The CONUS Quarterly

Vol. XII- Issue 3 - Sept 2020

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in this issue……

Editor's Note

Six months into the COVID-19 pandemic we are only now seeing the true impact on our economy. When this all started many hoped it would all be over by now; we know now that we still have a long way to go.

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.

Conus Business Consultancy Services

PO Box 441

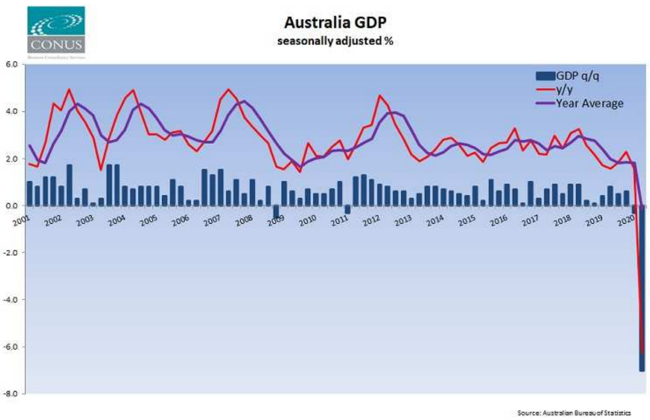
Mission Beach

QLD 4852

www.conus.com.au Ruth: 0419 697901 Pete: 0439 490088

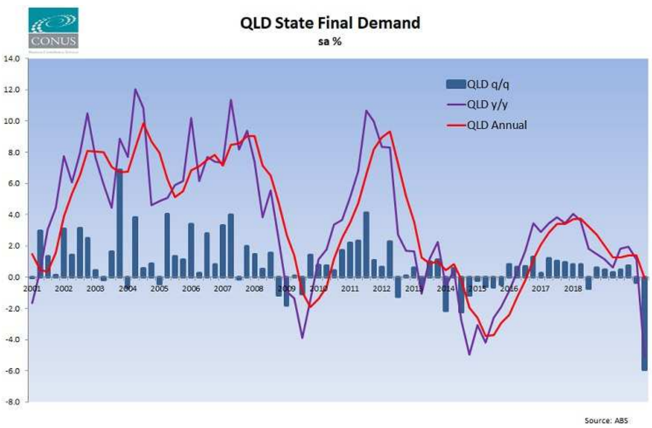
2nd Quarter Australian GDP

The second quarter GDP data released this morning was, as expected, heavily in negative territory and officially ends Australia's run of avoiding a recession. Seasonally adjusted GDP fell a record 7.0% q/q which takes the year-on-year rate to –6.3% (from +1.6%).



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 12.1% q/q and deducted 6.7 ppts from growth. For the third quarter in a row Private CAPEX also subtracted from GDP (-1.2 ppts). Public sector consumption and investment (which added 0.6 ppts and 0.1 ppts respectively) came nowhere close to offsetting this collapse in the private sector.

With household spending so weak it is perhaps not surprising to see the household savings rate surge to 19.8% (from 6.0% the previous quarter).



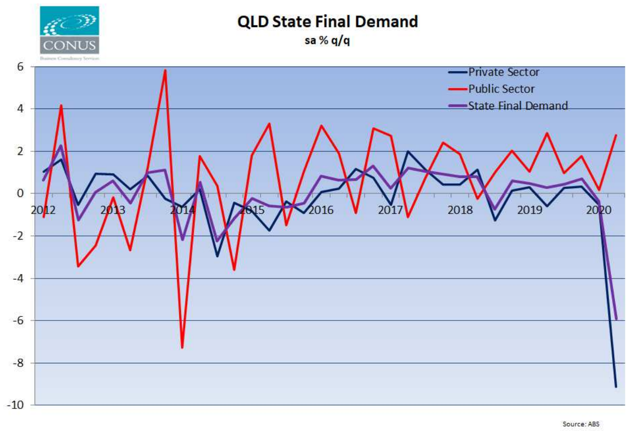
The ABS provide us with quarterly data for State Final Demand, which is the domestic component of the state's economy. Data for Gross State Product (which includes the international and inter-state elements) is only available from the ABS on an annual basis; the most recent data for 2018-19 showed an 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 first quarter of 2020 (see further details in the FNQ Economy Roundup).

