

ACT Economic Outlook

Summary

- Economic growth in the ACT has picked up over the past year. Gross State Product figures indicate the ACT economy expanded by 1.4% in 2014-15, up from growth of 0.7% in 2013-14. More recent economic data suggests modest growth continued in the first half of 2015-16.
- Government activity will continue to play a large role in the ACT. Over time, the need for a larger public service will rise as Australia's population increases, although public sector spending will be limited by efforts to move the Budget into surplus.
- The ACT labour market has made decent gains over the past six months. In the year to March, the ACT created 2,300 jobs in trend terms, pushing the unemployment rate down to 4.3%. Wages growth, however, remains particularly lacklustre in the ACT.
- Population growth is set to continue, albeit at a slightly slower pace than in earlier years. In the year to the September quarter 2015, the ACT's population rose 1.4%, which was slightly above the national pace of population growth.
- Canberra dwelling prices have risen only modestly over the past year, recording a 1.7% increase for the year to March. Prices of houses in Canberra have performed relatively better than units. House prices were up 1.9% in the year to March, while unit prices have fallen 0.9%. We expect dwelling prices in the ACT to continue to trend sideways, as they have done over the past few years (not withstanding some strength in mid-2015).
- Retail sales have grown strongly over the past year. For the year to February, ACT retail sales rose 7.7%, well above the long term average of 3.7% and national pace of retail sales growth at 3.3%.
- Business investment in the ACT has been trending lower in recent years. Private business capital expenditure, which includes spending on plant & equipment and buildings & structures, fell 13.6% in the December quarter. It was the second consecutive quarterly decline.
- Economic growth is expected to remain modest this year. We expect ACT Gross State Product to increase 1.0% this financial year and next, following slightly stronger growth of 1.4% in 2014-15.

Economic Growth

Economic growth in the ACT has picked up over the past year. State final demand in the ACT grew at 3.1% in the year to December 2015 up from a decline of 0.8% in the year to December 2014. The Gross State Product figures (which include the impact of trade) indicated the ACT economy expanded by 1.4% in 2014-15, up from growth of 0.7% in 2013-14.

The outlook for economic growth in the ACT remains positive, with solid population growth, a low Australian dollar and low interest rates expected to provide support to economic growth.

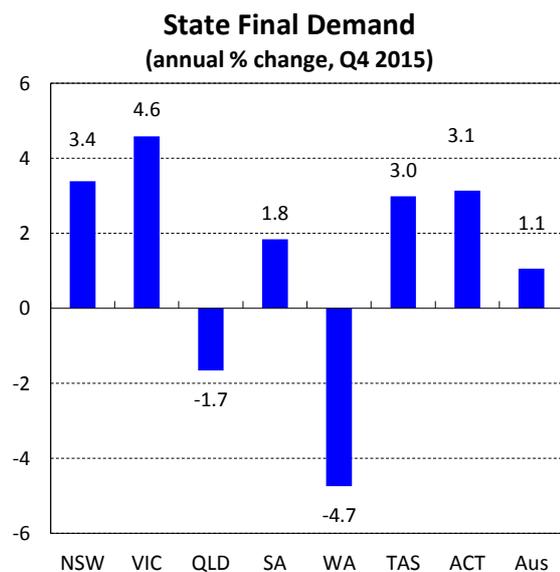
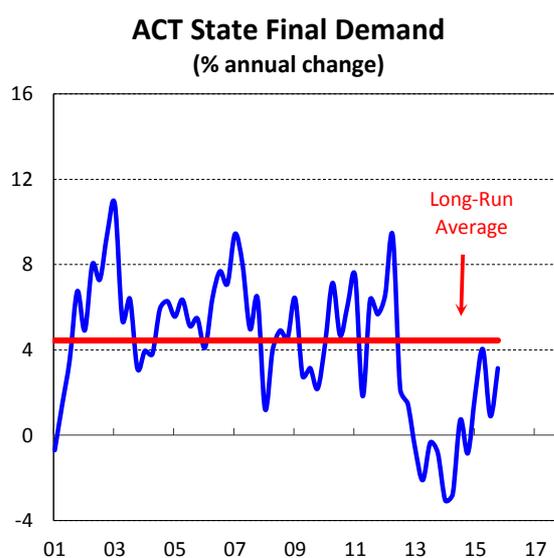
Economic growth in the ACT appears to have been supported by ongoing construction activity and strong growth in retail spending (see below for further detail). Low interest rates are expected to continue to support consumer spending, construction and investment.

