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- The Queensland economy continued to outperform the rest of the nation in September 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, stronger than economic growth of 0.6% in the rest of Australia. However, this compares with 2.4% economic growth in Queensland in June quarter 2007. In annual terms, momentum from sustained strong growth in consumption and investment led to economic growth of 8.7% for the State over the year, compared with 2.9% in the rest of the nation.

- According to the latest Access Economics Investment Monitor, the total value of known investment projects in Queensland rose 1.2% in December quarter 2007, to total $123.4 billion, following 8.9% growth in the previous quarter. The moderation in growth in the December quarter partially reflects the completion of a number of projects. Importantly, the Investment Monitor shows Queensland’s investment remains broad based, with around three quarters of total investment projects not related to mining.

- Revised trend data show that Queensland’s monthly unemployment rate was unchanged at 3.6% in January 2008, equalling the lowest trend unemployment rate in almost 30 years. This result represents a decline of more than 0.4 percentage point over the year.

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Introduction

The Queensland economy continued to outperform the rest of the nation in September 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, stronger than economic growth of 0.6% in the rest of Australia. However, this compares with 2.4% economic growth in Queensland in June quarter 2007. In annual terms, momentum from sustained strong growth in consumption and investment led to economic growth of 8.7% for the State over the year, compared with 2.9% in the rest of the nation. This is similar to the surge in Queensland’s economic growth in annual terms almost a decade ago, recorded at 7.6% for March quarter 1999.

Investment (excluding dwelling investment) and household consumption were the main drivers of economic growth in the State in the September quarter (see Figure 1). Dwelling investment detracted slightly from growth, while net exports made no contribution to GSP growth in the quarter.

Household consumption

Household consumption in Queensland rose 1.6% in September quarter 2007, to be 5.2% higher over the year. Growth in household consumption in the State has accelerated in recent quarters, despite interest rate increases in May, August and November 2006, and August 2007. Consumer spending has been supported by excellent labour market conditions and strong population growth. Continued growth in wages, a reacceleration in house price growth and tax cuts have also added to household incomes and wealth in the State.

The main components driving quarterly household consumption growth included rent and other dwelling services (up 0.9%), furnishings and household equipment (up 2.4%), health (up 2.1%), and recreation and culture (up 1.2%). Food consumption (down 0.7%) detracted from growth in the quarter.

The latest ABS data on retail turnover (which account for more than 40% of household consumption) suggest that growth in Queensland’s consumer spending should remain strong in December quarter 2007. Real retail turnover in Queensland rose 1.7% in the December quarter, following growth of 2.0% in the previous quarter. In annual terms, real retail trade in the State increased 8.1%, the strongest annual rise in three years. In comparison, real retail trade in the rest of Australia increased 1.2% in the December quarter, to be 4.3% higher in annual terms.

Figure 1. Contribution to GSP growth, Queensland

<table>
<thead>
<tr>
<th>Category</th>
<th>June quarter 2007</th>
<th>September quarter 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household Consumption</td>
<td></td>
<td></td>
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<tr>
<td>Dwelling Investment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total investment (excluding dwellings)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Exports</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GSP</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: OESR, Queensland State Accounts

Dwelling investment

After reaching an historic peak in the June quarter, dwelling investment in Queensland fell 1.7% in the September quarter, the first decline in six quarters. The recent moderation in dwelling investment growth follows strong activity in the second half of 2006 (see Figure 3). In annual terms, dwelling investment in the State rose 6.4% in the September quarter. In comparison, dwelling investment in the rest of Australia rose 0.6% in the September quarter, to be 1.6% higher over the year.

Activity in both components of dwelling investment in Queensland fell in the September quarter, with alterations and additions activity falling 2.1%, and new dwelling construction falling 0.8%.

Leading indicators of construction activity also suggest a modest near term outlook for dwelling investment growth in Queensland. Trend building approvals have fallen in each of the three months to December 2007, while annual growth in approvals has moderated from 13.6% in September 2007, to 6.4% in December. This softening in the short term housing outlook coincides with interest rate rises by both the RBA and major banks over the past year.

