The CONUS Quarterly

Vol. XVII- Issue 1 - Mar 2025

CONUS

Business Consultancy Services

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in this issue.....

Editor's Note

So, the RBA finally cut rates...but we had to wait until their February meeting. Whether there will be any further cuts this year is still an open question. The futures market seems to think the answer is 'Yes' to one more cut, but not until the final quarter of this year. Obviously a lot will depend on the trajectory of inflation (which is clearly slowing but core inflation remains just above target) and how strong the labour market stays. Of course this could all be thrown off-course by exogenous shocks coming from a trade war resulting from Trump's tariffs...time will tell.

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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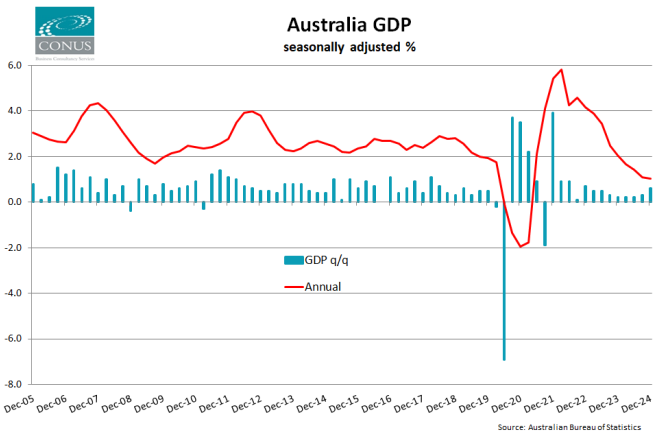
4th Quarter Australian GDP

The fourth quarter GDP data released yesterday was slightly above market expectations at +0.6% q/q (up from Q3 which was unrevised at +0.3%). The year-on-year pace of growth increased from 0.8% in Q3 2024 to 1.3% in Q4 2024. Annual growth for the year to Dec was just 1.0%, down from 1.1% in the previous quarter. There has been a clear increase in growth although the pace of that growth over the year remains well below what we might call 'normal' growth for the Australian economy.

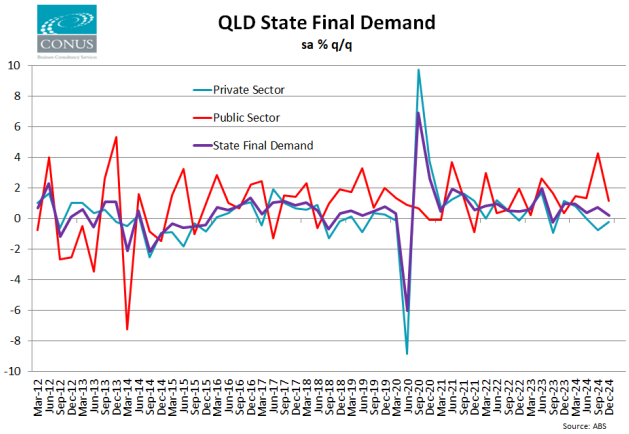


After having seen GDP per capita fall every quarter for the preceding 7 quarters this quarter we finally see the 'per capita recession' come to an end with this measure managing a very modest (0.07%) growth on the back of slightly better GDP growth and slightly slower population growth. After a period where real per capital disposable household income had fallen sharply (from artificially inflated levels) we have now seen this metric improve for the past two quarters, although it remains true that there has been something like a 12% reduction since the Sept 2021 peak.

Since we last wrote, interest rates have finally been cut and there is a clear expectation within the futures market that rates will be cut at least once more this year (with the chance of two more cuts). Headline inflation has fallen sharply on the back of cost-of-living relief measues and now sits within the RBA's target range, However, core inflation declines have been more modest and Trimmed Mean is still at 3.2% y/y.

The household sector has returned to positive territory with the first quarterly growth for three quarters (+0.4% q/q). The Household Savings rate also increased in the Dec quarter to 3.8% (its highest level since Sept 2022). There are clear signs that the easing of inflation and real wages growth is mitigating some of the pressures felt within the household sector.

