2 Economic performance and outlook

Features

- The severe health and economic shock caused by the COVID-19 pandemic saw the global economy contract by 3.3 per cent in 2020, a much greater impact than the 0.1 per cent decline in global activity recorded in 2009 in the depths of the Global Financial Crisis.
- The national economy fell into recession in 2020, for the first time since 1991. However, Queensland and Australia's relative success in containing the spread of COVID-19, in addition to significant fiscal and monetary policy support, meant the economic impacts nationally were less severe than in many other countries.
- Reflecting the success of Queensland's health response, the domestic economy has rebounded strongly, with business and consumer confidence currently at elevated levels.
- Following a 7 per cent rebound in September quarter 2020, Queensland's domestic activity continued to grow across the December and March quarters, to be 3 per cent above the pre-COVID-19 level of March quarter 2020. This was almost double the 1.7 per cent growth in the rest of Australia over the year, and substantially higher than the 1.9 per cent in New South Wales. Domestic activity in Victoria in March quarter 2021 was still 0.3 per cent below its pre-COVID-19 level.
- Growth in the Queensland economy has been driven by elevated consumer spending and housing sector activity, supported by timely and targeted government stimulus.
- Reflecting the improved domestic conditions, Gross State Product (GSP) is forecast to rebound by 3¼ per cent in 2020–21, significantly higher than the ¼ per cent growth expected at the time of the 2020–21 Queensland Budget. Robust growth of 2¾ per cent is forecast for 2021–22 and in each subsequent year across the forward estimates.
- In comparison, the national economy is forecast by Australian Treasury to grow 1¼ per cent in 2020–21, 4¼ per cent in 2021–22 and 2½ per cent in 2022–23. Queensland's faster recovery means aggregate growth across the 3 forecast years will be higher in Queensland (around 9 per cent) than nationally (around 8¼ per cent).
- Queensland's labour market has also improved substantially, with employment in April 2021 having rebounded by 253,200 persons since May 2020, to be 54,900 persons above the pre-pandemic level in March 2020. In comparison, employment in the rest of Australia in April 2021 was still 9,000 persons below the level in March 2020.
- Reflecting the current strength in jobs growth and the broader economic recovery, year-average employment growth in 2020–21 is now forecast to be 2¼ per cent, much higher than the 1 per cent forecast in the 2020–21 Budget.
- This robust jobs growth means the state's unemployment rate is now forecast to be 6¼ per cent in June quarter 2021, while the year-average unemployment rate in 2020–21 is now expected to be 7 per cent, lower than the 7½ per cent forecast at the previous Budget.
- Strong employment growth of 3 per cent in 2021–22 is expected to drive down the unemployment rate to 5¾ per cent in June quarter 2022, with the unemployment rate steadily improving across the forecast period to be 5 per cent by June quarter 2025.

2.1 International conditions

Global economic output fell sharply in the first half of 2020 due to the public health restrictions and lower confidence in response to COVID-19. According to the International Monetary Fund (IMF), the global economy contracted by 3.3 per cent in 2020, a much greater shock than the 0.1 per cent decline recorded in 2009 in the depths of the Global Financial Crisis.

Over three and a half million people have died from the virus globally, and daily cases and deaths remain elevated in many countries.

Despite this ongoing health crisis, the global economic recovery has clearly begun, with an acceleration in various countries' vaccine rollouts supporting a lift in sentiment and activity. The IMF's latest forecasts show the global economy is expected to rebound strongly in the near-term, growing by 6 per cent in 2021 and 4.4 per cent in 2022.

Aggregate Gross Domestic Product (GDP) growth of Queensland's major trading partners is expected to be slightly stronger than the global average, rising 6.5 per cent in 2021 and 4.7 per cent in 2022. This primarily reflects China and India both being expected to record rapid economic growth across 2021 and 2022.

The economic recovery is most advanced in China, where GDP has already exceeded its pre-COVID-19 level following the successful containment of the virus and ongoing and significant government stimulus. After growing by 2.3 per cent in 2020, the IMF forecasts that China's economy will grow by a further 8.4 per cent in 2021 and 5.6 per cent in 2022.

The outlook in the United States also appears more positive than expected during the height of the pandemic. While employment has yet to return to its pre-pandemic level, steps have been taken towards fully reopening the economy, with daily COVID-19 cases remaining well below peak levels and the nation-wide vaccine rollout continuing to progress.

The IMF expects the United States to record exceptionally strong economic growth of 6.4 per cent in 2021 and 3.5 per cent in 2022, underpinned by the Biden Administration's US$1.9 trillion stimulus bill passed in March 2021. This is in addition to the substantial fiscal support during the pandemic and ongoing highly accommodative monetary policy settings.

Surges in case numbers have partially stalled the economic recovery across Europe, with many countries reimposing social distancing measures in late-2020 and early-2021. However, various government fiscal support measures in many countries, including wage subsidies, and highly accommodative monetary policy settings have helped support Europe's major economies throughout the pandemic.

More recently, India has endured a severe further wave of COVID-19, with cases peaking at more than 400,000 per day in early-May. As India accounts for more than 10 per cent of the value of Queensland's overseas merchandise exports, the humanitarian crisis is also likely to have an economic impact on the state's economy.

Despite the more positive global economic outlook in recent months, substantial risks remain, centred around the success of the global vaccine rollout and the efficacy of the vaccines, particularly as new variants of the virus continue to emerge. While vaccine rollouts are well progressed across a range of nations, including Israel, Canada, the United Kingdom, the United States and Chile, the proportion of the population to have received at least one vaccine shot is still below 10 per cent in many countries.

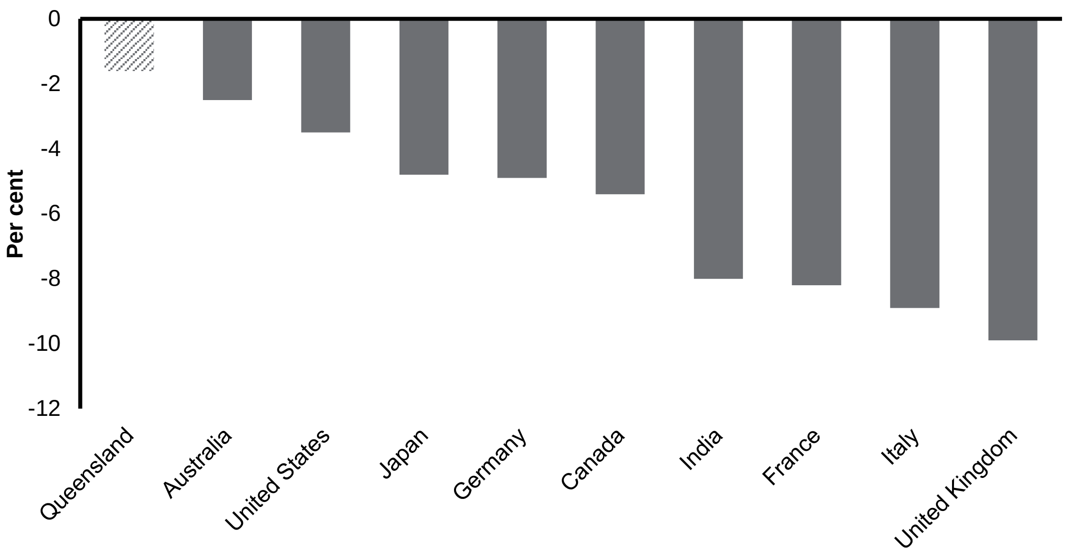
In addition to the ongoing health risks associated with the COVID-19 pandemic, geopolitical and trade tensions that existed between various countries before the onset of the pandemic remain a key risk to the global economic outlook. In particular, tensions between the United States and China related to trade, intellectual property and cybersecurity are expected to continue.

