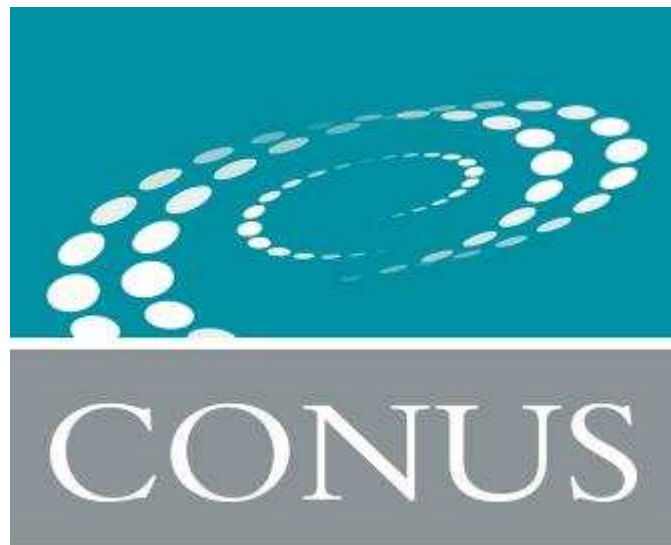


The CONUS Quarterly

Vol. XI - Issue 4 - Dec 2019



Business Consultancy Services



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Editor's Note

Welcome to the final CONUS Quarterly for 2019; the eleventh year of publication! Best wishes to all our readers for Christmas and the 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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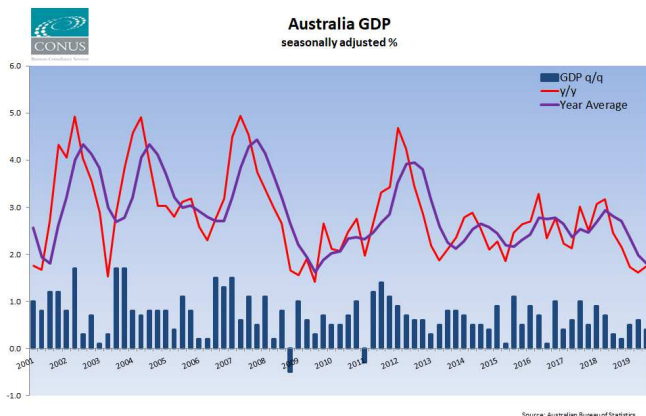
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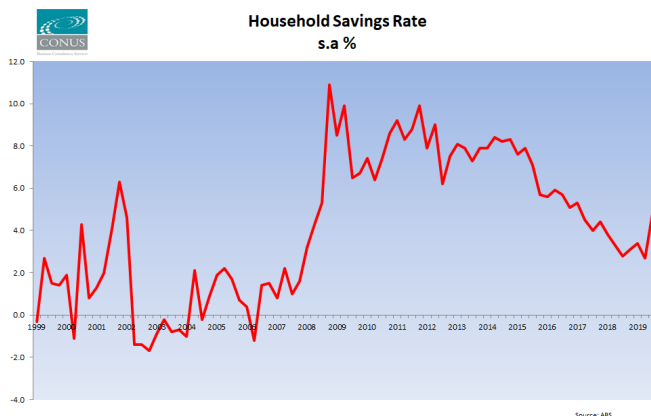
3rd Quarter Australian GDP

The second quarter GDP data released this morning was slightly weaker than expectations, although upward revisions to past quarters saw the year-on-year number actually somewhat better than had been hoped for. Seasonally adjusted GDP rose 0.4% q/q for a year-on-year increase of 1.7% (up from 1.6% in the previous quarter).



