Labour market

- Queensland continued to record strong trend employment growth (0.3%) in July 2004, while the number of persons employed was largely unchanged in the rest of Australia during the month. Further, the State’s trend unemployment rate fell to 5.7%, equalling the lowest rate recorded in Queensland since the inception of the current ABS Labour Force series in 1978.

Dwelling approvals

- The number of dwelling approvals in Queensland fell in trend terms for the eighth consecutive month in June 2004. However, the rate of decline has eased substantially in recent months, with only a 0.1% fall recorded in June.

Business surveys

- Recent business surveys show that Queensland business conditions strengthened in June quarter 2004. The National Australia Bank Quarterly Business Survey and the Commerce Queensland Pulse Survey both reported that the outlook for business conditions in Queensland in the September quarter also remains positive.

FYI ... This month’s FYI examines recent trends in oil prices. The article discusses the potential impacts of the recent rise in crude oil prices on the Queensland and global economies. It also briefly compares the factors that have driven this spike in oil prices with those that led to previous oil shocks of the late 1970s and in 1990.

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... and latest financial and domestic indicators

The Queensland Economic Update (QEU) is available through the Office of Economic and Statistical Research web site:

www.oesr.qld.gov.au
Trend employment growth in Queensland remained strong in July 2004, with the number of persons employed growing 0.3% (5,400 jobs). This marked the fifth consecutive month in which employment growth has been at or above 0.3%. In contrast, trend jobs growth in the rest of Australia was flat (0.0%) for the second month in a row.

Queensland contributed almost all (91.5%) of the national increase in jobs in July, while Queensland’s annual employment growth of 4.2% in July remained more than double that in the rest of Australia (1.9%).

Employment growth in Queensland continues to be driven by growth in full-time jobs, which increased by 6,200 in July and 79,500 over the year to July. As a result, Queensland contributed 78.5% of the monthly and 41.0% of the annual full-time jobs growth nationally.

Employment growth (0.3%) once again exceeded labour force growth (0.2%) in July, with the trend unemployment rate falling 0.1 percentage point to 5.7%.

The State’s unemployment rate is now at its lowest since June 1981, equalling the lowest rate since the inception of the current ABS series in 1978. Trend labour force growth (0.2%) in Queensland was driven by strong civilian population growth (0.2%), while the participation rate remained stable at 65.0%.

Employment growth has been consistently above the long-term average in recent months. Jobs growth has also exceeded labour force growth, and consequently, the unemployment rate has fallen to levels not experienced for more than two decades. Leading indicators of employment suggest that jobs growth in coming months is likely to remain positive, although possibly more subdued than the recent strong growth.

Retail turnover

Nominal retail trade grew by 0.9% in Queensland in June 2004. This was slightly higher than the 0.8% growth recorded in May, with retail trade growth having picked up steadily since the recent low of 0.3% growth in January 2004. A similar pattern has been experienced in the rest of Australia, with retail trade growth increasing from 0.3% in January to 0.7% in June.

Annual retail trade growth in Queensland was 11.2% over the year to June. This is substantially higher than the annual growth in all other states, with Queensland having now recorded the highest annual growth rate of all states for eight consecutive months. The rise in Queensland retail trade was evident across most sectors in June, with food retailing, clothing and soft goods and household goods all contributing significantly to growth.

In real terms, Queensland’s retail trade grew by 1.6% in the June quarter, to be 11.6% higher over the year. By comparison, real retail trade in the rest of Australia grew by 1.2% in the quarter, to be 6.4% higher over the year.

Queensland’s retail trade growth over the past year has been strongly supported by strong labour market conditions and rising household wealth. In addition to these positive conditions, retail trade in coming months is expected to be supported by the continued injection of the Federal government’s additional family payments, as well as income tax cuts, which were announced in the recent Commonwealth Budget and came into effect in July.

Dwelling approvals

The total number of dwelling approvals (trend) in Queensland fell slightly in June 2004 (declining 0.1%), with approvals of private sector houses declining 3.3% and approvals of other residential buildings rising 6.3%. Dwelling approvals have now fallen each month since October 2003 in trend terms, to be 5.5% lower in June than a year earlier. In comparison, the number of approvals in the rest of Australia rose marginally (up 0.2%) in June to be 1.2% higher over the year.

