

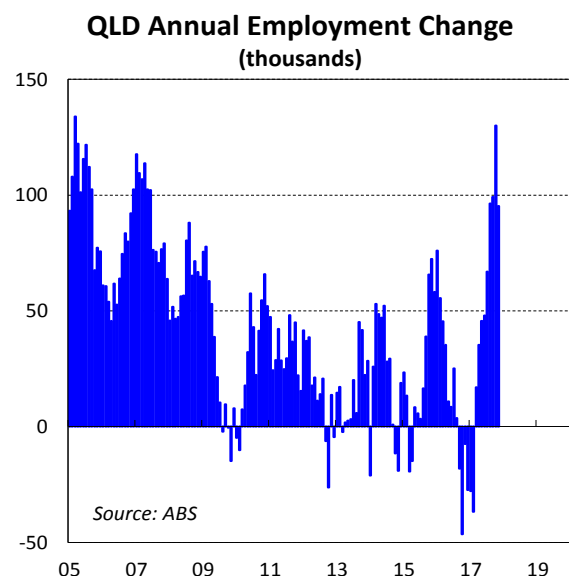
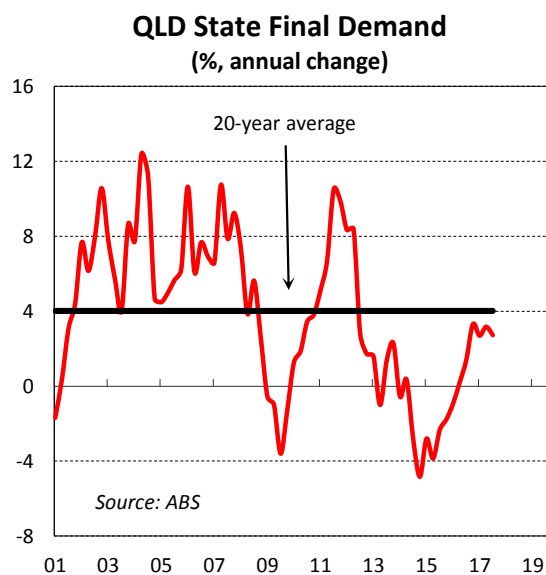
State Economic Outlook

Thursday, 21 December 2017

QLD Economic Outlook

Summary

- Queensland's economy has been subdued over the past couple of years, as declining commodity prices and a sharp slowdown in mining investment weighed on growth. However, the tide has turned and Queensland's economic growth has picked up. Business investment has gained momentum and commercial construction has strengthened. Employment growth has been robust over the past year, although retail sales growth has slowed. Low interest rates, a low Australian dollar and a pickup in population growth are among factors supporting Queensland's economic growth.

