How are Australia's states and territories tracking?

July 2019

Key points

> The housing downturn has weakened growth in NSW but Vic has been more resilient. NSW and Vic will be hit by the drop off in government infrastructure projects, as the pipeline of projects reaches a peak in 2020.

> Growth in WA and NT has taken longer to bottom post mining boom and still looks weak. Qld is doing better.

> Interstate migration to Tas is supporting growth and the housing market is holding up.

Introduction

Australia's economy has often been described as "multi-speed" which occurs if growth across the states and territories varies significantly. This can often be the case because Australia's states and territories have specific comparative advantages which means growth divergences occur as industries are impacted by different trends at various points in the economic cycle. These areas of comparative advantages are: tourism in Queensland (Qld), finance & insurance in New South Wales (NSW), manufacturing in Victoria (Vic) and South Australia (SA), mining in Western Australia (WA), Qld and Northern Territory (NT), agriculture in South Australia (SA) and Tasmania (Tas) and government services in ACT (Australian Capital Territory).

Our tracker of state and territory performance (see table below) reveals that ACT and Vic are ranked as the best performing state/territory across the various metrics (same as a year ago), followed by Tas and NSW and SA and Qld are running around the middle of the pack. Qld, NT and WA are still lagging behind.

State of the states, annual % change to latest

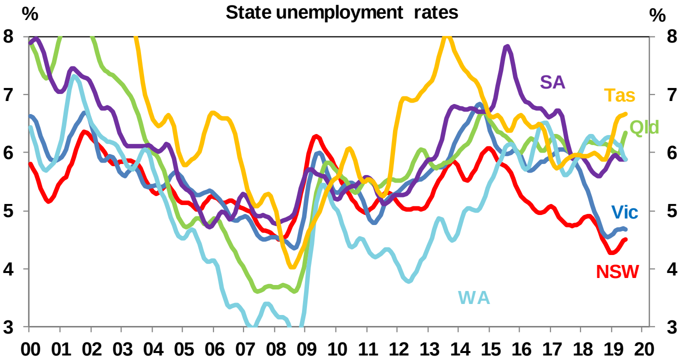
	Retail Sales	Building Approvals, trend	Real State Final Demand	Home prices	Employment	Unemployment %	Rank*
NSW	+0.5	-18.8	+2.1	-9.9	+4.2	4.4	4 (3)
Victoria	+4.2	-21.9	+3.0	-9.2	+3.8	4.7	2 (1)
Queensland	+4.7	-29.4	+1.4	-2.6	+2.2	6.0	6 (6)
WA	+0.4	-5.9	-1.4	-9.1	+0.4	6.2	7 (8)
SA	+2.9	-21.1	+1.8	-0.3	+1.9	5.8	5 (5)
Tasmania	+0.6	+2.9	+5.0	+2.9	-0.2	6.6	3 (4)
NT	-4.3	-27.0	-14.8	-9.3	-6.6	4.5	8 (7)
ACT	+3.3	-24.0	+4.2	+1.4	+0.3	3.9	1 (2)

* Rank a year ago shown in brackets. Source: ABS, CoreLogic, AMP Capital

In this Econosights, we look at key indicators of state and territory performance, as well as the outlook.

The state of the labour market

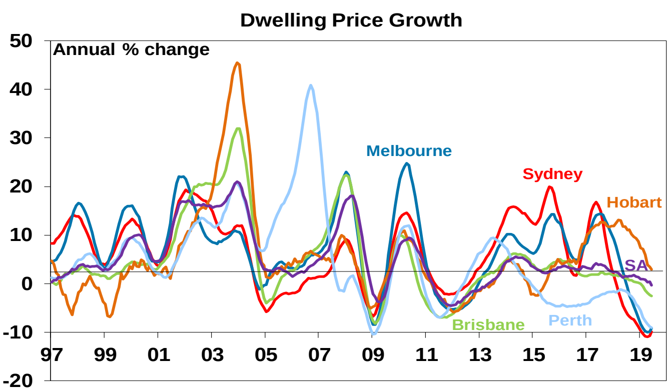
Employment growth is good in NSW and Vic, but not strong enough to keep up with new entrants into the labour market, so unemployment rates have increased this year (see chart below). Over the past year, NSW job gains have been largest in accommodation & food, public administration and transport services while most job losses have been in manufacturing, media and finance & insurance. In Vic, the largest job gains have been in professional services, education and administration while job losses were in construction, agriculture and accommodation & food services. Employment in housing-related areas will decline over the next year in NSW and Vic. Jobs growth related to government infrastructure projects will wane as well so higher unemployment rates in these states are likely.



Source: ABS, AMP Capital

The unemployment rate has increased in Qld and signs of slowing tourist arrivals may hit jobs in the industry. Unemployment has trended down in WA as the state has weathered the downturn in mining investment, but low employment growth is likely to continue. SA's unemployment rate has been steady, despite high job losses in the public sector. Employment growth remains negative in Tas and this is generally widespread across most industries. Jobs growth in NT is negative as mining and construction employment is still falling while it has improved in ACT in areas outside the government.

Dwelling prices



Source: CoreLogic, AMP Capital

The decline in home prices over the past two years is still dragging on residential investment, household wealth and consumer spending. The Liberal governments election victory is positive for home prices (because it removes the risks around changes to negative gearing and capital gains tax) as are RBA interest rate cuts (and we expect more to come). But, home price growth is still likely to be constrained and downside risks to prices remain. Supply of new units is still very high, bank lending standards are tight and the economic environment is subdued.

