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NSW Economic Update Autumn 2015

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NSW Economic Update Autumn 2015

by

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SUMMARY

The NSW economy has again been in the headlines this quarter following the release of the April CommSec 'State of the States' [report](#). NSW was ranked the best-performing State economy, ahead of the Northern Territory in second. CommSec cited retail trade, population growth and dwelling approvals as key drivers of the State's economic growth. NSW overtook Western Australia in 2014, which had long held the top economic ranking in Australia. The fading mining boom has seen Western Australia lose ground in terms of population growth, retail trade and investment.¹

The Reserve Bank of Australia (RBA) in the March 2015 Bulletin paper [The Economic Performance of the States](#) discussed in detail the shifting balance of Australia economic growth away from Western Australia. It specifically noted recent economic 'developments had brought about more balanced growth across the country.'

At the time of the NSW Parliamentary Research Service [October Economic Update](#), growth in NSW had not been consistent, nor sustained across all segments of the State economy. The State over the last two quarters appears to have consolidated its economic position and is showing more consistent growth across most sectors of the economy. Labour market indicators, however, have mostly weakened or remain unchanged for the quarter.

Based on the latest quarterly movements in these and other key economic indicators,² the strengthened and weakened areas of the NSW economy are summarised in the table below. It is clear from this table that NSW is performing quite strongly in many areas. It should be noted that these indicators are subject to cyclical variations and may not be completely illustrative of a fundamental shift in growth.

Stronger		Weaker
State demand	Dwelling Approvals	Business investment
Household consumption	Housing finance	Unemployment
Trade balance		Labour force participation
Job vacancies		Mineral exploration expenditure
Bankruptcies		
Retail trade		
Vehicle sales		

The bigger picture suggests that while the NSW economy is currently in a relatively strong headline position, largely off the back of the housing market, other areas of the State economy will need to perform over the longer run if economic growth and improved labour market outcomes are to be sustained once the housing sector slows.

¹ CommSec, [State of the States](#), April 2015; It should be noted that CommSec compares the performance of each State across indicators by measuring the quarterly deviation from decade long averages.

² That is, for the most recent quarter in which data is available.

Economic outlook

Looking forward at a **national level**, the RBA has made downward revisions to their forecasts which were published in the [January Economic Update](#). As the RBA in their [February Statement on Monetary Policy](#) noted:

The revisions to GDP growth in the near term take account of the net effect of a number of recent developments, which suggest that consumption will continue to grow at a below-average pace for a time and non-mining investment will remain subdued until at least mid-2015.

GDP growth is now forecast by the RBA to remain below trend over the course of this year at 2.25% and then to pick up to an above-trend pace (3-4%) in the latter part of the forecast period out to 2016-17.

More recent growth forecasts by the [Commonwealth Bank](#) (3.2% in 2015/16), [NAB](#) (3% in 2015/16) and [Westpac](#) (3.0% in 2016) are generally in line with those of the RBA. Key factors restricting growth over the forecast period, as outlined by the RBA, include:³

- the decline in mining investment;
- lower growth of labour incomes;
- weaker non-residential building approvals and relatively weak demand for commercial property;
- the faster-than-expected decline in the terms of trade; and
- fiscal restraint at both the federal and State levels of government.

Such downward pressures are likely to be offset by forecast low interest rates which are expected to support the established housing market, the construction of new dwellings and household consumption.⁴ Export growth is expected to continue to make a sizeable contribution to GDP growth, particularly towards the end of the forecast period, when LNG exports are expected to be growing strongly.

With respect to **New South Wales**, the [latest](#) Treasury half-yearly review forecasts NSW Gross State Product to grow by 2.75% in 2014-15 and 3% in 2015-16. In developing these forecasts the Treasury noted that:

Expectations for economic growth in 2015-16 are in line with Budget, with momentum expected to be maintained by strengthening non-mining business investment growth and improving net exports. Dwelling investment growth is expected to moderate, though remain solid. Household consumption growth is forecast to be underpinned by stronger labour income growth, even as house price growth is anticipated to slow.

St George Bank also concluded that the State should continue to benefit from shifting growth drivers in the economy. This is likely to see NSW continue to outperform growth Australia-wide. 'Low interest rates, a solid pipeline of

³ Reserve Bank of Australia, [Statement on Monetary Policy](#), February 2015, p.71

⁴ Ibid

infrastructure projects, a rising population and positive wealth effects' should underpin the State's growth over the short to medium term.⁵

St George Bank forecast NSW Gross State Product to pick up in 2014-15 to 3.0%, up from 2.1% in 2013-14. If achieved this would be the fastest pace of growth in NSW in 15 years.⁶

About the paper

This paper updates statistical information on key economic indicators, thereby presenting a current snapshot of the NSW economy and providing 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 thus been updated to include the December 2014 or March 2015 quarters.

This edition includes State final demand (household and business spending) as a quarterly measure for economic growth. Gross State Product data has also been included to assess broad economic growth, but this data is presented on an annual basis and is defined differently to State final demand. Also in this edition is analysis related to the exchange rate, household consumption and business investment; the latter two are components of State final demand.

Sources used

Data presented in this paper is sourced from the Australian Bureau of Statistics. The figures used are the original numbers, unless otherwise indicated. Sources other than the Australian Bureau of Statistics have been used where relevant and are identified in the paper itself. Analysis and forecasts from the RBA and major private banks (including Westpac, the Commonwealth Bank and St George Bank) are also presented in the paper.

⁵ St George Bank, [NSW Economic Outlook](#), 24 November 2014, State Economic Report

⁶ Ibid

INTEREST RATES

Having been kept on hold by the RBA for 14 consecutive months, the cash rate target fell by 25 basis points in February to 2.25% and remained on hold during March and April.

In assessing whether to adjust the cash rate the RBA Board considers strengths and weaknesses in the domestic economy, as well as international economic factors.

A number of key strengths in the Australian economy were identified by the RBA Board. Stemming from higher prices, the notable strength was the housing market which was evident in the growth in housing finance and building approvals.

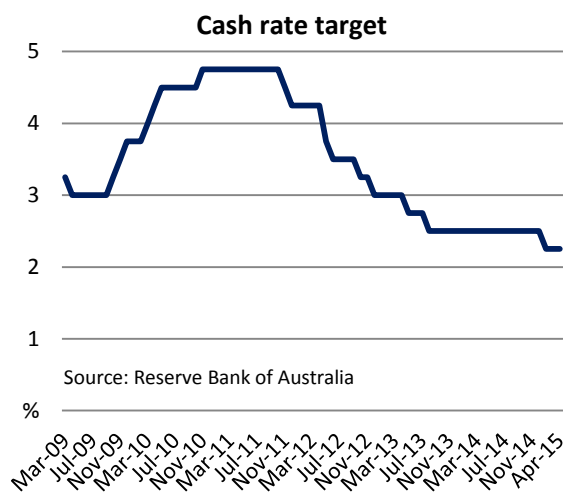
However, there were a number of key weaknesses identified by the RBA Board that were placing a drag on economic growth. Of note, was the subdued investment outlook for the mining and non-mining sectors, as well as subdued employment and consumption data.

Based on these considerations, and given that economic growth forecasts remained relatively weak at the unchanged 2.5% cash rate, the RBA Board decided that a 25 basis point reduction was appropriate and a means of providing 'additional support to demand'.⁷

At the most recent April meeting, the RBA Board noted that the aforementioned variables had not changed considerably and believed that 'the current setting of monetary policy was accommodative and providing support to the economy.'

Last quarter, the ANZ revised their inflation expectations, suggesting that weaker growth and lower inflation in 2015 would provide the RBA with a reason and the scope to take the cash rate down 50 basis points to 2% over the first half of the year. That looks to be the case going forward.

[NAB](#) and [Westpac](#) also expect the cash rate to be cut by a further 25 basis points beyond its historical low of 2.25%. Commonwealth Bank chief economist Michael Blythe had previously expected the RBA to keep rates on hold for all of 2015 and that lower fuel prices would provide the required jolt to the economy. The Commonwealth Bank have since revised their cash rate expectations in line with the other major banks.



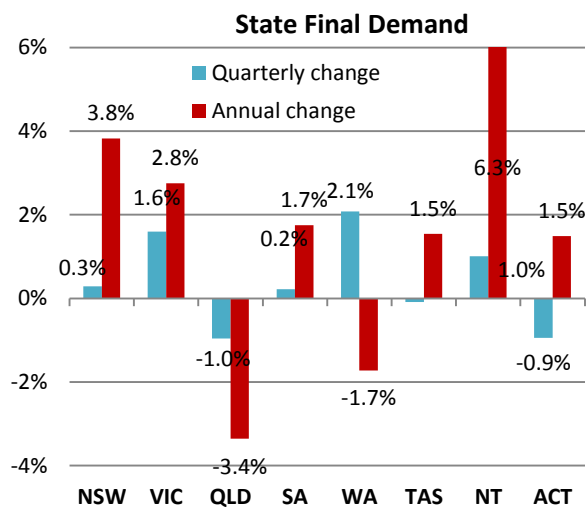
⁷

Reserve Bank of Australia, [Minutes of the Monetary Policy Meeting](#), 3 February 2015

STATE DEMAND AND GROSS STATE PRODUCT

Final demand, which is the best quarterly proxy for economic growth, was mixed across the States in the December quarter. Demand in NSW was up by 0.3% for the quarter, down from 1.0% growth in the September quarter and below the 2-year average of 0.7%.

