

Following a natural disaster affected March quarter 2011, Queensland's domestic economy recovered somewhat in the June quarter. Seasonally adjusted (sa) state final demand (SFD) rebounded 3.5% in June quarter 2011, following an upwardly revised March quarter 2011 rise of 0.8% (see Table 1).

Numbers discussed below are sa real terms unless otherwise noted.

Queensland recorded the strongest growth in sa SFD in the quarter of any state or territory (see Table 2), and also contributed to over 90% of national growth in domestic final demand (which was 0.7%).

Growth in SFD was driven by *business investment*, which rose 21.4% in the quarter, the fourth quarterly increase in the past five quarters. New engineering construction rose 29.1% in the quarter, following a rise of 26.9% in the previous quarter, to be notably above any previous peaks. Machinery and equipment investment rose 16.5%, while new non-residential building investment rose 7.6%. Queensland's growth in business investment vastly outpaced that recorded nationally (2.2%) in the June quarter, likely reflecting the ramp-up of construction activity in Queensland's burgeoning LNG sector. With a raft of projects in Queensland's investment pipeline, growth in business investment is expected to remain strong in the short-to-medium-term. This quarter's results clearly show that the significant surge in business investment, which was forecast to drive the Queensland economy in the 2011-12 State Budget, is well underway.

Table 1: Queensland's state final demand
(June quarter 2011, sa)

	% Change		Contribution to SFD Growth	
	quarterly	annual	quarterly	annual
Chain Volume Measures*				
Private Final Demand	4.9	7.4	3.7	5.6
Household Consumption	0.7	3.3	0.3	1.7
Private Investment	14.4	16.7	3.4	3.9
Dwelling Investment	1.8	-19.4	0.1	-1.4
New Dwellings	-3.6	-27.7	-0.1	-1.1
Alterations and Additions	8.1	-8.7	0.2	-0.3
Business Investment	21.4	41.0	3.2	5.4
Machinery and Equipment	16.5	19.2	1.1	1.3
New Engineering Construction	29.1	90.1	1.7	3.7
New Non-Residential Buildings	7.6	1.6	0.2	0.0
Public Final Demand	-0.8	0.2	-0.2	0.0
General Govt. Final Consumption	0.7	5.3	0.1	0.9
National	0.3	11.8	0.0	0.6
State and Local	0.9	2.6	0.1	0.3
General Govt. Investment	-2.4	-6.7	-0.1	-0.4
National	11.7	10.2	0.1	0.1
State and Local	-6.2	-11.1	-0.3	-0.5
Public Corporation Investment	-8.5	-17.4	-0.2	-0.4
National	-2.0	57.4	0.0	0.1
State and Local	-8.9	-20.5	-0.2	-0.5
State Final Demand (SFD)	3.5	5.7	3.5	5.7
Overseas Exports of Goods	6.9	-16.8	n.a.	n.a.
Overseas Imports of Goods	1.9	3.6	n.a.	n.a.

* Reference year for chain volume measure is 2008-09. Chain volume measures are not strictly additive. As such, there may be discrepancies associated with calculations based on the sum of components.

Dwelling investment rose by a modest 1.8% in June quarter 2011, driven by an 8.1% rise in alterations and additions. However, new dwelling construction investment fell 3.6% in the quarter, to be at its lowest level since September 2001. Further weakness in new dwelling construction investment likely reflected the lagged impact of increased interest rates and tight credit conditions, as well as an easing in population growth and softening house prices (which has subdued investor sentiment).

Household consumption growth in Queensland weakened slightly in June quarter 2011 (from 0.8% last quarter to 0.7%), to have now

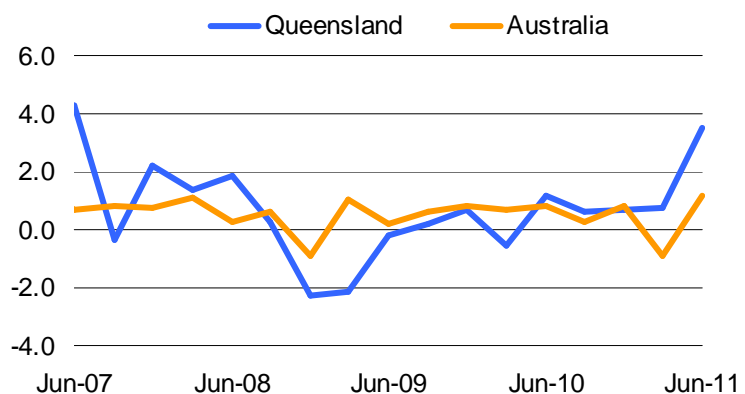
grown below the long-run average growth in each of the past 14 quarters. Higher consumption was driven by categories including health (up 3.9%), food (up 1.3%) and rent and other dwelling services (up 0.8%). The categories of vehicle purchases (down 3.8%) and insurance and other financial services (down 1.0%) detracted most from consumption growth. The recent modest growth in household consumption has likely been affected by the lacklustre dwelling investment sector, as consumption benefits from the increased expenditure associated with spending on household items for new dwellings. Further, high interest rates (with the standard variable home lending rate around 7.8%), subdued employment growth, as well as lower asset prices, have likely had a negative impact on consumer confidence and hence spending.

Overseas exports of goods rebounded in June quarter 2011, up 6.9%, following the natural disaster effected March quarter 2011 revised contraction of 14.2%. However, exports in nominal terms were still 9.8% lower than their recent peak reached in June quarter 2010, partly reflecting the high A\$ dampening the returns to many exporters that trade in US\$ terms (predominantly commodities exporters). Export volumes are expected to recover further in coming quarters, with the impacts of the floods still disrupting some coal production as at mid-2011. *Overseas imports of goods* rose 1.9%, and hence continue to detract from gross state product. The strength in imports growth partly reflects the high A\$, which has made imports cheaper, as well as the large amount of business investment projects currently underway which have resulted in an increased quantity of imported capital needed to facilitate development.

Table 2: Interstate SFD/DFD Growth Comparison
(June quarter 2011, CVM)

	Trend		Seasonally Adjusted	
	Quarterly %	Annual %	Quarterly	Annual %
	Change	Change	% Change	Change
New South Wales	0.2	1.8	0.2	2.1
Victoria	0.8	2.5	0.6	2.3
Queensland	1.8	4.8	3.5	5.7
South Australia	0.6	2.3	2.0	2.7
Western Australia	2.3	7.7	1.0	6.6
Tasmania	-0.1	2.1	-0.5	2.0
Australia	0.9	3.5	0.7	3.4

Chart 1: Real State/Domestic Final Demand
(quarterly % change, sa)



Explanatory note: The Queensland State Accounts provide a comprehensive quarterly estimate of Queensland gross state product by incorporating additional data on interstate trade in goods and services including tourism transactions. The Queensland results from the ABS *Australian National Accounts: National Income, Expenditure and Product* report only state final demand and international trade in goods.