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NSW Parliamentary Research Service

NSW Economic Update Winter 2018

Statistical Indicators 04/18

By Chris Angus

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SUMMARY

The state of the NSW economy

After nine consecutive quarters as the nation's best performing State, New South Wales has been surpassed by Victoria in Commsec's July 2018 *State of the States Report*. According to the report, NSW has slipped from top spot due to declines in housing finance and dwelling starts. However, the State still holds top spot for retail spending and its relative performance on unemployment.

The *NSW 2018-19 Budget Statement* noted that the State's economic outperformance, which began in 2014-15, continued into 2017-18 with an expected 3% economic growth. The Budget Statement outlined factors leading to these positive results, while forecasting ongoing good performance in the coming two financial years:

> This strength has been underpinned by households—through dwelling investment and household consumption—supported by strong gains in dwelling prices, above-trend population growth and low interest rates. Public investment has also made an impressive contribution, reflecting the Government's asset recycling strategy, with positive spillovers for business investment and employment. Service exports are another highlight, with relatively broad-based growth across tourism, education and professional and technical business services. Education related travel has been a standout.[1]
>
> The NSW economy is forecast to perform well in 2018-19 and 2019-20, with gross state product (GSP) increasing by 2¾ per cent in both years. Growth drivers are shifting from dwelling construction and household consumption, towards business investment and more broad-based strength in exports.[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/Unchanged			Weaker	
State final demand (up 0.7%)	Unemployment rate (unchanged 4.8%)	Mining investment (up 8.5%)	NSW trade deficit (down to -$5.3bn)	Dwelling approvals (down 1.8%)
Household consumption (up 0.7%)	Youth unemployment (down 0.2%)	Retail trade (up 1.1%)	Job vacancies (down 2.0%)	Housing finance (down 16.4%)
Business investment (up 1.6%)	Participation rate (up 0.3%)	Rent (up 1.6%)	Bankruptcies (up 1.6%)	
Employment (up 0.9%)	Wages (up 0.5%)		Sydney median house price (down 1.2%)	

[1] NSW Government, *Budget Statement 2018-19*, June 2018, p 3-2.
[2] Ibid p 3-1.
[3] For the most recent quarter in which data is available. Note that rolling averages are excluded from this table.

The state of the Australian economy

The Reserve Bank of Australia's (RBA) latest *Statement on Monetary Policy* (May 2018) forecast Gross Domestic Product (GDP) growth to lift from 2.75% in June 2018 to 3.25% by December 2018. During 2019 the RBA forecasts GDP to range from 3% to 3.5%.[4]

Key factors that the RBA believes may influence national growth over the forecast period are broadly similar to those presented in the Bank's February Statement (see previous Update). They include the following:[5]

- GDP growth is expected to strengthen over the next year or so. This is a result of the drag from mining investment coming to an end, and sustained growth in household income and consumption, and non-mining business investment;
- Non-mining business investment has been led by strong growth in non-residential construction, which is expected to remain solid during 2018;
- Growth in public and non-mining investment is expected to offset some further declines in mining investment as large LNG projects move to completion;
- Labour cost pressures are expected to increase gradually, with the gradual broadening of skill shortages is expected to translate into higher wages growth at some stage; and
- The implementation of the National Disability Insurance Scheme (NDIS) and public infrastructure investment are expected to continue to boost public demand.

The financial sector has made diverging forecasts about future economic growth. As per the Summer Economic Update, the Commonwealth Bank continues to forecast GDP growth of 3.1% over the 2018-19 financial year and 2.9% in 2019-20.

In contrast, other analysts predict slightly lower GDP growth in the next two years; NAB has forecast a lower GDP growth rate of 2.9% for 2018 and 2019, falling to 2.6% in 2020. Meanwhile, Westpac anticipates GDP growth of 2.7% and 2.5% respectively for the 2018 and 2019 calendar years, while St George Bank predicts a growth rate of 2.8% for both 2018 and 2019.

[4] Reserve Bank of Australia, *Statement on Monetary Policy*, May 2018, p 58.
[5] Ibid p 57-61.

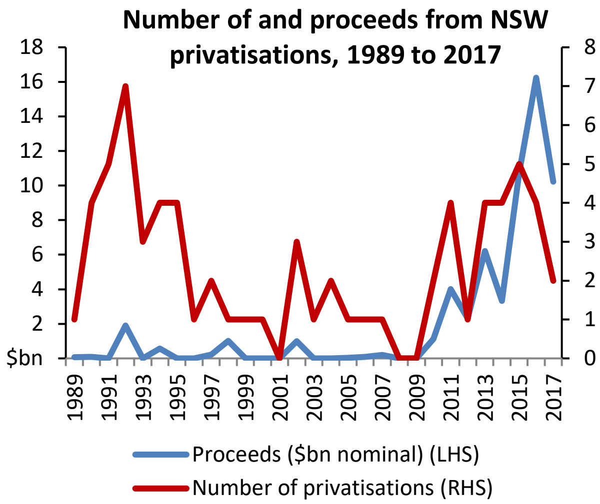
QUARTERLY COMMENT

Asset recycling and infrastructure building

In recent months, the RBA has commented that Australia's public sector has contributed significantly to higher-than-expected GDP growth of 3.1% in the year to March 2018. Earlier RBA analysis stated that this growth has been driven by public investment and infrastructure construction, particularly in New South Wales and Victoria.[6] The *NSW 2018-19 Budget Statement* noted that public investment:

> … contribut[ed] half a percentage point per year to [NSW] economic growth, on average, over the three years to 2017-18. This outstanding performance – around four times its historical average contribution – is forecast to be repeated in 2018-19, underpinned by the State's record $87.2 billion infrastructure program.[7]

A significant proportion of this funding has come about through the NSW Government's 'asset recycling' program: essentially, the sale or privatisation of government assets, with proceeds being spent on new infrastructure. Asset sales and privatisation are not new, with government-owned enterprises having been privatised since the late 1980s. However, over the past decade both the number of privatisations and proceeds have increased significantly from previous years, with sale proceeds reaching record highs in 2016 (see right).[8]



Sale proceeds from more recent privatisations have been earmarked for spending on a variety of State infrastructure projects through the Restart NSW fund. As of 30 June 2018, **$32.9 billion** has been deposited into Restart NSW for current and future infrastructure projects.[9] Approximately three quarters of this funding (**$24.9 billion**) has come from the sale of 13 NSW Government assets. In some cases, the sale proceeds for these assets were higher than the funds received by Restart NSW (see overleaf). For example, a large proportion of the sale proceeds from the Ausgrid, Endeavour Energy and Sydney Desalination Plant transactions was used to repay outstanding debt related to these assets.[10]

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[6] Reserve Bank of Australia, *Statement on Monetary Policy*, May 2018, p 24.

[7] NSW Government, *Budget Statement 2018-19: Budget Paper No 1*, June 2018, p 1-5.

[8] Montoya D, Ismay L, *Privatisation in NSW: a timeline and key sources*, NSW Parliamentary Research Service, Issues Backgrounder 2/2017, June 2017.

[9] NSW Government, *Infrastructure Statement 2018-19: Budget Paper No 2*, June 2018, p 3-2.

[10] NSW Government, *Report on State Finances 2016-17*, 2017, p 5-4; NSW Government, *Report on State Finances 2012-13*, 2013, p 5-134.

With such a large pool of funds from which to finance new infrastructure, it is unsurprising that the NSW Treasurer has described the asset recycling program as "the golden key that unlocked the door of opportunity for New South Wales."[11] Support for asset recycling has also been expressed by the Victorian Government and the World Economic Forum.[12] Additionally, 2016 polling by Property NSW found that, if the benefits were properly explained, 61% of surveyed NSW residents supported asset recycling.

Proportion of NSW Government asset sale proceeds going to Restart NSW[13]

NSW Government assets sold	Sale proceeds ($m)*	Funding received by Restart NSW ($m)	Proportion sale proceeds to Restart NSW (%)
TransGrid	10,288	6,579	63.9%
Ausgrid	20,150	5,561	27.6%
Port Botany and Port Kembla	5,261	4,253	80.8%
Endeavour Energy	9,590	2,842	29.6%
Land and Property Information	2,622	2,607	99.4%
Newcastle Port	1,807	1,576	87.2%
Macquarie Generation	1,598	714	44.7%
Sydney Desalination Plant	2,300	312	13.6%
Property NSW	n/a	232	-
Green State Power**	75	87	115.9%
Eraring Power Station	657	48	7.3%
Delta Electricity***	734	26	3.5%
Pillar Corporation	38	16	42.6%

*Gross proceeds and, if applicable, stamp duty revenue. Property NSW is excluded as it included various asset recycling transactions.

**Note that the *Restart NSW Fund Financial Report 2015-16* states that $62.7m was paid into the Fund. If this figure is correct, Restart NSW received 83.6% of Green State Power sale proceeds.

***Total figure assumes the following sales (nominal gross sale proceeds): Mt Piper and Wallerawang, Colongra and Vales Point power stations; Brown Mountain Hydro Power Station with Cochrane Dam.

Nevertheless, asset recycling has downsides, such as declines in State Government revenue from these assets. In her *2017 Report on State Finances*, the NSW Auditor-General noted that revenue from dividends and income tax equivalents has reduced by 58.4 per cent since 2013. The Auditor-General further noted that, since 2011, $298 million has been spent on consultants to sell or lease State assets. Furthermore, Australian Competition and Consumer Commission (ACCC) Chairman Rod Sims has criticised recent privatisations, stating that "governments are more explicitly now privatising to maximise the proceeds" rather than ensuring market competition.[14]

[11] Perrottet D, Budget Second Reading Speech, *NSW Hansard*, 19 June 2018.

[12] Victorian Government, *Budget Paper 4: State Capital Program*, May 2018, p 8; World Economic Forum, *Recycling our Infrastructure for Future Generations*, 2017; Nowacki C, Levitt R, Monk A, 'The financier state as an alternative to the developmental state: A case study of infrastructure asset recycling in New South Wales, Australia', paper presented at the *Engineering Project Organization Conference*, Cle Elum, 28-30 June 2016.

[13] Restart NSW funding figures taken from: NSW Government, *Infrastructure Statement 2018-19: Budget Paper No 2*, June 2018, p 3-9. Sale proceeds taken from data collected by Montoya and Ismay, note 8; NSW Government, *Report on State Finances 2016-17*, 2017, p 5-4.

[14] Potter B, ACCC's Rod Sims 'exasperated' as privatisations 'increase prices', *Australian*

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 2018 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 and the Commonwealth Bank) are also presented.

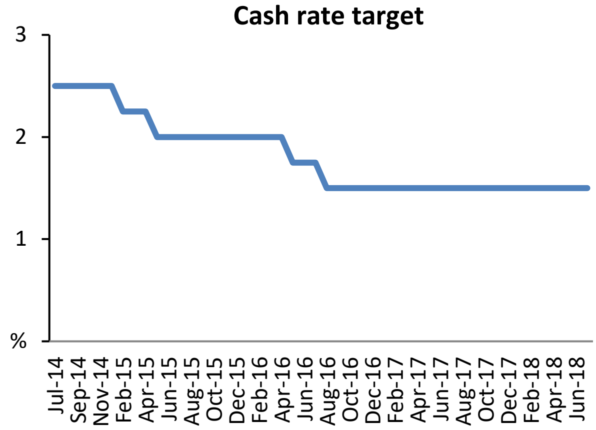
The Economic Update presents ABS **trend estimates** where available; trend data is preferred by the ABS for the analysis of monthly or quarterly changes, as they remove potentially misleading seasonal patterns, residual noise and irregular influences. All ABS data are trend estimates unless otherwise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

Financial Review, 27 July 2016.

