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## NSW Parliamentary Research Service

### NSW Economic Update Spring 2016

Statistical Indicators 05/16  
By Chris Angus

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# NSW Economic Update Spring 2016

by

Chris Angus

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## SUMMARY

### The state of the NSW economy

For the third consecutive quarter, **New South Wales** has been the best performing State in Australia. Commsec's October 2016 [State of the States Report](#) found that NSW leads the rankings in business investment, retail trade, and dwelling starts, and holds second place in levels of unemployment, construction work, population growth and housing finance.<sup>1</sup>

The NSW Treasury [Budget Papers](#) forecast NSW Gross State Product (GSP) to continue to grow at an above-trend pace to 2017-18, despite downward revisions to the outlook for both the global and national economies following the 2015-16 Half-Yearly Review (HYR):

GSP growth is forecast to pick up to 3 per cent in 2016-17, unchanged from the HYR forecast. Household consumption, dwelling construction and public investment are expected to continue to make strong contributions to growth. Business investment is expected to contribute to GSP growth as the drag from mining investment eases and the recovery in non-mining business investment gathers pace. Net overseas service exports are forecast to make an ongoing and noticeable contribution to GSP growth. Interstate trade, however, is expected to remain a drag on GSP growth due to ongoing weakness in the rest of Australia.<sup>2</sup>

In its May 2016 [NSW Economic Outlook](#), St George Bank stated that “economic growth in 2014-15 was the fastest in four years, and close to the 20-year average”. St George Bank forecast “a solid outcome of 3.0% in 2015-16, which could result in a further slight reduction in the unemployment rate.”<sup>3</sup> NAB was also positive about NSW's future prospects, giving the following summary for the State in its July 2016 [State Economic Handbook](#):

The New South Wales economy will remain one of the standouts, as the rebalancing back towards the non-mining sectors continues. Growth in state final demand has been supported by household consumption, a high level of dwelling investment and improved business investment, while services exports have been particularly robust. Infrastructure investment will also support NSW, although growth will ease somewhat as momentum from the housing sector and AUD depreciation begins to fade.

Based on the latest quarterly movements,<sup>4</sup> the strengthened and weakened areas of the NSW economy are summarised in the table overleaf. It should be noted that these indicators are subject to cyclical variations and may not be completely illustrative of a fundamental shift in growth.

<sup>1</sup> Commsec, [State of the States](#), October 2016, p 2.

<sup>2</sup> NSW Treasury, [Budget Paper No. 1](#), 2016-17, Ch 3: The Economy, p 3-1.

<sup>3</sup> St George Bank, [NSW Economic Outlook](#), 26 May 2016, p 2.

<sup>4</sup> For the most recent quarter in which data is available.

Stronger		Weaker
State final demand (up 1.2%)	Job vacancies (up 1.9%)	Trade balance (\$5.7bn deficit)
Household consumption (up 0.5%)	Retail trade (up 0.8%)	Motor vehicle sales (down 0.12%)
Business investment (up 2.6%)	House prices (up 4%)	Mining investment (down 0.32%)
Employment (up 0.25%)	Dwelling approvals (up 7.9%)	
Unemployment (down 0.2%)	Housing finance (up 14.7%)	
Participation rate (up 0.1%)	Bankruptcies (down 8.6%)	

## The state of the Australian economy

The Reserve Bank of Australia's (RBA) **national economic growth** forecasts have changed little from those presented at the start of the year. In its August [Statement on Monetary Policy](#), the RBA forecast GDP growth to be 2.5-3.5% by June 2017, increasing to 3-4% by June 2018.<sup>5</sup> The major banks, including the [Commonwealth Bank](#) and [NAB](#), have forecast economic growth of 3% and 2.8% respectively for 2016-17. Key factors influencing national growth over the forecast period, as outlined by the RBA, include:<sup>6</sup>

- Continuing falls in mining investment as large resource-related projects are completed and few new projects are expected to commence;
- A subdued outlook for non-mining business investment, although very low interest rates and the depreciation of the Australian dollar have supported an improvement in business conditions; and
- Moderated levels of employment growth compared to 2015, with modest employment growth expected over the remainder of 2016.

In the RBA Board's October 2016 [Minutes on Monetary Policy](#), Board members noted that growth had moderated in the June quarter, following very strong growth in the March quarter. Growth during the September quarter proceeded at a moderate pace, similar to that seen in June, with unemployment levels declining and job vacancies and advertisements increasing. Nevertheless, the Board stated that part-time work accounted for all of the increase in employment during 2016, and further noted that the underemployment rate (which captures workers who would like to work more hours) had increased over the year.

## Future trends and associated risks

Although the quarterly data for NSW are strong, a growing number of observers<sup>7</sup> have commented that these figures hide longer term trends that pose future challenges for policymakers. In particular, there are three interconnected trends of relevance to NSW policymakers:

<sup>5</sup> RBA, [Statement on Monetary Policy](#), August 2016, p 67.

<sup>6</sup> Ibid p 68.

<sup>7</sup> For example, see G Jericho, [Why government debt isn't the biggest threat to Australia's credit rating](#), The Guardian, 23 October 2016.

1. The trend away from full time employment to part time work;
2. The high cost of housing, particularly in Sydney; and
3. Increasing levels of private household debt.

As discussed in the Employment chapter,<sup>8</sup> Australia (and NSW to a lesser extent) has seen full time employment growth stagnate in recent years, with most growth seen in part time work. Youth are particularly [affected](#) by this trend, which risks a “rise in long-term unemployment and underemployment and the intergenerational wealth transfer as younger skilled workers and particularly new graduates find themselves overqualified, under-utilised and poorly paid”.<sup>9</sup>

Among other things, a rise in insecure work and lower incomes would exacerbate the existing issue of housing affordability in NSW. As discussed in the House Prices chapter, the cost of housing in Sydney is currently the second highest in the world; despite improved saving habits compared to a decade ago,<sup>10</sup> Deutsche Bank has [claimed](#) that Sydney home prices must drop by 25% in order to bring the size of deposit required back to average levels over the past 20 years.

This has led to a decline in home ownership levels among persons aged 25–34, from 38.7% in 2002 to 29.2% in 2014,<sup>11</sup> but has also resulted in first home buyers borrowing more than previously. According to ABS data [analysed](#) by First Home Buyers Australia, the average loan size for a first home buyer increased by 51% between April 2006 and 2015 from \$258,700 to \$391,900.

These growing mortgage commitments, which increase the risk to mortgagees should an economic downturn occur,<sup>12</sup> also increase credit risk for Australia as a whole. In its October 2016 [Fiscal Monitor](#), the International Monetary Fund (IMF) identified Australia as one of three nations where private debt has accumulated at too fast a pace as a result of record low interest rates and borrowing costs. The IMF warned that were Australia to face a financial crisis, high levels of debt “exacerbates the depth and duration of the ensuing recession, as the ability to conduct countercyclical fiscal policy”.<sup>13</sup>

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<sup>8</sup> Also discussed previously in the [NSW Economic Update Winter 2016](#).

<sup>9</sup> I Verrender, [Underemployment phenomenon emerges with rise of part-time workforce](#), ABC News, 24 October 2016.

<sup>10</sup> For example, see: R Finlay, F Price, [Household Saving in Australia](#), RBA, March 2014; J Daley, D Wood, [The wealth of generations](#), Grattan Institute, December 2014.

<sup>11</sup> R Wilkins, [The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 14](#), 2016, p 68.

<sup>12</sup> G Lekakis, [First home buyers are flocking to risky interest-only mortgages](#), 13 October 2016.

<sup>13</sup> IMF, [Fiscal Monitor – Debt: Use it Wisely](#), October 2016, p 20. Also see: P Ryan, [IMF warns on Australia's risky debt binge](#), 6 October 2016.

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High levels of private household debt are already impacting Australia's sovereign credit ratings; in July 2016 ratings agency S&P Global [downgraded](#) the country's fiscal outlook to negative, with a one in three chance of a downgrade within the next two years. In a 23 October [article](#) in The Guardian, Greg Jericho outlined the consequences of a downgrade:

A downgrade looks bad for any government ... economically the worry is that a downgrade will raise the cost of borrowing for the government, which in turn would do the same for state and local governments and Australian corporations, given the interest rate they pay is linked to that of the government.<sup>14</sup>

The risk of these consequences arising—and the economic damage they could cause NSW—demonstrate the need for policymakers to remain vigilant as to economic challenges in the medium to long term, thereby ensuring that NSW can remain a top economic performer.

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<sup>14</sup> G Jericho, [Why government debt isn't the biggest threat to Australia's credit rating](#), The Guardian, 23 October 2016.

## About the paper

This paper presents statistical information on key economic indicators, providing an updated snapshot of the NSW economy and 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 been updated to include the June or September 2016 quarters.

## Data sources used

Data presented in this paper is primarily sourced from the Australian Bureau of Statistics (ABS). Sources other than the ABS 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.

## Changes from previous Updates

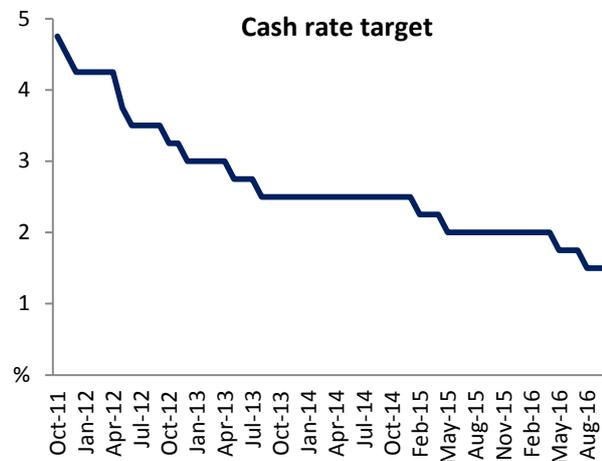
Although previous Updates have largely presented ABS seasonally adjusted estimates, trend estimates are [recommended](#) by the ABS for analysis of monthly or quarterly changes, as they remove potentially misleading seasonal patterns, residual noise and irregular influences.

Accordingly, this and future Economic Updates will present **trend estimates** where available; any original or seasonally adjusted data will be labelled throughout the paper.

## INTEREST RATES

In August 2016 the RBA Board reduced the cash rate from 1.75% to 1.5%, [citing](#) ongoing low inflation and a need to instigate stronger growth. Justification for this cut was further explained by new RBA Governor Phillip Lowe in an October 2016 speech:

Over the course of 2016, there has been some lessening of the concerns that were building up last year. Aggregate credit growth slowed, as did the rate of housing price appreciation. Lending standards were also tightened. These developments meant that the Board felt that the lowering of the cash rate would improve prospects for sustainable growth and achieving the inflation target without creating unacceptable risks on the financial side.<sup>15</sup>



Source: Reserve Bank of Australia

As of [October 2016](#), the cash rate remains at 1.5%.

