The CONUS Quarterly

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CONUS

Business Consultancy Services

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in this issue……

Editor's Note

This quarter we take a look at how the economy in our own Far North is tracking.

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.

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1st Quarter Australian GDP

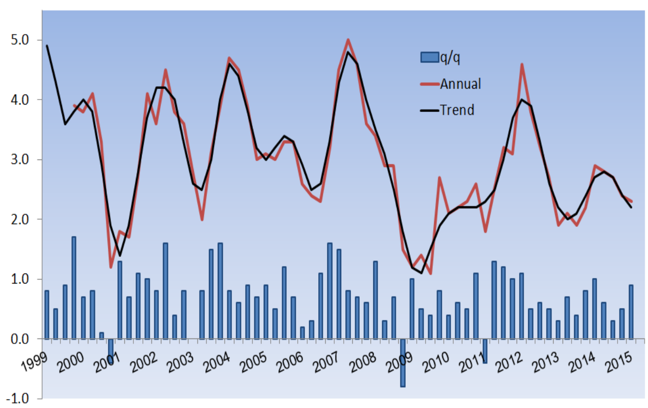
First quarter GDP growth has come in well above expectations and the result has seen a modest spike up in the value of the A$ as the markets begin to discount further rate cuts from the RBA.

The seasonally adjusted data showed Q1 GDP grew by 0.9% q/q (against expectations of a 0.7% lift); this translates to a 2.3% annual rate (expected +2.1%). Despite the stronger than expected number the result is still the slowest GDP annual growth rate since Q4 2013.

The major components of growth were Net Exports (which added 0.7 ppts) and household expenditure (adding 0.3 ppts). Deductions from growth came from capital expenditure, both public and private. Private CAPEX deducted 0.2 ppts while Public CAPEX removed a further 0.1 ppts.

Household consumption (which is by far the largest single component of GDP) grew at just 0.5% q/q; this leaves

GDP

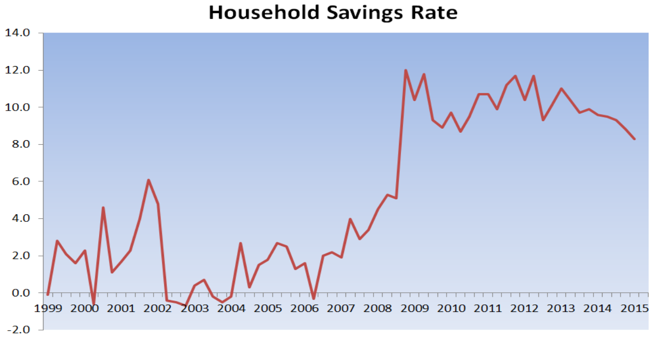


Source: Australian Bureau of Statistics

household consumption growing at an annual rate of 2.5%, which is where it's been for the past few quarters.

The fact that we are seeing household consumption increasing at a rate faster than GDP growth, and certainly faster than net disposable income which fell 0.2% for the year, would appear to be the reason that we are also seeing a fall in the household saving rate. As the graph below makes clear, the current rate of 8.3% (down from 8.8% last quarter) may be high by historical standards but is at the lowest rate we've seen since the shift in consumer perceptions post-GFC.

Household Savings Rate



Source: ABS

In Queensland we see a return to (very limited) growth in State Final Demand. Indeed the 0.1% q/q increase is so small that it is hard to see on the chart below! (The result for Q4 was also revised slightly better to –0.9% from –1.0%.) Nevertheless this is the first positive result in Queensland for three quarters and brings the annual result to a fall of 2.1% (from –3.2% in the previous quarter).

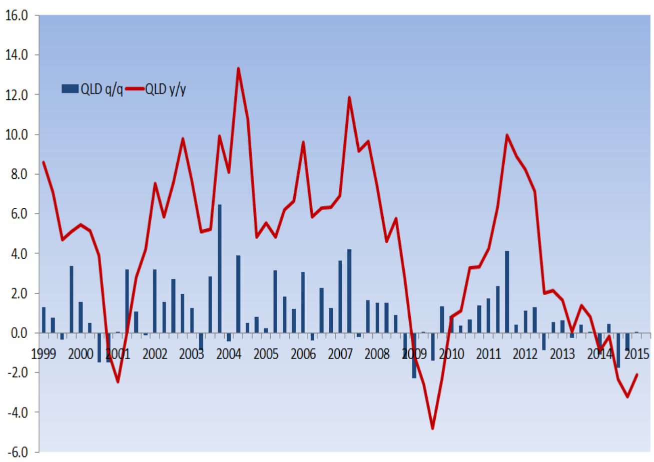
State Final Demand does not account for the impact of net exports from the state (both to other states as well as internationally), so tends to understate economic growth for a resource exporting state such as Queensland. Nevertheless, as followers of Queensland state politics will no doubt be aware, the Gross State Product data (produced only annually by the ABS but estimated quarterly by the QLD Treasury) showed a decline in the last two quarters of last year.

