Labour market

- Queensland’s trend unemployment rate of 4.7% in January is the lowest rate in at least 27 years. The State’s trend unemployment rate has been lower than the rate for the rest of Australia (5.2% in January) for six consecutive months.

Retail turnover

- Nominal retail turnover in Queensland fell 0.8% in trend terms in December 2004, but remained 1.2% higher over the year (rest of Australia down 0.2% and up 2.0% respectively). In real terms, trend retail trade in Queensland fell 0.2% in December quarter 2004, to be 3.9% higher over the year, representing the second highest annual growth of any State.

Investment monitor

- According to the latest Investment Monitor, the total value of investment projects in Queensland increased by 3.5% in December quarter 2004 (up 10.1% over the year) to $60.1 billion, exceeding growth in NSW, Victoria and Western Australia.

FYI

- International trade is important for economic growth, employment and living standards. This month’s FYI looks at the liberalisation of international trade and discusses some of the current and prospective free trade agreements Australia has with its major trading partners.

PLUS, IN THIS ISSUE . . .

- Dwelling approvals
- Inflation
- State economic growth
- 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
Queensland’s monthly trend employment growth in January 2005 remained strong at 0.3%, despite easing from a recent peak of 0.6% in August 2004. Jobs growth in the rest of Australia was 0.3% for the fourth consecutive month.

Queensland recorded annual jobs growth of 5.5% in January, more than double the 2.2% growth in the rest of Australia. Queensland experienced the largest annual rise in employment (101,900) of any state, accounting for 37% of national jobs growth over the year to January.

Part-time employment growth (4,700 jobs) in the State exceeded full-time jobs growth (1,500 jobs) in January. In comparison, part-time employment growth (10,400 jobs) in the rest of Australia was marginally greater than full-time jobs growth (10,200 jobs). Full-time employment growth (79,400 jobs) in Queensland drove total jobs growth over the year, while in the rest of Australia full-time jobs growth (88,500 jobs) was similar to part-time employment growth (83,200 jobs).

The State’s participation rate increased to 65.7% in January 2005, the highest rate since the inception of the current series in 1978. Despite the rising participation rate, Queensland’s trend unemployment rate of 4.7% in January is the lowest rate in at least 27 years. The State’s trend unemployment rate has been lower than the rate for the rest of Australia (5.2% in January) for six consecutive months.
The headline Brisbane consumer price index (CPI) rose 0.8% in December quarter 2004, with annual growth strengthening slightly to 2.6%. Similarly, the national CPI rose 0.8% in the December quarter, to be 2.6% higher over the year. The national inflation rate has risen from 2.3% in the September quarter, but remains close to the middle of the Reserve Bank’s 2% to 3% target range.

Nationally, consumer price rises in the December quarter were driven primarily by increases in housing costs, food prices and transport costs. Increased fuel costs and a rise in the cost of motor vehicle purchase contributed to the increase in transport costs, while fruit and vegetable prices rose more than 5% in the December quarter. The recent strength of the housing sector continues to influence the CPI, with house purchase costs rising 1.5% in the December quarter. Brisbane inflation reflected similar components to that nationally, but recorded stronger food price increases, slightly offset by a smaller contribution from recreation costs.

The price index for market sector goods and services, which excludes the more volatile items such as petrol, and fruit and vegetables, rose 0.7% in the December quarter, to be 1.4% higher over the year. This represents an acceleration from record lows earlier in 2004. In Brisbane, the underlying rate of inflation was 0.7% in December quarter 2004, with the annual rate strengthening to 1.7%.

**Investment monitor**

According to the latest *Investment Monitor* published by Delta Electricity and Access Economics, the total value of investment projects in Queensland increased by 3.5% in December quarter 2004 (up 10.1% over the year) to $60.1 billion, exceeding growth in NSW, Victoria and Western Australia. The value of definite projects (those under construction or committed) declined 22.3% in the December quarter to $15.8 billion. However, this was primarily due to the completion of a number of major projects.

Construction was completed on Stage 1 of Comalco’s alumina refinery at Gladstone, while Enertrade also completed work on its coal bed methane power project at Townsville. Capral Aluminium completed its manufacturing facility in Ipswich during the December quarter, while Xstrata completed its Suttor Creek steaming coal project. The status of the Aldoga aluminium smelter at Gladstone was downgraded by Access Economics from ‘committed’ to ‘under consideration’ in December quarter, which also contributed to the large decline in the value of definite projects.

