The CONUS Quarterly

Vol. XIII- Issue 3 - Sept 2021

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Business Consultancy Services

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A detailed look at the economy in our own region

Editor's Note

The recovery from the COVID-induced recession was well underway; and then Delta hit hard. The rolling lockdowns in NSW and Melbourne (as well as more briefly SEQ and even Cairns) have slammed the brakes on that recovery and there is a real risk now of a double-dip recession in Q3 and Q4 of this year. The single most pressing issue now is "When we will get to a level of vaccination that allows for a return to something close to normal?" and, particularly for our tourism sector, "When will international borders reopen?" The answers to those questions will determine how our economy fares going forward from here.

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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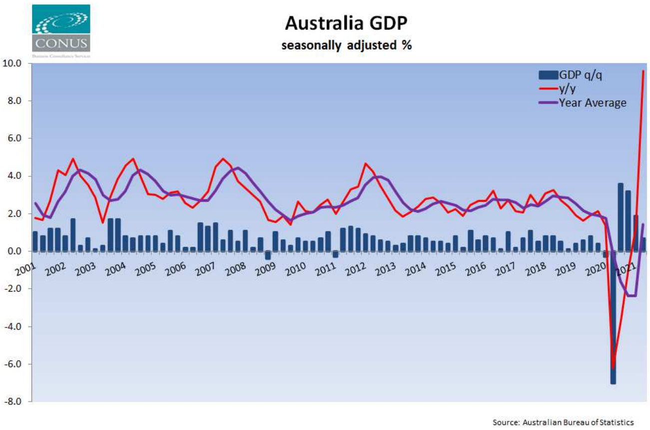
2nd Quarter Australian GDP

The second quarter GDP data released this morning was better than many had been expecting with a 0.7% q/q lift which (after some small upward revisions to previous quarters) takes us to a heady 9.6% up from the same period a year ago. Over the past 4 quarters GDP is now up 1.4% having been down 2.4% in Q1.



Nevertheless, given what we know has happened in NSW and Victoria since the middle of the year there is no doubt at all that the Q3 data, when we get it, will show a sharp decline which could well extend into the final quarter of this year. The possibility of a double-dip recession with declines in both Q3 and Q4 is now very real and therefore somewhat diminishes much excitement around these rather historical numbers.

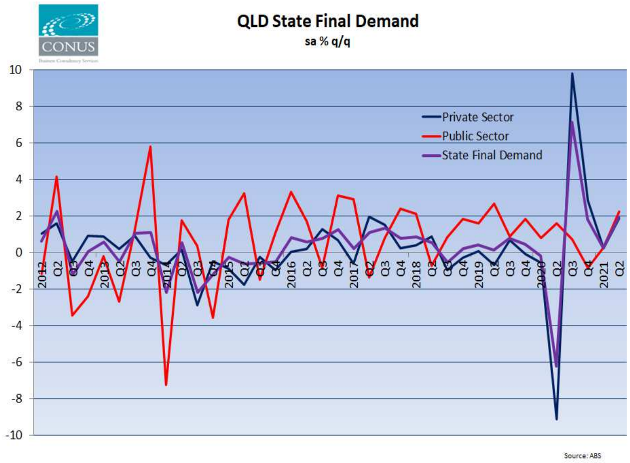
What we can say is that a 0.7% q/q growth moves us, at least for the time being, into a situation where annualised growth (at just under 3%) is more in line with a 'normal' trend for Australia.

The household savings rate eased again this quarter to 9.7%; this remains somewhat elevated on a historical basis suggesting the potential for still further running down of savings as the deterioration in prospects in the south takes its toll on employment and sentiment.

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 2019-20 showed an annual decrease of 1.1% (2020-21 data to be released in mid-Nov). However, the QLD Treasury provide quarterly estimates for Gross State Product (albeit rather delayed) and we are still waiting to see their Q4 data. See the QLD Roundup on the next page for more details of the most recently available Gross State Product data from the Treasury.