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 factors influencing the Australian economy were identified by the RBA Board in their [latest meeting](#) in October 2016. The Board commented that GDP growth and mining activity were higher than forecast last year, while non-mining investment grew around its long term average and household consumption had moderated over the June quarter. However, while unemployment had reduced by 0.5% over the past year, all employment gains came from part-time work, with underemployment increasing over the previous 12 months.

The Board concluded that the cash rate should remain at 1.5% pending the latest consumer price index (CPI) data and an update on economic forecasts:

Members noted that data on CPI inflation for the September quarter and an update of the forecasts would be available at the next meeting. This would provide an opportunity to consider the economic outlook, assess the effects of previous reductions in the cash rate and review conditions in the labour and housing markets. Taking account of developments since the previous meeting, the Board judged that holding the stance of policy unchanged at this meeting would be consistent with sustainable growth in the economy and achieving the inflation target over time.<sup>16</sup>

<sup>15</sup> P Lowe, [Inflation and Monetary Policy](#), Address to Citi's 8th Annual Australian & New Zealand Investment Conference, 18 October 2016.

<sup>16</sup> RBA, [Minutes of the Monetary Policy Meeting of the Reserve Bank Board](#), 4 October 2016.

St George Bank [commented](#) that a November rate cut will depend largely on the RBA's interpretation of CPI data, with weak inflation likely to result in further cuts. Several major banks have forecast the cash rate to remain stable or fall further in the coming 18 months. [Westpac](#) predicts the cash rate to remain at 1.5% until June 2018; the [Commonwealth Bank](#) forecasts the cash rate to reduce to 1.25% by December 2016 and remain at that level throughout 2017, while [NAB](#) expects the cash rate to lower to 1% by the end of 2017.

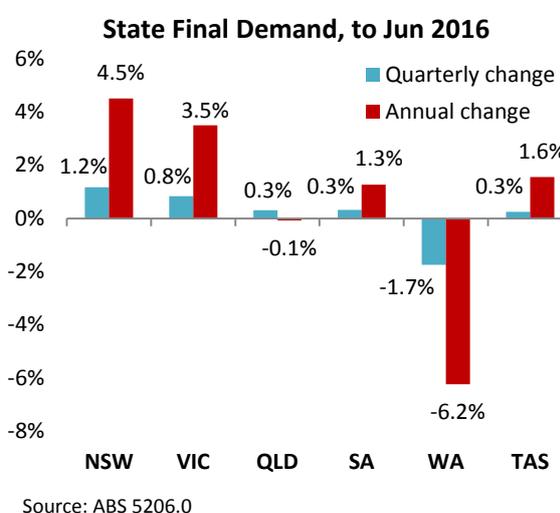
Other observers have made more radical predictions, with some [stating](#) that the interest rate may approach zero unless the Federal Government boosts demand through increased spending and investment.

## STATE DEMAND AND GROSS STATE PRODUCT

[National final demand](#), which is the best quarterly proxy for economic growth, increased by 0.7% over the June 2016 quarter and 3.1% over the year.

Demand in NSW was 1.2% higher for the quarter (see right), the same rate as the March quarter but higher than the two year quarterly average of 0.88%. Quarterly final demand growth remained weak across other States and Territories, with the biggest quarterly decline being realised by Western Australia at 1.7%.

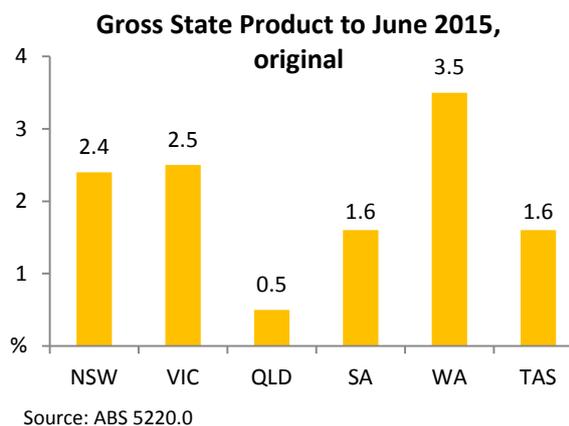
Annual demand growth in NSW to June 2016 was the highest of all the States at 4.5%: an increase on the last quarter (4.1%) and surpassed only by the ACT (5.5%).



State final demand (\$m), chain volume measures, trend								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
<b>Jun-2015</b>	124,105	95,289	77,512	25,535	52,490	7,277	7,210	14,940
<b>Sep-2015</b>	125,533	96,079	77,467	25,614	51,625	7,301	6,879	15,083
<b>Dec-2015</b>	127,062	96,922	77,629	25,716	50,655	7,317	6,780	15,369
<b>Mar-2016</b>	128,554	97,733	77,870	25,800	49,773	7,336	6,812	15,713

Source: ABS, Australian National Accounts, Cat. No. 5206.0, June 2016

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 (GSP) data released by the ABS (see right). This shows that Western Australia had the strongest GSP growth of all jurisdictions in 2014-15. GSP for NSW grew by 2.4% between June 2014 and 2015.



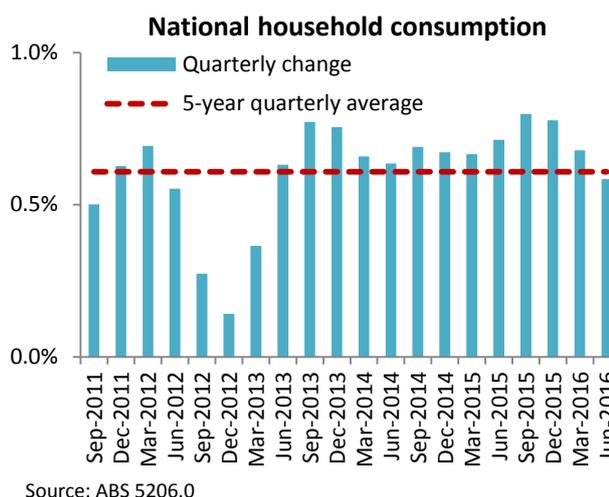
Gross State Product (\$m), chain volume measures, original								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Jun-2011	466,095	333,519	268,055	94,050	219,893	24,992	17,935	32,693
Jun-2012	474,721	339,871	283,596	94,600	239,801	25,005	18,512	33,197
Jun-2013	484,154	343,319	290,535	96,218	253,006	24,696	19,739	34,161
Jun-2014	495,235	346,881	298,680	96,994	267,052	25,015	20,323	34,398
Jun-2015	506,918	355,580	300,270	98,539	276,312	25,419	22,450	34,866

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

## HOUSEHOLD CONSUMPTION

Nationally, household consumption grew by 0.6% over the June 2016 quarter, the same growth rate as the five year average. The RBA noted in its [August 2016 Statement on Monetary Policy](#) that consumption growth remained strong in NSW and other States that have relatively little exposure to the resources sector, but was weak in mining States.

Factors affecting consumption growth have included “[l]ow interest rates, employment gains and growth in household wealth”,<sup>17</sup> although St George Bank also identified slow wages growth as potentially holding back household demand.<sup>18</sup>



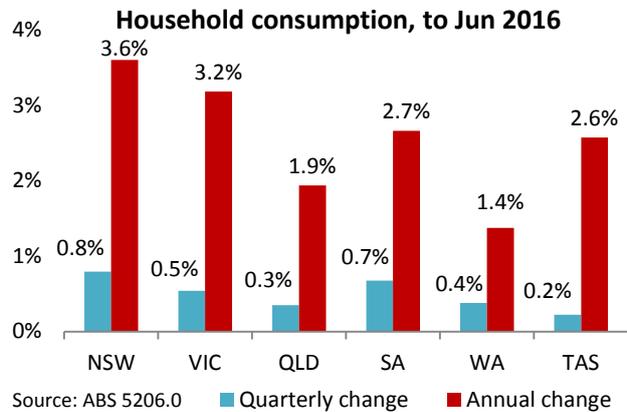
<sup>17</sup> RBA, [Statement on Monetary Policy](#), August 2016, p 34.

<sup>18</sup> St George Bank, [National Accounts – GDP](#), Data Snapshot, 7 September 2016, p 2.

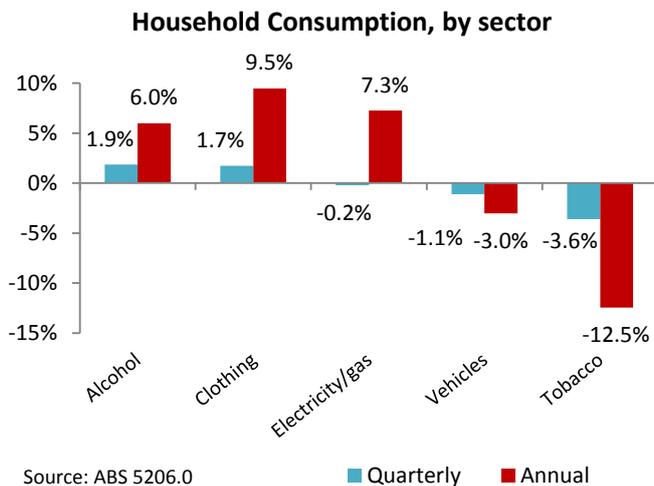
Household final consumption (\$m), chain volume, trend								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Sep-2015	77,164	56,874	44,752	15,045	24,888	4,367	2,502	4,054
Dec-2015	77,921	57,395	44,976	15,143	24,965	4,399	2,539	4,094
Mar-2016	78,612	57,813	45,165	15,249	25,049	4,416	2,574	4,125
Jun-2016	79,238	58,126	45,323	15,352	25,144	4,426	2,605	4,151

Source: ABS, Australian National Accounts, Cat. No. 5206.0, June 2016

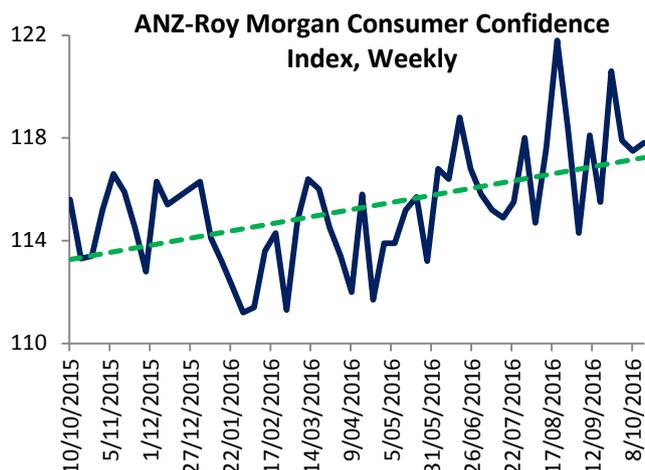
Household spending increased in NSW by 0.8% over the quarter: the highest quarterly growth rate in Australia (see right). On an annual basis, consumption rose by 3.6% in NSW: this was the second highest annual growth rate after the Northern Territory (5.4%).



