December 2024

# WESTPAC COAST-TO-COAST

Your quarterly report on Australia and the global economy.

# WESTPAC COAST TO COAST – DECEMBER 2024


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# Economic growth remains soft …

**Matthew Hassan**
Head of Australian Macro-Forecasting

**Pat Bustamante**
Senior Economist

**The overall picture for the Australian economy is soft, with very little momentum on the private side. The public sector remains the primary locus of growth. The 'handover' as this slows and private demand picks up looks likely to be shakier. Uncertainty is also significant, with risks on both sides.**

## Growth in private demand disappoints

The Australian economy continued to tread water in the September quarter. At 0.3%qtr and 0.8%yr, growth in economic activity was below market expectations and in annual terms, is running at its slowest pace since the early 1990s recession (outside of the pandemic).

The tentative recovery in private sector spending many had pencilled in has not yet materialised. New private demand recorded virtually no growth over the quarter. Not even the Stage 3 tax cuts, which increased incomes by around $5.5bn in the quarter, were enough to boost consumer spending which remained flat, despite the still elevated population growth. New business investment was also a drag on growth in output.

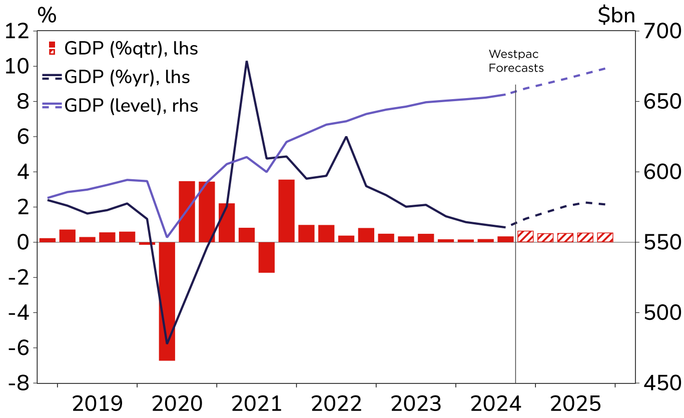
Increased spending by governments continued to drive growth in domestic demand. New public investment grew by a strong 6.1%qtr supported by spending on defence capital equipment and infrastructure. Public consumption, which includes the provision of subsidised goods and services, grew 1.4%qtr and 4.7%yr. The expansion of government programs, such as the NDIS, as well as higher public sector wages on the back of upgraded enterprise bargaining agreements, drove the increase.

The expansion of public services to cater for a larger population will continue to drive growth in economic activity near term. As interest rates start to move lower, private demand is expected to lift gradually and drive growth toward the end of 2025. Whether the private demand lift will be strong enough to cover the drag from easing public demand will determine how well the economy performs heading into 2026 and beyond.

History shows that these 'handovers' can be bumpy affairs. Exhibit A is Australia's performance following the mining investment boom, which saw weak growth, subdued productivity and soft wages growth, with inflation undershooting the RBA's target. Our forecasts have been updated to reflect a 'shakier' handover in 2025, with the recovery in private demand taking a little longer than previously expected, consistent with the picture from the Q3 national accounts, and other forward indicators such as capex plans.

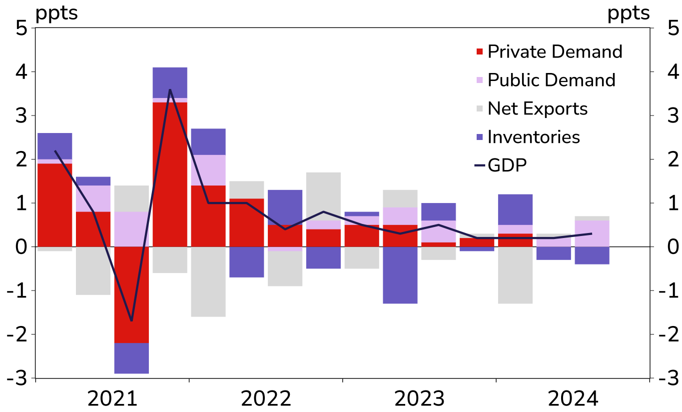
Needless to say, uncertainty remains higher than usual, with risks on both sides. The expansion in public services could continue for longer, consistent with recent announcements, including increased funding for childcare and what may be a

### Gradual recovery in economic growth anticipated



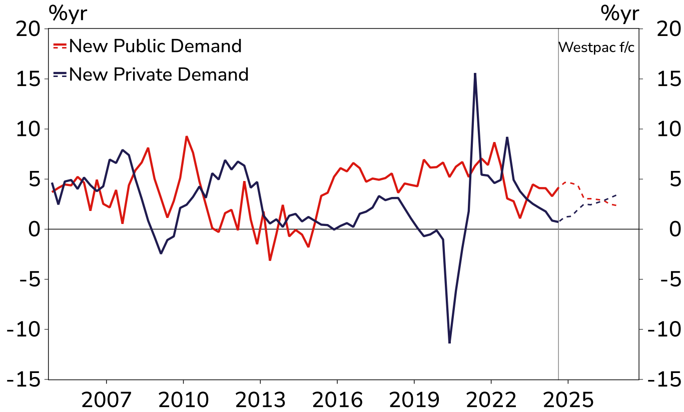

Source: ABS, Macrobond, Westpac Economics

### Contributions to quarterly GDP growth




Source: ABS, Macrobond, Westpac Economics

### 'Shaky handover' from public to private




Source: ABS, Macrobond, Westpac Economics

# ... handover likely to be shaky

slow turn for NDIS spending and public investment. On the flipside, the pick-up in household demand could disappoint, particularly as cost-of-living measures roll off next financial year and if households continue to prioritise saving over spending. Add to this, increased uncertainty over the global economy and rising geopolitical tensions could see investment projects shelved in the near term.

Our central case view has public demand still powering ahead next year. Based on Federal and state budget documents, the national fiscal impulse (the contribution to growth) is expected to be around 2¾ppts of GDP in 2024-25, adding ¼ppt in 2025-26, with a lot of this driven by increased recurrent spending on services and higher capital spending. We have revised up our forecast by 0.4ppts in 2024 to 4.7%yr, and left 2025 and 2026 broadly unchanged.

## The detail

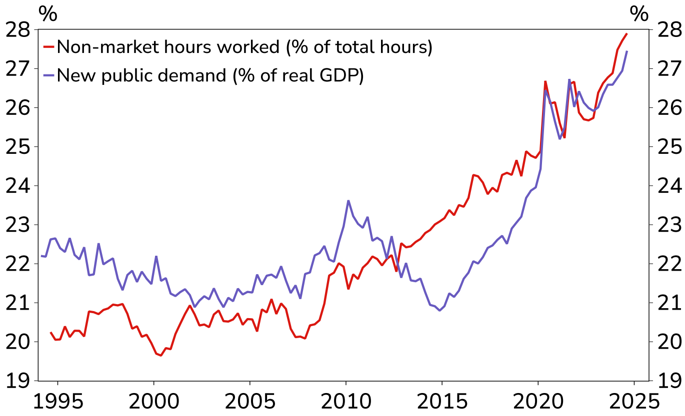
Consistent with the softer Q3 outcomes, we have revised growth in new private demand slightly lower across the forward profile, by 0.3pts in 2025, and 0.2pts in 2026. This has mainly been driven by household spending, which we expect will now grow by only 1.0%yr in 2024, compared with population growth of around 2%. Consumption growth is expected to pick up to 1.9%yr in 2025 as population growth slows to 1.6%. Per capita consumption lifts only slightly, having fallen significantly through 2023 and 2024.

We have trimmed our business investment forecasts on the back of the weaker consumer. Despite this, growth in investment over in 2025 and 2026 is still forecast to cover depreciation and expected increases in the labour force, as longer-term structural changes, such as the transition to net zero emissions and the adoption of new and emerging technologies, propel underlying investment.

Reflecting easing capacity constraints, expected dwelling construction has been upgraded by 0.7ppts in 2024, with this higher level of activity carrying forward across 2025 and 2026.

All of these themes are evident at a state level but are playing out to varying degrees. At one extreme sits Western Australia where demand growth has only slowed marginally and looks set to remain strong as a surge in dwelling construction combines with strong public investment. Conditions are less exuberant but still relatively firm in Queensland, where consumer spending has also been resilient, and in South Australia and Tasmania, where the surge in public demand have been stronger. At the other end of the range sit New South Wales and Victoria, which have both been hit harder by the consumer squeeze, and where state unemployment rates show more of a rise. While policy easing and other shifts should see these gaps narrow, conditions are likely to continue to vary widely in 2025. Soft demand will be an enduring issue for some states but in others tight capacity and labour shortages will the more pressing concerns.

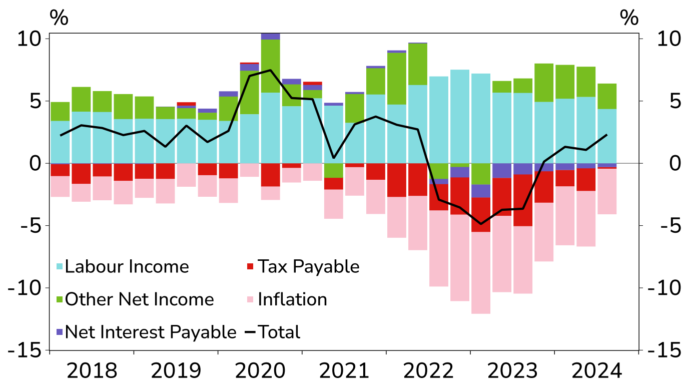
### The expansion in public demand



Source: ABS, Macrobond, Westpac Economics

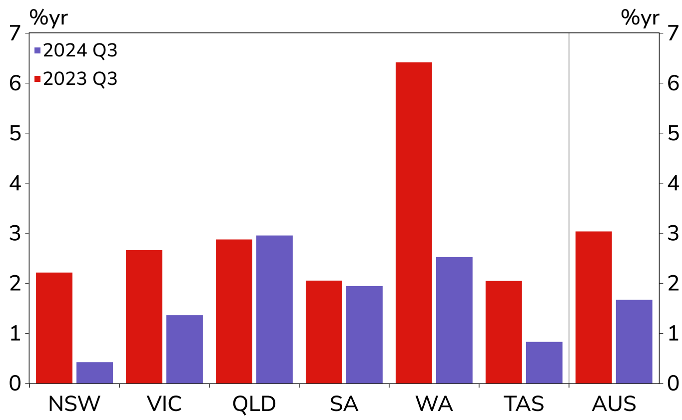
### Household Real Disposable Income Growth

Contributions to Annual Growth



Source: ABS, Macrobond, Westpac Economics

### Domestic Final Demand



Source: ABS, Macrobond, Westpac Economics

# Mining states finish the year strongly …

**Pat Bustamante**
Senior Economist

**The mining-based states of Western Australia and Queensland continue to run ahead of the pack. And it's no surprise: the positive income effects from elevated commodity prices continue to flow through both state economies, either directly benefiting industries and workers tied to the mining sector, or indirectly by bolstering state treasury revenues, providing the fiscal headroom for additional cost-of-living support, more infrastructure investment and generally looser fiscal settings.**

## Mining states outperform

There are some nuances to the mining/non-mining divergence. The 2023-24 annual state accounts for example provided a material surprise with WA's Gross State Product (GSP) growing only 0.5%yr in 2023-24 (in full year terms). This is well below the 1.4%yr pace nationally and all other states.

