

Summary:

- **The economic impact of COVID has differed by industry;**
- **And by state;**
- **WA looks to have done best in recent months, Victoria (understandably) has struggled;**
- **Better relative performance is interesting. Better absolute performance is what matters.**

State Final Demand data told us that WA and the ACT had the strongest economies in the first half of the year, the 'big' states (NSW and Victoria) and Tassie did worst. There was a notable difference in growth performance between states. But not unusually large.

Across a range of indicators, Victoria had the weakest economy in the third quarter and WA the best. The story is more mixed between the other states. On balance, Queensland looks to have been the next best performing state, followed by SA. Most indicators suggest things were a little weaker in NSW. Tasmania was a little more puzzling, with some data suggesting it was leading the pack (hours worked), and others that it was lagging (consumer confidence).

One indicator that is telling a slightly different story is house prices. Partly the movement in house prices reflects relative state economic performance. But there are also supply and demand factors that are specific to the housing market.

The state of the states

Australia has just been hit by the biggest peacetime economic shock since the Great Depression. We know that economic growth fell 7% in the second quarter and national income by over 8%. These are big numbers. We also know that the impact on different industries has been far from equal. Air transport, recreation, as well as accommodation and food services have found the going extremely tough. But trying to quickly get a computer screen or a golf set in recent months has been hard. And there was a newspaper article recently noting the spike in luxury car sales.

Nor has the economic fallout hit all the states equally. Unfortunately we only get state economic growth (GSP) data annually. But we do get State Final Demand numbers each quarter that tells how spending has gone in each state (it differs from GSP as it excludes net exports and stocks). What the first half of 2020 data told us is that WA and the ACT did best. The State Final demand numbers almost certainly understates how well the WA economy was travelling (reflecting the strong growth of iron ore exports).

The 'big' states (NSW and Victoria) did worse, as did Tassie. Partly that reflected NSW, Victoria and Tasmania being the highest of flyers entering the pandemic so had further to fall. NSW and Victoria were the biggest beneficiaries of strong immigration growth and therefore were most

exposed to the slowdown (and its impact on related sectors such as education). Tassie felt the impact of the fall in international and inter-state tourism.

So there was a notable difference in growth performance between states in the first half of the year. But not unusually large. The differences have been higher in previous years (such as during the mining boom that super-charged the WA and NT economies).

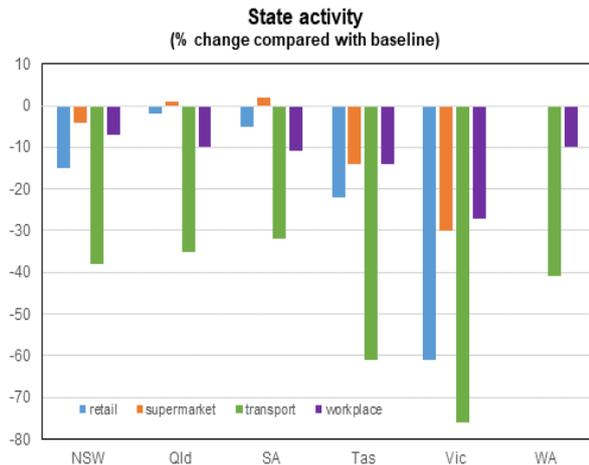


But the economy never stands still, always being influenced by a range of cyclical and structural factors. In the third quarter the big events were the re-opening of much of the global and domestic economy and the unfortunate lockdown in Victoria. Some of the so-called 'real-time' data (such as Google mobility indicators) confirms what you would expect: Victoria has had the weakest economy in recent months and WA the best. Mostly that reflects the relative stringency of government restrictions between the states in fighting the spread of the virus. But there is also the indirect impact the virus has on supply chains, as well as on business and consumer confidence.

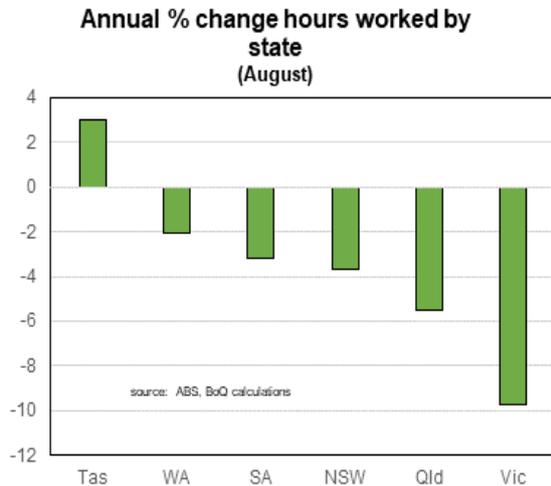
Across all states shopping at supermarkets is the activity that has returned closest to 'normal' (working from home means more cooking at home). But the number of public transport journeys remains well under pre-COVID levels, even in the states where there has been negligible community transmission.

An alternative measure of how states are going is to look at the number of hours worked. That data confirms the weakness of the Victorian economy as well as the relative strength of Western Australia. Interestingly, the only state where there was growth in the number of hours worked (in the year to August) was Tasmania. This is inconsistent with the Google mobility data that suggested that activity in Tasmania was generally lower than in all other states, bar Victoria.

Mobility data is generally strongest in WA, weakest in Victoria.



