

The Economic Performance of the States

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Over the past decade, the mining investment boom in resource-rich states accounted for much of the difference in the pace of economic growth across states. More recently, there has been a gradual rebalancing of growth, though the transition has been uneven. Housing market activity has picked up and this has been accompanied by stronger consumption growth, particularly in New South Wales and Victoria. State labour market conditions have generally softened and the unemployment rate is elevated in all states.

Introduction

Economic growth across Australia's states and territories has been uneven for much of the past decade. The mining investment boom underpinned growth in the resource-rich states, while growth in the non-mining parts of the economy and those states less exposed to mining has been more subdued. Business investment in the resource-oriented states has declined from its peak in 2012/13 and this is expected to continue over coming years. At the same time, supported by low interest rates, consumption growth and housing market activity have strengthened, particularly in New South Wales and Victoria. These developments have brought about more balanced growth across the country and are also reflected in trends in state labour markets and population movements. This article analyses these differences in economic conditions across the states in more detail.

Economic Growth across the States

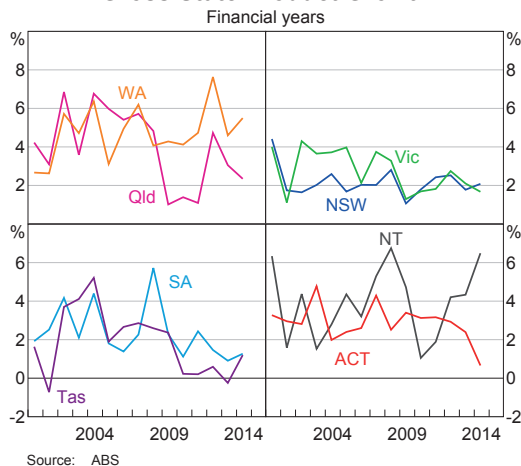
The mining boom has made a substantial contribution to Australian economic growth over the past decade. Investment in the mining sector grew strongly as businesses responded to the historically high level of commodity prices. As resource projects have gradually been completed over recent years and few new projects have commenced, mining

investment has started to decline, though growth of mining activity overall has remained firm supported by an increase in resource exports. In contrast, growth in the non-mining part of the Australian economy has been subdued for several years, in part due to the high level of the exchange rate, while public spending growth has also declined. Nevertheless, growth in non-mining activity has picked up slightly in the past year, supported by low interest rates and the depreciation of the Australian dollar. Dwelling investment has strengthened and there has been a modest increase in the rate of growth in consumption.

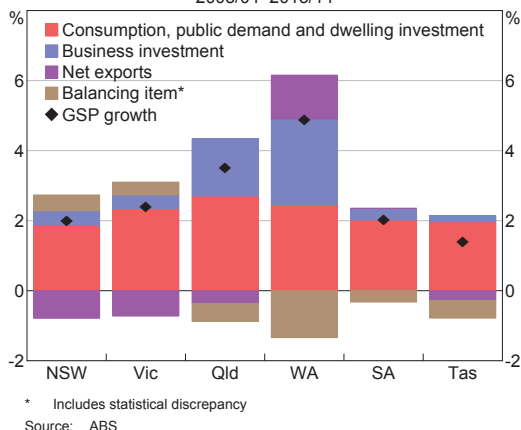
The contribution to economic growth from the mining boom has been most pronounced in Western Australia and Queensland, which have the highest concentration of mineral resources. Mining activity has made a smaller contribution to growth in other states, both directly through mining operations and supporting business services, and indirectly through positive income effects such as higher government revenues. Gross state product (GSP), which measures the level of state production by adjusting spending for both interstate and overseas trade, has grown at an average annualised rate of close to 5 per cent in Western Australia and 3½ per cent in Queensland since 2003/04, compared with 2½ per cent, or less, in the other states (Graph 1 and Graph 2).

