

# State Update: Queensland – January 2016

## NAB Group Economics



National  
Australia  
Bank

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## Key points

- **The Queensland economy is in a period of transition with the end of the mining construction boom. The sharp decline in mining investment will be partly offset by strong resources exports growth, tourism and to a lesser extent the slowly improving domestic sector. We forecast gross state product to grow at 4 and 4% % in 2015-16 and 2016-17 respectively.**
- The ramp up in production and exports from three large LNG projects is expected to contribute significantly to Queensland’s exports and overall economic growth in the coming years. The first shipment of LNG from QCLNG was exported in January 2015, while GLNG started exporting in October 2015 and APLNG sent its first shipment in January 2016. While contracted volumes remain high, prices have fallen significantly on the back of lower oil prices, to which the LNG contracts are tied. **Current contracts indicate strong LNG export volumes going forward however some downside risks remain.** These include uncertainty around whether there is sufficient coal seam gas well capacity to support contracted export volumes and uncertainty around fulfilment of existing contracts given weaker global demand and prices.
- Global commodity prices have also fallen for many of Queensland’s major exports, including coal and copper. Export volumes remain high, but may decline if producers respond with production cuts. Lower prices remain a significant drag on incomes.
- **On the flip side, the depreciating AUD and low interest rates are providing a favourable environment for many sectors.** Dwelling investment in particular has been growing strongly. The relatively higher yield and better affordability of Queensland housing compared to Victoria and New South Wales have attracted investor interest, which in turn saw dwelling approvals rise strongly in Brisbane.
- **The tourism sector is also benefiting from the falling exchange rate and rising wealth of the Asian middle class.** While international visitor numbers have increased nationally, Queensland’s share has fallen. There are signs the state is investing in tourism infrastructure and promoting itself to overseas visitors through alliance with Asian airlines. A sharper global slowdown, particularly in Asia, than currently forecast however presents a downside risk. On the domestic front however, travel to holiday destinations such as Cairns and the Gold Coast has increased and will be supported by further currency depreciation, offsetting the fall in mining-related travel.
- **The labour market has been surprisingly robust in H2 2015 despite still weak domestic demand.** Employment has grown strongly, offsetting the solid growth in the labour force due to higher participation rate, resulting in a fall in unemployment rate. We forecast the unemployment rate to be 6.2% in 2015-16 before falling to 6% in 2016-17. Jobs in services industries including education and health are filling in the gap left by construction and mining. Population growth remains weak, especially for net overseas migration, and will unlikely show meaningful growth until the labour market recovery is more entrenched. In addition, income growth and inflation will remain subdued until better labour market conditions persist.
- Consumer sentiment has improved - that combined with the low interest rates and rising house prices is creating a more favourable environment for retail sales.

## Contact

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Chart 1: State GSP Growth Forecasts (%)

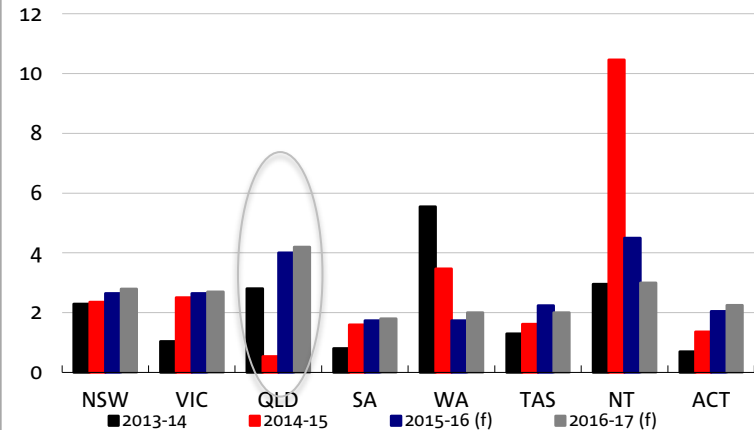
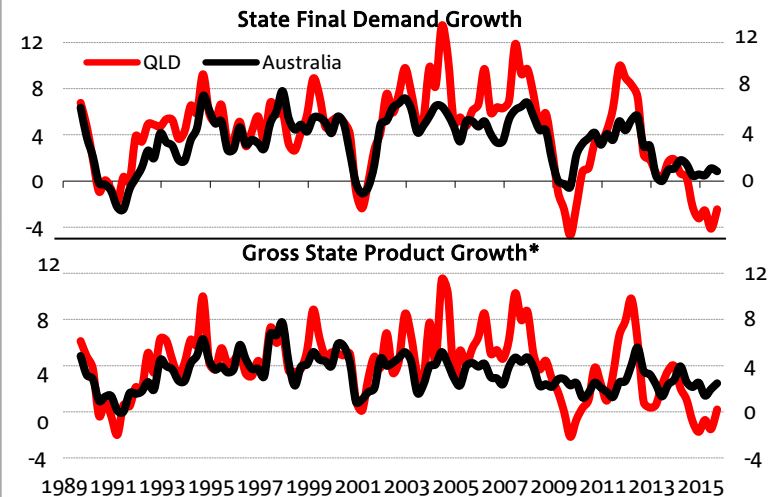


Chart 2: State Growth, %



\*NAB Estimate  
Source: ABS, NAB Economics

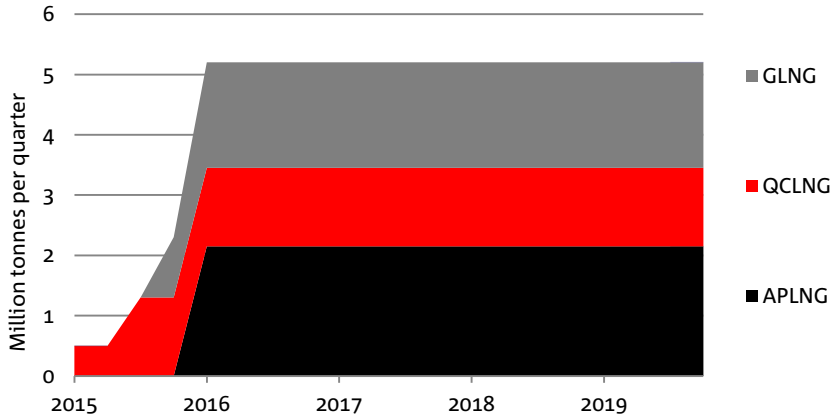


# Economy transitions away from mining towards dwellings and tourism

As the construction of three large LNG projects near completion, business investment has fallen significantly, detracting from growth. The ramp up in production and exports from these projects is under way and is expected to contribute more positively to exports and overall economic growth in 2016.

However, global commodity prices have fallen dramatically, including prices of our major exports coal, base metals and LNG. The lower prices are suppressing new mining investment and to some extent affecting export volumes. Going forward, we are unlikely to see a pickup in mining activity.

Chart 3: Forecast LNG export ramp-up, revised contract based phasing



As the Queensland economy adjusts to the ending of the mining boom, the low interest rate and low exchange rate environment is proving favourable for some sectors. Tourism, for one, is benefiting from increased domestic and international holiday travel, making up for the loss in mining-related travel, although Queensland's share of international visitors has declined.

Dwelling investment in Queensland has been growing solidly. The higher rental yield in Brisbane relative to Sydney and Melbourne and lower price-to-income ratio have attracted strong investor interest from both interstate and internationally.

