State Economic Overview Q3 2023

Growth holding up but subdued year ahead

NAB Group Economics

Key Points

While growth has slowed in 2023, the state and territory economies have showed considerable resilience to the common impact of higher rates and inflation, with a range of factors supporting activity across the nation.

Looking at State Final Demand (SFD) data, household consumption growth has been modest but remained positive in most jurisdictions through Q2, with retail sales data pointing to resilience through Q3 across the board. Strong population growth has supported demand in the large eastern states, with NSW and Victoria continuing to benefit from a strong rebound in overseas migration and Queensland also still benefiting from interstate movements.

Public demand has also been a key support, with significant public investment programs in NSW, Victoria and Queensland as well as the Territories. Business investment has been more mixed despite business conditions remaining healthy across the states. The larger states have benefited from rising private investment but growth has been more subdued in the smaller jurisdictions. A large fall in resources-related activity in NT has been a key drag there alongside disruptions to LNG production.

The strength of population growth has kept rental markets very tight across most capitals and seen house prices heading back towards their 2022 peaks in the larger cities – though prices in Hobart, Darwin and Canberra have been somewhat more subdued. The tight market has been exacerbated by supply challenges with dwelling investment flat or falling in most states (with WA a notable exception).

The labour market also remains very tight across the board, although there are some signs the pace of employment growth is slowing. The unemployment rate remains at or below 4% in trend terms in most states, though it has been drifting higher in Queensland, SA, the NT and ACT. NAB expects gradual further loosening in the labour market as growth slows.

Commodity prices have eased from their 2022 highs but remain elevated, supporting incomes in exporting states. Lingering concerns about the growth in China continue to cloud the outlook for iron ore exports, while the coming El Nino period is expected to see crop production decline, weighing on agricultural exports. Services exports have largely regained their pre-COVID levels in most states.

Figure 1: NAB's Gross State Product (GSP) growth projections for 2023-24

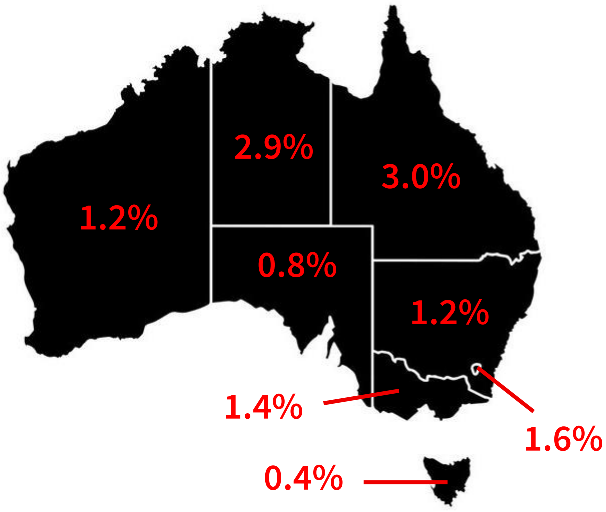

Table 1: NAB's GSP growth projections

	2021-22	2022-23*	2023-24*	2024-25*
NSW GSP	1.8%	4.2%	1.2%	1.3%
Vic GSP	5.6%	3.0%	1.4%	2.0%
Qld GSP	4.4%	1.9%	3.0%	2.4%
WA GSP	3.1%	3.9%	1.2%	1.7%
SA GSP	5.1%	3.5%	0.8%	1.7%
Tas GSP	4.3%	0.8%	0.8%	2.1%
NT GSP	4.7%	-5.1%	2.9%	1.9%
ACT GSP	1.9%	3.6%	1.6%	2.5%

*State GSP projections based on available SFD and trade data, NAB Economics' national economic forecasts, and evaluation of State Treasury projections.

Looking ahead, growth is expected to remain subdued into 2024 with inflation still elevated and interest rates remaining in restrictive territory – although some progress on inflation is expected, easing the drag on real incomes. The slowdown in domestic demand is likely to weigh more heavily in the smallest states, which are benefitting less from external factors like migration and commodity exports.

Public demand will continue to play an important role, though this comes in the context of constrained state government budgets. Most forecast a return to operating balance, but this hinges on budget restraint which may limit the scope to support activity through a difficult period.

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State by State: New South Wales

The NSW economy has remained resilient, though growth has slowed and the household sector will continue to face budget pressures from higher rates and inflation, and housing affordability remains low. The labour market has passed a turning point but the unemployment rate remains low and job vacancies are still high.

SFD growth strengthened slightly in Q1, with demand rising by 0.8%. Household consumption was flat in the quarter and a solid gain in new dwelling investment was offset by a pull-back in renovation activity. Private sector investment in transport and IT investment saw a boost to investment spending, while public sector demand made a solid 0.5 ppt contribution in the quarter reflecting the elevated pipeline of infrastructure work. Overall, SFD is up 1.7% y/y – and while that is around 0.5 ppt softer than the national average it is still a relatively healthy outcome.

This has been reflected in NAB Survey Business Conditions for NSW, which despite easing, have generally remained above average in 2023. Likewise, capacity utilisation remains relatively high and taken together with business conditions and resilience in retail sales, suggests that the economy has held up in Q3.

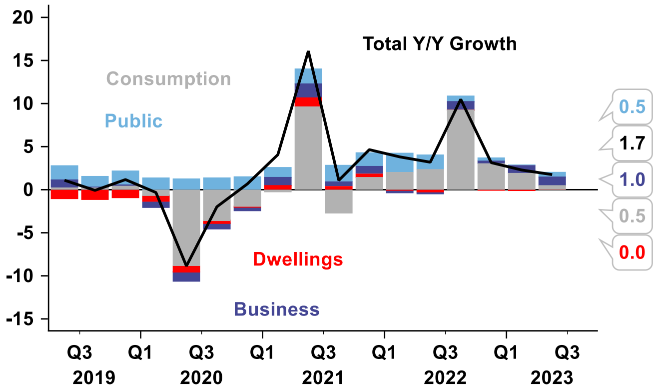
While growth has slowed, the labour market has remained healthy. The unemployment rate (in trend terms) remains low at 3.4% and though it has come off its lows in early 2023, it is still well below its pre-pandemic level of around 4.5%. Job vacancies eased 18% over the past year but remain over 50% higher than pre-pandemic.

Population growth accelerated further in Q1, rising to 1.9% in Q1, while labour force data suggests a further acceleration over the past 6 months, with working age population rising 2.5% y/y in the September quarter.

The strength in population has supported aggregate activity and is also particularly evident in the housing market. Sydney dwelling prices have risen strongly in 2023, rising 12% after troughing in January. This rapid increase in prices has now largely reversed the large fall over the preceding year. The rental market remains very tight, with the rental vacancy rate at its lowest level since late 2008 – and rents growth, though having eased slightly from its peak in annual growth of over 10%, remains strong.

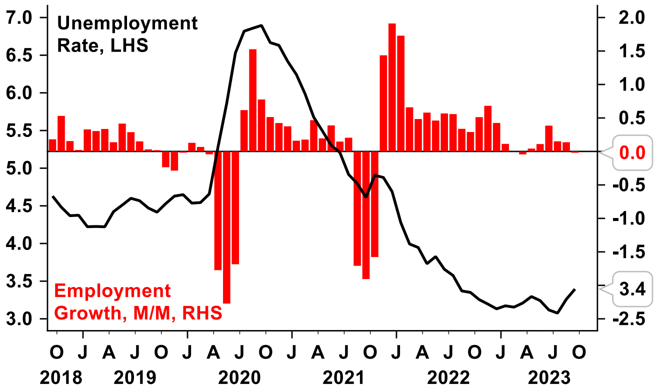
NSW released the delayed budget for 2023/24 in September. It now projects a larger than previously expected deficit of $7.8bn in 2023/24 before returning to surplus in 2024/25 ($844m). This represents a larger initial deficit but larger surpluses in the out years when compared to the pre-election budget update. The interest expense is expected to rise to around $7bn annually with net debt stabilising around 12.5% of GSP.

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



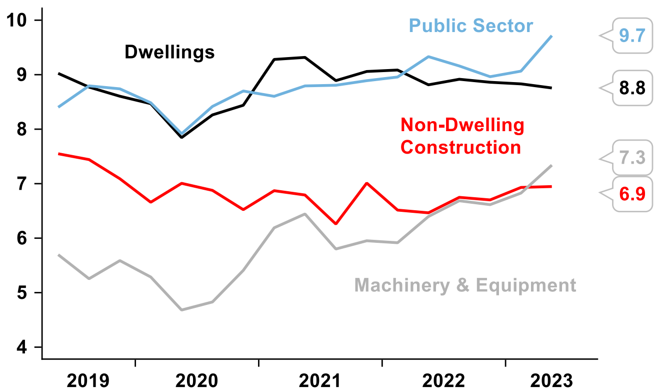
Source: Macrobond, NAB Economics

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 (chain volume measures)



Source: Macrobond, NAB Economics

State by State: Victoria

Significant public investment continues to support the Victorian economy through a period of subdued consumption growth, keeping capacity utilisation elevated and the labour market strong even as migration continues to rebound. Dwelling investment remains subdued and the housing market is extremely tight, seeing house prices rising strongly back towards their 2022 highs.

SFD growth held up in Q2, increasing 0.7% q/q for a second consecutive quarter to be up 1.9% y/y. The increase was almost entirely due to an increase in public investment in the quarter with private sector demand particularly weak.

