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Highlights of this issue

A second article in the series of articles on China appears in this issue of the Queensland Economic Review. This article examines the modern Chinese economy, including its international trade, and details the economic challenges faced by China. A third article will look at the relationship between Queensland and China and the implications for Queensland of the growth of the Chinese economy.

This issue also includes a feature article on Queensland’s services sector. The article discusses the economic significance of the State’s services sector, including its contribution to output, employment and trade, and provides an outlook for the sector. The services sector contributed 71% of Queensland’s total output in 2003-04 and employed 84% of the State’s workforce.

The usual detailed updates on the Queensland, national and international economies are also included in this issue. The Queensland economy continues to perform solidly, with gross state product growing by 1.1% in December quarter 2004 and 4.4% over the year. Consumption and investment remain solid, while employment growth continues to rise.
In its Statement on Monetary Policy of 6 May 2005, the Reserve Bank of Australia (RBA) altered its assessment of future inflationary pressures. In the February Statement, they had forecast annual underlying inflation to increase to around 3% by the end of 2006, but with upside risks associated with that forecast. In the most recent Statement, the RBA believes that those upside risks had receded, partly as a result of the increase in official interest rates in March.

Official interest rates were left unchanged in both April and May. The RBA stated that this was because there were some tentative signs of a slowing in domestic demand emerging, such as a moderation in both consumer and business confidence, and some further weakening in the housing market. With the current high level of household debt relative to GDP in the economy, the RBA acknowledged that small rises in interest rates may be having a relatively large impact, stating that “... it is possible that the most recent tightening could have a larger short-term impact on spending and sentiment than has typically been the case in the past”.

Despite signs emerging that domestic demand is in the process of slowing, the RBA remains concerned about capacity constraints in the Australian economy. The December quarter GDP result (whereby above-trend domestic demand growth was being met by increased imports and a run down in inventories), strong labour market conditions and high reported rates of capacity utilisation in business surveys were cited as evidence of such constraints. As a result, the RBA stated that, “Based on previous cyclical experience, it would be surprising if interest rates did not have to increase further at some stage of the current expansion”. 
International economy
The outlook for the international economy remains favourable, despite higher energy prices, with the United States, China and India continuing to record strong economic growth.

National economy
National economic growth remained subdued in December quarter 2004, with GDP rising by 0.3% in trend terms for the second successive quarter.

Exchange rates
Following an appreciation in late 2004, the $A depreciated through to March 2005 and traded in a range between US77¢ and US78¢ in April.

Bond and bill yields
After the cash rate was increased to 5.5%, 90-day bill yields increased to around 5.9% in late March, before easing back to around 5.7% by late April.

Queensland economy
Consumption and business investment continued to underpin strong growth in Queensland in December quarter 2004, with the performance of the trade sector also improving over the quarter.

Employment
Employment in Queensland grew by a further 1.5% (29,600 persons) in March quarter 2005, representing nearly 30% of national jobs growth.

Unemployment
The State’s trend unemployment rate fell to 4.5% in the March quarter, its lowest rate since the inception of the current ABS series in 1978.

Job vacancies
Job vacancies, according to both the ANZ and DEWR measures, declined over the year to March quarter 2005, suggesting jobs growth will ease slightly from the high rates recorded in 2004.

Employment by industry
Queensland job gains were largest in the retail, construction and manufacturing industries, reflecting the strength of consumer spending and the exports sector.

State economic growth
The Queensland economy recorded growth of 1.0% or more for the seventh quarter in a row in December quarter 2004, driven by high levels of consumer spending, business investment and housing activity.

Consumption
Growth in consumer spending eased further in the December quarter, but remained at a higher annual rate relative to the rest of Australia, driven by strong population growth and gains in household wealth.

Housing investment
Defying a downward trend in the rest of Australia, dwelling investment in Queensland rose by 7.0% over the year to December quarter 2004.

Business investment
Business investment in Queensland continued to surge in the December quarter, growing by 20.4% over the year and encouraged by strong world economic growth and increases in commodity prices.

Business conditions
According to the latest surveys, business conditions in Queensland eased in March quarter 2005, but are expected to stabilise or improve in the June quarter.

Agricultural and mining trends
Queensland’s coal mining sector continues to perform strongly, with production, exports and domestic sales reaching record levels in 2004.

Overseas merchandise exports
The nominal value of Queensland’s overseas exports of goods rose by 23.3% over the year to December quarter 2004, driven by growth in the value of coal and meat exports in particular.

Commodity prices
The weighted index of international prices for Queensland’s major commodity exports rose in both SDR and $A terms in March quarter 2005, by 2.9% and 1.1% respectively.

Tourism
Short-term visitor arrivals to Australia rose by 9.3% over the year to the March quarter, reflecting a stronger global economy and the passing of the major impact from previous terrorist events.

Inflation
Consumer prices in Queensland rose 0.8% in March quarter 2005, to be 2.6% higher over the year, driven by increases in house purchase costs and food prices.

Wages
The two main ABS measures of wages recorded strong annual growth in December quarter 2004, largely reflecting strong employment growth and tight labour market conditions.

Population
Population growth in Queensland moderated to 2.1% over the year to September quarter 2004 at 0.5%, with the State’s estimated resident population increasing by 78,600 persons to 3,899,600.
International and national economies

International economy

The outlook for the international economy remains favourable, despite higher energy prices. Some of the world’s major economies have experienced robust economic conditions over the past few years. This, combined with higher energy and commodity prices, has led to an increase in inflationary pressures in these economies, to the extent that monetary policy may be tightened over the course of 2005.

The outlook for the United States over 2005 remains positive, with Consensus Economics forecasting 3.7% growth over the year. If this forecast proves correct, it will be the second consecutive year in which US gross domestic product (GDP) growth has exceeded its trend growth rate. Strong business investment, housing construction and solid consumer spending underpin the growth forecast. In 2004 the US current account deficit was a record $666 billion, which saw the US dollar depreciate against most major currencies over the year, improving the outlook for exports, but also putting upward pressure on import costs. Against this backdrop, most analysts expect the US Federal Reserve to continue to raise official interest rates over the course of 2005, in order to contain inflationary pressures.

Due to a sharp slowdown in economic activity in Japan in late 2004, forecasters have generally become less optimistic about growth prospects in 2005. As a result, Consensus Economics forecasts economic growth in Japan to be 1.0% in 2005, following 2.6% growth in 2004. Most analysts expect quarterly economic growth to pick up over the course of 2005 and 2006, driven by stronger growth in private consumption and business investment, with growth expected to average 1.7% in 2006.

National economy

National economic growth remained subdued in December quarter 2004, with GDP increasing by 0.3% in trend terms for the second successive quarter. Economic growth eased throughout 2004, following strong quarterly growth of 1.3% in both the September and December quarters of 2003. Similarly, household consumption growth eased over the period, to be 0.8% in December quarter 2004. However, despite easing, household consumption remained the key driver of economic growth, contributing 0.5 percentage point to overall GDP growth.

Dwelling investment remained near historically high levels, despite declining 1.7% in the December quarter and 1.1% in the previous quarter. Business investment remained solid, rising 2.8% in the December quarter, the fifteenth consecutive quarter of growth. After declining 0.9% in the previous quarter, non-dwelling construction rose marginally (up 0.2%), while machinery and equipment investment rose 4.1%.

Total exports declined 0.4% in the December quarter, following a decline of 0.3% in the September quarter. Growth in imports continued to outpace exports, increasing 1.7% in the December quarter. Overall, net exports detracted 0.5 percentage point from GDP growth, marginally less than the 0.6 percentage point detraction recorded in each of the previous four quarters. Public final demand remained strong in the December quarter (up 1.1%), following growth of between 1.1% and 1.4% in each quarter since September quarter 2003.

Despite the considerable easing in economic growth over the 2004 calendar year, employment conditions remained fairly strong in March quarter 2005. Trend quarterly employment rose by 1.0% for the second quarter in a row, reducing the trend unemployment rate by 0.1 percentage point, to 5.1%.
**Exchange rates**

Following the sharp appreciation in late 2004, the $A has traded in a stable range in early 2005. After beginning the year at around US77.5¢, the $A appreciated by around US2¢ through February. This was triggered by very strong domestic employment data for January as well as a positive RBA Monetary Statement increasing expectations of a cash rate rise, which was delivered in early March. The $A fell back to around US77¢ in late March, after the US Federal Reserve Board raised official rates again and the $US strengthened. The $A generally traded in the range between US77¢ and US78¢ through April.

**Australian dollar**  
(daily; TWI: May 1970 = 100)  
Source: Datastream  

The $A generally firmed against other currencies between January and late April 2005, appreciating against the euro and the Japanese yen, but remaining steady against the British pound. As measured by the RBA’s Trade Weighted Index, the domestic currency rose by around 1% over the period.

The outlook for the $A over coming quarters will rely heavily on developments in the United States, with movements in the $A largely mirroring movements in the value of the $US. Recent data indicate that capital inflow into the United States has strengthened, suggesting that global investors find $US denominated assets attractive. This may allay concerns about the $US being able to fund a large current account deficit, and lend support to the $US. Meanwhile, continuing strong commodity prices and export volumes should sustain demand for the $A going forward and provide a solid base for the $US/$A exchange rate. Consensus Economics suggest that the $A will ease only slightly to around US76¢ over the coming year.

**Bond and bill yields**

Australian 10-year bond yields remained relatively steady through January 2005, then strengthened through February as markets priced in higher expectations of an official rate rise. After these expectations were met, yields rose higher through most of March as domestic economic data remained strong, particularly in relation to the labour market. Bond yields were also driven higher by market concerns surrounding the inflation outlook in the United States. Expectations of higher inflation and higher official rates in the United States drove US long yields higher, pushing Australian yields higher as well.

Interest rates at the short end of the yield curve also rose steadily through February as expectations of a cash rate rise were priced into short-end yields. After the cash rate was increased to 5.5% in early March, 90-day bank bill yields increased further to around 5.9% in late March, before easing back to around 5.7% by late April.

Current bill futures data suggest markets have priced in a moderate chance of a further increase in official rates by June. Long-end yields will continue to be heavily influenced by economic developments in the United States, with markets watching inflation data closely.

**Domestic interest rates**  
(%, daily)  
Source: Datastream
Overview

The domestic sector continued to drive overall growth in Queensland in December quarter 2004. Gross state product (trend) in Queensland rose by 1.1% in the December quarter, following 1.2% growth in the September quarter. In comparison, growth in the rest of Australia was subdued, at 0.1% during the quarter.

Queensland’s rebalancing in growth continued in the December quarter, with easing domestic activity being offset by an improvement in the trade sector. Consumer spending rose by 0.8%, representing an easing in growth for the fourth consecutive quarter and reflecting the passing of the major wealth effects from the housing boom. Defying the national trend, housing investment in Queensland continued to rise in the December quarter, increasing by 7.0% over the year, compared with a 1.5% fall in the rest of Australia. Encouraged by strong world economic growth and increases in world commodity prices, business investment in Queensland rose by 20.4% over the year, compared with 6.6% growth in the rest of Australia.

The trade sector continued to improve in December quarter 2004, detracting only 0.3 percentage point from growth, compared with a 2.0 percentage point detraction in December quarter 2003. Annual growth in Queensland exports strengthened to 4.5%, representing the highest growth rate since June quarter 2001 and reflecting large increases in coal and meat exports.

With economic growth remaining solid, trend employment in Queensland rose by 29,600 persons in March quarter 2005, accounting for nearly 30% of national jobs growth and reducing the State’s unemployment rate to a low of 4.5% for the quarter.

Employment

Employment growth in Queensland eased slightly in March quarter 2005, with employment increasing by 1.5% in trend terms, following growth of 1.7% in each of the previous two quarters. Queensland continued to record stronger jobs growth than the rest of Australia, where employment growth strengthened by 0.1 percentage point to 0.9% in the March quarter.

Queensland accounted for 29% of all jobs created nationally in the March quarter, with employment rising by 29,600 persons, compared with a rise of 71,500 persons in the rest of Australia.

Growth in part-time employment (up 16,600 persons) in Queensland exceeded the increase in full-time jobs (up 13,000 persons) in the March quarter. The rest of Australia recorded a greater increase in full-time employment (up 47,600 persons) than part-time employment (up 23,900) in the quarter.

Unemployment

Queensland has recorded annual jobs growth above 3% in each quarter since March quarter 2002. This has pushed the State’s unemployment rate in March quarter 2005 to its lowest level since the inception of the current ABS series in 1978.