The ABS Q2 data has State Final Demand down 5.9% q/q for a year-on-year increase of 5.2% (down from +1.1% in Q1). As weak as this data is, it is still rather better than the national domestic economy which fell 8.0% q/q and was down 7.7% y/y.

This quarter the private sector saw some huge declines with household consumption down 9.6% q/q and private CAPEX down 7.6% q/q (the third consecutive quarter of declines in private investment).

Although the Public sector managed to grow this quarter (up 2.8% q/q) it was obviously unable to offset the collapse in the much larger private sector data.

As the chart below makes clear, growth in recent years (such as it has been) in the domestic QLD economy has been coming almost exclusively from the Public Sector. The total private sector is now 10.4% below the level seen two years ago. The Public sector (which is equal to approximately 40% of the Private sector), over the same period, has increased by 13.2%.



As the country has eased restrictions in recent months we are likely to see a significant rebound in GDP in the third quarter. However, all of the data currently available (see our blog for details on specifics such as weekly Payrolls and Google Mobility data) suggests that we are looking at a slower grind up than might have been originally hoped for.

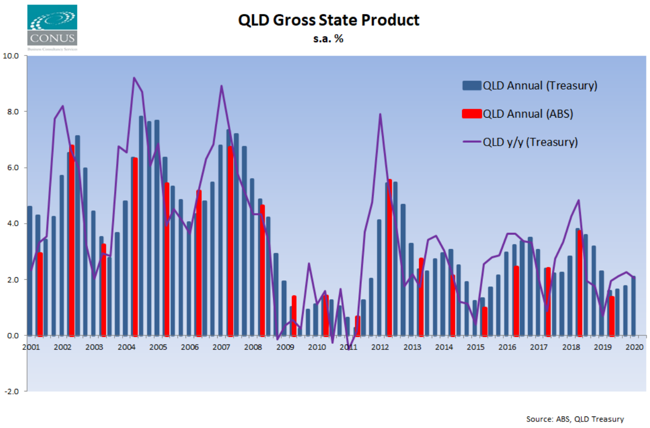
The idea of a 'snap-back' or V-shaped recovery is now clearly not on the cards and it appears likely that a much slower Nike-swoosh type move in coming quarters is the more plausible outcome. All of that is dependent on the health outcomes improving; obviously any further significant second-wave would see a very different scenario play-out.

Last quarter we noted our expectation of some changes and extension to the original JobKeeper scheme. The introduction of JobKeeper 2.0, which will take over after JobKeeper 1.0 finishes at the end of Sept, will continue to support a raft of jobs (particularly in Victoria) even at the reduced rates announced. This raise the question of how the economy performs in coming quarters as these support measures are wound back.

FNQ Economy Roundup

Since our last issue we have seen Q1 2020 Gross State Product data released by the QLD Treasury.

While the ABS produce Gross State Product data only on an annual basis (which we saw released today...see previous page) 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. For the Q1 quarter the Treasury estimates suggest a 0.3% q/q decline in GSP which equates to a 2.0% increase year-on-year. We will see the ABS estimate of 2019/20 GSP in November.

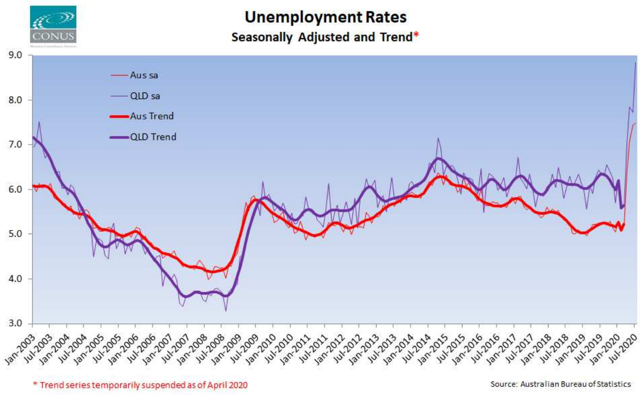
Employment

Over the past quarter we have seen the continued impact of the COVID-19 lock-downs on the labour force. Despite some improvements from lows, and in light of the continuing challenges in Victoria, the market clearly remains very weak. The latest data (to July 2020) showed another increase in employment; but even with more than 340K jobs added in the past 2 months employment remains more than half-a-million below the level seen in March and we now have more than one-million people counted as unemployed. The participation rate has started to recover as more workers return to the labour force and, as a result, the unemployment rate has lifted to 7.5%.

