

State of the States

State & territory economic rankings

- **Western Australia and the ACT now share the title of the best performing economy in Australia. Overall CommSec couldn't split Western Australia and the ACT after consideration of eight key indicators.**
- **Three months ago, Tasmania was judged the best performing economy in Australia, from South Australia and Western Australia. And while Tasmania has slipped to third and South Australia is down to fourth, overall there is little to separate six of the eight state/territory economies.**
- **NSW continues to bring up the rear of the state/territory rankings, behind Northern Territory.**

Economic Rankings

January 2010

- =1. ACT
- =1. Western Australia
- 3. Tasmania
- 4. South Australia
- 5. Queensland
- 6. Victoria
- 7. Northern Territory
- 8. NSW

Western Australia and the ACT are on top

- Tasmania has lost its position as the best performing economy in the nation, but only just. However the ACT and Western Australia have crept up the leader-board over the past three months and now share the top spot. Western Australia is the fastest growing economy, buoyed by mining-related construction and investment. And solid growth in residential construction and property sales has propelled the ACT to the top of the economic rankings.
- Tasmania's economy has continued to benefit from above-average population growth. Also the US financial crisis had only a modest impact on the state, especially compared with NSW and Victoria.
- South Australia slipped from second to fourth in the economic rankings but there was little to separate the top six state/territory economies. South Australia was generally around the middle of the pack on each of the indicators.
- Queensland takes fifth spot with investment and retail spending the strongest areas. Victoria has crept up the leader-board from seventh to sixth on the back of stronger economic growth and improved growth in residential property. And Victoria was one of the biggest improvers over the last three months, behind the ACT.
- Northern Territory is seventh with NSW in eight spot with both economies underperforming on construction activity, especially in the residential sector.

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- Looking ahead, Western Australia appears to have the best prospects of all the states and territories, underpinned by solid investment spending in mining and engineering sectors. NSW has potential to lift from the bottom of the economic leader-board if faster population growth can be translated to increased construction, investment and overall economic growth.

How were the rankings decided?

- Each of the states and territories were assessed on eight key indicators: economic growth; retail spending; business investment; construction work done; population growth; housing finance; dwelling commencements; and unemployment.
- The economies weren't ranked on annual growth rates; rather current activity levels were compared with decade averages. Clearly some states such as Queensland and Western Australia consistently have faster growth rates due to historically faster population growth. So the best way to assess economic performance is to look at each indicator in relation to what would be considered 'normal' for that state or territory.
- For instance, Tasmania's trend unemployment rate stands at 5.4 per cent. While the ACT has lower unemployment, Tasmania's decade average unemployment rate stands at 6.8 per cent. Compared with other states and territories, Tasmania's job market is performing far better, with unemployment well below its 'normal' or decade average rate.
- Similarly dwelling starts. In the September quarter Tasmania's dwelling starts were only 2.5 per cent higher than a year ago. But the actual level of starts was 26 per cent above the decade average – far better than most of the other states or territories on the same criteria.
- Clearly there will always be some subjectivity associated with the rankings. Some people may believe that a certain indicator deserves a higher weight – perhaps considering that unemployment is more important than housing finance. And some will debate the worth of indicators used for assessment. But the fact that eight indicators are used means economic performance is broadly assessed.
- Where available, trend measures of the economic indicators were used to assess performance rather than more volatile seasonally adjusted or original estimates.

