

MELBOURNE INSTITUTE  
Applied Economic & Social Research

# Monthly Bulletin of Economic Trends: Economic Activity in the Major States

January 2019

## Economic Activity in the Major States

- **September-2018 State Accounts:** *Weaker activity in most mainland states*
- **Dwelling and non-dwelling investment:** *Growth spurt in NSW and VIC*
- **State leading indexes of economic activity:** *Below trend activity across the major states*

**Table 1: Outlook for Australia<sup>1</sup>**

	Actual				Forecasts				Actual	Forecast
	2017 Dec	2018 Mar	2018 Jun	2018 Sep	2018 Dec	2019 Mar	2019 Jun	2019 Sep	Financial Year 2017/18	2018/19
<b>Economic Activity</b>										
GDP	2.4 (0.5)	3.0 (1.0)	3.1 (0.9)	2.8 (0.3)	3.0 (0.7)	2.6 (0.7)	2.3 (0.6)	2.6 (0.5)	2.8	2.6
Household Consumption	2.8 (1.1)	2.8 (0.3)	2.9 (0.9)	2.5 (0.3)	2.0 (0.5)	2.2 (0.6)	2.0 (0.6)	2.3 (0.6)	2.8	2.2
Private Dwellings	-4.7 (0.3)	2.9 (3.8)	4.7 (1.9)	7.1 (1.0)	6.0 (-0.8)	1.6 (-0.5)	-1.1 (-0.8)	-2.8 (-0.7)	0.1	3.3
New Business Investment	6.9 (0.4)	4.6 (0.8)	4.1 (-0.1)	-0.8 (-1.9)	-0.2 (1.0)	0.2 (1.2)	1.7 (1.4)	5.1 (1.4)	6.0	0.2
Domestic Final Demand	3.2 (0.8)	3.4 (0.8)	3.2 (0.7)	2.7 (0.3)	2.3 (0.5)	2.2 (0.7)	2.2 (0.7)	2.5 (0.6)	3.3	2.3
Imports of Goods & Services	7.2 (0.6)	6.1 (1.9)	6.4 (0.5)	1.5 (-1.5)	1.9 (1.0)	1.3 (1.3)	2.1 (1.3)	5.0 (1.3)	7.0	1.7
Exports of Goods & Services	0.0 (-1.5)	6.4 (4.3)	4.8 (1.2)	4.1 (0.1)	7.1 (1.3)	3.9 (1.2)	3.8 (1.1)	4.6 (0.9)	4.0	4.7
<b>Inflation &amp; Financial Market</b>										
Underlying inflation <sup>2</sup>	1.8 (0.4)	1.9 (0.6)	1.8 (0.4)	1.8 (0.4)	1.7 (0.4)	1.7 (0.5)	1.8 (0.5)	2.0 (0.6)	1.8	1.8
Headline Inflation	1.9 (0.6)	1.9 (0.4)	2.1 (0.4)	1.9 (0.4)	1.8 (0.5)	1.8 (0.5)	2.1 (0.6)	2.2 (0.6)	1.9	1.9
90-day Bill Rate <sup>3</sup>	1.7	1.8	2.0	2.0	1.9	1.9	1.9	1.9		
Trade Weighted Index <sup>4</sup>	64.7	64.2	62.5	62.6	62.6	62.3	62.3	62.3		
\$A/\$US rate (100) <sup>4</sup>	0.77	0.77	0.77	0.73	0.72	0.73	0.73	0.73		
<b>Labour Market</b>										
Unemployment Rate <sup>4</sup>	5.5	5.5	5.4	5.2	5.0	4.9	4.9	4.8	5.5	5.0
Employment Growth Rate <sup>5</sup>	3.3 (0.8)	3.4 (0.7)	2.7 (0.4)	2.4 (0.6)	2.3 (0.6)	2.0 (0.4)	1.9 (0.3)	1.6 (0.3)	3.0	2.1
Participation Rate <sup>4</sup>	65.5	65.7	65.6	65.6	65.6	65.6	65.5	65.4	65.5	65.6
Wage Price Index	2.1 (0.6)	2.1 (0.5)	2.1 (0.5)	2.3 (0.6)	2.3 (0.6)	2.4 (0.6)	2.4 (0.6)	2.4 (0.6)	2.1	2.4

