

Queensland Economic Update

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Chamber of Commerce & Industry Queensland



‘Queensland has entered 2017 with solid momentum, and the small business community in particular is registering a return in optimism and a strong shift in attitude towards the overall economic outlook’

Kate Whittle
CCIQ, State Manager of Advocacy

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CCIQ Economic Update

Queensland Economic Developments

Queensland has entered 2017 with solid momentum, and the small business community in particular is registering a return in optimism and a strong shift in attitude towards the overall economic outlook.

While the official unemployment rate has remained static at 6.0 per cent for the past three months, Queensland continues to deliver nation leading growth in retail sales, with the state producing solid turnover figures across the critical Christmas sales period.

The CCIQ Economic Performance Indicator, which measures the overall performance of the Queensland economy relative to the rest of Australia, has also continued to improve, rising by a further 2.3 points in December 2016.

While the current unemployment level remains elevated at 6.0 per cent, it has fallen significantly from the most recent high of 6.7 per cent that was recorded in late 2014, although a falling participation rate suggests underlying weakness in the labour market. The persistent differences in employment opportunities between South-East and Regional Queensland continues as a point of significant concern however, especially with the unemployment rate in Townsville increasing by a further 0.2 points in December to a new high of 11.2 per cent. Observed increases in the number of job vacancies, combined with recent results from the CCIQ Pulse Survey, suggest that employment levels could rise in 2017 however, which would begin to address some of the employment issues across Queensland.

Retail trade has recorded three straight months of nation leading growth, posting an increase of 3.9 per cent in the twelve months to December 2016, with retail businesses reporting strong sales and revenue figures leading into the critical Christmas sales period.

In 2016, Christmas sales increased by 4.2, with Queensland spending \$9.20 billion, and exceeding the original forecast of \$9.13 billion made by CCIQ in October 2016. This suggests that the industry has a solid platform at the beginning of the new year, with 2017 expected to be another fascinating year for the retail industry.

Building approvals for units returned to normal levels in December 2016, with the number of units approved for construction falling to 1132, which is below the ten-year average of 1249. While the number of developments currently under construction remains high, the observed fall in the number of new commencements suggests that some difficulties are beginning to emerge in residential construction. A number of property analysts have highlighted that the presale targets for approved unit developments are not being achieved by some developers, with banks and other lenders seeking a higher level of pre-commitment before providing the finance needed to commence construction.

The Queensland economy continues to show signs of improvement, and with business reporting rising sales and revenue, and the potential for increasing employment, 2017 should provide further momentum as the state continues its recovery.



Labour Force

34,800

Net jobs lost in 12 months to December '16

Source: ABS 6354.0

Economic
Performance Indicator

7.9 pts

Above the five-year average

Source: ABS, CCIQ

CCIQ Economic Overview

Key economic figures have shown further evidence of sustained momentum across Queensland as the state transitions further from the mining investment boom.

At 49.0 points, business sentiment towards the twelve-month outlook for the Queensland economy, as measured by the CCIQ Pulse Survey is at its highest level since late 2014, and only marginally below the five-year average of 49.4 points.

Retail trade continues to produce national leading growth figures, and with annual growth of 4.2 per cent for the critical Christmas sales period, the industry is well positioned at the beginning of 2017 following particular challenging conditions across the past twelve months.

Pulse Survey

49.0 pts

Quarterly rise of 7.1 points

Source: CCIQ

Retail Trade

3.9%

Third month of national leading growth

Source: ABS 8501.0



Business Conditions

- **Overall economic performance** continues to improve.
- **Retail sales** continue to lead nation in growth.
- **Economic performance** indicator rises by 2.3 points.

Labour Force

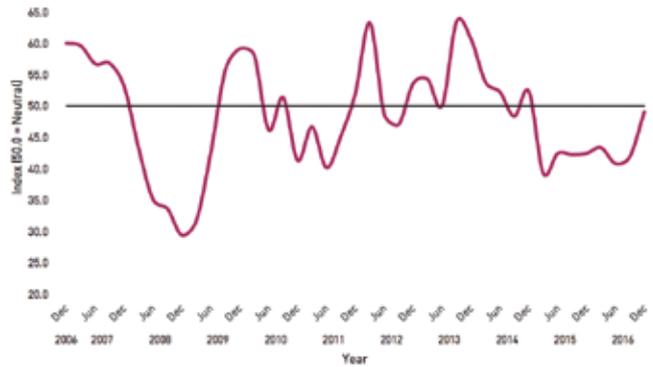
- **6.0% unemployment rate** is 0.3 points higher than the national rate.
- **Unemployment rate** has remained unchanged for three months.
- **29,900 fewer full-time jobs** compared with this time last year.

Queensland Economic Overview

12 Month Outlook

- **Confidence** in the Queensland economy will increase.
- **Employment levels** will rise as business looks to grow.
- **Profitability** to improve on-the-back of rising sales and revenue figures.

Graph 1 - CCIQ Pulse Survey: Queensland Economy 12 Month Outlook



Source: ABS 5602.0

Graph 2 - Unemployment Rate (%)



