Westpac Coast-to-Coast April 2020

An update on Australia's state economies

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Australian economic outlook

The Australian economy was fragile in 2019, that was despite the deployment of some additional stimulus mid-year. There was a distinct lack of momentum nationally and across the states heading into 2020 - with weakness centred on home building and the consumer. Of particular concern, declining per capita consumer spending during 2019, in each state except WA and Tasmania. The start to the new year was a very turbulent one, with bushfires and drought and then the outbreak of COVID-19. The virus quickly spread from our number one trading partner, China, going around the globe.

Events have been moving quickly in the Australian economy. The closure of our international boarder on February 2 to flights from China (for non-residents) has widened to a complete shutdown of international travel, as well as the closure of a number of state boarders. There has been a further tightening of social distancing guidelines – which will see a larger hit to economic activity. Policymakers are acting to cushion the impact of the crisis. On April 1, the Federal government announced the JobKeeper Payment (JKP), a major policy initiative. In light of these developments, we have reviewed our employment, GDP, and Federal Budget deficit forecasts.

Key forecasts had been: a peak in the national unemployment rate of 11.1% in the June quarter; a GDP contraction of 3.5% in the June quarter; and the likely issuance of an additional $250bn in Australian government bonds over 2019/20 and 2020/21.

In reviewing those forecasts we have maintained the approach of assessing employment and output across industry sectors to arrive at a more granular estimate of the impact of the various government policies on the Australian economy.

We also maintain our core view that while the intensity of the policies to address the virus will peak near the end of the June quarter, most policies will be maintained through the September quarter and the recovery will be delayed until the December quarter. Conditions in the global economy will remain very weak until well into the December quarter.

With the shutdowns and social distancing policies being tightened we now expect a much more severe impact on the output of most industries.

As expected, the most seriously affected industries are likely to be: retail; accommodation; restaurants; transport; recreation; and real estate. However we also expect negative impacts for other industries including manufacturing; construction; and distribution. Other industries such as health, government, and telecommunications will see a lift in employment and output.

We expect GDP will now contract by 8.5% in the June quarter; to be followed by a 0.6% contraction in the September quarter; and a 5.2% lift in the December quarter. Overall, the economy is expected to contract by 5% through the 2020 year.

All else being equal, these growth forecasts would be consistent with the unemployment rate peaking at 17% in the June quarter and settling around 9% by year's end. These unemployment estimates are consistent with a loss of jobs in the June quarter of around 1.7 million to be followed by a bounce back of around 1 million jobs in the December quarter.

However the JKP has been a game changer for employment and the unemployment rate. The JKP aims to keep workers connected with their employer by subsidising eligible employers with $1500 per fortnight to supplement their employees' wages. Although traditional demand for a firm's services or products may have collapsed, reconnected workers may be able to generate activity for the businesses in other areas – e.g. expanding take away facilities for restaurants.

Compared to the peak forecast rate of 17% unemployment in June without the JKP we expect the rate will peak at 9% in June and subsequently fall to around 7% (compared to 9%) by end December.

The bold $130bn JKP initiative will impact the Federal government's finances. For 2019/20 we anticipate a budget deficit of $100bn (5% of GDP), including $60bn in stimulus policies and a $40bn cyclical deficit. In 2020/21, the Federal budget deficit widens to $210bn (10.5% of GDP), including about $130bn (6.5% of GDP) in stimulus policies and $80bn (4% of GDP) in cyclical deficit.

In responding to the COVID-19 medical and economic crisis, Australian governments - state and Federal - have met as the National Cabinet. This is in recognition of the need for a co-ordinated approach in responding to an event which will have damaging impacts across the nation. The deep recession that we expect for the national economy will be felt in each of the states.

Each of the state governments have announced their own packages in response to the virus - with a focus spanning health, businesses and households. The states are typically providing some relief on taxes and fees, particularly for small businesses. On pages 8 to 11 we set out a summary of the economic policy response to date.

Bill Evans, Chief Economist

Australian economic outlook

Chart 1.

Australia: to be hit by COVID-19 recession

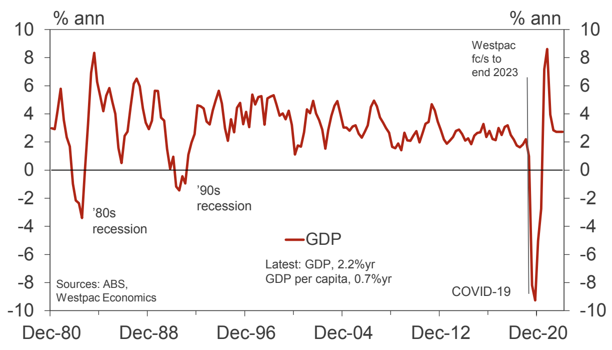


Chart 2.

Federal budget: to be hit by COVID-19 crisis

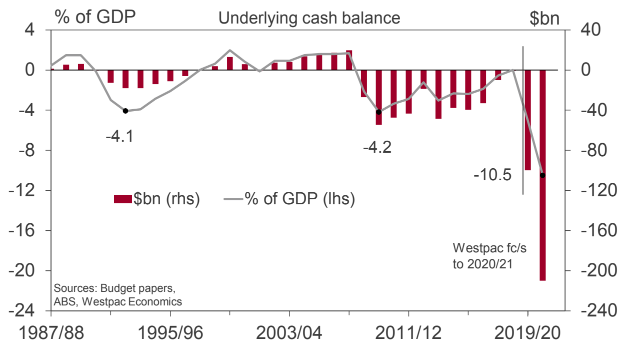


Chart 3.

Dwelling approvals: slump deepened in 2019

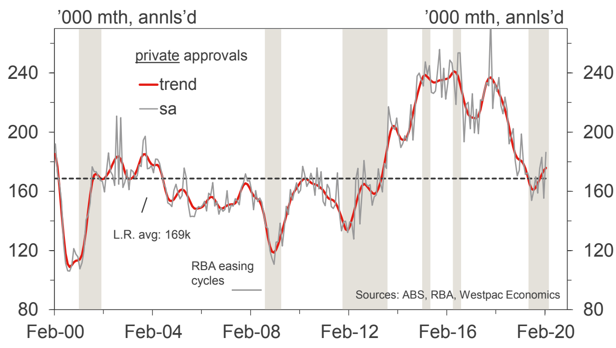


Chart 4.

GDP growth: year-end contributions

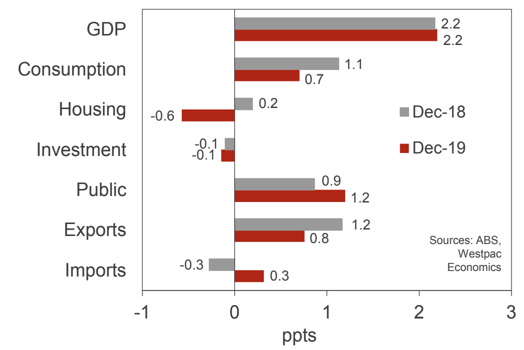


Chart 5.

Domestic demand: a private / public divide

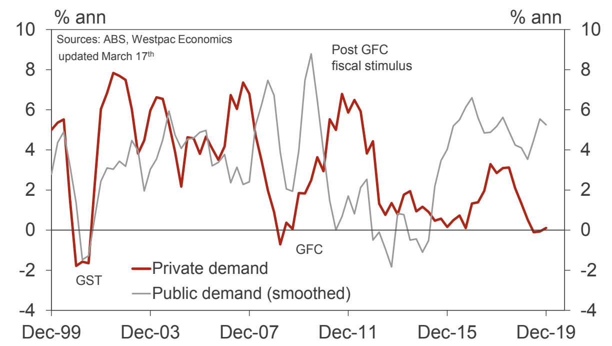
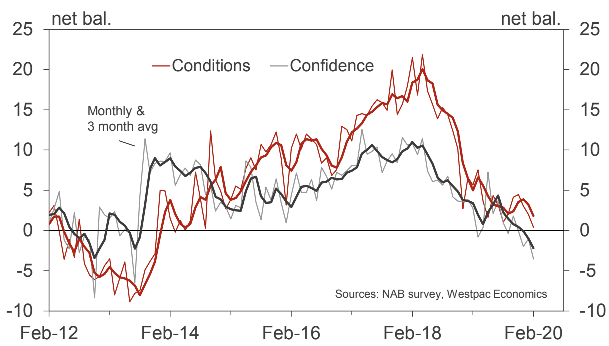


Chart 6.

Business conditions and confidence



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

States overview

Domestic final demand: decelerates

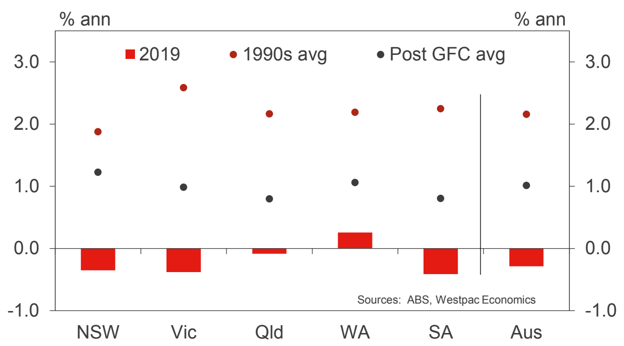
Ahead of the COVID-19 medical and economic crisis, the Australian economy was relatively fragile - a dynamic that was largely evident across the states.

Nationally, domestic demand grew by an insipid 1.3% during 2019 (a fall in per capita terms of 0.2%), moderating from about 3½% in mid-2018. Declining per capita state final demand was a dynamic evident across the mainland states at times during 2019.

The home building downturn and declining per capita consumer spending, as well as the global slowdown, continue to be powerful headwinds.

The boom-to-bust home building is most evident in NSW - with further downside. Over the past year, new home building activity slumped by 22 in NSW. Sharp falls were also evident in WA, -20%, and Qld, -15%. In the southern states, conditions have been more resilient, with Victoria and South Australia at -1% and Tasmania broadly flat.

Consumer spending, per capita: in decline

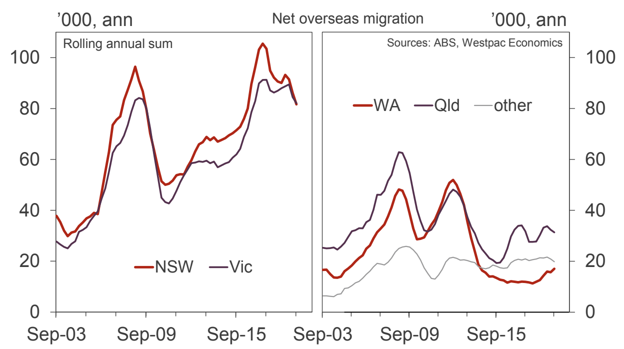


The household sector is under pressure from sustained weakness in real wages growth, softening non-wage incomes, high debt levels and, in the first half of 2019, falling house prices. Not surprisingly, in this environment, households have rediscovered thriftiness.

In 2019, per capita consumer spending contracted nationally, down by -0.3%, a dynamic evident across the mainland states (albeit WA recorded a small rise off a weak base). Notably, additional policy stimulus failed to gain traction - with households opting to save the modest tax rebate. From mid-2019, house prices rebounded but with limited impact on spending at a time of fragile consumer confidence.

Business investment trends have been mixed both through time and across the nation, contributing to some of the growth divergences between the states. In the underperforming states of Qld and SA, investment trended lower in 2019, while in WA, mining investment is beginning to lift with upside moving into 2020.

