The CONUS Quarterly

Vol. XV- Issue 1 - Jan 2023

ABORIGINAL CARBON FOUNDATION

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in this issue……

Editor's Note

We're already well into 2023 and interest rates continue to move higher as the inflation genie appears to be, at least temporarily, out of the bottle. As the RBA struggle to get prices back under control we can expect to see rates move higher still and growth slow accordingly.
The real challenge will be walking the tightrope between staving off inflation without sending the economy into a recession.

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

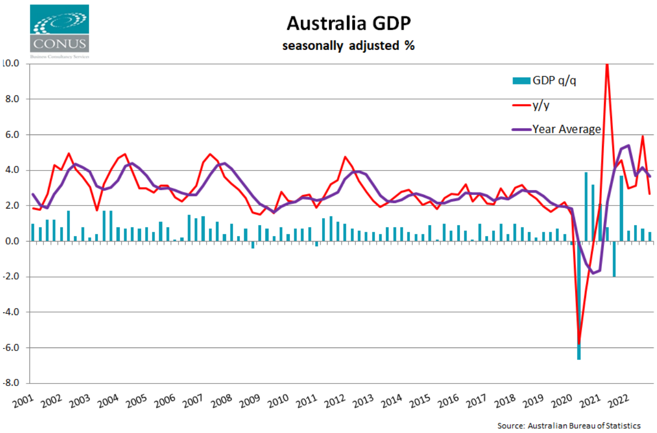
Mission Beach

QLD 4852

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

4th Quarter Australian GDP

The fourth quarter GDP data released this morning was a good deal weaker than expectations with a 0.5% q/q increase on the back of the previous quarter's 0.7% increase (revised up from 0.6%) which leaves us 2.7% up from the same period a year ago. If we consider 2022 as a whole then we see an increase of 3.7% from 2021. Clearly the rate hikes are slowing growth; as they are intended to do.

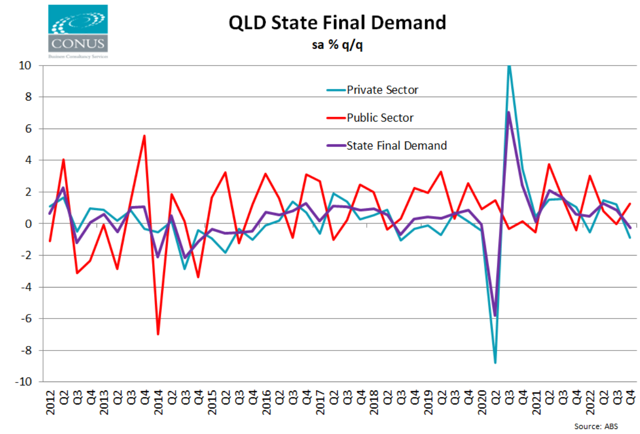


This brings us back towards the more 'normal' pre-COVID growth path pf about 2.5% pa. However, the effects of previous rates hikes are still flowing through the economy, there are certainly more rate hikes to come, and this data relates only to last year. Taken together all those factors would suggest that we are likely to see growth ease further before it improves again.

While the RBA are suggesting that they expect inflation to have peaked in the final quarter of 2022 (when CPI registered a year on year increase of 7.8%) we certainly cannot rule out the possibility of further moves up. In either case the RBA have made their position clear; we can expect to se further hikes in coming months. The markets are forecasting the Cash Rate to peak in the latter part of this year somewhere close to 4.25%, so we might have another 80-90 bps of rate hikes still to come. The job for the RBA will to balance the slowdown these hikes will inevitably entail with a desire to keep the economy from falling into a recession.

The Household savings rate has continued its sharp decline and now sits at just 4.5% (down from a high of 23.5% in the second quarter of 2020 as the fiscal stimulus effects rippled through the household sector). This is now at its lowest level since Q3 2008 and demonstrates how households are having to pare back their saving regime in the face of price and cost of living pressures.

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.

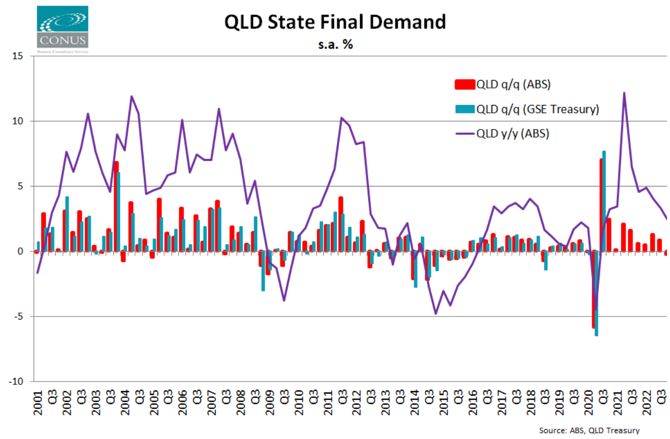


The ABS Q4 data has State Final Demand –0.3 q/q for a year-on-year increase of 2.4%. This compares to Domestic Final Demand in Australia unchanged q/q, +3.3% y/y. Queensland performed better than the national average throughout much of the COVID-impacted period as the state did not have to endure the lock-downs seen in Victoria and NSW; however, growth has now slowed sharply on the back of a private sector slow-down.