Household consumption fell 0.2% in Q2 as recreation & culture and household goods consumption declined – though purchase of vehicles rose as supply issues eased. Overall household consumption rose 1.2% over the year, contributing 0.9 ppts to SFD but slowing clearly as rates and inflation weighed on households. Nominal retail spending has continued to rise in the months since (up 0.8% in July and 0.3% in August) but real consumption likely remains subdued and this is expected to be the case for some time, underpinning the outlook for growth to remain blow trend.

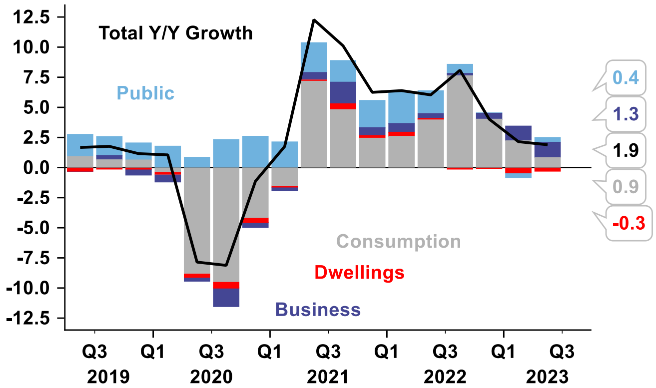
The softness in consumption growth comes despite strong population growth, with net interstate flows back to neutral and net overseas migration of almost 50k in Q1. Employment growth, while volatile, has so far kept up with the population rebound with the unemployment rate at 3.5% over the three months to September.

Dwelling investment remained below its pre-COVID level in Q2 and the housing market remains very tight, with Melbourne house prices continuing to rise back towards their 2022 highs and little improvement in the rental vacancy rate. Business investment was more mixed, with machinery & equipment continuing to rise but non-dwelling construction falling in Q2. Business conditions remain robust and, at 84.6%, Victoria's capacity utilisation the highest of the states.

Public sector demand remains central to Victoria's economy. Public consumption rose 1.3% in Q2 to be up 3.1% y/y, while public investment rose 12.2% q/q (7.7% y/y), driven by projects across health, education, transport and utilities. Improvements in supply conditions may have contributed to the rise in Q2, while some of the construction activity may have occurred earlier in the year and been recorded as private construction before being netted off in the SFD figures in Q2. Importantly, while this level of public investment may not be sustained, for now it is helping to offset weak household consumption in the state.

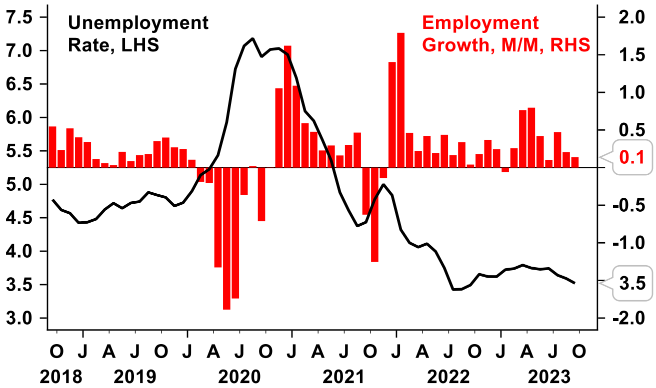
Given the importance of public demand, the state budget outlook remains important. The recent high court decision on EV taxation has limited immediate revenue impacts but raises significant questions around state revenue powers, underlining the importance of Commonwealth-state cooperation on fiscal policy. For now, the Victorian budget remains forecast to return to operating surplus in 2025-26.

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



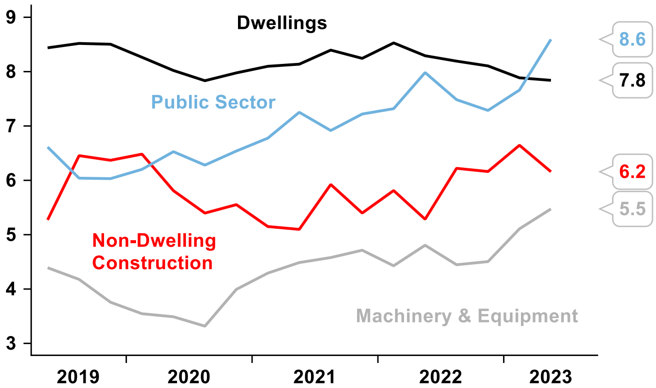
Source: National Australia Bank, Australian Bureau of Statistics

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 (chain volume measures)



Source: Macrobond, NAB Economics

State by State: Queensland

Queensland's economy grew strongly in Q2 on the back of public and private investment, and exports also lifted. However, the outlook is clouded with El Nino to impact the agriculture sector and the pressures on households likely to impact discretionary sectors including domestic tourism. Population growth remains robust, and the labour market has started easing with the unemployment rate gradually trending higher.

SFD growth picked up in Q2, rising by a strong 1.3% q/q to be up 2.9% y/y. The result came despite a modest 0.3% increase in household consumption, with growth in cafes & restaurants and vehicle purchases offset by falls in recreation & culture and household goods. Monthly nominal retail sales have recorded small positives into Q3, continuing the trend of subdued consumption under the pressure of inflation and interest rates.

The softness in household consumption was more than offset by a strong quarter of public demand and private investment. Government consumption rose 1.6% q/q and public investment rose even more dramatically, up 8.9% with the ABS noting contributions from transport and hospital building projects and health equipment purchases.

Dwelling investment increased, up 3.8% q/q, and the residential construction pipeline dipped for the first time since 2020 in a sign that backlogs are being worked through. Still, house prices in Brisbane have continued to rise and were roughly back to their 2022 peak in September, and the rental market remains strained.

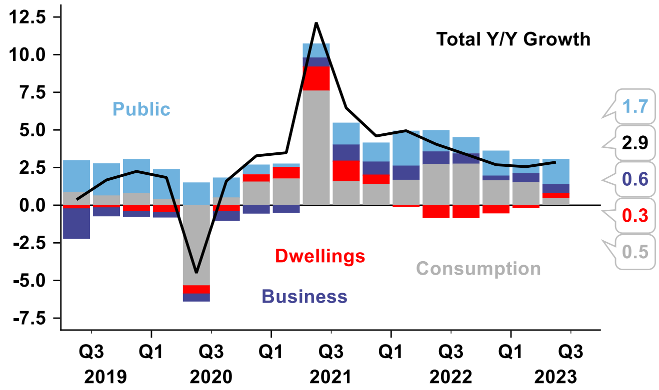
Business investment grew more modestly, with a 2.4% rise in machinery & equipment driven by the mining and transport industries partly offset by a 2% fall in non-dwelling construction. Still, total business investment remains 5.6% higher y/y and business conditions in Queensland are among the strongest across the states.

There was a significant rise in exports in Q2, driven by an increase in coal exports. Coal prices remain much lower than the highs seen in 2023 but have picked up in recent months, supporting incomes and the state's budget. Agricultural exports are expected to decline as El Nino impacts crop yields.

The outlook for consumer-facing sectors is more clouded. Services exports regained their pre-COVID level in Q2, but with households cutting back on discretionary spending, domestic tourism demand may be weaker over the period ahead. In a sign of the concern around this challenge, business confidence is in negative territory in Queensland and employment growth has slowed.

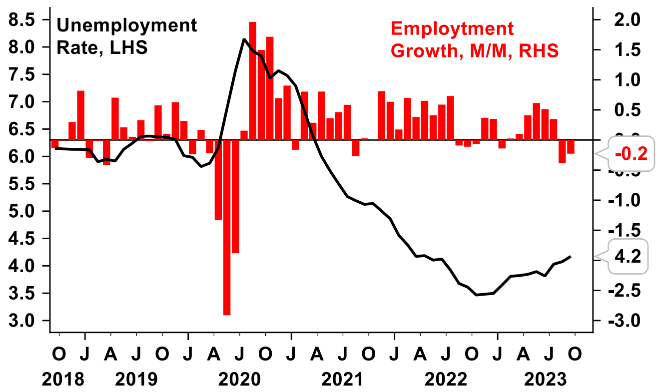
The state continues to benefit from significant interstate migration flows, supporting population growth and contributing to the housing market tightness. Alongside the softness in employment, this has led to some gradual easing in the labour market with the unemployment rate rising to average 4.2% over the three months to September. While this remains low by historical standards, it is the highest of the mainland states and is an indicator to watch.

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



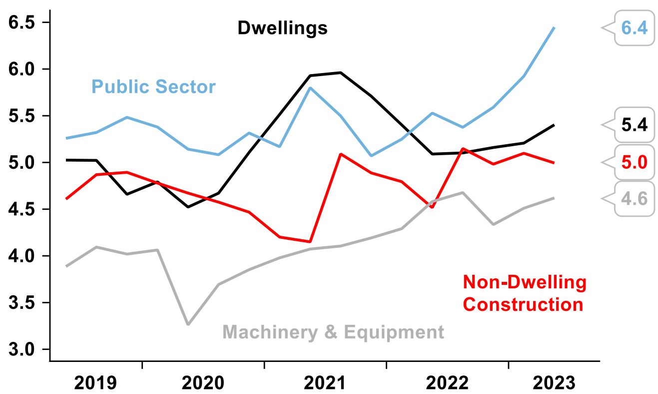
Source: National Australia Bank, Australian Bureau of Statistics

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 (chain volume measures)



Source: Macrobond, NAB Economics

State by State: Western Australia

WA's economy has continued to outperform the rest of the country in year-on-year terms. A tight labour market and the strongest wages growth nationally helped to support household consumption and property price growth in Q2. That said, the state's commodity producers face a challenging outlook – with weaker Chinese demand potentially impacting the mining sector, while El Nino conditions will impact farmers.