Western Australia (2.1%) and the Victoria (1.6%) realised the strongest growth in demand during the December quarter. Queensland and the ACT experienced the largest declines at -1.0 and -0.9% respectively.

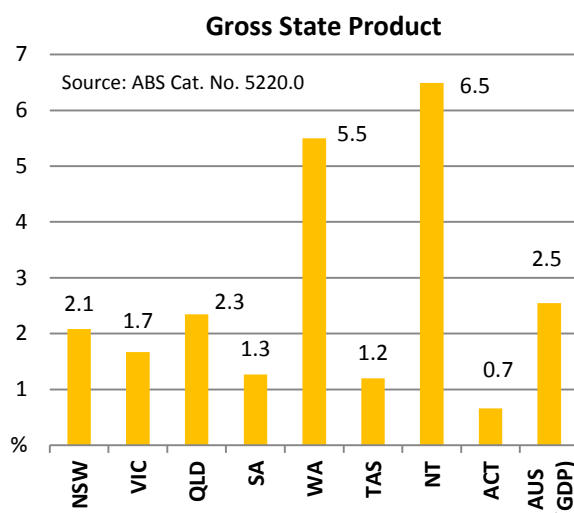


Despite subdued demand growth in NSW for the quarter, annual growth was the second highest of all the jurisdictions, behind the Northern Territory (6.3%), at 3.8%. NSW was the only State with final demand growth above its 10-year average (2.7%). Annual final demand contracted in Queensland and Western Australia, where mining investment has been most prominent.

State final demand, chain volume measures, seasonally adjusted, \$m								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Dec-2013	114,680	87,662	79,156	24,198	53,309	6,880	7,425	14,430
Mar-2014	115,934	88,476	78,171	24,183	53,071	6,926	6,891	14,462
Jun-2014	117,429	89,862	78,590	24,566	52,318	6,957	7,117	14,481
Sep-2014	118,017	88,662	77,239	24,567	51,321	6,992	7,812	14,784
Dec-2014	118,191	90,079	76,501	24,621	52,390	6,986	7,891	14,645

Source: ABS, Australian National Accounts, December 2014, Cat. No. 5206.0

State final demand figures do not include net exports and therefore do not take into account the positive impact of higher resource exports on economic growth. The impact of exports can be seen in the Gross State Product data released by the ABS. This shows Western Australia, Queensland and the Northern Territory as having the strongest Gross State Product growth of all the jurisdictions. Gross State Product for NSW grew by 2.1% between June 2013 and 2014.



Gross State Product, chain volume measures, \$m								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Jun-2010	446,963	316,606	264,319	89,638	205,959	24,476	17,977	32,498
Jun-2011	457,796	322,361	267,199	91,818	215,701	24,526	18,316	33,526
Jun-2012	469,354	331,213	279,838	93,162	232,162	24,671	19,086	34,508
Jun-2013	477,694	338,168	288,378	94,006	242,841	24,610	19,913	35,333
Jun-2014	487,637	343,819	295,142	95,199	256,188	24,905	21,205	35,566

ABS, Australian National Accounts, June 2014, Cat. No. 5220.0

HOUSEHOLD CONSUMPTION

The relatively subdued national household consumption growth in the September quarter was somewhat surprising given the low and sustained level of interest rates. As expected, however, the December quarter saw stronger growth in household consumption off the back of the sharp decline in petrol prices and the Christmas surge in retail spending.

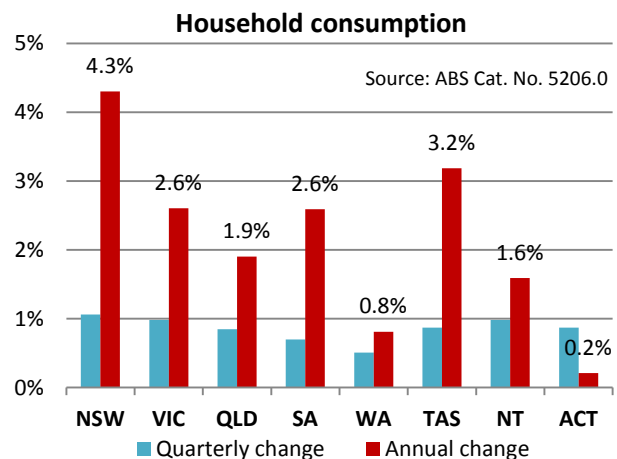
At the national level, spending by households rose by 0.9% for the December quarter, up on growth of 0.6% realised in the September quarter.

Household final consumption, chain volume, seasonally adjusted, \$m								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Dec-2013	70,958	52,836	41,372	14,008	23,517	4,047	2,323	3,812
Mar-2014	71,739	53,032	41,632	14,069	23,530	4,080	2,335	3,787
Jun-2014	72,480	53,498	41,822	14,095	23,488	4,097	2,333	3,768
Sep-2014	73,235	53,687	41,806	14,271	23,588	4,140	2,337	3,787
Dec-2014	74,012	54,214	42,160	14,371	23,708	4,176	2,360	3,820

Source: ABS, Australian National Accounts, December 2014, Cat. No. 5206.0

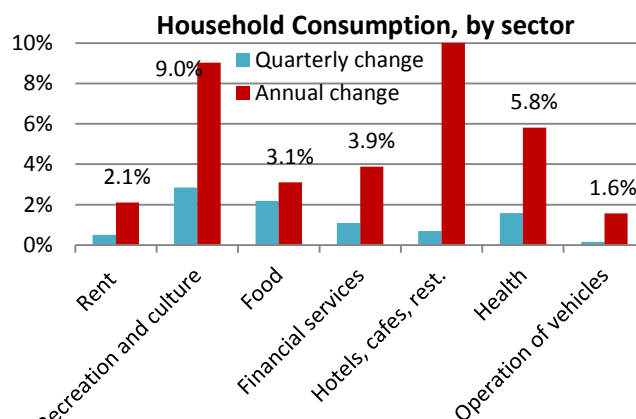
Household spending increased in NSW by 1.1% over the December quarter. This was the highest quarterly growth of all States and Territories.

This continues the relatively strong consumption growth in the State, following quarterly rises of between 0.7 and 1.1% since September 2013. Year on year, consumption rose by 4.3% in NSW which was the highest annual growth of all States and Territories. This is the third consecutive quarter in which NSW annual household expenditure growth has been the highest across all jurisdictions.



NSW household expenditure on recreation and cultural activities increased by \$218 million (or 2.8%) during the December quarter. This was the largest of all spending categories, followed by food and rent expenditure which increased by \$142 (or 2.2%) and \$81 million (0.5%) respectively.

On an annual basis, expenditure on recreation and cultural activities in NSW increased by \$652 million (or 9%) in the 12 months to December 2014. This was the largest total increase of all the categories, followed by hotels/cafes and rent expenditure which increased by \$521 (or 10.1%) and \$328 million (or 2.1%) respectively.



Source: ABS Cat. No. 5206.0

BUSINESS INVESTMENT

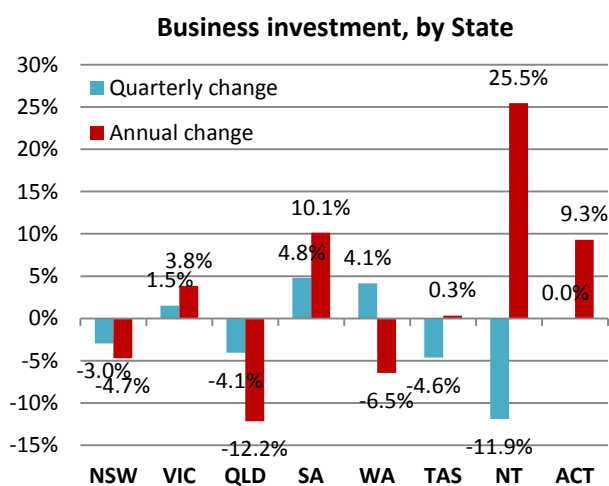
Nationally, business investment fell by 0.8% in the December quarter, having fallen by 3.3% in the September quarter. For the year to the December quarter, national business investment is down by 3.6% which primarily reflects weakness in mining investment.

Business investment, chain volume measures, seasonally adjusted, \$m								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Jun-2013	17,289	10,002	16,695	2,960	17,767	590	2,753	500
Sep-2013	12,080	10,209	16,851	3,115	18,281	589	2,707	528
Dec-2013	12,297	9,972	15,972	2,831	16,514	575	2,891	551
Mar-2014	13,513	10,160	15,075	2,795	16,877	595	2,317	494
Jun-2014	13,956	10,485	15,001	3,095	15,930	555	2,575	503
Sep-2014	13,267	10,393	13,801	2,937	15,159	626	3,300	540
Dec-2014	12,874	10,549	13,239	3,078	15,787	597	2,907	540

Source: ABS, Australian National Accounts, December 2014, Cat. No. 5206.0

NSW business investment fell by 3.0% over the December quarter; although this fall was still less than that of Queensland and Western Australia. On an annual basis, business investment was down by 4.7% in NSW.

