The CONUS Quarterly

Vol. XV- Issue 4 - Dec 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

Once again this quarter we write that rates are likely now at their peak...we wrote the same last quarter and were proved wrong by the move in November! Nevertheless, we are even more confidant this quarter, and the market certainly agrees with us.
Growth is clearly slowing, as is inflation, just as the rate hikes were intended to engineer. The question will be has the RBA done enough now? The Q3 data suggests the answer to that question may very well be 'yes'.

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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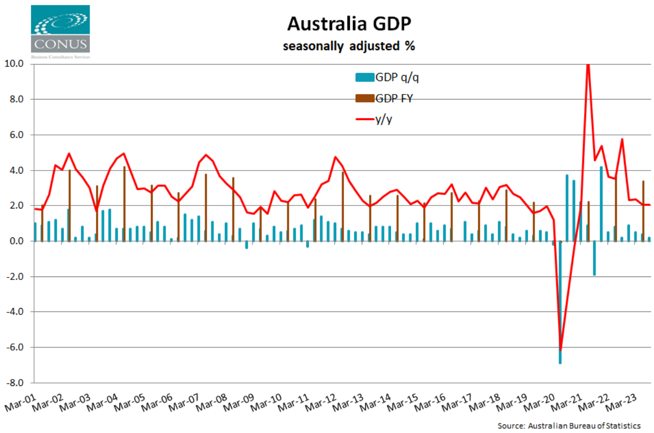
3rd Quarter Australian GDP

The third quarter GDP data released this morning was on the lower end of expectations with a 0.2% q/q increase on the back of the previous quarter's 0.4% increase which leaves us 2.1% up from the same period a year ago. We should note that revisions to a number of previous quarters explains most of the lower than expected quarterly increase, with the year-on-year rate remaining unchanged and towards the upper bound of expectations.

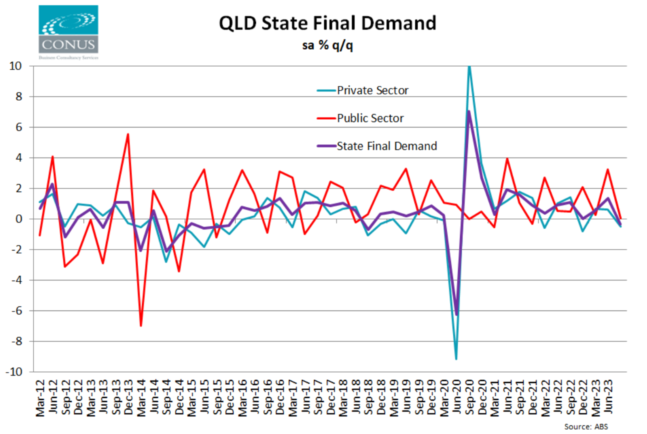


We noted last quarter that it was clear that growth had slowed to well below a more 'normal' 2.5% y/y rate, and that what growth there was is coming from population growth. That remains true this quarter but the revisions to back quarters in this release means that the so called per capita revision, that was apparently in place last quarter, was revised up for Q1 and as such the 'recession' only now comes into effect this quarter not last. Per capita GDP has now fallen in the last two consecutive quarters (-0.5% q/q this quarter and –0.1% q/q in Q2).

Interest rates have risen since our last issue and now sit at 4.35%, after the Melbourne Cup increase of 25bps. However, the market is currently pricing in the chance of another 25bps move up at only about 10% by the middle of next year. Beyond that the expectation is that rates may start to ease over the latter part of 2024 and into 2025. Today's slightly lower than expected GDP result is only likely to shrink that likelihood of a further rate hike even further.

