The CONUS Quarterly

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Business Consultancy Services

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Editor's Note

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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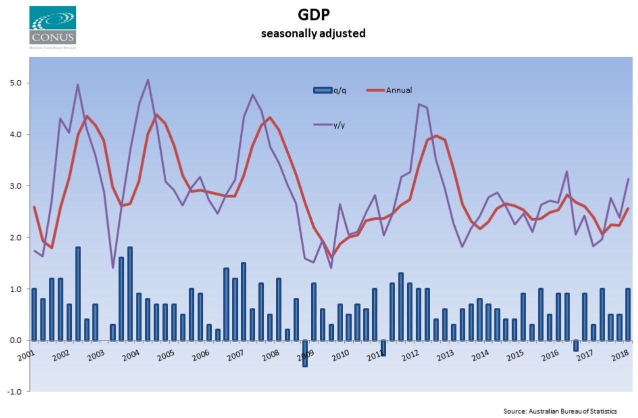
1st Quarter Australian GDP

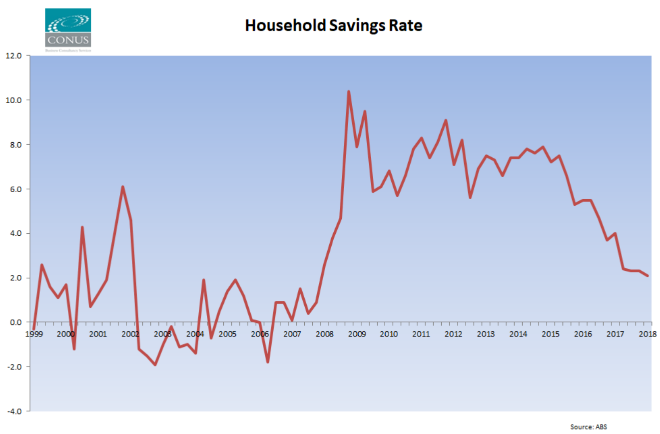
The GDP data for the first quarter has shown a sharp pick-up from last quarter and was somewhat higher than market expectations. On a seasonally adjusted basis GDP rose 1.0% for the quarter, or 3.1% from the same time a year ago. This brings the cumulative increase for the year to March to a 2.6% increase; up from 2.2% in the previous quarter, and the best result since the end of 2016.



The main contributor to growth this quarter was Net Exports, which added 0.4ppts to growth, although positive contributions were also seen from inventories, household consumption, government consumption and private fixed investment.

Household savings continued to fall and the household savings ratio now sits at 2.1, its lowest level since the end of 2007. In the face of persistently weak wages growth (currently running at an annual rate of just over 2%) it is no surprise to see households running down savings to feed consumption; the question is how long can that continue to be sustainable?

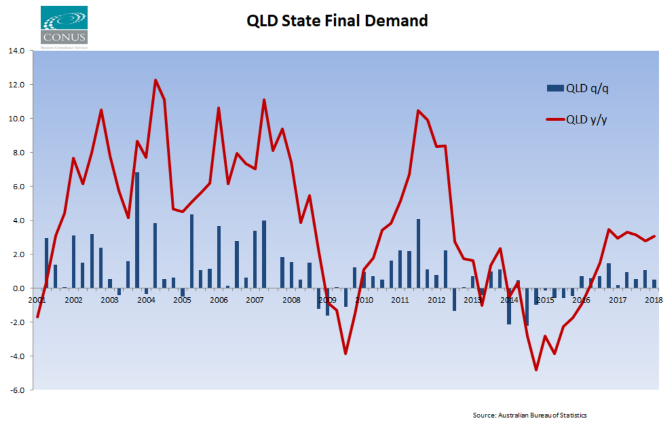
At some point we either need to see wages growth pick up to sustain the growth in consumer expenditure, or we are likely to see the household sector tightening the purse-strings once again. Certainly this quarter we saw a generally weak outcome from the household sector with consumption increasing just 0.3% for the quarter (the equal lowest pace of growth in 5 years). With household consumption being the largest component of GDP such a slow-down would have significant effects on economic growth.



