The CONUS Quarterly

Vol. IX - Issue 2 - June 2017

CONUS

Business Consultancy Services

south pole carbon

in this issue……

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.

Conus Business Consultancy Services

PO Box 441

Mission Beach

QLD 4852

www.conus.com.au Ruth: 0419 697901 Pete: 0439 490088

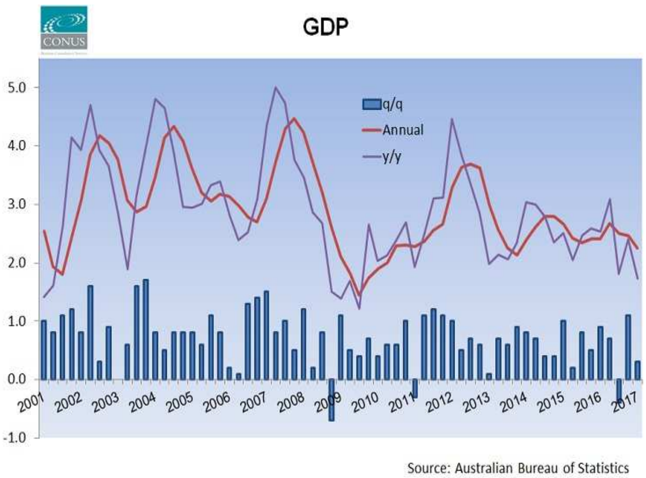
1st Quarter Australian GDP

The GDP data for the first quarter of 2017 has shown a modest increase of just 0.3% q/q for a year on year increase of 1.7% and an annual growth of 2.3%. The result was broadly in line with market expectations although somewhat stronger than some, who had been talking about a negative result, might have thought.

After a strong Q4 last year (unrevised at +1.1% q/q) it came as little surprise to see a slow down and the record run of a recession-free economy continues.

The positive result is down to a strong contribution from Inventories (+0.4 ppts) while private and public investment and net exports all detracted from growth.

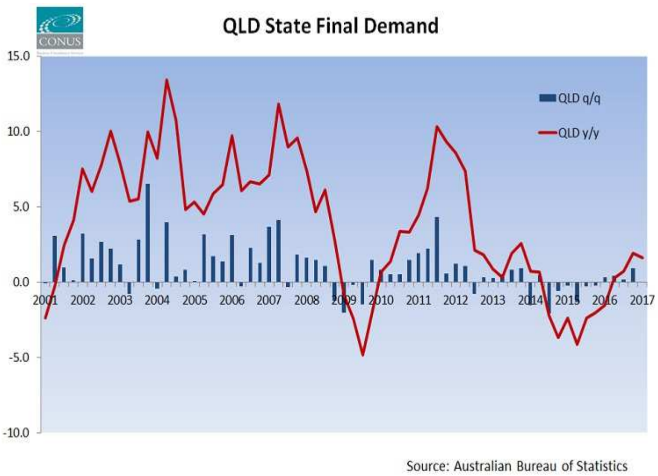
While household consumption, the largest component of GDP, rose 0.5% q/q (and contributed 0.3 ppts to GDP growth) this was due to a further decline in the household savings rate, which has fallen to 4.7%, its lowest level since the pre-GFC levels of 2008. In the face of weak income growth households are simply running down savings to maintain consumption levels.



The less volatile Trend series shows growth at +0.4% (where it has sat for the past 3 quarters) with annual growth at just +2.2%, the weakest result since Q2 2010.

In Queensland we see State Final Demand (which does not include the State's strong export sector; see FNQ Economy Roundup on following pages for more details of Queensland's Gross State Product data) unchanged in Q1 for a 1.6% increase over the same period a year ago and up just 1.1% for the year.

This is however the first time that we've seen two consecutive quarters of positive annual growth in Queensland since Q3 2014. Whilst growth remains muted it is clear that the slow-burn recovery in the Queensland economy remains in place. Next week's State Budget (to be announced on Tuesday) is likely to see significant announcements which will be targeted at encouraging further growth as we move ever closer to a state election (probably later this year). The revenue wind-fall created by strong resource prices should allow the Treasurer to announce some impressive spending commitments while maintaining a small surplus.

