

# Queensland Economic Update

Are there more pots of gold ahead?

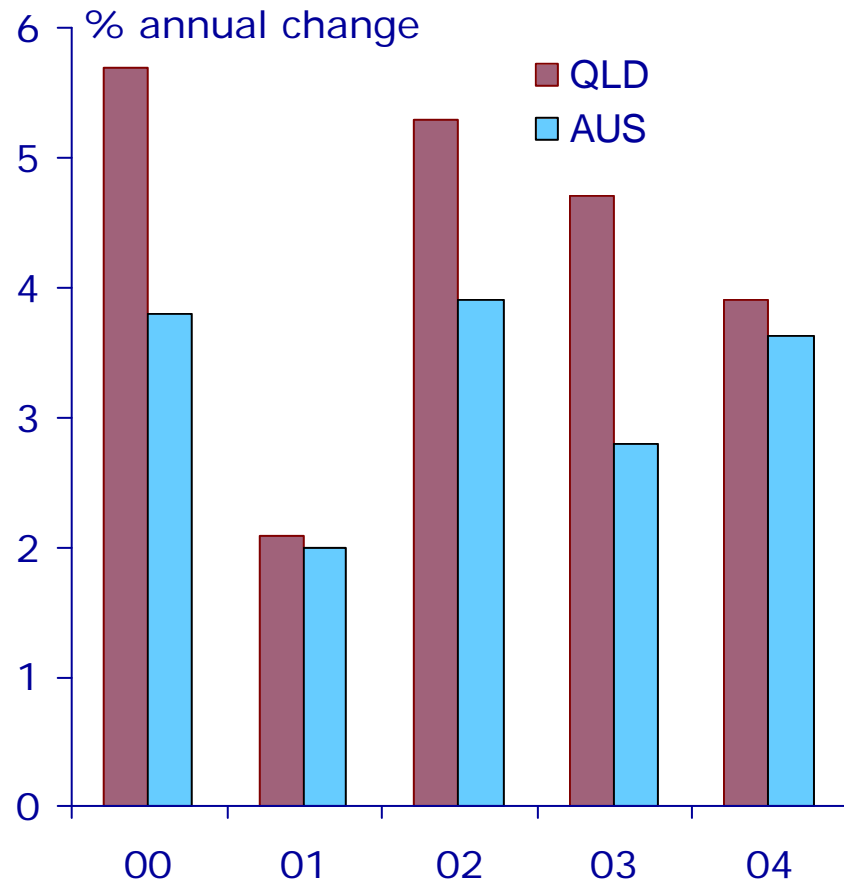


Katie Dean  
Economist  
ANZ Bank

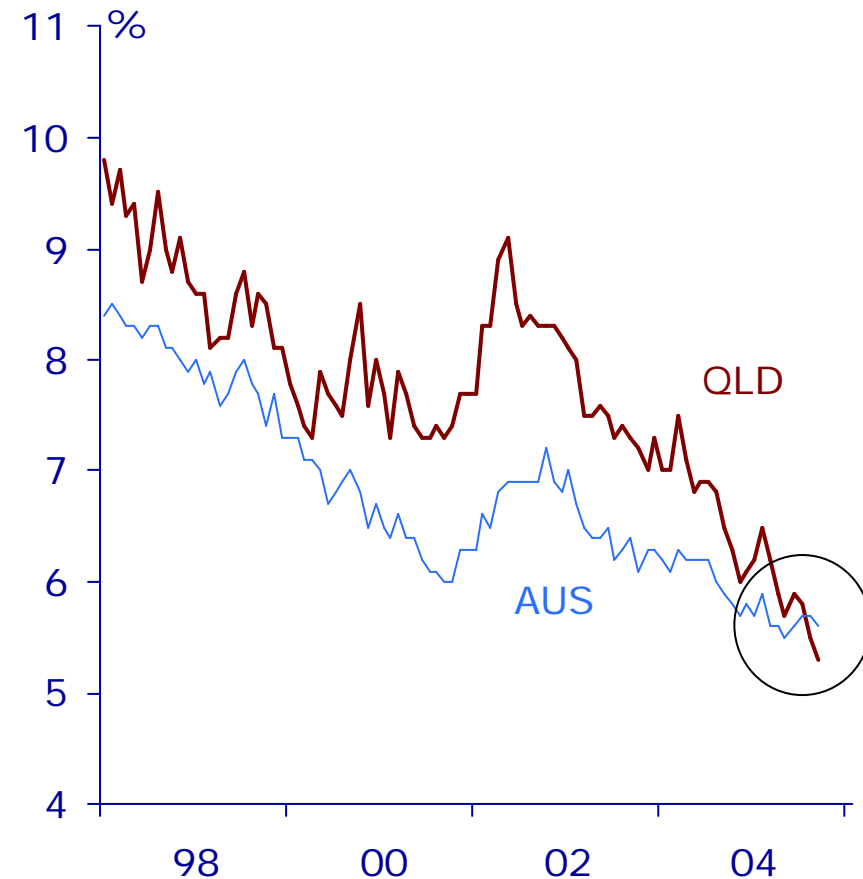
4 November 2004

# Australian economic growth has been strong and Queensland has been a star performer

## Economic growth

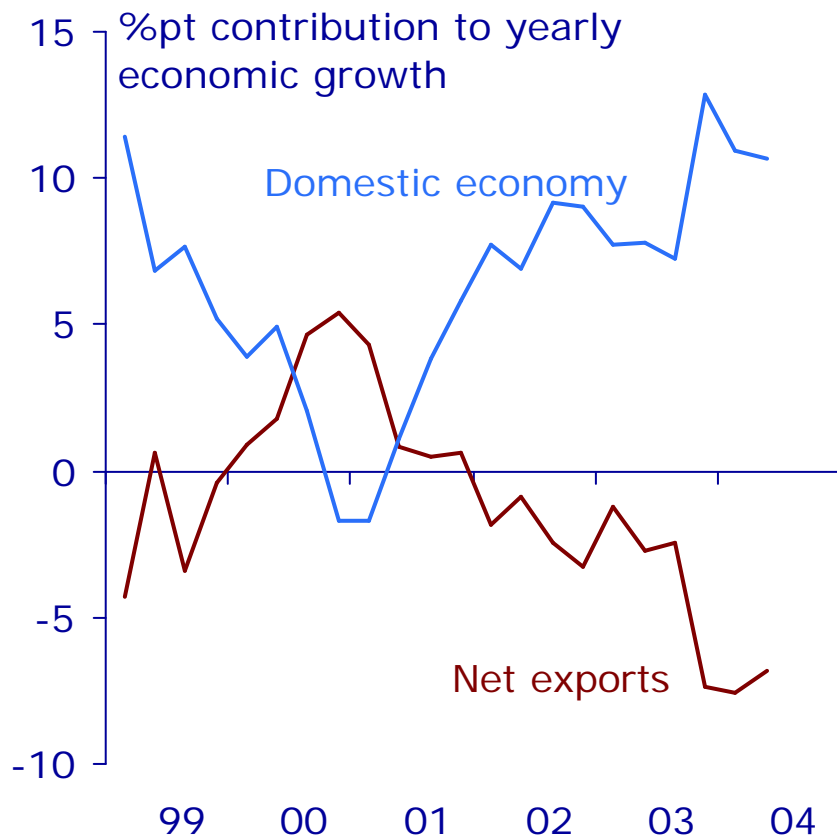


## Unemployment rate

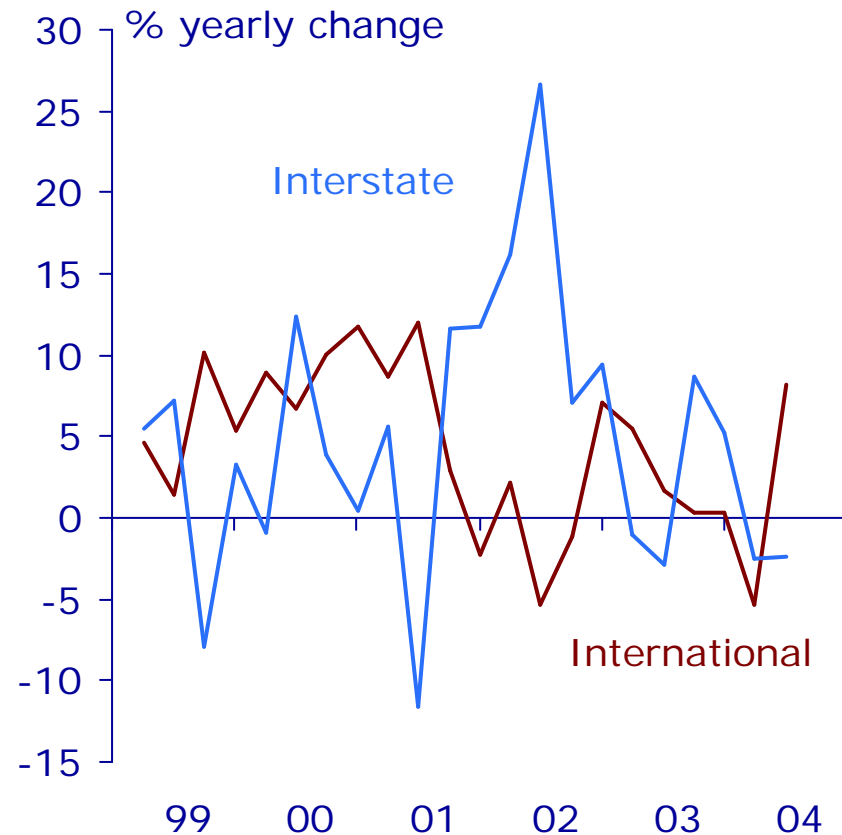


# Strong domestic demand has more than offset a disappointing net export performance

## Sources of Queensland economic growth



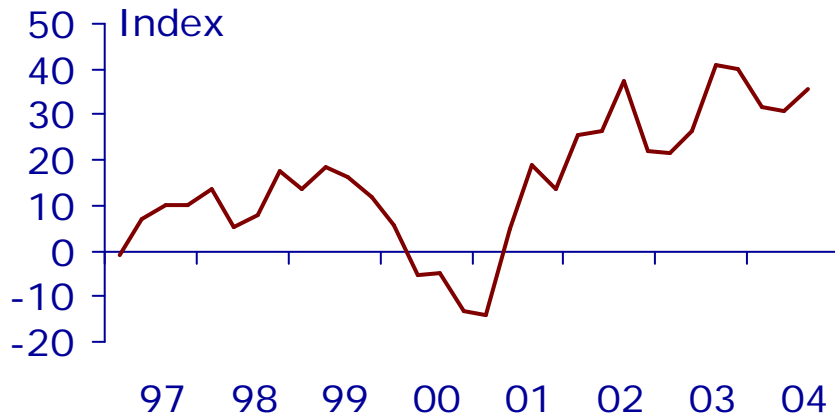
