Queensland Economic Update

Labour market
- Queensland’s trend unemployment rate fell to 5.6% in August 2004, which was the lowest rate recorded in the State since the inception of the current ABS Labour Force series in 1978 and equalled the national unemployment rate. Further, Queensland continued to record strong trend employment growth (0.3%) in August, while the number of persons employed fell 0.1% in the rest of Australia for the second consecutive month.

Retail turnover
- Nominal retail turnover grew by 0.7% in Queensland in July 2004, slightly lower than the 0.8% growth recorded in each of the previous two months. Over the 12 months to July 2004, Queensland recorded growth in nominal retail turnover of 10.1%, outpacing growth in all other states.

State final demand
- The latest ABS State Details shows that Queensland’s domestic economy continues to grow strongly. State final demand in Queensland rose by 1.6% in trend terms in June quarter 2004, with Queensland recording the strongest growth in state final demand of any state in the quarter.

PLUS, IN THIS ISSUE . . .
Dwelling approvals
Queensland overseas merchandise exports
. . . 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
Labour market

Queensland’s trend unemployment rate fell to 5.6% in August, the lowest rate since the inception of the current ABS series in 1978. Further, Queensland’s trend unemployment rate is now the same as that recorded nationally, equalling that in New South Wales, and is the equal second lowest of any state behind Western Australia (4.9%).

The further fall in the State’s unemployment rate reflects strong trend employment growth in August (0.3%), with growth of 0.3% or above recorded for the sixth consecutive month. In contrast, jobs growth in the rest of Australia has moderated substantially in recent months, from a recent peak of 0.3% in January 2004 to a decline of 0.1% in both July and August.

Queensland recorded annual employment growth of 4.2% in August, more than two and a half times the rate of growth in the rest of Australia (1.6%), resulting in the largest annual rise in employment (77,200) of any state.

The State’s full-time employment growth in August (6,700 jobs) and over the year (81,500 jobs) was partially offset by falls in part-time employment. The September quarter real retail trade data, to be released in early November, will provide a clearer picture of more recent movements in the volume of retail trade.

Retail turnover

Nominal retail turnover grew by 0.7% in Queensland in July 2004, slightly lower than the 0.8% growth recorded in each of the previous two months.

Annual growth in Queensland’s nominal retail trade was 10.1% in July 2004, outpacing growth in all other states. Queensland has now recorded the highest annual growth in nominal retail turnover of any state for seven consecutive months.

However, growth in Queensland’s real retail trade (published quarterly) has eased considerably in recent quarters, since reaching a record high of 4.0% quarterly trend growth in September quarter 2003. Significantly, real retail trade growth continued to moderate in the June quarter, easing to 1.6% growth, compared with 2.2% growth in the March quarter. In comparison, nominal retail turnover growth strengthened in the June quarter to 1.9%, up from 1.2% in the March quarter.

These contrasting movements in real and nominal retail trade growth highlight the fact that nominal retail trade growth reflects a combination of price effects and changes in the volume of retail trade. In particular, the upward pressure on retail prices in the June quarter may largely reflect the recent weakening in the $A, which depreciated almost 10% during the June quarter, making imported consumer goods more expensive.

The September quarter real retail trade data, to be released in early November, will provide a clearer picture of more recent movements in the volume of retail trade.

Dwelling approvals

The total number of dwelling approvals (trend) in Queensland rose 0.3% in July 2004. Approvals of private sector houses declined 2.4% during the month, while approvals of other residential buildings rose strongly (up 5.2%). In comparison, the total number of building approvals in the rest of Australia fell 0.5% in July, with declines in both private houses (down 0.6%) and other dwellings (down 1.1%).

The total number of building approvals (trend) in Queensland in July was 8.6% lower than a year earlier. The decline over the year was driven by a fall in private house approvals (down 16.7%), which was partially offset by a 8.6% rise in other residential building approvals (units, townhouses etc). In contrast, building approvals in the rest of Australia declined 1.4% over the year, with an 8.6% decline in private house approvals almost completely offset by a 13.5% increase in other dwelling approvals.

