

Queensland Economic Update

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Chamber of Commerce & Industry Queensland



The latest national accounts data indicates growth in the Queensland economy remains patchy and the post mining transition is still far from complete.

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CCIQ Economic Update

Queensland Economic Developments

The latest national accounts data indicates growth in the Queensland economy remains patchy and the post mining transition is still far from complete.

Queensland state final demand was flat through the March quarter but was overall 1.5 per cent higher than a year ago. This result occurred with Cyclone Debbie impacting activity in the final week of March.

Compared to the previous quarter, state final demand was flat. This result was highlighted by the steep decline in private investment which subtracted 0.6 percentage points from growth. This was due to a fall in apartments construction which weighed heavily on dwellings construction activity. Meanwhile, increased demand from the public sector mostly offset the declines in private investment and added 0.5 percentage points to growth.

The Queensland Government delivered the 2017-18 budget promising a boost for builders and battlers. Despite the ambition of the budget to deliver growth and employment, the economic projections and assumptions embedded within the budget financials indicate conditions will remain tough over the period ahead.

Queensland and the rest of the country are experiencing a 'tourism boom' with positive

visitor and expenditure growth across the board. The State saw a significant increase of 7 per cent growth in international visitors and a 3 per cent growth in spend for the same period. Despite both numbers being positive, the growth of spend in Queensland was in fact the lowest nationwide.

During May, the labour market added a further 5,900 jobs, extending the employment gains to seven consecutive months. The labour market has added an extra 41,300 jobs since October 2016 with new full-time roles expanding by 15,900 over this period. The improvements in labour market conditions has started to encourage higher workforce participation, with job seekers returning back to the market.

Based on the Conus Industry Trends data, the Greater Brisbane and Sunshine Coast regions were the strongest growth regions for job creation during the past six months, adding 15,000 jobs. During this period, northern Queensland also displayed signs of improvement with Cairns and Townsville employment rising in these regions by 4,500 and 3,800 respectively.

The rebound from Cyclone Debbie played a big part in the lift in retail sales growth during April, with households replacing damaged items from the natural disaster. In particular, the data showed a significant lift in spending on 'Furniture, floor coverings, houseware and textile goods', 'Hardware, building and garden supplies', and 'Department Stores and Food Retailing'.



Tourism Industry

\$2.6M

International visitors –
12 months to March 2017

Source: Tourism Research
Australia

Tourism Industry

\$5.2bn

Spend by international visitors –
12 months to March 2017

Source: Tourism Research
Australia

**QUEENSLAND
ECONOMY:
KEY ECONOMIC
INDICATORS**

Indicator	Latest Release	Rate	Change
State Final Demand	Mar (Q)	1.5%	↑
CCIQ Pulse Survey 12 Month Outlook	Mar (Q)	49.4	↑
Unemployment Rate (Trend)	May (M)	6.3%	—
Building Approvals	May (M)	-16.7%	↓
Retail Trade	May (M)	2.4%	↑
Construction Activity	Mar (Q)	-1.0%	↓
Consumer Price Index	Mar (Q)	1.8%	↑
Exchange Rate (A\$ - US\$)	May (M)	74.50	↓

Queensland Budget

\$2.8bn

Operating Surplus in 2016-17

Source: Queensland Budget Papers



State Budget

- **Net-operating surplus** of \$2.8 billion in 2016-17.
- **Public sector debt** projected to rise to \$81.1 billion in 2020-21.
- **Operating surpluses** expected through the outlook years .

Retail Trade

2.4%

Annual retail sales growth (trend)

Source: ABS 8501.0

Tourism Activity

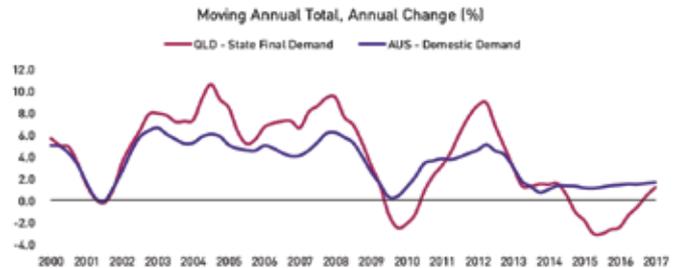
- **International visitor** numbers to Queensland up 7%.
- **3% increase in spending** by international visitors .
- **Queensland losing** market share to other states.

Queensland Economic Overview

12 Month Outlook

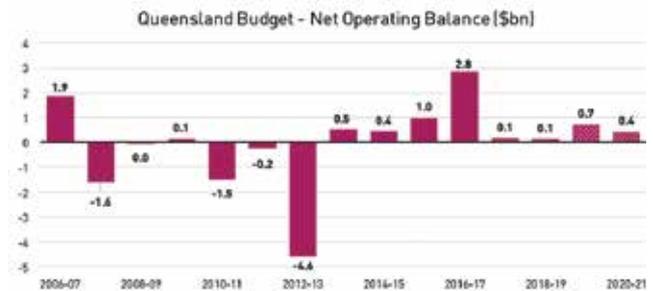
- **The state budget** forecasts growth at 2.75% for 2017-18.
- **Unemployment rate** to remain steady.
- **Moderate acceleration** to wages growth.

Graph 1 - State Final Demand



Source: ABS

Graph 2 - Queensland Budget



Source: Queensland Budget Papers, MYFER

Building Approvals

-16.7%

Annual fall in total building approvals

Source: ABS 6202.0

Unemployment Rate

6.3%

Employment and participation levels rising

Source: ABS 8731.0

CCIQ Economic Update Full Report

1. State Final Demand

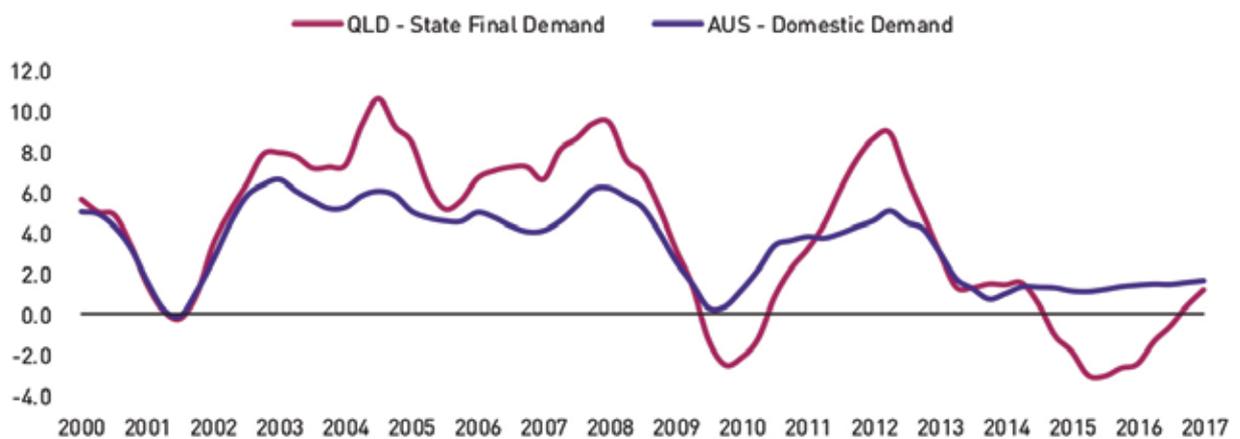
Queensland state final demand was flat through the March quarter but was overall 1.5 per cent higher than a year ago. This result occurred with Cyclone Debbie impacting activity in the final week of March. This data is a good indicator of local activity and is similar to Gross State Product but excludes the impact of trade.

The rate of growth in state final demand has been sluggish for several years now and is reflected in the elevated level of the unemployment rate. The transition following the mining investment boom has proved difficult with both the state and national levels of domestic demand running well below long-term trends.

This past quarter was highlighted by the steep decline in Private Gross Fixed Capital Formation (private investment) which subtracted 0.6 percentage points from growth. Behind this decline in private investment was a 9.4 per cent fall in dwellings construction activity with the apartments segment the key area of weakness. The construction pipeline of apartments has started to shrink in recent periods as the number of apartment completions have started to outnumber the number of new approvals.

The increase in demand from the public sector mostly offset the declines in private investment. General government consumption expenditure (Local, State and Federal Government) increased by 1.7 per cent during

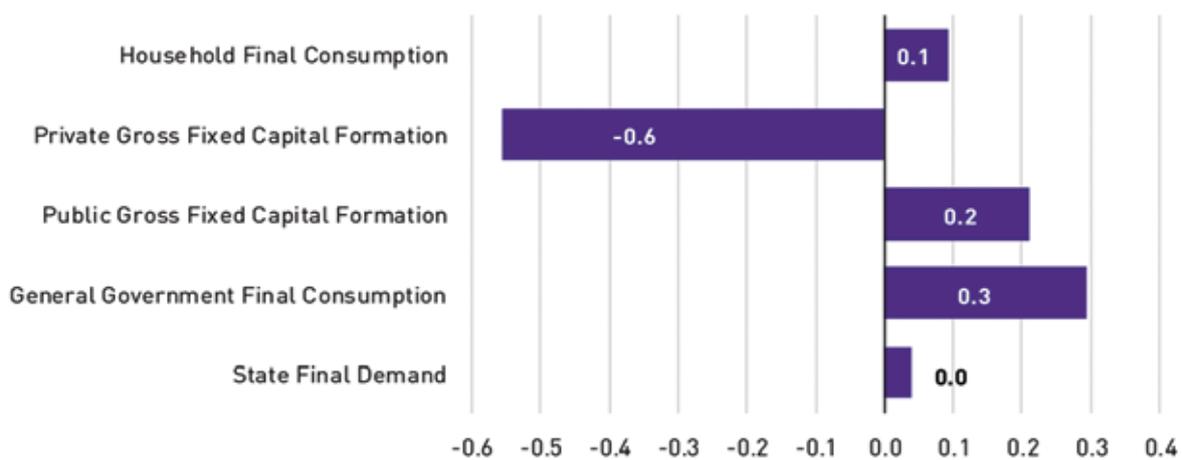
State Final Demand Graph
Moving Annual Total, Annual Change (%)



Source: ABS



Contribution to QLD State Final Demand Growth (%)



Source: ABS

the quarter, while publicly funded investment rose 4.3 per cent. These categories combined to add 0.5 percentage points to growth.

Finally, household consumption expenditure expanded 0.2 per cent during the quarter and contributed 0.1 percentage points to growth. The data confirms previous retail sales figures which showed that retail volumes had marginally declined during the quarter. Instead, the source of the increased household expenditure was due to consumption of services such as utilities, dwelling costs, transport, education, financial services and health.

Looking ahead, there should be some degree of rebound in activity during the June quarter.

Retail sales figures for April showed increased expenditure on food and the replacement of household items as the recovery following Cyclone Debbie commenced. Similarly, re-construction activities will boost infrastructure spending in a sector which was already beginning to gain momentum.

However, offsetting factors will include lost output due to the cyclone particularly impacting the tourism, mining and agriculture sectors. The decline in residential construction activity will be a further drag on growth.

2. State Budget

The Queensland Government delivered the 2017-18 budget promising a boost for builders and battlers. Among the initiatives announced were a construction program investing in social housing and infrastructure, skilling programs and apprenticeship incentives to boost employment of jobseekers and increases to front-line services in the areas of health, education and law enforcement.

Despite the ambition of the budget to deliver growth and employment, the economic projections and assumptions embedded within the budget financials indicate conditions will remain tough over the period ahead.

State Budget Graph

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Long-Term Historical Trend
	Actual	Estimate	Forecast	Forecast	Projection	Projection	
GSP	2.4	2.75	2.75	3	3	3	4.0
Nominal GSP	2.4	11.75	4	3.75	5.25	5.25	6.6
Employment	0.7	1.25	1	1.5	1.75	1.75	2.3
Unemployment Rate	6.4	6.25	6.25	6	6	6	6.2
Wage Price Index	1.9	2	2.25	2.5	3	3	3.4
Population	1.3	1.5	1.5	1.5	1.5	1.5	1.4

Source: ABS, Queensland Budget Papers

At 3 per cent annually, growth in Gross State Product (GSP) is forecast to accelerate modestly from current levels (2.75 per cent in 2016-17). The improved rate of economic growth is expected to translate into a lift for employment growth – rising from 1.25 per cent during 2016-17 to 1.75 per cent in 2020-21.

Despite the improvement in employment growth, the unemployment rate is forecast to remain stubbornly above 6 per cent during the outlook years. It appears the expanding population and rising workforce participation rates are the reasons for the elevated unemployment projections.

If these projections are realised, it will be a disappointing outcome. The long-term trend for Queensland economic growth has been 4.0 per cent since 1990 and has traditionally been higher than the national average.

The budget projects slower than trend growth going forward despite the strong levels of population growth during the forward years. If employment growth does not accelerate above the budget projections, the state will be facing an unemployment problem.

In the short term, the impact of Tropical Cyclone Debbie is estimated by Treasury to be approximately \$2 billion in economic output (0.75 per cent of GSP) mostly over the 2016-17 and 2017-18 financial years. The impact will fall heaviest on the mining, agriculture and tourism sectors with output recovering at different speeds as infrastructure is repaired, crops re-planted and resorts re-open.

Revenue surge based on higher coal prices

The estimated level of revenue for the 2016-17 fiscal year jumped 10.7 per cent to \$56.4 billion, led by a spike in royalties which almost doubled to \$4.0 billion dollars for the past year.

Over the past decade, government revenues have grown at a rate of 5.8 per cent annually. At \$56.4 billion (2016-17 fiscal year), revenue as a proportion of nominal GSP is 16.0 per cent.

Looking forward, the budget expects the growth in revenues to slow considerably to an annual pace of 1.1 per cent in the period to 2020-21. The temporary boost from elevated coal prices is expected to reverse for the 2017-18 financial year, reducing royalty revenue by \$900 million, while lower dividend payments from Government-Owned Corporations (GOCs) will also impact the budget bottom line.

Boost to front-line services lifts government expenditure

Total expenditure is estimated to rise 7.2 per cent to \$53.6 billion in 2016-17. Over the forward estimates period, expenditure is expected to grow by 2.2 per cent annually over the next five years. The government cited growing education and health services as a cause for the growth above the average wage revenue.

The public sector full-time equivalents are expected to grow by an additional 6003 employees during 2017-18, bringing the total public sector workforce to 222,639 FTEs. A clear majority of the new FTEs are in frontline services, with the headcount in Queensland Health, Education and Training, and Justice and Attorney-General increasing by a collective 5,600 persons. It should be noted this growth is higher than the expected Queensland population growth.

The other key contributor to increased expenses for 2017-18 is the other operating costs category. These costs are inclusive of the delivery of the 2018 Commonwealth Games, anticipated student enrolment growth and justice reforms. These expenditures are expected to decline after 2017-18 once the Gold Coast Games have finished.

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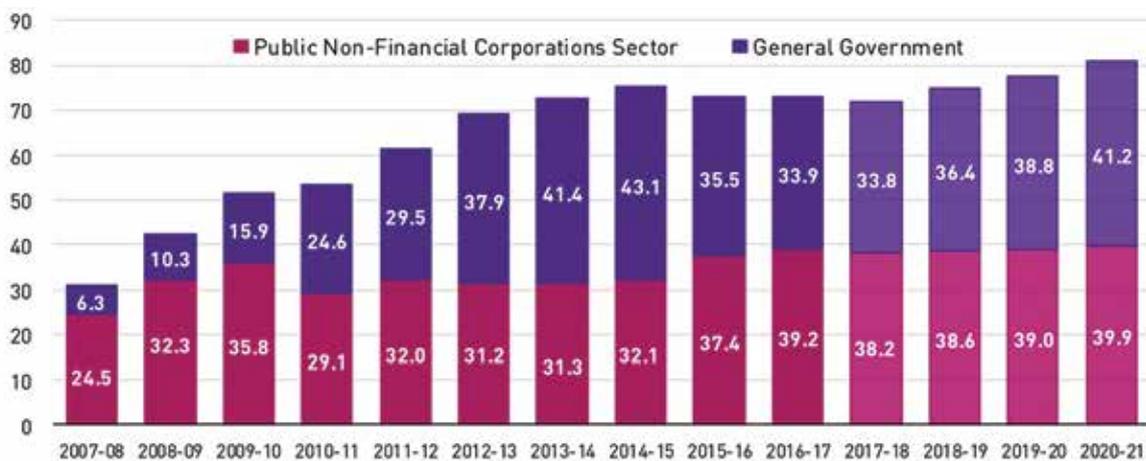
Steven Gosarevski
CCIQ, Economist.

Operating surpluses projected with debt also rising

In the three years leading up to this current financial year, net operating surpluses had totalled \$1.9 billion. Following the big spike in coal royalties, the estimated surplus for the current 2016-17 fiscal year is \$2.8 billion.

These surpluses have been used to bring down total government debt from a high of \$75.2 billion in 2014-15 to \$73.1 billion in 2016-17. Of this total debt figure, \$33.9 billion is attributed to the general government sector, while the GOCs held \$39.2 billion in debt.

Public Sector Debt (\$bn)



Source: ABS, Queensland Budget Papers

The government intends to maintain an operating surplus in each year during the forward projections period, amounting to a cumulative \$1.4 billion in the period to 2020-21.

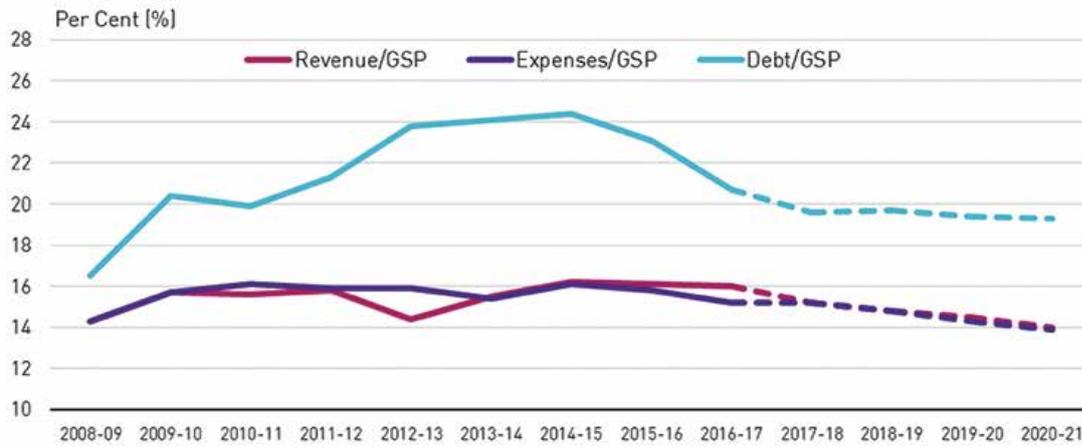
While the government looks to run a balanced budget, debt levels in the general government sector are projected to rise by \$7.3 billion during the outlook years to \$41.2 billion in 2020-21. The reason behind the

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Looking forward, the budget expects the growth in revenues to slow to an annual pace of 1.1%”

Steven Gosarevski
CCIQ, Economist & Data Analyst

Key Budget Indicators

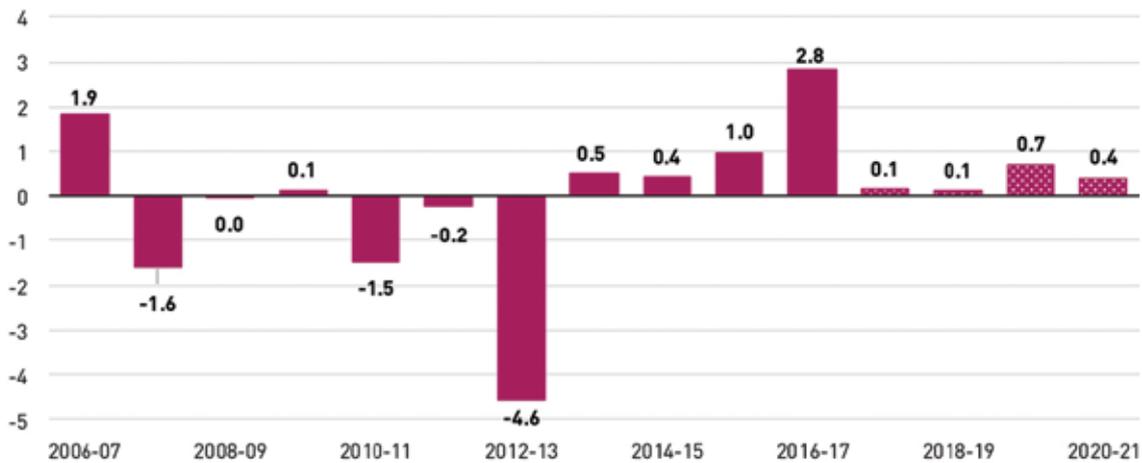


Source: Queensland Budget Papers, MYFER

rising level of debt is the increased capital expenditure program expected to take place over the forward outlook. Overall, the size of the public sector debt is expected to reach \$81.1 billion by 2020-21. As a proportion of GSP, this amounts to 19.3 per cent, a reduction from the highs of 2014-15 at 24.4 per cent of GSP.

The Queensland government still maintains a strong debt rating of AA+ by Standard & Poor’s and Aa1 with Moody’s.

Queensland Budget - Net Operating Balance (\$bn)



Source: Queensland Budget Papers, MYFER

3. International Tourism Arrivals

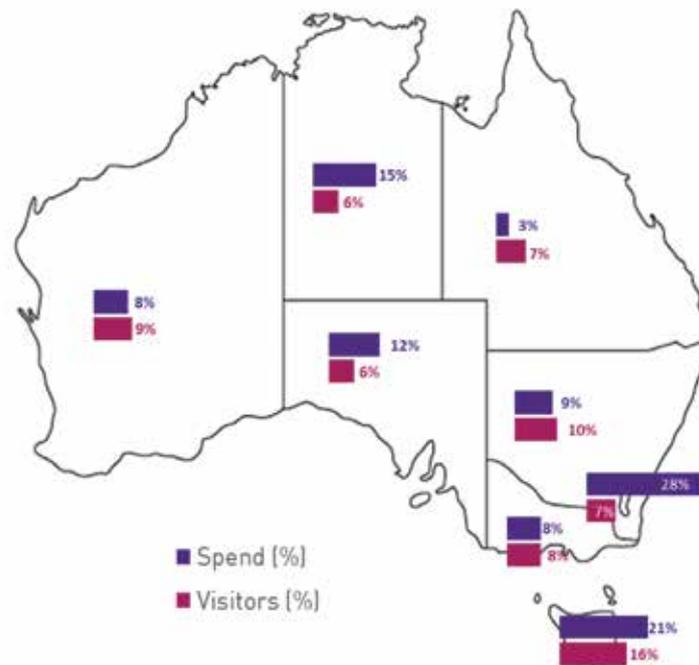
With the recent acceleration of global economic growth, Queensland and the rest of the country are experiencing a 'tourism boom' with positive visitor and expenditure growth across the board. Some states have achieved double digit growth figures in the past year.

Queensland remains behind NSW and Victoria, again recording the third highest overall visitor numbers (2.6 million for the year ending March 2017) and spend (\$5.2 billion) in the international market.

The state saw a significant increase of 7 per cent growth in international visitors and 3 per cent growth in spend for the same period. Despite both numbers being positive, the growth of spend in Queensland was in fact the lowest nationwide.

The RBA has the view that underlying inflation is expected to increase gradually to 2 per cent in early 2018, with headline inflation contained to 2 to 3 per cent in period to June 2019. The growth in wages is a key factor with only moderate increases in unit labour costs expected to feed into the cost of goods and services. The RBA also cited There were a number

Growth in International Visitor Numbers and Spend by State (YE March 2017)



of regions which saw relatively big declines in visitor expenditure, namely to the Southern Queensland Country region (down 23.5% to \$52.4 million), the South Great Barrier Reef region (down 18.5% to \$92.1 million) and Townsville (declined 16.9% to \$88.2 million).

Brisbane recorded the highest growth in expenditure as visitors stayed longer, with nights up 9.0% to 26.1 million, and also spent more per night, resulting in a 9.6% increase in expenditure to \$2.1 billion.

The growth of international visitation to the region is fuelled by increases in holiday makers (up 7.4%) as well as those visiting friends and relatives (up 6.2%). China remains the largest international market for Brisbane with 217,000 visitors

(up 4.2%) followed by New Zealand (down 5.6% to 172,000). Given the soft outlook for growth in the short term and inflation being well contained, CCIQ expects interest rates to remain on hold through 2017. This assumes the dollar continues to support the economic transition towards balanced growth with a greater reliance on growth from the trade exposed sectors.

Given the full impact of Cyclone Debbie on Queensland’s tourism numbers are expected to be reflected in the June quarter data, the Whitsundays in fact saw some of the biggest increases in international visitation to 243,000 visitors (10.5% increase).

Regional Visitors - Year ending March 2017

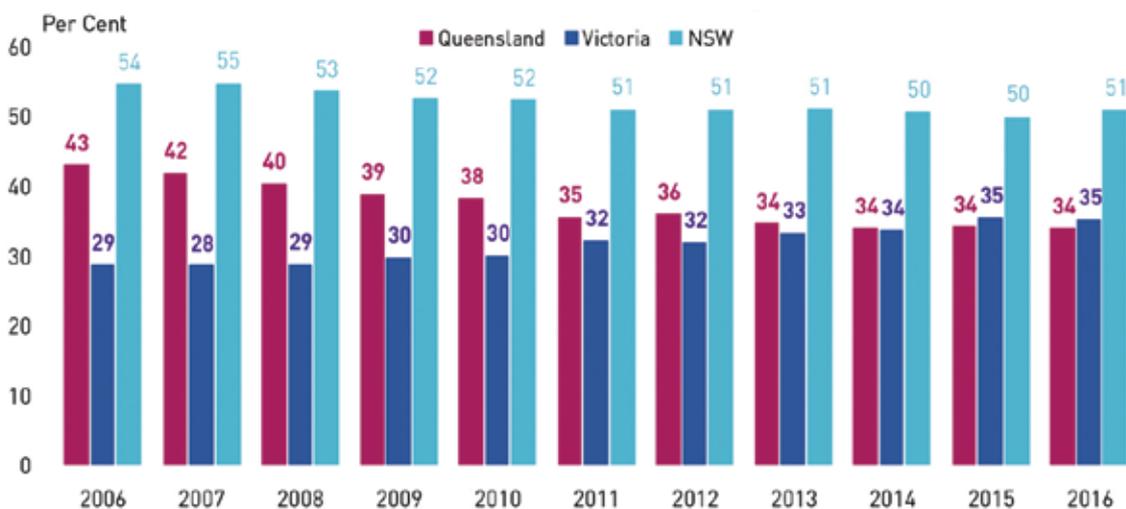
Region	Visitors	Annual % Ch	Expenditure	Annual % Ch
QUEENSLAND	2,583,000	6.8%	\$5,182.5m	2.6%
Brisbane	1,206,000	4.9%	\$2,130.5m	9.6%
Gold Coast	1,034,000	9.0%	\$1,213.2m	-0.3%
Sunshine Coast	288,000	11.6%	\$240.0m	1.7%
Fraser Coast	151,000	15.1%	\$37.2m	2.2%
SQC	42,000	-3.5%	\$52.4m	-23.5%
SGBR	143,000	1.8%	\$92.1m	-18.5%
Mackay	48,000	13.6%	\$24.7m	-7.6%
Whitsundays	243,000	10.5%	\$214.9m	6.8%
Townsville	130,000	6.1%	\$88.4m	-.02%
TNQ	890,000	7.2%	\$1,078.2m	-.08%
Outback*	25,000	0.7%	-	-

Source: TRA * Trend change over 3 years

Cyclone Debbie will certainly derail the momentum in the region, but the medium to long term growth of the region and in North Queensland is still expected to remain strong. The flow on of more jobs and more tourism infrastructure investment will undoubtedly be a driving force of improved economic activity in north Queensland over the next few years.

When looking at Queensland’s share of the international market, we are seeing NSW and VIC continue to grow their share while Queensland’s proportion of visitors is declining. While overall numbers are indeed still climbing, compared to 10 years ago where 43 per cent of international visitors travelled to Queensland, last year the proportion was down to 34 per cent.

Proportion of International Visitors travelling to Queensland



Source: TRA, International Visitor Survey



4. Labour Force

During May, the labour market added a further 5,900 jobs, extending the employment gains to seven consecutive months. The labour market has added an extra 41,300 jobs since October 2016 with new full-time roles expanding by 15,900 over this period.

The improvements in labour market conditions has started to encourage job seekers back into the market and is reflected by the higher workforce participation rate. This indicator reached a cyclical low in November 2016 and has steadily improved over the past six months. Similarly, the employment to population ratio (ie the proportion of the population in employment) has also been inching higher in recent periods.

While the performance of the labour market is showing improvement, these gains won't necessarily reflect in a lower unemployment rate in the short term. This is due to the rising level of workforce participation and the higher overall number of jobseekers across the state. As a consequence, the number of people classified as unemployed has remained high and the unemployment rate has been steady over the past six months.

The unemployment rate will likely remain at elevated levels while the participation rate moves back toward long-term trend levels. This is a feature of the forecasts published within the 2016-17 State Budget which has the unemployment rate remaining above 6 per cent during the forecast years out to 2020-21. Nevertheless, those forecasts appear very conservative and the unemployment rate should outperform those projections.

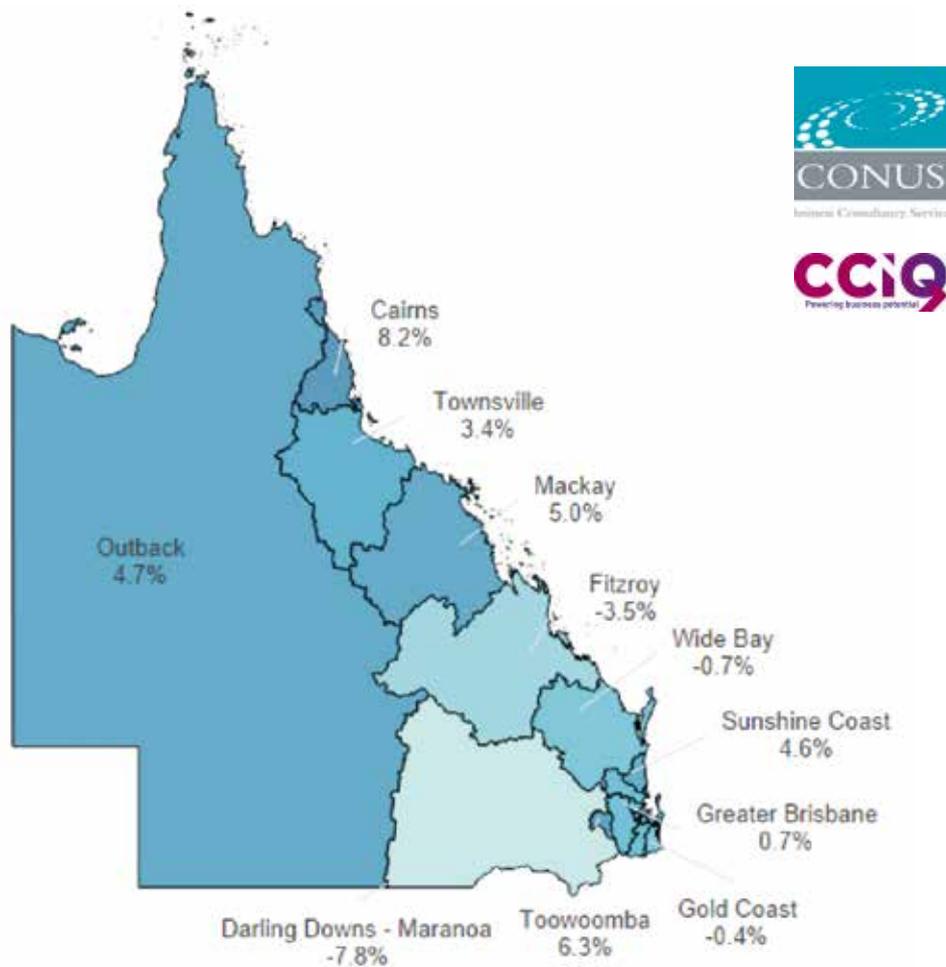
Job Vacancies - Queensland



Source: ABS

Corresponding with the increased levels of employment, job vacancies have also started to improve. The total recorded number of vacancies were 27,100 in May, an increase of 17.8 per cent on the previous year. An encouraging sign is the lift in private sector job openings. Hopefully this is an indication that private sector activity is beginning to improve after a poor March quarter where the private sector subtracted 0.5 per cent from state final demand growth.

Regional Employment (Annual Growth)



Source: ABS, Conus

Employment by industry and region

Each quarter, the ABS publishes data on industry and regional workforces. The data provides a good insight and context to the monthly jobs number numbers published at the state and national level. However, one of the limitations of the data set is that it represents a 12-month average of the underlying data and does not offer a more timely indicator of trends and movements.

To overcome these issues, the Conus Trend Industry Jobs data series offers a more timely insight into the movements within the labour force. The Conus trend series uses the ABS data as its basis, decomposing the 12 month average into its quarterly components before generating a trend series. These improvements help capture the turning points in the data and allow for a better analysis of the overall trends in the employment sector at the industry and regional levels.

Regions

As mentioned above, the Queensland labour market has been improving since November 2016. Based on the Conus Industry Trends data, the Greater Brisbane and Sunshine Coast regions were the strongest growth regions for job creation during this period adding 15,000 jobs during the past six months. During this period, northern Queensland also displayed signs of improvement with Cairns and Townsville employment rising in these regions by 4,500 and 3,800 respectively.

In the **Greater Brisbane** region, employment levels were quite stagnant throughout calendar 2016. While Public administration and safety, Construction, and Information media and telecommunications were industries of strength, these gains were offset by job losses in Retail and the services sectors.

During the first two quarters of 2017, employment growth has accelerated with Public administration and safety (+5,000) remaining the key driver of growth, while Health care and social assistance has mostly reversed the losses during 2016.

The **Sunshine Coast** was the fastest growing region across the state over the past six months, adding 7,500 jobs. Jobs growth was heavily concentrated in the Construction sector (+7,400) with work taking place on the new Maroochyore CBD and the Sunshine Coast University Hospital along with an upturn in new residential dwellings. Tourism based employment in Accommodation and food services, and Retail trade have also improved by a combined 1,000 jobs, however weakness in services sectors have held jobs growth back.

Employment prospects have been improving in **Cairns** since early 2016 adding 9,700 jobs. Public administration and safety was responsible for almost half the employment growth over this period, while in the past six months, the Manufacturing, Wholesale trade and Construction industries have led the rise in jobs growth. Tourism related sectors have also shown an improvement with the Accommodation and food services, Arts and recreation, and Retail trade sectors increasing employment by 1,600 jobs.

The six year structural decline in the **Townsville** labour market appears to be starting to abate. During this structural decline, the number of jobs have shrunk by almost 20,000 with the losses spread heavily across the Agriculture, Construction, Retail Trade, Manufacturing and Health care and social assistance industries. In the first two quarters



of 2017, the employment market has added 3,800 jobs led by the Public administration and safety, Retail trade and Accommodation and food services industry sectors.

The labour market in the **Toowoomba** region has been one of Queensland's strongest performing regions over the past year. A strong year for agriculture and continuing construction work on major projects such as the Toowoomba Second Range Crossing and the CBD redevelopment are supporting strong activity across the region. Recent jobs growth has been heavily concentrated in the Agriculture sector, with the Transport, postal and warehousing, and Accommodation and food services industries also recording growth.

In contrast to the fast pace of growth in Toowoomba, the level of employment in the **Darling Downs** region has contracted over the past year by 5,000 jobs. The decline was led by the Transport, postal and warehousing industry along with the primary production sector (Agriculture and Mining) shedding a combined 4,300 jobs.

Despite the impact of Cyclone Debbie, the level of employment across the Mackay region managed to remain unchanged during the past quarter. However, there were changes to the composition of employment with the Retail trade, Agriculture, Mining and Accommodation sectors all falling. With reconstruction efforts underway, there has been a boost to employment for the Construction sector, while financial and health care services have also expanded during the past quarter.

The **Fitzroy** region had been one of the poorest performing regions for employment over the past year as the LNG investment boom around Gladstone reached its conclusion during 2016. This has led to reduced employment in the Professional, scientific and technical services industry as well as the Transport, postal and warehousing sector. Services sectors such as Education and IT have also experienced downturns. It is unclear as yet of the employment impact of Cyclone Debbie, which caused heavy flooding along the Fitzroy River. The Agriculture sector had already seen some significant declines in employment during 2016 before falling further in the May quarter, while in contrast, employment in the Construction sector was trending upwards and continued at a similar pace in May.

Employment growth on the **Gold Coast** has remained mostly flat since mid 2015, although there has been a shuffle in the composition amongst industries. An influx of international and domestic tourists have boosted employment in the Accommodation and food services sector (adding 3,200 jobs in the past year), along with the Arts and recreation services (+700 jobs). Construction and Manufacturing have been boosted by activity in the residential construction space and for the Commonwealth Games. Offsetting these gains has been a large slump in the Retail trade, Wholesale trade and Transport, postal and warehousing segments.

The **Wide Bay** region has also maintained steady levels of employment for several quarters now. A large majority of new jobs created were in the Accommodation and food services industry, while job losses were spread across the Agriculture, Manufacturing, Retail trade, Education and training, and Transport, postage and warehousing sectors.

Finally, the employment market in the **Outback** region appears to have turned the corner following a steep drop in employment since 2014 (-10,300 jobs). The decline in employment was quite broad across most sectors with significant falls in the Retail trade, Agriculture, Mining, Education and Public administration and safety sectors. The latest data shows a modest pick-up in employment (+1,800) since August 2016 with the Health care and social assistance, Mining and Accommodation and food services the industries contributing to this growth.

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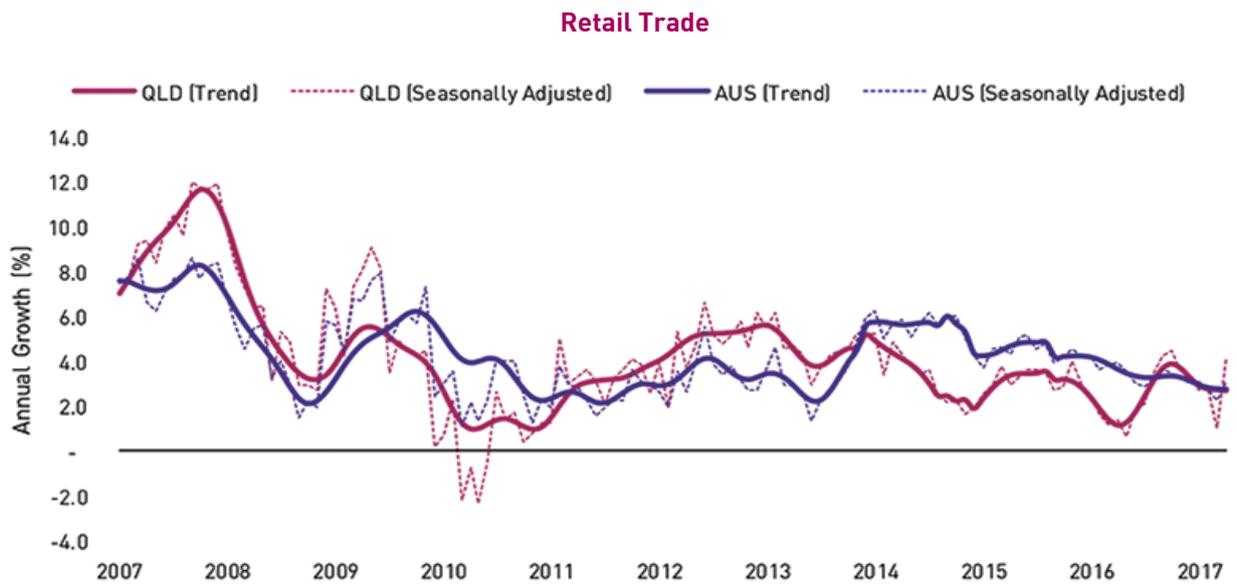
The labour market has added an extra 41,300 jobs since October 2016 with new full-time roles expanding by 15,900 over this period.

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Steven Gosarevski
CCIQ, Economist

5. Retail

The release of the April retail sales data showed an increase of 2.4 per cent for the month, the largest expansion amongst the states. On an annual basis, retail sales are 2.7 per cent higher than a year ago, which is the same rate of growth at the national level.



Source: ABS

The rebound from Cyclone Debbie played a big part in the lift in growth during April, with households replacing damaged items from the natural disaster. In particular, the data showed a significant lift in spending on ‘Furniture, floor coverings, houseware and textile goods’, ‘Hardware, building and garden supplies’ and ‘Department Stores and Food Retailing’.

The outlook for retail spending remains heavily constrained by weak wages growth, a sluggish labour market which is showing promising signs of improvement and weaker measures of consumer confidence which have slipped in recent months.

“ **Cyclone Debbie played a big part in the lift in retail sales during April.** ”

Steven Gosarevski
CCIQ, Economist



“ The outlook for retail remains constrained by weak wages growth, slipping consumer confidence and a sluggish labour market ”

Steven Gosarevski
CCIQ, Economist





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