

Queensland Economic Update

October 2017

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Chamber of Commerce & Industry



Queensland Economic Update: Summary



Inflation

- Headline inflation 1.8% - below RBA target of 2-3%
- CPI for Brisbane lower at 1.5% for September 2017
- Cash rate remains at 1.5%

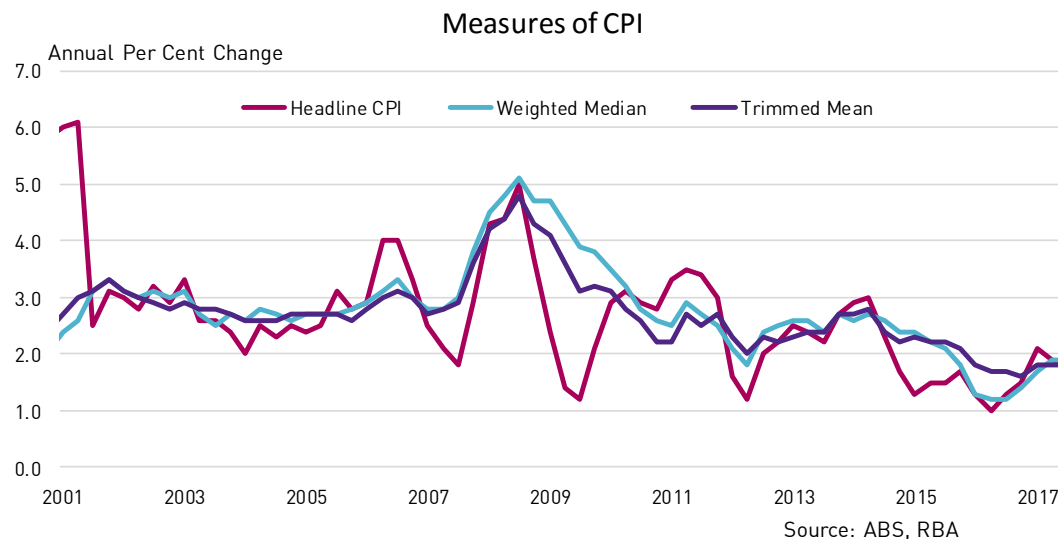
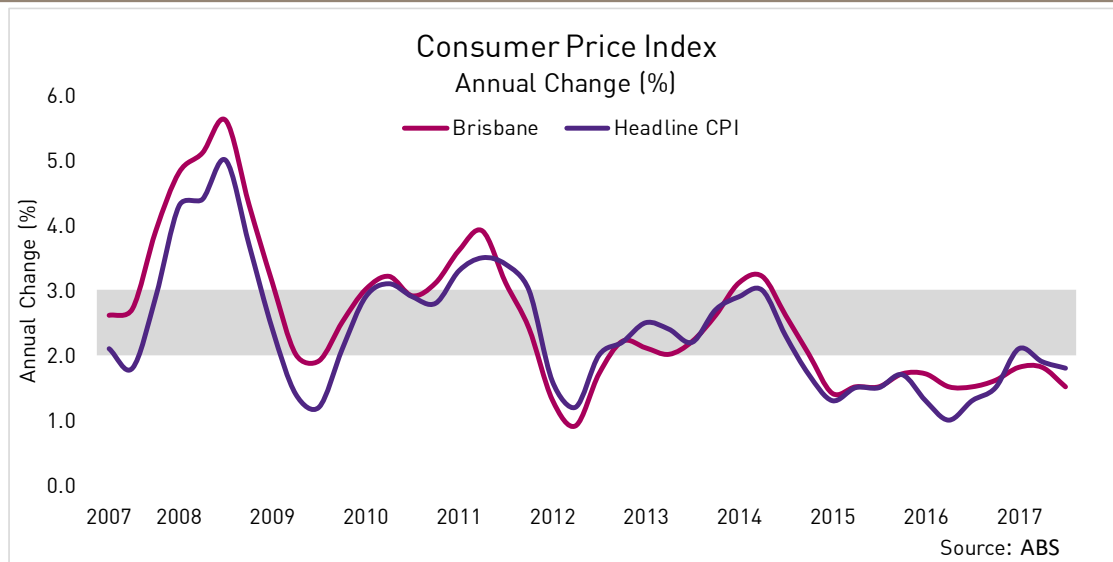
Employment

- 7,500 jobs added during the month of September
- Annual rate of jobs growth up to 4.1% - fastest pace since GFC
- Unemployment rate down to 5.9%

Construction

- Dwelling approvals fell to 3,495 for September.
- 36,000 dwellings under construction
- Infrastructure construction lifted 1.2% to \$18.6 billion during 2016/17

Economic Update: Consumer Price Inflation



Inflation remains well contained below the RBA target

Data for the September quarter continues to show **inflation at the national level remains anchored below the lower bound of the RBA's target** at an annual rate of 1.8%.

