



# NSW Treasurer Economic Update November 2013

The global economy is showing tentative signs of improvement which should become more evident in 2014. Growth in advanced economies is strengthening, with the Euro zone finally exiting from a very long recession, and the US economy having weathered the partial government shutdown with little overall impact on economic activity. Stimulatory monetary and fiscal policies in Japan are working to boost growth.

However, the IMF noted in October that significant downside risks to the global economy remain. Growth in emerging economies has slowed, and is likely to remain below trend before picking up through 2014. In China, policy makers are intent on achieving a more balanced long-term growth rate of 7.5 per cent – somewhat lower than the growth outcomes over recent years.

A number of risks relate to US government policy. In financial markets, expectations around the timing of unwinding the current unconventional monetary stimulus in the US remains a key focus. The recent political impasse relating to budget funding and raising the debt ceiling culminated in only a short-term solution, meaning that US fiscal risks will remain until a sustainable long term solution can be reached.

In NSW, the transition away from mining investment growth to more balanced growth – particularly in the interest-rate sensitive sectors of the economy – is underway, although sectoral conditions remain mixed. The relatively high value of the Australian dollar is still weighing on the trade-exposed sectors of our economy.

Recent economic data and industry reports continue to confirm the strengthening housing sector. The number of new homes being built is up strongly over the past year, helped by the Government's targeted policies to increase the supply of housing. Leading indicators suggest the housing recovery still has a way to run. Housing finance approvals have increased 9.1 per cent over the past year, with approvals for new homes up 29.4 per cent over the period. Trend private residential building approvals are running at an annual rate near 52,000 – the highest since 2002, while new home sales are 69.4 per cent higher than a year ago.

The bounce in business confidence following the Federal election is not surprising given the removal of political and policy uncertainty in the Federal sphere. Improved business confidence from the pre-election slump is a necessary precondition for businesses hiring and investing.

Similarly, the recent jump in consumer confidence and a resilient labour market have triggered a welcome boost to NSW retail sales in August and September. NSW consumers are now the most confident in the nation.

The rise in employment in October was encouraging, with NSW having created more jobs in the period since the NSW Liberal/National Government was elected than any other state except Western Australia. Importantly, total hours worked are also rising and the recent improvement in forward indicators of employment such as job ads and vacancies data is reassuring.

The Government's decision to proceed with the long-term lease of the Port of Newcastle following a comprehensive scoping study was a watershed moment for the State. Proceeds from the lease will be made available to fund the revitalisation of central Newcastle and will provide the catalyst for the reinvention of Newcastle as a modern city.

The sale of the remaining state generation assets is also progressing well, with the sales of Macquarie Generation, Delta Coast and the renewables generation business - Green State Power - all expected to be completed by mid-2014. The process of releasing capital from the NSW balance sheet is a necessary and sensible means by which to address the \$30 billion infrastructure backlog across NSW.

The Government's efforts to improve financial management, reporting and accountability are working. Our efforts in this regard have been recognised with Standard and Poor's re-affirming NSW's AAA credit rating in October, referring to "the state's tightened management of its operating expenditure and government businesses". The agency also noted "there have been improvements to the State's management of its finances ...(and) that governance structures have been strengthened..."

There is still much to do. I am working closely with the new Federal Government to investigate an efficient and equitable method of applying GST to online purchases. The ABS recently estimated there is \$650-\$720 million per year in potential GST that the States are not receiving.

The NSW Liberal/National Government will keep working to secure sustainable state finances, reduce the state's infrastructure backlog and deliver more frontline services for NSW.

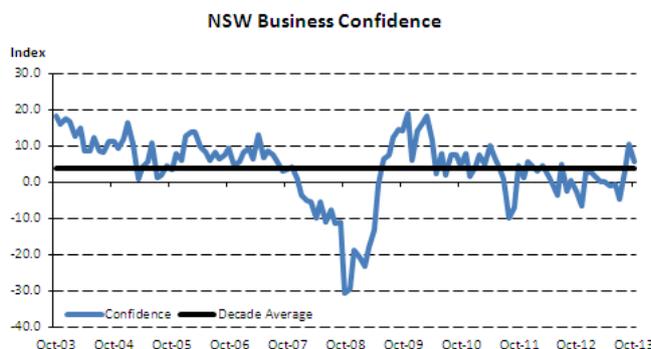
**Mike Baird**  
**NSW Treasurer**  
**Minister for Industrial Relations**

