

QEFC Qld Economic Update

QUEENSLAND CONTINUES TO OUTPERFORM

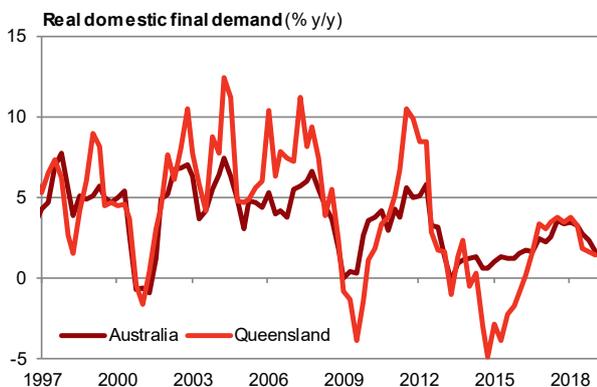
June 2019

General themes

Growth in the Queensland economy continued to outpace the national average over the first quarter of 2019, with Queensland's state final demand (a measure of domestic economic performance that doesn't include international trade) growing by 0.5% q/q compared to Australia-wide domestic demand growth of just 0.1% q/q. However, having bucked the national trend of slowing growth with a rebound in the final quarter of 2018, the Queensland economy weakened in the March 2019 quarter, falling back in line with the decline in economic momentum seen nationally over the last year.

Quarterly national accounts data can be volatile at a state level, and indeed Queensland's recent outperformance comes after a weaker year overall in 2018. This is reflected in year-ended domestic demand figures for the March quarter, with Queensland slightly undershooting Australia (1.4% y/y vs 1.6% y/y).

What has become clear, when stepping back from the quarterly movements, is that like the national experience, the Queensland economy has slowed from around trend pace to below trend pace (Figure 1).



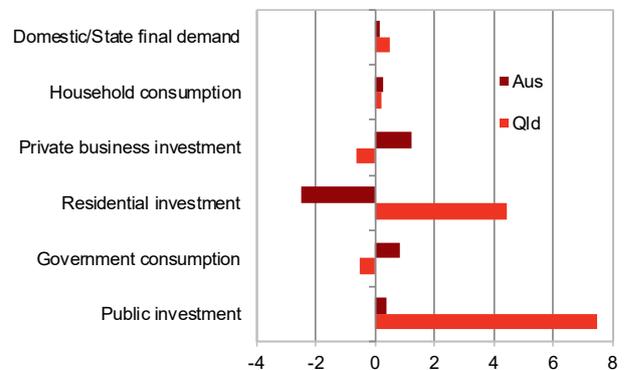
Source. ABS

Figure 1. Real domestic final demand

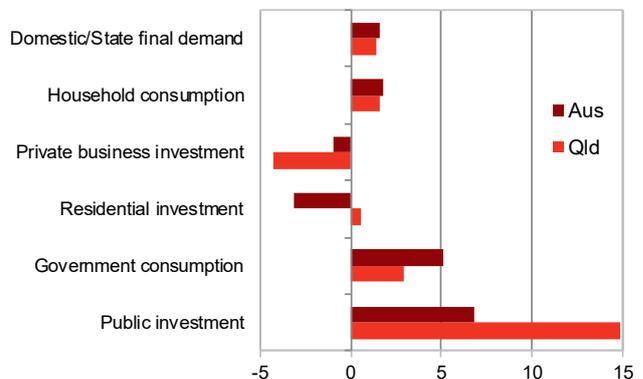
While it is encouraging that growth in the Queensland economy has been tracking national growth over the last couple of years after a significant period of underperformance (due to the collapse in mining capital expenditure), the Australia-wide, and hence Queensland, trend is now on the decline.

The release of the 2019 Q1 data also reveal other key economic trends in Queensland; some of which contrast to trends in other states and on a national level. While the Queensland economy again outperformed the national average on a quarterly basis, Figure 2 shows that the uneven nature of the State's growth with outperformance concentrated in dwelling and public investment.

