

Queensland Economic Update

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Chamber of Commerce & Industry Queensland



Recent releases of economic data continue to suggest that conditions in Queensland are beginning to strengthen, although some key indicators highlight the challenges still confronting the state and regional centres in particular.

Nick Behrens - CCIQ , General Manager, Advocacy.



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CCIQ Economic Update

Queensland Economic Developments

Recent releases of economic data continue to suggest that conditions in Queensland are beginning to strengthen, although some key indicators highlight the challenges still confronting the state and regional centres in particular. To provide an overall measurement of how the state economy is performing, CCIQ has developed the Economic Performance Index, which will track the performance of Queensland relative to the other states month-to-month.

This month the CCIQ Economic Performance Index indicates that although overall economic performance in Queensland is still weak relative to other states, and New South Wales and Victoria in particular, momentum is beginning to shift after twelve months of declining fortunes. This is a welcome sign, and should offer encouragement to small business owners, and especially those operating in the retail, hospitality and tourism sectors, which are approaching the most critical trading period for the year.

Labour force issues continue to be the strongest indicator of the challenges still being faced by Queensland, with trend unemployment remaining steady at 6.3 per cent for a fifth straight month. As has been indicated previously, unemployment is being experienced disproportionately across the state with the rate rising in Cairns (8.7 per cent) and Townsville (10.0 per cent), while it remained steady in the South-East corner (5.5 per cent).

Soft job vacancy figures also suggest overall weakness in the labour market with few employment opportunities being created in the

past quarter, especially in the private sector. The number of private sector jobs being advertised fell by 2.0 per cent compared to the same quarter last year, suggesting that there is insufficient demand across the economy for businesses to increase employment levels at present. Without a significant increase in employment levels from the private sector it will be difficult to achieve sustained falls in the number of unemployed people in Queensland, and a meaningful drop in the unemployment rate.

Although still below the long run average, improvements in retail sales do suggest that consumers are beginning to display reduced caution in discretionary spending. Given that the all-important Christmas sales period begins next month it is encouraging that the trend is now moving in a positive direction, although CCIQ maintains that growth in Christmas sales will most likely be below the 10 year average in 2016. While the recent shift in sales does suggest that consumer confidence may be returning, the high levels of household debt, and weak income growth will likely place an upper limit on how much this will improve in the coming months. Indeed, some analysts predict that 2017 will continue to produce slow growth in the retail sector.

Relative to the other states, it does appear that a positive momentum is beginning to grow around the Queensland economy, although challenges surrounding the labour market persist. Private sector confidence will need to improve further if employers are to invest in their businesses and create new jobs.



CCIQ Economic Performance Index

1.0 pts

Below the five-year average

Source: ABS, CCIQ

Building Approvals

-0.8 pts

Follows a 0.2% fall in July

Source: ABS 8731.0

CCIQ Economic Overview

While the State Final Demand figure for the June quarter highlighted an overall improvement in economic conditions, a number of key indicators continue to lag keeping the Queensland economy in a stable, but weak position.

At 6.3%, the unemployment rate is only surpassed by South Australia (6.6%) and Tasmania (6.7%), while the number of net jobs added to the Queensland labour force is at its lowest level since June 2015.

Annual growth in retail sales is gaining momentum, but is well below the long-run average and suggests that weak income growth and household debt continues to produce slow momentum in this sector.



Labour Force

4,598

Net jobs added in twelve months to August '16

Source: ABS 6202.0

Retail Trade

2.4%

Annual sales growth, up 0.4%

Source: ABS 8501.0



Business Conditions

- **Private sector** job vacancies fell by 2.0%.
- **Retail sales** rise by 0.4% in trend terms.
- **Residential dwelling** approvals fall by 0.8%.

Labour Force

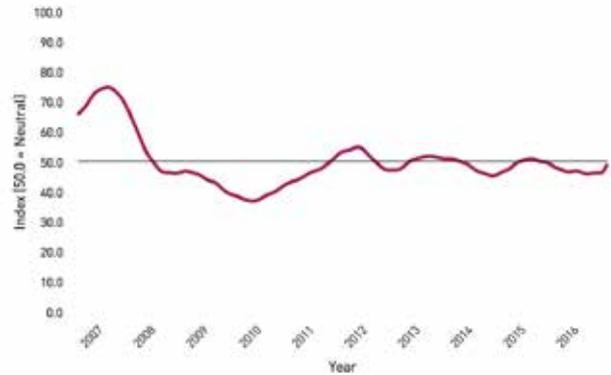
- **6.3% unemployment rate** is 0.6 points higher than national rate.
- **0.2% employment growth**, with 4,598 jobs added in the past twelve months.
- **5,100 fewer full-time jobs** compared with the same time last year.

Queensland Economic Overview

12 Month Outlook

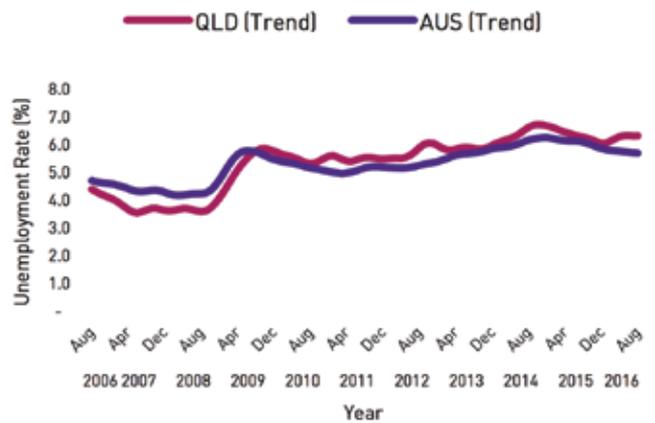
- **Queensland economic performance** weak but stable.
- **Businesses continue** to consolidate and rationalise activity.
- **Slow private sector** jobs growth.

Graph 1 - CCIQ Economic Performance Index



Source: ABS CCIQ

Graph 2 - Unemployment Rate (%)



Source: ABS 6202.0

Job Vacancies

2.0%

Fall in private sector job vacancies

Source: ABS 6354.0

Unemployment Rate

6.3%

Unchanged for five months.