Although the business investment cycle may be nearing its peak in terms of growth, investment has reached an historically high level. There are several factors that may influence the medium-term outlook for business investment. In terms of global economic growth, China appears to be experiencing a mild easing in growth rather than a sharp slowdown, an encouraging development for Queensland companies exporting to China. Also, strong employment growth has helped to boost demand for office space. However, continuing strength in the value of the $A remains a concern for exporters, while the possibility of downturns in housing construction and retail sales could affect major project investment in related industries.

**State economic growth**

The latest *Queensland State Accounts* indicate that the State recorded growth in real trend GSP of 0.9% in the September quarter, following similar growth in the June quarter. In annual terms, economic growth in Queensland eased 0.5 percentage point to 3.7% over the year to the September quarter (rest of Australia, up 0.4% in the quarter and 3.1% over the year).

Growth in household consumption continued to ease in the September quarter, increasing 0.8%, following 1.4% growth in the previous quarter and down from the exceptional growth rates recorded in late 2003. Despite the easing, Queensland’s annual growth of 7.7% was substantially higher than that recorded in the rest of Australia (4.7%).

Dwelling investment in Queensland was almost unchanged in September quarter 2004 (down 0.1%), while growth over the year remained at a healthy 8.7%. The rest of Australia recorded modest growth of 0.6% in the September quarter and 6.9% growth over the year.

Business investment continued its run of very strong growth in September quarter 2004, and made the largest contribution to overall economic growth. Total business investment rose 6.5%, contributing 0.8 percentage point to growth in gross state product during the quarter.

Imports rose 3.0% in the September quarter, while total exports increased by 1.2%. As a result, the trade sector detracted 1.0 percentage point from overall GSP growth in the September quarter, although the detraction has declined steadily over the past four quarters.

**Gross State Product, September quarter 2004**

<table>
<thead>
<tr>
<th>(CVM, quarterly % change, trend)</th>
<th>Queensland</th>
<th>Rest of Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household consumption</td>
<td>0.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Private investment</td>
<td>2.7</td>
<td>0.0</td>
</tr>
<tr>
<td>Dwellings</td>
<td>-0.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Business investment</td>
<td>6.5</td>
<td>-0.1</td>
</tr>
<tr>
<td>Other buildings and structures</td>
<td>2.5</td>
<td>-3.6</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>8.3</td>
<td>1.8</td>
</tr>
<tr>
<td>Private final demand</td>
<td>1.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Public final demand</td>
<td>2.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Gross state expenditure</td>
<td>1.2</td>
<td>0.7</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>1.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>3.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Net exports(a)</td>
<td>-1.0</td>
<td>-0.3</td>
</tr>
<tr>
<td>Gross state product</td>
<td>0.9</td>
<td>0.4</td>
</tr>
</tbody>
</table>

(a) percentage point contribution to growth in GSP

Source: ABS 6401.0

Inflation

<table>
<thead>
<tr>
<th>Source: ABS 6401.0</th>
<th>Net exports(a)</th>
<th>Gross state product</th>
<th>Household consumption</th>
<th>Private investment</th>
<th>Dwellings</th>
<th>Business investment</th>
<th>Other buildings and structures</th>
<th>Machinery and equipment</th>
<th>Private final demand</th>
<th>Public final demand</th>
<th>Gross state expenditure</th>
<th>Exports of goods and services</th>
<th>Imports of goods and services</th>
<th>Net exports(a)</th>
<th>Gross state product</th>
</tr>
</thead>
</table>
Financial indicators

**Interest rates**

- Yields on 90-day bank bills and 10-year bonds remained relatively unchanged at around 5.50% and 5.40% respectively, over the month to early February.

- Prior to the release of the December quarter Consumer Price Index (CPI) in late January, financial markets were forecasting an increase in official interest rates of 25 basis points in the second half of 2005. However, the CPI rose 0.8% in the December quarter, compared with market expectations of a 0.6% rise. The annual CPI rate is now 2.6%, which is into the top half of the Reserve Bank of Australia’s 2% to 3% target band. Financial markets suggest that an official interest rate increase is now more likely than previously expected.

**Exchange rates**

- Over the month to early February, the $A traded in a range between $US76c and US78c, while the $A trade-weighted index remained virtually unchanged.

