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We hope that you will continue to enjoy reading the online version of the QER.

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Labour market

Reflecting slower economic growth, monthly jobs growth eased from 0.3% in June 2008 to 0.1% in February 2009, causing Queensland’s trend unemployment rate to rise from 3.7% to 4.4% over the same period. The trend participation rate in Queensland was unchanged at its historic high of 67.7% in February 2009, 0.7 percentage point higher than in February 2008. The strong increase in Queensland’s participation rate over the past year has been driven by growth in both male and female participation, the latter of which reached an historic high in February 2009.

Labour market conditions have also weakened nationally. In the rest of Australia, the trend level of employment was unchanged in February, to be only 0.3% higher over the year. In addition, the trend unemployment rate in the rest of Australia increased 0.2 percentage point, to 5.1% in February 2009, the highest rate since January 2006.

Labour market conditions are expected to soften further in the coming months. The ANZ Job Advertisement Series has fallen by an average of 10.5% in each of the four months to February 2009, suggesting weak employment outcomes in Queensland.

Dwelling approvals

The total number of dwelling approvals (trend) in Queensland fell for the 15th consecutive month in January 2009, by 7.8%, to be 50.5% lower over the year. The monthly decline was driven by a 20.7% fall in private other dwelling approvals and, to a lesser extent, a 3.7% fall in private house approvals. Trend monthly dwelling approvals fell to 1,873 in January, below previous cyclical troughs in 2000-01, 1995-96 and 1990-91 and the lowest level since February 1987.

Dwelling approvals fell in each of the five months to January 2009 for all Australian states. The trend number of dwelling approvals fell in Western Australia (down 5.1%), Tasmania (down 5.0%), New South Wales (down 4.8% to a record low of 1,696 approvals), South Australia (down 3.4%) and Victoria (down 1.7%) in January 2009.

Recent weakness in the housing sector across the nation reflects an intensification of the global financial crisis since September 2008 and subdued consumer and investor sentiment. Access to funding for investors has become increasingly constrained, while deteriorating domestic economic activity has undermined investor interest in the housing market. However, interest among first home buyers is improving against a backdrop of lower interest rates and stimulatory policy initiatives by the Commonwealth and State governments. This is expected to translate into a recovery in the broader market in 2009-10.

Total dwelling approvals

Retail turnover

In seasonally adjusted* terms, nominal retail turnover in Queensland was unchanged in January 2009, following growth of 3.2% in the previous month. The flat January result was driven by lower expenditure in discretionary areas such as department stores, clothing and soft goods, household goods, and cafes and restaurants, following solid growth in these components in December 2008. Retail turnover in Queensland rose 6.8% over the year to January 2009, compared with 5.7% in the rest of Australia.

Looking ahead, household consumption will receive some support from substantially lower interest rates and petrol prices, as well as the Commonwealth Government’s household stimulus packages. However, this is expected to be more than offset by the impact of worsening economic conditions, tight credit markets, a weak

*The Federal Government Economic Security Strategy Package implemented in December 2008 has impacted on Australian retail turnover. Until data are available in future months, it is not possible to determine the trend in retail turnover through the period affected by the stimulus package. As a result, the retail trend series have been suspended from November 2008.
In trend terms, gross domestic product (GDP) fell 0.1% in December quarter 2008, following no growth (0.0%) in the September quarter. This outcome equalled the quarterly result in December quarter 2000 (also down 0.1%), which was the weakest result recorded since June quarter 1991 (down 0.4%). Annual growth in GDP moderated substantially over the course of 2008, from a recent peak of 4.2% in September quarter 2007, to 0.7% in December quarter 2008, its lowest rate in 17 years.

In the December quarter, a large run-down in inventories detracted considerably from growth, more than offsetting modest growth in total private non-dwelling investment, as well as a contribution from the trade sector. Dwelling investment activity and household consumption did not significantly contribute to or detract from economic growth in the quarter.