While the number of approvals in Queensland declined in trend terms in June, the more volatile seasonally adjusted data showed total approvals increased 26.0% in June, with approvals of private houses falling 1.0% and approvals of other dwellings almost doubling, up 98.3%. The high volatility of the seasonally-adjusted data makes interpretation of the likely future direction of building approvals difficult.

However, housing finance data suggest that dwelling approvals may strengthen in the coming months. The number of finance approvals for the construction of dwellings for the three months to May 2004 was 7.3% higher than in the previous three-month period.

Total dwelling investment in Queensland (which includes alterations and additions building work) is estimated to have risen by 12½% in 2003-04 and is forecast to remain at around the same level in 2004-05.

Source: ABS 6521.0; ABS 8731.0

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[Graph images of employment conditions, Queensland and dwelling approvals are referenced but not transcribed.]
The national headline consumer price index (CPI) rose 0.5% in June quarter 2004, while the annual inflation rate increased to 2.5%. The slight acceleration in the annual inflation rate in the June quarter followed a substantial moderation in the headline annual inflation rate over the preceding four quarters, from 3.4% in March quarter 2003 to 2.0% in March quarter 2004.

This apparent volatility in the CPI largely reflects the impact of fluctuations in the $A exchange rate. The appreciation of the $A throughout 2003 and early 2004 resulted in imported goods becoming less expensive in $A terms, leading to downward pressure on overall price levels of consumption goods. This effect has been partially reversed in recent months in line with the depreciation of the $A.

In comparison, the Brisbane CPI rose 0.6% in the June quarter, while annual growth in consumer prices rose to 3.2%, from 2.5% in March quarter 2004. As a result, Brisbane recorded the highest annual growth in consumer prices of any of the capital cities in the June quarter. This largely reflected the substantially higher contribution from housing costs in Queensland compared with other states, with Queensland’s property market having shown continued strength relative to the southern states in recent quarters.

**Investment monitor**

According to the latest *Investment Monitor* published by Delta Electricity and Access Economics, the total value of investment projects in Queensland decreased slightly (down 0.5%) in June quarter 2004, to $56.5 billion.

While the total value of projects declined, the value of definite projects (i.e. those under construction or committed) rose 2.5% in the June quarter, to $19.9 billion. Significantly, the value of projects actually under construction in Queensland rose 43.7% over the year to June quarter 2004.

A number of major projects were upgraded to committed status during the June quarter, including CS Energy’s Kogan Creek coal fired power station ($1,100 million) and the expansion of port terminal capacity at Gladstone ($170 million).

Meanwhile construction commenced on XStrata’s Rolleston open-cut coal mine ($290 million) and BHP Billiton’s coal preparation plant at Blackwater ($230 million) during the quarter.

Significant projects completed in Queensland during the June quarter included Macarthur Coal’s Copabella coal mine expansion ($400 million), Pradella Group’s “Metroplex Gateway” industrial park at Murarrie ($175 million) and the Gold Coast Convention Centre (Queensland Government, $130 million).

Major projects investment in Queensland is closely associated with the global economic growth cycle. Therefore, the substantially improved economic outlook in the US and Japan, as well as other major Asian economies, has considerably strengthened the environment for investment in Queensland.

Nationally, consumer price rises in the June quarter were driven primarily by increases in automotive fuel, health costs and housing costs. In contrast, food prices (in particular, fruit and vegetable prices) fell markedly in the June quarter, after having contributed substantially to increases in the CPI over the previous year. Brisbane CPI growth in the quarter reflected similar components to that nationally, but with a much larger contribution from housing costs.

**Business surveys**

After weakening during March quarter 2004, business conditions in Queensland strengthened in the June quarter, according to recently-released business surveys. The latest National Australia Bank Quarterly Business Survey reported that Queensland business conditions improved in June quarter 2004, with the Queensland Business Conditions Index rising 3% points to 25%. The survey noted continuing positive domestic economic conditions and accelerating global demand among the factors responsible for the improvement.

