2 Economic performance and outlook

Features

- A range of global, national and local factors are expected to see Queensland's Gross State Product (GSP) growth ease to an estimated 2¾% in 2018-19.
- Global economic conditions have deteriorated substantially since early 2018, with a slowdown in China's domestic economy, escalation of trade tensions between the United States (US) and China, and uncertainty surrounding Brexit resulting in a slowing of global growth in late 2018. These trends have intensified in early 2019.
- Nationally, the weaker global outlook and sharper than expected slowdown in housing have led to an easing in economic growth. As a result, the Reserve Bank of Australia (RBA) has downgraded forecasts for national growth and cut the cash rate to 1.25%.
- The easing in Queensland's economic growth in 2018-19 also reflects the impact of the North Queensland floods, with losses in economic output estimated to be around ¼ percentage point of GSP, spread across 2018-19 and 2019-20.
- The ongoing decline in dwelling investment and the flow-on impacts to consumption, as well as a moderation in business investment, have constrained growth in the domestic economy. However, the commencement of new metal mines and continued strong growth in education exports are expected to drive faster growth in overseas exports in 2018-19.
- Queensland's economic growth is forecast to strengthen to 3% in 2019-20, underpinned by a modest pick-up in domestic activity as business investment improves, as well as some recovery in regions and sectors impacted by the floods.
- Compared with both Australian Treasury and RBA forecasts, 2019-20 is expected to be the third consecutive year where Queensland growth outstrips national economic growth.
- As reflected in revenue forecasts, the softer global and national outlook, sharper than expected slowdown in housing and moderation in employment growth are expected to impact growth in key government revenues, including GST, transfer duty and payroll tax.
- From 2020-21 onwards, economic growth is expected to remain solid, at around 2¾% per annum, with a more balanced contribution from all major components across the economy.
- Strong GSP growth in 2017-18 saw employment growth of 4.1%, the strongest in more than a decade and the largest rise (97,700 persons) in any year in the State's history.
- However, in line with more subdued domestic activity, employment growth is expected to return to more sustainable rates of 1½% in 2018-19 and 1¼% in 2019-20.
- Similar to recent years, variations in employment growth are expected to be mostly absorbed by changes in participation, seeing the unemployment rate stabilise around 6%.
- Beyond 2019-20, as domestic activity strengthens, labour market conditions are set to improve modestly, with a strengthening of jobs growth and the unemployment rate edging lower to 5¾% by the end of the projection period.

2.1 International conditions

Following a strengthening in 2017, global growth remained robust for most of the first half of 2018. At the time, the International Monetary Fund (IMF) maintained a positive outlook for the international economy. In the second half of 2018, an escalation of US-China trade tensions, a slowdown in China's domestic economy and the uncertainty related to Brexit led to a downgrade to global growth forecasts and the outlook for industrial production in several key economies.

As of April 2019, the IMF had subsequently downgraded growth forecasts for 2019 (by 0.4 percentage point) and 2020 (by 0.1 percentage point) compared with their October 2018 outlook.

Growth in industrial production among Queensland's major trading partners, which drives their demand for Queensland's energy and mineral products, weakened over the course of 2018 and growth is expected to remain moderate in coming years (Table 2.1).

Table 2.1 Queensland's major trading partners' industrial production outlook[1]

	Actual		Forecasts				
	2017	2018	2019	2020	2021	2022	2023
Major trading partners[2]	**4.3**	**3.3**	**2.9**	**3.3**	**3.2**	**3.4**	**3.4**
China	6.5	6.2	5.8	5.6	5.1	5.1	5.0
Japan	2.9	1.0	-0.1	0.6	0.7	0.8	1.1
India[3]	4.4	3.6	5.7	5.7	5.8	6.3	5.8
Korea	2.5	1.3	0.6	1.6	1.8	2.1	2.2
Eurozone	2.9	0.9	0.3	1.4	1.0	1.5	1.4
Taiwan[4]	5.3	3.9	1.1	3.2	2.9	2.9	2.7
USA	2.3	3.9	2.0	1.4	1.6	1.8	1.9

Notes:

1. Annual percentage change. 2017 and 2018 are actuals; 2019 onwards are forecasts.
2. Major trading partners include China, Japan, India, South Korea, Eurozone, Taiwan, USA, UK and NZ.
3. India's growth profile is based on an April to March fiscal year. '2017' refers to 2017-18 fiscal year.
4. Manufacturing production.

Sources: April and May 2019 Consensus Forecasts and Queensland Treasury.

China's gross domestic product (GDP) growth slowed from 6.8% in 2017 to 6.6% in 2018 and is expected to moderate further in 2019. Faced with the challenges of slowing domestic demand, US-China trade tensions and the substantial accumulation of private sector debt, China's short-term economic outlook likely depends on the effectiveness of the Chinese Government's stimulatory measures.

More broadly, trade tensions between the US and China have remained a key source of uncertainty and contributed to the softer global economic outlook. With tensions escalating in May 2019, the negative impact on industrial or manufacturing activity, particularly on the outlook for industrialised economies in Asia, is likely to be intensified during 2019.

Japan and, to a lesser degree, Korea have been particularly impacted by the increased uncertainty. Until late 2018, Japan's industrial production growth was expected to be around 2.2%-2.4% in 2019, but Japan is now forecast to record slightly negative growth in 2019.