This softer than expected outcome was entirely driven by a 3.8ppt detraction from net exports, as mining export volumes were soft (notwithstanding the elevated prices) while imports recorded strong gains consistent with the resilience shown in state final demand. Mining output, which accounts for 45% of Western Australia's GSP, contracted 2%yr and is down 1.7% over the last four years. However, elevated prices mean the dollar value of this production has risen more than 50% over the same period. State incomes are clearly in much better shape than the GSP shows – income and demand conditions are still buoyant in every other respect.

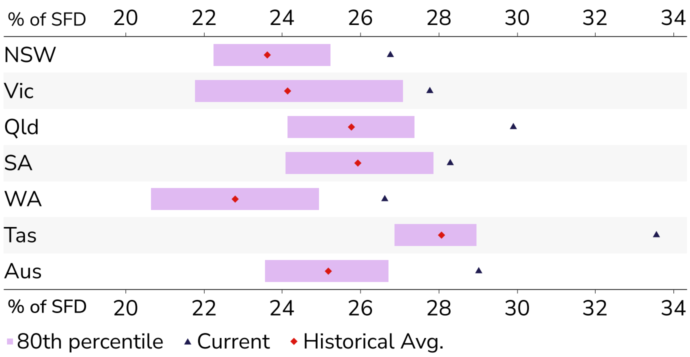
Indeed, without the net export detraction, Western Australia's GSP would have grown a healthy 3.6%yr. Domestic demand has been firing on all cylinders, led by strong gains in business investment (up 13.4%yr, the strongest rise since 2011-12), resilient household consumption (+3.1%yr) and a surge in public investment which grew 17.0%yr, the strongest gain since 2009-10. The pace is slowing a touch into year-end and the outlook less certain given lower commodity prices but the momentum to demand will be well-sustained into 2025.

Meanwhile, conditions in the sunshine state are brightening. Queensland's GSP grew 2.1%yr over 2023-24, the largest increase across all the states, supported by business investment (+3.4%yr), public investment (+7.8%yr) and household consumption (+2.2%yr). Public spending was a prominent support in Q3, energy rebates reducing household spending on electricity by a staggering 75% but doing little to spur spending in other areas even with relatively robust wages growth and population growth in the mix. Public investment is also rising strongly: spending is 'locked-in' despite pressure on the state government's rating, with the Brisbane Olympics now only 91 months away.

### Gross State Product

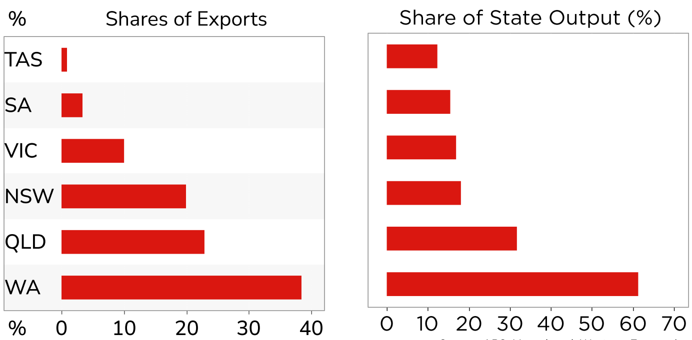
Source: ABS, Macrobond, Westpac Economics

### Public Demand



Source: ABS, Macrobond, Westpac Economics

### Exports of Goods and Services



Source: ABS, Macrobond, Westpac Economics

# ... but Vic going backwards

## Profits show mining's boost to income

Mining profits are largely determined by commodity prices which are set in global markets. Profits outside the mining sector are more closely tied to domestic conditions and provide a real time gauge of how well a state or nation is performing. Real profits (ex-mining) are around 20% higher than pre pandemic levels (2019-20) in the mining states. In stark contrast, real profits (ex-mining) are around 0.5ppts lower than pre-pandemic levels in Victoria. This has been the longest period of profit stagnation on record, pointing to soft conditions, consistent with Victoria's soft investment outcomes.

Households can also benefit indirectly from elevated commodity prices, including through gains in employment, access to higher wages and salaries, and through boosts to state government revenues being recycled, including in the form of more generous cost-of-living support. We find that per capita real disposable income in the mining states is sitting around 2019-20 levels.

## Victorian households go backwards

In Victoria however, real income per capita is a massive 5ppts below pre-pandemic levels. The average household has literally gone backwards, and today can only afford to purchase 95% of what was possible back in 2019-20. This is an unprecedented income shock. While higher inflation and interest rates have also impacted households in the mining states, the impact has been more muted, which is why household spending in these states has been more resilient.

While the hit has not been as large, there are similar themes across the other 'non-mining' states. Private demand is stalled in New South Wales; lacking a pulse across the consumer sector in South Australia; and showing concerning, broad-based weakness in Tasmania. In all cases, rising public demand is holding the line for demand in aggregate, and preventing weakness from flowing through to labour markets (unemployment rates in the non-mining states are all still in the 3.9–4.2% range). But the picture suggests these states will be more susceptible to weakness if the handover from public to private demand drivers proves to be 'shakier'.

## Wind-down in public demand may vary

The two-speed economy is likely to remain in place for a little while longer. The modest recovery expected across Australia on the back of cost-of-living support, tax cuts and an eventual modest easing in interest rates will help laggards like Victoria catch up. However, this is likely to take some time.

In the mean time, the path of public demand will be a major wildcard, particularly as it relates to employment growth in non-market sectors. The paths here could differ significantly across states. Cost-of-living measures have varied by state and will roll out differently as well. Public investment is also tracking different paths – moving slowly towards material multi-year declines in Victoria and New South Wales but likely to be firmer in other states, especially Queensland where Olympics-related building will be a cornerstone support.

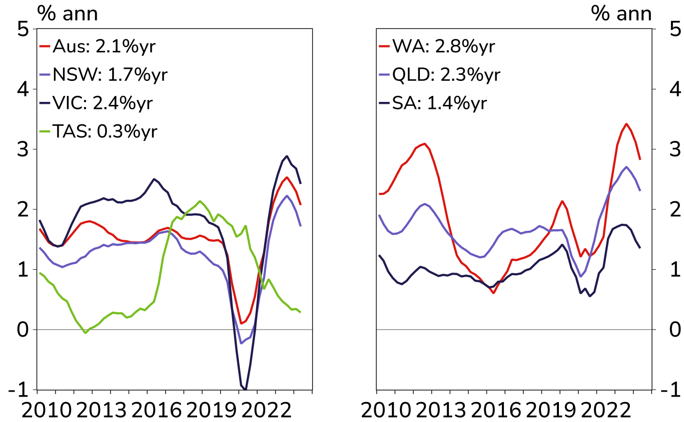
Fiscal pressures and political backdrops differ materially as well. Some states face a more acute need to consolidate finances. Some also have elections to contend with: Western Australia in March 2025, and South Australia and Victoria in 2026. There is already considerable uncertainty around the path for public demand at a Federal level. Similar uncertainties at a state level should not be overlooked.

### State Final Demand per Capita*

Annual % Change


Source: ABS, Macrobond, Westpac Economics

### Population growth by State




Source: ABS, Macrobond, Westpac Economics

Source: ABS, Macrobond, Westpac Economics

# NSW's economic engine is running low on fuel ...

**Jameson Coombs**
Economist

**NSW's economic engine is running low on fuel. Private demand remains stalled and strength in public demand is starting to falter. It's unclear where the spark needed to kick-start the NSW economy will emerge from but there is no doubt that it is much needed. The NSW experience illustrates the risks facing the broader Australian economy when public demand eventually slows and the private sector is needed to drive growth.**

State final demand rose 0.6% in the September quarter, erasing a 0.4% fall the prior quarter and leaving annual growth at just 0.4%yr – the weakest of all the states. Alongside the latest National Accounts data, the State Accounts were released for the 2023-24 financial year. Gross State Product (GSP) rose just 1.2% over the year to June 30. Outside of the pandemic, this was the weakest annual increase in GSP since the 1990s recession.

The extent to which strong population growth, largely from international students, has supported growth in NSW was made clear in the State Accounts. Services exports rose to a record 6.9% of GSP. Without this boost, the performance of the NSW economy would likely look even bleaker.

Household consumption did rebound from a sharp fall in the June quarter, but at 0.3%, quarterly growth is modest at best. The level of consumption is at the same place it was a year ago, despite strong population growth over the period.

Business investment stalled in the September quarter after strong growth through the preceding three quarters. Annual growth in business investment is still solid at 3.9%yr but if the latest reading is a sign of things to come rather than a temporary blip, it is an ominous outlook for investment.

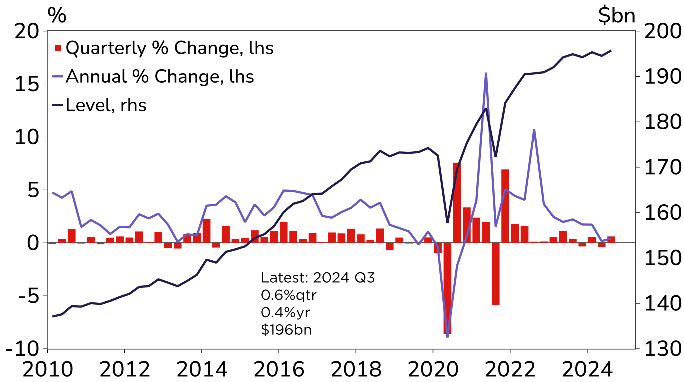
Dwelling investment rose 1.0% in a positive sign for new housing supply. But in the context of previous falls, activity in the sector remains deeply depressed and a long way off what is needed to deliver the state's housing needs. Slowing momentum in dwelling price growth and weak approvals provide little optimism for a fast reversal of fortunes.

The Mid-Year Budget update from NSW Treasury showed a slight improvement in the bottom-line over the three years to 2027-28 driven by revenue upgrades, which more than offset higher expenses. Cumulative deficits over this period are expected to be $5.3bn, down from $6.4bn in the Budget.

Despite a strong 1.3% lift in public demand in the September quarter, annual growth in public demand continued to slow, easing to just 0.5%yr. Fiscal consolidation will remain a focus for NSW limiting the scope for public demand to support growth. However, already committed spending on infrastructure in the order of $118bn over the next four years will lean against the broader slowdown in public demand.

