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## NSW Parliamentary Research Service

### **NSW Economic Update Summer 2016**

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# NSW Economic Update Summer 2015

by

Andrew Haylen

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## SUMMARY

The housing market has been the driving force behind the NSW economy's recent resurgence – driving dwelling investment, generating wealth and catalysing household consumption growth.

The first half of the year saw the median house price in Sydney breach the million dollar mark. Even though annual house price growth was recorded at 12.8% in Sydney, a 'handbrake' has been applied to the market in the second half of the year, with growth in the quarter to December 2015 recorded at -2.3% by CoreLogic and -3.1% by the [Domain Group](#). Monthly growth was negative in December and November, the first time since May 2013 that Sydney dwelling values have dropped for two straight months.

A number of factors have contributed to this slowdown. Fundamentals – including the sustained rebound in housing supply – have continued to rebalance the market in terms of supply and demand. However, such an acute price response has arguably resulted more from unsettled buyer sentiment due to “macro-prudential tightening [and] out-of-cycle rate hikes on investor mortgages.”<sup>1</sup> Credit Suisse commented on the susceptibility of the NSW market to changing consumer sentiment:<sup>2</sup>

It is interesting to note that the correlation between sentiment and home sales is particularly strong in NSW but much looser in other states. The strength of the correlation, and the extreme negativity of NSW home-buying sentiment, is a worrisome development.

Looking ahead, the general expectation among forecasters is that Sydney property prices will rise in 2016, albeit at a much slower pace than in 2015. That being said, few would have predicted – at the beginning of this year – that Sydney would incur negative price growth before the end of 2015. As such, the trajectory of house price growth in the current market is near impossible to predict with confidence.

Based on the latest quarterly movements in these and other key economic indicators,<sup>3</sup> the strengthened and weakened areas of the NSW economy are summarised in the table below. It is clear that NSW is still performing relatively well in key areas – although mining and business investment remain weak. It should be noted that these indicators are subject to cyclical variations and may not be completely illustrative of a fundamental shift in growth.

Stronger		Weaker	
Gross state product	Job vacancies	State final demand	House prices
Household consumption	Bankruptcies	Business investment	
Employment	Mining investment	Trade balance	
Unemployment	Dwelling approvals	Retail trade	
Participation rate	Housing finance	Motor vehicle sales	

<sup>1</sup> The Australian, [House prices to fall from March 2016: Macquarie](#), 12 October 2015

<sup>2</sup> Ibid

<sup>3</sup> That is, for the most recent quarter in which data is available.

The January 2016 CommSec 'State of the States' [report](#) confirmed the current strength of the NSW economy, ranking it as the equal best-performing Australian jurisdiction with the Northern Territory. CommSec cited retail trade, population growth and dwelling approvals as key drivers of the State's economic growth. NSW overtook Western Australia in 2014, which had long held the top economic ranking in Australia. The fading mining boom has seen Western Australia – now ranked third – lose ground in terms of housing finance, dwelling starts and unemployment.<sup>4</sup>

The NAB [State Economic Handbook](#) also confirmed the strong economic position of NSW going forward, suggesting that:

In terms of domestic demand, NSW and Victoria will be the most solid performers, with growth gradually improving. Both will receive less impetus from housing activity and prices in FY 2016-17. Notwithstanding this, our central case remains for solid (though unspectacular) employment growth and lower petrol prices to sufficiently support household incomes and consumption (despite ongoing subdued wages growth).

The evidence therefore suggests that the NSW economy is still currently in a relatively strong headline position, largely off the back of cyclical factors such as low interest rates and the housing market.

History, however, shows that the aftermath of Sydney property booms can have a dampening effect on the economy. The city's last great property boom, which lifted the median house price by about 160% between 1997 and 2003, was followed by a long period of economic underperformance by the State.<sup>5</sup>

Macroeconomic circumstances are different now – particularly in terms of a weaker dollar and lower interest rates – which improve the outlook for NSW. Regardless, an impending slowdown in the property market will have a dampening effect on the broader economy with flow-on implications for the State Government – which has been the beneficiary through a [substantial increase](#) in stamp duty revenue. Specifically, “high levels of household debt coupled with a downturn in housing could further crimp consumer spending and property investment once the Reserve Bank of Australia was forced to tackle inflation by lifting interest rates.”<sup>6</sup>

In this context, other areas of the State economy – particularly non-mining business investment – will need to perform over the longer run if economic growth and improved labour market outcomes are to be sustained once the housing sector slows.

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<sup>4</sup> CommSec, [State of the States](#), January 2016; It should be noted that CommSec compares the performance of each State across indicators by measuring the quarterly deviation from decade long averages.

<sup>5</sup> Sydney Morning Herald, [Time to get used to slower, healthier house price growth in Sydney](#), 23 October 2015

<sup>6</sup> Sydney Morning Herald, [Housing bust now the greatest recession risk, say investment banks](#), 13 October 2015

## Economic outlook

The RBA **national economic growth** forecasts have remained largely unchanged over the past quarter; although GDP growth has been revised down slightly towards the end of the forecast period.

Specifically, growth is forecast by the RBA to remain below trend over the course of this year at between 2 and 3% to June 2016.<sup>7</sup> As the RBA noted in their November [Statement on Monetary Policy](#) growth has been constrained, in a large part, by the decline in mining investment which “is expected to continue to fall over the next two and a half years, as large iron ore, coal and LNG projects are completed, and few new projects commence.” It is then forecast to pick up to an above-trend pace (above 3%) in the latter part of the forecast period to December 2017.

The major banks, including the [Commonwealth Bank](#) (2.8% in 2016) and [NAB](#) (2.8% in 2016/17), have forecast below trend economic growth for the immediate future. Key factors restricting national growth over the forecast period, as outlined by the RBA, include:<sup>8</sup>

- the decline in mining investment;
- lower growth of labour incomes;
- weaker non-residential building approvals and relatively weak demand for commercial property; and
- continued weakness in the terms of trade.

Downward pressures are likely to be offset by forecast low interest rates which are expected to support the established housing market, the construction of new dwellings and household consumption. Export growth is expected to continue to make a sizeable contribution to GDP growth, particularly given the effect of a depreciating Australian dollar. The labour market is also forecast to remain relatively stable.<sup>9</sup>

With respect to **New South Wales**, the Treasury – in the 2015-16 [Half-Yearly Review](#) – revised down their Gross State Product (GSP) forecast from 3% to 2.5% for 2015-16; with the economy forecast to grow above the long-run trend at 3% in 2016-17. In developing these forecasts, the Treasury noted that:<sup>10</sup>

The NSW economy is well placed to build on this momentum over the coming years. Low interest rates, a lower exchange rate, less reliance on mining and above-trend population growth are all expected to see NSW SFD growth continue to outperform the rest of Australia.

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<sup>7</sup> RBA, [Statement on Monetary Policy](#), November 2015, p.67

<sup>8</sup> RBA, [Statement on Monetary Policy](#), November 2015, p.66-68

<sup>9</sup> Ibid

<sup>10</sup> NSW Treasury, [Half-Yearly Review, 2015-16](#), p.5



The downward revision to GSP growth for 2015-16 was the result of a “slightly more protracted recovery in non-mining business investment” than was anticipated at the 2015-16 Budget.

NAB in their [State Economic Handbook](#) forecast GSP to increase by 2.6% in 2015-16 and 2.8% in 2016-17, adding that the “challenge for NSW will be maintaining robust growth as momentum from the housing sector begins to fade through 2016.”

St George Bank, in their latest [NSW Economic Outlook](#), also confirmed that the economic outlook for the State remained positive – forecasting GSP to grow by 2.7% in 2015-16 and 2016-17 – although this is a downward revision on their previous estimate. This will be driven, in a large part, by “low interest rates and solid population growth” which are expected to support dwelling investment. Further, “private and public spending on road and rail infrastructure will ensure employment growth and retail spending remain strong over the coming year.”<sup>11</sup>

### **About the paper**

This paper updates statistical information on key economic indicators, thereby presenting a current snapshot of the NSW economy and providing relevant points of comparison with other Australian States and Territories.

Statistics are updated to the end of the most recent quarter available. Most indicators have thus been updated to include the June 2015 or September 2015 quarters.

This edition includes State final demand (household and business spending) as a quarterly measure for economic growth. Gross State Product data has also been included to assess broad economic growth, but this data is presented on an annual basis and is defined differently to State final demand. Also in this edition is analysis related to the youth unemployment, exchange rate, household consumption and business investment; the latter two are components of State final demand.

### **Sources used**

Data presented in this paper is sourced from the Australian Bureau of Statistics. The figures used are the original numbers, unless otherwise indicated. Sources other than the Australian Bureau of Statistics have been used where relevant and are identified in the paper itself. Analysis and forecasts from the RBA and major private banks (including Westpac, NAB, the Commonwealth Bank and St George Bank) are also presented in the paper.

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<sup>11</sup> St George Bank, [NSW Economic Outlook](#), 28 October 2015, State Economic Report

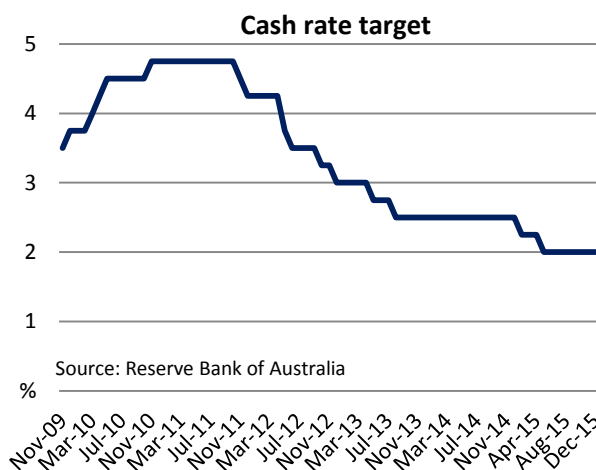
## INTEREST RATES

Having been kept on hold by the RBA for 14 consecutive months, the cash rate target fell by 25 basis points in February 2015 to 2.25% and was reduced by a further 25 basis points to 2.0% in May 2015. The cash rate has, however, remained on hold at 2.0% since.

In assessing whether to adjust the cash rate, the RBA Board considers strengths and weaknesses in the domestic economy, as well as international economic factors.

A number of key strengths in the Australian economy were identified by the RBA Board in the latest meeting in December 2015. Stemming from prolonged low interest rates, the notable strength was the growth in household consumption and dwelling investment. Additionally the Board noted that:<sup>12</sup>

...the exchange rate was adjusting to the significant declines in key commodity prices and boosting demand for domestic production. This had translated into stronger employment growth and was consistent with surveys suggesting that business conditions were above average.



A number of key weaknesses were also identified by the Board that were placing a drag on economic growth – in particular, the continued fall in mining investment.<sup>13</sup>

Based on these considerations, and given that “wage growth remained low and underlying inflation was expected to be consistent with the target”, the RBA Board decided that it was appropriate to leave the cash rate unchanged.

