

16th November 2016



## ACT Economic Outlook

### Summary

- Economic growth in the ACT has picked up over the past year. State final demand in the ACT grew at 6.0% in the year to June 2016 up from the 3.8% growth seen in the year to June 2015.
- Retail sales continue to grow at a solid pace. For the year to September, ACT retail sales rose 7.3%, well above the long term average of 3.7% and the fastest pace among all the States and territories. The national pace of retail sales was 3.3% in the year to September, which is below the long term average and well below growth in retail sales in Canberra.
- Providing a boost to the ACT economy this financial year should be the newly established international flights to and from Singapore and Wellington, New Zealand.
- According to CoreLogic, Canberra dwelling prices have risen 7.9% over the year to October 2016. This is well up on growth of 4.5% in the year to October 2015. Growth in Canberra dwelling prices has been solid and ahead of most capital cities with the exception of Sydney (10.6%) and Melbourne (9.1%).
- We expect the pace of dwelling price increases in the ACT to ease over 2017 as housing supply increases. A steady stream of new supply in coming years and slow wages growth seem set to limit the upside for Canberra dwelling prices.
- Building approvals in the ACT reached record levels in trend terms during 2016. During 2015, monthly approvals in trend terms averaged 369. In 2016, to date, monthly approvals have averaged 495, an increase of 34%.
- The ACT labour market continues to improve. In the year to September, the ACT created 5,900 jobs in trend terms. This produced an employment growth rate of 2.8% over the year, well above the national average of 1.3%. Public service employment has grown over the year as has employment in professional, scientific and technical services.
- Economic growth is expected to remain modest this financial year but stronger than in 2015-16. We expect Gross State Product to increase 2.4% this financial year and next.

## Economic Growth

Economic growth in the ACT has picked up over the past year. State final demand in the ACT grew at 6.0% in the year to June 2016 up from the 3.8% growth seen in the year to June 2015. The 2015-16 Gross State Product figures (which include the impact of trade) are due in late November. Growth of around 1.9% is expected following growth of 1.4% in 2014-15.

The outlook for economic growth in the ACT remains positive, with reasonable population growth, a lower Australian dollar than three years ago and ongoing low interest rates. The outlook for Federal Government staffing, which impacts economic activity in the ACT, appears better than a year ago and the ACT government is moving ahead with its Capital Metro infrastructure spending.

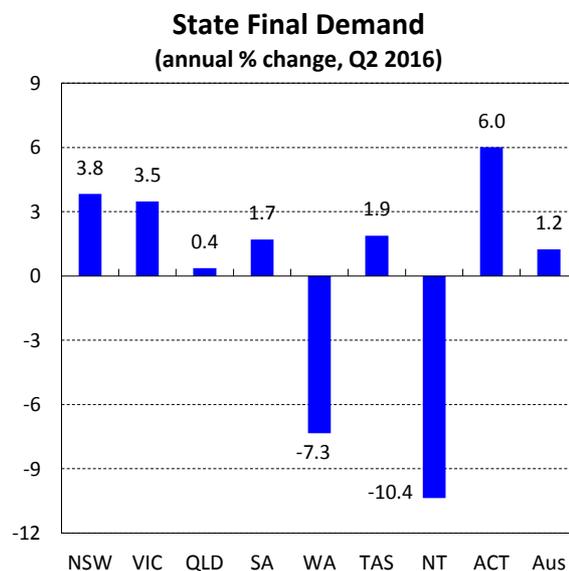
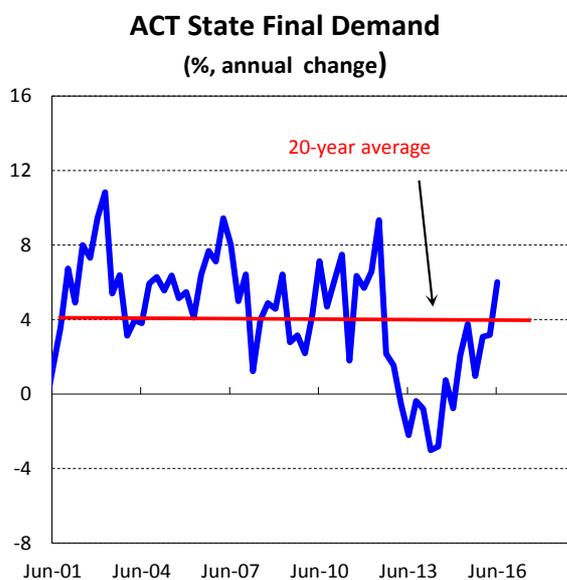
Activity in the ACT has been supported by ongoing construction activity and strong growth in retail spending (see below for further detail). Ongoing low interest rates and job creation are expected to support consumer spending and housing construction. However, low rates are creating issues for those relying upon interest income, including self-funded retirees.