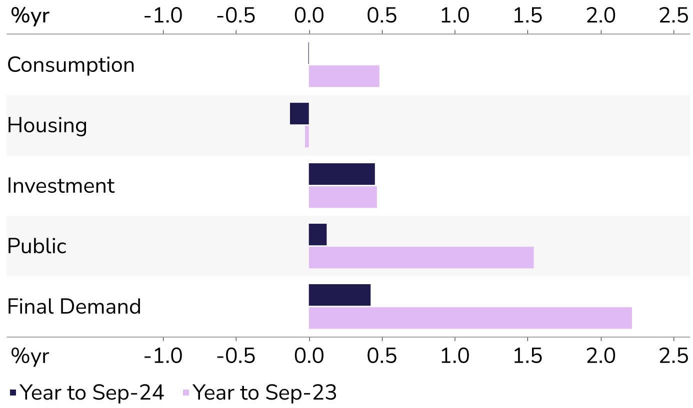
## NSW State Final Demand

Chain Volume Measures



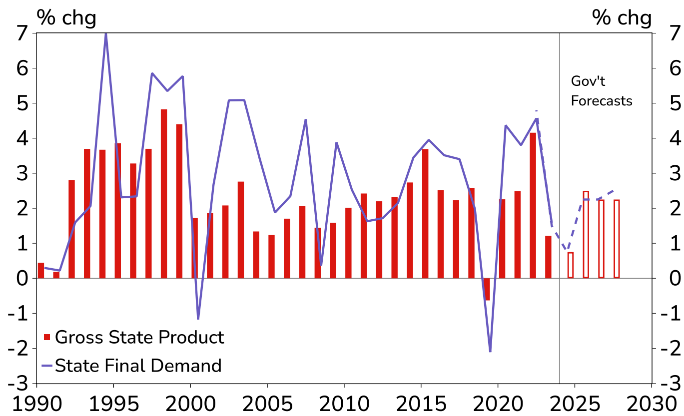

Source: ABS, Macrobond, Westpac Economics

## NSW: contributions to state final demand




Source: ABS, Macrobond, Westpac Economics

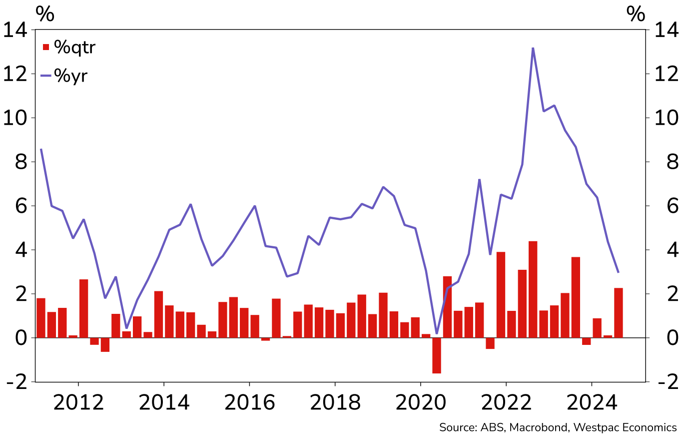
## NSW Gross State Product & Final Demand




Source: ABS, New South Wales Treasury, Macrobond, Westpac Economics

# ... and it's unclear where the spark will come from

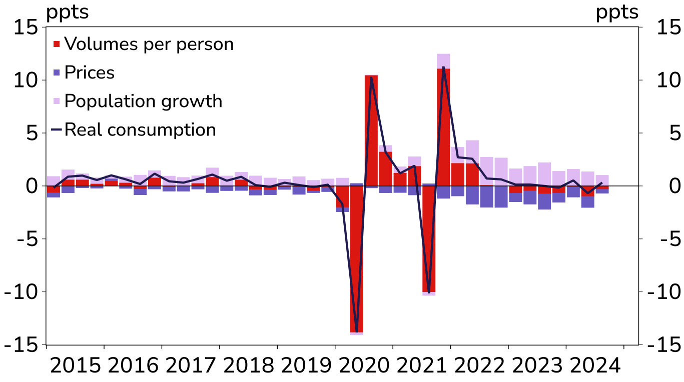
## NSW Compensation of Employees




Source: ABS, Macrobond, Westpac Economics

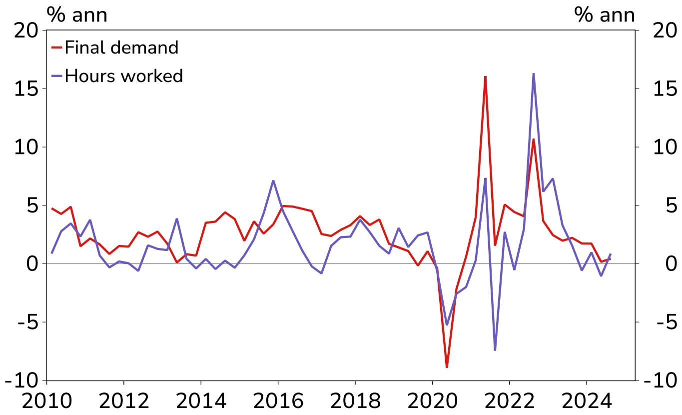
## NSW Household Consumption

Contribution to quarterly % change



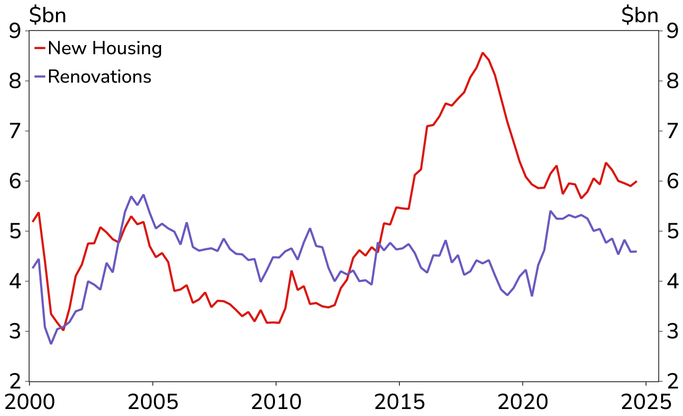

Source: ABS, Macrobond, Westpac Economics

## NSW State Final Demand vs Hours Worked




Source: ABS, Macrobond, Westpac Economics

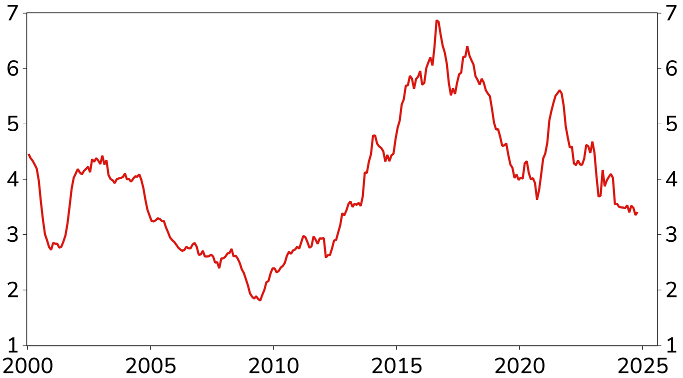
## NSW New Housing vs Renovations




Source: ABS, Macrobond, Westpac Economics

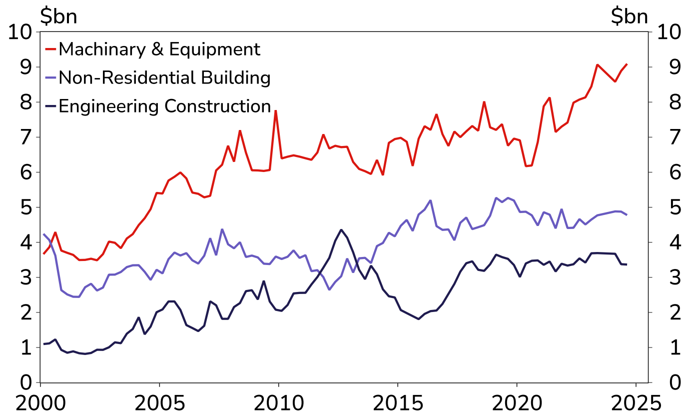
## NSW private sector dwelling approvals

Six-month moving average, thousands




Source: ABS, Macrobond, Westpac Economics

## NSW New Business Investment




Source: ABS, Macrobond, Westpac Economics

# Not as bad as feared ...

**Matthew Hassan**
Head of Australian Macro-Forecasting

**The Victorian state economy remains softer than peers although latest updates have been a little more positive. ABS estimates suggest state GSP growth has not lagged by as much as feared over the last two years, with the state's labour market also looking firmer through the second half of 2024. Looking forward, Victoria appears more susceptible to a 'shaky handover' from public to private demand drivers with public investment set to decline materially in coming years and consumer demand facing into slightly stronger headwinds from slowing population growth and a lacklustre housing market.**

Victoria recorded the weakest result across the states in Q3, state final demand rising just 0.4%qtr, annual growth slowing to 1.4%yr. That said, annual growth in demand is only marginally softer than the 1.7%yr growth nationally. More surprising, the latest annual state accounts show GSP growth – the state analogue of GDP that adjusts demand to allow for net international and interstate trade flows – tracking at 1.5% for the 2023-24 year, with the previous year's 2.6%yr gain also marked up to a robust 3.4%yr gain. Both years are now closely in line with the performance seen nationally. That is a little at odds with other indicators – the more pronounced weakness across household incomes in particular – but reflects the strong resurgence in service exports, education in particular.

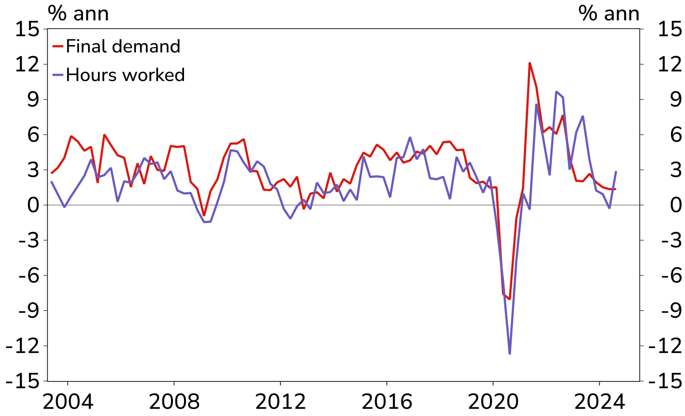
The softer signals around current momentum largely stem from more subdued growth in public demand compared to the strong gains being seen nationally (up 2.8%yr vs 4.7%yr). This gap looks set to continue near term and widen materially in years to come with state government projections showing public infrastructure activity is expected to decline 2%yr in 2024-15 and then by 12%yr over the following three years as the current round of major projects roll off.

Private demand is a bit mixed. Consumer spending has been weaker, holding flat over the year to Q3 and contracting by significantly more than other states in per capita terms, reflecting more intense pressures on household disposable incomes. The state's soft housing markets have likely weighed on demand as well, dwelling prices drifting lower over 2024.

