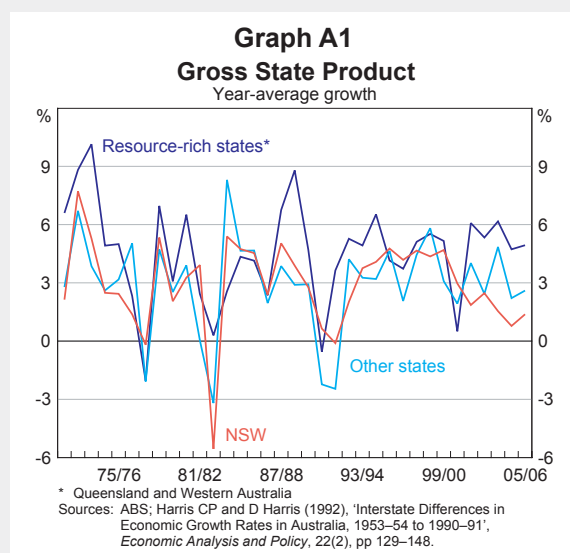


Box A: Regional Economic Performance and Population Flows

As noted in previous *Statements*, the economic performance of the states has diverged somewhat since the early 2000s. Western Australia and Queensland (the ‘resource-rich states’) have grown the most rapidly, and New South Wales has grown more slowly than the other non-resource states

(Graph A1). Although there have been early signs in recent quarters that the divergence in growth may be narrowing, the resource-rich states are likely to continue to experience faster growth in 2007.

In recent years, much of the divergence can be directly linked to the effect of the large rise in commodity prices and Australia’s terms of trade. The associated increase in national income has benefited all states through such channels as higher dividend payments to shareholders, increased demand by the resource-rich states for goods and services from the other states, and higher government



revenues.¹ However, the resource-rich states, where mining accounts for a larger share of output, have seen the greatest direct benefits as the prospect of higher returns in resource and related industries has attracted both capital and labour. Since 2003 Western Australia and Queensland have experienced large increases in mining-related investment, as well as strong growth in employment, household incomes, consumption and house-building (Graph A2). In contrast, activity in the states where manufacturing has a relatively high share of output such as Victoria and South Australia has been less robust, in part because of the strength of the Australian dollar associated with the increase in Australia’s terms of trade. The lower growth in New South Wales since 2003 relative to the other non-resource states in large part appears due to the relative weakness in household consumption and dwelling investment associated with falling house prices and slower population growth.

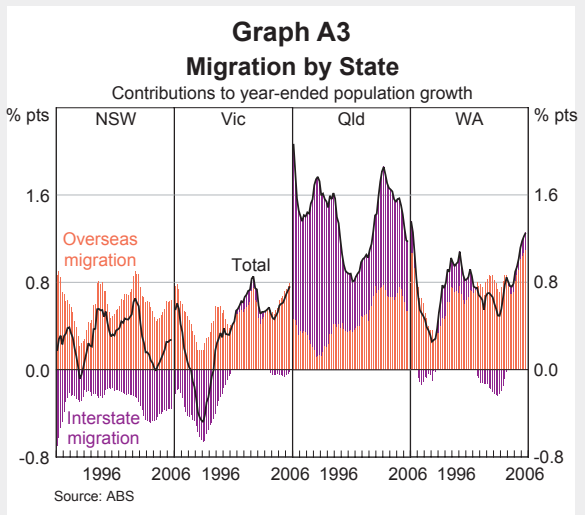
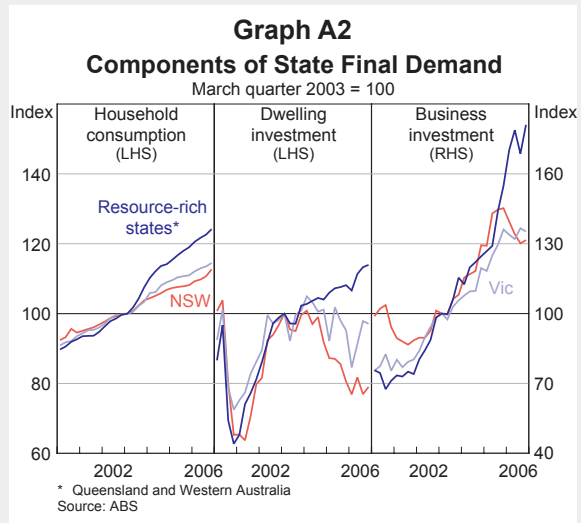
¹ See 'Commodity Prices and the Terms of Trade', *Reserve Bank of Australia Bulletin*, April 2005, pp 1–7, for a more detailed discussion of the channels through which an increase in the terms of trade stimulates activity.

While there are other aspects to migration decisions, including factors such as lifestyle choices and housing affordability, the sharp rise in labour demand and incomes seen in the resource-rich states has contributed to a change in migration patterns, which has further accentuated the divergence in economic performance among the states. Net inward migration to Western Australia has increased significantly over the past couple of years, reflecting increases in net flows from both overseas and other states (Graph A3). In addition, anecdotal reports suggest there has been a flow of temporary workers to

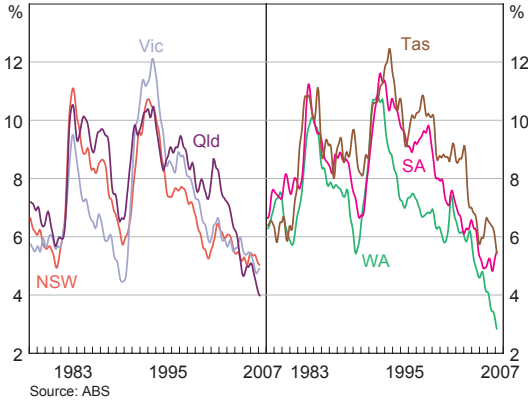
Western Australia that may not be captured by the official statistics. Net inward migration has also been very strong over recent years in Queensland, although the effect of the commodity boom is less apparent due to large swings in interstate migration over the past decade due to other factors. In contrast, net inward migration to New South Wales remains subdued, despite a modest recovery in 2006, with continued net interstate outflows partly offsetting relatively strong net inward overseas migration.

The movement of capital and the changes in migration patterns associated with relative labour demand reflect the process of shifting resources to those parts of the economy where returns are highest. This is an important equilibrating force in a flexible economy, allowing national economic growth to be higher than would be the case if resources were not able to move.

Overall, while it is clear that some states have benefited more than others from the increase in commodity prices, economic



Graph A4
Unemployment Rate
Trend, monthly



conditions are relatively strong across the nation. This is evident in unemployment rates being around the lowest levels since the 1970s in all states and territories (Graph A4) and surveyed business conditions being at above-average levels across the nation. ↗