## Queensland exports



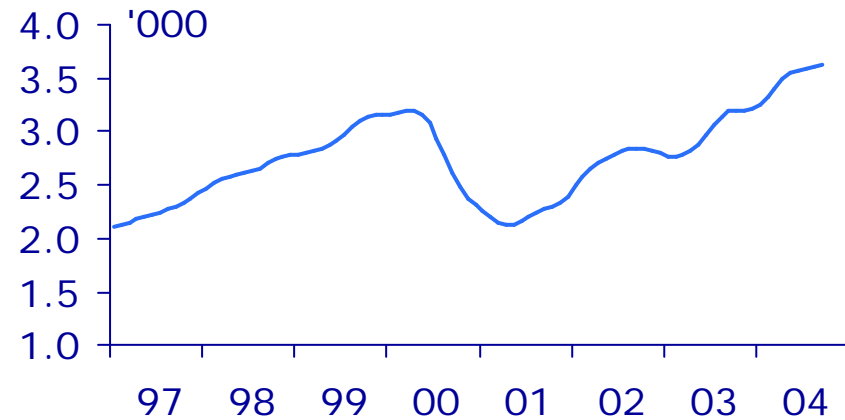
# A favourable macroeconomic environment should see Queensland continue grow strongly

## Queensland macroeconomic indicators

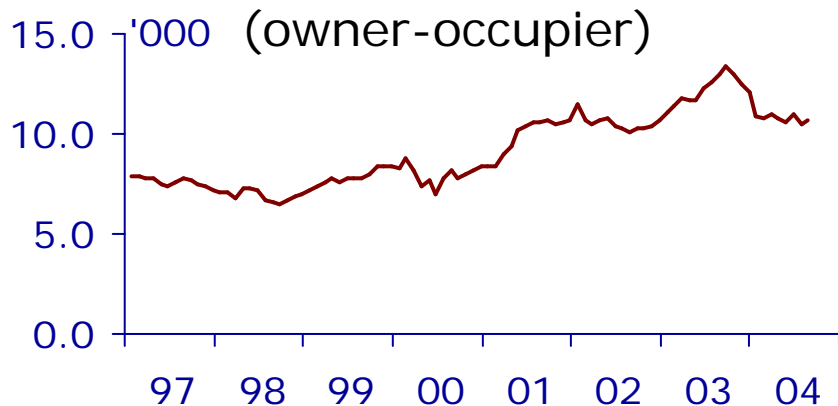
Consumer sentiment



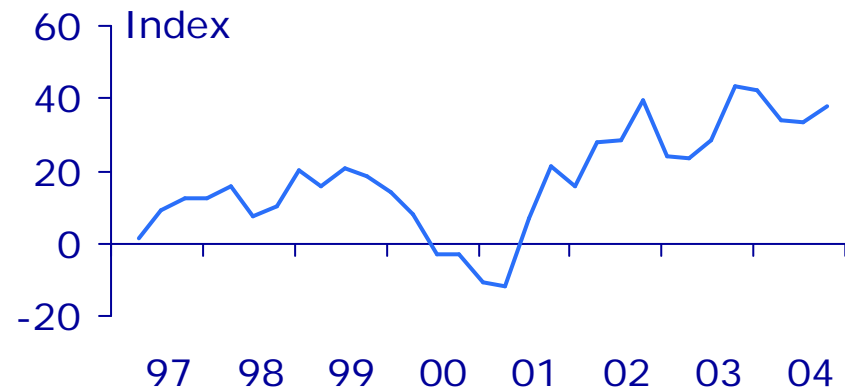
ANZ newspaper job ads



Housing finance approvals



Expected business conditions



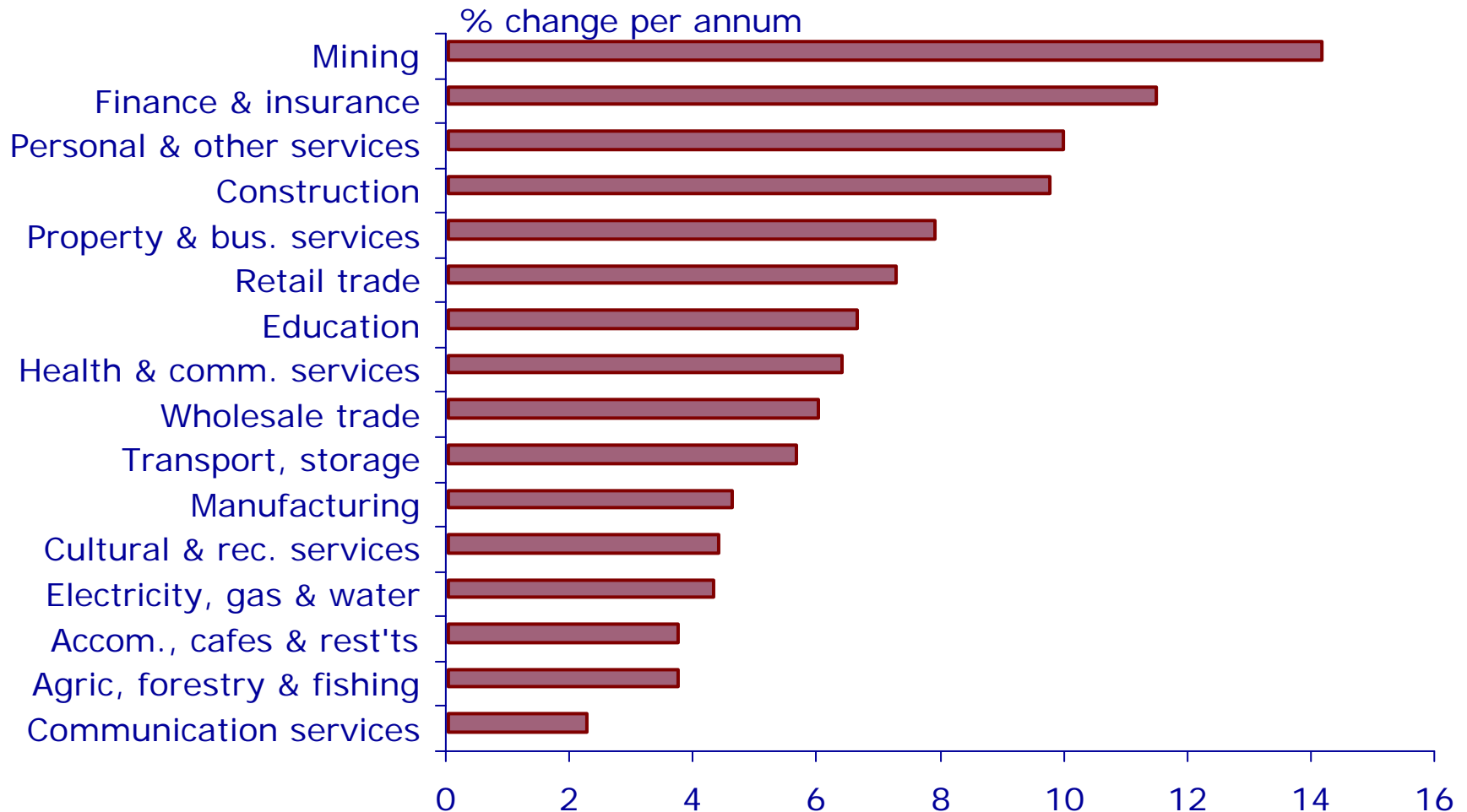
# What is the secret to Queensland's success?

