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

• The Queensland economy continued to record strong growth in June quarter 2007. The latest Queensland State Accounts, prepared by the Office of Economic and Statistical Research, show that trend gross state product (GSP) rose 1.9% in the quarter, easing 0.3 percentage point from March quarter 2007. However, in annual terms growth in Queensland accelerated to 8.0%, the highest rate of growth in the 21-year history covered by the Queensland State Accounts.

• According to the September quarter Access Economics Investment Monitor, the total value of known investment projects in Queensland rose 8.9% in September quarter 2007, to total $121.9 billion. Queensland investment continues to be more broad-based than Western Australia. In fact, Queensland had the highest level of non-mining known investment projects in the September quarter among all the States and Territories.

• Trend monthly jobs growth in Queensland remained modest in October 2007, rising 0.2% for the third consecutive month. While monthly jobs growth has moderated over 2007, this followed a 13-month period (March 2006 to March 2007) of monthly jobs growth well above the State’s long-run average. Recent moderate jobs growth can be partially attributed to a cyclical slowing in activity following the previous surge in employment.

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To all our QER readers, this is the last edition for 2007, but we will return in 2008. Have a Merry Christmas, a safe festive season, and a successful new year.

The Queensland Economic Review (QER) is available through the Office of Economic and Statistical Research website:
www.oesr.qld.gov.au

The next edition of the QER is scheduled to be released in the week ending 1 February 2008
Introduction

The Queensland economy continued to gain momentum in June quarter 2007. The latest Queensland State Accounts, released by the Office of Economic and Statistical Research, show that trend gross state product (GSP) rose 1.9% in the quarter, compared with economic growth of 1.0% in the rest of Australia. In annual terms, economic growth in Queensland accelerated to 8.0%, the highest rate of growth in the 21-year history covered by the Queensland State Accounts. This also represented a rate of annual growth more than double the 3.5% recorded in the rest of Australia.

Investment by the private and public sector, as well as household consumption, remained the main drivers of economic growth in the State in the June quarter (see Figure 1). While business investment was the largest driver of total investment growth, care must be taken interpreting data on business investment and public enterprises. This is due to the reclassification of Telstra’s investments from the public to private sector from March quarter 2007 onwards, following the telco’s privatisation in late 2006. Dwelling investment also contributed to growth, while net exports continued to detract from growth in the quarter.

Household consumption

Household consumption in Queensland rose 0.9% in June quarter 2007, to be 3.7% higher over the year. Growth in household consumption in the State has remained steady in recent quarters, despite three interest rate increases in 2006. Consumer spending has been supported by exceptional labour market conditions and population growth. Continued growth in wages and an acceleration in house price growth have also added to household incomes and wealth in the State. These underlying factors should continue to support consumer spending going forward, and help partly offset the impact on disposable incomes from the 25 basis point interest rate rises in August and November.

The main components driving quarterly household consumption growth included the purchase of vehicles (up 3.7%), furnishings and household equipment (up 3.2%), recreation and culture (up 1.4%), and insurance and financial services (up 1.3%).

The latest ABS data on retail turnover (which account for more than 40% of household consumption) suggest that growth in Queensland’s consumer spending may in fact strengthen in September quarter 2007. Real retail turnover in Queensland rose 2.1% in the September quarter, following similar growth of 2.2% in the previous quarter. However, in annual terms, retail trade in the State increased 7.7%, the strongest annual rise in three years. In comparison, real retail trade in the rest of Australia increased 0.8% in the September quarter, to be 3.8% higher in annual terms.

Dwelling investment

Dwelling investment in Queensland recorded its fifth consecutive quarter of growth, rising 1.7% in the June quarter. While growth has moderated in recent quarters, the level of dwelling investment in Queensland continued to reach new highs (see Figure 3). Dwelling investment in the State rose 13.9% over the year to the June quarter, its third consecutive quarter of double-digit annual growth. In comparison, dwelling investment in the rest of Australia rose 0.1% in the June quarter, and 2.6% in annual terms.

Activity in both components of Queensland’s dwelling investment continued to grow in the June quarter. Investment in alterations and additions of existing dwellings grew by 1.4% while construction of dwellings rose 1.9% in the quarter.

Key economic indicators support a positive near-term outlook for dwelling investment growth in Queensland. Building approvals have remained above their long-run level for a year and a half and surged 11.8% over the year to September 2007. Strong population growth and low rental vacancy rates should also support both owner-occupied and investor demand for new dwelling construction in the State. The main risk in the medium term is the impact of the August and November interest rate increases. Nevertheless, finance for the purchase of existing dwellings in Queensland in September quarter 2007, a forward indicator of market sentiment,
remained at levels above the peak of the housing boom in 2003-04.

