

Queensland Economic Update

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Chamber of Commerce & Industry Queensland



Restoring confidence in the Queensland economy and encouraging a return in spending is a priority for small businesses operating across the state.

Nick Behrens - CCIQ, General Manager, Advocacy.

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CCIQ Economic Update

Queensland Economic Developments

The recent State Final Demand figures provide some indication that the Queensland economy is beginning to recover, following several quarters of declining consumption and capital expenditure. While this is an encouraging result, it is important to highlight that much of this improvement is currently underpinned by government spending, with household consumption and business investment lagging behind the national average.

Limited improvements in labour market conditions highlight that despite improvements in State Final Demand, challenges still exist surrounding the creation of new jobs with headline unemployment remaining steady at 6.3 per cent in July (Compared to the national outlook, which has witnessed a gradual decline from a peak of 6.2 per cent in December 2014, and is now at 5.7 per cent).

Growth in employment has slowed across the same time period to just 0.4 per cent, with only 8,845 more people being employed in July 2016, compared with the same month in 2015. Continuing contraction of employment in the mining, construction and surprisingly hospitality, are understood to be having the largest impact on employment growth across Queensland.

Employment figures are likely to be further impacted in coming months, with a decline expected in construction jobs across South-East Queensland as several high density residential projects are completed in Brisbane and the Gold Coast. The decline in new approvals for residential dwellings, and units

in particular, means that there will be fewer active construction sites, and as a result, demand for trade workers and labourers which rely on the construction industry for employment.

The retail sector continues to experience weak results with the rate of annual sales growth being 1.9 per cent in seasonally adjusted terms. While this has improved from a low point of just 0.5 per cent in May 2016, it is still well below the ten-year average of 4.4 per cent, and as a result, it is unclear as to whether consumer spending will improve at the rate needed to ensure the necessary sales levels during the critical Christmas trade period.

While employment and retail spend levels both highlight that the Queensland economy requires stimulus, it is uncertain as to whether the RBA decision to drop the cash rate in May, and again in August, will have any meaningful impact on consumer spending. In particular, the decline in household expenditure is some indication that rate cuts are not having the desired impact of increasing consumer spending. Combined with record low levels of wages growth, which is delivering only small improvement in real incomes, there appears to be a reluctance to spend across the state at present despite record low levels of interest.

While we have undoubtedly turned a corner there is still plenty of room for improvement before us. Queensland's current performance continues to be below the long term trend and continues to lag behind New South Wales and Victoria.



State
Final Demand

0.7%

First rise in two and half years.

Source: ABS 5206.0

QLD
Business Confidence

7.2pts

Below the five-year average.

Source: Pulse Survey - June

CCIQ Economic Overview

While a drop in interest rates should relieve pressure on small businesses, rising operational costs are adding to the cost base, and suppressing profitability.

Restoring confidence in the Queensland economy and encouraging a return in consumer spending is a priority for small businesses operating across the state.

Labour Force

8,845

Net Jobs added in twelve month to July 2016.

Source: ABS 6202.0



Business Conditions

- **State final demand** up 0.7% on March quarter.
- **Retail sales contract** annual growth weak at 1.5%.
- **Residential dwelling approvals down** over the past twelve months, declining by 1.9% in trend terms.

Retail Growth

1.5%

Considerably below 10-year average

Source: ABS 8501.0

Labour Force

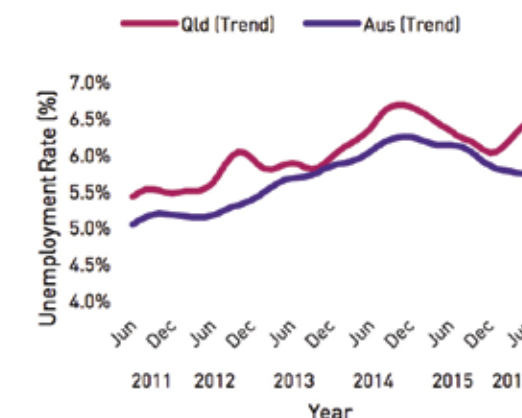
- **6.3% unemployment rate** has been diverging from the national trend since August 2015.
- **0.4% employment growth**, with just 8,845 jobs added in the past twelve months.
- **Job losses** in the mining, construction and hospitality sectors.

Queensland Economic Overview

12 Month Outlook

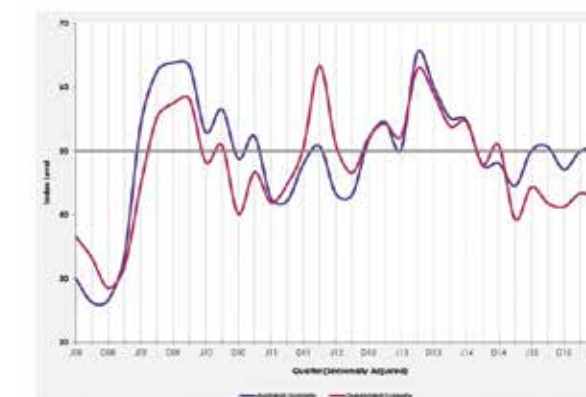
- **Weakening sentiment** towards the Queensland economy.
- **Customer confidence and cautious spending** impacting sales and revenue.
- **Rising operating costs** suppressing business profitability.

Graph 1 - Unemployment Rate (%), Trend



Source: ABS 6202.0

Graph 2 - Twelve Month Outlook



Source: Pulse Survey

CPI

1.5%

Below RBA inflation target for the past six quarters.

Source: ABS 6401.0

Unemployment Rate

6.3%

Unchanged for four months.