We would expect that a return to growth in State Final Demand will result in a return to positive data for Gross State Product (when the numbers are crunched by QLD Treasury) although it would seem very likely that the previous growth estimates for 2014-15 (+3%) will need to be revised sharply lower in the state Budget in July.

The slowdown in investment in Queensland has been much discussed and it is worth noting that despite Private CAPEX declining by 4.1% this quarter we saw a 6.9% *increase* in Public CAPEX. However, never forget that Public CAPEX is but a fraction of the private sector (at current levels something just less than 25%).

The real engine of growth in Queensland (such as it is) came from the households. Here we saw Household consumption (which accounts for 55% of State Final Demand) increase by a healthy 0.9% for the quarter. As we commented last issue "If Queensland is to see a turn-around in its fortunes then we need to see that coming from the private, rather than the public, sector. As private mining investment slows it is at least encouraging to see moderate growth in household consumption; without it the state would be in dire straits."

QLD Final State Demand



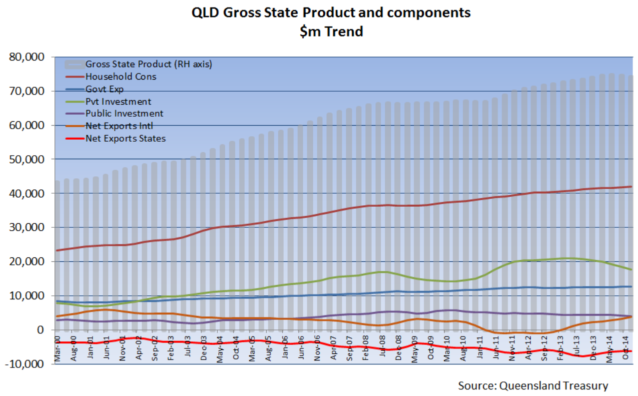
Source: Australian Bureau of Statistics

FNQ Economy Roundup

Last edition we looked in some detail at the Queensland economy, However, it's been 9 months since we look a close look at the FNQ economy and, with a State Budget coming along in a few weeks' time, we thought it was time to do so again.

But before we do that, let's just take a moment to look at the broader QLD economy in the light of Queensland Treasury data for the final two quarters of 2014. A few weeks ago a political firestorm was lit when Curtis Pitt claimed that QLD had been "in recession" in the last half of 2014. The claim came on the back of Treasury data which showed Gross State Product (GSP) having fallen in Q3 by 0.2% and by 0.6% in Q4.

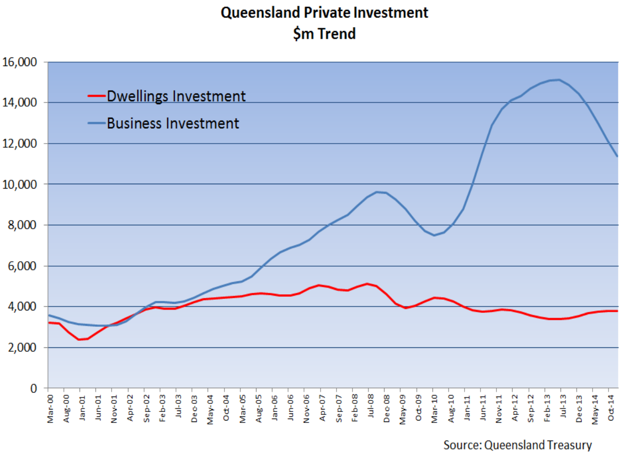
There were those (primary amongst them the Opposition LNP) who claimed that the quarterly Treasury data could not be relied on and that we should wait for the annual ABS data (not released until Nov 2015). Putting aside the fact that the politicians claiming Treasury data is politically warped are the same ones who are still claiming credit for a Treasury forecast of 3% growth this financial year, we would argue that the State Treasurer has every right to use the quarterly Treasury figures rather than have to wait another 6 months to get an "official" ABS number (which won't confirm or deny the reality of a "recession" in Q3 and Q4 anyway).



