

December Quarter 2007

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**Season's greetings**

It's that time of year where we reflect on the past 12 months and think about what the New Year has in store for us - many of us will be hoping for rain and lots of it!

What a year it has been. We've had a bit of everything in regional and rural Australia: extreme weather conditions from storms and floods to the worst drought in history, fires, equine flu, a change in Government, rising interest rates and volatile commodity markets.

We understand these challenges can have an impact on your lives and your decisions. While we can't predict what 2008 will bring, it's a good time to start planning and thinking about what is important to you, your family and your business and what assistance you may require from us.

ANZ is working with customers to assist them in managing their financial future. Because we understand where you are coming from, we can work with you to maximise your production capacity and minimise exposure to interest rate and commodity price fluctuations.

We can help make sure you have financial flexibility to manage the inevitable cycles of prices, seasons and farm development through the years, and to manage your personal and family finances at the same time.

I would like to wish you and your families a very safe and happy festive season. Here's to a fantastic 2008!

Rob Goudswaard  
Managing Director, Regional, Rural and Small Business Banking

*If you would like to comment on any information featured in this edition, please contact me at [rob.goudswaard@anz.com](mailto:rob.goudswaard@anz.com) or your local ANZ Regional Executive listed below.*

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**This publication was finalised on 30 November 2007**

Tony Pearson  
Head of Australian Economics

## The Big Picture – Challenging times for regional and rural Australia

The global economy is likely to remain highly stimulatory for Australia. Although US economic growth is slowing, aggressive Federal Reserve action in cutting interest rates is expected to avert recession and to help to underpin overall global momentum. Of key significance, that part of the global economy of relevance to Australia – Asia – will maintain buoyant growth. This suggests there will continue to be strong offshore demand for key Australian exports which should help to maintain commodity prices at high levels. Those regions with a strong mining presence will continue to reap the benefits of high prices and strong investment.

Conditions are difficult for agricultural producers

Unfortunately the widespread failure of follow up spring rains means many rural producers will be unable to take advantage of this favourable international environment, particularly in the eastern states. Inflows into the Murray Darling system remain close to record lows for the second consecutive year. As a result, early expectations for a sizeable rebound in farm production this year have faded. And compounding these difficulties, equine influenza is severely impacting horse racing and breeding and related industries in NSW and Queensland.

The RBA has hiked interest rates twice this year...

The Reserve Bank is continuing to lift interest rates. In November the cash rate was increased by 25bp to 6.75%. This was the second increase this year and the tenth since this tightening cycle began in May 2002. The cash rate is now at the highest level in over 11 years, since October 1996.

The difficulty for the Reserve Bank is that inflationary pressures are continuing to build. Over the year to the September quarter core inflation increased by 3%, right at the top of the Reserve Bank target band. The Reserve Bank expects both headline and core inflation to rise above 3% over coming quarters and, in the absence of further policy action, to remain in the 2¾ to 3% range till the end of 2009. Given that core inflation has been hovering in the upper half of the target band for almost two years now, the prospect of another two years of high inflation is unlikely to be acceptable.

...and more rate hikes are coming

This outlook suggests that more interest rate rises are coming. The RBA has established a pattern in recent years of adjusting policy after the release of the quarterly inflation data. We expect it will continue this approach, and will lift the cash rate by a further 25bp in February and May 2008, following the release of the December quarter 2007 and March quarter 2008 inflation data. This would give a peak in rates of 7.25%, which would be the highest since June 1996.

The Australian dollar is volatile but likely to strengthen

The strong and volatile Australian dollar is also causing concerns. Recurring instability in global financial markets from the US sub-prime mortgage sector is leading to unusually sharp movements in currencies. The Australian dollar fell by US11 cents over the three weeks to mid August, and by US7 cents from early November. Despite this, the Australian dollar traded close to US\$0.94 in early November, the highest in over 20 years. With the prospect of further interest rate increases and continued strength in commodity prices, the Australian dollar is expected to push above US\$0.95 into mid 2008 before gently easing to US\$0.90 by the end of the year. The continued strength of the currency will offset some of the benefit of high prices for commodity and rural exporters and will present a more competitive environment for inbound tourism and import competing industries.

The new Labor Federal Government has announced it will initiate early action in a number of key policy areas of interest to regional and rural Australia. In industrial relations there will be a phasing out of Australian Workplace Agreements. On climate change Australia will ratify the Kyoto protocol. There will be additional spending on education and health. A high speed broadband network will be established. At a macro economic level the new government has committed to maintaining budget surpluses over the business cycle and preserving the independence of the Reserve Bank in formulating and implementing monetary policy.

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## In Focus – Regional Australia: more than just Australia’s food bowl

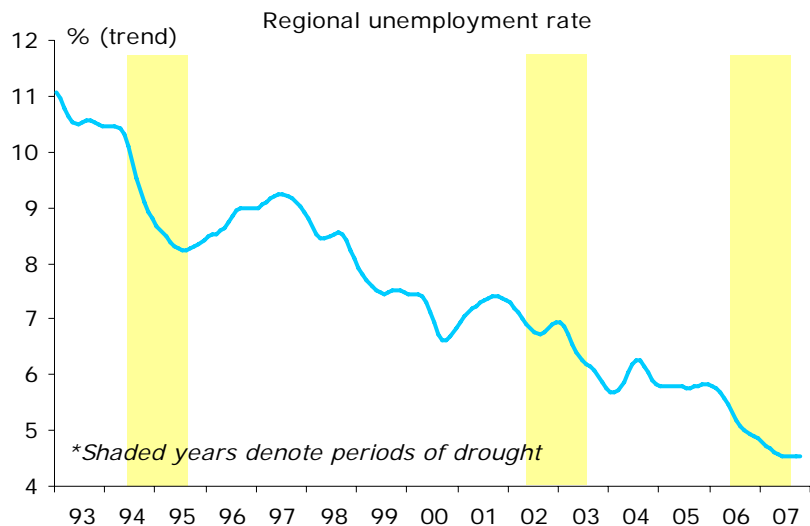
*Regional Australia has continued to prosper through one of the worst droughts on record. The decoupling of the agricultural and regional economic cycles reflects a diversification away from traditional industries such as agriculture and manufacturing towards services and construction, prompted by a combination of stronger population growth and a burgeoning tourism industry. Going forward, the challenge will be to continue this evolution to meet the changing needs of regional communities, particularly as their populations age.*

### Economic sunshine in the midst of drought

Regional Australia is in the grip of the worst drought in living memory. Australia’s farmers are staring down the barrel of a second successive failed winter crop – a rather unwelcome record – and ongoing low water allocations continue to threaten permanent plantings in the Murray-Darling Basin. Against this backdrop, one might expect Australia’s regions to be teetering on the brink of recession, with declining farm incomes feeding a downward economic spiral. In fact, nothing could be further from the truth. While there are certainly examples of regions doing it particularly tough at present – and we do not want to downplay that – in aggregate, Australia’s regional economies are performing very well indeed.

Consistent with the rosy national economic picture, regional Australia has gone from strength to strength in recent years: population growth has accelerated, construction is booming and new jobs are being created at a healthy pace. Perhaps the clearest expression of this economic success is the precipitous decline in regional unemployment. In trend terms, the regional unemployment rate now stands at 4.6%, down a further 1ppt from the already low levels that prevailed prior to the 2006-07 drought and around the lowest levels on record. The continued tightening of the labour market in the current episode, as well as in 2002-03, stands in complete contrast to earlier droughts, which generally precipitated a downturn in the broader regional economy and eventually an up-tick in unemployment.

### Regional economies have performed well through recent droughts



Sources: Australian Bureau of Statistics and Economics@ANZ

### There’s more to regional Australia than you’d think

So what’s different this time? In our view, the decoupling of the agricultural and regional economic cycles reflects two distinct but interrelated developments in recent years. First, as detailed in a recent *ANZ Regional and Rural Report*, Australia’s regions are experiencing a population boom, with growth actually

Australia’s regions have performed well despite the drought

Regional unemployment has fallen to record lows

The resilience of regional economies reflects the diversification away from agriculture

exceeding that of the major metropolitan centres for the first time in 2006.<sup>1</sup> Population growth has generally been driven by older people relocating from the cities, suggesting a lifestyle motive to this trend. Second, and in part spurred on by the influx of 'sea' and 'tree changers' from the cities, regional economies have gradually diversified away from their traditional agricultural base. In short, regional economies are now much more diverse than – and therefore less exposed to – agriculture.

Consider developments in the industry composition of regional Australia. Twenty years ago, agriculture accounted for almost one-fifth of all hours worked in regional Australia. Since then, this share has almost halved, and now accounts for just over 10% of hours worked. To be sure, agriculture remains at the very core of many regional communities and the direct share of agricultural labour in the economy almost certainly understates the true contribution via the flow-on effects of the agricultural dollar to other industries.

But notwithstanding this, it seems clear that regional Australia has developed more strings to its bow. It's had to. Stronger population growth has fuelled demand for all manner of services, from restaurants, cafes and pubs, to schools, medical centres and banks. At the same time, a burgeoning tourist trade from city dwellers on short weekend breaks has placed further demand on regional infrastructure.

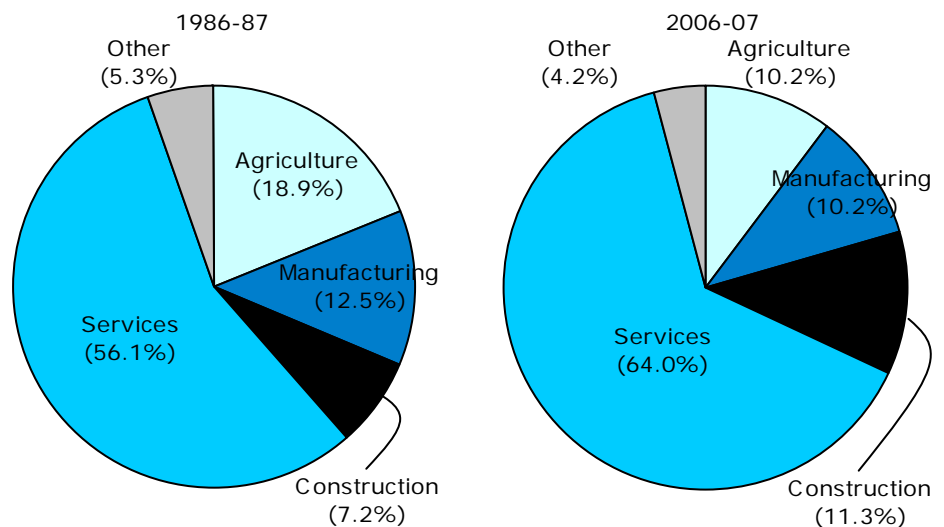
It is not surprising then that the share of construction in the regional economy has increased dramatically over the past two decades, from 7.2% in 1986-87 to 11.3% in 2006-07. Service industries have also become more important, increasing their aggregate share of the regional economy by 8ppts to 64% over the same period. Within the services industries, notable increases in the share of total hours worked in the regions were posted in property and business services, and health and community services.

