Queensland Economic Update

March 2017

www.cciq.com.au

Powering business potential

Chamber of Commerce & Industry Queensland

Conditions across Queensland appear to be improving despite poor jobs data. State final demand has started to recover while recent measures of confidence, both business and consumer, point to improving operating conditions for businesses in 2017.

Steven Gosarevski
CCIQ, Economist & Data Analyst

Contents

CCIQ Economic Full Report

CCIQ Economic Update

Queensland Economic Developments

The past month of data has produced a mixed bag of results.

Data on the national and state economy showed an improvement in activity. State Final Demand rose through the year to December 2016 by 0.4 per cent, supported by household consumption and government expenditure on consumption and investment. This modest improvement follows significant declines during 2014 and 2015 where the retreat of mining related investment significantly impacted domestic activity.

Retail trade data showed expenditure in Queensland expanded 3.6 per cent for the year to January 2017 as the state continued to outperform the national average for the fifth consecutive month. The outlook for retail expenditure in the near term appears positive with some downside risk. A pick up in tourism activity and changes to trading hours legislation should deliver a boost to retail sector activity, however the poor state of the labour market is likely to weigh down on spending activity.

Housing construction appears to have reached a tipping point where new dwelling approvals are starting to decline, particularly in the apartments, units and townhouses segment. The threat of an oversupply in Brisbane inner-city apartments as well as potential further measures to cool price growth are weighing on the sector. These factors are expected to lead to residential construction activity easing through the second half of 2017.

The most concerning data from the past month was the spike in the trend unemployment rate to 6.4 per cent for February. In seasonally adjusted terms, the unemployment rate is currently the highest in the country. The recent soft economic conditions have taken their toll with 24,000 jobs lost during the past year. The gap between the regions has widened further with South-East Queensland's unemployment rate 2.1 percentage points lower than regional Queensland.

The poor state of the jobs market has also impacted interstate migration patterns. For decades, Queensland has enjoyed population growth well above the national average, a beneficiary from strong levels of net interstate migration. However, as the mining investment boom has unwound and the state's economic prospects dimmed, population growth has slowed and is now below the national average for the first time in decades.

Overall, conditions across the state appear to be improving despite poor jobs data. State final demand has started to recover while recent measures of confidence, both business and consumer, point to improving operating conditions for businesses. In particular, the latest CCIQ Pulse Survey in December saw a large jump in the 12 month economic outlook as businesses started to report improving sales and revenues. Typically improvements in economic activity are followed by improvements in the employment market with a lag of up to six months, so the labour market should start to see improvement in coming months.

Labour Force

24,000

Net jobs lost in 12 months to February '17

Source: ABS 6354.0

State Final Demand

0.4%

First year of growth since 2013

Source: ABS 5206.0

QUEENSLAND ECONOMY: KEY ECONOMIC INDICATORS

Indicator	Latest Release	Rate	Change
State Final Demand	Dec (Q)	0.4%	↑
CCIQ Pulse Survey 12 Month Outlook	Dec (Q)	49.0	↓
Unemployment Rate (Trend)	Feb (M)	6.4%	↓
Building Approvals	Jan (M)	-6.8%	↓
Retail Trade	Jan (M)	3.6%	↑
Job Vacancies	Nov (Q)	6.6%	↑
Residential Property Price Index	Dec (Q)	3.8%	↑
Exchange Rate (A$ - US$)	Feb (M)	76.7	↓

Population Growth

1.4%

Compared to decade average of 1.9%

Source: ABS 3101.0

Retail Trade

3.6%

Annual retail sales growth

Source: ABS 8501.0

Business Conditions

- **State final demand** positive for calendar 2016
- **Retail sales** continue encouraging growth
- **Discouraged workers** exiting the workforce, down to 64.1%

Labour Force

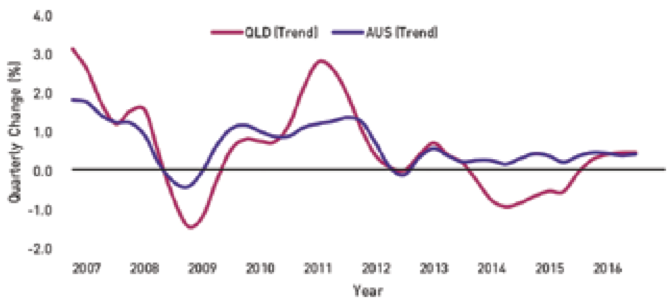
- **6.4% unemployment rate** is 0.6points higher than the national rate.
- **44,000 fewer jobs** compared with this time last year.
- **Regional unemployment** is rising.

Queensland Economic Overview

12 Month Outlook

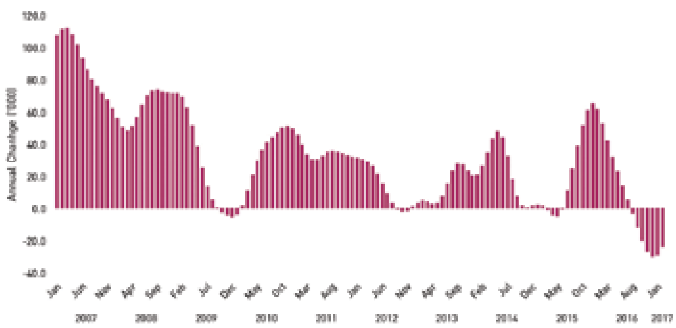
- **State final demand** pick-up with lower dollar assisting key services industries.
- **Building construction** to moderate through the second half of 2017.
- **Employment growth** to swing back into positive territory.