ECONOMIC RANKINGS January 2010

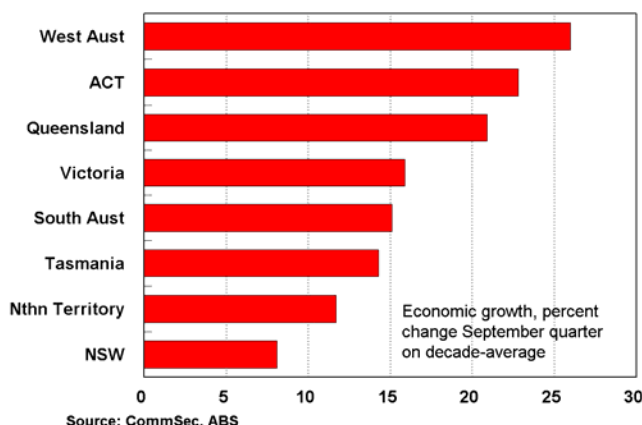
| | Economic growth | Retail trade | Business Invest | Unemployment | Construction work | Population growth | Housing finance | Dwelling starts | TOTAL |
|--------------------|-----------------|--------------|-----------------|--------------|-------------------|-------------------|-----------------|-----------------|-------|
| NSW | 8 | 7 | 5 | 8 | 8 | 2 | 5 | 8 | 51 |
| Victoria | 4 | 6 | 4 | 5 | 6 | 6 | 2 | 3 | 36 |
| Queensland | 3 | 2 | 2 | 6 | 3 | 8 | 4 | 7 | 35 |
| South Australia | 6 | 5 | 5 | 3 | 2 | 4 | 3 | 4 | 32 |
| Western Australia | 1 | 4 | 1 | 7 | 1 | 3 | 7 | 6 | 30 |
| Tasmania | 5 | 3 | 7 | 2 | 5 | 1 | 6 | 2 | 31 |
| Northern Territory | 7 | 1 | 8 | 1 | 7 | 5 | 8 | 5 | 42 |
| ACT | 2 | 8 | 3 | 4 | 4 | 7 | 1 | 1 | 30 |

Source: CommSec

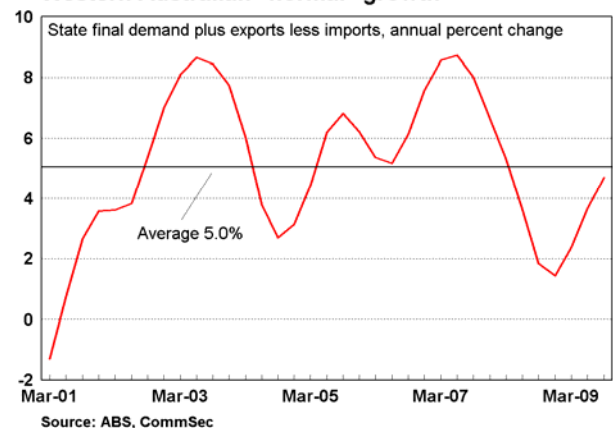
Economic growth

- Ideally gross state product would be used to assess broad economic growth. But the data isn't available quarterly. Rather state final demand (household and business spending) was added to exports less imports.

Still fastest in the west

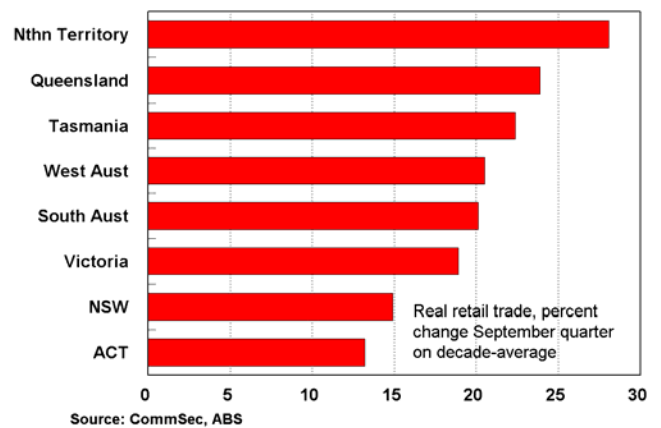


Western Australian "normal" growth



- Western Australia continues to lead the way with economic activity in the September quarter 26 per cent above the state's decade average level of output. Next strongest was the ACT, up almost 23 per cent, followed by the other resources-driven state, Queensland. While economic growth in Queensland has slowed over the past year with companies deciding to mothball new projects, actual activity levels are still well above levels considered 'normal' for the state over the past decade.
- NSW was ranked eighth on economic growth with current economic activity just over 8 per cent above its decade-average growth pace. Higher unemployment has led to weak retail spending, construction activity and business investment.

Top end spends freely



Retail trade

- The measure used was real (inflation-adjusted) retail trade in trend terms with September quarter data the latest available. Monthly retail trade was also assessed (November data available) but broad results didn't vary greatly.
- Coming out on top was Northern Territory with spending in the September quarter just over 28 per cent above decade average levels. Low unemployment, rising incomes and solid growth in home prices are key drivers of consumer spending. Queensland was next strongest followed by Tasmania,
- At the bottom of the leader-board were NSW and the ACT, but in both economies, growth of retail trade has picked up markedly over the past year. For NSW both residential and engineering construction have been weak compared with past experience while ACT has been constrained by comparatively slow population growth.