Chart 5: Domestic travel, passenger numbers, 12-month rolling sum

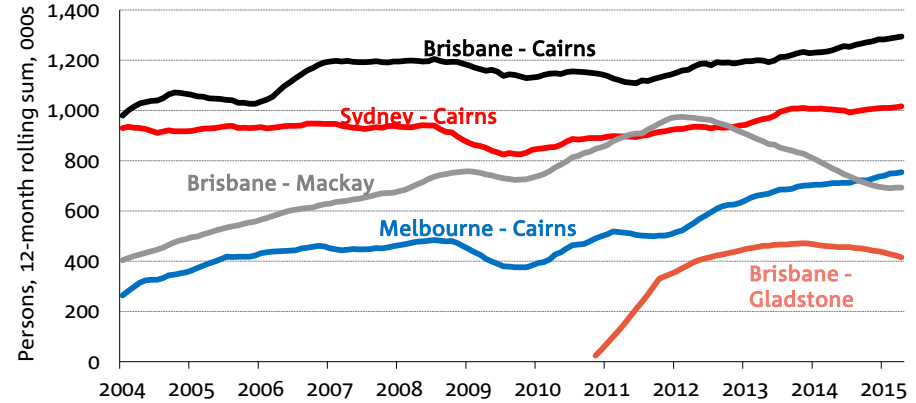


Chart 4: Engineering construction work yet to be done, heavy industry (\$bn)

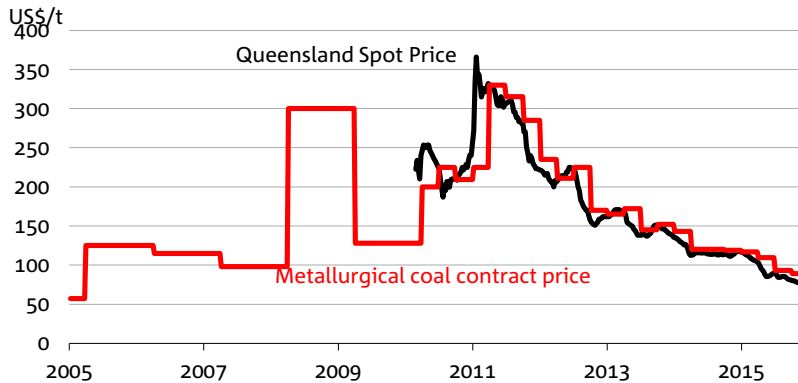
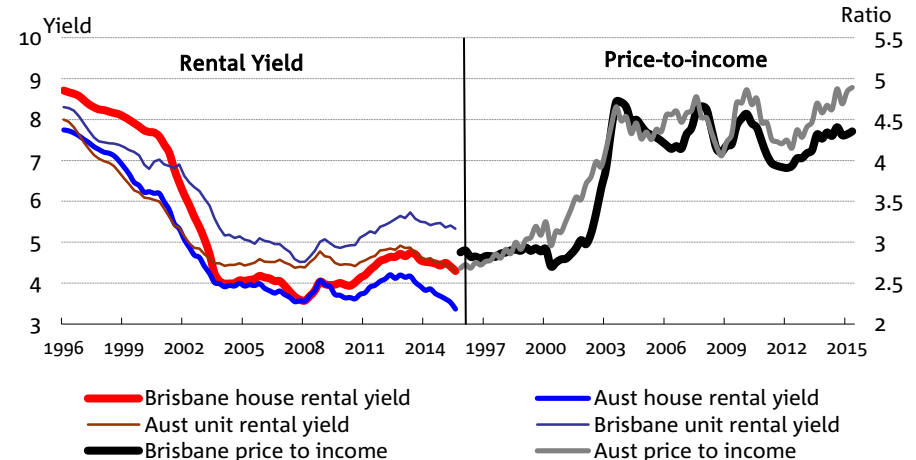


Chart 6 : Rental yields and affordability



- Brisbane house rental yield
- Aust house rental yield
- Aust unit rental yield
- Brisbane unit rental yield
- Brisbane price to income
- Aust price to income



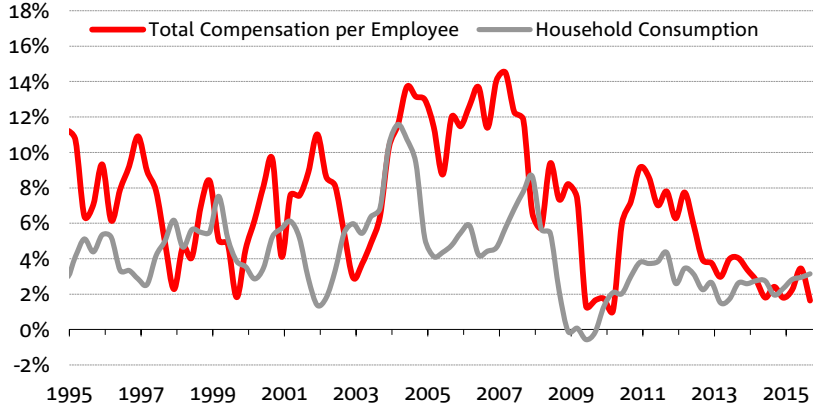
# Consumption growth picks up as sentiment improves

While income growth remains subdued in a time of falling commodity prices, consumer sentiment is showing signs of recovery.

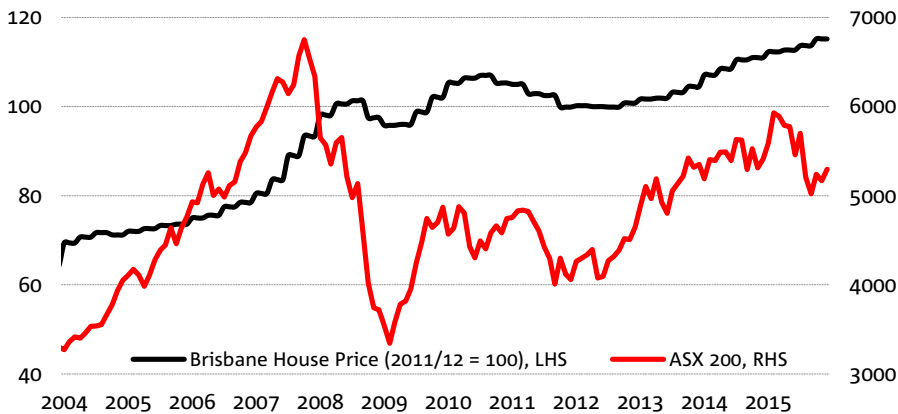
The combination of continually increasing property prices, the low interest rate environment and a gradually improving labour market are supporting consumer sentiment. Retail sales growth picked up strongly in November and the holiday shopping season will likely support further growth.

Overall, consumption growth is forecast to continue to improve.