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

The lower AUD is expected to lead to an increase in overseas visitors, domestic tourism and international education. Canberra's arts and cultural sector is expected to continue to attract visitors to the region.

Government activity will continue to play a large role in the ACT. In the medium term, budgetary pressures seem likely to cap rapid growth in public sector numbers, although this Federal Budget is expected to be neutral and so is likely to continue to support growth in the ACT.

Population growth is set to continue, albeit at a slightly slower pace than in earlier years. In the year to the September quarter 2015, the ACT's population rose 1.4%, which was slightly above the national pace of population growth. Within the next 10 years the population of the ACT is expected to grow towards 500,000, up from the current count of almost 392,000. This will require new infrastructure and new housing, both of which will create new jobs.

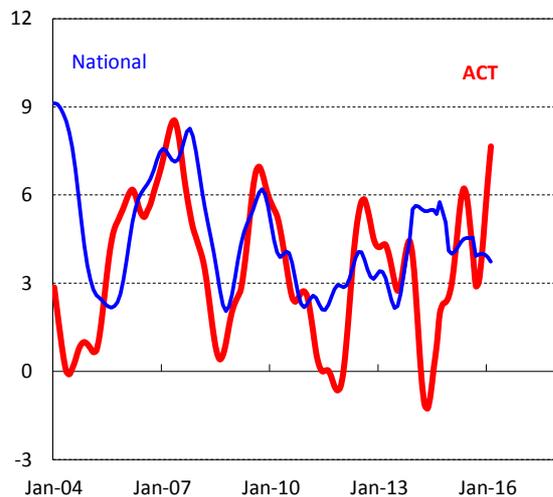


Percentage Shares of the Economy*		
Industries	ACT	Australia
Public administration and safety	34.7	6.1
Professional, scientific and technical services	10.3	7.0
Education and training	8.6	5.5
Health care and social assistance	7.4	7.6
Construction	5.2	9.1
Financial and insurance services	4.4	10.1
Accommodation 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

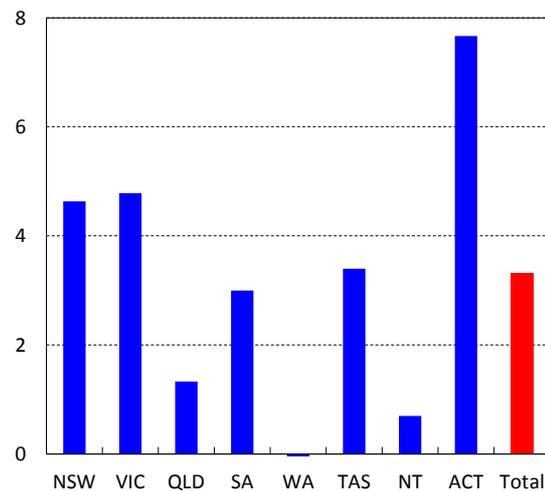
* As % of GSP and GDP less ownership of dwellings 2014-15

Source: ABS, St.George

Value of Retail Sales
(trend, annual % change)



Retail Sales by State
(February 2016, annual % change)



Consumer Spending

Retail sales have grown strongly over the past year. For the year to February, ACT retail sales rose 7.7%, 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 February, which is