QLD - Quarterly real expenditure growth in Q1 2019 (%)



QLD - Year-ended real expenditure growth in Q1 2019 (%)



Source. ABS

Figure 2. Components of real domestic final demand

The government sector continues to underpin growth in Queensland, with government consumption and investment both growing solidly on an annual basis. While government consumption pulled back in the March 2019 quarter, public investment continued to surge, rising 7.5% in the quarter to be 14.8% higher over the year.

Queensland's robust growth in public expenditure echoes the strength in government spending that has been seen in New South Wales and Victoria. But while the southern states continue to see strong growth on an annual basis, momentum in government spending has softened somewhat in the last two quarters (particularly in Victoria).

In contrast to public investment, private business investment in Queensland declined in 2019 Q1 as growth in machinery and equipment was unable to offset continued weakness in non-dwelling construction on both a quarterly and annual basis. Looking over recent quarters, it appears that businesses in Queensland are investing in machinery and equipment but are yet to commit to new building capex.

This again differs from New South Wales and Victoria, where private business investment has held up well and non-dwelling construction has been a support rather than a headwind.

A trend that was clearly established over 2018 in Queensland was a decline in dwelling investment, which continued in the last quarter of 2018 and was consistent with the negative housing environment seen Australia-wide. However, the Australian experience has lagged Queensland, where dwelling investment both peaked and subsequently bottomed earlier. Dwelling investment was no longer a drag on Queensland domestic demand in the first quarter of 2019, growing by over 4%.

Finally, as with the national experience, household consumption growth in Queensland continued its subdued run. This reflects the difficult environment facing consumers, including weak wage growth and declining house prices. However, upcoming income tax cuts, diminished housing-market policy uncertainty due to the recent federal election result, along with easier monetary and macroprudential policy should help to support house prices and consumption going forward.

General themes

The March quarter national accounts data tended to confirm several themes that were emerging in the Queensland economy over the last months of 2018 and discussed in our March Update. These themes are revisited below.

Government spending. Public sector spending continues to be a mainstay of the Queensland economy as the State government rolls out its \$50 billion infrastructure program. The Queensland government has forecast a continuation of strong public spending over the next four years at a rate of 4% per annum; around 1 percentage point stronger growth than the forecasted rate of growth in overall State economic activity.

Non-mining export industries. The fall in the Australian dollar and moderation in unit labour costs are boosting Queensland's non-mining export industries. Tourism and educational services, which account for about 12% of the Queensland economy, have been experiencing double digit growth.

These sectors are also benefitting from broader trends, such as a secular rise in emerging Asian demand (boosting overseas tourism and education services); increases in aviation capacity, including direct routes from Asia to Australian destinations; and competitive prices (especially in educational services compared with the US and UK).

Employment. Trends in public spending and non-mining export activity have also been reflected in labour market data; with strong employment growth in industries such as: health; education; and accommodation & food services.

Across the state, employment growth has moderated over 2018 from the stellar performance of 2017. Nonetheless, the Queensland economy continues to add jobs and in recent months the trend in employment growth has been picking up. (Figure 3).

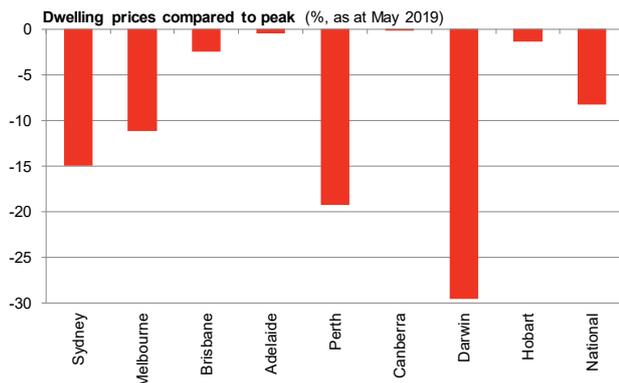


Source: ABS, QIC

Figure 3. Employment growth

Housing. As in the rest of Australia, the Queensland housing market is experiencing a downturn and growth in dwelling investment was strongly negative over 2018. Encouragingly, the decline in building approvals appears to have stabilised in Queensland, and Q1 saw a 4.4% rebound in dwelling investment, though the short-term outlook nonetheless remains constrained.

