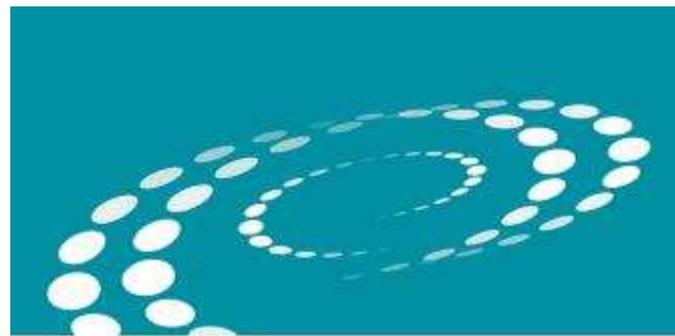




The CONUS Quarterly

Vol. XII- Issue 1 - Mar 2020



CONUS

Business Consultancy Services



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Editor's Note

Welcome to the first CONUS Quarterly for 2020; the twelfth year of publication! It looks like 2020 will be a challenging year for many and we wish all clients and readers good health and fortune.

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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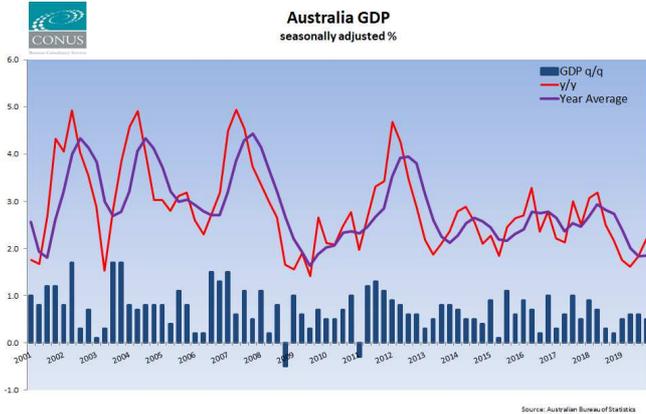
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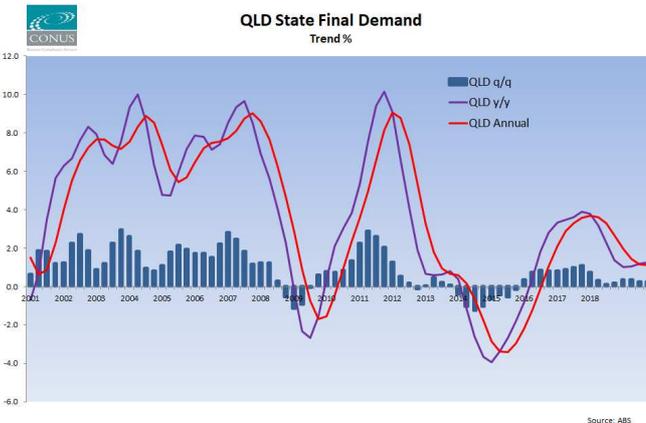
4th Quarter Australian GDP

The fourth quarter GDP data released this morning was stronger than expectations, which along with upward revisions to past quarters saw the year-on-year number significantly stronger than had been hoped for. Seasonally adjusted GDP rose 0.5% q/q for a year-on-year increase of 2.2% (up from 1.8% in the previous quarter).



Contributions to growth came from household consumption (up 0.4% q/q and adding 0.2 pts to GDP), Govt Consumption which added 0.1 pts, Inventories added 0.2 pts and Net Exports which contributed 0.1 pts. Private fixed capital formation deducted 0.2 pts.

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 1.4%. However, the QLD Treasury provide quarterly estimates for Gross State Product (albeit rather delayed) and a while ago we got their data for the third quarter of 2019 (see further details in the FNQ Economy Roundup).



