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NSW Economic Update Winter 2017

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By Chris Angus

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NSW Economic Update

Winter 2017

by

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SUMMARY

The state of the NSW economy

For six quarters running, **New South Wales** has been the best performing State in Australia. Commsec's July 2017 [State of the States Report](#) found that NSW retained its top ranking on retail trade, and dwelling starts, and is second for economic growth, business investment, unemployment, housing finance and vehicle sales. Indeed, the State's lowest ranking is third place for construction work.¹

The NSW 2017-18 [Budget Papers](#) reported that the State economy outperformed the rest of the nation in 2016-17 and forecast a similar performance in 2017-18, with above-trend economic growth forecast over the next three years:

- In 2017-18, Gross State Product (GSP) is forecast to rise by 3 per cent. Above-trend growth of 2¾ per cent is anticipated in 2018-19 and 2019-20. The new GSP outlook is a ¼ of a percentage point stronger in all years than was expected at the 2016-17 Half-Yearly Review (HYR).
- Business investment, public infrastructure and dwelling construction are all showing significant strength, lifting construction activity and employment to record levels. The State's \$72.7 billion, four-year infrastructure program is expected to boost economic growth by an average of ½ a percentage point a year over the next two years.
- The labour market is forecast to improve in line with the strength in economic activity, with above-trend employment growth of 1¾ per cent forecast for 2017-18 and 2018-19. The unemployment rate is expected to remain low at slightly under 5 per cent over the next two years.²

Based on the latest quarterly movements,³ 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 economic growth.

Stronger			Weaker
State final demand (up 0.2%)	Unemployment rate (down 0.2%)	Mining investment (up 3.7%)	Trade deficit (up \$176m)
Gross State Product (up 3.5%)	Participation rate (up 0.1%)	Retail trade (up 0.7%)	Business investment (down 2.6%)
Household consumption (up 0.7%)	Job vacancies (up 2.5%)	Motor vehicle sales (up 13.1%)	Youth unemployment (up 0.1%)
Business investment (up 0.02%)	Wages (up 0.4%)	Sydney median house price (up 0.9%)	Dwelling approvals (down 2%)
Employment (up 0.8%)	Bankruptcies (down 4.1%)		Housing finance (down 10.8%)

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

² NSW Treasury, [Budget Paper No 1: Budget Statement](#), 2017-18, p 3-1.

³ For the most recent quarter in which data is available.

The state of the Australian economy

The Reserve Bank of Australia's (RBA) **national economic growth** forecasts remain the same as that reported in February 2017. In its May 2017 [Statement on Monetary Policy](#), the RBA forecast Gross Domestic Product (GDP) growth to be in the 1.5-2.5% range by June 2017, increasing to 2.75-3.75% by December 2018.⁴

These estimates were lower than those made in previous forecasts, which had [anticipated](#) GDP growth of 2.5-3.5% by June 2017. The May 2017 Statement commented that its downward revision was made following a number of temporary supply disruptions during the September 2016 quarter. For the remainder of 2017, GDP growth was expected to increase as the drag from falling mining investment comes to an end and the ramp-up in resource exports continues.⁵ Other key factors which may influence national growth over the forecast period, as outlined by the RBA, include:⁶

- Above average growth in household spending, with household income expected to grow at a similar rate compared to consumption;
- Dwelling investment, particularly given the large volume of new apartment construction in the pipeline. However, the RBA noted that its contribution to growth is likely to diminish over time;
- A small improvement in employment growth, following below-average growth over much of 2016; and
- Wage growth remaining at around its current rate of 1.9% over the next year as a result of ongoing spare capacity⁷ in the labour market.

The financial sector has made diverging forecasts as to future economic growth in the coming financial years. The [Commonwealth Bank](#) has forecast GDP growth of 2.7% over the 2017-18 financial year, and 3.1% in 2018-19. In contrast, [NAB](#) has forecast economic growth of 2.6% for 2017-18, with a slight decline to 2.3% in the following fiscal year. [BIS Shrapnel](#) also expects a slowing of growth in 2018-19 (2%), after strengthened growth this financial year (forecast at 3%).

Despite these forecasts, there are concerns that the GDP is not accurately reflecting the state of the Australian economy. For example, the [Commonwealth Bank](#) has reported that while strong population growth has boosted Australia's aggregate growth rate—more people means more spending—GDP *per capita* growth has stagnated, growing by just 0.2% in the year to March 2017. The CBA argued that, in order to achieve better outcomes for households, policymakers must place greater emphasis on measures of living standards (i.e. GDP per capita) rather than aggregate growth rates.⁸

⁴ Reserve Bank of Australia, [Statement on Monetary Policy](#), May 2017, p 55.

⁵ Ibid.

⁶ Ibid p 56.

⁷ See Glossary. For a detailed overview, see: Ballantyne A, De Voss D and Jacobs D, [Unemployment and Spare Capacity in the Labour Market](#), Reserve Bank of Australia, September 2014.

⁸ Aird G, [An update on how the Australian economy looks on a per capita basis](#),

Commentary: Slowing wage growth and how to speed it up

Down down, wage growth is down

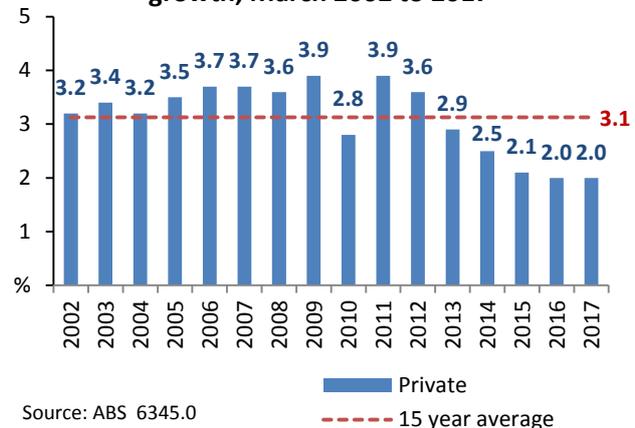
Wages have been the subject of vigorous debate for decades. Particular focus has been given to the impact that wage growth could have on the wider economy were wages to increase faster than productivity. Despite ongoing fears that a new ‘wage breakout’ will arise due to high wage growth,⁹ a breakout has not occurred since the early 1980s.¹⁰

In fact, over the course of the 2010s the opposite has occurred, with wage growth slowing to record lows. The Australian Bureau of Statistics’ (ABS) Australian [Wage Price Index](#) (WPI) has reported a wage growth rate of 1.9% per annum for the past three quarters: the *lowest* result since the series commenced in the late 1990s. In real terms, wages have barely grown since 2013.¹¹ NSW has fared little better, with its WPI growth in the 12 months to March 2017 well below the 15 year average for both the private and public sectors (see right).

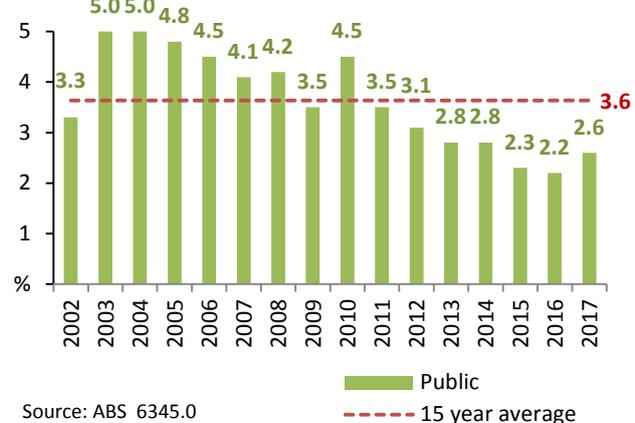
Slow wage growth is also an issue for much of the rest of the world. As noted by the International Labour Organisation in its [Global Wage Report 2016/17](#), real wage growth “has decelerated since 2012, falling from 2.5 per cent to 1.7 per cent in 2015, its lowest level in four years”.

Experts are uncertain why wage growth has slowed over the last few years. Several recent RBA publications have identified a number of factors that partially explain low wage growth, including:¹²

Annual NSW private sector wage growth, March 2002 to 2017



Annual NSW public sector wage growth, March 2002 to 2017



Commonwealth Bank, 12 July 2017, p 1.

⁹ Woodley N, [Eric Abetz warns of wages 'explosion' unless employers stop 'caving in' to unions](#), ABC News, 29 January 2014.

¹⁰ Cowgill M, [A Shrinking Slice of the Pie](#), ACTU Working Papers No 1, 2013, p 6; Peetz D, [“Wages explosion” risk not based on facts](#), The Conversation, 30 January 2014.

¹¹ Bishop J and Cassidy N, [Insights into Low Wage Growth in Australia](#), Reserve Bank of Australia, March 2017; Jacobs D and Rush A, [Why Is Wage Growth So Low?](#), Reserve Bank of Australia, June 2015.

¹² Ibid; Reserve Bank of Australia, [Statement on Monetary Policy](#), May 2017, p 37.

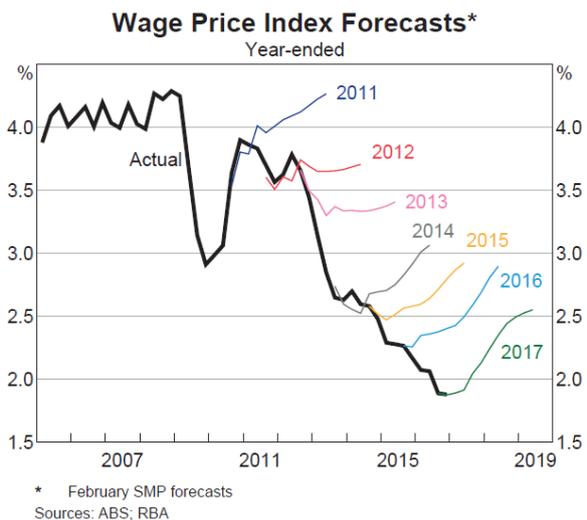
- Spare capacity in the labour market (reflecting high underutilisation levels:¹³ see Unemployment chapter);
- Lower inflation outcomes and inflation expectations;
- Lower terms of trade;
- A high real exchange rate; and
- Low inflation where enterprise bargaining agreement (EBA) wage outcomes are linked to the CPI.

Faster growth and the follies of forecasting

In light of what is in many respects a global phenomenon, many stakeholders have recently called for faster wage growth in order to help stimulate economic growth.¹⁴ The most prominent of these was RBA Governor Philip Lowe, who in June [commented](#) that it would be a “good thing” if Australia’s relatively low unemployment rate led to workers being willing to ask for larger wage rises.

The Commonwealth Government has also indicated its strong desire for larger wage growth. In its 2017-18 Budget it claimed that, at least partly as a result of its proposed company tax cuts, wage growth will nearly *double* in the coming four years, from 1.9% to 3.75% by 2020-21.¹⁵ This is a growth rate necessary in order to return the national budget to surplus in 2020-21,¹⁶ and a rate that Treasurer Scott Morrison [claims](#) is “conservative”.

However, these forecasts have been criticised by many observers.¹⁷ In particular, critics refer to inaccurate wage growth forecasts from the [Commonwealth Treasury](#) and the RBA, the latter describing its forecasts as having been “[persistently too strong](#)” for most of the decade (see right). Given past forecasting errors, anticipating faster wage growth in the near future may amount to little more than wishful thinking.



¹³ Aird G, [Why spare capacity is driving wages growth, inflation & rates down](#), *Property Observer*, 21 June 2015.

¹⁴ White G, [Explainer: how wage growth contributes to the economy](#), *The Conversation*, 12 April 2017.

¹⁵ Commonwealth Government, [Budget Strategy and Outlook: Budget Paper No 1](#), 2017-18, p 1-9, 1-13; Morrison S, [Turnbull Government’s Enterprise Tax Plan to drive investment, jobs and wages](#), Media Release, 1 February 2017.

¹⁶ Verrinder I, [Federal budget 2017 reflects radical overhaul in Coalition thinking](#), *ABC News*, 9 May 2017.

