The Queensland economy continued to grow strongly in September quarter 2006. The latest Queensland State Accounts (QSA), released by the Office of the Government Statistician, show that trend gross state product (GSP) rose 1.6% over the quarter, unchanged from growth in June quarter 2006. In contrast, quarterly GSP growth in the rest of Australia moderated from 0.3% in the June quarter, to marginal growth of 0.1% in the September quarter. In annual terms, Queensland GSP grew by 5.2% over the quarter, well above the 1.4% growth in the rest of Australia.

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 10.9% in December quarter 2006, to total $107.5 billion. Over the year to December quarter 2006, the total value of known investment projects in Queensland has increased by 42.2% or more than $31.9 billion.

Queensland’s trend employment rose by a total of 109,600 over the year, comprising 96,500 full time and 13,100 part time jobs, and accounted for 38.6 percent of all jobs created nationally. Remarkably, this has been achieved while the trend labour force participation rate remained at an historic high of 67.3% in January, the highest of any state.

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Introduction
The Queensland economy continued to grow strongly in September quarter 2006. The latest Queensland State Accounts (QSA), released by the Office of the Government Statistician, show that trend gross state product (GSP) rose 1.6% over the quarter, unchanged from the rate of growth in June quarter 2006. In contrast, quarterly GSP growth in the rest of Australia moderated from 0.3% in the June quarter, to marginal growth of 0.1% in the September quarter. In annual terms, Queensland GSP grew by 5.2% over the quarter, well above the 1.4% growth in the rest of Australia.

Household consumption and public final demand were the main drivers of economic growth in the State over the September quarter, each contributing 0.6 percentage point (see Figure 1). Trade sector performance improved slightly, with net exports detracting 0.2 percentage point from GSP growth over the quarter, easing from a 0.4 percentage point detraction in the June quarter. Business investment growth remained strong, despite moderating from 4.0% in the June quarter to 2.3% in the September quarter, to contribute 0.4 percentage point to GSP growth over the same period.

Household consumption Growth
Following a moderating trend in 2005-06, household consumption growth accelerated slightly to 1.0% in the September quarter. Despite the official cash rate rising in May and June, and subsequently in November 2006, excellent labour market conditions, strong growth in building approvals, and continued population growth, have remained supportive of consumer spending.

The main components driving household consumption growth in the September quarter included furnishings and household equipment (up 2.0%), other goods and services (up 1.5%), and transport services (up 1.4%). In terms of essential consumer items, rent and other dwelling services (up 1.0%) continued to increase steadily over the quarter.

Households continued to reduce spending on cigarettes and tobacco (down 0.9%) in the September quarter. Relatively high petrol prices impacted consumer decisions, with spending on new vehicles falling 0.3% over the period.

The latest ABS data on retail turnover (which accounts for more than 40% of household consumption) suggest that Queensland’s total consumer spending should have remained solid into December quarter 2006. The volume of retail turnover in Queensland rose 0.8% in the December quarter, unchanged from the previous quarter. In annual terms, retail trade in Queensland increased 3.5% in December quarter 2006, compared with 3.6% in the rest of Australia.

Dwelling investment
Since recording spectacular rates of growth during 2001-02 and 2002-03, Queensland’s dwelling investment growth slowed in 2004-05, before returning to stronger growth rates in recent quarters. In comparison, annual dwelling investment growth for the rest of Australia has been negative over eight successive quarters since June 2004.

Dwelling investment in Queensland grew by 2.6% in the September quarter, to rise 3.7% over the year. In contrast, dwelling investment in the rest of Australia grew by 1.4% in the September quarter, but remained 1.9% lower over the year.
outlook for dwelling sector investment. However, recent data suggest the three 25 basis point rate hikes in 2006 have succeeded in slowing inflation and housing credit growth (see section on wages and prices).

**Business investment**

The boom in business investment continued over the September quarter. Total business investment rose 2.3% over the quarter, to be 20.5% higher over the year. Growth in other buildings and structures (up 4.5%) was stronger than machinery and equipment investment (up 0.9%) over the quarter. In annual terms, other buildings and structures (up 20.8%) increased at a slightly faster rate than machinery and equipment investment (up 20.3%).

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 10.9% in December quarter 2006, to total $107.5 billion. Over the year to December quarter 2006, the total value of known investment projects in Queensland has increased by 42.2% or more than $31.9 billion.

