The CONUS Quarterly

Vol. XII- Issue - June 2020

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Business Consultancy Services

in this issue……

Editor's Note

The impact of the COVID-19 pandemic was just starting to impact our economy in this first quarter of 2020. As we now know, the worst was yet to come and this will not be fully reflected until we see the 2nd quarter data later this 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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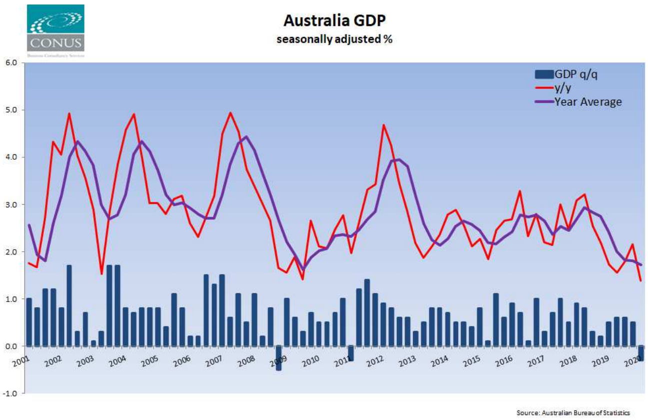
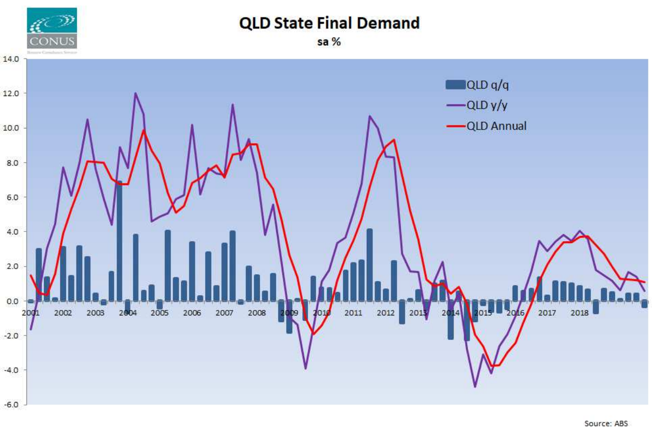
1st Quarter Australian GDP

The first quarter GDP data released this morning was, as expected, in negative territory. Seasonally adjusted GDP fell 0.3% q/q which takes the year-on-year rate to +1.4% (from +2.2%). With the inevitable decline that we are certain to have in Q2 there can now be no doubt that Australia will be in recession in the first half of 2020.



Given the impact on households that the COVID-19 pandemic has had it will be no surprise that household consumption (the largest single component of GDP) fell 1.1% q/q and deducted 0.6 ppts from growth. For the fourth quarter in a row Private CAPEX also subtracted from GDP (-0.2 ppts).

The ABS 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 few days ago we got their data for the final quarter of 2019 (see further details in the FNQ Economy Roundup).



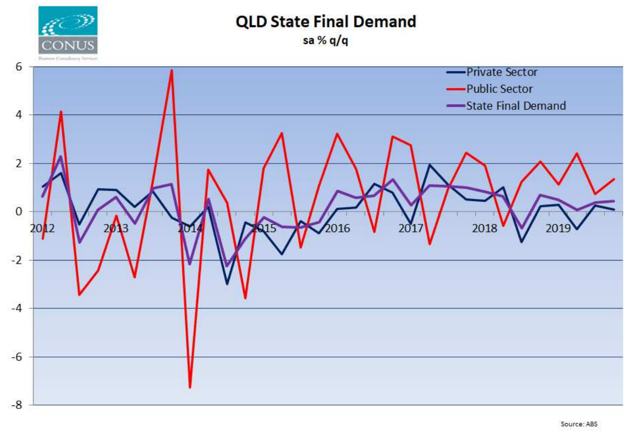
Today's ABS revised data for Q4 had growth at +0.4% q/q (revised up from +0.2%). Q1 data has State Final Demand down 0.3% q/q for a year-on-year increase of 0.6% (down from +1.4% in Q4) As the chart above makes clear, the domestic side of the QLD economy has experienced a marked slow-down and will obviously fall significantly throughout the first half of this year.