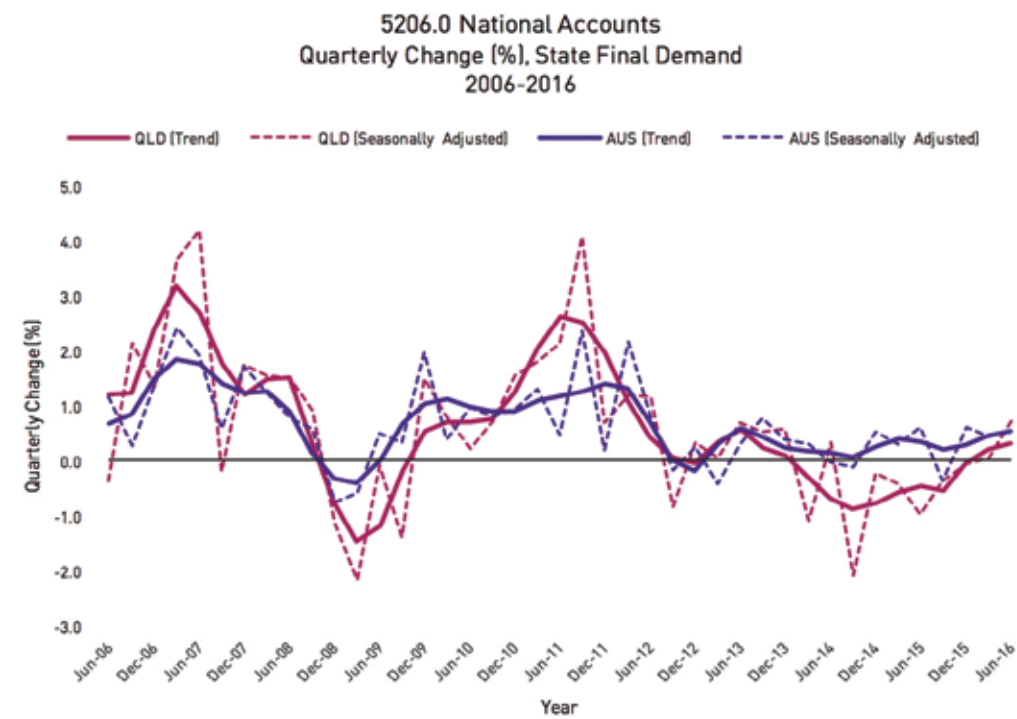
Source: ABS 6345.0

CCIQ Economic Full Report



1. State final demand

The recent release of ABS figures provided an indication that the Queensland economy is beginning to recover with State Final Demand rising by 0.7 per cent in seasonally adjusted terms across the June Quarter. This follows an increase of 0.1 per cent in March, after the ABS revised its published figure up from 0.0 per cent. While this growth is largely underpinned by public capital expenditure, which rose by 6.8 per cent, it is particularly encouraging that private expenditure has also increased in the quarter. Significantly, the rise of 0.9 per cent is the first time since September 2013 that there has been an increase in private investment for Queensland, relative to the previous quarter. Compared with March 2016, private investment in capital rose by \$138 million, while government investment rose by \$268 million in seasonally adjusted terms.

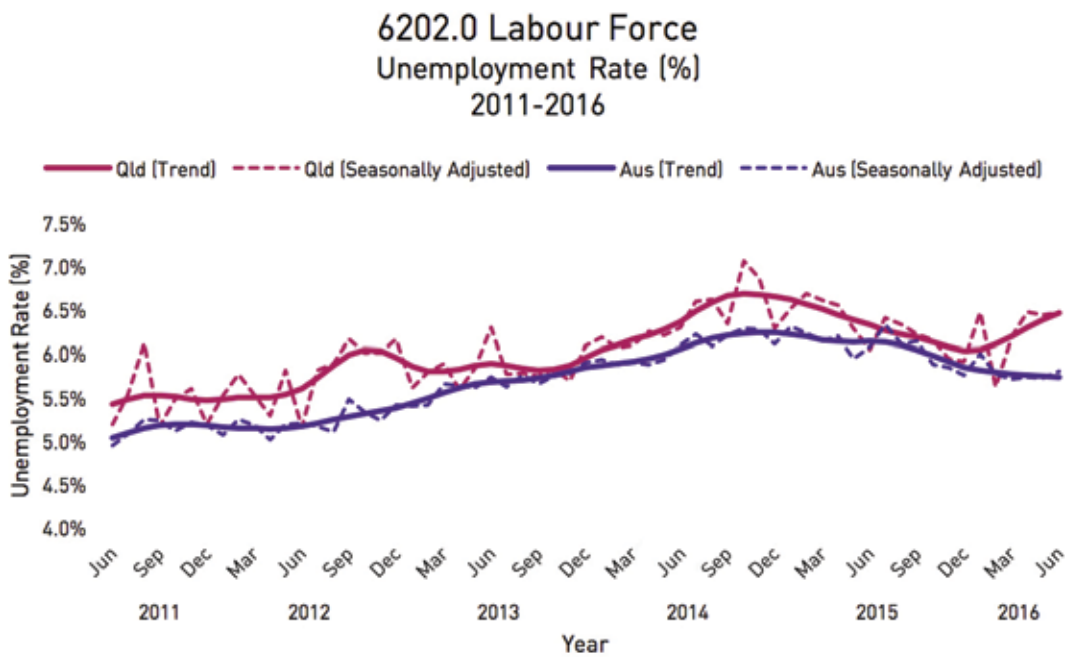


Source: ABS

The 0.7 per cent rise in State Final Demand means that Queensland performed better than the national average in the June Quarter, although household consumption continues to lag behind the rest of Australia. At just 0.2 per cent, the rise in household consumption is well below the ten-year average for the state, which is 0.7 per cent, suggesting that the improved economic conditions are yet to flow through to Queensland households. The preference is that improvement in State Final Demand come from households and the business community, but in the short term Government consumption and capital expenditure has a key role to play but is not sustainable into the longer term unless the State wishes to have the discussion around tax take.