The largest increase in NSW household expenditure over the June 2016 quarter was on alcohol (\$27 million, or 1.9%), while expenditure on vehicle sales and tobacco declined (down 1.1% and 3.6%). On an annual basis, clothing and electricity and gas accounted for the largest proportionate increase of all the categories at 9.5% and 7.3% respectively. Expenditure on cigarettes and tobacco incurred the largest decline, falling by 12.5% for the year.

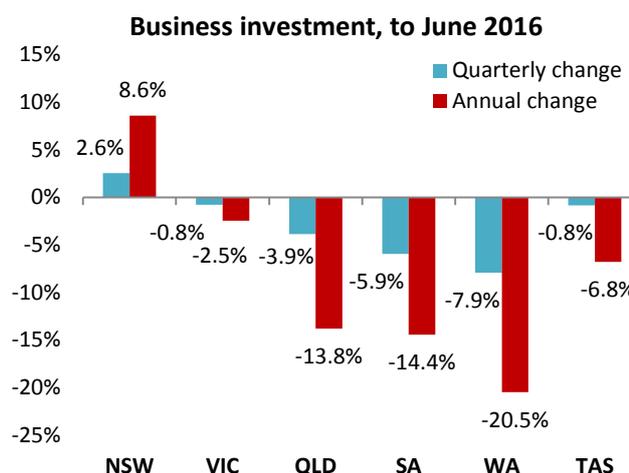


Although it is subject to sharp fluctuations, consumer confidence has trended upwards over the past year. However, Roy Morgan Research [noted](#) that the key for the broader economic outlook is whether rising confidence will translate into stronger spending.



## BUSINESS INVESTMENT

Nationally, business investment fell by 2.4% in the June 2016 quarter, having previously fallen by 3.5% in the March quarter. Over the 2015-16 financial year, national business investment was down by 8.1%. According to St George Bank, this contraction was fully expected as the mining investment boom winds down, and has continued to affect domestic demand.<sup>19</sup>



In contrast, business investment in NSW increased by 2.6% over the June quarter and 8.6% for the year – the only jurisdiction to avoid a decline in investment (see above right). Western Australia and South Australia incurred the greatest declines in business investment, falling by 7.9% and 5.9% respectively during the quarter.

Source: ABS 5206.0

Although business investment in Australia has been mixed, business confidence has continued to increase. According to Roy Morgan, business confidence rose 5.8% to 114.9 in September, following the Commonwealth Government legislating middle-income tax cuts and the ‘Omnibus’ Bill containing \$6.3 billion in Commonwealth Budget savings.

Business confidence is now just below the six year average of 116.6.<sup>20</sup>

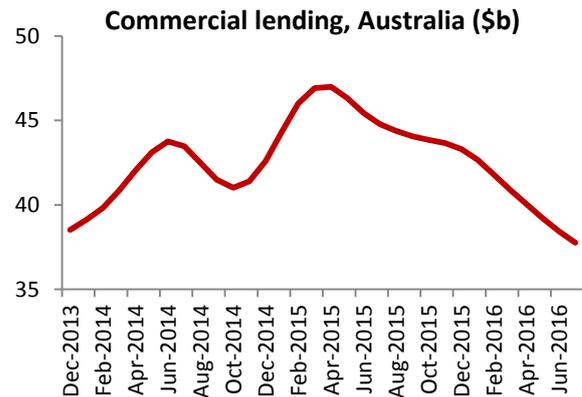
Business investment (\$m), chain volume measures, trend								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
<b>Jun-2015</b>	13,355	11,428	10,654	3,081	14,202	635	2,320	590
<b>Sep-2015</b>	13,701	11,349	10,062	2,969	13,315	613	1,965	574
<b>Dec-2015</b>	14,140	11,234	9,551	2,802	12,263	597	1,809	556
<b>Mar-2016</b>	14,505	11,148	9,183	2,636	11,292	592	1,799	550

Source: ABS, Australian National Accounts, Cat. No. 5206.0, June 2016

<sup>19</sup> St George Bank, [National Accounts – GDP](#), Data Snapshot, 7 September 2016, p 2.

<sup>20</sup> Roy Morgan Research, [Business Confidence jumps in September](#), 17 October 2016.

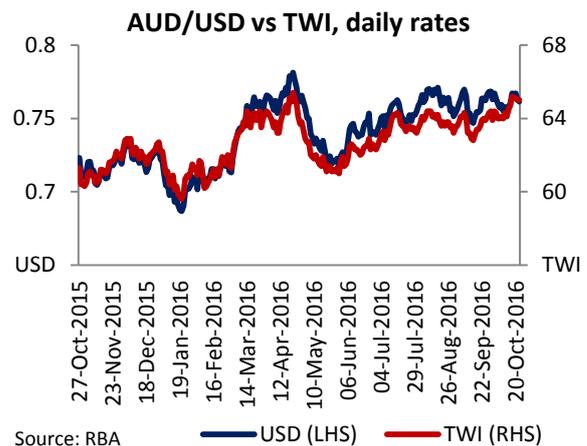
Commercial lending data is another proxy for business investment and related activity. While this data is susceptible to volatility, commercial finance data indicates that commercial lending has continually declined since April 2015 (see right).



Source: ABS 5671.0

## EXCHANGE RATE

As of 27 October 2016, the Australian dollar (AUD) was worth [0.763 USD](#), having hovered around the 0.75-0.76 mark throughout the quarter.



Source: RBA

In its August [Statement on Monetary Policy](#), the RBA Board commented that the depreciation of the AUD since 2013 has, along with low interest rates, contributed to the rebalancing of economic activity towards non-resource sectors.<sup>21</sup>

According to NAB's September 2016 [Quarterly Business Survey](#), trade competing industries such as manufacturing and construction have reported that they have benefited from the depreciation in the AUD. However, the retail, wholesale and mining sectors have reported adverse effects from the current value of the dollar.

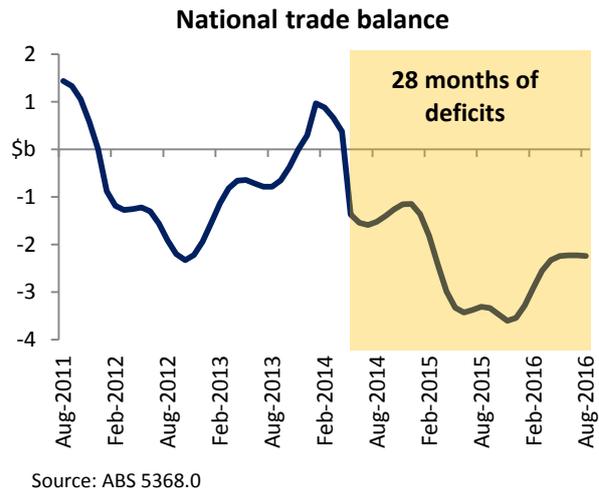
The consensus among the major banks is that the AUD will fluctuate around current levels for the remainder of 2016. Westpac and the Commonwealth Bank forecast the AUD to be slightly lower by the end of 2016 (USD 0.74 and 0.73 cents respectively), while NAB forecasts the AUD to remain at 0.75 cents at year's end.<sup>22</sup>

<sup>21</sup> RBA, [Statement on Monetary Policy](#), August 2016, p 2.

<sup>22</sup> Westpac, [Australia and NZ weekly](#), 24 October 2016; Commonwealth Bank, [Economic & Financial Forecasts](#), 24 October 2016; NAB, [Global and Australian Forecasts](#), 12 July 2016.

## INTERNATIONAL TRADE

According to ABS data, Australia recorded a trend-adjusted trade deficit (which includes both goods and services) of \$2.2 billion for August 2016: the 28<sup>th</sup> consecutive deficit recorded since May 2014. However, the Commonwealth Bank reported a lower trade deficit of \$2.01 billion for August 2016, having narrowed by 5% following a significant revision to July's deficit (\$2.12 billion from \$2.41 billion previously).<sup>23</sup>

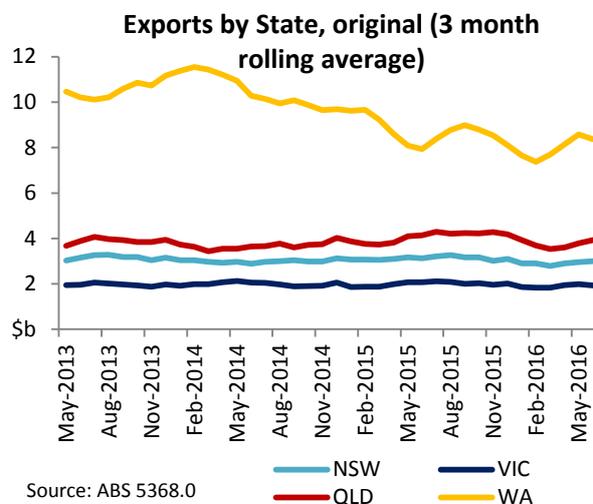


Since early 2015, trade deficits have been the result of falling commodity prices (i.e. iron ore and coal) and thus a decline in Australia's terms of trade. The Commonwealth Bank commented that the deficit has improved as a result of flat export levels alongside a 0.4% decrease in imports. Service exports have continued their upward trend, with travel exports 21% higher over the year and café and restaurant sales up 5.6% over the same period.<sup>24</sup>

Consumption goods imports have tracked broadly sideways in 2016, while capital goods imports have also increased – possibly due to State Government infrastructure spending, but also a potential sign of a long awaited upturn in non-mining capital expenditure.<sup>25</sup>

After a 9.7% decline last quarter, the **average monthly free on board value of merchandise exports** from NSW increased by 7.2% in the June 2016 quarter to just under \$3 billion (see chart on right).

Western Australia continues to dominate the States and Territories in terms of the value of exports (\$8.4 billion during the last quarter). Nevertheless, this represents a 19% drop in quarterly exports since June 2014 compared with a 3.7% increase in NSW over the same two year period.



<sup>23</sup> Commonwealth Bank, [Balance on Goods and Services – August 2016](#), 6 October 2016.

<sup>24</sup> Ibid.

<sup>25</sup> Ibid.

The **top five destinations for merchandise exports** from NSW for the month of August 2016 were: Japan (\$728m); China (\$443m); the United States (\$239m); New Zealand (\$223m); and Taiwan (\$210m). As a proportion of exports, 37.4% of all NSW merchandise was exported to Japan or China in August.