Japan's weaker outlook may be compounded by the scheduled increase in the country's consumption tax (from 8% to 10%) as well as the peaking of Olympic Games' related construction activity. Korea's forecast industrial production growth in 2019 has also been downgraded, from around 2% to less than 1%. These downgrades have already been reflected in the slowing of coal imports into these two countries in early 2019.

In India, recent data indicate that the slowdown in industrial production is steeper than previously thought, suggesting Indian industrial production growth in 2019 may be weaker than suggested by the latest *Consensus Forecasts* (Table 2.1).

Brexit negotiations remain a key uncertainty in the United Kingdom (UK) and European Union (EU), weighing on business and consumer sentiment in recent times. The economic outlook for the UK and EU hinge largely on the outcome of these negotiations, due to be concluded before the 31 October 2019 Brexit deadline.

The impacts of the slowdown in industrial production on commodity prices have so far been uneven. While prices of industrial metals have declined over the year to mid-May 2019, supply issues have seen prices of hard coking coal and iron ore rise 15% and 38% respectively over the year. After falling from around US$85/barrel (bbl) to almost US$50/bbl in late 2018, Brent crude oil prices rebounded strongly in 2019, again due to supply and other geo-political factors.

Another significant effect of the slowdown in the global growth outlook has been the decline of long-term interest rates across many major economies, with yields on long-term government bonds falling substantially.

Industrialised economies in Asia have been the most affected by the trade tensions between China and the US. This is due to the stronger supply chain relationships between China and these economies, which has placed increased pressure on their exchange rates against the US$. These impacts are expected to continue, or possibly intensify.

2.2 National conditions

Australian Treasury estimates Australian **real GDP** growth to be 2¼% in 2018-19, strengthening to 2¾% in 2019-20 and 2020-21, with most sectors expected to contribute to growth. Rising global and domestic challenges have seen the RBA downgrade its growth outlook markedly since late 2018, to 2¼% in 2018-19 and 2½% in 2019-20.

Recent ABS *National Accounts* data, which showed GDP growth of only 0.4% (seasonally adjusted) in March quarter 2019, confirmed this weakening national trend.

Household consumption growth is expected to be subdued in 2018-19 but pick up gradually over the forecast period, supported by strengthening wage growth and solid employment growth. However, uncertainty remains around the extent to which the national housing market downturn will influence overall household consumption.

Following solid gains over the past few years, growth in **dwelling investment** has moderated recently. Falling house prices, particularly in Sydney and Melbourne, tighter credit conditions and weakening investor sentiment are providing headwinds to the dwelling investment outlook. While a solid pipeline of work yet to be done in higher-density projects will support activity in 2018-19, dwelling investment is forecast to fall in 2019-20 and 2020-21 as existing projects are completed.

After a soft result in 2018-19, growth in **business investment** is forecast to be stronger in 2019-20 and 2020-21. Following an expected fall in 2018-19, mining investment is forecast to rise in 2019-20, as firms maintain large capital stocks and sustain production levels. Despite recent business surveys indicating a softening in business conditions, improving capital expenditure intentions suggest steady growth in non-mining investment over the forecast period.

Exports growth over the short-term continues to be supported by the ramp-up in national LNG production, a return to growth in rural exports, and continued steady growth in services exports. As construction of the remaining LNG projects in Western Australia and Northern Territory reach completion, capital imports are expected to ease and keep overall growth in **imports** modest.

Australian Treasury expects national **employment** growth to slow to 2% through the year to June quarter 2019 (down from 2.7% in 2018), and to broadly match population growth in the years to June quarter 2020 and 2021. With the participation rate to remain stable, the **unemployment rate** is expected to be steady at 5% over the forecast years.

Inflation is expected to gradually return to the mid-point of the RBA target band of 2-3%, with the pick-up in **wages** growth expected to be slightly faster as economic growth strengthens and spare capacity in the labour market continues to be reduced.

2.3 Queensland conditions and outlook

After stronger than expected growth of 3.5% in 2017-18, the combination of global, national and domestic factors impacting on economic activity is expected to see GSP growth in Queensland ease to 2¾% in 2018-19 (Chart 2.1).

Ongoing moderation in dwelling investment and the associated flow-on to consumption spending, as well as a moderation in business investment, have all contributed to this constrained growth in the domestic economy.