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1. Strong population growth
2. An abundance of natural resources
  - Mining
  - Farm
  - Tourism
3. A 'maturing' economy
  - An expansion of the 'professional services' economy

# These 'assets' have been borne out in the performance of different industries

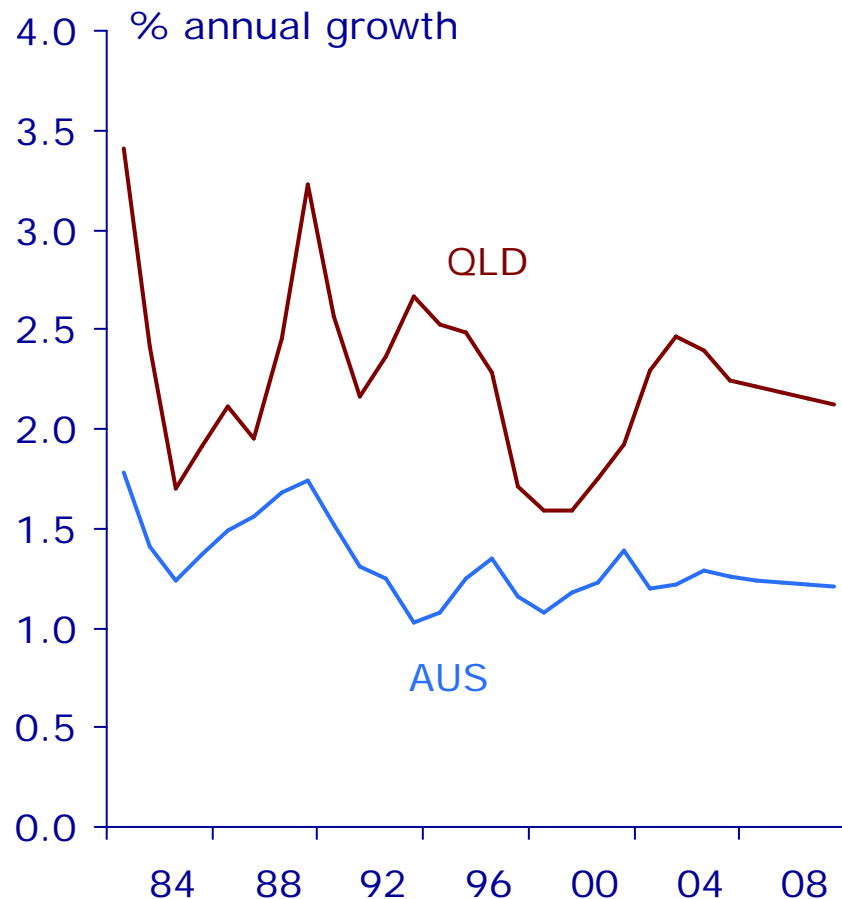
Queensland industries, average volume growth over last 5 years



