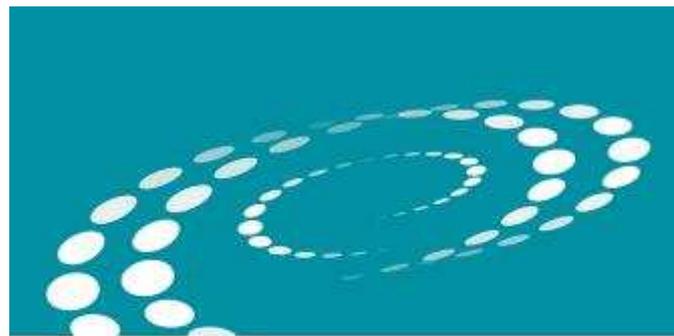




The CONUS Quarterly

Vol. X - Issue 4 - Dec 2018



CONUS

Business Consultancy Services



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Editor's Note

We would like to wish all readers a very Happy Christmas and a Healthy and Prosperous New Year.

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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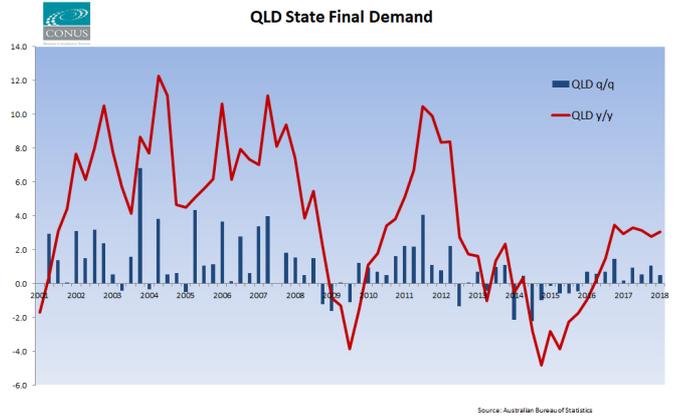
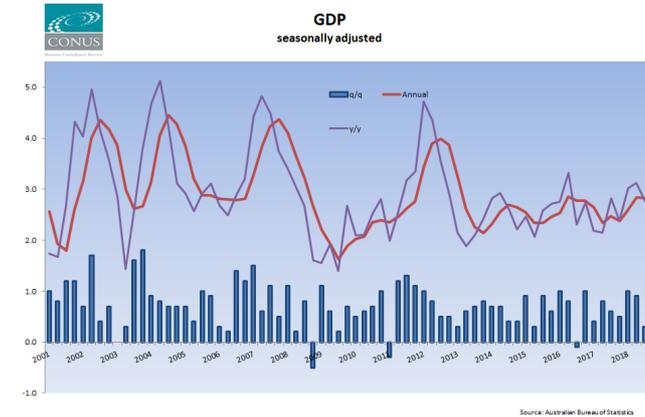
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3rd Quarter Australian GDP

The third quarter GDP data released this morning came in lower than expectations as household consumption growth tailed off. The market had been looking for real GDP to lift 0.6% for the quarter to give a 3.0% y/y figure. The result was just a 0.3% q/q lift which, with some downward revisions to previous quarters, saw the year on year figure down to just 2.8%.

The QLD Treasury Trend data for Q2 showed State Final Demand grew 1.1%, although today's ABS data has that at a much less impressive 0.4% in Q2 falling to just 0.1% in Q3. Large variances between the two measures are often decreased by revisions in one or other (or both) in coming quarters.

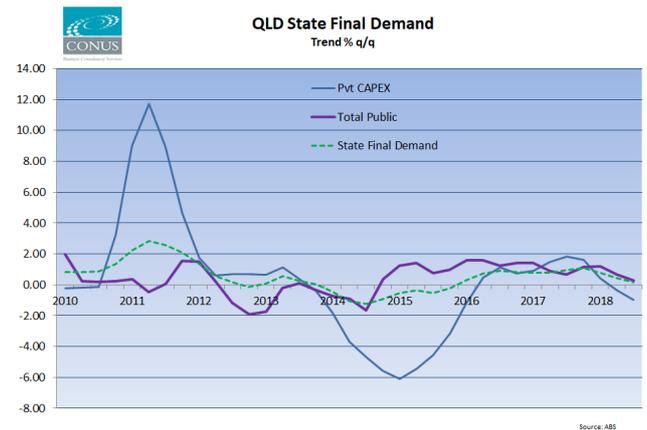
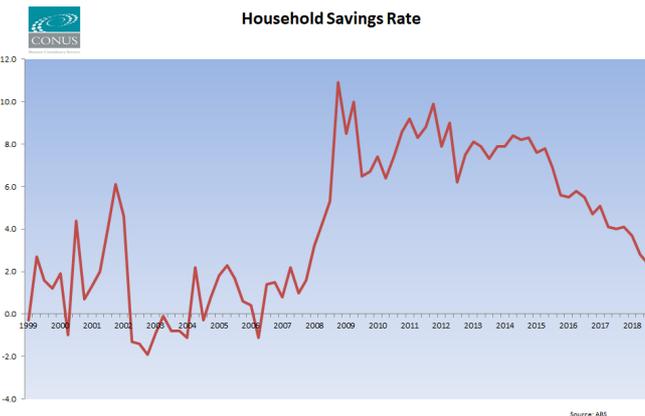


