State Economic Overview March 2023

Population rebounding but growth slowdown looms

NAB Group Economics

Key Points

The key themes playing across the states include very tight labour markets, softer house prices but stronger rents in and surging population growth., while the ongoing impacts of higher rates and inflation are expected to weigh on growth going forward after all states saw a strong economic performance in 2022.

That said, growth generally slowed across the states in Q4 as the rebound from earlier lockdowns continued to fade. Nonetheless, SFD is now well above pre-COVID levels in every state and territory.

Labour markets remain tight across the states, with unemployment just below 4% over the past three months in most jurisdictions, and even lower at around 3.2% in NSW. This is a clear contrast to pre-pandemic where unemployment was relatively low in NSW and Vic but a step higher in the smaller states. Despite the strong growth in employment, job vacancies also remain elevated everywhere despite easing over the past two quarters.

The rapid rebound in population growth across the states, driven by a strong return of net migration, has likely filled some of the open vacancies but is having significant implications in each housing market. Some states, such as Qld and SA, are also continuing to benefit from strong net interstate migration which is further supporting their population growth. Tas is yet to see a material rebound.

The housing market continues to adjust to the impact of higher rates – with relatively large adjustments in Sydney, Melbourne, Hobart and Brisbane to date. Adelaide and Perth have only seen marginal declines from their peaks but had not seen as large gains during the pandemic. With rates nearing their peak, relativities between supply and demand across the states will become increasingly important – and are already being reflected in very tight rental markets.

Commodity prices are expected to remain elevated, particularly for energy. While we don't expect a large rise in mining investment in the current environment, higher prices will provide a support in resource dependent states like WA and Qld.

The favourable conditions for agriculture seen over recent years are likely to ease somewhat in 2023, particularly for the soft bulk commodities in NSW, Vic and WA with dryer conditions going forward – especially if an El Nino event eventuates. Nonetheless, bumper crops and elevated global prices see the sector at a strong starting point.

The ongoing recovery of services trade, particularly international student arrivals and tourism, will continue to support growth across the states, especially Vic, NSW and Qld, with arrivals still well below pre-COVID levels.

On balance, the nation-wide impact of high inflation and higher interest rates on households will likely drive slower growth across the board over the coming year, swamping some of the state-specific growth drivers. Longer term, trade competitiveness, business investment and managing the housing investment cycle and population growth will remain critical factors shaping states' growth.

Figure 1: NAB's GSP growth forecasts for 2022-23

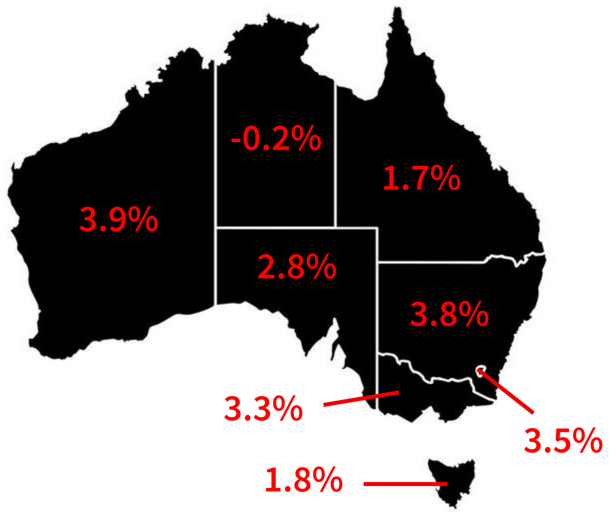

Table 1: NAB's GSP & GDP growth forecasts

	2021-22	2022-23 (F)	2023-24 (F)	2024-25 (F)
NSW GSP	1.8%	3.8%	0.7%	1.1%
Vic GSP	5.6%	3.3%	0.7%	1.3%
Qld GSP	4.4%	1.7%	0.9%	1.2%
WA GSP	3.1%	3.9%	0.8%	1.2%
SA GSP	5.1%	2.8%	0.4%	1.0%
Tas GSP	4.3%	1.8%	0.4%	1.1%
NT GSP	4.7%	-0.2%	-0.7%	1.9%
ACT GSP	1.9%	3.5%	0.7%	1.2%
Aus GDP	**3.7%**	**3.1%**	**0.7%**	**1.1%**

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State by State: New South Wales

The NSW economy performed strongly in 2022, more than rebounding from the 6% fall in SFD at the height of the pandemic. SFD is now 9% higher than pre-pandemic, while the labour market has also performed strongly with the unemployment rate at 3.2% and employment growth of 250k since early 2020. That said, growth clearly slowed in H2 2022 and the impact of higher rates will likely continue to weigh on the housing market and consumer spending.

Dwelling investment growth has also slowed, notwithstanding some volatility over recent quarters. Q4 saw a large fall in the alterations & additions component, with the impact of pandemic stimulus as well as additional cost increases, uncertainty over higher rates and falling property prices and dwelling turnover likely weighing. Investment in new dwellings rose 2% in the quarter.

Higher frequency data shows that spending has remained somewhat resilient in Q1, with retail sales rising 1.9% in January and 0.3% in February (unwinding the seasonally impacted fall in December). Building approvals data showed ongoing weakness in early 2023 falling to a 10 year low in trend terms. Further out, public infrastructure spending will likely remain a key support – with a record $17bn of work under way – mostly rail and road projects.

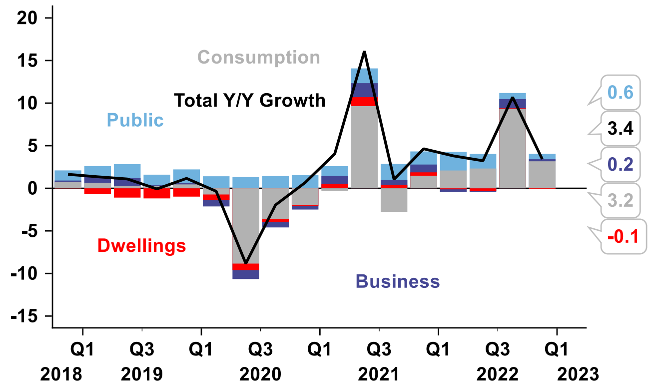
Alongside the rebound in activity, the labour market has tightened with the unemployment rate tracking in the low 3% range for much of the past 6 months. Employment is now 6% (250k) higher than pre-pandemic and the participation rate is at a near record high 66.4%. Job vacancies (145k) remain elevated in the state and actually increased in Q1 despite an easing trend nationally.

Dwelling prices have seen a relatively large adjustment in Sydney, declining by around 14% from their peak in April 2022 (but rebounding somewhat over the past two months). The relatively large decline is consistent with lower affordability and higher leverage in the housing market than other states. That said, prices have broadly stabilised in early 2023. Sydney's rental vacancy rate has fallen to just 1.3% - its lowest level since 2010 and newly advertised rents growth has accelerated to 10% y/y.

Like elsewhere, the rebound in population growth is a key story for the housing market. After falling by 0.1% y/y at its weakest 2021, growth rebounded to 1.3% y/y by Q3 2022. Overseas migration (110k over the past year) has been very strong, more than offsetting the larger than usual drag from interstate outflows (38k over the past year).

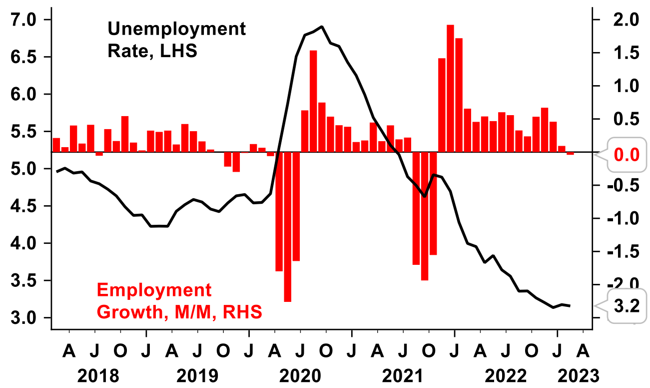
The Government's half year budget update showed a slight deterioration in the budget position. The revenue side has been well supported by a strong economic performance since the 2022/23 budget, though a deterioration in expenses due to flood recovery assistance and ongoing health impacts of the pandemic see the deficit widen over 2022/23 and 2023/24. Nonetheless, NSW treasury projects continue to suggest a return to surplus in 2024/2025.

Chart 1: Contributions to SFD growth, NSW
Percent Y/Y



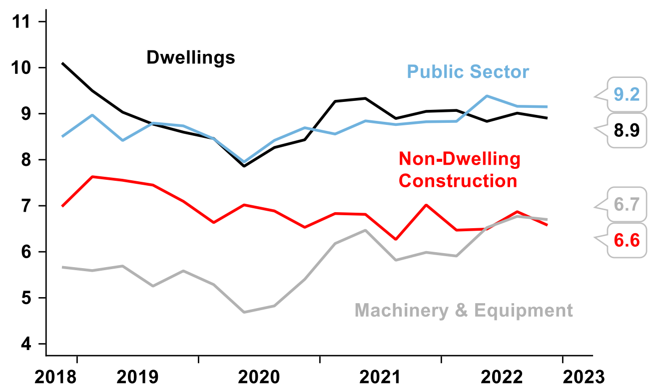
Source: Macrobond, NAB Economics

Chart 2: Labour market conditions (3mma), NSW
Percent



Source: National Australia Bank, Australian Bureau of Statistics

Chart 3: Real public & private investment, NSW
AUD, billions



Source: Macrobond, NAB Economics

State by State: Victoria

The Victorian economy grew strongly in 2022, supported foremost by consumption and (earlier in the year) public spending. The labour market remains very tight and immigration has rebounded, pushing Victoria's population growth slightly above the national average. Looking through 2023 and towards 2024, we expect Victoria to reflect the national pattern of weaker household consumption and slower growth. In addition, several large infrastructure projects are nearing completion.