Reflecting a rapid deterioration in global economic conditions, non-farm GDP fell 0.3% in December quarter 2008, following a 0.1% contraction in the September quarter. Conversely, farm GDP rose 4.3% and 6.2% in the December and September quarters respectively, due to an improvement in seasonal conditions in some parts of the country.

At a regional level, growth in trend state final demand (SFD, a measure of domestic economic activity) eased to 0.3% in Queensland in December quarter 2008, the weakest result recorded since June quarter 1991 (down 0.4%). Annual growth in SFD moderated to 3.7% in the December quarter. This was above national domestic demand growth of 2.9%, but was exceeded by growth in Tasmania, Western Australia and South Australia.

The December quarter 2008 Queensland State Accounts, produced by the Office of the Government Statistician (which are currently being prepared), will provide a comprehensive quarterly estimate of Queensland gross state product by incorporating additional data on interstate trade in goods and services, including tourism transactions.

Overseas merchandise exports

The nominal value of Queensland’s overseas merchandise exports (net of non-monetary gold) totalled $15.1 billion in January quarter 2009 (3 months to January 2009), 88.1% higher than in the same quarter a year earlier. However, this growth over the year masks a turnaround in export values over the last three months. The value of overseas merchandise exports in January 2009 fell to $3.86 billion, compared with a peak of $6.63 billion in October 2008. The main contributors to this decline were coal, coke and briquettes (down $1.1 billion), meat and meat preparations (down $261.6 million, reflecting a usual seasonal easing in beef exports), and metalliferous ores and metal scrap (down $166.5 million).

The value of coal exports, the largest component of Queensland’s exports, rose by a substantial $5.8 billion over the year, to total $8.6 billion in January quarter 2009. This largely reflected higher contract prices since April 2008, as well as a sharp depreciation in the Australian dollar since mid-2008. However, in tonnages terms, hard coking coal exports fell 21.0% and national semi-soft coking coal exports (of which Queensland accounts for more than 65%) declined 27.9% over the year to January quarter 2009. This was only partly offset by an annual rise in thermal coal exports of 26.9% in the quarter. Export values of metalliferous ores and metal scrap fell 42.4% (to $621.0 million) over the year to January quarter 2009. The value of non-ferrous metal exports fell 1.5% (to $939.6 million).

The outlook for global economic growth has deteriorated significantly in recent months, with many of Queensland’s major export markets falling into recession. This has weakened industrial production, which is subsequently reducing demand and prices for minerals and energy products. Further, financial difficulties associated with tightening credit standards have led to production cuts by some of Queensland’s base metal producers. In light of these factors, the value of Queensland’s exports is expected to unwind in the second half of 2008-09, with January 2009 showing signs of a turnaround.

Queensland overseas merchandise exports (quarterly, value)

<table>
<thead>
<tr>
<th>Commodity group</th>
<th>3 months to January 2008</th>
<th>3 months to January 2009</th>
<th>Change from prior period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$m</td>
<td>$m</td>
<td>%</td>
</tr>
<tr>
<td>Coal, coke and briquettes (a)</td>
<td>2,756.4</td>
<td>8,574.0</td>
<td>5,817.5</td>
</tr>
<tr>
<td>Non-ferrous metals</td>
<td>954.0</td>
<td>939.6</td>
<td>-14.3</td>
</tr>
<tr>
<td>Meat and meat preparations</td>
<td>682.0</td>
<td>755.3</td>
<td>73.3</td>
</tr>
<tr>
<td>Metalliferous ores and metal scrap</td>
<td>1,078.4</td>
<td>621.0</td>
<td>-457.4</td>
</tr>
<tr>
<td>Feeding stuff for animals (excluding unlimed cereals)</td>
<td>37.9</td>
<td>129.8</td>
<td>91.9</td>
</tr>
<tr>
<td>Vegetables and fruit</td>
<td>96.3</td>
<td>119.2</td>
<td>22.9</td>
</tr>
<tr>
<td>Other (b)</td>
<td>2,446.5</td>
<td>4,009.3</td>
<td>1,562.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,051.4</strong></td>
<td><strong>15,148.0</strong></td>
<td><strong>7,096.7</strong></td>
</tr>
</tbody>
</table>

a) Since February 2002, a significant proportion of coal (e.g. pulverised coal injection (PCI) coal) has been classified as confidential by the ABS.
b) Includes sugar data, which are classified as confidential for six months following data release.

