The CONUS Quarterly

Vol. XV- Issue 3 - Sept 2023

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

What a difference 6 months can make! Our last issue was back in March (we were away in Europe in June) and it would now appear that the rate hike cycle may be over and inflation is clearly on its way back down. The big ongoing question will be how much the economy has been slowed by the rate increases.

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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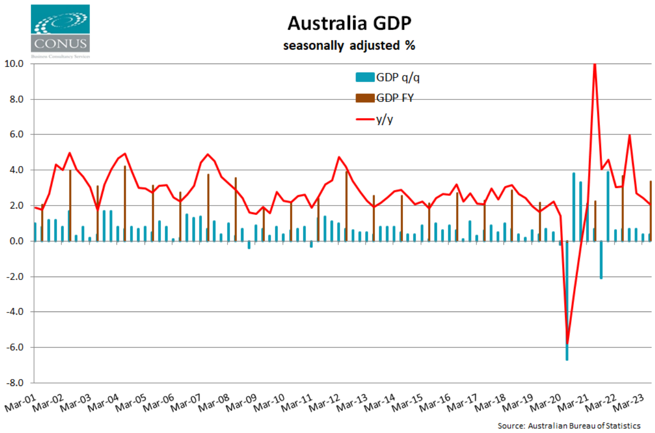
2nd Quarter Australian GDP

The second quarter GDP data released this morning was on the upper end of expectations with a 0.4% q/q increase on the back of the previous quarter's (upwardly revised) 0.4% increase which leaves us 2.1% up from the same period a year ago. If we consider the financial year 22/23 as a whole then we see a 3.4% increase over the 21/22 year. Clearly the rate hikes have slowed growth; as they were intended to do.

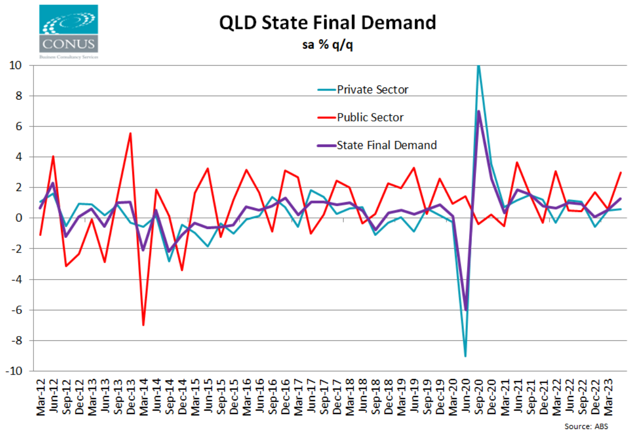


Although growth has now slowed below the 'normal' rate of around 2.5% y/y it is also clear that talk of an imminent recession may well have been overstated. Despite the somewhat better than expected result this quarter (and last) it is still true that growth, such as it is, is being driven by increases in population. Per capita GDP has now fallen in the last two consecutive quarters (-0.3% q/q in both), so we could certainly talk about a per-capita recession.

Back in March, in our last Quarterly, we noted that the markets were pricing the Cash Rate to peak at somewhere close to 4.25% in the latter half of this year. Six months on and that forecast looks pretty good. A series of rate hikes have taken the Cash Rate to 4.1%, although at this stage there does not appear to be a high likelihood of further hikes. Inflation has fallen faster than most had expected and as a result it now looks likely that the next move in rates will be down...although probably not until the second quarter of 2024.

As the rate hikes have turned the screw on households, it has been no surprise to see the Household Savings Rate decline sharply. It has now fallen from its COVID payment-induced highs of more than 20% in mid-2020 to just 3.2% now; its lowest level since June 2008. With inflation pressures easing, rates probably now on hold, and wage increases beginning to rise, we would not expect this rate to fall too much further.

