Labour market

- Queensland’s trend unemployment rate was 4.9% in December 2005, unchanged from a revised 4.9% in November. Similarly, the unemployment rate in the rest of Australia remained unchanged in December. The monthly trend unemployment rate in Queensland has been below that in the rest of Australia since August 2004.

Retail turnover

- Monthly growth in Queensland’s nominal retail turnover (trend) remained solid at 0.5% in November 2005. Queensland recorded the strongest trend monthly turnover growth of any State in November, while retail turnover fell by 0.1% in trend terms in the rest of Australia during the month.

Commodities outlook

- According to the December 2005 edition of Australian Commodities, ABARE predicts Australian exports of metallurgical coal (of which Queensland’s share is around 84%) to rise by 3% (3.7 million tonnes) in volume terms and 64.4% ($6.9 billion) by value for 2005-06.

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Employment in Queensland has eased over recent months. However, this follows an extended period of exceptional jobs growth throughout 2004-05. Further, labour market conditions in the State remain solid, characterised by a sustained low unemployment rate (at or below 5.0% for over a year), as well as continued high labour force participation.

Monthly growth in Queensland’s nominal retail turnover (trend) remained solid at 0.5% in November 2005, despite easing slightly from monthly growth of 0.6–0.7% in each of the previous seven months. Queensland recorded the strongest trend monthly turnover growth of any State in November, while retail turnover fell by 0.1% in the rest of Australia during the month.

Consistent with stronger growth in wages over the year, annual growth in retail turnover in Queensland accelerated from a low of 2.6% in June 2005 to 6.1% in November. Labour market conditions also remained supportive to spending, with the monthly unemployment rate remaining at or below 5% throughout 2005 and the participation rate reaching an historical high mid-way through the year. Despite a stabilisation in house prices, household wealth also benefited from strong sharemarket gains during 2005.

Driven partly by strong population growth and rising incomes, hospitality and services, food retailing and household goods were the industry groups that made the strongest contributions to retail turnover growth in Queensland in November. In contrast, in the rest of Australia, weakness in discretionary areas of spending such as department stores, household, recreational and clothing goods contributed to the 0.1% fall in overall retail turnover in the month.

In the rest of Australia, dwelling approvals declined 0.8% in November, to be 5.0% lower compared with a year earlier. New South Wales (down 15.2%) and Victoria (down 7.3%) continue to be the main source of weakness in national housing activity. In contrast, approvals have risen in annual terms in both Western Australia and South Australia. The November data provide further evidence of the slowing in demand for new home construction. Despite this, there is not expected to be a sharp fall in construction activity in the State, with alterations and additions construction increasing as new home construction moderates. Housing construction in Queensland should also be supported in the medium term through continued solid population growth and falling residential rental vacancy rates.
The November 2005 issue of the *Australian Crop Report* published by the Australian Bureau of Agricultural and Resource Economics (ABARE) was released in late 2005. Good in-season rainfall and mild spring temperatures have significantly improved the outlook for summer crops across eastern Australia. 2005-06 national summer crop production is forecast by ABARE to increase by 23.4% to 4.4 million tonnes. National winter crop production is estimated to be 37.8 million tonnes (up 19.5%).

Most parts of central Queensland received good rainfall during October, translating into good sub-soil moisture. Based on the Bureau of Meteorology’s Southern Oscillation Index (SOI), the chance of receiving above median rainfall between November 2005 and February 2006 is 50-70% for the central west, 40-50% for southern Queensland and 40-60% for the rest of the State.

In terms of summer crop production, the above average median spring rainfall has increased the area planted to sorghum, resulting in a forecast increase in production of 10.6% to 1.24 million tonnes for 2005-06. On the other hand, lower water allocations in many cotton growing districts are expected to result in around 44% declines in both cotton seed and cotton lint production from 2004-05 production levels. Queensland’s winter crop production (predominantly wheat) for 2005-06 is estimated to be 1.5 million tonnes, 13.6% higher than 2004-05 production levels, with late spring rain adding yield to late planted crops.

