

Queensland Economic Update

April 2018

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Chamber of Commerce & Industry



Queensland Economic Update: Summary



World Economy

- Global GDP expanded 3.8% during calendar year 2017, the fastest rate since 2011.
- The IMF expects the expansion to accelerate in 2018, supported by growth in the developing regions and stimulatory settings in the advanced economies.
- Critical to Queensland's exporters, Emerging and Developing Asia is expected to grow annually by +6% into the next decade.

Financial Conditions

- Inflation remained steady at 1.9%, below the RBA's target band of 2-3%.
- The Australian dollar has remained quite stable against the US dollar and a basket of international currencies since 2016.
- The RBA has indicated it is comfortable with the stance of monetary policy and is in no rush to raise the cash rate.

Construction

- Total construction activity during 2017 reached \$40.3 billion (+2.0).
- Non-residential building (+1.5%) and Engineering Construction (+10.5) contributed to the growth.
- The slowdown in apartments construction has led to the substantial fall in Residential construction (-8.3).

Queensland Economic Update: International Economy

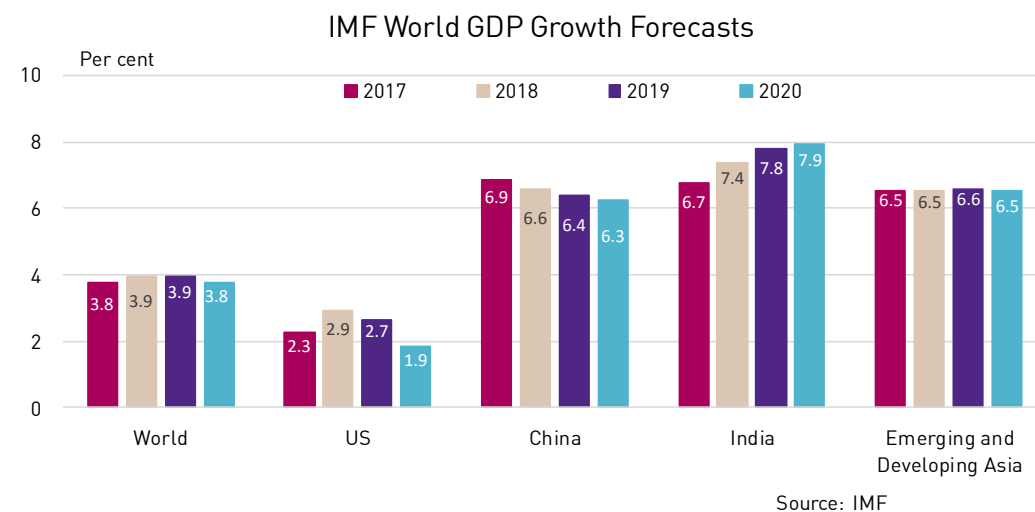
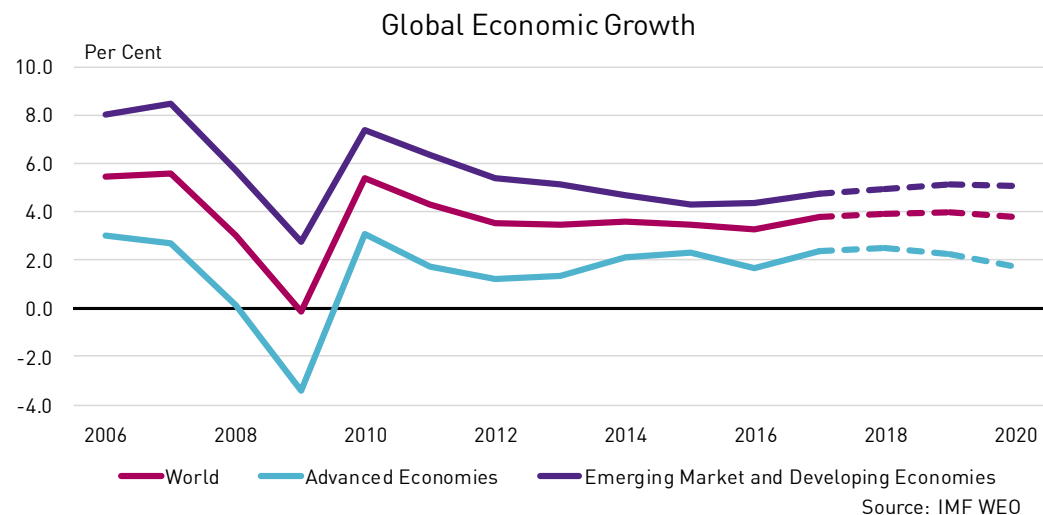
The IMF published the April edition of the *World Economic Update* which contained upgraded forecasts for global growth. During 2017, global growth accelerated to 3.8%, having achieved an average rate of growth of 3.5% over the previous five years.

The improvement in growth was broad based, with the pick-up in growth in the advanced economies alongside continued strong growth in the emerging Asia region, an encouraging sign for Queensland's exporters.

The IMF expects the strong momentum of activity will carry over into 2019 with growth rising to 3.9%.

Across the advanced economies, the stimulus from US corporate tax cuts and investment incentives is expected to push US growth to 2.9% in 2018, while the accommodative stance of monetary policy in Europe is expected to assist the absorption of excess capacity in the region.

The emerging economies are forecast to expand by 4.9% in 2018, up from 4.8% in 2017. The Chinese and Indian economies are projected to lead emerging markets growth at (6.6% and 7.4% respectively), with the major ASEAN nations of Indonesia, Malaysia, Philippines, Thailand and Vietnam collectively expected to expand by a healthy 5.3%.

