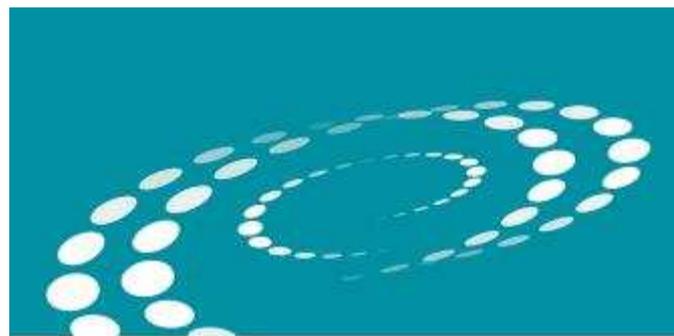




# The CONUS Quarterly

Vol. XI - Issue 1 - Mar 2019



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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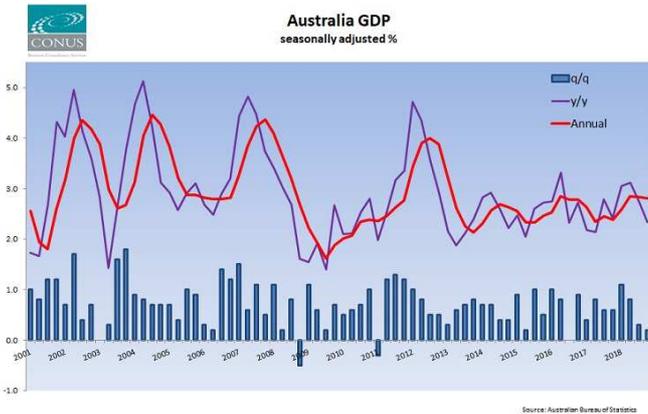
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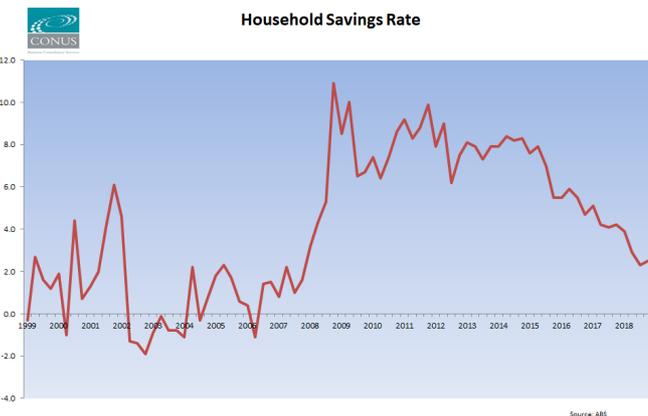
# 4th Quarter Australian GDP

The fourth quarter GDP data released this morning came in lower than expectations as household consumption growth remained weak. The market had been looking for real GDP to lift about 0.4% for the quarter to give a 2.7% y/y figure. The result was just a 0.2% q/q lift which saw the year on year figure down to just 2.3%.



Contributions to growth came from household consumption (up just 0.4% q/q and adding 0.2 ppts to GDP) and Govt Consumption which added 0.3 ppts to growth. Private fixed capital formation deducted 0.3 ppts.

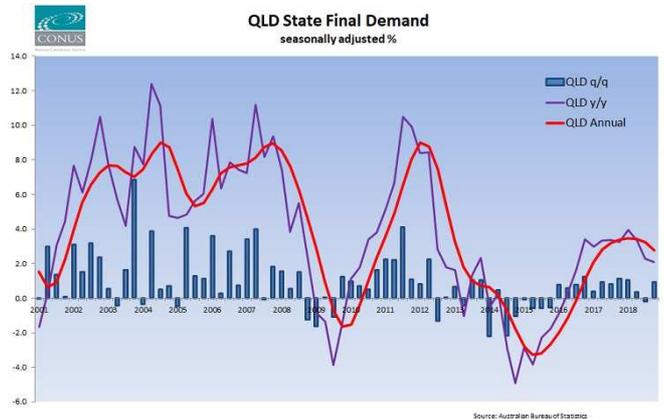
With wages growth stuck around historically low levels (even though the latest wage price index showed a slight uplift to 2.3%), even this modest growth in household consumption is keeping the household savings rate low. Although it edged slightly higher this quarter (to 2.5%) it remains close to 10-year 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 third quarter of 2018.