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 1.1% now; its lowest level since December 2007. With inflation pressures easing, rates probably now at their peak, 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 2022-23 showed an annual increase of 2.3% which was above the

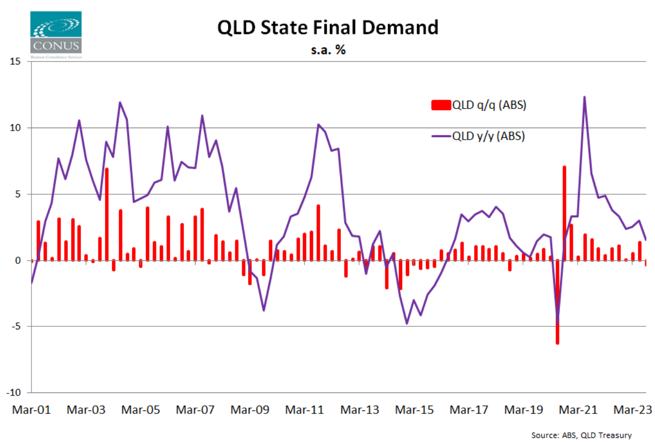


national rate of 3.1%, although this was due largely to better performance from Queensland in previous years. Unfortunately the QLD Treasury, who used to provide estimates of Gross State Product on a quarterly basis, have decided to suspend that series due to the COVID-induced volatility in the data.

The ABS Q3 data has State Final Demand shows a decline of 0.3% q/q (after an upward revision to Q2 for a year-on-year increase of 1.6% (down from +3.0% in Q2). This compares to Domestic Final Demand in Australia which increased 0.5%, and was +2.2% y/y.

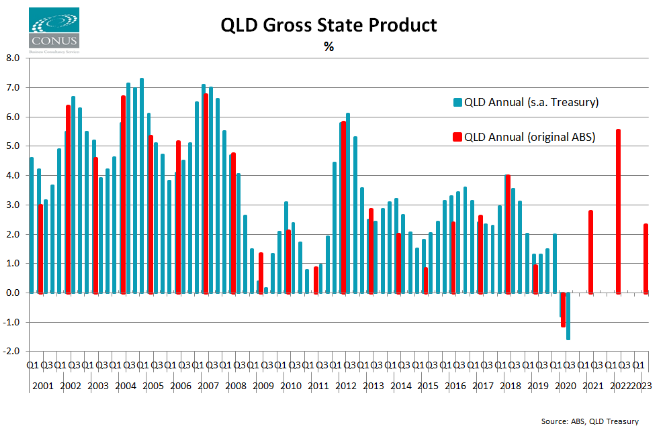
Queensland's rather lack-lustre performance this quarter was largely due to declines in the private sector with both household consumption and private CAPEX declining over the quarter. Public sector CAPEX, which had been strong in previous quarters also fell in Q3 and helped drag the overall result into negative territory.

The Queensland Budget was forecasting Gross State Product to have grown by just 2% in 2022/23; as we noted last quarter it was likely that forecast would be beaten, and the recent data from the ABS confirms that. Queensland Gross State Product grew 2.3% 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% (actual was 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

We now have the ABS estimate of Gross State Product for the 2022/23 year. The ABS data shows that Queensland's economy grew 2.3% for the year, compared to national GDP growth of 3.4%. The slower pace of growth in Queensland compared to Australia in the 2022/23 year is at least in part explained by the fact that the State enjoyed far higher growth in both of the previous two financial years. If we consider the period from 2018/19 to 2022/23 then we see national GDP growth of 9.4% while Queensland GSP has grown by a slightly higher 9.8%.



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.

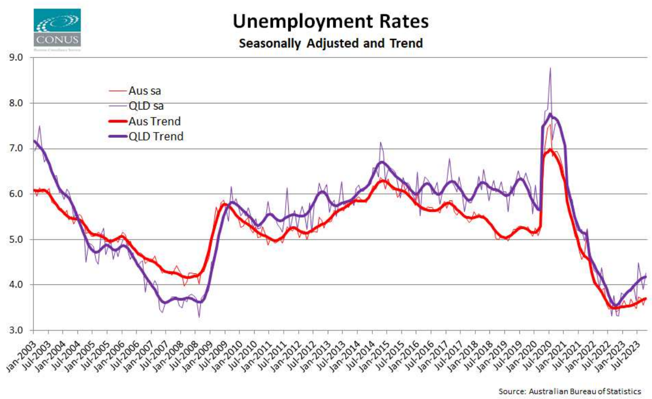
Unfortunately the Queensland Treasury have made the decision to suspend their provision of quarterly State Accounts due to "Ongoing volatility in seasonal factors .." and as a result we have no quarterly data for GSP beyond the Sept 2020 figures. Once Treasury restart this data series we will be updating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

Employment

The past quarter has seen an undoubted weakening in the labour market across Australia, albeit from a very strong starting position. We have seen unemployment rates moving higher and the expectation is that this is likely to continue for at least some time as rates move closer to a more 'normal' level. Despite employment growth remaining robust, it has been insufficient to keep up with the growing population and this has caused the unemployment rate to lift. Nowhere is that more true than in Queensland.