Overall, year-on-year growth in WA SFD outpaced the rest of the country – increasing by 3.7% y/y in Q2 2023 (up from 3.3% y/y in Q1) – however growth was slower in quarterly terms, up by 0.4% q/q (from 1.1% q/q previously).

The key driver of the slower quarterly growth trend was public demand, which fell by 1.3% q/q in Q2 (following a 1.8% q/q increase in Q1). In contrast, robust private demand was underpinned by a pickup in household consumption – which rose by 0.8% q/q (up from 0.2% q/q previously) while business investment rose 1.3% q/q in Q2 (from 2.3% q/q).

Recent months have seen a steady deterioration in WA business conditions in NAB's Monthly Business Survey – moving from being the strongest state (on a three-month moving average basis) in July 2023 to the weakest in September, with respondents to our survey reporting a deterioration in profitability.

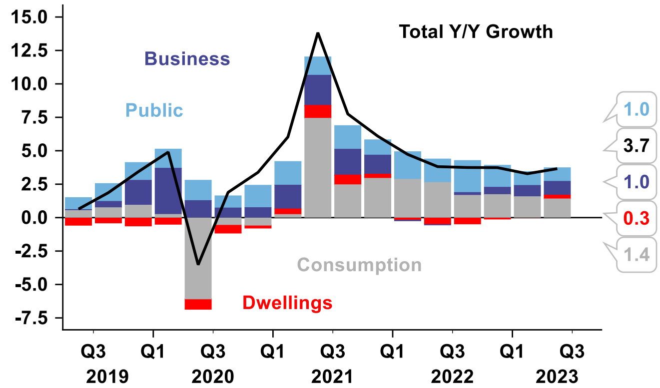
Growth in goods exports slowed in Q2, with exports up by 2.4% y/y (compared with a 7.0% y/y in Q1). Softening economic conditions in China, particularly in its residential construction sector, could negatively impact demand for the state's largest export, iron ore. Service exports have continued to grow rapidly (up 48% y/y in Q2), however service exports remain below pre-pandemic levels.

By historical standards, conditions in the WA labour market remain tight. Unemployment trended marginally higher between mid-2022 and early 2023, but has subsequently tracked sideways, with the rate edging down to 3.5% in September. The participation rate in WA was 68.9% in September, the highest rate of any state. Reflecting the tightness in the labour market, wages in WA have increased more rapidly the rest of the country – up by 4.2% y/y in Q2.

Perth's residential property market has remained stronger than other capital city markets in 2023 – avoiding the year-on-year price falls earlier in the year and continuing to outpace other cities more recently – with prices up by around 8.8% y/y in September. Dwelling investment has edged up more recently, however the residential pipeline – which peaked in Q3 2022 – has been trending down in recent quarters (albeit it remains quite elevated).

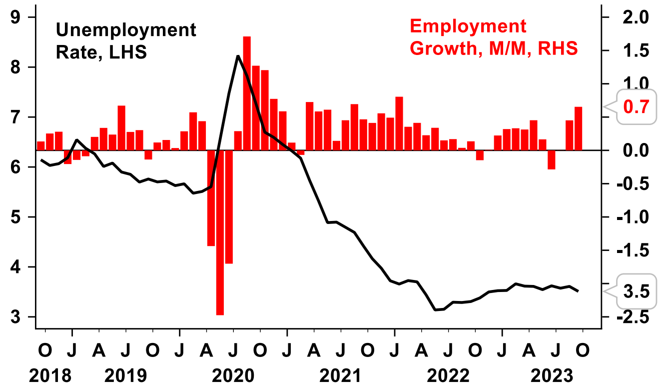
The outlook for WA's agricultural sector will be challenging in coming quarters, with El Nino set to negatively impact producers. Much of the WA wheat belt is expected to receive below average rainfall between November and January (with November looking particularly dry). ABARES forecasts the state's winter crop output to fall by 33.8% in 2023-24.

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



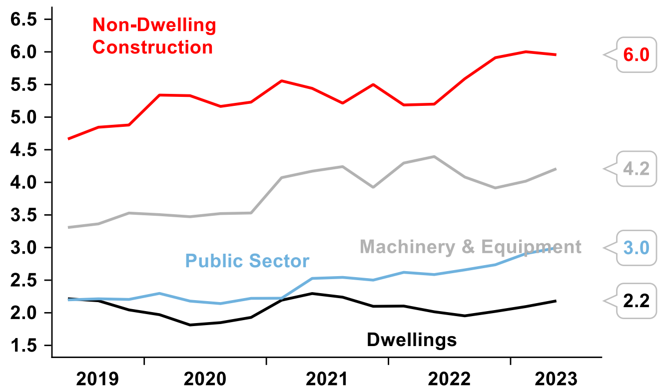
Source: National Australia Bank, Australian Bureau of Statistics

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



Source: Macrobond, NAB Economics

Chart 12: Real public & private investment, WA
AUD, billions (chain volume measures)



Source: Macrobond, NAB Economics

State by State: South Australia

Economic growth in South Australia slowed through to mid-2023. The labour market remains tight with the unemployment rate continuing to fall. While consumption growth has held up so far, and business investment growth is solid, the boost from the recovery in tourism and overseas students is set to fade while agricultural conditions are also looking less favourable.

State final demand (SFD) grew by 1.7% y/y in in Q2 2023, its lowest annual growth since late 2020. There was a surge in SFD in Q2 itself (1.3 q/q%). While quarterly growth can be volatile this, and some improvement in business conditions in Q3 reported in NAB's Monthly Business Survey, suggests growth may have stabilised, at least for the time being.

Household consumption growth has held up reasonably, and continued to grow at solid rate in Q2, despite the pressure on real disposable income from high inflation and rising mortgage rates.

Over the year to Q2 2023, business investment also grew strongly, helping to offset the drag from a fall in government consumption and dwelling investment. This is further confirmation that there has been an upwards shift in business investment post-pandemic, after a long period where it was stagnant. At the same time, the weakness in public investment that started in H2 2021 appears to have run its course, with a partial recovery in H1 2023. Moreover, state government budget estimates pointing to a large increase in infrastructure spending in 2023-24.

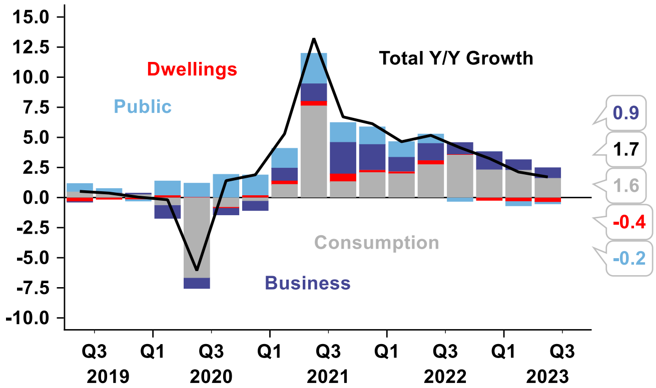
Export growth has been strong, up 14% in y/y in Q2 2023, including a 61% lift in service exports. However, export growth is set to slow markedly. With international student numbers now above pre-pandemic levels, and the recovery in overseas tourist arrivals more advanced, rapid growth in service exports is unlikely. Moreover, ABARES is projecting a large, 36%, fall in winter crop production in 2023-24 due to drier El Niño conditions across most growing regions.

One support for activity is very strong population growth (1.6% y/y in Q1 2023 and likely a bit stronger again in Q2 and Q3 based on monthly labour force data). This reflects a high level of net overseas migration with net interstate migration a small drag in recent quarters.

Residential investment fell over the last year reflecting rising interest rates and construction costs. However, investment rose in H1 2023, building approvals are no longer showing a clear downwards trend, and the pipeline of work remains high. The vacancy rate is very low, putting pressure on rents which are increasing rapidly and dwelling prices in Adelaide started moving back up in April.

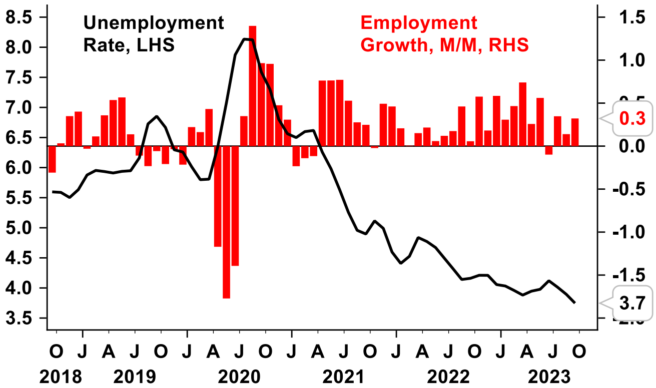
Employment growth has been very strong over the last year (up 4.7% y/y to September), even with some cooling as the year has progressed. Even with strong population growth and a lift in workforce participation, this has resulted in the unemployment rate continuing its downward trend over the last year, and in September was 3.7%.