INTEREST RATES

As of July 2018, the RBA has held the cash rate at 1.5%: it has remained at this level since August 2016 (see right). In assessing whether to adjust the cash rate, the RBA Board considers the state of the domestic economy, as well as international economic factors.

In their July 2018 meeting the RBA Board noted a range of factors influencing the Australian economy.



Source: RBA

The Board commented that GDP growth had increased over the March 2018 quarter. The public sector was a notable contributor to this increase, particularly due to greater investment in transport infrastructure. The Bank estimated GDP growth to be just above 3 per cent over 2018 and 2019. However, it noted that consumption remained a source of uncertainty for the GDP forecasts, given that household income had continued to grow slowly and debt levels were high.

Wage growth remained low, which the Board commented was consistent with ongoing spare capacity in the labour market and some structural forces seen in other economies. Employment growth had also moderated from 2017's strong rates, with the near-static unemployment rate and underutilisation rate indicating excess capacity in the labour market.

Considerations for monetary policy included prospective GDP growth (although tempered by the consumption outlook); falls in house prices in Sydney and Melbourne as a result of tighter lending standards; and the gradual progress towards a lower unemployment rate and higher levels of inflation.

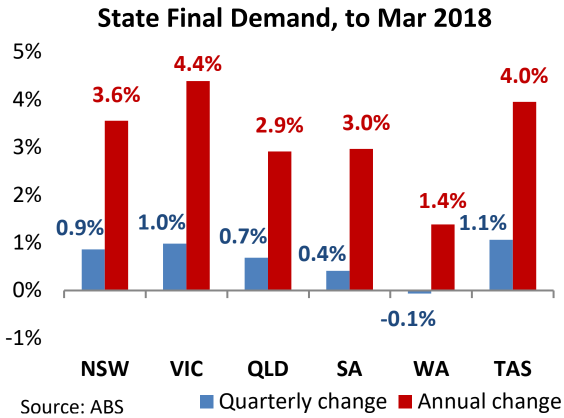
Accordingly, the Board concluded that it was appropriate to hold the cash rate steady, with the Bank acting as a source of stability and confidence while this progress unfolded.

The Commonwealth Bank has forecast that the cash rate would remain on hold until February 2019. NAB expects the cash rate to remain at 1.5% until March 2019, then rising to 1.75% by June 2019. Westpac forecasts the cash rate to remain unchanged to March 2020. Greg Jericho from The Guardian, has previously argued that the RBA is unlikely to raise interest rates until Australia sees increases in wages growth (see Wages chapter) and inflation (see Consumer Price Index chapter).

STATE DEMAND AND GROSS STATE PRODUCT

Australia's Gross Domestic Product (GDP) increased by 0.7% over the March 2018 quarter, and 2.8% in the 12 months to March. Demand in NSW increased by 0.9% for the December quarter: the third highest growth of all States (see right).

Annual growth to December 2017 for NSW was 3.6%. This was lower than other States such as Victoria (4.4%), and Tasmania (4.0%).

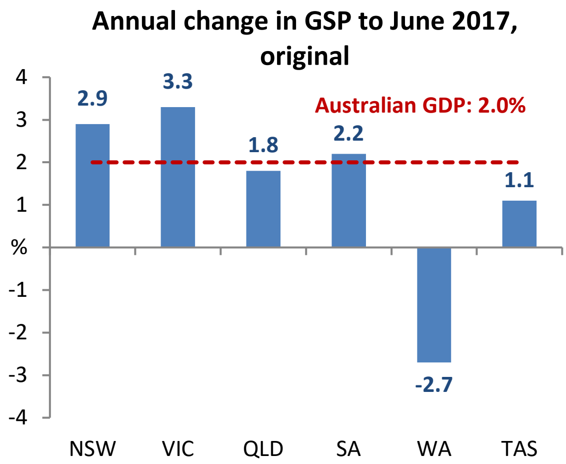


Source: ABS

State final demand ($m), chain volume measures								
	NSW	**VIC**	**QLD**	**SA**	**WA**	**TAS**	**NT**	**ACT**
Jun-2017	140,696	109,043	83,580	27,895	50,766	7,942	7,681	11,772
Sep-2017	142,020	110,174	84,194	28,111	51,006	8,008	7,558	11,865
Dec-2017	143,412	111,273	84,856	28,248	51,130	8,087	7,337	11,902
Mar-2018	144,644	112,369	85,440	28,364	51,097	8,173	7,125	11,913
Source: ABS, Australian National Accounts, Cat. No. 5206.0, March 2018								

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.

While NSW was the dominant State at the end of the 2015-16 financial year, Victoria took the lead in 2016-17, growing by 3.3% compared to NSW's 2.9% growth. The NSW result remained above the Australian average of 2.0% (see right).

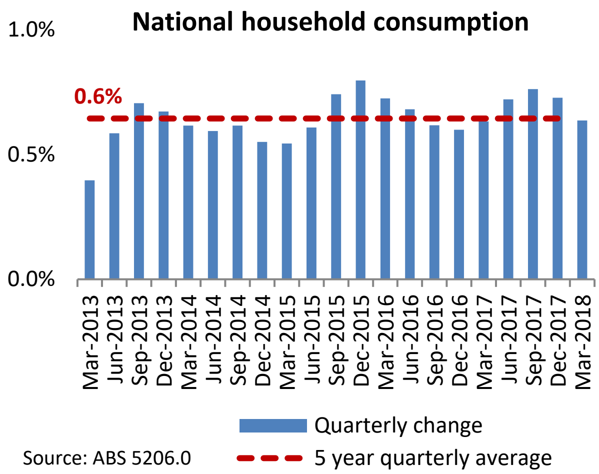


Source: ABS 5220.0

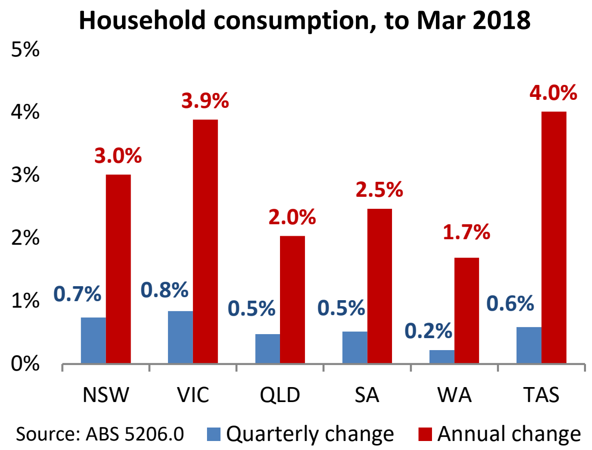
Gross State Product ($m), chain volume measures, original								
	NSW	**VIC**	**QLD**	**SA**	**WA**	**TAS**	**NT**	**ACT**
Jun-2013	498,183	355,317	285,936	97,402	217,985	27,195	23,049	33,437
Jun-2014	507,960	362,564	292,155	98,069	230,934	27,575	23,576	33,857
Jun-2015	522,164	373,055	295,602	99,298	237,105	27,890	24,003	34,561
Jun-2016	542,281	386,140	303,352	99,627	239,581	28,264	24,461	35,898
Jun-2017	557,861	399,009	308,709	101,791	233,152	28,577	25,427	37,566
Source: ABS, Australian National Accounts, Cat. No. 5220.0, June 2017								

HOUSEHOLD CONSUMPTION

Nationally, household consumption grew by 0.6% over the March 2018 quarter: equal to the five year average (see right). Household spending increased in NSW by 0.7% over the quarter: above the national average and the second highest of all States after Victoria (see below right). On an annual basis, NSW consumption increased by 3.0%: the third highest growth rate after Tasmania and Victoria (4.0% and 3.9% respectively).



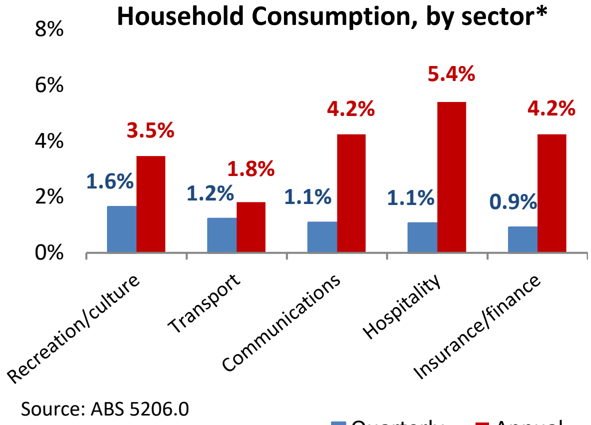
The Commonwealth Bank has previously noted that weak wages growth has seen households lower their savings in order to maintain spending growth: an unsustainable situation over the medium term.



In its May 2018 *Statement on Monetary Policy*, the RBA stated that household consumption grew at a faster rate than household disposable income over 2017. However, the prospect of ongoing low household income growth remained a key risk to household consumption, particularly given high levels of household debt.

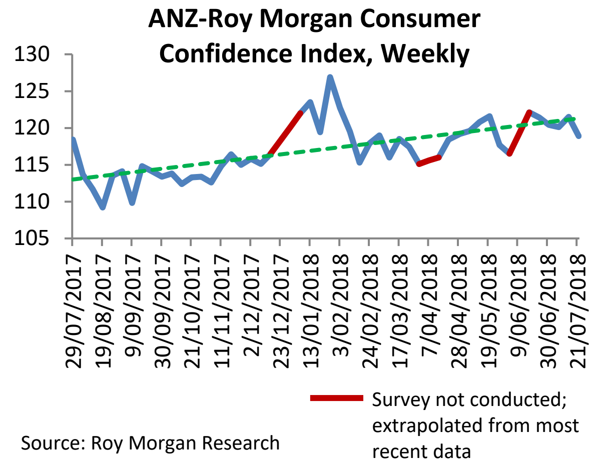
Household final consumption ($m), chain volume measures								
	NSW	**VIC**	**QLD**	**SA**	**WA**	**TAS**	**NT**	**ACT**
Jun-2017	84,331	64,495	47,038	16,274	26,830	4,665	2,800	4,469
Sep-2017	84,957	65,159	47,290	16,386	26,979	4,725	2,810	4,508
Dec-2017	85,629	65,773	47,559	16,487	27,076	4,768	2,824	4,538
Mar-2018	86,263	66,325	47,784	16,572	27,136	4,796	2,836	4,562
Source: ABS, Australian National Accounts, Cat. No. 5206.0, March 2018								

In NSW, the largest increase in household expenditure over both the quarter and year to March 2018 was on net expenditure interstate[15] (4.8% and 25.0% respectively). Other sectors seeing significant increases are shown in the chart on the right, although their annual increases are lower than that seen in the net expenditure interstate sector. Meanwhile, alcohol saw the largest quarterly fall (-0.4%) and vehicle purchases the largest annual fall (-0.4%).