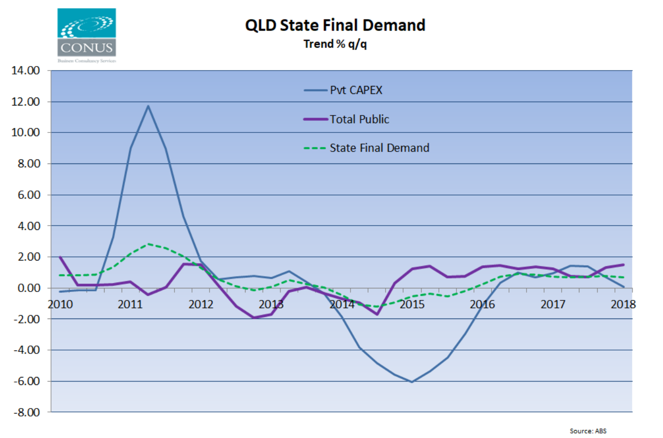
In Queensland we see State Final Demand (which does not include the State's strong export sector) up 0.5% q/q (after the Q4 data was revised up a little to +1.1%). Year on year growth is now running at +3.1%, up from 2.8% last quarter. Annual growth now sits at 3.1% for the year to March 2018 after a rate of 3.2% for the previous quarter (after upward revisions).

In Trend terms State Final Demand rose 0.7% q/q and, as the second chart below shows, is being kept positive by a steady recovery in Public sector activity rather than anything else. The Private sector (incl consumption and investment) was up just 0.4% q/q while the Public sector lifted by 1.5%

As we noted last quarter, the recovery we had been seeing in Private sector investment appears to have now run out of steam. This is disappointing and has certainly worked to slow Queensland's growth.



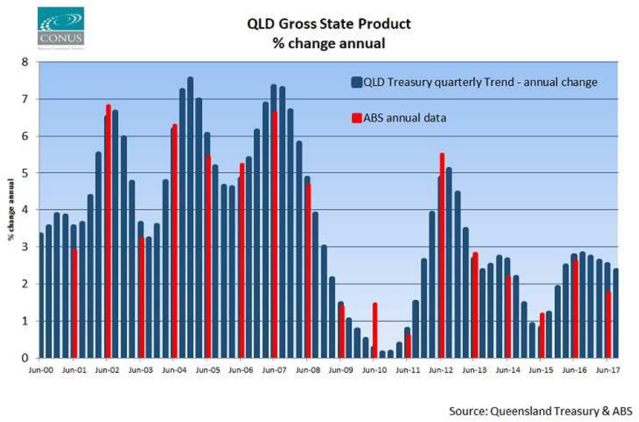
However, as is the case at a national level, we will need to see household consumption improving if we are to see the Queensland economy moving ahead at trend growth rates. Until we start to see some improvement in household income levels that would appear to be a vain hope. The RBA and Treasury are looking for the stronger labour market to be reflected in wages growth (and ultimately inflation) in due course. We can only hope they are right; at the moment there is precious little to suggest that they are.



FNQ Economy Roundup

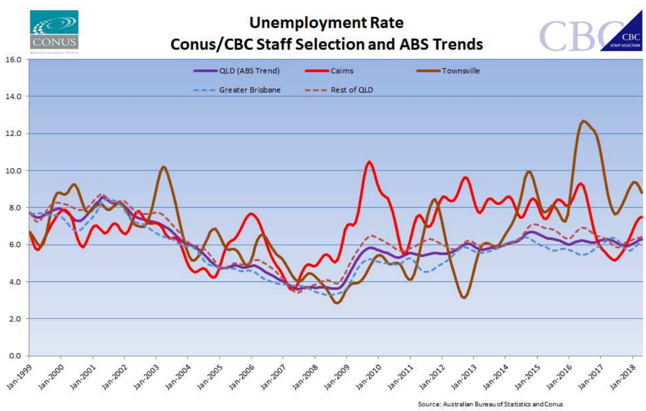
We are unfortunately still waiting for the release of the Dec quarter Gross State Product data from QLD Treasury.

While the ABS produce Gross State Product data only on an annual basis we must rely on the quarterly estimates from QLD Treasury for the intermediate periods. With no fixed release dates the Treasury estimates tend to get released when it is politically expedient to do so; clearly the Government has decided that now is not a good time so we shall just have to wait for what is already very outdated data.