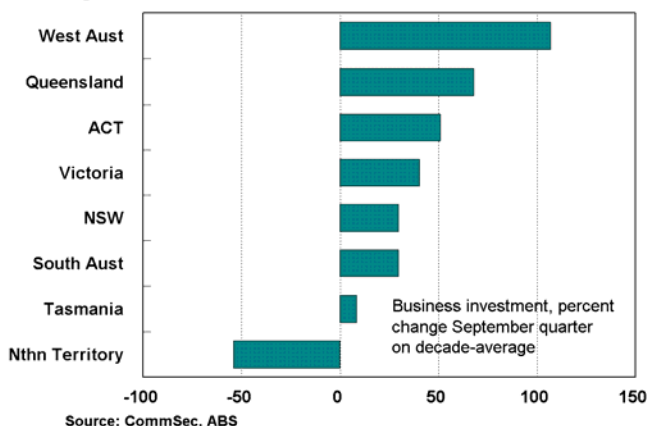
Business investment

- The resources-dependent states of Western Australia and Queensland continue to lead the business investment leader-board. While growth in investment has slowed over the past year in both states, the amount of work underway is still markedly above decade-average levels.
- In Western Australia, the amount of private capital expenditure in the September quarter was 107 per cent above the average levels of the past decade. In Queensland business investment is 68 per cent above 'normal' levels. Simply, there is a lot of work to be done.
- ACT was in third spot in capex, with activity 51 per cent above the long-term average, ahead of Victoria (up 40 per cent). In both the ACT and Victoria, business investment was at record highs in trend terms in the September quarter.
- Despite the global slowdown over 2008/09, capex in all states and territories is still above long-term averages except in Northern Territory. The Territory is affected by the lumpiness of new projects but also seems to have paid the price for the global slowdown with business investment 54 per cent below the average levels experienced over the past decade.

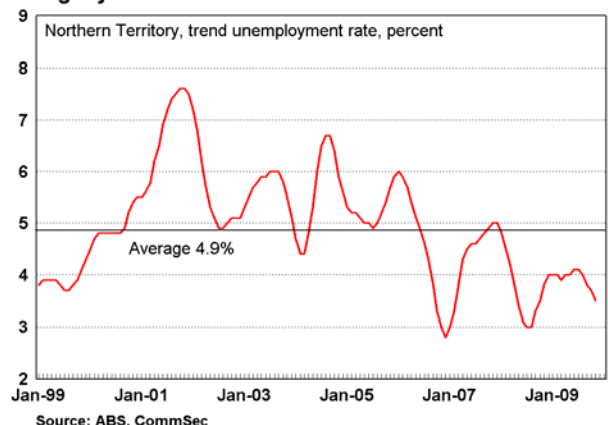
Unemployment

- The smaller states and territories are the major winners in the job stakes. Northern Territory leads the way from Tasmania and the ACT. In Northern Territory the trend rate of unemployment stands at just 3.5 per cent, well below the 4.9 per cent average level recorded over the

High investment in resources states



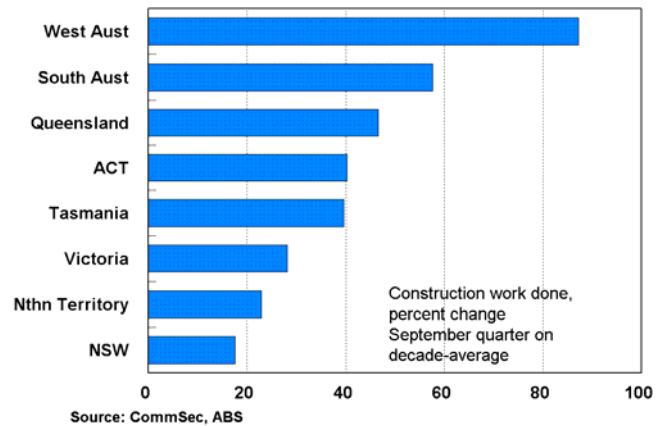
Tight job market



past decade.

