The CONUS Quarterly

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CONUS

Business Consultancy Services

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Editor's Note

Welcome to the third 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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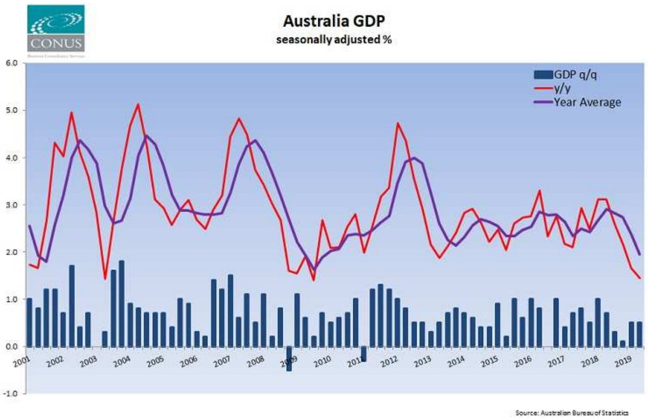
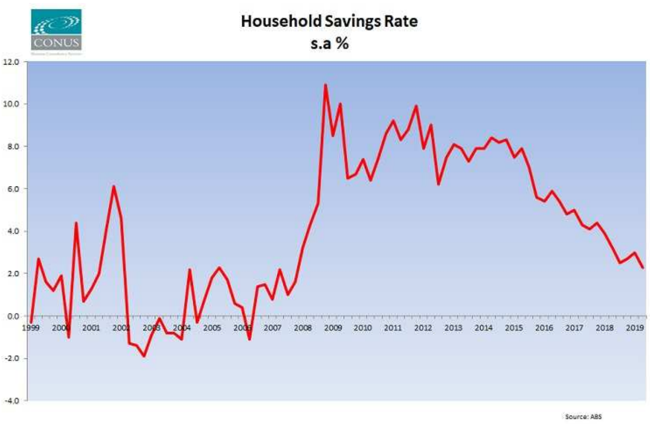
2d Quarter Australian GDP

The second quarter GDP data released this morning was broadly in line with expectations as household consumption growth remained weak. Seasonally adjusted GDP rose 0.5% q/q for a year-on-year increase of just 1.4% (down from 1.7% in the previous quarter). This is now the slowest pace of growth since the GFC.



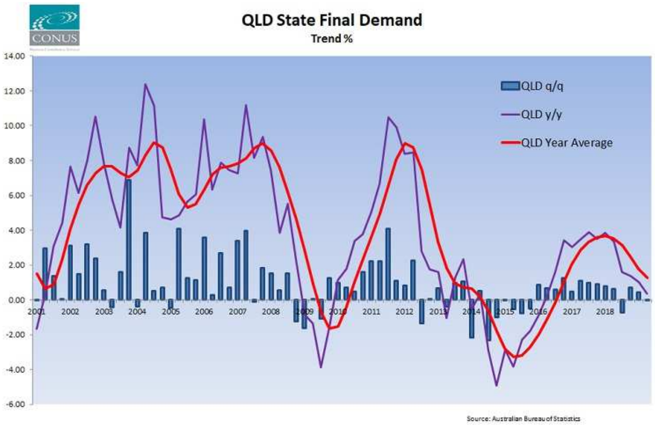
Contributions to growth came from household consumption (up just 0.4% q/q and adding 0.2 ppts to GDP), Govt Consumption which added 0.5 ppts and Net Exports which contributed 0.6 ppts to growth. Private fixed capital formation deducted 0.3 ppts while inventories deducted another 0.5 ppts.

With wages growth stuck at historically low levels and consumption still growing (albeit slowly) the household savings rate has fallen to an eleven-and-a-half year low of just 2.3%.



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 first quarter of 2019 (see further details in the FNQ Economy Roundup).

