

Queensland Economic Update

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Evidence continues to highlight that economic conditions are improving in Queensland, with optimism beginning to return across the small business community.

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CCIQ Economic Update

Queensland Economic Developments

The recent State Final Demand figures have provided further indication that momentum in the Queensland economy is being maintained, with economic activity increasing by 0.1 per cent in the September quarter.

It is particularly encouraging that the volume of economic activity across the September quarter has been underpinned by household consumption and private capital expenditure, which have increased by 1.0 per cent and 2.1 per cent respectively compared with June 2016.

These headline figures are supported by a number of additional data sets that also indicate that Queensland is beginning to transition from a post-mining boom.

Unemployment has continued to fall, decreasing by a further 0.1 points to 6.0 per cent in October, returning to the levels of unemployment that were recorded at the beginning of 2016. Further drops in the participation rate continue to raise concerns however, and require closer attention and explanation, especially in regional areas. While analysis conducted by CCIQ suggests that the declining participation rate is partially explained by demographic shifts in the working age population, there is also evidence that an increasing number of people are becoming discouraged by the lack of employment opportunities available, and have stopped looking for work. This appears to be particularly relevant for regional areas, and young people (15-24), which are carrying the greatest burden of soft labour demand.

The retail sector has continued its recent form however, recording nation leading growth of 4.1 per cent in trend terms, which has further edged the sector closer to its ten-year average of 4.3 per cent.

The greatest contributor to retail turnover has been fashion and clothing, which has again performed well above the national average, with international brands understood to be benefiting from the recent appetite for apparel. Household goods is also experiencing a sustained return in annual growth, and is also growing at a larger rate than the national average. Significantly, this suggests that retail and hospitality businesses should experience solid conditions across the holiday period.

Residential dwelling approvals continue to fall across Queensland and unit approvals in particular appear to be returning to more normal levels, alleviating concerns associated with an oversupply of high-density residential stock. As the supply cycle begins its decline, attention will now transition to residential construction activity across the state, and when the volume of construction work will begin to fall. The timing and speed of this decline will be pivotal as Queensland continues its transition away from mining, and into other areas of diversified economic growth.

Evidence continues to highlight that conditions are improving in Queensland however, with some signs that confidence within the business community is beginning to grow.



State Final Demand

0.1%

Three consecutive quarters of growth

Source: ABS 5206.0

Economic Performance Indicator

2.1 pts

Above the five-year average

Source: ABS, CCIQ

CCIQ Economic Overview

State Final Demand figures for the September quarter indicate further improvements in economic conditions as Queensland continues to transition from the mining boom.

At 6.0%, the unemployment rate has returned to the same level recorded at the beginning of 2016, although the fall in the total number of people employed and participation rate suggest that the labour market remains soft, especially in regional areas.

Annual growth in retail sales maintained its momentum and is edging closer to the long-run average suggesting that conditions are beginning to return to normal levels for the first time in over two years.

Labour Force

31,100

Net jobs lost in 12 months to October '16

Source: ABS 6202.0

Retail Trade

4.1%

Annual sales growth, up 0.5%

Source: ABS 8501.0



Business Conditions

- **State final demand** increases by 0.1%
- **Retail sales** rise by 0.5% in trend terms
- **Economic performance** indicator shows further improvement

Labour Force

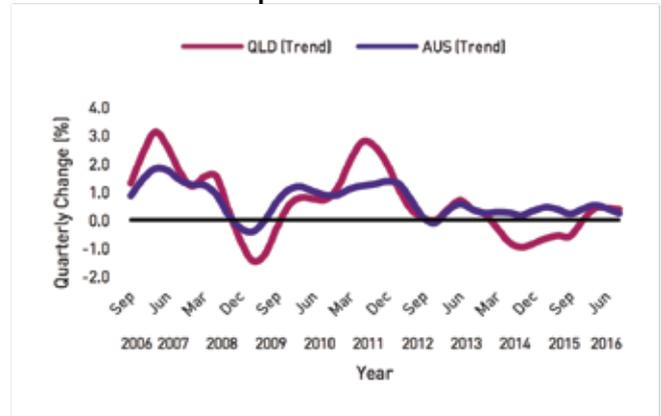
- **6.0% unemployment rate** is 0.4 points higher than the national rate
- **0.1% fall in employment growth**, with 31,100 jobs lost in the past twelve months
- **28,700 fewer full-time jobs** compared with this time last year

Queensland Economic Overview

12 Month Outlook

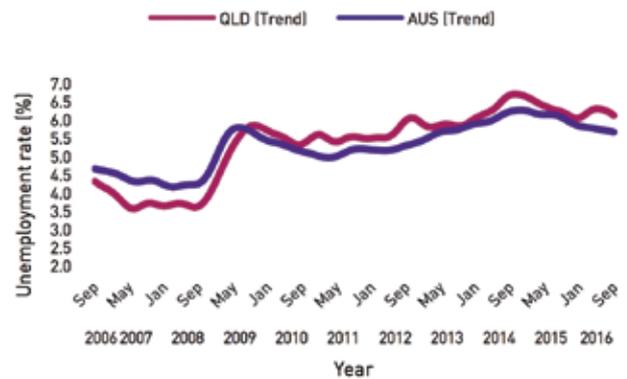
- **Long term sentiment** remains weak, but **short-term confidence** is returning.
- **Residential dwellings under construction** will begin to decline.
- **Small Business Optimism** beginning to return.

