

Box B: Regional Economic Performance

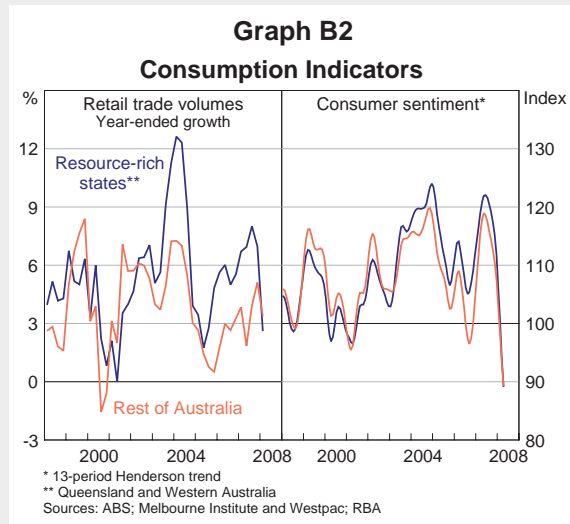
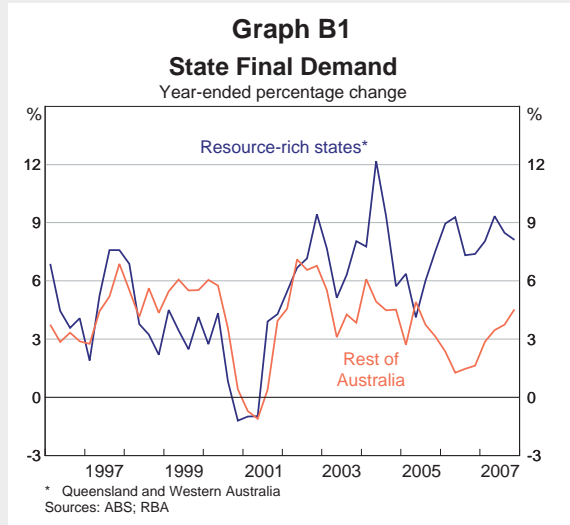
The current economic expansion has been broadly based across the country. Over the past few years, growth has been strongest in the resource-rich states of Western Australia and Queensland, although recently a range of indicators, including state final demand, suggest the gap with the other states has narrowed somewhat (Graph B1).

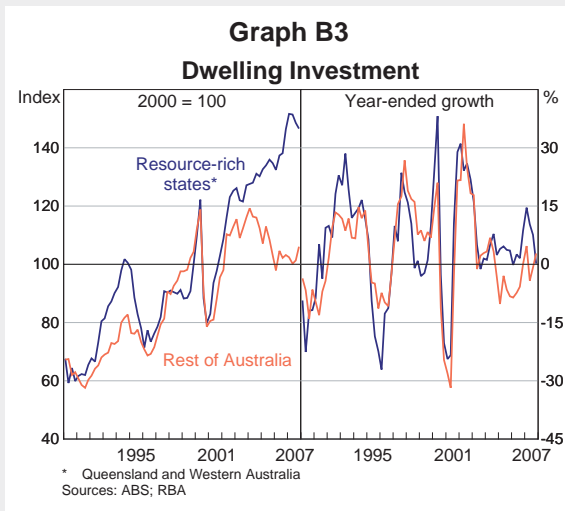
Household sector

Household consumption growth accelerated in all states and territories over 2007, supported by broadly-based strength in employment and wages growth. In the non-resource states, consumption growth picked up from less than 2 per cent in mid 2006 to an average of 4½ per cent over the year to the December quarter, while in the resource states consumption grew by more than 6 per cent.

However, more timely indicators show that the pace of retail spending growth slowed in the first quarter of 2008 (Graph B2). This was particularly marked in Western Australia, which may reflect the abrupt ending of the boom in Perth house prices. Indeed, after an extended period of significantly more rapid growth than the rest of the country, real retail spending growth in the mining states has slowed to be around the same as the average of the other states over the year to March. There has also been a sharp fall in consumer sentiment in all states over recent months.

