

Queensland Economic Update

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Chamber of Commerce & Industry Queensland



While recent economic data is encouraging this is not filtering through to the business community and producing a renewed confidence in the Queensland economy.

Nick Behrens - CCIQ , General Manager, Advocacy.



Contents

CCIQ Economic Update Page 4

CCIQ Economic Overview Page 5

Full Report

Overall Economic Performance Page 8

Labour Force Page 9

Overall Economic Performance Page 12

Retail Page 14

Building Approvals Page 16

Consumer Price Index Page 18

Summary Page 19



CCIQ Economic Update

Queensland Economic Developments

Data released across the past month has provided further indication that momentum is continuing to build in the Queensland economy, following relatively weak performance across the past two years. While this is encouraging, it is interesting that these results are not filtering through to a renewed confidence in the Queensland economy.

Despite three months of encouraging economic data, which included an upturn in State Final Demand, the recent CCIQ Pulse Survey indicates that the business community in Queensland continues to be cautious about the state economy. Although sales and revenue remains in a strong position, and general business conditions are also beginning to improve, an elevated level of pessimism remains for many in the small business community.

While the unemployment rate fell by 0.1 points to 6.1 per cent in September, closer analysis reveals that this needs to be understood, and accepted, with some caution. Essentially, the fall in unemployment across Queensland was driven by a decline in the participation rate, rather than an increase in the number of people gaining work. In trend terms, 2100 people left the labour force entirely in September, and a proportion of these are expected to be discouraged job seekers that have stopped looking for work. This suggests that labour market conditions in Queensland are deteriorating, rather than improving, and will need to be monitored across upcoming releases of labour force data.

Soft labour market conditions are highlighted by the annual change in employed people, which fell by 3400 in September. Although, there was an increase of 6900 part-time positions, relative to the same month last year, this was completely offset

by a fall of 10,300 full-time positions across the twelve months to September 2016. Significantly, Queensland has now recorded six consecutive months of falls in the annual change of full-time positions, further highlighting that the labour market has been deteriorating in recent months.

The retail sector continues to display signs of improvement however, with annual sales growth rising to 3.1 per cent in trend terms. This has improved considerably from the low point of 0.9 per cent that was recorded in April this year, and is now growing at a larger rate than the national average for the first time since November 2013. Despite this, the sector continues to perform well below the ten-year average of 4.3 per cent however, but there is enough evidence to suggest that retail and hospitality businesses should experience a solid performance across the vital Christmas trade period.

In contrast to retail trade figures, residential dwelling approvals continue to fall across Queensland, although they are still at elevated levels. While the slowdown is in response to increased concerns surrounding an oversupply of stock, especially across Inner-Brisbane, it is expected that the increased likelihood of settlement risk, and reduced purchase and rental prices, will persist across the next twelve months, producing a further slowdown in development activity.

While the evidence continues to highlight that conditions are improving, the business community remains unconvinced as to whether this will be sustained into 2017, and as a result, there continues to be room for improvement across the Queensland economy.



Queensland Business Confidence

8.0pts

Below the five-year average

Source: CCIQ

Economic Performance Indicator

0.4pts

Above the five-year average

Source: ABS, CCIQ

CCIQ Economic Overview

While a number of key economic indicators have shown further improvement in the past month, confidence in the twelve-month outlook for the Queensland economy continues to deteriorate within the small business community.

While shifts in the official unemployment rate, and retail trade figures both point towards growing momentum in the Queensland economy, the most recent CCIQ Pulse Survey suggests that this has yet to filter through to produce increased optimism for small business.

Despite suggestions that general business conditions are improving, small business owners have reiterated the challenges of operating in the current political climate, which has resulted in a further drop in confidence towards the Queensland economy.



Business Conditions

- **Economic performance indicator** shows further improvement.
- **Retail sales** rise by 0.6% in trend terms.
- **Residential dwelling** approvals fall by 1.6% but remain elevated.

Labour Force

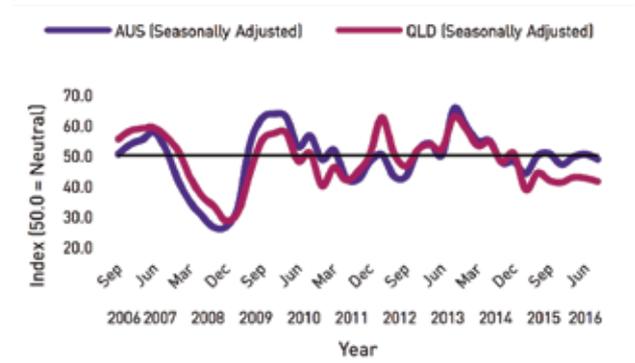
- **6.1% unemployment rate** is 0.5 points higher than the national rate.
- **0.1% fall in employment growth**, with 3,400 jobs lost in the past twelve months.
- **10,300 fewer full-time jobs** compared with this time last year.

Queensland Economic Overview

12 Month Outlook

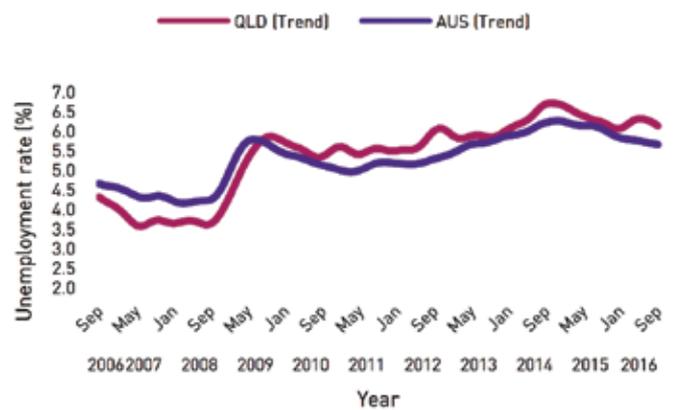
- **Weakening sentiment** towards the Queensland economy.
- **Global economic and political** issues driving negative perceptions.
- **Inactivity by the Queensland Government** continues to suppress business confidence.