Although Queensland building approvals rose in trend terms in July, the more volatile seasonally adjusted data showed total approvals declined 6.7%. Private house approvals remained relatively unchanged (up 0.1%), in contrast to other residential building approvals which fell 15.3%.

The volatility of monthly building approvals data makes the forecasting of short term movements difficult. However, the latest Queensland housing finance numbers, which show that finance approvals for dwelling construction rose 1.8% in the three months to July 2004, imply that the number of building approvals may remain solid in coming months. Furthermore, the high level of construction work in the pipeline in Queensland also suggests that dwelling investment in the State will remain strong in coming quarters.
The latest ABS State Details data show that Queensland’s domestic economy continues to grow strongly. State final demand in Queensland rose by 1.6% in trend terms in June quarter 2004. While this represents a moderation in growth from 2.8% in December quarter 2003 and 2.2% in March quarter 2004, Queensland still recorded the strongest growth in state final demand of any state in the June quarter.

Strong growth in Queensland’s domestic sector in recent quarters lifted annual growth in state final demand to 9.5% in both the March and June quarters of 2004, representing the highest annual growth in state final demand since September quarter 1989.

The domestic economy in the rest of Australia also recorded strong growth in June quarter 2004, albeit at a slower pace than Queensland, with final demand growing by 1.1% over the quarter and 5.1% over the year.

Domestic economic activity in Queensland continued to be largely driven by private consumer spending in June quarter 2004. Household consumption rose 2.0%, following 2.2% growth in the previous quarter, and continues to be driven by strong retail spending, including spending on consumer durables and household items, as well as low interest rates and strong employment growth.

All other sectors of the economy also contributed to state final demand growth over the quarter. Business investment grew by 2.0% in the June quarter, driven by increases in both non-dwelling construction (up 4.1%) and machinery and equipment investment (up 1.0%). Dwelling investment rose 1.6% in June quarter. However, this represents a significant easing from the growth of 4.1% and 6.7% recorded in March quarter 2004 and December quarter 2003 respectively. This moderation in growth was caused by an easing in the growth of both new dwelling construction and renovation activity.

A more accurate representation of Queensland’s overall economic growth in the June quarter, including the performance of the trade sector, will not be available until the publishing of the official Queensland State Accounts, to be released by the Office of the Government Statistician.

### Queensland overseas merchandise exports

The nominal value of Queensland’s overseas merchandise exports fell by 1.9% over the 12 months to July 2004, compared with the previous 12 month period. This decline largely reflected a fall in the value of coal and non-ferrous metals exports over the period.

The performance of Queensland’s major agricultural export commodities was mixed in the 12 months to July 2004. The value of cereal exports from Queensland during the year rose by 45.7%, compared with a year earlier, primarily due to improved seasonal conditions in early 2004. The value of meat exports also rose (up 5.9%), driven by increased demand for Australian beef from Japan, following Japanese restrictions on imports of beef from the US due to an outbreak of BSE. Meanwhile, the value of textile fibre exports, including wool and cotton, fell by 8.7% in the 12 months to July 2004 and ‘Other exports,’ of which a large proportion is sugar, also fell by 3.7%.

The decline in the value of coal and non-ferrous metals exports in the 12 months ending July 2004 (down, 7.7% and 2.4% respectively) was largely driven by the relative strength of the $A during the period. However, in contrast, metalliferous ore exports rose by 19.1% over the period, with an increase in the value of exports to Asia and North America.

