

# STATE HANDBOOK: QUEENSLAND

MARCH 2017

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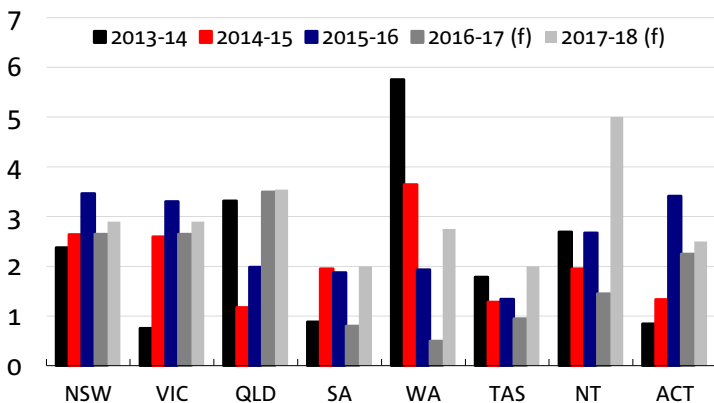


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# KEY POINTS

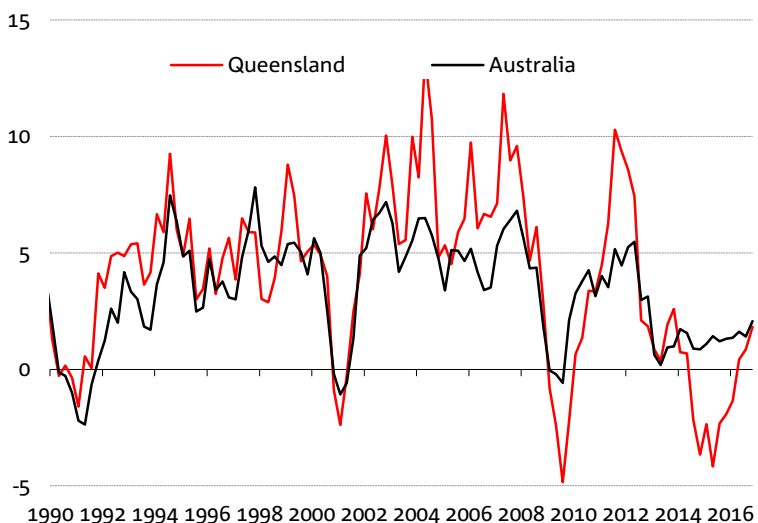
## CHART 1: STATE GSP GROWTH FORECASTS

%, annual growth



## CHART 2: STATE FINAL DEMAND GROWTH

%



Source: ABS and NAB Group Economics

- **Queensland's real gross state product is expected to grow solidly on the back of strong LNG exports, expanding by 3½% in 2016-17 and 2017-18.** Business and labour market conditions remain subdued as the state economy continues to transition post the mining investment boom, but there are some encouraging signs of improvement. South East Queensland is leading the way, while the mining regions are still battling with weak employment growth and a lack of activity. The recent surge in coal prices has delivered a welcome boost to the state's budget bottom line and coal miners' profits. While the higher commodity prices are supportive of nominal income growth, they are not expected to cause a substantial increase in mining investment due to the temporary nature of the price rally.
- The economic transition under way is producing varying results across regions, industries and occupations. Employment growth in SE Queensland has been encouraging while the rest of the state is still lagging behind. Increased dwelling construction activity has created many jobs in the south east while tourism and other services industries are also improving. On the other hand, regional Queensland (especially north Queensland), faced with variable commodity prices and drought conditions, is still struggling with depressed business activity, subdued house price growth and elevated unemployment. However, weather conditions have improved more recently and the recent surge in commodity prices have seen some previously shut mines re-opened.
- Private investment declined by 13.2% in 2015-16, as three large LNG projects finished construction and a long period of low commodity prices limited new investment. The NAB Business Survey shows improvements in business conditions as the non-mining sector leads the way in the economic recovery. Non-residential building approvals have increased moderately, while there has been significant activity in dwelling construction given low interest rates and the relative affordability of Queensland housing. New dwelling investment should add positively to Queensland's economic growth and create employment in construction, offsetting some of the downturn from the end of the mining construction boom. However, most of the new residential approvals are concentrated in medium to high density dwellings in Brisbane and the Gold Coast, where negative price growth already occurred in late 2016. This high concentration of new supply and tightening of lending standards by the banks could pose a risk to price growth and limit further investment in 2017 and beyond.
- The low AUD and expanding middle class in Asia will continue to support tourism and education exports in Queensland. A number of new direct flights between Asia and Queensland have opened. In addition, the Commonwealth Games to be held on the Gold Coast in April 2018 will further attract domestic and international visitors.
- Apart from LNG, growth in other key export commodities is expected to be low to moderate. Coal exports will increase moderately as some mines are re-opened due to high prices. Metals exports will decline in the short term due to the planned closures of a few large mines. Beef exports will be weak as farmers rebuild herd stocks but could increase in the long term while improved rainfall has delivered a bumper crop.
- Overall, the Queensland economy's transition post the mining boom continues to gain traction, with improved labour market conditions and increased dwelling activity, while the temporary surge in coal prices has provided a boost to state income. The overbuilding in units in South East Queensland could be a downside risk to watch for.

# LNG EXPORTS TO DRIVE ECONOMIC GROWTH WHILE COAL PRICE RALLY BOOSTS INCOME

The biggest driver of Queensland's GDP growth in the next two years will come from exports from the three large LNG terminals. All three projects have completed construction in 2016 and started ramping up exports. They will reach full export capacity in 2017, contributing significantly to the state's export and GDP growth in 2016-17 and 2017-18, before flattening off in 2018-19.

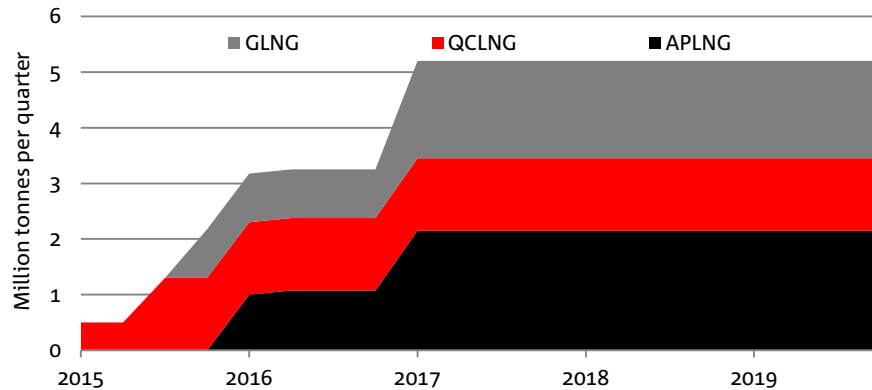
Steps by the Chinese government in early 2016 to restrict domestic coal production saw international coal prices surge, providing a windfall to Queensland coal miners and boosting state royalties income.

Spot coking coal price increased by nearly 300% since January 2016, while thermal coal spot price also rose by around 130% before a relaxation of Chinese policies in mid November saw coal prices retreating. Given the unsustainable nature of the price rally, we do not expect increases in business investment as a result.

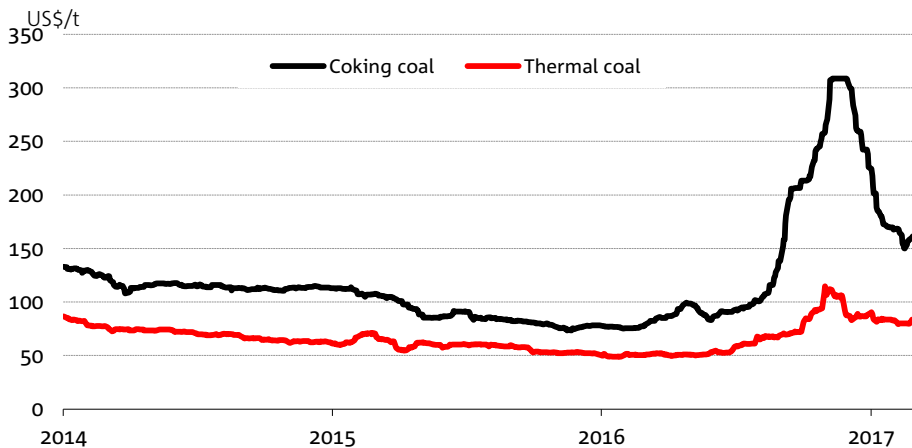
However, the price rally is providing a boost to company profits and state government revenues.

## CHART 3: FORECAST LNG EXPORTS

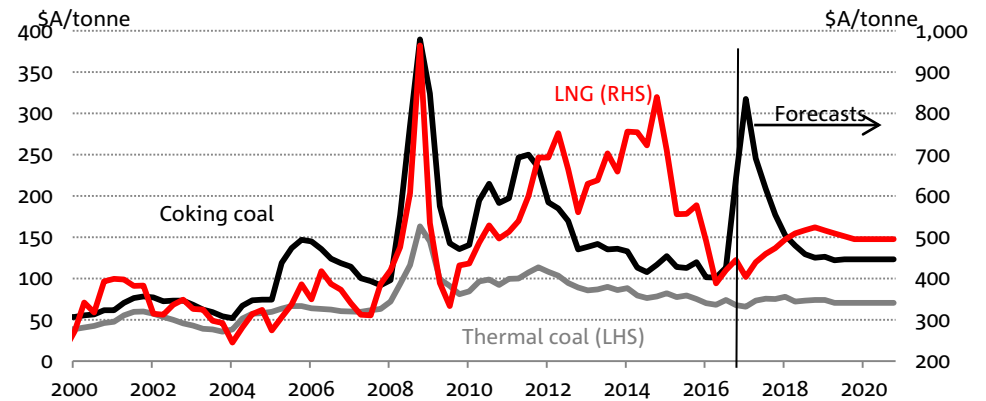
(revised contract based phasing)