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Graph 1
Gross State Product Growth

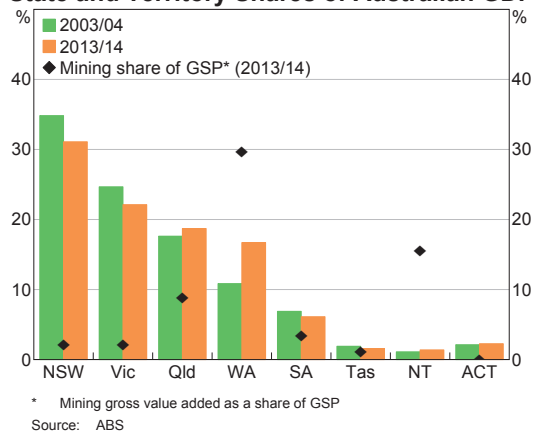


Graph 2
Contributions to Average Annual GSP Growth
2003/04–2013/14



As a result of the strong growth in Australia's mining sector, the resource-rich states now account for a larger share of the Australian economy. Western Australia's share of national GDP has grown to 17 per cent, compared with a share of 11 per cent in 2003/04 and a share of the national population of 11 per cent (Graph 3; see Table A1 for summary statistics of state size). Queensland's share of the national economy has also increased over this period, though to a lesser extent, reflecting the smaller role of mining in the state. Although the Northern Territory's share of the national economy remains small in absolute

Graph 3
State and Territory Shares of Australian GDP



terms, it has increased by around a quarter over the past decade due to strong growth in its relatively large mining and construction sectors.

Growth in the non-mining part of the Australian economy has been subdued for several years. Because the mining boom was associated with a significantly higher exchange rate, trade-exposed sectors such as manufacturing and tourism, as well as parts of the non-mining business services sector, have faced challenging conditions. Against the backdrop of subdued growth in the non-mining economy, there has been little growth in non-mining business investment over recent years. Differences in state industry composition mean that the impact has been varied across the states. For example, South Australia and, to a lesser extent, Victoria and Tasmania have been more exposed to the weakness in the manufacturing sector (see Table A3 for industry composition by state). Nevertheless, the depreciation of the Australian dollar since 2013 has helped improve the competitiveness of trade-exposed sectors and there are tentative signs that growth in some of these sectors has improved.

Public demand growth has slowed across most states in recent years as both federal and state governments seek to improve their budget positions. The public sector contribution to state growth has been particularly weak in Queensland

and Tasmania in the past few years. In addition to weak public sector revenues associated with below-average economic growth in many states, the fall in commodity prices over recent years has significantly reduced royalties for some state governments and company tax receipts for the federal government. Governments have chosen to offset these revenue losses through fiscal restraint on current expenditures, such as transfer payments to households, and partly by increasing borrowing over the next few years.

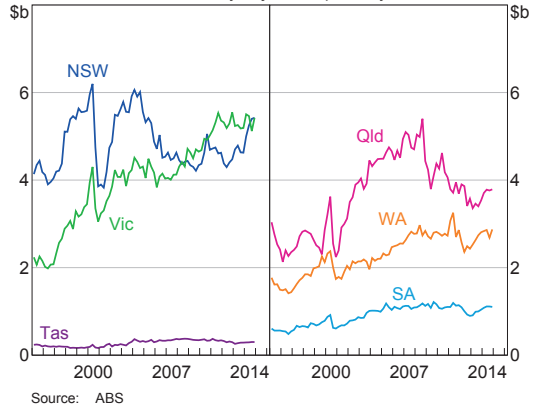
Aggregate dwelling investment has grown strongly since mid 2013. Although the low level of interest rates is supporting activity in all markets, growth in dwelling investment by state has been quite varied, in part due to differences in the pace of housing price growth and population growth (Graph 4). The recent pick-up in activity has been most pronounced in New South Wales and follows several years of subdued activity in its housing sector. Dwelling investment has also strengthened in the resource-rich states over the past two years. Dwelling investment in Victoria has been at a relatively high level since 2010, supported by strong growth in apartment building activity, particularly in inner Melbourne. Building approvals data point to further growth in most states over coming quarters (Graph 5).

Consumption growth has strengthened in many states over the past two years, following a period of subdued growth. Consumption has been supported by low interest rates and the strengthening in housing market activity, both directly through increased demand for household goods and also through the boost to household wealth from the sizeable increases in housing prices. Indeed, consumption growth over the past year has been firm in New South Wales and Victoria, which have experienced the strongest housing markets and, relatedly, have had less direct exposure to the contraction in mining investment (Graph 6). Consumption growth has picked up in South Australia and Tasmania. In contrast, consumption growth has moderated in the resource-rich states