Agriculture's share of regional Australia has halved over the past decade

In contrast, services and construction have become more important

**Regional economies are diversifying away from agriculture**

Regional industry shares by total hours worked\*



\*Regional Australia is defined here to include all areas outside the capital cities. Sources: Australian Bureau of Statistics and Economics@ANZ

By broadening its economic base, regional Australia has not only been able to survive, but actually prosper through what is a very difficult period for the nation's agricultural community. Going forward, the challenge will be to continue this evolution to meet the changing needs of regional communities, particularly as their populations age.

<sup>1</sup>See ANZ Regional and Rural Report, [Regional populations are growing...and greying](#), July 2007.

**Peter Jacobs**  
Senior Manager, Agribusiness

**Follow-up spring rainfall failed to eventuate in many areas**

**It is extremely rare to have two consecutive poor cropping seasons**

**Irrigators risk losing permanent plantings**

**The rainfall outlook for summer is promising**

**A La Niña event offers the hope of a wetter 2008**

## Agriculture this quarter

### A disappointing end to the winter cropping season

Following one of the best starts to the winter cropping season in a number of years, hopes were high that a rebound in agricultural production was underway. But this quarter, we are left with a sense of disappointment as follow-up spring rainfall failed to eventuate. As a result, many farmers continue to suffer from crop failures and drastically reduced yields. The few farmers fortunate enough to produce a crop will benefit from very high grain prices.

This year, there will not be a noticeable rebound from the drought ravaged depths of 2006-07 which saw farm production plummet by 24.5%. The present situation of consecutive poor cropping seasons is rare by historical standards. In 2002-03, for example, farm production fell by 25.7% but then rebounded by 34.3% the following year. Similarly, in 1994-95, farm production fell by 19.1% but rebounded by 25.8% the next year.

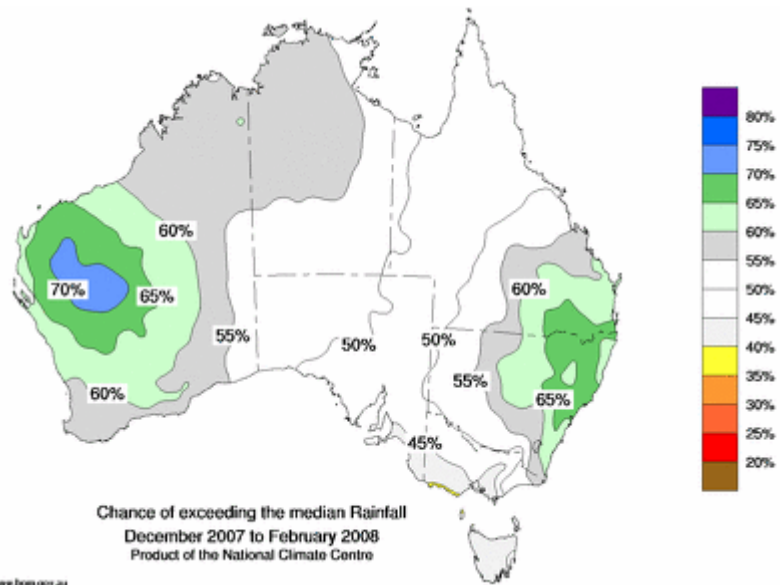
Farmers are doing their best to mitigate their losses. Many, for example are baling failed grain crops, and selling them at good prices to the dairy and other livestock industries.

Yet little can be done without water. Over the quarter, inflows into catchments have been minimal even though historically these are the peak inflow months. Consequently, water allocations are at such low levels and water prices for both permanent and temporary trading are so high that agricultural production has become unviable for many. For some farmers, it's not just this season's crops which are lost but also permanent plantings.

### La Niña brings the promise of future rain

Hopes are now turning to the summer crop and to next year's winter cropping season. In this regard, there are some encouraging signs with the Bureau of Meteorology forecasting a moderate to strong shift in the odds of above average rainfall in western WA, and eastern NSW into south-eastern Queensland over summer.

#### Better times may be ahead



Source: Bureau of Meteorology

In addition, the Bureau of Meteorology has announced that a La Niña event is well established and "computer models forecast the La Niña to last at least until the southern autumn of 2008." This means that there is an increased chance that 2008 will be a wet production year. There's no guarantee that this rainfall will eventuate, but there is reason to hope that farmers will receive relief following such disappointing dry years of the recent past.

**Wain Yuen**  
Economist, Regional and Rural

**The retail sector is performing strongly**

**But drought continues to afflict the agricultural sector**

**Tighter monetary policy is squeezing the construction industry**

**Overall, regional economies are performing well**

## Around the regions

The resilience of regional communities continues to be tested by a combination of drought, higher interest rates, record oil prices and a strong Australian dollar. These factors are certainly taking their toll, with the agricultural and construction sectors hit hard. But it's not all gloom in regional Australia with the retail industry enjoying its most buoyant period in years.

Supported by strong wage and employment growth, and spurred by personal income tax cuts, consumers are hitting the shops in force. As a result, retailers in regional communities are hiring more staff and expanding their stores. There are some exceptions to the buoyant trend with parts of Queensland and western Victoria, for example, battling through. Yet overall, conditions are positive and there is reason for hope heading into Christmas.

In contrast, conditions continue to deteriorate in the agricultural sector. In some areas, a lack of follow-up spring rain has resulted in crop failures and a significant percentage of crops cut for hay. Overall, ABARE has slashed its forecast of this year's wheat production to just 12.1mt, a fraction of the 22.5mt forecast back in June. Good rainfall in November arrived too late for most producers with many crops beyond recovery. But combined with an improved rainfall outlook, this has raised summer crop prospects.

Similarly, conditions remain difficult for irrigators with the Murray Darling Basin facing the prospect of a winter-spring drought in successive years, an event not experienced since 1940-41. As a result of limited inflows into the river system, water allocations remain at critically low levels. At the time of writing, the allocation of high-reliability water shares has been set at 35% in the Goulburn system, 23% in the Murray system and 16% in South Australia's Murray (although this is expected to increase to at least 22% on 1 December). At these levels, irrigators risk losing not only this season's production but also permanent trees and plantings.

In addition to drought, many regions are still reeling from the impact of equine influenza, particularly in New South Wales and Queensland. The impact is not confined to racing but also extends to breeding activities, agricultural shows and equestrian events.

Interest rates are also having an impact, particularly in the construction industry. Across regions in New South Wales, northern Victoria and Western Australia, residential building approvals are declining. Given that the most recent rate rise occurred in November, following an August hike, the full impact remains to be seen but further declines can be expected.

Overall, regional economies continue to perform reasonably well despite the numerous challenges they face. The unemployment rate continues to decline in over a third of the regions and in many cases, remains at its lowest level in a generation. In north east Victoria the unemployment rate is a remarkably low 2.3% while in South Queensland it is just 2.7%. That the labour market has remained in such a strong position through the drought is encouraging.

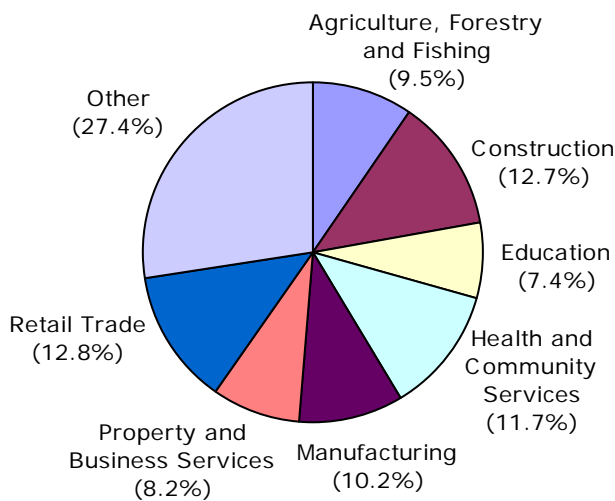
In addition, investment continues to be made in regional infrastructure. Projects such as the Ring Road at Pakenham in South East Victoria are helping to better connect regional centres. Similarly, technological linkages are helping to connect regional industries, such as New South Wales North Coast's multimedia and arts sector, to global markets. Supported by ongoing infrastructure investment, the future of regional Australia remains bright indeed.

## NSW North Coast

The NSW North Coast region



The region's labour market is diverse



Source: ABS

- Economic conditions in the NSW North Coast region continue to improve but the outlook is now clouded by slowing employment growth.
- Following a period of remarkable employment growth, the unemployment rate has dropped to 5.6%, making the region the most improved in Australia. However, this improvement is unlikely to continue with employment growth now stalling after recording double-digit rates earlier.
- Over the past decade, tourism in the Northern Rivers area has enjoyed steady growth. This trend has continued in the latest quarter with takings by tourist accommodation operators up 12.1% from last year. Perennial favourite, Byron Bay, keeps attracting visitors as does the Tweed area, neighbouring the Gold Coast. Meanwhile coastal towns such as Yamba are attracting new interest.
- In contrast to tourism, the region's construction industry slowed in the quarter with the value of residential building approvals down by 4.5%. Similar falls were observed across all NSW regions following the interest rate hike by the RBA in August and with the impact of the November rate rise yet to be felt. Partly offsetting this was a 2.3% increase in the value of non-residential construction.
- The construction of new offices and other non-residential buildings will help to house the region's growing service industries. In particular, the region's audiovisual, multimedia and arts sectors continue to attract new workers who benefit from a coastal lifestyle and technological linkages with global centres.
- In the medium-term, NSW North Coast's greatest economic challenge is to lift its participation rate – the proportion of working age people either in work or looking for work. At present, this rate remains stubbornly low at 56.6%.

