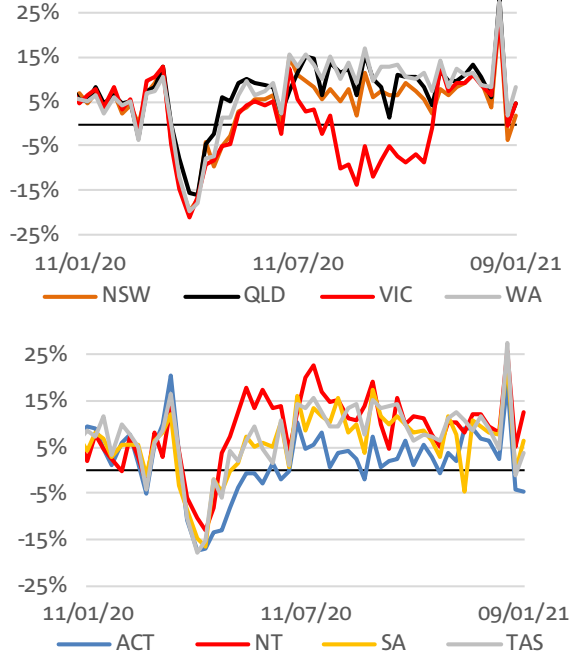
Google mobility report - visits: recreation. & retail (% deviation from baseline, 7day ma)



Hospitality bounce back in Vic; NSW lagging somewhat & Qld 8-11 Jan lockdown evident
 OpenTable, seater diners, y/y (7 day m.a.), last observation 12 Jan.



Consumer spending in most states/terr. Higher than a year ago; NSW, ACT lagging
 Consumption spending, % yoy*

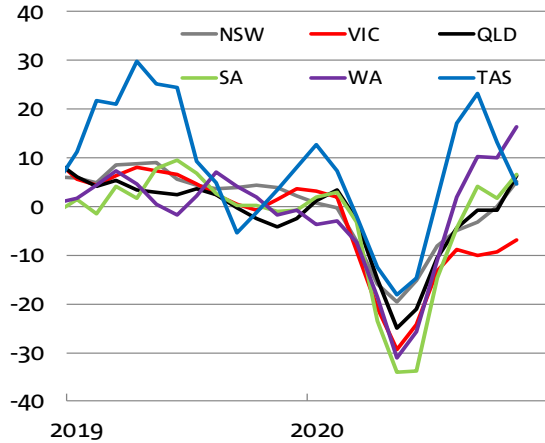


BUSINESS SECTOR

Business conditions have rebounded strongly (ex Vic) and investment expectations are showing signs of recovery

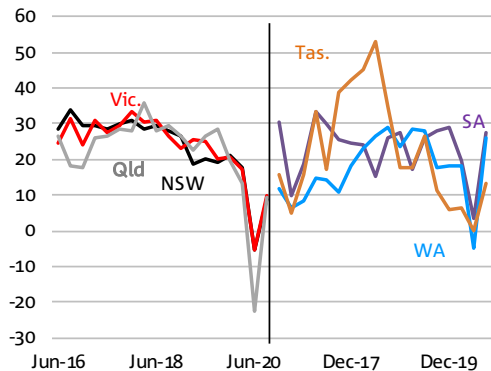
Business conditions have rebounded strongly, and are now above average in most states, except for Vic.

NAB Business Survey, Business conditions, s.a.



Investment expectations started to recover in Q3; particularly SA and WA

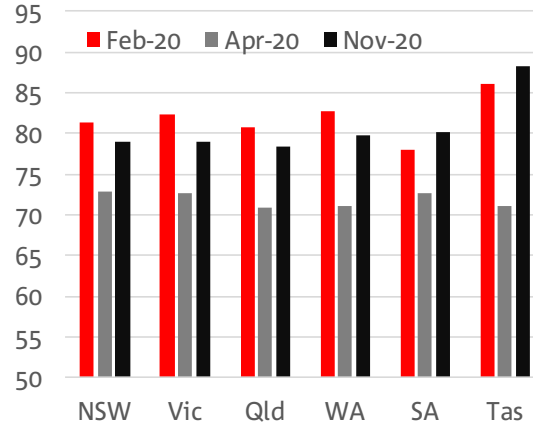
NAB Q3 2020 Qtly business survey, 12 mth capex expectation