The headline inflation rate is consistent with other core measures of inflation which strip out the impact of volatile items on the headline inflation rate. This is important because it shows variable factors such as the Australian dollar or the price of oil are not working to suppress the level of inflation.

The **CPI for Brisbane has tracked closely to the national level**. Over the year to September, the CPI rose by only 1.5% with the price of food and beverages, clothing and footwear, household furnishings and telecommunications all recording price reductions.

With the RBA outlook for inflation remaining subdued and the economy performing below trend, we should expect to see **no change to the cash rate until late 2018 at the earliest**.

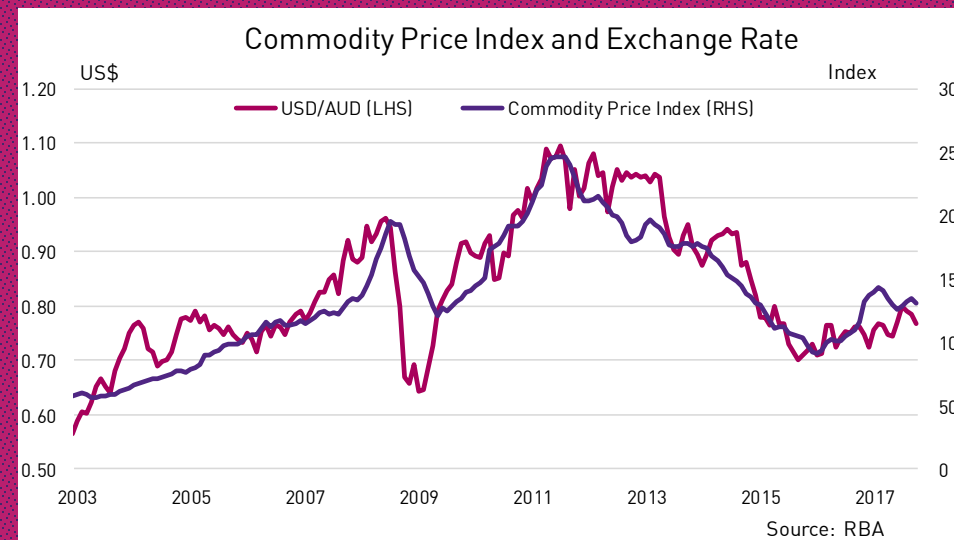
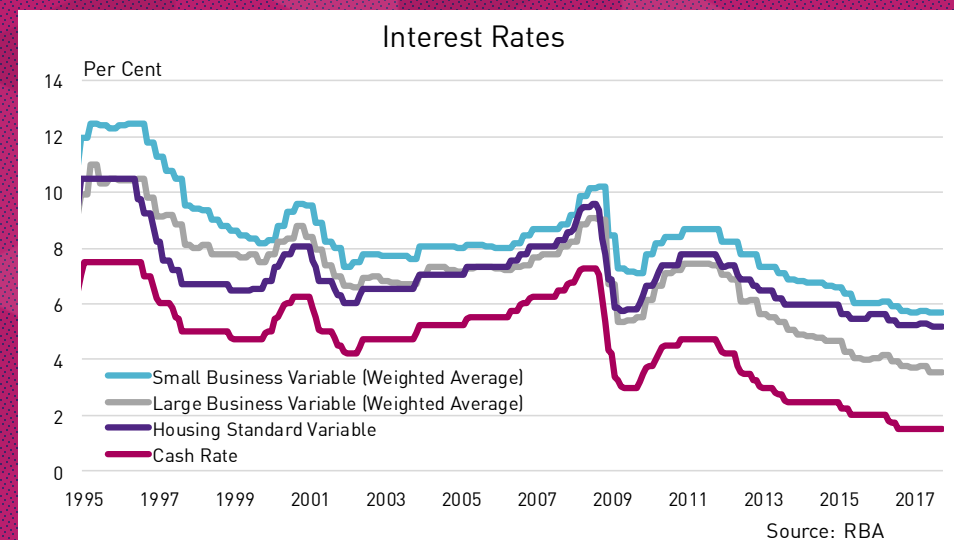
Economic Update: Financial Conditions

The cash rate has remained at a low of 1.5 per cent for over a year (since August 2016), one of the longest periods of policy stability. Lending to businesses has accelerated in recent periods, supported by the low level of lending rates.

The Australian dollar remains the big swing factor. A lower dollar will help spur the transition of growth toward the labour intensive trade exposed industries. However, the Australian dollar remaining around the US\$0.80 level for an extended period is a significant risk.

