The Queensland economy in review ..................2–4

• Queensland continued to record solid economic growth in March quarter 2006. The latest Queensland State Accounts, released by the Office of the Government Statistician, show that trend gross state product (GSP) rose 1.0% in the quarter, strengthening from 0.8% in December quarter 2005. In annual terms, GSP growth in Queensland (3.7%) remained well above that in the rest of Australia (2.6).

• According to the latest Investment Monitor published by Delta Electricity and Access Economics, the total value of known investment projects continued to surge in Queensland, rising a further 4.7% in June quarter 2006, to total $86.8 billion. Over the two years to June quarter 2006, the total value of known investment projects in Queensland has increased by 53.7% or more than $30 billion.

• Labour market conditions in July 2006 remained strong in Queensland, supported by ongoing solid consumer spending growth and strong public and private investment. The State’s trend unemployment rate was 4.5% in July, the lowest rate recorded in Queensland since the inception of the current ABS Labour Force series in February 1978.

PLUS, IN THIS ISSUE . . .

Sharemarkets .......................................................... 5
Interest rates ............................................................... 5
Commodity prices ...................................................... 5
Major economic indicators by state ................................ 6
The Queensland economy in review

Introduction

Queensland continued to record solid economic growth in March quarter 2006. The latest Queensland State Accounts, released by the Office of the Government Statistician, show that trend gross state product (GSP) rose 1.0% in the quarter, strengthening from 0.8% in December quarter 2005. In contrast, quarterly GSP growth in the rest of Australia eased from 0.6% in December quarter 2005 to 0.5% in March quarter 2006. In annual terms, GSP growth in Queensland (3.7%) remained well above that in the rest of Australia (2.6%).

Domestic activity in Queensland continued to expand in the March quarter, although this growth was partly offset by a detraction from growth by the trade sector. Private demand has been noticeably stronger during recent quarters, rising a further 2.0% in the March quarter, while public final demand moderated slightly to 2.4%. Net exports detracted 1.3 percentage points from GSP growth during the quarter, easing from a 1.5 percentage point detraction in December quarter 2005. This detraction was the result of total exports remaining relatively steady (up 0.1%) over the quarter and ongoing growth in import demand (up 3.1%).

Figure 1. Contribution to GSP growth, March quarter 2006 (% point contribution)

Household consumption

After recording strong growth in the first two quarters of 2005-06, household consumption continued to grow strongly in March quarter 2006, rising 1.2%. Despite higher petrol prices affecting certain components of household consumption, growth in wages, sustained low unemployment and strong population growth have underpinned continued growth in overall consumer spending.

The main components driving household consumption growth in the March quarter included energy (up 3.0%), hotels, cafes and restaurants (up 1.8%) and home furnishings and equipment (up 1.5%). In terms of consumer staple items, rent continued to increase steadily (up 1.1%), while expenditure on food remained unchanged over the quarter. In contrast, households significantly cut their spending on cigarettes and tobacco (down 2.4%) in the March quarter. The impact of high petrol prices during recent quarters continued to be felt during the March quarter, with spending on transport services (down 1.2%), purchases of vehicles (down 0.4%) and operation of vehicles (down 0.3%) all continuing to decline.

The latest ABS data on retail turnover (which accounts for more than 40% of household consumption) suggest that total consumer spending should also remain solid into June quarter 2006. The volume of retail turnover in Queensland rose 0.6% in the June quarter, following 1.1% growth in the previous quarter. In annual terms, real retail trade in Queensland increased 4.8% in June quarter 2006, compared with only 3.2% growth in the rest of Australia.

Dwelling investment

Dwelling investment in Queensland continued to slow in March quarter 2006, decreasing 1.1%. In comparison, dwelling investment in the rest of Australia decreased 3.5% over the quarter. Nevertheless, while lower than the spectacular growth rates recorded during 2001-02 and 2002-03, dwelling investment still increased by 0.8% over the year to March quarter 2006. In contrast, the rest of Australia experienced a significant decrease (down 6.2%) over the same period.

Growth in alterations and additions of existing dwellings continued to underpin dwelling investment in March quarter 2006. Construction of new dwellings decreased 2.7% in the quarter, while alterations and additions spending rose by 0.7%, to be 7.2% higher over the year.