Graph 1 - State Final Demand (%)



Source: ABS

Graph 2 - Change in Employment ('000) Trend 2007-2017



Source: ABS

Building Approvals

-38%

Annual fall in total building approvals

Source: ABS 8731.0

Unemployment Rate

6.4%

Rising while participation at decade lows

Source: ABS 6202.0

CCIQ Economic Update Full Report

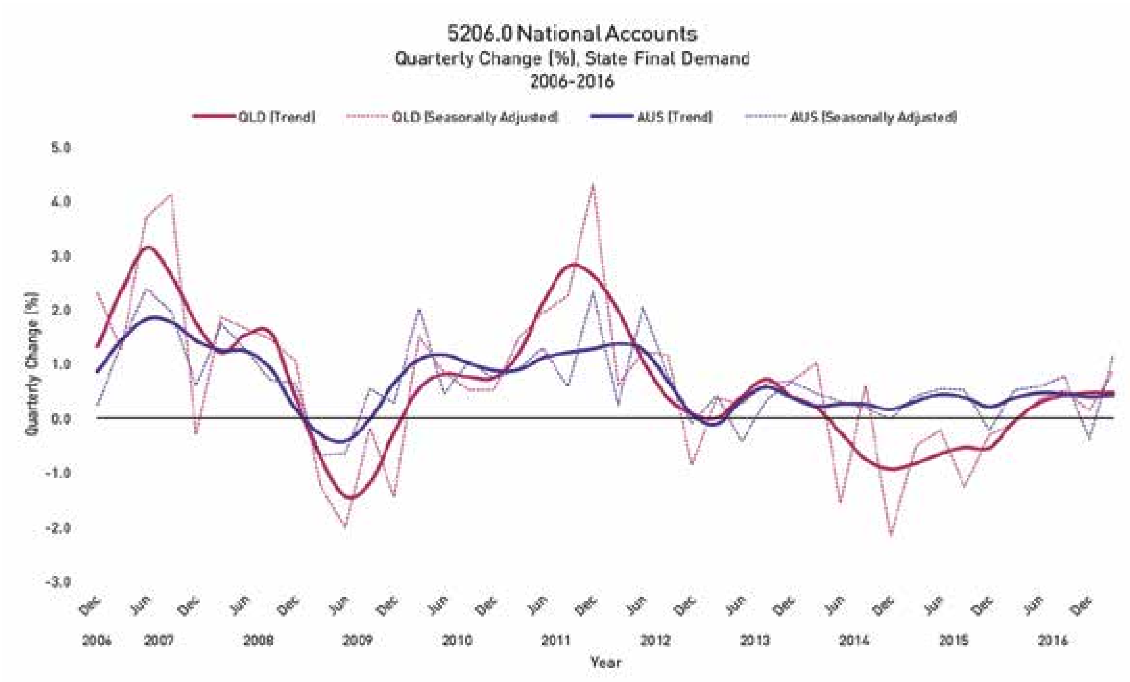
1. State Final Demand

Data from the National Accounts showed domestic demand in Queensland improving marginally throughout 2016 to $319.2 billion. State Final Demand rose through the year to December 2016 by 0.4 per cent. This modest improvement follows significant declines during 2014 and 2015 where the retreat of mining related investment significantly impacted domestic activity. Activity remains 3.4 per cent below the peak 2014 levels.

Household consumption growth remained solid at 2 per cent, however this remains below long term trend levels. The impact of the softer jobs market has held household consumption in check over the past year. The growth in the size of the public sector also contributed to expansion in domestic demand. Government consumption expanded by 4.2 per cent during 2016, while publicly funded investment rose by 2.1 per cent.

The increase in government funded investment is a critical component of a sustained economic recovery in Queensland. Since 2011, public infrastructure investment has declined 35 per cent in the period to 2015. However, a range of commencements across health, education, transport and construction works related to the Gold Coast Commonwealth Games have led to some improved outcomes in publicly funded investment. The prospects for growth in this area are strong with a substantial package of publicly funded works due to be delivered including the NBN, Gold Coast Light Rail Stage 2, Toowoomba Second Range Crossing and the Cross River Rail project.

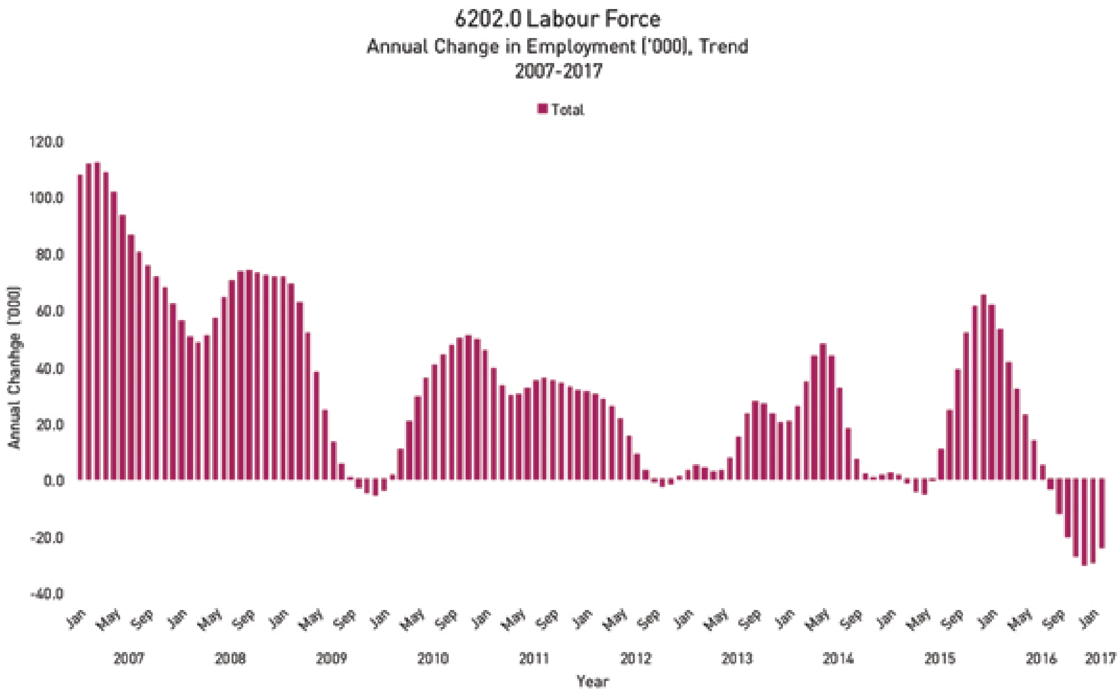
As the mining investment boom unwinds, three major Gladstone LNG projects have become operational. Private investment sunk 28 per cent in the past three calendar years and has subtracted approximately 7.7 percentage points from domestic demand. Now that the completion of major LNG projects and slump in coal investment has worked its way through the system, we should see private investment stabilise moving forward, albeit slowly.