1: Actual in black and forecasts in blue; values in parentheses are quarterly growth rates. 2: As measured by the Reserve Bank's trimmed mean measure of inflation. 3: Average over last month in quarter. 4: Average of 3-months in the quarter. 5: Calculated from quarterly employment numbers that are averaged over the 3 months in the quarter.

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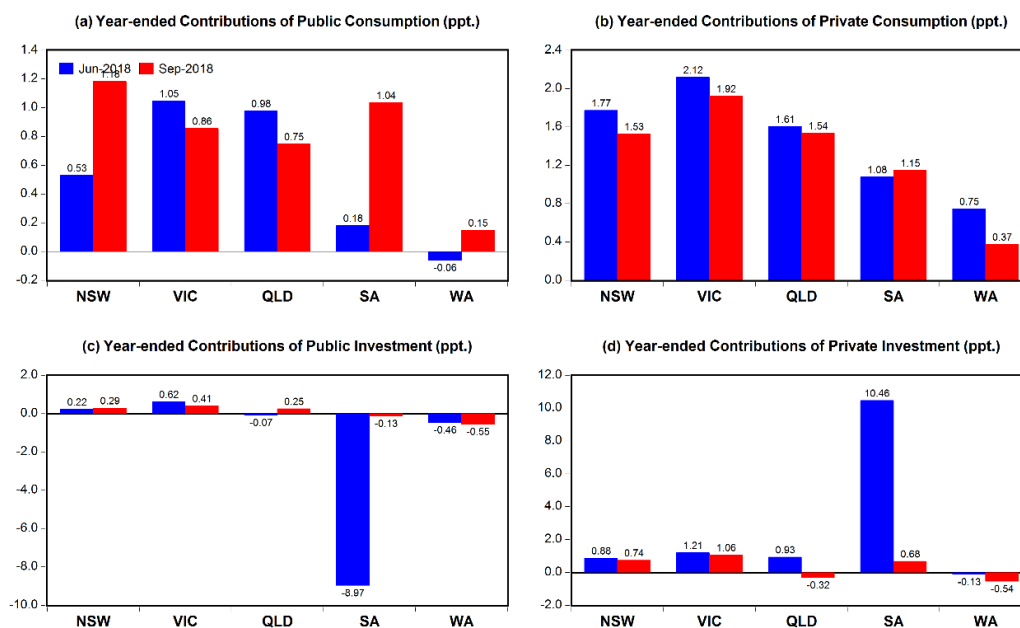
**Table 2: Actuals and Forecasts for Major States**