- Demand for workers remains solid but population growth and interstate migration haven't kept pace.
- In Tasmania the trend unemployment rate of 5.4 per cent is below the decade average of 6.8 per cent. And in South Australia the unemployment rate stands at 5.5 per cent, below the 5.9 per cent average over the past decade.
- Another of the territories, the ACT, is fourth on the unemployment leader-board; its 3.6 per cent unemployment rate just below the 3.7 per cent decade average.
- At the bottom of the pack is NSW, its unemployment rate of 5.9 per cent sitting almost 9 per cent above the decade-average of 5.4 per cent.
- Encouragingly in the past month the trend rate of unemployment fell in Victoria, South Australia, Western Australia and the Northern Territory. The only increases in unemployment were experienced in Queensland and Tasmania.

NSW trails the pack

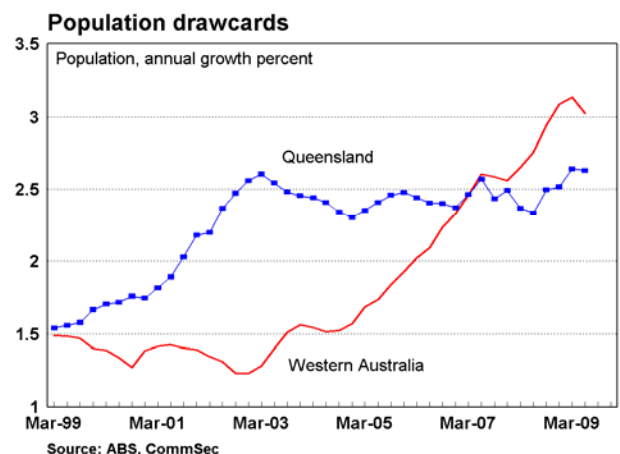
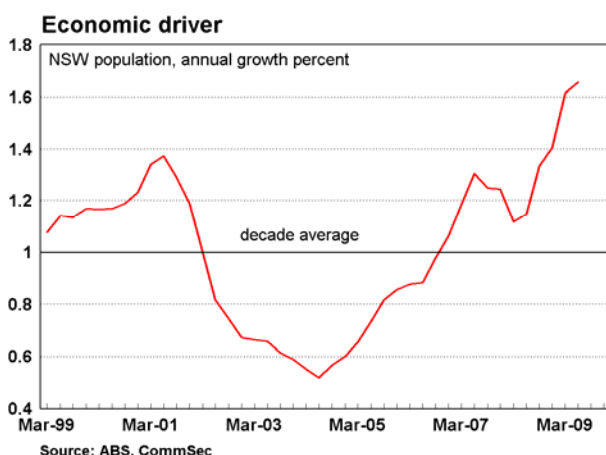


Construction work

- The measure used for analysis was the total amount of residential, commercial and building work actually completed in trend terms in the September quarter.
- Despite a slowdown in the residential sector, Western Australia continues to lead all other states and territories when it comes to measuring construction activity with longer-term averages. In Western Australia the amount of construction work done in the September quarter was 87 per cent above the decade-average. And importantly activity is still growing, lifting 11 per cent over the past year.
- Behind Western Australia in second spot is South Australia. Remarkably, especially given the US financial crisis, construction work done in South Australia grew by 28 per cent in trend terms in the year to September – the fastest growth in 12 years and the fastest growth in the nation. Construction work is almost 58 per cent above decade-averages.
- Queensland is in third place on construction work followed by the ACT. But while work in South Australia is up 28 per cent on a year ago, Queensland work is down almost 2 per cent.
- Weakest construction work is in NSW with work done in the September quarter just 17 per cent above long-term averages. The good news is that construction work is rising in trend terms and is up almost 6 per cent over the year.