Source: ABS

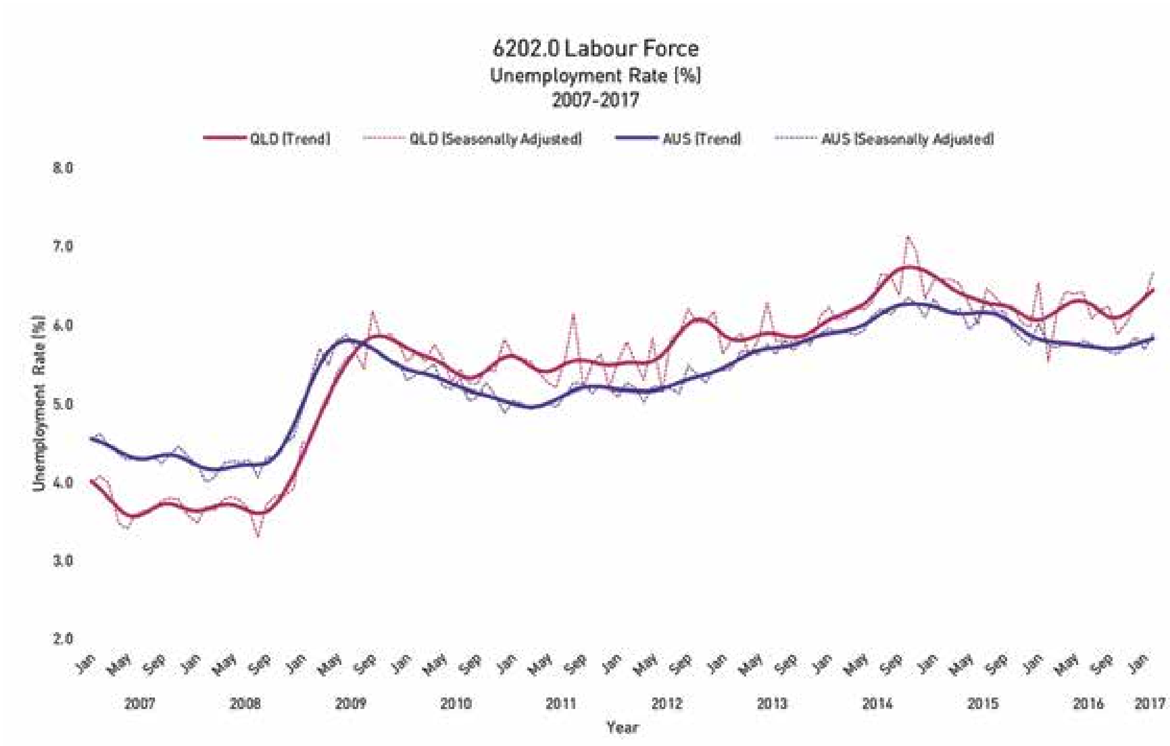
2. Labour Force

The unemployment rate in February spiked to 6.4 per cent (trend), rising from 6.1 per cent a year ago. The softer domestic economic conditions has seen the total number of people in employment decline during the past twelve months by 24,000 jobs, with a loss of 44,000 full-time roles only partially offset by a gain of 20,000 part-time roles. As the jobs market has weakened, the number of underemployed people rose by 12.1 per cent during the past year to 234,800 people. The vast majority of these workers (almost 90 per cent) were part-time employees seeking more hours in a part-time capacity.