Many of the major banks anticipate the cash rate to remain unchanged for the remainder of the year. [NAB](#) has forecast the cash rate to be 2.0% for the remainder of the 2016 calendar year, increasing to 3.0% in 2017. [Westpac](#) and the [Commonwealth Bank](#) have both forecast the cash rate to remain at 2.0% to December 2016.

<sup>12</sup> RBA, [Minutes of Monetary Policy Meeting of the Board](#), 1 December 2015

<sup>13</sup> Ibid

## STATE DEMAND AND GROSS STATE PRODUCT

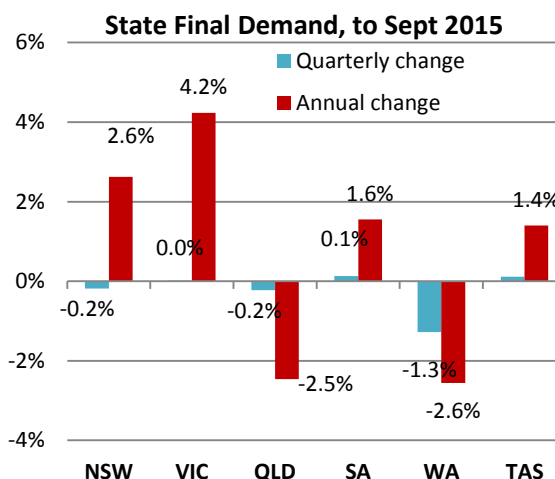
National final demand, which is the best quarterly proxy for economic growth, was 0.9% higher for the September 2015 quarter, up from 0.2% in the June quarter. According to the [Australian Bureau of Statistics](#):

...the increase this quarter was driven by Net exports (1.5 percentage points) and Final consumption expenditure (0.5 percentage points).

Demand in NSW was 0.2% lower for the quarter, well below the 1.1% growth in the June quarter and the 2-year quarterly average of 0.8%.

Quarterly final demand growth was generally weak across the other States and territories – with the biggest quarterly decline being realised by Western Australia at 1.3%.

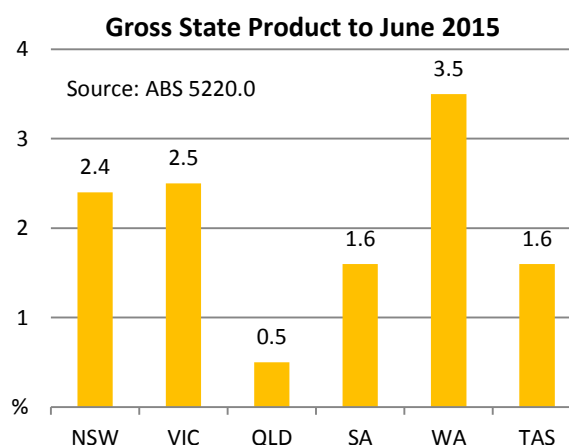
Annual demand growth to September 2015 in NSW was the second highest of all the States at 2.6%. Although it is down on the 3.5% annual growth of the June quarter, it still illustrates the continuing economic momentum being realised by the State. Victoria (4.2%), had the highest annual rate of growth of the States.



State final demand, chain volume measures, seasonally adjusted, \$m								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Dec-2014	120,761	91,957	78,695	25,183	53,785	7,052	8,093	14,584
Mar-2015	122,061	93,266	78,402	25,396	52,973	7,078	8,001	14,782
Jun-2015	123,446	94,491	77,359	25,409	53,183	7,158	7,727	15,044
Sep-2015	123,221	94,511	77,188	25,443	52,503	7,166	7,179	14,825

Source: ABS, Australian National Accounts, September 2015, Cat. No. 5206.0

State final demand figures do not include net exports and therefore do not account for the positive impact of higher resource exports on economic growth. The impact of exports can be seen in the Gross State Product data released by the ABS. This shows that Western Australia still has the strongest Gross State Product growth of all the jurisdictions. Gross State Product for NSW grew by 2.4% between June 2014 and 2015.



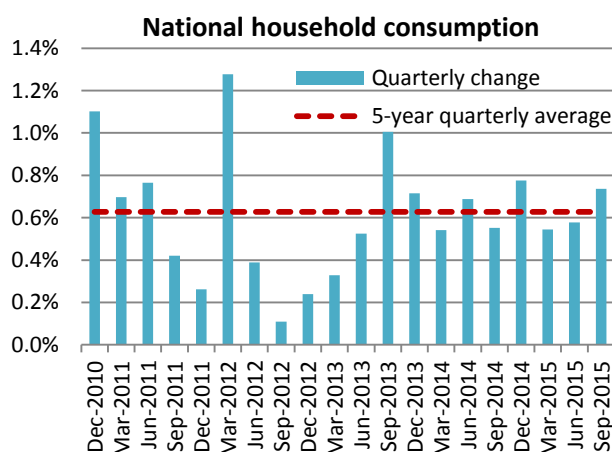
Gross State Product, chain volume measures, \$m								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Jun-2011	466095	333519	268055	94050	219893	24992	17935	32693
Jun-2012	474721	339871	283596	94600	239801	25005	18512	33197
Jun-2013	484154	343319	290535	96218	253006	24696	19739	34161
Jun-2014	495235	346881	298680	96994	267052	25015	20323	34398
Jun-2015	506918	355580	300270	98539	276312	25419	22450	34866

ABS, Australian National Accounts, June 2015, Cat. No. 5220.0

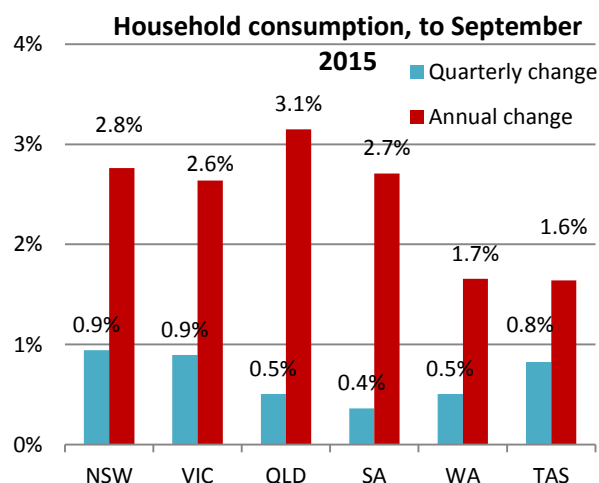
## HOUSEHOLD CONSUMPTION

Nationally, household consumption grew by 0.7% over the September quarter, slightly above the 5-year average of 0.6%. This continues a relatively solid period of household consumption growth over the past couple of years, “supported by low interest rates, rising household wealth [and] above-average population growth....”<sup>14</sup> The Reserve Bank recently noted in their [November 2015 Statement on Monetary Policy](#) that other timely indicators of consumption, including retail and vehicle sales, had been “generally positive” of late.

Household spending increased in NSW by 0.9% over the September quarter. This was the highest quarterly growth of the other States. Year on year, consumption rose by 2.8% in NSW and was the second highest annual growth of the other States, with Queensland the highest at 3.1%.



Source: ABS 5206.0

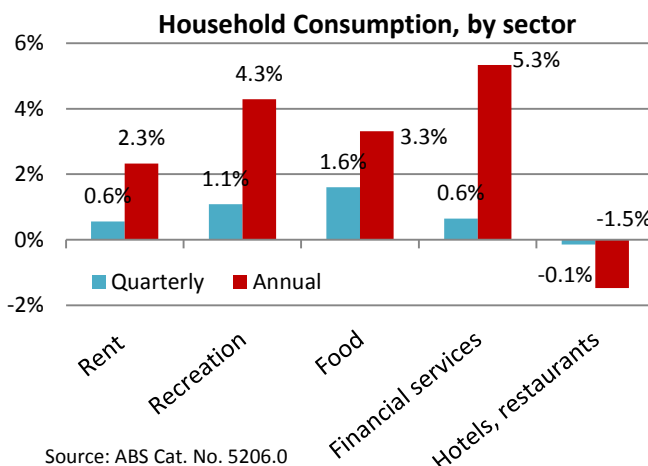


Source: ABS Cat. No. 5206.0

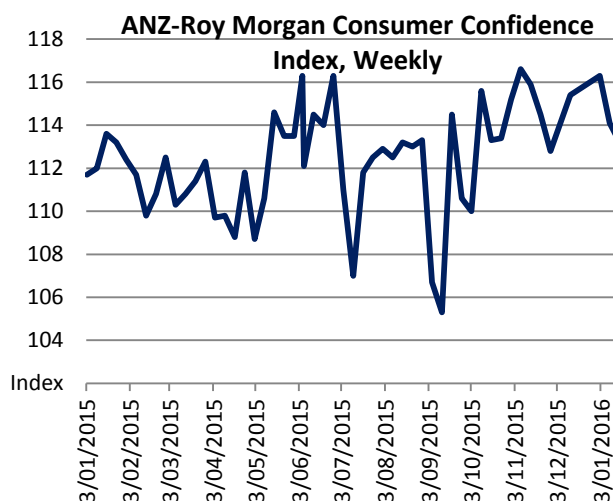
Household final consumption, chain volume, seasonally adjusted, \$m								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Dec-2014	75,521	55,483	43,690	14,728	24,566	4,227	2,451	3,977
Mar-2015	75,773	55,844	44,144	14,828	24,638	4,218	2,458	3,963
Jun-2015	76,251	56,020	44,440	14,963	24,759	4,241	2,482	4,015
Sep-2015	76,971	56,521	44,664	15,017	24,884	4,276	2,472	4,038

Source: ABS, Australian National Accounts, September 2015, Cat. No. 5206.0

NSW household expenditure on food increased by \$107 million (or 1.6%) over the June quarter – which is quite significant given it fell by \$51 million in the preceding June quarter. On an annual basis, motor vehicle purchases and electricity and gas expenditure accounted for the largest proportionate increase of all the categories at 11.0% and 7.4% respectively. Expenditure on cigarettes and tobacco incurred the largest decline, falling by 12.4% for the year.



Although it is subject to sharp fluctuations, consumer confidence has been trending up since early September which is a positive sign for growth. However, as Roy-Morgan Research point out, the relatively subdued economic growth prospects in Australia is likely to weigh on consumer confidence.

