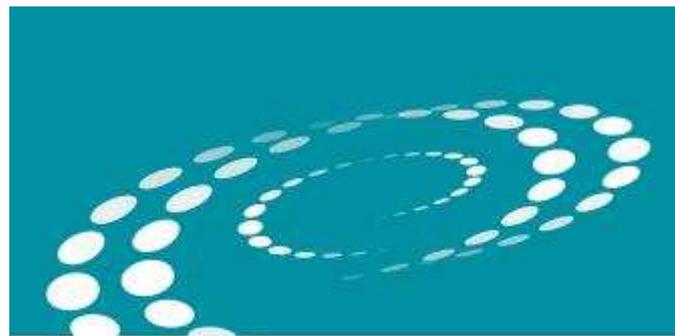




# The CONUS Quarterly

Vol. X - Issue 1 - Mar 2018



CONUS

Business Consultancy Services



in this issue.....

## 4th Quarter 2017 GDP

Page 3

GDP is lack lustre again at just 2.4% y/y

## FNQ Economy Roundup

Page 4

A detailed look at the economy in our own region

### Editor's Note

This is the first issue in volume X of our CONUS Quarterlies which means that this year is our 10th anniversary of the 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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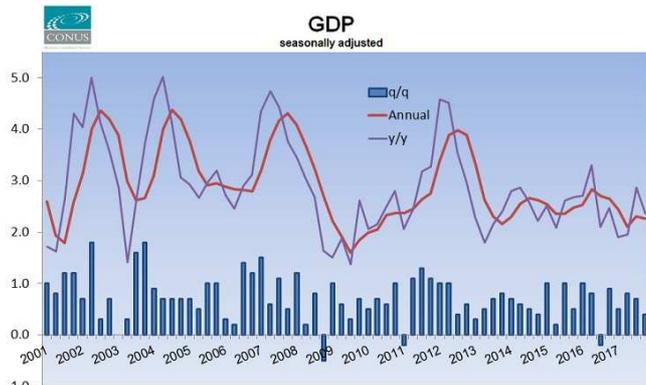
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# 4th Quarter Australian GDP

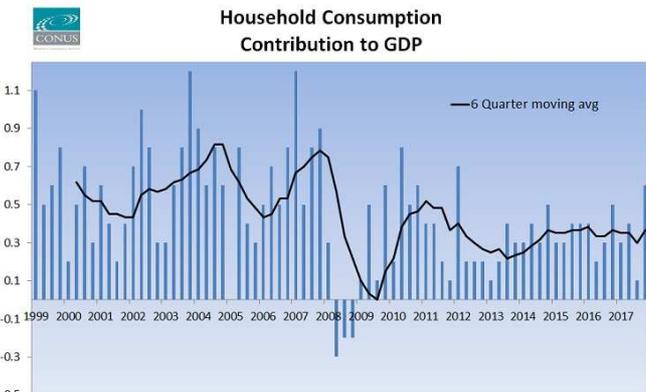
The GDP data for the fourth quarter has shown something of a slowdown from last quarter although it was broadly in line with market expectations. On a seasonally adjusted basis GDP rose 0.4% for the quarter, or 2.4% from the same time a year ago. This brings the cumulative increase for the year to Dec to a 2.3% increase; unchanged from a slightly upwardly revised number in the third quarter.



Source: Australian Bureau of Statistics

The main contributor to growth this quarter was Household Consumption which was up 1.0% q/q and added 0.6ppts to GDP growth. This is the best result from the sector since early 2012. Net exports and Private CAPEX were the biggest drags both subtracting 0.5 ppts from growth.

Household savings remain at low levels (2.7%) despite a minor pick-up this quarter. 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. With household consumption being the largest component of GDO such a slow-down would have significant effects on economic growth.