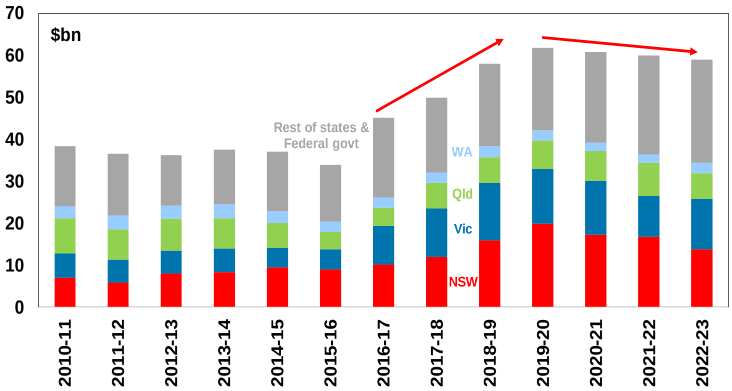
Sydney home prices are down by 15% since the peak (in July 2017) and Melbourne prices are 11% lower since the peak in November 2017. We expect Sydney and Melbourne home price growth to be shallow over the next year, rising by around 1-2%. The housing market remains weak in Perth and Darwin and with slow population growth in the region, these conditions are expected to persist. Hobart prices should continue to outpace the rest of Australia with better affordability for investors and favourable population dynamics. Price growth in Brisbane, Adelaide and Canberra is expected to be modest, at around 3-4% over the next year as these cities didn't have the same large declines in prices in Sydney and Melbourne and should benefit from investor demand and RBA interest rate cuts.

Low consumer spending across most regions

While home prices are at or close to bottoming, consumer spending growth is unlikely to lift noticeably as household wealth has been hit, wages growth is low and consumer debt is high. Retail spending growth has plummeted in NSW from the negative effects of falling home prices. Vic retail spending has been surprisingly resilient to the falls in home prices which reflects the solid labour market and wages growth running above the national average (at 2.7% per annum compared to the national average of 2.3%). Our expectation for a deterioration in NSW and Vic employment growth over the next 6-12 months means that further downside in consumer spending in these states. Qld retail spending has been holding up well but may come under pressure from lower tourist arrivals. Wages growth in Qld is in line with the national average. Wages growth in WA remains low (at 1.6% annually) and the weak employment outlook means that the consumer sector will remain under pressure.

State infrastructure spending peaking

Government Infrastructure Spending



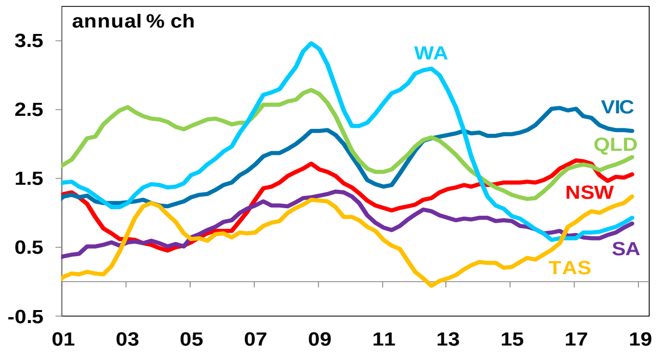
Source: Federal Treasury, Various state budgets, AMP Capital

State spending on infrastructure has boomed since 2014, particularly in transport. State government budgets have been boosted by stamp duty revenue from a booming housing market (which is now reversing), the asset recycling initiative (a scheme where states and territories can sell underperforming asset and use the proceeds to fund new infrastructure and receive a top up from Canberra) and a stronger Federal Government direct infrastructure spending.

Based on the latest state and federal government budgets, total infrastructure spending growth will peak in 2019-20 and fall in the years ahead (see chart above) which will hit NSW and Vic.

Population growth is important

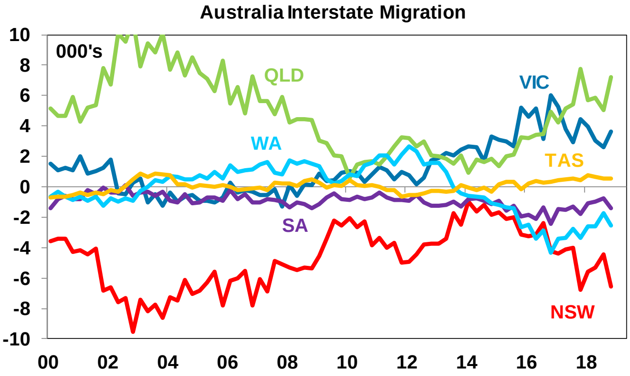
State population growth



Source: ABS, AMP Capital

Part of the reason for Australia's global growth outperformance is due to high population growth, at 1.6% per annum, well above the 0.6% OECD average. Population growth in Australia may come under pressure from lower government permanent migration caps and slowing student arrivals (particularly from China). Lower student arrivals will mainly impact NSW and Vic. The strength in underlying population growth in Vic has been an important source of housing demand for the state. In comparison, NSW home price has been declining faster than in Vic. NSW population growth is solid from high overseas migration but interstate outflows are still negative (see chart below) and has been accelerating lately. NSW population outflows appear to be going towards Qld and probably reflect housing affordability pressures in Sydney.

Australia Interstate Migration



Source: ABS, AMP Capital

Implications for investors

Investors should expect a less multi-speed economy in Australia as growth in the two largest non-mining states slows (particularly in NSW) as home price declines drag on residential investment, household wealth and consumer spending (particularly in NSW). Over the next year, these two states will also be negatively impacted by drop off in infrastructure investment, as the pipeline of projects reaches a peak. At the same time, growth in the mining states of WA and NT has taken longer than expected to bottom after the end of the mining downturn.

Diana Mousina
Senior Economist
AMP Capital