



statistical indicators



NSW Parliamentary Research Service

NSW Economic Update Summer 2017

Statistical Indicators 01/17
By Chris Angus

RELATED PUBLICATIONS

- *NSW Economic Update: Spring 2016*, NSW Parliamentary Research Service Statistical Indicators 05/2016 by Chris Angus
- *NSW Economic Update: Winter 2016*, NSW Parliamentary Research Service Statistical Indicators 03/2016 by Chris Angus

ISSN 1838-0190

January 2017

© 2017

Except to the extent of the uses permitted under the *Copyright Act 1968*, no part of this document may be reproduced or transmitted in any form or by any means including information storage and retrieval systems, without the prior consent from the Manager, NSW Parliamentary Research Service, other than by Members of the New South Wales Parliament in the course of their official duties.

NSW Economic Update Summer 2017

by

Chris Angus

NSW PARLIAMENTARY RESEARCH SERVICE

Matthew Dobson (BA (Psych Hons), PhD),
Manager, Health, Media and Communications..... (02) 9230 2356

Daniel Montoya (BEnvSc (Hons), PhD),
Senior Research Officer, Environment/Planning (02) 9230 2003

Lenny Roth (BCom, LLB),
Senior Research Officer, Law..... (02) 9230 2768

Christopher Angus (BA(Media&Comm), LLM(Juris Doctor)),
Research Officer, Law (02) 9230 2906

Laura Ismay (BIGS, GCert Mig Law),
Research Officer, Law (02) 9230 2484

Tom Gotsis (BA, LLB, Dip Ed, Grad Dip Soc Sci)
Research Officer, Law (02) 9230 3085

John Wilkinson (MA, PhD),
Research Officer, Economics (02) 9230 2006

Should Members or their staff require further information about this publication please contact the author.

Information about [Research Publications](#) can be found online.

Advice on legislation or legal policy issues contained in this paper is provided for use in parliamentary debate and for related parliamentary purposes. This paper is not professional legal opinion.

CONTENTS

Summary	4
Interest rates	9
State demand and gross state product.....	10
Household Consumption	11
Business investment	13
Exchange rate	14
International trade	15
Consumer price index	17
Employment	18
Unemployment	19
Youth unemployment	20
Labour force participation	21
Job Vacancies	22
Wages	23
Bankruptcies.....	24
Mineral exploration expenditure	25
Turnover of retail trade	26
Vehicle sales	27
House prices	27
Dwelling approvals	29
Housing finance.....	30
Rent.....	32
Glossary	34

SUMMARY

The state of the NSW economy

For the fourth consecutive quarter, **New South Wales** has been the best performing State in Australia. Commsec's January 2017 [State of the States Report](#) found that NSW remains the top State for business investment, retail trade, and dwelling starts; recently became top-ranked on unemployment and economic growth; and is in second place for construction work and population growth.¹

In its November 2016 [NSW Economic Outlook](#), St George Bank summarised the many strengths of the State economy in recent quarters:

- In 2015-16, the NSW economy grew at its fastest pace since 1999-00 [and above the 20 year average of 2.5%]. With growth of 3.5%, the NSW economy was the fastest growing in Australia. We expect economic growth in NSW to remain solid in 2016-17.
- The housing market has been a key area of strength for NSW. Two interest rate cuts from the RBA have supported the housing market this year, and should continue to provide a boost. Dwelling investment is expected to continue to contribute to economic growth, although at a declining pace. Dwelling price growth is likely to moderate, however, as supply ramps up this year and next.
- In recent years, low interest rates, rising house prices and an improving jobs market supported consumer spending in NSW. Growth in consumer spending remains solid, but has eased somewhat, with weak growth in incomes keeping a lid on consumers' appetites for additional spending.
- The positive outlook for NSW has led to an increase in business investment growth. Low interest rates, a low Australian dollar and strong conditions in the housing market have been supportive of private business investment. There has been a healthy amount of activity within commercial construction and the government has added to economic growth in NSW with increased infrastructure spending.²

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.³

¹ Commsec, [State of the States](#), January 2017, p 2.

² St George Bank, [NSW Economic Outlook](#), 23 November 2016, p 1.

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

Based on the latest quarterly movements,⁴ the strengthened and weakened areas of the NSW economy are summarised in the following table. 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
State final demand (up 0.9%)	Mining investment (up 0.64%)	Employment (down 0.16%)
Gross State Product (up 3.5%)	Retail trade (up 0.8%)	Youth unemployment (up 0.7%)
Household consumption (up 0.4%)	Sydney median house price (up 2.7%)	Participation rate (down 0.35%)
Business investment (up 0.9%)	Motor vehicle sales (up 0.36%)	Job vacancies (down 0.6%)
Trade deficit (down \$154m)	Bankruptcies (down 9%)	Dwelling approvals (down 2.5%)
Wages (up 0.9%)		Housing finance (down 6.2%)

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 November 2016 [Statement on Monetary Policy](#), the RBA forecast Gross Domestic Product (GDP) growth to be in the 2.5-3.5% range by June 2017, increasing to 3-4% by June 2018.⁵ 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:⁶

- Low interest rates and gains to employment and wealth, which are expected to continue to support household demand;
- Growing levels of dwelling investment for the next year or so, albeit increasing at a gradually slower rate; and
- The diminishing impact of mining investment from GDP growth, although accompanied by a subdued outlook for non-mining business investment in the near term.

Reviewing domestic economic conditions in its December 2016 [Minutes on Monetary Policy](#), the RBA Board was not especially optimistic. It noted that, based on recent data, GDP growth was likely to be weaker than had been previously expected, while wage growth remained lower than implied by the historical relationship with the unemployment rate.

Board Members also expressed concern about the level of underemployment, commenting that all of the growth in employment over 2016 had been in part-time employment, with an increased share of workers reporting that they would like to work more hours.

⁴ For the most recent quarter in which data is available.

⁵ RBA, [Statement on Monetary Policy](#), November 2016, p 57.

⁶ Ibid.

In more positive news, the Board noted that established housing market conditions had strengthened over recent months; export volumes increased during the September quarter; and commodity price increases had improved Australia's terms of trade by around 6% over the June and September quarters.

Defining 'employed' and the growing demand for more work

As commented by the RBA above, recent Australian employment growth has come almost entirely from part time employment rather than full time jobs. The ABS commented on its latest Labour Force results as follows:

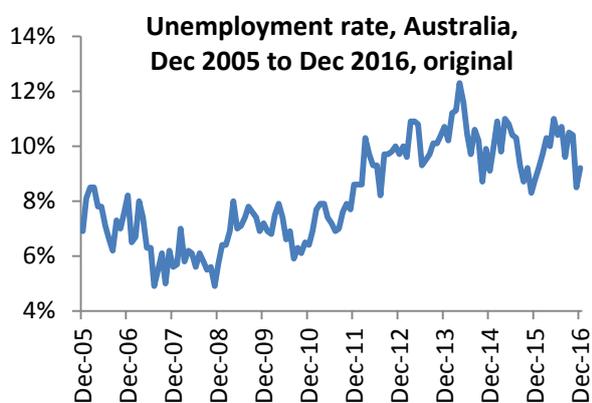
"Over the past year we have seen a shift towards part-time employment, particularly in the first half of 2016. There are now around 120,900 more people working part-time than there were a year ago, and around 35,300 fewer people working full-time. Since December 2015, the share of part-time employment increased from 31.1 per cent to 31.9 per cent," said the General Manager of the ABS' Macroeconomic Statistics Division, Bruce Hockman.⁷

This trend is discussed further in this paper's chapter on Employment.

These findings are of concern to a range of stakeholders such as the [RBA](#) and the [Commonwealth Bank](#), with the latter commenting that the trend towards part time work risks exacerbating already low wage and household income growth.⁸ However, other observers have argued that Australia's labour force faces even greater problems than those evident in the ABS data.

Commentators have [argued](#) that, because of the way the ABS Labour Force Survey defines 'employment'—a person engaged in **one** or more hours of work during the reference period⁹—it **underreports** the true level of unemployment.

In contrast, Roy Morgan's unemployment estimate [defines](#) unemployment as when a person is looking for work, no matter when. Using this methodology, Roy Morgan Research's estimate of Australia's unemployment rate was 10.8% as of December 2016 (see right): nearly double the estimate made by the ABS that month (5.7%).



Source: Roy Morgan Research

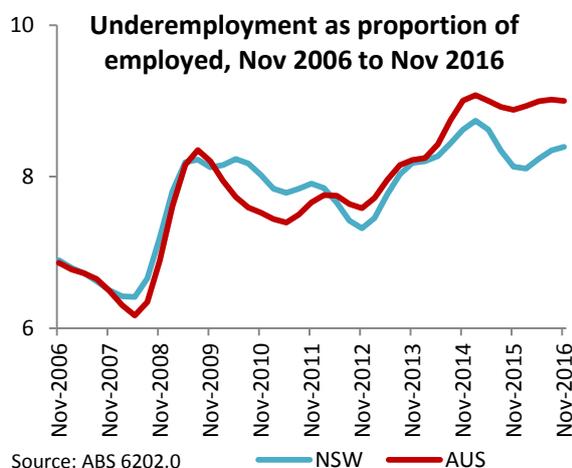
⁷ ABS, '[Full-time employment increases for third straight month](#)' (Media Release, 19 January 2017).

⁸ Also see C Angus, [Economic Update: Spring 2016](#), November 2016, Summary.

⁹ ABS, [6102.0.55.001 - Labour Statistics: Concepts, Sources and Methods](#), 2006, 15 December 2005.

Irrespective of the accuracy of these two unemployment estimates, the ABS data suggests that **underemployment**,¹⁰ in NSW and Australia more broadly, is becoming an issue for the State and Commonwealth Governments.

The underemployment figures shown to the right show the proportion of employed persons who have indicated that they want more work hours. After reaching a decade low of 6.4% over February and March 2008, the proportion of the NSW workforce wanting more working hours has increased to 8.4% as of November 2016. This follows a similar trend to national figures, with an estimated 9% of Australian workers desiring more work.