So looking at the quarterly Treasury data above we can see the decline in total GSP at the end of last year was caused by the, not unexpected, decline in private investment. This decline itself has been driven by the end of the mining investment boom and as such can hardly (in all honesty) be blamed on the previous Government. We all knew this was coming and there was really nothing *anyone* could have done about it.

The second chart makes clear the impact of business investment falls and the sad reality that housing investment never had a chance of taking up the slack. Even the rally in net foreign exports was not enough to compensate while our net position with the other States remains in deficit and Public investment slid lower.

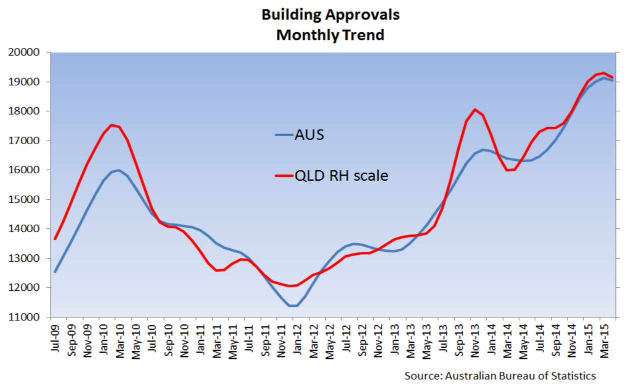
What these charts should also make clear, for anyone in any doubt, is that the State has grown healthily over the past decade or so and that this growth is largely down to the household consumer. Consumer confidence will have to drive any recovery from here.



So turning now to the FNQ region let's begin by looking at the housing sector.

Building Approvals

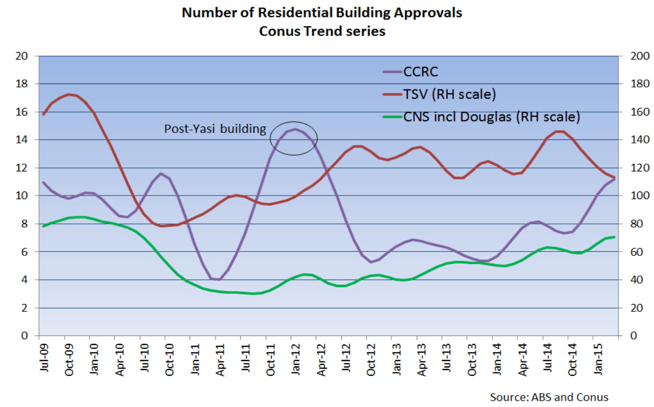
The level of approvals for residential buildings is always seen as a good indicator of the strength of an economy and rarely more so than when considered at a regional level. As we can see below, the trend in approvals both at state and national level have been strongly positive for some years since the crisis-induced slowdown.



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.

What becomes clear immediately is the dramatic decline in building approvals that the Far North witnessed in the aftermath of the GFC. Approvals in both Townsville and Cairns fell sharply and have yet to fully recover in either region. However, it is also very clear that we are seeing a significant improvement in the approvals picture in Cairns. As at March 2015 (the last available regional data) Cairns Trend approvals were up 38.5% on a year ago. From a very low base things are also looking better in the Cassowary Coast with Trend approvals 60.5% higher than a year ago.

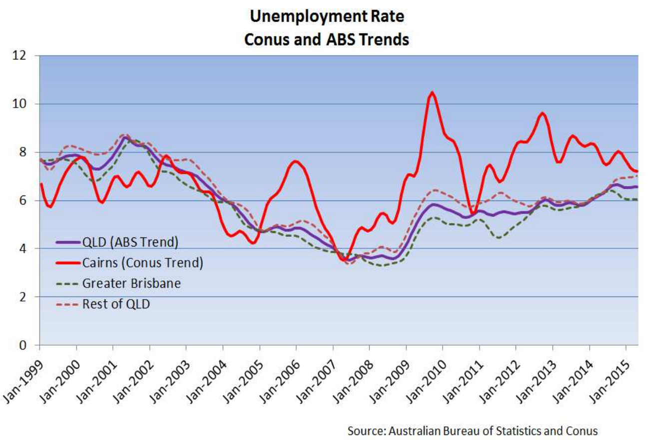
FNQ Economy Roundup cont..