Alterations and additions activity, which currently makes up over 45 percent of Queensland’s dwelling investment, should also continue to increase going forward. Higher house prices should continue to encourage persons to draw on the increased equity in their home to renovate, and make it more attractive for home owners to renovate existing properties rather than purchase a new house.

Business investment

In seasonally adjusted terms, total business investment in Queensland rose 4.7% in June quarter 2007, to be 24.7% higher over the year. In annual terms, other buildings and structures continued to record strong growth (up 40.4%), while machinery and equipment investment rose 14.5%. In the rest of Australia, total business investment rose 4.1% over the quarter, to be 11.7% higher in annual terms.

Strong economic conditions, domestically and in the State’s major trading partners, resulting in high rates of capacity utilisation, are continuing to drive business investment in the State. According to the latest Consensus forecasts, Queensland’s major trading partners are forecast to grow by 4.3% and 4.1% in 2007 and 2008, respectively. This, along with ongoing high commodity prices has supported investment in the State’s mining and related sectors. Domestically, population growth and rising incomes in Queensland are also encouraging businesses to invest across other sectors of the economy in order to meet growing domestic demand.

According to the September quarter Access Economics Investment Monitor, the total value of known investment projects in Queensland rose 8.9% in September quarter 2007, to total $121.9 billion. Queensland investment continued to be more broad-based than Western Australia, with 27.5% of total investment projects related to mining, compared to 69.8% in Western Australia. In fact, Queensland had the highest level of non-mining known investment projects in the September quarter among all the States and Territories, at $88.4 billion, followed by New South Wales ($81.0 billion) and Victoria ($66.0 billion).

Major infrastructure projects highlighted in the Investment Monitor include several energy projects. In addition, numerous water projects are taking place, such as the construction of a $1.7 billion recycled water pipeline in the Western Corridor. Commercial projects also remain strong, highlighted by the construction of a multimillion dollar Yatala business park, and Rivergate marine and industry park.

Numerous mining-related projects are currently underway in Queensland, reflecting the continued world demand for commodities and Queensland’s close proximity to the rapidly growing Asia region. The three largest mining projects currently under construction are related to coal production - with the $1.1 billion Dawson project, $950 million Clermont project and the $650 million Lake Lindsay open-cut coal mine. In addition, the Mt Isa zinc-lead concentrator is currently undergoing an expansion worth $166 million.

In original terms, the latest National Australia Bank Quarterly Business Conditions Index (BCI) rose 6 percentage points to 22% in September quarter 2007, to remain only marginally lower (one percentage point) when compared with the same period a year earlier. Importantly, the BCI for Queensland remained well above the State’s long-run average (11.7%), and above that nationally (19%).

All three components which comprise the overall BCI in Queensland rose in the September quarter. Trading conditions rose 14 percentage points to 32%, profitability rose 3 percentage points to 22% and employment rose 1 percentage point to 11%. Reflecting the strengthening in overall business conditions, the rate of business capacity utilisation in Queensland rose from 82.1% in the June quarter to 83.9% in September quarter 2007.

### Net exports

In net terms, the trade sector in Queensland detracted 0.1 percentage point from GSP growth in June quarter 2007, and 0.9 percentage point from GSP growth over the year. In the rest of Australia, net exports detracted 0.6 percentage point from growth over the quarter, and 2.5 percentage points in annual terms.

The detraction to growth from net exports was due to imports rising faster than exports. Imports growth was led by imports of overseas goods, which rose 1.7% in the quarter and 11.3% over the year. Overseas imports were supported by strong business investment, rising household incomes and a strengthening in the Australian dollar.
Despite a rising Australian dollar, quarterly growth in overseas exports was 0.2% in the June quarter, the fourth consecutive quarter of growth. Strong global demand should assist overseas commodity exports, and an apparent easing in drought conditions should support a firmer outlook for farm sector exports.

Labour market

Trend monthly jobs growth in Queensland remained modest in October 2007, rising 0.2% for the third consecutive month. While monthly jobs growth has moderated over 2007, this followed a 13-month period (March 2006 to March 2007) of monthly jobs growth well above the State’s long-run average. Recent moderate jobs growth can be partially attributed to a cyclical slowing in activity following the previous surge in employment.

