



NSW Treasurer Economic Update

February 2014

The New Year has delivered some renewed optimism for the global and NSW economies in 2014. The improved sentiment was clearly evident on my recent visit to ratings agencies and global investors in Singapore, the UK and Japan last month. The global economic recovery looks like gaining traction as the year progresses. For the first time in two years, the IMF raised the forecast for 2014 in its January update (albeit only slightly), largely on the back of a pick-up in prospects for advanced economies. Expectations of a continued improvement in 2015 remain unchanged.

The US economy is returning to moderate growth, and the recovery should strengthen over 2014. Sentiment in the UK was clearly positive about the increase in growth momentum, while the EU is continuing its gradual emergence from recession, although the pace is slow and uneven.

Interestingly, for the first time since the global downturn, simultaneous recoveries are expected in the US, UK, Europe and Japan.

The Chinese economy finished 2013 strongly, buoyed by household consumption and investment, although growth is expected to moderate slightly in 2014 as government efforts to slow credit growth take hold.

However, there remain some significant downside risks to the outlook. Many countries face difficult policy challenges as they transition away from highly accommodative fiscal and monetary policy. In particular, while the announcement of the US Federal Reserve taper has not been too disruptive to the advanced economies, it has raised concerns about the vulnerability of emerging market economies, leading to increased financial market volatility and capital outflows for some countries.

There are also some welcome signs that national economic prospects are strengthening. I note the RBA raised its expectations for domestic growth in the near term, by around $\frac{1}{4}$ of a percentage point this year. The depreciation of the exchange rate in recent months should help boost export demand and moderate import growth.

New South Wales is well placed to benefit from the national economy's transition away from mining investment-led growth. The state continues to record strong performance in a number of key sectors, which will act as critical drivers of growth over 2014.

Activity in the NSW housing market is extremely strong, with ABS data showing growth in Sydney

residential house prices of nearly 14 per cent over 2013, the highest of any capital city. Leading indicators of activity show that housing construction should add considerably to housing supply and growth over 2014 – supported by NSW Government initiatives to boost supply.

Both residential building approvals and housing finance for the construction and purchase of new dwellings finished 2013 nearly 30 per cent higher, and (in trend terms) are now at their highest level since 2002. In another positive sign, non-residential construction is also rebounding strongly, with annual growth in December up 42 per cent, in part driven by the Barangaroo project.

Recent retail sales figures show that on both key measures – values and quarterly volumes – New South Wales leads the mainland states. Rising house prices and stronger equity markets are supporting spending via 'wealth effects' and are providing a positive boost to the NSW economy.

Businesses have joined consumers with a positive start to the New Year, with the latest indicators showing both confidence and conditions strengthening and are now well above decade-average levels. Rising business confidence augurs well for future job creation and investment.

The NSW labour market has trended weaker over recent months, which was reflected in a downgrade to forecast payroll tax receipts in the Half Yearly Review. However, on a relative basis NSW is performing well, with the second-lowest unemployment rate of the States and 91,000 jobs added since coming to government.

More jobs will be created as the Government's \$60 billion infrastructure program enters the exciting construction phase. This phase will see more jobs on the ground and will ultimately boost the productive capacity of the NSW economy.

Of course this would not be possible without the Government's successful strategy of recycling capital from old assets to build the new infrastructure the State so desperately needs. This strategy has gathered widespread support throughout the nation and from global peers.

The NSW economy is making good progress on a number of key indicators. But we cannot be complacent. The O'Farrell Government will continue to focus and invest in the drivers of the economy – jobs, housing and infrastructure.

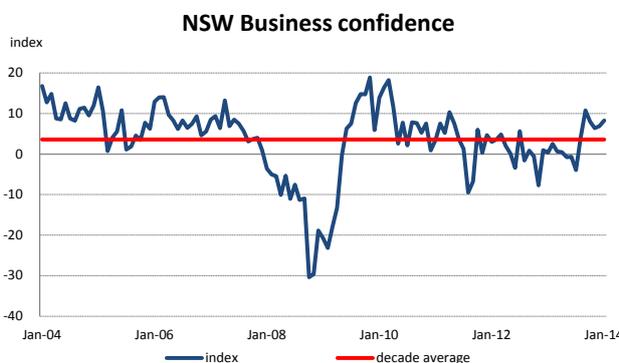
Mike Baird
NSW Treasurer
Minister for Industrial Relations