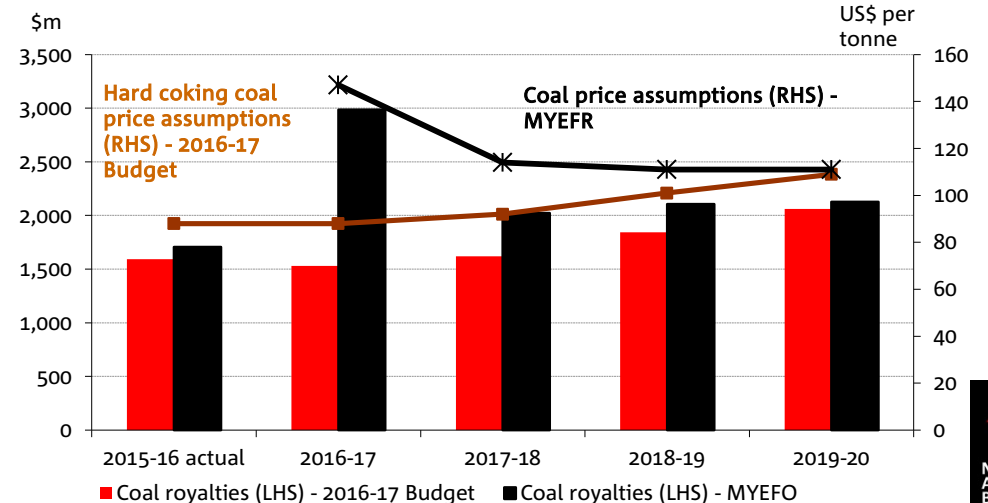
## CHART 4: SPOT COAL PRICES



## CHART 5: IMPLIED EXPORT PRICES, KEY QUEENSLAND COMMODITIES



## CHART 6: FORECAST COAL PRICE ASSUMPTIONS AND ROYALTIES



# LABOUR MARKET (1)

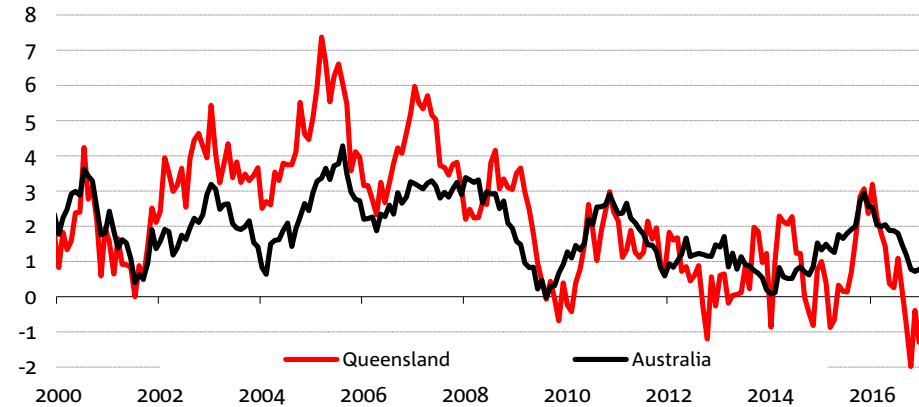
## Labour market transition under way with improving income growth

Queensland's labour market transition continues. Post the mining boom, South East Queensland with its more diverse economic base is leading the way out of the gloom, reporting stronger employment gains. On the other hand, the rest of Queensland, especially mining concentrated regions were worse affected and still lags behind. However the growth rates are converging.

The sluggish labour market has also seen more jobs growth in part time lower paid employment rather than full time employment.

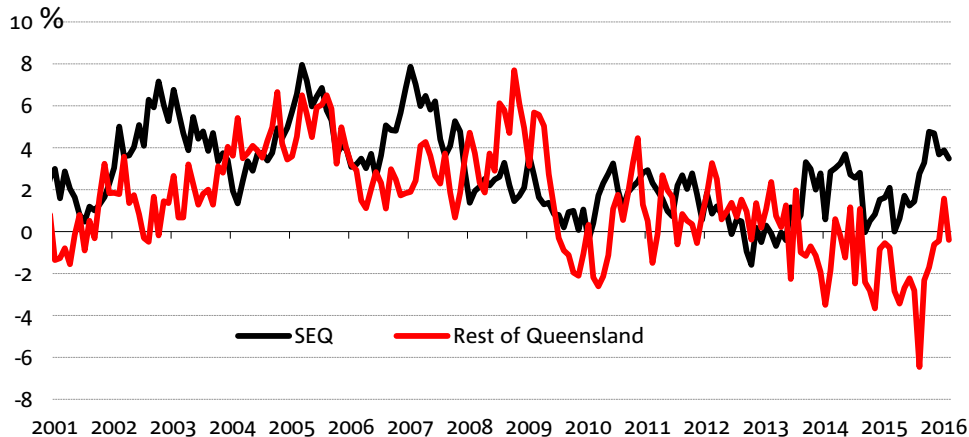
### CHART 7: EMPLOYED PERSONS, QUEENSLAND AND AUSTRALIA

YoY % growth, seasonally adjusted



### CHART 8: EMPLOYED PERSONS BY REGION

YoY % growth

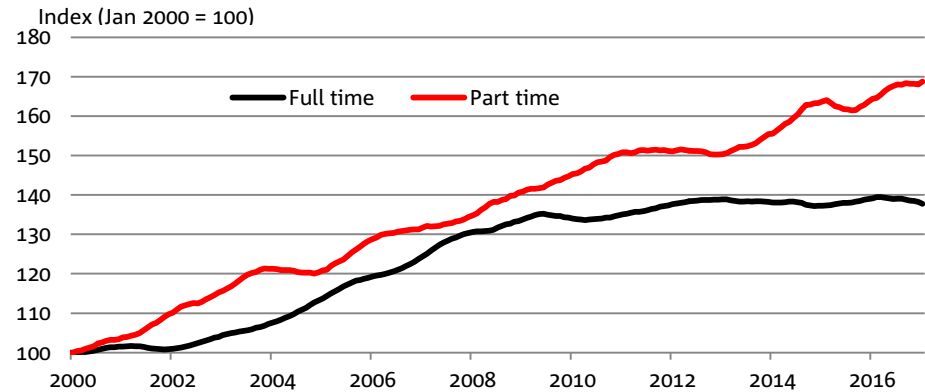


Source: ABS

While employment growth remains sluggish, income has picked up somewhat as the transition from higher paid mining jobs towards lower paid services jobs has largely run its course. Growth in the wage price index (which is not affected by compositional change in the workforce) suggests subdued wages growth across most industries, consistent with ongoing spare capacity in the labour market.

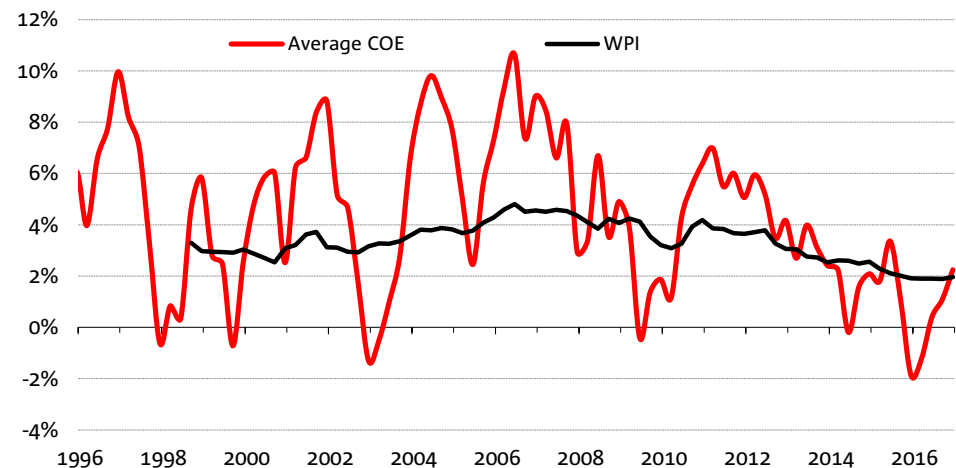
### CHART 9: FULL TIME VERSUS PART TIME EMPLOYMENT

12-month rolling average, index levels (Jan 2000 = 100)



### CHART 10: AVERAGE COMPENSATION PER EMPLOYEE & WAGE PRICE INDEX

YoY growth, %



# LABOUR MARKET (2)

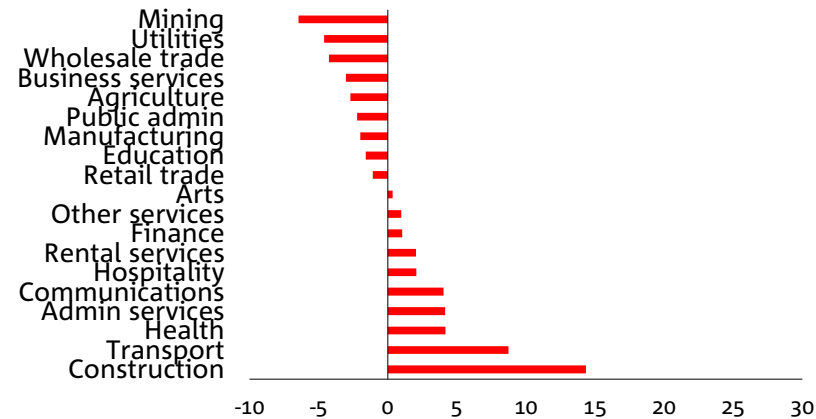
## Falling participation rate a concern

In the past 12 months, construction saw the biggest increase in employment. Increasing activity in residential construction has offset the fall in LNG related construction and provided employment opportunities.

Over the past three years, mining, construction and wholesale trade lost the most number of jobs, while services industries including health, education and hospitality added the most jobs.

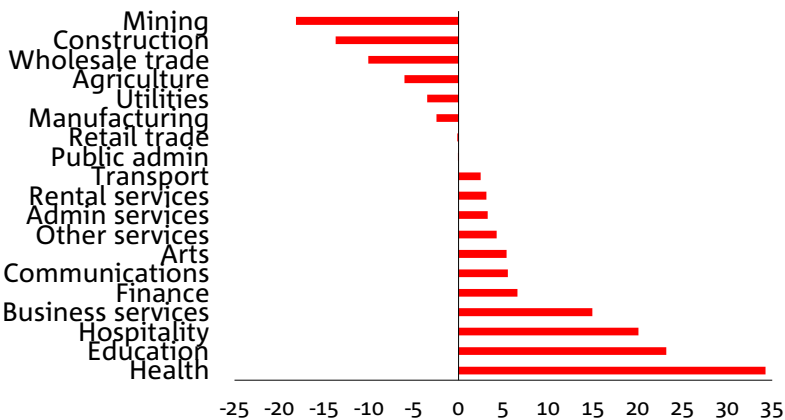
### CHART 11: CHANGE IN EMPLOYMENT BY INDUSTRY

last 12 months to Nov-16, Queensland, '000



### CHART 12: CHANGE IN EMPLOYMENT BY INDUSTRY

last 3 years to Nov-16, Queensland, '000



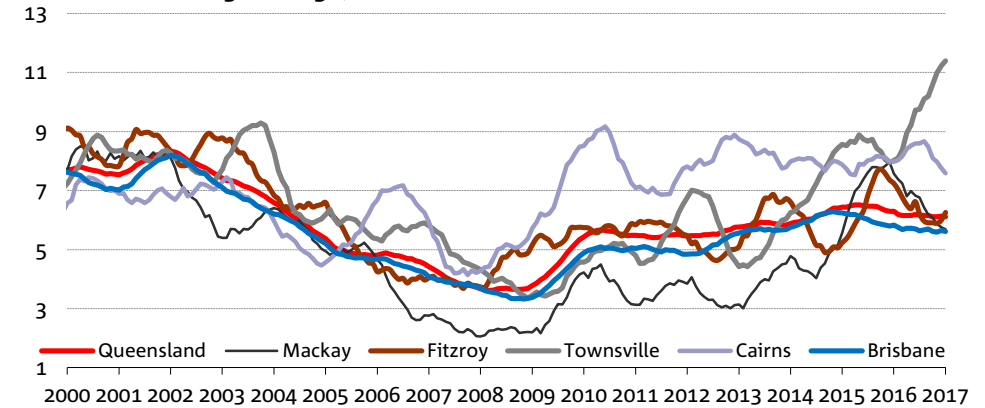
Source: ABS

While the state-wide unemployment rate has fallen in the past six months, led by declines in Brisbane, it remains elevated in northern Queensland. The improvement in tourism-related employment has been unable to offset the downturn in mining. Encouragingly, unemployment has fallen in Mackay and Fitzroy, possibly thanks to the re-opening of some closed coal mines due to higher prices, but we remain cautious about these regions.

