

# State of the States

## State & territory economic rankings

- **Western Australia is the best performing economy in Australia according to the latest CommSec state and territory economic rankings. The ACT had held the mantle over the past two quarterly surveys but it is clear that Western Australia has now fully shrugged off the effects of the global financial crisis, underpinned by a strong job market and rising demand for resources.**
- **The ACT slips one spot to second while South Australia and Northern Territory have maintained their respective third and fourth positions. Tasmania has slipped from fifth to sixth, trading places with Victoria.**
- **Queensland has maintained its ranking at seventh but now it equally shares its position with NSW.**

### Economic Rankings

July 2010

1. Western Australia
2. ACT
3. South Australia
4. Northern Territory
5. Victoria
6. Tasmania
- =7. Queensland
- =7. NSW

### Western Australia on top of the state/territory rankings

- If you did a survey asking which Australian regional economy was performing the best, it's likely that Western Australia would come out on top. And the latest CommSec ranking, obtained from assessing eight key economic indicators, is in agreement. Western Australia had felt the cool winds of the global financial crisis during 2009. But with that episode now behind, the Western Australian economy has bounced back solidly, underpinned by low unemployment, firm retail spending and rising construction.
- The Australian Capital Territory has slipped to second spot in the rankings, with the ending of the Government tax break for small and medium sized businesses leading to a scaling back of equipment investment. But the ACT continues to benefit from low unemployment and a strong housing market.
- South Australia is the 'quiet' performer, with strong population growth underpinning solid commercial and engineering construction. But middle-ranking unemployment is restraining momentum in the housing and retail sectors.
- Northern Territory owes its fourth position to a strong job market, driving firm retail spending. Construction and investment can prove volatile but at present investment spending remains strong.
- Victoria is in fifth spot largely because historically-high population growth is generating strong housing demand and construction. Tasmania continues to be supported by resilience in dwelling construction with flow-on effects to retail spending.

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- Queensland is still suffering from soft tourism demand, a more modest boost from population growth than other states and a slower resumption of mining projects compared with Western Australia after the global financial crisis. The light in the tunnel for NSW is firmer population growth, generating a solid pick-up in housing activity. At the same time equipment investment in NSW is growing at the second fastest annual rate across states.
- In the rankings, there is not much between Western Australia and the ACT, and similarly South Australia and Northern Territory are close together. At the other end of the scale, Tasmania, Queensland and NSW are closely ranked.
- Looking ahead, Western Australia is well placed to maintain its ranking as best performing state, but the bigger states – Victoria, Queensland and NSW – seem well placed to regain some of the ground lost in the global financial crisis.

**How were the rankings decided?**

- Each of the states and territories were assessed on eight key indicators: economic growth; retail spending; equipment investment; unemployment, construction work done; population growth; housing finance and dwelling commencements.
- The economies weren't ranked on annual growth rates; rather current activity levels were compared with decade averages. Clearly some states such as Queensland and Western Australia consistently have faster growth rates due to historically faster population growth. So the best way to assess economic performance is to look at each indicator in relation to what would be considered 'normal' for that state or territory.
- For instance, South Australia's population growth of 1.3 per cent is slower than most other states and territories. But compared with its 'normal' or decade-average rate of 0.8 per cent, South Australia's population growth is far stronger than other economies, providing solid momentum to the construction sector.
- Clearly there will always be some subjectivity associated with the rankings. Some people may believe that a certain indicator deserves a higher weight – perhaps considering that unemployment is more important than housing finance. And some will debate the worth of indicators used for assessment. But the fact that eight indicators are used means economic performance is broadly assessed.
- Trend measures of the economic indicators were predominantly used to assess performance rather than more volatile seasonally adjusted or original estimates.