### Commodities outlook

According to the December 2005 edition of *Australian Commodities*, ABARE predicts Australian exports of metallurgical coal (of which Queensland’s share is around 84%) to rise by 3% (3.7 million tonnes) in volume terms and 64.4% ($6.9 billion) by value for 2005-06. ABARE argues that higher output is forecast to be sourced from both new operations and the commissioning of several new projects, predominantly in Queensland.

*Aluminium* prices are forecast to rise 6.7% to average US$1,930 a tonne in 2005-06. This is expected to be mainly the result of stronger forecast consumption growth and expected declines in London Metal Exchange (LME) stocks.

*Copper* stocks on world exchanges are expected to remain low, supporting prices. However, Queensland’s new Black Star mine is expected to contribute to growth in Australian exports. In 2005-06, prices are forecast to rise by around 23.3% to average US$3,885 a tonne, as world stocks remain tight.

*Nickel* prices are forecast to fall 9.3% to an average of US$13,585 a tonne in 2005-06. The expected fall in price is a result of falling world stainless steel output (nickel’s main end use) and lower refined nickel import growth in China.

*Zinc* consumption should be supported by rebuilding of galvanized steel inventories in the United States and Europe during 2006. Further, supply disruptions at a number of mines have caused world concentrate supply to become extremely tight. As a result, LME exchange stocks are forecast to fall and prices are projected to rise 26.0% to average US$1,475 a tonne in 2005-06.

ABARE forecasts national sugar production (of which Queensland comprises more than 90%) to be 1.5% lower in 2005-06, to total 5.1 million tonnes. However, ABARE has forecast the world sugar price to increase by 16.2% to US12.2c/lb. This means that while the volume of exports is expected to fall marginally in 2005-06, the value of exports is expected to surge by 14.8%.

A Japanese ban on US beef, following the discovery of mad cow disease in the US in 2003, boosted export volumes and prices for Queensland beef, by removing US supply from the market. However, Japan partially lifted the ban (for cattle aged below 21 months) in December 2005. A further relaxing of the ban should put downward pressure on prices in 2005-06. ABARE now forecasts a 2.8% fall in average Australian saleyard beef prices for 2005-06.

### Population

Queensland’s total resident population was estimated to be 3,963,968, as at 30 June 2005. Given that the size of the population in the State is expected to increase by 2% in 2005-06, it is expected that the population surpassed 4 million by the end of 2005.

Over the year to 30 June 2005, the resident population in Queensland increased by 75,891 persons, or 2.0%. This was mainly driven by net interstate migration (up 31,494) and natural increase (births minus deaths, up 27,326). Although both net interstate and overseas migration declined for the second consecutive year in 2004-05, the natural increase in the population rose sharply over the year, rising by 9.5% in 2004-05. This trend was also observed in the rest of Australia, with the natural increase in the population rising by 6.1% over the year, to reach almost 100,000 persons.

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**Queensland population growth (persons, four quarter moving total)**

Source: ABS 3101.0
Interest rates

- Yields on 90-day bank bills remained relatively unchanged over December 2005, consistent with the view of most market commentators that official interest rates are likely to remain unchanged in the near future.
- Australian 10-year bond yields trended downwards over the course of December, taking their lead from US long term bond yields. The fall in US bond yields came about as market commentators increasingly believe that US official interest rates will not be increased much further from current levels.

Exchange rates

- The $A has increased in value against the $US over the last month or so. In early January, the minutes of the December US Federal Reserve Board meeting were released. These minutes confirmed market analysts’ expectations that official interest rates will not be increased much from current levels, pushing down the value of the $US against other major currencies including the $A. Weaker than expected economic data released in the US, including employment data and business confidence have added downward pressure to the value of the $US.
- In contrast to the movement against the $US, the $A fell by 2.1% against the Japanese Yen from the beginning of December to early January, fell by 1.6% against the Euro and remained largely unchanged against the UK Pound over the period.