Against this, both dwelling construction and business investment have been a more resilient than in other states. Notably, backlogged work looks to have basically cleared for the state's construction sector.

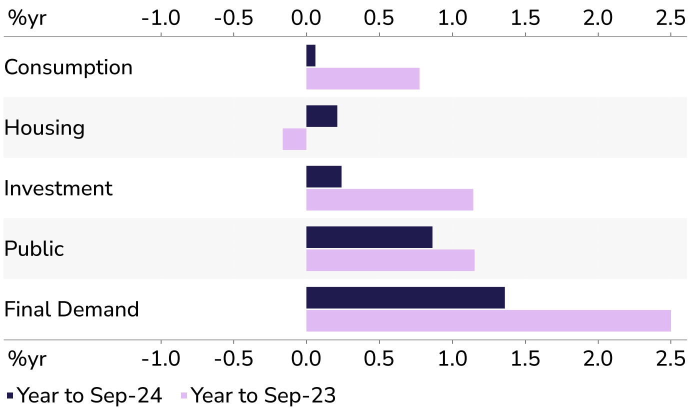
The state government's mid-year update has GSP growth lifting back to 2.5% in 2024-25, supported by an improvement in real household disposable incomes. That lift may be shakier with population growth and education exports moderating, and public demand slowing, particularly if there is a more pronounced drop-off in employment growth.

## VIC State Final Demand vs Hours Worked



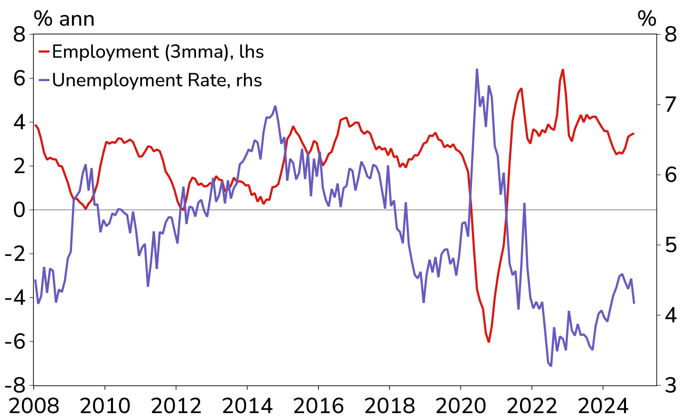

Source: ABS, Macrobond, Westpac Economics

## Vic: contributions to state final demand




Source: ABS, Macrobond, Westpac Economics

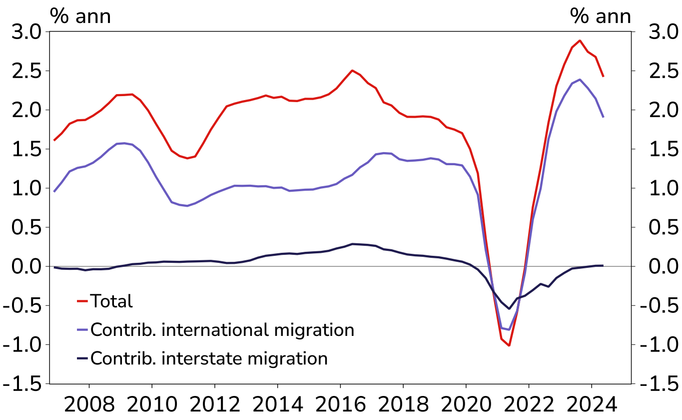
## Victoria: jobs growth and unemployment




Source: ABS, Macrobond, Westpac Economics

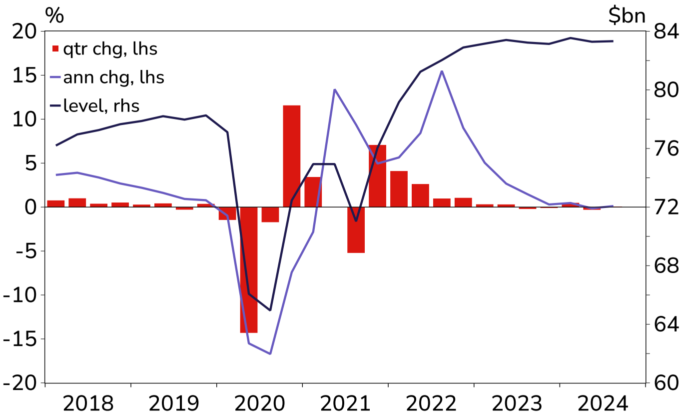
# ... but still soft and with a shaky transition ahead

## Vic's population growth: surge starting to slow



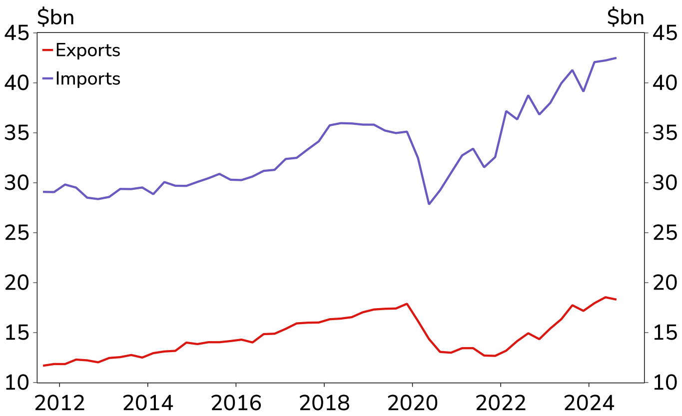

Source: ABS, Macrobond, Westpac Economics

## VIC Household Consumption



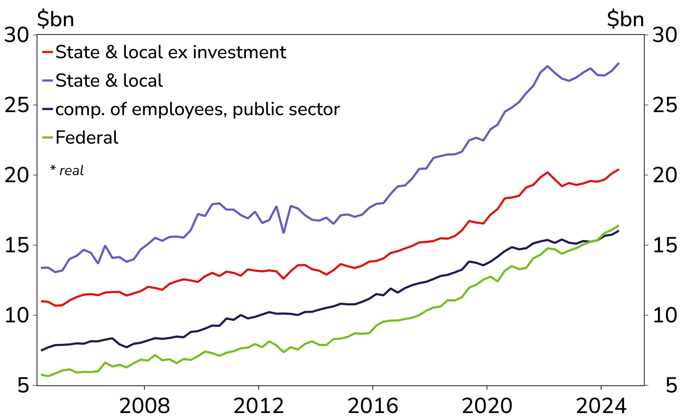

Source: ABS, Macrobond, Westpac Economics

## Victoria's international trade



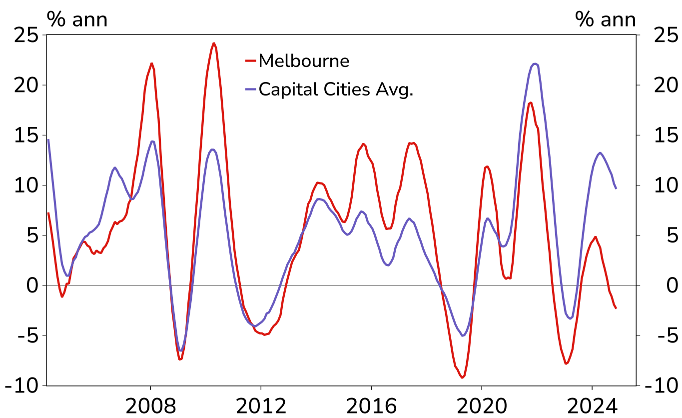

Source: ABS, Macrobond, Westpac Economics

## Government demand & wage spend



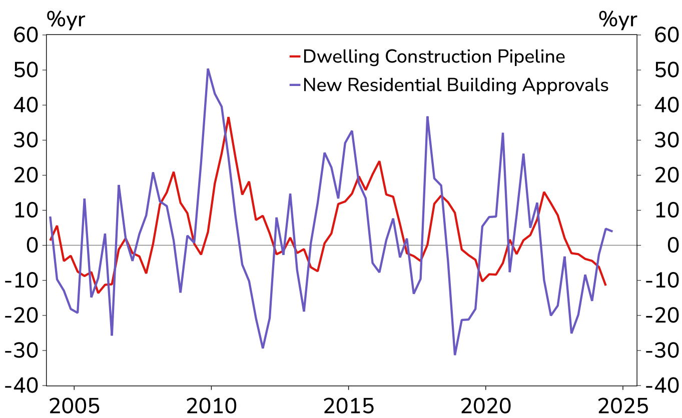

Source: ABS, Macrobond, Westpac Economics

## House prices are falling in Melbourne




Source: CoreLogic Australia, Macrobond, Westpac Economics

## Vic's residential construction pipeline




Source: ABS, Macrobond, Westpac Economics

# The sunshine state brightens …

**Neha Sharma**
Economist

**Queensland stepped into the spotlight, overtaking Western Australia as Australia's fastest growing state in the year to Q3 2024. State final demand was up 0.7%qtr (3.0%yr) in Q3, up from a downwardly revised 0.2%qtr in Q2.**

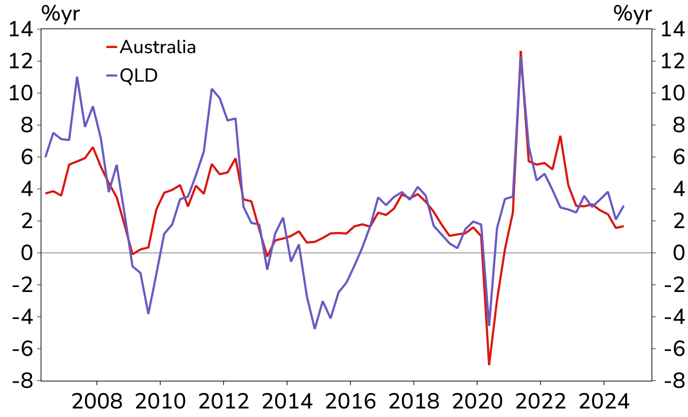
The state's growth in Q3 was heavily skewed by cost-of-living relief measures, including the energy rebates which drove a staggering –75% drop in household electricity spending. This left household consumption –0.8%qtr lower (+1.1%yr), the weakest result in Australia. Excluding the electricity impact, household consumption would have risen 0.3%qtr and 2.0%yr. However, these results remain below-trend, indicating the rebates have had a limited impact on spurring consumption in other areas. That is also despite additional support from relatively robust wages growth (1.6%qtr, 3.9%yr in Q3). Overall household consumption shaved –0.4ppts off state final demand in the quarter but added 0.6ppts over the year.

