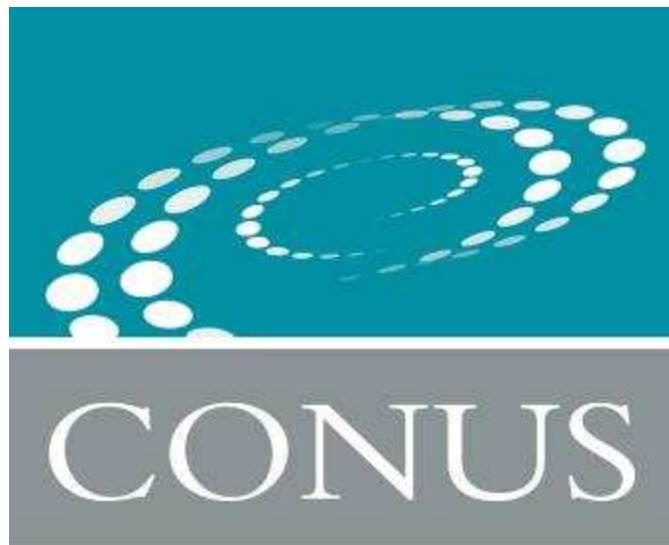


The CONUS Quarterly

Vol. XIV- Issue 4 - Dec 2022



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

Business Consultancy Services

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Editor's Note

Another year draws to a close! As interest rates rise, and look set to rise at least a little further, 2023 is shaping up to be a challenging one for the Australia economy. Here in FNQ we are in a very fortunate position with a relatively strong regional economy, a very strong labour market, a robust and rebounding tourism sector and seemingly little impact (yet) on our real state market from the recent rate rises. Let's hope that the New Year we can continue on the positive road to recovery.

We wish all our readers, our clients and their families a very Happy Christmas and a Healthy and Prosperous New 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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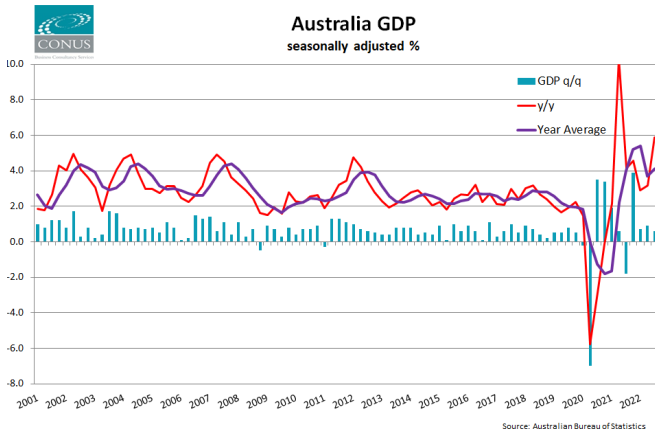
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3rd Quarter Australian GDP

The third quarter GDP data released this morning was somewhat weaker than expectations with a 0.6% q/q increase on the back of the previous quarter's 0.9% increase which leaves us 5.9% up from the same period a year ago. If we consider the last four quarters as whole then we see an increase of 4.1% from the same period 12 months ago.



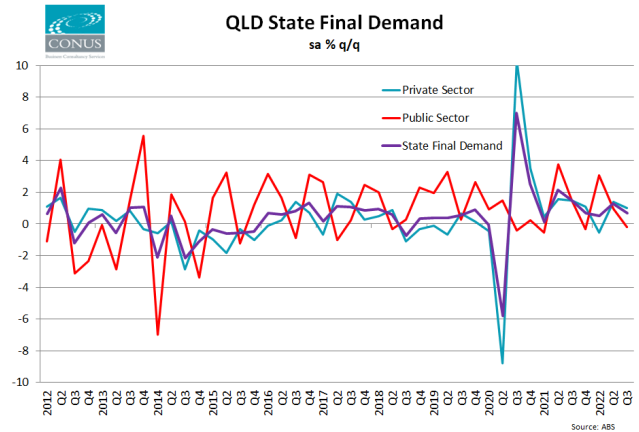
This is still robust growth and well above the pre-COVID trend which was closer to 2.5% y/y. However, it is also clear that the pace of quarterly growth has slowed and now sits at a level more consistent with what we might call 'normal' growth; annualising this quarter's pace would give take us to that long-term trend rate of 2.5% pa.