Perhaps, as argued in a recent [article](#) by Professor Phil Lewis, it is necessary to change the methodologies used by the ABS and other authorities to determine the economic health of the State, and Australian, labour force:

Our conventional employment measures are no longer equipped to inform us about important aspects of our labour force and a reliance on them could lead to inappropriate policy. We need labour force numbers that can capture the nuances of a modern economy.¹¹

¹⁰ Employed persons aged 15 years and over who want, and are available for, more hours of work than they currently have. See [ABS, 6202.0 - Labour Force, Australia, Dec 2016](#), 19 January 2017.

¹¹ P Lewis, [We need to find new ways to measure the Australian labour force](#), The Conversation, 13 January 2017.

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

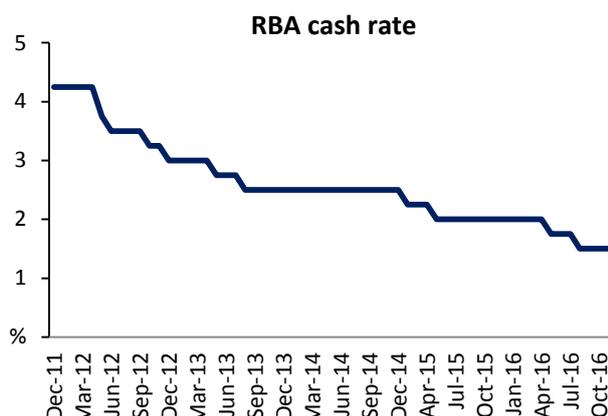
Data presented in this paper is primarily sourced from the Australian Bureau of Statistics (ABS). Sources other than the ABS have been used where relevant and are identified in the paper. Analysis and forecasts from the RBA and major private banks (including Westpac, NAB, the Commonwealth Bank and St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

Changes from previous Updates

This Economic Update presents ABS **trend estimates** where available; trend data is [preferred](#) by the ABS for analysis of monthly or quarterly changes, as they remove potentially misleading seasonal patterns, residual noise and irregular influences. Any original or seasonally adjusted data will be labelled throughout the paper.

INTEREST RATES

In December 2016, the RBA decided to keep the cash rate unchanged at 1.5%. The August 2016 [decision](#) to cut the cash rate to [record lows](#) was made for two reasons: (i) that low inflation continues to pose challenges for the national economy; and (ii) a need to instigate stronger growth.



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 December [meeting](#). The Board commented that GDP growth in the September quarter was likely to be lower than forecast, but that low interest rates and the lower exchange rate since 2013 had assisted the economy in its transition following the mining investment boom.

However, there remained considerable uncertainty about the momentum in the labour market. Although part-time employment had grown strongly over the year, overall employment growth had slowed, and excess capacity in the labour market was expected to remain for some time. These factors suggested that inflation would remain low for some time before returning to more normal levels.

Accordingly, the Board concluded that the cash rate should remain unchanged at 1.5%, which would be consistent with sustainable economic growth and achieving the inflation target in the future.

Turning to commentary from financial institutions, the [Commonwealth Bank](#), [Westpac](#) and [BIS Shrapnel](#) predict the cash rate to remain at 1.5% throughout 2017 (and in the case of the Commonwealth Bank and Westpac, into 2018), while [NAB](#) forecasts the cash rate to lower to 1% by the end of 2017 and remain there until at least 2018.

In its commentary on the rate decision, the Commonwealth Bank noted that the decision “contains the thumb print of new Governor Philip Lowe”, with indications that the new Governor is placing greater emphasis on policy settings on asset prices and financial stability than the RBA did under Governor Glenn Stevens.¹² However, St George Bank [argued](#) that the RBA remains overly optimistic regarding economic activity and inflation, and that further cuts would occur if economic activity and inflation fail to reach forecast levels.

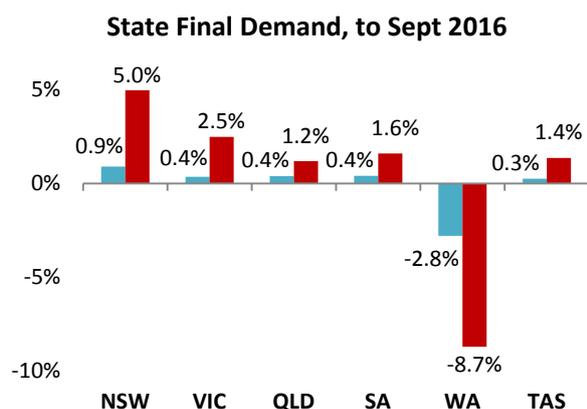
¹² Commonwealth Bank, [RBA Minutes – December 2016](#), 20 December 2016.

STATE DEMAND AND GROSS STATE PRODUCT

National final demand—the best quarterly proxy for economic growth—increased by 0.2% over the September 2016 quarter, and 2.2% in the 12 months to September 2016. In seasonally adjusted terms, Australia's GDP decreased by 0.5% over the quarter: the **largest fall** since December 2008, although BIS Shrapnel reported that this result is an aberration caused by a number of one-off factors such as weather events, reversals of one-off boosts and declines in non-dwelling building investment.¹³

Demand in NSW was 0.9% higher for the September 2016 quarter (see right), lower than the preceding June quarter (1.3%) and the two year quarterly average (1%). Quarterly final demand growth remained weak across other States and Territories, with the biggest quarterly and annual decline occurring in Western Australia (2.8% and 8.7% respectively).

Annual demand growth in NSW to September 2016 was the highest of all the States at 5%: the same as the last quarter and double the next highest growth level (Victoria at 2.5%).

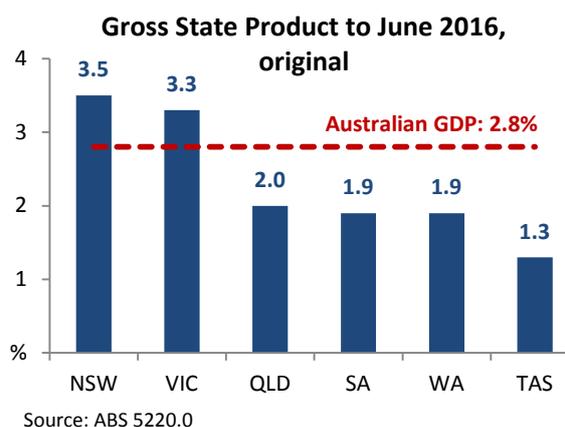


Source: ABS 5206.0 ■ Quarterly change ■ Annual change

State final demand (\$m), chain volume measures, trend								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Dec-2015	128,409	97,789	79,100	26,066	53,163	7,394	6,975	15,285
Mar-2016	130,262	98,528	79,420	26,199	51,988	7,416	6,943	15,609
Jun-2016	131,896	99,106	79,759	26,331	50,621	7,440	7,102	15,930
Sep-2016	133,076	99,462	80,066	26,438	49,197	7,459	7,314	16,137

Source: ABS, Australian National Accounts, Cat. No. 5206.0, September 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). While WA was the dominant State at the end of the 2014-15 financial year, NSW took the lead in 2015-16: State GSP grew by 3.5% over the year, well above the Australian average (2.8%).



¹³ BIS Shrapnel, [Economic Outlook](#), December 2016, p 3.

Gross State Product (\$m), chain volume measures, original								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Jun-2012	479,485	346,133	288,233	94,897	216,029	25,112	19,001	33,398
Jun-2013	488,691	349,871	295,096	96,483	228,425	24,925	21,999	34,278
Jun-2014	500,306	352,512	304,874	97,336	241,579	25,370	22,591	34,567
Jun-2015	513,529	361,669	308,448	99,237	250,377	25,695	23,032	35,029
Jun-2016	531,323	373,624	314,569	101,096	255,214	26,039	23,648	36,225

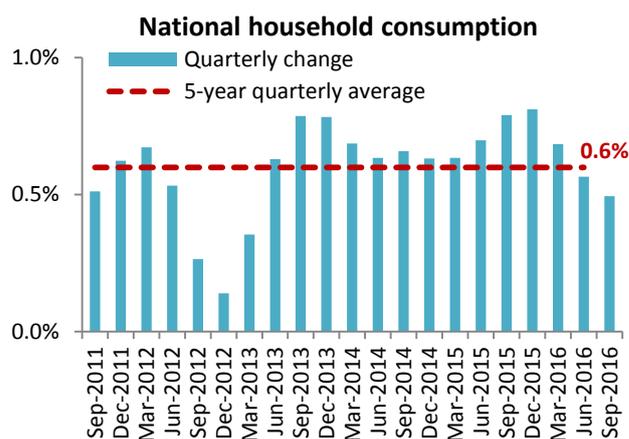
Source: ABS, Australian National Accounts, Cat. No. 5220.0, June 2016

HOUSEHOLD CONSUMPTION

Nationally, household consumption grew by 0.5% over the September 2016 quarter. This level of growth was just below the five year average (0.6%).

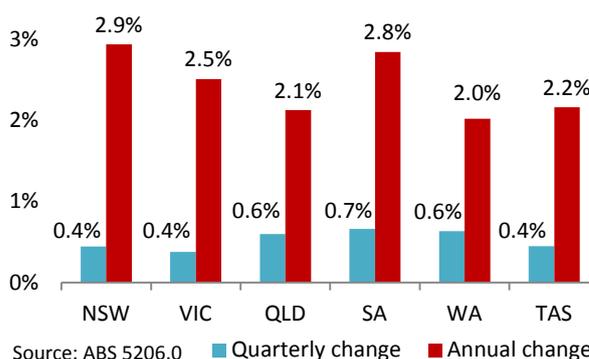
The RBA noted in its [November 2016 Statement on Monetary Policy](#) that consumption growth has continued to be supported by low interest rates, rising household wealth and further increases in employment, despite subdued wage growth.