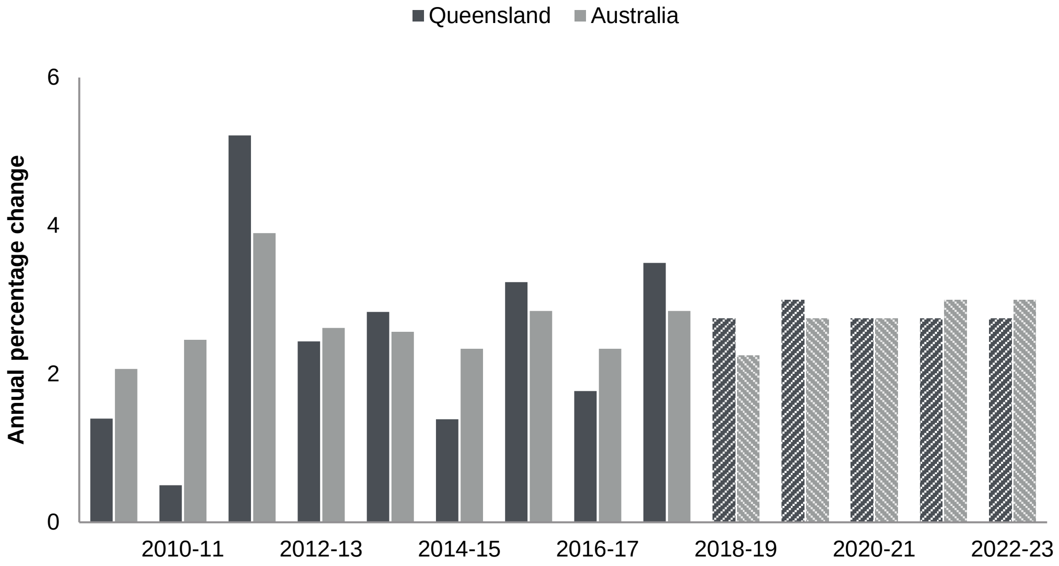
The moderation in Queensland’s economic growth in 2018-19 also reflects the impact of the recent flooding event in North Queensland, which impacted many local communities. It is estimated the floods have resulted in economic losses (that is, reduced output, not including property damage) of around ¼ percentage point of GSP, spread across 2018-19 and 2019-20.

The state-wide impact of the event compares with estimated losses of around ¾ percentage point of GSP for Severe Tropical Cyclone (STC) Debbie and 2¼ percentage points for the 2010-11 Floods and STC Yasi. Despite the impact of the recent North Queensland floods on some export sectors, commencement of new metal mines and continued strong growth in education exports are expected to drive faster growth in total overseas exports in 2018-19.

Queensland's economic growth is forecast to strengthen to 3% in 2019-20, underpinned by a modest pick-up in domestic activity as business investment returns to growth. Despite this forecast strengthening in headline growth, domestic activity is still forecast to be constrained by subdued growth in household consumption and a further decline in dwelling investment.

Compared with both Australian Treasury and RBA forecasts, 2019-20 is expected to be the third consecutive year where Queensland growth outstrips national economic growth.

Chart 2.1 Economic growth[1], Queensland and Australia



Note:

1. CVM, 2016-17 reference year, 2018-19 to 2020-21 are forecasts, while 2021-22 and 2022-23 are projections.

Sources: ABS 5206.0, Australian Government Budget 2019-20 and Queensland Treasury.

From 2020-21 onwards, economic growth is expected to remain solid, at around 2¾% per annum (Table 2.2), with a more balanced contribution from all major components of the economy.

Reflecting the State's strong economic growth, employment grew 4.1% in 2017-18, the strongest year-average growth in over a decade and the largest single-year rise (97,700 persons) in the State's history. However, subdued domestic activity is expected to see employment growth return to more sustainable rates of 1½% in 2018-19 and 1¼% in 2019-20, while the unemployment rate is forecast to stabilise at around 6%.

As employment growth returns to more sustainable rates from 2018-19, the participation rate is expected to fall, reversing some of the sharp rise recorded in 2017-18 which limited reductions in the State's unemployment rate at that time. A modestly lower participation rate is expected to limit upward pressure on Queensland's unemployment rate in the near term.

Beyond 2019-20, as domestic activity strengthens, labour market conditions are set to improve modestly, with a strengthening in jobs growth and the unemployment rate edging lower to 5¾% by the end of the projection period.

Table 2.2 Queensland economic forecasts/projections[1]

	Actual	Est. Act.	Forecasts		Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Gross state product[2]	**3.5**	**2¾**	**3**	**2¾**	**2¾**	**2¾**
Nominal gross state product	5.7	6	3¼	3½	4½	4¾
Employment[3]	4.1	1½	1¼	1½	1¾	1¾
Unemployment rate[4]	6.0	6	6	6	6	5¾
Inflation[3]	1.7	1¾	2	2¼	2½	2½
Wage Price Index[3]	2.2	2¼	2¼	2½	2½	2¾
Population[3]	1.7	1¾	1¾	1¾	1¾	1¾

Notes:

1. Unless otherwise stated, all figures are annual percentage changes.
2. CVM, 2016-17 reference year.
3. Annual percentage change, year-average.
4. Per cent, year-average.

Sources: ABS 3101.0, 6202.0, 6345.0, 6401.0 and Queensland Treasury.

Household consumption

Following a strengthening in growth to 2.3% in 2017-18, supported by strong employment and a marginal pick-up in private sector wages, household consumption growth is forecast to remain subdued in 2018-19 and 2019-20.

With employment growth to slow and wages to pick up only modestly, household disposable income growth is forecast to be moderate. Weakness in dwelling investment is also likely to constrain spending on associated household goods and furnishings, while softer house prices are expected to constrain rises in household wealth. Consumers are also likely to exercise a degree of caution amid the uncertain global and domestic economic environments.

Following subdued growth in 2018-19 and 2019-20, consumption growth is forecast to pick up gradually in subsequent years, supported by an improvement in employment and wages growth.

Dwelling investment

Overall, dwelling investment is estimated to fall 5½% in 2018-19 and to decline a further 3% in 2019-20, before returning to growth in 2020-21 (up 2¾%).

