The CONUS Quarterly

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CONUS

Business Consultancy Services

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Editor's Note

Welcome to the first CONUS Quarterly for 2019; the eleventh year of publication!

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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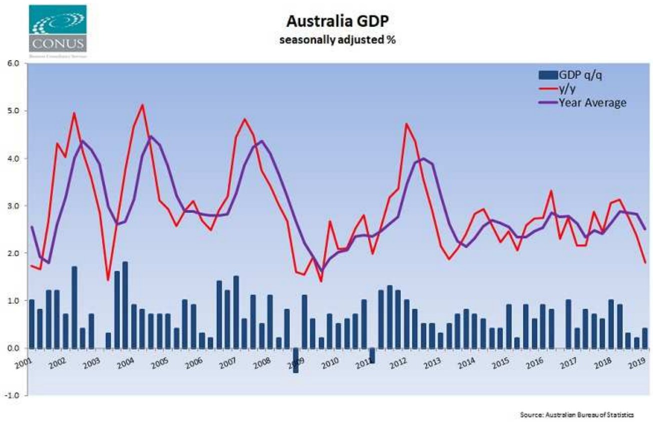
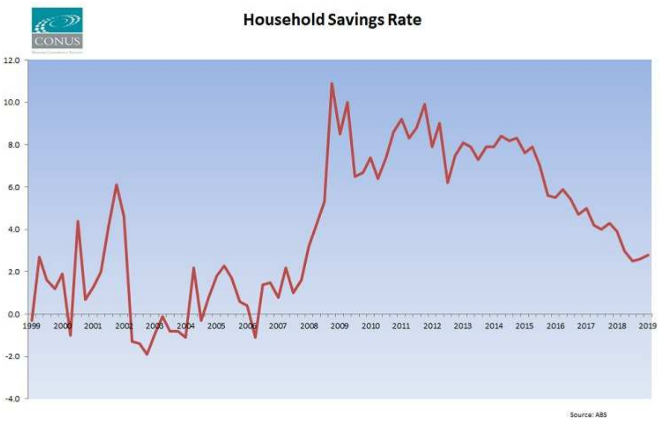
1st Quarter Australian GDP

The first quarter GDP data released this morning was broadly in line with expectations as household consumption growth remained weak. Seasonally adjusted GDP rose 0.4% q/q for a year-on-year increase of just 1.8% (down from 2.4% in the previous quarter). The annual rate of growth now sits at 2.5%.



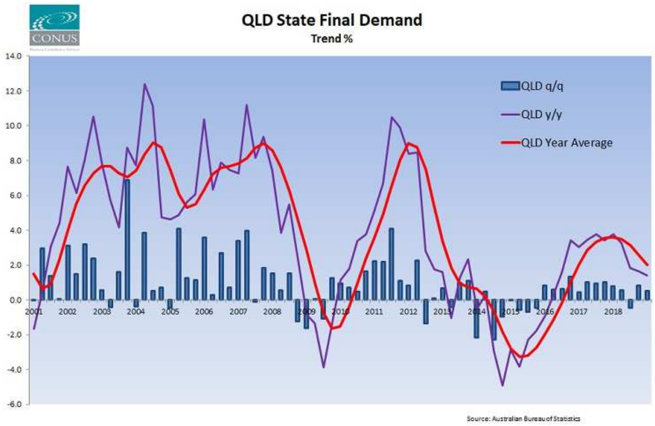
Contributions to growth came from household consumption (up just 0.3% q/q and adding 0.1 ppts to GDP), Govt Consumption which added 0.2 ppts and Net Exports which contributed 0.2 ppts to growth. Private fixed capital formation deducted 0.2 ppts while inventories deducted another 0.1 ppts.

Despite wages growth stuck around historically low levels and even with this modest growth in household consumption, there was a slight increase to the household savings rate. Although it edged slightly higher this quarter (to 2.8%) it remains close to 10-year lows.



