# Queensland Economic Update

## July 2017

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# An improving global economy is good news for Queensland. Totalling $65.8 billion in the year to March 2017, the state is Australia's second largest exporter of goods.

Steven Gosarevski
**CCIQ, Economist.**

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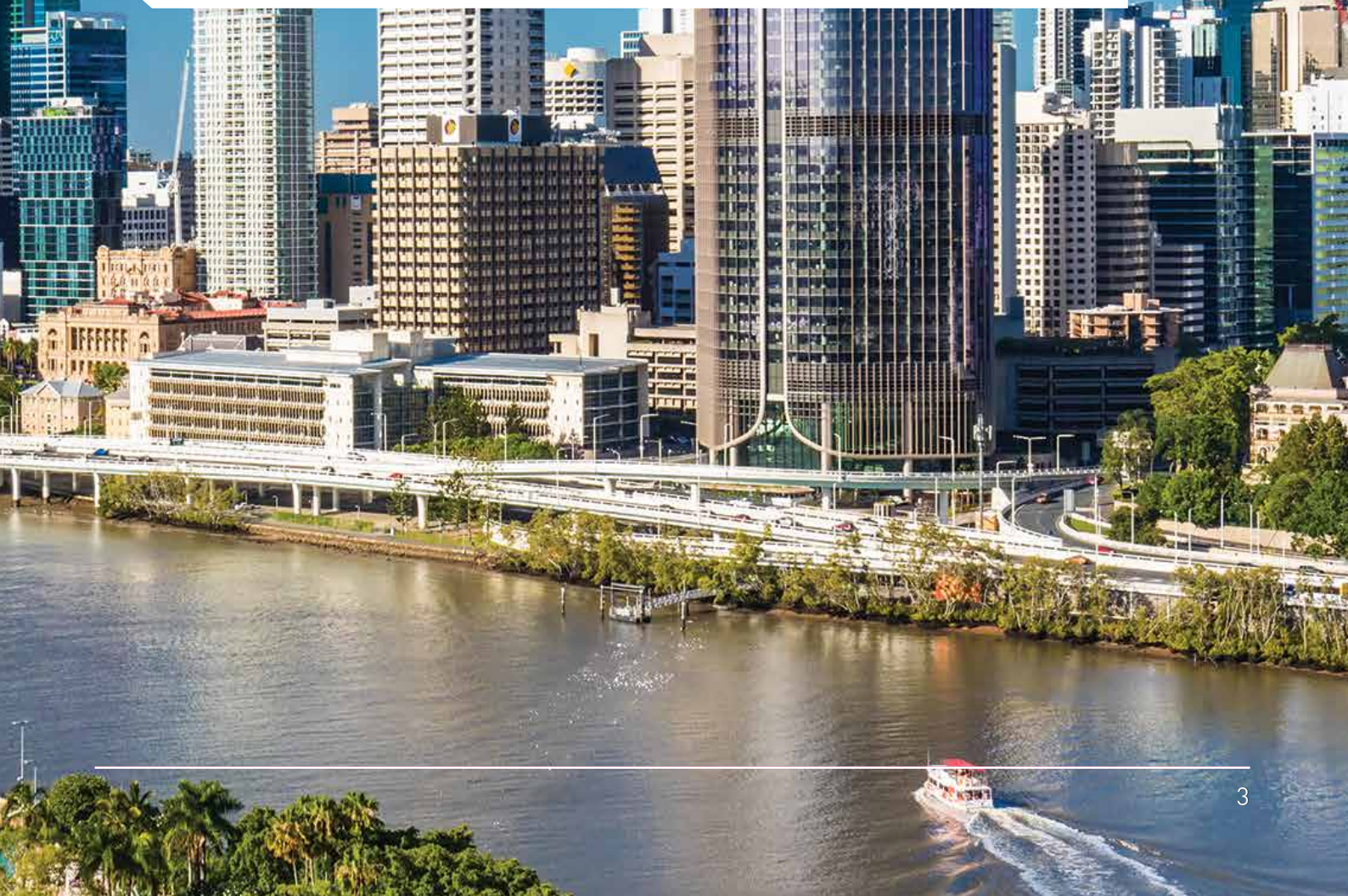
## CCIQ Economic Full Report





# CCIQ Economic Update

## Queensland Economic Developments

The positive news out of the labour market continued with June data showing a further 7,000 jobs were added during the month. This data reinforced recent positive trends with the total number of jobs added during 2017 up to 45,000, of which, the majority added were full-time roles.

Another positive for the Queensland economy is the improving outlook for the global economy. Following several years of sluggish growth, the IMF is forecasting global growth to pick-up to 3.5 per cent during 2017 and continue to accelerate further in 2018 with a general improvement in conditions across the emerging and advanced economies. Queensland is set to benefit from this improvement. Among the states, Queensland is Australia's second largest exporter of goods, totalling $65.8 billion in the year to March 2017. The state also has a large services export industry, worth $11.5 billion over the past twelve months.

A big beneficiary of the upturn in global growth would be the local mining industry which is a leading international supplier of energy resources and base metals. The mining industry contributed $21.8 billion in economic output to the Queensland economy during 2015/16. Although commodity prices have generally improved compared to 2016, these conditions are not expected to lead to a substantial increase in new mining investment. The more likely scenario is previously idled capacity will be restarted before mining companies commit new capital to increase production.

Meanwhile, inflation continues to be well contained. The latest data for the June quarter showed headline consumer price inflation (CPI) rose across the country by 1.9 per cent in the past year – below the RBA's target level of 2 – 3 per cent. The headline CPI was around the same level as the measures of core inflation. The RBA has forecast a subdued outlook for inflation and the economy in the short term, with the economic growth only expected to accelerate from 2018 and return to trend by 2019. We expect interest rates will remain on hold through the remainder of 2017 but the RBA may start to look at tightening monetary policy from the second half of 2018.

Without further rate cuts, further falls in residential construction activity are expected. The construction sector has now reached the cross-over point where dwelling completions are exceeding new dwelling commencements. This has led to a shrinking in the pipeline of dwellings under construction to 37,500 dwelling as at March 2017.

This falling pipeline of work has already impacted residential construction work, declining 14.7 per cent on the previous quarter and 12.6 per cent on the previous year.