Household spending increased in NSW by 0.4% over the quarter: the equal lowest of all States (see right). However, on an annual basis NSW consumption increased more than all other States (2.9%) and recorded the second highest annual growth rate after the Northern Territory (5.8%).



Source: ABS 5206.0

Household consumption, to Sept 2016



Source: ABS 5206.0

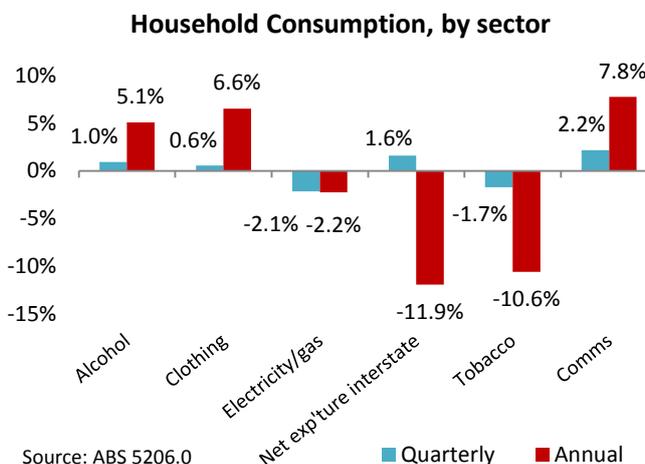
Household final consumption (\$m), chain volume, trend								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Dec-2015	78,983	58,135	45,598	15,337	25,482	4,437	2,608	4,104
Mar-2016	79,638	58,536	45,821	15,453	25,598	4,456	2,653	4,136
Jun-2016	80,112	58,809	46,072	15,569	25,745	4,474	2,686	4,160
Sep-2016	80,467	59,032	46,347	15,672	25,908	4,494	2,705	4,177

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

St George Bank further commented that household consumption levels had grown at the slowest pace since the March 2013 quarter, and:

... [d]espite being one of the strongest sectors of growth in the quarter, household consumption only contributed 0.3 percentage points to overall quarterly growth, highlighting the broad-based softness in today's data.¹⁴

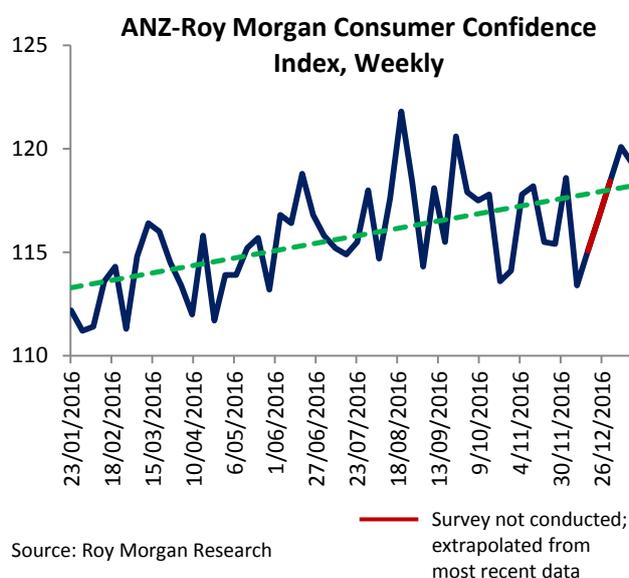
Nevertheless, St George Bank noted that the areas where spending was strongest were discretionary in nature. In NSW, the largest increase in household expenditure over both the quarter and year to September 2016 was on communications (see right). Electricity and gas saw the largest quarterly fall (-2.1%), while net expenditure interstate¹⁵ and tobacco saw the largest annual decline (11.9% and -10.6% respectively).



Although it is subject to sharp fluctuations, the ANZ-Roy Morgan Consumer Confidence Index trended upwards over the course of 2016 (see below). Roy Morgan Research [commented](#) as to its most recent findings that, while households' views of economic conditions over the next 12 months were flat, views of the economic outlook in the next five years rose 0.6%.

However, other measures reported a weaker outlook. In its January 2017 survey, the [Westpac-Melbourne Institute Survey of Consumer Sentiment](#) reported the weakest confidence levels since April 2016.

According to the survey results, there had been a deterioration of confidence in both short and long term economic conditions following the 2016 Commonwealth Budget, as well as mixed views on family finances and the housing market.



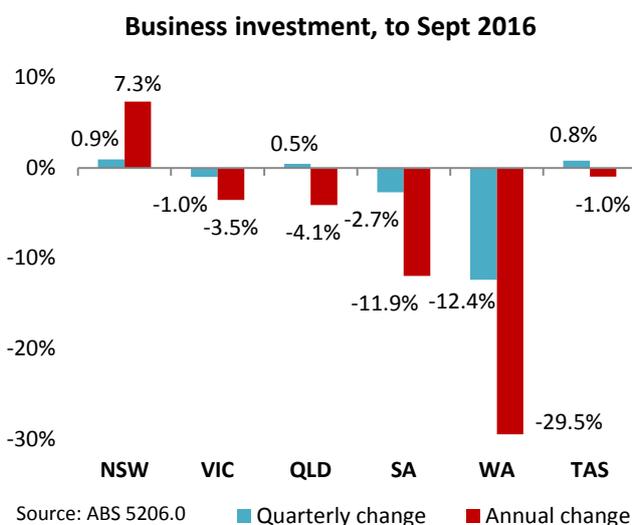
¹⁴ St George Bank, [National Accounts – GDP](#), 7 December 2016, p 2.

¹⁵ Calculated by adding in amounts for the expenditure of residents of NSW who travel interstate and deducting the expenditure of residents from other states within NSW. Essentially, this decline indicates that fewer interstate residents spent money in NSW in September 2016 than in September 2015. Also see: ABS, [5220.0 - Australian National Accounts: State Accounts](#), 2015-16, 18 November 2016.

BUSINESS INVESTMENT

Nationally, business investment fell by 2.3% in the September 2016 quarter, and was down 7.3% over the year to September. These results respectively represent the 16th and 15th consecutive falls in quarterly and annual business investment levels.

Compared to the national results, business investment in NSW *increased* by 0.9% over the September quarter and 7.3% for the year, and was the only State to avoid a decline in investment (see right).



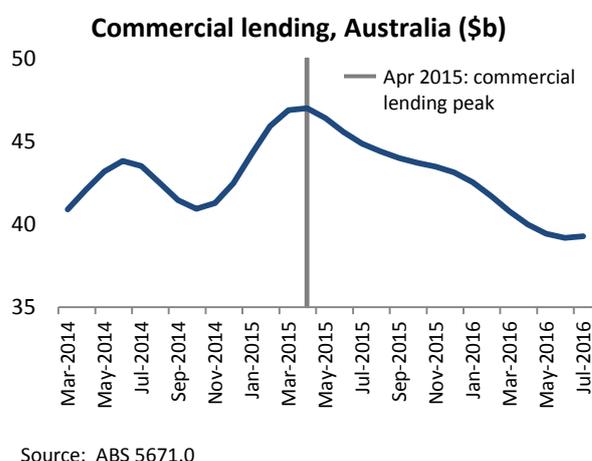
Western Australia suffered a massive drop in business investment, falling 12.4% over the quarter (more than South Australia fell during the previous 12 months) and 29.5% for the year to September 2016.

Business investment (\$m), chain volume measures, trend								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Sep-2015	13,916	11,360	10,474	3,006	13,871	621	1,974	591
Dec-2015	14,432	11,210	10,106	2,857	12,621	610	1,872	586
Mar-2016	14,797	11,066	9,998	2,720	11,163	610	1,965	606
Jun-2016	14,937	10,958	10,045	2,647	9,783	615	2,115	631

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

Business confidence has also seen mixed results since the previous quarter. According to Roy Morgan's Business Confidence survey, business confidence fell by 2.2% to 114.1 in December 2016: below the six year average of 116.6.¹⁶

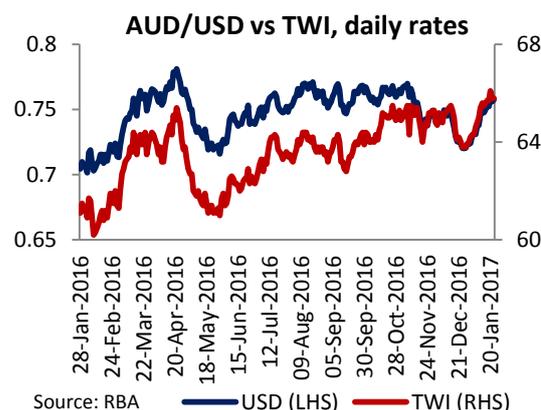


¹⁶ Roy Morgan Research, [Business Confidence down in December to 114.1 \(down 2.2%\) after negative Australian GDP figures released](#), 9 January 2017.

EXCHANGE RATE

Between October and mid-November 2016 the Australian dollar (AUD) remained around 0.76 USD, before falling after Christmas to 0.72 USD. As of 27 January 2017, the AUD was worth [0.753 USD](#).

The consensus among the major banks is that the AUD will fluctuate around current levels for the remainder of 2016.