- The US dollar strengthened against the major currencies during the past month. The biggest gains were made against the Euro (3%), while modest gains were made against the Japanese Yen and UK Pound. The majority of commentators regard this recent improvement as a short-term correction within an ongoing downward trend of the US dollar. The key driver for the US dollar continues to be the US ‘twin deficits’ (the budget and current account deficits) and the capacity of the US to attract foreign capital to fund these deficits.

**Sharemarkets**

- The Australian share market continued to post record highs during the month to early February, with the resource sector leading the way. Strong global demand for commodities and energy is underpinning revenue and profitability in this sector, which is fuelling share price gains.

- Global share markets were mixed over the past month. European and US markets recorded gains (UK FTSE up 2%, German DAX and US S&P 500 up 1%), while Asian markets fell, with Japan (Nikkei 225) down 1% and Hong Kong (Hang Seng) down 3%.

**Queensland commodity prices**

- In January 2005, the weighted index of international prices for Queensland’s major commodity exports fell by 1.3% in $A terms and remained unchanged in SDR terms.

- The Agriculture Index fell in both $A and SDR terms in January, by 1.7% and 0.5% respectively. The fall in the index was mainly driven by declines in the price of beef exports to the United States and Japan (down 5.0% and 4.0% respectively). Meanwhile, world prices for cotton and sugar rose by 5.2% and 1.1% respectively (in monthly average terms).

- In $A terms, the Minerals index fell by 1.0%, and remained relatively steady in SDR terms. In monthly average terms, the world price of both lead (2.1%) and aluminium (0.8%) fell, while the price of zinc and nickel rose by 5.5% and 4.8% 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.
Free trade agreements (FTAs) are increasingly being used to liberalise trade between pairs or groups of countries. The removal of barriers to trade benefits the Queensland and Australian economies in several ways. A reduction in tariffs and/or non-tariff barriers with trading partners generates new trade opportunities, improving growth and job prospects in the trade sector. Similarly, lowering tariffs on imported goods into Australia also benefits the economy more generally, by providing cheaper goods and services to consumers, or providing cheaper inputs into the production process for domestic producers. Further, the removal of barriers to investment flows is also a source of improvements in capital technology and therefore productivity in the economy.

Queensland has traditionally been a more open economy than Australia as a whole, as documented in a previous FYI in the October 2004 QEU. Queensland’s overseas exports as a share of total output averaged around 22% over the past 20 years, compared with only 17% nationally over this period. As a result, the Queensland economy stands to greatly benefit from the pursuit of FTAs at the national level. The Australian Government has pursued free trade through three levels:

**Multilateral trade negotiations:** the World Trade Organisation (WTO) operates a system of rules for international trade and provides a forum where governments can negotiate trade agreements and settle trade disputes. Trade negotiations within the WTO (and its predecessor, the General Agreement on Tariffs and Trade (GATT)) have resulted in substantial reductions in many trade barriers. The General Agreement on Trade in Services (GATS) is the WTO agreement that sets out rules and disciplines which apply to international trade in services.

**Regional trade negotiations:** the Asia Pacific Economic Cooperation (APEC) was established in 1989 and has become the region’s leading forum to strengthen regional links and pursue common trade and economic goals. In addition, the ASEAN Free Trade Area (AFTA)-Closer Economic Relations (CER) Closer Economic Partnership (CEP) was established in 2002 with the aim of facilitating trade and investment flows between the ASEAN and Australia and New Zealand regions.

**Bilateral trade negotiations:** Free Trade Agreements (FTAs) refer to a variety of arrangements for providing more access to and among a selected group of countries. Table 1 lists the countries which currently have FTAs with Australia, which together account for 12.3% of Queensland’s overseas exports.

**Table 1. Australia’s FTAs**

<table>
<thead>
<tr>
<th>Country</th>
<th>Date of entry into force</th>
<th>Share of Queensland exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>1 January 2005</td>
<td>6.1%</td>
</tr>
<tr>
<td>Thailand</td>
<td>1 January 2005</td>
<td>1.5%</td>
</tr>
<tr>
<td>Singapore</td>
<td>28 July 2003</td>
<td>0.9%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1 January 1983</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

Source: Department of Foreign Affairs and Trade, Queensland Treasury

The negotiation of FTAs has increased in recent times, reflecting a global trend. According to the WTO, by October 2004, more than 260 arrangements covering trade in goods or services had been notified to the GATT/WTO. Of those notified, 156 are currently in force. Unlike many of the earlier FTAs which involved several nations, the vast majority of FTAs which have been created since 1990 have been bilateral agreements.