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### Economic data – NSW North Coast

Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	250	249	247	243	239	234	232	n/a
Non-res building approvals, \$mn	147	150	153	155	156	158	159	n/a
Employment, annual % change	10.5	10.4	9.7	8.3	6.4	4.2	2.0	-0.1
Unemployment rate, %	7.6	7.5	7.2	6.8	6.4	6.0	5.8	5.6
Participation rate, %	56.7	56.9	57.1	57.3	57.2	57.1	56.9	56.6
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	490.3	496.9	503.1	509.2	515.0	519.8	525.2	n/a
Population, annual % change	1.4	1.3	1.2	1.2	1.1	0.9	1.0	n/a
Mean individual taxable income, \$	28137	29425	30533	32071	34154	35348	n/a	n/a
Average farm debt, '\$'000	144.6	175.9	179.4	313.3	144.3	160.6	205.6	n/a
Equity ratio, %	90	88	90	85	93	94	94	n/a
Average rural land holding, \$mn	1.24	1.20	1.25	1.69	1.75	2.08	2.72	n/a

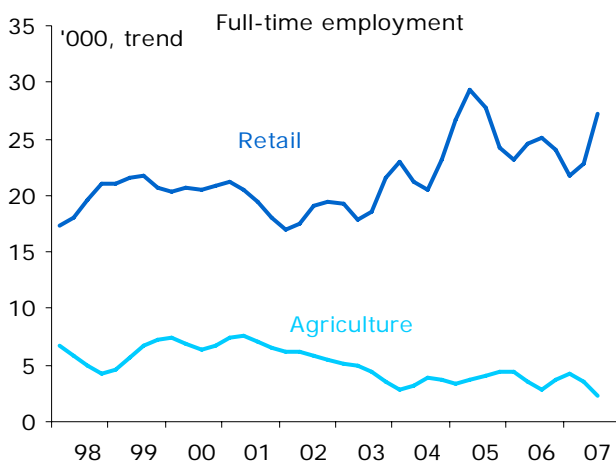
Sources: ABS, ABARE, ATO, Economics@ANZ

## NSW Northern

The NSW Northern region



A strong retail industry is helping to offset the impact of drought



Sources: ABS and Economics@ANZ

- Economic conditions in the NSW Northern region continue to improve on the back of a buoyant retail industry and strong global demand for the Hunter region's coal.
- As a result of the region's solid growth, the unemployment rate continues to decline and is now at 4.5%, the lowest of the NSW regions. At the same time, employment growth is accelerating and is now 2% per annum.
- The retail industry is the stand-out performer with the region's businesses expanding their workforce by an additional 5,800 full-time workers over the past quarter. In the near-term, the outlook for the retail industry is positive as solid income growth and personal income tax cuts continue to support consumer spending.
- Likewise, the construction industry remains well supported although some easing is noticeable in the value of building approvals in recent months in response to RBA policy action. Construction continues on the Australian Equine and Livestock Events Centre, located on the outskirts of Tamworth, with the roof expected to be completed by Christmas.
- With the region accounting for almost 20% of Australia's horse studs on holding, the breakout of equine influenza in August and September rocked the industry. Movement restrictions and quarantine zones prevented horses from attending several agricultural shows and racing carnivals, and disrupted the breeding season.
- The outlook for agriculture remains mixed with the NSW Department of Agriculture suggesting that crop prospects range from good in the east and Liverpool Plains area to poor in the far west. Farmers that manage to produce a reasonable crop will enjoy very high commodity prices.

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### Economic data – NSW Northern

Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	349	340	331	322	313	305	301	n/a
Non-res building approvals, \$mn	238	238	236	232	228	217	221	n/a
Employment, annual % change	1.7	1.2	0.8	0.6	0.7	1.0	1.5	2.0
Unemployment rate, %	4.9	4.9	4.8	4.8	4.7	4.6	4.5	4.5
Participation rate, %	59.8	59.5	59.4	59.3	59.2	59.2	59.2	59.1
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	760.5	769.2	774.6	779.0	782.1	787.1	793.0	n/a
Population, annual % change	1.0	1.1	0.7	0.6	0.4	0.7	0.7	n/a
Mean individual taxable income, \$	34207	34044	34980	36153	37950	39778	n/a	n/a
Average farm debt, '\$'000	279.3	293.9	345.6	286.3	463.0	432.8	492.6	n/a
Equity ratio, %	84	84	85	86	84	83	85	n/a
Average rural land holding, \$mn	1.54	1.51	1.77	1.74	2.31	2.18	2.68	n/a

Sources: ABS, ABARE, ATO and Economics@ANZ; the table includes data on Newcastle.

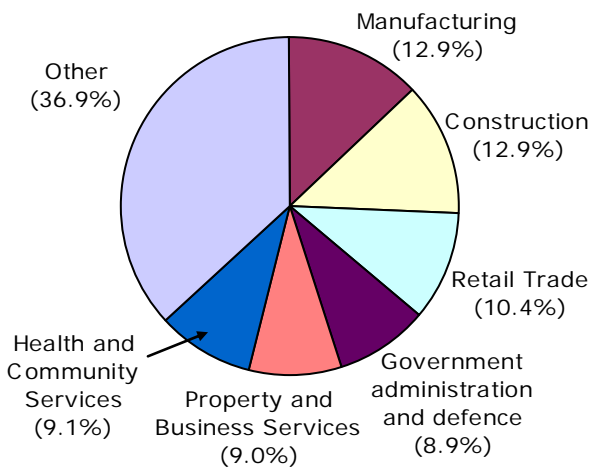


## NSW South East

The NSW South East region



NSW South East's economy is dominated by services, manufacturing and construction



Source: ABS

- NSW South East's economy continues to expand, but at a slower rate than experienced earlier this year.
- Employment growth remains a robust 3.9% per annum, significantly above the Australian average of 2.5% per annum. This growth is delivering a lower unemployment rate – now at 4.8% - a trend which appears set to continue.
- Conditions in the tourism industry are mixed with the region's 353 hotels and motels grossing only 0.9% more revenue than a year ago. Along the south coast, accommodation operators are doing well with takings up by 8.2% over the year. In contrast, operators outside Canberra and around the Snowy Mountains are finding the environment tougher with a 3% decline in revenues over the year.
- Following an interest rate hike by the RBA in August and with a further hike in November yet to be felt, conditions are now easing in the region's construction sector. The value of residential building approvals is trending downwards to be 16.3% lower than a year ago and the value of non-residential approvals is also in decline. As a result, full-time employment in the construction industry is 12% lower than a year ago.
- Offsetting the softness in the construction industry is NSW South East's retail sector. Spurred by personal tax cuts and strong employment growth, consumers continue to hit the shops in droves. In order to meet this demand, retailers are hiring additional staff with 3,700 more full-time workers employed since July and this appears set to continue going into Christmas.

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### Economic data – NSW South East

Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	290	281	273	264	256	250	240	n/a
Non-res building approvals, \$mn	213	194	172	150	128	104	81	n/a
Employment, annual % change	6.7	6.6	6.3	5.8	5.2	4.7	4.2	3.9
Unemployment rate, %	5.5	5.3	5.1	5.0	4.9	4.8	4.8	4.8
Participation rate, %	58.2	58.1	57.9	57.8	57.7	57.6	57.5	57.4
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	582.8	593.0	600.3	606.2	610.0	614.7	620.1	n/a
Population, annual % change	1.6	1.8	1.2	1.0	0.6	0.8	0.9	n/a
Mean individual taxable income, \$	33607	35180	36391	38031	39534	40973	n/a	n/a
Average farm debt, '\$000	34.7	12.8	43.5	83.7	58.9	60.9	86.4	n/a
Equity ratio, %	97	99	96	93	95	95	96	n/a
Average rural land holding, \$mn	0.96	0.85	0.89	0.96	0.96	1.14	1.60	n/a

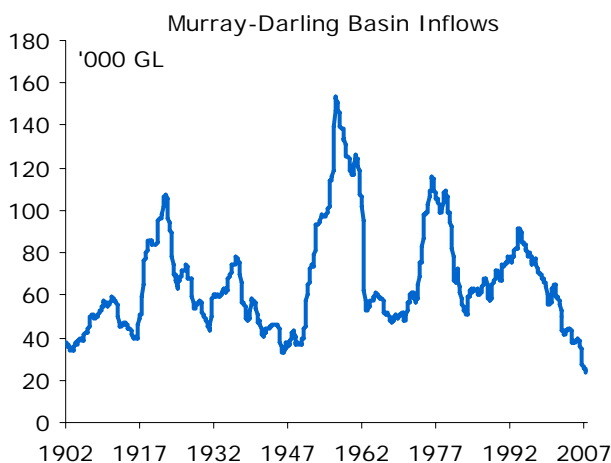
Sources: ABS, ABARE, ATO, Economics@ANZ

## NSW South West

The NSW South West region



Cumulative inflows are the lowest in a century



Source: Murray-Darling Basin Commission

- The drought has hit hard in NSW South West with irrigators in the Murray-Darling Basin facing the prospect of a winter-spring drought in successive years, an event not experienced since 1940-41. Although many are struggling through the drought, there are some signs that the broader economy is adapting to the circumstances.
- After the best early spring rains in a number of years, follow-up rains did not eventuate in time for the majority of grain producers. As a result, many crops were cut for hay. On a more positive note, rains in late October and early November will help livestock industries and those with late crops south of Wagga.
- Record low inflows to the Murray-Darling river system mean that irrigators face limited water allocations. Some, such as the grape and citrus industries in the Murrumbidgee Valley, are experiencing partial relief following an increase for high security users. However, overall allocations remain low and there will be little rice planting for the 2007-08 season.
- Reflecting the difficulties faced by the agricultural industry, the region's labour market continues to weaken with annual employment growth now -1.4% per annum. However, the unemployment rate remains relatively steady at 4.9% and the willingness of the region's population to work remains the highest in NSW with the participation rate rising to 68.4%.
- Furthermore, there are signs that the broader economy is adapting with service sectors such as retail performing relatively well. Looking forward, personal income tax cuts and federal government expenditure should continue to support consumer spending and the region's retail industry.

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### Economic data – NSW South West

Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	110	109	107	106	105	104	103	n/a
Non-res building approvals, \$mn	87	83	78	73	68	64	58	n/a
Employment, annual % change	4.4	3.4	2.3	1.2	0.3	-0.4	-1.0	-1.4
Unemployment rate, %	4.5	4.7	4.8	4.8	4.9	4.9	4.9	4.9
Participation rate, %	66.4	66.6	66.9	67.3	67.6	67.9	68.2	68.4
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	151.5	152.9	153.1	152.8	152.5	153.1	154.5	n/a
Population, annual % change	0.5	0.9	0.1	-0.2	-0.2	0.4	0.9	n/a
Mean individual taxable income, \$	29923	33138	34208	34537	35817	36750	n/a	n/a
Average farm debt, '\$'000	153.8	195.5	170.3	265.4	262.4	274.5	311.3	n/a
Equity ratio, %	91	87	91	87	90	90	89	n/a
Average rural land holding, \$mn	1.49	1.39	1.40	1.76	2.59	2.35	2.39	n/a

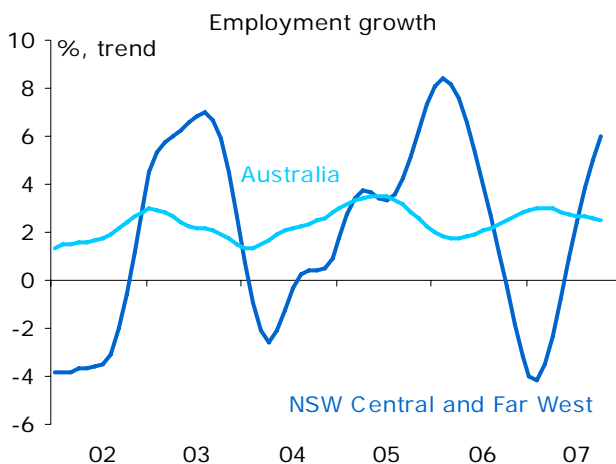
Sources: ABS, ABARE, ATO, Economics@ANZ

## NSW Central and Far West

The NSW Central and Far West region



Employment growth has picked up



Source: ABS

- Economic conditions in the NSW Central and Far West region are improving despite the ongoing impact of drought.
- Employment growth is now running at 6% over the year, a considerable turnaround from the trough of -4.2% experienced in February this year. This is the strongest rate of employment growth in NSW and will help to further reduce the region's unemployment rate which is now at 5.2%.
- The marked improvement in employment growth, combined with personal income tax cuts is encouraging consumers to hit the shops. In order to meet the increased demand, the region's retailers are hiring more staff with 2,700 new full-time positions created since May.
- In contrast to the buoyant retail sector, the region's construction sector continues to ease. Over the past year, the value of residential building approvals has fallen by 10.8% while the value of non-residential building approvals is down by 17.1%. This decline is common across NSW and partly reflects RBA monetary policy tightening. With the most recent hike in November yet to be felt, conditions in the industry are likely to remain soft in the near future.
- There is also a sense of disappointment in the region's agricultural sector. Following very good rains in June, farmers had reason to be cautiously optimistic and in parts of the Central West, the area sown to winter crops was the highest in many years. However, follow-up rain failed to eventuate so that many crops failed and yields were reduced. Hopes will now turn to the summer crop and to next year's season with the Bureau of Meteorology's latest rainfall outlook offering the promise of better times to come.