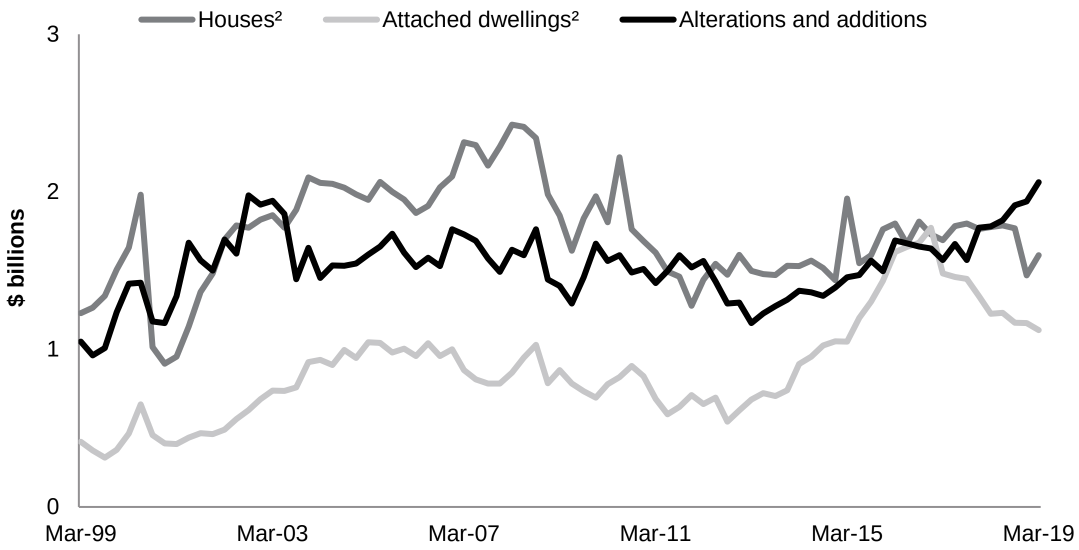
Highlighted as a key risk in the 2018-19 Mid-Year Fiscal and Economic Review (MYFER), the outlook for dwelling investment has weakened materially since late 2018, with approvals and finance commitments falling further and faster than previously anticipated. Approvals for new houses and attached dwellings have fallen 18.8% and 28.1%, respectively, in the first 10 months of 2018-19.

A range of factors have contributed to the weaker demand for new housing, including: the slowdown from the high levels of investment in apartments in previous years; a response by lenders and borrowers to tighter national lending regulations targeting investors and interest-only loans; a softer outlook for house prices, particularly in Sydney and Melbourne; and increased scrutiny of credit applications by banks, particularly in the context of the outcomes of the Banking Royal Commission.

Consequently, construction of attached dwellings (that is, units, apartments and townhouses) has continued to return to more sustainable levels following the apartment construction boom in inner Brisbane. Meanwhile, construction of detached housing (that is, houses) has also softened. Reflecting these trends, **new and used dwelling investment** is expected to decline 15½% in 2018-19 and a further 8¼% in 2019-20, before returning to modest growth in 2020-21.

Partly offsetting this decline, strong growth continues to be recorded in **alterations and additions** activity (that is, renovations), which has risen 76.6% since its trough in March quarter 2013 to reach a record high in March quarter 2019, and to be the largest individual component of dwelling investment (Chart 2.2). In an uncertain global and national economic environment, households are preferring to invest in their current homes. As a result, momentum in alterations and additions activity is expected to continue, with a strong 12½% rise in 2018-19 forecast to be followed by further rises of around 4% per annum in the next two years.

Chart 2.2 Dwelling investment, by component[1], Queensland



Notes:

1. CVM, quarterly, seasonally adjusted.
2. Work done, CVM, quarterly, seasonally adjusted.

Sources: ABS 5206.0 and 8755.0.

Business investment

Driven by investment in renewable energy projects, business investment rebounded strongly in 2017-18, making its first contribution to annual economic growth in Queensland since the peak of the LNG construction boom in 2012-13. However, business investment is expected to ease slightly in 2018-19, before returning to growth from 2019-20.

Engineering construction is expected to continue to be supported by renewable energy projects, as well as a number of resources projects either under construction or soon to commence, such as the Olive Downs and Byerwen metallurgical coal projects.

Since December 2016, 24 large-scale renewable projects have commenced operations, and a further 11 projects are financially committed or under construction in Queensland. This growth in the sector has led to significant employment gains, with the number of jobs in renewable energy increasing to 5,080 in 2017-18, a 44% growth over the year.

However, the increased uncertainty in both the global and domestic outlooks has seen mining investment more focused on maintaining or expanding the current large capital stock, rather than new major greenfield resource sector projects. This is likely to impact the outlook for engineering construction growth.

Despite strong growth in **non-residential building** investment in 2017-18, work yet to be done data suggest this component will be constrained in the near term. While accommodation projects and office buildings have supported recent activity, a lack of accommodation projects in the pipeline and elevated office vacancy rates suggest further investment is likely to be modest.

Investment in **machinery and equipment** has risen strongly in recent years. With risks to the global and domestic economic outlooks rising, many businesses are making investments in machinery and equipment to expand productive capacity, rather than committing to additional large-scale construction projects. These trends are likely to continue in the near-term, with investment in machinery and equipment also likely to be supported by recent strong growth in company profits and low lending costs for businesses.

Public final demand

Public final demand, which includes both consumption and investment spending across all levels of government, is expected to continue to grow strongly, averaging around 4% per annum over the forecast period to 2020-21.