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 December quarter 2006. The Business Conditions Index in Queensland rose by 4 percentage points to 27% in December quarter 2006. While the December quarter result was slightly below that of December quarter 2005, the BCI for Queensland remains well above its historic average (see Figure 5). The Queensland BCI also remains above the BCI nationally, which rose 8 percentage points to 22% in December quarter 2006.

All three components of the overall Business Conditions Index (BCI) rose over the quarter. Trading performance increased 2 percentage points to 35%. Similarly, profitability rose 7 percentage points to 29%, consistent with solid global demand and high commodity export prices in Queensland’s mining sector. Finally, employment intentions rose 4 percentage points to 16% during the December quarter, consistent with very strong growth in employment and a further decline in the State’s unemployment rate in the first two months of the quarter.

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.

Currently there are an unprecedented number of mine developments underway in Queensland, with under construction, committed, or under consideration coal mine projects and coal infrastructure developments worth more than $7 billion. 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 (expected commencement of commercial loads mid-September 2007) and the continuous development of significant road, rail and port upgrades. In total there are over $2.5 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.

**Figure 4. Business investment**

[$ million, CVM, trend]

![Business investment chart](chart)

Source: Queensland State Accounts

The trade sector detraction from growth in recent years largely reflects stronger growth in imports relative to exports. While strong global demand contributed to a rise in overseas exports over the year, this was offset by a decline in interstate exports.

**Figure 5. Business conditions indices**

![Business conditions indices chart](chart)

Source: National Australia Bank and Datastream

**Net exports**

While the trade sector in Queensland continued to detract from overall economic growth in September quarter 2006, this detraction has recently begun to diminish. Net exports detracted 0.2 percentage point from Queensland’s GSP growth over the period, less than the 0.4 percentage point detraction in June quarter 2006.

The trade sector detraction from growth in recent years largely reflects stronger growth in imports relative to exports. While strong global demand contributed to a rise in overseas exports over the year, this was offset by a decline in interstate exports.
Over the year to September quarter 2006, the level of Queensland’s total exports remained unchanged, while total imports grew 5.8%.

Growth in import demand over the year was in line with the continued growth in household consumption, as well as the strong demand for imported machinery and equipment.

Labour market

Queensland’s trend unemployment rate declined by 0.1 percentage point to reach a new 28-year low of 4.0% in January 2007. This result represents a decline of more than one percentage point over the year and, remarkably, has been achieved while the trend labour force participation rate remained at an historic high of 67.3% in January, the highest of any state.

In the rest of Australia, the trend unemployment rate remained at 4.7% in January, also the lowest on record since the inception of the monthly labour force series. However, the unemployment rate in the rest of Australia continues to be above that in Queensland, as it has done for more than two years (see Figure 6).

This continued downward trend in the State’s unemployment rate has been driven by a period of sustained strong jobs growth. While trend employment growth in Queensland moderated slightly to 0.3% in January, this growth remains above the long-run average and above the monthly growth recorded nationally.

In Queensland, growth in trend full-time employment (up 5,200 jobs) accounted for the majority of the jobs growth in January, while part-time employment rose 2,000 jobs. More importantly, trend employment rose by a total of 109,600 over the year, comprised of 96,500 full-time and 13,100 part-time jobs and accounting for 38.6% of all jobs created nationally.

Wages and prices

Tight labour market conditions and strong domestic demand continued to drive solid wages and income growth in Queensland during September quarter 2006. Average weekly ordinary time earnings (AWOTE) rose 0.7% in trend terms in Queensland over the quarter, to be 3.2% higher over the year. Similarly, national AWOTE increased 0.7% over the quarter, to be 3.1% higher in annual terms.

In comparison, the wage price index (WPI), which provides a clearer picture of movements in labour costs by abstracting from increases caused by compositional changes in industry structure, also grew strongly in the September quarter. The WPI for total hourly rates of pay (excluding bonuses) in Queensland increased 1.3% in September quarter 2006, to be 4.5% higher over the year. Nationally, the WPI increased 1.1% in the September quarter to be 3.8% higher annually.

The latest ABS Consumer Price Index data show that the national headline consumer price index (CPI) declined by 0.1% in December quarter 2006, but remained 3.3% higher over the year. This was below market expectations of a 0.2% increase over the quarter and 3.6% growth in annual terms. Similarly, headline inflation in Brisbane declined by 0.1% over the quarter, but remained 3.4% higher over the year to December quarter 2006.

