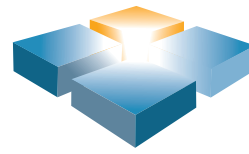


Invigorating Business



CHAMBER OF
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QUEENSLAND

Queensland's Economic Performance January 2011



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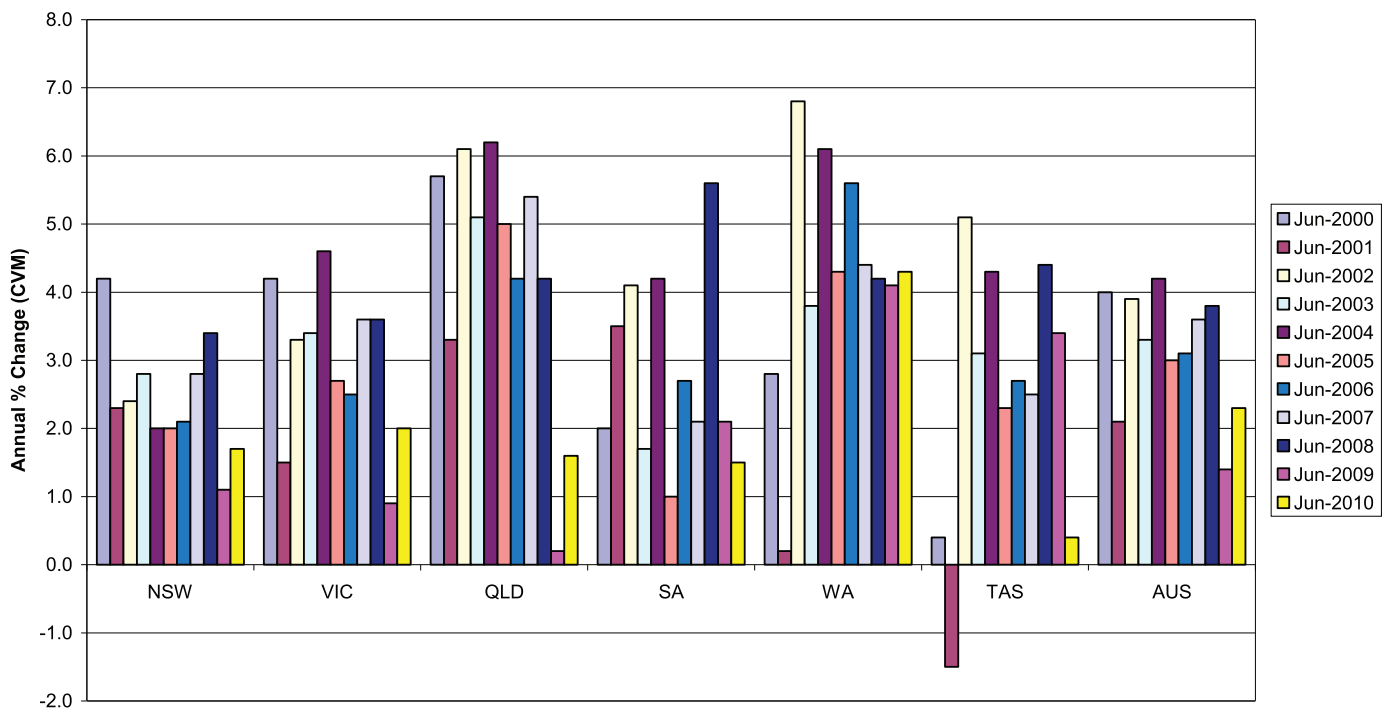
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Introduction

While the recent Queensland flood disaster will place significant downward pressure on our State's economic growth, it is important to realise that Queensland's economy was facing challenges well before the impact of the recent flood events. It is crucially important for transparency and accountability that an assessment is now recorded reflecting the point in time immediately before the floods impacted the Queensland economy.

The road map forward for economic recovery will need to recognise that significant constraints such as a tightened monetary policy, tightened lending criteria, the appreciation of the Australian dollar and the continued erosion of the attractiveness of the Queensland business environment were effecting almost all major economic indicators. These problems will inevitably need to be addressed in conjunction with any flood recovery program if the Queensland economy is to emerge unscathed from the flood disaster and resume its place as the leading State.