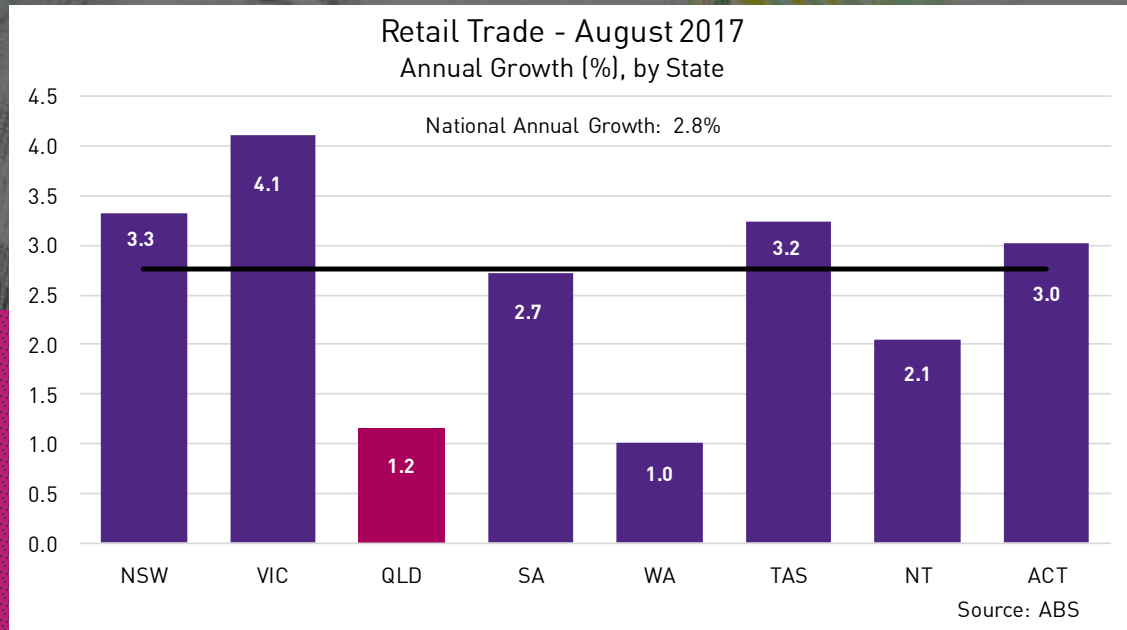
The price of Australia's key bulk commodity exports continue to defy forecasters' expectations and remain at elevated levels. The strong supply response and expected glut of production after the mining investment boom was expected to lead to over supplied markets and a period of weaker commodity prices.

However, throughout 2017, the world prices obtained for coking coal, thermal coal and iron ore have been persistently high, placing upward pressure on the Australian dollar.



Queensland Economic Update: Retail Sales

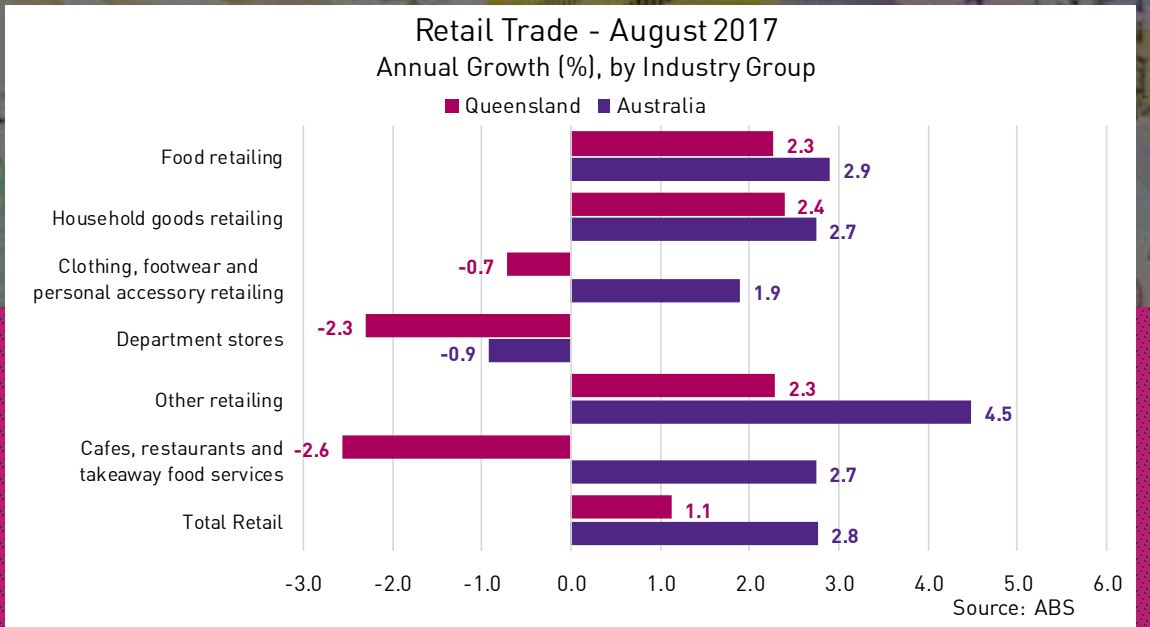
Queensland retail activity lagging behind rest of the country



Annual growth in retail sales has slowed to 1.2% across Queensland, lagging behind the national rate of 2.8% growth.

