The CONUS Quarterly

Vol. XVI- Issue 1 - Mar 2024

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

Our calls for a top in rates finally appears to have been correct (albeit 25bps above where we thought the top would be). The markets are now anticipating cuts as early as mid-year with perhaps one or two moves lower over the course of the next 12 months. It is certain that the weakening labour market, falling inflation, and slowing economic growth are all pointing in the direction of lower rates.

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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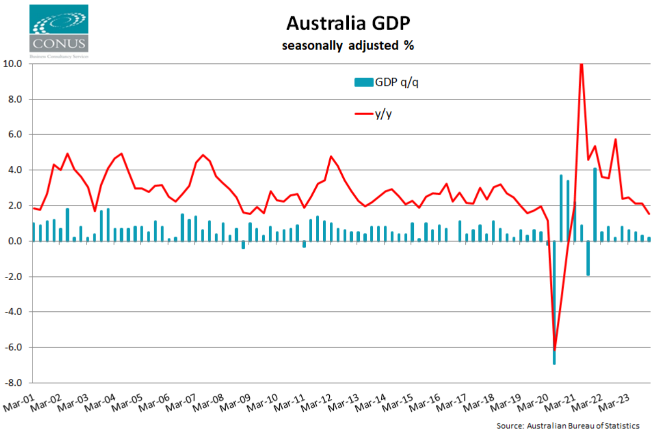
4th Quarter Australian GDP

The fourth quarter GDP data released this morning was in-line with most expectations showing a 0.2% q/q increase on the back of the previous quarter's 0.3% increase (which was revised up from 0.2%) which leaves us just 1.6% up from the same period a year ago. After all the distortions caused by COVID we are now back to growth rates which would have looked anaemic before COVID.

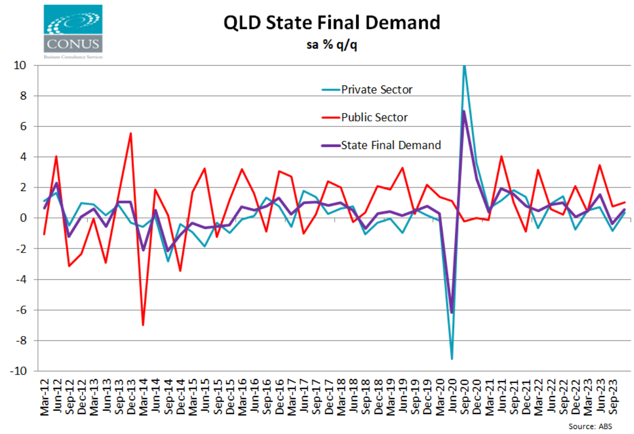


For the past few quarters, as interest rates have risen, it was clear that GDP growth (such as it was) was coming almost exclusively from population growth. Nothing demonstrates that fact more clearly than the fact that per capita GDP has fallen in each of the past four quarters and is now down 1.1% from where it sat 18 months ago, and is up just 3.3% over the past 4 years.

Since we last wrote, interest rates have not moved and remain at 4.35%. However, since December the market's expectations of where rates will be heading has shifted dramatically on the back of rapidly falling inflation, a steadily weakening labour market (see commentary on next page) and the obvious impacts on GDP growth which has now slowed sharply. As we write, the markets are expecting rate cuts to start as early as May with two or three 25bps cuts being priced in throughout 2024.

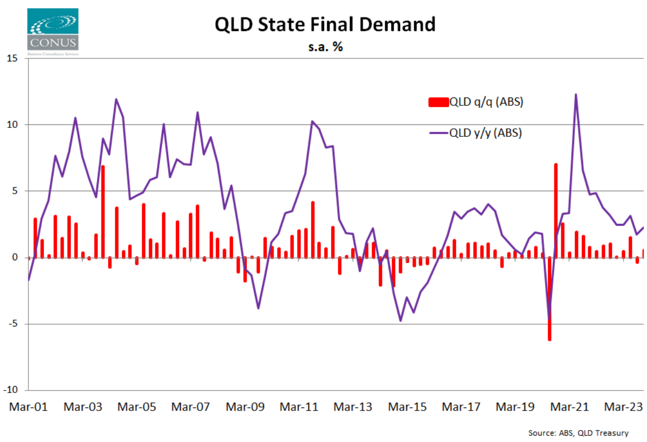
We noted last issue that the hikes in interest rates and general price pressures had clearly put pressure on the household sector and we had seen a dramatic collapse in the rate at which households were saving. We also noted that we anticipated at least some of that decline in the household savings rates to reverse in this quarter as inflation slowed and real wages started to improve. That is indeed what has happened and we have seen the household savings rate increase from just 1.9% in the September quarter to 3.2% in December. This is still at a low level and further increases would not surprise us. However, the household sector generally remains under pressure and until we see household consumption recovering GDP growth is likely to remain very muted; household consumption being the main component of GDP growth.