SFD has grown strongly since mid-2021, supported by strong consumption and (until mid-2022) government spending. However, Victoria's SFD growth slowed in Q4 2022. ABS retail trade data and our own higher frequency indicators continue to show elevated consumer spending, particularly for hospitality. While the NAB Monthly Business Survey has reported weaker Victorian business conditions since late 2022 (even if still above average), confidence has risen of late.

The labour market remains tight, although unemployment has increased a little from its 2020 lows. The unemployment rate currently was 3.7% in February, with labour force participation at a very elevated 66.8% (3mth averages).

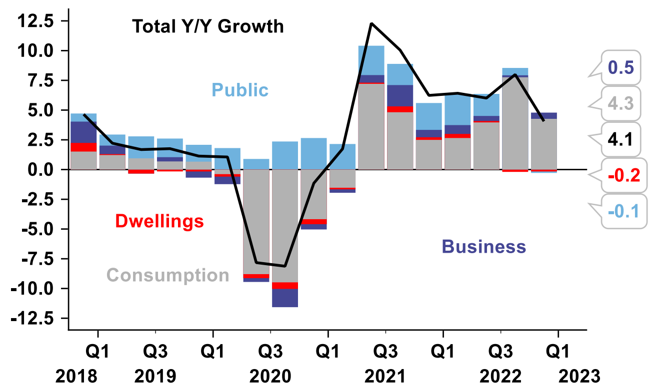
While Victoria's population declined during covid, growth has since rebounded and it is the state's population now exceeds its pre-covid level. Net overseas migration is now back to – or even a little above – pre-covid levels and the net interstate migration deficit slowed to a trickle in Q4 2022.

The return of population growth has seen a sharp increase in advertised rents, which has accelerated in 2023, and the vacancy rate is very low at 1.1% for Melbourne. Victorian house construction costs rose 18.3% y/y in Q4 2022, although there are some signs that costs are peaking.

Victoria has a very strong infrastructure investment pipeline. BITRE's measure of rail-related expenditure was $8.85b in 2020-21, up 232% over the decade, while road-related expenditure was $9.22b, up 102% over the decade. Two large projects (Melbourne Metro and West Gate Tunnel) are expected to reach completion in the next two years. While there is a substantial infrastructure pipeline beyond 2025 (including Stage 1 of Suburban Rail Loop, North East Link and a number of hospitals) there is potential for a pause while these new projects ramp up. The Victorian government projects essentially flat infrastructure investment (albeit at elevated levels) across the forward estimates.

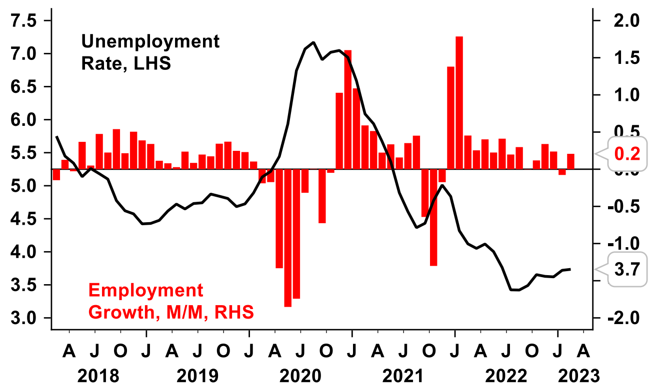
The latest estimate of the state's finances puts the 2022-23 budget deficit at $10.2b before reaching a small surplus in 2025-26. Net debt is projected to grow from $116.0b in 2022-23 to $165.9b in 2025-26. Amid rising interest rates, there have been media reports of a potentially tighter fiscal environment in the 2023-24 budget. This remains speculative ahead of the budget's release in May.

Chart 4: Contributions to SFD growth, Vic
Percent Y/Y



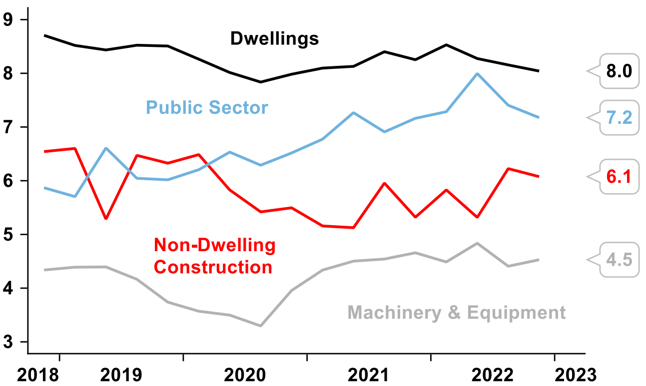
Source: National Australia Bank, Australian Bureau of Statistics

Chart 5: Labour market conditions (3mma), Vic
Percent



Source: National Australia Bank, Australian Bureau of Statistics

Chart 6: Real public & private investment, Vic
AUD, billions



Source: Macrobond, NAB Economics

State by State: Queensland

Queensland's economy grew strongly across 2022, supported by rebounding consumption and business investment, but slowed somewhat in Q4. Strong population growth and the steady recovery of tourism should continue to support the economy and will likely ease some labour constraints, but inflation and higher interest rates will impact consumption and the outlook for commodities prices and agriculture are uncertain.

Queensland's economy began to slow in Q4, with SFD declining 0.3% q/q. The decline was the result of a slight fall in household consumption, mainly around household goods and energy, as well as a fall in business investment, particularly in mining and agriculture. Offsetting strength came from the public sector, including the state government's cost of living rebate and significant infrastructure projects. Dwelling investment also increased in the quarter as weather conditions improved and materials shortages eased.

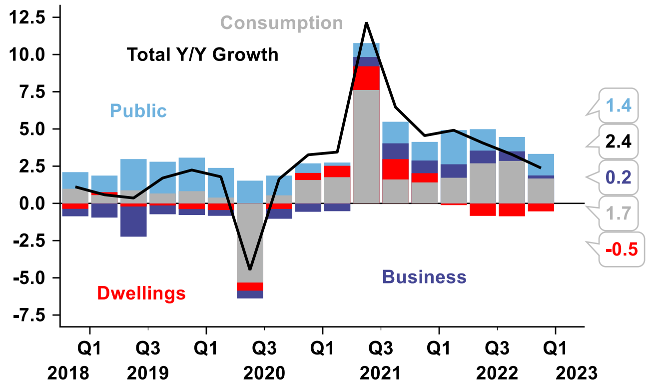
Still, over the course of 2022 as a whole Queensland's economy performed relatively well, growing 3.2% y/y. There was a strong contribution from household consumption, reflecting the rebound from COVID and resumption of intra-state and overseas tourism. Business investment also grew across the year, and business conditions have remained elevated through the beginning of 2023 at an average of +23 index points. Exports of goods and services remained below pre-pandemic levels in Q4 but should continue to recover, and incomes have benefited from strong commodity prices.

Queensland's labour market has softened slightly in recent months, with the unemployment rate averaging 3.8% over the three months to February, reflecting a mix of relatively flat employment growth alongside ongoing population growth. Queensland has continued to experience strong inflows of inter-state migration, and overseas migration has also returned. Still, the labour market is tight, the number of job vacancies remains very elevated and wage growth has picked up, running at 3.4% y/y in Q4 2022.

Brisbane's property market has not been immune from the effects of interest rate rises on borrowing power, with house prices down around 10% from their June 2022 peaks. The state's strong population growth will provide significant support, evident in the very elevated pipeline of work to be done (second only to WA) and strong rents growth.

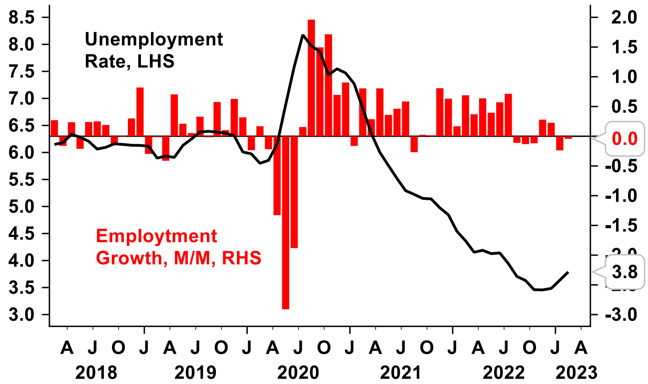
Looking ahead, Queensland's economy should continue to benefit from the ongoing recovery in global tourism, with short term visitor arrivals steadily increasing but still at only a little over half their pre-pandemic level. However, inflation and interest rates will weigh on consumption over the course of 2023, and business investment may also be hampered by slowing global growth and any moderation in commodity prices. The possibility of a El Nino cycle also has implications for the agricultural sector after several years of very strong crop yields. On balance, we expect GSP growth to slow from 4.4% in 2021-22 to around 1.7% for 2022-23 and 0.9% for 2023-24.