While employment growth has accelerated, the rising cost of living appears to be impacting consumer confidence and discretionary spending.

Queensland Economic Update October 2017



The weakest categories for retail expenditure in Queensland were discretionary items: Restaurants and takeaway food, Department stores and Clothing.

The data shows Queenslanders are eating at home more with food retailing amongst the stronger categories along with household goods.

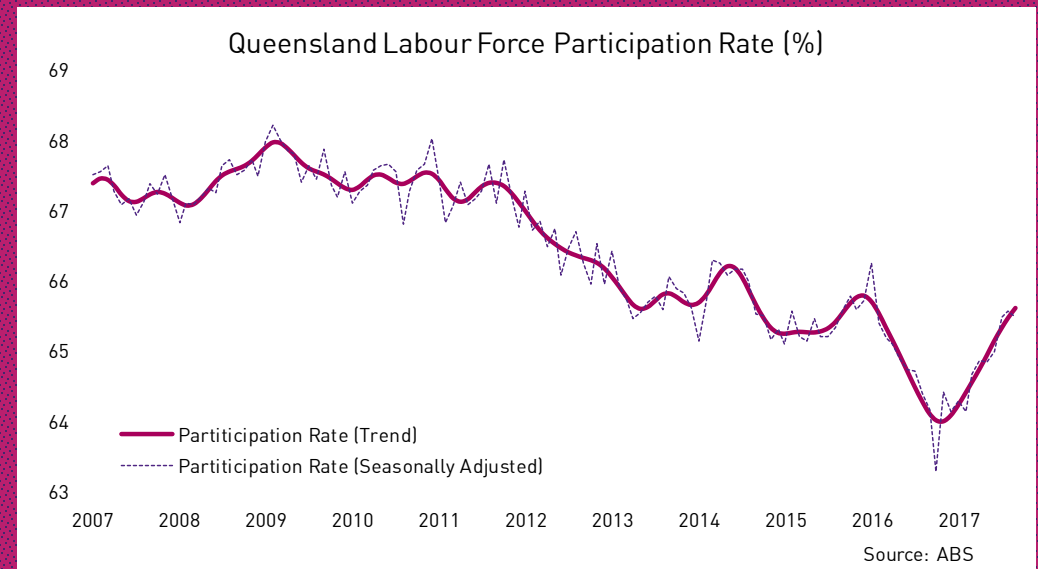
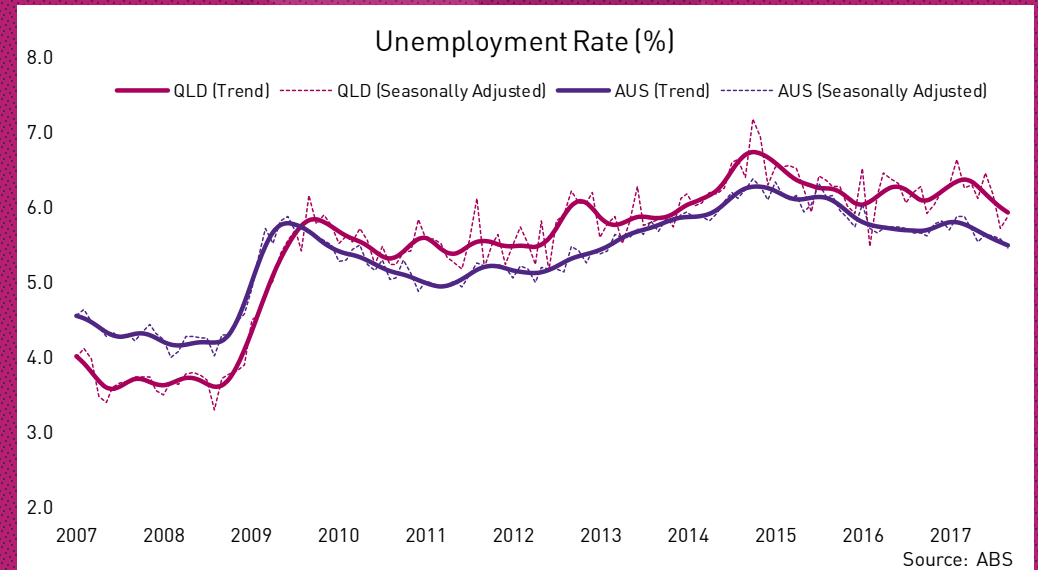
Queensland Economic Data: Labour Force

Employment growth soaring following catch-up from weak 2016

Queensland's labour market added a further 7,500 jobs during September, taking the **total number of jobs added in the past twelve months to 96,000**. The annual rate of jobs growth reached of 4.1% - assisted in part by the poor performance of the labour market during 2016.