The QLD Treasury Trend data for Q3 showed State Final

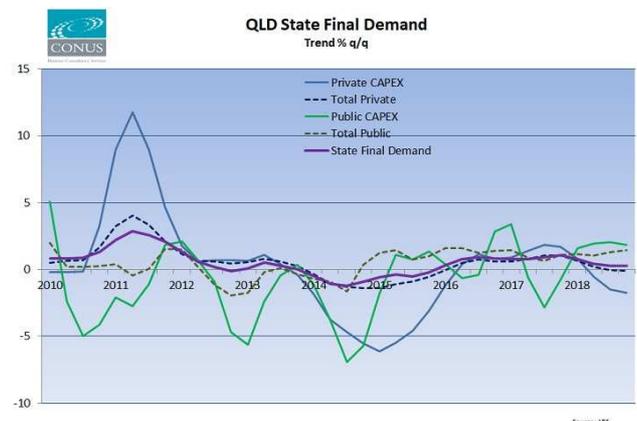
Demand was unchanged; today's revised ABS data for Q3 had growth of 0.3%. It remains at that pace in Q4 for an annual rate of growth of 2.8% after Q3 was revised down to +3.2% (from +3.3%). Large variances between the two measures are often decreased by revisions in one or other (or both) in coming quarters.



As the chart above makes clear, the domestic side of the QLD economy is experiencing a marked slow-down.

The slowing in growth in the fourth quarter is largely due to a slowdown in private sector investment, which fell 1.8% q/q. The Public sector saw solid growth with government consumption growing at 1.3% q/q and public investment up 1.8% q/q. However, although the total public sector grew at 1.4% q/q this was largely negated by the much larger private sector contracting by 0.1% q/q. Household consumption managed a 0.5% q/q lift (equal slowest pace of growth since early 2016) but private capital expenditure fell (for the third consecutive quarter). (All QLD figures quoted are Trend)

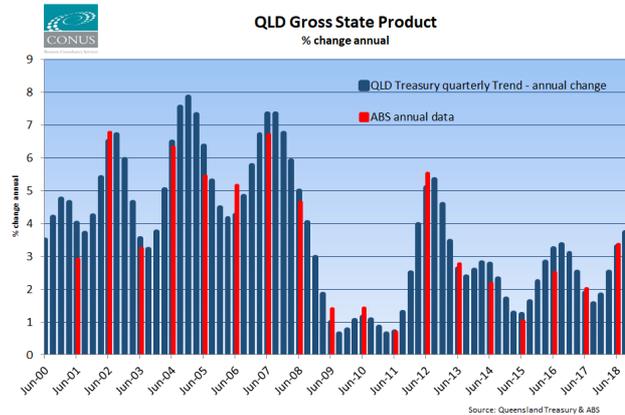
The QLD 2018-19 Budget estimates that Gross State Product will lift by 3.0% in the 2018-19 year on the back of "household consumption gaining momentum and a contribution to growth from the trade sector as imports ease". On the evidence of these relatively weak household consumption figures in the first two quarters 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 Q3 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 third quarter of 2018 shows Gross State Expenditure (the domestic portion of the economy) unchanged q/q for an annual growth rate of 3.1% (down from 3.3% in Q2). The ABS equivalent (State Final Demand) showed an annual increase of 2.9% for the year to Dec 2018 (see commentary on the previous page for details).

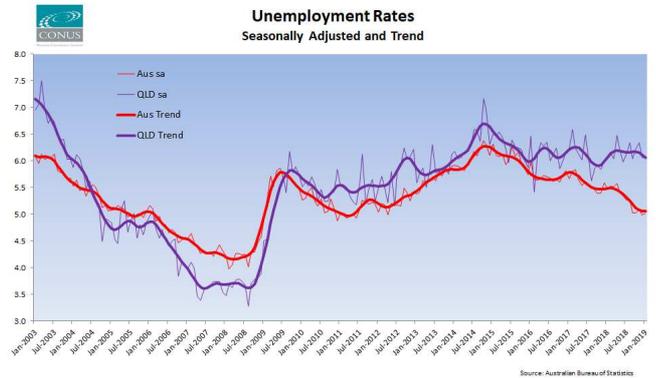
Gross State Product (which includes the impact of international and inter-state net exports) was up, according to the QLD Treasury data, 0.5% q/q for an annual increase of 3.7%. This was driven by an uptick in Government consumption (which added 1.0ppts to GSP), Household consumption (by far the largest component) added 1.4ppts and Private investment which added 0.8ppts. Treasury data suggests net exports added another 0.5ppts to Gross State Product.

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 the Q3 data from Treasury revising up 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%.

