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NSW Economic Update
Summer 2018

by

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SUMMARY

The state of the NSW economy

For the eighth consecutive quarter, New South Wales has been the best performing State in Australia. Commsec’s January 2018 State of the States Report found that NSW ranked first for five of the eight economic indicators: retail trade, dwelling starts, equipment investment, construction work and unemployment. The State is second on economic growth, and third for population growth and housing finance.

The NSW 2017-18 Half-Yearly Budget Review reported that the State economy outperformed the rest of the nation in 2016-17, with Gross State Product (GSP) growing well above-trend at 2.9%, and positive prospects for 2018-19:

- Housing construction has also grown strongly and is expected to remain at high levels as the record investment pipeline continues to support activity for at least the next two years. Businesses are also poised to push construction activity higher, in response to above-average capacity utilisation and strong business conditions, with broad based strength in non-residential building approvals.
- Labour market conditions in New South Wales are strong. Recently, full-time employment growth has been significant and workforce participation has increased. The unemployment rate has fallen to 4.6 per cent, the lowest among the states. Despite this strength, wages growth is expected to remain constrained due to ongoing spare labour capacity nationally and strong inward migration.
- Over the next two years, supportive conditions are expected to foster above-trend economic growth for New South Wales of 3 per cent in 2017-18, and 2.75 per cent in 2018-19, unchanged from the 2017-18 Budget. This outlook is underpinned by strengthening national and global economies, low interest rates, a lower Australian dollar, strong demand from Asia, above-trend population growth and a historically large pipeline of infrastructure and residential construction.¹

Based on the latest quarterly movements,² the strengthened and weakened areas of the NSW economy are summarised in the following table. It should be noted that these indicators are subject to cyclical variations and may not be completely illustrative of a fundamental shift in economic growth.

² For the most recent quarter in which data is available. Note that rolling averages are excluded from this table.
The state of the Australian economy

The Reserve Bank of Australia’s (RBA) latest *Statement on Monetary Policy* (November 2017), forecast Gross Domestic Product (GDP) growth to be around 2.75% by June 2018, increasing to 3.25% by December 2018. Short term growth estimates were lower than those made in the August 2017 forecasts, which had anticipated GDP growth of 2.75-3.75% by December 2018.

Key factors which may influence national growth over the forecast period, as outlined by the RBA, include:

- Resources activity, as mining investment levels stabilise and liquefied natural gas (LNG) exports increase during 2018;
- Growth in non-mining activity, namely household consumption and non-mining business investment;
- Increasing strength in public investment, largely driven by transport and telecommunications infrastructure projects;
- Increased employment growth alongside a declining unemployment rate; and
- A gradual pickup in wage growth over 2018, although it will remain well below average as a result of ongoing spare capacity in the labour market.

The financial sector has made diverging forecasts about future economic growth. The Commonwealth Bank has forecast GDP growth of 3.1% over the 2018-19 financial year and 2.9% in 2019-20. In contrast, other analysts predict lower GDP growth in the next two years; NAB has forecast lower economic growth of 2.6% for 2018-19, while BIS Shrapnel and Westpac anticipate GDP growth of 2.4% and 2.5% respectively for both the 2018 and 2019 financial years.

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Commentary: A growing population and the impact on households

2017 saw Australia record its 26th consecutive year of uninterrupted economic expansion,6 while NSW posted strong Gross State Product (GSP) results and remained the strongest performing State in Australia. The 2018 economic outlook for both Australia and NSW is positive,7 yet some observers argue that these headline economic results mask a less flattering picture: a national economy largely propped up by high population growth.8

Australia’s population has increased substantially since the mid-2000s,9 and at a much higher rate than other nations.10 In the decade to June 2017, the estimated resident population increased by approximately 3.8 million to reach 24.6 million people. Of this increase, almost 1.2 million (27.2%) was recorded in NSW, second only to Victoria (see right).

The majority of the population growth in NSW has come from net overseas migration (NOM) rather than natural increase: 60.1% of the population growth between June 2007 and June 2017 was a result of migration. This is higher than the Australian average (see right). According to the NSW 2017-18 Half-Yearly Budget Review, the State will continue to see population growth above the long term average for the next four years.11 It is reasonable to believe that this ongoing increase will come largely from NOM.

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7 NSW Treasury, note 1, p 7-8; Reserve Bank of Australia, Statement on Monetary Policy, November 2017, Ch 6; Commonwealth Bank, Australia in 2018: risks & issues, 17 January 2018.
8 Commonwealth Bank, An update on how the Australian economy looks on a per capita basis, 12 July 2017, p 1.
10 Clarke C, Australian wages stall, as immigration soars, ABC News, 22 December 2017.
11 NSW Treasury, note 1, p 8.
A growing population has its benefits; notably, strong population growth boosts aggregate demand and therefore output and employment growth. For NSW, the *Half-Yearly Budget Review* stated that strong population growth is one factor that could lead to relatively high levels of post-peak activity persisting for years to come, while the Commonwealth Bank has commented that strong population growth in Melbourne and Sydney may help mitigate the risk of residential property oversupply in those cities.

Yet if economic growth is measured in per capita terms—which measures changes in living standards—the results are less impressive. While NSW GSP increased by 2.9% over the year to June 2017, annual GSP per capita growth was 1.3% (see below right): a 1.6% difference. The Australian GDP per capita results is similarly lower than national GDP (0.9% vs 2.4%).

While high migration helps avoid economic recession and benefits business, it is argued that it also keeps wages low and has exacerbated issues of [underemployment](https://www.parliament.nsw.gov.au/research/sb4-2017-slow-wage-growth) for existing workers.

Although the link between high immigration and low wage growth is not clear-cut, the Productivity Commission’s 2016 report, *Migrant intake into Australia*, concluded that real wages for a number of occupations would increase at a faster rate under a zero NOM scenario than if the long-term historical average annual rate was maintained.

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12 Commonwealth Bank, note 8, p 5.
13 NSW Treasury, note 1, p 14.
15 The ratio of the chain volume estimates of GDP/GSP to the estimated resident Australian population.
16 Commonwealth Bank, note 8, p 1.
17 Clarke, note 10.
An increasing population requires a commensurate increase in public infrastructure investment to maintain quality of life, yet critics contend that Australian governments are struggling to keep up with demand. A 2013 Productivity Commission report estimated that governments must spend approximately $38 trillion in capital investment between 2013-14 and 2059-60: over five times the cumulative investment made over the previous half century. NSW is currently seeing the highest levels of infrastructure of all jurisdictions, yet it is unclear whether this will bridge the gap identified by the Productivity Commission.

Given the impact high migration-driven population growth has on the Australian community, it is argued that there is a need for a comprehensive and open discussion around the policy direction Australia is taking with regard to population and immigration. The nation had such a policy until the 1980s. As a number of NSW Government Ministers have publicly stated that Sydney is ‘full’, perhaps 2018 will see renewed discussion of this issue?

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22 Commonwealth Bank, note 8, p 5.
23 Hull, note 19.
About the paper

This paper presents statistical information on key economic indicators, providing an updated snapshot of the NSW economy and relevant points of comparison with other Australian States and Territories. Statistics are updated to the end of the most recent quarter available. Most indicators have been updated to include the September or December 2017 quarters.