Graph 1 - CCIQ Pulse Business Index



Source: CCIQ

Graph 2 - Unemployment Rate (%)



Source: ABS 6202.0

Building Approvals

-7.7%

Annual fall in total building approvals

Source: ABS 8731.0

Unemployment Rate

6.1%

Fall of 0.1 points

Source: ABS 6202.0

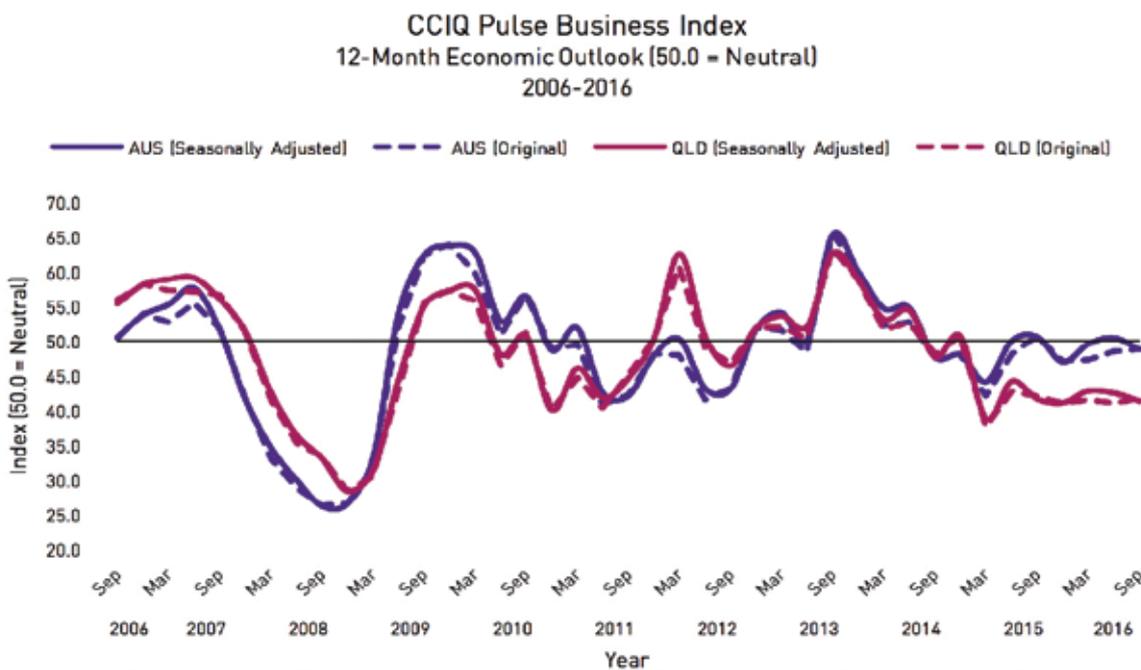
CCIQ Economic Full Report

1. Pulse

Business confidence as measured by the twelve-month outlook of the Queensland economy fell for a third straight quarter in September. While low interest rates, affordable property prices, rising retail sales and a solid pipeline of residential construction work are important positives for the Queensland economy, concerns associated with weak employment, slow wages growth, and continuing inaction by the state government are reflected in the September Quarter Pulse Survey.

While the conclusion of the Federal election has delivered some certainty to the business community, the slim majority of the Turnbull government, and a belief that there is a lack of vision and direction for Australia, is influencing overall confidence at a national level. For Australia, the twelve-month outlook fell by 1.6 points to 48.8 in the September Quarter, and places the index below both the neutral level (50.0), and the five-year average (49.3). Business confidence in the Queensland economy also fell in the September Quarter, and at 41.4 it is now at its lowest level since the March Quarter 2015. Further, the twelve-month outlook is now 8.0 percentage points below the five-year average (49.4), in seasonally adjusted terms.

Despite this fall in sentiment, the most recent survey results highlight that businesses are beginning to experience an increase in general businesses conditions, much of which is being driven by solid momentum in sales and revenue growth. While overall confidence in the economy remains low, businesses are beginning to experience increased levels of activity, which suggests that the small business community is yet to be convinced that the most recent signs of improvement will be sustained in Queensland.