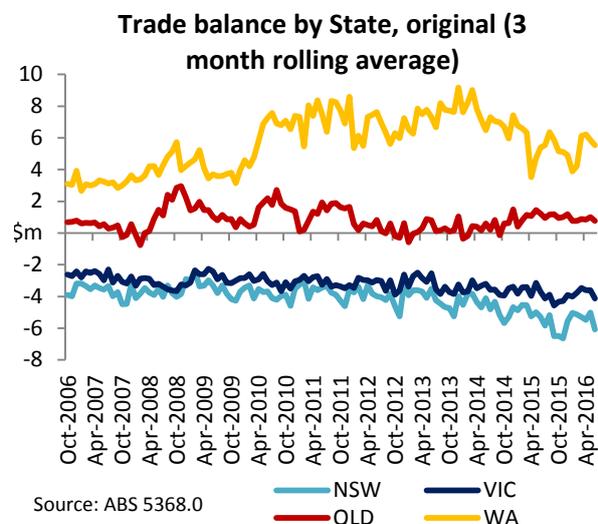
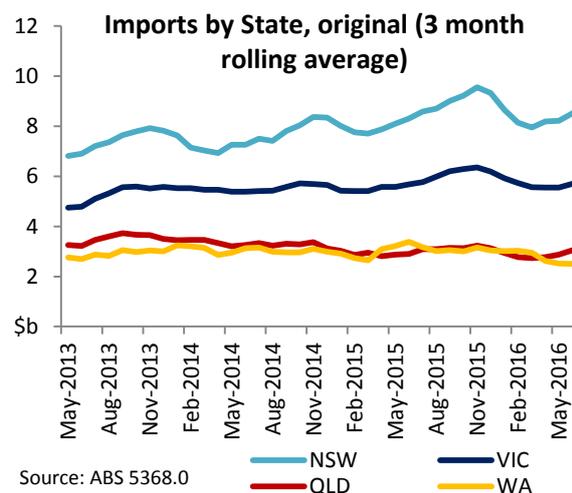
Similarly, after a 14.8% decline in the March 2016 quarter, the **average monthly customs value of merchandise imports** for NSW increased by 7.2% in the June quarter to \$8.5 billion. This figure is the second highest increase in imports after Queensland (11.6%), and is in stark contrast to the Northern Territory and Western Australia, which saw drops of 42.8% and 15.1% respectively.

The **top five import sources** for NSW in August 2016 were: China (\$2,392m); the United States (\$1,068m); Japan (\$662m); Germany (\$472m); and Thailand (\$355m). Over the course of August, approximately 27% of NSW imports came from China.

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. Although the trade deficit has reduced since reaching a peak of \$6.6 billion in November 2015, as at August 2016, the State's trade deficit was \$5.7 billion.

Western Australia still has the highest trade balance compared to the other major States. Nevertheless, declining resources exports have resulted in that State's surplus deteriorating from a peak of \$9.2 billion in December 2013 to a low of \$3.5 billion in April 2015. As at August 2016, WA's trade surplus was \$6.5 billion.



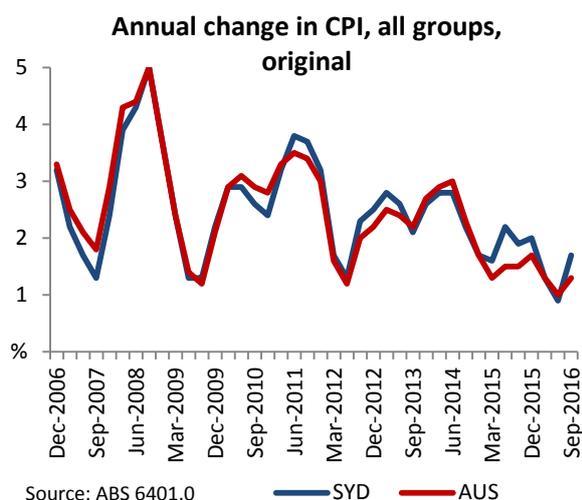
## CONSUMER PRICE INDEX

While major banks such as the [Commonwealth Bank](#) and [ANZ](#) had anticipated a modest CPI rise over the September 2016 quarter, the CPI grew by a “[hotter-than-expected](#)” 0.7%, with annual inflation rising by 1.3%.

Analysts appear divided over the potential consequences of this increase. ANZ and NAB [believe](#) that inflationary pressures are stabilising and the RBA will keep the cash rate at 1.5%, while the Commonwealth Bank [contends](#) (albeit “without great conviction”) that interest rates will lower by another 25 basis points cut in November 2016. St George Bank also argued that the RBA may cut interest rates for the following reasons:

Inflation is very low and likely to remain low for some time. There remain signs of slack within the labour market despite a falling unemployment rate, as confirmed by labour market data last week. Full-time jobs have contracted over the year, wage growth remains very low and labour market underutilisation is high. Moreover, the RBA’s concern around the housing market seems to have eased of late and lowers the hurdle for a cut.<sup>26</sup>

In Sydney, the CPI increased by 1.7% in the 12 months to September 2016. The largest price increases over the last 12 months in Sydney occurred in: alcohol and tobacco (up by 5.2%); health (up by 3.8%); education (up by 3.1%); and housing (2.9%).



Reserve Bank of Australia inflation forecasts (%)				
	Dec-16	Jun-17	Dec-17	Jun-18
<b>CPI inflation</b>	1.5	1.5–2.5	1.5–2.5	1.5–2.5
<b>Underlying inflation</b>	1.5	1.5–2.5	1.5–2.5	1.5–2.5

Source: RBA, Statement on Monetary Policy, August 2016, Table 6.1.

## EMPLOYMENT

Nationally, employment grew by 0.22% for the September 2016 quarter, increasing by 27,000 on average between the June and September quarters. The ABS [reported](#) that over the past year:

[T]rend employment increased by 152,600 (or 1.3 per cent), below the average percentage year-on-year growth over the last 20 years (1.8 per cent). Over the same period the trend employment to population ratio, which is a measure of how employed the population is, declined by 0.1 percentage point to 61.0 per cent.

<sup>26</sup> St George Bank, [Consumer Price Index: Lineball Call for the RBA](#), 26 October 2016, p 4.

The average number of people employed in NSW was up 0.25% for the quarter at 3.82 million; this continues an ongoing trend which has seen NSW employment levels increase by 2.1% since the September 2015 quarter.

Number of persons employed ('000), quarterly average, trend									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Sep-15	3,737	2,953	2,350	803	1,351	241	134	210	11,775
Dec-15	3,779	2,973	2,370	806	1,350	240	132	211	11,862
Mar-16	3,792	2,996	2,371	809	1,350	238	132	211	11,901
Jun-16	3,806	3,027	2,356	811	1,348	237	133	213	11,928
Sep-16	3,815	3,055	2,353	812	1,337	238	134	215	11,955

Source: ABS, Labour Force, Australia, Cat. No. 6202.0, September 2016

However, other trends were less positive. [Seasonally adjusted figures](#) for September showed a significant decline in full time employment. The number of full time jobs decreased by 53,000 from August to September, and was only partly offset by a 43,200 increase in part-time jobs.

Although sceptical about the data, the Commonwealth Bank commented on longer term trends towards part time and casual employment in Australia:

This pattern of strong part-time jobs growth coupled with declining full-time employment probably goes a long way to helping explain ongoing feeble broad-based wages growth of near 2% (and at two decade lows). It also underscores the increasing *casualisation* of Australia's labour market. The *underemployment rate* which stands at its highest recorded level at 8.7%, also signposts there is plenty of spare capacity in the labour market.<sup>27</sup>

ABS trend data affirms this analysis, indicating that, nationally, part-time employment grew by 13.4% between September 2011 and September 2016, with full-time employment growing by only 3.2% over the same period (see right).

In its October Minutes, the RBA Board found that indicators of labour market conditions had been mixed. Although unemployment had reduced (see Unemployment chapter), "part-time work had accounted for all of the increase in employment since the beginning of the year, with full-time employment having been little changed". Nevertheless, the Board believed there were reasonable prospects of sustained economic growth that would in turn support further employment growth.<sup>28</sup>

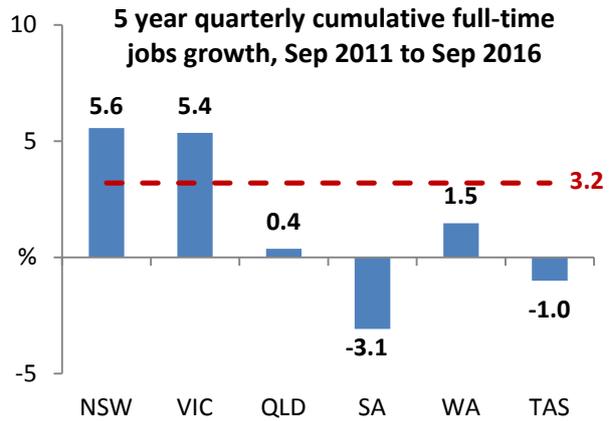
Seasonally adjusted data is not available for State part-time employment. However, NSW has performed well above the Australian average when it comes to full-time employment growth.



<sup>27</sup> CBA, [Labour Force – September 2016: handle monthly data with care!](#), 20 October 2016.

<sup>28</sup> RBA, [Minutes of the Monetary Policy Meeting of the Reserve Bank Board](#), 4 October 2016.

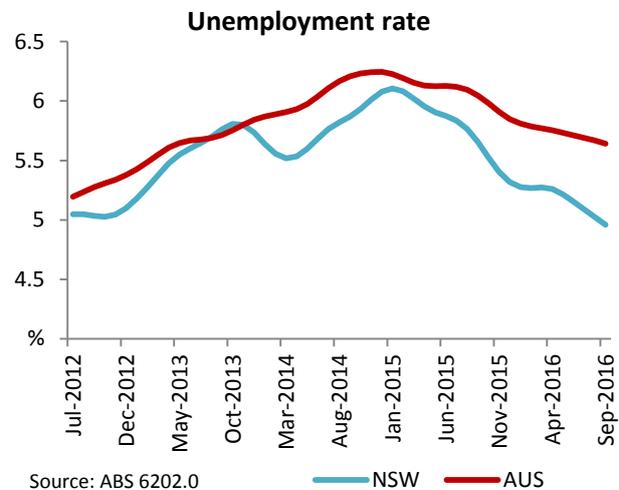
Between September 2011 and September 2016, NSW has seen a 5.6% cumulative increase in full time jobs: the only State other than Victoria (5.4%) to see full time job growth above the Australian average of 3.2% (see right). However, this five year cumulative figure masks a decline in full time jobs growth. Since the December 2015 quarter, when cumulative growth from September 2011 reached a high of 7.5%, NSW has lost 52,600 full time jobs (i.e. trending down since December 2015).



Source: ABS 6202.0

### UNEMPLOYMENT

Over the September 2016 quarter the average unemployment rate for NSW decreased by 0.2% to 5%: 1.1% lower than the 6.1% peak seen over the 2014-15 summer months. It remains 0.7% below Australia's quarterly average unemployment rate. NSW continues to have the lowest unemployment rate of all Australian States, bettered only by the two Territories (3.5%). South Australia and Tasmania had the highest quarterly average unemployment rate (6.7%).