Sources: ABS, NAB

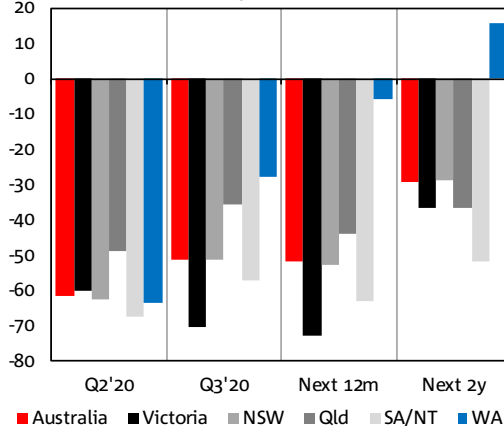
In a levels sense, capacity utilisation has also made a significant recovery. SA and Tas are now above pre-COVID levels.

NAB Business Survey, Capacity utilisation (%), s.a.



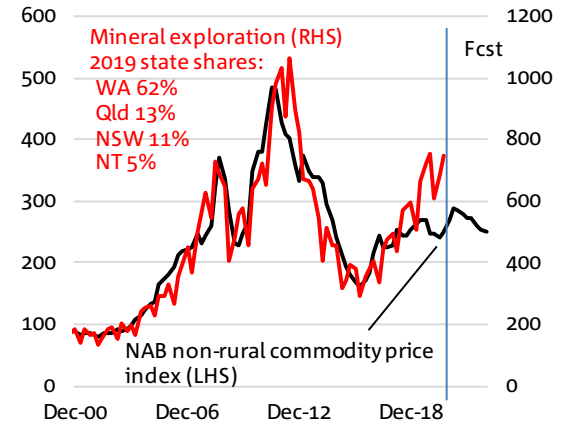
Commercial property sentiment improved in Q3 (ex Vic) but remained weak and outlook generally negative outside WA

Q3 2020 NAB Commercial Property Survey, Commercial property index



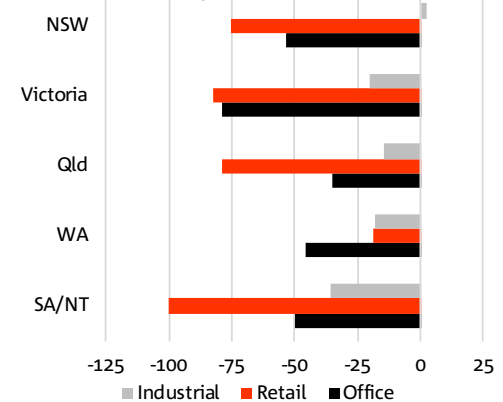
Rebound in commodity prices a positive for mining states – particularly WA with iron ore reaching multi-year highs

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



Commercial property weakness is centred on offices and (outside WA) retail and (nationally) hotels; industrial doing better

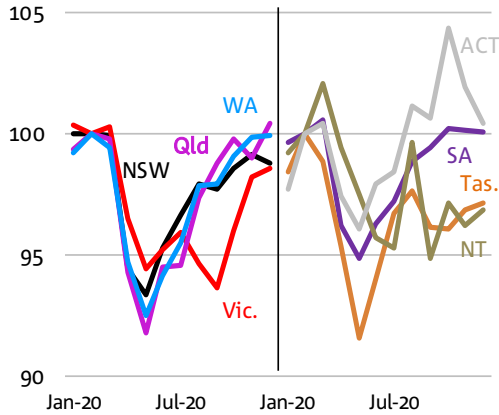
Q3 2020 NAB Commercial Property Survey, Commercial property index