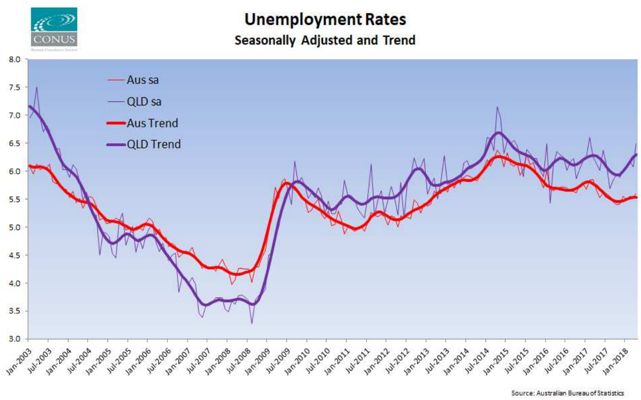
Employment

Over the past quarter the Trend unemployment rate at the national level has remained static at 5.5%. Unfortunately in Queensland we have seen Trend unemployment edge higher to now sit at 6.3%. Trend employment across the nation is up almost 50,000 in the past three months while in Queensland it has risen less than 3,000 in the same period. Clearly things are not as robust in the Sunshine State as elsewhere.



In our own region we have seen the Cairns Conus/CBC Staff Selection Trend unemployment rate continue to lift slightly to currently sit well above the State average at 7.5%. Employment growth has gone into decline and now sits at –4.6% for the year which is significantly below the State average of +3.5%.

The rapid improvement we had seen in the Cairns labour market, and the apparent conversion of part-time to full-time employment, has run its course and we are now seeing something of a correction after those rapid improvements. It may well be that employers found that they had overreacted to some of the optimism in the region and are now moderating employment growth activities (particularly in light of the less-than-stellar performance in the tourism industry...see below for details)



Trend Employment in the region is down 5,500 for the year to April (latest available data). There has also been a decline in Trend participation over the year which has certainly mitigated against the unemployment rate heading even higher. We should stress that future revisions to the Conus/CBC Staff Selection Trend may well eventuate (recent original data has been unexpectedly weak) but that such revisions, while possibly lessening he scale of the decline, are unlikely to reverse a trend of weakness that has now been in place for 9 months.

To our south in Townsville the story is rather different. Here Trend employment growth is running at a very healthy +4.7% pace; in the past three months Trend employment has increased by 1,000. The Trend unemployment rate now sits at 8.8% which, although somewhat higher than a year ago, is well off recent highs.

Trend employment growth in Townsville has started to be more concentrated in the full-time sector over the past year as the nascent recovery in the region starts to take hold and employment growth shifts from being predominantly part-time to more full-time.

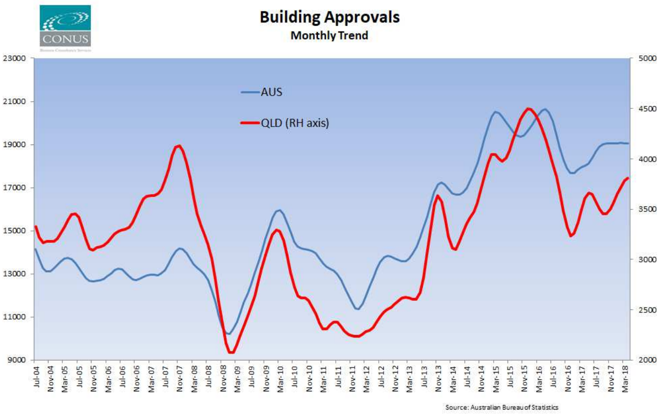
Even with such healthy employment growth we have still seen the number of unemployed also increase; a clear indicator of a very strong increase in participation. Any falls in the unemployment rate need to come from very strong employment growth when we see so many more people joining the labour market (albeit from a relatively low base).

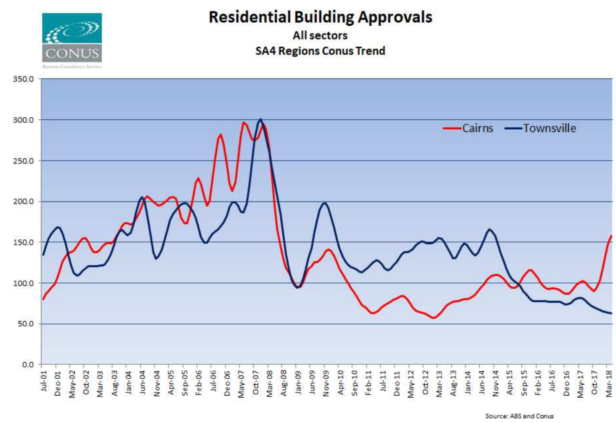
Building Approvals

The level of residential building approvals across the state and the nation has seen some degree of stability in recent months.

