Labour market

The State's trend unemployment rate fell to 5.4% in September, the lowest in over 26 years and 0.2% point lower than the national rate of 5.6%. Trend employment growth in Queensland remained solid in September 2004, with growth of at least 0.4% recorded for the fifth consecutive month. In contrast, the rest of Australia recorded zero trend jobs growth for the fifth consecutive month.

Building approvals

The trend number of building approvals in Queensland rose 0.5% in August 2004, following modest growth in the previous two months. In comparison, the number of building approvals in the rest of Australia declined 2.0%.

State economic growth

The latest Queensland State Accounts show economic growth in Queensland moderated slightly in June quarter 2004. Queensland recorded growth in trend real gross state product of 0.2% in June quarter 2004, easing from growth of 0.4% in the March quarter. In year average terms, Queensland recorded economic growth of 3.9% in 2003-04.

PLUS, IN THIS ISSUE . . .

Retail turnover
Population

. . . 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
Dwelling approvals

After moderating for eight months, the monthly number of building approvals in Queensland has followed a modest upward path over the past three months. The number of total building approvals (trend) rose 0.5% in August 2004, following modest growth in the previous two months. A small decline in private sector house approvals (-0.3%) was more than offset by an increase in approvals for other residential construction (units, townhouses etc), which rose 2.0% in August. In comparison, the number of building approvals in the rest of Australia declined 2.0%, with both private sector houses and other residential buildings declining (down 1.5% and 3.3% respectively).

The further growth in August builds on an already high number of building approvals. Trend data show that 3,400 residential buildings were approved in August, with Queensland accounting for 24.3% of all dwellings approved nationally, well above Queensland’s population share of around 19%.

Renewed strength in building approvals in recent months provides further evidence that dwelling investment in Queensland should remain strong over the coming year. Housing finance approval data also suggest further strength in the near term, with the number of finance approvals for the construction of new dwellings for the three months to July being 2.9% higher than the previous three month period. Dwelling investment continues to be supported by alteration and additions activity, which increased 3.6% in value terms in August 2004, consolidating the 3.8% growth recorded in July.

Retail turnover

Nominal retail turnover rose 0.7% in Queensland in August 2004, the fifth consecutive month of growth at or above 0.7%. In annual terms, Queensland recorded retail trade growth of 9.2% over the year to August 2004, which was stronger than all other states for the ninth consecutive month.

Food retailing contributed 0.3% point to growth in total retail spending in August, while other retailing contributed 0.2% point and department stores and clothing and soft goods retailing both contributed 0.1% point. In contrast, hospitality and services was the only sector to detract from growth (0.1% point).

However, the recent strong growth in nominal retail trade may not necessarily reflect growth in the volume of retail trade, as nominal retail trade includes the impact of price movements. Therefore, the next release of quarterly real retail trade data in early November will provide a clearer picture of changes in the volume of retail trade in recent months.

Nominal retail turnover growth over the past year in Queensland has been underpinned by excellent labour market conditions, with very strong employment growth and the trend unemployment rate falling to its lowest level in over 26 years. In addition, the ongoing wealth effects from recent house price increases, high levels of consumer confidence and continued solid population growth have also supported retail turnover. These factors are likely to continue to sustain retail turnover growth in coming months. However, retail trade growth may be adversely affected should fuel prices remain at the current high levels, reducing discretionary incomes.
Population growth in Queensland eased 0.1% point to 0.5% in March Quarter 2004, leading to the State’s estimated resident population increasing to a total of 3,863,554 persons (up 19,149 persons). Similarly, annual population growth eased slightly, down 0.1% point to 2.2% or 82,345 persons over the year to March quarter 2004. This growth led to Queensland’s share of the national population increasing a further 0.1% point, to be 19.3% in the March quarter.

In the rest of Australia, population growth remained steady in March quarter 2004, up 0.3% or 44,840 persons over the quarter and up 1.0% or 152,497 persons over the year. As a result, the national estimated resident population exceeded 20 million persons for the first time in March quarter 2004, up 1.0% or 152,497 persons over the year. In the rest of Australia, population growth remained steady in March quarter 2004, up 0.3% or 44,840 persons over the quarter and up 1.0% or 152,497 persons over the year. As a result, the national estimated resident population exceeded 20 million persons for the first time in March quarter 2004, up 1.0% or 152,497 persons over the year. In the rest of Australia, population growth remained steady in March quarter 2004, up 0.3% or 44,840 persons over the quarter and up 1.0% or 152,497 persons over the year. As a result, the national estimated resident population exceeded 20 million persons for the first time in March quarter 2004, up 1.0% or 152,497 persons over the year.