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### Economic data – NSW Central and Far West

Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	97	95	94	92	91	90	89	n/a
Non-res building approvals, \$mn	36	36	36	37	37	37	39	n/a
Employment, annual % change	-3.5	-2.3	-0.8	0.9	2.4	3.8	5.0	6.0
Unemployment rate, %	5.3	5.4	5.6	5.7	5.7	5.5	5.4	5.2
Participation rate, %	61.7	62.4	63.1	63.7	64.0	64.3	64.5	64.7
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	336.0	338.3	339.3	339.5	339.5	341.0	343.7	n/a
Population, annual % change	0.4	0.7	0.3	0.1	0.0	0.4	0.8	n/a
Mean individual taxable income, \$	31463	33430	34518	34960	36184	37836	n/a	n/a
Average farm debt, '\$'000	248.5	190.1	200.2	215.1	236.7	334.4	371.7	n/a
Equity ratio, %	87	89	88	89	89	86	87	n/a
Average rural land holding, \$mn	1.57	1.76	1.23	1.48	1.59	1.82	2.14	n/a

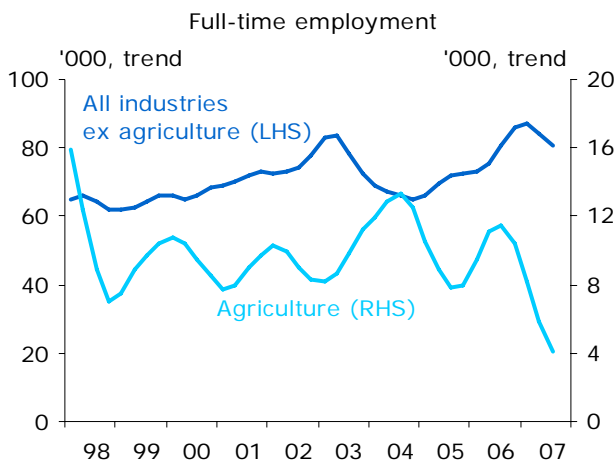
Sources: ABS, ABARE, ATO, Economics@ANZ

## North West Victoria

The North West Victoria region



The drought is weighing on North West Victoria's economy



Source: ABS

- Economic conditions in North West Victoria are weakening, reflecting the impact of the drought and limited water allocations.
- Following phenomenal double-digit growth earlier in the year, employment has tapered off and is now declining by 3.2% a year. As a result, the unemployment rate has ticked up to 5.9%. By industry, agriculture has been the hardest hit with the number of people employed more than halving since mid-2006.
- As a result of limited inflows into the river system and storages, water allocations have been slashed. Future allocations hang in the balance given that the peak inflow months of winter and spring have largely passed. As this continues, irrigators risk losing not only this season's production but also permanent trees and plantings.
- It is not just agriculture that has been affected by the drought. Other businesses, such as cafes, restaurants and retail outlets, have noticed the flow-on effects via reduced consumer spending.
- Similarly, the region's construction industry is experiencing a soft patch with the value of residential building approvals falling by 21.4% over the year and non-residential building approvals by 43% over the year. The RBA's interest rate hike in August was a further dampening factor.
- Despite the current weakness, longer term prospects for North West Victoria remain positive with the region diversifying its economy across several industries such as education, health and community services. In addition, continued population growth will support the region's service base and stimulate demand for infrastructure and housing.

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### Economic data – North West Victoria

Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	133	130	127	124	121	118	117	n/a
Non-res building approvals, \$mn	60	57	53	50	47	44	40	n/a
Employment, annual % change	11.7	9.7	7.7	5.6	3.4	1.1	-1.2	-3.2
Unemployment rate, %	4.9	5.0	5.0	5.2	5.3	5.5	5.8	5.9
Participation rate, %	66.1	65.8	65.5	65.3	65.1	64.8	64.6	64.3
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	329.9	333.7	336.2	338.9	342.1	346.6	351.8	n/a
Population, annual % change	0.8	1.2	0.7	0.8	0.9	1.3	1.5	n/a
Mean individual taxable income, \$	30267	32150	34658	34082	34485	35761	n/a	n/a
Average farm debt, '\$'000	163.8	133.3	125.3	156.1	163.5	200.0	304.1	n/a
Equity ratio, %	85	88	92	90	91	88	86	n/a
Average rural land holding, \$mn	0.96	0.88	1.04	1.12	1.35	1.32	1.71	n/a

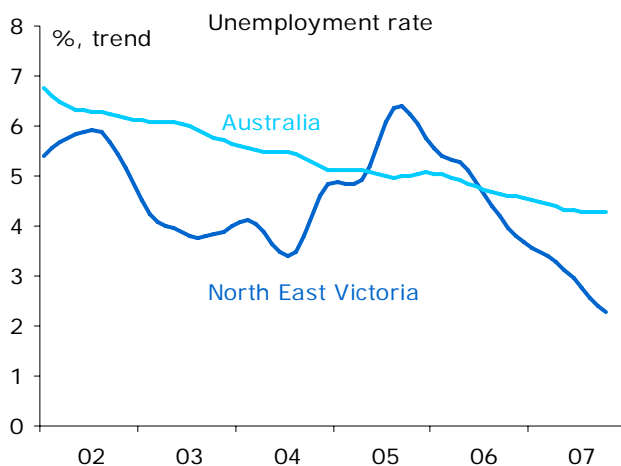
Sources: ABS, ABARE, ATO, Economics@ANZ

## North East Victoria

The North East Victoria region



The region's unemployment rate is now the lowest in Australia



Source: ABS

- North East Victoria's economy continues to strengthen and now sits alongside the mining regions of Western Australia and Queensland as one of the strongest economies in Australia.
- Nowhere is the region's economic strength more evident than in its labour market with employment growth tracking at a solid 2.1% over the year and the unemployment rate falling to a remarkable 2.3%, the lowest in Australia. This is particularly impressive given that two of the region's largest industries – agriculture and manufacturing – face significant negative headwinds in the form of the drought and a strong Australian dollar.
- Limited rainfall and record low inflows into the river system mean that water allocations to irrigators have been minimal in the Murray and Goulburn systems. However, rain in late October and early November offers some hope that allocations might be increased at the next scheduled review.
- Beyond the agricultural sector, solid population growth is supporting the region's construction industry. The value of residential building approvals remains relatively steady, notwithstanding the RBA's interest rate hike in August, while non-residential building approvals has picked up in recent months.
- The region's service industries, from education to hospitality and retail, are also performing well. Student enrolments at tertiary institutions are healthy, while local cafes, restaurants and retailers are benefiting from buoyant consumer sentiment. Given ongoing jobs growth and personal income tax cuts, the environment is likely to remain favourable for retailers going into Christmas.

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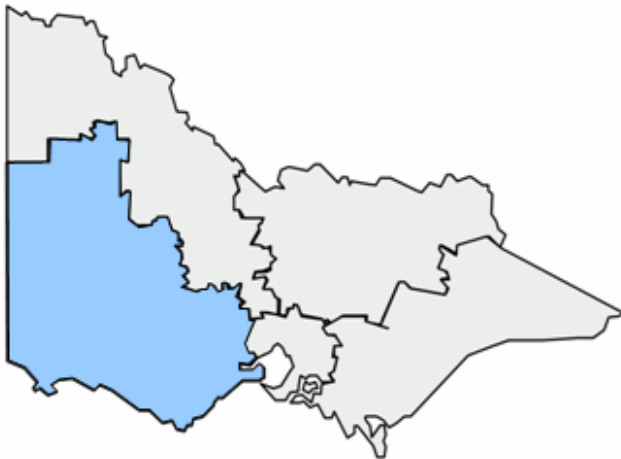
### Economic data – North East Victoria

Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	164	164	164	164	164	164	163	n/a
Non-res building approvals, \$mn	77	73	72	72	74	76	77	n/a
Employment, annual % change	2.8	3.4	3.6	3.3	3.0	2.6	2.3	2.1
Unemployment rate, %	3.4	3.3	3.1	2.9	2.7	2.6	2.4	2.3
Participation rate, %	63.8	64.5	65.0	65.1	64.9	64.6	64.1	63.6
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	279.1	282.9	285.6	288.9	291.9	295.2	299.2	n/a
Population, annual % change	1.2	1.4	1.0	1.1	1.0	1.1	1.3	n/a
Mean individual taxable income, \$	30070	31807	32840	33113	34470	36536	n/a	n/a
Average farm debt, '\$'000	86.0	119.7	122.9	143.2	114.7	134.7	200.0	n/a
Equity ratio, %	92	89	91	90	93	92	92	n/a
Average rural land holding, \$mn	0.91	0.96	1.10	1.16	1.34	1.41	2.12	n/a

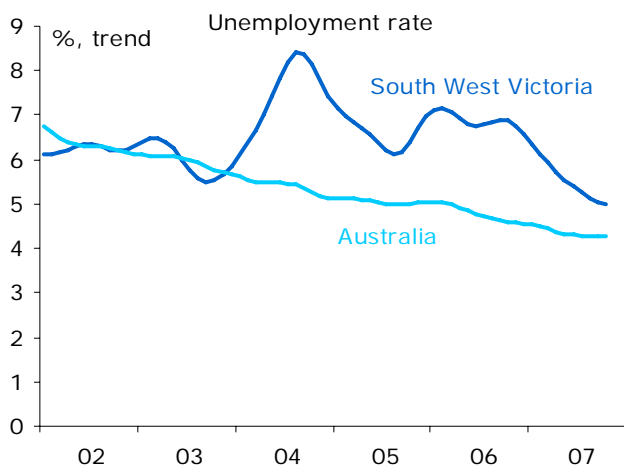
Sources: ABS, ABARE, ATO, Economics@ANZ

## South West Victoria

The South West Victoria region



South West Victoria is gradually closing the gap on Australia



Source: ABS

- Economic conditions in South West Victoria remain steady with the agricultural industry adapting to tougher conditions, and with a raft of major projects underway.
- Following an excellent start to the winter cropping season, finishing rains failed to eventuate. However, in contrast to many other regions, South West Victoria appears set to produce a reasonable harvest with most crops surviving. Many of the region's farmers have adapted to dry conditions by adopting techniques such as zero-tillage. Meanwhile, progress continues to be made on the Wimmera-Mallee Pipeline Project. Water is now being piped to Rainbow and tapping has been completed along much of the Warracknabeal line.
- Other projects remain in their early stages. A decade since planting, the region's Blue Gums will start being harvested from mid-next year with further expansion possible. The industry will support the region's exports, create jobs and create additional demand for infrastructure. Similarly, there is optimism that the proposed \$1 billion gas-fired power station at Mortlake will go ahead.
- The region's labour market continues to post solid outcomes with employment growth tracking at 2.7% over the year. Pleasingly, the unemployment rate continues to decline, touching 5%, but remains above the national average of 4.3%.
- South West Victoria's retail industry is performing well as consumer spending is supported by personal tax cuts and a buoyant labour market. This is giving retailers the confidence to expand with major players such as Aldi, Target and Safeway opening or refurbishing stores around Hamilton and elsewhere.