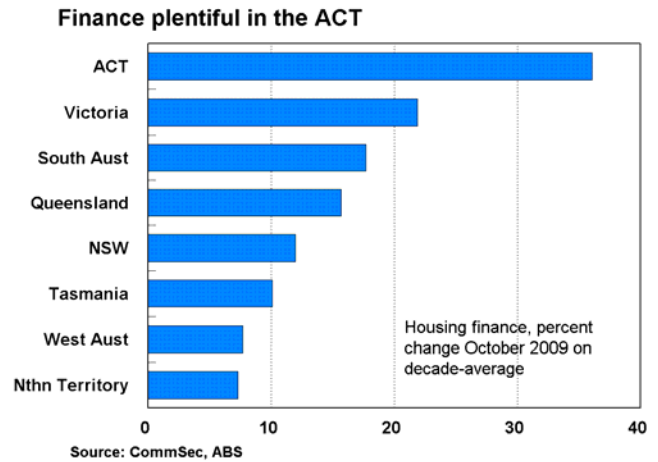
Population growth

- Across the states and territories the current annual rate of population growth was compared with each economy's decade-average growth pace.
- Population growth is fastest in Western Australia (3.0 per cent) followed by Queensland (2.6 per cent). But both states have been consistently leading the rest of the nation, especially over the past three years.
- At the top of the rankings on the population growth leader board is Tasmania. In Tasmania annual population growth stands at 1.0 per cent, the fastest in four years and well above the decade average pace of 0.6 per cent.



Next best was NSW with its population growth of 1.7 per cent, well above its long-term average pace of 1.0 per cent. Five years ago, annual population growth in NSW was just 0.5 per cent.

- In third spot, and down one place over the past three months, was Western Australia. Not only is Western Australia's population growth of 3.0 per cent the fastest in the nation, it is well above the decade average pace of 1.9 per cent.
- Remaining at the bottom of the leader-board is Queensland. Current population growth of 2.6 per cent is only modestly above the 'normal' or decade-average growth pace of 2.3 per cent. Other states and territories are generally maintaining population growth rates that are 50 per cent faster than their decade-average levels. In Queensland population growth is just 15 per cent above longer-term averages.

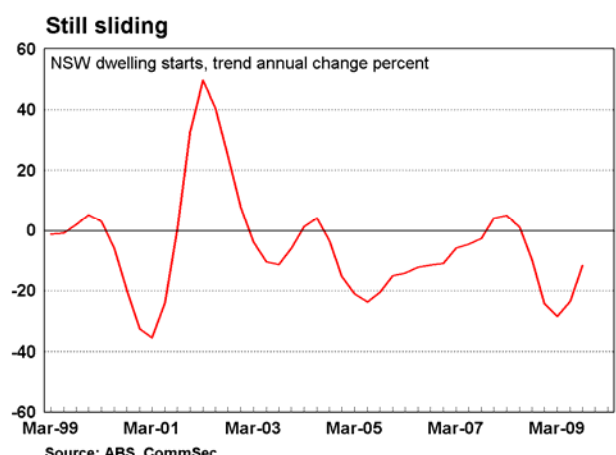
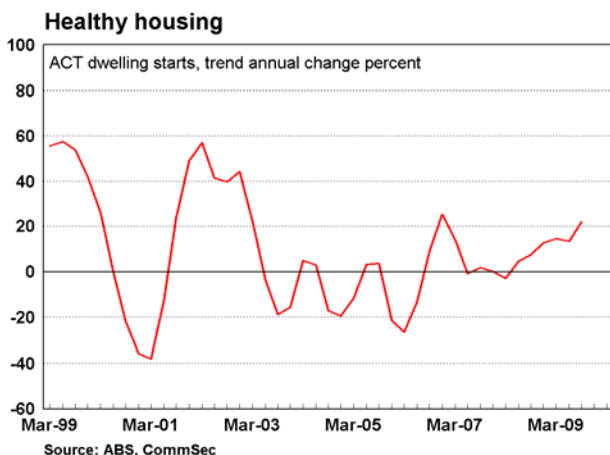


Housing finance

- The measure used was the trend number of housing finance commitments and this was compared with the decade-average for each respective state and territory.
- Housing finance is not just a lead indicator for real estate activity and housing construction but also is an indicator of activity in the financial sector. Unfortunately trend figures on commercial, personal and lease finance are not available for states and territories.
- In top position for housing finance is the ACT. While annual growth of new lending has slowed since May, it is still the fastest in the nation, up 29 per cent. And the number of commitments is 36 per cent above 'normal' or decade-averages, boosting work for financial institutions, real estate agents and builders.
- Victoria is in second spot for housing finance, with the number of commitments 22 per cent above longer-term averages, particularly driving overall activity in the construction sector, especially in the residential sector.
- South Australia was third on housing finance followed by Queensland and NSW. In each of these states housing finance has lifted around 25 per cent over the past year.
- At the bottom of the leader-board is Northern Territory, just ahead of Western Australia. But even in these two states, housing finance has lifted by around 20 per cent over the past year. The number of housing finance commitments in both economies is 7 per cent above the decade-average or 'normal' growth pace.
- Tasmania was in sixth position on housing finance, with annual growth of housing finance slowing from six year highs of 22 per cent to 15 per cent in the past two months.

