

STATE ECONOMIC OVERVIEW

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Bank

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STATE ECONOMIC OVERVIEW

A new phase of growth emerges across the states following a fast rebound...

The rapid recovery in the economy over the past 9 months or so is evident across all states and territories. The impacts of both fiscal and monetary support can be seen in the pattern of growth within states – housing markets have strengthened, business investment has lifted and services consumption has continued to rebound rapidly.

The threat of shut downs and other COVID-19 restrictions remains a risk. This is demonstrated by the recent Victorian lockdown, and the lockdowns or other COVID-19 related restrictions introduced in many states/territories (particularly in NSW but also WA, NT, Queensland and SA) and state border closures. If the restrictions are not long lasting (as assumed in our forecasts) the impact on the economy is not likely to be material, although this remains to be seen. At present the speed and age group rollout of vaccinations in each state varies significantly but as time progresses the coverage of vaccinations should converge and the risk and severity of shutdowns should dissipate.

The Q1 national accounts showed that all states except for Victoria have now recovered their pre-COVID level of state final demand (SFD). The smaller states (and territories) have shown a stronger rebound than NSW and Victoria. This outcome in part reflects a larger initial hit to activity in NSW and Victoria, the importance of international travel to these economies (tourism, students, migration) as well as a delayed recovery in the latter (in part due to the extended lockdown in H2 2020).

We expect solid growth to continue across the states going forward. The impact of federal government policies across the states will remain evident, with an ongoing boost to housing activity from HomeBuilder and low interest rates continuing to play out, a pickup in business investment also driven by

fiscal policy, alongside robust consumer demand and the recovery and rebalancing back towards services consumption underway.

Alongside the rebound in activity, state labour markets have recovered strongly. Employment is now at or above Feb-20 levels in all states with the exception of Tasmania and the NT which are around 0.6% and 1.4% lower, respectively. Unemployment rates have fallen notably across the states in H1, with the territories recording slightly smaller gains. Most states and territories are now around 0.5-1ppt lower than their 2019 average unemployment, while Victoria is around its 2019 average and NSW is around 0.5ppt higher.

Business conditions and confidence have risen across all states in the first half of the year – and Victoria has caught up. In trend terms, conditions are clustered at between 28-34 index points. Capacity utilisation has also strengthened across the states, more than recovering its pre-COVID level everywhere – and all states are above 84%. This strength in activity and capacity utilisation alongside optimism across the states will likely see capex continue to strengthen. However, it appears this will mostly come through spending on machinery & equipment with non-residential building likely to remain soft on the back of weaker demand for hotels and office space.

Population growth slowed sharply across the states over 2020, with a collapse in net overseas migration – though to date the economic impacts from this have been relatively contained. Housing activity and prices have strengthened and demand has recovered quickly. That said, there is some evidence of labour market impacts, particularly in the smaller states.

Fiscal support provided across the states has been wound back as economies have rebounded and the impact of lockdown fades. That said, fiscal policy across the states generally remains looser than in 2019 – and notably so in Victoria. The focus of government spending has turned to infrastructure development – particularly in transport. Temporary tax relief and COVID related payments are expected to be wound back in the next year.

The impact of international border closures in both the regions and capital cities has been partially offset by both inter and intra-state tourism with some substitution towards domestic spending by Australians who cannot travel abroad. However, uncertainty over state border closures and some substitution to goods spending means these areas will continue to be challenged until the vaccine rollout is complete and international borders are reopened.

The agricultural sector is a more positive story with prices generally still at high levels. ABARES estimates that the 2020-21 winter crop was very strong (particularly in NSW, Victoria and WA) and another good crop is expected in 2021-22 in WA and NSW and solid elsewhere.

NAB STATE & TERRITORY ECONOMIC FORECASTS

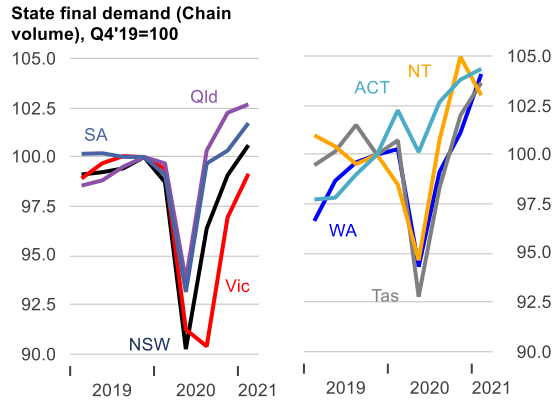
NAB growth forecasts for the states & territories

	Gross State Product (y/y%)			
	18-19	19-20	20-21f	21-22f
NSW	2.6	-0.7	1.6	3.2
VIC	3.1	-0.5	-1.6	6.7
QLD	0.9	-1.1	2.5	3.3
SA	1.1	-1.4	2.1	4.2
WA	1.6	1.4	2.8	2.7
TAS	3.3	0.3	2.3	2.5
NT	-1.3	5.3	5.5	2.3
ACT	3.8	2.4	2.8	2.7
Australia	2.2	-0.2	1.3	4.0

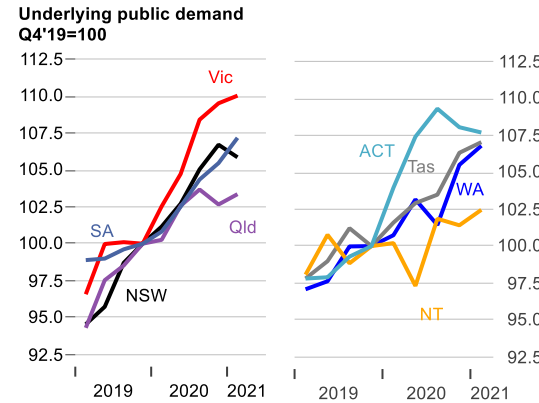
STATE OVERVIEW – SOME KEY DEVELOPMENTS

State final demand back to pre-COVID-19 levels (except Vic) helped by state & fed. fiscal policy, but population growth well down. Vaccine roll-out key to ending intermittent lockdowns, but if short-lived their impact is not large

