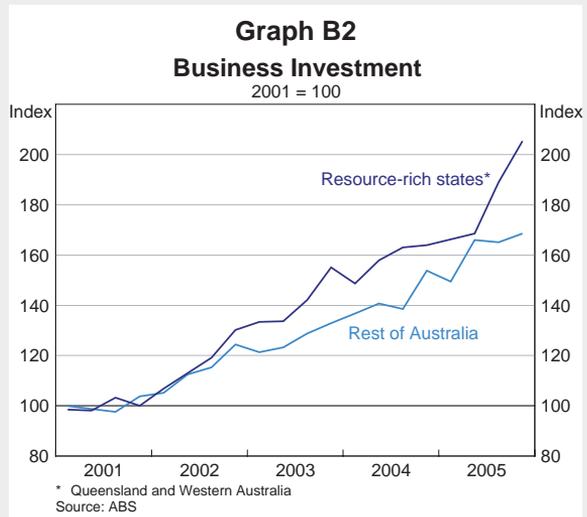
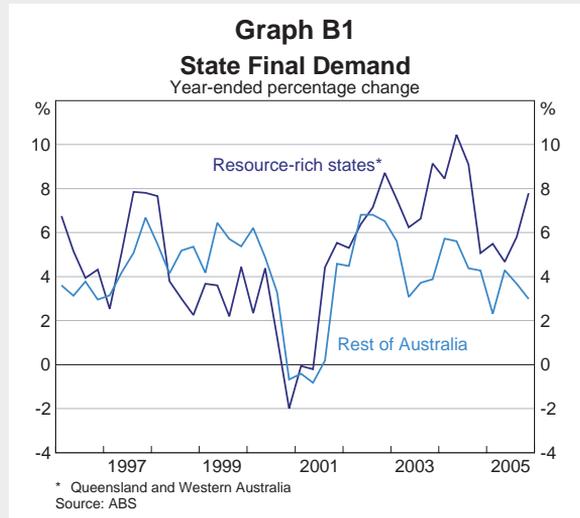


Box B: Regional Economic Performance

Over the past few years, economic activity has been strongest in the resource-rich states of Western Australia and Queensland, while in other states it has eased noticeably (Graph B1). Two main factors have contributed to this disparity. First, resource-rich states have most directly benefited from the sharp increase in world commodity prices in recent years. Second, the earlier run-up in house prices resulted in reduced housing affordability in the larger states; in the case of New South Wales, this has contributed to an outflow of migrants that has slowed the pace of economic output in that state.

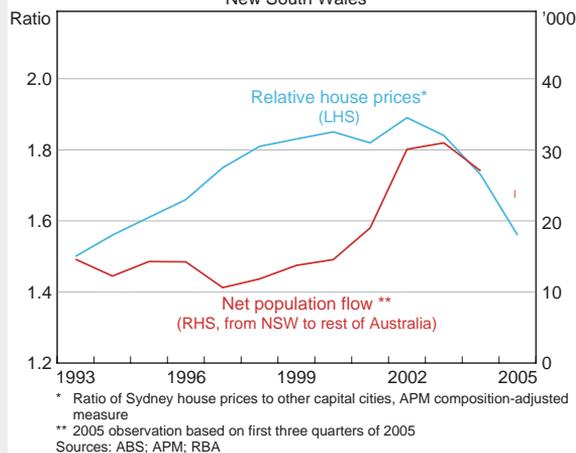
All the states have benefited from the recent commodity price increases through multiplier effects across the whole economy, dividend distributions from resource companies to domestic shareholders, and other channels.¹ However, the stimulus to activity has been strongest in the resource-rich states of Western Australia and Queensland where mining accounts for a larger share of output. Activity in the more manufacturing-oriented states such as Victoria and South Australia has been more subdued, in part because the large increases in commodity prices have been associated with a period where the exchange rate has been above its post-float average.