Data sources used

Data presented in this paper is primarily sourced from the Australian Bureau of Statistics (ABS). Sources other than the ABS have been used where relevant and are identified in the paper. Analysis and forecasts from the RBA and major private banks (including Westpac, NAB and the Commonwealth Bank) are also presented.

The Economic Update presents ABS trend estimates where available; trend data is preferred by the ABS for the analysis of monthly or quarterly changes, as they remove potentially misleading seasonal patterns, residual noise and irregular influences. All ABS data are trend estimates unless otherwise identified as original or seasonally adjusted data.
INTEREST RATES

As of December 2017, the RBA has held the cash rate at 1.5%: it has remained at this level since August 2016 (see right). In assessing whether to adjust the cash rate, the RBA Board considers strengths and weaknesses in the domestic economy, as well as international economic factors.

In their December 2017 meeting the RBA Board noted a range of factors influencing the Australian economy. The Board referred to data that suggested GDP growth over 2017 to September was likely to have picked up to around the economy’s potential growth rate. Labour market conditions had remained positive and were stronger than expected over 2017, while employment growth—full-time employment in particular—remained well above average.

Wage growth remained slightly lower than expected despite significant increases in the award and minimum wages during the year. This had occurred at the same time as an apparent decline in spare capacity, with more firms reporting difficulty finding suitable labour. Nevertheless, the Board expected wage growth to increase gradually over the next year or so.

Considerations for monetary policy included GDP growth, labour market conditions and wages as discussed above. However, the Board expressed concern over the outlook for household consumption, which it considered to be a significant risk given that household incomes were growing slowly and debt levels remained high. While housing market conditions had also eased, especially in Sydney, the Board agreed that household balance sheets still warranted careful monitoring.

Accordingly, the Board judged that keeping the cash rate unchanged at the December 2017 meeting was consistent with sustainable growth in the economy and achieving the inflation target over time.

The Commonwealth Bank has forecast that the cash rate would remain on hold until late 2018, although this may be delayed into 2019 if wage growth remains weak. NAB also expects the cash rate to remain at 1.5% until June 2018, while Westpac forecasts the cash rate to remain unchanged to September 2019.

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25 Essentially, that there are more workers than available jobs for them to fill: see Glossary for further information. For a detailed overview, see: Ballantyne A, De Voss D and Jacobs D, Unemployment and Spare Capacity in the Labour Market, Reserve Bank of Australia, September 2014.
STATE DEMAND AND GROSS STATE PRODUCT

Australia’s Gross Domestic Product (GDP) increased by 0.6% over the September 2017 quarter, and 2.4% in the 12 months to September. Demand in NSW increased by 0.5% for the September quarter (see right): lower than the June 2017 quarter (0.7%) and the two year quarterly average (0.9%). Quarterly final demand growth was largely modest in other States and Territories, with Tasmania having the lowest quarterly growth (0.0%).

Annual demand growth in NSW to September 2017 was the equal second lowest of all jurisdictions at 2.2%: slightly lower than seen in the 12 months to June 2017 (2.5%). Victoria and South Australia saw the largest annual growth over the 12 months to September 2017 (4.7% and 4.4%).

<table>
<thead>
<tr>
<th>State final demand ($m), chain volume measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
</tr>
<tr>
<td>Dec-2016</td>
</tr>
<tr>
<td>Mar-2017</td>
</tr>
<tr>
<td>Sep-2017</td>
</tr>
</tbody>
</table>

State final demand figures do not include net exports and therefore do not account for the positive impact of higher resource exports on economic growth. The impact of exports can be seen in the Gross State Product (GSP) data released by the ABS.

While NSW was the dominant State at the end of the 2015-16 financial year, Victoria took the lead in 2016-17, growing by 3.3% compared to NSW’s 2.9% growth. The NSW result remained above the Australian average of 2.0% (see right).
Household consumption grew by 0.4% over the September 2017 quarter. This was below the five year average of 0.6% (see right). Household spending increased in NSW by 0.4% over the quarter: the same as the Australian average and, along with Western Australia, the equal second highest of all States after Victoria (see chart below right). On an annual basis, NSW consumption increased by 2.2%: again, the third highest growth rate after Victoria and the ACT (3.0% and 2.9% respectively).

The Commonwealth Bank noted that weak wages growth has meant that households are lowering their savings in order to maintain spending growth, which is not sustainable over the medium term. However, the RBA noted in its November 2017 Statement on Monetary Policy that household consumption was likely to pick up in future, although it will remain lower than the average level seen before the Global Financial Crisis.

<table>
<thead>
<tr>
<th>Gross State Product ($m), chain volume measures, original</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>Jun-2015</td>
</tr>
<tr>
<td>Jun-2017</td>
</tr>
</tbody>
</table>

Source: ABS, Australian National Accounts, Cat. No. 5220.0, June 2017

Household final consumption ($m), chain volume measures

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>SA</th>
<th>WA</th>
<th>TAS</th>
<th>NT</th>
<th>ACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-2016</td>
<td>83,061</td>
<td>63,173</td>
<td>46,522</td>
<td>16,069</td>
<td>26,572</td>
<td>4,571</td>
<td>2,797</td>
<td>4,376</td>
</tr>
<tr>
<td>Mar-2017</td>
<td>83,593</td>
<td>63,695</td>
<td>46,759</td>
<td>16,147</td>
<td>26,635</td>
<td>4,577</td>
<td>2,810</td>
<td>4,414</td>
</tr>
<tr>
<td>Jun-2017</td>
<td>84,048</td>
<td>64,168</td>
<td>46,934</td>
<td>16,209</td>
<td>26,730</td>
<td>4,591</td>
<td>2,825</td>
<td>4,448</td>
</tr>
<tr>
<td>Sep-2017</td>
<td>84,393</td>
<td>64,577</td>
<td>47,077</td>
<td>16,259</td>
<td>26,842</td>
<td>4,603</td>
<td>2,834</td>
<td>4,473</td>
</tr>
</tbody>
</table>

Source: ABS, Australian National Accounts, Cat. No. 5206.0, September 2017
In NSW, the largest increase in household expenditure over both the quarter and year to September 2017 was on net expenditure interstate\(^{26}\) (1.9% and 20.1% respectively). Other sectors seeing significant increases are shown in the chart on the right, although their annual increases are lower than that seen in the net expenditure interstate sector. Meanwhile, the recreation and culture sector saw both the largest quarterly and annual falls (-1.2% and -2.4% respectively).

Although it is subject to sharp fluctuations, the ANZ-Roy Morgan Consumer Confidence Index has trended upwards since December 2017, reaching a high of 123.5 in mid-January before falling to 119.4 as of the weekend ending 21 January 2018. According to Roy Morgan, the recent increase has been influenced by a strong labour market and a solid outlook for economic activity in 2018.