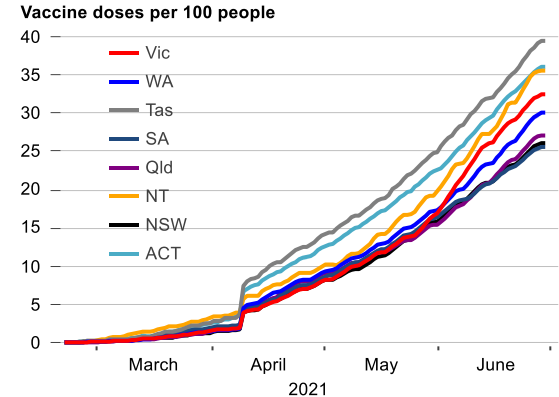
State final demand back above pre-COVID level in all states other than Victoria



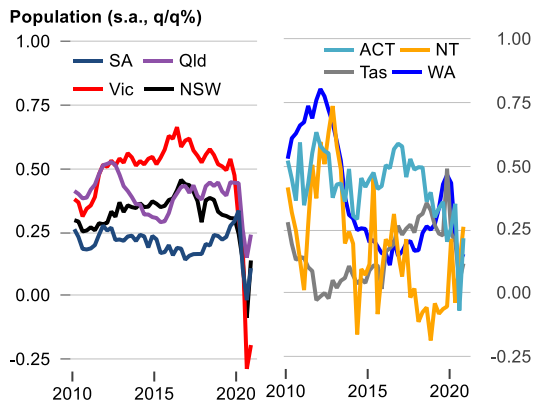
Support from public demand generally significant – signs it was easing in Q1 – but state governments are ramping up infrastructure spend



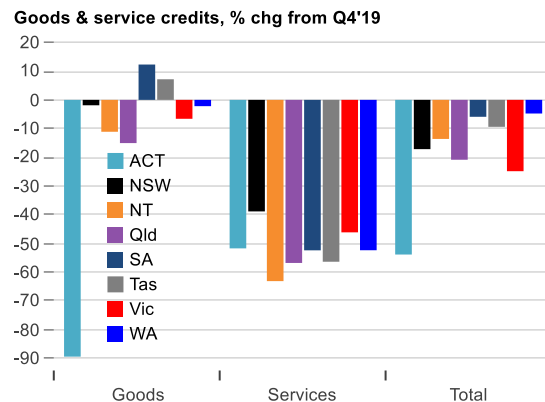
Vaccine roll-out underway – still a long way to go before any state/territory has most of the adult population fully vaccinated



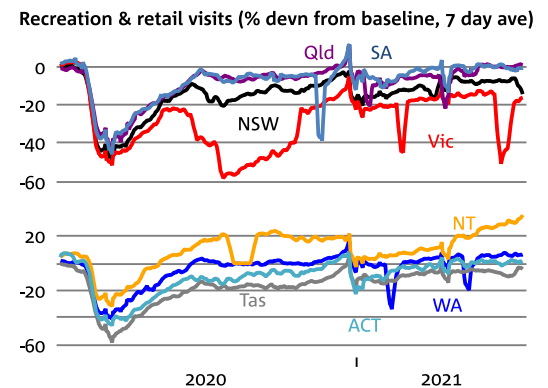
Population growth has slowed sharply or turned negative (Vic) except NT which is doing better than pre-virus trend



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



Latest Vic lockdown had similar mobility impact to other episodes – but short lived
Google mobility report - visits: recreation. & retail (% deviation from baseline, 7day ma)



STATE BY STATE

New South Wales

The NSW economy has continued to rebound from the impacts of bushfires and COVID in 2020. The state has seen some ongoing disruption from the pandemic – but has generally continued to recover. That said, the impact of policy support is evident in NSW with low rates feeding through to the housing market, business investment picking up and the ongoing construction of infrastructure projects the key themes.

State final demand (SFD) recovered its pre-COVID level in Q1. The lift in activity has been driven by improvements across household and business, with a significant boost from a very strong pickup in dwelling investment (particularly renovation activity) and business investment in machinery & equipment. However, consumption remains around 2.4% below its pre-COVID level and will unlikely fully recover until borders are fully re-opened.

The labour market has also seen a steady recovery. Employment is now fully recovered, and the unemployment rate has fallen to 5%. That said, the unemployment rate remains a little above the rates seen prior to the pandemic.

The housing market has been strong in NSW, with prices rising strongly – despite the impact of slower population growth and ongoing increases in supply. Approvals remain elevated suggesting activity will continue to lift.

Victoria

Victoria has had a relatively slow recovery from last year's recession, reflecting re-occurring lockdowns and the fall-out from international border restrictions given Victoria's substantial exposure to international tourism and students. Victoria also had a decline in population over the 2nd half of 2020, the only state to do so (in contrast to having the faster

growing population pre-COVID).

In Q1 2021, Victorian was the only state where SFD was below its Q4' 19 level (-0.9%), reflecting weakness in private consumption and investment over this period. However, on a quarterly basis, Q1 growth was rapid reflecting the full impact of the Q4 easing in restrictions, and associated normalisation in activity. While the late May lockdown might slow the recovery a bit, its relatively short duration (at least for the most onerous restrictions) means there is unlikely to be a major lasting impact.

As a result, still rapid growth could be expected in the near term helped along by the state government's infrastructure program, although the border restrictions remain a headwind.

The housing market is also likely to be a positive factor over the rest of the year, with building approvals now trending up (but with a switch out of apartments towards houses). Similarly house prices have been growing strongly.

A positive signal is also coming from the labour market where the recovery is well advanced. Employment is above its pre-pandemic level and the unemployment rate around its 2019 average.

