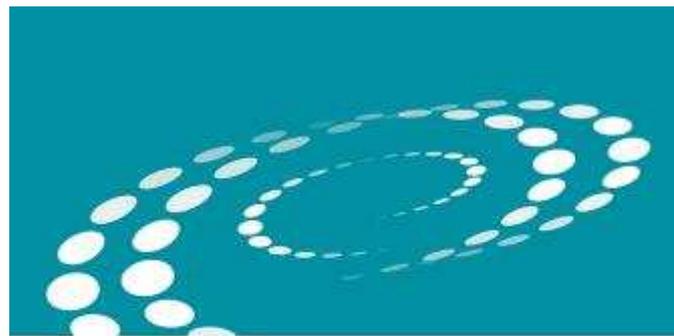




# The CONUS Quarterly

Vol. VII - Issue 4 - Dec 2015



CONUS

Business Consultancy Services



in this issue.....

## 3rd Quarter 2015 GDP

Page 3

Stronger growth driven by net exports

## FNQ Economy Roundup

Page 4

A detailed look at the economy in our own region

### Editor's Note

This quarter we take another look at how the economy in our own Far North is tracking together with some discussion about the growth story in Queensland generally.

Our [Economics Blog](#) is freely available and will keep you up-to-date with all the latest news as it relates to the FNQ economy. Comments on the blog are often the catalyst to further analysis and discussion, so if there are subjects that you would like to see covered in more depth in The CONUS Quarterly please let me know either by email or via the comments section of the blog.

Happy Christmas to all our readers!

Conus Business Consultancy Services

PO Box 441

Mission Beach

QLD 4852

[www.conus.com.au](http://www.conus.com.au) Ruth: 0419 697901 Pete: 0439 490088

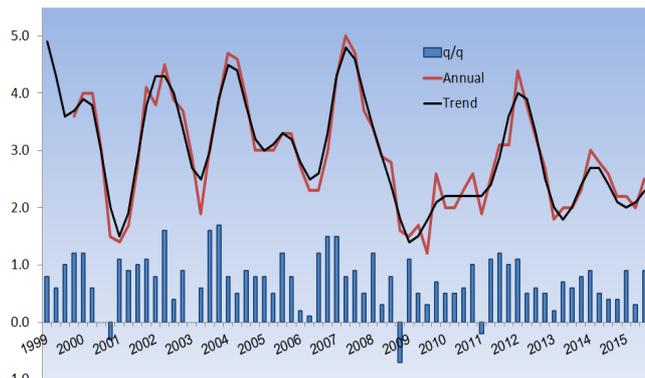
# 3rd Quarter Australian GDP

The second quarter GDP was revised slightly higher (+0.3% from +0.2%) while third quarter GDP was stronger than expected; the end result an annual GDP growth rate of 2.5%. Real GDP on the third quarter was up by 0.9% for the quarter.

As we noted yesterday upon the release of the Balance of Payments data, Net Exports were the main source of growth (after having been the main drag last quarter), adding 1.5 ppts to GDP. Household consumption (the major component of GDP) added another 0.4 ppts i.e. at a similar level to where it has sat for the past couple of years. The biggest negative for growth was fixed capital formation (investment) both at the private (-0.7 ppts) and public (-0.4) level.

With the mining investment boom well and truly over (the expected CAPEX data released a few days ago makes that perfectly clear) if we are to see growth return to something closer to its long term average (say 3%) then we have to see household consumption taking up much of the slack.

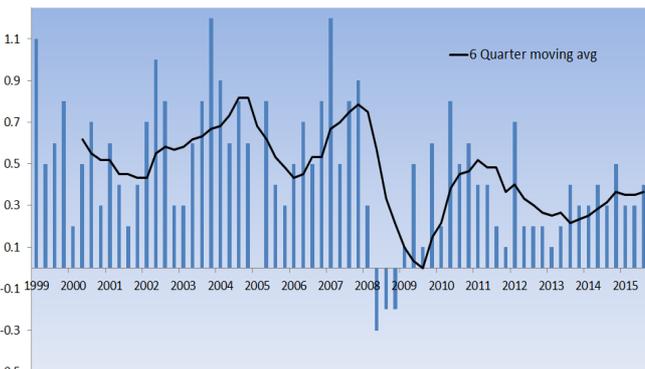
GDP



Source: Australian Bureau of Statistics

While private investment in the non-mining sector will also have a positive impact, the data suggests that it is simply not happening at anything like the scale required to offset the fall from the mining sector. As the chart below demonstrates, household consumption, while holding up relatively well, needs to be stronger if we are to see trend growth in coming months and years.

