QEFC
Qld Economic Update

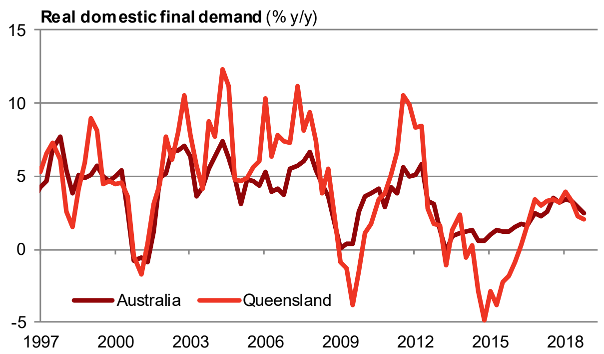
WHAT DID THE 2018Q4 STATE FINAL DEMAND DATA TELL US?

March 2019

General themes

After a year of declining momentum in domestic demand growth in Queensland and nationally, the December 2018 quarter saw the Queensland economy buck the trend. Queensland's state final demand (a measure of domestic economic performance that doesn't include international trade) rebounded by 0.9% q/q in Q4 after falling -0.2% q/q in Q3, even as Australia-wide domestic demand continued to lose steam (with growth of just 0.3% q/q in Q4).

Quarterly national accounts data can be volatile at a state level, and indeed the positive Q4 data follows two weak quarters for Queensland. What has become clear when stepping back from the quarterly movements, however, is a consolidation of growth in Queensland, after the collapse in mining capex and growth in state final demand has stabilised back at around the national average (Figure 1).



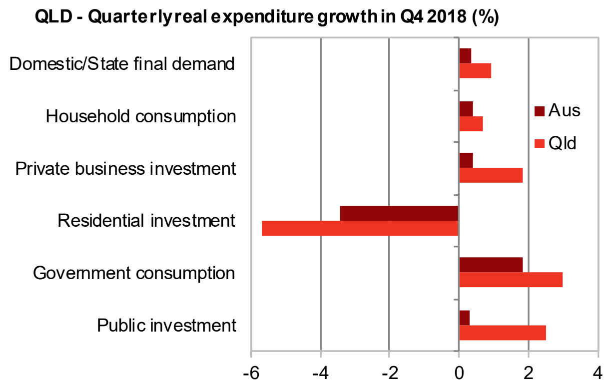
Source. ABS

Figure 1. Real domestic final demand

While it is encouraging that growth in the Queensland economy has been tracking national growth over the last couple of years, it must be remembered that the Australia-wide, hence Queensland, trend is now on the decline.

The release of the 2018Q4 data also reveal other key economic trends in Queensland; some of which contrast to trends in other states and on a national level. A key feature of the 2018Q4 report on the Queensland economy is, as mentioned, that it not only outperformed the national average, it did so in a very convincing manner.

So, what caused the outperformance of the Queensland economy in Q4? As Figure 2 shows, the outperformance was across the board, with the exception of residential investment.



Source. ABS

Figure 2. Components of real domestic final demand

The government sector underpinned growth in Queensland, with government consumption and investment both growing strongly on a quarterly and annual basis. This echoes the strength in government spending that has been seen in New South Wales and Victoria.

But while the southern states continue to see strong growth on an annual basis, momentum in government spending has softened in the last two quarters. In contrast, momentum in Queensland is building, with the state government planning a ramp up in infrastructure spending over coming years.

Private investment also supported Q4 growth in Queensland. The Q4 data was supported by strong growth in machinery and equipment, which helped offset continued weakness in both the new building construction and new engineering construction components of non-dwelling construction.

While a definitive trend in private investment is yet to be established, looking over 2018, it appears that businesses are investing in machinery and equipment, but are yet to commit to new building capex.

A trend that is clearly being established over 2018 is a decline in dwelling investment, which continued in the last quarter of 2018 and consistent with the negative housing trends seen Australia-wide.

Finally, household consumption growth recovered somewhat in Q4 and outpaced the national average (which was weighed down by a particularly poor result in NSW). This possibly reflects less severe house prices declines (and associated wealth effects) in Queensland than in NSW, Vic and WA, as well as continued tailwinds from exceptionally strong Queensland employment growth over 2017/18, where annual employment growth averaged around 4%.