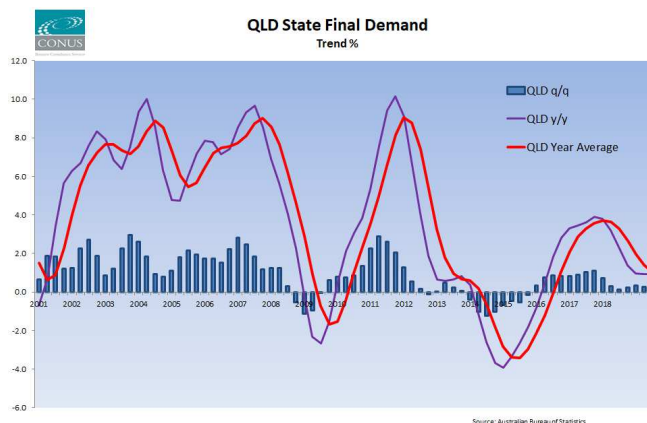
Contributions to growth came from household consumption (up just 0.1% q/q and adding 0.1 ppts to GDP), Govt Consumption which added 0.2 ppts and Net Exports which contributed 0.3 ppts to growth. Private fixed capital formation deducted 0.2 ppts while inventories added another 0.1 ppts.

The sharp move up in the household savings rate (to 4.8% and its highest in 10 quarters) points to the fact that households are preferring to use tax breaks to repair balance sheets rather than boost spending (as the govt would have hoped)



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 2018-19 showed an annual increase of 1.3%. However, the QLD Treasury provide quarterly estimates for Gross State Product (albeit rather delayed) and a while ago we got their data for the second quarter of 2019 (see further details in the FNQ Economy Roundup).

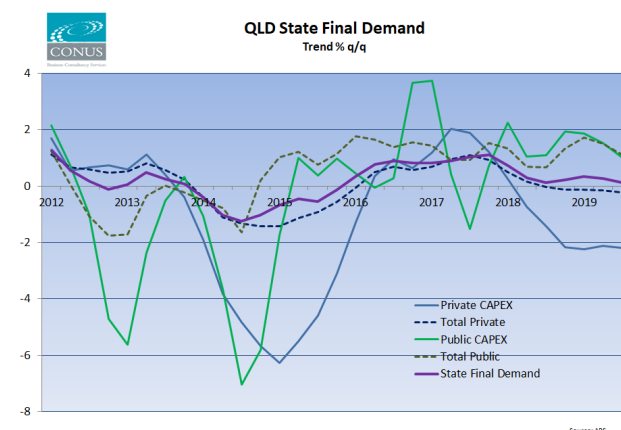
The QLD Treasury Trend data for Q2 showed State Final Demand up just 0.1% q/q; today's ABS revised data for Q2 also had growth of 0.1%. Q3 data has State Final Demand again up 0.1% q/q for a year-on-year increase of just 0.9% (unchanged from Q2). As the chart below makes clear, the domestic side of the QLD economy has experienced a marked slow-down.



The slowing in growth in the second and third quarters is largely due to a slowdown in private sector investment, which fell 2.2% q/q. The Public sector saw solid growth with government consumption growing at 1.1% q/q and public investment up 1.0% q/q. However, although the total public sector grew at 1.1% q/q this was largely negated by the much larger private sector which fell (-0.2% q/q). Household consumption managed just a 0.4% q/q lift but private capital expenditure fell (for the sixth consecutive quarter). (All QLD figures quoted are Trend)

Growth in the domestic QLD economy is almost exclusively from the public sector with the private sector as a whole now declining. Indeed, the total private sector has seen (slight) declines in all of the past 5 quarters and is now 0.7% below the level seen in the second quarter of 2018. The Public sector, over the same period, has increased by 6.5%.

The State cannot continue to rely exclusively on the Public sector for growth and will need to see some return to private sector growth in coming quarters if we are not to slide further.



Special Feature

Diversity in QLD Regions

Last month at the launch of the *Invest Cairns* initiative from *The Cairns Post* and *Advance Cairns* the issue of economic diversity, and in particular the diversity of the Cairns economy, was a major topic of conversation. My presentation at the launch presented some clear evidence that the Cairns economy had diversified over the past decade but it got me thinking about how we might better compare diversity across all of Queensland's regions and provide some historic context.