The Commonwealth bank has forecast the AUD to remain around 0.75-0.76 USD during 2017; while Westpac and NAB predict a slightly lower rate through 2017 (0.72-0.74 USD and 0.70-0.73 USD respectively), falling to around 0.68-0.69 USD by 2018.¹⁷

In its November [Statement on Monetary Policy](#), the RBA Board commented that any changes to current monetary policy or expected policy paths in the major advanced economies are likely to affect exchange rates:

The depreciation of the Australian dollar since 2013 has contributed to the ongoing adjustment of the economy to the end of the resources boom; an appreciating currency could complicate that process.¹⁸

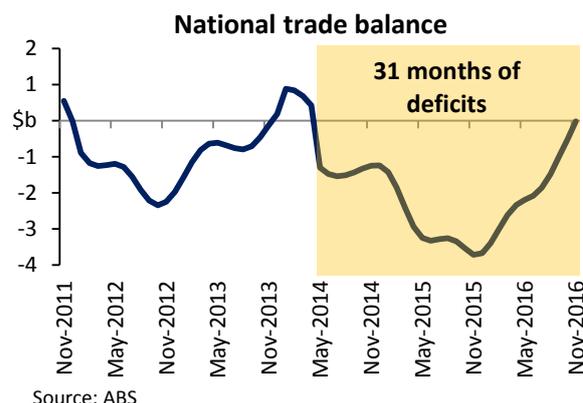
Other stakeholders have raised similar concerns about significant increases in the value of the AUD negatively affecting Australian industries. According to NAB's September 2016 [Quarterly Business Survey](#), trade competing industries such as manufacturing and construction have reported that they have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

¹⁷ Westpac, [Australia and NZ weekly](#), 24 October 2016; Commonwealth Bank, [Economic & Financial Forecasts](#), 21 November 2016; NAB, [Exchange rate forecast](#), 23 January 2017.

¹⁸ RBA, [Statement on Monetary Policy](#), November 2016, p 2,

INTERNATIONAL TRADE

In trend terms, the trade balance deficit on goods and services reduced to just \$16m in November 2016: a 97% decrease (\$503m) since October 2016. This was the 31st consecutive deficit recorded since May 2014. However, since late 2015, the trend in Australia's trade balance figures has moved towards a surplus.



The Commonwealth Bank reported that the quarterly results were significantly better than market expectations, which had expected a deficit of \$550 million. The Bank summarised the increase in exports over the November 2016 quarter as follows:

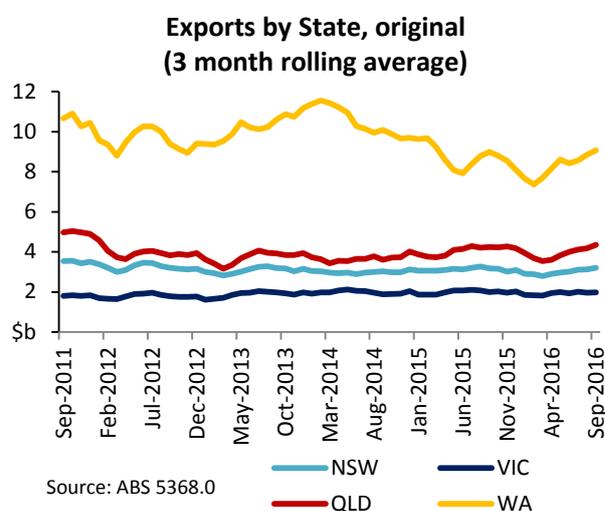
Total goods and services (G&S) exports rose by 8%, with goods up 10.6% and services up 0.5%. Exports of non-rural goods rose by 12% and rural goods by a stunning 17%, thanks to a 22% rise in beef exports and a 28% in other rural.

Non-rural goods exports rose by 12%, with metals (mainly iron ore) up 11% and the coals up 26%. These are big monthly rises and obviously include a mix of volume and price increases. It is positive for the net exports contribution to QIV GDP. LNG exports, mainly in volume terms, have been rising consistently and are 20% higher than a year ago. We expect that there is another 40% rise in LNG exports coming by mid-2018 when all the plants are entering peak export output.

Services exports were marginally higher in November, and are 10% higher than a year ago. It indicates that the lower AUD, combined with higher inbound tourism from Asia are major influences on the improving trade outcomes.¹⁹

The Commonwealth Bank forecast ongoing trade surpluses until mid-2017, which will greatly benefit Australian producers and State and Commonwealth Governments.²⁰

After posting a 7.7% increase in the previous quarter, the **average monthly free on board value of merchandise exports** from NSW increased by 6.6% in the September 2016 quarter to total \$3.2 billion (see right).



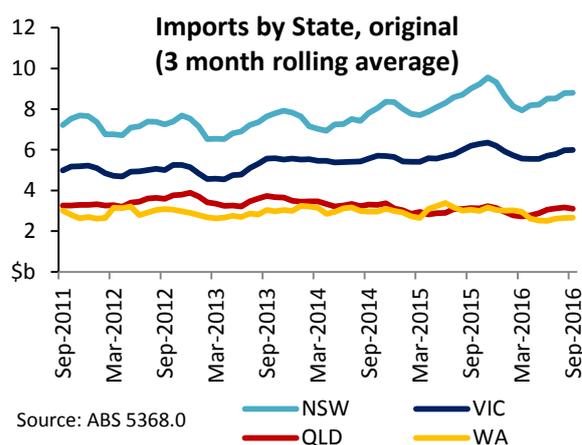
¹⁹ Commonwealth Bank, [Balance on Goods and Services – November 2016](#), 6 January 2017.

²⁰ Ibid.

Western Australia continues to dominate the States and Territories in terms of the value of its exports, exporting \$9.1 billion of goods over the quarter. Nevertheless, this represents a 10% drop in quarterly export levels since September 2014, while NSW saw a 5.5% increase over the same two year period.

The **top five destinations for merchandise exports** from NSW in November 2016 were: Japan (\$868m); China (\$646m); South Korea (\$308m); Taiwan (\$266m); and New Zealand (\$230m). As a proportion of exports, 41.3% of all NSW merchandise was exported to Japan or China during September 2016.

Similarly, after recording a 7.2% increase in the June 2016 quarter, the **average monthly customs value of merchandise imports** for NSW increased by a modest 3.4% in the September quarter to \$8.8 billion (see right). This is the second highest increase in imports after the Northern Territory (53.2%) and Western Australia (6.2%, following significant drops in WA over the previous two quarters).

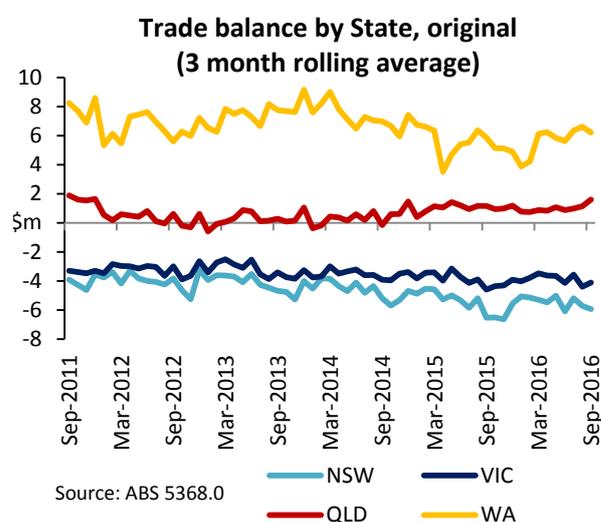


The **top five import sources** for NSW in November 2016 were: China (\$2,869m); the United States (\$1,032m); Japan (\$607m); Germany (\$500m); and Thailand (\$405m). Over the course of the month, approximately 31% of NSW imports came from China.

The consequence of NSW's increase in merchandise imports and, until recently, 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 November 2016, the State's trade deficit was \$5.6 billion.

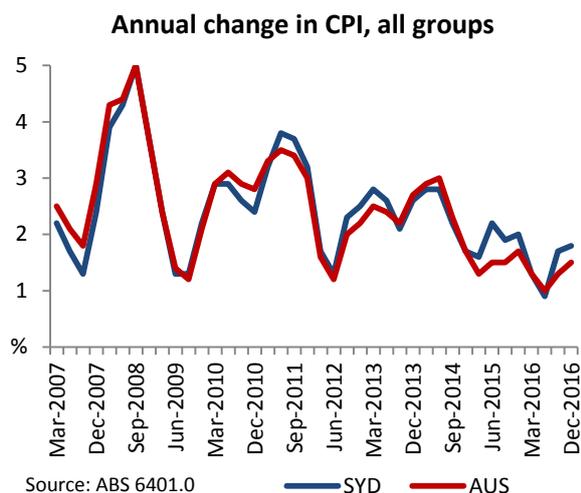
Western Australia still has the highest trade balance compared to the other major States. Nevertheless, declining resources exports have resulted in that State's surplus deteriorating from a peak of \$9.2 billion in December 2013 to a low of \$3.5 billion in April 2015. As at November 2016, WA's trade surplus was \$7 billion.



CONSUMER PRICE INDEX

After a 0.7% increase over the September 2016 quarter, the Australian consumer price index (CPI) rose by a more subdued 0.5% over the December 2016 quarter and 1.5% between December 2016 and 2016.²¹

In response to the latest figures, the Commonwealth Bank reported that the annual rate of underlying inflation is in line with RBA forecasts which it believed would prevent a further interest rate cut. Nevertheless, the Bank argued that RBA faces a tough job in returning inflation to target, with core inflation unlikely to reach the target band until 2018.²²



St George Bank also predicted that inflation will remain below target levels for some time:

The underlying picture of inflation remained weak in the December quarter. The RBA's preferred measures of core inflation suggests that broader price pressures remain subdued. The low pace of inflation reflects strong competition and excess capacity within the global and local economies.

The Australian economy is growing at a reasonable pace, but not sufficient to result in a substantial reduction in spare capacity and there remains a degree of slack in the labour market. That would suggest that inflation is unlikely to pick up to the RBA's 2 to 3 percent target band over the medium term as the RBA is expecting. If inflation remains subdued, there is a risk the RBA will ease monetary policy further.²³

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

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

In Sydney, the CPI increased by 1.8% in the year to December 2016. The largest price increases over the last 12 months in Sydney occurred in: alcohol and tobacco (up by 5.8%); health (up by 3.5%); and housing and education (both up by 3.1%).

²¹ ABS, [6401.0 - Consumer Price Index, Australia, Dec 2016](#), 25 January 2017.

²² Commonwealth Bank, [CPI – QIV 2016](#), 25 January 2017, pp 1-2.

²³ St George Bank, [Consumer Price Index: Inflation Still Soft](#), 25 January 2017, p 4.