Other themes

Beyond the headline national accounts data, a number of other thematics are emerging in the Queensland economy.

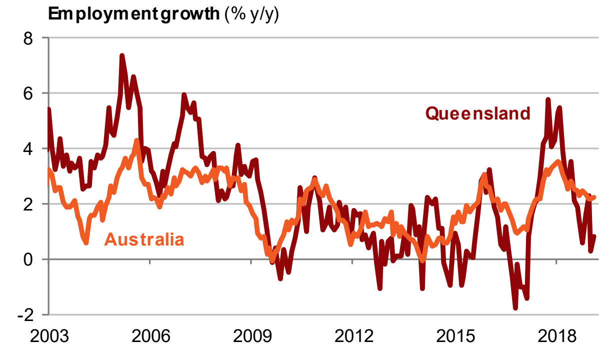
Government spending. As mentioned, public sector spending has been rising strongly, partly aided by an improvement in the Queensland Budget position thanks to upgrades in royalty revenue from higher coal prices. As well as supporting growth directly, the uptick in government spending is consistent with a trend of strong employment growth seen in government-related sectors in recent years, particularly health (which has also been supported by the ongoing roll-out of the NDIS).

Non-mining export industries. The fall in the Australian dollar and moderation in unit labour costs are boosting Queensland's non-mining export industries. Tourism and educational services, which account for about 12% of the Queensland economy, have been experiencing double digit growth.

These sectors are also benefitting from broader trends, such as a secular rise in emerging Asian demand (boosting overseas tourism and education services); increases in aviation capacity, including direct routes from Asia to Australian destinations; and competitive prices (especially in educational services compared with the US and UK).

Employment. Trends in public spending and non-mining export activity have also been reflected in labour market data; with strong employment growth in industries such as: health; education; accommodation & food services; and manufacturing.

Across the state, employment growth has moderated over 2018 and into the first months of 2019 from the stellar performance of 2017. Nonetheless, the Queensland economy continues to add jobs and the unemployment rate is gradually declining (Figure 3).

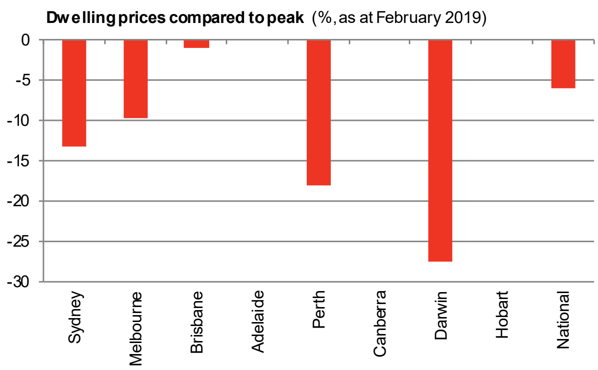


Source. ABS, QIC

Figure 3. Employment growth

Housing. As in the rest of Australia, the Queensland housing market is experiencing a downturn and growth in dwelling investment has been strongly negative over 2018, shaving around 0.4 percentage points from year-ended GSP growth. While Queensland house prices have declined, they have held up much better than their southern state counterparts of Sydney and Melbourne.

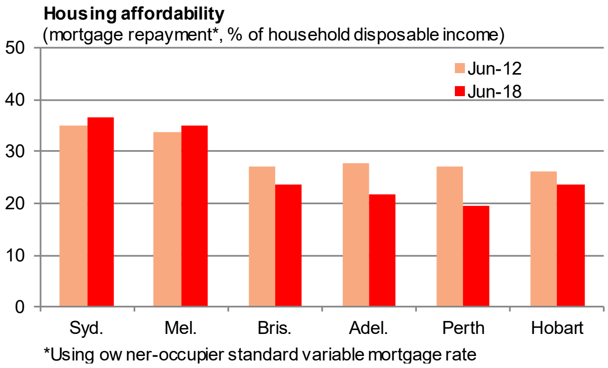
Brisbane house prices have fallen by 1% from their April 2018 peak, compared to a 13.2% fall in Sydney, from its mid 2017 peak, and a 9.6% decline in Melbourne prices, since their peak in late 2017 (Figure 4).