In considering that problem I came across a number of papers which utilised the Hachman Index as a measure of regional economic diversity. The Hachman Index (developed by Frank Hachman from the Bureau of Economic Research at the University of Utah in 1995) uses the largest geographic area as a reference region and assumes this region (e.g., Australia) is the most economically diverse. The Index calculates how similar the subject region's employment distribution is to that of the reference region. The maximum value for the Index is 1.0 (meaning the subject region's employment make-up is identical to the reference area); the higher the Index the more alike to the reference area, and therefore the more diverse, is the region's employment distribution.

The calculation is noted below. We have used SA4 regions as subject areas and Australia as the reference area.

$$HI = \frac{1}{\left(\sum_i \left(\frac{E_{Si}}{E_{Ri}} \right) \times (E_{Si}) \right)}$$

E_{Si} is the share of the subject area employment in industry i .
 E_{Ri} is the share of the reference region employment in industry i .

Although at the national level the ABS provide quarterly Trend Industry Employment data, they only provide unadjusted annual averages at the regional level. We have therefore utilised the Conus Trend Industry Employment data for the SA4 regions. Having completed the analysis for all QLD SA4 regions as at August 2019 we present below the results (as annual averages) of the Hachman Index scores for all the SA4 regions (as well as Greater Brisbane and Rest of QLD areas). Cairns ranks as the most diverse of all the non-Greater Brisbane regions in Queensland.

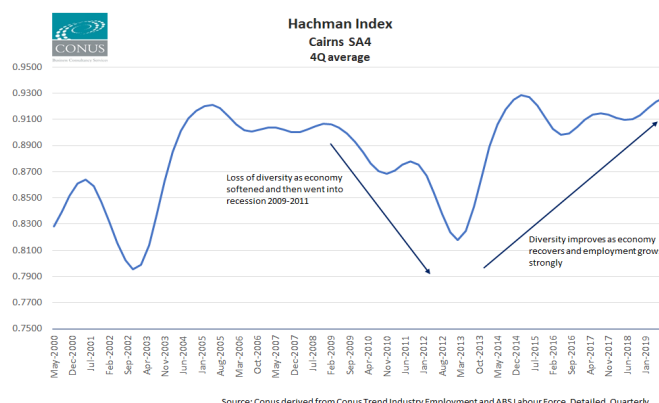
Areas with particularly low scores, such as Mackay and Darling Downs-Maranoa, demonstrate employment distributions which are significantly less diverse than Australia as a whole. In the case of Mackay for instance this stems largely from the fact that Mining makes up only 1.8% of employment across the nation but accounts for 18.9% in Mackay....such a large variation in an industry that is relatively so important in the subject region has a large negative effect on the Index. Likewise, in the Darling Downs-Maranoa Agriculture accounts for 22.1% of total employment and yet makes up just 2.5% across the nation.

While this analysis helps us to get a handle on the diversity of these regions we need to acknowledge that there are shortcomings with this methodology. Not least of which is that it does not account for any potential competitive advantages of a region. A region may have an advantage specialising in a specific industry, making a concentration in that industry economically justifiable over a more diversified economy (Mackay would be a good example here). It's not true to suggest that an employment distribution similar to the nation's is necessarily 'better' or 'worse'. However, over time, it is generally accepted that increased diversity is a positive attribute for an economy.