EMPLOYMENT

Nationally, employment grew by 0.16% for the December 2016 quarter, with approximately 16,200 new jobs created between October and December. However, ABS [analysis](#) of annual employment growth was not positive:

[T]rend employment increased by 85,600 (or 0.7 per cent), which is less than half the size of the average year-on-year growth over the past 20 years (1.8 per cent). Over the same 12 month period the trend employment to population ratio, which is a measure of how employed the population over 15 years is, decreased by 0.4 percentage points to 60.9 per cent.

The average number of people employed in NSW was down 0.16% for the quarter to 3.8 million; nevertheless, over the 12 months to December 2016 NSW employment levels increased by 0.58%.

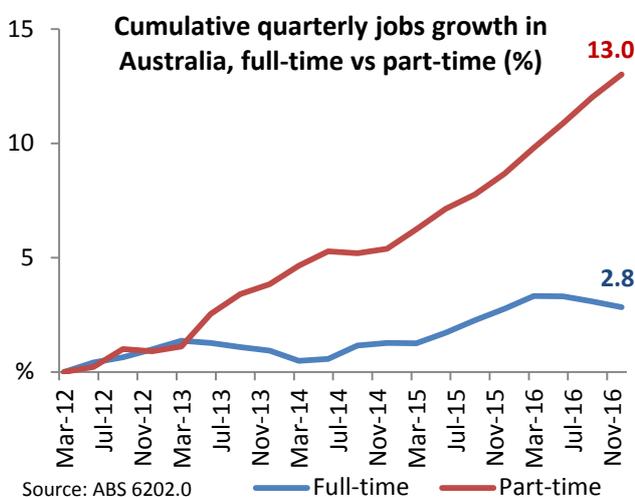
Number of persons employed ('000), quarterly average									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Dec-15	3,779	2,972	2,371	805	1,350	240	132	211	11,860
Mar-16	3,792	2,995	2,371	809	1,349	238	132	211	11,899
Jun-16	3,804	3,028	2,355	810	1,346	237	133	213	11,923
Sep-16	3,807	3,058	2,345	812	1,335	237	134	214	11,940
Dec-16	3,801	3,081	2,342	815	1,333	238	136	215	11,959

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

The jobs figures above include both full and part time employment: if full time employment is considered alone, Australia, and NSW to a lesser extent, has experiencing an ongoing decline in full time jobs growth since the Global Financial Crisis. In its [December 2016 Minutes](#), the RBA Board commented on this trend, noting that

... all of the growth in employment over 2016 had been in part-time employment, with an increased share of people in the labour force reporting that they would like to work more hours.²⁴

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



²⁴ RBA, [Minutes of the Monetary Policy Meeting of the Reserve Bank Board](#), 6 December 2016.

Although [initially sceptical](#) about ABS data, the Commonwealth Bank has since agreed that the trend away from full time work is a major issue that could be detrimental to the whole economy:

The trend towards more part-time jobs looks [to] be one of the big issues that needs to change if wages and household income growth is to improve from current modest rates. The sectors adding the jobs have a higher proportion of part-time and casual work. The sectors losing jobs over the past year tend to have more full-time positions. While the shift to part-time work may suit some people, the surveys indicate that the majority of the workforce in part-time work would like to have a full-time position.²⁵

NSW has performed well above the Australian average when it comes to full-time employment growth. Between September 2011 and September 2016, NSW has seen a 5.1% cumulative increase in full time jobs: the only State other than Victoria (5.8%) to see full time job growth above the Australian average of 2.9% (see right).

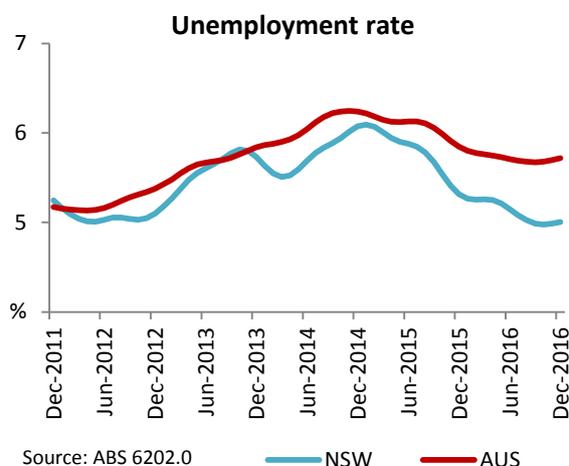


Source: ABS 6202.0

However, this five year cumulative figure masks a decline in full time jobs growth. Since the December 2015 quarter, when cumulative full time job growth from September 2011 reached a high of 6.8%, NSW has lost 45,300 full time jobs (i.e. trending down since December 2015).

UNEMPLOYMENT

In NSW, the average unemployment rate during the December 2016 quarter remained at 5%: 1.1% lower than the 6.1% peak seen during the March 2015 quarter, and 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 NT (3.6%) and ACT (3.7%). South Australia had the highest quarterly average unemployment rate (6.7%).



Source: ABS 6202.0

²⁵ Commonwealth Bank, [Labour Force – December 2016](#), 19 January 2017.

Unemployment rate (%), quarterly average									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
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	6.8	5.8	6.6	3.8	3.7	5.7
Sep-16	5.0	5.7	6.2	6.7	6.3	6.6	3.5	3.6	5.7
Dec-16	5.0	5.9	6.0	6.7	6.6	6.4	3.6	3.7	5.7

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

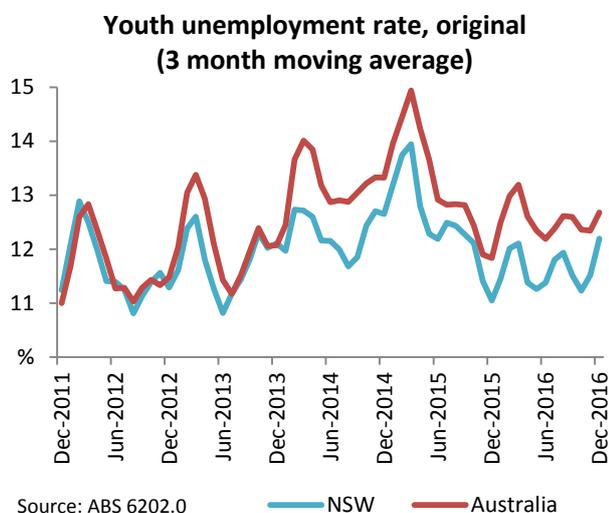
Reviewing the quarterly unemployment data, the Commonwealth Bank argued that the recent increase in national job vacancy rates (see Job Vacancies chapter) would:

... be sufficient to keep slight downward pressure on the national unemployment rate given the very gradual downward trend in the participation rate as the population ages.²⁶

YOUTH UNEMPLOYMENT²⁷

Based on the three month moving average data, the NSW youth unemployment rate increased by 0.7% to 12.2% over the quarter to December 2016.

Despite the increase, youth unemployment in NSW is still 0.5% below the Australian average (12.7%), and, of the other States and Territories, Tasmania had the highest average youth unemployment rate of 15.8%.



Youth unemployment rate (%), quarterly average, original									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Mar-16	12.1	13.5	14.0	16.1	12.7	16.4	8.8	10.1	13.2
Jun-16	11.4	12.3	14.0	14.0	10.3	15.8	7.2	8.1	12.2
Sep-16	11.5	13.1	13.8	13.3	11.7	16.6	8.7	10.7	12.6
Dec-16	12.2	12.9	12.7	14.6	12.7	15.8	5.9	11.0	12.7

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

As illustrated above, the rate of youth employment is highly cyclical because of the casual and part-time nature of employment amongst this group.

²⁶ Commonwealth Bank, [Labour Force – December 2016](#), 19 January 2017, p 2.

²⁷ 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](#).

Although youth unemployment has been on a downward trajectory since early 2015, The Guardian's analysis of ABS data previously [showed](#) that, as of July 2016, only 58.8% of youth aged 15 to 24 were employed: down from a high of 65.1% in March 2008.

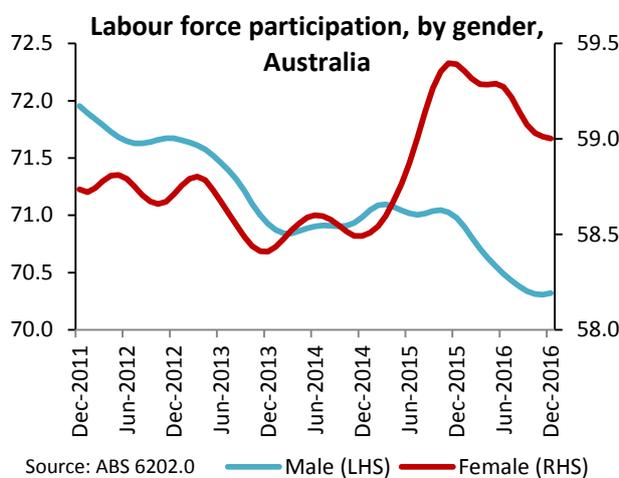
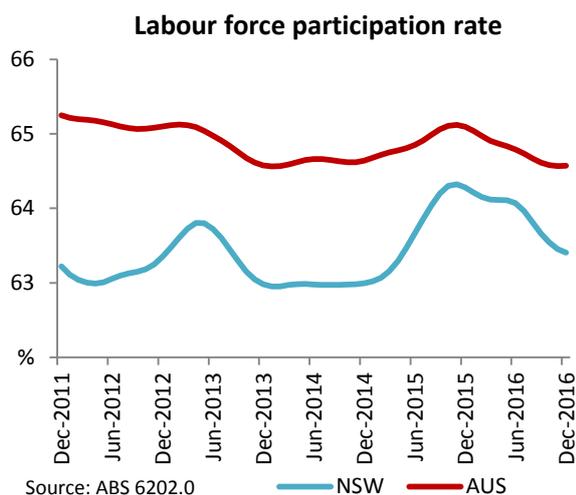
According to the September 2016 OECD report [Investing in Youth: Australia](#), since 2008, an additional 100,000 15 to 29 year olds are now not in employment, education or training. To address this issue, the OECD stated that further effort must be made to identify at-risk youth and prevent them from dropping out of school; increase vocational education and training (VET) and apprenticeship program completion rates; and increase cooperation between schools and external social services.²⁸

LABOUR FORCE PARTICIPATION

Over the December 2016 quarter, the average labour force participation rate in NSW fell by 0.35% to 63.5% (1.1% below the Australian average). Only Tasmania and South Australia had lower participation rates than NSW (59.8% and 62.1% respectively), while the participation rate was highest in the Northern Territory (75.7%).