Ongoing uncertainty also remains around the longevity of China's trade restrictions on a range of Australian goods, including some of Queensland's key commodity exports, particularly coal.

2.2 National conditions

The Australian economy declined by 2.5 per cent in 2020, the first national recession since 1991. Despite this sharp contraction, Australia's relative success in containing the spread of COVID-19, in addition to significant fiscal and monetary policy support, meant the economic impacts were less severe than in many other countries. In comparison, as highlighted in Chart 2.1, GDP in 2020 fell by 9.9 per cent in the United Kingdom, 8 per cent in India, 6.6 per cent across the Euro area, 5.4 per cent in Canada and 3.5 per cent in the United States.

Chart 2.1 GDP/GSP growth in 2020[1]



Note:

1. Chain volume measure, annual per cent change.

Sources: Queensland Treasury and International Monetary Fund.

The national economic recovery is well underway and stronger than initially anticipated. The economy has rebounded, with real GDP in March quarter 2021 1.1 per cent above the pre-COVID-19 level of a year earlier, according to the National Accounts. The national unemployment rate fell to 5.5 per cent in April 2021, down from a high of 7.4 per cent in July 2020, while various business and consumer surveys indicate confidence and conditions are at elevated levels.

Buoyed by the substantial fiscal and monetary stimulus provided in response to the crisis, housing market activity has increased, supporting confidence and household consumption.

Despite the stronger-than-anticipated performance of many economic indicators, the recovery to date has been somewhat uneven across the country. The pace of recovery has differed across jurisdictions, in particular with Victoria's recovery delayed by its extended lockdown period, while those sectors reliant on international travel, such as tourism and education, are not expected to return to pre-COVID-19 levels of activity until after the vaccination rollout is substantially progressed and international borders are reopened.

In the medium to longer-term, recently-reported plans by China to diversify its production and supply chains for key industrial commodities, including iron ore, could represent future risks for Australian resources production and exports. If these risks were to eventuate, it could also have longer term implications for government revenues, including the distribution of GST.

2.3 Key assumptions

Key assumptions underpinning the forecasts for the Queensland economy include:

- Queensland and Australia will continue to be successful in containing any community outbreaks of COVID-19 to the extent that no prolonged or widespread lockdowns or severe social distancing measures are assumed over the forecasting period
- consistent with the 2021–22 Federal Budget assumptions:
    - the interstate border is assumed to remain mostly open across the forecasting period
    - while more travel bubbles are gradually established from 2022 onwards, the international border is assumed to remain closed to most travellers through to mid-2022.
- the Reserve Bank of Australia (RBA) is assumed to keep the target cash rate at 0.1 per cent until mid-2023 and the pace of monetary policy normalisation will be gradual over the remainder of the forecast period
- the A$ is assumed to stabilise at around US$0.75 in the medium term
- Brent oil prices are expected to fall slightly below US$60/barrel in the short term but are assumed to be anchored at around US$60/barrel from 2023–24 onwards
- China's restrictions on Queensland's coal exports are assumed to remain significant in 2021. Although some relaxation is assumed in 2022, impacts are assumed to persist across the forward estimates.
- according to the Bureau of Meteorology, the 2021 winter is likely to be wetter than average but there is no clear indication of an El Niño or La Niña developing, at least in the next few months. Therefore, an average seasonal rainfall is assumed for the 2021 and 2022 seasons.

Box 2.1 Vaccination roll-out

The Australian Government is responsible for acquiring and delivering the COVID-19 vaccine to Australians. Queensland is working collaboratively with the Australian Government to roll out the COVID-19 vaccination program across Queensland.

On 22 February 2021, the first Queenslanders began receiving the Pfizer vaccine under Phase 1a of the Australian COVID-19 Vaccination Strategy. Considering all sources of vaccination delivery, as at 5 June 2021, the Australian Government-led vaccination program in Queensland has resulted in 17.94 vaccine doses per 100 people have been delivered, less than the national level of 19.52 vaccines per 100.

To assist the Australian Government to improve vaccine delivery to Queenslanders, the Queensland Government is stepping up its jurisdictional delivery channels.

The Commonwealth Government is responsible for vaccinating residents and staff in residential aged care facilities. While the Commonwealth deployed in-reach vaccination clinics to residential aged care facilities across Queensland, these focussed on residents. Staff were only able to obtain vaccinations if there were excess doses not required by residents, which led to a significant gap in coverage.

Queensland Health therefore stepped up to help ensure the safety of staff and residents by offering the Pfizer COVID-19 vaccine to all Phase 1a and 1b frontline workers in Queensland, including residential aged care workers, regardless of age.

To administer the Pfizer vaccine, Queensland Health established hospital hubs in 6 locations, selected based on their proximity to international arrival points into Queensland. AstraZeneca hospital hubs and outreach services have been subsequently established in every Queensland Hospital and Health Service (HHS). More than 100 services were operating across the state by early-April 2021. This has enabled access to vaccines for Queenslanders in remote, rural, regional and metropolitan areas.

On 8 April 2021, the Australian Technical Advisory Group on Immunisation (ATAGI) and the Therapeutic Goods Administration (TGA) issued advice recommending Pfizer as the preferred COVID-19 vaccine for adults aged under 50 years. This followed reports of a rare but serious blood clotting disorder following administration of the AstraZeneca vaccine. National Cabinet has made a series of decisions since 22 April 2021 to recalibrate the delivery model to administer COVID-19 vaccinations to Australians. The key changes were:

- Pfizer vaccine will be initially limited to Phase 1a and 1b eligible people under the age of 50 years and subsequently provided to additional cohorts with 40-49 year olds now able to access the vaccine
- part of Phase 2a was brought forward so that individuals 50 years or over could access the AstraZeneca vaccine at Queensland Health vaccination clinics from 3 May 2021 and at general practices from 17 May 2021
- increasing access to the Pfizer vaccine for eligible individuals where demand exists and supply permits
- primary care continuing to be the primary delivery channel.

Queensland Health immediately took action to open additional Pfizer hospital hubs throughout Queensland. The first additional site to open was Mater South Brisbane on 5 May 2021. As of 8 June 2021, Queensland Health has a total of 33 hospital-based Pfizer Hubs and Sub-Hubs providing access to Pfizer across metropolitan, regional and remote communities.

In addition, 14 Community Based Vaccination Locations are being progressively opened across the state. Planning for mass vaccination sites is underway to establish readiness to operate where demand exists and when the supply of Pfizer vaccine increases to a level that makes mass vaccination possible.

Funding arrangements with the Australian Government are still being finalised but it is expected the Australian Government will reimburse only a portion of the costs incurred by jurisdictions to set up additional COVID-19 clinics where necessary to support the recalibrated delivery model. This is in addition to a contribution per vaccination dose delivered by the states and territories.

Queensland's vaccine roll-out will continue to track the Australian Government vaccine supply.

2.4 Queensland conditions and outlook

When the 2020–21 Budget was delivered in December 2020, the Queensland economy was forecast to grow by ¼ per cent in 2020–21 and 3½ per cent in 2021–22. Since that time, the domestic economy has grown faster than forecast, bolstered by a range of factors, including a surge in dwelling activity and investment.

As restrictions were unwound, State Final Demand (SFD) grew by 7 per cent in the September quarter, and by 2.3 per cent across the December and March quarters, to be 3 per cent above the pre-COVID-19 level of March quarter 2020.