New business investment slipped again in Q3, down –1.5%qtr. A sharp –3.5%qtr decline in non-residential building investment dragged the headline figure lower, a decline in new machinery and equipment (–2.0%qtr) adding to the weakness. Bright spots were limited, with renovations (+0.8%qtr) and infrastructure investment (+0.6%qtr) providing modest lifts. New dwelling construction fell –0.4% over the quarter and year owing to ongoing capacity constraints and bad weather. There is no supply-side relief in sight for the state's housing affordability problems as Qld continues to grapple with above-average housing price growth (+11.5%yr to November). Population-driven demand remains strong as well, state population growth tracking at +2.3%yr to Q2 and Queensland still the top destination for interstate movers (+30k/yr to Q2).

Weakness in both household consumption and business investment saw new private demand fall –0.8%qtr in Q3 – the largest decline since COVID-19 and the largest of any state in the quarter – detracting –0.6ppts off the quarterly growth figure. In contrast, new public demand surged in Q3 to be 4.4%qtr higher (+7.1%yr), the second strongest result behind WA, contributing 1.2ppts to the quarterly growth rate (+2.0ppts to yearly). The increase in spending was driven by a 2.6%qtr (+7.0%yr) lift in consumption, as the Qld government rolled out additional cost-of-living relief measures, and a 12.8%qtr (+7.2%yr) jump in new investments as work on renewables projects continued.

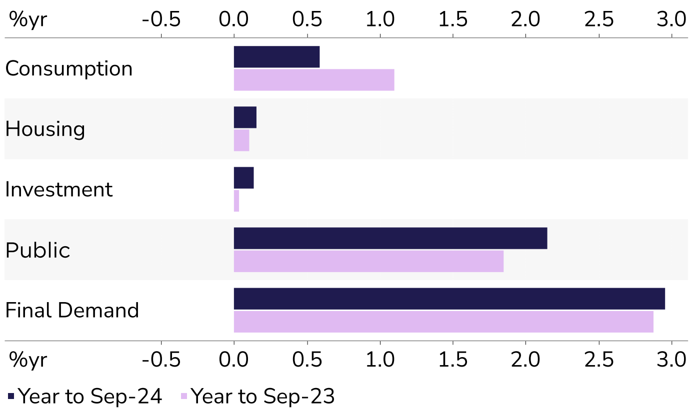
Qld government debt, alongside its AA+ credit rating, is under pressure as costs blow out on key infrastructure projects, while additional spending is anticipated ahead of the 2032 Brisbane Olympics. Qld's mid-year budget update has been delayed until the second half of January.

## State final demand: Qld vs Australia



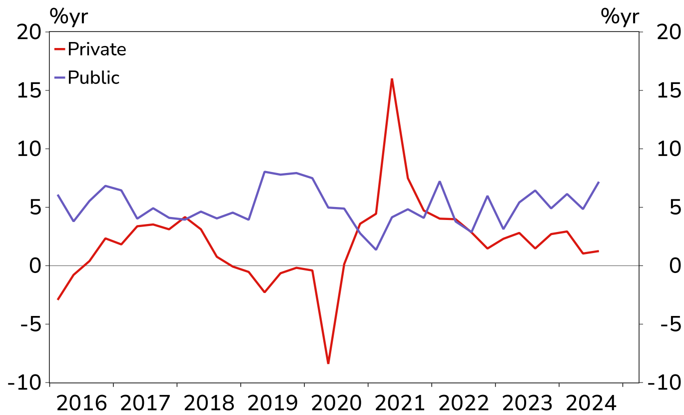

Source: ABS, Macrobond, Westpac Economics

## Qld: contributions to state final demand




Source: ABS, Macrobond, Westpac Economics

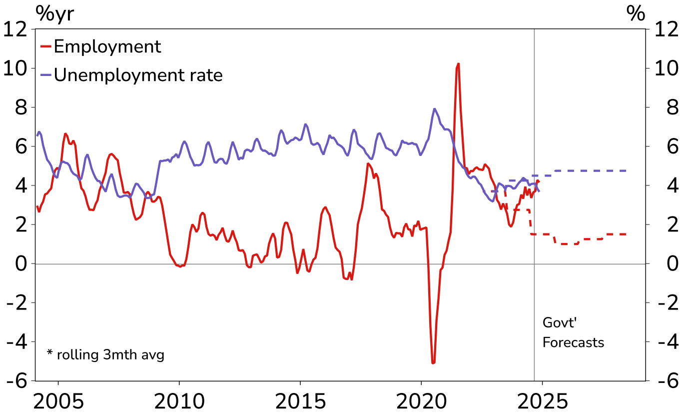
## Public demand continues outgrow private




Source: ABS, Macrobond, Westpac Economics

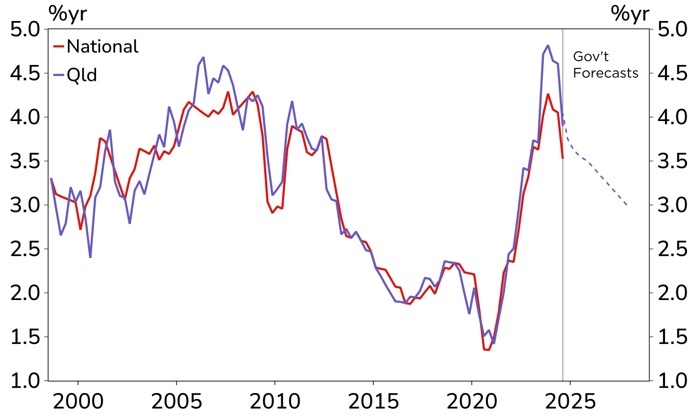
# ... powered by public spending

## Labour market strength exceeds expectations



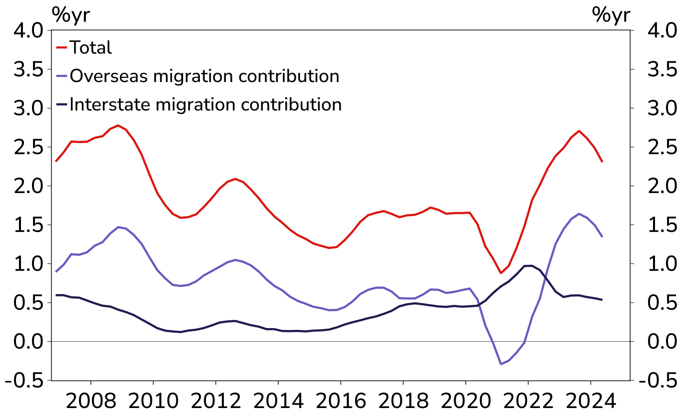

Source: ABS, Government of Queensland, Macrobond, Westpac Economics

## Wages growth above national average



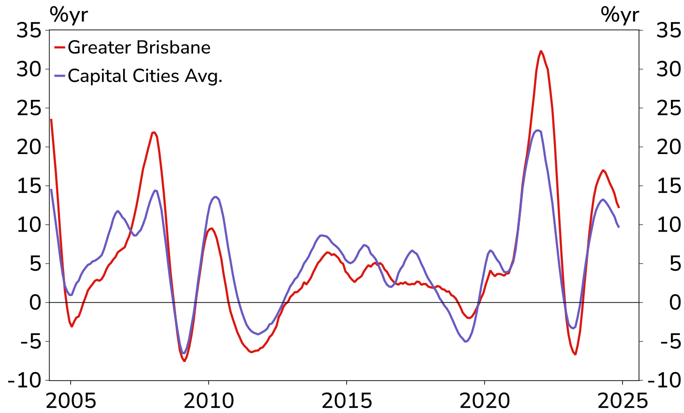

Source: ABS, Government of Queensland, Macrobond, Westpac Economics

## Interstate migration resilient



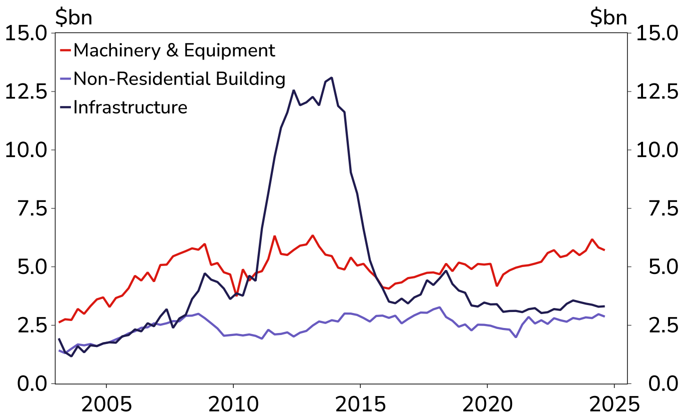

Source: ABS, Macrobond, Westpac Economics

## Brisbane's housing price growth slowing



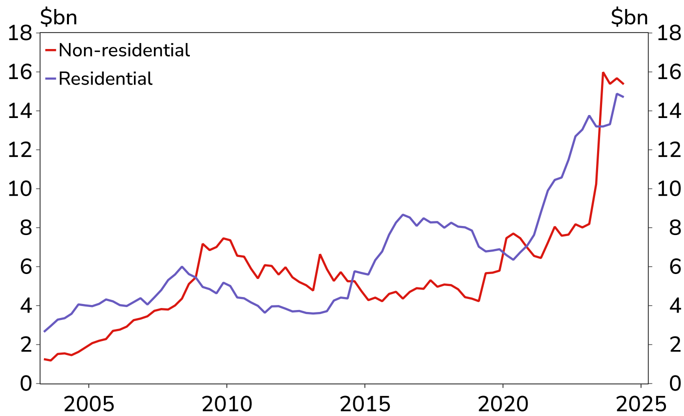

Source: CoreLogic Australia, Macrobond, Westpac Economics

## Business investment slowing




Source: ABS, Macrobond, Westpac Economics

## Construction pipeline remains solid




Source: ABS, Macrobond, Westpac Economics

# Sputtering mining production …

**Matthew Hassan**
Head of Australian Macro-Forecasting

**On the face of it, WA's economic figures present something of a puzzle. Demand has been rising strongly across the board but production has underperformed badly over the last year. As is often the case, conditions in the state's mining sector go a long way towards explaining the situation. The sector has struggled output-wise in recent years but has remained lucrative thanks to buoyant prices, helping to sustain strong growth in state demand. While the momentum to demand still looks assured, prospects for mining are less-so with commodity prices also now softening and expected to move lower. How this resolves for growth is unclear although state final demand looks likely to continue seeing robust rises near term.**

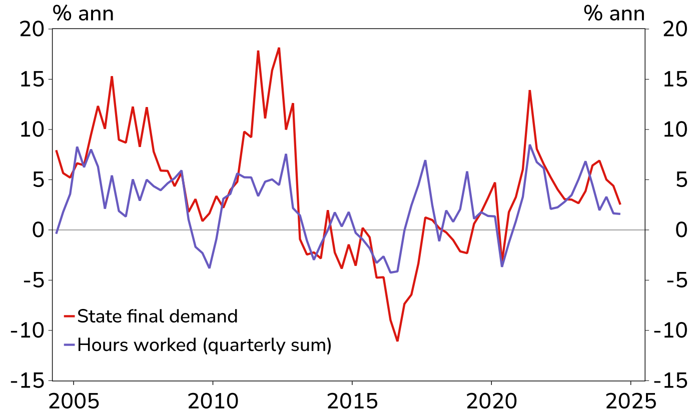
Somewhat surprisingly, the annual state accounts released in November show Western Australia's GSP rising just 0.5% in 2023-24, tracking well behind the slow 1.4% pace nationally and the weakest result across all states and territories. Even on a five year basis, growth in WA has been on par with the national performance despite the state having a relatively smooth run through COVID. It is also despite a sustained period of much stronger demand. State final demand was soft-ish in Q3 (up 0.7%qtr, 2.5%yr) but has been firing on all cylinders over the previous four years, averaging 5.3%yr, nearly double the pace nationally. Adding to this (and casing some doubt on the veracity of the GSP figures), total hours worked have also grown strongly, averaging gains of 4.5%yr through this period, compared to 2.9%yr nationally.