Sharemarkets

- Global stockmarket prices rose rapidly over December and into early January 2006. Greater confidence in Europe has seen equity markets in the region rise strongly over recent months. Over December to early January, the UK FTSE rose by 4.5% and the German DAX rose by 5.1%.
- Similarly, stockmarkets in the Asian region have increased rapidly in value. In Japan, the Nikkei increased by 8.6% between the beginning of December and early January. The US stockmarket did not rise quite as strongly as other markets, with the S&P500 rising by 2.0% over the period. In comparison, the Australian all ordinaries rose by 5.4%, driven by further increases in valuations of major resource stocks.

Queensland commodity prices

- The weighted index of international prices for Queensland’s major commodity exports rose in both $A and SDR terms, by 2.7% and 1.8% respectively, over the month to early January 2006.
- Over the month, the Agricultural Index rose in $A and SDR terms, by 5.6% and 4.7% respectively. In monthly average terms, the world price of sugar (up 18.7%) and the average price of beef exports (up 0.3%) increased. Export prices for wheat and cotton also rose (by 0.8% and 1.2% respectively) during the month, while the price of wool fell by 2.4%.
- In $A terms and SDR terms respectively, the Mineral Index rose by 1.8% and 0.9% over the month. During the past nine months, higher coal prices have contributed to a sharp rise in the Index. However, a firm $A has eased some of the recent growth in $A coal prices. In monthly average terms, world prices for zinc, lead, aluminium and copper rose by 14.5%, 10.1%, 9.6% and 7.2% respectively. World prices for nickel reversed trends of recent months, rising by 11.5%

Sources: Data used to construct the charts on financial indicators are sourced from Reuters and Datastream.
Following the recession in the early 1990s, the Japanese economy has undergone several cyclical upturns and downturns. As a consequence, average annual economic growth over the decade to September quarter 2005 was only 1.2%, compared with an average of 3.8% over the decade preceding the recession. However, the most recent slow down in economic growth in late 2004 was not as severe as the previous two downturns and since then, the Japanese economy has continued to expand (see Figure 1). As a result, Consensus Economics in December 2005 significantly upgraded forecast growth in the Japanese economy, to 2.4% and 2.0% in 2005 and 2006 respectively, compared with forecasts of 1.3% and 1.5% in the June 2005 release. As Queensland’s major trading partner, this FYI examines various signs of improving prospects in the Japanese economy.

Most importantly, unlike the previous upturns, the current recovery has not been driven as much by net exports or fiscal stimulus, but rather private non-residential investment. This means that the corporate sector in Japan has regained some confidence as corporate profits continue to improve. According to the Financial Statements Statistics of Corporations by Industry published by the Japanese Ministry of Finance, the ratio of current profits to sales has generally been high in both manufacturing and non-manufacturing industries regardless of size. Also, in the December 2005 Tankan – Short-term Economic Survey of Enterprises in Japan, current profits are projected to increase further in the 2005 fiscal year, after having increased substantially in the previous fiscal year. The improved business environment has been conducive to higher employment, which has seen consumer confidence and spending rise.

Following stronger growth in private sector economic activity, another promising development since 2004 has been the fiscal restraint exercised by the Japanese government. In particular, the growth in government consumption, the largest component of government spending in Japan, has generally been slower than overall economic growth since 2004.

Recent trends in consumer price inflation also have important implications for the outlook of the Japanese economy. Despite the stronger economic growth and improved labour market conditions in Japan, core consumer prices (consumer price index excluding fresh food) continued to decline in 2004 and the first nine months in 2005 (see Figure 2). Importantly though, the long-standing consumer price deflation reflects not only the weak domestic demand but also the ongoing decline in the prices of durable goods due to international competition, which has forced Japanese producers to cut costs, including labour costs, sharply (see Table 1). With employment in the manufacturing sector falling by 13.8% and the volume of production increasing by 5.6%, unit labour costs of the manufacturing sector in Japan declined 13.9% between 1999 and 2004 compared with a 2.8% increase in the US. The substantial cost cutting has seen the prices of durable goods in Japan decline an accumulated 28.8% over the decade to November 2005, while those of semi-durable and non-durable goods fell only 4.2% and 0.2% respectively. In comparison, the overall price of services rose an accumulated 3.6% over the period. Even though durable goods only constitute 5.7% of the basket of goods and services included in the consumer price index, the substantial decline in the prices of durable goods more than offset the modest rise in the prices of services, prolonging consumer price deflation in Japan. Excluding the decline in the prices of durable goods, the consumer price index in Japan would have increased a modest 1.4% over the decade to November 2005.