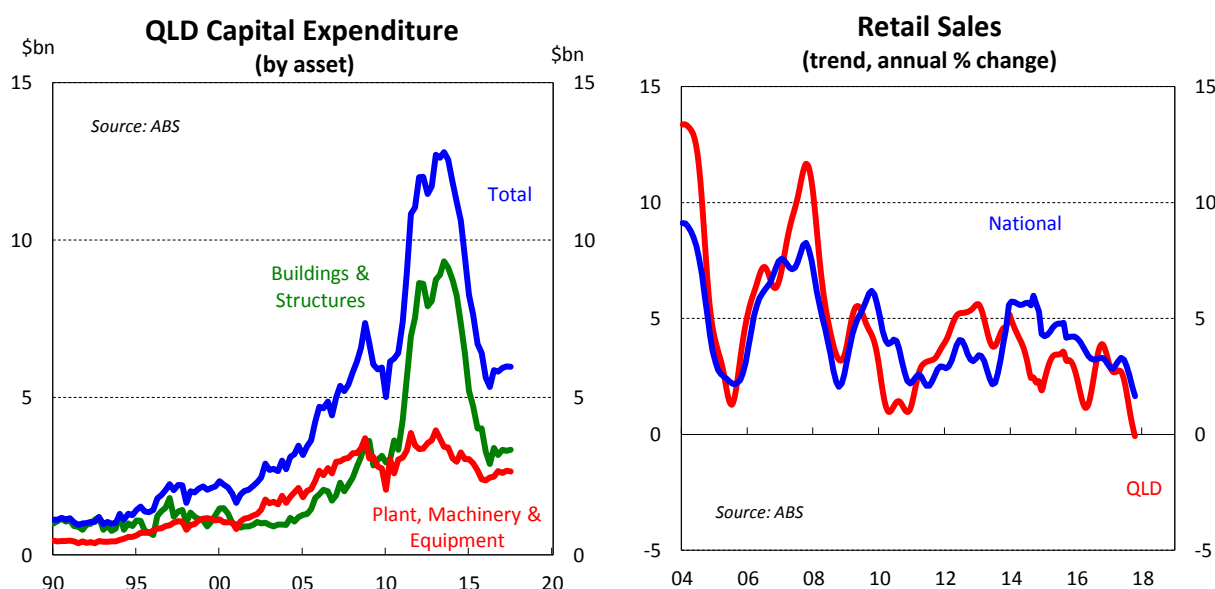


Key Points:

- Gross State Product (GSP)**, the broadest measure of Queensland's economic growth, rose by 1.8% in 2016-17, following growth of 2.6% in 2015-16. The pace of growth in the latest financial year is below the 10-year average of 2.4%. The weak growth in recent years reflects the unwinding of mining investment which has run its course, the impact of Cyclone Debbie (from earlier this year) and a slowdown in housing construction from lofty levels. However, a boost from growing export volumes is expected to kick in strongly in 2018. We expect GSP to grow by 2.9% growth in 2017-18 and 3.2% growth in 2018-19.
- State final demand** rose 2.7% in Queensland in the year to September 2017. This is an improvement on the increase of 1.4% recorded in the year to September 2016, and above the ten-year average

rate of 2.1%. State final demand is a more regular measure of economic growth than gross State product. However, it excludes the international trade sector.

- Economic activity in the September quarter was subdued, with government investment detracting from growth and household consumption remaining unchanged in the quarter.
- The unwinding of the mining investment cycle hurt economic activity significantly in the Queensland economy over recent years. However, we have now approached a new phase in the cycle. The three major LNG projects wrapped up last year meaning that the mining investment downturn has ended. Further, while the **prices for coking coal** have fallen from the April peak of US\$314 a tonne, they have not revisited their lows of around US\$73 a tonne in late 2015, providing some support to incomes. The current price sits at about US\$236 a tonne.
- **Engineering construction** peaked in 2013. Since then the value of work done has slid sharply. The most recent two quarters, however, showed an increase in engineering construction in Queensland. For the year to the September quarter, engineering construction increased by 9.5%.



- Outside of the LNG sector, the giant Indian conglomerate, Adani, is continuing to proceed with the **multi-billion dollar Carmichael Coal development**. The financing of the project is still facing some challenges, although Adani says it plans to have financing in place by March 2018, pushing out its earlier deadline. Adani's mine project, if it were to proceed to full scale, would be the largest-ever coal mining development in Australia and the biggest export coal project in the world, involving a series of open cut mines and underground pit with a capacity of 60 million tonnes a year.
- **Business investment** has picked up in recent quarters as it regained its footing from the unwinding of mining investment in recent years. Business investment in Queensland has increased for three consecutive quarters. For the year to the September quarter 2017, business investment rose by 7.9% in Queensland, which is equal to the pace of business investment growth nationally over that period.
- **Commercial construction** has been strong, led by a booming tourism sector, as international visitors continue to flock to the Sunshine State in record numbers. The rise in tourist numbers is flowing through to project activity in Queensland. There are a large number of developments underway or under consideration. These include the \$5 billion Airlie Beach resort, the redevelopment of Great Keppel Island resort and the Aquis Great Barrier Reef project – the latter two projects valued at \$2

billion. Queensland is home to almost two-thirds of all hotel and resort developments across Australia, however, most of these major projects remain in just the planning stages for now.