In the longer term however, dwelling investment in Queensland will be supported by a number of factors. Queensland is expected to continue to outperform the rest of the nation in both population and economic growth. There is also strong underlying demand for owner occupied housing in Queensland, which should encourage new and used dwelling investment growth going forward. Also, increasing rental yields...
and strong annual growth in house prices are expected to encourage investor activity in the housing market. Brisbane house prices rose 21.6% over the year to December quarter 2007, the fastest in the nation.

Renovation activity, which currently makes up over 45 percent of Queensland’s dwelling investment, should also remain supported in the longer term. Higher house prices have encouraged persons to draw on the increased equity in their home to renovate, and made it more attractive for home owners to renovate existing properties rather than purchase a new house. Further, favourable employment conditions, facilitating strong growth in household incomes, should also help support renovation activity in the State.

Business investment

In seasonally adjusted terms, total business investment in Queensland fell 2.8% in September quarter 2007, but remained 7.2% higher over the year. In the rest of Australia, total business investment rose 0.3% over the quarter, to be 13.3% higher in annual terms.

The moderation in business investment growth in Queensland follows 13 quarters of double digit annual growth. This moderation partly reflects the mature stage of the investment cycle and the completion of several major mining projects.

In the longer term, business investment should remain robust, given strong economic growth is expected to continue to drive business profitability. Machinery and equipment investment in the State should also be supported by the high A$, which effectively lowers the price of imported capital goods for domestic businesses.

Strong economic conditions in the State’s major trading partners are also expected to continue to drive business investment in the State. According to the January 2008 Consensus forecasts, Queensland’s major trading partner economies are forecast to grow by a collective 3.9% and 4.1% in 2008 and 2009, respectively. While the sub-prime mortgage crisis in the US has led to some downgrades in global economic growth forecasts and poorer stock market performance, growth in emerging Asia is expected to remain strong. In particular, contract prices for major commodities, such as coal, are expected to rise this year, which should support profitability and investment in the State’s mining and related sectors.

According to the latest Access Economics Investment Monitor, the total value of known investment projects in Queensland rose 1.2% in December quarter 2007, to total $123.4 billion, following 8.9% growth in the previous quarter. The moderation in growth in the December quarter partially reflects the completion of a number of projects, including the $1.1 billion “Dawson Project” and the $1.1 billion Kogan Creek Power Plant. Importantly, the Investment Monitor shows Queensland’s investment remains broad based, with around three quarters of total investment projects not related to mining. In fact, at $90.4 billion, Queensland had the highest level of non-mining known investment projects among all the states and territories in the December quarter.

Major new projects announced in the December quarter include a $1.2 billion extension to the Kestrel longwall mine by Rio Tinto and Mitsui, and the $1.7 billion Multiplex development of a new commercial precinct ‘Northbank’ in Brisbane.

In original terms, the latest National Australia Bank Quarterly Business Survey shows that the Queensland Business Conditions Index (BCI) rose 5 percentage points to 27% in December quarter 2007, to be in line with the level in the same quarter a year earlier. Importantly, the BCI for Queensland maintained its position well above the State’s long run average of around 15% for the December quarter. Nationally, the BCI rose 6 percentage points over the quarter and 2 percentage points over the year, but at 24% in December quarter 2007, remained below that in Queensland.

All three components of the overall BCI in Queensland rose in the December quarter. Trading conditions rose 5 percentage points to 37%, profitability rose 4 percentage points to 26% and employment rose 6 percentage points to 17%. Reflecting the continued strengthening in overall business conditions, the rate of business capacity utilisation in Queensland rose to 85.8% in December quarter 2007.

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Net exports

In net terms, the trade sector in Queensland made no contribution to GSP growth in September quarter 2007, but detracted 1.0 percentage point in annual terms. In the rest of Australia, net exports detracted 0.2 percentage point from
growth over the quarter, and 1.6 percentage points in annual terms.

Both exports and imports in Queensland grew 0.2% in the September quarter. Imports growth was led by imports of overseas goods, which rose 1.1% in the quarter and 10.9% over the year. Overseas imports were supported by strong business investment, rising household incomes and a strengthening in the Australian dollar. Despite the higher Australian dollar, overseas exports rose 0.5% in the September quarter, to be 3.5% higher over the year, the fifteenth consecutive quarter of annual overseas exports growth.

