

## FOCUS ON THE HOUSEHOLD SECTOR

August 2019

The Queensland household sector has been hit by crosswinds over 2019. As in the rest of Australia, the Queensland household has suffered from low wage growth, high debt-to-income ratios and a softening housing market.

However, affordable housing and a resurgence in employment growth has resulted in a return to strong Queensland population growth and a sharp rise in retail sales over the last 18 months.

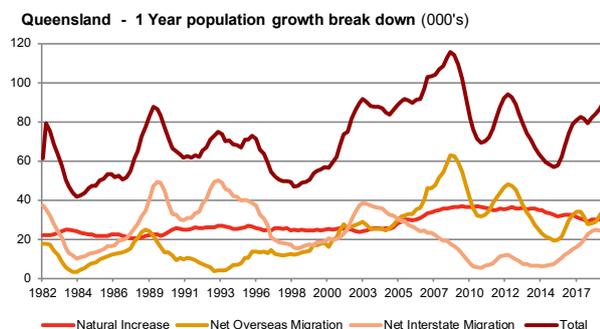
Looking forward, some of the domestic headwinds (such as the housing market) are likely to abate. In addition, Queensland households will receive a boost from tax cuts and lower interest rates.

The moderation in domestic headwinds is timely as the Queensland and Australian economy prepare for a buffeting from global headwinds.

### Population

Unfortunately, population data are released with a long delay. Our most recent data points are for the December quarter 2018. Nonetheless, Queensland’s population growth has recovered strongly from its post-mining-boom low point of the September quarter of 2015.

Queensland population grew by around 90,000 people over 2018 (Figure 1), driven by recoveries in international and interstate net migration.



Source. ABS

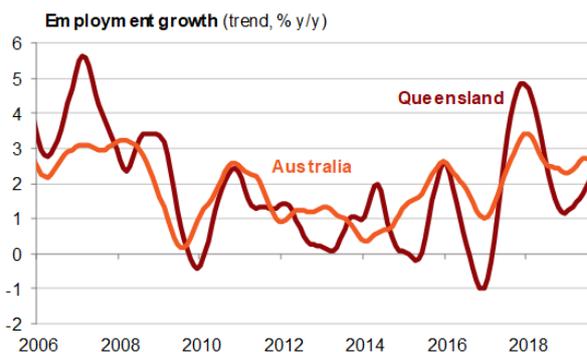
Figure 1. Queensland population growth

In terms of population growth rates, Queensland has outpaced the national average growing at 1.8% compared the Australian average of 1.6%. Looking forward, it is likely that Queensland can sustain this

pace of population growth as affordable housing and a robust jobs market continue to attract interstate and overseas migrants.

### Employment

Monthly employment data are notoriously volatile, but on a trend basis, Queensland employment growth has been recovering from its recent low point at the end of 2018 (Figure 2). Trend employment is currently growing at just over 2% per annum, ahead of Queensland population growth, but slightly below the national average rate of employment growth.

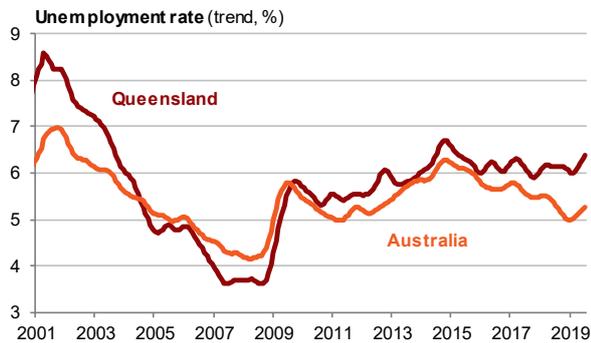


Source. ABS

Figure 2. Queensland employment growth

As vacant jobs are filled, Queensland’s employment growth is unlikely to continue to outstrip Queensland’s population growth. We expect employment growth to fall back in line with population growth. This should lead to a modest decline in employment growth to a more sustainable rate of around 1.8%; close to the projected rate of population growth.

Despite the recovery in employment, the Queensland unemployment rate has remained stubbornly high at over 6% (Figure 3), as the increase in the labour force (driven by strong population growth) has matched the rise in employment. With employment growth tracking population growth over coming years, and with a stable participation rate, the prospects for a decline in the Queensland unemployment rate are slim.