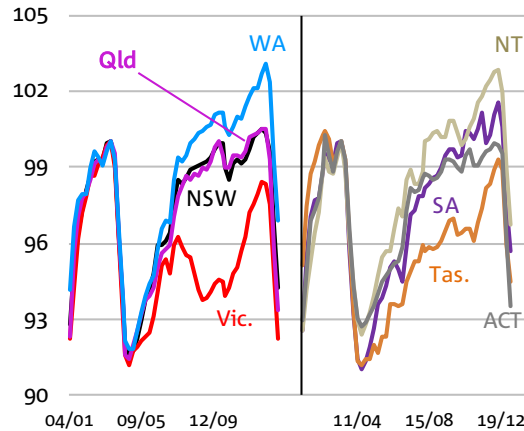
LABOUR MARKET

Labour market is recovering although unemployment is still higher than pre-COVID-19 in almost all states/territories

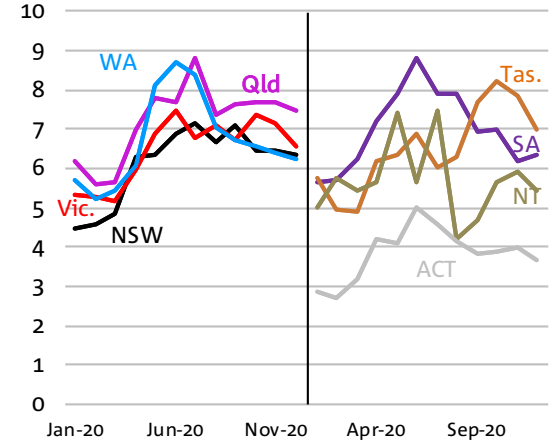
Monthly employment – Vic joining in recovery post lockdown; ACT, Qld, SA above pre-COVID (Feb.) levels, WA close
Hours worked s.a., Feb 2020 =100



Weekly payrolls more positive - currently in a seasonal lull but at above level of a year ago in all states other than Tas.
Weekly payroll jobs, 14 March = 100, n.s.a.
Data to 2 January 2021

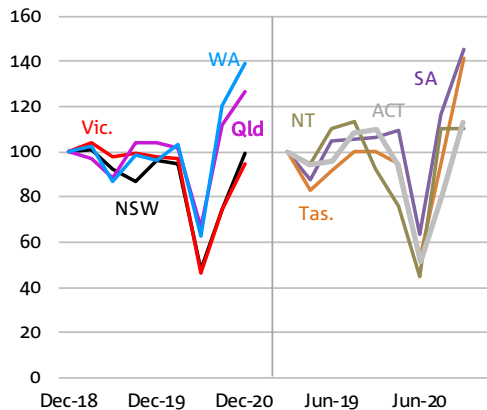
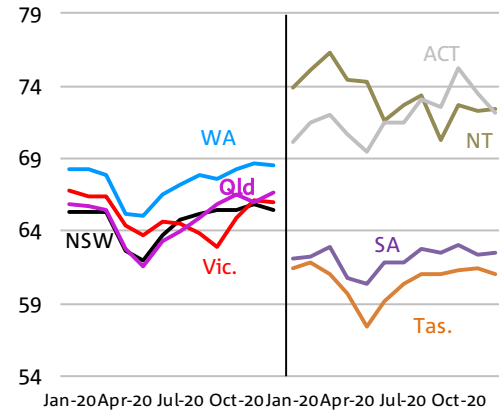


Unemployment rate has eased from its peak; Tas & Qld still elevated but NT around its pre-COVID level
Unemployment rate (%), s.a.

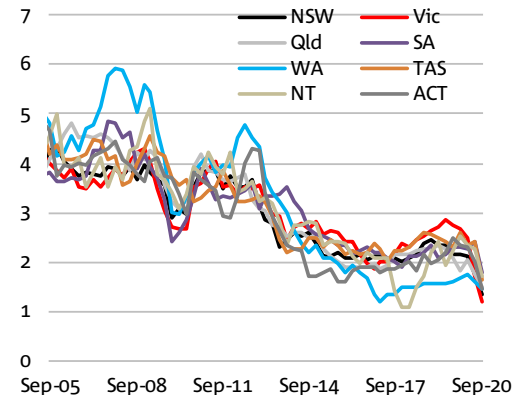


Workforce participation rebound (ex NT) also points to labour mkt gains
Workforce participation rate (%), s.a.