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### Economic data – South West Victoria

Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	345	347	350	355	361	368	375	n/a
Non-res building approvals, \$mn	226	187	168	165	169	173	181	n/a
Employment, annual % change	5.7	5.3	4.5	3.7	3.1	2.8	2.6	2.7
Unemployment rate, %	5.9	5.7	5.6	5.4	5.3	5.1	5.0	5.0
Participation rate, %	63.8	63.8	63.7	63.5	63.2	63.0	62.8	62.6
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	542.2	548.2	553.2	557.8	563.0	570.0	577.5	n/a
Population, annual % change	1.0	1.1	0.9	0.8	0.9	1.2	1.3	n/a
Mean individual taxable income, \$	30241	32750	35489	34797	36210	37887	n/a	n/a
Average farm debt, \$'000	192.9	223.7	187.5	229.3	232.7	169.3	319.9	n/a
Equity ratio, %	85	85	89	90	90	91	86	n/a
Average rural land holding, \$mn	1.12	1.23	1.34	1.86	1.82	1.59	1.83	n/a

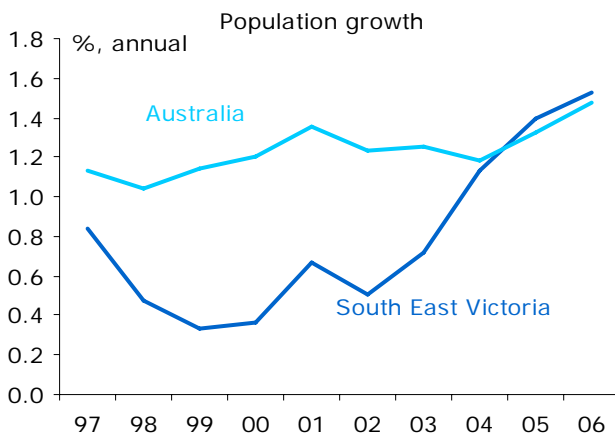
Sources: ABS, ABARE, ATO, Economics@ANZ

## South East Victoria

The South East Victoria region



Regional population growth is driving South East Victoria's economy



Source: ABS

- South East Victoria's economy is growing, underpinned by stronger population growth and a diversified skills base.
- In 2005-06, the region's population grew by 1.5%, considerably higher than rates of around 0.5% per annum around the turn of the century. To a large extent this growth has been driven by the "sea change" trend, with people relocating from Melbourne to take advantage of a coastal lifestyle and more affordable housing.
- As a result of population growth, the region's service industries are expanding and demand for infrastructure and housing remains well supported. At present, residential building approvals are holding up, in marked contrast to many other regional areas which are experiencing a decline in approvals as the RBA raises interest rates. At the same time, investment in the region's roads is continuing with Ring Road at Pakenham almost completed and further funding announced to duplicate the road between Traralgon and Sale.
- As the region's economy expands, employment growth is accelerating to an impressive rate of 8.4% per annum, the fastest in Australia. Given strong employment growth and personal tax cuts, South East Victoria's retailers are enjoying very favourable conditions going into Christmas. Similarly, other service industries such as cafes and restaurants are performing well.
- Following welcome rainfall in late October and early November, South East Victoria's dairy industry is holding up relatively well compared with other regions. Combined with very high dairy prices, farmers are hopeful of a reasonable year. However, offsetting the benefit of high global dairy prices are high feed costs and a strong Australian dollar.

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### Economic data – South East Victoria

Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	179	179	180	181	182	184	185	n/a
Non-res building approvals, \$mn	77	78	78	77	75	76	75	n/a
Employment, annual % change	1.4	2.8	4.3	5.7	6.7	7.4	8.0	8.4
Unemployment rate, %	5.9	6.0	6.0	6.0	6.0	6.1	6.1	6.2
Participation rate, %	59.5	59.8	60.3	60.8	61.3	61.8	62.4	63.0
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	238.8	240.4	241.6	243.4	246.1	249.5	253.4	n/a
Population, annual % change	0.4	0.7	0.5	0.7	1.1	1.4	1.5	n/a
Mean individual taxable income, \$	30160	32284	33233	34366	35481	37548	n/a	n/a
Average farm debt, '\$'000	106.1	135.9	140.6	92.1	129.5	160.2	195.9	n/a
Equity ratio, %	92	91	92	94	94	93	94	n/a
Average rural land holding, \$mn	1.24	1.24	1.32	1.29	1.78	2.02	2.64	n/a

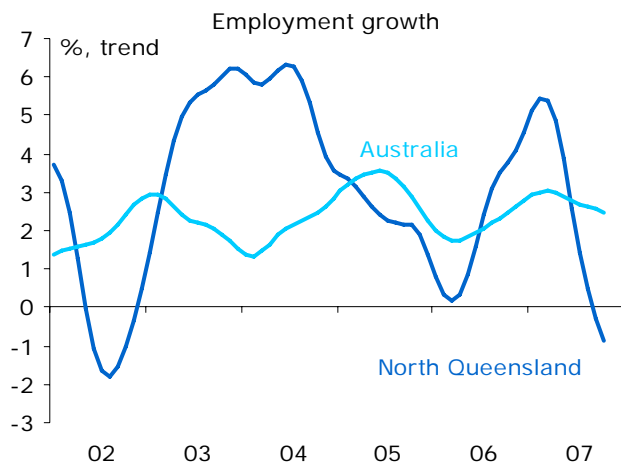
Sources: ABS, ABARE, ATO, Economics@ANZ

## North Queensland

The North Queensland region



Employment growth has taken a dive and is now the weakest since 2002



Source: ABS

- Economic conditions in North Queensland are easing with the competitiveness of the region's export oriented industries hampered by a very strong Australian dollar.
- Employment growth is now tracking at -0.8% per annum, the weakest since 2002. As a result, the unemployment rate is trending upwards, reaching 4% in October, but remains below the national average of 4.3%.
- By industry, North Queensland's manufacturing and agricultural sectors are under pressure from the strong Australian dollar which at one stage reached US\$0.94, the highest in 23 years. Given the substantial swings in the currency of late, there is some uncertainty over the outlook for the region's export oriented industries. These pressures could intensify in the short-term with the A\$ expected to push above US\$0.95 into mid-2008 before easing to US\$0.90 by the end of the year.
- Very high grain prices are also contributing to extremely difficult conditions in the region's feedlot cattle industry. As a result, the number of cattle on feed dropped by 14.6% in Queensland during the September quarter according to the latest Australian Lot Feeders Association (ALFA) – Meat and Livestock Australia (MLA) survey.
- On a brighter note, residential construction remains buoyant with the value of approvals increasing by 19.6% over the past year. In the medium term, the region's strong population growth will continue to create demand for new housing.

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### Economic data – North Queensland

Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	636	645	655	664	670	675	681	n/a
Non-res building approvals, \$mn	303	307	310	310	312	313	315	n/a
Employment, annual % change	5.4	4.9	3.9	2.6	1.4	0.5	-0.3	-0.8
Unemployment rate, %	3.9	3.6	3.5	3.6	3.7	3.8	3.9	4.0
Participation rate, %	69.4	69.1	68.9	68.7	68.6	68.5	68.5	68.5
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	580.0	586.3	595.6	604.8	614.3	627.8	641.0	n/a
Population, annual % change	1.1	1.1	1.6	1.6	1.6	2.2	2.1	n/a
Mean individual taxable income, \$	33618	34326	35581	36832	38899	41862	n/a	n/a
Average farm debt, '\$'000	213.0	201.4	212.3	304.3	308.2	155.7	261.3	n/a
Equity ratio, %	96	91	94	95	95	98	97	n/a
Average rural land holding, \$mn	2.65	3.20	3.77	4.90	5.70	6.04	5.95	n/a

Sources: ABS, ABARE, ATO, Economics@ANZ



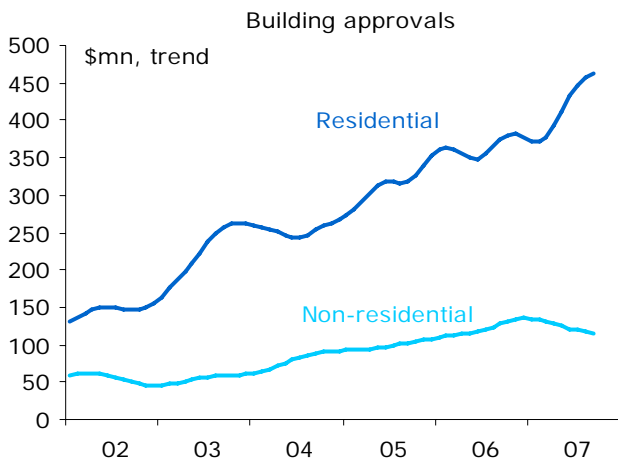
## Central Queensland

The Central Queensland region



- Central Queensland’s economy remains in very good shape although higher interest rates and a strong Australian dollar are hurting some sectors.
- Employment growth continues to track at 3.8% per annum, significantly higher than the national average of 2.5%. And the unemployment rate remains at a remarkably low 3.4%.
- The region’s service industries are performing particularly well, led by the retail sector. Supported by strong employment growth and personal tax cuts, consumers are spending more at shops. And other sectors such as tourism are posting solid results although the strong Australian dollar is a concern. Whale watching in Hervey Bay has attracted strong visitor numbers while a milder winter/spring in Longreach has benefited tourism in the area.
- In contrast to the service industries, Central Queensland’s livestock sector continues to be hurt by a combination of the strong currency and very high grain prices. The feedlot industry has been hit particularly hard with the number of cattle on feed falling by 14.6% in the state during the September quarter according to the latest Australian Lot Feeders Association (ALFA) – Meat and Livestock Australia (MLA) survey.
- With strong global demand driving coal prices higher, the strong Australian dollar has had less of an impact on the region’s mining exports.
- Meanwhile, strong population growth and ample job opportunities in the region have added to demand for housing with the value of residential building approvals trending up by 23.3% over the year. However, looking forward, interest rate hikes by the RBA in August and November could arrest this trend and slow the housing sector.