The January 2018 edition of the Westpac-Melbourne Institute Survey of Consumer Sentiment reported an increase of 1.8% during the month to reach 105.1. This is an improvement over the 2017 results. Further analysis of the factors driving this result is provided below:

The average Index reading over the last three months is 6.3% above the average in July-September last year. That in turn points to some recovery in spending which saw a disturbing slump in the third quarter, a view broadly consistent with recent more positive updates on retail sales and vehicle purchases. However, the degree to which spending improves still looks likely to be constrained with the survey detail suggesting family finances are still under pressure, limited scope for further reductions in saving to support spending, and high debt levels an ongoing concern for many households.

\(^{26}\) This is calculated by adding the expenditure of NSW residents in other States and Territories and deducting the expenditure of residents from other States and Territories within NSW. Essentially, this increase indicates that interstate residents spent more money in NSW in March 2017 than they did in March 2016.
BUSINESS INVESTMENT

Nationally, business investment increased by 1.7% over the September 2017 quarter, and increased 5.3% over the 12 months to September. This is the third consecutive increase in business investment, following 17 consecutive quarters of decline between December 2012 and 2016.

NSW business investment increased by 2.9% over the September quarter: the second highest result of all jurisdictions. However, the State’s annual result to September (4.4%) was the third lowest result for all States and Territories. Western Australia was the only State to suffer a fall in both quarterly and annual investment levels (-0.5% and -0.7% respectively).

<table>
<thead>
<tr>
<th>Business investment ($m), chain volume measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
</tr>
<tr>
<td>Dec-2016</td>
</tr>
<tr>
<td>Mar-2017</td>
</tr>
<tr>
<td>Jun-2017</td>
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<tr>
<td>Sep-2017</td>
</tr>
</tbody>
</table>

Source: ABS, Australian National Accounts, Cat. No. 5206.0, September 2017

Commercial lending data is another proxy for measuring business investment and related activity. While this data is susceptible to volatility, commercial finance data indicates that commercial lending remained largely stable throughout 2017 (see right). After trending downwards in early 2017, business confidence rose in recent months. According to Roy Morgan’s Business Confidence survey, business confidence fell by 2.9% to 117.4 in December 2017. However, the result remains above the seven year average of 116.2.27

27 Roy Morgan Research, Business Confidence jumps 3.3pts in December to 117.4, 17 January 2018.
EXCHANGE RATE

The Australian dollar (AUD) dipped from 0.77 US dollars (USD) at the beginning of November 2017 to 0.75 USD in mid-December 2017, before rising to the 0.81 USD mark as at 31 January 2018. Analysts believe this increase is a result of a slumping US dollar, and rising prices for commodities such as iron ore that have bolstered the outlook for Australia's exports.

The trade-weighted index (TWI) used to measure the AUD’s value relative to the currencies of Australia's trading partners, has largely tracked the currency’s fluctuations (see above).

In its November 2017 Statement on Monetary Policy, the RBA forecast the exchange rate to remain at its current level until the end of 2019. However, it noted that were the exchange rate to become more volatile, this would have consequences for its future outlook:

[T]he inflation forecasts have been conditioned on the assumption of no change in the Australian dollar exchange rate, which means that the exchange rate poses an additional uncertainty to the outlook for inflation, particularly for goods with a large imported component.

The major banks vary in their AUD forecasts for the remainder of 2018 and into 2019.

The Commonwealth Bank has forecast the AUD to rise to 0.83 USD by the end of the year, before rising to 0.85 USD as of June 2019. Other banks are more cautious: Westpac expects the dollar to lower to 0.72 USD by September 2019, while NAB has predicted the AUD to remain around 0.75 USD through to December 2019. Other analysts are even more bearish, with a number of investment management firms predicting the dollar will fall to around 0.70 USD over the next 12 months.

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28 Austrade, The dollar and competitiveness, February 2015; Reserve Bank of Australia, Glossary, no date [website – accessed 11 July 2017]. Note that the base level was set at 100 in May 1970.
29 Reserve Bank of Australia, Statement on Monetary Policy, November 2017, Ch 6.
INTERNATIONAL TRADE

Between October 2016 and October 2017 Australia reported monthly trade surpluses. However, after reaching a peak surplus of $2.81 billion in February 2017, the surplus has steadily declined, and the trade balance as of November 2017 is now $194 million in deficit (see right).

According to the Commonwealth Bank, the fall in the trade balance has occurred as a result of exports moving sideways and imports rising by 1.4%, and undershot by a very wide margin market expectations of a surplus in November. Nevertheless, the Bank was optimistic that Australia will see a trade surplus in the future:

We expect the trade accounts to move back into surplus territory over the coming quarters. Thus, the net exports picture should brighten further in the next few quarters as the ramp-up in LNG exports continues towards a peak in the second half of 2018. Overall, we expect net exports together with stronger public spending on infrastructure, modest household spending and non-residential construction to drive GDP towards growth of 3% through 2018.30

Following a 7.1% increase in the June 2017 quarter, the average monthly value of NSW merchandise exports fell by 2.3% in the September 2017 quarter to total $3.9 billion. This was the third lowest quarterly increase by State and Territory after South Australia (-9.4%) and Victoria (-3.3%), and below the national result (1.0%).

Meanwhile, imports grew over the quarter. Following a 1.9% rise in the June 2017 quarter, the average monthly value of NSW merchandise imports rose by 2.6% over the three months to September to $8.8 billion. Nevertheless, this was still the third lowest State or Territory result after Tasmania (-14.7%) and South Australia (-7.3%), and well below the national average of 18.0%. Western Australia saw the largest increase of all jurisdictions, increasing its average monthly value of merchandise imports by a massive 108.9% during the quarter, primarily during July 2017.

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Turning to three month rolling averages, NSW exports hovered around the $3.8-3.9 billion mark each month since September 2017, with November exports valued at approximately $3.82 billion (see right).

The top five destinations for NSW 
merchandise exports in November 2017 were: Japan ($955m); China ($647m); South Korea ($334m); New Zealand ($254m); and the USA ($246m). As a proportion of exports, 50.5% of all NSW merchandise was exported to Japan, China or South Korea in November.

Meanwhile, the State’s monthly import values remained significantly higher, increasing from $8.9 billion in August to $9.8 billion in November.

The top five import sources for NSW in August 2017 were: China ($3.45bn); the United States ($1.07bn); South Korea ($669m); Germany ($560m); and Japan ($529m). Over the course of the month, approximately 32.7% of NSW imports came from China.

The NSW trade balance has declined since the ABS began recording international trade data in 1988. After reaching a peak three month rolling average trade deficit of $6.5 billion in November 2015, the deficit reduced to $4.5 billion in February 2017 before increasing to $5.9 billion in November (see right). This is nearly double the decade low deficit reported in February 2009 ($2.8 billion).

Western Australia continues to have the highest trade balance in comparison to the other States, with near-record highs of $8.3 billion reported in May 2017. While the State’s trade balance remains substantially higher than the other States and Territories, a fivefold increase in imports in July 2017 saw the trade balance fall to $4.8 billion in August 2017, before recovering to $7.5 billion as of November.
CONSUMER PRICE INDEX

The Australian Consumer Price Index (CPI) rose by 0.6% over the December 2017 quarter: the same increase recorded in the September 2017 quarter, but below the Commonwealth Bank’s forecast of a 0.7% rise and Westpac’s estimate of a 0.8% increase.\(^{31}\) Sydney’s CPI increased by 0.7% during the quarter, and was the equal third highest \(^{32}\) increase after Hobart (1.0%) and Brisbane (0.8%).