Overseas migrantion: flow to NSW & Vic slows



The Australian economy - and each of the states - are set to experience a sharp contraction in output during 2020 and a sharp jump in the unemployment rate. The stringent measures around social distancing and the closure of places of social gathering represents a major shock.

The response to the virus has shut-down international travel and a number of state boarders have been closed.
The major states of NSW and Victoria are particularly exposed to international tourism and the international student sectors - overseas migration flows and population growth are set to slow. The other states (albeit to a lesser extent in WA) are also significantly exposed to tourism, including from inter-state.

Fiscal measures, as well as monetary policy stimulus and support, aim to cushion the impact of the crisis. As discussed above, each of the states have announced a policy package (see pages 8 to 11) - with a focus on the health sector, supporting businesses (including tax relief) and supporting households.

States overview

Chart 1.

State jobs markets

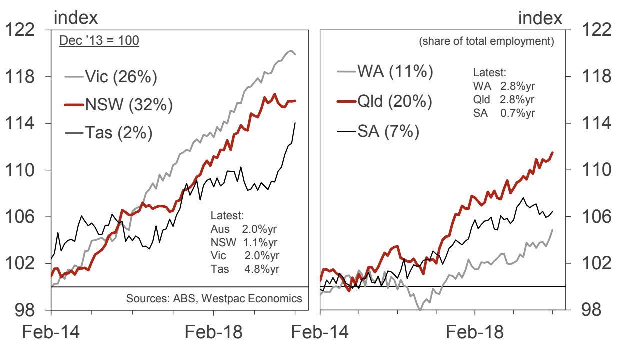


Chart 2.

State final demand, contributions

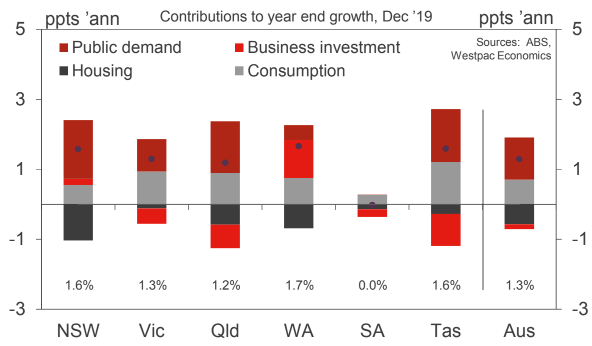


Chart 3.

Dwelling prices: rebounded sharply

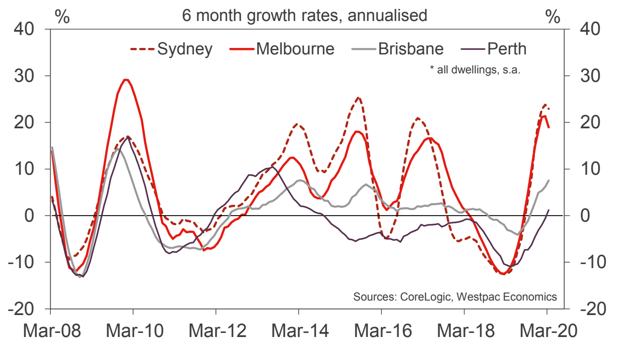


Chart 4.

Dwelling approvals: well off highs

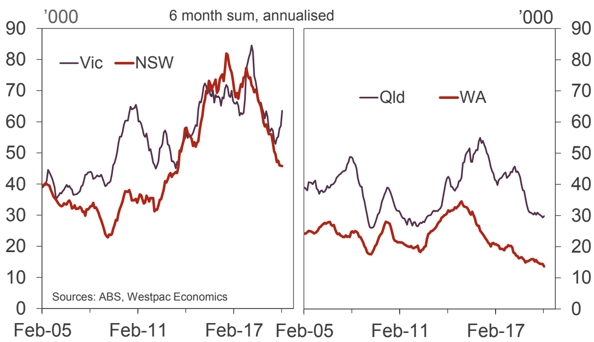


Chart 5.

Public construction work pipeline

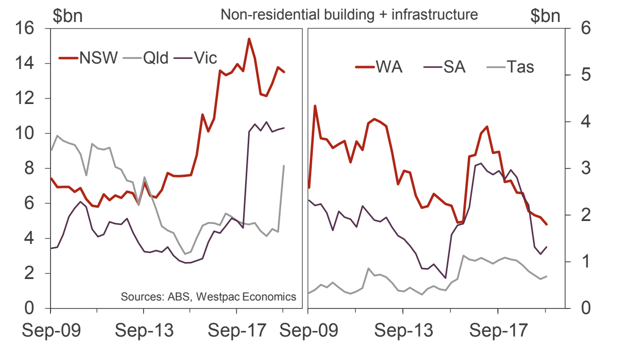
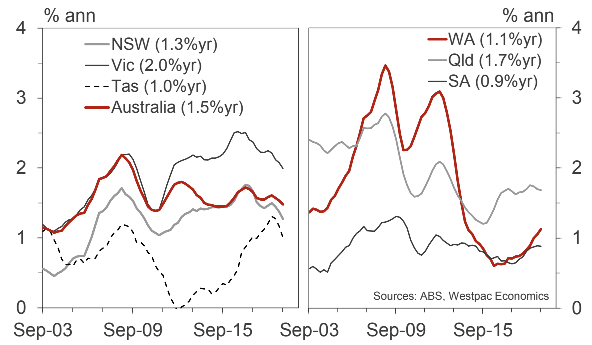


Chart 6.

Population growth: 1.5% nationally



Summary of Australia's economic policy ...

RBA and AOFM measures

As COVID-19 risks to the economy grew rapidly through March, the RBA lowered the cash rate to 0.25% through two consecutive 25bp cuts.

With 0.25% seen as the lower bound for traditional monetary policy in Australia and the COVID-19 shock to the economy becoming increasingly severe, the RBA introduced quantitative easing measures alongside the second 25bp March cut.

Following the lead of the Bank of Japan, RBA quantitative easing is focused on yield curve control, specifically holding the 3-year bond yield at "around 0.25%".

This lowers 'risk free' rates for the economy from overnight to a three year maturity to 0.25%. It also gives clear forward guidance to variable rate borrowers that the cash rate is expected to remain on hold for three years from March 2020.

Despite the policy's focus on the 3-year government yield, longer-term yields are also being suppressed as asset purchases are occurring across the full spectrum of commonwealth government securities as well as state government debt.

To combat the risk that market dislocation may impede the pass-through of monetary policy easing to end borrowers, a number of additional measures are in train.

Most significantly, through a scheme run by the RBA, banks will have access to 3-year funding at a cost of 0.25%. Banks' access to funding from this facility will initially be the equivalent of 3% of their outstanding credit balance.

This scheme is not only being run to reduce funding costs for existing credit, but also to promote new lending to small and medium-sized business. An additional funding allowance of one times the dollar increase in lending to large business and five times the dollar increase in lending to small and medium business will be available from the RBA's bank facility. This applies to lending undertaken over the year to January 2021 compared to the three months to 31 January 2020, assessed monthly.

To provide support for the non-bank financial sector, small lenders, and the securitisation market, a complementary package will also be run by the AOFM.

Lastly, the RBA is seeking to preserve market liquidity and proper function by injecting cash through repurchase agreements at multiple maturities. And, to mitigate the cost of larger bank settlement balances to the industry, the interest rate paid on funds in these accounts will be 0.10% rather than 0%.

See links below for more details.

RBA Governor's statement, March 19: here

RBA Governor Lowe's speech March 19: here

Westpac commentary: here

Federal Treasury measures

The Federal government has introduced several stimulus packages, ramping up in size to $193bn, almost 10% of GDP.

The funds currently committed by financial year are: 2019/20, $60.8bn (3% of GDP); 2020/21, $126.3bn (6.3% of GDP); and $6.0bn in 2021/22.

The key measures include: targeted cash to households of $22.9bn; the cash flow boost / support to businesses at $31.9bn; and the JobKeeper Payment at $130bn.

In more detail:

Two rounds of $750 payments targeted to those on income support, at $8.8bn

Jobseeker, expanded eligibility to income support for those seeking employment, with the payment doubled to around $1,100 / fortnight, at $14.1bn

JobKeeper Payment, at $1,500 / fortnight for eligible employees of eligible businesses, at $130bn

Boosting cash flows for employers, at $31.9bn

Investment measures; instant asset write-off and accelerated depreciation, at $9.2bn.

See links below for more details.

Treasury summary of measures: here

Westpac commentary:

Fiscal stimulus package, March 12: here

Federal Budget outlook, March 24: here

JobKeepers payment, April 1: here

State government measures

State governments have also introduced a range of stimulus measures – worth about $11.8bn on a combined basis, 0.6% of GDP.

New South Wales

Two packages totalling $3.3bn, 0.5% of NSW GSP.

The first was a $2.3bn funding package announced on March 17 that included: (1) around $1.6bn in total for tax cuts and job creation; Payroll tax waiver for 3 months: for businesses with a payroll of $10mn or less, at $450mn. $0.75bn bring forward on capital works and maintenance, and (2) $700mn to boost health: assist in doubling ICU capacity, preparing for additional COVID-19 testing, purchasing additional ventilators and medical equipment, establishing acute respiratory clinics and bringing forward elective surgeries to private hospitals.

... response to the outbreak of COVID-19

A second package announced on March 27 included a $1bn 'Working for NSW' fund to sustain business, create new jobs and retrain employees ($250mn of which was included in the initial $2.3bn package).

Payroll tax deferral for up to 6 months for businesses with payrolls over $10mn, up to $4bn deferred.

See here for more details on first package.

See here for more details on second package.

Victoria

The Victorian state government launched a $1.7bn economic survival package including on March 21 (worth 0.4% of Vic GSP).

This included payroll tax refunds for small businesses, a $500m 'hardship' fund for affected businesses, $500m for a work program for displaced workers and more than $600 million for a range of measures such as the waiving of liquor licence fees. Commercial tenants in government buildings will also be able to apply for rent relief.

See here for more details.

Queensland

On March 24 the Queensland state government announced a $4bn "COVID-19 economic relief package", the largest of any state or territory to date (1.1% of Qld GSP).

Of this, $2.5bn will be used to protect jobs and businesses. Specifically, businesses can access payroll tax relief and energy bill rebates, and the $500mn "worker support package" will assist jobseekers.

An additional $1.2bn will be injected into the health system, and $300mn will be allocated directly to households (providing a $200 utility bill discount and a $50 asset ownership dividend).

See here for more details.

Western Australia

The WA government announced a $607m package on March 16 (0.2% of WA GSP).

This included a $400m cut in fees and changes for households, $114m to support small businesses including grants and the payroll tax deferrals for those affected, and $91m in extra assistance for energy payments for vulnerable households.

See here for more details.

South Australia

The SA government has launched two stimulus packages, with a combined value of $1bn (0.9% of SA GSP).

The first $350mn package, announced March 11, will be directed toward infrastructure spending. Existing projects will be brought forward, and new projects around health, housing, tourism and road maintenance have been scheduled.

The second package was announced on 26 March, and is costed at $650mn. Of this, $300mn will be used to support businesses and industries, and $250mn will be allocated to community organisations and training. The remaining $100mn will provide payroll relief for businesses, payments to jobseekers and land tax relief.

See here for more details on the first package.

See here for more details on the second package.