Mining sits at the centre of any account of the WA economy, making up 45% of the state GSP. The sector has had a poor run production-wise, output declining 1.7% over the last four years and by 2.1%yr in 2023-24 alone. That decline has been a non-issue due to high prices – the *value* of mining output has surged by 50% over that same four year period, meaning state income and demand has continued to rise strongly.

That picture may be starting to shift, with commodity prices softening and expected to slide lower in 2025. Notably, mining investment has recorded a big pull-back over the past year, falling –10.3%yr nationally and the clear driver behind a 5.1% decline in total new business investment in WA over the year to Q3 (compared to a 1.5%yr gain nationally). That does not bode well for future growth in production.

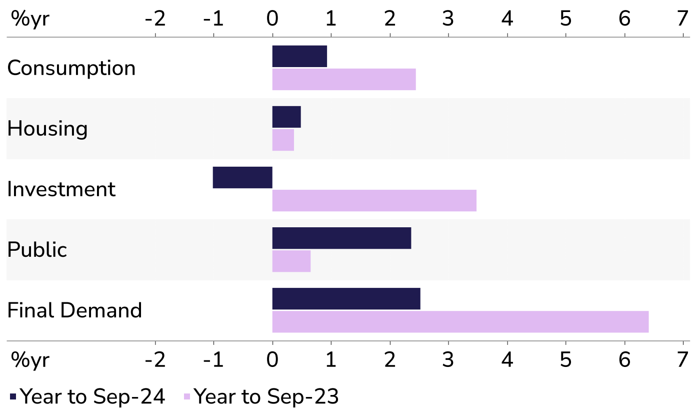
In nearly every other respect, WA is a beacon of strength. Household consumptions has moderated but been much more resilient than in other states (1.9%yr). New public demand is also tracking well ahead of the gains seen nationally (9.0%yr). Dwelling investment and house prices are both rising strongly as well. Keeping pace with strong demand remains challenging with the state's unemployment rate at just 3.6%.

## WA State Final Demand vs Hours Worked



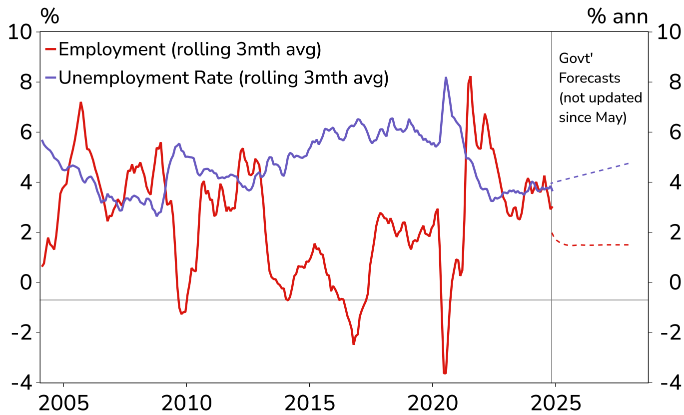

Source: ABS, Macrobond, Westpac Economics

## WA: contributions to state final demand




Source: ABS, Macrobond, Westpac Economics

## WA Employment and Unemployment

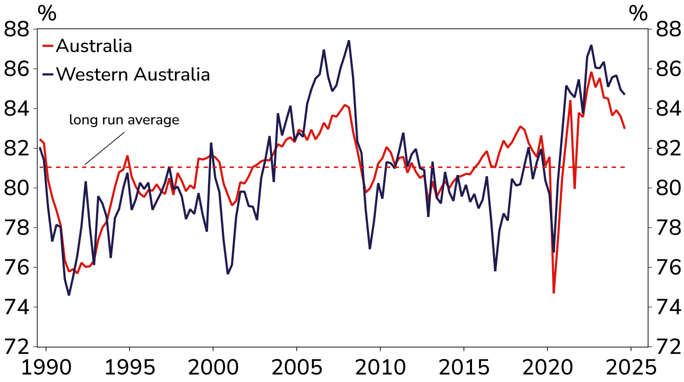



Source: ABS, Government of Western Australia, Macrobond, Westpac Economics

# ... but conditions still buoyant in every other respect

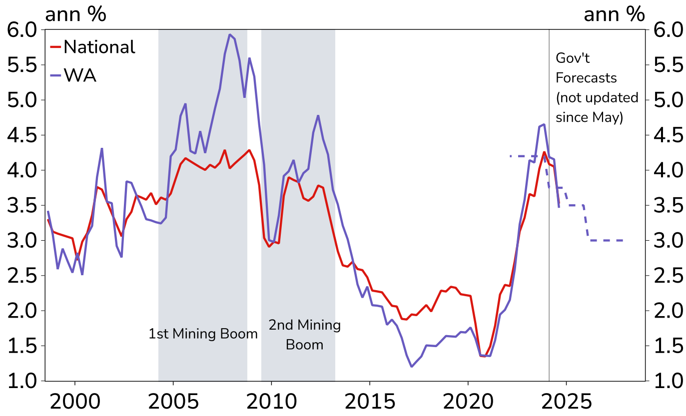
## Capacity utilisation

Seasonally adjusted by Westpac



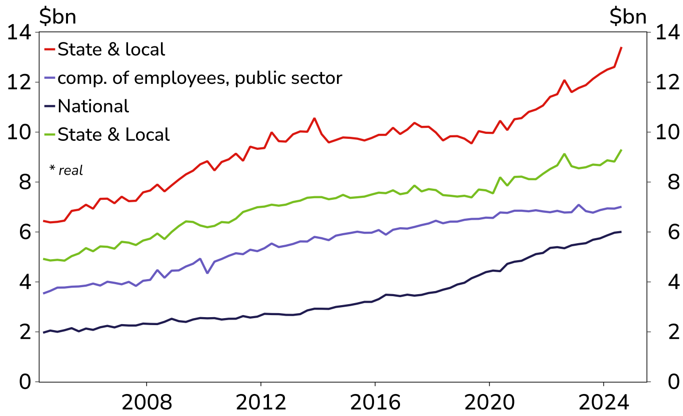

Source: NAB, Macrobond, Westpac Economics

## Wage Price Index



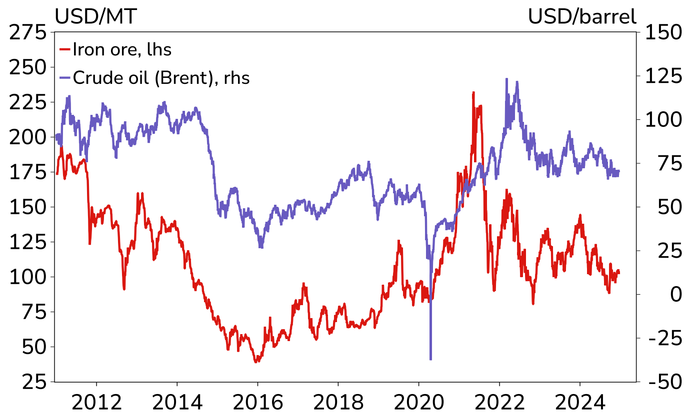

Source: ABS, Government of Western Australia, Macrobond, Westpac Economics

## Government demand & wage spend



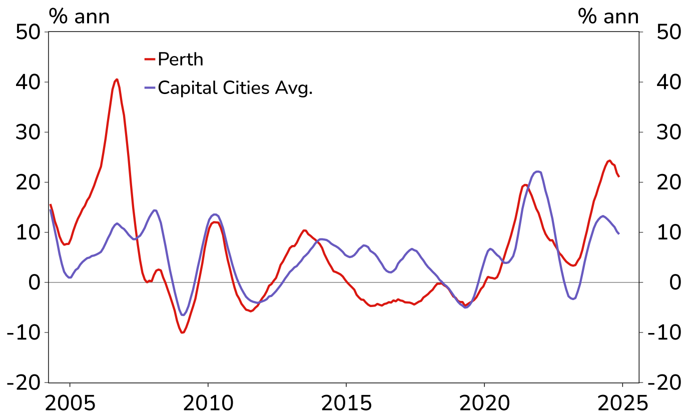

Source: ABS, Macrobond, Westpac Economics

## Commodity prices



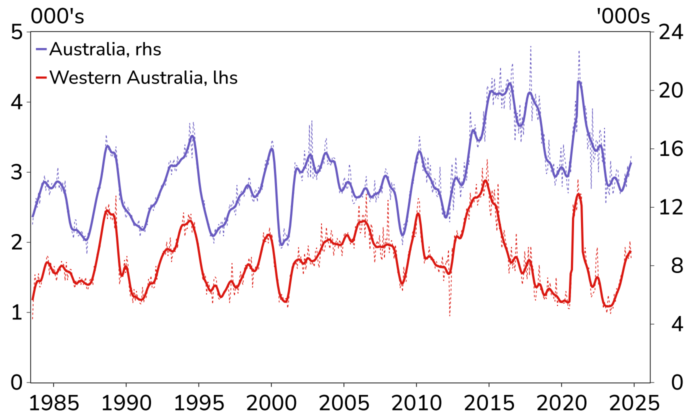

Source: CME Group, Macrobond, Westpac Economics

## Perth outperforms national average




Source: CoreLogic Australia, Macrobond, Westpac Economics

## WA dwelling approvals surge




Source: ABS, Macrobond, Westpac Economics

# Slowly moving past its nadir …

**Ryan Wells**
Economist

**South Australia, like many other states, is characterised by a 'two-tone' economy, where a robust public sector is working to offset an anaemic private sector. The precise composition underlying this dynamic is unique in South Australia: on the one hand, South Australian households have evidently faced more acute shocks around incomes and spending; but more positively, nascent momentum in investment across the economy is boding well for the medium-term recovery, as current pressures facing the state continue to moderate.**

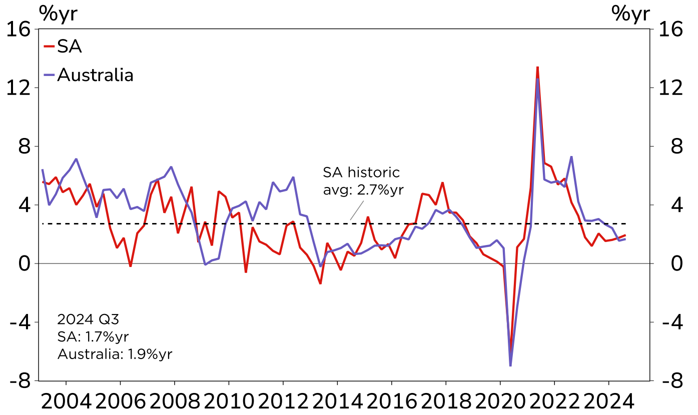
South Australia continues to move steadily past its nadir, state final demand rising 0.8% (1.9%yr) in Q3. Compared to the national economy, South Australian private demand is marginally softer (0.5%yr vs. 0.7%yr), while public demand is notably firmer (6.0%yr vs. 4.1%yr).