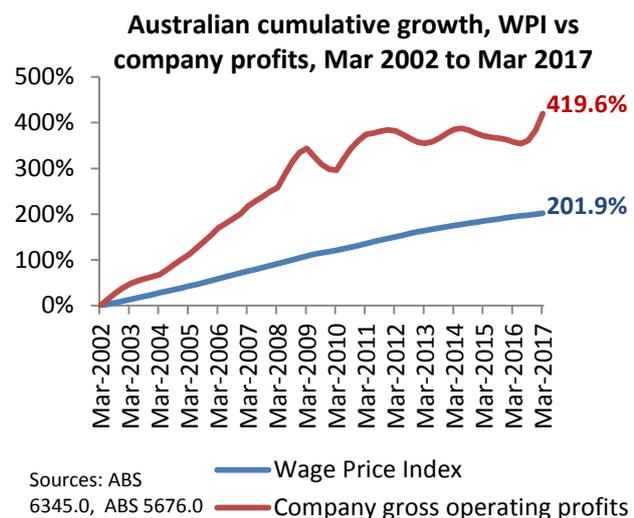
¹⁷ For example, see: Daley J and Wood R, [The rose-tinted view from the treasury windows](#), Grattan Institute, May 2017; Burgess R, [Budget 2017: Morrison’s only surplus will be his unwarranted optimism about wage growth](#), *The New Daily*, 3 May 2017; Jericho G, [Federal budget 2017: the 10 graphs you need to see](#), *The Guardian*, 9 May 2017; Long S, [Federal budget 2017: Don’t bet on the rosy wages forecast](#), *ABC News*, 16 May 2017.

Ask (for higher wages), and it shall be given you?

While the RBA Governor's suggestion that Australian workers start agitating for higher wage rises appears straightforward, UNSW Professor of Economics Richard Holden [explained](#) the challenges associated with pay negotiations:

First, for a whole lot of workers in Australia, cutting a better deal is very hard. They are either on an award or their wages are determined by an enterprise bargaining agreement. In neither case do the workers actually do the bargaining themselves. And it is far from clear that the outcome of deals cut – or edicts handed down – by unions or the Fair Work Commission are going to deliver significant overall pay rises.

Employer advocacy groups have been reluctant to agree to wage increases.¹⁸ Illustrating this, in June 2017 Business Council of Australia (BCA) President Grant King [stated](#) that while businesses would “love to pay people more money,” they could only do so if productivity and profits improved. However, company gross operating profits have risen by a cumulative rate more than double that of the Australian WPI (see right)—with a [36.1% increase](#) over the 12 months to March 2017—while labour productivity has remained higher than capital and multifactor productivity since the mid-1990s.¹⁹



The chances of winning significant wage increases may be lowered further because of unequal bargaining power between employers and employees. In general, employers wield substantial purchasing power in the labour market, with the cost borne by employees who fail to reach an agreement—namely, a period of extended unemployment—exacerbating this inequality.²⁰

To this point, a number of observers have argued that the decline in union membership has suppressed wage growth, and that without higher levels of union density—and accordingly, greater bargaining power—it is difficult to see where the impetus for wage growth will come from in future.²¹ However, the RBA has commented that such changes are hard to observe, and therefore evidence of a decline in employee bargaining power in Australia is limited.²²

¹⁸ Fair Work Commission, [Annual Wage Review 2016–17](#) [2017] FWCFB 3500, Ch 3.

¹⁹ KPMG, [The role of capital and labour in driving economic growth in Australia](#), February 2016, p 15; Productivity Commission, [PC Productivity Update 2016](#), April 2016.

²⁰ Creighton W et al, [Creighton & Stewart's labour law: 6th edition](#), 2016, p 22-3.

²¹ Jericho G, [Recipe to avoid recession has also kept jobs and wages growth at bay](#), *The Guardian*, 11 June 2017; Bornstein J, [Tough rules on unions have stifled Australian wages](#), *The Canberra Times*, 5 July 2017.

²² Bishop J and Cassidy N, [Insights into Low Wage Growth in Australia](#), Reserve Bank of Australia, March 2017, p 16.

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 March or June 2017 quarters.

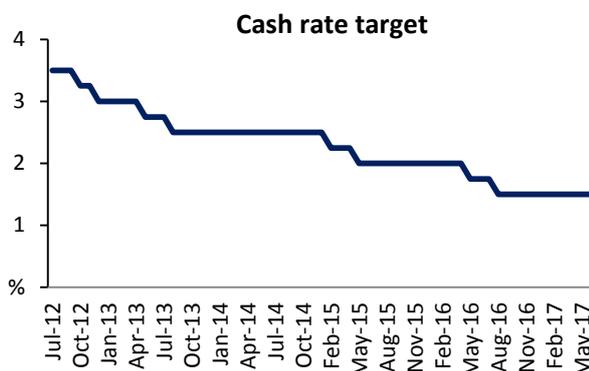
Data sources used

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.

The Economic Update presents ABS **trend estimates** where available; trend data is [preferred](#) by the ABS for the analysis of monthly or quarterly changes, as they remove potentially misleading seasonal patterns, residual noise and irregular influences. All ABS data are trend estimates unless otherwise identified as original or seasonally adjusted data.

INTEREST RATES

In July 2017, the RBA kept the cash rate unchanged at 1.5%: it has remained at this level since [August 2016](#). 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. The RBA Board noted a range of factors influencing the Australian economy in their July [meeting](#).



Source: RBA

The most notable outcome of the meeting was to nominate a new estimated '[neutral real interest rate](#)': the interest rate at which output growth is at potential and inflation is stable. According to the Board, the neutral real interest rate has fallen from around 2.5% in 2007 to 1% today, subsequently leaving the neutral real *cash* rate at an estimated 3.5%. In short, this "effectively means the RBA thinks it can substantially increase the cash rate, currently at a record-low 1.5 per cent, without curbing economic growth."²³

However, as reflected in the cash rate forecasts listed below, this does not necessarily mean that the RBA plans to implement an expansionary monetary outlook in the immediate future. Indeed, the Board's estimated neutral real cash rate is higher than the 3% estimate made by the Commonwealth Bank,²⁴ and has been regarded as hawkish (i.e. an overestimate) by other analysts due to uncertainty around wages and inflation, consumer confidence, the labour market and housing.²⁵

The Board took into account other variables in its decision to keep the cash rate at 1.5%. On the one hand, it noted that the broad-based recovery in the global economy had continued, while at the domestic level consumption growth appeared to have increased, along with recent improvements in labour market data. On the other hand, the Board members [concluded](#) that developments in the labour and housing markets continued to warrant careful monitoring, with an unchanged cash rate consistent with sustainable growth in the economy and achieving the inflation target over time.

Turning to other financial institutions, the [Commonwealth Bank](#), [NAB](#) and [BIS Shrapnel](#) expect the cash rate to remain at 1.5% into 2018, while [Westpac](#) has forecast the cash rate to remain unchanged until after March 2019.

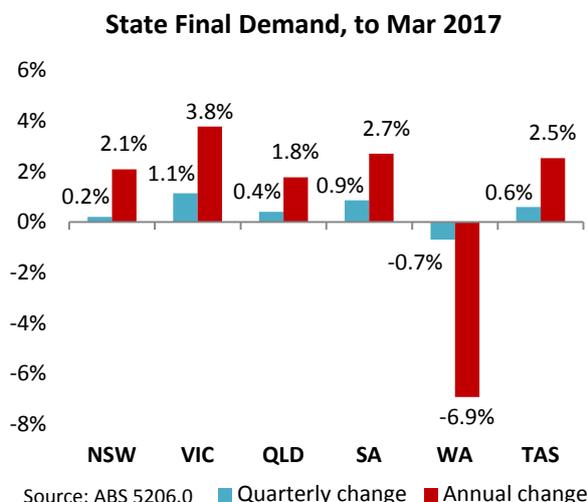
²³ Stiles J, '[Hawkish](#)' RBA spooks borrowers and sends Aussie dollar soaring, *The New Daily*, 18 July 2017.

²⁴ Commonwealth Bank, [RBA Board Minutes – July 2017](#), 18 July 2017, p 2.

²⁵ *Macrobusiness*, '[Bill Evans hoses RBA hawks](#)', 18 July 2017; Pascoe M, '[Goldilocks Australia: the great market overreaction to the RBA minutes](#)', *Sydney Morning Herald*, 19 July 2017; Ryan P, '[Reserve Bank minutes: 'Neutral' interest rate around 3.5pc, Australian dollar surges](#)', *ABC News*, 18 July 2017.

STATE DEMAND AND GROSS STATE PRODUCT

Gross Domestic Product (GDP) increased by 0.4% over the March 2017 quarter, and 1.7% in the 12 months to March 2017. Demand in NSW was 0.2% higher for the March 2017 quarter (see right), lower than the preceding December quarter (0.6%) and the two year quarterly average (0.9%). Quarterly final demand growth remained weak across other States and Territories, with the biggest quarterly and annual decline occurring in Western Australia (-0.7% and -6.9% respectively).



Annual demand growth in NSW to March 2017 was the second lowest of all jurisdictions at 2.1%: almost half that seen in the 12 months to December 2016 (4%).

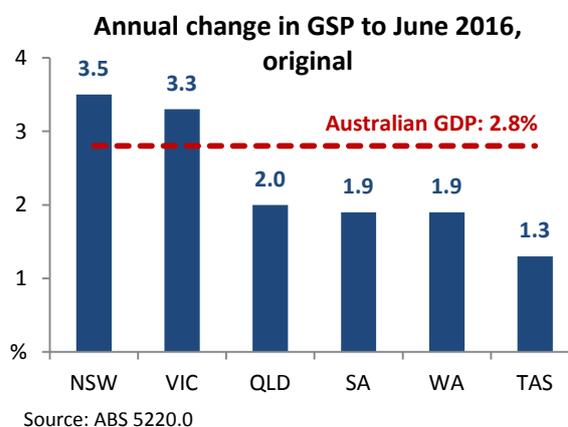
State final demand (\$m), chain volume measures								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Jun-2016	132,025	99,244	79,464	26,257	50,417	7,459	7,076	16,093
Sep-2016	132,664	100,080	79,855	26,422	49,289	7,510	7,333	16,273
Dec-2016	133,037	101,181	80,224	26,641	48,603	7,566	7,542	16,367
Mar-2017	133,301	102,334	80,553	26,870	48,266	7,611	7,696	16,419

Source: ABS, Australian National Accounts, Cat. No. 5206.0, March 2017

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: NSW GSP grew by 3.5% over the year, well above the Australian average of 2.8%.

Nevertheless, as noted in the Summary, GDP per capita grew by just 0.2% in the year to March 2017, raising concerns that GDP (and GSP) results do not present an accurate picture of the national and state economies.

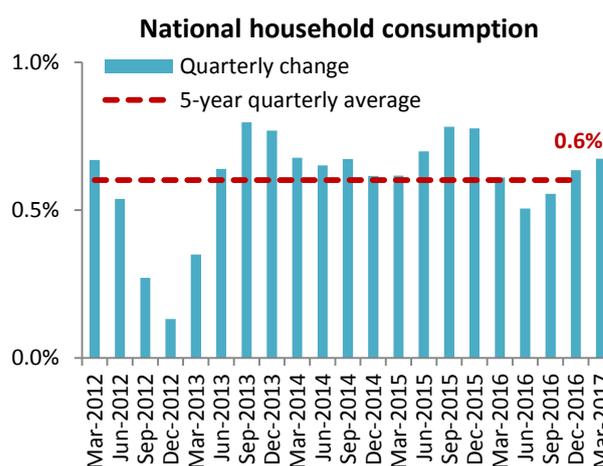


Gross State Product (\$m), chain volume measures, original								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Jun-2012	479,485	346,133	288,233	94,897	216,029	25,112	19,001	33,398
Jun-2013	488,691	349,871	295,096	96,483	228,425	24,925	21,999	34,278
Jun-2014	500,306	352,512	304,874	97,336	241,579	25,370	22,591	34,567
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

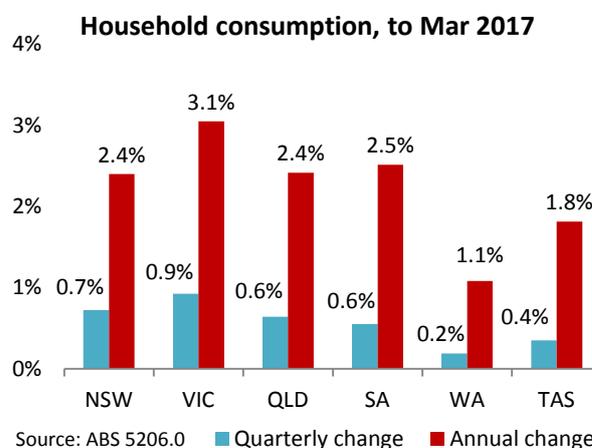
HOUSEHOLD CONSUMPTION

Nationally, household consumption grew by 0.7% over the March 2017 quarter. This was slightly above the five year average of 0.6% (see right). The RBA noted in its [May 2017 Statement on Monetary Policy](#) that household consumption growth picked up in the December quarter after a period of modest growth in mid-2016. This pick-up was driven by a marked increase in goods consumption, while interest rates and ongoing growth in household net wealth continue to support spending.