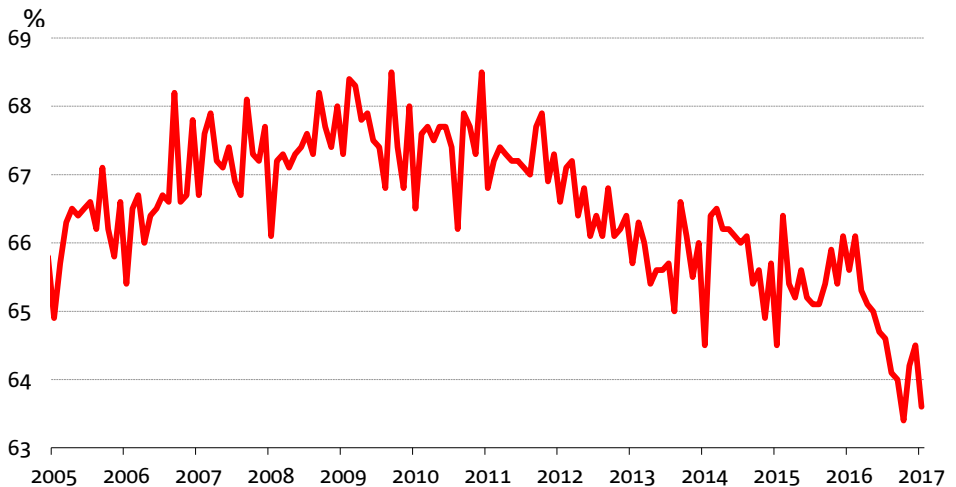
What is concerning is the sharply lower participation rate, which has masked the problem of falling total employment in the state.

### CHART 13: UNEMPLOYMENT RATE, SELECTED REGIONS

12-month moving average, %



### CHART 14: PARTICIPATION RATE



# POPULATION

## Population growth improves but remains below national average

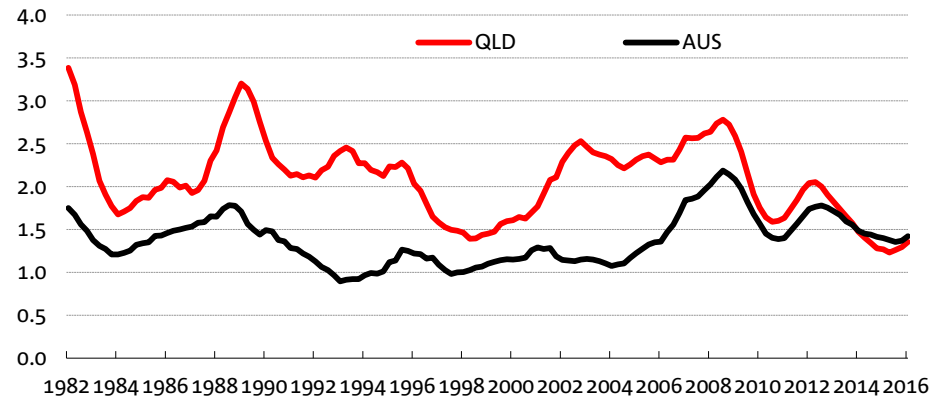
Population growth has picked up in Queensland, however still remains below national average. A fall in net overseas migration has been the biggest detractor from population growth. As a number of large resources projects finished construction, the number of temporary overseas workers declined, although that trend seems to have stabilised. Promisingly, net interstate migration has started picking up again, possibly helped by relative housing affordability and the gradually improving labour market.

The declining share of young working age adults in Queensland's total population remains worrying, as young people move to the southern states in search of better employment opportunities. If this continues, it could be negative for the state's productivity.

Given the above mentioned labour market conditions, net interstate migration into Victoria continues to surpass those to Queensland.

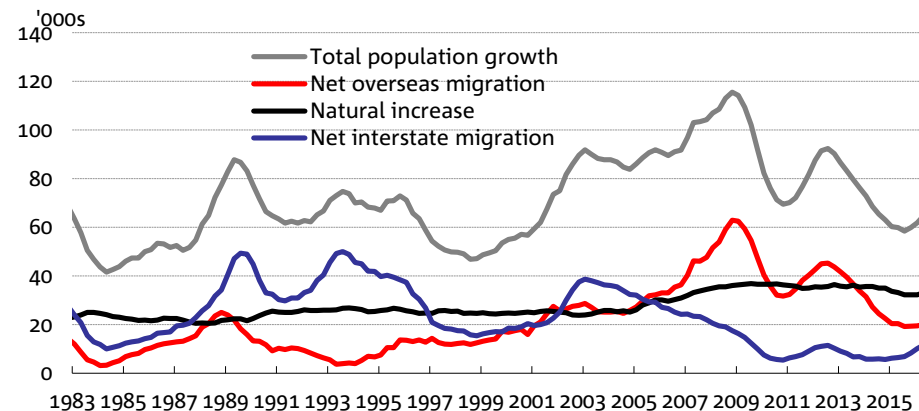
**CHART 15: POPULATION GROWTH, QUEENSLAND AND AUSTRALIA**

%, year on year



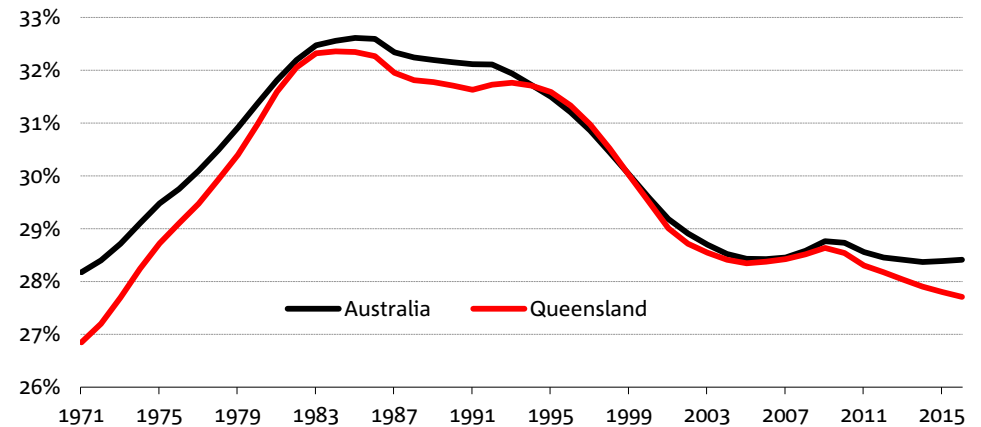
**CHART 16: QUEENSLAND POPULATION GROWTH**

(000s, over the year)



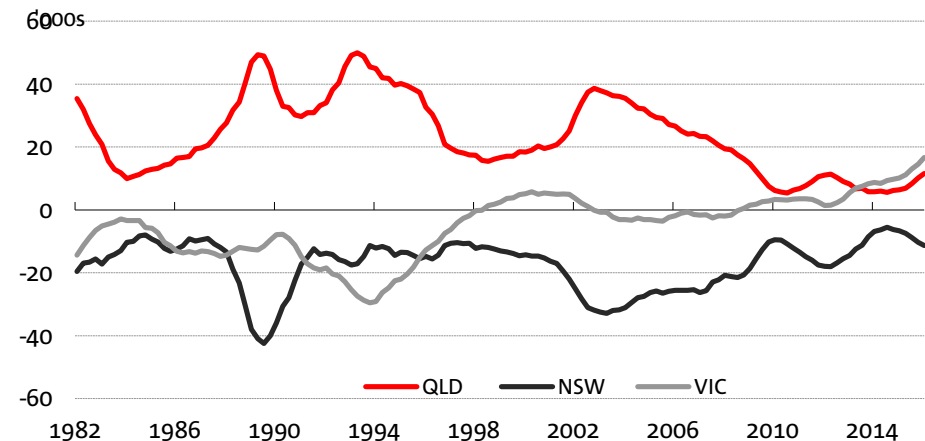
Source: ABS

**CHART 17: SHARE OF POPULATION AGED 20 TO 39**



**CHART 18: NET INTERSTATE MIGRATION**

(000s, over the year)



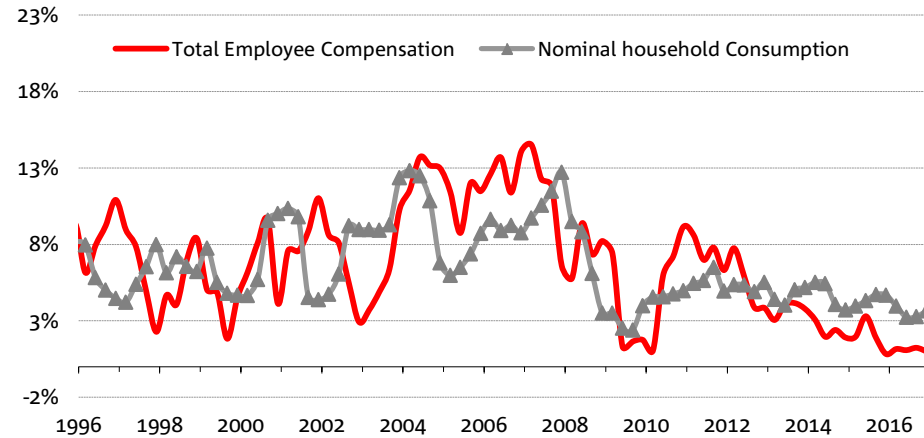
# HOUSEHOLD CONSUMPTION

## Household consumption likely to receive boost from higher incomes

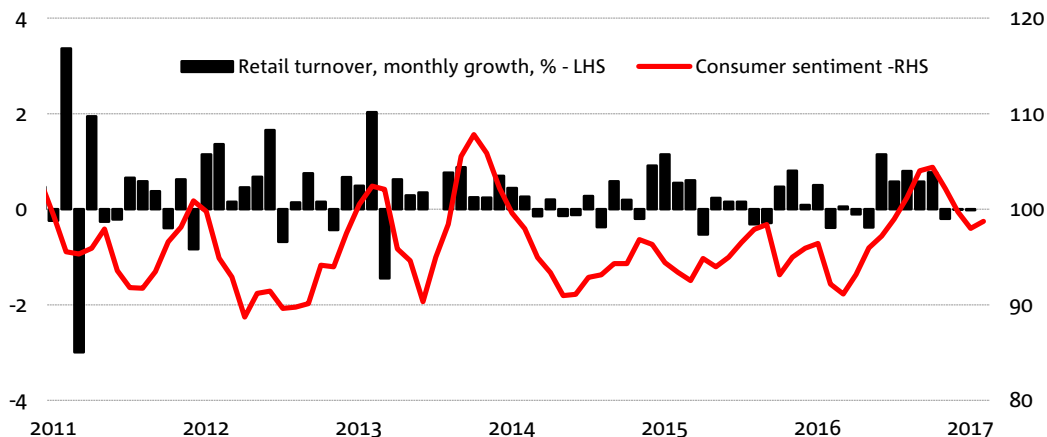
Labour income growth has been subdued in recent years, but has shown signs of improvement in 2016, as the state's labour market slowly improves. It is hoped the higher (albeit still moderate) growth in household income will eventually translate to improved consumer sentiment and higher consumption growth.