Over the 12 months to December 2017, the Sydney CPI increased by 2.2%. This was the equal second highest increase, shared with Melbourne and Canberra and beaten only by Adelaide (2.3%). The lowest CPI increase in the 12 months to December 2017 was recorded in Perth (0.9%). The largest price increases in Sydney over the last 12 months were seen for alcohol and tobacco (7.1%); housing (4.4%); and health (4.1%). Nationally, the main contributors to CPI were (in seasonally adjusted terms) transport (2.7%), alcohol and tobacco (1.8%) and health and finance and insurance services (both 1.1%).

Nationally the CPI rose by 1.9% in the year to December 2017,\(^{33}\) which was at the lower end of the RBA’s target band (see table below). The Commonwealth Bank commented that the annual underlying inflation result (1.9%) was also below expectations, and reflected both larger discounting in the retail sector and higher petrol and fruit prices.

<table>
<thead>
<tr>
<th>Reserve Bank of Australia inflation forecasts (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-17</td>
</tr>
<tr>
<td>CPI inflation</td>
</tr>
<tr>
<td>Underlying inflation</td>
</tr>
</tbody>
</table>

Source: RBA, Statement on Monetary Policy, November 2017, Table 6.1.

The Commonwealth Bank concluded that the latest CPI results indicated that the cash rate will continue to remain at 1.5% throughout 2018.

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\(^{32}\) Shared with Melbourne and Adelaide.

EMPLOYMENT

Nationally, employment grew by 0.9% over the December 2017 quarter (annual growth of 3.2%), with approximately 92,000 new jobs created since September 2017. The average number of people employed in NSW also increased by just under 1.0% over the quarter, from 3.89 million to 3.93 million employed. Over the 12 months to December 2017, NSW employment levels increased by 3.1%.

<table>
<thead>
<tr>
<th>Number of persons employed ('000), quarterly average</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
</tr>
<tr>
<td>-----------------------------------------------------</td>
</tr>
<tr>
<td>Mar-17</td>
</tr>
<tr>
<td>Jun-17</td>
</tr>
<tr>
<td>Sep-17</td>
</tr>
<tr>
<td>Dec-17</td>
</tr>
</tbody>
</table>

Source: ABS, Labour Force, Australia, Cat. No. 6202.0, December 2017

According to the ABS, this was the 14th straight month of employment growth, which is further strengthened by the lowest unemployment rate since January 2013 (see following chapter). Nevertheless, this growth was surpassed by national part-time employment, which grew by 14.5% in the five years to December 2017. In contrast, full-time employment grew by only 5.6% over the same period (see right).

There was a 0.8% increase in full-time work and a 0.7% increase in part-time jobs across Australia between September and December 2017. This may indicate that the labour market is seeing a slow reverse in the decline in full-time employment growth observed after the 2008 Global Financial Crisis.

In NSW, there has been a significant jump in cumulative full-time employment growth. Between December 2012 and December 2017, there was an 8.7% cumulative increase in full-time work in NSW: well above the national average and second only to Victoria (see right).
UNEMPLOYMENT, UNDEREMPLOYMENT AND UNDERUTILISATION

In NSW, the average unemployment rate over the December 2017 quarter fell by 0.1% to 4.7%. The State unemployment rate remains 1.3% lower than the 6.0% peak seen in the March 2015 quarter, and 0.8% below the national unemployment rate (5.5%) (see right).

NSW now has the second lowest quarterly unemployment rate in Australia, bettered only by the ACT (3.9%). Western Australia recorded the highest quarterly unemployment rate (6.1%), while the Northern Territory experienced the largest increase in unemployment over the quarter (+1.0%).

<table>
<thead>
<tr>
<th>Unemployment rate (%)</th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>SA</th>
<th>WA</th>
<th>TAS</th>
<th>NT</th>
<th>ACT</th>
<th>AUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-17</td>
<td>5.0</td>
<td>6.0</td>
<td>6.3</td>
<td>6.8</td>
<td>6.2</td>
<td>5.9</td>
<td>3.4</td>
<td>3.8</td>
<td>5.8</td>
</tr>
<tr>
<td>Jun-17</td>
<td>4.9</td>
<td>6.1</td>
<td>6.2</td>
<td>6.7</td>
<td>5.7</td>
<td>5.9</td>
<td>3.3</td>
<td>4.2</td>
<td>5.7</td>
</tr>
<tr>
<td>Sep-17</td>
<td>4.8</td>
<td>6.0</td>
<td>6.0</td>
<td>6.1</td>
<td>5.7</td>
<td>5.9</td>
<td>3.9</td>
<td>4.3</td>
<td>5.5</td>
</tr>
<tr>
<td>Dec-17</td>
<td>4.7</td>
<td>5.8</td>
<td>5.9</td>
<td>5.9</td>
<td>6.1</td>
<td>5.9</td>
<td>4.9</td>
<td>3.9</td>
<td>5.5</td>
</tr>
</tbody>
</table>

The rates of underutilisation in both NSW and Australia fell over the November 2017 quarter. The NSW underutilisation rate fell 0.6% to 12.6% and the Australian rate fell 2.2% to 13.8% (see right). While a positive result, these rates are still higher than the decade low of 10.8% in NSW and 10.0% across Australia. Nevertheless, the current NSW underutilisation rate is lower than the peak of 14.3% reported in February 2015: a result of the State’s falling unemployment rate over this period.

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34 The sum of the number of unemployed and underemployed persons expressed as a proportion of the labour force.

35 Reported in May 2008.
This ongoing fall notwithstanding, underutilisation rates have increased primarily as a result of greater levels of underemployment—the proportion of employees aged over 15 who want, and are available for more hours of work than they currently have—as opposed to rises in the unemployment rate.

Between November 2007 and November 2017, the NSW underemployment rate increased from a May 2008 low of 6.4% to the current rate of 8.3%. Australian underemployment also increased over the decade, rising from a low of 6.2% in May 2008 to 8.8% today (see above right).

ABS data for the November 2000 to November 2017 period (see right) shows that while the NSW unemployment rate has fallen from a high of 6.4% in August 2009 to 4.7%, the underemployment rate increased from 5.8% to 8.3% over the decade.