Region	Hachman Index
Greater Brisbane	0.9817
Moreton Bay - South	0.9590
Brisbane - East	0.9426
Brisbane - South	0.9381
Brisbane - North	0.9301
Cairns	0.9266
Rest of QLD	0.9240
Gold Coast	0.9240
Ipswich	0.9173
Moreton Bay - North	0.9146
Sunshine Coast	0.9060
Logan - Beaudesert	0.8961
Brisbane Inner City	0.8763
Townsville	0.8693
Wide Bay	0.8627
Toowoomba	0.8624
Brisbane - West	0.8616
Fitzroy	0.6008
Darling Downs - Maranoa	0.4524
Mackay	0.3771
Queensland - Outback	0.2983

This idea of changes over time is also an interesting topic for further discussion. Looking at the historical record for Cairns we see a direct link between employment diversity and the overall performance of the regional economy. During the post-GFC slow down (and recession throughout 2009, 2010 and 2011) there is clear evidence of a decrease in diversity. Once the economy began to recover we have witnessed an equally clear increase in diversity; which takes us to where the region now sits as the most diverse regional economy in Queensland. When the GFC hit, and the effect was compounded in Cairns by the collapse of Japanese visitors to the region as that country went through a decade-long recession, we can see that diversity was not all that much lower than currently. It is to be hoped that the current trend towards further diversification, and the fact that much has already been achieved, will help to insulate the Cairns economy, at least to some extent, from the worst effects of such an exogenous shock in the future.

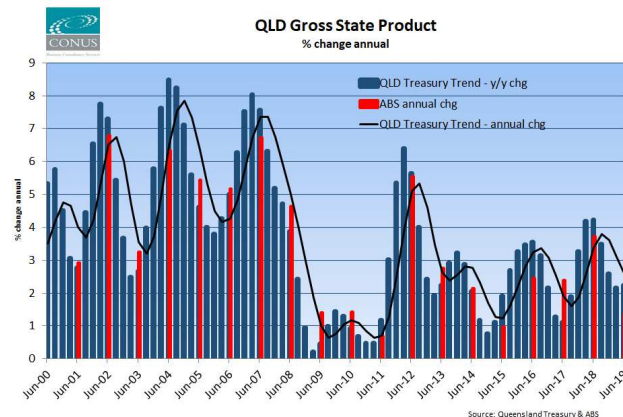
We should note that the Regional Australia Institute's InSight product also provides diversity measures using the Hachman Index methodology. Their data covers Regional Development Areas (rather than the ABS SA4 regions) as well as Local Government Areas but is based on 2016 Census data.



FNQ Economy Roundup

Since our last issue we have seen Q2 2019 Gross State Product data released by both the ABS and the QLD Treasury.

While the ABS produce Gross State Product data only on an annual basis (released a few weeks ago) 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 2019 shows Gross State Expenditure (the domestic portion of the economy) +0.1% q/q for an annual growth rate of just 1.1% (down from 1.7% in Q1 2019).

The slowdown in growth can be attributed to a sharp decline in Private Investment (down 5.2% annual, and down in each of the past 5 quarters) as both dwellings and business investment fell. Compensating for at least some of this fall was Public Investment which was up 6.4% annually; public investment however is equal to only just over a 1/4 of private.

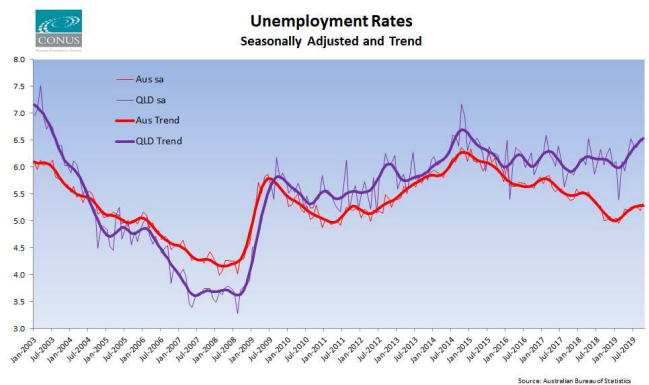
The ABS equivalent (State Final Demand) showed an annual increase of 1.4% for the year to 2018-19 financial year (down from 1.9% for the previous quarter). Today's release for Q3 shows that has fallen further to just 1.1%.