The slowing in growth through 2019 was largely due to a slowdown in private sector investment, and again in this quarter fell 0.1% q/q and has fallen in all but two of the past nine quarters.

The Public sector has also contracted in this quarter with a decline of 0.2% q/q with Public Sector CAPEX down 2.5% q/q.

Household consumption fell 0.5% q/q. The household sector has now lifted just 1.0% y/y which is the slowest pace of growth in eleven years

As the chart below makes clear, growth (such as it has been) in the domestic economy has been coming almost exclusively from the Public Sector. The total private sector is



now 0.5% below the level seen two years ago. The Public sector, over the same period, has increased by 8.4%.

This is the first look at data which has been to some limited degree been impacted by COVID-19 (and more so by the summer bushfires).

Obviously the data for the second quarter will be significantly weaker, even with the massive federal and state fiscal support already announced. Our own modelling is suggesting a decline 8.7% q/q in the second quarter and that over the course of 2020 GDP will fall 5.3%.

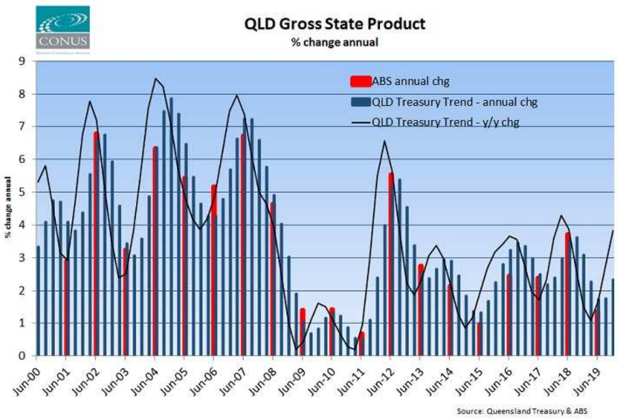
In Queensland we are looking for a 6.8% q/q fall in the second quarter and to be down 6.0% for 2020.

A major question which will need to be answered in the coming months will be what happens after September when the JobKeeper initiative (and the increase in the JobSeeker payments) are scheduled to end. We expect to see some targeted changes to the JobKeeper program to continue to provide some support to either industry sectors or specific regions.

FNQ Economy Roundup

Since our last issue we have seen Q4 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 Q3 GSP annual growth revised up from the previous 1.6% to 1.8% and GSE revised up from 0.8% q/q to 1.0% q/q to become more in line with the ABS estimate of a 1.4% q/q increase.

This most recent data up to the fourth quarter of 2019 shows Gross State Expenditure (the domestic portion of the economy) +0.3% q/q for an annual growth rate of just 1.1% (ABS) or 1.0% (QLD Treasury). After upward revisions to the Q3 data this represents a slight increase in annual growth.

Gross State Product (which includes the impact of international and inter-state net exports) was up, according to the QLD Treasury data, 1.2% q/q for an annual increase of 2.3% (up from 1.8% in the previous quarter). This suggests the MYFER-revised Budget GSP target for 2019-20 of 2.5% might just have been achievable had COVID-19 not intervened.

Employment

Over the past quarter we have started to see the impact of the COVID-19 lock-downs have had on the labour force. The latest data (to April 2020) showed a reduction of 594k in the number employed (note at this time the ABS have suspended their Trend series so all figures relate to the seasonally adjusted series). However, due to a large fall in the Participation Rate, the unemployment rate has increased to only 6.2%.

A confusing feature in considering the labour force at the moment is the distorting effect that JobKeeper is having on the number unemployed. As a result there is a lot of focus on the hours worked per capita numbers (which regular readers will know is one of our favourite indicators). As the