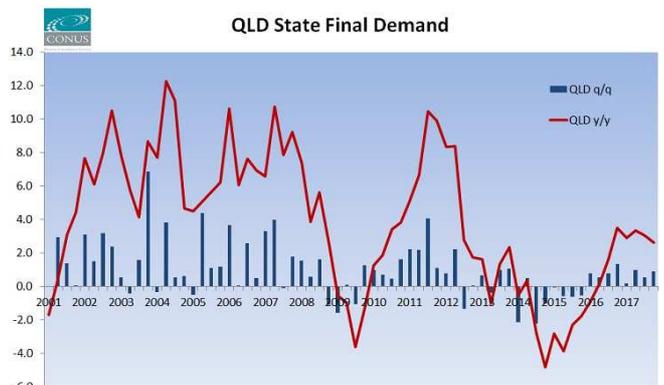
Source: Australian Bureau of Statistics

In Queensland we see State Final Demand (which does not include the State's strong export sector) up 0.9% q/q (after the weak Q3 data was revised up a little to 0.5%). Year on year growth is now running at +2.6%, down

from 3.1% last quarter. Annual growth now sits at 3.0% for the year to Dec 2017 after a rate of 3.2% for the previous quarter (after upward revisions).

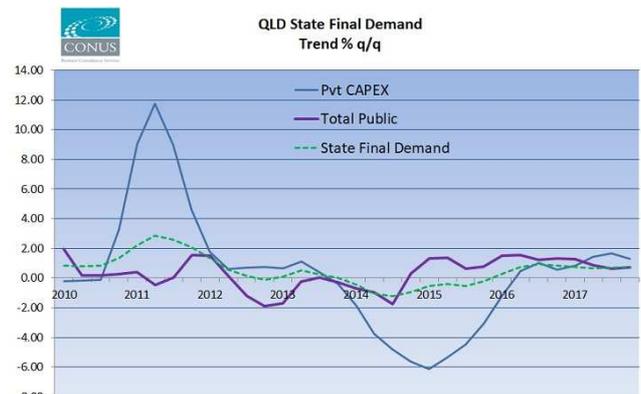
In Trend terms State Final Demand rose 0.7% q/q and, as the second chart below shows, is being kept positive by a steady recovery in Private CAPEX. Private CAPEX data shows a 1.3% q/q increase although this is something of a slowdown from previous quarters (which were also revised stronger).

Household expenditure grew at just 0.5% for the quarter which saw total Private sector expenditure up 0.7% for the quarter. Total Public sector expenditure also rose by 0.7% for the quarter on the back of a 1.8% q/q decline in Public sector CAPEX along with a 1.4% increase in general government consumption.



Source: Australian Bureau of Statistics

It is certainly encouraging to see the improvements in Private CAPEX after the post-mining investment crash (although the recovery appears to be running out of steam somewhat). However, as is the case at a national level, we will need to see household consumption improving if we are to see the 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 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.

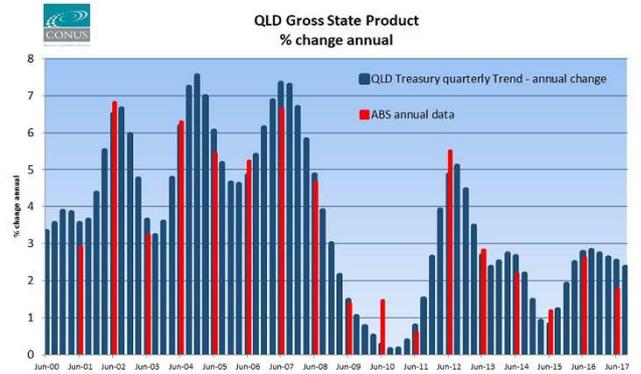


Source: ABS

# FNQ Economy Roundup

Since our last Conus Quarterly we have finally seen the release by the Queensland Treasury of State Accounts for the second and third quarters of last year.

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



Source: Queensland Treasury & ABS

The annual ABS data suggests GSP rose just 1.8% for the year to June 2017, down from a rate of 2.6% in the previous year. However, as the chart below makes clear, there can be relatively significant differences between what the quarterly QLD Treasury data and the annual ABS data suggest (although such differences are often reduced by way of revisions in future quarters).