Closer inspection of private demand reveals a clear lack of pulse in the household sector. Wages growth peaked lower than the national average and is now recording the equal-weakest pace alongside Victoria (3.2%yr). This may partly reflect the dismal turn in labour market conditions in the state, employment growth plummeting to negative (–0.4%yr). At the same time, headline inflation in Adelaide has tracked a higher path than the national average and is currently second-highest across the capitals. South Australian households have clearly faced acute and prolonged real income pressures; it is therefore not unsurprising to see household consumption track the weakest pace across the mainland states (–0.3%yr).

More positively though, South Australia is undergoing a rapid expansion of its housing stock, as evinced by the stellar pace of new dwelling investment at a leading pace of 6.9%yr, significantly the rest of the nation collectively (0.5%yr). This is consistent with easing supply disruptions and a pickup in construction activity on existing projects, which in time, should drive an upturn in new dwelling completions. This bodes relatively well for the state's affordability-constrained housing market into the medium-term (see here for more detail).

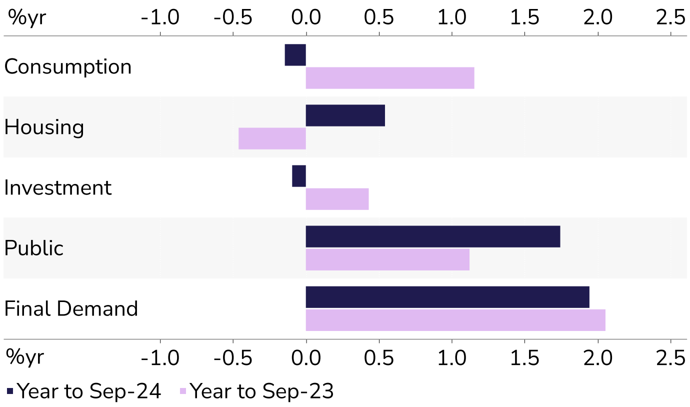
Simultaneously, new business investment continues to move past last year's weakness at pace, up 10% year-to-date and 5.6%yr on a six-month annualised basis (vs. near-flat for Aus). This is complemented an unbelievably rapid public investment drive, up 17%yr and 31% on a six-month annualised basis. Announcements of further investment into critical services and infrastructure in the South Australian mid-year budget review suggests this support is likely to remain a key feature going forward. While this should put a floor under activity for now, it is equally crucial that real income pressures continue to abate and household spending stages a recovery herein; otherwise, the eventual 'handover' of the growth baton to the private sector might be shakier than intended.

## State final demand: SA vs. Australia




Source: ABS, Macrobond, Westpac Economics

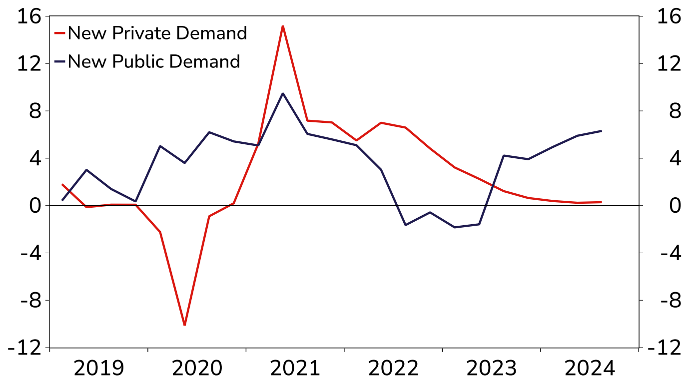
## SA: contributions to state final demand




Source: ABS, Macrobond, Westpac Economics

## Public sector propping up the state economy

Adjusted for net asset transfers, year-ended growth

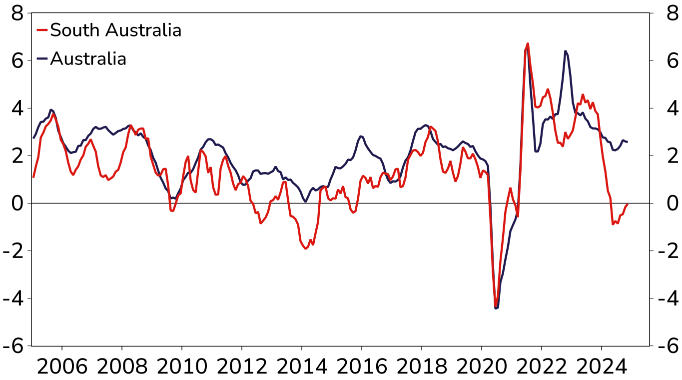



Source: ABS, Macrobond, Westpac Economics

# … as robust investment offsets household spending

## South Australia's labour market tipping over

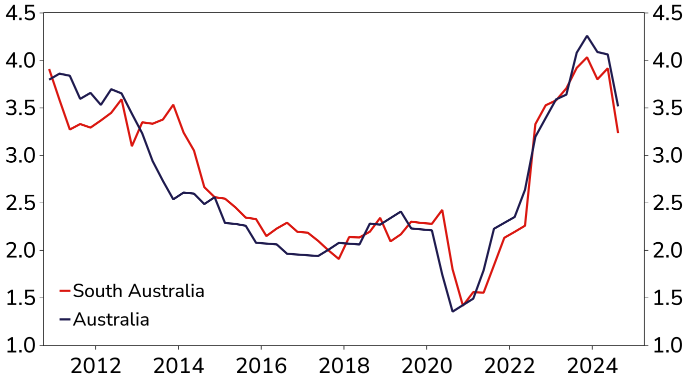
Employment, smoothed three-month average, year-ended growth




Source: ABS, Macrobond, Westpac Economics

## Wages growth peaked lower, easing faster

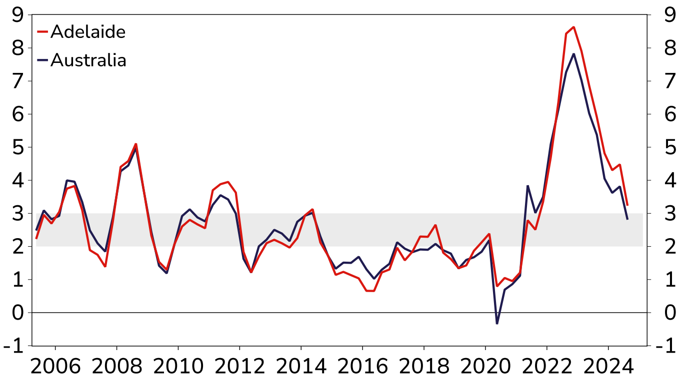
Wage Price Index, year-ended growth




Source: ABS, Macrobond, Westpac Economics

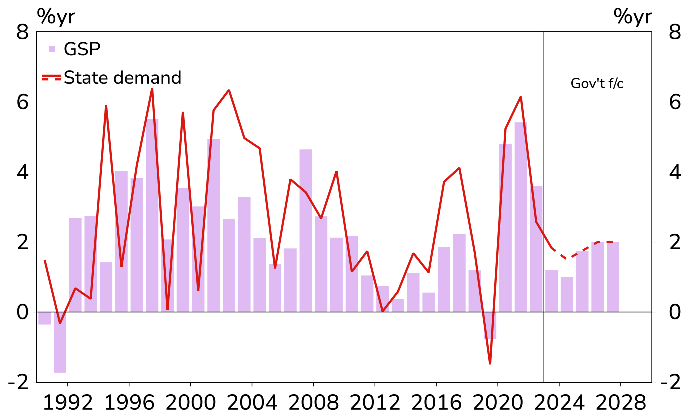
## Adelaidians have been squeezed by inflation

Consumer Price Index, year-ended growth rate




Source: ABS, Macrobond, Westpac Economics

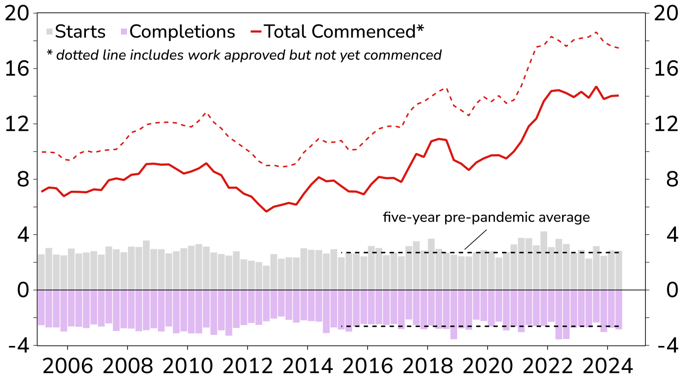
## SA economic performance and outlook




Source: ABS, Macrobond, Westpac Economics

## Completions to rise as supply disruptions ease

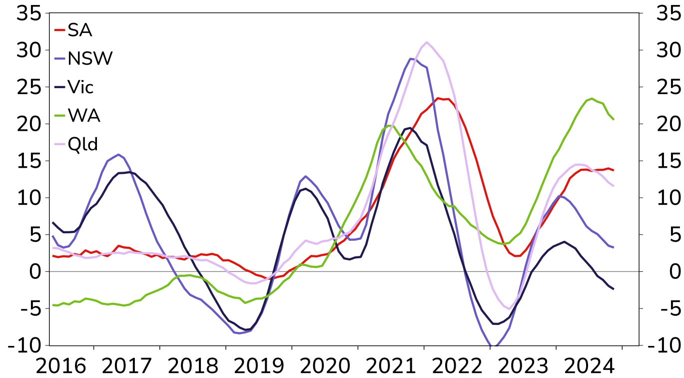
Dwellings Under Construction (000s)




Source: ABS, Macrobond, Westpac Economics

## SA housing market outperforms major states

House prices, year-ended growth




Source: CoreLogic Australia, Macrobond, Westpac Economics

# Low, slow, and struggling to grow …

**Jameson Coombs**
Economist

**The Tasmanian economy expanded just 0.4% in the September quarter and is only 0.8% larger than it was a year ago. Like most states, there is a clear dichotomy between the private and public sides of the economy. However, in Tasmania the difference is particularly stark.**

Private demand has contracted for four consecutive quarters leaving it 1.3% lower than a year ago. Household consumption stands out as the centre of the weakness, although virtually every component of private demand is contracting in annual terms. Household consumption fell 0.7% in the September quarter, the fifth quarterly decline in the past six quarters. Consumption is down 1.2% in annual terms, the weakest performance of any state by a large margin (South Australia the next weakest at –0.3%).