Gross State Product



Source: ABS Catalogue 5220.0

| Gross State Product Annual % Change (trend series, cvm) | | |
|---|---------|---------|
| | 2008-09 | 2009-10 |
| NSW | 1.1 | 1.7 |
| VIC | 0.9 | 2.0 |
| QLD | 0.2 | 1.6 |
| SA | 2.1 | 1.5 |
| WA | 4.1 | 4.3 |
| TAS | 3.4 | 0.4 |
| AUS | 1.4 | 2.3 |

Source: ABS Catalogue 5220.0

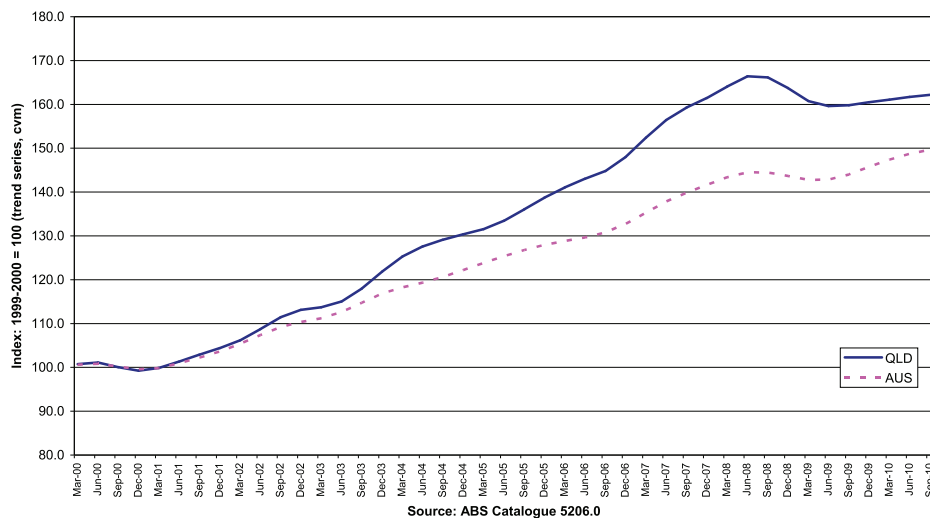
Growth in the Queensland economy improved in 2009-10 but registers at a less than modest 1.6%, following negligible growth (0.2%) in 2008-09 during the onset of global financial crisis.

Queensland has had the lowest average growth rate of all States over the last two years.

There is no doubt that the affect of the Queensland floods (estimated to cost up to \$20 billion) will have a dramatic negative affect on the 2010-11 growth rate for the Queensland economy, but will be inevitably positive in the following years.



State Final Demand



| State Final Demand (trend series, cvm) | | |
|--|---|---|
| | % change Sep Qtr 08 to Sep Qtr 09 | % change Sep Qtr 09 to Sep Qtr 10 |
| NSW | 0.9 | 4.2 |
| VIC | 0.8 | 4.6 |
| QLD | -3.8 | 1.5 |
| SA | 1.2 | 2.9 |
| WA | 1.2 | 5.9 |
| TAS | -2.0 | 1.5 |
| AUS | -0.3 | 4.0 |

Source: ABS Catalogue 5206.0

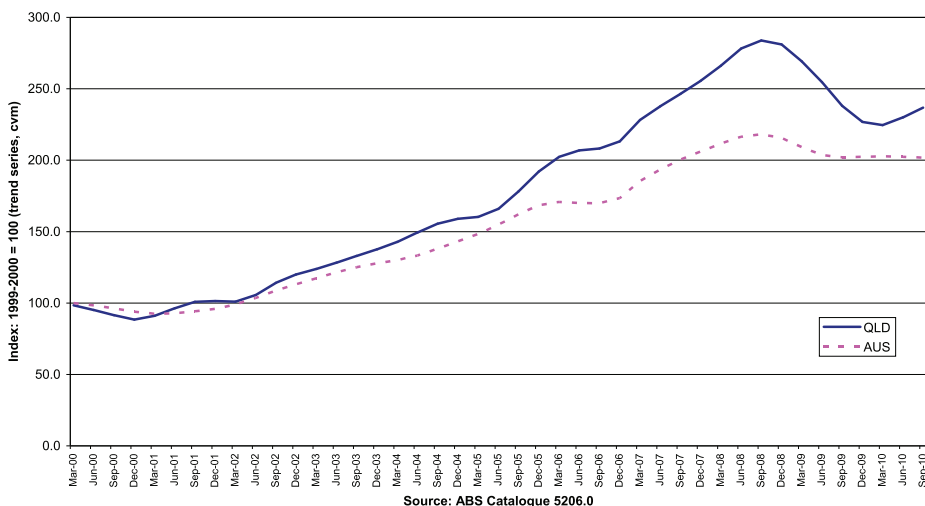
Similarly Queensland has had the lowest growth in SFD in the past twelve months and also in the past 24 months.

