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NSW Economic Update Autumn 2017

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NSW Economic Update Autumn 2017

by

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SUMMARY

The state of the NSW economy

For the fifth consecutive quarter, **New South Wales** has been the best performing State in Australia. Commsec's April 2017 [State of the States Report](#) found that NSW retains its top ranking on business investment, retail trade, and dwelling starts, while remaining in second place for unemployment, construction work and population growth.¹ In its November 2016 [NSW Economic Outlook](#), St George Bank summarised the many strengths of the State economy seen over 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](#), April 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 economic growth.

Stronger		Weaker	
State final demand (up 0.6%)	Housing finance (up 3.9%)	Employment (down 0.18%)	Dwelling approvals (down 14.3%)
Gross State Product (up 3.5%)	Retail trade (up 0.9%)	Unemployment rate (up 0.1%)	Business investment (down 1.3%)
Household consumption (up 0.4%)	Sydney median house price (up 4.9%)	Youth unemployment (up 0.5%)	Mining investment (down 0.97%)
Trade deficit (down \$700m)	Bankruptcies (down 9%)	Participation rate (down 0.3%)	Motor vehicle sales (down 0.34%)
Wages (up 0.4%)		Job vacancies (down 1.3%)	

The state of the Australian economy

The Reserve Bank of Australia's (RBA) **national economic growth** forecasts have lowered from those presented in its previous Statement on Monetary Policy: almost entirely due to the base effect of a weak September quarter. In its February 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 2018.⁵ The major banks, including the [Commonwealth Bank](#) and [NAB](#), have forecast economic growth of 2% and 1.8% respectively for 2016-17, rising to 3.3% and 3.2% in 2017-18. Key factors influencing national growth over the forecast period, as outlined by the RBA, include:⁶

- A reduction in household demand momentum from mid-2016, despite low interest rates and increases in household wealth;
- Weakness in non-mining business investment, in spite of low interest rates and the earlier depreciation of the exchange rate; and
- Ongoing weakness in mining activity, much of which was due to temporary factors during the September 2016 period.

Reviewing domestic economic conditions in its April 2017 [Minutes on Monetary Policy](#), the RBA Board noted that the Australian economy had continued to grow moderately from the beginning of 2017, supported by the low level of interest rates. However, Board Members commented that, while forward-looking indicators of labour demand suggested future increases in employment growth, this had been true for some time without leading to an improvement in labour market conditions. Additionally, growth in housing credit continued to outpace growth in household incomes, suggesting increased risks in the housing market and household balance sheets.

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

⁵ RBA, [Statement on Monetary Policy](#), February 2017, p 57.

⁶ Ibid pp 57-8.

Between a rock and a hard place: The economic challenge of addressing high house prices

Although the housing market has been a key area of strength for the NSW economy, the sustained increase in house prices (particularly in Sydney) has a number of negative consequences for the community. The social impact of high housing prices was examined in detail in the recent NSW Parliamentary Research Service paper, [Demand, deposits, debt: Housing affordability in Sydney](#). There is an increasing realisation that an overheated property market potentially exposes NSW to a range of ongoing economic challenges.

Depending on the measure used, Sydney's median house price now ranges from \$865,000 to [\\$1.15 million](#).⁷ The Demand, deposits, debt paper made the following findings about the city's house prices and their subsequent affordability:⁸

- In 1991 a Sydney house cost **5.3 times** the average NSW resident's annual earnings; by 2016, the median priced house cost the average NSW resident **10.8 times** annual earnings;
- Sydney house prices have outpaced wage growth in NSW over the past 25 years. Over the 25 years between 1991 and 2016, the median house price for Greater Sydney rose by a cumulative total of **180 per cent**, while weekly earnings increased by **99.6 per cent**; and
- Australians have some of **the world's highest debt levels**. As of Q3 2016, Australia's debt-to-GDP ratio was **123.1 per cent**: second only to Switzerland (128.2 per cent).

These affordability issues are compounded by a recent decline in full time jobs growth. As discussed in this paper's chapter on Employment, since the end of 2015, NSW has shed 38,500 full time jobs.

While the impact of expensive housing on first homebuyers and people on low incomes has received considerable attention in recent months, it is also becoming increasingly clear that policy responses aimed at reducing or stabilising prices run the risk of negatively affecting the rest of the Australian economy.

The RBA has [expressed concern](#) that housing market and household balance sheets risks are increasing, as housing credit growth continues to outpace growth in household income. However, its ability to adjust the cash rate as a means of responding to these risks is limited. According to an April 2017 [speech](#) by RBA Governor Philip Lowe:

[R]ising prices have encouraged people to buy residential property as an investment in the hope of ongoing capital gains. With global interest rates so low,

⁷ See House Prices chapter; C Angus, [Demand, deposits, debt: Housing affordability in Sydney](#), NSW Parliamentary Research Service, BF 01/2017, Ch 2.

⁸ C Angus, [Demand, deposits, debt: Housing affordability in Sydney](#), NSW Parliamentary Research Service, BF 01/2017, Executive Summary.

many investors have found it attractive to borrow money to invest in appreciating residential property. This has reinforced the upward pressure on prices.

Accordingly, Lowe [commented](#) that, were the RBA to **lower** the cash rate beyond its current record low it would encourage people to borrow more money, and likely result in housing prices increasing even further. According to the [Commonwealth Bank](#), the cash rate is unlikely to be lowered while inflation is below target and spare capacity in the economy is elevated, unless there is a sustained loss of momentum in job creation.

Turning to a cash rate **rise**, while such a move may dissuade further borrowing, it presents other risks for existing (and heavily indebted) homeowners. Low interest rates have helped offset the cost of servicing larger amounts of debt;⁹ accordingly, an increase in the cash rate may place significant numbers of mortgagees into financial stress. According to a [survey](#) undertaken by financial website Finder.com.au, 57% of mortgage holders could not handle as little as a \$100 increase in their monthly loan repayments: equivalent to an interest rate rise of 0.45% based on the national average mortgage of \$360,600.

Higher levels of mortgage stress flow through to the broader economy, as explained by the RBA in its April 2017 [Financial Stability Review](#):

[H]ighly indebted households can be more vulnerable to negative economic shocks and pose risks to financial stability. In particular, highly indebted households are less likely to be ahead of schedule on their mortgage repayments and they are more likely to experience financial stress, hence could be more vulnerable to adverse macroeconomic shocks. The consequent effects of this stress on the broader economy may be exacerbated by the disproportionately large share of investor housing debt owed by highly indebted households.¹⁰

Accordingly, Morgan Stanley has claimed that the RBA cash rate is “trapped between a rock and a hard place”, with a macroprudential response necessary to address risks in the housing market.¹¹

At the State level, the NSW 2016-17 [Half-Yearly Review](#) reported that low interest rates and strong population growth have lifted property values, while public investment has become an important driver of economic growth. Indeed, in 2015-16 construction, financial services and rental, hiring and real estate services accounted for over 40% of NSW economic growth.¹² However, this dependence on property construction and sales leaves the State exposed to a number of economic risks:

Since mid year, forward indicators of the pipeline of construction activity have firmed and conditions in the NSW housing market have improved. However, this has occurred alongside a slowdown in household consumption growth and a moderation in labour market conditions ... While stronger conditions in the NSW housing market present an upside risk in the near term, a disorderly slowdown in

⁹ Ibid p 20.

¹⁰ RBA, [Financial Stability Review](#), April 2017, p 32.

¹¹ Morgan Stanley, [The RBA's Rock and a Hard Place; On Hold Until 2019](#), 7 April 2017, p 1.

¹² NSW Government, [NSW Budget:2016-17 Half-Yearly Review](#), 2017, p 7.

the medium-term may lead to weaker than expected economic growth. ... Further, with capacity pressures in dwelling construction remaining relatively subdued for the current stage of the NSW housing cycle there is an upside risk of stronger than expected dwelling investment.¹³

The State's reliance on transfer duty for Government revenue also presents economic risks in the event of a housing market downturn. According to NSW Budget figures, transfer duty as a proportion of NSW tax revenue has surged since the mid-1990s, from 12.4 per cent of total State tax revenue in 1996-97 to a forecast 29.5 per cent in 2016-17.¹⁴ Looking ahead, the NSW Government's [2016 Intergenerational Report](#) has forecast that, without policy change over the 40 years to 2056, NSW will become increasingly reliant on these volatile transaction taxes.

The Grattan Institute has contended that State Treasurers dislike volatility because it makes budgeting more complex.¹⁵ If this is correct, NSW may face increasingly complex budgetary challenges as the State becomes more reliant on transfer duties for revenue, only for the housing market to experience a downturn.

Overreliance on a limited number of revenue sources can have a highly detrimental impact on State economies. According to a LF Economics [report](#), Perth's housing market has experienced a downturn as a result of WA's reliance on one sector of the State economy – mining:

WA hitched itself to the largest mining investment boom since the mid-19th century gold rushes and in the excitement, forgot or refused to diversify its economy. Believing the mining boom could end as suddenly as it did was considered outlandish. It delivered immense wealth and income to the government, business and household sectors.

What does the future hold for the Perth housing market? All indicators show the current downturn in both housing prices and rents will continue into the near future, and a reversal is very unlikely to occur. ... the Perth and WA housing markets represents a systemic danger zone for the national housing market. Investment is unattractive to value and speculative investors alike, and the option of buying now for FHBs is a risky knife-catching act. Without a Mining Boom 2.0 to sail to the rescue (hint: it's not going to happen, with massive overcapacity and overbuilding in China), the housing market will remain in a protracted downturn.¹⁶

Given the economic risks faced by NSW as a result of its overheating housing market, it is perhaps unsurprising that NSW Planning and Housing Minister Anthony Roberts has characterised the situation as a "crisis" that requires immediate action to resolve.¹⁷

¹³ Ibid pp 8, 12.

¹⁴ C Angus, [Demand, deposits, debt: Housing affordability in Sydney](#), NSW Parliamentary Research Service, BF 01/2017, Ch 8.2.

¹⁵ J Daley, B Coates, [Property Taxes](#), Grattan Institute, July 2015, p 6.

¹⁶ LF Economics, [Perth Smashed Avocado Report](#), January 2017, p 13.

¹⁷ J Saulwick, [More density around rail stations and new schemes for renters: NSW housing plan](#), Sydney Morning Herald, 20 March 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 April 2017, the RBA kept the cash rate unchanged at 1.5%, having 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. Key

factors influencing the Australian economy were identified by the RBA Board in their April [meeting](#). The Board commented that GDP was likely to have expanded at a moderate rate in the March quarter; growth in both global trade and industrial production had increased; and global consumer and business sentiment indicators were above average.