Household spending increased in NSW by 0.7% over the quarter: the second highest of all States bar Victoria (see below right). On an annual basis, NSW consumption increased by 2.4%: the same rate as Queensland and equal third highest annual growth rate after Victoria and South Australia (3.1% and 2.5% respectively).

Given record low wages growth, St George Bank has noted that the increase in household consumption has largely been achieved by households dipping into their savings, as reflected in the decline in the household saving ratio.²⁶



²⁶ St George Bank, [National Accounts – GDP](#), June 2017, p 2.

Household final consumption (\$m), chain volume measures								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Jun-2016	79,983	58,809	45,891	15,545	25,664	4,489	2,645	4,147
Sep-2016	80,384	59,225	46,180	15,643	25,739	4,513	2,644	4,162
Dec-2016	80,886	59,739	46,489	15,737	25,792	4,533	2,646	4,181
Mar-2017	81,473	60,292	46,787	15,824	25,841	4,549	2,653	4,201

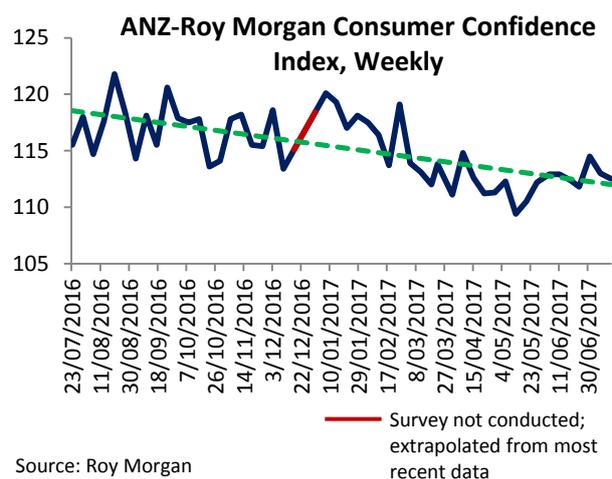
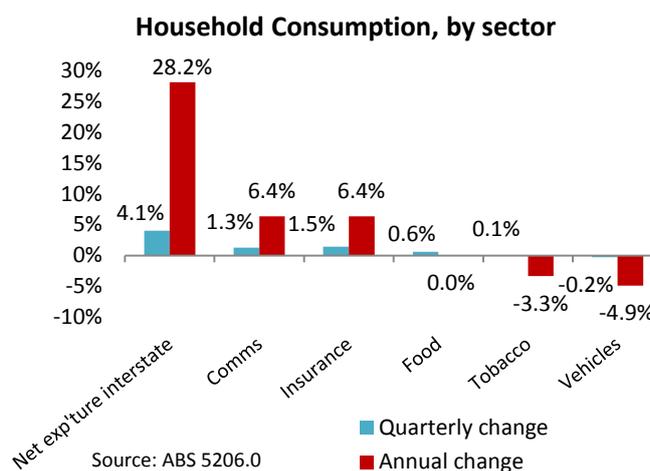
Source: ABS, Australian National Accounts, Cat. No. 5206.0, March 2017

In NSW, the largest increase in household expenditure over both the quarter and year to March 2017 was on net expenditure interstate²⁷ (4.1% and 28.2% respectively). Meanwhile, vehicle sales fell by 4.9%: the largest annual fall (see right; note that the June quarter saw a significant jump in sales – see Vehicle Sales chapter).

Although it is subject to sharp fluctuations, the ANZ-Roy Morgan Consumer Confidence Index has generally trended down since mid-2016, with a slight recovery after mid-May 2017 (see below). According to [Roy Morgan Research](#), this recent increase was likely due to improved labour market conditions, although the Index has subsequently remained level.

Other measures reported an ongoing weak outlook for household consumption. In its July 2017 survey, the [Westpac-Melbourne Institute Survey of Consumer Sentiment](#) reported a 0.4% rise from 96.2 to 96.6 over the month to July.

Nevertheless, this was the eighth consecutive month where the Index printed below 100. The Survey also recorded declines in consumer sentiment over the past 12 months with regard to unemployment (-2%), family finances (-3.8%), economic conditions over the next five years (-8%) and dwelling purchases (-7.9%).

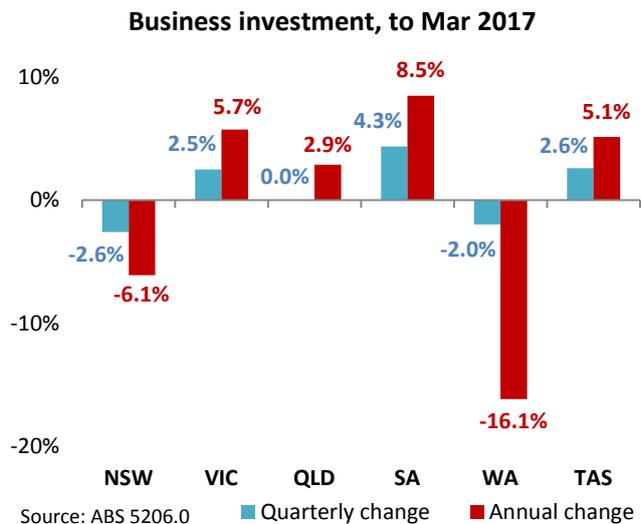


²⁷ This is calculated by adding the expenditure of NSW residents in other States and Territories and deducting the expenditure of residents from other States and Territories within NSW. Essentially, this increase indicates that more interstate residents spent money in NSW in March 2017 than they did in March 2016.

BUSINESS INVESTMENT

Nationally, business investment increased marginally over the March 2017 quarter (+0.02%), while remaining down 1.7% over the 12 months to March. Nevertheless, this very modest quarterly rise is the first increase in business investment levels since September 2012, following 17 consecutive quarters of decline in business investment.

Compared to the national results, business investment in NSW fell by 2.6% over the March quarter—the greatest fall of all jurisdictions—and 6.1% over the year. Meanwhile, most other States recorded significant growth in investment levels over the quarter (see above), with only Western Australia suffering a greater fall in annual investment levels (down 16.1% for the year, and 2% over the quarter).

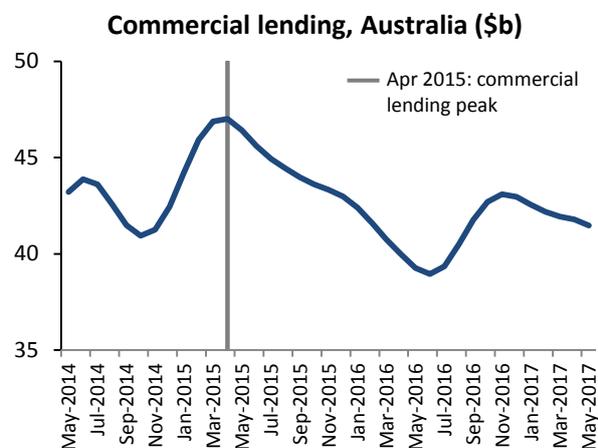


Business investment (\$m), chain volume measures								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Jun-2016	15,181	11,034	9,844	2,679	11,085	605	1,964	618
Sep-2016	15,005	11,113	10,027	2,684	10,043	609	2,213	628
Dec-2016	14,636	11,383	10,127	2,785	9,484	620	2,431	625
Mar-2017	14,257	11,665	10,128	2,906	9,297	636	2,594	616

Source: ABS, Australian National Accounts, Cat. No. 5206.0, March 2017

Commercial lending data is another proxy for measuring business investment and related activity. While this data is susceptible to volatility, commercial finance data indicates that commercial lending has begun to decline again after reaching its most recent peak in November 2016 (see right).

Business confidence has also declined since the previous quarter. According to Roy Morgan's Business Confidence survey, business confidence fell by 1.8% to 111.8 in June 2017: below the seven year average of 116.3.²⁸

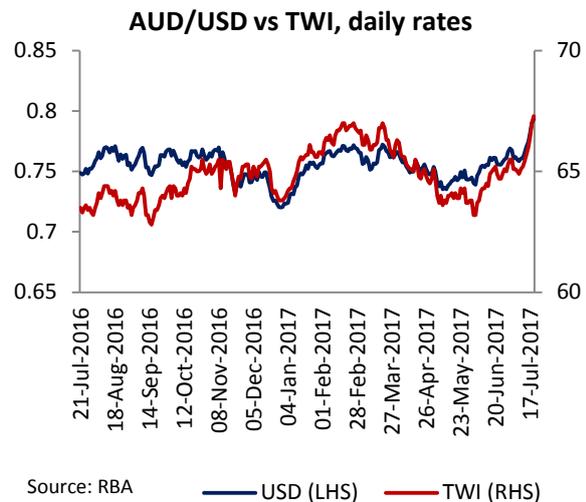


Source: ABS 5671.0

²⁸ Roy Morgan Research, [Business Confidence down in June to 111.8 driven by declines in the Retail and Electricity industries](#), July 2017.

EXCHANGE RATE

The Australian dollar (AUD) remained steady over the past three months, hovering around 0.75 USD until the RBA's neutral real cash rate announcement saw the [dollar increase](#) to 0.79 USD. As of 19 July 2017, the AUD was worth [0.794 USD](#). The trade-weighted index (TWI) used to measure the AUD's value relative to the currencies of Australia's trading partners,²⁹ has gradually risen since May 2017 (see right).



The major banks have made varying forecasts for the AUD for the remainder of 2017 and into 2018. The Commonwealth Bank has [forecast](#) the AUD to stay around 0.76 USD for the remainder of 2017, before rising to 0.80 USD by December 2018. However, other banks are more cautious: Westpac [expects](#) the dollar to lower to 0.65 USD by March 2019, while NAB has [predicted](#) a slight fall to 0.70 USD by December 2017, where it is expected to remain until June 2019.

The RBA commented in its May 2017 [Statement on Monetary Policy](#) that falling levels of unemployment overseas could lead to unexpected increases in inflation, consequently reducing the value of the AUD:

In the major advanced economies, wage pressures are expected to continue to increase as spare capacity in labour and product markets declines further; in the United States and Japan, growth in unit labour costs is already above average. A number of major advanced economies look to be around full employment, although this is a source of uncertainty. If there is less spare capacity than assumed, inflation could rise more quickly than currently forecast, which could lead to tighter monetary policy in some advanced economies and a depreciation of the Australian dollar.³⁰

However, depreciation is not necessarily bad news, as explained by the RBA:

By any measure, Australia's real exchange rate has depreciated since the end of the terms of trade boom. This has helped the economy adjust to the significant reduction in income from the terms of trade decline and the associated fall in mining investment by boosting activity in the tradeable sector. An appreciating real exchange rate would complicate that adjustment.³¹

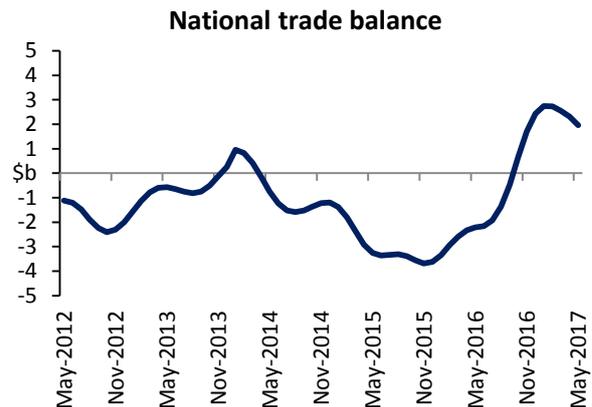
²⁹ Austrade, [The dollar and competitiveness](#), February 2015; Reserve Bank of Australia, [Glossary](#), no date [website – accessed 11 July 2017]. Note that the base level was set at 100 in May 1970.