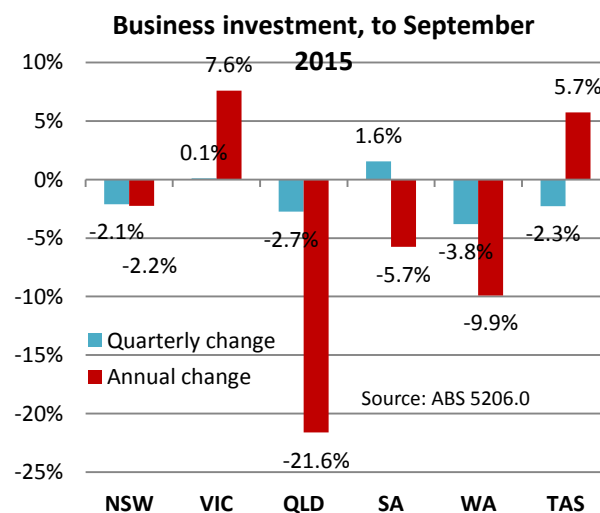


**BUSINESS INVESTMENT**

Nationally, business investment fell by 3.1% in the September quarter, having fallen by 2.1% in the June quarter. It was the largest decline in private business investment in nearly three years, as mining investment winds down. According to St George Bank:<sup>15</sup>

The large drag from mining investment is unlikely to worsen, and should begin to ease by the middle of next year.

For the year to the September quarter, national business investment was down by 7.8% which again primarily reflects



<sup>15</sup> St George Bank, [National Accounts – GDP](#), Data Snapshot, 2 December 2015

weakness in mining investment.

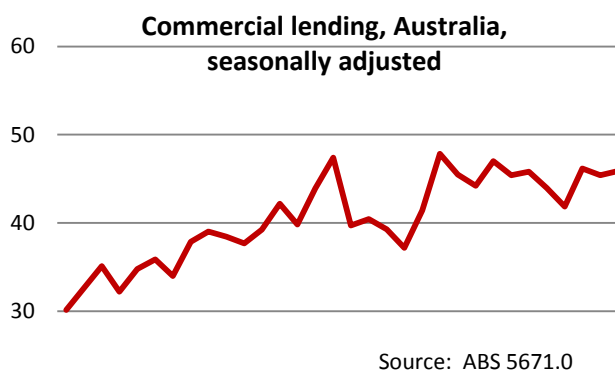
NSW business investment fell by 2.1% over the September quarter. Western Australia and Victoria incurred the highest business investment growth of the States at 3.8 and 2.7% respectively. On an annual basis, business investment was down by 2.2% in NSW.

The current weak business investment environment is reflected in the fall in business confidence toward the end of 2015 by a further 4.2 points in December, following on from the November decline of 0.6 points. This decline in business confidence below the five-year average (116.9) is a sign that the market is “very fragile” at present.<sup>16</sup>

Business investment, chain volume measures, seasonally adjusted, \$m								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Dec-2014	13,505	10,663	13,794	3,258	15,902	610	2,934	549
Mar-2015	13,645	11,063	12,134	3,195	15,014	616	3,252	542
Jun-2015	13,489	11,460	11,118	3,024	14,898	660	2,966	597
Sep-2015	13,202	11,471	10,814	3,071	14,329	645	2,282	602

Source: ABS, Australian National Accounts, September 2015, Cat. No. 5206.0

Commercial lending data is another proxy for business investment and related activity. While this data is susceptible to volatility, it is clear from the seasonally adjusted lending data in the graph adjacent that commercial lending has plateaued in recent months.



## EXCHANGE RATE

Following a consistent period of depreciation in the middle part of 2015, the Australian dollar (AUD) (0.702 USD at 27 January 2016) had actually performed relatively well in the previous quarter and into November and December. This stability was primarily the result of a stabilisation in the price of iron ore – the nation’s major export.

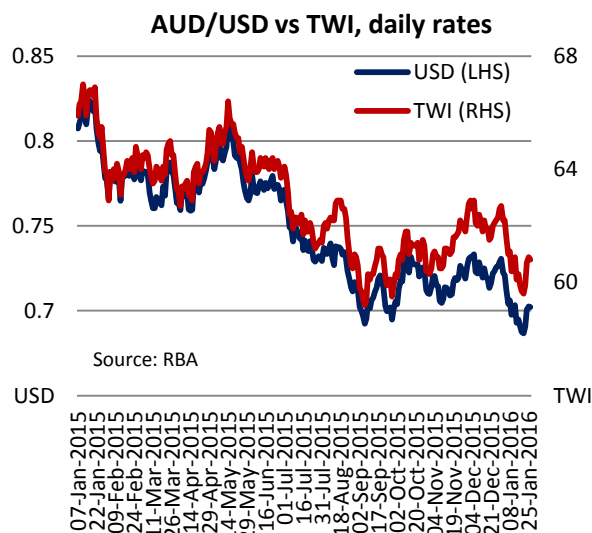
However, the AUD fell sharply over the first couple of weeks of 2016 and hit new seven-year lows. As St George Bank notes, “risk aversion once again escalated amid Chinese concerns and renewed falls in commodity prices.”<sup>17</sup>

<sup>16</sup> Roy Morgan Research, [Australian Roy Morgan Business Confidence declines further in December](#), 13 January 2016

<sup>17</sup> St George Bank, [Australian dollar outlook](#), 18 January 2016



The immediate outlook for the AUD is mixed and contingent on developments internationally. St George Bank suggests that “the Australian dollar will trade near 70 US cents over the first half of the year”. Given recent history, however, there are a number of risks which may undermine the accuracy of this projection – most notably the trajectory of growth for the Chinese economy. The other major risk is a continuation of recent falls in commodity prices. However, “substantial falls from current levels in the prices of commodities such as oil and iron ore, would be unlikely sustainable over the long term.”<sup>18</sup>

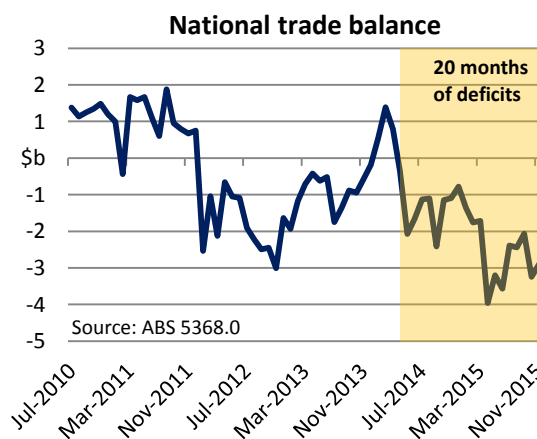


Over the medium to longer term, a downward readjustment in the AUD from highs experienced a couple of years ago will go some way to enabling the rebalancing of the Australian economy away from the mining sector. In addition to boosting demand for domestic production<sup>19</sup>, it will also improve the competitiveness of Australia’s export internationally.

The consensus among the leading banks is that the AUD will fluctuate around current levels in 2016. Westpac and the Commonwealth Bank forecast the AUD to be USD 0.67 and 0.7 respectively by the end of 2016; while NAB forecast the AUD to average USD 0.72 during 2016-17.<sup>20</sup>

## INTERNATIONAL TRADE

Australia recorded a seasonally-adjusted trade deficit (which includes both goods and services) of \$2.9 billion for the month of November 2015. This was the 20th consecutive deficit recorded since March 2014. Recent trade deficits through 2014 and 2015 have been the result of falling commodity prices (i.e. iron ore and coal) and thus a decline in Australia’s terms of trade.



<sup>18</sup> St George Bank, [Australian dollar outlook](#), 18 January 2016

<sup>19</sup> Reserve Bank of Australia, [Minutes of the Monetary Policy Meeting of the Reserve Bank Board](#), 3 November 2015

<sup>20</sup> Westpac, [Australia and NZ weekly](#), 25 January 2016; Commonwealth Bank, [Forecasts – Economic](#), 22 January 2016; NAB, [Global and Australian Forecasts](#), December 2015

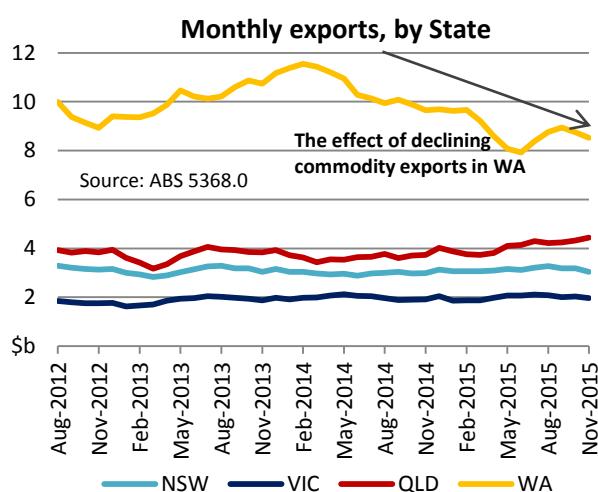
However, there has been a significant lift in export volumes of those items over the past few years which “is why exports are making large positive contributions to the quarterly GDP estimates.”<sup>21</sup>

Looking ahead, the monthly trade deficits are likely to persist over the near-term while Australia’s key commodity prices remain at multi-year lows. However, as noted by the Commonwealth Bank, one of the positives to come of the trade data is the growth in rural exports.<sup>22</sup>

Rural exports are 11.4% higher over the past year, to \$3.6bn. The recent trade agreements signed with our major trading partners is likely to keep annual growth positive for rural items. Rural exports are around 14% of total goods exports and could be a consistent income source for rural producers in the next few years if higher food and protein spending trends in Asia continue

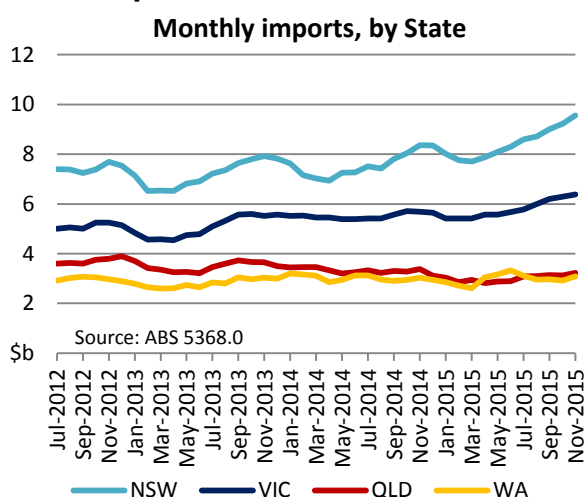
Tourism exports have also been increasing because of a lower AUD, which is limiting overseas travel by locals and making domestic travel relatively cheaper for overseas tourists.

The **average monthly free on board value of merchandise exports** from NSW rose by 2.0% in the September 2015 quarter to \$3.2 billion. While Western Australia continued to dominate the States and Territories in terms of the value exported (an average of \$8.9 billion per month) – its quarterly exports have fallen by 22% since March 2014.



The **top five destinations for merchandise exports** from NSW for the month of November 2015 were: Japan (\$759m); China (\$465m); Korea (\$272m); United States (\$216m); and Taiwan (\$127m). 41% of all NSW merchandise was sent to Japan or China.