This quarter total Private Demand decreased 0.9% q/q while Public Demand was up 1.3% q/q. Without this improvement from the public sector, and in particular public sector CAPEX which increased by 6.0% over the year, growth in Queensland would have been substantially lower than the national average.

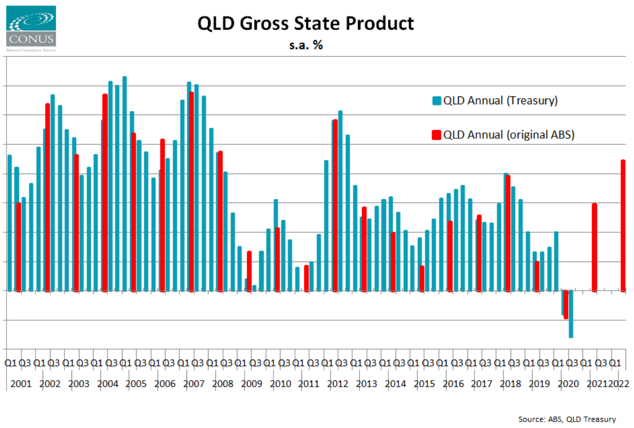
Unusually, this quarter we saw household consumption decline (-0.1% q/q). This is only the fifth quarter when household consumption has fallen q/q in the past 13 years and demonstrates the pressures that the household sector are feeling at the moment.

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 no additional data on Queensland's Gross State Product. 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.

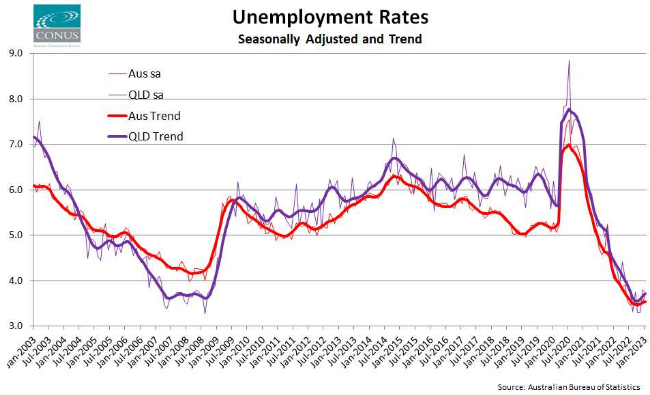
Employment

As interest rates have been pushed higher there has been a marked shift in the story around employment. For the past two months seasonally adjusted employment has fallen nationally (although we should note that the Trend series has continued to see growth...albeit at a slower pace). Despite participation shifting slightly lower this has seen the seasonally adjusted unemployment rate lift from record lows of 3.4% in October to 3.7% in January. However, here too the Trend series paints a rather less dramatic picture; the Trend unemployment rate has been stable at 3.5% for the past 6 months.

Trend employment growth sits at 3.1% y/y which is the slowest pace since March 2021.

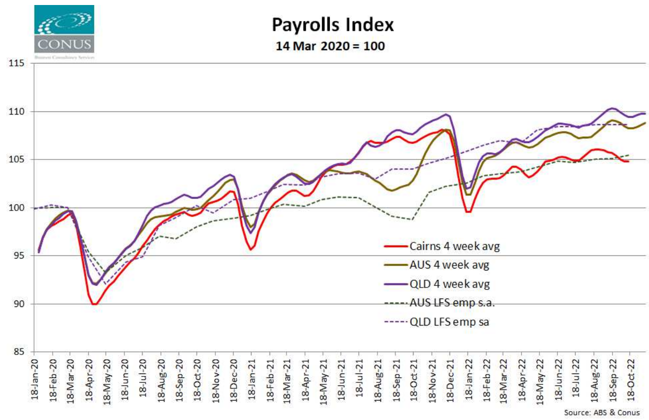
The continued impact of the pandemic on people being able to work has seen a renewed focus on the hours worked data. Looking at hours worked per capita of the working population we see the national figure (87.9 hrs) still at highs not seen since mid-2008 and having been stable over the past 6 months.