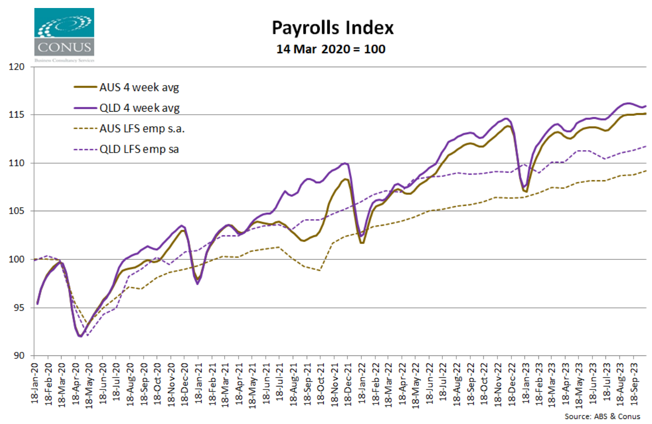
In addition we have seen a drift lower in average hours worked per capita (from nationally record near-highs) as employment growth has shifted form full-time to part-time positions.

While this all points towards a slightly weaker employment market we should be aware that we are coming from a position which was unusually strong and none of these movements suggest that we are entering a period of 'weak' employment; either nationaly or in Queensland.



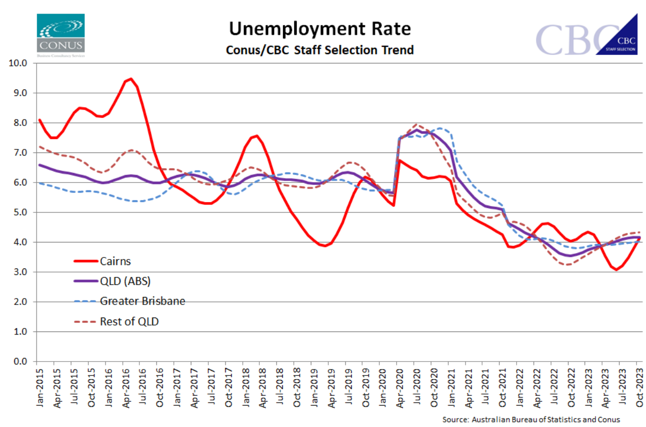
The ABS Payrolls data, collected via the Single Touch Payroll system, confirms this slowing of growth but is still tracking well compared to the ABS Labour Force survey data (which is seasonally adjusted, unlike the Payrolls numbers)

In common with what has been happening at both the State and National level, the employment market in Cairns has also shown some signs of weakening over recent



months and the Trend unemployment rate has now risen to 4.1% despite solid increases in employment. The level of employment in Cairns has increased by 5,000 over the last 7 months and is once again approaching all-time record highs.

Participation has similarly lifted in Cairns in recent months although it remains well down from the recent highs seen in mid-2022. Further increases in participation would make it

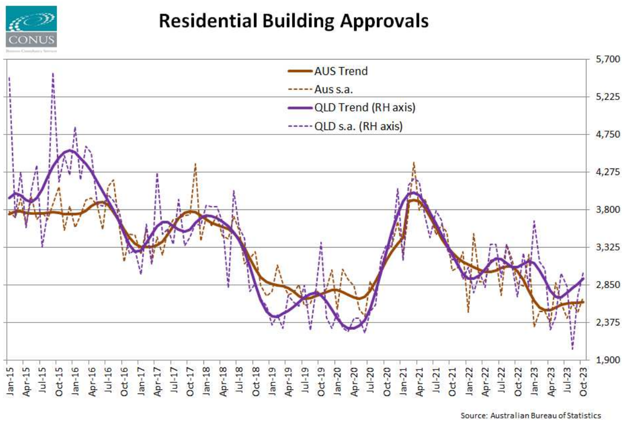


FNQ Economy Roundup cont..

hard for the unemployment rate not to rise a little futher; although this would merely signal a return to a more 'normal' labour market compared to the distortions seen during the COVID and COVID-recovery period.