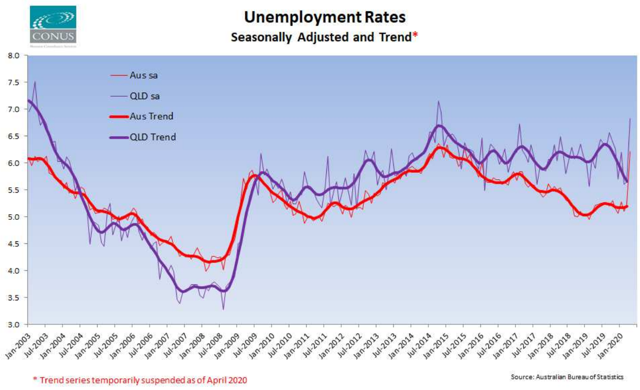
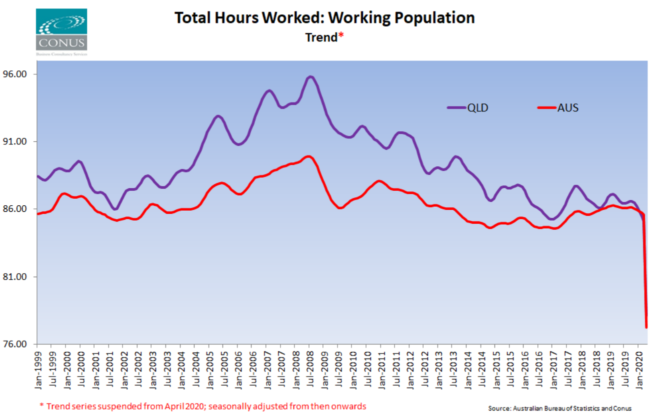


chart below makes abundantly clear, this measure fell off a cliff in April, and is a far clearer indicator of the scale of the impacts currently being felt.

In Queensland the most recent ABS data suggests that the unemployment rate is 6.8% with 135k people losing their jobs in April.



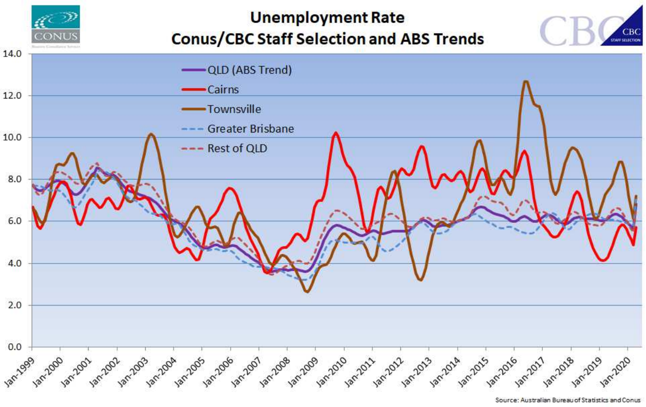
We can expect the labour market to weaken further from here. Treasury are forecasting the national unemployment rate to reach a peak at about 10% by mid-year. Many independent analysts have similar predictions; our own model is suggesting a peak just below 9% with QLD a touch higher.

At the regional level the Conus/CBC Staff Selection Trend series will be subject to all of the issues that this period of extreme volatility have caused for the ABS Trend estimation. Nevertheless we have taken measures to bench-mark our Trend series to some of the components of the ABS seasonally adjusted series at this time and believe that it continues to provide the best estimation of current labour force conditions at the regional level.

In Cairns we saw Trend employment fall by 6,200 and the unemployment rate rise to 5.7%; while in Townsville the unemployment rate jumped to 7.2% with employment dropping by 6,700.

Over coming months we expect to see these numbers deteriorate further (and back-months see downward revisions). Our modelling suggests that the unemployment rate in the Cairns Regional Council area could reach as high as

FNQ Economy Roundup cont..



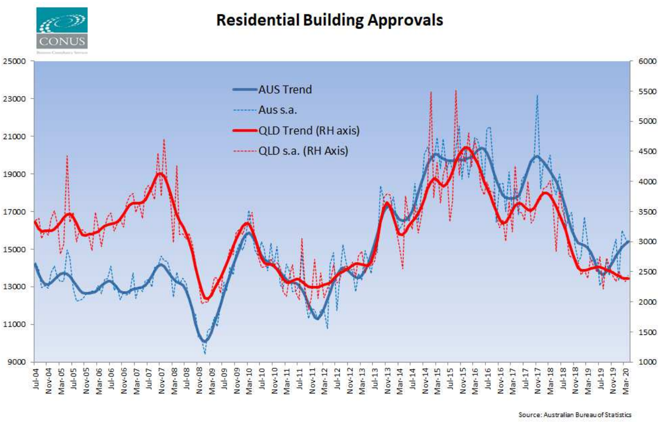
14% by mid-year with only modest declines happening through the rest of the year.

Building Approvals

The level of residential building approvals across the state remain weak although nationally we have seen some sustained improvement.

The most recent data (for Apr) shows that approvals growth in the nation currently sits at +3.9% y/y on a Trend basis. Approvals have been rising consistently across the country for the past 8 months although Queensland remains concerning. Across Queensland total approvals have fallen 6.4% y/y with unit approvals the cause (down 20.4%) but house approvals barely staying positive (up 0.7%)

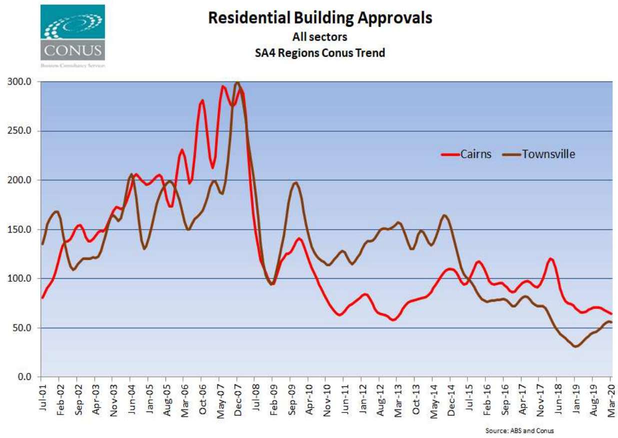
When we consider the breakdown across the state (with data only available to Mar at time of writing) we see that



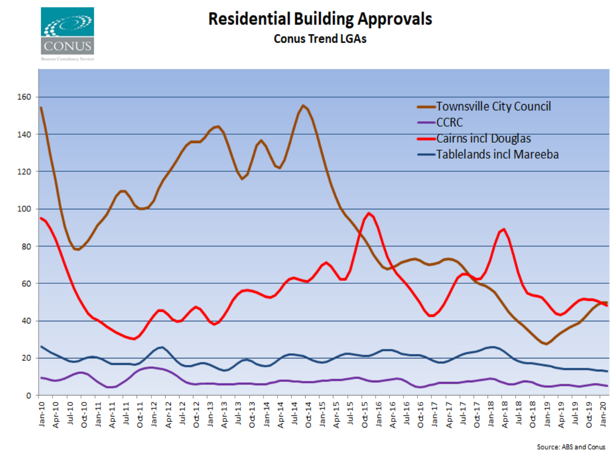
over the past quarter we have witnessed a stabilisation in the Greater Brisbane region while the Rest of Queensland continues to fall. For the year to Mar the Conus Trend shows Greater Brisbane down 4.9% and the Rest of Queensland down 11.7% for the year.

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

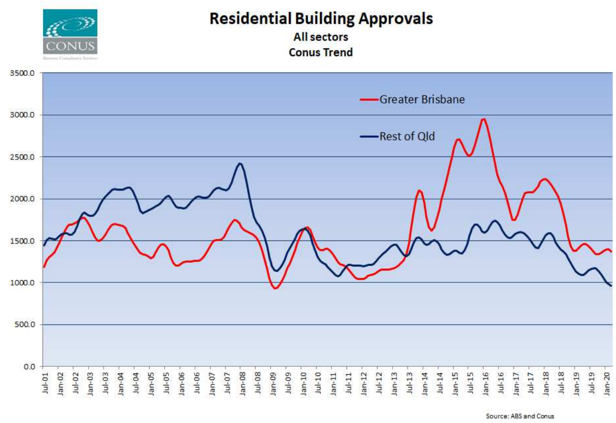
For the year to Mar Trend approvals in Cairns sit 2.6% below their level of a year ago.



In Townsville SA4 we are seeing a solid recovery in recent months continuing from a strong bounce from very low levels earlier in 2019. In Mar the Conus Trend has risen to 56 which reflects a 63.4% increase over the 12 months.