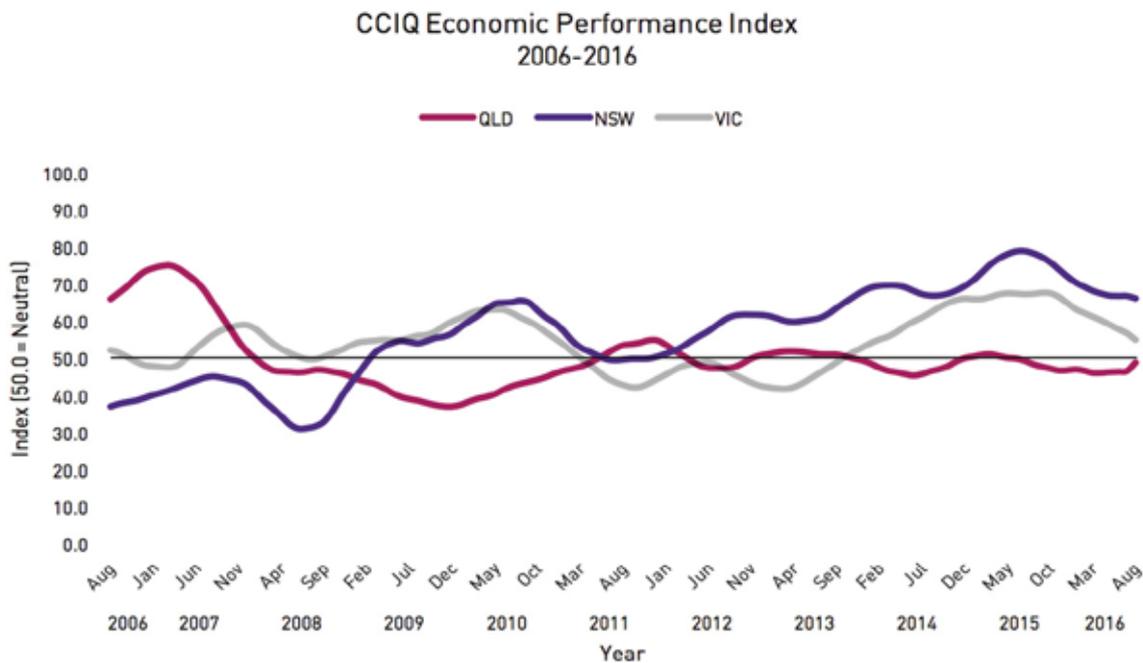
Source: ABS 6345.0

CCIQ Economic Full Report

1. Overall Economic Performance

The most recent data releases from the ABS indicate a continuation in improved economic conditions for Queensland, with rises being seen across some key indicators in the past month. While these improvements are welcome, the CCIQ Economic Performance Index highlights that the Queensland economy still remains in a weak position relative to other states. Further, improvement is still required in a number of areas if a sustained, positive trend in economic performance is to be achieved, as opposed to the relatively flat results of the past two years.

Consistent with other economic reports, New South Wales and Victoria are outperforming the rest of the Australia, and although both of these economies are beginning to slow, they remain well above their respective five-year average scores. Despite the falls currently being experienced by both states, these economies are expected to maintain their positions as the top two performing economies for some time yet.



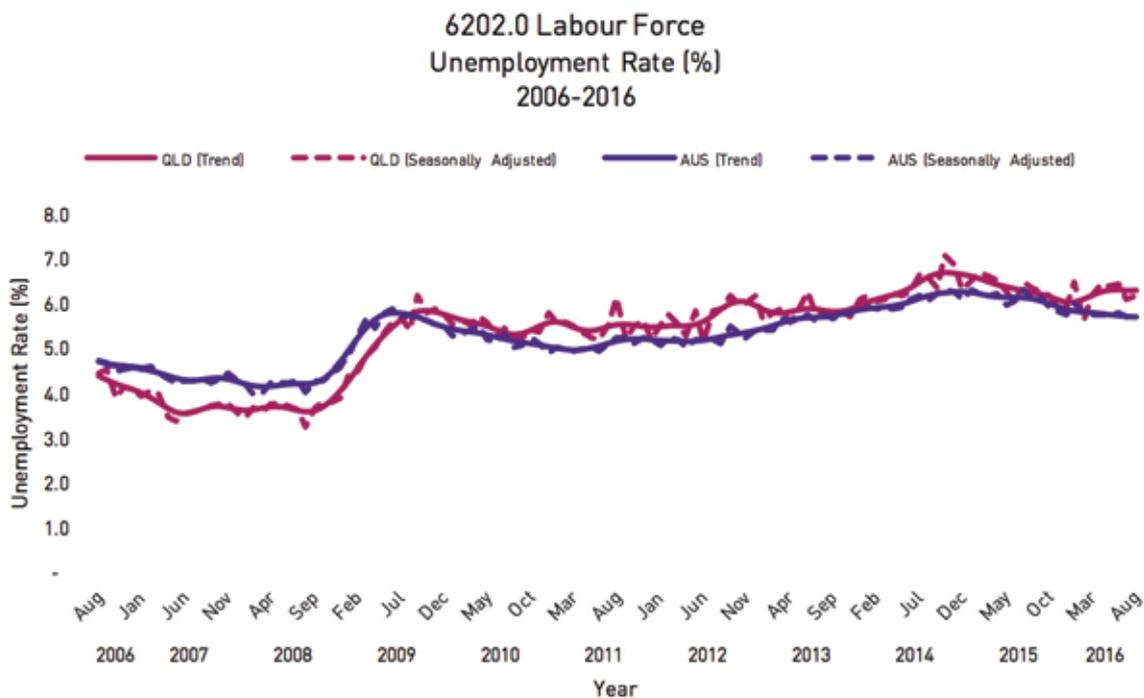
Source: ABS, CCIQ

In the case of Queensland, the index highlights that after a particularly challenging twelve-month period, where the economy produced sustained falls in overall performance, positive momentum is returning. While maintaining this momentum will require improvements across a number of key areas, and most notably the labour force, it is still encouraging that conditions are starting to show signs of improvement. The first test of these improved conditions will be the forthcoming Christmas sales, with turnover at this time of year being vital to many small businesses, and retail in particular. This six week trading period, which begins in the third week of November, will provide the best indication as to current levels of consumer confidence, and the willingness of households to reduce the cautious spending behaviour that has been seen across the past twelve months.