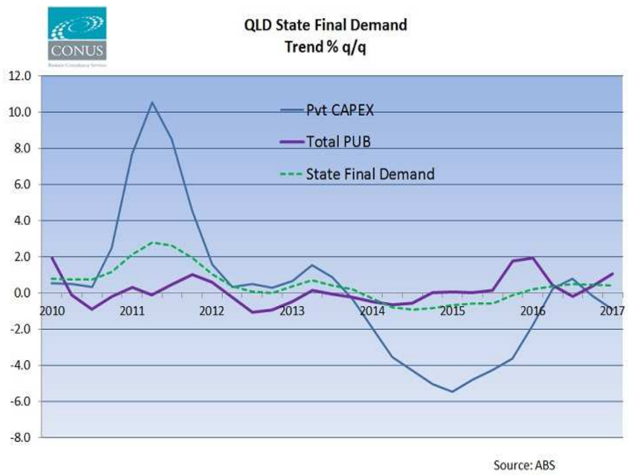


In Trend terms State Final Demand rose 0.4% q/q and as the second chart below shows is being kept positive by the impact of Public sector spending (most notably public CAPEX which is up 2.8% q/q) offsetting the decline in private CAPEX (down 0.9% q/q).

Household expenditure grew at 0.6% for the quarter although, with the weak private CAPEX numbers, total private sector expenditure was only up 0.2% for the quarter. Total Public sector expenditure rose 1.0% for the quarter.

The slowdown in building approvals data seen in Queensland, and nationally, recently does not bode well for future private sector investment and will certainly be a headwind for any future growth in State Final Demand.

As the chart above makes clear, the long term trend rate of State Final Demand growth remains a distant hope. The State's domestic economy, whilst recovering from the slow down seen in 2015-2016, has barely moved in the past 18 months.

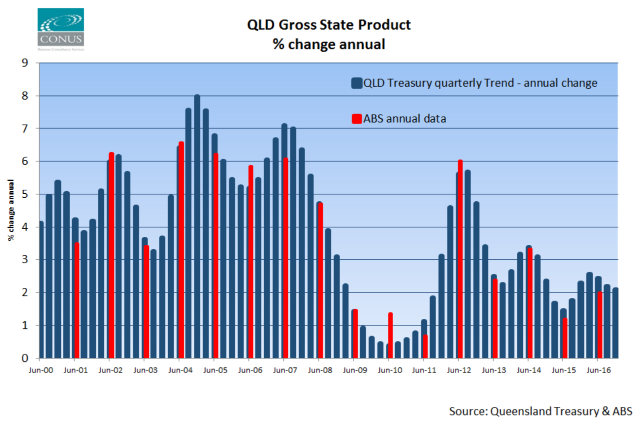


FNQ Economy Roundup

Since our last Conus Quarterly we have seen the delayed release of the September quarter Queensland State Accounts from Treasury. While the ABS produce Gross State Product (GSP) data only on an annual basis for the financial year, the QLD Treasury produce quarterly estimates. We have previously seen some disparity in these two measures, although new revisions to the Treasury data address much of that disparity from the 2015-16 data.

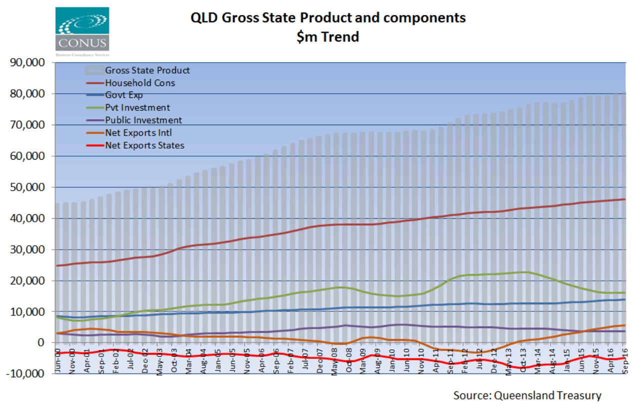
Firstly, if we consider the data for the 2015-16 year. When the original data for the June quarter was released by the Treasury they showed a GSP growth rate of 3.3% over the course of the year. The ABS data, released a few weeks later, had that growth pegged at just 2.0%. We wrote at the time about the reasons for the discrepancy and suggested that the figure was likely to be closer to 2.6% for the year. We are therefore not at all surprised to see revisions in the Treasury data which have taken the annual figure for 2015-16 down to growth of 2.4% (which is the same rate as national Trend GDP growth for that quarter) .