All categories of population growth in Queensland eased in March quarter 2004. Natural increase (births minus deaths) added 5,311 persons to the Queensland population in the March quarter and 24,097 persons over the year, while net overseas migration to Queensland totalled 5,867 persons in the March quarter and 20,962 persons annually. Similarly, net interstate migration moderated, down from 10,435 in December quarter 2003, to 7,971 persons in the March quarter and 37,286 persons over the year.

In year-average terms, Queensland recorded GSP growth of 3.9% in 2003-04, exceeding economic growth in the rest of Australia (3.6%) for the eighth consecutive year.

Household consumption continued to be the main driver of demand in June quarter 2004. Consumption rose a further 1.8% in June quarter 2004, to be 11.2% higher over the year. Queensland’s growth was more than double that recorded in the rest of Australia, where consumption rose by 5.0% over the year. Consumption growth in the State continues to be driven by high population growth, positive employment conditions and low interest rates.

Despite being at historically high levels, dwelling investment in Queensland continued to rise in June quarter 2004, increasing a further 2.1% in the quarter and rising 19.8% in annual terms. In the rest of Australia, dwelling investment increased at a more moderate pace, rising 1.8% in the June quarter and 7.2% over the year.

Business investment made a solid contribution to overall growth in the June quarter, rising by 3.3%. In annual terms, growth in business investment slowed over the first half of 2003-04, but has accelerated over the second half of the year.

Strong consumption and business investment growth continued to fuel import growth in the State in the June quarter, although the pace of growth moderated from that of recent quarters. Imports rose 2.3% in the June quarter, while total exports from Queensland (overseas and interstate) declined by 0.2%. As a result, the trade sector continued to detract from overall growth, with net exports subtracting 1.1% points from overall GSP growth in the June quarter.

The slightly slower overall growth in Queensland is partly due to a number of factors that have had a greater impact on the State’s trade sector relative to that in the rest of Australia. In comparison, gross state expenditure, a measure of domestic demand, grew at an annual rate of 9.7% in June quarter 2004, compared with only 5.3% in the rest of Australia.

In year-average terms, Queensland recorded GSP growth of 3.9% in 2003-04, exceeding economic growth in the rest of Australia (3.6%) for the eighth consecutive year.
Interest rates

- Despite recent comments from the Reserve Bank suggesting it would be ‘surprising’ if interest rates remained unchanged in this economic cycle, recent retail sales and employment data have been weaker than the market expected, resulting in mixed views on the future level of interest rates.

- Some analysts anticipate the RBA will raise rates later this year, as inflation begins to accelerate and the international economy continues to grow strongly. However, the yields on 90-day bank bills remained steady at around 5.4% over the month to early October. At only slightly above the current cash rate of 5.25%, bank bill yields imply that financial markets have priced in very little chance of a rate rise in the next three months.

- Commonwealth 10-year bond yields fell over the month to early October, dropping to around 5.35% in mid September before recovering partially later in the month to be around 5.5% in early October.

Exchange rates

- The $A rose against the $US over the month to early October, as commodity prices increased in late September. Commodity price rises are historically associated with an increase in the value of the $A. Concerns about the level of the $US surfaced ahead of the G7 finance ministers meeting in late September, providing further support to the $A.

- The $A TWI continued to move broadly in line with the $A/$US exchange rate over the month to early October, while the $A fell slightly against the Euro and the UK Pound, but rose against the Japanese Yen.

Sharemarkets

- Australian share markets steadily gained ground over the month to early October, continuing the relatively steady upward trend that they have experienced since March 2003. The ASX All Ordinaries index has now risen around 15% over the past year, and is currently at record highs.

- Australia share prices were accompanied by gains in global share indices, with all major global share indices rising over the month to early October. In particular, the German DAX index rose by around 5% over the month, and is around 20% higher than a year earlier.

Queensland commodity prices

- The weighted index of international prices for Queensland’s major commodity exports rose in both SDR and $A terms in September, by 2.8% and 1.3% respectively. In monthly average terms, the $A depreciated against the $US by 1.1%, causing the smaller rise in the index in $A terms.

- The Agricultural Index rose by 2.0% and 0.6%, in SDR and $A terms respectively, in September 2004. The average price of beef exports continued to rise in September, driven by an increase in the prices of beef exports to Japan and the United States (up 4.7% and 2.1% respectively). World prices of wheat, cotton and sugar also rose by 8.1%, 5.2% and 1.6% respectively, while wool prices fell by 1.5% during September.