The State’s trend unemployment rate has fallen from a recent high of 8.7% in June quarter 2001 to 4.5% in March quarter 2005. In comparison, the rate for the rest of Australia fell 1.2 percentage points to 5.2% over the same period. As a result, Queensland’s unemployment rate in the March quarter was lower than that in the rest of Australia by 0.7 percentage point.

The State’s unemployment rate has fallen in each quarter since September quarter 2001, with employment growth exceeding labour force growth during this period.

Queensland’s labour force growth (1.1%) in the March quarter was driven by civilian population growth of 0.5%, as well as a 0.4 percentage point increase in the trend participation rate to 66.0%, its highest level in the current series.

In comparison, the labour force in the rest of Australia grew by 0.8% in the March quarter. Labour force growth in the rest of Australia was driven by civilian
population growth of 0.2% and an increase of 0.4 percentage point in the participation rate to 63.8% in the quarter.

Unemployment rate
(%, quarterly average, trend)

Source: ABS 6202.0

Job vacancies

The trend number of job advertisements in Queensland, as measured by the ANZ Job Advertisement Series, fell 5.1% in March quarter 2005, while in annual terms job advertisements decreased by 1.3%. Nationally, job advertisements declined by 1.9% in the March quarter, but increased by 1.5% over the year. However, job advertisements data for the March quarter should be interpreted with some caution due to the impact of unusual seasonal influences associated with the Easter holiday period falling entirely in March. The ANZ Bank suggests these seasonal effects may have resulted in a significant drop in monthly seasonally adjusted figures for March, which in turn affect quarterly trend data.

The DEWR Skilled Vacancy Index for Queensland also declined in the March quarter (down 1.2%) and decreased by 6.1% over the year. Nationally, the index declined marginally (down 0.2%) in the quarter, but rose 1.3% over the year.

The recent easing in quarterly job vacancy data in Queensland suggests that employment growth in the June quarter may be more subdued when compared with the very strong jobs growth recorded over recent quarters.

Employment by industry

The very strong employment growth recorded in Queensland over the year to March quarter 2005 (in original terms) continued to be driven by the services sector, where employment grew by 69,400 persons. However, employment in the primary and secondary sectors also contributed to jobs growth, rising by 18,500 persons over the year to the March quarter.

The increase in the primary and secondary sectors was due to the manufacturing and mining industries, which recorded strong jobs growth of 18,600 and 4,300 persons respectively. In contrast, employment in the agriculture, forestry and fishing industry fell a further 4,400 jobs, emphasising the ongoing impact of the drought on employment in this industry.

State economic growth

The latest Queensland State Accounts show that the State’s economic growth in December quarter 2004 was similar to that recorded in the previous quarter. Queensland recorded growth in real trend gross state product (GSP) of 1.1% in the December quarter, easing slightly from growth of 1.2% in the September quarter. However, economic growth in Queensland was much stronger than in the rest of Australia, which recorded marginal growth of 0.1% in the December quarter. In annual terms, Queensland recorded economic growth of 4.4% over the year to the December quarter (rest of Australia, 1.4%).

Queensland’s higher overall growth was a result of the State’s stronger domestic demand and exports in the December quarter. Gross state expenditure in Queensland (1.2% in the quarter) was almost double
that of the rest of Australia (0.7%). Further, the State recorded export growth of 1.3% in the December quarter, while exports from the rest of Australia declined by 0.2%.

**Gross state product**

(quarterly % change, CVM, trend)

Source: Office of the Government Statistician, Queensland State Accounts

Household consumption in both Queensland and the rest of Australia rose 0.8% in December quarter 2004, with the State’s quarterly household consumption growth easing from a recent peak of 3.2% in the second half of 2003. Annual household consumption growth in Queensland was 5.3% in the December quarter. In comparison, growth in the rest of Australia was 4.0% over the year.

Despite being at historically high levels, dwelling investment in Queensland continued to rise in the December quarter, increasing a further 1.9% in the quarter, compared with a decline of 2.9% in the rest of Australia. Dwelling investment, in annual terms, eased from a recent peak of 15.1% in March quarter 2004 to 7.0% in the December quarter.

Business investment also made a solid contribution to overall growth in the December quarter, rising by 3.0% and contributing 0.4 percentage point to growth in GSP. Annual growth in business investment strengthened in each quarter of 2004, to be 20.4% in the December quarter.

**Contribution to growth**

(quarterly % point, CVM, trend)

Source: Office of the Government Statistician, Queensland State Accounts

Strong consumption and business investment growth fuelled import growth of 1.7% in Queensland in December quarter 2004, although this rate of growth has eased from the 5.0% growth recorded in December quarter 2003. In comparison, total exports from Queensland (overseas and interstate) increased by 1.3%. As a result, the trade sector (net exports) detracted 0.3 percentage point from GSP growth in the December quarter. However, this detraction has narrowed steadily since peaking at 2.0 percentage points in December quarter 2003.

**Consumption**

Queensland recorded growth in trend household consumption expenditure of 0.8% in December quarter 2004. This marks the fourth consecutive quarter in which consumption growth in Queensland has eased, after peaking at 3.2% in the last two quarters of 2003. Consumption growth in the rest of Australia (0.8% in the December quarter) also continued to ease in the last quarter of 2004, after slowing gradually over the course of the year, from a peak of 1.4% in December quarter 2003.

Queensland’s annual consumption growth eased to 5.3% in the December quarter, down from 7.8% in the September quarter. Despite easing over recent quarters to a more sustainable rate, annual growth in consumption remains above its long-run average rate of 4.6%, reflecting exceptional labour market conditions, as well as solid growth in consumer incomes and wealth. However, annual consumption growth in Queensland continued to be stronger than the rest of Australia, where growth eased to 4.0% in the December quarter.

**Household consumption**

(quarterly % change, CVM, trend)

Source: Office of the Government Statistician, Queensland State Accounts

Increased wealth as a result of solid employment growth and higher house prices was reflected in strong growth in spending on recreational and cultural activities over the year to the December quarter. A high level of housing activity, as well as strong
population growth, also saw household spending on consumer durables, such as vehicle purchases and transport services, surge over the year.

**Housing investment**

Defying the national trend, dwelling investment in Queensland increased marginally (up 1.9% in trend terms) in December quarter 2004, following revised growth of 1.1% in the September quarter. Quarterly growth in housing activity in the State has steadily moderated in recent quarters, but remains positive. In contrast, dwelling investment in the rest of Australia fell 2.9% in the December quarter, representing the second consecutive quarterly decline, following a 1.7% fall in the September quarter.

Queensland dwelling construction also continues to grow at a faster rate than that nationally in annual terms. Housing investment in Queensland rose by 7.0% over the year to the December quarter, compared with a fall of 1.5% in the rest of Australia. A high level of interstate and overseas migration has contributed to stronger annual growth in housing activity in Queensland, with the State’s population growing at around twice that in the rest of Australia. Brisbane has also experienced stronger annual growth in house prices relative to other capital cities over the past year, helping to sustain interest in the State’s housing market.

Following the strong growth achieved over recent years, indicators suggest that dwelling investment may soften in coming quarters. The number of building approvals in trend terms has declined gradually over the past year and a half, and the recent interest rate increase could see this trend continue over coming months. However, a large volume of residential building work yet to be done should maintain construction activity at a high level.

**Business investment**

Business investment in Queensland made a solid contribution to growth in December quarter 2004, increasing by 3.0% in trend terms. This follows very strong growth in business investment in each of the March, June and September quarters. As a result, business investment in the December quarter was 20.4% higher than a year earlier. This represents a much stronger growth path than in the rest of Australia, where business investment grew by 2.7% over the quarter and 6.6% over the year.

Business investment, Queensland  
($m 2002-03, quarterly, CVM, trend)  
Source: Office of the Government Statistician, Queensland State Accounts

The growth rate of business investment eased in the December quarter, following exceptionally strong growth in previous quarters, due to an easing in the growth of machinery and equipment investment. Growth in other buildings and structures investment, on the other hand, has accelerated over the past few quarters. Investment in other buildings and structures rose by 4.6% in the December quarter, increasing from quarterly growth of 3.1% and 2.9% in the September and June quarters respectively. Although other buildings and structures investment comprises a smaller share of total business investment than machinery and equipment, other buildings and structures investment is more labour intensive, benefiting employment creation in the State.

Investment in machinery and equipment in Queensland grew by 2.3% in December quarter 2004, an easing from the very strong growth recorded in the previous three quarters. Machinery and equipment investment, while predominantly imported, benefits Queensland through boosting the productive capacity of the economy.

The outlook for business investment over the coming quarters remains encouraging. Demand for the State’s export products is expected to remain strong. In particular, historically high mineral and metal prices, combined with the stabilisation in the US$/A$ exchange rate, will assist investment projects under consideration in those industries in achieving required rates of return.
Business conditions

The latest surveys indicate that business conditions in Queensland declined in early 2005. However, business conditions are expected to remain robust or improve in coming months.

The National Australia Bank Quarterly Business Survey reported a fall in business conditions in Queensland in the March quarter. All of the three components that comprise the overall Business Conditions Index (BCI) for Queensland fell during March quarter 2005. Trading performance experienced the heaviest fall, down 25 percentage points to 20%, profitability declined 19 percentage points to 16% and the employment index was down 7 percentage points to 15%.

Despite this, Queensland’s business conditions index (17%) remains higher than that recorded nationally (11%). Business conditions in the mining sector remain by far the strongest of any sector. Further, the Queensland BCI is forecast to improve in the June quarter to around 28%, while the national BCI is forecast to rise to 20%.

The Commerce Queensland Pulse Business Index (PBI) also reported a decline in overall business conditions in March quarter 2005. The PBI fell 4.5 points to 57.6 in the quarter, to be 0.9 point lower than a year earlier. Nearly half of respondents reported an increase in sales in the March quarter. However, profitability was lower, with only 30% of respondents reporting an increase in profits. Commerce Queensland indicates that skill shortages, rising petrol prices and seasonal factors, such as a post-Christmas lull in consumer confidence, are the reasons behind the decline in overall business conditions in the March quarter. Looking forward, survey respondents expect business conditions to stabilise during the June quarter.

Agricultural and mining trends

Queensland’s coal mining sector continues to perform strongly, with production, exports and domestic sales reaching record levels in 2004. Coal production was 169.4 million tonnes, 8.5% higher than in 2003. Overseas exports of coal increased by 3.4% to total 139.2 million tonnes in 2004, representing over 80% of coal produced in the State. Coking coal exports increased by 7.4%, partly offset by a 4.8% decline in thermal coal exports.

Total winter grain production (mainly wheat and barley) in Queensland is estimated by the Australian Bureau of Agricultural and Resource Economics (ABARE) to fall by 10% to 1.3 million tonnes in 2004-05. Central Queensland experienced a dry growing season and yields were considerably lower than average.

Queensland’s summer crop production is forecast to increase by 12% to 2 million tonnes in 2004-05, according to ABARE. In southern Queensland, the outlook for summer crops was enhanced by average to above average rainfall in November and December, allowing for late plantings. Harvesting of the early sown crop has commenced, with yields expected to reach record levels as growing conditions have been ideal for crop establishment and development. Central Queensland, however, continued to experience dry weather that hindered the planting of early sown sorghum crops. Overall, sorghum production is forecast to increase by 8% to 1.4 million tonnes, due to an increase in the area planted and expected improvements in yields.

Favourable seasonal conditions and an increase in area planted to cotton are expected to result in an increase in the production of cotton lint and cottonseed of 55% to 263,000 tonnes and 372,000 tonnes respectively. Rainfall in early 2004 and follow-up rainfall in spring increased water availability and subsoil moisture levels, resulting in an estimated 57% increase in the area planted to cotton.

The gross value of Queensland’s 2004-05 sugar cane production is expected to increase by 12% to $815 million as a result of the positive outlook for Queensland raw sugar prices, according to the Department of Primary Industries and Fisheries (DPI&F). Although overall seasonal conditions have been good for the 2004-05 crop, prolonged dry weather has continued to affect yields in the Central cane growing region around Mackay.

Assuming a return to average seasonal conditions for cattle grazing regions, DPI&F has forecast that herd rebuilding is expected to result in a 2% decrease in cattle and calves sold for slaughter in 2004-05. Also, fewer cows and calves are expected to be slaughtered as a proportion of total slaughters. However, above average saleyard prices are subdued by herd rebuilding activities at present.