In Queensland seasonally adjusted employment has actually lifted a little in the past few months, but a move higher in partipation has seen the headline unemployment rate also,



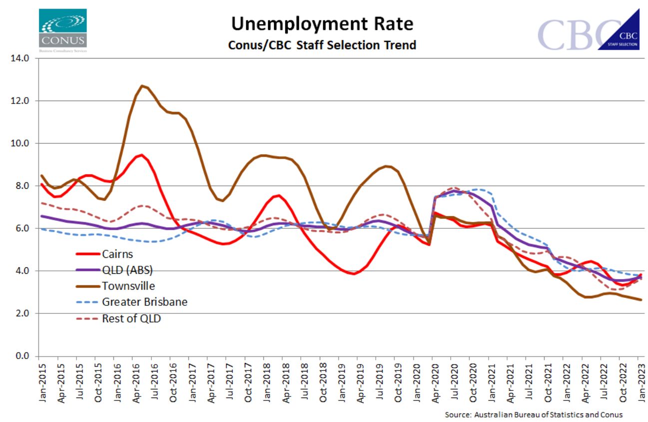
lift to 3.8%. The Trend series shows employment growth has slowed to 3.1% y/y but the Trend unemployment rate remains at 3.7%.

The labour market is clearly easing, but it is coming from a very tight situation and unemployment rates which remain well below 4% do not suggest as weak a situation as some are suggesting.



The most recent Payrolls data, collected via the Single Touch Payroll system, has only been released up to the middle of November. The ABS and ATO are working through some changes to the way this data is collected and reported and will next update this series in the middle of March 2023.

In Cairns we have seen Trend employment increase by just 1,300 since January last year (+0.9%) and it has fallen by



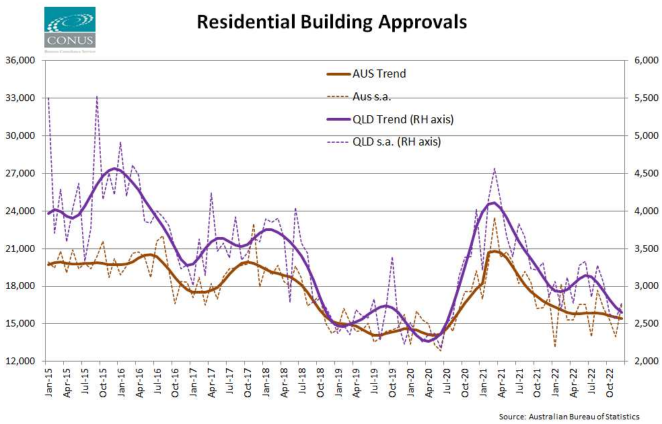
FNQ Economy Roundup cont..

3,500 in the past 3 months. Despite the participation rate having fallen quite significantly over the past quarter (from record highs) this loss of employment has seen the Trend unemployment rate lift to 3.8% from a record low of just 3.3% a few months ago. Nevertheless, 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).

On a more positive note we see that full-time employment in Cairns has been increasing in recent months and now sits at a record high.

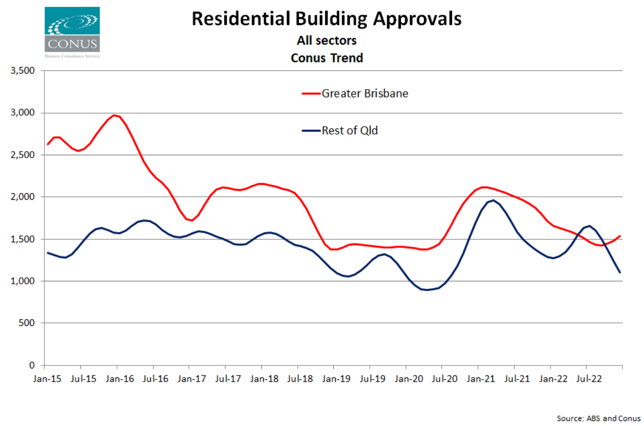
Building Approvals

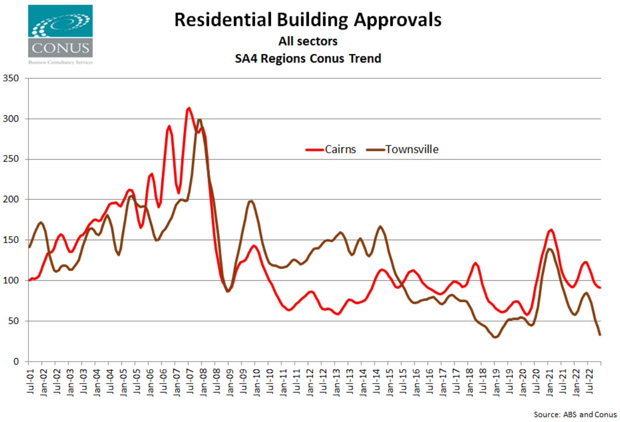
The most recent building approvals data to December shows the sharp decline in approvals across the nation has steadied and they are now down 6.6% for the year. Con-



versely, in Queensland approvals, which some months ago had seen something of a recovery, have been moving lower and are now down 11.9% yr/yr.