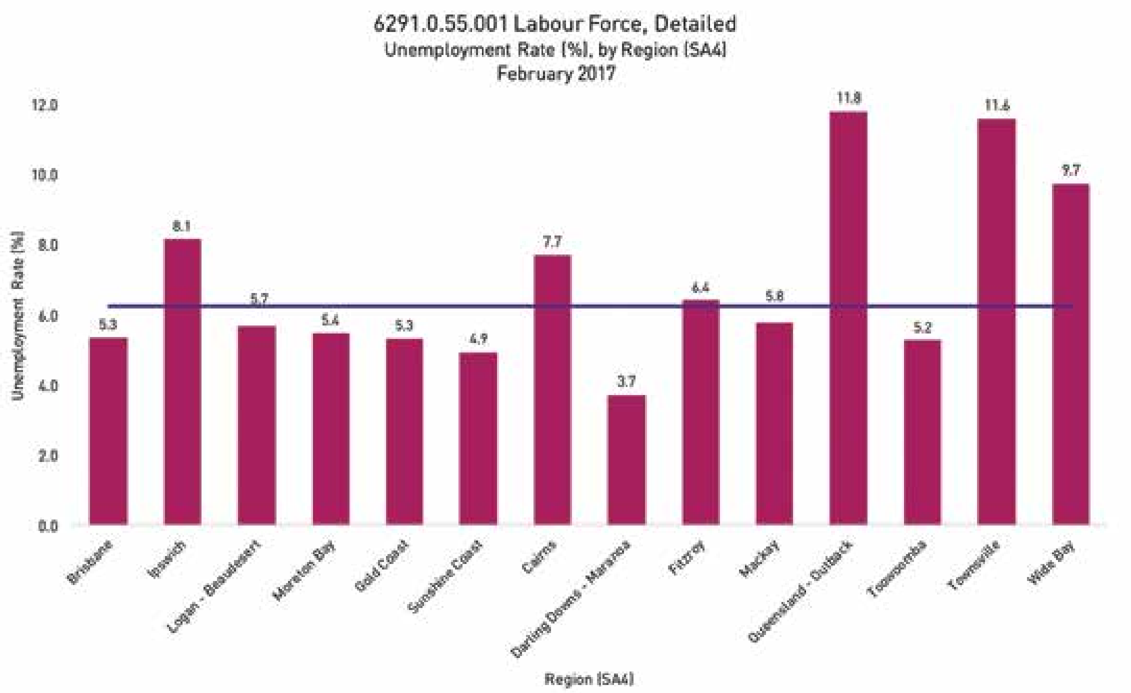
Source: ABS

The unemployment rate would be higher were it not for the participation rate falling to its lowest level since the 1990s. At 64.1 per cent, the proportion of working age people participating in the workforce has dropped three per cent in the past five years as growth has slowed. Poor employment prospects have had a discouraging affect on job seekers which have now increasingly stopped looking for work.



Source: ABS

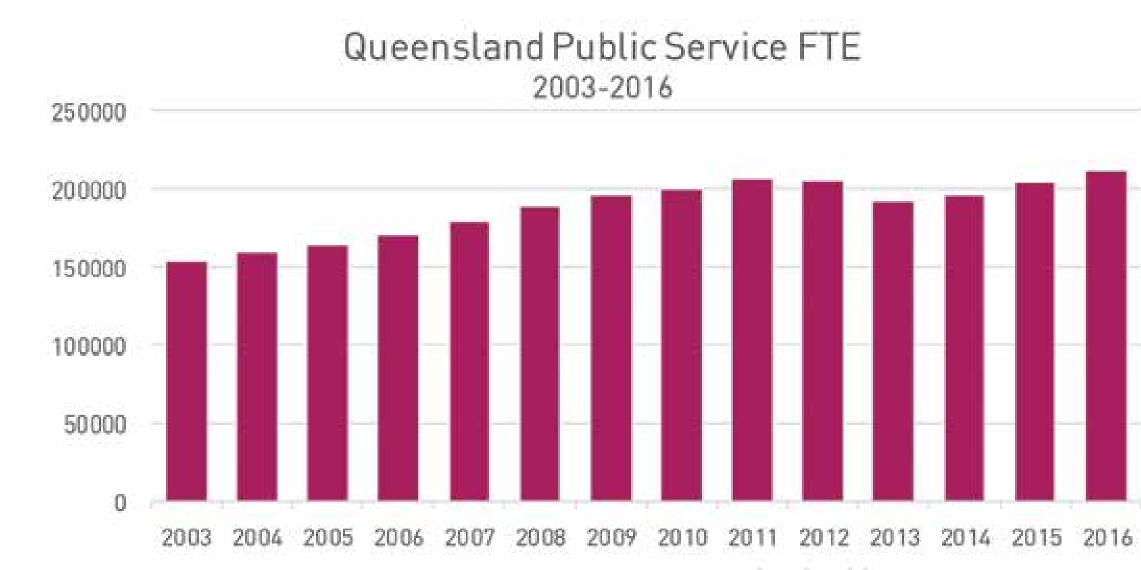
Conditions across the state vary with the unemployment rate in South-East Queensland lower than regional Queensland by 2.1 percentage points. This gap emerged in late 2014 as the mining investment boom began to slow, while at the same time residential construction around Brisbane began to accelerate. Across the state, the Queensland Outback and Townsville regions recorded the state's highest unemployment rates (11.8 and 11.6 per cent respectively) impacted by mining operation closures such as the Century mine near Mt Isa and the Queensland Nickel refinery in Townsville.



Source: ABS

Job creation has been weak across most industries during the past year. It has been particularly challenging for workers in the business services industries, with Professional, Scientific and Technical Services; Financial and Insurance Services; Administrative and Support Services; and Rental, Hiring and Real Estate Services shedding a combined 50,000 workers. It was also a tough period for workers in the Education and Training (-15,710) and Health Care and Social Assistance (-11,098) industry sectors. More encouraging were the results for the Construction (10,201) and Accommodation and Food Services (11,900) industries. The improvement in residential construction activity has reversed the decline in construction sector jobs, while the falling Australian dollar has been a big boon for the tourism industry.

Meanwhile, the public sector has been a strong source for jobs growth over the past year with Public Administration and Safety increasing headcount by 44,413. The rollout of the NDIS and the approaching Commonwealth Games appear to be the two main factors behind this stark increase in full-time (34,300) and part-time (10,100) work.