There have been initial signs of improving sentiment and higher retail spending growth, especially in the second half of 2016.

**CHART 19: TOTAL EMPLOYEE COMPENSATION & HOUSEHOLD CONSUMPTION**  
Growth (YoY %)



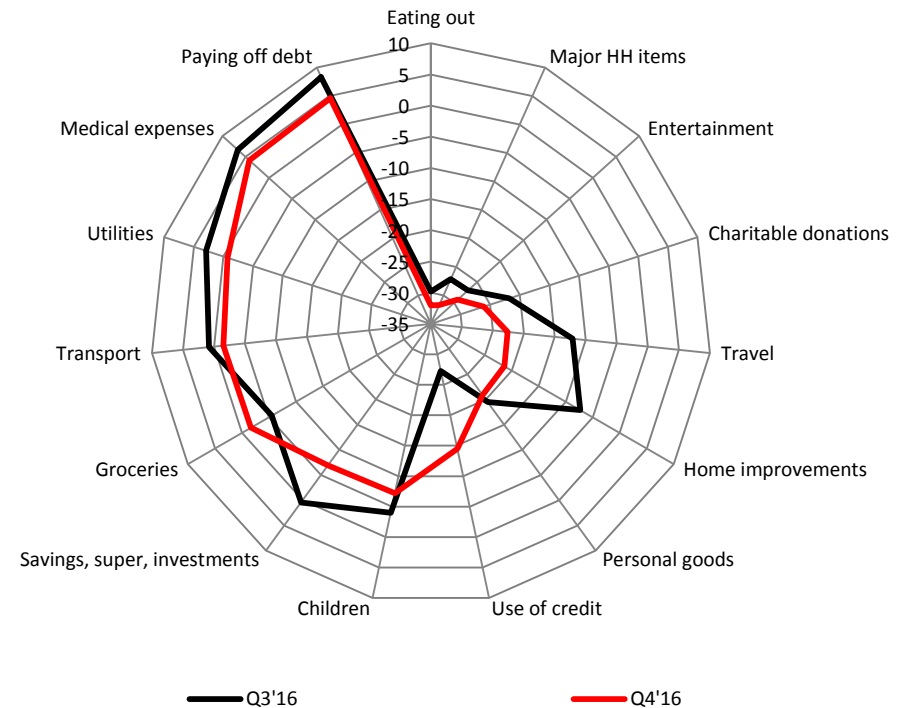
**CHART 20: RETAIL TURNOVER GROWTH AND CONSUMER SENTIMENT**



Source: ABS, NAB Consumer Anxiety Survey

The latest Q4 NAB Consumer Anxiety Survey shows that households remain cautious. They are still focussed on paying off debt and spending on essentials including medical expenses and utilities, while cutting back on discretionary spending including entertainment, charities, travel and home improvements.

**CHART 21: CHANGES IN SPENDING BEHAVIOUR, NET BALANCE**  
NAB Consumer Anxiety Survey, Q4 2016



# NAB CUSTOMER SPENDING BEHAVIOURS

## Spending growth in regional areas stronger than in Brisbane metro

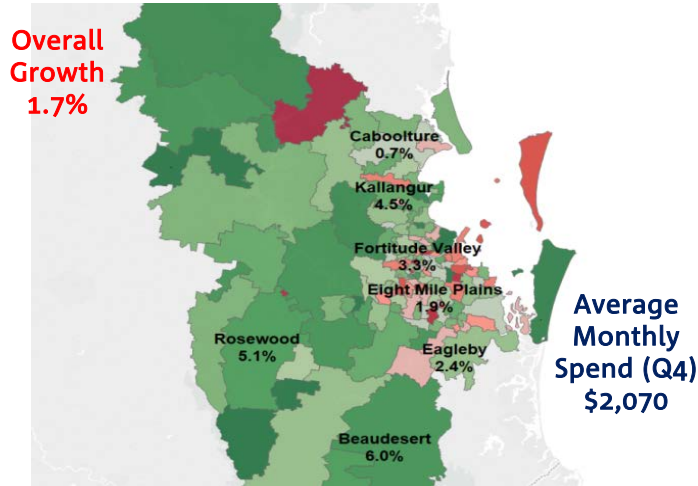
By postcode, overall spending growth in Brisbane metro was fastest in Riverview 4303 (19.5%), Belmont 4153(11.8%), Toogoolawah 4313 (11.5%) and Kalbar 4309 (10.0%).

Spending growth in regional QLD was fastest in Kenilworth 4574 (52.1%) on the Sunshine Coast, Clifton 4361(44.3%) in the Darling Downs region, Toowoomba 4364 (37.0%) and Woorabinda 4712 (30.7%).

Customer spending growth in the Brisbane metro area was fastest for Accommodation, Cafes, Pubs & Restaurants(11.7%). Customer spending in Regional QLD was fastest for Wholesale Trade (18.1%).

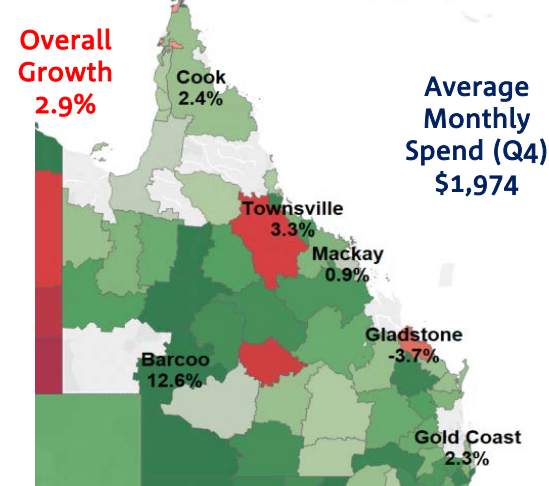
### CHART 22: GREATER BRISBANE METRO AREA

Year-ended growth to Q4 2016, postcode level shown as QLD has large LGAs



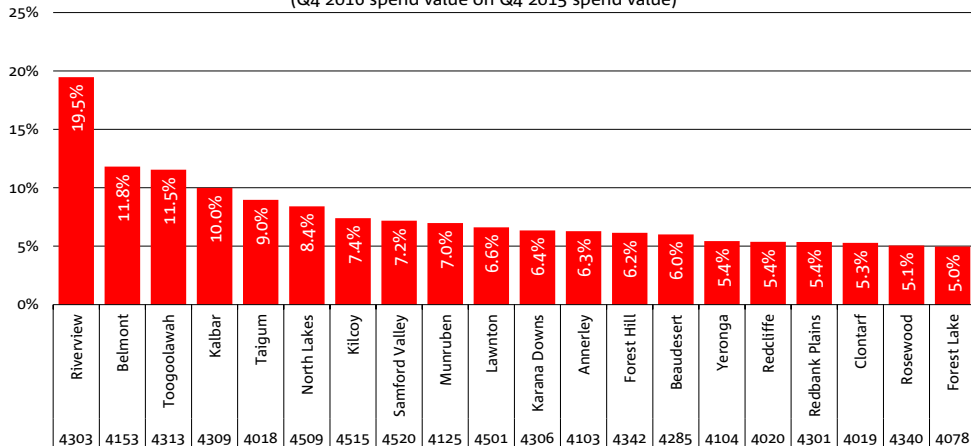
### CHART 24: REGIONAL QLD (EX METRO)

Year-ended growth to Q4 2016



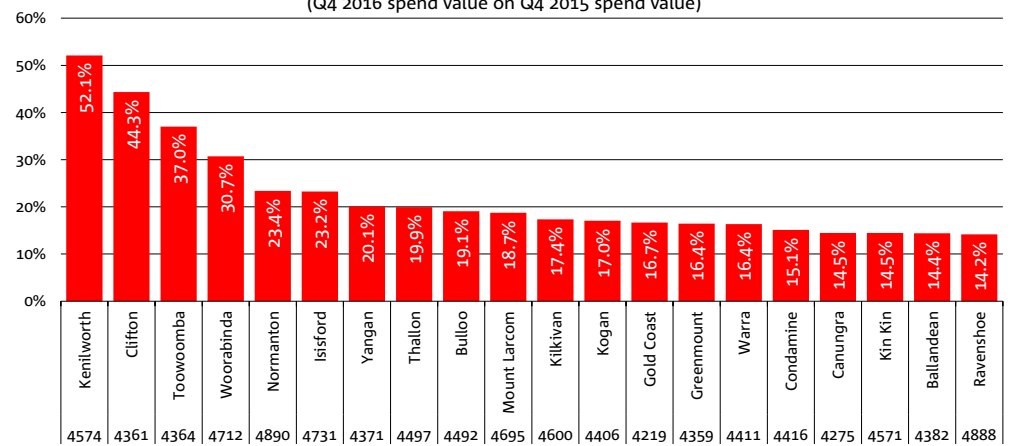
### CHART 23: TOP 20 GROWING METRO POSTCODES FOR SPENDING

Top 20 Postcodes by Spend Growth: Brisbane Metro  
(Q4 2016 spend value on Q4 2015 spend value)



### CHART 25: TOP 20 GROWING REGIONAL POSTCODES FOR SPENDING

Top 20 Postcodes by Spending Growth: QLD Regional  
(Q4 2016 spend value on Q4 2015 spend value)





# BUSINESS SECTOR

## Non-mining business showing signs of recovery

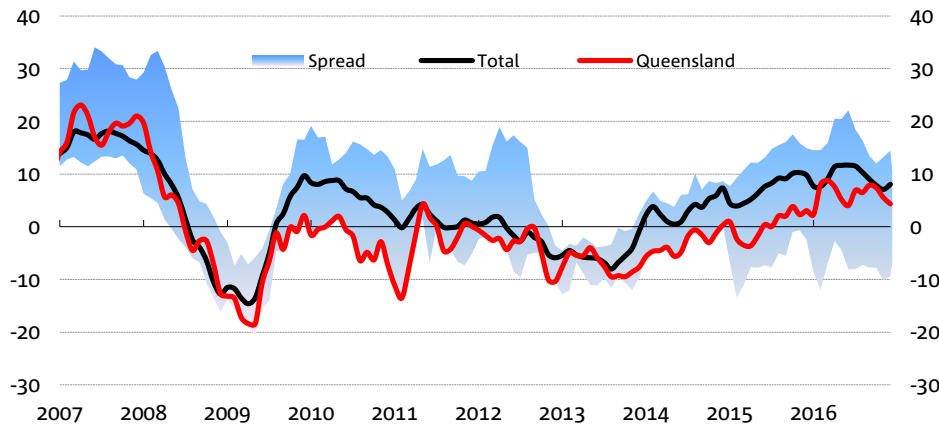
Private investment declined by 13.2% in 2015-16, as three large LNG projects finished construction and low commodity prices are limiting new resources investment. Since then, business conditions in Queensland according to the NAB Business Survey have stabilised somewhat, as the non-mining economy slowly recovers post the mining investment boom.