According to St George Bank, the size of the drop in business investment for the quarter and at a national level is relatively modest given the current downturn in mining investment. As the Bank notes, non-mining sectors are helping to fill the void. However, they identify that there is still a risk that aggregate business investment will deteriorate



Source: ABS Cat. No. 5206.0

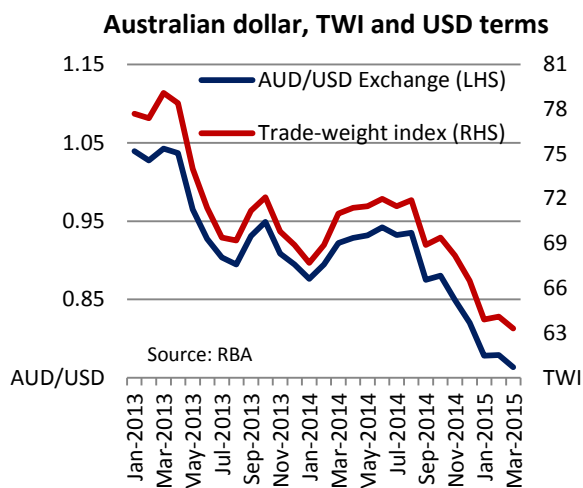
further as mining investment declines, and with the outlook for non-mining investment appearing less positive.⁸

EXCHANGE RATE

The Australian dollar remained relatively stable over the last quarter, depreciating by 1% in trade-weighted terms between 20 January 2015 and 31 March 2015.

The Australian dollar depreciated by 2% against a rising US dollar over the same period. The US dollar has now appreciated by 14% since July 2014. Over the same period, both the Euro and the Australian dollar had depreciated by around 20% against the US dollar.

The RBA Board noted in their April minutes of the monetary policy meeting that 'further depreciation of the Australian dollar was likely given the recent declines in key commodity prices.'⁹



According to the Commonwealth Bank, a lower Australia dollar will act as an income buffer to the drop in commodity prices and is important during the mining to non-mining transition. Specifically, businesses with a high export propensity or high import penetration will benefit the most.¹⁰ In addition, government revenue will benefit from the lower currency; such that a 1 point drop in the Trade-Weighted Index adds around \$1.8 billion over four years to the Federal Budget bottom line.

The Commonwealth Bank forecast the AUD to be USD 0.70 by the end of 2015. NAB forecast the AUD to average USD 0.73 during 2015-16. Westpac forecast the AUD to be USD 0.72 by the end of 2015, revised down from USD 0.82 the last time this paper was published.¹¹

INTERNATIONAL TRADE

Australia recorded a seasonally-adjusted trade deficit (which includes both goods and services) of \$1,256 million for the month of February 2015; the largest deficit in five months. This was the 11th consecutive month since April 2014 that Australia has recorded a trade deficit. Recent trade deficits through

⁸ St George Bank, [National Accounts – GDP](#), 4 March 2015

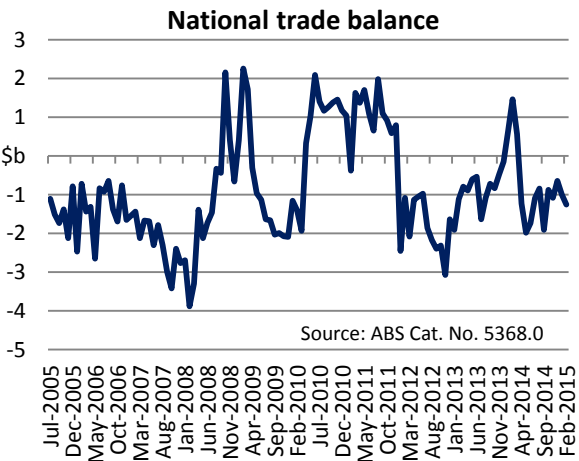
⁹ Reserve Bank of Australia, [Minutes of the Monetary Policy Meeting](#), 3 February 2015

¹⁰ Commonwealth Bank, [What does a lower Aussie dollar mean for the economy?](#), 16 October 2014, Global Markets Research, Economics: Issues

¹¹ Westpac, [Australia and NZ weekly](#), 27 April 2015; Commonwealth Bank, [Forecasts – Economic](#), April 2015; NAB, [Global and Australian Forecasts](#), April 2015

2014 and early 2015 have been the result of falling commodity prices and thus a decline in Australia's terms of trade.

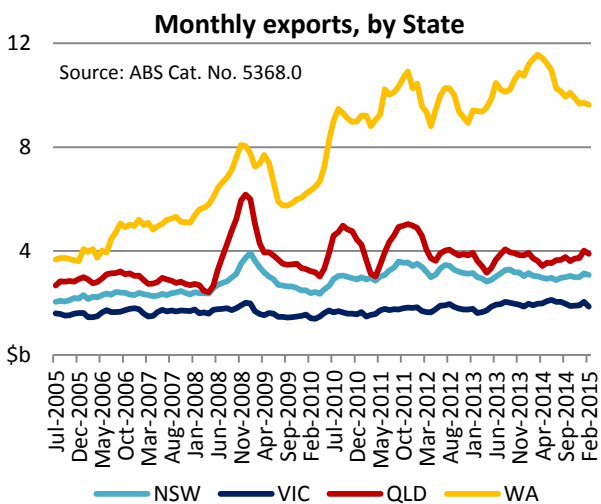
According to St George Bank, 'a silver lining' from the latest trade data was a rebound in imports.¹² Although higher imports detract from economic growth, such growth provides a positive signal that domestic demand is improving. Annual growth in imports edged up to 4.9% in February, the strongest in ten months.



Looking ahead, the Commonwealth Bank suggests that monthly trade deficits are likely to persist over the near-term while Australia's key commodity prices, namely iron ore and coal, remain at multi-year lows. However:¹³

A return to monthly trade surpluses looks realistic over the medium term. Non-mining exports will lift in Australia due to a lower AUD. The lower local currency will provide a significant boost to exporters through a lift in competitiveness. And iron ore export volumes will continue to rise. Further, LNG exports will rise substantially when key projects come on stream during 2015 and beyond.

The **average monthly free on board value of merchandise exports** from NSW increased by 2.9% in the December 2014 quarter to \$3.14 billion. WA continued to dominate the States and Territories in terms of the amount exported (an average of \$9.7 billion per month), followed by Queensland at \$4 billion.



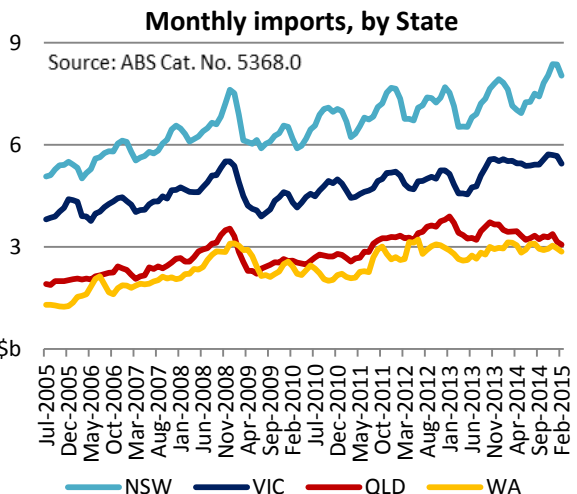
The **top five destinations for merchandise exports** from NSW for the month of February 2015 only were: Japan (\$810m); China (\$388m); Korea (\$314m); United States (\$244m); and New Zealand (\$168m). 63% of exports were to the top five destinations, with 39% of all NSW merchandise sent to Japan or China.

¹² St George Bank, Trade Balance: Stronger Imports – A Silver Lining?, 2 April 2015

¹³ Commonwealth Bank, [Trade Balance – November](#), 6 January 2015

The **average monthly customs value of merchandise imports** for NSW increased by 7% in the December 2014 quarter to \$8.4 billion. NSW continues to import the greatest amount of the States and Territories, followed by Victoria at \$5.7 billion (up 2% for the quarter).

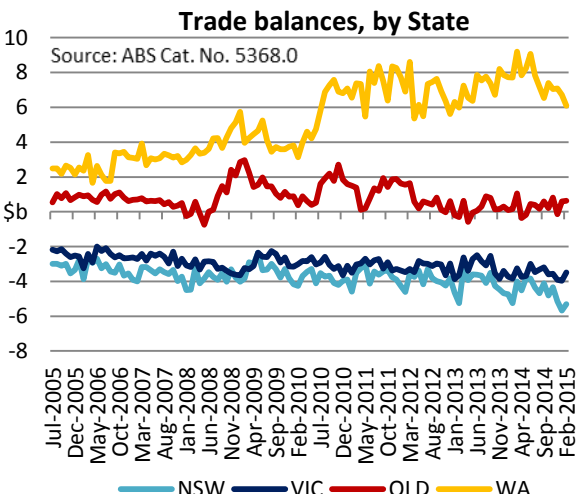
The **top five import sources** for NSW during November 2014 only were: China (\$2,244m); the United States (\$861m); Japan (\$493m); Korea (\$423m); and Thailand (\$340m). 58% of imports were from the top five sources, with around 30% attributable to China.



the top five sources, with around 30%

The end result of the upward trend in merchandise imports and mostly stagnant growth in merchandise exports has been a steady deterioration in New South Wales' merchandise trade balance since the mid-2000s. In January 2005, the State's trade deficit was recorded at \$2.6 billion. As at February 2015, the State's trade deficit was recorded at \$4.5 billion.

and mostly stagnant

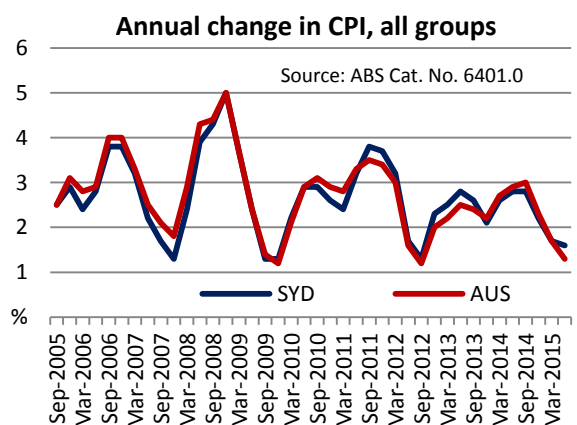


Off the back of commodities exports, WA has performed the best compared to the other major States, with its merchandise trade balance recorded at \$6.8 billion in February 2014.