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



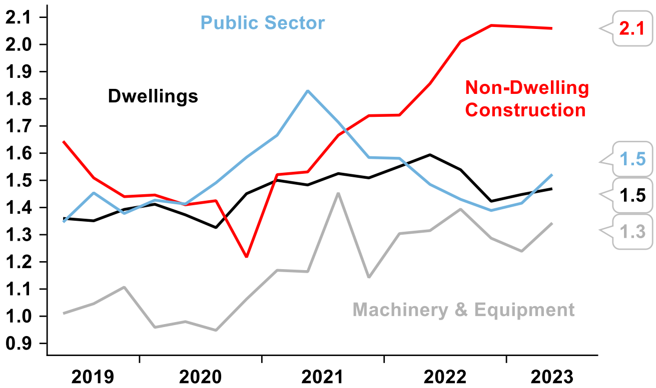
Source: National Australia Bank, Australian Bureau of Statistics

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 (chain volume measures)



Source: Macrobond, NAB Economics

State by State: Tasmania

The Tasmanian economy is struggling to gain any momentum. State final demand has fallen over the last three quarters (with weakness in all the main expenditure components) while overseas exports have also been weak despite a rebound in overseas tourists. Unlike other states, Tasmania has not seen activity boosted by a rebound in population growth or from a return of overseas students. While government demand may help sustain the economy, only weak growth is expected in 2023-24.

While State Final Demand (SFD) in Tasmania grew 1.0% over the year to Q2 2023, all the growth was early in this period, with in each of the last three quarters.

The household sector has clearly struggled. Household consumption has declined in two of the last three quarters. This likely reflects the squeeze on household spending power from high inflation and rising mortgage payments. Other states have seen activity supported by a rebound in population growth, but this is not the case in Tasmania as net departures of residents to other states has, in large part, offset the rebound in overseas net migration.

Similarly, dwelling investment has fallen almost 6% since 2022 Q3. The level is still solid by historical standards, and the pipeline of work elevated, but with building approvals having eased further declines lie ahead. The secondary market is also struggling. Dwelling prices are down around 9% since May 2022 (based on Corelogic data), although we expect prices to stabilise over 2024.

Business investment has also declined over the last three quarters. although support is coming from new non-residential building construction and intellectual property investment. Unlike the rest of Australia, capacity utilisation is not elevated (relative to its pre-COVID level) reducing the incentive for new investment.

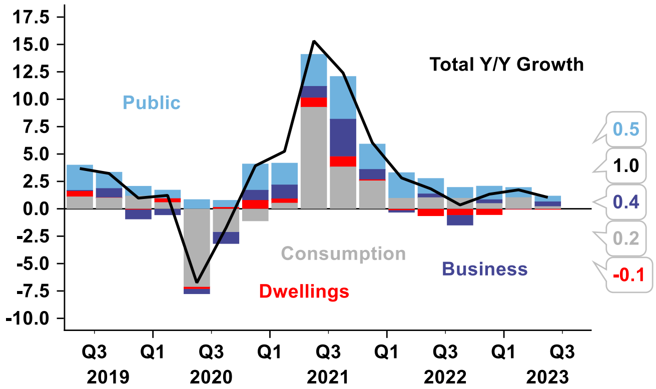
Government consumption and investment has also weakened in recent quarters. That said, the Tasmania 2023-24 Budget papers indicates that both government consumption and investment will be strong in 2023-24 and 2024-25 so this appears unlikely to be sustained.

Compounding weak domestic demand, overseas exports have been declining even with a lift in service exports. The latter likely reflects the ongoing recovery in overseas tourist arrivals although even this has stalled recently. There has been no rebound in overseas student numbers. Prior to the pandemic education exports were over 2% of GSP; in 2022 this was about 1% and have likely fallen further this year.

Despite this weakness in the state accounts, respondents to NAB's monthly Business Survey report conditions have been favourable. However, forward looking indicators (confidence, orders) are notably weaker.

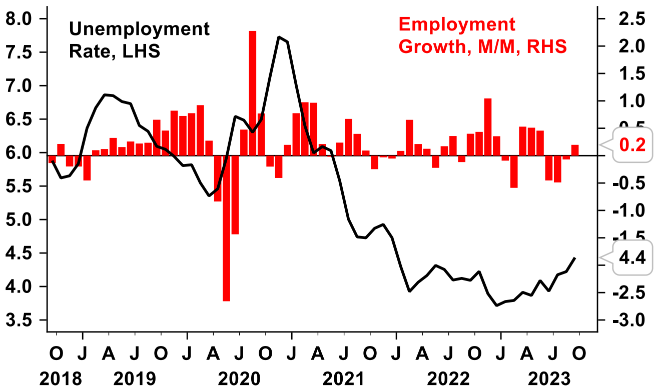
Not surprisingly against this generally soft backdrop, labour market pressures have been easing. The unemployment rate, from a low of 3.7% in late 2022, has increased to 4.4% (3mth average basis), with employment broadly flat over this period. This is despite a still high level of job vacancies by historic standards (although they too have eased).

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



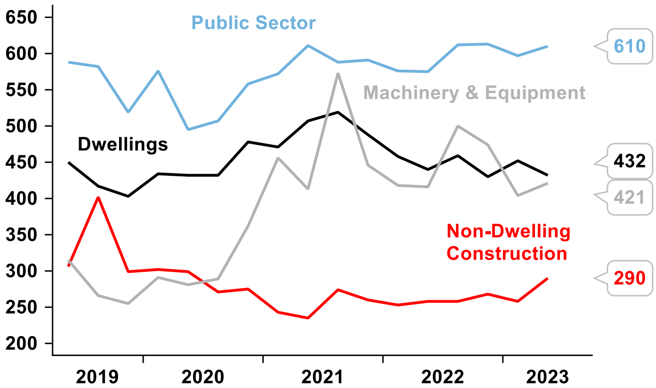
Source: National Australia Bank, Australian Bureau of Statistics

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 (chain volume measures)



Source: Macrobond, NAB Economics

State by State: Northern Territory

Falling mining investment and export disruptions should see a significant contraction in the NT economy for 2022-23, and the labour market has softened somewhat. Resources and government projects remain key anchors for the Territory with some reason for optimism around defence spending but a clouded outlook for fossil fuels. The rental market remains very tight though house price growth has been relatively modest.

SFD for the NT continued to decline in Q2, falling 1.0% to be just 0.7% higher in year-ended terms. The fall came despite a modest rise in household consumption, which rose 0.4% in the quarter supported by transport and hospitality spending as well as vehicle purchases.

Driving the weakness in economic activity has been a dramatic fall in business investment, which declined a further 5.7% in the quarter as engineering construction in the mining sector continued to fall sharply. This follows a period of significant mining investment growth in the territory over 2021 and 2022.

Goods exports picked up slightly in Q2 but more broadly, exports have been subdued due to disruptions to LNG production, leading to an expected fall in GSP for 2022-23 of around 5% for the year as a whole. This highlights the ongoing importance of resources to the territory economy and while LNG production should stabilise or increase as the Barossa field comes online, the longer-term outlook for fossil fuels remains clouded.

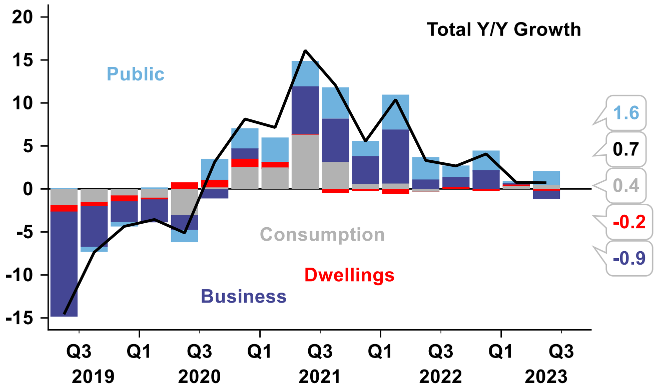
Public sector spending has provided offsetting support over the past year and government investment continued to rise in Q2, driven by road and housing projects, but government consumption fell in the quarter, adding to the broader weakness. Public demand makes up around 40% of GSP making it a critical part of the territory's economy, with recent research pointing to significant future defence investment of over $6b as a key driver of growth.

The Territory's labour market has softened over recent months with the unemployment rate rising to average 4.1% in the three months to September, back around the levels seen in 2021 and 2022. Still, this is a low level of unemployment by historical standards.

Darwin's housing market remains an unusual case with very low rental vacancy rates and strong rents growth – similar to other capitals – but a modest pipeline of work to be done. This would seem to suggest a tight supply/demand dynamic but the rise in house prices this year has been relatively modest compared to other capitals and the level of prices is low relative to pre-pandemic.

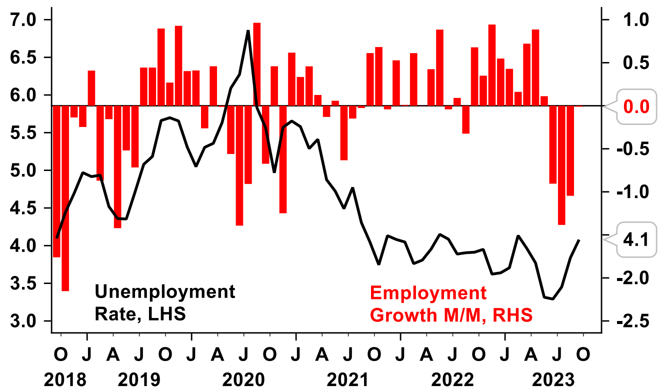
The Territory government's budget is expected to be in a small operating deficit in 2023-24 but small surpluses are forecast to follow as GST payments swing.