Source: ABS

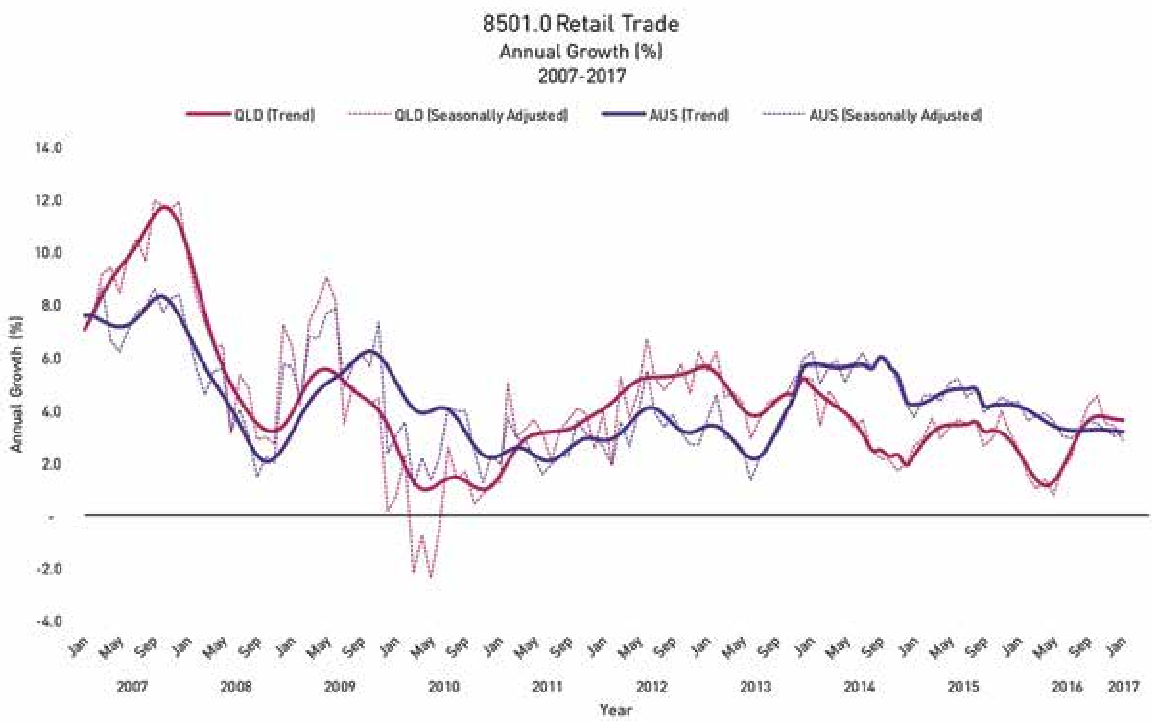
> **"The softer domestic economic conditions has seen the total number of people in employment decline during the past twelve months by 24,000 jobs."**

Steven Gosarevski
CCIQ, Economist & Data Analyst

3. Retail

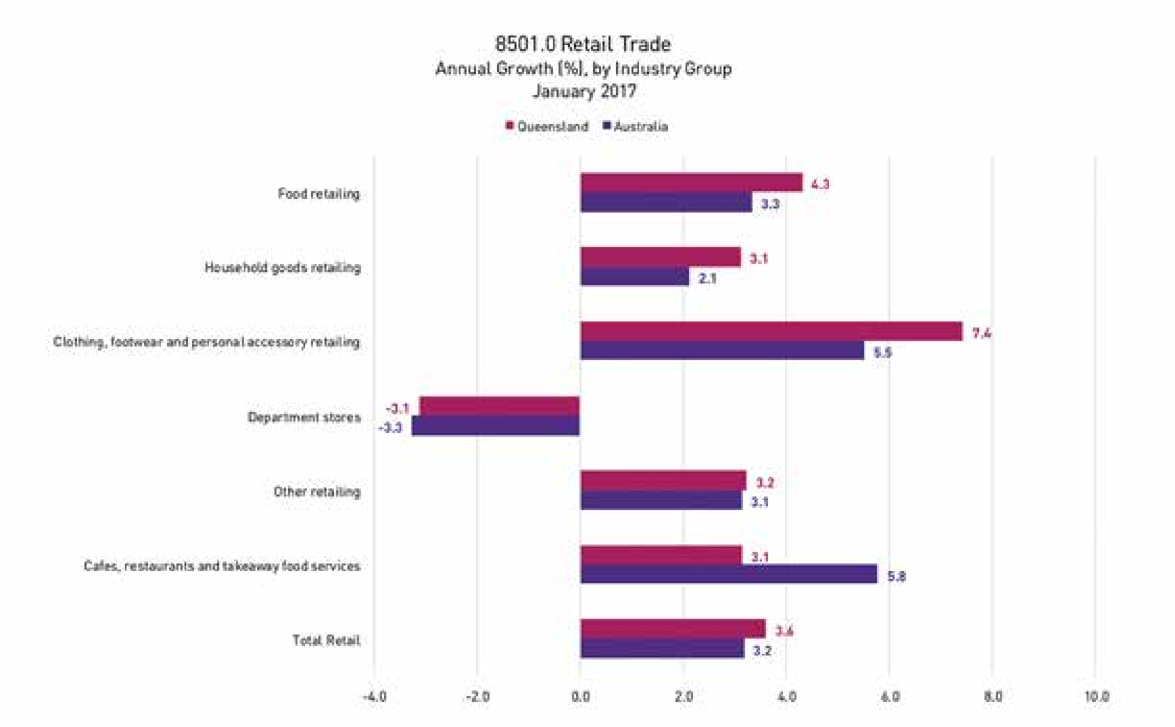
The latest data on retail trade showed expenditure in Queensland expanded 3.6 per cent in trend terms for the year to January 2017. The growth of retail expenditure in Queensland remained above the national average for the fifth consecutive month although the gap has narrowed recently.

However, the outlook for retail expenditure in the near term appears mixed with several key factors pulling in opposite directions. A pick up in tourism activity and changes to trading hours legislation is expected to deliver a boost to the retail sector. In contrast, job losses in the labour market and soft wages growth are anticipated to slow discretionary spending. Furthermore, consumer confidence is currently at a neutral level, with approximately an equal number of people optimistic and pessimistic about the future. Overall, the combination of these factors are expected to lead to moderating growth in retail expenditure in 2017 with consumers likely to hold off on discretionary spending.