Looking ahead, several factors remain supportive of dwelling construction activity in Queensland over the near-term. These include a recovery in the number of trend building approvals, a near-record value of residential work yet to be done, annual growth in finance approvals for the construction of new dwellings and the strongest annual population growth in Australia. In addition, housing credit growth has been accelerating over recent months, while labour market conditions remain tight and supportive of consumer confidence.
The Queensland economy in review

The main risk to the longer-term outlook for the dwelling sector remains the potential impact of changes in monetary policy, with market expectations of a further rise in interest rates by the end of the year to follow the rises in May and August.

Business investment

The boom in business investment continued in the March quarter. Total business investment rose 7.2% over the quarter to be 29.1% higher over the year. Growth in machinery and equipment investment (up 8.4%) was stronger than non-dwelling construction investment (up 5.2%) during the quarter. In annual terms, machinery and equipment investment (up 29.5%) increased at a similar rate to non-dwelling construction investment (up 28.2%).

![Business investment graph](chart)

*Source: Queensland State Accounts*

Investment in Queensland’s mining and metals manufacturing industries continued to be supported by the positive outlook for commodity prices, in particular coal and base metals. Industrial production growth in the State’s major trading partners remains very strong, particularly in China, South Korea and Japan. This has continued to fuel demand for Queensland’s coal and metals exports and, along with sustained high commodity prices, has encouraged investment in expansion of productive capacity in the mining sector.

Construction proceeded on several major coal mining projects in Queensland. Over the six months to April 2006, three black coal projects worth $269 million were completed, including Xstrata’s Newlands Northern and BMA’s Broadmeadow underground mines. With respect to minerals processing projects, Sun Metals finalised enhancements to its Zinc refinery ($40 million) and Boyne Island Smelters completed its $56 million ‘S230’ aluminium project. In total, an estimated $439 million worth of major mineral resource projects were completed in Queensland between November 2005 and April 2006.

Currently there are an unprecedented number of mine developments underway in Queensland, with coal mine projects and coal infrastructure developments worth $6.3 billion in the pipeline. These coal mine developments in Queensland are expected to raise coal production capacity by around 45 million tonnes a year by 2008.

The Queensland Government has sponsored a number of major electricity and transport infrastructure projects currently under construction which will work in tandem with private sector investment to expand the productive base of the economy. Examples include CS Energy’s Kogan Creek Power Station (with an expected completion in April 2007) and significant upgrades of roads, railways and ports. In particular, current port expansions will increase total port capacity in Queensland by an estimated 76 million tonnes of coal a year by late 2008.

Commercial property construction also remains strong in the State, with several major retail and office projects completed in recent quarters. Currently there are numerous commercial property construction projects underway, including the $350 million Cityport waterfront redevelopment in Cairns and the $300 million Motorway Business Park at Tatala.

The business investment environment in Queensland remains highly positive. According to the latest *Investment Monitor* published by Delta Electricity and Access Economics, the total value of known investment projects (including those under construction, committed, under consideration or possible) continued to increase in Queensland, rising a further 4.7% in June quarter 2006, to total $86.8 billion. Over the two years to June quarter 2006, the total value of known investment projects in Queensland has increased by 53.7% or more than $30 billion.

Despite easing in the June quarter, survey data suggest that business conditions, both in Queensland and nationally, still remain above long-run average levels. The latest National Australia Bank Quarterly Business Survey reported a fall (in original terms) of 4 percentage points in the Business Conditions Index (a composite of trading conditions, profitability and employment) for Queensland in June quarter 2006. However, despite this easing, the index in June quarter 2006 remains only 2 percentage points lower than a year earlier. Furthermore, both the Queensland and national Business Conditions Indices remained within a range above the long-run average.

All of the three components which comprise the overall Business Conditions Index (BCI) declined during the June quarter. Despite these declines, each component of the BCI in the two major mining states – Queensland and Western Australia - remained well above those recorded in other states. The rate of capacity utilisation (82.8%) in Queensland was also the second highest of all States in the June quarter, surpassed only by Western Australia (84.8%).

Net exports

The trade sector in Queensland continued to detract from overall economic growth in March quarter 2006. Net exports detracted 1.3 percentage points from overall GSP growth, marginally less than the 1.5 percentage point detraction recorded in December quarter 2005. The trade sector detract to growth in recent years largely reflects stronger growth in imports relative to exports.