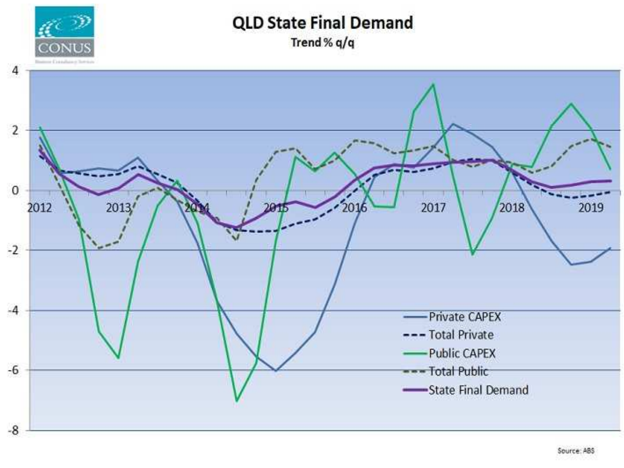
The QLD Treasury Trend data for Q1 showed State Final Demand up 0.4% q/q; today's ABS data for Q1 had growth of 0.3%. Q2 data has State Final Demand again up 0.3% q/q for a year-on-year increase of just 0.9%% (unchanged from Q1) As the chart below makes clear, the domestic side of the QLD economy is experiencing a marked slow-down.



The slowing in growth in the first and second quarter is largely due to a slowdown in private sector investment, which fell 1.9% q/q. The Public sector saw solid growth with government consumption growing at 1.6% q/q and public investment up 0.7% q/q. However, although the total public sector grew at 1.5% q/q this was largely negated by the much larger private sector which actually fell very slightly (-0.05% q/q). Household consumption managed just a 0.6% q/q lift but private capital expenditure fell (for the fifth 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*". The Queensland Treasury data for Gross State Product for the first 3 quarters of this financial year suggest that target may be a difficult one to meet and today's Q2 data from the ABS certainly shows that the Private sector isn't likely to be doing the heavy lifting that Treasury hoped for.

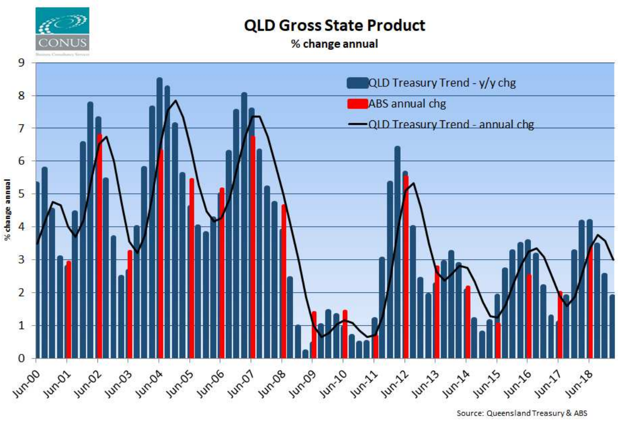
Growth in the domestic QLD economy is coming almost exclusively from the public sector with private sector growth flatlining.



FNQ Economy Roundup

Since our last issue we have seen Q1 2019 Gross State Product data released by the QLD Treasury.

While the ABS produce Gross State Product data only on an annual basis (next due for release in Nov 2019) 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 first quarter of 2019 shows Gross State Expenditure (the domestic portion of the economy) +0.4% q/q for year-on-year growth rate of just 1.1% (down from 1.4% in Q4 2018).

The slowdown in growth can be attributed to slower government consumption (+2.5% y/y from +3.0% y/y in the previous quarter) and a decline in Private Investment (down 6.0% y/y, and down in each of the past 3 quarters) as both dwellings and business investment fell. Compensating for at least some of this fall was Public Investment which was up 13.3% y/y; public investment however is equal to only 1/4 of private.

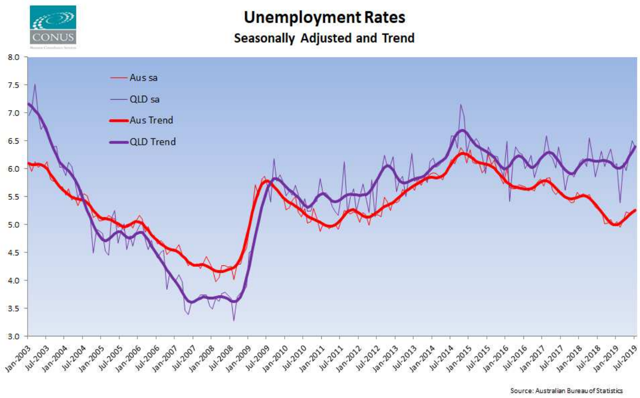
The ABS equivalent (State Final Demand) showed a year-on-year increase of 0.9% for the year to Mar 2019. Today's release for Q2 shows that remains unchanged at 0.9%.