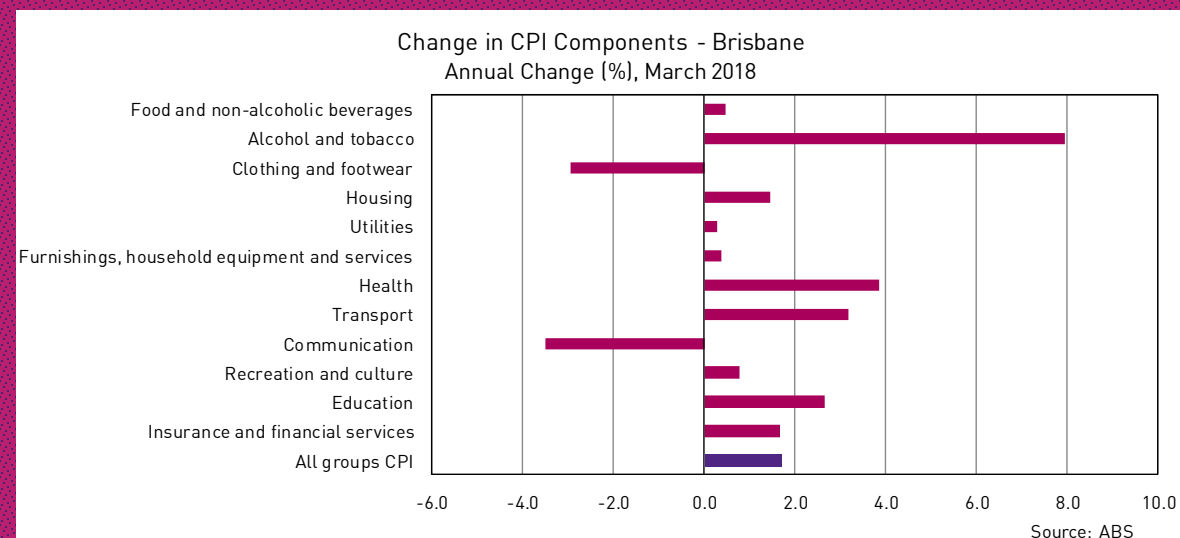
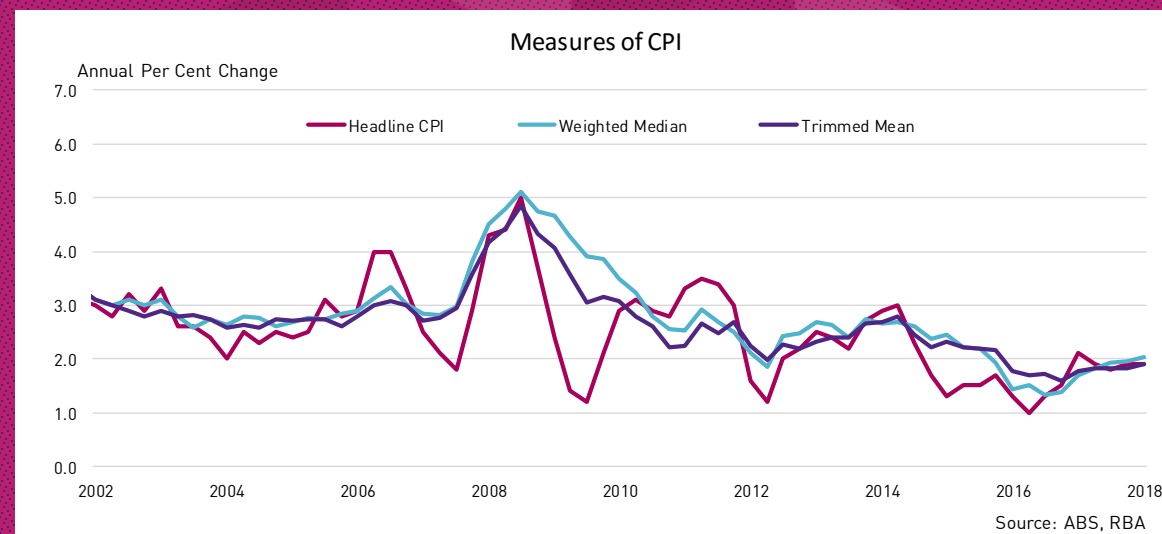


Economic Update: Consumer Price Index

The rate of inflation remained steady at 1.9% in the year to March 2018, remaining below the RBA's target band of 2-3%. Core measures of inflation (which strip out the effect of volatile items) also indicate inflationary pressures are currently weak.

At a more detailed level, **non-tradables** inflation has remained stable at an annual rate of 3.1%. This group mostly consists of local services and goods (such as utilities, transport and health) and typically have a high labour component in determining costs. The sluggish level of wages growth has held back price growth in this category.

Meanwhile, inflation in the **tradables** segment was -0.5% through the year to March 2018. The price of these goods are determined on world markets and typically fluctuate more than the non-tradables segment. Currently, world export markets are adding disinflationary pressures but these should ease.



Economic Update: Financial Conditions

The cash rate has remained at record low levels of 1.5% since August 2016. Although the cash rate has remained steady, lending rates to households and businesses have declined during this period. This would be due to increased competition and lower bank funding costs.