Source: ABS unpublished trade data

Gross domestic product

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Quarterly (lhs)</th>
<th>Annual (rhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-08</td>
<td>0.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Dec-07</td>
<td>1.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Dec-06</td>
<td>2.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Dec-05</td>
<td>2.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Dec-04</td>
<td>3.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Dec-03</td>
<td>3.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Dec-02</td>
<td>4.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Dec-01</td>
<td>4.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Dec-00</td>
<td>5.0</td>
<td>6.0</td>
</tr>
</tbody>
</table>

Source: ABS 6206.0
Exchange rates

• The A$ appreciated against most major currencies over the month ending 16 March 2009. In particular, this reflected some improvement in sentiment toward the end of the period. The A$ appreciated 7.9% against the Japanese Yen, 2.1% against the UK Pound and 0.7% against the US$. However, the A$ depreciated by a marginal 0.3% against the Euro over the period. In trade-weighted terms, the A$ appreciated 2.6% over the month to 16 March 2009.

Interest rates

• The performance of longer dated Australian and US bond yields was mixed over the month ending 16 March 2009, with the former ending the period 7 basis points lower at 4.31% and the latter finishing 7 basis points higher at 2.95%. Downside pressures for longer dated yields included a further deterioration in the global economic outlook, as well as the Bank of England’s announcement that they would begin purchasing £75 billion in government and corporate bonds in an effort to stimulate credit growth. This announcement raised market speculation of similar efforts by governments elsewhere. However, late in the period, financial markets were buoyed following reports that some US banks had a profitable start to 2009 and most likely would not require further capital assistance from the government.

• Domestically, short term interest rates fell marginally over the month ending 16 March 2009, after the impact of the RBA’s decision to leave the cash rate at 3.25% in early March was offset by continued weakness in domestic economic data releases. Australian 90 Day bank bill yields fell 2 basis points, to 3.09%, while 180 Day bank bill yields fell 4 basis points, to 2.97%, over the period. Shorter dated yields remained around generational lows over the month to 16 March 2009.

Sharemarkets

• Sharemarket indices continued to trend lower over the month ending 16 March 2009, despite recovering slightly toward the end of the period. The S&P ASX 200 Index fell 4.8% over the month, but finished 6.5% higher than a five year low reached on 6 March 2009. Japan’s Nikkei 225 Index fell 0.6% (reaching a 26 year low in the month), the US’s S&P 500 Index fell 8.8% (reaching a 12 year low) and the UK’s FTSE 100 Index fell 6.5% (reaching a 6 year) over the month ending 16 March 2009. Elsewhere, Germany’s DAX 30 Index fell 7.4%, while South Korea’s SE Composite Index fell 4.3% and Hong Kong’s Hang Seng Index fell 3.6%.

Queensland commodity prices

• The monthly average price index of Queensland’s major commodity exports rose by a marginal 0.1%, in SDR terms in January 2009, but fell by 1.6% in A$ terms, largely due to the appreciation in the A$ over the month.

• The Mineral Index declined 0.7% in SDR terms and 2.4% in A$ terms in January. These declines were driven by falls in the world prices of aluminium (down 5.1%) and coal (down 0.8%). The world prices of nickel (up 16.1%), lead (up 14.6%), zinc (up 6.9%) and copper (up 3.4%) all rose in the month. Lower world prices for coal in January are consistent with reports of price discounting in the coking coal market, as well as lower spot prices for thermal coal.

• The Agricultural Index rose 5.3% in SDR terms and rose 3.6% in A$ terms in January. The world prices of beef (up 7.2%), sugar (up 5.5%) and cotton (up 3.3%) all rose in the month, while declines were recorded in the world prices of wheat (down 2.4%) and wool (down 0.5%).