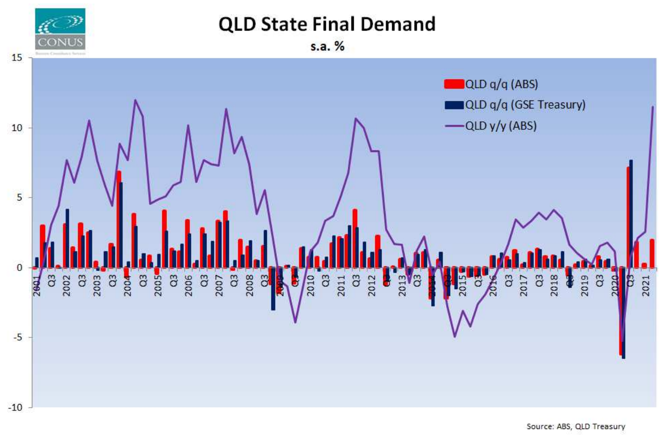
The ABS Q2 data has State Final Demand up 2.0% q/q for a year-on-year increase of 11.5% (after a revised 0.3% q/q, 2.6% y/y rise in Q1).

This quarter the private and public sectors both grew at similar rates (Private +1.9%, Public +2.2%) with Private CAPEX making a particularly solid improvement (+5.7%). The chart below shows that this return to some meaningful growth from the Private sector is encouraging. However, over the past 2 years the total private sector is up just 4.9% while the Public sector (which is equal to almost 40% of the Private sector), over the same period, has increased by 7.7%.



Obviously with so much of the country moving back into restrictions in the second half of this year, after what looked like such an encouraging period earlier in the year, the outlook for the Australian economy has changed dramatically. Whether or not we move into a double-dip recession or not does nothing to change the reality on the ground that the current lockdowns will be having profound effects across our economy. Not just in those areas actually locked down but also in those (like Cairns) which are locked out.

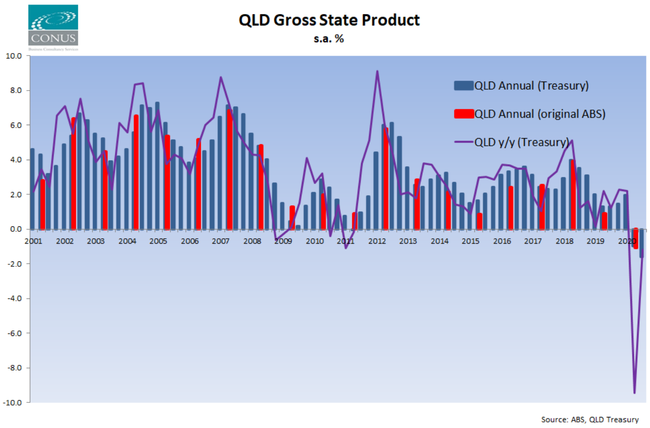
How the recovery plays out from here will continue to depend on future health outcomes and the roll-out and up-take of vaccines. The move to the magic target of 80% fully vaccinated is now (belatedly) well under way but if we wish to see real economic recovery we will need to see those targets reached as quickly as possible and all States and Territories secure in the knowledge that they can open safely and allow their economies to start the long road to full recovery.



FNQ Economy Roundup

Since our last issue we have been waiting for the Q4 2020 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.



The ABS estimated that Gross State Product fell by 1.1% in Queensland in 2019/20. Previous Treasury estimates of a 0.5% reduction have been revised (as we foreshadowed in previous issues) and Treasury now have their estimate as a 1.0% reduction for the fiscal year.

In the third quarter Treasury estimates the annual reduction in GSP at 1.6%. Although this appears as a deterioration the reality is that the third quarter saw a huge recovery from the very large decline in the second quarter (+6.7% q/q). Further significant recovery in the fourth quarter data will be required if we are not to see another weaker number for the annual change in 2020.

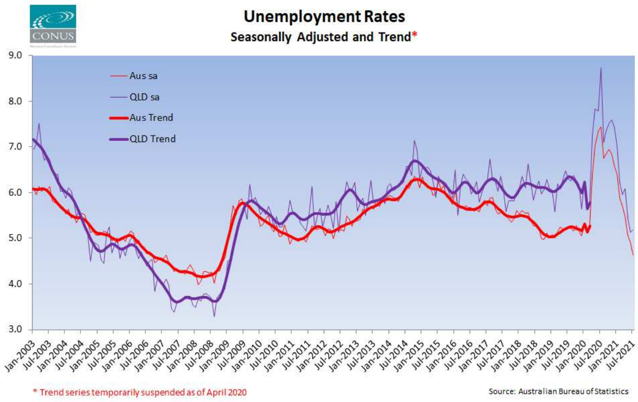
Employment

This quarter has been one of recovery for the Australian labour market. Since June last year the headline unemployment rate has fallen from 7.4% to 4.6% in July. However, the real improvement is only seen when we consider the fact that the level of employment is up 780,000 (+6.3%) in that time and the participation rate has risen by 1.9ppts. We now sit well above the employment level pre-COVID.