CONSUMER PRICE INDEX

Nationally, annual CPI growth for the March 2015 quarter was recorded at 1.3%, 0.4% below the previous quarter and 1.6% lower than the year previous.

The latest fall in the CPI growth is linked directly to the fall in petrol prices, which fell considerably toward the end of 2015. Price falls in clothing and communication groups also helped produce the relatively

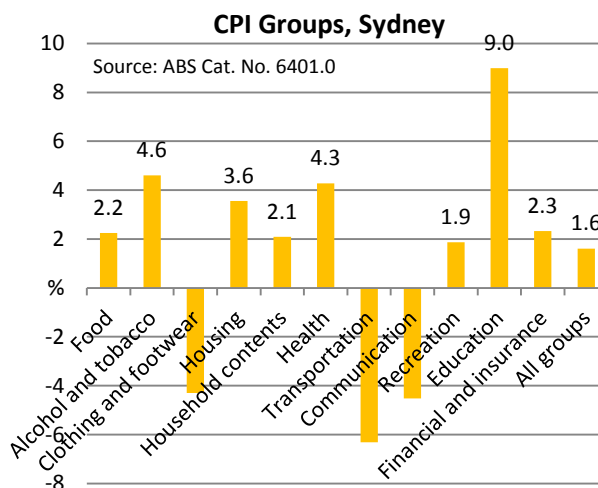


subdued inflation result.

The CPI in Sydney increased by 1.6% in the 12 months to March 2015. Following the removal of the carbon tax and the fall in petrol prices, this is the third consecutive quarter that the CPI growth rate has fallen in Sydney from 2.8% in June 2014.

The largest price increases over the last 12 months in Sydney occurred in: education (up by 8.9%); alcohol and tobacco (up by 4.6%); health (up by 4.3%); and housing (up by 3.6%).

According to the [Commonwealth Bank](#), the inflation rate is expected to remain relatively subdued in the coming quarters because of a 'softening wages outlook on the back of significant spare capacity in the labour market and ongoing sub-trend economic growth.' The RBA Board noted this in their [April minutes](#) and expected inflation to remain contained and consistent with their target of 2-3% over the next year or so.



Westpac [forecast](#) headline inflation at 1.5% for the next quarter of 2015; with it rising to 2.3% by the fourth quarter of 2015.

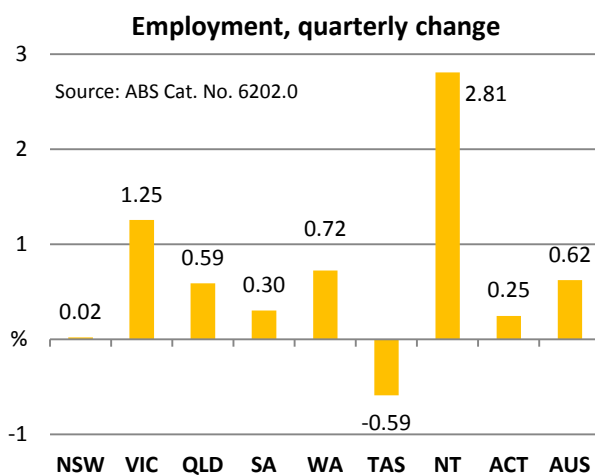
Reserve Bank of Australia inflation forecasts (%)				
	Jun-15	Dec-15	Jun-16	Dec-16
CPI inflation	1.25	2-3	2.25-3.25	2.25-3.25
Underlying inflation	2.25	2-3	2-3	2-3

Source: RBA Statement on Monetary Policy, February 2015

EMPLOYMENT

As St George Bank put it 'no matter how you cut [the employment] data, it was a positive report.'¹⁴ Nationally, employment increased by 37,700 for the month of March 2015 and was up by 72,000 on average between the December and March quarters.

The average number of people employed in NSW was unchanged on average for the quarter at 3,639,000. Total employment in



¹⁴

NSW, however, was improved for the month of March 2015 (3.66m) when compared to February (3.64m). Despite the brief period of flat growth this quarter, employment growth in NSW has been trending up over the medium term.

Average employment growth over the March quarter was relatively strong in Victoria (up by 36,000) and Queensland (up by 14,000).

Number of persons employed, quarterly average, seasonally adjusted ('000)									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Mar-14	3,605	2,857	2,317	797	1,338	234	134	211	11,501
Jun-14	3,617	2,862	2,339	803	1,344	237	134	211	11,542
Sep-14	3,623	2,886	2,328	806	1,352	238	130	209	11,571
Dec-14	3,639	2,909	2,314	799	1,367	242	131	209	11,609
Mar-15	3,639	2,945	2,327	802	1,377	240	135	209	11,681

Source: ABS, Labour Force, Australia, March 2015, Cat. No. 6202.0

The Commonwealth Bank [concluded](#) that the Victorian and NSW job markets were benefitting from a residential construction boom and strong house price appreciation. This is a natural response to highly accommodative monetary policy and pent up demand for housing.

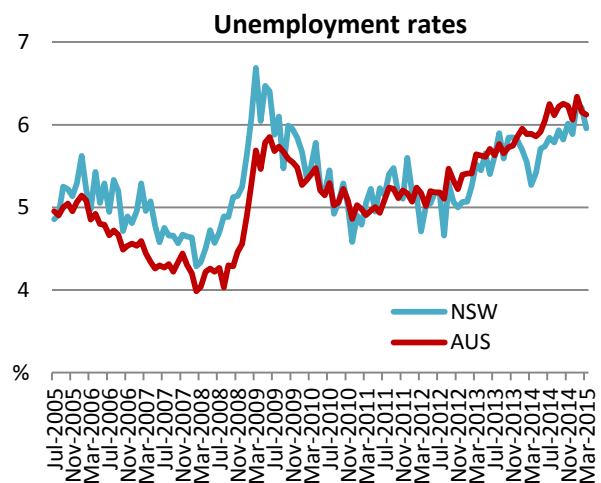
Looking forward, St George Bank in their labour market [report](#), questioned whether this strength can be sustained, given the economy is expected to grow below trend for a while longer. They pointed to an 'uncertain outlook for non-mining investment and likelihood that growth will remain below trend' as key factors that might see employment growth weaken.

The RBA Board were pessimistic regarding employment growth expecting 'only modest employment growth in the months ahead.'¹⁵

UNEMPLOYMENT

The average unemployment rate for NSW increased by 0.2% to 6.1% over the March quarter and for the month of March was at 6.0%, slightly down from the peak in January of 6.3%. It is now 0.1% below the average Australian unemployment rate.

For the month of March 2015, NSW had the 4th lowest unemployment rate of all jurisdictions. Tasmania had the equal highest unemployment rate with Queensland at 6.6%, followed



15

Reserve Bank of Australia, [Minutes of the Monetary Policy Meeting](#), 7 April 2015

by South Australia at 6.4%.

St George Bank considers that the unemployment rate is near a peak, but that 'it [would] take some time before a consistent decline in the unemployment rate comes to fruition'.¹⁶ It added that a stronger pace of domestic demand will be necessary before we see a sustained fall in the unemployment rate.¹⁷

The Commonwealth Bank suggested that 'it [was] still a little too premature to conclude that [the economy] was at the peak in the unemployment rate, but there are some signs that [it] might be around the peak'.¹⁸

Given recent changes in economic growth data, the RBA Board in deciding to lower the cash rate in February concluded that 'the unemployment rate would peak at a higher rate and later than had been previously forecast, before declining gradually'.¹⁹

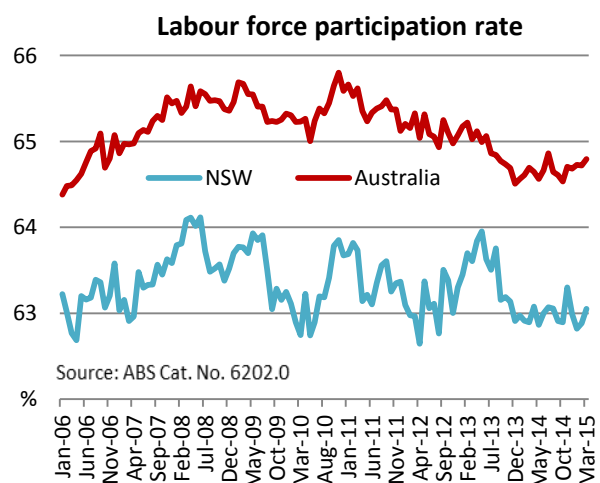
Unemployment rate, quarterly average, seasonally adjusted (%)									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Mar-14	5.5	6.4	6.1	6.7	5.2	7.5	3.8	3.6	5.9
Jun-14	5.6	6.4	6.3	6.8	4.9	7.4	4.1	3.9	5.9
Sep-14	5.9	6.8	6.6	6.6	5.1	7.3	4.3	4.7	6.2
Dec-14	5.9	6.6	6.6	6.6	5.5	6.7	3.9	4.9	6.2
Mar-15	6.1	6.2	6.6	6.8	5.6	6.5	4.2	4.5	6.2

Source: ABS, Labour Force, Australia, March 2015, Cat No. 6202.0

LABOUR FORCE PARTICIPATION

The average labour force participation rate in NSW fell by 0.2% over the March 2015 quarter to 62.9% (1.8% below the Australian average). Only South Australia and Tasmania have lower participation rates than NSW. The highest labour force participation rate is in the Northern Territory (74.9%).