Graph 1 - State Final Demand



Source: ABS 5602.0

Graph 2 - Unemployment Rate (%)



Source: ABS 6202.0

Building Approvals

-16.4%

Annual fall in total building approvals

Source: ABS 8731.0

Unemployment Rate

6.0%

Fall of 0.1 points

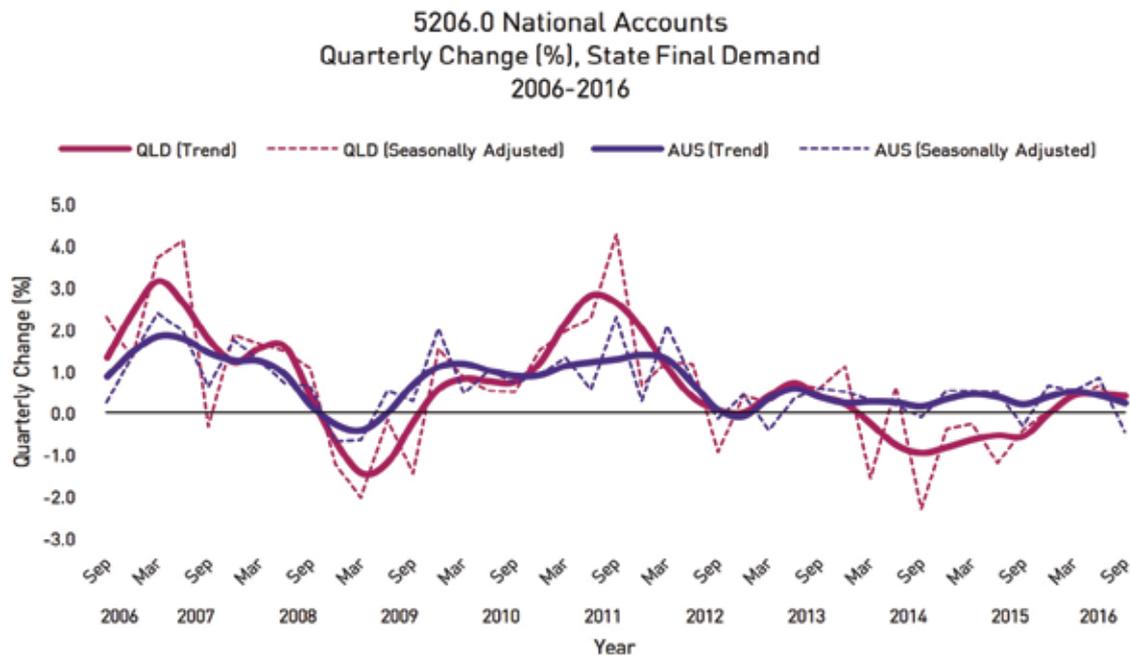
Source: ABS 6202.0

CCIQ Economic Full Report

1. State Final Demand

The recent release of National Accounts figures has provided further indication that Queensland is beginning to generate sustained momentum with State Final Demand rising by a further 0.1 per cent in seasonally adjusted terms in the September Quarter. This follows an increase of 0.4 per cent in March, and 0.7 per cent in June. It is particularly encouraging that the current growth figures are underpinned by household consumption, and capital expenditure in the private sector, which both recorded increases across the past three months. The rise of 1.0 per cent in household consumption is solid, and has been expected given the rises seen in retail trade figures. The 2.1 per cent increase in private expenditure is also encouraging and accounts for an additional \$342 million worth of expenditure on capital by the private sector during the September Quarter. This places Queensland ahead of Victoria (1.9 per cent) and New South Wales (0.4 per cent) on this measure of economic activity.

The 0.1 per cent rise in State Final Demand means that Queensland has again performed better than the national