Queensland

Despite being heavily exposed to the ongoing impacts of international (and state) border closures through both education and tourism, the Queensland economy has seen a rapid rebound.

In contrast to the two larger states, aggregate consumption recovered its Q2' 20 fall in just one quarter. While business investment has had less of a boost than other states, there has been an outsized impact on dwelling investment from the homebuilder program - renovation activity is now 37% higher than in Q4' 19.

Qld has seen the strongest gain in employment across the states, with employment in the state almost 4% above Feb. 20 levels. The unemployment rate has also fallen quickly, and is now at its lowest level in a number of years. Job vacancies remain elevated suggesting that labour demand is likely to remain strong.

Business investment is yet to see the gains of other states. It is likely that elevated uncertainty over borders will continue to weigh on non-residential construction. However, with capacity utilisation and business conditions elevated in the state, it is likely that equipment investment will strengthen – particularly in areas such as construction and manufacturing which will see a boost from residential construction.

The impact of closed borders has weighed less heavily on Qld population growth. Over the year to Dec 20, the population rose 1.1% with the state having seen the smallest slowdown across the states. The fall in net overseas migration has weighed less heavily in the state, while the overall rise was driven by strong gains in interstate migration.

The government continues to focus on infrastructure in transport, health and education.

South Australia

The SA economy has had a solid rebound from last year's downturn. In Q1 2021, SFD was 1.7% higher than its pre-COVID level, a bit better than the national average.

Similarly, international exports have suffered less than in other states, as SA has lower exposure to international tourism. However, the growing drag on overseas student numbers represents a headwind which is unlikely to reverse until international borders re-open. SA also benefited from a strong 2020-21 winter crop; 2021-22 is not expected to be as strong but still solid.

STATE BY STATE

Like the rest of the country, population growth has fallen away. While net interstate migration has turned positive, it has been more than offset by net overseas migration.

Despite this, the residential property market is running hot, with building approvals and prices rising strongly.

SA looks set for solid growth in Q2 even as the normalisation of activity that drove the initial recovery recedes. The NAB monthly business survey indicates that business conditions at high levels. This is also true for the capex indicator and, with elevated capacity utilisation, it is likely to remain high. The state government is also ramping up its capital expenditure program.

The NAB survey also suggests that employment growth is exceptionally strong, in a labour market which has largely recovered. In May, employment was higher than, and unemployment similar to, its pre-COVID level.

Western Australia

WA has had a relatively quick recovery from the COVID-19 induced recession. This continued into Q1 2021, with SFD up 3.0% q/q the fastest of any state, leaving it 4.1% higher than its pre-virus level. Similarly, helped by the high share of resource exports (and the speedy recovery in China) and with a low reliance on international students and tourists, WA's exports are only slightly down. Crop production has also been elevated and this is expected to remain the case in 2021-22.

Reflecting this, the unemployment rate in May was at its lowest level since 2013.

There has been a shift in the nature of the recovery. Household consumption growth has slowed (and remains below pre-virus level) but residential, public and business investment are all growing strongly.

Population growth has, however, slowed, despite a turn around in net interstate migration (which, for the first time since 2013, was positive in Q3 and Q4 2020).

The strong growth in residential construction activity has been helped along by government incentives and has also been accompanied by robust growth in house prices.

The NAB Business Survey in May indicated that business conditions were very positive in Q2, suggesting the economy continues to grow. However, with the recovery well-advanced the shift back to more organic growth suggests that growth will slow from its Q1 pace, although there is still scope for spending on some services to grow strongly and the state government is ramping up its infrastructure program. However, we expect the current elevated iron ore prices to unwind which may limit business investment.

Tasmania

After recovering its pre-COVID level of SFD in Q4, activity continued to lift in Q1 '21. Consumption has rebounded but remains around 0.5ppt below its pre-COVID levels. Like most other states, a strong contribution to growth has come from dwelling investment which is up around 23% on Q4 '19 as well as equipment investment which is up 60% following pandemic-related weakness.

The established housing market has continued to show strength with prices in Hobart continuing to rise – now up around 13% over the past year.

Labour market indicators, while volatile, show an improvement with unemployment having eased alongside, a strong employment rebound. Labour demand remains strong with job vacancies around 60% higher than late '19.

Northern Territory

Domestic activity in the NT dipped in Q1 but this comes after a very rapid rebound in the previous two quarters – from a shallower trough. Outcomes have been more mixed in the labour market, with employment still lower than early 2020, but the unemployment rate is at its lowest level in a number of years. Job vacancies have risen to a high level in the territory which points to ongoing growth in labour demand which should see employment lift further.

The NT will also likely see ongoing strength in the construction sector with further substantial defence base upgrade announcements made recently.

Longer-term trends also continue to play out in the territory, with the normalisation of the work force ongoing following the end of the construction phase of the LNG construction boom.

This has a number of important flow on impacts including the stabilisation of the population which increased for a 3rd consecutive quarter, a turnaround in house prices and the beginnings of a gradual recovery in business investment.

ACT

State final demand in Q1 was 4.4% higher than its end-2019 (pre-virus) level, the best performance of any state/territory, supported by household consumption, public demand and dwelling investment. However, the labour market is yet to recover, with unemployment still higher than in early 2020.

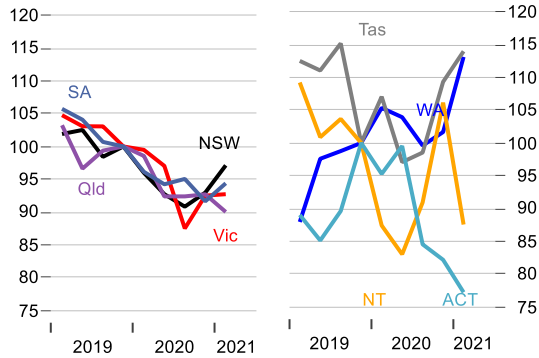
Of some concern is that business investment has fallen precipitously (and, unlike Australia, it has not rebounded in recent quarters). This reflects a continuing fall in new building investment. With ACT non-residential construction overweight on offices this weakness may persist for a while. Population growth has also fallen away. This is partly due to international border closures which are also impacting the education sector.