Looking ahead, strong global demand, particularly from Asia, for Queensland’s mineral resources should assist overseas unemployment rate was unchanged at 3.6% in January 2008, equalling the lowest trend unemployment rate in almost 30 years. This result represents a decline of more than 0.4 percentage point over the year.

In the rest of Australia, the trend unemployment rate remained at 4.5% for the ninth consecutive month in January, also the lowest on record since the inception of the monthly labour force series in February 1978. However, the unemployment rate in the rest of Australia continues to be above that in Queensland, as it has been since July 2004, a period of 43 consecutive months (see Figure 6).

**Labour market**

Revised trend data show that Queensland’s monthly trend unemployment rate was unchanged at 3.6% in January 2008, equalling the lowest trend unemployment rate in almost 30 years. This result represents a decline of more than 0.4 percentage point over the year.

In the rest of Australia, the trend unemployment rate remained at 4.5% for the ninth consecutive month in January, also the lowest on record since the inception of the monthly labour force series in February 1978. However, the unemployment rate in the rest of Australia continues to be above that in Queensland, as it has been since July 2004, a period of 43 consecutive months (see Figure 6).

**Figure 6. Unemployment rate**

- Queensland
- Rest of Australia

Trend employment in Queensland rose a modest 0.1% (up 2,200 persons) in January 2008, to be 2.4% higher over the year. Annual employment growth was comprised of 28,200 full time and 21,700 part time jobs. In the rest of Australia, employment rose 0.2% in January, to be 2.7% higher over the year.

Looking ahead, leading indicators suggest that jobs growth in the State may remain modest in the coming months. The latest ANZ Job Advertisement Series shows that trend job ads in Queensland fell 0.7% in January 2008, while the DEWR Skilled Vacancy Index (trend) for Queensland fell 0.9% in the same month.

**Prices and wages**

The national headline consumer price index (CPI) rose by 0.9% in December quarter 2007, marginally below market expectation of 1.0% growth. In annual terms, consumer price inflation strengthened to 3.0% in the December quarter, from 1.9% in the September quarter. At 1.1% in the quarter and 3.9% over the year, headline inflation in Brisbane was higher than that recorded nationally. Similar to the national result, the main contributors to the increase in the Brisbane CPI were housing, transportation and financial and insurance services, although housing costs (led by increases in rents and house construction costs) rose more sharply in Brisbane relative to nationally.

**Figure 7. Headline inflation**

- Brisbane
- Australia

More importantly, measures of underlying inflation compiled by the RBA, which provide a clearer indication of the movement in consumer prices, moved higher in December quarter 2007. The trimmed mean measure rose 1.0% in the quarter to be 3.4% higher in annual terms, while the weighted median measure rose 1.1% in the quarter, to be 3.8% higher over the year. Quarterly growth in both underlying measures remained well above market expectation of 0.8% in the December quarter. Annual growth in the underlying measures also remained well above market expectations (3.2% for the trimmed mean and 3.4% for the weighted median) in the quarter.

As a consequence, the RBA increased the official cash rate by 25 basis points at the February board meeting, to 7.00%. In the RBA’s Statement on Monetary Policy, Governor Stevens highlighted the presence of higher than expected inflation, indicators of strong demand, and capacity constraints as reasons for the increase. The RBA also noted that inflation is expected to strengthen throughout the year, before moderating somewhat in 2009. Governor Stevens also confirmed the continuation of the Bank’s tightening bias, noting that “a significant slowing in demand from its recent pace is likely to be necessary to reduce inflation over time.”
Financial indicators

**Interest rates**

- A significant fall in share prices induced by heightened fear of a US recession coincided with a 16 basis point dip in 10-Year Australian Treasury bond yields, to 5.87%, on 22 January. However, yields on 10-Year Treasury bonds quickly rebounded to above 6% following the release of a strong underlying inflation figure on 23 January. This trend was supported by the widely anticipated interest rate increase of 25 basis points by the RBA on 5 February and an upward revision to the forecast of underlying inflation by the RBA on 11 February. In contrast, 10-Year US Treasury bond yields fell 19 basis points, to 3.62%, over the month to mid February, as risk adverse investors continued to switch their portfolios towards government bonds.

- In response to the RBA interest rate increase and in anticipation of further monetary tightening, Australian 90 and 180 Day bank bill yields rose more than 40 basis points over the month to mid February, to 7.60% and 7.74% respectively.