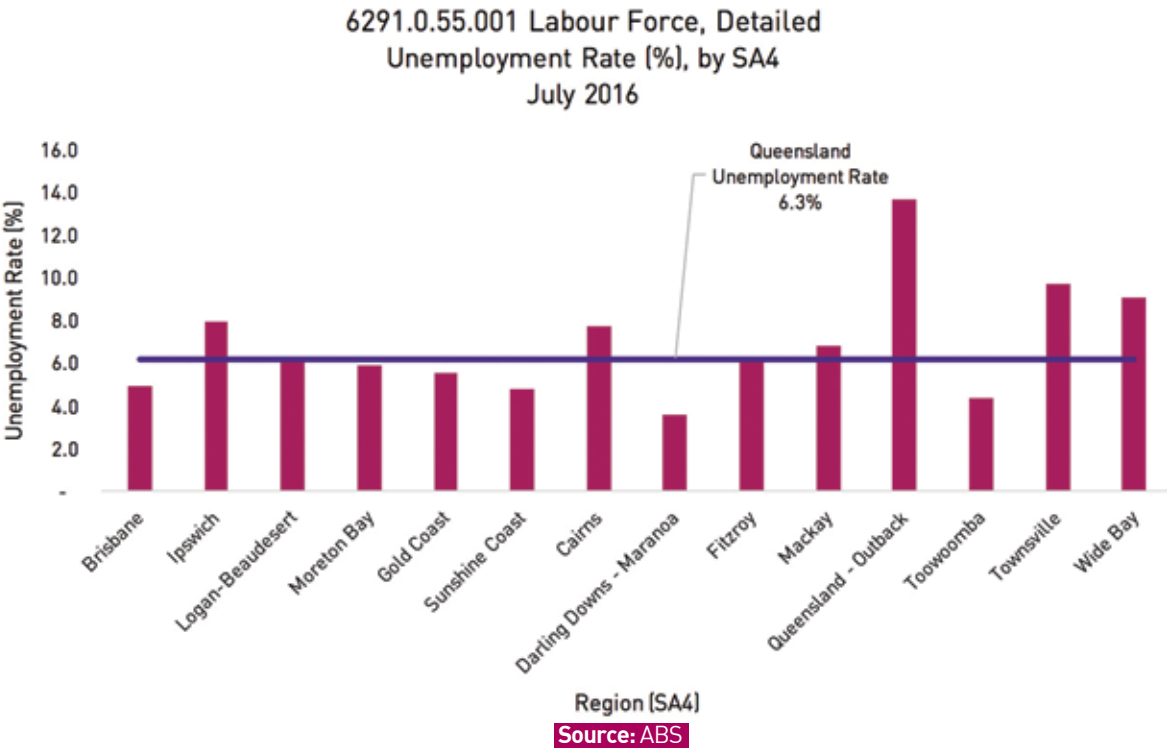
2. Queensland Labour Market

While the overall trend in the unemployment rate in Queensland highlights challenges within the labour market, it is important to indicate that some regions are experiencing improved conditions and employment levels. Although the unemployment rate is at 6.3 per cent across Queensland, regions within the South-East corner have seen a decline in unemployment in the twelve months to 30 June 2016. In particular, Toowoomba (4.4 per cent), Sunshine Coast (4.8 per cent), and Brisbane (4.9 per cent) have all experienced significant reductions in the number of people that are without work, in twelve month average terms.

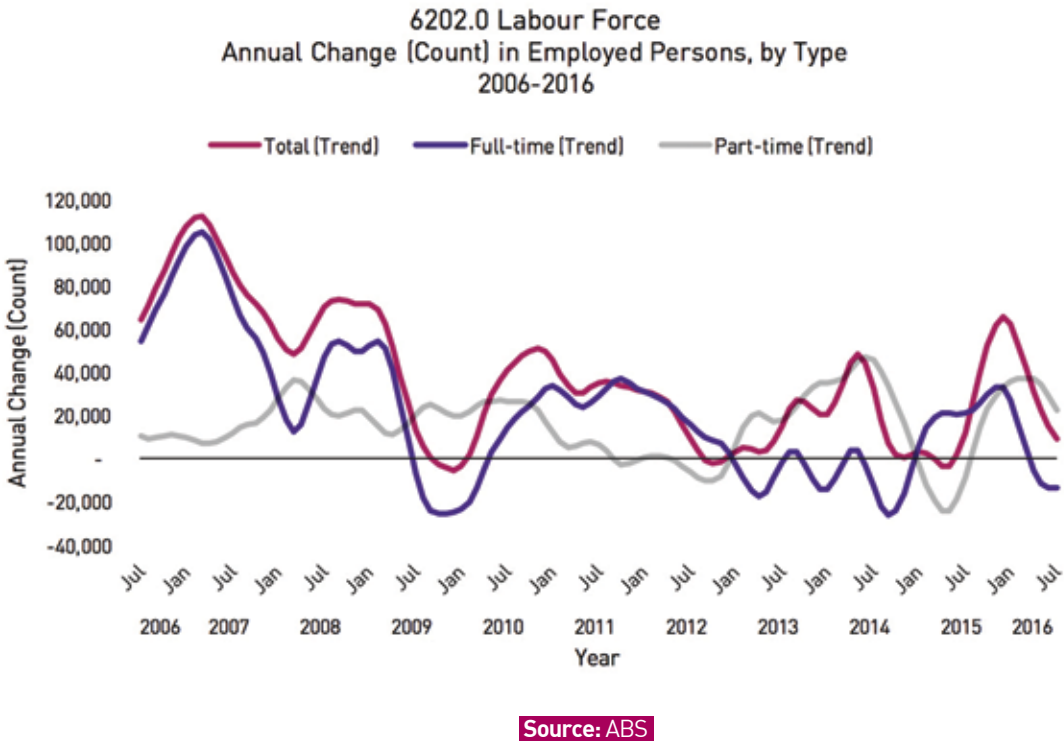
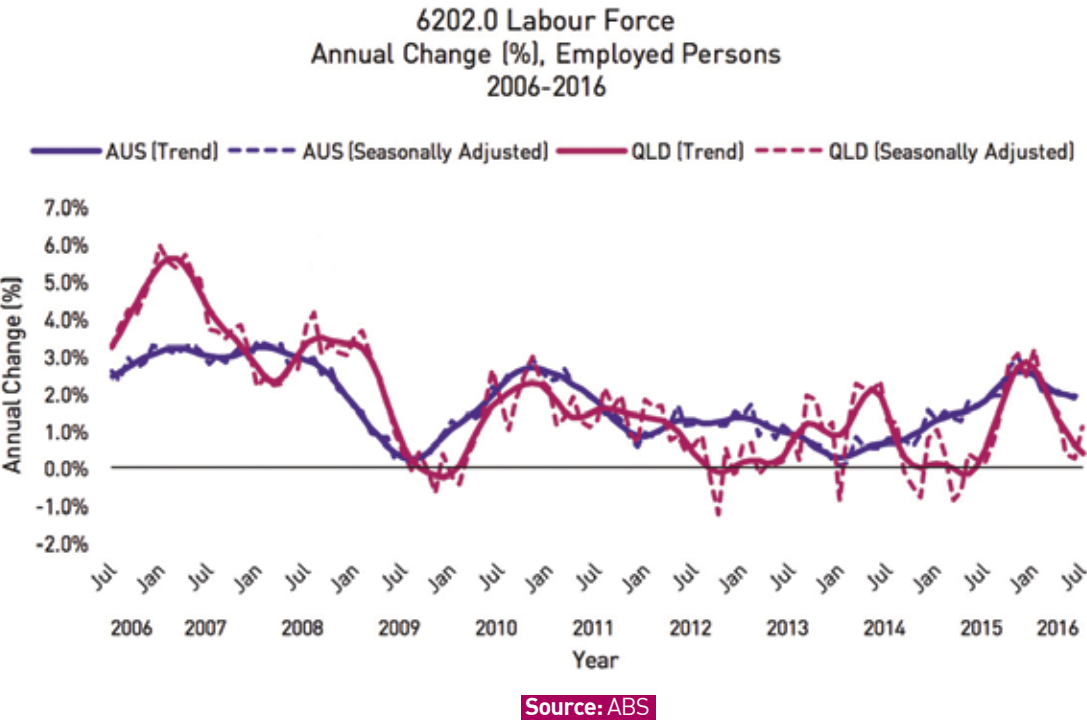


Source: ABS

The conditions are more challenging in regional Queensland, with the impact of unemployment being disproportionately experienced by Townsville (9.7 per cent), Wide Bay (9.1 per cent) and Cairns (8.6 per cent). These parts of Queensland are making the greatest contribution to the overall unemployment rate at present, which has been diverging from the national trend since August 2015.