The strong jobs growth has reduced the unemployment rate to 5.9%, the **first time unemployment has been below 6% since November 2013**. However, the Queensland unemployment rate still remains above the national unemployment rate.

Rising workforce participation following a long trend decline is another positive aspect of the jobs story. The participation rate has rebounded following a 2016, rising 1.4 percentage points during 2017 to 65.5%.



Economic Data – Construction Activity

Dwelling
Approvals

3,495

-5.3% (Sep 2017)

Source: ABS

Dwelling
Commencements

43,284

-12.4% (2016/17)

Source: ABS

Dwelling
Completions

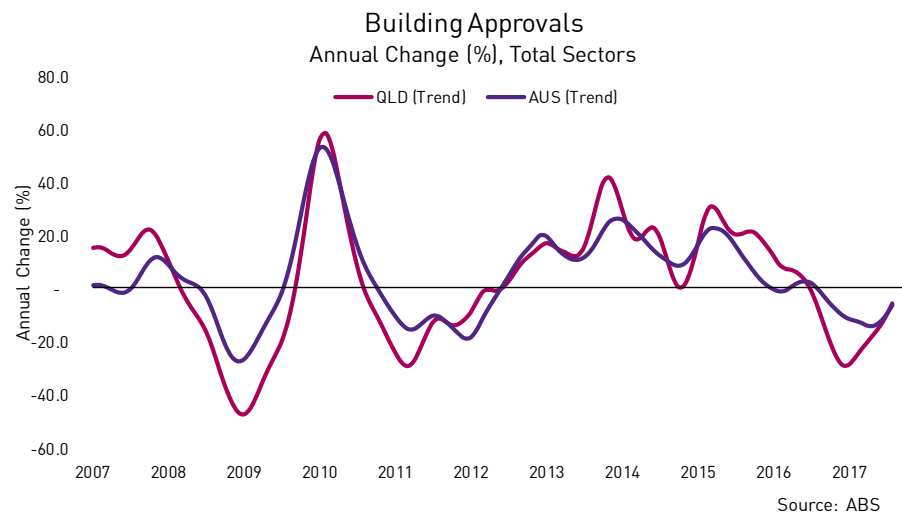
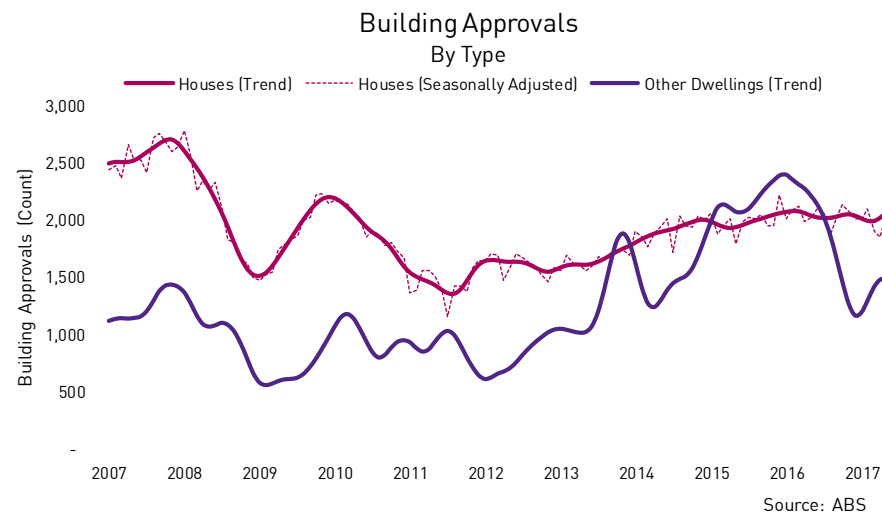
48,151

+24.0% (2016/17)