Unfortunately that positivity doesn't extend further south. In Townsville a sharp slowdown since the third quarter of last year sees Trend approvals down 2% from a year earlier.

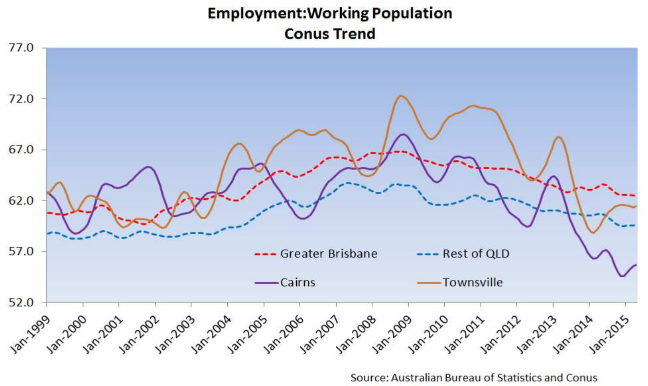
Employment

As far as employment in the region is concerned we have been seeing a gradual, but undeniable, improvement in the picture for some time. 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) had a Trend unemployment rate of 7.2% in April which, although still above the State average, is down 1% from 2 years ago and is only slightly above the Rest of Queensland rate.

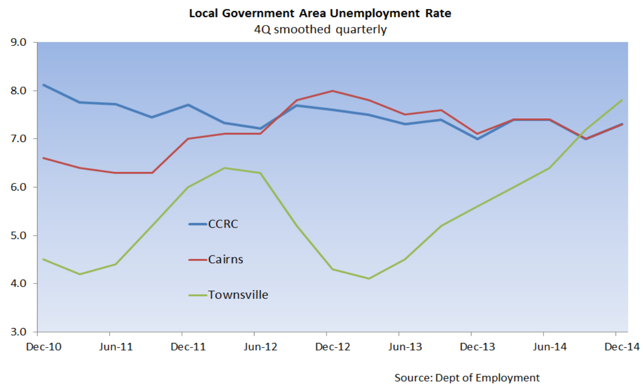


However, the unemployment rate does not tell us the whole story. Part of the reason for the decline has been a sharp reduction in the Participation Rate in Cairns rather than a stellar employment growth pattern. Indeed over the past two years we have seen Trend employment in Cairns actually decline by over 7,000. As a result the Employment to Working Population measure has been falling sharply and despite recent improvements remains well below the State average and close to record lows.

The chart below shows clearly how weak employment growth has impacted Cairns. It's also interesting to see that Townsville, at least on this measure, has been performing quite well despite a Trend unemployment rate that has risen by 1% over the two years. The difference is that Townsville has seen its Participation Rate fall by much less than Cairns.



The improvement in the unemployment rate also becomes clear when we consider the Dept. of Employment Small Area Labour Market data. This data is only collected on a quarterly basis (and is therefore considered on a 4Q moving average basis) and involves a different methodology to the ABS Labour Force data.



Population

The latest population data available is the ABS Regional Population Estimates for the end of June 2014. The table below shows the Local Government Areas in the region and their relative changes in population over the decade.

LGA	2004 pop	2014 pop	% change
Cook	3,696	4,260	+15.3
Cairns	123,392	158,985	+28.8
Douglas	10,453	11,607	+11.0
Tablelands	22,699	24,973	+10.0
Mareeba	18,353	21,537	+17.3
Cassowary Coast	29,337	28,705	-2.2
Hinchinbrook	11,851	11,541	-2.6
Townsville	151,172	192,038	+27.0
QLD	**3,829,970**	**4,722,447**	**+23.3**

FNQ Economy Roundup cont..

As we can see, the growth in both Cairns and Townsville has been impressive (and well above both national and state levels), with Cairns slowly closing the population gap on Townsville. However, the two coastal shires of the Cassowary Coast and Hinchinbrook have both seen declines over the decade. Clearly the impacts of 2 major tropical cyclones in the space of five years have played a part in these declines.

