The Queensland economy in review

- The latest Queensland State Accounts, prepared by the Office of the Government Statistician, show that trend gross state product (GSP) declined 0.1% in March quarter 2008, the first quarterly decline since December quarter 2000. The marginal quarterly decline in GSP partly reflects the substantial impact of flooding on coal exports in the quarter. In annual terms, GSP growth eased for the third consecutive quarter to 3.7%, moderating from a recent peak of 7.6% in June quarter 2007.

- According to the latest Access Economics Investment Monitor, the total value of known investment projects in Queensland rose 3.3% in June quarter 2008, to total $133.9 billion. This growth reflects a strong increase in the value of committed projects (up $11.6 billion), which more than offset a fall in the value of projects under construction (down $1.7 billion) and those under consideration (down $6.0 billion).

- Revised data show that Queensland’s trend unemployment rate was 3.8% for the third consecutive month in July 2008, slightly higher than the generational low rate of 3.6% recorded in February 2008. In the rest of Australia, the trend unemployment rate was also unchanged at 4.4% in July.

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Introduction

Weaker growth in household spending and total investment, combined with a substantial detraction from net exports, led to a marginal decline in Queensland economic output in March quarter 2008. The latest Queensland State Accounts, prepared by the Office of the Government Statistician, show that trend gross state product (GSP) declined 0.1% in the quarter, the first quarterly decline since December quarter 2000. In annual terms, GSP growth eased for the third consecutive quarter to 3.7%, moderating from a recent peak of 7.6% in June quarter 2007.

The decline in the level of GSP in the March quarter largely reflects the impact of higher interest rates, which moderated activity in the household sector, and the disruption in exports due to flooding which occurred in February 2008. While total investment (excluding dwelling investment) and household consumption continued to contribute to economic growth in the quarter, the contributions were less than those in previous quarters, and were more than offset by a decline in dwelling investment and a deterioration in net exports (see Figure 1).

Household consumption (trend) in Queensland rose 0.9% in March quarter 2008, to be 5.3% higher over the year. After reaching a peak in June quarter 2007, quarterly growth in household consumption has moderated throughout 2007-08, reflecting a number of factors impacting on disposable incomes. The Reserve Bank of Australia (RBA) raised the official cash rate by a total of 100 basis points in 2007-08, including consecutive 25 basis point rises in February and March 2008. Tighter global credit conditions also saw banks independently raise interest rates to recoup some of the increased borrowing costs. A surge in crude oil prices drove fuel prices to new record highs in the second half of 2007-08, placing further pressure on household budgets.

The latest ABS data on retail turnover (which accounts for more than 40% of household consumption) indicate that growth in consumer spending in Queensland may have continued to moderate in June quarter 2008. The volume of retail turnover (trend) in Queensland fell 0.6% in the June quarter, the second consecutive quarterly decline. More significantly, annual growth in the volume of retail turnover in the State eased to 1.6% in the June quarter, the weakest annual growth in more than eleven years. Subdued retail spending in Queensland as well as in the rest of Australia (down 0.1% in the June quarter, to be 2.1% higher over the year) suggests higher interest rates and fuel prices continue to adversely affect discretionary spending across the country.

Despite these dampening effects, household consumption in the first three quarters of 2007-08 was 5.5% higher than in the same period a year earlier, well above the 4.2% growth recorded in 2006-07. The lagged impact of a re-acceleration in growth in dwelling investment in 2006-07 drove faster growth in spending on household services and furnishings in 2007-08. Combined with the positive impacts of a strengthening in house price growth and successive income tax cuts, growth in household consumption in Queensland in 2007-08 as a whole should be stronger than that in 2006-07.

Dwelling investment

After rising sharply throughout much of 2006-07 to reach a peak of almost $4.3 billion in March quarter 2007, in real terms dwelling investment in Queensland has eased over the past year. The trend volume of dwelling investment fell 0.6% in March quarter 2008, the fourth consecutive quarterly decline (see Figure 3), to be 6.2% lower over the year.

After declining for three consecutive quarters, new dwelling construction rose 0.4% in March quarter 2008. However, this growth was more than offset by a 1.2% fall in alterations and additions activity in the quarter. Alterations and additions has been the driver of recent weakness in dwelling investment in Queensland, declining 10.6% over the year to March quarter 2008, compared with a modest 2.2% fall in new construction.

Household consumption

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Leading indicators of construction activity suggest that dwelling investment will remain subdued in the short term. Trend building approvals in Queensland have fallen in each of the eight months to June 2008, to be 11.1% lower over the year. The trend number of finance approvals for owner occupied dwellings in the State also fell in June, the thirteenth consecutive monthly fall.