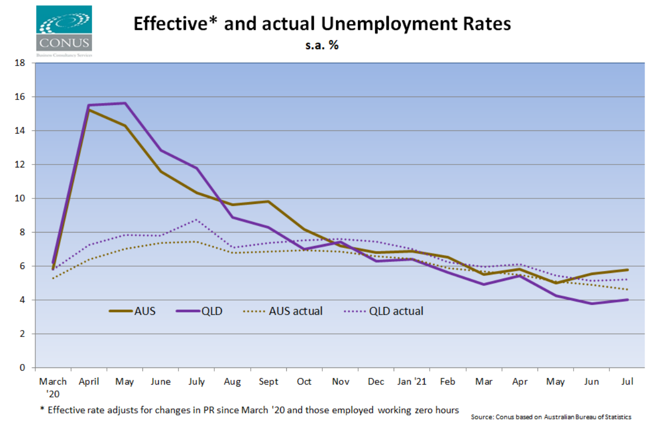
However, the effects of lock-downs in Sydney, Melbourne and Canberra have shown up in a reduction in hours worked, which had recovered above pre-COVID levels in recent months, but have now fallen back sharply.

Queensland, at least partly due to its better health outcomes, has seen an even more impressive recovery with employment up 228,600 since June 2020 (+9.4%). However, due to a very steep rise in participation (up 3.3ppts) over that time the employment gains have not been fully reflected in a lower unemployment rate which remains stubbornly above the national level at 5.2%.

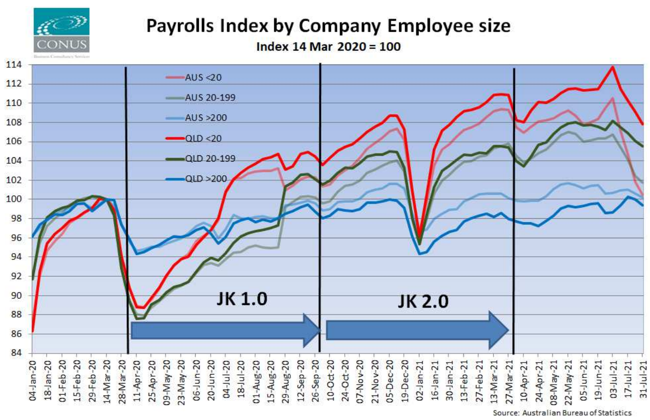
At the height of the COVID induced labour market rout many commentators (including the ABS) began to talk



about an 'effective' unemployment rate which accounted for the fact that many were still employed but working zero hours and that many workers had simply left the labour market altogether and were therefore not showing up in the unemployment data. Making that kind of calculation now shows that the effective rate in Queensland has been below the official headline rate since Dec and is well below the national level. The 'effective' rate of unemployment in Queensland is now 4.0% compared to the national effective rate of 5.8%.



The most recent Payrolls data, collected via the Singlke Touch Payroll system, shows that the removal of JobKeeper support at the end of March had no real impact on payrolls numbers despite a brief apparent dip in early April. The most recent lock-downs have seen significant declines, particularly in smaller companies employing fewer than 20 staff (although end of financial year issues may



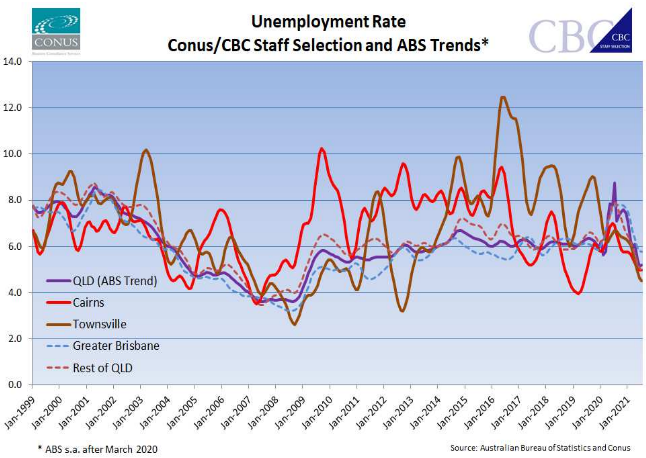
FNQ Economy Roundup cont..

see this data revised higher in coming months.

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 have seen Trend employment increase by 3,300 since June last year (+2.5%) and the unemployment rate has fallen to 5.0%. This pace of employment growth is well below that seen across the State but a participation rate that has stayed stable, rather than increased as has the State, helped to keep the unemployment rate low.