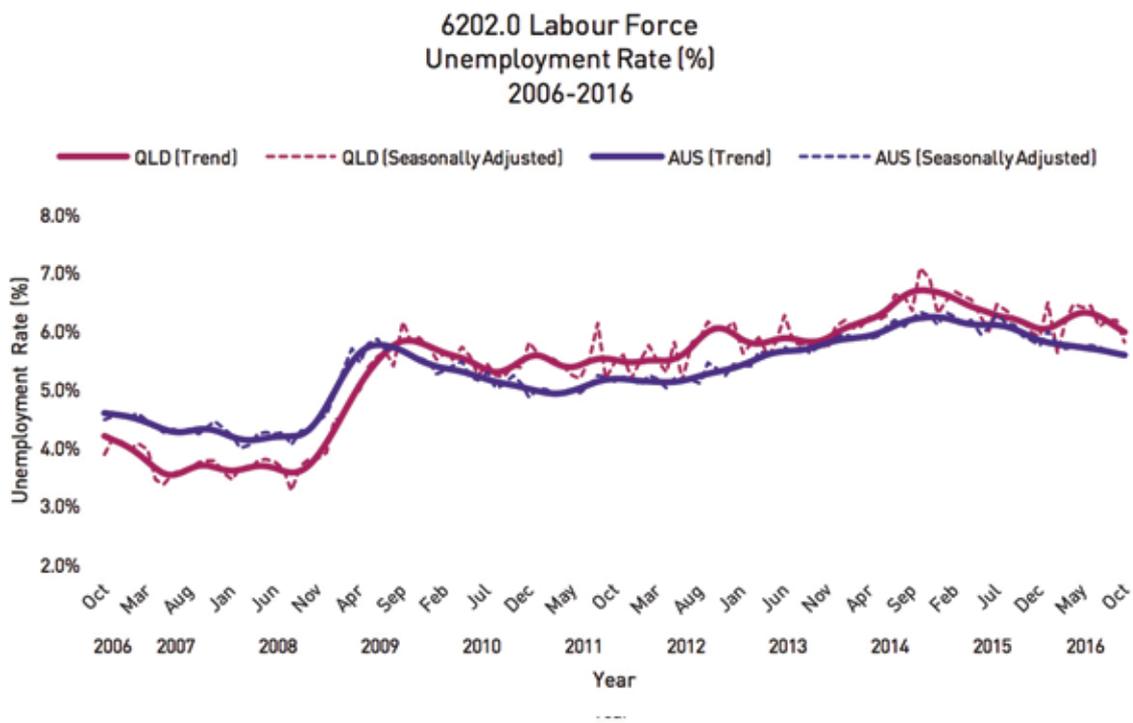


average in the September quarter, with economic activity at a national level decreasing by 0.5 per cent. At 1.0 per cent, the rise in household consumption is now above the ten-year average for Queensland, which is 0.7 per cent, suggesting that the improved economic conditions are beginning to flow through to Queensland households. With both general government expenditure and public capital expenditure both decreasing in the September quarter, the capacity of households and private business to continue growing the state economy suggests that some of the observed momentum could be maintained into 2017.



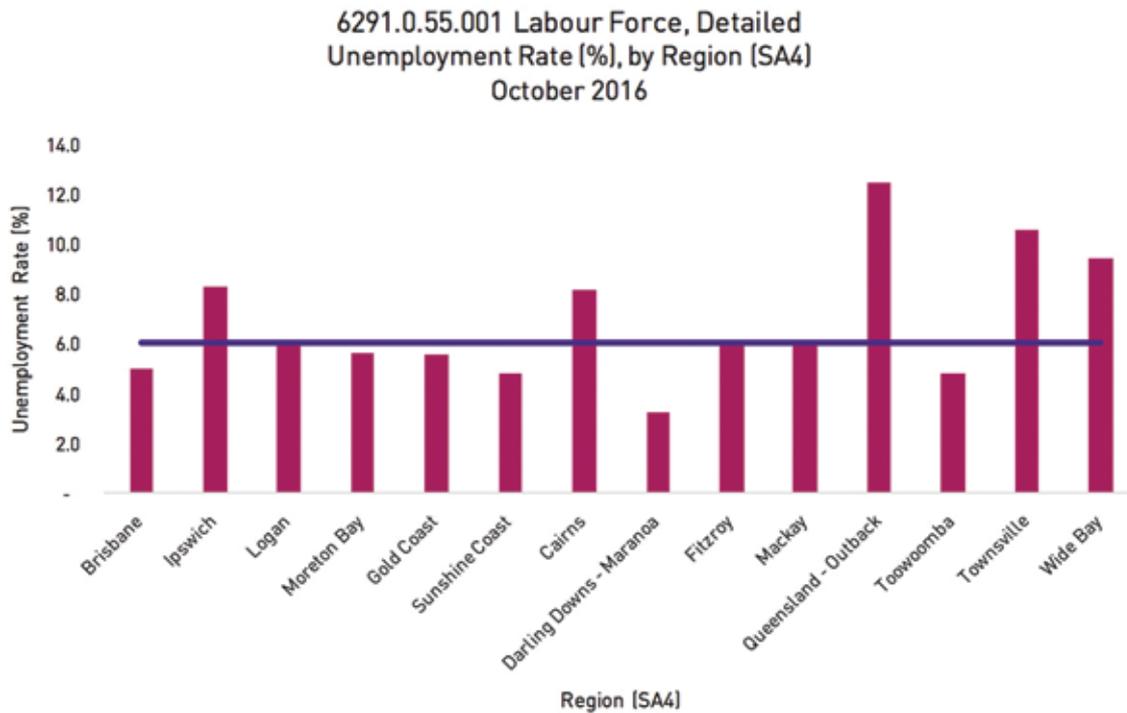
2. Labour Force

Trend unemployment has continued to fall in Queensland across the past month with the official rate dropping by 0.1 points in October to reach 6.0 per cent. This returns the official unemployment rate to the level that was recorded at the beginning of 2016, and represents two consecutive months of falls in the trend unemployment figures. As has been discussed previously however, the labour force statistics highlight a clear divide between South-East Queensland and regional Queensland, with the rate of unemployment in these areas being 5.5 per cent, and 7.5 per cent respectively. In regional Queensland, significant challenges continue to be present across Townsville (10.6 per cent), Wide Bay (9.4 per cent) and Cairns (8.1 per cent), all of which maintain their position above the Queensland average.



Source: ABS

Within the South-East corner, Ipswich is still an exception to what appears to be a relatively stable, and sustainable labour market, with unemployment remaining elevated at 8.3 per cent. Comparatively, the Sunshine Coast (4.7 per cent), Brisbane (5.0 per cent), and the Gold Coast (5.5 per cent) are all below the South-East Queensland average, suggesting an ongoing divergence in the employment opportunities available, based on geographic location.