Underutilisation rates also differ by gender (see right), with NSW women more likely to either be unemployed or underemployed (14.5%) compared to men (10.9%). However, as with the underutilisation rate for NSW, the underutilisation rates for NSW women and men were both lower than their national averages of 15.8% and 12.0% respectively.
YOUTH UNEMPLOYMENT

The youth unemployment rate is highly cyclical because of the significance of casual and part-time employment in this age group (15-24). Accordingly, both monthly and quarterly youth unemployment figures are presented as 12 month rolling averages (also used on the NSW Parliamentary Research Service’s Regional labour force trends and NSW electorates website).\(^{36}\)

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>SA</th>
<th>WA</th>
<th>TAS</th>
<th>NT</th>
<th>ACT</th>
<th>AUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-17</td>
<td>11.8</td>
<td>13.1</td>
<td>13.5</td>
<td>14.7</td>
<td>12.2</td>
<td>15.6</td>
<td>7.5</td>
<td>10.0</td>
<td>12.7</td>
</tr>
<tr>
<td>Jun-17</td>
<td>11.8</td>
<td>13.3</td>
<td>13.5</td>
<td>15.4</td>
<td>12.7</td>
<td>14.9</td>
<td>7.8</td>
<td>10.7</td>
<td>12.9</td>
</tr>
<tr>
<td>Sep-17</td>
<td>11.6</td>
<td>13.1</td>
<td>13.3</td>
<td>16.2</td>
<td>13.1</td>
<td>14.4</td>
<td>7.7</td>
<td>10.8</td>
<td>12.8</td>
</tr>
<tr>
<td>Dec-17</td>
<td>11.2</td>
<td>13.1</td>
<td>13.1</td>
<td>16.2</td>
<td>13.5</td>
<td>13.7</td>
<td>8.1</td>
<td>10.5</td>
<td>12.7</td>
</tr>
</tbody>
</table>

As of the December 2017 quarter, NSW had a 12 monthly rolling average youth unemployment rate of 11.2% (see table and chart above). This was 1.5% below the Australian average, as well as the five year peak recorded for NSW in September 2015 (both 12.7%). The NSW result was the third lowest of all States and Territories after the Northern Territory (8.1%) and the ACT (10.5%). South Australia has the highest youth unemployment rate of 16.2%, followed by Tasmania with 13.7%.

After falling to a record low of 66.4% in September 2014, Australia’s youth participation rate had improved slightly to 66.9% as at December 2017 (see right). Nevertheless, there remain ongoing challenges for youth seeking entry-level work. According to Anglicare Australia’s 2017 Job Availability Snapshot, there are up to four jobseekers for each entry-level role in NSW, and people with significant barriers to work are not benefiting from the recent increase in full-time employment.

\(^{36}\) Following the methodology used by the Commonwealth Department of Employment: see Department of Employment, Labour Market Information Portal, 7 July 2017 [website – accessed 28 July 2017].
LABOUR FORCE PARTICIPATION

Over the December 2017 quarter, the NSW labour force participation rate rose by 0.3% to 64.2%: 1.3% below the Australian average of 65.5% (see right).

Only Tasmania and South Australia had lower participation rates than NSW (61.0% and 62.0% respectively), while the participation rate was highest in the Northern Territory (75.6%), which also recorded the largest quarterly increase (+1.0%).

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>SA</th>
<th>WA</th>
<th>TAS</th>
<th>NT</th>
<th>ACT</th>
<th>AUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-17</td>
<td>63.3</td>
<td>65.9</td>
<td>64.5</td>
<td>62.3</td>
<td>67.4</td>
<td>60.0</td>
<td>78.1</td>
<td>70.3</td>
<td>64.8</td>
</tr>
<tr>
<td>Jun-17</td>
<td>63.5</td>
<td>66.1</td>
<td>65.0</td>
<td>62.4</td>
<td>67.6</td>
<td>60.8</td>
<td>76.2</td>
<td>70.6</td>
<td>65.0</td>
</tr>
<tr>
<td>Sep-17</td>
<td>63.9</td>
<td>66.2</td>
<td>65.5</td>
<td>62.2</td>
<td>68.0</td>
<td>61.2</td>
<td>74.6</td>
<td>71.4</td>
<td>65.2</td>
</tr>
<tr>
<td>Dec-17</td>
<td>64.2</td>
<td>66.2</td>
<td>65.8</td>
<td>62.0</td>
<td>68.4</td>
<td>61.0</td>
<td>75.6</td>
<td>72.3</td>
<td>65.5</td>
</tr>
</tbody>
</table>

Source: ABS, Labour Force, Australia, Cat No. 6202.0, December 2017

In NSW, the male participation rate declined steadily over the past five years, reaching a low of 69.1% in February 2017 before increasing to 69.7% as at December (see right). After reaching a record high in February 2016, female participation dipped to 57.6% in February 2017 before increasing to near-record highs once again.

At the national level, Roy Morgan Research commented in October 2017 that strong increases in Australian employment since 2000 has been driven by large increases in employment for women, with overall female employment up by 1.9 million persons since the turn of the century. While men have continued to contribute to overall growth, Roy Morgan concluded that rising part-time employment is being driven by men: part-time workers now comprise 23.5% of all employed men, up from 15.7% in 2000.
JOB VACANCIES

After a 9.7% rise in the June 2017 quarter, and significant fluctuations across other States and Territories, the number of NSW job vacancies rose by a comparatively smaller 6.4% to 81,500 in the September 2017 quarter. However, this figure is 25.5% higher than the three year average (64,900), and was the greatest quarterly change in the number of reported job vacancies across jurisdictions (see right).

According to ABS trend data, the number of job vacancies increased nationally for the 17th consecutive quarter in November 2017 to reach 210,800, continuing to surpass the previous record set from November 1991 to November 1994.37

In line with broader economic trends at the national level,38 vacancies have increased in a number of the services industries over the past five years. These include public administration (a 98.1% increase); accommodation and food services (91.8%); and rental, hiring and real estate services (90.0%).

In contrast, wholesale trade fell by 38.4% over the same period, while the mining and construction sectors also experienced significant falls in job vacancy rates (see right).

WAGES

Wages continued to grow modestly over the September 2017 quarter, increasing by 1.0% in NSW: slightly higher than the national rate (0.8%). In the 12 months to September NSW wages grew by 2.1%: the lowest recorded growth rate for the State, and 0.9% below the decade average of 3.0% (see right).

The average adult weekly full-time earnings (ordinary time) in NSW in the six months to May 2017 was $1,544: a 0.4% half-yearly increase in wage levels, and the second lowest increase of all jurisdictions after the Northern Territory (0.1%). As discussed in the previous Economic Update, NSW continues to have the fourth highest average weekly earnings behind the ACT ($1,775), Western Australia ($1,714) and the Northern Territory ($1,625).

According to the ABS, in trend terms the national wage price index rose by just 2.0% over the year to September 2017. This result is just above the record low wages growth of 1.9% recorded between September 2016 and June 2017.

Weak national wages growth has affected the majority of Australian industry sectors (see right). Across many sectors annual wage growth to May 2017 has been well below their respective 10 year averages. For example, annual wage growth for the mining sector fell -1.8% over the 12 months to May 2017, compared to a decade average annual growth rate of 4.6% (a -6.4% difference).

Other sectors also saw annual wage

39 The latest available figures.
growth lower than their decade average, including manufacturing (-5.3% below average), transport (-3.7%), finance and insurance (-2.9%) and retail trade (-2.2%). Nevertheless, some areas have seen higher than average growth, such as health (0.9% above the decade average) and real estate services (1.5%).

