The CONUS Quarterly

Vol. XIV- Issue 3 - Sept 2022

CONUS

Business Consultancy Services

ABORIGINAL CARBON FOUNDATION

We offset our carbon via ACCUs generated by Indigenous projects in Australia in this issue……

Editor's Note

Interest rates are rising, and look set to rise further. How this plays out across Australia in the coming months will need to be closely watched. So far, in the Far North, there appears to have been limited impacts with many indicators still strong. The return of international visitors, and what domestic tourists decide to do as borders open, will be the other important story for our region.

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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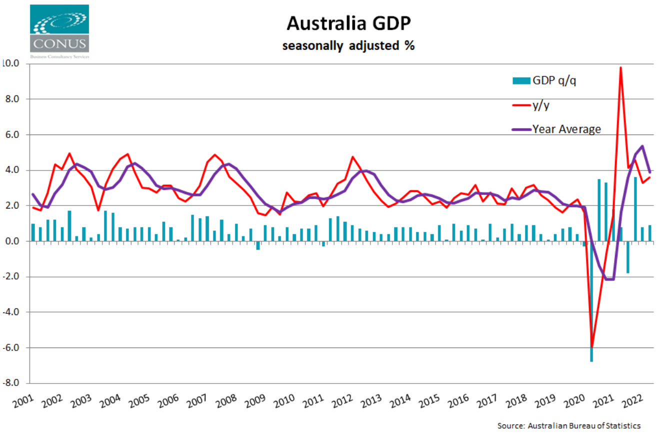
2nd Quarter Australian GDP

The second quarter GDP data released this morning was broadly in line with expectations with a 0.9% q/q increase on the back of the previous quarter's 0.7% increase (actually revised slightly down from +0.8%, but Q4 2021 was revised up) which leaves us 3.6% up from the same period a year ago. Over the course of the 2021/22 year GDP was up 3.9% having been up 1.6% in 2020/21.



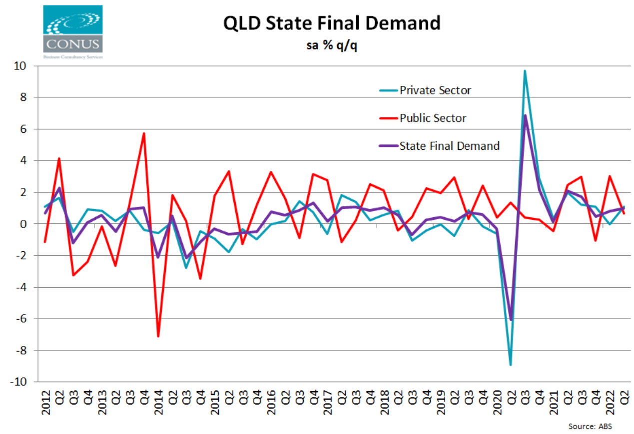
This is still robust growth and well above the pre-COVID trend which was closer to 2.5% y/y. Clearly the interest rate rises we have been seeing in the past few months (and are likely to continue to see) will happen this pace of growth in coming months; exactly as is intended to contain the inflationary pressures evident in the economy.

Certainly this pace of growth will not be such as to stay the RBA's hand in consideration of future rises.

The Household savings rate has continued its sharp decline and now sits at just 8.7% (down from a high of 23.7% in the second quarter fo 2020 as the fiscal stimulus effects rippled through the household sector). Nevertheless, even at this level it remains well above the pre-COVID 5-year average of 5.7% and indicates that households still have sizeable buffers on the back of a very strong labour market.

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 Q2 data has State Final Demand +1.0 q/q for a year-on-year increase of 4.0% (after some upward revision to the Q4 2021 data). This compares to Domestic Final Demand in Australia up 1.0% q/q, +4.7% y/y. Queensland performed much better than the national average in the latter part of 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.