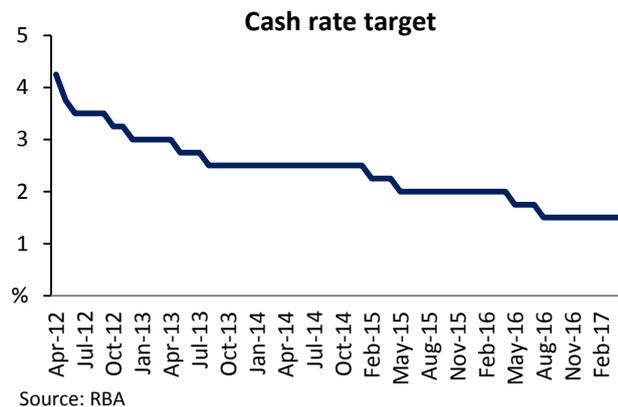
The Board remained concerned about the growth in housing credit, which has outpaced growth in household incomes: this suggests that risks associated with the housing market and household balance sheets are rising. While a number of supervisory measures had been announced in response to these risks, the RBA explained that it would take time to fully assess the effects of these measures. 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.

Morgan Stanley has commented that the RBA faces considerable challenges raising or lowering the cash rate as it finds itself caught between a sluggish labour market and the overheating property sector:

Speculative conditions in established Sydney and Melbourne housing are the 'rock' preventing further rate cuts that are, in our view, needed to boost aggregate demand (in large part through a lower AUD). Meanwhile, the weak labour market and highly-g geared household balance sheets are the 'hard place' preventing the cash rate from being hiked to tackle housing imbalances.¹⁸

Morgan Stanley has [revised](#) its earlier forecast of a cash rate cut in the third quarter of 2017, followed by two rate hikes in the first half of 2018. Now, the institution believes that the RBA will keep the rate at 1.5% into 2019. In the interim, it expects greater emphasis on [macroprudential regulation](#) (such as a lower share of interest-only mortgages and tighter financial conditions) to address market risks, rather than monetary policy.

Turning to other financial institutions, the [Commonwealth Bank](#), [Westpac](#) and [NAB](#) all predict the cash rate to remain at 1.5% into 2018, while [BIS Shrapnel](#) forecasts the cash rate to remain at 1.5% throughout 2017.



¹⁸ Morgan Stanley, [The RBA's Rock and a Hard Place: On Hold Until 2019](#), 7 April 2017, p 1.

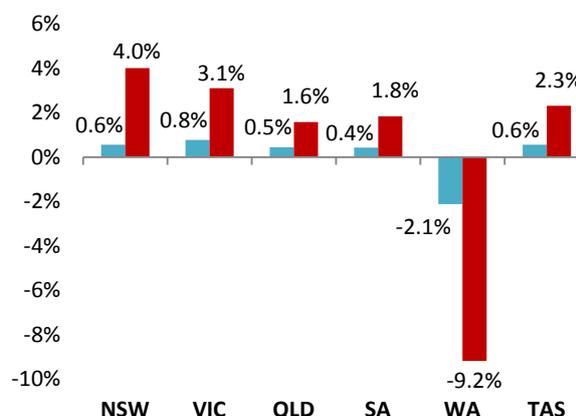
STATE DEMAND AND GROSS STATE PRODUCT

Gross Domestic Product (GDP) increased by 0.3% over the December 2016 quarter, and 1.9% in the 12 months to December 2016. In seasonally adjusted terms, Australia's GDP increased by 1.1% over the quarter: a [rebound](#) from the September 2016 quarter's decline of 0.5%.

Demand in NSW was 0.6% higher for the December 2016 quarter (see right), lower than the preceding September quarter (0.8%) 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 (2.1% and 9.2% 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%).

State Final Demand, to Dec 2016



Source: ABS 5206.0 ■ Quarterly change ■ Annual change

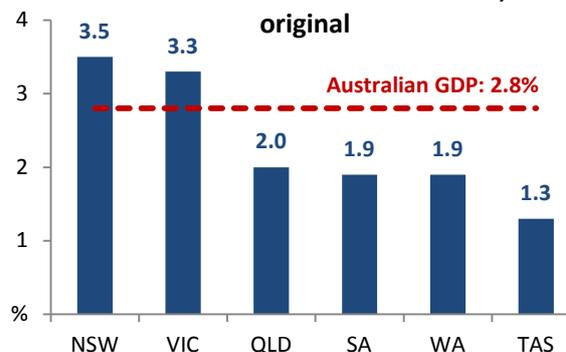
State final demand (\$m), chain volume measures, trend								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Mar-2016	130,340	98,538	79,281	26,178	51,926	7,428	6,891	15,611
Jun-2016	131,868	99,293	79,598	26,305	50,566	7,475	7,077	15,959
Sep-2016	132,868	100,051	79,957	26,434	49,304	7,527	7,323	16,196
Dec-2016	133,614	100,837	80,323	26,548	48,263	7,570	7,552	16,355

Source: ABS, Australian National Accounts, Cat. No. 5206.0, December 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 of 2.8%.

Gross State Product to June 2016, original



Source: ABS 5220.0

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

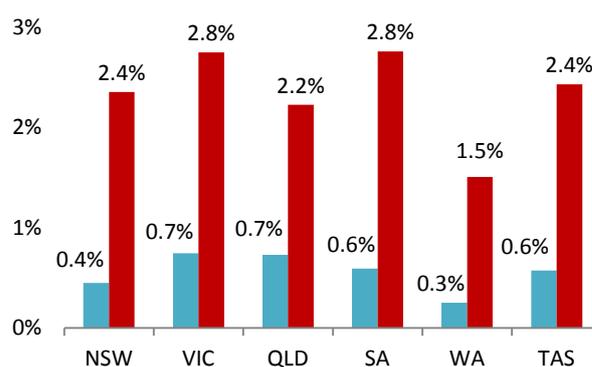
Nationally, household consumption grew by 0.6% over the December 2016 quarter. This was on par with the five year average. The RBA noted in its [February 2017 Statement on Monetary Policy](#) that, following a weak September quarter, goods consumption strengthened somewhat in late 2016, with growth in retail sales volumes picking up in the December quarter.

Household spending increased in NSW by 0.4% over the quarter: the second lowest of all States (see right). However, on an annual basis NSW consumption increased at a rate similar to other States (2.4%) and recorded the equal second highest annual growth rate after Victoria and South Australia (2.8%).

St George Bank commented that household consumption had “leapt to the rescue of the economy in the December quarter”. However, it was unclear whether household spending would be sustainable in the long term:

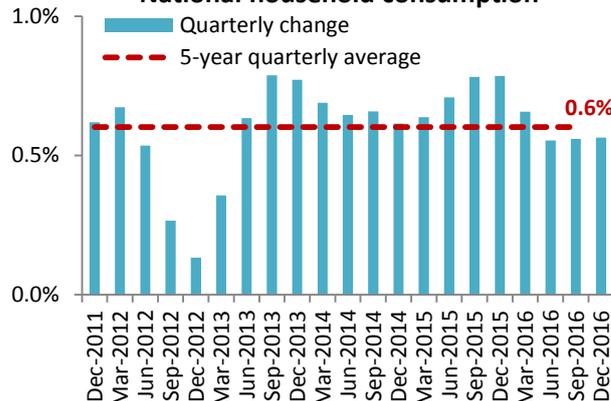
Household consumption contributed 0.5 percentage points to growth in the quarter. It was the single biggest driver of growth. Wages growth remained weak but consumers dipped into their savings to support consumption, reflected in the decline in the household savings ratio. It means household consumption at this sort of pace might not be maintained in coming quarters if households become reluctant to dip further into savings.¹⁹

Household consumption, to Dec 2016



Source: ABS 5206.0 Quarterly change Annual change

National household consumption



Source: ABS 5206.0

¹⁹ St George Bank, [National Accounts – GDP](#), 1 March 2017, p 2.

Household final consumption (\$m), chain volume, trend								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Mar-2016	79,631	58,557	45,719	15,448	25,578	4,472	2,629	4,131
Jun-2016	80,085	58,900	45,939	15,562	25,695	4,498	2,642	4,152
Sep-2016	80,471	59,300	46,234	15,665	25,790	4,527	2,643	4,174
Dec-2016	80,833	59,742	46,572	15,758	25,855	4,553	2,641	4,197

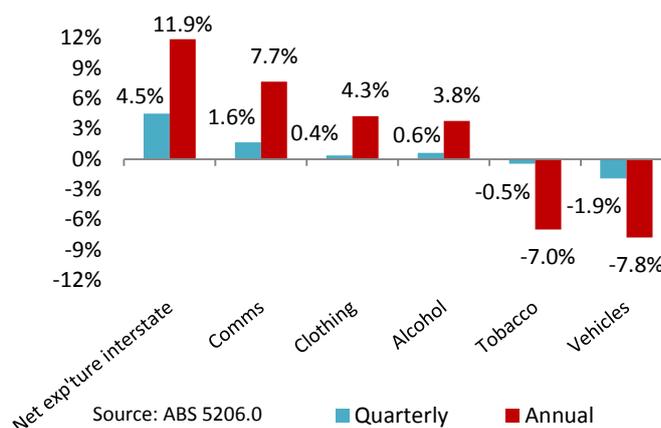
Source: ABS, Australian National Accounts, Cat. No. 5206.0, December 2016

In NSW, the largest increase in household expenditure over both the quarter and year to December 2016 was on net expenditure interstate²⁰ (4.5% and 11.9% respectively). Meanwhile, vehicle sales saw the largest quarterly and annual fall (-1.9% and -7.8% respectively).

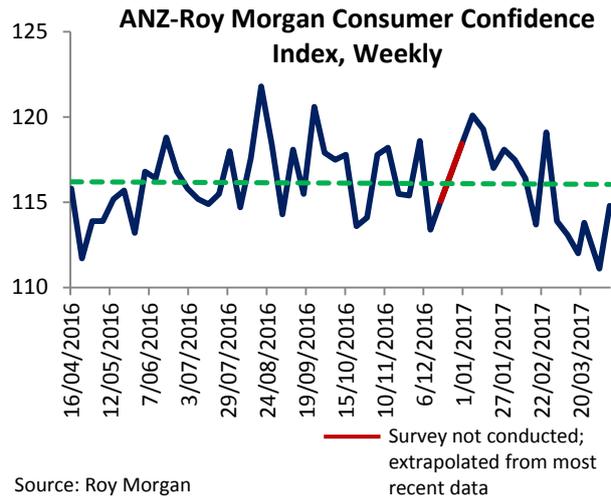
Although it is subject to sharp fluctuations, the ANZ-Roy Morgan Consumer Confidence Index has trended down since the start of 2017 (see below). Roy Morgan Research [commented](#) that the strength in the housing market is supporting consumer confidence, although this is impacted by elevated unemployment and persistent weakness in wage growth.