Since the peak prior to the GFC the Australian economy has grown by 3.6% where as the Queensland economy has contracted by 2.5%.

Queensland's exports have been the mainstay of economic growth in 2009-10 with the public sector also supporting growth driven by increased State Government spending as well as Federal Government infrastructure stimulus.

In contrast, private domestic economic activity has unfortunately contracted dramatically and is now only recently showing signs of a recovery.

Business Investment



| Business Investment (trend series, cvm) | | |
|---|---|---|
| | % change Sep Qtr 08 to Sep Qtr 09 | % change Sep Qtr 09 to Sep Qtr 10 |
| NSW | -3.9 | 0.4 |
| VIC | -4.8 | -1.5 |
| QLD | -16.1 | -0.5 |
| SA | -4.1 | -4.8 |
| WA | -2.5 | 7.8 |
| TAS | -28.4 | -13.4 |
| AUS | -7.4 | -0.1 |

Source: ABS Catalogue 5206.0

Queensland has had the worst contraction in business investment of any State aside from Tasmania.

Business investment declined by 16.7% over the 24 months to the September quarter 2010 detracting significantly from the State's economic growth.

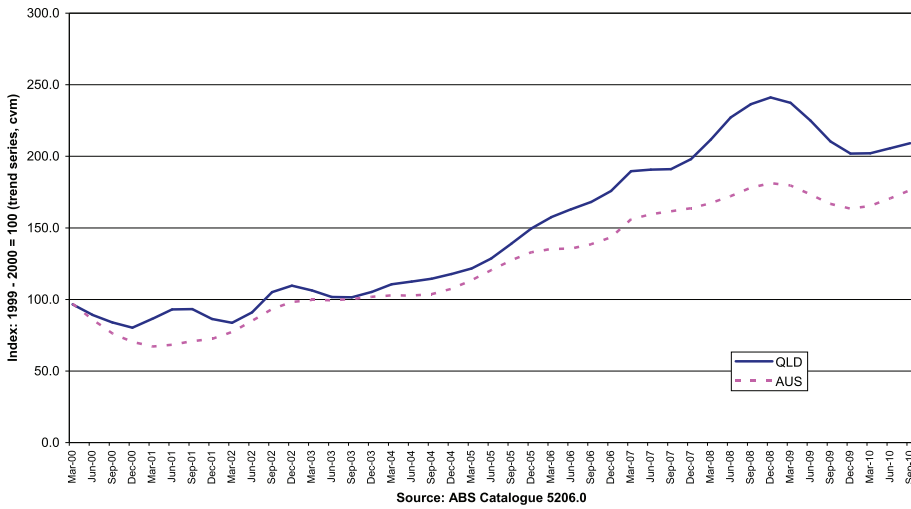
Despite the benefits of both the Federal Government tax incentives and an appreciation of the \$AUD, making machinery and equipment cheaper, investment has fallen sharply. This is also a reflection of weaker business confidence that has prevailed over the past 2 years.

Additionally consumer demand has been subdued placing pressure on business profitability and lending conditions remain tight in the aftermath of the global economic downturn, hindering investment.

Encouragingly there has been a recent recovery in business capital spending recovering particularly in the area of machinery and equipment.



Non Residential Building Construction



| Non Residential Building Construction (trend series, cvm) | | |
|---|-----------------------------------|-----------------------------------|
| | % change Sep Qtr 08 to Sep Qtr 09 | % change Sep Qtr 09 to Sep Qtr 10 |
| NSW | -6.2 | 1.9 |
| VIC | -7.9 | -0.7 |
| QLD | -11.0 | -0.6 |
| SA | 2.5 | -1.0 |
| WA | 2.1 | 22.5 |
| TAS | -30.6 | 3.5 |
| AUS | -6.3 | 5.7 |

Source: ABS Catalogue 5206.0

A contraction in Queensland's non residential building construction has also occurred.

Queensland's non-residential construction has declined by 11.7% in the 2 years to the September quarter 2010 and again, aside from Tasmania, is the worst of all the States.