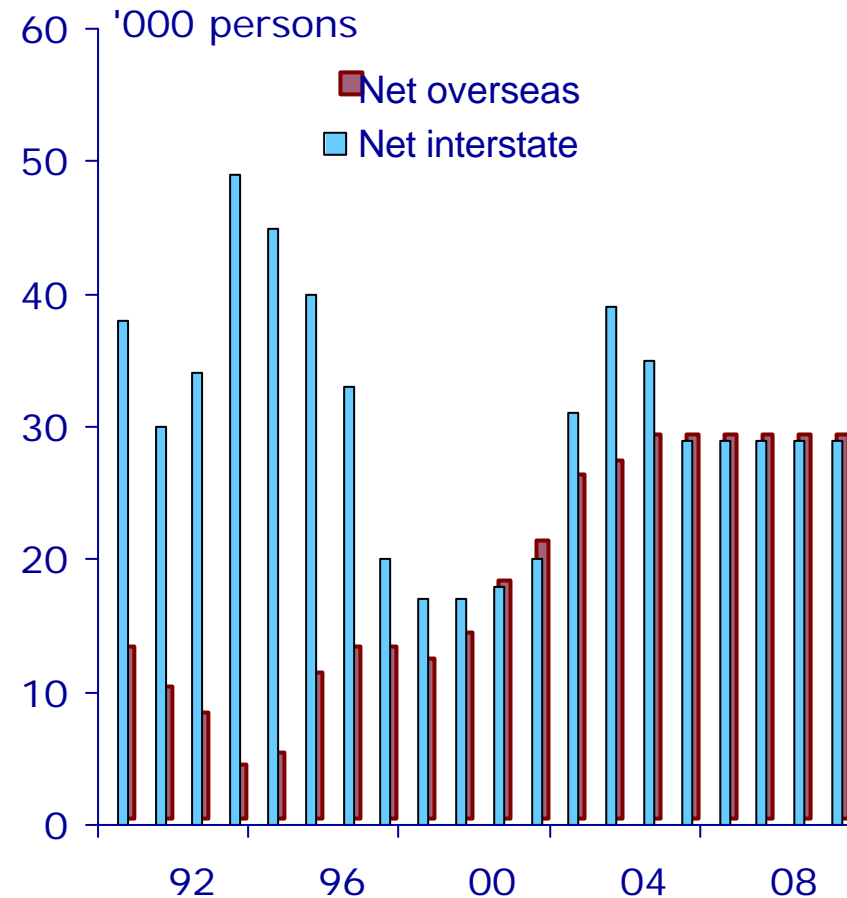
Sources: ABS

# Population growth will continue to be a strong driver of the Queensland economy

## Population growth

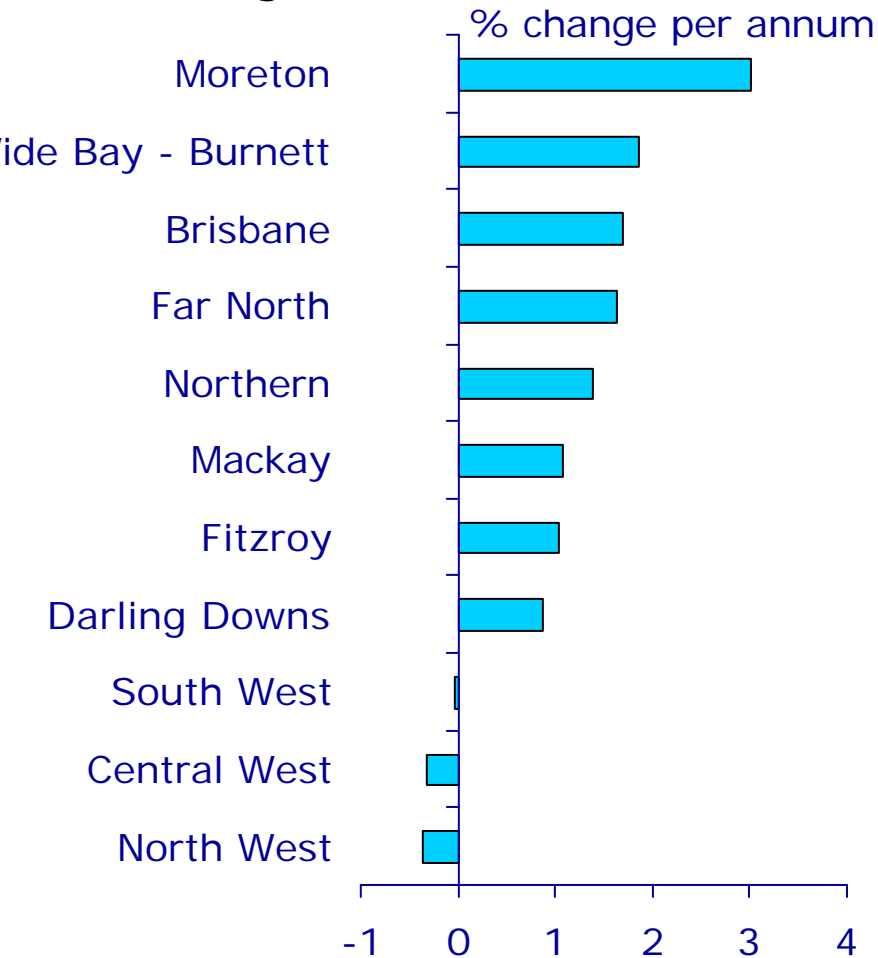


## Queensland net migration

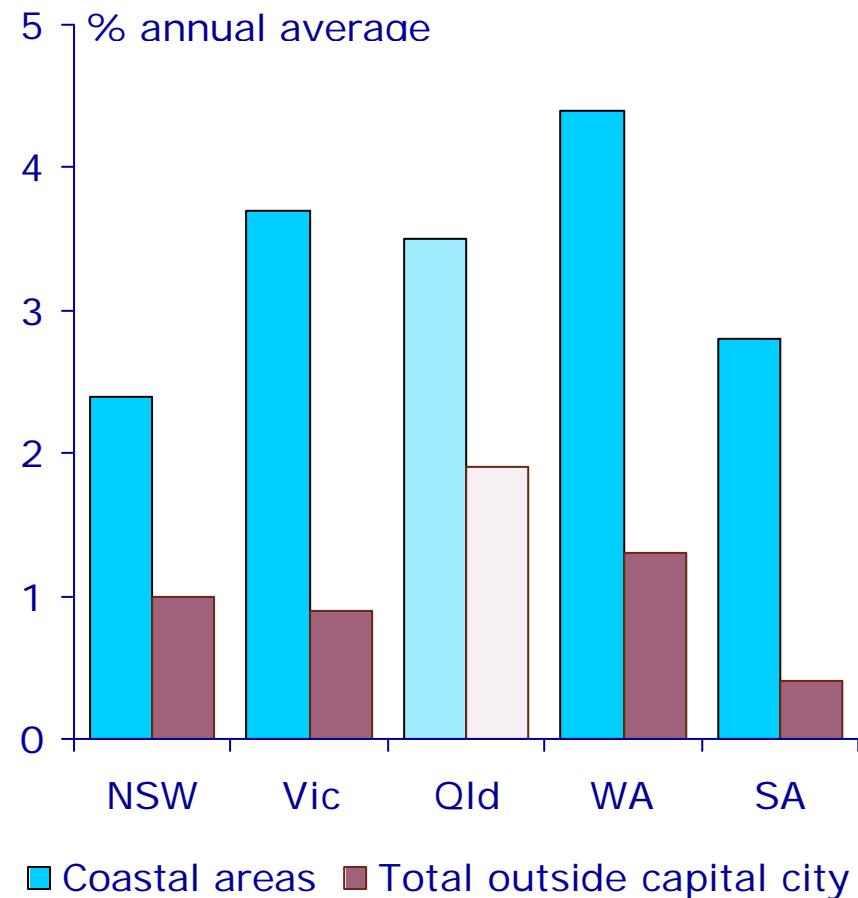


# Population growth won't be confined to the South East

ABS projected population growth to 2011



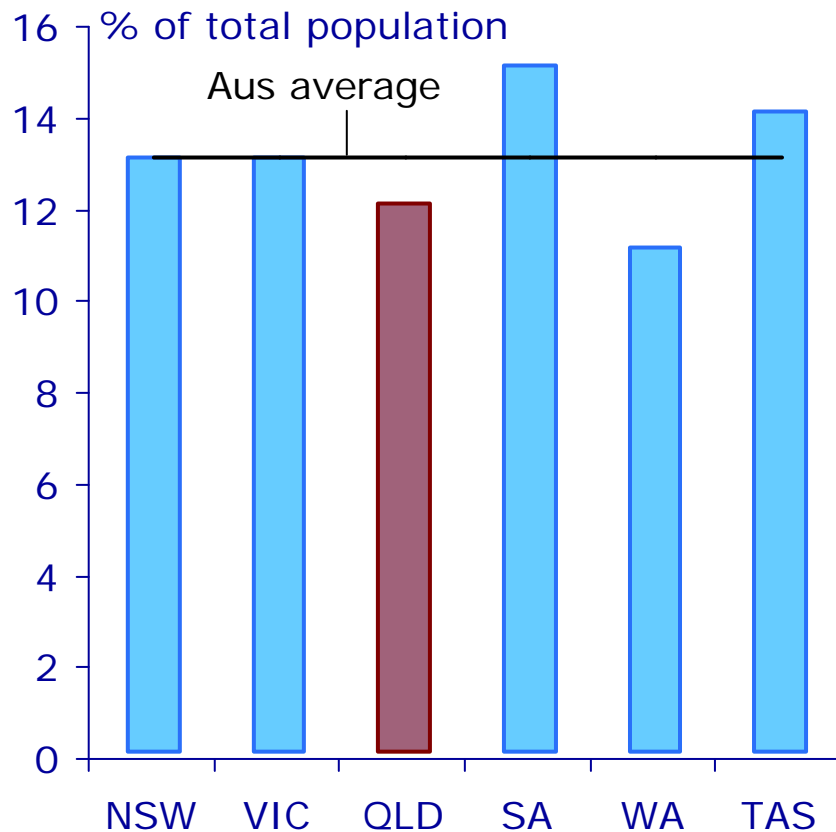
Regional population growth





# Strong population growth is keeping Queensland's population young

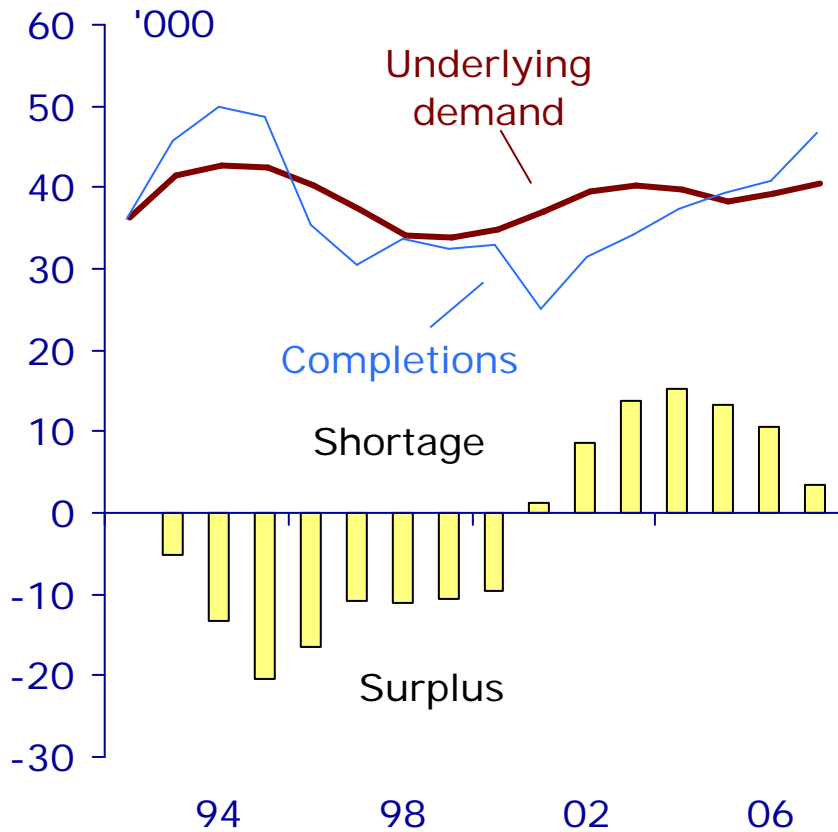
Aged population, 2003  
(persons aged 65+ years)