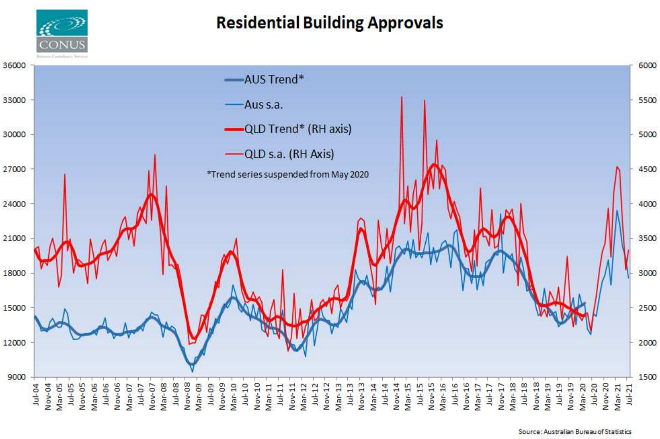
Recent declines in domestic tourism (see Tourism section later) are likely to see this robust employment picture change in coming months.



Building Approvals

The most recent months data to July showed some improvement in building approvals data for Queensland although things continue to ease across the nation as a whole.

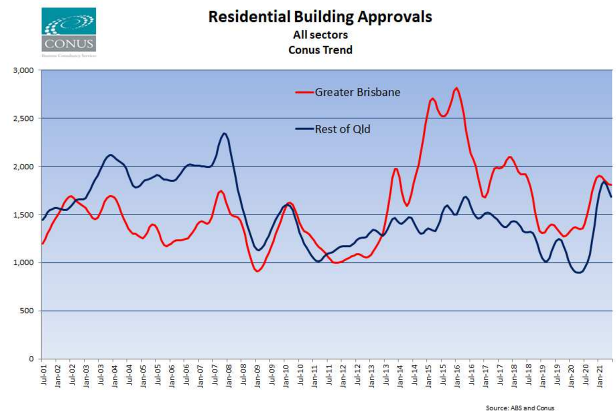
July's data has approvals growth in the nation currently at +21.5% y/y on a seasonally adjusted basis. Although approvals were down 8.6% for the month.



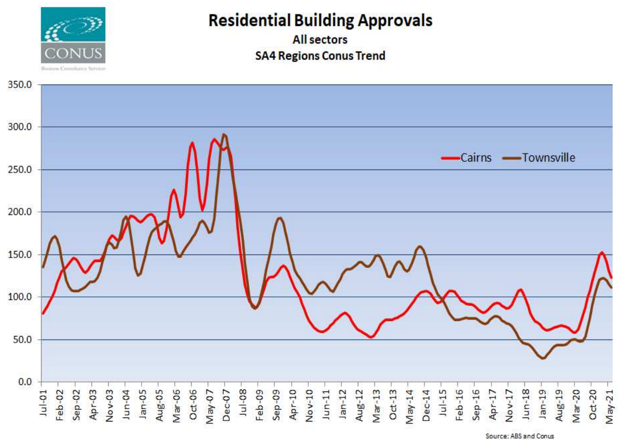
In Queensland approvals were up 9.0% in the month and are now up 37.2% for the year with house approvals as the main driver, up 41.0 % for the year.

When we consider the breakdown across the state (with data only available to June at time of writing) we have seen approvals recover in both the regions and Greater Brisbane despite some recent weakness. In the year to June approvals across Greater Brisbane were up 33.5% and in the Rest of Queensland up 85.4% from a year ago.

Looking at the Conus Trend data for the Cairns SA4 region we see the strong regional pick-up, and more recent pull-back, reflected here too. Trend approvals had recovered



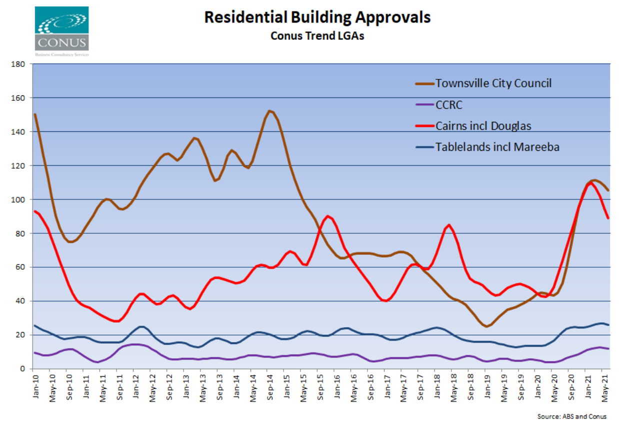
well although they have now eased back from recent highs. For the year to June Trend approvals in Cairns are up 57.2%. Townsville SA4 has seen a similar pattern of strength and a pull-back, although here the retrenchment has been far less marked and in June Trend approvals were still up 129.5% for the year.