Tasmania

The Tasmanian state government has announced measures worth over $1bn or 3.1% of GSP.

A $420mn stimulus package was announced on March 18 with a number of measures for households and for businesses, including: interest free loans of between $20,000 and $250,000 to assist eligible local businesses; payroll tax waivers; cash flow; maintenance program; industry targeted assistance for tourism, hospitality and fisheries.

A second stimulus package of $500mn (March 26) included: relief for small businesses for their next power and water bills; relief for affected businesses from fees, charges and taxes (eg land tax); payroll tax waivers for some; and relief for households for school levies; as well as additional spending on health.

See here for more details on the first package.

See here for more details on the second package.

ACT

The ACT government announced a $137m stimulus package on March 20 that centred on rates rebates including a credit for commercial rates (worth 0.3% of ACT GSP). Deferrals and waivers of payroll tax and license fees and $20m funding for simple infrastructure works has also been provided.

See here for more details.

Northern Territory

The NT government has $115m in support including an initial $65m to encourage business upgrades and home renovations and a further $50m to assist small business survival – total worth 0.4% of NT GSP.

See here for more details.

COVID-19 cases and fiscal responses by state

Chart 1.

COVID-19: cases by state

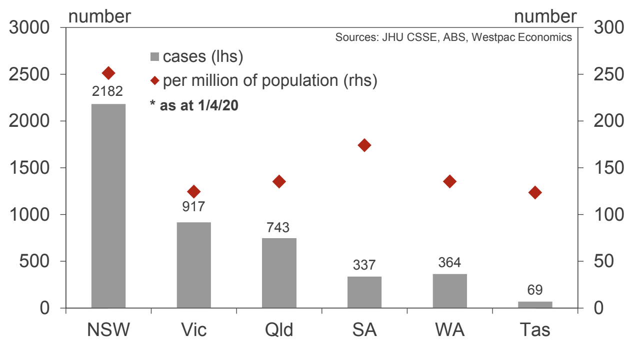


Chart 2.

COVID-19: total tests by state

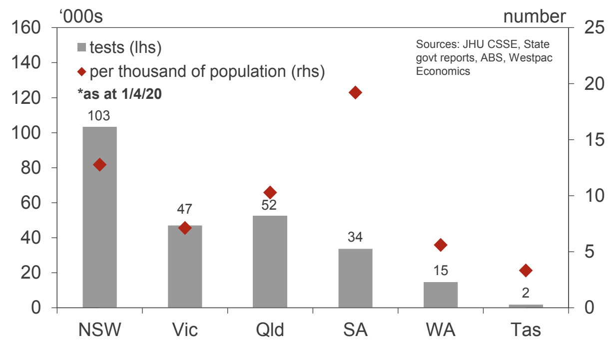


Chart 3.

COVID-19: growth and positive rates by state

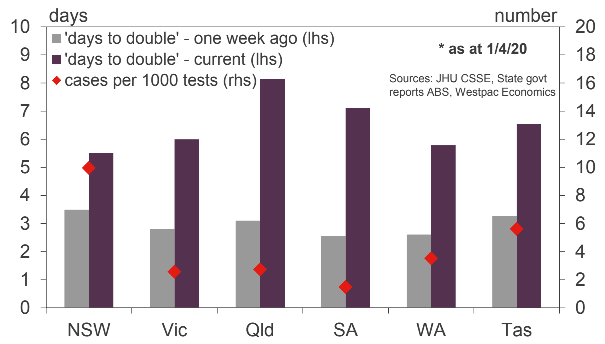


Chart 4.

Tourism and education exports by state

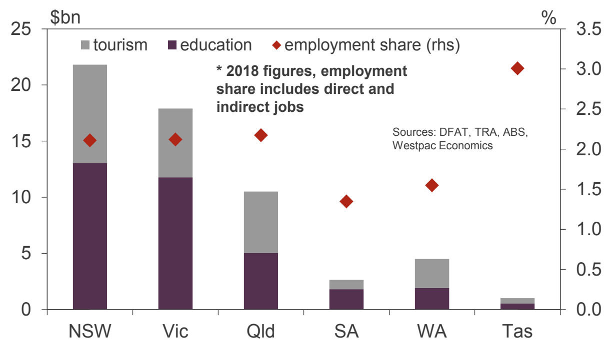


Chart 5.

'Highly exposed sectors': share by state

Chart 6.

State government fiscal responses

NSW: $3.3bn (0.5% of GSP) – including $1.6bn in tax relief for businesses, $700m increase in health funding; and additional $1bn to support business and assist with retraining.

Vic: $1.7bn (0.4% of GSP) – including payroll tax refunds, $500m 'hardship' fund for businesses, and $500m for work program for displaced workers.

Qld: $4bn (1.1% of GSP) – including $2.5bn support for workers and industry, $1.2bn increase in health funding, $500m to assist workers who lose jobs, and $300m reduction in utility bills.

WA: $607m (0.2% of GSP) – including $402m cut in household fees and charges, $114m for small business support.

SA: $1bn (0.9% of GSP) –$350m for maintenance, $300m Business and Jobs Support, $250m Community and Jobs, payroll tax relief.

Tas: $1bn (3.1% of GSP) – including payroll tax waivers, interest free loans to small business, increase in health funding.

State budgets: snap-shot pre COVID-19

Chart 1.

NSW: state budget

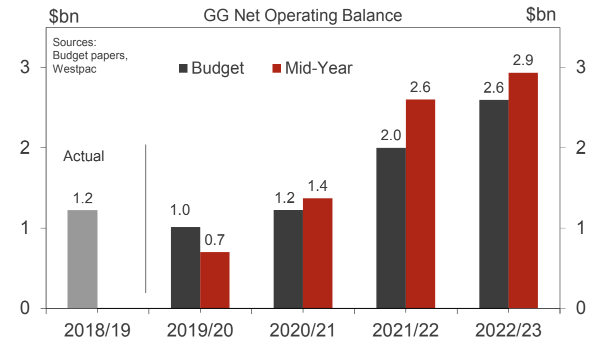


Chart 2.

Victoria: state budget

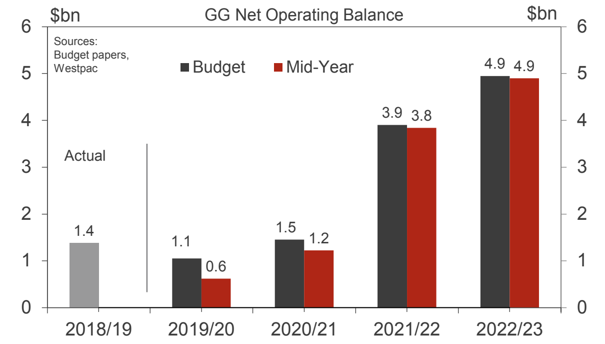


Chart 3.

Queensland: state budget

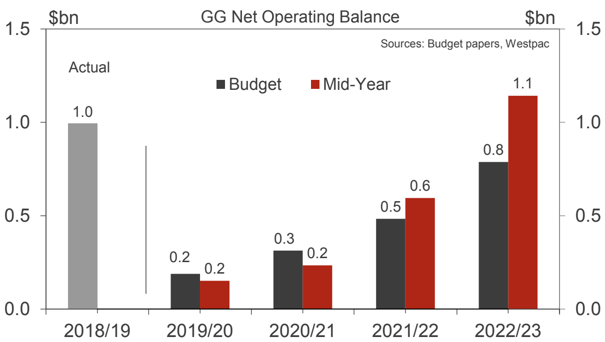


Chart 4.

Western Australia: state budget

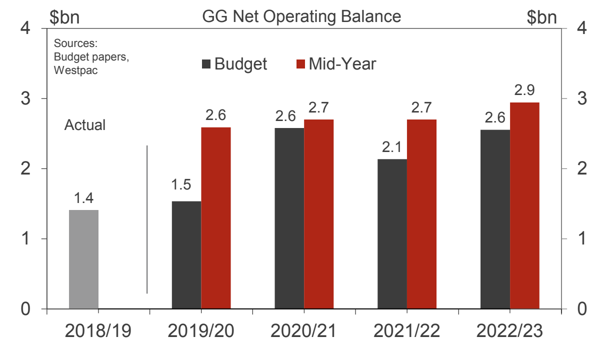


Chart 5.

South Australia: state budget

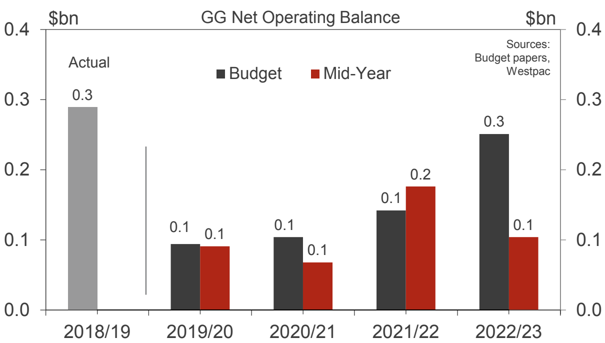
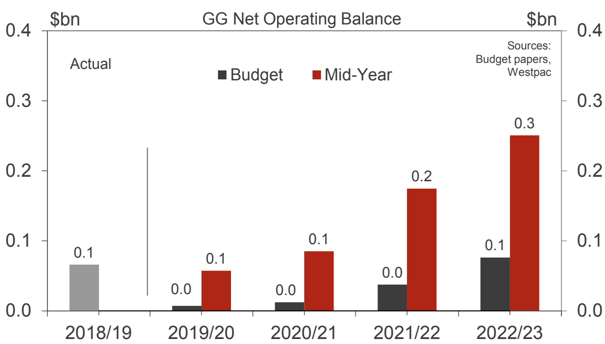


Chart 6.

Tasmania: state budget



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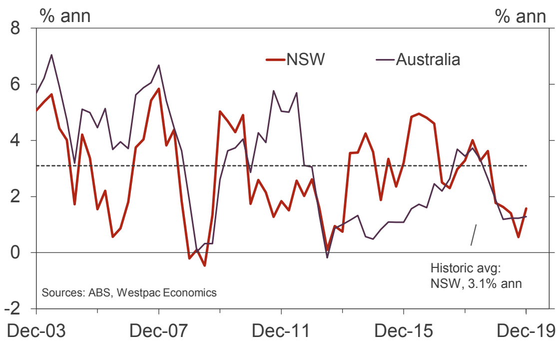
NSW: ended 2019 on a soft note ...

NSW state final demand: sharp slowdown

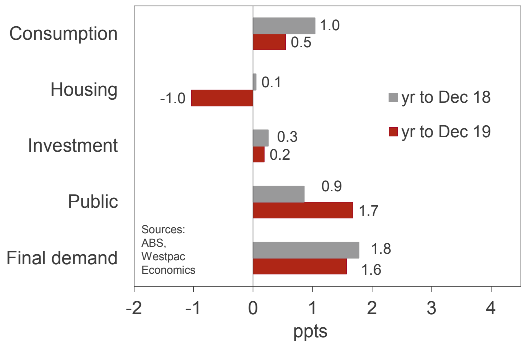


Ahead of COVID-19, the NSW economy ended the 2019 year on a soft note. That was despite the deployment of additional policy stimulus. In the December quarter, state demand grew by 0.5% to be 1.6% above the level of a year ago - up by only 0.3% in per capita terms.

