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• Queensland continued to record solid economic growth in December 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 0.9% in the quarter, compared with quarterly GSP growth of 0.5% in the rest of Australia. In annual terms, GSP growth in Queensland was 5.3%, representing a rate of growth around three times that in the rest of Australia (up 1.7%).

• According to the latest Access Economics Investment Monitor, the total value of definite investment projects (including those under construction or committed) continued to surge in Queensland, rising a further 6.1% in March quarter 2007, to total $32.5 billion. The total value of definite investment projects in Queensland has increased by 48.9%, or more than $10.7 billion, over the year to the March quarter.

• Labour market conditions continued to improve in April 2007, with Queensland’s trend unemployment rate falling to a new 29-year low of 3.7%. This represents a 0.1 percentage point improvement on a revised 3.8% in March 2007, and the fourteenth consecutive month that the unemployment rate has fallen.

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Introduction

Queensland continued to record solid economic growth in December 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 0.9% in the quarter, compared with quarterly GSP growth of 0.5% in the rest of Australia. In annual terms, GSP growth in Queensland was 5.3%, representing a rate of growth around three times that in the rest of Australia (up 1.7%).

Household consumption and public final demand were the main drivers of economic growth in the State over the December quarter, contributing 0.4 and 0.3 percentage point to growth respectively (see Figure 1). A rise in dwelling sector activity contributed 0.2 percentage point to GSP growth. Likewise, continued strong growth in business investment and an improvement in trade sector performance each led to a 0.1 percentage point contribution to GSP growth over the quarter.

Household consumption

Queensland’s household consumption growth remained unchanged at 0.8% in the December quarter, to be 3.2% higher over the year. The three interest rate rises in 2006 have had a moderating effect on household consumption in the State. However, excellent labour market conditions, a strong dwelling sector and continued population growth should support household consumption going forward.

The main components driving household consumption growth included furnishings and household equipment (up 2.4%), other goods and services (up 1.9%), transport services (up 3.9%), and rent and other dwelling services (up 1.0%). However, households continued to reduce spending on cigarettes and tobacco (down 0.5%), and clothing and footwear (down 0.6%) in the December quarter.

The latest ABS data on retail turnover (which accounts for more than 40% of household consumption) suggest that growth in Queensland’s total consumer spending may pick up in March quarter 2007. The volume of retail turnover in Queensland rose 1.5% in the March quarter, up from 1.3% in the previous period. In annual terms, retail trade growth in Queensland strengthened to 4.5% in the March quarter.

Dwelling investment

Dwelling investment in Queensland recorded a third consecutive quarter of strong growth (up 1.9%) in the December quarter. Similarly, for the third successive period, dwelling investment in the rest of Australia grew (up 1.7%) in the quarter. In annual terms, dwelling investment in the State grew for the 22nd consecutive quarter (up 5.7%), while dwelling investment in the rest of Australia recorded annual growth (2.9%) for the first time since June 2004.

Both components of Queensland dwelling investment continued to grow in December quarter 2006. Investment in alterations and additions of existing dwellings grew by 2.4% in the quarter. Construction of new and used dwellings also rose (up 0.5%) over the period.

Based on the current strong growth in building approvals and construction finance in the State, dwelling investment in Queensland is expected to grow in the near-term. Likewise, finance for the purchase of established dwellings in Queensland (an indicator of market sentiment) is at levels not seen since the peak of the last housing boom in 2003-04.

Despite the RBA leaving rates unchanged at the start of this year, further rate rises remain the chief risk to the longer-term outlook for dwelling sector investment, as national labour market conditions remain tight and consumer confidence continues to be upbeat.

Source: Queensland State Accounts
The Queensland economy in review

Business investment

Business investment in Queensland remained robust in December quarter 2006. Total business investment rose 0.9% over the quarter, to be 13.5% higher over the year. Growth in other buildings and structures (at 6.8%) drove growth in business investment over the quarter, with machinery and equipment investment declining 3.3%. In annual terms, other buildings and structures continued to record exceptional growth (up 24.9%), while growth in machinery and equipment investment moderated (to 5.8%). In the rest of Australia, total business investment declined 0.4% over the quarter, to be 1.3% lower in annual terms.