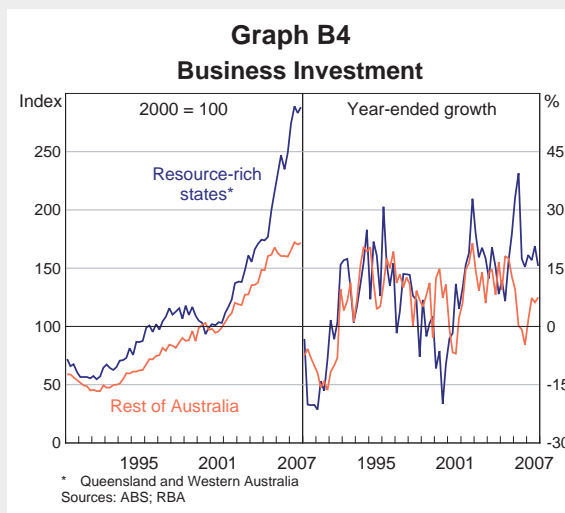
After a period of significant divergence, growth in housing investment converged somewhat over 2007, as growth in Queensland slowed from very high rates, growth in Victoria picked





up, and conditions in NSW stabilised (Graph B3). More recent indicators of the housing market, such as new home sales and building approvals, suggest a broadly-based softening in early 2008, as the impact of tighter financial conditions is felt across all states.

There have been significant divergences in house price developments across the major capitals in recent years. The end of the boom in 2003 resulted in a significant slowing in price growth in most capitals. Sydney was most affected, with prices falling by around 10 per cent between late 2003 and early 2006, before resuming growth in 2007. Perth prices were least affected and subsequently reaccelerated, with growth of around 100 per cent between mid 2003 and late 2006. Since then, prices in Perth have been roughly flat. Price growth in Melbourne, Adelaide and Brisbane was relatively subdued between late 2003 and late 2006, before picking up strongly to around 20 per cent over 2007. Data on prices in early 2008 and the decline in auction clearance rates suggest that house price growth has slowed across the states in the face of tighter financial conditions.



Business sector

Divergences between the states have been perhaps largest in business investment spending, in large part due to the extraordinary growth in mining-related investment spending in Western Australia and Queensland (Graph B4). Nevertheless, business investment growth was relatively strong across all the states over 2007, with the gap between growth in the resource-rich states and the

remainder of Australia narrowing as investment in NSW and Victoria recovered and growth eased in Queensland. The Bank's liaison indicates that growth in business investment remains strong into 2008, particularly for mining and infrastructure-construction related projects.

Growth in non-residential building construction also remains firm, although there are some signs of moderation, as uncertainty over the macroeconomic outlook and tighter financing conditions have begun to adversely affect firms' investment plans.

Business surveys provide further evidence that the strength of the economy over recent years has been broadly based, with business conditions well above average in all states. However, there appears to have been a moderation over the first few months of 2008 in most states.

The strength in the economy over recent years has also been evident in the labour market. All states have experienced above-average employment growth over the past few years, and this has seen unemployment fall to around 30-year lows in all states (Graph B5). While the unemployment rate remains lowest in the resource-rich states, it has also fallen to very low levels in NSW and Victoria. Strong labour demand has also contributed to increases in labour force participation rates. While the participation rate in the resource-rich states has increased the most over the past few years, it has also risen in all other states.

Inflation

Historically there has been little variation in inflation rates across the capital cities, with average outcomes over the low-inflation period ranging from 2.3 per cent to 2.7 per cent. Not surprisingly, inflation has been highest in the resource-rich states in recent years. However, the gap between the resource-rich and other states narrowed significantly over the year to the March quarter and all capital cities experienced inflation well above 3 per cent (Graph B6). ↗