2. Labour Force

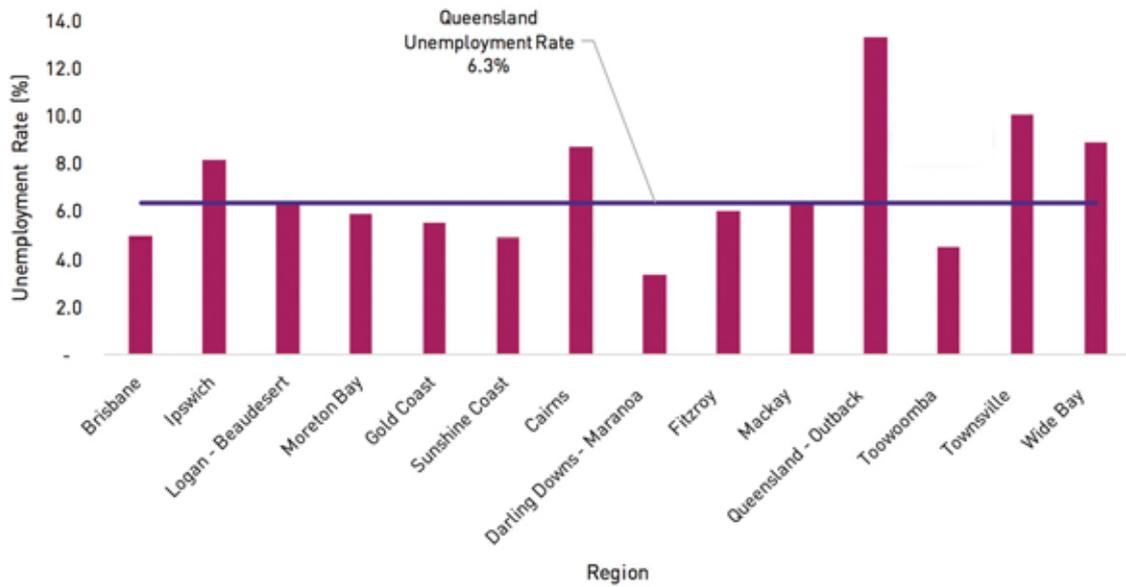
The trend unemployment rate remained steady at 6.3 per cent for the fifth consecutive month with Queensland static at 0.6 percentage points higher than the national average. While South-East Queensland maintained an unemployment rate of 5.5 per cent, regional Queensland continues to be disproportionately impacted by shifts in labour force demand and economic disruption, relative to the rest of the state. In particular, Cairns (8.7 per cent) and Townsville (10.0 per cent) both recorded a rise in the rate of unemployment this month, and while Wide Bay experienced a fall, at 8.9 per cent the number of unemployed people looking for work remains above an acceptable level.



Source: ABS

The conditions are substantially different in South-East Queensland where the unemployment rate suggests an active and stable labour market. The unemployment rate for Brisbane (4.9 per cent) and the Sunshine Coast (4.8 per cent) are currently at sustainable levels, while the Gold Coast (5.5 per cent) and Moreton Bay (5.9 per cent) are both below the state average.

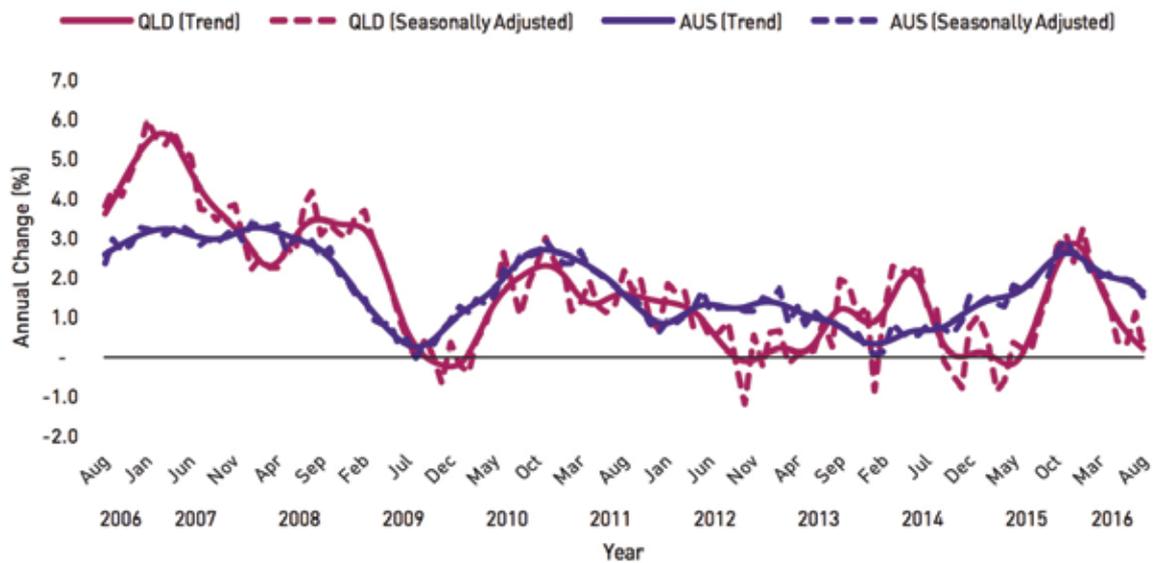
6291.0.55.001 Labour Force Detailed
Unemployment Rate (%), by Region
Aug 2016