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.



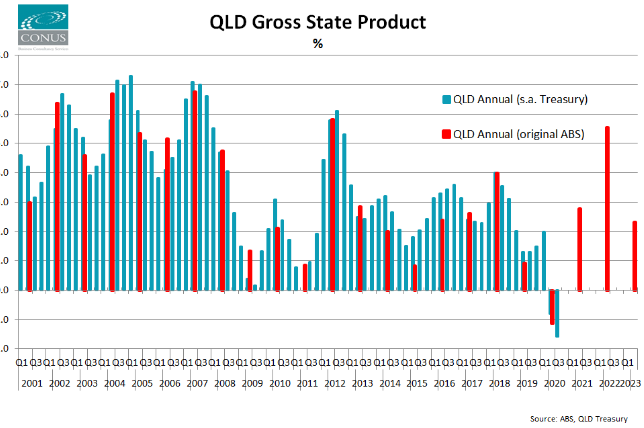
The ABS Q4 data has State Final Demand showing an increase of 0.6% q/q (after a decline of 0.3% in Q3) and is up 2.3% for the year. This compares to Domestic Final Demand in Australia which increased 0.1% q/q, and was up 2.3% y/y.

If we consider the data for the whole of the 2023 calendar year we see that national GDP grew by 2.1% while the domestic side of the national economy, as measured by domestic final demand, was up 2.3%. While the Queensland economy appears to have done somewhat better than the national average this quarter, it is clear that when considered over the whole of the previous year things look much more comparable with the country as a whole. State Final Demand grew by 2.4% through 2023.



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.

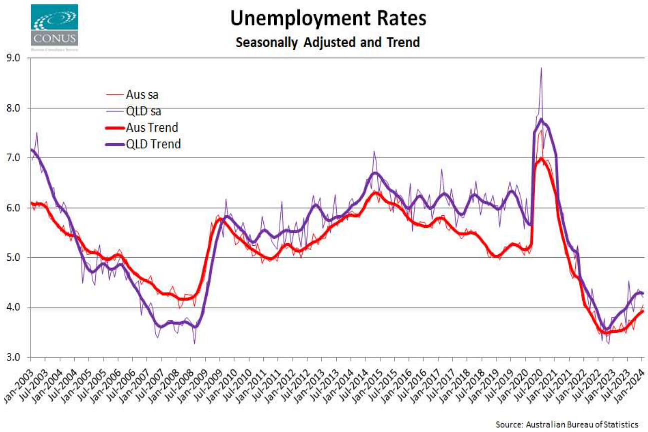
Unfortunately the Queensland Treasury have made the decision to suspend their provision of quarterly State Accounts due to "Ongoing volatility in seasonal factors .." and as a result we have no quarterly data for GSP beyond the Sept 2020 figures. Once Treasury restart this data series we will be updating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

Employment

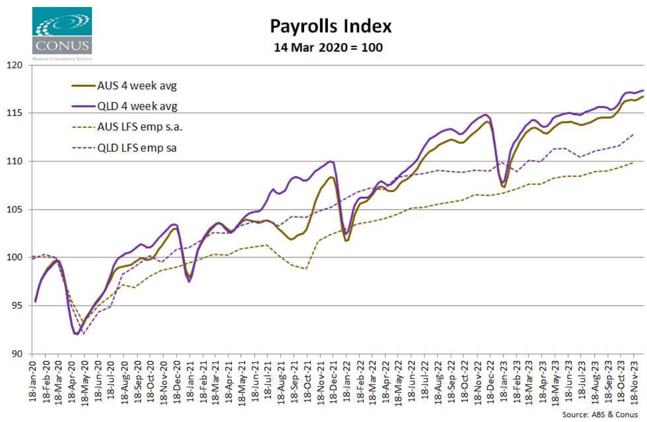
The past quarter has seen a continuation of the weakening trend we highlighted three months ago. The unemployment rates in Australia and Queensland have both moved higher despite the fact that employment continues to hit new highs. Even with the growth in employment, jobs are simply not keeping up with the growth in the size of the working population and although participation has fallen a little in the last 3 months it has not been by enough to stop the unemployment rate moving higher.

In addition we have seen a move sharply 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 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 nationally nor in Queensland.