At a state level, the growth in employed people has declined significantly since a peak of 2.8 per cent in December 2015, and is currently at 0.4 percent. This compares to a change in national employment levels of 1.8 per cent in trend terms.



Further, internet job vacancy figures indicate that increases in the number of vacant roles being advertised are largely concentrated within the South-East corner. Improvements in employment levels have been most evident in Toowoomba and the Sunshine Coast, where the number of online job advertisements have increased by 19.7 per cent and 16.9 per cent respectively, compared with the same time last year. Comparatively, job vacancies have increased by just 3.6 percent for all of Queensland, across the same time period.

Based on the combined measures of lower unemployment rates, and increasing levels of advertised jobs, it does appear that labour market conditions are currently stronger in South-East Queensland relative to the rest of the state. This finding is supported by the recently published Suncorp Group CCIQ Pulse Survey released in late July, which also indicates that business conditions are currently better in the South-East relative to the regional Queensland, with businesses in this part of the state more likely to be increasing employment levels.

Analysis of employment growth by type, highlights that much of the recent improvement in the overall workforce has been driven by an increase in part-time positions. For the past four months, the number of full-time positions in Queensland have been declining, compared with the same time last year.

Comparatively, part-time positions, although beginning to contract in trend terms, have been making a significant contribution to minimising further increases in total unemployment across Queensland.

“ Queensland’s unemployment rate of 6.3% sits significantly higher than the national rate of 5.7%

Nick Behrens - CCIQ , General Manager, Advocacy.

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“Increasingly RBA rate cuts are proving ineffective as boosting discretionary spending as consumers are opting to save or pay down debt.”

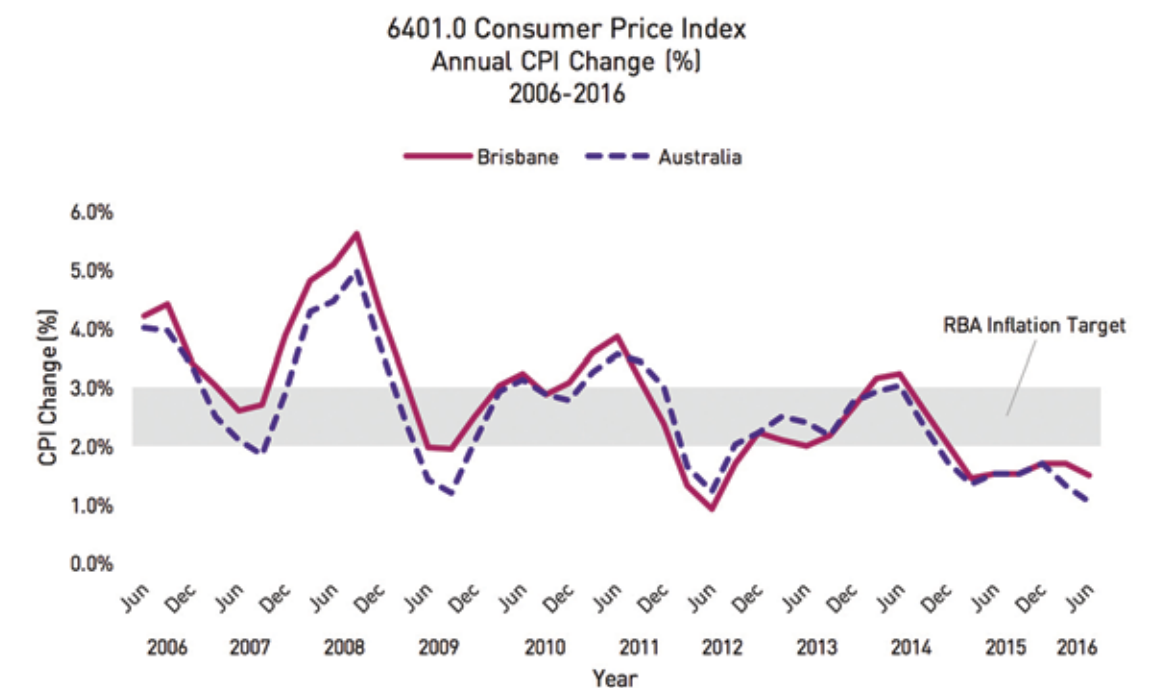
Nick Behrens - CCIQ, General Manager, Advocacy.

“If anything rate cuts are cementing the perception that the economy is underperforming which is undermining confidence”

Nick Behrens - CCIQ, General Manager, Advocacy.

3. CPI and RBA cash rate

The cash rate is now at its lowest level on record following the RBA Board cutting the official cash rate by 25 basis points to 1.50 per cent at its August meeting. While the intention is to boost consumer spending by removing the financial pressure on households and encouraging a release of discretionary income, it is unclear if this is having a meaningful impact on reducing caution in consumer spending. Recent evidence suggests that rate cuts are becoming increasingly ineffective in producing improvements in consumer spending in Queensland with discretionary income being directed towards debt reduction and household savings, instead of spending on goods and services.



Source: ABS

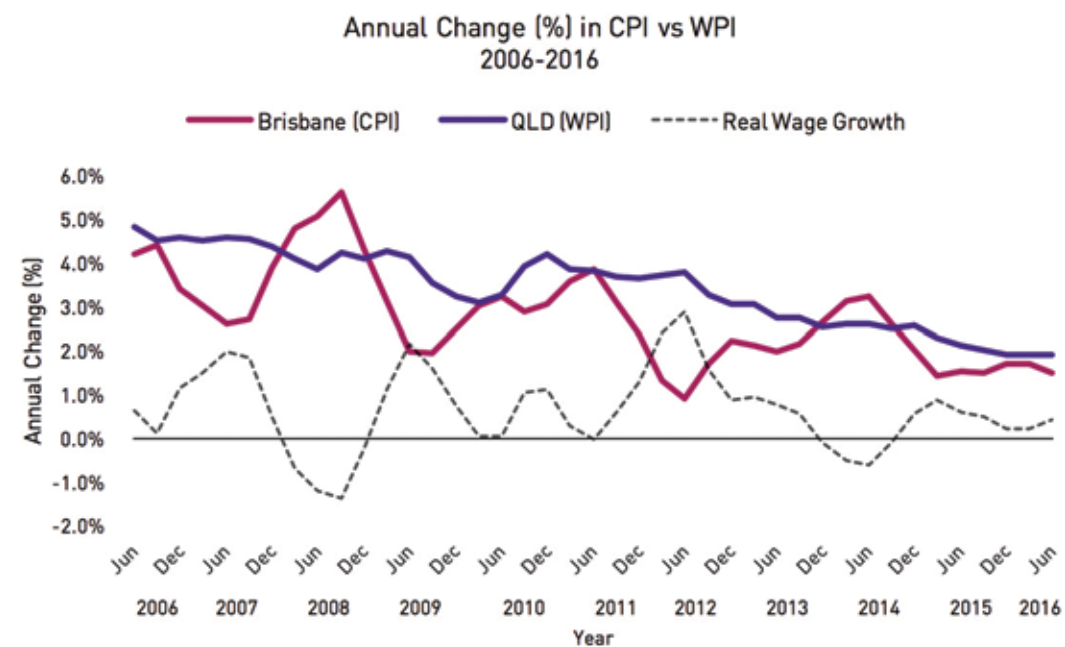
Until consumer spending improves it will be difficult to achieve the RBA inflation target of between 2-3 per cent. With inflation being below the RBA target since late 2014, despite four reductions in the cash rate during this time period, it appears that improvements in the rate of inflation may be limited until debt levels can be reduced within the community.