During the past year, the faster growth in the resource-rich states has owed largely to strength in business investment (Graph B2), reflecting strong growth in mining-related

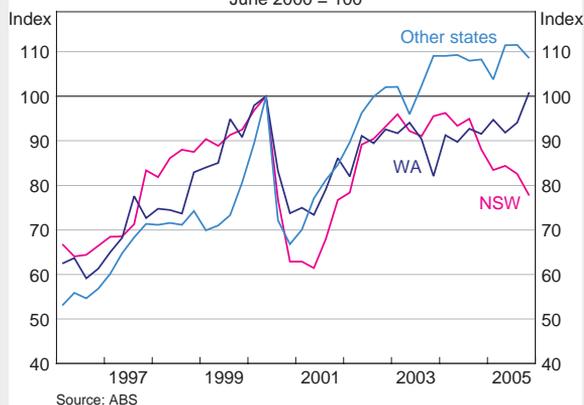


1 See 'Commodity Prices and the Terms of Trade', Reserve Bank of Australia Bulletin, April 2005, pp 1–7 for a more detailed discussion of the channels through which an increase in the terms of trade stimulates activity.

Graph B3
House Prices and Migration
 New South Wales



Graph B4
Dwelling Investment
 June 2000 = 100



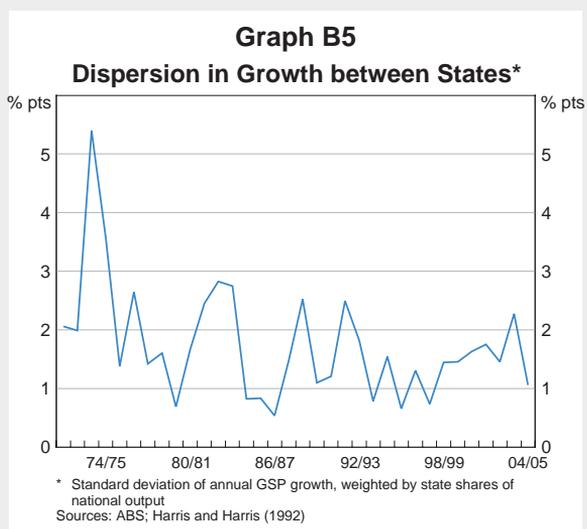
engineering construction. In addition, domestic demand in the resource-rich states has been boosted by buoyant consumption growth, which has been weaker in other states.

Differing trends in house prices and in dwelling investment have also accentuated the recent divergences across states. During the house price boom, prices grew most in Sydney, with prices at one point almost 90 per cent higher than the average level in other capitals. This contributed to population outflows to regions where housing was relatively more affordable and economic activity was stronger (Graph B3). The resulting slowdown in population growth in New South Wales reduced growth in consumption and contributed to a fall in dwelling investment in that state. In contrast, dwelling investment has continued to expand in Western Australia and has been broadly stable in the rest of the country (Graph B4). However, the population outflow from New South Wales now appears to have slowed, possibly reflecting the fact that house price relativities between Sydney and the other capitals have moved back towards pre-boom levels.

Consistent with these developments, Western Australia and Queensland have experienced strong growth in employment, while employment in the largest states has expanded more modestly. The sustained strength in employment growth in the resource-rich states has seen their unemployment rates fall substantially. However, in part reflecting the equilibrating role of migration between states, there has been broad similarity in movements in unemployment rates in all the states over the course of the current economic expansion.

Finally, despite the differences in the economic circumstances faced by the states, the extent of the recent divergences in the growth performance of states is not unusually large. Much

larger divergences – as measured by dispersion in the growth rate of annual gross state product (GSP) – have occurred in earlier periods, as states entered and exited national recessions at different times, and during the terms of trade shocks of the 1970s (Graph B5).² ↗



2 Data for the 1980s are from Harris CP and D Harris (1992), 'Interstate differences in economic growth rates in Australia, 1953–54 to 1990–91', *Economic Analysis and Policy*, 22(2), pp 129–148.