



Weekly Economic Indicators: Queensland and Australia

27/08/12

Summary

The companies reporting period is well advanced, with the majority of companies announcing solid profits and healthy full-year dividends. An exception is resources stocks, which are feeling the impact of moderating resource commodity prices.

Concerns about the European and US economies persist, and disappointing Chinese economic data add to what the Reserve Bank Board has termed a 'fragile' global economic environment.

The gold price rallied on the potential for monetary stimulus in the US next month, however the uncertainty is likely to cause further fluctuations in the Australian dollar, which hit above US\$1.05 before falling lower to close at US\$1.04 at the end of the week.

Resources commodity prices have moved downward as a result of a number of factors, including slowing Chinese growth and increasing supply; while agricultural commodity prices and oil prices have increased, due in part to the ongoing drought conditions in the Ukraine and USA impacting wheat supply.

The long-term outlook for Australian resources production and exports remains strong, particularly for iron-ore, coal and LNG. Talk of the 'end of the resources boom' has been tempered by predictions of many years left in the resources investment pipeline.

Market Monitor

	Price (Last Week)
AUD\$/US\$	↓\$1.0407
All Ord. Share Index	↑ 4398.85 pts
Cattle Futures (EYCI)	↓ 377.95 Ac/kg
Sugar (ICE No.11 Futures)	↓ 19.88 USc/lb
Cotton (No. 2 Futures)	↑ 75.81 USc/lb
Tapis Crude Oil (week-end Spot)	↑ 124.47 US\$/bbl
Gold (week-end London PM Fix)	↑ 1667.00 US\$/oz

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Tourism Accommodation¹

National

Total guest nights stayed in hotels, motels and serviced apartments (larger than 15 rooms) decreased by 2.3% in the March Quarter 2012, to number 23.52 million. The result follows increases of 9.7% and 1.4% respectively in the September and December quarters 2011, in line with the typical seasonal pattern of an upsurge in the second half of the year and softening numbers in the March and June quarters.

Despite the drop, the March quarter 2012 result is still approximately 4.0% higher than the 22.63 million guest nights recorded in March 2011. At 47.58 million, the combined total guest nights for the December 2011 and March 2012 quarters are also up by approximately 4.9% on the combined 45.38 million guest nights recorded in the June 2011 and September 2011 quarters.

Queensland

Guest nights in Queensland hotels, motels and serviced apartments (larger than 15 rooms) decreased by a significant 10.1% in March 2012, to 6.38 million. The decline followed a 2.4% drop in December 2011, after the September quarter 2011's bumper 19.1% rise in accommodation figures.

The combined guest nights for the last two quarters are, at 13.47 million, approximately 0.8% higher than the combined 13.36 million guest nights recorded in the June 2011 and September 2011 quarters. Accommodation figures for March 2012 are up 6.7% on the 5.98 million guest nights recorded at the same time a year earlier (in the March quarter 2011).

Balance of Payments²

National

Australia's balance of payments was a deficit in trend terms in June 2012, despite a significant \$143 million reduction of the \$390 million export shortfall recorded in May, to a lesser overall deficit of \$247 million. While imports increased by around 0.7% or \$179 million across the month, to \$26.292 billion; exports climbed by a greater 1.2% in June, rising by \$321 million to \$26.411 billion in total. In seasonally adjusted terms, these changes resulted in an overall goods and services deficit of just \$9 million – a significant decrease on the \$313 million deficit recorded in May 2012.

Labour Force³

National

In the latest ABS Labour Force release, the trend estimate national unemployment rate remained steady at 5.2% in July 2012. The trend participation rate also remained steady across the month, at 65.3%, for the eighth consecutive month.

¹ ABS Cat No. 8635.0
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/7F1BCA4FD889E82CCA25775700164667?OpenDocument>

² ABS Cat No. 5368.0
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/allprimarymainfeatures/A5FB33BD2E3CC68FCA257496001547A1?opendocument>

³ ABS Cat No. 6202.0
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/F756C48F25016833CA25753E00135FD9?OpenDocument>

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Queensland

Queensland's trend unemployment rate increased slightly in July 2012, to 5.6%. The July trend participation rate decreased slightly to 66.3%, continuing a steady rate of decline of around 0.1% since September 2011.

Employment by Industry⁴

There were approximately 2,339,600 employed persons in Queensland as at May 2012. The five industries with the largest number of employed persons were health care and social assistance (289,600), retail trade (243,300), construction (222,700), education and training (177,300) and manufacturing (170,900). Those industries employing the smallest number of persons included information, media and telecommunications (32,800), arts and recreation services (41,700), electricity, gas, water and waste services (45,100), and rental, hiring and real estate services (53,000).

