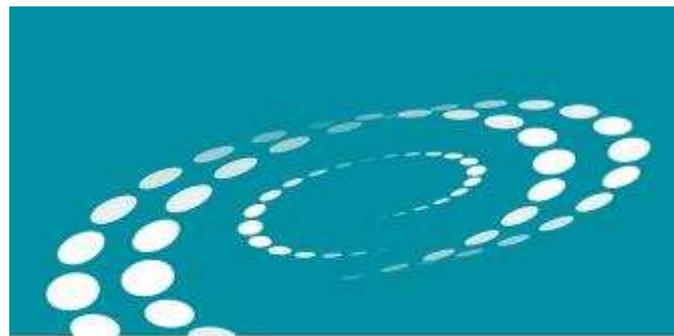




# The CONUS Quarterly

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CONUS

Business Consultancy Services



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A detailed look at the economy in our own region

### 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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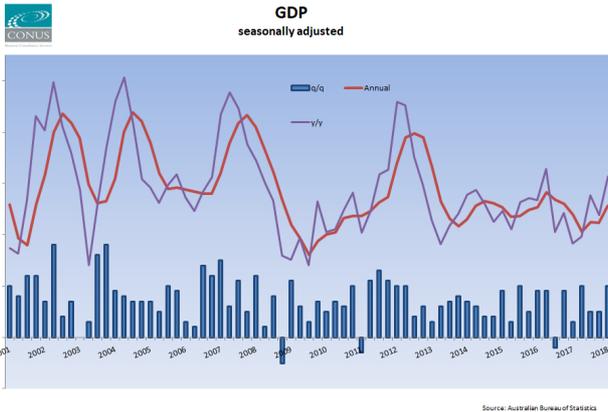
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# 2nd Quarter Australian GDP

The second quarter GDP data released this morning came in somewhat higher than expectations (although the better than expected numbers came about largely from "statistical discrepancy" adding 0.2 ppts). The market had been looking for real GDP to lift 0.7-0.8% for the quarter to give a 2.7% y/y figure. The result was actually a 0.9% q/q lift which, with some solid upward revisions to previous quarters, saw the year on year figure up at 3.4%; its fastest pace since the third quarter of 2012.



Contributions to growth came from household consumption (up 0.7% q/q and adding 0.4 ppts to GDP), government consumption which added 0.2 ppts and net exports which added 0.1 ppts.

With wages growth stuck around historically low levels (the latest result for the second quarter wage price index was just a 2.1% lift for the year), growth in household consumption continues to drive the household savings rate lower. It fell again this quarter to just 1.0%, its lowest rate since the end of 2007.

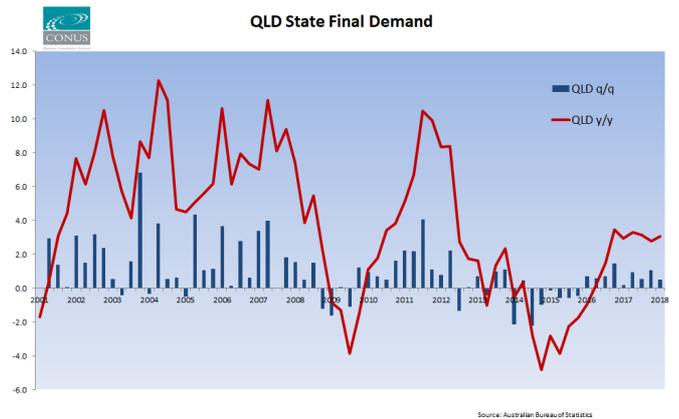


The ABS also provide us with quarterly data for State Final Product, which is the domestic component of the state's economy. Data for Gross State Product (which includes the international and inter-state elements) is only available from the ABS on an annual basis and we won't get that until November. However, the QLD Treasury do provide quarterly estimates for Gross State Product (albeit rather delayed) and a week or so ago we got their data for the first quarter of

2018.

The seasonally adjusted data showed just a 0.1% lift in State Final Demand or a 3.4% y/y increase. However, at the state level we much prefer the less volatile Trend series.