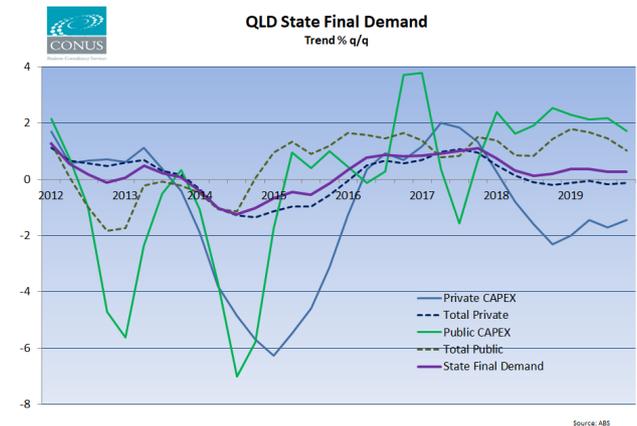
The QLD Treasury Trend data for Q3 showed State Final Demand up just 0.1% q/q; today's ABS revised data for Q3 had growth at a much stronger 0.3% (revised up from +0.1%) which might suggest upward revisions to come from the Queensland Treasury. Q4 data has State Final Demand

up 0.3% q/q for a year-on-year increase of 1.3% (up from +1.2% in Q3) As the chart above makes clear, the domestic side of the QLD economy has experienced a marked slow-down and growth remains sluggish.

The slowing in growth in the second, third and fourth quarters of 2019 was largely due to a slowdown in private sector investment, which fell 1.5% q/q and has fallen in each of the past seven quarters.

The Public sector saw some growth with government consumption growing at 1.0% q/q and public investment up 1.7% q/q. However, although the total public sector grew at 1.0% q/q this was largely negated by the much larger private sector which fell (-0.1% q/q).

Household consumption managed just a 0.3% q/q lift while private capital expenditure fell. (All QLD figures quoted are Trend)



Growth in the domestic QLD economy is coming exclusively from the public sector with the private sector having fallen for each of the past 6 quarters. The total private sector is now 0.8% below the level seen in the second quarter of 2018. The Public sector, over the same period, has increased by 8.5%.

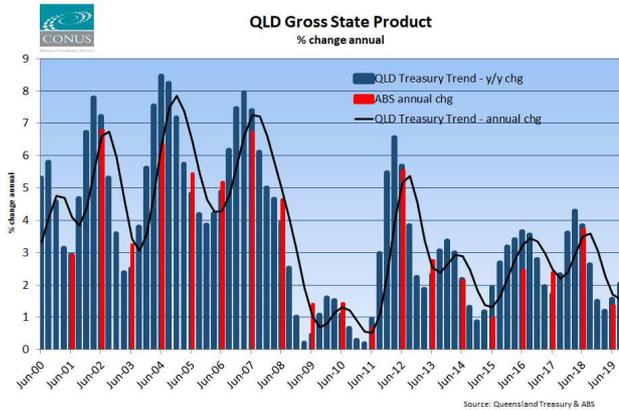
The State cannot continue to rely exclusively on the Public sector for growth and will need to see some return to private sector growth in coming quarters if we are not to slide further.

Of course all this data relates to a period before the impacts of the summer bushfires and, more recently, the COVID-19 outbreak had been felt on economic growth. It is almost certain that coming quarters will be challenging with much talk of Australia's long run of recession-free growth looking in danger. However, at least the base from which the economy started 2020 was somewhat stronger than previously thought.

FNQ Economy Roundup

Since our last issue we have seen Q3 2019 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. Last quarter we noted a wide disparity between the two measures and, as we expected, the revisions by the Treasury this quarter saw Q2 GSP annual growth revised down from the previous 2.6% to just 1.7%; much more in line with the ABS original estimate of 1.4%.

This most recent data up to the third quarter of 2019 shows Gross State Expenditure (the domestic portion of the economy) +0.1% q/q for an annual growth rate of just 1.2% (ABS) or 0.8% (QLD Treasury). This represents a slowing in annual growth of 0.2-0.3%.