Source: ABS 6202.0

Building Approvals

52.2%

Annual fall in total building approvals

Source: ABS 8731.0

Unemployment Rate

6.0%

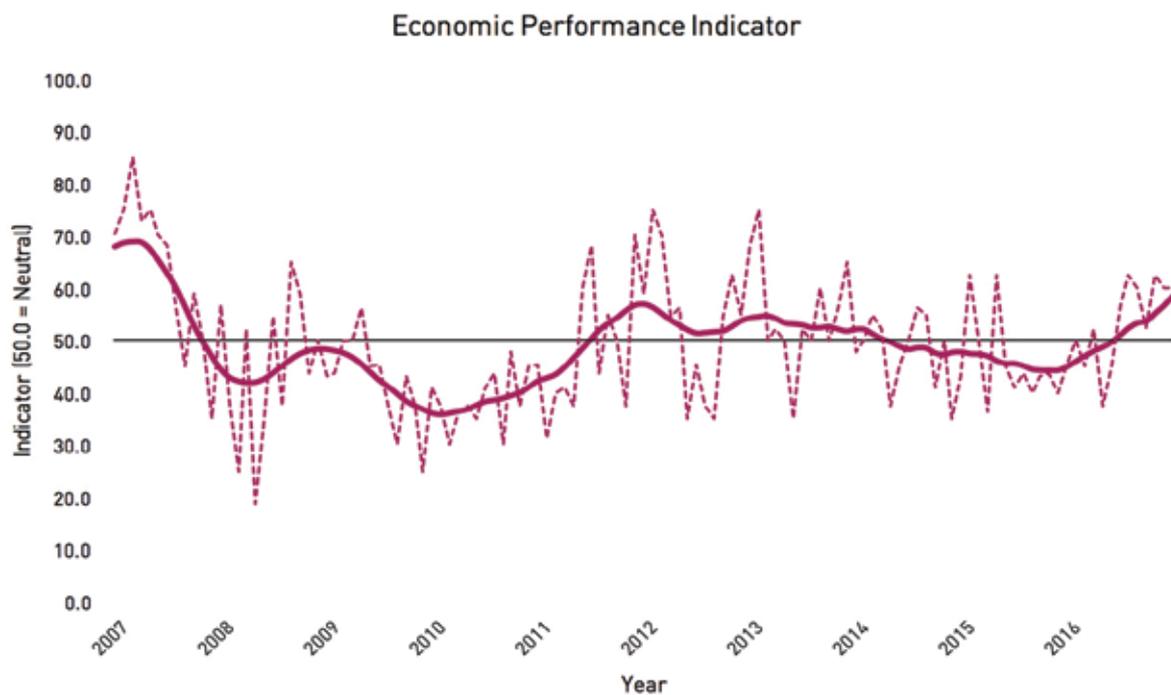
Unchanged from previous months

Source: ABS 6202.0

CCIQ Economic Update Full Report

1. Overall Economic Performance

A third consecutive month of nation leading retail trade figures, combined with other solid results across other key economic figures has produced a further rise in the CCIQ Economic Performance Indicator across the past month. The indicator recorded a rise of 1.8 points in December, providing further reinforcement of the recovery occurring across the Queensland economy, and its performance relative to the rest of Australia. At 58.6, the indicator continues to reflect an overall level of economic performance similar to what was recorded in 2013, and is now 7.9 points above the five-year average (50.7). The evidence suggests that a number of the fundamentals of economic activity and performance in Queensland are sound, and are beginning to produce renewed optimism and confidence in the small business community.



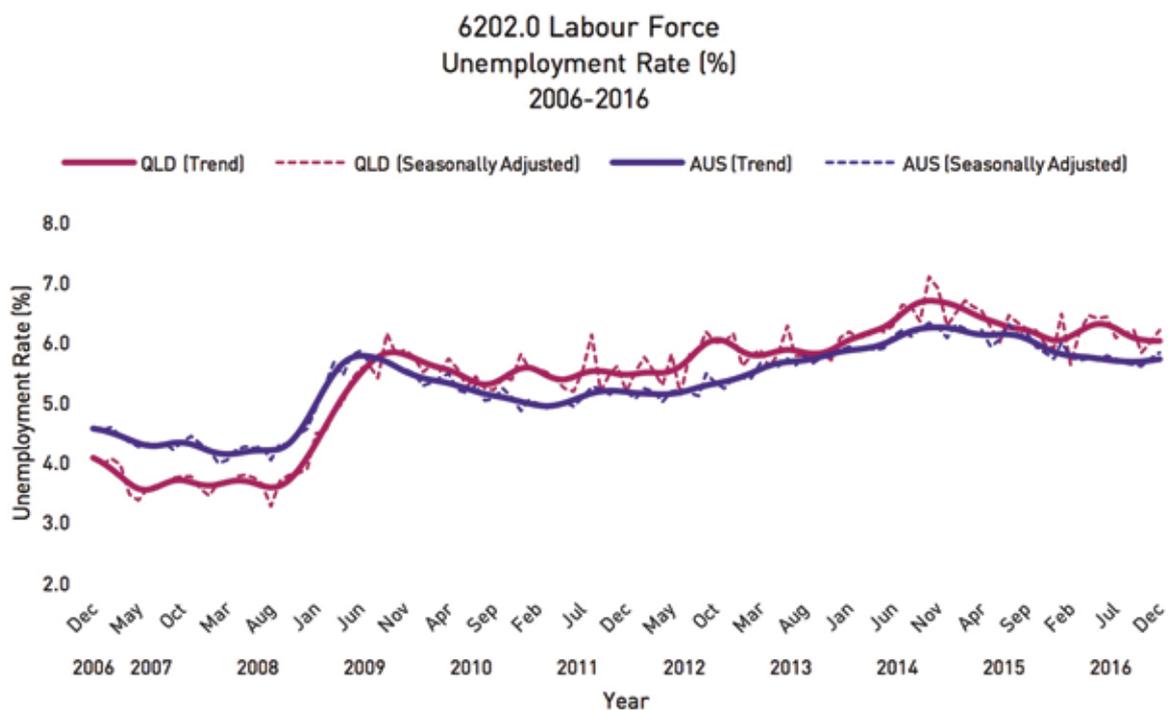
Source: ABS, CCIQ

The decline in building approvals, which fell below the ten-year average in December, will be a source of interest in coming months, as residential construction boom begins to decline across the state, and South-East Queensland in particular. The expected decline in active construction sites across 2017 has the potential to produce further slackness in the labour market, although a rise in of non-residential projects is anticipated, which may offset some of the drop in demand from the residential sector. The next twelve months will likely be an intriguing period for analysts, economists, and other stakeholders as the Queensland economy continues its slow, but steady return to form. Combined with the most recent Pulse Survey data, it is becoming apparent that growth prospects for the small business community are strengthening, and becoming more secure, at the beginning of a new year.