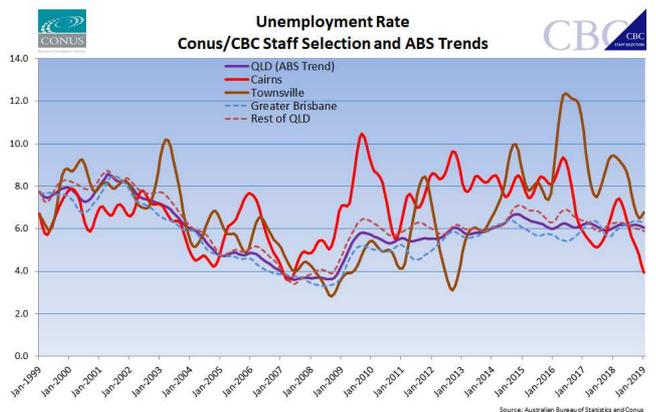
## Employment

Over the past quarter the Trend unemployment rate at the national level has remained stable at 5.1%. In Queensland we see the Trend unemployment has fallen slightly to 6.1% but remains well above the national level. Trend employment across the nation is up over 80,000 in the past three months while in Queensland it has risen just 8,800 in the same period. Clearly things are not nearly as robust in the

Sunshine State as elsewhere; in particular NSW and Victoria where unemployment rates continue to fall.



However, in our own region we have seen the Cairns Conus/CBC Staff Selection Trend unemployment rate improving. Recent extreme volatility in the underlying ABS regional unemployment data has forced us to treat the Trend unemployment rate with extreme caution (an apparent rate of 3.5% is clearly not reasonable) although we can expect to see the Trend revised in coming months as this data volatility works through the system. Employment growth has been positive for some months with 8,200 added to Trend employment in the past year and over 7,000 added in the past six months.

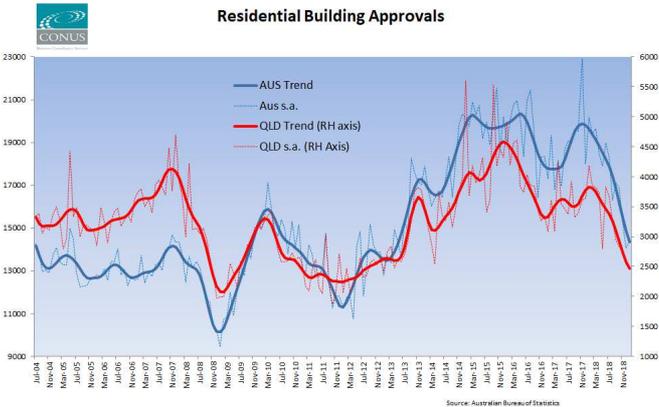


The slight deterioration in the Cairns labour market seen at the start of the last year has now been reversed and the Trend data suggests the region's employment outlook is significantly brighter than at any time in recent years; employment growth sits at 7.1% pa.

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 -3.5% pa. The Trend unemployment rate has fallen to 6.8% but this is only because of a sharply weaker participation rate which has seen 3,700 fewer in work while registered unemployed have also dropped 3,600. The impact on labour force data from the recent flood event is likely to show up in coming months with some short-term weaker, but medium-term stronger, effects likely.

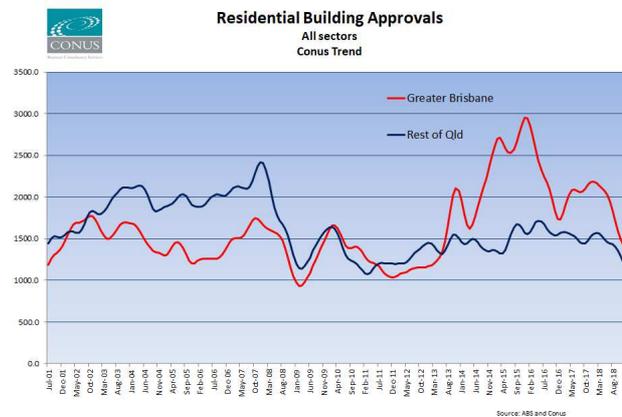
# FNQ Economy Roundup cont..

## Building Approvals



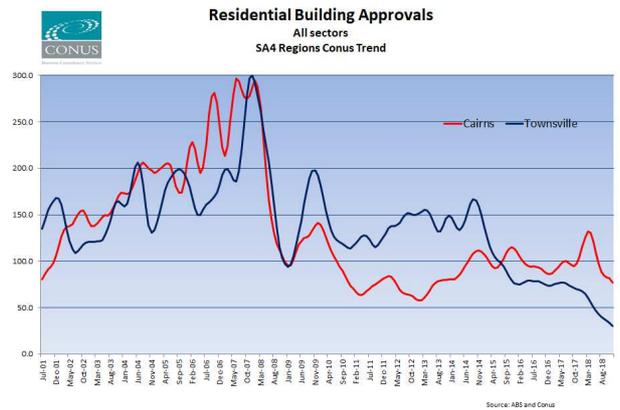
The level of residential building approvals across the state and the nation continues to exhibit a good degree of weakness in recent months.