The most recent data (for Apr) shows that approvals

FNQ Economy Roundup cont..

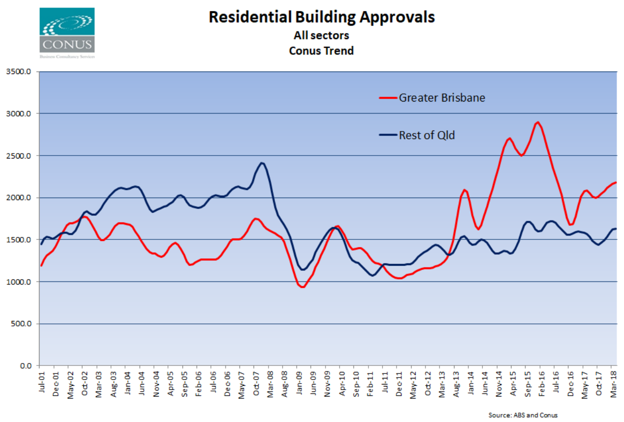




growth in the nation currently sits at +5.7% y/y on a Trend basis. This pace of growth has been relatively stable for the past 6 months. Queensland has slowed somewhat in the past few months but Trend approvals nevertheless now sit 5.6% higher than a year ago.

When we consider the breakdown across the state we see that over the past quarter we have seen a recovery in both the Greater Brisbane region and the Rest of Queensland (based on the Conus Trend data which is up to April). For the year to Apr approvals in Greater Brisbane were up 8.0% while in the Rest of Queensland the increase has been just 2.4%.

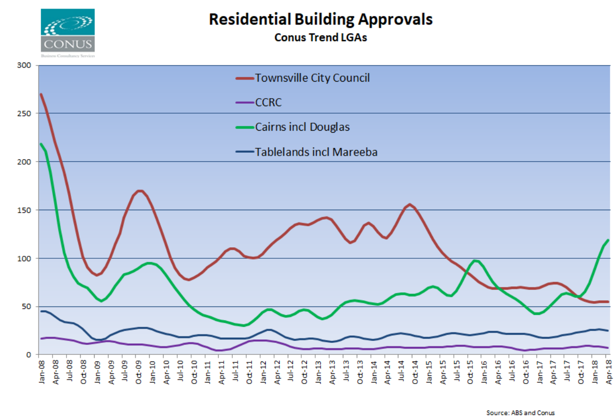
Looking at the Conus Trend data for the Cairns SA4 region we see April approvals jumped to 157 after the new Nova City approvals finally hit the books (the original data spiked from 72 in March to 402 in April). We have been expecting this data to eventually show up and now that it has done so we will need to take care to not read too much into one month of very lumpy numbers. This has also caused upward revisions to the previous month Trend numbers. This



represents a 60.5% increase for the year but will inevitably be weaker again next month (as these lumpy unit approvals drop out) and the Trend gets revised lower again.

Townsville SA4 region has continued to see a slide in approvals. In April the Conus Trend had fallen to 63 (down from 70 six months ago) and is now down 22.4% from a year earlier.

The Conus Trend data at the LGA level shows Cairns Regional Council (incl Douglas Shire) on 119, again heavily impacted by the Nova City data, and up 114.6% from a year ago. The Cassowary Coast Regional Council has seen a slight drift lower after some recovery about 6 months ago and now sits at 7; which is 7.3% above the level of a year ago. Tablelands Regional Council (incl Mareeba Shire) has been edging higher and now sits at 25, up 37.9% for the year. While Townsville City Council has fallen to 55 (and is now down 28.6% for the year).