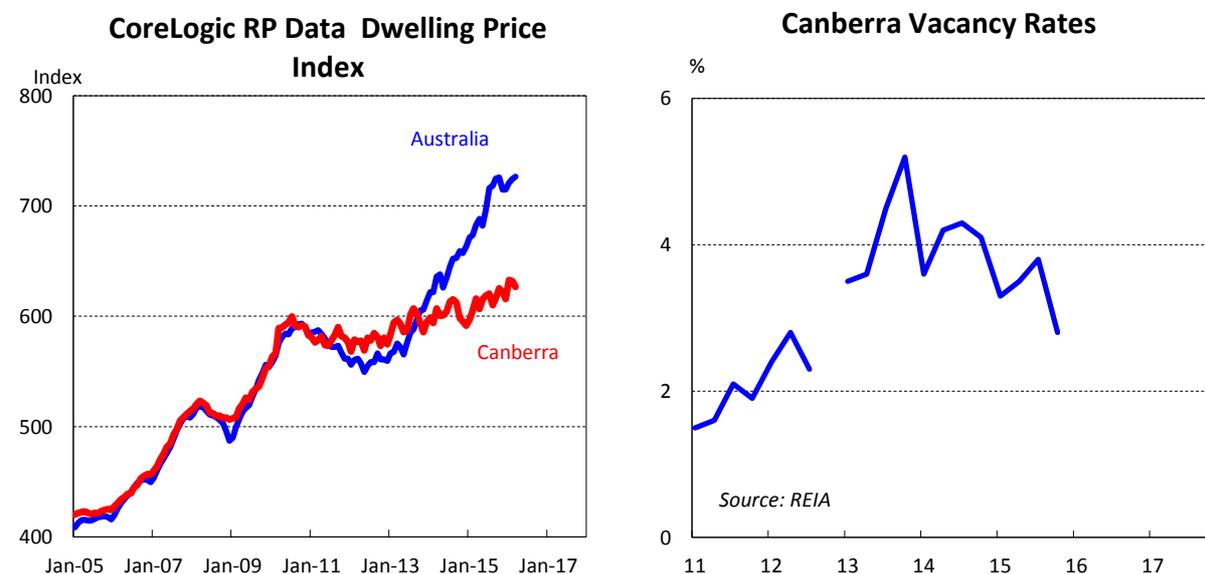
below the long term average and well below growth in retail sales in Canberra.

Sectors that have experienced solid growth over the year to February, in trend terms, included furniture, floor coverings, housewares and textile goods (65.8%), likely boosted by the 12,000 visitors to IKEA Majura Park’s opening in November last year. Spending on other retailing n.e.c. (24.5%), which includes antique and used goods retailing, stationery retailing, flower retailing and non-store retailing also gained strongly over the year. ACT locals continued to enjoy dining out, with spending at cafes, restaurants and catering services rising (19.4%) in the year to February.

Sales were softer in ‘other specialised food’ retailing (-27.3%), which includes fresh meat, fish and poultry retailing and fruit and vegetable retailing and liquor retailing (-10.0%).

While growth in wages and the population are expected to remain modest, job security appears to have improved. With retail spending already growing at a solid clip on a national comparison, the prospects for a pickup in spending in the ACT are limited. Provided, however, the next Federal Budget is neutral, in terms of public service employment, retail sales should continue to grow, although the pace of growth may moderate from its current strength.

The Westpac-MI index of consumer sentiment does not have a separate measure for the ACT, however, national consumer sentiment has declined to 95.1 in April, from 99.1 in March. The result has fallen further below 100 indicating that there are more pessimists than optimists among consumers.



Housing

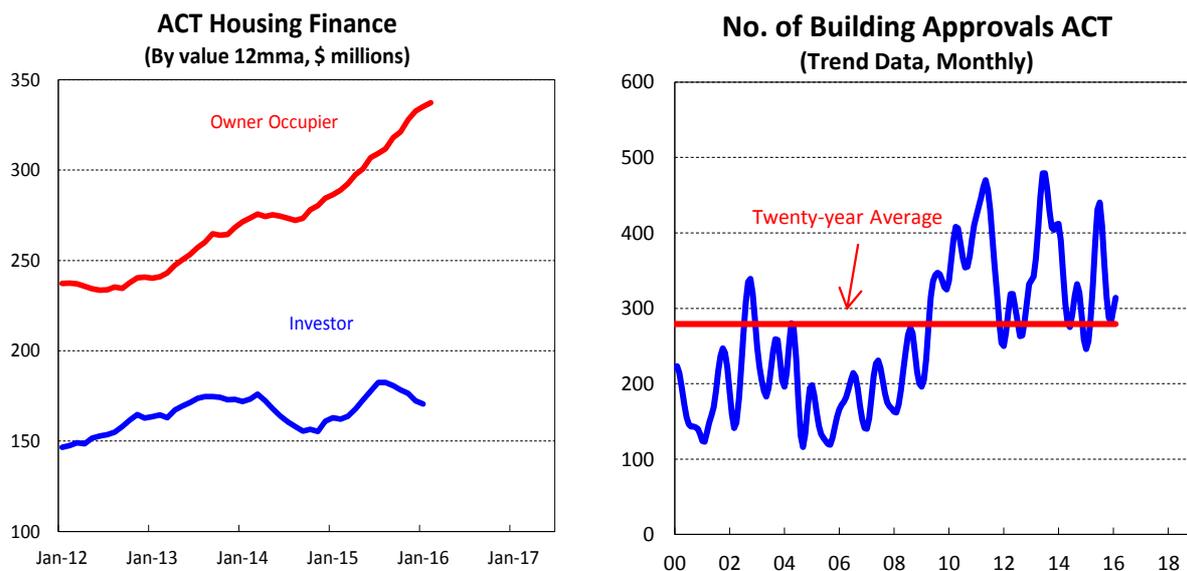
Canberra dwelling prices have risen only modestly over the past year, recording a 1.7% increase for the year to March. This is down from growth of 6.0% in the year to January, according to CoreLogic RP Data dwelling prices. Canberra dwelling prices have continued to underperform capital city prices Australia-wide. By comparison, the average of Australian capital cities grew at an annual pace of 6.4% in the year to March, largely driven by prices in Sydney and Melbourne.