Other measures reported a weaker outlook for household consumption. In its April 2017 survey, the [Westpac-Melbourne Institute Survey of Consumer Sentiment](#) reported a 0.7% fall from 99.7 (March) to 99.0 (April) over the past month: a consequence of disappointing labour market results, tensions in the Middle East and the United States, and housing affordability issues. This was the fifth consecutive month with the Index below 100, an indication that pessimists continue to (slightly) outnumber optimists.

Household Consumption, by sector



ANZ-Roy Morgan Consumer Confidence Index, Weekly

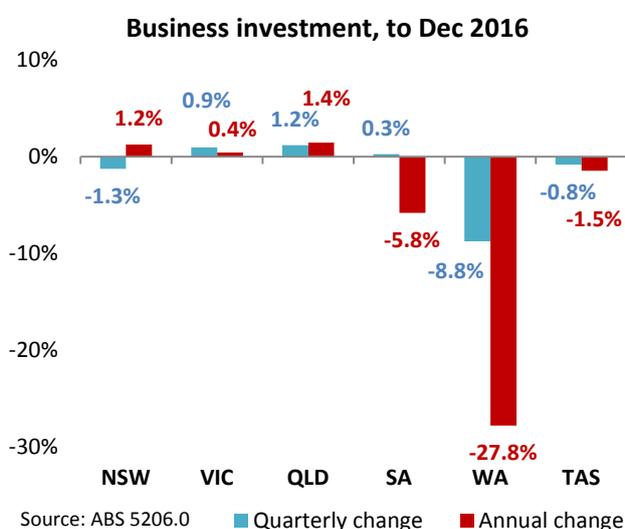


²⁰ Calculated by adding in amounts for the expenditure of residents of NSW who travel interstate and deducting the expenditure of residents from other states within NSW. Essentially, this decline indicates that more interstate residents spent money in NSW in December 2016 than in December 2015.

BUSINESS INVESTMENT

Nationally, business investment fell by 1.1% in the December 2016 quarter, and was down 4.8% over the year to December. These results show an ongoing national fall in business investment levels, with December 2016 being the 17th consecutive quarter experiencing decline in business investment growth.

Compared to the national results, business investment in NSW decreased by 1.3% over the December quarter, but rose 1.2% over the year. Other State recorded similarly low investment levels (see right). Western Australia suffered a massive drop in business investment, falling 8.8% over the quarter (more than any *annual* decline) and 27.8% for the year to December 2016.

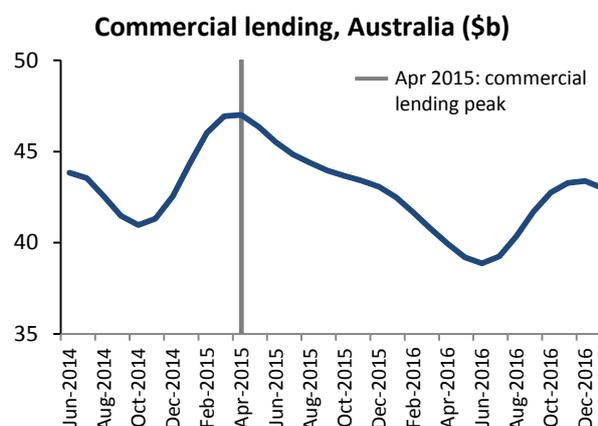


Business investment (\$m), chain volume measures, trend								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Mar-2016	14,697	11,189	10,044	2,845	12,587	609	1,822	586
Jun-2016	15,091	11,099	9,981	2,716	11,177	607	1,972	611
Sep-2016	15,069	11,130	10,071	2,672	9,966	605	2,206	638
Dec-2016	14,879	11,235	10,188	2,679	9,092	600	2,443	655

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

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 declined from April 2015 to June 2016, before increasing during the second half of last year (see right).

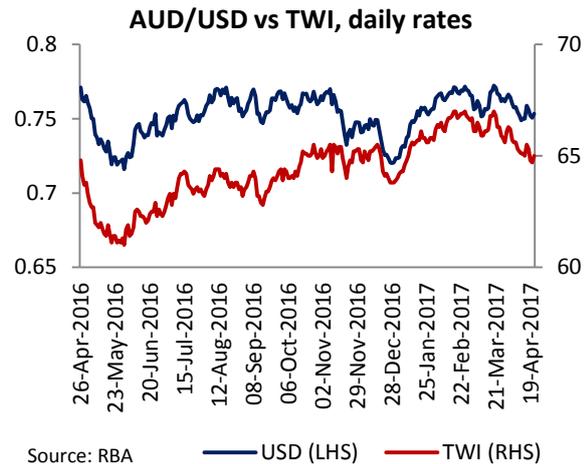
Business confidence has also seen mixed results since the previous quarter. According to Roy Morgan's Business Confidence survey, business confidence increased by 2.2% to 113.8 in March 2017: below the six year average of 116.6.²¹



²¹ Roy Morgan Research, [Business Confidence up in March; but low confidence sees Barnett Government thrown out](#), 12 April 2017.

EXCHANGE RATE

The Australian dollar (AUD) has remained steady over the past three months, fluctuating between 0.75 and 0.77 USD. As of 21 April 2017, the AUD was worth [0.753 USD](#). The trade-weighted index (TWI) used to measure the AUD's value relative to the currencies of Australia's trading partners,²² has also gradually risen over the past 12 months (see right).



The major banks forecast that the AUD will fluctuate around current levels for the remainder of 2017, and then decrease slightly in 2018. The Commonwealth Bank has forecast the AUD to stay around 0.74 USD in June 2017, before falling to 0.71 by June 2018. Both Westpac and NAB predict the AUD to stay around the 0.70-0.75 mark until at least June 2018, with Westpac contending that the dollar will subsequently fall to 0.66 USD by December 2018.²³

In its February 2017 [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.²⁴

NAB's March 2017 [Quarterly Business Survey](#) noted that the depreciating AUD has affected different Australian industries in positive (and negative) ways:

According to the survey, almost a third of non-farm businesses reported an adverse impact from the AUD at current levels. That is slightly higher than Q4 2016, but is still down on levels seen in mid-2014 – prior to the big depreciation of the AUD. ... Trade exposed industries such as manufacturing have improved, along with the construction industry which has reported notable benefits from AUD depreciation since mid-2014 – possibly reflecting the benefits of a lower AUD to foreign investors in the industry. Surprisingly, the mining industry is no longer pointing to benefits from AUD depreciation, despite the fact that commodities tend to be priced in USD while much of the cost is incurred in AUD. Other industries to see strain from AUD depreciation include retail and wholesale, which can tend to be highly reliant on imports – even more so following an extended period of AUD strength – similarly the case for transport.²⁵

²² Austrade, [The dollar and competitiveness](#), 6 February 2015; RBA, [Glossary](#), n.d. Note that the base level was set at 100 in May 1970.

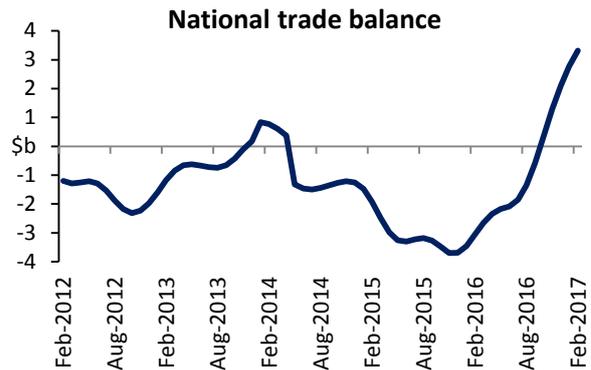
²³ Westpac, [Australia and NZ weekly](#), 17 April 2017; Commonwealth Bank, [Economics: Perspective](#), 13 April 2017; NAB, [Exchange rate forecast](#), 23 January 2017.

²⁴ RBA, [Statement on Monetary Policy](#), February 2017, p 2.

²⁵ NAB, [Quarterly Business Survey: March Quarter 2017](#), 20 April 2017, p 10.

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 five consecutive months of trade surplus. As of February 2017 this surplus was estimated at \$3.32 billion (see right).



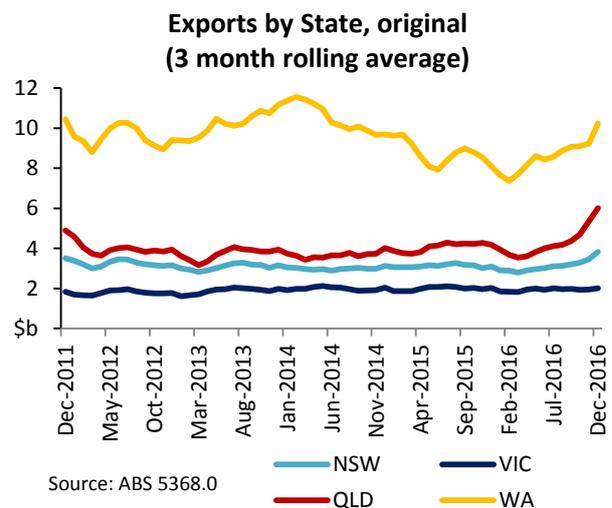
Source: ABS 5368.0

The Commonwealth Bank [commented](#)

that the move back to surplus has occurred because of falls in imports and increases in exports. In February, imports fell by 5.3% and exports rose by 1.5%. Nevertheless, the Bank noted that Cyclone Debbie has caused significant disruptions to coal mining and transportation in Queensland, the impact of which will be evident in trade data as soon as next month. St George Bank's analysis of the surplus noted the following implications for the country:

Australia's trade position remains comfortably in surplus and point to another very low current account deficit in the March quarter. Such sizeable surpluses, however, are in doubt given that iron ore and coal prices have retreated from their highs. We will likely see some temporary impact from the recent Cyclone Debbie on exports, although it is still too early to quantify the extent of the disruptions. That said, prices remain well above their recent lows in early 2016, and volumes should continue to be strong over the course of the year.²⁶

After posting a 6.7% increase in the previous quarter, the **average monthly free on board value of merchandise exports** from NSW grew by a substantially higher rate of 19.1% in the December 2016 quarter to total \$3.8 billion (see right).