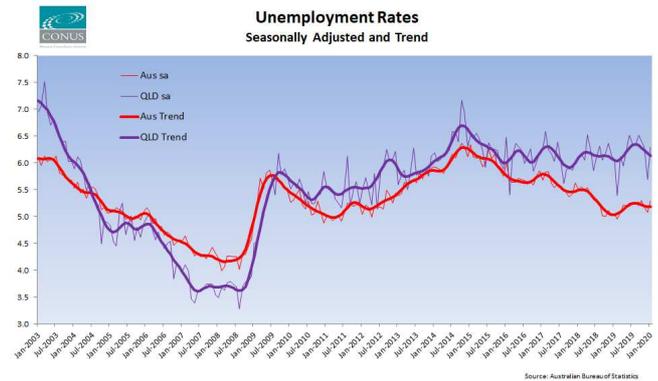
The slowdown in growth can be attributed to a continued sharp decline in Private Investment (down 6.9% annually, and down in each of the past 6 quarters) as both dwellings and business investment fell. Compensating for at least some of this fall was Public Investment which was up 6.8% annually; however, public investment is only equal to about 30% of private.

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 1.6% (slowing from 1.7% in the previous quarter). This is the slowest rate of growth since Q2 2015 and suggests that even the MYFER-revised Budget GSP target for 2019-20 of 2.5% will be a tough ask.

Employment

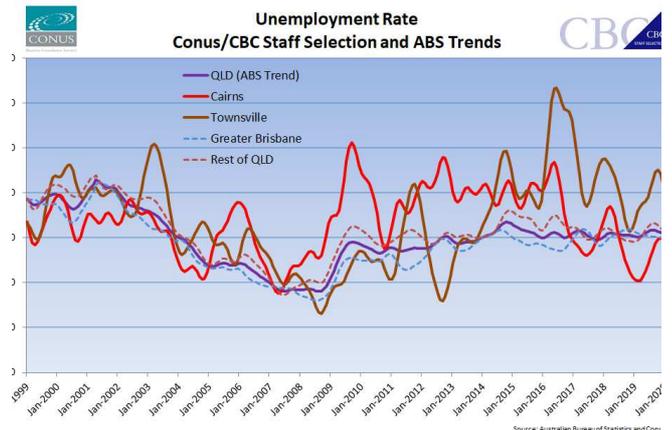
Over the past quarter the Trend unemployment rate at the national level has remained static at 5.2%. The reversal of improvements in the labour markets nationally has been the main driver behind the RBA cutting rates to 0.50%; and with the ongoing impacts of COVID-19 the possibility of even more cuts to come cannot be ruled out.

In Queensland we see the Trend unemployment has been



edging lower and now sits at 6.1%; it remains well above the national level. Trend employment across the nation is up 54,500 in the past three months; Queensland has accounted for 14,300 of that increase. Although Trend employment growth in Queensland is now running faster than nationally (2.3% v 2.0%), 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 slightly higher after falling sharply earlier in the year; it now sits



below Queensland average at 5.8%. Employment growth has been strong with 10,000 added to Trend employment in the year to Jan; with more than 11,400 full-time positions being added.

To our south in Townsville the labour market has been slowly recovering from a very weak period. Despite some healthy gains in Trend employment (up 6,800 for the year to Jan) the Trend unemployment rate has remained stubbornly high as more people return to the labour market; it now sits at 8.0%.