Further investment in housing seems likely from Sydney, Melbourne and overseas investors as interest rates and the currency remain low by historical standards.

The lower AUD has led to an increase in overseas visitors, domestic tourism and activity in the international education sector. Canberra's arts and cultural sector is also expected to continue attracting visitors to the region.

Government activity will continue to play a large role in the ACT. With the high degree of gridlock in the Federal parliament, sizeable budget repair seems unlikely, suggesting that public service numbers will at least be maintained over the next twelve month. This would support growth in the ACT economy.

Population growth is set to continue, albeit at a slightly slower pace than in earlier years. In the year to the March quarter 2016, the ACT's population rose by almost 5.0k or by 1.3%, which was marginally below the national pace of population growth. Average annual growth in the ACT population over the past 25 years has been 1.5%.

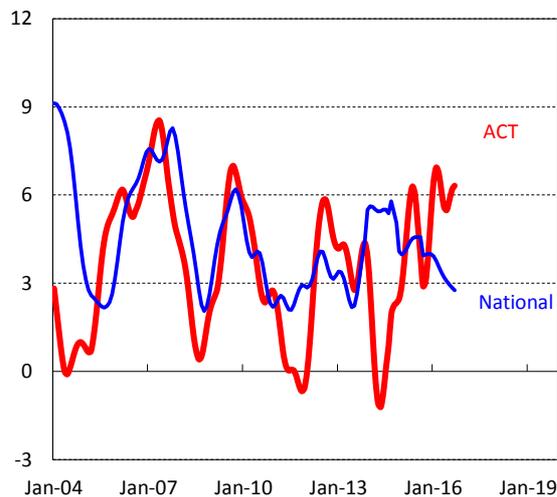


Percentage Shares of the Economy*		
Industries	ACT	Australia
Public administration and safety	34.7	6.1
Professional, scientific and technical services	10.3	7.0
Education and training	8.6	5.5
Health care and social assistance	7.4	7.6
Construction	5.2	9.1
Financial and insurance services	4.4	10.1
Accommodation and food services	3.9	2.8
Electricity, gas, water and waste services	3.7	3.2
Rental, hiring and real estate services	3.5	3.3
Transport, postal and warehousing	3.4	5.4
Retail trade	3.3	5.2
Information media and telecommunications	2.6	3.4
Other services	2.3	2.2
Arts and recreation services	2.3	0.9
Administrative and support services	1.6	3.1
Wholesale trade	1.6	4.8
Manufacturing	1.2	7.3
Mining	0.0	10.2
Agriculture, forestry and fishing	0.0	2.6

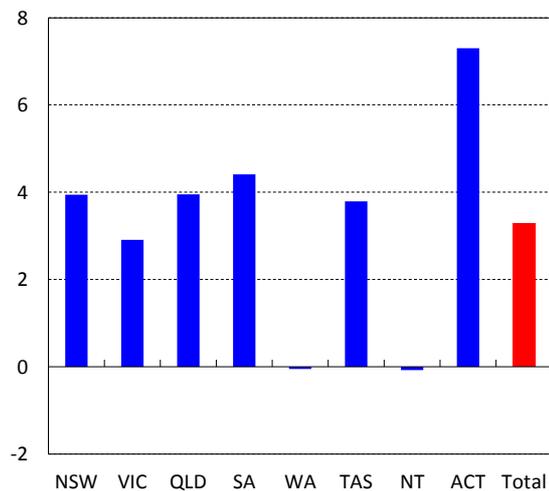
\* As % of GSP and GDP less ownership of dwellings 2014-15

Source: ABS, St.George

**Value of Retail Sales**  
(trend, annual % change)



**Retail Sales by State**  
(September 2016, annual % change)



### Consumer Spending

Retail sales continue to grow at a solid pace. For the year to September, ACT retail sales rose 7.3%, well above the long term average of 3.7% and the fastest pace among all the States and territories. The national pace of retail sales was 3.3% in the year to September, which is below