Source: ABS



Queensland Economic Data: Building Activity



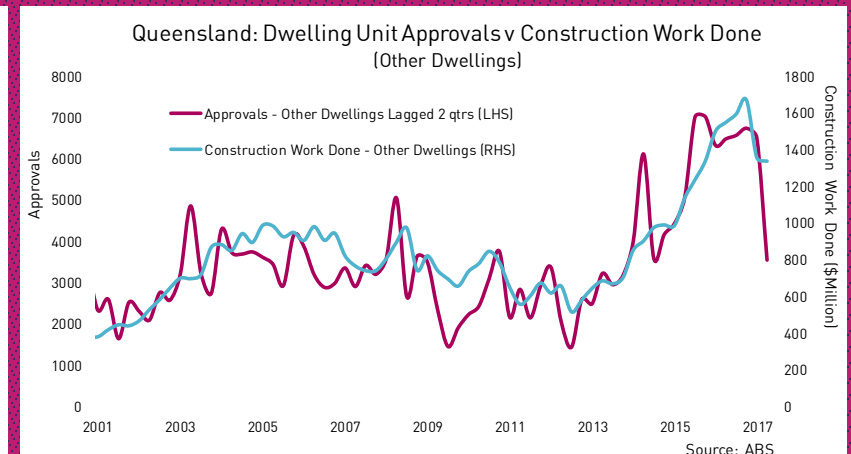
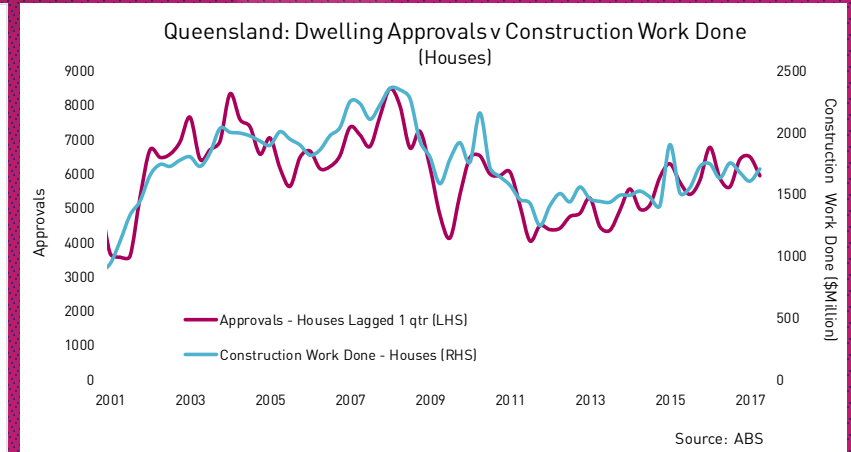
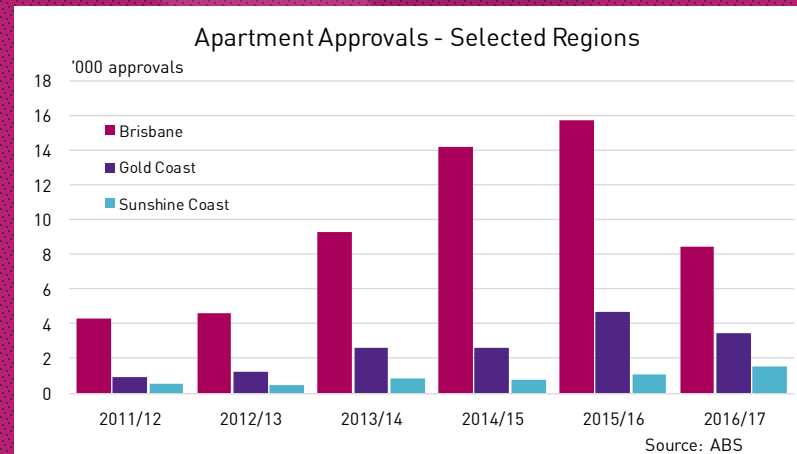
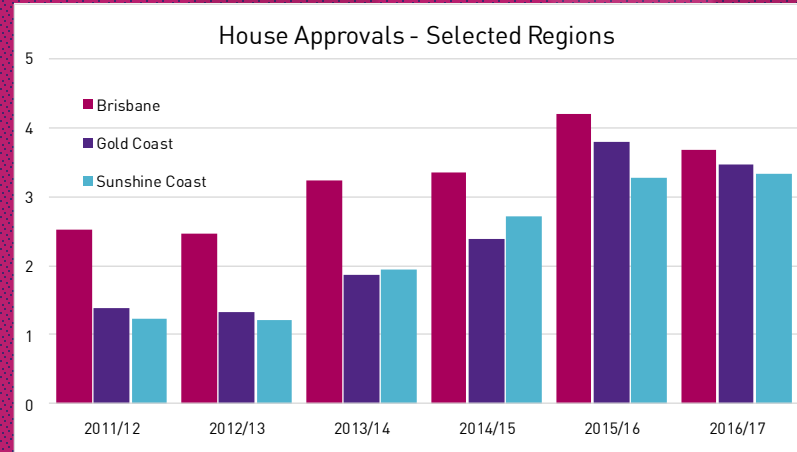
Building Approvals

- Since peaking in January 2016 at 4,458 approvals, the level of monthly approvals fell to a trough of 3,190 in December 2016. Approvals have stabilized during 2017, led by gains in the detached house segment.
- The number of building approvals declined 0.5% during September to 3,495 approvals. The level of approvals has fallen 21.6% since the peak.
- The trend for Queensland approvals follows the along the same lines as national trends. Nationally, approvals peaked in early 2016, before falling to a trough in January 2017.
- National level approvals have been rising throughout 2017 with both houses and apartments contributing to the improvement.