Graph 4

Dwelling Investment

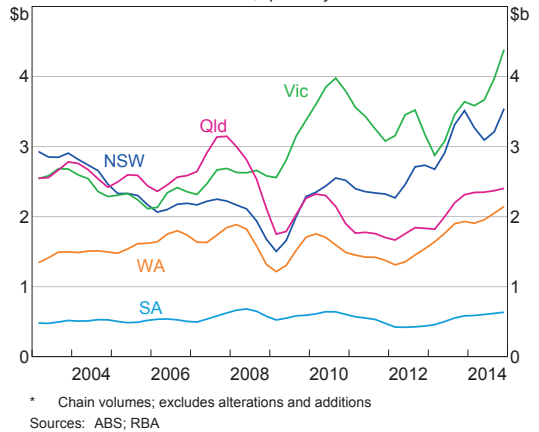
Seasonally adjusted, quarterly



Graph 5

Residential Building Approvals*

Trend, quarterly

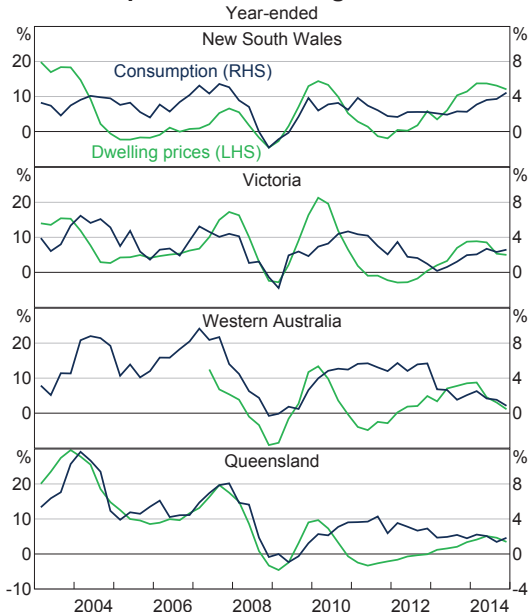


over the past two years, following a period of strong growth on the back of the mining boom, particularly in Western Australia.

Across the whole economy, consumption has been growing faster than household incomes, and the saving ratio has declined gradually over the past couple of years following a significant increase in the ratio from the mid 2000s. While all states experienced a rise in gross saving rates over this period, the largest increases were in Queensland and Western Australia (Graph 7). These two states were also the main beneficiaries of the rise in household income growth that resulted from strong growth of

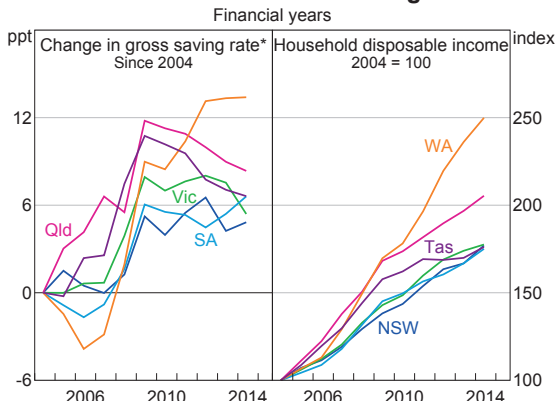
employment and wages in the resources sector. This is consistent with the possibility that households viewed the boost to their income from the resources investment boom as temporary and responded by raising the rate at which they save in order to smooth their consumption over time.

Graph 6
Consumption and Dwelling Price Growth*



* Consumption is real household final consumption expenditure; dwelling prices are nominal median dwelling prices
Sources: ABS; Australian Property Monitors

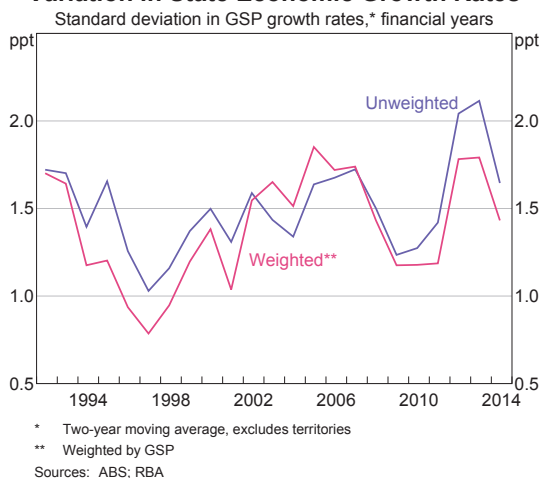
Graph 7
Household Income and Saving Rate



* Gross saving includes depreciation
Sources: ABS; RBA

The decline of mining investment in the resource-rich states and the pick-up of dwelling investment and consumption in some other states have brought about more balanced growth across the country relative to recent years. A summary measure of the degree of variation in economic growth across the states is the standard deviation in GSP growth rates. According to this measure, variation in economic growth has declined recently to be a little above its long-run average (Graph 8).