The most recent data (for Jan) shows that approvals growth in the nation currently sits at -27.0% y/y on a Trend basis. Approvals have been drifting lower over the past 12 months. The decline in Queensland has accelerated in recent months with Trend approvals now 35.5% lower than a year ago.



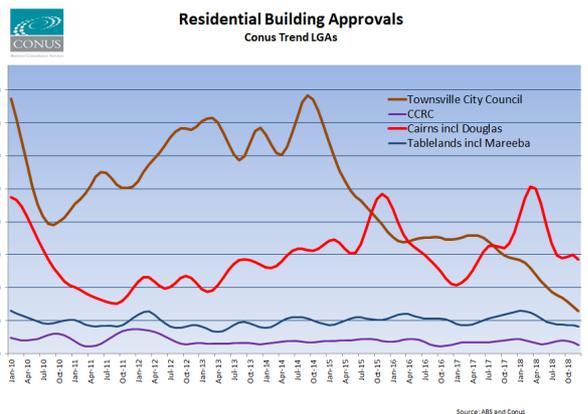
When we consider the breakdown across the state (with data only available to Dec at time of writing) we see that over the past quarter we have seen falls in both the Greater Brisbane region and Rest of Queensland but that the Greater Brisbane area has been falling much faster (based on the Conus Trend data). For the year to Dec approvals in Greater Brisbane were down 35.3% while in the Rest of Queensland they have fallen by 21.5%.

Looking at the Conus Trend data for the Cairns SA4 region we see the regional downward magnified. 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 remain weak..



For the year to Dec Trend approvals in Cairns sit 26.6% below their level of a year ago.

Townsville SA4 region has continued to see a precipitous drop in approvals. In Dec the Conus Trend had fallen to 31 (down from 69 a year ago, and a new record low) and is now down 55.8% from a year earlier.



The Conus Trend data at the LGA level shows Cairns Regional Council (incl Douglas Shire) on 57 down 15.1% 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 5; which is 37.6% 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 17 which is down 34.5% from a year ago. While Townsville City Council has fallen to 26 (and down 50.9% for the year). There is no sign that the construction industry in Townsville is likely to see improvements any time soon.

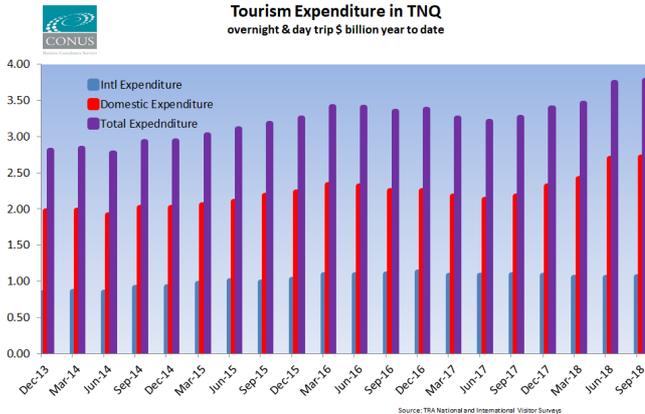
## Tourism

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 Sept 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

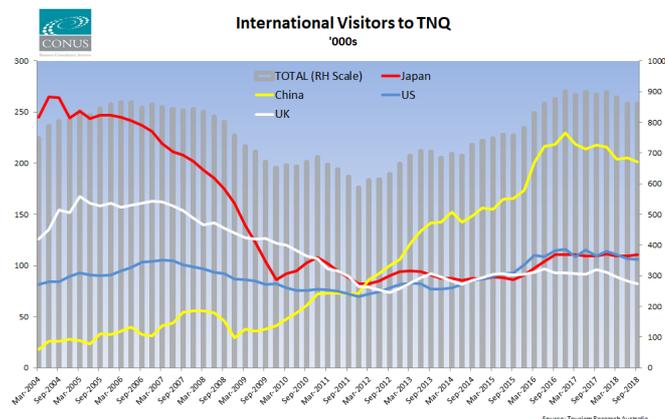
# FNQ Economy Roundup cont..

encouraging we need to look at it in context.



Since the March quarter in 2016 total domestic visitor expenditure in Australia has lifted 20.6%. In Tropical North Queensland, over the same period, the lift is a little less impressive 16.4% (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 15.5% in the two years to Sept 2018. In the Far North it has fallen by 3.3%! 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

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out of steam. As a result international visitors to TNQ were down 3.4% for the year to Sept (versus a national increase of 5.7% and an increase of 4.6% to Queensland). Expenditure too has been poor, down 2.1% in TNQ (+5.2% 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, 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 10.2%.

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.