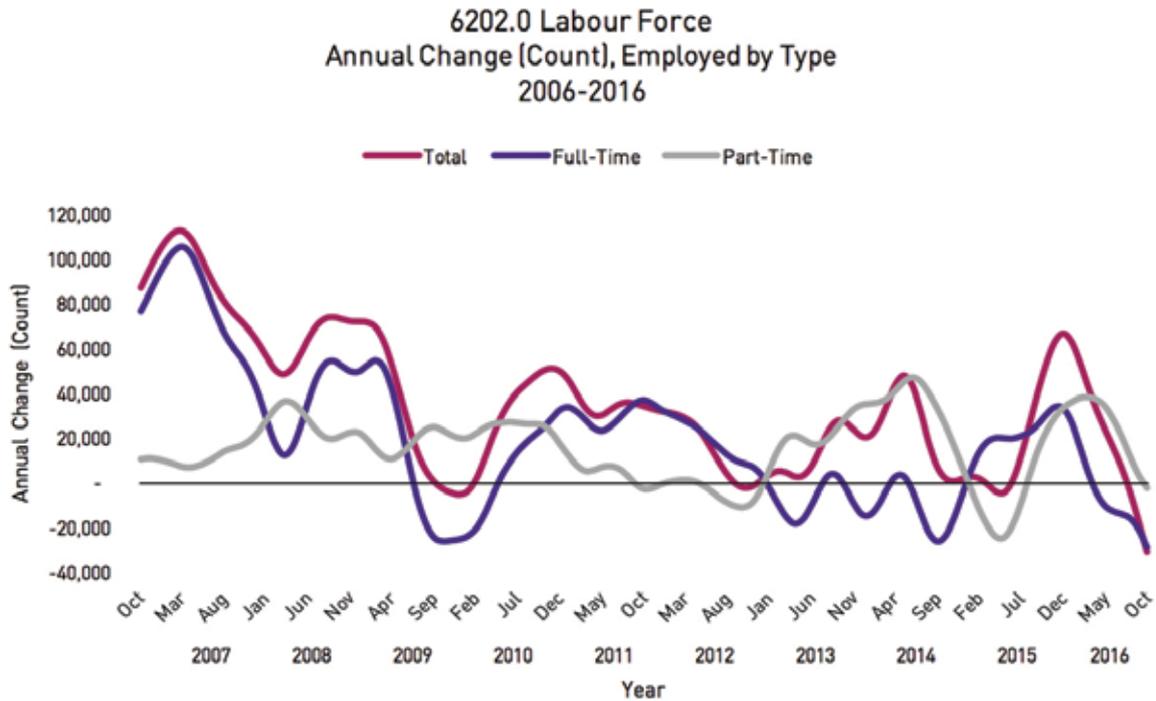


Source: ABS

As indicated last month, the improved unemployment figures appear to be the result of a falling participation rate, as opposed to rising demand for labour, and jobs growth. While the number of unemployed people in Queensland fell by 2700 (trend) in October, the number of total people employed also fell (5400). This continues to suggest that the labour market may be deteriorating, as opposed to improving.

Analysis conducted by CCIQ has revealed that the falling participation rate can be partially explained through demographic shifts in the working aged population, with an increased proportion of people aged over fifty-five impacting overall participation. After controlling for this effect however, a significant amount of the decline is still left unexplained, and much if this believed to be associated with an increase in the number of discouraged job seekers that have stopped looking for work.

Had the participation rate remained unchanged in October (64.0 per cent), the total number of unemployed people in Queensland would have increased by 10,200 people, as opposed to the fall of 2700 that was officially recorded. Significantly, the trend unemployment rate would have increased by 0.3



Source: ABS

points to 6.4 per cent, rather than falling by 0.1 points. Given that most of the labour force issues are occurring outside the South East Corner, a focus on regional areas, and employment opportunities for young people (15-24) seeking an entry into the workforce, needs additional attention and support at present.

Further, in the twelve months to October 2016 there were fewer full-time positions (28700) and for the first time since July 2015, fewer part-time positions (2400), compared with the same month in the previous year. Queensland has now recorded three consecutive months of falling annual employment figures, and is further indication of deteriorating labour market conditions.

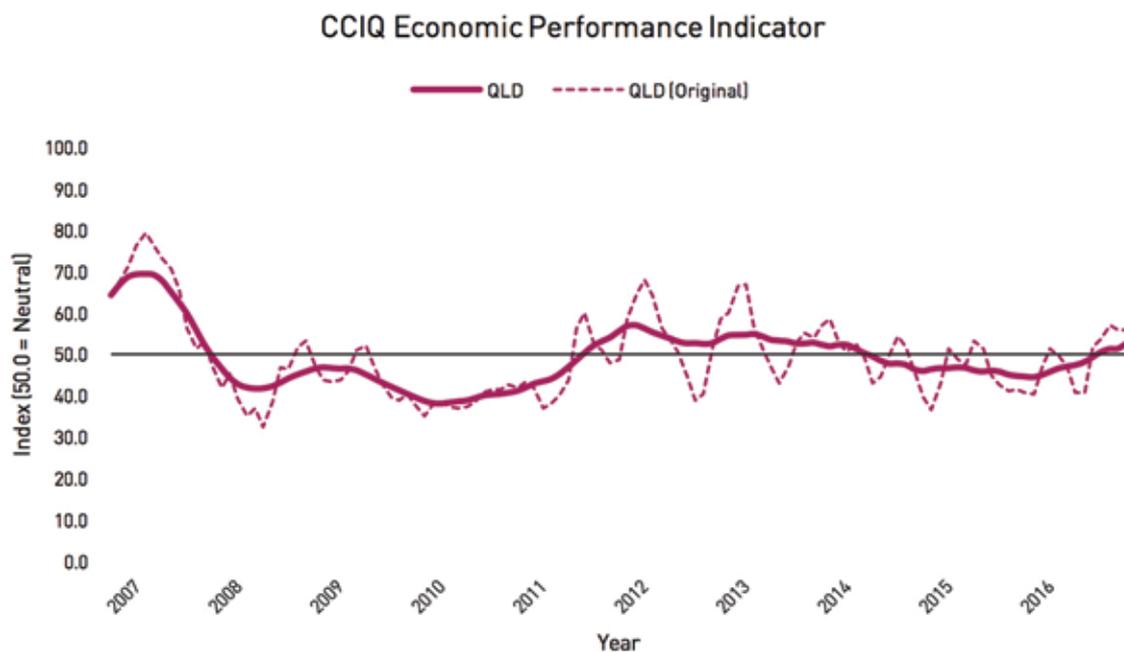
“ While it is encouraging that unemployment has continued to fall, drops in the participation rate continue to raise concerns about the overall health of the labour market. ”