And so to the latest September quarter (and the first for the 2016-17 financial year). The annual GSP growth rate from the Treasury data has dipped to 1.9% (compared to a national GDP Trend growth rate of 2.6%). So what we can certainly see is that the recovery in Queensland is well in place. GSP has now increased for each of the past 8 quarters although, at an average of just over +0.5% q/q over that period, we are clearly a long way from the mining investment fueled boom-times.



Net exports have been, and will continue to be, a huge part of that recovery story. Five years ago net exports were deducting some $35 bn per year from our GSP; today the net export position is in balance over the year (actually a tiny $10 million deficit). Given that annual GSP for Queensland is in the order of $317 bn we can see that a $35 bn swing in net exports has played a huge role.

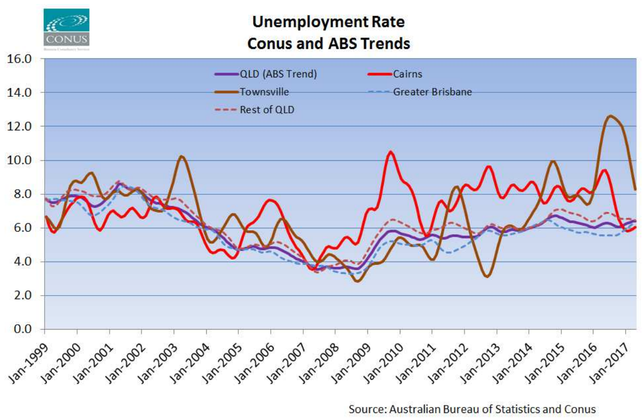
Household consumption (the largest single component of GSP) continues to move ahead nicely; up 2.8% for the year to Sept 2016. It's also encouraging to see private investment improving. The annual slide in private CAPEX has slowed to be down just 10.1% (significantly better than the -16.7% seen in Dec 2015); the quarterly data has shown increases for the past 2 quarters (although business investment is up only for this quarter it is the first quarterly increase in 4 years) .



Employment

Over the past quarter the Trend unemployment rates at both a national (5.8%) and State (6.4%) level have nudged slightly higher.

In our own region we have seen that trend reflected in slightly weaker data for Cairns, where Trend unemployment now sits at 6.1%. In Townsville, however, the nascent recovery we noted three months ago has taken hold and Trend unemployment has now fallen to a 17 month low of 8.3% (although this remains the highest of all regions in the State, excluding the Outback).

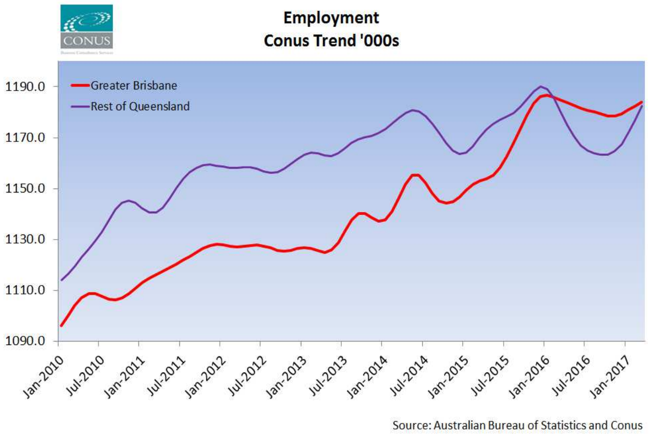


Last quarter we noted the closing of the employment gap between Greater Brisbane and the Rest of Queensland that was underway. That trend has continued and when we consider the data for April we see that employment growth in Greater Brisbane, while moving into positive territory, lags behind the growth seen in the Rest of Queensland. Greater Brisbane Trend employment is up just 0.2% annually while the rate is 1.1% in the Rest of Queensland.