Source: ABS

Almost all retail categories (with the exception of department stores) have sustained solid growth of over 3 per cent in the past year. The clothing, footwear and personal accessory category still shows the fastest growth in the retail sector (at 7.4 per cent) but only represents 7 per cent of total retail sales. More importantly, the largest retail category - food retailing (42 per cent of total retail expenditure) - accelerated through the second half of 2016 and has been the key driver of the pick up in retail trade over the same period.



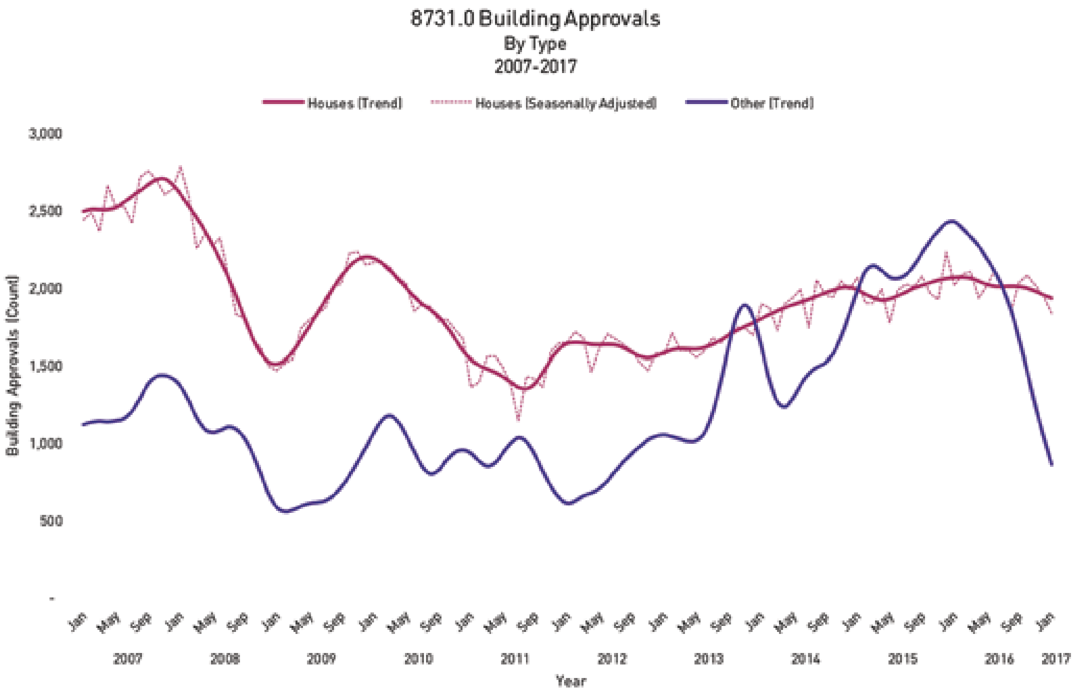
Source: ABS

> **“Growth appears to be moderating for retail expenditure in 2017 with consumers likely to hold off on discretionary spending”**

Steven Gosarevski - **CCIQ, Economist & Data Analyst**

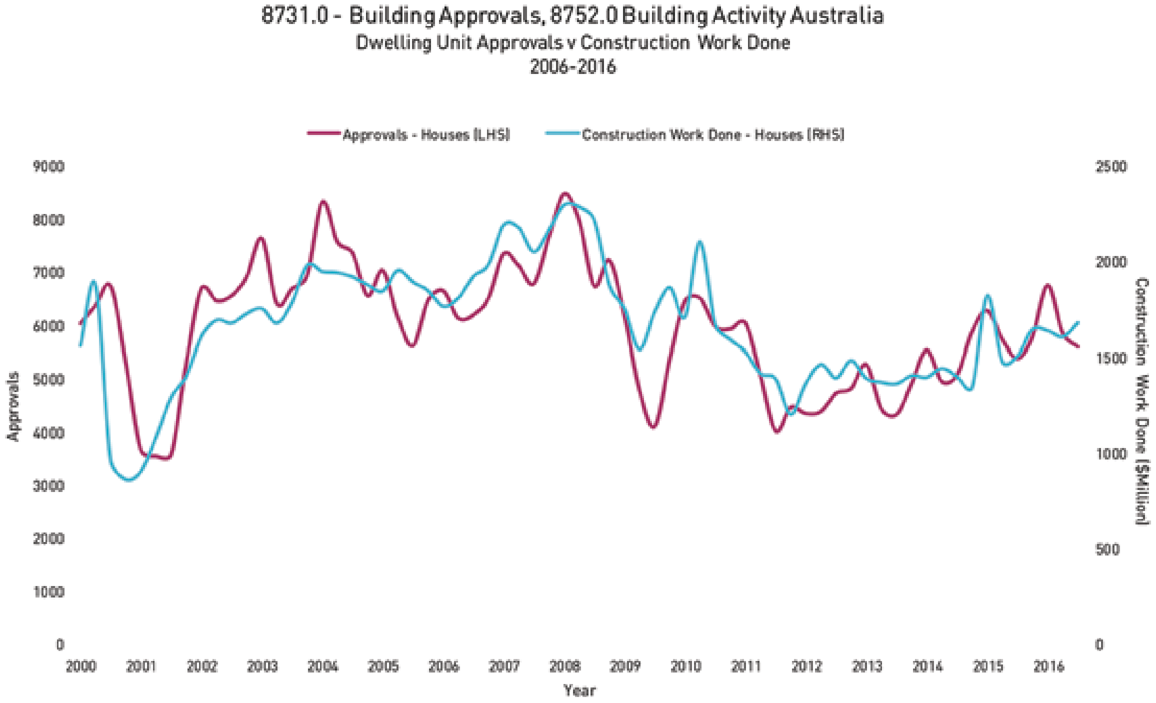
4. Building Approvals

New dwelling approvals weakened a further 6.8 per cent during January, continuing a yearlong slowdown which has seen trend monthly approvals fall by 38 per cent since January 2016. The decline in approvals is being driven by the apartments, units and townhouses segment which is down approximately 65 per cent in the past year. The threat of an inner-city apartment supply glut in Brisbane and the prospect of rising vacancies, lower yields and falling prices is acting as a deterrent to new developments.