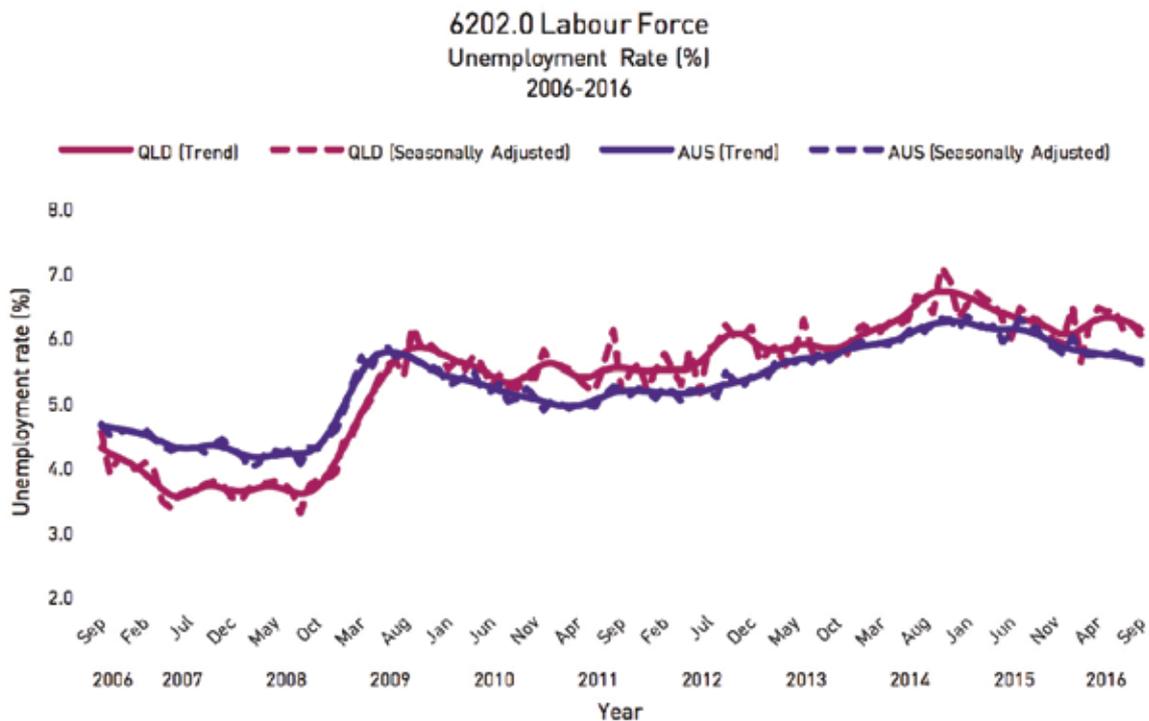


Source: CCIQ



2. Labour Force

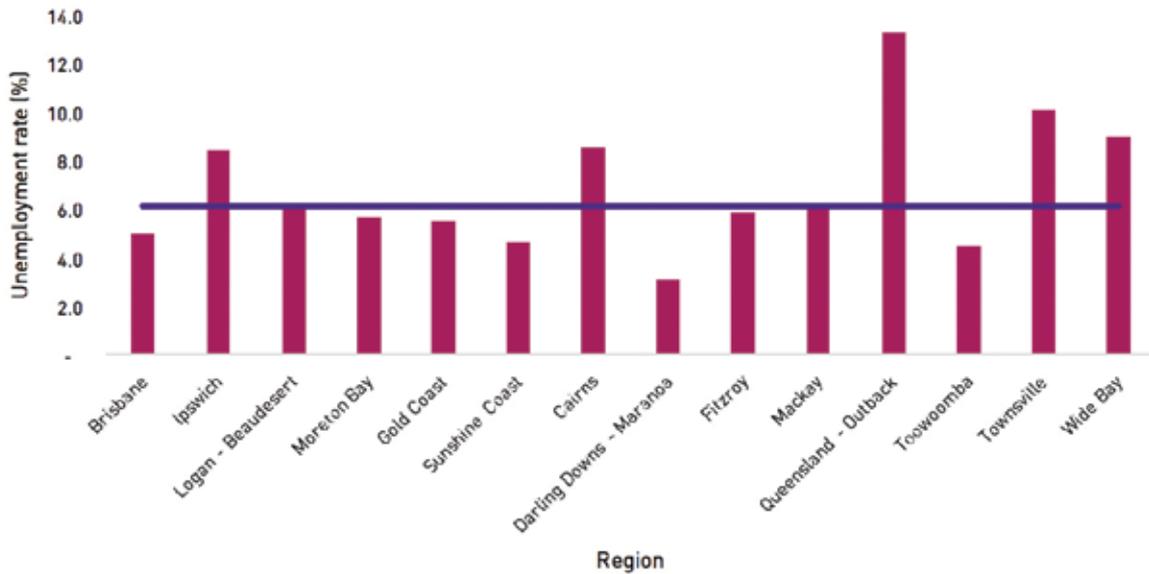
The trend unemployment rate fell by 0.1 points to 6.1 per cent in September, which is the first significant shift in the number of unemployed people for six months. While South-East Queensland maintained an unemployment rate of 5.5 per cent, regional Queensland recorded a fall of 0.1 points to 7.5 per cent. In regional Queensland, notable falls in unemployment were recorded in Cairns and Fitzroy, both of which fell by 0.1 points, while an increase of 0.1 points lifted the unemployment rate in Wide Bay to 9.0 per cent.



Source: ABS

With the exception of Ipswich, which rose by 0.3 points to 8.4 per cent in September, South-East Queensland continues to produce unemployment figures that are at relatively sustainable levels. In particular, the Sunshine Coast (4.7 per cent), Brisbane (5.0 per cent), and Moreton Bay (5.7 per cent) are all below the Queensland average, reinforcing the known difference in labour market conditions between South-East and Regional Queensland.

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



Source: ABS

While the headline unemployment figures suggest that economic conditions are improving, with an increased capacity for employers to create jobs and drive employment growth, a more detailed analysis reveals that unemployment fell in September because of a declining participation rate, as opposed to jobs creation.