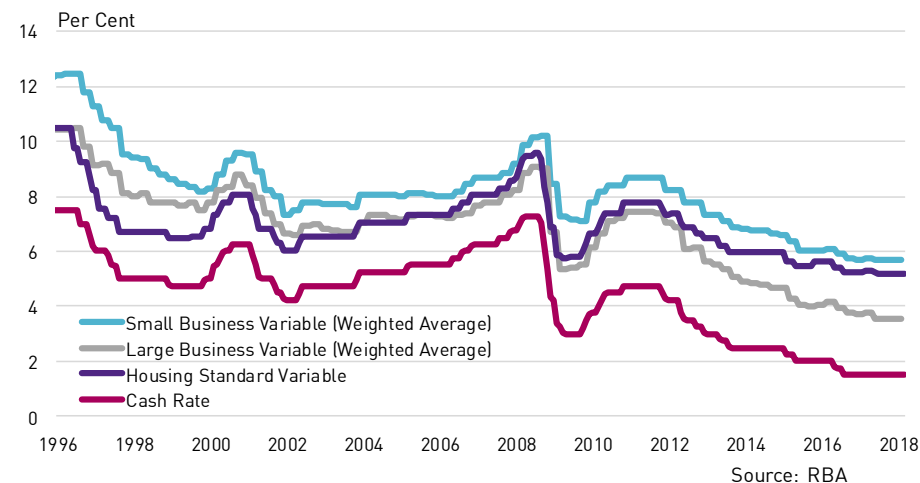
During 2017, the cost of funding for the banking sector's operations decreased. Funding costs declined due to lower costs associated with deposits and to a lesser extent funding raised through offshore wholesale debt markets.

The Australian dollar has drifted marginally lower lately against an international basket of currencies as commodity prices have remained strong.

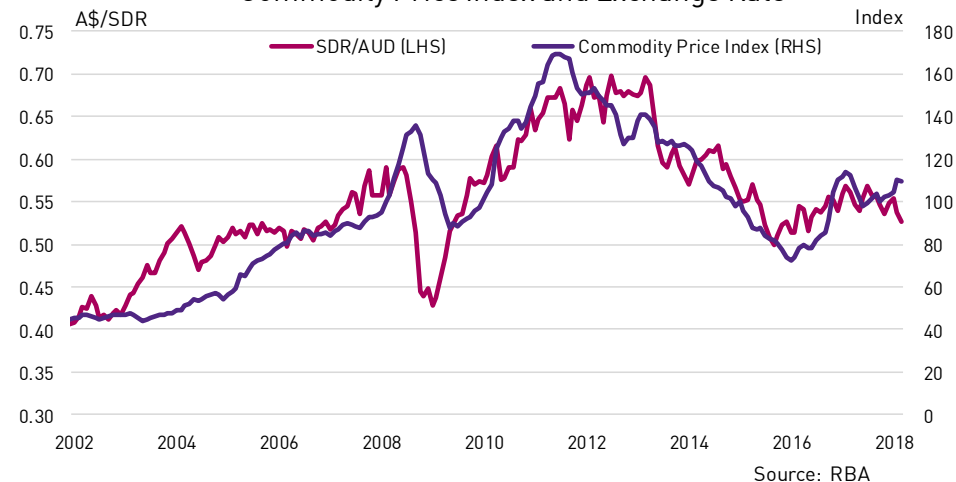
The RBA has indicated that it is in no rush to raise the cash rate. Inflation is well contained and there is still considerable slack in the economy. We would need to see wages growth start to accelerate before the RBA begins to change policy stance.

Complicating issues, bank funding costs have increased during 2018. If these costs are passed on to consumers and businesses, then it is likely to make the RBA push back the timing of the next rise which now appears likely to occur in 2019.