Nationally, the labour force participation rate is 64.6% (0.3% below the five year average). As illustrated, the male participation rate for Australia has steadily declined over the past five years, from 72% in December 2011 to 70.3% in December 2016.

The female participation level has also begun to decline over the past year. After reaching a record high of 59.4% between October 2015 and January 2016, the participation rate has since reduced to 59%: the same rate as reported in July 2015.



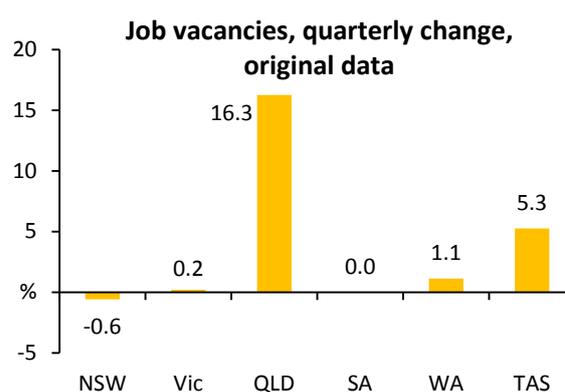
²⁸ OECD, [Investing in Youth: Australia](#), September 2016, pp 21-22.

Labour force participation rate (%), quarterly average, trend									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Dec-15	64.3	64.7	65.7	62.1	68.6	60.6	74.6	70.6	65.1
Mar-16	64.2	64.8	65.5	62.1	68.1	60.1	74.1	70.2	65.0
Jun-16	64.1	65.0	64.9	61.9	67.7	59.7	74.4	70.0	64.8
Sep-16	63.8	65.4	64.4	61.9	67.4	59.7	74.6	70.3	64.7
Dec-16	63.5	65.7	64.0	62.1	67.3	59.8	75.7	70.4	64.6

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

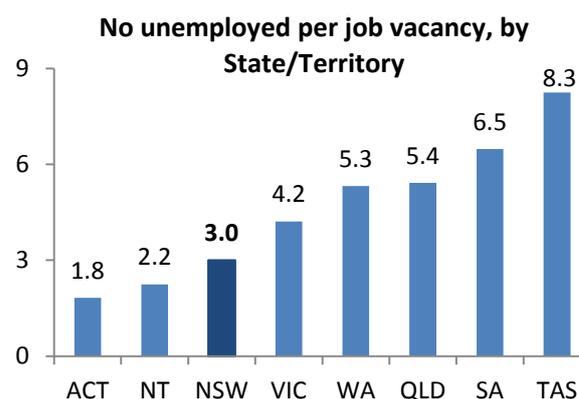
JOB VACANCIES

The number of job vacancies in NSW fell by 0.6% to 69,000 in the November 2016 quarter, though it remains 21.1% higher than the three year average of 57,000. NSW had the lowest number of reported job vacancies for all jurisdictions: the ACT, Queensland and the NT saw significant vacancy gains (21.3%, 16.3% and 12.5% respectively), while the nationwide vacancy rate increased by 3.4% over the quarter.



Source: ABS 6354.0

Despite this recent fall, Greg Jericho [reported](#) that when looking at the number of unemployed per job vacancy, NSW has three unemployed for every job vacancy: the third lowest rate in Australia, and well below Tasmania's rate of 8.3 unemployed per vacancy (see right).



Source: The Guardian

Furthermore, according to the Commonwealth Bank, the dominant position that NSW (specifically, Sydney) holds in Australia's new ["two-speed economy"](#) means that job vacancy trends are likely to be more favourable for jobs growth in NSW.²⁹

Number of job vacancies ('000), original									
	NSW	Vic	QLD	SA	WA	TAS	NT	ACT	AUS
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
Nov-16	69.0	45.4	33.6	9.6	17.7	2.0	2.7	5.7	185.8

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

²⁹ Commonwealth Bank, [ABS Job Vacancies – November 2016](#), 11 January 2017.

According to ABS trend data, the number of job vacancies nationally increased for the 13th consecutive quarter in August 2016 to 181,000: equalling a run that occurred after the 1990 recession.³⁰

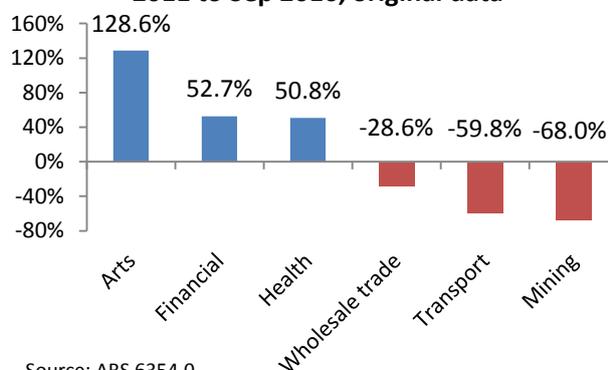
Over the past five years, in line with broader economic trends,³¹ vacancies have increased in the arts and financial/insurance service sectors, while decreasing in sectors such as mining (see right).

WAGES

Wages growth was slightly up over the September quarter, remaining at 0.9% in NSW and 0.7% nationally. However, on an annual basis NSW wage growth has slowed; over the 12 months to September 2016 annual wage growth was recorded at 2.1% – 1.1% below the decade average of 3.2% (see below right).

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).

Change in no of job vacancies, Sep 2011 to Sep 2016, original data



Source: ABS 6354.0

Annual wage growth to Sept, NSW



Source: ABS 6345.0

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

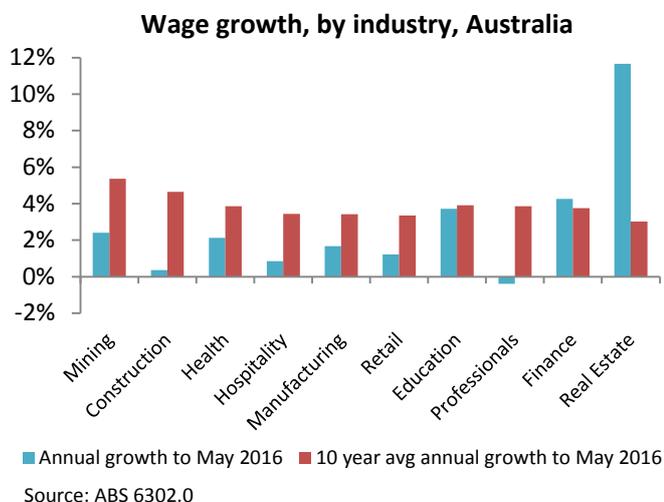
Source: ABS, Average weekly earnings, Australia, Cat No. 6302.0, May 2016

³⁰ G Jericho, [The jobs outlook for 2017: let's hope it's not a repeat of last year](#), The Guardian, 17 January 2017.

³¹ 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.

Following the low wage growth observed in the May and June 2016 quarters, the ABS [reported](#) that the national wage price index rose by just 1.9% over the year to September 2016. This figure set a new low for the series.

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

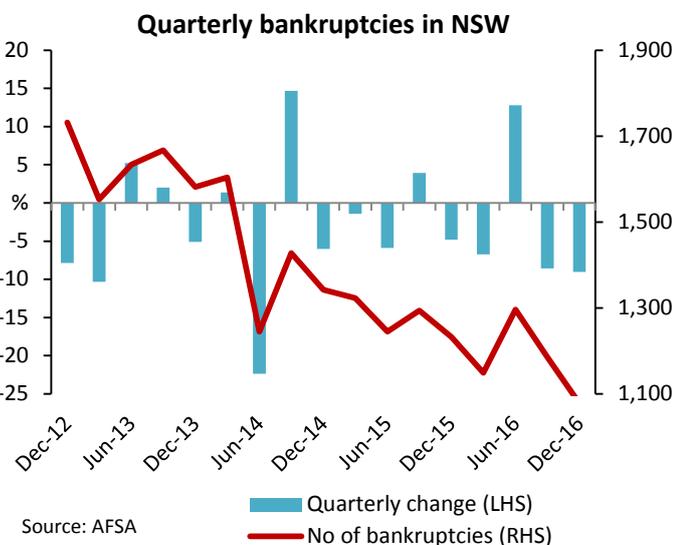


Annual wage growth for the construction industry was 0.4% over the year to May 2016, compared to a 10 year average growth rate of 4.7% (a -4.3% difference).

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 9% in the December 2016 quarter, from 1,185 to 1,078. Bankruptcies have trended down in NSW over the last few years and are 31.9% lower than they were in December 2013.



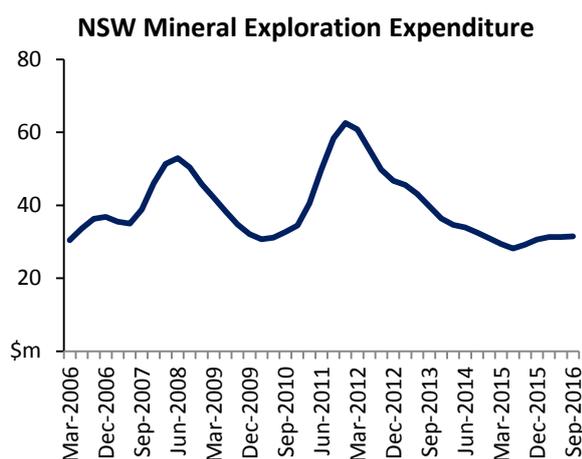
NSW experienced the third greatest fall in bankruptcies over the quarter, with Tasmania and the Northern Territory seeing large falls (-29.6% and -22.9% respectively). South Australia experienced the largest increase in bankruptcies (+3.7%), while Victoria saw a modest increase over the quarter (+0.6%).