Household Consumption Contribution to GDP



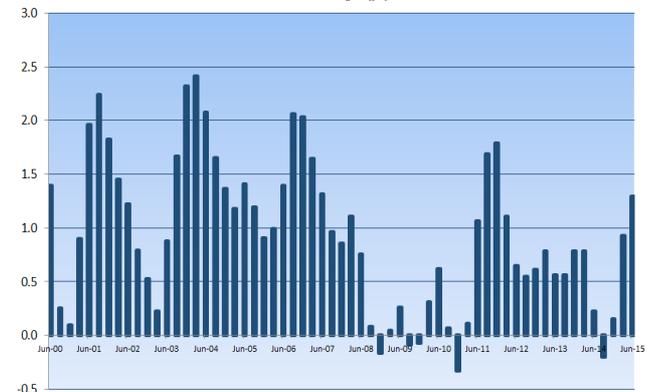
Source: Australian Bureau of Statistics

For the fifth consecutive quarter the State Final Demand data shows Queensland having gone backwards. The third quarter saw a 0.2% fall for an annual rate of -2.5%

State Final Demand does not account for the impact of net exports from the state (both to other states as well as internationally), so tends to understate economic growth for a resource exporting state such as Queensland.

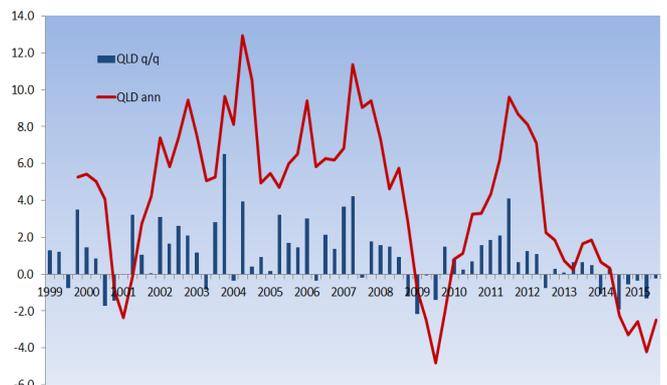
The recent release by the ABS of the 2014-15 Gross State Product data showed Queensland grew by just 0.5% in the year (down from 2.8% in the previous financial year). See the next page for more details. However, the Queensland Treasury produced quarterly data showed GSP up by 0.9% in Q1 and another 1.3% in Q2 which would suggest that the worst of the slowdown was in the last two quarters of 2014. Indeed at the time of the release of the Q4 data back in May there was talk that Queensland had been in a "technical recession" with negative growth results in both Q3 and Q4. In fact, after revisions, and as the chart below makes clear, growth only dipped into negative territory in the third quarter so recession was avoided. The resources exports on which QLD's growth will be so reliant are now coming on stream and this is reflected in the stronger Gross State Product numbers but, being international exports, they do not show up in the weaker State Final Demand numbers.

QLD Gross State Product % change q/q



Source: Queensland Treasury

QLD State Final Demand



Source: Australian Bureau of Statistics

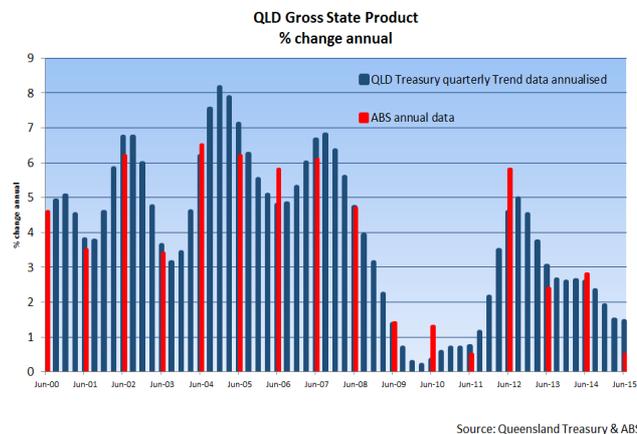
# FNQ Economy Roundup

Since our previous Conus Quarterly we have seen the release of both the ABS annual Gross State Product and Queensland Treasury quarterly Gross State Product data. They tell slightly different stories so we shall first take a look at these.