- Elsewhere, **a number of projects have recently completed**. These include the Sunshine Coast University Hospital and the Gold Coast Sports and Leisure Centre ahead of the Commonwealth Games.
- **International visitor numbers** to Queensland have eased over the past year. Short-term arrivals fell 7.6% in the year to September, although annual arrivals to Queensland remain close to the record high reached in the year to August. Arrivals have been lagging behind some other States, however, with arrivals to Victoria exceeding those to Queensland in annual terms since April 2015. The low Australian dollar (compared to early 2013) has boosted Queensland tourism in recent years.
- The growth in **housing construction** has slowed over the past year. Forward-looking indicators suggest this slowing is likely to continue. In the national accounts data, new dwelling investment in Queensland has contracted in three out of the past six quarters and is down 6.8% for the year to the September quarter. Indeed, dwelling investment has swung from being a driver of growth to a detractor from growth. **Residential building approvals** slumped 5.3% in the year to September in trend terms, which suggests construction will slow further.
- **Lending** for owner occupiers in Queensland fell 3.0% in the year to October, compared to an increase of 2.4% nationally over the same period. The number of owner-occupier loans has averaged just above its 10-year average over much of the past year. However, it has dropped just below that level in September and October. The value of lending for housing investors slumped 23.4% in the year to September, which was the largest decline of all the States. In Queensland, the average value of investor housing lending comprised 31% of the value of all housing lending in the year to September. That share is not as high as in some States like NSW.
- **Dwelling prices** have also cooled in Brisbane. According to CoreLogic, Brisbane dwelling prices grew at an annual pace of 2.4% in the year to November, down from a recent peak of 5.9% in January 2016. This compares to national capital city dwelling price growth of 5.5% in the year to November, with strength driven by Hobart, Melbourne and the ACT. Brisbane house prices are up 3.2% in the year to November while unit prices fell 1.2%. Unit prices are more vulnerable, especially in the inner ring areas of Brisbane.
- The **rental market for greater Brisbane** has tightened slightly, with the vacancy rate edging down to 2.8% in latest available quarter of data. Rental markets are tighter in the Gold and Sunshine Coasts.
- **Population growth** is picking up in Queensland, which should help underpin some demand for housing, as well as broader consumer demand. The latest data shows that the annual population growth rate is 1.6% for the year to the March quarter. Higher dwelling prices in Sydney and Melbourne means some people are likely to move to Queensland for more affordable housing, especially as the Queensland economy improves and jobs with it.
- The **labour market** in Queensland has improved significantly in the past year, consistent with a broader economic recovery in the State. Indeed, in the year to November, Queensland added 95,300 jobs. Annual employment growth was 4.0% in November in Queensland, which is above the long term (20-year) average of 2.3%. It compares to annual employment growth of 3.2% nationally

over the year to November. The unemployment rate in Queensland is 5.9%. It has declined only marginally over the past year (from 6.0% in November 2016), despite robust jobs creation. The increase in jobs in Queensland was absorbed by more workers entering the jobs market, as reflected in an increase in the workforce participation rate from 64.5% in November 2016 to 65.9% in November 2017.

- Despite the recent pick up in jobs, growth in **retail spending** in Queensland has been downcast in recent months. For the year to October, retail sales in Queensland dipped 0.2%, down from a recent peak of 4.4% growth in the year to October 2016. It sits well below the long-run average of 3.7%, and below national growth rate of 1.8%. Wages growth was just 2.2% in the September quarter, slightly above the 2.0% rate for Australia. **Consumer sentiment** lifted in Queensland in December to 103.8, from 96.1 in November, according to the Westpac-Melbourne Institute survey. This reading was the highest in over a year and above the 100.0 mark, signaling more consumers are optimistic than pessimistic.

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