As do higher job vacancies, particularly outside NSW and Victoria
Qtlly ABS job vacancies, Dec 19 =100, nsa,



Wage growth slowed to a very low level in Q3; only WA & NT not at record low
Wage Price Index, hourly, ex bonuses, y/y%

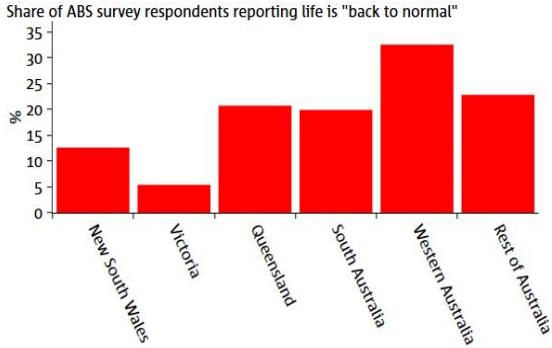


HOUSEHOLDS – CONSUMPTION & HOUSING MARKET

Consumer spending is bouncing back – but mixed across sectors – and housing markets are showing some life

Most people do not think life has returned to normal

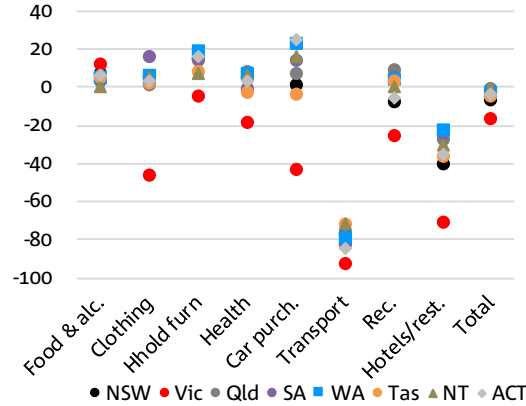
ABS survey 13-23 November 2020



Note: Rest of Australia includes Tas, ACT and NT
Source: ABS

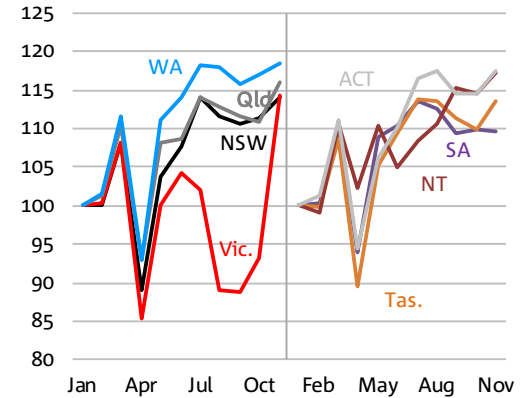
Reflected in huge shifts in spending patterns even as total consumption recovers

Household consumption – selected components, change Q4 '19 to Q3 '20, chain volumes, s.a.



Retail sales rebound had lost steam in some states but signs of life in November, while Vic. roared back post-lockdown

Retail sales, Jan 2020 = 100

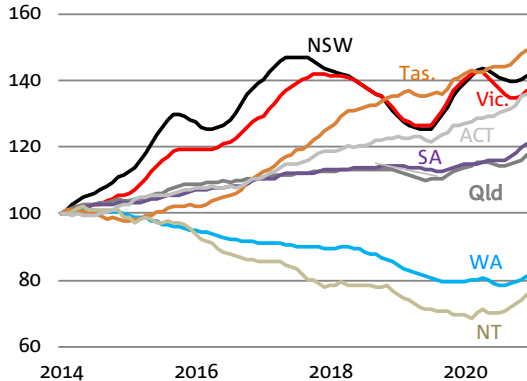


Housing markets have held up well despite the increase in unemployment; helped by low interest rates and government support - building approvals showing signs of life in most states (particularly in the west), house prices are rising again and expected to increase further over the next two years

