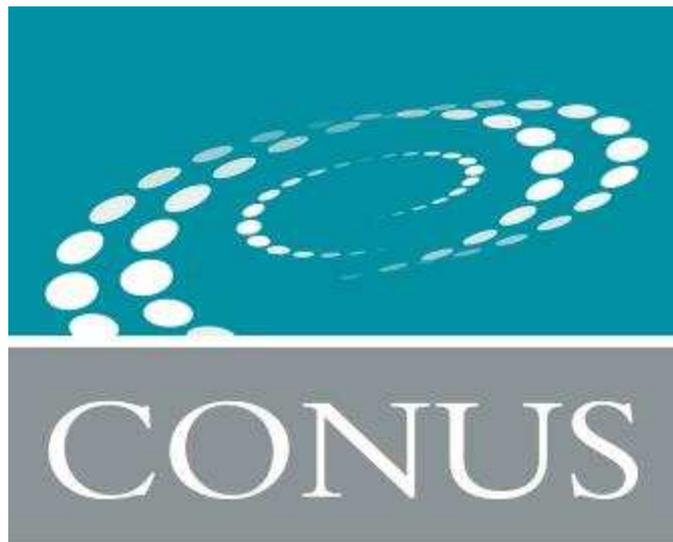




The CONUS Quarterly

Vol. XIV- Issue 2 - June 2022



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We offset our carbon via ACCUs generated by
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Business Consultancy Services

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Editor's Note

As the inflation genie appears to be out of the bottle we enter a period of rising interest rates. How this plays out across Australia will likely be the overriding theme of coming quarterlies.

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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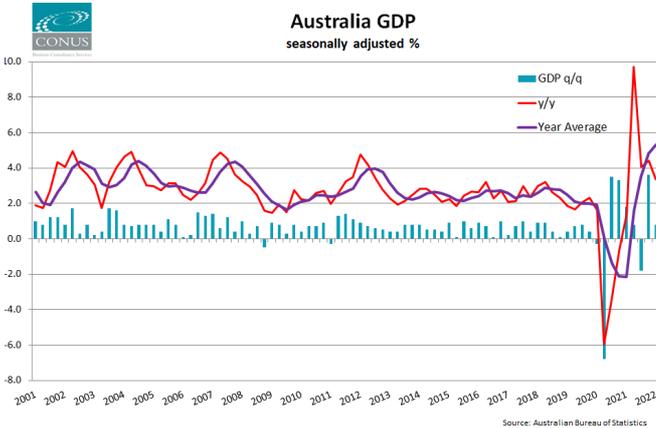
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1st Quarter Australian GDP

The first quarter GDP data released this morning was stronger than expectations with a 0.8% q/q increase on the back of the previous quarter's 3.6% increase (actually revised slightly better from +3.4%) which leaves us 3.3% up from the same period a year ago. Over the course of the year to March 2022 GDP was up 5.3% having been up 4.8% in Q4.



As the period of lockdowns unwound and we now move to a period of more 'normal' activity we are inevitably seeing growth numbers return to a more 'normal' state.

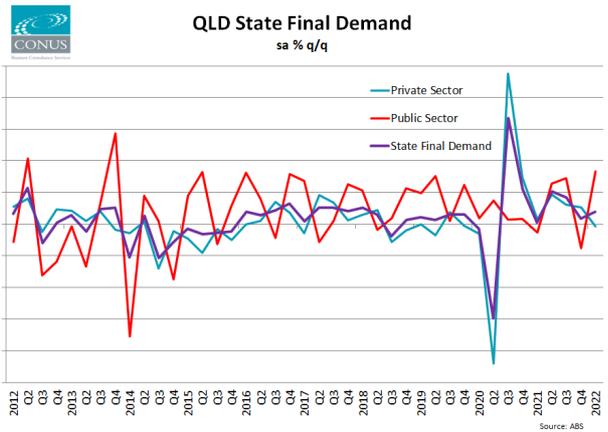
The revisions in this release to previous quarters shows the economy performing rather better than had been anticipated and will likely only cement expectations for another rate hike from the RBA next week.