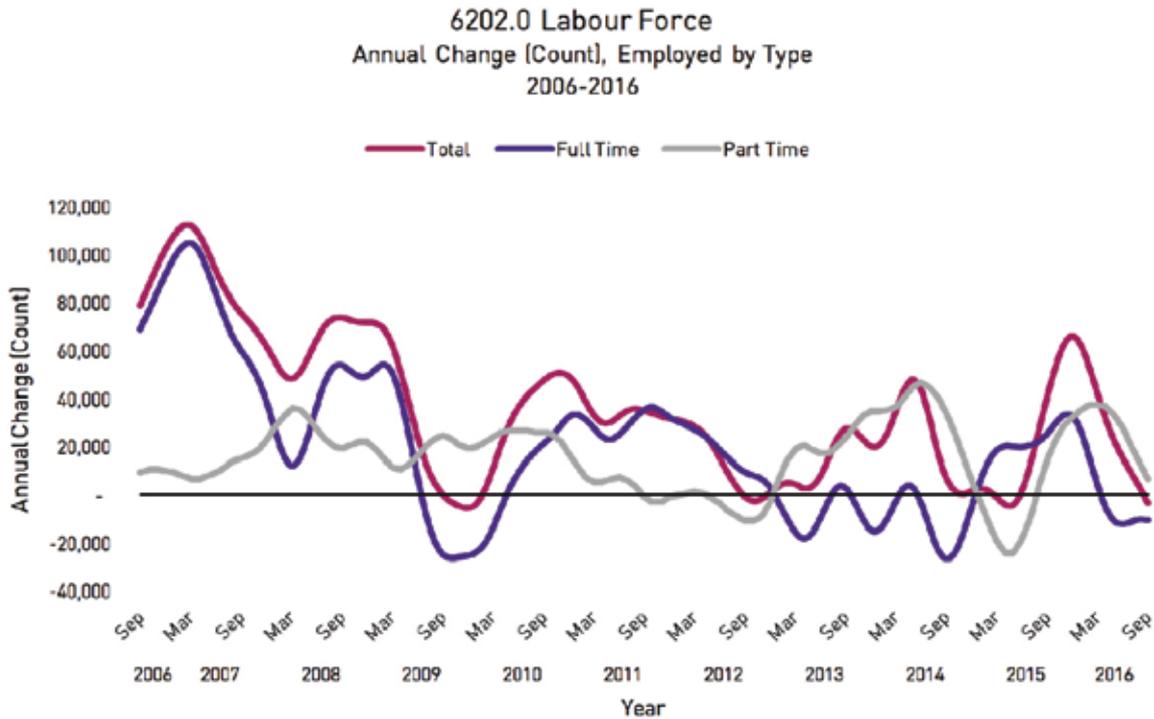
In trend terms, the number of unemployed people in Queensland fell by 2300 (trend), but only a fraction of this (200) was the result of people gaining employment. The remaining 2100 left the labour force entirely in September, and a proportion of these are expected to be discouraged job seekers that have stopped looking for work.

Significantly, had these people continued an active search for work, and the participation rate had remained unchanged in September (64.6 per cent), the total number of unemployed people in Queensland would have increased by 1800 people, as opposed to the fall of 2300 that was officially recorded. Significantly, the trend unemployment rate would have increased by 0.1 points to 6.3 per cent, rather than falling by 0.1 points.

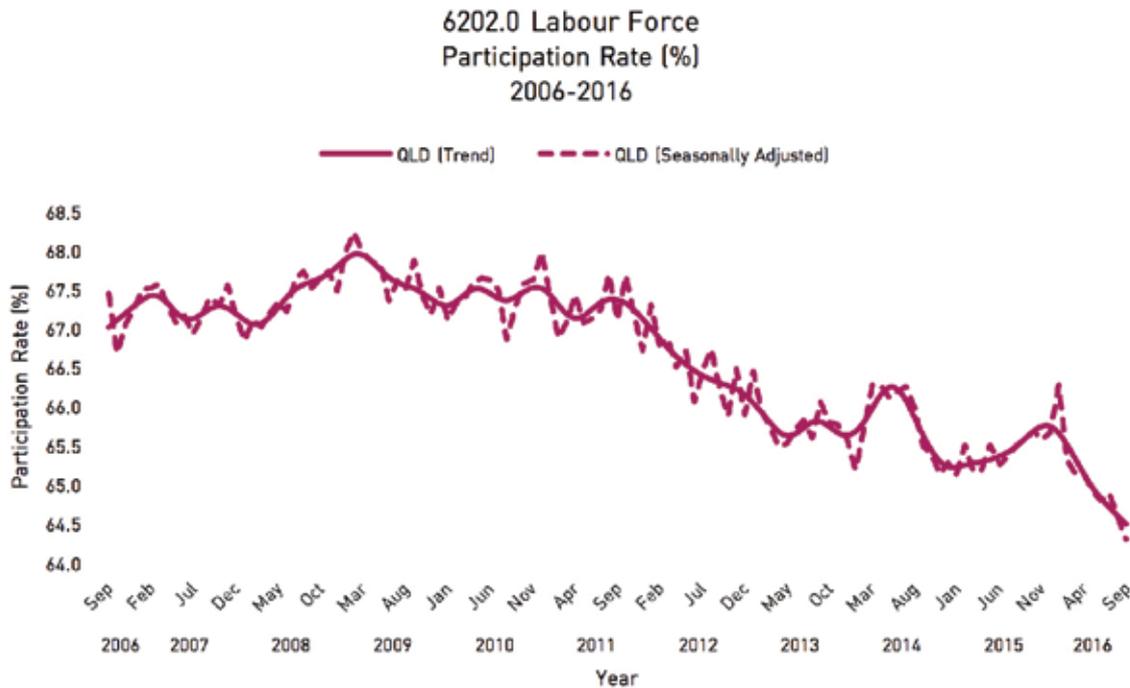
Indeed, since recording a peak of 68.0 per cent in February 2009, the participation rate has been falling steadily across the past seven years, and is now its lowest level since May 2004.

