The CONUS Quarterly

Vol. XVI- Issue 2 - June 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

Rates are yet to start falling, and recent data on inflation has shifted market expectations of when, and by how much, they will decline towards a somewhat more hawkish stance. While the next move certainly appears to be down it now looks more than likely that such a move might not be seen until the first half of next year. In the meantime growth remains sluggish although the labour market continues to be strong; there is a fine line the RBA are trying to tread!

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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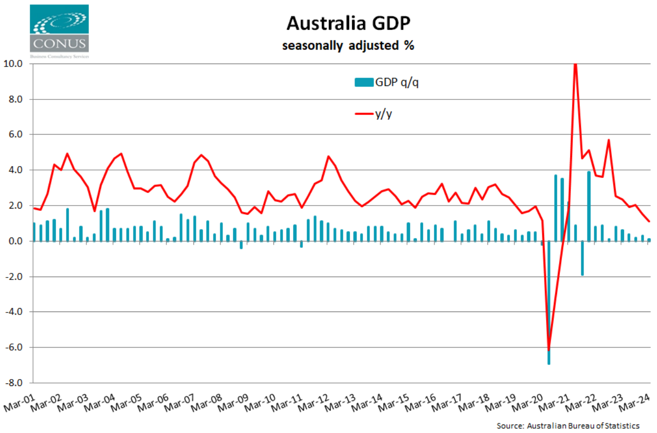
4th Quarter Australian GDP

The first quarter GDP data released this week was somewhat weaker than expectations at just +0.1% q/q. This was at least partially offset by the Q4 2023 reading being revised slightly higher, but nevertheless the year-on-year pace of growth slowed from 1.6% in Q4 2023 to just 1.1% in Q1 2024. There is a clear and steady slow-down in growth underway with no sign that it is likely to turnaround any time soon.

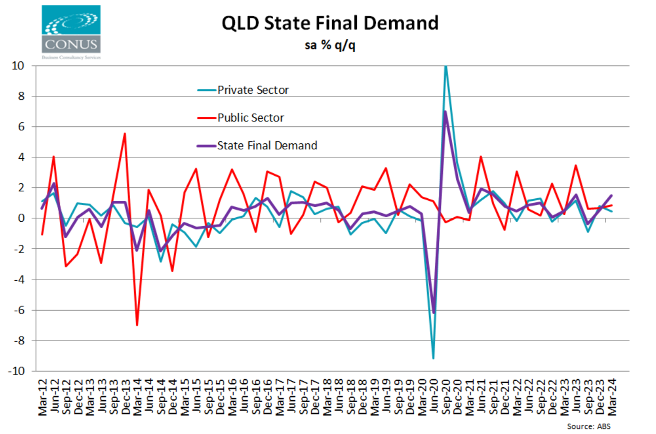


For the past few quarters, as interest rates have risen, it was clear that GDP growth (such as it was) was coming almost exclusively from population growth. Nothing demonstrates that more clearly than the fact that per capita GDP has fallen in each of the past five quarters and is now down 1.2% from where it sat 2 years ago, and is up just 3.4% over the past 4 years.

Since we last wrote, interest rates have not moved and remain at 4.35%. However, since March the market's expectations of where rates will be heading has changed quite markedly. On the back of some data out of the US suggesting that inflation there was remaining stickier than at first thought, which was then followed by similarly disappointing inflation data here in Australia, the futures market have shifted their expectations for rate cuts to much later in 2025. Three months ago we were reporting the markets pricing in cuts as early as mid-2024; this quarter that narrative has shifted to cuts being unlikely before mid-2025.

The household sector remains under pressure and the fact that interest rates are yet to start their downward shift will not have helped that situation. The Household Savings rate remains low, and has actually fallen slightly this quarter after a slight recovery at the end of last year.