The **average monthly customs value of merchandise imports** for NSW rose by 8.5% in the September 2015 quarter to \$9 billion. The State’s imports have been trending up in recent years. However, there is



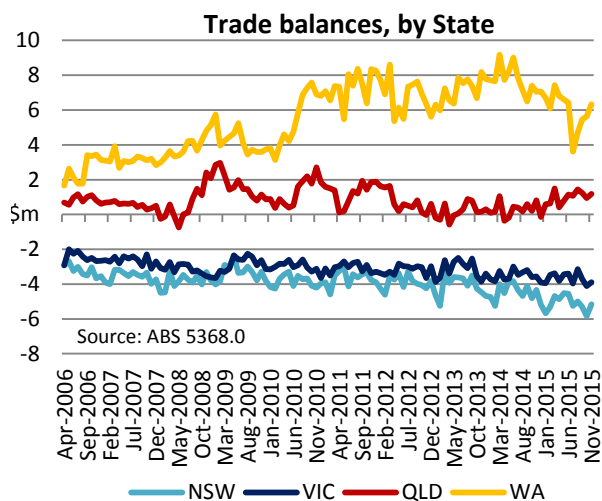
<sup>21</sup> Commonwealth Bank, [Balance on Goods and Services](#), 3 December 2015  
<sup>22</sup> Ibid



an [expectation](#) that import growth – in quantity terms – will soften because of a depreciating Australian dollar. In value terms, it is unclear at this stage to what extent this quantity decline will be offset by a rise in import prices.

The **top five import sources** for NSW during the month of November 2015 were: China (\$3,018m); the United States (\$985m); Japan (\$552m); Germany (\$518m); and Thailand (\$404m).

The end result of the upward trend in merchandise imports and mostly stagnant growth in merchandise exports has been a steady deterioration in the NSW merchandise trade balance since the mid-2000s. In January 2005, the State's trade deficit was recorded at \$2.6 billion. As at November 2015, the State's trade deficit was recorded at \$6.6 billion.



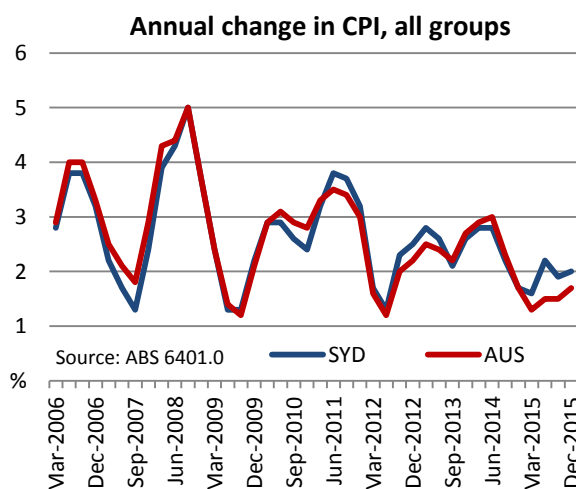
While Western Australia still has the highest trade balance compared to the other major States, it has been deteriorating over the past couple of years off the back of declining resources exports.

## CONSUMER PRICE INDEX

Nationally, annual CPI growth for the December 2015 quarter was recorded at 1.7% - slightly higher than [market expectations](#) and on par with where it was at a year earlier.

The [Commonwealth Bank](#) point out that “volatile items” including a fall in petrol prices and more subdued changes for fruit and vegetable prices have helped cap this quarter's CPI outcomes nationally.

The CPI increased by 2.0% in Sydney in the 12 months to December 2015. The largest price increases over the last 12 months in Sydney occurred in: education (up by 9.0%); alcohol and tobacco (up by 5.4%); health (up by 5.3%); and housing (up by 2.5%).

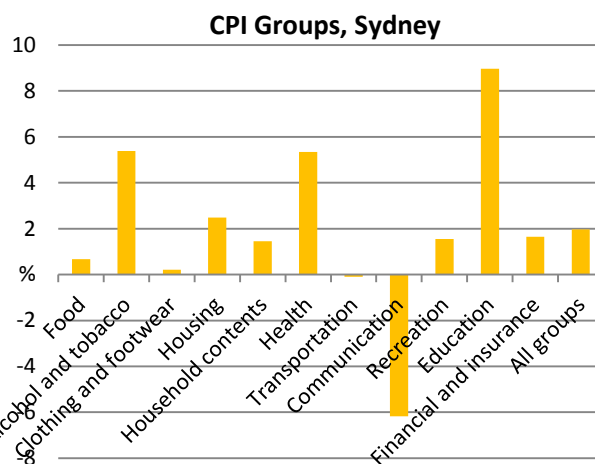


The RBA Board in their [December minutes](#) anticipated that because “there was still evidence of spare capacity in the economy [and] wage growth remained low... inflation was expected to remain consistent with the target over the next

one to two years.”

In terms of the inflation outlook, the [St George Bank](#) noted that “CPI remains low and well-contained and inflation could stay in the bottom half of the RBA’s 2 to 3 per cent target band over much of 2016, or even fall below.”

Westpac [forecast](#) national headline inflation at 1.7% for the next quarter; with it rising to 2.1% by the final quarter of 2016.



Source: ABS 6401.0

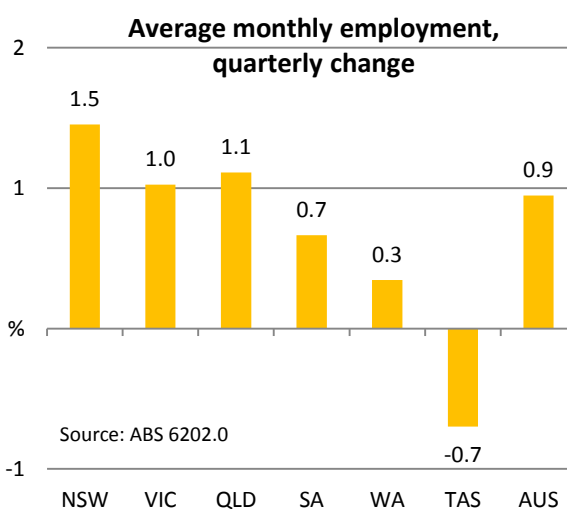
Reserve Bank of Australia inflation forecasts (%)				
	Jun-16	Dec-16	Jun-17	Dec-17
<b>CPI inflation</b>	1.5-2.5	2-3	2-3	2-3
<b>Underlying inflation</b>	1.5-2.5	2-3	2-3	2-3

Source: RBA, [Statement on Monetary Policy](#), November 2015

## EMPLOYMENT

Nationally, employment was unchanged for the month of December 2015, but was up by 112,000 on average between the September and December quarters. This completed what was an unexpectedly resilient year for the Australian labour market in the face of “headwinds” from weaknesses such as declining mining investment and falling commodity prices. As the Commonwealth Bank notes, “record low interest rates and a much lower AUD have played their role in supporting jobs growth.”<sup>23</sup>

Much of this jobs growth has been realised in both household and business services industries – while hiring in goods-related industries (i.e. manufacturing) remains weak. ANZ suggests that, with respect to services jobs growth, “an element of ‘catch up’ in hiring in these industries and this rate of hiring cannot persist.”<sup>24</sup>



Source: ABS 6202.0

The average number of people employed in NSW was up 1.5% on average for

<sup>23</sup> Commonwealth Bank, [Labour Force - December 2015](#), 14 January 2016

<sup>24</sup> ANZ Research, [Job loss fear recedes as services jobs boom](#), 18 December 2015, Economic Insight – Australia

the quarter at 3.73 million. Employment growth in NSW has been trending up over the past 18 months and is up by over 5% since the beginning of 2014.

Number of persons employed, quarterly average, seasonally adjusted ('000)									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Sep-14	3,618	2,883	2,326	805	1,338	237	129	209	11,546
Dec-14	3,629	2,901	2,307	799	1,348	241	130	208	11,560
Mar-15	3,633	2,938	2,319	801	1,352	240	133	209	11,633
Jun-15	3,684	2,944	2,335	805	1,350	239	135	210	11,695
Sep-15	3,735	2,945	2,345	803	1,350	241	134	210	11,766

Source: ABS, Labour Force, Australia, December 2015, Cat. No. 6202.0

Looking ahead, the RBA suggest that forward looking labour market measures such as job vacancies and advertisements “pointed to continued growth in employment over the coming months.”<sup>25</sup>

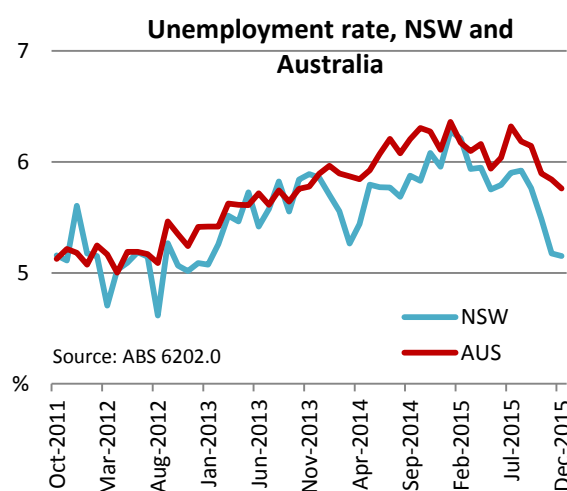
St George Bank in their latest labour market [report](#) expected further growth but at a slower rate than realised last year of 30,000 a month nationally; suggesting that “a more reasonable expectation is for monthly job gains is to average 15-18k over the course of this year.”

## UNEMPLOYMENT

In a strong result for the State, the average unemployment rate for NSW fell by 0.6% to 5.3% over the December 2015 quarter. For the month of December unemployment was at 5.2%, down 1.0% from the peak in January of 6.2%. It is now 0.5% below the average Australian unemployment rate.

NSW now has the lowest unemployment rate of all the Australian States. South Australia had the highest unemployment rate at 7.3%, followed by Tasmania at 6.7%.

As observed by St George Bank, “if the economy were to maintain its current pace of job growth, the unemployment rate could fall below 5% by the September quarter of this year.”<sup>26</sup> However, a more realistic average monthly jobs growth of 15,000 to 18,000, unemployment would remain broadly steady over the course of 2016.



<sup>25</sup> Reserve Bank of Australia, [RBA Board – Minutes of the Monetary Policy Meeting](#), 1 December 2015

<sup>26</sup> St George Bank, [2015 – What a Year For Jobs!](#), 14 January 2016

The Commonwealth Bank also expects the unemployment rate to remain relatively stable through 2016:<sup>27</sup>

Our view is that labour demand should remain sufficient enough over 2016 to see the unemployment rate continue to drift a little lower, though the risks to our call lie with the unemployment rate hanging around its current level of 5¾%. Either way, and barring an external shock, we see the labour market in sufficient health for the RBA to be content to leave rates on hold at 2.0% over 2016.