The Conus Trend data at the LGA level shows Cairns Regional Council (incl Douglas Shire) on 89 up 61% from a year ago. The Cassowary Coast Regional Council has also improved and now sits at 12; which is 172% above the level of a year ago. Tablelands Regional Council (incl Mareeba Shire) is fell slightly this month and now sits at 26 which is an 36% increase from a year ago.

Townsville City Council has increased to 106 which is now

FNQ Economy Roundup cont..



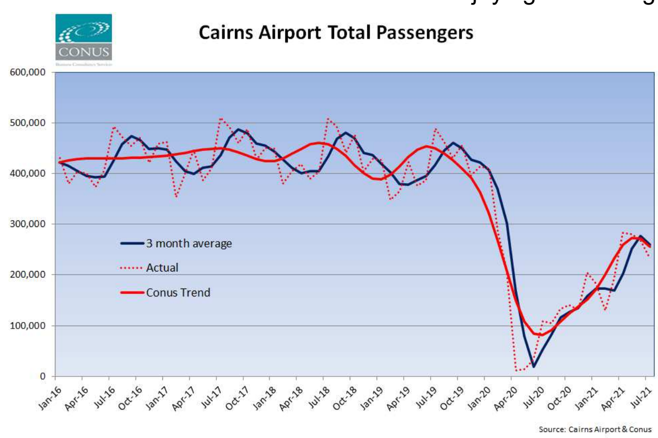
134% above the level of 12 months earlier; bearing in mind that a little over two years ago Townsville was just recovering from historical lows.

Tourism

The recent and ongoing lockdowns in NSW, ACT and Melbourne are obviously having a significant effect on the tourism sector in the Far North.

The data from Cairns Airport for July passenger numbers clearly shows the beginnings of that effect being felt with passenger numbers down 12.5% from June. Given what we know has happened since then, it is clear that the data will show further declines in August (and likely into Sept).

The domestic tourism sector had been enjoying something



of a regional boom until the Delta variant outbreaks changed everything.

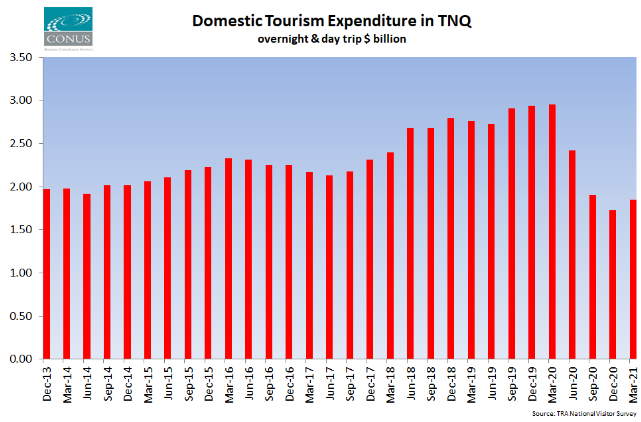
Monthly snapshot data from Tourism Research Australia up to May was showing that total domestic expenditure in Regional Queensland for the 12 month period was up 6.6% from a year earlier, compared to a 12.9% decline nationally and a drop of 6.4% in Queensland.

With international borders closed Aussies were taking their holidays at home, and in particular in the regions. Recent lockdowns have clearly put paid to much of that, at least for the time being.

The snap 3-day lockdown in Cairns earlier in August will have further exasperated the problems being felt by Far North operators.

The State and Federal Governments have joined together to extend some support for the sector but the longer, and more widespread, these lockdowns continue to be the less sufficient such support appears to be.

With international tourism still apparently many months away (we are certainly not anticipating any international tourism at scale until the middle of 2022) the losses in the tourism sector continue to stack up. A domestic tourism boom, albeit now curtailed, was never going to be enough to compensate for the lose of 25-33% of total tourism expenditure in the Far North which the international sector used to provide.



There is now genuine concern within the sector that many operators, who managed to hang on through 2020 with significant Government support, are now teetering on the brink of collapse in the face of the present lockdowns.

Without increased Government support, probably along the lines of JobKeeper, we are likely to see a major hollowing-out of the sector in the Far North which will make a recovery, when domestic and international borders finally open, all the more difficult to sustain.