Total imports rose by 3.1% in the March quarter and increased 11.8% over the year. Import demand rose in the March quarter in line with the continued solid growth in household consumption as well as the strong demand for imported machinery and equipment. Although accelerating in the March quarter, annual growth in imports remains well below the rates seen in 2003 and 2004.
Labour market

Labour market conditions in July 2006 remained strong in Queensland, supported by ongoing solid consumer spending growth and strong public and private investment. The State’s trend unemployment rate was 4.5% in July, the lowest rate recorded in Queensland since the inception of the current ABS Labour Force series in February 1978. Similarly, the unemployment rate in the rest of Australia was 4.9% for the second consecutive month, also representing the lowest unemployment rate in over 28 years. The unemployment rate in Queensland continued to remain below that in the rest of Australia, as it has for the previous two years since July 2004 (see Figure 5).

Over recent months, employment growth in Queensland has been very strong, with monthly jobs growth of between 0.4-0.5% recorded in each of the last five months. Remarkably, despite the current excellent labour market conditions, the outlook for the labour market going forward remains somewhat mixed, with the latest ANZ Job Advertisement Series showing that the trend number of job advertisements in Queensland declined for seven consecutive months to July 2006. Conversely, the ABS Job Vacancies data show that jobs vacancies in the State reached an historical high of 36,800 jobs in June quarter 2006, while indicators of activity in the labour-intensive retail and construction sectors remain solid.

In year-average terms, the unemployment rate in Queensland remained around historic lows at 5.0% in 2005-06, a 0.1 percentage point increase from the 30-year low of 4.9% recorded in the previous year. The State’s labour force participation rate also reached a historical high of 66.3% in 2005-06, representing an increase of 0.5 percentage point over the year. While employment growth eased to 2.9% in 2005-06, this represented the creation of 57,000 jobs over the year, accounting for more than one quarter of national jobs growth.

Full-time employment rose by 35,900 persons, while part-time employment rose by 21,100 persons over the year. Employment growth was particularly strong in industries such as mining and electricity, gas and water, partly reflecting solid global industrial production and resource demand and the significant increase in capital investment in the State’s infrastructure.

Wages and prices

Wages continued to grow, both in Queensland and nationally in June quarter 2006, underpinned by solid labour market conditions and strong domestic demand. In Queensland, average weekly ordinary time earnings (AWOTE) increased 0.8% in June quarter 2006, to be 3.6% higher over the year. Nationally, AWOTE rose 0.7% over the quarter, to be 3.5% higher over the year.

Consumer price inflation in Queensland strengthened in June quarter 2006, with the headline consumer price index (CPI) in Brisbane rising 1.8% in the June quarter, to be 4.1% higher over the year. Nationally, headline CPI rose 1.6% in the June quarter, to be 4.0% higher in annual terms. The rise in headline inflation in the June quarter was mainly driven by increases in the prices of food (mainly fruit) and transport (mainly automotive fuel), both in Queensland and nationally. At the national level, underlying inflation (which measures changes in the prices of market sector goods and services, excluding volatile items such as fruit, vegetables and automotive fuel) rose 0.6% in the June quarter, following a 0.3% rise in the previous quarter. In annual terms, underlying inflation has been gradually trending upwards, from a low of 1.2% in September quarter 2004 to 2.0% in June quarter 2006.

With underlying inflation edging higher, the Reserve Bank of Australia (RBA) decided to raise interest rates by 25 basis points, to 6.00%, at their August board meeting. Inflationary pressures cited for the interest rate increase include rising world commodity prices, strong domestic demand and the economy’s limited spare capacity.
**Interest rates**

- Yields on 90-day bank bills rose to around 6.20% in the month ending early August 2006, in the lead up to the RBA’s interest rate rise on 2 August. More significantly, yields on 180-day bank bills rose to around 6.30% in early August, implying that market participants are expecting a further interest rate rise some time during the remainder of 2006.

- In contrast, yields on 10-year Treasury bonds retreated to 5.79% in early August, after reaching a two-year high of 5.91% in late July. 10-year Treasury bond yields in the US peaked at 5.22% in early July amid renewed concerns over the inflation outlook for the US. As the market reassessed the inflation risk later in the month combined with the release of a lower-than-expected economic growth figure for June quarter 2006, the yield on US 10-year bonds fell back to the same level as in mid-June 2006.

**Exchange rates**

- Market expectation of another interest rate rise saw the $A appreciate against the major currencies and the trade weighted index over the month ending early August 2006. Also, the gold price rose from a recent low of $US603 per ounce in late July to $US642 in early August helping the $A to appreciate 1.4% against the $US and 1.0% in trade weighted terms over the period.

- Indications of a pause in monetary policy tightening in the US after 17 consecutive interest rate rises, left the $US relatively unchanged against the Japanese Yen over the month ending early August 2006. However, this has not been broad based, with the value of the $US depreciating slightly against the Euro and the UK pound.