Interest Rates



Commodity Price Index and Exchange Rate



Economic Data – Construction Activity

Residential Construction

-8.3%

12 months to Dec 2017

Source: ABS

Non-Residential Building

+1.5%

12 months to Dec 2017

Source: ABS

Engineering Construction

+10.5%

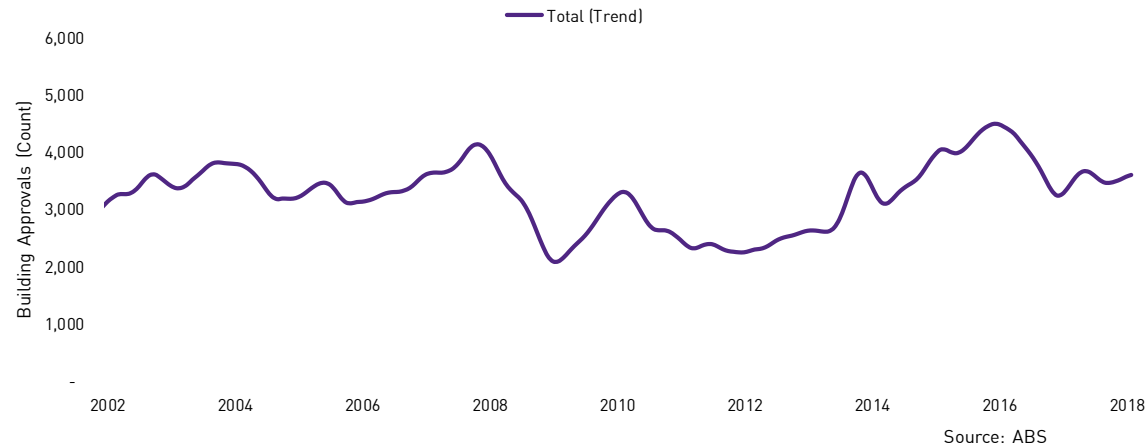
12 months to Dec 2017

Source: ABS

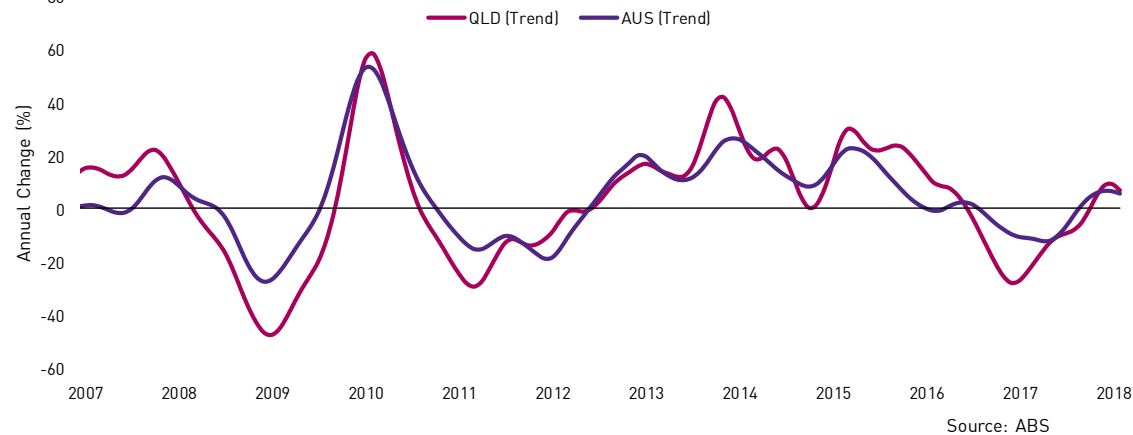


Queensland Economic Update

Building Approvals - Queensland



Building Approvals
Annual Change (%), Total Sectors



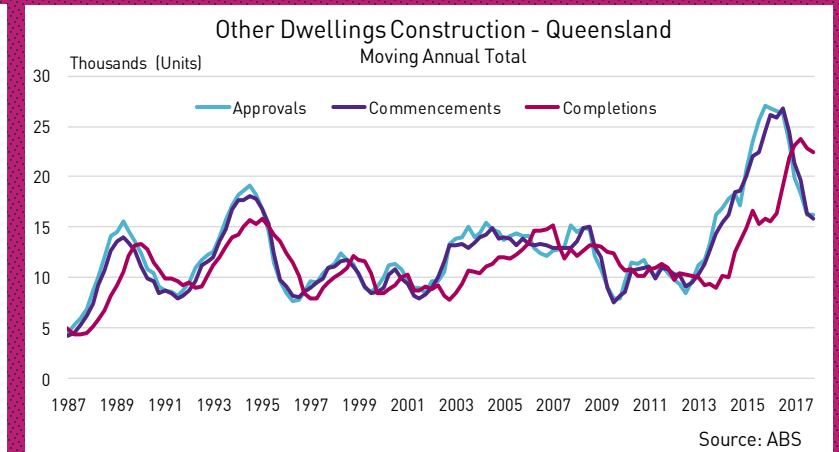
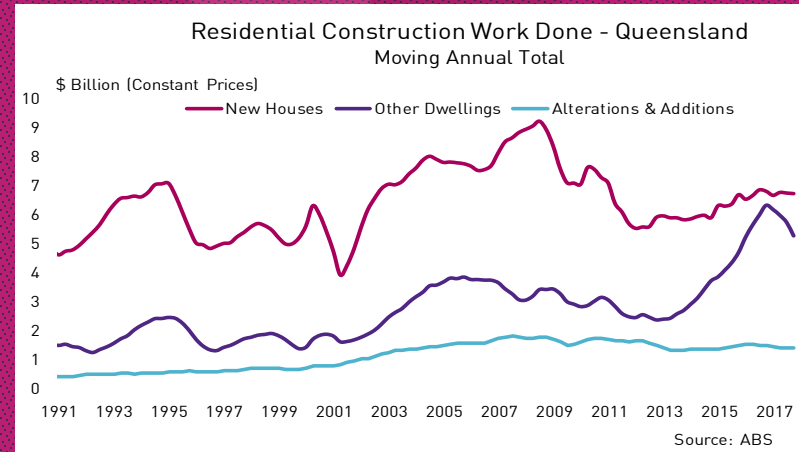
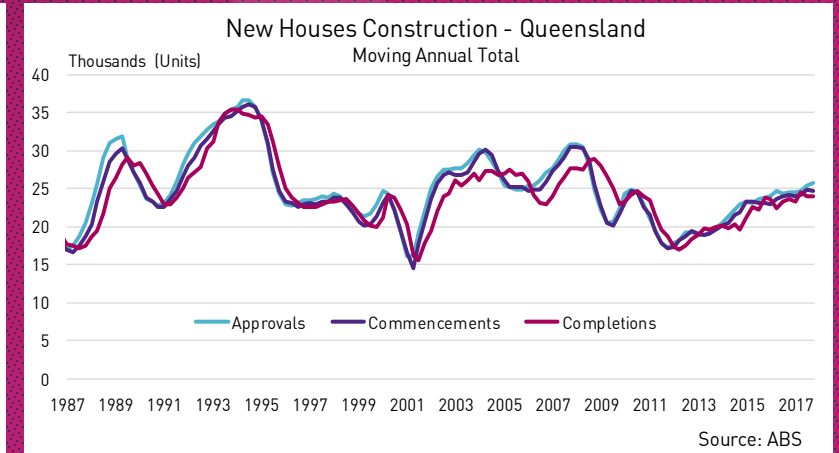
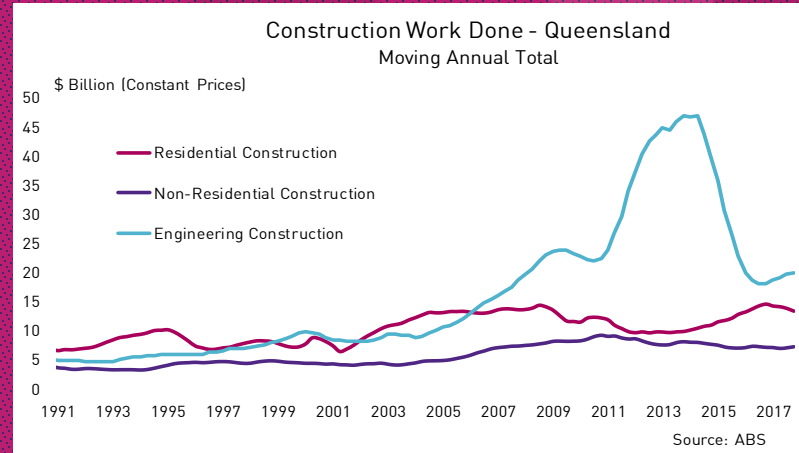
Building Approvals