The ABS also provide us with quarterly data for State Final Demand, which is the domestic component of the state's economy. Data for Gross State Product (which includes the international and inter-state elements) is only available from the ABS on an annual basis; the most recent data for 2017-18 showed an annual increase of 3.4%. However, the QLD Treasury do provide quarterly estimates for Gross State Product (albeit rather delayed) and a while ago we got their data for the fourth quarter of 2018 (see further details in the FNQ Economy Roundup).

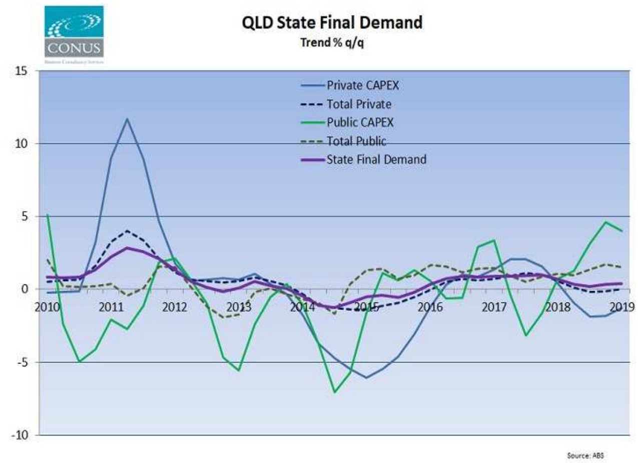
The QLD Treasury Trend data for Q4 showed State Final Demand was unchanged; today's ABS data for Q4 had growth of 0.3%. Q1 data has State Final Demand up 0.4% q/q for a year-on-year increase of 1.3% (down from 1.6%) As the chart below makes clear, the domestic side of the QLD economy is experiencing a marked slow-down.



The slowing in growth in the first quarter is largely due to a slowdown in private sector investment, which fell 1.3% q/q. The Public sector saw solid growth with government consumption growing at 0.9% q/q and public investment up 4.0% q/q. However, although the total public sector grew at 1.5% q/q this was largely negated by the much larger private sector remaining unchanged. Household consumption managed just a 0.4% q/q lift but private capital expenditure fell (for the fourth consecutive quarter). *(All QLD figures quoted are Trend)*

The QLD 2018-19 Budget estimates that Gross State Product will lift by 3.0% in the 2018-19 year on the back of "*household consumption gaining momentum and a contribution to growth from the trade sector as imports ease*". On the evidence of these relatively weak household consumption figures in the first three quarters of the 2018-19 financial year that projected growth may have to rely much more heavily on the export sector than anticipated.

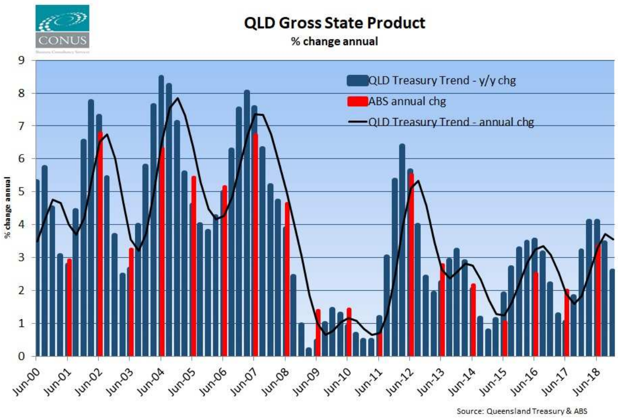
Growth in the domestic QLD economy is coming almost exclusively from the public sector with private sector growth flatlining.



FNQ Economy Roundup

Since our last issue we have seen Q4 2018 Gross State Product data released by the QLD Treasury.

While the ABS produce Gross State Product data only on an annual basis (the last being to Q2 2018) we must rely on the quarterly estimates from QLD Treasury for the intermediate periods.



We have previously seen some disparity in these two measures. However, we tend to see these disparities largely revised away over time.