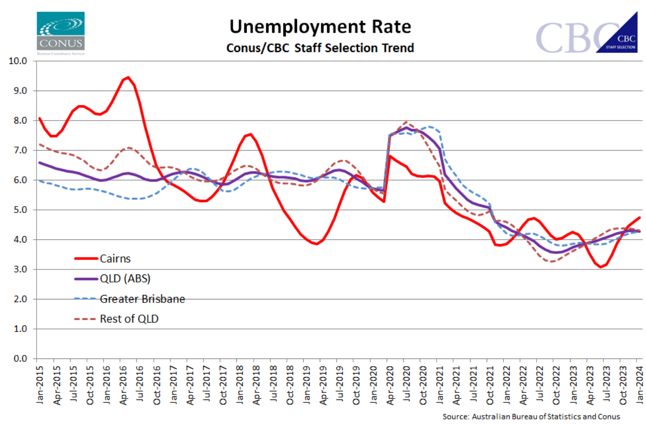


The ABS Payrolls data, collected via the Single Touch Payroll system, confirms this slowing of growth. However, this data set has been suspended for a month while the ABS make some changes regarding employer characteristics so at this stage is rather lagged.



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 4.8% despite solid increases in employment. The level of employment in Cairns has increased by 5,800 over the last 10 months and is now just 100 below all-time highs.

Participation has lifted in Cairns over the past year and that provides part of the explanation as to why the unemployment rate appears elevated given the level of employment.

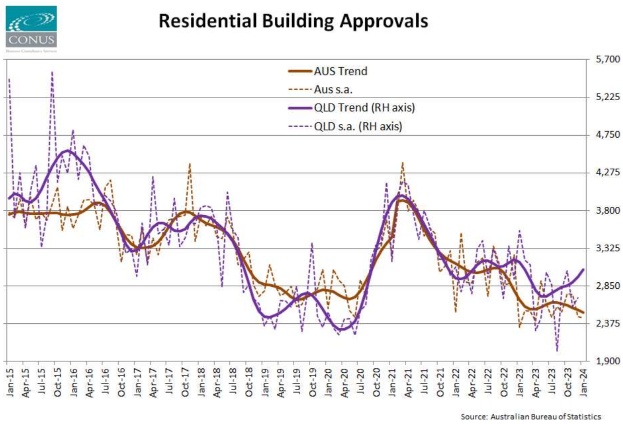


FNQ Economy Roundup cont..

Building Approvals

At a national level building approvals have continued to be weak and are now down 6% y/y; this is a cause for some concern given the challenges within the housing market! In Queensland things looks rather better; here the number of approvals has shown solid evidence of a recovery in recent months, albeit from a low point, and are now down just 3% from a year earlier.

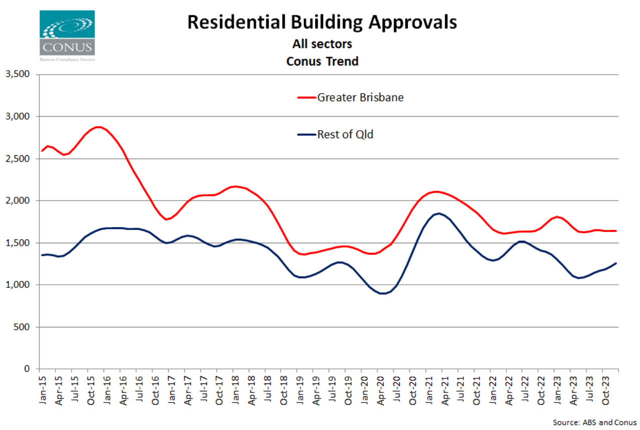
It is clear that with rapid population growth and the already chronic lack of housing availability we need to see more housing construction. The run of rate hikes that took rates to 4.35% certainly had the desired effect of slowing the economy, but it now seems clear that the next move in rates will

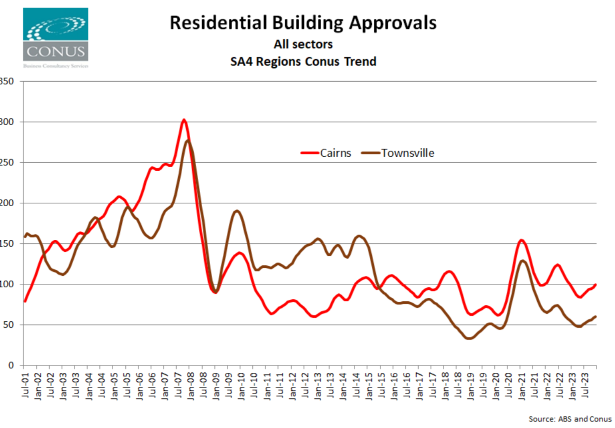


be down (perhaps as early as the middle of this year) as inflation falls back towards the RBA's target. If the rate hiking cycle is now complete (as appears almost certain) then we might expect to see at least some stabilisation in the rate of approvals.

The breakdown across the State shows that the recovery we are seeing in Queensland is being largely driven by Rest of QLD where approvals have been seeing a gradual improvement in recent months while Greater Brisbane has stalled.

Looking at the Conus Trend data for December for the Cairns SA4 region shows a similar 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 levels fell. However, Cairns is down only 0.6% y/y which is a far better result than both State and National results.