Export earnings from most of Queensland’s major export destinations fell in the 12 months to July 2004. The value of exports to Europe and the United Kingdom fell 12.4% while exports to North America fell 9.3% over the year. However, these falls were almost offset by an increase in the value of total exports to Non-Japan Asia, which rose by 5.2%, driven by an increase in the value of minerals and metals exports. Meanwhile, the total value of exports to Japan remained relatively unchanged (down 0.2%) over the year.
Financial indicators

Interest rates

- The Reserve Bank’s recent comments, suggesting it would be ‘surprising’ if interest rates remained unchanged in this economic cycle, have caused many market analysts to predict further interest rates rises after the Federal election later this year.

- Yields on 10-year bonds dropped over the month to early September, following movements in the US market. Recent economic data have confirmed the US Federal Reserve’s predictions of a ‘soft spot’ in the US economy, causing US bond yields to fall. However, Australian yields fell further over the month, causing the differential between US and Australian 10-year yields to narrow. In contrast, 90-day bank bills remained at around 5.5% in early September, and have been relatively unchanged for the past nine months.

Exchange rates

- The $A dipped below US70c in early September, depreciating over the month as oil prices declined from their recent record highs. An increase in US interest rates in August and lower economic growth in Japan also helped to push the $A lower, although the majority of the $A movements were dominated by changes in the $US.

- Movements in the $A in trade-weighted terms have historically been largely determined by the $A/$US exchange rate. However, the marginal fall in the trade weighted index over the month to early September reflected a depreciation of the $A against all major currencies, with the exception of the British Pound.

Sharemarkets

- The Australian share market regained ground in late August and early September, after falling in early August. As a result, the market finished slightly higher over the month. Share markets around the world followed a similar trend, with share indices in Taiwan and Hong Kong performing strongly over the month to early September.

- Despite the relatively subdued performance over the month, the ASX All Ordinaries Index reached record highs in early September, building on a strong year of share price growth. The ASX All Ordinaries Index has now risen by over 10% in the past year.

Queensland commodity prices

- The weighted index of international prices for Queensland’s major commodity exports fell by 1.1% in $A terms in August 2004. The index remained unchanged in SDR terms in August, due to a 0.8% depreciation in the value of the $A dollar against the $US (in monthly average terms).

- The Agricultural Index rose by 1.0% in SDR terms, but fell marginally in $A terms (down 0.1%) due to the fall in the $A/$US exchange rate. Rises in the monthly average prices of beef exports to the United States and Japan (up 5.0% and 3.1% respectively) were offset by falls in the world prices of wheat, wool, cotton and sugar.

- The Minerals Index fell by 1.7% and 0.7% in $A and SDR terms respectively in August, driven mainly by softer world coal prices. World prices of nickel, lead and aluminium also fell, by 8.1%, 2.3% and 1.2% respectively, in monthly average terms.

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.
According to the ABS Established House Price Index, house prices in Brisbane rose 28.5% over the year to the June quarter 2004 (compared with 10.9% growth nationally) and have averaged 22.6% growth per annum over the past three years. This surge in house prices contributed to strong growth in dwelling construction, retail spending and employment.

However, with the ABS index showing that house prices fell in both Sydney and Canberra in the June quarter, there is much discussion about whether or not the current cycle has peaked in Queensland. Many analysts and commentators argue that Brisbane house prices have slowed in recent months, although only one of the five major Brisbane house price series indicates that the Brisbane housing market has turned. The others indicate continued, although moderating, growth in house prices.

These five price series are based on a range of data sources and use different methodologies, which need to be considered carefully when interpreting movements in prices.

Data sources and coverage

The ABS, REIA and APM series are all based on data collected from state land titles offices, relating to property sales in the reference quarter. The CBA measure is less comprehensive, being based on the Bank’s own home loan data, while the Residex index reflects changes in the prices of a particular group of properties over time.

Timeliness and reliability

In interpreting house price data, it is necessary to be aware of the timeliness of the data, as well as the extent to which the data are likely to be revised. For example, the ABS series is based on the date of settlement. Therefore, prices in any given quarter actually represent sales in both the reference quarter and in the previous quarter and will tend to lag true developments in the market.

