



# NSW Treasurer Economic Update

## February 2012

As the summer weather continues to keep us guessing, it's hard not to see this as somewhat symbolic of what we can expect from the global economy this year.

Last year presented multiple challenges for the world's economies and financial markets, and served as a stark reminder of our links to the global economy.

Natural disasters in Japan, political turmoil in the Middle East, and sovereign debt concerns in the United States and euro zone, all took their toll on global growth in 2011. But there are positive signs emerging – nervousness surrounding European banks has eased somewhat, the US recovery is gaining traction, China's seems to have avoided a hard landing, and commodity prices have recovered.

There is no doubt that 2012 will continue to pose significant economic and financial challenges for NSW. The pressures felt from the global financial crisis and associated deleveraging will likely see a period of contraction in the financial services sector and job shedding. Unfortunately at this time, NSW is more highly exposed to this sector than other states. And industries vulnerable to the relatively high exchange rate will also struggle if they cannot adapt.

Even though it is clear that there is heightened uncertainty globally and the domestic economy is facing its own headwinds, I am optimistic the action being taken will enable the NSW economy to weather the storm.

In fact, as I look at some of the key economic indicators, it is encouraging to see that activity in NSW finished 2011 in better shape than it began the year.

Retail spending has improved from mid-2011 and consumer and business confidence have also rebounded. Although more work needs to be done, it is pleasing that NSW created more jobs than any other state except Queensland in the second half of 2011. With our Jobs Action Plan in place, businesses in NSW now have an incentive to grow.

The two official interest rate cuts from the Reserve Bank late last year (notwithstanding

the recent decisions of the major banks' to make small independent increases to their mortgage rates) will provide a welcome boost to the interest rate-sensitive sectors of the economy, such as housing and retail. I would expect to see a pick-up in housing activity as the year progresses. And the most recent data show that the rate cuts have helped stabilise house prices.

The improved trend in business confidence is good for NSW. To my mind, confidence is the key to growth. The NAB survey showed a 7 point jump in business confidence in December, while in trend terms NSW registered the second strongest business conditions of all the states except WA.

Of course, while confidence can wax and wane at any time in response to domestic influences or global events, good policy can make a difference.

The current debate surrounding the effectiveness of "expansionary austerity" fiscal policy (in the UK and Europe) is an interesting one. Only time will determine whether the strict austerity policies aimed at reducing budget deficits and boosting confidence and growth prove successful for those economies. But I think the real lesson from the sovereign debt mess is that governments must realise and accept that ultimately market forces will punish reckless fiscal management. As we have seen demonstrated through the European financial crisis, unsustainable fiscal positions take away governments' abilities to continue to provide the services they have the responsibility to deliver.

That is why the NSW Government will continue to ensure that NSW finances are fiscally responsible and consistent with maintaining the AAA rating. Taking action to return the state's finances to a sustainable position in the September Budget was the first step in that process. We will most certainly face challenges in 2012 but we are ready to act if, and when, required.

**Mike Baird**  
NSW Treasurer

NSW Economic Data Table							
NSW Economic Indicators	Unit	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Total Employment	000s	3,598.4	3,603.2	3,599.2	3,600.4	3,605.3	3,584.9
	yoy%	2.0	1.4	1.0	0.4	0.1	-0.8
Unemployment Rate	%	5.3	5.4	5.5	5.3	5.2	5.6
Participation Rate	%	63.7	63.9	63.8	63.6	63.6	63.5
Retail sales	mom%	1.4	0.8	0.4	-0.3	0.4	-0.2
	yoy%	-0.7	-0.3	0.7	2.0	1.9	0.9
Building Approvals	mom%	9.1	43.8	-33.3	-1.3	3.4	-5.1
	yoy%	-13.3	54.8	-5.0	-24.1	-11.9	-20.9
Housing Finance	mom%	3.0	1.0	2.8	2.9	4.2	
	yoy%	12.1	11.6	13.2	15.6	18.4	
NAB Business Confidence	index level	1	-11	-5	6	-1	6
NAB Business Conditions	index level	-1	-2	6	2	1	0
CPI	qoq%			0.7			-0.1
	yoy%			3.7			3.2
Labour Price Index	qoq%			1.2			
	yoy%			3.5			
State Final Demand	qoq%			0.5			
	yoy%			1.2			
Cash Rate	meeting	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12
	%	4.75	4.75	4.50	4.25	4.25	4.25

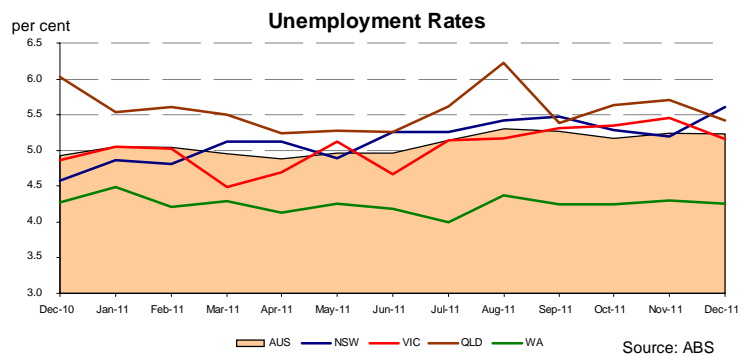
Source: RBA (cash rate), NAB (business confidence and conditions), ABS (all others)

\*All data is seasonally adjusted

## The numbers behind the numbers

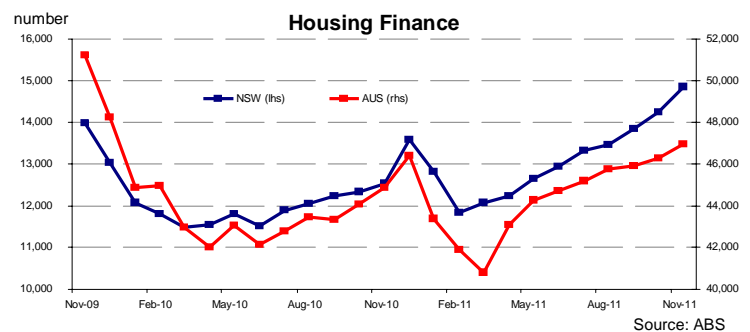
The NSW unemployment rate jumped from 5.2% in November to 5.6% in December.

- Nearly all of the increase in unemployment was for females and was accompanied by a sharp drop in female part-time employment, which is historically volatile.
- Encouragingly, the number of full-time jobs increased by 3,300 in the month.



The broader housing market remains subdued, but leading indicators are heading in the right direction for a recovery in 2012.

- The number of housing finance approvals has increased for 9 consecutive months.
- Recent interest rate cuts should help building activity recover through 2012. There is a strong inverse correlation between residential building approvals and the change in the official cash rate.



Business confidence across the country took a hit during 2011, as global economic uncertainty impacted our own businesses.

- It was encouraging to see a bounce in confidence at year end in New South Wales.
- In December, NSW business confidence was stronger than all other states except Western Australia.