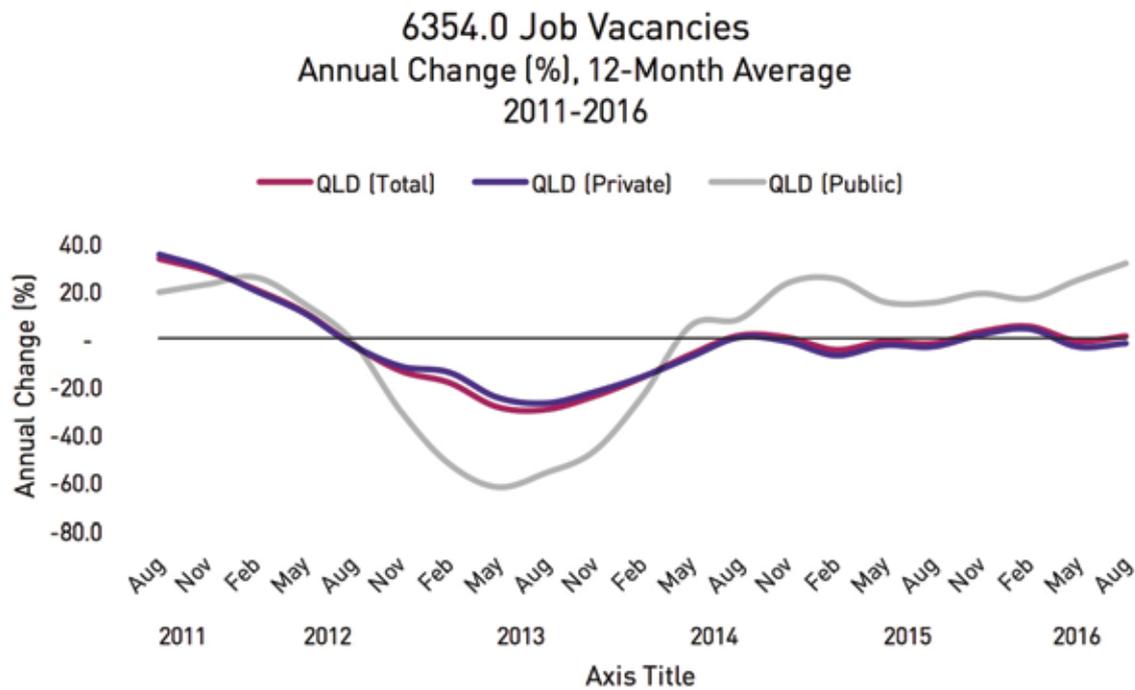
Source: ABS

At a state level, the growth in employed people continues to fall, dropping from an annual change rate of 0.4 per cent, to 0.2 per cent in trend terms. This equates to a net increase of 4,598 jobs in trend terms across the twelve months to August 2016.

6202.0 Labour Force
Annual Change (%), Employed Persons
2006-2016



Source: ABS



Source: ABS

The annual change in job vacancies, which was also released by the ABS in September, continues to highlight why unemployment has remained unchanged for the past five months: the private sector is not generating job openings. While the past two years has seen sustained rises in the number of job vacancies across the public sector, advertised positions within the private sector have been flat.

The number of job vacancies in the private sector fell 2.0 per cent in the August Quarter (2016), compared with the same quarter last year, while job vacancies increased by 31.5 percent in the public sector across the same time period. While the preference is that labour market improvements come from the private sector, in the short term Government employment does have a role to perform as the economy transitions. This is not sustainable into the longer term however, and at present, growth in the public sector does partially conceal the lack of capacity for the private sector to create jobs.

The combined measures of unemployment and job vacancy levels within the private sector do indicate the persisting challenges within the Queensland labour force, much of which is underpinned by a lack of confidence in state economic conditions. As indicated by the CCIQ Pulse Index of Business Confidence, the twelve-month outlook for the Queensland economy is weak, which will likely continue to influence customer demand, and as a result, capacity for the private sector to employ additional staff. While momentum is shifting, there is still room for improvement and restoring confidence in the Queensland economy remains a priority.

“ The trend unemployment rate remained steady at 6.3 per cent for the fifth consecutive month with Queensland static at 0.6 percentage points higher than the national average. ”

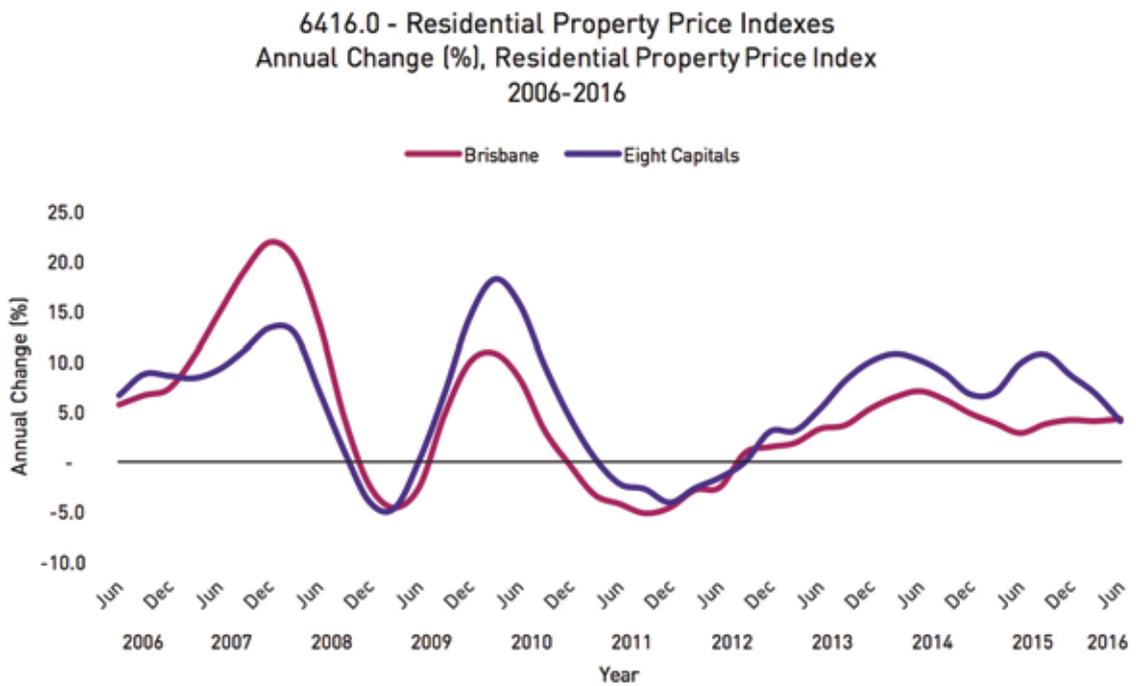
Nick Behrens - CCIQ , General Manager, Advocacy.

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3. Residential Property Prices & Transfers

The recent release of the Residential Property Price Indexes has indicated a further rise in property prices in Brisbane, while transfer activity continues to fall across Queensland. The continuing drop in overseas migration to Queensland is understood to be impacting sales activity across state, although low interest rates should ensure that the market will continue to remain in good shape into the immediate future. The affordability of residential property in particular is also expected to ensure that demand and sales activity should not remain quiet for long, especially if there is a continuation in interstate migrants, seeking more affordable property in Queensland.