Crucially the employment growth across the regions has not been exclusively part-time positions at the expense of full-time jobs (as has been the case in Greater Brisbane where full-time jobs have fallen by 9,400 while part-time are up 11,300).

FNQ Economy Roundup cont..

In Cairns the 8,000 new Trend jobs created over the past year have been 75% part-time, but importantly 25% (or 2,000) have been full-time positions.



Improvements in Townsville have been even more impressive (albeit coming from a very weak base) with 9,800 new Trend jobs of which the bulk (7,400) were full-time. It would appear that the recovery in Townsville is now well in place with Trend employment having increased in each of the past 10 months and the Trend unemployment rate having fallen for 8.

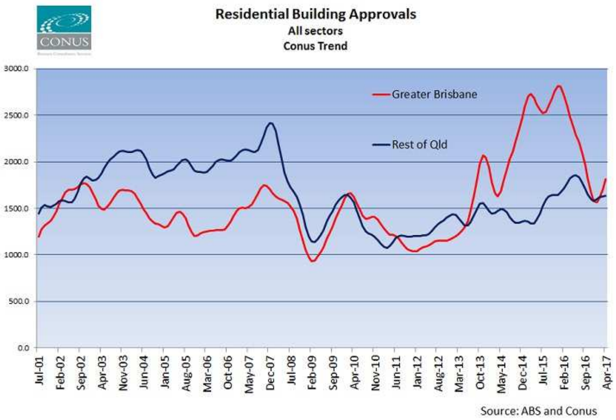
The Dept. of Employment Small Area Labour Market (SALM) data for the December quarter has been released since our last publication. This showed the unemployment rate in the Cairns Regional Council area fell to 7.1% in December while in Townsville City Council it continued to rise to 10.7%

However, we should note that this SALM data is only produced on a quarterly smoothed 4 quarters basis and is therefore very slow to react to the changes in employment and unemployment rates already picked up by the Conus Trend monthly data series. We are expecting the March SALM data to be released in the next few weeks and we anticipate that data to show improvements in both Cairns and Townsville.

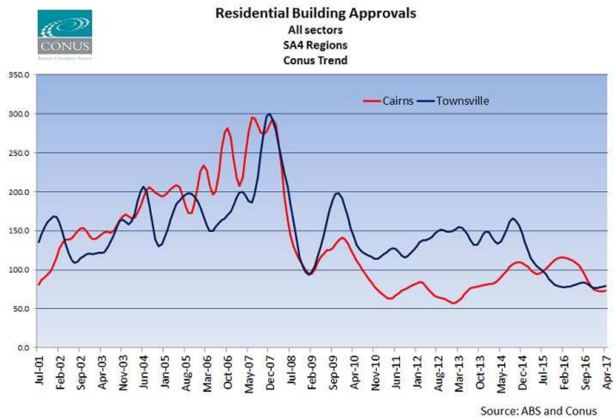
Building Approvals

Since our last issue in March we have seen some rebound in residential building approvals across Queensland, although from a low base.

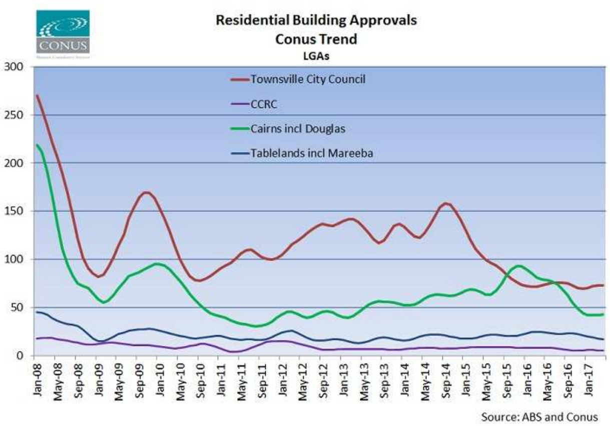
When we consider the data in more detail we see that the rebound has been almost exclusively restricted to the Greater Brisbane area, where declines had previously been the most dramatic. Approvals in the Rest of Queensland have remained relatively unchanged over the period.



In our own area we have seen a similar picture emerging with approvals across both SA4 regions and Local Government Areas stable at relatively low levels.