The latest QLD Treasury data available estimated GSP was growing at a rate of 2.4% in the September quarter with the domestic side of the economy (as measured by Gross State Expenditure) increasing at an annual rate of 2.8%, the fourth quarter of positive numbers after a run of 9 quarters of declines.

The ABS domestic data for the September quarter (measured by State Final Demand) was even more positive with today's release revising growth to 3.1%. The variance between ABS and State data would therefore appear to reside in the net export data. The Treasury data shows a sharp decline in the annual net export figure (down 19.6%) for the year to the September quarter. It is likely that this has been negatively impacted by the effects of Tropical Cyclone Debbie in March 2017.

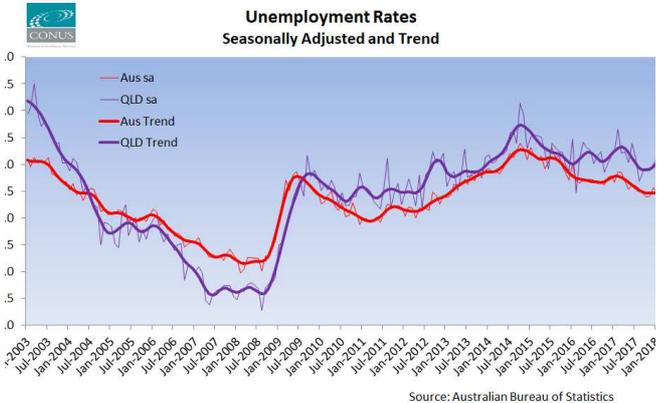
## Employment

Over the past quarter the Trend unemployment rates at both the national (5.5%) and State levels (6.0%) have barely moved despite solid employment growth numbers.

In our own region we have seen Cairns Trend unemployment lift slightly to currently sit just above the State average at 6.2%. Employment growth has moderated over the past 3 months and now sits at an annual rate of just +1.9% which is significantly below the State at +4.7%.

However, there is also good news in the Cairns data with a sharp uptick in the growth of full-time employment (up 7.2%

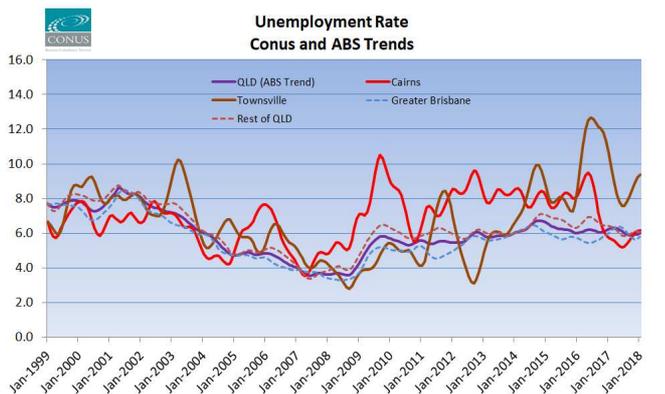
for the year) while part-time positions have fallen. We appear to be seeing the rapid growth in Cairns employment moderating as many of those jobs previously created convert (or extend) into full-time positions.



Source: Australian Bureau of Statistics

Employment in the region is up 2,200 for the year to January (latest available data) but an increase in population tied to an increase in participation has seen that result in a small increase in the Trend unemployment rate. The underlying data, particularly in regards to full-time employment, suggests that the labour market is in better shape than the headline data might suggest.

To our south in Townsville the story is rather different. Here Trend employment growth is running at a very healthy +9.3% pace even though, in the past three months, jobs have remained largely stable. The Trend unemployment rate now sits at 9.4% which, although significantly lower than a year ago, has increased noticeably over the past quarter.



Source: Australian Bureau of Statistics and Conus

Unlike in Cairns, employment growth in Townsville still favours part-time jobs. There is clearly plenty of capacity still untapped in the Townsville market and, despite a sharp rise in participation over the past year, we are yet to see the region's labour market return to anything like its position of a few years ago.