Annual growth in Queensland's domestic economy was almost double the 1.7 per cent growth recorded in the rest of Australia's domestic economy and faster than the rise of only 1.9 per cent in New South Wales. Domestic activity in Victoria in the March quarter 2021 was still 0.3 per cent below its pre-COVID-19 level.

Despite the improved outlook in SFD, the trade sector faces ongoing uncertainty about the timing and extent of the global recovery and about the status of trade with China. International travel restrictions are expected to continue to impact Queensland's international tourism exports and limit overseas student arrivals in 2021.

Overall, growth in domestic activity is expected to more than offset the decline in the trade sector and Queensland's GSP, after falling by 0.7 per cent in 2019–20, is forecast to rebound to growth of 3¼ per cent in 2020–21.

Further solid growth of 2¾ per cent is forecast for 2021–22, as the dwelling construction boom maintains momentum and business investment rebounds after several years at subdued levels.

In comparison, the national economy is forecast by Australian Treasury to grow by 1¼ per cent in 2020–21, 4¼ per cent in 2021–22 and 2½ per cent in 2022–23. Importantly, Queensland's faster recovery means that aggregate growth across the 3 forecast years will be stronger in Queensland (around 9 per cent) than for the nation as a whole (around 8¼ per cent).

Over the remainder of the forward estimates, Queensland's GSP growth is expected to average 2¾ per cent per annum, driven by the strength of the domestic economy and further improvements in exports.

Consistent with the strong rebound in domestic activity, employment in Queensland has also recovered strongly and fared better than the rest of Australia. By late 2020, total employment in Queensland had already exceeded the pre-pandemic level of March 2020, while the state's monthly unemployment rate has fallen substantially from its COVID-19 induced peak of 8.7 per cent in July 2020, to be around pre-pandemic rates by April 2021.

In year-average terms, employment is now forecast to grow by 2¼ per cent in 2020–21 and 3 per cent in 2021–22. In quarterly seasonally adjusted terms, employment is forecast to rise by 8¾ per cent (around 212,400 persons) through the year to June quarter 2021.

The unemployment rate is expected to have peaked (in quarterly terms) at 7.7 per cent in September quarter 2020 and is forecast to decline to 6¼ per cent in June quarter 2021. The unemployment rate is expected to continue to improve steadily over the forecast period to be 5 per cent by June quarter 2025.

Table 2.1 Queensland economic forecasts/projections[1]

	Actuals	Forecasts			Projections	
	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25
Gross state product[2]	**-0.7**	**3¼**	**2¾**	**2¾**	**2¾**	**2¾**
Nominal gross state product	-1.5	2¼	6¾	5¼	5	4¾
Employment[3,4]	0.6	2¼	3	1¾	1¾	1¾
Unemployment rate[5,6]	7.6	6¼	5¾	5½	5¼	5
Inflation[3]	1.2	2	1¾	1¾	2	2¼
Wage Price Index[3]	1.9	1¾	2¼	2¼	2½	2¾
Population[3]	1.7	1	1	1¼	1½	1½

Notes:

1. Unless otherwise stated, all figures are annual percentage changes.
2. Chain volume measure (CVM), 2018–19 reference year.
3. Annual percentage change, year-average.
4. The comparable through the year employment growth rates to the June quarter (seasonally adjusted) are -4.5 per cent, 8¾ per cent, 1¾ per cent, 1¾ per cent, 1¾ per cent and 1¾ per cent, from June quarter 2020 to June quarter 2025 respectively.
5. Per cent, June quarter average, seasonally adjusted.
6. The comparable year-average unemployment rates are 6.4 per cent, 7 per cent, 5¾ per cent, 5½ per cent, 5¼ per cent and 5 per cent, from 2019–20 to 2024–25, respectively.

Sources: ABS National, State and Territory Population, Labour Force, Wage Price Index, Consumer Price Index and Queensland Treasury.

2.4.1 Household consumption

Household consumption fell by 10.2 per cent over the first half of 2020, before recovering more strongly than expected in the latter half of the year.

As COVID-19 restrictions were progressively unwound, a swift recovery in labour income, underpinned by significant government income support measures, saw Queensland's consumer spending increase by 14.5 per cent across the September and December quarters, to end the year 3.6 per cent above the pre-pandemic level (Chart 2.2).

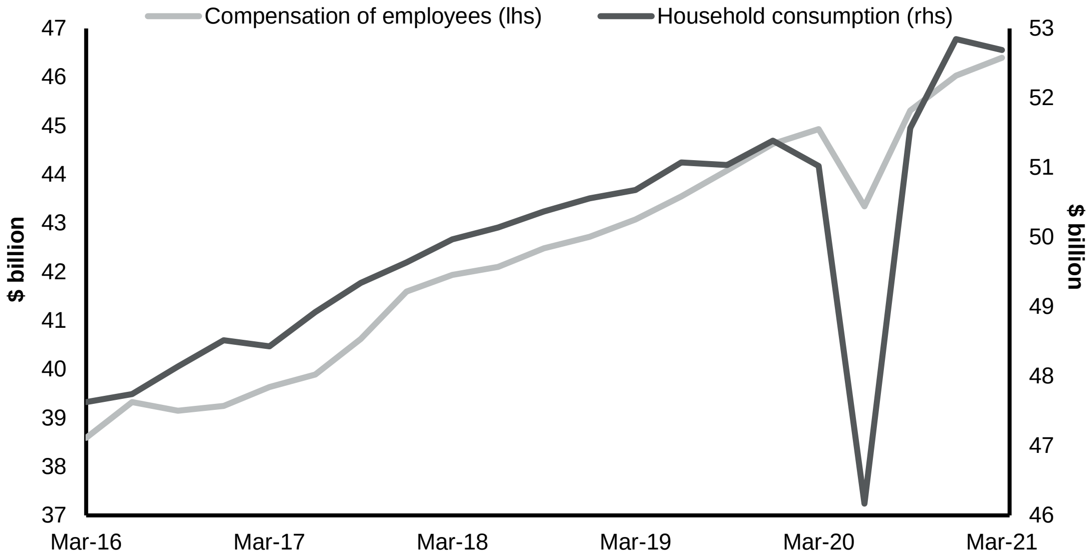
Greater Brisbane's brief COVID-19 lockdowns in early-2021, as part of the emergency health response to locally acquired cases, had only marginal impacts on Queensland household spending levels. Consumption fell by 0.3 per cent in the first quarter of 2021, but it remained 3.3 per cent above the pre-COVID-19 level of March quarter 2020.

Consumer spending patterns have continued to adjust over the past few quarters and the composition of consumption expenditure is expected to normalise in the remainder of 2021 as uncertainty related to health and economic outcomes diminish. Expenditure in some categories, such as household goods, will continue to benefit from the substitution of expenditure away from overseas travel.

On balance, and reflecting the better than expected rebound in the second half of 2020 from the substantially reduced spending levels in June quarter 2020, in year-average terms household consumption is now forecast to grow by 5¼ per cent in 2020–21.

Looking further ahead, with the Australian Government's withdrawal of national income support programs and the rollout of COVID-19 vaccination programs taking effect, growth in household consumption is forecast to return to its pre-COVID-19 trajectory from 2021–22 onwards. The substantial strengthening in the dwelling construction sector and sustained growth in labour income are expected to support consumer spending growth of 3 per cent in 2021–22 before growth eases slightly to 2½ per cent in 2022–23.

Chart 2.2 Labour income[1] and household consumption[2], Queensland



Notes:

1. Nominal, quarterly, seasonally adjusted.
2. Chain volume measure, quarterly, seasonally adjusted.

Source: ABS National Accounts, State Details.