- During February, the number of monthly approvals rose to 3,595 dwelling units. The fourth consecutive monthly increase.
- Over recent months, the number of new apartment approvals has increased by 21% since September, leading the growth in total dwelling approvals.
- In contrast, the number of new detached house approvals has slid -6% during the same period.
- The share of apartment approvals has rebounded back to 42% - the highest level since May 2017.

Queensland Economic Data: Construction Activity

Residential Construction

- Construction activity in Queensland rebounded 2.0% to \$40.3 billion during calendar 2017, led by the engineering construction segment.
- The value of residential construction activity fell -8.3% to \$13.3 billion during calendar 2017.
- In the latest quarter (Dec 2017), activity declined in the detached houses and apartments segments, while alterations & additions rebounded.



Queensland Economic Update: Building Activity

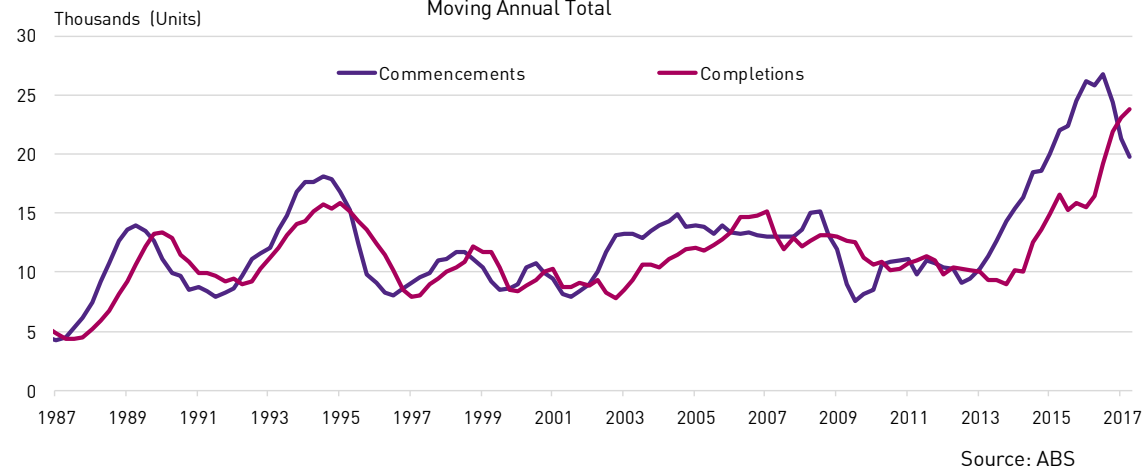
The slowdown in residential construction is no surprise given the steep decline in the number of new approval and commencements of apartments during the second half of 2016 and throughout 2017.

As the number of housing completions have mounted, the pipeline of dwelling units under construction has declined considerably. Overall, the total number of dwelling units under construction stood at 32,666 (10,092 houses, 22,574 apartments) in December 2017, a decline of over 6,000 dwellings from the previous year (-15.8%).

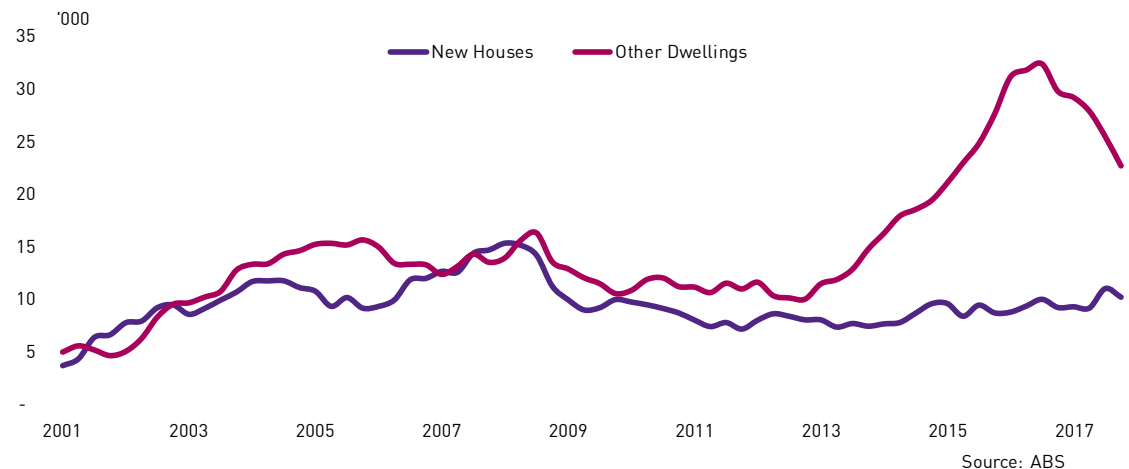
Mitigating some of the drop in apartments activity is the trend increase in the number of new houses commenced and under construction.