1Data used in this section are available only with a two month lag. This is largely due to delays associated with the reporting of prices received for certain commodity exports.

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.
This month’s FYI looks at the recent economic downturn in Japan, given its position as Queensland’s major trading partner. Japan is Queensland’s top destination for overseas exports of goods, accounting for almost 30% of the total value of merchandise exports in 2008. Importantly, Japan is a major customer of Queensland’s four most valuable categories of merchandise exports, accounting for 46.9% of meat and meat preparations, 34.3% of coal, coke and briquettes, 21.2% of non-ferrous metals and 9.9% of metalliferous ores exports in 2008. Japan is also Queensland’s third largest market for tourism exports (by number of visitor nights) and fifth largest market for education exports (by number of enrolments).

Japan’s economic recession...
Recent data show that Japan has been severely affected by the global economic downturn in 2008-09 to date. Japan’s gross domestic product (GDP) fell for the third consecutive quarter in December quarter 2008. This decline was the largest in 35 years, driven by significant falls in exports (down 13.9% in December quarter 2008), which contributed 2.3 percentage points to the 3.3% fall in GDP, and business investment (down 5.3%), which contributed a further 0.8 percentage points to the decline in December quarter 2008 GDP (see Figure 1).

...driven mainly by a significant fall in exports...
Japan’s dependency on exports has made its economy vulnerable to the global downturn. Recent data show that the value of Japanese merchandise exports fell 49.4% over the year to February 2009. This can be related to the slowdown in Japan’s three biggest export markets, the United States (which constituted 17.5% of the total value of Japanese merchandise exports in 2008), China (16.0%) and the European Union (14.1%). Notably, the value of transport equipment exports fell 58.6% over the year to February 2009, while the value of machinery exports declined at an annual rate of 48.8%.

...resulting in cuts in industrial production and rising unemployment...
Leading indicators suggest the decline in the Japanese economy is likely to deepen in the near term. Industrial production in the manufacturing sector fell at an average monthly rate of 7.2% in December quarter 2008, while the falls have intensified in 2009. Specifically, industrial production in the manufacturing sector fell 10.2% and 9.5% in January and February 2009 respectively.

The slowdown in Japan’s industrial production has resulted in a rise in unemployment. The number of unemployed persons in Japan rose by an accumulated 270,000 between October 2008 and January 2009. Core consumer prices in Japan in February fell to the same level as a year earlier, with the Bank of Japan predicting prices will fall over June quarter 2009.

...exacerbated by the appreciation of the Yen
Japan’s export performance has been further hindered by recent exchange rate movements. The Japanese Yen has appreciated sharply against the US dollar (8.6% to 26 March 2009), the Euro (21.9%) and the Australian dollar (47.0%) since the beginning of June 2008. Initially, this reflected greater demand for the Japanese Yen as it was perceived as a ‘safe’ currency. As a result of the higher Yen, Japan’s export sector lost competitiveness in a global environment of subdued demand.

However, there are signs of respite for exchange rate pressures on Japanese exports. As the extent of the weakening in Japan’s economy has been revealed, the Yen has partly lost its safe haven standing. This should result in the Yen depreciating somewhat in the near future.

Expansionary policy
Japan’s government has embarked on a range of fiscal initiatives, including vast infrastructure and public works projects. However, it remains to be seen how further significant fiscal stimulus will be financed, as policies so far have already amounted to a large public debt for Japan. Japan has the highest level of public debt to GDP ratio among all industrialised economies, with the OECD reporting general government financial liabilities totalled 173% of the country’s GDP in 2008. The Japanese Ministry of Finance reported that the fiscal response to the global financial crisis has so far amounted to approximately 2% of GDP. Also, with the official interest rate nearing zero, there are few available options for the Bank of Japan to expand its monetary stance.

Impacts on the Queensland economy
Queensland has a large overseas export sector, representing 22.2% of gross state product in 2007-08. As the State’s main trading partner, Japan’s demand for Queensland’s exports will moderate along with the slowdown in the Japanese economy. However, the depreciation of the Australian dollar provided some respite for Queensland exporters (as the majority of Queensland’s exports are quoted in US dollars), as did the appreciation of the Yen, which made Queensland’s exports relatively cheaper from Japan’s perspective.