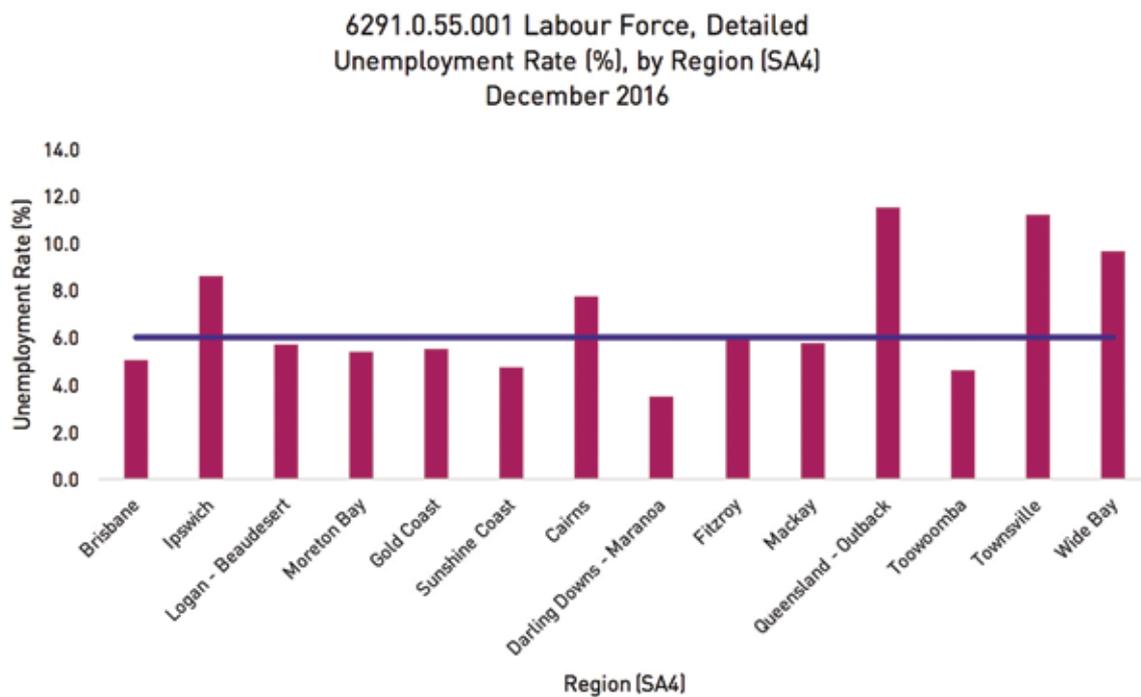
2. Labour Force

The unemployment rate remained steady at 6.0 per cent for a third straight month after trend estimates were adjusted in December, raising the November figure by 0.1 points. This returns the trend unemployment rate in Queensland to the same level that was recorded at the beginning of 2016, and suggests some of the underlying labour market fundamentals of the Queensland economy remain weak. As has been discussed recently, the divide between South-East and Regional Queensland is a persistent feature of labour conditions across the state, with employment opportunities diverging considerably between the two regions since 2014. Unemployment in South-East Queensland has been under 6.0 per cent since September 2015, and is currently at the reasonably stable level of 5.5 per cent. In regional Queensland however, unemployment has been above 7.0 per cent for much of the past two years, with Townsville presenting a unique challenge in terms of labour market conditions. In December 2016, the unemployment rate in Townsville increased by a further 0.2 points to a new record high of 11.2 per cent, while Wide Bay also increased 9.7 per cent.



Source: ABS, CCIQ

For the remaining regions of Queensland, unemployment levels remained relatively unchanged from the previous month, although noticeable improvements continue to be recorded in some areas. In South-East Queensland, Moreton Bay recorded a fall of 0.2 points to 5.4 per cent, and is now at its lowest level in three years, with an additional 3100 people being employed across the twelve months to December 2016. Cairns also achieved a fall of 0.2 points to reach an unemployment rate of 7.8 per cent in December 2016, which is 0.9 points lower than the recent high of 8.7, which was recorded in August 2016. Indeed, Townsville remains a unique case in Queensland, with the unemployment rate rising by rising by 3.2 per cent across the past twelve months.