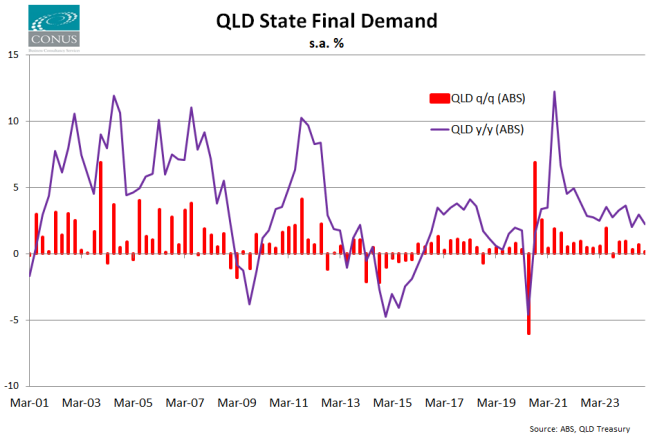
As interest rates fall (which will not yet be evidenced in this data) we can expect to see the household sector continuing to improve. We should always remember that the household sector makes up 50% of GDP, by far the largest single contributing sector.



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 2023-24 showed an annual increase of 2.1% which was above the national rate of GDP growth at just 1.4%. 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.

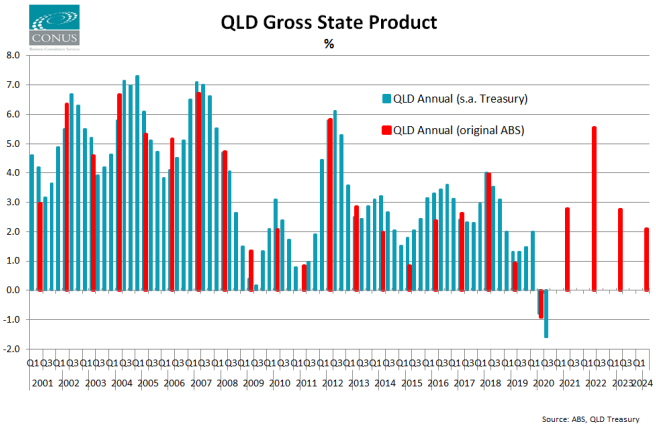
The ABS Q4 data has Queensland State Final Demand showing an increase of just 0.2% q/q (after an increase of 0.7% in Q3 2024) and is up 2.2% for the year (after an adjusted increase of 3.0% for the year to Q3). This compares to Domestic Final Demand in Australia which increased 0.5% q/q, and was up 2.1% y/y.

The slowdown in State Final Demand was caused by a rapoiud slowing of public sector demand (down from 4.3% q/q to 1.2% q/q from Q3 to Q4) coupled with weak private sector demand (from -0.8% to –0.2% from Q3 to Q4) as private sector investment fell 2.5% q/q. On an annual basis SFD is up 2.7% led by a 6.7% annual growth in the public sector with just 1.1% annual growth in the private sector. Queensland's economy is still be propped up by the public sector.



FNQ Economy Roundup

The ABS estimate of Gross State Product for the 2023/24 year was released in November. The 2023/24 data shows that Queensland's economy grew 2.1% for the year (after 2022/23 was revised up tp 2.8%), compared to national GDP growth of 1.5%. Queensland better performance can be linked to stronger population growth, a strong resources sector and a solid contribution from the Public Sector. If we consider the period from 2018/19 to 2023/24 then we see national GDP growth of 11.0% while Queensland GSP has grown by a slightly higher 12.8%.



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.

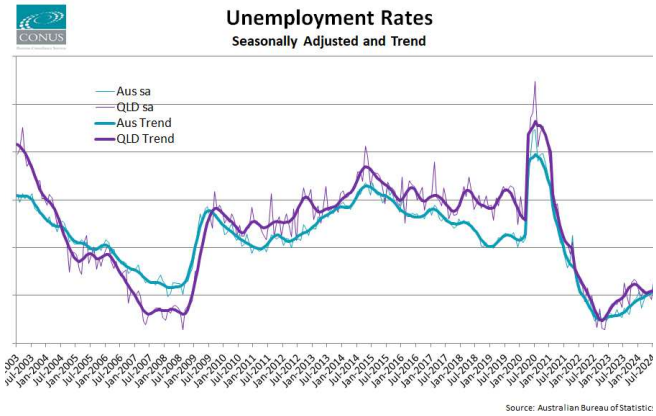
Unfortunately the Queensland Treasury have made the decision to suspend their provision of quarterly State Accounts due to "Ongoing volatility in seasonal factors .." and as a result we have no quarterly data for GSP beyond the Sept 2020 figures. Once Treasury restart this data series we will be updating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

