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- Queensland continued to record solid economic growth in June quarter 2006. The latest Queensland State Accounts, released by the Office of Economic and Statistical Research, show that trend gross state product (GSP) rose 0.7% in the quarter. In annual terms, GSP growth in Queensland (3.1%) remained well above that in the rest of Australia (2.1%).

- 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 11.7% in September quarter 2006, to total $97.0 billion. Over the year to September quarter 2006, the total value of known investment projects in Queensland has increased by 31.2% or more than $23 billion.

- Labour market conditions remained strong in Queensland, supported by ongoing solid consumer spending growth and strong public and private investment. The State’s trend unemployment rate was 4.3% in October 2006, the lowest rate recorded in Queensland in the 28-year history of the monthly labour force survey.

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Introduction

Queensland continued to record solid economic growth in June quarter 2006. The latest Queensland State Accounts (QSA), released by the Office of Economic and Statistical Research, show that trend gross state product (GSP) rose 0.7% in the quarter, slowing slightly from 0.8% in March quarter 2006. In contrast, quarterly GSP growth in the rest of Australia remained unchanged at 0.4% in June quarter 2006. Over the year to June GSP growth in Queensland (3.1%) remained well above that in the rest of Australia (2.1%).

The composition of growth showed that domestic activity in Queensland continued to expand in the June quarter, but was partly offset by a detraction in trade sector performance. Despite growth slowing during recent quarters, private demand increased by 1.1% in the June quarter, driven mainly by business investment. Growth in public final demand moderated to 2.4%. Net exports detracted 0.6 percentage points from GSP growth during the quarter (see Figure 1), easing from a 0.9 percentage point detraction in the March quarter. This detraction resulted from relatively steady export growth (up 0.2%) over the quarter, combined with continued import growth (up 1.6%).

Household consumption

Household consumption growth continued its moderating trend over the 2005-06 financial year, since recording a recent high of 1.5% in June quarter 2005. Household consumption growth slowed again in June quarter 2006, rising 0.3%. Components of household consumption have largely been impacted by higher petrol prices and rising interest rates, which have outweighed the positive impacts of sustained low unemployment and strong population growth.

The main sectors driving household consumption growth in the June quarter included hotels, cafes and restaurants (up 1.0%), home furnishings and equipment (up 0.8%), and energy (up 0.5%). 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 continued to cut spending on cigarettes and tobacco (down 2.0%). High petrol prices during recent quarters continued to be felt during the June quarter, with spending on transport services remaining unchanged and operation of vehicles continuing to fall (down 0.4%). Purchases of vehicles recovered slightly (up 0.6%) in the June quarter.

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 September quarter 2006. The volume of retail turnover in Queensland rose 0.7% in the September quarter, remaining unchanged from growth in the previous quarter. In annual terms, real retail trade in Queensland increased 4.0% in September quarter 2006, compared with only 3.5% growth in the rest of Australia.

Dwelling investment

Dwelling investment in Queensland continued to decrease in June quarter 2006 (down 0.8%). Dwelling investment in the rest of Australia decreased 0.5% over the quarter. Following spectacular growth rates during 2001-02 and 2002-03, dwelling investment has slowed to record a 2.3% decline for the first time over the year to June quarter 2006. In comparison, dwelling investment for the rest of Australia has been declining since December quarter 2004, recording a decrease of 5.3% in the June quarter.

Both investment in alterations and additions of existing dwellings and the construction of new dwellings declined in June quarter 2006. Construction of new dwellings recorded a decrease of 3.5% over the year to June quarter 2006, while alterations and additions recorded growth of 0.1% over the same period.

Looking ahead, several factors remain supportive of dwelling construction activity in Queensland. These include the recovery in 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 nationally 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. The most recent 25 basis point increase in early November, following similar increases in May and August, have amplified the financial strain on some households.

Business investment

The boom in business investment continued in the June quarter. Total business investment rose 4.7% over the quarter to be 27.7% higher over the year. Growth in machinery and equipment investment (up 6.9%) was stronger than non-dwelling construction investment (up 1.2%) during the quarter. In annual terms, machinery and equipment investment (up 34.2%) increased at a faster rate than non-dwelling construction investment (up 18.2%).

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, particularly China, South Korea and Japan, remains very strong. This has continued to fuel demand for Queensland’s coal and metals exports and, along with sustained high commodity prices, has encouraged investment in greater productive capacity.