Gross State Product (which includes the impact of international and inter-state net exports) was up, according to the QLD Treasury data, 0.4% q/q for a year-on-year increase of just 1.9% (slowing from a downwardly revised 2.5% y/y in the previous quarter).

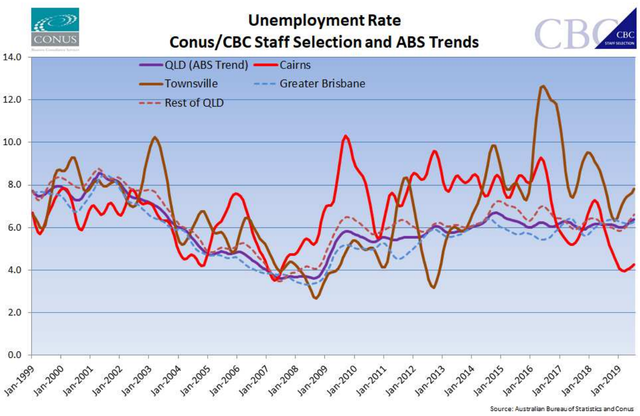
This latest data, along with some extrapolated population data, and the generally negative revisions it contains, show per-capita GSP has fallen very slightly (down 0.02%) in this quarter; the first such decline in 2 years.

Employment

Over the past quarter the Trend unemployment rate at the national level has continued to creep upwards and now sits at 5.3%. The reversal of improvements in the labour markets nationally has been the driver behind the RBA cutting rates to 1.00%, with real prospects of more cuts to come.



In Queensland we see the Trend unemployment has also been rising and now sits at 6.4%; it remains well above the national level. Trend employment across the nation is up over 81,900 in the past three months while in Queensland it has risen 17,800 in the same period. In our own region we have seen the Cairns Conus/CBC Staff Selection Trend unemployment rate edging very slightly higher after falling sharply earlier in the year; it now sits, well below Queensland average, at 4.2%. Employment growth has been strong with 17,900 added to Trend employment in the year to July; more than 11,000 of those full-time positions.



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. Despite some modest gains in Trend employment (up 2,500 for the year to July) the Trend unemployment rate has moved higher as more people return to the labour market; it now sits at 7.8%.