Figure 4. Business investment ($ million, CVM, trend)

Business investment in Queensland continues to be broad based, with major projects being driven by the mining sector, the public sector and commercial property in major centres.

Investment in Queensland’s resources sector is being supported by industrial production growth in the State’s major trading partners (particularly China, South Korea and Japan) and the continued strength in commodity prices. As a result, demand for Queensland’s coal and metals exports has grown considerably in recent years and the business sector has invested in greater productive capacity in order to meet demand.

Likewise, in response to increasing infrastructure demands, the public sector investment on a number of large investment projects (under consideration, committed or under construction) is expected to continue or commence in the near future. This includes over $5 billion in water supply and drainage projects, and $17 billion in road, rail and port upgrades.

Commercial investment activity, particularly in the office and transport sectors, has also boosted business investment in the State. Notable projects include the $2 billion first stage of the ‘North South Bypass Tunnel’ under the Brisbane River, currently under construction, and GPT group’s $800 million development of the Riverside Centre stage 2, which is under consideration.

The business investment environment in Queensland remains highly positive. According to the latest Access Economics Investment Monitor, the total value of definite investment projects in Queensland has increased by 48.9%, or more than $10.7 billion, over the year to March quarter 2007, to total $32.5 billion. The total value of definite investment projects in Queensland has increased by 48.9%, or more than $10.7 billion, over the year to March quarter.

The latest National Australia Bank Quarterly Business Survey reported a deterioration (in original terms) in business conditions in March quarter 2007. The Business Conditions Index (BCI) in Queensland fell 11 percentage points over the quarter to 16%, reflecting the usual March quarter seasonal decline, but remained above the long-run average (see Figure 5). The national BCI, also reflecting a seasonal decline, fell 7 percentage points over the quarter to 15%.

All three components of the overall BCI in Queensland declined over the quarter. However, business expectations suggest a substantial rebound in the BCI in June quarter 2007 to 27%. Likewise, trading performance is expected to rise 13 percentage points to 36%, profitability to rise 12 percentage points to 27% and employment intentions to rise 8 percentage points to 18%.

Figure 5. Business conditions indices (quarterly, index points, original)

Net exports

The trade sector in Queensland contributed 0.1 percentage point to GSP growth in December quarter 2006. This is the first contribution by the trade sector since June 2005. While Queensland’s net trade detracted 0.6 percentage point from GSP growth in annual terms, this detraction has been declining recently. In contrast, net exports detracted 0.6 percentage point from growth in the rest of Australia in the December quarter. Overall, net trade has been detracting from economic growth in the rest of Australia since March 2002.

In December quarter 2006, Queensland’s total exports increased by 0.1%, with both international and interstate exports of goods and services growing slightly.

While total imports declined by 0.2% in the December quarter, import demand for overseas goods rose in the period (up 2.3%), in line with continued growth in household consumption, as well as strong demand for imported machinery and equipment.
Labour market

Labour market conditions continued to improve in April 2007, with Queensland’s trend unemployment rate falling to a new 29-year low of 3.7%. This represents a 0.1 percentage point improvement on a revised 3.8% in March 2007, and the fourteenth consecutive month that the unemployment rate has fallen. In contrast, the trend unemployment rate in the rest of Australia was 4.7% in April, unchanged from the previous four months. While this rate also represents a 29-year low, Queensland’s unemployment rate has been below the rate in the rest of Australia for more than two years (see Figure 6).

Wages and prices

Queensland’s wages and income growth remained solid in December quarter 2006, supported by tight labour market conditions and continued strength in domestic demand. In Queensland, the wage price index (WPI) rose strongly in December quarter 2006. The WPI for total hourly rates of pay (excluding bonuses) in Queensland increased 1.3% in the December quarter, to be 4.5% higher over the year. Nationally, the WPI rose 1.0% over the quarter, to be 4.0% higher annually.

Another wage measure, average weekly ordinary time earnings (AWOTE) increased 0.8% in trend terms over the quarter, to be 3.3% higher over the year. Nationally, AWOTE rose 0.7% over the quarter, to be 3.0% higher in annual terms.