Business conditions were positive for most industries, while mining reported negative conditions and confidence despite higher commodity prices.

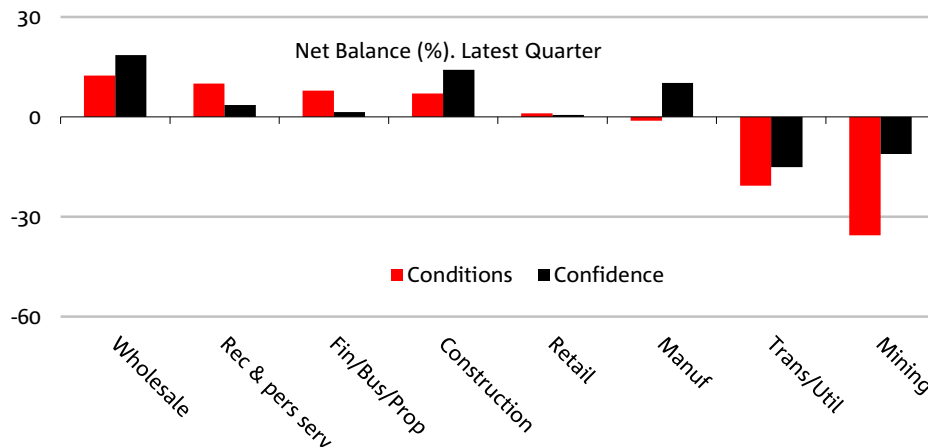
However, there remains significant spare capacity in the economy, as the NAB Survey capacity utilisation measure remains below national average.

Encouragingly, in the non-residential sector, building approvals have increased for retail/wholesale, offices and warehouses. Brisbane office vacancy rates have also fallen back since beginning of the year. NAB's Q4 2016 commercial property survey showed market sentiment was at its highest since the survey began in early 2010.

### CHART 26: BUSINESS CONDITIONS (NET BALANCE) & SPREAD

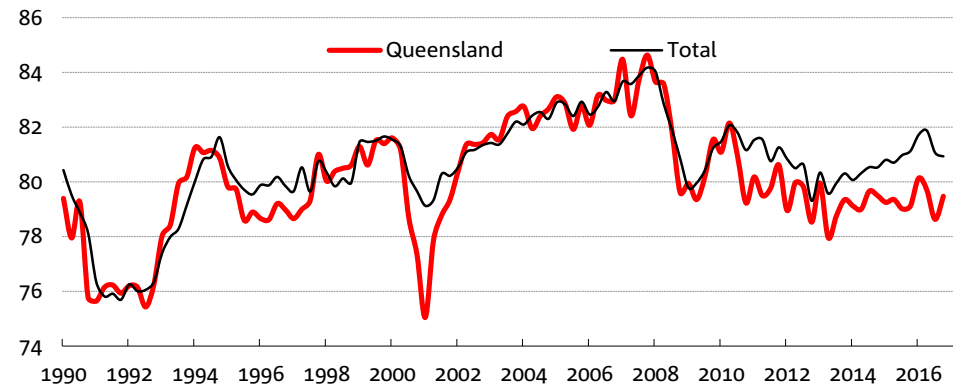


### CHART 27: NAB BUSINESS SURVEY INDUSTRY RESULTS, Q4 2016

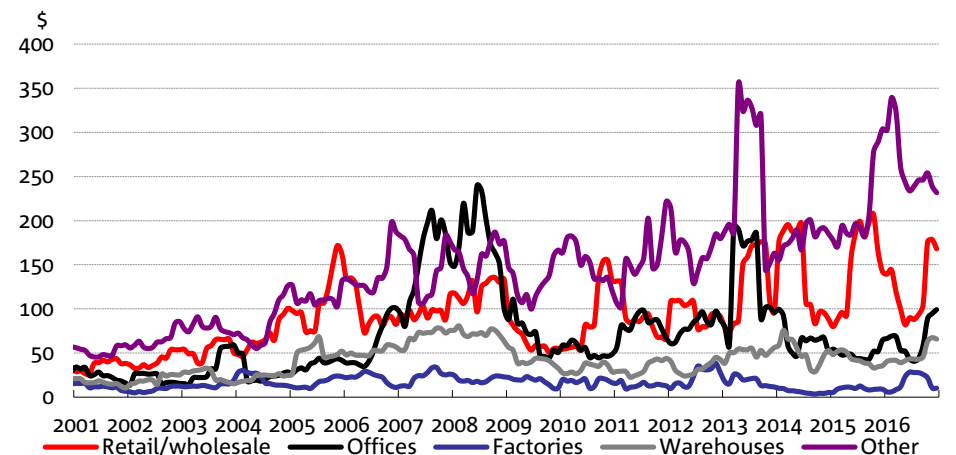


Source: ABS, NAB Business Survey

### CHART 28: NAB BUSINESS SURVEY - CAPACITY UTILISATION (%)



### CHART 29: NON-RESIDENTIAL BUILDING APPROVALS



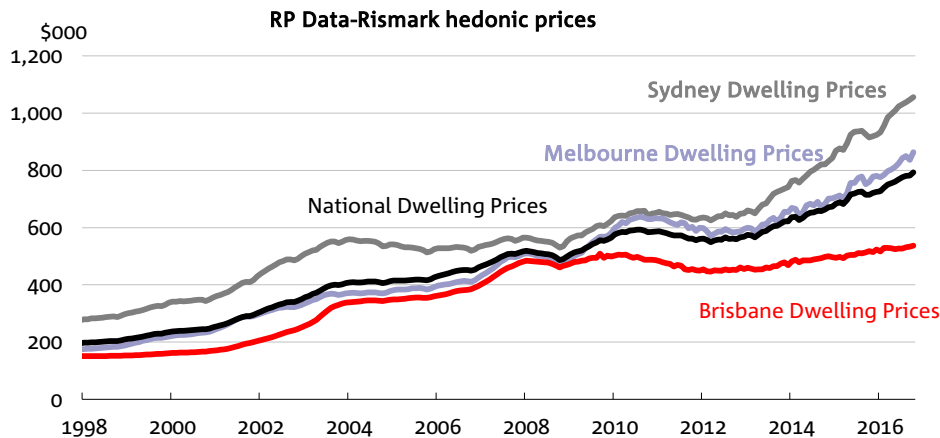
# DWELLING INVESTMENT

## Higher yields and low interest rates support strong dwelling investment

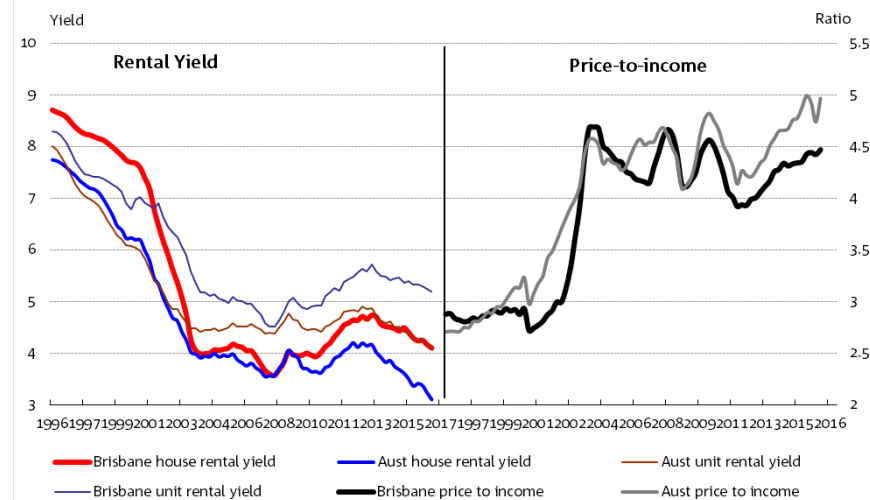
The low interest rate environment and the relative affordability of Queensland dwellings have spurred strong growth in dwelling investment in the state.

Compared to Sydney and Melbourne, who have enjoyed spectacular growth in housing prices, Brisbane houses and units appear attractive to both interstate and international investors given the higher rental yields and lower price to income ratios.

**CHART 30: CAPITAL CITY DWELLING PRICES**



**CHART 31: RENTAL YIELDS AND PRICE TO INCOME RATIOS**

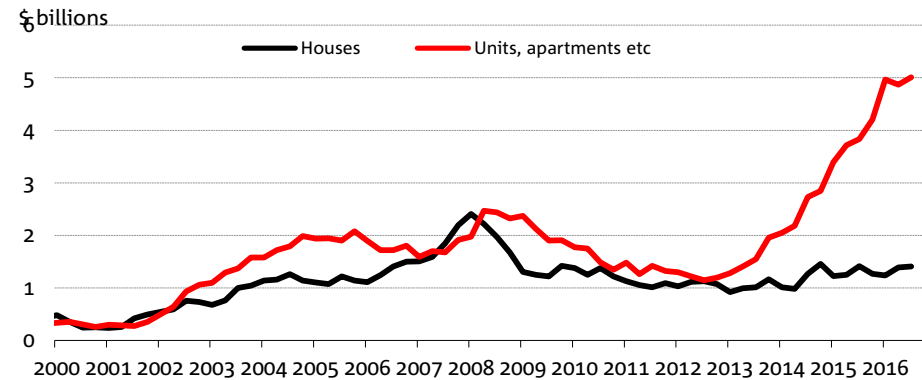


Source: ABS, RP Data

Most of the new investment in dwelling seems to be concentrated in high density units and apartments in south east Queensland, while investment in new houses remains steady.