Chart 7: Contributions to SFD growth, Qld
Percent Y/Y



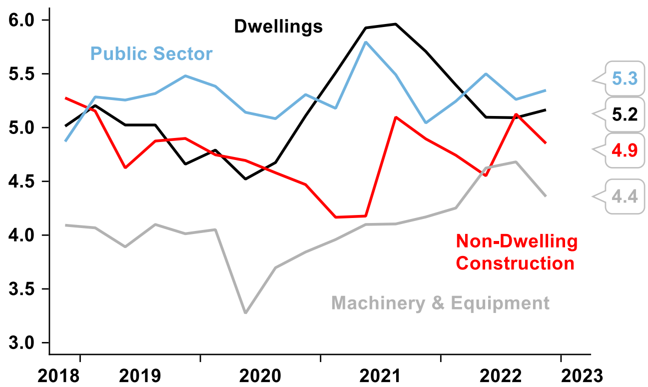
Source: National Australia Bank, Australian Bureau of Statistics

Chart 8: Labour market conditions (3mma), Qld
Percent



Source: National Australia Bank, Australian Bureau of Statistics

Chart 9: Real public & private investment, Qld
AUD, billions



Source: Macrobond, NAB Economics

State by State: Western Australia

Compared with other states, Western Australia suffered fewer negative impacts from the pandemic, including minimal disruption during the Omicron waves across 2022. However, as the most export dependent state, weaker global trade trends – particularly the soft conditions in China's construction sector – could impact the resources sector, slowing a key growth engine.

Overall, growth in SFD grew marginally in Q4 2022, up by just 0.1% (albeit this represented an increase of 3.2% y/y). Although consumption and dwellings investment grew strongly, this was offset by a sharp downturn in public demand and weaker business investment.

Consumption accelerated in Q4, up by 1.6%, compared with just 0.2% in Q3. In contrast, investment growth remained relatively weak, with machinery & equipment trending lower from mid-year peaks.

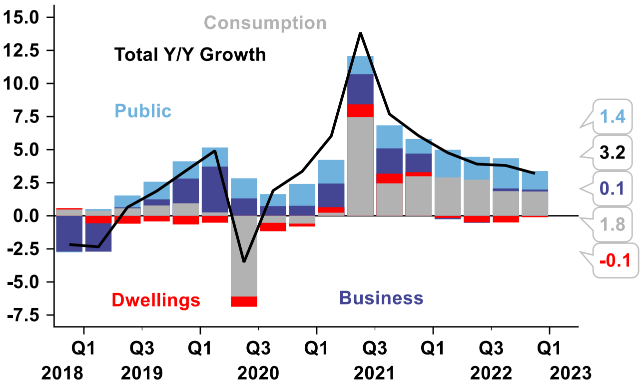
According to NAB's Monthly Business Survey, business conditions in Western Australia trended lower across the second half of 2022 but remained above its historical average. This has seen WA move from being the strongest state in the survey, to broadly in line with the national average, having been overtaken by both Queensland and NSW. In contrast, confidence remained above average in February, with a notable rebound since China abandoned its economically constraining zero-COVID polices.

WA's labour market has softened a little in recent months, but remains historically tight. Employment growth slowed considerably from mid-2022, which resulted in the unemployment rate edging higher – to 3.7% in February (3mth average). Over the same period, the participation rate eased, from around 70% to 69%. Wages grew by 0.8% in Q4 2022, leading to an increase of 3.6% y/y.

Property prices in Perth have been resilient despite interest rate increases, having only fallen 0.4% from their peak (CoreLogic measure). There remains an elevated pipeline for residential construction both in its own right; and compared to other states. Reflecting the supply issues that have caused this backlog, there has been a 44% increase in new dwelling purchases costs since January 2020. Dwelling approvals have fallen to low levels which may help clear the backlog, although this might be because stretched builders are not taking new orders.

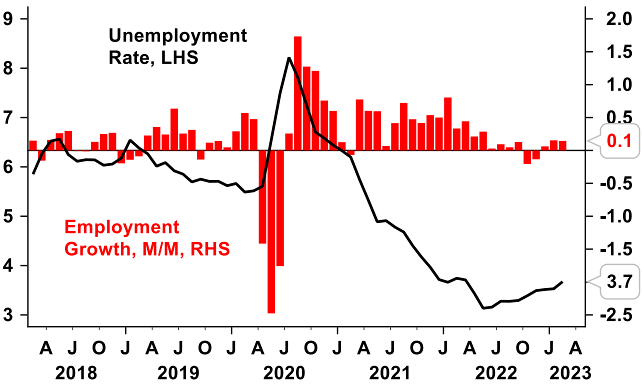
A weaker global economic outlook (particularly in China's property sector) is a key uncertainty for WA's resources sector. Around half of China's steel output is consumed in construction – where activity has contracted since mid-2020 – and China's steel sector is the dominant consumer of the state's iron ore exports. In contrast, European LNG demand – replacing previous flows from Russia – is likely to remain firm in the near term. The agriculture sector looks likely to benefit from another strong winter crop – with volumes looking to rise from already high levels in 2022.

Chart 10: Contributions to SFD growth, WA
Percent Y/Y



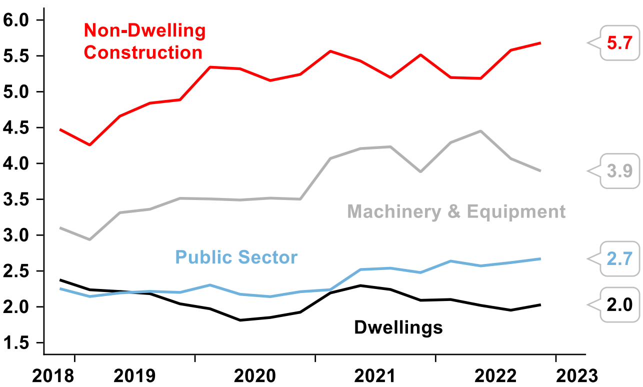
Source: National Australia Bank, Australian Bureau of Statistics

Chart 11: Labour market conditions (3mma), WA
Percent



Source: Macrobond, NAB Economics

Chart 12: Real public & private investment, WA
AUD, billions



Source: Macrobond, NAB Economics

State by State: South Australia

South Australia is in strong position. Population growth has rebounded, helping to support the housing market despite pressure from interest rates. There has also been a sustained lift in business investment, the labour market is strong and conditions in agriculture have been positive. However, growth is slowing and will likely weaken from here as tighter monetary policy and high inflation takes its toll.

State final demand (SFD) ended 2022 on a soft note, declining 0.2%, and was basically flat over the second half of the year. Export growth was stronger over H2, particularly for services, which are likely to continue to benefit as tourism and international student activity continue to recover from COVID.

In Q4, there was a small fall in household consumption (after strong growth over the prior year). More timely consumption indicators point to a slowing in nominal consumer spending growth. As with other states, we expect consumption growth to weaken further from the impact of high inflation and interest rate increases on households.

There has been a strong rebound in population growth. While largely driven by the return of overseas migrants, SA is seeing its first sustained period of net inwards migration from other states since the early 1990s.

Strong population growth and the 2nd lowest rental vacancy rate in the country are limiting the fallout of higher rates on house prices. In March, dwelling prices (CoreLogic) in Adelaide were only 2.4% off their peak and still 40% above their end 2019 level. The end of Homebuilder and higher rates has seen dwelling approvals fall back to around pre-COVID levels. While residential investment has fallen, it remains at a sold level and there is a large pipeline of work.

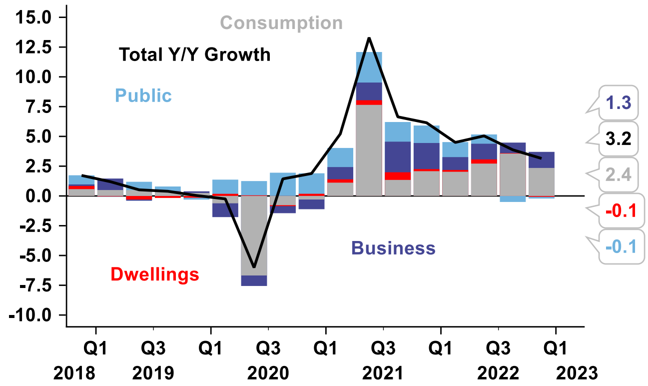
The small fall in business investment in Q4, does not change the fact that SA business investment is seeing its first sustained lift in over a decade (returning its share of SFD back to around its 2015 level).

SA has also benefited from favourable growing conditions for agriculture. Winter crop production has been increasing since 2019-20 and a record crop is expected in 2022-23.

While growth may be softening, there has been little spill over yet to the labour market. With capacity tight, higher population growth is being absorbed. Employment growth is robust and the unemployment rate is historically low.

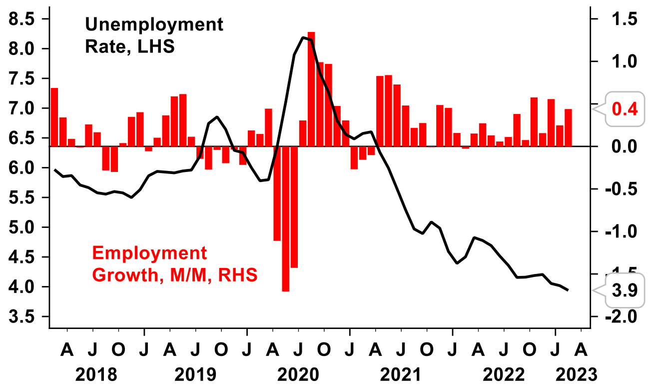
While public sector investment has fallen sharply over the last year, the outlook is less gloomy as the state government is projecting a big lift in infrastructure investment in 2023-24. SA is also set to benefit from the Commonwealth's decision to build nuclear-powered submarines in SA; while the project spans decades, there is an expected $2b investment over the next four years. SA's ability to leverage the industrial capacity and skills uplift this will require will be important for its future.