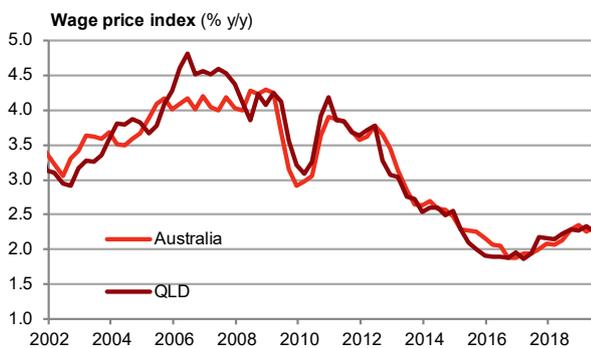


Source. ABS

Figure 3. Queensland unemployment rate

## Wage growth

The pick up in Queensland employment growth over the last two years has coincided with a gradual improvement in wage growth (Figure 4). From annual growth of just below 2%, Queensland wage growth has risen to an annual rate of 2.3% in the June quarter of 2019; in line with the national average.



Source. ABS

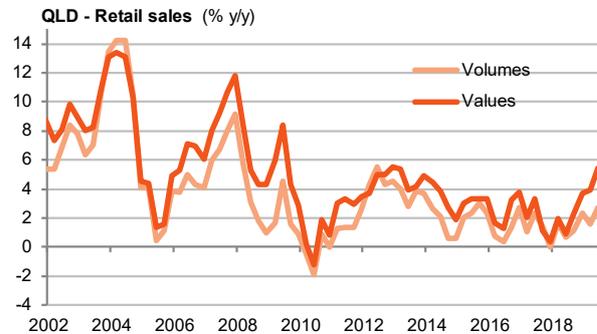
Figure 4. Queensland unemployment rate

However, with the unemployment rate sticky at around 6% over the coming two years, the prospect of a sharp improvement in wage growth is limited. Our expectation is for modest wage growth over coming years, with growth edging towards 2½% by the end of 2021.

## Retail sales

Reflecting strong population and employment growth, retail sales have surged over the last 12 months (Figure 5). Nominal retail sales are currently growing at an annual pace of around 6%; their highest growth rate in 6 years. Real retail sales have

also lifted and are growing at over 2.5%, having stalled at the end of 2017.



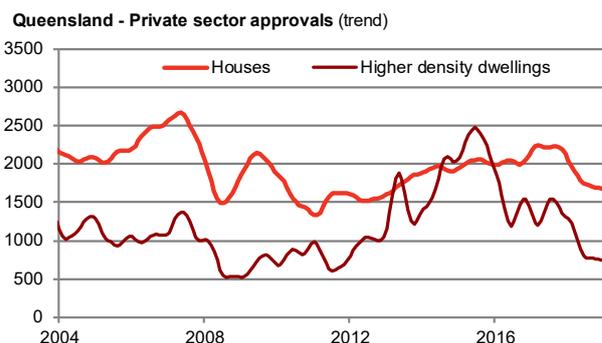
Source. ABS

Figure 5. Queensland retail sales

With tax and interest rate cuts still to come, and with signs that the housing market is stabilising, the outlook for consumer spending over the remainder of 2019 is buoyant. Looking into 2020, we anticipate a slight moderation in consumer spending as the pace of population and employment growth slows. Nonetheless, real consumer spending should remain in a respectable band of 2.5% to 3.0%.

## Housing market

As in the rest of Australia, the outlook for residential building activity has declined dramatically over the last 18 months. Queensland building approvals have slumped following the boom years of 2013 to 2017 (Figure 6).



Source. ABS

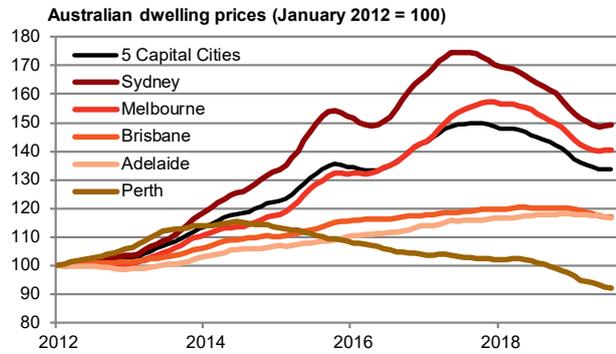
Figure 6. Queensland building approvals

With robust population growth and slowing building activity, the housing-supply overhang (particularly of multi-residential property in south east Queensland) should be eliminated over the coming two years. This bodes well for house prices, which



are showing signs of stabilising after a year in decline (Figure 7).

Figure 7. Capital city house prices



Source: CoreLogic

## IMPORTANT INFORMATION

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