House prices rebounded strongly in response to the RBA rate cuts. However, any flow-on to the real economy was minimal. The home building downturn continues at a sharp pace. Consumers are constrained by: high debt levels; weakness in wages growth and in non-wage incomes; and since mid-2019, a stalling of employment. Bushfires and drought also impacted in late 2019.

More recently, the COVID-19 outbreak is a major negative shock. The economy is set to contract during 2020. Initial impacts were around international travel and international students. That has broadened to a more widespread shut-down of places of gathering in an effort to limit the spread of the virus.

NSW: contributions to state final demand



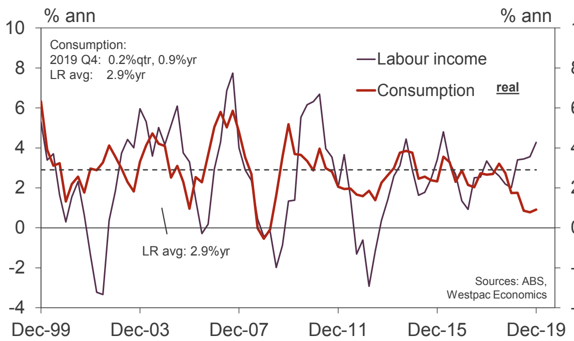
The consumer was fragile ahead of COVID-19 - an event which will see confidence plummet as household income and wealth are hit.

Consumer spending per capita has been in outright contraction from mid-2018, which marked the peak in the home building cycle. Over 2019, spending per capita declined by 0.4%, matching the Victorian result.

The home building downturn during 2019 was sharpest in NSW - with the state having been a leader during the boom. New home building fell by 22% in 2019 with no abatement in the pace of decline. Approvals point to weakness into 2020.

Business investment trended broadly sideways from the second half of 2018. The uptrend in non-residential building activity, to meet the needs of a growing population, offset falls elsewhere. The strong uptrend in non-residential building approvals points to further upside in 2020 (across the private and public sectors).

NSW: consumer spending slump



The 2020 year is shaping up to be one of the most challenging ever for the economy - be that globally, nationally, or for NSW. The COVID-19 crisis is a once in a century event.

The medical response to the crisis - social distancing - is putting the economy into hibernation. The state government is encouraging folk to stay at home following the sharp lift in cases in NSW. Industries that will be particularly hard hit include: hospitality: tourism; and education exports; as well as many others. A success story for NSW has been service exports of education and tourism (at 3.5% of GDP), both of which have devastated by the pause to international travel.

The state economy will slump into recession - for the first time since 1990/91. Fiscal measures and monetary policy aim to soften the impact. The NSW government has announced around $3bn in measures (0.5% of GSP), with a focus on health, and on businesses (tax deferral), as well as on jobs (see pages 8 to 10).

… COVID-19 the greatest challenge of all

Chart 1.

NSW: population growth moderates

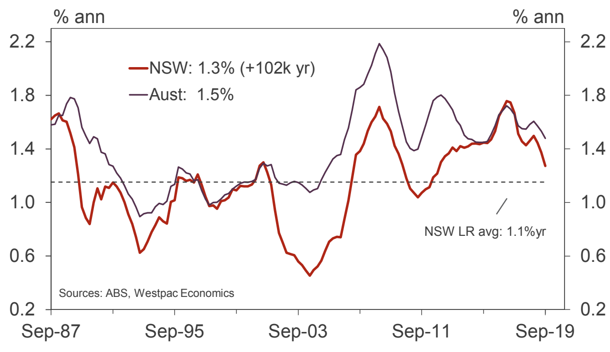


Chart 2.

Population: migration flows

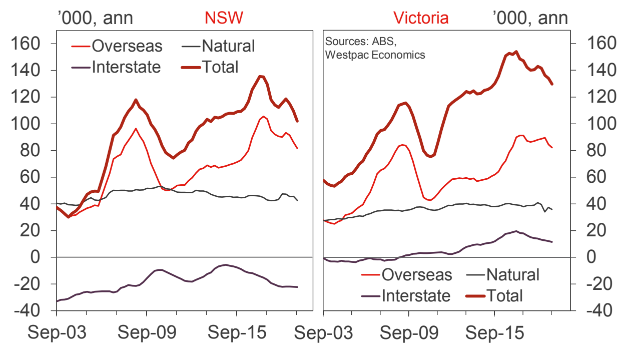


Chart 3.

Dwelling prices: sharp rebound pre COVID

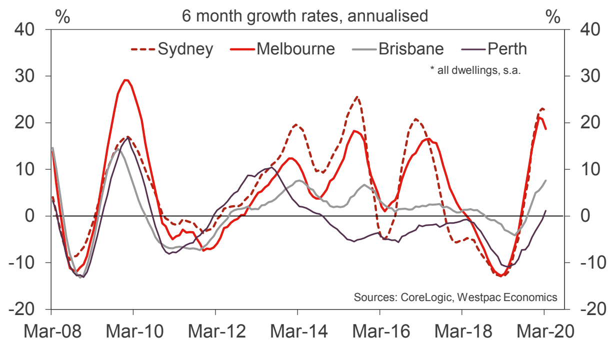


Chart 4.

NSW home building downturn deepens

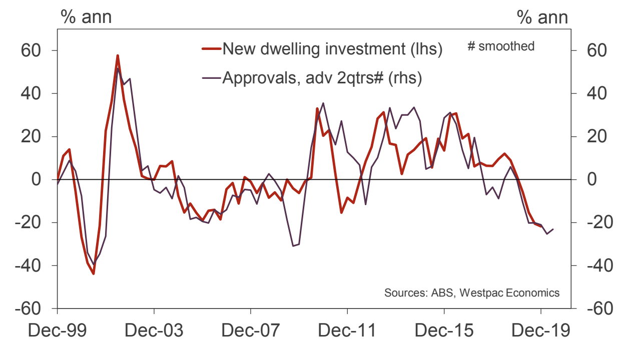


Chart 5.

NSW: uptrend in non-res' building approvals

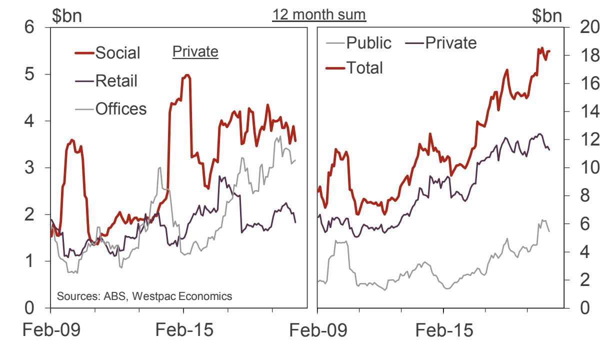
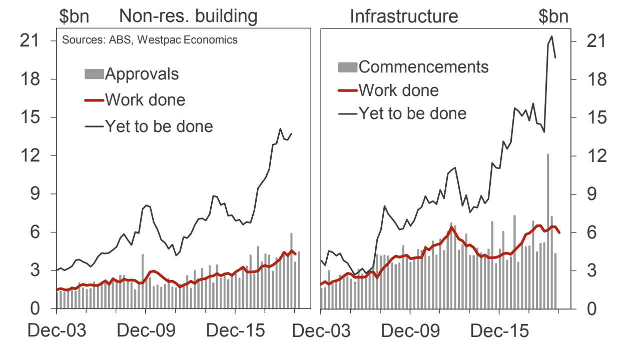


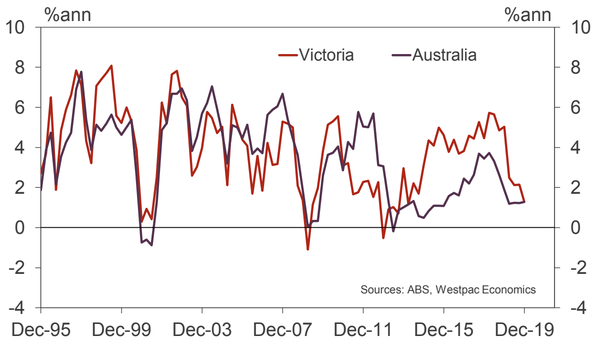
Chart 6.

Construction (non-res): a sizeable work pipeline



Victoria: weak and bracing for a big shock ...

Victorian state demand: abrupt slowdown

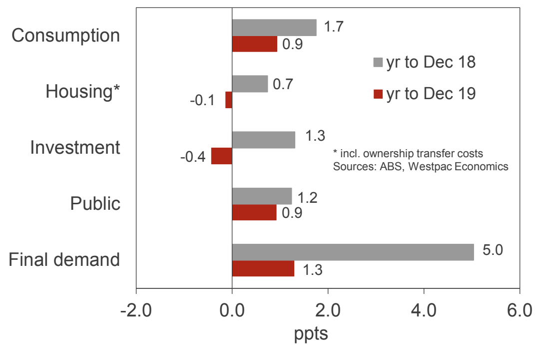


The Victorian economy experienced an abrupt slowdown in 2019, centred on the housing sector and the consumer. House prices retreated during 2018 and into 2019 and home building activity levelled out following the recent boom.

Some of these negatives were showing clear signs of improvement since mid 2019, housing markets in particular. That looked to carry into early 2020, despite a significant hit to the state from bushfires over the summer period.

However, this is unlikely to stave off what is shaping as a big hit from the outbreak of COVID-19. Victoria's large foreign education and tourism sectors make the state particularly exposed to the disruptions to international travel, as well as to mass gatherings. Tourism alone is estimated to account, directly and indirectly, for around 6% of economic activity and 7% of jobs in the state. The Federal and state government's fiscal measures aim to cushion the impact.

Vic: contributions to state final demand

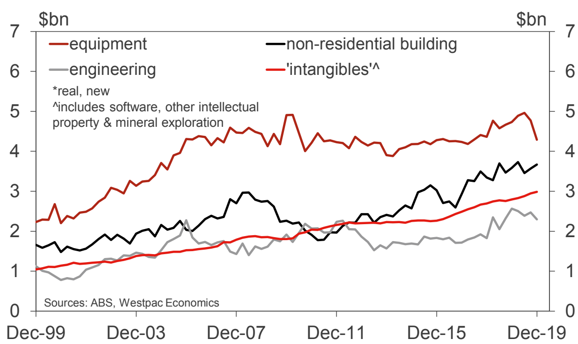


State demand growth decelerated sharply over 2019, annual growth slowing from a vigorous 5.0% pace in 2018 to just 1.3% in 2019, a six year low. Activity contracted outright in the final quarter, dipping –0.1%, the first negative since mid-2013. That is despite the state's firmer population growth rate, running at 2.0%yr compared to 1.5%yr nationally.

The population story explains the continued outperformance for household consumption, up 0.5%qtr, 1.6%yr in Vic compared to +0.4%qtr, 1.2%yr nationally. However, on a per capita basis, sales are contracting at a slightly faster pace. This weakness is despite annual wage growth running at a firmer pace in Victoria than nationally (2.7% vs 2.2%). Employment gains have been relatively robust in Victoria, however, there has been some loss of momentum, with the six month annualised pace slipping to 1.5%.

The per capita spending weakness highlights the impact of weak confidence and spillovers from the more pronounced correction in Victoria housing prices through 2018-19.

Vic business investment: mixed gains



Heading into 2020, the picture around housing was more positive although this clearly predates any COVID-19 impacts. Melbourne dwelling prices swung into a strong rebound over the second half of 2019 and are now back above their pre-correction levels. Dwelling approvals also lifted notably in late 2019 and early 2020.

In contrast, the picture around business investment was deteriorating sharply through the second half of last year, annual growth swinging from +12% in Q4 2018 to –3.8% a year later. The decline has centred on equipment spending and engineering work, both down 11%yr. Non-residential construction is still up 2.1%yr.

As discussed above, Victoria's exposure to the COVID-19 shock is high. Output is set to contract and unemployment to rise. Fiscal measures and monetary policy aim to cushion the impact. The state government has announced $1.7bn (0.4% of GSP) in measures to assist businesses and displaced workers (see pages 8 to 10).

… despite a better tone around housing

Chart 1.

Dwelling approvals: Vic

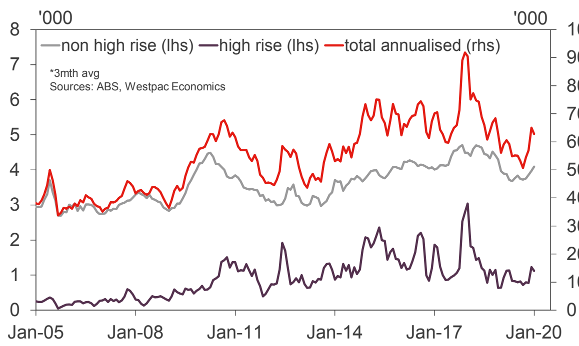


Chart 2.

Melbourne house prices

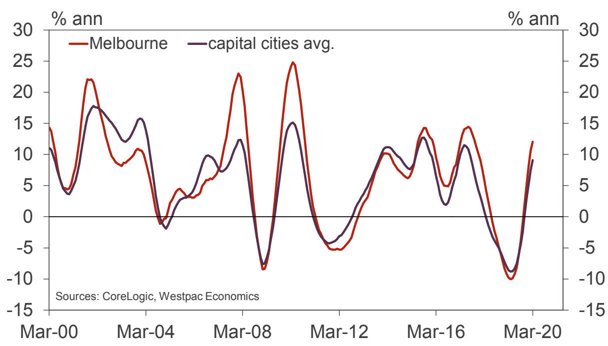


Chart 3.

Victorian labour market

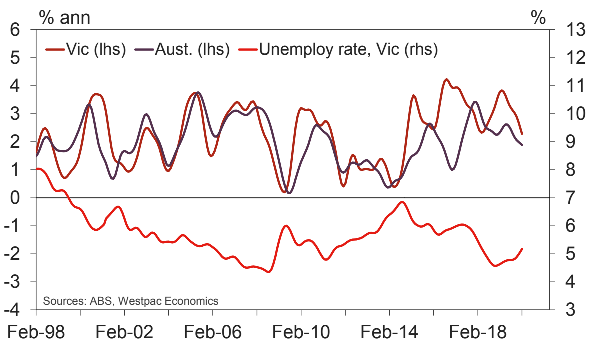


Chart 4.

Vic employment: selected sectors

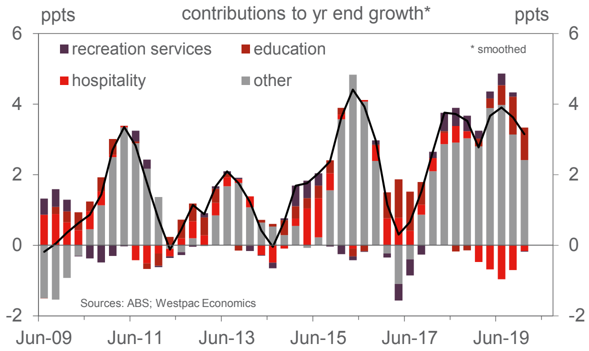


Chart 5.

China: tourism & education flows by state

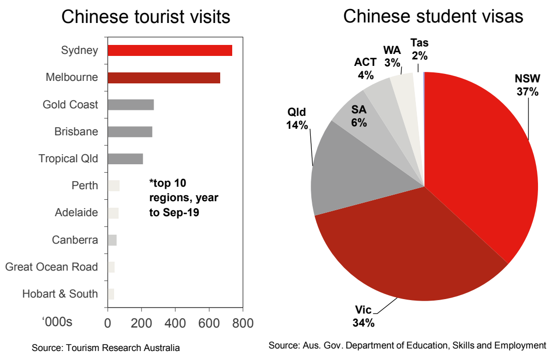
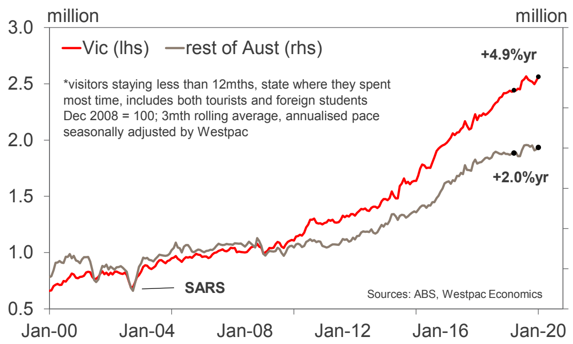


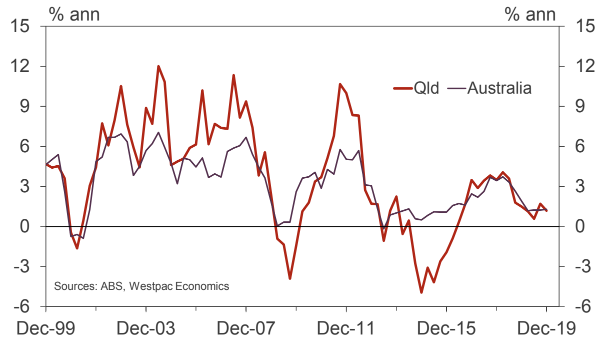
Chart 6.

Short term visitors*



Queensland: vulnerable to the virus...

Qld domestic demand stabilises



Alongside NSW, Qld was the only other state to record increasing state demand in December, with a modest gain of 0.2%qtr. The softer print dragged growth to 1.2%yr in December versus 1.7%yr recorded in September.

The marginal increase was driven by gains in consumption (0.7%qtr), business investment (0.6%qtr) and public demand (1.0%yr). Working the other way, dwelling investment tumbled 10.1%qtr, its largest quarterly fall since September 2010.

The jobs market in Qld remains robust. The unemployment rate has been broadly stable, whilst the participation rate has gradually increased as the labour force expands. Qld's population dynamics are also encouraging, with growth still above the national average. The employment to population ratio also seems to have stabilised at a level above its recent trough in Q4 2016.

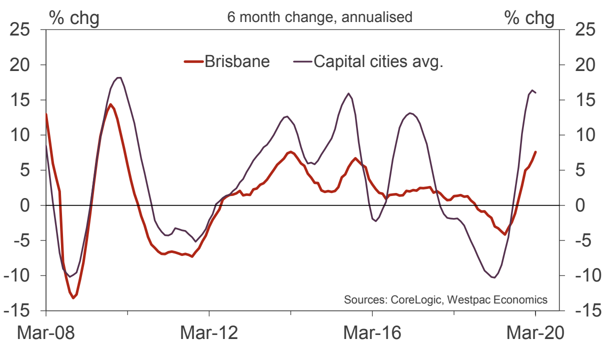
Qld: contributions to state final demand

Overall, the trend in business investment has retreated from the gains of 2017 and 2018, and sits only 3% above its level in Q4 2016. The quarterly increase in business investment was largely driven by infrastructure spending, which jumped to 5.7%qtr in December from -6.4%qtr in September. Despite this, infrastructure spending is still tracking at a -17.2%yr pace.

Other components of business investment were also soft, with equipment spending falling 2.4%qtr (-4.5%yr) and non-residential construction down 1.5%qtr (+3.8%yr). The non-res pipeline and work done remain comfortably below their 2017/18 peaks.

On a positive note, non-residential construction is set to rebound from the recent declines. Approvals are up strongly over the last year, increasing by 26% in total. Private sector approvals are up by 21%, led by offices and industrial, while for public sector projects, approvals have jumped by 50%.

Brisbane house prices: turned positive



A sharp fall in new dwelling construction (-12.7%qtr, 10.0%yr) was primarily responsible for the decline in total residential construction. In part, this was a response to the excess stock of apartments that were built during the Brisbane boom. Renovation work has also trended down (-6.7%qtr, -4.9%yr), following a string of gains until Q1 2019.

The housing market in Qld turned positive ahead of COVID-19 after a shallow correction in 2018-19, with price growth over the past half year running at 7.6% annualised. The improvement is broad based across prices, buyer sentiment and supply-demand fundamentals. Excess housing stock from the building boom is also being reduced.

Looking forward, COVID-19 is likely to have serious implications for Qld's tourism and education sectors. The federal government's stimulus measures, combined with a substantial $4bn state government package, aim to cushion the impact (see pages 8 to 10). Comparatively high coal prices should also provide support in the near term.

… but stimulus will provide support

Chart 1.

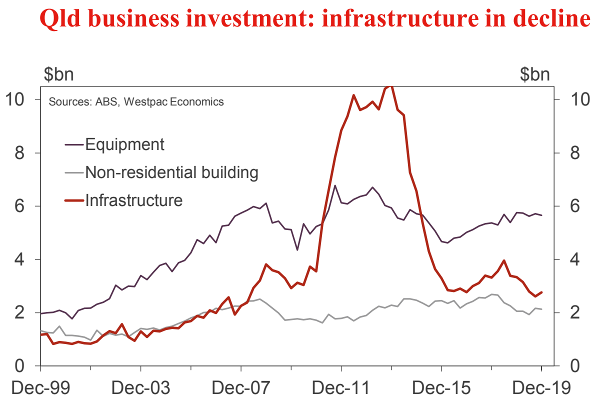


Chart 2.

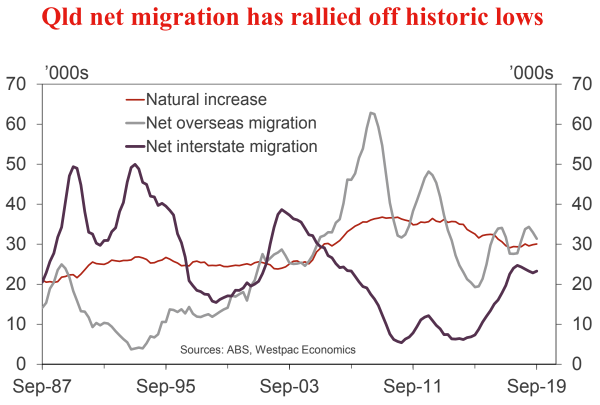
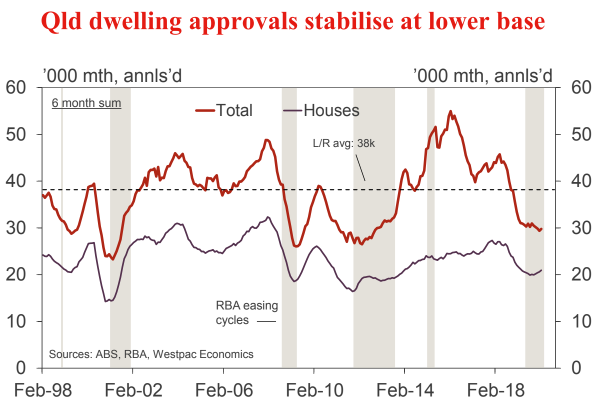


Chart 3.



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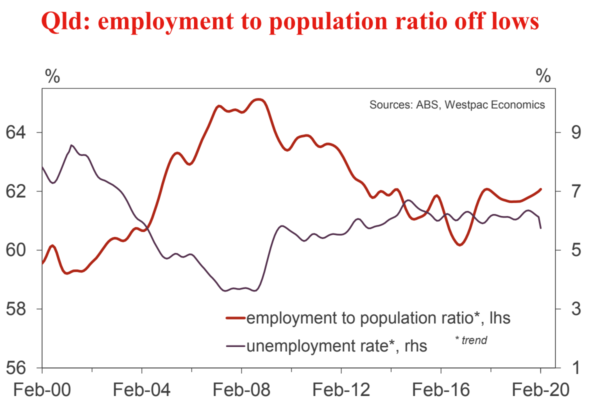


Chart 5.

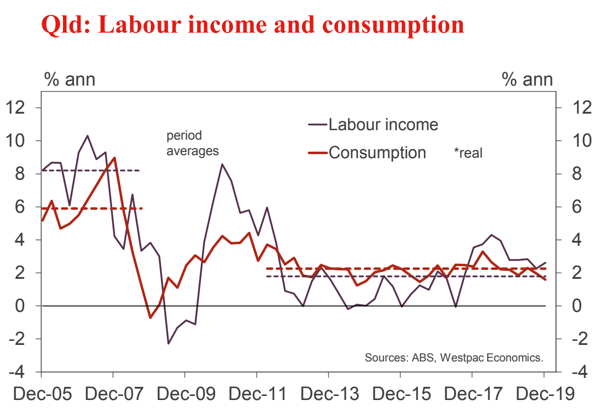
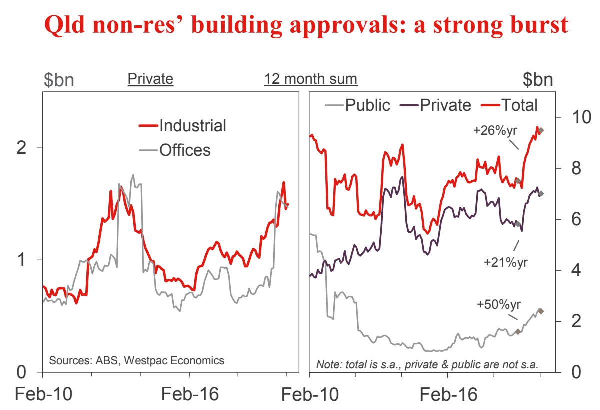
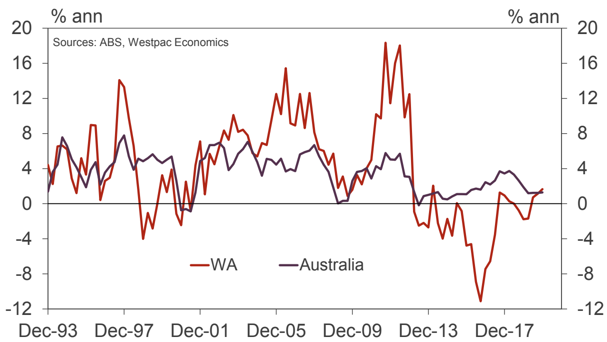


Chart 6.



Western Australia: mining a positive ...

WA state demand: slow, but outperforming!

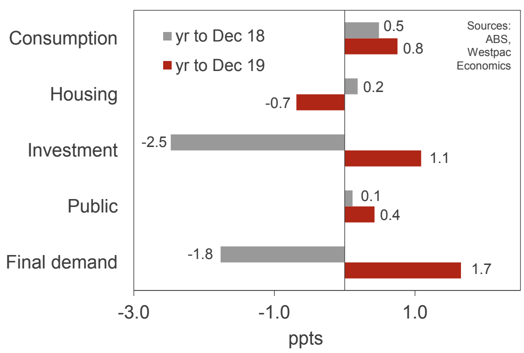


The WA state economy continued to post a gradual recovery over 2019, the state being less affected by the consumer-housing led slowdown that was particularly evident in the major eastern states.

Annual growth in both state final demand and employment are now running slightly faster in WA than across Australia as a whole, although this says as much about the slowdown elsewhere as it does about the improvement in WA with the state still recording insipid growth overall.

Everything is relative of course, and for WA insipid growth is a welcome improvement on the long period of significant underperformance since 2014 that included an outright recession in 2016-17. Looking forward, the shocks associated with COVID-19 - which will be substantial - may be less pronounced in WA given the state's relatively low exposure to sectors like foreign education and tourism, and its reliance on iron ore production, with prices for this commodity proving - to date - to be relatively resilient.

WA: contributions to state final demand

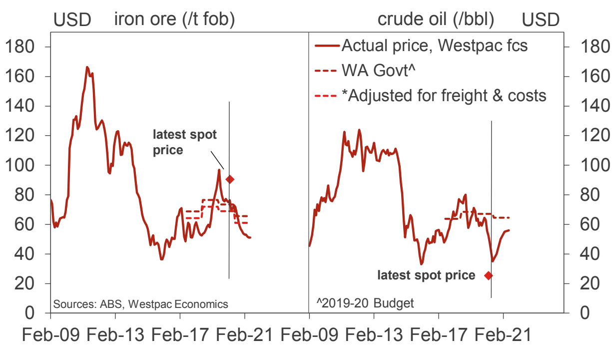


While an improvement, momentum in state final demand was still not strong in 2019, recording a –0.2% decline in Q4 although growth for the year nudged up to 1.7%yr, well above the 1.3%yr growth nationally and the strongest pace across the major states and a 6 year high for WA.

Consumption, coming off a weak base, provided some support in 2019, rising by 1.4%yr. Only WA, at +0.3%, and Tasmania, +1.1%, recorded positive per capita spending over the past year. The key is that mining investment has now clearly turned the corner with a growing pipeline of projects under consideration. Population growth in WA is improving and employment increased by a robust 2.8% over the past year, eclipsing the 2.0% national pace.

The housing picture remained less supportive in 2019. New home building activity contracted sharply, down by 20%. Renovation work also fell, declining by near 10%. On dwelling prices, the persistent declines abated recently (ahead of COVID-19), with a stabilisation over the past half year.

Commodity prices: iron ore & crude oil



Public demand has been less supportive in WA than nationally, reflecting the state government's priority of shoring up its finances after a long period of deterioration.

However, the focus of government has shifted quickly in response to COVID-19. The state government has announced a $600m package (about 0.3% of annual GSP) aimed at easing pressures on households and small businesses (see pages 8 to 10).

WA's exposure to some Coronavirus risks is relatively low – particularly the foreign education and tourism sectors. WA accounts for just 3% of Chinese foreign student flows and tourism accounts for a low 5% of state GSP.

However, the measures to limit the spread of the virus, the closing of the state boarder, the social distancing guidelines and the closure of places of gathering - will have a damaging impact, as elsewhere.

... as COVID-19 impacts

Chart 1.

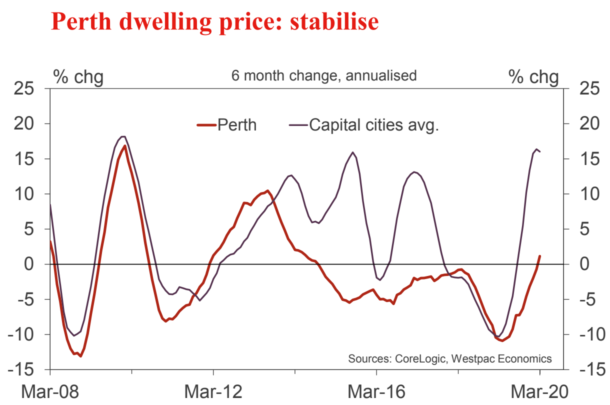


Chart 2.

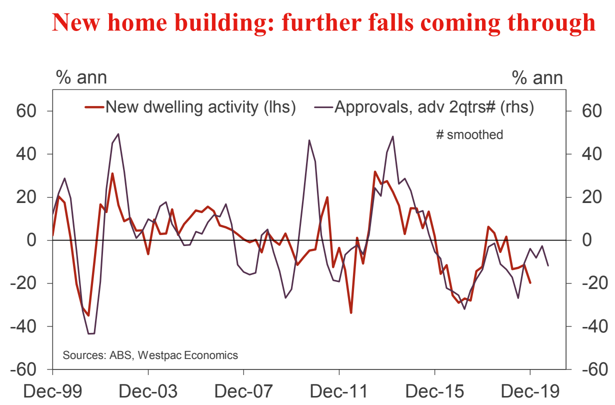


Chart 3.

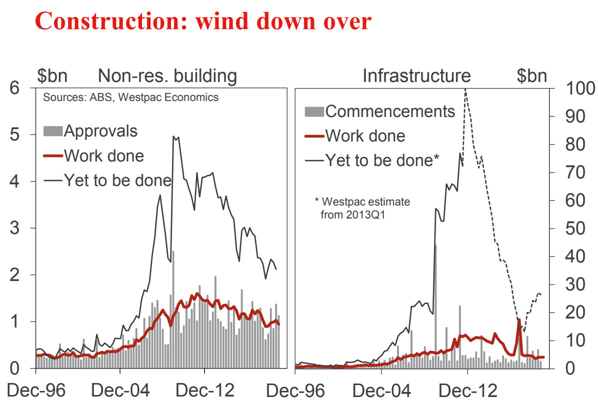


Chart 4.

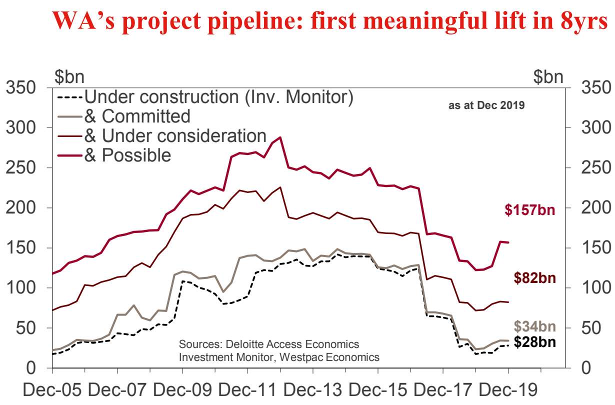


Chart 5.

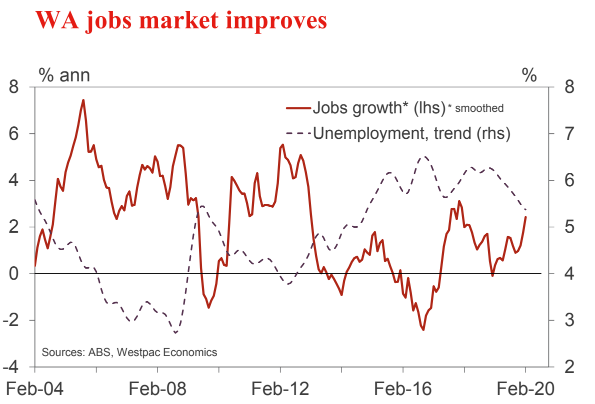
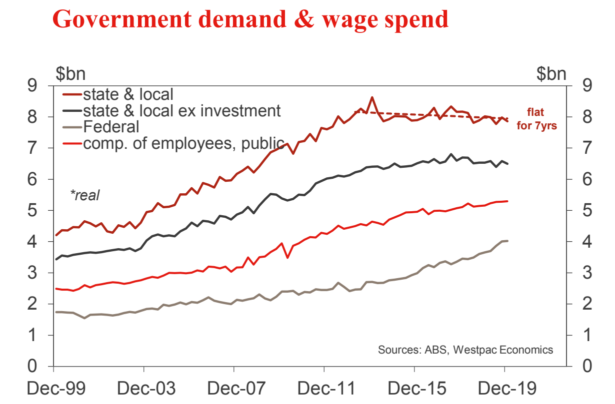
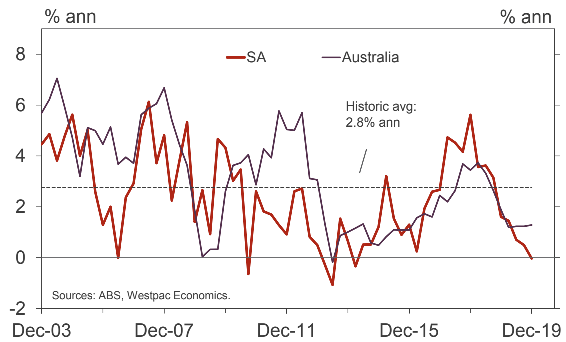


Chart 6.



South Australia: demand growth stalls...

State final demand growth decelerating

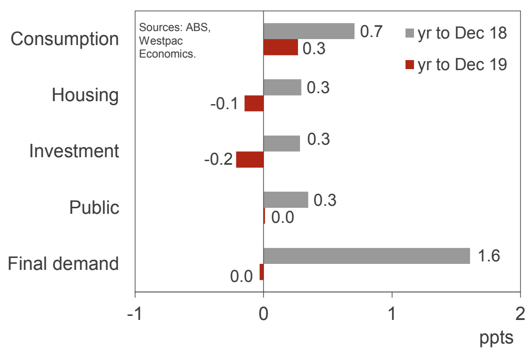


South Australian state demand fell by 0.2% in the December quarter, following a 0.1% contraction in September. Earlier gains in March 2019 (0.2%qtr) have been offset, and annual growth remains flat.

This recent slowdown is a result of weak business investment (-2.5%qtr) and the dissipation of public investment as projects are completed (-8.4%qtr). Household consumption growth is also sluggish at 0.1%qtr (0.5%yr), a decline of 0.4% in per capita terms - matching the outcomes in NSW and Victoria.

Performances across the remaining demand components were mixed. Dwelling investment increased by a modest 0.7%qtr, however it remains 3.2% below its level in December 2018. Conversely, public demand contracted by -0.1%qtr and growth is flat in year-over-year terms. This has moderated from the 11%yr pace recorded at end-17 as projects have been completed.

SA contributions to state final demand

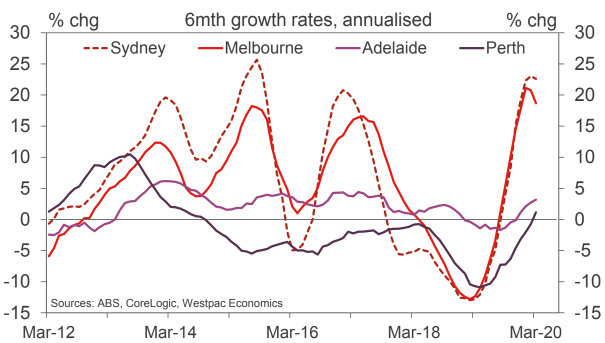


Behind the weak print for business investment was a marked decline in non-residential building, down 10.9%qtr (-5.8%yr). Compounding this was an 11.9% fall in infrastructure spending, which retreated to the level that prevailed in June 2017. This was partially offset by a robust 6.0%qtr growth in equipment investment and a 3.2%qtr increase in intangibles.

On the upside, new residential construction has begun to turn up, increasing 4.0%qtr. That has seen the annual growth improve from -14% in June 2019 to -0.9% in December. Renovations served as a modest drag on total residential construction, falling 3.3%qtr.

The SA labour market is beginning to splutter, with the pace of jobs creation moderating to 0.7%yr. Population dynamics are not as supportive as they could be, with growth of 0.9% below the national average of 1.5%, but up from the 0.6% pace in 2017. Consumer spending remains weak, as SA's households are highly leveraged with comparatively low levels of disposable income.

Adelaide house prices lift



Following a shallow correction in 2018-19, housing prices in Adelaide picked up ahead of COVID-19, advancing by 3.2% annualised over the past half year. Affordability and supply-demand fundamentals are still supportive, but momentum may fade with the retraction in housing sentiment.

Looking ahead, SA's booming tourism industry is highly susceptible to the COVID-19 crisis. Also, SA has also become increasingly reliant on international education - having overtaken wine as the state's largest export - and this sector faces major uncertainties. On the upside, the state's wine exporters will benefit from the depreciating AUD.

In the 2019/20 Budget, the SA government was looking for output to grow by 2.5%. In December's midyear update, this was revised down to 1.75%, reflecting weaker winter crop production and consumption growth. The government also anticipated an operating surplus of $91m. With the advent of both the bushfires and COVID-19, activity and the state budget will take a significant hit.

... as headwinds continue to mount

Chart 1.

South Australia: choppy demand

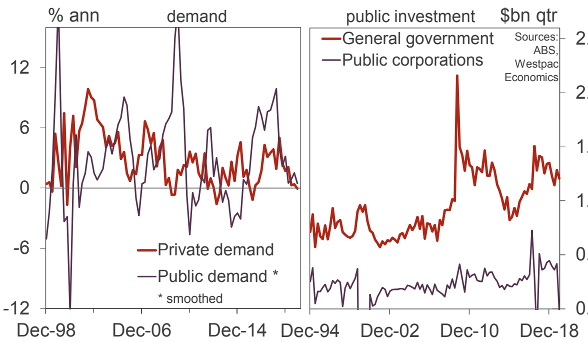


Chart 2.

SA's business investment profile

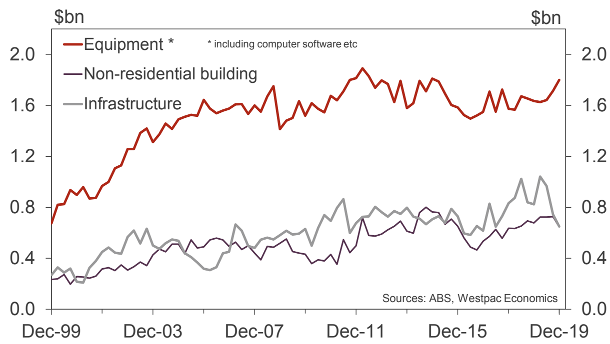


Chart 3.

SA population growth off lows

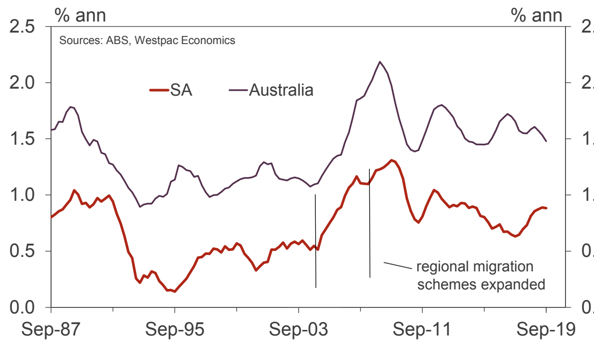


Chart 4.

Dwelling approvals: SA vs Australia

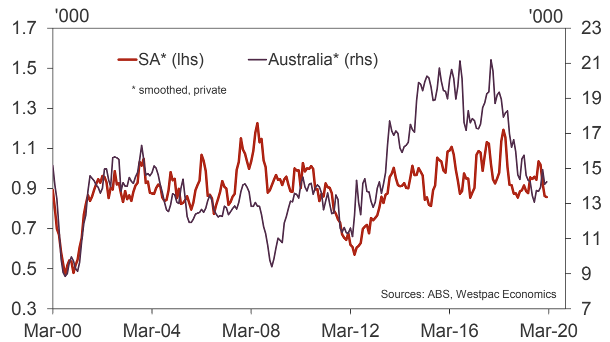


Chart 5.

SA jobs growth cools

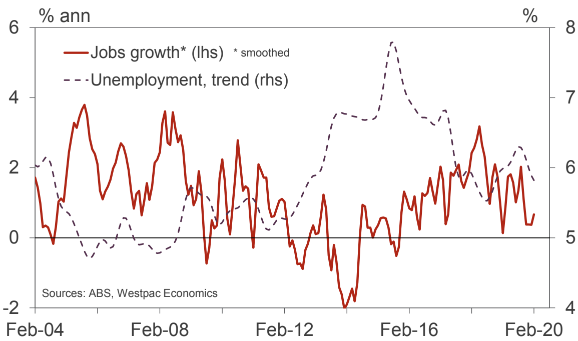
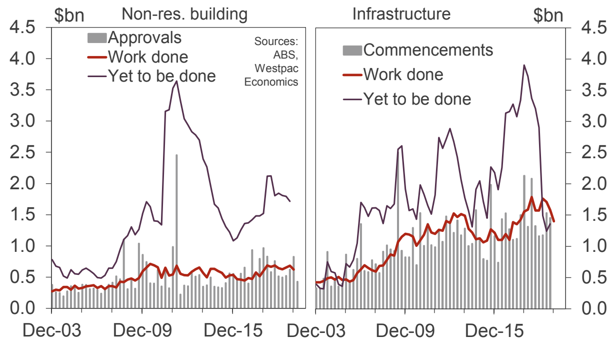


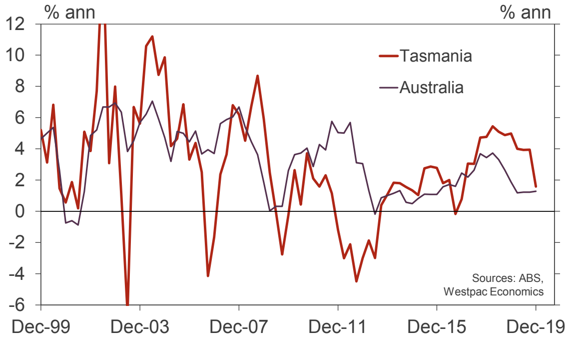
Chart 6.

Non-residential construction



Tasmania: conditions moderated in 2019 ...

Tasmania: domestic demand, loss of altitude



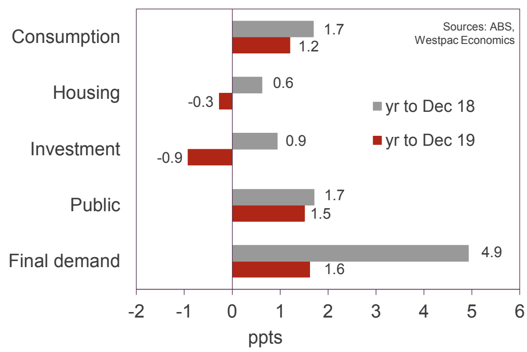
Ahead of COVID-19, the Tasmanian economy continued to lose altitude. State demand growth moderated from a brisk pace of around 5% for both 2017 and 2018 to a 1.6% outcome for 2019. In per capita terms, state demand grew by 0.6% over the past year, the strongest of any of the states.

The cooling of growth after the burst of the past two years is understandable and was much anticipated.

The home building upswing of the past couple of years has run out of puff, with work cresting in 2019. Approvals remain at high levels, supported by relatively strong population growth, suggesting that activity in the sector will be reasonably resilient near-term.