Residential building approvals remain strong but recent interest rate hikes could bite



Source: ABS

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### Economic data – Central Queensland

Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	378	393	413	432	447	456	462	n/a
Non-res building approvals, \$mn	131	128	124	121	120	117	115	n/a
Employment, annual % change	1.3	2.4	3.5	4.1	4.3	4.2	4.1	3.8
Unemployment rate, %	4.0	3.8	3.6	3.4	3.4	3.3	3.3	3.4
Participation rate, %	62.0	62.4	62.6	62.8	62.9	63.0	63.0	63.0
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	426.2	430.7	436.1	442.6	451.4	460.5	469.5	n/a
Population, annual % change	0.5	1.1	1.2	1.5	2.0	2.0	2.0	n/a
Mean individual taxable income, \$	32393	33071	33811	34685	36767	39310	n/a	n/a
Average farm debt, '\$'000	388.5	340.3	581.9	318.2	557.4	670.7	563.9	n/a
Equity ratio, %	82	88	85	90	87	86	89	n/a
Average rural land holding, \$mn	1.54	1.97	2.64	2.71	3.15	3.70	3.88	n/a

Sources: ABS, ABARE, ATO, Economics@ANZ

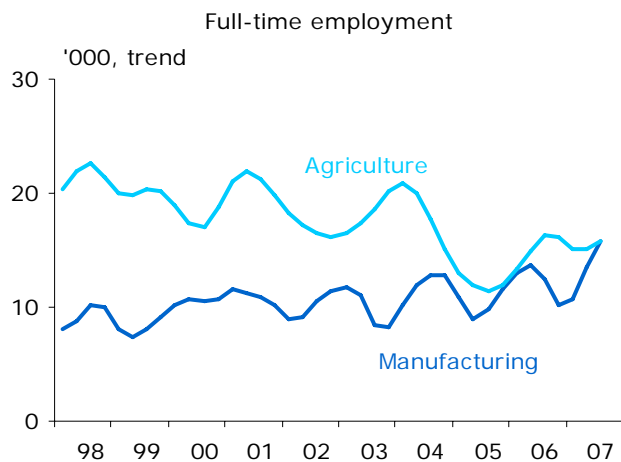
## South Queensland

The South Queensland region



- Economic momentum in South Queensland is easing a touch but overall the economy remains very strong.
- Employment growth has cooled to 0.6% p.a., significantly below the peak of 8.1% in February this year. As a result, the unemployment rate has ticked up to 2.7%, but remains well below the national average of 4.3%.
- Surprisingly, employment growth is being supported by the region's manufacturing industry with full-time employment increasing by 27% in trend terms over the year. This is a remarkable result given that the Australian dollar is at very high levels and eroding the competitiveness of exporter oriented industries.
- Some sectors of agriculture are also holding up well with South Queensland recently receiving much needed rain particularly around the Darling Downs region. This will boost the prospects for summer crops. In addition, the Bureau of Meteorology's latest rainfall outlook indicates a good chance of better than average rainfall in southeast Queensland. In contrast, conditions in the feedlot industry are among the most difficult in years with high grain prices and the strong Australian dollar squeezing profits and driving the number of cattle on feed down by 14.6% in the September quarter, according to the latest Australian Lot Feeders Association (ALFA) – Meat and Livestock Australia (MLA) survey.
- Turning to the construction industry, residential building approvals are again picking up after easing last quarter. The market remains tight with limited supply but strong demand. There is also renewed interest in the professional office market, coinciding with new infrastructure such as the upgrading of Ruthven Street in Toowoomba.

### Manufacturing employment has picked up this year



Source: ABS

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### Economic data – South Queensland

Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	112	114	114	116	117	117	119	n/a
Non-res building approvals, \$mn	63	63	62	62	61	60	59	n/a
Employment, annual % change	7.4	6.2	4.8	3.5	2.6	1.9	1.1	0.6
Unemployment rate, %	2.8	2.5	2.3	2.3	2.3	2.4	2.6	2.7
Participation rate, %	66.7	66.4	66.0	65.7	65.3	64.9	64.4	63.9
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	234.1	237.4	240.2	242.9	245.8	250.2	253.5	n/a
Population, annual % change	1.2	1.4	1.2	1.1	1.2	1.8	1.3	n/a
Mean individual taxable income, \$	29771	29198	30775	31184	33424	35790	n/a	n/a
Average farm debt, '\$'000	127.3	130.7	116.9	163.5	150.5	201.6	323.8	n/a
Equity ratio, %	89	90	93	90	91	90	88	n/a
Average rural land holding, \$mn	0.96	1.10	1.27	1.26	1.48	1.64	2.20	n/a

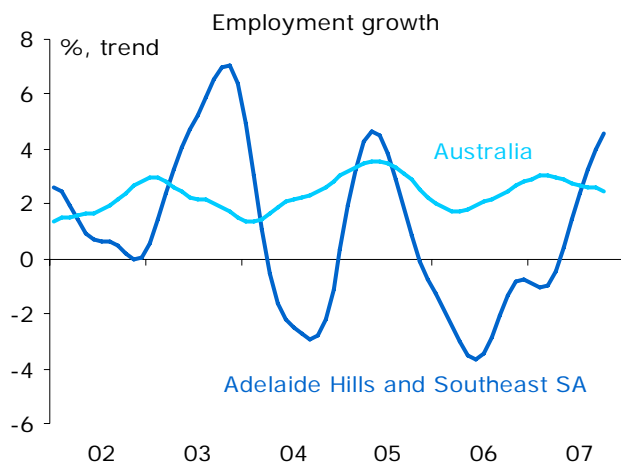
Sources: ABS, ABARE, ATO, Economics@ANZ

## Adelaide Hills and South East SA

The Adelaide Hills and South East SA region



### Regional employment growth has turned the corner



Source: ABS

- Drought still dominates the local landscape in this predominantly agricultural region, but late spring rains in October and November and forecasts of more thunderstorms through early summer have provided some prospect of improving conditions.
- There is increased optimism for grain crops, with sound yields now expected in the Lower-Mid South East region. ABARE is forecasting winter grain (wheat, canola and barley) production to be 60% up on 2006-07 for South Australia as a whole, but 37% below the 5 year average.
- With better grain yields and pasture conditions, the outlook for livestock (cattle, dairy and sheep) has also improved relative to last year, but yields will remain below average.
- The situation for irrigators remains critical. The latest report from the Murray-Darling Basin Commission suggests that there is unlikely to be any significant water allocations from the Murray River system until next winter, when the more substantial water inflows typically occur.
- The local forestry sector received a boost from the State Government's approval of a \$1.5bn wood pulp mill at Penola. The project will employ over 400 workers during construction.
- In the fishing industry, the crayfish season commenced in October with good initial prices around \$40/kg, but depreciated to \$30/kg in Nov. Prices are seasonal and will rapidly appreciate again as domestic demand rises for the Christmas rush and for Chinese New Year.
- Elsewhere in the local economy, the residential construction cycle has flattened and non-residential construction is down.
- Local employment growth accelerated strongly through late 2007 and is now running above the national average. Labour force participation is also rising in response to more job opportunities.

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### Economic data – Adelaide Hills and South East SA

Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	58	59	59	60	60	61	61	n/a
Non-res building approvals, \$mn	19	18	18	17	17	16	16	n/a
Employment, annual % change	-0.9	-0.4	0.4	1.4	2.4	3.3	4.0	4.6
Unemployment rate, %	4.2	4.1	3.9	3.7	3.6	3.6	3.6	3.7
Participation rate, %	61.6	61.7	61.8	62.0	62.3	62.5	62.6	62.8
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	165.0	165.2	165.6	165.8	166.0	167.1	167.6	n/a
Population, annual % change	0.2	0.1	0.2	0.1	0.1	0.6	0.3	n/a
Mean individual taxable income, \$	30431	31935	38174	40287	37234	37987	n/a	n/a
Average farm debt, '\$000	214.2	159.0	184.5	234.4	265.2	244.0	369.5	n/a
Equity ratio, %	86	89	89	88	91	91	91	n/a
Average rural land holding, \$mn	1.34	1.20	1.31	1.75	2.47	2.36	3.34	n/a

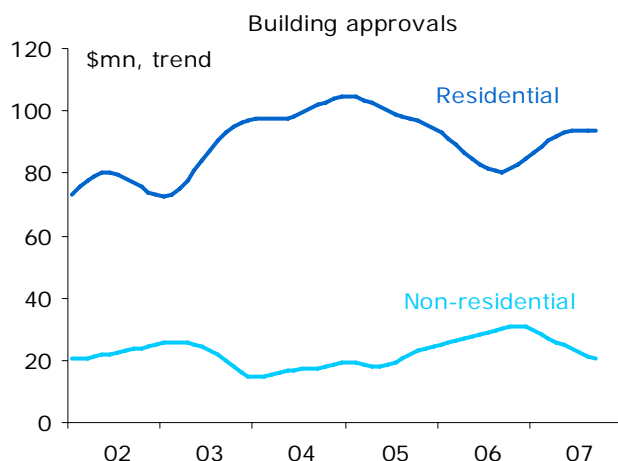
Sources: ABS, ABARE, ATO, Economics@ANZ

## North East SA and Fleurieu

The North East SA and Fleurieu region



### Residential construction swings back up



Source: ABS

- Agriculture – the region's largest industry – is bracing for another harsh summer. A dry spring season has caused yields to be significantly reduced for broadacre crops. Late spring rains were light and generally too late to impact winter harvest results. The downturn in production will be somewhat offset by increased grain prices.
- Water allocations to irrigators along the Murray River have been set at 16%, causing significant strain for irrigators producing wine grapes, citrus and stone fruits. At the time of writing, the allocation is expected to lift to at least 22% from 1 December, but still well below the 60% that irrigators received in 2006-07. Rising fruit prices will benefit growers who are able to produce a healthy crop.
- On the upside, the drought is proving beneficial to the region's significant wine industry by helping to reduce the oversupply of wine grapes.
- Local residential construction is set for a lift, with the value of approvals steadily rising through 2007. This will help to offset the decline in non-residential building approvals over the period.
- Stronger residential construction activity will help to ease the rental property market, with agents reporting shortages in rental stock and rising rents throughout the region. Spring also sees the commencement of the high season for holiday homes. There is good demand for residences for sale or rent on the Fleurieu Peninsula and, to a lesser extent, along the Murray River.
- Employment growth accelerated through late 2007 and is now well above the national average. The labour force participation rate has also risen, as more people enter the workforce in response to better job opportunities. Unemployment remains well below the national average (4.3%), at 3.7%.