## Cash Rate

# 1.5%

Cash rate steady at this level since August 2016

**Source:** RBA

## Global Growth

# 3.5%

Growth in the global economy 2017

**Source:** IMF

# QUEENSLAND ECONOMY: KEY ECONOMIC INDICATORS

| Indicator | Latest Release | Rate | Change |
|---|---|---|---|
| Unemployment Rate (Trend) | Jun (M) | 6.3% | ↓ |
| Building Approvals | Jun (M) | -14.7% | ↓ |
| Retail Trade | Jun (M) | 3.1% | ↑ |
| Consumer Price Index | Mar (Q) | 1.9% | ↑ |
| Exchange Rate (A$ - US$) | Jun (M) | 76.9 | ↓ |
| State Final Demand | Mar (Q) | 1.5% | ↑ |
| CCIQ Pulse Survey 12 Month Outlook | Mar (Q) | 49.4 | ↑ |
| Construction Activity | Mar (Q) | -1.0% | ↓ |

**Mining Industry**

**$21.8bn**

**Gross Value Added**

**Source:** ABS 5220.0

**Mining Industry**

**8.9%**

**Industry Growth in 2015/16**

**Source:** ABS 5220.0

# International Trade

- **Queensland exports** over $77 billion of goods and services.
- **Coal is the largest** export commodity, worth $16.5B in 15/16.
- **China is Queensland's largest** destination for merchandise exports (worth $11.2 billion)

# Mining Industry

- **The mining industry** contributed $21.8B to the Queensland economy.
- **60,000 workers** employed in the mining industry.
- **Treasury estimates** royalty payments to add $4.0 billion to government budget.

# Queensland Economic Overview

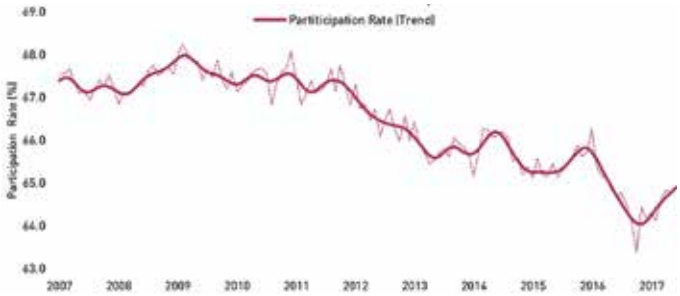
## 12 Month Outlook

- **Inflation to gradually** move into the 2-3% target band.
- **Global economy** to accelerate in 2017.
- **Interest rates** expected to remain on hold until second half of 2018.

Graph 1 - Global Economic Growth


**Source:** IMF WEO

Graph 2 - Queensland Labour Force Participation Rate




**Source:** ABS

### Building Approvals

**-14.7%**

Annual fall in total building approvals

**Source:** ABS 8731.0

### Unemployment Rate

**6.3%**

Employment and participation levels rising

**Source:** ABS 6202.0

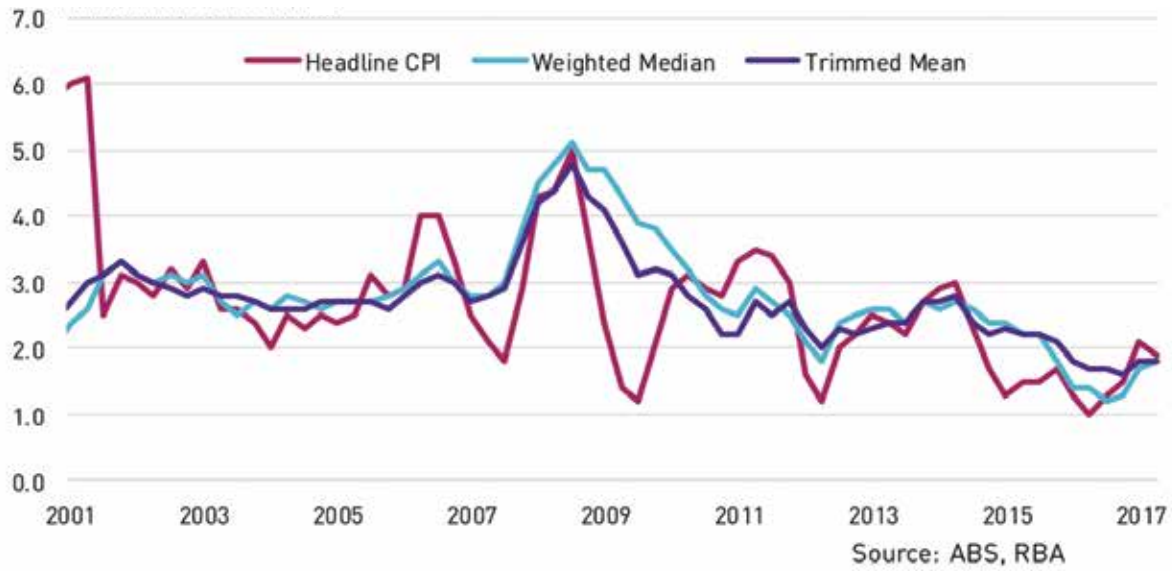
# CCIQ Economic Update Full Report

## 1. Inflation

Inflation continues to be well contained, with the latest data for the June quarter showing headline consumer price inflation (CPI) rose across the country by 1.9 per cent in the past year – below the RBA's target level of 2 – 3 per cent. The headline CPI was around the same level as the measures of core inflation – which strip out volatile items.

**Measures of CPI**

**Annual % Change**




**Source:** ABS, RBA

Although the price of utilities has been rising quite strongly in recent periods, inflationary pressures have been well contained. Recent rises in the Australian dollar and retail competition have helped keep a lid on tradable goods inflation, while the slow pace of wages growth across the economy has been a key factor suppressing prices for non-tradables items (including services such as housing, utilities, telecommunications, health and education).

The RBA has forecast a subdued outlook for inflation and the economy in the short term, with the economy only expected to accelerate from 2018 and return to trend by 2019. We expect interest rates will remain on hold through the remainder of 2017 but the RBA may start to look at tightening monetary policy from the second half of 2018.

Complicating the outlook has been the recent rise in the Australian dollar which will slow the rebalancing of the economy following the mining investment boom. The Australian dollar has been gaining strength against most trading partners since late 2016 with the lift in prices for key commodity exports (coal and iron ore) contributing to the recent strength. Other factors possibly contributing to the strengthening include expectations the RBA will

start lifting the cash rate soon, while expectations are now the US Federal Reserve will not be as aggressive in raising the federal funds rate.