Prices of houses in Canberra have performed relatively better than units. House prices were up 1.9% in the year to March, while unit prices have fallen 0.9%. A steady pipeline of supply of dwellings appears to have limited price gains in Canberra, particularly for units.

The growth in house prices appears to be a mixture of factors. On the upside, the downward pressure on public sector jobs has abated to some extent since the public service hiring freeze eased in mid-2015. The relocation of people affected by the 'Mr. Fluffy' also appears to be adding upward pressure in parts of the Canberra market.

On the downside, a slowdown in population growth in the ACT could well be keeping a lid on the growth in house prices. After annual population growth of 2.0% in September 2012, the pace of growth slowed to 1.1% December 2014 before picking up to 1.4% in September 2015 (the most recent data). The pace of population growth has fallen from around 7000 per year in late 2012 to around 5500 in the year to September 2015.

We expect dwelling prices in the ACT to continue to trend sideways as they have done over the past few years. Low interest rates will provide support as will growth in the population and a stabilization of employment in the public sector. A steady stream of new supply in coming years and slow wages growth will, however, limit the upside in Canberra dwelling prices.



A period of historically high residential building activity over the past five years had raised concerns about oversupply. Since then, however, the rental vacancy rate in Canberra has declined steadily, indicating that any oversupply of residential dwellings is not currently having a significant impact on Canberra's rental market.

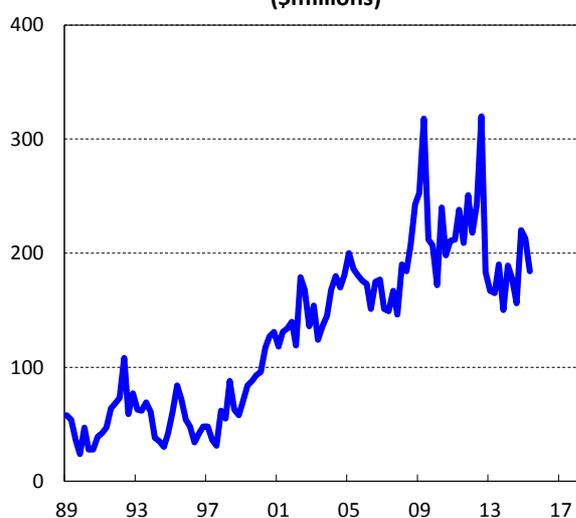
Vacancy rates in the ACT stood at 5.2% in the December quarter 2013. By the December quarter of 2015 they had fallen to 2.8%, indicating the rental market in Canberra is now "tight" and that there is currently a slight shortage of rental accommodation in the ACT. The vacancy rate in the ACT is now below that of Melbourne and Brisbane (both at 3.1%), Perth (6.0%), Darwin (8.9%) and Hobart (3.1%). It is higher than Sydney, however, where the vacancy rate is 2.1%.

Median weekly rents for a 3-bedroom house in Canberra have increased 2.4% over the year to December 2015, to \$432.50 per week. However, this remains below the median weekly rent of \$450 per week for 3-bedroom houses in the December quarter 2013. For two bedroom units, median weekly rents have increased 5.3% in the year to the December quarter 2015, to \$400 per week.