Cameron Meiklejohn - CCIQ, Policy Analyst, Advocacy.

3. Overall Economic Performance

Continuing improvements in the unemployment rate, nation leading retail trade figures, and a third consecutive quarter of growth in State Final Demand have seen a further increase in the CCIQ Economic Performance Indicator. The indicator recorded a rise of 0.9 points this month, highlighting growing momentum in Queensland, relative to the rest of Australia. At 52.4 the indicator is now 2.1 points above the five year average (50.3), and has increased to its highest level in more than three years. Collectively, the key economic indicators would suggest that the observed momentum shift is beginning to take hold in Queensland, with the increased expenditure across households and private sector capital in the September quarter being a particularly encouraging signal.

As indicated previously, these improved conditions appear to conflict with some business sentiment surveys, including the CCIQ Pulse Survey, which suggests that business is less than optimistic regarding the twelve month outlook for the Queensland economy. While confidence in the next twelve months remains weak, it is interesting to note that in the short-term, there does appear to be some rising optimism among small business, with detailed analysis of Pulse data from the September quarter suggesting that business is confident about the lead-up to Christmas, and anticipate improved conditions through to the end of 2016.



Source: ABS, CCIQ

“ The fundamentals that underpin the economic performance of Queensland are improving, and this is beginning to translate into a belief that conditions will get better. ”

Cameron Meiklejohn - CCIQ , Policy Analyst, Advocacy.

Although the Queensland economy has been relatively weak across the past two years, the return to increased economic activity during the June and September quarters should be seen as a positive sign for the state. While apprehension and caution will inevitably persist in some sectors, it is encouraging to see some signs of growing confidence within the business community, and a growing belief that conditions will further improve. Regardless, the key indicators that underpin overall economic performance continue to suggest that relative to the rest of Australia, the Queensland economy is improving.

October 2016

52.4pt

Source: ABS CCIQ

Five Year Average

50.3pt

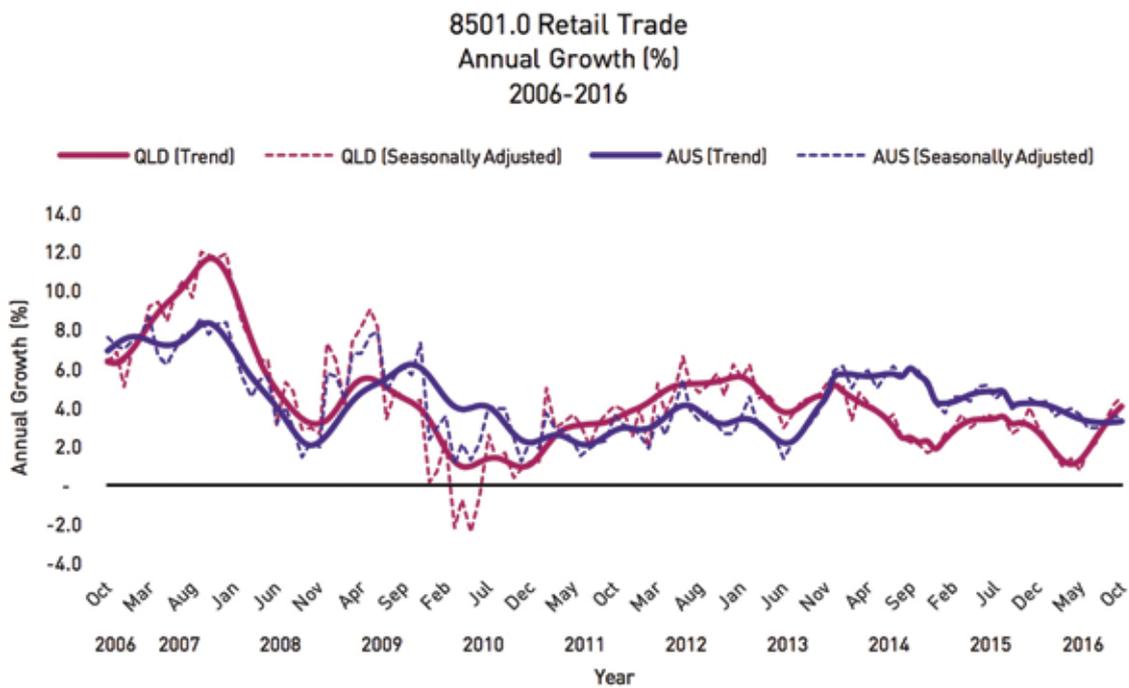
Source: ABS CCIQ





4. Retail

The most recent release of retail trade data by the Australian Bureau of Statistics (ABS) has highlighted nation leading growth figures for Queensland, and in particular, sustained performance across clothing and fashion sales. For a second consecutive month, Queensland retail sales have grown at a larger rate than the national average, recording a rise of 0.5 per cent in October 2016 to reach an annual growth figure of 4.1 per cent in trend terms.