The Suncorp Group CCIQ Pulse Survey, indicates that any reductions in variable loan rates, which are flowing through to home owners and some businesses are being directed into household savings and debt retirement, as opposed to an increase in spending. For this reason, rate cuts are not presently producing any material benefits for businesses in Queensland. Uncertainty surrounding the labour market and future earning potential, as well as existing levels of household debt, are restricting the capacity of many people to take on more borrowings or spend household savings, which could provide some stimulus to the economy. 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.

4. Wage growth

Recent wage price index data released by the Australian Bureau of Statistics (ABS) highlights the sustained decline in the growth of wages both at a state and national level, with the wage price index reflecting the current performance of Queensland's economy. In the June Quarter, the annual change of wages in Queensland was 1.9 per cent, while nationally the figure was slightly higher at 2.1 per cent. Significantly, this is the softest wage growth on record and highlights the limited scope that businesses have in the prevailing market to increase prices.

When compared with current rates of inflation however, it is encouraging that even at these low levels, wages continue to rise at a faster rate than the cost of goods and services, confirming that real wages are increasing in Queensland, if only at a rate of 0.4 per cent.

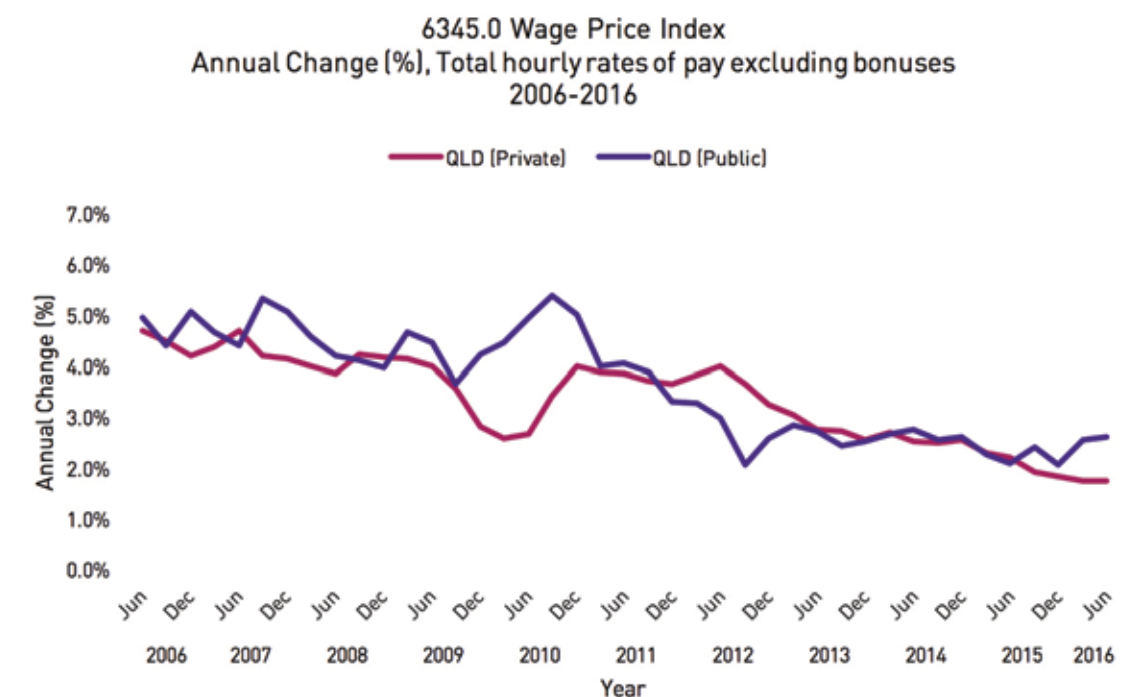


Source: ABS, 6345.0 Wage Price Index & 6401.0 Consumer Price Index

“The rise in spare capacity across the Queensland workforce continues to produce a slowdown in wage growth.”

Cameron Meiklejohn - CCIQ, Policy Analyst, Advocacy.

Analysis of industry sectors indicate that while wage growth continues to contract in the private sector, which at 1.7 per cent is the lowest rate on record, wages in the public sector are growing by 2.6 per cent.