Overseas merchandise exports

The nominal value of Queensland’s overseas merchandise exports rose by 23.3% in annual terms in December quarter 2004. A strong increase in the value of coal exports mainly drove the rise.

In value terms, rural goods exports rose by 15.1% over the year to the December quarter. An increase in the value of meat and meat preparations exports to Japan (which accounted for over 50% of Queensland’s meat exports during the quarter) contributed to the rise in rural exports. Continued restrictions on US and Canadian meat imports to Japan supported a 64.6%
increase in the value of Queensland meat exports to the country. Cereals exports also rose over the year to the December quarter (up 48.5%), reflecting a partial recovery from drought. Meanwhile, textile fibres and vegetables and fruit exports fell over the year. Weaker cotton prices (down 32.4% in annual terms) contributed to the decline in the value of textile fibre exports.

The value of coal exports continues to rise strongly, by 48.8%, partially reflecting higher export coal prices in 2004. The Queensland Department of Natural Resources and Mines states that the volume of coal exports rose by 3.8% to 36.0 million tonnes during December quarter 2004 compared with December quarter 2003.

### Overseas merchandise exports, Queensland (nominal)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>December quarter 2003 $m</th>
<th>December quarter 2004 $m</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rural (a)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meat</td>
<td>709.4</td>
<td>887.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Cereals</td>
<td>33.9</td>
<td>50.4</td>
<td>48.5</td>
</tr>
<tr>
<td>Textile fibres</td>
<td>114.7</td>
<td>82.5</td>
<td>-28.4</td>
</tr>
<tr>
<td>Fish</td>
<td>64.2</td>
<td>69.6</td>
<td>8.5</td>
</tr>
<tr>
<td>Vegetables and fruit</td>
<td>69.0</td>
<td>53.3</td>
<td>-22.7</td>
</tr>
<tr>
<td>Other rural</td>
<td>187.3</td>
<td>213.5</td>
<td>14.0</td>
</tr>
<tr>
<td><strong>Total rural</strong></td>
<td>1,178.5</td>
<td>1,356.0</td>
<td>15.1</td>
</tr>
<tr>
<td><strong>Crude minerals</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal</td>
<td>1,401.3</td>
<td>2,084.6</td>
<td>48.8</td>
</tr>
<tr>
<td>Other crude minerals</td>
<td>506.7</td>
<td>548.0</td>
<td>8.2</td>
</tr>
<tr>
<td><strong>Total crude minerals</strong></td>
<td>1,908.0</td>
<td>2,632.6</td>
<td>38.0</td>
</tr>
<tr>
<td><strong>Manufactures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Processed minerals and metals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-ferrous metals</td>
<td>524.7</td>
<td>488.5</td>
<td>-6.9</td>
</tr>
<tr>
<td>Other processed minerals and metals</td>
<td>52.5</td>
<td>64.7</td>
<td>23.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>577.2</td>
<td>553.1</td>
<td>-4.2</td>
</tr>
<tr>
<td>Other manufactures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemicals</td>
<td>126.4</td>
<td>133.3</td>
<td>5.5</td>
</tr>
<tr>
<td>Leather, rubber, etc.</td>
<td>45.7</td>
<td>42.0</td>
<td>-8.1</td>
</tr>
<tr>
<td>Machinery</td>
<td>189.0</td>
<td>205.1</td>
<td>8.5</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>43.1</td>
<td>83.2</td>
<td>93.2</td>
</tr>
<tr>
<td>Miscellaneous manufactures</td>
<td>52.7</td>
<td>62.3</td>
<td>18.2</td>
</tr>
<tr>
<td>Other manufactures – other</td>
<td>5.4</td>
<td>6.2</td>
<td>15.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>662.3</td>
<td>932.2</td>
<td>43.1</td>
</tr>
<tr>
<td><strong>Total manufactures</strong></td>
<td>1,093.5</td>
<td>1,059.3</td>
<td>-3.4</td>
</tr>
<tr>
<td>Confidential and special (a)</td>
<td>939.6</td>
<td>1,169.4</td>
<td>24.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,065.6</td>
<td>6,243.4</td>
<td>23.3</td>
</tr>
</tbody>
</table>

(a) Most of the value of sugar exports, an important commodity export for Queensland, is included in the confidential and special category.

In annual terms, the nominal value of ‘other manufactures’ exports (including leather and rubber products, machinery and transport equipment) rose by 15.1% in December quarter 2004. A strong increase in the value of transport equipment exports (particularly equipment other than road vehicles) drove the rise.

The value of exports to most of Queensland’s major export destinations rose over the year to the December quarter. Supported by higher coal prices, exports to Asia increased over the period. Exports to Japan, North East Asia (excluding Japan) and South East Asia rose by 41.8%, 25.0% and 2.4% respectively during the quarter compared with a year earlier. Exports to the European Union and the United Kingdom also rose, by 36.2% and 18.4% respectively. A 42.2% increase in the value of merchandise exports to New Zealand was driven by a strong rise in the value of petroleum and transport equipment exports (excluding road vehicles). Meanwhile, falls in the value of meat exports to the United States (down 18.0%) contributed to an overall decline in the value of merchandise exports to that country (down 14.6%).

### Commodity prices

In March quarter 2005, the weighted index of international prices for Queensland’s major commodity exports, as measured by the Queensland Commodity Price Index, rose in both special drawing rights (SDR) and $A terms, by 2.9% and 1.1% respectively.

In $A terms, the agricultural index fell marginally by 0.9%, but rose by 0.9% in SDR terms in the March quarter. In quarterly-average terms, the world price of sugar and the average export price of Australian beef rose by 5.5% and 1.0% respectively over the quarter. The world price of cotton also rose strongly by 6.2%, while wool prices fell by 0.9%. Australian wheat prices also fell marginally by 0.6%.

The minerals index rose in both $A and SDR terms by 2.1% and 3.9% respectively in the March quarter. In quarterly average terms, world prices of zinc, nickel and copper rose by 18.0%, 9.4% and 9.3% respectively. World prices of aluminium and lead also increased, by 4.1% and 2.3% respectively. Meanwhile, world prices of silver and gold fell by 3.6% and 1.6% respectively during the quarter.

#### Queensland Commodity Price Index

<table>
<thead>
<tr>
<th>Source: Queensland Treasury</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-00 Mar-01 Mar-02 Mar-03 Mar-04 Mar-05</td>
</tr>
<tr>
<td>60 80 100 120 140 160</td>
</tr>
<tr>
<td>Note: The components of the Queensland Commodity Price Index have recently been re-weighted to reflect their current shares of total Queensland exports. Accordingly, the index is not directly comparable with those published in the Queensland Economic Review prior to 2004/3.</td>
</tr>
</tbody>
</table>
Tourism

Short-term visitor arrivals to Australia rose 3.7% in trend terms in March quarter 2005, to be 9.5% higher over the year. This was the highest quarterly increase in short-term visitor arrivals since September quarter 2003. The increase suggests that Australia has recovered from the effects of the major international shocks that have occurred in recent years and reflects the renewed confidence in international travel. The number of international visitors to Australia has returned to, and in fact now exceeds, the levels recorded before the terrorist attacks of 11 September 2001.

The ABS Survey of Tourist Accommodation showed a slight decline in tourism activity in Queensland for December quarter 2004. The number of guest nights in establishments in Queensland declined 0.3% over the year to the December quarter. In comparison, the rest of Australia recorded a slight increase in the number of guest nights in establishments of 0.4% over the same period.

The stock of guest rooms in Queensland increased only marginally over the year to the December quarter (up 0.5%). After little change in the number of guest nights and the stock of guest rooms over the year, room occupancy rates were 67.3% in the December quarter, similar to rates a year earlier.

Inflation

Consumer price inflation, as measured by the change in the Consumer Price Index (CPI), remained steady at 0.8% in Brisbane in March quarter 2005, and 2.6% over the year, the same annual rate of inflation as in December quarter 2004.

March quarter inflation in Queensland was relatively subdued considering that much of the increase was driven by seasonal increases in education and health. Food prices and house purchase costs also rose solidly over the quarter. Partially offsetting these increases, transport costs declined, driven by a fall in petrol prices and car prices as import tariffs were reduced. Clothing and footwear prices also fell over the quarter.

Nationally, headline consumer prices rose slightly less than in Brisbane, increasing by 0.7% in the March quarter. The annual inflation rate eased to 2.4%, from 2.6% in December quarter 2004. The price index for market sector goods and services, which excludes the more volatile items, rose 0.4% in the March quarter, to be 1.8% higher over the year. Although still below the RBA’s inflation target band of 2-3%, this measure has been gradually trending upwards from a recent low of 1.2% in September quarter 2004.

Another feature of the current level of national inflation is the large divergence between traded goods inflation and non-traded goods inflation. For the past two years, traded goods inflation has been very weak due to downward pressure on global manufacturing prices, largely from China. More recently, the strong appreciation of the $A has lowered the price of imported goods. Weak traded goods inflation has been offset by strong non-traded goods inflation, which has been a direct result of robust domestic economic activity, particularly the housing market.

The stabilisation in the value of the $A against the $US over the past six months should begin to remove the downward pressure on imported goods inflation witnessed over previous years. However, several market analysts suggest that ongoing strength in domestic demand and the labour market may place upward pressure on wages and non-traded goods inflation over 2005.

Wages

Wages growth in Queensland and nationally was solid in December quarter 2004, according to the two key labour cost measures produced by the Australian Bureau of Statistics.
Trend average weekly ordinary time earnings (AWOTE) for full-time adult workers in Queensland grew 0.8% in the December quarter. The State’s annual growth in AWOTE remained relatively strong at 4.0% in the December quarter, despite easing from a recent peak of 7.1% in December quarter 2003. Nationally, AWOTE grew 1.1% in the December quarter, with annual growth strengthening marginally from 3.5% in the September quarter to 3.6% in the December quarter.

A clearer indication of growth in actual wage costs comes from the Wage Price Index (WPI), which partly removes the rise in wages due to productivity improvements and as a result is the preferred measure of growth in wages and salaries. The WPI shows that the total hourly rate (excluding bonuses) in Queensland increased 1.1% in the December quarter (nationally, 1.0%). Over the year, the WPI rose by 3.8% in Queensland (3.6% nationally).

Queensland’s relatively strong wages growth over the year reflects, in part, labour market tightening, with the trend unemployment rate at its lowest quarterly rate since the inception of the current ABS series.

**Population**

Population growth in Queensland remained unchanged in September quarter 2004 at 0.5%, with the State’s estimated resident population increasing by 17,600 persons to 3,899,600. Queensland’s population increased by 2.1% (78,600) persons over the year to the September quarter. Queensland has recorded strong annual population growth of 2% or above for 13 consecutive quarters.

In the rest of Australia, population growth in the September quarter was unchanged at 0.2%, representing an increase of 40,000 persons. Annual growth in the rest of Australia also remained unchanged at 1.0% (an increase of 158,100 persons). Queensland’s share of the national population of 20,168,900 persons was unchanged at 19.3% in the September quarter.

Net interstate migration continues to drive population growth in Queensland, accounting for 43.1% (7,570 persons) of Queensland’s total population growth in the September quarter. Net interstate migration to Queensland remains the highest of all Australian states and territories. Furthermore, natural increase (births minus deaths) added 6,070 persons to Queensland’s population in the quarter.
China: Its modern economy and challenges for the future

This is the second in a series of articles on China, the first of which discussed the history of Chinese economic reform. This article examines the profile of the modern Chinese economy and identifies some key current and future economic issues as this rapidly growing economy exerts its presence on the rest of the world.

The modern Chinese economy

Over the past 10 years, China’s economy has grown rapidly, increasing by an annual average 8.9%, a rate of growth that is unmatched among major industrialised economies (see Figure 1). The Chinese economy is now the sixth largest in the world, despite recording relatively low per capita income of around US$1,000 per person in 2003 (International Monetary Fund, 2004a). If China achieves a comparable level of income per capita to that of developed nations, it will undoubtedly become a major economic power.

With a huge population and great potential for further economic development, as well as a large land area and strategic location in the heart of Asia’s other rapidly growing economies, the likelihood of further strong growth in the Chinese economy is high.