This decline is a reflection of lower business confidence, lower investment demand and tighter lending practices.

Residential Building Construction



| Residential Building Construction (trend series, cvm) | | |
|---|-----------------------------------|-----------------------------------|
| | % change Sep Qtr 08 to Sep Qtr 09 | % change Sep Qtr 09 to Sep Qtr 10 |
| NSW | -4.3 | 13.4 |
| VIC | 4.9 | 5.8 |
| QLD | -19.6 | 4.0 |
| SA | -1.7 | -4.8 |
| WA | -3.1 | 2.3 |
| TAS | -4.3 | 2.0 |
| AUS | -5.3 | 5.9 |

Source: ABS Catalogue 5206.0

A contraction in Queensland's residential building construction over the past two years is clearly evident, although there has been some recent improvement.

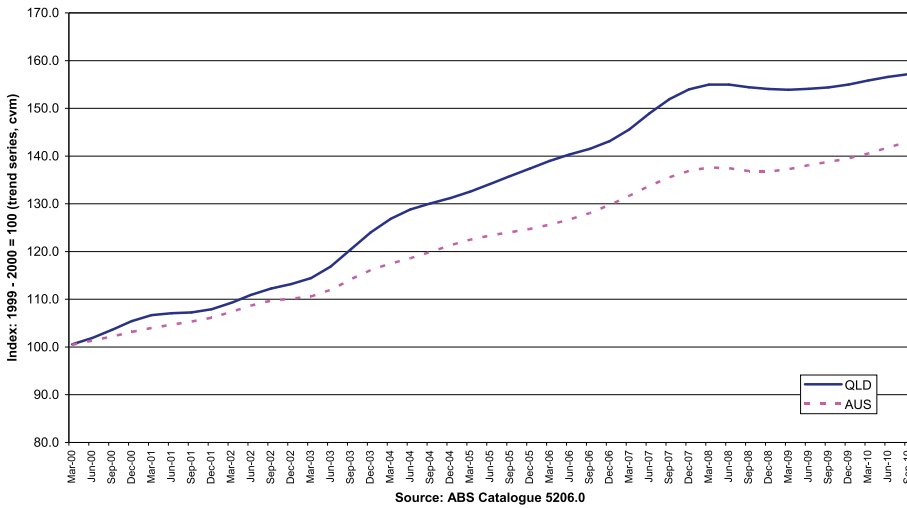
Again the sustained period of monetary tightening, combined with the passing of the federal housing stimulus, contributed to the fall in housing construction.

The weakness in medium-to-high density dwelling construction was also a key driver of the fall in housing construction as a result of tighter credit conditions and uncertainty over the global economic outlook weighing on housing investor activity.

This area of the economy will benefit from the recovery efforts of the recent floods.



Household Final Consumption



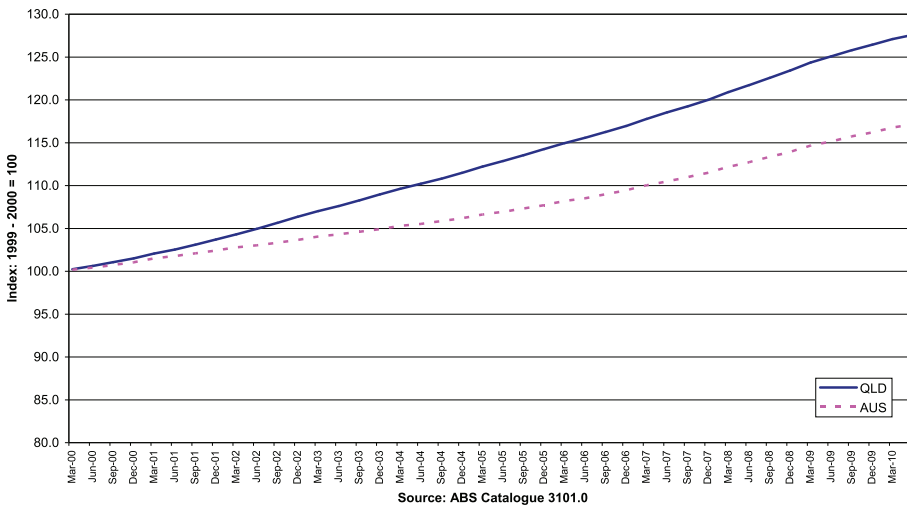
| | % change Sep Qtr 08 to Sep Qtr 09 | % change Sep Qtr 09 to Sep Qtr 10 |
|-----|-----------------------------------|-----------------------------------|
| NSW | 1.8 | 2.6 |
| VIC | 1.8 | 3.7 |
| QLD | 0.0 | 1.8 |
| SA | 0.4 | 3.5 |
| WA | 1.9 | 5.0 |
| TAS | 1.6 | -0.3 |
| AUS | 1.4 | 3.0 |