This most recent Treasury data up to the fourth quarter of 2018 shows Gross State Expenditure (the domestic portion of the economy) unchanged q/q for year-on-year growth rate of just 1.3% (down from 2.4% in Q3).

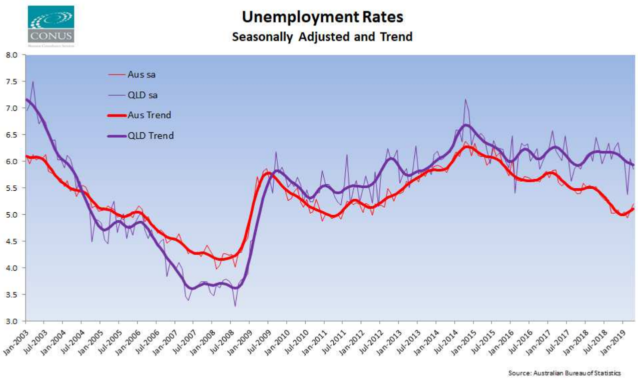
The slowdown in growth can be attributed to sharply slower household consumption (+1.9% y/y from +2.5% y/y in the previous quarter) and a decline in Private Investment (down 3.3% y/y) as both dwellings and business investment fell. Compensating for at least some of this fall was Public Investment which was up 9.6% y/y; public investment is equal to only 1/4 of private. The ABS equivalent (State Final Demand) showed a year-on-year increase of 1.6% for the year to Dec 2018. Today's release for Q1 shows that has slowed further to 1.3%.

Gross State Product (which includes the impact of international and inter-state net exports) was up, according to the QLD Treasury data, 0.5% q/q for a year-on-year increase of 2.6% (slowing from 3.4% y/y in the previous quarter).

We noted last issue that there was some discrepancy between the ABS and lower Treasury estimates of GSP growth for the year to June 2018 and that revisions could be expected to close that apparent gap. Indeed that is what we saw with Treasury revising up from their estimate for GSP growth for FY 2017/18 to 3.3% (from a previous estimate of 2.6%) to be more in line with the ABS estimate of 3.4%.

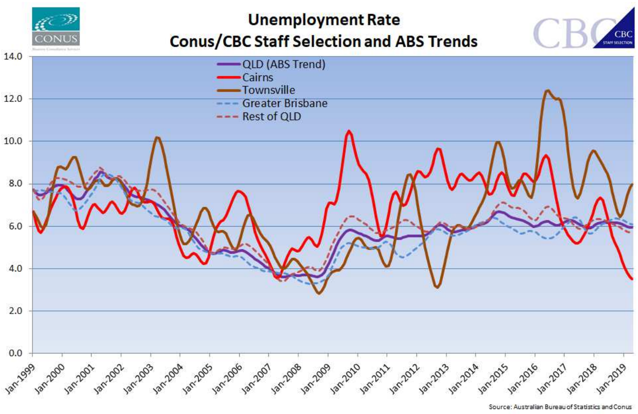
While much has been spoken of a 'per-capita recession' in Australia in Q3 and Q4 of 2018, although it has come to an end in Q1, we have seen no such phenomenon in Queensland; GSP per capita has risen 0.1% in each of the past 2 quarters.

Employment



Over the past quarter the Trend unemployment rate at the national level has started to creep upwards and now sits at 5.1%. The reversal of improvements in the labour markets nationally has been the driver behind the RBA cutting rates this week to 1.25%, with real prospects of more to come.