The industrial composition of China

Although China was traditionally an agricultural economy, services and especially manufacturing have become increasingly important to the Chinese economy. However, although primary industry now accounts for only 15% of GDP, it still employs almost half of China’s 744 million workers (see Figure 2). By contrast, in more developed countries such as Australia and the United States, the agriculture sector employs only around 5% of all workers. However, the share of Chinese workers employed in primary industry has fallen steadily, from 56% in 1993 to 49% in 2003.

In comparison, secondary industry accounts for over half of all Chinese output, while employing less than a quarter of Chinese workers. This represents a much higher rate of productivity, or output per worker, compared with the primary sector. In real terms, the value of output from secondary industry has grown by an average of 11.2% per year since 1993, outpacing growth in the overall economy. Major secondary industries in China include steel production, oil refining, chemical manufacturing and electricity generation.

The gradual transition of Chinese workers from rural agriculture to higher productivity secondary and tertiary industries has been a source of rapid economic growth in the Chinese economy. However, the economic transition to more capital-intensive industries such as manufacturing requires an available pool of capital, much of which has been supplied from abroad.

Foreign investment

China’s rapid economic growth and low-cost labour have made it a particularly attractive destination for
foreign companies to invest, with the United Nations Conference on Trade and Development estimating that China overtook the United States as the largest recipient of foreign direct investment (FDI) in the world in 2002. Investor confidence inspired by China’s successful accession into the World Trade Organisation (see Box 1) as well as investment incentives offered by the Chinese Government, such as lower tax rates, have resulted in large FDI inflows into China, especially in the liberalised coastal regions (see Queensland Economic Review 2004/3).

The source of foreign investment in China is predominantly Asia, which accounted for 63% of China’s $US54 billion FDI in 2003 (National Bureau of Statistics of China, 2004). Over a quarter of all of China’s FDI was sourced from Hong Kong, demonstrating Hong Kong’s importance to China as a trading and financial hub. However, China’s official statistics may underestimate the importance of Asian FDI, reflecting the indirect routes that foreign capital can take, with the Virgin Islands, Samoa and the Cayman Islands all reporting significant capital inflows into China.

Over 70% of FDI in 2003 was concentrated in the manufacturing industry, with the construction and retail and wholesale trade industries also receiving substantial foreign funds. This highlights the attractiveness of China’s rapidly growing secondary industry to foreign firms.

The combination of solid domestic investment and rapid FDI growth led to annual growth of 53% in total fixed investment in the first two months of 2004 (National Bureau of Statistics of China, 2004), driven by strong housing and manufacturing investment. Investment growth has since eased, but is still very strong at 28% over the year to November 2004. Investment in oil processing and iron ore mining has doubled over the past year, and the energy, gas, water and transport industries have also benefited from strong levels of investment.

Prices

Rapid economic growth and strong investment gains can often result in a rise in inflation, as demand drives up prices. However, China’s recent strong growth has largely occurred without any serious inflationary pressures. On an annual basis, inflation in China has averaged 4.8% over the past 10 years, with the rate of inflation having declined from the rapid price growth experienced in the early 1990s (see Figure 3). Over the past decade, China has experienced some periods of minor deflation (falling prices). Although deflation has had a substantially negative effect on Japan’s economy by depressing domestic demand, China’s deflation experience is widely regarded to be largely benign, as it occurred as a result of productivity improvements and international trade reducing the cost of goods, rather than a lack of domestic demand.

Midway through 2004, China’s inflation rate accelerated to over 5%, causing market analysts to suggest that the Chinese economy was growing too rapidly, or ‘overheating’, and this was leading to a build-up in price pressures. This peak in inflation appears to have passed, with China’s official inflation rate moderating to 2.4% in December 2004.

Monetary policy

The recent increase in inflation and surge in investment resulted in some tightening of monetary policy in 2004. China raised official interest rates in late October 2004, the first rate rise since 1995 (see Figure 4). Unlike the situation in many other economies, the Chinese Government retains many tools of direct control over money supply in the economy, and the increase in interest rates was the last of a series of monetary tightening measures. Earlier, in April 2004, a moratorium was imposed on investment in the steel and construction industries, which were viewed as growing unsustainably. At the same time, the Chinese Government had instructed Chinese banks to cease lending to certain industries and limited provincial governments from increasing prices for three months.

Figure 3: China’s inflation

Source: National Bureau of Statistics of China

Monetary policy

The recent increase in inflation and surge in investment resulted in some tightening of monetary policy in 2004. China raised official interest rates in late October 2004, the first rate rise since 1995 (see Figure 4). Unlike the situation in many other economies, the Chinese Government retains many tools of direct control over money supply in the economy, and the increase in interest rates was the last of a series of monetary tightening measures. Earlier, in April 2004, a moratorium was imposed on investment in the steel and construction industries, which were viewed as growing unsustainably. At the same time, the Chinese Government had instructed Chinese banks to cease lending to certain industries and limited provincial governments from increasing prices for three months.

Figure 4: China’s official interest rates and business investment

Source: China Statistical Yearbook 2004
Within two years after accession, monetary policy. The change in the conduct of monetary policy movements, which take a predictable and routine form. China's gradual progression from a centrally planned to a market economy is likely to include, at some stage, a change in the conduct of monetary policy. Central bankers generally attempt to maintain stable financial markets by clearly foreshadowing their monetary policy aims. Although effective, the Chinese Government's direct approach to overheating in some sectors of the economy is different from that followed by central banks in developed economies. Market economy approaches to overheating in some sectors of the economy are different from that followed by central banks in developed economies. Market economy finance markets typically offer investors a high degree of transparency and predictability to business. In addition, China agreed to assume the obligations of existing multilateral WTO agreements.

Specifically, China agreed to (Sachs and Woo, 2003):

- cap agricultural subsidies and eliminate agricultural export subsidies;
- phase out restrictions on foreign banking and foreign ownership of insurance businesses;
- allow foreign companies to set up joint ventures with majority ownership within two years after accession, with some exceptions;
- liberalise distribution arrangements;
- liberalise share trading and trading rights;
- reduce the import tariff on cars; and
- allow foreign investors to hold minority shares in telecommunication businesses.

In return, the main gains for China were increased economic security, in particular a lessening of its vulnerability to changes in US legislation governing trade with China and greater market opportunities in the United States, the European Union and Japan. In addition, investor confidence derived from WTO membership is likely to have been one of the factors underlying the increase in foreign investment from $US38 billion in 2000 to $US54 billion in 2003. The structural reforms that are part of the WTO agreement are also likely to lead to medium and long-term improvements in resource allocation and productivity in the Chinese economy.

The main challenges that WTO membership brings are managing the scale of adjustment that some sectors of China's economy will need to undergo. The state-owned enterprises (SOEs) and the banking sector remain under economic stress – in large part due to under-performing loans made by state banks to SOEs – and are likely to be further pressurised as new rules for competition and corporate governance are implemented. The agricultural sector will need to manage significant reductions in government assistance. In addition, distributional effects such as greater income disparities between East and West China and urban and rural areas will need to be managed.

The accession agreement also included a unique China-specific measure allowing a WTO member to restrain growing Chinese imports that may be disrupting its market (applying for 12 years from the date of accession), a textile measure (applying for seven years), and the ability to use special non-market economy methodology for measuring dumping in anti-dumping cases against Chinese companies (available for 15 years).

The full effects of WTO membership will take some time to be felt. While the most recent analyses have generally found that China was making progress towards complying with the commitments, the United States Trade Representative (2004) concluded that:

'Most of China's key commitments – including trading rights and distribution services – were scheduled to be phased in fully by December 11, 2004. This coming year – 2005 – will therefore provide a critical glimpse of what to expect of China as a WTO member once its full range of commitments are in place.'

**China's International Trade**

China's strong growth and rapid investment gains have been achieved while successfully containing inflation. This rapid growth has also coincided with a swift integration into the global economy as China's low labour costs and increased access to foreign markets enabled rapid growth in export-focused industries such as textiles and manufactures. As a result, China's international trade has grown particularly strongly, with merchandise exports and imports averaging growth of 16% per year over the past decade.
Trade composition by category

China’s trade is dominated by manufactures, both in terms of imports and exports. Manufactured goods made up 92% of China’s exports and 82% of China’s imports in 2003 (see Figure 5). Of these, the largest component was machinery and equipment, which made up over 40% of exports and over 45% of imports. Machinery and equipment is a rapidly growing export industry, with the value increasing at an annual average rate of almost 30% since 1993. Other major Chinese exports include electrical products and textiles.

Figure 5: Composition of China’s merchandise trade, by commodity, 2003
Source: China Statistical Yearbook 2004

Although Hong Kong was repatriated into China from British control in 1997, China considers Hong Kong a ‘special administrative region’. As a result, Hong Kong maintains its own exchange rate and semi-autonomous government. Hong Kong ranks as China’s third largest trading partner. Other major trading partners in Asia include South Korea and Taiwan. Despite the political tension between China and Taiwan, they are able to maintain an important trading relationship, with Taiwan being China’s fifth largest trading partner.

Figure 6: Composition of China’s merchandise trade, by region, 2003
Source: China Statistical Yearbook 2004

North America

The United States is China’s second largest trading partner, making up almost 15% of China’s two-way (imports and exports) trade. However, the United States is China’s single largest export market, with China running a substantial trade surplus with the United States. The size of this surplus, as well as the pegged exchange rate of the Chinese yuan to the US dollar, has caused intermittent concern in the United States, with recent calls for the Chinese to increase the value of their currency (see Exchange rate section on page 17).

Europe

Germany is China’s largest European trading partner, with Russia, the Netherlands, the United Kingdom and France also having significant trading relationships. Although Europe as a whole makes up around 19% of China’s total trade, the sum of Chinese exports to Europe is less than Chinese exports to the United States alone.

Other

Australia is a relatively minor trading partner with China, providing around 1.7% of China’s imports and buying around 1.4% of China’s exports, to be China’s 13th largest trading partner in 2003 (see Table 2). No African or Latin American countries feature heavily in China’s trading relationship.
Table 2: China’s major trading partners
Source: China Statistical Yearbook 2004

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Percentage of total trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Japan</td>
<td>15.7</td>
</tr>
<tr>
<td>2</td>
<td>United States</td>
<td>14.8</td>
</tr>
<tr>
<td>3</td>
<td>Hong Kong</td>
<td>10.3</td>
</tr>
<tr>
<td>4</td>
<td>South Korea</td>
<td>7.4</td>
</tr>
<tr>
<td>5</td>
<td>Taiwan</td>
<td>6.9</td>
</tr>
<tr>
<td>13</td>
<td>Australia</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Although Australia’s direct trade involvement with China is small, an important feature of China’s international integration is the impact that Chinese growth will have on Australia’s key trading partners in the Asian region. China’s growth has in turn boosted the growth of many of Australia’s important trading partners, such as Japan and Korea, which has an indirect, yet powerful, positive effect on the Australian and Queensland economies.

Energy and commodities

China’s rapid economic development has resulted in a surge in demand for raw materials, a trend that is likely to continue as the Chinese economy continues to expand. As a result, China has actively taken measures to secure its various energy and mineral supplies, both from domestic sources and from overseas suppliers.

Coal

China is the world’s largest producer and consumer of coal, which contributes about 70% of China’s energy supply. The Chinese coal industry has been characterised by many small and inefficient mines, with poor safety standards and low quality of coal, although the industry is in the process of modernisation and consolidation. Compared with Australia, China produces a relatively large amount of brown coal, which includes a greater proportion of non-coal matter such as moisture and ash, and is of lower quality than black coal, which makes up the majority of Australia’s coal production.

China is a net exporter of thermal coal, which is used in energy generation and is exported mainly to South Korea, Japan and India. However, China has become a net importer of coking coal, which is used in the production of steel. Growing domestic demand for coal has led to a reduction in Chinese coal exports in recent years, and has contributed to a substantial jump in world spot prices for coal from an average of around $US35 through most of the late 1990s and early 2000s to average around $US75 over 2003 and 2004.

Oil

The US Energy Information Administration reports that China overtook Japan to become the world’s second largest consumer of crude oil in 2003, with only the United States using more oil. China consumes an estimated 5.6 billion barrels per day, of which over two billion are imported. China has been responsible for 40% of the increase in world demand over the past four years (US Energy Information Administration, 2004), and has contributed strongly to the recent record levels of global crude oil prices (see Figure 7).