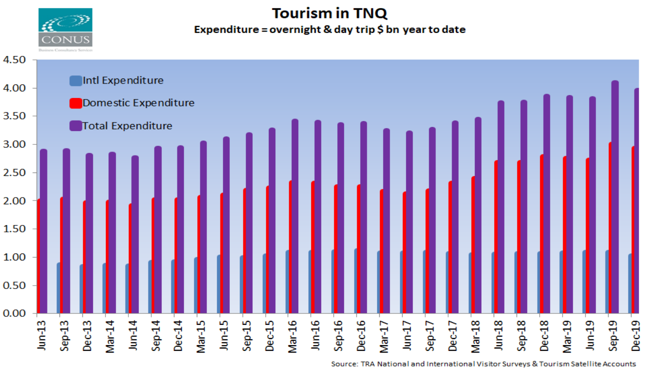
The Conus Trend data at the LGA level shows Cairns Regional Council (incl Douglas Shire) on 50 down 3.5% from a year ago. The Cassowary Coast Regional Council has seen stable and now sits at 5; which is 3.1% below the level of a year ago. Tablelands Regional Council (incl Mareeba Shire) has been falling 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



FNQ Economy Roundup cont..

be reflected in a stronger construction sector for some months yet and approvals still remain historically weak.

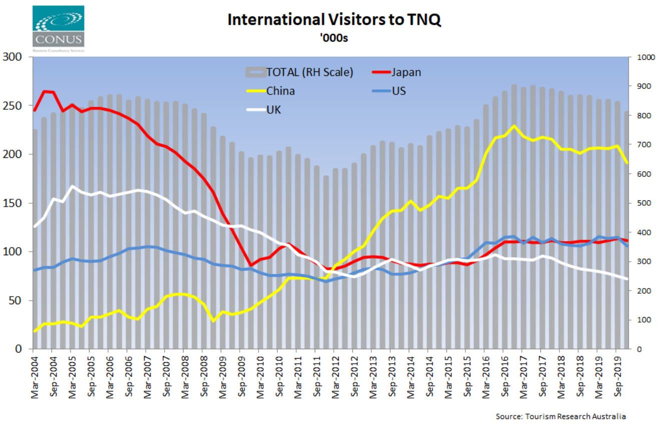
Tourism



Obviously the TNQ 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 Dec 2019 quarter.

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

Since the Dec quarter in 2018 total domestic visitor expenditure in Australia has lifted 13.6%. In Tropical North Queensland, over the same period, the lift is only 5.3% (bear in mind that these numbers are nominal, if we account

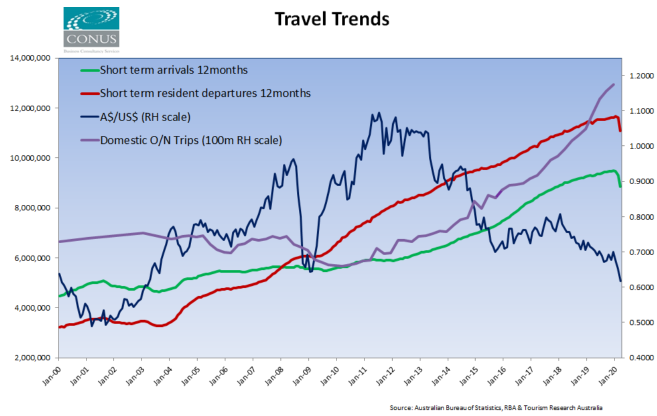


for inflation then both growth rates reduce by about 2%.

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

International visitor expenditure across Australia increased by an impressive 22.2% in the three years to Dec 2019. In the Far North it has fallen by 8.5%! 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 falling for some time and the impact of COVID-19 on the Dec figures has only hastened that decline. 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 few years ago have also run out of steam (although we had seen some improvements in both numbers in previous quarters). As a result international visitors to TNQ were down 6.4% for the year to Dec (versus increases of 2.2% nationally and 0.7% in QLD). Expenditure too has been poor, down 4.0% in TNQ but up 4.0% 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 did not reap the full benefits of that boom. Over the past nine years total tourism expenditure in Australia has increased by 83%; in TNQ it is up just 61%.

Obviously things will be very 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.

As the state borders reopen (hopefully in July) it is clear that international travel is some way off. This provides an enormous challenge to the tourism industry, not just in TNQ, to ensure that the domestic market is tapped to fill as much of the void left by the lack of international visitors as possible. For markets such as Cairns, so reliant on air travel even for domestic travellers, this is likely to require significant government support in coming quarters.