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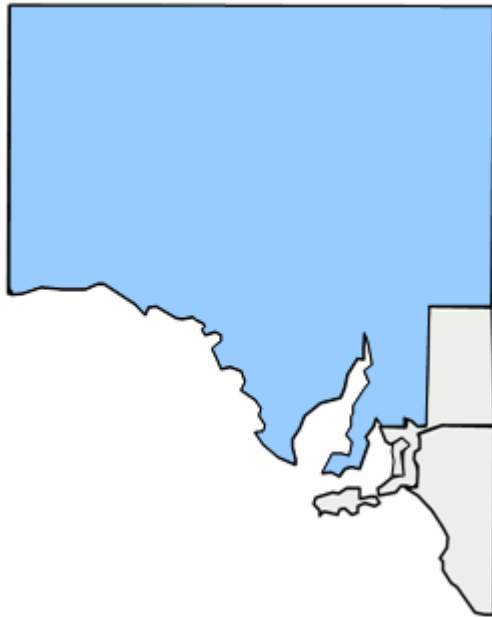
### Economic data –North East SA and Fleurieu

Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	91	92	93	93	93	94	94	n/a
Non-res building approvals, \$mn	27	26	25	24	23	21	21	n/a
Employment, annual % change	-0.9	-0.4	0.4	1.4	2.4	3.3	4.0	4.6
Unemployment rate, %	4.2	4.1	3.9	3.7	3.6	3.6	3.6	3.7
Participation rate, %	61.6	61.7	61.8	62.0	62.3	62.5	62.6	62.8
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	111.9	114.0	116.3	118.8	121.3	123.9	125.9	n/a
Population, annual % change	1.8	1.8	2.0	2.2	2.2	2.1	1.6	n/a
Mean individual taxable income, \$	28778	31393	34244	34727	35360	35943	n/a	n/a
Average farm debt, '\$'000	174.0	181.6	186.1	197.7	177.6	257.8	301.6	n/a
Equity ratio, %	86	87	89	92	93	90	89	n/a
Average rural land holding, \$mn	1.08	1.19	1.40	2.06	2.14	2.17	2.38	n/a

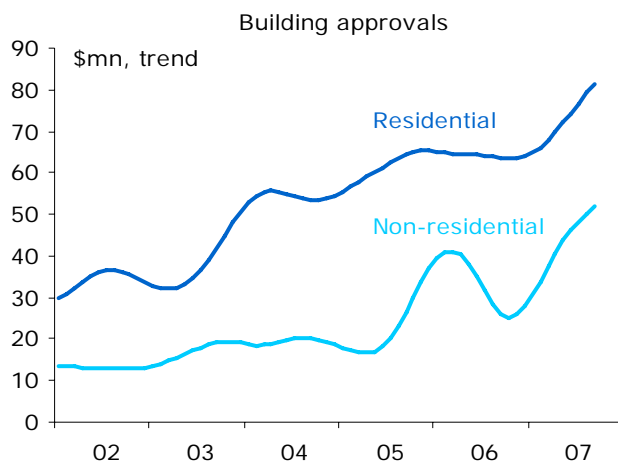
Sources: ABS, ABARE, ATO, Economics@ANZ

## North and West SA

The North and West SA region



Construction approvals continue to rise



Source: ABS

- The economy of North and West SA is dominated by the mining industry (mainly copper, gold and uranium). Production is running at full steam and is on track to expand further, with capital works projects worth \$1,274mn currently underway across SA, but mainly focused on Prominent Hill.
- In agriculture, spring rains have been patchy over the Eyre Peninsula. Temperatures were also significantly above average, placing crops under severe moisture stress. Rainfall received in late Oct was generally too late to save winter crop yields, which are expected to be more than 60% below average across the western Eyre Peninsula. Grain producers in the mid-north and Yorke Peninsula may yet produce solid yields, enabling them to benefit from high grain prices.
- Local residential and non-residential construction activity is booming, with the value of approvals trending up strongly through 2007. Residential developments including "The Dunes" at Port Hughes and "Ocean Eyre" at Whyalla have stimulated significant interest.
- In Whyalla, a new Industrial Estate was officially launched in Oct. When complete, this will be the largest industrial estate in SA, with a first stage consisting of 150 hectares, and two additional stages of 120 hectares each. 75% of stage one was sold prior to the official launch. The estate will be an attractive base for companies involved in resources projects to the north and west. It is expected to create hundreds of new jobs and provide a major boost to the local economy.
- Tourism activity remains strong, especially around the Flinders Ranges and Eyre Peninsula.
- After growing at a furious rate through early 2007, there are signs the local labour market is settling. Jobs growth is easing off and unemployment is creeping up again, as more people enter the workforce to actively seek work.

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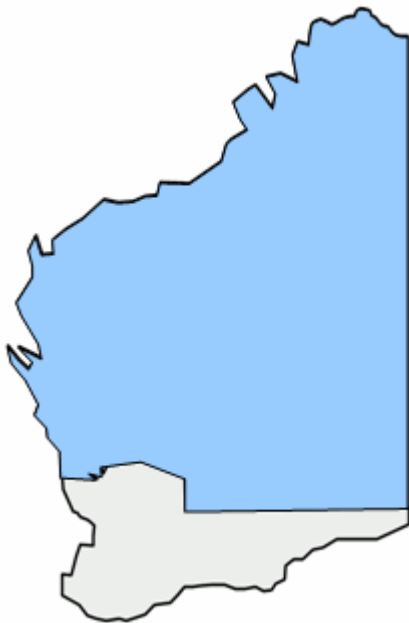
### Economic data – North and West SA

Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	68	70	72	74	77	79	81	n/a
Non-res building approvals, \$mn	37	41	44	46	48	50	52	n/a
Employment, annual % change	4.4	4.9	5.2	5.0	4.1	3.0	1.7	0.6
Unemployment rate, %	4.2	3.8	3.7	4.0	4.5	5.0	5.6	6.1
Participation rate, %	63.3	63.4	63.7	63.9	64.1	64.3	64.3	64.3
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	115.1	114.2	112.8	112.5	112.1	111.7	112.1	n/a
Population, annual % change	-0.3	-0.8	-1.2	-0.2	-0.4	-0.3	0.3	n/a
Mean individual taxable income, \$	31621	33302	34605	36121	37756	39261	n/a	n/a
Average farm debt, \$'000	215.1	180.4	257.8	269.6	282.3	312.7	238.9	n/a
Equity ratio, %	80	83	82	88	90	88	92	n/a
Average rural land holding, \$mn	0.85	0.88	0.99	1.69	2.00	2.05	2.27	n/a

Sources: ABS, ABARE, ATO, Economics@ANZ

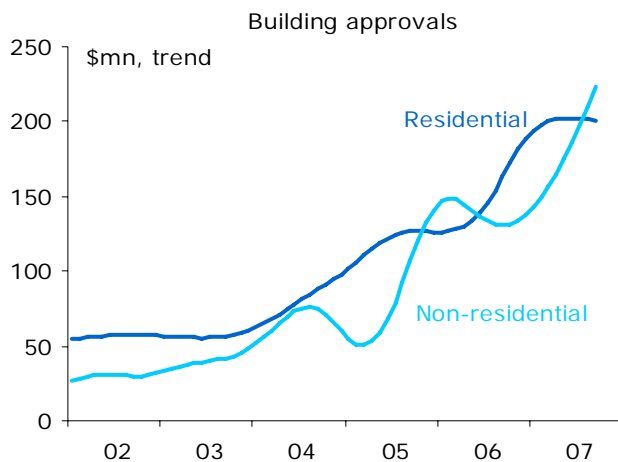
## North WA

The North WA region



- North WA continues to ride the global commodity boom. WA is benefiting from record mining-related investment and exploration expenditure, with 37 advanced projects (worth \$42bn) currently under way, most of them in the north, including major expansions at the North West shelf (oil and LNG), Pilbara and Hope Downs (iron ore) and Argyle (diamonds).
- Non-residential construction activity is increasing at a phenomenal rate with the value of approvals in September 2007 a whopping 109.6% higher than the same month a year earlier. The value of monthly residential approvals has fallen slightly from its peak in mid-2007 but remains at a high level.
- Competition for skilled labour remains a major constraint on further expansion plans with the unemployment rate falling to an amazingly low 3.7%, well below the national average of 4.3%. The labour force participation rate of 71% is the second highest in Australia, behind the Northern Territory. The region nevertheless achieved solid employment growth of 2.3% in the year to October 2007.
- In the agriculture sector, the long drought has bitten North WA hard in recent months. Both the Northern and Southern pastoral areas of North WA were officially declared in September 2007 and are therefore eligible for interim drought assistance.
- In the northern part of the Western Australian grains belt, the area sown to winter crops was below the long term average, reflecting the poor start to the season. However, the rainfall in early October has benefited late sown crops in this region.

### Non-residential construction is booming



Source: ABS

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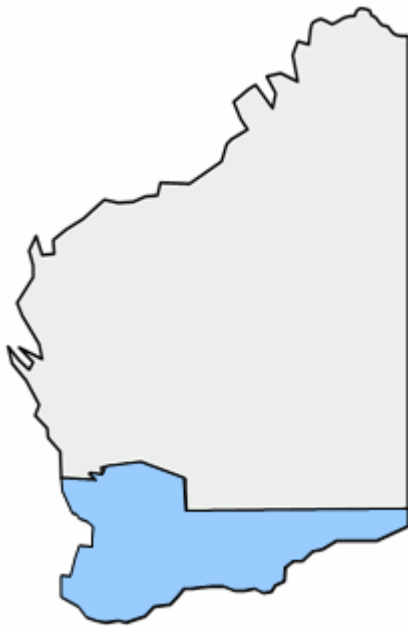
### Economic data – North WA

Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	201	202	202	202	202	202	201	n/a
Non-res building approvals, \$mn	157	165	175	186	198	210	224	n/a
Employment, annual % change	-0.1	-0.4	-0.5	-0.3	0.2	0.9	1.6	2.3
Unemployment rate, %	3.8	3.8	3.9	3.9	3.9	3.8	3.8	3.7
Participation rate, %	71.3	71.3	71.3	71.3	71.3	71.4	71.4	71.5
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	187.1	188.0	188.4	188.9	187.9	188.2	189.9	n/a
Population, annual % change	0.2	0.5	0.2	0.3	-0.6	0.2	0.9	n/a
Mean individual taxable income, \$	31001	30341	31503	33593	34436	36051	n/a	n/a
Average farm debt, \$'000	498.1	417.8	417.1	522.5	599.4	547.1	706.0	n/a
Equity ratio, %	77	83	83	83	82	82	82	n/a
Average rural land holding, \$mn	1.71	1.78	1.88	2.38	2.52	2.48	3.00	n/a