Of the three components of the Business Conditions Index, trading performance remained the most positive (29%), despite a slight decline (-1% point) compared with the previous quarter. The indexes measuring profitability (up 6% points to 21%) and employment (up 3% points to 25%) improved in the June quarter, and all three indexes in Queensland remain well above that reported nationally.

The Commerce Queensland Pulse Business Index (PBI) also reported an improvement in overall business conditions in June quarter 2004. The PBI rose 4.1 points to 62.6 in June quarter 2004, the highest level since September 2002. All the components of the PBI index improved in the June quarter, with Queensland businesses, on average, reporting an improvement in sales/revenue, profitability and plant and equipment capital expenditure.

Both surveys report that the outlook for business conditions remains positive, with the Commerce Queensland survey expecting business conditions in September quarter 2004 to be maintained at the current high level, while respondents to the NAB survey anticipate a further improvement in business conditions in the September quarter.
Financial indicators

**Interest rates**
- Yields on 90-day bank bills remained relatively unchanged at around 5.45% over the month to early August, similar to yields recorded at the beginning of the year. Long term yields rose in late July, with 10-year bond yields reaching 5.9%, before falling back to 5.7% in early August.
- The RBA’s recent Statement on Monetary Policy highlighted that it would be “surprising” if interest rates did not rise further in the current economic cycle. The Bank pointed to strong domestic conditions and a positive global economy in a positive assessment of Australia’s economic outlook. Further, the RBA described the current level of interest rates as “mildly accommodative”, with many market analysts interpreting this as a signal that official interest rates may rise again in this cycle.

**Exchange rates**
- The $A rose in early July to around US73c, after hovering around the US70c mark over the previous two months. However, in mid-July the $A weakened against the $US following the US Federal Reserve Chairman’s speech to US Congress, which sparked higher interest rates expectations in the US. The $A fell to around US70c, before rising to US71.5c in early August, following the release of weaker than expected US employment data.
- The $A followed a similar path in trade-weighted terms, rising in early July, before falling again, to remain at a level similar to that recorded a month earlier.

**Sharemarkets**
- The steady gains in Australian share prices over the past year were recently confirmed by strong profit reporting by several Australian listed companies. The Australian All Ordinaries index has now risen more than 12.2% over the past 12 months, primarily reflecting positive domestic economic conditions.
- Over the month to early August, Australian share markets remained relatively unchanged, outperforming major global share indexes in the US, UK, Germany and Japan, which all fell over the month. Recent oil price fears and weaker than expected employment figures in the US contributed to the fall in global share prices in early August.

**Queensland commodity prices**
- The weighted index of international prices for Queensland’s major commodity exports rose by 2.7% in SDR terms in July 2004. However, a 3.4% appreciation in the value of the $A against the $US in July, measured in monthly average terms, resulted in only a 0.8% increase in the index in $A terms.
- The Agricultural Index fell by 1.0% in $A terms but rose marginally (0.7%) in SDR terms in July. The fall in the index in $A terms was mostly driven by declines in the monthly average prices of cotton and wheat (down 10.7% and 5.5% respectively), as well as falls in the prices of beef exports to the Japanese market (down 6.9%). An 8.2% rise in the monthly average world price of sugar partially offset the decline in the prices of other agricultural commodities.
- The Mineral Index rose in both $A and SDR terms, by 2.0% and 3.8% respectively, in July 2004. A strong rise in the world prices of nickel and lead (up 11.2% and 8.2% respectively in monthly average terms) and an increase in the average unit price of coal exports from Queensland drove the overall rise in the index.

Sources: Data used to construct the charts on financial indicators are sourced from Reuters. Charts on commodity price indices are sourced from Queensland Treasury.
Recent movements in crude oil prices, which reached an all-time high of more than US$44 per barrel in early August 2004, have prompted fears of an oil price shock similar to that experienced in the late 1970s. Furthermore, as outlined in the recent 2004-05 Queensland State Budget, sustained high oil prices or any further increases in oil prices may affect economic growth in Queensland, through the direct impact on the domestic economy and the impact on the cost of production in the State’s major trading partners.