Employment

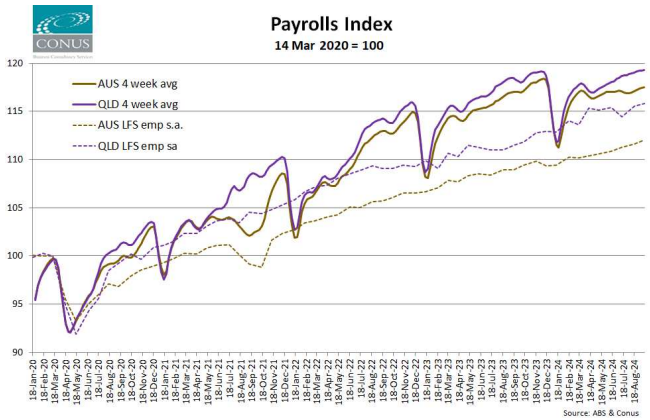
The labour market continues to impress. Employment growth, in the face of strong population growth, has been robust and is growing at 3.0% pa. As a result the unemployment rate remains at just 4.0%. The Trend unemployment rate has now been either 4.1% or 4.0% for each of the past 11 months. The labour market remains at historically very strong levels.

In Queensland things are even stronger. Employment is growing at 3.5% pa and the unemployment rate has fallen from 4.1% a year earlier to just 3.9% today. Hours worked per capita highlight how the Queensland labour market remains firmer than at the national level. This metric has moved higher in Queensland and is now up 1.9% from a year ago while nationally it is up just 0.4%.

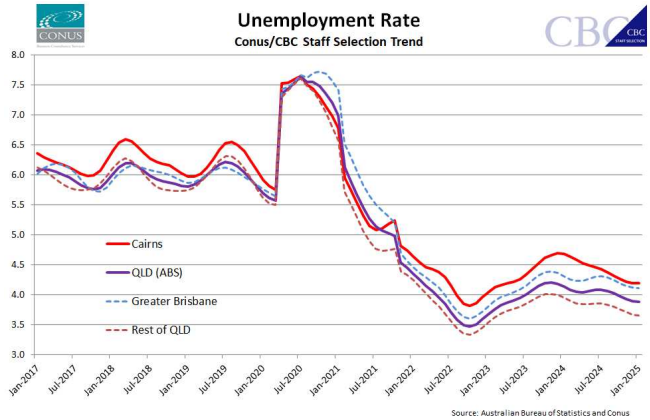
The ABS Payrolls data, collected via the Single Touch Payroll system, has shifted to a quarterly data set with the next release not until late-April The most recent data (to mid-Sept) confirms Queensland's slightly better performance.



We have been able to utilise the new and improved ABS regional labour force data for ten months, and it has now been extended back to Jan 2012. 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 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 break-



FNQ Economy Roundup cont..

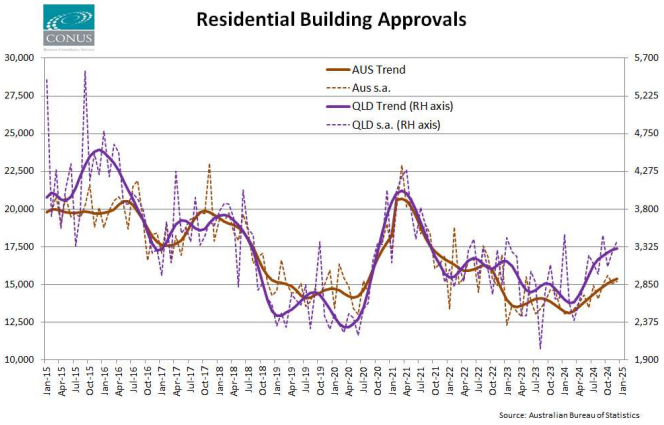
downs as well as age and sex-based series.

In Cairns the labour market has been very strong. Participation rates are up and close to 14-year highs, employment is growing strongly (+3.4% pa) and sits at record highs, while the unemployment rate has fallen from 4.7% a year ago to just 4.2% now. In the space of the past 5 years Trend employment in Cairns has increased by 20,000, a rate of growth of almost 16%. Over the same period the Participation Rate has jumped by 2.6 ppts as more and more people join the labour market.

Building Approvals

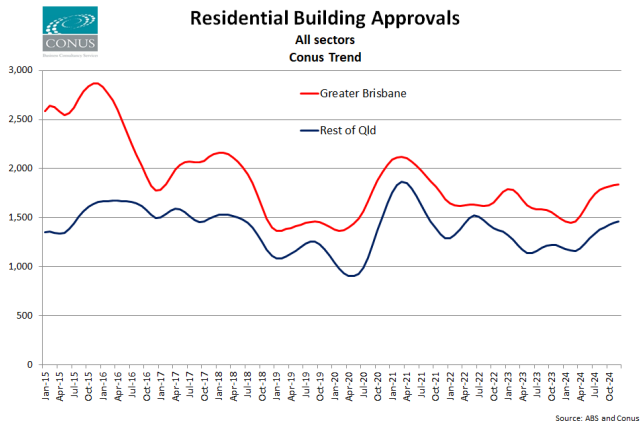
At a national and state level building approvals we are seeing a clear improvement in the Trend data. Trend approvals are now up 14.7% from a year ago nationally with Queensland up 21.3% y/y (albeit from low levels).

It is clear that with rapid population growth and the already chronic lack of housing availability we still need to see more housing construction, but these recent improvements are very welcome news. Last quarter we noted that any rate cuts would likely help to encourage further (much needed)

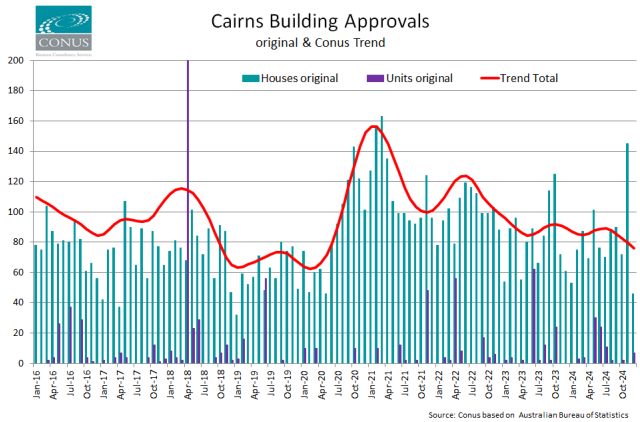


housing investment and now that we have seen the start of the rate cutting cycle we would hope to see that reflected in future month's data.

The breakdown across the State shows that the increase we are seeing in Queensland appear to be driven by solid increases in both Greater Brisbane and the Rest of the State. Greater Brisbane Trend approvals are up 23.7% y/y while across the Rest of Queensland the increase is an only slightly less impressive 21.3% y/y



However, looking at the Conus Trend data for December for the Cairns SA4 region shows that Trend approvals are continuing to decline; Trend approvals are now down 14.5% y/y and are at their lowest level since the COVID pandemic. This decline in approvals coming, as it does, in the midst of a marked housing shortage in the region is a significant concern for future growth prospects. If we are to

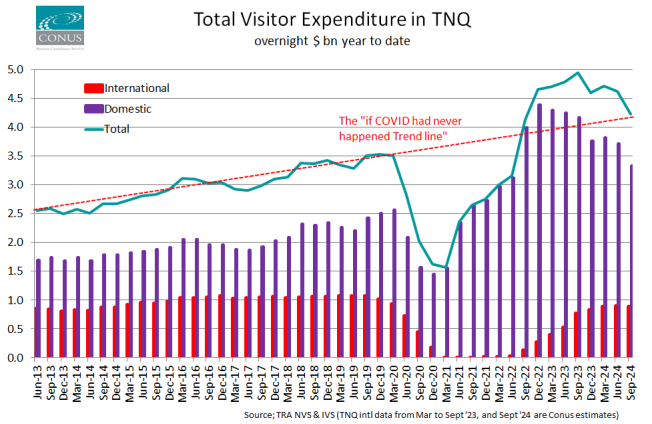


see the region develop to meet its full potential we must see more accommodation being built. House prices and rents have moved very significantly higher over the past 5 years and yet this has, at least so far, not resulted in an increase in supply of properties.