Queensland Economic Data: Building Activity

Residential Construction

- As the number of building approvals have declined, so too has residential construction activity.
- On a quarterly basis, the apartments segment of the construction market has declined through the first half of 2017 and is 12% weaker on an annual basis as at the June quarter.
- Given the reduced number of apartment approvals, new residential construction work is not expected to stabilise until the middle of 2018.



Queensland Economic Data: Building Activity

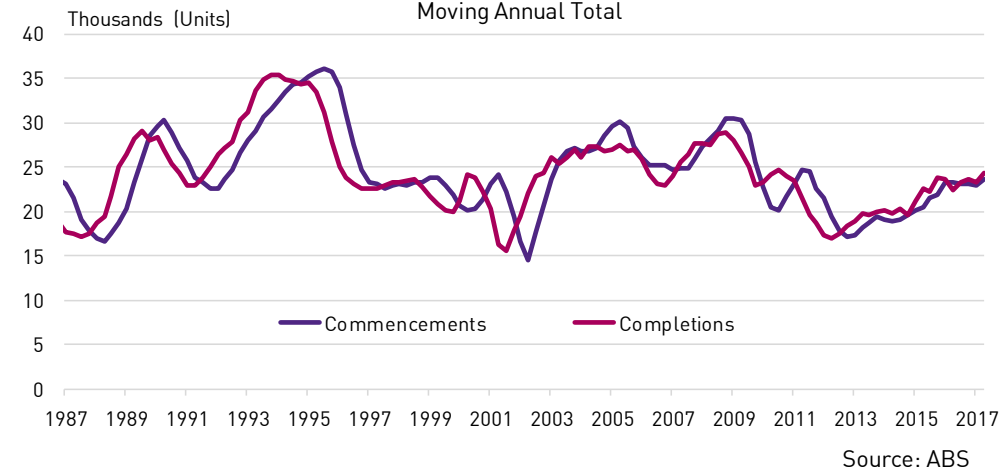
Shrinking pipeline of building activity

The number of new housing completions reached 48,150 during the 2016/17 financial year, the highest level since the early 1990s. Completions were even split between the house and apartment segments.

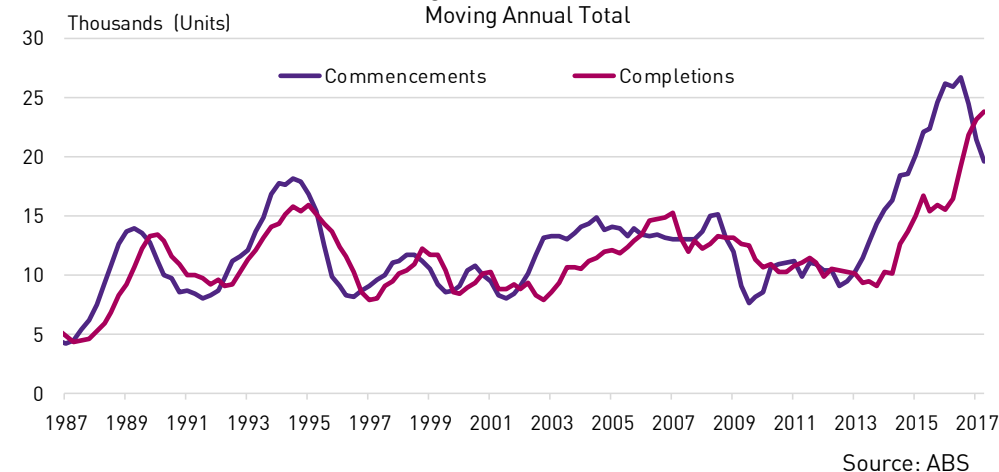
During the December 2016 quarter, the construction market reached a tipping point – completions began to exceed new commencements. This means the pipeline of future construction work is falling.

The number of dwellings under construction fell by 2,231 to 36,000 dwellings during the June quarter. At the end of the June quarter, there were 8,600 new houses and 27,400 apartments under construction.

New Houses Construction - Queensland
Moving Annual Total



Other Dwellings Construction - Queensland
Moving Annual Total



Queensland Economic Update: Engineering Construction



Infrastructure investment stabilised during 2016/17

Following the end of the mining investment boom in 2013/14, engineering construction activity slumped 60% over the next two years. Overall, the level of construction activity fell from a peak of \$45.8 in 2013/14 to a low of \$18.4 billion in 2015/16.