Nationally, the labour force participation rate is still below the 5-year average of 65.1%. The relatively low level of labour force participation, particularly in NSW, provides further evidence of spare capacity in the labour market. The Reserve Bank of Australia observed that:²⁰



¹⁶ St George Bank, Labour force – December 2014, 15 January 2015

¹⁷ St George Bank, [Labour Force: Through the Looking Glass](#), 9 October 2014, Data Snapshot

¹⁸ Commonwealth Bank, [Labour force – December 2014](#), 15 January 2015

¹⁹ Reserve Bank of Australia, [Minutes of the Monetary Policy Meeting](#), 3 February 2015

²⁰ Reserve Bank of Australia, [Statement on Monetary Policy](#), August 2014, p.47

The participation rate appears to have stabilised, fluctuating around its current level for the past few quarters, after declining from late 2010. Much of the earlier decline in the participation rate is likely to have reflected cyclical factors, although structural forces – including the ongoing effect of the ageing of the population – may have also had a significant effect.

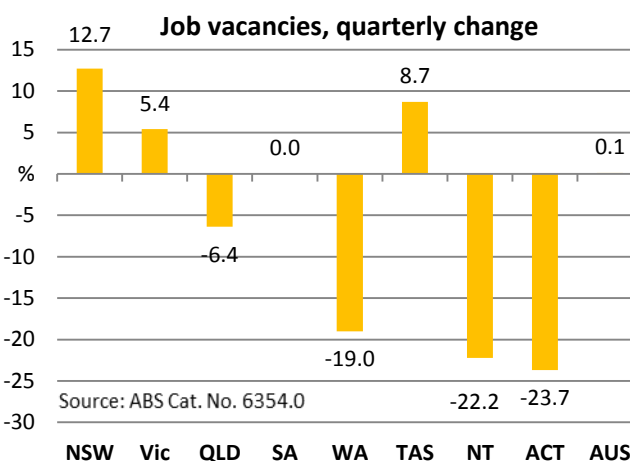
Labour force participation rate, quarterly average, seasonally adjusted (%)									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Mar-14	62.9	64.4	65.8	61.9	68.2	60.3	75.5	71.1	64.6
Jun-14	63.0	64.2	66.2	62.3	68.1	60.9	75.0	70.9	64.6
Sep-14	63.0	64.8	65.9	62.2	68.2	61.0	72.9	70.9	64.7
Dec-14	63.1	64.9	65.3	61.6	68.9	61.5	72.8	70.6	64.6
Mar-15	62.9	65.0	65.3	61.7	69.0	60.9	74.9	70.2	64.7

Source: ABS, Labour Force, Australia, March 2015, Cat No. 6202.0

JOB VACANCIES

The number of job vacancies in NSW increased by 12.7% in the latest quarter to 55,000, the largest of any Australian jurisdictions. It is 16.1% above the 3 year average of 47,400.

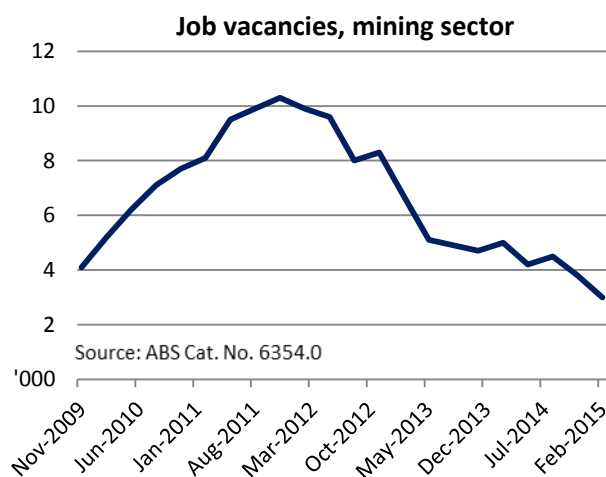
Job vacancies across Australia were virtually unchanged at 152,600 for the quarter. The number of job vacancies increased in Tasmania (up 8.7%) and Victoria (up 5.4%). All of the other jurisdictions incurred negative growth in job vacancies.



The mining sector, in particular, has been experiencing a job vacancies slump. Shane Rodgers, writing in [The Australian](#), suggested that this was evidence that 'the era of mega salaries and perks to attract mining workers is well and truly in decline.'

Job vacancy figures released by the ABS showed there were 3,000 vacancies nationally in the mining sector in March 2015. This compares with a five-year peak of 10,300 in November 2011.

According to Rodgers, this has happened only a few short years since the mining boom, where unprecedented labour demand resulted in low-skilled workers being paid more than \$100,000 to take on basic roles at mine sites.



ABS data on total average earnings for miners is starting to reflect the trend. The average miner's weekly total earnings jumped 22% between November 2009 and November 2012, from \$1,952 to \$2,381. In the two years that followed, average increases were less than 6%.

Number of job vacancies, original figures ('000)									
	NSW	Vic	QLD	SA	WA	TAS	NT	ACT	AUS
Feb-14	49.6	25.4	29.1	7.5	23.1	1.9	4.2	3.0	143.6
May-14	50.6	30.1	25.4	8.1	19.4	2.0	3.9	3.2	142.6
Aug-14	47.5	32.8	26.9	8.8	23.1	2.2	3.8	3.4	148.4
Nov-14	48.8	33.3	28.2	8.3	24.2	2.3	3.6	3.8	152.4
Feb-15	55.0	35.1	26.4	8.3	19.6	2.5	2.8	2.9	152.6

Source: ABS, Job Vacancies, Australia, 6354.0, February 2015

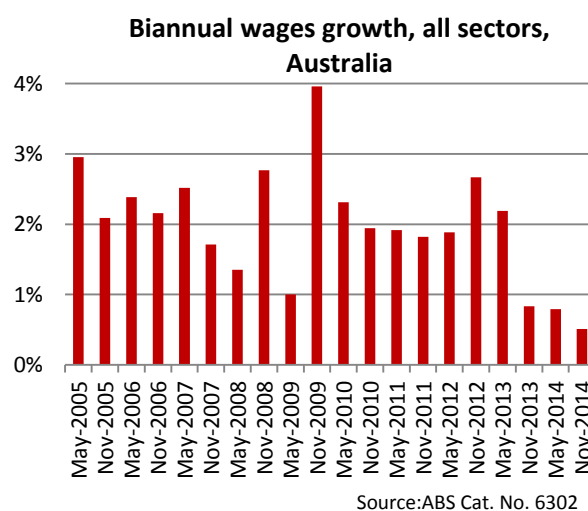
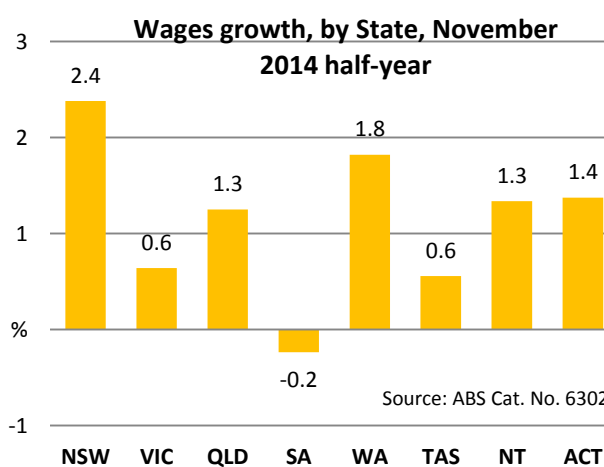
WAGES

The average adult weekly fulltime earnings (ordinary time) in NSW rose by 2.4% in the November 2014 half year to \$1,493, the largest increase of all jurisdictions. NSW had the third highest average weekly earnings behind the ACT (\$1,695) and Western Australia (\$1,672).

Wages growth, at a national level, has been subdued in the past couple of years due to spare capacity existing in the labour market induced by lower employment growth.

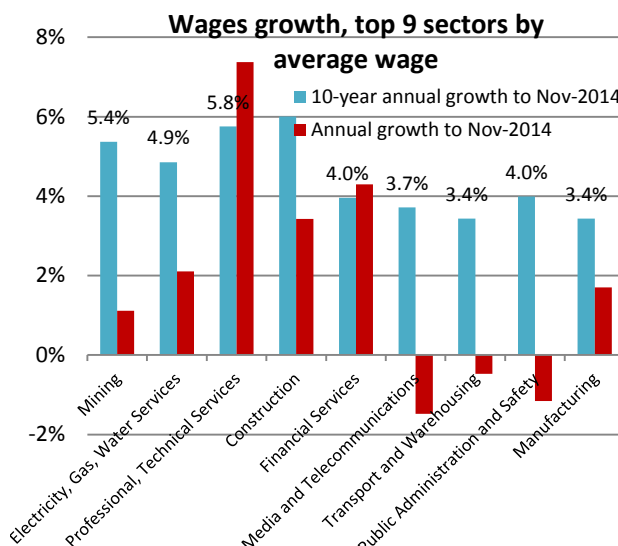
Over the six months to November 2014, average weekly earnings rose by only 0.5%. As evident in the figure adjacent, this is well below the level of growth realised in the mid to late 2000s.