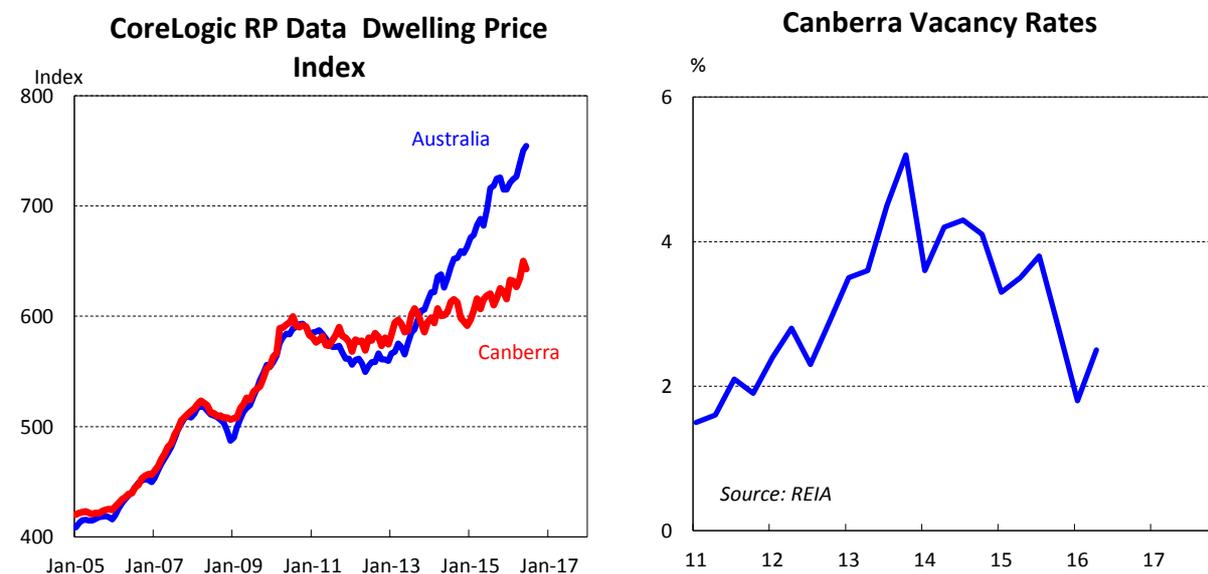
the long term average and well below growth in retail sales in Canberra.

Sectors that have experienced solid growth over the year to September, in trend terms, included furniture, floor coverings, housewares and textile goods (25.9%), which continues to be affected by the ACT housing construction boom and by the opening of IKEA at Majura Park in November last year. Other sectors to see growth have been café, restaurants & takeaway food services (14.0%), liquor retailing (9.2%) and clothing (7.7%). Sales were softer in footwear & other personal accessories (-5.0%) and 'other specialised food' retailing (-2.9%), which includes fresh meat, fish and poultry retailing and fruit and vegetable retailing.

While growth in wages and the population are expected to remain modest, job creation has improved. This, combined with a high level of building activity, has seen a very solid pick-up in retail spending. Can it last? Probably not at the current pace but further growth is possible given the underlying conditions. The next big test will be the Budget in May 2017 and its impact on public service employment and confidence.

Providing a boost to the ACT economy this financial year should be the newly established international flights to and from Singapore and Wellington, New Zealand.

The Westpac-MI index of consumer sentiment does not have a separate measure for the ACT. The national measure has held above 100 points for the past four months and has been above or close to 100 since May. A result above 100 indicates that there are more optimists than pessimists among consumers.



## Housing

According to CoreLogic, Canberra dwelling prices have risen 7.9% over the year to October 2016. This is well up on growth of 4.5% in the year to October 2015. Growth in Canberra dwelling prices has been solid and ahead of most capital cities with the exception of Sydney (10.6%) and Melbourne (9.1%).

