

STATE ECONOMIC HANDBOOK

JULY 2016

AUTHORS

Riki Polygenis
Head of Australian
Economics
+61 3 8697 9534

James Glenn
Senior Economist
+61 2 9237 8017

Vyanne Lai
Economist
+61 3 8634 0198

Amy Li
Economist
+61 3 8634 1563

Phin Ziebell
Economist
+61 (0) 475 940 662

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Please click [here](#) to view our disclaimer and terms of use.

KEY POINTS *Divergence in reverse*

- Solid growth across the large south-eastern states has become increasingly entrenched over the past year, while difficult conditions in the mining sector are having a more pervasive impact across Western Australia, the Northern Territory and parts of Queensland.
- Looking forward, New South Wales and Victoria will remain in the lead in coming years in terms of state final demand, and real gross state product growth will be neck and neck. Services activity (including but not limited to tourism and education exports) is clearly outperforming, while both states are benefiting from strong population growth, high levels of housing construction, infrastructure expenditure and a modest pick up in wages. **The challenge for both states will be to sustain momentum as the impetus to growth from the lower AUD and housing construction starts to tail off.**
- The combination of low commodity prices and lower mining investment is having a more pronounced impact on WA, the NT and parts of Queensland to differing degrees. The labour market adjustment in particular, and negative impact on labour incomes, will become more marked over coming years, with flow on effects to consumer spending, business investment and government revenue. In terms of timing, the drag will come earlier in Queensland, where all three major LNG projects have started shipping or are due for completion in 2016. **While state final demand will remain weak however, real gross state product in these states will be supported by the surge in LNG export volumes currently underway.**
- Strength in tourism spending (both domestic and international) and education exports remain bright spots for most states and territories, including Queensland, Tasmania, SA and the larger states of NSW and Victoria – the NT however has not received the same boost over the past year. Higher income levels in Asia, coupled with Australia’s stable geopolitical environment should sustain tourism activity, although the pace of growth may ease as the pace of AUD depreciation diminishes.
- Recent policy announcements in SA are also encouraging, and there are some greenshoots emerging in the monthly data. The capacity for growth to pick up in SA will be constrained by the more limited industrial base and ageing population – similar challenges remain for Tasmania.
- Conditions in the ACT have also improved as public sector hiring freezes have been lifted, although fiscal pressure will remain a risk for the ACT given its dependence on the public sector.
- Better rainfall will be positive for broadacre crop production and exports in WA, SA and NSW, although the low dairy price is a concern for Victoria and Tasmania.
- The main area for which there is potential upside is private non-mining business investment. Even in the more diversified economies, forward-looking indicators are mixed, despite business confidence holding up (for now) and business conditions solid. There will however be offset from infrastructure expenditure in NSW and Victoria in particular, while initiatives to support the submarine industry will boost investment in SA and help offset the impact of imminent declines in car manufacturing.
- A snapshot of the outlook for each state and territory is on the following page. Links to individual handbooks for each state and territory are on the right.

CONTENTS

[3 | Summary outlook and forecasts](#)

[4 | Charts](#)

LINKS TO INDIVIDUAL STATE PACKS

[New South Wales](#)

[Victoria](#)

[Queensland](#)

[Western Australia](#)

[South Australia](#)

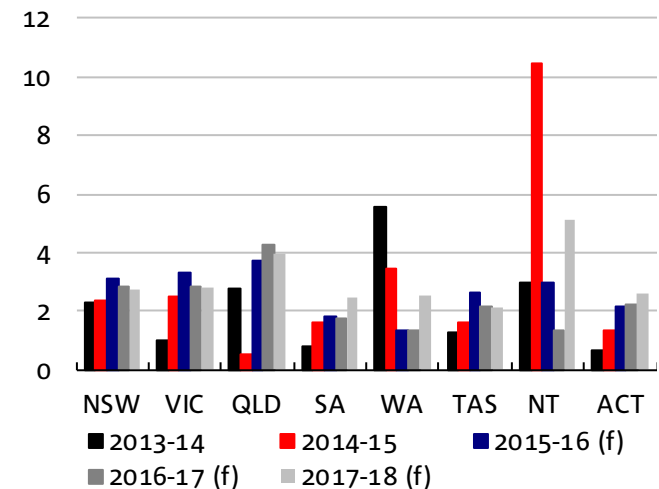
[Tasmania](#)

[Australian Capital Territory](#)

[Northern Territory](#)