The Queensland Government is continuing to invest in productivity-enhancing economic infrastructure and essential social infrastructure to create jobs, support Queensland businesses and drive economic growth across all regions of the State.

In this Budget, the Government has committed $49.5 billion over the next four years to fund construction of the critical infrastructure and capital works needed to rebuild and grow the State’s regions, facilitate and support business-led growth and deliver essential services to improve the quality of life enjoyed by the State’s growing population.

The Government’s capital program, including $12.9 billion in 2019-20, will directly support substantial employment and economic activity across all regions of the State.

Overseas exports and imports

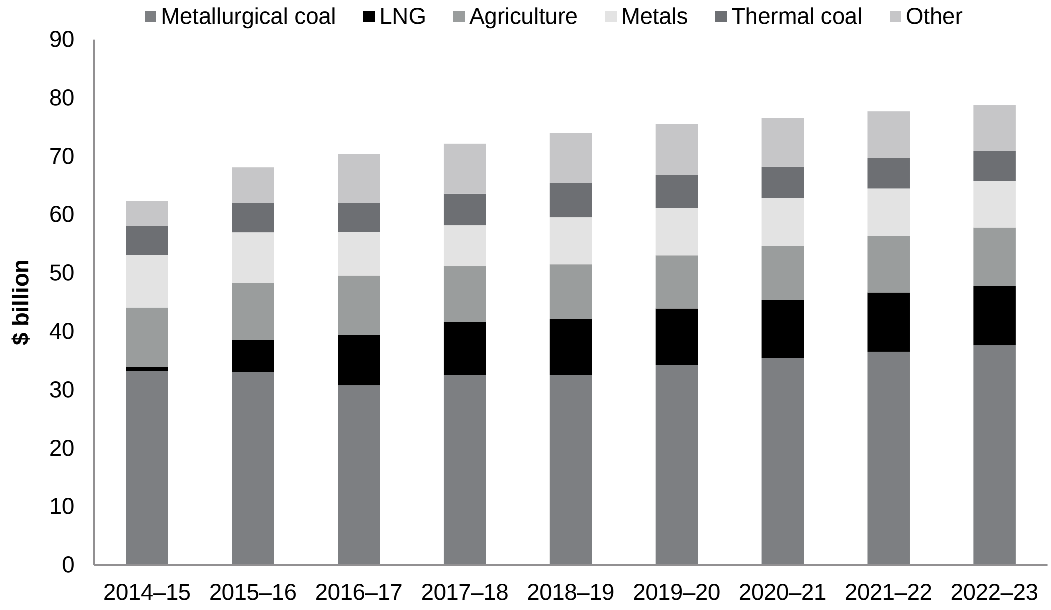
Coal export volumes are expected to grow only slightly in 2018-19. This subdued growth in 2018-19 partly reflects heightened import restrictions at Chinese ports since the end of 2018 and port disruptions at Abbot Point Coal Terminal in February following the North Queensland floods. Looking ahead, while coal export volumes are forecast to continue to grow, the rate of growth will likely be more modest than previously expected, reflecting the softer global outlook and the slowing of industrial production growth in most of the State's major coal export markets.

Importantly, around 70% of the volume of Queensland's coal exports is metallurgical coal used for steel making, whose demand has been less affected by port restrictions in China so far. Indeed, China's coking coal imports increased at an annual rate of 44% in the first four months of 2019, to 23.8 million tonnes, compared with a 24% decline in thermal coal imports over the same period.

Despite slower growth in export volumes, coal export earnings in 2018-19 have been supported by sustained high prices, with benchmark hard coking coal prices remaining high in 2018-19, partly driven by strong demand from India and supply disruptions. Meanwhile, the average thermal coal price in 2018-19 was only marginally lower than in 2017-18. This was despite benchmark spot thermal coal prices falling from around US$120/t at the beginning of the financial year to around US$72/t by late May 2019, partly in response to Chinese port restrictions and a signalling of decreasing reliance on coal fired power generation in developed economies.

Looking ahead, Queensland coal export volumes are forecast to increase at an average 1¾% per annum between 2018-19 and 2022-23. Commencement of new mining projects and some expansion of existing projects are expected to see the volume of metallurgical coal exports increase while thermal coal export volumes are forecast to decline slightly. Coal prices are assumed to gradually ease towards levels which are consistent with balancing global coal demand and supply.

Chart 2.3 Queensland's overseas goods exports[1]



Note:

1. CVM, 2016-17 reference year. 2018-19 to 2020-21 are forecasts, while 2021-22 and 2022-23 are projections.

Sources: Unpublished ABS data and Queensland Treasury.

LNG export volumes are expected to grow modestly in 2018-19, driven by new coal seam gas developments which will also provide additional supply into the east coast domestic gas market. However, further growth in LNG export volumes is not expected until at least 2020-21, when substantial new gas supply begins to come online.

After four consecutive annual falls, **metal exports** are estimated to rebound and grow by 14½% in 2018-19. This recovery reflects the commencement of new projects, including Rio Tinto's Amrun bauxite mine, MMG's Dugald River zinc mine and New Century's reprocessing operation at the depleted Century zinc mine, along with the restart of Glencore's Lady Loretta zinc mine in 2018.

The North Queensland floods impacted rail transportation of metal products from Mount Isa to Townsville. However, these impacts were temporary, with the rail line re-opening on 29 April, while some of the disruptions were mitigated by temporary increases in road haulage. Metal processors have also noted that some lost production will be caught up by the end of 2019.