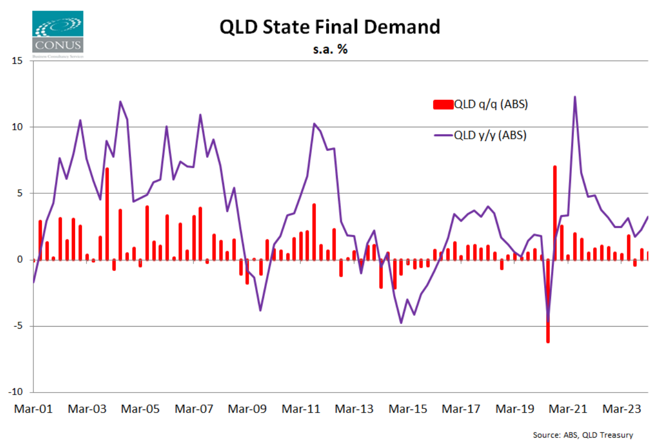
While household consumption was up 0.4% q/q (its best result since Q2 last year) this is still below the average pace of growth in the 10 years prior to COVID (+0.6 q/q on average). This modest growth provided a 0.2 ppts contribution to total GDP growth, which is the highest contribution from the sector since Q3 2022. Until such time as we see interest rates start to fall we can expect to see only a relatively small addition to growth coming from the household sector (which we should remember makes up 50% of GDP, by far the largest single contributing sector).



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.

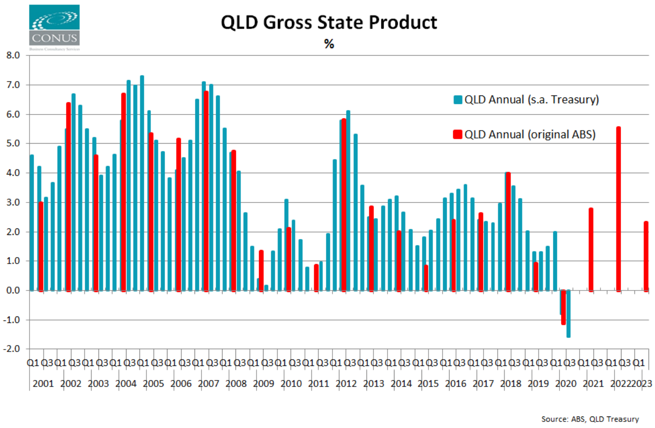
Queensland is certainly tracking rather better than the nation as a whole. The ABS Q1 data has State Final Demand showing an increase of 0.6% q/q (after a revised increase of 0.8% in Q4 2023) and is up 2.8% for the year. This compares to Domestic Final Demand in Australia which increased 0.2% q/q, and was up 2.3% y/y.

If we consider the data for the past 12 months we see that national GDP grew by 1.7% while the domestic side of the national economy, as measured by domestic final demand, was up 2.7%. The Queensland economy has certainly done somewhat better than the national average this quarter, and it is clear that when considered over the whole of the previous year performance also looks rather better than nationally; State Final Demand grew by 2.9% over the past 12 months.



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.

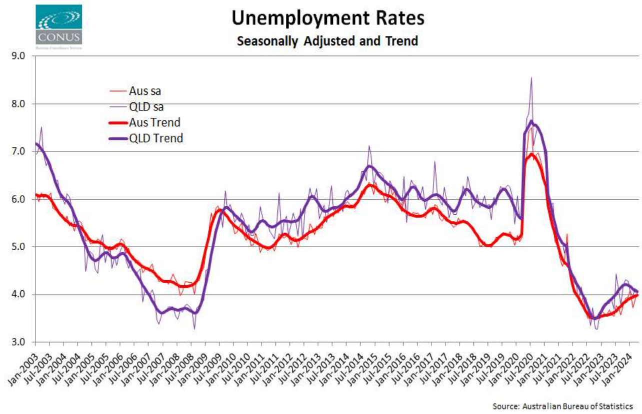
Unfortunately the Queensland Treasury have made the decision to suspend their provision of quarterly State Accounts due to "Ongoing volatility in seasonal factors .." and as a result we have no quarterly data for GSP beyond the Sept 2020 figures. Once Treasury restart this data series we will be updating 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 rate in Australia has moved slightly 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. Participation has remained broadly unchanged over the past 3 months and therefore the unemployment rate has drifted from 3.9% three months ago to 4.0% now.