### Chart 7: Average Compensation and Household Consumption Growth (YoY %)



### Chart 8: Brisbane House Price and Australian Share Market Performance

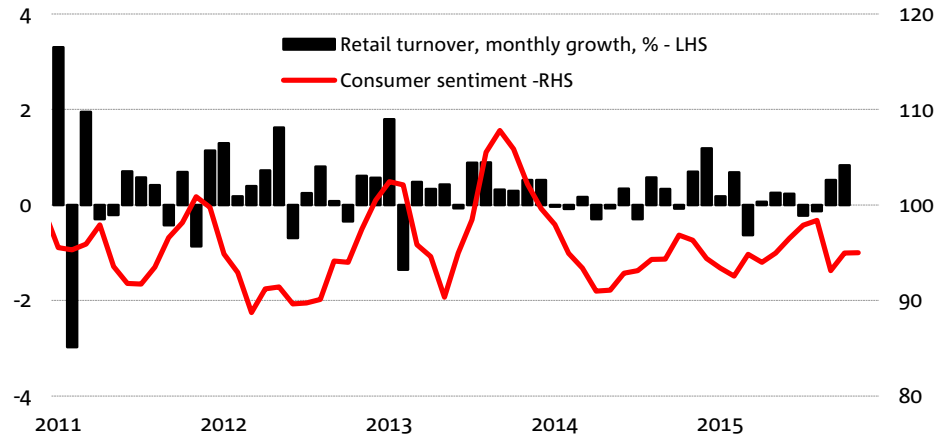


Source: ABS, RBA, Datastream, NAB Consumer Anxiety Index

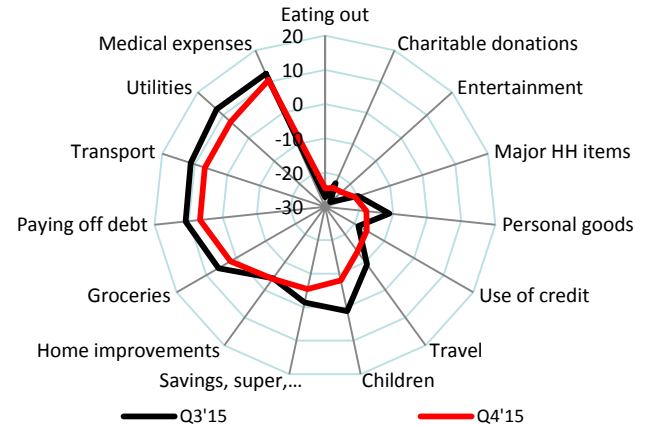
Consumer sentiment has remained below average for several years in Queensland. This has kept retail sales growth sluggish as well.

The latest Q4 NAB Consumer Anxiety Index shows that while overall consumer behaviour remains cautious (increasing spending only on essentials while cutting back on discretionary items), the cutbacks on things including travel and personal goods are expected to be smaller compared to Q3.

### Chart 9: Retail turnover growth and consumer sentiment



### Chart 10: Changes in Spending Behaviour, net balance





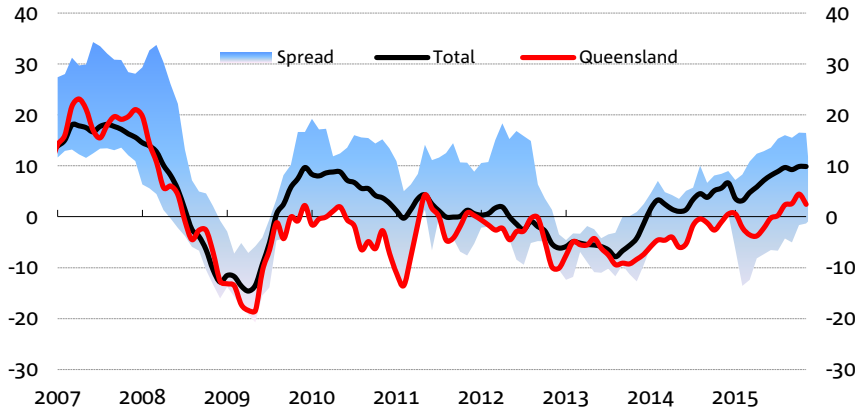
# Business conditions remain subdued post mining

Business conditions in Queensland have returned to positive territory after many years of subdued activity. Conditions received a strong boost in 2010-2012 when the construction of three large scale LNG projects began, but have since struggled to keep up with national average, especially when low commodity prices are limiting new mining investment and the non-mining economy is slow to recover.

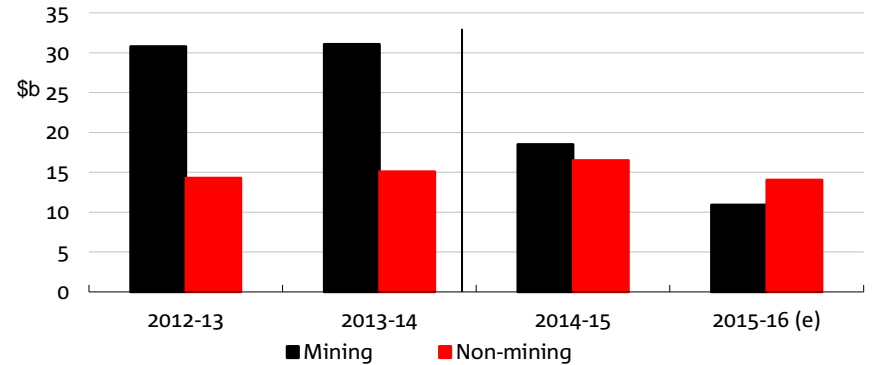
Non-mining capex is improving but has been slow to fill the gap, with expectations for a dip down again in 2015-16. The NAB Commercial Property Survey and building approvals data are pointing to a pick-up in industrial activity while office building is recovering slowly as vacancy falls back.

The NAB Business Survey shows capacity utilisation in Queensland remains low, both compared to long-run average and national level. However there are tentative signs of a pickup as its economy transitions from mining led growth to non-mining growth.

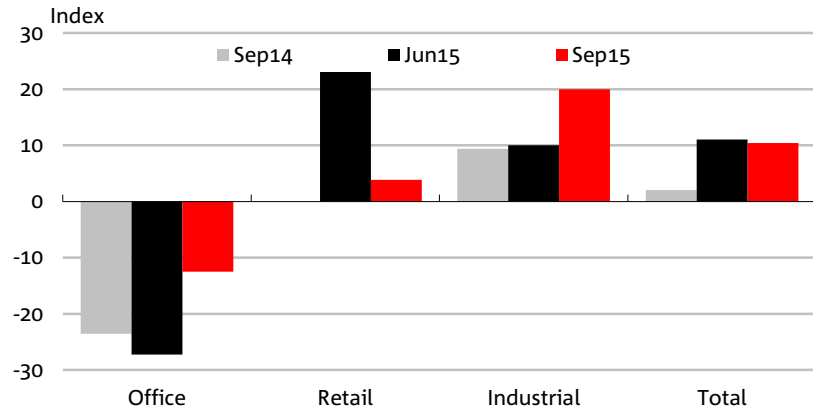
### Chart 11: Business Conditions (net balance) & spread