However, the underlying drivers of housing demand in Queensland remain sound, with Queensland expected to continue to outperform the rest of the nation in both population and economic growth. In particular, there is strong demand for owner occupied housing in Queensland, which is reflected in very low rental vacancy rates. Also, rising rental yields and relatively stronger growth in house prices are expected to encourage investor activity in the housing market in Queensland.

Business investment\(^1\)

In seasonally adjusted terms, total business investment in Queensland rose 0.9% in March quarter 2008, to be 6.1% higher over the year. Investment in other buildings and structures rose a modest 2.2% in the year to March quarter 2008, while machinery and equipment investment recorded stronger annual growth of 9.1%.

![Figure 4. Business investment (quarterly, seasonally adjusted)](source: Queensland State Accounts)

Looking ahead, the large amount of construction work either under consideration or possible is expected to support the momentum of the current investment cycle. Growth in investment in other buildings and structures is likely to pick up in 2008-09, with a surge in the terms of trade inducing another wave of investment in mining and base metals manufacturing projects, while rising demand for office space has precipitated several major commercial development projects. Growth in machinery and equipment investment is anticipated to be supported by the strength in the A$ as well as a rebound in investment by the rural sector, following a return toward normal seasonal conditions in Queensland.

According to the latest Access Economics Investment Monitor, the total value of known investment projects in Queensland rose 3.3% in June quarter 2008, to total $133.9 billion. This growth reflects a strong increase in the value of committed projects (up $11.6 billion), which more than offset a fall in the value of projects under construction (down $1.7 billion) and those under consideration (down $6.0 billion).

This buoyant outlook for business investment is somewhat clouded by a significant deterioration in domestic business conditions. In original terms, the latest National Australia Bank Quarterly Business Survey shows that the Queensland Business Conditions Index (BCI) recovered only 1 percentage point, to -1%, in June quarter 2008, after falling 29 percentage points in the previous quarter. Queensland’s BCI was below that nationally in the June quarter, only the second time this has occurred since September quarter 2001 (see Figure 5).

Looking ahead, the results of the June quarter 2008 Pulse Survey, published by Commerce Queensland, show that Queensland businesses have substantially lowered their expectations for the domestic economy. More than 71% of survey respondents expect national economic conditions to deteriorate over the next twelve months, while almost 60% expect Queensland’s economic performance to soften over the same period. While Queensland businesses remain less pessimistic about local conditions compared with national conditions, the Australian and Queensland Economic conditions indices, at 28.0 and 34.9 respectively, are both at their lowest levels since the inception of the Pulse survey.

![Figure 5. NAB business conditions indices (quarterly, index points, original)](source: National Australia Bank and Datastream)

Net exports

A fall in exports combined with continued solid imports growth saw the trade sector in Queensland detract substantially from GSP growth in March quarter 2008.

In trend terms, exports of goods and services fell 1.0% in the quarter, the largest quarterly decline since September quarter 1990. This was mainly due to a sharp fall in coal exports as production was disrupted and transport facilities were damaged by floods in Central Queensland. In contrast, imports of goods and services grew a solid 2.4% in the March quarter, reflecting the strength in investment in machinery and equipment.

The trade sector is anticipated to have rebounded somewhat in the June quarter. Preliminary trade data indicate a strong recovery in coal exports in the final quarter of 2007-08, reflecting a normalisation in mine production and increases in coal transport and port capacities. At the same time, softer retail turnover is expected to ease pressure on imports growth.

\(^1\)Note: ABS and QSA trend estimates for business investment are not available from March quarter 2007 onwards, due to a trend break in the series as a result of the full privatisation of Telstra.
The Queensland economy in review

Further tightening in global credit conditions, higher crude oil prices, and a deepening in the US economic slowdown have seen the growth prospects for the State’s major trading partners consistently downgraded. According to the latest Consensus Economics forecasts, Queensland’s major trading partner economies are forecast to grow by 3.4% in 2008 and 3.3% in 2009, rates slightly below the long-run average.

Labour market

Revised data show that Queensland’s trend unemployment rate was 3.8% for the third consecutive month in July 2008, slightly higher than the generational low rate of 3.6% recorded in February 2008. In the rest of Australia, the trend unemployment rate was also unchanged at 4.4% in July (see Figure 6).

Trend employment in Queensland rose 0.3% (up 5,600 persons) in July 2008, to be 2.7% (up 58,000 persons) higher over the year. Queensland annual employment growth was comprised of 41,500 full time and 16,500 part time jobs. In the rest of Australia, the trend level of employment was unchanged in July, but was 2.1% higher over the year.

Employment growth in Queensland is likely to remain modest in the coming months. There has been a considerable easing in activity in the labour-intensive retail and dwelling construction sectors. Further, borrowing costs for businesses remain high. Despite speculation that the RBA may cut the official cash rate soon, it is uncertain whether banks will pass any rate cut onto borrowers given the current tight credit conditions. Consequently, the outlook for non-mining business profitability has weakened, which has led to a significant fall in domestic equity prices. These factors are likely to be reflected in softer labour demand going forward.