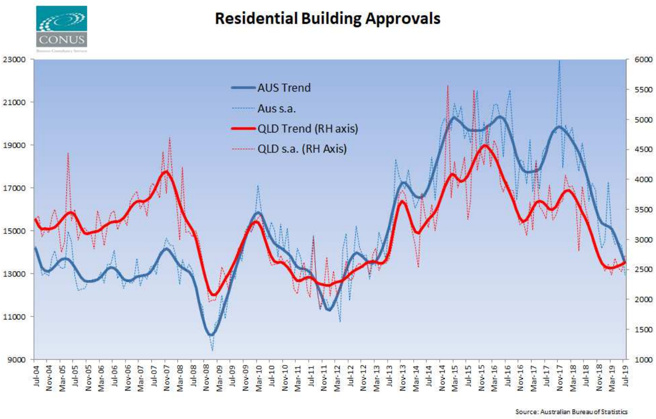
Building Approvals

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

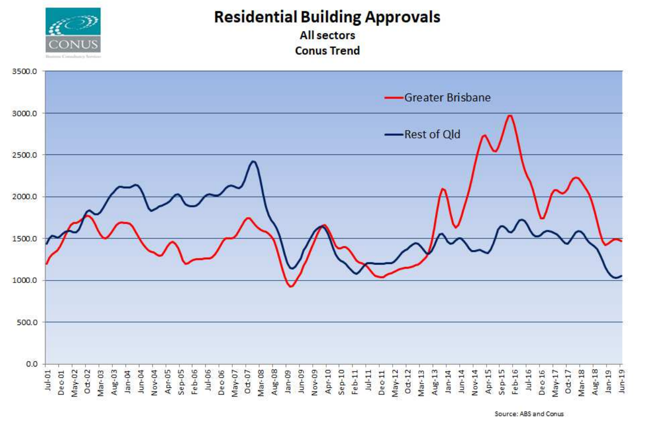
The most recent data (for July) shows that approvals growth in the nation currently sits at –24.0% y/y on a Trend basis. Approvals have been falling sharply over the past 18 months. In recent months the data for Queensland is suggesting that we might be seeing something of a bottom

FNQ Economy Roundup cont..

having been reached; despite Trend approvals being 22.1% lower than a year ago we have seen (very modest) improvements in the past five consecutive months.



When we consider the breakdown across the state (with data only available to June at time of writing) we see that over the past quarter we have witnessed falls in the Greater Brisbane region but the Rest of Queensland has edged slightly higher. For the year to June the Conus Trend shows Greater Brisbane down 27.5% and Rest of Queensland down 27.4%. The data for July (as noted above) is sure to see those numbers improve when the ABS release the regional data later this week.

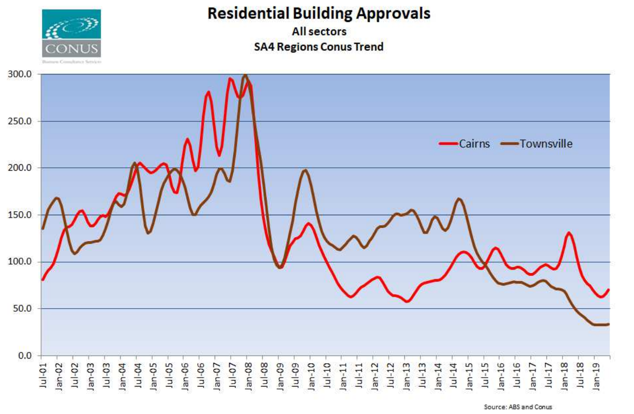


Looking at the Conus Trend data for the Cairns SA4 region we can see a minor improvement reflected here too. Despite this improvement Trend approvals remain well below those seen even in 2014/15, and nothing like those from the pre-GRC period.

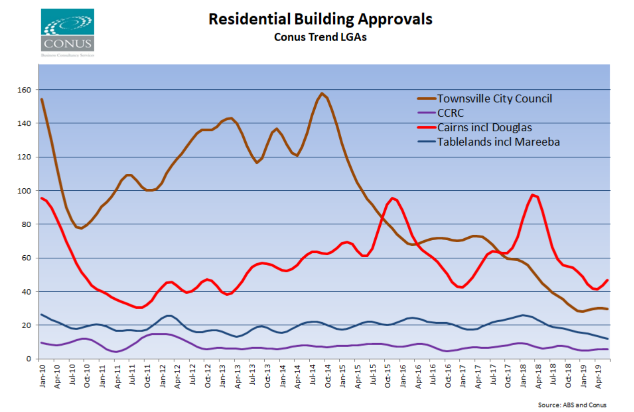
For the year to June Trend approvals in Cairns sit 33.6% below their level of a year ago (albeit this level was still somewhat inflated by the Nova City approvals earlier that year).

Townsville SA4 region has continued to see a sharp drop in approvals. In June the Conus Trend had fallen to 34 (down from 48 a year ago, and very close to the record low of 33) and is now down 29.3% from a year earlier.

The Conus Trend data at the LGA level shows Cairns Regional Council (incl Douglas Shire) on 47 down 35.7% from



a year ago. The Cassowary Coast Regional Council has seen a slow shift higher and now sits at 6; which is 7.3% 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 12 which is down 39.5% from a year ago. While Townsville City Council has fallen to 30 (and down 24.9% 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 and approvals remain at, or close to, record low levels.