Aside from merchandise exports, the effects of Japan’s slowdown have also been reflected in Queensland’s services exports. Australian Bureau of Statistics overseas arrival and departure data show that there has been a 26.8% decline in the number of tourists from Japan for the financial year to January 2009, compared with the same period a year earlier. A similar situation has occurred in Queensland’s education exports, which showed a 15.0% fall in the number of enrolments by students from Japan in 2008, compared with 2007. Japan’s economy is expected to contract sharply in 2009, and is likely to continue to weigh on Queensland’s merchandise, tourism and education exports in coming quarters.
## 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>
</tr>
</thead>
<tbody>
<tr>
<td>Household Final Consumption Expenditure</td>
<td>Dec-08(q)</td>
<td>Annual</td>
<td>19.0</td>
<td>0.8</td>
<td>2.9</td>
</tr>
<tr>
<td>Private Gross Fixed Capital Formation</td>
<td>Dec-08(q)</td>
<td>Annual</td>
<td>23.0</td>
<td>10.4</td>
<td>10.3</td>
</tr>
<tr>
<td>Public Final Demand*</td>
<td>Dec-08(q)</td>
<td>Annual</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>State/National Final Demand</td>
<td>Dec-08(q)</td>
<td>Annual</td>
<td>20.4</td>
<td>3.7</td>
<td>5.9</td>
</tr>
<tr>
<td>Exports</td>
<td>Dec-08(q)</td>
<td>Annual</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Imports</td>
<td>Dec-08(q)</td>
<td>Annual</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Gross State Product/Gross Domestic Product</td>
<td>Dec-08(q)</td>
<td>Quarterly</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
</tbody>
</table>

### Private Consumption

- **Retail Trade**
  - 8501.0, Jan-09, Monthly: na
  - Annual: na

- **New Motor Vehicle Sales**
  - 9314.0, Feb-09, Monthly: 21.2
  - Annual: -20.5

### Housing Sector

- **Dwelling Approvals (no.)**
  - 8731.0, Jan-09, Monthly: 20.1
  - Annual: -50.5

- **Dwelling Commencements (no.)**
  - 8752.0, Sep-08(q), Quarterly: 25.8
  - Annual: -13.2

### Business Investment

- **Machinery and Equipment (a)***
  - 5206.0, Dec-08(q), Annual: na

- **Other Buildings and Structures (a)**
  - 5206.0, Dec-08(q), Annual: na

- **Engineering Construction Commencements (v) (o)**
  - 8762.0, Sep-08(q), Annual: 45.3

### Demography

- **Population**
  - 3101.0, Sep-08(q), Annual: 20.0

### Labour Market

- **Employment**
  - 6202.0, Feb-09, Monthly: 20.7
  - Annual: 2.6

- **Unemployment Rate**
  - 6202.0, Feb-09, Monthly: 4.4
  - Annual: 4.4

- **Labour Force**
  - 6202.0, Feb-09, Monthly: 20.6
  - Annual: 3.4

- **DEWR (b) Skilled Vacancy Survey**
  - Feb-09, Monthly: -8.1
  - Annual: -56.0

- **ANZ Job Advertisement Series**
  - Feb-09, Monthly: -9.8
  - Annual: -61.8

### Wages and Prices

- **Wage Price Index (o)**
  - 6345.0, Dec-08(q), Quarterly: 1.1
  - Annual: 4.2

- **Consumer Price Index (o)**
  - 6401.0, Dec-08(q), Quarterly: -0.2
  - Annual: 4.3

**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.
** Trend data are unavailable due to the impact on retail turnover from the implementation of the Federal Government’s ESS package.

(a) Data 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 queries regarding the content of this publication, please contact Melanie Samios on (07) 3235 9008 or by email to melanie.samios@treasury.qld.gov.au.

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