**BANKRUPTCIES**

Overall, bankruptcies in NSW have trended down in recent years and are 16.3% lower than they were in 2014. However, over the December 2017 quarter, the number of NSW bankruptcies rose slightly by 3.5%, from 1,085 to 1,123 (see right).

NSW experienced the second highest quarterly increase of all jurisdictions after the ACT (17.0%), although the Territory has substantially smaller populations than other States (see table below).

The Northern Territory saw the largest quarterly fall in bankruptcies (-31.7%, although it is also a jurisdiction with a small population), followed by Queensland (-10.9%) and South Australia (-9.1%).

| Bankruptcies per quarter (Parts IV and XI of the Bankruptcy Act 1966 (Cth)) |
|-----------------|-------|-------|-----|-----|-----|-----|-----|-----|
|                 | NSW   | VIC   | QLD  | SA   | WA   | TAS  | NT  | ACT |
| Mar-17          | 1,127 | 836   | 1,295| 305  | 470  | 108  | 26  | 58  |
| Jun-17          | 1,081 | 765   | 1,117| 282  | 475  | 97   | 32  | 39  |
| Sep-17          | 1,085 | 837   | 1,297| 298  | 480  | 122  | 41  | 47  |
| Dec-17          | 1,123 | 776   | 1,155| 271  | 471  | 116  | 28  | 55  |

Source: Australian Financial Security Authority, December 2017
MINERAL EXPLORATION EXPENDITURE

There is no comprehensive quarterly or annual dataset available for the gross value of mining production for the States and Territories in Australia.

Mineral exploration expenditure is the only comprehensive quarterly dataset available through the ABS and is considered to be the best proxy measure for the level of mining activity taking place in NSW and elsewhere in Australia (see right).

NSW petroleum and mineral exploration expenditure increased by 4.3% over the quarter to September 2017, following double digit increases the previous two quarters. However, overall expenditure remains 30.5% below the previous high, recorded during the December 2011 reporting period.

Nationwide, mining sector investment has declined during the decade, with mineral exploration expenditure down by 56.6% ($579.0m) since the last peak was recorded (March 2012). A significant share of this decline is attributable to Western Australia: although WA increased exploration expenditure during 2017, since March 2012 its expenditure has declined by 49.7% ($276.8m).

<table>
<thead>
<tr>
<th>Mineral exploration expenditure ($m)</th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>SA</th>
<th>WA</th>
<th>TAS</th>
<th>NT</th>
<th>AUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-2016</td>
<td>33.2</td>
<td>8.8</td>
<td>48.6</td>
<td>12.4</td>
<td>250.3</td>
<td>3.1</td>
<td>18.8</td>
<td>375.1</td>
</tr>
<tr>
<td>Mar-2017</td>
<td>37.6</td>
<td>10.9</td>
<td>52.6</td>
<td>11.9</td>
<td>266.7</td>
<td>3.5</td>
<td>19.2</td>
<td>402.4</td>
</tr>
<tr>
<td>Jun-2017</td>
<td>41.7</td>
<td>13.7</td>
<td>58.5</td>
<td>12.2</td>
<td>276.5</td>
<td>4.3</td>
<td>20.4</td>
<td>427.2</td>
</tr>
<tr>
<td>Sep-2017</td>
<td>43.5</td>
<td>16.1</td>
<td>64.6</td>
<td>12.1</td>
<td>280.7</td>
<td>5.1</td>
<td>21.8</td>
<td>443.8</td>
</tr>
</tbody>
</table>

Source: ABS, Mineral and Petroleum Exploration, Australia, Cat No. 8412.0, September 2017

Nevertheless, the RBA has commented in its October 2017 cash rate decision that the effect of the decline in mining investment had mostly passed and, with recent increases in resource exports, the mining sector had in fact been contributing to overall national growth.
TURNOVER OF RETAIL TRADE

NSW’s retail growth in the September 2017 quarter grew by 0.4% to approximately $8.4 billion: a lower growth rate than the previous quarter (1.0%) and below the 10 year average of 1.1% (see right). The NSW results were the equal second highest of all jurisdictions after Tasmania (0.5%), sharing second spot with Victoria.

Turning to annual growth, NSW saw a 3.1% increase in retail trade over the 12 months to September. The State ranked equal second of all jurisdictions after Victoria (3.9%), and shared second place with Tasmania and South Australia. Nevertheless, this increase remains lower than that seen over the past few years (see right).

At the national level, St George Bank anticipated that slow wage growth and rising household debt levels would restrain household spending:

We expect consumer spending to grow at a moderate rate in coming months, as weak wages growth, higher mortgage rates for investor and interest-only loans and rising household debt take a toll. Interest rates are still low historically and wealth gains from the housing market will provide some support. Amazon arrived at Australian shores in November and is likely to be another challenge for local retailers.40

40 St George Bank, Retail Sales Lift as Christmas Season Nears, 5 December 2017, p 2.
VEHICLE SALES

The ABS has announced that the December 2017 issue of its Sales of New Motor Vehicles data will be the final edition of the publication. It is unclear whether an alternative data source will be available to continue this chapter in future editions of the NSW Economic Update.

NSW, along with most other States and Territories, saw a modest fall in motor vehicle sales over the December 2017 quarter. The average number of new vehicles sold in NSW fell by 0.4% to approximately 33,130 sales per month during the quarter. This was the fourth lowest result of all jurisdictions.

National sales declined by 0.2% over the quarter, with Tasmania (7.5%), Western Australia (2.5%) and South Australia (0.1%) recording the largest increases in sales. The greatest quarterly fall in sales was seen in the Northern Territory (-7.2%).

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>SA</th>
<th>WA</th>
<th>TAS</th>
<th>NT</th>
<th>ACT</th>
<th>AUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-17</td>
<td>32,965</td>
<td>27,376</td>
<td>18,975</td>
<td>5,897</td>
<td>7,866</td>
<td>1,577</td>
<td>865</td>
<td>1,559</td>
<td>97,080</td>
</tr>
<tr>
<td>Jun-17</td>
<td>33,319</td>
<td>28,152</td>
<td>19,647</td>
<td>6,083</td>
<td>7,999</td>
<td>1,584</td>
<td>930</td>
<td>1,562</td>
<td>99,277</td>
</tr>
<tr>
<td>Sep-17</td>
<td>33,257</td>
<td>28,365</td>
<td>19,639</td>
<td>6,093</td>
<td>8,301</td>
<td>1,662</td>
<td>921</td>
<td>1,547</td>
<td>99,783</td>
</tr>
<tr>
<td>Dec-17</td>
<td>33,129</td>
<td>28,281</td>
<td>19,422</td>
<td>6,096</td>
<td>8,513</td>
<td>1,786</td>
<td>854</td>
<td>1,517</td>
<td>99,598</td>
</tr>
</tbody>
</table>

Source: ABS, Sales of new motor vehicles, Australia, Cat. No. 9314.0, December 2017

Over the 12 months to December 2017, vehicle sales in NSW rose by 0.2%: below the national average of 1.7% and the third lowest increase after Western Australia (0.1%) and Tasmania (-2.9%). Despite its quarterly fall, sales of motor vehicles in the Northern Territory increased by 3.0% over the year to December.