As has been reported elsewhere, any fall in the unemployment rate needs to be analysed critically, especially when labour market conditions are known to be soft. Indeed, the current soft conditions that are present in Queensland were underlined by the annual change in employed people, which fell by 3400 in September.

While there was an increase of 6900 part-time positions in the twelve months to September 2016, this was completely offset by a fall of 10,300 full-time positions across the same time period. Significantly, Queensland has now recorded six consecutive months of falls in the annual change of full-time positions, further highlighting that the labour market has been deteriorating in recent months.



Source: ABS



Source: ABS

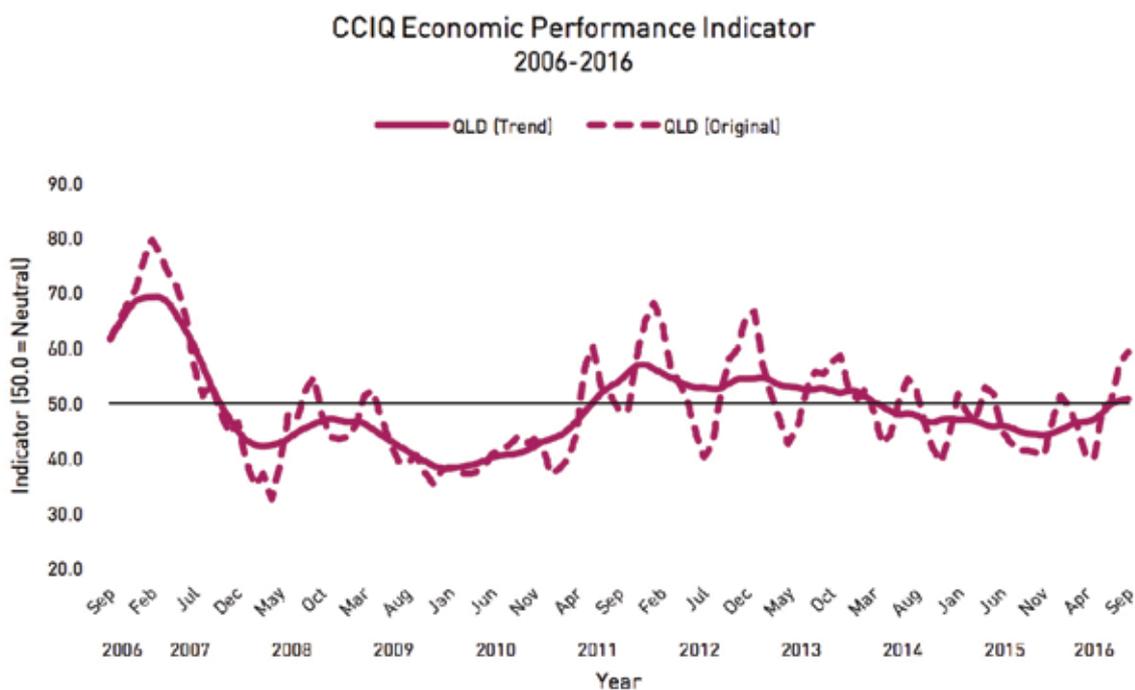
“ While a fall in headline unemployment suggest that economic conditions are improving, the reality is that unemployment fell in September as a result of a falling participation rate, not jobs creation. ”

Nick Behrens - CCIQ , General Manager, Advocacy.

3. Overall Economic Performance

Improvements in the unemployment rate, a third consecutive month of strengthening retail trade figures, and other encouraging data releases have further strengthened the CCIQ Economic Performance Indicator across the past month. As a result, the indicator recorded a rise of 0.3 points this month, further driving the positive momentum that has been evident since June 2016. Significantly, at 50.7 the indicator is now 0.4 points above the five year average (50.3), following relatively weak, and flat, performance across the past two years. The results of the past three months in particular should be a welcome sign for the business community, especially as the end of 2016 approaches, and the critical Christmas trade period begins for businesses across a number of industries.

The shift in momentum across the past three months makes for interesting analysis, especially when it is considered alongside the most recent CCIQ Pulse Survey data that indicates a weakening outlook for the Queensland economy for many small businesses. While there are signs of strengthening sales and revenue results in the small business community, as well as an overall improvement in general business conditions, confidence in the Queensland economy and how it will perform in the next twelve months, remains well below the five-year average. Although businesses are reporting an increase in sales activity, and ABS data also points toward strengthening economic



“ Recent improvements across a number of key economic indicators has seen the Economic Performance Indicator rise again in September suggesting further momentum in the Queensland economy.

Cameron Meiklejohn - CCIQ , Policy Analyst, Advocacy.

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conditions, it appears that this momentum is yet to filter through to a renewal of business confidence. Essentially, there is sustained caution and “determined pessimism” across many small businesses.

Given the extended period of weak economic performance across the past two years, it is possible that many businesses will need to experience more than three months of economic momentum before their apprehension and caution subsides and a meaningful shift in sentiment is recorded. Regardless, it is clear that despite what some economic indicators are currently suggesting, a number of issues and concerns continue to restrain the level of confidence small businesses have towards the Queensland economy.

September 2016

50.7pt

Source: ABS CCIQ

Five Year Average

50.3pt

Source: ABS CCIQ



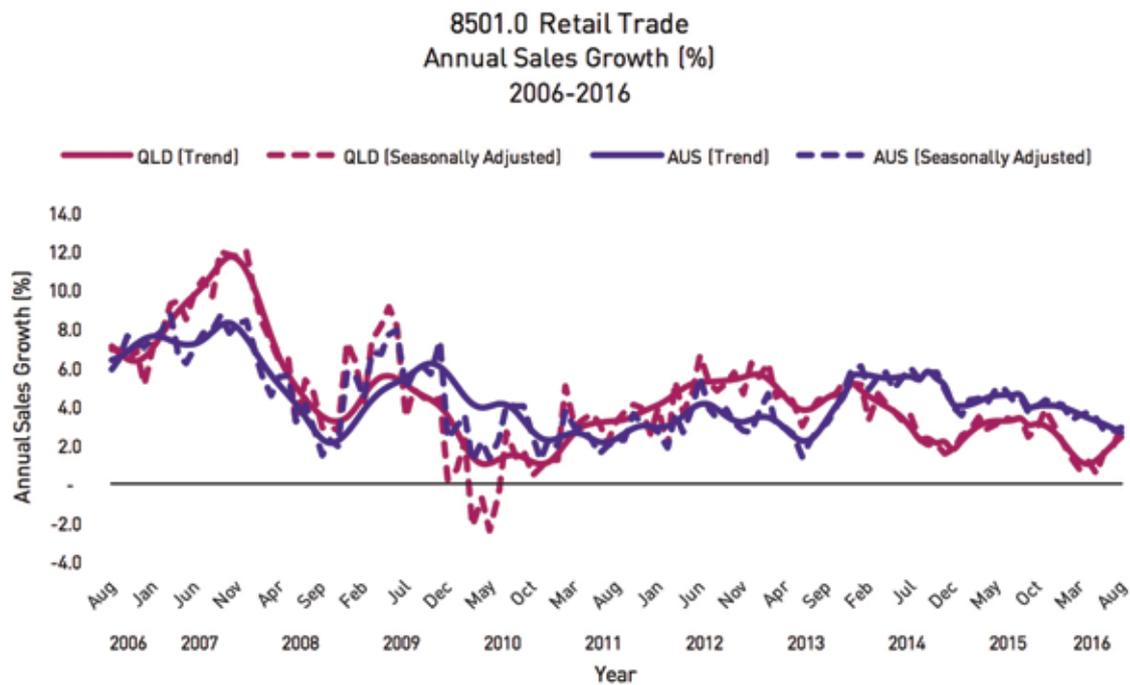


4. Retail

The September retail sales figures have indicated that after particularly soft conditions during the first half of 2016, which witnessed annual growth drop to just 0.9 per cent in April, there are good signs of sustained return in consumption levels. In trend terms, annual growth recorded a rise of 0.4 points, and at 3.1 per cent is growing at a larger rate than the national average for the first time since November 2013. As was indicated last month, this momentum, which has been building since May, should be encouraging for those businesses operating in the retail and hospitality sectors as they approach the critical Christmas sales period.

The clothing, footwear and personal accessory subgroup has further established itself as a driver of retail sales in Queensland, with annual growth rising by 0.2 points to 10.0 per cent in trend terms. Significantly, this is well above the national growth figure for this subgroup, which remained steady at 6.5 per cent in September.

As predicted last month, spend within the café, restaurant and food services subgroup returned to positive



Source: ABS

growth in September, recording annual growth of 2.2 per cent in trend terms. Given the sustained level of poor performance across the past twelve months for this subgroup, this is an encouraging sign for what is the most discretionary area of consumer retail spending. Indeed, the recent results suggest that Queensland retail should experience a reasonably solid Christmas sales period in 2016.

Analysis conducted by CCIQ predicts that Christmas sales will increase by 3.9 percent in 2016 to record a total spend of \$9.13 billion, which would be the first time the \$9 billion mark has been surpassed in Queensland. While the Christmas sales forecast remains below the ten-year average of 4.2 per cent, at 3.9 per cent this would be a good result for the Queensland retail industry, especially given the soft sales results that have been recorded across most of 2016.