**Sharemarkets**

- Global Sharemarkets weakened over the first half of July, partly due to uncertainty surrounding rising tensions between Lebanon and Israel. However, most of major sharemarkets have recovered since late July, with Germany’s DAX 30 Index, the UK’s FTSE 100 Index and the US’s S&P 500 Index remaining almost unchanged over the month.

- Locally, the recent correction in base metal prices and the prospect of another interest rate rise resulted in the All Ordinaries Index falling 2.7% over the month. The directions of other Asian sharemarkets were mixed, with Japan’s Nikkei 225 Index and Taiwan’s SE Weighted Index falling 0.9% and 4.3% respectively, while Singapore’s Straits Times Index, South Korea’s Composite Index and Hong Kong’s Heng Seng Index rose 0.6%, 1.4% and 3.2% respectively over the month.

**Queensland commodity prices**

- The weighted index of international prices for Queensland’s major commodity exports increased 1.6% in $A terms and 3.2% in SDR terms in July 2006. The Australian dollar appreciated against most currencies in the time period, resulting in stronger growth in the SDR weighted index.

- In monthly average terms, the Agricultural Index increased in both $A (up 1.1%) and SDR terms (up 2.6%) during the month. The international prices of all major agricultural exports increased over the month, with sugar, wool, beef, wheat and cotton increasing 3.4%, 2.3%, 1.2%, 0.9% and 0.1% respectively.

- The Mineral Index also increased in both $A (up 1.8%) and SDR terms (up 3.4%) in July 2006. World prices of zinc and aluminium recorded relatively modest increases of 4.6% and 1.9% respectively over the month. In comparison, world prices of nickel, lead and copper strengthened significantly in July, rising 28.7%, 9.5% and 8.0% respectively.

Sources: Data used to construct the charts on financial indicators are sourced from Reuters and Datastream.
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>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Growth (a) (cvm)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household Final Consumption Expenditure</td>
<td>Mar-06(q)</td>
<td>Annual</td>
<td>18.7</td>
<td>5.2</td>
<td></td>
</tr>
<tr>
<td>Private Gross Fixed Capital Formation</td>
<td>Mar-06(q)</td>
<td>Annual</td>
<td>21.1</td>
<td>15.5</td>
<td></td>
</tr>
<tr>
<td>Public Final Demand</td>
<td>Mar-06(q)</td>
<td>Annual</td>
<td>19.2</td>
<td>8.4</td>
<td></td>
</tr>
<tr>
<td>State/National Final Demand</td>
<td>Mar-06(q)</td>
<td>Annual</td>
<td>19.2</td>
<td>7.7</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>Mar-06(q)</td>
<td>Annual</td>
<td>na</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>Imports</td>
<td>Mar-06(q)</td>
<td>Annual</td>
<td>na</td>
<td>11.8</td>
<td></td>
</tr>
<tr>
<td>Gross State Product/Gross Domestic Product</td>
<td>Mar-06(q)</td>
<td>Quarterly</td>
<td>17.9</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Private Consumption</td>
<td>Retail Trade</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Motor Vehicle Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing Sector</td>
<td>Dwelling Approvals (no.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dwelling Commencements (no.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Investment</td>
<td>Non-residential Building Approvals (v) (o)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engineering Construction Commencements (v) (o)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Equipment (v)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demography</td>
<td>Population</td>
<td>Dec-05(q)</td>
<td>Annual</td>
<td>19.6</td>
<td>1.9</td>
</tr>
<tr>
<td>Labour Market</td>
<td>Employment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment Rate (l)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour Force</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DEWR (b) Skilled Vacancy Survey</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ANZ Job Advertisement Series</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages and Prices</td>
<td>Average Weekly Ordinary Time Earnings (l)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Price Index (a)</td>
<td></td>
<td></td>
<td></td>
<td></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 average total rates published elsewhere. Monthly and quarterly growth rates represent growth on 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 (a) - original (v) - quarterly data (w) - value na - not available

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:

www.oesr.qld.gov.au

© The State of Queensland (Queensland Treasury)

Excerpts from this publication may be reproduced, with appropriate acknowledgement, as permitted under the Copyright Act. This publication is intended only to provide a summary of the subject matter covered and without assuming any duty of care. Although the information, including commentary, herein has been derived from sources believed to be reliable, Queensland Treasury does not guarantee or make any representations to its accuracy or completeness or accept responsibility for any loss or damage occurring as a result of its use.