Employed Persons by Industry - Queensland: Original

	'000	Full Time	Part Time	Total	% of Total Employment
Agriculture, Forestry and Fishing		17.7	66.4	84.1	3.60
Mining		2.8	72.4	75.2	3.21
Manufacturing		23.1	147.8	170.9	7.31
Electricity, Gas, Water and Waste Services		2.1	42.9	45.1	1.93
Construction		35.7	187.1	222.7	9.52
Wholesale Trade		11.5	60.2	71.7	3.07
Retail Trade		121.4	121.9	243.3	10.40
Accommodation and Food Services		88.6	73.2	161.8	6.91
Transport, Postal and Warehousing		22.2	99.2	121.4	5.19
Information Media and Telecommunications		7.5	25.3	32.8	1.40
Financial and Insurance Services		12.2	59.5	71.7	3.06
Rental, Hiring and Real Estate Services		13.4	39.6	53.0	2.26
Professional, Scientific and Technical Services		34.8	124.2	159.0	6.80
Administrative and Support Services		30.4	49.3	79.7	3.41
Public Administration and Safety		21.3	124.4	145.7	6.23
Education and Training		73.2	104.1	177.3	7.58
Health Care and Social Assistance		103.8	185.8	289.6	12.38
Arts and Recreation Services		19.2	22.5	41.7	1.78
Other Services		25.4	67.5	93.0	3.97
Total		666.5	1673.1	2339.6	100.00

Source: ABS Cat No. 6291.0.55.003 Labour Force, Detailed (May 2012).

Interest Rates⁵

At the RBA meeting on 7 August 2012, the Board voted to leave the cash rate unchanged at 3.50% for a second month, retaining it at its lowest point since December 2009.

⁴ ABS Cat No. 6291.0.55.003 <http://abs.gov.au/AUSSTATS/abs@.nsf/allprimarymainfeatures/35006594EB1126B2CA257132000F9189?openDocument>

⁵ Reserve Bank of Australia: Cash Rate Target <http://www.rba.gov.au/statistics/cash-rate.html> and Housing Loan Indicator Lending Rates <http://www.rba.gov.au/statistics/tables/xls/f05hist.xls?accessed=0706-15:44:13>

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The decision was based on weaker than expected global growth, and a decline in prices for key Australian commodities.

The RBA suggested that the economic and financial issues confronting the euro zone remain the greatest risk to growth forecasts for the world economy, though concerns regarding a faster than anticipated slowdown in China are also front of mind. Further, in its August Statement on Monetary Policy, the RBA expressed concern that the high exchange rate and the potential long-term impacts of the consistently high Aussie dollar “may be more contradictory for the economy than historical relationships suggest”.

Expectations are that inflation will remain within the target range of 2 to 2.5% through to 2013, although the impact of the carbon tax on inflation is uncertain.

Consumer Price Index⁶

Between the March 2012 and June 2012 quarters the national CPI rose by 0.5%, to increase 1.2% over the year to June 2012. The June quarter 2012 CPI for Brisbane increased by 0.6%, bringing the year-to-date increase to 0.9%, to be the second lowest capital city rise recorded over the twelve months to the June quarter 2012.

Private Capital Expenditure⁷

National

Between the December 2011 and March 2012 quarters, the Australian chain volume trend estimate of private new capital increased by 4.3% to \$40.07 billion. Expenditure on equipment, plant and machinery rose by 0.3%, while expenditure on buildings and structures contributed the larger share of both overall investment and spending growth, increasing by 6.4% (to \$24.15 billion).

Over the twelve months from March 2011 to March 2012, total private new capital expenditure has increased by 28.3%. Expenditure on equipment, plant and machinery increased by 8.2% across the year, while expenditure on buildings and structures rose by a solid 45.3%.

Queensland

Between the December 2011 and March 2012 quarters, the Queensland chain volume trend estimate of private new capital expenditure increased by 3.6% to \$10.73 billion.

A year-on-year comparison of the March quarters 2011 and 2012 shows Queensland's total private new capital expenditure has increased by 90.2%. Expenditure on equipment, plant and machinery increased by a significant 12.1% to \$3.51 billion. However, in line with national developments, spending on building and structures also accounted for the largest proportion of expenditure growth in Queensland, having risen by 77.3% across the year to \$7.17 billion.

⁶ ABS Cat No. 6401.0 <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6401.0>

⁷ ABS Cat No. 5625.0
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/C6EF1D79E13B24EACA257235007866B1?OpenDocument>

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Building Approvals⁸

National

The national trend estimate for total dwelling approvals increased by 3.1% in June 2012, to approximately 12,840 approved units. Across the three months to June 2012, approvals were up by a significant 7.7% on the previous three months. This consistent recent growth has been enough to finally secure a positive year-on-year result, with the sector recovering from the year of consecutive declines recorded in 2011, to post a 0.7% annual rise (on trend approvals in June 2011).

Queensland

The trend estimate for total dwelling units approved in Queensland rose by 1.8% in June 2012, to 2,354 units. The rise enabled the sector to peg back similarly-sized losses recorded in May 2012; and as a result, across the three months to June, compared with the previous three months, approvals were up by approximately 4.0%. In year-on-year terms, the June 2012 trend estimate for total dwelling units approved in Queensland was a significant 5.3% higher than June 2011's 2,236 approved units.