Gas

Natural gas only accounts for around 3% of China’s energy consumption, but is likely to become a more substantial source of energy, as China has large reserves of natural gas in its northern and western provinces. In order to utilise these reserves, China has recently completed a ‘west-to-east’ gas pipeline to transport gas to the provinces in the south-east of the country where energy consumption is high. Furthermore, China has recently signed an agreement with Australia’s North-West Shelf joint venture, to supply up to 100 million tonnes of liquid natural gas over 25 years and is currently investigating the possibility of building a pipeline from Russian gas reserves.

Commodities

As well as boosting the price of energy products, other commodities such as minerals have also experienced a period of high prices on the back of strong global demand, driven, in part, by China. Global prices of some of Australia’s important mineral and metal exports have risen strongly over the past year, with the prices of copper, lead, zinc and tin all up by around 30% over the past 12 months, with iron (up 20%) and aluminium (up 10%) also recording strong price gains (see Figure 8). The combined effect of these price changes can clearly be seen in the Reserve Bank of Australia’s commodity price index.

Economic challenges

A question posed by many commentators recently has been: Is China’s recent economic growth sustainable? The above sections have shown that China has strong economic fundamentals for further growth, with
very high levels of investment and wide scope for productivity improvement through the shifting of China’s labour into higher productivity industries and the continuing adoption of industrial and technological change. However, as for any economy, China’s economic future is not without risk. This section details some of the current risks to China’s widely predicted continued strong economic growth.

**Exchange rate**

China’s large trade surplus with the United States is increasingly becoming an issue for international financial markets. The United States is currently maintaining both budget and trade deficits, causing the current account deficit to increase dramatically, to around 6% of GDP. The usual way the United States would correct this deficit would be to allow a decline in the value of the $US, which would increase US exports and decrease US imports. However, many countries that trade with the United States, including China, have fixed their exchange rates to the $US, or have actively intervened to maintain a favourable exchange rate to the $US.

China, due to its large trading surplus with the United States and its fixed exchange rate at 8.3 yuan per $US, has recently come under pressure to increase the value of its currency to allow an adjustment in world currency markets. The G7 group of the world’s most powerful finance ministers have repeated calls for the Chinese to revalue their currency. Meanwhile, the Japanese central bank has intervened in its currency to protect its export sector against any rapid appreciation against the $US. In the absence of much movement in Asian exchange rates against the $US, the euro has borne much of the currency adjustment, rising to record levels in December 2004. This is a cause of concern for European policy makers who face the burden of increased trade deficits and the subsequent downward pressure on growth, and contrasts with relatively unchanged exchange rates in Japan and China (see Figure 9).

**Demography**

China is the most populous nation on earth, with approximately 1.3 billion people in 2003, rising by around 1% per year from about 1.0 billion in 1980. The Chinese Government aims to stabilise the growing population at around 1.6 billion in the middle of this century. Associated with this expected stabilisation in population growth is a dramatic ageing of the population, with the proportion of the population aged 65 years or more estimated to grow from around 9% in 2003 to 22% in 2030. The Economist Intelligence Unit (2004) stated: ‘In the late 1990s each retiree in China was supported by ten workers. By 2020 this ratio will have fallen to 1:6, and by 2050 to 1:3’.

The rapidly ageing Chinese population is a direct result of China’s one-child policy introduced in 1979, which

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3 Group of 7 or G7 countries comprise the United States, Japan, the United Kingdom, Germany, France, Italy and Canada.
restricts couples to having only one child. Although the policy is not strictly enforced upon all ethnic groups and rural Chinese, it has resulted in a rapid slowdown in population growth.

Many developed nations are being forced to accommodate an ageing population. Australia, for example, is forecast to record an increase in the share of its population aged 65 years or more from 23% in 2003-04 to 35% in 2030-31. An ageing population can have major economic consequences, as the proportion of the population of working age declines and economic growth slows. The speed and scale of this issue presents a daunting challenge to the Chinese economy which, unlike other countries faced with similar issues, is in a much earlier stage of economic development.

**Unemployment**

Rapid economic development is often associated with a structural mismatch between workers’ skills and employers’ requirements. China is no exception, as workers attempt to switch from rural agricultural employment to urban manufacturing and services industries, reflecting the rapid structural change in the Chinese economy.

Although unemployment in China (measured in urban areas only) was low in 2003 at 4.1% (see Figure 10), the International Monetary Fund estimates that China’s unemployment rate could rise to about 10% over the next three to four years as China accommodates an estimated 160 million surplus workers. The source of China’s unemployment is likely to come from rural areas, as more and more unemployed or underemployed rural workers migrate to the cities to seek employment. The richest cities in the south and east of the country such as Beijing and Shanghai have income per capita of more than 10 times that in regional western areas, providing a strong lure to rural workers. Furthermore, recent job losses in state owned enterprises are likely to continue in the near future as the sector is rationalised, releasing an increased number of workers seeking jobs.

**Figure 10: China’s unemployment rate**

Source: China Statistical Yearbook 2004

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**State owned enterprises**

State owned enterprises (SOEs) currently account for about 40% of industrial output, 66 million jobs and total assets of about 12 trillion yuan. There have been several phases of SOE reform since 1978, which may have led to some initial improvements in SOE performance, but this stalled in the mid 1980s. In 1996, the SOE sector made an aggregate loss for the first time, and from 1978 to 1997 the sector’s liabilities to assets ratio increased from 11% to 65%. This decline in performance appears to have been due to increased competition from non-state enterprises, failure of SOEs to improve efficiency, and overcompensation of employees (resulting from liberalised personnel management).

In response, the Chinese Government implemented more radical reforms in the late 1990s, including restructuring of SOEs on a corporate model and a more rigorous approach to staffing (SOEs shed 29 million jobs between 1997 and 2001). The SOE sector has subsequently returned to profitability. However, much of the financial improvement was narrowly based, with the Economist Intelligence Unit (2004) estimating that about half of the improvement in profits came from a small number of oil and gas SOEs that had benefited from increases in world prices.

While performance of the SOE sector has improved from its lowest point in the mid 1990s, several factors continue to cloud the sector’s outlook. The main factors are lack of a competitive market framework, inadequate governance (e.g. poor accounting institutions), problematic management quality, limited factor markets (for capital and labour), continued political involvement in SOE affairs, and SOEs retaining social responsibilities such as employees’ pensions and medical care.

In particular, state-owned banks, at the direction of the Chinese Government, made large loans to SOEs, many of which have been unable to service these loans. This has placed a large burden of non-performing loans on the Chinese banking system, and has placed the SOEs under a large debt obligation. Further reform of SOEs will therefore have implications for China’s financial system, creating a complicated problem for the Chinese authorities as they attempt to comply with the terms of joining the World Trade Organisation.

Resolving these issues will be critical to Chinese economic performance in the next decade. The government’s privatisation policy position in relation to SOEs will need to be determined. At present, while the government welcomes foreign investment in some sectors, this is generally implemented through the sale of non-controlling stakes in SOE subsidiaries.
A wider commitment to privatisation, coupled with continued market and corporate reforms, could be expected to lead to improved performance of SOEs. Additionally, the successful resolution of the issue of SOE debt remains an enormous issue for China’s SOE and banking sectors, which are likely to come under further pressure as a result of reforms to comply with accession to the World Trade Organisation (see Box 1).

**Conclusion**

The strong growth in the Chinese economy is having a profound effect on the world economy, with strong productivity and investment growth driving rapid growth in China’s manufacturing industry, in particular. Furthermore, the Chinese economy is quickly becoming more integrated with the world economy, with growing trade and capital flows, particularly with its Asian neighbours. Nonetheless, the Chinese economy may be exhibiting signs of ‘growing pains’, with several serious economic challenges looming in the near future. Nevertheless, the characteristics and strong fundamentals of the Chinese economy are likely to continue to provide the basis for strong economic growth going forward.

The impact of the recent and future growth of the Chinese economy has very real implications for Queensland, in terms of international trade and economic growth in the Asian region. A more detailed discussion of this topic, the final article in the series on China, will be included in a future edition of the *Queensland Economic Review*.

**References**

- International Monetary Fund, 2004a, *China’s Growth and Integration into the World Economy*, occasional paper, no. 232.
- International Monetary Fund, 2004b, World Economic Outlook database.
The Queensland services sector

The services sector is an integral and growing part of the Queensland economy. Over the ten years to 2003-04, the average annual growth in output and employment in the Queensland services sector (7.2% and 3.3% respectively) exceeded that in the rest of the economy, with the exception of the mining industry. As a result, the sector has grown in relative size and now accounts for around 71% of the State’s total economic output and 84% of employment. Queensland has also experienced strong growth in international services exports. Over the ten years to 2003-04, Queensland’s international services exports increased at an average annual rate of 6.2%, exceeding growth in international goods exports.

Introduction

There is no widely accepted definition of services, largely because services are highly heterogeneous. However, services generally share a set of common features that differentiate them from goods and other types of economic activity. These are as follows:

- their intangible or immaterial nature;
- their non-storability and non-transferability – for example, services such as air travel and haircuts cannot be transferred or stored, in contrast to goods, which are both storable and transferable; and
- the need for direct interaction between producers and consumers – in contrast to the production of a good, which can usually be separated from the final consumer, many services are consumed as they are produced, such as a restaurant meal or attendance at a sports match.

While many services exhibit these features, there are also many exceptions. Some service providers produce tangible outputs, for example, photographers produce photos and restaurants produce meals. In addition, the developments in the information, communication and technology (ICT) sector now enable many services to be performed without the need for personal contact between consumers and producers. Finally, many information-based services, such as software programs, are transferable and can be boxed and stored. Subsequently it is difficult to define services based on a number of distinguishing features.

As a result of the diverse nature of services, it is essential to disaggregate the services sector to analyse changes in output and employment within the sector. While a number of industry classification systems have been developed, the standard classification used in this country is the Australian and New Zealand Standard Industrial Classification (ANZSIC). Within this classification, services are defined as everything except agriculture, mining and manufacturing, which leaves 14 other industry groups that are usually grouped together to form the ‘services sector’.

This classification system is highly aggregated and has been criticised for its inadequacy to analyse trends within the services sector. Another approach is to group the individual services industries within ANZSIC. This approach has been used by the Productivity Commission in a services sector research paper. In the paper, the services sector is classified into five sub-groups, each reflecting a combination of the economic role performed by the service; the markets they serve, that is, whether they meet final (consumer) demand or intermediate (producer) demand; and whether they are mainly publicly or privately provided. These five sub-groups and the industries they comprise are as follows:

- Distribution services – largely involve activities that support the distribution and marketing of goods-producing firms, and include wholesale trade, retail trade, transport and storage, and communications services;
- Social services – are those largely provided by the public sector, and include health and community services, education, and government administration and defence;
- Producer services – also involve activities that support goods-producing firms such as insurance, banking, engineering and legal services, and include property and business services and finance and insurance;
- Personal services – involve all services sold directly to consumers for their personal use such as recreational services and haircuts, and include accommodation, cafes and restaurants, personal and other services, and cultural and recreational services; and
- Utilities and construction services – include electricity, gas and water, and construction.

---

1 This article was prepared by Deborah Jakins of Economic Policy Branch, Queensland Treasury.
2 Electricity, gas and water; construction; wholesale trade; retail trade; accommodation, cafes and restaurants; transport and storage; communication services; finance and insurance; property and business services; government administration and defence; education, health and community services; cultural and recreational services; and personal and other services.
3 McLachlan, Clark and Monday, 2002, Australia’s Service Sector: A Study in Diversity.
4 In this article, output is measured as total factor income.
The economic significance of the services sector

Output

Over the ten years to 2003-04, total output\(^4\) in Queensland’s services sector increased at an average annual rate of 7.2%, exceeding the average annual rate of growth in Queensland’s agriculture, forestry and fishing (5.7%) and manufacturing industries (5.5%). The only industry where the average annual rate of growth was higher than services sector growth was the mining industry (8.7%).\(^5\) This trend was similar at the national level, although growth in the services sector at the national level (6.5%) also exceeded national growth in the mining industry (5.8%).

The Productivity Commission has identified a number of factors that have contributed to the growth in services in Australia. These include:

- higher consumer demand for services – as incomes rise, consumers tend to spend a smaller proportion of income on basic goods and a larger proportion on services; and
- higher business demand for services and greater use of outsourcing – firms are increasingly contracting out activities that were previously undertaken in-house.