Overall, dwelling construction activity in Queensland is expected to fall by 3–5% in the year to December 2018. This decline includes a double digit fall in apartments construction, while the construction of new houses increases only modestly in the 1-3% range.

Other Dwellings Construction - Queensland
Moving Annual Total



Dwelling Units Under Construction - Queensland



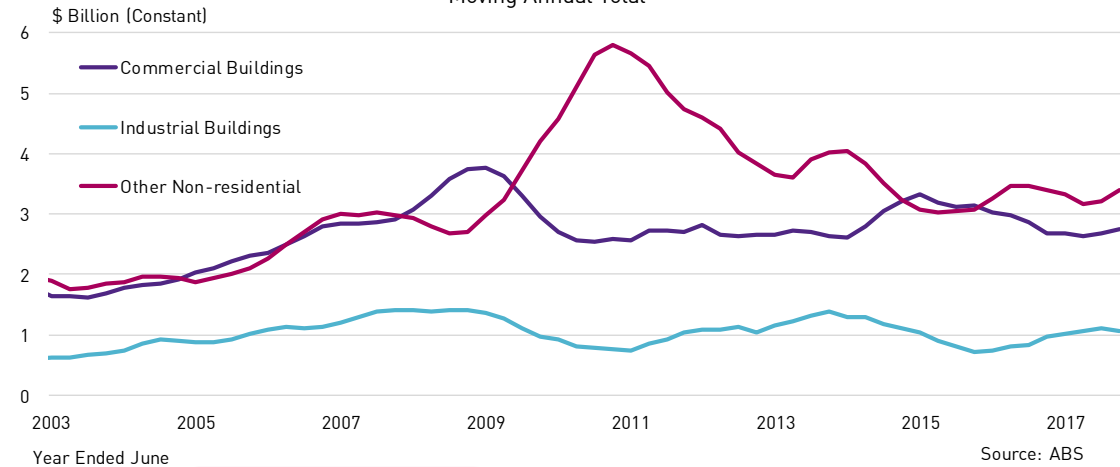
Queensland Economic Update: Non-Residential Construction

For the year ended December 2017, the value of non-Residential Building construction activity increased by 2.3%. This increase was led by private sector investment in the Industrial buildings segment which expanded by 10.0% overall as well as the Commercial buildings segment (+2.5%).

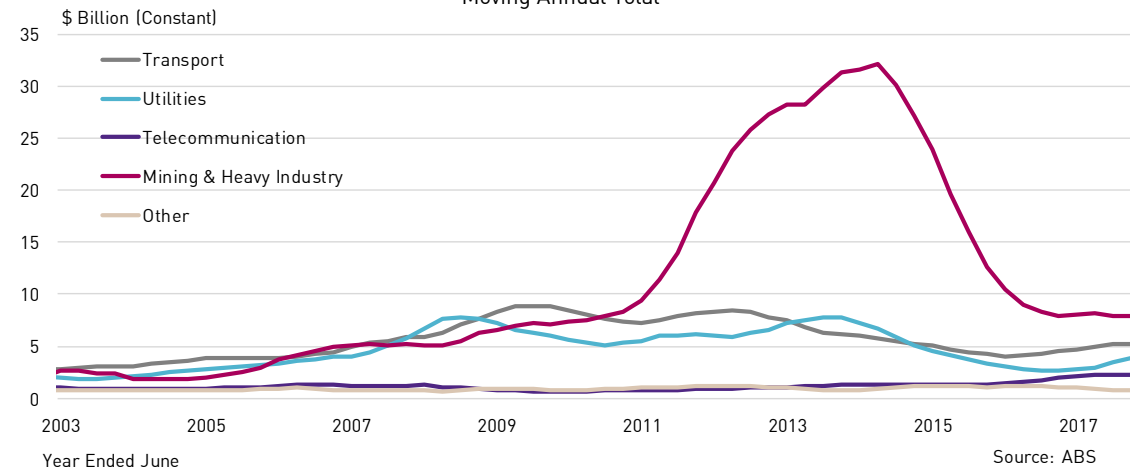
Weighing down on total activity was a downturn in publicly funded construction activity in the Education and Entertainment (completion of Commonwealth Games venues) sectors.

Engineering Construction has been the strongest performing segment of the construction industry during 2017, rising +10.2%. Public investment (+18.7%) was particularly strong in the Roads and Utilities segments. In the private sector, the stabilisation of the Mining & heavy industry sector and a sharp increase in Electricity investment helped pushed privately funded investment higher (+5.7%).