Labour force growth in Queensland (0.3%) exceeded jobs growth (0.2%) in October, causing the trend unemployment rate in Queensland to rise marginally to 3.8%, from a revised 3.7% in September. However, the unemployment rate remains below the rate of 4.2% recorded a year earlier and well below the 4.4% rate recorded in the rest of Australia. Queensland’s unemployment rate has now been below that in the rest of Australia since July 2004, a period of 40 consecutive months.

Importantly, the underlying economic environment in Queensland remains very supportive of continued jobs growth and the maintenance of low unemployment over the medium term. Gross state product in Queensland rose 8.0% (trend) over the year to June quarter 2007, the highest annual growth rate recorded in the 21-year history of the series. Further, activity in labour-intensive sectors, such as retail trade and housing, remains particularly strong, with trend nominal retail turnover growing 12.1% over the year to September 2007, and trend building approvals growing 11.8% over the same period. Growth in both public and private investment is also likely to continue to support employment growth.

In comparison, headline inflation was higher in Brisbane than that nationally, at 0.9% in the September quarter and 2.7% annually. Similar to the national result, the main contributors to the increase in the Brisbane CPI were housing, food, and financial and insurance services.

Prices and wages

The national headline consumer price index (CPI) rose by 0.7% in September quarter 2007, below expectations of 0.9% growth. In annual terms, CPI eased to 1.9% in the September quarter, down from a recent peak of 4.0% recorded in June quarter 2006.

In contrast to the headline figures, both measures of national quarterly underlying inflation remained high at 0.9% (trimmed mean) and 1.0% (weighted median) in the September quarter. In annual terms, the trimmed mean estimate increased by 2.9% and the weighted median rose by 3.1%. These results were above market expectations of 0.8% growth in the September quarter and 2.8% growth in annual terms.

As a consequence, at the 6 November board meeting, the RBA decided to raise the official cash rate by 25 basis points, to 6.75%. In a statement released by the RBA, Governor Stevens noted that “growth in aggregate demand will, nonetheless, need to moderate if inflation is to be kept to 2 - 3 per cent in the medium term.” This statement suggests that if current growth rates in national domestic activity continue, further interest rate rises are possible.

Strong growth in Queensland wages should help to offset some of the adverse impact of interest rate rises on disposable incomes. The wage price index (WPI), excludes changes in wages due to measurable changes in the quality or quantity of work performed or in the composition of the labour force to provide an indication of changes in labour costs. The WPI in Queensland (representing total hourly rates of pay, excluding bonuses) increased 0.9% in the June quarter, to be 4.5% higher over the year. However, annual growth in the WPI in Queensland has been steady at 4.5% for four consecutive quarters, suggesting that despite tight labour market conditions and signs of inflationary pressures in the economy, growth in labour costs has so far remained contained.

Another wage measure, average weekly ordinary time earnings for full-time adults (AWOTE) in Queensland increased 1.1% in trend terms over the quarter, while annual growth was 4.6% in June quarter 2007. Nationally, earnings growth has followed a similar pattern, with AWOTE rising 1.3% over the quarter, to be 4.4% higher in annual terms.
Financial indicators

**Interest rates**

- Yields on 10-year Australian Treasury bonds remained relatively flat at around 6.2% over the month ending early November 2007. In contrast, 10-Year US Treasury bond yields fell 31 basis points to 4.3% over the period, continuing a protracted slide due to a move by investors out of risky assets as the US sub-prime mortgage crisis deepened. The widening long-term interest rate differential between Australia and the US also reflects the underlying strength of the Australian economy and the weakness of the US economy.
- Yields on Australian 90 Day and 180 Day bank bills rose over the period, to 7.1% and 7.3% respectively, following the release of higher than expected underlying inflation rates in late October, and a subsequent interest rate rise by the RBA in early November.

**Exchange rates**

- By early November 2007, the A$ reached a new 23 year high against the US$. The strength of the A$ against the US$ reflects a widening in the short-term interest rate differential as the RBA raised the official cash rate in early November to tame rising inflation while the US Federal Reserve cut the target Fed Funds rate in late October in an attempt to contain the impacts of the sub-prime mortgage crisis. Over the month, the A$ appreciated 3.8% against the US$, to reach US$93.76c.
- Over the period, the A$ also strengthened against the Japanese Yen (up 1.2%) and UK Pound (up 0.7%).