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



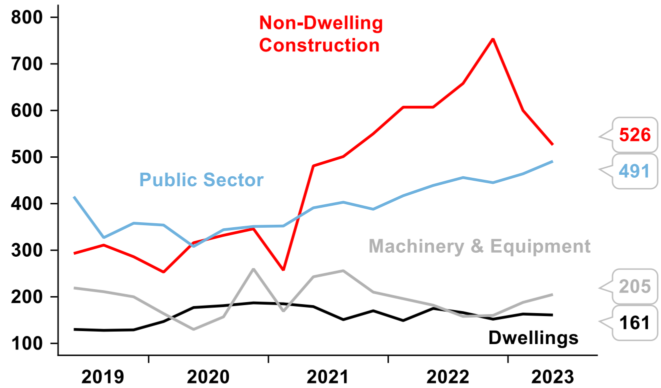
Source: National Australia Bank, Australian Bureau of Statistics

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 (chain volume measures)



Source: Macrobond, NAB Economics

State by State: Australian Capital Territory

The ACT economy grew at steady pace over the last year, helped along by strong public sector demand. However, consumption growth has softened and residential and business investment fell. Moreover, the boost to the economy from the overseas tourists and students is fading although a pick-up in population growth to more normal levels is providing an offset. The labour market remains tight but has eased over 2023 to-date.

State final demand (SFD) grew by a moderate 2.1% over the year to 2023 Q2. The quarterly profile was reasonably even although Q2 2023 saw the strongest growth (0.8%q/q).

The public sector (which is over 50% of SFD) was the main driver of growth over this period. This was driven by Federal government consumption (3.9% y/y) and ACT government fixed capital investment (25% y/y). Household consumption was also robust over the year (2.9% y/y) but has clearly slowed with no growth in Q2 2023, likely reflecting the impact of high inflation and rising mortgage rates on household budgets.

In contrast, both business investment (-9% y/y) and dwelling investment (-15% y/y) experienced sizeable falls. Even with this fall, the level of new dwelling residential investment (and the pipeline of work) remains high. However, with dwelling approvals at relatively low levels a further decline in residential investment is likely. House prices are also struggling to gain momentum. Between March and September, the Corelogic home value index increased only 0.9%, leaving it 7% below its April 2022 peak. The ACT has the highest rental vacancy rate of any state territory and rental price growth over the last year was not as strong as elsewhere.

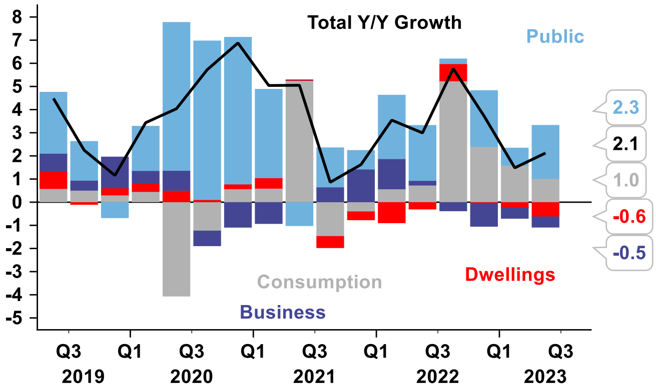
The fall in business investment was concentrated in machinery & equipment investment, with only engineering construction bucking the trend. The latter appears to be driven by roadworks, electricity generation/distribution and the 'recreation and other' category.

The boost to the economy from the re-opening of international borders is tailing off. While service exports grew 41% y/y in Q2 2023, the quarterly growth rate has slowed appreciably as the year unfolded. With overseas student numbers now above, and overseas tourism arrivals close, to their pre-COVID levels a further slowdown is likely.

One support for activity is a pick-up in population growth. In Q1 2023 it grew 1.9% y/y (compared to 1.3% in Q1 2022). This is not a particularly rapid rate by historical standards; while net migration from overseas is strong, the ACT has been losing residents to other states since H2 2021.

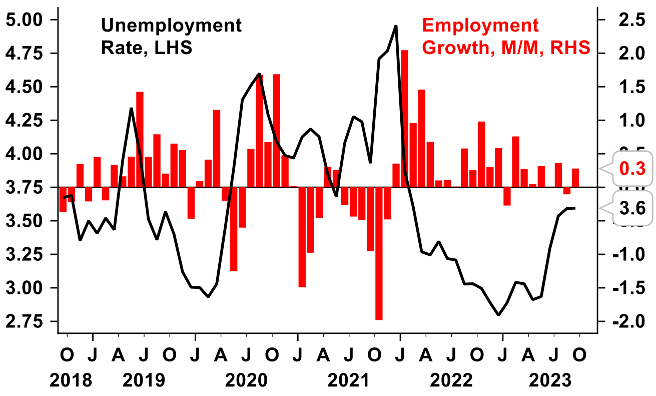
Labour market conditions have been easing since late 2022 but they remain reasonably tight. The unemployment rate in September was 3.6% (3mth average) – up from under 3% while the number of job vacancies has declined (but still remains high). Similarly, employment growth over the year to September was strong (3.6% y/y) but the pace moderated towards over the course of the year.

Chart 22: Contributions to SFD growth, ACT
Percent Y/Y



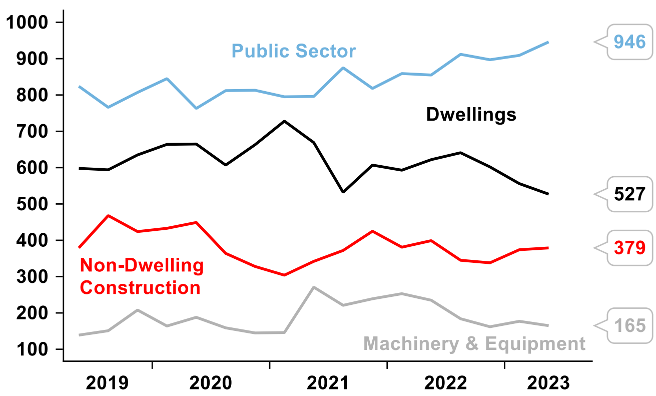
Source: National Australia Bank, Australian Bureau of Statistics

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 (chain volume measures)



Source: Macrobond, NAB Economics

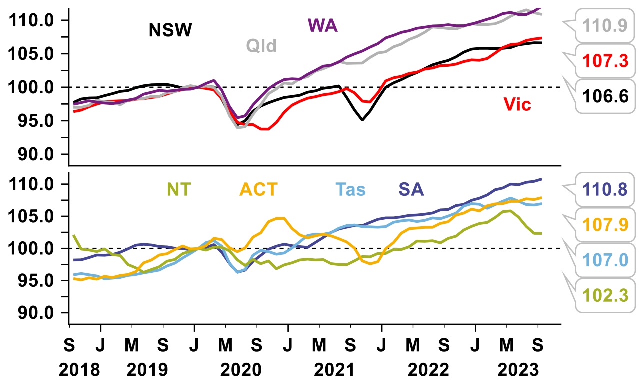
State comparisons: Labour Market

The labour market remains tight but has started easing in some jurisdictions. Employment growth has slowed a little in the major states and been more subdued elsewhere and declined materially in NT. In the larger states the unemployment rate remained below 4% on average over the three months to September, but there has some softening in unemployment in Qld, Tas, NT and ACT. Notably, the ratio of vacancies to unemployed workers is trending down in most jurisdictions.

Hourly wage growth has continued to strengthen and should get a boost across the board when Q3 data is released on the back of the national minimum and award wage rise. In terms of supply, Vic and NSW have continued to benefit from the strong rebound in overseas migration while Qld continued to attract interstate migrants through to Q1.