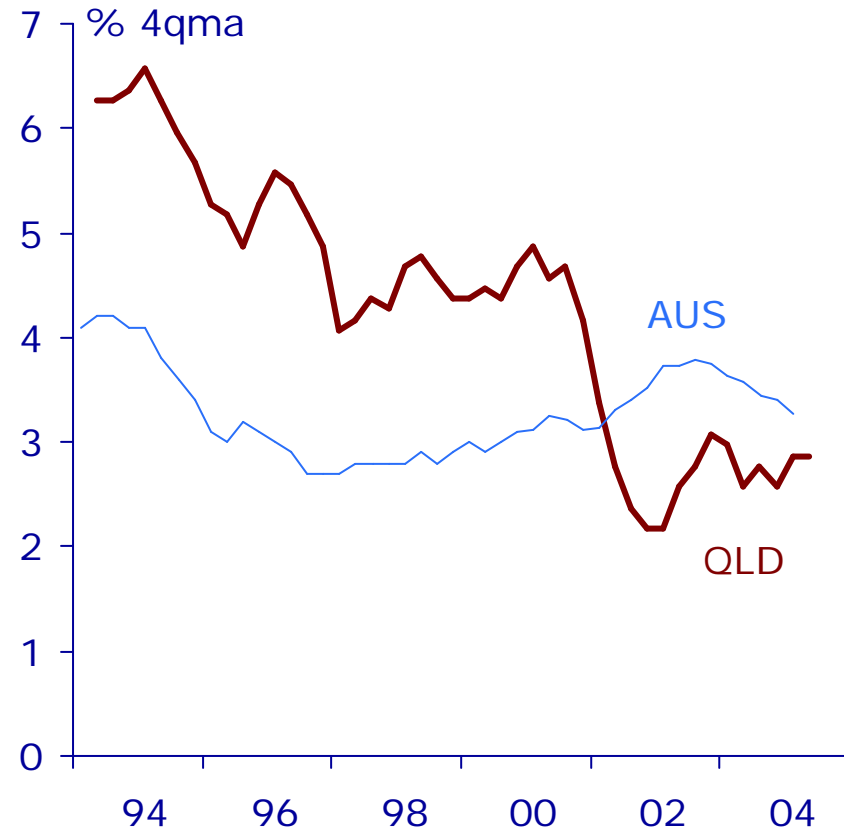
- Demographic change means that Queensland's population, like the rest of Australia's is aging
- Queensland is a popular place for retirement...
- ...but young people are also flocking to the Sunshine State
- Hence, Queensland has the second 'youngest' population of all the States

# A young and growing population will keep demand for housing in Queensland strong...

Queensland dwelling cycle  
No. of houses

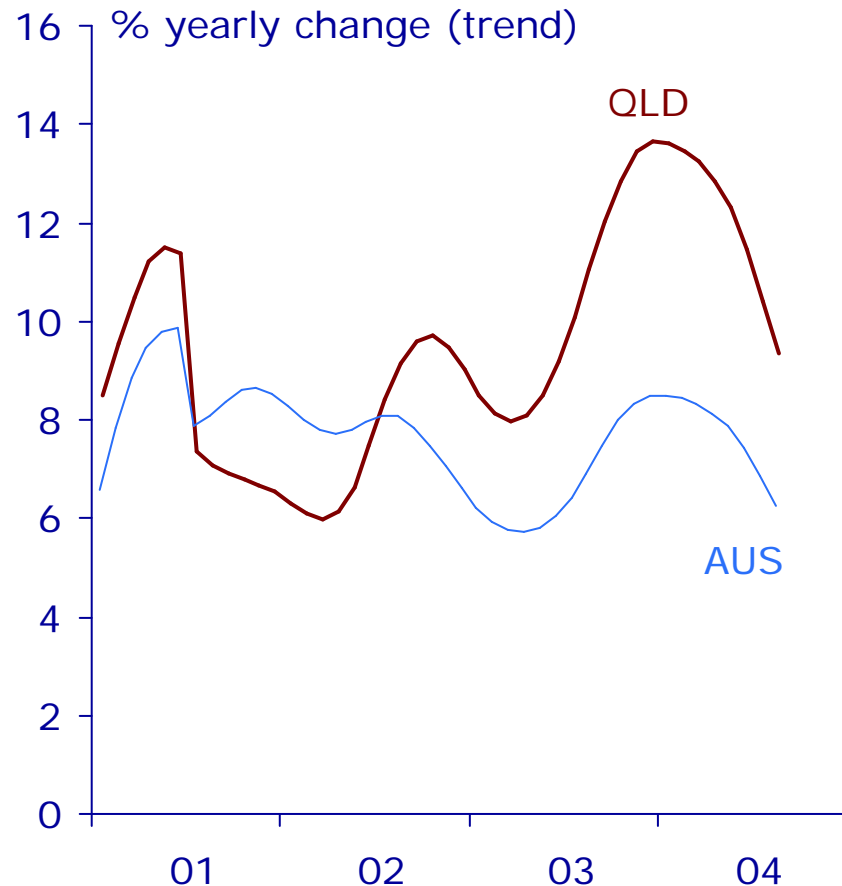


Vacancy rates  
All rented dwellings



# ...and is also boosting retail and consumer services

## Retail sales



Sources: ABS

- Retail sales in Queensland has been growing almost twice as fast as the national rate

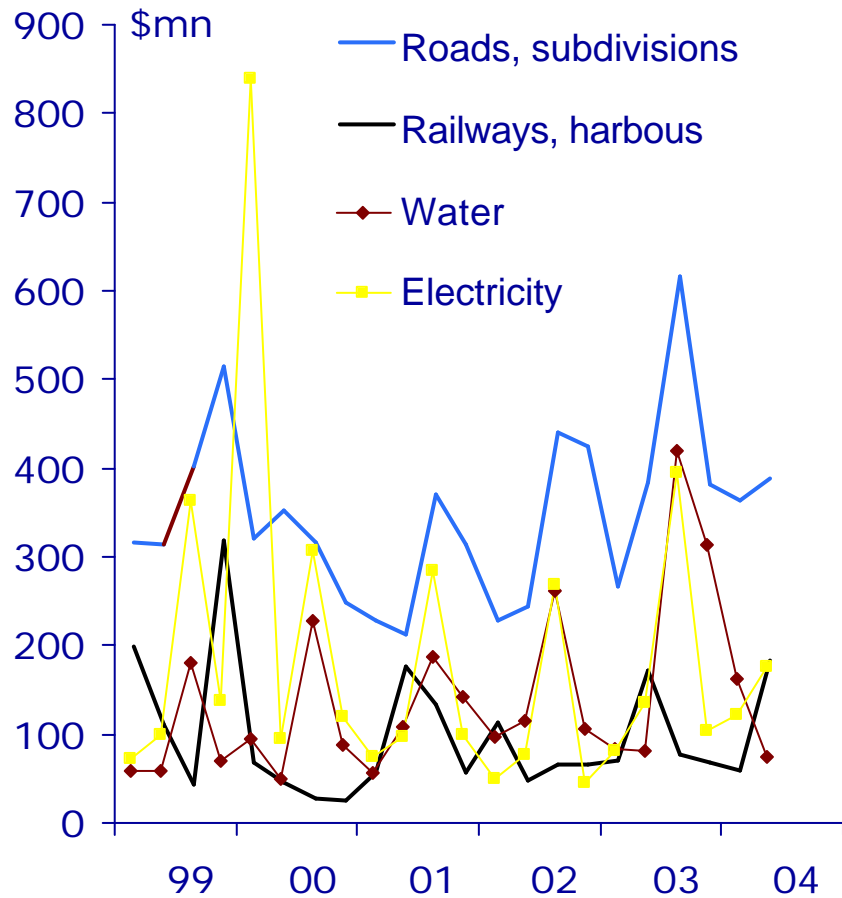
- This reflects the favourable combination of strong population growth, low unemployment, relatively large tourist flows and increasing household wealth