For further details on the impact of recent natural disasters, including the Government's responses, refer to the supplementary Budget paper on Disaster Recovery.

Although international metal prices were lower in 2018-19, their negative impacts on export earnings were offset by a lower A$ exchange rate and a shift towards exports of metal concentrates, whose prices have been less aligned with metal prices in recent times. The ramp-up in metal production is expected to largely be completed by the end of 2019. Therefore, combined with an expected moderation in production at some existing mines due to lower ore grades, the volume of metal exports is expected to plateau by 2020-21.

Growth in **beef production and exports** have continued in 2018-19, as dry conditions persisted across many cattle regions in Queensland. An anticipated return to more favourable conditions will see restocking activity gradually increase, as challenging weather conditions have depleted herds in recent years. However, herd rebuilding in the north of the State is likely to be protracted due to local cattle losses following the North Queensland floods.

Sugar exports are expected to return to growth in 2018-19, reflecting elevated levels of sugar content in crushed cane. Drier conditions toward the end of 2018 allowed the harvest to take place over a shorter period, while sugar content was at optimal levels. A softening of sugar exports is expected in the near term, assuming a return to normal sugar content levels.

Cotton exports are expected to fall in 2018-19 as dry conditions continue to reduce the area planted to cotton. Similarly, **other crop exports** are expected to decline, reflecting a reduction in the area planted for most crops, and therefore, decreased production.

Following a sustained period of solid growth, **overseas tourism exports** are expected to ease in 2018-19. However, a competitive A$, new air routes to Asia and the Brisbane airport expansion are expected to support a return to growth in following years.

Queensland's **international education exports** have continued to grow strongly in recent years with a competitive A$ and ongoing demand from Asia driving growth over the forecast period. China remains a key market, accounting for around 23% of overseas student enrolments in 2018.

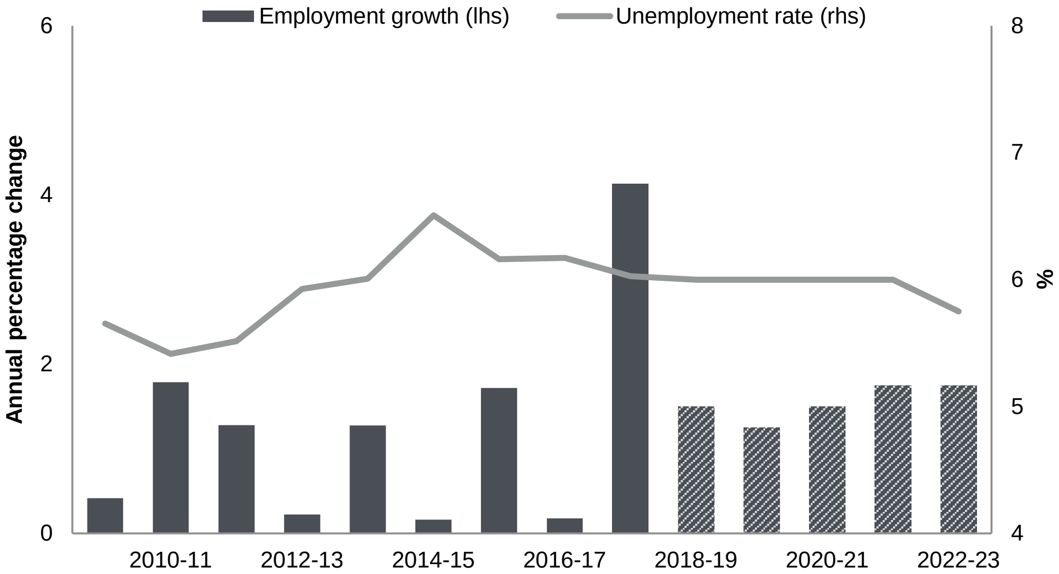
Overseas imports rose sharply in 2017-18, reflecting increased imports of capital goods (consistent with the rebound in business investment in that year, including several large scale renewable energy projects), petroleum products (which can be volatile) and motor vehicles (reflecting the cessation of domestic vehicle production in 2017). However, overseas imports are forecast to return to modest growth in 2018-19 and 2019-20, reflecting subdued growth in domestic activity.

Labour market

After exceptionally strong growth of 4.1% in 2017-18, employment growth is expected to return to more sustainable rates over the forecast period. With the outlook for domestic activity subdued in 2018-19 and 2019-20, employment growth is estimated to ease to 1½% in 2018-19 and 1¼% in 2019-20, before picking up to 1½% in 2020-21.

The unemployment rate is expected to remain relatively stable over the next two years. Labour force participation has moved broadly in line with employment growth in recent years, resulting in a relatively steady unemployment rate (Chart 2.4). This trend is expected to continue and, as a result, the State's unemployment rate is expected to stabilise at around 6% through to 2020-21.

Chart 2.4 Employment growth and unemployment rate, Queensland[1]



Note:

1. Year-average. 2018-19 to 2020-21 are forecasts, while 2021-22 and 2022-23 are projections.

Sources: ABS 6202.0 and Queensland Treasury.

The strength of the Queensland labour market has seen 199,000 jobs created across the State since January 2015. This strong jobs growth, in particular the sharp rise in employment in 2017-18, saw additional jobseekers encouraged into the labour market, resulting in a spike in the participation rate which limited the reduction in the State's unemployment rate in that year.