Chart 25: Employment (3mma)

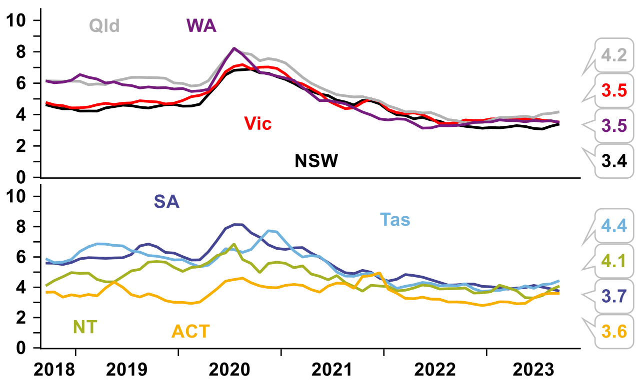
Index, Jan 2020 = 100



Source: National Australia Bank, Australian Bureau of Statistics

Chart 26: Unemployment rate (3mma)

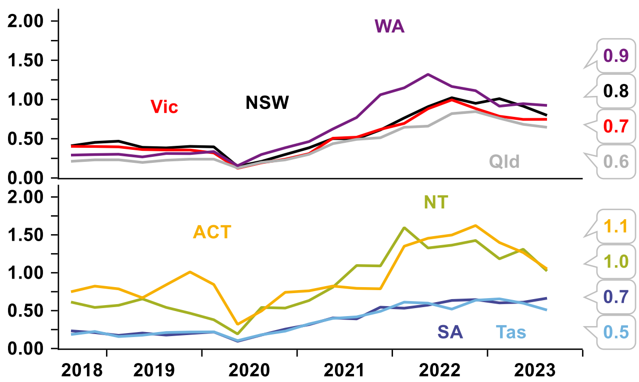
Percent



Source: National Australia Bank, Australian Bureau of Statistics

Chart 27: Job vacancies per unemployed person

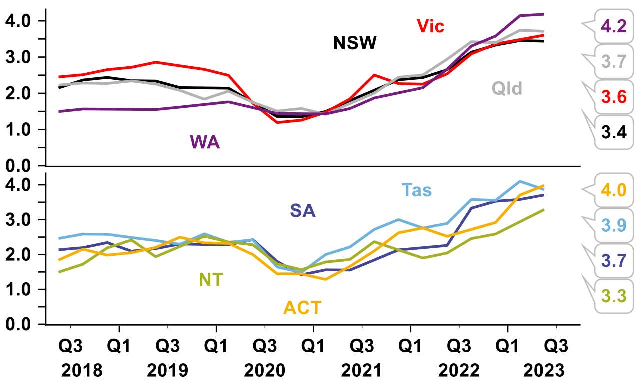
Ratio



Source: National Australia Bank, Australian Bureau of Statistics

Chart 28: Hourly wage growth

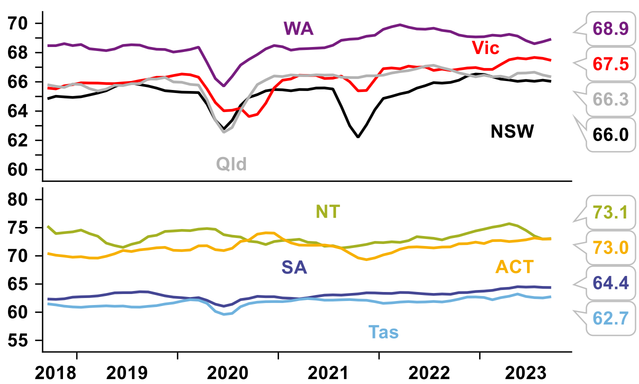
Percent Y/Y



Source: National Australia Bank, Australian Bureau of Statistics

Chart 29: Participation rate (3mma)

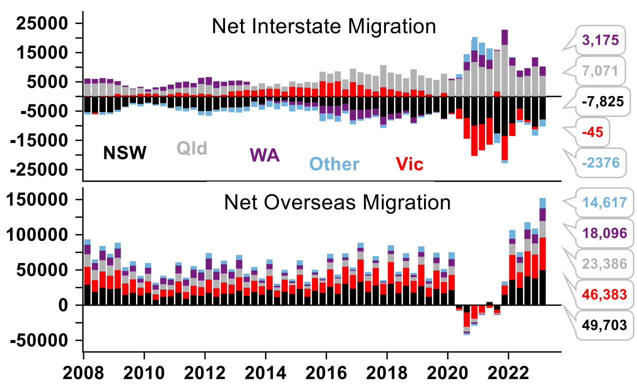
Percent



Source: National Australia Bank, Australian Bureau of Statistics

Chart 30: Net migration by state

Thousands



Source: National Australia Bank, Australian Bureau of Statistics

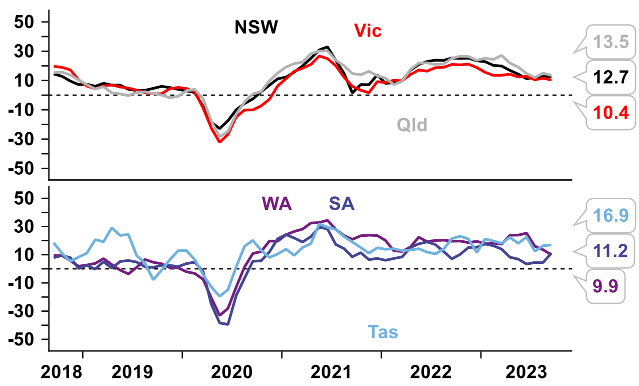
State comparisons: Business Sector

Business conditions remain above average. Conditions in the NAB Business Survey declined in September in Qld with smaller falls in other mainland states, while Tas edged up. In trend terms, conditions remain strong across the states, clustered between +10-14 index points with SA improving from recent lows. Business confidence is weak across the board and capacity utilisation has normalised somewhat.

Real business investment remained robust in Q2 but Vic eased slightly and NT saw a fall due to a decline in mining construction activity. New business registrations have ticked down across most states but remain elevated. The number of companies entering administration fell sharply in Vic to below the pre-COVID levels in Q2 and eased slightly in NSW.

Chart 31: NAB survey business conditions (3mma)

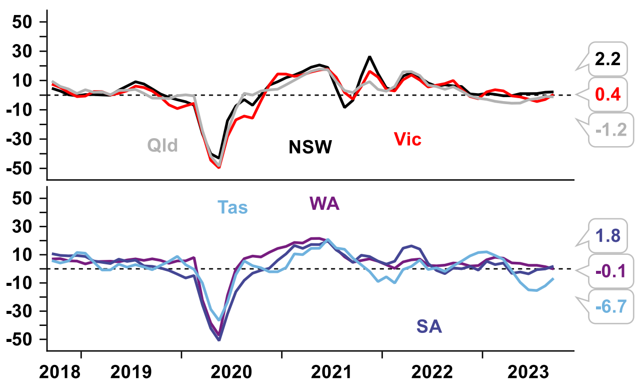
Net Balance



Source: National Australia Bank

Chart 32: NAB survey business confidence (3mma)

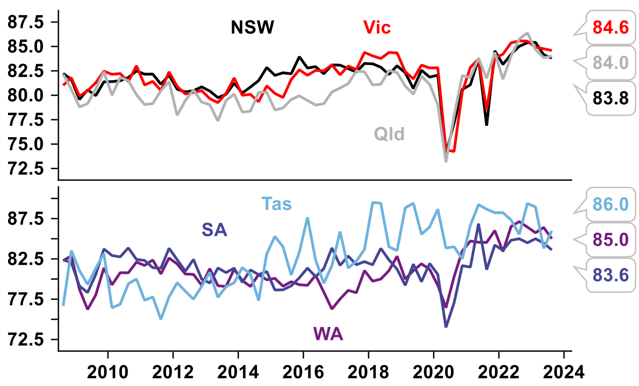
Net Balance



Source: National Australia Bank

Chart 33: NAB survey capacity utilisation

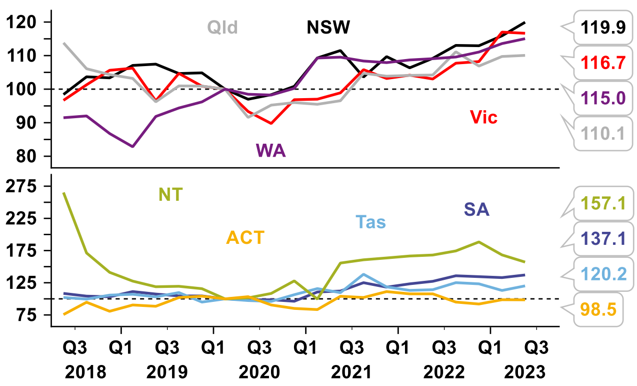
Percent



Source: National Australia Bank

Chart 34: Real business investment

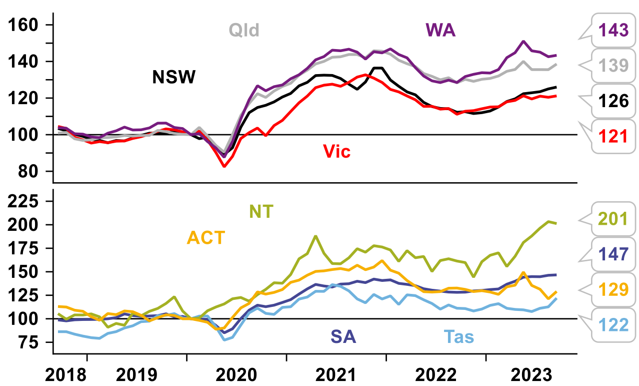
Index, Q1 2020 = 100



Source: National Australia Bank, Australian Bureau of Statistics

Chart 35: New business registrations

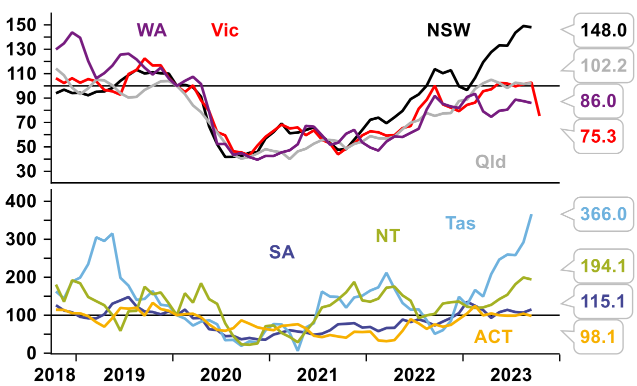
Index, Jan 2020 = 100



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

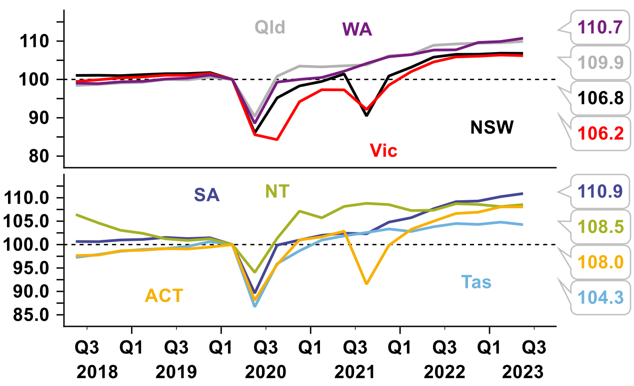
State comparisons: Consumption

Household consumption has slowed but remains resilient. Real consumption slowed slightly in Q2, with small falls in Vic and Tas and no growth in NSW and the ACT. More recent retail sales data showed growth continued, with nominal spending up across the board and retail volumes rising in Q3 in NSW, Vic, Qld and ACT – though other jurisdictions saw falls in the quarter.