Table 1: Changes in unit labour costs in the manufacturing sector

<table>
<thead>
<tr>
<th>Period</th>
<th>Japan (% change)</th>
<th>US (% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-1999</td>
<td>-4.0</td>
<td>-2.9</td>
</tr>
<tr>
<td>1999-2004</td>
<td>-13.9</td>
<td>+2.8</td>
</tr>
</tbody>
</table>

Sources: US Bureau of Labour Statistics, Datastream

Since a sizable portion of consumer price deflation in Japan has been due to significant restructuring in the manufacturing industry, its negative impact to the economy may not be as severe as it first appears. Although the process of restructuring involved an extended period of stagnant economic growth, it has made the sector more internationally competitive. In fact, this has contributed to the improvement in profit margins in the corporate sector over the past three Japanese financial years to 2004, despite the Japanese Yen appreciating by more than 20% against the US Dollar over the period (see Figure 3).

While the current economic recovery in Japan appears to be more sustainable than the previous upswings, it is still uncertain whether the pace of economic growth will eventually return to the pre-recession level. Nevertheless, an even more promising development has been the improvement in profit margins in the corporate sector over the past three years, which has led to increased investment in new capital. This has had the effect of reducing the cost of capital, thereby improving the profitability of investment. The resulting increase in investment has also helped to boost economic growth, as well as improving the competitiveness of the Japanese economy.

Such reforms will have positive implications for the long-term growth prospects for the economy. Many commentators have suggested that the Koizumi government’s victory paved the way to rectify the current inefficient allocation of private savings, which is vital to the well-being of Japan’s financial sector in the long-term. The reform agenda signalled by the LDP’s recent re-election should also generally promote policies aimed at revitalising the economy over the longer-term.
# Major economic indicators by state