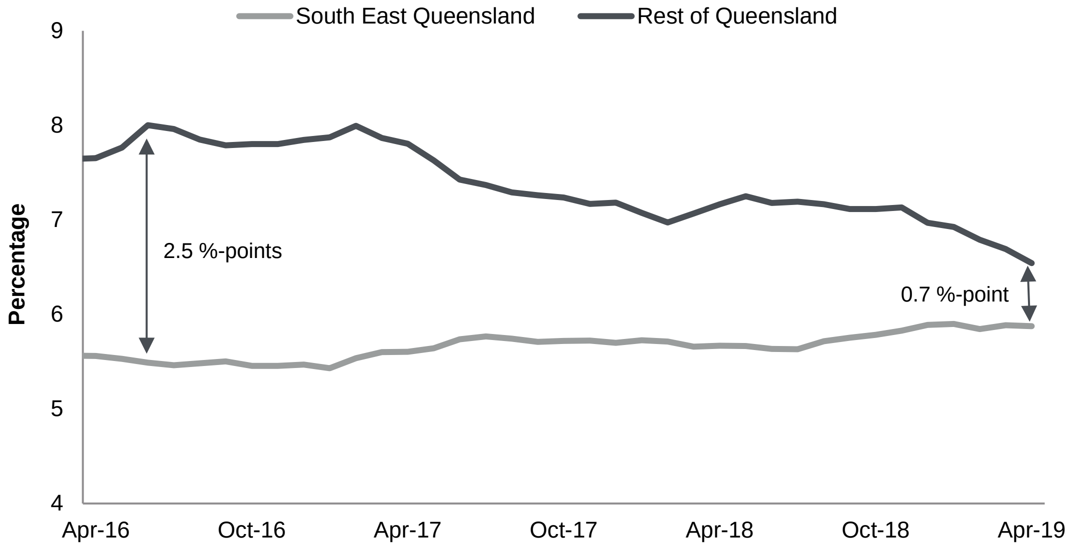
As employment growth returns to more sustainable rates, some workers are less likely to actively participate in job seeking and the participation rate is expected to decline. As a result, some of the moderation in employment growth is expected to be absorbed by a partial reversal of the previous spike in labour force participation, leaving the unemployment rate broadly stable.

Employment growth is projected to strengthen to 1¾% in 2021-22 and 2022-23, reflecting a pick-up in domestic activity, with the unemployment rate to edge down to around 5¾% by the end of the projection period in 2022-23.

Regional labour markets

Labour market conditions in regional Queensland have improved over the past year. Over the year to April 2019, employment in regional Queensland increased 8,700 persons, with jobs growth over the year (1.4%) being faster than population growth (0.7%). Further, the gap between the regional and South East Queensland unemployment rates has continued to narrow, from 2.5 percentage points in mid-2016 to 0.7 percentage point in the year to April 2019 (Chart 2.5), reflecting the stronger economic conditions in key regions.

Chart 2.5 Unemployment rate[1] by region, Queensland



Note:

1. Year-average. South East Queensland is defined as Greater Brisbane, Gold Coast, Sunshine Coast and Toowoomba.

Source: ABS 6291.0.55.001.

Mackay had the State's lowest unemployment rate (4.3%) in April 2019. Conditions in the region have eased over the past year, however this follows two years of strong jobs growth.

Central Queensland's labour market appears to be adjusting well following the end of the LNG construction boom, with employment up 6,900 persons over the year to April 2019 (the most in any region outside South East Queensland) and the unemployment rate falling to 5.6%.

The labour market in **Cairns** remains buoyed by strong domestic tourism, with employment up 4.5% over the year and the unemployment rate down 1.4 percentage points, to 4.8%.

Conditions in **Townsville** and the diverse **Queensland-Outback** region remain challenging. However, Townsville has shown improvement over the past two years, with the unemployment rate falling 2.9 percentage points and employment rising 10,200 persons.

While the north west of the Outback region has been impacted by the recent floods, the south and central west Outback are facing ongoing drought conditions. Further, there are elevated levels of unemployment across rural Indigenous communities in parts of the Outback region.

Wide Bay recorded modest employment growth (1.0%) over the past year and a falling unemployment rate (down 2.0 percentage points to 7.5%). This result was despite the region facing ongoing labour market challenges, low participation rates and relatively high rates of social disadvantage.

Labour market conditions in South East Queensland have remained robust over the year to April 2019, with employment up 1.9% and the unemployment rate remaining below the State average. Within South East Queensland, the Gold Coast has recorded the strongest labour market conditions, with employment growing by 4.7% and an unemployment rate of 4.8%, the equal second lowest in the State.

Prices and wages

Brisbane's consumer price growth has remained steady in recent years, with inflationary pressures remaining subdued in 2018-19. While the further 12.5% annual increase in the Australian Government's tobacco excise has provided upward pressure on inflation, this has been partially offset by falling global oil prices in late-2018 that have driven automotive fuel prices lower. A modest acceleration in inflation is forecast for 2019-20, driven by a further increase in the tobacco excise and a return to growth in dwelling rents, as apartment supply continues to be absorbed.

Nominal wage growth in Queensland has accelerated slightly in recent years but remains subdued by historical standards. However, despite the modest recent wages growth, slower consumer price inflation has seen real wages continue to rise. Wage growth is expected to strengthen over the medium-term as conditions in the domestic economy improve.