The services sector is the largest contributor to economic activity in Queensland. Output in this sector was $87.9 billion in 2003-04, representing 70.8% of total economic output. This was similar to the proportion of services sector output nationally (71.3%) (see Table 1). In Western Australia, the services sector accounted for only 62.0% of total output, reflecting the large contribution of the mining industry to that state’s economy. The mining industry comprised nearly 18% of Western Australia’s economy in 2003-04 compared with nearly 7% in Queensland. Australian Capital Territory had the highest concentration of services sector output in 2003-04 (89.8%), with government administration and defence accounting for around 31% of their total economic output.

Table 1: Contribution of services sector to total output by state and territory, 2003-04

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>Vic</th>
<th>Qld</th>
<th>SA</th>
<th>WA</th>
<th>Tas</th>
<th>NT</th>
<th>ACT</th>
<th>Aust</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>73.8</td>
<td>71.8</td>
<td>70.8</td>
<td>68.4</td>
<td>62.0</td>
<td>71.6</td>
<td>66.9</td>
<td>89.8</td>
<td>71.3</td>
</tr>
</tbody>
</table>

Table 2 shows the same information as in Figure 1 but for each state and territory. In contrast to Queensland, producer services (property and business services, and finance and insurance) represented the largest services sub-group in New South Wales (32.4%) and Victoria (30.0%) in 2003-04. This partly reflects the fact that the head offices of many property businesses and financial institutions are located in these states.

The table also shows services sector output for Queensland as a proportion of Australia. In most of the services sub-groups, Queensland’s share of national output is generally in line with the State’s share of national population (19.3%). However, Queensland is under-represented in terms of its share of national producer services at 12.9%. Again this reflects the dominance of producer services in New South Wales and Victoria, which accounted for 42.0% and 27.6% respectively of national producer services. Output in Queensland’s services sector accounted for 17.3% of national services sector output in 2003-04, slightly lower than our share of national population.

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5. Computed with the services sector as a whole.
6. As at 30 June 2003, only 6% of the estimated resident population of Queensland resided in Brisbane Statistical Division. This compared with 72% of people in Victoria residing in Melbourne Statistical Division and 63% of people in New South Wales residing in Sydney Statistical Division.
In most states as well as nationally, the highest average annual rate of growth over the period was in producer services. In contrast, Queensland’s highest average annual rate of growth was in personal services (8.3%), while utilities and construction services experienced the highest average annual rate of growth in Australian Capital Territory (8.7%) and South Australia (8.4%).

Given that some sub-groups have grown more strongly, the composition of the Queensland services sector has changed over time. Over the five years to 2003-04, both producer services and personal services represented a greater contribution to total services output on average in Queensland (20.5% and 10.5% respectively) compared with their average contribution over the five years to 1998-99 (18.8% and 10.2% respectively).

### Table 2: Composition of services sector output by state and territory, 2003-04 (a)  
(percentage)  
Source: ABS 5220.0

<table>
<thead>
<tr>
<th>Services sub-group</th>
<th>NSW</th>
<th>Vic</th>
<th>Qld</th>
<th>SA</th>
<th>WA</th>
<th>Tas</th>
<th>NT</th>
<th>ACT</th>
<th>Aust proportion of Aust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution services</td>
<td>25.8</td>
<td>27.5</td>
<td>30.1</td>
<td>25.4</td>
<td>27.9</td>
<td>25.9</td>
<td>23.0</td>
<td>13.0</td>
<td>26.8</td>
</tr>
<tr>
<td>Social services</td>
<td>21.2</td>
<td>22.0</td>
<td>24.9</td>
<td>26.5</td>
<td>21.5</td>
<td>31.3</td>
<td>33.4</td>
<td>46.9</td>
<td>23.4</td>
</tr>
<tr>
<td>Producer services</td>
<td>32.4</td>
<td>30.0</td>
<td>20.6</td>
<td>22.7</td>
<td>24.1</td>
<td>16.7</td>
<td>17.6</td>
<td>19.7</td>
<td>27.5</td>
</tr>
<tr>
<td>Personal services</td>
<td>8.9</td>
<td>8.3</td>
<td>9.9</td>
<td>9.7</td>
<td>8.7</td>
<td>9.0</td>
<td>11.4</td>
<td>8.7</td>
<td>9.0</td>
</tr>
<tr>
<td>Utilities and construction services</td>
<td>11.7</td>
<td>12.2</td>
<td>14.6</td>
<td>15.7</td>
<td>17.8</td>
<td>17.1</td>
<td>14.5</td>
<td>11.7</td>
<td>13.3</td>
</tr>
</tbody>
</table>

*Total services*  
100.0  100.0  100.0  100.0  100.0  100.0  100.0  100.0  100.0  17.3

(a) May not add to 100 due to rounding.

Average annual growth in services sector output, based on the Productivity Commission’s taxonomy over the period 1993-94 to 2003-04, is shown in Table 3.

Over this period, Queensland’s average annual rate of growth in total services of 7.2% was second highest following Northern Territory (7.7%) and exceeded growth for Australia as a whole (6.5%). The services sector has also grown in terms of its share of the Queensland economy from 68.5% in 1993-94 to 70.8% in 2003-04.

In most states as well as nationally, the highest average annual rate of growth over the period was in producer services. In contrast, Queensland’s highest average annual rate of growth was in personal services (8.3%), while utilities and construction services experienced the highest average annual rate of growth in Australian Capital Territory (8.7%) and South Australia (8.4%).

Given that some sub-groups have grown more strongly, the composition of the Queensland services sector has changed over time. Over the five years to 2003-04, both producer services and personal services represented a greater contribution to total services output on average in Queensland (20.5% and 10.5% respectively) compared with their average contribution over the five years to 1998-99 (18.8% and 10.2% respectively). In contrast, the average contribution of distribution services, social services, and utilities and construction services to total services output in Queensland declined over the period.

### Table 3: Average annual growth in services sector output by state and territory, 1993-94 to 2003-04  
(percentage change)  
Source: ABS 5220.0

<table>
<thead>
<tr>
<th>Services sub-group</th>
<th>NSW</th>
<th>Vic</th>
<th>Qld</th>
<th>SA</th>
<th>WA</th>
<th>Tas</th>
<th>NT</th>
<th>ACT</th>
<th>Aust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution services</td>
<td>5.2</td>
<td>5.8</td>
<td>7.0</td>
<td>4.0</td>
<td>5.7</td>
<td>4.1</td>
<td>6.4</td>
<td>4.5</td>
<td>5.6</td>
</tr>
<tr>
<td>Social services</td>
<td>6.3</td>
<td>4.8</td>
<td>6.8</td>
<td>4.5</td>
<td>5.7</td>
<td>5.1</td>
<td>7.7</td>
<td>5.3</td>
<td>5.7</td>
</tr>
<tr>
<td>Producer services</td>
<td>8.6</td>
<td>8.6</td>
<td>7.9</td>
<td>6.1</td>
<td>7.8</td>
<td>6.3</td>
<td>9.9</td>
<td>6.8</td>
<td>8.2</td>
</tr>
<tr>
<td>Personal services</td>
<td>6.9</td>
<td>7.3</td>
<td>8.3</td>
<td>5.8</td>
<td>7.3</td>
<td>5.4</td>
<td>7.4</td>
<td>5.9</td>
<td>7.1</td>
</tr>
<tr>
<td>Utilities and construction services</td>
<td>5.4</td>
<td>6.2</td>
<td>7.2</td>
<td>8.4</td>
<td>7.3</td>
<td>5.3</td>
<td>9.5</td>
<td>8.7</td>
<td>6.4</td>
</tr>
<tr>
<td>Total services</td>
<td>6.6</td>
<td>6.5</td>
<td>7.2</td>
<td>5.3</td>
<td>6.5</td>
<td>5.0</td>
<td>7.7</td>
<td>5.8</td>
<td>6.5</td>
</tr>
</tbody>
</table>

**Employment**

Over the ten years to 2003-04, the average annual rate of growth in employment in the Queensland services sector was 3.3%, exceeding that of all other states and territories and Australia (2.6%). The strong employment growth in the services sector highlights Queensland’s more rapid population growth as well as the strength of the Queensland economy which, in 2003-04, exceeded growth in the rest of Australia for the eighth consecutive year.

Queensland’s services sector employment growth also exceeded the average annual rate of growth both in the State’s agriculture, forestry and fishing industry (0.6%) and manufacturing industry (0.9%) over the ten years to 2003-04. This reflects both the impact of the recent drought on agriculture and the changing industrial structure of the Queensland economy from primary and secondary industries to service industries. Consistent with output growth, the average annual rate of employment growth in Queensland’s mining industry (3.4%) was slightly greater than services sector employment growth (3.3%). In contrast, at the national level the average annual rate of employment growth in the services sector exceeded growth not only in agriculture, forestry and fishing, and manufacturing but also in mining.

The services sector is the largest employer in the Queensland economy, providing 84.1% of the State’s employment in 2003-04 (see Table 4). This was similar to services sector employment at the national level,

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7 Caution should be exercised when interpreting data relating to changes in employment by industry for Queensland, given their volatility.
accounting for 83.8% of total employment. The services sector contributed a larger share of employment in Northern Territory (92.1%) and Australian Capital Territory (96.2%), reflecting the importance of government administration and defence in the territories.

Figure 2 shows the composition of employment in the Queensland services sector based on the Productivity Commission’s taxonomy. Just as distribution services accounted for the largest proportion of Queensland’s services sector output, distribution services was also the largest provider of services sector employment, accounting for 32.4% of total services employment in 2003-04. This reflects the large proportion of employment in retail trade in Queensland.

Distribution services was also the largest source of services sector employment across all states and nationally (31.2%) in 2003-04 (see Table 5). In contrast, social services represented the largest source of employment in Northern Territory (41.1%) and Australian Capital Territory (44.5%), which again reflects the high proportion of public servants employed in the territories.

Table 6 shows the average annual growth in services sector employment over the ten years to 2003-04 based on the Productivity Commission’s taxonomy. The table shows that while new jobs were created in all services sub-groups in Queensland over the period, employment growth was strongest in producer services (5.1%). This has been driven largely by the rapid growth in property and business services employment, which grew at an average annual rate of 6.5% over the period. Producer services also recorded the strongest growth rate in all states and territories and nationally (4.4%), with the exception of Northern Territory where employment growth was strongest in utilities and construction services (6.5%).

Due to the stronger growth in producer services, this sub-group has grown as a share of total services employment in Queensland from 13.7% in 1993-94 to 15.9% in 2003-04. The proportion of total services employment declined in both distribution services and utilities and construction services. This was despite distribution services being the largest provider of services sector employment, and reflected the lower average annual rate of growth in this sub-group.
Trade in services

As discussed in the first section of this article, services are becoming increasingly tradeable due to developments in ICT. However, given that trade in many services does not involve actual goods crossing customs borders but rather electronic transmission, measuring trade in services is more difficult than measuring trade in goods. The Australian Bureau of Statistics measures international exports of services as part of its balance of payments statistics.

Exports

Queensland’s international services exports totalled $6.1 billion in 2003-04. This made Queensland the third largest services exporter in Australia (following New South Wales and Victoria), contributing 18.0% of national services exports (see Table 7). Services exports represented around 23.3% of Queensland’s total exports in 2003-04, compared with 23.7% nationally. Services contributed a larger share of total exports in both New South Wales (44.0%) and Victoria (30.0%) while in Australian Capital Territory, services exports represented 99.9% of total exports, reflecting the dominance of the services sector to its economy.

Over the ten years to 2003-04, Queensland’s services exports increased at an average annual rate of 6.2%, while goods exports grew at 5.9%. At the national level, services exports were slightly stronger than in Queensland, recording 6.4% over the same period. Growth in services exports over the period was strongest in Northern Territory at 8.2%.

The composition of international services exports for both Queensland and Australia in 2003-04 is shown in Table 8. The attractiveness of Queensland as a tourist destination is strongly reflected in the State’s trade in services. Over two-thirds of Queensland’s services exports in 2003-04 were travel expenditures by overseas visitors in Queensland, with the majority reflecting leisure-based travel expenditures (i.e. ‘other’ travel services). In contrast, at the national level, travel expenditures by overseas visitors accounted for just over half of total services exports.