NSW Economic Data Table							
NSW Economic Indicators	Unit	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Employment	000s	3,603.5	3,582.5	3,584.7	3,583.6	3,572.2	3580.7
	yoy%	1.7	0.5	0.3	0.7	0.0	-0.3
Unemployment Rate	%	5.9	5.6	5.9	5.9	5.8	5.8
Participation Rate	%	63.8	63.1	63.3	63.2	62.8	62.9
Retail sales	mom%	0.6	1.2	0.8	0.4	0.9	
	yoy%	2.3	3.3	4.2	4.9	7.2	
Residential Building Approvals	mom%	19.1	33.3	-32.6	15.0	3.8	
	yoy%	54.1	72.8	3.8	33.0	27.7	
Housing Finance	mom%	-2.0	3.7	2.5	2.3	-2.2	
	yoy%	7.8	10.3	17.4	22.2	22.7	
NAB Business Confidence	index level	4	11	8	6	7	8
NAB Business Conditions	index level	-9	-8	-4	-2	3	6
CPI	qoq%		1.2			0.7	
	yoy%		2.1			2.6	
Labour Price Index	qoq%		0.9			0.6	
	yoy%		2.3			2.5	
State Final Demand	qoq%		0.4				
	yoy%		1.7				
Cash Rate	meeting	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
	%	2.50	2.50	2.50	2.50	2.50	2.50

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

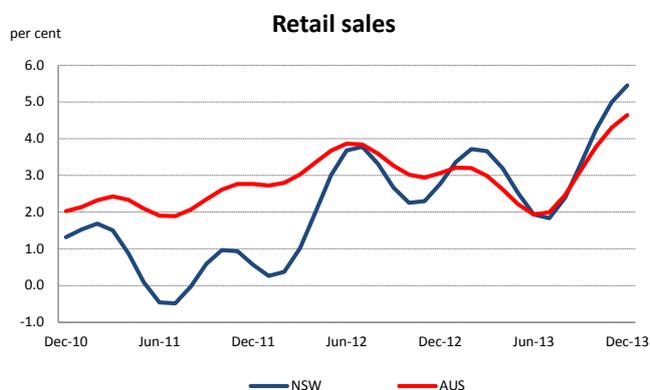
The numbers behind the numbers

- **NSW business confidence rose from +7 index points in December to +8 in January and is currently four index points above its decade average.**
- **After a more than two years of underperformance, business confidence has remained in positive territory over the last 6 months. It has stayed at levels not seen since 2009-10 when fiscal stimulus was in place.**



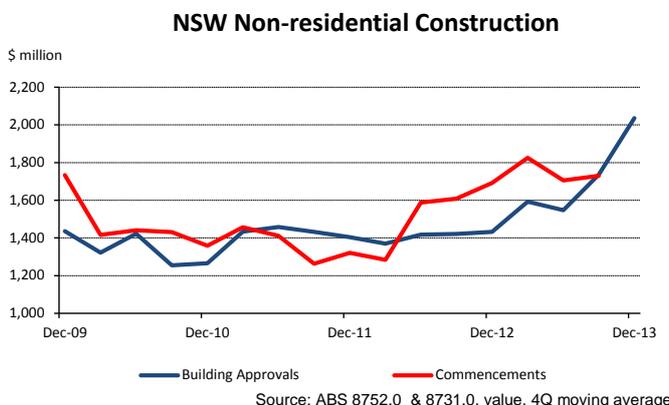
Source: NAB Monthly Business Survey, January 2014

- **NSW seasonally adjusted retail trade growth reached 7.2 per cent through the year to December 2013, the fastest of all the states and the highest through the year growth since late 2009.**
- **NSW retail sales (trend, annual change) has recorded strong growth in the last quarter, with retail sales in each of the last 3 months growing above decade average levels and above the national rate, in annual terms.**



Source: ABS 8501.0, annual growth, trend, December 2013

- **Annual average growth in the value of private non-residential approvals reached 42 per cent in December, the highest growth since 2003.**
- **Growth in non-residential construction is substantially driven by the development of Barangaroo, which is expected to continue for the next ten to fifteen years.**



Source: ABS 8752.0 & 8731.0, value, 4Q moving average