2.4.2 Dwelling investment

Dwelling investment has rebounded strongly since the pandemic-induced low in June quarter 2020. After rising by 13.7 per cent over the last 2 quarters of 2020, dwelling investment in Queensland rose by a further 10.8 per cent in March quarter 2021, to be 18.4 per cent higher over the year.

The construction of new and used dwellings rose by 8.1 per cent in March quarter 2021, to be 14.6 per cent higher over the year. Renovation activity also continued to grow strongly, rising by 13.6 per cent in the March quarter, to be 22.5 per cent higher over the year, reaching its highest level on record. The combination of record low interest rates, clear indications by the RBA that rates will remain low for several years and generous government incentives continue to boost the outlook for dwelling investment, particularly for detached houses.

Measures such as the Queensland Government's reaffirmed commitment to the $15,000 First Home Owners Grant program, and the $5,000 Regional Home Building Boost Grant, along with the Australian Government's First Home Loan Deposit Scheme and HomeBuilder Grant, have underpinned strong growth in residential construction and continue to support the outlook.

On 17 April 2021, the Australian Government extended the construction commencement requirement for HomeBuilder applications from 6 to 18 months from the signing of the contract.

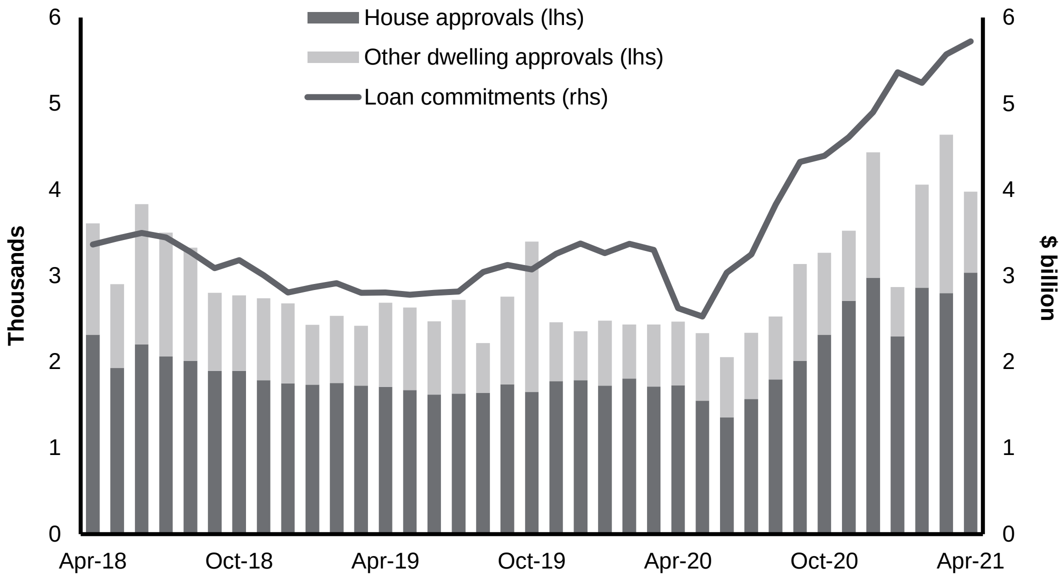
Given the large amount of residential construction work now in the pipeline, this is expected to see new dwelling construction activity in Queensland maintained at a high level into 2022–23.

Leading indicators for the housing market have surged beyond their pre-COVID-19 levels, pointing to continued strength in dwelling investment in the coming quarters. The number of dwelling approvals in Queensland has risen strongly over the year (Chart 2.3), with approvals for detached houses and attached dwellings both higher. Encouragingly, the strength in approvals has been distributed broadly across most of the state's regions, supporting activity and jobs.

Loan commitments for both owner-occupiers and investors have also grown rapidly over the year, rising well above their pre-pandemic levels. In early-2021, the value of commitments for owner-occupiers reached their highest level since the inception of the series in July 2002. Further, this surge has been distributed across both first-home and non-first-home buyers.

As a result, the outlook for dwelling investment has improved considerably since the 2020–21 Budget, with dwelling investment now forecast to grow strongly in 2020–21 and 2021–22, before moderating slightly in 2022–23.

Chart 2.3 Queensland dwelling approvals and loan commitments to households[1]



Note:

1. Monthly, seasonally adjusted.

Sources: ABS Building Approvals and ABS Lending Indicators.

2.4.3 Business investment

With the onset of the pandemic, business confidence fell sharply in March and April 2020 to levels last seen during the early 1990s recession. Spending on non-dwelling construction and machinery and equipment fell by 8.6 per cent in June quarter 2020.

The subsequent success in controlling the spread of COVID-19 in Queensland and the easing of many social distancing restrictions have resulted in a strong rebound in business confidence and conditions, with firms now reporting the best business conditions for some years (Chart 2.4).

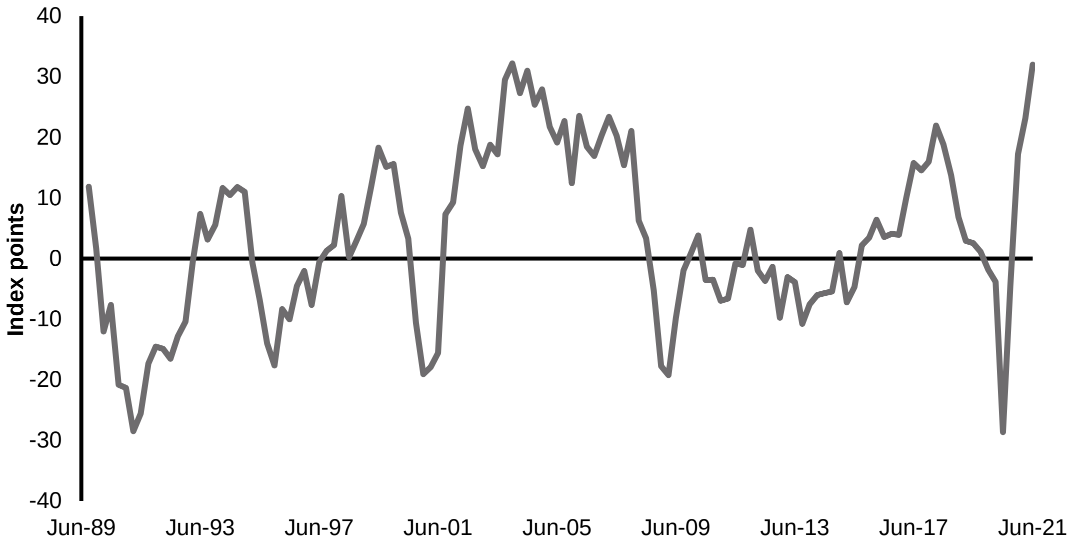
Consistent with the improvement in business conditions, the NAB Monthly Business Survey points to a likely upward revision to capital spending nationally. Capacity utilisation has also recovered to be above its long-run average. Together with a sustained period of low interest rates, a tighter labour market and tax incentives for business, this should encourage capacity-expanding investment in machinery and equipment.

Private engineering construction, which typically involves long-term projects, has held up well during the pandemic. Over the year to December quarter 2020, the value of work commenced fell only 2.5 per cent while the value of work yet to be done also fell only modestly. The global economic recovery and improving commodity prices should support some recovery in this area.

Non-residential building investment faces stronger headwinds than machinery and equipment investment and engineering construction. Forward indicators remain subdued with private non-residential building approvals continuing to trend downward. Key challenges include the impact of international border closures on hotels and low office occupancy rates.

