Friday, 12 June 2020

All State Summary

NSW

The bushfires and COVID-19 has hit economic activity in NSW towards the beginning of 2020. State final demand contracted 1.5% in the March quarter, the largest decline of all States and territories. It was the largest quarterly decline since the December quarter of 1991.

While COVID-19 and stalling of international tourism has impacted all States, the loss of tourism has dented activity greatly in NSW. Moreover, the bushfires also affected tourism-related businesses as well as construction and agriculture sectors.

A further sharp decline is expected over the June quarter of the year, but a recovery is expected to take hold from the middle of the year as COVID-29 related restrictions are lifted.

NSW saw a record number of jobs lost in April when restrictions were in full force. The State had a loss of 221k jobs in the month. The unemployment rate lifted to 6.0%, and we expect it to climb higher.

An encouraging sign for the outlook, however, is the successful containment of the virus and gradual reopening of businesses. Consumer confidence in the State has rebounded to be higher than all other States, although it remains below pre-crisis levels and firmly in pessimistic territory.

Earlier this month, the NSW government confirmed construction will start this year on the new Sydney metro rail link to Western Sydney airport with a further $3.5 billion to be injected into the project.

A range of stimulus measures from the NSW Government have been raised in media reports including fast tracking infrastructure projects and support for the construction industry through the housing sector. Some of these projects confirmed for fast-tracking include the Snowy Hydro 2.0 and the Western Sydney airport rail. There is also discussion of reforming stamp duties as part of an economic plan to assist in recovery.

Victoria

Much like other States, economic activity has been hit significantly by impact of COVID-19 and the associated restrictions. In the March quarter, activity in the private sector contracted, although this was offset by growth in government spending. State final demand in Victoria contracted by just 0.1% in the quarter. Household and business spending were weighed down heavily by lockdown measures and bushfires. However, investment on infrastructure and spending on bushfire recovery boosted government spending.

A bigger contraction is expected for the second quarter, as tighter COVID-19-related restrictions took effect. However, containment of the virus and the lifting of restrictions suggest that a recovery will take hold over the second half of this year. A strong rebound in consumer confidence in Victoria provides greater assurance of recovery.

Nonetheless, one of Victoria's major trump cards has come into question. Strong population growth has been a major driver for the State's relatively strong economic performance, but the lingering impact of COVID-19 could restrain immigration flows for some time. This slowdown in immigration is hurting housing demand in Victoria. Melbourne recorded the sharpest fall in dwelling prices in May of 0.9%; it was the largest decline of any capital city excluding Darwin. Further softness in dwelling prices lies ahead.

In April, there was a loss of 127.1k employed in Victoria, the third highest of all States after NSW and

Queensland. The unemployment rate in Victoria lifted to 6.0% in April, the highest since December 2017.

The State government is looking to provide further stimulus to support the economy in recovery. One of the areas the State government is looking to prop up is the construction sector through a $2.7 billion Building Works package and includes school upgrades, public housing upgrades and road maintenance.

Queensland

The hit to Queensland's private sector (household consumption and private investment) has been less pronounced than in NSW and Victoria over the first quarter of the year. Nonetheless, State final demand contracted 0.3% in the March quarter in Queensland.

Containment of COVID-19 and a lifting of restrictions point to a better second half this year. However, key export sectors such as LNG and coking coal could face headwinds while there remains uncertainty for the global economy and possible tensions with China.

Tourism is also likely to be negatively impacted some time while border restrictions remain in place, but the State could potentially benefit from domestic tourism as Australians look closer to home for their holiday destinations. The Queensland government has indicated it will lift its borders next week.

Much like other States, government support is expected to be an important pillar for the Queensland economy. That said, the Queensland government has provided more extensive measures in the early stages of the crisis than others, including industry support.

More recently, the State government has announced increased spending on road and transport infrastructure, tourism, and spending on small business support grants.

South Australia

South Australia's State final demand contracted 1.0% in the March quarter, the largest quarterly decline since the September quarter of 2012.

Household spending was hit sharply reflecting significantly weaker spending on hotels, cafes and restaurants amid restrictions on operations and uncertainty among consumers. Business spending was also dented with reports of weaker purchases of trucks, aircrafts and other machinery.

With restrictions gradually easing and no new reported COVID-19 cases since May 26, a recovery in economic activity is likely. South Australia suppressed the virus relatively better than some other States in Australia and started lifting restrictions sooner. Indeed, the first AFL game with a physical audience since lockdown will be played this weekend, albeit the stadium will not be at full capacity.

Nonetheless, there are some headwinds for South Australia's export sector. Agriculture and wine exports are facing some uncertainty given recent tensions with China, on top of the impact from drought and bushfires earlier in the year. Weak global growth is also likely to weigh on the manufacturing industry. However, the pandemic has highlighted the risks of relying on one source for inputs, which is contributing to changes in global-supply chains and a move away from globalisation towards regionalisation or localisation; this trend could see some manufacturing come back to Australia and in South Australia – especially manufacturing for vital supplies.

Western Australia

Prior to the COVID-19 crisis, economic activity in Western Australia was struggling to gain traction after the mining investment downturn. Nonetheless, the State economy performed relatively well despite the headwinds from COVID-19. Western Australia was one of the few States where State final demand had positive growth in the March quarter, growing 0.9% in the quarter.

The resilience was largely due to stronger mining investment and public investment, while household spending dragged down overall demand.

The mining sector is facing headwinds from sharply weaker global demand. However, certain commodities such as iron ore may be more resilient than others, especially with iron ore production in Brazil facing disruption from the escalation of COVID-19. Iron ore prices have risen since early May and sit above US$100 a metric tonne (fines 62% fe). Potential for stimulus measures in China could be beneficial to demand for steel and, therefore, iron ore. Moreover, supply constraints for commodities in key producers where COVID-19 has become more widespread could help to prop up prices.

Like other States, the State government is taking measures to support the recovery. The Western Australian Government has also provided a $125 million home building stimulus package, which provides both owner-occupiers and investors building a new house for a $20,000 grant. The grant is on top of the Federal Government's $25,000 HomeBuilder grant and is not means tested. Off-the-plan stamp duty rebates were also extended to developments under construction.

Tasmania

Tasmania was also one of the few States and territories which witnessed growth in State final demand in the March quarter. While household spending declined sharply in the wake of COVID-19 restrictions growth was boosted by both private and public investment. The relatively resilient housing market in Hobart has helped to cushion the blow, helping to drive a lift in dwelling investment over the quarter.

While a recovery is in prospect with the lifting of restrictions much like the rest of the country, the medium term outlook is clouded by some of the more long-lasting impacts from COVID-19 on the world. As a major beneficiary of inbound tourism, particularly from China, over recent years, travel restrictions will likely negatively impact the State.

The Tasmanian Government is also hoping for residential construction to support the recovery by adding a $20,000 grant for all owner-occupiers for newly constructed homes or a house and land package. Additional funding is also being invested to build 1,000 social housing dwellings.

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