³⁰ Reserve Bank of Australia, [Statement on Monetary Policy](#), May 2017, p 54.

³¹ Ibid p 27.

INTERNATIONAL TRADE

After 29 consecutive months of trade balance deficits starting in May 2014, Australia finally recorded a trade surplus of \$359 million in October 2016. Since then the nation has seen eight consecutive months of trade surplus. As of May 2017, this surplus was estimated at \$1.96 billion (see right).

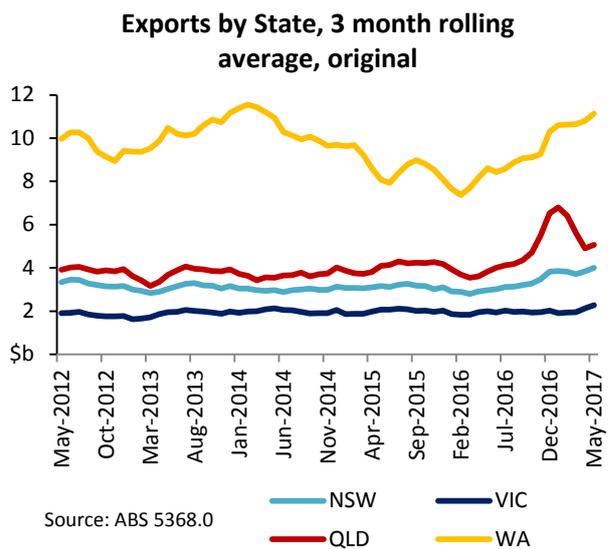


Source: ABS 5368.0

According to the [Commonwealth Bank](#), the driver of this rebound has been surging coal exports, with Queensland ports and mines increasing output in the aftermath of Cyclone Debbie (see below right). Rural exports have also increased as a result of higher wheat and meat exports, while the ongoing “middle classing” of Asia—China in particular—was identified as a continuing positive background dynamic for service exports.

Nevertheless, St George Bank [noted](#) that the trade surplus narrowed over the previous six months, with the impact of falling commodity prices on export values a longer lasting challenge than Cyclone Debbie

After posting a 19.1% increase in the quarter to December 2016, the NSW **average monthly free on board value of merchandise exports** declined by 3.1% in the March 2017 quarter to total \$3.7 billion. The three month rolling average for exports in Australia’s largest States is shown in the chart on the right.



Source: ABS 5368.0

The **top five destinations for NSW merchandise exports** for the month of May 2017 were: Japan (\$1.13bn); China (\$656m); South Korea (\$301m); the USA (\$248m); and Taiwan (\$218m). As a proportion of exports, 43.2% of all NSW merchandise was exported to Japan or China in May.

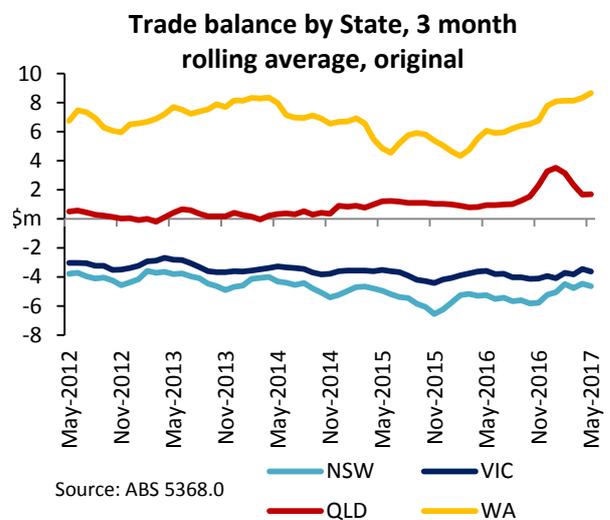
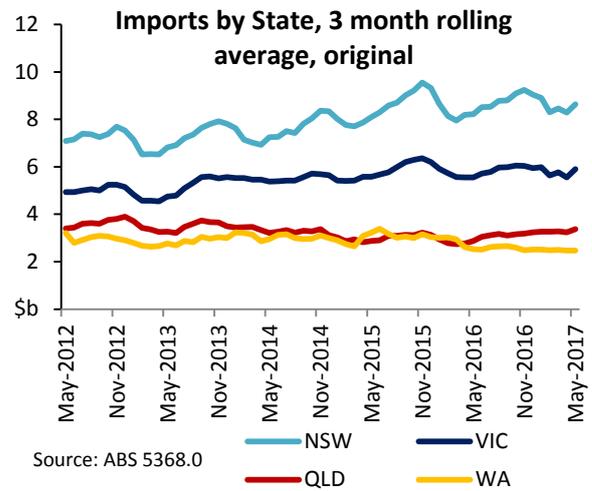
In contrast to exports, import revenue has declined over the quarter. Following a 2.7% increase in the December 2016 quarter, the **average monthly customs value of NSW merchandise imports** fell by 6.4% in the March quarter to \$8.5 billion. This was the highest quarterly fall of all jurisdictions, and well below the national result (-3.2%).

The **top five import sources** for NSW in the month of May 2017 were: China (\$2.21bn); the United States (\$973m); Japan (\$516m); Germany (\$497m); and South Korea (\$492m). Over the course of the month, approximately 26% 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.

Since reaching a peak trade deficit of \$6.6 billion in November 2015, the State's deficit had reduced to \$4.6 billion by May 2017 (see right). This is below the decade low deficit of \$2.8 billion seen in February 2009.

Western Australia continues to have the highest trade balance in comparison to the other States, reaching a decade monthly high of \$9.3 billion in March 2017. Since then the trade balance declined, before increasing again to \$8.6 billion in May 2017. The State's trade balance remains substantially higher than the other States and Territories.



CONSUMER PRICE INDEX

The Australian consumer price index (CPI) rose by 0.2% over the June 2017 quarter: a smaller rise than the 0.5% recorded in the December 2016 and March 2017 quarters, but largely in line with analysts' expectations.³² Over the 12 months to June 2017 the CPI rose by 1.9% nationally.³³

In Sydney the CPI increased by 2.2% over the year to June, sharing [equal second spot](#) with Melbourne while Hobart had the largest annual increase (2.3%). The largest price increases in Sydney over the last 12 months were seen for alcohol and tobacco (up by 5.5%); health (+3.7%); and housing (+3.3%).

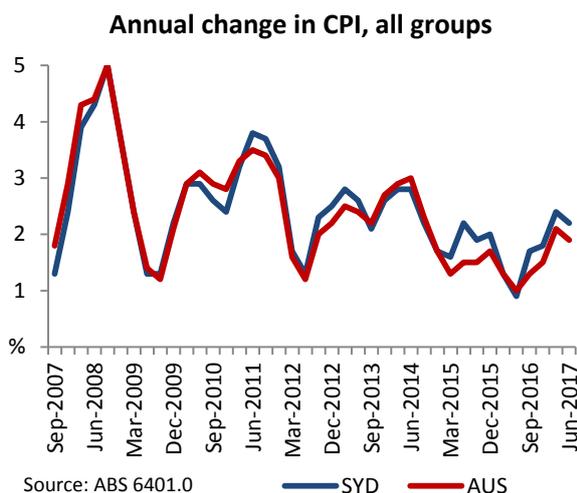
In response to the most recent results, the Commonwealth Bank [commented](#) that “the main message is one of ongoing price restraint, with little need for any monetary policy response from the RBA”. The Bank also noted that the CPI offered some insight into the ongoing debate about high household debt and potential downside risks to consumer activity:

Household perceptions about their financial position have deteriorated in recent years. And the perception has been accentuated by weak wages growth and the rapid growth in prices in areas that are largely outside consumer discretion (such as fuel, health, insurance, utilities etc). Our calculations on the “pain spend” subset of the CPI show annual growth running at 3.3%pa, well above the overall CPI basket.³⁴

In terms of the CPI and wage growth, St George Bank [stated](#) that ongoing spare capacity in the labour market further pointed to a low inflation outlook, and that, because headline and underlying inflation are below the RBA's target band (see table below), an RBA rate hike in the near term is still unlikely.

Reserve Bank of Australia inflation forecasts (%)				
	Jun-17	Dec-17	Jun-18	Dec-18
CPI inflation	2	1.5–2.5	1.5–2.5	1.5–2.5
Underlying inflation	1.75	1.5–2.5	1.5–2.5	1.5–2.5

Source: RBA, Statement on Monetary Policy, May 2017, Table 6.1.



³² Commonwealth Bank, [CPI – June Quarter 2017](#), 26 July 2017; St George Bank, [Consumer Price Index: What Inflation?](#), 26 July 2017.

³³ Australian Bureau of Statistics, [Inflation subdued in the June quarter](#), Media Release, 26 July 2017.

³⁴ Commonwealth Bank, [CPI – June Quarter 2017](#), 26 July 2017, p 1.

EMPLOYMENT

Nationally, employment grew by 0.8% in the June 2017 quarter, with approximately 93,000 new jobs created since March. This was an improvement over the previous quarter, with the ABS [reporting](#) that the latest results show trend full-time employment increasing for the ninth straight month.

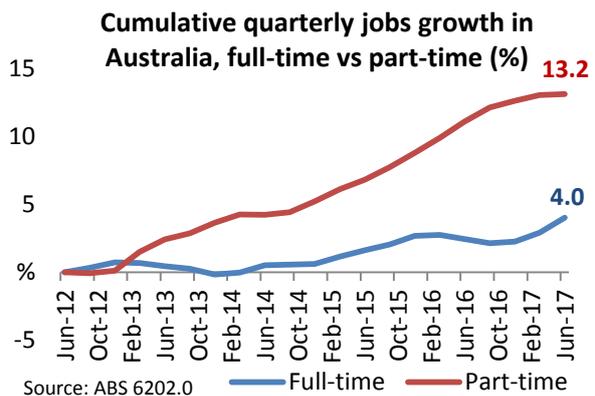
The average number of people employed in NSW also increased by 0.8% over the quarter, from 3.81 million to 3.84 million employed. Over the 12 months to June 2017, NSW employment levels increased by 0.8%.

Number of persons employed ('000), quarterly average									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Jun-16	3,807	3,030	2,353	811	1,344	237	133	213	11,927
Sep-16	3,811	3,062	2,344	812	1,333	237	134	215	11,942
Dec-16	3,801	3,084	2,344	816	1,333	239	136	216	11,969
Mar-17	3,805	3,107	2,361	818	1,344	241	140	216	12,039
Jun-17	3,836	3,135	2,384	820	1,358	244	138	216	12,132

Source: ABS, Labour Force, Australia, Cat. No. 6202.0, June 2017

In welcome news, the ABS has [commented](#) that most of the national trend employment increase in June has come from full-time work: full-time employment increased by 30,000 persons during the month, while part-time employment decreased by 3,600 persons.

This goes a small way to reversing the [decline](#) in full-time employment growth that has occurred since the Global Financial Crisis (GFC). According to ABS data, national part-time employment grew by 13.2% between June 2012 and June 2017, while full-time employment grew by only 4% over the same period (see right).



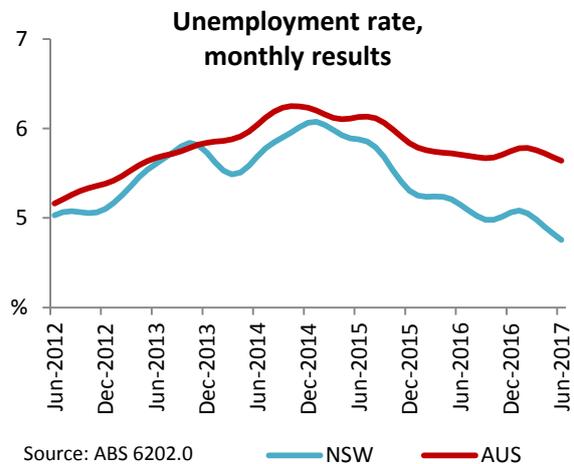
In NSW, there has been a significant jump in cumulative full-time employment growth. Between June 2012 and June 2017, there has been a 6.3% cumulative increase in full-time work in NSW: well above the national average and second only to Victoria (see right).



UNEMPLOYMENT, UNDEREMPLOYMENT AND UNDERUTILISATION

In NSW, the average unemployment rate during the June 2017 quarter fell by 0.2% to 4.8%. The State unemployment rate remains 1.2% lower than the 6% peak seen in the March 2015 quarter, and 0.9% below Australia’s quarterly unemployment rate of 5.7%.

NSW continues to have one of the lowest unemployment rates in Australia, bettered only by the NT (3.2%) and ACT (4.2%). South Australia had the highest quarterly average unemployment rate (6.9%).



Source: ABS 6202.0

— NSW — AUS

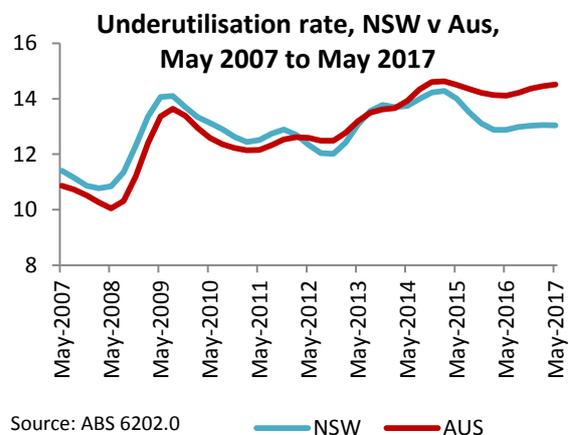
Unemployment rate (%), quarterly average									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Jun-16	5.2	5.7	6.3	6.9	5.9	6.5	3.9	3.8	5.7
Sep-16	5.0	5.7	6.1	6.7	6.3	6.6	3.5	3.6	5.7
Dec-16	5.0	5.9	6.1	6.6	6.5	6.3	3.6	3.6	5.7
Mar-17	5.0	6.0	6.3	6.8	6.2	5.9	3.5	3.7	5.8
Jun-17	4.8	6.0	6.4	6.9	5.7	5.8	3.2	4.2	5.7

Source: ABS, Labour Force, Australia, Cat No. 6202.0, June 2017

Although unemployment levels are low, the rate of underutilisation³⁵ in Australia has reached record highs.

Over the decade to May 2017, the underutilisation rate has increased from a low of 10.8% in NSW and 10.0% across Australia (February and May 2008 respectively) to the current rates of 13.0% and 14.5% (see right).

Nevertheless, the current NSW underutilisation rate is lower than the peak of 14.3% reported in February 2015: a result of the State’s falling unemployment rate over this time period.



Source: ABS 6202.0

— NSW — AUS

³⁵ The sum of the number of unemployed and underemployed persons expressed as a proportion of the labour force.

Underutilisation rate (%), quarterly average						
	NSW			Australia		
	Male	Female	Persons	Male	Female	Persons
May-2016	11.4	14.5	12.9	12.4	16.1	14.1
Aug-2016	11.5	14.6	13.0	12.5	16.2	14.2
Nov-2016	11.4	14.9	13.0	12.5	16.5	14.4
Feb-2017	11.3	15.0	13.0	12.5	16.7	14.5
May-2017	11.3	15.1	13.0	12.5	16.8	14.5

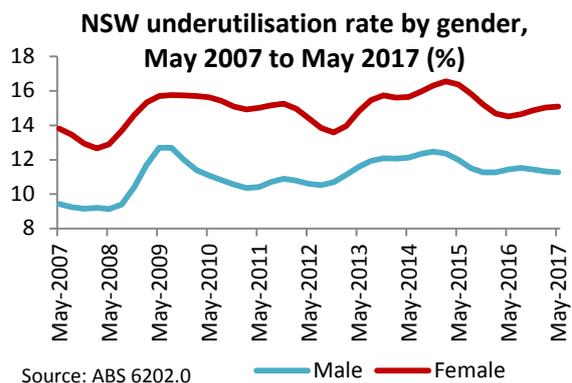
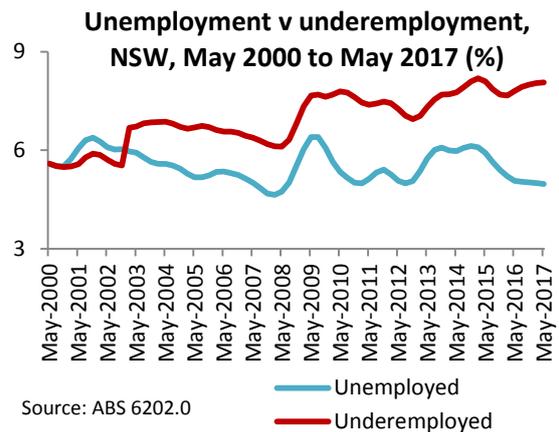
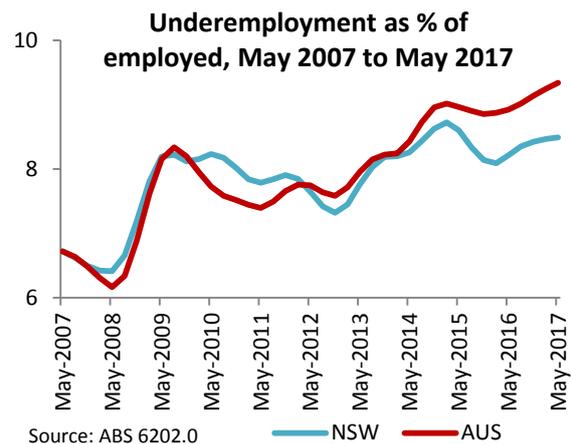
Source: ABS, Labour Force, Australia, Cat No. 6202.0, June 2017

The most recent fall notwithstanding, these results show a trend in which underutilisation rates have increased primarily as a result of greater levels of **underemployment**—the proportion of employees aged over 15 who want, and are available for more hours of work than they currently have—as opposed to rises in the unemployment rate.

Between May 2007 and May 2017, the NSW underemployment rate increased from a May 2008 low of 6.4% to the current rate of 8.5%. Australian underemployment also increased over the decade, rising from a low of 6.2% in May 2008 to 9.3% as of May 2017 (see above right).

ABS data for the May 2000 to May 2017 period (see right) shows that while the unemployment rate fell from 5.6% to 5.0%, the underemployment rate increased from 5.6% to 8.1% over the same period.

Underutilisation rates also differ by gender (see right), with NSW women more likely to either be unemployed or underemployed (15.1%) compared to men (11.3%). However, as with the underutilisation rate for NSW persons, the underutilisation rates for NSW women and men were both lower than their national averages of 16.8% and 12.5% respectively.



YOUTH UNEMPLOYMENT

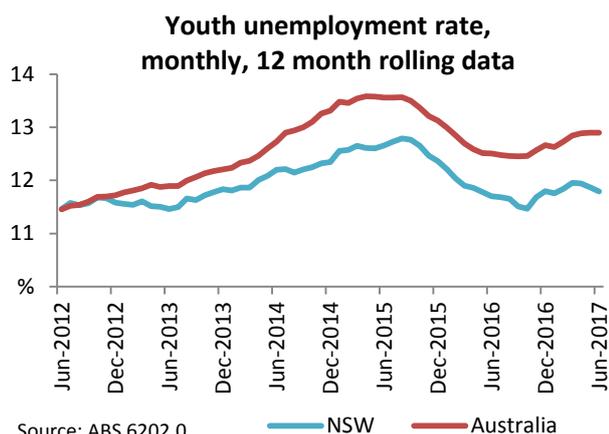
The youth unemployment rate is highly cyclical because of the significance of casual and part-time employment amongst this age group (15-24). Accordingly, youth unemployment figures are presented as 12 month rolling averages (also used on the NSW Parliamentary Research Service's [Regional labour force trends and NSW electorates](#) website).³⁶

As of the June 2017 quarter, NSW has a 12 monthly rolling quarterly youth unemployment rate of 11.9%: 0.9% below the five year peak seen in September 2015 and 1.0% below the Australian average (12.9%) (see below right). The NSW result was the third lowest of all States and Territories after the Northern Territory (8.1%) and the ACT (10.8%), South Australia has the highest youth unemployment rate of 15.3%, followed by Tasmania with 15.0%.

Youth unemployment rate (%), quarterly average, 12 month rolling data									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Sep-16	11.6	13.0	13.1	14.7	11.3	15.5	8.2	10.8	12.5
Dec-16	11.6	12.9	13.5	14.5	11.6	16.1	7.8	10.1	12.6
Mar-17	11.8	13.0	13.6	14.6	12.2	15.6	7.8	10.1	12.7
Jun-17	11.9	13.2	13.6	15.3	12.7	15.0	8.1	10.8	12.9

Source: ABS, Labour Force, Australia, Cat No. 6202.0, June 2017

The participation rate for Australian youth has fallen to record lows. ABS data shows that since the GFC commenced in August 2007, the participation rate for youth aged 15-24 years old has fallen from 70.7% to 66.5%: just above the series low of 66.2% recorded in January and February 2014.³⁷



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 prevent at-risk youth from leaving school; increase vocational education and training (VET) and apprenticeship program completion rates; and increase cooperation between schools and external social services.³⁸

³⁶ Following the methodology used by the Commonwealth Department of Employment: see Department of Employment, [Labour Market Information Portal](#), 7 July 2017 [website – accessed 28 July 2017].

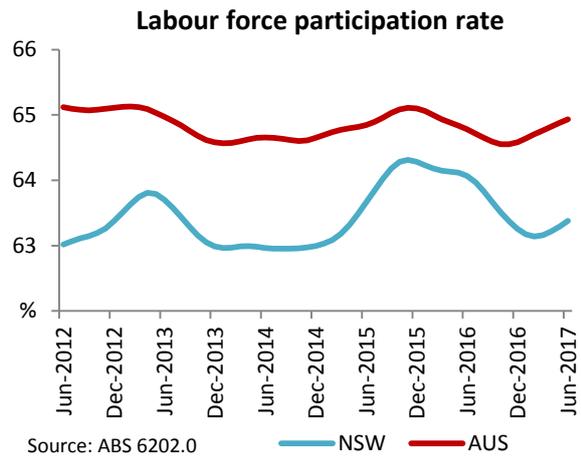
³⁷ Australian Bureau of Statistics, [6202.0 - Labour Force, Australia, Jun 2017](#), 20 July 2017, Table 13.

³⁸ OECD, [Investing in Youth: Australia](#), September 2016, p 21-22.

LABOUR FORCE PARTICIPATION

Over the June 2017 quarter, the NSW labour force participation rate rose by 0.1% to 63.3%: 1.6% below the Australian average of 64.9% (see right).

Only Tasmania and South Australia had lower participation rates than NSW (60.7% and 62.3% respectively), while the participation rate was highest in the Northern Territory (76.2%).

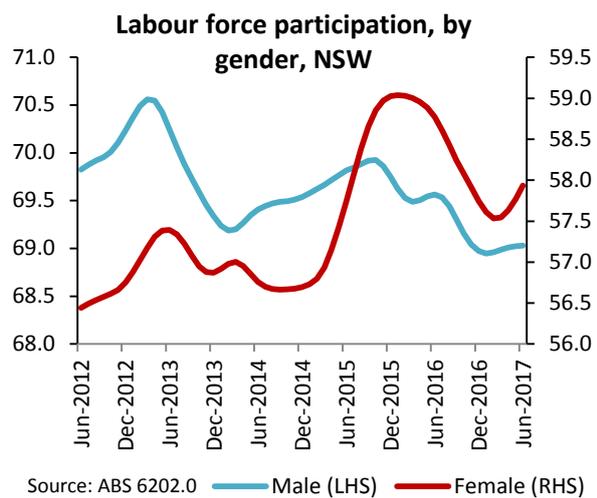


Labour force participation rate (%), quarterly average									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Jun-16	64.1	65.0	64.9	62.0	67.7	59.6	74.5	70.0	64.8
Sep-16	63.8	65.4	64.3	61.9	67.3	59.7	74.7	70.3	64.7
Dec-16	63.4	65.6	64.1	62.0	67.3	59.8	76.0	70.3	64.6
Mar-17	63.2	65.8	64.4	62.2	67.5	59.9	77.6	70.1	64.7
Jun-17	63.3	66.0	64.8	62.3	67.7	60.7	76.2	70.2	64.9

Source: ABS, Labour Force, Australia, Cat No. 6202.0, June 2017

In NSW, the male participation rate has declined steadily over the past five years, reaching a low of 68.9% in January 2017 before increasing slightly to 69% as at June.

Female participation has also declined; since reaching a high of 59% between November 2015 and April 2016, the participation rate for NSW women fell to a low of 57.5% in February 2017 before recovering slightly to 57.9% in June (see right).

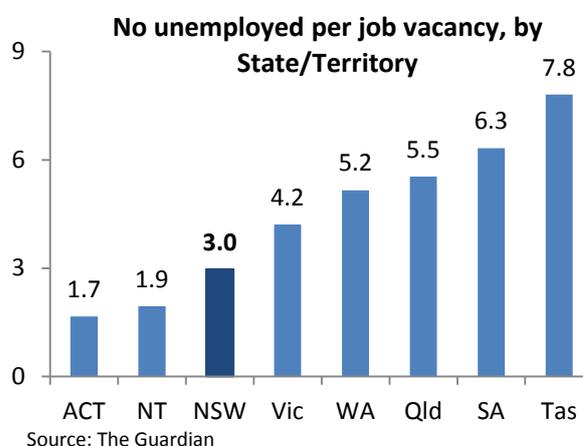
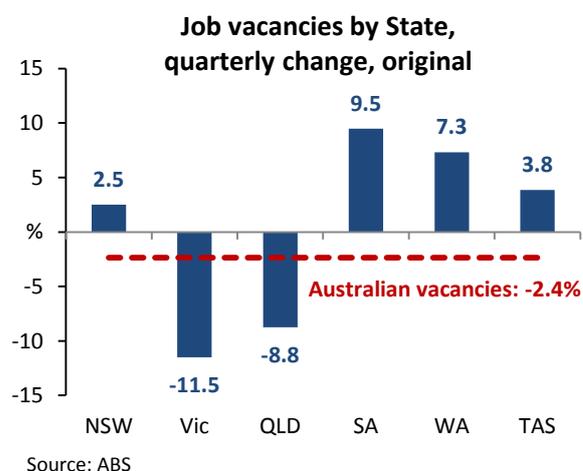


JOB VACANCIES

The number of NSW job vacancies rose by 2.5% to 69,800 in the May 2017 quarter, and remains 15.7% higher than the three year average of 60,300. NSW had the third lowest change in the number of reported job vacancies for all jurisdictions after Victoria and Queensland (-11.5% and -8.8% respectively), and was above the national average for the quarter (-2.4%).

When reviewing the ratio of unemployed per job vacancy, [analysis](#) by Greg Jericho showed that, as of February 2017, NSW has three unemployed for every job vacancy. This is the third lowest rate in Australia, and well below Tasmania's rate of 7.8 unemployed per vacancy (see right).

As previously noted by the Commonwealth Bank, NSW's dominant position (specifically, Sydney) in Australia's new ["two-speed economy"](#)—NSW and Victoria versus the rest of Australia—has led to higher job vacancy levels in NSW, which indicate ongoing jobs gains for the State in the next few quarters.³⁹



	Number of job vacancies ('000), original								
	NSW	Vic	QLD	SA	WA	TAS	NT	ACT	AUS
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
Feb-17	68.1	50.4	29.7	9.5	17.8	2.6	2.9	5.9	186.9
May-17	69.8	44.6	27.1	10.4	19.1	2.7	3.1	5.7	182.5

Source: ABS, Job Vacancies, Australia, Cat No. 6354.0, May 2017

According to ABS trend data, the number of job vacancies increased nationally for the 15th consecutive quarter in May 2017 to reach 189,200, surpassing the previous record set from November 1991 through to November 1994.⁴⁰

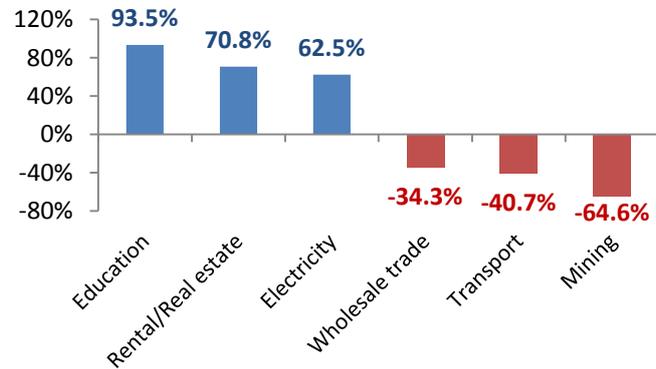
³⁹ Commonwealth Bank, [ABS Job Vacancies – November 2016](#), January 2017.

⁴⁰ Jericho G, [The latest job vacancy figures should be good news, but consumers don't agree](#), *The Guardian*, 4 April 2017.

In line with broader economic trends at the national level,⁴¹ vacancies have generally increased in a number of services industries over the past five years, such as education and training (93.5% increase), rental, hiring and real estate services (70.8%) and health care and social assistance (48.6%).

In contrast, mining fell by 64.6% over the same period, while some services sectors have also seen considerable falls in job vacancy rates (see right).

Change in no of job vacancies, May 2012 to May 2017, original



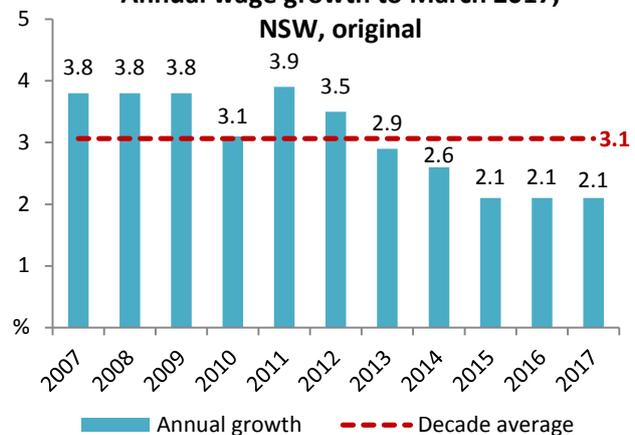
Source: ABS 6354.0

WAGES

Wages continued to grow modestly over the March 2017 quarter, increasing by 0.4% in NSW: the same as the national rate. In the 12 months to March 2017 NSW wage growth remained at 2.1%: the same rate three years in a row, and 1% below the decade average of 3.1% (see right).

The average adult weekly full-time earnings (ordinary time) in NSW in the six months to November 2016 was \$1,538. This represents a 0.04% half-yearly drop in wage levels, with NSW being the only jurisdiction to see such a fall. Nevertheless, NSW still has the fourth highest average weekly earnings behind the ACT (\$1,744), Western Australia (\$1,702) and the Northern Territory (\$1,633).

Annual wage growth to March 2017, NSW, original



Source: ABS 6345.0

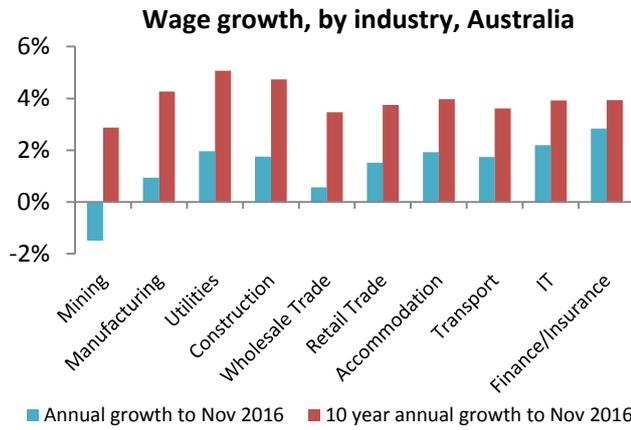
Average adult weekly fulltime earnings (\$), ordinary time, original

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
May-15	1512.00	1402.00	1444.70	1351.40	1692.30	1290.70	1511.10	1709.40
Nov-15	1527.80	1422.00	1446.20	1375.90	1705.00	1316.40	1549.40	1714.40
May-16	1538.20	1458.80	1462.00	1414.40	1701.40	1334.70	1578.10	1728.10
Nov-16	1537.60	1494.50	1480.00	1444.90	1701.80	1344.10	1633.10	1744.00

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

⁴¹ See Angus C, [NSW Economic Update: Winter 2016](#), NSW Parliamentary Research Service, SI 3/2016, July 2016, p 19; Angus C, [Future workforce trends in NSW: Emerging technologies and their potential impact](#), NSW Parliamentary Research Service, Briefing Paper 13/2015, December 2015, Ch 4.

According to the [ABS](#), in trend terms the national wage price index rose by just 1.9% over the year to March 2017. This result continues the record low wages growth [first recorded](#) in September 2016.



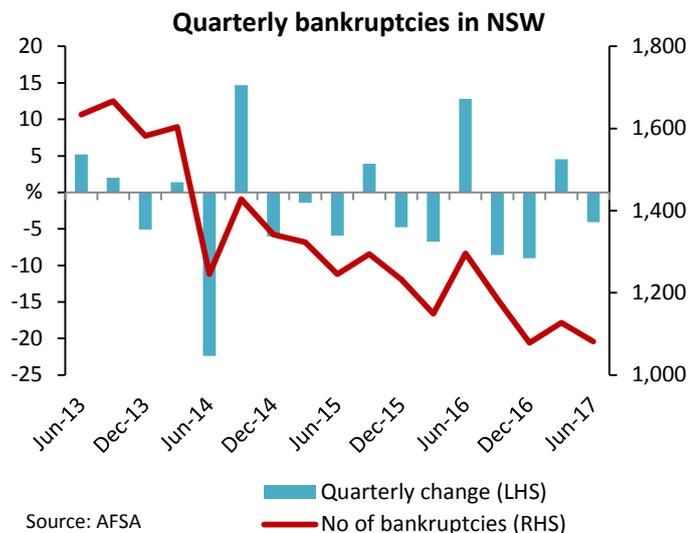
Source: ABS 6302.0

Weak national wages growth has affected the majority of Australian industry sectors. As the adjacent figure shows, across many sectors annual wage growth to November 2016 (the most recent available results) has been well below their respective 10 year averages. Annual wage growth for the mining sector was -1.5% over the year to November 2016, compared to a decade average annual growth rate of 2.9% (a -4.4% difference).

Other sectors also saw annual wage growth lower than their decade average growth rates, including manufacturing (-3.3% below the average), construction (-3.0%), retail trade (-2.2%) and accommodation and food services (-2.0%). However, some areas have seen annual wages growth higher than average, including education (4.0% annual growth, compared to a 3.0% annual average over the decade) and health (5.5% annual growth compared to a 4.3% decade average).

BANKRUPTCIES

The number of bankruptcies in NSW fell by 4.1% over the quarter to June 2017, from 1,127 to 1,081. Bankruptcies continue to trend down in NSW, and are 13.2% lower than they were in June 2014.



Source: AFSA

In comparison to other jurisdictions, NSW experienced the third lowest fall in bankruptcies over the quarter. The ACT experienced the greatest fall in bankruptcy levels (-32.8%), followed by Tasmania (-29.6%), although both jurisdictions have substantially smaller populations than other States (see table below). Victoria and Queensland also had greater falls in the number of bankruptcies over the quarter than NSW (-8.5% and -13.7% respectively).

Bankruptcies per quarter (Parts IV and XI of the <i>Bankruptcy Act 1966</i> (Cth))								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Jun-16	1,296	864	1,392	298	482	123	23	44
Sep-16	1,185	818	1,272	267	479	100	35	50
Dec-16	1,078	823	1,190	277	443	113	27	50
Mar-17	1,127	836	1,295	305	470	125	26	58
Jun-17	1,081	765	1,117	282	475	88	32	39

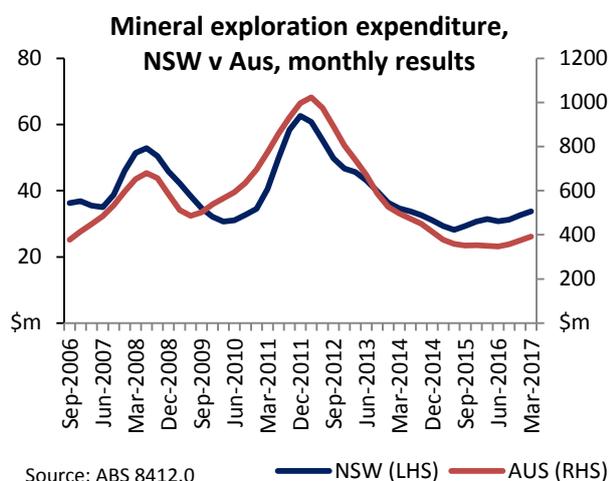
Source: Australian Financial Security Authority, June 2017

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 considered to be the best proxy measure for the level of mining activity taking place in NSW and elsewhere in Australia (see right).

NSW petroleum and mineral exploration expenditure increased by 3.7% over the quarter to March 2017. However, expenditure remains 46.0% below the previous high, recorded during the December 2011 reporting period.



Nationally, mining sector investment has declined during the decade, with mineral exploration expenditure down by 61.6% (\$630.3 million) since the March 2012 peak. A significant share of this decline is attributable to Western Australia; although the State has seen increases over the past year, over the past five years exploration expenditure has declined by 39.7% (\$175 million).

Mineral exploration expenditure (\$m)								
	NSW	VIC	QLD	SA	WA	TAS	NT	AUS
Jun-2016	30.8	7.4	47.6	12.8	223.1	3.3	21.9	346.9
Sep-2016	31.2	8.0	48.1	12.9	234.2	3.3	20.2	357.8
Dec-2016	32.6	9.0	49.1	12.5	249.2	3.2	18.9	374.4
Mar-2017	33.8	9.9	48.8	12.0	266.1	3.3	18.0	392.1

Source: ABS, Mineral and Petroleum Exploration, Australia, Cat No. 8412.0, March 2017

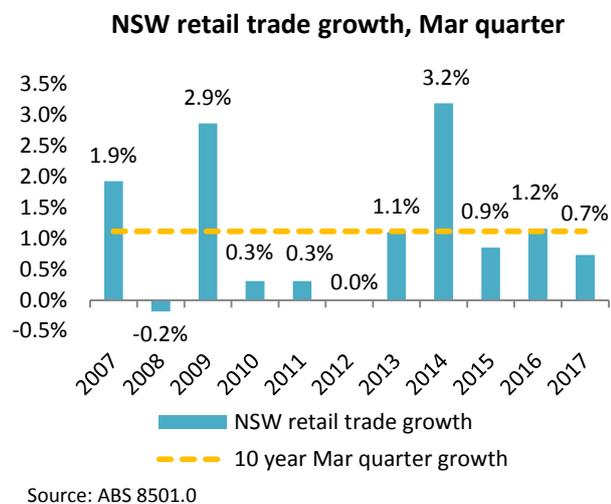
Nevertheless, the RBA [commented](#) in its most recent cash rate decision that the transition to lower levels of mining investment following the mining investment boom is almost complete, with the Australian economy expected to strengthen gradually in future.

TURNOVER OF RETAIL TRADE

NSW's retail growth in the 12 months to March (3.2%) was the fourth highest of all jurisdictions after Victoria (4.1%), South Australia (3.9%) and the ACT (3.5%).

However, while NSW annual growth was higher than the Australian average over the same period (2.9%), it remains the State's lowest annual growth rate since the 1.1% result reported in 2012 (see above right).

Average NSW monthly turnover of retail trade rose by 0.7% in the March 2017 quarter to almost \$8.3 billion: a lower growth rate than that seen in the previous quarter (1.2%), as well as the 10 year March quarter average of 1.1% (see right).



Turnover of retail trade (\$m), quarterly average									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Jun-16	8,100	6,319	5,038	1,640	2,829	500	258	461	25,145
Sep-16	8,160	6,362	5,118	1,655	2,828	503	258	466	25,349
Dec-16	8,239	6,438	5,171	1,667	2,833	508	261	471	25,587
Mar-17	8,299	6,507	5,157	1,686	2,837	511	261	475	25,731

Source: ABS, Retail Trade, Australia, Cat. No. 8501.0, May 2017

VEHICLE SALES

Despite ongoing concerns about weak wages growth and the labour market, NSW, along with other States and Territories, saw a substantial jump in motor vehicle sales over the June 2017 quarter.

The average number of new vehicles sold in NSW jumped sharply over the June 2017 quarter, increasing by 13.1% to approximately 35,820 sales per month. However, this was the fourth lowest result of all jurisdictions. National sales rose by 14.6% over the quarter driven by a 49.2% quarterly increase in Northern Territory vehicle sales and a 20.9% increase in Queensland.

Despite these large increases, sales growth over the past year has been comparatively modest. Over the 12 months to June 2017, NSW has seen motor vehicle sales increase by 1.6%. This was also the fourth lowest result of all States and Territories, and below the Australian average (2.4%). Victoria saw the largest annual increase in vehicle sales (6.3%), followed by the Northern Territory and South Australia (3.8% and 3.0% respectively).

In terms of future outlook, St George Bank made the following comments:

Today's data was an encouraging sign for consumer spending for the June quarter, along with a recent pickup in retail spending. New car sales have grown at a solid pace in recent months, setting consecutive record highs in both May and June. However, persistently low consumer confidence readings, slow wage growth and high household debt levels continue to weigh on the outlook for consumer spending. The upward trend in sales of 'other' vehicles⁴² remains solid and is an encouraging sign of improving business activity within the economy.⁴³

	Number of new vehicle sales, quarterly average								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Jun-16	35,236	28,117	21,529	6,245	8,762	1,556	1,130	1,696	104,271
Sep-16	32,144	27,126	18,736	5,849	8,349	1,735	864	1,509	96,312
Dec-16	32,812	27,867	18,285	6,058	7,754	1,919	752	1,571	97,019
Mar-17	31,655	26,235	18,133	5,625	7,758	1,402	786	1,520	93,115
Jun-17	35,817	29,875	21,918	6,432	8,316	1,569	1,173	1,635	106,736
Source: ABS, Sales of new motor vehicles, Australia, Cat. No. 9314.0, June 2017									

⁴² Includes utilities, panel vans, cab chassis, goods carrying vans, rigid trucks, prime movers, non-freight carrying trucks, buses, and four wheel drive light commercial vehicles not classified as sports utility vehicles (SUVs). See Australian Bureau of Statistics, [9314.0 - Sales of New Motor Vehicles, Australia, June 2017](#), 18 July 2017.

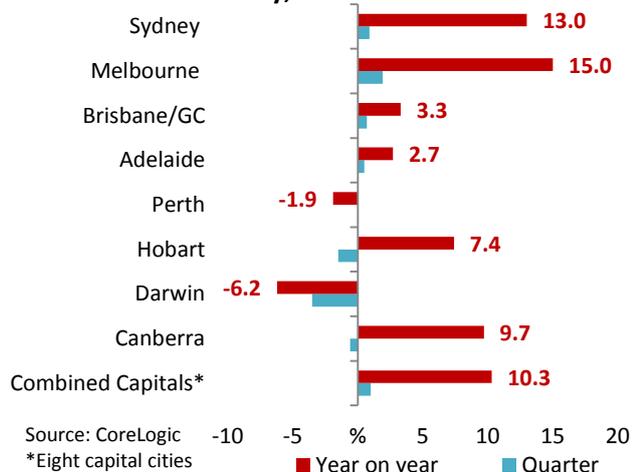
⁴³ St George Bank, [New Motor Vehicle Sales: Promising Signal for Spending?](#), 18 July 2017, p 2.

HOUSE PRICES

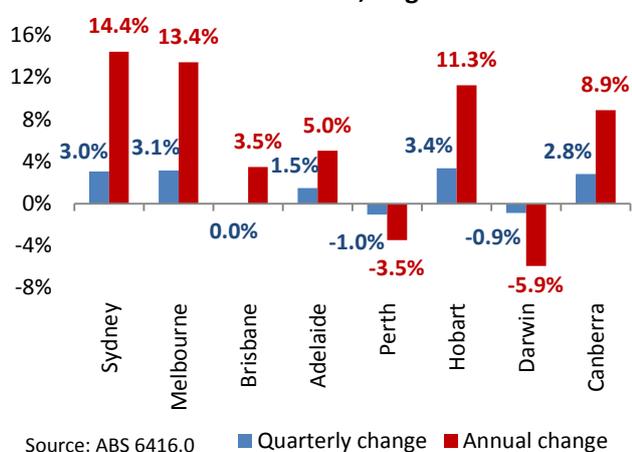
According to [CoreLogic](#), Sydney's median house price reached \$1.05m in June 2017, having seen a 0.9% quarterly increase and a year on year increase of 13.0%. Both Sydney's quarterly and annual growth rates were second only to Melbourne's (1.9% and 15.0% respectively), while median dwelling prices for the city, whether for houses or units, remain the nation's highest.

The ABS's Residential Property Price Index for Sydney⁴⁴ recorded a 3.0% increase over the quarter (see right). Between March 2016 and 2017, the Sydney Index increased by 14.4%, the nation's highest growth rate. Over the past 12 months, the [index](#) for Sydney's established houses rose by 16.0% (edged out by Melbourne's growth rate of 16.1%), while the attached dwellings index increased by 11.1% (second to Hobart's 16.4%).

Median house price growth, by capital city, to June 2017



Change in residential property prices, Mar 2017, original



House price indexes: eight capital cities, original

	SYD	MEL	BRIS	ADE	PER	HOB	DAR	CAN	Weighted Average
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
Dec-16	167.6	140.0	121.4	115.3	106.6	118.5	102.4	116.7	140.6
Mar-17	172.7	144.4	121.4	117.0	105.5	122.5	101.5	120.0	143.7

Source: ABS, Residential Property Price Indexes: Eight Capital Cities, Cat. No. 6416.0, March 2017

According to Commonwealth Bank [analysis](#), the increase in price-to-income ratios has only occurred in NSW and Victoria (i.e. Sydney and Melbourne): a consequence of increased demand from population growth. Furthermore, because of its high urbanisation rate, Australia is not only more susceptible to housing booms than other nations, its average national dwelling prices are more closely tied to price increases in the most expensive cities.

⁴⁴ Which measures price changes of residential dwelling stock.

DWELLING APPROVALS

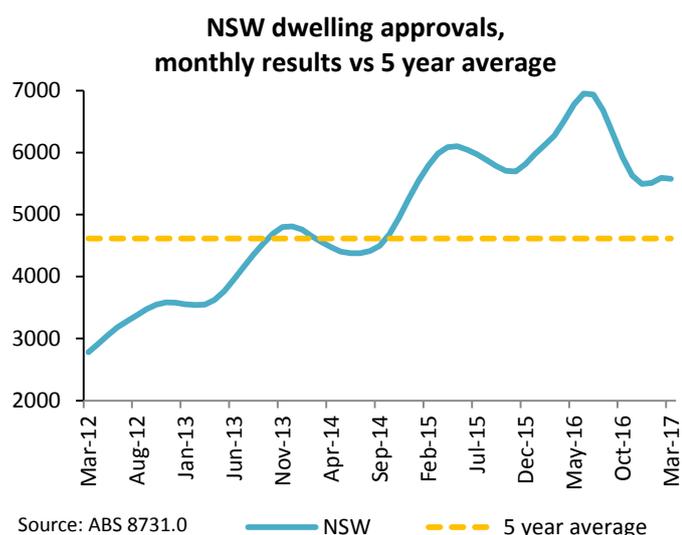
Following a 14.3% decline in the December 2016 quarter, the average monthly number of dwellings approved in NSW declined by a further 2.0% in the quarter to March, with an average of 5,560 approvals made each month of the quarter. This represented a 9.2% drop compared to the March 2016 quarterly average (approximately 6,130 approvals per month).

National dwelling approvals were, on average, down 2.3% for the March 2017 quarter: this appears to be a result of a decline in quarterly approvals in Western Australia (-5.4%), NSW (-2.1%) and Queensland (-1.2%). Other jurisdictions saw lower declines in approvals over the quarter, with the exception of Tasmania and South Australia (increases of 9.2% and 2.0% respectively).

Number of dwellings approved, quarterly average							
	NSW	VIC	QLD	SA	WA	TAS	AUS
Jun-16	6,747	5,882	4,226	1,068	1,815	177	20,527
Sep-16	6,646	5,562	3,870	938	1,711	161	19,555
Dec-16	5,682	5,557	3,303	919	1,723	174	17,940
Mar-17	5,560	5,546	3,263	938	1,630	190	17,531

Source: ABS, Building Approvals, Australia, Cat. No. 8731.0, May 2017

Dwelling 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, although slowly beginning to dip. While there has been a slowing of approvals since mid-2016, as of March 2017 NSW approval numbers are approximately 33% higher than the five year average (see right).



Observers have expressed concern over future prospects in the residential housing market. In its [Economic Outlook](#), BIS Shrapnel reported that most Australian housing markets were either in or near oversupply, although Sydney still has significant pent-up demand. The Commonwealth Bank has made similar comments, forecasting that residential construction will become a drag on both GDP and employment growth in future.⁴⁵

⁴⁵ Commonwealth Bank, [Building Approvals - May 2017](#), July 2017.

BIS Shrapnel expects the removal of existing housing demand to be the key driver of a downturn in dwelling commencements over the next few years. This is predicted to be exacerbated further by current housing affordability problems in NSW, which have stifled first home buyer demand, while recent prudential regulatory action means that investors will also exit the Sydney property market once the prospect for capital growth ends.

HOUSING FINANCE

The average number of owner-occupier (including first home owner) dwellings financed in NSW fell by 10.8% during the March 2017 quarter to approximately 15,550 per month. While all jurisdictions saw a decline in housing finance over the quarter, NSW experienced the largest decline.

Owner-occupier demand in NSW has increased in recent years, with a cumulative increase of 27% in the four years to March 2017. However, this overall increase masks a major decline in first home buyer financing, which has seen a 11% cumulative fall over this four year period (see right).

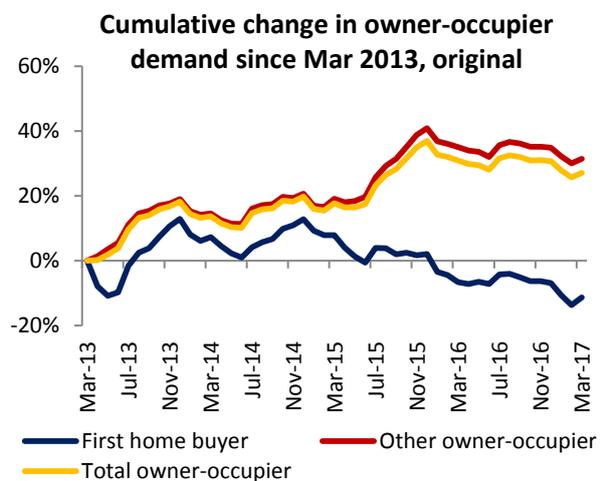
The issue of low first home buyer levels is illustrated by the findings of the 2016 Census. According to data provided to news website *The New Daily*, home ownership at the national level has continued to fall among younger Australians:

[H]ome ownership among the classic ‘first home buyer’ demographic – those aged 20 to 39 – declined again in the 2016 census.

It showed that only 36 per cent of people aged 25-29 said they owned their home outright or with a mortgage – likely the lowest level since at least the 1960s.

Home ownership for the next age group, 30-34, also declined, to 49 per cent, which is likely another record low.⁴⁶

This decline in home ownership not only increases the risk of a financially and physically insecure future for individuals who do not own their own homes, but also increases the likelihood of future Commonwealth budget blowouts as a result of higher welfare costs needed to support this growing cohort.⁴⁷



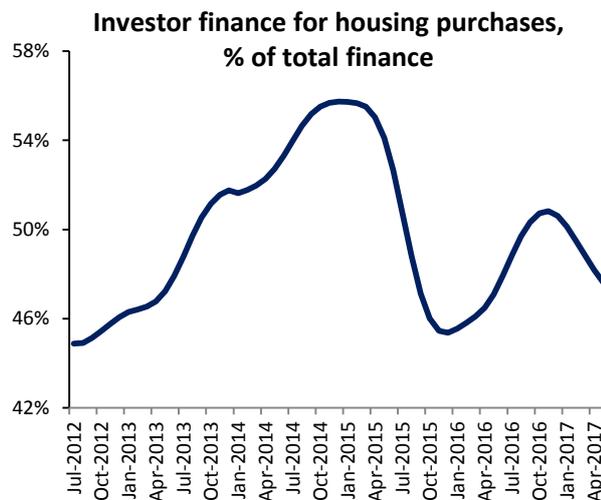
⁴⁶ Stiles J, [Census makes it official: young Australians are priced out of home market](#), *The New Daily*, 6 July 2017.

⁴⁷ Patten S and Greber J, [The rental generation set to bust super, pension systems](#), *Australian Financial Review*, 14 July 2017; Angus C, [Demand, deposits, debt: Housing affordability in Sydney](#), NSW Parliamentary Research Service, Briefing Paper 1/2017, March 2017, Ch 7.2.3.

In contrast, ABS trend data shows a record level of *investor participation* in the purchase of new and established homes between November 2014 and February 2015. During those months, investors accounted for 55.7% of total housing finance nationally: 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 (Australian Prudential Regulation Authority) required banks to cap their investor lending to an annual growth rate of 10% to lean against the stimulatory effects of record low interest rates.

While the previous Economic Update noted a subsequent increase in higher-risk housing lending as a proportion of total dwelling finance, such as interest-only loans, investor housing finance as a share of total housing finance declined by 1.9% over the three months to May 2017, although it remains 0.5% higher than 12 months earlier (see right).

According to the [Commonwealth Bank](#), this decline is a result of APRA's latest rule changes, which limit interest-only lending to 30% of total new residential mortgage lending.⁴⁸ The CBA expects this trend of slowing lending growth to continue in future.

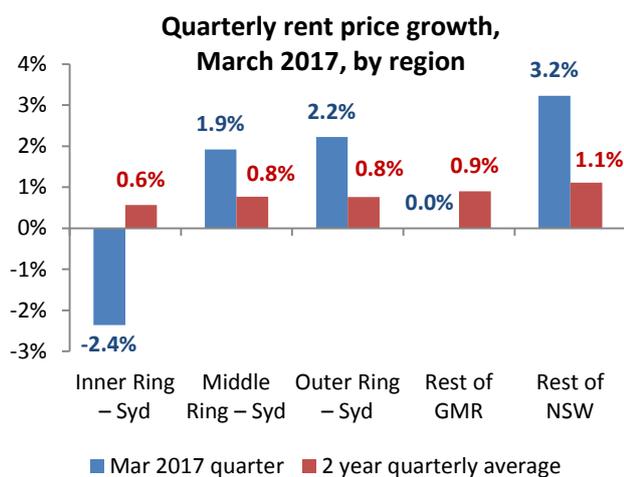


Source: ABS 5609.0

⁴⁸ Reserve Bank of Australia, [Financial Stability Review](#), April 2017, p 17.

RENT

Over the March 2017 quarter, rents in Sydney's Inner Ring suburbs fell by 2.4%, although their two year quarterly average remains positive at 0.6%. Meanwhile, the city's Middle and Outer Ring suburbs saw growth rates higher than their two year quarterly average of 0.8%, while the Rest of NSW region saw quarterly rental growth nearly triple the longer term average (see right).



Source: Housing NSW

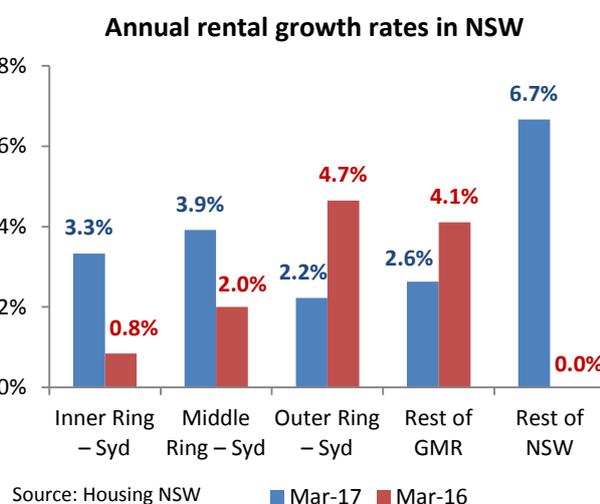
Median weekly rents by NSW region (\$), all dwellings – all bedroom numbers							
	Greater Sydney	Sydney – Inner Ring	Sydney – Middle Ring	Sydney – Outer Ring	Rest of GMR*	Rest of NSW	NSW total
Mar-16	510	600	510	450	380	300	450
Jun-16	520	615	520	450	380	300	450
Sep-16	520	610	530	450	380	300	450
Dec-16	520	635	520	450	390	310	460
Mar-17	530	620	530	460	390	320	460

Source: Housing NSW, Rent and Sales Reports, Issue 119

*Greater Metropolitan Region

On an annual basis, rental growth remains most pronounced in the Rest of NSW region, increasing by 6.7% in the 12 months to March 2017. By way of comparison, no growth occurred in this region in the 12 months to March 2016.

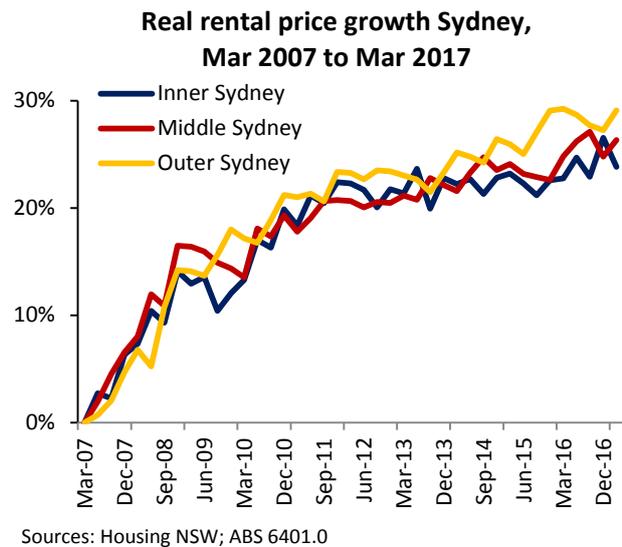
Rents in Sydney's Inner and Middle Ring suburbs have also increased compared to the previous 12 months, while the growth rate for Outer Ring suburbs and the Rest of GMR⁴⁹ region fell roughly by half over this time period (see right).



⁴⁹ For an overview of these geographic regions and their formation see Housing NSW, [Rent and Sales Report](#), Issue No 118, March 2017, p 9.

As illustrated on the right, real rental prices have risen consistently across Sydney over the past decade. This data takes into account the effect of inflation.

Recently there has been media commentary on the potential impact of rent bidding apps on future rent increases. University of Sydney research into five Sydney municipalities has found that use of the web and app-based platform Airbnb doubled year-on-year from 2011, listing around 15,648 Sydney properties as of January 2016.⁵⁰



Triple J's Hack has [reported](#) that rent-bidding apps are already being used informally in NSW, which may further exacerbate Sydney's already-high rents:

Ned Cutcher from the NSW Tenants Union said the practice of rent bidding already happens in NSW, though it's not considered ethical practice for real estate agents.

"It's often done with a wink and a nudge, you know," he told Hack.

"Sideling up to a real estate agent at an open home inspection and sort of saying 'psst, I'll offer you an extra \$20-30-50 a week'."

...

Mr Cutcher said renters should try and avoid rent bidding as it drives up prices for everyone and squeezes the vulnerable. You can complain about real estate agents pressuring you into rent bidding, but he acknowledges this can be tricky.

High rental costs also increase the difficulty renters face in trying to enter the property market: previous NSW Parliamentary Research Service papers have reported that high rents 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.⁵¹

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 (currently at a rate disproportionate to wage growth) 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.

⁵⁰ University of Sydney, [The community impact of Airbnb calls for closer scrutiny](#), Media Release, 19 January 2017.

⁵¹ Angus C, [Demand, deposits, debt: Housing affordability in Sydney](#), NSW Parliamentary Research Service, Briefing Paper 1/2017, March 2017, Ch 7.1; Haylen A, [Affordable rental housing: the problem and its causes](#), NSW Parliamentary Research Service, e-brief 13/2015, September 2015.

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.

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 (GDP): 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.

Spare capacity: The balance of demand for goods and services relative to the economy's potential to produce them. In the labour market, a key indicator of spare capacity is the unemployment rate, but a range of other factors also play a significant role.

State Final Demand: A proxy for economic growth that 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.

Trade weighted index: The weighted average value of the Australian dollar in relation to the currencies of Australia's trading partners.

Trend estimates: A smoothed seasonally adjusted series of estimates.

Underutilisation rate: The sum of the number of persons unemployed and the number of persons in underemployment, expressed as a proportion of the labour force.

Underemployment rate: The number of underemployed workers expressed as a percentage of total employed persons.

Underemployed workers: Employed persons aged 15 years and over who want, and are available for, more hours of work than they currently have.

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.