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 has seen only marginal improvement since.

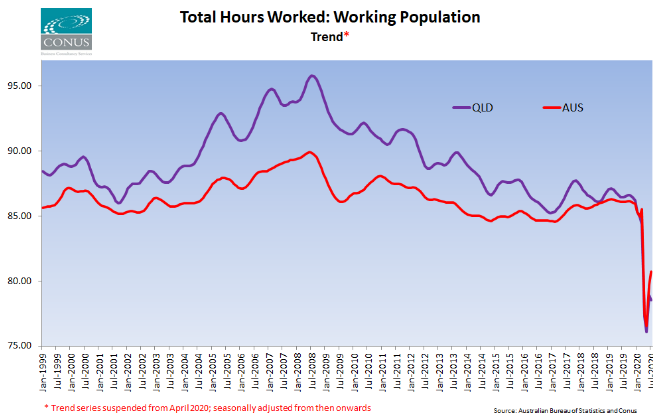
In Queensland the most recent ABS data suggests that the unemployment rate is 8.8% with employment still more than 135K below where it was in March. The weekly Payrolls data from the ABS hints that this may improve somewhat next month as the State's better health outcomes start to pay real economic dividends in the form of an improved labour force.

The changes and extension to the JobKeeper scheme will

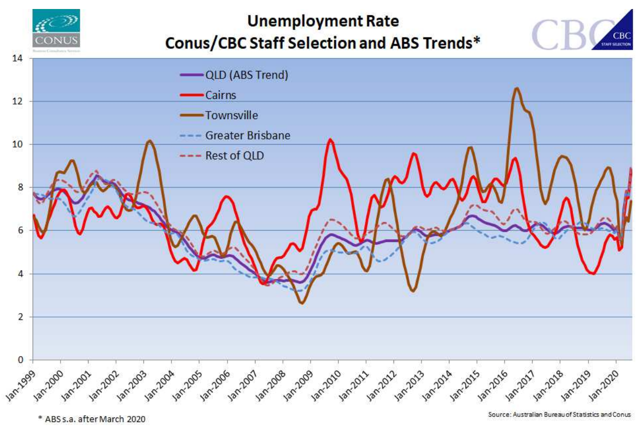


continue to support the labour market, although Treasury is still expect the unemployment rate to reach 10% by year-end. Our own projection is rather less pessimistic at 9.4% and 'just' 8.9% in Queensland.

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 2,500 in July and the unemployment rate rise to 8.7%; while in Towns-

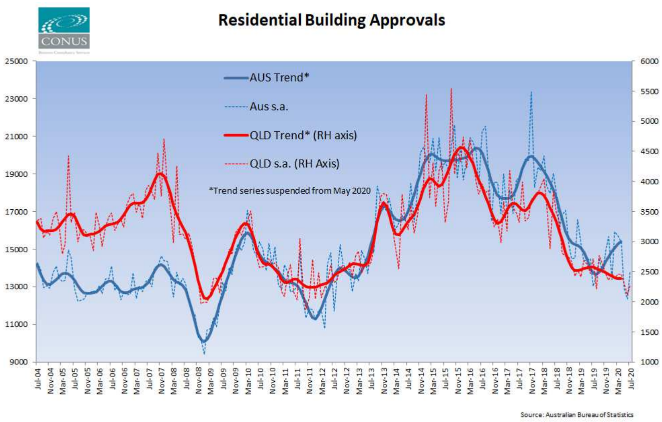
FNQ Economy Roundup cont..

ville the unemployment rate increased to 7.4% with employment dropping by 300.

With some improvements apparent within the tourism sector and the relaxation of restrictions resulting in a return to some semblance of 'normality' in the region, we anticipate some employment growth in coming months and it appears likely that we may already be at, or close to, the highs in the unemployment rates in the North.