**Sharemarkets**

- The S&P ASX 200 Index fell from an historic high on 1 November to remain relatively flat (up 0.6%) over the month ending early November 2007. Australian sharemarkets largely tracked US developments over the period, with markets rallying following the 25 basis point cut of the Fed Funds rate by the US Federal Reserve on 31 October, and falling shortly after, as news of a deterioration in the sub-prime mortgage situation emerged.
- Globally, sharemarkets were generally lower over the month, with Japan’s Nikkei 225 Index down 5.7%, the US’s S&P 500 Index down 5.0%, the UK’s FTSE 100 Index down 2.4% and Germany’s DAX 30 Index down 2.2%. In contrast, Hong Kong’s Hang Seng Index was up 7.0%, as market sentiment escalated in anticipation of the Chinese government’s decision to allow Chinese citizens to invest directly in Hong Kong shares.

**Queensland commodity prices**

- The monthly-average price index of Queensland’s major commodity exports increased in SDR terms (up 3.0%), while decreasing in A$ terms (down 1.1%) in the month ending early November 2007, with the A$ continuing to appreciate against most major currencies over the month.
- While increasing by 1.4% in SDR terms, the Agricultural Index declined 2.8% in A$ terms. This was driven by a continued decline in beef prices (down 3.3%). In contrast, wheat prices maintained record highs, and are estimated to have increased by 2.0% over the month ending early November 2007, a 58.7% increase since the start of June. The world price of sugar continued to recover (up 3.5%), while world prices of wool (up 4.4%) and cotton (up 0.6%) increased over the month as well.
- The Mineral Index fell 0.5% in A$ terms in the month, in contrast to a strong rise of 3.7% in SDR terms. All world commodity prices in the index, including lead (up 10.8%), nickel (up 3.9%), aluminium (up 2.6%), copper (up 0.6%) and zinc (up 0.3%), rose over the month.

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 Cal. no.</th>
<th>Data Period</th>
<th>Growth</th>
<th>Qld as % of Aust</th>
<th>Growth Rate</th>
</tr>
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<tr>
<td><strong>Economic Growth (a) (cvm)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>Household Final Consumption Expenditure</td>
<td>Jun-07(q)</td>
<td>Annual</td>
<td>18.6</td>
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<td>4.5</td>
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<td>Private Gross Fixed Capital Formation</td>
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<td>22.9</td>
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<td>Public Final Demand*</td>
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<td>State/National Final Demand</td>
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<td>Annual</td>
<td>19.9</td>
<td>8.2</td>
<td>4.1</td>
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<tr>
<td>Exports</td>
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<td>Annual</td>
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<td>4.6</td>
<td>na</td>
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<tr>
<td>Imports</td>
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<td>Annual</td>
<td>na</td>
<td>4.1</td>
<td>na</td>
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<td>Gross State Product/Gross Domestic Product</td>
<td>Jun-07(q)</td>
<td>Quarterly</td>
<td>19.3</td>
<td>1.9</td>
<td>na</td>
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<tr>
<td><strong>Private Consumption</strong></td>
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<td>Retail Trade</td>
<td>8501.0</td>
<td>Sep-07</td>
<td>Monthly</td>
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<td>New Motor Vehicle Sales</td>
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<td>Sep-07</td>
<td>Monthly</td>
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<td>Dwelling Approvals (no.)</td>
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<td>Dwelling Commencements (no.)</td>
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<td>Machinery and Equipment (a)*</td>
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<td>Other Buildings and Structures (a)*</td>
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<td>Engineering Construction Commencements (v) (o)</td>
<td>8762.0</td>
<td>Jun-07(q)</td>
<td>Annual</td>
<td>35.8</td>
<td>52.8</td>
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<td>Population</td>
<td>3101.0</td>
<td>Mar-07(q)</td>
<td>Annual</td>
<td>19.9</td>
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<td><strong>Labour Market</strong></td>
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<td>Employment</td>
<td>6202.0</td>
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<td>Monthly</td>
<td>20.4</td>
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<td>Unemployment Rate</td>
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<td>Monthly</td>
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<td>DEWR (b) Skilled Vacancy Survey</td>
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<td>Monthly</td>
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<td>ANZ Job Advertisement Series</td>
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<td>Monthly</td>
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<td>1.3</td>
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<td><strong>Wages and Prices</strong></td>
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<td>Average Weekly Ordinary Time Earnings (l)</td>
<td>6302.0</td>
<td>Jun-07(q)</td>
<td>$</td>
<td>93.7</td>
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<td>Consumer Price Index (o)</td>
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<td>Sep-07(q)</td>
<td>Quarterly</td>
<td>0.9</td>
<td>0.4</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.

* Trend data are unavailable due to classification issues following the recent privatisation of Telstra.

(a) The **Queensland State Accounts** are the source of all Queensland data, except private gross fixed capital formation. Remaining data, i.e. for other states, Australia, and private gross fixed capital formation 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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