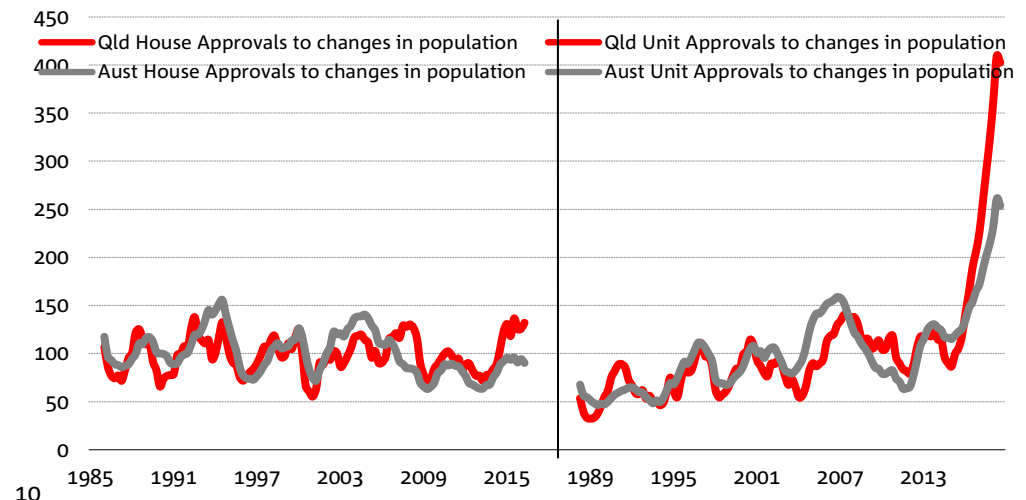
As a result, while the ratio of house approvals to the changes in population has only increased moderately, the ratio of unit approvals to population growth has increased dramatically, even more so than national average. This could pose risks to the unit price outlook and limit further growth in dwelling investment.

**CHART 32: VALUE OF WORK YET TO BE DONE BY DWELLING TYPE**



**CHART 33: BUILDING APPROVALS RELATIVE TO POPULATION**

(Long-run average = 100)



# HOUSING MARKET

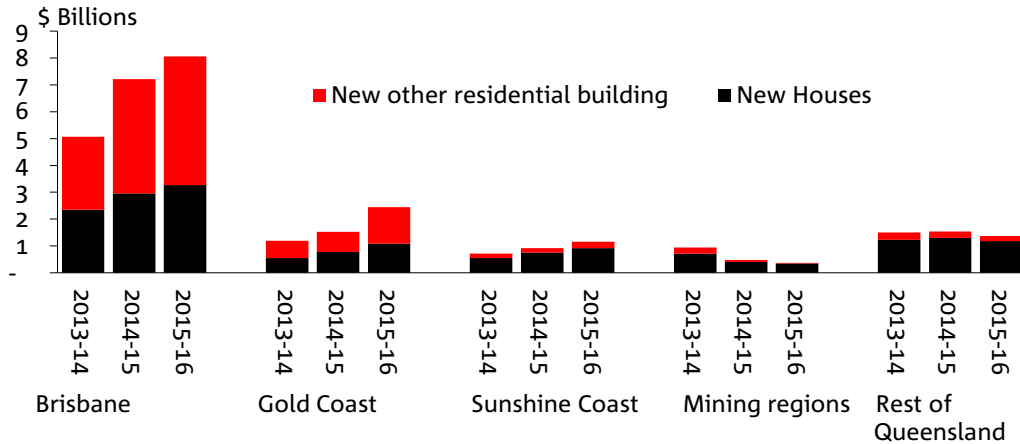
## Significant new apartment supply poses risks to price growth

Most of the new building approvals have been higher density dwellings and concentrated in Brisbane and the Gold Coast. Mining regions, on the other hand, have experienced declining levels of building approvals due to poor economic and population growth. While Brisbane houses continue to enjoy positive price growth, unit values have shown negative growth. Regional house price growth is also lacklustre.

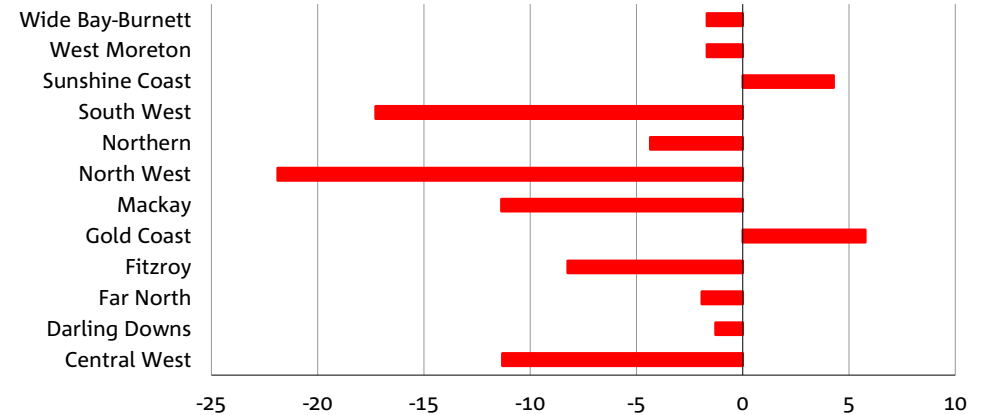
The Q4 NAB Residential Property Survey shows most respondents expect house price growth in Queensland to continue, but remain below national average. However, risks remain around the price outlook for units and apartments, especially in the Brisbane CBD, where significant building activity has been occurring.

NAB forecasts the Brisbane hedonic house prices to rise by 1.7% in 2017, whereas unit prices could decline by 1.8%.

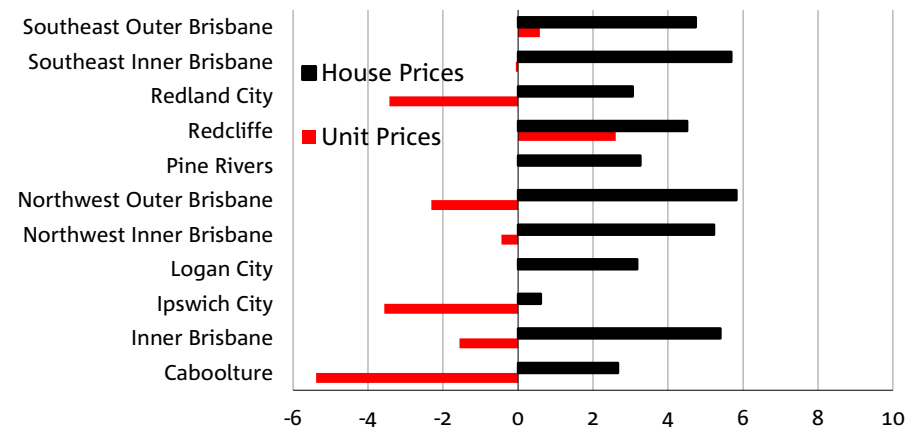
### CHART 34: VALUE OF BUILDING APPROVALS, BY REGION



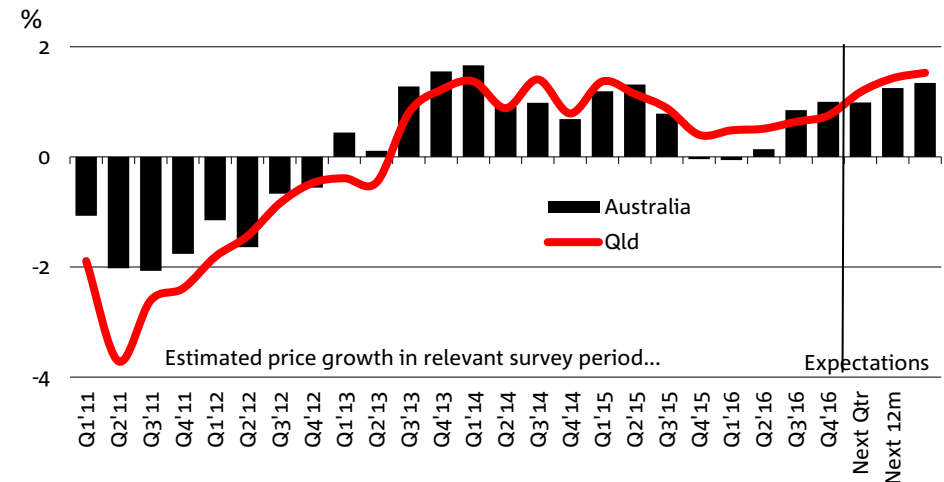
### CHART 36: REGIONAL QUEENSLAND - MEDIAN HOUSE PRICE GROWTH (year to Q3 2016)



### CHART 35: BRISBANE - MEDIAN PROPERTY PRICE GROWTH (year to Q3 2016)



### CHART 37: NAB RESIDENTIAL PROPERTY SURVEY - HOUSE PRICE EXPECTATIONS



Source: ABS, RP Data, NAB Residential Property Survey



# TOURISM

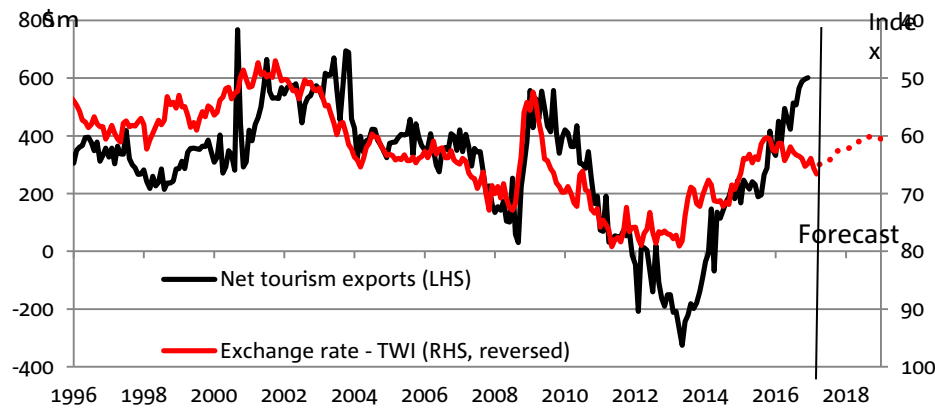
## Tourism to improve as lower currency provides help

Queensland's tourism and education exports are expected to improve further, given our forecast for a lower AUD through 2017 and the rising middle class in Asia. New flight routes between Asia and Queensland, such as direct flights from Hong Kong to Cairns and the Gold Coast, are expected to attract more international visitors. In addition, the Commonwealth Game to be held on the Gold Coast in April 2018 will further boost tourist numbers to the state.

For domestic tourism, while mining-related travel has been on the decline, holiday visits to the sunshine state should be supported by the lower currency. As Chart 40 shows, domestic arrivals to the Gold Coast and Cairns airports have been improving healthily.

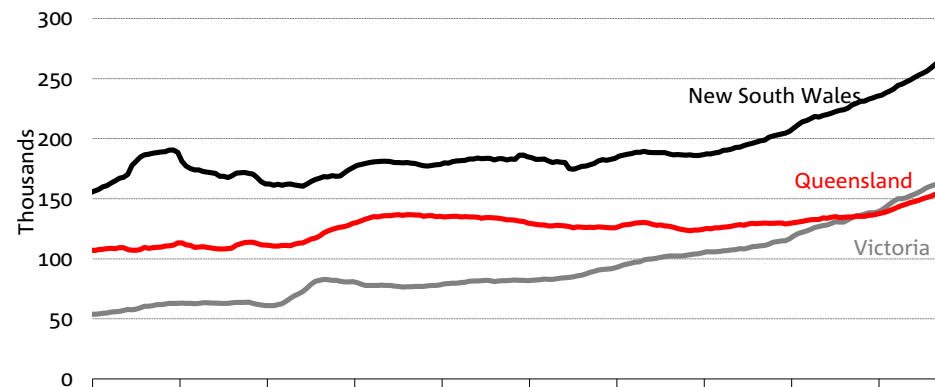
For tourism accommodation, bed occupancy rate in Queensland has been improving, showing improving demand for tourist accommodation in the state.