As has been indicated previously, the oversupply of attached dwellings in Brisbane, and apartments in particular, is expected to have some impact on the property market, especially given that the sale of these properties tend to be driven by interstate and overseas investors. With a number of projects in the inner-city under construction, and others still in the pipeline, the increasing supply levels are expected to produce a drop in capital gains and rental yields, which will impact interest from short-term investors. As is the case with many sectors of the economy, confidence is a key issue for the real estate sector, and it is anticipated that improvements across a number of key indicators, and a renewed momentum, will improve what has been a relatively static market, especially in regional areas.



Source: ABS

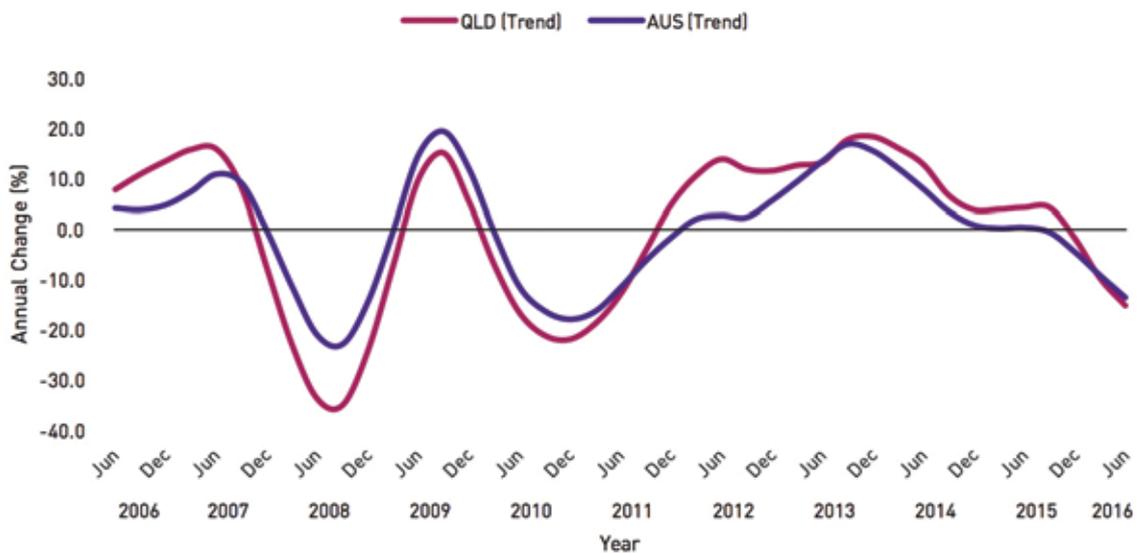
“ The oversupply of attached dwellings in Brisbane, and apartments in particular, is expected to have some impact on the property market.

Cameron Meiklejohn - CCIQ , Policy Analyst, Advocacy.

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While rising property prices will be welcomed by existing home owners, the fall in residential property transfers has implications for a number of sectors, but most notably, retail. Sales in the residential property market is highly correlated with sales of household goods, which includes the retail subgroups of furniture, electronic goods and hardware. Retailers operating in these particular areas benefit from a high level of churn in property sales, with the buying and selling of homes often being associated with the purchase of new furniture, home entertainment products, white goods and other household appliances. The observed fall in residential property transfers will also produce a drop in sales for household goods retailers, which as a group has been enjoying above average growth for much of the past two years.

6416.0 Residential Property Price Indexes
Annual Change (%), Residential Property Transfers
2006-2016



Source: ABS

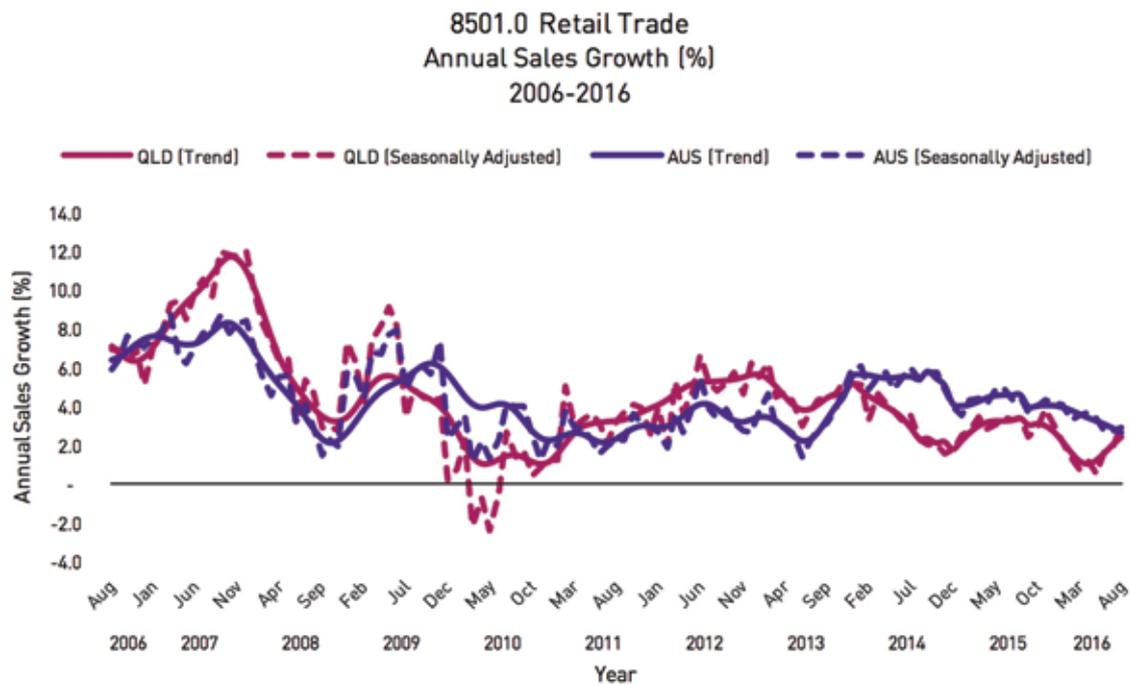




4. Retail

One sign of returning momentum to the Queensland economy is the recent improvement in retail sales. While the past twelve months have produced falling growth in the retail sector, more recent data suggests that an acceleration has commenced in Queensland. Annual growth in retail sales has increased from a low point of 1.0 per cent in May 2016, to 2.4 per cent in August 2016. While this is still below the ten year average of 4.3 per cent, the recent increase should be encouraging for the sector, especially given the closeness of the critical Christmas sales period.