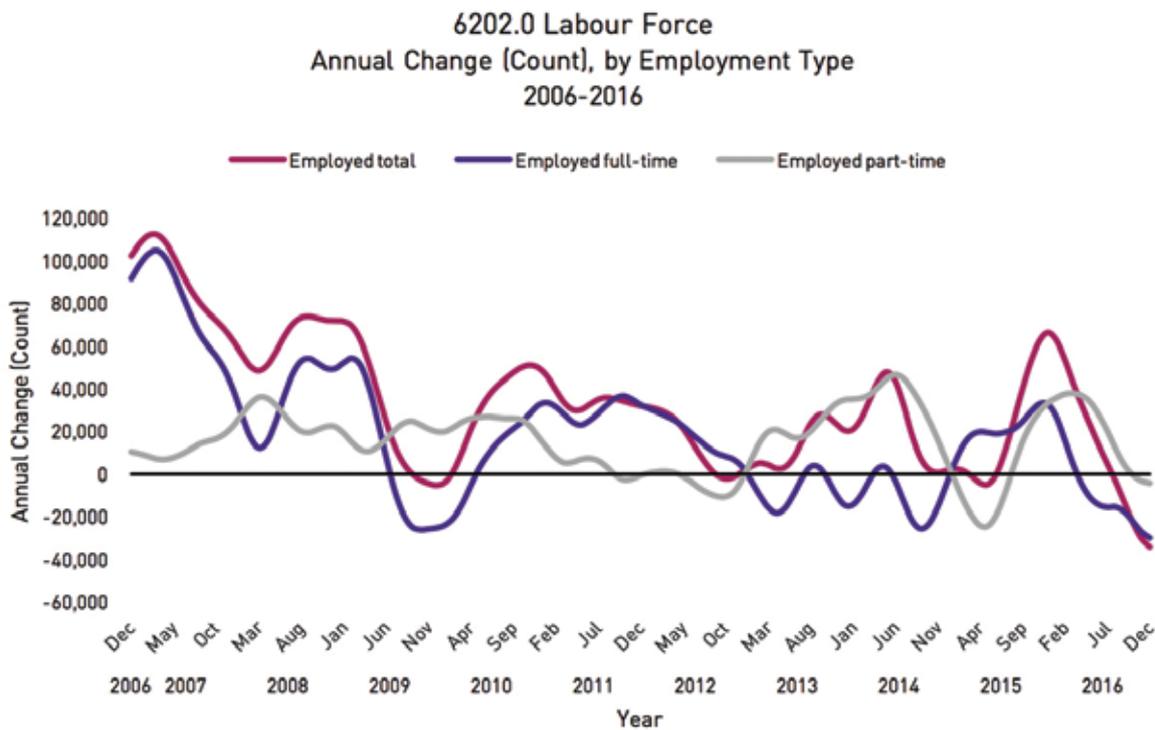


Source: ABS, CCIQ

The labour market in Ipswich is also concerning, with the region recording an increase of 0.3 points in December, with unemployment reaching 8.6 per cent. Significantly, this is the highest level of unemployment in Ipswich for the past two years. In the twelve months to December 2016, the number of unemployed people in Ipswich has increased by approximately 3200, with almost 14000 residents now looking for work. As indicated last month, it is hoped that that the volume of non-residential projects coming online across the next twelve months, and beyond, will provide a much needed jobs boost for those living in the region. The rise in interstate migration into Queensland is also expected to benefit Ipswich as young families look to Queensland as an attractive alternative to gain access to the property market. Ipswich and surrounding areas, will likely benefit from this in coming years, further driving economic activity in the region.

With recent adjustments to trend estimates, the unemployment rate has not been below 6.0 per cent in Queensland since November 2013. Driven by a decline in employment opportunities within the resource sector, and businesses in other sectors engaging in workforce consolidation, the lack of movement in the unemployment rate is understandable. The participation rate in Queensland, which has been discussed at length in this publication, continues to suggest that there is a proportion of working age people that are

unemployed, but are not actively looking for work, highlighting that there is underlying weakness in the labour market. There is increasing evidence that conditions are beginning to improve however, with data suggesting that job vacancies are rising across the state. In addition to this, the most recent CCIQ Pulse Survey highlights that the small business community believes 2017 will be a good time to increase employment levels. This is significant, as it is the first time in more than three years that business has suggested that conditions justify the creation of new jobs, and the hiring of extra staff. With other economic indicators highlighting that momentum in the Queensland economy is building, it is reasonable to suggest that labour market conditions could improve throughout 2017, bringing new employment opportunities.



Source: ABS, CCIQ

The decline in the number of people employed, compared with twelve months ago, continues to raise some concerns with there being fewer full-time positions (29,900) and part-time positions (4,400), producing a total drop of 34,300 in the number of people employed in Queensland.

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For the first time in three years, business is beginning to suggest that conditions justify the creation of new jobs, and the hiring of extra staff.

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Kate Whittle - CCIQ, State Manager of Advocacy

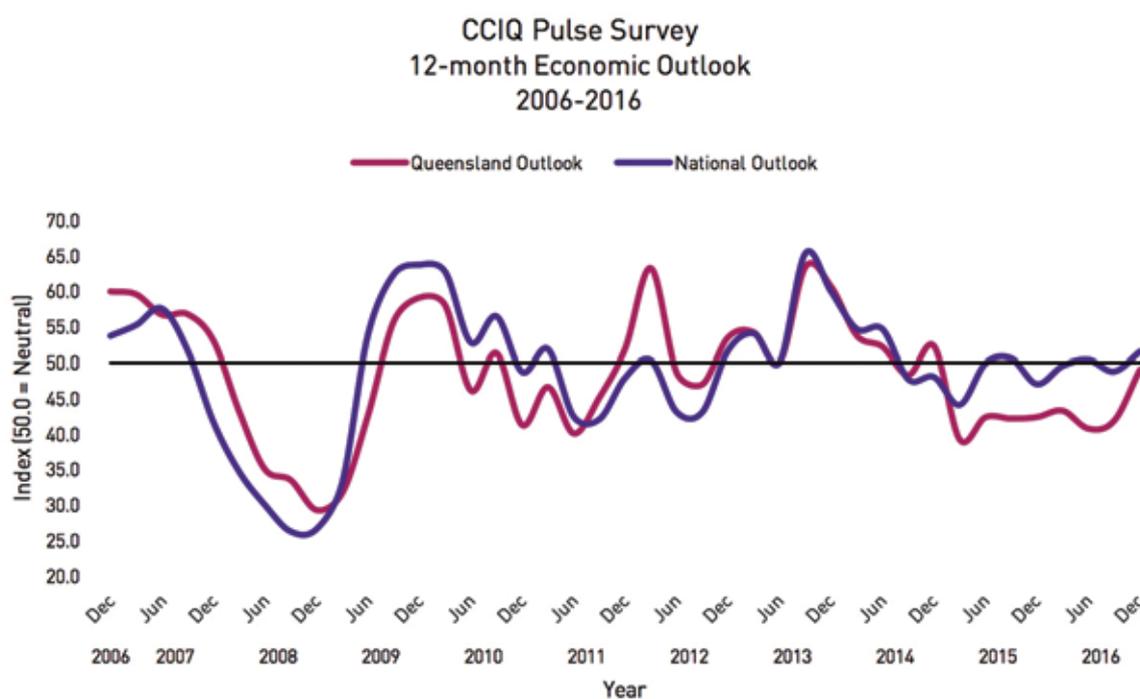
3. Pulse

Business confidence as measured by the twelve-month outlook of the Queensland economy recorded a substantial increase in the December Quarter 2016, rising to its highest level in three years.