The Commonwealth Bank has previously reported a slowdown in luxury vehicle sales, with its CommSec Luxury Vehicle Index showing a 1.8% decrease in the year to August and the rolling annual total of luxury vehicle sales reaching 15 month lows. According to the Bank:

- In the past, when the ‘top-end’ of the new vehicle market has peaked it has signalled slowdowns – not just in the car market – but also in other asset markets such as the housing market. Those trends are lining up at present with the monthly growth rate in home prices slowing since late last year.

- Rather than a leading or lagging indicator, luxury vehicle sales have been shown to be a coincident or confirmation indicator of home prices. Home prices are slowing and this has consequence for a range of other consumer spending and asset markets.
HOUSE PRICES

According to CoreLogic, Sydney’s median house price was $1.06m in December 2017 following a 2.9% quarterly decline: the largest fall of all Australian cities. Nevertheless, Sydney’s house prices still increased by 2.1% over the past year, and remain the nation’s most expensive housing by nearly a quarter of a million dollars (the next most expensive housing is Melbourne’s, with a median house price of $832,735).

The ABS’s Residential Property Price Index for Sydney41 recorded a 1.4% fall over the September 2017 quarter (see right). Between September 2016 and 2017, the Sydney Index increased by 9.4%, the third highest growth rate after Hobart (13.8%) and Melbourne (13.2%). Over the year to September, the Index for Sydney’s established houses rose by 10.0% (the second highest growth rate after Melbourne’s 15.5% increase), while the attached dwellings index increased by 7.8%.

According to the Australian Financial Review, the recent falls in Sydney’s house prices may be a result of falling demand from foreign Chinese buyers following regulatory restrictions on bank lending.

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41 Which measures price changes of residential dwelling stock.
**DWELLING APPROVALS**

Over the September 2017 quarter, the average monthly number of dwellings approved in NSW increased by 3.0%. On average, 6,110 approvals were made during each month of the quarter. However, this figure represents an 8.8% drop compared to the peak in quarterly average approvals recorded in June 2016 (approximately 6,700 approvals per month).

National dwelling approvals were, on average, up 4.2% for the September quarter. This result appears to have been affected by significant increases in approvals in Tasmania (12.2%) and Victoria (9.0%). In contrast, Queensland saw a 1.9% quarterly decrease in dwelling approvals: the only jurisdiction to record a decline in approval numbers.

<table>
<thead>
<tr>
<th>Number of dwellings approved, quarterly average</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NSW</strong></td>
</tr>
<tr>
<td>Dec-16</td>
</tr>
<tr>
<td>Mar-17</td>
</tr>
<tr>
<td>Jun-17</td>
</tr>
<tr>
<td>Sep-17</td>
</tr>
</tbody>
</table>

Source: ABS, Building Approvals, Australia, Cat. No. 8731.0, November 2017

Dwelling approvals data is volatile on a month to month basis, mostly due to the ‘lumpy’ nature of unit and town house developments. On a trend basis, which takes into account the monthly variation, NSW building approvals remain at near record levels. While there was a slowdown in approvals during the second half of 2016, approval numbers increased during 2017: as of September 2017, NSW approvals remained approximately 19% higher than the five year average.

Reviewing the monthly results, the Commonwealth Bank noted a dramatic surge in residential multi-unit approvals in November 2017 driven largely by Victoria. Furthermore, with both the Commonwealth Government and Opposition agreeing on a net migration target of 200,000 persons, the Bank believes that there will be a prolonged period of new dwelling construction until late 2018 as strong population growth in Melbourne and Sydney soaks up the record levels of apartment construction.
HOUSING FINANCE

The average number of owner-occupier (including first home owner) dwellings financed in NSW increased by 4.2% during the September 2017 quarter to approximately 17,760 per month. This increase has come primarily from a remarkable surge in the number of first home buyers (FHB): after a 16.2% drop in the March quarter, the September 2017 quarter saw financing increase by 57.8%. This followed a 19.4% increase in the June quarter after the NSW Government increased grants and concessions available to FHBs.42

These two increases have resulted in a sharp jump in the level of FHB demand in the four years to September 2017, after an extended period where demand fell. Between September 2013 and September 2017, overall owner-occupier demand in NSW saw a cumulative increase of 18.6%. In contrast, FHB financing has surged from record lows to a 20.8% cumulative increase over this four year period (see right). It is yet to be seen whether these FHB finance results are part of a sustained recovery in first home buyer levels, or if they represent a temporary spike not unlike one experienced in late 2011 just before the last tranche of first home owner grants and concessions were abolished.43

There is also the question of whether this increase means anything for FHB housing affordability. As reported by the Australian Institute of Health and Welfare in October 2017, there has been a decline in ownership rates among younger Australians, while the proportion of FHBs aged 25-34 years fell between 2000-01 and 2013-14 (61% vs 49.6%): essentially, FHBs are older than they were at the beginning of the century.44

In particular, Sydney’s FHB population continues to face significant issues of affordability. A December 2017 analysis by the RBA found that FHBs in Sydney could afford just over 10 per cent of median priced homes sold there in 2016 (compared to an average of one-third across Australia); the average distance from the CBD of properties affordable to FHBs has increased; and the average number of bedrooms has decreased.

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42 Also see: Commonwealth Bank, Housing finance - November 2017, 17 January 2018.
Following a renewed increase in investor housing finance in late 2016, investor finance as a share of total housing finance has declined over the course of 2017. Over the three months to November 2017, investor finance declined by 0.9% to total 45.3% of total housing finance. This represents a 5.6% fall compared to a year earlier, and is 10.5% below December 2014 peak (see right).

According to the Commonwealth Bank, the fall in investor financing is likely a result of regulatory restrictions introduced in March 2017. However, the Bank noted that in seasonally adjusted terms investor lending had begun to rise again in October and November 2017, and will likely be a development that regulators will be watching closely in the coming months.

Analysis discussed in the previous Update estimated that 26% of new housing supply in NSW was purchased by foreign investors between September 2016 and June 2017. As the NSW foreign investor transfer duty surcharge increased from 4% to 8% in the 2017-18 NSW Budget, there has been debate as to whether this (and other regulatory changes) are leading to a decline in the proportion of foreign buyers purchasing residential property in the State.

According to the 2018 ANZ/Property Council of Australia survey of 1700 property professionals, foreign buyers will purchase 18.1% of residential properties on offer until March 2018; down from the record high of 24% in September 2016. Analysts from the UBS investment bank have also predicted that foreign investor demand, particularly from Chinese investors, will moderate in 2018 as a result of tax changes and a tightening of capital controls in China.

However, an 11 January 2018 article in The Australian Financial Review quoted a NSW Treasury spokesman who has said that the “NSW Treasury has not seen any evidence of a decline in the levels of investment from foreign buyers in residential real estate”. Future data will likely confirm whether or not NSW is experiencing falls in foreign investor property sales.