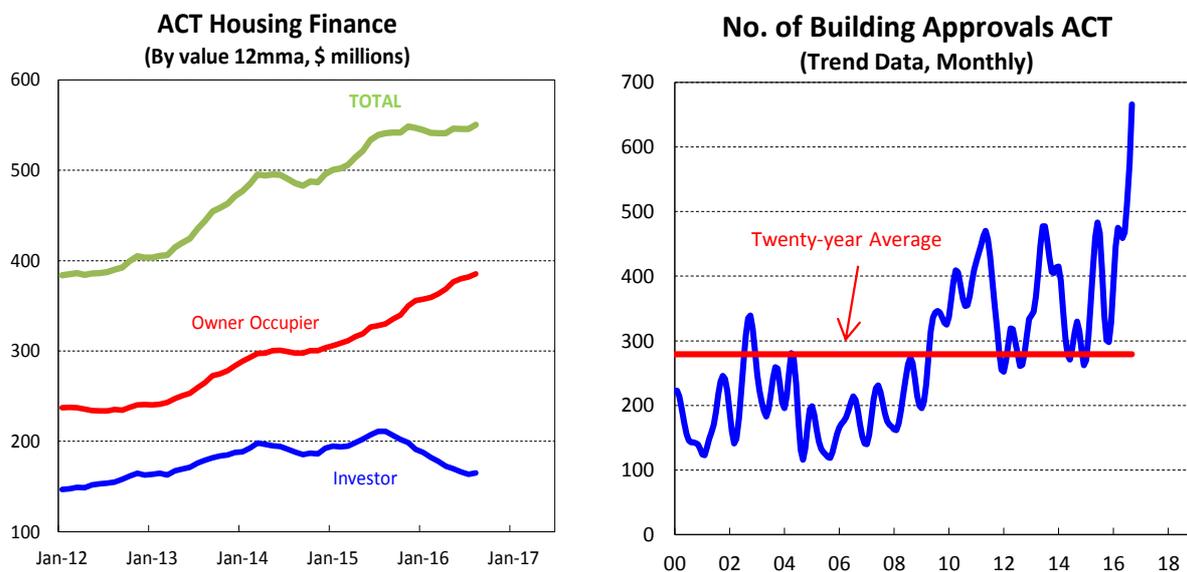
The price of houses in Canberra has performed relatively better than units. House prices were

up 8.2% in the year to October, while unit prices have risen 3.2%. A steady supply of new apartments appears to have limited price gains for units in Canberra over the past year.

The growth in house prices appears to have been driven by a mixture of factors. Low interest rates, job growth, inter-state interest, ‘Mr. Fluffy’ relocations and possibly foreign buying have all played their part in placing upward pressure on prices.

On the downside, slower population growth in the ACT could be keeping price rises contained. After annual population growth of 2.0% in September 2012, the pace of growth slowed to 1.2% December 2014 before picking up to 1.3% in March 2016 (the most recent data). The pace of population growth has fallen from around 7000 per year in late 2012 to around 5000 in the year to March 2016.

We expect the pace of dwelling price increases in the ACT to ease over 2017 as housing supply increases. A steady stream of new supply in coming years and slow wages growth seem set to limit the upside for Canberra dwelling prices.



A period of historically high residential building activity over the past five years has raised concerns about oversupply. The most recent surge in building approvals has further lifted those concerns. However, the rental vacancy rate in Canberra has declined steadily and only in the June quarter 2016 has there been a tick upwards. This suggests that the recent increase in building activity has not had a great impact upon Canberra’s rental market to date

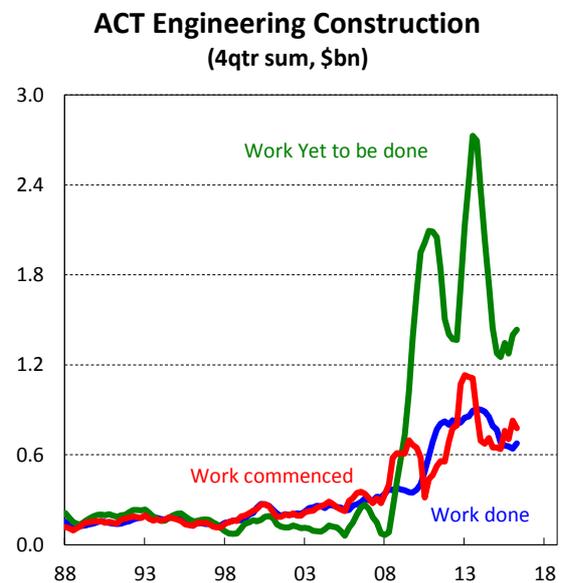
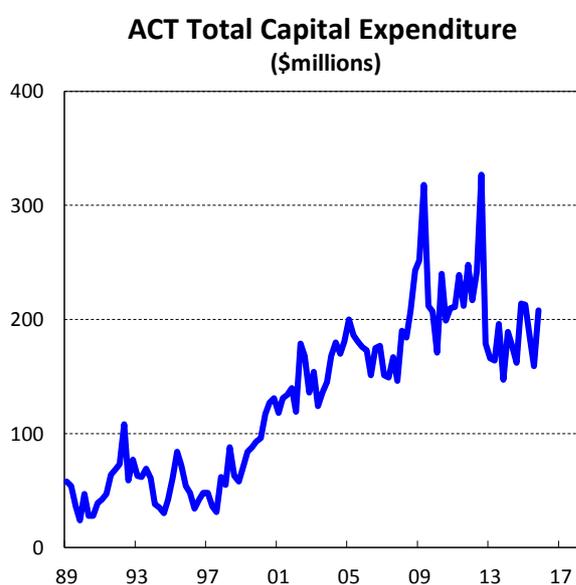
According to the Real Estate Institute of Australia, vacancy rates in the ACT stood at 5.2% in the December quarter 2013. By the December quarter of 2015 they had fallen to 2.8% and by June 2016 were down to 2.5%. This suggests that the rental market in Canberra is now “tight” and that there is a relative shortage of rental accommodation. The vacancy rate in the ACT is below that of all the other Australian capital cities bar Sydney (1.8%).

Median weekly rents for a 3-bedroom house in Canberra increased 4.7% over the year to June 2016, to \$450 per week. While rents have risen over the past year, they remain similar to the levels seen in mid-2013. For two bedroom units, median weekly rents have increased just 2.6%

in the year to the June quarter 2016, to \$400 per week.

Building approvals in the ACT reached record levels in trend terms during 2016. During 2015, monthly approvals in trend terms averaged 369. In 2016, to date, monthly approvals have averaged 495, an increase of 34%. In the most recent month (September 2016) trend approvals leapt to 666. Of the residential approvals made in 2016 almost 80% are for apartments while 20% are for houses. While the 'Mr. Fluffy' issue continues to affect building activity in the ACT, its effect on home approvals is swamped by the construction of new units.

Is the current pace of building approvals sustainable? One suspects not, even though the outlook for building activity in the ACT remains favourable. Wages are growing modestly, interest rates are low and the population continues to expand. These are all positive; however if the current pace of approvals is maintained the ACT risks an oversupply of apartment accommodation. Some pull-back from the current rapid pace of approvals seems likely over the next 12-18 months.



## Business Investment

Private business capital expenditure in the ACT has hovered between \$215 million and \$159 million per quarter over the last two years with no clear trend emerging. Private business capital expenditure, which includes spending on plant & equipment and buildings & structures, was \$208 million in the June quarter 2016. This was down 2.8% on the June quarter 2015. As the chart above illustrates, this is well down the capital expenditure that occurred from 2009 to 2012.

Engineering construction activity in the ACT has picked up over the past year. In trend terms, the value of engineering construction work rose 7.8% in the year to the June quarter 2016, to \$172.4 million for the quarter. However this is well below the level of work seen 2013. The pipeline of work (excluding the Capital Metro light rail project) is modest and two current projects are likely to be completed by the end of 2017.

The Capital Metro light rail project, at an estimated cost of \$700 million, will be going ahead. Preliminary work has begun with the project expected to be open for operation in 2019.

Further spin-off work associated with the projected is expected over the next five or more years.

Commercial construction continues to centre on the \$600 million Australian National University's business and research precinct and the \$200 million joint ANU /CSIRO development at Black Mountain. The proposed redevelopment of Manuka Oval has been scrapped but may re-emerge in a different format in future years. Unless there are new announcements soon, the pipeline of commercial construction work will continue to shrink.

## **Labour Market**

The ACT labour market continues to improve. In the year to September, the ACT created 5,900 jobs in trend terms. This produced an employment growth rate of 2.8% over the year, well above the national average of 1.3%. Public service employment has grown over the year as has employment in professional, scientific and technical services.

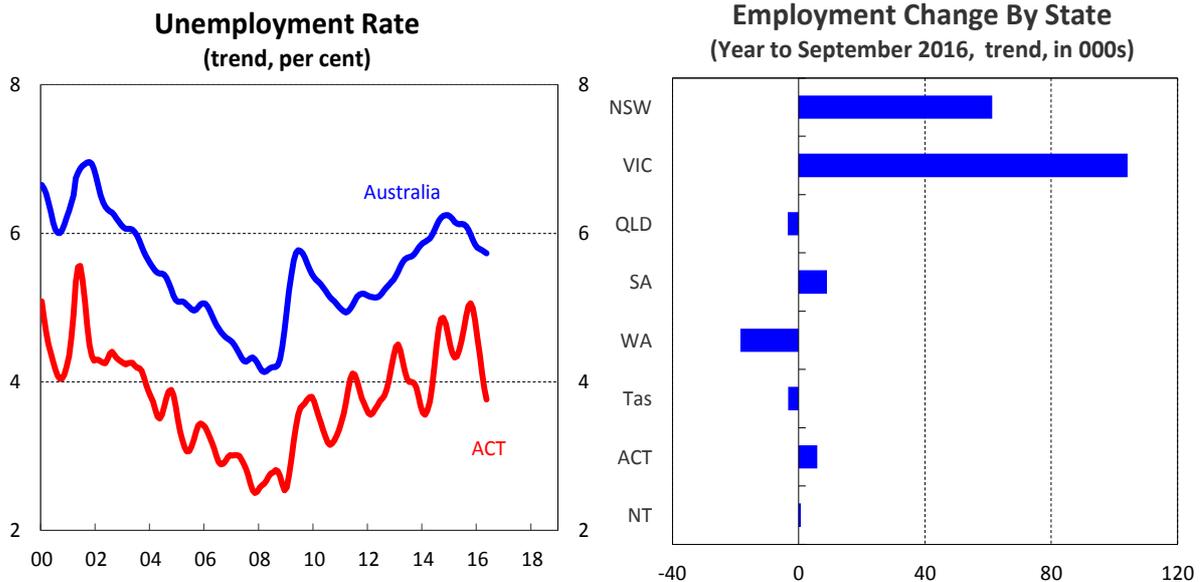
The total number of jobs in the ACT has reached new highs. As at September 2016, the ABS reported that employment in the ACT stood at 215.6k in trend terms. Of these, 158.4k were full time jobs – again a record high while 57.2k were part time jobs – not a record high but very close to it and rising.

Statistics on employment by industry are only available on a quarterly basis, with figures for August 2016 the latest available. These show that in the year to August, job gains of 8.8k were made in professional, scientific & technical services, followed by 4.5k new jobs in public administration & safety and 2.0k in healthcare & social assistance. The largest job losses were in administrative & support services (-2.6k) and accommodation & food services (-2.2k).

The job gains over the year to September have pushed the unemployment rate down to 3.5% in trend terms. This is down from a recent peak of 5.1% in October 2015 and the lowest since January 2011 when the unemployment rate stood at 3.4%. The unemployment rate in the ACT is well below the national average unemployment rate of 5.6%.

The gains in employment have likely been assisted to some extent by lacklustre wages growth, enabling employers to increase jobs. It has also been aided by a return to hiring by the Federal Government. Wages growth in the ACT, at 1.9% in the year to the June quarter, was among the lowest of all the States and Territories (and below the national average of 2.1%). Wages in the ACT remain relatively high; average annual ordinary time earnings in the ACT are \$89.8k, compared to \$78.8k nationally.

The outlook for job growth in the ACT remains positive. Modest wage growth, low interest rates, government hiring, a lift in international student numbers and growth in inbound tourism are all supportive of job creation. Working in the opposite direction are ongoing efforts to guide the Federal Budget back to surplus as this weighs on the longer term outlook for public service jobs.



### St.George Banking Group Forecasts

The weaker AUD, low interest rates, population growth and renewed government hiring are supporting economic activity in the ACT. Economic growth is expected to remain modest this financial year but stronger than in 2015-16. We expect Gross State Product to increase 2.4% this financial year and next.

The ACT Government is expecting similar Gross State Product (GSP) growth to our forecasts for 2016-17 but has a slightly firmer forecast of 2.5% for 2017-18. The ten year average of ACT's GSP growth is 2.5%.

#### St George Banking Group Forecasts:

Economic Indicators, % Change (year average)					
	2014-15	2015-16	2016-17 (f)	2017-18 (f)	2018-19(f)
Gross State Product	1.40	1.9*	2.40	2.40	2.50
State final demand	1.50	1.80	2.30	2.60	2.60
Employment	0.00	1.10	1.90	1.60	1.40
Unemployment rate (year average)	4.60	4.50	3.50	3.40	3.40
Canberra CPI	0.80	0.70	1.50	2.20	2.30
Wage Price Index	1.90	1.70	2.30	2.50	2.60

\*estimate

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