Nation leading retail trade figures, rising job vacancies, and a solid pipeline of residential construction work have been key positives for the Queensland economy across the past quarter, and as expected, this is beginning to translate into a more positive outlook from the small business community.

While there is continued uncertainty and apprehension regarding the global political climate, international markets, and high unemployment, especially in regional Queensland, an overall improvement in business conditions and sales appears to be producing a renewed confidence across the state.

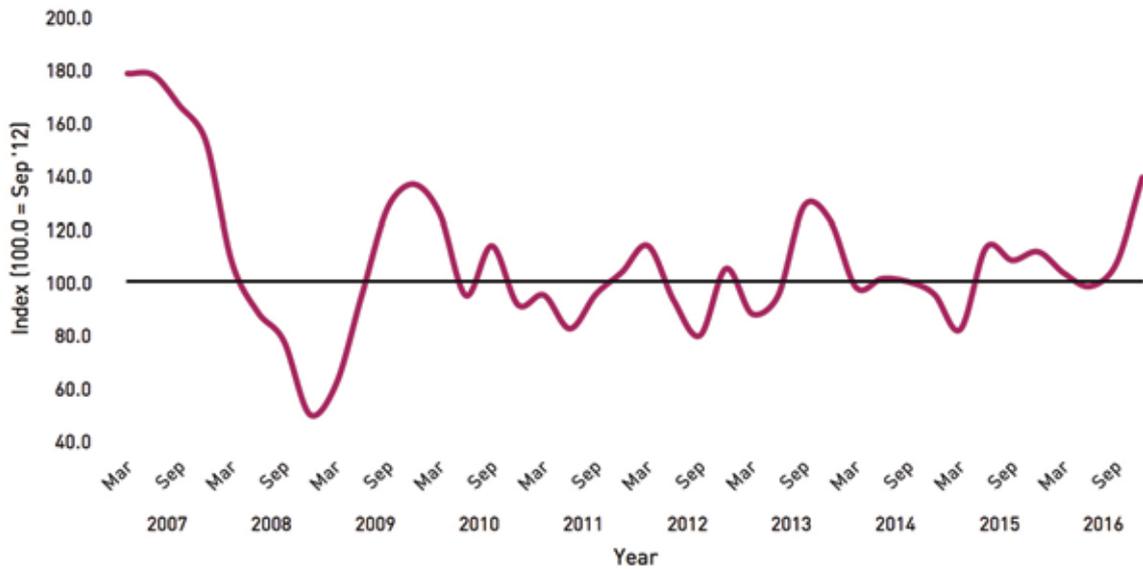
For Australia, the twelve-month outlook increased by 2.8 percentage points to 51.5 in the December Quarter, and places the index above the neutral level (50.0), suggesting that the small business community believes the Australian economy will strengthen across the next twelve months. Further, the National Outlook is now 0.8 points above the five-year average (50.7), and is at its highest level since June 2014.



Source: CCIQ

Business confidence in the Queensland economy also increased in the December Quarter, recording a rise of 7.1 points, which is the largest quarterly jump since September 2013. Business sentiment towards the twelve-month outlook for Queensland is now at 49.0 points in seasonally adjusted terms, its highest level since late 2014, and only marginally below the five-year average of 49.4 points. Continued improvements in general business conditions, as well as sales and revenue, are also underpinning a renewed level of optimism, with forecasts suggesting further improvements in the first half of 2017.

CCIQ Pulse Survey
Business Optimism
2007-2016



Source: CCIQ

The observed improvements, across a number of key economic indicators, are now beginning to filter through to significant increases in business confidence, and a growing conviction in the 12-month outlook for the Queensland economy.



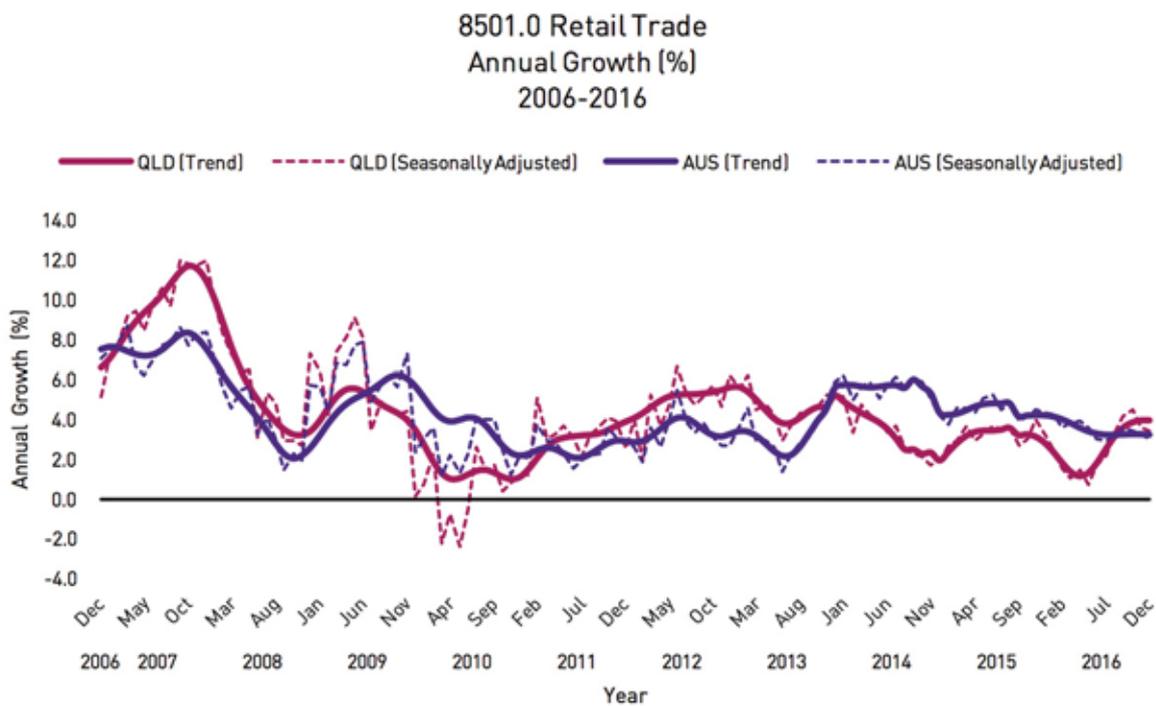
“ Business confidence in the Queensland economy has risen to its highest level in three years. ”