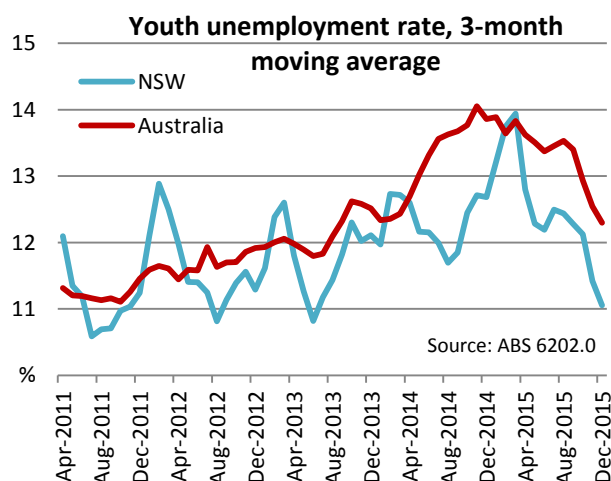
Unemployment rate, quarterly average, seasonally adjusted (%)									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
<b>Dec-14</b>	6.0	6.6	6.7	6.7	5.4	6.7	3.9	4.8	6.2
<b>Mar-15</b>	6.1	6.2	6.6	6.9	5.6	6.6	4.2	4.4	6.2
<b>Jun-15</b>	5.8	6.1	6.3	7.6	5.6	6.9	4.4	4.4	6.0
<b>Sep-15</b>	5.9	6.2	6.4	7.8	6.2	6.3	4.5	4.9	6.2
<b>Dec-15</b>	5.3	5.9	5.9	7.3	6.4	6.7	4.2	5.1	5.8

Source: ABS, Labour Force, Australia, December 2015, Cat No. 6202.0

## YOUTH UNEMPLOYMENT<sup>28</sup>

The average youth unemployment rate for NSW fell by 1.2% to 11.1% over the December 2015 quarter. For the month of December youth unemployment was also at 11.1%, 1.0% below the average Australian youth unemployment rate.

Of the other States and Territories, South Australia had the highest average youth unemployment rate at 15.1%. As can be seen in the figure adjacent, the data is highly cyclical because of the casual and part-time nature of youth employment. However, the immediate outlook appears to be positive given the current strength in the labour market nationally and the downward trajectory of youth unemployment since early 2015.



Youth unemployment rate, quarterly average, original (%)									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
<b>Mar-15</b>	13.9	16.8	15.3	16.8	12.4	17.0	11.5	10.8	13.8
<b>Jun-15</b>	12.2	14.3	13.8	15.1	8.9	15.7	11.6	9.1	13.4
<b>Sep-15</b>	12.3	14.1	12.4	15.4	10.5	14.4	8.6	14.7	13.4
<b>Dec-15</b>	11.1	12.8	11.1	15.1	11.0	14.5	7.4	12.9	12.3

Source: ABS, Labour Force, Australia, December 2015, Cat No. 6202.0

<sup>27</sup> Commonwealth Bank, [Labour Force - December 2015](#), 14 January 2016

<sup>28</sup> For more information around the methodologies used by the ABS to estimate the youth unemployment rate, see [NSW regional labour force trends by labour force indicator](#)

## LABOUR FORCE PARTICIPATION

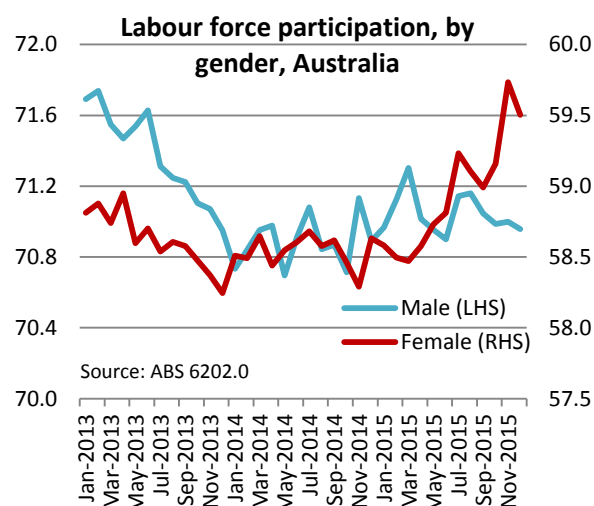
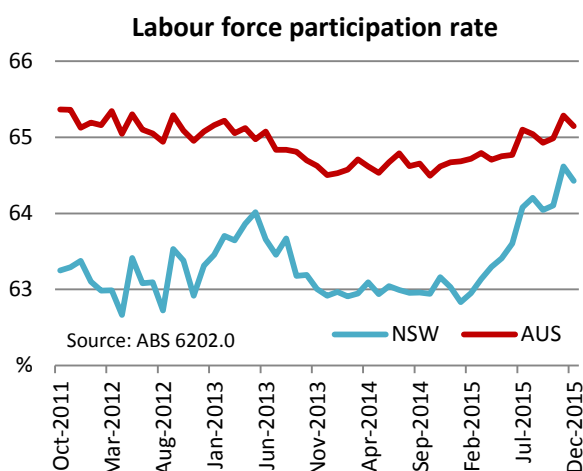
The average labour force participation rate in NSW rose by 0.3% over the December 2015 quarter to 64.4% (0.8% below the Australian average). Only South Australia and Tasmania have lower participation rates than NSW. The highest labour force participation rate of the States was in Western Australia at 68.9%.

Nationally, the labour force participation rate is now on par with the 5-year average of 65.1%.

As is illustrated in the figure adjacent, the improved labour force participation figures at a national level have been primarily driven by the surge in female participation, which reached a record high of 59.7% in November 2015.

It should be noted that in August 2015 the Federal Government made changes to the way in which it administers the Newstart Allowance which is purported to encourage more people into the official workforce. As observed by the [Commonwealth Bank](#):

...the Newstart changes have the effect of lifting the participation rate for any given monthly jobs outcome, or retarding any potential fall in the participation rate on a strong jobs growth number. Newstart recipients are now required to more actively seek out work opportunities compared to the previous system. All up, these changes do not alter the underlying jobs growth picture, but tends to push up the participation rate and thus the unemployment rate for any given jobs growth outcome. The bulk of the effect should now be in place.



Labour force participation rate, quarterly average, seasonally adjusted (%)

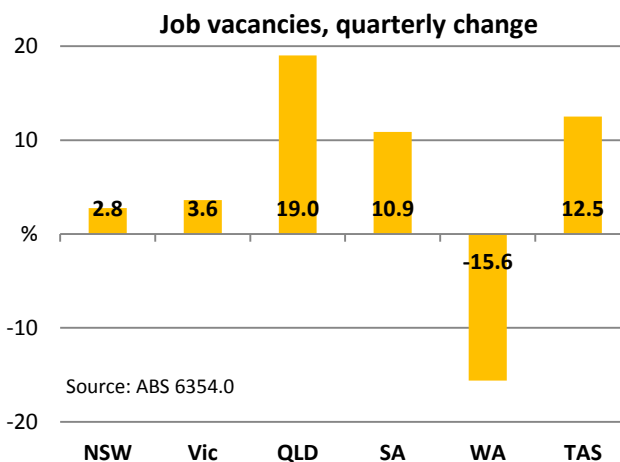
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
<b>Dec-14</b>	63.0	64.8	65.3	61.7	68.7	61.5	72.9	70.5	64.6
<b>Mar-15</b>	63.0	65.0	65.3	61.8	68.8	61.0	75.0	70.2	64.7
<b>Jun-15</b>	63.4	64.7	65.4	62.4	68.4	60.9	75.9	70.3	64.7
<b>Sep-15</b>	64.1	64.6	65.4	62.2	68.7	61.0	75.6	70.4	65.0
<b>Dec-15</b>	64.4	64.7	65.6	62.2	68.9	60.7	74.6	70.8	65.1

Source: ABS, Labour Force, Australia, December 2015, Cat No. 6202.0

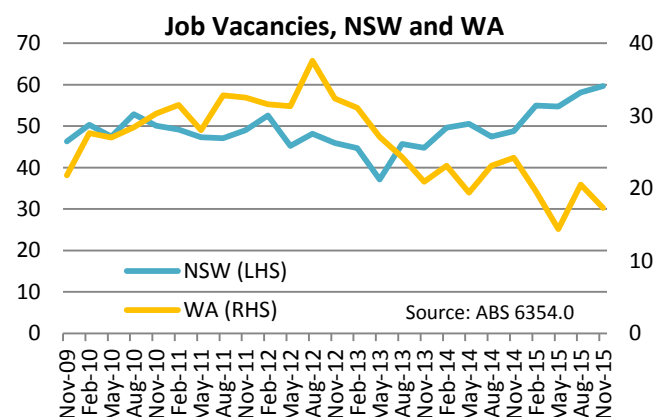
### JOB VACANCIES

The number of job vacancies in NSW rose by 2.8% in the latest quarter to 59,700 and remains 21% higher than the 3-year average of 49,400.

Job vacancies across Australia also rose by 4.2% for the quarter to 170,400. The number of job vacancies rose in most other jurisdictions, except for Western Australia which declined by 15.6% for the quarter. Queensland realised the strongest quarterly growth at 19%.



The recent result for WA continues a run of poor job vacancy results for the State and comes in response to the downturn in mining investment. Contrast that to the trend in NSW where job vacancies have risen by over 20,000 since mid-2013. This trend is representative of the broader growth shift away from the 'west to the east' as the mining sector is shifting from the investment to production phase of its life-cycle.



As further evidence, job vacancy figures released by the ABS showed there were 3,900 vacancies nationally in the mining sector in November 2015. This compares with a five-year peak of 10,300 in November 2011. This is starting to effect the average earnings growth for miners. Between November 2009 and November 2012 an average miner's weekly earnings jumped by 22%. In the two years that followed, average increases were less than 6%.





Number of job vacancies, original figures ('000)									
	NSW	Vic	QLD	SA	WA	TAS	NT	ACT	AUS
Feb-15	55.0	35.1	26.4	8.3	19.6	2.5	2.8	2.9	152.6
May-15	54.7	38.0	27.5	8.8	14.4	2.0	3.0	3.6	152.0
Aug-15	58.1	38.9	26.8	9.2	20.5	2.4	2.5	5.1	163.5
Nov-15	59.7	40.3	31.9	10.2	17.3	2.7	2.3	6.0	170.4

Source: ABS, Job Vacancies, Australia, 6354.0, November 2015

## WAGES

Wages growth has remained relatively subdued over the past quarter, increasing by 0.3% in NSW and 0.4% at the national level.