Tourism

Since our last issue the big news story, at least for tourism in the Far North, has been the effects of TC Jasper and, more significantly, the flooding that occurred in its aftermath just before Christmas last year.

The impact this has had on the sector is hard to overstate, particularly when considering those tourism businesses operating north of Cairns where the devastation and isolation was felt the most. The closure of the Cairns Airport for a total of three-and-a-half days over the course of the event, partly as a pre-cyclone precaution and partly as a result of significant flooding of the runway as the Barron River over-topped the levee designed to protect the Airport, had significant impacts on the number of visitors able to access the region at such a crucial time of the year for the sector. Indeed, the disruption was even more extensive than it at first might seem given issues with the repositioning of crew and aircraft after the event itself.

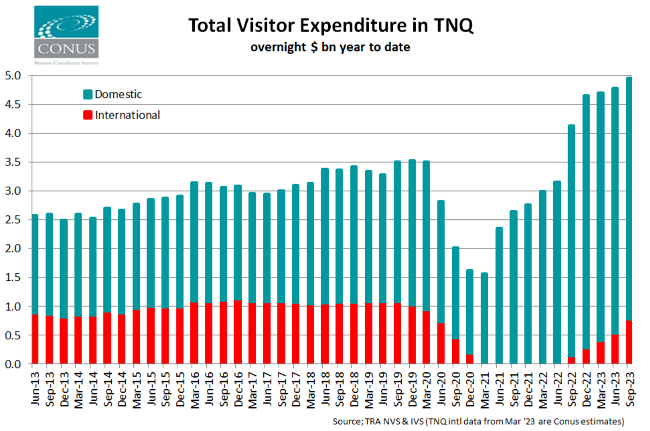
More than 500 flight movements were cancelled and there was also a very large effect seen on expenditure in the sector as travellers (most notably domestic travellers) cancelled or delayed bookings.

We are yet to see much in the way of data to allow us to estimate the true impact of the event for tourism in the Far North but at this stage estimates from TTNQ are suggesting lost revenues approaching $300 million.

The data we do have access to certainly supports the idea that the effect has been significant. Passengers numbers through Cairns Airport saw a large fall in December and, although there was a solid recovery in the January data, the Trend remains down. Fortunately international passenger numbers held up well and indeed the ongoing recovery in international figures remains in place.

Tourism Research Australia will be releasing their quarterly

FNQ Economy Roundup cont..



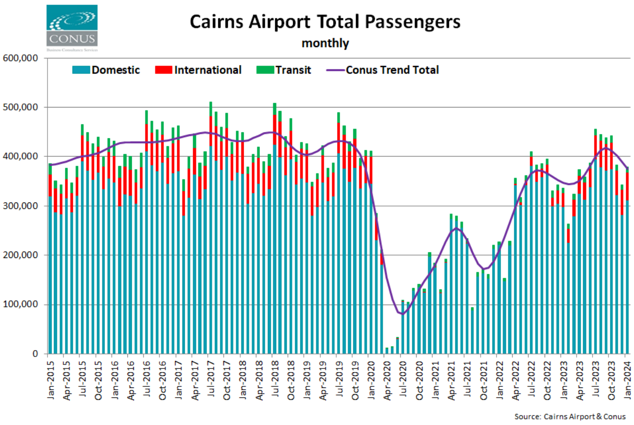
domestic and international visitor expenditure data for the final quarter of 2023 in a week or two and this should give us a far better idea of the impact suffered.

The data for September, which has been released since our last issue in December 2023, showed yet another record high expenditure figure for the region.

Although domestic expenditures fell (as has been broadly expected as the surge in domestic travel seen during COVID gets replaced by Aussies starting to travel abroad again) the decline was fairly modest and was more than offset by the increase in international expenditure. Domestic expenditures fell just $70 million while international expenditure grew by $250 million.

As a result total tourism expenditure hit a new record high for the year to September 2023 of $4.96 billion. This is an increase of more than 40% from the pre-COVID highs of early 2020 and shows just how strong the sector has been in the subsequent years on the back of the surge in domestic travel.

We should note that TRA have not been releasing international expenditure data at the regional level since an annual figure back in December 2022 so the figures quoted above are based on our own estimation given a selection of determinant variables. We will be getting an updated regional international expenditure figure from TRA in the next data release for December 2023 and we will likely be revising our own quarterly estimates at that time.



An important factor for the tourism sector in FNQ over coming months will be the speed with which the sector can recover from the impacts felt after TC Jasper.

While significant weather events are ‘par for the course’ in the Far North during the summer, the severity of this particular flooding event and the impact it had on crucial infrastructure such as roads and water will no doubt be felt for some time yet.

Indeed, we would hope that the longer-term result would be to make decision makers in the sector as well as Local, State and Federal Governments consider how things can be ‘built back better’ to mitigate the effects from future such events which are only likely to become more frequent.