Kate Whittle - CCIQ, State Manager of Advocacy



4. Retail

The retail industry in Queensland continues to produce nation leading sales growth, with the December figures highlighting that turnover increased by 3.9 per cent in trend terms, compared to the same month last year. The key driver of growth continues to be the industry sub-category of Clothing, Footwear and Personal Accessories, which recorded a 7.2 per cent rise in sales turnover for December 2016 compared to the same month in 2015. Significantly, this remains well above the national average of 5.5 per cent, and further highlights the current appetite for fashion and apparel in Queensland. While growth is trending down from the recent peak of 12.1 per cent, which was recorded in May 2015, the sub-category remains at elevated levels compared to the ten-year average (1.4 per cent).



Source: ABS

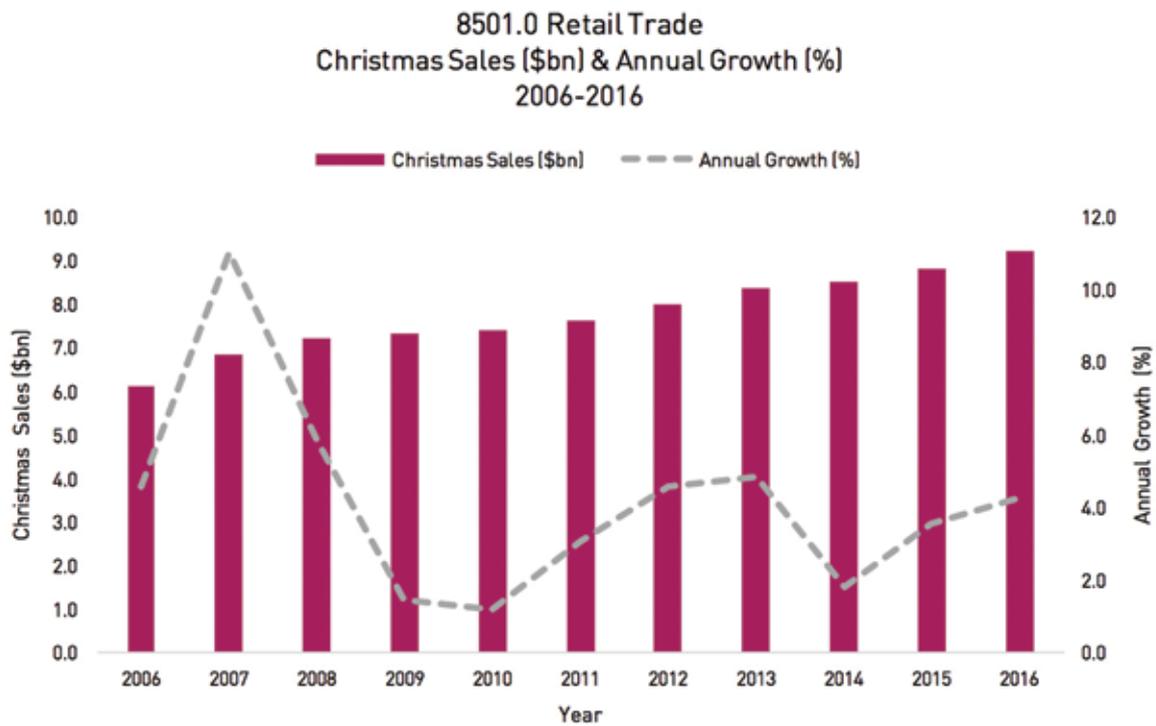
Further, the household goods category also continues to outperform the national growth rate, with furniture, homewares, and electrical and electronic good sales growing above the long-run average across Queensland.

Indeed, the retail sector in Queensland is currently outperforming the national average in sales growth



across all industry sub-groups, with the exception of Cafes, Restaurants and Take Away, which suggests that the sector was well positioned to produce solid Christmas trade figures in 2016.

The recent release of ABS data reveals that Queensland returned to relatively normal level of sales growth across the Christmas sales period in 2016, increasing by 4.2 per cent on 2015. With a final sales figure of \$9.20 billion, this exceeds the original forecast of \$9.13 billion that was made by CCIQ in October 2016, with the higher than expected spend a welcome result, especially given the challenging conditions experience in the first half of 2016.