Sources. CoreLogic

Figure 4. Dwelling prices: peak to trough

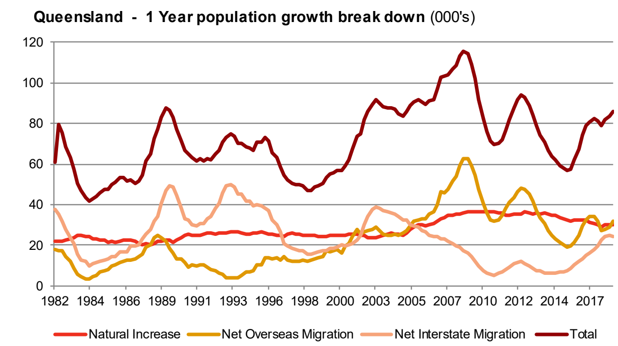
Even with such large relative falls in Sydney and Melbourne, Brisbane housing remains affordable with the interest payments on an average house as a share average household disposable income close to 30% in Queensland, but greater than 30% in Sydney and Melbourne (Figure 5).



Sources. CoreLogic, ABS, QIC

Figure 5. Housing affordability

Population. Coinciding with the pick up in economic activity and employment since the end of the mining downturn, population growth has recovered to 1.7% annual growth, outstripping the national average. As the Queensland economy has been generating jobs, and as housing has become increasingly less affordable in Sydney and Melbourne, net interstate migration, which had almost fallen to zero growth, has recovered and the state is now attracting 24k interstate migrants per annum (Figure 6).

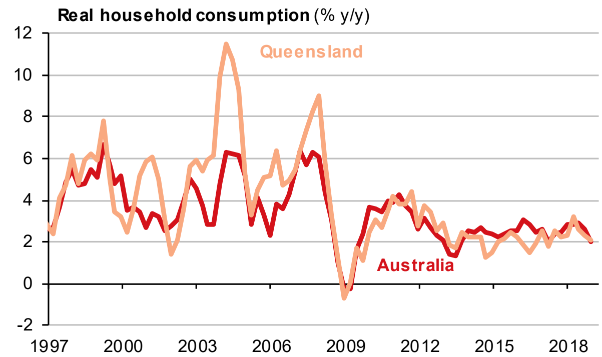


Source. ABS

Figure 6. Population growth

This is matched by around 30k international migrants per annum and natural increase also of around 30k.

Consumer spending. Growth in household consumption had been trending slightly higher from 2016 to early 2018, reflecting the broader recovery in Queensland's economy. However, notwithstanding a small rebound in quarterly growth in Q4, Queensland's consumer sector remains under pressure from many of the same headwinds affecting households across Australia, such as low wage growth, high debt-to-income ratios and uncertainty over the outlook for the housing market (Figure 7).



Source. ABS

Figure 7. Real household consumption

Real household consumption growth in Queensland therefore remains below trend, and well below historical averages. Reflecting the constrained fundamentals for the consumer, growth in nominal retail sales has been trending lower Australia-wide over the past several years, though had seen some stabilisation over 2018, before weakening in December and January

IMPORTANT INFORMATION

QIC Limited ACN 130 539 123 (“QIC”) is a company government owned corporation constituted under the Queensland Investment Corporation Act 1991 (Qld). QIC is regulated by State Government legislation pertaining to government owned corporations in addition to the Corporations Act 2001(Cth) (“Corporations Act”). QIC does not hold an Australian financial services (“AFS”) licence and certain provisions (including the financial product disclosure provisions) of the Corporations Act do not apply to QIC. Please note however that some wholly owned subsidiaries of QIC have been issued with an AFS licence and are required to comply with the Corporations Act.

QIC, its subsidiaries, associated entities, their directors, employees and representatives (“the QIC Parties”) do not warrant the accuracy or completeness of the information contained in this document (“the Information”). To the extent permitted by law, the QIC Parties disclaim all responsibility and liability for any loss or damage of any nature whatsoever which may be suffered by any person directly or indirectly through relying on the Information, whether that loss or damage is caused by any fault or negligence of the QIC Parties or otherwise. The Information is not intended to constitute advice and persons should seek professional advice before relying on the Information.