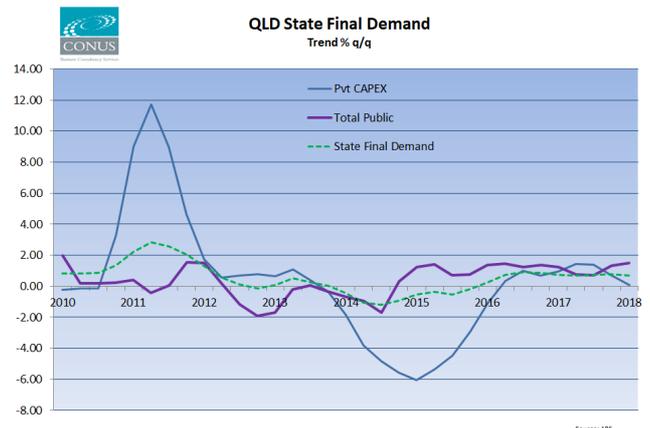
The QLD Treasury data for Q1 showed State Final Demand grew 0.9% which is now agreed by the ABS who revised up their original 0.5% Trend estimate to 0.9% with today's release. Large variances between the two measures are often decreased by revisions in one or other (or both) in coming quarters.



The ABS have QLD's Trend State Final Demand in Q2 lifting 0.7% q/q for an annual rate of 3.7% (up from a revised 3.6% in Q1) or a year on year rate of 3.4%. This annual rate now sits well above the original QLD Treasury estimate of 3.0% so we can expect to see some revision upwards in the next Treasury release.

The slowing in growth in the second quarter is due almost entirely to a sharp slowdown in the public sector. Government consumption lifted just 0.7% q/q (after 1.3% growth in Q1) while public fixed capital investment was up 1.1% q/q (down from 1.5% in Q1).

The QLD Budget estimated that Gross State Product would lift by 2.75% in the 2017-18 year. While we won't get the definitive result on this until later in the year, the upward revisions seen to the national data for Q1 and the relatively healthy result for Q2 would suggest that this target may well be about right.



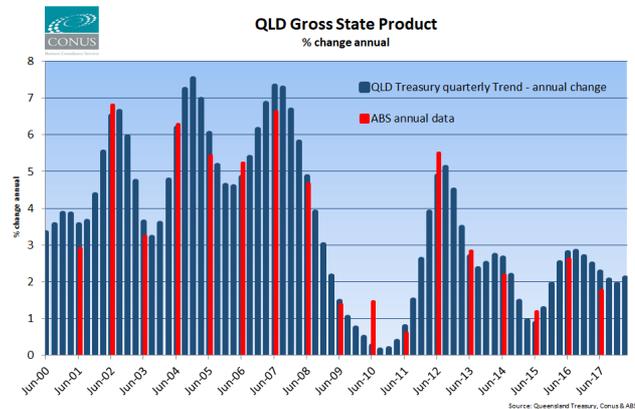
# FNQ Economy Roundup

Since our last issue we have now seen both the Q4 2017 and Q1 2018 Gross State Product data released by the 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.

We have previously seen some disparity in these two measures. However, we tend to see these disparities largely revised away over time. A good example of this is the upward revisions from the ABS in today's release which brought their estimate of State Final Demand growth in the first quarter into line with the original Treasury estimate.

This most recent data for the first quarter of 2018 shows Gross State Product (the domestic portion of the economy)



increasing by 0.9% q/q for an annual growth rate of 3.0% (down from 3.1% in Q4). This was driven largely by a very strong uptick in Government consumption which lifted 2.5% q/q (although today's ABS data suggests the public sector slowed sharply in the second quarter). Household consumption (by far the largest component) was up 0.4% q/q while both private and public fixed investment were also up 0.4%.

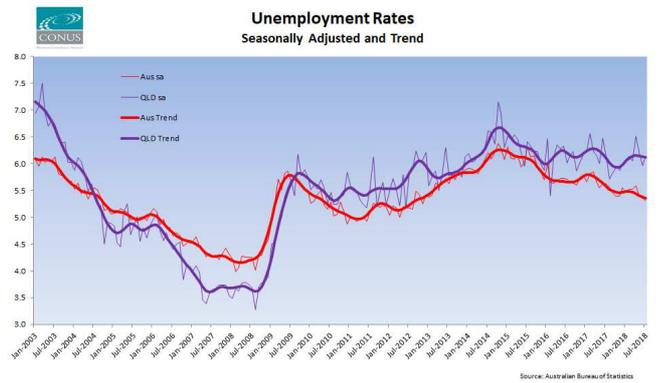
Net exports improved by 2.8% q/q and as a result the Gross State Product showed a 1.1% q/q gain for an increase of 2.1% for the 12 months.

Contributors to GSP growth were Govt consumption +0.5 pts, Household consumption +0.2 pts, Private fixed capital investment +0.1 pts and Net exports +0.2 pts.

## Employment

Over the past quarter the Trend unemployment rate at the national level has remained static at 5.4%. Unfortunately in Queensland we see Trend unemployment also stable but at the higher Rate of 6.1%. Trend employment across the nation is up over 70,000 in the past three months while in Queensland it has risen less than 10,000 in the same period. Clearly things are not as robust in the Sunshine State as elsewhere.

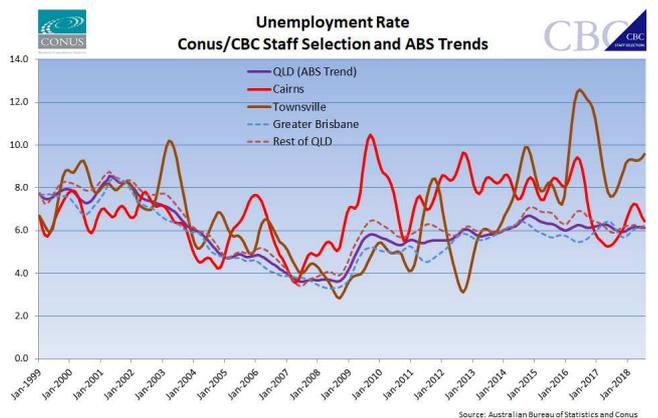
However, in our own region we have seen the Cairns Conus/CBC Staff Selection Trend unemployment rate improv-



ing somewhat and it currently sits at 6.4%. Employment decline has slowly significantly, although Trend employment remains 5,000 below where it sat a year ago.

The rapid improvement we had seen in the Cairns labour market appeared to run out of steam and we saw some weakening into the first few months of this year. More recently we are seeing some improvement return with Trend employment up 1,600 in the last quarter. It now appears that we are witnessing the Trend unemployment rate in the region settle down at a level only slightly above that at a state level.

To our south in Townsville the story is rather different. Here Trend employment growth is remains positive although its pace has slowed significantly in recent months. The Trend unemployment rate has lifted to 9.6% despite the region adding 2,000 to employment over the past year; the reason for the apparent paradox is a sharp increase in participation. The number unemployed in Townsville has increased by 2,800 in the past 12 months.



## Building Approvals

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

The most recent data (for July) shows that approvals growth in the nation currently sits at -2.5% y/y on a Trend

# FNQ Economy Roundup cont..

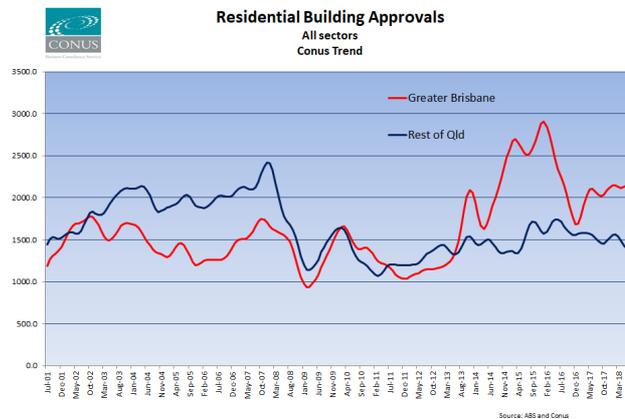


basis. Approvals have been drifting glower over the past 6 months. Queensland has slowed somewhat in the past few months with Trend approvals now sits 1.9% lower than a year ago.

When we consider the breakdown across the state we see that over the past quarter we have seen a slight recovery in the Greater Brisbane region while the Rest of Queensland has moved significantly lower (based on the Conus Trend data which is up to June). For the year to June approvals in Greater Brisbane were up 1.9% while in the Rest of Queensland they have fallen by 10.5%.

is now down 36.7% from a year earlier.

The Conus Trend data at the LGA level shows Cairns Regional Council (incl Douglas Shire) on 93, still heavily impacted by the Nova City data, and up 45.2% 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 6; which is 17.% 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 the year, and now sits at 20 which is down 1.9% from a year ago. While Townsville City Council has fallen to 42 (and is now down 42.5% for the year).



Looking at the Conus Trend data for the Cairns SA4 region we see the regional downward trend has been firmly bucked. In large part this is due to the appearance in the data of the approvals for the Nova City development. Although this one-off spike saw the Trend move much higher, we are now seeing that effect starting to 'wash-out' of the data and the Trend is starting an inevitable shift to a more reasonable level. We can expect to see this continue in coming months. Whether we see the Trend return to a level that confirms an underlying improvement in approvals only time will tell.

## Tourism

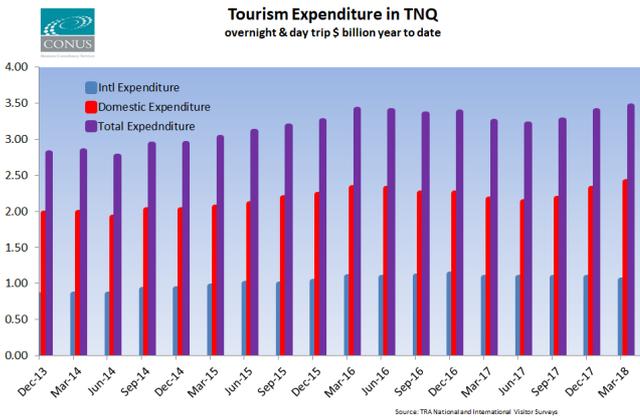
The tourism story in our region is one of two very different results; unfortunately both of them are significantly worse than the results seen at a national level. The Far North is doing very poorly in, what is elsewhere, a massive tourism boom.

For the year to June Trend approvals in Cairns sit 22.1% above their level of a year ago.

Let's start with the domestic market, where things are looking slightly better for the region. Our latest data (to the March quarter 2018) showed domestic visitor expenditure up sharply for the third 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.

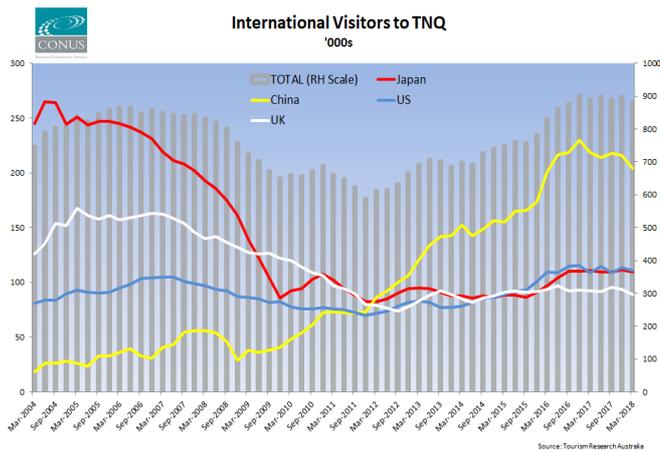
Townsville SA4 region has continued to see a precipitous drop in approvals. In June the Conus Trend had fallen to 50 (down from 70 six months ago, and a new record low) and

# FNQ Economy Roundup cont..



Since the March quarter in 2016 total domestic visitor expenditure in Australia has lifted 12.1%. In Tropical North Queensland that two-year increase is a much less impressive 3.6% (bearing in mind that these numbers are nominal, if we account for inflation we can see that things have gone nowhere).

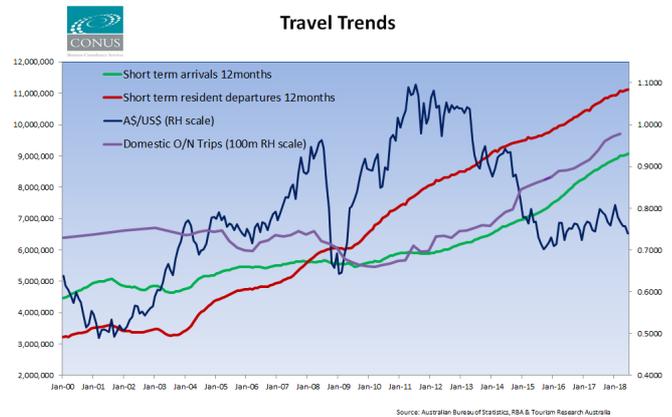
Unfortunately the story is far worse when we consider the international visitor market.



International visitor expenditure across Australia increased by an impressive 15.4% in the two years to March 2018. In the Far North it has fallen by 3.7%! The main driver behind that can be seen in the chart below. Chinese visitors (by far and away the region's largest market) have been in steady decline for more than a year. 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 1.1% for the year to March (versus a national increase of 7.5% and an increase of 5.5% to Queensland). Expenditure too has been poor, down 2.9% in TNQ (+6.7% nationally) on the back of international visitors to the area staying less time and spending less money when they're here.



Some have raised concern about the quality of the data coming out of the Tourism Research Australia surveys, and in particular the International Visitor Survey. While we acknowledge that there are shortcomings with the data (always an issue when you rely on a survey) we see no reason to dismiss the clear conclusions of poor underperformance relative to other regions and especially when it comes to the international market.

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

Years of under-investment in tourism infrastructure are fortunately being addressed. 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 less than 11%.

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. "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?"

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