Leading indicators also suggest that jobs growth may remain modest in the short term. The latest ANZ Job Advertisement Series shows that trend job ads in Queensland fell 4.0% in July 2008, while the Queensland DEWR Skilled Vacancy Index (trend) fell 1.8% in the same month.

Prices and wages

The national headline consumer price index (CPI) rose 1.5% in June quarter 2008, to be 4.5% higher over the year. In both quarterly (1.7%) and annual (5.1%) terms, growth in Brisbane’s CPI was stronger than the national average in the June quarter. Over the 2007-08 financial year, Brisbane’s headline inflation averaged 4.1%, stronger than the national average of 3.4%.

The rise in Brisbane’s CPI over the June quarter was mainly due to price increases in housing (driven by rents), transportation (driven by strong growth in petroleum prices) and financial and insurance services (worsening credit conditions increased bank funding costs, which were passed through in a larger spread between lending and deposit rates). Partially offsetting these quarterly price increases were falls in the prices of fruit and vegetables, reflecting unseasonably warm weather which led to strong supply growth. Contributors to the national CPI were largely in line with those of the Brisbane CPI.

Figure 7. Components of CPI, Brisbane (% of total change in CPI, June quarter 2008)

Measures of underlying inflation compiled by the RBA, which provide a clearer indication of the overall trend in consumer prices, remained well above the Bank’s target band of 2-3%. The trimmed mean measure rose 1.2% in the quarter, to be 4.3% higher in annual terms, while the weighted median measure rose 1.0% in the quarter, to be 4.5% higher in annual terms.

Despite this, the RBA left the official cash rate unchanged at 7.25% at the August board meeting. In the accompanying statement, Governor Stevens outlined a softer outlook regarding inflation and interest rates relative to prior communications. Most importantly, the statement made the comment “Nonetheless, with demand slowing, the Board’s view is that scope to move towards a less restrictive stance of monetary policy in the period ahead is increasing.” This suggests a likely ending to the RBA’s tightening cycle, meaning that the official cash rate is more likely to fall than rise in the remainder of the year.
Interest rates

- Australian 10 Year Treasury bond yields fell 39 basis points to 6.04% over the month ending early August 2008, while US 10 Year Treasury bond yields increased 3 basis points to 4.00%. The notable divergence between these longer dated yields reflected a relatively sharp deterioration in Australia’s economic outlook, compared with a month ago.

- Australian 90 day bank bill yields fell 33 basis points (to 7.44%) over the month ending early August 2008, while Australian 180 day bank bill yields fell 54 basis points (to 7.40%) over the same period. Yields of the latter dropped a notable 21 basis points on 5 August, after the RBA’s monetary policy statement revealed a softening stance on monetary policy.

Exchange rates

- The A$ generally depreciated over the month to early August 2008, where in trade-weighted terms it fell 3.9% and 4.1% against the US$. Coinciding with a shift in market expectations toward a cut in the RBA official cash rate in the short term and generally weaker base metal prices, a broad US$ appreciation also weighed on the A$ over the month. Collectively, these factors drove the US$/A$ exchange rate to around US$0.92 by 5 August, the lowest level since early April 2008.

- Over the month ending early August, the A$ depreciated 3.0% against the Euro and the Japanese Yen respectively, and 2.7% against the British Pound.

Sharemarkets

- International sharemarket performances were mixed in the month ending early August 2008. In Australia, falling world base metal prices and ongoing deterioration in global credit market conditions weighed heavily on resource and financial sector stocks respectively. The ASX 200 Index declined 5.1% over the period, with the index falling below 5,000 points in the month for the first time since September 2006.

- In Asia, South Korea’s SE Composite Index fell 2.7% while Japan’s Nikkei 225 Index fell 2.4%, but Hong Kong’s Hang Seng Index rose 2.5% over the month. Elsewhere, sharemarkets performed relatively stronger, with Germany’s DAX 30 Index, US S&P 500 Index and UK’s FTSE 100 Index rising 3.9%, 1.7% and 0.8% respectively over the month.

Queensland commodity prices

- The monthly average price index of Queensland’s major commodity exports increased in SDR terms (up 13.8%) and A$ terms (up 12.8%) in June 2008.

- The Mineral Index rose 17.5% in SDR terms and 16.4% in A$ terms in June. This was mainly driven by a rise in the average coal export price (up 23.8%), as a greater quantity of coal was exported at the new coal contract price for the 2008-09 Japanese financial year. While the world price of aluminium rose slightly in the month (up 1.7%), prices of other metals in the Mineral Index declined, including lead (down 18.5%), nickel (down 13.4%), zinc (down 13.2%) and copper (down 2.3%).