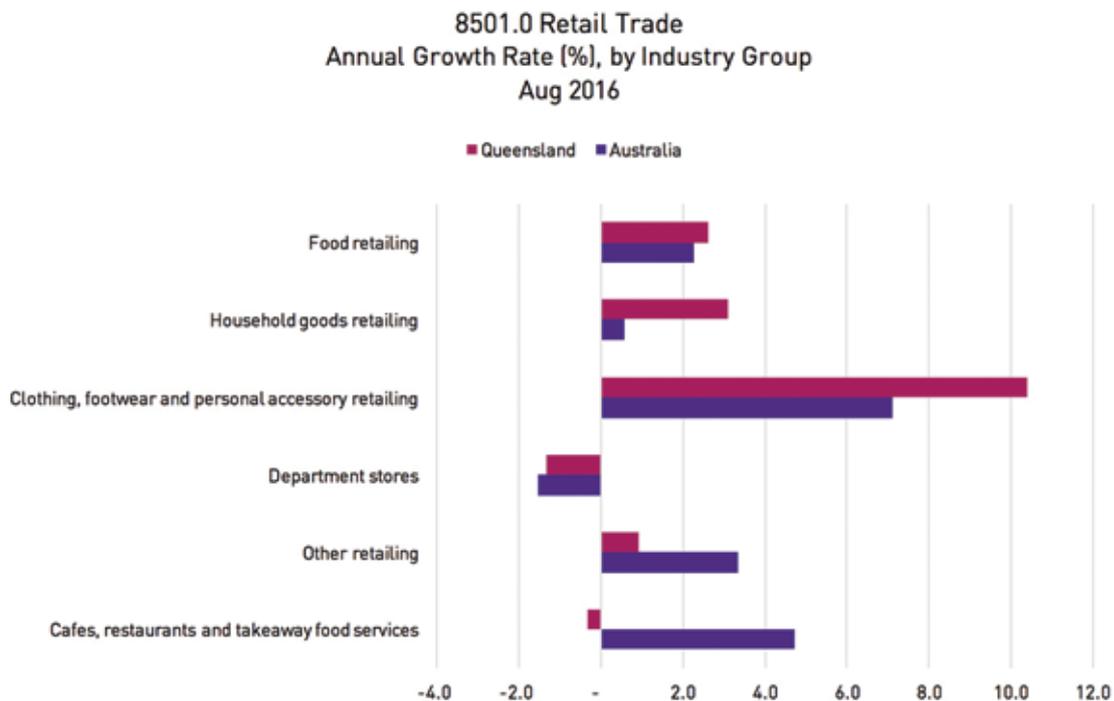
The clothing, footwear and personal accessory subgroup continues to produce exceptional results, recording annual growth of 10.4 per cent in trend terms, which is an increase of 0.9 per cent on the previous month. This category continues to outperform the national figure, which achieved a rise of 0.5 per cent in August, to record annual growth of 7.1 per cent.



Source: ABS

Spend within the café, restaurant and food services sector also continues to display signs of recovery despite recording a fall of 0.3 per cent in annual sales for August 2016. Since the most recent low point, recorded in February 2016, the category has shown gradual improvement, and should the recent trend persist, will record positive growth for the first time in a year when September data is released next month.

Although soft, compared with recent annual growth figures the household goods category is also performing well and continues to make an important contribution to retail sales in Queensland. With an annual growth rate of 3.1 per cent, it remains above the national average of 0.6 per cent, while also being slightly above the ten-year average of 3.0 per cent. Similarly, annual growth in food retailing is also up in Queensland, rising by 0.3 per cent in August to 2.6 percent, and is above the national average for the first time since December 2015.



Source: ABS

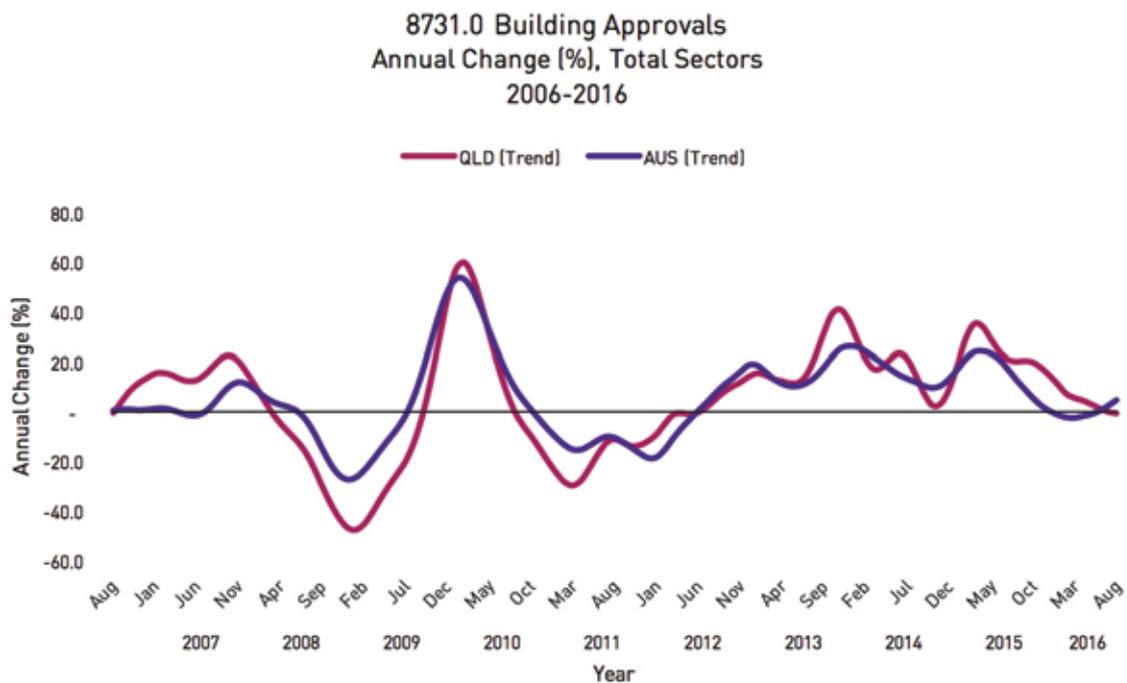
While these figures highlight a growing momentum within the retail sector, the upcoming Christmas sales period, which officially begins in the third week of November, will provide an important test for the current trend in consumer spending. Despite the recent improvements in annual growth figures, CCIQ maintains that Christmas sales in Queensland will be below average in 2016, with weak income growth and household debt squeezing the spending potential of many households.