BUSINESS SECTOR

Business conditions have rebounded strongly and the investment outlook has brightened

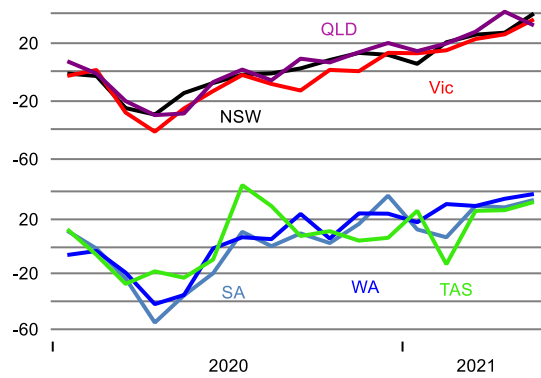
Business investment has rebounded in NSW, QLD, WA – largely driven by M&E; the other states and territories have softened

Underlying business invest Q4'19=100



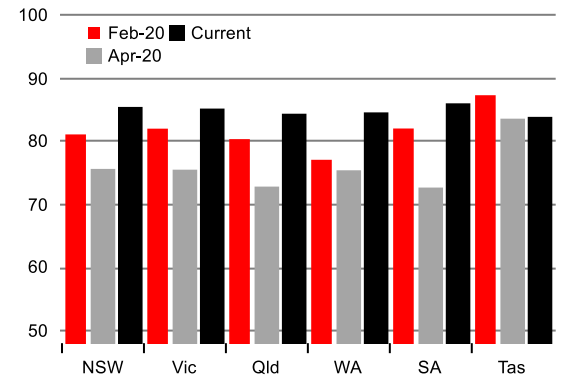
Business conditions have rebounded very strongly in all states, and are now well above average everywhere

NAB Monthly Business Conditions, Net Balance sa.



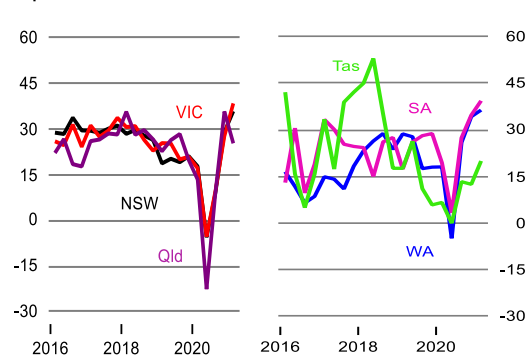
Capacity utilisation has risen to very high levels in all states after seeing a large hit in April last year. The level of capacity utilisation is broadly similar across states

NAB Monthly Business Survey Capacity Utilisation, % sa.



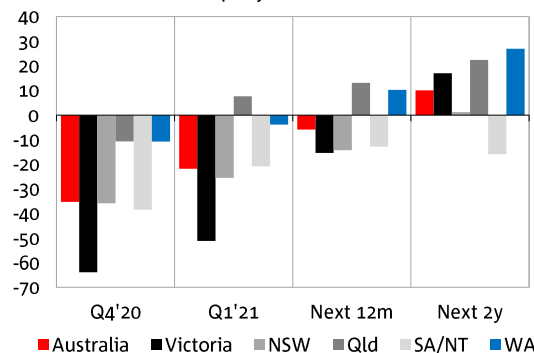
Investment expectations have rebounded strongly, and increased further in Q1 across most states

Qtly business survey, 12 mth expectation



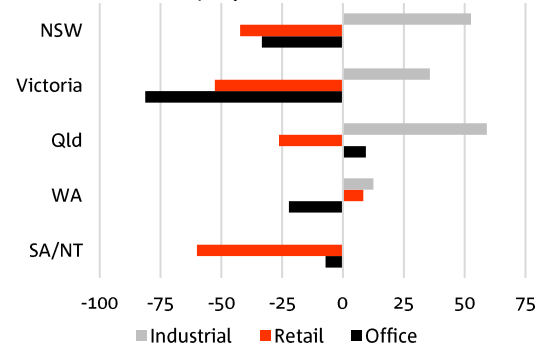
Commercial property sentiment improved in Q1; while Vic, and to lesser extent NSW & SA, remained very weak; conditions are expected to improve

NAB Commercial Property Index



Commercial property weakness is centred on offices (ex Qld) and retail (ex WA) and (nationally) hotels; industrial much better (Q1 2021 [NAB Commercial Property Survey](#))