### CHART 38: NATIONAL TOURISM EXPORTS & THE AUSTRALIAN DOLLAR



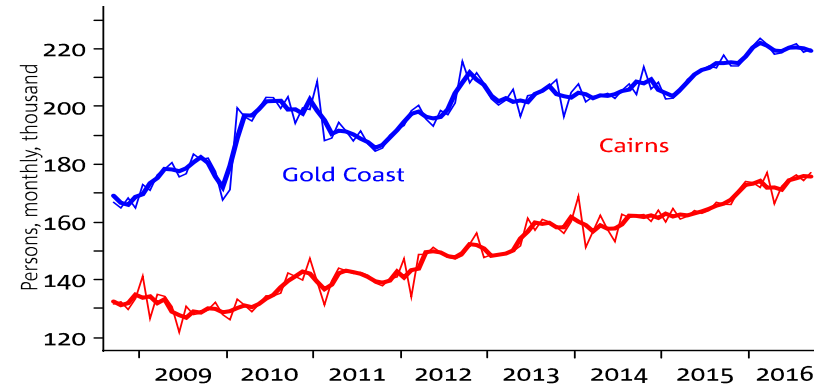
### CHART 39: SHORT-TERM INTERNATIONAL VISITORS

state where spent most time



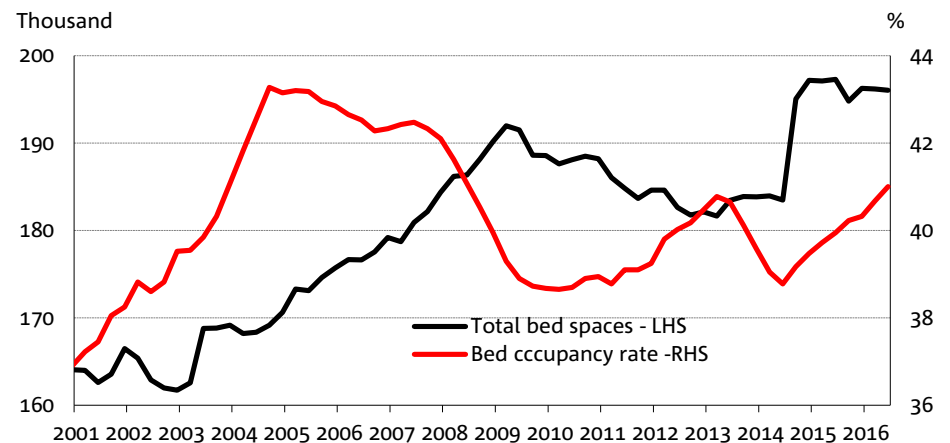
Source: ABS, RBA, BITRE, NAB, Macrobond

### CHART 40: DOMESTIC ARRIVALS INTO TOURIST AIRPORTS



Source: National Australia Bank, Macrobond

### CHART 41: QUEENSLAND TOURIST ACCOMMODATION



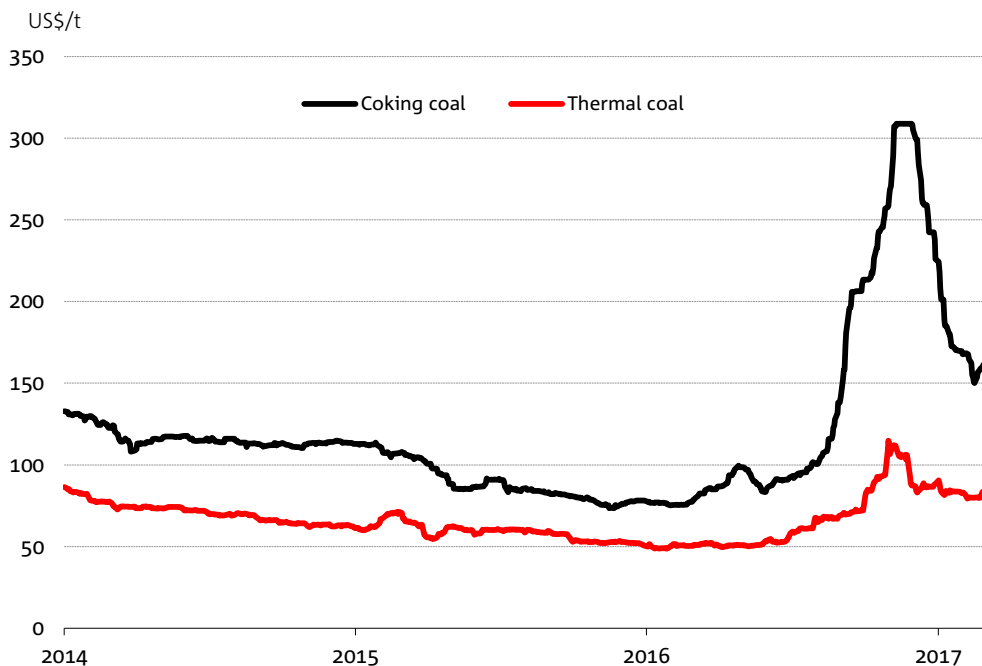
# EXPORTS

## Surge in coal prices boost income growth but export volumes remain steady

International coal prices increased sharply in the second half of 2016, following introduction of restrictions by Chinese authorities on the domestic coal industry in early 2016 – effectively cutting supply by around 15%. Queensland coal exports though did not increase immediately due to the previous closures of high cost mines and weather and transport disruptions in September. Export volumes in 2015-16 were marginally higher than in 2014-15, and are expected to grow modestly in 2016-17 and subsequent years as some closed mines are re-opened.

However, the price rally was more driven by supply constraints rather than improving demand fundamentals. Following an easing of China's coal mining restrictions in mid November, spot prices have already started to fall in December. As a result, we expect hard coking coal prices to settle closer to \$US150/tonne by the end of 2017 and \$US100/tonne by the end of 2018.

### CHART 42: SPOT COAL PRICES

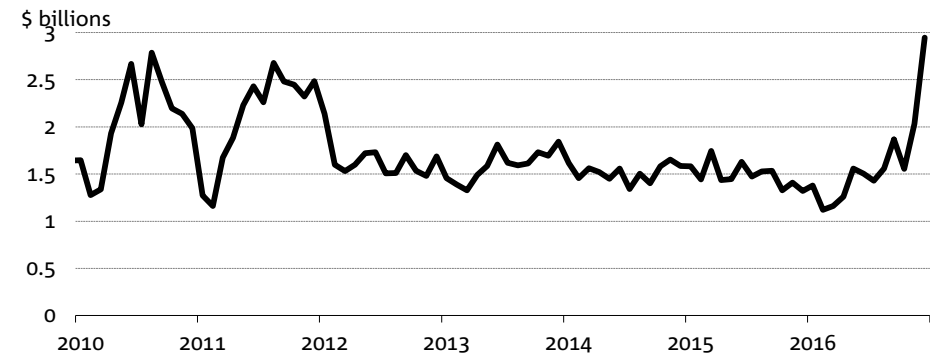


Source: ABS, Bloomberg

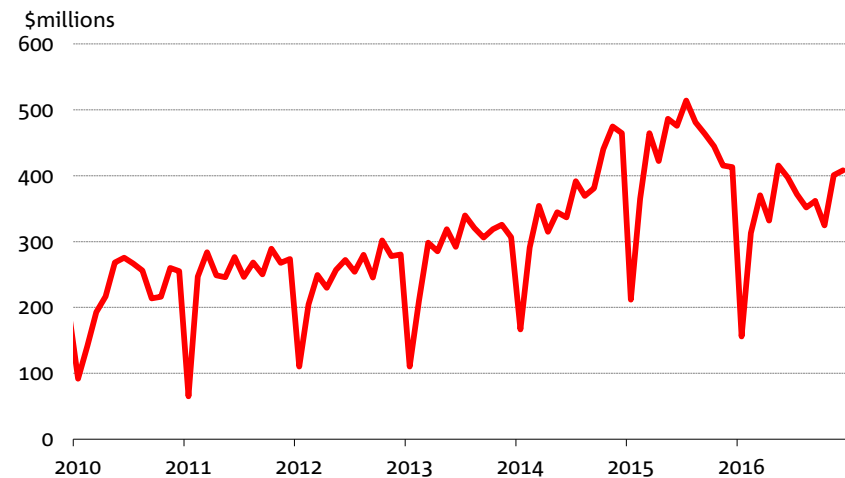
The surge in prices have provided a boost to state royalties and company profits. However as the price rally is believed to be temporary, it is unlikely to spur further mining investment, and employment growth beyond the re-starting of previously closed mines.

Better rainfall conditions have driven beef restocker interest after several dry years, which could limit beef production and exports in 2016-17, but could support exports in the future. The better climatic conditions have also seen crop productions increase to record levels.