The weak national wages growth has by and large not discriminated by sector. As can be seen in the figure below, wages growth for the past year across most sectors has been well below their respective 10-year averages.



As mentioned earlier, the mining sector has realised one of the largest deviations in wages growth away from the sector's longer run average. The Arts and Recreation Services sector has incurred the largest deviation over the past 12 months from their longer run average, with wages declining by 8.6%.

Only the real estate and professional and technical services sectors have experienced notable growth above their longer run average over the past 12 months.



Source: ABS Cat. No. 6302.0

Average adult weekly fulltime earnings, ordinary time, trend estimates (\$)								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Nov-2012	1,394	1,326	1,372	1,268	1,588	1,228	1,422	1,647
May-2013	1,409	1,346	1,416	1,288	1,635	1,263	1,446	1,693
Nov-2013	1,424	1,380	1,426	1,319	1,627	1,265	1,444	1,674
May-2014	1,458	1,385	1,439	1,352	1,642	1,254	1,428	1,672
Nov-2014	1,493	1,394	1,457	1,349	1,672	1,261	1,447	1,695

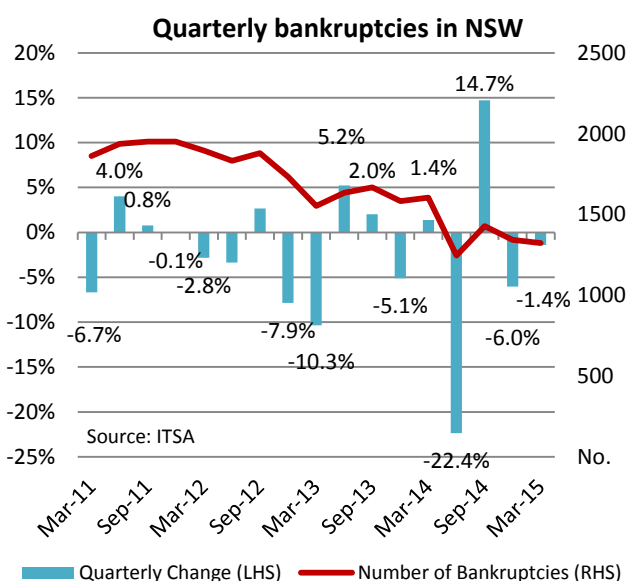
Source: ABS, Average weekly earnings, Australia, May 2014, 6302.0, August 2014.

BANKRUPTCIES

The number of bankruptcies in NSW fell by 1.4% in the March 2015 quarter to 1,323 (16% less bankruptcies than a year previously).

Bankruptcies have been trending down in NSW over the last few years and are 30% lower in March 2015 than 3 years earlier.

The number of bankruptcies increased in all of the other States and Territories, with the average increase in bankruptcies across Australia at 4.8% for the quarter. The ACT (29%) and Tasmania (22%) had the largest increases in bankruptcies of all the jurisdictions.



Source: ITSA

Bankruptcies per quarter (Parts IV and XI of the Bankruptcy Act 1966 (Cth))								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Mar-14	1,604	1,015	1,443	322	351	139	19	39
Jun-14	1,245	778	1,159	246	255	100	22	52
Sep-14	1,428	891	1,245	296	332	128	31	39
Dec-14	1,342	883	1,174	287	331	100	24	38
Mar-15	1,323	937	1,283	294	342	122	29	49

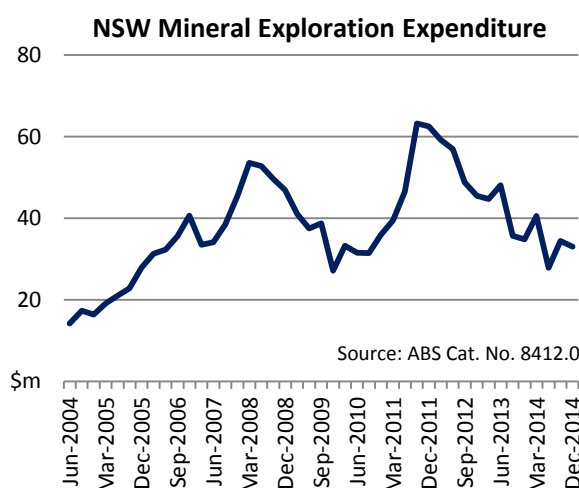
Source: Insolvency and Trustee Service Australia

MINERAL EXPLORATION EXPENDITURE

There is no comprehensive quarterly or annual dataset available for the gross value of mining production for the States and Territories in Australia. Mineral exploration expenditure is the only comprehensive quarterly dataset available through the ABS and is the best proxy for the level of mining activity taking place in NSW and elsewhere in Australia.

NSW mineral exploration expenditure decreased over the December quarter by 4.1%; it is now 47% below the high for the reporting period realised in September 2011.

Investment in the mining sector in Australia has been slowing down over the last couple of years, with mineral exploration expenditure down by 57% since March 2012. A significant share of this decline is accounted for by Western Australia.



In their April 2015 [minutes](#), the RBA noted that mining investment was estimated to have declined by 13% over 2014 and an even larger decline was expected over 2015. In particular, the RBA Board observed that the recent [declines in oil prices](#) could lead to some scaling back of investment plans in the oil and gas sector.

Mineral exploration expenditure, \$m								
	NSW	VIC	QLD	SA	WA	TAS	NT	AUS
Dec-2013	34.8	8.1	112.0	33.4	304.0	8.5	28.5	529.4
Mar-2014	40.5	7.9	122.5	29.5	239.4	6.7	31.1	477.7
Jun-2014	27.8	8.8	92.5	26.8	284.8	6.0	33.3	479.9
Sep-2014	34.4	5.6	85.5	25.5	257.7	6.9	22.5	438.0
Dec-2014	33.0	5.1	94.6	25.3	258.7	4.1	23.5	444.4

Source: ABS, Mineral and Petroleum Exploration, Australia, 8412.0, December 2014

TURNOVER OF RETAIL TRADE

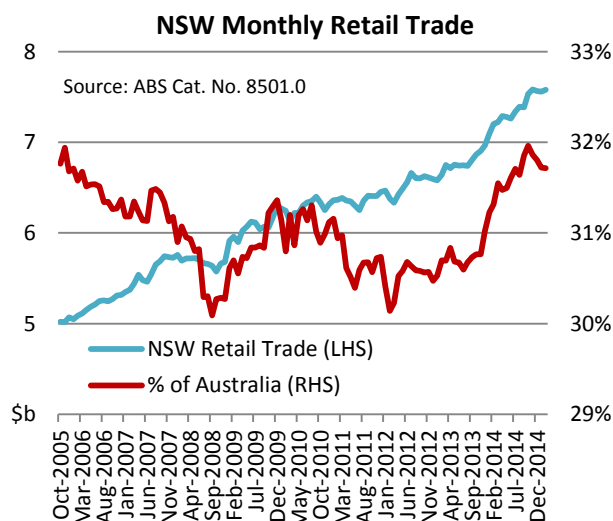
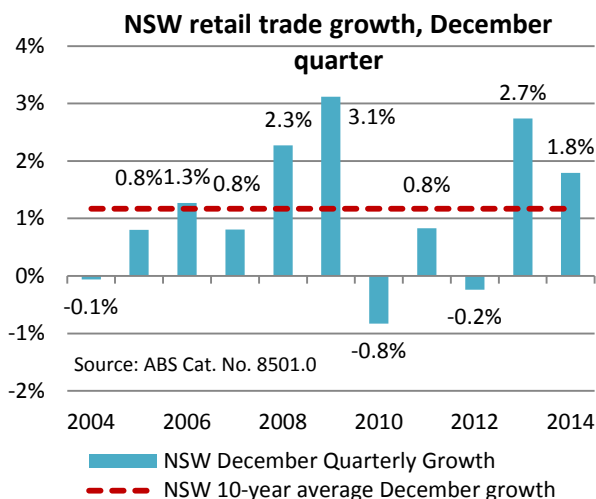
Average monthly turnover of retail trade in NSW increased by 1.8% in the December 2014 quarter to \$7.6 billion; this was higher than the 10-year December quarter average growth of 1.2%.

This was the third highest average quarterly growth of all States and Territories, behind South Australian and the ACT (both at 2.4% for the quarter). NSW quarterly retail trade is up 4.9% from the year previous.

Given the surge of shopping that is typical in the lead up to Christmas, it isn't of great surprise that retail trade was relatively strong across the board.

According to [St George Bank](#), the interest rate cut from the RBA in February and speculation of another rate cut to come appears to have encouraged consumers to spend up. Lower petrol prices have also boosted the purchasing power of consumers. The strength in the housing market is helping to boost retail spending.

As at February 2015, NSW accounted for 31.9% of all retail trade in Australia. Corresponding to the medium term growth in retail turnover in NSW, the State's share of Australian retail trade has been trending up since the end of 2011.