Although it appears likely that we have seen the peak in headline inflation, we have also witnessed the RBA continuing to hike rates (another 25bps added yesterday) to take the Cash Rate to 3.1%; a full 3 ppts higher than during the height of the pandemic emergency. The RBA have made it clear that the future path of interest rates will be driven by inflation and wage rises and that they are certainly not ruling out further rises to come in 2023.

The Household savings rate has continued its sharp decline and now sits at just 6.9% (down from a high of 23.5% in the second quarter of 2020 as the fiscal stimulus effects rippled through the household sector). Nevertheless, even at this level it remains above the pre-COVID 5-year average of 5.9% and indicates that households still have at least some 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 201-22 showed an annual increase of 4.4% which was above the national rate of 4.0%. 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 Q3 data has State Final Demand +0.7 q/q for a year-on-year increase of 3.2%. This compares to Domestic

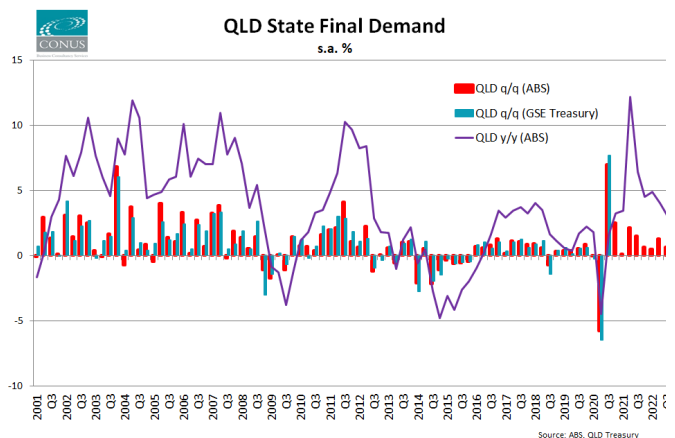


Final Demand in Australia up 0.6% q/q, +6.9% y/y. Queensland performed much better than the national average in the latter part of last year since the state did not have to endure the lock-downs seen in Victoria and NSW; however, growth appears to have now returned to a level more consistent with the national picture.

This quarter total Private Demand increased 1.0% q/q (after a slight revision upwards to the Q2 numbers) while Public Demand was down 0.2% q/q (on the back of declines in Public capital formation). The chart above shows that Private sector growth has returned to a level more consistent with the pre-COVID norm.

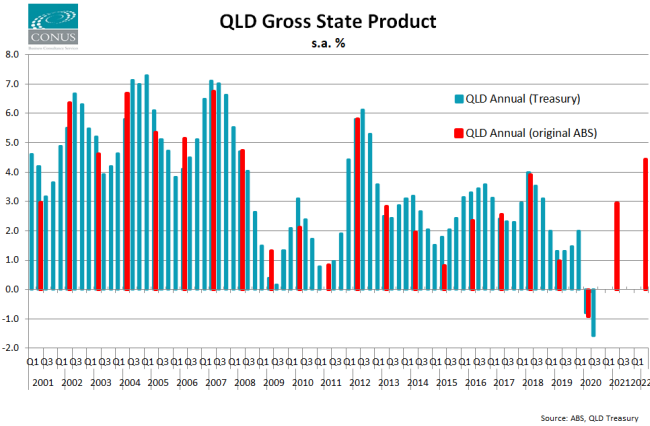
While household consumption remains positive (+0.6% q/q) we have seen a better result for Private CAPEX which was up 2.4% q/q; the first increase in the past four quarters.

The Queensland Budget is forecasting Gross State Product growth to slow over the next two years with just 2.75% anticipated for 2022-23 and 2023-24. This remains generally higher than the Federal Budget which is projecting 3.3% in 2022-23 falling to just 1.5% in 2023-24.



FNQ Economy Roundup

Since our last issue we have had additional data on Queensland's Gross State Product for the 2021/22 financial year. After a 2.9% increase in 2020/21 (revised from a previous estimate of a 2.0% gain) Queensland had another strong recovery year and GSP rose 4.4% in 2021/22.



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.