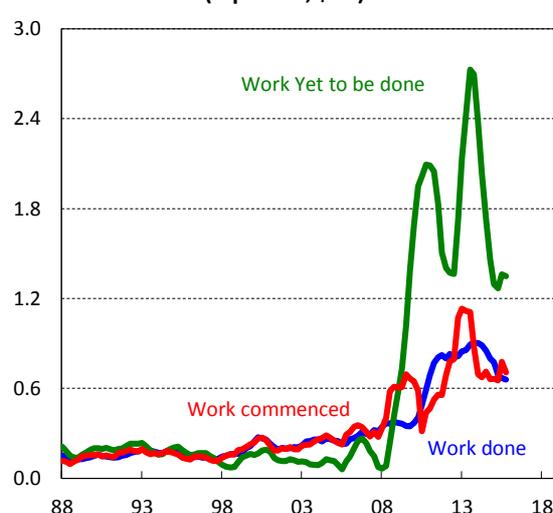
While dwelling prices have inched only modestly higher over the last few years, rents have stabilised, eroding the yield for property investors in Canberra. There has been a decline in the value of investor housing finance in recent months and for the year to February, investor housing finance in the ACT is down 24.0%. However, as noted by the RBA, there has been some reclassification of loans from investor loans to owner occupier loans, which is likely ‘muddying the water’ to some extent. The number of owner occupier home loans in Canberra has risen 3.2% over the year to February. The combined value of owner occupier and investor loans in the ACT has declined 2.5% in the year to February.

Following a soft patch in late 2015, building approvals have picked up in recent months. Approvals in trend terms were around 300 over the last couple of months while the twenty year average is 240 per month. This level of approvals suggests the ACT will continue to see high levels of building activity in the coming months. The ongoing reconstruction of around 1000 ‘Mr Fluffy/asbestos’ affected homes will continue to provide some support to residential construction.

ACT Total Capital Expenditure
(\$millions)



ACT Engineering Construction
(4qtr sum, \$bn)



Business Investment

Business investment in the ACT has been trending lower in recent years. Private business capital expenditure, which includes spending on plant & equipment and buildings & structures, fell 13.6% in the December quarter. It was the second consecutive quarterly decline. The ABS reports a total of \$184 million in capital expenditure in the December quarter, a lift of 3.4% on a year earlier. As the chart above illustrates, this is well down the capital expenditure that occurred from 2009 to 2012.

Private business investment (from the National Accounts data) fell to its lowest level in three

quarters, declining 7.5% in the December quarter in the ACT. For the year to the December quarter, private business investment is up just 0.2%.

Engineering construction activity in the ACT retreated in the December quarter 2015, following a strong gain in the September quarter. Following a rebound of 19.9% in the September quarter, engineering construction fell 1.4% in the December quarter, to be down 6.0% on a year earlier. The \$783 million Capital Metro (light rail) project, if it goes ahead this year, would provide a considerable boost to construction work in the ACT. It's future remains uncertain given the opposition Liberal Party has said it will not go ahead with the project if elected this year.

Commercial construction continues to centre on the \$600 million Australian National University's business and research precinct and the \$139 million University of Canberra Public Hospital.

Labour Market

The ACT labour market has improved over the past year. In the year to March, the ACT created 2,300 jobs in trend terms. This was a growth rate of 1.1% over the year to March, which was below the national average of 2.2% employment growth over that period. It appears the freeze on hiring in Canberra's public service has eased, with modest employment growth in the public administration & safety sector in the February quarter.