A stronger Australian dollar would make the value of imports cheaper, helping further contain inflation. However, the stronger dollar would also have negative industry and employment impacts with local businesses facing stronger import competition, while exporters would receive less for their goods and services on the global market (when converted to Australian dollars).

While the price of bulk commodities have increased recently, they appear to be at cyclical highs and should be met by expanded output through the ramp-up of new operations and idled capacity brought back into production. This should help place downward pressure on commodity prices and the currency over the medium-term.

Ideally, we would prefer to see the Australian dollar trading closer to 70 US cents. Around this price level, the dollar would help lift the international competitiveness of key sectors such as the tourism, manufacturing and education industries

## Contribution to QLD State Final Demand Growth (%)

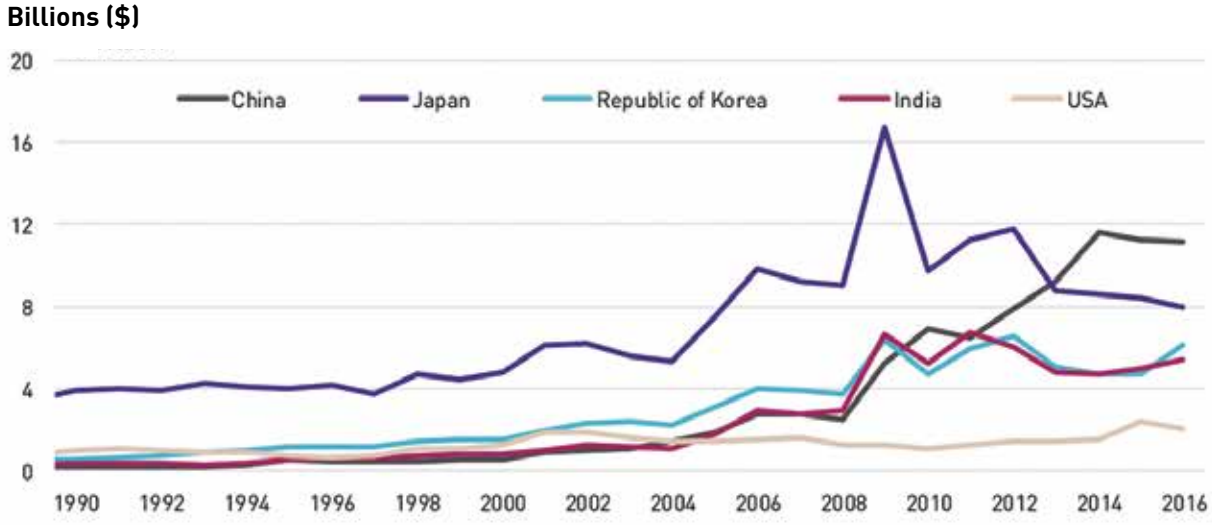

**Source:** REA

## 2. International Economy and Trade

Across the states, Queensland is Australia's second largest exporter of goods, totalling $65.8 billion in the year to March 2017. The state also has a large services export industry, worth $11.5 billion in the past twelve months.

Coal is the state's largest export commodity, worth $16.5 billion during the 2015-16 financial year. Along with the mining sector, industries such as agriculture, manufacturing, tourism and education also have a strong trade presence within Queensland. As the Gladstone LNG facilities ramp up to full production capacity, LNG output is expected to accelerate in the coming year, driving strong growth in exports.

### Queensland Goods Export Destinations




**Source:** ABS

The performance of the global economy plays a key role in Queensland's economic fortunes.

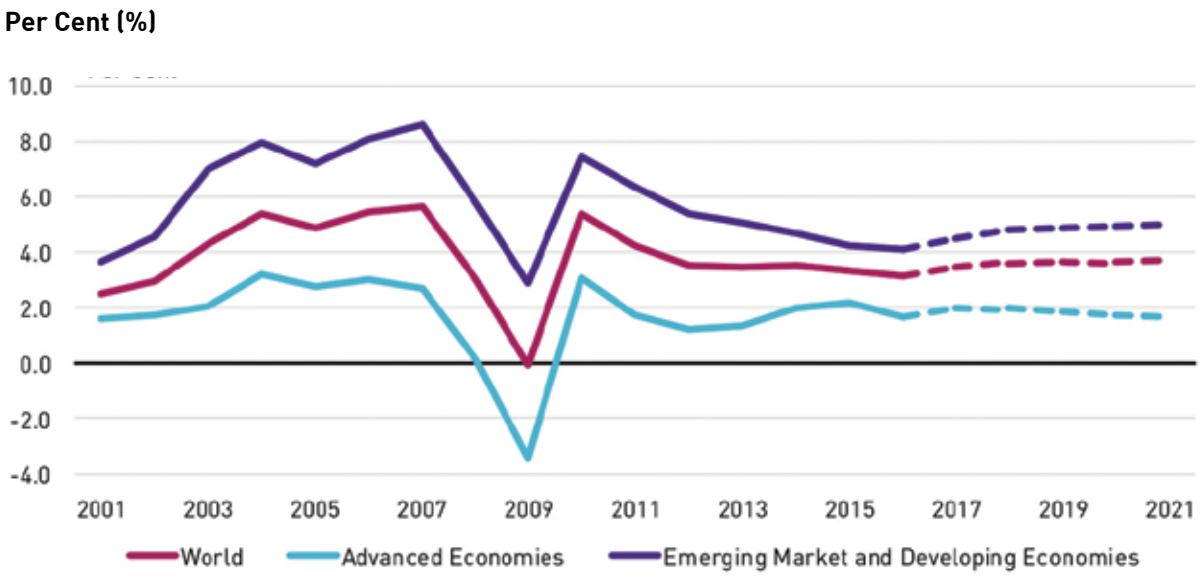
Traditionally, Japan has been the largest destination market for Queensland's exporters. Japanese investment helped develop the coal industry in Queensland into a global powerhouse, in the process, securing a long term and stable supply of coal for Japanese steelmakers for over half a century. More recently, China has overtaken Japan to become the largest market for Queensland's resources industry following a sustained period of economic growth and development.

The rate of global growth has slowed since the start of the decade. Initially, growth was weighed down by the major advanced economies which struggled with recovery following the global financial crisis. However, more recently, the slowing of the Chinese economy and the emerging Asian region to more sustainable levels has contributed to the slower pace of global growth. While trade growth has slowed, recent data indicates international trade flows are improving.