Source: ABS Catalogue 5206.0

Queensland households are proving very reluctant to spend which is impacting on retail turnover for the Queensland business community. Household consumption rose 1.8% in the year to the September quarter 2010 a rate well below the National average and the State average over the past decade.

While household consumption was supported by solid population growth, as well as growth in average wages, the seven rate rises since October 2009 have constrained disposable income growth and discretionary spending. Softer jobs growth and the conclusion of federal government stimulus payments have also impacted on this indicator.

Population



| | % change June Qtr 08 to June Qtr 09 | % change June Qtr 09 to June Qtr 10 |
|-----|-------------------------------------|-------------------------------------|
| NSW | 1.7 | 1.5 |
| VIC | 2.3 | 1.8 |
| QLD | 2.8 | 2.0 |
| SA | 1.3 | 1.2 |
| WA | 3.2 | 2.2 |
| TAS | 1.1 | 0.9 |
| AUS | 2.2 | 1.7 |

Source: ABS Catalogue 3101.0

Australians continue to relocate to Queensland looking for better lifestyle and employment opportunities which are no longer necessarily present.

Queensland has recorded faster population growth than the average for the rest of Australia in each year since 1970-71. Queensland's population has grown at an average annual rate of 2.3% over the past two decades, around double the 1.1% recorded in the rest of Australia and is only now starting to slow.

Historically, faster population growth in Queensland has been largely attributable to a higher level of net interstate migration relative to other states.

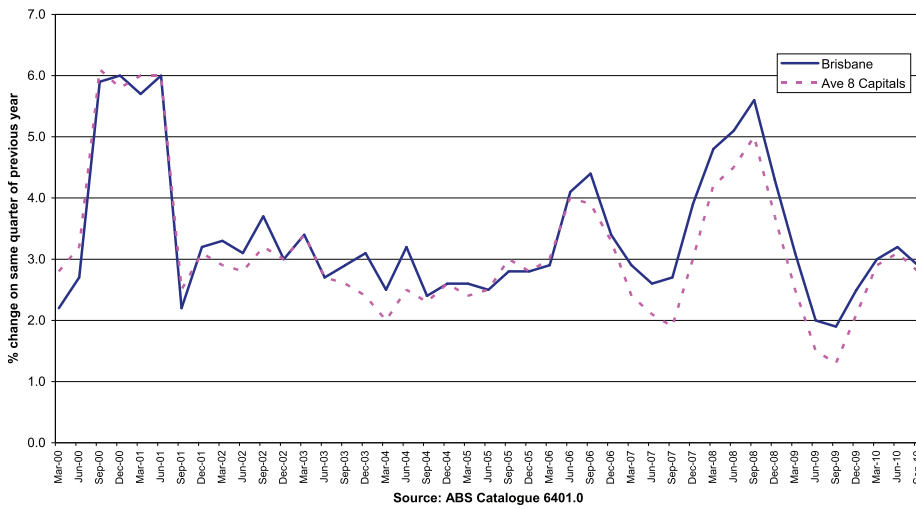
While net interstate migration to Queensland remains much higher than any other State, it has generally eased since 2002-03.

This reflects a narrowing in the house price gap between Brisbane and Sydney and a period of weaker economic growth.

Net overseas migration has been the primary driver of recent population growth in Australia as a result of widening economic growth differential between Australia and countries which are the main source of overseas migrants. However, net overseas migration across major states, including Queensland, has begun to ease reflecting changes to migration rules made by the Australian Federal government.