Construction on several major coal mining projects recently commenced in Queensland. Over the six months to September 2006, two black coal projects worth $685 million were completed, including Xstrata’s Rolleston open-cut thermal coal mine and Excel’s Millennium coking coal project. In total, an estimated $751 million worth of major mineral resource projects were completed in Queensland in the last six months of the financial year.

Currently there are an unprecedented number of mine developments underway in Queensland, with coal mine projects and coal infrastructure developments worth more than $10 billion under construction or consideration. The current coal mine developments in Queensland are expected to raise coal production capacity by around 45 million tonnes a year by 2008. Queensland in the short to medium term has provided the impetus for expanded port capacity. Current port expansions will increase total port capacity in Queensland by an estimated 76 million tonnes of coal a year by late 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 the continuous development of significant road, rail and port upgrades. In total, there are over $3.2 billion worth of electricity, gas or water related works under construction.

Commercial property construction also remains strong in the State, with several major retail and office projects completed in recent quarters. In addition, there are numerous commercial property construction projects underway, including the $350 million Cityport waterfront redevelopment in Cairns and the $2 billion first stage of the ‘North South Bypass Tunnel’ under the Brisbane river.

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 surge in Queensland, rising a further 11.7% in September quarter 2006, to total $97.0 billion. Over the year to September quarter 2006, the total value of known investment projects in Queensland has increased by 31.2% or more than $23 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 an improvement (in original terms) in business conditions in September quarter 2006. After falling for three consecutive quarters, the Business Conditions Index in Queensland rose sharply by 10 percentage points to 23% in September quarter 2006. While the September quarter result was slightly below previous seasonal peaks during the same quarter in recent years, the BCI for Queensland remains well above its historic average and above the BCI nationally (see Figure 5).

![Figure 4. Business investment](source: Queensland State Accounts)

Source: Queensland State Accounts

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![Figure 5. Business conditions](source: National Australia Bank and Datastream)

All three components of the overall Business Conditions Index (BCI) rose over the quarter. Trading performance increased 13 percentage points to 33%. Similarly, profitability rose 12 percentage points to 22% to represent the highest profitability reading of any State, consistent with solid global demand and high commodity export prices in Queensland’s mining sector. Finally, employment intentions rose 2 percentage points to 12% during the September quarter, consistent with a further decline in the State’s unemployment rate in the first two months of the quarter.
Net exports

The trade sector in Queensland continued to detract from overall economic growth in June quarter 2006. Net exports detracted 0.6 percentage points from overall GSP growth, marginally less than the 0.9 percentage point detraction recorded in the March quarter. The trade sector detraction from growth in recent years largely reflects stronger growth in imports relative to exports.

Over the year to June quarter 2006, Queensland’s total exports increased by 1.3%. The 2.4% increase in exports of goods and services overseas was partly offset by a 1.2% decline in exports of goods and services interstate.

In contrast, total imports rose by 1.6% in the June quarter and increased 11.7% over the year. Growth in import demand over the quarter was in line with the continued growth in household consumption, as well as the strong demand for imported machinery and equipment.

Labour market

After declining in each month since March 2006, Queensland’s trend unemployment rate fell further to 4.3% in October 2006, down 0.1 percentage point from a revised 4.4% in September 2006. This is the State’s lowest trend unemployment rate since the release of the current ABS Labour Force series in February 1978. Remarkably, the State’s exceptional unemployment rate has been achieved while the trend labour force participation rate remained at a record high of 67.2% in October.

In comparison, the trend unemployment rate in the rest of Australia remained unchanged at 4.8% in October. Although this trend unemployment rate is also the lowest since 1978, the unemployment rate in the rest of Australia continued to be above that in Queensland for more than two years (see Figure 6).

Despite the unemployment rate being already at a 28-year low, the outlook for the labour market remains solid, with indicators of labour demand remaining supportive of employment growth going forward. The latest ANZ Job Advertisement Series shows that the trend number of jobs in Queensland continued to increase in October, after declining in the first half of 2006. Further, the number of ABS Job Vacancies in Queensland reached a historic high of 39,800 in September quarter 2006, while the DEWR Skilled Vacancy Index has turned around in recent months. Other indicators of activity in the labour-intensive retail and construction sectors remain solid.

Wages and prices

The State’s excellent labour market outcomes and strong domestic demand continued to support Queensland’s income growth in June quarter 2006. Average weekly ordinary time earnings (AWOTE) rose 0.8% in Queensland over the quarter, to be 3.6% higher over the year. Nationally, AWOTE increased 0.7% over the quarter, to be 3.5% higher in annual terms.