Population

Queensland's population growth is forecast to average around 1¾% in 2018-19, with similar rates of growth forecast in each year over the remainder of the forecast period.

Queensland's more affordable housing has supported higher net interstate migration from New South Wales. Meanwhile, the unwinding of the Western Australian resources investment boom has seen an increase in net inflows from that state over recent years, following a sustained period of outflows to Western Australia between 2008 and 2015. Queensland's net interstate migration is expected to moderate over coming years.

Net overseas migration to Queensland has grown strongly and is expected to continue to grow over the medium term, driven by a range of factors including rising incomes in Asia and a competitive A$.

2.4 Risks to the outlook

In its April 2019 *World Economic Outlook,* the IMF noted risks to the global economic outlook are tilted to the downside.

US-China trade tensions could escalate further and the resulting policy uncertainty adversely affect global growth. This may particularly impact on the Chinese economy and its key Asian trading partners, leading to a weaker outlook for industrial production and tempering the outlook for Queensland export growth. Further, there is ongoing uncertainty about the duration of Chinese coal import restrictions and the impacts on coal exports and prices.

Nevertheless, the effect of the trade war on Queensland's coal exports may not be even. Given the high quality of Queensland's metallurgical coal, which comprise around 70% of the volume of Queensland's coal exports, and the dominance of the blast furnace method of steel making in Asia, Queensland metallurgical coal exports may be less affected. In fact, China's State Council announced in mid-May 2019 tariff exemptions on some US imports which included coking coal but not thermal coal.

With political discord in the EU already elevated and prolonged fiscal uncertainty in Italy, a "no deal" Brexit could heighten political and economic instability in that region, further impacting on global confidence.

At the national level, if economic growth was to soften further than currently anticipated, this could lead to continued weakness in wages growth and inflation. It may also prompt the RBA to consider monetary policy easing further or faster than current market expectations. However, with the RBA recently noting the limitations of monetary policy to stimulate demand in the current low interest rate environment, this scenario could also increase the importance of fiscal policy at the national level as a tool in managing demand.

The national and state housing markets have changed considerably since late 2018, as evidenced by the substantial price falls in Sydney and Melbourne. Housing approvals in Queensland have also fallen further than expected since the 2018-19 MYFER, and there remains a high level of uncertainty around the outlook for dwelling investment and property prices.

The moderate declines in dwelling investment forecast in 2018-19 and 2019-20 and a return to growth expected in 2020-21 are based on key underlying fundamentals that should help limit any more substantial weakening of the housing sector. These include the relatively modest price increases recorded in Queensland during the current housing cycle and the State's ongoing solid population growth.

However, if the dwelling sector were to weaken further than currently anticipated, this could have a negative impact on household wealth and consumption, with flow-on effects to employment.

Table 2.3 overleaf outlines the detailed components of GSP for the Actual 2017-18 outcome, the Estimated Actual 2018-19 outcome and the 2019-20 and 2020-21 forecast period.

Table 2.3 Queensland economic forecasts[1], by component

	Actual	Est. Act.	Forecasts	
	2017-18	2018-19	2019-20	2020-21
Economic output[2]				
Household consumption	2.3	2½	2½	2¾
Private investment	5.3	-3½	½	3¼
Dwelling investment	-3.9	-5½	-3	2¾
New and used	-8.7	-15½	-8¼	1½
Alterations and additions	6.1	12½	4¼	4
Business investment	13.1	-3	2¼	3¾
Non-dwelling construction	16.9	-9¼	1¼	3¼
Machinery and equipment	7.7	6½	3¾	4¼
Private final demand	3.1	1	2	2¾
Public final demand	4.0	4½	4¼	3½
Gross state expenditure	3.3	1¾	2½	3
Net overseas exports[3]	-1.7	½	½	0
Overseas exports	2.6	3½	2½	1½
less Overseas imports	13.5	1½	1½	2¾
Gross state product	**3.5**	**2¾**	**3**	**2¾**
Nominal gross state product	5.7	6	3¼	3½
Employment[4]	4.1	1½	1¼	1½
Unemployment rate[5]	6.0	6	6	6
Inflation[6]	1.7	1¾	2	2¼
Wage Price Index[6]	2.2	2¼	2¼	2½
Population[6]	1.7	1¾	1¾	1¾

Notes:

1. Unless otherwise stated, all figures are annual percentage changes.
2. CVM, 2016-17 reference year, except nominal GSP. Components not separately reported are other investment (cultivated biological resources, intellectual property products and ownership transfer costs) and the balancing item (including interstate trade, inventories and the statistical discrepancy).
3. Goods and services, percentage point contribution to growth in gross state product.
4. Annual percentage change, year-average. The comparable through-the-year growth rate to the June quarter (seasonally adjusted) are 3.1%, 1½%, 1¼% and 1½% from 2017-18 through to 2020-21.
5. Per cent, year-average.
6. Annual percentage change, year-average.

Forecast assumptions include: an easing bias in the RBA cash rate in 2019 and 2020, before a gradual rise; a broadly stable A$; oil prices to ease marginally from US$70/bbl; and a drier outlook for weather conditions in the short-term.

Sources: ABS 3101.0, 6202.0, 6345.0, 6401.0 and Queensland Treasury.