Bankruptcies per quarter (Parts IV and XI of the <i>Bankruptcy Act 1966</i> (Cth))								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
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
Dec-16	1,078	823	1,190	277	443	88	27	50

Source: Australian Financial Security Authority, December 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.



NSW mineral exploration expenditure increased marginally over the September 2016 quarter by 0.64%, but remained 49.7% below the high for the reporting period ending in December 2011. Investment in the mining sector in Australia has declined over the last couple of years, with mineral exploration expenditure down by 60.8% (\$541.3 million) since September 2012.

A significant share of this decline is attributable to Western Australia, where exploration expenditure has declined by 54.8% (\$276.4 million) since September 2012.

Mineral exploration expenditure (\$m)								
	NSW	VIC	QLD	SA	WA	TAS	NT	AUS
Sep-2015	29.2	6.8	66.9	11.1	207.8	3.3	26.7	351.9
Dec-2015	30.6	7.1	61.1	10.4	215.1	3.2	26.5	354.0
Mar-2016	31.3	7.3	52.5	12.0	220.0	3.2	24.4	350.7
Jun-2016	31.3	7.6	47.2	12.9	223.4	3.3	21.4	347.1
Sep-2016	31.5	7.8	46.2	13.5	227.6	3.2	19.5	349.2

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

In their December 2016 minutes, the RBA Board noted that the transition of economic activity away from the mining sector was continuing to occur, supported by low interest rates and the lower exchange rate since 2013. While mining investment levels were falling, the impact this would have on GDP growth in 2016-17 was expected to be smaller than that seen in the previous financial year.³²

TURNOVER OF RETAIL TRADE

Average monthly turnover of retail trade in NSW rose by 0.8% in the September 2016 quarter to almost \$8.2 billion: the same as the previous quarter. However, this growth rate was slightly lower than the 10 year September quarter average of 1.1%.

NSW's average quarterly retail growth was the equal third highest (along with South Australia) of all jurisdictions, bested only by Queensland (1.7%) and the ACT (1.2%).



Turnover of retail trade (\$m), quarterly average									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Sep-15	7,869	6,151	4,965	1,587	2,819	482	259	437	24,568
Dec-15	7,947	6,238	4,996	1,603	2,825	489	260	446	24,804
Mar-16	8,030	6,291	5,015	1,623	2,824	495	261	458	24,996
Jun-16	8,100	6,323	5,031	1,641	2,828	500	258	461	25,142
Sep-16	8,169	6,368	5,117	1,654	2,828	504	258	466	25,364

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

More significant is the longer run growth trend, with retail trade in the State up 3.8% from the previous year. This was higher than the Australian average of 3.2% and the fourth highest of the States and Territories, with the ACT (6.7%), Tasmania (4.5%) and South Australian (4.2%) experiencing greater annual growth.



³² RBA, [Minutes of the Monetary Policy Meeting of the Reserve Bank Board](#), 6 December 2016.

Despite the subdued wages growth of recent years, these figures suggest that, 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 have been relatively resilient amid concerns about weak wages growth and the labour market.

The average number of new vehicles sold per month in NSW increased slightly by 0.36% in the December 2016 quarter to 33,163; in comparison, national vehicle sales declined by 0.47% during the quarter. Annual growth for NSW (1.68%) was also higher than the Australian average (0.04%) for the year to December, which appears to have remained flat because of significant annual drops in Western Australia (-9.33%) and Queensland (-4.09%).

In terms of future outlook, St George Bank commented that “with ongoing population growth, steady jobs growth and reasonable business conditions, new motor vehicle sales are likely to remain elevated, although growth rates will vary between regions”.³³

Sales of new vehicles, quarterly average, trend									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Dec-15	32,617	26,647	19,806	5,871	8,836	1,592	834	1,512	97,715
Mar-16	33,047	26,742	19,534	5,974	8,691	1,566	888	1,521	97,963
Jun-16	33,102	26,939	19,388	5,934	8,434	1,572	922	1,557	97,847
Sep-16	33,045	27,550	19,240	5,969	8,302	1,695	895	1,527	98,222
Dec-16	33,163	27,416	18,997	5,992	8,011	1,752	852	1,576	97,759

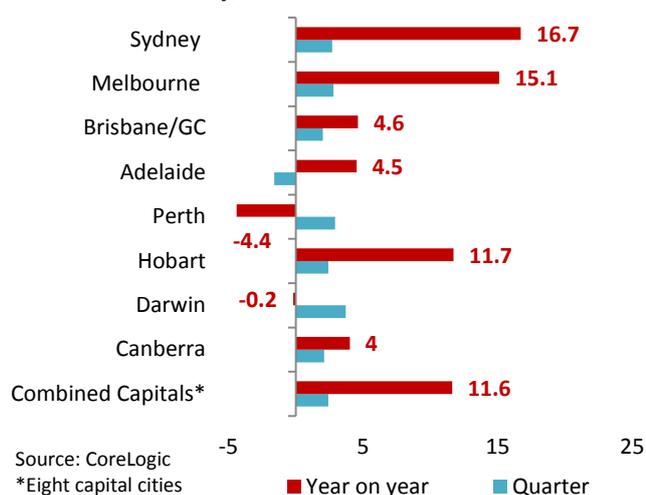
Source: ABS, Sales of new motor vehicles, Australia, Cat. No. 9314.0, December 2016

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 has rebounded in subsequent quarters.

According to [CoreLogic](#), Sydney's median house price rose by 2.7% over the December quarter to \$991,000: the fourth highest quarterly increase after Darwin, Perth and Melbourne (3.7%, 2.9% and 2.8% respectively). However,

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

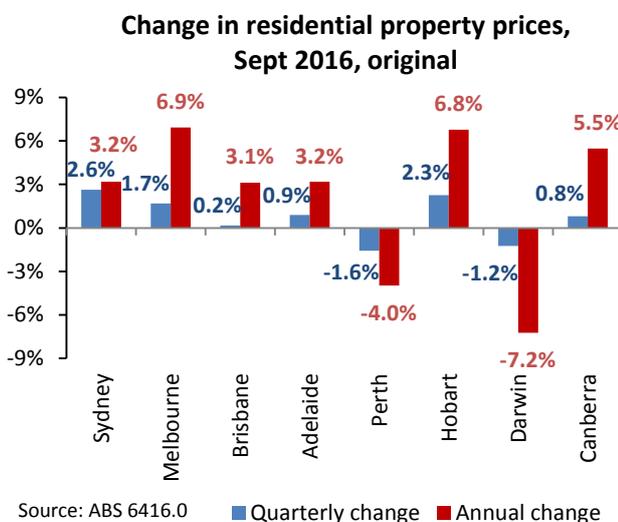


³³ St George Bank, [New Motor Vehicle Sales: In Cruise Control](#), 15 September 2016, p 2.

the city recorded the country's highest year on year increase of 16.7% (see right).

The ABS's Residential Property Price Index for Sydney³⁴ reported a 2.6% increase in the September 2016 quarter, with [prices](#) for established houses in Sydney rising by 3.3% and attached dwellings by 2.8%.

Over the year to September, the Sydney Index increased by 3.2%: lower than other cities such as Melbourne (6.9%) and Hobart (6.8%), but greater than Perth and Darwin (which saw falls in their Indexes of 1.6% and 1.2% respectively).



House price indexes: eight capital cities, original									
	SYD	MEL	BRIS	ADE	PER	HOB	DAR	CAN	Weighted Average
Sep-15	154.4	124.3	115.2	109.8	110.7	106.2	112.1	107.6	130.4
Dec-15	151.9	126.3	117.0	110.8	111.2	108.9	110.1	110.6	130.6
Mar-16	150.9	127.3	117.3	111.4	109.3	110.1	107.9	110.2	130.4
Jun-16	155.2	130.7	118.6	112.3	108.0	110.9	105.3	112.6	133.0
Sep-16	159.3	132.9	118.8	113.3	106.3	113.4	104.0	113.5	135.0

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

According to [Domain Group figures](#), Sydney's median detached house price rose by 65% over the past four years, with CoreLogic data showing that large swathes of Sydney now have median house prices above \$1 million.³⁵ First home buyers are particularly affected by this astounding rise in prices. According to Bankwest's [First Time Buyer Deposit Report 2016](#), first time buyer couples in Sydney will need to save for an average of 8.4 years in order to form a deposit on a median priced house – six months longer than in 2015 and the longest required savings time across Australia.³⁶

According to the most recent Ipsos Issues Monitor, 41% of people in NSW rate housing as one of the most important challenges confronting the community, up from 29% in 2013.³⁷ If house prices continue to defy expert predictions and rise at the rates seen in recent years, these anxieties will become even more acute

³⁴ Which measures price changes of residential dwelling stock.

³⁵ CoreLogic, [Mapping the market](#), January 2017, p 3.

³⁶ BankWest, [First Time Buyer Deposit Report 2016](#), 21 December 2016, p 3.