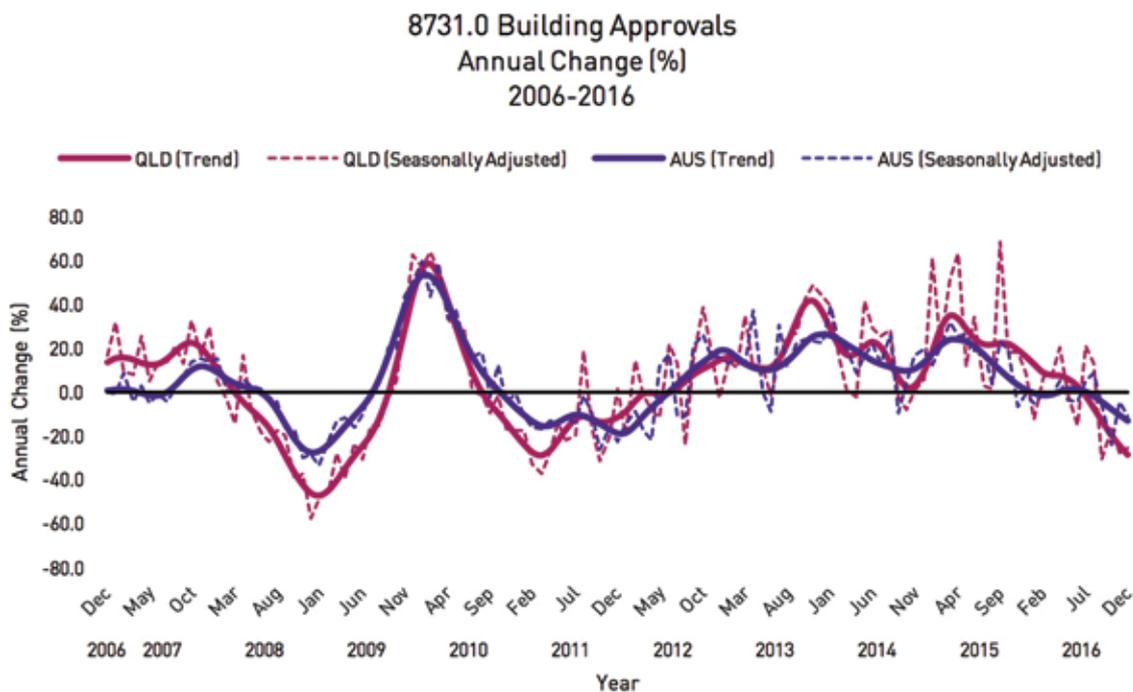
Source: ABS

With the anticipated entrance of more international retail brands into Queensland across 2017 and beyond, as well as the highly anticipated arrival of Amazon, it is certain that the next twelve months will be an intriguing period for analysts and industry stakeholders. While this may present challenges for established retail businesses, which will need to be attentive to the new arrivals, the evidence suggests that opportunities continue to exist in Queensland for those retailers that achieve the right mix of product offering, across multiple channels.



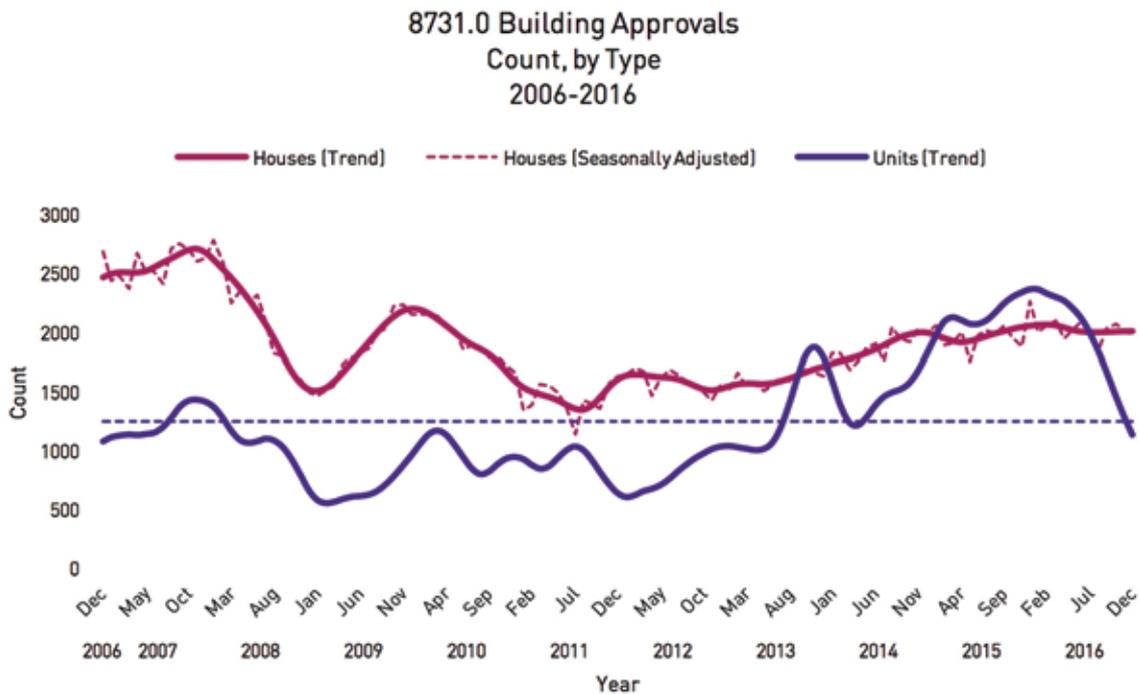
5. Building Approvals

As building approvals for units returned to normal levels in December 2016, with the number of dwellings other than houses approved for construction falling to 1132, which is below the ten-year average of 1249. In trend terms, unit approvals recorded a monthly fall of 12.7 per cent, while approvals have more than halved compared with December 2015. The substantial retraction in unit approvals has been anticipated, with the number of developments under construction, and in the pipeline, raising concerns of an oversupply, and an associated rise in settlement risk and diminished rental yields. There is also some indication that property developers are losing confidence in market conditions, with a potential weakening of appetite to commence some of the unit projects that have already been approved.



Approvals for detached housing was stable in December however, with 2003 properties approved for construction, although this is slightly down (2.2 per cent) on the level recorded at the same time last year. The focus and concern however, continues to be on the high-density property market, and the implications this has for economic activity across the next twelve months.