The impact of the recent spate of interest rates hikes (which has seen the Cash Rate move to 3.35% with more hikes likely to come) are certainly starting to take effect. 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 the declines we are seeing are being driven mainly in the regions. Approvals across Greater Brisbane are actually up slightly in recent months (and are now down 10.5% y/y) while we are seeing a steep decline in the Rest of QLD (where approvals are now down 14.0% y/y). Looking at the Conus Trend data for the Cairns SA4 region we do not see this weaker regional story playing out here; Trend approvals are down just 1.0% y/y. However, for 2022 total original approvals in Cairns were at 1,295 which is a decline of 11.6% from 2021. An even more dramatic story is playing out in Townsville where Trend approvals are down 43.7% in December from a year ago and the original total for 2022 (883) is down 25.6% from 2021.

The Conus Trend data at the LGA level shows Cairns Regional Council (incl Douglas Shire) on 72, up 4.2% from a year ago. The Cassowary Coast Regional Council is down at just 8 approvals having fallen 19.5% from a year ago. Tablelands Regional Council (incl Mareeba Shire) have been relatively stable for the past few months at 19, and this is down 2.8% from a year earlier.

Townsville City Council has weakened sharply and Trend approvals now sit at just 40, their lowest level since May 2020, and are down 30.6% from a year earlier.

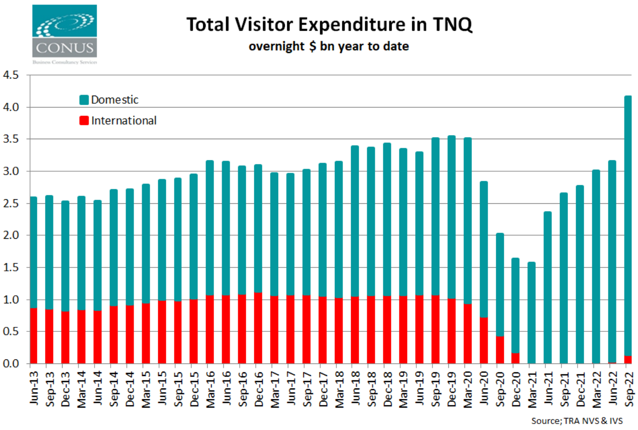
Tourism

Over the past year or more we have been noting the very strong domestic tourism performance for the region. That trend continues this quarter with the announcement of the September 2022 quarter figures.

These showed that domestic overnight tourism expenditure in Tropical North Queensland hit a new record high of $4.0 billion, an increase of 52.5% on the same period a year ago and up 65.4% since the same quarter in 2019.

Although international borders have now reopened the volume of international travellers into Tropical North Queensland still remains quite low with just $144 million being spent by international visitors in the region in the year to September; this is down from a pre-COVID high of close to $1.1 billion. However, because of the strength in

FNQ Economy Roundup cont..

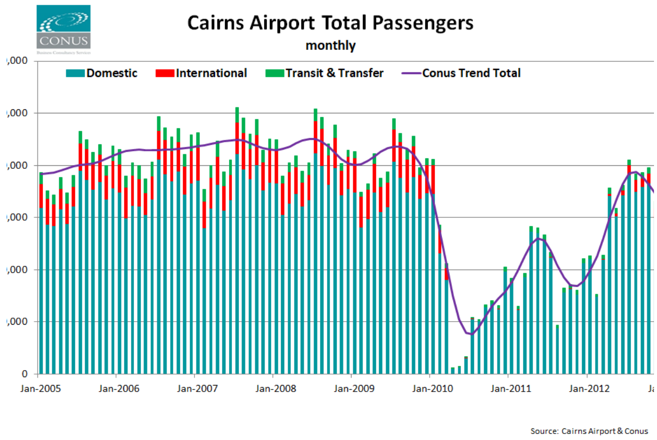


the domestic market, total overnight visitor expenditure in TNQ in September exceeded $4.1 billion, more than $500 million above the previous Dec 2019 high.

Monthly snapshot data from Tourism Research Australia up to November is showing that total domestic expenditure in Regional Queensland for the 12 month period was up 121% from two years earlier, compared to 114% increase nationally and an increase of 132% across Queensland. These figures somewhat downplay the boom in regional Queensland because even by Nov 2020 regional Queensland had already recovered to close where they were a year earlier whereas nationally expenditures were down almost 50%.

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 a steady decline over recent months. Part of this is merely seasonal but we are also clearly seeing that Aussies are starting to travel abroad (and therefore cut back on domestic travel) while we are yet to see a compensating increase in international visitation.



As well as the lack of international visitors the sector is facing other problems, not the least of which is the problem of struggling to find adequate staff. The labour market remains tight and this is causing severe staff shortages in the sector. Hospitality operators are, in some cases, 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.