Source: ABS 5206.0
*Excl net expenditure interstate

Although subject to sharp fluctuations, the ANZ-Roy Morgan Consumer Confidence Index reached a high of 122.1 on the weekend of 16-17 June before reducing to 118.9 as of 21-22 July (see right). In relation to the most recent result above, Roy Morgan commented that stronger-than-expected employment results were overshadowed by concerns around current and future economic conditions, likely reflecting ongoing geopolitical tensions.



Source: Roy Morgan Research

The July 2018 edition of the *Westpac-Melbourne Institute Survey of Consumer Sentiment* reported an increase of 3.9% during the month, rising from 102.1 to 106.1. Westpac commented that this was the most positive result since November 2013, and was the eighth month in which the Index was above 100 (indicating optimists outnumber pessimists). Despite this, Westpac noted that the result was not especially strong:

> Despite the positive run, the overall level of sentiment is still not that strong – at 106.1, the July reading compares favourably to recent years but is still below the 108.3 average recorded over the ten years prior to the GFC, and peaks well above the 110 mark. Much of the improvement over the last year reflects a more balanced growth profile across states with stabilising conditions in the mining sector driving a recovery in Queensland and WA.
>
> The survey detail shows the latest lift in sentiment is being driven by growing optimism about the economy. The 'economic outlook, next 5yrs' sub-index surged 9.8% in July to be up nearly 20% on a year ago. The 'economic outlook, next 12 months' sub-index also posted a solid 3.9% rise to be up 13.5%yr.[16]

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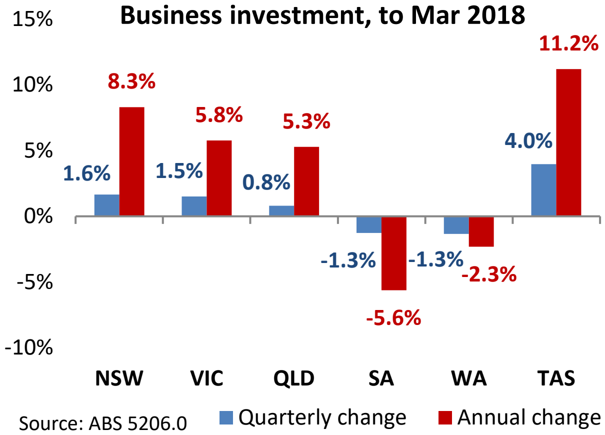
[15] This is calculated by adding the expenditure of NSW residents in other States and Territories and deducting the expenditure of residents from other States and Territories within NSW. Essentially, this increase indicates that interstate residents spent more money in NSW in March 2018 than they did in March 2017.

[16] Westpac, *Consumer Sentiment lifts on rising optimism around economy*, 11 July 2018, p 1.

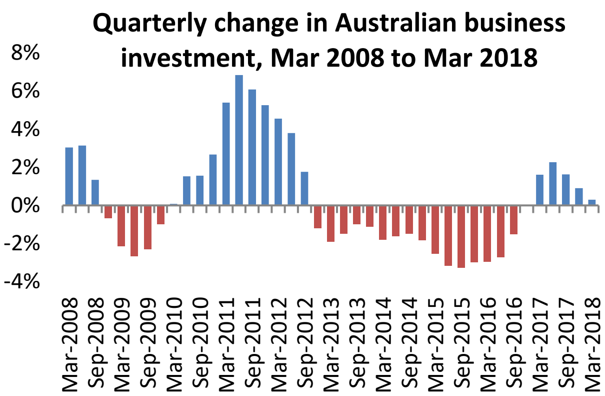
BUSINESS INVESTMENT

NSW business investment increased by 1.6% over the March 2018 quarter: the highest result of all jurisdictions. The State's annual result to March (8.3%) was the second highest result after Tasmania (11.2%). South Australia suffered the equal greatest quarterly fall (-1.3%, shared with WA) and the largest annual drop (-5.6%) (see right).

Nationally, business investment increased by 0.3% over the March 2018 quarter, and increased 2.8% over the year. This represents a slower increase compared to the previous results (1.2% for the December 2017 quarter and 5.3% for the year ended 2017). However, the result represents the sixth consecutive quarterly increase in business investment, following 16 consecutive quarters of decline between December 2012 and September 2016 (see right).



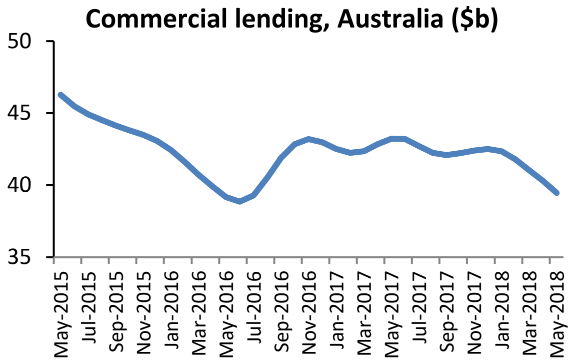
Source: ABS 5206.0



Source: ABS 5206.0

Business investment ($m), chain volume measures								
	NSW	**VIC**	**QLD**	**SA**	**WA**	**TAS**	**NT**	**ACT**
Mar-2017	14,062	11,235	10,180	2,949	9,532	630	2,421	608
Jun-2017	14,399	11,520	10,491	3,042	9,589	662	2,451	618
Sep-2017	14,900	11,774	10,784	3,005	9,617	676	2,302	650
Dec-2017	15,370	11,960	10,998	2,911	9,703	677	2,049	688
Source: ABS, Australian National Accounts, Cat. No. 5206.0, December 2017								

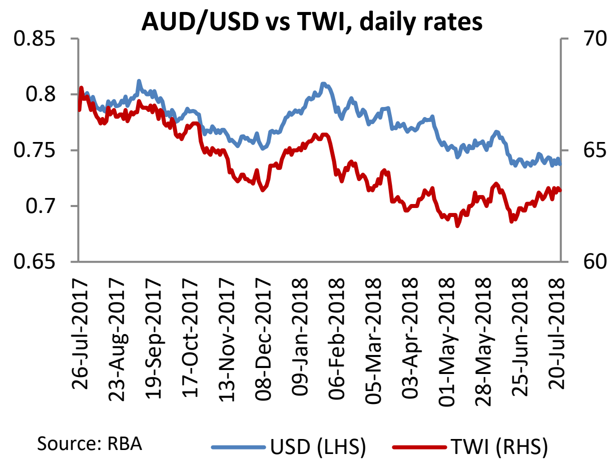
Commercial lending data is another indicator of business investment and related activity. While this data is susceptible to volatility, it nevertheless indicates that commercial lending has trended downwards since the beginning of 2018 (see right).



Source: ABS 5671.0

EXCHANGE RATE

Over the three months to July 2018 the Australian dollar (AUD) hovered around the 0.75-0.76 US dollar (USD) mark, before falling to around 0.73-0.74 USD after mid-June. As at 31 July 2018 the AUD was worth [0.74 USD](). The trade-weighted index (TWI), used to measure the AUD's value relative to the currencies of Australia's trading partners,[17] has largely tracked the currency's downward fluctuations over the past 12 months (see right).



Source: RBA

In its May 2018 *Statement on Monetary Policy*, the RBA made the following comments about global financial conditions and their impact on the Australian dollar:

> More broadly, global financial conditions remain accommodative, even though credit spreads have widened a little. Financial market volatility has increased since last year but remains fairly low. The US dollar has appreciated against most currencies, including the Australian dollar. On a trade-weighted basis, the Australian dollar has depreciated a little lately but remains in the range it has been in for the past couple of years. A significant appreciation of the Australian dollar would tend to dampen future output growth and inflation.[18]

A July 2018 Bloomberg news article also stated that the US-China trade war risked negatively impacting the AUD:

> "On all fronts, the U.S.-China trade war is Aussie-negative," said Marcus Wong, a treasury strategist at CIMB in Singapore. "Retaliatory action that inadvertently impacts the upstream or downstream of China's value chain, or leads to a keen deterioration in global risk sentiment, would see a further deterioration in the Aussie. … The Aussie has dropped against all its Group-of-10 peers this year except Sweden's krona amid concern the U.S.-China trade dispute will cause China to reduce demand for Australian raw materials.

The major banks vary in their AUD forecasts for the remainder of 2018 and into 2019. The Commonwealth Bank has forecast the AUD to fall to 0.72 USD by September, before gradually rising to 0.79 USD by December 2020. Other banks predict a lower valued AUD. Westpac expects the dollar to lower to 0.74 USD by the end of 2018 before reducing further to 0.70 USD by December 2019, while NAB expects the AUD to be largely contained within a 0.70-0.75 trading range.

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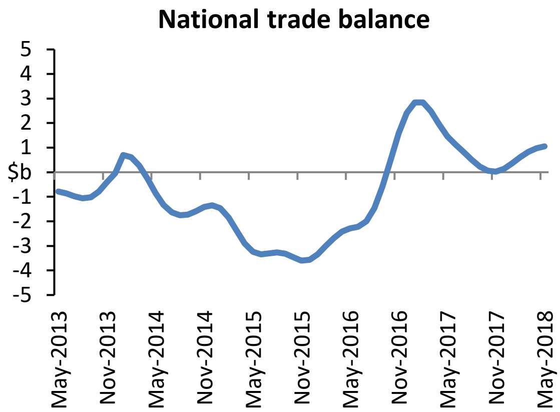
[17] Austrade, *The dollar and competitiveness*, February 2015; Reserve Bank of Australia, *Glossary*, no date [website – accessed 11 July 2017]. Note that the base level was set at 100 in May 1970.

[18] Reserve Bank of Australia, *Statement on Monetary Policy*, May 2018, p 2.

INTERNATIONAL TRADE



Source: ABS

Australia has been in trade surplus since October 2016. After reaching a peak surplus of $2.84 billion in February 2017, the surplus fell to just $240 million before recovering to $1.06 billion as of May 2018 (see right).

Commenting on the seasonally adjusted May result of $827 million, the Commonwealth Bank reported that the trade balance improved as a result of a lift in exports rather than a decline in imports. The main contributors to the increased exports were fuels ($325m), metal ores and minerals ($322m), and coal ($298). Nevertheless, the Bank expressed disappointment at the monthly result, as it was lower than the consensus estimate of $1.2 billion and the Bank's estimate of $1.3 billion.

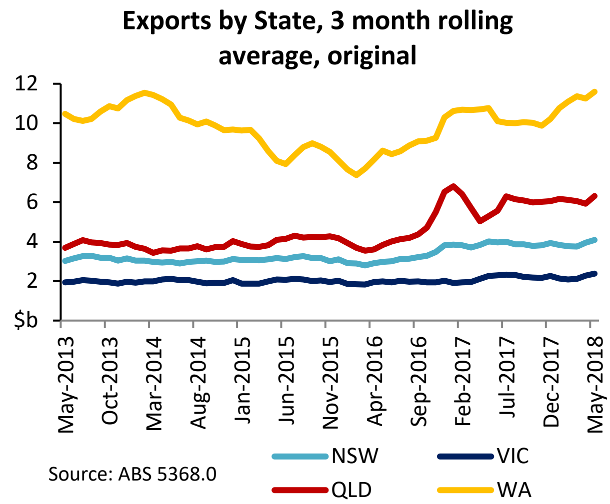
Following a 1.4% fall in the December 2017 quarter, the **average monthly value of NSW merchandise exports** fell by 4.4% in the March 2018 quarter to total $3.8 billion. This was the fourth lowest result by State and Territory, with only three States recording positive growth: Western Australia (11.3%), South Australia (2.1%) and Queensland (0.1%).