We can also consider population by the broader SA4 regions. These are the same areas for which the monthly regional labour market statistics are reported. The SA4 of "Cairns" covers Cairns itself, Port Douglas, Daintree, Tablelands and the Cassowary Coast. Growth over the decade here has been 20.6% to now stand at 242,498.

The Townsville region (SA4) covers Townsville, Charters Towers, Ayr and Ingham. Here we have seen 21.6% growth since 2004 with population now sitting at 236,689.

We can see the impact of the non-metropolitan areas dragging down growth in the broader areas to below that seen at state level.

The Queensland Government also produce regular updates on projected populations as of the middle of the year. In their most recent projection they saw Queensland's population increasing to 7,095,177 in 2036 which would mean a 58.5% increase from the end of 2013 over those 23 years.

The projections for the SA4 areas sees Cairns increase to 244,083 (+61.7%) and Townsville to 314,362 (+74.5%).

The relevant projections for our LGAs are in the next table..

LGA	2013 pop	2036 pop	% change
Cook	4,409	5,754	+30.5
Cairns	150,992	244,083	+61.7
Douglas	11,186	15,717	+40.5
Tablelands	24,372	29,390	+20.6
Mareeba	20,745	28,623	+38.0
Cassowary Coast	28,636	31,476	+9.9
Hinchinbrook	11,817	11,351	-3.9
Townsville	180,114	314,362	+74.5
QLD	**4,476,778**	**7,095,177**	**+58.5**

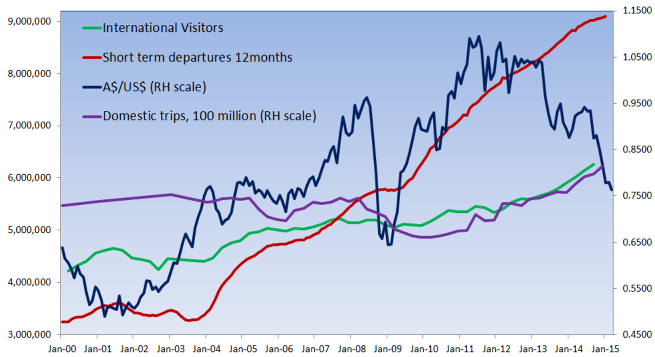
Again we see the metropolitan areas forecast to grow strongly (particularly Townsville) while the more rural areas see growth well below the state average. Interestingly Mareeba is forecast to grow much faster than the Tablelands and is projected to be virtually the same size by 2036.

It will be difficult for local governments to meet the growing expectations of their rate-payers (whilst at the same time keeping rate rises to reasonable levels) unless we can see more reliable population growth in the rural regions. In the Cassowary Coast for example, the projected population increases equate to an annual growth rate of just 0.4% per year.

Tourism

Tourism is clearly an important component to consider when we look at the region's economy. The provision of tourism data has been compromised by problems being experienced following the introduction of a new methodology by the Dept. of Immigration. As a result we do not have full International visitor data beyond Sept 2014. However, even allowing for issues with more recent data, the picture is a broadly positive one. As the next chart shows, Aussies continue to leave the country in record numbers but we can also see that international arrivals have been trending higher almost continually since the middle of 2009.

Travel Trends

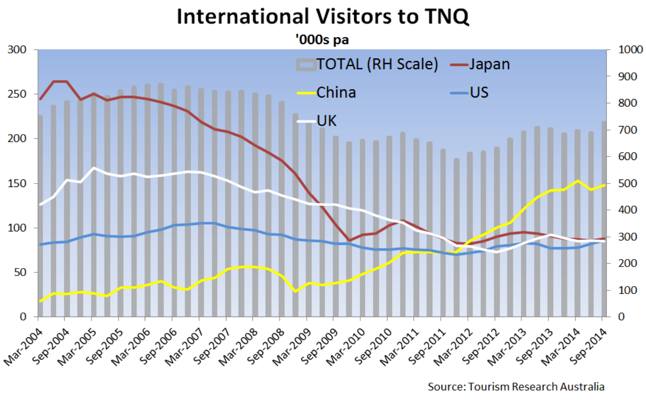


Source: Australian Bureau of Statistics, RBA & Tourism Research Australia

Over the 12 months to Sept 2014 international arrivals were up 8.2%. Obviously an important driver in that growth has been the Chinese market. In the year to Sept 2014 Australia welcomed almost 736,000 Chinese arrivals, an increase of 9.7% from the previous year (as per Tourism Research Australia data). However, more recent ABS monthly data to January 2015 suggests an even faster rate of growth of Chinese arrivals at 14.8%.