Consumer Price Index



| Consumer Price Index | | |
|-----------------------|---|---|
| | % change Sep Qtr 08 to Sep Qtr 09 | % change Sep Qtr 09 to Sep Qtr 10 |
| Sydney | 1.3 | 2.6 |
| Melbourne | 0.6 | 3.1 |
| Brisbane | 1.9 | 2.9 |
| Adelaide | 1.4 | 2.6 |
| Perth | 1.2 | 3.1 |
| Hobart | 1.8 | 2.8 |
| Average 8 Capitals | 1.3 | 2.8 |

Source: ABS Catalogue 6401.0

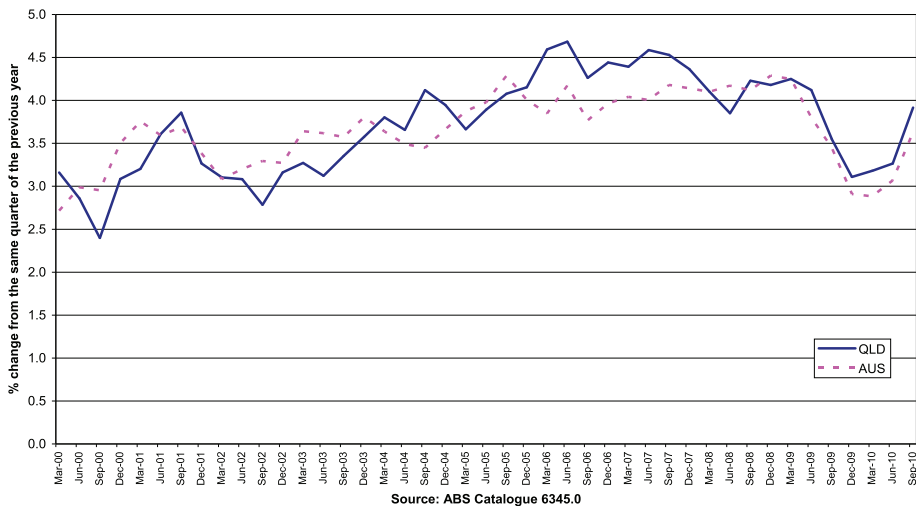
The Brisbane Consumer Price Index (CPI) increased 2.9% in the year to the September quarter 2010 which is generally regarded as a moderate rise for this indicator following the 1.9% in the preceding 12 months.

The relatively modest CPI rate at present reflects a continued unwinding of factors which drove strong inflation in previous years, such as higher oil prices, buoyant economic growth and domestic capacity constraints.

Inflation typically closely matches the heat in the economy and accordingly as Queensland's economy has slowed CPI has fallen back towards the national average.

Australia's inflation rate is back within the RBA's 2-3% target band.

Labour Price Index



| Labour Price Index (Ordinary time hourly rates of pay excluding bonuses) | | |
|--|---|---|
| | % change Sep Qtr 08 to Sep Qtr 09 | % change Sep Qtr 09 to Sep Qtr 10 |
| Sydney | 3.6 | 3.4 |
| Melbourne | 3.0 | 3.5 |
| Brisbane | 3.5 | 3.9 |
| Adelaide | 3.4 | 3.3 |
| Perth | 4.1 | 3.9 |
| Hobart | 4.2 | 3.2 |
| Average 8 Capitals | 3.4 | 3.6 |

Source: ABS Catalogue 6345.0

There currently exists a disconnect between wages growth and the relatively subdued economic activity within Queensland.

Historically lower wage outcomes based on more subdued economic activity would be evident, however this has not occurred and is largely influenced by public sector wage outcomes.

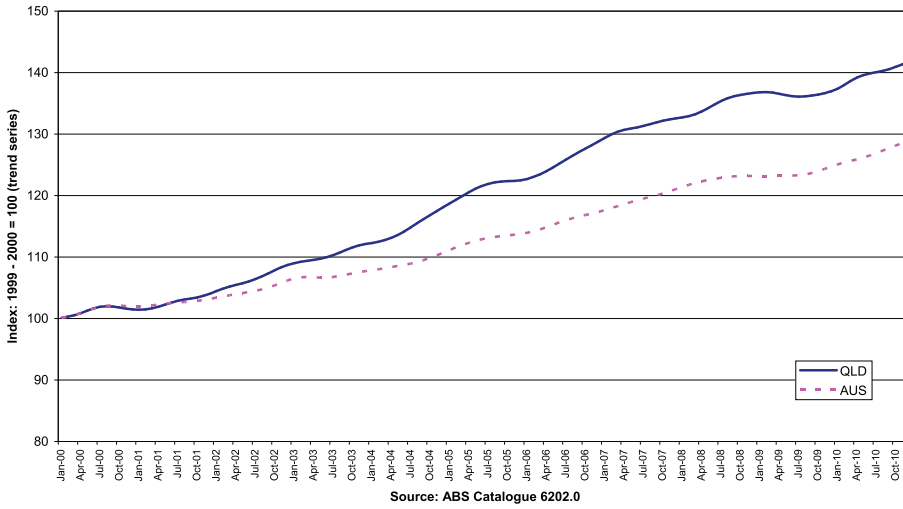
Despite slower employment growth and a rise in the unemployment rate, wages growth in Queensland remained strong in the twelve months to the September quarter 2010 reflecting the lagged impact of tight labour market conditions in prior years and public sector wages growth.