The most visible impact of higher oil prices is experienced by motorists at the petrol pump. Higher petrol prices reduce discretionary incomes and, therefore, may result in lower growth in real consumption.

However, the major economic importance of oil stems from its widespread use as in input in the production and distribution of almost all goods and services. Higher oil prices increase the cost of production and transport throughout the global economy, leading to higher inflation and potentially lower world economic growth. Previous oil price spikes, in the late 1970s, 1990 and 2000, all preceded a period of slower global economic growth. Therefore, the recent rise in oil prices has sparked concerns about its potential impact on the global economy, which is currently recovering from a period of weak growth.

Importantly, there are some key differences between the current spike in oil prices and previous periods of high oil prices, particularly the major oil shock of the late 1970s, which may help mitigate the negative impact on the global economy. In particular, previous oil shocks have resulted almost entirely from major supply disruptions. In the late 1970s and early 1980s, supply was severely hampered by a revolution in Iran, while the Gulf War caused major supply disruptions in Kuwait and Iraq in 1990. More recently, the Californian energy crisis resulted in upward pressure on oil prices in 2000.

The recent spike in oil prices has been only partially a result of constrained supply. The current upturn in global growth and industrial production has also increased the demand for inputs into production, such as commodities and oil. In particular, China’s rapid economic growth and continued industrialisation has seen the Chinese economy’s demand for oil increase rapidly.

However, this increase in demand for oil has coincided with a period of uncertain oil supply. The ongoing tension in Iraq has disrupted supply, while there have also been industrial and political problems in Venezuela and recent supply concerns in Russia.

Despite the constrained supply of oil and the increase in global demand, the steady appreciation of the $A over much of 2003 helped to insulate the Australian and Queensland economies from the effects of higher global oil price during 2003. However, the slight depreciation of the $A in the first half of 2004 has resulted in an increase in oil prices in $A terms in recent months.

While the nominal price of oil has recently reached an historical high, it is the real price of oil that needs to be considered when comparing prices over time. The real price of oil (adjusted for inflation) in $A terms is currently about 10% below that reached in 1990 but is still almost 30% below the historical peak recorded in the early 1980s (see Figure 1). In comparison, oil prices in $US terms remain around 20% lower than in 1990, and more than 40% lower than in the early 1980s (see Figure 2).

The outlook for oil prices in both the short and long-term remains unclear. The current higher prices reflect a mixture of economic and geo-political supply and demand factors that may persist in coming quarters. This may potentially dampen economic growth in Queensland and its trading partners in 2004-05.

In the longer run, the International Energy Association forecast in its 2004 Annual Energy Outlook that the long-term demand for oil will rise from 78 million barrels per day (bpd) in 2002 to 118 bpd in 2025. On the other hand, many analysts are expecting oil prices to fall in the long run, as the current uncertainty regarding supply fades. The Organisation of Petroleum Exporting Countries (OPEC) also recently announced that it has enough excess capacity to further increase oil supply.