Last quarter we noted the decline in the household savings rate as households dipped into savings to consume. That trend has continued in the first quarter with the rate now falling to 11.4%, which is less than half the level it reached in the second quarter of 2020 as government stimulus rained down on households.

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 2020-21 showed an annual increase of 2.0% which was above the national rate of 1.5%. Unfortunately the QLD Treasury, who used to provide estimates of Gross State Product on a quarterly basis, have decided to suspend that series due to the COVID-induced volatility in the data.

The ABS Q1 data has State Final Demand +0.8 q/q for a year-on-year increase of 5.0% (after an upwardly revised +0.3% q/q, and +4.2% y/y in Q4). This compares to Domestic Final Demand in Australia up 1.6% q/q, +4.8% y/y. Queensland performed much better than the national average in Q3 last year since the state did not have to endure the lock-downs seen in Victoria and NSW; however, growth appears to have now returned to a level more consistent with the national picture.

This quarter total Private Demand declined 0.2% q/q while

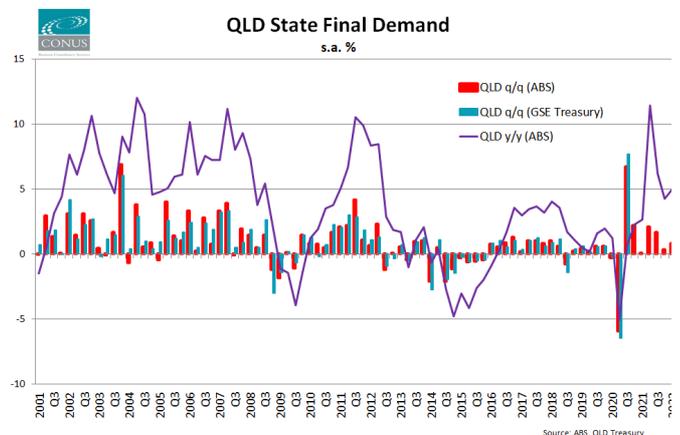


Public Demand was up 3.3% q/q, reversing a sharp decline last quarter. The chart above shows that it was only this very robust Public sector result that held overall growth in positive territory.

The weakness in the Private sector result was due to a 2.0% q/q decline in private sector CAPEX and only a modest 0.4% q/q increase in consumption. This contrasts sharply with the Public sector where CAPEX was up 3.8% q/q and consumption up 3.2% q/q

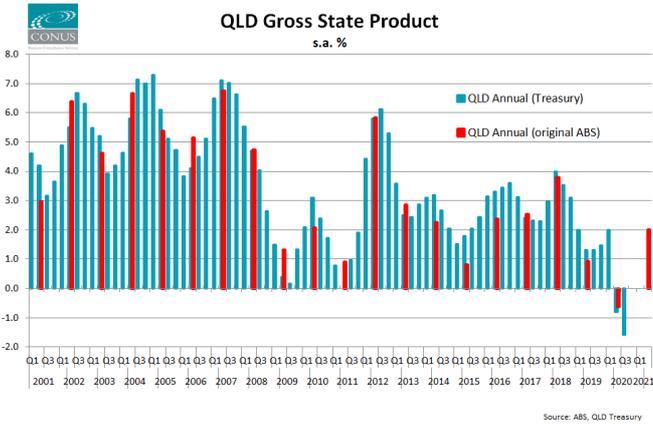
We should not forget that growth in Australia pre-COVID was far from booming and therefore a reversion to long-term growth in the 2.5% range will be seen as disappointing. Our hope is that some of the transitions that COVID has forced upon the economy might result in improved productivity growth (which had been weak) which combined with solid population growth as international migration restarts could see a growth trajectory beyond 2024 that looks closer to the 3-3.5% that Australia enjoyed in years gone by.