NSW imports also fell over the quarter. Following a 12.6% rise in the December 2017 quarter, the **average monthly value of NSW merchandise imports** was $9.1 billion: an 8.8% fall over the March 2018 quarter. While NSW recorded the second highest increase during the last quarter of 2017, the State's result in the March 2018 quarter was the second *lowest* after Tasmania, which recorded an 18.3% fall during the quarter. It should be noted that, due to its small population, the value of imports to Tasmania is significantly lower than other jurisdictions.

As with exports, most jurisdictions recorded a fall in imports over the quarter. The Northern Territory saw the largest increase of all jurisdictions, recording an 8.9% increase in import values in March 2018, followed by Western Australia (7.8%) and South Australia (0.1%).

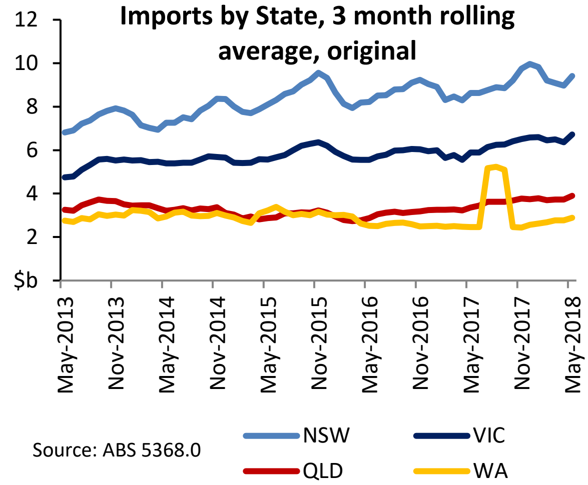
Turning to three month rolling averages, NSW exports have gradually increased since the beginning of the year. As of May 2018, the three month rolling average value of exports was approximately $4.1 billion (see overleaf).

The top five destinations for **NSW merchandise exports** in May 2018 were: Japan ($1.1bn); China ($742m); South Korea ($369m); Taiwan ($322m); and the USA ($230m). As a proportion of exports, 53.5% of all NSW merchandise was exported to Japan, China or South Korea in May.



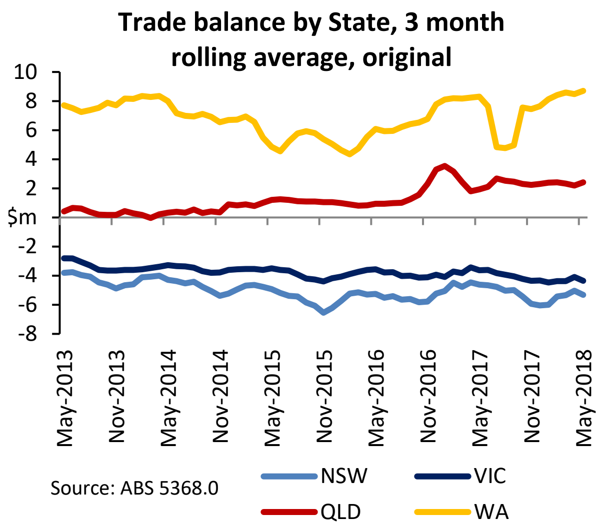
Meanwhile, the State's monthly import values remained significantly higher, with a trade deficit the consequence (see below). After reaching a decade high of $10 billion in December 2017, this figure has since reduced to $9.4 billion as of May 2018 (see below right).

The top five **import sources for NSW** in February 2018 were: China ($2.7bn); the United States ($1.1bn); Japan ($658m); Germany ($532m); and South Korea ($455m). Over the course of the month, 27.4% of NSW imports came from China.



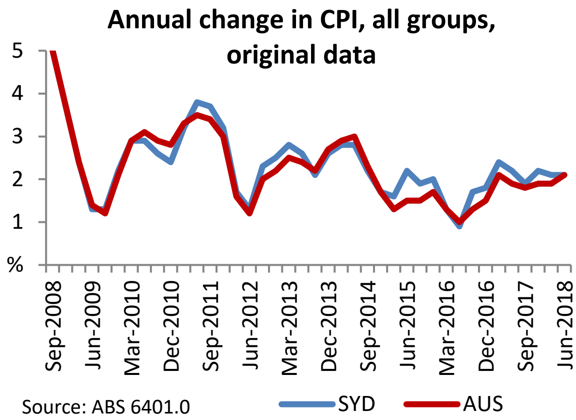
As noted above, the NSW trade balance is in deficit, and has remained in deficit since the ABS first recorded international trade data in 1988.

After reaching a peak three month rolling average trade deficit of $6.5 billion in November 2015, the deficit reduced to $4.5 billion in February 2017 before increasing again to $6.0bn in January 2018 (see right). This figure has since fallen to $5.3 billion as of May, but remains nearly double the decade low reported in February 2009 ($2.8bn).



Western Australia continues to report the highest trade balance in comparison to the other States, with a record surplus of $8.7 billion reported in May 2018.

CONSUMER PRICE INDEX



The Australian Consumer Price Index (CPI) rose by 0.4% over the June 2018 quarter. This was the same increase as in the March 2018 quarter, but lower than the December 2017 quarter (0.6%). The result was also below that forecast by the Commonwealth Bank (0.6%) and NAB (0.5%), although Westpac had correctly forecast the quarterly CPI increase.

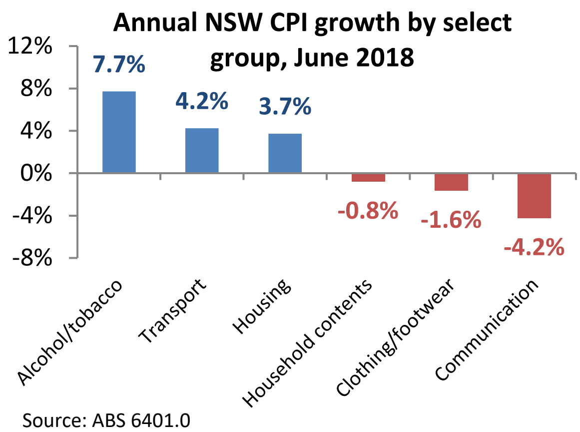
Sydney's CPI increased by 0.4% during the quarter. This was the equal fourth highest increase of all capital cities (shared with Hobart), with Melbourne, Brisbane and Adelaide all reporting a quarterly increase of 0.5%.

Over the 12 months to June 2018, the Sydney CPI increased by 2.1%: the same as the Australian result, which is within the RBA's target band for June 2018 (see above right and table below). The Commonwealth Bank also commented that the annual underlying inflation result (2.0%) was slightly above market expectations and the RBA's forecasts, and was the highest rate in two years.

Nevertheless, Sydney's annual CPI was the fifth highest of the capital cities, with the largest annual increases recorded by Canberra (2.8%), Adelaide (2.7%), Melbourne (2.5%) and Hobart (2.4%). The lowest CPI increase in over the 12 month period was recorded in Darwin (1.2%).

Reserve Bank of Australia inflation forecasts (%)				
	Dec-18	**Jun-19**	**Dec-19**	**Jun-20**
CPI inflation	2.25	2.25	2.25	2.25
Underlying inflation	2	2	2	2.25
Source: RBA, Statement on Monetary Policy, May 2018, Table 5.1				

The largest price increases in Sydney by CPI group over the last 12 months were alcohol and tobacco (7.7%); transportation (4.2%); and housing (3.7%). The lowest annual results were recorded for communications (-4.2%); clothing and footwear (-1.6%); and household contents (-0.8%) (see right). Nationally (and in seasonally adjusted terms), the main contributors to CPI were alcohol and tobacco (7.8%); transport (5.2%); and health (3.4%).



EMPLOYMENT

Nationally, employment grew by 0.5% over the June 2018 quarter (annual growth of 2.7%), with approximately 59,000 new jobs created since March 2018. The average number of people employed monthly in NSW increased by 0.9% over the quarter, from 3.96 million to 4 million employed. Over the 12 months to June 2018, NSW employment levels increased by 3.7%.

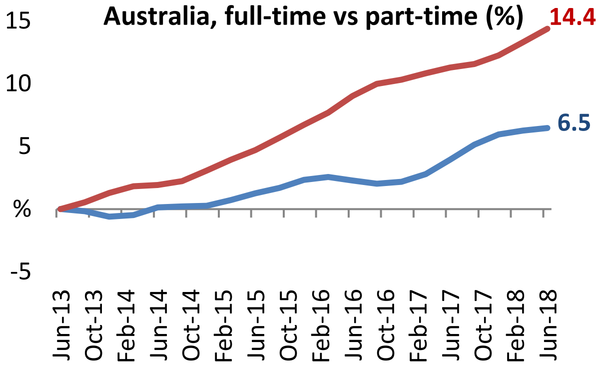
Number of persons employed ('000), quarterly average									
	NSW	**VIC**	**QLD**	**SA**	**WA**	**TAS**	**NT**	**ACT**	**AUS**
Sep-17	3,894	3,221	2,441	827	1,332	247	135	226	12,315
Dec-17	3,932	3,240	2,464	830	1,337	248	136	230	12,411
Mar-18	3,964	3,252	2,474	837	1,337	249	138	230	12,479
Jun-18	4,000	3,265	2,479	842	1,341	249	139	229	12,537
Source: ABS, Labour Force, Australia, Cat. No. 6202.0, June 2018									

Australia experienced its 18th straight month of employment growth, which is further strengthened by a low unemployment rate (see next chapter).

Nevertheless, this growth was largely a result of part-time employment, which saw a 1.1% increase over the June 2018 quarter compared to a 0.2% increase in full time employment. This continues a longer term trend in which part-time work has grown faster than full-time work. In the five years to June 2018 part-time employment grew by 14.4%, compared to 6.5% for full-time employment (see right).

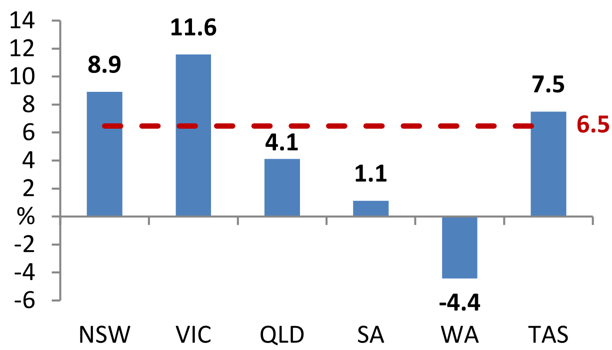
However, NSW has experienced an increase in full-time employment growth over the same period. Between June 2013 and June 2018, there was an 8.9% increase in full-time work in NSW: well above the national average of 6.5% and second only to Victoria's 11.6% increase (see right).