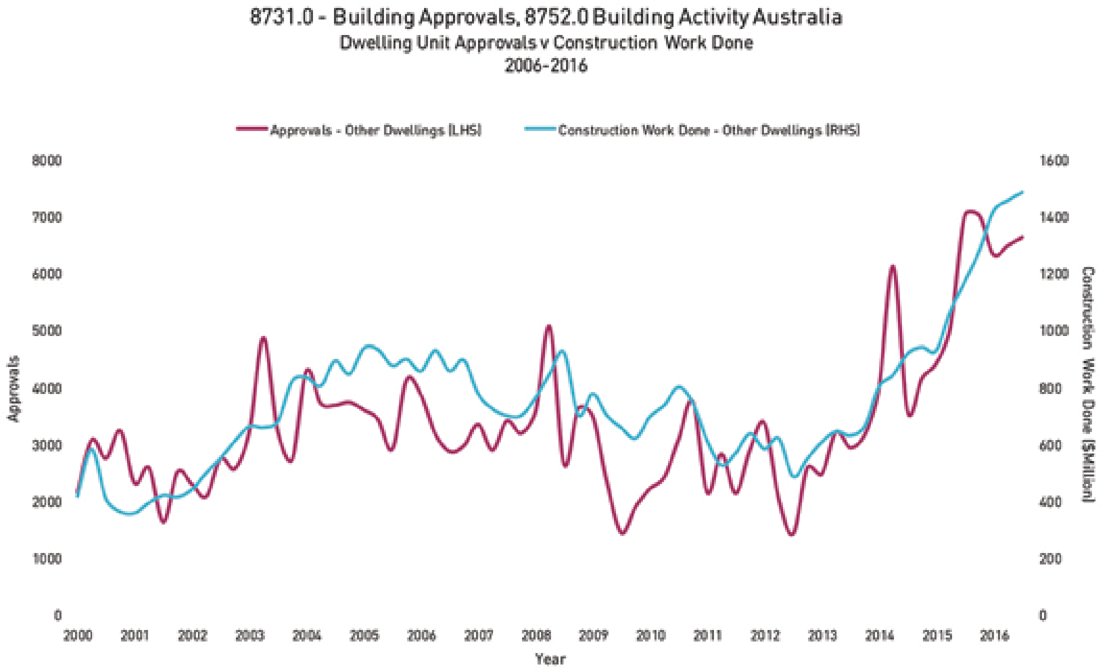


Source: ABS

Other factors weighing on market sentiment could include further interventions by the Australian Prudential Regulation Authority (APRA) and the RBA to increase lending standards and reduce risk in the housing market. In recent public statements, the RBA has expressed concerns about the build up of household debt. In particular, the recent growth in household debt has risen faster than incomes and has led to a build up of risks in the housing sector. Meanwhile, banks have begun to increase some of their lending rates, passing through higher funding costs as borrowing rates have risen globally. While the level of approvals are in decline, there is typically a period of lag before it flows through the system and impacts the level of construction. Due to the large volume of apartments under construction, a downturn in construction work could arrive in the second half of 2017 further dampening local economic activity.