Dwelling starts

- The measure used was the trend number of dwelling commencements (starts) with the comparison made with the decade-average level of starts. Starts are driven in part by population growth and housing finance and can affect retail trade, unemployment and overall economic growth. However the level of over or under-building in previous years can determine the level of starts.
- And just as it topped the leader-board on housing finance, the ACT topped the leader-board on dwelling starts.



The number of dwelling starts in the September quarter was 32 per cent above the decade average, ahead of Tasmania which had starts 26 per cent above the longer-term averages.

- Over the past year dwelling starts in the ACT grew by 22 per cent – clearly the fastest in the nation – and supported by a strong job market, increased land production and low interest rates.
- Low unemployment, improved housing affordability and firmer population growth have also underpinned demand for new housing in Tasmania, in turn supporting retail spending.
- In third spot for dwelling starts is Victoria, replacing South Australia which has slipped to fourth. In trend terms, annual growth in starts has improved in Victoria over the past nine months and now stands at 7 per cent. Victorian starts are 3.5 per cent above decade averages while in South Australia and the Northern Territory starts are broadly in line with decade averages.
- Western Australian dwelling starts are now 7 per cent below long-term averages after activity fell sharply from 2007-2009.
- At the other end of the leader-board is NSW. Dwelling starts in NSW over 2008/09 fell to the lowest levels in 56 years. In the September quarter the number of dwelling starts was 37 per cent below the decade average. The good news is that starts are no longer down 28 per cent on a year ago; they are only down 12 per cent. And starts have risen in the last two quarters.
- In front of NSW in seventh spot is Queensland. While the number of dwelling starts in Queensland in the September quarter was 13 per cent above NSW, they were still 26 per cent below the average levels seen over the past decade. The downturn in the resources sector and the reduced boost from population growth has translated into higher unemployment and a downturn in home building.

WAGES & PRICES*

| | Wages | Consumer Prices | Home Prices |
|--------------------|-------|-----------------|-------------|
| NSW | 3.5 | 1.3 | 10.4 |
| Victoria | 3.0 | 0.6 | 15.3 |
| Queensland | 3.5 | 1.9 | 6.5 |
| South Australia | 3.2 | 1.4 | 5.9 |
| Western Australia | 4.1 | 1.2 | 5.9 |
| Tasmania | 4.2 | 1.8 | 13.7 |
| Northern Territory | 3.7 | 2.7 | 23.7 |
| ACT | 3.8 | 1.4 | 11.9 |

* Annual % change. Source: ABS, RP Data, CommSec

Sept Quarter 2009 - wages, prices

Nov 2009 - home prices (except Tasmania-Oct 09)

Other indicators

- Consumers in all states and territories are still enjoying real wage gains (wages growing faster than prices). And homeowners are benefiting from rising home prices.
- While Western Australia is experiencing the strongest gain in real wages, home prices are growing at the slowest pace in the nation alongside South Australia. Figures from RP Data indicate that Perth dwelling prices are up 5.9 per cent on a year ago, well down on the 23.7 per cent annual pace in Darwin.
- Victoria is arguably in the strongest position with real wage growth of 2.4 percentage points and home prices up almost 18 per cent on a year ago. But Tasmania and Northern Territory aren't far behind.

What are the implications for investors?

- The leader-board of state and territory economies is useful to get a big picture perspective. The ACT and Tasmania have been insulated from the US financial crisis but momentum has returned to Western Australia in response to the strong recovery of the Chinese economy.
- Western Australia should maintain its spot at the top of the leader-board in early 2010. The ACT and Tasmanian economies may slip modestly down the leader-board as the global economy recovers, with Queensland and Victoria having the greatest potential to move up the rankings.
- NSW should benefit from the ending of the US financial crisis via stronger job market. But it is a long way behind the other states and territories due to the stagnant activity in the construction sector. Government initiatives to kick-start growth would be beneficial in the current environment, adding to the momentum from the improvement in the global economy.
- South Australia and Northern Territory are expected to maintain their rankings around the middle of the leader-board in early 2010.

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