### CHART 43: QUEENSLAND COAL EXPORTS, VALUE



### CHART 44: QUEENSLAND BEEF EXPORTS, VALUE



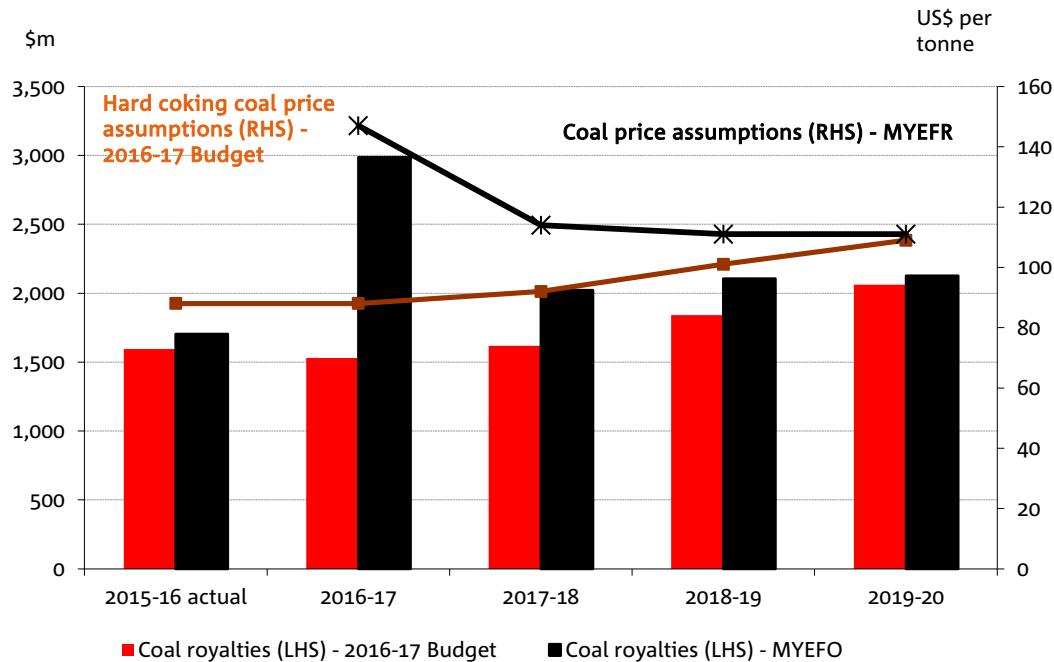
# FISCAL OUTLOOK

## Budget receives temporary boost from surge in coal prices

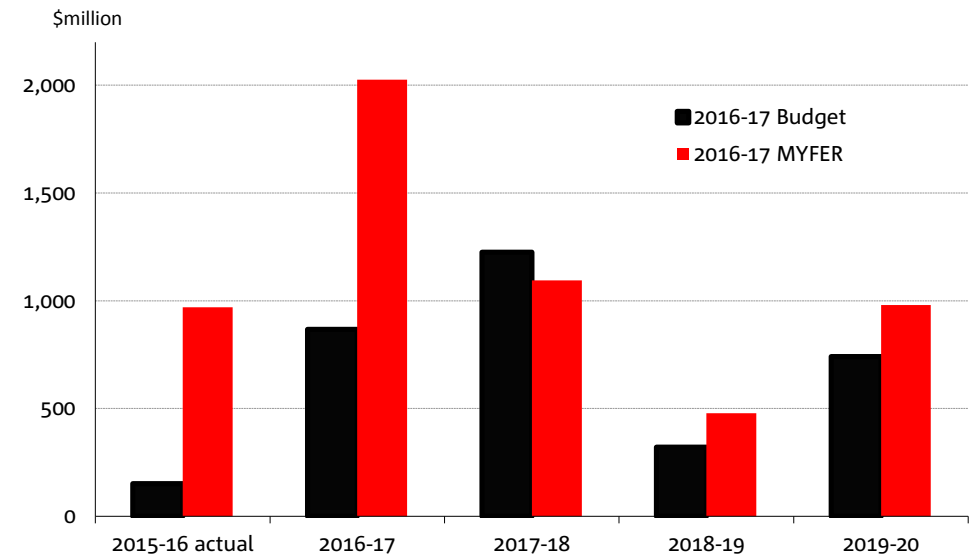
A surge in coal prices since the 2016-17 Budget has caused a significant upward revision to royalties revenue, up \$1.4 billion since the Budget for 2016-17, and to a lesser extent for 2017-18 (\$382 million) and 2018-19 (\$263 million). It is assumed by Queensland Treasury that hard coking coal price peaked in December 2016 and would start declining gradually as supply constraints ease, to a medium term price of \$US111/tonne by 2018-19.

The surge in coal prices and the resultant stronger royalties revenue have resulted in an operating surplus of \$970 million in 2015-16, \$1.02 billion higher than expected. The biggest improvement in net operating balance is expected in 2016-17 (\$1.16 billion higher than Budget estimate). From 2017-18, the surge in coal prices is assumed to have largely reversed and the increase in royalties will be smaller. In 2017-18, higher royalties revisions are offset by lower state tax estimates (including transfer duty, payroll tax and gambling taxes) and additional expense measures (including expenditure in the lead up to the Commonwealth Games in 2018), resulting in a lower surplus estimate. Surpluses are expected for the rest of the forward estimates.

### CHART 45: FORECAST COAL PRICE ASSUMPTIONS AND ROYALTIES



### CHART 46: GENERAL GOVERNMENT NET OPERATING BALANCE



Source: Queensland 2016-17 Budget, 2016-17 Mid Year Fiscal and Economic Review

# SEMI GOVERNMENT AND CREDIT OUTLOOK

## Small improvement in net debt

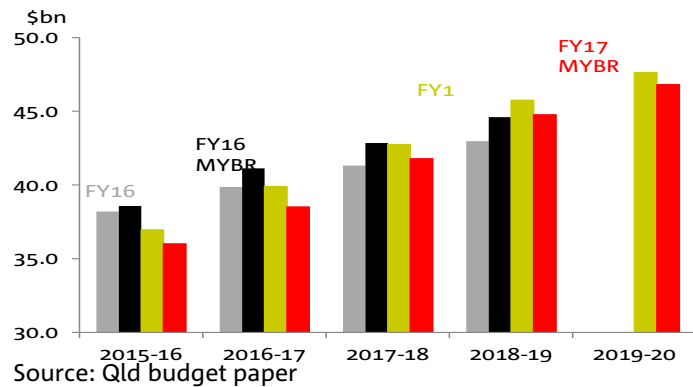
The MYBR showed a slightly better net debt profile. There were no major changes to the existing “Debt Action Plan” and the capex program remained at \$40bn (\$8.1-\$9.5bn pa). Net debt is expected to rise from \$38.5bn to \$46.8bn by 2019-20.

Qld’s debt level remains one of the highest amongst the states but S&P recognises that it has probably peaked. Qlds credit metrics remain

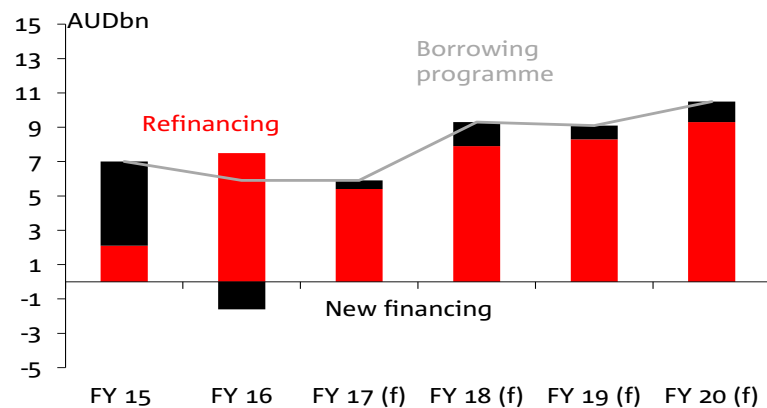
consistent with a AA+ rating.

Following the MYBR, QTC revised lower its funding program by \$1.4bn to \$5.9bn. As at the end of February QTC was 91% through its 2016-17 borrowing programme.

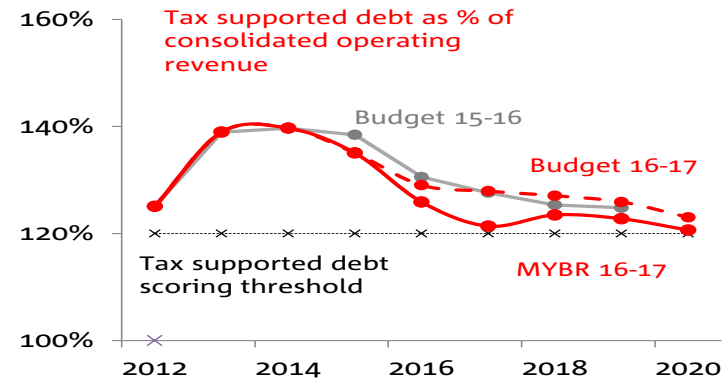
### CHART 47: QLD NON-FINANCIAL PUBLIC SECTOR NET DEBT



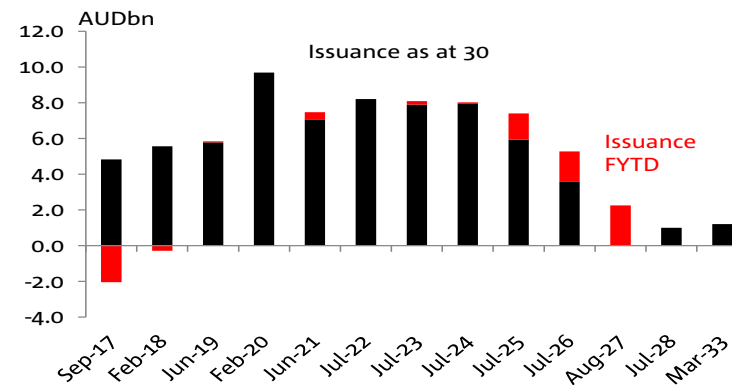
### CHART 48: QTC BORROWING PROGRAM



### CHART 49: S&P CREDIT METRIC: TAX SUPPORTED DEBT/REVENUE



### CHART 50: QTC TERM BONDS OUTSTANDING



# FORECASTS BY STATE AND TERRITORY:

*Queensland the strongest state in terms of GSP in 2016-17*

NAB's economic forecasts by state and territory are below. For a summary of the outlook by state, please see the [States Handbook – Overview](#) which contains links to the detailed handbook for each state and territory.

## REAL GROSS STATE PRODUCT AND UNEMPLOYMENT RATE FORECASTS

Annual average

NAB growth and unemployment rate forecasts for the states								
	Gross State Product YoY				Unemployment Rate			
	14-15	15-16	16-17f	17-18f	14-15	15-16	16-17f	17-18f
NSW	2.6	3.5	2.7	2.9	5.9	5.4	5.1	5.3
VIC	2.6	3.3	2.7	2.9	6.4	5.9	5.7	5.7
QLD	1.2	2.0	3.5	3.5	6.5	6.2	6.2	5.8
SA	2.0	1.9	0.8	2.0	6.9	7.3	7.0	7.0
WA	3.6	1.9	0.5	2.8	5.4	6.0	6.5	6.3
TAS	1.3	1.3	1.0	2.0	6.9	6.5	6.5	6.5
NT	2.0	2.7	1.5	5.0	4.2	4.2	4.0	4.8
ACT	1.3	3.4	2.3	2.5	4.5	4.5	4.3	4.3
<b>Australia</b>	<b>2.4</b>	<b>2.7</b>	<b>2.1</b>	<b>3.0</b>	<b>6.2</b>	<b>5.9</b>	<b>5.7</b>	<b>5.7</b>

## HEDONIC HOUSE PRICE FORECASTS\*

Through the year growth to Q4

	2013	2014	2015	2016	2017
Sydney	15.2	13.4	11.5	16.7	4.5
Melbourne	8.5	8.4	11.7	15.1	5.6
Brisbane	5.3	5.2	4.3	4.0	1.7
Adelaide	3.0	4.5	-0.3	4.5	1.5
Perth	10.2	2.1	-3.8	-4.4	-2.7
Hobart	2.9	3.3	-1.6	11.7	3.5
Cap City Avg	9.9	8.4	7.8	11.6	3.4

Source: ABS, CoreLogicNAB Economics

## HEDONIC UNIT/APARTMENT PRICE FORECASTS \*

Through the year growth to Q4

	2013	2014	2015	2016	2017
Sydney	11.6	8.3	11.3	9.6	1.0
Melbourne	8.7	1.1	6.9	1.7	-2.7
Brisbane	3.5	1.2	1.8	-0.2	-1.8
Adelaide	0.6	2.5	1.4	1.1	0.7
Perth	6.3	1.9	-3.5	-3.2	-3.8
Hobart	-5.1	5.9	8.6	6.7	0.6
Cap City Avg	9.0	5.1	7.9	5.9	-0.8

SOURCE: CoreLogic, NAB Economics