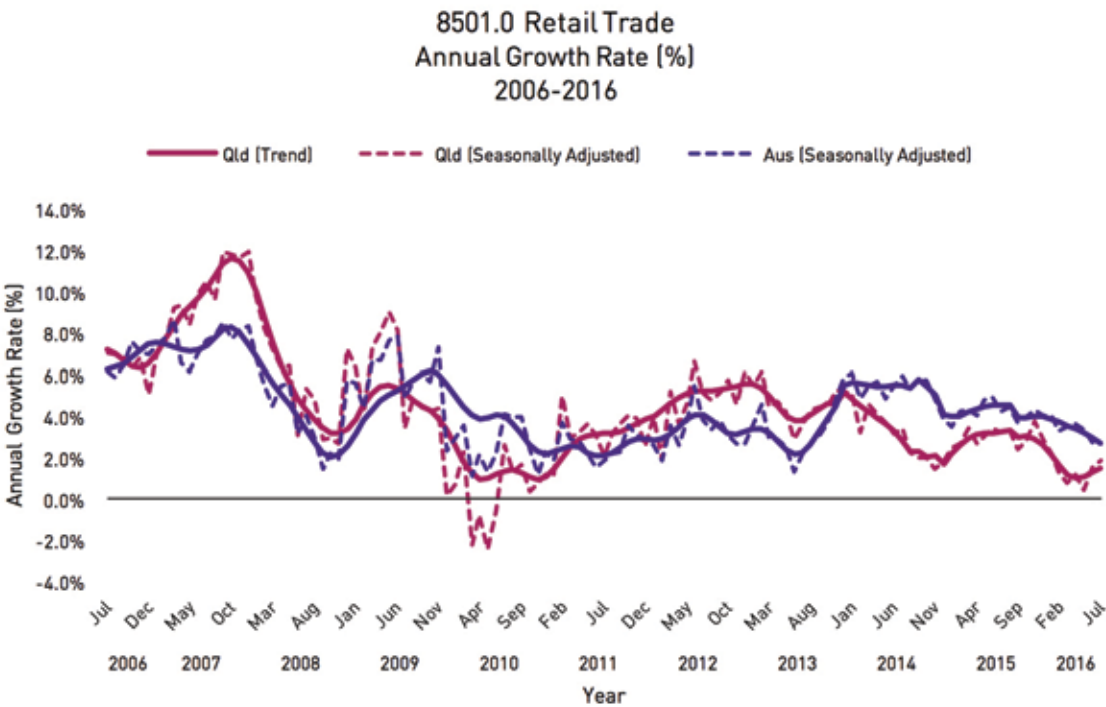
Source: ABS

While the private sector continues to experience a moderation in wage growth, expansion in expenditure on the public service raises concerns as to how this current rise in employee-related expenses will be funded without any impact on the State Budget.

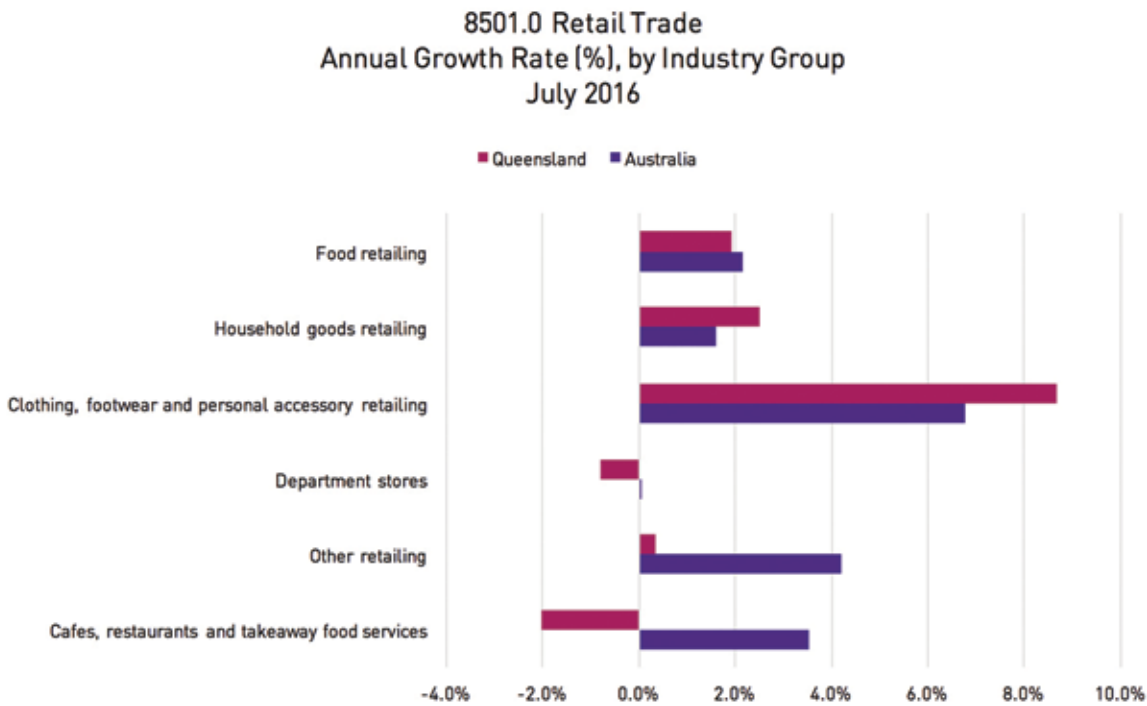


5. Retail

The level of caution in economic spend, and relatively small growth in real wages is most evident in the recent performance of the Queensland retail industry, which is experiencing the low levels of sales growth. The annual growth rate improved by just 1.5 per cent in trend terms in July, compared with 2.7 per cent at nationally. While caution in customer spending and the softest wages growth on record is having an impact across most retail categories, clothing, footwear and personal accessories continues to produce above average results in Queensland.



Source: ABS



Source: ABS

The annual growth of the clothing, footwear and personal accessories category increased by 0.6 percentage points in July, and with an annual growth rate of 8.7 per cent in trend terms, it remains well above the ten-year average of 0.9 per cent. Encouragingly, it is also growing at a larger rate than the national average, which is currently 6.8 per cent in trend terms.

Spend within the cafes, restaurants and catering category has experienced the most significant decline in annual growth with sales being 2.0 per cent lower in July 2016, compared with July 2015. Representing what is possibly the most discretionary category of retail spending, this contraction further highlights the caution currently being exercised by Queenslanders, and a likely indicator that an increasing proportion of available income is being held back by households.

Further, as growth in consumer spending diminishes, competition in the retail industry is increasing as businesses seek to maintain existing market share. As indicated in the most recent Suncorp Group CCIQ Pulse Survey, the fear of losing customers is preventing many businesses from lifting prices, despite the rising costs of running a small business. Combined with aggressive pricing, and product clearance tactics by competitors, businesses in the sector are experiencing significant strain at present.

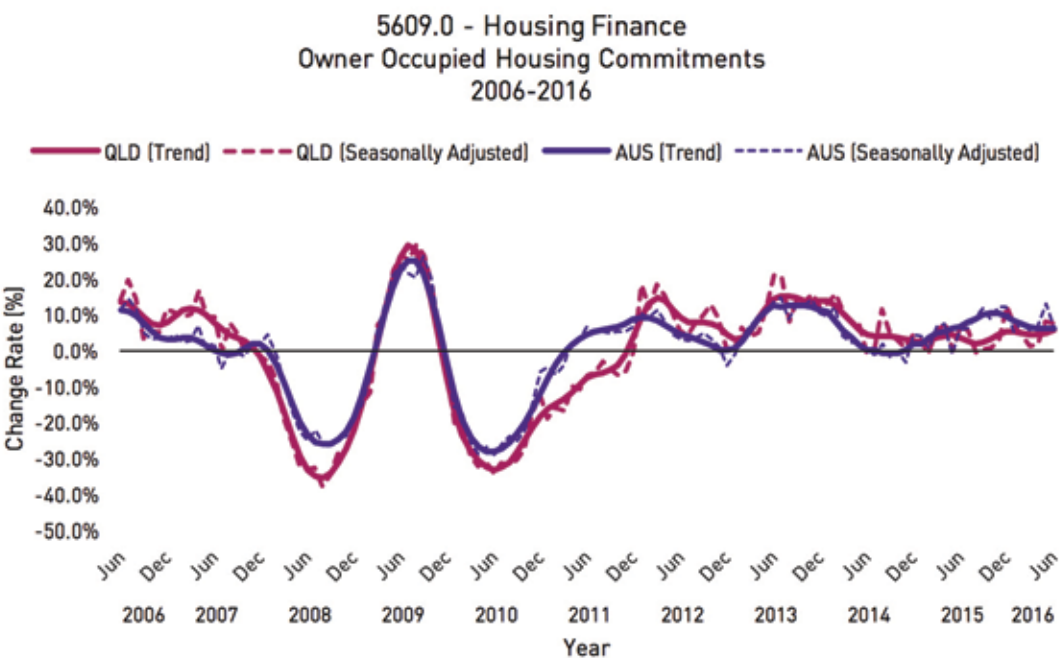
While there is some indication that the trend will improve across the coming months, it is unlikely that performance will accelerate at a sufficient pace before the critical Christmas trading period.