A number of property analysts have highlighted that the presale targets for approved unit developments are not being achieved by some developers as banks and other lenders seek a higher level of pre-commitment before providing the finance needed to commence construction. While the number of developments currently under construction remains high, the observed fall in the number of new commencements may suggest that difficulties are beginning to emerge in commencing residential construction projects, along with a weakening in confidence within the development community. As is the case with other aspects of the Queensland economy, residential construction will be a key indicator across 2017, with the number of new commencements in particular being monitored closely by CCIQ in the coming months.



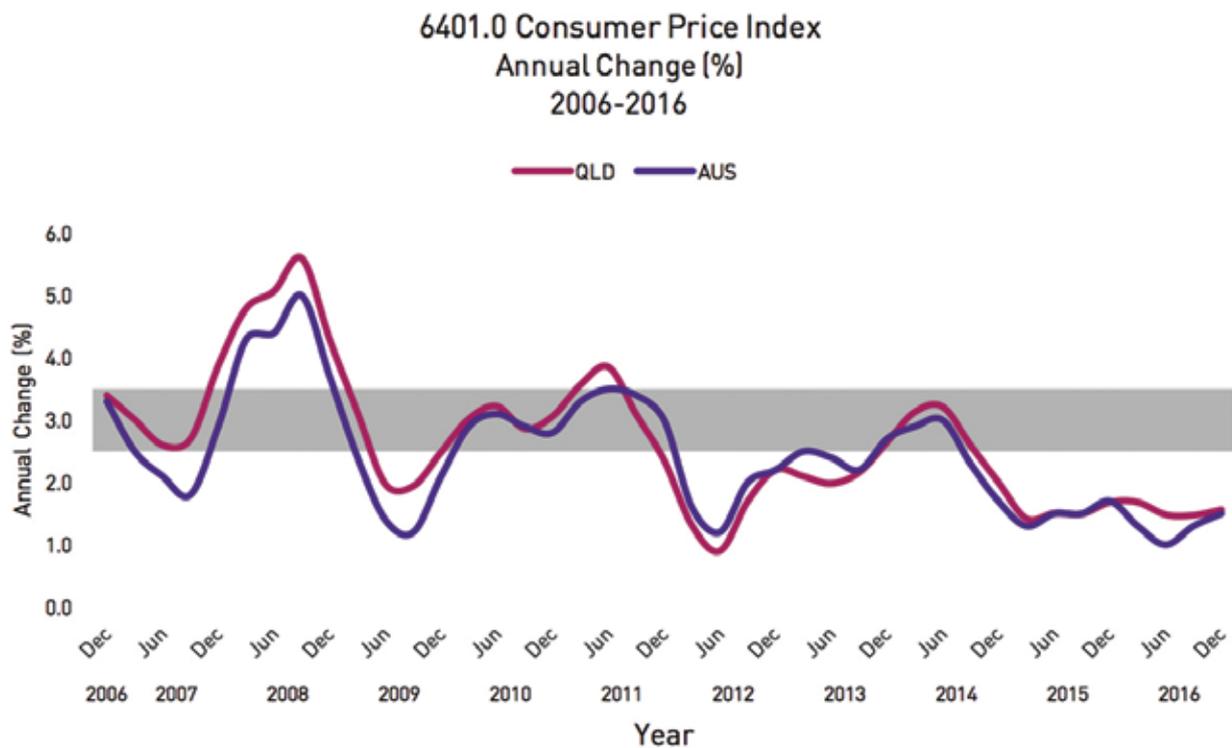
Source: ABS

“ While the number of developments currently under construction remains high, the number of new commencements is declining suggesting increased difficulties in meeting pre-commitment levels and securing finance. ”

Kate Whittle - CCIQ, State Manager of Advocacy

6. CPI and Cash Rate

The Reserve Bank kept the cash rate at 1.50 per cent at its first meeting of 2017, and has maintained its position that the Australian economy will grow by approximately 3.0 per cent in 2016/17. The cash rate has been at 1.50 per cent, its lowest level on record, for six consecutive months. Evidence continues to suggest that rate cuts are increasingly ineffective in producing improvements in consumer spending, with debt reduction and household saving persisting as a key issues for many families across Queensland. While Queensland has enjoyed a return to form in retail sales across the past six months, and household consumption is on the rise, for the RBA inflation target of between 2-3 per cent to be achieved, further improvements in consumption will be needed in 2017.



Source: ABS

With inflation being below the RBA target since late 2014, despite four reductions in the cash rate during this time period, it appears that improvements in the rate of inflation may continue to be limited in the short term. The Suncorp Group CCIQ Pulse Survey does suggest that economic activity could rise in Queensland during 2017 however, with a growing proportion of businesses expecting to increase capital expenditure and employment levels this year. Soft labour market conditions, wages growth, and levels of household debt, do present real challenges however, suggesting that the rate of inflation could remain below the RBA target across the next twelve months.



7. Summary

Key economic indicators continue to suggest that Queensland is improving, and relative to other states, is performing well at the beginning of 2017. Retail sales figures have remained strong for a third consecutive month, with the sector producing \$9.20 billion in sales across the critical Christmas trading period in 2016. Labour market weakness, particularly in regional areas, continues to be a major challenge for the state however, although the recent CCIQ Pulse Survey indicates that the business community believes the first quarter of 2017 will be a good time to increase employment levels. With rising business optimism, and a strengthening conviction in the outlook for the Queensland economy, it is hoped that the first half of 2017 will see a further strengthening in business conditions and revenue. Should this occur, it is also likely that 2017 will also see a return 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	Dec (Q)	49.0	↑
CCIQ Economic Performance Indicator	Dec(M)	58.6	↑
Unemployment Rate (Trend)	Dec (M)	6.0%	↑
Building Approvals	Dec (M)	-52.5%	↓
Retail Trade	Dec (M)	3.0%	↓
Job Vacancies	Nov (Q)	6.6%	↑
Residential Property Price Index	Jun (Q)	4.3%	—
Exchange Rate (A\$ - US\$)	Dec (M)	75.6	↑



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