	Actual				Forecasts				Calendar Year	
	Dec 2017	Mar 2018	Jun 2018	Sep 2018	Dec 2018	Mar 2019	Jun 2019	Sep 2019	Actual 2017	Forecast 2018
<b>NEW SOUTH WALES</b>										
<i>State Final Demand</i>	3.2 (1.3)	3.9 (0.8)	3.4 (0.5)	3.7 (1.1)	3.2 (0.8)	2.8 (0.4)	2.7 (-2.2)	2.6 (1.1)	2.7	3.5
<i>Consumption</i>	2.5 (1.0)	2.4 (0.3)	3.0 (1.0)	2.6 (0.2)	2.6 (1.1)	2.5 (0.2)	2.4 (-1.5)	2.4 (0.2)	2.3	2.6
<i>Employment</i>	3.1 (1.1)	3.8 (0.5)	3.7 (1.1)	3.4 (0.6)	3.0 (0.7)	2.8 (0.3)	2.5 (-1.6)	2.5 (0.6)	1.7	3.5
<i>Unemployment</i>	4.7	5.0	4.8	4.6	4.4	4.6	4.7	4.8	4.8	4.7
<b>VICTORIA</b>										
<i>State Final Demand</i>	3.8 (0.2)	4.7 (2.4)	5.0 (1.4)	4.3 (0.2)	4.0 (-0.0)	3.8 (2.2)	3.7 (1.3)	3.5 (0.0)	4.5	4.5
<i>Consumption</i>	3.9 (1.2)	3.5 (0.5)	3.6 (1.1)	3.3 (0.5)	3.3 (1.3)	3.2 (0.4)	3.0 (0.9)	3.0 (0.5)	3.3	3.4
<i>Employment</i>	3.0 (0.5)	2.8 (0.4)	2.0 (0.5)	2.7 (1.3)	3.3 (1.1)	3.2 (0.3)	2.8 (0.1)	2.4 (0.9)	3.5	2.7
<i>Unemployment</i>	5.8	5.5	5.3	4.7	4.4	4.5	4.6	4.8	6.0	5.0
<b>QUEENSLAND</b>										
<i>State Final Demand</i>	3.3 (1.2)	4.0 (1.0)	3.5 (0.5)	2.2 (-0.4)	1.8 (0.8)	1.6 (0.8)	1.4 (0.2)	1.3 (-0.5)	3.3	2.9
<i>Consumption</i>	2.5 (1.1)	3.4 (0.6)	2.9 (0.6)	2.7 (0.5)	2.6 (0.9)	2.5 (0.5)	2.3 (0.4)	2.3 (0.5)	2.3	2.9
<i>Employment</i>	4.8 (0.8)	4.9 (0.7)	3.1 (-0.1)	1.8 (0.5)	1.4 (0.4)	1.3 (0.5)	1.1 (-0.2)	1.1 (0.4)	2.5	2.8
<i>Unemployment</i>	5.9	6.1	6.2	6.2	6.2	6.2	6.2	6.4	6.1	6.2
<b>SOUTH AUSTRALIA</b>										
<i>State Final Demand</i>	4.6 (1.3)	2.2 (0.3)	3.1 (1.2)	2.7 (-0.2)	2.5 (1.1)	2.4 (0.2)	2.3 (1.2)	2.2 (-0.3)	4.2	2.6
<i>Consumption</i>	2.4 (1.1)	2.1 (0.1)	1.8 (0.6)	2.0 (0.2)	2.0 (1.2)	1.8 (-0.1)	1.8 (0.6)	1.7 (0.1)	2.2	2.0
<i>Employment</i>	1.5 (0.0)	2.4 (1.4)	2.9 (0.4)	1.3 (-0.5)	1.9 (0.5)	1.7 (1.2)	1.6 (0.3)	1.4 (-0.7)	1.6	2.1
<i>Unemployment</i>	5.9	5.9	5.6	5.6	5.6	5.7	5.7	5.8	6.3	5.7
<b>WESTERN AUSTRALIA</b>										
<i>State Final Demand</i>	1.4 (0.6)	0.4 (-1.1)	0.1 (-0.4)	-0.6 (0.4)	-0.7 (0.4)	-0.2 (-0.6)	0.4 (0.2)	0.5 (0.4)	-1.6	-0.2
<i>Consumption</i>	2.1 (0.6)	1.8 (0.0)	1.4 (0.3)	0.7 (-0.1)	0.7 (0.6)	0.8 (0.1)	1.0 (0.5)	1.1 (-0.0)	1.2	1.2
<i>Employment</i>	2.9 (0.5)	2.1 (0.1)	1.6 (0.6)	1.3 (0.2)	1.0 (0.2)	0.9 (-0.0)	1.1 (0.8)	1.4 (0.5)	1.3	1.5
<i>Unemployment</i>	6.1	6.2	6.3	6.2	6.2	6.3	6.1	6.0	5.9	6.2