- Demographer Bernard Salt estimates that every 10 000 migrants to Qld creates \$70mn in new retail spending and 25mn in new supermarket spending

- Demand for retail and consumer services will remain strong, albeit at slightly lower levels as population growth eases

# Infrastructure is under pressure and must expand

## Engineering work commenced

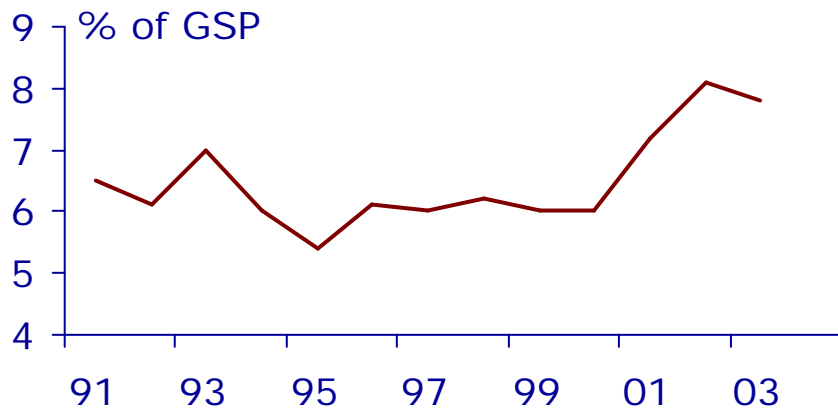


Sources: ABS

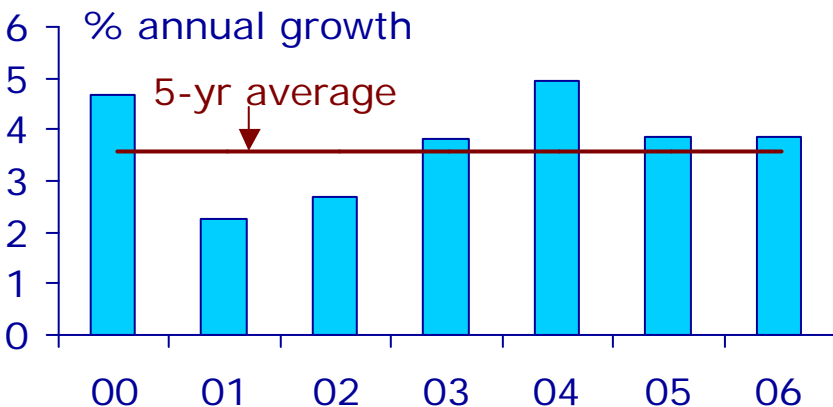
- Traffic jams
- Blackouts
- Old rail tracks and long wait times at freight ports
- Increased pressure on hospitals and schools
- Aarrgghh!
- Investment has slowed...
- ...but big improvements in infrastructure (across the board) will be required to keep Queensland's star shining
- Creates opportunities for builders & other trades, engineers, material suppliers, lawyers, architects (and banks!)

# The mining sector is of increasing importance to the Queensland economy

## Mining share of State output



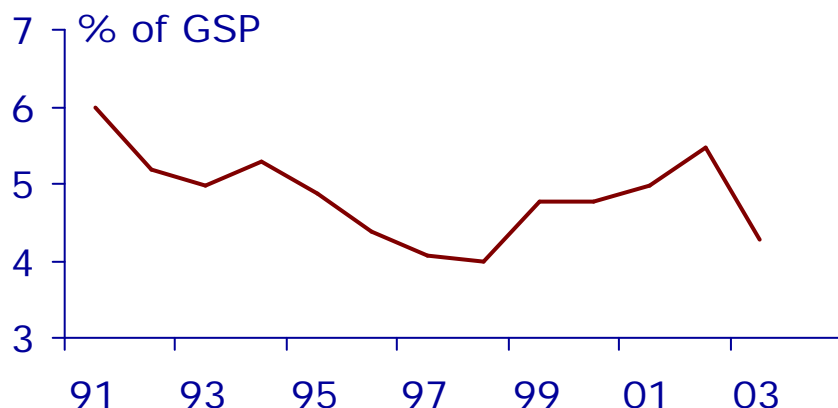
## Global growth



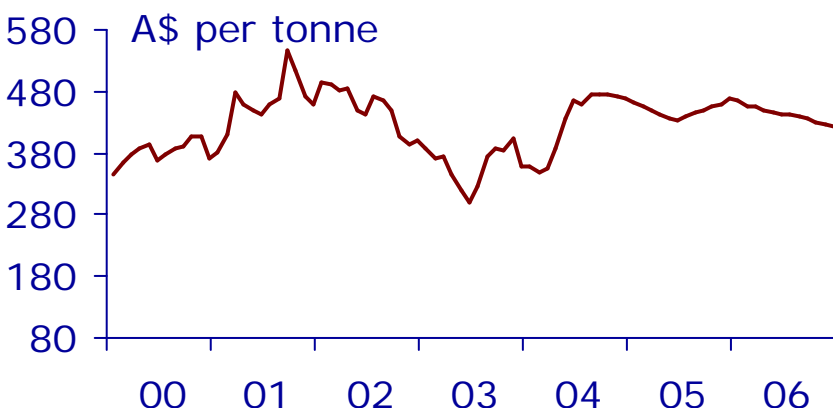
- The mining industry now accounts for almost 8% of total State output – the third biggest industry in Queensland
- Booming commodity prices and strong growth in major Asian economies has seen investment and employment in mining, processing and distribution boom in recent years
- Increased capacity and continued solid global demand should support continued strong growth in this industry (production, exports & investment)