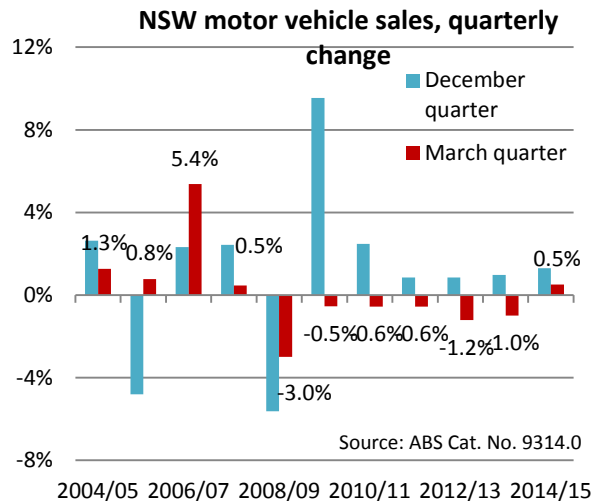
Turnover of retail trade (\$m), quarterly average, seasonally adjusted									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Dec-13	6,989	5,602	4,746	1,484	2,714	450	251	418	22,654
Mar-14	7,239	5,713	4,801	1,492	2,709	458	256	411	23,078
Jun-14	7,294	5,733	4,787	1,492	2,703	462	258	406	23,135
Sep-14	7,437	5,828	4,785	1,514	2,734	465	255	418	23,435
Dec-14	7,570	5,886	4,830	1,550	2,764	464	256	428	23,747

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

VEHICLE SALES

The average number of new vehicles sold per month in NSW increased by 0.5% in the March 2015 quarter to 30,391. The March quarter has historically been a relatively weak period for new vehicle sales in NSW. This is the first year since 2007 that the March quarter has realised positive growth in motor vehicle sales.

Sales of new motor vehicles rose 2.9% nationally in February pushing sales to their highest level since December 2013. Sales in February are down just 2.1% from the all-time 97,815 sales in September 2012.



St George Bank [commented](#) on recent vehicle sales results, suggesting that:

Fear of a rise in car prices due to the weaker AUD may have driven sales in February. The industry will have to deal with the impact of a fragile labour market and very slow wages growth in the months ahead. Giving the industry a boost should be lower interest rates and the lower price of petrol which have taken some pressure off household budgets.

Western Australia was the only jurisdiction to experience a decline in the average monthly sales of new vehicles for the March quarter. The growth in vehicle sales averaged 1.8% in Australia. Tasmania and Queensland had the sharpest growth in sales, rising by 13.9 and 5.2% respectively.

Sales of new vehicles, quarterly average									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Mar-14	29,319	24,668	18,869	5,854	9,770	1,501	895	1,466	92,342
Jun-14	29,553	25,194	18,665	5,818	9,944	1,488	960	1,420	93,042
Sep-14	29,849	25,414	18,391	5,847	9,647	1,483	890	1,473	92,994
Dec-14	30,238	25,722	18,729	5,696	9,181	1,421	916	1,413	93,316
Mar-15	30,391	25,831	19,700	5,898	9,147	1,619	919	1,481	94,987

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

HOUSE PRICES

Sydney realised a 3.4% increase in the house price index for the December 2014 quarter. All of the other capital cities, except for Perth, realised increases in their respective house price indexes over the quarter, with Brisbane (1.4%) and Melbourne (1.3%) recording the largest increases outside Sydney.

This continues the resurgence in the housing market over the last two years. December quarterly growth is now back above the average quarterly growth rate of 3.2% since this price growth started in December 2012.

CoreLogic RP Data [figures](#) show that dwelling prices in Sydney rose by 3% in the month of March to be a staggering 13.9% higher than 12 months previous. Based on this data, Melbourne had the next highest rate of annual growth at 5.6%.

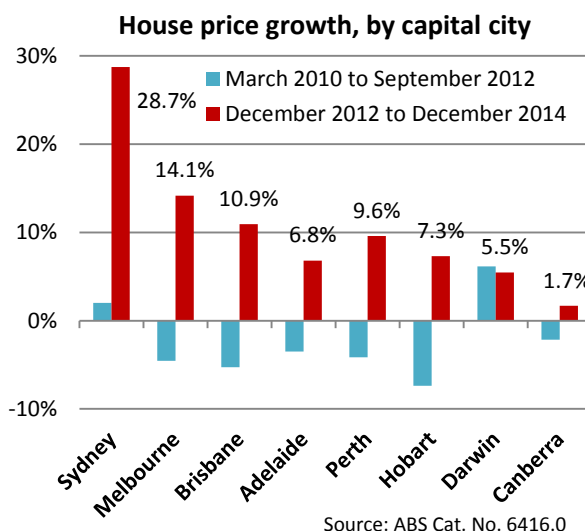
Conditions in the housing market have remained strong, supported by very low interest rates and relatively strong population growth. There is still a general consensus among economists, including HSBC Australia chief economist [Paul](#)

[Bloxham](#), that this rate of price growth in the Sydney housing market is 'unsustainable'. RBA Governor Glenn Stevens recently [warned](#) of a bubble in Sydney property and that Sydney house prices looked 'rather exuberant.'

NAB's latest [Quarterly Australian Residential Property Survey](#) found prices will increase by 4.4% across the country by the end of the year, led by Sydney (7.7%) and Melbourne (6.2%).

One well [publicised](#) outcome of this report was the finding that, nationally, foreign buyer participation rose from 14.8 to 15.6%. According to the report, offshore buyers accounted for 21% of all new apartments and houses sold over the first three months of 2015 in the investor-dominated NSW market, up from less than 15% in the previous three months.

There is a firm opinion that prices will likely slow by next year. The Commonwealth Bank [supported](#) the view that house prices should ease in the medium term, pointing to considerable additions to the dwelling stock over 2015, and possibly 2016, that 'should help ease some of the affordability issues.'



Established house prices, indexed to 2011-12									
	Syd	Melb	Bris	Adel	Per	Hob	Dar	Canb	Aust
Dec-2013	119.0	109.7	107.1	104.4	113.9	103.3	112.8	101.8	112.6
Mar-2014	121.7	110.7	108.5	105.4	114.8	103.7	114.0	102.3	114.2
Jun-2014	126.0	112.1	110.5	105.6	114.8	104.1	114.7	103.3	116.4
Sep-2014	129.1	113.1	111.2	106.1	114.9	104.6	114.4	103.3	118.0
Dec-2014	133.5	114.6	112.8	107.0	115.3	105.6	113.7	103.5	120.3

Source: ABS, House price indexes, Australia, Cat. No. 6416.0

DWELLING APPROVALS

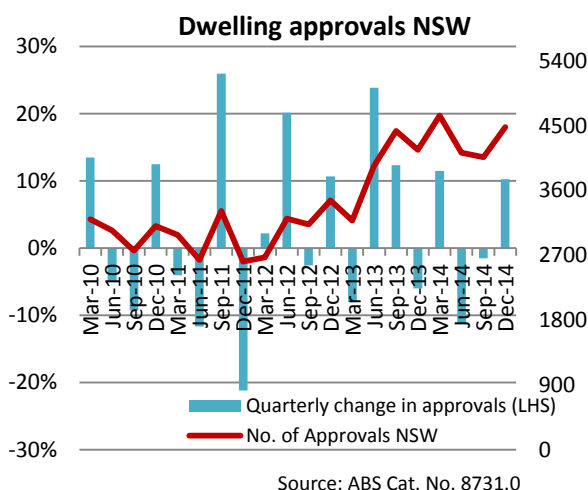
The average monthly number of dwellings approved in NSW increased by 10% in the December 2014 quarter to 4,479. This is the first quarter of positive approvals growth in NSW since March 2014.

Building approvals data is volatile on a month to month basis, mostly due to the 'lumpy' nature of unit and town house developments. On a trend basis, which looks through the monthly volatility, building approvals are at record levels. Approvals in NSW still remain 31% higher than the 5-year average.

Across the States and Territories, Tasmania (up by 24% for the December quarter) and Victoria (up 22%) experienced the highest gains in dwelling approvals.

As St George Bank [identified](#), 'a combination of low interest rates, rising house prices and the "search for yield" continues to support demand for housing.' The longer term trend in approvals reflects the continued supply response to recent strong house price growth in Sydney. The Commonwealth Bank concluded that the strengthening trend in building approvals data will help other significant segments of the domestic economy.²¹

Building multipliers are among the most robust in the economy. Mainly via fuller order books, higher materials demand, more employment and higher (related) retail spending. All levels of Government will benefit from more construction, more jobs and more tax revenues. More residential supply has the dual benefits of restraining house price inflation and assisting the metamorphosis in the national economy from mining to non-mining led growth.



Number of dwellings approved, quarterly average									
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Dec-13	4,741	4,687	3,523	983	2,513	156	174	386	17,163
Mar-14	4,188	4,184	2,822	859	2,438	172	84	418	15,165
Jun-14	3,910	4,854	3,163	950	2,570	209	222	232	16,111
Sep-14	4,145	5,175	3,443	1,002	2,890	200	194	351	17,235
Dec-14	5,058	5,806	3,305	969	2,793	239	165	309	17,358

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

HOUSING FINANCE

The average number of owner-occupier dwellings financed in NSW increased by 6.3% during the December quarter to 16,591.