After increasing by 1.8% in June quarter 2006, largely due to the impact of Cyclone Larry on fruit prices and strong growth in automotive fuel prices, the Brisbane headline consumer price index (CPI) rose by 0.8% in September quarter 2006. In annual terms, the CPI strengthened to 4.4% compared with 4.1% in the previous quarter. Nationally, headline CPI rose 0.9% in the September quarter, to be 3.9% higher over the year. Increasing food prices (largely driven by the fruit component) continued to be the main contributor to consumer price inflation, accounting for almost half of the increase over the quarter. Following strong growth in the June quarter, automotive fuel prices declined in the September quarter, while growth in the prices of housing and housing contents and services rose substantially in the September quarter.

More importantly, national underlying inflation has continued to trend upwards, with the Reserve Bank of Australia’s (RBA) trimmed mean estimate for underlying inflation strengthening to an annual rate of 2.9% in September quarter 2006. With the national headline CPI well above the RBA’s 2-3% inflation target range and core inflation continuing to strengthen, the RBA raised interest rates again in November. The 25 basis points increase, to 6.25%, represents the highest interest rate in almost six years and the third interest rate rise in 2006 (following similar increases in May and August). The main influences underlying the increase in core inflation and in turn, the RBA’s decision to raise rates this month, was the continuing expansion in the world economy and strong domestic demand.
Financial indicators

Interest rates

• Yields on 90-day bank bills rose steadily over the month ending early November 2006, rising about 20 basis points to reach 6.39%. Yields on 180-day bank bills also rose by around 25 basis points over the month, finishing at 6.50% in early November. Catalysts for the rise in bank bill yields over the period included a persistently low unemployment rate, higher than expected increases in producer prices and strong growth in underlying inflation.

• Yields on 10-year Treasury bonds rose from around 5.50% in early October to 5.81% in late October. However, following the release of weaker than expected US economic growth data on 27 October, 10-year Treasury bond yields fell to 5.61%, before bouncing back to 5.74% in early November in response to stronger US employment numbers.

Exchange rates

• The $A remained strong against most major currencies over the month ending early November, supported largely by the speculation and eventuation of a further 25 basis point interest rate hike. The $A appreciated against the $US (up 3.4%) as well as in trade weighted terms (up 2.9%) over the month ending early November. This was largely due to the release of softer GDP growth in the US, which resulted in speculation of a widening interest rate differential between Australia and the US. The $US also weakened against the Japanese Yen (down 0.6%), British Pound (down 1.5%), and Euro (down 1.0%) over the month.

Sharemarkets

• Most major sharemarkets strengthened over the month ending early November 2006, with Germany’s DAX (up 4.0 %), UK’s FTSE (up 3.7%) and US’s S&P 500 (up 2.2 %) indices rising over the period.

• Locally, share prices continued to benefit from lower oil prices, with the All Ordinaries Index (up 4.5%) rising over the month ending early November 2006. Excluding Japan’s Nikkei 225 Index (down 0.4%), most Asian sharemarkets were stronger over the month, with Hong Kong’s Hang Seng (up 5.8%), Singapore Straits Times (up 3.0%) and Taiwan’s SE Weighted (up 1.8%) indices all rising over the period.

Queensland commodity prices

• The weighted index of the prices of Queensland’s major commodity exports rose 1.9% and 4.8% in $A terms and SDR terms respectively over the month to early November 2006. The appreciation of the $A over the month eroded the extent of growth in the commodity index in the $A terms.

• The Agricultural Index increased 6.2% in SDR terms over October, driven mainly by the strong growth in beef prices. Sugar prices appear to have stabilised during October, following a sharp decline between July and September.

• Similarly, the Mineral Index also recorded strong growth, rising 4.3% in SDR terms over the month to early November 2006. World prices of zinc, lead and aluminium surged during the month, rising 27.0%, 19.7% and 11.2% respectively. In contrast, international copper prices declined marginally over the month. In general, copper prices have edged lower since mid-July 2006.
Major economic indicators by state

<table>
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<tr>
<th>Indicator</th>
<th>ABS Cal. no.</th>
<th>Data Period</th>
<th>Growth</th>
<th>Qld as % of Aust</th>
<th>Growth Rate</th>
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<td></td>
<td></td>
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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 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 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

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 Rinie Klein on (07) 3224 5326 or by email to rinie.klein@treasury.qld.gov.au. Editorial enquiries can be forwarded to Melanie Samios on (07) 3235 9008 or by email to melanie.samios@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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