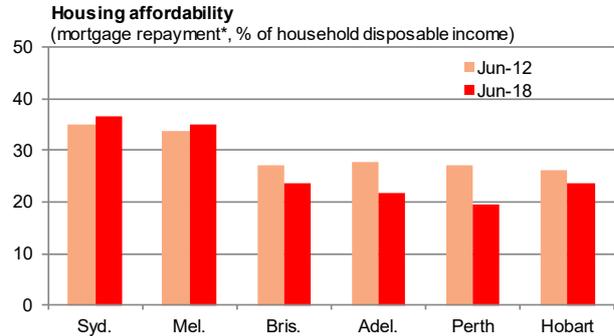
While Queensland house prices have declined, they have held up much better than their southern state counterparts of Sydney and Melbourne. Brisbane house prices have fallen by 2.4% from their April 2018 peak, compared to a 14.9% fall in Sydney and 11.1% decline in Melbourne from their 2017 peaks (Figure 4).



Sources: CoreLogic

Figure 4. Dwelling prices: peak to trough

Even with such large relative falls in Sydney and Melbourne, Brisbane housing remains affordable with the interest payments on an average house as a share average household disposable income close to 30% in Queensland, but greater than 30% in Sydney and Melbourne (Figure 5).

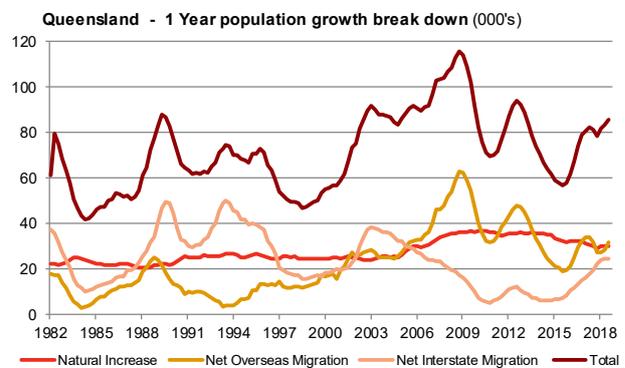


*Using own-occupier standard variable mortgage rate

Sources: CoreLogic, ABS, QIC

Figure 5. Housing affordability

Population. Coinciding with the pick up in economic activity and employment since the end of the mining downturn, population growth has recovered to 1.7% annual growth, outstripping the national average. As the Queensland economy has been generating jobs, and as housing has become increasingly less affordable in Sydney and Melbourne, net interstate migration, which had almost fallen to zero growth, has recovered and the state is now attracting 24k interstate migrants per annum (Figure 6).



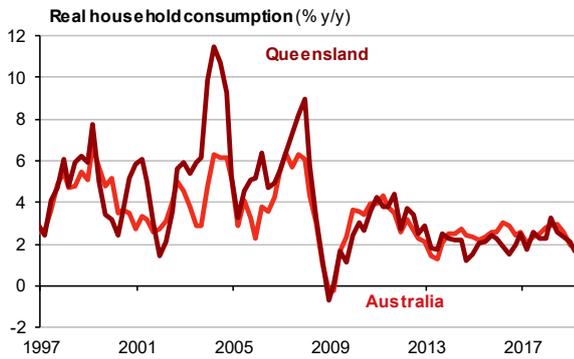
Source: ABS

Figure 6. Population growth

This is matched by around 30k international migrants per annum and natural increase also of around 30k.

Consumer spending. Queensland's consumer sector remains under pressure from many of the same headwinds affecting households across Australia, such as low wage growth, high debt-to-income ratios and uncertainty over the outlook for the housing market.

Real household consumption growth in Queensland therefore remains below trend, and well below historical averages (Figure 7).



Source. ABS

Figure 7. Real household consumption

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