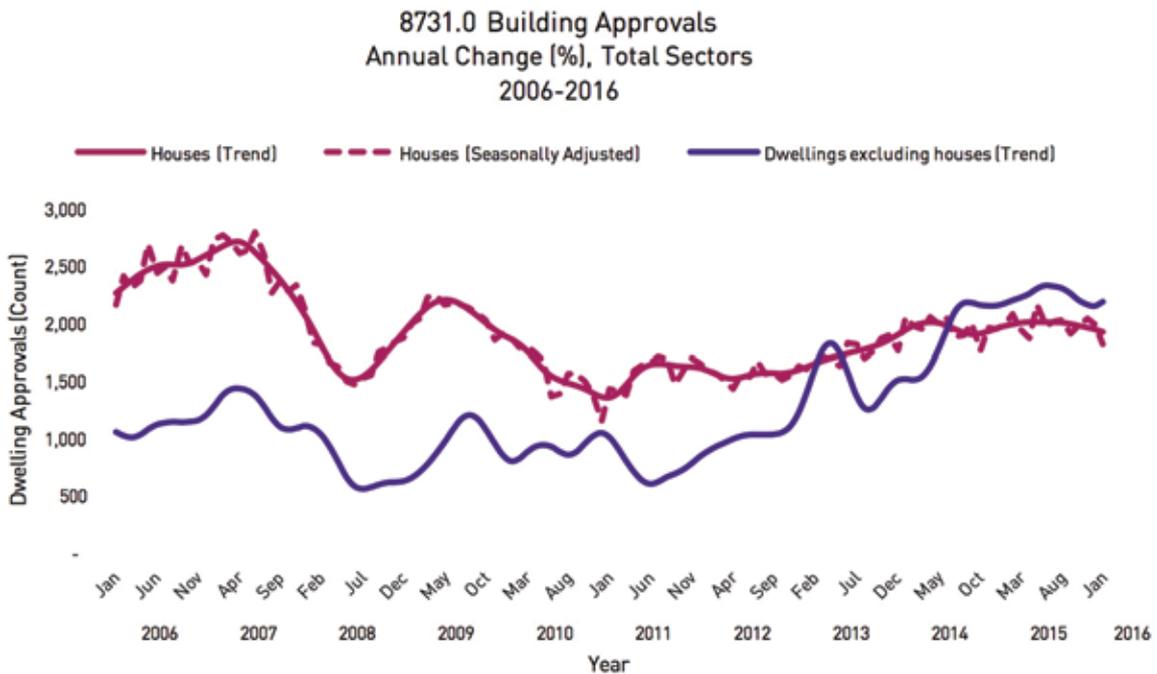
5. Building Approvals

The annual change in residential dwelling approvals fell by 0.8 per cent in trend terms in August, following the 0.2 per cent fall that was recorded in July. The decrease in total dwelling approvals was driven by a 2.5 per cent fall in approvals for houses, which is the single largest fall for this category since June 2013.

Regardless of this fall, in trend terms an additional 1,913 houses were approved for construction in August, which remains slightly above the ten-year average of 1,903 house approvals each month. Indeed, the strength of residential construction continues to be one of the better performing indicators for the Queensland economy, with dwellings excluding houses increasing again after a slight fall in July. The number of approvals for



Source: ABS



Source: ABS

dwellings excluding houses continues to outperform houses and reinforces the appetite for densification across Queensland. While this is encouraging, it will likely raise further concerns about the oversupply of high density dwellings. Although property developers may not ultimately proceed with all the approvals that they have been granted, it does appear that across the next two years the volume of available stock will increase substantially.

As has been indicated previously, the immediate impact of an oversupply will be that capital growth and rental yields for units and apartments will be lower than expected, and significantly lower than houses. Property finance may also become more difficult to access as mortgage lenders tighten their lending criteria to adjust for an oversupply in high density dwellings. Further, as many new developments are contained within similar locations, such as South Brisbane, where there is already large amounts of established stock, it is increasingly possible that settlement valuations will fall below the contract price.

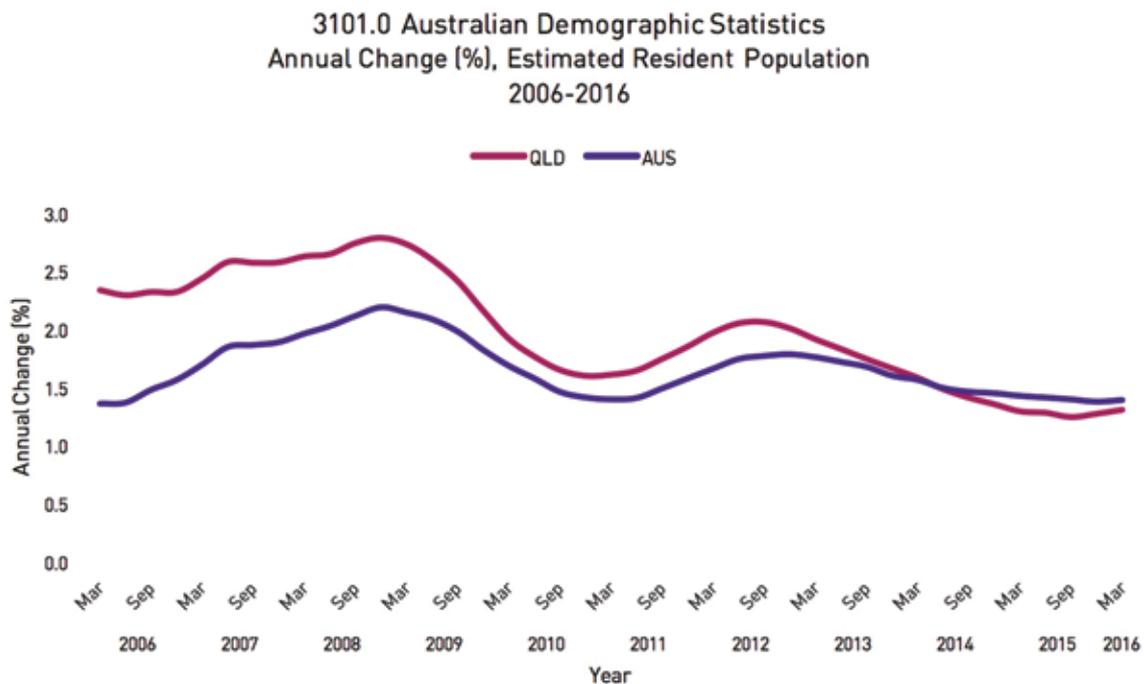
The potential risks associated with an oversupply of high-density apartments continues to generate concern within some sections of the property, investment and real estate communities and is something that CCIQ will monitor closely into 2017.