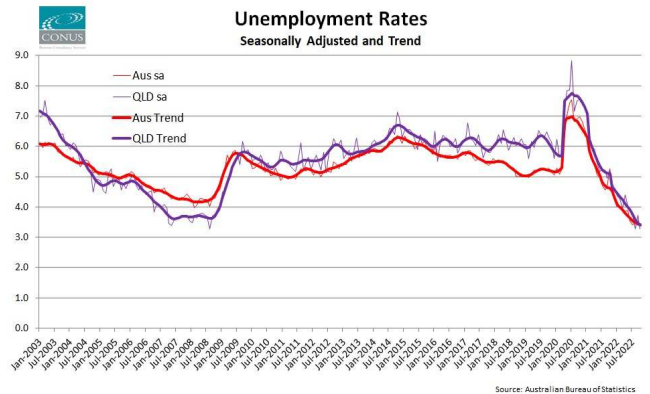
Employment

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 July to October employment in Australia grew by almost 64,000 and the headline unemployment rate fell from 3.5% to 3.4%. Employment now sits almost 5% higher than it was at the pre-COVID highs.

Particularly encouraging is that full-time employment has grown by more than 114,000 over the past quarter and now sits 7.4% higher than pre-pandemic highs. The labour market remains very strong.

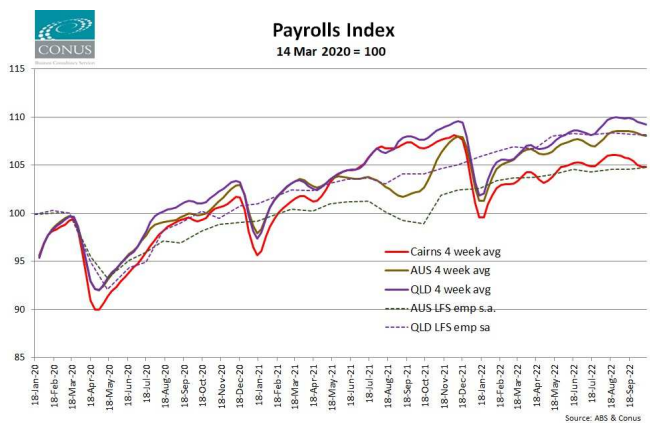
The continued impact of the pandemic on people being able to work has seen the hours worked data to be rather more variable. We noted last issue that the hours worked per capita figure had been drifting slightly lower; that has now turned around as people's work patterns return to a more 'normal' situation and hours worked per capita now sits at levels not seen since late 2007.

Since July employment in Queensland has actually fallen slightly, although this came on the back of a very strong period in the previous quarter. Nevertheless, on the back of a move lower in participation the unemployment rate in

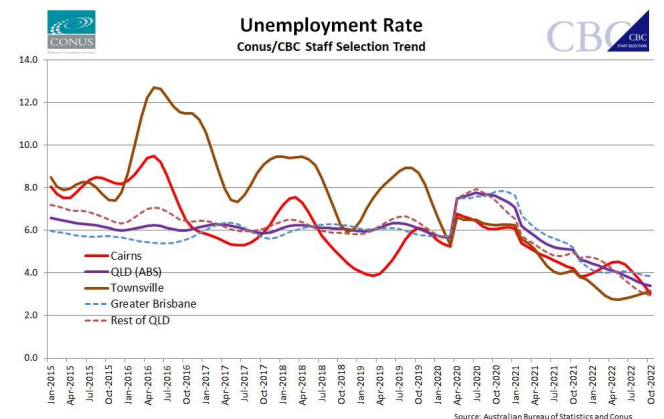


Queensland now sits at just 3.3% (s.a.) or 3.4% (Trend) and hours worked per capita are at 9-year highs.

The most recent Payrolls data, collected via the Single Touch Payroll system, has been largely stable for the past few months. As a result the Payrolls data still does not appear to be fully reflecting the strength we are seeing in the monthly Labour Force numbers.



In Cairns we have seen Trend employment increase by 8,500 since October last year (+6.3%). We have seen a similar story play out in Cairns as in Queensland; with a drop in participation the unemployment rate has fallen sharply and now sits at a record low of just 3.0%. We made note last issue that it was the very high participation rate that had been holding the unemployment rate somewhat higher than might otherwise be the case in Cairns (in may it was still at 4.5%); this quarter has finally seen that effect