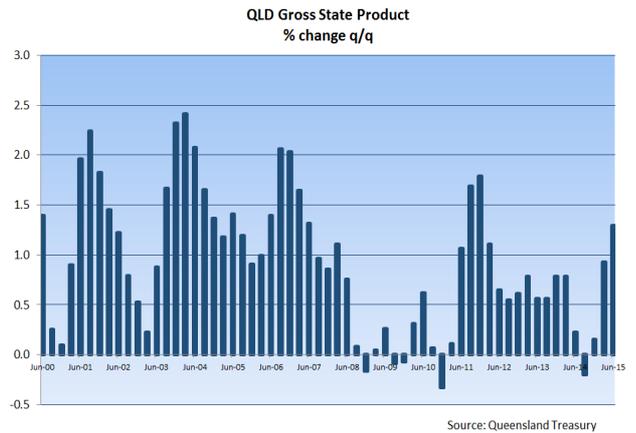
Although the ABS only produce their data for the states on an annual basis, the Queensland Treasury produces their own measure (on both a seasonally adjusted and trend basis) on a quarterly schedule. In the past there has been some discussion about which set of data we should take as “the truth” and the answer to that question has often tended to depend on the political expediency at the time (witness discussion in May about whether the Treasury data suggested QLD had been in a technical recession in the latter part of 2014).

The most recent ABS data showed the QLD economy having grown by just 0.5% over the 2014-15 year, after growth of 2.8% in the previous year. This was jumped on by the LNP opposition as demonstrating that the Labor government were killing growth, while Curtis Pitt countered that the data actually related to 8 months of LNP control and just 4 months under Labor. Pitt also highlighted the fact that the Treasury GSP numbers showed growth of 1.3% q/q for the second quarter of the year (and +0.9% in Q1 under the LNP after a series of poor results in Q2, Q3 and Q4 last year). Both of these points were valid.

The first chart below shows the annual GSP growth as per the ABS chain volume data and the annualised quarterly GSP data from the Queensland Treasury. What we see is a general similarity in the pattern (as you would expect) with some notable variations. One such variation relates to the 2014-15 year where the ABS has growth of just 0.5% while the Treasury data would suggest annualised growth of 1.5% (and therefore quite a different story depending on which side of the political fence you sit!). Despite the claims and counter-claims about the Treasury data back in May, it is now clear that the ABS data is significantly weaker still.



The second chart also makes it clear that, after revisions, even the Treasury data does now NOT indicate a technical recession in the latter part of 2014. Only one quarter (Q3) showed negative.

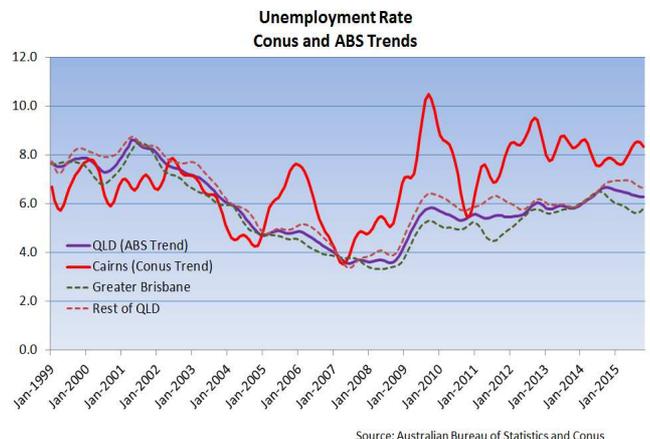


The variations in these two measures are, in part at least, caused by the fact that the Treasury adjust *State Gross Expenditure* by net exports, both international and interstate, while the ABS adjust *State Final Demand* by international net exports.

Whichever measure we care to consider, there can be no doubt that the slowdown in mining investment has dramatically slowed economic growth in Queensland and recent CAPEX data (see our blog for details) indicates that position is unlikely to change anytime soon.

## Employment

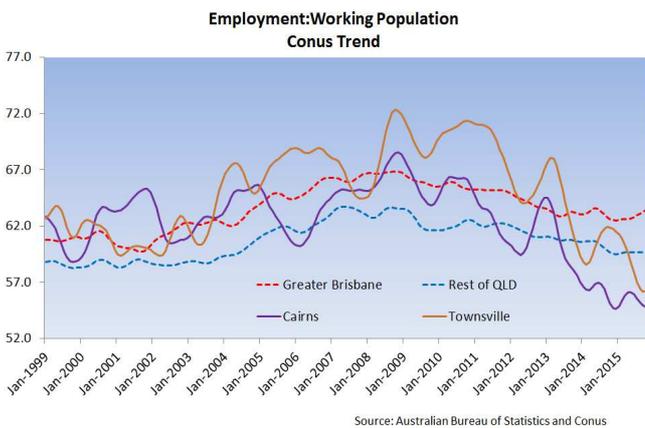
The state of the labour market in our region has shown no signs of real improvement over the past quarter. The ABS only produce unadjusted data for the SA4 areas so we must instead focus on the Conus Trend. The Cairns SA4 area (which includes the Cassowary Coast and the Tablelands as well as Cairns and Douglas) had a Trend unemployment rate of 8.3% in October which is well above the Trend rate for the state (6.3%) and the fourth highest rate of any of the Queensland SA4 regions (only Queensland Outback, 9.9%, Wide Bay and Fitzroy, both 9.4%, are higher).