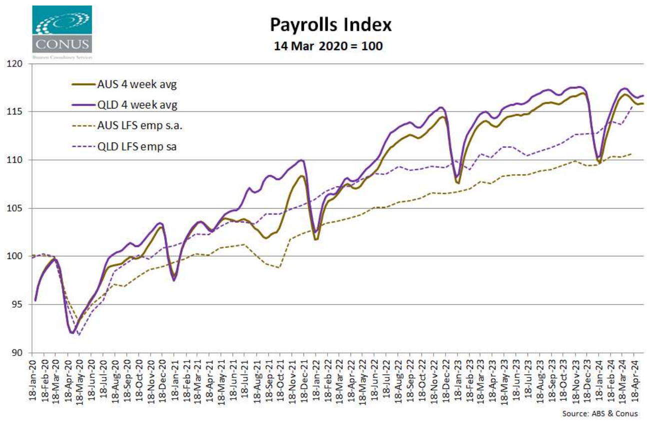
The story in Queensland has been slightly different. Here participation has been climbing so that, even in the face of employment growth which is much stronger than nationally (4.0% versus 2.6%), the unemployment rate remained steady at 4.1%. Hours worked per capita have also moved higher again in Queensland and are now down just 0.5% from a year ago while nationally they are down 1.8%.

While the labour market has clearly weakened a little in the past 6 months, it is also true that there remains a good deal

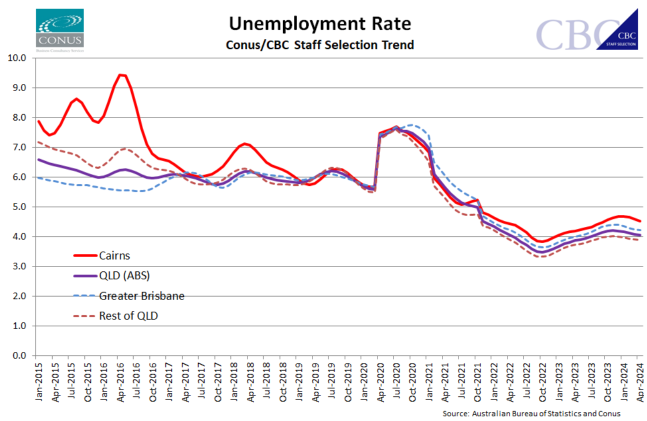


of strength here too.

The ABS Payrolls data, collected via the Single Touch Payroll system, confirms this slight slowing of growth and somewhat better performance in Queensland.



After years of discussion with those responsible for labour market data at the ABS we are very pleased that the agency has taken onboard comments from us (and no doubt countless others) to improve the provision of regional labour market statistics. This quarter, for the first time, we are able to utilise a new dataset from the ABS for regional employment data. The ABS are now producing modelled estimates of labour force statistics for regions which, as well as the previously available Labour Force Survey data, are using 'administrative' data such as ATO Single-Touch

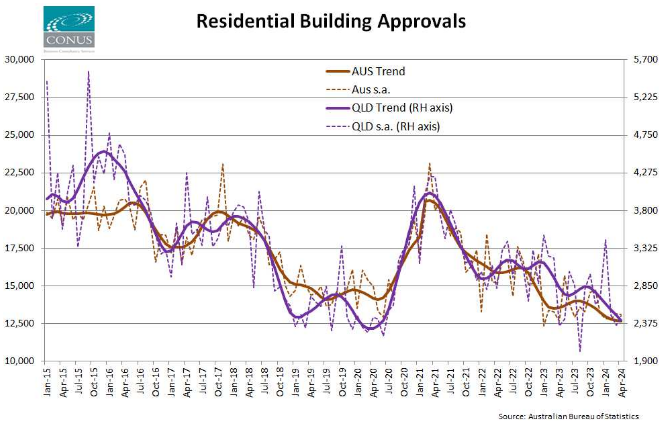


FNQ Economy Roundup cont..

Payrolls numbers and DSS data on JobSeekers and Youth Allowance. This means that the extreme volatility, which has up to now been a feature of the original LFS data at the regional level, should be a thing of the past and by using this new modelled data our own Conus/CBC Staff Selection Trend analysis will provide us with a more accurate, and consistent, view of our regional labour market. For the time being this new 'enhanced' ABS regional data is restricted to high level series but over time it is expected that it will start to include more detailed data such as full-time and part-time breakdowns as well as age and sex-based series.