Overall, business investment is expected to grow by 4 per cent in 2021–22 after 3 consecutive years of decline. Investment in machinery and equipment is expected to recover at a stronger pace than non-dwelling investment, which is expected to be constrained by some ongoing weakness in non-residential building investment.

Chart 2.4 Business Conditions[1], Queensland



Note:

1. Quarterly, seasonally adjusted by Queensland Treasury. June quarter 2021 is an estimate based on monthly data.

Source: NAB Quarterly Business Survey.

2.4.4 Public final demand

Public final demand has grown strongly in recent years, averaging 5.2 per cent growth over the 5 years to 2019–20, supported by a range of initiatives, including the National Disability Insurance Scheme, the NBN, substantial investment in roads and the Cross River Rail project.

State and local general government investment has made a significant contribution to the domestic economy since the start of the pandemic, rising 15.3 per cent over the year to March quarter 2021. This compares to a small decline in national general government investment in Queensland over the same period.

Growth in public final demand is expected to remain solid in 2020–21, driven by the ramp up in the construction of the Cross River Rail project and the continuation of spending measures implemented to combat COVID-19 and support the Queensland economy.

The Budget continues the government’s commitment, in line with the *Economic Recovery Plan*, to provide the ongoing support, stimulus and reform needed to drive sustainable economic growth across the state. The government’s response to COVID-19 includes $14.2 billion of initiatives, including investments in productivity-enhancing economic and social infrastructure to support the recovery and drive growth. This will continue to support an environment in which private investment can flourish and create new jobs into the future.

2.4.5 Overseas exports and imports

Queensland’s overseas exports of goods and services are expected to decline by 15¾ per cent in 2020–21, driven by a decline in coal exports. Exports are forecast to recover by 5¾ per cent in 2021–22 and 10¼ per cent in 2022–23.

Coal

In the first 10 months of 2020–21, Queensland’s coal exports were 17.9 million tonnes (Mt) (or 9.8 per cent) lower than in the same period of 2019–20, with thermal coal exports down by 25.1 per cent and hard coking coal exports down by 5.2 per cent. Overall, Queensland’s coal exports are expected to decline 8¾ per cent in 2020–21, reflecting the contraction in global demand.

China’s import ban on Australian coal has also affected Queensland’s coal exports. From October 2020 to April 2021, China imported only 2.5Mt of hard coking coal and 330,000 tonnes of thermal coal from Queensland. In comparison, in the corresponding period in 2019–20, China imported 20Mt of hard coking coal and 8.6Mt of thermal coal.

Increases in Queensland’s hard coking coal exports to India (up 6.8Mt), Japan (up 2.4Mt) and South Korea (up 1.8Mt) have been able to partially offset the loss of hard coking coal exports to China, while thermal coal exports to India (up 2.2Mt) have also increased over the same period.

The import ban has also reduced the spot price for premium Australian hard coking coal, which has averaged US$117 per tonne (/t) between mid-October 2020 and early-June 2021, compared with US$140/t during late September 2020.

In comparison, the price for hard coking coal delivered to China averaged US$192/t over the period from mid-October 2020 to early-June 2021, indicating Chinese buyers have had to pay a significant premium to source non-Australian coal over this period. Indonesian thermal coal prices have also traded at a premium relative to Australian thermal coal over this period, although to a lesser extent than for hard coking coal.

A recovery in demand for Australian coal from non-Chinese buyers in late-May/early-June 2021 saw the spot price for hard coking coal increase from US$114/t to US$168/t and the spot price for thermal coal increase from US$56.35/t to US$73.35/t. Despite the recovery in Australian spot prices, Chinese importers were still paying a significant premium to source non-Australian coal.

Looking forward, Queensland's coal exports are forecast to recover by 1¾ per cent in 2021–22, driven by the continued recovery in global economic activity from the COVID-19 pandemic. Some pick up in coal exports to China is expected from 2022, but with some ongoing impacts on Queensland's coal export volumes to China continuing to persist for a number of years.

The timing and extent of the unwinding of China's coal import ban is still uncertain and remains a key risk to the outlook. Importantly, despite the recovery forecast in 2021–22, Queensland's coal exports are expected to remain below 2019–20 levels. From 2021–22 to 2024–25, Queensland's coal exports are expected to grow by around 4½ per cent per annum.

LNG

The volume of Queensland's LNG exports is estimated to grow by 4¼ per cent in 2020–21, as the supply of LNG from Australia has increased to meet demand driven by a cold snap in the Northern Hemisphere and to offset shortfalls arising at global LNG facilities.

The COVID-19 pandemic only modestly affected export volumes, with all 3 of Queensland's LNG plants opting to bring forward significant maintenance during the low-price period. However, the pandemic had a significant impact on the price of Queensland's LNG exports in 2019–20, which in turn drastically reduced the value of Queensland's LNG exports.

The majority of Queensland's LNG exports are sold under long-term contracts linked to global oil prices (with several months lag). The sharp fall in global oil prices from March 2020 saw Queensland's LNG export prices fall sharply in the second half of 2020. As a result, the value of Queensland's LNG exports is expected to fall by 38½ per cent in 2020–21, to $9.6 billion.

Production cuts by global oil producers have seen oil prices recover to above US$70/barrel, which should see the price (and value) of the state's LNG exports rebound throughout 2021. With global demand for energy still subdued, LNG export volumes are expected to fall slightly in 2021–22, before plateauing over the remainder of the forecast period.

Metals

In the absence of significant new projects, the outlook for Queensland metals export volumes is relatively stable over the forecast period, with the ramp up in new or expanded production completed during 2019–20. As expected, the impact of COVID-19 on domestic metals production was limited, while key metal prices have recovered to be above pre-pandemic levels.

Agriculture

The volume of agriculture exports is estimated to have fallen by 6.6 per cent in 2019–20, driven by dry conditions across most of the state. Despite improved growing conditions, agriculture exports are forecast to fall further in 2020–21, as a decline in beef exports more than offsets increased crop exports.

Agriculture exports are expected to return to growth in 2021–22, supported by higher cotton and crop production. However, beef production and exports are not expected to return to growth until 2022–23, further supporting agriculture exports over the medium term.

Cattle slaughter rates in Queensland have declined sharply in 2020–21, with increased rainfall over the summer (due to the brief La Niña) encouraging herd rebuilding. Increased demand for restocking has supported higher saleyard prices, which reached record levels in 2020–21.

These conditions, along with a small breeding cow inventory in early 2019–20, mean that herd expansion in Queensland is likely to be slow, constraining growth in beef production until 2021–22. Looking further out, a return towards normal seasonal conditions and a recovery in the size of the cattle herd are expected to see beef exports gradually return to growth.

The harvest outcome for the 2020 season suggests sugar export volumes are expected to decline in 2020–21. However, sugar exports are expected to return to growth in 2021–22, reflecting a higher area harvested and an elevated sugar content in crushed sugar. Given Queensland's sugar industry is well developed, with limited opportunity for increasing land allocation in the near-term, growth is expected to remain moderate to the end of the forecast period.

Cotton production and exports fell sharply in 2019–20 due to poor seasonal conditions and impacts from the COVID-19 pandemic on cotton demand and prices. However, cotton production is expected to rebound significantly in 2020–21, as improved rainfall, water storage and higher cotton prices have encouraged farmers to increase the area planted to cotton, resulting in higher cotton exports in 2021–22.

Reflecting improved seasonal conditions, other crop exports are expected to significantly increase in 2021–22, driven by increases in the production of most crops, including grain sorghum, wheat and chickpeas.