Looking ahead, the IMF expects global growth will pick-up to 3.5 per cent during 2017 and continue to accelerate further in 2018 with a general improvement in conditions across the emerging and advanced economies.

Activity across the advanced economies is undergoing a slow cyclical upturn as the recovery from almost a decade of crisis, deep recessions and sovereign debt problems has begun to improve. Central Banks have started to unwind unconventional monetary policy measures, and in the case of the US, have commenced lifting the federal funds rate.

## Global Economic Growth




**Source:** IMF,WEO

> **“ IMF expects global growth will pick-up to 3.5 per cent during 2017 and continue to accelerate further in 2018 ”**

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**CCIQ, Economist.**

Labour market conditions have improved significantly amongst the advanced economies with jobs growth leading to greater workforce participation and declining unemployment. The latest data shows the unemployment rate down to 4.4 per cent in the US (June 2017), while across the EU, there has been steady improvement since mid-2013, with the unemployment rate falling from 10.9 per cent to its latest measurement of 7.8 per cent (April 2017).

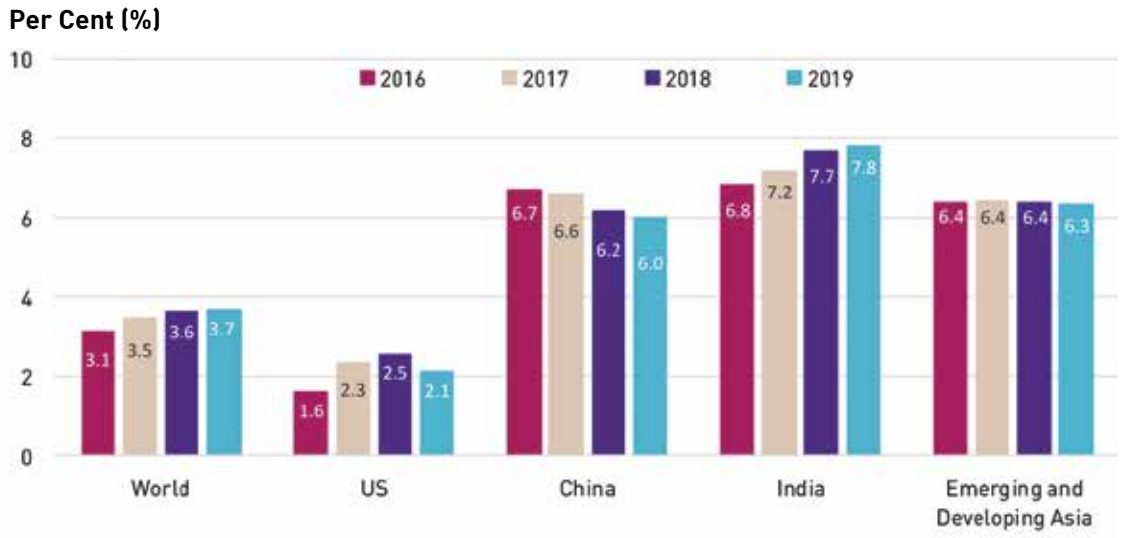
Meanwhile, the developing economies continue to deliver strong rates of growth led by China and India. The emerging regions of Asia are also expected to sustain rapid levels of growth over the next five years, while developing economies in Latin America, the Middle East and Africa benefit from recent improvements in commodity prices.

The improved outlook for growth prospects also comes with some risks. On the downside, geopolitical tensions and the threat of more inward looking trade policies could lead to greater uncertainty and undermine the recent improvements in confidence. However, there is also potential for growth to outperform the IMF forecasts if existing momentum picks up pace, lifting business investment and international trade flows.

Across the regions, the short-term and long-term prospects contain some significant differences.

The **US** economy is an acceleration phase following an extended period of highly stimulatory monetary policy settings. Consistently strong employment growth has ensured the labour market has absorbed much of the slack created following the GFC, with rising household incomes leading to strong growth for domestic consumption. Further stimulation to the economy in the form of the Trump administration's infrastructure investment package could prompt the Federal Reserve to accelerate the withdraw of monetary stimulus and lift the federal funds rate more aggressively.

## IMF GDP GROWTH FORECASTS




**Source:** IMF,WEO

## Balance of Payment - Queensland
## Quarterly Export Volumes


**Source:** ABS

The growth of the **Chinese** economy continues to ease as the transition towards a greater share of consumer consumption activity proceeds. Previously, high rates of growth were driven by the industrialisation and urbanisation of the country as strong investment took place in the manufacturing, dwellings and infrastructure segments.

However, the pattern for growth in the economy is changing and it is likely to result in greater consumption of goods and services. Demographic factors will also play a role as the size of the working age population shrinks and the pace of the urban migration slows. Although growth is expected to continue at a strong pace, there are still risks present. In particular, unwinding excess capacity and corporate debt which has built up across industries poses a long-term threat to the sustainability of growth.

**India** is now the fastest growing major economy and will continue to grow in importance as a destination for Australian exporters. Economic growth in India has benefitted from structural reforms to improve productivity, improve the quality of infrastructure and attract foreign investment. The loosening of supply bottlenecks and policies to improve openness to trade should drive growth going forward particularly as industrial production rises and capacity utilisation begins to tighten up.

The **Japanese** economy has been boosted in the short-term by a strong degree of monetary and fiscal stimulus as well as a lift in exports. However, this bounce in growth is expected to slow as the country's long-term demographic challenges constrains potential output growth.

Across the **South-East Asian region**, prospects have improved for a number of countries. The region has a heavy dependence on exports, with the recent improvement in global trade proving to be quite beneficial to local economies, boosting consumer spending and investment.

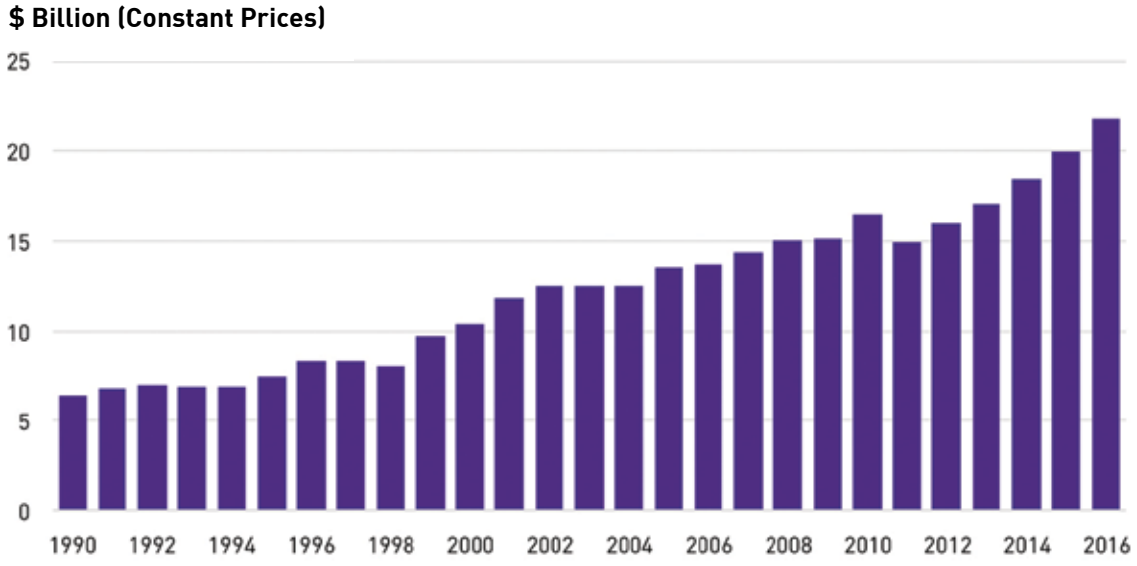
## 3. Resources Sector

Queensland is endowed with an abundance of high quality mineral deposits in coal, gas and base metals. The state is a key global producer and exporter of coking coal, representing almost half of the globally traded volumes, while the development of the substantial reserves of coal seam gas has seen a new LNG export industry emerge in Gladstone. Queensland also exports large volumes of thermal coal, copper, lead, zinc and bauxite along with upstream minerals processing capacity in aluminium, alumina, copper and zinc.

The mining industry contributed $21.8 billion in economic output to the Queensland economy during 2015/16, representing 7.4 per cent of gross state product (GSP). In terms of size, it is the state's third largest industry, behind construction and health care and social assistance. The industry also contributed an estimated $4.0 billion in royalty revenues during 2016/17 in the latest budget papers.

Since 2000/01, significant investment in new capacity across coal, LNG and base metals has led to the doubling in the size of the mining industry's output. While the mining industry represents a large share of the state's total economic activity, the high capital intensity and labour productivity of the industry means level of employment amounts to 60,000 workers or 2.5 per cent of total employment across the state.

### Queensland Mining - Gross Value Added




**Source:** ABS

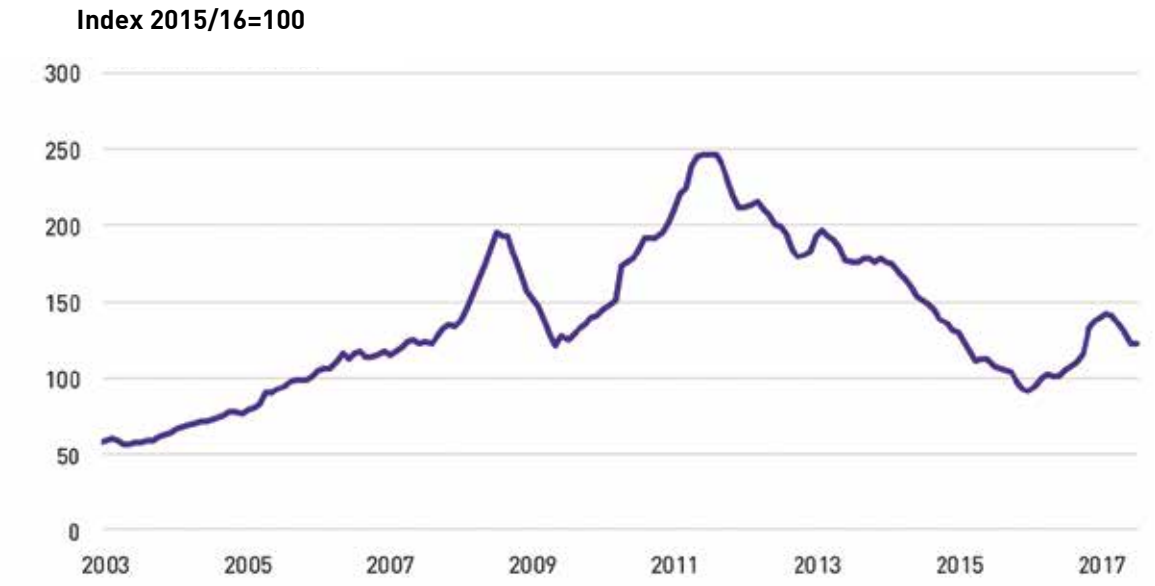
Over the past decade, the mining industry has invested $143 billion constructing new facilities and expanding existing operations across Queensland. This investment was heavily dominated by the construction of the Curtis Island LNG, Gladstone LNG and Australia Pacific LNG projects which cost a combined $70 billion and have a combined output capacity of 25.3 million tonnes per annum (Mtpa). These facilities could add up to $11 billion in annual export revenues (based on existing prices) once output reaches full capacity.

The past decade also contained a strong expansion in investment for coal mining at $58 billion. This figure does not include the investment in the logistics networks which includes the Wiggins Island Coal Terminal, Hay Point expansion and capacity additions to the Aurizon track network.

Overall, coal production has expanded 37 per cent in the past decade, exporting 245 million tonnes (mt) of thermal and coking coal during 2015/16 and in the process generating $21.5 billion in export revenues. Around two-thirds of coal produced is coking coal – which is used in the steel making process. Australia is the largest player in the seaborn coking coal market, exporting well over half of the globally traded volumes.

Meanwhile, conditions in the metals mining segment have not been as strong with weaker levels of production in copper, gold, lead and zinc over the past decade. The depletion of reserves and depressed prices has led to the lower levels of base metals output. Meanwhile, bauxite production has increased 80 per cent since 2005/06, with most of the expanded production supplying the expanded Yarwun Alumina Refinery following its construction in 2012.

## Commodity Price Index




**Source:** RBA

> **There is still a strong pipeline of construction and investment work to follow with a strong baseline in activity supported by the ongoing need for sustaining capacity in the coal and the upstream gas assets supplying the LNG industry.**

Steven Gosarevski
**CCIQ, Economist**

The RBA Index of Commodity prices is a general indicator of the level of commodity prices, blending the prices of metals and minerals based on their export weightings.

This measure shows commodity prices in general have improved since the low point in January 2016. In particular, the strength in the prices received for bulk commodities – iron ore, coking coal and thermal coal – which gained 70 per cent, 91 per cent and 39 percent respectively since 2016 have contributed to this result. There were also strong price rises for zinc and copper as global output fell following major mine closures, industrial disputes and falling reserves.

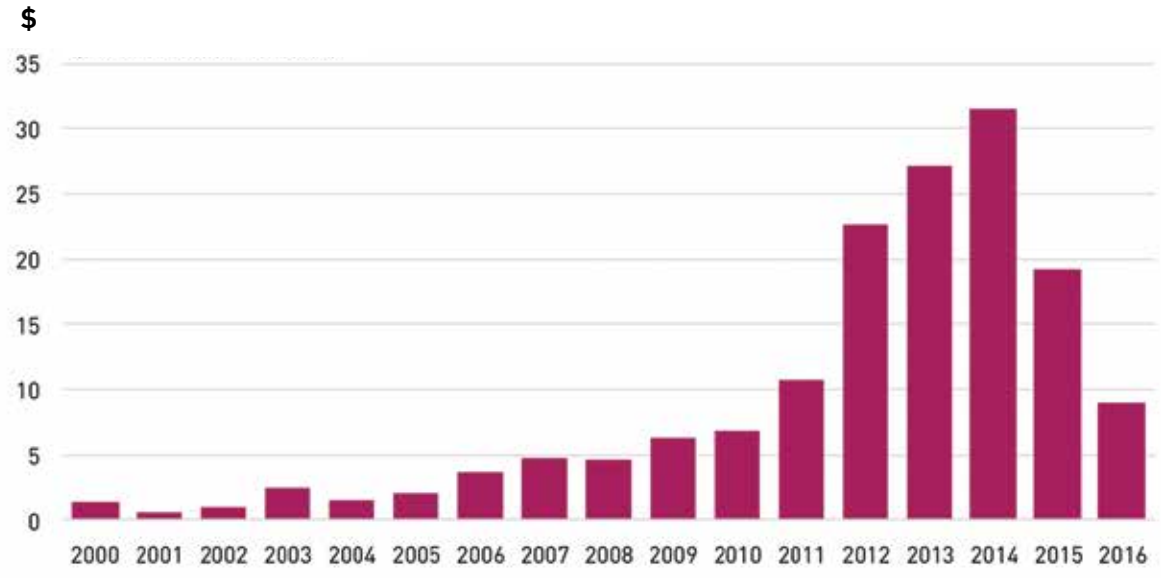
While commodity prices have improved from recent lows, the improvement in prices is not expected to lead to a stamp new investment.

Global commodity markets are still delicately balanced. During the mining boom, there was a lot of excess capacity bu high cost operations were idled as prices fell. Now as prices have started to recover, previously idled capacity is likely t restarted to meet the new demand that emerges.

Nevertheless, investment in Queensland's mining industry will still proceed, however just not at the same levels at the height of the mining investment boom. There is still a strong pipeline of construction and investment work to follow with a strong baseline in activity supported by the ongoing need for sustaining capacity in the coal and the upstream gas assets supplying the LNG industry.

On some estimates, the need for drilling new gas wells will be worth several billions of dollars annually, with much of this activity taking place along the Surat Basin. The recent commencement of construction on the US$1.9 billion Amrun project in northern Queensland will provide a boost to activity in the region, while the Carmichael coal mine has the potential to stimulate jobs and construction in Central Queensland, although this depends on the project proponents Adani proving up the financial viability of the project.

## Queensland Mining & Heavy Industry Construction




**Source:** ABS

## 4. Labour Force

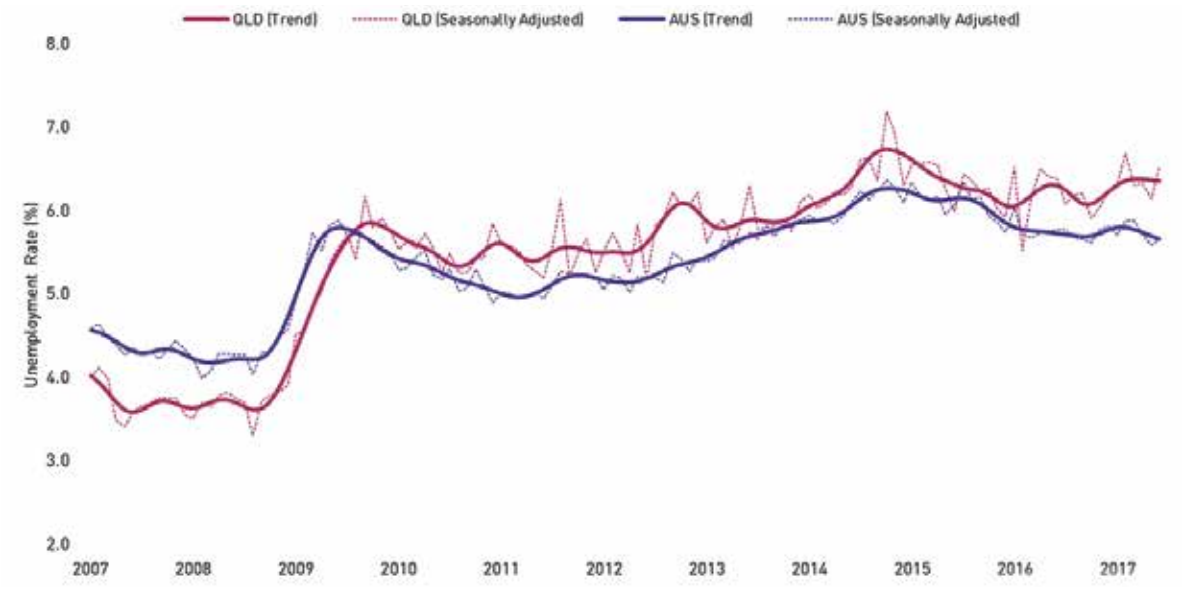
The June release of the labour force data reinforced recent positive trends despite the rate of unemployment remaining stubbornly high at 6.3 per cent.

The labour market added a further 7,000 jobs during June and has taken the total number of jobs added during 2017 to 45,000. During this calendar year, the majority of new positions added have been full-time roles with a noticeable pick-up during the June quarter.

The other promising aspect of the latest data is the rising levels of workforce participation. Previously discouraged workers are returning to the workforce, lifting participation levels for the past seven months. As alluded to in previous reports, we expect to see rising workforce participation before the unemployment rate starts to drop.

Although recent trends show continuing improvement in the labour market, there is still a long way to go before the employment indicators start to look healthy again.

### Unemployment Rate (%)



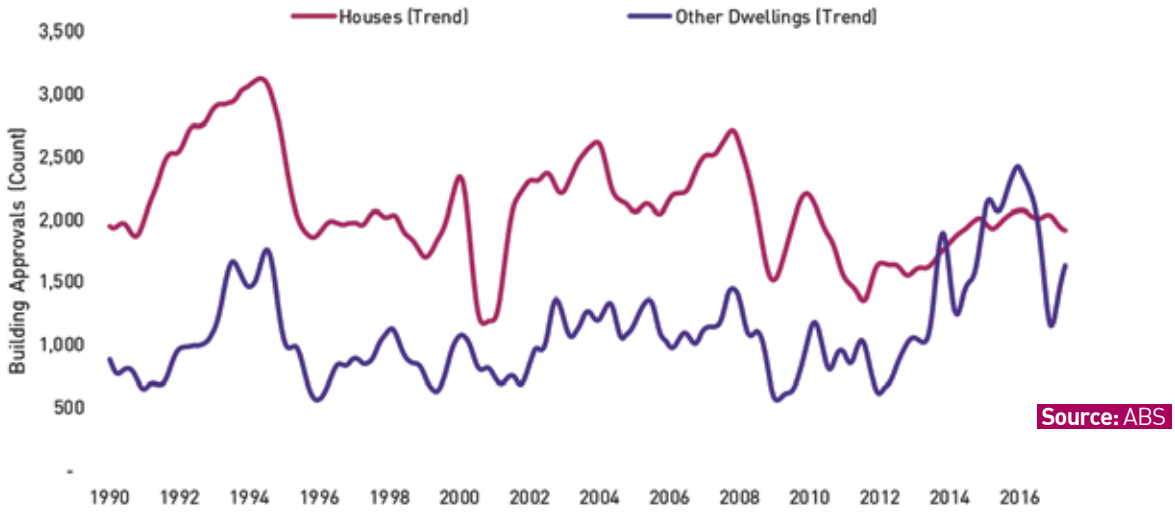

**Source:** ABS

## 5. Building Approvals

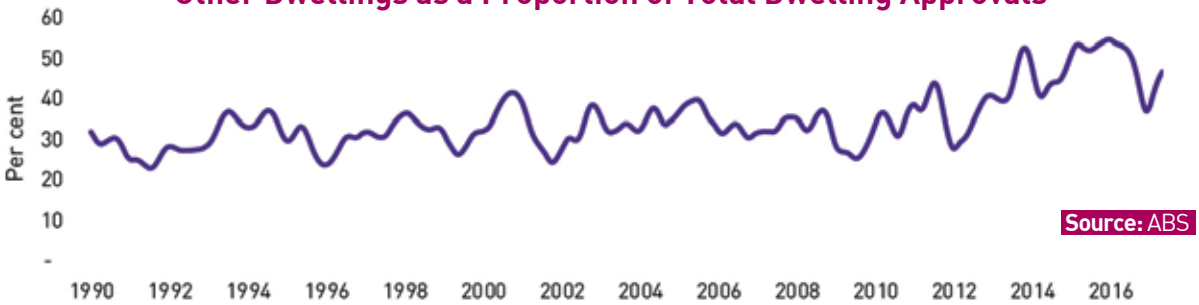
New building approvals have rebounded in recent months. Total monthly approvals peaked in January 2016 at 4,465 new approvals and had declined by 29 per cent over the next twelve months to 3,165 dwelling units in January 2017. New approvals have since rebounded 11 per cent to 3520 dwellings in May 2017.

The volatility in this category is due to the 'Other Dwellings' (apartments segment) which had seen a slump in approvals following stricter financing restrictions on housing investors and fears of oversupply in the apartments market.

### Building Approvals (By Type)




### Other Dwellings as a Proportion of Total Dwelling Approvals



In recent months, the number of new apartment commencements have shown a small rebound. While apartment approvals in inner city Brisbane have increased during the March to May period, there have also been strong levels of approvals in the Gold Coast, Sunshine Coast and Moreton Bay regions.

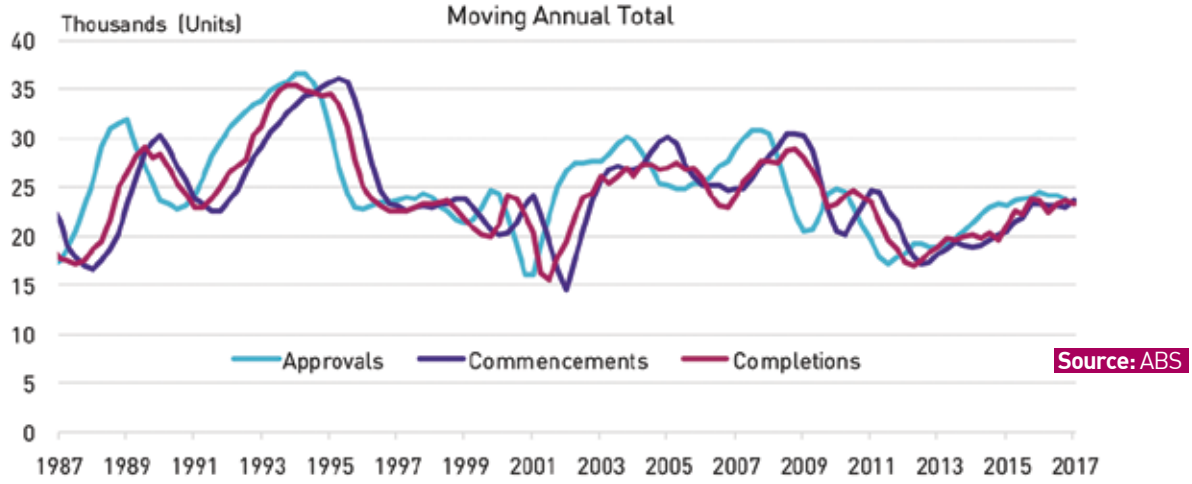
Given the time lag between dwelling commencements and the completion of those projects, we are now seeing starting a big escalation in dwelling completions, especially in the apartments segment.