GROSS STATE PRODUCT FORECASTS

Annual % change



SUMMARY OUTLOOK *and forecasts*

- The **New South Wales** economy will remain one of the standouts, as the rebalancing back towards the non-mining sectors continues. Growth in state final demand has been supported by household consumption, a high level of dwelling investment and improved business investment, while services exports have been particularly robust. Infrastructure investment will also support NSW, although growth will ease somewhat as momentum from the housing sector and AUD depreciation begins to fade.
- The broadening non-mining recovery is also benefiting **Victoria**, especially through the pick-up in the services sector. Strong employment and housing market growth are propping up household consumption and dwelling investment. Strong relative population growth and infrastructure spending will maintain economic growth at a healthy rate above the national average, although it will ease back slightly owing to reduced currency depreciation and slower growth in residential property construction.
- Green shoots are emerging in **South Australia**, while recent policy announcements at the state and federal level aimed at promoting growth and jobs are encouraging. A limited industrial base and an ageing population will continue to constrain growth however, while the closure of a key car manufacturing plant is imminent.
- The **Australian Capital Territory** economy has emerged from the recent fiscal tightening and large scale public sector job cuts. While ongoing pressure for fiscal consolidation will remain a risk, we expect moderate growth going forward and low unemployment.
- In **Queensland**, real gross state product will grow solidly on the back of strong LNG exports and tourism. State final demand, however, will continue to contract as mining investment falls. In addition, income levels will remain subdued owing to lower commodity prices and a soft labour market. The economic transition post the mining boom is producing differing results across regions, industries and occupations. South-east Queensland with its larger population base and more diverse economy is outperforming, while mining regions are struggling.
- In **Western Australia**, the evolution of the mining cycle continues to drive economic conditions. Lower commodity prices and falling mining investment are having a momentous impact, well beyond the mining sector itself. The true impact of these events have been somewhat masked by the offsetting impact from net export volumes, while domestic demand, nominal growth and incomes are very weak. These trends will continue given the lack of momentum in non-mining sectors.
- The **Tasmanian** economic outlook has improved over the past year, although there is likely to be divergence in major industries: tourism continues to perform well, while farmgate price cuts will continue to put pressure on the state's hitherto burgeoning dairy industry.
- In the **Northern Territory**, the positive impact of the Ichthys LNG project is tailing off and employment, wages, business investment and dwelling prices are starting to struggle. This will worsen upon project completion next year, although export volumes will boost GSP growth in 2017-18.

NAB growth and unemployment rate forecasts for the states								
	Gross State Product YoY				Unemployment Rate			
	14-15	15-16f	16-17f	17-18f	14-15	15-16f	16-17f	17-18f
NSW	2.4	3.1	2.9	2.7	5.9	5.4	5.1	5.3
VIC	2.5	3.3	2.9	2.8	6.4	6.0	5.6	5.8
QLD	0.5	3.7	4.3	3.9	6.5	6.2	6.2	5.8
SA	1.6	1.8	1.8	2.4	6.9	7.3	7.0	6.8
WA	3.5	1.3	1.4	2.5	5.4	6.0	6.5	6.5
TAS	1.6	2.6	2.2	2.1	6.9	6.5	6.7	6.8
NT	10.5	3.0	1.3	5.1	4.2	4.6	5.0	5.0
ACT	1.4	2.1	2.3	2.6	4.5	4.4	4.3	4.3
Australia	2.3	3.0	2.7	3.0	6.1	5.9	5.6	5.7

SOUTH-EASTERN STATES OUTPERFORMING

with strongest business conditions, consumer spending and labour markets

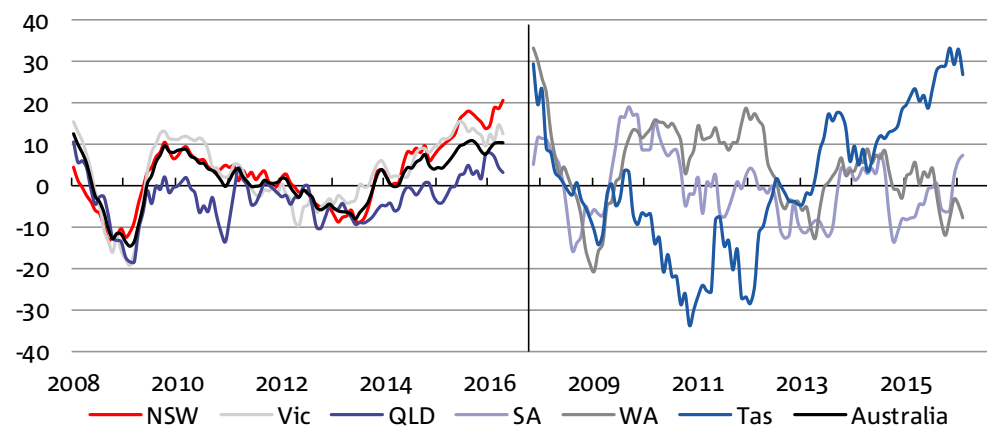


Business conditions are well above average in the south-eastern states of **NSW, Vic and Tas**. Activity is being driven by labour-intensive non-mining sectors (particularly services), which is supporting local labour markets in these states, as well as in the **ACT**, as reflected in lower rates of unemployment. Broad-based wages measures such as average compensation of employees are also starting to tick up in response, which together with strong population growth and services exports should continue to support retail trade and consumer spending more broadly.

Meanwhile, business conditions in **Qld** have started to trend down and unemployment up, with the unwinding of LNG investment and associated employment becoming more pronounced. Conditions are also persistently negative in **WA**, although outflow of workers has seen the unemployment rate stabilise, as in the **NT**. On a more encouraging note, conditions in **SA** have turned up, as have retail sales, although the improvement in unemployment reflects lower labour force growth owing to negative interstate migration.

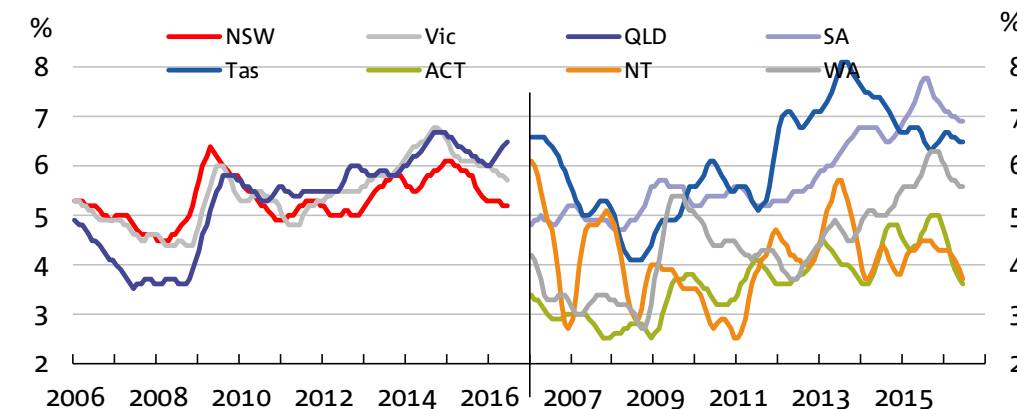
BUSINESS CONDITIONS BY STATE

Net balance, 3mma



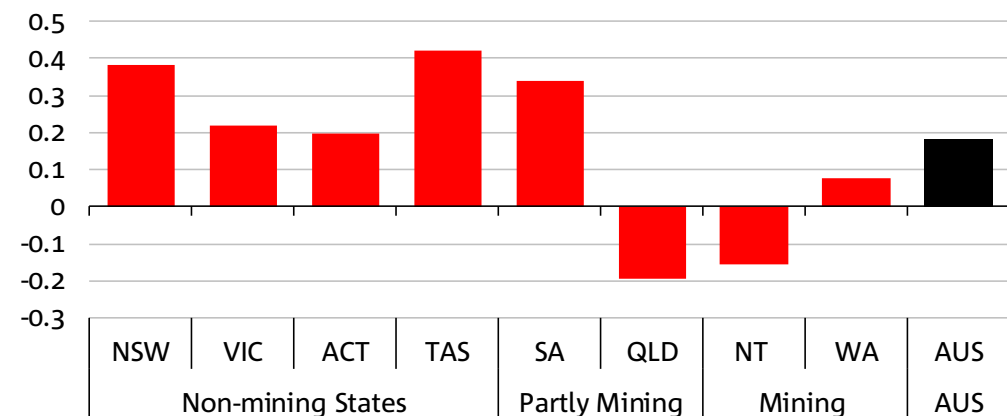
UNEMPLOYMENT RATE BY STATE

% of labour force, trend



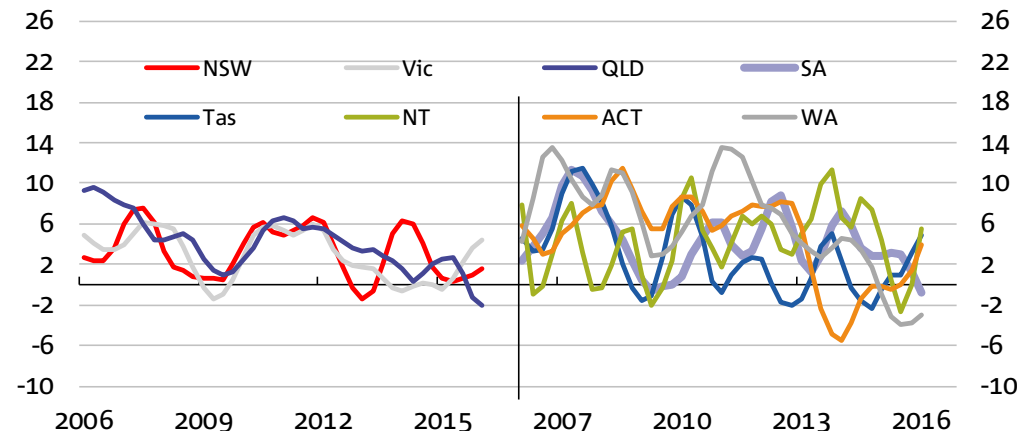
RETAIL TRADE BY STATE

m/m % change, trend



AVERAGE COMPENSATION OF EMPLOYEES BY STATE

y/y% change, trend



BUSINESS CONFIDENCE HOLDING UP IN MOST STATES



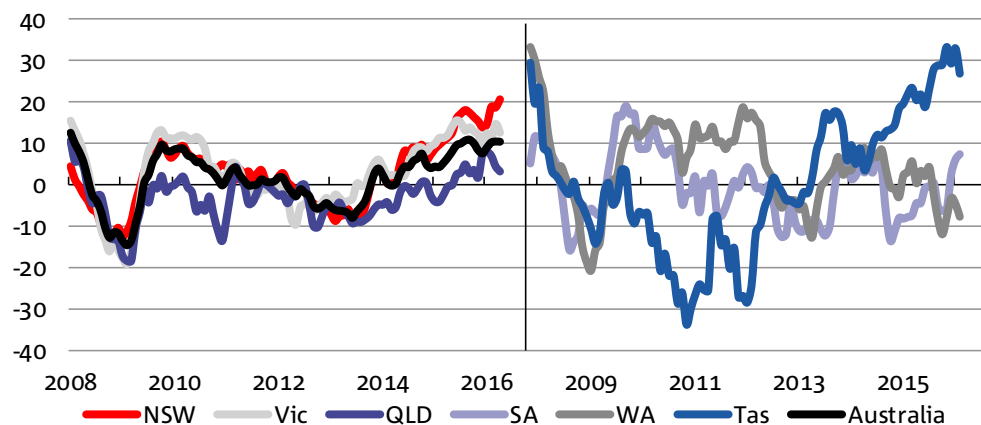
... but indicators of investment intentions mixed

Non-mining states continue to experience the strongest business confidence, although confidence has eased in Tasmania.

Confidence is also trending downwards in Qld, although has bounced in WA – the latter may reflect higher iron ore prices of late, which we do not expect to be sustained.

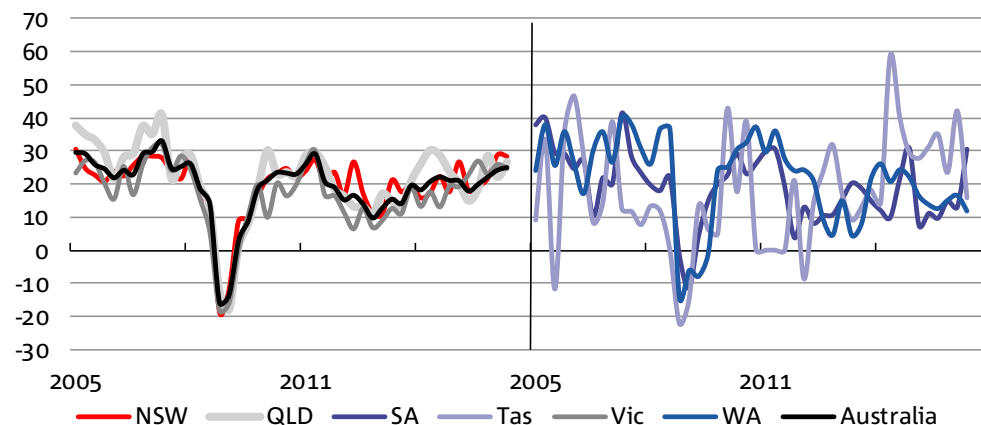
BUSINESS CONFIDENCE BY STATE

Trend



CAPITAL EXPENDITURE EXPECTATIONS BY STATE (NAB SURVEY)

Next 12 months, net balance

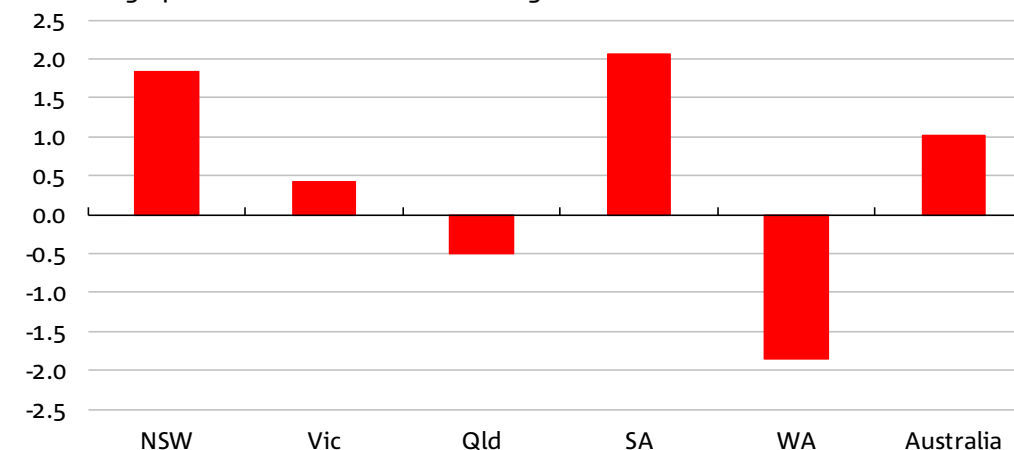


Source: NAB, ABS

Despite confidence levels, measures of capital expenditure expectations are mixed in most states. The NAB survey measures look more upbeat, while ABS measures suggest little to no growth in business investment, even in the non-mining states. While the ABS data do not include stronger performing industries such as health and education, the outlook for non-mining investment remains uncertain across most states, although capacity utilisation rates have improved recently.

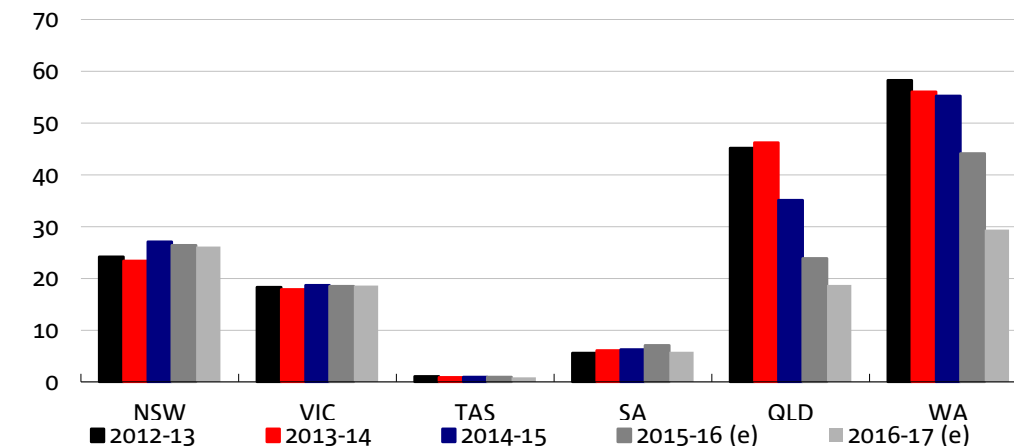
CAPACITY UTILISATION BY STATE

Percentage point deviation from LR average



CAPITAL EXPENDITURE, ACTUAL & EXPECTATIONS BY STATE (ABS)

\$bn, based on previous realisation ratio



EXPORT VOLUMES TO SURGE

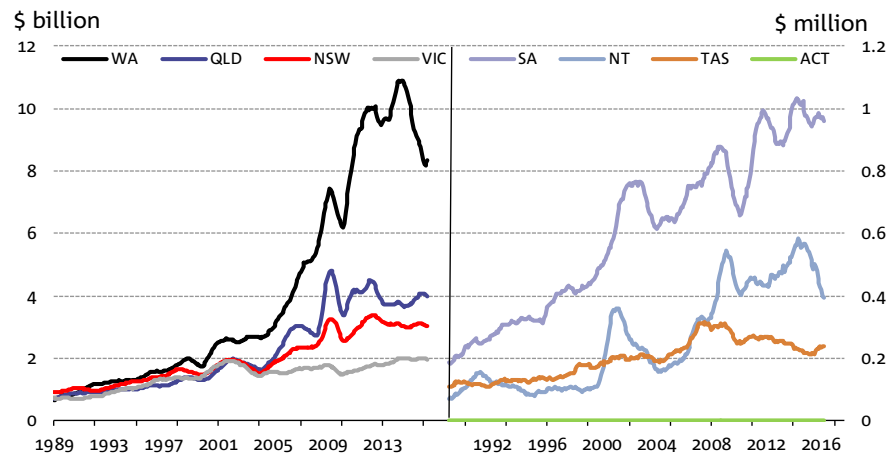
...led by LNG and services exports, while agri outlook mixed



Our estimates of contracted supply for major LNG projects suggest a surge in export volumes in Qld through the remainder of 2016 and WA in 2017, although this is not yet reflected in export earnings data. Meanwhile, most states are benefiting from stronger **services exports** including education exports (p7) and foreign and domestic tourism. Visitor arrivals data suggest NSW and Victoria have received the lion's share, although other states are benefiting, except for NT in the past year.

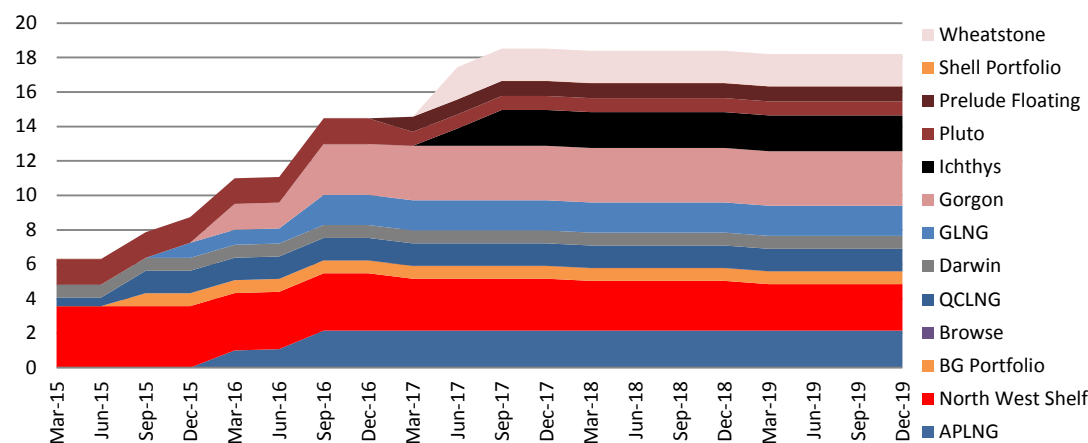
Good winter rainfall has boosted the outlook for **agriculture** across most of Australia. We expect wheat production in WA, NSW and SA to be generally above average. Surging cattle prices are flowing through Queensland, although volumes are likely to remain well below average and it may be difficult for some producers to restock at these prices. The low price outlook for dairy is a concern for Victoria – which accounts for around two-thirds of national production – as well as Tasmania.

INTERNATIONAL EXPORT EARNINGS BY STATE

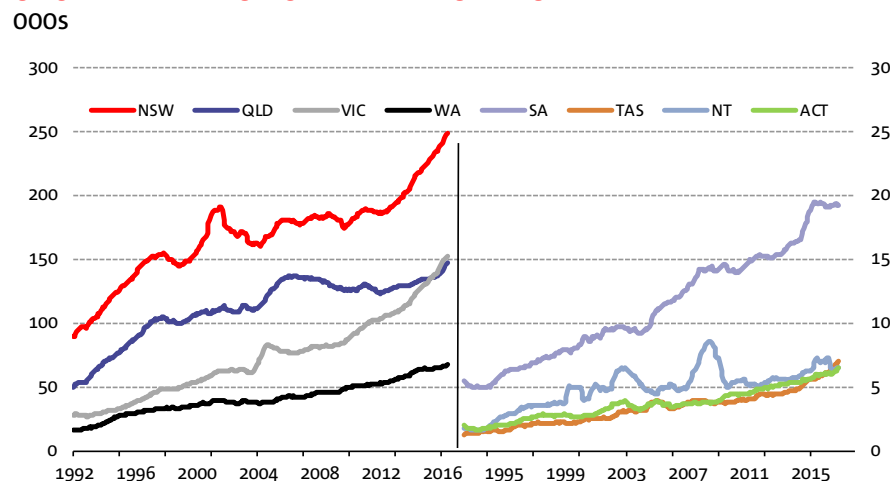


LNG EXPORTS, CONTRACTED SUPPLY

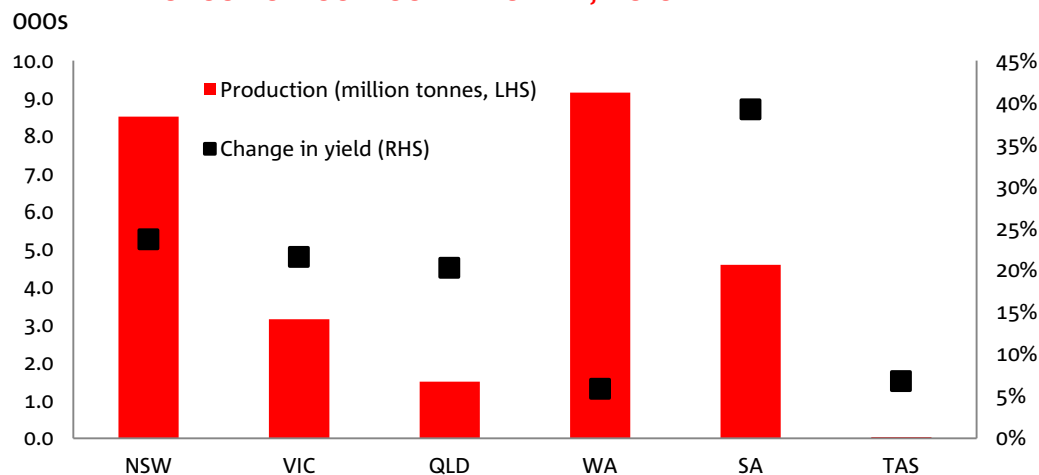
Million tonnes per quarter



SHORT-TERM VISITOR ARRIVALS BY STATE



WHEAT PRODUCTION OUTLOOK BY STATE, 2016



DEMOGRAPHICS AND LABOUR MARKET



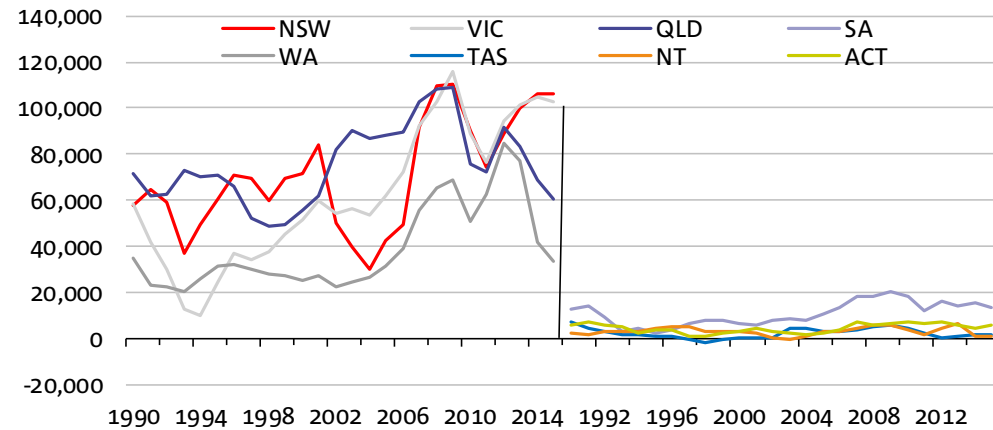
South-eastern states enjoying strongest population and employment growth

Population growth has strengthened in recent years in both **NSW** and **Victoria**. This has been driven in particular by net interstate migration (now positive in Vic and less negative in NSW) as workers return from WA and Qld in particular, or are attracted by better job prospects. These states also receive the greatest share of overseas migration. Trend employment growth is strongest in these states, particularly NSW, and job advertisements suggest a continuation near term.

Analysis by NAB Economics suggests a further 50K mining job losses nationwide in coming years as mining investment tails off – concentrated in **Qld** and **WA**, although falls in Qld will come earlier with major LNG projects due for completion in 2016. Job ads have also turned down in Qld and WA, although worker outflow will minimise the impact on the unemployment rate. In **SA**, employment growth will remain weak given auto closures going forward, although support for the submarine industry and the recent pick up in job advertisements are encouraging signs.

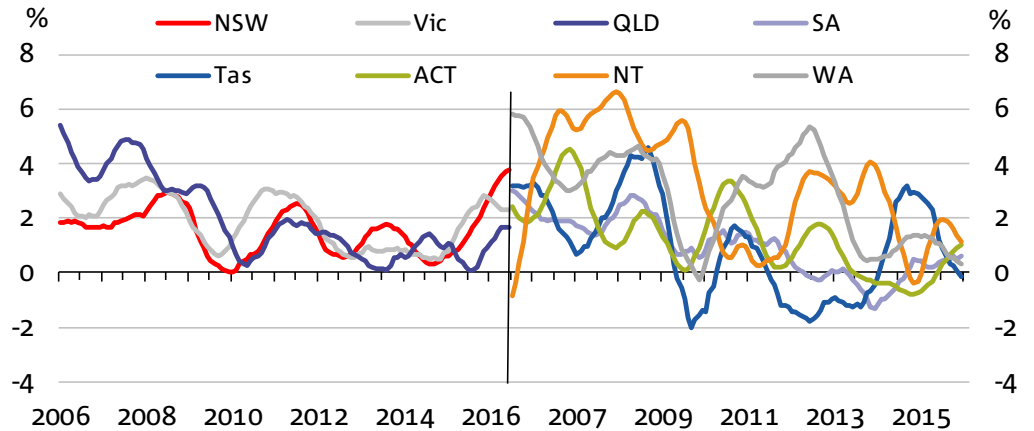
POPULATION GROWTH BY STATE

Annual change, '000 persons



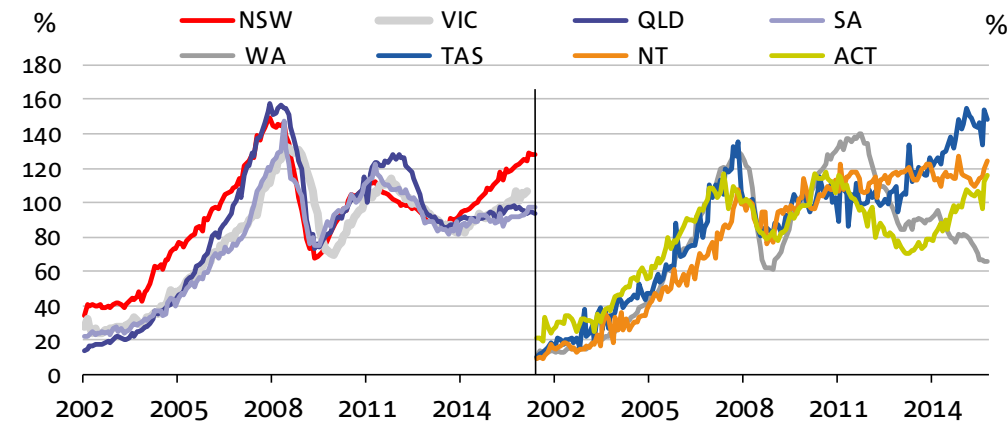
EMPLOYMENT BY STATE

y/y % change, trend



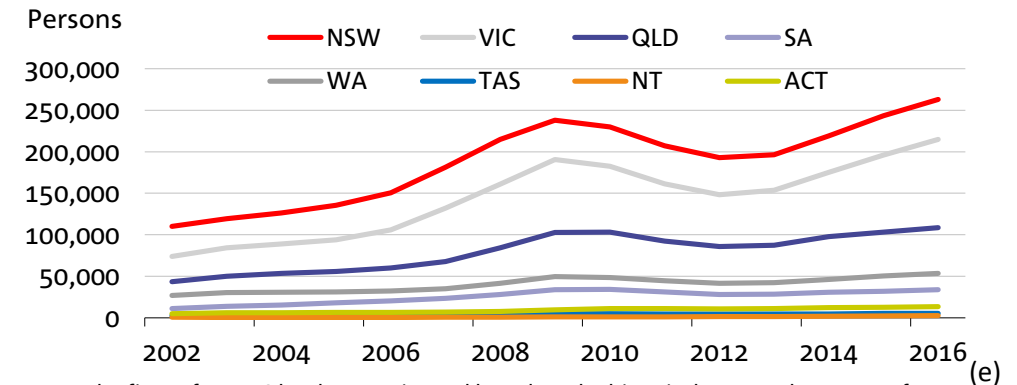
SEEK JOB ADVERTISEMENTS BY STATE

Index



INTERNATIONAL STUDENT ENROLMENTS BY STATE

Persons, rolling annual sum



Note: The figure for 2016 has been estimated based on the historical seasonal patterns of international student enrolments

PROPERTY MARKETS AND FISCAL OUTLOOK ...also reflect mining/non-mining divide, with cooling in housing prices expected nationwide



With the exception of Perth where dwelling prices are declining, *house* price growth has been solid so far in 2016, with momentum picking up again in Sydney and Melbourne. Price growth for *units/apartments* has lagged. Renewed momentum in state housing markets is unlikely to be sustained given affordability constraints in the larger states and a strong supply response, particularly for apartments, coupled with tighter controls for foreign purchasers and macroprudential policies limiting investor credit growth. That said, while we expect dwelling prices to cool, the most

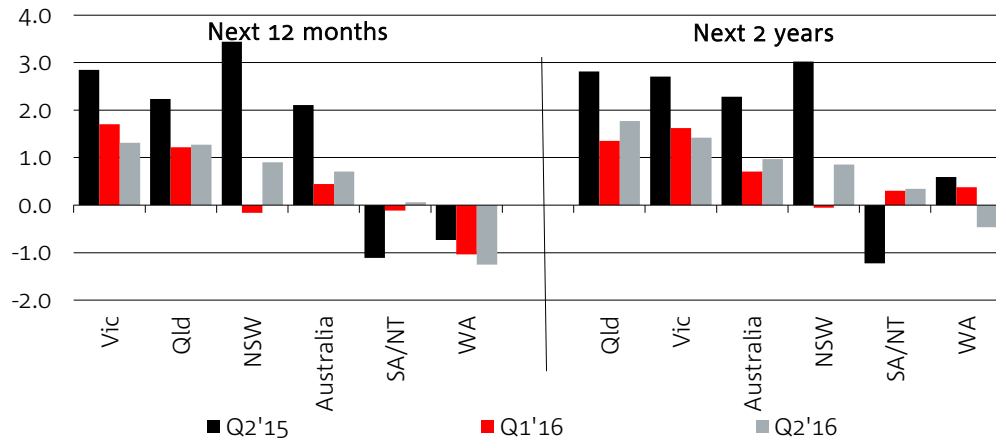
likely outcome for most capital cities (except Perth) is for modest *house* price growth, and small apartment price declines.

The commercial property index also suggests positive momentum in Victoria and NSW, but is clearly negative in mining/partly-mining states.

Budget balances in eastern states are benefiting from strong population growth and housing market activity, while the budget position in mining states – especially WA - has been heavily affected by lower royalties in the low commodity price environment.

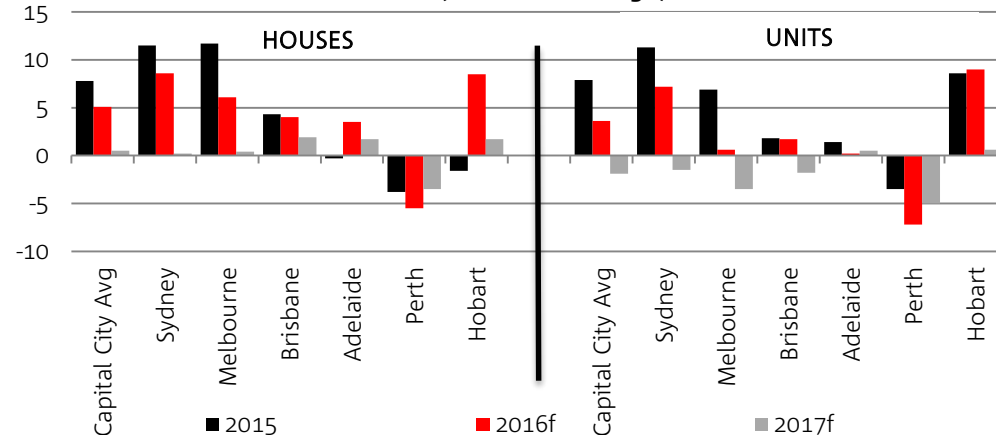
RESIDENTIAL PROPERTY SURVEY

Average Survey House Price Expectations (annual % change)