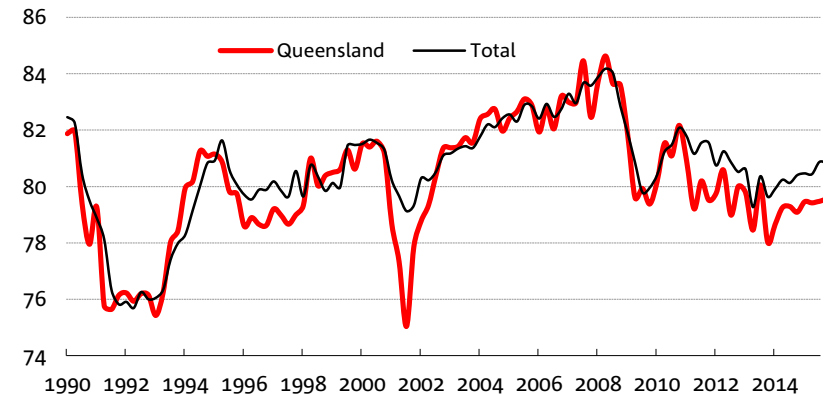
### Chart 13: Queensland capital expenditure, actual & expected based on previous realisation ratio



### Chart 12: NAB Commercial Property Index



### Chart 14: NAB Business Survey - Capacity Utilisation (%)



Source: ABS, NAB Business Survey



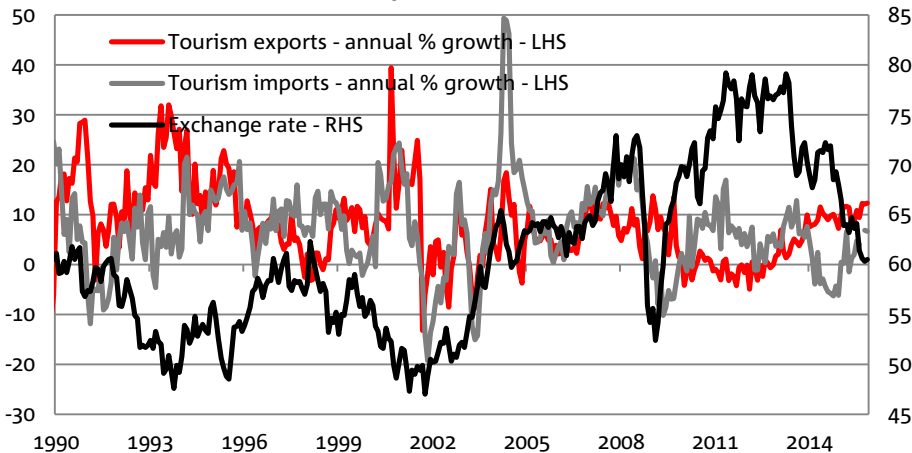
# Tourism to improve as lower currency provides help

The depreciating Australian dollar is providing a favourable environment for the Queensland tourism industry. Nationally, net export numbers have been increasing.

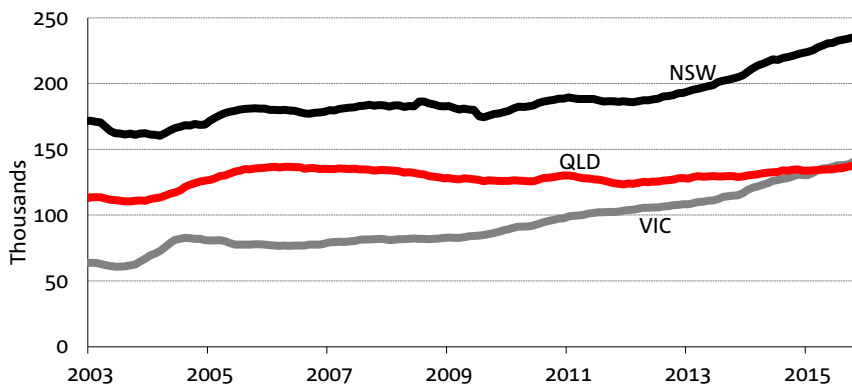
However, short-term international visitor numbers show most of that increase has been captured by the other major states of NSW and Victoria. With new routes opening between Asia and Queensland (eg. Hong Kong to the Gold Coast), visitor numbers will hopefully pick up.

The lower AUD has also made travelling to the sunshine state more attractive to domestic tourists. Passenger numbers have been increasing steadily to the tropical centre of Cairns on major domestic routes. Tourism operators have also invested in improving infrastructure and increased total bed spaces in anticipation.

### Chart 15: National tourism exports and the Australian dollar

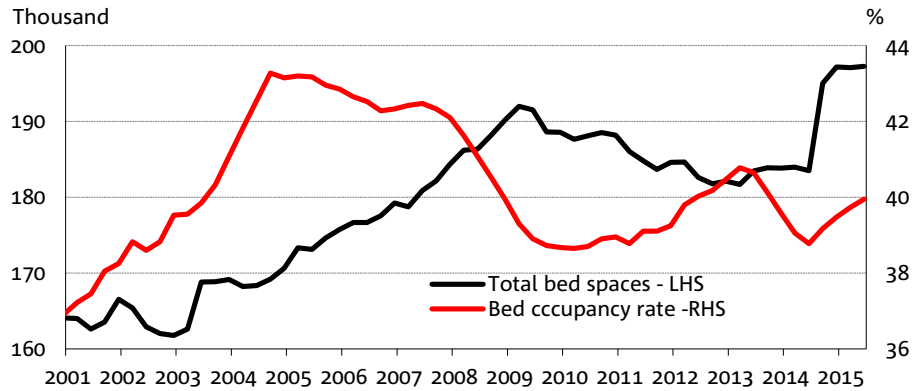


### Chart 16: Short-term international visitors, state where spent most time

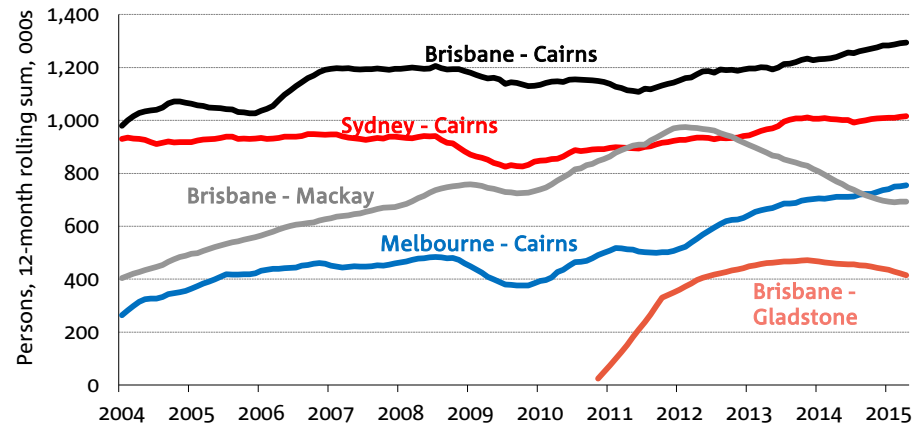


Source: ABS, RBA, BIRKE, NAB, Macrobond

### Chart 17: Tourist accommodation, total bed spaces and bed occupancy rate



### Chart 18: Domestic travel, passenger numbers, 12-month rolling sum





# Coal exports slowing down on weak demand while beef exports still at elevated levels

Coal prices have continued to fall, in the face of weaker global demand and only partly offset by a depreciating Australia dollar. The lower profitability and low import demand from China has prompted production cuts by some major mining companies. Overall, the growth in coal production and exports will be limited going forward.

In addition, base metals exports are expected to fall in both 2015-16 and 2016-17 as major producers announce production cuts in the face of weaker global demand and falling prices.