Decreases in prices of transportation (mainly automotive fuel), food (mainly fruit), and health (due to the Pharmaceuticals Health Benefits Scheme) were the main contributors to the decline in consumer price inflation in December quarter 2006. In contrast, consumer price increases in domestic travel and accommodation, vegetables, rent and house purchase costs partially offset these decreases in the December quarter.

Another key price measure that the Reserve Bank of Australia (RBA) takes into account in its deliberations on monetary policy is its trimmed mean estimate of underlying inflation. The latest data released by the RBA show that underlying inflation eased to 0.5% in the December quarter 2006, down from 0.9% and 0.7% in the June and September quarters respectively. In its latest Statement on Monetary Policy, (released February 12) the RBA noted that 'While the annual figure is still relatively high, underlying inflation in the second half of 2006 was below that in the first half.' This easing in underlying price inflation pressures played a role in the RBA revising down its forecast for underlying inflation to 2.75% in 2007, compared with 3% in its November Statement and, consequently, in its decision to leave interest rates on hold in February.

Looking ahead, forward indicators suggest that monthly employment growth should remain strong in the coming months. Quarterly growth in ABS Job Vacancies strengthened to 12.7% in December quarter 2006, with the seasonally adjusted estimate for vacancies reaching a record high of more than 42,000. This is consistent with other indicators of labour demand, with the ANZ Job Advertisement Series recording its sixth monthly trend increase and growth in the DEWR Skilled Vacancy Index strengthening to an annual rate of 13.7% in January 2007.
Financial indicators

**Interest rates**

- Yields on Australian 90 and 180 day bank bills peaked at 6.48% and 6.59% respectively in late January 2007. Lower than expected consumer price inflation, suggesting interest rates are unlikely to rise in the short term, led to yields on 90 and 180 day bank bills falling 9 and 13 basis points respectively, immediately following the CPI release on 24 January. Since then, short-term yields have remained flat.

- Australian 10-year Treasury Bond yields were also impacted by the release of December quarter inflation data, but have been more volatile than bank bill movements. Yields fell 10 basis points on January 24, to 5.83%, following a run up (from 5.5%) in early December. Despite the weak inflation data, yields had recovered back to 5.94% by the end of January, but then fell below 5.9% again following weak US jobs data lowering US Treasury yields.

**Exchange rates**

- The $A was impacted by lower than expected inflation data in the month ending early February 2007. On January 24, the $A depreciated 0.6% against the $US, and continued to depreciate until January 31, reaching a low of US 77.20c before recovering slightly in early February.

- Over the month ending early February, the movements of the $A against most major currencies were mixed, depreciating against the US Dollar (1.1%) and the British Pound (2.6%), while appreciating against the Euro (0.1%) and the Yen (0.9%).

**Sharemarkets**

- The S&P ASX200 index was up 4.5% over the month ending early February 2007, reflecting strong sentiment leading up to the company profit reporting season. Asian sharemarket indices generally strengthened over the same period, with Japan’s Nikkei 225 (up 1.5%), Hong Kong’s Hang Seng (up 1.2%), Singapore Straits Times (up 6.4%) and Korea’s SE Composite (up 2.3%) all higher over the period.

- Gains were also experienced by other global market indices over the month ending early February 2007, with Germany’s DAX (up 4.3%), UK’s FTSE (up 1.6%) and US’s S&P 500 (up 2.6%) rising over the period.

**Queensland commodity prices**

- The monthly-average price index of Queensland’s major commodity exports fell in both $A (down 1.6%) and SDR (down 1.5%) terms in the month to early February 2007, with both the agricultural and mineral indices declining over the period.

- The Agricultural Index fell 3.2% and 3.1% in $A and SDR terms respectively during the month. This was mainly driven by a 3.4%, 6.1%, and 1.5% decline in the prices of beef, sugar, and cotton respectively. In contrast, wool prices increased significantly during the month (up 9.8%).

- An 11.9% and 14.5% drop in copper and zinc prices more than offset an increase in the prices of aluminium (up 0.6%) and nickel (up 9.9%), resulting in the Mineral Index recording a 1.1% and 1.0% decline in $A and SDR terms respectively over the month ending early February 2007.

Sources: Data used to construct the charts on financial indicators are sourced from Reuters and Datastream.

Charts on commodity price indices are sourced from Queensland Treasury.
<table>
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<tr>
<th>Indicator</th>
<th>ABS Cal. no.</th>
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<th>Growth</th>
<th>Qld as % of Aust</th>
<th>Growth Rate</th>
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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 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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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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