The construction sector has now reached the cross-over point where dwelling completions are exceeding new dwelling commencements. This has led to a shrinking in the pipeline of dwellings under construction to 37,500 dwelling as at March 2017, a reduction of 2,200 dwellings in the year to March.

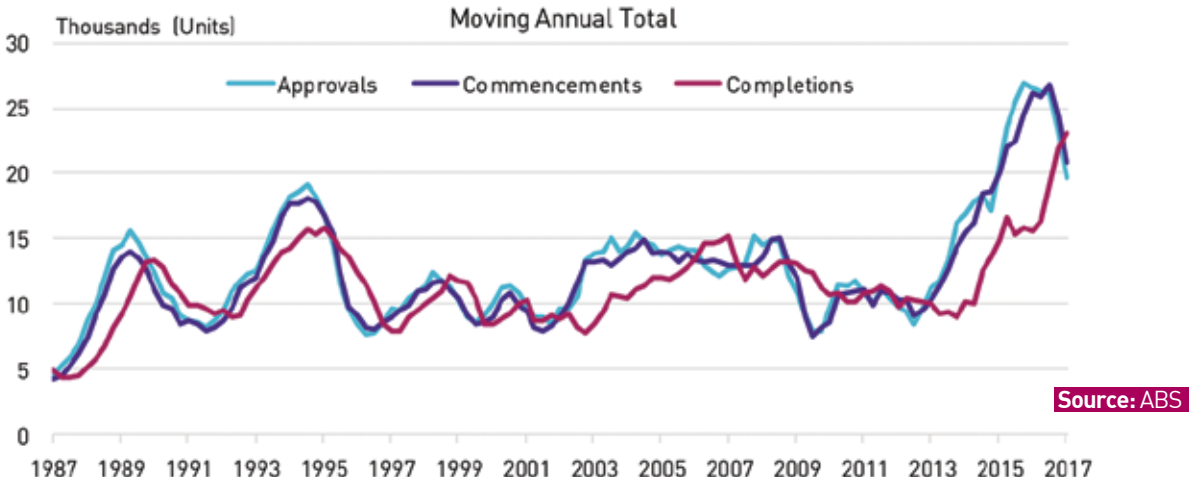
This falling pipeline of work has implications for the level of residential construction activity. During the March quarter, residential construction work declined by 14.7 per cent on the previous quarter (and 12.6 per cent on the previous year).

Although dwelling approvals have rebounded in recent months, it appears the increase is not enough to offset the rising volume of apartment completions, which should feed into further construction declines in the June quarter.

## New Houses Construction - Queensland




## Other Dwelling Construction - Queensland

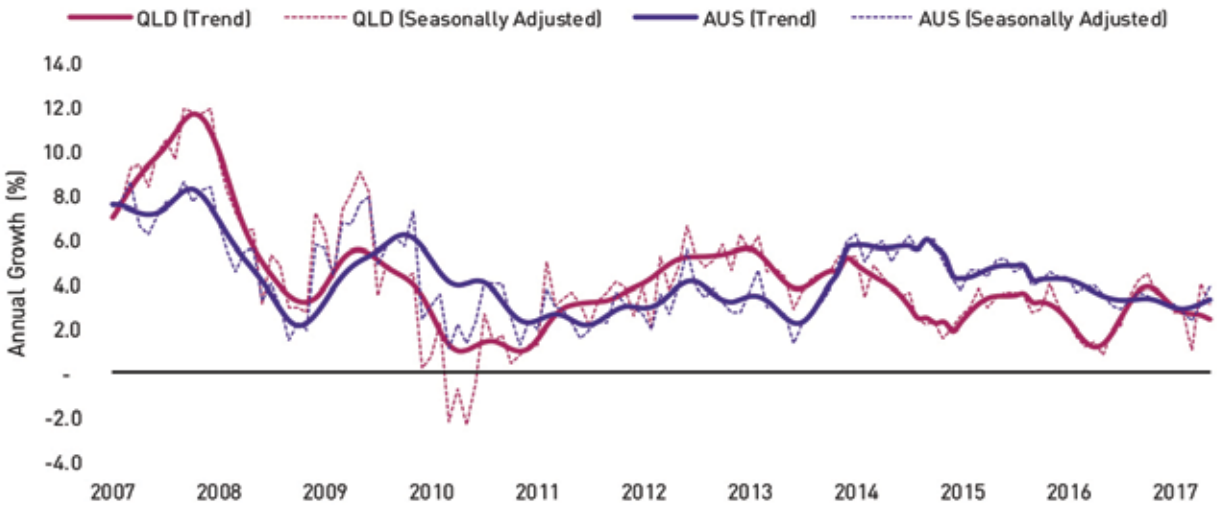


## 6. Retail Sales

Following the post Cyclone Debbie spike during April, retail sales data for the month of May showed a slight correction in spending across Queensland. In seasonally adjusted terms, retails sales activity fell 1.1 per cent for May but is 3.1 per cent higher than the corresponding period last year.

In trend terms, the growth in retail spending across Queensland has slowed in recent months, growing at an annual rate of 2.4 per cent. This pace of growth is much slower than the 3.9 per cent high reached in late 2016.

**Retail Trade**




**Source:** ABS

Also, the pace of growth in Queensland has dipped below the national average in recent months.

Nationally, retail sales spending has been trending lower since 2014, however activity has accelerated in recent months. Part of this increase could be attributed to rising levels of employment, however, the lack of strong wages growth and the rising cost of household utilities could be an important factor behind the slow pace of consumption compared to historical averages.

Across the trade segments, Food retailing is the strongest growing category in Queensland, rising 4.5 per cent in the past year. However, dragging the rate of growth down are discretionary consumption categories such as 'Clothing, footwear and personal accessories retailing', 'Cafes, restaurants and takeaway food services' and 'Department stores'. These results are consistent with the lack of growth in household incomes and measures of consumer sentiment continuing to show a pessimistic outlook.

> **"May showed a slight correction in spending across QLD"**
>
> Steven Gosarevski, **CCIQ, Economist**

Powering business potential

Chamber of Commerce & Industry Queensland

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