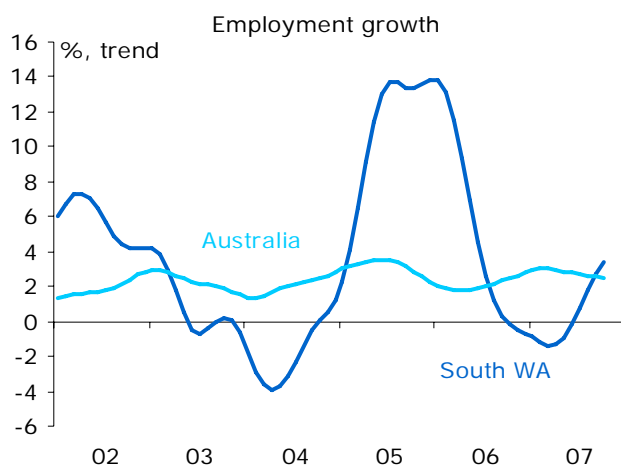
Sources: ABS, ABARE, ATO, Economics@ANZ

## South WA

The South WA region



Employment growth turns firmly positive again



Source: ABS

- South WA's economy is thriving, fuelled by the global mining boom and a (not unrelated) local construction boom. Significant mining-related capital expenditure projects are currently underway at Karara (iron ore), Boddington (gold), Ravensthorpe (nickel), Gwalia Deeps (gold) and other locations across the South. LNG and ammonium nitrate processing expansions are under way at Kwinana.
- The value of monthly non-residential building approvals climbed to record highs through 2007, reaching \$197mn by September — 86% higher than a year earlier. The value of monthly residential building approvals has come off the boil, but remains at elevated levels. (These data do not include building activity in Perth.)
- After easing back from double digit growth in 2006, jobs growth accelerated again in late 2007, reaching 3.4% per annum by October. Local demand for skilled workers remains strong and availability is tight.
- This jobs growth continues to attract even more people into the local labour market. The participation rate increased to 65.9%, taking the unemployment rate up a notch with it. South WA's unemployment rate is now above the national unemployment rate, for the first time in 2 years.
- The drought continues to dominate agricultural news. Widespread rains fell across most grain growing regions in early October, particularly in the Esperance and Great Southern regions. Harvesting of some crops has commenced earlier than usual (e.g. canola around Esperance). ABARE is forecasting WA winter grain crops to be about 13% above last year's drought reduced outcome, but well below the 5 year average. In the pastoral sector, early November sheep yardings at Midlands and Katanning were 24% and 20% below their 5 year average.

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### Economic data – South WA

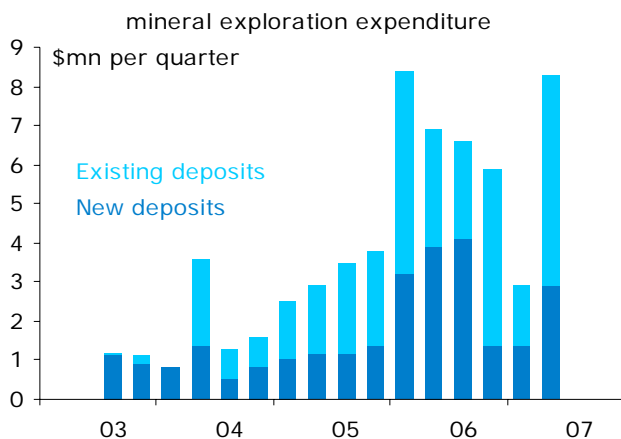
Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	463	461	460	458	456	453	456	n/a
Non-res building approvals, \$mn	109	120	133	147	163	182	197	n/a
Employment, annual % change	-1.4	-1.3	-0.9	-0.1	0.8	1.8	2.7	3.4
Unemployment rate, %	3.2	3.2	3.4	3.6	3.9	4.2	4.5	4.7
Participation rate, %	64.7	64.8	65.0	65.2	65.4	65.6	65.8	65.9
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	314.4	320.2	324.6	329.5	335.6	344.7	353.1	n/a
Population, annual % change	2.2	1.8	1.4	1.5	1.9	2.7	2.4	n/a
Mean individual taxable income, \$	32156	32623	34623	37864	39606	41210	n/a	n/a
Average farm debt, \$'000	364.0	390.3	428.2	435.0	527.9	643.6	757.3	n/a
Equity ratio, %	81	83	85	86	86	84	84	n/a
Average rural land holding, \$mn	1.70	1.89	2.16	2.49	3.00	3.27	3.88	n/a

Sources: ABS, ABARE, ATO, Economics@ANZ

## Tasmania



Tasmanian mineral exploration expenditure is at near record levels



Source: ABS

- Mining related activity is booming in Tasmania as elsewhere around Australia. Mining exploration expenditure in the state is currently at record levels. Two new mining projects have recently come on-stream on the West Coast — Allegiance Mining’s new nickel mine at Avebury and the re-opened Renison tin mine nearby. The Mt Bischoff tin mine project is also underway.
- The increase in mining activity is having a significant flow-on effect for the major population centres in the Northwest, particularly in terms of consumer spending. Industries involved directly in supplying goods and services to mining are currently enjoying very buoyant conditions.
- The miners are bringing their generous pay-packets to the major Northwest retail centres. Nominal Tasmanian retail sales grew 7.8% (seas. adj.) in the year to August 2007, equal to retail sales growth for Australia as a whole. For Tasmania, the standout retail performers were hospitality and services retailers (up 12.4%) and household goods retailers (up 7.7%).
- In the agricultural sector, rainfall was at or above average in most areas of the state for the three months to October 2007. The exception was the east coast, parts of which remain dry and officially drought declared. The outlook is generally positive for the coming summer harvest, however water storages and soil moisture content are below historical averages. All of the state is officially drought declared for exceptional circumstances or interim assistance.
- Despite the dry conditions, Tasmanian dairy farmers are benefiting from strong returns with a further increase in price being offered by major producers to dairy farmers. This follows drought and flood damage to dairy properties limiting production across mainland Australia. As a result, there are record prices for good dairy properties in Northwest Tasmania.

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### Economic data – Tasmania

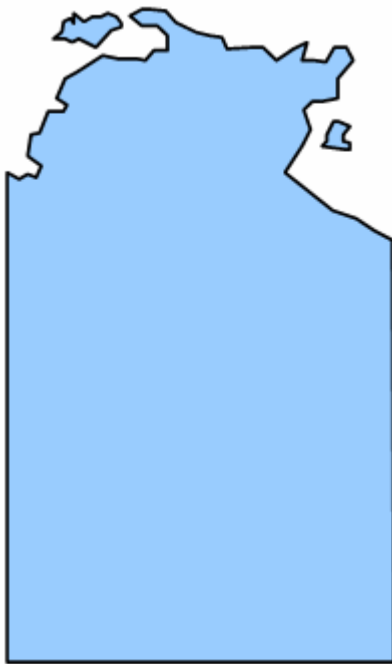
Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	54	48	59	46	47	50	53	n/a
Non-res building approvals, \$mn	12	16	35	19	33	45	15	n/a
Employment, annual % change	0.4	0.5	0.6	0.9	1.2	1.6	2.0	2.3
Unemployment rate, %	5.3	5.1	5.0	5.0	5.0	5.1	5.2	5.3
Participation rate, %	60.1	60.1	60.1	60.2	60.4	60.5	60.7	60.8
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	471.4	471.8	472.6	477.3	482.2	485.7	488.9	n/a
Population, annual % change	0.0	0.1	0.2	1.0	1.0	0.7	0.7	n/a
Mean individual taxable income, \$	31410	33604	34270	35477	37595	39461	n/a	n/a
Average farm debt, \$'000	214.7	161.8	156.1	186.9	146.4	203.9	276.3	n/a
Equity ratio, %	84	87	88	89	92	91	91	n/a
Average rural land holding, \$mn	1.15	1.01	1.04	1.25	1.44	2.08	2.70	n/a

Sources: ABS, ABARE, ATO, Economics@ANZ; Note: the table includes data on Hobart

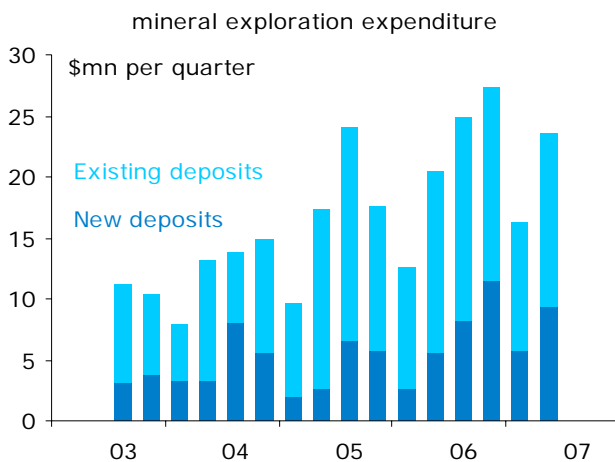


## Northern Territory

Northern Territory



### Mineral exploration expenditure in the Territory remains sky high



Source: ABS

- Ongoing strong employment growth (7% p.a. to October 2007) and a generally younger population profile have given the Northern Territory the highest workforce participation rate in Australia, at 73.6%.
- However, the continuing inflow of people looking for work (coming from both inside and outside the Territory), has pushed the unemployment rate back up to 4.6%.
- Mining-related activity and investment continue to underpin the Territory's economy. In October 2007, there were 9 advanced onshore and offshore mineral and energy mining exploration and investment projects underway, worth a combined total of \$1.26bn, plus another 13 less advanced projects. Offshore and pipeline projects in the Timor Sea to the North are particularly significant in terms of size and number.
- Actual mineral exploration expenditure in the Territory was worth \$92.2mn in 2006-07, up 23% from a year earlier and up 90% from five years earlier.
- Supported by a buoyant labour market and population growth, retail sales growth remained at very high levels, with 9.3% growth for the year to September 2007. The nominal value of sales by household goods retailers in the Territory grew by an astonishing 26.5% in the year to September 2007.
- The construction industry remains robust. In particular, the value of non-residential building approvals has increased strongly each quarter over the past year. This has partly offset some of the volatility in residential building approvals.
- Drought has affected agricultural land values in the Territory to a lesser extent than other rural regions of Australia. Equity ratios are edging up on the back of rural land consolidations and value increases in 2005-06.

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### Economic data – Northern Territory

Monthly data (trend)	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Residential building approvals, \$mn	46	37	42	28	29	41	29	n/a
Non-res building approvals, \$mn	33	13	36	7	17	27	40	n/a
Employment, annual % change	4.8	4.1	3.8	4.1	4.9	5.8	6.6	7.0
Unemployment rate, %	3.9	4.3	4.5	4.5	4.5	4.5	4.5	4.6
Participation rate, %	70.3	70.8	71.3	71.9	72.5	72.9	73.3	73.6
Annual data	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07
Population, '000	195.6	197.8	198.7	198.5	199.8	203.4	206.7	n/a
Population, annual % change	1.5	1.1	0.5	-0.1	0.6	1.8	1.6	n/a
Mean individual taxable income, \$	36698	37911	39294	40711	43026	45716	n/a	n/a
Average farm debt, \$'000	798.6	832.4	750.6	784.7	503.4	538.2	563.5	n/a
Equity ratio, %	82.1	85.1	90.1	87.2	93	93	94	n/a
Average rural land holding, \$mn	3.65	3.90	4.07	3.50	4.04	5.20	6.37	n/a

Sources: ABS, ABARE, ATO, Economics@ANZ; Note: the table includes data on Darwin

## ANZ Research

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