Building Approvals

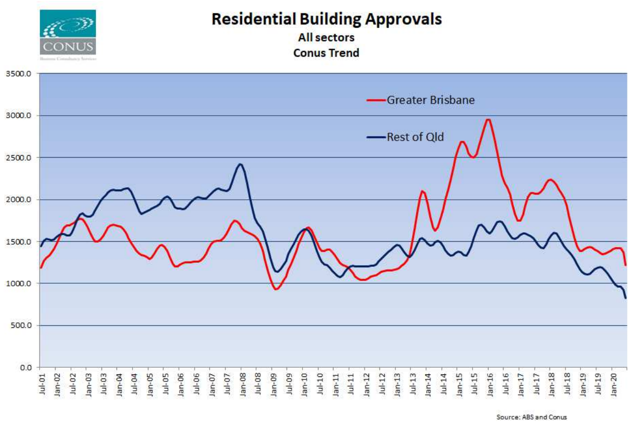
The most recent data to July showed some improvement in building approvals data at the national level while Queensland continues to slide.

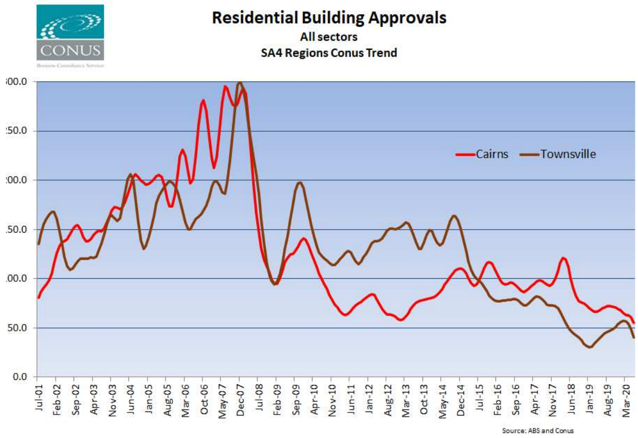


July showed that approvals growth in the nation currently sits at +6.3% y/y on a seasonally adjusted basis. Approvals were up 12.0% for the month.

In Queensland approvals rose 7.7% in the month but remain down 16.2% for the year with unit approvals being the main driver, down 34.8% year-on-year.

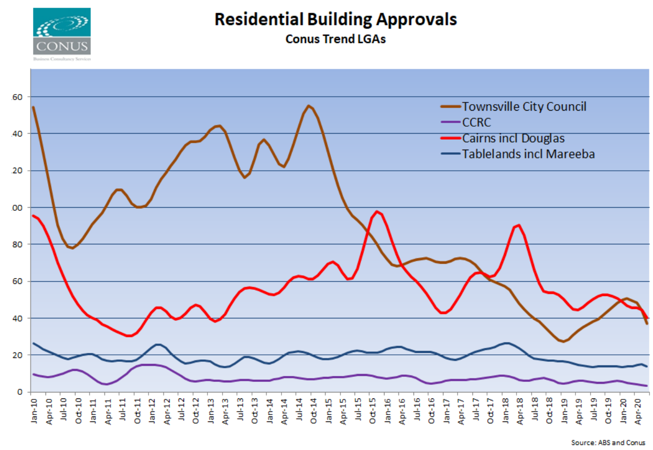
When we consider the breakdown across the state (with data only available to Jun at time of writing) we have seen the decline in approvals across the regions continue and be joined by Greater Brisbane. For the year to June the Conus Trend shows Greater Brisbane down 13.3% and the Rest of Queensland down 29.6%.





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

For the year to June Trend approvals in Cairns are down 20.8%.



In Townsville SA4 the recent recovery has reversed. In June the Conus Trend has fallen to 41 which reflects a 4.9% decline over the 12 months from already low levels.

The Conus Trend data at the LGA level shows Cairns Regional Council (incl Douglas Shire) on 40 down 5.0% from a year ago. The Cassowary Coast Regional Council has also fallen and now sits at just 3; which is 43.6% below the level of a year ago. Tablelands Regional Council (incl Mareeba Shire) has fallen this month, after something of a rally at the start of last year, and now sits at 14 which is unchanged from a year ago.