- The Minerals Index rose by 3.3% and 1.8%, in SDR and $A terms, respectively. In monthly average terms, world prices of aluminium and copper both rose by 1.9% while lead prices increased by 1.6%. Meanwhile, world prices of silver and nickel fell by 3.3% and 2.8% respectively.

Note: The components of the Queensland Commodity Price Index have recently been re-weighted to reflect their current shares of total Queensland exports. Accordingly, the index is not directly comparable with those published in previous editions of the Queensland Economic Update.

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.
The global economy and international trade

The global economy continues to grow rapidly, with world economic growth averaging 3.7% per annum over the decade to 2004. The global economy also appears to be recovering quickly from the period of weaker growth experienced throughout 2001 and 2002, which reflected the impacts of international terrorism attacks, geopolitical uncertainty and the volatility of the world’s major share markets. World economic growth recovered to above long run average growth in 2003, with even stronger growth forecast for both 2004 and 2005.

Underpinning the continued strength of global economic growth in recent decades has been the increased globalisation of the world economy. This resulted in substantial growth in trade between the world’s major economies and economic regions. The increased importance of international trade is clearly reflected in the rapid increase in the volume of trade, when expressed as a share of total world output, since the mid 1980s (see Figure 1).

Figure 1: World trade as a share of global economic output
(Exports/GDP, current prices, $US)

Source: IMF World Economic Outlook, WTO Time Series

The rate of trade growth has varied considerably between different regions of the global economy. The US and Europe have continued to underpin international trade growth, while the rapid economic growth in many of Australia and Queensland’s key trading partners, particularly in the Asian region, has coincided with exceptional trade growth and an increased openness of these economies (see Figure 2).

Figure 2: International trade growth
((Exports + Imports)/GDP, 10-year annual average to 2003, current prices, $US)

Source: WTO Time Series

The expected upturn in global growth in 2004 and 2005 will continue to promote greater international trade flows. The general recovery of global growth is also expected to be sustained in the medium term, as continued low global interest rates support world economic growth, the United States recovery gathers momentum, and the rapid growth and industrialisation of the Chinese economy continues to drive growth in the Asian region.

Implications for Queensland

Strong growth in international trade has important implications for Queensland exporters and the Queensland economy. The increased demand for Queensland exports from the State’s major trading partners results in higher incomes for Queensland exporters and the creation of more jobs in export-orientated industries.

An important indicator of an economy’s export performance is the level of exports expressed as a share of total economic output, or gross domestic product. An increase in this measure implies greater employment opportunities and economic growth as a result of the expansion of domestic operations into overseas markets.

Queensland’s overseas exports as a share of total output have increased from less than 20% in the mid 1980s to almost 25% in recent years and have remained consistently higher than that in the rest of Australia over the last two decades.

This continued increase in the relative importance of exports in the Queensland economy is also considered to be a source of improvement in domestic technology and productivity, and therefore incomes, as domestic companies compete internationally with large-scale efficient producers.

In line with the increased global demand and the ongoing diversification of the Queensland economy more generally, Queensland has also continued to broaden its export product base in recent years. The State’s traditional rural export base has been increasingly complemented by a growing share of mineral and other manufactured exports, as well as services exports.

Queensland is also constantly establishing new export markets and strengthening ties with existing trading partners. This reflects the ability of the State’s export-orientated industries to source new markets and provide new products for export, and well as the establishment of several national trade agreements in recent years.

The increased diversification of the State’s export base and the ability of Queensland industries to successfully source new export markets, have both played a major role in increasing Queensland’s resilience to several recent external ‘shocks’ that have adversely affected Australia’s trade sector. These included the Asian currency crisis in 1997-98, the September 11 terrorist attacks in 2001-02 and the rapid appreciation of the $A in 2002-03.

Importantly, Queensland continued to outperform the rest of Australia in terms of merchandise export growth throughout each of these years.
### Major economic indicators by state

<table>
<thead>
<tr>
<th>Indicator</th>
<th>ABS Cat. no.</th>
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<th>Growth</th>
<th>Qld as % of Aust</th>
<th>Growth Rate</th>
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<td>QLD</td>
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<td>Jun-04 (q)</td>
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Note: All data are in trend terms unless otherwise indicated. Annual growth rate is the percentage change between the latest period (i.e. month or quarter) and the same period a year earlier. 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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**A Queensland Treasury publication**

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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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