We forecast the value of beef exports will continue to surge on record prices and elevated demand in the key US market.

Cattle prices are expected to remain at elevated levels, but the key driver will become domestic demand for herd rebuilding rather than the US beef market. Meanwhile, Australian beef export volumes already have begun to slow as slaughter rates decline and stock becomes scarcer. We expect slaughter to continue to contract for some time.

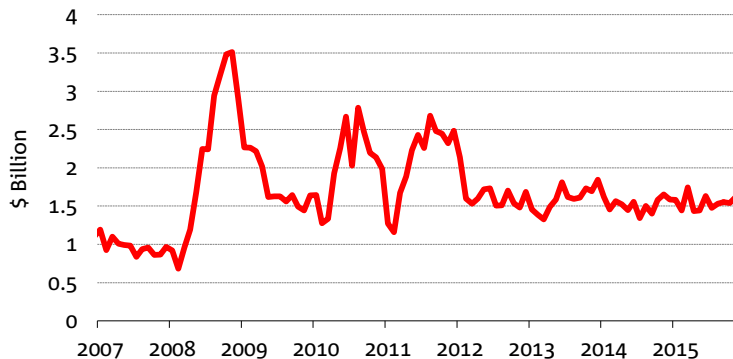
### Chart 19: Queensland's major exports goods

Major exports, goods, 2013-14	
	A\$m
Coal	19,261
Beef	3,726
Copper	2,329
Other ores & concentrates	1,717
Aluminium	1,024

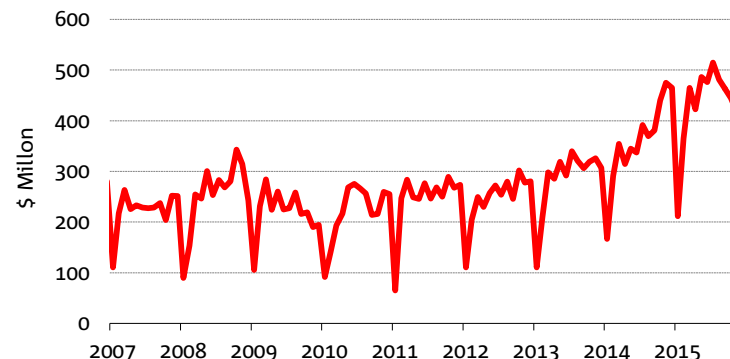
### Chart 21: Queensland's major imports goods

Major imports, goods, 2013-14	
	A\$m
Crude petroleum	7,774
Refined petroleum	3,952
Passenger motor vehicles	3,672
Goods vehicles	1,693
Heating & cooling equipment	960

### Chart 20: Queensland coal exports, value



### Chart 22: Queensland beef exports, value



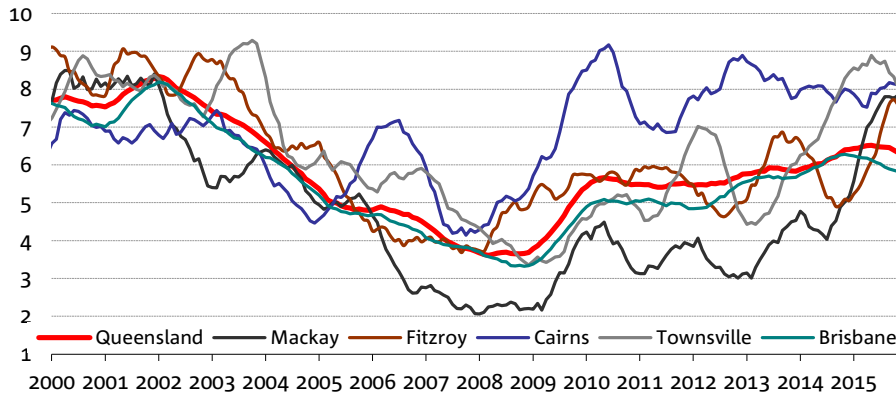


# Labour market slowly recovering

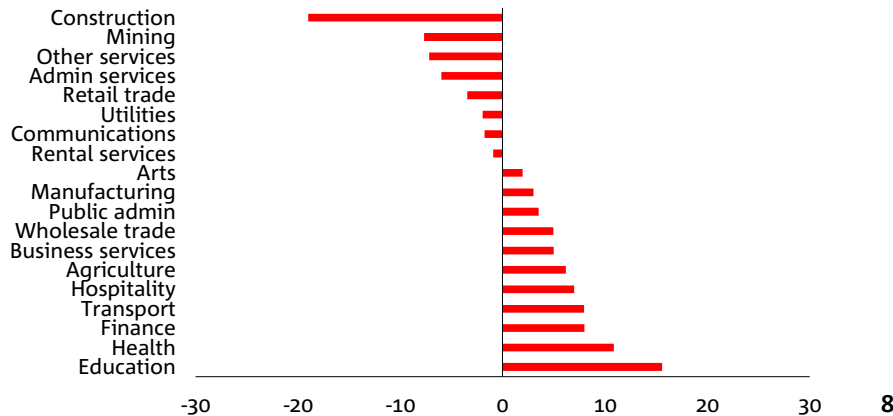
The labour market in Queensland is in a period of transition after the ending of the mining boom. Jobs in mining, construction and other related industries are rapidly disappearing, partly replaced by jobs in services industries including education, health and finance. Job vacancies in both the public and private sectors are on the rise again after a period of subdued activity.

Unemployment rate has started to decline across the state. As the LNG projects have mostly finished construction and moved to the operation phase, unemployment rate in Mackay and Fitzroy is starting to fall. Employment growth has picked up speed in recent months. The transition of the economy towards non-mining services industries will help jobs growth, however that process is likely to be gradual as domestic demand remains weak.

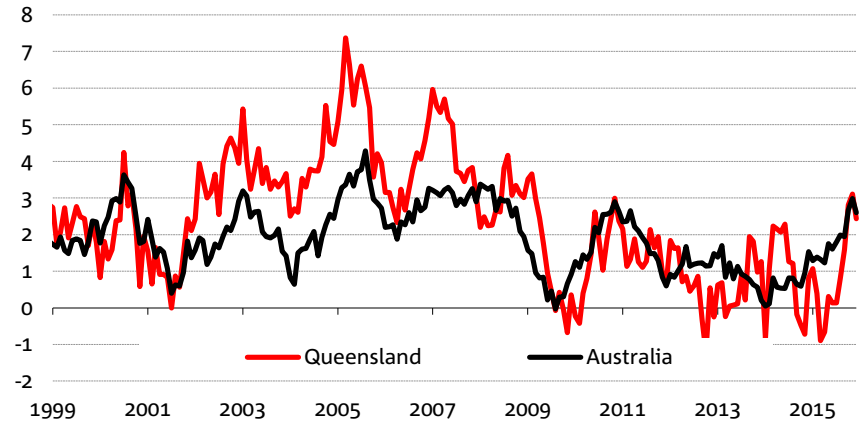
### Chart 23: Unemployment rate, selected regions, 12-month moving average, %