The increased interest in FTAs has been driven by several factors. FTAs can often be concluded faster and achieve further trade reform than is currently possible within the WTO context. FTAs can advance the integration of regional economies and also provide a fallback position in the event of any weakening of the multilateral trading system. However it is well known that FTAs and other forms of preferential trading arrangements are ‘second best’ solutions compared with multilateral trade liberalisation. Some aspects of the Australian FTAs currently in force are discussed below.

The [Australia-United States Free Trade Agreement (AUSFTA)](http://example.com) provides preferential treatment for Australian exporters in a number of areas including – duty free access to the United States market for over 97% of Australia’s manufactured exports to the United States; improved access for Australia’s agricultural sector, with approximately 66% of all agricultural tariffs eliminated; full access for Australian goods and services to the federal government procurement market in the United States, estimated to be worth $270 billion; and enhanced legal protections that guarantee market access and non-discriminatory treatment for Australian service providers in the United States market. Over time, the dynamic gains from the AUSFTA, especially from greater investment flows, and the increased level of economic cooperation with the United States, is expected to provide significant economic gains to Australia.

In addition to tariff elimination, the [Singapore-Australia Free Trade Agreement (SAFTA)](http://example.com) guarantees increased market access for Australian exporters of services, particularly education, environmental services, telecommunications and professional services. It also provides a more open and predictable business environment across a range of areas, including competition policy, government procurement, intellectual property, e-commerce, customs procedures and business travel.

The most significant feature of the recently completed [Thailand-Australia Free Trade Agreement (TAFTA)](http://example.com) is that more than three-quarters of Australia’s exports to Thailand are now tariff-free, including large motor vehicles and many agricultural and mining products. In addition, the TAFTA also ensures improved access for services trade and investment. Further negotiations to open up services trade will take place within three years of the date of entry into force.

The Australian Government is currently involved in discussions with a number of countries in relation to potential FTAs with Australia (Table 2). Together Queensland’s exports to these countries are three times the level of Queensland’s exports to countries with which Australia currently has FTAs.

**Table 2. Australia’s Prospective FTAs**

<table>
<thead>
<tr>
<th>Country</th>
<th>Comment</th>
<th>Share of Queensland exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>FTA negotiations are expected to be concluded within 2 years</td>
<td>7.8%</td>
</tr>
<tr>
<td>China</td>
<td>Feasibility study due for completion by 31 March 2005</td>
<td>6.8%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Feasibility study due for completion by 31 March 2005</td>
<td>2.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>Feasibility study will be conducted – date unknown at this stage</td>
<td>27.8%</td>
</tr>
</tbody>
</table>

Source: Department of Foreign Affairs and Trade, Queensland Treasury

1. The GATT was a de-facto international organisation of the same name as the trading system itself which governed international trade prior to the creation of the WTO.
### Major economic indicators by state

#### Queensland Economic Update

February 2005

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### Indicator | ABS Cat. no. | Period | Growth | Qld as % of Aust | NSW | VIC | SA | WA | TAS | AUST
--- | --- | --- | --- | --- | --- | --- | --- | --- | --- | ---
**Economic Growth (a) (cvm)**
- Household Final Consumption Expenditure | Sep-04(q) | Annual | 18.1 | 7.7 | 3.4 | 5.2 | 4.2 | 7.1 | 6.5 | 5.3
- Private Gross Fixed Capital Formation | Sep-04(q) | Annual | 20.8 | 12.6 | 4.3 | 4.5 | 5.3 | -0.8 | 24.2 | 5.0
- Public Final Demand | Sep-04(q) | Annual | 18.2 | 7.1 | 0.9 | 2.4 | 4.0 | 9.5 | -1.2 | 3.7
- State/National Final Demand | Sep-04(q) | Annual | 18.7 | 8.7 | 3.1 | 4.5 | 4.4 | 5.6 | 6.8 | 4.9
- Exports | Sep-04(q) | Annual | na | 2.4 | na | na | na | na | na | 5.1
- Imports | Sep-04(q) | Annual | na | 15.7 | na | na | na | na | na | 13.7
- Gross Domestic Product | Sep-04(q) | Quarterly | 17.3 | 0.9 | na | na | na | na | na | 0.5
- | Sep-04(q) | Annual | 3.7 | na | na | na | na | na | na | 3.2