Agriculture and food manufacturing play a key role in regional economies. As outlined in the Economic Strategy Chapter 1.4, Leveraging our Natural and Competitive Advantages, a range of government policies and initiatives are designed to help the sector add value to the economy, the community and the environment by promoting the productivity, profitability, sustainability, and resilience of these industries, as well as safeguarding the natural environment.

Services exports

The closure of international borders since March 2020 reduced the inflow of international tourists and students to negligible levels. While the impact on international tourism was immediate, the impact on education exports has occurred during the early-2021 intake period, as most international students had arrived ahead of the March 2020 border closures.

Consistent with the 2021–22 Federal Budget assumptions, international tourism and education exports are not expected to recover to normal levels until a general reopening of international borders, most likely in the second half of calendar year 2022.

Imports

The significant rebound in economic activity following the easing of COVID-19 restrictions is expected to flow through to higher goods imports in the second half of 2020–21 and beyond. In year-average terms, Queensland's goods imports (overseas and interstate) are still forecast to fall by 5½ per cent in 2020–21, before rising by 8½ per cent in 2021–22 as the domestic economy recovers and demand for imports increases.

2.4.6 Labour market

Queensland's labour market has recovered rapidly from the COVID-19 downturn in June quarter 2020. Between March and May 2020, employment fell by 198,300 persons (or 7.7 per cent), the largest decline in the history of the series. The participation rate fell from 65.5 per cent in March to 61.7 per cent in May 2020, the state's lowest rate since the 1980s.

These declines likely would have been more significant if not for the substantial government support at both a national and state level, including the JobKeeper wage subsidy program, which ensured that many Queenslanders who were working zero hours remained notionally employed.

The number of people who were employed but worked zero hours for economic reasons in Queensland rose from 12,000 in March 2020 to 126,800 in April 2020 and did not return to pre-COVID-19 levels until late 2020. Reflecting this, the number of hours worked in Queensland fell by 9.1 per cent between March and April, with the unemployment rate rising from 5.8 per cent in March 2020 to a peak of 8.7 per cent in July 2020.

However, since May 2020, Queensland's labour market has recovered much faster and further than initially anticipated, in line with the stronger than expected recovery in domestic activity.

Employment in Queensland increased by 253,200 persons between May 2020 and April 2021, exceeding its pre-pandemic level.

Partially reflecting this strong employment growth, the participation rate rebounded strongly and has remained above its pre-pandemic level since September 2020. While the rebound in the participation rate from 64.1 per cent to 66.4 per cent has tempered the recovery in the unemployment rate, it has still fallen substantially, from a peak of 8.7 per cent in July to 6.1 per cent in April 2021.

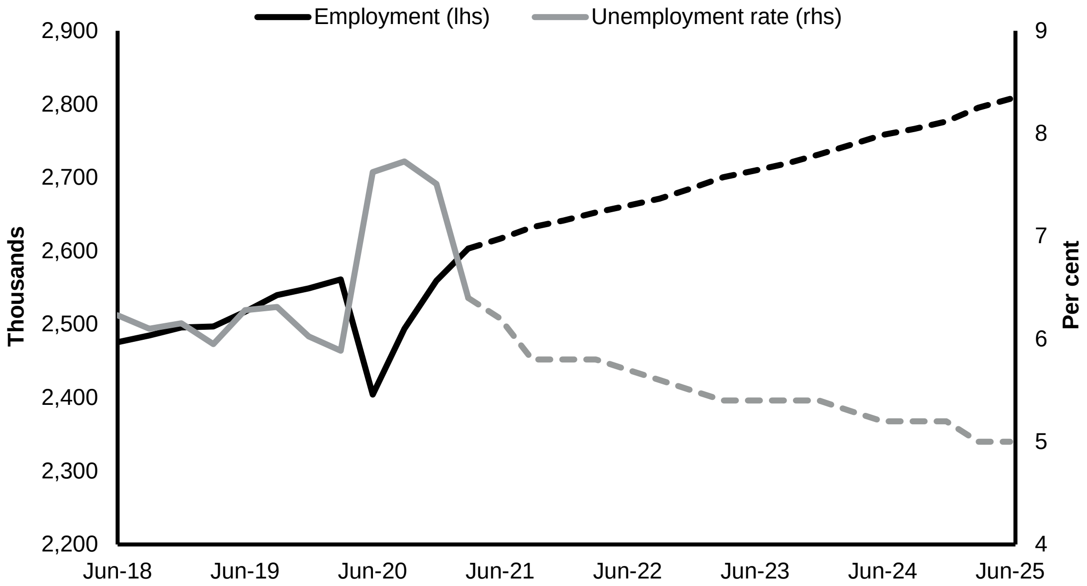
Employment fell by 7,400 persons in April 2021, suggesting that the end of the JobKeeper program contributed to the disruption in Queensland's post-pandemic employment growth, particularly in sectors and regions exposed to international travel and tourism.

Supported by robust household consumption growth and the current surge in housing construction, employment is expected to grow by 2¼ per cent in 2020–21 and strengthen further to 3 per cent in 2021–22.

From 2022–23, employment growth is expected to moderate to 1¾ per cent per annum, in line with growth in economic activity returning to around pre-pandemic rates and slightly above population growth.

The unemployment rate is expected to average 6¼ per cent in June quarter 2021. Supported by strong employment growth, the unemployment rate is forecast to fall further to 5¾ per cent in June quarter 2022, before improving further to 5 per cent by June quarter 2025 (Chart 2.5).

Chart 2.5 Employment[1] and unemployment rate[2] outlook[3], Queensland



Notes:

1. Seasonally adjusted, quarterly, thousand persons.
2. Seasonally adjusted, quarterly, per cent.
3. June quarter 2021 onwards are forecasts.

Sources: ABS Labour Force and Queensland Treasury.

Box 2.2 Participation and unemployment rate trends

The decision to seek work and therefore participate in the labour force is strongly influenced by the likelihood of finding employment. Reflecting the "encouraged worker effect", robust employment growth can lead to a higher participation rate, as prevailing labour market conditions make potential workers more confident of securing work.

A key driver of high labour force growth is population growth, including net interstate and overseas migration. Historically, periods of strong employment growth have coincided with high migration, as interstate and overseas residents relocate to Queensland to pursue better employment opportunities.

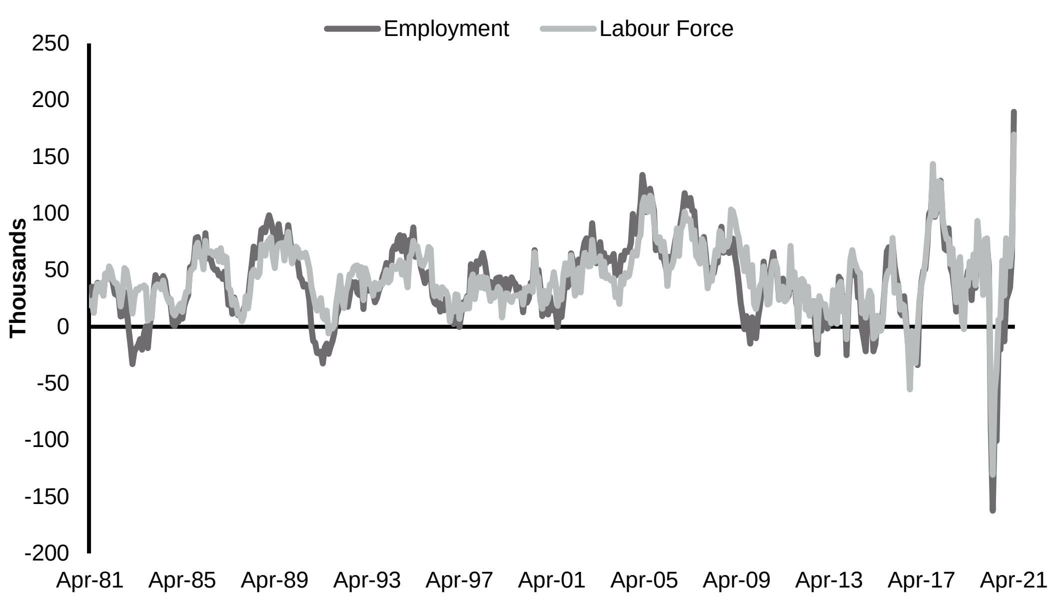
As a result, periods of strong jobs growth in Queensland do not always translate directly into a falling unemployment rate. Instead, employment growth encourages rising participation, including via migration, with many new labour force participants not finding work immediately. Additionally, many new participants may be entering the labour market for the first time or may be re-entering the labour force after a long time.