There has been a lot less work done in Victoria, only Tasmania has seen growth.



Other indicators tell a similarly mixed message about Tasmania. The growth of retail sales in Tasmania was the strongest of all states (and inconsistent with the numbers indicating trips to shops and supermarkets was the lowest of all states bar Victoria). Consumer confidence is weakest, but Tasmanian firms report the strongest business conditions. These additional indicators confirm the strength of WA and the weakness of Victoria.

Consumer confidence is strongest in WA, but weakest in Tasmania despite the best performing labour market.



Tasmanians and West Australians have been the most avid shoppers.

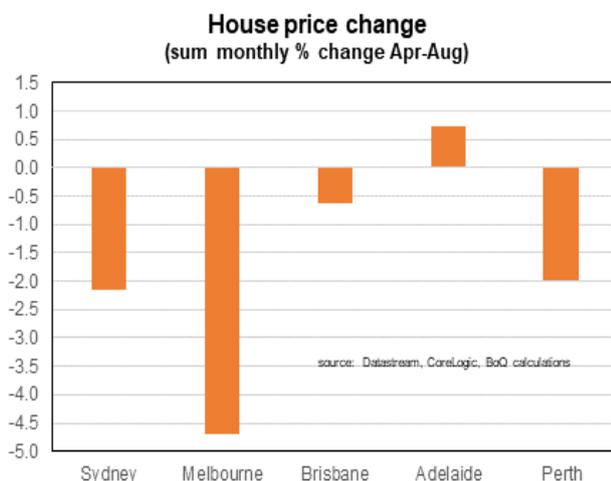


One indicator that is telling a slightly different story is house prices. CoreLogic figures indicate that the decline over the past few months has been largest in Melbourne, consistent with the other activity data. Less consistent has been the decline in house prices in Perth in recent months (although prices were flat in August) and (to a lesser extent) the weakness of prices in Sydney.

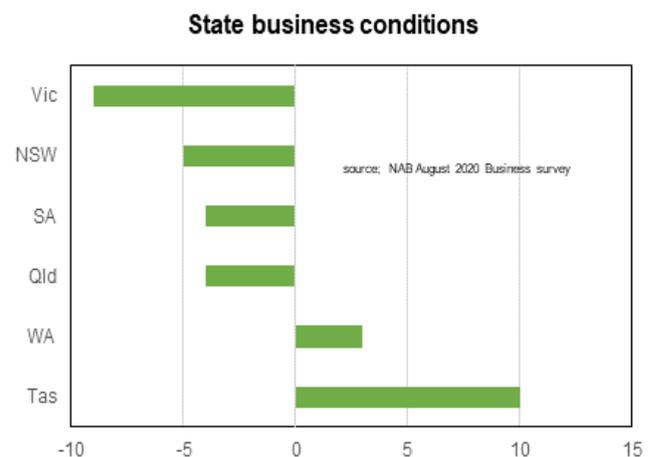
Partly the movement in house prices reflects relative state economic performance. According to a survey by NAB, housing market participants nominate the jobs market as being the most important factor currently influencing the housing market. But there are also supply and demand factors that are specific to the housing market. Immigration (including overseas student) numbers have been strongest in Sydney and Melbourne. So their absence in recent months has been a big factor hitting demand in those cities. Sydney and Melbourne has also seen the largest increase in supply of new residencies (particularly units) over recent years. Over the same time there has been a sharp decline in the amount of supply of new housing in Brisbane and Perth.

The modest performance of Perth house prices is a little inconsistent with the other housing evidence. There has been a big decline in vacancy rates in WA this year. Optimism about now being the right time to buy a house amongst households is highest in WA. Over the past 3 months the strongest number of new home sales has been in WA.

The economy matters for the housing market, but so do other factors.



Tasmanian firms report the strongest business conditions, Victorian companies the weakest.



So like the industry performance, the economic picture is mixed by state. WA is doing best, helped by very low community transmission of the virus, a strong performance of the iron ore industry and a lower reliance on tourism and education. The lockdown has meant that Victoria is finding the going the toughest.

The story is more mixed between the other states. On balance, Queensland looks to be the next best performing state, followed by SA. Most indicators are a little weaker in NSW, a result of tighter restrictions following the appearance of a 'second wave' in July, the greater impact felt by the absence of immigration, as well the tighter links with Victoria. The biggest puzzle is Tasmania where most of the activity data suggests it might be the best performing economy but consumer confidence is weakest (which might be impacting the mobility numbers).

But the economy never stands still. Victoria is getting on top of the wave and is about to start opening up. Indeed, the signs are that the opening up will be faster than the Government's original 'roadmap'. This will probably mean that growth will be strongest in Victoria in the December quarter.

Of course while relative economic performance is important it is absolute economic performance that really matters. And right now the unemployment rate is over 6.5% in all states (and over 7% in most). And the underutilization rate is over 16.5% in all states (and over 20% in Victoria).

There have been good signs recently. The health news from both Victoria and NSW has been good. Global economic growth over recent months has been stronger than expected. The jobs market domestically has not been as weak as feared (helped by substantial government assistance). And the Government looks likely to announce an economically very supportive budget in October. These positive factors will need to continue though before economic activity in all states can return to 'normal'. And some luck with the path of the virus!

We live in interesting times.

Peter Munckton
Chief Economist
BOQ Group