### National accounts: Weaker activity in most mainland states

- The latest Australian Bureau of Statistics’ National Accounts showed that State Final Demands (SFDs) grew in three out of the five mainland states in the September quarter of 2018. NSW recorded the strongest quarterly SFD growth of 1.1%, followed by WA (up by 0.4 per cent). The strong quarterly SFD growth in NSW was driven by a strong growth in public consumption (up by 1.8%) while WA SFD growth was supported by a strong private investment (up by 1.8%).
- In September, VIC SFD grew at a much more moderate quarterly pace of just 0.2%, as compared to 1.4% in June 2018 and 2.4% in March 2018. The slower growth in VIC in September was attributable to a decline in public consumption (down by 0.7% as compared to an increase of 2.7% in June) and a more moderate growth in private consumption (up by 0.5% as compared to a 1.1% growth in June).
- QLD and SA SFDs both declined in September, recording quarterly growth rates of -0.4% and -0.2%, respectively. Both of the declines in QLD and SA SFDs were mainly driven by considerable declines in their private investments (which account for 16%-20% of their SFD). In particular, QLD private investment fell by 4.3% as compared to an increase of 1.2% in June while SA private investment fell by 5.6% as compared to an increase of 8.0% in June.
- In year-ended terms, the economies of the major states all recorded positive growth with the only exception being WA. VIC again led the pack, posting a year-ended growth rate of 4.3%, followed by NSW (recording a growth rate of 3.7%). QLD and SA economies recorded year-ended SFD growth of 2.2% and 2.7%, respectively. In contrast, the WA economy recorded a year-end SFD growth of -0.6 per cent after four consecutive positive readings.
- Figure 1 provides the contributions to year-ended growths in SFDs of the major states. The contributions of private consumption have declined in most major states in September with SA being the only exception. As private consumption accounts for nearly 60% of SFDs in all major states, further weakening in private consumption will undoubtedly put downward pressure on economic growth in all major states.

**Figure 1: Contributions to year-ended growth in SFDs (percentage points)**



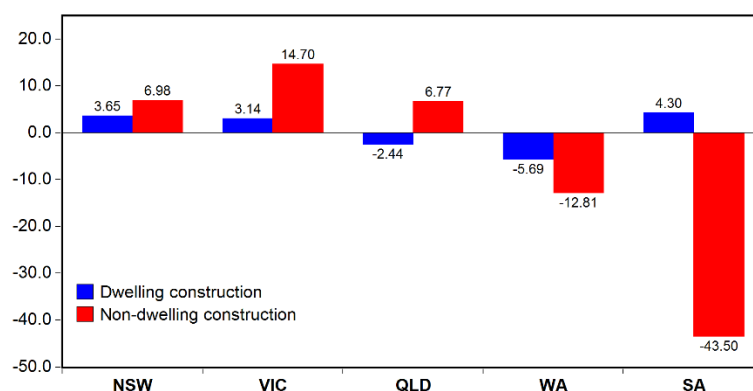
Source: Australian Bureau of Statistics (ABS).

### ***Dwelling and Non-Dwelling Investment: Growth spurt in NSW and VIC***

- With the unwinding of mining investment in WA and QLD following the end of the mining investment boom, non-mining investment in other major states, particularly in NSW and VIC, has picked up markedly to fill this gap, thereby preventing a collapse in the private investment, economy-wide.
- Figure 2 charts the average year-ended growths of private dwelling and non-dwelling construction in major states over the past two years (latest 8 quarters). The considerable decline in SA non-dwelling construction, to some degree, reflects the uncertainty and weaknesses in the SA economy following the closure of its auto industry which for many years was the backbone of the SA economy.
- The average year-ended growth of WA non-dwelling construction (-12.8%) reflects the scale of the unwinding mining investment in this state. At the peak of the mining boom in 2012-13, non-dwelling construction accounted for around 60% of WA private investment. Consequently, its decline post mining boom has generated persistent adverse effects on overall economic activity in WA. Indeed, WA has only just emerged from its economic slump started in 2013.
- The pick-ups in non-dwelling construction in NSW and VIC, and to some extent in QLD, have been key to economic activities in these major states. As dwelling construction in NSW and VIC has moderated over the past two years with their year-ended growth rates averaging at 3.7% and 3.1% (as compared to the corresponding readings of 7.1% and 8.1% in the preceding two years), non-dwelling construction in NSW and VIC has picked up substantially. Particularly, non-dwelling construction in NSW and VIC grew at average year-ended rates of 7.0% and 14.7%, respectively, in the past two years as compared to the corresponding readings of -0.5% and -0.3% in the preceding two years.
- The strong growth of dwelling (housing) and non-dwelling construction (infrastructure) in NSW and VIC in recent years, to a large extent, have been driven by their strong population growths. Dwelling and non-dwelling construction together account for more than 50% of private investment in NSW and VIC, and their solid growths, which have also been beneficial for other sectors in the NSW and VIC economies, have underpinned strong economic performance in these two states in recent years.