The national headline consumer price index (CPI) rose by 0.1% in March quarter 2007, well below market expectations of a 0.6% rise. In annual terms, consumer price inflation slowed to 2.4% in the March quarter, from 3.3% recorded in the previous quarter, to be within the Reserve Bank of Australia’s (RBA) inflation target range of 2-3% for the first time since March 2006. In contrast, headline inflation was slightly higher in Brisbane than that nationally, at 0.4% over the quarter and 2.9% over the year. This largely reflects stronger increases in housing costs (mainly rents and house purchases) in the State relative to the national average.

Overall, the rise in Brisbane and national consumer prices in March quarter 2007 was largely driven by housing (mainly house purchases and rents) and health (mainly pharmaceuticals, related to the annual pharmaceuticals benefits scheme adjustment) costs. Offsetting these increases, food (mainly fruits), and to a lesser extent, household contents and services, and recreation prices declined over the quarter. The decline in fruit prices was due to a further reversal of high banana prices caused by cyclone Larry, with prices falling back to around pre-cyclone Larry levels in March quarter 2007.

A further important price measure is the RBA’s trimmed mean estimate of underlying inflation, which rose 0.5% in March quarter 2007, to be 2.7% higher over the year. With the annual rate easing from 2.9% recorded in September and December quarters 2006, the RBA left the official cash rate on hold in May. The lower than expected March quarter inflation also led the RBA to revise down their forecast of underlying inflation in the May Statement of Monetary Policy, to 2½% for the remainder of 2007, compared with 2¾% in the February Statement. However, over the longer-term, the RBA still maintains a mild tightening bias, expecting underlying inflation to pick-up again in 2008 and 2009, due to upward inflationary pressures from a strong world economy, strong demand growth and limited spare capacity.
Financial indicators

Interest rates

- Yields on Australian 90 and 180 Day Bank Bills fell 10 basis points (to 6.37%) and 12 basis points (to 6.45%) respectively over the month ending early May 2007. This is mainly due to lower than expected March quarter CPI data released in late April, and the RBA’s subsequent decision to leave interest rates on hold on 2 May. However, this decline followed a run up over the last two months on expectations of a monetary tightening in either April or May, and represents a return to pre-rate rise speculation levels.

- In contrast, Australian 10-year Treasury Bond yields were relatively unchanged over the month ending early May 2007, falling on only 3 basis points to 5.86%. The recent stability of long-term bond yields largely reflected mixed signals regarding the country’s economic and inflation outlook.

Exchange rates

- The $A reached a 16 year high of US83.63c, before falling back to US82.47c in the month ending early May 2007, to be 1.0% higher against the US$ compared with early April. The $A depreciated sharply following the lower than expected CPI data released on 24 April, but remained at high levels based on expectations of a widening in the interest rate differential between Australia and the United States, and sustained high commodity prices.

- The $A was mixed against the other major currencies in the period ending early May 2007, falling against the Euro (0.8%), almost unchanged against the British Pound, but up against the Japanese Yen (2.0%).

Sharemarkets

- The S&P ASX200 Index rose 4.3% in the month ending early May 2007, to reach a record high of 6,335.7. This result follows strong growth in global markets, with share prices in the US, Hong Kong, Korea and Singapore also reaching new highs over the month.

- Most major global sharemarkets recorded strong growth in the month ending early May 2007, with Japan’s Nikkei 225 up 1.1%, Hong Kong’s Hang Seng up 3.4%, Germany’s DAX up 6.0%, the UK’s FTSE up 3.2%, and the US S&P 500 up 4.6%.

Queensland commodity prices

- The monthly-average price index of Queensland’s major commodity exports increased significantly (up 2.8%) in SDR terms in the month to early May 2007, but only increased marginally (up 0.4%) in A$ terms, with the $A appreciating 2.4% against most currencies in trade weighted index terms during the month.

- Increases in the index have been driven by continued gains in the Mineral Index, which recorded a 1.6% and 4.0% rise in $A and SDR terms respectively. Strong growth was recorded in the international prices of copper (16.5%) and zinc (12.9%) and, to a lesser degree, nickel (5.4%), lead (3.5%) and aluminium (1.6%) during the month ending early May 2007.

- Offsetting the strong increases in the Mineral Index, the Agricultural Index declined by 3.3% and 1.0% in $A and SDR terms respectively during the month. This was driven by a 3.1%, 3.0% and 1.7% fall in the price of sugar, cotton and beef respectively. These falls were partly offset by increases in the price of wheat (up 3.6%). Wool prices declined marginally (down 0.8%) during the month.