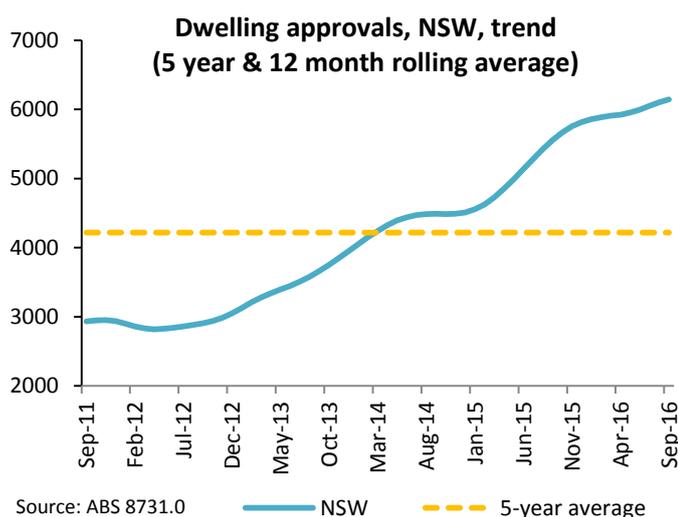
³⁷ M Wade, [The 10 things that most worry Sydneysiders: Ipsos Issues Monitor](#), Sydney Morning Herald, 28 December 2016.

and call for Government intervention ever greater. Given such circumstances, it is perhaps unsurprising that new Premier Gladys Berejiklian has [named](#) housing affordability as one of the biggest issues facing NSW.

DWELLING APPROVALS

The average monthly number of dwellings approved in NSW declined by 2.5% in the September 2016 quarter, with an average of 6,368 approvals made each month of the quarter. Nevertheless, this was still 8% higher than the September 2015 quarterly average (an average of 5,897 approvals per month).

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 takes into account the monthly variation, NSW building approvals remain at near record levels (see right). Although there has been a slowing of approvals in NSW since March 2015, approval numbers are approximately 50% higher than the five year average.



National dwelling approvals were, on average, down 4.7% for the September quarter, with NSW approvals levels seeing the lowest decline of all States. With the exception of Victoria (-4.2%), all other States were below the national average, with South Australia and Tasmania recording declines in approvals of 11.7% and 9.5% respectively.

Number of dwellings approved, quarterly average, trend							
	NSW	VIC	QLD	SA	WA	TAS	AUS
Sep-15	5,897	5,484	4,183	946	2,377	227	19,676
Dec-15	5,749	5,644	4,369	1,007	2,105	215	19,535
Mar-16	6,036	5,655	4,358	1,029	1,970	200	19,798
Jun-16	6,528	5,807	4,207	1,042	1,803	179	20,171
Sep-16	6,368	5,564	3,855	920	1,710	162	19,232
Source: ABS, Building Approvals, Australia, Cat. No. 8731.0, November 2016							

Following the latest results, the Commonwealth Bank [revised](#) its 2016 dwelling commencements higher to 225,000, and forecast 2017 approvals levels to be around 212,000. It also stated that NSW and other East Coast States would be major construction centres, while low interest rates, relatively firm national population growth and reasonable job prospects in parts of the market were favourable for the housing markets.³⁸

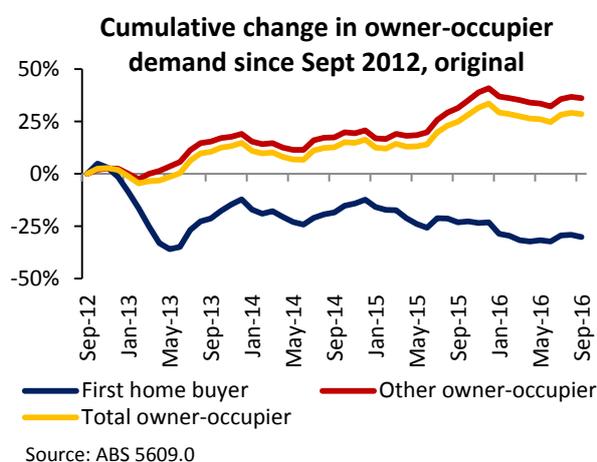
However, BIS Shrapnel voiced concerns about the 2017 outlook. In its [Economic Outlook](#) it commented that the residential building boom is close to its peak and that residential investment was expected to turn down in 2017-18. However, it also argued that NSW would be the only State or Territory not to face housing oversupply issues in 2017.³⁹

With regard to apartments, the RBA warned in October 2016 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:

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.⁴⁰

HOUSING FINANCE

The average number of owner-occupier (including first home owner) dwellings financed in NSW fell by 6.2% during the September 2016 quarter to 16,772 per month. However, with the exception of Tasmania (which saw a 0.1% increase in finance), all jurisdictions suffered reductions in financing during the quarter, with a nationwide average decline of 5.8%.



³⁸ Commonwealth Bank, [Dwelling Commencements – September Quarter 2016](#), 18 January 2017.

³⁹ BIS Shrapnel, [Economic Outlook](#), December 2016, p 5.

⁴⁰ RBA, [Financial Stability Review – October 2016](#), p 26.

Owner-occupier demand has increased in recent years, with a cumulative increase of 29% in the four years to September 2016. However, as discussed in previous Economic Updates, this overall increase masks a major decline in first home buyer financing, which has dropped by 30% over this period (see above).

The issue of low first home buyer levels is illustrated by findings of the 2016 Household, Income and Labour Dynamics in Australia (HILDA) [survey](#). The HILDA survey revealed a rapidly growing divide between younger persons⁴¹ 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.⁴²

According to ABS trend data, January 2015 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 during the month, and 55.8% in December 2014 and February-March 2015. 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,⁴³ the most recent data indicates a renewed rise in the proportion of investor finance for housing purchases (see right). As a proportion of total dwelling finance, housing finance increased by 1.6% over the three months to November 2016, and is 5.6% higher than 12 months earlier.



⁴¹ 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.

⁴² HILDA, [The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 14](#), 2016, p 68.

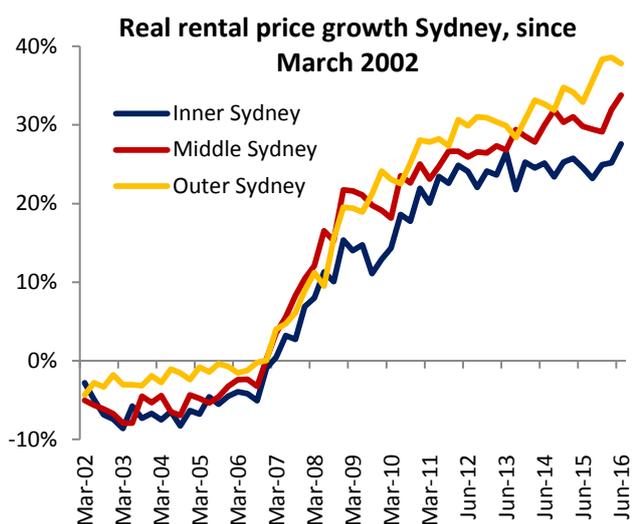
⁴³ C Angus, [NSW Economic Update Winter 2016](#), p 28.

According to the Commonwealth Bank, this is evidence that record low interest rates and rising prices are sustaining interest in the housing market.⁴⁴ This may also [indicate](#) that, after a slowing of house price growth in 2016, house prices could increase at a faster pace in early 2017, exacerbating the problem of housing affordability further. Nevertheless, investor finance is still 4.7% below the peak seen in January 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 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.



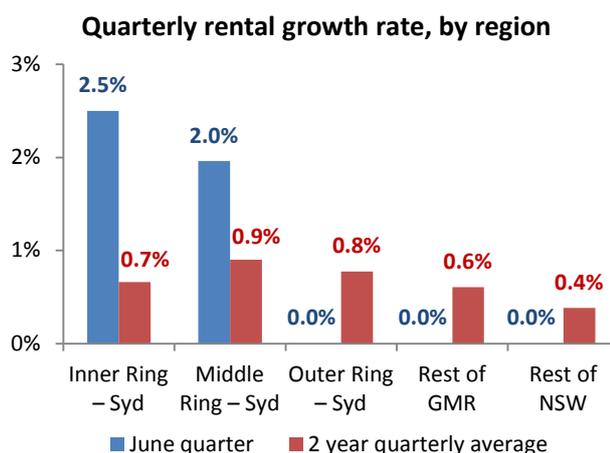
Sources: Housing NSW; ABS 6401.0 (original data)

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 cannot, by virtue of not owning any property, receive the benefits of capital growth from house price increases.

⁴⁴ Commonwealth Bank, [Housing Finance – November 2016](#), 17 January 2017.

As evident in the figure on the right, ‘real’ rental prices (which take into account the effect of inflation) have risen consistently across Sydney over the past decade.

Over the June 2016 quarter, Sydney’s Inner Ring and Middle Ring suburbs⁴⁵ 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).



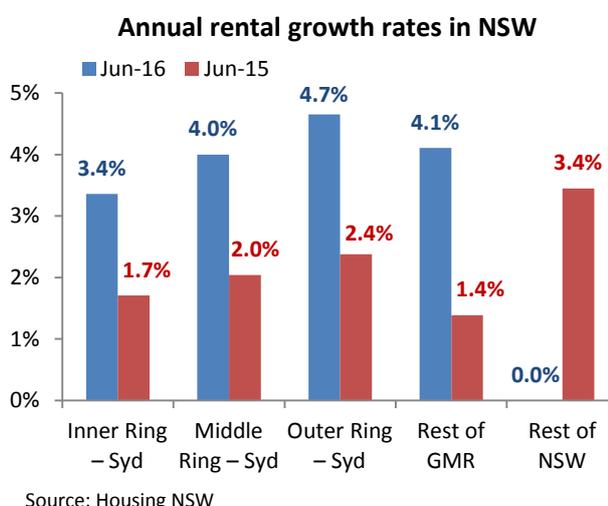
Source: Housing NSW. Note: GMR = Greater Metropolitan Region

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
Jun-15	500	595	500	430	365	300	430
Sep-15	500	590	500	440	370	300	440
Dec-15	500	600	500	450	380	300	450
Mar-16	510	600	510	450	380	300	450
Jun-16	520	615	520	450	380	300	450

Source: Housing NSW, Rent and Sales Reports, Issue 117

*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](#).

⁴⁵ For an overview of these geographic regions and their formation see Housing NSW, [Rent and Sales Report](#), Issue No 117, December 2016, p 9.

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)

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.