**Figure 2: Private dwelling and non-dwelling construction**

(average year-ended growth over the past 8 quarters)

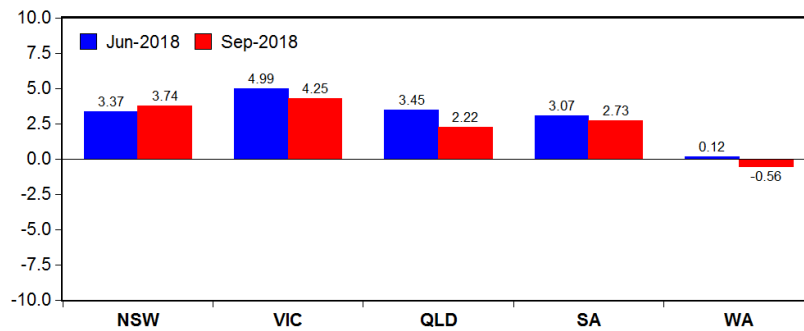


Source: Australian Bureau of Statistics (ABS)

**State Leading Indexes: Below trend activity across the major states**

- In the second half of 2017 and the first half of 2018 economic activity across the major states appeared to be converging as growth spread across all major states economies. However, the latest Australian Bureau of Statistics’ National Accounts shows that year-ended SFD growth in the June quarter has been revised downward in all major states. Importantly, the September readings of their year-ended SFD growth (Figure 3) are even weaker than the downward-revised June readings with the only exception being NSW.

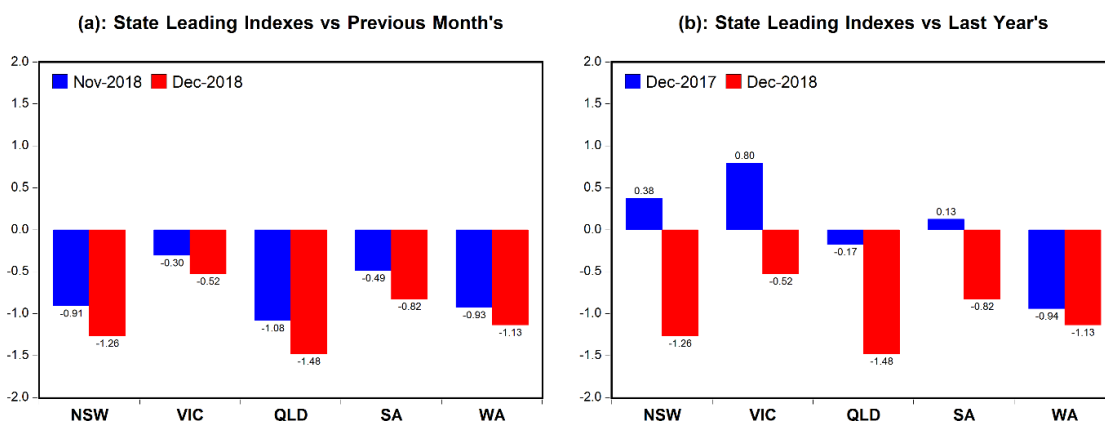
**Figure 3: Year-ended growth in State Final Demand (%)**