Source: ABS 6202.0

Unemployment rate (%), quarterly average, trend									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Sep-15	5.8	6.1	6.2	7.7	6.1	6.4	4.5	4.9	6.1
Dec-15	5.4	6.0	6.1	7.3	6.2	6.5	4.3	5.0	5.9
Mar-16	5.3	5.9	6.1	7.1	5.8	6.7	4.2	4.4	5.8
Jun-16	5.2	5.7	6.3	6.9	5.8	6.5	3.9	3.8	5.7
Sep-16	5.0	5.7	6.2	6.7	6.2	6.7	3.5	3.5	5.7

Source: ABS, Labour Force, Australia, Cat No. 6202.0, September 2016

St George Bank commented on outlook and implications for monetary policy:

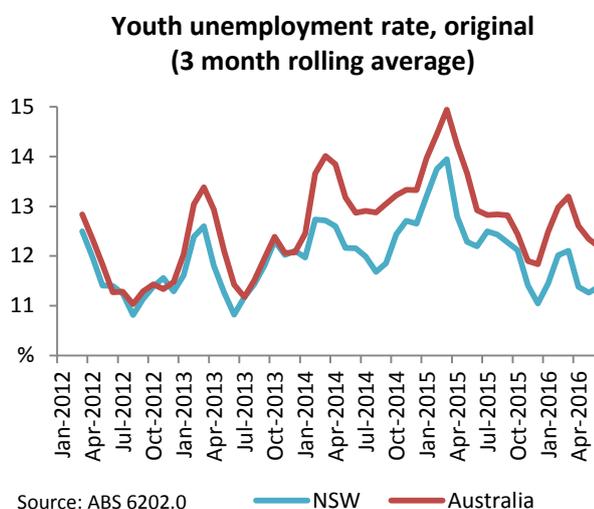
While we continue to expect that the unemployment rate will remain broadly steady this year, today's data suggests that there might be more underlying weakness in the labour market than previously thought. Softer labour market conditions reduce the prospect that we will see a pickup in wages and inflation over the medium-term. If the current trend continues, the case for a reduction to the cash rate would continue to strengthen.<sup>29</sup>

<sup>29</sup> St George Bank, [Labour Force: Devil is in the Detail](#), 20 October 2016, p 3.

However, the Commonwealth Bank [commented](#) that the participation rate had dropped significantly during August and September 2016, and accordingly the latest employment data should be treated with caution.

## YOUTH UNEMPLOYMENT<sup>30</sup>

Based on the three month rolling average, the NSW youth unemployment rate increased by 0.1% to 11.5% over the quarter to September 2016. Youth unemployment in NSW remains 1% below the Australian average (12.5%). Of the other States and Territories, Tasmania had the highest average youth unemployment rate at 16.6%.



As can be seen in the figure above, the data is highly cyclical because of the casual and part-time nature of youth employment. Although youth unemployment has been on a downward trajectory since early 2015, ABS data [shows](#) that only 58.8% of youth aged 15 to 24 were employed in July 2016, down from a high of 65.1% in March 2008.

According to the September 2016 OECD report [Investing in Youth: Australia](#), since 2008 an additional 100,000 15 to 29 year olds are now not in employment, education or training. To address this issue, the OECD stated that further effort must be made to identify at-risk youth and prevent them from dropping out of school; increase VET and apprenticeship program completion rates; and increase cooperation between schools and external social services.<sup>31</sup>

Youth unemployment rate (%), quarterly average, original									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
<b>Dec-15</b>	11.0	12.8	11.1	15.1	11.0	14.5	7.4	12.9	11.8
<b>Mar-16</b>	12.1	13.5	14.0	16.1	12.7	16.4	8.8	10.1	13.2
<b>Jun-16</b>	11.4	12.3	14.0	14.0	10.3	15.9	7.3	8.1	12.2
<b>Sep-16</b>	11.5	13.1	13.5	13.3	11.7	16.6	8.7	10.7	12.5

Source: ABS, Labour Force, Australia, Cat No. 6202.0, September 2016

<sup>30</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](#).

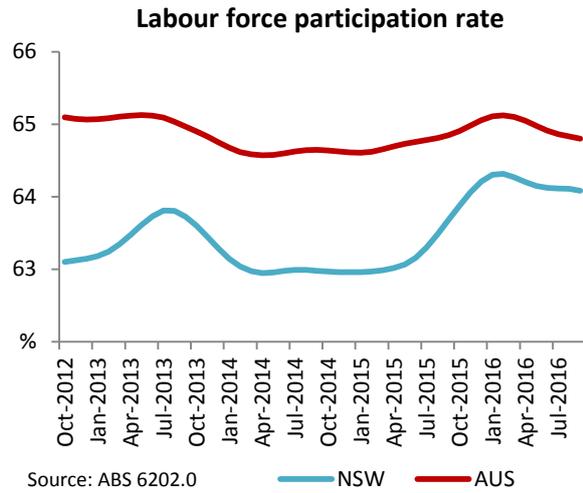
<sup>31</sup> OECD, [Investing in Youth: Australia](#), September 2016, pp 21-22.

### LABOUR FORCE PARTICIPATION

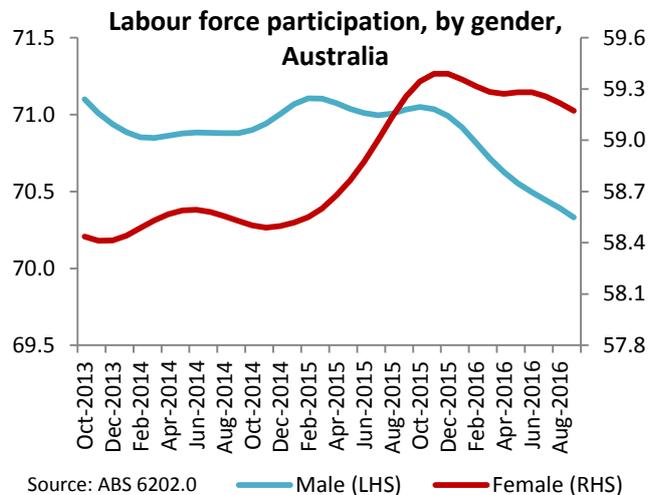
Over the September 2016 quarter, the average labour force participation rate in NSW fell by 0.1% to 63.8% (0.9% below the Australian average). Only Tasmania and South Australia had lower participation rates than NSW (59.9% and 62% respectively), while the participation rate was highest in the Northern Territory (74.3%).

Nationally, the labour force participation rate is 64.7% (0.2% below the five year average). As is illustrated in the figure on the right, longer term increases in national labour force participation figures have been primarily driven by an increase in female participation, with the latest participation rate (59.2% in September 2016) marginally below the high of 59.4% seen between November 2015 and January 2016.

In contrast, male participation rates have steadily declined from 71.1% in February and March 2015 to 70.3% in September 2016.



Source: ABS 6202.0



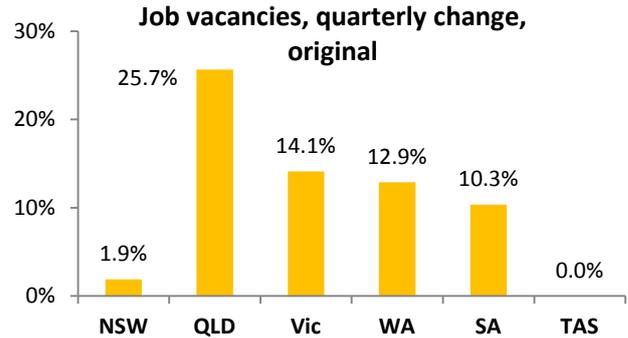
Source: ABS 6202.0

Labour force participation rate (%), quarterly average, trend									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
<b>Sep-15</b>	64.0	64.6	65.5	62.3	68.7	61.0	75.6	70.4	65.0
<b>Dec-15</b>	64.3	64.7	65.7	62.1	68.6	60.6	74.6	70.6	65.1
<b>Mar-16</b>	64.2	64.8	65.5	62.1	68.1	60.0	74.1	70.2	65.0
<b>Jun-16</b>	64.1	65.0	65.0	62.0	67.7	59.7	74.5	70.0	64.8
<b>Sep-16</b>	63.9	65.3	64.6	61.9	67.3	59.8	74.4	70.4	64.7
Source: ABS, Labour Force, Australia, Cat No. 6202.0, September 2016									

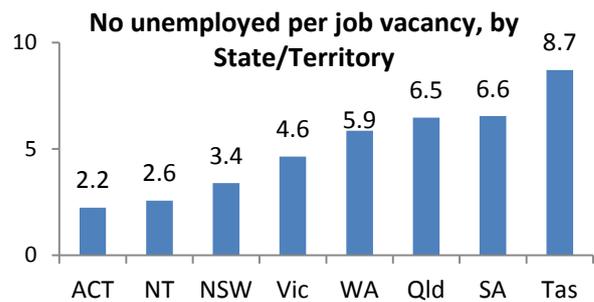
### JOB VACANCIES

The number of job vacancies in NSW rose by 1.9% to 69,400 in the August 2016 quarter, and remains 25.8% higher than the three year average of 55,200. In comparison to other jurisdictions, the increase in NSW job vacancies was modest. Queensland, Victoria and WA saw significant job vacancy increases (25.7%, 14.1% and 12.9% respectively), while the Australia-wide vacancy rate increased by 9.5% over the quarter.

Nevertheless, Greg Jericho has [commented](#) that when looking at the “job vacancy rate” (the number of vacancies as a percentage of the labour force), NSW has 3.4 unemployed for every job vacancy, one of the lowest rates in Australia (see right).



Source: ABS 6354.0

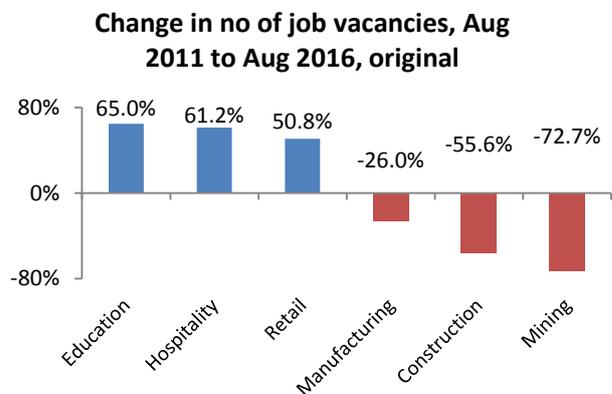


Source: The Guardian

	Number of job vacancies ('000), original								
	NSW	Vic	QLD	SA	WA	TAS	NT	ACT	AUS
Nov-15	59.7	40.3	31.9	10.2	17.3	2.7	2.3	6.0	170.4
Feb-16	65.3	47.3	26.0	9.8	15.5	2.5	2.6	4.8	173.8
May-16	68.1	39.7	23.0	8.7	15.5	1.9	2.3	4.9	164.1
Aug-16	69.4	45.3	28.9	9.6	17.5	1.9	2.4	4.7	179.7

Source: ABS, Job Vacancies, Australia, Cat No. 6354.0, August 2016

According to ABS trend data, the number of job vacancies nationally increased for the 12<sup>th</sup> consecutive quarter in August 2016 to 175,300 – a run surpassed only by 13 consecutive quarters after the 1990 recession.<sup>32</sup> Over the past five years, in line with broader economic trends,<sup>33</sup> vacancies have significantly increased in the services sector while decreasing in sectors such as mining and manufacturing (see right).