Cumulative quarterly jobs growth in Australia, full-time vs part-time (%)



Source: ABS

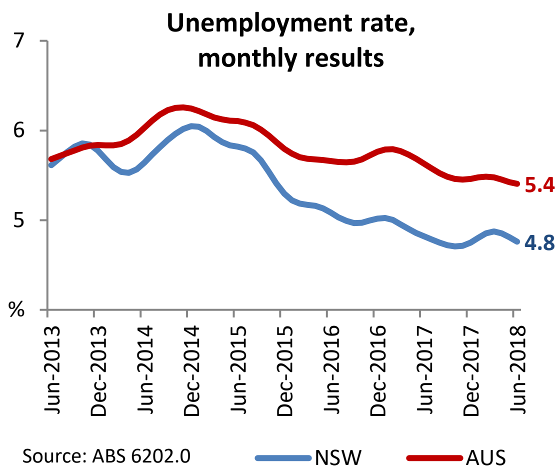
5 year quarterly cumulative full-time jobs growth, Jun 2013 to Jun 2018



Source: ABS 6202.0

UNEMPLOYMENT

In NSW, the average unemployment rate over the June 2018 quarter stayed level at 4.8%. Nevertheless, the State's unemployment rate remains 1.2% lower than the 6.0% peak seen in the March 2015 quarter, and 0.6% below the national unemployment rate of 5.4% (see right).



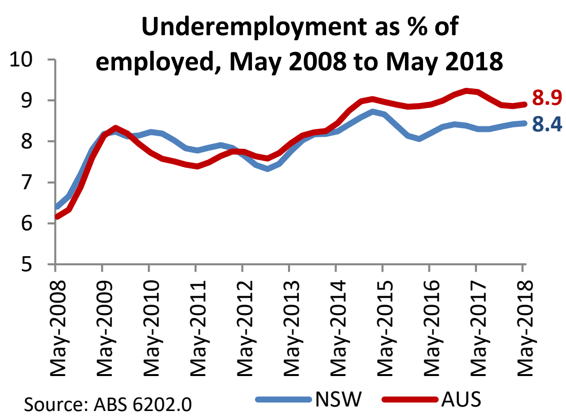
As at March 2018, NSW has the second lowest quarterly unemployment rate in Australia. Only the NT (4.0%) and the ACT (4.1%) have better unemployment rates. Western Australia recorded the highest quarterly unemployment rate (6.2%), and also recorded the largest increase in unemployment over the quarter (+0.3%).

Unemployment rate (%), quarterly average									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Sep-17	4.8	6.0	6.0	6.0	5.7	5.9	3.9	4.0	5.5
Dec-17	4.7	5.7	6.0	5.9	5.9	5.9	4.4	4.0	5.5
Mar-18	4.8	5.5	6.1	5.9	6.1	6.0	4.2	3.9	5.5
Jun-18	4.8	5.3	6.1	5.6	6.3	6.0	4.1	3.6	5.4
Source: ABS, Labour Force, Australia, Cat No. 6202.0, June 2018									

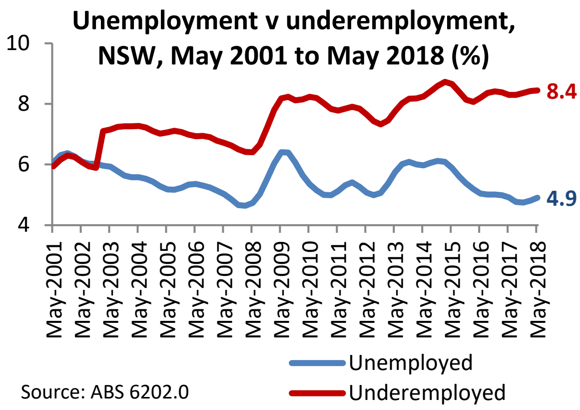
Underemployment

This ongoing fall notwithstanding, 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 2008 and May 2018, the NSW underemployment rate increased from 6.4% to 8.4%. Australian underemployment also increased over the decade, rising from a low of 6.2% in May 2008 to 8.9% today (see right).



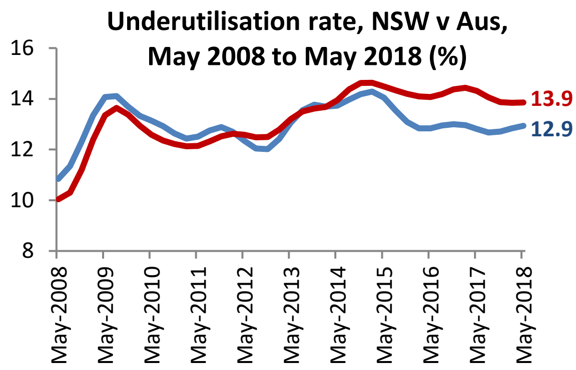
ABS data shows that while the NSW unemployment and underemployment rates were similar in May 2001 (6.1% and 5.9% respectively), as of May 2018 the unemployment rate has fallen to 4.9%, while the underemployment rate has increased to 8.4% (see right).



Source: ABS 6202.0

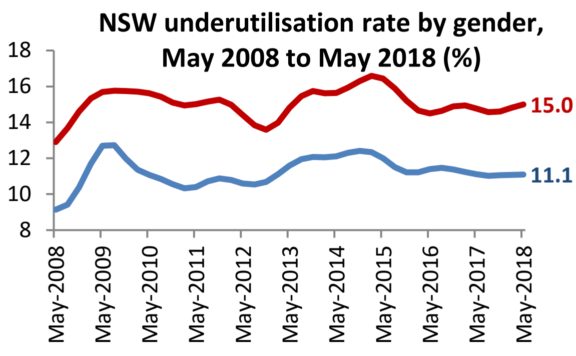
Underutilisation

The underutilisation rate[19] for both NSW and Australia rose over the May 2018 quarter by 0.1% (12.9% and 13.9% respectively). Nevertheless, the current underutilisation rate for NSW remains lower than the peak of 14.3% reported in February 2015: a result of the State's falling unemployment rate over this period (see right).



Source: ABS 6202.0

Underutilisation rates also differ by gender, with NSW women more likely to either be unemployed or underemployed (15.0%) compared to men (11.1%) (see below right).



Source: ABS 6202.0

However, as shown in the table below, and in line with the overall NSW underutilisation rate, the rates for both NSW males and females remained lower than their respective Australian rates (16.0% and 12.0%).

Underutilisation rate (%), quarterly average						
	NSW			Australia		
	Male	*Female*	*Persons*	*Male*	*Female*	*Persons*
Aug-2017	11.0	14.6	12.7	12.2	16.1	14.1
Nov-2017	11.1	14.6	12.7	12.1	15.9	13.9
Feb-2018	11.1	14.8	12.8	12.0	15.9	13.8
May-2018	11.1	15.0	12.9	12.0	16.0	13.9

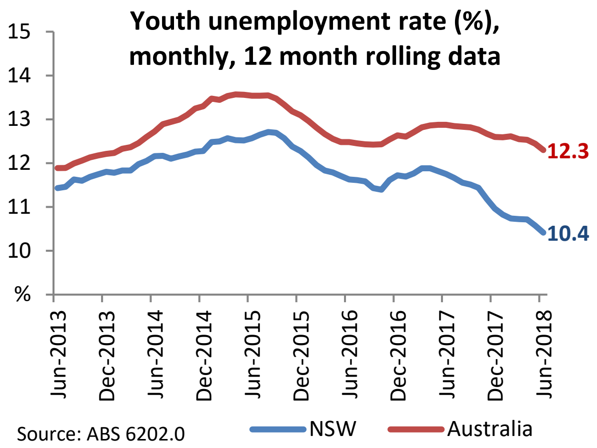
Source: ABS, Labour Force, Australia, Cat No. 6202.0, May 2018

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

YOUTH UNEMPLOYMENT

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

Accordingly, both monthly and quarterly youth unemployment figures are presented as 12 month rolling averages: this is the same methodology used on the NSW Parliamentary Research Service's *Regional labour force trends and NSW electorates* publication.[20]



As of the June 2018 quarter, NSW had a 12 monthly rolling average youth unemployment rate of 10.4% (see chart above). This was 1.9% below the national average (12.3%), and is below both the rate 12 months earlier (11.7%) and the five year peak for NSW (12.7% in September 2015.

Turning to the 12 month rolling *quarterly* average, the NSW result for June 2018 (10.6%) was the third lowest of all States and Territories (see table below). The Northern Territory had the lowest youth unemployment rate (9.8%)—although its youth unemployment rate has increased over the past 12 months—followed by the ACT (10.3%).

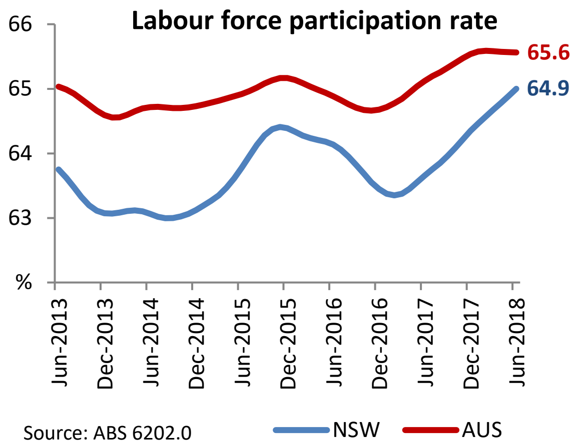
Tasmania and South Australia share the nation's highest youth unemployment rate (14.5%). However, the latter saw a 1.2% fall in its youth unemployment rate over the quarter, while Tasmania's rate increased by 0.5% over the same period.

Youth unemployment rate (%), 12 month rolling quarterly average									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Sep-17	11.6	13.2	13.3	16.2	13.1	14.4	7.7	10.8	12.8
Dec-17	11.2	13.1	13.1	16.2	13.6	13.6	8.1	10.5	12.7
Mar-18	10.8	13.1	13.3	15.7	13.6	14.0	8.9	10.8	12.6
Jun-18	10.6	12.8	13.2	14.5	14.3	14.5	9.8	10.3	12.4
Source: ABS, Labour Force, Australia, Cat No. 6202.0, June 2018									

[20] 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].

LABOUR FORCE PARTICIPATION

Over the June 2018 quarter, the NSW labour force participation rate rose by 0.3% to 64.9%. This was 0.7% below the Australian average of 65.6%, although an improvement on the previous quarter (see right).



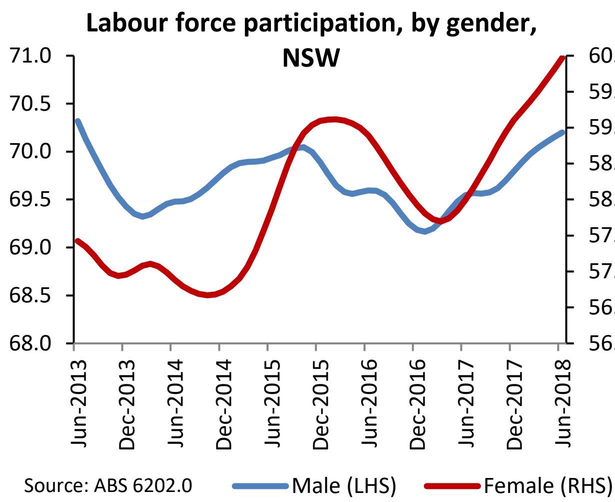
Only Tasmania and South Australia had lower participation rates than NSW (61.4% and 62.8% respectively), while the Northern Territory had the highest participation rate (76.7%).