Source: ABS 5368.0

As noted in previous Economic Updates, Western Australia dominates other States and Territories in terms of the value of its exports, exporting \$10.2 billion of goods in the December quarter. While quarterly export levels steadily reduced from early 2014 to mid-2016, they have since rebounded and are now 6% higher than they were in December 2014.

²⁶ St George Bank, [Trade Balance: Four Ducks in a Row](#), 4 April 2017, p 2.

The **top five destinations for NSW merchandise exports** in February 2017 were: Japan (\$940m); China (\$538m); South Korea (\$287m); the USA (\$206m); and New Zealand (\$177m). As a proportion of exports, 41% of all NSW merchandise was exported to Japan or China during February.

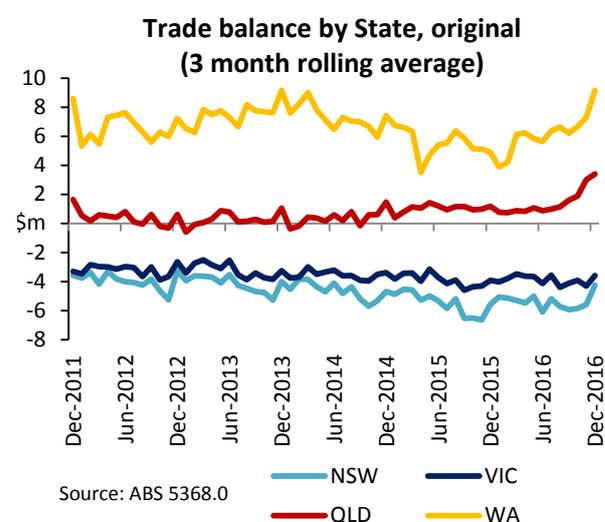
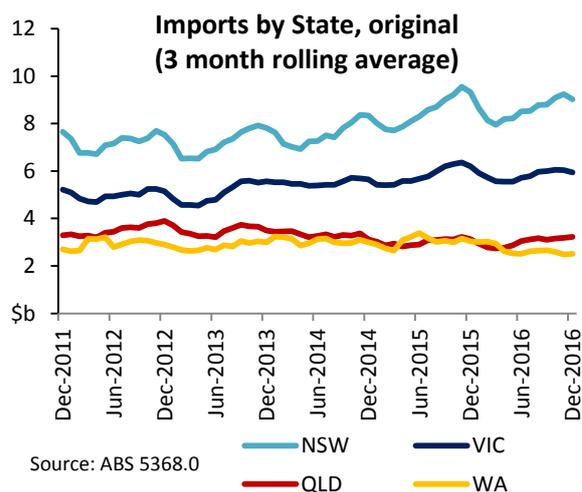
In contrast to exports, import growth has continued at a slower pace. Following a 3.4% increase in the September 2016 quarter, the **average monthly customs value of NSW merchandise imports** increased by 2.6% in the December quarter to \$9 billion (see below). This was the third highest quarterly increase in imports after Tasmania (20.9%) and Queensland (3.9%).

The **top five import sources** for NSW in February 2017 were: China (\$1.94bn); the United States (\$882m); Japan (\$641m); South Korea (\$427m); and Thailand (\$381m). 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.

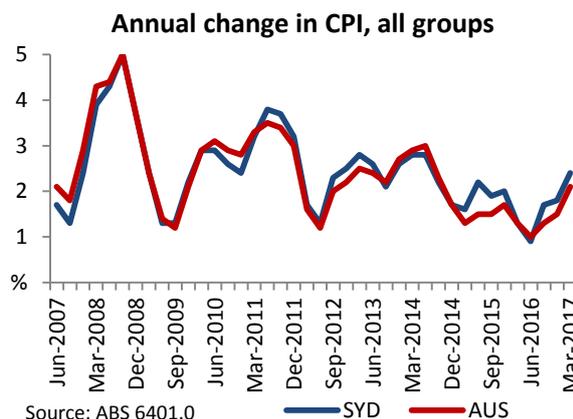
Since reaching a peak trade deficit of \$6.6 billion in November 2015, the State's deficit had reduced to \$3.9 billion by February 2016 (see right). Nevertheless, this is below the decade low of \$2.4 billion seen in February 2009.

Western Australia has the highest trade balance in comparison to the other States. However, declining resources exports have resulted in WA's surplus decreasing from a high 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 has risen again to \$7.4 billion.



CONSUMER PRICE INDEX

The Australian consumer price index (CPI) rose by 0.5% over the March 2017 quarter: the same increase seen in the December quarter and lower than economists' expectations of a 0.6% rise.²⁷ Over the 12 months to March 2017 the CPI rose by 2.1% nationally.²⁸



In Sydney the CPI increased by 2.4%:

the second-highest annual increase after Melbourne (2.5%).²⁹ The largest price increases in Sydney over the last 12 months were seen for alcohol and tobacco (up by 6%); transport (up by 4%); and health (up by 3.7%).

In response to the most recent quarterly figures, the Commonwealth Bank [stated](#) that “inflation rates remain low – but the low point is behind us”:

[I]nflation rates will grind slowly higher from here. The emphasis is on the “grind”, however. It is difficult to get concerned about inflation prospects when wages growth and labour costs remain very well contained. ... Looking ahead, today’s CPI reading is in line with RBA’s projections published in the February Statement on Monetary Policy (SMP). And a run through of the key assumptions that feed into RBA forecasts show little reason to change those projections.³⁰

Reserve Bank of Australia inflation forecasts (%)				
	Dec-16	Jun-17	Dec-17	Jun-18
CPI inflation	1.5	2	1.5–2.5	1.5–2.5
Underlying inflation	1.6	1.75	1.5–2.5	1.5–2.5

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

However, Commonwealth Bank senior economist Gareth Aird has criticised the CPI measure for excluding home purchase costs, arguing that this exclusion is a “massive flaw” in terms of measuring the cost of living. An ABC News [article](#) details these criticisms further:

"The index ignores price changes in the single biggest purchase a person (or household) is likely to make in their lifetime – a dwelling," [Aird] wrote in a note.

"For households that do not own a dwelling and aspire to purchase one, the CPI is a very poor measure of changes in the cost of living." ... He found that overall CPI would have been an average of 0.55 percentage points higher including home purchase, which would have seen far less pressure on the Reserve Bank for lower interest rates, one of the factors which has worked to boost home prices.

²⁷ Sydney Morning Herald, [Inflation up in March quarter, but below expectations](#), 26 April 2017.

²⁸ ABS, [Inflation rises 0.5 per cent in the March quarter 2017](#) (Media Release, 26 April 2017).

²⁹ Commonwealth Bank, [CPI – Q1 2017](#), 26 April 2017, p 3.

³⁰ Commonwealth Bank, [CPI – Q1 2017](#), 26 April 2017, p 1.

EMPLOYMENT

Nationally, employment grew by 0.4% for the March 2017 quarter, with approximately 34,200 new jobs created since January. This was an improvement over the previous quarter, with the ABS [reporting](#) strengthening in full-time growth over recent months following falls in full time employment over much of 2016.

The average number of people employed in NSW was down 0.18% for the quarter, from 3.8 million to 3.79 million employed. However, over the 12 months to March 2017 NSW employment levels remained steady, with no growth in employment recorded.

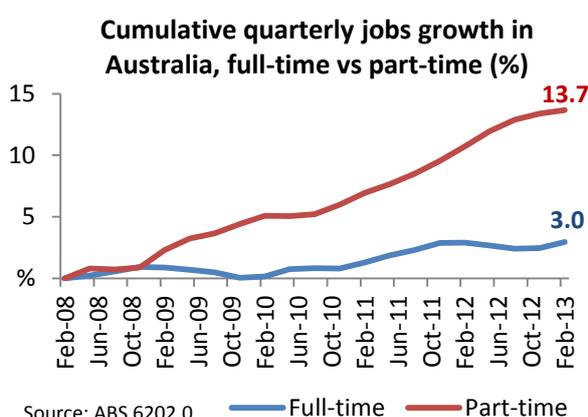
Number of persons employed ('000), quarterly average									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Mar-16	3,793	2,996	2,371	808	1,349	238	132	212	11,902
Jun-16	3,806	3,030	2,354	811	1,345	237	134	214	11,929
Sep-16	3,810	3,061	2,344	812	1,334	237	134	215	11,942
Dec-16	3,800	3,082	2,344	816	1,335	239	137	216	11,966
Mar-17	3,793	3,098	2,355	819	1,343	240	141	215	12,016

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

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.

According to ABS data, national part-time employment grew by 13.7% between March 2012 and March 2017, with full-time employment growing by only 3% over the same period (see above right). Full-time employment growth in NSW is above the national average, with a 4.7% cumulative increase in full time jobs between March 2012 and March 2017 (see below right).

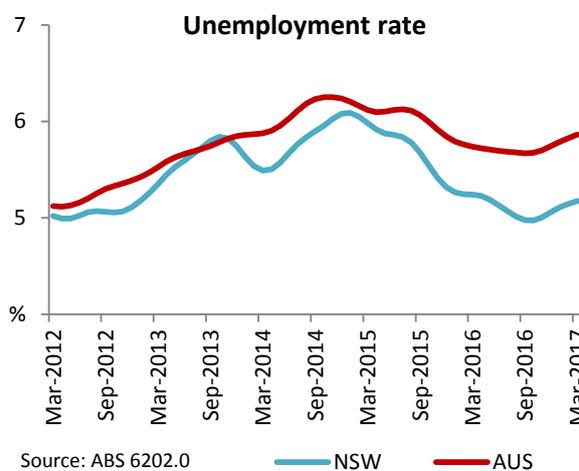
However, this figure masks a more recent decline in full time jobs growth. In December 2015 quarter cumulative full time job growth from September 2011 reached a high of 6.2%. For much of 2016 though, full time jobs growth trended down, with only modest improvements from the December 2016 quarter onwards. Indeed, since the end of 2015, NSW has shed 38,500 full time jobs.



UNEMPLOYMENT

In NSW, the average unemployment rate during the March 2017 quarter increased by 0.1% to 5.1%. However, unemployment is still 0.9% lower than the 6% peak seen in the March 2015 quarter, and 0.7% below Australia's current quarterly unemployment rate of 5.8% (see right).