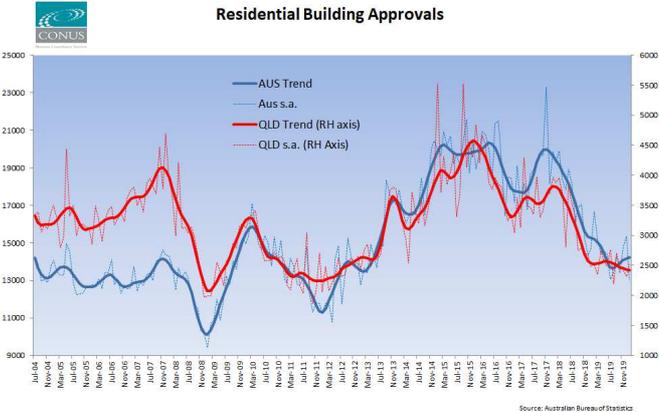
Building Approvals

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

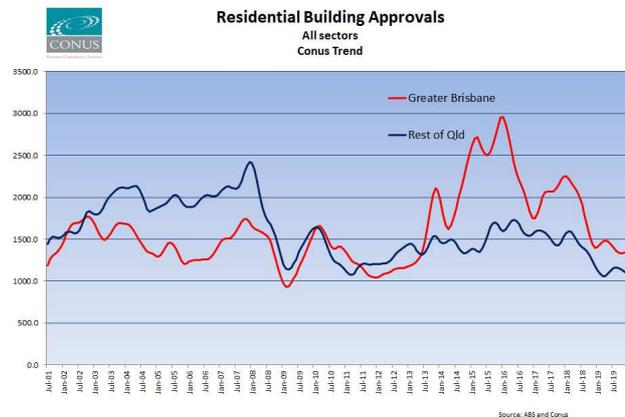
The most recent data (for Jan) shows that approvals growth in the nation currently sits at -6.7% y/y on a Trend basis. Approvals have been falling sharply over the past 18

FNQ Economy Roundup cont..

months although the most recent data is suggesting a bottoming-out with monthly increases for the past 5 months. In Queensland approvals continue to slide (although the pace of decline has eased) and are down 4.4% y/y.



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 witnessed a very slight recovery in the Greater Brisbane region while the Rest of Queensland continues to fall. For the year to Dec the Conus Trend shows Greater Brisbane down 4.4% and the Rest of Queensland down 6.6%.

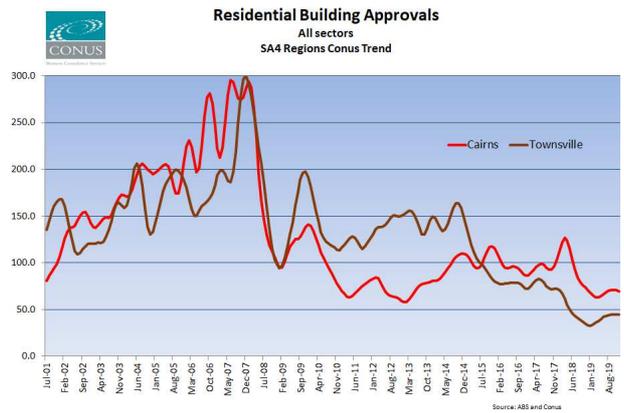


Looking at the Conus Trend data for the Cairns SA4 region we see a minor decline reflected here. Trend approvals remain well below those seen even in 2014/15, and nothing like those from the pre-GFC period.

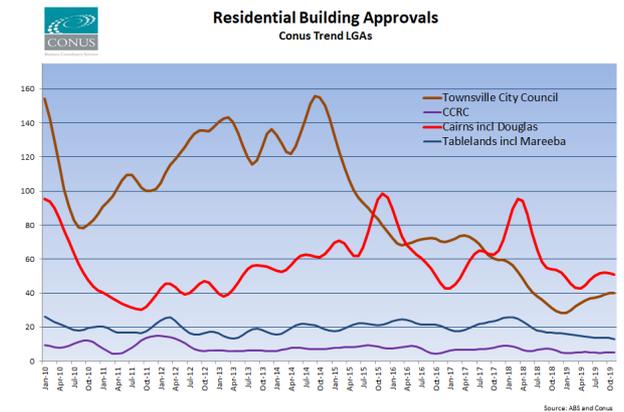
For the year to Dec Trend approvals in Cairns sit 1.9% below their level of a year ago.

In Townsville SA4 we are seeing something of a stabilisation in recent months after a strong bounce from very low levels earlier in the year. In Dec the Conus Trend remains at 45 which reflects a 35.2% increase over the 12 months.

The Conus Trend data at the LGA level shows Cairns Regional Council (incl Douglas Shire) on 50 down 3.5% from a year ago. The Cassowary Coast Regional Council has seen stable and now sits at 5; which is 3.1% 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 22.7% from a year ago. While Townsville City Council has recovered to 40 (and is now up 43.2% for the year). There is clear signs that the slide in approvals has run its course in Townsville although this is unlikely to be reflected in a stronger construction sector for some months yet and approvals still remain historically weak.