Any sign of the nascent recovery which seemed to be underway in Cairns at the end of 2015 and into early 2016 has clearly now run out of steam. However, more recent positive developments in Cairns in the commercial sector and a general optimism across the regional economy could well see a return to strength in residential approvals in months to come.



FNQ Economy Roundup cont..

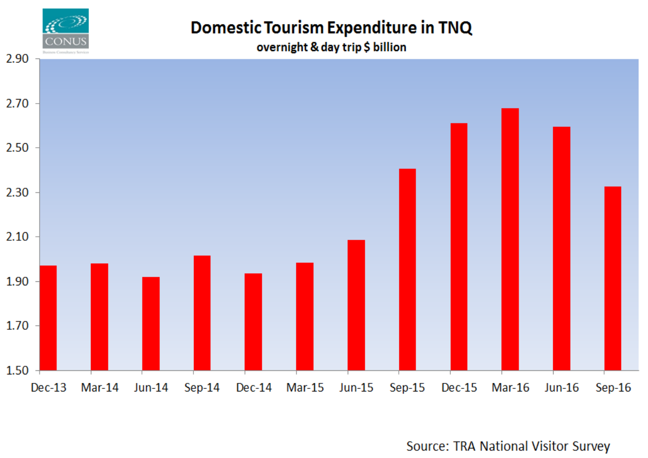
The dramatic declines seen in Townsville appear to have run their course with Trend approvals now virtually unchanged over the course of the year. Recent developments around issues such as Adani should see some positive sentiment return to the region, although anecdotally there remains a significant over-hang of residential building approvals and as a result little sign of a bounce in approvals anytime soon.

Tourism

Tourism continues to be a bright star in the economic firmament of Queensland, and TNQ in particular.

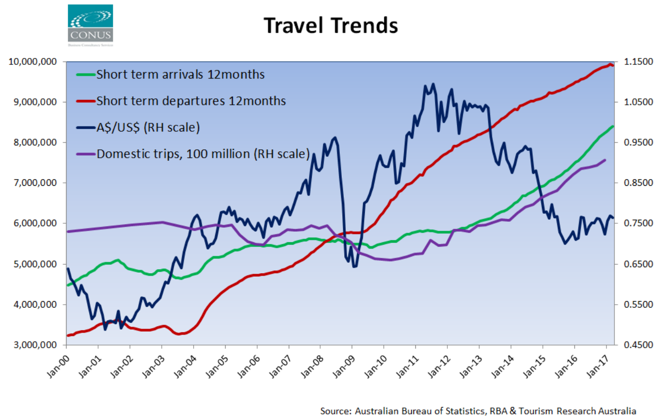
The Tourism Research Australia International Visitor Surveys for the March quarter was released today with the National Visitor Survey due for release in a fortnight.

When we see the NVS we are expecting to see the rather dramatic decline in domestic tourism expenditure in Tropical North Queensland witnessed over the past few quarters to be substantially revised (see chart below). It would seem that the data relating to the Dec '15 and Mar '16 quarters may have been substantially over estimated. It has taken some time for TRA to sort out the problem but we have it on good advice that the revisions will be put through with the next NVS release. The revised picture should be one of continued growth in domestic tourism expenditure in the region without the sharp spike witnessed in those two quarters.



Other tourism data we have had since March (ABS Short term arrivals and departures) has shown a steady growth in the number of Chinese coming to Australia; even though the pace of that growth does appear to have slowed somewhat.

As we know, China has become an incredibly important market for tourism in the Far North so continued growth in



this sector will be vital if we are to continue to see the region benefiting from the international tourism surge underway. Unfortunately the March quarter data (released today) in the International Visitor Survey shows Chinese visitor numbers slightly down this quarter. US visitors, which had been growing strongly in recent quarters, also came off a little.

Other major markets such as Japan and the UK were stable for the quarter.

The net result is that total international visitor numbers to TNQ fell in the first quarter, although they remain up 7.2% from a year ago.

With the international visitor market enjoying growth of 9.2% y/y it is rather disappointing to see QLD and TNQ losing ground (QLD visitor numbers rose just 6.8% for the year). As a result the States share of the international market has fallen to an all-time low of 33.4% while TNQ's share also fell to 11.5%, its lowest level in over a year.