# FNQ Economy Roundup cont..

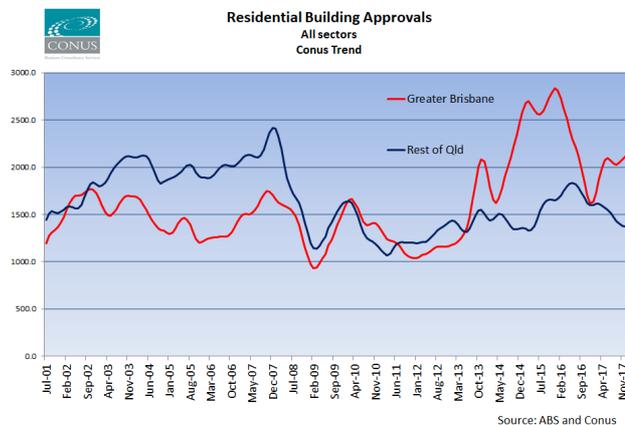
## Building Approvals

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 Jan) shows that approvals growth in the nation currently sits at +6.9% y/y on a Trend basis. This is the best rate of growth for more than 2 years. Queensland has seen a sharp improvement in the past few months and Trend approvals now sit 9.1% higher than a year ago.

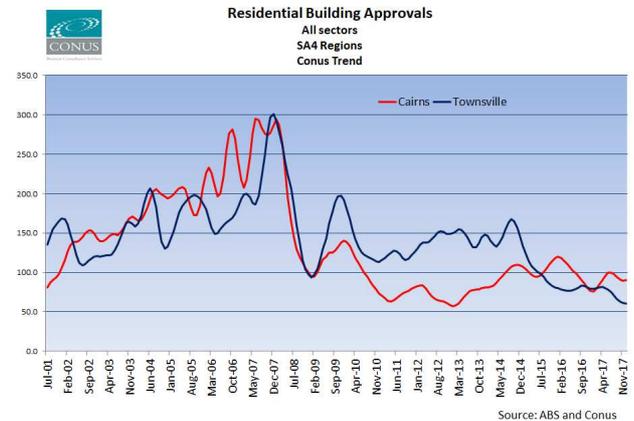


When we consider the breakdown across the state we see that over the past quarter we have seen a sharp recovery in the Greater Brisbane region while the Rest of Queensland has continued to slide (based on the Conus Trend data which is only up to December). The next release of regional approvals data is next week. For the year to Dec approvals in Greater Brisbane were up 30.9% while in the Rest of Queensland they have declined by 14.0%. The Queensland January data would suggest that the Conus Trend Regional data later next week will show some improvements; although given the State data suggests improvements have been restricted to unit approvals any improvement may well be limited to the Greater Brisbane area with little joy to be seen in the regions.



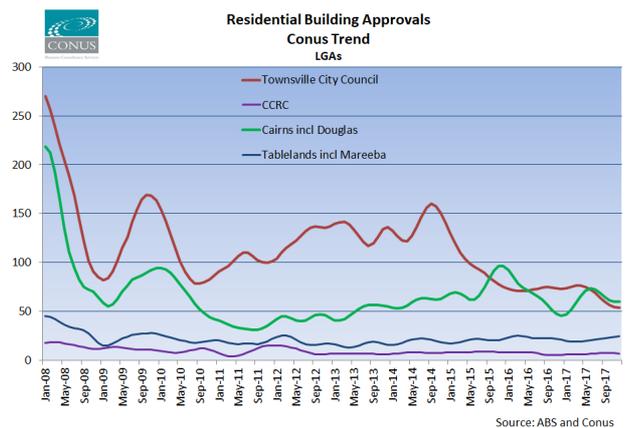
Looking at the Conus Trend data for the Cairns SA4 region we see December approvals sitting at 90 which is about 5% below the level seen three months ago. Trend approvals however remain 18.0% above their level of a year ago.. With further unit developments in Cairns expected to result

in more approvals in coming months (assuming that we see further movement on the Nova City development) we can expect to see the Trend here responding with potential further upward revisions (although the pick-up might be short-lived).