Graph 8
Variation in State Economic Growth Rates

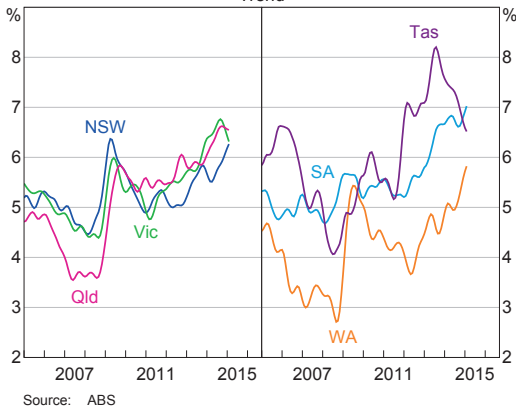


* Two-year moving average, excludes territories
** Weighted by GSP
Sources: ABS; RBA

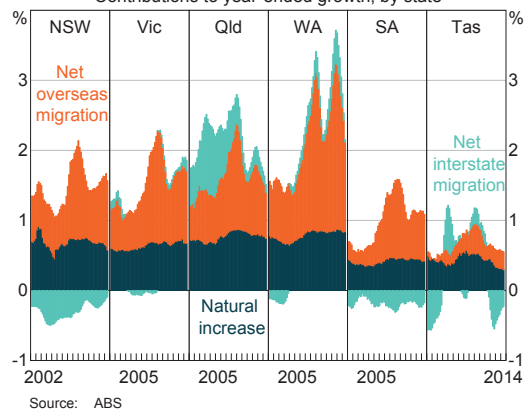
Labour Markets and Population Growth

Labour market conditions have weakened across all states over recent years. Most states have recorded an increase in the number of people employed, but this has been insufficient to offset growth in the size of the labour force. As a result, unemployment rates are elevated in all states (Graph 9). Differences in labour force growth by state partly reflect marked changes in population growth rates in recent years, though overall population growth remains strong in Australia. The variation in state unemployment rates has declined recently, to be well below its average level since 2000 (Graph 10).

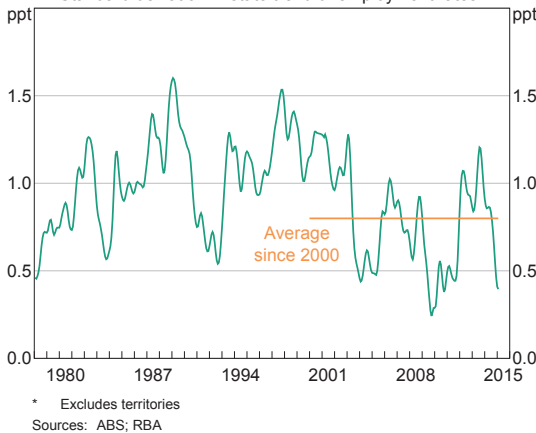
Graph 9
Unemployment Rates
Trend



Graph 11
Population Growth
Contributions to year-ended growth, by state



Graph 10
Variation in State Unemployment Rates
Standard deviation in state trend unemployment rates*



Western Australia had the lowest unemployment rate of all the states for most of the past decade, though the rate has increased over the past three years as growth in the labour force outpaced strong employment growth. Western Australia maintains the highest rate of population growth in the country, though growth has slowed somewhat in both of the resource-intensive states as mining investment started to decline (Graph 11). Employment growth in Queensland has been weak across several industries over the past few years and the unemployment rate has remained relatively elevated compared with the other large states.

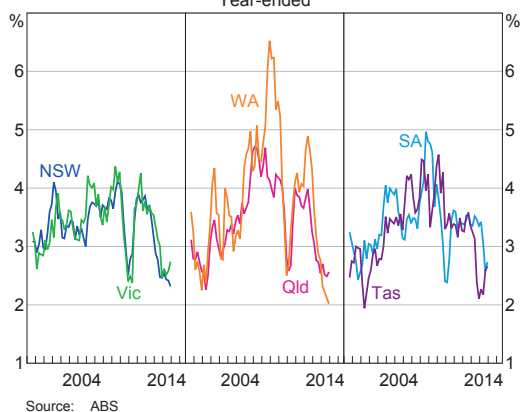
In contrast with the resource-intensive states, population growth has picked up in New South Wales and Victoria over recent years, underpinned by net overseas migration. At the same time, employment has been growing at a modest pace in New South Wales supported by increased hiring in household and business services, and more recently in the construction sector. Employment growth in household services has also been strong in Victoria over recent years but broadly steady in several other sectors. The unemployment rate in New South Wales and Victoria has increased by around 1 percentage point since 2011 to be 6¼ per cent in trend terms.