In contrast, the APM series is based on the date on which the contract of sale is entered into, thereby providing a more timely measure of price changes. However, the major limitation of contract-dated data is that these data are reported gradually, with the initial data for any period potentially subject to greater revisions, as more information becomes available. The REIA price index is also more timely: although based on settlement dates in several other states, the Brisbane series is based on the contract date. Meanwhile, the increased timeliness of the CBA data may help offset its disadvantage in terms of coverage discussed earlier.

Changes in composition and quality

Perhaps the most serious problem with the majority of house price data series is that they do not effectively allow for changes in the quality and composition of houses on the market. The quality of houses changes over time, as a result of renovations and the general move towards larger properties in many areas. Further, the composition of houses sold also tends to change over time, even within the one housing cycle. This was particularly evident in the current cycle, which saw a surge in first home buyer activity early in the cycle, but relatively little first home owner activity later in the cycle. These buyers tend to purchase smaller, less expensive homes, often in the outer city suburbs. Therefore, not adjusting for changing quality and composition can result in exaggerated movements in house prices in many areas.

Two of the available series do attempt to adjust for changes in composition and quality. The ABS Index attempts to allow for some of the change in composition by measuring sales in smaller geographic areas. The average price changes in each region are then weighted together to give an overall price change for each city. Meanwhile, the Residex indices are based on repeat sales of the same properties, reducing the effect of changes in composition. However, a limitation of this series is that it does not allow for renovations and extensions to properties, which may have accounted for a larger share of price increases in recent years, given the amount of renovation activity being conducted in Brisbane.

The way forward

There is already a well developed statistical technique which can be used to adjust data series for quality changes. The ABS is currently investigating using this method to adjust for quality in examining changes in the prices of personal computers, but has yet to release its information paper. This method uses objectively measured characteristics (i.e. in the case of housing, the number of bedrooms, bathrooms, whether the house has a swimming pool, etc.) to estimate the implied price of these characteristics. These implied prices can then be used to calculate the house price of some “standard” house. Thus, an index can be calculated using house price data for all house sales to provide an estimate of quality adjusted price movements.

While there now appears to be increased demand for the development of more effective measures of house price movements in Australia, the availability of such a series would appear to still be some time off. Meanwhile, caution should continue to be used, and consideration given to the factors discussed above, when interpreting movements in house price data.

The Reserve Bank recently discussed some of the problems in using currently available data to measure and interpret house price movements over the housing cycle. Meanwhile, the House of Representatives Economics Committee has recommended that steps should be taken to improve the accuracy of house price data. This article presents some information about the major house price measures that are currently available and discusses some of the limitations of these measures.
## 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>QLD</td>
<td>NSW</td>
</tr>
<tr>
<td>Household Final Consumption Expenditure</td>
<td>Jun-04 (q)</td>
<td>Annual</td>
<td>18.2</td>
<td>9.8</td>
<td>4.4</td>
</tr>
<tr>
<td>Private Gross Fixed Capital Formation</td>
<td>Jun-04 (q)</td>
<td>Annual</td>
<td>20.1</td>
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<tr>
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<td>Jun-04 (q)</td>
<td>Annual</td>
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<td>5.7</td>
<td>1.7</td>
</tr>
<tr>
<td>State/National Final Demand</td>
<td>Jun-04 (q)</td>
<td>Annual</td>
<td>18.4</td>
<td>9.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Exports</td>
<td>Jun-04 (q)</td>
<td>Annual</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Imports</td>
<td>Jun-04 (q)</td>
<td>Annual</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Gross Domestic Product</td>
<td>Jun-04 (q)</td>
<td>Quarter</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
</tbody>
</table>

### Private Consumption

#### Retail Trade
- ABS Cat. no.: 8501.0
- Data Period: Jul-04
- Growth: Monthly 19.9, Annual 10.1
- Qld as % of Aust: Monthly 0.7, Annual 1.0
- Growth Rate: Monthly 0.7, Annual 0.8