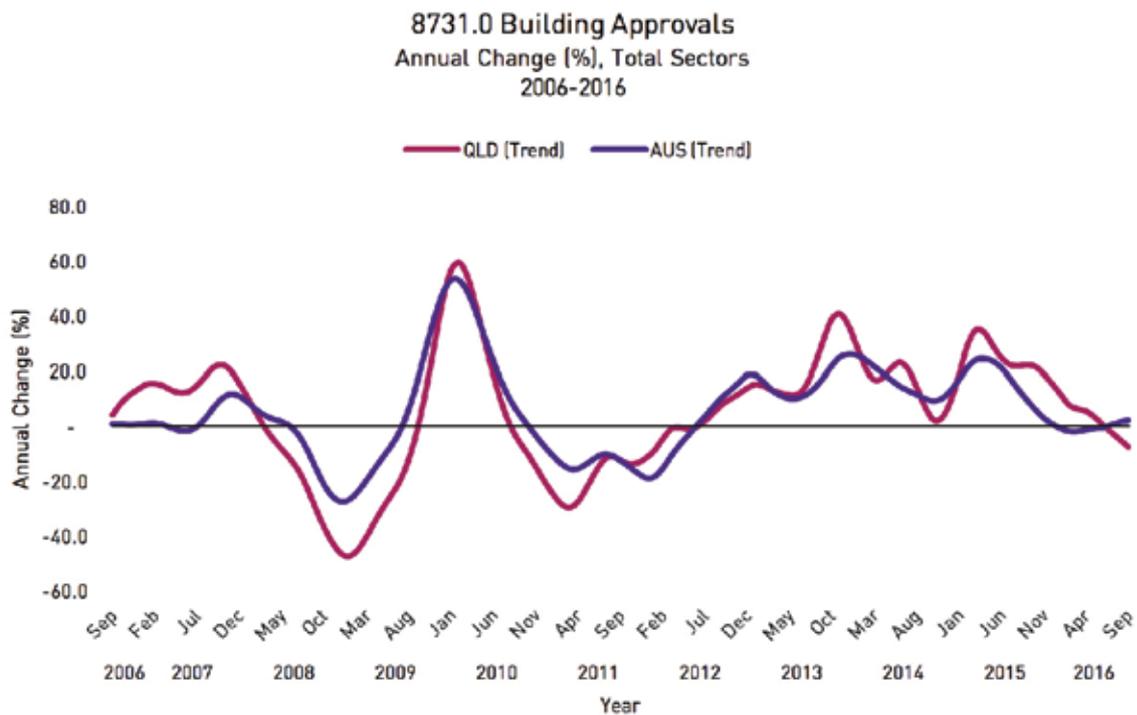
Source: ABS, CCIQ

Similar to what has been observed across other economic indicators, it is anticipated that Christmas sales will be experienced differently across Queensland, with the South-East expected to perform better across the holiday period. According to the CCIQ forecast model, South-East Queensland will record retail sales growth of 4.2 per cent, while performance will be leaner in Regional areas, which are predicted to achieve 3.1 per cent growth.

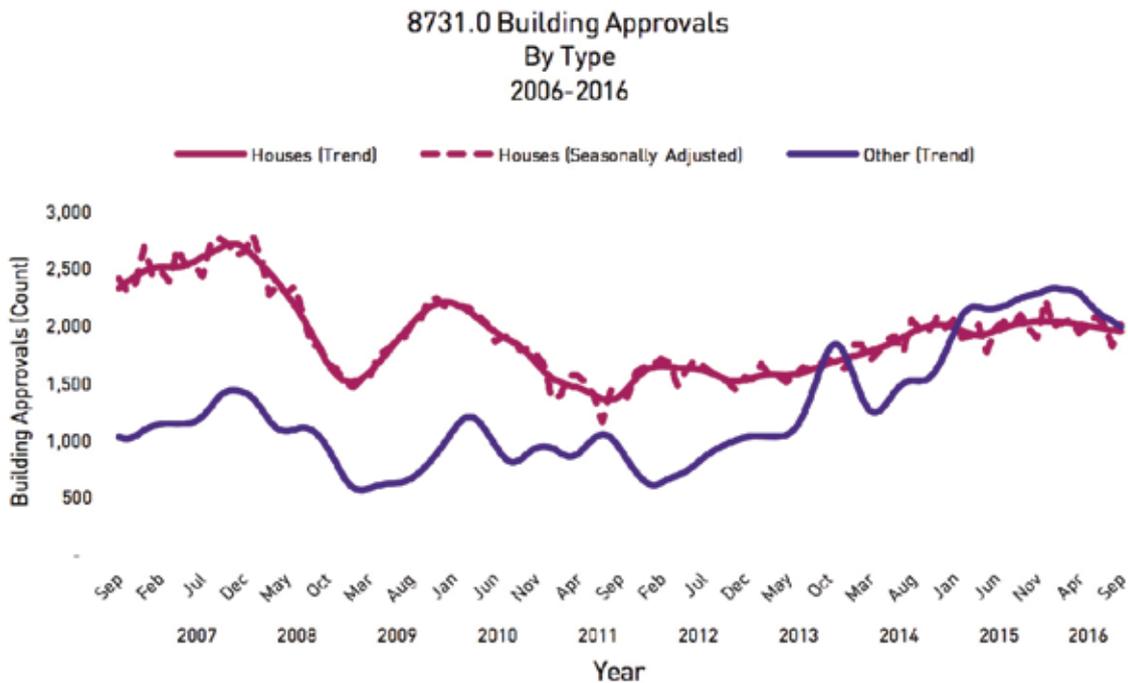


5. Building Approvals

Residential dwelling approvals continue to decline across Queensland, and have now fallen for eight consecutive months since recording a peak of 4338 in January 2016. In September, there were 3910 dwellings approved for construction, which was a fall of 1.6 per cent compared to August, and the lowest number of dwellings approved since January 2015. In addition to this, dwelling approvals fell by 7.7 per cent across the twelve months to September 2016. The decrease in total dwelling approvals was driven by a 0.6 per cent fall in approvals for houses, and a 2.6 per cent fall in approvals for dwellings others than houses.



Source: ABS



Source: ABS

Despite the observed falls in residential dwelling approvals, the pipeline for housing construction remains strong in Queensland with total building approvals remaining well above the five-year average. The decline in approvals for dwellings other than houses is particularly significant given the rising concerns associated with an oversupply of high-density residential stock.

Although the number of units and apartments that have been approved for construction continue to drop from the peak that was recorded in January 2016, at 1975 it still well above the five-year average (1510). As was indicated last month, by remaining at elevated levels, it is certain that concerns surrounding an oversupply of high-density residential stock, and associated settlement risk, will continue to grow within some sectors and geographic locations. The most recent Pulse Survey has captured some of these concerns, with a number of businesses suggesting that the implications of an oversupply in apartment buildings, and potential drops in purchase and rental prices, will become a factor across South-East Queensland in the next twelve months. As these concerns continue to mount, it will be interesting to track approval levels of units and apartments across the coming months to see if the observed slowdown in approvals continue, or whether there is renewed momentum for property development.

“

As long as building approvals remain at elevated levels, concerns regarding an oversupply of high-density residential stock, and the possibility of settlement risk, will persist in some parts of Queensland.

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Cameron Meiklejohn - CCIQ, Policy Analyst, Advocacy.