“ With annual growth in retail turnover at low levels, consumer spending will likely still be soft when the critical Christmas sales period begins in the second half of November. ”

Cameron Meiklejohn
CCIQ Policy Analyst

6. Housing finance and building approvals

After experiencing a low of 2.0 per cent in the annual change in housing finance commitments, there has been a steady increase in the number of owner-occupiers securing finance in Queensland which is currently at an annual growth rate of 5.8 per cent in trend terms. Despite a slight contraction in finance commitments in the first quarter of 2016, growth is well above the ten-year average of -0.6 per cent. The rate of housing commitments by owner occupiers in Queensland is also further converging with the Australian figure, which has been falling since the most recent peak of 10.5 per cent in October 2015. Soft conditions in New South Wales are having a particularly strong impact on the national figure at present.



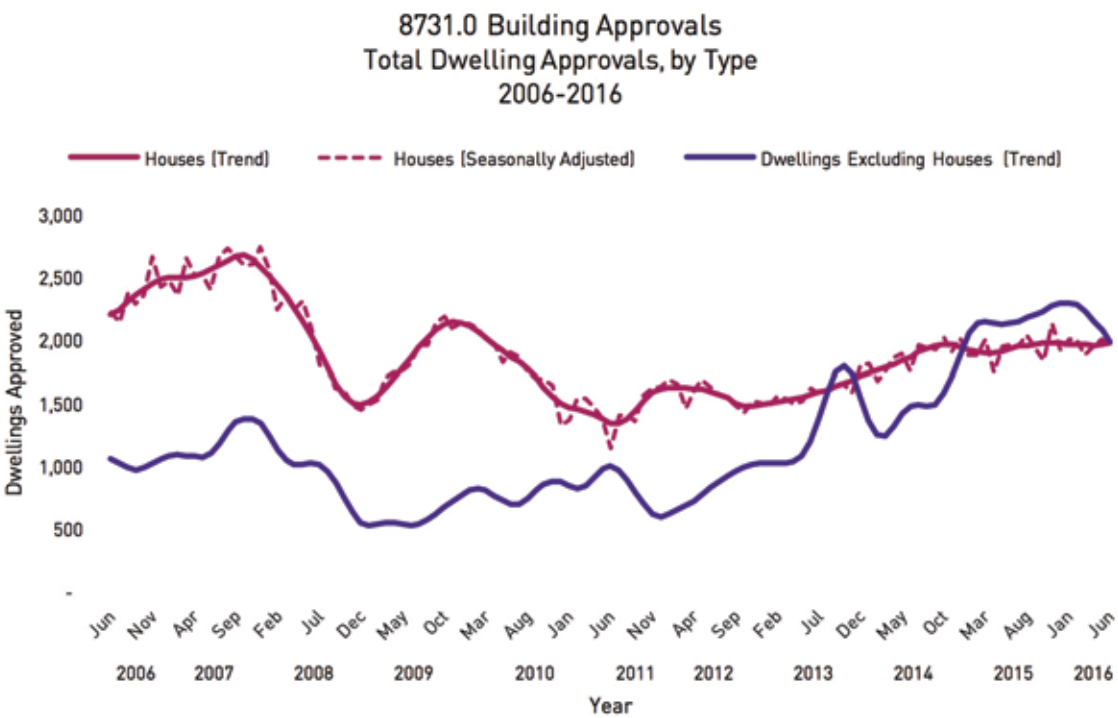
Source: ABS



Importantly, housing commitments are still growing, which is some indication that rather than experiencing a property “bubble”, it is increasingly likely that the shift in market conditions will be experienced as a gradual easing.

While the number of housing commitments by owner occupiers is well below the conditions that were evident in the second half of 2013, the rising number of new commitments should provide some optimism across a number of industry sectors. Specifically, real estate, finance, and household goods retailers should continue to experience some benefit in sales and revenue growth, providing that there is ongoing churn in residential property across the state.

In terms of construction, the annual change in new dwelling approvals has experienced a further decline in trend terms since the high point of 34.8 per cent, recorded in March 2015. The decline, predominantly driven by a fall in the number of approvals for non-house dwellings, is further evidence of the known consolidation in the home building sector, especially in unit developments, across South-East Queensland.