While the negative effect of sustained high oil prices remains a factor in determining the performance of the Queensland and Australian economies over the coming year, the current spike in oil prices may prove to have a milder impact on the global economy than previous oil price accelerations. However, the recent jump in oil prices highlights the short-term vulnerability of oil prices to supply disruptions or uncertainty at any time, particularly in periods of high growth in oil demand.
## 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><strong>Economic Growth (a) (cvm)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Household Final Consumption Expenditure</td>
<td>Mar-04(q)</td>
<td>Annual</td>
<td>18.0</td>
<td>12.1</td>
<td>4.8 5.7 4.6</td>
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<tr>
<td>Private Gross Fixed Capital Formation</td>
<td>Mar-04(q)</td>
<td>Annual</td>
<td>19.9</td>
<td>12.4</td>
<td>5.4 5.6 4.0</td>
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<td>Public Final Demand</td>
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<td>Annual</td>
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<td>1.6</td>
<td>0.5 1.5 2.8</td>
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<tr>
<td>State/National Final Demand</td>
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<td>Annual</td>
<td>18.3</td>
<td>10.0</td>
<td>4.0 4.8 4.1</td>
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<td>Exports</td>
<td>Mar-04(q)</td>
<td>Quarterly</td>
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<td>-1.6</td>
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<tr>
<td>Imports</td>
<td>Mar-04(q)</td>
<td>Quarterly</td>
<td>na</td>
<td>17.4</td>
<td>na na na na na na</td>
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<tr>
<td>Gross Domestic Product</td>
<td>Mar-04(q)</td>
<td>Annual</td>
<td>17.3</td>
<td>0.5</td>
<td>na na na na na na</td>
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<tr>
<td><strong>Private Consumption</strong></td>
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<tr>
<td>Retail Trade</td>
<td>8501.0</td>
<td>Jun-04</td>
<td>20.0</td>
<td>0.9</td>
<td>0.9 0.1 0.6</td>
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<tr>
<td>New Motor Vehicle Sales</td>
<td>9314.0</td>
<td>Jun-04</td>
<td>21.5</td>
<td>1.1</td>
<td>-0.2 0.0 0.3</td>
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<td><strong>Housing Sector</strong></td>
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<td>Dwelling Approvals (no.)</td>
<td>8731.0</td>
<td>Jun-04</td>
<td>22.8</td>
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<td>-1.1 -0.1 0.6</td>
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<td>Dwelling Commencements (no.)</td>
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<td>Mar-04(q)</td>
<td>26.1</td>
<td>4.1</td>
<td>3.4 1.8 -0.2</td>
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<tr>
<td><strong>Business Investment</strong></td>
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<tr>
<td>Non-residential Building Approvals (v) (o)</td>
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<td>Jun-04</td>
<td>15.6</td>
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<td>Engineering Construction Commencements (v) (o)</td>
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<td>-18.9 9.7 -0.5</td>
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<td>New Equipment (v)</td>
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<td><strong>Demography</strong></td>
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<td>Population</td>
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<td>Dec-03(q)</td>
<td>19.2</td>
<td>2.3</td>
<td>0.8 1.3 0.6</td>
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<tr>
<td><strong>Labour Market</strong></td>
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<tr>
<td>Employment</td>
<td>6202.0</td>
<td>Jul-04</td>
<td>19.2</td>
<td>0.3</td>
<td>-0.1 0.1 0.1</td>
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<tr>
<td>Unemployment Rate (l)</td>
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<td>Jul-04</td>
<td>6.8</td>
<td>6.0</td>
<td>6.0 5.6 6.3</td>
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<td>Labour Force</td>
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<td>Jul-04</td>
<td>19.5</td>
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<td>-0.1 0.1 0.1</td>
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<td><strong>DEWR (b) Skilled Vacancy Survey</strong></td>
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<td>ANZ Job Advertisement Series</td>
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<tr>
<td>Wages and</td>
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<tr>
<td>Average Weekly Ordinary Time Earnings (l)</td>
<td>6302.0</td>
<td>Mar-04(q)</td>
<td>93.5</td>
<td>886.7</td>
<td>990.0 955.0 866.1</td>
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<tr>
<td>Consumer Price Index (o)</td>
<td>6401.0</td>
<td>Jun-04(q)</td>
<td>7.2</td>
<td>4.0</td>
<td>5.4 2.7 5.6 3.1</td>
</tr>
</tbody>
</table>

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. Monthly and quarterly growth rates represent growth on the previous period.

(a) The ABS Australian National Accounts, Cat. no. 5206.0, is the source of all State and Australian data on state/national final demand and its components.

(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

### A Queensland Treasury publication

This report was produced by Queensland Treasury using data available at the time of preparation. General and editorial enquiries regarding this publication should be forwarded to Ms Deborah Jakins on (07) 3405 6060 or by email to deborah.jakins@treasury.qld.gov.au.

For further economic and statistical information and analysis relating to Queensland, please refer to the Office of Economic and Statistical Research web site:


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