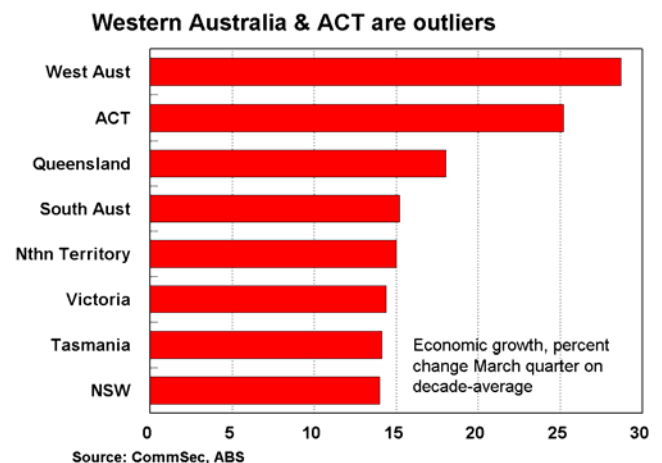
**ECONOMIC RANKINGS July 2010**

	Economic growth	Retail trade	Equipment Investment	Unemployment	Construction work	Population growth	Housing finance	Dwelling starts	TOTAL
NSW	8	7	4	7	7	2	3	8	<b>46</b>
Victoria	6	6	3	8	6	4	2	2	<b>37</b>
Queensland	3	4	7	6	5	8	6	7	<b>46</b>
South Australia	4	5	5	5	2	1	4	5	<b>31</b>
Western Australia	1	2	2	2	1	6	7	4	<b>25</b>
Tasmania	7	3	8	4	4	7	8	3	<b>44</b>
Northern Territory	5	1	1	1	8	5	5	6	<b>32</b>
ACT	2	8	6	3	3	3	1	1	<b>27</b>

Source: CommSec

**Economic growth**

- Ideally gross state product would be used to assess broad economic growth. But the data isn't available quarterly. Rather state final demand (household and business spending) was added to exports less imports.
- Western Australia has leap-frogged the ACT to lead the rankings on economic activity. In the March quarter, Western Australia's economic output was almost 29 per cent above the state's decade average level of output. ACT output was up 25 per cent on its long-term average, followed by the other resources-driven state, Queensland.
- The ACT is still recording the fastest annual economic growth rate in the nation at 8.1 per cent, followed by



Western Australia with 6.9 per cent growth. NSW comes next with 2.7 per cent annual economic growth.

- Interestingly trend economic activity in the Northern Territory, Tasmania and Queensland is currently falling in annual terms.
- In all states and territories, current economic activity compares similarly against the decade-average growth pace, up between 14-18 per cent. ACT and Western Australia are outliers compared with the other economies.

**Retail trade**

- The measure used was real (inflation-adjusted) retail trade in trend terms with March quarter data the latest available. Monthly retail trade was also assessed (May data available) but broadly results didn't vary greatly. The main difference would be that South Australia would have a higher ranking of second, with Tasmania having a lower ranking at fifth.
- Still leading the retail rankings is Northern Territory with spending in the March quarter just over 29 per cent above decade average levels. Low unemployment, rising incomes and solid growth in home prices remain the key drivers of consumer spending. Western Australia was next strongest followed by Tasmania.
- Remaining at the bottom of the leader-board are ACT and NSW. But trend growth of retail trade in NSW stands at 6.3 per cent – the fastest rate of all states and territories. And the ACT had the second strongest growth pace at 5.5 per cent followed by Western Australia at 4.7 per cent. Victoria ranks just above NSW and ACT in the rankings but again annual spending growth is firm at 4.0 per cent.

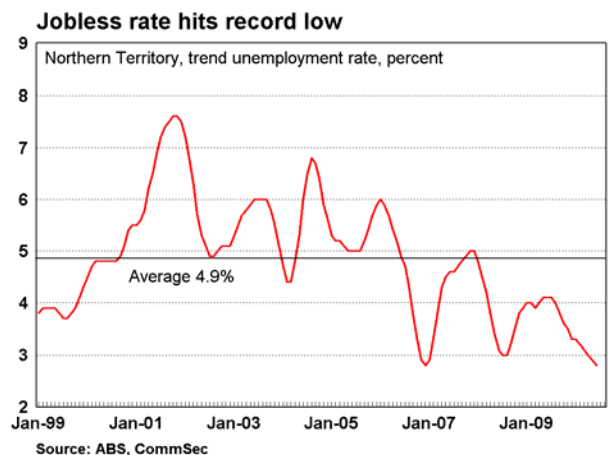
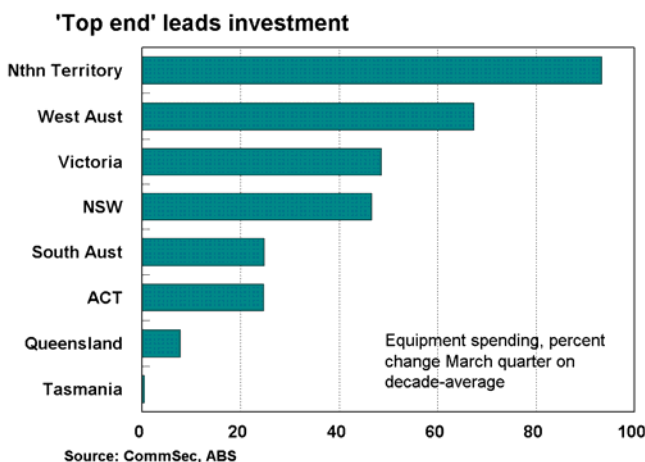


**Equipment investment**

- Investment spending in the Northern Territory has lifted sharply in the past nine months and now stands 93 per cent higher than the decade average. As a result the 'top end' now leads the investment rankings, up from fourth position in the previous survey.
- By contrast ACT had led the rankings but investment spending has eased sharply with the wind-down of the Federal Government's tax break for small and medium-sized businesses. The ACT has slipped from first to sixth with investment now almost 25 per cent above decade averages.
- Maintaining second spot was the resources-dependent state of Western Australia with investment just over 67 per cent above 'normal' or longer-term average levels. Victoria is in third position (investment up 49 per cent above 'normal') with NSW in fourth (up 47 per cent).
- At the other end of the scale, equipment investment was weakest in Tasmania, almost unchanged in the March quarter on the decade average with Queensland investment up 8 per cent.

**Unemployment**

- The territories continue to lead the way in the job stakes together with Western Australia. Trend unemployment in the Northern Territory stands at a record low of just 2.8 per cent – 43 per cent below the decade average of 4.9 per cent.
- Next best was Western Australia with the current unemployment rate of 4.1 per cent, 15 per cent below the long-

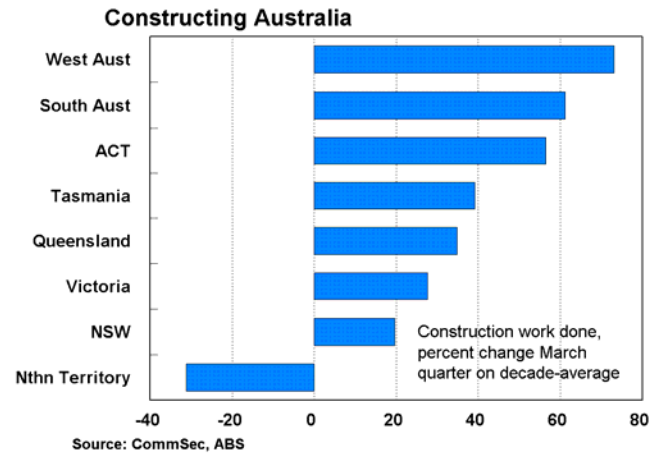


term average of 8.8 per cent. And the unemployment rate in the ACT stands at 3.3 per cent, below the 3.6 per cent long-term average.

- At the other end of the scale is Victoria. Despite the unemployment rate falling to a 13-month low of 5.4 per cent, this level is actually little different to its decade-average. And the NSW jobless rate of 5.3 per cent is also only marginally below the decade average of 5.4 per cent.
- The good news is that trend rates of unemployment have been improving in recent months in all states and territories except South Australia and Tasmania.

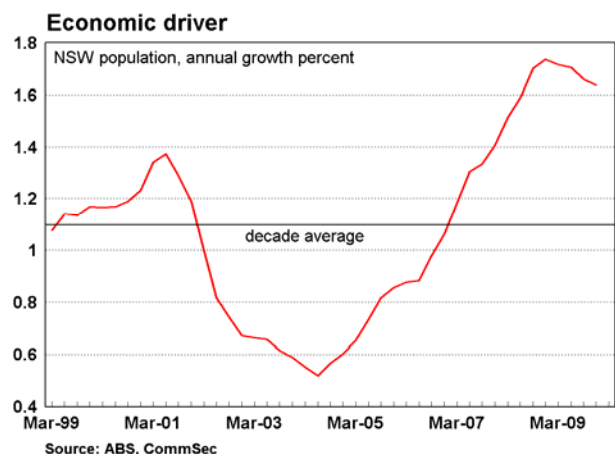
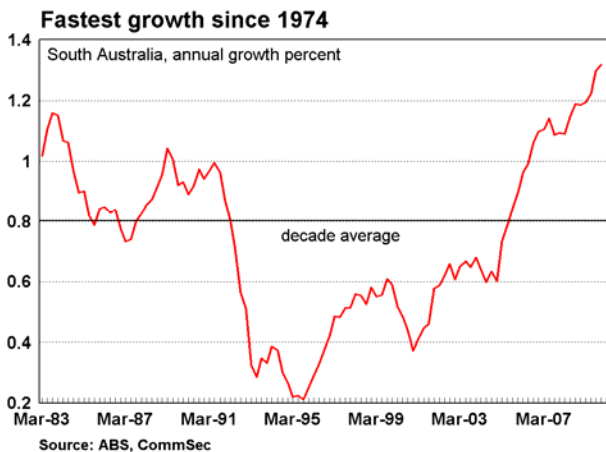
**Construction work**

- The measure used for analysis was the total amount of residential, commercial and engineering work actually completed in trend terms in the March quarter.
- Despite a slowdown in the *pace* of work done, the *actual amount* of construction work completed in Western Australia remains well above its “normal” level or decade-average. In fact construction work done in Western Australia in the March quarter was 73 per cent above the decade average.
- Next strongest was South Australia with construction work 61 per cent higher than decade averages. The pace of construction work in South Australia is also strong, up 22 per cent on a year ago.
- The ACT is in third place on construction work followed by the Tasmania and Queensland. But while work in Queensland is currently 35 per cent above the decade average, it is down almost 6 per cent on a year earlier.
- Weakest construction work is in the Northern Territory with work done in the March quarter 31 per cent below long-term averages. But the relatively small Northern Territory economy is affected to a greater extent by the ‘lumpiness’ of major construction projects. In the year to March construction work was down by 56 per cent on a year ago, while a year earlier, work done was higher in annual terms by 77 per cent.



**Population growth**

- Across the states and territories the current annual rate of population growth was compared with each economy’s decade-average growth pace. And currently population growth is above ‘normal’ in all states and territories.
- Population growth is fastest in Western Australia (2.7 per cent) followed by Queensland (2.4 per cent) with both states consistently leading the rest of the nation, especially over the past three years. But actually other states and territories are getting more momentum from population growth with current rates far higher than ‘normal’.
- At the top of the rankings on the population growth leader board is South Australia. Not only is population growth the fastest in 36 years but the 1.32 per cent annual rate is well above the 0.8 per cent decade average. Next best was NSW followed by the ACT and Victoria.
- In NSW the 1.64 per cent population growth is well above the 1.1 per cent decade-average growth pace. But importantly the current growth pace is around double the rate of growth existing around four years ago. Population growth stands at 1.83 per cent in the ACT and 2.13 per cent in Victoria.

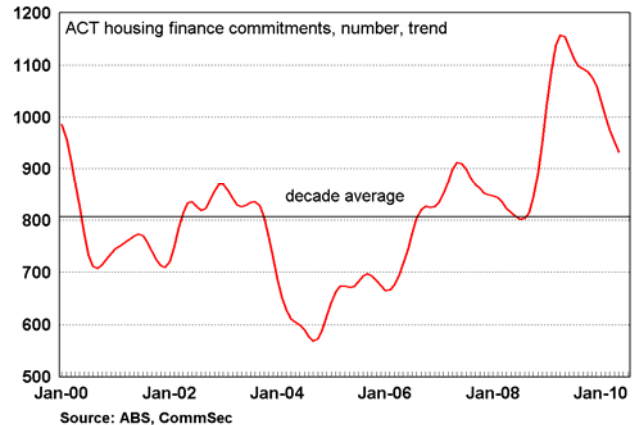


- Remaining at the bottom of the leader-board is Queensland. Current population growth of 2.44 per cent is only modestly above the 'normal' or decade-average growth pace of 2.4 per cent. Other states and territories are generally maintaining population growth rates that are 50 per cent faster than their decade-average levels. In Queensland population growth is just 3 per cent above longer-term averages.

### Housing finance

- The measure used was the trend number of housing finance commitments and this was compared with the decade-average for each respective state and territory.
- Housing finance is not just a lead indicator for real estate activity and housing construction but also is an indicator of activity in the financial sector. It would be good to also use figures on commercial, personal and lease finance, but unfortunately trend data is not available for states and territories.
- Far away in top position for housing finance is the ACT. The number of housing finance commitments in the ACT is almost 16 per cent higher than the decade-average at a time when other states and territories are recording negative growth. The high level of activity is positive for financial institutions, real estate agents and builders.
- But how long the ACT can continue to out-perform remains to be seen with the number of commitments now in retreat compared with a year ago, down 19 per cent.
- Victoria is in second spot for housing finance, with the number of commitments level with longer-term averages despite the fact that trend commitments have been falling for 10 months and are 14 per cent down on a year ago.
- NSW was third on housing finance followed by South Australia and Northern Territory. But home loans in these states, together with the remaining three, are now below longer-term averages and are falling in annual terms.
- Remaining at the bottom of the leader-board is Tasmania with the number of home loan commitments now 23 per cent below decade averages. In common with other smaller states, Tasmania was a key beneficiary of Reserve Bank interest rate cuts from September 2008-April 2009. But the home loan market is now sharply in reverse with the trend number of loans at decade lows. New home loans in South Australia have also fallen to the lowest levels in almost a decade.

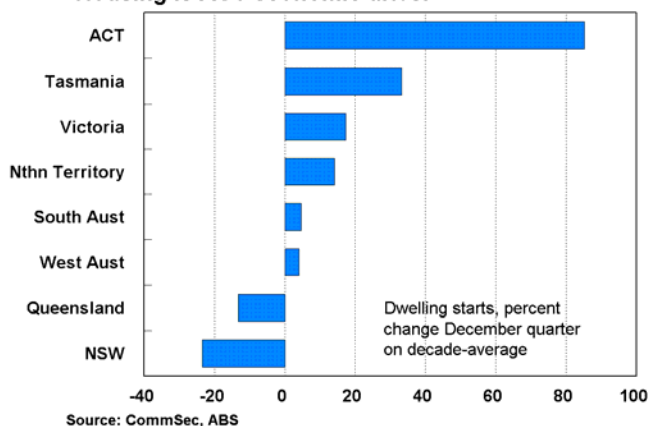
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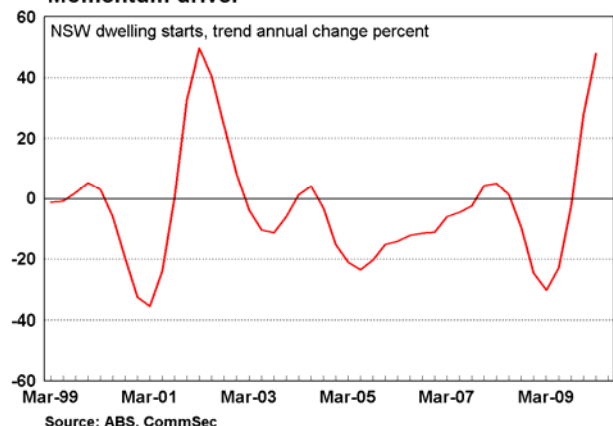
### Dwelling starts

- The measure used was the trend number of dwelling commencements (starts) with the comparison made with the decade-average level of starts. Starts are driven in part by population growth and housing finance and can affect retail trade, unemployment and overall economic growth. However any over or under-building in previous years can determine the level of starts.
- The ACT continues to lead the pack on dwelling starts just as it tops the leader-board on housing finance. But there are indications that work levels topped out in the December quarter and are now in retreat. Clearly the down-trend could pose implications for the broader ACT economy over 2010/11.
- The number of dwelling starts in the ACT in the March quarter was 56 per cent above the decade average.

Housing is ACT economic driver



Momentum driver



Further, dwelling starts in the ACT are currently 67 per cent higher than a year earlier, underpinned by a strong job market, increased land production and rising population growth.

- In second spot is Victoria with dwelling starts at record highs in the March quarter and almost 34 per cent higher than a year ago. Not only are starts at historically-high levels, but they are up 39 per cent on a year ago. Strong population growth is the key factor under-pinning dwelling activity in Victoria.
- Victoria was followed by Tasmania, Western Australia and South Australia. And not only are starts in each of these states between 16-31 per cent above respective decade averages but annual growth rates of dwelling starts are also lifting in each state.
- NSW remains at the other end of the leader-board with dwelling starts 11 per cent below decade averages. But the good news for residential construction-dependent industries is that starts are accelerating at the fastest annual rate in eight years and the number of starts has now hit four-year highs. Faster population growth and long-term under-building have led to a super-tight rental market and finally the construction sector is responding.

**WAGES & PRICES\***

	Wages	Consumer Prices	Home Prices
NSW	6.3	3.0	11.3
Victoria	5.0	2.8	18.2
Queensland	6.6	3.0	6.7
South Australia	3.0	2.6	10.5
Western Australia	6.7	3.4	6.1
Tasmania	6.5	3.2	6.2
Northern Territory	3.7	3.5	16.8
ACT	7.5	2.6	16.4

\* Annual % change. Source: ABS, RP Data, CommSec  
 March Quarter 2010 - Average weekly earnings, prices  
 May 2010 - home prices (except Tasmania-Apr 10)

**Other indicators**

- Consumers in all states and territories continue to enjoy real wage gains (wages growing faster than prices), although the gaps in South Australia and the Northern Territory are much smaller than in other economies. Home prices across Australia have also risen strongly over the past year, boosting wealth levels and consumer confidence. But growth rates of home prices have started to ease and this is expected to continue over 2010 in response to higher interest rates and an increased supply of new homes.
- Both Victoria and the ACT are posting above-average growth on home prices and below-average inflation when compared with other states and territories. The ACT also has the highest real wage gains of all states and territories and this explains in part the strength of home prices in relation to other economies.
- In the Northern Territory, negligible real wage growth and weakening housing affordability have potential to reduce momentum in the economy in coming months. Conversely healthy real wage gains, a firmer job market and more 'sustainable' home price growth should support activity in the Queensland economy.

**Implications and outlook**

- The state and territory economic rankings are designed to show the relative performance of economies. That is, while all economies are performing equally well, the ranking attempts to determine which economies are doing the best. An economy that consistently under-performs over time risks losing investment dollars and workers to other states. Examples include Victoria in the early 1990s and Tasmania in the late 1990s.
- Western Australia is well positioned for growth as a consequence of strong Chinese and Indian demand for resources. But the state is exposed to the same macroeconomic forces as other state and territory economies, especially interest rates. And Western Australia – alongside the ACT and Northern Territory – faces the challenges posed by tight labour markets such as securing workers and keeping labour costs down.
- While Queensland also has bright prospects as a consequence of demand for resources, it is yet to establish momentum after the global financial crisis. And activity is also being affected by weakness in the tourism sector.
- At present Western Australia and the ACT are outliers – performance is well ahead of the rest of the nation. But in essence little separates the other states and territories.

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