Labour force participation rate (%), quarterly average									
	NSW	**VIC**	**QLD**	**SA**	**WA**	**TAS**	**NT**	**ACT**	**AUS**
Sep-17	63.9	66.2	65.6	62.1	68.1	61.2	74.6	71.4	65.3
Dec-17	64.2	66.1	65.9	62.2	68.3	61.2	75.5	72.4	65.5
Mar-18	64.6	65.8	66.0	62.7	68.4	61.2	76.2	72.0	65.6
Jun-18	64.9	65.5	65.8	62.8	68.5	61.4	76.7	71.2	65.6

Source: ABS, Labour Force, Australia, Cat No. 6202.0, June 2018

In NSW, the male participation rate is the same as it was five years ago. Since reaching a low of 69.2% in January 2017, the participation rate has steadily increased to 70.2% as at June 2018 (see below).

The female participation rate dipped to 57.7% between February and April 2017, but reached a five-year high of 60.0% in June 2018.

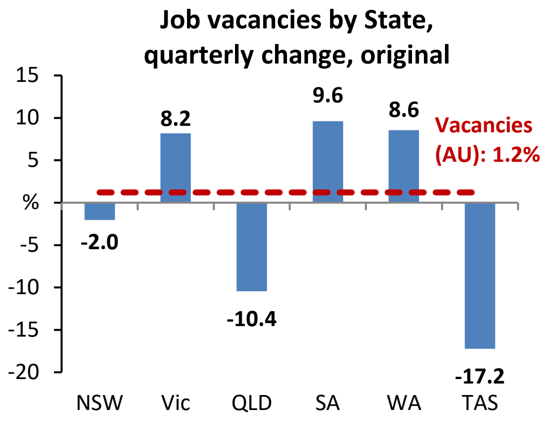


Although both NSW male and female participation rates are on the rise, they are both slightly lower than the Australian average (70.8% and 60.5% respectively).

JOB VACANCIES

After a 3.2% fall over the February 2018 quarter, the number of NSW job vacancies fell again during the May 2018 quarter by 2.0% to 77,300 vacancies (see right).

NSW recorded the third lowest result of all jurisdictions after Tasmania (-17.2%) and Queensland (-10.2%), as shown on the right. Despite this fall, the quarterly result remains 12.1% higher than the three year job vacancy average for the State (69,000 vacancies).



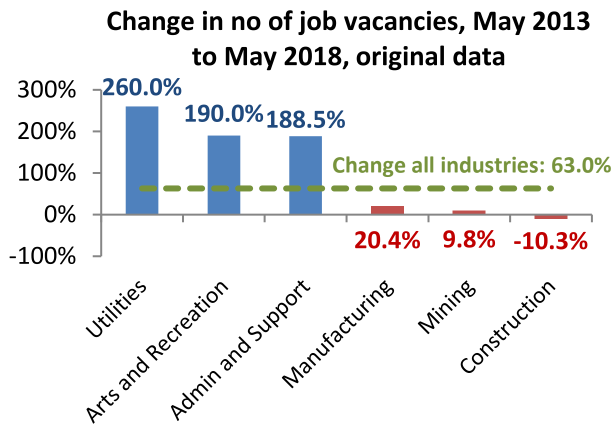
Source: ABS 6354.0

Number of job vacancies ('000), original									
	NSW	Vic	QLD	SA	WA	TAS	NT	ACT	AUS
Aug-2017	76.6	55.9	35.0	9.1	19.3	2.5	3.8	6.2	208.4
Nov-2017	81.5	57.5	35.0	9.1	19.8	2.5	3.3	7.2	216.0
Feb-2018	78.9	62.5	36.4	10.4	22.2	2.9	3.7	6.7	223.7
May-2018	77.3	67.6	32.6	11.4	24.1	2.4	3.9	7.1	226.4
Source: ABS, Job Vacancies, Australia, Cat No. 6354.0, May 2018									

Nationally, the number of job vacancies increased for the 19th consecutive quarter in May 2018 to reach 234,200. This trend is continuing to surpass the previous record of 13 quarters set between November 1991 and November 1994.[21]

Since May 2013, vacancies in the Electricity, Gas, Water and Waste Services sector increased by 260.0% (see Utilities in chart on right). Other industries with significantly above average increases in vacancies over the past five years include Arts and Recreation Services (+190.0%) and Administrative and Support Services (+188.5%).

In contrast, the Construction sector has experienced a 10.3% decline in vacancies since May 2013, while Mining and Manufacturing have seen increases in job vacancies at slower than average rates (+9.8% and +20.4% respectively).

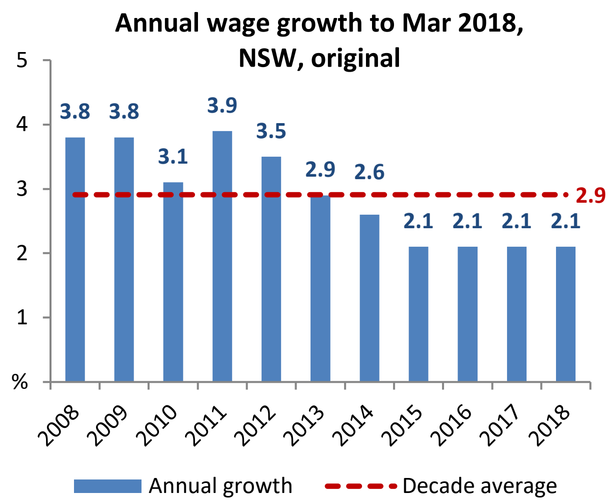


Source: ABS 6354.0

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

WAGES

Following a 0.7% fall during the December 2017 quarter, the NSW Wage Price Index increased by 0.5% over the March 2018 quarter to 127.8: the second lowest Index position of all States and Territories. Over the 12 months to March 2018, the NSW annual wage growth rate increased by 2.1%. This result is just below the lowest recorded growth rate of 2.0% (in December 2017), is 0.8% below the decade average (2.9%) and is the same annual growth rate recorded in all March quarters since 2015 (see right).



Source: ABS 6345.0

According to the ABS, the national Wage Price Index rose by 2.1% over the year to March 2018. This result is just above the record low wages growth of 1.9% recorded between September 2016 and June 2017. A recent journal article argues that, among other factors,[22] slow wage growth has been impacted by the change in the balance of industrial power in the labour market in favour of employers and against workers and unions.[23]

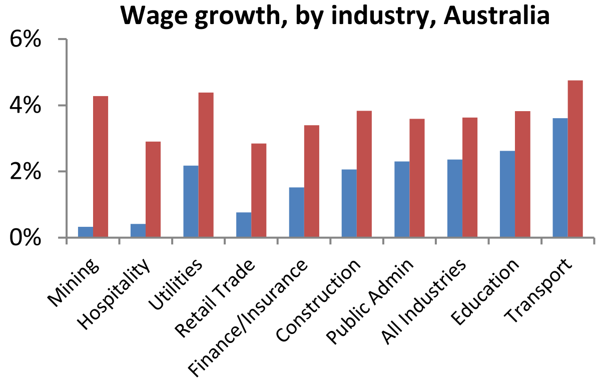
ABS figures for average adult weekly full-time earnings (ordinary time) in NSW show a 2.1% increase in wages over the six months to November 2017, with wages increasing from $1,550 to $1,583. This was the highest increase of all jurisdictions, followed by Queensland (1.6%) and the ACT (1.5%). However, NSW continues to rank fourth of all States and Territories in terms of highest average weekly earnings (see below).

Average adult weekly fulltime earnings ($), ordinary time, original								
	NSW	**VIC**	**QLD**	**SA**	**WA**	**TAS**	**NT**	**ACT**
May-2016	1538.40	1459.10	1462.00	1415.20	1700.90	1334.90	1579.20	1727.30
Nov-2016	1537.30	1493.10	1479.80	1442.40	1703.10	1344.60	1624.70	1746.50
May-2017	1550.10	1511.70	1499.80	1447.50	1717.00	1352.70	1626.40	1775.00
Nov-2017	1582.80	1519.60	1524.10	1441.20	1740.90	1355.60	1642.70	1801.30
Source: ABS, Average weekly earnings, Australia, Cat No. 6302.0, November 2017								

[22] See Angus C, *Slow wage growth*, NSW Parliamentary Research Service, e-brief 4/2017, August 2017, Ch 3.
[23] Isaac J, Why Are Australian Wages Lagging and What Can Be Done About It?, *Australian Economic Review*, 2018. Also see the Economic Update: Autumn 2018 for a discussion of union membership in the NSW public and private sectors.

Weak national wages growth has been present in the majority of Australian industry sectors (see right). Across many sectors annual wage growth to November 2017 has been well below their respective 10 year averages. For example, annual wage growth for the mining sector rose by 0.3% over the 12 months to November 2017, compared to a decade average annual growth rate of 4.3% (a -4.0% difference).

Wage growth, by industry, Australia



Source: ABS 6302.0

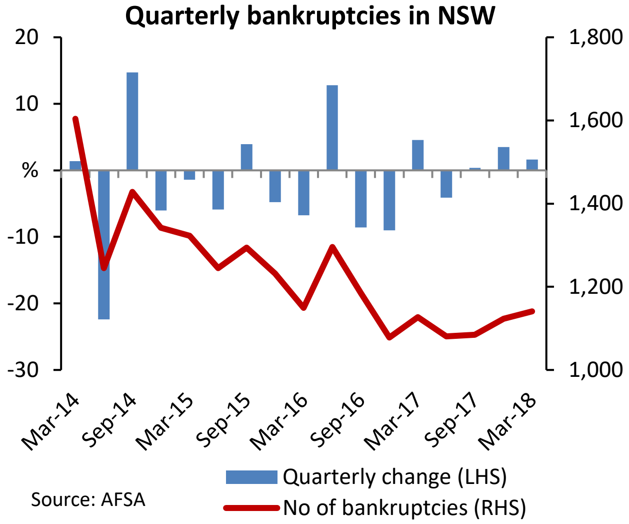
Other sectors also saw annual wage growth lower than their decade average, including hospitality (-2.5% below average), utilities (-2.2%) and retail trade (-2.1%). Nevertheless, some areas have seen higher than average growth, such as administrative and support services (3.4% above the decade average) and real estate services (1.8%).

BANKRUPTCIES

Overall, bankruptcies in NSW have trended down in recent years and are 16.3% lower than they were in March 2015. However, over the March 2018 quarter, the number of NSW bankruptcies rose slightly by 1.6%, from 1,123 to 1,141 (see right).

NSW experienced the second lowest quarterly increase of all jurisdictions after the ACT (-34.5%) and Victoria (-8.9%), although it should be noted that the ACT has a substantially smaller population than other States.

Quarterly bankruptcies in NSW



Source: AFSA

The Northern Territory saw the largest quarterly increase in bankruptcies (42.9%, although it is also a jurisdiction with a small population), followed by Western Australia (15.7%) and Queensland (9.3%).