NSW continues to have the lowest unemployment rate in Australia, bettered only by the NT (3.5%) and ACT (3.7%). South Australia had the highest quarterly average unemployment rate (6.7%).

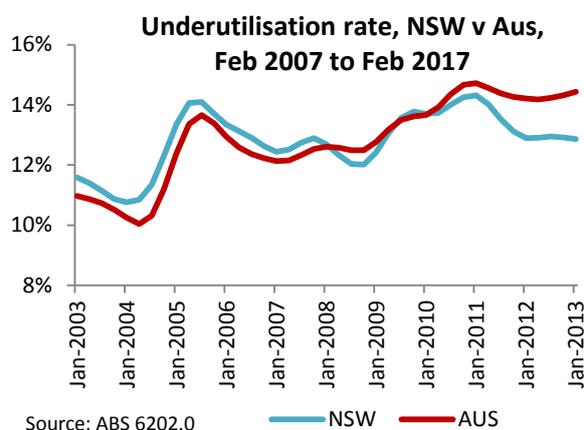


Source: ABS 6202.0

Unemployment rate (%), quarterly average									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Mar-16	5.3	5.9	6.1	7.0	5.9	6.7	4.3	4.3	5.8
Jun-16	5.2	5.7	6.3	6.9	5.8	6.5	3.9	3.7	5.7
Sep-16	5.0	5.7	6.2	6.7	6.2	6.6	3.5	3.6	5.7
Dec-16	5.0	5.9	6.1	6.6	6.5	6.3	3.6	3.7	5.7
Mar-17	5.1	6.0	6.4	6.7	6.4	5.9	3.5	3.7	5.8

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

Although unemployment levels are low, the rate of underutilisation³¹ has reached record highs. Over the decade to February 2017 the underutilisation rate has increased from a low of 10.8% in NSW and 10% across Australia (February and May 2008 respectively) to the current rates of 12.9% and 14.4% (see right).

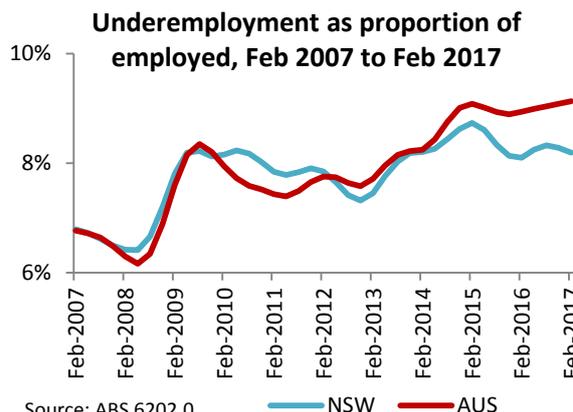


Source: ABS 6202.0

³¹ The sum of the number of persons unemployed and the number of persons in underemployment, expressed as a proportion of the labour force.

This continues 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 February 2007 and 2017, the NSW underemployment rate increased from a May 2008 low of 6.4% to the current rate of 8.2%. Australian underemployment also increased over the decade, rising from a low of 6.2% in May 2008 to 9.1% in February 2017 (see above).

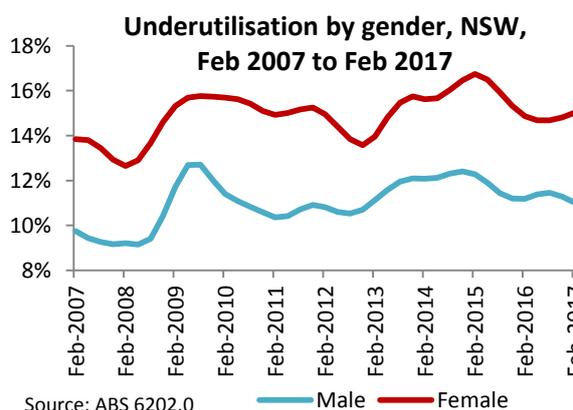
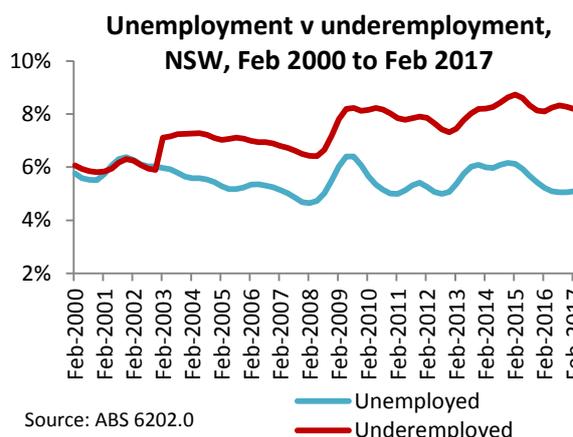


Underutilisation rate (%), quarterly average						
	NSW			Australia		
	Male	Female	Persons	Male	Female	Persons
Feb-2016	6.4	10.0	8.1	7.1	11.0	8.9
May-2016	6.7	10.0	8.2	7.3	11.0	9.0
Aug-2016	6.8	10.1	8.3	7.3	11.1	9.0
Nov-2016	6.7	10.2	8.3	7.2	11.2	9.1
Feb-2017	6.3	10.4	8.2	7.2	11.4	9.1

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

ABS data for the February 2000 to February 2017 period (see right) shows that while the unemployment rate reduced from 5.8% to 5.1%, the underemployment rate increased from 6.1% to 8.2% over the same period.

Underutilisation rates also differ by gender, with NSW women more likely to either be unemployed or underemployed (15%) compared to men (11%). However, as with the underutilisation rate for NSW persons, the underutilisation rates for NSW men and women were both lower than their national average averages of 12.5% and 16.6% respectively (see right).

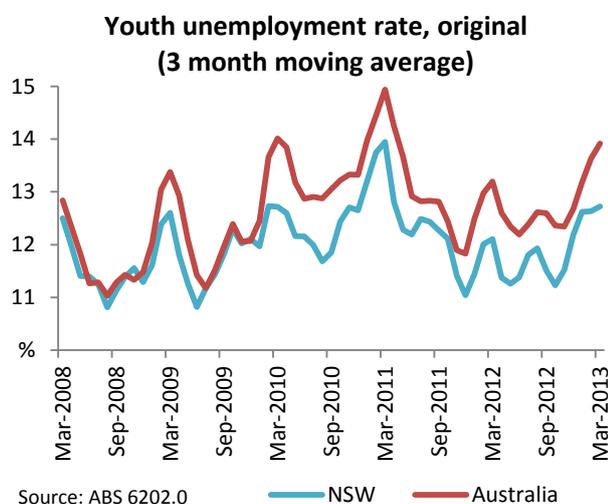


YOUTH UNEMPLOYMENT

The youth employment rate is highly cyclical because of the casual and part-time nature of employment amongst this age group (15-24).

The three month moving average data, shows that the NSW youth unemployment rate increased by 0.5% to 12.7% over the March 2017 quarter.

NSW has the fourth highest youth unemployment rate of the States and Territories, with South Australia having the highest rate of 16.8%. Despite the quarterly increase, youth unemployment in NSW remains 1.2% below the Australian average (13.9%).



Youth unemployment rate (%), quarterly average, original									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Jun-16	11.4	12.3	14.0	14.0	9.9	15.8	7.3	8.1	12.2
Sep-16	11.5	13.1	13.8	13.3	9.9	16.6	8.7	10.6	12.6
Dec-16	12.2	12.9	12.7	14.6	9.9	15.8	5.9	11.0	12.7
Mar-17	12.7	14.4	14.1	16.8	9.9	12.5	8.8	11.9	13.9

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

Although youth unemployment has reduced since early 2015, an analysis of ABS data by The Guardian's [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.

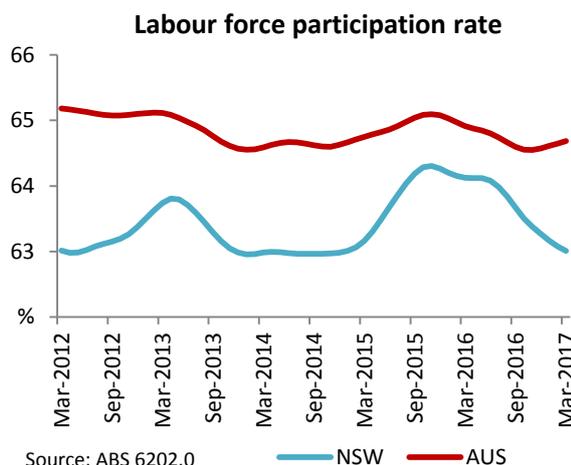
Furthermore, according to the September 2016 OECD report [Investing in Youth: Australia](#), since 2008, an additional 100,000 15 to 29 year olds are now not in employment, education or training. To address this issue, the OECD stated that further effort must be made to identify at-risk youth and prevent 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.³²

³² OECD, [Investing in Youth: Australia](#), September 2016, pp 21-22.

LABOUR FORCE PARTICIPATION

Over the March 2017 quarter, the NSW labour force participation rate fell by 0.3% to 63.1%: 1.6% below the Australian average of 64.7%.

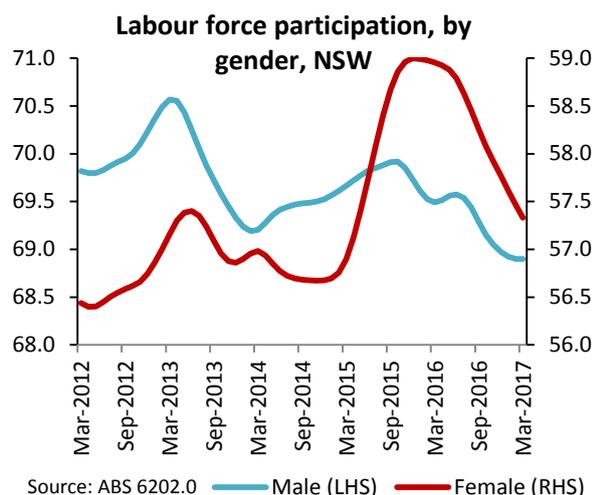
Only Tasmania and South Australia had lower participation rates than NSW (59.7% and 62.3% respectively), while the participation rate was highest in the Northern Territory (78.1%).