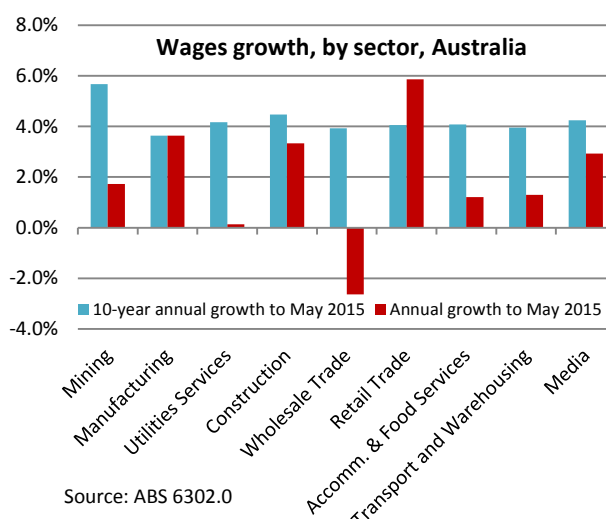
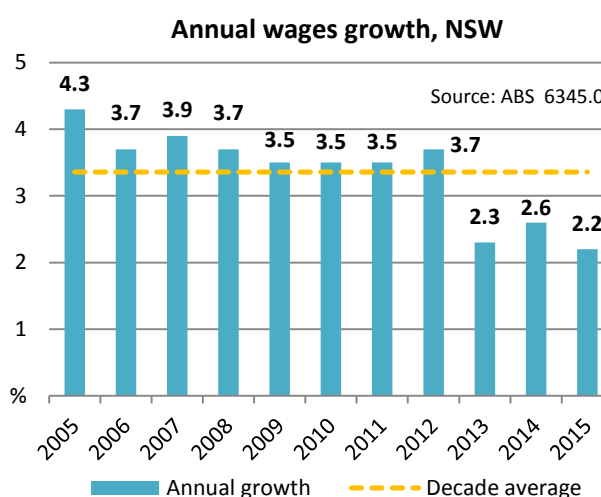
On an annual basis, wages growth has been slowing in NSW and in the 12 months to September 2015 was recorded at 2.2% - 1.2% below the decade average.

The latest set of wage data may add further evidence to the proposition that there is spare capacity in the labour market at present.<sup>29</sup>

The average adult weekly full-time earnings (ordinary time) in NSW rose by 1.5% in the May 2015 half year to \$1,513 – down from 2.2% in the half year to November 2014. NSW had the third highest average weekly earnings behind the ACT (\$1,713) and Western Australia (\$1,692).

Wages growth, at a national level, has also been subdued in the past few years. Over the six months to May 2015, average weekly earnings rose by only 0.4% - this is well below the level of growth realised in the mid to late 2000s.

The weak national wages growth has by and large not discriminated by sector. As can be seen in the figure adjacent, wages growth for the past year across most sectors has been well below their respective 10-year averages.



29

For a complete discussion around this, see: Ballantyne et. al (2014) [Unemployment and Spare Capacity in the Labour Market](#), September Quarter RBA Bulletin

The wholesale trade sector has incurred the largest deviation over the past 12 months from the sector's longer run wage growth, with wages declining by 2.6%. The mining sector has also realised one of the largest deviations in wages growth away from the sector's longer run average.

Only the financial services and retail trade sectors have experienced growth above their longer run average over the past 12 months.

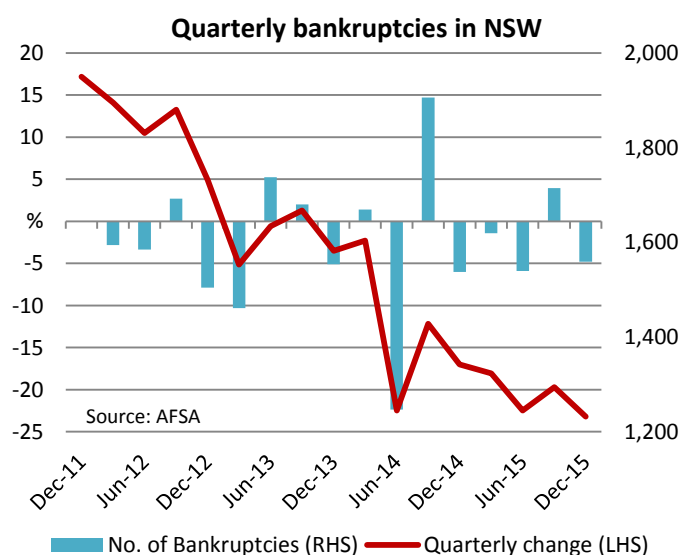
Average adult weekly fulltime earnings, ordinary time, trend estimates (\$)								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
May-13	1,409	1,346	1,416	1,288	1,635	1,262	1,446	1,692
Nov-13	1,424	1,380	1,426	1,319	1,627	1,265	1,444	1,674
May-14	1,458	1,385	1,439	1,354	1,642	1,253	1,426	1,671
Nov-14	1,490	1,394	1,452	1,349	1,671	1,266	1,456	1,695
May-15	1,513	1,398	1,444	1,349	1,692	1,289	1,511	1,713

Source: ABS, Average weekly earnings, Australia, May 2015, 6302.0

## BANKRUPTCIES

The number of bankruptcies in NSW fell by 4.8% in the December 2015 quarter to 1,232. In a positive sign for the State's economy, bankruptcies have been trending down in NSW over the last few years and are 29% lower in December 2015 than 3 years earlier.

Tasmania (17.1%) and South Australia (7.1%) had the largest increases in bankruptcies of all the jurisdictions. Victoria and Western Australia had the largest quarterly declines in bankruptcies of the Australian jurisdictions at 9% and 6.1% respectively.



Bankruptcies per quarter (Parts IV and XI of the Bankruptcy Act 1966 (Cth))								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Dec-14	1,342	883	1,174	287	331	100	24	38
Mar-15	1,323	937	1,283	294	342	122	29	49
Jun-15	1,245	841	1,284	294	366	108	21	56
Sep-15	1,294	929	1,295	280	408	105	27	48
Dec-15	1,232	845	1,235	300	383	123	30	33

Source: Australian Financial Security Authority

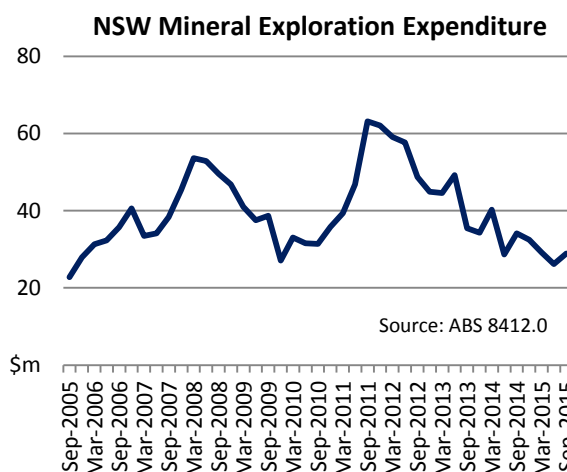


## MINERAL EXPLORATION EXPENDITURE

There is no comprehensive quarterly or annual dataset available for the gross value of mining production for the States and Territories in Australia. Mineral exploration expenditure is the only comprehensive quarterly dataset available through the ABS and is the best proxy for the level of mining activity taking place in NSW and elsewhere in Australia.

NSW mineral exploration expenditure increased over the September quarter by 10.3%. However, it is now 51% below the high for the reporting period realised in September 2011.

Investment in the mining sector in Australia has been slowing down over the last couple of years, with mineral exploration expenditure down by 65% (or \$675 million) since March 2012. A significant share of this decline is accounted for by Western Australia in which exploration expenditure has declined by 62% (or \$357 million).



	Mineral exploration expenditure, \$m							
	NSW	VIC	QLD	SA	WA	TAS	NT	AUS
<b>Sep-2014</b>	34.1	5.6	83.1	26.6	251.2	7.0	22.2	429.8
<b>Dec-2014</b>	32.5	5.1	94.3	24.6	254.2	4.2	23.7	438.5
<b>Mar-2015</b>	29.2	5.8	65.0	25.6	216.1	4.5	27.1	373.2
<b>Jun-2015</b>	26.2	6.4	65.3	11.0	194.1	4.0	23.9	330.9
<b>Sep-2015</b>	28.9	6.4	72.8	11.6	218.3	3.6	27.3	368.9

Source: ABS, Mineral and Petroleum Exploration, Australia, 8412.0, September 2015

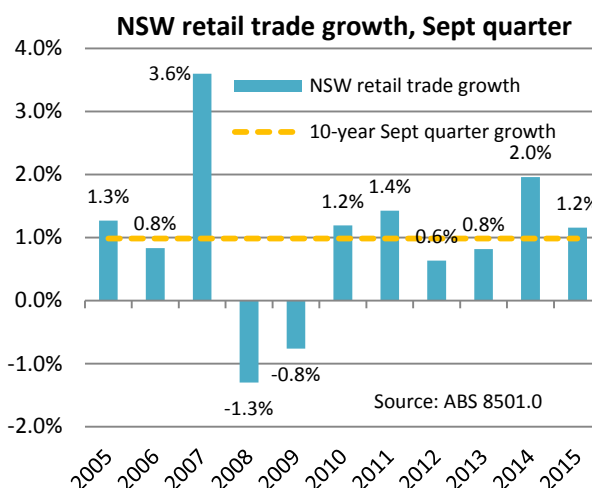
In their December 2015 minutes, the RBA Board noted that, nationally, mining investment had continued to fall in the September quarter and “further declines were expected in the period ahead, with the largest subtraction from growth expected to occur in the current financial year.”<sup>30</sup> The RBA added that the anticipated decline in mining investment would weigh on GDP growth going forward; although this would be offset by the strengthening output growth and exports from the sector.

<sup>30</sup> RBA, [Minutes of Monetary Policy Meeting of the Board](#), 1 December 2015

## TURNOVER OF RETAIL TRADE

Average monthly turnover of retail trade in NSW rose by 1.2% in the September 2015 quarter to \$7.9 billion; this was above the 10-year September quarter average growth of 1%.

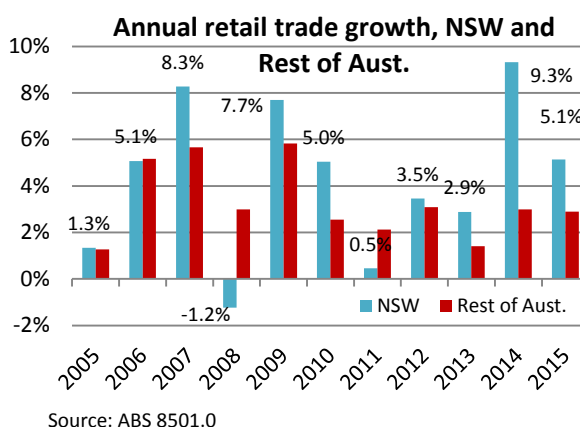
Comparatively, it was the second highest average quarterly growth of all the States – further illustrating the strong position the State is currently in regarding household consumption and economic growth.



Turnover of retail trade (\$m), quarterly average, seasonally adjusted									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Sep-14	7,441	5,829	4,795	1,516	2,734	466	255	418	23,454
Dec-14	7,571	5,880	4,833	1,549	2,762	464	256	427	23,742
Mar-15	7,615	5,956	4,929	1,563	2,782	474	255	425	23,998
Jun-15	7,731	6,022	4,930	1,578	2,785	474	256	433	24,209
Sep-15	7,819	6,107	4,941	1,578	2,809	479	257	433	24,424

Source: ABS, Retail Trade, Australia, Cat. No. 8501.0

More significant is the longer run trend in growth, with retail trade in the State up 5.1% from the year previous – the highest of all the other Australian jurisdictions. So in spite of the subdued wages growth, this illustrates that the growth elsewhere in the State economy – particularly the housing market – induced in part by historically low interest rates, is continuing to have flow through effects to retail trade.



## VEHICLE SALES

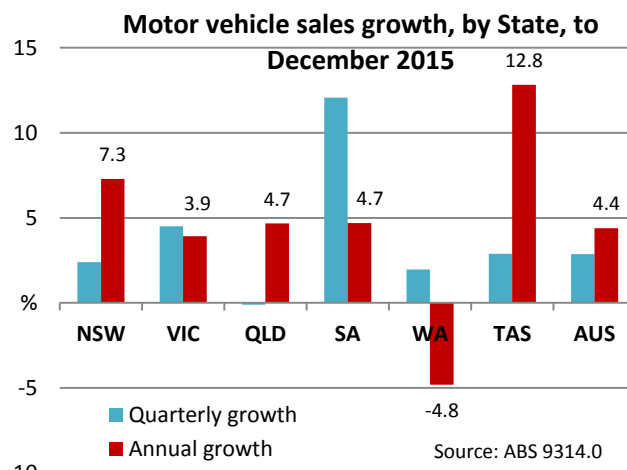
Motor vehicle sales in NSW and Australia have been relatively resilient in spite of weak wages growth and a depreciating Australian dollar – both of which would typically dampen demand for new motor vehicles.

The average number of new vehicles sold per month in NSW increased by 2.4% in the December 2015 quarter to 32,371. Annual growth for NSW was at 7.3% to the December 2015 quarter – the second highest annual growth behind Tasmania.

Nationally, sales of new motor vehicles rose by 2.8% for the December quarter and were up 4.4% for the year.

St George Bank [commented](#) on recent vehicle sales results, suggesting that:

Fear of a rise in car prices due to the weaker AUD may have driven sales [earlier in the year]. The industry will have to deal with the impact of a fragile labour market and very slow wages growth in the months ahead. Giving the industry a boost should be lower interest rates...which have taken some pressure off household budgets.



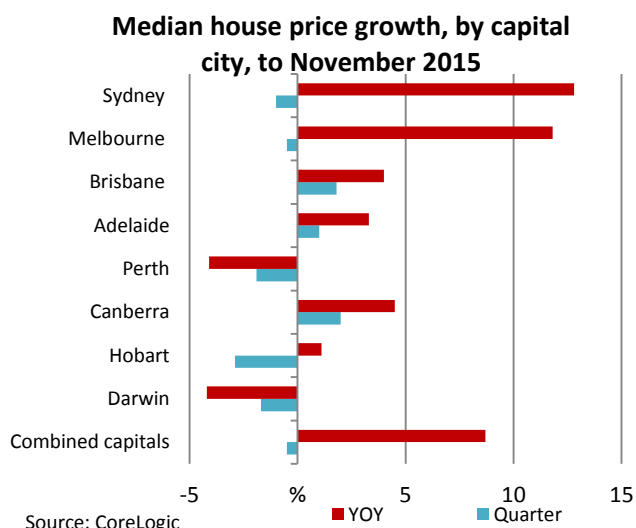
Sales of new vehicles, quarterly average									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Dec-14	30,172	26,208	18,219	5,782	9,184	1,594	854	1,413	93,426
Mar-15	29,848	25,163	19,094	5,709	8,925	1,444	868	1,481	92,531
Jun-15	33,122	26,669	21,306	5,853	9,155	1,570	1,094	1,511	100,278
Sep-15	31,615	26,062	19,090	5,401	8,574	1,748	796	1,516	94,802
Dec-15	32,371	27,236	19,069	6,053	8,742	1,799	751	1,505	97,525

Source: ABS, Sales of new motor vehicles, Australia, Cat. No. 9314.0

### HOUSE PRICES

The past two years of surging prices saw Sydney's median house price surpass the \$1 million mark for the first time. However, the past two quarters have seen activity in Sydney's housing market slow significantly.

Over the September quarter, Sydney's house prices rose by 3.2% to a median of \$1,032,433 - growing at less than half the rate of three months ago. In the quarter to December 2015, Sydney's median dwelling price actually fell by between 2.3 and 3.1% - depending on the data source.



Auction clearance rates<sup>31</sup> have

<sup>31</sup> It should be noted that auction activity does have regular seasonal variations. Auction activity also only captures a portion of the market. Nationally, only about 10 to 15% of

also been declining in Sydney over the second half of 2016 in another sign the appetite in the market is waning. Sydney had its lowest clearance rate of the year in late December at 59.8% from 76.3% at the start of the quarter. The market is now tracking at its lowest levels since the spring of 2012.<sup>32</sup>

The causes for this slowdown in housing activity and prices are varied. Michael Bleby of the [Australian Financial Review](#) states that:

Steady borrowing costs and weak incomes growth are the reasons for the slowdown in the two largest cities, which in turn has pulled back the national rates of house-price growth.

Deputy Governor of the Reserve Bank Phillip Lowe, however, suggests that Sydney home prices appear to be declining because of increasing supply coming onto the market.<sup>33</sup> The latest housing finance data is also pointing to a drop in property investor demand in the past few months (see *Housing Finance* chapter).

Given the variability in the market over the past year, forecasts for house prices over the next year are mixed. As reported in the [Australian Financial Review](#), a report by Knight Frank has forecast Sydney house prices to rise by 10% in 2016 which is certainly at the higher end of the spectrum of expectations. The Domain Group, as part of their *State of the Market Report* have forecast Sydney house prices to rise by 4% in 2016 – which is perhaps more realistic given the recent decline in activity.

As pointed out in the Sydney Morning Herald [editorial](#), an imminent price collapse is highly unlikely because it would require: a large number of ‘forced sellers’ (i.e. those who cannot pay off their mortgage); and an oversupplied housing market. As the article notes:

Those things combined to drive down property prices in the United States, and several other nations, during the Global Financial Crisis in 2008. But neither factor seems likely to emerge in Sydney at present.

Very low interest rates and a relatively stable jobs market means there is little evidence of the mortgage distress that would cause a large number of forced sales. And despite a surge in new housing building there are no signs yet of widespread oversupply.

Even if prices were to plateau or decline slightly, it is unlikely to change current affordability significantly; this was recently categorised as “severely unaffordable” [compared with metropolitan markets around the world](#). Sydney is now ranked the second least affordable city for housing behind Hong Kong.

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property sales are conducted via auction. That rises to between 15 and 20% for Sydney and Melbourne.

<sup>32</sup> Domain Group, [Auction clearance rates drop to three-year low](#), 8 January 2016

<sup>33</sup> ABC News, [Sydney housing prices falling because of greater supply, RBA deputy governor Phillip Lowe says](#), 13 October 2015

## DWELLING APPROVALS

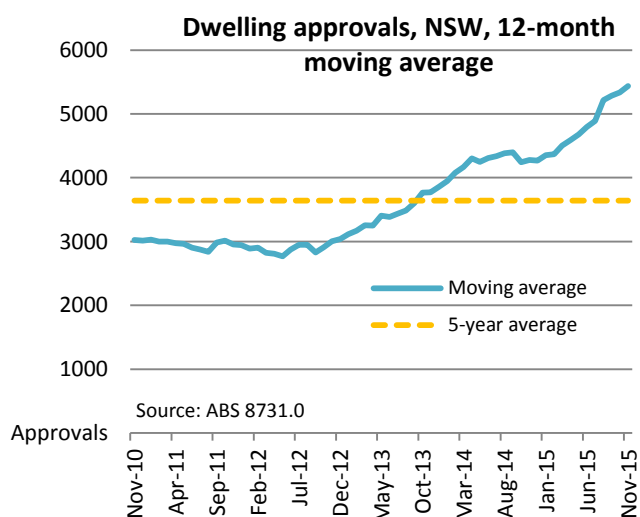
The average monthly number of dwellings approved in NSW rose by 11.8% in the September 2015 quarter to 5,910, which is a strong rebound on the 5% decline realised in the June 2015 quarter.

National dwelling approvals were, on average, unchanged for the September quarter. The strong growth in NSW (11.8%) and South Australia (5.3%) was offset by sharp declines in approvals in Western Australia (down by 10.1%) and Victoria (down by 7.4%).

Number of dwellings approved, quarterly average							
	NSW	VIC	QLD	SA	WA	TAS	AUS
<b>Sep-14</b>	4,109	4,757	3,340	962	2,839	192	16,733
<b>Dec-14</b>	4,615	6,024	3,392	921	2,820	235	18,493
<b>Mar-15</b>	5,543	6,016	4,346	956	2,522	250	19,923
<b>Jun-15</b>	5,285	5,774	3,926	845	2,603	253	19,392
<b>Sep-15</b>	5,910	5,347	4,090	889	2,339	228	19,345

Source: ABS, Building Approvals, Australia, Cat. No. 8731.0

Building approvals data is volatile on a month to month basis, mostly due to the 'lumpy' nature of unit and town house developments. On a trend basis, which looks through the monthly volatility, building approvals are at near record levels. Approvals in NSW are now 55% higher than the 5-year average. This is clear evidence that the supply-side of the market is responding to the higher housing prices.



As outlined by the Commonwealth Bank, the growth in building approvals will have flow on benefits to other segments of the domestic economy.<sup>34</sup>

Building multipliers are among the most robust in the economy. Mainly via fuller order books, higher materials demand, more employment and higher (related) retail spending. All levels of Government will benefit from more construction, more jobs and more tax revenues.

A continuation of housing supply along its current trajectory, in the short term, is likely to restrain the extent of house price growth in Sydney. Although it is still unlikely that there will be an aggregate oversupply of housing in the short to medium term – particularly given that BIS Shrapnel forecast a shortfall of

34

Commonwealth Bank, [Building approvals – May 2014](#), 3 July 2014

40,000 dwellings in NSW by June 2018.<sup>35</sup>

Others, however, [speculate](#) that there could be an oversupply of dwellings – particularly of units and apartments – in pockets of major cities like Sydney and Melbourne. Some banks have responded by tightening lending and credit flow to developers.<sup>36</sup>

The expectation of slowing prices is, over the medium term, likely to constrain housing supply growth. Macquarie Group forecast a slowing in housing starts in 2016 and 2017, particularly in the high-density apartments segment.<sup>37</sup>

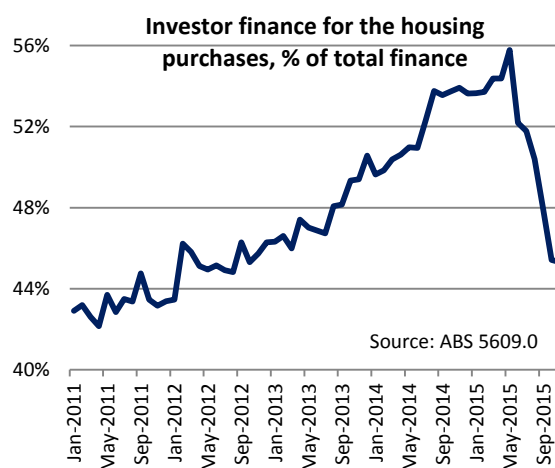
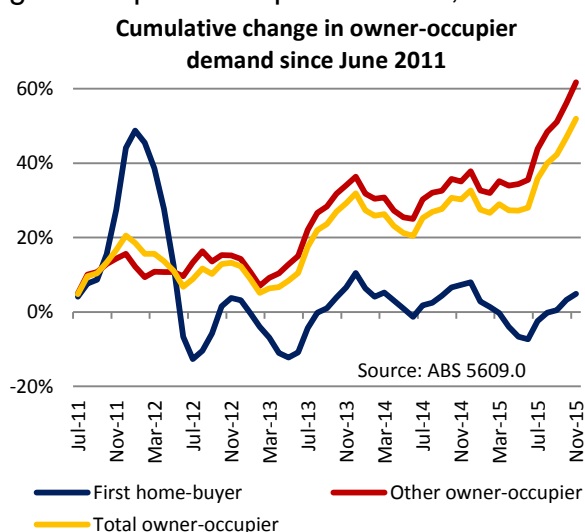
## HOUSING FINANCE

The average number of owner-occupier (including first home owner) dwellings financed in NSW rose by 10.5% during the September quarter to 17,883. This was well above the average national growth of 4.2% for the quarter.

*Owner-occupier* finance has been trending up since early 2010, off the back of non-first home buyer commitments. As can be seen in the figure adjacent, aside from the spike in demand induced by the expiration of first home buyer incentives, *first home buyer* demand remains at the same levels it did in early 2011.

The major story to come out of the housing finance data in the winter quarter was the record level of *investor participation* in the purchase of new and established homes. Having increased significantly in the past few years, investor participation reached 55.4% of total housing finance nationally in May 2015. To put this into perspective, as recently as March 2009, this figure was recorded at 35.9%.

However, the latest housing finance data reveals a drop in investor housing demand in the past few



<sup>35</sup> Australian Financial Review, [Housing glut by 2018, BIS Shrapnel warns](#), July 2015

<sup>36</sup> The Australian, [ANZ wary of lending property developers over supply fears](#), 12 October 2015

<sup>37</sup> Sydney Morning Herald, [Housing bust now the greatest recession risk, say investment banks](#), 13 October 2015



months after the banking regulator Australian Prudential Regulation Authority required banks to cap their investor lending to an annual growth rate of 10% to lean against the stimulatory effects of record low interest rates. Housing finance, as a proportion of total dwelling finance, fell by 5.1% between August and November 2015 – a total decline of 10.5% since May 2015.

## RENT

There are two aspects to rental affordability. The first is the burden imposed on a household's cost of living. The second and perhaps less straight forward aspect is the effect rising rents have on home ownership affordability.

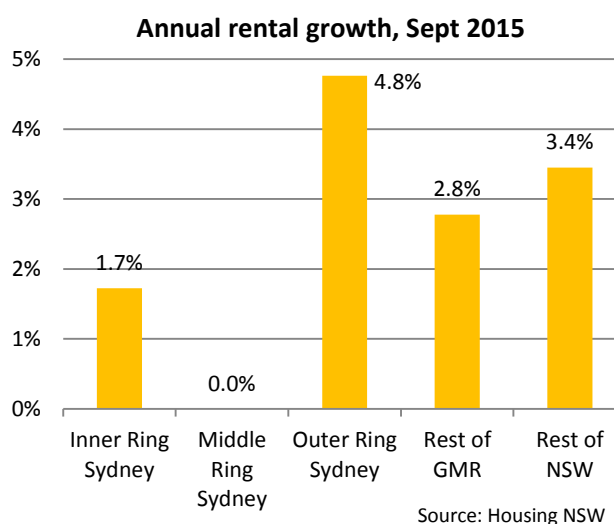
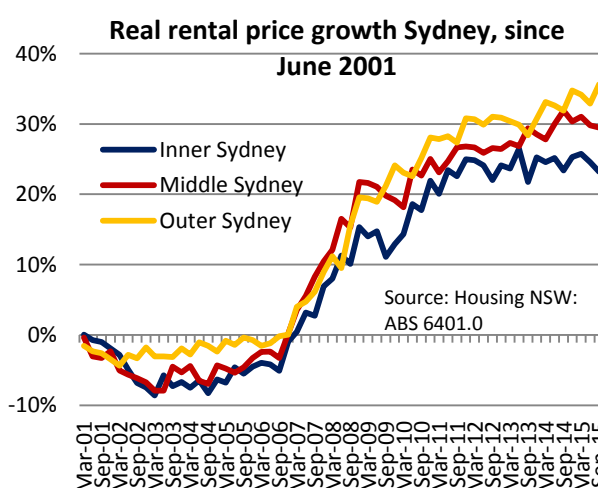
As discussed in the NSW Parliamentary Research Service paper [Affordable rental housing: the problem and its causes](#), rental costs may prevent prospective home buyers (particularly in inner urban areas) from saving a large enough deposit; or at the very least, it will take a longer period of time than it would have previously. For these buyers, there is a significant opportunity cost in waiting to buy a first home which materialises in two ways. Firstly, as real house prices rise (usually disproportionately to income) the deposit required to buy a home will rise with time. This cost is then compounded because prospective home buyers are not absorbing any of the capital growth.

As evident in the figure adjacent, real rental prices (i.e. having accounted for inflation) have risen consistently across Sydney over the past decade. Growth is most pronounced in the outer urban areas of Sydney. In absolute terms, rental prices are still highest in the inner urban areas.

While these results need to be considered in the context of income growth, they do represent a consistent and perhaps concerning upward trend.

In the 12 months to September 2015, rental growth has been most pronounced in the *Outer Ring* of Sydney at 4.8% and the *Rest of NSW* at 3.4%.

For the complete list of median rents by local government area and region of Sydney, see the Housing NSW [website](#).



## GLOSSARY

The following definitions are those used by the Australian Bureau of Statistics, unless otherwise stated.

**Average weekly earnings:** Average gross (before tax) earnings of employees. Estimates of average weekly earnings are derived by dividing estimates of weekly total earnings by estimates of number of employees.

**Cash target rate:** Monetary policy decisions are expressed in terms of a target for the cash rate, which is the overnight money market interest rate. (Source: Reserve Bank of Australia, [www.rba.gov.au](http://www.rba.gov.au))

**Chain volume measures:** Estimates that exclude the direct effects of changes in prices. Unlike current measure estimates, they take account of changes to price relativities that occur from one year to the next. Annually re-weighted chain volume indexes are referenced to the current price values in a chosen reference year.

**Consumer price index:** The Consumer Price Index (CPI) measures quarterly changes in the price of a 'basket' of goods and services which account for a high proportion of expenditure by the CPI population group (i.e. metropolitan households). This 'basket' covers a wide range of goods and services, arranged in the following eleven groups: food; alcohol and tobacco; clothing and footwear; housing; household contents and services; health; transportation; communication; recreation; education; and financial and insurance services.

**Employed:** All persons aged 15 years and over who, during the reference week: worked for one hour or more for pay, profit, commission or payment in kind in a job or business, or on a farm (comprising employees, employers and own account workers); or worked for one hour or more without pay in a family business or on a farm (i.e. contributing family workers); or were employees who had a job but were not at work and were: away from work for less than four weeks up to the end of the reference week; or away from work for more than four weeks up to the end of the reference week and received pay for some or all of the four week period to the end of the reference week; or away from work as a standard work or shift arrangement; or on strike or locked out; or on workers' compensation and expected to return to their job; or were employers or own account workers, who had a job, business or farm, but were not at work.

**Free on board (FOB):** The value of goods measured on a free on board (f.o.b.) basis includes all production and other costs incurred up until the goods are placed on board the international carrier for export. Free on board values exclude international insurance and transport costs. They include the value of the outside packaging in which the product is wrapped, but do not include the value of the international freight containers used for transporting the goods.

**Gross domestic product:** Is the total market value of goods and services produced in Australia within a given period after deducting the cost of goods and services used up in the process of production but before deducting



allowances for the consumption of fixed capital. It is equivalent to gross national expenditure plus exports of goods and services less imports of goods and services.

**Gross State Product (GSP):** GSP is defined equivalently to gross domestic product (GDP) but refers to production within a State or Territory rather than to the nation as a whole.

**Labour force:** For any group, persons who were employed or unemployed, as defined.

**Participation rate:** For any group, the labour force expressed as a percentage of the civilian population aged 15 years and over in the same group.

**Private business investment:** Investment in non-dwelling construction, plus machinery and equipment, plus cultivated biological resources, plus intellectual property products.

**Seasonally adjusted estimates:** Seasonally adjusted estimates are derived by estimating and removing from the original series systematic calendar related effects, such as seasonal (e.g. Christmas), trading day and moving holiday (e.g. Easter) influences. Seasonal adjustment does not aim to remove the irregular or non-seasonal influences which may be present in any particular month. These irregular influences may reflect both random economic events and difficulties of statistical recording.

**State Final Demand:** is a proxy for economic growth, measures the total value of goods and services that are sold in a State to buyers who wish to either consume them or retain them in the form of capital assets. It excludes sales made to buyers who use them as inputs to a production activity, export sales and sales that lead to accumulation of inventories.

**Trend series:** A smoothed seasonally adjusted series of estimates.

**Unemployed:** Persons aged 15 years and over who were not employed during the reference week, and: had actively looked for full time or part time work at any time in the four weeks up to the end of the reference week and were available for work in the reference week; or were waiting to start a new job within four weeks from the end of the reference week and could have started in the reference week if the job had been available then.

**Unemployment rate:** For any group, the number of unemployed persons expressed as a percentage of the labour force in the same group.

**Weekly ordinary time earnings:** Weekly ordinary time earnings refers to one week's earnings of employees for the reference period, attributable to award, standard or agreed hours of work. It is calculated before taxation and any other deductions (e.g. superannuation, board and lodging) have been made.