Contributions to growth came from household consumption (up just 0.3% q/q and adding 0.2 pts to GDP) and Net Exports which added 0.3 pts to growth. Inventories deducted 0.3 pts.

The ABS have QLD's Trend State Final Demand in Q3 lifting just 0.1% q/q for an annual rate of 3.3% (down from a revised 3.5% in Q2) or a year on year rate of 2.5%.

With wages growth stuck around historically low levels (even though the latest wage price index showed a slight uplift to 2.3%), even this modest growth in household consumption continues to drive the household savings rate lower. It fell again this quarter to just 2.4%, its lowest rate since the end of 2007.

The slowing in growth in the third quarter is partly due to a slowdown in the growth of the public sector. Government consumption lifted just 0.3% q/q (after 0.6% growth in Q2) while public fixed capital investment was also up 0.3% q/q (down from 1.0% in Q2). While household consumption managed a 0.5% q/q lift (slowest pace of growth since early 2016), private capital expenditure fell (for the second consecutive quarter) by 1.0%.



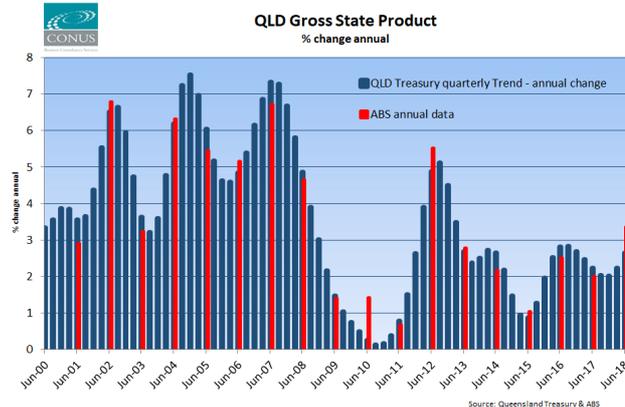
The ABS also provide us with quarterly data for State Final Product, which is the domestic component of the state's economy. Data for Gross State Product (which includes the international and inter-state elements) is only available from the ABS on an annual basis; the most recent data for 2017-18 showed 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 second quarter of 2018.

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 quarter of the 2018-19 financial year that projected growth may have to rely more heavily on the export sector than anticipated.

FNQ Economy Roundup

Since our last issue we have seen Q2 2018 Gross State Product data released by the QLD Treasury and the annual data from the ABS for the 2017-18 financial year.

While the ABS produce Gross State Product data only on this 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.

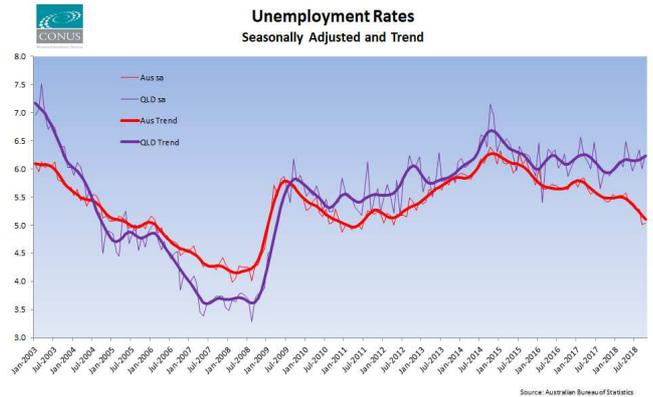
This most recent Treasury data up to the second quarter of 2018 shows Gross State Expenditure (the domestic portion of the economy) increasing by 1.1% q/q for an annual growth rate of 3.6% (up from 3.3% in Q1). The ABS equivalent (State Final Demand) showed an increase of 3.5% for the 2017-18 financial year.