Labour force participation rate (%), quarterly average, trend									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Mar-16	64.2	64.8	65.5	62.0	68.1	60.1	74.1	70.2	65.0
Jun-16	64.1	65.0	64.9	62.0	67.7	59.7	74.5	70.0	64.8
Sep-16	63.8	65.4	64.3	61.9	67.3	59.7	74.5	70.3	64.7
Dec-16	63.4	65.6	64.1	62.1	67.4	59.8	76.0	70.3	64.6
Mar-17	63.1	65.7	64.3	62.3	67.5	59.7	78.1	70.2	64.6

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

In NSW the male participation rate declined steadily over the past five years, reaching a low of 68.9% in March 2017. Female participation has also declined; since reaching a high of 59% in December 2015, the participation rate for NSW women has reduced to 57.3 (see right).

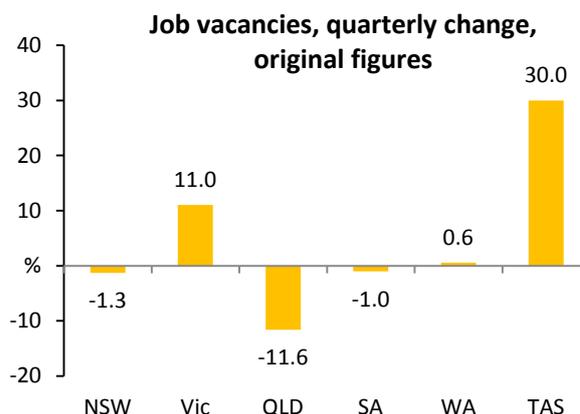


JOB VACANCIES

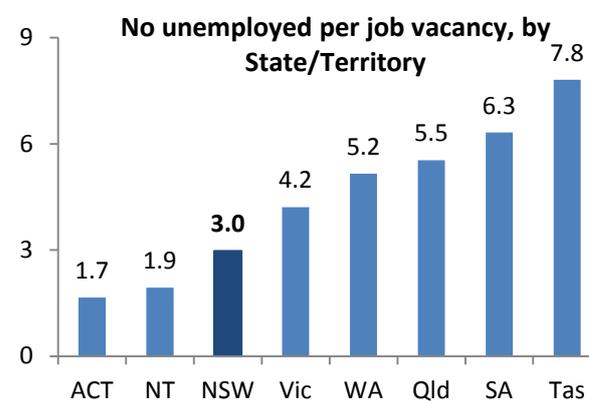
The number of NSW job vacancies fell by 1.3% to 68,100 in the February 2017 quarter, though it remains 16% higher than the three year average of 58,800. NSW had the second lowest number of reported job vacancies for all jurisdictions after Queensland (-11.6%), and was below the national average for the quarter (0.6%).

However, when reviewing the ratio of unemployed per job vacancy and [analysis](#) by Greg Jericho shows that, 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).

According to the Commonwealth Bank, the NSW's dominant position (specifically, Sydney) in Australia's new ["two-speed economy"](#) means that job vacancy trends are likely to be more favourable for jobs growth in NSW.³³



Source: ABS 6354.0

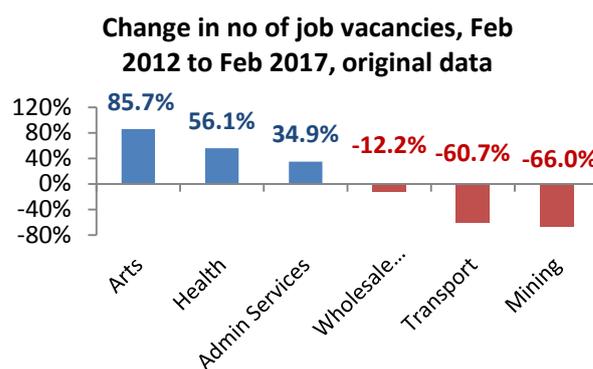


Source: The Guardian

Number of job vacancies ('000), original									
	NSW	Vic	QLD	SA	WA	TAS	NT	ACT	AUS
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
Feb-17	68.1	50.4	29.7	9.5	17.8	2.6	2.9	5.9	186.9

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

According to ABS trend data, the number of job vacancies increased nationally for the 14th consecutive quarter in February to 186,400: surpassing the previous record set from November 1991 through to November 1994.³⁴



Source: ABS 6354.0

³³ Commonwealth Bank, [ABS Job Vacancies – November 2016](#), 11 January 2017.

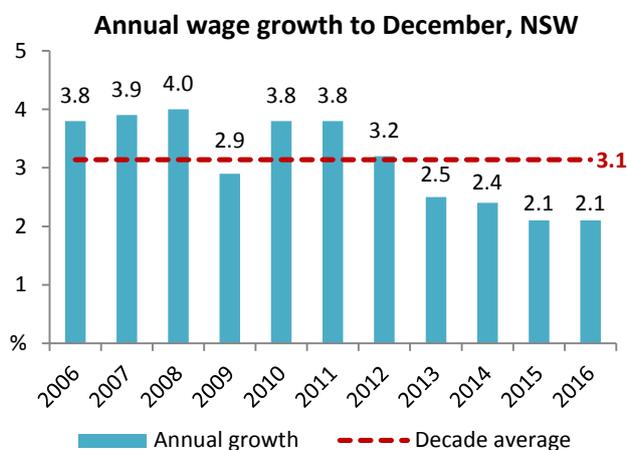
³⁴ G Jericho, [The latest job vacancy figures should be good news, but consumers don't agree](#), The Guardian, 4 April 2017.

In line with broader economic trends over the past five years,³⁵ vacancies have increased in the services sector, while decreasing in industries such as mining (see figure above).

WAGES

Wages grew modestly over the December quarter, increasing by 0.4% in NSW: the same as the national growth rate. In the 12 months to December 2016 NSW wage growth slowed to 2.1%; 1% below the decade average of 3.1% (see below 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% 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).

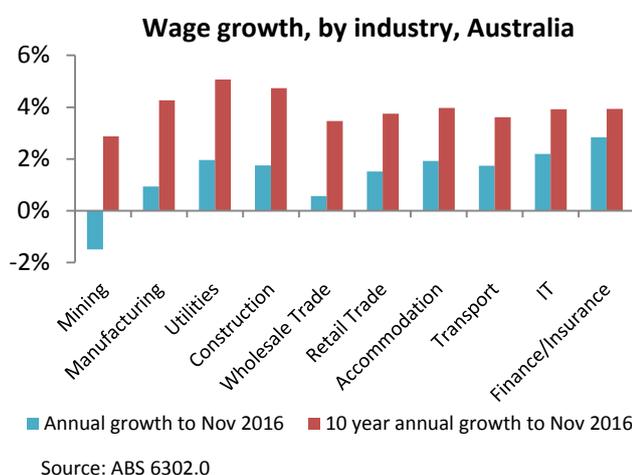


Average adult weekly fulltime earnings (\$), ordinary time, trend								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
May-15	1512.00	1402.00	1444.70	1351.40	1692.30	1290.70	1511.10	1709.40
Nov-15	1527.80	1422.00	1446.20	1375.90	1705.00	1316.40	1549.40	1714.40
May-16	1538.20	1458.80	1462.00	1414.40	1701.40	1334.70	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

According to the [ABS](#), in seasonally adjusted terms the national wage price index rose by just 1.9% over the year to December 2016. This result equals the record low wages growth recorded in September 2016.

Weak national wages growth has affected the majority of Australian industry sectors. As the adjacent figure shows, across many sectors annual wage growth to



³⁵ 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.

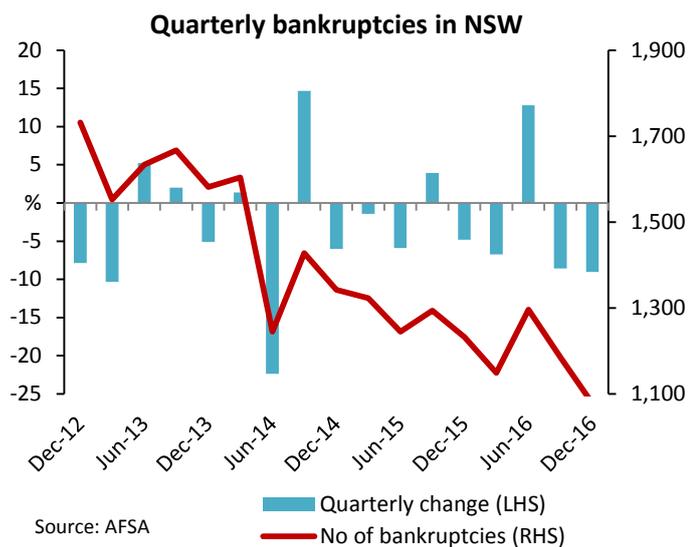
November 2016 has been well below their respective 10 year averages. Annual wage growth for the mining sector was -1.5% over the year to November 2016, compared to a decade average annual growth rate of 2.9% (a -4.4% difference).

Other sectors also saw annual wage growth lower than their decade average growth rates, including construction (-2.2%), manufacturing (-3.3%) and accommodation and food services (-2%). However, some areas have seen annual wages growth higher than average, including education (4% annual growth, compared to a 3% 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 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

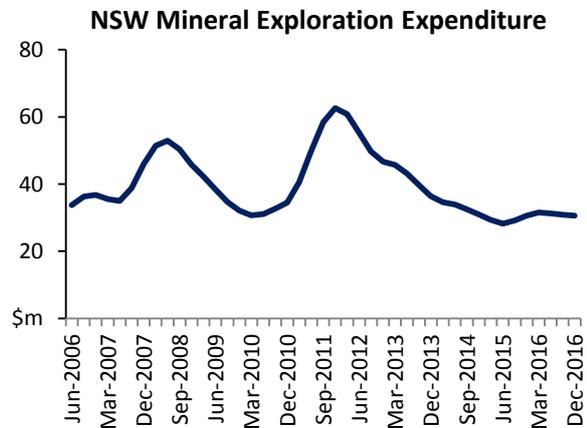
Source: Australian Financial Security Authority, December 2016

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

NSW mineral exploration expenditure decreased marginally over the December 2016 quarter by 0.97%. Expenditure remained 51.1% below the high recorded for the December 2011 reporting period.



Source: ABS 8412.0

Mining sector investment has declined recently, with mineral exploration expenditure down by 54.1% (\$435.8 million) since December 2012. A significant share of this decline is attributable to Western Australia, where exploration expenditure has declined by 47.8% (\$223 million) over the past five years.