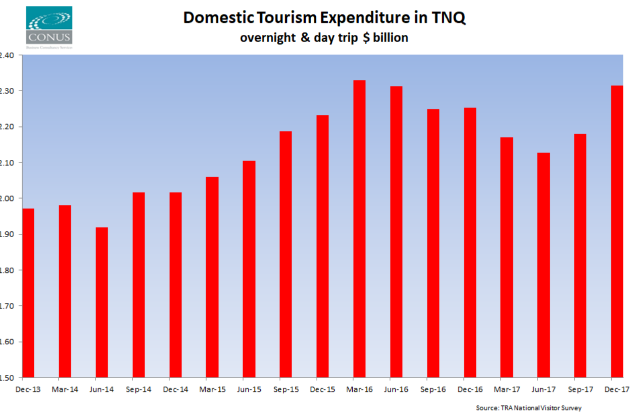
Tourism

The shine is certainly coming off tourism in the TNQ region. Having been the shining star for some time things are now looking distinctly less rosy.

Since our last edition, data for the December quarter has shown some very pleasing improvements in domestic expenditure data, which had been an area of real concern given its sharp declines from highs of mid-2016. In the year to December 2017 domestic visitor expenditure in TNQ (on both overnight and day visits) rose by 2.8%. When we account for the effect of inflation the real increase is closer to 1%, but this is certainly a lot better than things were looking 6 months ago. However, it needs to be seen in light of a nominal 8.3% increase across Australia. Data for the March 2018 quarter is scheduled for release on June 20th.

FNQ Economy Roundup cont..

The number of domestic overnight visitors to the region have decreased by more than 4% this year (the increased expenditure has come from increased averages spent in spite of a fall in total numbers) while they have increased by more than 7% across the nation and are up almost 5% for Queensland. Clearly the TNQ region is doing relatively badly on the domestic front (despite the welcome improvement in the third and fourth quarters) and the burning question, the same one we asked three months ago, is “why?”

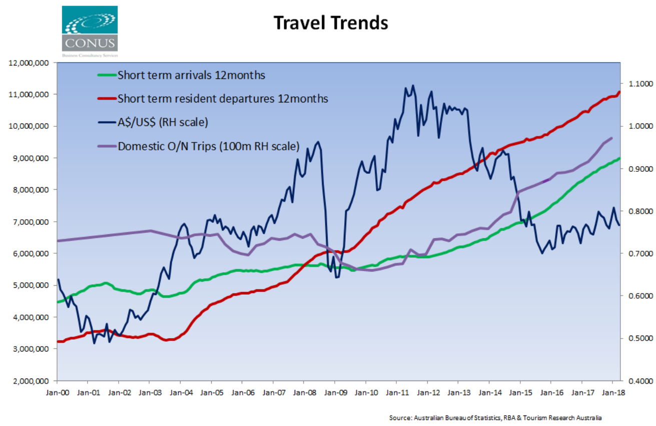


There has been plenty of speculation that media coverage of the two mass-bleaching events on the GBR in the past two years may have contributed to domestic visitors staying away. Certainly the timing of the slowdown would appear to tie-in with these significant events. A recent report from CQ University seems to support that contention suggesting that the Reef was “not currently a major pull-factor for domestic visitors”.

The decline in domestic tourism data for the region had come on the back of a very sharp ramp up from mid-2014 so it may simply be that what we saw was merely a slowdown in an otherwise intact move higher. However, total domestic expenditure in the year to December 2017 was only 3.7% higher than December 2015; allowing for inflation (even at present low rates) wipes out any such nominal increase. Across the nation total domestic expenditure increased by 10.5% in the same period.

The next fortnight will show us the performance for domestic tourism for the year to March 2018. We can only hope that the improving trend seen in the previous 6 months of data is continued and that TNQ’s dramatic relative underperformance can be arrested.

Unfortunately the release of the March quarter International Visitor Survey, which was due today, has been pushed back by Tourism Research Australia to a date as yet unknown. However, considering the available data to Dec 2017 the story on the international front looks little better; Chinese numbers appear to have flat-lined for the past few quarters and are actually down 6% for the year. The nascent recoveries that we had started to see in the Japanese and US markets have also run out of steam. As a result international visitors to TNQ were down 0.4% for the year to Dec (versus a national increase of 6.5% and an increase of 4.3% to Queensland). Expenditure too has been poor, down 4.1% in TNQ (+8.2% nationally) on the back of inter-



national visitors to the area staying less time and spending less money when they’re here.

The region is under-performing badly in both domestic and international markets and will need to address this slide, particularly if the boom in Chinese arrivals is coming to an end (as the chart below hints at), if we do not want to see tourism once again being a negative for the region.