NAB ECONOMICS DWELLING PRICE FORECASTS

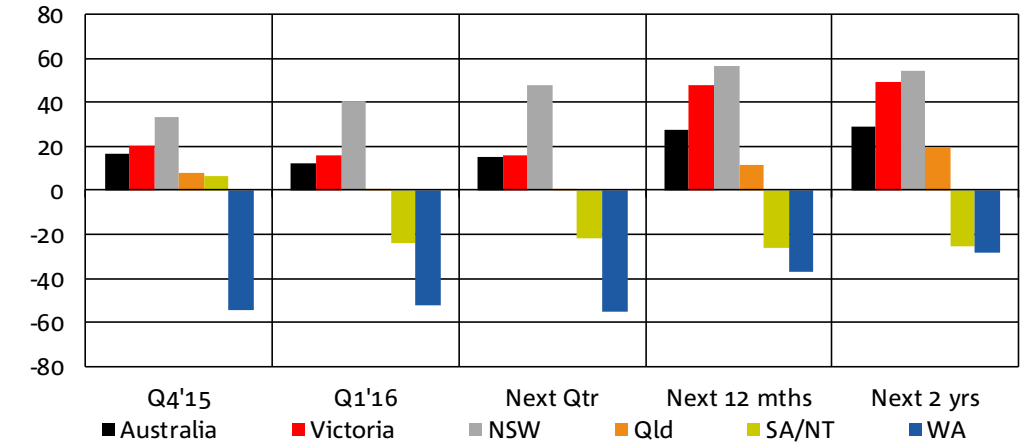
NAB House & Unit Price Forecasts (annual % change)



Source: NAB, ABS, individual state budget papers

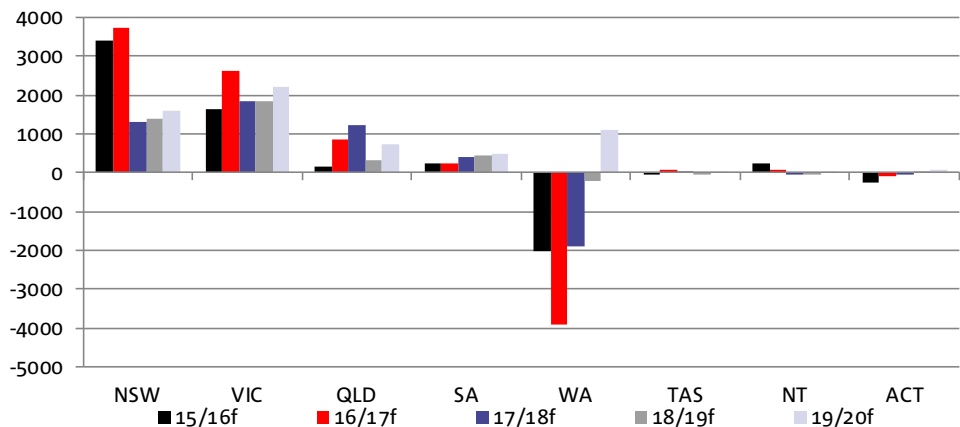
COMMERCIAL PROPERTY SURVEY

Index



BUDGET BALANCE BY STATE

Index, 2010=100



Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Australian Economics and Commodities

Riki Polygenis
Head of Australian Economics
+(61 3) 8697 9534

James Glenn
Senior Economist – Australia
+(61 2) 9237 8017

Vyanne Lai
Economist – Australia
+(61 3) 8634 0198

Amy Li
Economist – Australia
+(61 3) 8634 1563

Phin Ziebell
Economist – Agribusiness
+(61 4) 75 940 662

Industry Analysis

Dean Pearson
Head of Industry Analysis
+(61 3) 8634 2331

Robert De lure
Senior Economist – Industry Analysis
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Industry Analysis
+(61 3) 8634 3837

Steven Wu
Senior Analyst - Industry Analysis
+(61 3) 9208 2929

International Economics

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+(61 3) 9208 5049

Gerard Burg
Senior Economist – Asia
+(61 3) 8634 2788

John Sharma
Economist – Sovereign Risk
+(61 3) 8634 4514

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

David de Garis
Senior Economist
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

FX Strategy

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril
Currency Strategist
+61 2 9293 7109

Interest Rate Strategy

Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Alex Stanley
Senior Interest Rate Strategist
+61 2 9237 8154

Credit Research

Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 29237 1076

Andrew Jones
Credit Analyst
+61 38641 0978

Distribution

Barbara Leong
Research Production Manager
+61 2 9237 8151

New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Markets Economist
+64 4 474 6923

Kymerly Martin
Senior Market Strategist
+64 4 924 7654

Jason Wong
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

Asia

Christy Tan
Head of Markets Strategy/Research, Asia,
+ 852 2822 5350

Julian Wee
Senior Markets Strategist, Asia
+ 65 6632 8055

UK/Europe

Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+ 44207710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 2155

Derek Allassani
Research Production Manager
+44 207 710 1532

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Please click [here](#) to view our disclaimer and terms of use.