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 March quarter 2019) showed domestic visitor expenditure fell slightly but this comes after 6 quarters of strong growth. While this solid growth over the past couple of years 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 22.7%. In Tropical North Queensland, over the same period, the lift is a much less impressive 10.2% (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

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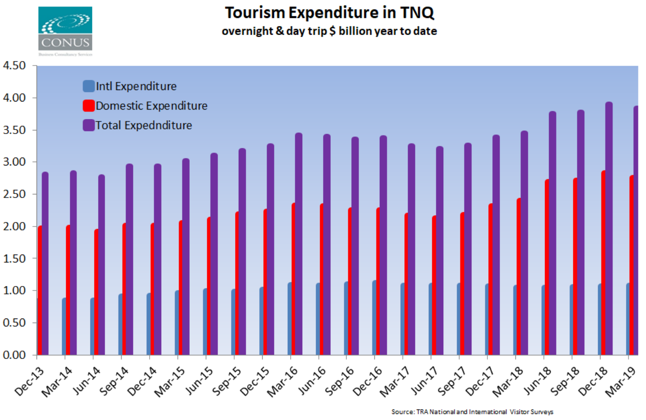
rates of growth at national and regional level are impressive.

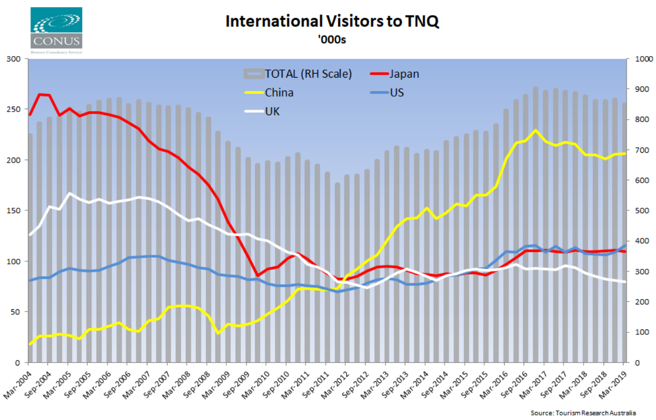


Unfortunately the story for TNQ is far worse when we consider the international visitor market.

International visitor expenditure across Australia increased by an impressive 21.6% in the three years to Mar 2019. In the Far North it has fallen by 0.9%! 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 fairly steady decline for more than 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 UK market has also been very weak and now sits very close to record lows.

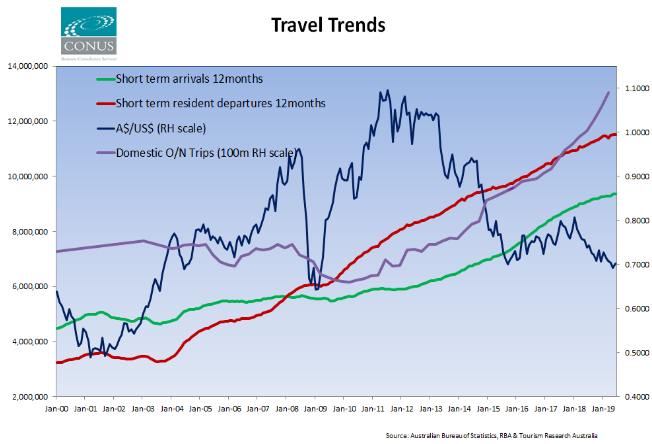
The nascent recoveries that we had started to see in the Japanese and US markets a few years ago have also run out of steam (although we have seen some improvements in US numbers in the past couple of quarters). As a result international visitors to TNQ were down 3.1% for the year to Mar (versus a national increase of 2.7% and a decline of



0.3% to Queensland; caused mainly by the falls in TNQ). Expenditure too has been poor, down 2.8% in TNQ (+5.8% 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. We await good news with regard to the proposed Global Tourism Hub and the expansion of the Convention Centre. There are challenges with flights into Cairns which place an effective cap on arrivals and the recent announcement that Cathay Pacific will be stopping their direct flights to Cairns is more bad news. 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%.



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 issues 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 and Melbourne 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.