The Labour Price Index (LPI) in Queensland rose by 3.9% in the most recent twelve months increasing from the 3.5% growth in the twelve months prior.

The public sector LPI throughout and since the period of the GFC has consistently been at least one per cent higher than private sector wages growth.



Total Employment

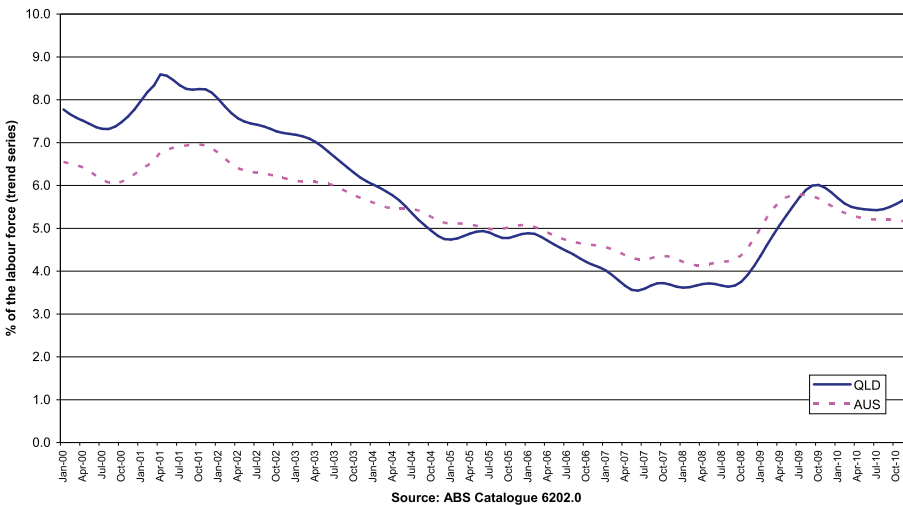


| Total Employment (trend series) | | |
|---------------------------------|---------------------------|---------------------------|
| | % change Dec 08 to Dec 09 | % change Dec 09 to Dec 10 |
| NSW | 0.0 | 5.0 |
| VIC | 3.1 | 3.2 |
| QLD | 0.2 | 3.4 |
| SA | 1.5 | 1.3 |
| WA | -0.4 | 3.3 |
| TAS | -3.0 | 2.1 |
| AUS | 1.2 | 3.3 |

Source: ABS Catalogue 6202.0

Given the significant infrastructure spend by the State Government and our State's prosperous resources sector recent Queensland jobs growth is encouraging. However it has failed to match that of New South Wales, Victoria and Western Australia throughout 2010. In line with a contraction in private sector activity elsewhere in the Queensland economy, employment growth in Queensland has been modest.

Unemployment Rate



| Unemployment Rate (trend series) | | |
|----------------------------------|----------|----------|
| | % Dec 09 | % Dec 10 |
| NSW | 5.8 | 4.9 |
| VIC | 5.4 | 5.2 |
| QLD | 5.8 | 5.7 |
| SA | 5.2 | 5.6 |
| WA | 5.1 | 4.6 |
| TAS | 5.6 | 5.0 |
| AUS | 5.5 | 5.1 |

Source: ABS Catalogue 6202.0

Queensland has maintained an unemployment rate higher than the national average for the past two consecutive years.

Over this period Queensland's unemployment rate has also remained generally higher than that of Western Australia and Victoria, and at 5.7% (as at Dec 2010) is currently the highest rate out of all states.

Unemployment can reasonably be expected to rise over the coming 12 months as the full effects of the Queensland floods flow through to the whole economy.



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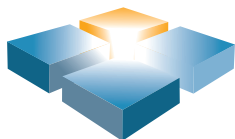
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