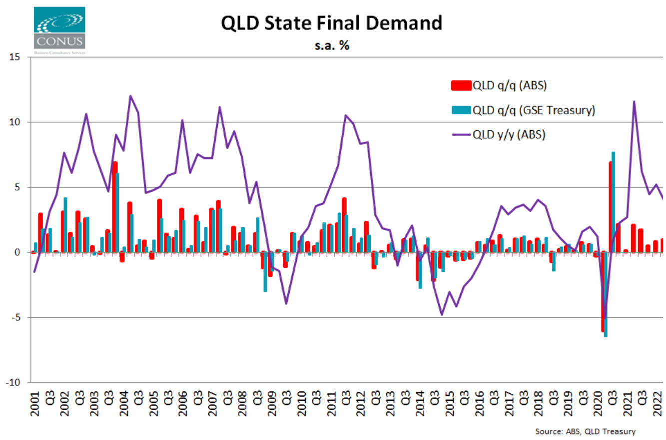


This quarter total Private Demand increased 1.0% q/q (after a slight revision upwards to the Q1 numbers) while Public Demand was up 0.7% q/q (after a revision down to Q1). The chart above shows that Private sector growth has returned to a level more consistent with the pre-COVID norm.

While household consumption remains quite robust (+2.2% q/q) we are still seeing a quite weak performance from Private sector CAPEX, which fell again, down 2.4% q/q for the third consecutive quarterly drop.

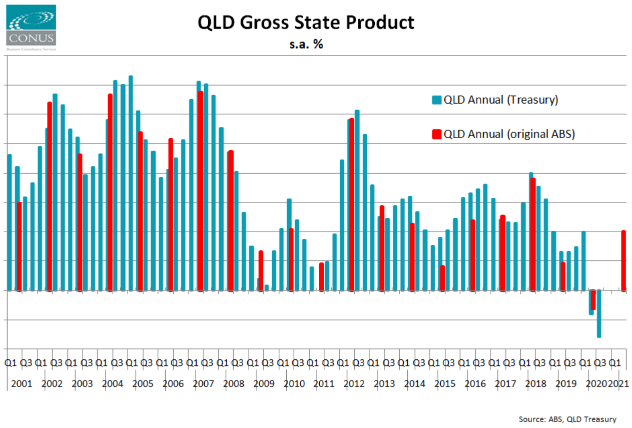
This final National result for 2021/22, at 3.9%, was somewhat higher than the Reserve Bank had projected as recently as their August Statement on Monetary Policy (forecast was 3.75%). This same document projected year-on-year growth this quarter at 3.5%, so again this result betters that forecast.

The SOMP sees a slight slowdown in 2022/23 to 3.5% and then much sharper declines through subsequent years to just 1.75% in 2023/24.



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.

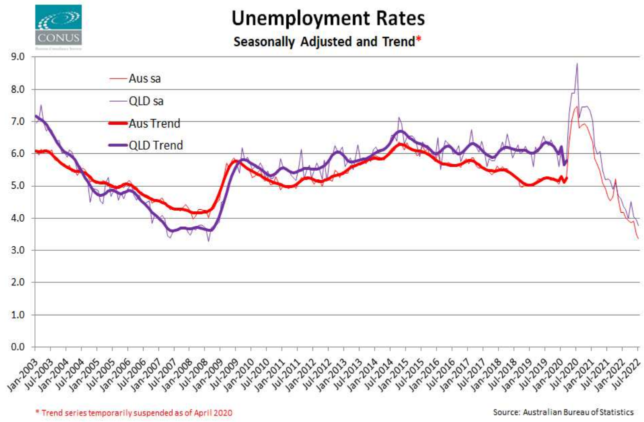
Employment

The past three months have seen further significant increases in employment across the country and the unemployment rate has fallen to multi-decade lows. From April to July employment in Australia grew by more than 108,000 and the headline unemployment rate fell from 3.9% to 3.4%. Employment now sits more than 4% higher than it was at the pre-COVID highs.