In Queensland we see the Trend unemployment has fallen gradually to 5.9% but remains well above the national level. Trend employment across the nation is up over 65,000 in the past three months while in Queensland it has risen 16,100 in the same period. In our own region we have seen the Cairns Conus/CBC Staff Selection Trend unemployment rate improving sharply. Recent extreme volatility in the underlying ABS regional unemployment data had forced us to treat the Trend unemployment rate with some caution, however recent months have confirmed the strength and we now see a Trend unemployment rate at 3.5% (this mat still be too low, but there can be no doubt of a significant improvement with the 6 month average of the original ABS data at 4.0%)

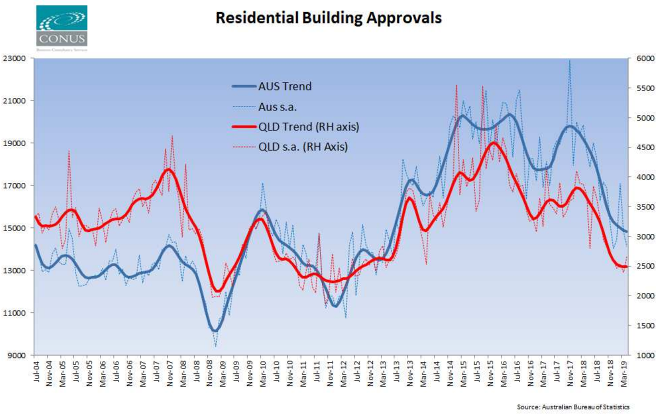


Employment growth has been strong with 20,000 added to Trend employment in the year to April; more than 16,000 of those full-time.

To our south in Townsville the labour market, which showed some weak signs of a nascent improvement in the middle of last year, has again turned weaker. Here Trend employment growth is now negative again at –4.1% pa. with 4,500 fewer employed than at the same time a year ago; the Trend unemployment rate is back up to 8.0%.

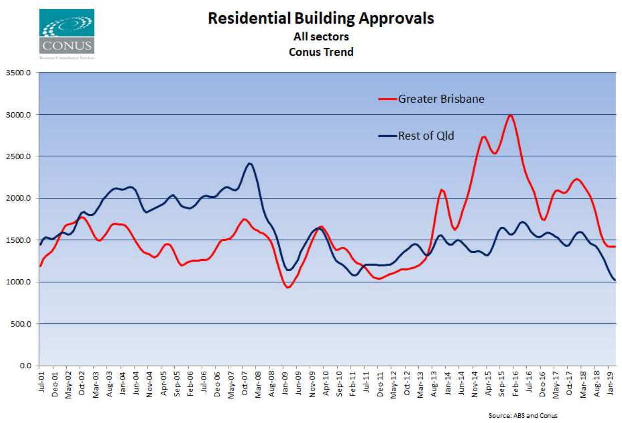
FNQ Economy Roundup cont..

Building Approvals



The level of residential building approvals across the state and the nation continues to exhibit a good degree of weakness in recent months.

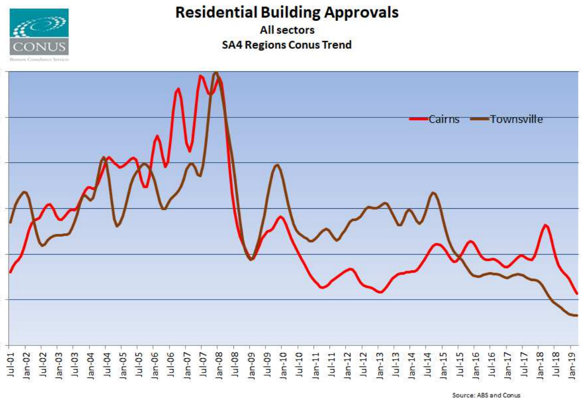
The most recent data (for Apr) shows that approvals growth in the nation currently sits at –21.8% y/y on a Trend basis. Approvals have been drifting lower over the past 12 months. The decline in Queensland had accelerated through the latter part of last year but at this stage we might be witnessing something of a bottoming out; despite this Trend approvals are still 32.1% lower than a year ago.