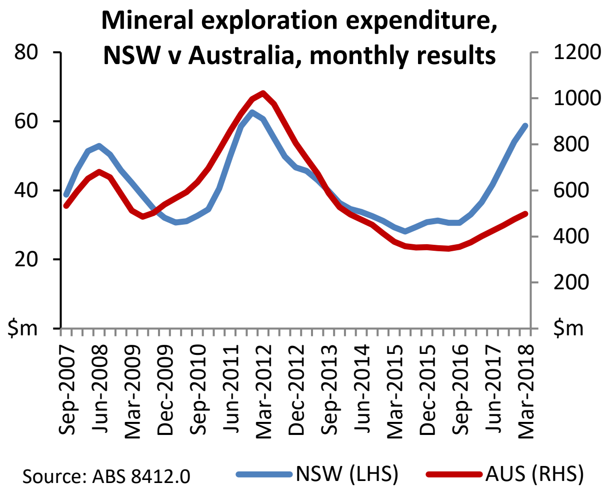
Bankruptcies per quarter (Parts IV and XI of the *Bankruptcy Act 1966* (Cth))								
	NSW	**VIC**	**QLD**	**SA**	**WA**	**TAS**	**NT**	**ACT**
Jun-17	1,081	765	1,117	282	475	97	32	39
Sep-17	1,085	837	1,297	298	480	122	41	47
Dec-17	1,123	776	1,155	271	471	116	28	55
Mar-18	1,141	707	1,262	272	545	120	40	36

Source: Australian Financial Security Authority, March 2018

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 in NSW and Australia.

NSW petroleum and mineral exploration expenditure increased by 8.5% over the March 2018 quarter, totalling $58.7 million. This increase is lower than the four quarterly results reported during 2017. However, these consecutive increases mean that expenditure is gradually increasing to levels similar to the previous high recorded during the December 2011 quarter. Overall expenditure is now 6.2% below the December 2011 result (see right).



Nationally though, mining sector investment remains 51.2%below the last recorded peak (March 2012). A significant share of this decline is attributable to Western Australia: although WA has gradually increased its exploration expenditure since reaching a low in September 2015, its expenditure is still 46.1% ($257.1m) below March 2012 results.

Mineral exploration expenditure ($m)								
	NSW	**VIC**	**QLD**	**SA**	**WA**	**TAS**	**NT**	**AUS**
Jun-2017	41.7	13.5	57.5	11.8	275.0	4.6	20.5	424.5
Sep-2017	47.9	15.2	64.1	11.5	280.1	5.7	24.0	448.6
Dec-2017	54.1	16.2	70.3	12.0	288.7	6.2	27.3	475.0
Mar-2018	58.7	17.1	74.7	12.9	300.2	6.0	28.8	498.5
Source: ABS, Mineral and Petroleum Exploration, Australia, Cat No. 8412.0, March 2018								

In its May 2018 *Statement on Monetary Policy*, the RBA estimated the trough in mining investment to occur in late 2018 or early 2019: a bit later than the Bank's previous forecasts had implied. Although the RBA believes a pick-up in sustaining mining investment is likely, it will contribute much less to overall growth than the boom of the late 2000s and early 2010s.[24]

[24] Reserve Bank of Australia, *Statement on Monetary Policy*, May 2018, p 3.

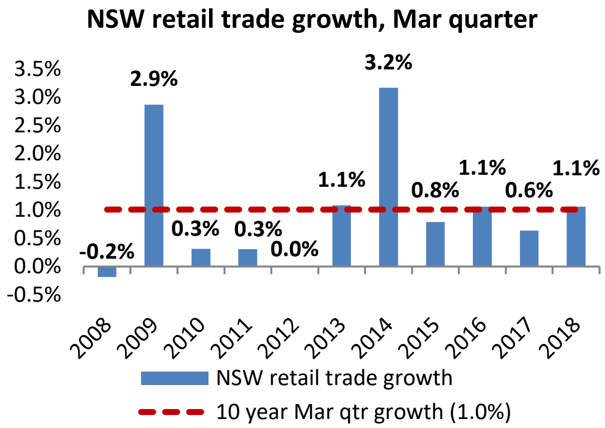
TURNOVER OF RETAIL TRADE

NSW's retail growth in the March 2018 quarter grew by 1.1% to approximately $8.5 billion. This was an increase on the March 2017 quarter result (0.6%), and just above the 10 year average of 1.0% (see right).

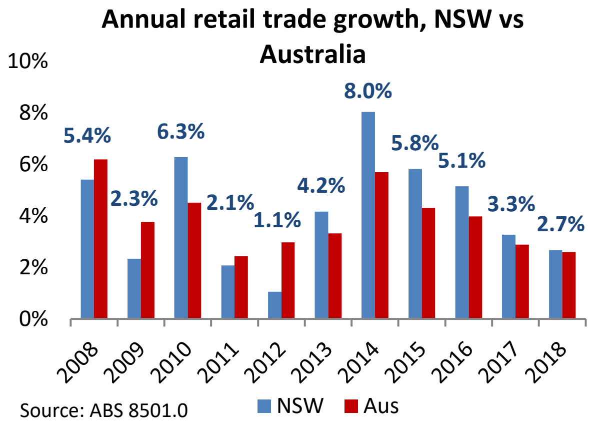
The NSW figures were the fourth highest of all jurisdictions after Victoria (1.7%), the NT (1.5%) and the ACT (1.2%).

Turning to annual growth, NSW saw a 2.7% increase in retail trade over the 12 months to March 2018: the lowest NSW result since 2012 (see right).

The NSW annual result ranked fourth of all jurisdictions, after Victoria (4.7%), South Australia (3.4%), and Tasmania (2.8%).



Source: ABS 8501.0



Source: ABS 8501.0

Turnover of retail trade ($m), quarterly average									
	NSW	**VIC**	**QLD**	**SA**	**WA**	**TAS**	**NT**	**ACT**	**AUS**
Jun-17	8,374	6,580	5,169	1,702	2,843	517	261	478	Jun-17
Sep-17	8,409	6,616	5,174	1,708	2,834	519	260	478	Sep-17
Dec-17	8,436	6,694	5,193	1,730	2,824	521	259	477	Dec-17
Mar-18	8,526	6,810	5,225	1,742	2,827	526	263	483	Mar-18
Source: ABS, Retail Trade, Australia, Cat. No. 8501.0, March 2018									

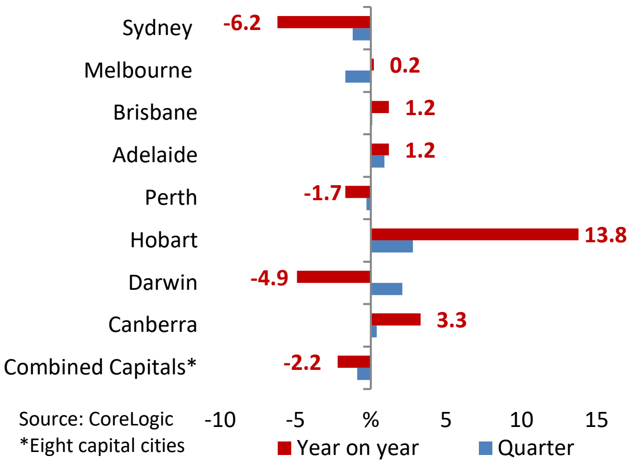
At the national level, St George Bank commented that retail spending had picked up over the two months to May. Despite this improvement, the Bank warned that the outlook for retail sales remains subdued due to slow wage growth, high levels of household debt and the slowdown in housing. However, solid jobs growth over the past year was expected to support retailing.

HOUSE PRICES

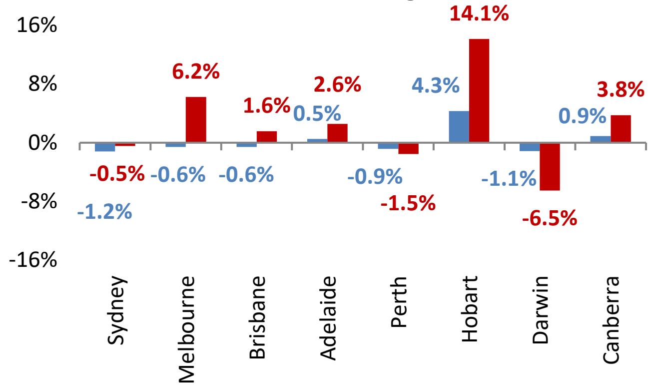
CoreLogic reported that Sydney's median house price was $1.01m in June 2018: a 1.2% drop in value over the quarter, and a 6.2% fall over the previous 12 months.

According to a recent survey of economists, Sydney's property price fall will last at least another two years as a result of tougher lending standards and buyer nerves. However, Sydney's house prices remain the nation's most expensive by just under $200,000 (Melbourne is second, with a median house price of $821,463).

Turning to other Australian cities, Melbourne recorded the largest quarterly drop as of June 2018 (-1.7%), while Hobart saw the largest quarterly increase (2.8%). Sydney's 6.2% annual fall was the greatest of all cities, followed by Darwin (-4.9%), while Hobart recorded a 13.8% increase over the 12 months to June.



Source: CoreLogic
*Eight capital cities



Source: ABS 6416.0

The ABS's Residential Property Price Index for Sydney[25] recorded a 1.2% fall over the March 2018 quarter (see above right). Between March 2017 and 2018, the Sydney Index fell by 0.5%, the third lowest growth rate after Darwin (-6.5%) and Perth (-1.5%). Over the year to March 2018, Sydney's established houses index fell by 0.8% (the second lowest growth rate), while the city's attached dwellings index increased by 0.4% (the fourth highest growth rate).

House price indexes: eight capital cities, original									
	SYD	**MEL**	**BRIS**	**ADE**	**PER**	**HOB**	**DAR**	**CAN**	**Weighted Average**
Jun-2017	176.6	148.7	122.1	117.9	104.7	124.7	100.1	121.5	146.5
Sep-2017	174.2	150.4	122.9	118.7	103.7	129.0	97.5	121.3	146.2
Dec-2017	174.0	154.3	124.0	119.4	104.8	134.0	96.0	123.4	147.6
Mar-2018	171.9	153.4	123.3	120.0	103.9	139.8	94.9	124.5	146.6

Source: ABS, Residential Property Price Indexes: Eight Capital Cities, Cat. No. 6416.0, March 2018

25 Which measures price changes of residential dwelling stock.

DWELLING APPROVALS

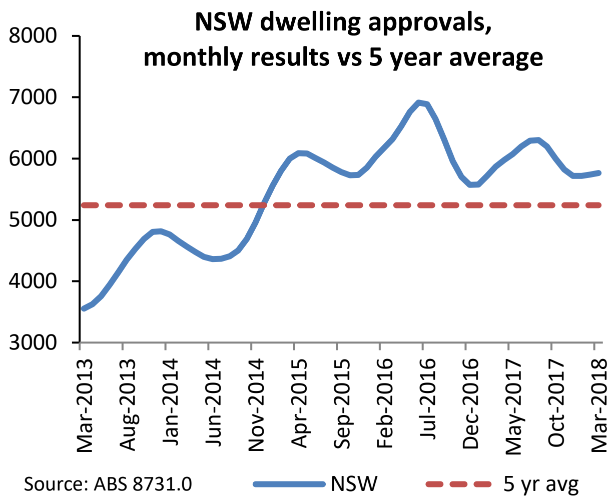
Over the March 2018 quarter, the average monthly number of dwellings approved in NSW fell by 1.8%.On average, 5,740 approvals were made during each month of the quarter, compared to 5,846 approvals during the December 2017 quarter. Furthermore, the March results are 14.8% lower than the quarterly average approvals peak recorded during the June 2016 quarter (approximately 6,735 approvals per month).