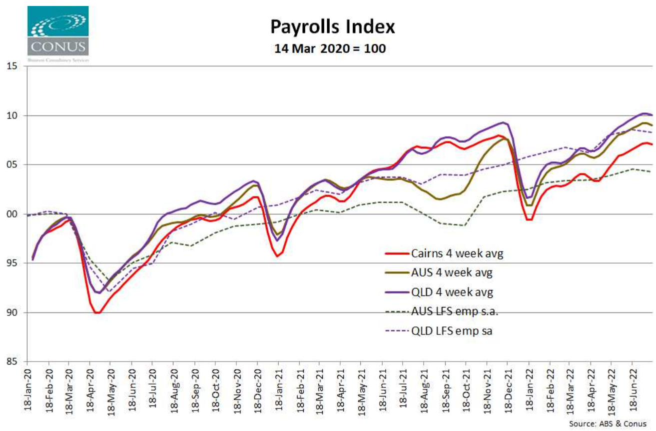
On the flip-side of the coin we should note that only 35,400 of that increase in employment has come in the form of full-time jobs; nevertheless the strength of the labour market has been remarkable.

The continued impact of the pandemic on people being able to work has seen the hours worked data to be rather more variable. In recent months the hours worked per capita figure has declined somewhat, albeit from what were almost 10-year highs.

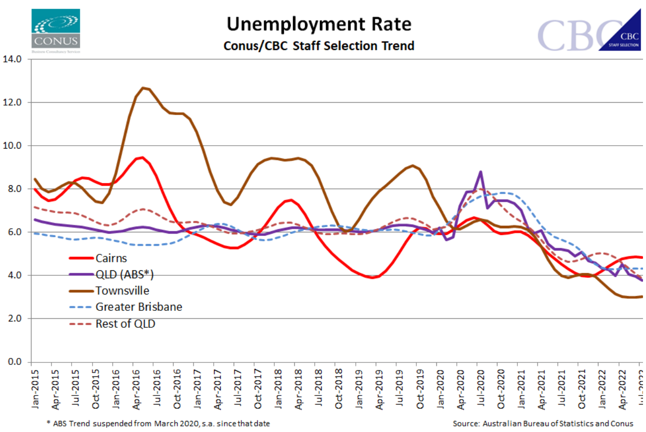
Since April employment is Queensland has risen at an impressive rate and added almost 54,000 new jobs. The headline unemployment rate in the Sunshine State now sits just above the national figure at 3.8%. This result is made even more impressive when we consider that, unlike at the national level, participation in Queensland is up since April.



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 declines seen in the July data show up in a slight move down in the Payrolls data to the middle of July.



In Cairns we have seen Trend employment increase by almost 10,000 since July last year (+7.5%). However, on the back of a very strong surge in participation the Trend unemployment rate (at 4.8%) is somewhat higher than it



was a year ago. Nevertheless, the pace of employment growth is now well above that seen across the State. To illustrate the effect of that move in participation consider that, had participation remained at the level it was in December last year, the current level of employment would

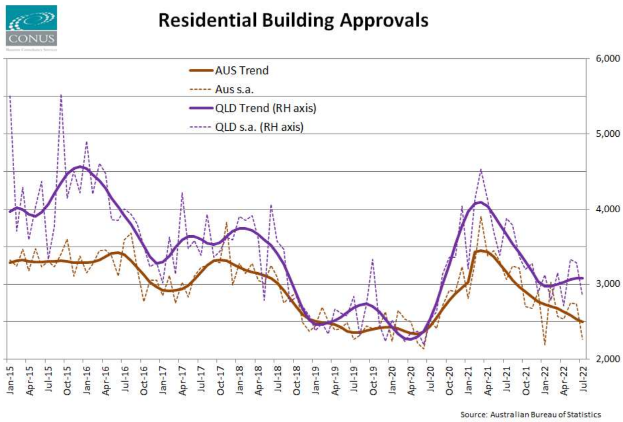
FNQ Economy Roundup cont..

translate to an unemployment rate below 1% in Cairns!

We continue to be aware of strong anecdotal evidence that points to severe ongoing labour (and particularly skills) shortages across a range of industries in the area and that this is now causing some real problems in some sectors, most notably tourism (see our later comments).

Building Approvals

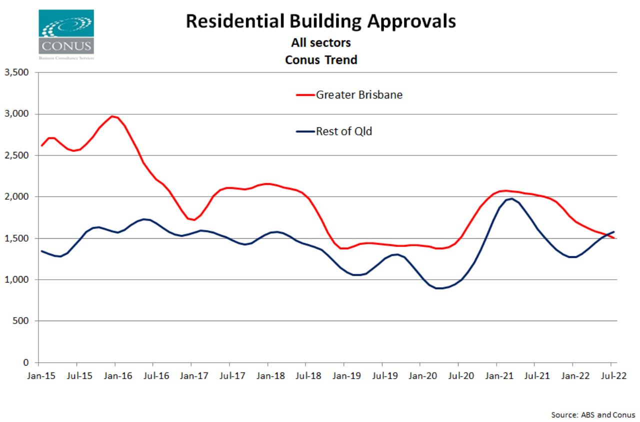
The most recent building approvals data to July shows the sharp decline in approvals across the nation has continued are they are now down 21.1% for the year. Conversely, in



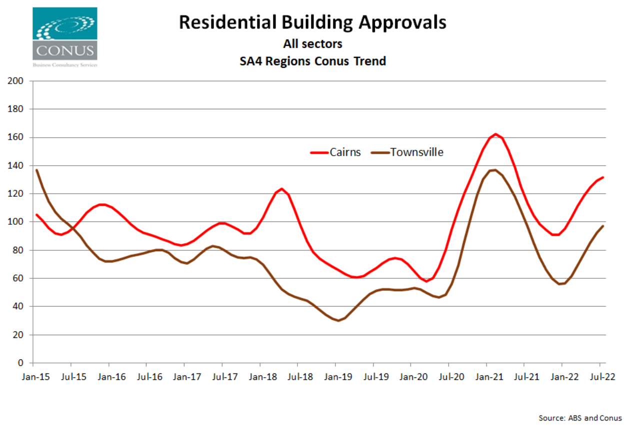
Queensland approvals have been broadly flat for the past 5 months are down just 15.8% for the year.

The impact of the recent spate of interest rates hikes (with another 50bps increase to 2.35% announced just yesterday) would appear to be starting to take effect. Certainly real estate prices in capital cities have shown some sharp falls in recent months and we would expect to see this flowing through to slowing approvals in coming months.

The breakdown across the State shows that, for the first time since 2013, approvals in the Rest of Queensland ex-



ceeded those in Greater Brisbane in July. While approvals in the Rest of Queensland were down just 2.0% from a year ago, in Greater Brisbane the decline has been 25.6%.



Looking at the Conus Trend data for the Cairns SA4 region we see the stronger regional story reflected here. For the year to July Trend approvals in Cairns are now up 16.2% from a year ago after sharp falls during 2021 as the impact of the COVID-induced boom waned. A similar story is playing out in Townsville SA4 although here July approvals are up just 0.7% year-on-year.

The Conus Trend data at the LGA level shows Cairns Regional Council (incl Douglas Shire) on 87 up 27% from a year ago. The Cassowary Coast Regional Council has been relatively stable (at 14) in recent months although they are up 33% from a year ago. Tablelands Regional Council (incl Mareeba Shire) have also been stable for the past few months at 23, although this is down 0.6% from a year earlier .

Townsville City Council has seen solid increases in recent months and, at 89, is now up 19% from a year ago.

Tourism

Last quarter we noted the very strong performance of domestic tourism in Tropical North Queensland with expenditure hitting a record high for the year to December 2021.

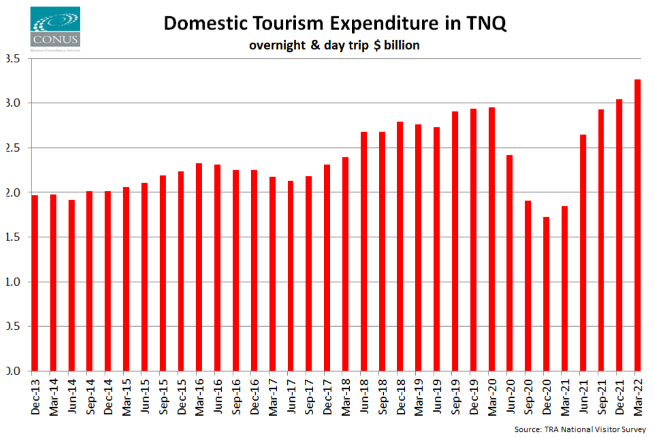
This quarter we have seen further improvements. The data for the year to the end of the March quarter showed another new record high of $3.27 billion spent by domestic tourists in the Far North. This is an increase of 18% since the same quarter in 2019.

Although international borders have now largely reopened the volume of international travellers into Tropical North Queensland remains very low with just an estimated $80 million being spent by international visitors in the region in the year to March. This means that, despite the strength of the domestic market, tourism expenditure in TNQ remains some $650 million below its pre-COVID peak.

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 34.6% from a year earlier, compared to 0.5% decline nationally and an increase of 17.5% across Queensland. The

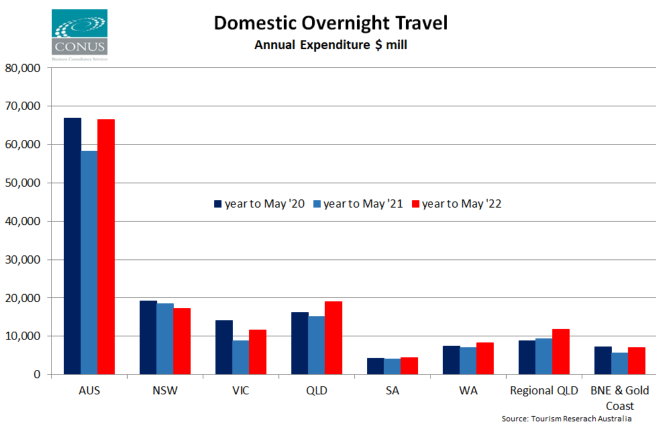
FNQ Economy Roundup cont..

regions continue to be the main beneficiary of the domestic tourism boom.



Although international tourism remains very low the return of international flights into Cairns should hopefully see a solid recovery in coming months. However, there is clearly some reticence from both domestic and foreign holiday-makers to travel internationally, so we do not anticipate international tourism returning to its pre-COVID levels for many months yet.

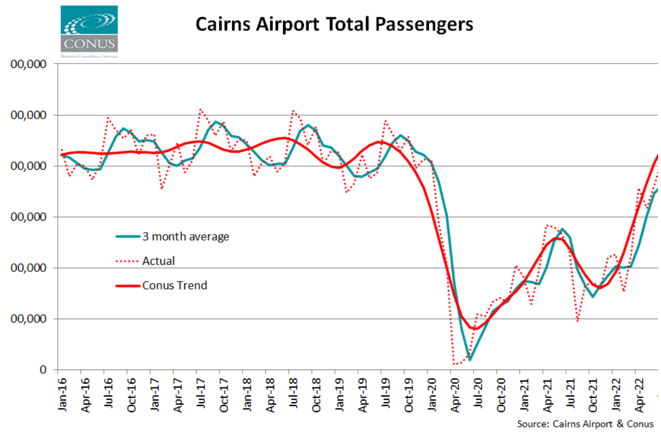
The most recent data from the Cairns Airport shows just how quickly domestic travel has bounced. Despite the almost total absence of international travel Trend passenger numbers through the Airport in July were almost back to the same level they were in July 2019 and there is every sign that they will continue to climb in coming months as international flights restart in earnest.



The incredibly tight labour market we are seeing in Cairns (and more broadly across the nation as a whole) is creating its own challenges for the tourism sector.

While many in the industry continue to struggle without international visitors (and even in the face of record high domestic numbers) they are now facing the problem of struggling to find adequate staff. Hospitality operators are, in many case, being forced to work shorted hours than they would like simply because of a critical shortage of staff to fill positions.

The crisis in the rental market is not helping this situation with many potential workers in the region finding it difficult or impossible to find adequate housing in the City in order to take up the employment opportunities on offer.



Certainly the tourism sector in TNQ has fared much better than many (any?) could have possibly hoped for when the lock-downs started in early 2020 but it still faces some serious challenges if it is to return to a pre-COVID 'normal' any time soon.