#### Private Consumption

- Retail Trade | 8501.0 | Dec-04 | Monthly | 19.7 | -0.8 | -0.3 | -0.2 | -0.2 | 0.0 | -0.1 | -0.3
- | | | Annual | 1.2 | 0.9 | 2.1 | 1.5 | 6.4 | 2.2 | 1.9

#### New Motor Vehicle Sales

| 9314.0 | Dec-04 | Monthly | 20.9 | -1.2 | -0.9 | 0.2 | -1.4 | -1.2 | -2.0 | -0.8
- | | | Annual | 5.9 | -2.6 | 4.9 | -2.3 | 7.8 | 12.3 | 2.5

#### Housing Sector

- Dwelling Approvals (no.) | 8731.0 | Dec-04 | Monthly | 25.8 | -1.6 | -2.3 | -1.3 | -1.6 | -0.5 | 4.2 | -1.1
- | | | Annual | -12.9 | -27.6 | -17.2 | -16.6 | -4.2 | 4.6 | -16.4

#### Dwelling Commencements (no.)

| 8752.0 | Sep-04(q) | Quarterly | 24.9 | -4.3 | -0.7 | -7.5 | 0.6 | -1.0 | -3.8 | -3.9
- | | | Annual | -3.3 | 3.0 | -12.4 | -0.6 | 8.8 | 8.5 | -2.3

#### Business Investment

- Non-residential Building Approvals (v) (o) | 8731.0 | Dec-04 | Annual | 25.8 | 35.7 | -7.4 | 5.9 | -54.3 | 0.7 | 54.4 | 0.4
- Engineering Construction Commencements (v) (o) | 8762.0 | Sep-04(q) | Annual | 31.2 | 60.3 | -8.4 | -21.0 | 18.5 | 228.9 | 4.3 | 27.4
- New Equipment (v) | 5646.0 | Sep-04(q) | Quarterly | 20.5 | 4.9 | 1.5 | 1.2 | 1.7 | -5.3 | 0.8 | 0.8
- | | | Annual | 5.9 | -0.2 | -11.7 | -11.0 | -15.6 | -7.7 | -6.0

#### Demography

- Population | 3101.0 | Jun-04(q) | Annual | 19.3 | 2.1 | 0.7 | 1.2 | 0.5 | 1.7 | 1.0 | 1.2

#### Labour Market

- Employment | 6202.0 | Jan-05 | Monthly | 19.8 | 0.3 | 0.3 | 0.3 | 0.2 | 0.5 | 0.0 | 0.3
- | | | Annual | 5.5 | 1.1 | 3.4 | 1.8 | 4.0 | 2.1 | 2.9
- Unemployment Rate (%) | 6202.0 | Jan-05 | Monthly | 19.7 | 0.3 | 0.2 | 0.1 | 0.2 | 0.0 | -0.2 | 0.2
- | | | Annual | 5.5 | 1.1 | 3.4 | 1.8 | 4.0 | 2.1 | 2.9
- Labour Force | 6202.0 | Jan-05 | Monthly | 19.7 | 0.3 | 0.2 | 0.1 | 0.2 | 0.0 | -0.2 | 0.2
- | | | Annual | 5.5 | 1.1 | 3.4 | 1.8 | 4.0 | 2.1 | 2.9
- DEWR (b) Skilled Vacancy Survey | Jan-05 | Monthly | 19.7 | 0.3 | 0.2 | 0.1 | 0.2 | 0.0 | -0.2 | 0.2
- | | | Annual | 5.5 | 1.1 | 3.4 | 1.8 | 4.0 | 2.1 | 2.9
- ANZ Job Advertisement Series | Jan-05 | Monthly | 19.7 | 0.3 | 0.2 | 0.1 | 0.2 | 0.0 | -0.2 | 0.2
- | | | Annual | 5.5 | 1.1 | 3.4 | 1.8 | 4.0 | 2.1 | 2.9

#### Wages and Prices

- Average Weekly Ordinary Time Earnings ($) | 6302.0 | Sep-04(q) | $ level | 94.4 | 906.5 | 997.5 | 963.8 | 891.8 | 963.3 | 871.5 | 960.0
- | | | Annual | 5.2 | 2.6 | 3.1 | 3.0 | 3.8 | 4.7 | 3.2
- Consumer Price Index ($) | 6401.0 | Dec-04(q) | Quarterly | 9.8 | 9.8 | 9.8 | 9.8 | 9.8 | 9.8 | 9.8 | 9.8
- | | | Annual | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6

---

### 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

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) 3238 3038 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:


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