However, the unemployment rate can never tell us the whole story with regard to the labour market. In our commentary last quarter we made note of the fact that part of

# FNQ Economy Roundup cont..

the reason for the increase in the unemployment rate in Cairns could be laid at the door of a higher Participation Rate. As a greater percentage of the available working age population join the work force there is a tendency for the unemployment rate to move up more (or move down less) than would otherwise be the case. However, over the past quarter that trend to higher Participation has reversed. The Trend Participation Rate in Cairns has now been falling since June (after some revisions) and currently sits at 59.9; down from 61 in May. This decline in Participation has actually kept the unemployment rate lower than would otherwise be the case.



Over the course of the past 12 months the Trend number employed has increased by just 500 despite the ongoing increases in population. One way of stripping out the “PR effect” is by considering the proportion of the working age population who are in work. The graph above shows us that data for both Cairns and Townsville. What we see is that the situation for both areas is weak. Townsville in particular has seen a significant worsening of their labour market in the past two years with both regions now well below the average for areas outside of Brisbane. The position in Cairns has weakened again after showing some signs of recovery earlier this year.

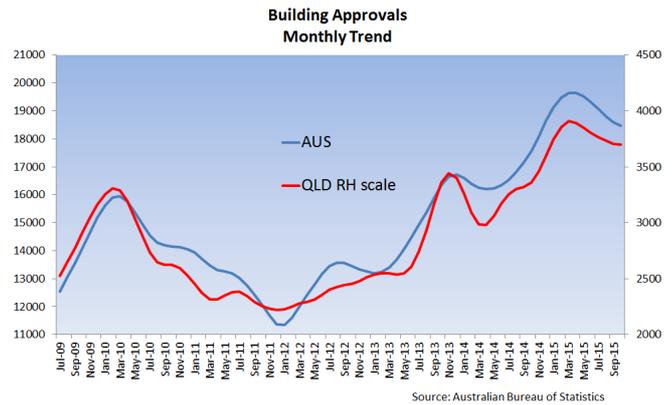
Data for Local Government areas is provided by the Dept. of Employment on a quarterly basis; data for the September quarter will be released in mid-December. The latest Dept. of Employment data for the June quarter gives the unemployment rates in the Local Government Areas as Cairns, 7.1%, Cassowary Coast 7.6% and Townsville 8.2%. Given the fact that our Trend data for the Cairns SA4 is virtually unchanged since June we would not expect the September quarter Dept. of Employment numbers to be much changed from these.

## Building Approvals

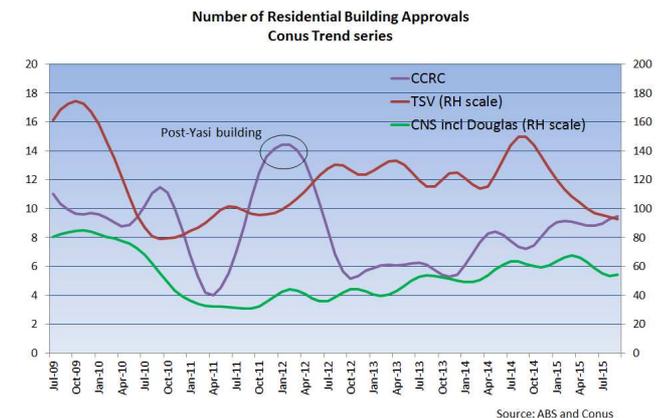
Residential building approvals are often cited as a good indicator of economic strength. The chart below tracks the Trend series for both Australia and Queensland. The Trend data irons out much of the volatility which can be caused in this data due to the monthly distortions caused by unit approvals, which can be very “lumpy”.

As we can see, the trend in recent months has been a grad-

ual decline with approvals at both State and National level showing falls since March of this year. The declines at a State level however have been slightly less dramatic than nationally. In QLD Trend approvals are up about 10% on the year whereas at the national level the increase is just 5%. This relative resilience in the building approvals data for Queensland is one of the reasons that state growth has not been weaker in the face of the mining investment slow-down (as discussed earlier).