Source: Australian Bureau of Statistics

- The leading information from the Melbourne Institute State Leading Indexes of economic activity suggests that economic activity in major states is likely to converge further in 2019, albeit all to below-trend growth.
- The indexes are informative about trend growth in state economies as they combined state-specific information from a number of sectors and markets, such as housing, retail trade and labour, as well as state-specific information from consumer expectations about activity and unemployment, together with financial factors, and commodity prices for the resource intensive states.
- Figure 4(a) shows that consecutive readings of the indexes in November and December 2018 point to below-trend growth for economic activity across all major states. This is a stark contrast to their readings in December 2017 when the indexes indicated above-trend growth for NSW and VIC, around trend-growth for QLD and SA, with only below-trend activity predicted for WA in 2018.

**Figure 4: State Leading Indexes (year-ended deviation from trend growth, %)**



Source: Melbourne Institute

**Contributions of Components to the State Leading Indexes of Activity**

- Table 3 provides the year-ended deviation from trend growth in the State Leading Indexes as well as the contributions from each component. Weakness in housing markets is the biggest detractor to growth across the major states as dwelling approvals and housing finance commitments recorded large negative contributions.
- Negative contributions from retail trade and from the Westpac-Melbourne Institute Current Family Finance Index in most major states reflects ongoing weaknesses in household family finance and household consumption across Australia. This may be partly due to weak wage growth.
- In VIC and SA, positive contributions from aggregate monthly hours worked and the Westpac-Melbourne Institute Unemployment Expectation Index partly offset negative influence from other components, keeping growth in their Leading Indexes only 0.52 and 0.82 percentage points below trend (as compared to 1.26 pts below trend in NSW, 1.48 pts below trend in QLD and 1.13 pts below trend in WA). Overall, economic activity is likely to be weaker across the board in 2019, prompting money markets to raise the probability of a rate cut in late 2019.<sup>1</sup>