Tourism

The last quarter of tourism data (to Sept 2024) has shown a further significant decline in expenditure. This was a worse result than our expectations at the time we wrote last quarter and, as you can see in the chart below, takes total expenditures back to the 'as if COVID had never happened' Trend. Our expectation for the December quarter (due out in a fortnight) will show a total that is largely unchanged with an increase in international expenditure offsetting a small decrease in domestic.

Domestic tourism spending dropped sharply to $3.33 billion for the Sept quarter; this is well down from the record high of $4.39 seen in the final quarter of 2022. International

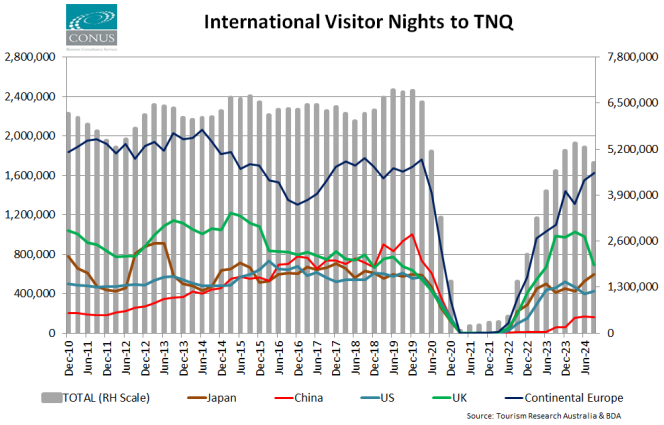


FNQ Economy Roundup cont..

tourism expenditure also fell very slightly in the Sept quarter. For the year to Sept '24 international tourists spent a total of $899 million, which is down from $905 million in the previous quarter but remains well below the highs of $1 billion seen just before the pandemic.

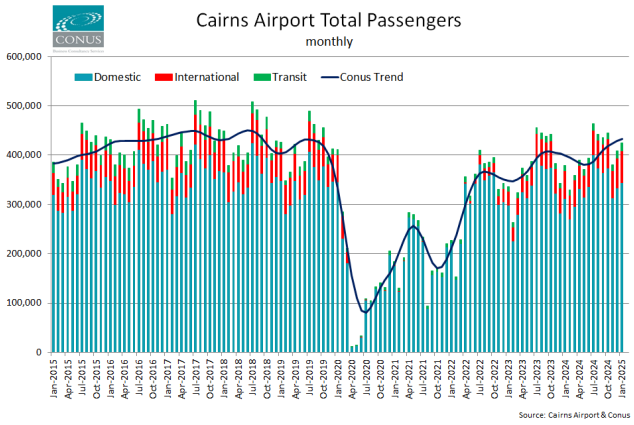
The official Tourism Research Australia tourism data for the December quarter will not be available until later in March. In the meantime, our analysis of various timelier, although less complete, datasets allow us to model what the domestic and international expenditure figures for the year to December are likely to be. We estimate that domestic expenditure will have decreased very slightly from $3.33 bn to $3.30 bn, while international expenditure will have increased from $899 million to $925 million. The net result is projected to be largely unchanged at $4.23 bn.

It is clear that although the Chinese market has seen only a very marginal recovery 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. Having said that, as is clear from the chart below, the UK saw a very sharp decline in visitor nights in the year to Sept and it was this drop that saw the improving trend for international expenditure reverse in that quarter.



Total international visitor nights in the region remain about 2 million (or approx. 30%) below the levels seen at the end of 2019. However, as the chart above makes clear, most markets have recorded reasonable recovery back to pre-COVID levels. The glaring exception (and the reason the sector remains so far below 2019 levels) is China where numbers have barely recovered.

Without the return of the Chinese market at scale 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 created by the almost complete loss of the Chinese market.



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 starting of international routes such as Cairns-Nadi (with the added possibility of opening up the West coast of the US) and Cairns-Christchurch (which will become a year -round rather than seasonal service) will be very welcome additions to the international portfolio for the Airport and should see international passenger numbers continue to improve as we move through 2025.

The most recent data (up to November) from BITRE provides some hope that the Japanese market is also holdings its own. Passenger numbers to and from Narita, Osaka and Haneda have rebounded strongly in recent months, although they remain some way below their record highs in late 2023.