In contrast to the upward trend in the unemployment rate in the other states, the unemployment rate in Tasmania has declined significantly from its recent peak of over 8 per cent in mid 2013, to be around 6½ per cent. Population growth remains relatively weak in both Tasmania and South Australia, in part due to ongoing net outward migration to the other states.

Wage growth in both the public and private sectors has eased substantially across all states as labour market conditions softened. The impact of the mining investment cycle has been particularly marked in Western Australia. Following several years of sustained wage growth above the national average, private sector wages growth in Western

Australia declined sharply after 2012, to reach the slowest pace of growth in the country (Graph 12). Wage growth across all states is at, or around, its slowest pace in decades and differences across states are minimal.

Graph 12
Private Wage Price Index Growth
Year-ended



Conclusion

The mining boom has made a substantial contribution to Australian economic growth over the past decade. Although mining activity has contributed to growth in all states, the effects have been most pronounced in resource-rich states. This has influenced differences in state-based labour market outcomes and population growth rates. Mining investment has started to decline. Growth in the non-mining economy has improved slightly following several years of subdued activity supported by a strengthening in dwelling investment and a pick-up in consumption. These developments have brought about more balanced growth across the country. ✖

Appendix A

Indicators of State Size, Growth and Industry Composition

Table A1: Relative Size of States
Share of Australia, 2013/14, per cent

	NSW	Vic	Qld	WA	SA	Tas
Gross state product	31	22	19	17	6	2
Population ^(a)	32	25	20	11	7	2
Employment ^(a)	31	25	20	12	7	2
Exports ^(b)	19	12	18	43	5	1

(a) As at June 2014

(b) Gross exports of goods and services

Source: ABS

Table A2: GSP Growth

Chain volumes, average annual growth rate, per cent

	NSW	Vic	Qld	WA	SA	Tas	Australia
1989/90–2003/04	2.8	3.0	4.5	4.4	2.5	2.3	3.3
2003/04–2012/13	2.0	2.5	3.7	4.8	2.1	1.5	2.9
2012/13–2013/14	2.1	1.7	2.3	5.5	1.3	1.2	2.5
Per capita							
1989/90–2003/04	1.9	2.2	2.5	2.8	2.0	1.9	2.1
2003/04–2012/13	0.8	0.9	1.4	2.2	1.2	0.8	1.2
2012/13–2013/14	0.6	-0.2	0.6	2.6	0.4	0.9	0.8

Source: ABS

Table A3: Industry Share of State Production^(a)

2013/14, per cent

	NSW	Vic	Qld	WA	SA	Tas	Aus
Agriculture, forestry and fishing	1	3	2	3	5	8	2
Mining	2	2	9	30	4	1	8
Manufacturing	7	7	6	5	8	7	6
Electricity, gas, water and waste services	2	3	3	2	4	5	3
Construction	5	6	10	12	7	6	8
Wholesale trade	4	5	5	3	4	3	4
Retail trade	5	5	5	3	5	6	4
Transport, postal and warehousing	5	5	5	5	5	6	5
Public administration and safety	5	4	6	3	6	6	5
Business services	30	27	18	14	19	15	23
Information media and telecommunications	4	4	2	1	2	3	3
Financial and insurance services	12	10	6	4	7	6	8
Rental, hiring and real estate services	3	3	3	2	2	2	3
Professional, scientific and technical services	7	8	5	5	5	3	6
Administrative and support services	3	3	2	3	3	2	3
Household services	17	17	16	10	19	21	16
Accommodation and food services	3	2	2	1	2	3	2
Education and training	5	5	4	3	5	7	5
Health care and social assistance	6	7	7	4	9	9	6
Arts and recreation services	1	1	1	0	1	1	1
Other services	2	2	2	1	2	2	2
Other ^(b)	17	16	15	11	15	15	15

(a) Gross industry value added as a share of gross state product

(b) Ownership of dwellings, taxes less subsidies on products and statistical discrepancy

Source: ABS