<table>
<thead>
<tr>
<th>State or territory</th>
<th>Value of services exports $m</th>
<th>Share of total state exports %</th>
<th>State share of total Australian services exports %</th>
<th>Average annual growth in services exports over ten years to 2003-04 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>New South Wales</td>
<td>15,009</td>
<td>44.0</td>
<td>44.2</td>
<td>6.5</td>
</tr>
<tr>
<td>Victoria</td>
<td>7,702</td>
<td>22.7</td>
<td></td>
<td>6.4</td>
</tr>
<tr>
<td>Queensland</td>
<td>6,097</td>
<td>18.0</td>
<td></td>
<td>6.2</td>
</tr>
<tr>
<td>South Australia</td>
<td>981</td>
<td>2.9</td>
<td></td>
<td>7.2</td>
</tr>
<tr>
<td>Western Australia</td>
<td>2,738</td>
<td>8.1</td>
<td></td>
<td>6.1</td>
</tr>
<tr>
<td>Tasmania</td>
<td>186</td>
<td>0.5</td>
<td></td>
<td>7.9</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>460</td>
<td>1.4</td>
<td></td>
<td>8.2</td>
</tr>
<tr>
<td>Australian Capital Territory</td>
<td>786</td>
<td>2.3</td>
<td></td>
<td>7.6</td>
</tr>
<tr>
<td>Australia</td>
<td>33,958</td>
<td>100.0</td>
<td></td>
<td>6.4</td>
</tr>
</tbody>
</table>

(a) May not add to totals due to rounding.

Table 8: Composition of services exports, Queensland and Australia, 2003-04

<table>
<thead>
<tr>
<th>Category</th>
<th>Queensland exports</th>
<th>Australian exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value $m</td>
<td>Share %</td>
<td>Value $m</td>
</tr>
<tr>
<td>Transportation</td>
<td>1,514</td>
<td>24.8</td>
</tr>
<tr>
<td>Travel</td>
<td>4,145</td>
<td>68.0</td>
</tr>
<tr>
<td>Business travel</td>
<td>357</td>
<td>5.9</td>
</tr>
<tr>
<td>Personal</td>
<td>3,788</td>
<td>62.1</td>
</tr>
<tr>
<td>Education related</td>
<td>912</td>
<td>15.0</td>
</tr>
<tr>
<td>Other (b)</td>
<td>2,877</td>
<td>47.2</td>
</tr>
<tr>
<td>Communication services</td>
<td>120</td>
<td>2.0</td>
</tr>
<tr>
<td>Construction services</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Insurance services</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Financial services</td>
<td>4</td>
<td>0.1</td>
</tr>
<tr>
<td>Computer and information services</td>
<td>51</td>
<td>0.8</td>
</tr>
<tr>
<td>Royalties and licence fees</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Other business services</td>
<td>153</td>
<td>2.5</td>
</tr>
<tr>
<td>Personal, cultural and recreational services</td>
<td>75</td>
<td>1.2</td>
</tr>
<tr>
<td>Government services</td>
<td>2</td>
<td>0.0</td>
</tr>
<tr>
<td>Confidential items</td>
<td>32</td>
<td>0.5</td>
</tr>
<tr>
<td>Total</td>
<td>6,097</td>
<td>100.0</td>
</tr>
</tbody>
</table>

(a) May not add to totals due to rounding.
(b) Mainly leisure-based travel.
Queensland’s large share of travel exports relative to its other exports also reflects the importance of the State’s overseas education exports. Education represented 15% of Queensland’s services exports in 2003-04, making education the State’s third largest services export category after leisure-based travel services and transportation services (which accounted for 47.2% and 24.8% of total services exports respectively). These categories also represented the largest services exports at the national level.

Over the ten years to 2003-04, average annual growth was strongest in Queensland’s exports of financial services (8.3%), followed by travel services (7.4%). The average annual rate of growth in both these categories exceeded that of Queensland’s total services exports of 6.2% over the period. For Australia as a whole, personal, cultural and recreational services (25.3%) recorded the strongest average annual growth rate over the period. A major contributing factor to this strong growth appears to be the increase in personal, cultural and recreational services provided to overseas visitors during the Sydney Olympics in 2000. Computer and information services (19.1%) recorded the second strongest annual average rate of growth in Australia.

Imports

The composition of services imports differs from services exports in a number of areas (see Table 9). Imports of transportation services are considerably more important, accounting for 48.0% of total services imports into Queensland and 34.0% nationally in 2003-04. Also, while expenditure by Queenslanders on overseas travel services (44.2%) was substantially less than expenditure by overseas visitors on travel services (68.0%), it constituted the State’s second largest import category.

Balance of trade

The balance of trade in services for both Queensland and Australia in 2003-04 is shown in Table 10. During the year, Queensland’s services exports totalled $6.1 billion, while Queensland’s services imports were $4.4 billion, resulting in a surplus on Queensland’s services trade of $1.7 billion. In contrast, at the national level, services imports exceeded services exports, resulting in a deficit of $0.3 billion. Similarly, with the exception of Tasmania and Northern Territory, services trade deficits were recorded in all states and territories.

Table 9: Composition of services imports, Queensland and Australia, 2003-04(a)

<table>
<thead>
<tr>
<th>Category</th>
<th>Queensland $m</th>
<th>Share %</th>
<th>Australian $m</th>
<th>Share %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>2,127</td>
<td>48.0</td>
<td>11,634</td>
<td>34.0</td>
</tr>
<tr>
<td>Travel</td>
<td>1,958</td>
<td>44.2</td>
<td>12,136</td>
<td>35.4</td>
</tr>
<tr>
<td>Business travel</td>
<td>404</td>
<td>9.1</td>
<td>2,908</td>
<td>8.5</td>
</tr>
<tr>
<td>Personal</td>
<td>1,554</td>
<td>35.1</td>
<td>9,228</td>
<td>26.9</td>
</tr>
<tr>
<td>Education related</td>
<td>106</td>
<td>2.4</td>
<td>698</td>
<td>2.0</td>
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<tr>
<td>Other (b)</td>
<td>1,449</td>
<td>32.7</td>
<td>8,530</td>
<td>24.9</td>
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<tr>
<td>Communication services</td>
<td>142</td>
<td>3.2</td>
<td>879</td>
<td>2.6</td>
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<tr>
<td>Construction services</td>
<td>0</td>
<td>0.0</td>
<td>0</td>
<td>0.0</td>
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<tr>
<td>Insurance services</td>
<td>0</td>
<td>0.0</td>
<td>874</td>
<td>2.6</td>
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<tr>
<td>Financial services</td>
<td>0</td>
<td>0.0</td>
<td>587</td>
<td>1.7</td>
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<tr>
<td>Computer and information services</td>
<td>4</td>
<td>0.1</td>
<td>1,009</td>
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<tr>
<td>Royalties and licence fees</td>
<td>39</td>
<td>0.9</td>
<td>1,988</td>
<td>5.8</td>
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<tr>
<td>Other business services</td>
<td>152</td>
<td>3.4</td>
<td>3,515</td>
<td>10.3</td>
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<tr>
<td>Personal, cultural and recreational services</td>
<td>6</td>
<td>0.1</td>
<td>874</td>
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<tr>
<td>Government services</td>
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<td>756</td>
<td>2.2</td>
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<tr>
<td>Confidential items</td>
<td>0</td>
<td>0.0</td>
<td>0</td>
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</tbody>
</table>

Total                          | 4,429        | 100.0   | 34,252        | 100.0   |

(a) May not add to totals due to rounding.
(b) Mainly leisure-based travel.
territories in 2003-04. Since 1999-2000, Queensland has been the only state to consistently record a surplus in services trade, while most states and territories have generally recorded deficits.

**Outlook for the services sector**

Given that services account for over two-thirds of Queensland’s total output, the services sector has an important influence on the overall performance of the Queensland economy.

Both population and productivity growth will be important in driving future growth in the services sector. For example, high rates of population growth, as evidenced by high levels of interstate and overseas migration in recent years, have coincided with strong output growth in industries such as construction and property and business services. Queensland is expected to experience strong population growth over the 25 years to 2026 and this will ensure that services sector growth continues, since a growing population will generate demand for services such as real estate, utilities, education and transport.

Productivity improvements can be more difficult to achieve and indeed may be less easily measured in the services sector, relative to other sectors of the economy. This is because services are less easily automated, less affected by technological changes, and have less scope to benefit from capital deepening (shifting to more capital-intensive production techniques). For example, it is difficult to reduce the number of staff required in a restaurant by replacing their labour with capital equipment. However, there have been recent examples of productivity benefits in the services sector through the use of ‘soft’ forms of capital infrastructure, with the increased uptake of ICT benefiting industries such as wholesale trade and finance and insurance.

While the Queensland Government does not produce forecasts of industry output or employment for Queensland, at the national level, Access Economics expects output in the services sector to grow at an average annual rate of 3.3% nationally over the period 2003-04 to 2008-09. This exceeds the average annual rate of growth forecast by Access Economics for the rest of the Australian economy with the exception of mining. Over the same period, Access Economics expects that the fastest growing industry in terms of output will be communication services (included in distribution services under the Productivity Commission’s taxonomy), followed by property and business services (producer services).

Access Economics also forecasts significant levels of jobs growth in the services sector in the future. Over the period 2003-04 to 2008-09, Access Economics expects national employment in the services sector to increase at an average annual rate of 2.0%. Again this exceeds forecast growth in agricultural, forestry and fishing and manufacturing but not mining. Cultural and recreational services (personal services) and government administration and defence (social services) are forecast to experience the highest average annual rates of national employment growth over the period.

**References**


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9 Northern Territory has also consistently recorded a surplus in services trade.
### Major economic indicators by state

<table>
<thead>
<tr>
<th>Indicator</th>
<th>ABS cat. no.</th>
<th>Data period</th>
<th>Growth as % of Aust</th>
<th>QLD</th>
<th>NSW</th>
<th>Vic</th>
<th>SA</th>
<th>WA</th>
<th>Tas</th>
<th>Aust</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross state product (a) (cvm)</strong></td>
<td>5206.0</td>
<td>Dec-04(q)</td>
<td>Annual</td>
<td>18.1</td>
<td>2.9</td>
<td>4.3</td>
<td>3.3</td>
<td>6.1</td>
<td>4.7</td>
<td>4.3</td>
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<tr>
<td><strong>Private gross fixed capital formation</strong></td>
<td>5206.0</td>
<td>Dec-04(q)</td>
<td>Annual</td>
<td>20.7</td>
<td>2.5</td>
<td>4.1</td>
<td>3.1</td>
<td>4.4</td>
<td>1.5</td>
<td>11.5</td>
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<tr>
<td><strong>Public final demand</strong></td>
<td>5206.0</td>
<td>Dec-04(q)</td>
<td>Annual</td>
<td>18.0</td>
<td>2.4</td>
<td>3.7</td>
<td>3.8</td>
<td>8.2</td>
<td>3.6</td>
<td>5.0</td>
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<tr>
<td><strong>State/national final demand</strong></td>
<td>5206.0</td>
<td>Dec-04(q)</td>
<td>Annual</td>
<td>18.6</td>
<td>2.8</td>
<td>4.2</td>
<td>3.6</td>
<td>5.5</td>
<td>5.5</td>
<td>4.5</td>
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<tr>
<td><strong>Exports</strong></td>
<td>5206.0</td>
<td>Dec-04(q)</td>
<td>Annual</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
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<td><strong>Imports</strong></td>
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<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
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<tr>
<td><strong>Gross state product/gross domestic product</strong></td>
<td>5206.0</td>
<td>Dec-04(q)</td>
<td>Quarterly</td>
<td>17.6</td>
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<td>na</td>
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#### Private consumption

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<th>Data period</th>
<th>Growth as % of Aust</th>
<th>QLD</th>
<th>NSW</th>
<th>Vic</th>
<th>SA</th>
<th>WA</th>
<th>Tas</th>
<th>Aust</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Retail trade</strong></td>
<td>8501.0</td>
<td>Dec-04(q)</td>
<td>Quarterly</td>
<td>19.8</td>
<td>-1.2</td>
<td>-0.5</td>
<td>-0.1</td>
<td>-0.2</td>
<td>0.1</td>
<td>-0.4</td>
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<tr>
<td><strong>New motor vehicle sales</strong></td>
<td>9314.0</td>
<td>Mar-05(q)</td>
<td>Quarterly</td>
<td>21.2</td>
<td>2.2</td>
<td>3.0</td>
<td>0.1</td>
<td>1.5</td>
<td>-0.4</td>
<td>0.8</td>
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#### Housing sector