Chart 13: Contributions to SFD growth, SA
Percent Y/Y



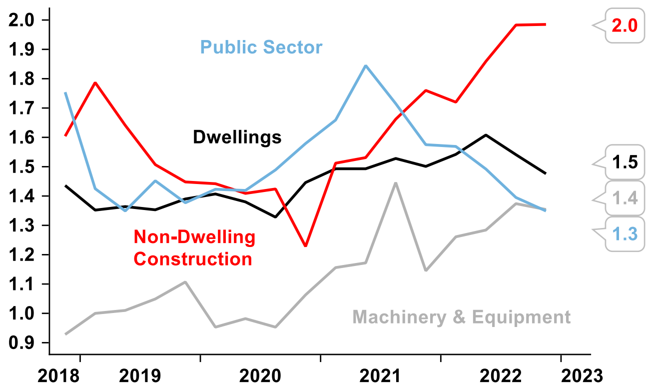
Source: National Australia Bank, Australian Bureau of Statistics

Chart 14: Labour market conditions (3mma), SA
Percent



Source: National Australia Bank, Australian Bureau of Statistics

Chart 15: Real public & private investment, SA
AUD, billions



Source: Macrobond, NAB Economics

State by State: Tasmania

SFD grew by 1.1% over 2022, a relatively soft outcome when compared with other states – in part reflecting a weaker rebound effect. Growth slowed in Q4 on the back of weaker dwelling investment growth, while household consumption was flat. The housing market is undergoing a relatively large adjustment with prices falling sharply in 2022 and housing construction winding back.

SFD growth stalled in Q4 on the back of a flat outcome for household consumption and a solid fall in dwelling investment. Public demand provided some offset up 0.9% in the quarter – largely driven by an increase in government consumption. Business investment was mixed as spending on machinery & equipment declined in Q4, offset by a rise in non-residential construction.

While Tasmania saw slower growth over 2022 than other states, it did not suffer the periods of extended lockdowns felt in other states and overall, SFD is now 11.2% above pre covid levels. Household consumption is around 4% higher, while new business investment in machinery & equipment remains elevated and is well above its pre-COVID level (up 90%). Business conditions have held up in early 2023, and capacity utilisation is particularly elevated.

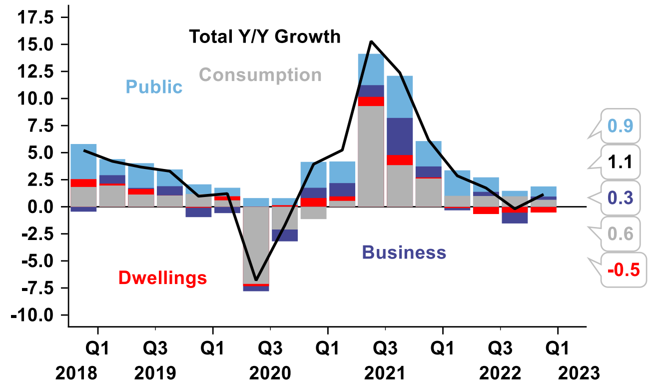
As in other states, the labour market is very tight with unemployment below 4% over recent months, but employment growth has slowed. The ratio of job vacancies per unemployed person is 0.6 in Tasmania – an elevated level but below that of other states.

Population growth remained subdued up to Q3 2022 at just 0.7% over the year, despite the reopening of international and state borders. This is marked turn around from pre-pandemic where the state's population had been growing at a very strong 2.3% supported by both overseas and interstate migration. Overseas migration has rebounded solidly, but net interstate migration has remained soft through 2022.

House prices in Hobart have declined by 12.1% since May 2022, while regional prices are around 11% lower. The fall in Hobart prices has been relatively sharp but comes after an extended period of very strong growth pre-pandemic and further strong gains during the pandemic where prices rose 38%. The rental vacancy rate in Hobart has fallen to extremely low levels at just 0.4% in recent months. Despite one of the tightest rental markets, rents growth has been moderate at 5%, around half the pace of other states (a sharp contrast to the strength in rents seen prior to the pandemic).

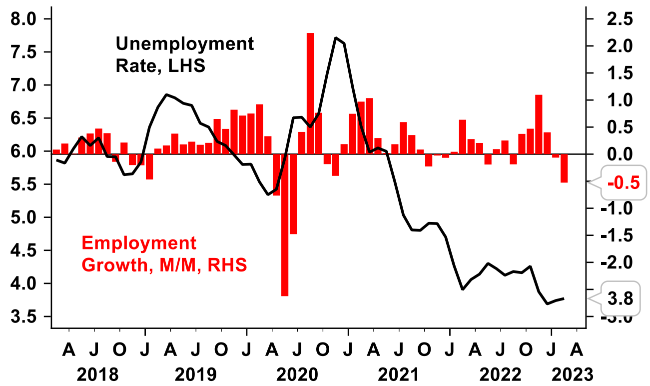
Looking ahead, growth is likely to slow further in Tasmania with the significant nationwide effect of high inflation and higher interest rates on consumption weighing on the state's growth over the coming two years. Tasmania is also less well positioned to benefit from either of high commodity export prices or recovering services exports that will likely provide support in other states, though tourism remains an important contributor to the economy.

Chart 16: Contributions to SFD growth, Tas
Percent Y/Y



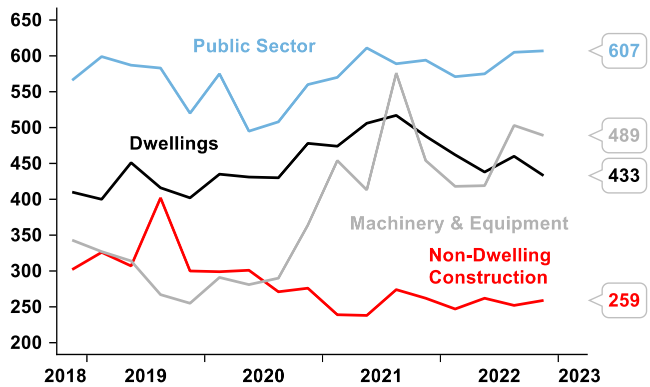
Source: National Australia Bank, Australian Bureau of Statistics

Chart 17: Labour market conditions (3mma), Tas
Percent



Source: National Australia Bank, Australian Bureau of Statistics

Chart 18: Real public & private investment, Tas
AUD, millions



Source: Macrobond, NAB Economics

State by State: Northern Territory

SFD eased in Q4 in the Territory after a reasonably strong year of growth on the back of significant resource and public sector investment. Growth is likely to be softer in 2023 and 2024 as some major projects reach completion and as Darwin LNG production is temporarily disrupted by the transition to the Barossa field. Growth should recover once production resumes.

State final demand fell 0.5% q/q in Q4 of 2022, driven largely by a 0.9% decline in government expenditure including in health, as well as a decline in public investment in buildings and in utilities (though spending on roads and public housing grew). Household consumption increased slightly, while private investment was flat overall as a pickup in mining-related construction activity offset lower activity in the housing market and petroleum exploration.

More broadly however, the 3.3% y/y growth in SFD across the course of 2022 was largely driven by public demand as well as increased business investment. This reflects the significant role of federal and state spending, including defence and port infrastructure, as well as significant resources projects – particularly the Barossa offshore LNG project which is driving significant growth in non-dwelling construction.

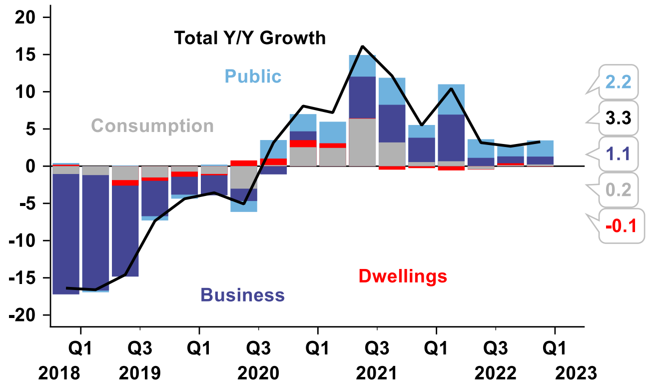
Exports from the Territory held up fairly well during COVID and were boosted by elevated LNG demand related to the Russia-Ukraine war in early 2022. However, exports dipped in the second half of the year in volume terms, and production from the Darwin LNG facility is expected to be disrupted in 2023 and 2024 as it transitions to the Barossa field. Further out, the scope for resources development and commodity prices will remain important factors shaping growth, especially given climate-related risks and policies.

The Territory's labour market is reasonably tight on the back of strong employment growth related to resources projects, as well as the impacts of COVID on overseas and inter-state migration, but the unemployment rate drifted up to average 4.2% over the three months to February. The labour market may soften further over coming years as significant resources projects reach completion.

In terms of housing, private dwelling investment remains fairly subdued and the pipeline of work to be done is no higher than its pre-COVID level. Housing prices in Darwin have held up relative to other capitals, with the impacts of higher rates more pronounced elsewhere. Rents have increased considerably, however, similar to other cities.

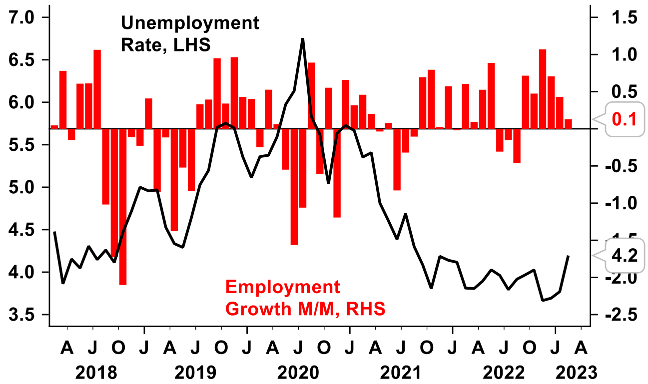
On balance, we expect GSP growth to slow from 4.7% in 2021-22, with a temporary decline of -0.2% in 2022-23 and -0.7% in 2023-24 as the disruption to LNG production weighs on exports. Further out, a rebound is likely to follow as production comes back on-line.

Chart 19: Contributions to SFD growth, NT
Percent Y/Y



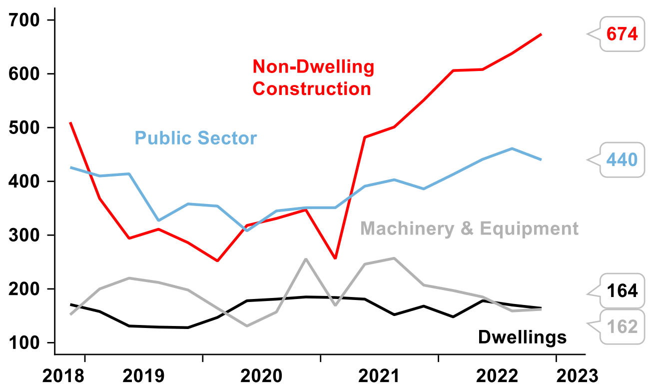
Source: National Australia Bank, Australian Bureau of Statistics

Chart 20: Labour market conditions (3mma), NT
Percent



Source: National Australia Bank, Australian Bureau of Statistics

Chart 21: Real public & private investment, NT
AUD, millions



Source: Macrobond, NAB Economics

State by State: Australian Capital Territory

The ACT economy continues to perform well even with SFD growth moderating in recent quarters. The unemployment rate at a low level and a continued normalisation of tourism and international student numbers is a positive for the outlook, but household consumption growth is coming under pressure. As always, given the large role the Federal government plays in the territory, the upcoming May Federal Budget will be important to watch.

State final demand growth has moderated in recent quarters as the post-lockdown boost has faded. This includes a moderation in public consumption growth - which makes up around 50% of SFD. Public consumption jumped higher during the COVID pandemic and, while this has moderated, the level shift upwards has not been unwound. In this context, with the Federal government making up over 80% of public consumption in the ACT, the Commonwealth's budget in May could have important implications for the ACT outlook.

Public investment, despite a correction in Q4, trended up over 2022. This was driven by the Federal government, but the ACT government's infrastructure program is expected to increase in 2023-24.

Household consumption grew by only 0.1% q/q in Q4 2022, suggesting the combined impact of high inflation on real spending power and higher interest rates is starting to bite. Growth in monthly nominal consumption indicators (ABS retail sales and NAB spending data) is also slowing.

The impact of higher interest rates is also evident in the housing market. The CoreLogic Home Value Index has declined 9.5% since April 2022 (but it remains 27% above its end 2019 level). While residential investment declined in Q4, it remains at a solid level and there is still a solid pipeline of work although building approvals have fallen.

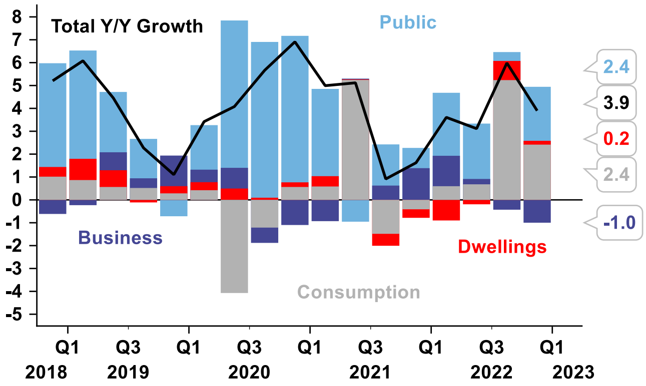
The ACT economy should continue to benefit from further normalisation in tourism and international student numbers. As a per cent of GSP, education credits were a relatively high share of the ACT economy. The pace of recovery slowed in late 2022 (education) and early 2023 (tourist arrivals) so a full recovery may take some time.

Population growth in the ACT has rebounded to a solid level, even if down on the pre-COVID highs. However, of some concern is the net outflow of residents to other states (over the five quarters to Q3 2022), at a pace not seen since the late 1990s.

The unemployment rate is low in the ACT – at 3.1% in February (3mth average), even though it has increased somewhat recently. Employment growth is solid and the level of job vacancies relative to the number of unemployed people is very high.

Chart 22: Contributions to SFD growth, ACT

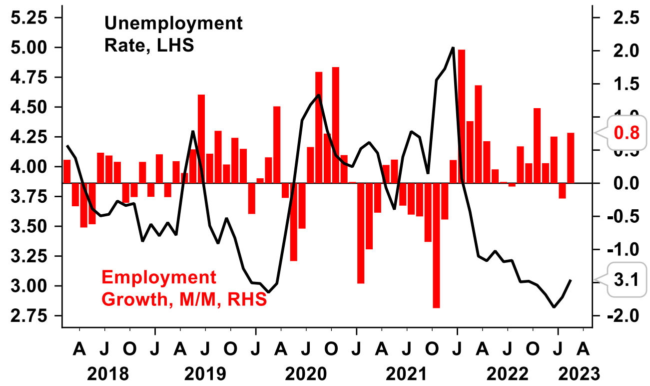
Percent Y/Y



Source: National Australia Bank, Australian Bureau of Statistics

Chart 23: Labour market conditions (3mma), ACT

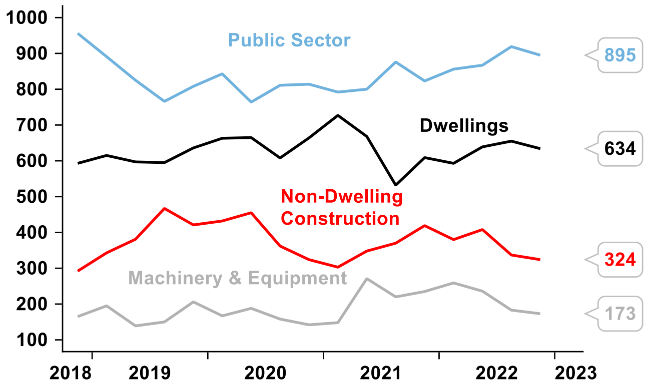
Percent



Source: National Australia Bank, Australian Bureau of Statistics

Chart 24: Real public & private investment, ACT

AUD, millions



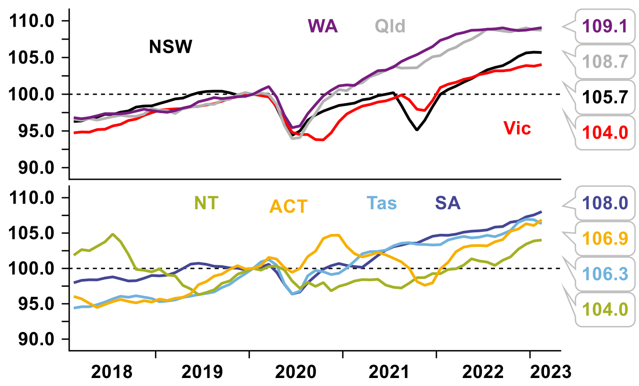
Source: Macrobond, NAB Economics

State comparisons: Labour Market

Labour markets are very tight across the states. Employment is now well above its pre-COVID levels across the country and the unemployment rate was below 4% over the three months to February everywhere except the NT. Job vacancies also remain elevated well above their historical levels, with a ratio of roughly one vacancy per unemployed person in the larger states and an even higher ratio in the ACT and NT.

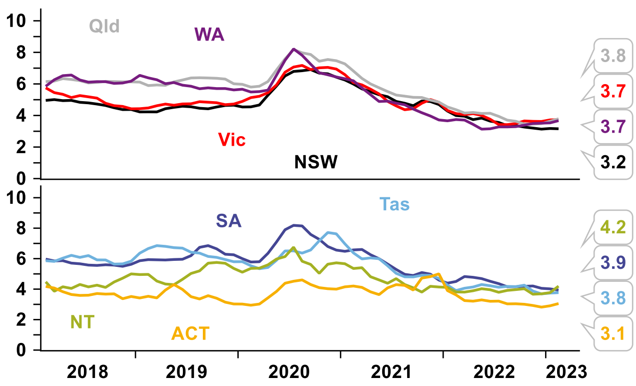
The tight labour market has seen wage growth begin to pick up across the board, with hourly wages rising more than 3% over the course of 2022 in all states and only the NT and ACT trailing, (possibly due to significant the public sector share in their workforce). Labour supply is also increasing, with participation rates elevated and overseas migration rapidly recovering. Qld, and to a lesser extent WA, have continued to benefit from strong inter-state migration.

Chart 25: Employment (3mma)
Index, Jan 2020 = 100



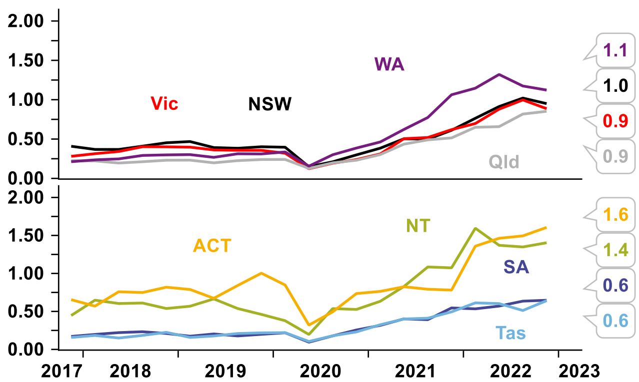
Source: National Australia Bank, Australian Bureau of Statistics

Chart 26: Unemployment rate (3mma)
Percent



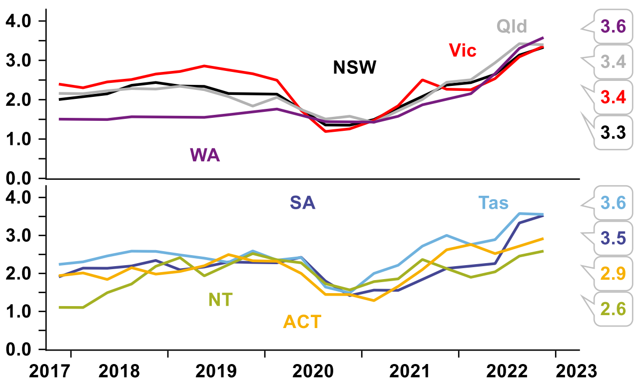
Source: National Australia Bank, Australian Bureau of Statistics

Chart 27: Job vacancies per unemployed person
Ratio



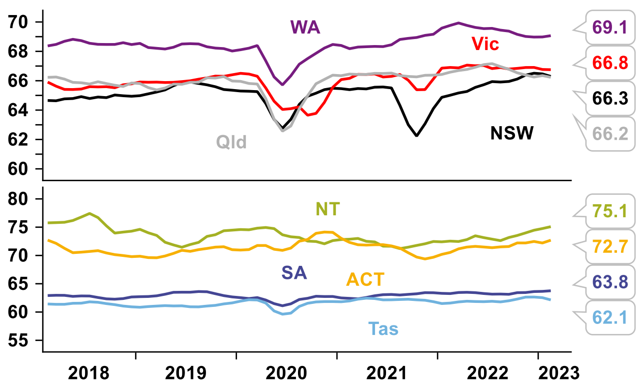
Source: National Australia Bank, Australian Bureau of Statistics

Chart 28: Hourly wage growth
Percent Y/Y



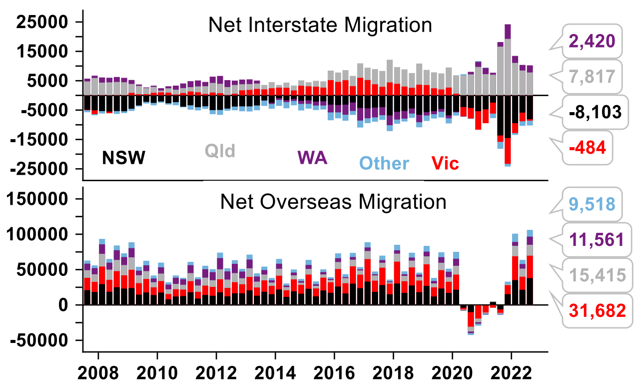
Source: National Australia Bank, Australian Bureau of Statistics

Chart 29: Participation rate (3mma)
Percent



Source: National Australia Bank, Australian Bureau of Statistics

Chart 30: Net migration by state
Thousands



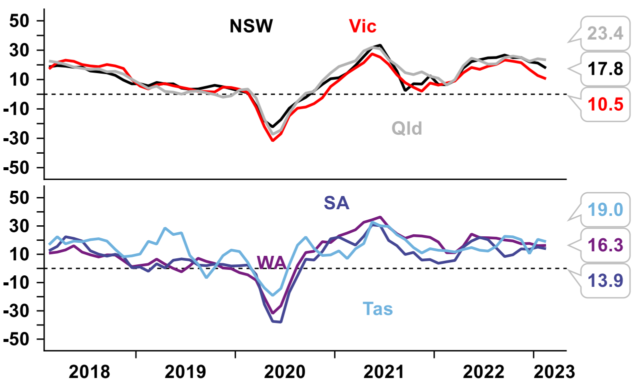
Source: National Australia Bank, Australian Bureau of Statistics

State comparisons: Business Sector

Business conditions are elevated and capacity utilisation is high, despite easing confidence. Business conditions in the NAB Monthly Business Survey are elevated across the states, with Qld leading the way at over +20 index points and Vic the weakest at a still-strong +10. Capacity utilisation is also elevated across the states, likely reflecting the tightness in the labour markets. Business confidence has eased in recent months but remains elevated in WA and Tas.

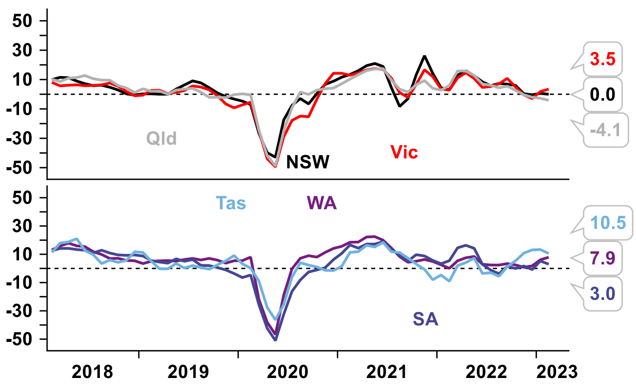
Business investment is holding up, running above pre-COVID levels in most jurisdictions except the ACT, with the NT benefiting from significant resources projects. New business registrations are continuing to run at elevated levels across the board, while the number of companies entering administration has normalised after COVID-related support kept some businesses afloat through the pandemic period.

Chart 31: NAB survey business conditions (3mma)
Net Balance



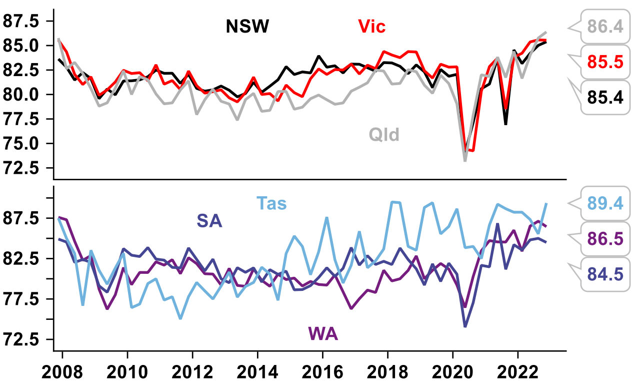
Source: National Australia Bank

Chart 32: NAB survey business confidence (3mma)
Net Balance



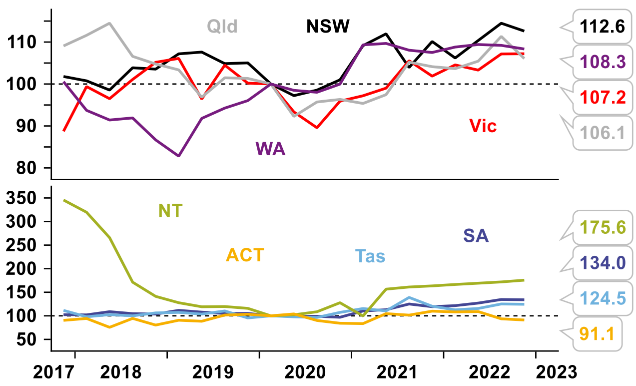
Source: National Australia Bank

Chart 33: NAB survey capacity utilisation
Percent



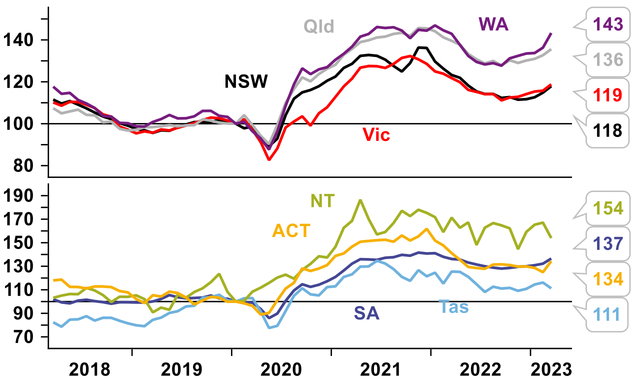
Source: National Australia Bank

Chart 34: Real business investment
Index, Jan 2020 = 100



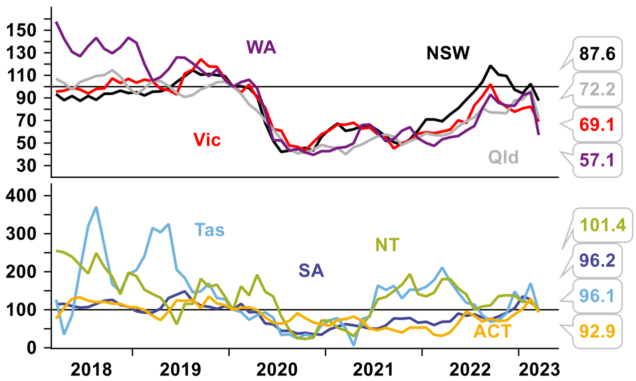
Source: National Australia Bank, Australian Bureau of Statistics

Chart 35: New business registrations
Index, Jan 2020 = 100



Source: National Australia Bank, Australian Securities & Investments Commission

Chart 36: Companies Entering Administration
Index, Jan 2020 = 100



Source: National Australia Bank, Australian Securities & Investments Commission

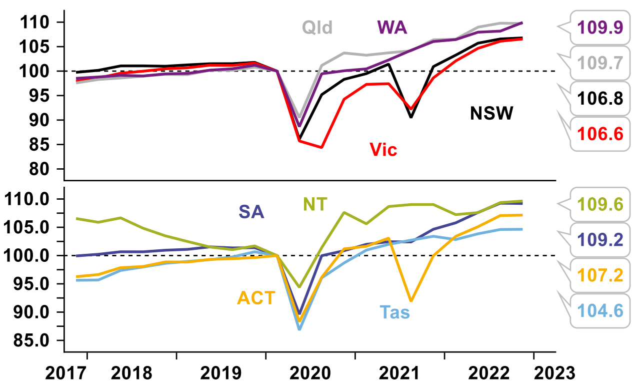
State comparisons: Consumption

Household consumption has continued to rise despite pressure from inflation and higher rates. Real consumption growth slowed in Q4 of 2022 as the post-COVID rebound faded but growth remained positive everywhere except Tas (flat) and Qld and SA (small declines). More recent nominal retail sales data suggest spending has remained robust across the board despite a seasonal dip in December, with all states seeing a pickup in the early months of 2023.