Year-ended inflation in Perth ticked up in Q3 but continued to track downwards in the other states. Wage growth, rents and electricity prices are all likely to keep putting upward pressure on inflation in the near term. Consumer sentiment remains well below neutral as high inflation and rising interest rates weigh on household budgets.

Chart 37: Real household consumption

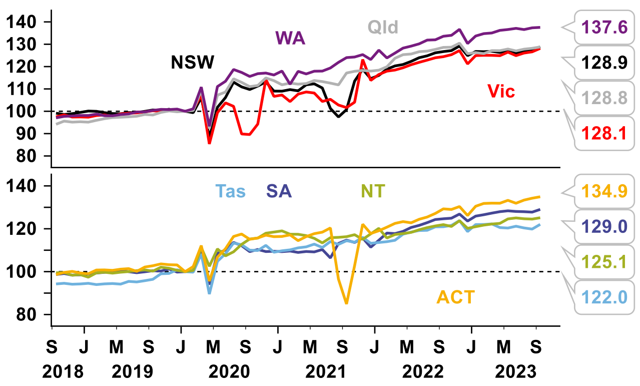
Index, Q1 2020 = 100



Source: National Australia Bank, Australian Bureau of Statistics

Chart 38: Nominal total retail sales

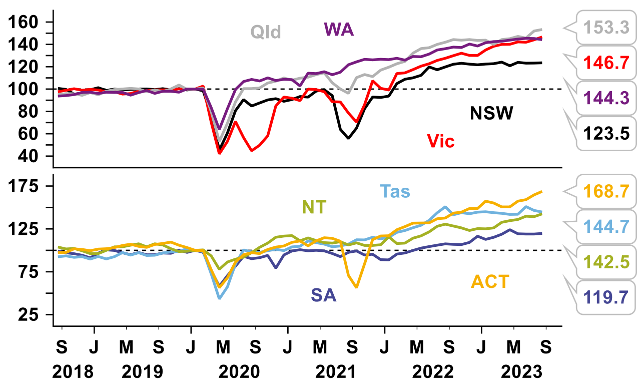
Index, Jan 2020 = 100



Source: National Australia Bank, Australian Bureau of Statistics

Chart 39: Nominal cafes & restaurant sales

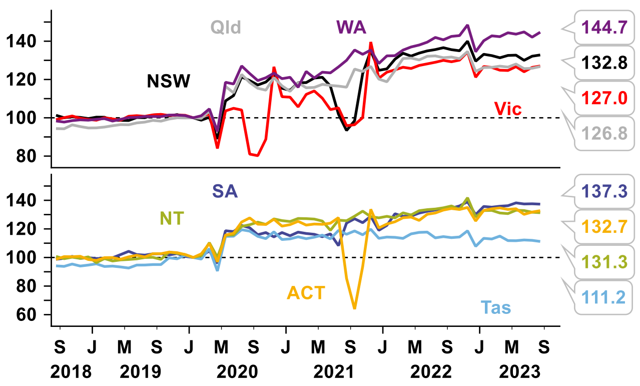
Index, Jan 2020 = 100



Source: National Australia Bank, Australian Bureau of Statistics

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

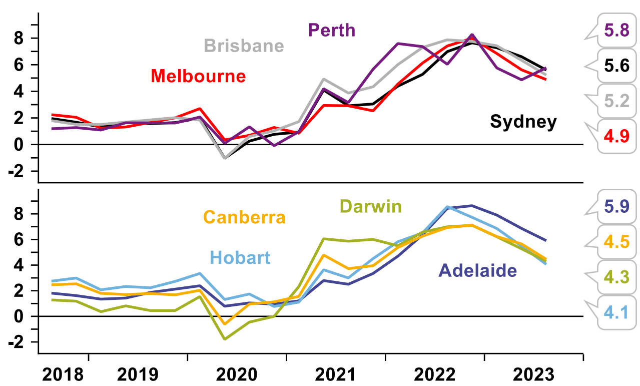
Index, Jan 2020=100



Source: National Australia Bank, Australian Bureau of Statistics

Chart 41: Inflation by capital city

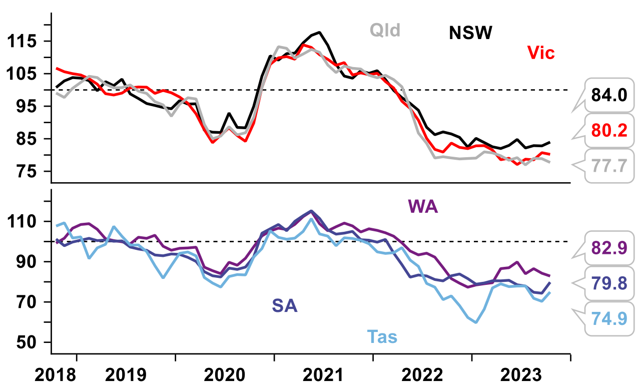
Percent, Y/Y



Source: National Australia Bank, Australian Bureau of Statistics

Chart 42: Melbourne Institute consumer sentiment

Index, 100 = Neutral



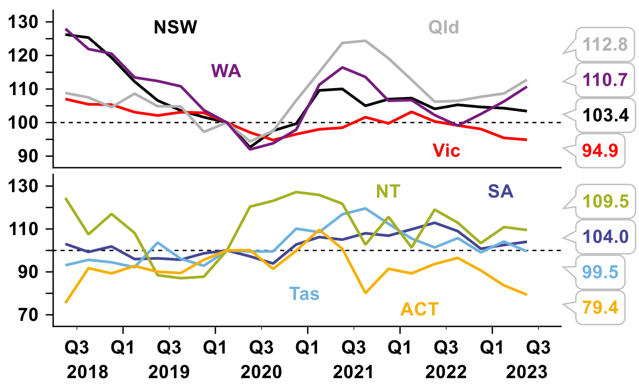
Source: National Australia Bank, Melbourne Institute of Applied Economic & Social Research

State comparisons: Housing Market

House prices continue to rise at a brisk pace as the market remains tight. Dwelling investment picked up in Q2 in WA, Qld and SA, but fell elsewhere. The pipeline of work to be done continued to improve in WA and also fell in Qld, Vic and ACT but remains elevated outside of the NT. The growth in dwelling construction costs has eased but in a level sense remains very high, with little sign of a downward correction.

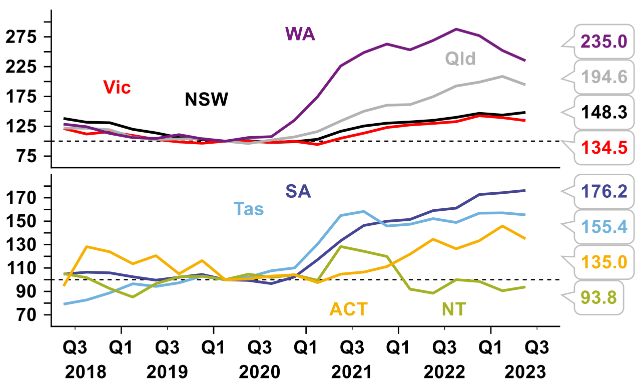
House prices rose steadily through the middle of the year in most capitals, though prices in Canberra and Hobart have been flat. Population pressures have also kept rental vacancy rates at low levels and continued to push up rents, which are now up almost 25% on 2020 levels in Perth and rising rapidly in Sydney, Melbourne and Brisbane.