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% (slowing from 3.1% in the previous quarter).

This ABS data shows a somewhat weaker picture with annual growth of just 1.4%. We will not be surprised to see this apparently wide variation between the two measures diminish after future revisions with the final outcome likely to come in closer to 2.0%.

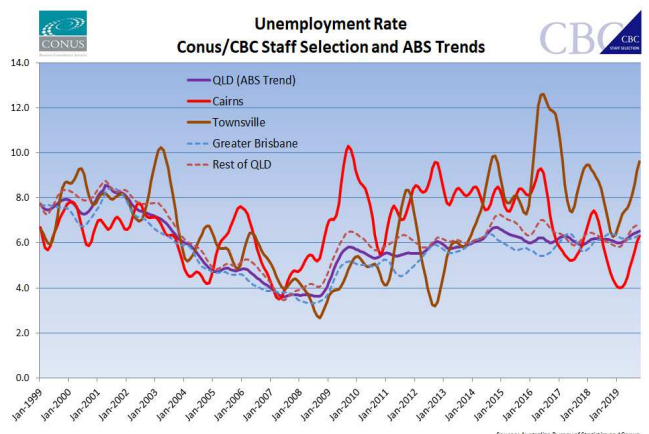
Employment

Over the past quarter the Trend unemployment rate at the national level has remained static at 5.3%. The reversal of improvements in the labour markets nationally has been the main driver behind the RBA cutting rates to 0.75%; the



possibility of more cuts to come cannot be ruled out.

In Queensland we see the Trend unemployment has been edging higher and now sits at 6.5%; it remains well above the national level. Trend employment across the nation is up 39,000 in the past three months; Queensland has accounted for 11,700 of that increase. Although Trend employment growth in Queensland is now running at the same pace as nationally (2.1%), this is because of a slowdown at the national level rather than improvements in Queensland.



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 just below Queensland average at 6.3%. Employment growth has been strong with 9,900 added to Trend employment in the year to Oct; with more than 11,000 full-time positions being added.

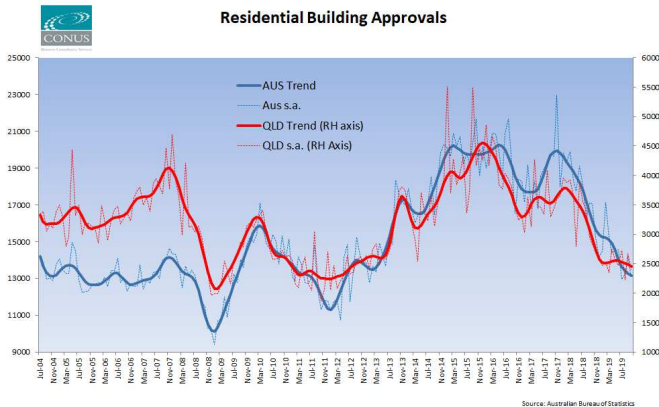
To our south in Townsville the labour market, which showed some weak signs of a nascent improvement in the middle of last year, has again turned weaker. Despite some modest gains in Trend employment (up 3,100 for the year to Oct) the Trend unemployment rate has moved higher as more people return to the labour market; it now sits at 9.6%. Youth unemployment (22.5%) in Townsville is a particular concern.

Building Approvals

The level of residential building approvals across the state

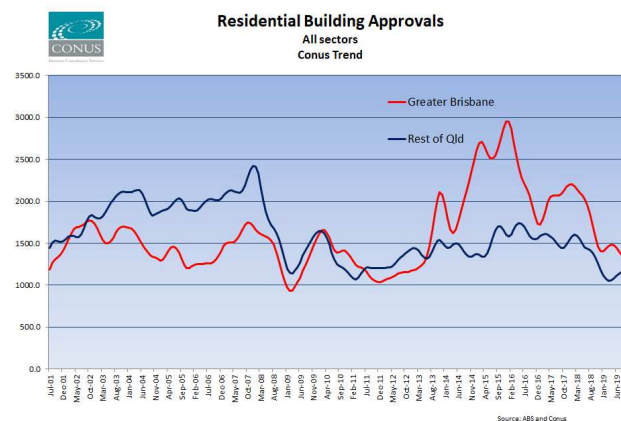
FNQ Economy Roundup cont..

and the nation continues to exhibit a good degree of weakness in recent months.