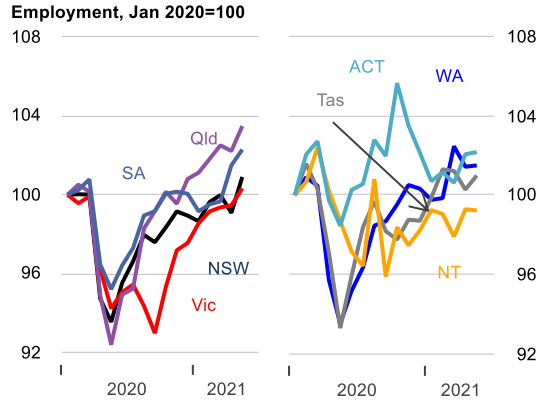
NAB Commercial Property Index



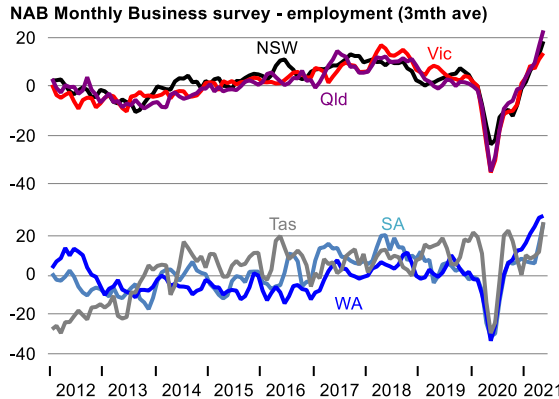
LABOUR MARKET

Robust labour market recovery across most states and territories

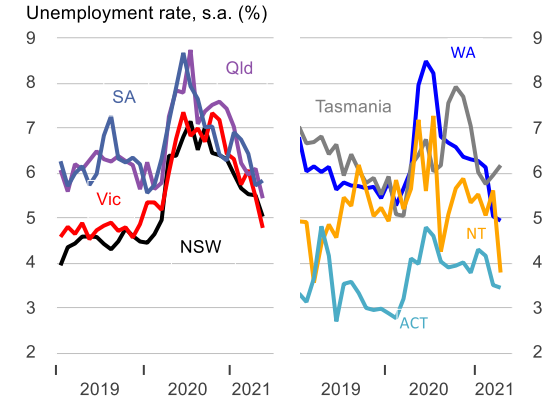
Employment above or around pre-pandemic (Feb' 20) levels in most states (Tas and NT the exceptions)



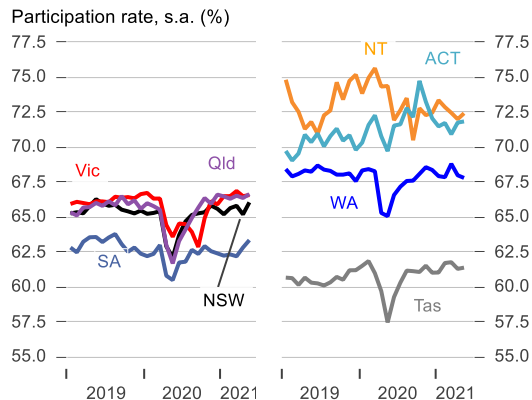
NAB monthly business survey points to job creation at a robust level and accelerating into May



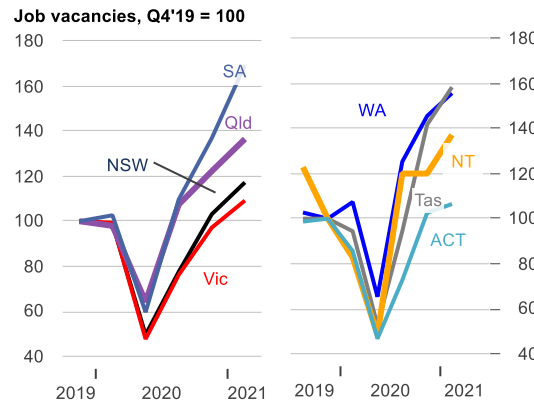
Unemployment rate now generally trending down – In May Vic, Qld, WA, NT below pre-pandemic level



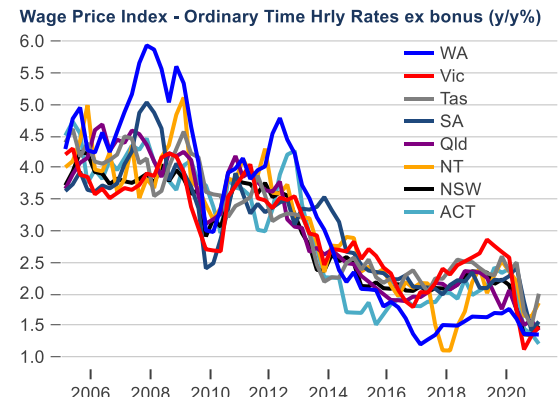
Fall in workforce participation in WA, NT partly explains the lower unemployment rates – but participation has recovered in most states



Job vacancies generally at much higher levels than pre-COVID



Wage growth over year to Q1 '21 very weak; only Tasmania not below 2% due to public sector wage rises

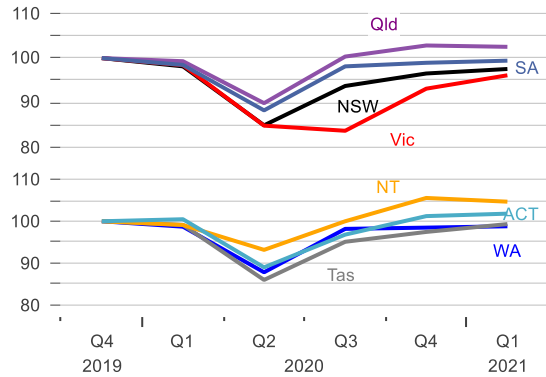


HOUSEHOLDS – CONSUMPTION

Recovery in consumption continued into early 2021 for states still lagging; impact of short-lived lockdowns temporary

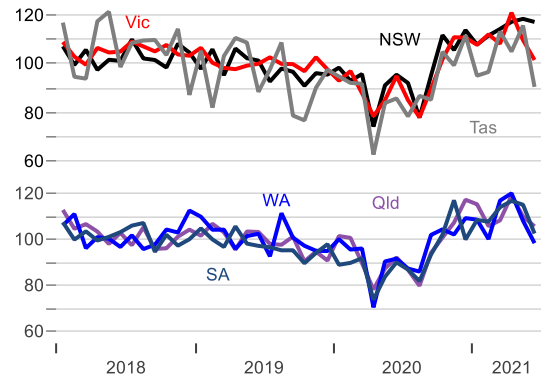
H'hold consumption growth mixed at the start of the year – those with strongest recovery (Qld, NT) fell back, those with the weakest grew strongly (Vic, NSW, Tas)