Consumers spent more freely in 2017 (+4.7%) and 2018 (+2.9%), casting off the austerity evident during 2016 (-0.1%). That spending burst was supported by the rise in household wealth associated with higher dwelling prices.

Tasmania: contributions to state demand

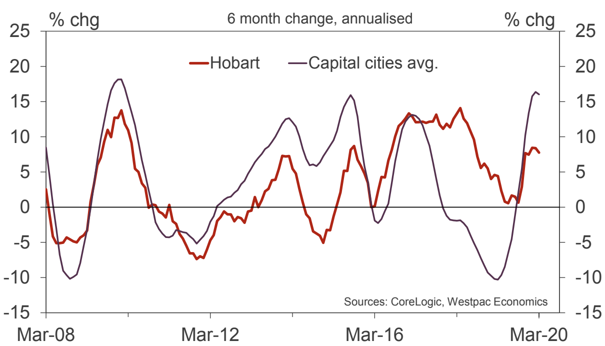


In 2019, consumer spending moved down a gear, but still record a robust increase of 2.1%. In per capita terms, that is a rise of 1.1% - an outcome which contrasts to the declines evident across the other states (excluding WA).

The state has benefitted from the lower Australian dollar, particularly key industries, such as agriculture and tourism. Improved fortunes have encouraged additional investment in these sectors. On the business investment front, recent strength has been centred on a doubling of infrastructure work. There is a focus on renewable energy, including the $300mn Cattle Hill and $280mn Granville Harbour windfarms.

Public demand is also expanding at a brisk clip, up 5.5% over the past year. Public investment is in a strong uptrend, with a focus of the state government on transport infrastructure, including the Midlands highway upgrade ($535mn) and freight revitalisation ($2.39mn).

Hobart house prices: advance on lower rates



Tasmanian state output expanded by a brisk 3.6% in 2018/19, matching the 2017/18 outcome (of 3.5%). State demand grew by 4% in 2018/19, moderating from a 5% rise in 2017/18.

As elsewhere, the Tasmanian economy will be hard hit by the COVID-19 crisis. As with the rest of the nation, a recession is in prospect in 2020.

The state closed not only its international boarder but also closed its boarder to the mainland in an effort to combat the spread of the virus. This will have a major impact on a range industries, most notably tourism - a key sector - with the state typically attracting many visitors from inter-state.

The state government has announced around $1bn (3% of GSP) in measures, with a focus on small businesses, households and the health sector (see pages 8 to 10 for more detail).

… ahead of COVID-19 impacts

Chart 1.

Tasmania: employment kicked higher in 2019

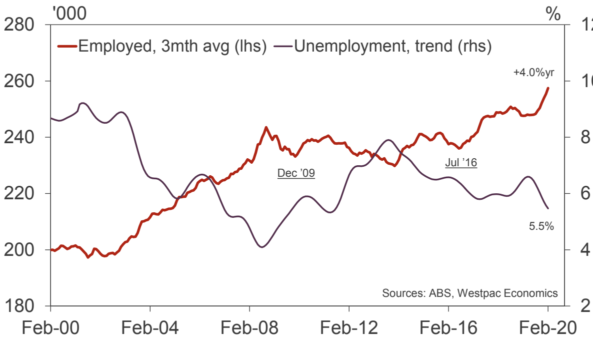


Chart 2.

Tasmanian state demand

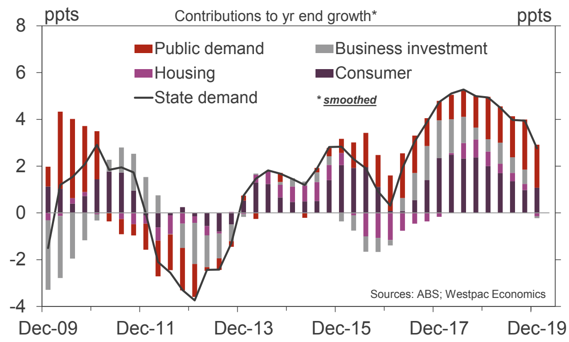


Chart 3.

Private new home building

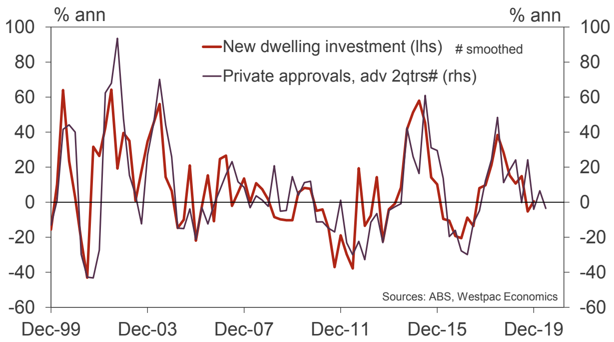


Chart 4.

Tasmania: dwelling approvals resilient

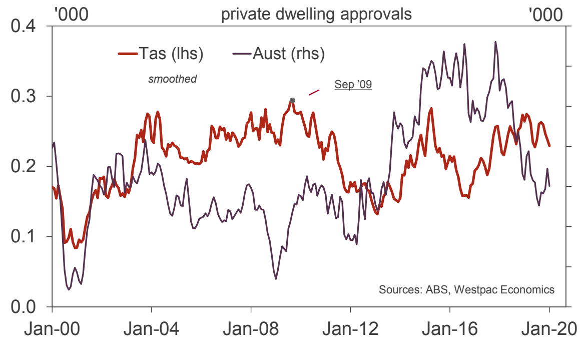


Chart 5.

Non-residential construction: sizeable pipeline

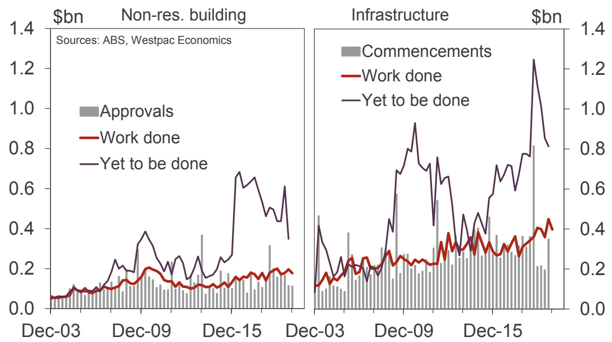
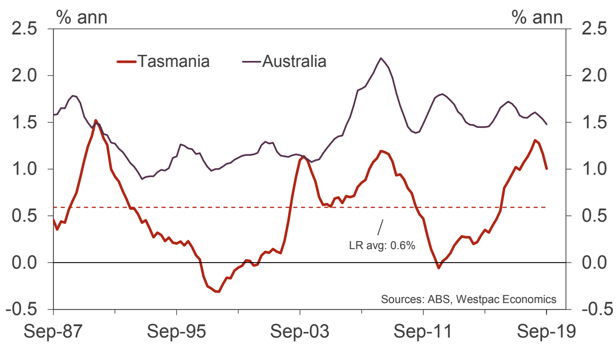


Chart 6.

Tasmania: population growth elevated



Summary indicators

Chart 1.

Exports of goods & services

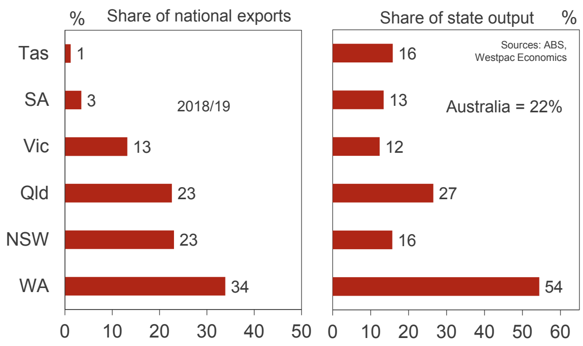


Chart 2.

Gross State Product

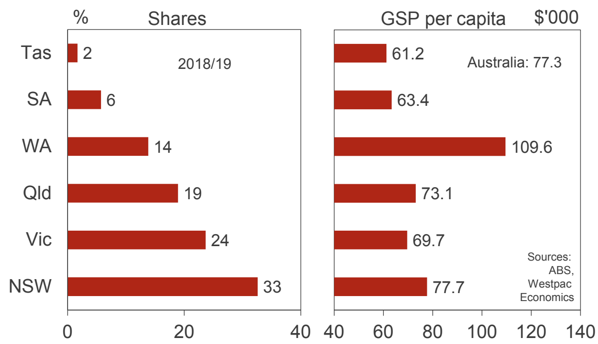


Chart 3.

Dwelling approvals

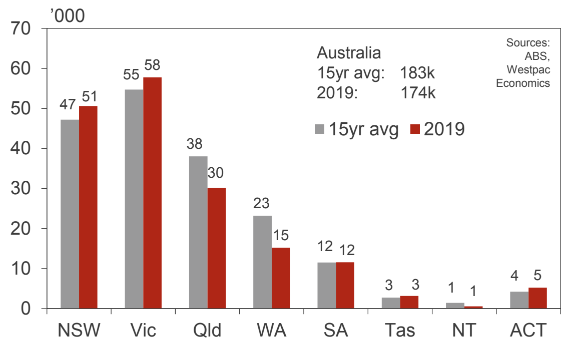
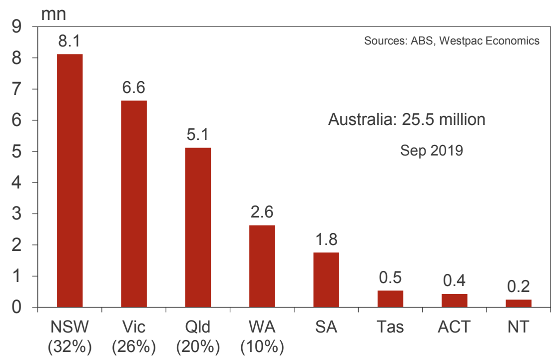


Chart 4.

Population



Industry mix: share of gross value add

	Australia	NSW	Vic	Qld	WA	SA	Tas	NT	ACT
Agriculture	2.7	1.9	2.4	3.3	2.4	5.4	9.5	3.3	0.1
Mining	8.2	3.3	0.8	10.1	31.2	3.9	4.4	14.1	0.1
Manufacturing	6.2	5.9	7.6	6.4	5.2	6.8	6.6	4.3	1.1
Construction	8.3	7.9	8.3	9.2	8.8	7.3	6.3	13.1	6.9
Transport, utilities	7.6	7.5	8.1	8.8	5.9	8.4	7.5	5.8	4.3
Wholesale, retail	8.7	9.0	10.1	8.5	6.5	10.3	8.2	5.6	4.6
Health, social assistance	7.5	6.5	8.2	7.7	5.9	10.2	13.0	7.8	12.4
Education	5.0	4.8	5.5	5.2	3.7	6.1	6.5	5.4	6.1
Household services	5.3	5.5	5.3	5.8	4.0	5.7	5.6	6.2	4.9
Finance	9.4	12.7	11.5	6.6	4.4	8.0	7.9	2.8	3.4
Business services	16.6	20.3	18.4	14.3	10.9	13.1	10.5	7.7	19.2
Public administration	5.5	4.7	4.7	5.6	4.2	5.7	5.3	14.0	28.9
Ownership of dwellings	9.0	10.0	9.1	8.5	6.9	9.2	8.8	10.1	8.1

Sources: ABS, Westpac Economics. For the 2017/18 financial year.

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