The most recent data (for Oct) shows that approvals growth in the nation currently sits at -18.2% y/y on a Trend basis. Approvals have been falling sharply over the past 18 months. Earlier in the year we saw some evidence of very modest improvement in the QLD data; that now appears to have simply been a slowing in the pace of decline rather than a reversal of trend. QLD Trend approvals are down 15.8% y/y.

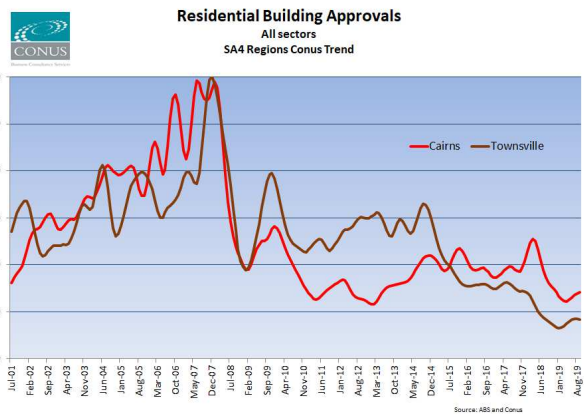
When we consider the breakdown across the state (with data only available to Sept at time of writing) we see that over the past quarter we have witnessed falls in the Greater Brisbane region but the Rest of Queensland has edged slightly higher. For the year to Sept the Conus Trend shows Greater Brisbane down 21.8% and Rest of Queensland down 17.6%.



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

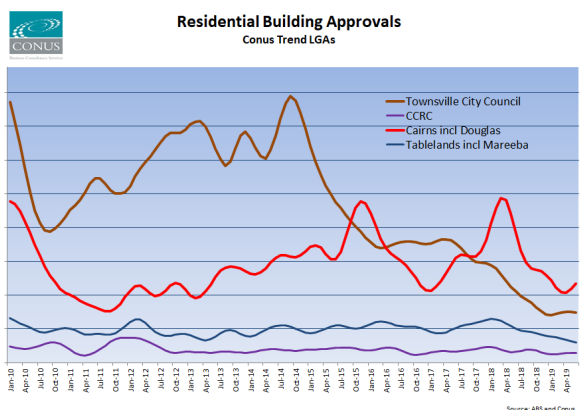
For the year to Sept Trend approvals in Cairns sit 12.4% below their level of a year ago (albeit this level was still somewhat inflated by the Nova City approvals earlier that year).

Townsville SA4 region we are seeing something of a stabili-



sation in approvals. In Sept the Conus Trend remains at 42 (down from 40 a year ago, but still close to the all-time lows and just 5.5% up from a year earlier).

The Conus Trend data at the LGA level shows Cairns Regional Council (incl Douglas Shire) on 53 down just 1.4% from a year ago. The Cassowary Coast Regional Council has seen a slow shift higher and now sits at 5; which is 37.2% 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 last year, and now sits at 13 which is down 28.1% from a year ago.



While Townsville City Council is stable at 34 (and is now up 2.4% 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 close to record low levels.