Sources: Data used to construct the charts on financial indicators are sourced from Reuters and Datastream.
### Major economic indicators by state

**Indicator** | **ABS** | **Data Period** | **Growth** | **Qld as % of Aust** | **Growth Rate**
--- | --- | --- | --- | --- | ---
Economic Growth (a) (cvm) | | | | | 
Household Final Consumption Expenditure | Dec-06(q) | Annual | 18.7 | 3.2 | 3.6 | 2.8 | 2.1 | 5.6 | 2.6 | 3.4 |
Private Gross Fixed Capital Formation | Dec-06(q) | Annual | 22.3 | 8.9 | -8.5 | 2.4 | 2.6 | 12.4 | -20.7 | 1.7 |
Public Final Demand | Dec-06(q) | Annual | 19.3 | 9.8 | 4.8 | 4.7 | 3.1 | 2.8 | -1.5 | 5.6 |
State/National Final Demand | Dec-06(q) | Annual | 19.6 | 6.0 | 1.4 | 3.2 | 2.7 | 7.2 | -3.0 | 3.5 |
Exports | Dec-06(q) | Annual | na | -0.3 | na | na | na | na | na | 4.5 |
Imports | Dec-06(q) | Annual | na | 1.5 | na | na | na | na | na | 8.7 |
Gross State Product/Gross Domestic Product | Dec-06(q) | Quarterly | 18.9 | 0.9 | na | na | na | na | na | 0.6 |

**Private Consumption**
- Retail Trade: 8501.0, Mar-07, Monthly: 20.2, 0.9, 0.7, 0.3, 0.8, 1.0, 0.3, 0.7
- New Motor Vehicle Sales: 9314.0, Mar-07, Monthly: 22.4, 1.3, 1.0, 1.5, 1.2, 0.2, 0.2, 1.1

**Housing Sector**
- Dwelling Approvals (no.): 8731.0, Mar-07, Monthly: 27.5, -1.7, -1.3, 0.5, 0.1, -3.1, 0.4, -1.0
- Dwelling commencements (no.): 8752.0, Dec-06(q), Quarterly: 26.5, 2.3, 5.6, 0.0, -0.3, -3.3, 3.4, -1.2

**Business Investment**
- Machinery and Equipment (a): 5206.0, Dec-06(q), Annual: 21.8, 5.8, -9.9, 3.5, -6.7, -7.2, -39.0, -3.5
- Other Buildings and Structures (a): 5206.0, Dec-06(q), Annual: 21.7, 24.9, 24.9, 31.5, 36.1, -19.0, 8.8
- Engineering Construction Commencements (v) (o): 8762.0, Dec-06(q), Annual: 29.0, 78.3, 78.3, 4.3, 13.6, 56.1, 19.2, 90.0

**Demography**
- Population (o): 3101.0, Sep-06(q), Annual: 19.7, 1.9, 0.9, 1.4, 0.9, 2.0, 0.6, 1.3

**Labour Market**
- Employment: 6202.0, Apr-07, Monthly: 20.5, 0.3, -0.1, 0.4, -0.3, 0.3, 0.2, 0.2
- Unemployment Rate (l): 6202.0, Apr-07, Annual: 5.7, 1.4, 3.0, 0.3, 2.9, 0.4, 2.8
- Labour Force: 6202.0, Apr-07, Monthly: 20.3, 0.3, 0.0, 0.3, -0.3, 0.2, 0.1, 0.2
- DEWR (b) Skilled Vacancy Survey: 8752.0, Dec-06(q), Quarterly: 13.4, 15.7, -15.2, -22.1, 11.6, -19.7, 11.5, -6.5

**Wages and Prices**
- Average Weekly Ordinary Time Earnings (l): 6302.0, Dec-06(q), $ level: 93.7, 992.5, 992.5, 3.3, 1094.4, 1017.9, 997.3, 1132.8, 958.2
- Consumer Price Index (o): 6401.0, Mar-07(p), Quarterly: 2.9, 2.2, 2.2, 1.8, 3.5, 2.1, 2.4

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: [www.oesr.qld.gov.au](http://www.oesr.qld.gov.au)

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