Non-Residential Building Work Done
Moving Annual Total



Engineering Construction Work Done
Moving Annual Total



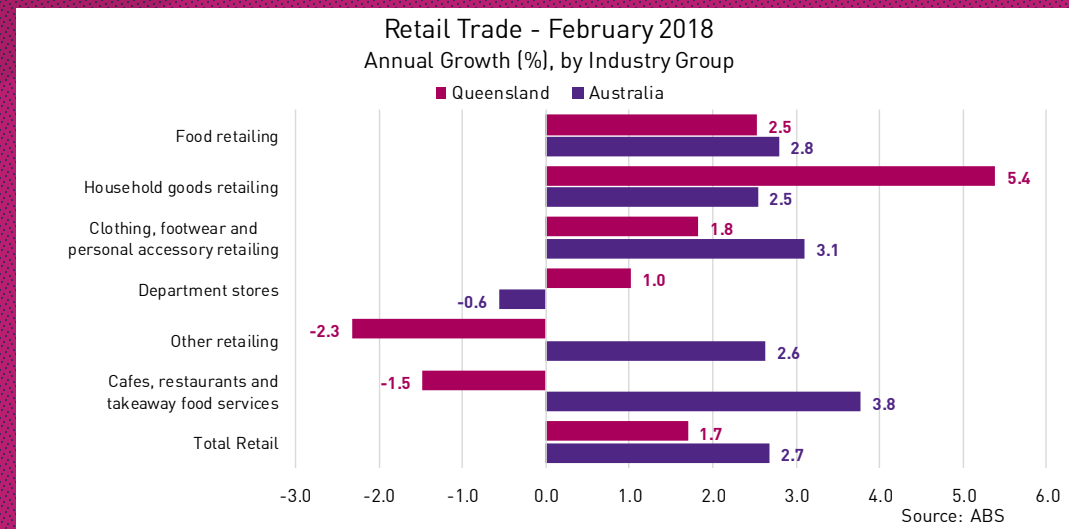
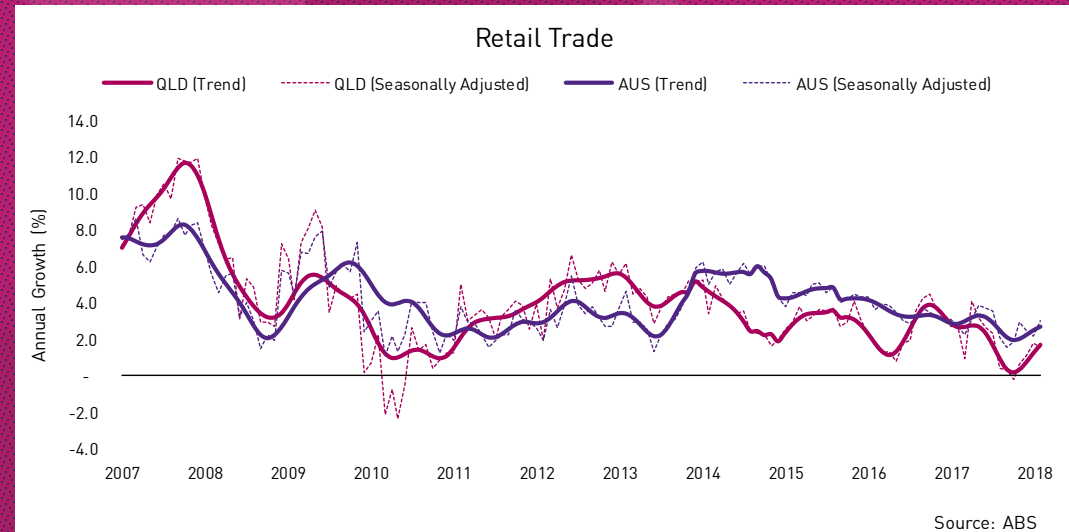
Queensland Economic Data: Retail Trade

Retail sales activity is slowly accelerating across Queensland, rising by 1.7% in annual terms through the year to February. Queensland has lagged behind the national rate of retail spending growth for several years now.

The growth in retail spending remains low as the growth in household disposable incomes have slowed – a combination of the effect of higher cost of living pressures and sluggish wages growth.

The fastest growth categories appear to be tied to the growing size of the population. Growth in the food category has risen at close to the national average, while household goods has grown at double the national average. The number of interstate migrants has fueled higher spending on home furniture and renovations.