“ The immediate impact of an oversupply will be that capital growth and rental yields for units and apartments will be lower. ”

Cameron Meiklejohn - CCIQ , Policy Analyst, Advocacy.

6. Population

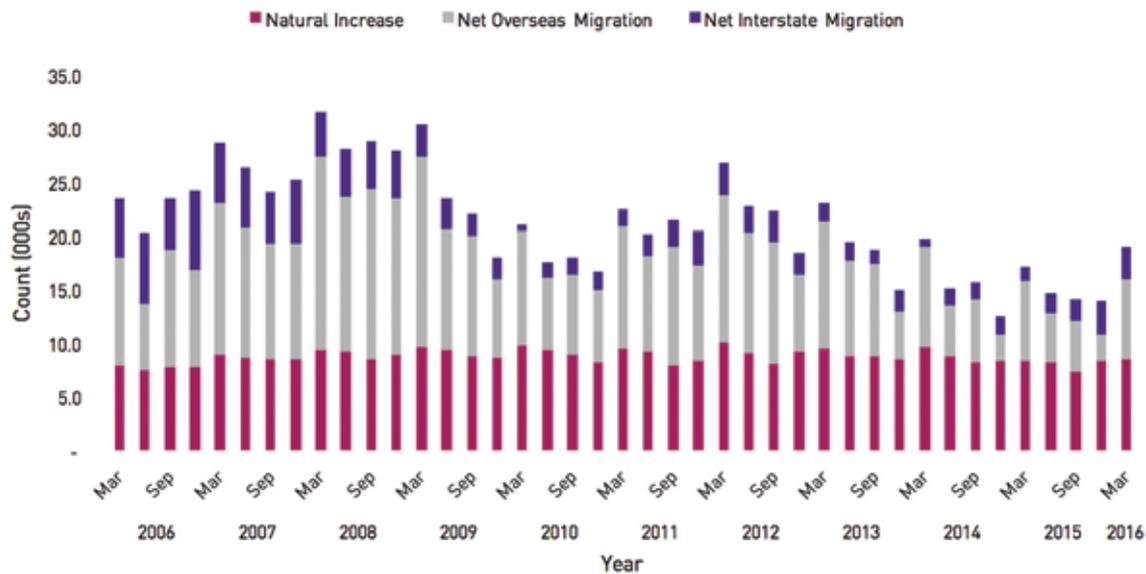
The recent release of demographic statistics by the ABS has indicated that the resident population of Queensland continues to grow at a slower rate than the national average. In the twelve months to March 2016, the state expanded by 1.3 per cent, compared with 1.4 per cent for Australia. This growth equates to an increase of almost 62,000 people, with the largest contribution (52.2%) coming from natural increase, which is the difference between births and deaths. As has been indicated previously, an expanding population provides some level of assurance that the demand for goods and services will continue to rise, with slowing rates of growth having an inevitable impact on key sectors of the economy, such as retail. It does appear however, that population growth may have reached a low point of the cycle in September 2015, with the past two quarters witnessing an acceleration, especially in the number of people migrating to Queensland from interstate.



Source: ABS

While the annual contribution of net overseas migration continues to fall, net interstate migration has steadily increased as a component of overall population growth. In the twelve months to March 2016, net overseas migration accounted for 31.4 per cent of total population growth, after recording a peak of 49.1 per cent in June 2012. Conversely, net interstate migration in the twelve months to March 2016 accounted for 16.4 per cent of total population growth, up from a low of 7.9 per cent that was recorded in March 2014.

3101.0 Australian Demographic Statistics
Population Change (000s), Components
2006-2016



Source: ABS

7. Summary

The key economic indicators that have been released across the past month show signs of continued improvement across some sectors of the Queensland economy, however challenges still persist. The CCIQ Economic Performance Index suggests that Queensland is beginning to improve relative to other state economies, although it is important to indicate that the slow growth in job creation, particularly in the private sector, will need to improve significantly if there is to be a consolidation, and improvement in the observed momentum shift. The sales growth recorded by the retail sector is particularly encouraging, and suggests some relaxation in consumer spending, although the upcoming Christmas trade period is expected to highlight the persisting pressure being created by low income growth and high household debt. A continued effort to restore confidence in the economy, and further spending on goods and services remains a priority for Queensland, and is expected to underpin sustained improvement in profitability, private sector investment, and job creation.

QUEENSLAND ECONOMY: KEY ECONOMIC INDICATORS

Indicator	Latest Release	Rate	Change
Unemployment Rate (Trend)	Aug (M)	6.3%	—
Job Vacancies	Aug (Q)	0.8%	↑
Retail Trade	Aug (M)	2.4%	↑
Building Approvals	Aug (M)	-0.8%	↓
Residential Property Price Index	Jun (Q)	4.3%	↑
Property Transfers	Jun (Q)	-15.3%	↓
Estimated Resident Population	Mar (Q)	1.3%	—
Exchange Rate (A\$-US\$)	Sep (M)	76.3c	↑
CCIQ Pulse Survey 12-Month Outlook	Jun (Q)	42.3	↓



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