**Exchange rates**

- A rising interest rate differential between Australia and the US, due largely to aggressive interest rate cuts by the US Federal Reserve (Fed), saw the A$ rebound by more than 5%, from US85.8c on 22 January to US90.2c on 11 February. However, the weakness of the US$ did not extend to other major currencies. In fact, the US$ appreciated 1.8% and 0.3% against the Euro and UK Pound respectively over the month to mid February.

- Despite a depreciation against the Japanese Yen (down 1.2%), the strength of the A$ against the US$ (up 0.7%), the Euro (up 2.6%) and the UK Pound (up 1.0%) drove the Trade Weighted Index 0.6% higher over the month to mid February.

**Sharemarkets**

- The fear of a US led global economic recession drove global stock markets lower over the month to mid February. In the Asian region, Hong Kong’s Hang Seng Index (down 15.8%) recorded the biggest loss, followed by Singapore’s Straits Time Index (12.7%) and Korea’s SE Composite Index (down 7.9%). The S&P ASX 200 Index also fell 7.4% over the month, following a 10.5% decline in the previous month.

- In Europe, Germany’s DAX 30 Index fell 12.6% while UK’s FTSE 100 Index declined 8.0%. Interestingly, the extent of the decline in share prices in the US was not as severe as in other countries, partly reflecting an accumulated 125 basis point cut in the Fed funds rate.

**Queensland commodity prices**

- The monthly-average price index of Queensland’s major commodity exports decreased in SDR terms (down 3.3%) in December 2007, but declined more modestly in A$ terms (down 0.4%), with the A$ depreciating slightly in December.

- The Mineral Index fell 3.8% in SDR terms and 0.9% in A$ terms in December. This was driven by a fall in most world commodity prices in the index over the month, including lead (down 22.4%), nickel (down 15.0%), copper (down 6.7%), zinc (down 8.5%) and aluminium (down 4.9%).

- The Agricultural Index rose a modest 1.0% in A$ terms, but declined 2.0% in SDR terms in December. This decline was largely driven by a continued fall in Queensland export beef prices (down 7.3%), as well as declines in the world prices of wool (down 6.0%) and cotton (down 0.2%) in the month. In contrast, the world prices of sugar and wheat remained strong, increasing 5.8% and 2.7% respectively in December 2007.

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1 Data used in this section are available only with a two month lag. This is due to delays associated with the reporting of prices received for certain commodity exports.
## 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>
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<td>Economic Growth (a) (cvm)</td>
<td></td>
<td></td>
<td></td>
<td>QLD</td>
<td>NSW</td>
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<td>Household Final Consumption Expenditure</td>
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<td>Sep-07(q)</td>
<td>Annual</td>
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<td>Private Gross Fixed Capital Formation</td>
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<td>Sep-07(q)</td>
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<td>22.4</td>
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<td>Public Final Demand*</td>
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<td>Sep-07(q)</td>
<td>Annual</td>
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<td>na</td>
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<tr>
<td>State/National Final Demand</td>
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<td>Sep-07(q)</td>
<td>Annual</td>
<td>20.2</td>
<td>7.9</td>
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<tr>
<td>Exports</td>
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<td>Imports</td>
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<td>Gross State Product/Gross Domestic Product</td>
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<td>Sep-07(q)</td>
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<td>1.9</td>
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<td>Dwelling Approvals (no.)</td>
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<td>Dwelling Commencements (no.)</td>
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<td>Other Buildings and Structures (a)*</td>
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<td>Engineering Construction Commencements (v) (o)</td>
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<td>Labour Market</td>
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<td>Employment</td>
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<td>DEEWR (b) Skilled Vacancy Survey</td>
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<td>ANZ Job Advertisement Series</td>
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<td>Wage Price Index (o)</td>
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<td>Dec-07(q)</td>
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<tr>
<td>Consumer Price Index (o)</td>
<td>6401.0</td>
<td>Dec-07(q)</td>
<td>Quarterly</td>
<td>1.1</td>
<td>0.9</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 state final demand and 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 Education, 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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A Queensland Treasury publication

This report was produced by Queensland Treasury using data available at the time of preparation.

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