Still, inflation remains a significant challenge, rising by more than 7% y/y over the course of 2022 in every capital and by 8% or more in Adelaide, Perth, and Melbourne. With interest rates also increasing rapidly over the past year, consumer sentiment has fallen to very low levels in every state and territory.

Chart 37: Real household consumption

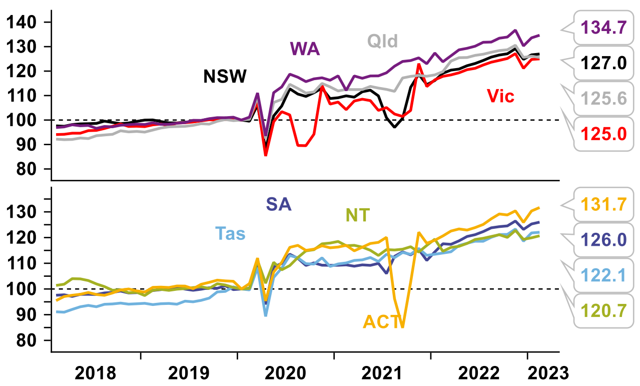
Index, Jan 2020 = 100



Source: National Australia Bank, Australian Bureau of Statistics

Chart 38: Nominal total retail sales

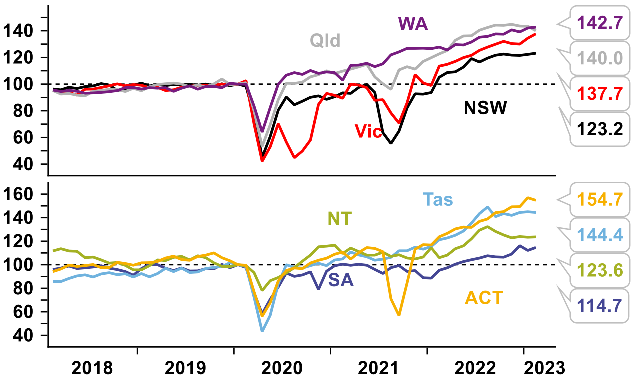
Index, Jan 2020 = 100



Source: National Australia Bank, Australian Bureau of Statistics

Chart 39: Nominal cafes & restaurant sales

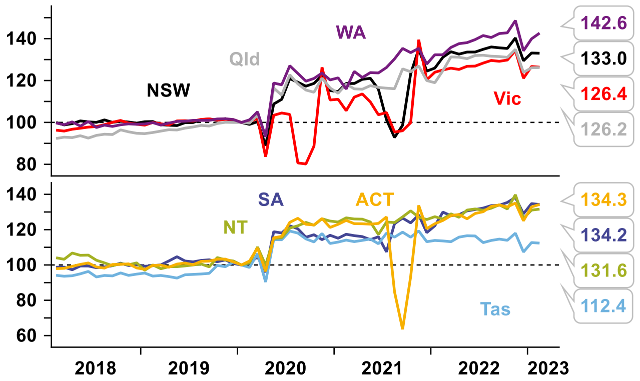
Index, Jan 2020 = 100



Source: National Australia Bank, Australian Bureau of Statistics

Chart 40: Nominal retail sales ex. food, cafes etc

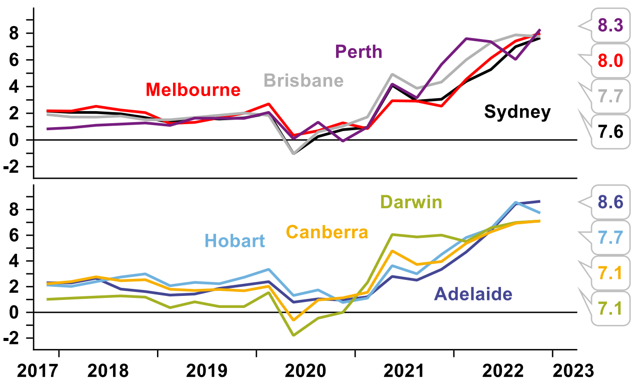
Index, Jan 2020=100



Source: National Australia Bank, Australian Bureau of Statistics

Chart 41: Capital city inflation

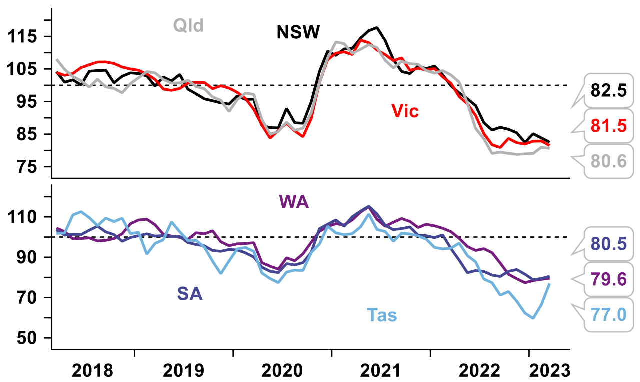
Percent, Y/Y



Source: National Australia Bank, Australian Bureau of Statistics

Chart 42: Melbourne Institute consumer sentiment

Index, 100 = Neutral



Source: National Australia Bank, Melbourne Institute of Applied Economic & Social Research

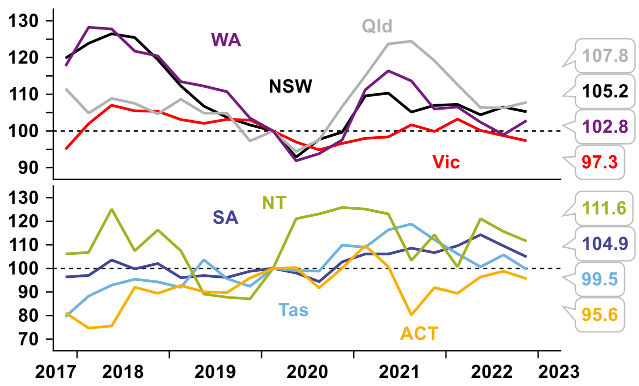
State comparisons: Housing Market

Housing markets continue to reflect the impact of supply constraints, higher rates and post-COVID population dynamics. Dwelling investment remained subdued in Q4 of 2022 due to labour and materials constraints, leaving a very elevated pipeline particularly in WA and Qld. The cost of new dwelling construction is now extremely elevated across the capitals, particularly Perth and Brisbane, though the pace of cost growth has slowed.

House prices have begun to decline as higher rates have impacted borrowing power across the country, though prices have held up in Perth and Adelaide. Under the surface, however, strong population growth is keeping the housing market tight with rental vacancy rates declining in Sydney and Melbourne and already at low levels elsewhere. CPI rents are back to pre-COVID levels in Sydney and Melbourne and very elevated elsewhere, particularly in Perth.