The December quarter is historically a relatively strong period for owner occupier housing finance growth in NSW. This is the fifth consecutive

²¹

Commonwealth Bank, [Building approvals – May 2014](#), 3 July 2014

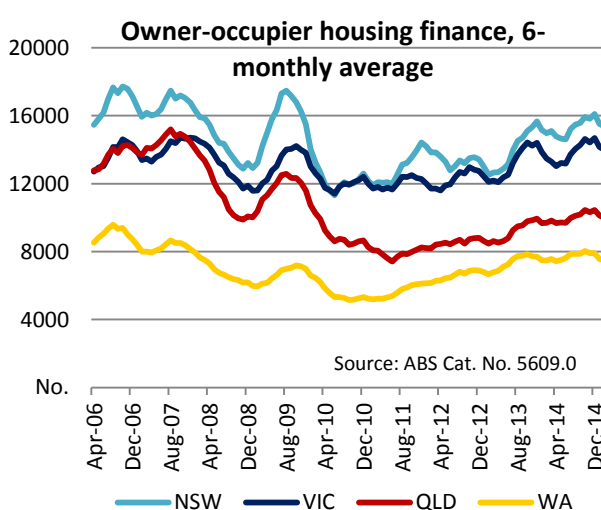
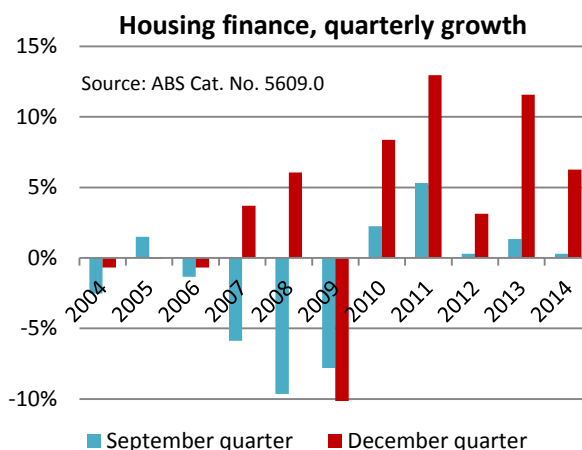
December quarter in which housing finance growth has been positive. The only year of negative growth came in 2009 following the global financial crisis.

Growth in the most of the other States and Territories was relatively strong for the December quarter. The ACT (up 6.8%) and Western Australia (up 3.9%) had the largest increases in demand of the other jurisdictions.

As can be seen in the figure adjacent, owner-occupier demand has been trending up since early 2010, but still remains below the highs realised in the mid-2000s.

Housing finance growth has eased over the months of January and February in NSW. However, as St George Bank [explain](#):

...the level of overall financing for housing remains buoyant. The rate cut delivered in February and the likelihood of another rate cut in coming months will continue to prop up demand and support further growth in house prices this year.



Number of dwellings financed, owner-occupiers, by State								
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Dec-13	16,525	14,260	10,242	3,502	7,852	939	362	824
Mar-14	13,687	12,347	9,402	3,152	7,289	833	338	743
Jun-14	15,525	14,024	9,988	3,543	7,975	895	356	807
Sep-14	15,612	14,533	10,393	3,411	7,753	888	390	853
Dec-14	16,591	14,850	10,504	3,449	8,055	868	400	912

Source: ABS, Housing Finance, Australia, Cat. No. 5609.0, February 2015

RENT

There are two aspects to rental affordability. The first is the burden imposed on a household's cost of living. The second and perhaps less straight forward aspect is the effect rising rents have on home ownership affordability.

As discussed in the NSW Parliamentary Research Service paper [House prices, ownership and affordability: trends in NSW](#), 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.

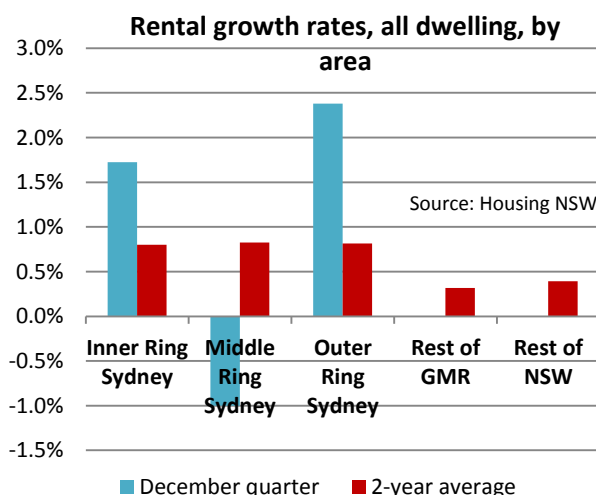
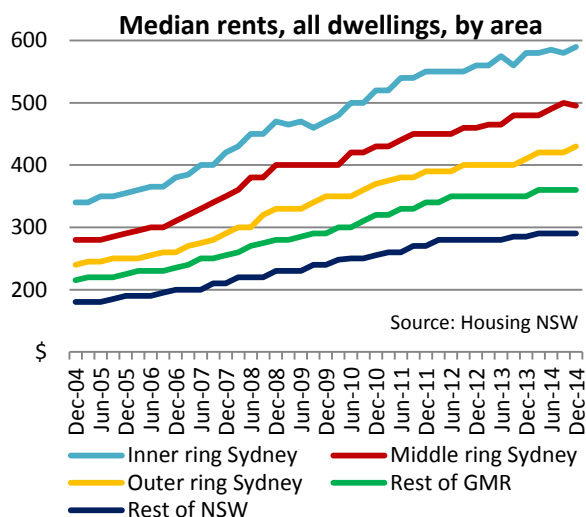
For these buyers, there is a significant opportunity cost in waiting to buy a first home which materialises in two ways. Firstly, as real house prices rise (usually disproportionately with income) the deposit required to buy a home of a fixed size will rise with time. This cost is then compounded because prospective home buyers are not absorbing any of the capital growth.

Rental prices, which form a large component of a prospective home buyers housing costs, have risen consistently in NSW over the last two decades, with the growth most pronounced in the inner urban areas of Sydney.

These results need to be considered in the context of income growth (see Chapter 5 of the aforementioned [research paper](#)). Nevertheless, they do represent a consistent and perhaps concerning upward trend.

For the December 2014 quarter, rental growth was most pronounced in the outer ring suburbs of Sydney at 2.4%. The inner ring of Sydney had the next highest growth for the quarter at 1.7%.

Quarterly rental growth has averaged 0.8% across all Greater Sydney regions over the last two years. Rental growth outside of Sydney has been more subdued over the past couple of years, averaging 0.4% for the rest of NSW.



GLOSSARY

The following definitions are those used by the Australian Bureau of Statistics, unless otherwise stated.

Average weekly earnings: Average gross (before tax) earnings of employees. Estimates of average weekly earnings are derived by dividing estimates of weekly total earnings by estimates of number of employees.

Cash target rate: Monetary policy decisions are expressed in terms of a target for the cash rate, which is the overnight money market interest rate. (Source: Reserve Bank of Australia, www.rba.gov.au)

Chain volume measures: Estimates that exclude the direct effects of changes in prices. Unlike current measure estimates, they take account of changes to price relativities that occur from one year to the next. Annually re-weighted chain volume indexes are referenced to the current price values in a chosen reference year.

Consumer price index: The Consumer Price Index (CPI) measures quarterly changes in the price of a 'basket' of goods and services which account for a high proportion of expenditure by the CPI population group (i.e. metropolitan households). This 'basket' covers a wide range of goods and services, arranged in the following eleven groups: food; alcohol and tobacco; clothing and footwear; housing; household contents and services; health; transportation; communication; recreation; education; and financial and insurance services.

Employed: All persons aged 15 years and over who, during the reference week: worked for one hour or more for pay, profit, commission or payment in kind in a job or business, or on a farm (comprising employees, employers and own account workers); or worked for one hour or more without pay in a family business or on a farm (i.e. contributing family workers); or were employees who had a job but were not at work and were: away from work for less than four weeks up to the end of the reference week; or away from work for more than four weeks up to the end of the reference week and received pay for some or all of the four week period to the end of the reference week; or away from work as a standard work or shift arrangement; or on strike or locked out; or on workers' compensation and expected to return to their job; or were employers or own account workers, who had a job, business or farm, but were not at work.

Free on board (FOB): The value of goods measured on a free on board (f.o.b.) basis includes all production and other costs incurred up until the goods are placed on board the international carrier for export. Free on board values exclude international insurance and transport costs. They include the value of the outside packaging in which the product is wrapped, but do not include the value of the international freight containers used for transporting the goods.

Gross domestic product: Is the total market value of goods and services produced in Australia within a given period after deducting the cost of goods and services used up in the process of production but before deducting

allowances for the consumption of fixed capital. It is equivalent to gross national expenditure plus exports of goods and services less imports of goods and services.

Gross State Product (GSP): GSP is defined equivalently to gross domestic product (GDP) but refers to production within a State or Territory rather than to the nation as a whole.

Labour force: For any group, persons who were employed or unemployed, as defined.

Participation rate: For any group, the labour force expressed as a percentage of the civilian population aged 15 years and over in the same group.

Private business investment: Investment in non-dwelling construction, plus machinery and equipment, plus cultivated biological resources, plus intellectual property products.

Seasonally adjusted estimates: Seasonally adjusted estimates are derived by estimating and removing from the original series systematic calendar related effects, such as seasonal (e.g. Christmas), trading day and moving holiday (e.g. Easter) influences. Seasonal adjustment does not aim to remove the irregular or non-seasonal influences which may be present in any particular month. These irregular influences may reflect both random economic events and difficulties of statistical recording.

State Final Demand: is a proxy for economic growth, measures the total value of goods and services that are sold in a State to buyers who wish to either consume them or retain them in the form of capital assets. It excludes sales made to buyers who use them as inputs to a production activity, export sales and sales that lead to accumulation of inventories.

Trend series: A smoothed seasonally adjusted series of estimates.

Unemployed: Persons aged 15 years and over who were not employed during the reference week, and: had actively looked for full time or part time work at any time in the four weeks up to the end of the reference week and were available for work in the reference week; or were waiting to start a new job within four weeks from the end of the reference week and could have started in the reference week if the job had been available then.

Unemployment rate: For any group, the number of unemployed persons expressed as a percentage of the labour force in the same group.

Weekly ordinary time earnings: Weekly ordinary time earnings refers to 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.