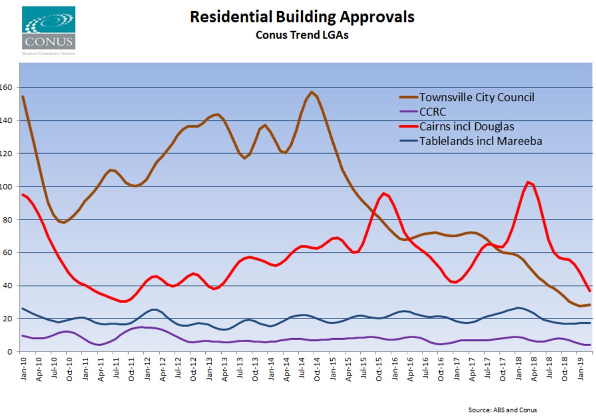
When we consider the breakdown across the state (with data only available to Mar at time of writing) we see that over the past quarter we have seen falls in both the Greater Brisbane region and Rest of Queensland but that the Greater Brisbane area may bee witnessing the same kind of bottoming out we noted above as unit approvals cease their precipitative falls. Approvals in the Rest of Queensland continue to fall and are now at their lowest level since the Conus Trend series began in 2001. For the year to Mar approvals in Greater Brisbane were down 34.8% while in the Rest of Queensland they have fallen by 35.6%.

Looking at the Conus Trend data for the Cairns SA4 region we see the regional downward trend mirrored. The uptick caused by the rash of approvals for the Nova City development that showed up in April and May last year has now well and truly washed out of the data and what we see is a clearly deteriorating trend despite the evidence of cranes on the sky-line in the CBD. Residential approvals, the main driver of the construction sector, remain very weak..

For the year to Mar Trend approvals in Cairns sit 56.8% below their level of a year ago (albeit this level was inflated by the Nova City approvals at that time).



Townsville SA4 region has continued to see a precipitous drop in approvals. In Mar the Conus Trend had fallen to 33 (down from 60 a year ago, and a new record low) and is now down 45.4% from a year earlier.



The Conus Trend data at the LGA level shows Cairns Regional Council (incl Douglas Shire) on 37 down 59.6% from a year ago. The Cassowary Coast Regional Council has seen a drift lower after some recovery about 9 months ago and now sits at 4; which is 44.6% below the level of a year ago. Tablelands Regional Council (incl Mareeba Shire) has been falling in recent months, after something of a rally at the start of last year, and now sits at 18 which is down 30.3% from a year ago. While Townsville City Council has fallen to 28 (and down 39.2% for the year). There is some sign that the slide in approvals may have run its course in Townsville although this is unlikely to be reflected in a stronger construction sector for some months yet.

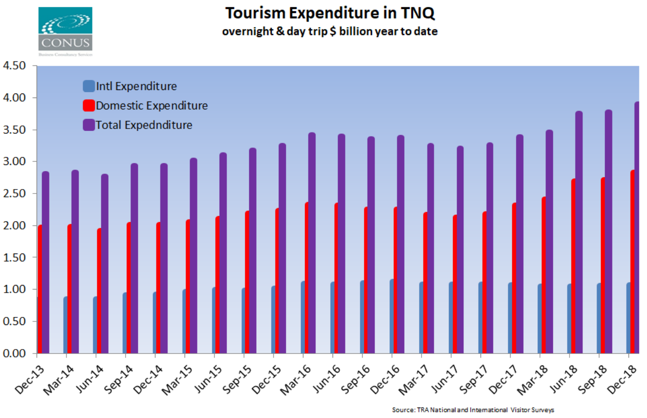
Tourism

The tourism story in our region is one of two very different results; the region is doing well within the domestic market but poorly with internationals.