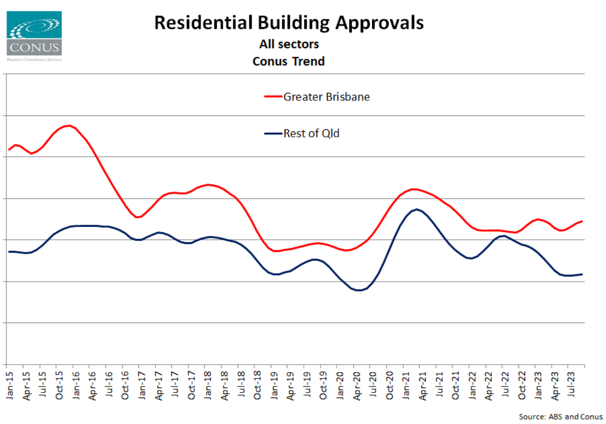
Building Approvals

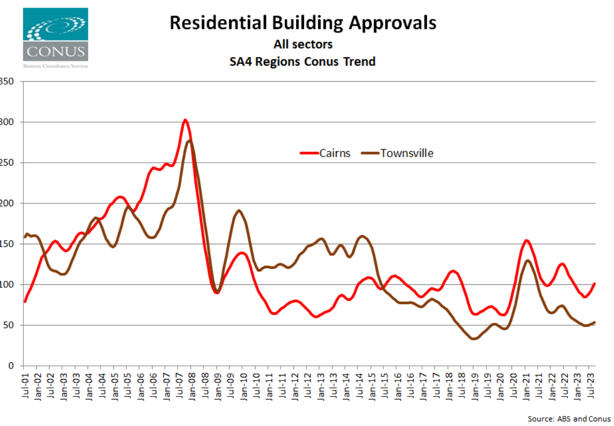
At a national level it now appears that the rate of building approvals has steadied in October after a period of weakness. Nevertheless, the level at which approvals has settled is close to historical low and is down 12.7% from a year earlier. In Queensland things looks a little better; here the number of approvals has shown solid evidence of a recovery in recent months, is still well above historical lows, and is now down just 4.6% from a year earlier.



It is clear that with rapid population growth and the already chronic lack of housing availability we need to see more housing construction. The recent spate of interest rate hikes, which possibly culminated in the Melbourne Cup hike to 4.35%, has certainly had an impact of slowing approvals (as we would have expected). If the rate hiking cycle is now complete (or at the very least very close to complete) then we might expect to see at least some stabilisation in rates of approvals. Even with this lower pace of approvals the pipeline of work yet to be done is significant and should sustain the construction sector well into 2024.

The breakdown across the State shows that the recovery we are seeing in Queensland is being largely driven by Greater Brisbane where approvals are up 8.5% for the year while approvals in the Rest of Queensland are still down





26.4% (note that the regional data relates to Sept as the Oct data is to be released later this week).

Looking at the Conus Trend data for September for the Cairns SA4 region shows a similarl story to that playing out at the State level with some recovery from recent lows, although they remain well down from recent highs. Having been so strong during 2021/22 it is perhaps not surprising that, even with some recovery, approvals remain 9.5% down for the year. The level of any recovery in approvals in Townsville is far more muted. Although they remain above the lows seen prior to COVID in Townsville Trend approvals are still down 14.9% from a year earlier.