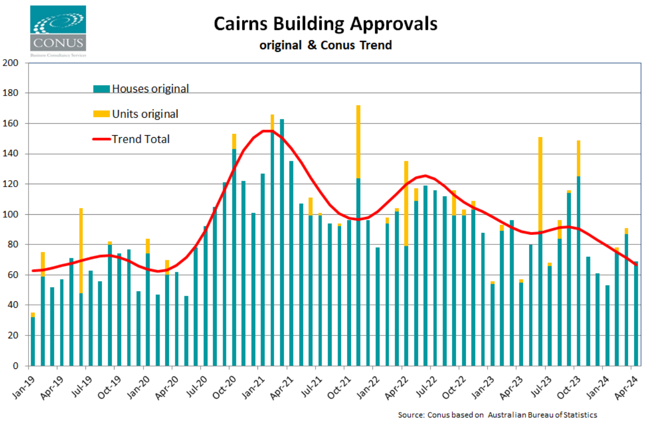
More in line with what has been happening in Queensland, than nationally, the labour market in Cairns has been improving. Participation has been steadily increasing and in April hit a level (70.3) that we haven't seen since the end of 2012. Trend employment has been also growing steadily and is now up 3.7% y/y to 147,600. The Trend unemployment rate has been slowly dropping this quarter and stands at 4.5%.

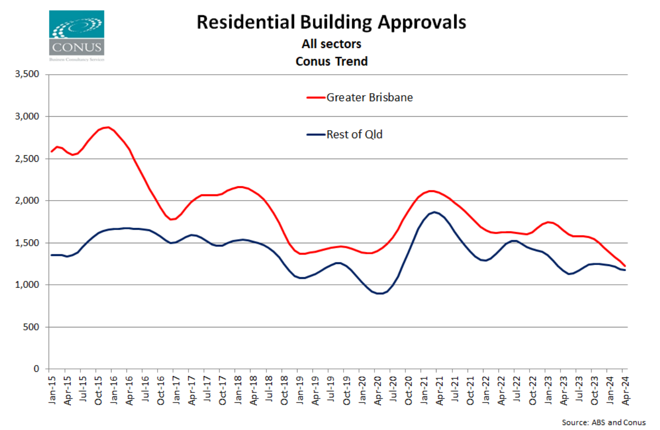
Building Approvals



At a national level building approvals have continued to be weak and are now down 7% y/y; this is a cause for some concern given the challenges within the housing market! In Queensland the decline has been even more dramatic (after what appeared to be some modest improvement at the end of last year) and approvals are now down 14.5% 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 has also clearly had a massive impact on the pace of residential building and, with rate cuts now looking to still be some time away, there appears to be little evidence that we will see approvals starting to improve in the near future.



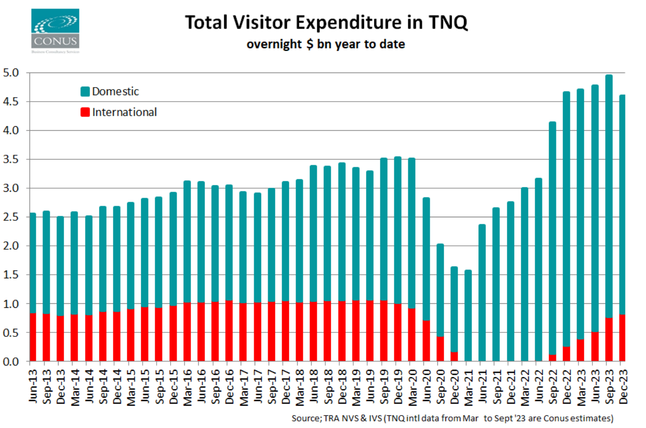


The breakdown across the State shows that the declines we are seeing in Queensland are being largely driven by Greater Brisbane where approvals have been falling sharply in recent months while the picture across the rest of the State appears rather more stable.

However, looking at the Conus Trend data for April for the Cairns SA4 region shows none of that regional stability. Indeed, Cairns approvals are now down almost 25% from a year earlier with unit approvals having almost completely dried up since October last year. Some of this weakness may be due to a knock-on effect from the post-Jasper floods although we would have expected to have seen any such effect starting to wash-out in the data by now.