One factor likely contributing to the weak consumer is the housing market. After steep falls through 2023, dwelling prices have at least stabilised, but they are only drifting sideways and any upside promise is looking limited. This of course contrasts the broader experience where dwelling prices have been rising across much of the country.

Alongside weak price growth, dwelling investment is deeply depressed. This is another element weighing heavily on private demand. Encouragingly there was a 1.0% rise in dwelling investment in the September quarter but this was off a very low level with housing activity still down 9.5% over the year.

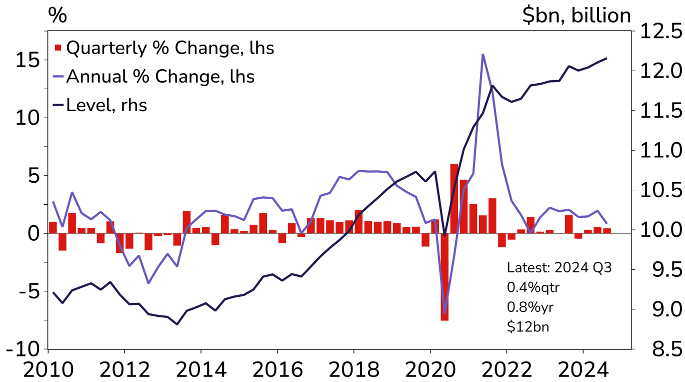
Business investment is the one bright spot for private demand, though the numbers are far from flattering. Business investment is 2.1% higher than a year ago and rose 1.6% in the September quarter. However, unless we see a material turn in the broader private sector, it is hard to see investment momentum being sustained.

Meanwhile, public demand continues to run along at pace rising 1.6% in the September quarter to be 5.3% higher in annual terms. While volatile quarter-to-quarter, both public consumption and investment are contributing strongly to annual growth. The Tasmanian government's recent state budget suggests government consumption growth is likely to taper off; however, public investment should remain firm given the large pipeline of existing projects. Currently, the public engineering construction pipeline is sitting at around 16.4% of nominal state final demand, the highest of any state and well above the pre-pandemic average of around 10%.

Weak private demand is showing up in softer employment growth in the island state. However, this is not translating into a lift in the unemployment rate as population growth is slow and labour market participation is down sharply, currently at 60.2% compared to a peak of 63.4% early in 2023. This is the lowest level of participation across the country.

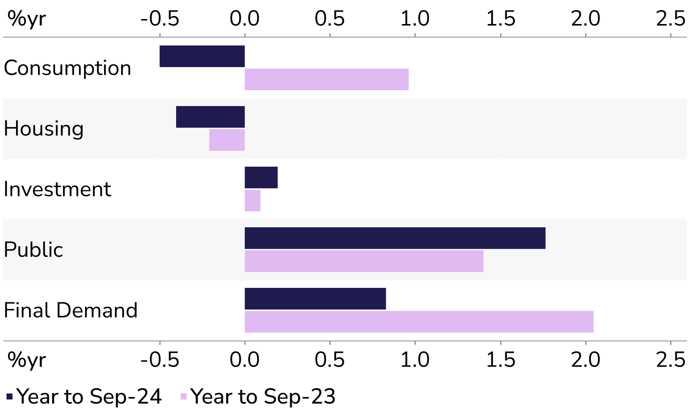
## TAS State Final Demand

Chain Volume Measures



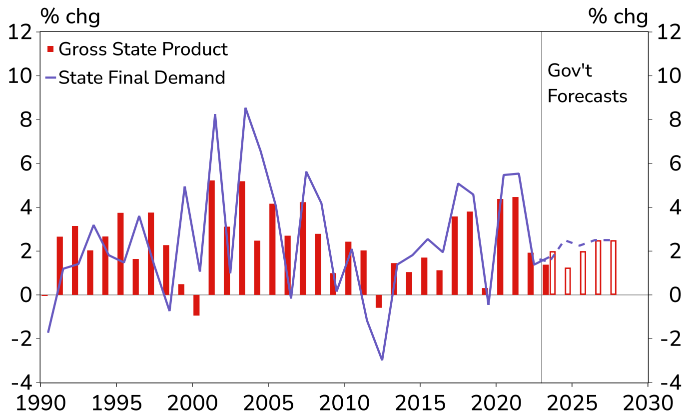

Source: ABS, Macrobond, Westpac Economics

## Tas: contributions to state final demand




Source: ABS, Macrobond, Westpac Economics

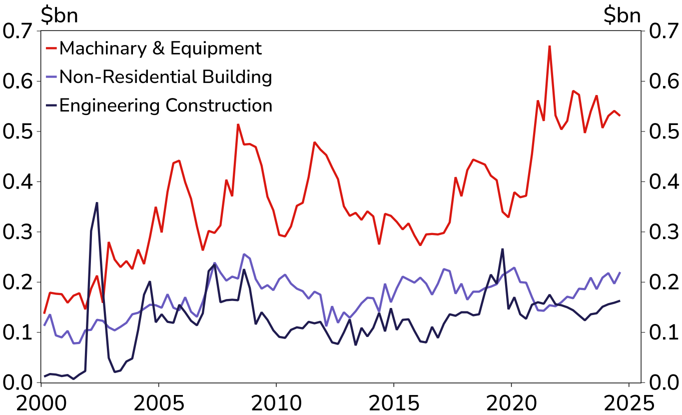
## TAS Gross State Product & Final Demand




Source: ABS, Government of Tasmania, Macrobond, Westpac Economics

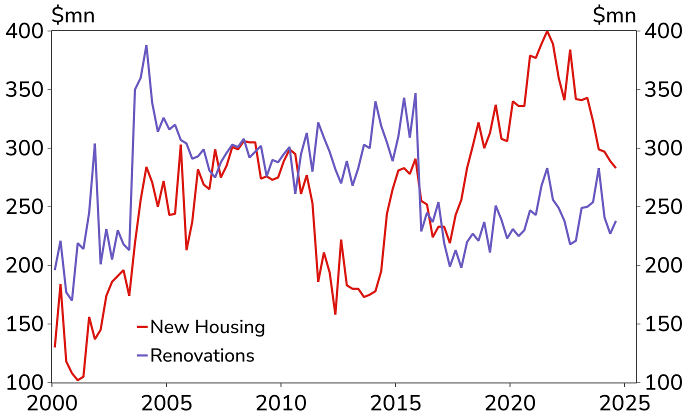
# … but governments still splashing the dough

## TAS New Business Investment



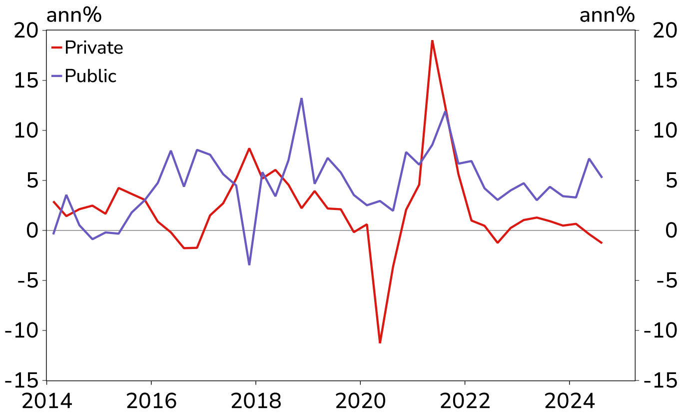

Source: ABS, Macrobond, Westpac Economics

## TAS New housing vs renovations




Source: ABS, Macrobond, Westpac Economics

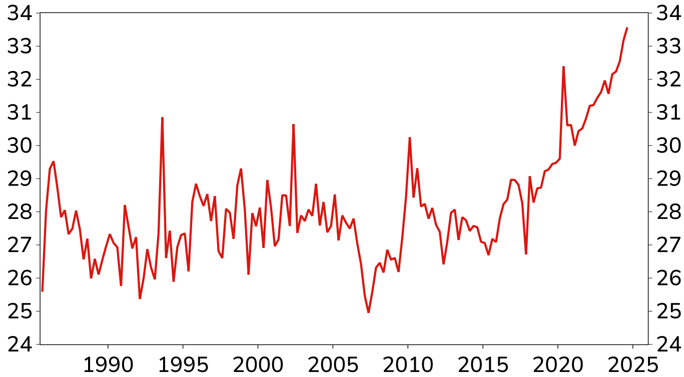
## TAS Public vs Private Demand




Source: ABS, Macrobond, Westpac Economics

## TAS Public demand

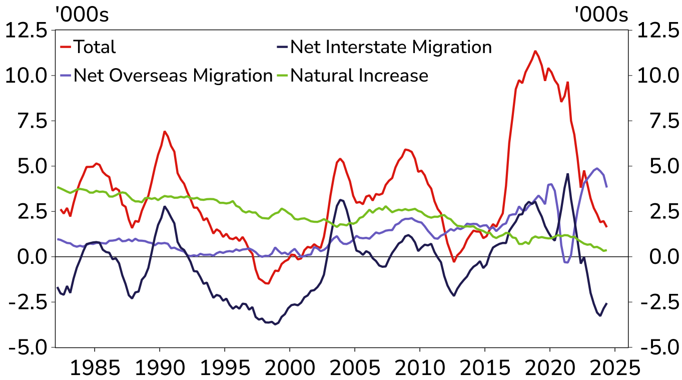
% share of state final demand




Source: ABS, Macrobond, Westpac Economics

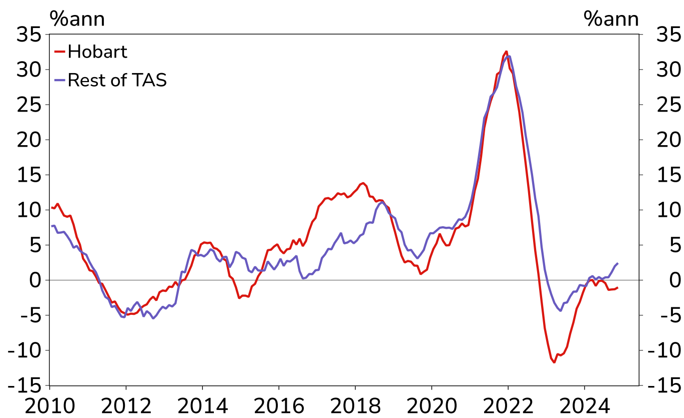
## Tasmania Population

Rolling annual change




Source: ABS, Macrobond, Westpac Economics

## TAS Dwelling Prices




Source: CoreLogic Australia, Macrobond, Westpac Economics

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