	Mineral exploration expenditure (\$m)							
	NSW	VIC	QLD	SA	WA	TAS	NT	AUS
Mar-2016	31.5	7.3	52.0	12.1	219.0	3.2	24.1	349.3
Jun-2016	31.3	7.6	47.5	12.8	224.7	3.3	21.5	348.7
Sep-2016	30.9	7.9	48.2	12.8	234.0	3.3	20.4	357.5
Dec-2016	30.6	8.3	50.8	12.1	244.0	3.3	20.4	369.5

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

However, the December quarter saw an unexpected increase in mining investment and higher export levels, to which the RBA Board made the following comments in their December 2016 minutes:

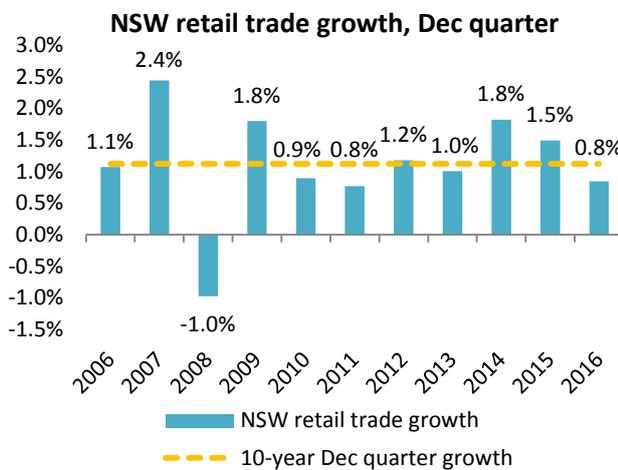
Members observed that some resource firms may have been able to increase their exports to take advantage of higher commodity prices by running down inventories. Consistent with previous staff forecasts, the capital expenditure survey of investment intentions continued to indicate that mining investment would fall further over the following year or so, but that the drag on growth would dissipate over this period.³⁶

³⁶ RBA, [Minutes of the Monetary Policy Meeting of the Reserve Bank Board](#), 7 March 2017.

TURNOVER OF RETAIL TRADE

Average NSW monthly turnover of retail trade rose by 0.9% in the December 2016 quarter to almost \$8.3 billion: the same growth rate as the previous quarter. However, this growth rate was slightly lower than the 10 year December quarter average of 1.1%.

NSW's retail growth in the 12 months to December (3.8%) was the equal fourth highest of all jurisdictions, with the ACT (6.8%), Tasmania (4.3) and South Australia (4.1) topping the list.

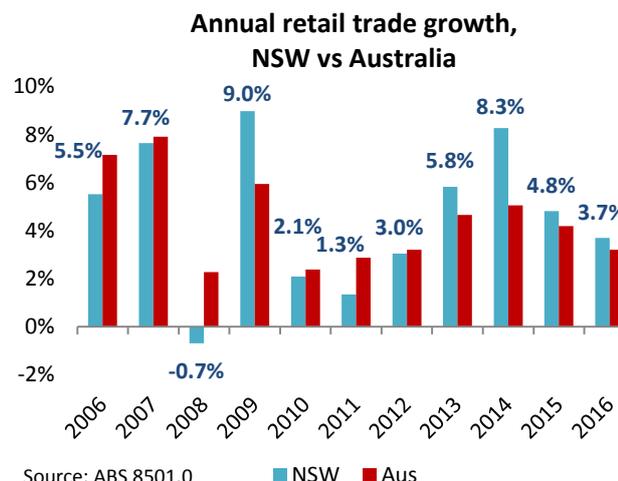


Source: ABS 8501.0

Turnover of retail trade (\$m), quarterly average									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Sep-2016	8189.3	6388.9	5148.2	1658.3	2828.3	504.9	258.6	468.3	25445.0
Oct-2016	8217.4	6416.4	5166.8	1661.9	2831.3	506.5	259.9	470.1	25530.3
Nov-2016	8242.3	6440.8	5175.3	1666.5	2834.0	507.9	261.2	471.2	25599.1
Dec-2016	8262.2	6460.1	5178.9	1671.9	2836.1	509.0	262.1	472.0	25652.4

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

More significant is the longer run growth trend, with retail trade in the State up 3.7% from the previous year. This was higher than the Australian average of 3.2%, although it was the lowest annual growth since 2012 (see right).



Source: ABS 8501.0

VEHICLE SALES

Motor vehicle sales in NSW have been relatively resilient compared to other jurisdictions, amid concerns about weak wages growth and the labour market.

The average number of new vehicles sold per month in NSW decreased slightly by 0.3% in the December 2016 quarter to 32,952; in comparison, national vehicle sales declined by 0.8% during the quarter. Annual growth for NSW (1.2%) was also higher than the Australian average (-0.2%) for the year to December, which appears to have remained flat because of significant annual drops in Western Australia (-9.6%) and Queensland (-4.7%).

In terms of the outlook for the future, St George Bank noted:

Low interest rates and moderate employment growth should support consumer spending. However, the soft pace of wage growth will put a lid on spending, particularly at a time when household debt levels are already at lofty levels.

On balance, there does not appear to be much scope for strong growth in car sales, although a moderate pace of growth in domestic demand should keep sales at a relatively high level.³⁷

Sales of new vehicles, quarterly average, trend									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Dec-15	32,558	26,618	19,822	5,860	8,835	1,592	834	1,509	97,628
Mar-16	33,071	26,757	19,584	5,996	8,705	1,573	893	1,526	98,105
Jun-16	33,168	26,961	19,379	5,946	8,434	1,573	922	1,559	97,941
Sep-16	33,065	27,537	19,216	5,963	8,297	1,696	892	1,524	98,190
Dec-16	32,952	27,524	18,895	5,928	7,985	1,709	858	1,556	97,409
Source: ABS, Sales of new motor vehicles, Australia, Cat. No. 9314.0, February 2017									

³⁷ St George Bank, [New Motor Vehicle Sales: Drifting lower?](#), 15 March 2017, p 2.

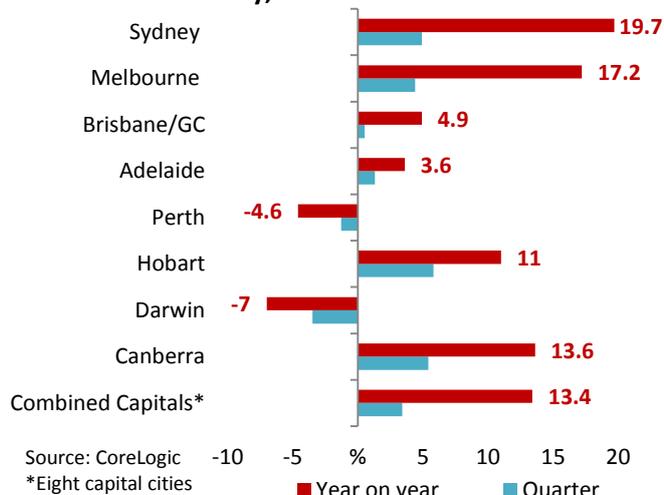
HOUSE PRICES

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 once again surged in price growth.

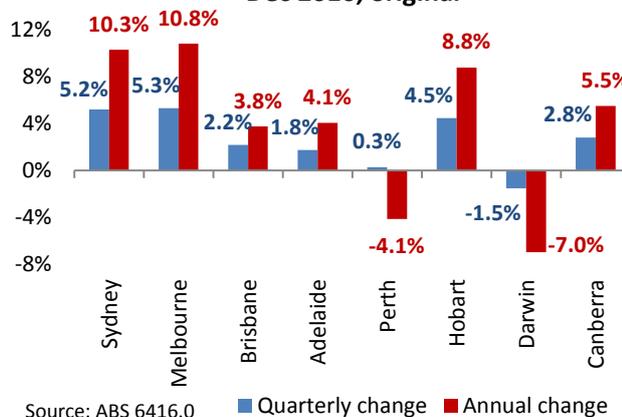
According to [CoreLogic](#), Sydney's median house price rose by 4.9% over the March quarter to \$880,000: the second highest quarterly increase after Canberra (4.9%) and a year on year increase of 19.7%: the nation's highest (see right). [Domain](#) reported that Sydney's median house price has increased to \$1.15m over the March quarter: a record high.

The ABS's Residential Property Price Index for Sydney³⁸ reported a 5.2% increase in the December 2016 quarter (see right). Over the 12 months to December, the Sydney Index increased by 10.3%, second only to Melbourne (10.8%). [Prices](#) for Sydney's established houses rose by 12% and attached dwellings by 6.7%: second to Melbourne (13.1%) and Hobart (11.6%) respectively.

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



Change in residential property prices, Dec 2016, original



House price indexes: eight capital cities, original

	SYD	MEL	BRIS	ADE	PER	HOB	DAR	CAN	Weighted Average
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
Dec-16	167.6	140.0	121.4	115.3	106.6	118.5	102.4	116.7	140.6

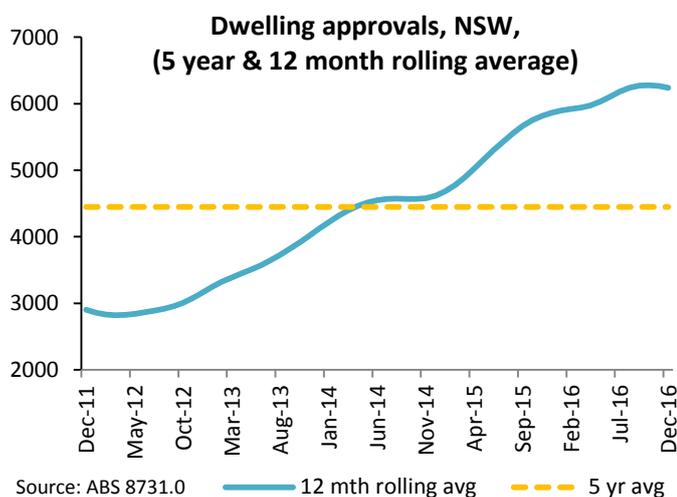
Source: ABS, Residential Property Price Indexes: Eight Capital Cities, Cat. No. 6416.0, December 2016

³⁸ Which measures price changes of residential dwelling stock.

DWELLING APPROVALS

The average monthly number of dwellings approved in NSW declined by 14.3% in the December 2016 quarter, with an average of 5,625 approvals made each month of the quarter. This represented a 2.6% drop compared to the December 2015 quarterly average (an average of 5,772 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 since mid-2016, approval numbers are approximately 26.4% higher than the five year average.



National dwelling approvals were, on average, down 8.3% for the December quarter. This appears to be a result of a significant decline in approval levels in both NSW (14.3%) and Queensland (14.2%); other jurisdictions had approval rates well above the national average.