# Time for the 'new agriculture'

## Farm share of State output



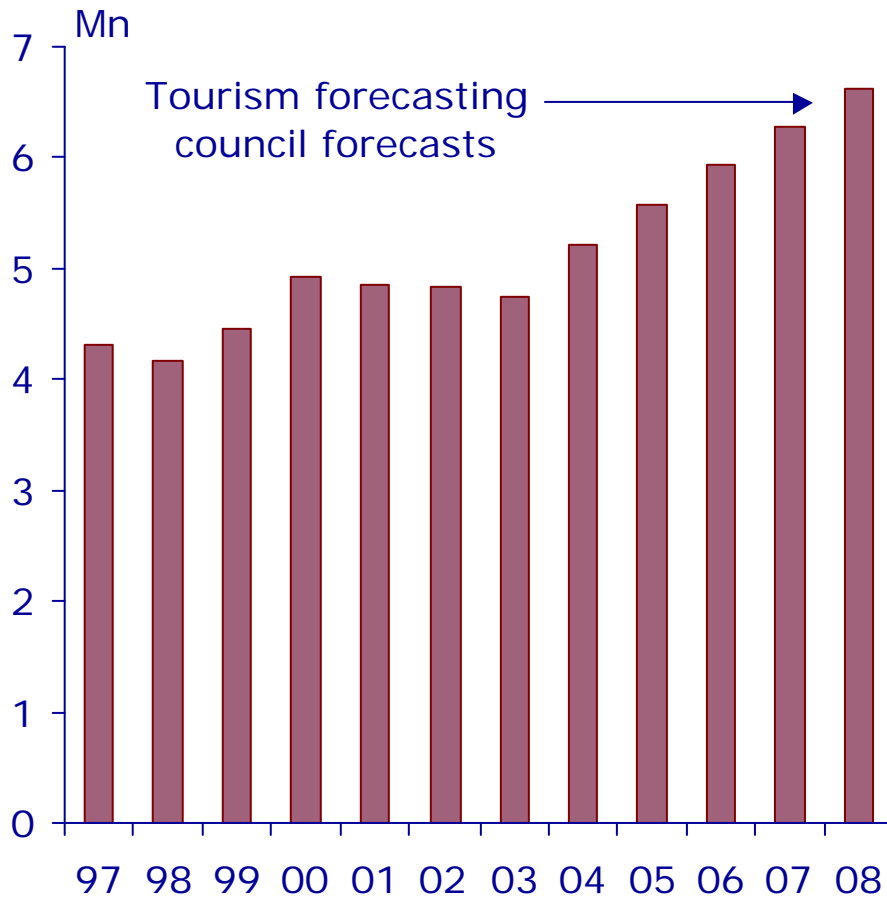
## Beef prices



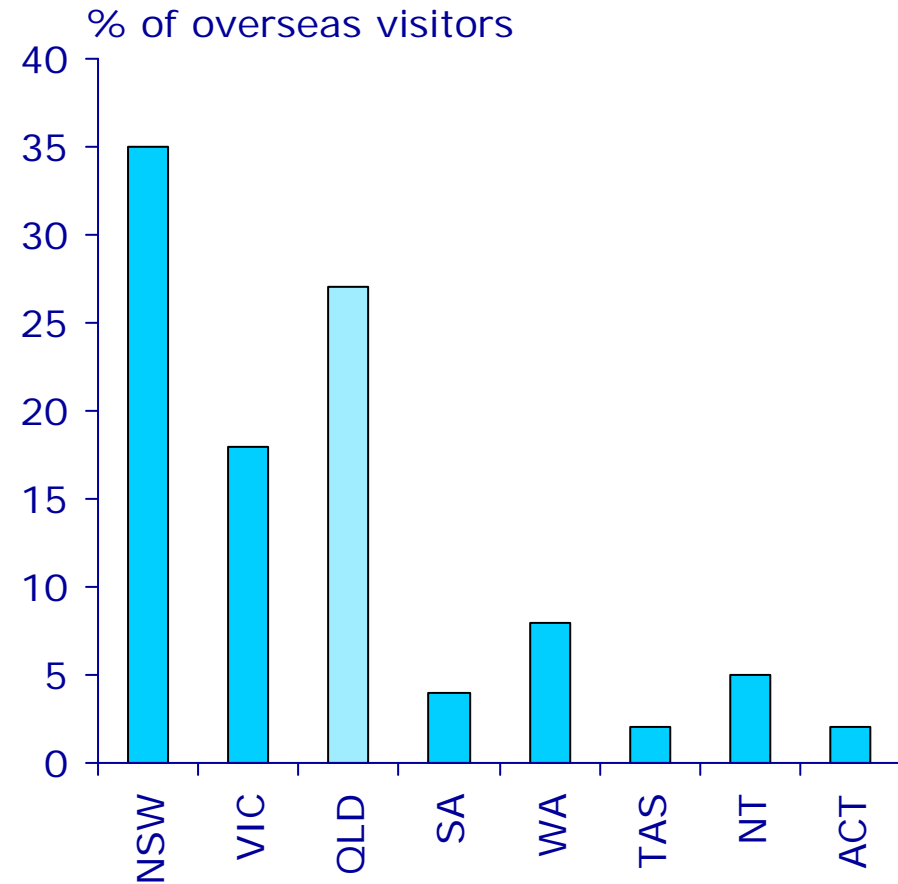
- Agriculture now makes up just 4% of State output
- Prospects remain bright for the strongly-performing beef industry
- Some crops & textile fibres have struggled although outlook slowly improving
- Farmers need a 'distinct' product they can supply to the domestic and international market
- It's time for the 'new' agriculture
  - Tropical fruits
  - Aquaculture
  - Ethanol?