Chart 43: Real dwelling investment

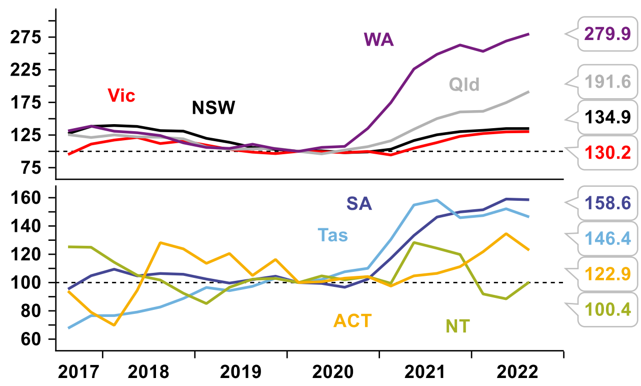
Index, Jan 2020 = 100



Source: National Australia Bank, Australian Bureau of Statistics

Chart 44: Nominal residential construction pipeline

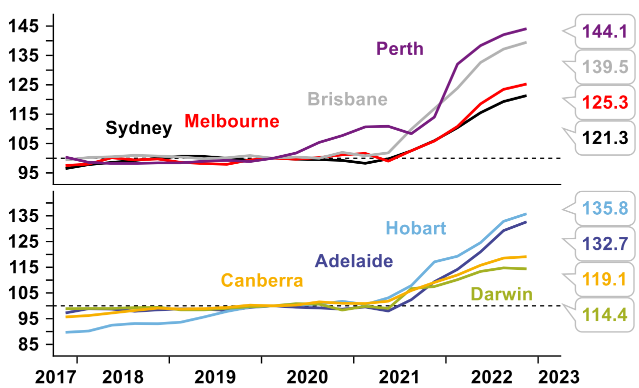
Index, Jan 2020 = 100



Source: National Australia Bank, Australian Bureau of Statistics

Chart 45: CPI new dwelling prices for owner-occupiers

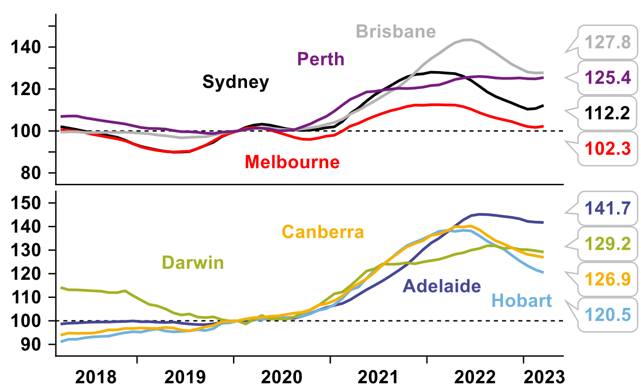
Index, Jan 2020 = 100



Source: National Australia Bank, Australian Bureau of Statistics

Chart 46: CoreLogic hedonic dwelling price index

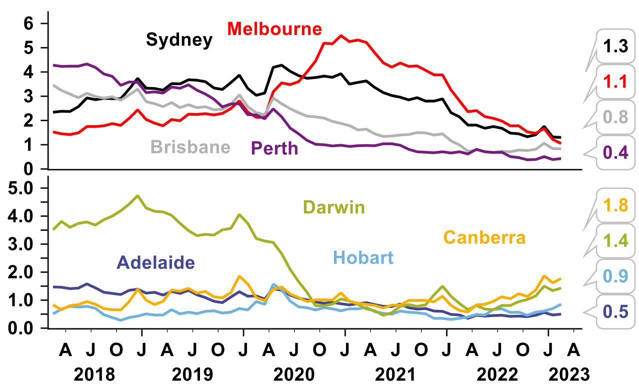
Index, Jan 2020 = 100



Source: National Australia Bank, CoreLogic

Chart 47: Residential vacancy rate

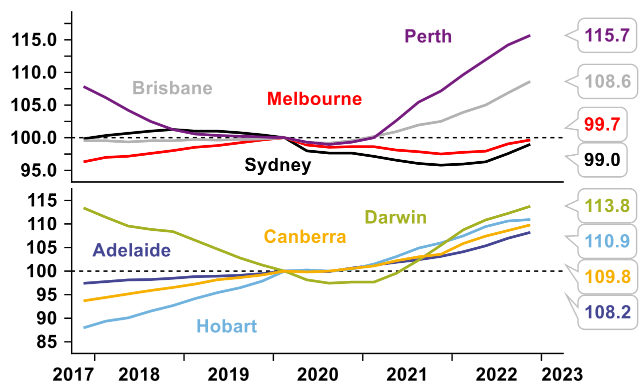
Percent



Source: National Australia Bank, SQM Research

Chart 48: CPI housing rents

Index, Jan 2020 = 100



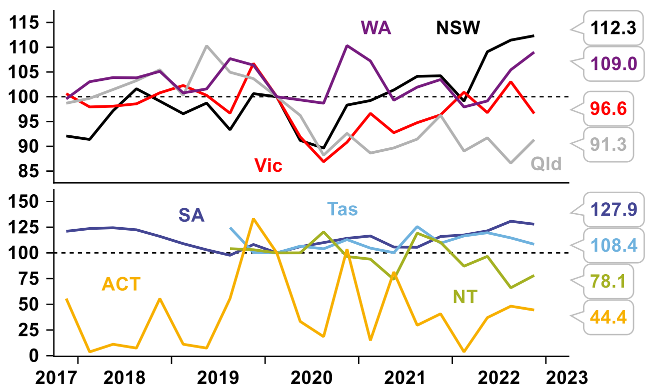
Source: National Australia Bank, Australian Bureau of Statistics

State comparisons: Export Sectors

Exports continue to recover from COVID impacts and key commodity prices remain elevated. Goods export volumes are around or above their pre-COVID levels in NSW, WA, SA, Tas and Vic, though Qld and NT volumes were a little down as of Q4 2022. Prices for key commodities have come down from their 2022 peaks but remain elevated. Strong winter crop production in NSW and Qld is unlikely to be sustained as La Nina passes.

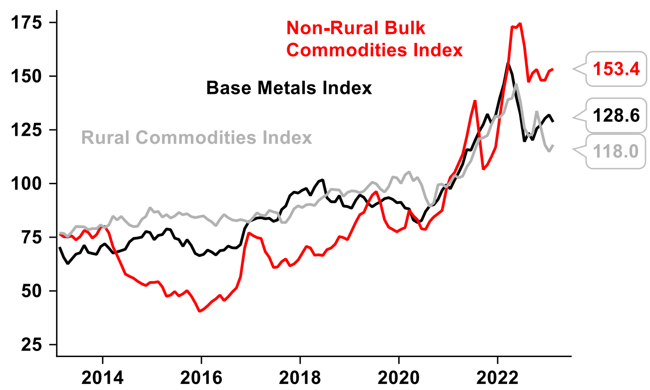
Services exports continue to recover steadily across the states as tourism and international student flows normalise. Short term arrivals are rising steadily in the larger states but remain around half their pre-COVID levels, while international student enrolments have similarly been on a steady rise led by NSW.

Chart 49: Real goods exports
Index, Jan 2020 = 100



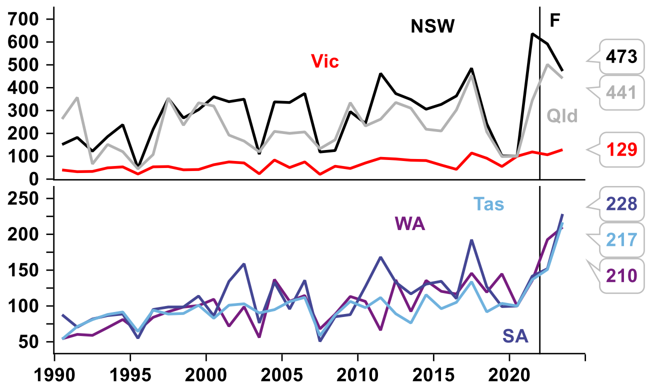
Source: National Australia Bank, Australian Bureau of Statistics

Chart 50: Commodity export prices
Index, AUD



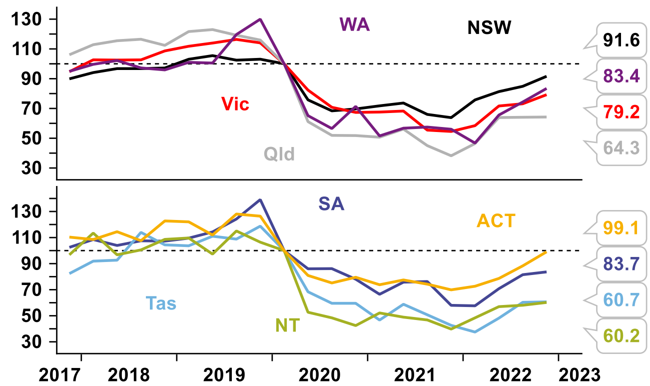
Source: National Australia Bank, Reserve Bank of Australia

Chart 51: Winter crop production, kt
Index, Jan 2020 = 100



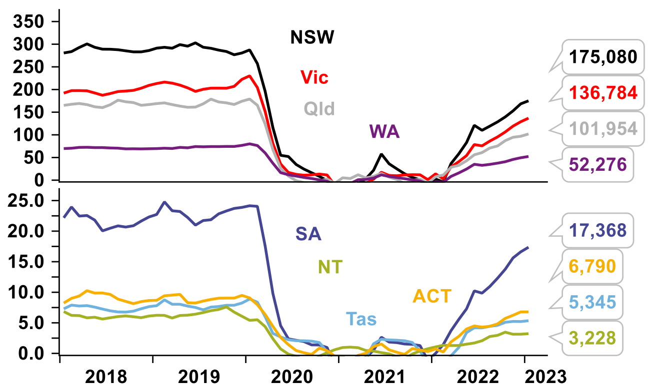
Source: Macrobond, NAB Economics, ABARES

Chart 52: Real services exports
Index, Jan 2020 = 100



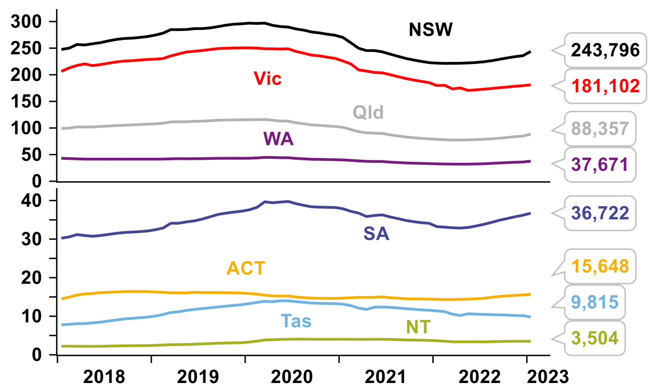
Source: National Australia Bank, Australian Bureau of Statistics

Chart 53: Short-term visitor arrivals (3mma)
Thousands, s.a., by intended state of stay



Source: National Australia Bank, Australian Bureau of Statistics

Chart 54: International student enrolments (3mma)
Thousands, s.a.



Source: National Australia Bank, Australian Department of Education

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