Number of dwellings approved, quarterly average							
	NSW	VIC	QLD	SA	WA	TAS	AUS
Dec-15	5,772	5,627	4,420	1,024	2,105	212	19,613
Mar-16	6,070	5,641	4,433	1,070	1,977	200	19,951
Jun-16	6,684	5,811	4,183	1,066	1,800	179	20,334
Sep-16	6,567	5,580	3,817	926	1,703	163	19,420
Dec-16	5,625	5,571	3,275	872	1,716	170	17,800

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

Despite this slowdown in the overall trend, the Commonwealth Bank commented residential dwelling *commencements* continue to be strong in NSW and Victoria, where population growth and employment markets are the strongest. Furthermore, as almost half of all approvals are for multi-unit dwellings, which have longer build times than houses, this will prolong residential construction boom and see solid activity continue during the year.³⁹

³⁹ Commonwealth Bank, [Building activity– QIV 2016](#), 12 April 2017, p 1.

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—with the exception of NSW—residential investment was expected to turn down in 2017-18. However, it affirmed the Commonwealth Bank's view that the longer completion times for high rise projects would hold up the level of building in work done terms.⁴⁰

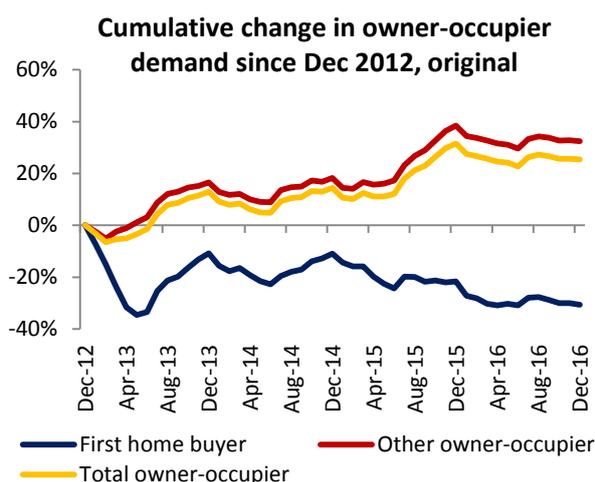
With regard to apartments, the RBA has warned that domestic financial stability risks have shifted towards property development, including apartment oversupply in Sydney and other capital cities. The RBA's October 2016 [Financial Stability Review](#) highlighted the Bank's ongoing unease over banks' 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.⁴¹

HOUSING FINANCE

The average number of owner-occupier (including first home owner) dwellings financed in NSW increased by 3.9% during the December 2016 quarter to 17,432 per month. This was higher than the national average (2.5%), but lower than that seen in the ACT (9.6%), Tasmania (5.9%) and Victoria (4.3%).

Owner-occupier demand has increased in recent years, with a cumulative increase of 25% in the four years to December 2016. However, as discussed in previous Economic Updates, this overall increase masks a major decline in first home buyer financing, which has seen a 31% cumulative fall over this four year period (see above).



⁴⁰ BIS Shrapnel, [Economic Outlook](#), March 2017, p 5.

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

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 persons⁴² and older home owners:

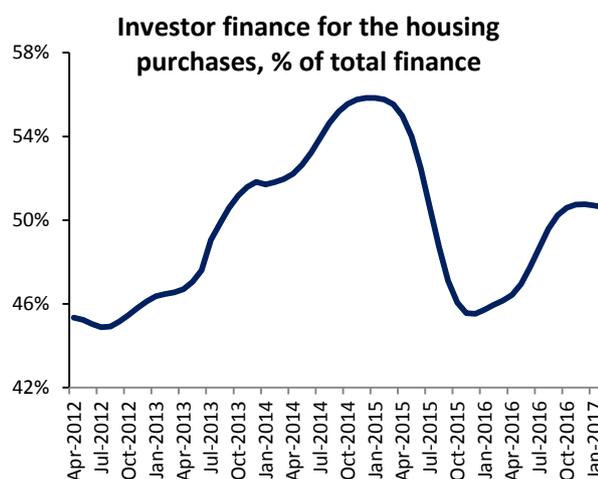
Using the information on the identities of the legal home owners available in wealth years, the figure shows that the decline in home ownership has been concentrated on those aged under 55. Home ownership among persons aged 25–34 declined from 38.7% in 2002 to 29.2% in 2014, with much of the decline occurring between 2010 and 2014. ... There was essentially no change in home ownership among those aged 65 and over.⁴³

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.

As a proportion of total dwelling finance, housing finance declined by 0.1% over the three months to February 2017, although it remains 4.7% higher than 12 months earlier (see right).

While analysts previously expected investor demand to decrease further due to tougher borrowing conditions,⁴⁴ the RBA noted in its April 2017 [Financial Stability Review](#) that there has been an *increase* in higher-risk

housing lending such as interest-only loans. This has been attributed to record low interest rates and rising house prices increasing the appeal of property investment.⁴⁵ This has led to APRA applying additional restrictions on investor borrowing, such as restricting interest-only lending to 30% of total new residential mortgage lending.⁴⁶



Source: ABS 5609.0

⁴² 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.

⁴³ HILDA, [The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 14](#), 2016, p 68.

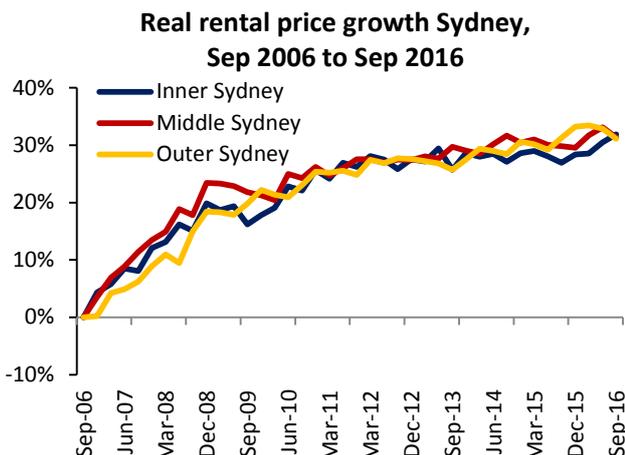
⁴⁴ C Angus, [Demand, deposits, debt: Housing affordability in Sydney](#), NSW Parliamentary Research Service, BF 01/2017, p 86.

⁴⁵ Commonwealth Bank, [Housing Finance – November 2016](#), 17 January 2017.

⁴⁶ RBA, [Financial Stability Review](#), April 2017, p 17.

RENT

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. 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.

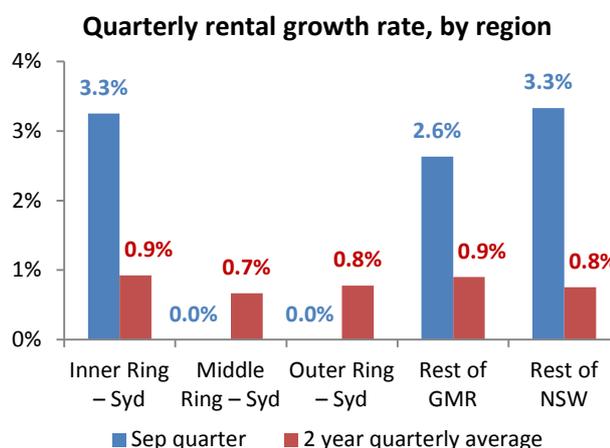


Sources: Housing NSW; ABS 6401.0

As discussed in previous NSW Parliamentary Research Service papers,⁴⁷ rental costs may prevent prospective home buyers (particularly in inner urban areas) from saving a large enough deposit; or at the very least, it will take a longer period of time than it would have previously.

For these buyers, there is a significant opportunity cost in waiting to buy a first home which materialises in two ways. 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.

Over the September 2016 quarter, Sydney’s Inner Ring suburbs and the Rest of NSW⁴⁸ saw median weekly rent increases of 3.3%: higher than their two year quarterly average growth (0.9% and 0.8%). The Rest of GMR⁴⁹ region also saw rental growth higher than the two year average (2.6% vs 0.9%), but median rents elsewhere in Sydney remained static (see right).



Source: Housing NSW

⁴⁷ C Angus, [Demand, deposits, debt: Housing affordability in Sydney](#), NSW Parliamentary Research Service, BF 01/2017, Ch 7.1; A Haylen, [Affordable rental housing: the problem and its causes](#), NSW Parliamentary Research Service, EB 13/2015.

⁴⁸ For an overview of these geographic regions and their formation see Housing NSW, [Rent and Sales Report](#), Issue No 118, March 2017, p 9.

⁴⁹ Greater Metropolitan Region. See Housing NSW, [Rent and Sales Report](#), Issue No 118, March 2017, p 9.

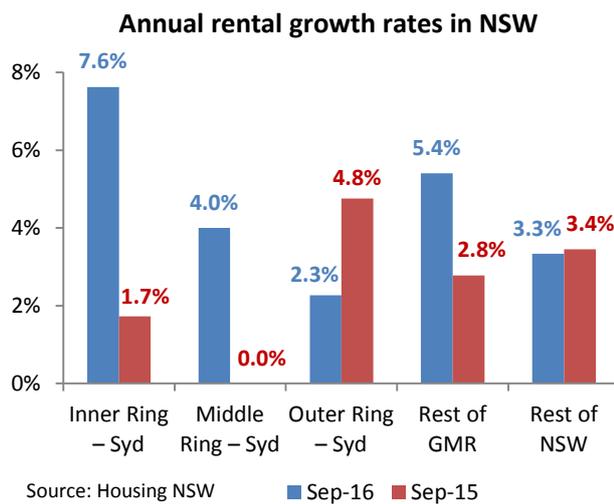
Median weekly rents by NSW region (\$), all dwellings – all bedroom numbers							
	Greater Sydney	Sydney – Inner Ring	Sydney – Middle Ring	Sydney – Outer Ring	Rest of GMR*	Rest of NSW	NSW total
Sep-15	500	590	500	440	370	300	440
Dec-15	500	600	500	450	380	300	450
Mar-16	510	600	510	450	380	300	450
Jun-16	520	615	520	450	380	300	450
Sep-16	520	635	520	450	390	310	460

Source: Housing NSW, Rent and Sales Reports, Issue 118

*Greater Metropolitan Region

On an annual basis, rental growth remains most pronounced in Sydney's Inner Ring, increasing by 7.6% in the 12 months to September 2016.

Middle Ring suburbs and the Rest of GMR region have also experienced rental increases greater than those seen in the previous year, while Sydney's Outer Ring suburbs have seen rents grow at a slower pace than that seen in the 12 months to September 2015 (see right).



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: 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.

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 ratio: 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.