Chart 43: Real dwelling investment
Index, Q1 2020 = 100



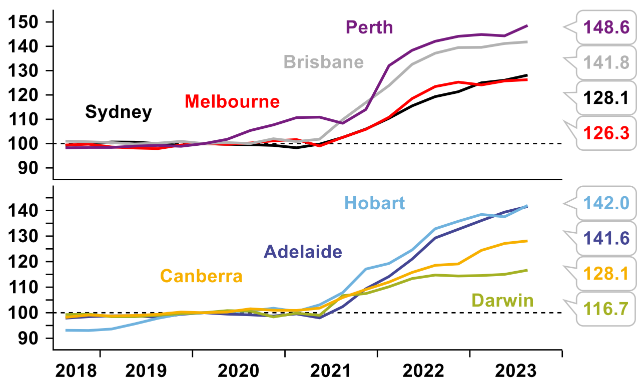
Source: National Australia Bank, Australian Bureau of Statistics

Chart 44: Nominal residential construction pipeline
Index, Jan 2020 = 100



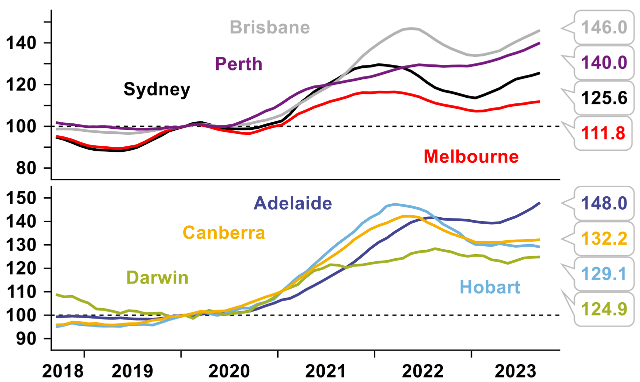
Source: National Australia Bank, Australian Bureau of Statistics

Chart 45: CPI new dwelling prices for owner-occupiers
Index, Q1 2020 = 100



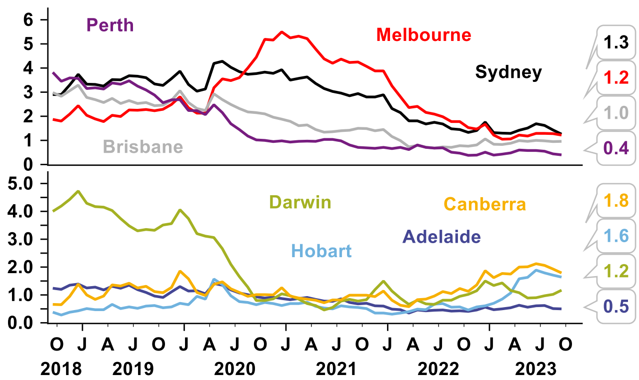
Source: National Australia Bank, Australian Bureau of Statistics

Chart 46: CoreLogic hedonic dwelling price index
Index, Jan 2020 = 100



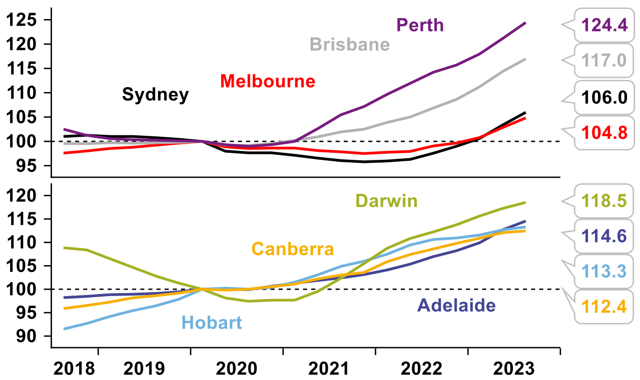
Source: National Australia Bank, CoreLogic

Chart 47: Rental vacancy rate
Percent



Source: National Australia Bank, SQM Research

Chart 48: CPI housing rents
Index, Q1 2020 = 100



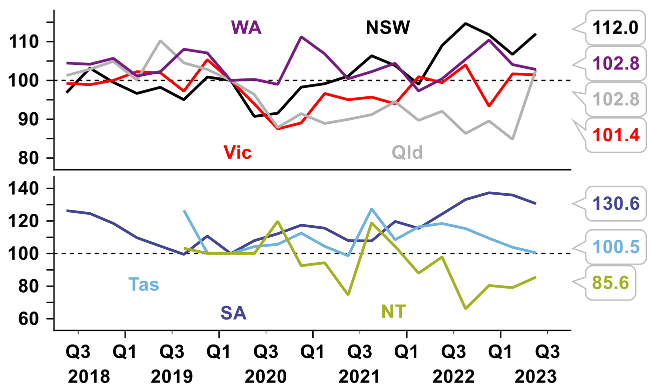
Source: National Australia Bank, Australian Bureau of Statistics

State comparisons: Export Sectors

The outlook for exports remains mixed. Goods exports volumes picked up in NSW and Qld in Q2 and remained slightly above pre-COVID levels in NSW, WA, Tas and SA, but remain subdued in NT where LNG production has been disrupted. Prices for key commodities ticked up in recent months and remain elevated by historical standards, albeit down from 2022 highs.

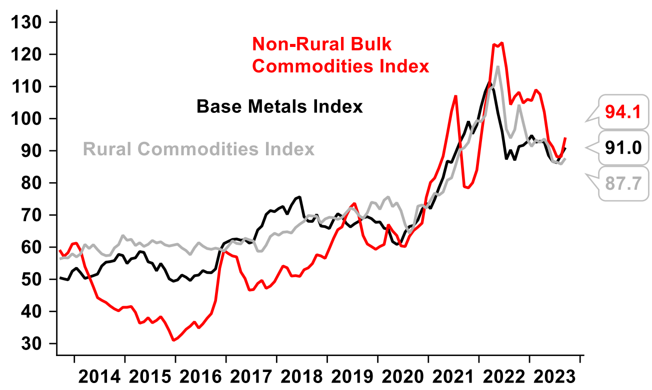
Winter crop yields are forecast to decline across the board with an El Nino system forming. Services exports continue to improve with most states now at or above their pre-COVID levels. Short term visitor arrivals appear to have stabilised below pre-COVID levels in NSW and Vic, but are still rising steadily in Qld.

Chart 49: Real goods exports
Index, Q1 2020 = 100



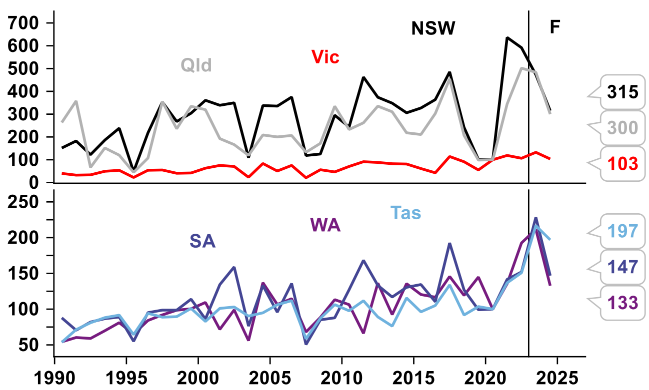
Source: National Australia Bank, Australian Bureau of Statistics

Chart 50: Commodity export prices
Index, AUD



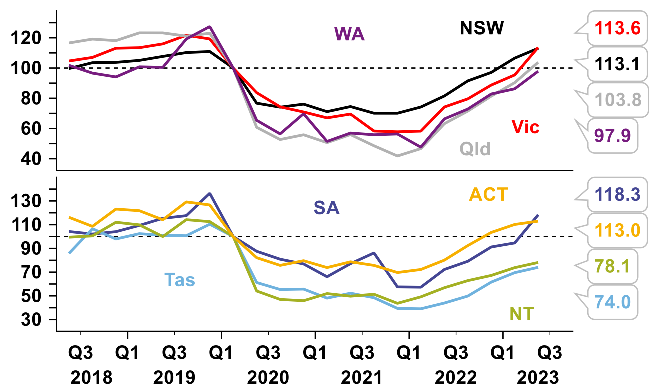
Source: National Australia Bank, Reserve Bank of Australia

Chart 51: Winter crop production
Kt



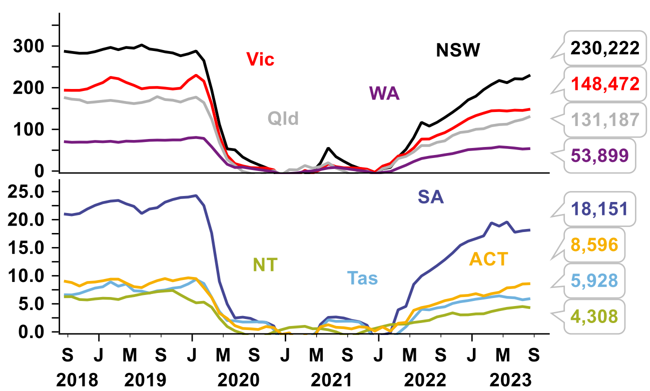
Source: Macrobond, NAB Economics, ABARES

Chart 52: Real services exports
Index, Q1 2020 = 100



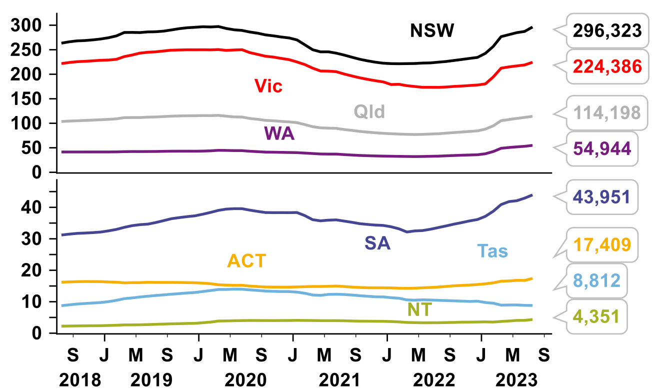
Source: National Australia Bank, Australian Bureau of Statistics

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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