Townsville SA4 region has continued to see a slide in approvals. In December the Conus Trend had fallen to 61 (down from 66 three months ago) and is now down 23.3% from a year earlier.

The Conus Trend data at the LGA level (also currently only available up to December) shows Cairns Regional Council (incl Douglas Shire) on 60, down slightly over the previous three months but still up 39.4% from a year ago. The Casowary Coast Regional Council has been largely stable after a shift higher about 6 months ago and now sits at 7; which is 22.1% above the level of a year ago. Tablelands Regional Council (incl Mareeba Shire) has been edging higher and now sits at 25, up 17.6% for the year. While Townsville City Council has fallen to 54 (and is now down 22.5% for the year).



## Tourism

Tourism remains perhaps the brightest star in the economic firmament in FNQ. However, even here things are certainly not smelling of roses.

Since our last edition data for the September quarter has shown some pleasing improvement in domestic expendi-

# FNQ Economy Roundup cont..

ture data, which had been an area of real concern given its sharp declines from highs of mid-2016. Nevertheless, in the year to September 2017 domestic visitor expenditure in TNQ (on both overnight and day visits) has fallen by 3.1%. When we add in the effect of inflation the real decline is closer to 5%. This comes in spite of strong growth of domestic tourism expenditure across the nation as a whole

The number of domestic overnight visitors to the region have decreased by almost 3% this year while they have increased by more than 7% across the nation and are up by



Source: TRA National Visitor Survey

9.7% for Queensland. Clearly the TNQ region is doing badly on the domestic front (despite the welcome improvement in the third quarter) 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.

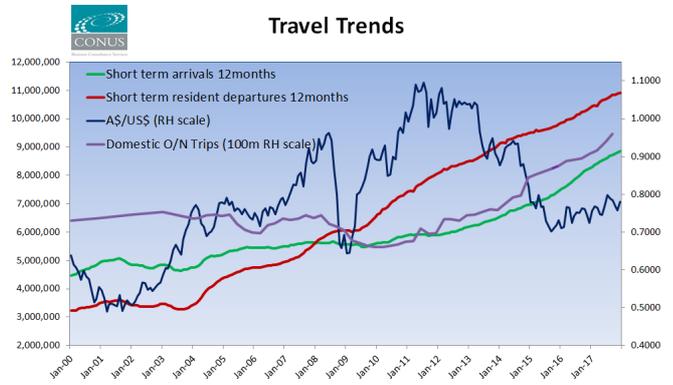
Tropical Cyclone Debbie (which hit the Whitsundays towards the end of March 2017) may have had some impact on visitor numbers in the last couple of weeks of March given the system hung around for a while and, earlier, had been forecast to impact much further north. However, as the chart above makes clear, the decline had been well in place long before any such (minor) effect could have been felt.

The decline in domestic tourism data for the region has come on the back of a very sharp ramp up from mid-2014 so it may simply be that what we are witnessing is merely a slowdown in an otherwise intact move higher. It is true that domestic expenditure in September 2017 was still more than 3.6% higher than June 2015, but allowing for inflation (even at present low rates) wipes out any such nominal increase.

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Last quarter we noted that we were watching and hoping for some sign of recovery in the domestic data for the September quarter. We have now seen that improvement so we will hope that future quarters continue the improving trend and that TNQ’s dramatic under-performance can be arrested.



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

The story on the international front looks slightly better for the region, largely on the back of strong Chinese arrivals. Unfortunately the nascent recoveries that we had started to see in the Japanese and US markets appear to have run out of steam. As a result international visitors to TNQ are up just 1.5% for the year to Sept (versus a national increase of 7.3%). Expenditure too has been poor, down 1.3% on the back of international visitors to the area staying less time and spending less money when they’re here.



Source: Tourism Research Australia

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 above hints at), if we do not want to see tourism once again being a negative for the region.