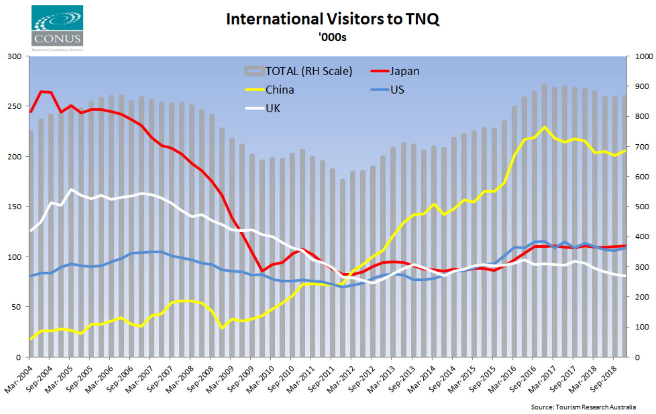
Let's start with the domestic market, where things are looking better for the region. Our latest data (to the Dec quarter

FNQ Economy Roundup cont..

2018) showed domestic visitor expenditure up sharply for the fifth consecutive quarter after a period of steep declines from mid-2016. While this solid growth is certainly encouraging we need to look at it in context.



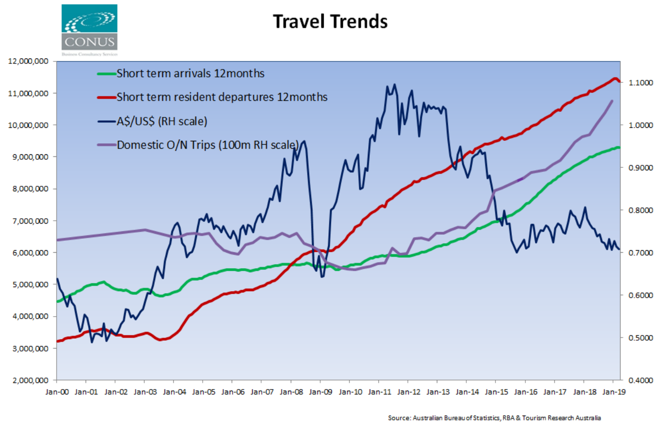
Since the March quarter in 2016 total domestic visitor expenditure in Australia has lifted 24.7%. In Tropical North Queensland, over the same period, the lift is a little less impressive 15.7% (bearing in mind that these numbers are nominal, if we account for inflation we need to adjust these growth rates down by about 5.0%). Nevertheless, these rates of growth at national and regional level are impressive.



Unfortunately the story for TNQ is far worse when we consider the international visitor market.

International visitor expenditure across Australia increased by an impressive 15.3% in the two years to Dec 2018. In the Far North it has fallen by 4.7%! The main driver behind that can be seen in the chart above. Chinese visitors (by far and away the region's largest market) have been in steady decline for almost two years. There is no other market in which we have seen compensatory increases of anything like enough scale to offset those Chinese declines.

The nascent recoveries that we had started to see in the Japanese and US markets a year or so ago have also run out of steam. As a result international visitors to TNQ were down 2.7% for the year to Dec (versus a national increase of 4.8% and an increase of 2.2% to Queensland). Expenditure too has been poor, down 0.2% in TNQ (+8.0% nationally) on the back of international visitors to the area staying less time and spending less money when they're here.



Australia is in the midst of a tourism boom and yet it is clear that TNQ is not reaping the benefits of that boom.

Years of under-investment in tourism infrastructure are fortunately now being addressed, and the recent opening of the first new top-end hotel in Cairns for decades is very welcome. There are challenges with flights into Cairns which place an effective cap on arrivals. Nevertheless, the industry must face up to the huge opportunity which is at present largely passing the region by and has seen TNQ's share of international visitors to Australia drop to an all time low of 10.1%.

If we want to see the region succeed then the industry and our civic and business leaders must face up to the shortcomings and ask the big question. In our previous issue we suggested that the question is something like "Why are people pouring into Australia but they're not coming to Cairns and the Far North? What is it that places like Hobart (where international tourism is sky-rocketing) are offering that we're not?". Fortunately more recently TTNQ and the QLD Government have announced a rebranding of the region so we shall have to see if this can improve the tourism outcomes in coming quarters.