Source: ABS 6354.0

<sup>32</sup> G Jericho, [Job vacancies are up. So why isn't unemployment down?](#), The Guardian, 4 October 2016.

<sup>33</sup> See C Angus, [NSW Economic Update: Winter 2016](#), p 19; C Angus. [Future workforce trends in NSW: Emerging technologies and their potential impact](#), 2015, Ch 4.

NAB's September 2016 [Quarterly Business Survey](#) stated that employer hiring intentions had improved over the quarter, with suitable labour becoming more difficult to find:

Firms are again suggesting that they have had greater difficulty in finding suitable labour – reflected in the NAB Survey measure from around mid 2015. That was to be expected given falls in the unemployment rate and population growth, although big shifts in worker migration post the mining investment boom may be helping alleviate the strain in the big eastern states.<sup>34</sup>

## WAGES

Wages growth remained subdued over the June quarter, remaining at 0.4% in NSW and 0.5% at the national level. On an annual basis, wages growth has slowed in NSW and in the 12 months to June 2016 was recorded at 2.2% – 1% below the decade average of 3.2%.



Source: ABS 6345.0

The average adult weekly full-time earnings (ordinary time) in NSW rose by 0.9% in the May 2016 half year to \$1,541, down from 2.4% in the half year to May 2014. NSW had the fourth highest average weekly earnings behind the ACT (\$1,727), Western Australia (\$1,701) and the Northern Territory (\$1,572).

Average adult weekly fulltime earnings (\$), ordinary time, trend								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
<b>May-14</b>	1458.10	1385.30	1439.40	1353.30	1641.50	1252.80	1425.50	1670.20
<b>Nov-14</b>	1491.00	1393.10	1452.20	1348.00	1671.20	1265.20	1455.20	1695.80
<b>May-15</b>	1512.00	1400.40	1444.20	1351.40	1692.30	1290.60	1511.10	1709.20
<b>Nov-15</b>	1527.20	1424.50	1447.40	1376.30	1704.50	1316.00	1549.90	1714.90
<b>May-16</b>	1541.10	1454.10	1459.50	1415.60	1701.20	1336.90	1571.70	1726.80

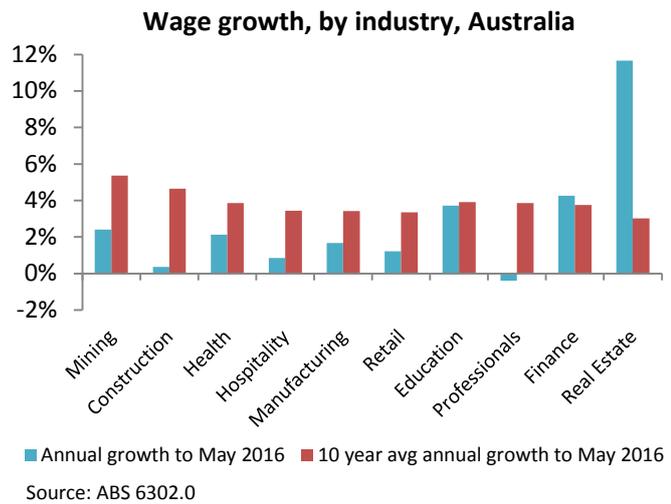
Source: ABS, Average weekly earnings, Australia, Cat No. 6302.0, May 2016

In May 2016 the ABS [reported](#) that the March 2016 quarter's national wages growth rate (2.1%) was the lowest on record since the series began in September 1998. The June quarter saw wages grow at this same low rate.<sup>35</sup>

<sup>34</sup> NAB, [Quarterly Business Survey: September 2016](#), 20 October 2016, p 6.

<sup>35</sup> ABS, [Wage growth subdued in June Quarter 2016](#), Media Release, 17 August 2016.

Weak national wages growth has affected the majority of Australian industry sectors. As shown in the figure adjacent, across most sectors annual wage growth to May 2016 has been well below their respective 10 year averages.

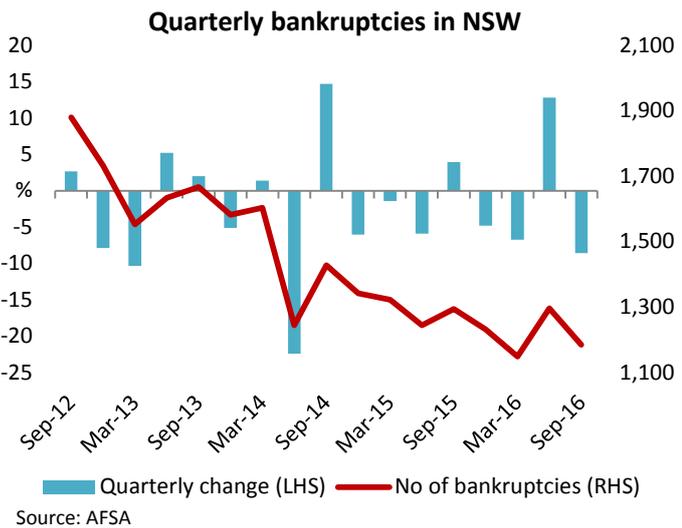


Annual wage growth for the construction industry was 0.4% over the year to May 2016, compared to a 10 year average growth rate of 4.7% (a -4.3% difference).

Similarly, annual wages for the professional, scientific and technical services sector *declined* by 0.4% over the past 12 months compared to a 3.9% average growth rate over the past decade (a -4.3% difference). In contrast, wages growth in the real estate sector jumped by 11.7% over the past 12 months; well above its 10 year average growth rate of 3% (and a 8.6% increase from the sector’s long term average growth rate).

**BANKRUPTCIES**

The number of bankruptcies in NSW fell by 8.6% in the September 2016 quarter, from 1,296 to 1,185. Bankruptcies have trended down in NSW over the last few years and are 28.9% lower than they were in September 2013.



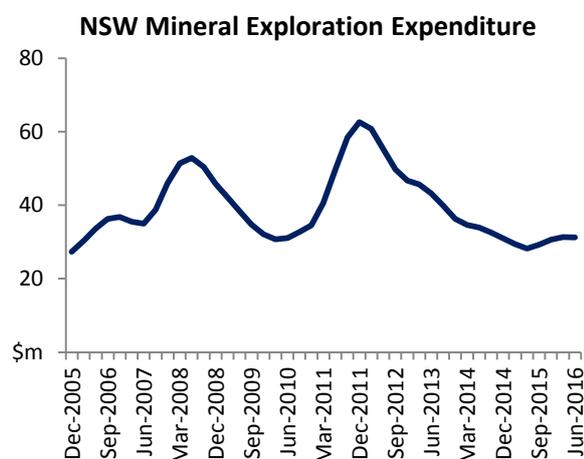
NSW had the equal second greatest fall in bankruptcies over the quarter (8.6%, tied with Queensland), while South Australia recorded the largest quarterly drop (10.6%). The Northern Territory (52.2%) and the ACT (13.6%) had the largest increases in bankruptcies of all Australian jurisdictions.

Bankruptcies per quarter (Parts IV and XI of the <i>Bankruptcy Act 1966</i> (Cth))								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Sep-15	1,294	929	1,295	280	408	105	27	48
Dec-15	1,232	845	1,235	300	383	123	30	33
Mar-16	1,149	840	1,278	286	409	100	20	41
Jun-16	1,296	864	1,392	298	482	113	23	44
Sep-16	1,185	818	1,272	267	479	125	35	50

Source: Australian Financial Security Authority, September 2016

## 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.



Source: ABS 8412.0

NSW mineral exploration expenditure decreased over the June quarter by 0.32% and remains 50.2% below the high for the reporting period realised in December 2011. Investment in the mining sector in Australia has been slowing down over the last couple of years, with mineral exploration expenditure down by 64.8% (or \$631.4 million) since June 2012.

A significant share of this decline is accounted for by Western Australia, where exploration expenditure has declined by 59.4% (\$321.8 million) since June 2012.

Mineral exploration expenditure (\$m), trend								
	NSW	VIC	QLD	SA	WA	TAS	NT	AUS
<b>Jun-2015</b>	28.2	6.3	70.1	15.7	208.1	3.7	26.0	358.1
<b>Sep-2015</b>	29.2	6.8	67.1	11.1	208.4	3.3	26.6	352.6
<b>Dec-2015</b>	30.6	7.1	61.7	10.4	215.7	3.2	26.1	354.8
<b>Mar-2016</b>	31.3	7.3	52.1	12.2	219.2	3.3	24.7	350.1
<b>Jun-2016</b>	31.2	7.5	44.1	13.8	219.9	3.5	23.0	343.0

Source: ABS, Mineral and Petroleum Exploration, Australia, Cat No. 8412.0, June 2016

In their October 2016 minutes, the RBA Board noted that the transition of economic activity to the non-resources sector had continued, with GDP growth a little above estimates as a result of greater-than-expected resources exports. The Board also noted that stabilising employee earnings growth could be attributed to the movement of labour from mining to the non-mining sectors of the economy.<sup>36</sup>

<sup>36</sup> RBA, [Minutes of the Monetary Policy Meeting of the Reserve Bank Board](#), 4 October 2016.

### TURNOVER OF RETAIL TRADE

Average monthly turnover of retail trade in NSW rose by 0.8% in the June 2016 quarter to almost \$8.1 billion. However, this growth rate was lower than both than the March 2016 quarter (1.4%) and the 10 year June quarter average (1.1%).

NSW's 0.8% increase in average quarterly retail growth was the third highest of all the States and Territories, with South Australia (1.1%) and Tasmania (0.9%) having higher levels of average quarterly growth.