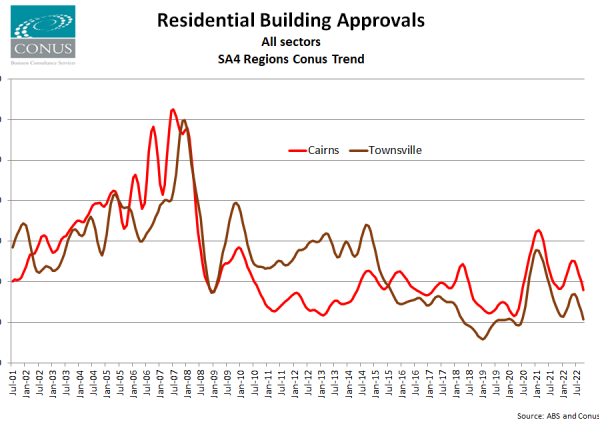
FNQ Economy Roundup cont..

reverse out to some extent and the unemployment rate fall sharply.

This quarter 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 October shows the sharp decline in approvals across the nation has steadied and they are now down 6.9% for the year. Conversely, in Queensland approvals, which had seen something of a recovery, have been moving lower and are now down 10.9% yr/yr.



Brisbane they are down 28.6%.

Looking at the Conus Trend data for the Cairns SA4 region we do not see the stronger regional story reflected here. For the year to October Trend approvals in Cairns are now down 5.0% from a year ago after sharp falls during 2021 as the impact of the COVID-induced boom waned. An even more dramatic story is playing out in Townsville where approvals are down 20% from a year ago.

The Conus Trend data at the LGA level shows Cairns Regional Council (incl Douglas Shire) on 64, down 11.2% from a year ago. The Cassowary Coast Regional Council is down at just 8 approvals having fallen 16.7% from a year ago. Tablelands Regional Council (incl Mareeba Shire) have been relatively stable for the past few months at 20, and this is up 2.2% from a year earlier.

Townsville City Council has also weakened and Trend approvals now sit at just 58, their lowest level this year, and are down 2.4% from a year earlier.

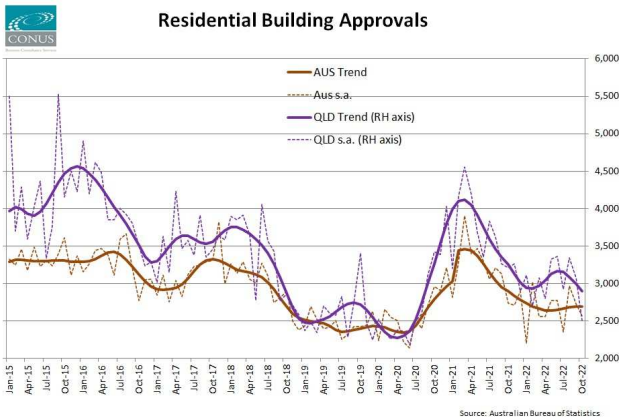
Tourism

For the past few issues we have been noting the very strong domestic tourism performance for the region. That trend continues this quarter with the announcement of the June 2022 quarter figures.

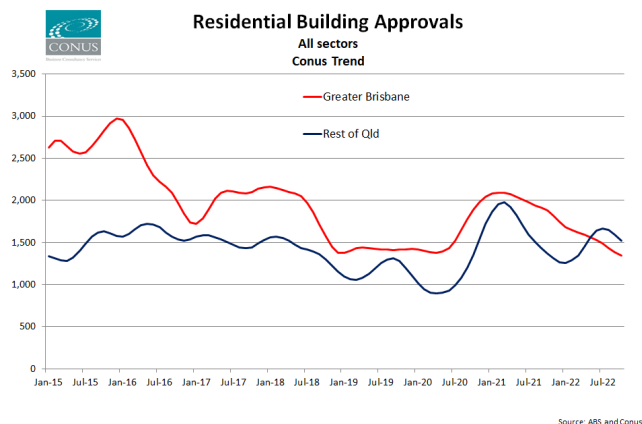
These showed that domestic tourism expenditure in Tropical North Queensland hit a new record high of \$3.4 billion, an increase of 28.7% on the same period a year ago and up 25% since the same quarter in 2019.

Although international borders have now reopened the volume of international travellers into Tropical North Queensland remains very low with just an estimated \$162 million being spent by international visitors in the region in the year to June; this is down from a pre-COVID high of close to \$1.1 billion. This means that, despite the strength of the domestic market, tourism expenditure in TNQ remains some \$420million below its pre-COVID peak.