The strong recovery in Queensland's labour market from the COVID-19 shutdowns in April 2020 has highlighted aspects of the encouraged worker effect. Between May 2020 and April 2021, employment in Queensland increased by 253,200 persons. At the same time, the participation rate increased by 4.7 percentage points, reflecting growth in the labour force by 222,100 persons.

As a result, because the participation rate is now almost 1 percentage point higher than its pre-crisis level, the unemployment rate of 6.1 per cent in April 2021 remains slightly above its level of 5.8 per cent before COVID-19.

Chart 2.6 highlights the extent to which labour force growth in Queensland has moved in line with employment growth over time, thereby tempering changes in the unemployment rate.

Chart 2.6 Growth in Employment and the Labour Force, Queensland[1]



Note:

1. Seasonally adjusted, Monthly, annual difference, thousand persons.

Source: ABS Labour Force Survey

These trends highlight that the unemployment rate is an imperfect measure of labour market performance, and should be considered alongside other metrics, including employment growth and the participation rate.

The performance of Australian jurisdictions in relation to these labour market indicators has varied considerably over time, reflecting a range of structural and demographic factors. Despite often strong employment growth, Queensland has generally tended to have an unemployment rate higher than the national average over many decades.

Since the start of the ABS monthly Labour Force series in February 1978, Queensland's seasonally adjusted monthly unemployment rate has been above the national rate for 75 per cent of all months, by an average of 0.5 percentage point.

At the same time, Queensland has recorded a higher monthly participation rate in 71 per cent of the months since February 1978, with the state's participation rate, on average, being 0.7 percentage point higher than the national rate.

Queensland's generally higher unemployment rate over time reflects a range of factors, including differences in labour force growth and participation (including higher youth participation), as well as differences in industry structure, demographic characteristics, and Queensland's more geographically dispersed population compared with other jurisdictions.

Regional labour markets

Queensland's major tourism regions of the Gold Coast, Sunshine Coast and Cairns initially endured the most significant impacts of COVID-19. Between mid-March and mid-April 2020, the number of employee jobs fell by more than 10 per cent in all 3 regions, the largest falls of the regions in Queensland.

As restrictions were eased in the second half of 2020 and domestic travel resumed, labour market conditions in these regions recovered. However, international border closures have meant that overall tourism activity remains below its pre-pandemic level.

Other regional economies more reliant on mining and agriculture have not been impacted as heavily by COVID-19. Agricultural production has not been significantly affected and, while prices declined in the initial stages of the pandemic, they had generally recovered to be above pre-COVID-19 levels by late-2020. Similarly, metals mining production was largely unaffected by the pandemic, with most large producers reporting that their production levels were not substantially impacted.

The coal mining regions of Central Queensland and Mackay–Isaac–Whitsunday have been affected by the lower coal prices throughout the second half of 2020, with Queensland Mines Inspectorate data showing the number of workers at Queensland coal mines fell by 6.1 per cent over the year to December quarter 2020.

Box 2.3 Queensland's economic recovery – a strong performance

Queensland's economic recovery from the COVID-19 induced downturn in 2020 reflects the state's success in controlling the spread of the virus and is highlighted in a range of key economic indicators.

Following a 7 per cent rebound in September quarter 2020, domestic activity continued to recover in the December and March quarters, to be 3 per cent above the pre-COVID-19 level of March quarter 2020. This was almost double the 1.7 per cent growth in the rest of Australia's domestic economy over the year to March quarter 2021.

Of the states, only Western Australia recorded higher growth over the year (up by 3.8 per cent), while growth in New South Wales was only 1.9 per cent, and domestic activity in the Victorian economy remained 0.3 per cent below its pre-COVID-19 level.

Other key indicators of economic activity are also showing Queensland out-performing the rest of the nation:

- real retail turnover rose by 6.2 per cent over the year to March quarter 2021, stronger than the rest of Australia (up 4.3 per cent)
- the number of dwellings approved in Queensland in the first 4 months of 2021 was 58.4 per cent higher over the year, compared with growth of only 29.2 per cent in the rest of Australia
- total dwelling starts were up 29.3 per cent in Queensland over the year to December quarter 2020, compared with growth of 17.4 per cent in the rest of Australia
- the value of dwelling finance commitments to households (excluding refinancing) was up 118 per cent over the year to April 2021, compared with growth of 59.9 per cent in the rest of Australia
- net interstate migration to Queensland totalled more than 30,000 over 2020, with Western Australia the next highest state with a net increase of 1,385 residents. The 2021–22 Federal Budget has forecast just under a cumulative 85,000 additional net interstate migrants to Queensland by June 2025.

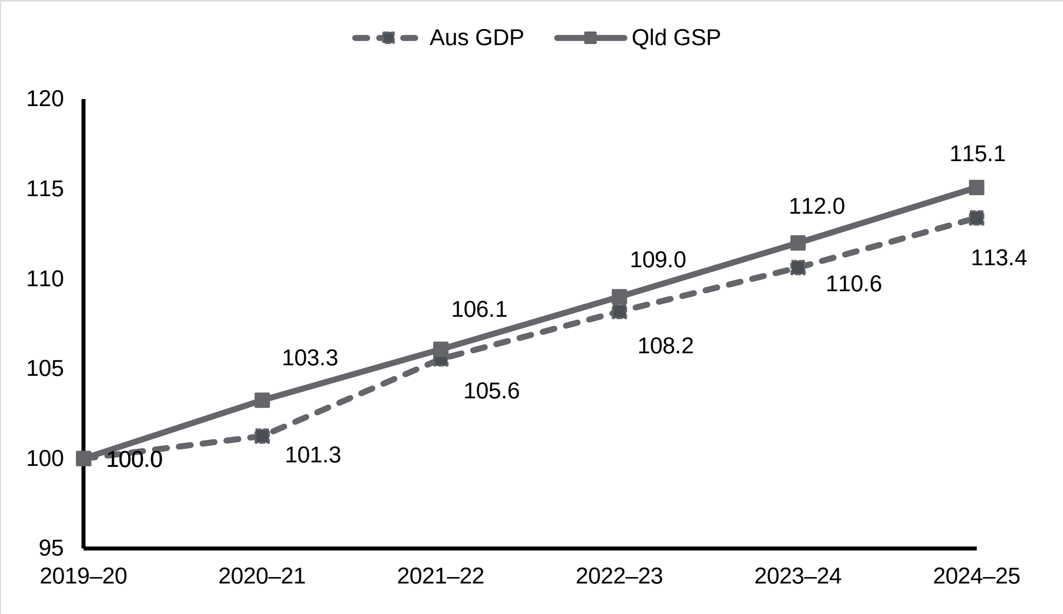
The state's success in controlling the virus, combined with the significant government stimulus, including the Queensland Government's *Economic Recovery Plan*, has underpinned consumer and business confidence. In turn, this has driven a strong recovery in household consumption and private investment.