Gross State Product (which includes the impact of international and inter-state net exports) was up, according to the QLD Treasury data, 0.8% q/q for an annual increase of 2.6%. This was driven by an uptick in Government consumption (which added 1.2ppts to GSP), Household consumption (by far the largest component) added 1.6ppts and Private investment which added 1.2ppts. Treasury data suggests net exports detracted 1.3ppts from Gross State Product.

The ABS annual data showed a stronger result with an annual increase of 3.4%. Clearly the ABS data was much more positive about the external side of the QLD economy than the Treasury, given how similar their readings of the domestic component were. We will not be surprised to see both data sets revised in coming quarters to see that apparent discrepancy decrease and a result around 3.0% appears likely to be the final result (somewhat faster than the annual national rate of 2.8%)

Employment

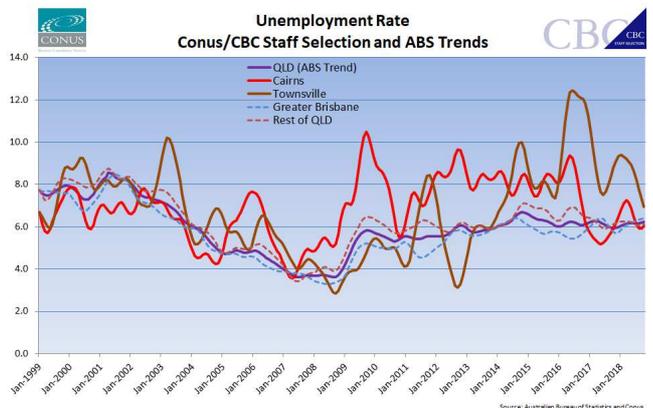
Over the past quarter the Trend unemployment rate at the national level has fallen to 5.1%. Unfortunately in Queensland we see Trend unemployment stable but at the higher Rate of 6.2%. Trend employment across the nation is up over 78,700 in the past three months while in Queensland it has risen just 1,500 in the same period. Clearly things are



not nearly 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 improving somewhat and it currently sits at 6.0%. Employment growth has finally turned positive with some 3,400 added to Trend employment in the past year and almost 8,000 added in the past six months.

The slight deterioration in the Cairns labour market seen at the start of the year has now been reversed and the Trend data suggests the region's employment outlook is significantly brighter than at any time in recent years; employment growth sits at 2.9% pa.



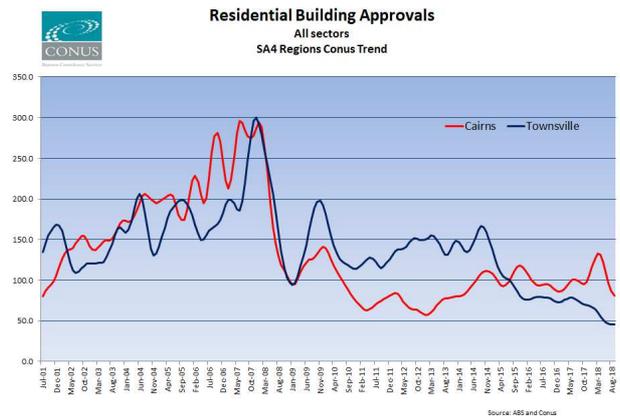
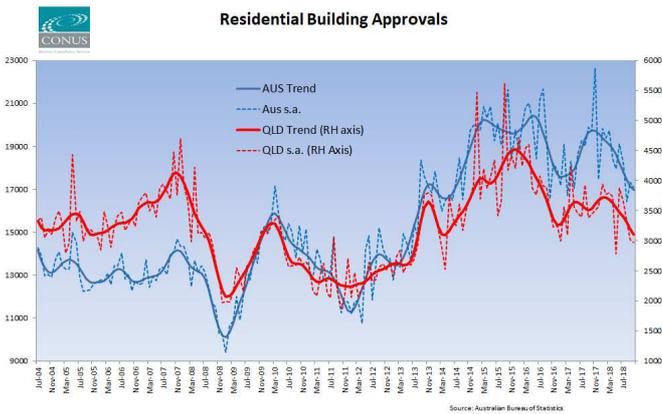
To our south in Townsville things have also improved, although the pace of improvement has slowed. Here Trend employment growth remains positive although its pace has slowed significantly in recent months and now is just 1.8% pa. The Trend unemployment rate has fallen to 6.9% with the region adding 1,900 to employment over the past year; a sharp fall in participation the reason that the unemployment rate has fallen so far despite lack-lustre employment growth.

Building Approvals

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

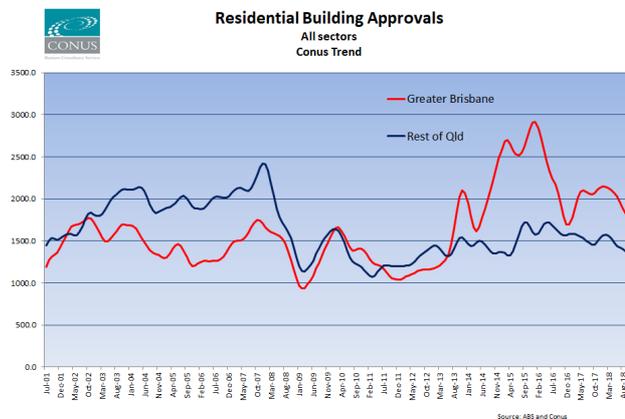
The most recent data (for Oct) shows that approvals growth in the nation currently sits at -13.9% y/y on a Trend

FNQ Economy Roundup cont..



basis. Approvals have been drifting lower over the past 12 months. Queensland has slowed at a similar pace with Trend approvals now 12.0% lower than a year ago.

When we consider the breakdown across the state (with data only available to Sept 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 has been falling much faster (based on the Conus Trend data). For the year to Sept approvals in Greater Brisbane were down 11.3% while in the Rest of Queensland they have fallen by 5.6%.



gional Council (incl Douglas Shire) on 55 down 12.7% 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 4.2% 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 16 which is down 29.9% from a year ago. While Townsville City Council has fallen to 41 (and down 29.2% for the year).

Looking at the Conus Trend data for the Cairns SA4 region we see the regional downward magnified. As we noted in our last issue, the Cairns region saw a sharp uptick in approvals earlier in the year as the Nova City development appeared in the data. This 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 remain weak..

For the year to Sept Trend approvals in Cairns sit 15.6% below their level of a year ago.

Townsville SA4 region has continued to see a precipitous drop in approvals. In Sept the Conus Trend had fallen to 46 (down from 70 a year ago, and a new record low) and is now down 36.9% from a year earlier.

The Conus Trend data at the LGA level shows Cairns Re-

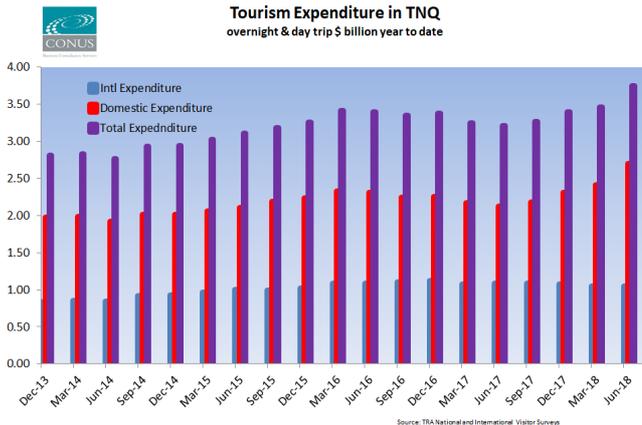
Tourism

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 June quarter 2018) showed domestic visitor expenditure up sharply for the fourth 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 15.8%. In Tropical North Queensland, over the same period, the lift is a little less impressive 13.6% (bearing in mind that these numbers are nominal, if we account for inflation we need to adjust these growth rates down by about 4.5%). Nevertheless, these

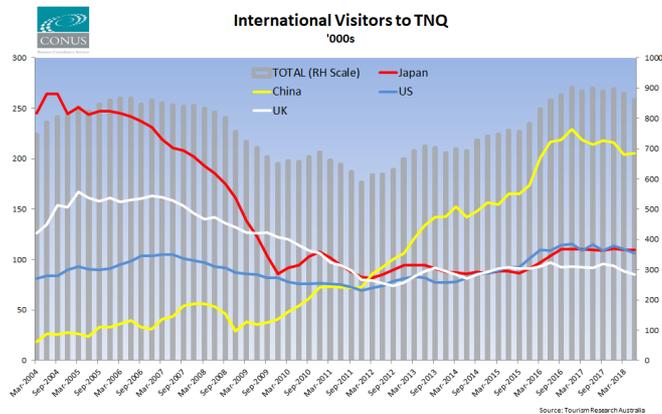
FNQ Economy Roundup cont..



rates of growth at national and regional level are impressive.

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

International visitor expenditure across Australia increased by an impressive 15.2% in the two years to June 2018. In the Far North it has fallen by 3.1%! 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 well over 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 4.2% for the year to June (versus a national increase of 6.2% and an increase of 4.1% to Queensland). Expenditure too has been poor, down 2.8% in TNQ (+4.8% national-ly) on the back of international visitors to the area staying

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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 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 less than 10.3%.

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?"...since then nothing has changed to suggest otherwise.