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 2021-22 showed an annual increase of 4.4% which was above the national rate of 4.0%. The next release for the 2022/23 year

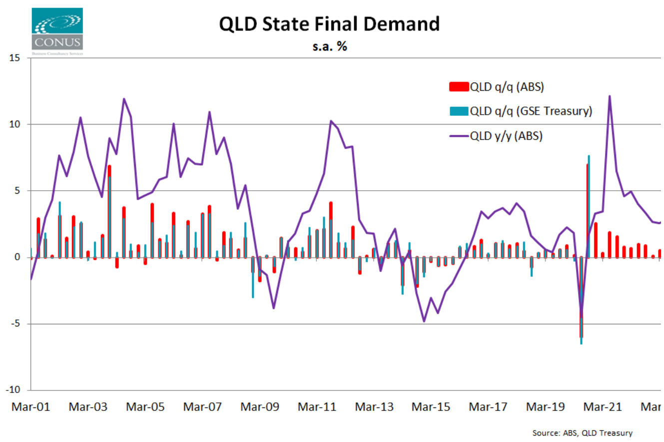


from the ABS is not until November. Unfortunately the QLD Treasury, who used to provide estimates of Gross State Product on a quarterly basis, have decided to suspend that series due to the COVID-induced volatility in the data.

The ABS Q2 data has State Final Demand +1.3 q/q for a year-on-year increase of 2.9% (up from +2.6% in Q1). This compares very favourably to Domestic Final Demand in Australia which increased 0.7%, and was +1.6% y/y.

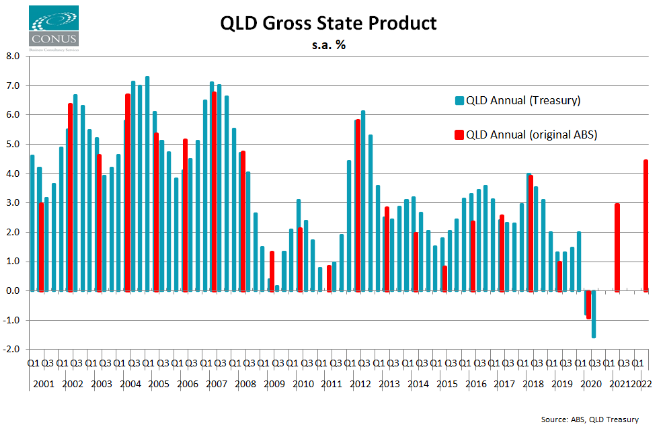
Queensland's solid performance came largely on the back of the Public Sector (as shown in the chart above) where expenditure was up 1.6% q/q and CAPEX grew 8.9% q/q. The Private Sector performance was far less robust with expenditure managing just a 0.3% q/q lift and CAPEX up 1.4% q/q.

The Queensland Budget is forecasting Gross State Product to have grown by just 2% in 2022/23; today's figures would suggest that target will have been exceeded given that the domestic sector has grown 2.9% in 2022/23. Forecasts for the next few years see growth at 3% or 2.75% for each opf the next four years in comparison to the Federal Budget which projects GDP in 2022/23 +3.25% (beaten by today's data showing +3.4%) and then a much weaker +1.5% in 2023/24 before recovering to a more 'normal' trajectory of +2.75% by 2025/26 and 2026/27.



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.