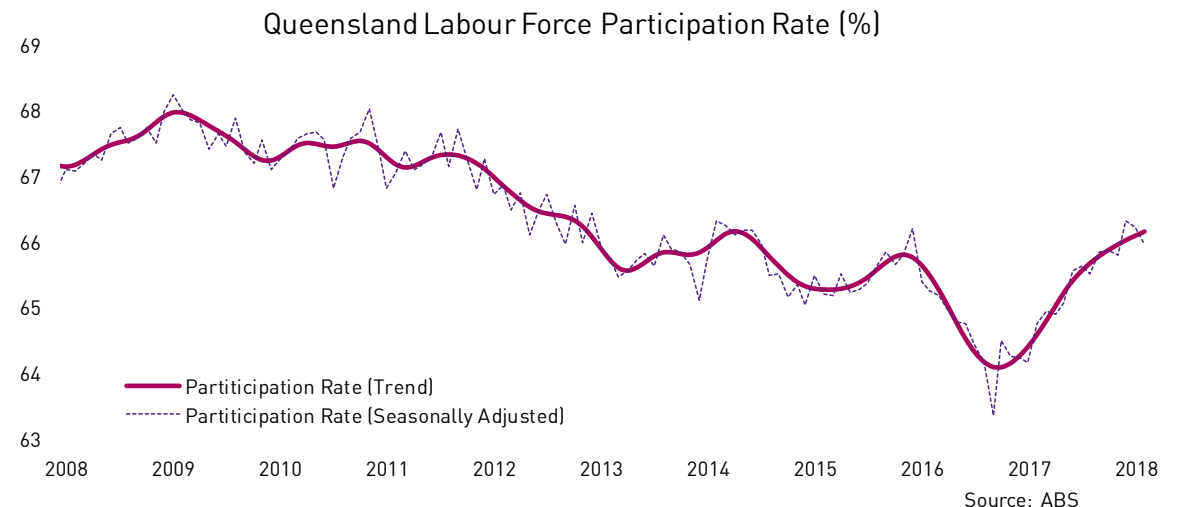
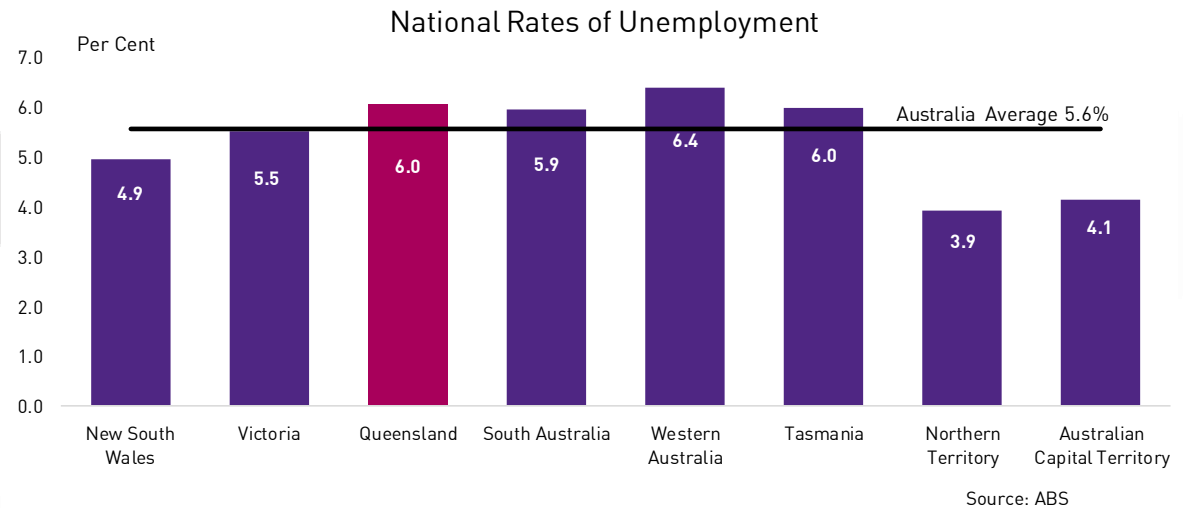
Off the back of faster pace of population growth and the large employment gains, we should see stronger retail numbers through 2018.



Queensland Economic Update

Labour Market

- Queensland has the country's fastest rate of employment growth, increasing at 4.3% through the year to March 2018.
- Unfortunately, the high employment growth has not translated to a lower unemployment rate yet. Queensland still has one of the highest unemployment rates in the country at 6.0%
- The size of the labour force has increased by the same amount as employment. With fast population growth and rising workforce participation, the number of people unemployed has remained unchanged over the past year.



Queensland Economic Update: Labour Market

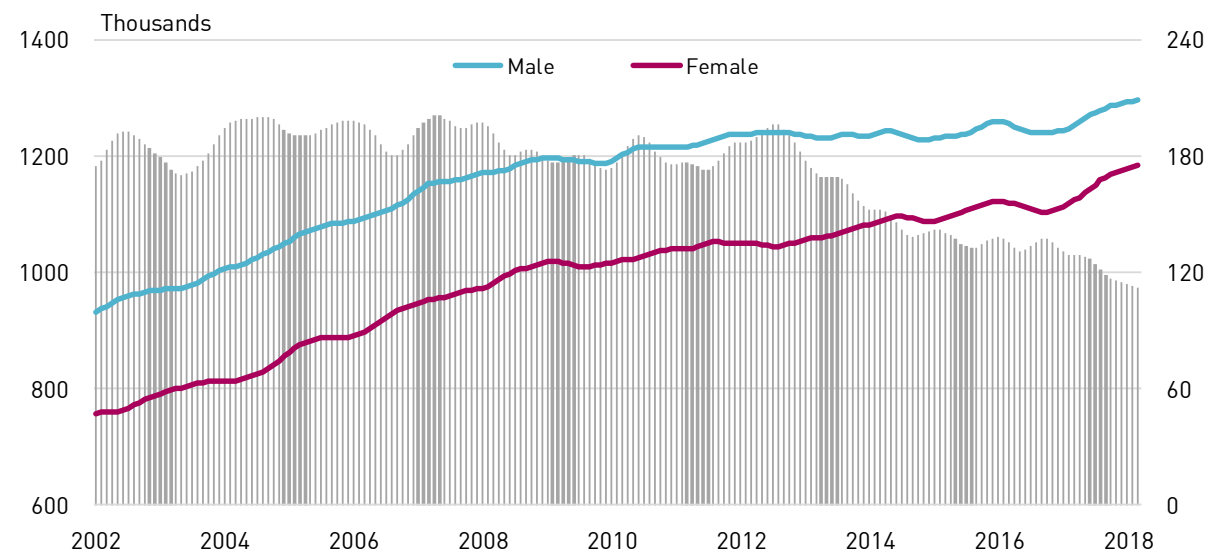
Queensland's transition, from the resources construction boom to a more diversified service-based economy, has helped create more for gender diversity in the workplace.

In the year to March 2018, the number of people employed rose by +101,500. Of these jobs gains, female employment increased by +59,000 - compared to male employment growth of +42,500. This has helped narrow the gap in employment between the genders.

As the services sectors have grown, jobs growth in these industries have drawn more females into the workforce. The rate of female participation is now its highest level at 61.8%.

The other key issue to tackle is the level of underemployment of women in the workforce. While the level of unemployment is almost identical between the genders, the level of underemployment is significantly higher for females with part-time workers seeking more hours in employment.

Employment by Gender - Queensland



Source: ABS

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