Tourism

In our commentary last quarter we made note of the anticipated effect of the TC Jasper flooding, although at that time we were still waiting for the data for the final quarter of last year from Tourism Research Australia. We now have that data and it confirms what we had been expecting; the impact of the flooding was significant even though it only im-

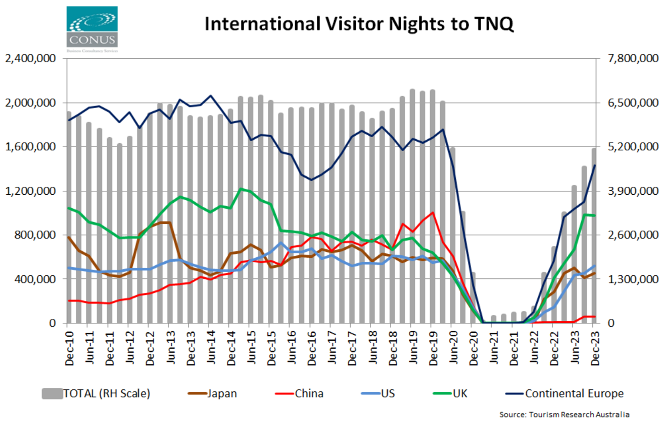


FNQ Economy Roundup cont..

pacts the final 2 weeks of the quarter in question. The fact that those 2 weeks were over the Christmas holiday period obviously made the impact greater still.

Domestic tourism expenditure took a particularly sharp drop and fell by $400 million for the year to Dec 2023 compared to the year to Sept 2023. Clearly not all of that decrease was due to the weather event; domestic expenditure had been steadily declining since peaking in the year to Dec 2022 as Aussies started to once again travel more overseas. Over the course of that year domestic tourism expenditure in TNQ dropped by $622 million.

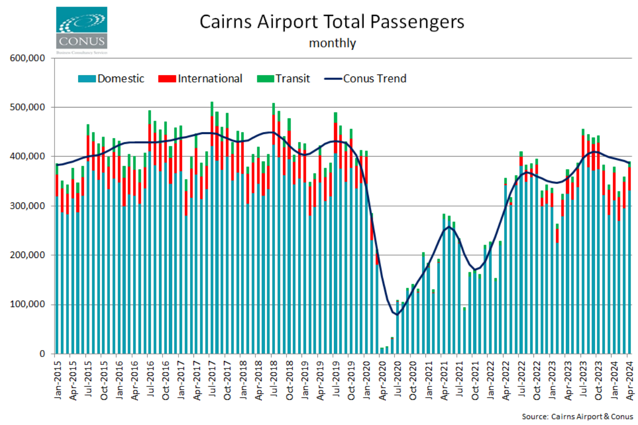
Compensating for at least some of that decline in the domestic market has been the slow and steady return of international visitors to the region. Over the course of the year international tourism expenditures grew by about $560 million and, as a result, total expenditure for the tourism sector in TNQ fell from a high of $4.95 billion in the year to Sept 2023 to $4.6 billion in Dec 2023 which was only $70 million below its level at the end of 2022.



It is clear that although the Chinese market has seen virtually no recovery at all in our region our more 'traditional' markets of UK, USA, Japan and Continental Europe are returning to levels more similar to those seen pre-COVID at a much more rapid pace.

Total international visitor nights in the region remain more than 1 million (or approx. 20%) below the levels seen at the end of 2019. However, as the chart above makes clear, the UK has already recovered to levels actually a little higher than seen in 2019, the US is close to reaching those levels and Japan is a little behind that.

Without the return of the Chinese market (and there is no real sign of that happening despite the short-term chartered flights seen into Cairns earlier in the year for Chinese New Year) the international sector will be relying on growing not only traditional markets but also looking to new markets to take up some of the slack.



Cairns Airport has been working hard on that front and we are already starting to see some of those efforts pay dividends in the form of more routes, larger planes, or more frequent scheduling.

The effect of the introduction by Singapore Airlines of a A350 onto the Singapore-Cairns route is yet to really show up in the Airport data but we would expect to see that starting to have a real impact in coming months. Likewise the recent announcement of Air Asia flights between Cairns and Bali will add further to the growth in international passenger numbers.

The most recent data (up to Feb) from BITRE demonstrates the impact that the increase in flights to and from Japan has had. Passengers to and from Japan through Cairns Airport is now at multi-year highs after the introduction of the Virgin Australia flights to Haneda to add to the Jetstar flights into Narita and Osaka.