- The Agricultural Index declined 1.5% in SDR terms and 2.4% in A$ terms in June. This fall was largely due to a decline in Queensland’s beef prices (down 9.4%) and lower world prices of wheat (down 2.6%) and wool (down 2.2%) in the month. These declines were partly offset by increases in the world price of sugar (up 7.7%) and cotton (up 3.9%) in June.

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

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 Rate</th>
<th>Qld as % of Aust</th>
<th>QLD</th>
<th>NSW</th>
<th>VIC</th>
<th>SA</th>
<th>WA</th>
<th>TAS</th>
<th>AUST</th>
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<tbody>
<tr>
<td><strong>Economic Growth (a) (cvm)</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Household Final Consumption Expenditure</td>
<td>Mar-08(q)</td>
<td>Annual</td>
<td>18.9</td>
<td>5.3</td>
<td>6.0</td>
<td>4.9</td>
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<td>5.8</td>
<td>9.0</td>
<td>4.6</td>
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<td>Private Gross Fixed Capital Formation</td>
<td>Mar-08(q)</td>
<td>Annual</td>
<td>22.3</td>
<td>2.3</td>
<td>5.6</td>
<td>6.0</td>
<td>6.9</td>
<td>7.3</td>
<td>16.7</td>
<td>4.8</td>
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</tr>
<tr>
<td>Public Final Demand*</td>
<td>Mar-08(q)</td>
<td>Annual</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
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<tr>
<td>State/National Final Demand</td>
<td>Mar-08(q)</td>
<td>Annual</td>
<td>20.3</td>
<td>6.3</td>
<td>3.7</td>
<td>4.3</td>
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<td>Gross State Product/Gross Domestic Product</td>
<td>Mar-08(q)</td>
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<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>0.7</td>
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</tbody>
</table>

### Private Consumption

- **Retail Trade**
  - ABS Cat. no.: 8501.0
  - Data Period: Jun-08
  - Growth Rate: Monthly: 20.8, Annual: 3.3

### New Motor Vehicle Sales

- ABS Cat. no.: 9314.0
- Data Period: Jun-08
- Growth Rate: Monthly: 21.2, Annual: -2.6

### Housing Sector

- **Dwelling Approvals (no.)**
  - ABS Cat. no.: 8731.0
  - Data Period: Jun-08
  - Growth Rate: Monthly: 26.4, Annual: -11.1

- **Dwelling Commencements (no.)**
  - ABS Cat. no.: 8752.0
  - Data Period: Mar-08
  - Growth Rate: Quarterly: 27.8, Annual: 5.9

### Business Investment

- **Machinery and Equipment (a)***
  - ABS Cat. no.: 5206.0
  - Data Period: Mar-08
  - Growth Rate: Annual: na

- **Other Buildings and Structures (a)***
  - ABS Cat. no.: 5206.0
  - Data Period: Mar-08
  - Growth Rate: Annual: na

- **Engineering Construction Commencements (v) (o)**
  - ABS Cat. no.: 8762.0
  - Data Period: Mar-08
  - Growth Rate: Annual: 25.4

### Demography

- **Population**
  - ABS Cat. no.: 3101.0
  - Data Period: Dec-07
  - Growth Rate: Annual: 20.0

### Labour Market

- **Employment**
  - ABS Cat. no.: 6202.0
  - Data Period: Jul-08
  - Growth Rate: Monthly: 20.5, Annual: 2.7

- **Unemployment Rate**
  - ABS Cat. no.: 6202.0
  - Data Period: Jul-08
  - Growth Rate: Monthly: 3.6, Year Ago: 3.6

- **Labour Force**
  - ABS Cat. no.: 6202.0
  - Data Period: Jul-08
  - Growth Rate: Monthly: 20.3, Annual: 2.9

- **DEWR (b) Skilled Vacancy Survey**
  - ABS Cat. no.: 8762.0
  - Data Period: Jul-08
  - Growth Rate: Monthly: -1.8, Annual: -22.9

- **ANZ Job Advertisement Series**
  - ABS Cat. no.: 8762.0
  - Data Period: Jul-08
  - Growth Rate: Monthly: -4.0, Annual: -27.1

### Wages and Prices

- **Wage Price Index (o)**
  - ABS Cat. no.: 6345.0
  - Data Period: Jun-08
  - Growth Rate: Quarterly: 0.7, Annual: 3.9

- **Consumer Price Index (o)**
  - ABS Cat. no.: 6401.0
  - Data Period: Jun-08
  - Growth Rate: Quarterly: 1.7, Annual: 5.1

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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 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.

General enquiries regarding this publication should be forwarded to Ms Rinie Klein on (07) 3224 5326 or by email to rinie.klein@treasury.qld.gov.au. For any queries regarding the content of this publication contact Ms Melanie Samios on (07) 3235 9008 or by email to melanie.samios@treasury.qld.gov.au.

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