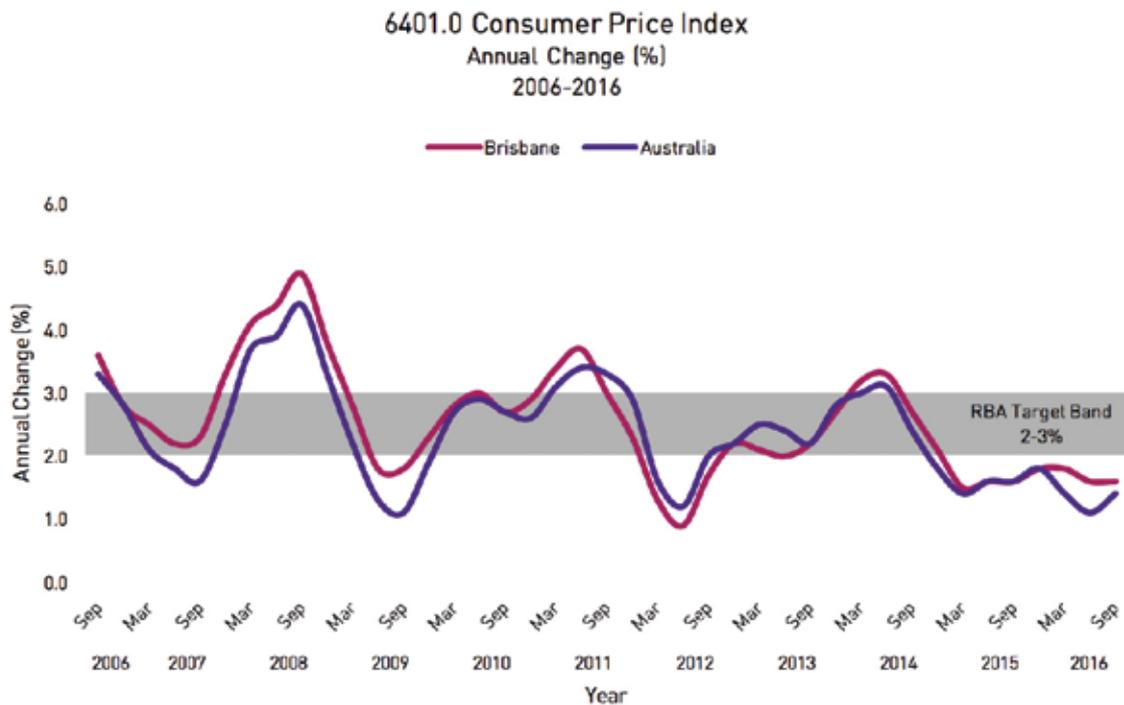
6. Consumer Price Index

The cash rate remains at its lowest level on record with the RBA Board deciding to keep the official cash rate at 1.50 per cent at its November meeting. While the capacity remains for the cash rate to be cut further in the future, it is unclear as to whether any further adjustment to monetary policy will be necessary in the short term, and indeed, what level of impact it would have on consumer spending.

The available evidence continues to suggest that rate cuts are becoming increasingly ineffective in producing improvements in consumer spending, with levels of household debt placing an upper limit on the capacity of many people to secure additional credit for consumption on goods and services. Given the combined influence of weak wage growth, and historically high levels of household debt, it is anticipated that it will be difficult to achieve the RBA inflation target of between 2-3 per cent in the short term.

However, through sustainable economic growth it is understood that this will be achieved in time. For Brisbane, inflation remained steady at 1.6 per cent for the September Quarter, while the national figure displayed signs of improvement, recording a rise 0.3 points to reach 1.4 per cent.

Significantly, evidence from the CCIQ Pulse Survey continues to suggest that while the lower interest rates are providing some benefit to consumers and small business, high levels of household debt are placing restrictions on the level of spending on goods and services. Uncertainty surrounding the labour market and



Source: ABS

future earning potential remain at elevated levels, especially in regional Queensland, which is significantly restricting the capacity of many people to take on more borrowings or spend household savings. Essentially, the impact of low interest rates is dependent on there being capacity for people or businesses to take on additional debt and spend, something which is limited at present.



7. Summary

Overall, the key economic indicators that have been released across the past month continue to highlight that the Queensland economy is continuing to gain momentum, however, concerns surrounding the labour force persist for many small businesses. While the retail sales figures suggest that consumers are beginning to exercise reduced caution in spending, the forecast for Christmas suggests that spending will be solid, but below the long-run average. While building approvals also remain above the five-year average, suggesting a solid pipeline of future construction work, the alarm bells associated with an oversupply of high-density residential stock will persist as long as these elevated levels remain. These challenges highlight that while the recent improvements signal a return to form for the Queensland economy, a number of underlying fundamentals require further improvement if this recent momentum shift is to be sustained long term, and translate into a rise in business sentiment.

QUEENSLAND ECONOMY: KEY ECONOMIC INDICATORS

Indicator	Latest Release	Rate	Change
CCIQ Pulse Survey 12 Month Outlook	Sep (Q)	41.4	↓
CCIQ Economic Performance Indicator	Sep (M)	50.7	↑
Unemployment Rate	Sep (M)	6.1%	↓
Building Approvals	Sep (M)	-1.6%	↓
Retail Trade	Sep (M)	3.1%	↑
Job Vacancies	Aug (Q)	0.8%	↑
Residential Property Price Index	Jun (Q)	4.3%	↑
Estimated Resident Population	Mar (Q)	1.3%	—
Exchange Rate (A\$ - US\$)	Oct (M)	76.1	↓



CONTACT US



375 Wickham Terrace, Spring Hill,
Brisbane, QLD, 4000.



1300 731 988



nbehrens@cciq.com.au & cmeiklejohn@cciq.com.au



www.cciq.com.au