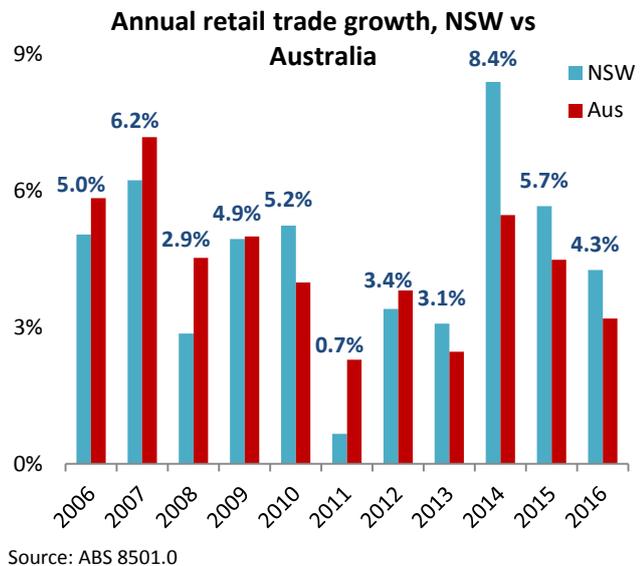


Turnover of retail trade (\$m), quarterly average, trend									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Jun-15	7,721	6,021	4,944	1,575	2,789	475	256	432	24,213
Sep-15	7,835	6,118	4,945	1,582	2,809	480	258	435	24,461
Dec-15	7,915	6,206	4,977	1,596	2,813	487	259	443	24,698
Mar-16	7,989	6,253	4,992	1,614	2,809	493	260	455	24,865
Jun-16	8,050	6,278	5,004	1,632	2,811	498	257	457	24,986

Source: ABS, Retail Trade, Australia, Cat. No. 8501.0, August 2016

More significant is the longer run growth trend, with retail trade in the State up 4.3% from the previous year. This was higher than the Australian average of 3.2% and the equal third highest (with Victoria) of all Australian jurisdictions, with only the ACT (5.7%) and Tasmania (4.8%) having higher growth.

These figures indicate that, despite subdued wages growth in recent years, growth elsewhere in the State economy continues to have flowthrough effects to retail trade. This is likely a result of ongoing growth in the housing market, which in turn has been induced (at least in part) by historically low interest rates.



## VEHICLE SALES

Motor vehicle sales in NSW and Australia have been relatively resilient in spite of weak wages growth and a depreciating Australian dollar. The average number of new vehicles sold per month in NSW declined slightly by 0.12% in the June 2016 quarter to 33,019 – the same as the national average. However, annual growth for NSW was at 5.3% to the June 2016 quarter: above the Australian average (2.4%), and the second highest growth of all jurisdictions after the ACT (6.9%).

St George Bank commented on recent vehicle sales trends as follows:

The pace of motor vehicle sales suggests that consumer spending will continue to grow at a modest pace and is consistent with above average levels of business conditions. With low interest rates and confidence for businesses and consumers at close to average levels, a moderate pace of growth in motor vehicle sales is expected to continue.<sup>37</sup>

Sales of new vehicles, quarterly average, trend									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Jun-15	31,366	26,121	19,474	5,687	8,830	1,603	908	1,485	95,474
Sep-15	32,404	26,441	19,721	5,615	8,765	1,607	844	1,537	96,934
Dec-15	32,687	26,691	19,793	5,874	8,805	1,597	826	1,513	97,787
Mar-16	33,057	26,674	19,486	5,988	8,674	1,559	887	1,524	97,848
Jun-16	33,019	26,889	19,384	5,920	8,443	1,565	922	1,586	97,728

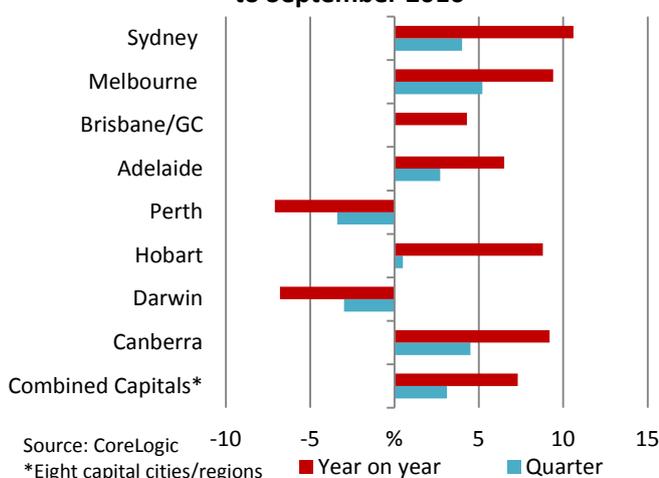
Source: ABS, Sales of new motor vehicles, Australia, Cat. No. 9314.0, August 2016

## HOUSE PRICES

Following a [slowdown](#) in late 2015 and early 2016, which saw Sydney's house prices fall for two consecutive quarters, the city's housing market rebounded during the June quarter.

According to [CoreLogic](#), Sydney's median house price rose by 4% over the September quarter to \$890,000: the third highest quarterly increase after Victoria (5.2%) and the ACT (4.5%), and the highest year-on-year increase (10.6%).

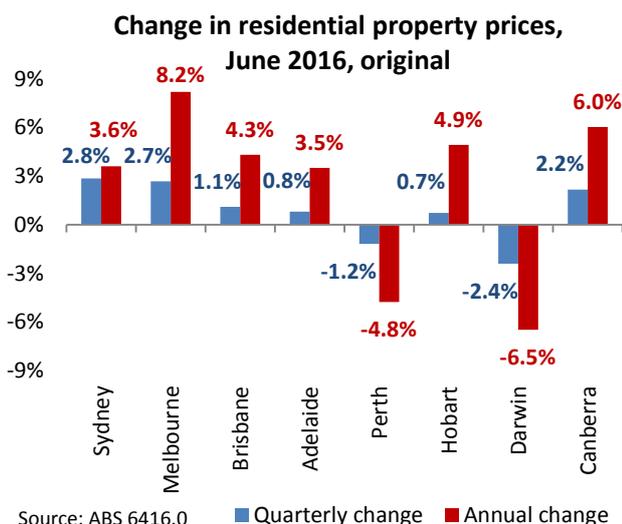
Median house price growth, by capital city, to September 2016



<sup>37</sup> St George Bank, [New Motor Vehicle Sales: In Cruise Control](#), 15 September 2016, p 1.

The ABS's Residential Property Price Index for Sydney<sup>38</sup> reported a 2.8% increase in the June quarter with prices for established houses in Sydney rising by 3.2% and attached dwellings by 2%.

Over the year to June, the Sydney Index increased by 3.6%. In comparison, Melbourne and Canberra saw increases of 8.2% and 6% respectively, while Darwin and Perth saw significant falls in their Indexes (-6.5% and -4.8%).



House price indexes: eight capital cities, original									
	SYD	MEL	BRIS	ADE	PER	HOB	DAR	CAN	Weighted Average
<b>Jun-15</b>	149.8	120.8	113.7	108.5	113.4	105.7	112.6	106.2	127.8
<b>Sep-15</b>	154.4	124.3	115.2	109.8	110.7	106.2	112.1	107.6	130.4
<b>Dec-15</b>	151.9	126.3	117.0	110.8	111.2	108.9	110.1	110.6	130.6
<b>Mar-16</b>	150.9	127.3	117.3	111.4	109.3	110.1	107.9	110.2	130.4
<b>Jun-16</b>	155.2	130.7	118.6	112.3	108.0	110.9	105.3	112.6	133.0

Source: ABS, Residential Property Price Indexes: Eight Capital Cities, Cat. No. 6416.0, June 2016

Previous Economic Updates have commented on the unrelenting housing boom in Sydney. For example, it was previously reported that the [Demographia International Housing Affordability Survey](#) found Sydney's median house prices to be the second least affordable in the world, with average prices 12.2 times higher than gross annual median household income.

More recently, The New Daily [referred](#) to Australian Prudential Regulation Authority (APRA) data which indicated that first home buyers may be resorting to interest-only loans in order to buy property. By using these loans, first home buyers not only take longer to build equity in their homes, but have little room to adjust their loan repayments if an economic downturn were to occur.

In light of this sustained property price growth, experts [warn](#) that Australia risks becoming a polarised society comprised of "a weakened renting class, an impenetrable elite, and a shrunken home-owner class between them":

One consequence of the housing boom is that a growing cohort of moderate-income households is now priced out of home ownership. Had they been born a generation earlier, they would have probably been able to afford a house. Now it is beyond their reach.

Over the years, as their rents rise and their wealth stagnates, the gap between the

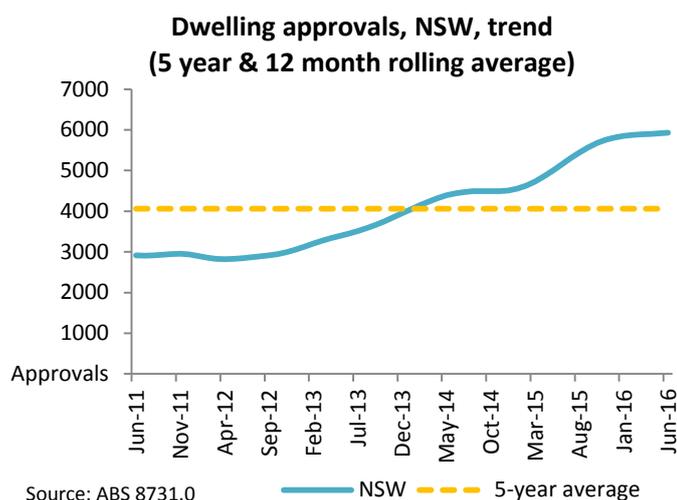
<sup>38</sup> Which measures price changes of residential dwelling stock.

renter and a home owner will become unbridgeable. Their experience of retirement will be worlds apart.<sup>39</sup>

## DWELLING APPROVALS

The average monthly number of dwellings approved in NSW increased by 7.9% in the June 2016 quarter to 6,430 approvals: 4.6% higher than the June 2015 quarterly average.

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, NSW building approvals remain at near record levels (see adjacent). Although there has been a slowing of approvals in NSW since March 2015, approval numbers are still 46% higher than the five year average.



National dwelling approvals were, on average, up by 2.1% for the June quarter, with NSW approvals levels the highest of all States and Territories. With the exception of Victoria (3.4%), all other jurisdictions were below the national average, with Tasmania and Western Australia recording declines in approvals of 8.6% and 8.5% respectively.

Number of dwellings approved, quarterly average, trend							
	NSW	VIC	QLD	SA	WA	TAS	AUS
<b>Jun-15</b>	6,144	5,842	4,054	861	2,600	250	20,276
<b>Sep-15</b>	5,894	5,445	4,123	939	2,349	225	19,538
<b>Dec-15</b>	5,610	5,546	4,245	994	2,086	209	19,127
<b>Mar-16</b>	5,958	5,677	4,304	1,021	1,980	197	19,636
<b>Jun-16</b>	6,430	5,869	4,167	1,028	1,811	180	20,055
Source: ABS, Building Approvals, Australia, Cat. No. 8731.0, August 2016							

Turning to the most recent month's approval data, the Commonwealth Bank reported an 11.3% increase in residential building approvals in July 2016: 3.1% higher than the year before. According to the Commonwealth Bank, this outcome was driven by a 23% lift in apartment approvals, which in turn were "turbo-charged" by an 83% spike in NSW apartment approvals.<sup>40</sup>

<sup>39</sup> I Wiesel, [How the housing boom is remaking Australia's social class structure](#), The Conversation, 17 October 2016.