Housing Finance⁹

National

After six months of incremental declines, the trend value of housing finance commitments (owner occupation) in Australia increased by 0.1% in June 2012, to \$13.63 billion. Despite the rise, the trend value of commitments across the three months to June remained 0.4% lower than equivalent commitments across the previous three months. However, the latest trend estimate puts the value of the nation's dwelling finance commitments approximately 1.9% higher than the June 2011 estimate.

Queensland

Queensland's trend value of housing finance commitments for owner occupied dwellings was \$2.457 billion in June 2012 – a decrease of around 0.2% on the May 2012 estimate. The trend value of commitments (owner occupied) increased by a slight 0.5% across the three months to June 2012, compared with the previous three months. For the year to May 2012, the trend value of the state's housing finance commitments remains up by approximately 7.0%.

Retail Trade¹⁰

National

National retail trade continued its pattern of slight improvements in June 2012, rising by 0.5% to total \$21.489 billion overall. For the three months to June 2012 compared

⁸ ABS Cat No. 8731.0
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/0545FFC6A101264DCA25719F007F6F1F?OpenDocument>

⁹ ABS Cat No. 5609.0
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/05DBCE56402EC566CA25723D000F2999?OpenDocument>

¹⁰ ABS Cat No. 8501.0
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/productsbyCatalogue/3DDA13ECDC094B1CCA257734002042F2?OpenDocument>

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with the previous three months, retail turnover was 1.5% higher in trend terms. Across the year to June 2012, turnover increased by 4.1%.

Queensland

Queensland retail trade increased by 0.7% in June 2012, taking trend turnover to \$4.463 billion. For the three months to May 2012 compared with the previous three months, retail turnover was 2.1% higher in trend terms. Turnover for June 2012 was also up by around 5.5% on the estimated \$4.229 billion in turnover recorded this time last year (in June 2011).

Economic Growth Outlook

National

The latest ABS National Accounts data shows Australian Gross Domestic Product (GDP) increased by 0.9% in chain volume trend terms in the March quarter 2012, to be 3.6% higher over the year. Economic growth is now at its highest point since September 2007.¹¹

Economic forecaster Access Economics, in its latest set of forecasts for the Australian economy (June 2012), projected GDP growth of 3.2% for 2011-12, dropping to 3.0% in 2012-13 and climbing to 3.4% in 2013-14. KPMG Econtech has forecast national growth of 3.7% for 2011-12 in its October 2011 forecasts, with the resource rich states experiencing strong external demand.

Queensland

The Queensland State Accounts for the September quarter 2011 show that Gross State Product (GSP) increased 0.8% in trend terms.¹² Growth in the Rest of Australia increased 0.7% for the September quarter 2011. Over the year to the September quarter 2011, Queensland GSP increased by 1.4%, while gross Rest of Australia product grew by 2.3% over the same period.

While several components have changed in the revised estimates for Queensland's economic performance in 2010-11, Queensland's average growth estimate is unchanged at 0.2%. In contrast, average Rest of Australia growth for the year was 2.4%.

The latest Deloitte Access Economics Business Outlook (June 2012) has forecast 4.8% growth in Queensland's GSP for 2011-12, with a forecast 4.3% growth in 2012-13 and increasing to a healthy 5.0% growth by 2013-14.

The Queensland economy has recovered strongly on the back of existing investment in engineering construction in the mining sector. However the benefits delivered by the State's resources are focussed in specific geographical areas (for example, the Bowen Basin) and very much one-sided, with other sectors of the economy, such as tourism and housing construction, displaying weakened positions.

Despite the short-term economic growth, Deloitte have predicted a long term risk to the resource investment pipeline to reach an "earlier than expected" peak in the resources boom.

¹¹ ABS Cat No. 5206.0

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/allprimarymainfeatures/52AFA5FD696482CACA25768D0021E2C7?opendocument>

¹² OESR, Queensland State Accounts, September Quarter 2011.

<http://www.oesr.qld.gov.au/products/briefs/qld-state-accounts/qld-state-accounts-201109.pdf>

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The outlook hinges on coal seam gas mining in the State, which provides both a “huge economic opportunity as well as a political nightmare.” In addition, the rising cost of mining sector construction, falling commodity prices and a perceived slowdown in Chinese growth point to a potential drying up of longer term resource sector investment.

In October 2011, KPMG Econtech has increased its forecast growth for Queensland GSP in 2011-12 to 5.3%, in response to expected strong investment coupled with a rebound in coal, agricultural produce and other exports, following the earlier negative impact of the floods.

Karen Stokes
Research Librarian

Research and Information Service

QUEENSLAND PARLIAMENTARY SERVICE

Queensland Parliamentary Library & Research Service
Parliament House
Cnr George and Alice Streets Brisbane Qld 4000
Ph: 07 3406 7413 Fax: 07 3210 0172
mailto: karen.stokes@parliament.qld.gov.au
web: www.parliament.qld.gov.au

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