National dwelling approvals were, on average, down 2.4% for the March 2018 quarter. This result appears to have been affected by falls in approvals in most jurisdictions, notably Western Australia (-11.0%) and Tasmania (-8.6%).

Number of dwellings approved, quarterly average							
	NSW	**VIC**	**QLD**	**SA**	**WA**	**TAS**	**AUS**
Jun-17	6,083	5,052	3,654	1,003	1,615	207	18,097
Sep-17	6,264	5,781	3,532	1,076	1,655	229	19,068
Dec-17	5,846	6,747	3,523	1,021	1,601	255	19,330
Mar-18	5,740	6,461	3,616	973	1,425	233	18,873
Source: ABS, Building Approvals, Australia, Cat. No. 8731.0, May 2018							

Dwelling approvals data is volatile on a monthly 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 elevated levels.

There has been a decline in monthly approvals since mid-2017, and approvals are well below the record levels reported in June 2016 (6,913 approvals). However, as of March 2018, NSW approvals remained 9.6% higher than the five year average of 5,240 approvals per month (see right).

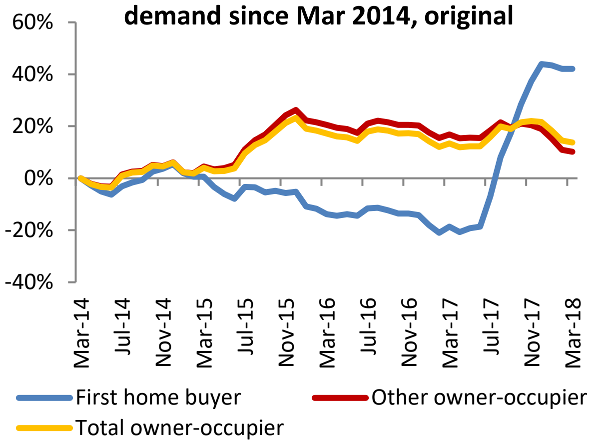


HOUSING FINANCE

The average number of owner-occupier (including first home owner) dwellings financed in NSW declined by 16.4% during the March 2018 quarter to approximately 15,017 per month. Both first home buyers (FHB) and non-FHBs saw falls in the number of dwellings financed, with FHBs recording a 13.4% fall and non-FHBs seeing a 16.9% drop. For FHBs, the quarterly drop is the largest since March 2017 (-16.2%), while for non-FHBs the previous largest fall was recorded in March 2016 (-18.2%).

Reviewing housing finance trends, recent increases in FHB dwelling financing led to a sharp jump in the level of FHB demand from mid-2017. This increase followed an extended period where FHB housing finance was in decline. Between March 2014 and March 2018, overall owner-occupier demand in NSW increased by 13.8% (see right).

Cumulative change in owner-occupier demand since Mar 2014, original



Source: ABS 5609.0

It is not clear whether the fall recorded in the March 2018 quarter is temporary or whether this represents a return to previously low levels of FHB finance. The latter scenario may be possible: in late 2011, FHB housing finance received a temporary spike just before the last tranche of first home owner grants and concessions were abolished.[26]

Regardless of future FHB finance trends, there remains the question of whether increased finance has had any impact on FHB housing affordability. As noted in the 2018 Summer Update, the RBA found that Sydney FHBs could only afford around 10 per cent of median priced homes sold in the city in 2016, compared to an average of one-third across Australia. Recent analysis by CoreLogic also suggests that FHB grants are pushing up prices for affordable houses in some markets.[27] Indeed, CoreLogic's Cameron Kusher has warned FHBs of possible financial pitfalls in the Sydney housing market:

> While [reduced demand from investors] may be some long overdue good news for potential first home buyers, they should continue to exercise caution, particularly in Sydney and Melbourne where housing values peaked last year and affordability constraints are more severe relative to other cities.

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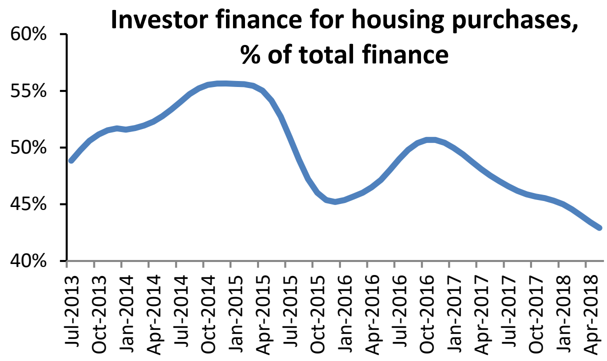
[26] Angus C, *Demand, deposits, debt: Housing affordability in Sydney*, NSW Parliamentary Research Service, Briefing Paper 1/2017, March 2017, p 65.

[27] Redman E, Grants inflate prices in 'affordable' areas as first-timers flood the market, *The Australian*, 23 April 2018; Kusher C, The Share Of Purchases By First Home Buyers Has Lifted, *CoreLogic*. 23 April 2018.

Following a renewed increase in investor housing finance in late 2016, investor finance as a share of total housing finance declined during 2017 and into 2018. Over the three months to May 2018, investor finance declined by 1.6% to total 42.9% of total housing finance. This represents a 4.6% fall compared to a year earlier, and is 12.7% below the December 2014 peak (see right).



Source: ABS 5609.0

The two falls in the chart above came after the Australian Prudential Regulation Authority (APRA) introduced successive restrictions on bank lending: the first, in December 2014, limited annual growth of investor lending by banks to a rate of 10 per cent, while the second, in March 2017, limited the flow of new interest-only lending to 30 per cent of total new residential mortgage lending, alongside additional restrictions on loan-to-value ratios.

In its April 2018 *Financial Stability Review*, the RBA commented that these prudential measures have led to a general strengthening in lending standards, and have reduced the build-up of macro-financial concerns for the Australian economy. However, although noting that the impact was unlikely to be widespread, the RBA nevertheless expressed concern over high levels of household debt in Australia:

> The ratio of total household debt to income has increased by almost 30 percentage points over the past five years to almost 190 per cent, after having been broadly unchanged for close to a decade … While Australia's high level of household indebtedness increases the risk that some households might experience financial stress in the event of a negative shock, most indicators of aggregate household financial stress currently remain fairly low (notwithstanding some areas of concern, particularly in mining regions).[28]

Concerns about foreign investors appear to have eased for now. In *its 2016-17 Annual Report*, the Foreign Investment Review Board (FIRB) stated that the value of NSW residential applications declined from approximately $23.2 billion in 2015-16 to $8.1 billion in 2016-17.[29] The FIRB stated that the introduction of application fees in 2015 led to this reduction.[30] However, the NSW Government's doubling of the foreign investor transfer duty surcharge (from 4% to 8%) in the *2017-18 NSW Budget* may also have contributed to this fall in foreign residential investment.

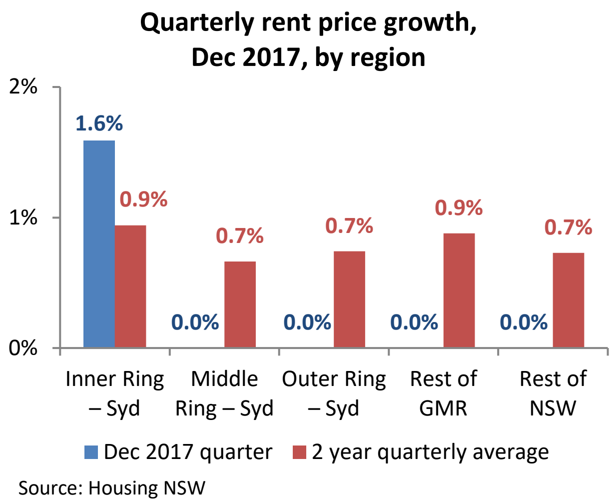
[28] Reserve Bank of Australia, *Financial Stability Review*, April 2018, p 20.

[29] Calculated by author from national figures in the Foreign Investment Review Board's annual reports for 2015-16 ($72.4bn) and 2016-17 ($25.2bn).

[30] Foreign Investment Review Board, *Annual Report 2016-17*, 2018, p 33.

RENT

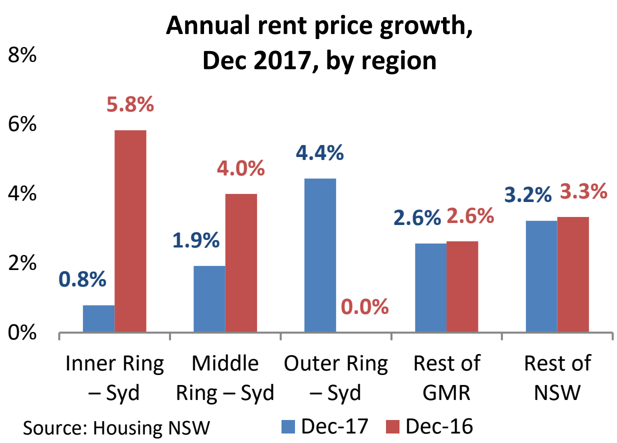
After a 3.1% decline in rents over the September 2017 quarter, rents in Sydney's Inner Ring[31] suburbs increased by 1.6% in the December 2017 quarter. This growth was higher than the region's two year quarterly average growth rate (0.9%). Average rents for the State increased by 1.1% over the quarter, but all other regions recorded no change in rents over the quarter (see right).



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-17	530	620	530	460	390	320	460
Jun-17	540	650	540	460	400	320	470
Sep-17	535	630	530	470	400	320	470
Dec-17	530	640	530	470	400	320	475
Source: Housing NSW, Rent and Sales Reports, December Quarter 2017							

*Greater Metropolitan Region

On an annual basis, rental growth remains highest in Sydney's Outer Ring region, increasing by 4.4% in 2017. In comparison, no growth occurred in this region in the 12 months to December 2016. In general, rents in other NSW regions increased by smaller amounts in 2017 than in 2016 (see right).



Nevertheless, the available research shows that current rent levels remain beyond the financial capacity of disadvantaged residents. Anglicare Australia's *2018 Rental Affordability Snapshot* reported that Sydney in particular offered no affordable and suitable properties for any household type, apart from couples who both earned the minimum wage (who could only afford to rent 4.0% of available properties).

[31] For a definition of this and the other regions used by Housing NSW, see: Angus C, *Demand, deposits, debt: Housing affordability in Sydney*, NSW Parliamentary Research Service, Briefing Paper 1/2017, March 2017, p 15.

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.

Rolling average: An average figure calculated by adding recent figures and then dividing that by the number of time periods in the calculation average. For example, a 12 month rolling average for January 2018 would be an average of the original data for the 12 months from January 2017 to January 2018 inclusive.

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.