**Table 3: Contributions of to Year-end Growth in State Leading Indexes**

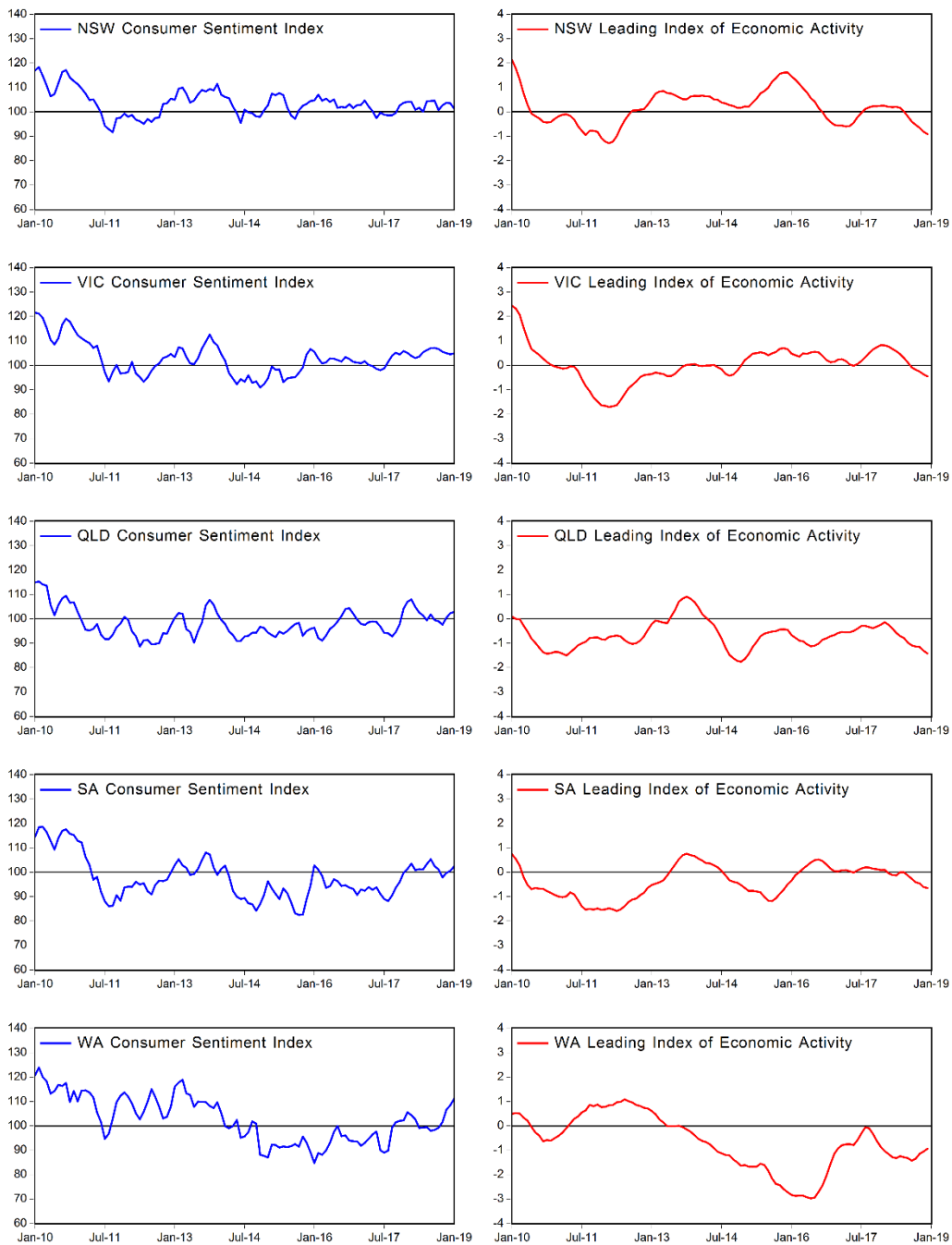
	NSW	VIC	QLD	SA	WA
Monthly level	99.40	102.05	97.48	101.11	95.13
Monthly growth	-0.37	-0.07	-0.24	-0.31	-0.32
Year-ended growth	<b>-1.26</b>	<b>-0.52</b>	<b>-1.48</b>	<b>-0.82</b>	<b>-1.13</b>
<i>Westpac-MI CSI expectations index</i>	-0.06	-0.02	-0.06	-0.02	0.01
<i>Westpac-MI UE index</i>	0.00	0.03	-0.04	0.07	-0.05
<i>Aggregate monthly hours worked</i>	0.01	0.32	-0.32	0.18	0.03
<i>Retail trade</i>	-0.25	0.10	-0.23	-0.34	-0.47
<i>Dwelling approvals</i>	-0.38	-0.42	-0.37	-0.40	-0.53
<i>Housing finance commitment</i>	-0.32	-0.34	-0.27	0.02	-0.11
<i>Westpac-MI current family finance</i>	-0.03	0.05	-0.11	-0.05	0.05
<i>AUD/USD</i>	-0.14	-0.14	0.17	-0.18	0.14
<i>Yield spread</i>	-0.09	-0.09	-0.15	-0.11	-0.13
<i>RBA commodity prices AUD</i>			-0.09		-0.08

**Forecasts for Key Macroeconomic Variables in Major States**

- We forecast year-ended growth in SFD to be strongest in NSW and VIC in the coming quarters, around 3% for NSW and just below 4% for VIC. Year-ended growth in QLD SFD is likely to be around 1.4% at the beginning of 2019 while year-ended growth in SA SFD is forecast to stabilise around 1.6% over the next four quarters. As for WA, we forecast its SFD's year-ended growth to be weak in late 2018 and early 2019 before gradually improving towards 0.5% in late 2019.
- Labour market conditions are likely to be more moderate across major states with varying rates of employment growth. We forecast year-ended employment growth to be strongest in NSW and VIC (just under 3%) over the next four quarters, followed by SA (around 1.6%). Meanwhile, year-ended employment growth is likely to be weaker in QLD and WA, just above 1% for QLD and around 1% for WA over the same period.

<sup>1</sup> <https://www.businessinsider.com.au/rba-cash-rate-market-probability-2019-1>

**Figure 5: Consumer Sentiment Indexes and State Leading Index**  
 (3-month moving averages of CSIs and year-ended growth in the State Leading Index)



**Note:** The figure plots the 3-month centered moving averages of the Westpac-Melbourne Institute Consumer Sentiment Indexes and the 3-month centered moving averages of the year-end deviation-from-trend growth of the Leading Indexes for NSW, VIC, QLD, SA and WA. Source: Melbourne Institute. The State Leading Indexes combine the latest information from consumer expectations on future activity and unemployment, current family finance, aggregate monthly hours work, retail trade, dwelling approvals, housing finance commitments, AUD/USD exchange rate, the yield spread and RBA’s \$A commodity price index (for QLD and WA only).



**Table 4: Precision of year-ended Forecasts for Australia and Major States**

Precision of (year-end) Forecasts					Financial Year 2018/19
	2018	2019	2019	2019	
	Dec	Mar	Jun	Sep	
<b>Australia</b>					
<i>Economic Activity</i>					
GDP	0.6	0.9	1.1	1.2	0.7
Consumption	0.5	0.8	1.0	1.1	0.7
Dwelling	2.3	2.4	2.5	2.8	1.9
Business Investment	5.2	6.0	6.7	7.5	4.6
Import	2.5	4.2	5.8	6.6	3.7
Export	2.6	3.4	4.0	4.4	2.9
<i>Inflation &amp; Financial Market</i>					
Underlying Inflation		0.1	0.2	0.3	0.3
Headline Inflation		0.3	0.4	0.5	0.6
90 day bill		0.3	0.5	0.7	0.6
Trade Weighted Index		3.3	3.7	3.9	2.3
<i>Labour Market</i>					
Unemployment Rate		0.1	0.1	0.2	0.3
Employment		0.1	0.2	0.4	0.5
Participation Rate		0.1	0.2	0.3	0.3
Wage Price Index	0.5	0.5	0.6	0.7	0.4

Precision of year-ended Forecasts					
	Dec-2018	Mar-2019	Jun-2019	Sep-2019	2018
<b>NEW SOUTH WALES</b>					
<i>State Final Demand</i>	1.2	1.4	1.5	1.6	1.2
<i>Consumption</i>	0.8	1.0	1.0	1.1	0.8
<i>Employment</i>		0.6	0.9	1.0	0.8
<i>Unemployment</i>		0.3	0.4	0.4	0.4
<b>VICTORIA</b>					
<i>State Final Demand</i>	1.3	1.5	1.6	1.6	1.3
<i>Consumption</i>	1.0	1.2	1.3	1.3	1.0
<i>Employment</i>		0.6	0.9	1.0	0.8
<i>Unemployment</i>		0.3	0.4	0.5	0.4
<b>QUEENSLAND</b>					
<i>State Final Demand</i>	2.1	2.5	2.8	2.9	2.1
<i>Consumption</i>	1.0	1.5	1.7	1.8	1.0
<i>Employment</i>		0.8	1.1	1.3	0.9
<i>Unemployment</i>		0.4	0.5	0.5	0.4
<b>SOUTH AUSTRALIA</b>					
<i>State Final Demand</i>	1.7	1.8	1.9	1.9	1.7
<i>Consumption</i>	0.9	1.1	1.3	1.3	0.9
<i>Employment</i>		0.8	1.0	1.1	0.9
<i>Unemployment</i>		0.4	0.5	0.6	0.5
<b>WESTERN AUSTRALIA</b>					
<i>State Final Demand</i>	3.3	3.7	4.0	4.0	3.3
<i>Consumption</i>	1.2	1.6	1.7	1.8	1.2
<i>Employment</i>		0.8	1.1	1.2	1.0
<i>Unemployment</i>		0.4	0.5	0.6	0.5

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