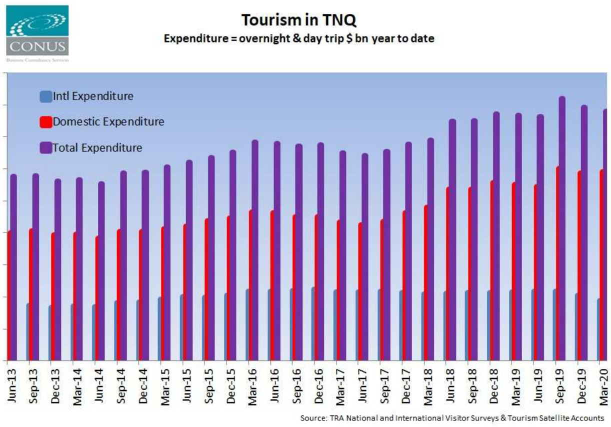
Townsville City Council has dropped to 37 which remains 15.7% above the level of 12 months earlier; bearing in mind that a year ago Townsville was just recovering from historical lows.

FNQ Economy Roundup cont..

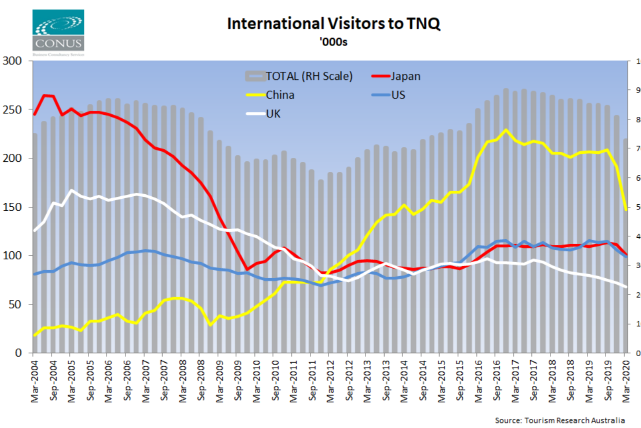
Tourism

While the international borders remain closed we have seen evidence of a return to domestic tourism in the region, albeit hampered by the continued interstate travel restrictions.

The most recent tourism data only relates to the March quarter so is yet to show up the full impacts of the lock-downs and border closures.



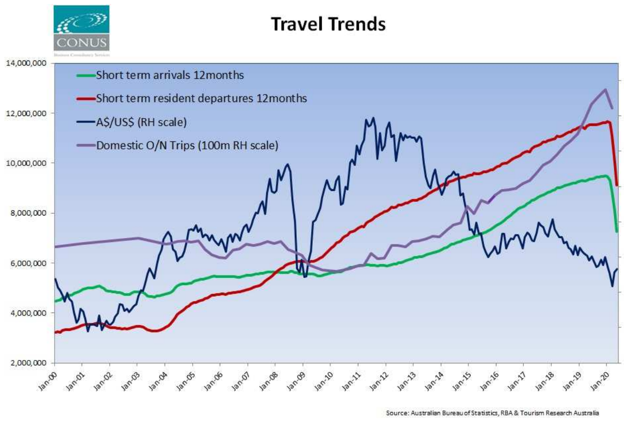
Let's start with the domestic market, where things remained relatively firm. The latest data showed domestic visitor expenditure grew 6.9% y/y with visitor numbers to the region up 8.1%. While this solid expenditure growth over the past couple of years is certainly encouraging it is only very slightly better than the national average. Recent data from Cairns airport suggests a solid, if limited, recovery in domestic travel with the Cairns-Brisbane route currently the busiest in Australia.



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

International visitor expenditure across Australia increased by 4.8% in the three years to Mar 2020. In the Far North it has fallen by 12.5%! 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 massive impact of COVID-19 on the March 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 and they too had started to fall as COVID-19 began to bite in the first quarter. As a result international



visitors to TNQ were down 14.4% for the year to Mar (versus declines of 5.7% nationally and 6.3% in QLD). Expenditure too has been poor, down 12.3% in TNQ but down only 4.9% in Queensland and 6.7% nationally.

With even State borders still closed to NSW, ACT and Victoria, a renewed outbreak in New Zealand, and evidence of second-waves in many European countries it is clear that international travel is still some way off. Qantas are not looking at restarting international travel until the middle of next year.

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.