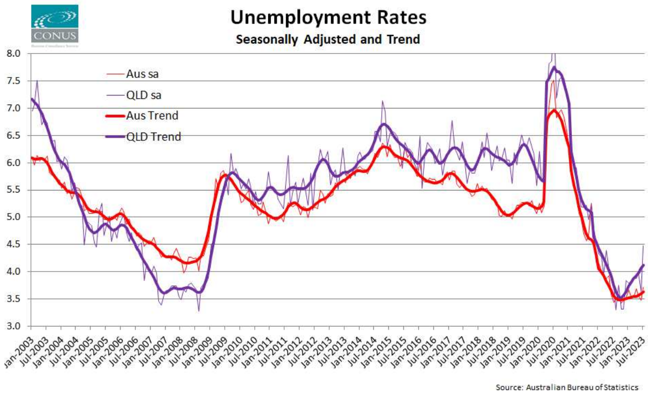
Employment

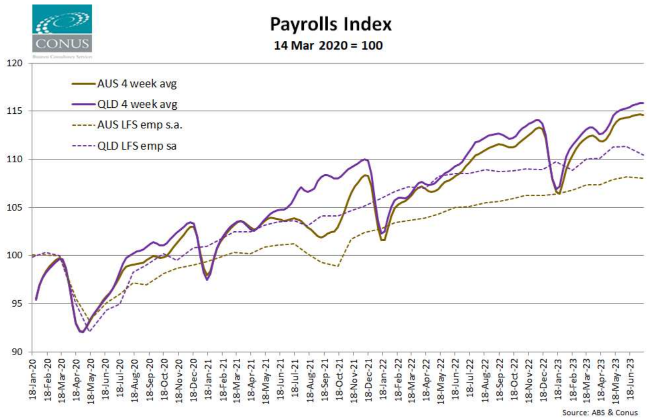
Even as interest rates have moved higher the labour market in Australia has remained very robust. In the past 3 months to July we have Trend employment lift by more than 95,000 (the vast bulk of which were full-time positions) and the unemployment rate remain stable at 3.6% (the rather more volatile seasonally adjusted series has sat within a 3.5% to 3.7% range for the past 9 months).

Hours worked continue to climb and the average hours worked per capita lifted in July to a level not seen in almost 15 years.

In Queensland we have also seen a continuation of growth in Trend employment. However, unlike at the national level, this has been combined with a slow and steady lift in the participation rate. As a result the Trend unemployment rate has moved back above 4% and sat at 4.1% in July. Over the past 3 months Trend employment growth has slowed but we have seen almost 25,000 new employed; full-time growth has been more impressive with an additional 27,500 added.

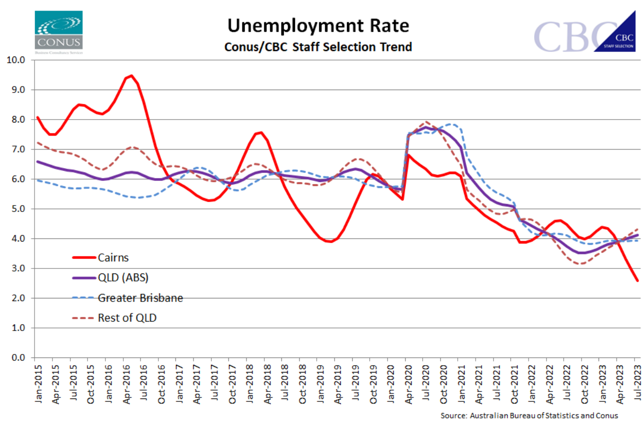
The labour market is clearly easing, but it is coming from a very tight situation and unemployment rates which remain historically so low do not suggest as weak a situation as





some are suggesting.

The ABS have once again started releasing the most recent Payrolls data, collected via the Single Touch Payroll system, and we now have data to mid-July. However, as part of the review of this data-set the ABS have suspended the production of sub-state and regional series, so we no longer have a Cairns payroll series to watch. It is interesting to see that the Queensland Payrolls data does not show the same weakness that the recent Labour Force Survey number are suggesting. This discrepancy between the non-seasonally adjusted Payrolls and the seasonally adjusted Labour Force data is not exceptional, but will be worth watching closely in coming months.



FNQ Economy Roundup cont..

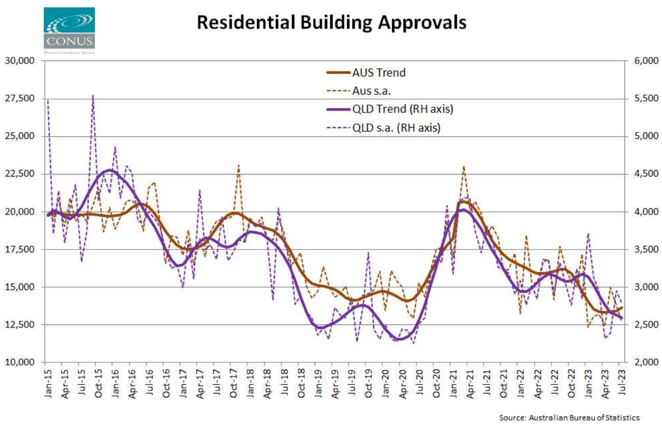
After what appeared to be a period of some labour market weakness in Cairns earlier in the year, we have seen a re-surgence of strength and the Trend unemployment rate in July sits at just 2.6%. Over the past 3 months employment has lifted by more than 3,000 and the participation rate has also slowly improved, which makes the incredibly low unemployment rate even more impressive.

Certainly a part of the reason for the very strong unemployment data in Cairns is the fact that all of the gains in the past three months have come from part-time, rather than full-time, employment.

Building Approvals

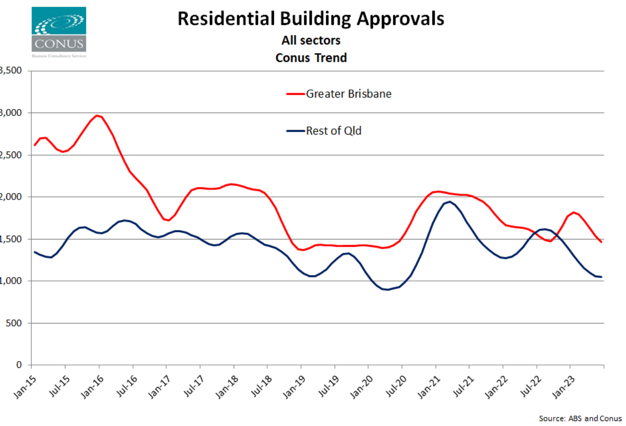
The most recent building approvals data to July shows the sharp decline in approvals across the nation has steadied. Despite having shown some small month on month improvements this quarter the Trend remains down 15.1% for thew year. Conversely, in Queensland approvals have continued to decline and are now down 18% from a year ago.

The impact of the cycle of interest rates hikes (which has seen the Cash Rate move to 4.1% before pausing over recent months) has clearly had a dramatic effect on the level of approvals. Nevertheless, the shortage of labour, and supply chain restrictions, mean that the lag between approval and actual construction has lengthened and as a result the pipe-line of yet-to-be-completed construction remains high.

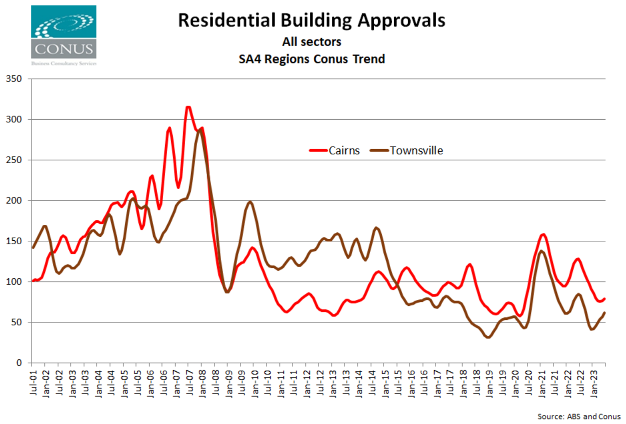


The breakdown across the State shows the declines we are seeing are being driven mainly in the regions. Approvals across Greater Brisbane are down 4.4% for the year while across the Rest of Queensland the decline is 30.5%. Looking at the Conus Trend data for the Cairns SA4 region shows a similarly weak picture. Indeed, because approvals hads been so strong last year in Cairns the year on year decline is now 36.2%. Townsville too has seen a sharp fall from elevated levels and is now down 25.1% despite having seen some slight improvements in recent months. In both these regions the pipe-line of construction remains robust and we might hope that, if interest rates next move is down, we will at least see the level of approvals stabilize from here.

The Conus Trend data at the LGA level shows Cairns Regional Council (incl Douglas Shire) on 74, down 15.8% from a year ago. The Cassowary Coast Regional Council is down at just 10 approvals having fallen 21.7% from a year ago. Tablelands Regional Council (incl Mareeba Shire) is down 34.7% from a year earlier at just 17.



Townsville City Council has started to recover a little in recent months but still remains down 27.6% from a year ago at just 56 approvals.