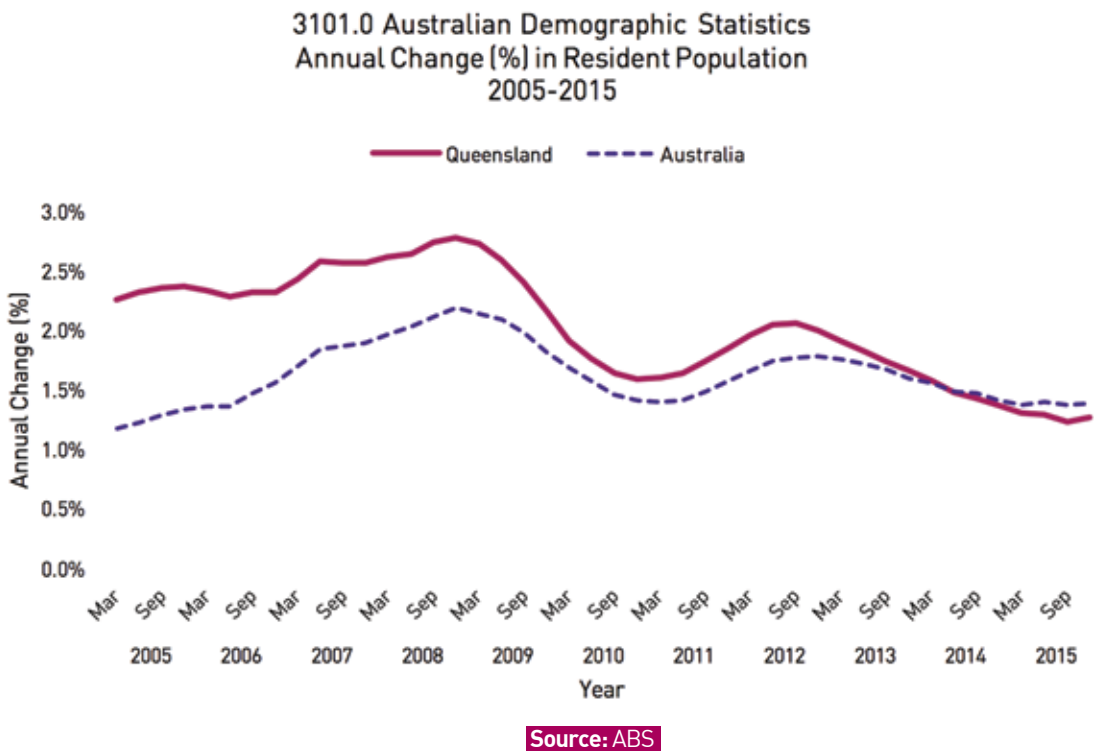


Source: ABS

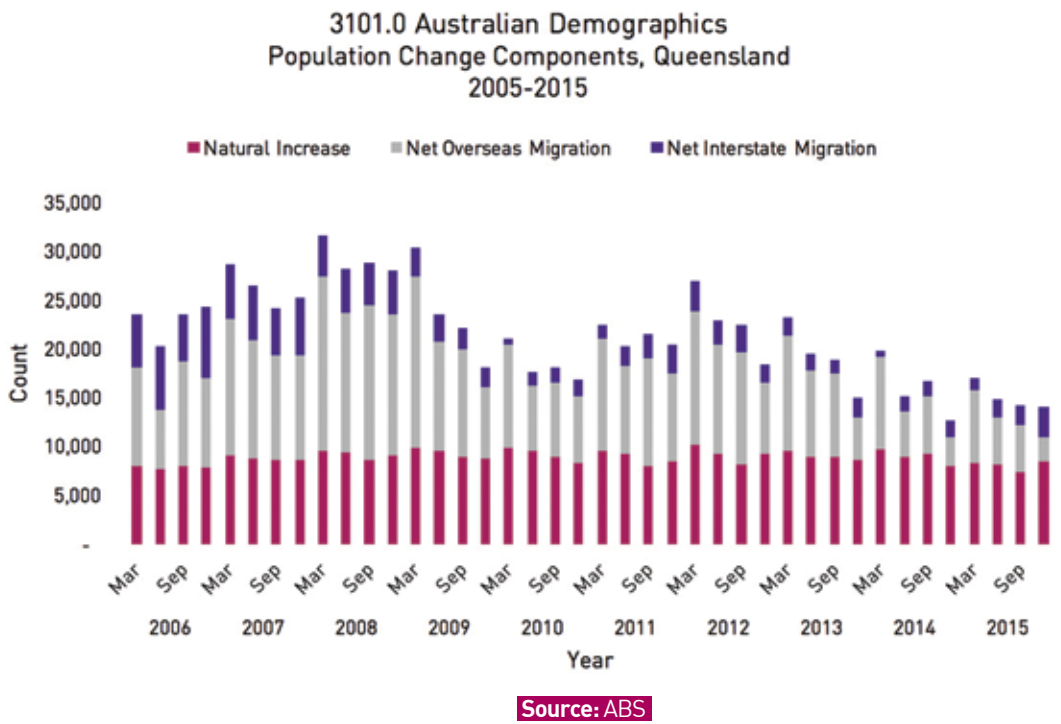
Recent restrictions in lending for some parts of Inner-Brisbane City and Far North Queensland suggest that the current supply of new apartments is beginning to exceed demand, in turn, reducing the requirement for new developments in the second half of 2016. Despite the decline in approvals and a tightening of lending in some parts of the state, approval levels for new dwellings still remain above the ten-year trend average and continues to be one of the better performing indicators of the Queensland economy.

7. Population

Shifts in population are also important in understanding current economic performance, especially when considering its impact on retail sales and the property market. An expanding population provides some level of assurance that the demand for goods and services, and housing, will continue to rise. Growth in Queensland’s population has been slowing, which is likely having some influence on growth in retail sales as well as the ability to find tenants, as the number of newly constructed apartments, especially in inner Brisbane, continue to rise. As indicated in the CoreLogic July Rental Index Results, rents across all property types have fallen by 1.0 per cent in Brisbane across the past twelve months, with rental rates for units falling by 1.3 per cent. Driven by an increase in supply from new dwelling construction, it is also important to note that the contraction in population growth is also creating less overall demand for housing. At present, the resident population of Queensland is growing at a slower rate than the rest of Australia, contracting from a peak of 2.1 per cent annual change in September 2012, to 1.3 per cent at the conclusion of 2015.



Much of this contraction has come from a decline in overseas migration, which peaked in 2008. Across this time period, interstate migration has also declined, with natural increase becoming the most significant contributor to population growth in Queensland, accounting for more than half of the net increase in population size. Similar to other factors, there is a clear distinction to be made between South-East Queensland and the rest of the state, with the populations of Ipswich (2.3%), Gold Coast (1.8%), Sunshine Coast (1.6%) and Brisbane (1.4%) all growing at a faster rate than the Queensland average.



8. Summary

Overall, the key economic indicators that have been released across the past month highlight that the Queensland economy has turned a corner, however, there is still room for improvement in many areas. The level of caution being exercised by consumers, as indicated by weak retail spending and household consumption is indicative of the soft conditions currently being experienced by businesses in many sectors of the economy. While the rise in State Final Demand is welcomed, it is also important to indicate that it will take some time for this to transfer through to improved labour market conditions, with the Queensland unemployment rate remaining steady at 6.3 per cent, and well above the national average. While indicators do suggest improving conditions, there is still further work required in restoring confidence in the economy, and encouraging a return to spending on goods and services. This is still required if there is to be a sustained improvement in profitability across Queensland businesses that will enable further improvements in both private sector investment and job creation.

QUEENSLAND
ECONOMY: KEY
ECONOMIC
INDICATORS

Indicator	Latest Release	Rate	Change
State Final Demand	Jun (Q)	0.7%	↑
Unemployment Rate (Trend)	Jul (M)	6.3%	—
Headline CPI	Jun (Q)	1.5%	↓
Retail Trade	Jul (M)	1.5%	↑
Building Approvals	Jul (M)	-1.9%	↓
Residential Property Price Index	Mar (Q)	4.1%	↓
Estimated Resident Population	Jun (Q)	1.3%	↑
Exchange Rate (A\$-US\$)	Aug (M)	75.1c	↑
CCIQ Pulse Survey 12-Month Outlook	Jun (Q)	42.3	—



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