NSW Economic Data Table							
NSW Economic Indicators	Unit	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13
Employment	000s	3,684.7	3,678.4	3,669.6	3,671.7	3648.1	<b>3651.9</b>
	yoy%	1.9	2.3	1.8	1.7	0.4	<b>0.3</b>
Unemployment Rate	%	5.6	5.4	5.7	5.9	5.6	<b>5.9</b>
Participation Rate	%	64.2	63.9	63.9	64.0	63.4	<b>63.5</b>
Retail sales	mom%	-0.3	-0.1	0.0	0.5	<b>1.0</b>	
	yoy%	2.2	0.7	1.6	2.3	<b>3.1</b>	
Residential Building Approvals	mom%	-16.3	8.8	-7.1	18.7	<b>25.2</b>	
	yoy%	-5.7	8.6	21.5	54.9	<b>60.6</b>	
Housing Finance	mom%	0.0	1.3	2.0	-2.5	<b>2.3</b>	
	yoy%	10.1	10.4	15.2	8.1	<b>9.1</b>	
NAB Business Confidence	index level	-1	-1	-5	3	10	<b>6</b>
NAB Business Conditions	index level	-2	-7	-8	-9	-10	<b>-6</b>
CPI	qoq%		0.4			<b>1.2</b>	
	yoy%		2.6			<b>2.1</b>	
Labour Price Index	qoq%		<b>0.4</b>				
	yoy%		<b>2.8</b>				
State Final Demand	qoq%		<b>0.5</b>				
	yoy%		<b>1.3</b>				
Cash Rate	meeting	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	<b>Nov-13</b>
	%	2.75	2.75	2.50	2.50	2.50	<b>2.50</b>

Source: RBA (cash rate), NAB (business confidence and conditions), ABS (all others); \*All data is seasonally adjusted

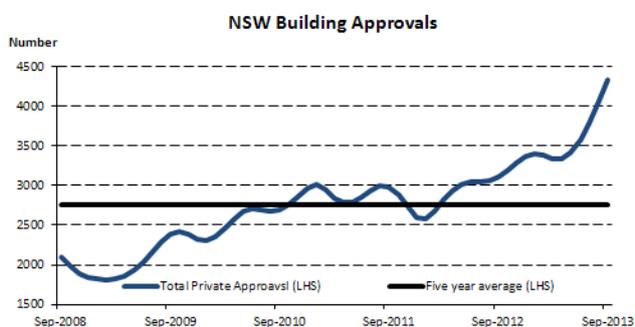
## The numbers behind the numbers

- **Business confidence eased in October after registering a 3½ year high in September following the Federal election.**
- **In October, NSW confidence remained positive and at +6 points, above both its decade average and above the national average.**
- **A translation of the improved confidence to improved conditions will assist employment growth and economic recovery.**



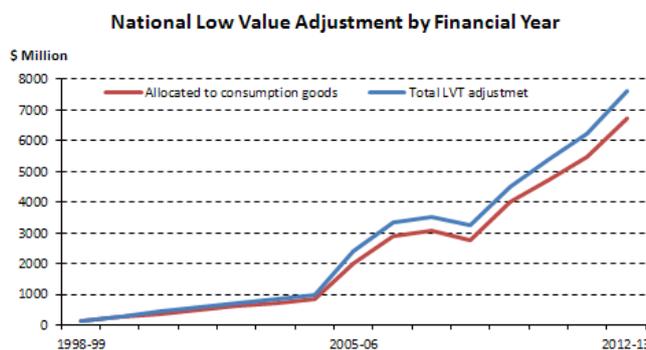
Source: NAB Monthly Business Survey, September 2013, index.

- **Private trend residential building approvals have continued to increase and have risen very sharply in the last few months.**
- **Trend approvals in September 2013 were running at an annual rate approaching 52,000, levels not seen since 2002.**
- **These approvals are currently around 57 per cent higher than the average level over the previous 5 years.**



Source: ABS 8731.0 Building Approvals, September 2013, trend.

- **The ABS has introduced a new coverage adjustment for imports of all goods under the low value threshold (LVT).**
- **In 2012–13, the total value of the adjustments was \$7,609m. The bulk of these goods imports (between 88 – 95%) are attributed to consumer spending.**
- **The data suggest that there is potentially \$650m-\$720m per year in GST that the States are not receiving.**



Source: ABS 5368.0 International Trade in Goods & Services, August 2013.