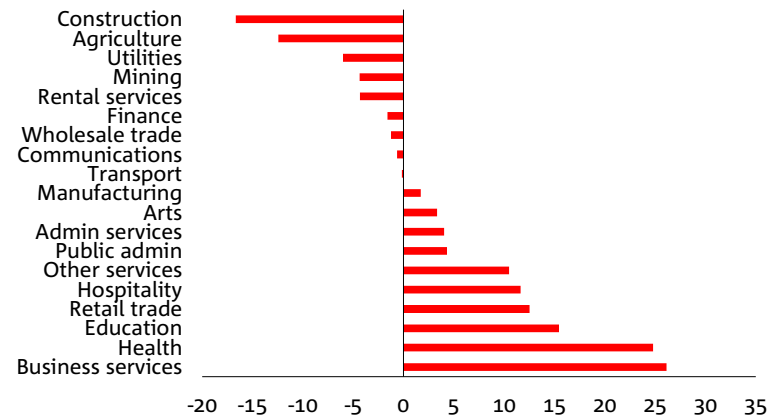
### Chart 24: Change in employment by industry, last 12 months to Sep-15, Queensland, '000



### Chart 25: Employed persons, YoY % growth, seasonally adjusted



### Chart 26: Change in employment by industry, last 3 years to Sep-15, Queensland, '000







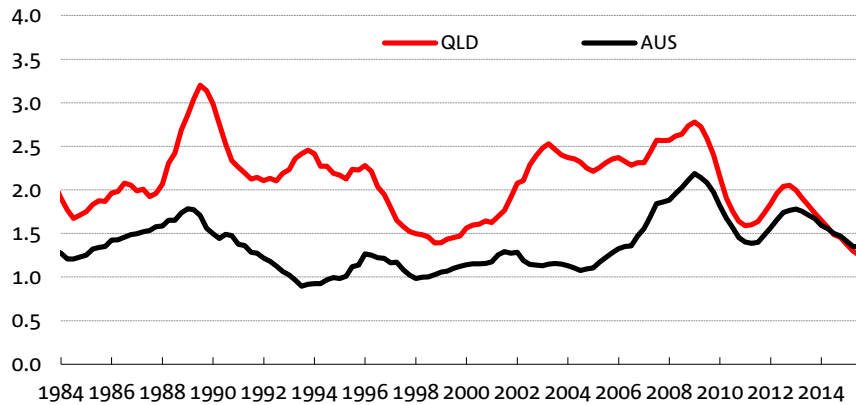
# Population growth continues to slow

Population growth continues to slow in Queensland, and has now fallen below the national average.

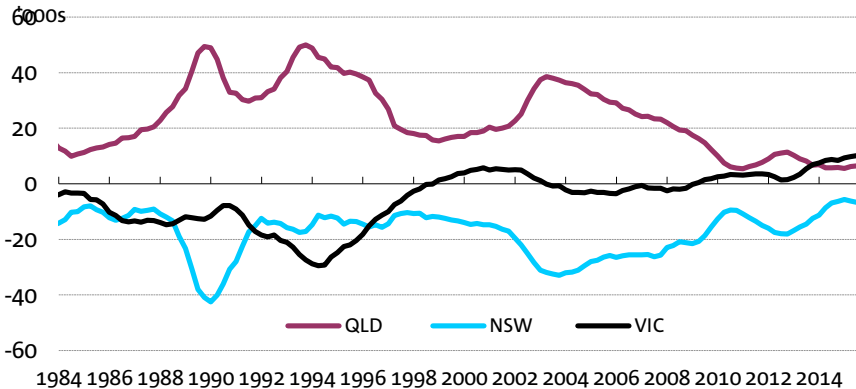
The fall in net overseas migration has been the biggest detractor from the population growth.

Net interstate migration was previously the largest contributor to population growth. Since 2005-06 however, it has made the smallest contribution. The recent months has seen a slight pickup in net interstate migration again, possibly helped by the relative affordability of Queensland housing compared to the southern states.

### Chart 27: Population growth, Queensland and Australia, %, year on year

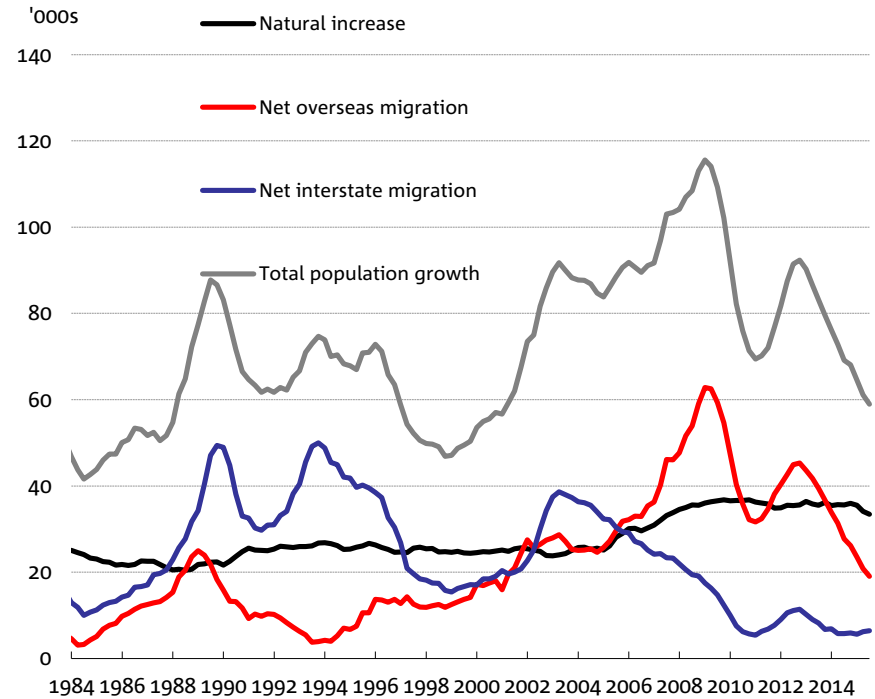


### Chart 28: Net interstate migration, 000s, over the year



Source: ABS

### Chart 29: Queensland population growth (000s, over the year)





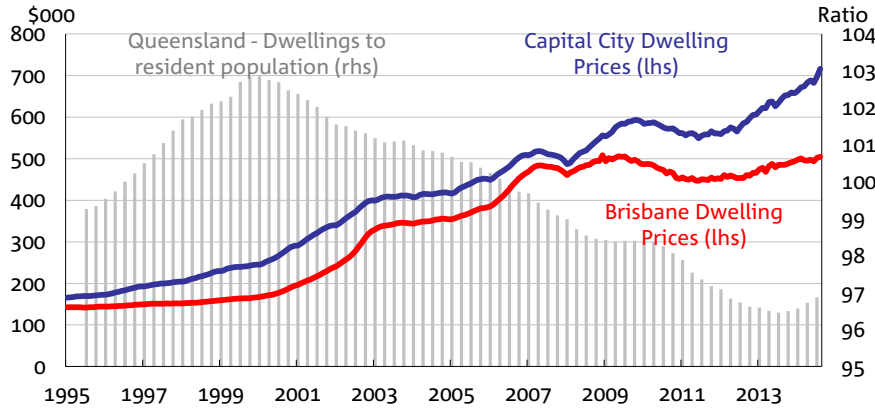
# Dwelling investment continues to grow as better affordability and higher yields attract investors

Compared to Sydney and Melbourne who have enjoyed double-digit property price growth, Brisbane properties are looking relative more affordable, with higher rental yields. The low interest rate environment is also supporting investor demand.