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<th>ABS cat. no.</th>
<th>Data period</th>
<th>Growth as % of Aust</th>
<th>QLD</th>
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<th>Vic</th>
<th>SA</th>
<th>WA</th>
<th>Tas</th>
<th>Aust</th>
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<tbody>
<tr>
<td><strong>Dwelling approvals (no.)</strong></td>
<td>8731.0</td>
<td>Dec-04(q)</td>
<td>Quarterly</td>
<td>25.1</td>
<td>-5.0</td>
<td>-8.2</td>
<td>-5.5</td>
<td>-5.1</td>
<td>-1.3</td>
<td>-0.1</td>
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<td><strong>Dwelling commencements (no.)</strong></td>
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<td>Dec-04(q)</td>
<td>Quarterly</td>
<td>24.3</td>
<td>-5.4</td>
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<td>2.7</td>
<td>-3.7</td>
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<td><strong>Non-residential building approvals (v) (o)</strong></td>
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<td>Annual</td>
<td>27.3</td>
<td>49.0</td>
<td>-7.3</td>
<td>9.1</td>
<td>-52.2</td>
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<td>54.4</td>
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<td><strong>Engineering construction commencements (v) (o)</strong></td>
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<td>Annual</td>
<td>28.3</td>
<td>51.6</td>
<td>11.6</td>
<td>27.6</td>
<td>7.2</td>
<td>57.6</td>
<td>112.8</td>
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<tr>
<td><strong>New equipment (v)</strong></td>
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<td>Dec-04(q)</td>
<td>Quarterly</td>
<td>20.1</td>
<td>4.4</td>
<td>5.1</td>
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#### Business investment

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<th>NSW</th>
<th>Vic</th>
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<th>WA</th>
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<tbody>
<tr>
<td><strong>Non-residential building approvals (v) (o)</strong></td>
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<td>Dec-04(q)</td>
<td>Annual</td>
<td>27.3</td>
<td>49.0</td>
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<td><strong>Engineering construction commencements (v) (o)</strong></td>
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<td>11.6</td>
<td>27.6</td>
<td>7.2</td>
<td>57.6</td>
<td>112.8</td>
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<tr>
<td><strong>New equipment (v)</strong></td>
<td>5646.0</td>
<td>Dec-04(q)</td>
<td>Quarterly</td>
<td>20.1</td>
<td>4.4</td>
<td>5.1</td>
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<td>1.3</td>
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#### Demography

<table>
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<tr>
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<th>ABS cat. no.</th>
<th>Data period</th>
<th>Growth as % of Aust</th>
<th>QLD</th>
<th>NSW</th>
<th>Vic</th>
<th>SA</th>
<th>WA</th>
<th>Tas</th>
<th>Aust</th>
</tr>
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<tbody>
<tr>
<td><strong>Population</strong></td>
<td>3101.0</td>
<td>Sep-04(q)</td>
<td>Annual</td>
<td>19.3</td>
<td>2.1</td>
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<td>1.2</td>
<td>0.5</td>
<td>1.6</td>
<td>0.9</td>
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#### Labour market

<table>
<thead>
<tr>
<th>Indicator</th>
<th>ABS cat. no.</th>
<th>Data period</th>
<th>Growth as % of Aust</th>
<th>QLD</th>
<th>NSW</th>
<th>Vic</th>
<th>SA</th>
<th>WA</th>
<th>Tas</th>
<th>Aust</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employment</strong></td>
<td>6202.0</td>
<td>Mar-05(q)</td>
<td>Quarterly</td>
<td>19.9</td>
<td>1.5</td>
<td>0.7</td>
<td>1.0</td>
<td>1.0</td>
<td>1.8</td>
<td>1.0</td>
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<tr>
<td><strong>Unemployment rate (l)</strong></td>
<td>6202.0</td>
<td>Mar-05(q)</td>
<td>Yr ago level</td>
<td>6.2</td>
<td>5.4</td>
<td>5.6</td>
<td>6.5</td>
<td>5.6</td>
<td>6.9</td>
<td>5.7</td>
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<tr>
<td><strong>Labour force</strong></td>
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<td>Mar-05(q)</td>
<td>Quarterly</td>
<td>19.8</td>
<td>1.1</td>
<td>0.8</td>
<td>0.6</td>
<td>0.8</td>
<td>1.9</td>
<td>0.7</td>
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<tr>
<td><strong>DEWR (b) Skilled Vacancy Survey</strong></td>
<td>6202.0</td>
<td>Mar-05(q)</td>
<td>Quarterly</td>
<td>-3.4</td>
<td>-4.0</td>
<td>7.1</td>
<td>2.1</td>
<td>3.7</td>
<td>21.2</td>
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<tr>
<td><strong>ANZ Job Advertisement Series</strong></td>
<td>6202.0</td>
<td>Mar-05(q)</td>
<td>Quarterly</td>
<td>-5.1</td>
<td>-1.6</td>
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<td>2.0</td>
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<td>-1.9</td>
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#### Wages and prices

<table>
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<tr>
<th>Indicator</th>
<th>ABS cat. no.</th>
<th>Data period</th>
<th>Growth as % of Aust</th>
<th>QLD</th>
<th>NSW</th>
<th>Vic</th>
<th>SA</th>
<th>WA</th>
<th>Tas</th>
<th>Aust</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average weekly ordinary time earnings (l)</strong></td>
<td>6302.0</td>
<td>Dec-04(q)</td>
<td>$ level</td>
<td>93.5</td>
<td>1,002.5</td>
<td>992.1</td>
<td>907.6</td>
<td>982.5</td>
<td>885.7</td>
<td>973.2</td>
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<tr>
<td><strong>Consumer Price Index (o)</strong></td>
<td>6401.0</td>
<td>Dec-04(q)</td>
<td>Quarterly</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.7</td>
<td>0.9</td>
<td>1.2</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Note: All data are in trend terms unless otherwise indicated. Annual growth rates represent the percentage change between the latest quarter and the same quarter a year earlier. Quarterly growth rates represent growth on the previous quarter.

(a) The Queensland State Accounts are the source of all Queensland data, except state final demand. Remaining data, i.e. for other states, Australia, and state final demand for Queensland, are sourced from ABS 5206.0.

(b) Commonwealth Department of Employment and Workplace Relations.

cvm - chain volume measure
l - level or rate, i.e. not rate of change
o - original
q - quarterly data
v - value
na - not available
Economic indicator charts

Retail trade
(quarterly % change, CVM, trend)
Source: ABS 8501.0

Residential building approvals
(quarterly % change, trend)
Source: ABS 8731.0

Queensland commodity price indices
($A, index base 2001-02 = 100, quarterly)
Source: Queensland Treasury

Red meat production and wool receivals
(annual % change, quarterly, trend, Queensland)
Source: ABS 7215.0

New motor vehicle sales
(quarterly % change, trend)
Source: ABS 9314.0

Private non-residential construction indicators
(annual % change, quarterly, Queensland)
Source: ABS 8731.0, 8752.0 and 8762.0

Coal production
(kt, quarterly)
Source: ABARE, Quarterly Mineral Statistics

Overseas merchandise exports
(annual % change, 12 month rolling sum, Queensland)
Source: ABS 5422.0
Commodity price charts

Note: All charts show quarterly average data.

Sugar prices
(US cents/pound, quarterly)
Source: New York Commodities Exchange

Wheat prices
($US/t, quarterly)
Source: Australian Wheat Board

Export coal prices*
($A/t, weighted export price, quarterly, Queensland)
* Recent movements in coal prices may not be accurately reflected, due to lags in receiving coal price data.
Source: Department of Natural Resources and Mines; and Queensland Treasury

Beef prices
(Index base 2001-02 = 100, $US, quarterly)
Source: Livestock and Meat Authority - Weighted Export Price Index

Wool prices
($A/kg, quarterly)
Source: Australian Wool Corporation - Wool Market Indicator

Gold prices
($US/ounce, quarterly)
Source: New York Mercantile Exchange

Nickel and lead prices
($US/t, quarterly)
Source: London Metals Exchange

Note: All charts show quarterly average data.
Glossary

ABARE
Australian Bureau of Agricultural and Resource Economics

ABS
Australian Bureau of Statistics

annual change, monthly
percentage change between one month and the same month a year earlier

annual change, quarterly
percentage change between one quarter and the same quarter a year earlier

AWE
average weekly total earnings for all employees. Includes overtime earnings and part-time workers’ earnings, in addition to full-time workers’ ordinary time earnings.

AWOTE
average weekly ordinary time earnings for full-time adults. Includes award wages and over award (or ‘drift’) payments.

chain volume measures (cvm)
conversion of prices (by means of an index) in order to abstract from the effects of inflation. Designed to reflect changes in quantity, rather than price, they are often referred to as ‘real’ terms. Chain volume measures are compiled by linking together (compounding) movements in volumes, calculated using the average prices of the previous financial year, and applying the compounded movements to the current price estimates of the reference year.

CPI
Consumer Price Index

current prices
the total value in today’s dollars. Movements reflect both quantity and price changes. Often referred to as ‘nominal’ terms.

DEWR
Department of Employment and Workplace Relations (formerly DEWRSB, DEETYA, DEET)

EMU
European Economic and Monetary Union – launched on 1 January 1999. Comprises all EU member countries except Denmark, Sweden and United Kingdom.

EU
European Union – comprises Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and United Kingdom.

GDP
Gross Domestic Product – the total value of final output produced in the nation in a given period of time

GNE
Gross National Expenditure – the total value of final household and general government consumption spending, gross private and public investment and change in inventories by the nation in a given period of time

GSE
Gross State Expenditure – the total value of household final consumption spending, gross private investment and government spending in a given period of time

GSP
Gross State Product – the total value of final output produced in the State in a given period of time

IMF
International Monetary Fund

leading indicators
statistics or data which provide an early indication of a likely change in the pattern of economic activity

moving average
average value of a series of data calculated over a set period such that, as new data become available, the earliest dated observation is removed from the calculation of the average and the most recent observation added in its place

natural increase
the excess of births over deaths

net exports
exports minus imports. For Queensland, includes interstate as well as overseas trade.

net interstate migration
the excess of interstate migrant arrivals over departures

net overseas migration
the excess of overseas migrant arrivals over departures

OECD
Organisation for Economic Cooperation and Development

original data
raw or unadjusted survey based data

seasonally adjusted data (sa)
original data are adjusted to remove the effect of identifiable movements due to regular seasonal factors, e.g. Christmas, Easter, etc.

SDR
Special Drawing Rights. Calculated by the International Monetary Fund, based on a weighted average of five key world currencies – the $US, German mark, French franc, Japanese yen and Pound sterling.

State final demand
the total value of final household and general government consumption spending, and gross private and public investment, in a given period of time

tourism
interstate (overseas) tourism exports refers to interstate (overseas) residents holidaying in Queensland. Imports are Queensland residents holidaying interstate (overseas).

trend data
seasonally adjusted statistical data are smoothed to reduce the impact of irregular factors and allow analysis of the underlying behaviour of the series over time

TWI
Trade Weighted Index

year average growth
percentage change between the average over one year and the average over the previous year

yield curve
plots market yields against the term to maturity for a range of securities. If the yield on longer-term securities is higher (lower) than short-term securities the yield curve is said to be positively (negatively) sloped
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- Consumer Price Index (quarterly)
- National Accounts (quarterly)
- National Accounts State Details (quarterly)
- Population (quarterly)
- Queensland State Accounts (quarterly)
Office of Economic and Statistical Research

Background
The Office of Economic and Statistical Research (OESR), a portfolio office of Queensland Treasury, is the principal agency for independent economic, social and demographic information, advice and research for the Queensland Government.

The main office is located in Brisbane, with regional offices in Townsville, Rockhampton and Cairns.

Core business
OESR provides the following services:

- Economic and statistical research – the office advances research agendas in economic, social and demographic issues in partnership with Government agencies and the academic community
- Economic and statistical modelling – OESR conducts a range of economic, social and demographic modelling to improve Government decision making
- Statistical services – the office designs, collects, analyses and disseminates a wide range of accurate and timely information to aid high quality planning, decision making, resource allocation and policy development
- Statistical coordination and information management – the office performs various coordination and information management functions across Government.

Products and services
Examples of the products and services produced by the Office are:

- Economic information, econometric and social modelling
- Major surveys on social issues such as crime victimisation, consumer issues, the environment, government services, and community issues and attitudes
- Publications and reports on a range of economic and statistical issues important to the growth and development of the State and its regions
- The Queensland State Accounts and state and regional input-output tables.

For more information
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