Unfortunately, as is the case with regional employment data, the ABS only produce the building approvals data for the Local Government Areas as an unadjusted series. This can be highly volatile, as one might imagine, so we have developed the Conus Trend series for building approvals in Cairns (which also includes the new Douglas Shire), the Cassowary Coast and Townsville Local Government Areas. The regional building approvals data for Oct is not released until next week.



When considering the regional picture we can see that (to Sept) building approvals in Cairns (which in this case also includes the Douglas Shire to allow for comparisons with pre-de-amalgamation) had been on a fairly steady upward trajectory for almost 4 years until about March this year. Since then Trend approvals has drifted somewhat lower and are now down 12% from a year earlier. There was some slight improvement witnessed in last month’s data, so we shall be watching the release of Oct data next week with interest to see if that trend can be replicated.

# FNQ Economy Roundup cont..

The Cassowary Coast has seen good increases over the past few years (albeit from a very low base) with the Trend now showing a 30.8% increase since Sept 2014.

Unfortunately things have not been so positive in Townsville. The deterioration in the approvals data from Townsville has continued and we now see Trend approvals down to a level not seen in more than 4 1/2 years; and down 37.9% from a year ago.

## Tourism

Over the 12 months to Sept 2015 international arrivals were up 6.6% (according to the data from Tourism Research Australia). Both international and domestic tourism are seeing a period of sustained growth and both are now at record levels.

The weaker A\$ has not only made Australia more attractive to international visitors, but it has also slowed the growth in international travel by Aussies. More of us are now opting to holiday a home and the effect is that domestic visitor numbers were up 5.2% for the year to June 2015 (latest domestic data).

China as a very important market for the region, the numbers coming are still nowhere near the levels of Japanese seen in the early part of the 2000s. Indeed they have only recently overtaken the levels of Brits that we saw in 2004.

From low bases we are seeing numbers from the US, UK and Europe starting to show reasonable gains. Over the past three years numbers from the UK are up 23% while the US has seen growth in excess of 18%.

The improvement in total numbers coming to TNQ is very welcomed although for the year to Sept 2015 international visitors as a whole were only up 4.1% (a much slower pace than is the case nationally); we remain well below the level of visitors seen a decade ago. For the year to Sept 2005 the region welcomed 845,000 international visitors; by Sept 2015 that had fallen to just 756,000 (a decline of 10.5%).

During that decade the total number of international visitors to Australia has risen by 32.5%; clearly the Tropical North has suffered a huge decline in our share of the international market. This decline in TNQ has impacted on the results for Queensland as a whole where we see international visitor numbers up by just 4.9% over the decade

Fortunately when we consider the domestic market the picture for TNQ looks brighter. While the number of domestic tourists nationally for the year to June 2015 rose by 5.2%, in TNQ the equivalent increase was 10.6%. In recent months the domestic market to TNQ has seen significant improvements and this has helped to lift TNQ's share of the domestic market to levels not seen for a few years. We await the Sept quarter domestic visitor data in a fortnight with great interest.

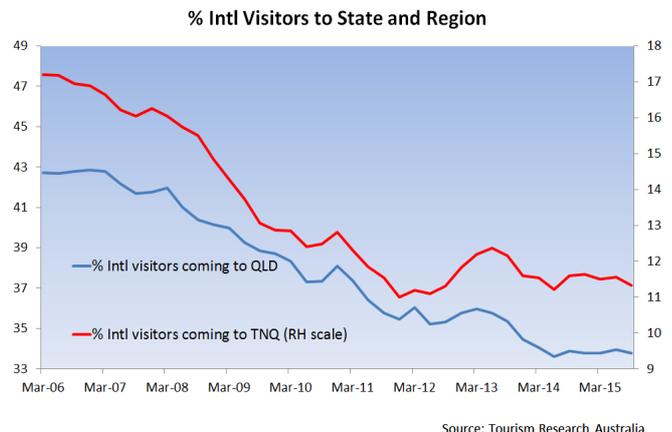
The emergence of the Chinese market in the past few years has slowed the decline in TNQ's share of the international market. But, as the chart below demonstrates, there is no sign yet of a meaningful recovery.



The growth in the Chinese market has been a major contributor to the growth in international visitors for some time. Indeed in the past 3 years the number of Chinese visitors to Australia has grown by about 56% to currently sit just below 900,000 for the year to Sept 2015.

In TNQ Chinese growth has been a major factor, as the chart above clearly demonstrates. Over the past three years Chinese visitors to TNQ have grown by 65%; although the pace of growth has slowed recently and in the past year we have only seen 12% growth.

The chart above highlights that, despite the emergence of



This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document to be used or considered as investment advice

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgment on the date of this document and are subject to change without notice. Conus Business Consultancy Services disclaims any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.