Certainly for the next few years the RBA is forecasting GDP growth well above trend at +3.75% in 2021/22 and then +4.5% in 2022/23



FNQ Economy Roundup

Since our last issue there has been no additional data on Queensland's Gross State Product. The latest data we have is for the 2020/21 financial year. After a 0.8% fall in 2019/20 (revised from a previous estimate of a 1.1% decline) Queensland bounced back strongly and GSP rose 2.0% in 2020/21.



While the ABS produce Gross State Product data only on an annual basis we have previously had to rely on the quarterly estimates from QLD Treasury for the intermediate periods.

Unfortunately the Queensland Treasury have made the decision to suspend their provision of quarterly State Accounts due to "Ongoing volatility in seasonal factors .." and as a result we have no quarterly data for GSP beyond the Sept 2020 figures. Once Treasury restart this data series we will be updating our analysis. In the meantime we will have to make do with annual ABS data.

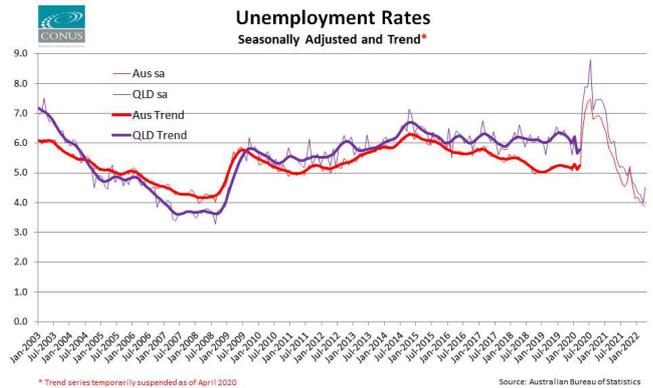
Employment

The past three months have seen significant increases in employment across the country and the unemployment rate has fallen to multi-decade lows. From January to April employment in Australia grew by almost 118,000 and the headline unemployment rate fell from 4.2% to 3.9%. Employment now sits more than 3% higher than it was a little more than two years ago before the onset of the COVID pandemic.

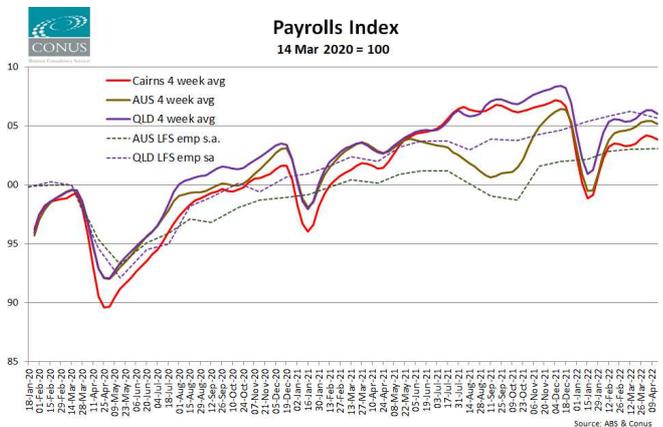
This fall in the unemployment rate was even more dramatic given that we also saw a slight rise in participation and people returned to the labour force. This has been particularly marked for females where the participation rate is now very close to a record high. Five years ago the difference between male and female participation was 11pts; today it sits at just 8.6pts.

The continued impact of the pandemic on people being able to work has seen the hours worked data to be rather more variable. Nevertheless the latest nation-wide data shows hours worked per capita very close to 10-year highs.

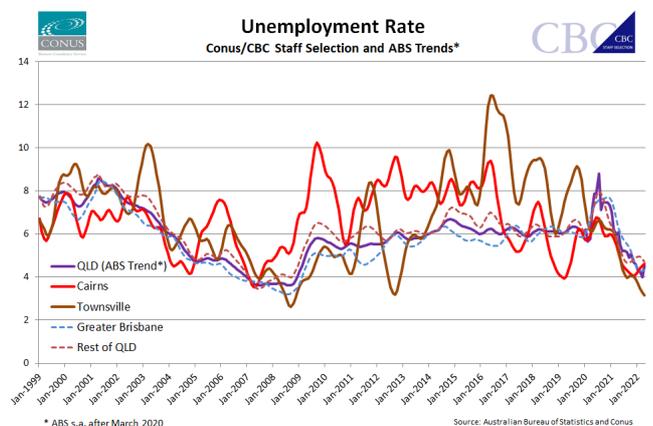
Since January employment in Queensland has risen a more modest 7,900 and the headline unemployment rate in the Sunshine State now sits just above the national figure at 4.5%. This recent move up from the previous 4.0% appears



to be little more than statistical noise as other labour force indicators point to continued strength.



The most recent Payrolls data, collected via the Single Touch Payroll system, has reverted to a position more closely matching the monthly labour force data. The fact that the Payrolls data is not seasonally adjusted accounted for the variance away from the (seasonally adjusted) labour force numbers before, during and immediately after the Christmas and New Year holiday period.



In Cairns we have seen Trend employment increase by 10,000 since April last year (+7.8%) and the unemployment rate has fallen to 4.6%. This pace of employment growth is

FNQ Economy Roundup cont..

now well above that seen across the State. The unemployment rate in Cairns would have fallen even further were it not for a very sharp increase in participation as many more people entered the labour market. Cairns' labour force has grown by 9,700 in the past year.

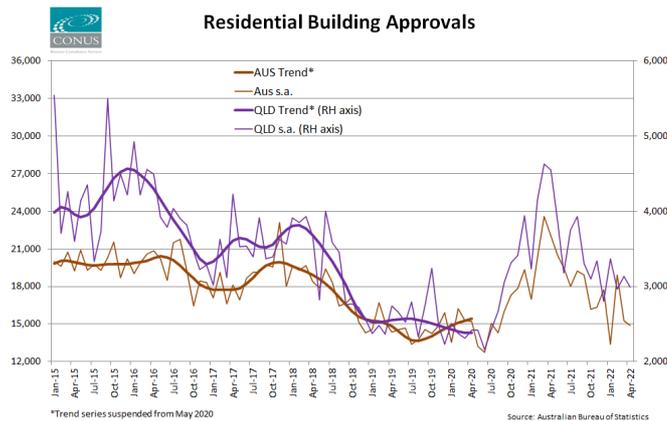
Anecdotal evidence points to severe ongoing labour (and particularly skills) shortages.

Building Approvals

The most recent months data to April showed the surge in building approvals seen at the start of the 2021 easing further across both the nation and Queensland. Indeed while approvals in QLD remain elevated above pre-pandemic levels, at the national level they have fallen back to be close to those pre-COVID numbers.

Apr's data has approvals across the nation down by 32.4% y/y on a seasonally adjusted basis.

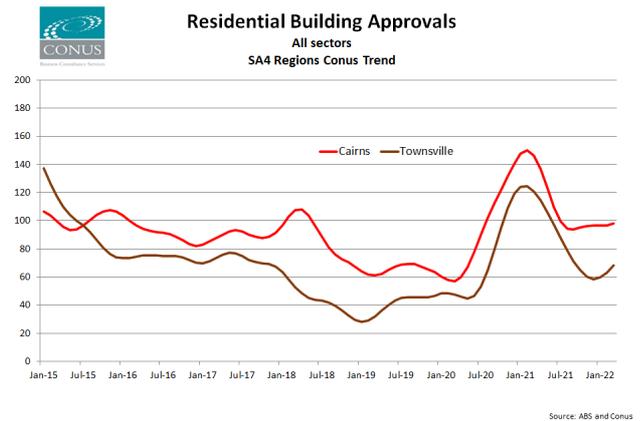
In Queensland approvals are now down 34.3% for the year with the decline being seen in both houses (-28.6%) and units (-49.8%).



When we consider the breakdown across the state we have seen Trend approvals falling less sharply in Greater Brisbane while across the Rest of Queensland there have been more dramatic declines. In the year to Mar (most recent) Trend approvals across Greater Brisbane were down 17% while in the Rest of Queensland approvals were down 32% from a year ago. *Note; the Conus Trend series cannot be directly compared to the more volatile ABS seasonally adjusted series.*

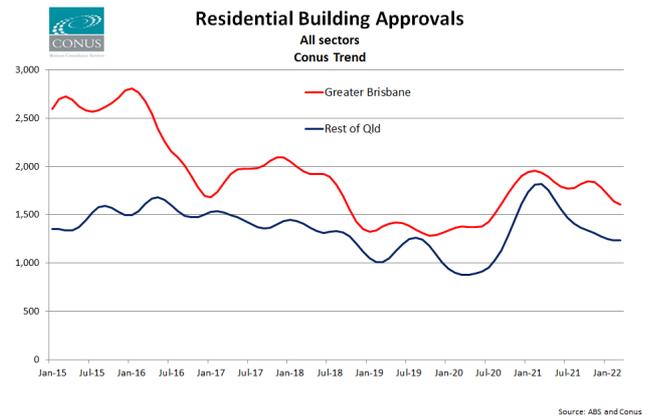
Looking at the Conus Trend data for the Cairns SA4 region we see the weaker regional story reflected here. For the year to Mar Trend approvals in Cairns are now down 33%, although they have stabilised in recent months and remain at levels similar to those seen through 2015-2018. Townsville SA4 has seen a similar pattern of strength and a pull-back, although here the retrenchment has been more marked and in Mar Trend approvals were down 43.5% for the year.

The Conus Trend data at the LGA level shows Cairns Regional Council (incl Douglas Shire) on 70 down 36% from a year ago. The Cassowary Coast Regional Council has



been stable and now sits at 9; which is 28% below the level of a year ago. Tablelands Regional Council (incl Mareeba Shire) is fell again this month and now sits at 20 which is a 22% fall from a year ago.

Townsville City Council sits at 55 which is 51% below the level of 12 months earlier.



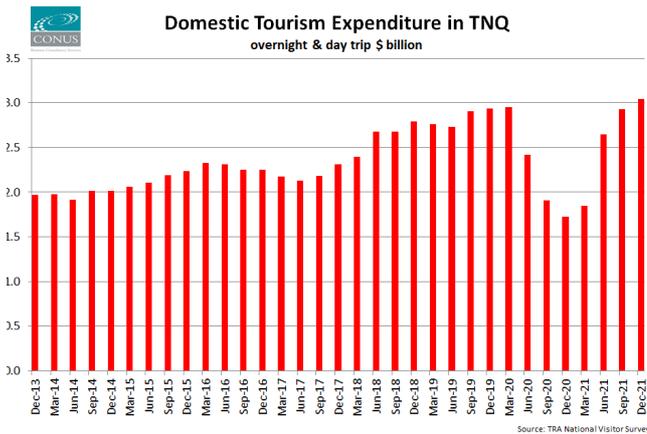
Tourism

The impacts of COVID on domestic tourism have been dramatic over the past two years and nowhere is that more evident than in the fact that domestic tourism expenditure in Tropical North Queensland reached record highs for the year to Dec 2021. This most recent data from Tourism Research Australia shows total domestic expenditure in the region topped \$3 billion for the first time ever and are now up 3.3% from the pre-COVID highs seen in the year to March 2020.

While international borders were closed Aussies were taking their holidays at home, and in particular in the regions. The data and anecdotal evidence for the months since the end of last year suggest further strength with a particularly robust Easter period.

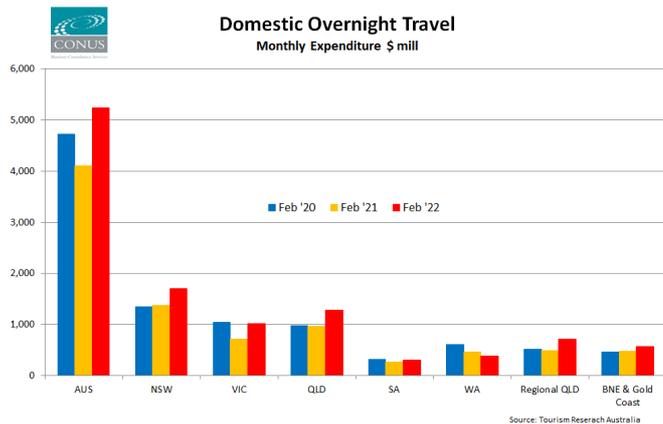
Monthly snapshot data from Tourism Research Australia up to February was showing that total domestic expenditure in Regional Queensland for the 12 month period was up 52.2% from a year earlier, compared to 44.8% growth nationally and an increase of 53.2% across Queensland.

FNQ Economy Roundup cont..



Now that Australia, and much of the world, is moving towards a 'living with COVID' stance we will see international travel restart and international tourists returning to our region. Flights to Cairns from Singapore started in March and have recently increased in frequency. Flights from Japan and New Zealand are due to restart in July. The sight and sound of foreign visitors is once again becoming a regular occurrence on the streets of Cairns.

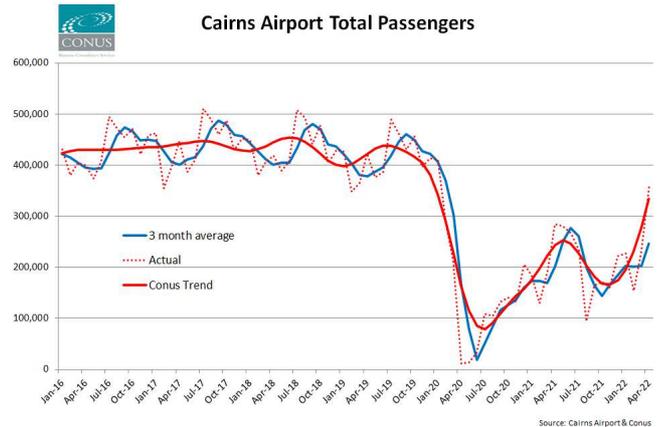
We shall have to see if the strong domestic tourism figures are negatively impacted as people return to travelling overseas for their holidays rather than enjoying their own backyard. Our sense is that this return to more normal international travel may take somewhat longer than many expected. Indeed, a spokesperson for Cairns Airport admitted as much earlier this week when they said international tourists were returning at a slower pace than they had been anticipating.



The most recent data from the Cairns Airport demonstrates the strong uptick in arrivals over the Easter holiday period. Passengers numbers in April were at their highest level since January 2020.

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Although international borders are now once again open a return to 'normal' for international tourism still appears to be some months away (we are certainly not anticipating any international tourism at scale into the Far North until at least the end of 2022). Unfortunately the domestic tourism boom was never going to be enough to compensate for the loss of the 25-33% of total tourism expenditure in the Far North which the international sector used to provide so the tourism sector will no doubt continue to face head-winds throughout this year.

While the sector struggles with an ongoing lack of international visitors they are also having to contend with severe labour shortages.

The accommodation and food services sector in particular, which traditionally has been a major employer of backpacker labour, is now facing the challenge of a return of visitor numbers (albeit still below previous levels) combined with a lack of available labour.

Many bars, cafes and restaurants are being forced to operate with reduced hours; not because of a lack of patrons but simply because of a lack of staff to cover all available shifts.