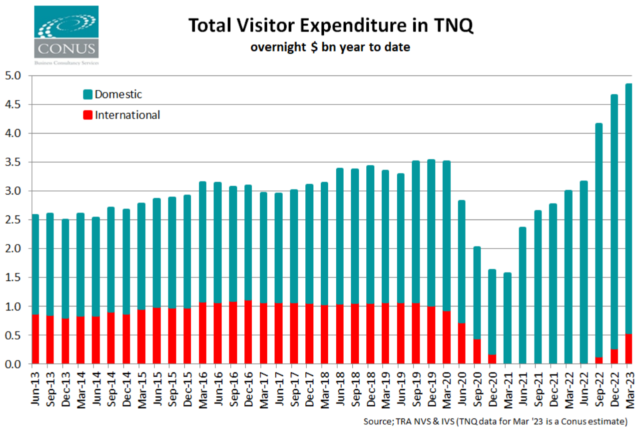
Tourism

Over the past year or more we have been noting the very strong domestic tourism performance for the region. As Aussies have started to travel overseas again it has been no surprise to see the domestic sector turn downwards a little. In TNQ that has meant domestic tourism expenditure falling to $4.30 bn in the year to March 2023 from a record high of $4.38 bn in the year to Dec 2022. Early indicators suggest that the June data will see that total decline even further and could fall below $4 bn. However, we should remember that for the year to Dec 2019, before COVID struck, that figure was just $2.51 bn.

Taken together this meant that the total expenditure figure for the year to March was $4.85 bn; another record high and 37% higher than the figure in Dec 2019. What we will be watching careful in coming quarters is how fast the recovery in international visitors can offset the almost inevitable decline in domestic expenditure.

Data from the ABS which considers the state of intended

FNQ Economy Roundup cont..

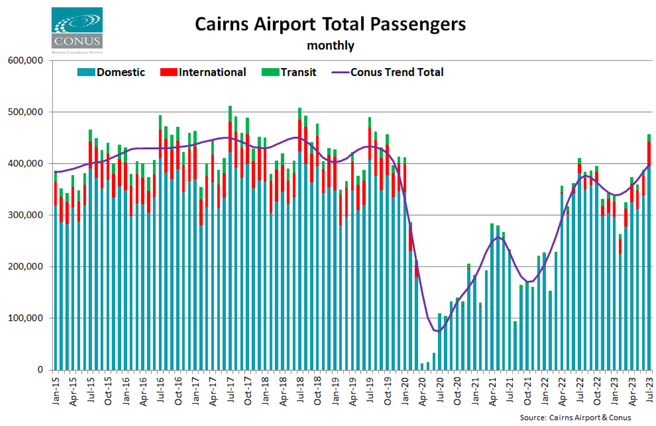


stay by international visitors (up to June 2023) suggests that Queensland is falling behind NSW and Victoria in that recovery with only marginal increases over the second quarter of this year.

Monthly snapshot data from Tourism Research Australia up to May is showing that total domestic expenditure in Regional Queensland for the 12 month period was up 35% from a year ago, compared to 63% increase nationally and an increase of 53% across Queensland. This is a clear indication that the rapid ramp-up in domestic visitation to the regions we saw in the aftermath of COVID lockdowns has started to unwind more rapidly in the regions than elsewhere.

Although international tourism still remains fairly lack-luster we are starting to see real signs of recovery. We are anticipating that the June tourism data (due for release by Tourism Research Australia any day now) will confirm a further move higher for the TNQ numbers.

The most recent data from the Cairns Airport shows a steady improvement over recent months. Part of this will be due to the increase in the number of flights from and to Japan and Singapore and this is only set to further improve in coming months. Total passenger numbers through the Airport are now sitting at more than 90% of their level in the same month before COVID.



Recent announcements of expansion in the Cairns-Singapore route and the addition of some wide-bodied service on that route should help future improvements. As would any return of the Cathay Pacific Cairns-Hong Kong route which was high on the agenda of a recent trade mission from Cairns to Hong Kong.

Challenges still exist for the sector, not the least of which is the continuing shortage of rental accommodation in the city. The results of a recent MiHaven Cairns Accommodation Survey made clear that the majority of businesses in the city have suffered negative effects caused by the accommodation shortage when it comes to staff recruitment and retention and that it has also caused an estimated $250 million (or 1.5%) decline in business turnover each of the past three years.