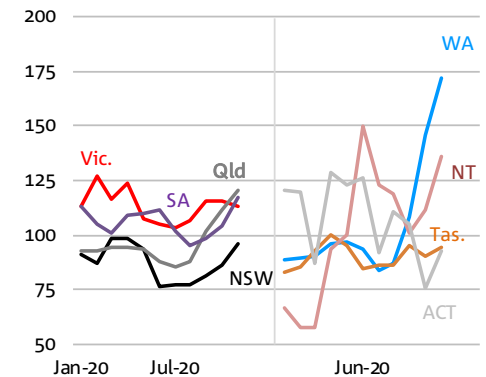
CoreLogic Home Value Index (Jan '14 = 100)

NAB Hedonic dwelling price forecasts (y/y % change to Dec.)

Building approvals (Jan 2019 = 100)



	2019	2020	2021f	2022f
Sydney	5.3	2.7	4.4	6.0
Melbourne	5.3	-1.3	3.6	5.4
Brisbane	0.3	3.6	7.4	7.4
Adelaide	-0.2	5.9	7.4	7.4
Perth	-6.8	1.9	5.0	5.8
Hobart	3.9	6.1	7.4	7.4
Cap City Avg	3.0	2.0	5.0	6.1

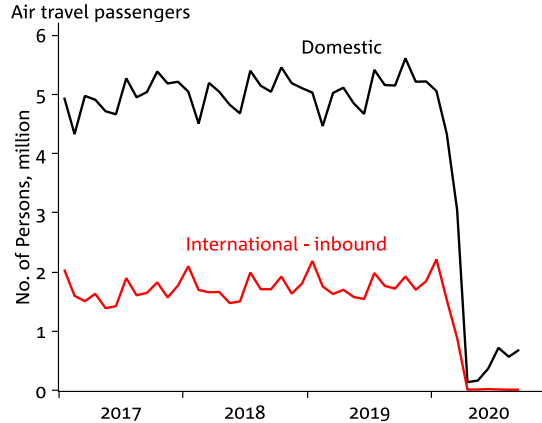


Sources: ABS, CoreLogic, NAB

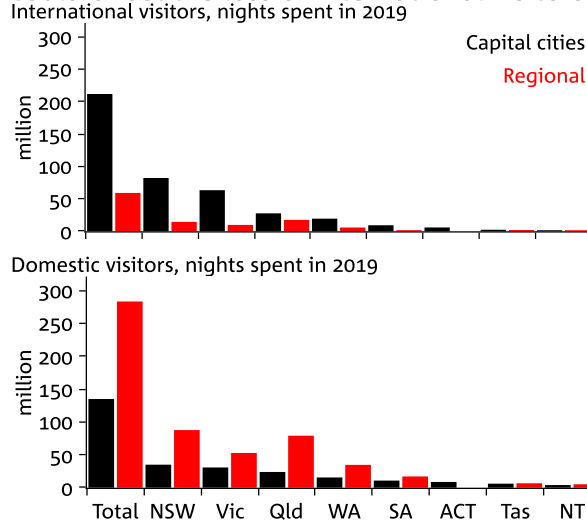
TRAVEL, POPULATION AND AGRICULTURE

Border restrictions continue to weigh on tourism, education and population growth; agri outlook reasonable

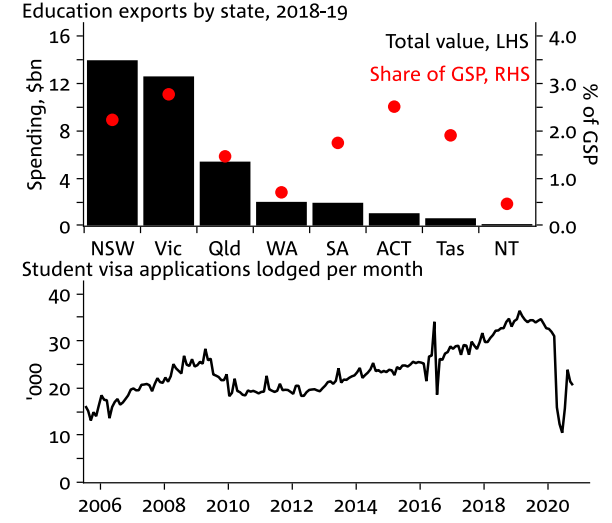
Air travel collapsed at the start of the pandemic, but domestic travel is starting to slowly rise again



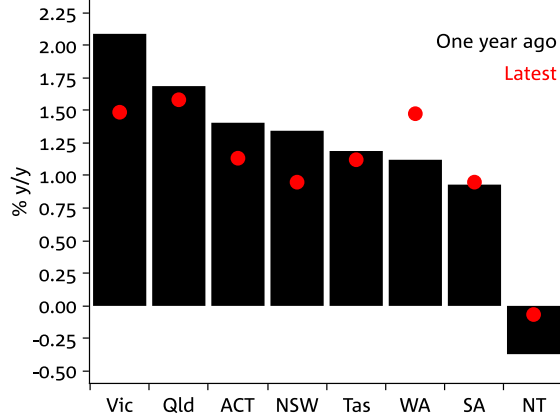
Parts of regional Australia stand to benefit from increased domestic tourism, which could offset the loss of international visitors



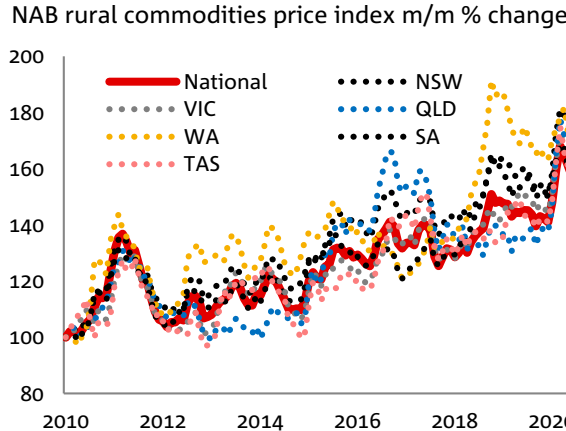
Applications for student visas have risen, but are yet to fully recover, while the border remains closed



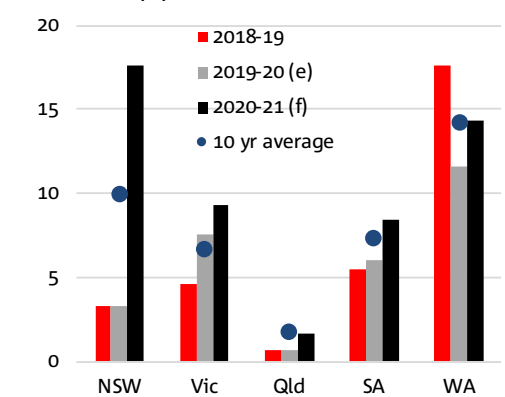
Population growth (to Q2 2020) has slowed notably in Vic, NSW and ACT; in contrast population growth in WA has picked up



Agriculture a positive as states benefit from combination of good rural commodity prices, a solid crop in the West and bumper crop in the East



Winter crop production, kt



Group Economics

Alan Oster
Group Chief Economist
+(61 0) 414 444 652

Jacqui Brand
Personal Assistant
+(61 0) 477 716 540

Dean Pearson
Head of Behavioural & Industry
Economics
+(61 0) 457 517 342

Australian Economics and Commodities

Gareth Spence
Senior Economist – Australia
+(61 4) 36 606 175

Kaixin Owyong
Senior Economist, Research
+(61 0) 436 679 908

Phin Ziebell
Economist – Agribusiness
+(61 0) 475 940 662

Behavioural & Industry Economics

Robert De Iure
Senior Economist – Behavioural & Industry
Economics
+(61 0) 477 723 769

Brien McDonald
Senior Economist – Behavioural & Industry
Economics
+(61 0) 455 052 520

Steven Wu
Economist – Behavioural & Industry Economics
+(61 0) 472 808 952

International Economics

Tony Kelly
Senior Economist
+(61 0) 477 746 237

Gerard Burg
Senior Economist – International
+(61 0) 477 723 768

Global Markets Research

Ivan Colhoun
Global Head of Research
+61 2 9293 7168

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