Source: ABS

Although below the 10-year average of 4.3 per cent, the signs for Queensland retail are positive leading into the critical Christmas trading period, with momentum gathering across the past six months. At 4.1 per cent, the Queensland retail industry is growing at a rate that was last achieved in early 2014, and is edging closer to normal growth.

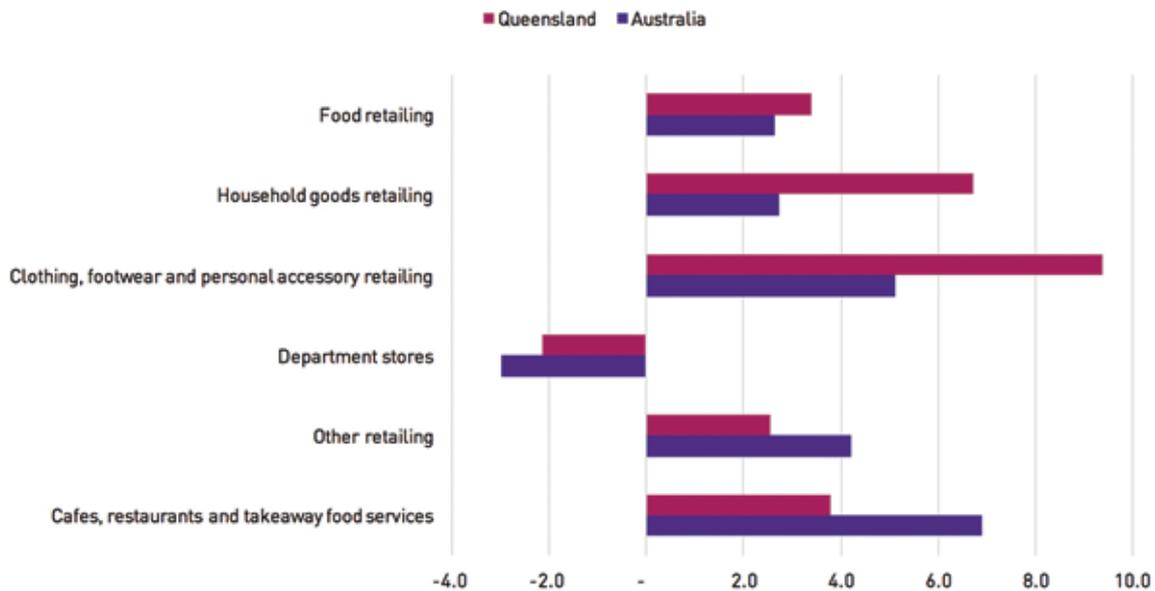
Clothing, footwear and personal accessories continues to be the standout performer in Queensland, and a major driver of retail sales across the state, with growth of 9.4 per cent in the twelve months to October



2016. This continues to be well above the national average of 5.1 per cent, and suggests that there is a particularly strong appetite for clothing and fashion in Queensland at present.

Household goods, which includes the key industry categories of homewares, electrical goods, and hardware, has also continued to outperform the national average, recording annual growth of 6.7 per cent in October. This represents five consecutive months of rising growth for this category, much of which has been driven by particularly strong returns from the hardware sector, which is currently growing at an annual rate of 7.8 per cent in trend terms.

**8501.0 Retail Trade
Annual Growth (%), by Industry Group
October 2016**



Source: ABS

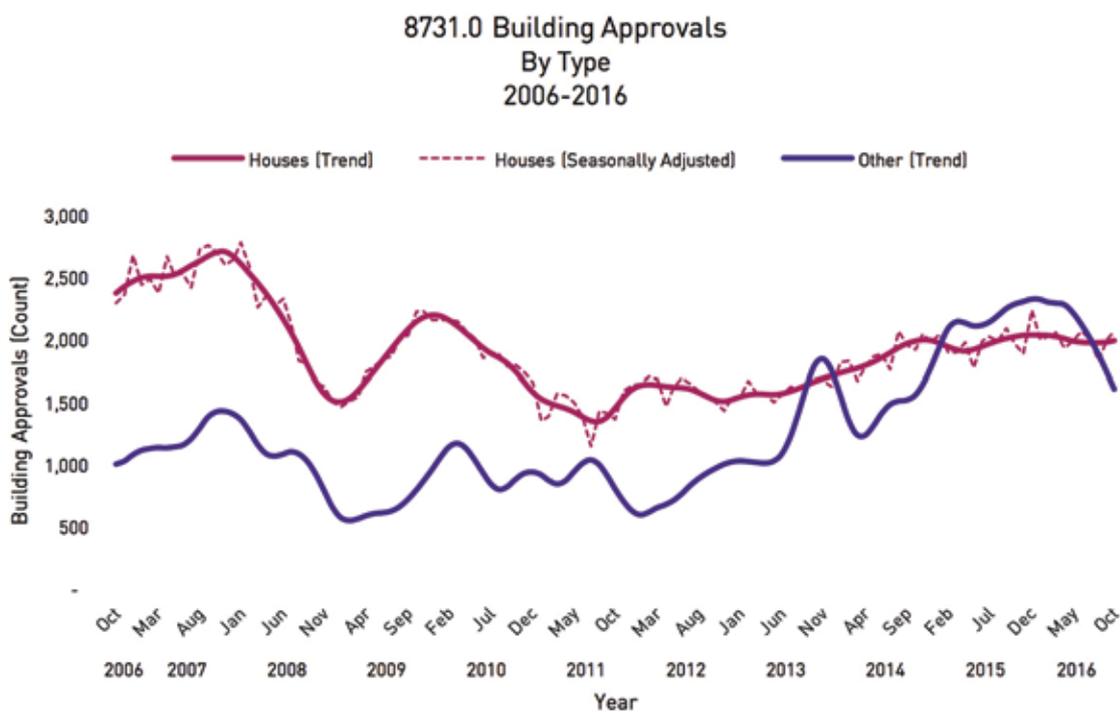
Although below the national average, it is also encouraging that spending across cafes, restaurants and takeaway food has continued to rise in October, suggesting that it could be a particularly solid festive period for the hospitality industry in the Sunshine State.

Despite these improved results, some concerns remain for the retail industry, especially surrounding the persistence of low wage growth, which will ultimately restrict the capacity of consumers to spend, without dipping into savings or buying on credit.



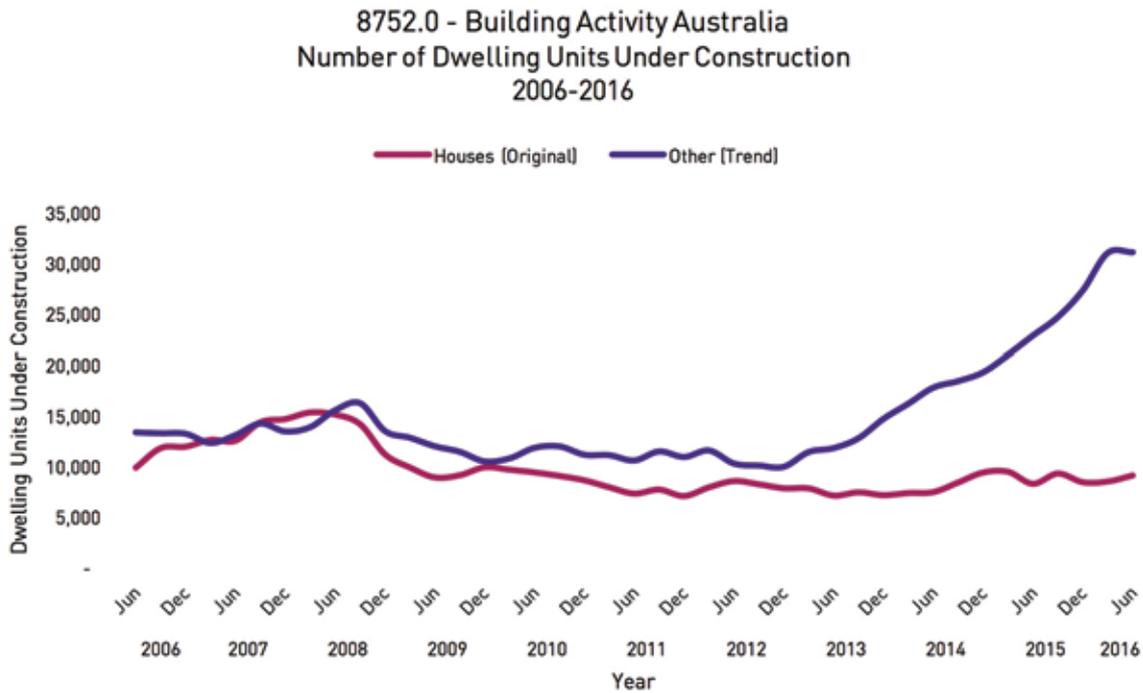
5. Building Approvals

The most recent dwelling approvals data released by the ABS would suggest that Queensland has now passed the peak of unit approvals, with the number of dwellings approved for construction falling to a two year low in October. In trend terms, unit approvals recorded a monthly fall of 8.4 per cent, while approvals are almost thirty per cent lower in October 2016 compared with the same month last year. Despite the sharp fall in unit approvals, the official figure of 1603 is almost twenty-nine per cent above the ten year average, suggesting that further declines will occur before a return to normal levels is finally recorded. Despite the decrease in approvals for units, housing supply continues to grow, rising by 0.7 per cent in October.



Source: ABS

While sustained falls in unit approvals will begin to alleviate some of the concerns surrounding an oversupply of high-density residential stock, the attention of analysts will now likely turn to when the residential construction cycle will peak in Queensland. There is some evidence to suggest that this could be imminent, with increased activity appearing to stall in the June quarter. The ABS data suggests that the number of units under construction increased by only 70 apartments in the June quarter, with the average quarterly rise across the past three years being approximately 1630.



Source: ABS

As has been reported elsewhere, residential construction has performed a critical role while the Queensland economy transitioned from mining investment, with building approvals being a particularly strong indicator of economic activity across the past two years. As the number of active residential projects contract, the Queensland economy will need to further pivot to other areas if the recent return to positive growth in economic activity is to be maintained.