# Prospects are good for tourism, and Queensland can still grab market share

## Overseas arrivals to Australia

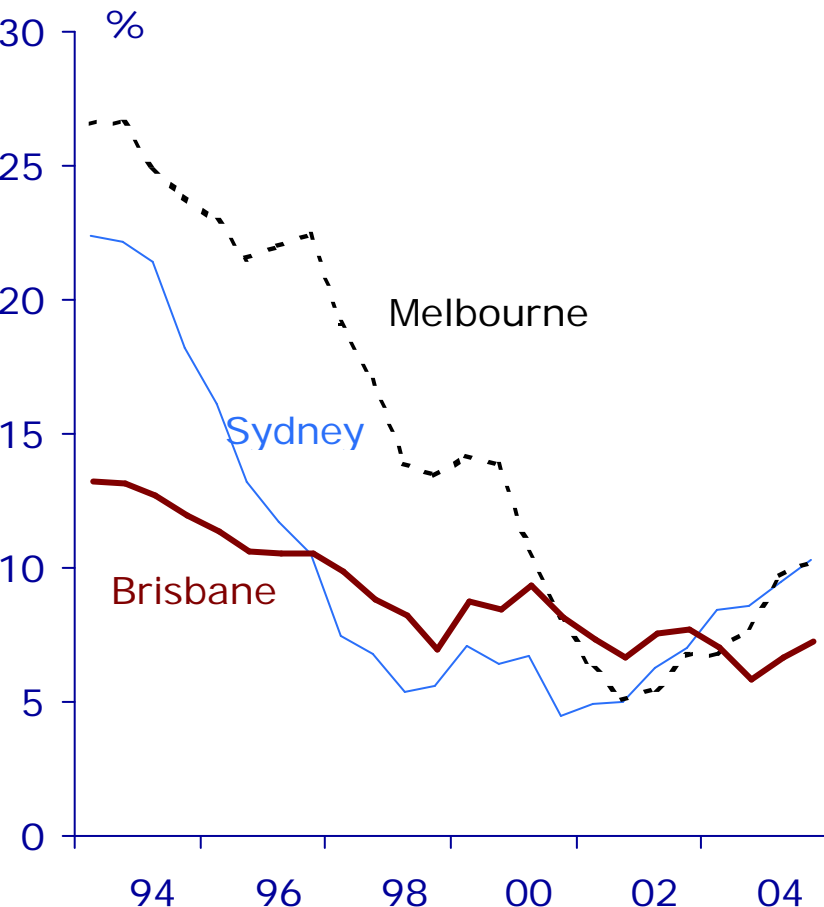


## State or Territory visited



# Professional services are driving Queensland's 'new economy'

Office vacancy rates

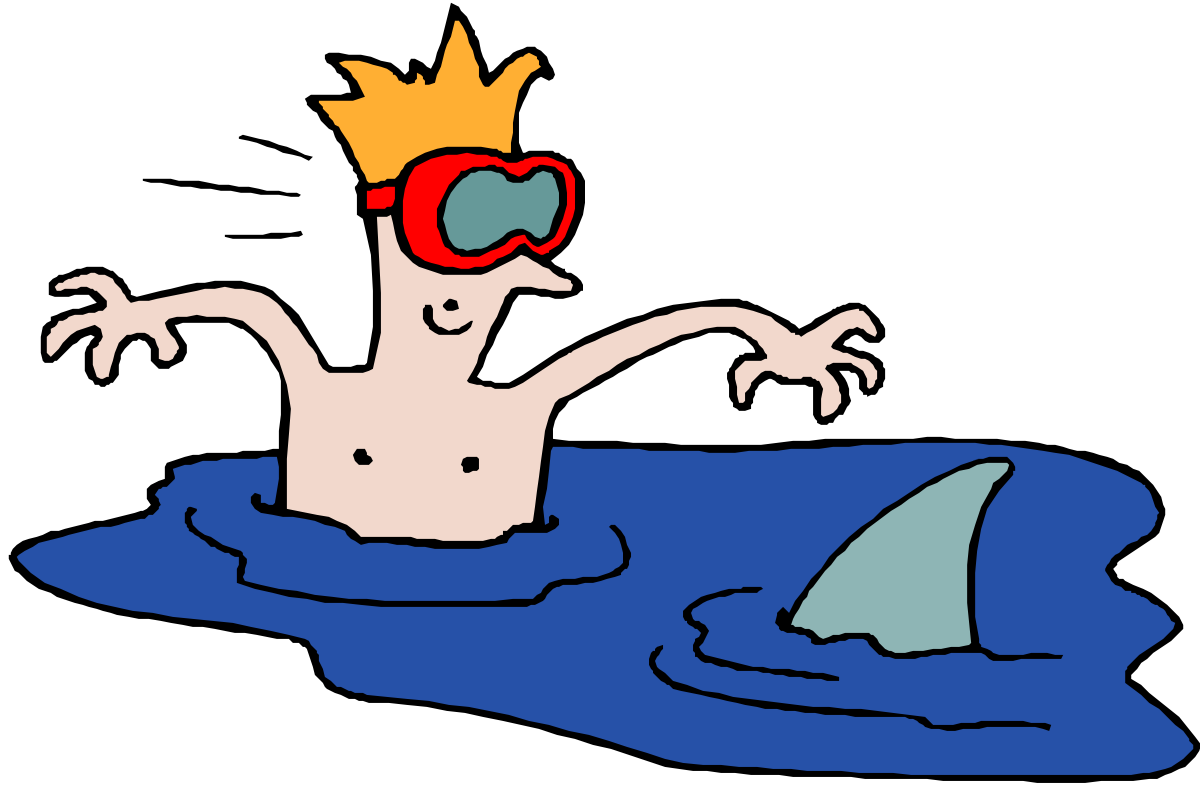


- Queensland's strong population growth is increasing the demand for professional services
- And an increasingly skilled labour force, competitive tax environment, relatively cheap commercial rent (cf Sydney and Melbourne) and the resources boom has seen the State become an increasingly popular destination for 'front offices'
- White collar employment is increasing as is demand for office space
- This is to be expected for a 'maturing' economy



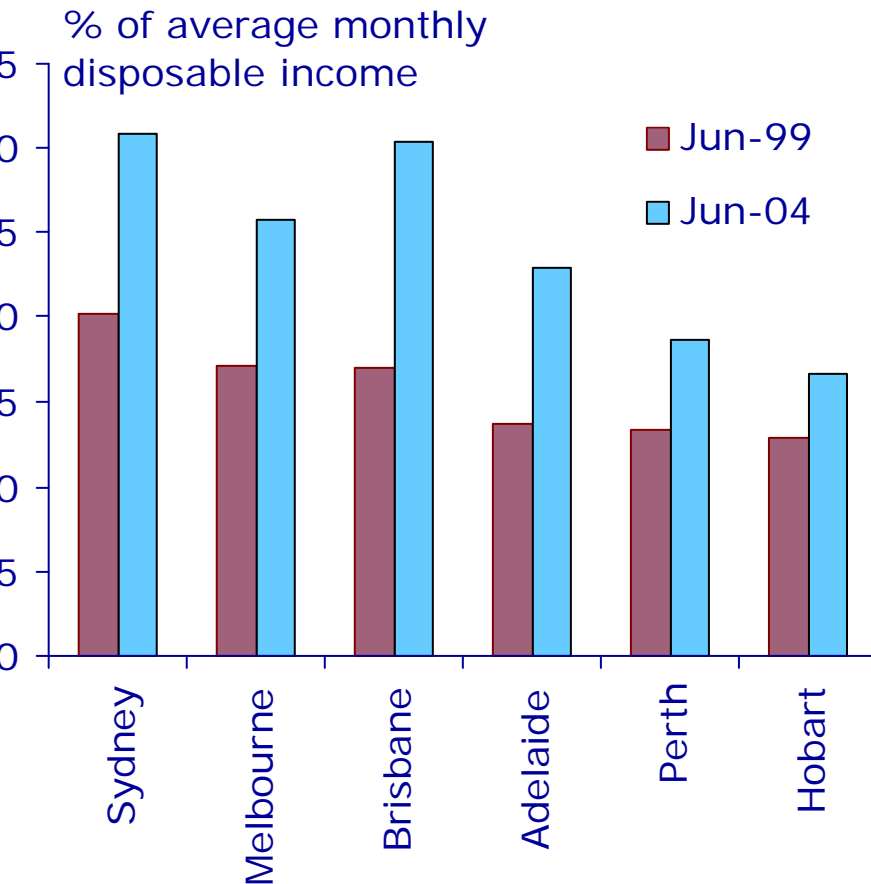
# Where are the risks?

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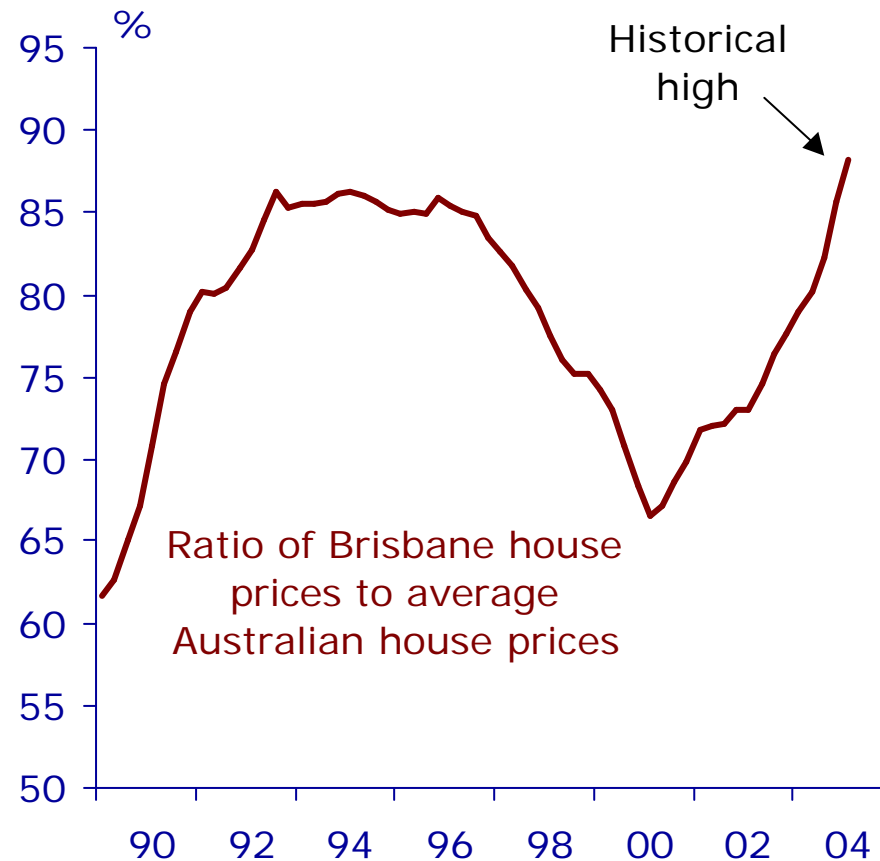


# Queensland property is in danger of pricing itself out of the market

## First home owners, average monthly mortgage repayments



## Relative house prices



# Is China a threat or an opportunity?

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- The emergence of China has seen demand for minerals soar, creating a boom for Queensland miners and the broader Queensland economy
- Low value-added manufacturing has so far been the main industry under threat from the rise of China – Queensland's economy has only minimal exposure to this industry
- After growing by around 9% per annum in recent years, Chinese economic growth is expected to slow to 6% in 2005 (mainly as investment slows)
- This pending slowdown in China will mainly hurt suppliers of capital goods, machinery and industrial equipment into China
- While commodity prices will likely ease, suppliers of raw commodities into China, such as Queensland, still have a lot to gain
  - Indeed, Chinese demand for coal imports is expected to continue accelerating as local demand outstrips local supply
- Short and longer-term, China is also an increasing export market for tourism and education

# Other risks

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- Oil prices
- Drought
- Elevated household debt levels
- The global economy
  - A sharper than expected slowdown would be a cruel blow for Queensland exporters
  - On the other hand, a sharp pullback in oil prices could see the global economy perform better than expected next year
- The broader Australian economy
  - A slowdown in Australian economic growth will hurt the Queensland economy
  - Although paradoxically, it could provide another boost to the State's population growth (and housing market) as people 'head north'

# Summary

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- The Queensland economy should continue to be a strong performer
- Strong population growth, led by high levels of interstate and international migration, will be an important driver of growth
- The population is growing up and down the coast, making Queensland Australia's most decentralised State
- Infrastructure is already under pressure and must be expanded to ensure Queensland's long-term prospects
- Prospects are good for the mining sector and tourism but agriculture needs to 'break new ground'
- The services sector, including professional services, will continue to grow in importance
- An overvalued housing market is one of the most significant risks to Queensland's prospects