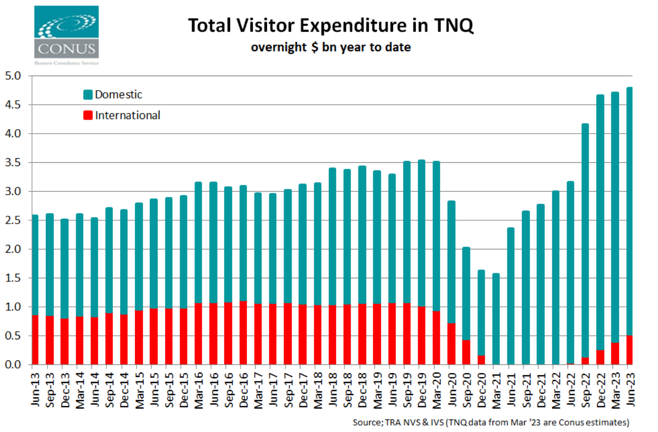
The Conus Trend data at the LGA level shows Cairns Regional Council (incl Douglas Shire) on 82, up 6% from a year ago. The Cassowary Coast Regional Council is now at 12 approvals which is up 23.7% from a year ago. Tablelands Regional Council (incl Mareeba Shire) is down 7.8% from a year earlier at 20.

Townsville City Council has started to recover a little in recent months but still remains down 30.8% from a year ago at just 44 approvals.

Tourism

Over the past year or more we have been noting the very strong domestic tourism performance for the region. Ans, as we noted last issue, 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 $4.25 bn in the year to June 2023 from a record high of $4.38 bn in the year to Dec 2022. However, this decline has not been as dramatic as many commentators (include ourselves) had been anticipating and suggests that, in the post-COVID era, Aussies are still somewhat reluctant to travel abroad and continue holiday in Australia at a much higher rate than in the pre-COVID years. Early monthly snapshot indicators from Tourism Research Australia (up to August) suggest that the September data could see that total decline further again across regional Queensland, so we might expect some further decline for TNQ. We would not be surprised to see domestic tourism expenditure drop to $4bn in TNQ for the

FNQ Economy Roundup cont..

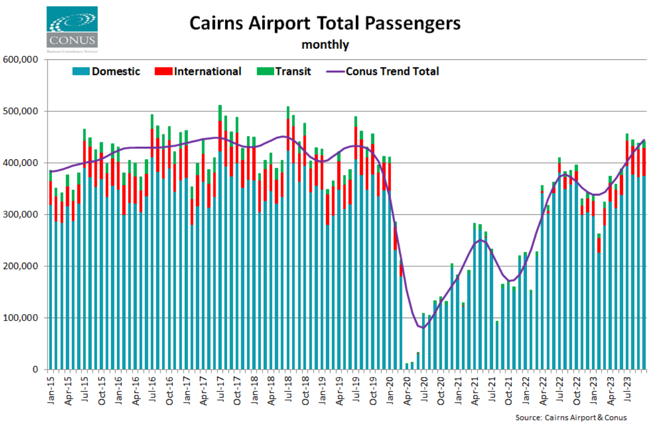


year to September. However, we should remember that for the year to Dec 2019, before COVID struck, that figure was just $2.51 bn.

However, as the domestic sector has been declining so we have seen the international sector start to recover. Although international expenditure in TNQ was only estimated to be $530 million (or about half of its pre-COVID peak), taken together both domestic and international hit a new record high for the year to June 2023 of $4.78bn.

Data from the ABS which considers the state of intended stay by international visitors (up to Sept 2023) suggests that Queensland is falling behind NSW and Victoria in that recovery with only marginal increases over the second quarter of this year. While NSW is now above pre-COVID Trend, and Victoria is at pre-COVID Trend, Queensland remains a little more than 10% below Trend.

Although as wemention above international tourism remains well down from pre-COVID levels it is clear that a solid recovery is underway, and we expect to see that recovery gather pace in coming quarters. If domestic tourism also holds up well (as has been the case to date) then we can expect to see new record highs for tourism expenditure in TNQ in future quarters.



The most recent data from the Cairns Airport shows a steady improvement over recent months. In particular, flights to and from Japan have recovered rapidly and now above where they were prior to COVID.

Further announcements of expansions in existing routes (such as Port Moresby) and the addition of new routes (such as seasonal flights from China returning for the 2024 Chinese New Year) will see this improvement continue.

The scale of the international market is still well down from its pre-COVID levels (which were in turn already significantly below peaks seen in mid-2019) with total international visitor nights at only about 60% of pre-COVID levels. Nevertheless, the region is recording solid recovery in 'traditional' markets such as Japan and the UK, both of which have returned to levels much close to where they were pre-COVID.