H'hold consump., Q4'19 = 100



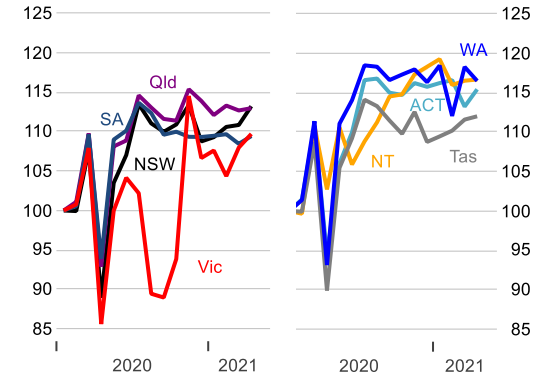
Consumer confidence fell back in June – not just in Victoria as lockdown hit home – but still at decent level

Westpac-Melbourne Institute index of consumer sentiment

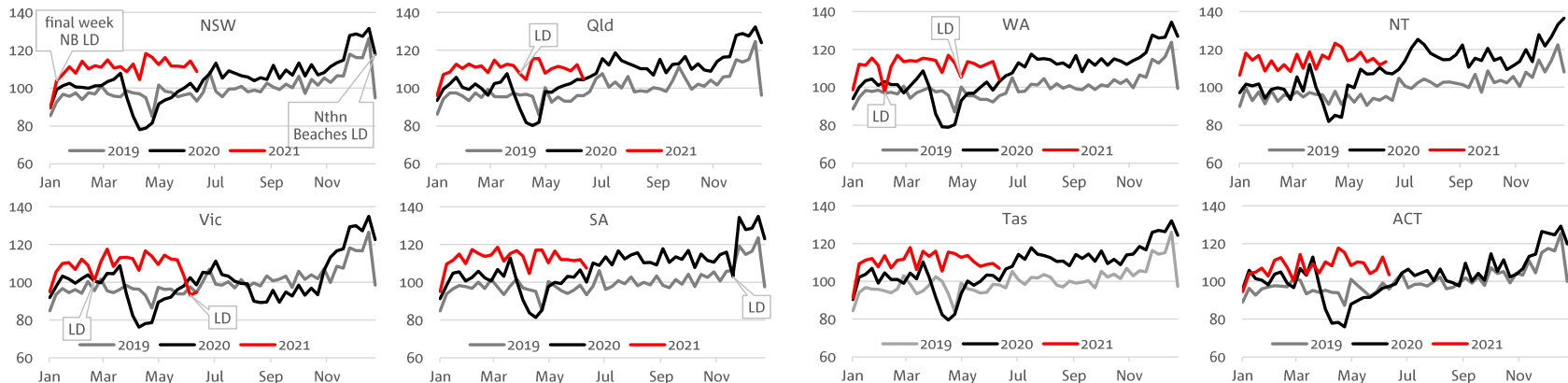


Retail sales have flattened out at a high level – likely reflects normalisation of spending patterns as service spending recovers

Retail sales, Jan 2020 = 100



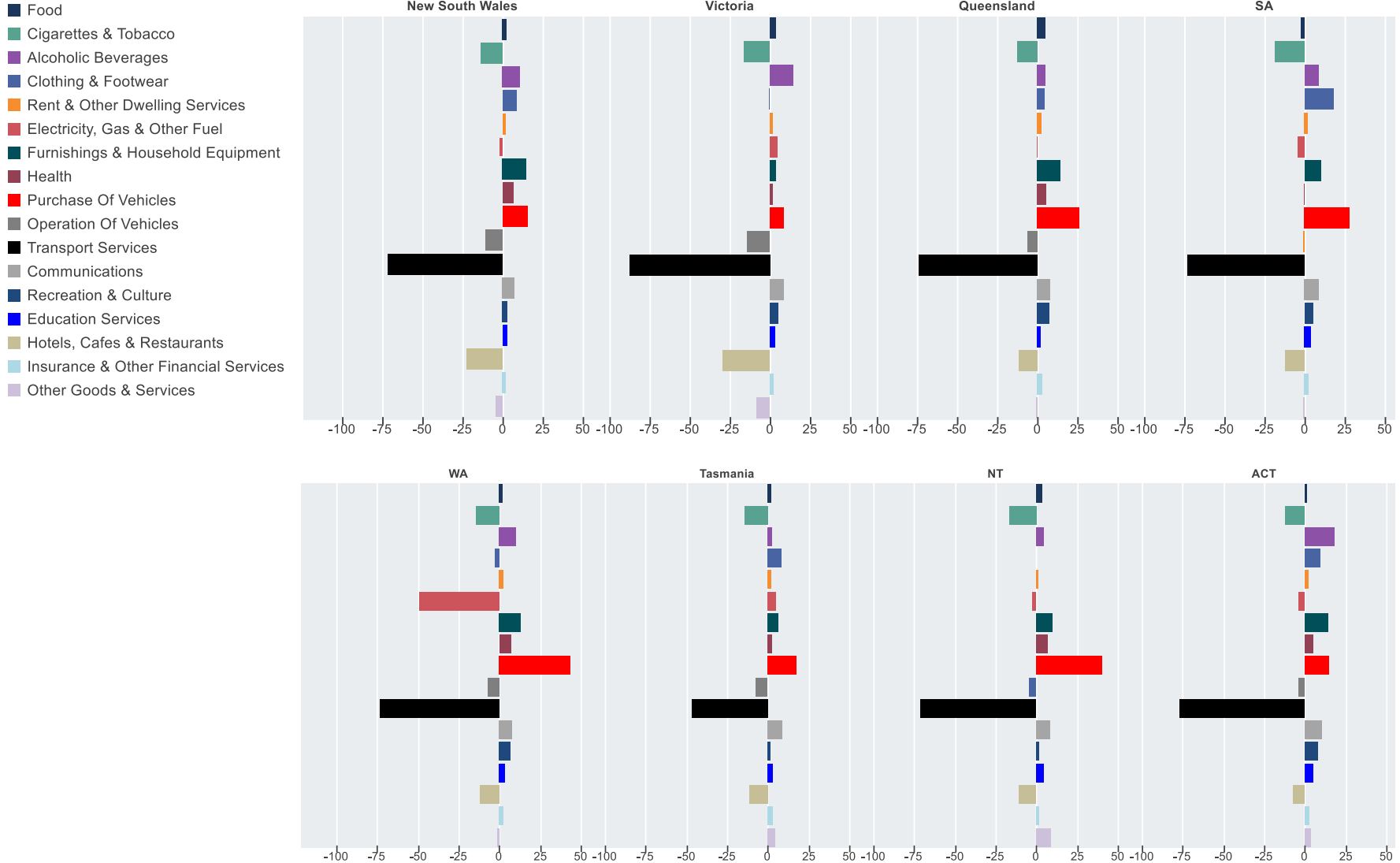
NAB spending data* - impact on Vic consumer spending of recent lockdown evident; however, experience of short lived lockdowns is that spend quickly bounces back. Outside of Vic spend also softer of late
(LD = lockdown (since November '20) Index - 2019 average = 100)



HOUSEHOLDS – CONSUMPTION DETAIL

Consumption in aggregate may have recovered, but some service sector spending a long way off its pre-COVID level – broadly consistent pattern of strong (e.g MVs, alcohol, H' hold equipment) and weak (transport, hospitality) across all the states and territories

Household consumption, % change since Q4 2019

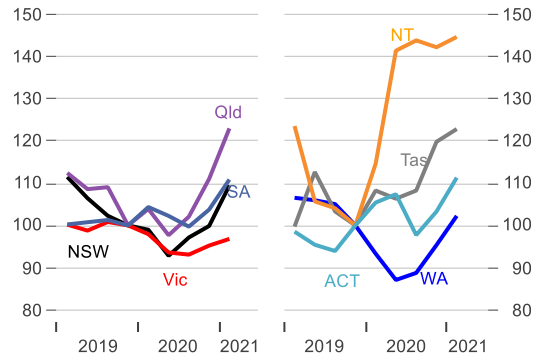


HOUSEHOLDS – HOUSING MARKET

House prices and construction have been growing strongly in most states

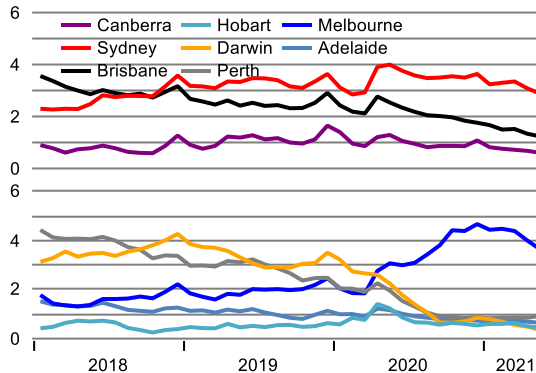
Dwelling investment rising across the board, although Vic yet to fully recover

Dwelling investment, Q4'19 = 100



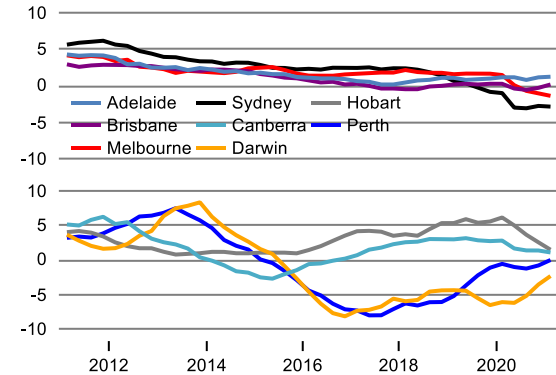
Vacancy rates have risen most in Vic but has started to fall. Smaller capitals actually saw a decline in vacancy rates with border closures

SQM Research Capital City Vacancy Rates, sa.



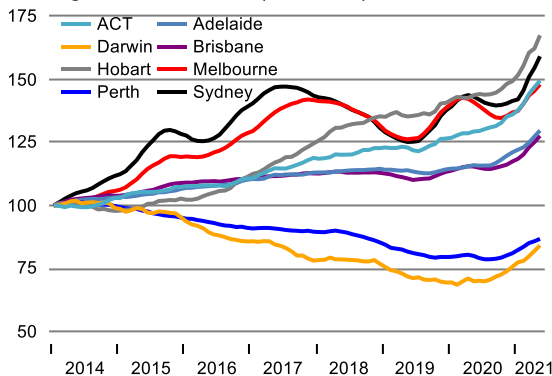
Rents growth has slowed in the larger capitals which a relatively more impacted by border closures, while lower vacancy rates have put upward pressure on rents in smaller capitals

ABS CPI Rents Growth Y/y%

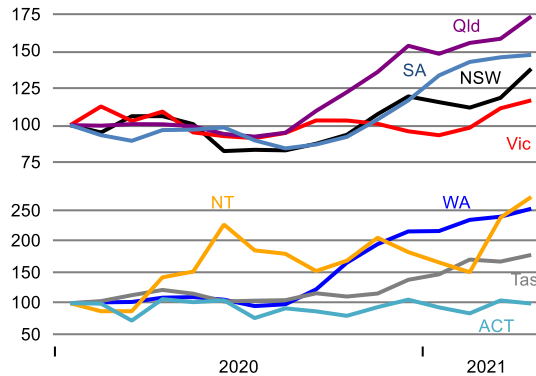


Housing markets have held up well despite the increase in unemployment; helped by low interest rates and government support - building approvals showing signs of life in most states (particularly in the west), house prices are rising strongly and are expected to increase further over the next two years,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

CoreLogic Home Value index (Jan'14=100)



Dwelling approvals - no.(3mth average, index Jan '20 = 100)



NAB Hedonic Dwelling price forecasts(%)*

	2019	2020f	2021f	2022f
Sydney	5.3	2.7	14.0	6.0
Melbourne	5.3	-1.3	16.2	5.5
Brisbane	0.3	3.6	15.2	6.2
Adelaide	-0.2	5.9	11.2	6.0
Perth	-6.8	1.9	13.1	5.6
Hobart	3.9	6.1	19.1	6.1
Cap City Avg	3.0	2.0	14.1	5.8

Sources: ABS, CoreLogic, NAB. * Forecast from [NAB Residential Property Survey Q1 2021](#); % change represent through the year growth to Q4

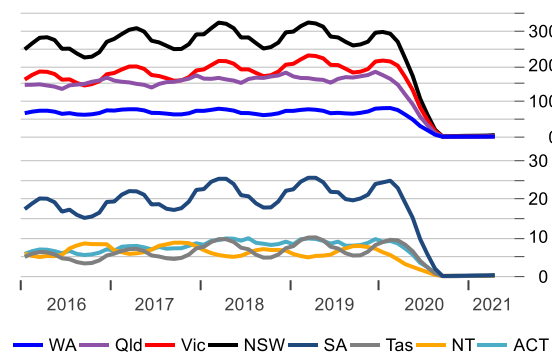


TRAVEL AND COMMODITIES

Border restrictions continue to weigh on tourism, education and population growth; commodities doing better

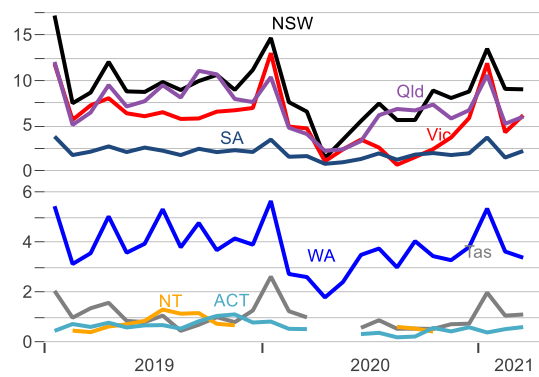
International tourism non-existent while borders closed – more of a concern for NSW, Vic, Qld & NT given size of tourism exports

Short-term visitor arrivals (6mth ave.), '000s of persons
Intended state of stay



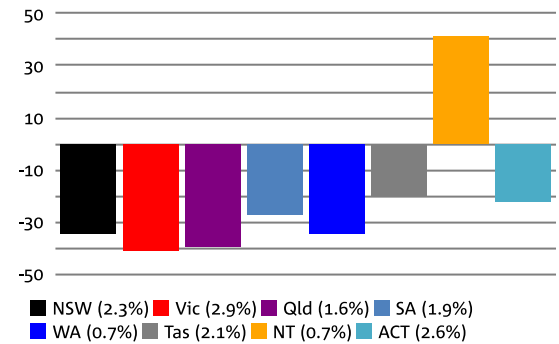
Domestic tourism could fill gap but at best appears to have recovered to previous level

Domestic tourism - overnight stays, number (million)



Overseas student starts down; enrolments not as bad (yet) due to pre-existing students but deferrals up; Vic, ACT, NSW, Tas, SA most exposed given importance to economy

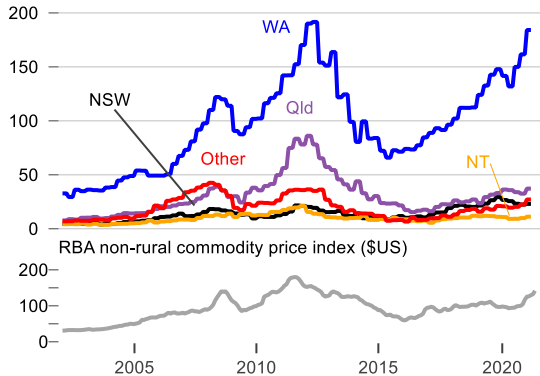
Internat student commencements, ytd Mar'19 to ytd Mar'21 %



* no. in brackets - 2020 education credits as % of 2019/20 GSP

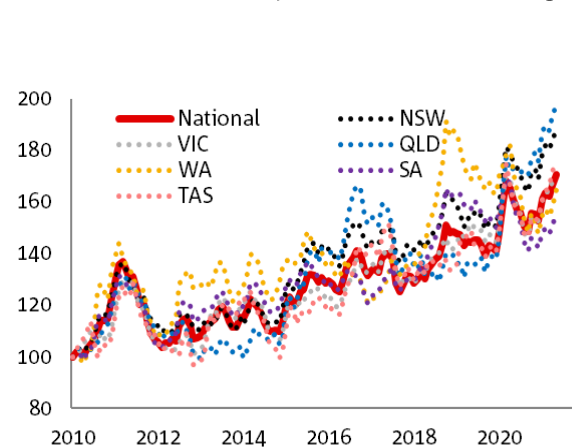
Rebound in commodity prices a positive for mining states – particularly WA with iron ore reaching multi-year highs – driving mineral exploration higher

Mineral exploration expenditure, sa., \$m

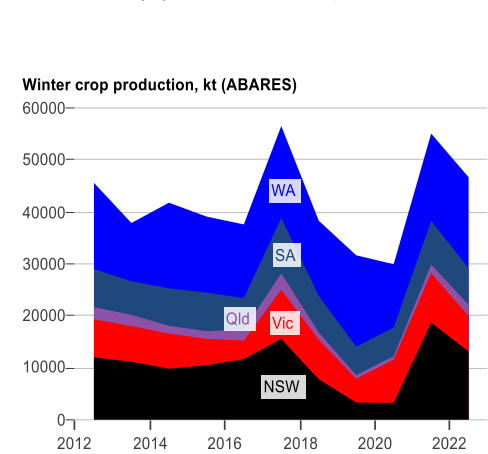


Agriculture a positive as states benefit from combination of good rural commodity prices, and another good crop expected in 2021/22 after a bumper 2020-21

NAB rural commodities price index m/m % change



Winter crop production, kt (21 & 22 estimates)



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