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45 Rather than the trend results as used in this chapter.
47 Also see Marsh S, Foreign property buyers tipped to leave Australian market in droves as tax hikes take effect, Nine News, 12 January 2018.
RENT

After a 4.8% increase over the June 2017, rents in Sydney’s Inner Ring 49 suburbs fell by 3.1% in the September 2017 quarter. This growth was below the two year quarterly average growth rate of 0.7%. The city’s Middle Ring also saw a 1.9% fall in quarterly rent price growth, while the Outer Ring increased by 2.2%. Meanwhile, the Rest of GMR 50 and the Rest of NSW regions saw no change in rents over the quarter (see right).

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Greater Sydney</th>
<th>Sydney – Inner Ring</th>
<th>Sydney – Middle Ring</th>
<th>Sydney – Outer Ring</th>
<th>Rest of GMR*</th>
<th>Rest of NSW</th>
<th>NSW total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-16</td>
<td>520</td>
<td>635</td>
<td>520</td>
<td>450</td>
<td>390</td>
<td>310</td>
<td>460</td>
</tr>
<tr>
<td>Mar-17</td>
<td>530</td>
<td>620</td>
<td>530</td>
<td>460</td>
<td>390</td>
<td>320</td>
<td>460</td>
</tr>
<tr>
<td>Jun-17</td>
<td>540</td>
<td>650</td>
<td>540</td>
<td>460</td>
<td>400</td>
<td>320</td>
<td>470</td>
</tr>
<tr>
<td>Sep-17</td>
<td>535</td>
<td>630</td>
<td>530</td>
<td>470</td>
<td>400</td>
<td>320</td>
<td>470</td>
</tr>
</tbody>
</table>

Source: Housing NSW, Rent and Sales Reports, September Quarter 2017

On an annual basis, rental growth remains highest in the Rest of NSW region, increasing by 6.7% in the 12 months to September 2017. By way of comparison, no growth occurred in this region in the 12 months to September 2016 (see right).

Annual rent price growth in Sydney’s Middle Ring suburbs has remained flat, compared to the 6.0% increase in the 12 months to September 2016. The city’s Inner Ring suburbs saw a minor decrease in comparison to the previous 12 months period. Both the Outer Ring and Rest of GMR regions saw annual rental growth increases in the 12 months to September 2017 that were greater than the previous year.

49 For a definition of this and the other regions used by Housing NSW, see: Angus C, Demand, deposits, debt: Housing affordability in Sydney, NSW Parliamentary Research Service, Briefing Paper 1/2017, March 2017, p 15.

50 Greater Metropolitan Region
GLOSSARY

The following definitions are those used by the Australian Bureau of Statistics, unless otherwise stated.

**Average weekly earnings**: Average gross (before tax) earnings of employees. Estimates of average weekly earnings are derived by dividing estimates of weekly total earnings by estimates of number of employees.

**Cash target rate**: Monetary policy decisions are expressed in terms of a target for the cash rate, which is the overnight money market interest rate.

**Chain volume measures**: Estimates that exclude the direct effects of changes in prices. Unlike current measure estimates, they take account of changes to price relativities that occur from one year to the next. Annually re-weighted chain volume indexes are referenced to the current price values in a chosen reference year.

**Consumer price index**: The Consumer Price Index (CPI) measures quarterly changes in the price of a 'basket' of goods and services which account for a high proportion of expenditure by the CPI population group (i.e. metropolitan households). This 'basket' covers a wide range of goods and services, arranged in the following eleven groups: food; alcohol and tobacco; clothing and footwear; housing; household contents and services; health; transportation; communication; recreation; education; and financial and insurance services.

**Employed**: All persons aged 15 years and over who, during the reference week: worked for one hour or more for pay, profit, commission or payment in kind in a job or business, or on a farm (comprising employees, employers and own account workers); or worked for one hour or more without pay in a family business or on a farm (i.e. contributing family workers); or were employees who had a job but were not at work and were: away from work for less than four weeks up to the end of the reference week; or away from work for more than four weeks up to the end of the reference week and received pay for some or all of the four week period to the end of the reference week; or away from work as a standard work or shift arrangement; or on strike or locked out; or on workers' compensation and expected to return to their job; or were employers or own account workers, who had a job, business or farm, but were not at work.

**Free on board (FOB)**: The value of goods measured on a free on board (f.o.b.) basis includes all production and other costs incurred up until the goods are placed on board the international carrier for export. Free on board values exclude international insurance and transport costs. They include the value of the outside packaging in which the product is wrapped, but do not include the value of the international freight containers used for transporting the goods.
**Gross Domestic Product (GDP):** Is the total market value of goods and services produced in Australia within a given period after deducting the cost of goods and services used up in the process of production but before deducting allowances for the consumption of fixed capital. It is equivalent to gross national expenditure plus exports of goods and services less imports of goods and services.

**Gross State Product (GSP):** GSP is defined equivalently to gross domestic product (GDP) but refers to production within a State or Territory rather than to the nation as a whole.

**Labour force:** For any group, persons who were employed or unemployed, as defined.

**Original estimates:** Original collected data containing seasonal patterns, residual noise and irregular influences.

**Participation rate:** For any group, the labour force expressed as a percentage of the civilian population aged 15 years and over in the same group.

**Private business investment:** Investment in non-dwelling construction, plus machinery and equipment, plus cultivated biological resources, plus intellectual property products.

**Seasonally adjusted estimates:** Seasonally adjusted estimates are derived by estimating and removing from the original series systematic calendar related effects, such as seasonal (e.g. Christmas), trading day and moving holiday (e.g. Easter) influences. Seasonal adjustment does not aim to remove the irregular or non-seasonal influences which may be present in any particular month. These irregular influences may reflect both random economic events and difficulties of statistical recording.

**Spare capacity:** The balance of demand for goods and services relative to the economy’s potential to produce them. In the labour market, a key indicator of spare capacity is the unemployment rate, but a range of other factors also play a significant role.

**State Final Demand:** A proxy for economic growth that measures the total value of goods and services that are sold in a State to buyers who wish to either consume them or retain them in the form of capital assets. It excludes sales made to buyers who use them as inputs to a production activity, export sales and sales that lead to accumulation of inventories.

**Trade weighted index:** The weighted average value of the Australian dollar in relation to the currencies of Australia’s trading partners.

**Trend estimates:** A smoothed seasonally adjusted series of estimates.
**Underutilisation rate:** The sum of the number of persons unemployed and the number of persons in underemployment, expressed as a proportion of the labour force.

**Underemployment rate:** The number of underemployed workers expressed as a percentage of total employed persons.

**Underemployed workers:** Employed persons aged 15 years and over who want, and are available for, more hours of work than they currently have.

**Unemployed:** Persons aged 15 years and over who were not employed during the reference week, and: had actively looked for full-time or part-time work at any time in the four weeks up to the end of the reference week and were available for work in the reference week; or were waiting to start a new job within four weeks from the end of the reference week and could have started in the reference week if the job had been available then.

**Unemployment rate:** For any group, the number of unemployed persons expressed as a percentage of the labour force in the same group.

**Weekly ordinary time earnings:** One week's earnings of employees for the reference period, attributable to award, standard or agreed hours of work. It is calculated before taxation and any other deductions (e.g. superannuation, board and lodging) have been made.