Engineering construction activity stabilised during 2016/17, rising by 1.2% to \$18.6 billion. Stronger investment in transport and telecommunications infrastructure helped offset the continuing declines in mining investment.

An improvement in new project commencements has fed through to higher levels of construction work done. The value of new projects hit a decade low of \$12.4 billion in 2014/15 but the infrastructure market has picked up pace with new commencements worth \$19.1 billion during 2016/17.

The recent improvement in commencements has occurred across most infrastructure segments. The pipeline of committed work to be completed is valued at \$50.1 billion – the equivalent of over two years of the current level construction activity.

Queensland Economic Data: Engineering Construction

Infrastructure construction falls below long-term trend

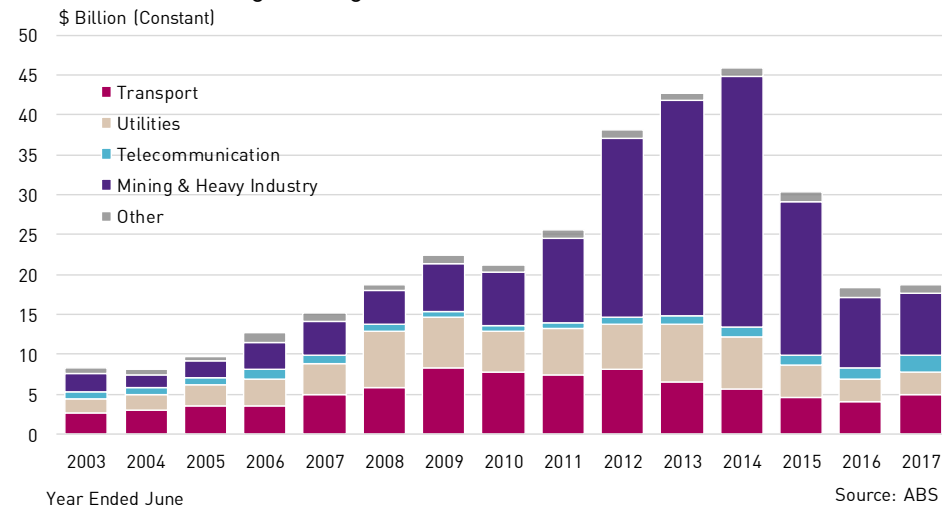
The current levels of investment are on par with construction work that took place a decade ago - although the composition of sectors has changed quite significantly.

Mining investment makes up a greater share of Queensland's infrastructure investment, while the proportion of public investment in transport and utilities infrastructure has declined over time.

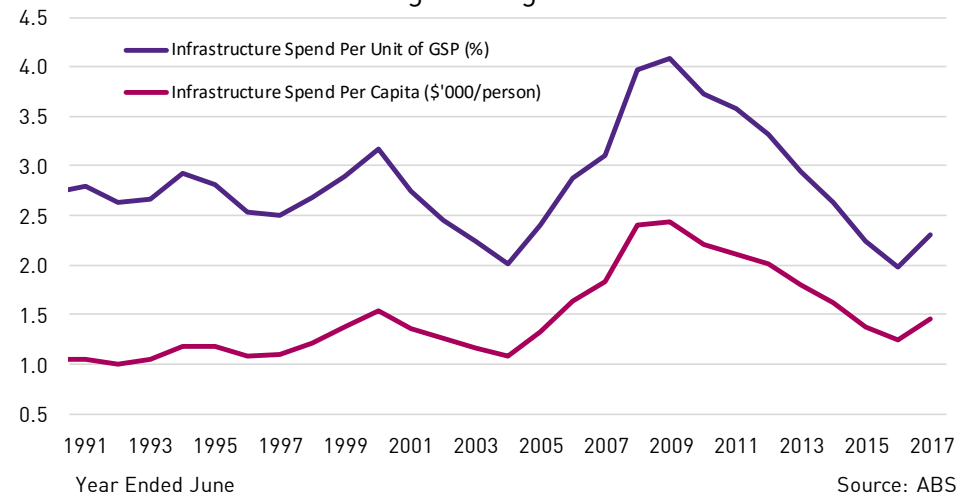
Weak levels of public infrastructure investment is another factor behind the recent sluggish levels of engineering construction.

When public infrastructure activity is benchmarked against the size of the state economy and the size of the population, investment has fallen to decade-long lows. During 2016/17, publicly funded infrastructure investment lifted, supported by projects such as the NBN, the Toowoomba Second Range Crossing and the Gateway Upgrade North road project.

Engineering Construction Work Done



Public Engineering Construction



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