Reflecting the improved domestic conditions, Queensland GSP is forecast to rebound by 3¼ per cent in 2020–21, with robust ongoing growth of 2¾ per cent forecast for 2021–22 and in each subsequent year across the forward estimates.

In comparison, the national economy is forecast by Australian Treasury to grow 1¼ per cent in 2020–21, 4¼ per cent in 2021–22 and 2½ per cent in 2022–23. Importantly, Queensland's faster recovery means that aggregate growth across the 3 forecast years will be stronger in Queensland (around 9 per cent) than for the nation as a whole (8¼ per cent).

If the last 2 'projection' years of the forward estimates period are included, aggregate growth in Queensland of around 15 per cent over the five years further outpaces national growth of around 13½ per cent (Chart 2.7).

Chart 2.7 GDP/GSP outlook[1] – Queensland's comparative growth



Note:

1. Index points, 2019–20 = 100.

Sources: Australian Treasury and Queensland Treasury.

The strong recovery in the domestic economy has seen Queensland already recover all of the jobs lost during the COVID-19 crisis period. Employment in Queensland has rebounded to be 54,900 persons higher in April 2021 than its pre-pandemic level in March 2020.

Importantly, Queensland has recorded the strongest employment growth of any jurisdiction since March 2020.

In comparison, New South Wales' employment in April was 33,400 persons below its pre-pandemic level, while Victoria was only 6,500 persons above its March 2020 level (Chart 2.8).

Chart 2.8 Growth in Employment[1] since March 2020 (i.e. pre-COVID-19)

Note:

1. Seasonally adjusted, thousand persons.

Source: ABS Labour Force.

2.4.7 Prices and wages

The rebound in Brisbane's consumer price index (CPI) has been stronger than initially expected following the historic 2.2 per cent decline in the CPI in June quarter 2020. The CPI increase reflected a stronger-than-expected rebound in global oil prices which has flowed through to higher automotive fuel prices. CPI growth in 2020–21 is now expected to be 2 per cent, markedly higher than the 2020–21 Budget forecast of 1¼ per cent.

Beyond 2020–21, continued price growth in the housing market in 2021–22 is expected to offset the Australian Government's discontinuation of the 12.5 per cent annual increase in the tobacco excise.

Spare capacity in the Queensland labour market is likely to result in little upward pressure on wages and prices in the near-term. As a result of these trends, CPI growth is expected to remain modest over the medium-term, before returning to within the RBA's target band as the labour market continues to tighten and the unemployment rate falls towards 5 per cent.

2.4.8 Population

Queensland's population growth in 2019–20 was negatively impacted by the COVID-19 pandemic. International travel restrictions implemented in late-March 2020 curtailed net overseas migration in the June and September quarters of 2020. Further impacts on net overseas migration are expected over the remainder of 2020–21, including in March quarter 2021, due to an expected large decline in international student arrivals.

The relaxation of interstate border restrictions in the second half of 2020 has meant interstate migration has been only minimally impacted by the pandemic, and strengthening domestic activity is expected to see interstate migration returning to more normal levels over time.

Over the past several decades, consistent positive net interstate migration has underpinned Queensland's population growth, out-stripping the national average. In addition to the State's enviable lifestyle, Queensland's climate, competitive taxation rates and relative housing affordability have been key drivers in attracting interstate migrants.

These fundamental drivers remain in place, with the latest (May 2021) CoreLogic data showing the Brisbane median dwelling price of $574,572 was around 41 per cent below that in Sydney ($970,355) and around 22 per cent below Melbourne ($740,562).

Natural population increase is not expected to be materially impacted by the pandemic, with only minor changes to birth and death rates.

On balance, Queensland's population growth is forecast to slow to one per cent in both 2020–21 and 2021–22, before gradually strengthening to 1¼ per cent in 2022–23 and 1½ per cent in both 2023–24 and 2024–25, in line with the expected easing of restrictions on international travel. Reflecting the anticipated normalisation of interstate migration levels, Queensland's population growth is expected to be slightly stronger than that nationally over the forecast period.

2.5 Risks to the outlook

The key risks to the economic outlook remain centred around the global pandemic. In addition to the risk of new outbreaks, there is considerable uncertainty about the pace of the vaccine rollout and the ultimate process for reopening of international borders.

As the domestic economy recovers, it is expected that governments will continue to wind back the substantial economic stimulus introduced in response to the crisis. So far, the pace of withdrawal does not appear to have adversely impacted the recovery, with many major fiscal policy measures introduced during 2020 having already been wound back or ceased, but domestic activity has continued to rebound strongly. Therefore, risks related to the potential withdrawal of stimulus measures have arguably reduced since the time of the previous Budget.

However, a high level of monetary policy stimulus remains in place and the timing of any return to more normal monetary policy conditions remains an ongoing challenge for the RBA, given the likelihood that any premature tightening of monetary policy may materially impact sentiment and activity.

At the international level, while the recovery in activity now appears to have considerable momentum, the global economy remains exposed to potential new variants of COVID-19 and further waves of infection, as well as the ongoing uncertainty around the timing and effectiveness of vaccine rollouts in some major economies.

In addition to these various risks related to the pandemic, trade tensions between China and Australia remain an ongoing source of risk and uncertainty related to the outlook for some key Queensland exports.

Table 2.2 Queensland economic forecasts[1], by component

	Actuals	Forecasts		
	2019–20	2020–21	2021–22	2022–23
Economic output[2]				
Household consumption	-1.1	5¼	3	2½
Dwelling investment	-7.1	12½	9¾	-2½
New and used	-13.9	11	20½	1
Alterations and additions	2.6	14	-2½	-7½
Business investment	-6.6	-6	4	7½
Non–dwelling construction	-8.5	-4¾	3	7½
Machinery and equipment	-4.1	-7¼	5¼	7¼
Private final demand	-2.2	4½	3¼	2¾
Public final demand	6.5	4½	3¾	3
Gross state expenditure	-0.3	4¾	3¾	2½
Overseas goods and services exports	-4.5	-15¾	5¾	10¼
Overseas and interstate goods imports	0.6	-5½	8½	4½
Gross state product	**-0.7**	**3¼**	**2¾**	**2¾**
Nominal gross state product	-1.5	2¼	6¾	5¼
Employment[3,4]	0.6	2¼	3	1¾
Unemployment rate[5,6]	7.6	6¼	5¾	5½
Inflation[3]	1.2	2	1¾	1¾
Wage Price Index[3]	1.9	1¾	2¼	2¼
Population[3]	1.7	1	1	1¼

Notes:

1. Unless otherwise stated, all figures are annual percentage changes.
2. CVM, 2018–19 reference year, except nominal GSP.
3. Annual percentage change, year-average.
4. The comparable through-the-year employment growth rates to the June quarter (seasonally adjusted) are -4.5 per cent, 8¾ per cent, 1¾ per cent and 1¾ per cent, from June quarter 2020 to June quarter 2023 respectively.
5. Per cent, June quarter average, seasonally adjusted.
6. The comparable year-average unemployment rates are 6.4 per cent, 7 per cent, 5¾ per cent and 5½ per cent, from 2019–20 to 2022–23, respectively.

Sources: ABS National, State and Territory Population, Labour Force, Wage Price Index, Consumer Price Index and Queensland Treasury.