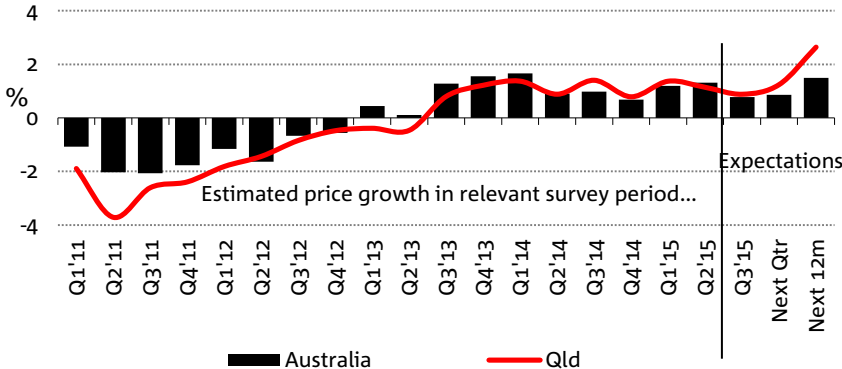
The NAB residential property survey shows price growth in Queensland is expected to catch up, while our latest forecasts show a 4.5% increase in Brisbane houses for 2016 (see summary pack).

Responding to the price disparity, dwelling approvals have increased significantly in Queensland. Most of the new approvals, however, are in medium-to-high-density dwellings in Brisbane and the Gold Coast. While the ratio of house approvals to population remains below national average, that of unit approvals to population has increased significantly to catch up with the national average. The bulky nature of large apartment projects also mean we might see large increases and decreases in dwelling approvals across quarters.

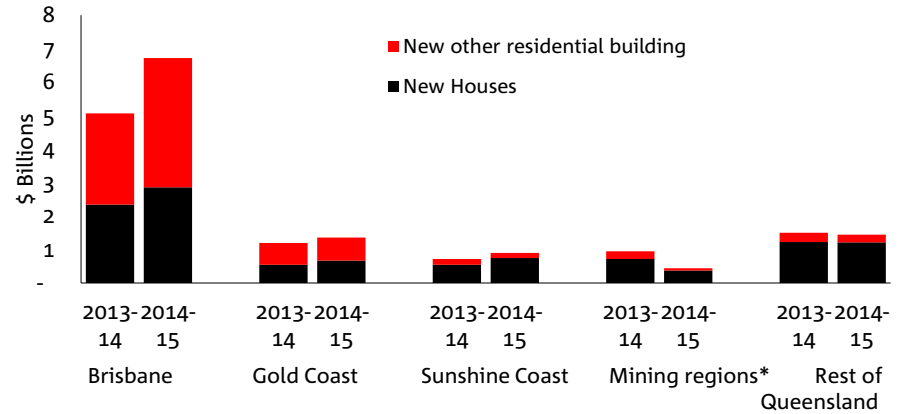
### Chart 30: Queensland dwellings to population and Brisbane dwelling prices



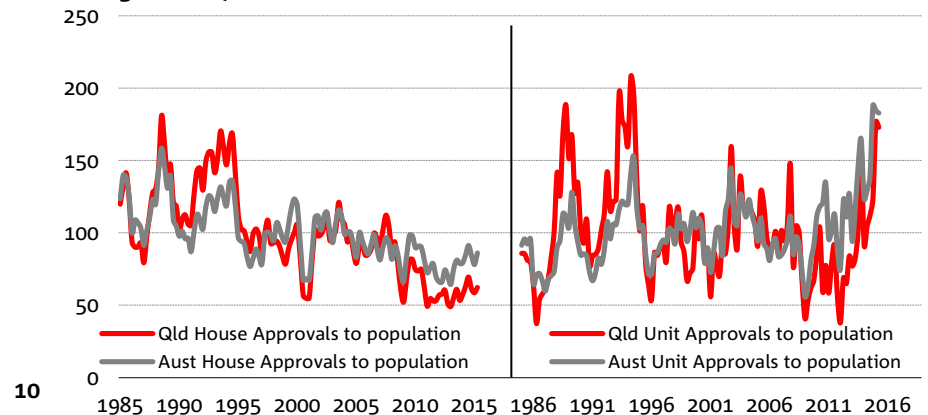
### Chart 31: NAB Residential Property Survey - House Price



### Chart 32: Value of building approvals, by region



### Chart 33: Building Approvals relative to population (Long-run average = 100)



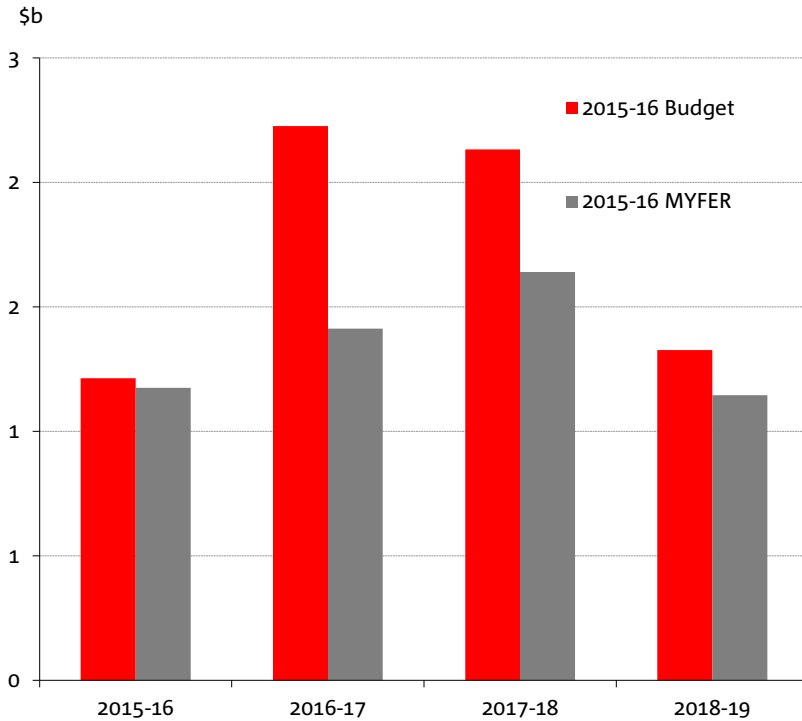


# Net operating balances revised lower

The state government has revised down its net operating balance forecasts, due to lower royalty and taxation revenue projections, with the key driver being a reduction in payroll tax revenues.