<sup>40</sup> Commonwealth Bank, [Building approvals spike up by 11.3% in July 2016](#), 30 August 2016.

With regard to apartments, the RBA warns that domestic financial stability risks have shifted towards property development, including apartment oversupply in Sydney and other capital cities. The RBA's latest [Financial Stability Review](#) reiterated its ongoing unease over banks' exposure to the inner city apartment sector (p 26):

Overall, these estimates suggest that, by value, banks are most exposed to inner-city housing markets through their mortgage lending rather than via their development lending ... At around \$20–30 billion, mortgage exposures are estimated to be larger in Sydney, reflecting Sydney's higher apartment prices and greater number of mortgaged dwellings, than in Brisbane and Melbourne where mortgage exposures are estimated at around \$10–20 billion in each inner-city area. By contrast, the available data suggest that around one-fifth of banks' total residential development lending is to these areas.<sup>41</sup>

Nevertheless, the Commonwealth Bank predicted that approval figures would remain high for the remainder of the year:

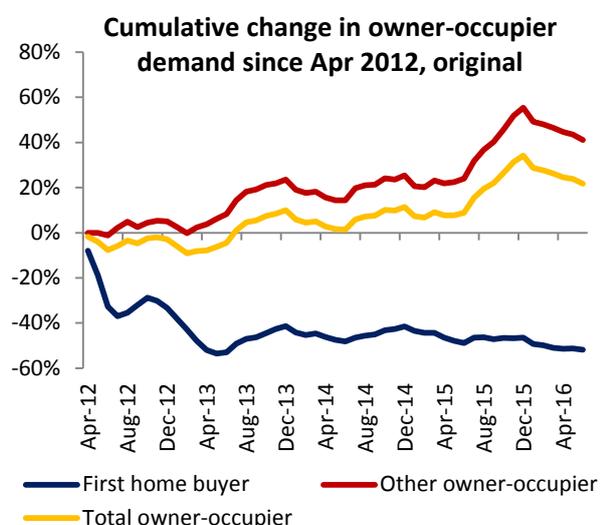
In our view, the May and August RBA rate cuts, and another likely RBA 0.25% cut at the November RBA board meeting, should keep residential approvals at relatively elevated levels through the rest of 2016. ... At this stage, there could be some oversupply issues developing in 2016 in the high-rise apartment segments for some suburbs in inner-city Sydney, Melbourne and Brisbane. The rental market is flashing amber in this regard. But it does not appear to apply to the detached housing markets in these cities.<sup>42</sup>

## HOUSING FINANCE

The average number of owner-occupier (including first home owner) dwellings financed in NSW increased by 14.7% during the June quarter to 18,014: slightly above the national quarterly average (14%).

However, the increase in housing finance has come overwhelmingly from *non-first home buyer* commitments, with *first home buyer* demand 52% lower than the seen in April 2012 (see right).

The issue of low first home buyer levels is illustrated by findings in the 2016 Household, Income and Labour Dynamics in Australia (HILDA) [survey](#).



Source: ABS 5609.0

<sup>41</sup> RBA, [Financial Stability Review – October 2016](#), p 26.

<sup>42</sup> Ibid.

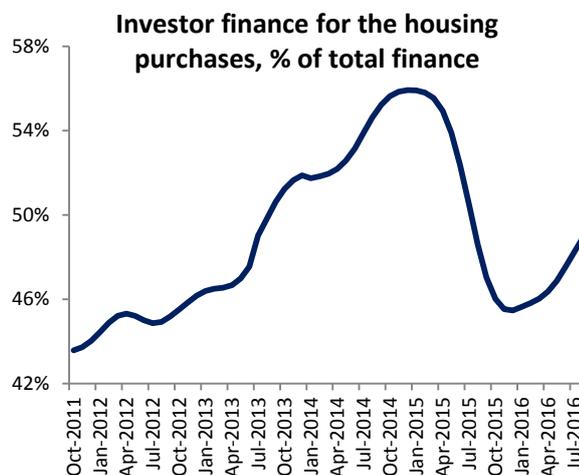
The HILDA survey revealed a rapidly growing divide between younger persons<sup>43</sup> and older home owners:

Using the information on the identities of the legal home owners available in wealth years, the figure shows that the decline in home ownership has been concentrated on those aged under 55. Home ownership among persons aged 25–34 declined from 38.7% in 2002 to 29.2% in 2014, with much of the decline occurring between 2010 and 2014. ... There was essentially no change in home ownership among those aged 65 and over.<sup>44</sup>

According to ABS trend data, the November 2014 to January 2015 period saw a record level of *investor participation* in the purchase of new and established homes. Investors accounted for 55.9% of total housing finance nationally over this three month period. To put this into perspective, as recently as April 2009, this figure was recorded at 37.1%. Investor housing demand then dropped in the second half of 2015 after the banking regulator APRA 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.

Although observers previously warned that investor demand could decrease further as lenders toughened borrowing conditions,<sup>45</sup> 2016 data indicates an increase in the proportion of investor finance for housing purchases (see adjacent).

As a proportion of total dwelling finance, housing finance increased by 2.1% over the three months to August 2016; 3.1% between February and August 2016; and is 0.4% higher than 12 months earlier.



Source: ABS 5609.0

Nevertheless, investor finance remains 7% below the peak seen between November 2014 and January 2015. According to the Commonwealth Bank, the resilience of investor lending indicates the effectiveness of ongoing RBA policy easings and record low interest rates, while the August RBA rate cut may result in further acceleration in lending growth to investors.<sup>46</sup>

<sup>43</sup> The ABS reported that the average age of first home buyers is between 31 and 33 years old. See ABS, [4130.0 - Housing Occupancy and Costs, 2009-10](#), 16 November 2011.

<sup>44</sup> HILDA, [The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 14](#), 2016, p 68.

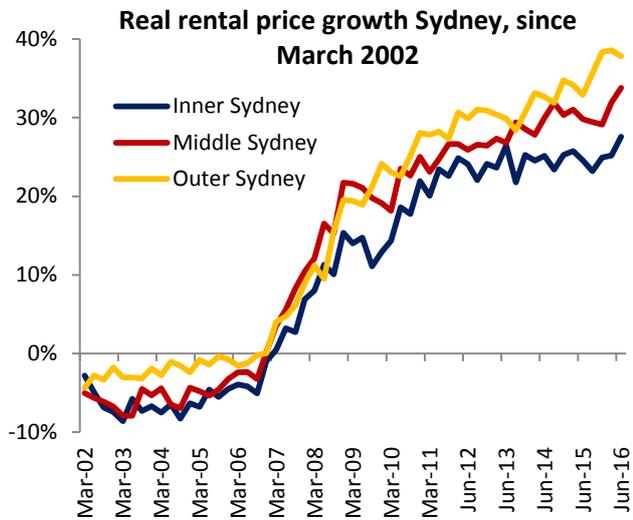
<sup>45</sup> C Angus, [NSW Economic Update Winter 2016](#), p 28.

<sup>46</sup> Commonwealth Bank, [Housing Finance – August](#), 11 October 2016.

## 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 straightforward aspect, is the effect rising rents have on home ownership affordability.

As discussed in the 2015 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.

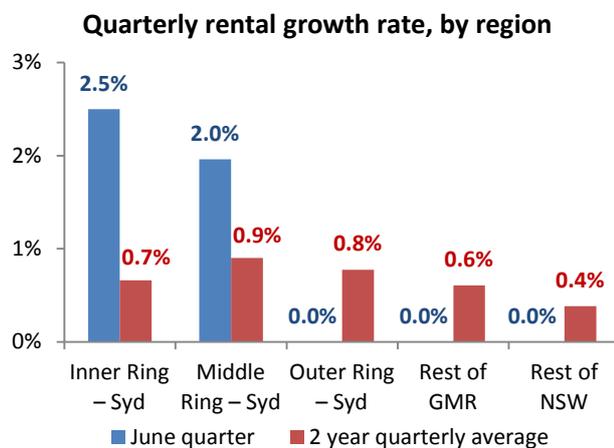


Sources: Housing NSW; ABS 6401.0 (original data)

For these buyers, there is a significant opportunity cost in waiting to buy a first home which materialises in two ways. First, 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 above, real rental prices (i.e. having accounted for inflation) have risen consistently across Sydney over the past decade.

Over the June 2016 quarter, Sydney's Inner ring and Middle Ring suburbs saw median weekly rent increases of 2.5% and 2.0% – higher than their respective two year quarterly average increases (0.7% and 0.9%). In contrast, median rents elsewhere in Sydney and NSW remained static (see right).



Source: Housing NSW. Note: GMR = Greater Metropolitan Region

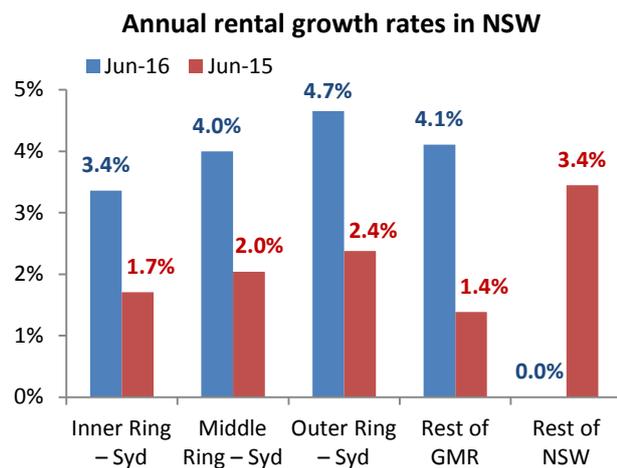
Median weekly rents by NSW region (\$), all dwellings – all bedroom numbers							
	Greater Sydney	Sydney – Inner Ring	Sydney – Middle Ring	Sydney – Outer Ring	Rest of GMR*	Rest of NSW	NSW total
<b>Jun-15</b>	500	595	500	430	365	300	430
<b>Sep-15</b>	500	590	500	440	370	300	440
<b>Dec-15</b>	500	600	500	450	380	300	450
<b>Mar-16</b>	510	600	510	450	380	300	450
<b>Jun-16</b>	520	615	520	450	380	300	450

Source: Housing NSW, Rent and Sales Reports, Issue 116

\*Greater Metropolitan Region

Nevertheless, on an annual basis, rental growth remains most pronounced in the outer urban areas of Sydney. Over the 12 months to June 2016, Outer Ring suburbs saw annual rent increases of 4.7% and Middle Ring suburbs saw a 4% increase over this period: double the growth rate seen between July 2014 and June 2015 (see right).

For a full list of median weekly rents by Local Government Areas and regions 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.

**Original estimates:** Original collected data containing seasonal patterns, residual noise and irregular influences.

**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 estimates:** 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:** 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.