Nevertheless, the improvement in international visitor numbers shown by Cairns Airport since the middle of the year indicates that we should see a far healthier international



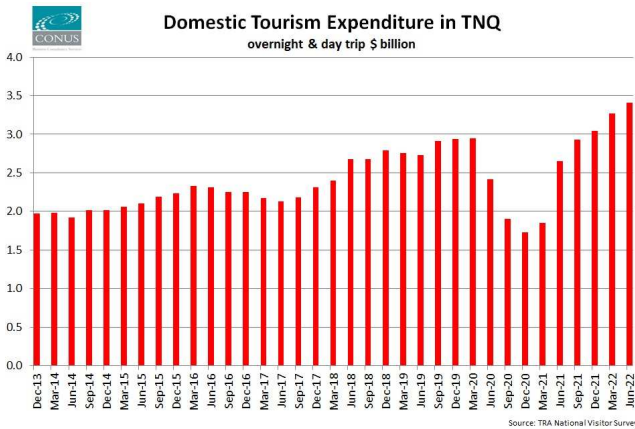
The impact of the recent spate of interest rates hikes (with another 25bps increase to 3.1% announced just yesterday) would appear to be starting to take effect. Certainly real estate prices in capital cities have shown some sharp falls in recent months and we would expect to see this flowing through to slowing approvals in coming months.



The breakdown across the State shows that we are now seeing approvals across the Rest of Queensland substantially higher than in Greater Brisbane, and this has been the case for the past 5 months. While approvals in the Rest of Queensland were up 11.5% from a year ago, in Greater

FNQ Economy Roundup cont..

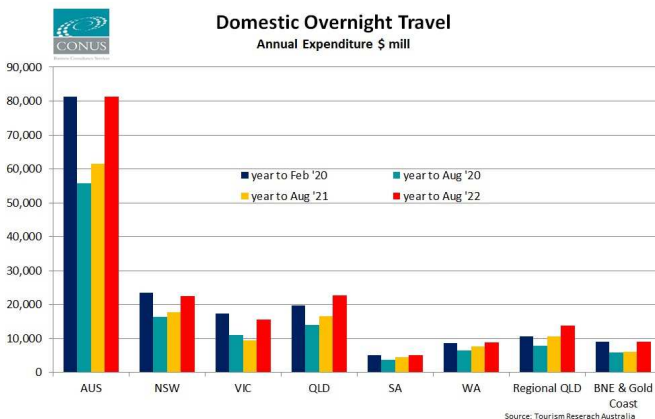
sector reflected in the third and fourth quarter data once we get it (we anticipate that the third quarter data will be available next week).



Monthly snapshot data from Tourism Research Australia up to August is showing that total domestic expenditure in Regional Queensland for the 12 month period was up 74.1% from two years earlier, compared to 45.7% increase nationally and an increase of 63.5% across Queensland. The regions continue to be the main beneficiaries of the domestic tourism boom.

Although international tourism remains very low the return of international flights into Cairns is seeing some recovery, which we would expect to see improve further 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.

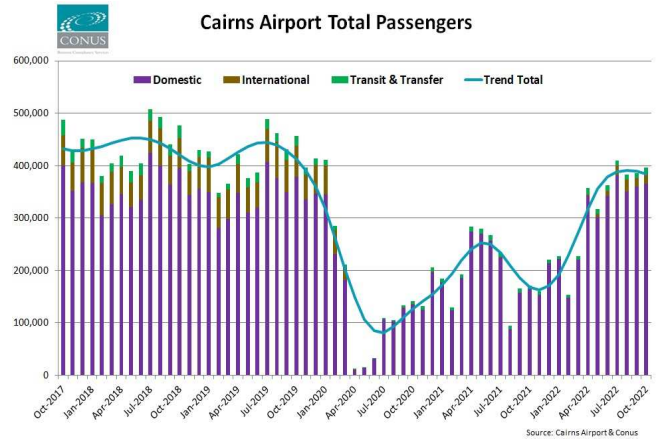
The most recent data from the Cairns Airport shows just how strongly domestic travel bounced but also how lackluster has been the return of international passengers. We had been hoping to see the total number of travellers through



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the Airport increase over the past quarter but instead we have seen something of a plateau with the growth in domestic arrivals stalling and international passengers growing only very slowly.



Last issue we commented on how the labour shortages and rental crisis in Cairns was impacting the tourism sector. With no significant changes seen in either issue we can only reiterate what we said back in September...

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 operate for shorter 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.