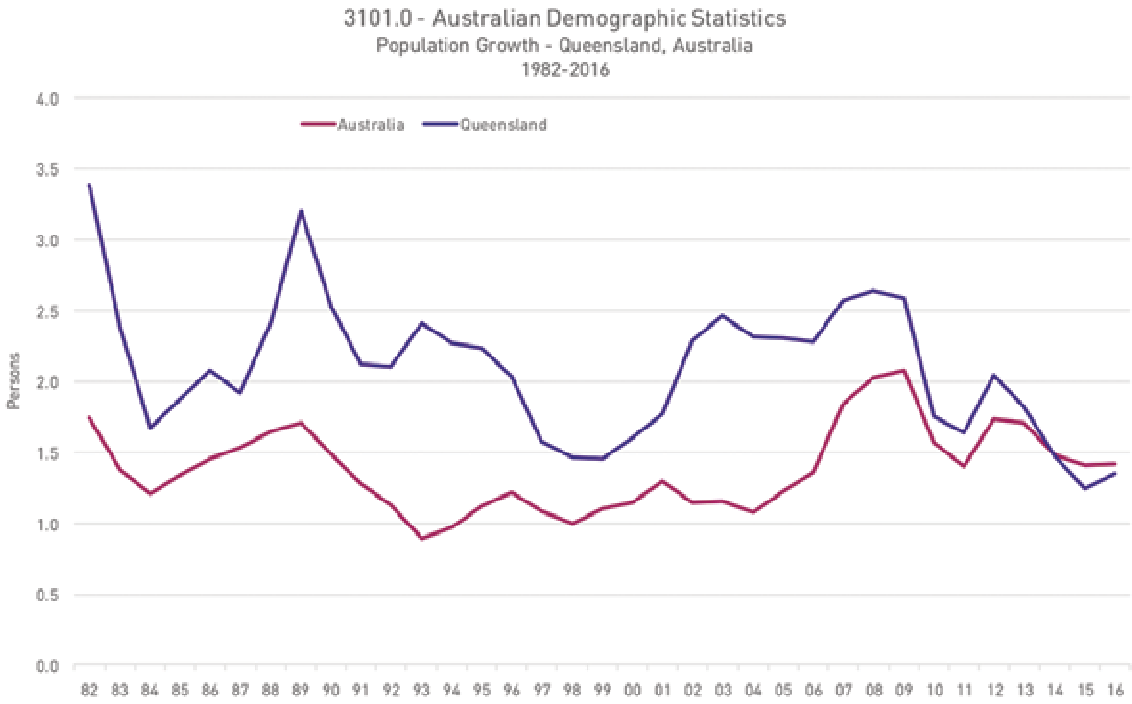
Source: ABS



Source: ABS

5. Demographics

For decades, Queensland has enjoyed population growth well above the national average. Queensland has been a beneficiary from strong levels of net interstate migration due to strong jobs growth, the higher cost of living in the southern states and a desirable destination for retirees. However, as the mining investment boom has unwound and the state's economic prospects dimmed, population growth has slowed and is now below the national average for the first time in decades.



Source: ABS

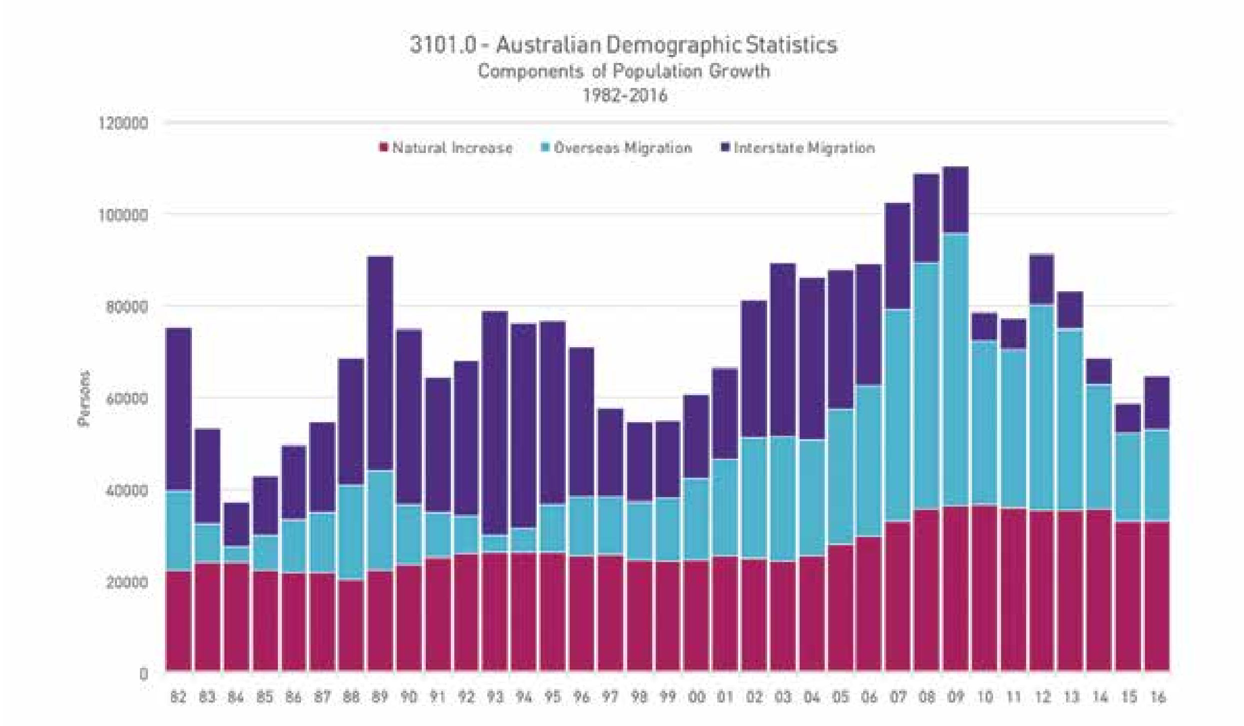
Over the past two decades, the resident population in Queensland has expanded by an annual average growth rate of 3.9 per cent (compared to the national average of 2.8 per cent). This growth in the population can be categorised by:

- **natural increase – the difference between births and deaths;**
- **net interstate migration – the change in population based on residents moving states; and**
- **net overseas migration – the number of new settlements less permanent departures overseas.**

The natural increase category is typically the most stable and is currently the biggest contributor to overall population growth adding over 33,000 people annually since 2007. Net overseas migration has been a strong driver of population growth in the past decade, reaching an annual high of 59,300 in 2009. However, this category has been quite volatile over time and is currently elevated due to the high national immigration intake - even though a lower proportion of migrants are choosing to settle in Queensland. Finally, the net interstate migration category has slowed significantly since 2010 to average only 8,600 new residents. This is substantially lower than the average gain of 30,900 residents during the 1990 to 2005 period where residents from other states were flocking to Queensland.

Based on ABS projections, population growth in Queensland will continue at approximately 1.85 per cent over the next decade and reach a total population of almost 6 million in 2026. The ABS projects the number of family households will rise from 1.9 million to 2.3 million over the same period.

The implications of such population projections is construction of new housing over the next decade will need to average around 40,000 new dwellings each year to 2026 to support the predicted population growth. This challenge is roughly equivalent to the level of construction activity currently taking place. Infrastructure is the other challenge. Planning, funding and catering for population growth is essential to ensure the quality of services are sustained and the costs of congestion are not imposed on future businesses and tax payers.



Source: ABS

Powering business potential

Chamber of Commerce & Industry Queensland

CONTACT US

375 Wickham Terrace, Spring Hill,
Brisbane, QLD, 4000.

1300 731 988

sgosarevski@cciq.com.au

www.cciq.com.au