In TNQ the Chinese growth has slowed sharply and is much less spectacular. In the 12 months to Sept 2014 there were a total of 148,000 Chinese visitors to the region (up 4.2% on the year) and at that time they accounted for 20.4% of all our international visitors. As the chart below makes clear, while this growth in Chinese visitor numbers has been dramatic (even if the growth has slowed sharply), they remain well below the levels of Japanese visitors that the region saw during '05 and '06. Indeed Chinese numbers are only now approaching the levels seen for UK visitors in '05; there is clearly still ample scope for further increase. When we consider the chart as a whole it is clear that the overriding regional trend in the past decade has been the sharp decline in numbers from Japan and the UK being only partly replaced by Chinese growth.

FNQ Economy Roundup cont..



What is also clear is that, since having reached a peak of 868,000 in June 2006, international visitors to TNQ have fallen (despite some improvements in 2011/12 and again more recently). International visitors to the region are down over 16% since 2006; at the same time international visitors to Australia as a whole are **up** 24% over the same period. International visitor numbers to Queensland have also fallen over that time and are down 1.3%; largely due to the collapse of numbers coming to TNQ.

Clearly Queensland, and TNQ in particular, has suffered very badly over the past 8 years in spite of the surge in Chinese numbers. This is a worrying trend that has only recently appeared to be reversed as Chinese arrivals have picked up. In 2006 Queensland accounted for almost 43% of all international visitors with TNQ picking up over 17%. The latest data for Sept 2014 shows those figures to have fallen to 33.9% and 11.6% respectively.

We have been highlighting this decline for many years in the face of spin from both the industry (most notably TTNQ) and the State Governments. The tried and tested formula of sea, sun and sand is patently no longer enough to attract the 21st century international traveler and yet the industry in the Far North appears to have been very slow to adapt. We can only hope that the influx of Chinese continues, without them the tourism industry in the Far North would be in very dire straits indeed.

The high A$ has been a reality for many years now, although recent moves lower in the currency are certainly welcomed. Other regions of Australia have managed to successfully adapt to the increased expense for visitors of a high A$ and the numbers coming to the country have never been higher. It is imperative that the industry in our part of the world do not simply rely on a slightly weaker A$ for a temporary "sugar-hit" and ignore the long term changes that must be made for the region to succeed in a highly competitive international market.

TNQ's share of the domestic market has remained fairly stable at around 2% for the past decade or so. However, as the first tourism chart showed, the domestic market suffered badly after the GFC. Despite healthy growth since then domestic tourism is now less than 10% higher than it was a decade ago. Continued growth in the domestic market will certainly help the industry in TNQ but it will not fully recover until it can reverse the catastrophic declines in international visitor market share seen in the past 8 years.

We have made note before of the fact that, despite China's importance now, it still does not compare to the Japanese market of the past. Recovery in the Japanese and/or UK markets would also be hugely positive for the TNQ market. Over-reliance on a single market was a large problem in years gone by; let's hope the industry has learned its lesson well.

Conclusion

The sharp declines in mining investment in Queensland and the generally below-trend growth nationally will inevitably combine to mean that economic growth in Queensland will remain rather weak until the massive impact of the previous LNG investment is felt (in the form of improved net exports).

However, in our own region we appear to be travelling rather better. This is at least partly due to a weaker A$ helping the tourism sector but also appears to be coming on the back of a recovery in business sentiment (from admittedly dire levels). We are seeing new, or proposed, significant investment in the region (not all of it tourism related) and a slow but steady decline in what was very high unemployment rates. On a cautionary note, we will need to see the Participation Rate in Cairns return to more "normal" levels before we can truly talk of an employment recovery in the area.

Rapid population growth in our main regional centres of Cairns and Townsville (both expected to grow over the next few decades at a rate well in excess of the nation) will have positive economic benefits in years to come not just for the cities but also for the regions surrounding them.

For those of us who live and work in the Far North we can only hope that this improving economy is met with far more engagement from all levels of government and an acknowledgement that infrastructure investment in the region is a requirement. Previously vacuous comments at state and national level (and from both sides of politics) about a "commitment to regional Queensland" need to be met with actual outcomes.