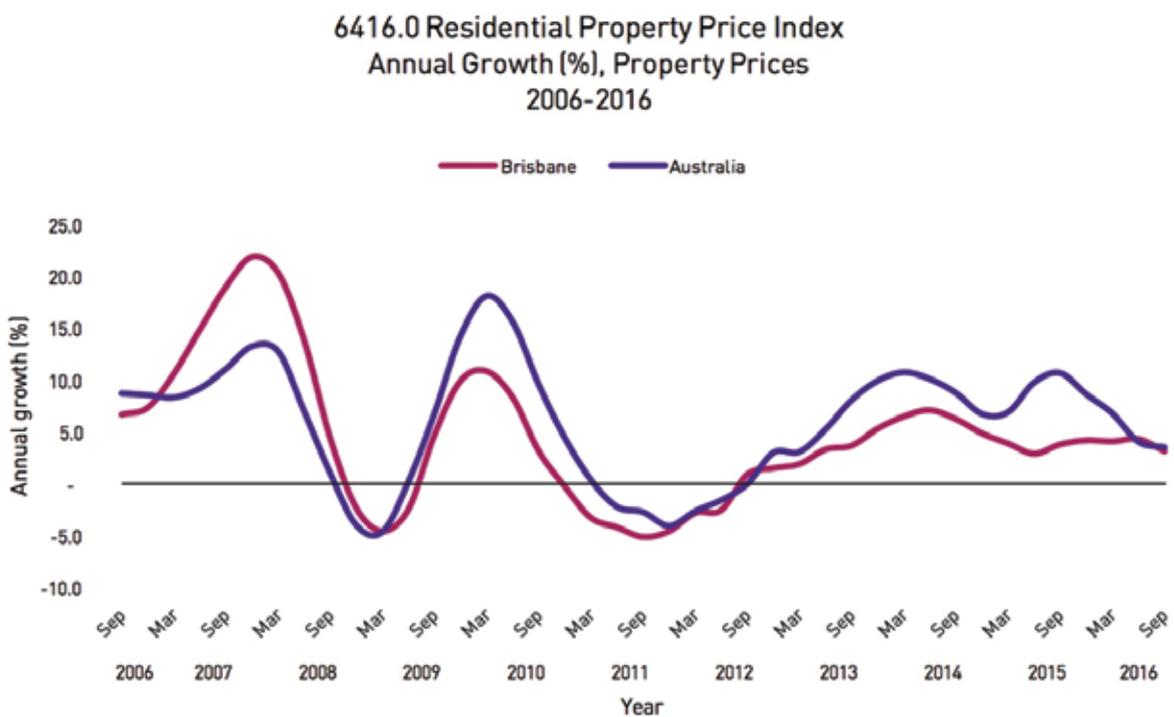
“ **With the level of unit approvals beginning to decline, attention will now need to focus on when the residential construction cycle will peak in Queensland.** ”

Cameron Meiklejohn - CCIQ , Policy Analyst, Advocacy.

6. Residential Property Prices

Residential property prices in Brisbane rose by 3.1 per cent in the twelve months to September 2016, with annual growth continuing at a lower rate than the national average, which is currently 3.5 per cent. Further, annual property prices in Brisbane are growing well below the long-run average of 4.6 per cent.

While home owners would appreciate a greater return, and rising equity, the smaller increase in property prices means that Brisbane continues to be far more competitive and affordable for first home buyers wanting to enter the housing market. At present, house prices in Sydney are 77 per cent higher than those in Brisbane, while Melbourne is 22 per cent higher, which means that the Queensland capital is currently delivering greater affordability, relative to the southern states.



Source: ABS

Recent demographic statistics indicate that recent weakness in population growth may be declining, with an acceleration being recorded across the first half of 2016, especially in the number of people migrating to Queensland from interstate. It is possible that the greater affordability of property prices in the South-East corner may be partially responsible for the observed increase in interstate migration.

Despite the relative affordability of properties in Queensland, and the low interest rates that are currently available, activity within the residential property market across the state remains weak, however, with the

number of property transfers being significantly lower compared to the same time last year. It is anticipated however, that with interest rates remaining low, demand and activity will return, along with improvements in property prices.



7. Summary

The economic indicators that have been released across the past month show further signs of the momentum shift that has been observed in recent months. Continued growth in economic activity, driven by increases in household consumption and private capital expenditure are positive signs for Queensland, and along with the CCIQ Economic Performance Indicator, suggest that the state is improving relative to the rest of Australia. Labour market weakness, particularly in regional areas persist as a challenge and concern however, and with the anticipated decline of residential construction activity across 2017, maintained levels of economic activity will be dependent on other sectors of the economy expanding, and delivering new employment opportunities. While there continues to be signs that optimism is returning to small business, at least in the short-term, sustained spending on goods and services remains a priority for Queensland, and will continue to underpin continued improvement in profitability, private sector investment, and job creation.

QUEENSLAND ECONOMY: KEY ECONOMIC INDICATORS

Indicator	Latest Release	Rate	Change
State Final Demand	Sep (Q)	0.1%	↓
CCIQ Pulse Survey 12 Month Outlook	Sep (Q)	41.4	↓
CCIQ Economic Performance Indicator	Oct (M)	52.4	↑
Unemployment Rate (Trend)	Sep (M)	6.0%	↓
Building Approvals	Sep (M)	-3.6%	↓
Retail Trade	Sep (M)	4.1	↑
Job Vacancies	Aug (Q)	0.8%	↑
Residential Property Price Index	Jun (Q)	4.3%	↑
Exchange Rate (A\$ - US\$)	Nov (M)	74.7	↓



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