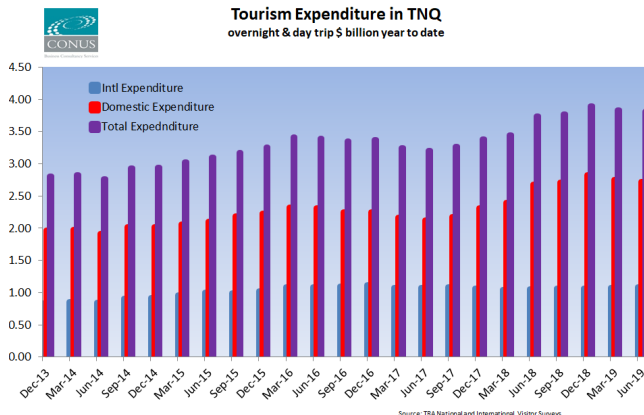
Tourism

The tourism story in our region is one of two very different results; the region has been doing well within the domestic market (although that has moderated in recent quarters) but poorly with internationals.

Let's start with the domestic market, where things remain firm despite a weakening in the first two quarters of this year. Our latest data (to the June quarter 2019) showed domestic visitor expenditure fell for the second consecutive quarter; but this comes after 6 quarters of strong growth.

FNQ Economy Roundup cont..

While this solid growth over the past couple of years is certainly encouraging we need to look at it in context.

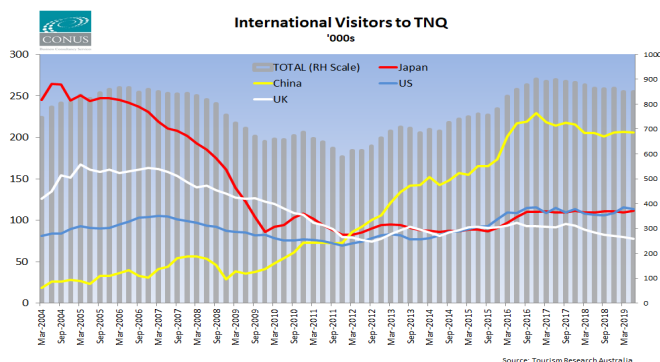


Since the June quarter in 2018 total domestic visitor expenditure in Australia has lifted 11.7%. In Tropical North Queensland, over the same period, the lift is just 1.8% (bearing in mind that these numbers are nominal, if we account for inflation the TNQ growth disappears in real terms).

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

International visitor expenditure across Australia increased by an impressive 21.4% in the three years to June 2019. In the Far North it has fallen by 1.3%! 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

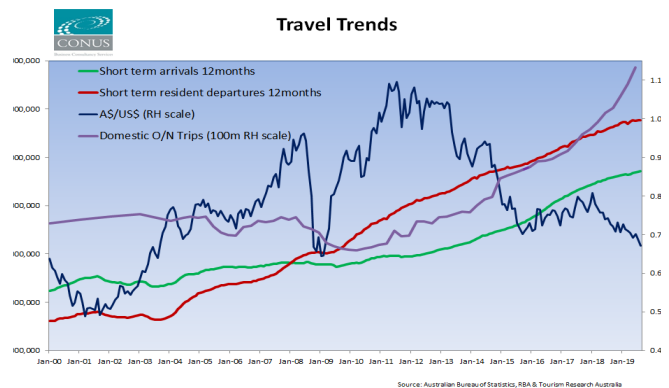
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in US numbers in the past couple of quarters). As a result international visitors to TNQ were down 1.7% for the year to June (versus a national increase of 2.8% and an increase of 0.1% to Queensland). Expenditure too has been poor, down 1.7% in TNQ (+5.4% 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. Over the past decade total tourism expenditure in Australia has increased by 81%; in TNQ it is up just 43%.

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 (and with others due to open) for decades is very welcome. Recent news such as the acquisition of Dunk Island by Mayfair Iconic also provide hope of better things ahead. There are challenges with flights into Cairns which place an effective cap on arrivals, and the recent stopping of direct flights from Cairns to



Hong Kong by Cathay Pacific 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 and marketing of the region so we shall have to see if this can improve the tourism outcomes in coming quarters.