Tourism

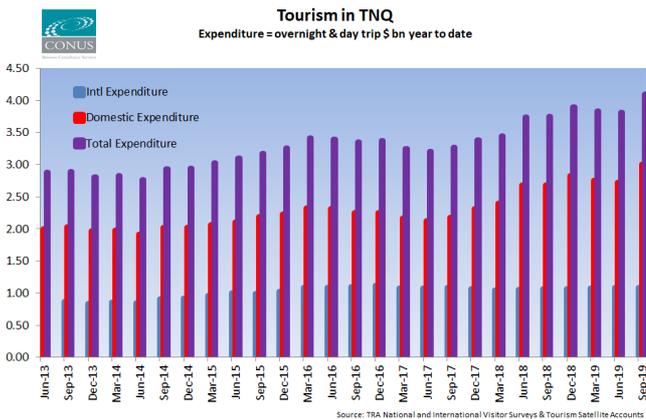
Obviously the tourism picture is in a state of flux as we await data showing the effect of the COVID-19 outbreak. The following analysis relates to the latest data which is only up to the Sept 2019 quarter.

Let's start with the domestic market, where things remain firm despite a weakening in the first two quarters of 2019. Our latest data (to the Sept quarter 2019) showed domestic visitor expenditure grew strongly; but this comes after 2 quarters of weaker numbers. While this solid growth over the past couple of years is certainly encouraging we need to look at it in context.

Since the Sept quarter in 2018 total domestic visitor expenditure in Australia has lifted 13.7%. In Tropical North Queensland, over the same period, the lift is 12.3% (bear in mind that these numbers are nominal, if we account for inflation then both growth rates reduce by about 2%.

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

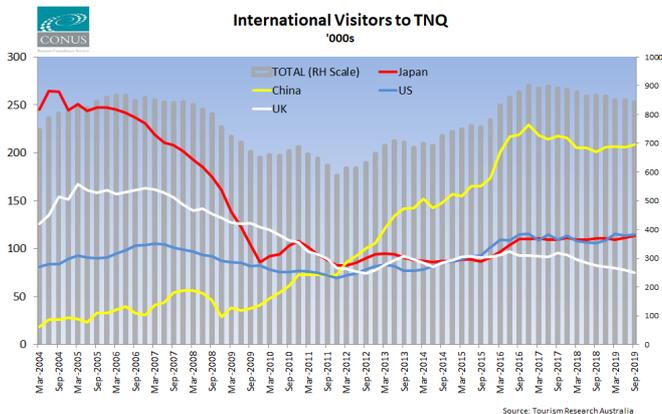
FNQ Economy Roundup cont..



International visitor expenditure across Australia increased by an impressive 21.4% in the three years to Sept 2019. In the Far North it has fallen by 3.9%! The main driver behind that can be seen in the chart below. Chinese visitors (by far and away the region's largest market) have fallen from their previous peaks and been fairly static for the past year or so. 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 at 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 both numbers in the past couple of quarters). As a result international visitors to TNQ were down 2.7% for the year to Sept (versus a national increase of 2.5% and a decline of 0.4% to Queensland). Expenditure too has been poor, up just 1.2% in TNQ (+5.0% nationally).

Australia is in the midst of a tourism boom (at least it was

until February this year!) and yet it is clear that TNQ is not reaping the full benefits of that boom. Over the past nine years total tourism expenditure in Australia has increased by 79%; in TNQ it is up just 59%.

Years of under-investment in tourism infrastructure are fortunately now being addressed, and the recent opening of the first two (soon to be three) new top-end hotels in Cairns 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 news of more airlines scaling back flights into 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 and marketing of the region and the recent Future Tourism forum in Cairns started a conversation addressing some of these issues.

Obviously things will be tough for the tourism in coming quarters so work done by both the industry and governments (both State and Federal) will be crucial to how the sector does going forward.

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