<table>
<thead>
<tr>
<th>Indicator</th>
<th>ABS Cat. no.</th>
<th>Data Period</th>
<th>Growth</th>
<th>Qld 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>
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</thead>
<tbody>
<tr>
<td>Economic Growth (a) (cvm)</td>
<td>Sep-05(q)</td>
<td>Annual</td>
<td>18.4</td>
<td>3.5</td>
<td>1.9</td>
<td>2.7</td>
<td>2.2</td>
<td>4.1</td>
<td>6.0</td>
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<td>Household Final Consumption Expenditure</td>
<td>Sep-05(q)</td>
<td>Annual</td>
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<td>7.3</td>
<td>9.4</td>
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<td>12.0</td>
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<tr>
<td>Private Gross Fixed Capital Formation</td>
<td>Sep-05(q)</td>
<td>Annual</td>
<td>18.3</td>
<td>4.4</td>
<td>0.5</td>
<td>0.4</td>
<td>3.2</td>
<td>3.3</td>
<td>4.2</td>
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<td>Public Final Demand</td>
<td>Sep-05(q)</td>
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<td>18.7</td>
<td>4.2</td>
<td>2.7</td>
<td>3.7</td>
<td>3.4</td>
<td>6.1</td>
<td>5.9</td>
<td>3.8</td>
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<tr>
<td>State/National Final Demand</td>
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<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>7.4</td>
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<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
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<td>Sep-05(q)</td>
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<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>0.7</td>
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<tr>
<td>Gross Domestic Product</td>
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<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>7.4</td>
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<tr>
<td>Private Consumption</td>
<td>Retail Trade</td>
<td>8501.0</td>
<td>Nov-05</td>
<td>Monthly</td>
<td>20.3</td>
<td>0.5</td>
<td>0.1</td>
<td>-0.3</td>
<td>-0.4</td>
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<td>New Motor Vehicle Sales</td>
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<td>Monthly</td>
<td>21.7</td>
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<td>-1.0</td>
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<td>Dwelling Approvals (no.)</td>
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<td>Nov-05</td>
<td>Monthly</td>
<td>24.6</td>
<td>-2.0</td>
<td>-1.9</td>
<td>-1.6</td>
<td>1.2</td>
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<td>Dwelling Commencements (no.)</td>
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<td>Sep-05(q)</td>
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<td>0.7</td>
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<td>4.6</td>
<td>-4.7</td>
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<td>Business Investment</td>
<td>Non-residential Building Approvals (v) (o)</td>
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<td>Sep-05(q)</td>
<td>Annual</td>
<td>23.7</td>
<td>39.1</td>
<td>-1.7</td>
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<td>67.4</td>
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<td>Engineering Construction Commencements (v) (o)</td>
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<td>Annual</td>
<td>26.7</td>
<td>16.7</td>
<td>-16.7</td>
<td>19.9</td>
<td>-25.5</td>
<td>47.5</td>
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<td>New Equipment (v)</td>
<td>5640.0</td>
<td>Sep-05(q)</td>
<td>Quarterly</td>
<td>18.3</td>
<td>2.3</td>
<td>1.1</td>
<td>-0.3</td>
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<td>Population</td>
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<td>Jun-05(q)</td>
<td>Annual</td>
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<td>2.0</td>
<td>0.8</td>
<td>1.2</td>
<td>0.6</td>
<td>1.6</td>
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<td>Labour Market</td>
<td>Employment</td>
<td>6202.0</td>
<td>Dec-05</td>
<td>Monthly</td>
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<td>-0.1</td>
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<td>0.0</td>
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<td>Unemployment Rate (l)</td>
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<td>Milth level</td>
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<td>5.4</td>
<td>5.5</td>
<td>5.0</td>
<td>4.0</td>
<td>6.8</td>
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<td>Labour Force</td>
<td>Dec-05</td>
<td>Monthly</td>
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<td>-0.1</td>
<td>0.0</td>
<td>0.1</td>
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<td>DEWR (b) Skilled Vacancy Survey</td>
<td>Dec-05</td>
<td>Monthly</td>
<td>0.6</td>
<td>-1.9</td>
<td>1.3</td>
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<td>-0.1</td>
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<td>ANZ Job Advertisement Series</td>
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<td>Monthly</td>
<td>0.8</td>
<td>1.1</td>
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<td>-0.4</td>
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<td>0.1</td>
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<tr>
<td>Wages and Prices</td>
<td>Average Weekly Ordinary Time Earnings (l)</td>
<td>6302.0</td>
<td>Sep-05(q)</td>
<td>$ level</td>
<td>93.6</td>
<td>957.6</td>
<td>957.6</td>
<td>1081.9</td>
<td>1002.0</td>
<td>939.8</td>
<td>1042.0</td>
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<tr>
<td>Consumer Price Index (o)</td>
<td>6401.0</td>
<td>Sep-05(q)</td>
<td>Quarterly</td>
<td>6.3</td>
<td>8.4</td>
<td>2.9</td>
<td>5.3</td>
<td>7.6</td>
<td>3.9</td>
<td>6.2</td>
<td></td>
</tr>
</tbody>
</table>

Note: All data are in trend terms unless otherwise indicated. Annual growth rate is the percentage change between the latest period (i.e. month or quarter) and the same period a year earlier. Accordingly, some annual growth rates may not correspond to annual average or annual total rates published elsewhere. Monthly and quarterly growth rates represent the previous period.

(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

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A Queensland Treasury publication

This report was produced by Queensland Treasury using data available at the time of preparation. General enquiries regarding this publication should be forwarded to Ms Rinie Klein on (07) 3224 5326 or by email to rinie.klein@treasury.qld.gov.au. Editorial enquiries can be forwarded to Mr Greg Uptin on (07) 3238 3038 or by email to greg.uptin@treasury.qld.gov.au.

For further economic and statistical information and analysis relating to Queensland, please refer to the Office of Economic and Statistical Research web site:

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