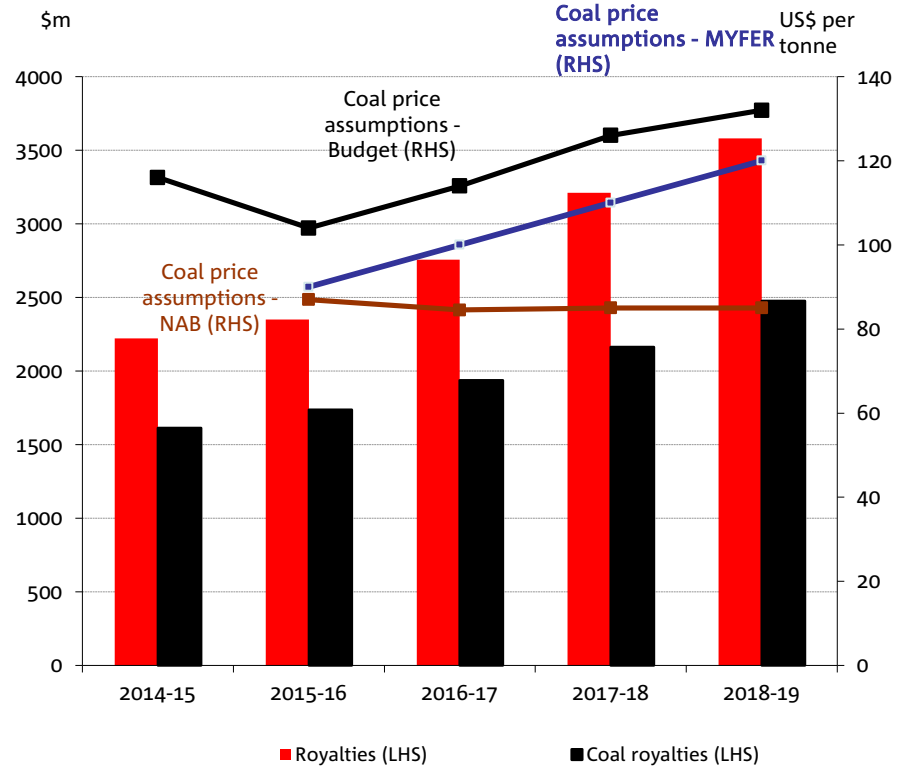
The most significant reduction is in 2016-17 due to a change in timing of Commonwealth capital grants.

Chart 34: Net operating balance, \$ billion



Coal royalties represent around 70% of total royalty income. As a result, the falling coal prices and a subsequent downward revision in coal price assumptions have resulted in a decline in total royalty revenue forecast. Hard coking coal price has fallen to US \$89/tonne in December 2015 and NAB forecast it will decline further, contrary to Queensland Treasury' assumption of a recovery in price to reach above \$100 (Chart36). In our opinion, their coal royalties forecasts are overly optimistic and might be revised down further.

Chart 35: Forecast royalties (total and coal) and coal price assumptions



Source: Queensland 2015-16 Budget, Mid Year Fiscal and Economic Review, NAB Economics



# Net debt forecast revised up but not a threat to credit rating; new borrowings revised lower

In the mid year budget review, the Government announced another AUD1bn in debt reduction via further revisions to capital structure of select non-network government owned corporations. The Government remains focused on reducing net debt without the use of asset sales. Note that the level of net debt for 2017-18 is largely similar to that projected at Budget time and this is a reflection of a deterioration in revenue forecasts.

In terms of credit matrix there is a small deterioration in the tax supported debt ratio (but nothing significant and is unlikely to be a concern for rating agency).

Chart 36: Queensland Non-Financial Public Sector net debt

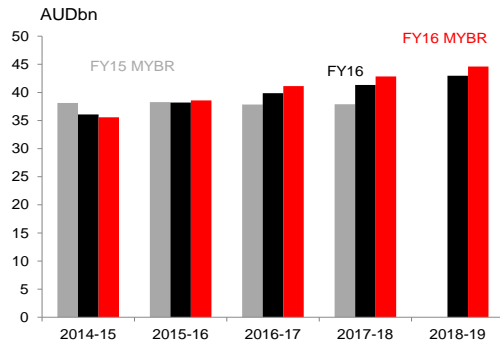
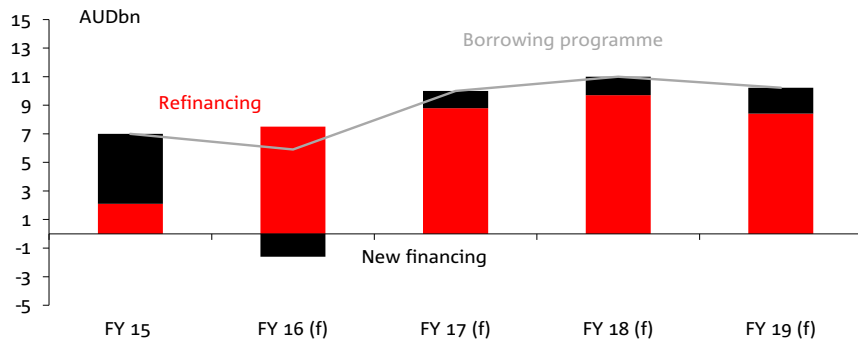


Chart 37: QTC borrowing programme



Following the release of the MYBR QTC announced that its funding program for 2015-16 would be lower by AUD600m at AUD5.9bn, comprising -1.6bn of new money and 7.5bn of refinancing. The reduction in funding needs comes from a reduction in client new money borrowings. In terms of funding strategy QTC will continue to look to smooth the maturity profile. As at the end of 2015 total bonds outstanding was at AUD83.7bn which is around AUD2.2bn above end June 15 levels (excluding the Oct 15 maturity).

Chart 38: S&P credit metric: mild deterioration in debt burden

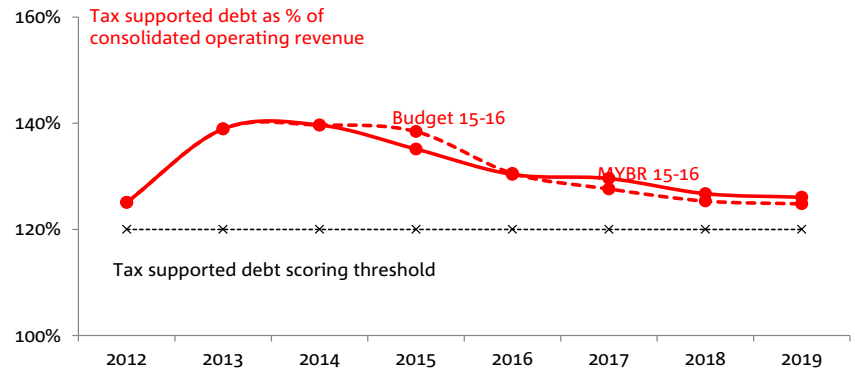
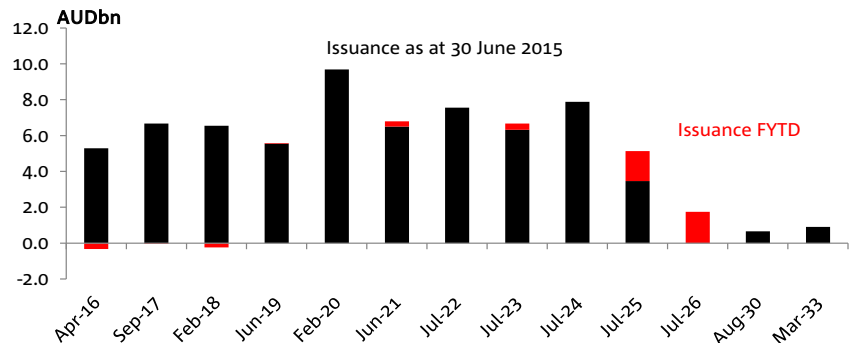


Chart 39: QTC term bonds outstanding as at end 2015



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