

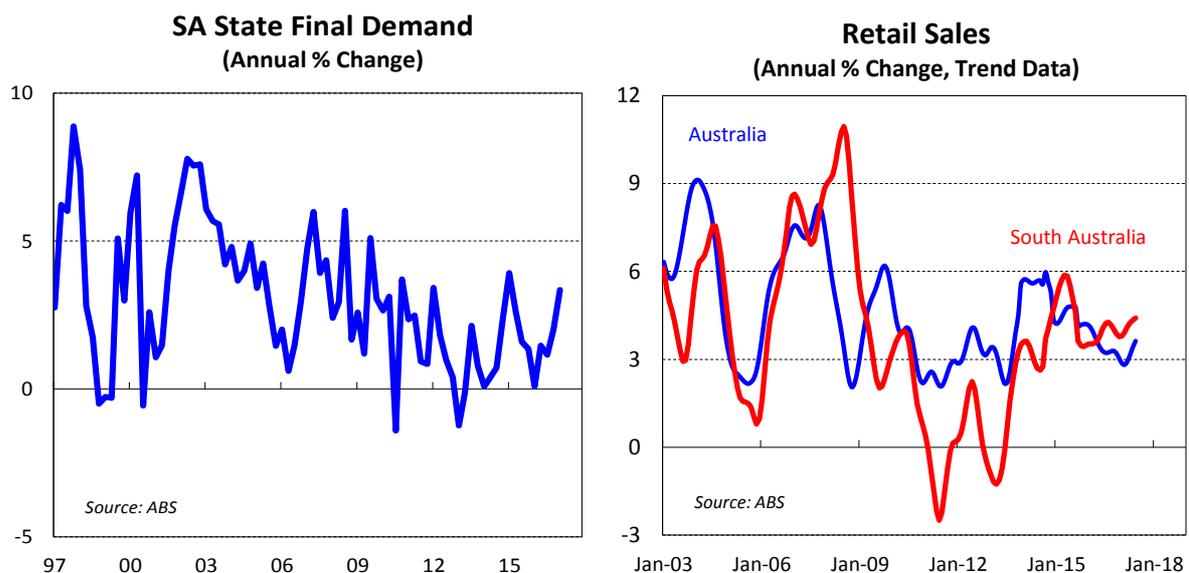
South Australian Economic Outlook

Summary

- Economic growth in South Australia has continued to toddle along in recent years. The value of the Australian dollar compared with a few years ago and low interest rates are providing support, but challenges remain for the State. Pressure on the manufacturing sector persists, with threats of further plant closures, yet jobs have been created in the transport, postal & warehousing, arts & recreation and education & training industries. Population growth continues to lag. House prices have risen, yet remain more affordable than those in the larger capital cities. Economic data in recent months has been improving.

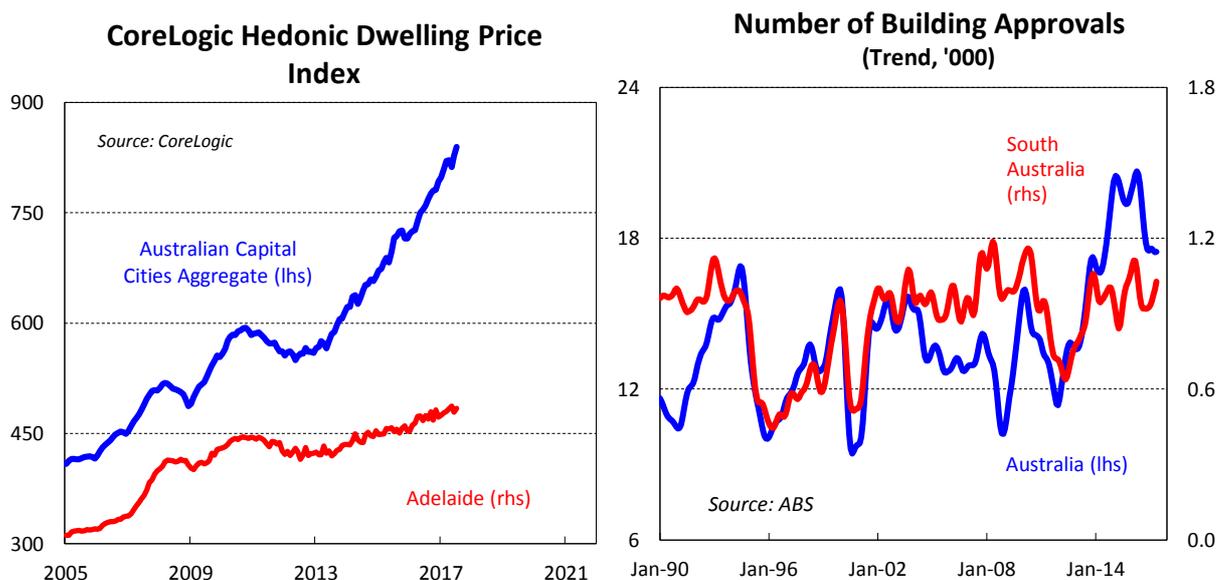
Key Points

- State final demand** in South Australia has improved in recent quarters, rising 1.4% in the March quarter, after increasing 1.1% in the December quarter 2016. For the year to the March quarter, State final demand rose by 3.3%, which is above the ten-year average for South Australia of 2.1% and above national growth of 1.7% (updated State final demand is released on September 6).



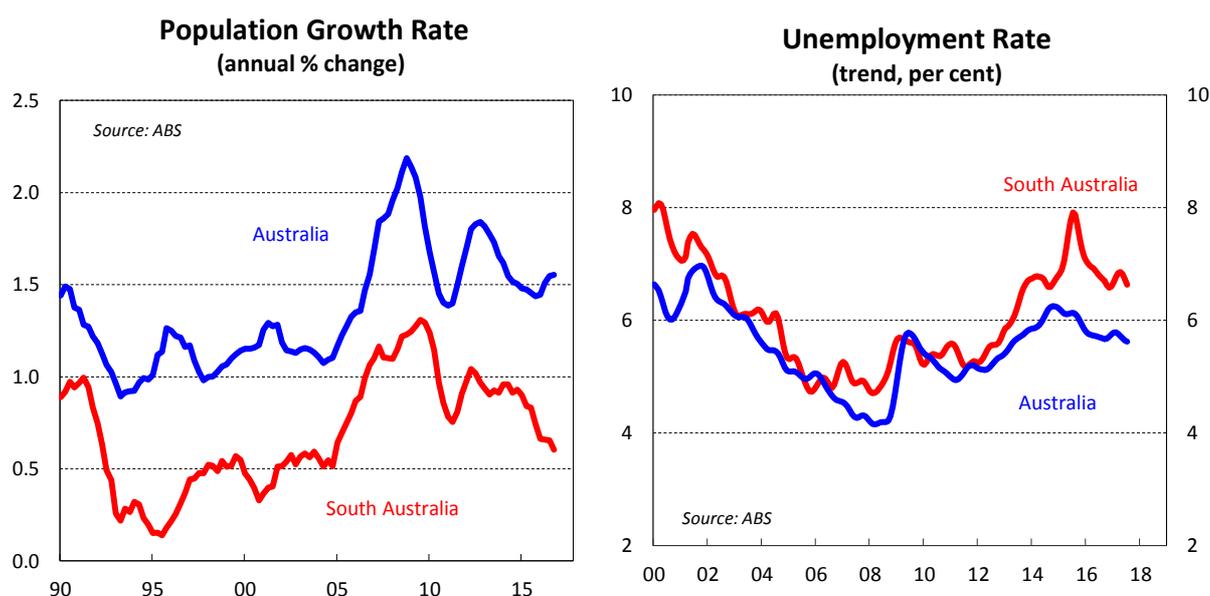
- Gross State product** (the broadest measure of economic growth which includes exports and imports) rose just 1.9% in 2015-16. Economic growth across Australia in 2015-16 was 2.8%.

- **Retail spending** in South Australia remains solid, supported by low interest rates and growth in jobs. Annual growth stood at 4.7% in the year to June, above the long-run average of 3.4% and above national retail sales growth for the year of 3.8%.
- The South Australian Westpac-MI **consumer sentiment** index fell from 89.3 in July, to 85.7 in August. This is the lowest reading since November 2015 and further below a reading of 100 signalling more consumers are pessimistic than optimistic. Fragile consumer confidence and weak wages growth may constrain the outlook for consumer spending. Wages growth has been growing near a record low of 2.1% per annum.
- **Adelaide dwelling prices** have crept higher, rising 2.1% in the year to July, according to CoreLogic. Adelaide house prices rose 2.2% in the year to July, while unit prices rose by a more subdued 0.6%. Price growth in Adelaide has lagged behind Melbourne, Canberra, Sydney, Hobart and Brisbane. The Australian capital-city average rose 10.5% in the year to July.
- According to Domain, the **rental vacancy rate** in Adelaide edged up to 1.6% in July, from 1.5% in June, although it has fallen from 1.9% over the past year. Median weekly rents for 3-bedroom houses rose by 2.9% in the year to the March quarter (latest available REIA data), while rents for 2-bedroom units rose by 1.7% over the same period.



- **Building approvals** after weakening through mid 2016 have picked up in South Australia in trend terms, more notably since the beginning of 2017. For the year to June, trend building approvals have increase by 0.5% in South Australia and have been back above their 10-year average for three consecutive months.
- The number of **owner-occupier housing loans** in South Australia fell by 9.7% in the year to June. In the three months to June, the number of owner occupier home loans in South Australia slipped below its long-term average. The value of investor lending for housing is down 6.2% in the year to June. Investor loans were 28.9% of the value of total home loans in South Australia over the year.

- The fall in housing lending is also reflected in the decline in **house sales**. Industry data from the Housing Industry Association (HIA) revealed that sales for new dwellings dropped by 16.3% in South Australia in July, the sharpest contraction of any State in that month.
- **Population growth** in South Australia continues to lag most of the other States and territories, with the exception of the Northern Territory and Tasmania. South Australia's population rose 0.6% in the year to the December quarter 2016, well below the national average of 1.6% and the slowest in 12 years. Weaker population growth suggests demand for housing construction will be modest over the medium term.
- **Employment growth** in South Australia has gathered some traction in recent months, helping retail spending growth, but still reflects a jobs market with some slack. In the year to July, South Australia's labour market added 12.3k jobs. The unemployment rate fell to 6.2% in July, from a recent high of 7.3% in April 2017. However, the unemployment rate still remains above the ten-year average of 6.0% for South Australia. The labour market will also be impacted from the job losses associated with the automotive and defence manufacturing sectors. Over the past year, jobs have been created in the transport, postal & warehousing, arts & recreation and education & training industries.



- The contraction in **manufacturing activity** is a challenge for South Australia. This year will mark the closure of General Motors-Holden and its supply chain. The weaker Australian dollar in recent years has helped stymie the decline in manufacturing, but its demise is structural and reflects difficulties in being able to compete against lower cost labour overseas.
- There has recently been positive news on the struggling **Arrium steel business**, with a few bidders lined up to purchase Arrium. Approval of the sale appears to more than likely be attached with a government support package for Whyalla.
- A newer challenge for South Australia is the problems in the **energy sector**. Energy supply and costs remains at the forefront of business and consumer worries in South Australia, after a series of blackouts over the past year. South Australia's "go it alone" plan to fund 100 megawatts of battery storage technology may not be enough to avoid further blackouts as

early as this summer. Businesses and consumers are exposed to higher energy prices. This year's Federal Budget announced \$37 million for energy infrastructure in South Australia. Premier Jay Weatherill is also adding to funding for energy infrastructure, slating \$550 million. This includes \$360 million for a gas-fired power plant, \$150 million towards a Renewable Technology Fund and \$24 million towards grants to incentivise gas production. The South Australian government intends to introduce a controversial state-based bank tax in order to fund spending on infrastructure and energy. The major banks operating in South Australia will be charged a quarterly levy of 0.015% on bonds and deposits over \$250,000.

- South Australia has the highest per capita wind and solar energy capacity of all the States and territories and among the highest in the world. But this only benefits South Australia when the wind is blowing and the sun is shining. At other times, it needs to rely on energy from more traditional sources. Anecdotes from our clients in South Australia indicate those industries which are heavily reliant on energy are hurting.
- **Business investment** has increased for two consecutive quarters, and rose by 8.5% in the year to the March quarter. However, the outlook is less promising as some of the projects underway are set to complete soon and there is little in the pipeline. This would further dampen job prospects over coming years. One of these projects due for completion later this year is the \$2.3 billion New Royal Adelaide Hospital, which acted as a catalyst for investment in adjacent research and education buildings by the university sector. There has also been investment in the health precinct, oval, light rail system and convention centre. But the bulk of this work is due for completion this year, when capital expenditure is expected to decline. The State government this year announced a new \$528 million Women's Hospital and \$315 million of spending at the Lyell McEwin, Queen Elizabeth and Modbury hospitals and the Flinders Medical Centre.

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