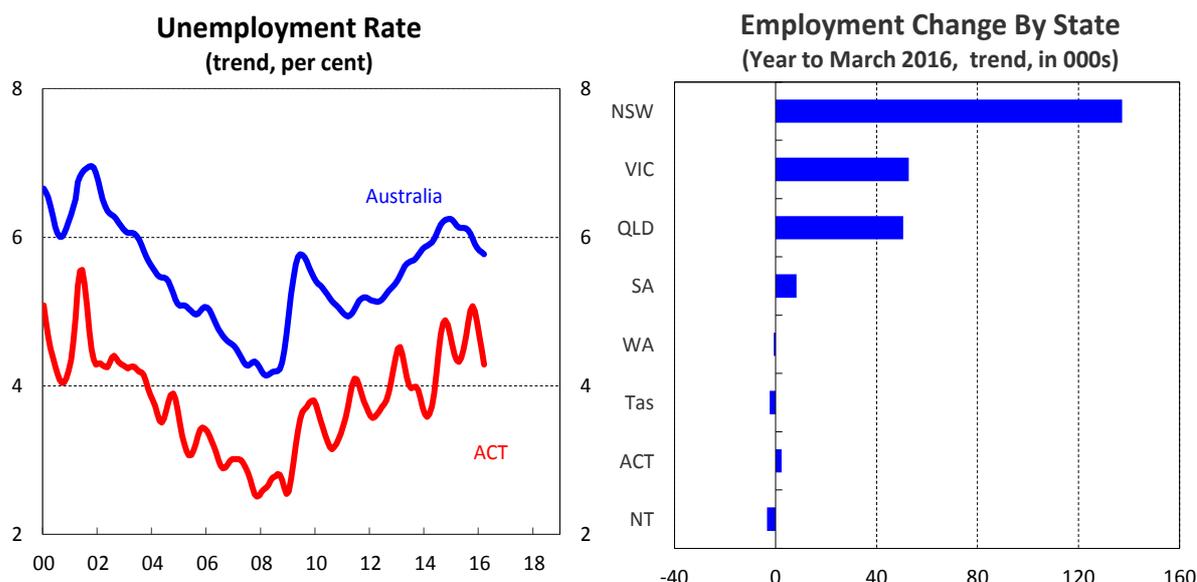
The total number of jobs in the ACT peaked in August and September 2012 at 211.7k and then decreased through much of 2013 and 2014, before picking up. Jobs have now moved back up towards that 2012 peak and the number of jobs is now only marginally below that level at 211.3k in March 2016.

Statistics on employment by industry are only available on a quarterly basis, with figures for February 2016 the latest available. These show that in the year to February, job gains of 4.0k were made in professional, scientific & technical services, followed by 3.1k new jobs in financial & insurance services, followed by healthcare & social assistance (2.3k) and accommodation & food services (2.2k). The largest job losses were in construction (-2.6k), followed by arts & recreation (-2.2k).

The job gains over the year to March have pushed the unemployment rate down to 4.3% in trend terms. This is down from a recent peak of 5.1% in October 2015 and the lowest since April 2015. This is well below the national average unemployment rate of 5.8%.

The gains in employment have likely been aided to some extent by lacklustre wages growth, enabling employers to increase jobs. Wages growth in the ACT, at 1.7% in the year to the December quarter, was the lowest of all the States and territories (and below the national average of 2.1%). Having said that, wages in the ACT remain relatively high; average weekly ordinary time earnings in the ACT are \$89k, compared to \$78k nationally.

The ACT labour market has made decent gains over the past six months. Low interest rates and the low Australian dollar will continue to support economic growth and employment gains. The outlook for job growth in the ACT is modest. Efforts to move the Federal Budget back into surplus, however, will weigh on the longer term outlook for public service jobs.



St.George Banking Group Forecasts

The weaker AUD and low interest rates are supporting economic activity in the ACT. Economic growth is expected to remain modest this year. We expect Gross State Product to increase 1.0% this financial year and next, following slightly stronger growth of 1.4% in 2014-15.

The ACT Government is expecting stronger Gross State Product (GSP) growth than our forecasts. They expect growth of 1.5% in 2015-16 and 2.5% in 2016-17. 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 (f)	2016-17 (f)	2017-18 (f)
Gross State Product	1.40	1.00	1.00	2.00
State final demand	1.50	1.50	2.00	2.00
Employment	-0.70	1.00	1.00	1.00
Unemployment rate (year average)	4.60	4.80	4.70	4.60
Canberra CPI	1.20	0.80	2.50	2.50
Wage Price Index	2.00	1.90	2.30	2.90

*actual

Contact Listing

Chief Economist

Hans Kunnen

kunnenh@stgeorge.com.au

(02) 8254 8322

Senior Economist

Josephine Horton

hortonj@stgeorge.com.au

(02) 8253 6696

Senior Economist

Janu Chan

chanj@stgeorge.com.au

(02) 8253 0898

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