#### New Motor Vehicle Sales
- ABS Cat. no.: 9314.0
- Data Period: Jul-04
- Growth: Monthly 21.8, Annual 11.7
- Qld as % of Aust: Monthly 0.3, Annual 0.6
- Growth Rate: Monthly 0.3, Annual 0.6

### Housing Sector

#### Dwelling Approvals (no.)
- ABS Cat. no.: 8731.0
- Data Period: Jul-04
- Growth: Monthly 23.3, Annual 23.9
- Qld as % of Aust: Monthly 0.3, Annual 0.5
- Growth Rate: Monthly 1.4, Annual 1.8

#### Dwelling Commencements (no.)
- ABS Cat. no.: 8752.0
- Data Period: Mar-04(q)
- Growth: Quarterly 26.1, Annual 23.9
- Qld as % of Aust: Quarterly 4.1, Annual 8.1
- Growth Rate: Quarterly 1.8, Annual 1.8

### Business Investment

#### Non-residential Building Approvals (v) (o)
- ABS Cat. no.: 8731.0
- Data Period: Jun-04 (q)
- Growth: Annual 15.2
- Qld as % of Aust: Annual 1.6
- Growth Rate: Annual -1.9

#### Engineering Construction Commencements (v) (o)
- ABS Cat. no.: 8762.0
- Data Period: Mar-04(q)
- Growth: Annual 14.8
- Qld as % of Aust: Annual 12.8
- Growth Rate: Annual 9.7

#### New Equipment (v)
- ABS Cat. no.: 5646.0
- Data Period: Jun-04 (q)
- Growth: Annual 18.8
- Qld as % of Aust: Annual 0.8
- Growth Rate: Annual 0.6

### Demography

#### Population
- ABS Cat. no.: 3101.0
- Data Period: Dec-03(q)
- Growth: Annual 19.2
- Qld as % of Aust: Annual 0.8
- Growth Rate: Annual 0.8

### Labour Market

#### Employment
- ABS Cat. no.: 6202.0
- Data Period: Aug-04
- Growth: Monthly 19.6
- Qld as % of Aust: Monthly 0.3
- Growth Rate: Monthly 0.2

#### Unemployment Rate (l)
- ABS Cat. no.: 6202.0
- Data Period: Aug-04
- Growth: Mth level 5.6, Year level 6.6
- Qld as % of Aust: Annual 0.2
- Growth Rate: Annual 0.2

#### Labour Force
- ABS Cat. no.: 6202.0
- Data Period: Aug-04
- Growth: Monthly 19.6
- Qld as % of Aust: Annual 0.2
- Growth Rate: Annual 0.2

#### DEWR (b) Skilled Vacancy Survey
- ABS Cat. no.: 8762.0
- Data Period: Aug-04
- Growth: Monthly 2.5
- Qld as % of Aust: Monthly 0.1
- Growth Rate: Monthly 0.1

#### ANZ Job Advertisement Series
- ABS Cat. no.: 6202.0
- Data Period: Aug-04
- Growth: Monthly 14.6
- Qld as % of Aust: Annual 9.2
- Growth Rate: Annual 9.2

### Wages and Prices

#### Average Weekly Ordinary Time Earnings (l)
- ABS Cat. no.: 6302.0
- Data Period: Jun-04 (q)
- Growth: $ level 93.5
- Qld as % of Aust: 890.4
- Growth Rate: 955.8

#### Consumer Price Index (o)
- ABS Cat. no.: 6401.0
- Data Period: Jun-04 (q)
- Growth: Quarterly 0.6
- Qld as % of Aust: Annual 3.2
- Growth Rate: 0.3

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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. 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  

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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 Amanda Findlater on (07) 3224 6081 or by email to amanda.findlater@treasury.qld.gov.au. Editorial enquiries can be forwarded to Mr Greg Uptin on (07) 3224 2515 or by email to greg.uptin@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: