2 Economic performance and outlook

Features

- The coronavirus (COVID-19) pandemic has delivered an unprecedented shock to the global economy, leading to substantial business closures, job losses and declines in economic activity, industrial production and trade across the world. The data indicates that economic outcomes are more favourable where health outcomes are better.
- The pandemic and related restrictions on business and personal activities led to a record 5.9% fall in domestic economic activity in Queensland in the June quarter of 2020. However, this result is relatively favourable compared with the 7.4% fall in national domestic activity and declines in New South Wales (down 8.6%) and Victoria (down 8.5%).
- Importantly, Queensland's success in containing the spread of the virus means the June quarter is now expected to be the lowest point in the COVID-19 economic cycle. The substantial and ongoing relaxation of restrictions across the state, as well as the substantial income support and stimulus provided across all levels of government, facilitated a strong rebound in domestic activity in the September quarter.
- Domestic and external conditions have continued to evolve since the COVID-19 Fiscal and Economic Review (C19-FER) but currently appear to be on different trajectories. Many indicators of Queensland's domestic economy have continued to improve, but the resurgence of COVID-19 cases globally, weaker trading partner growth, and increasing trade and geopolitical tensions mean the global outlook has weakened further and remains the key risk to the state's economic outlook.
- On balance, Queensland's Gross State Product (GSP) is still forecast to return to marginal growth (up ¼%) in 2020-21, unchanged from the C19-FER forecast. However, economic growth is expected to strengthen substantially to 3½% in 2021-22, with ongoing solid growth of around 2¾% in the later years of the forward estimates.
- COVID-19 has also had a substantial impact on the Queensland labour market. Between March and May 2020, seasonally adjusted employment in Queensland fell by 205,400 persons (or 8.0%), the largest two-month decline on record.
- However, reflecting the ongoing recovery of the state's domestic economy, labour market conditions have improved substantially since May, with employment rebounding by 205,900 persons to be 500 persons above the pre-pandemic level in March 2020.
- The latest ABS *Labour Force* survey provided another very strong employment result for Queensland in October 2020 (up 25,300 persons) as well revising up the level of employment in September by 20,200 and August by 16,300 (on top of the previous month's upward revision of 37,900 for August 2020).
- Consequently, the current employment profile (as of October data) is very different from what the state was facing at the time of C19-FER (when July data showed employment still 138,200 below the pre-COVID-19 level in March). In addition to the stronger than expected

recovery in domestic activity in the September quarter, these results help explain the difference in employment forecasts since C19-FER was published in early September.

- In year-average terms, employment is now forecast to rise 1% in 2020-21 (compared with a 3% decline at C19-FER), while in quarterly, seasonally adjusted terms, employment is forecast to rise by 6¾% (around 160,000 persons) through the year to June quarter 2021.
- In quarterly terms, the seasonally adjusted unemployment rate is now expected to have peaked at 7.9% in September quarter 2020, lower than the 9% peak expected in December quarter 2020 at C19-FER.
- The year-average unemployment rate is forecast to average 7½% in 2020-21 (down from 8½% at C19-FER) and improve steadily over coming years, falling to 6½% by 2022-23.

2.1 International conditions

The COVID-19 pandemic provided a shock to the world economy that was unprecedented in its severity over such a short period of time. The global response, which included the introduction of social distancing measures and business shutdowns, led to substantial job losses and declines in economic activity in numerous countries.

Central banks around the world responded by cutting interest rates to near or below zero, and governments globally have provided significant fiscal support to ease the impact on households and businesses. Nevertheless, the International Monetary Fund's (IMF) latest economic growth forecasts show that the global economy is expected to contract 4.4% in 2020, compared with a fall of only 0.1% in 2009 at the height of the Global Financial Crisis.

The global economy appeared to have entered a recovery phase in the September quarter. Goods consumption surged, with retail trade turnover in many economies (including Australia) recovering to be above pre-COVID-19 levels. Global trade in goods had also started to recover in line with this increased demand.

However, substantial risks remain in the global economy and the pace of recovery is uneven and uncertain, as the ongoing extent of virus outbreaks varies significantly across countries.

In China, the economic recovery is well underway after successfully containing the spread of the virus and restrictions on activity having largely been removed. Recent data indicates the Chinese economy is growing, led by significant property and infrastructure investment, while China's exports have recovered as global economic activity has picked up. The IMF forecasts that China's economy will grow by 1.9% in 2020 and 8.2% in 2021.

In contrast, the United States and various countries throughout Europe have experienced significant resurgences of the virus as they enter their winter months. Many European countries (including the United Kingdom) have responded by re-imposing full or partial lockdowns that are likely to substantially impact the timing and extent of recovery in these economies.

The economic recoveries in several of Queensland's major trading partners, including India and Japan, have slowed due to persistently elevated COVID-19 cases.

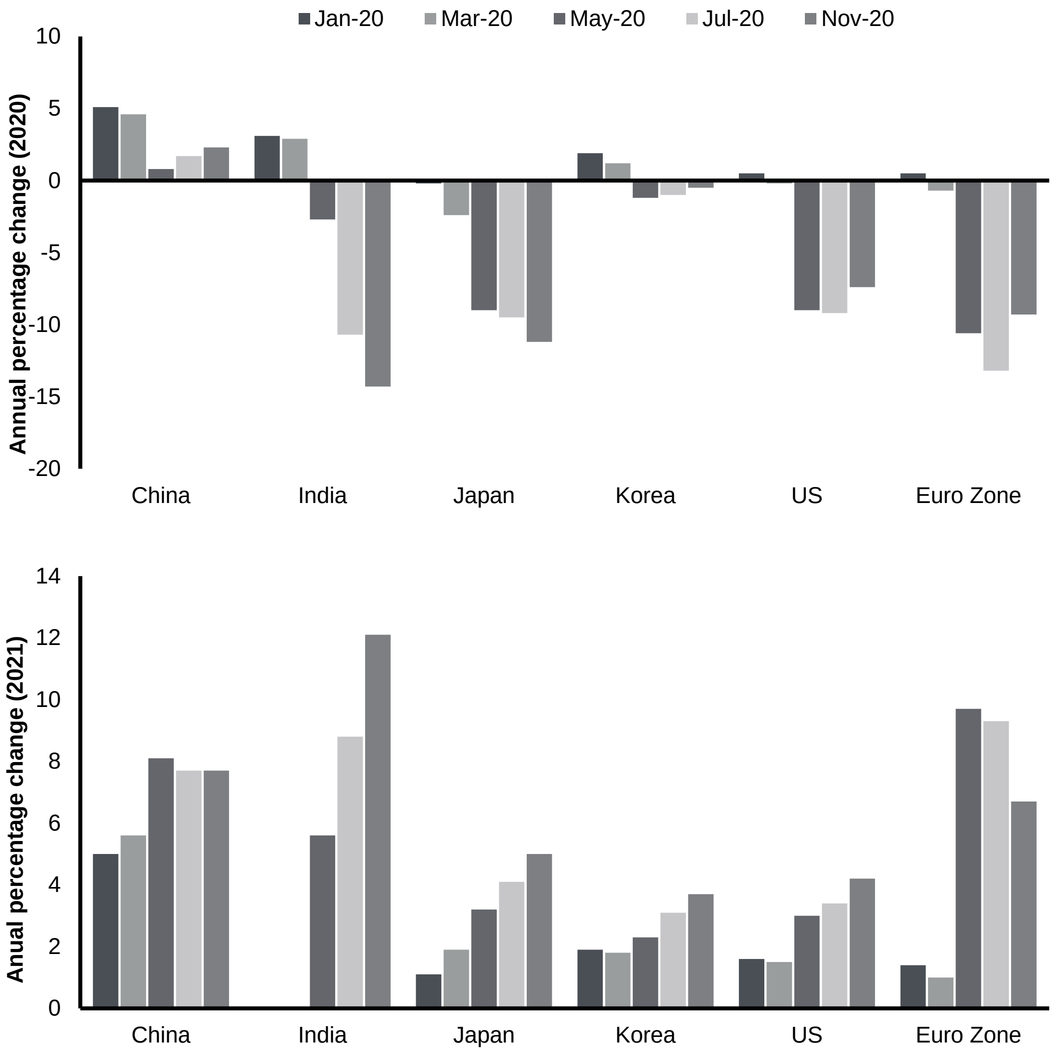
Despite the recent increase in COVID-19 cases in many countries, there has been positive news on the development of a vaccine. Recent medical trials have indicated an effective vaccine could potentially be approved in late 2020, with widespread availability of the vaccine possible in 2021.The logistics of a large scale roll out of these vaccines is unclear, both in the physical delivery benefits of the product and vaccination rates sufficient to provide health and economic benefits.

In addition to the impacts of COVID-19, geopolitical and trade tensions between various countries remain a key risk to the global economy. In particular, trade tensions between the United States and China, which were a significant hindrance to global trade flows pre-COVID-19, continue to linger despite the two countries entering a Phase 1 trade agreement in early 2020. The implications of the outcomes of the November 2020 Presidential Election in the United States on trade will become clearer over time.

Notwithstanding the recent signing of the Regional Comprehensive Economic Partnership, trade disputes also remain elsewhere around the globe, including between the United Kingdom and the European Union, and also between China and numerous other countries, including Australia.

Reflecting a combination of these factors, industrial production forecasts for Queensland's major trading partners have been downgraded throughout 2020 (Chart 2.1), thereby lowering demand, and consequently prices, for several of Queensland's key commodity exports.

Chart 2.1 Industrial production forecasts for Queensland's major trading partners for 2020 and 2021, by edition[1]



Note:

1. Forecasts for India were not available in the January 2020 and March 2020 editions of the consensus forecast

Source: Consensus Economics, various editions in 2020.

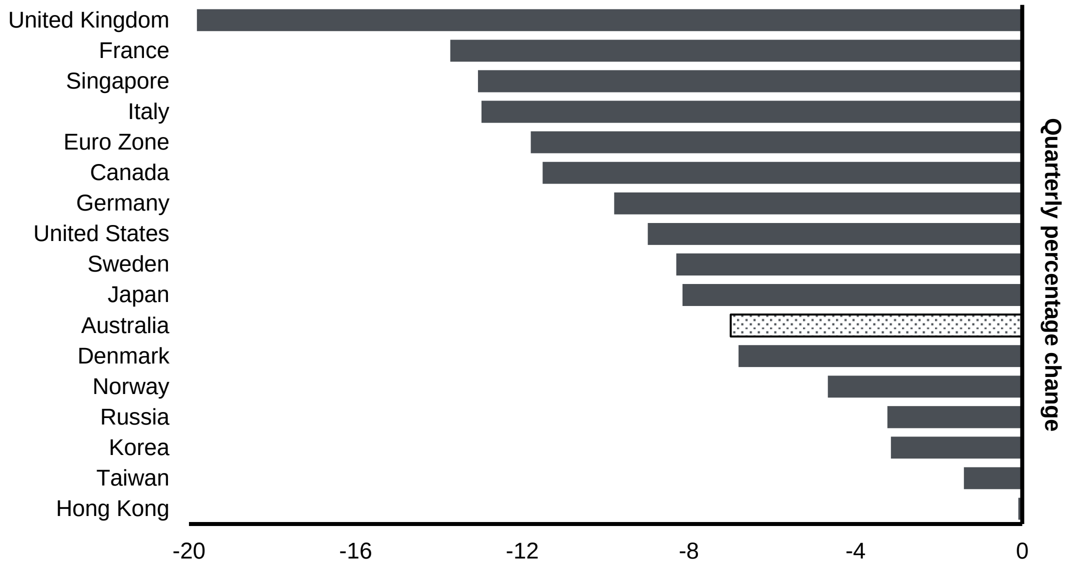
2.2 National conditions

Despite Australia's relative success in containing the spread of COVID-19, the global pandemic continues to impact substantially on the national economy. The global recession, international travel restrictions and national lockdown in April and May severely impacted economic activity.

Following a decline of 0.3% in the bushfire-affected March quarter, GDP contracted 7.0% in the June quarter, with Australia entering its first official recession in almost 30 years.

While this 7.0% quarterly decline in Australian GDP dwarfed the previous record of -2.0% in June quarter 1974, it was relatively modest when compared with many economies around the globe (Chart 2.2). Importantly, many of the countries that had relative success in containing the spread of the virus (such as Australia, Hong-Kong, Taiwan and Korea) also experienced a smaller decline in economic output than those that experienced more widespread outbreaks (such as the UK, Italy, France and the USA).

Chart 2.2 International comparison of June quarter 2020 GDP falls[1]



Note:

1. Constant prices, quarterly, seasonally adjusted.

Source: Datastream.

Subsequent reductions in the spread of COVID-19 have allowed a significant easing of restrictions across much of the country, and the national economy is expected to have returned to growth in September quarter 2020 and to continue to recover into 2021 as restrictions are further eased.

Despite second wave related lockdowns in Victoria, the improved outlook reflects a stronger than expected pick-up in activity and jobs in other jurisdictions in September quarter 2020.

Australian Treasury forecasts national GDP to contract 1½% in 2020-21 (upgraded from a fall of 2½% forecast in the Australian Government's July *Economic and Fiscal Update*), before rebounding to 4¾% growth in 2021-22. Growth is then expected to moderate to 2¾% in 2022-23 and 3% in 2023-24 (assuming the economy moves back towards its potential output level).

A recovery in employment is expected to see the national unemployment rate peak at 8% in the December quarter, before easing to 7¼% by June quarter 2021 and 6½% by June quarter 2022.

2.3 Key assumptions

Key assumptions underpinning the forecasts for the Queensland economy include:

- The ongoing low number of active COVID-19 cases means a substantial second wave of the virus in Queensland is not factored into the forecasts. The unwinding of virus restrictions is expected to enter Stage 6 by the end of 2020 and remain at that level in 2021.
- Interstate borders are not expected to fully re-open until late 2020, while international border closures are expected to remain in place for longer, until at least the latter half of 2021. This assumption on international borders is consistent with the approach taken in the Commonwealth 2020-21 Budget released in October 2020.
- An effective vaccine is not expected to be widely available until late 2021.
- The Reserve Bank of Australia (RBA) is assumed to keep the cash rate at very low levels in the near-term, before starting to gradually increase monetary policy settings towards the end of the forecast period.
- The A$ is assumed to average around $US0.72 over the forward estimates.
- Oil production cuts by global producers are expected to continue to underpin oil prices, with the Brent crude oil price expected to increase gradually from US$43/barrel (bbl) in September quarter 2020 to US$60/bbl by mid-2023, as both oil demand and supply recover.
- According to the Bureau of Meteorology, the present La Niña weather pattern is likely to continue until at least the end of summer 2020-21, with the expected improvement in seasonal conditions typically associated with above average rainfall.
- Australia's trade arrangements with China are expected to normalise in 2021-22.

2.4 Queensland conditions and outlook

The global pandemic saw falls in domestic economic activity in Queensland of 0.3% and 5.9% in the March and June quarters of 2020, respectively. Consistent with trends globally, during the height of the lockdown in the June quarter, the jurisdictions that were most successful in containing the spread of the virus generally suffered comparatively less economic impact, with Queensland's 5.9% decline in state final demand well below the national average of 7.4% and the declines in New South Wales (down 8.6%) and Victoria (down 8.5%).

Further, substantial income support and stimulus measures across all levels of government, combined with the opening up of the internal Queensland economy, has facilitated a solid recovery in domestic activity in the September quarter. As a result, the June quarter is now expected to be the lowest point in the COVID-19 economic cycle.

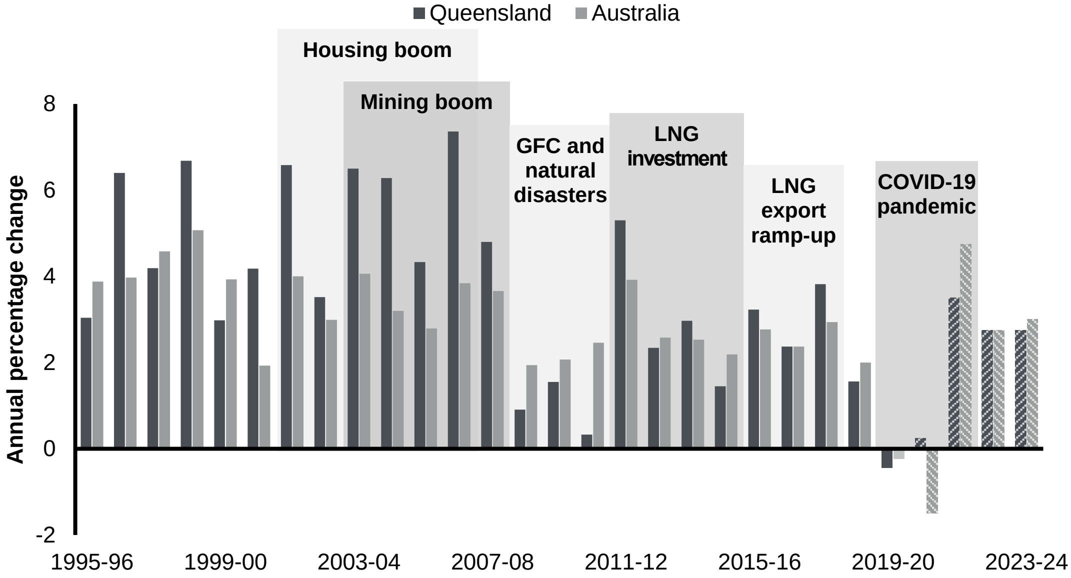
Offsetting the improvement in the domestic economy, a resurgence of virus cases globally, weaker trading partner growth and increasing trade and geopolitical tensions mean the global outlook is more uncertain and expected impacts on Queensland's trade sector have increased.

On balance, GSP is forecast to rise marginally (¼%) in 2020-21, unchanged from the C19-FER forecast. Assuming no further substantial outbreaks of the virus in Queensland, GSP growth is expected to strengthen to 3½% in 2021-22 and then projected to return to its longer-run growth potential of around 2¾% in the later years of the forward estimates.

In comparison, Australian Treasury forecasts national GDP to decline 1½% in 2020-21, before rebounding by 4¾% in 2021-22 off this lower base (Chart 2.3).

Given the economic impact of COVID-19 is likely to be concentrated in 2020, calendar year estimates provide a clearer indication of economic trends. After an unprecedented 2¾% decline in 2020, GSP should rebound to grow by 3% in 2021 and then grow a further 3¼% in 2022.

Chart 2.3 Economic growth[1], Queensland and Australia



Note:

1. Chain volume measure (CVM), 2017-18 reference year, 2020-21 and 2021-22 are forecasts while 2022-23 and 2023-24 are projections.

Sources: ABS National Accounts, Australian Treasury and Queensland Treasury.

In terms of labour market outcomes, the strong recovery in the first four months of 2020-21, substantial upgrades to historical ABS employment estimates and an improved outlook for domestic activity implies year-average employment is now expected to rise 1% in 2020-21 (compared with -3% at C19-FER).

In quarterly terms (seasonally adjusted), the unemployment rate is now expected to have peaked at 7.9% in September quarter 2020, lower than the 9% expected in December quarter 2020 at C19-FER.

The unemployment rate is now forecast to average 7½% in 2020-21 (down from 8½% at C19-FER) and then steadily improve over coming years to 6½% by 2022-23.

Table 2.1 Queensland economic forecasts/projections[1]

	Actuals		Forecasts		Projections	
	2018-19	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**
Gross state product[2]	**1.6**	**-0.4**	**¼**	**3½**	**2¾**	**2¾**
Nominal gross state product	5	-1.2	-3	6¼	4¼	5
Employment[3]	1.4	0.5	1	2¼	2	2
Unemployment rate[4]	6.1	6.4	7½	7	6½	6½
Inflation[3]	1.6	1.2	1¼	1½	1¾	2
Wage Price Index[3]	2.3	1.9	1¼	1½	2	2¼
Population[3]	1.7	1½	1	1	1¼	1½

Notes:

1. Unless otherwise stated, all figures are annual percentage changes.
2. CVM, 2017-18 reference year. 2019-20 GSP outcome is a preliminary estimate and may be revised in the September quarter 2020 *Queensland State Accounts*.
3. Annual percentage change, year-average.
4. Per cent, year-average.

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

Household consumption

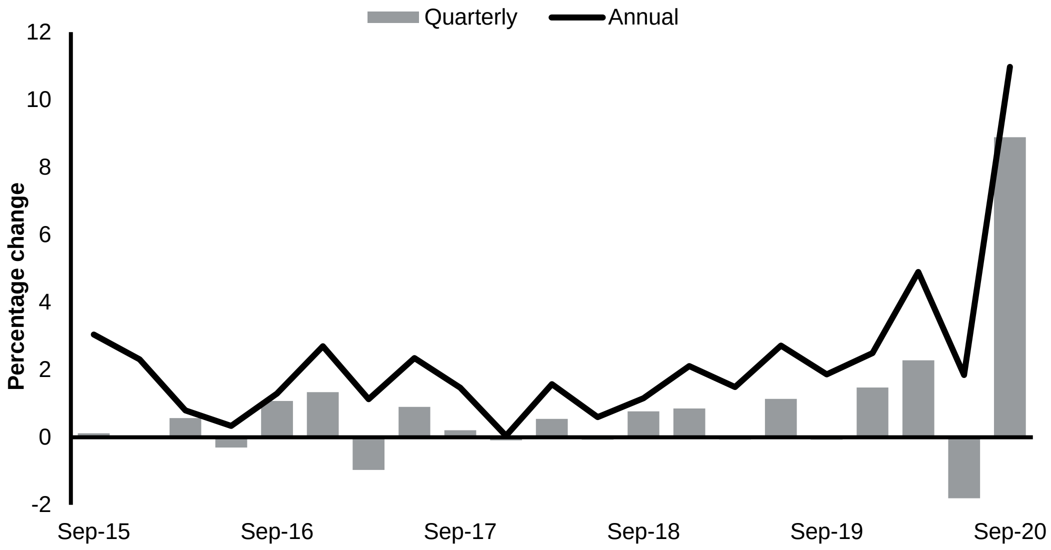
Modest real income growth and a challenging external environment weighed on consumer spending growth in Queensland prior to COVID-19. These trends persisted in the first half of 2019-20, before the pandemic drastically disrupted spending patterns and led to an aggregate 9.3% fall in household consumption across the March and June quarters of 2020.

Despite employment, hours worked and wage income all falling substantially in the June quarter, significant government assistance and income support, early access to superannuation and lower interest rates have underpinned household disposable incomes. However, with spending constrained by virus lockdowns and consumers exercising a greater degree of caution, savings have also increased dramatically, with the national household saving ratio surging from 6.0% in March quarter 2020 to 19.8% in the June quarter.

These boosts to household income, along with the gradual unwinding of virus restrictions in Queensland since May, have driven a significant rebound in household spending in the September quarter (Chart 2.4). Consumer spending patterns will likely normalise from December quarter onward, with consumption levels expected to return to March quarter 2020 levels by March quarter 2021.

However, only relatively modest ongoing growth in consumption is expected in 2021-22 and beyond, in line with the gradual recovery and ongoing challenges in labour market conditions including subdued wages growth, and with major income support measures assumed to have been progressively unwound by that time.

Chart 2.4 Real retail turnover[1], Queensland



Note:

1. Chain volume measure, quarterly, seasonally adjusted.

Source: ABS Retail Trade.

Dwelling investment

Driven by renovation activity, dwelling investment in Queensland showed some tentative signs of a recovery ahead of COVID-19, growing by 3.0% in March quarter 2020. However, the pandemic and related restrictions led to a fall of 7.0% in dwelling investment in June quarter 2020.

Activity in the dwelling sector was initially impacted by social distancing and business restrictions, but the crisis subsequently impacted more broadly by eroding confidence and demand from potential interstate and overseas buyers. However, as restrictions have been eased, there has been a material improvement across a range of indicators in the housing market.

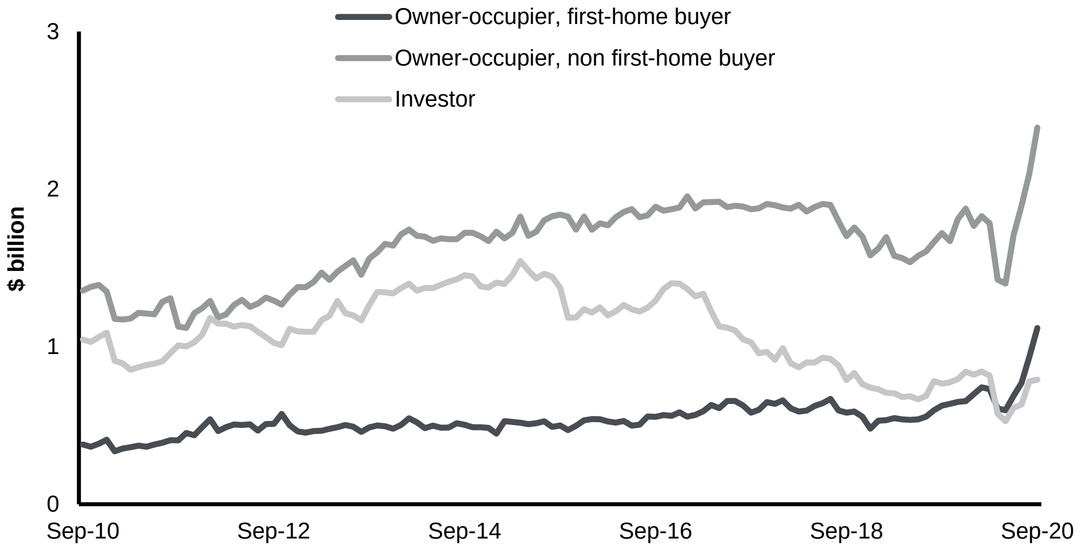
While approvals of new houses fell sharply in May and June 2020, they rebounded strongly from July onwards to be higher than their pre-pandemic level. Further, despite falling sharply in April at the height of the pandemic, finance commitments have increased strongly since May, with loan commitments for owner-occupiers rising well above their pre-pandemic level in March 2020. They are now at their highest level since the inception of the series in July 2002 (Chart 2.5).

Record low interest rates (and firm indications from the RBA that they will stay low for an extended period), along with generous government incentives for new construction, are also supporting this strong rebound in key components of dwelling investment.

Measures such as the State Government's re-affirmed commitment to the $15,000 First Home Owners Grants program and an additional $5,000 Regional Home Building Boost Grant, along with the Australian Government's First Home Loan Deposit Scheme and HomeBuilder grant, are expected to help support residential construction activity.

While these indicators point to strong potential upside risk to the outlook, the flow through impacts from these improvements in the established housing market on new dwelling construction will take some time to be realised. As a result, while the outlook for dwelling investment has improved since C19-FER, activity is still expected to fall modestly in 2020-21, before recovering by a similar amount in 2021-22.

Chart 2.5 Value of new loan commitments to households[1], Queensland



Note:

1. Nominal, monthly, seasonally adjusted, reflects loans for new and existing properties (but excludes refinancing).

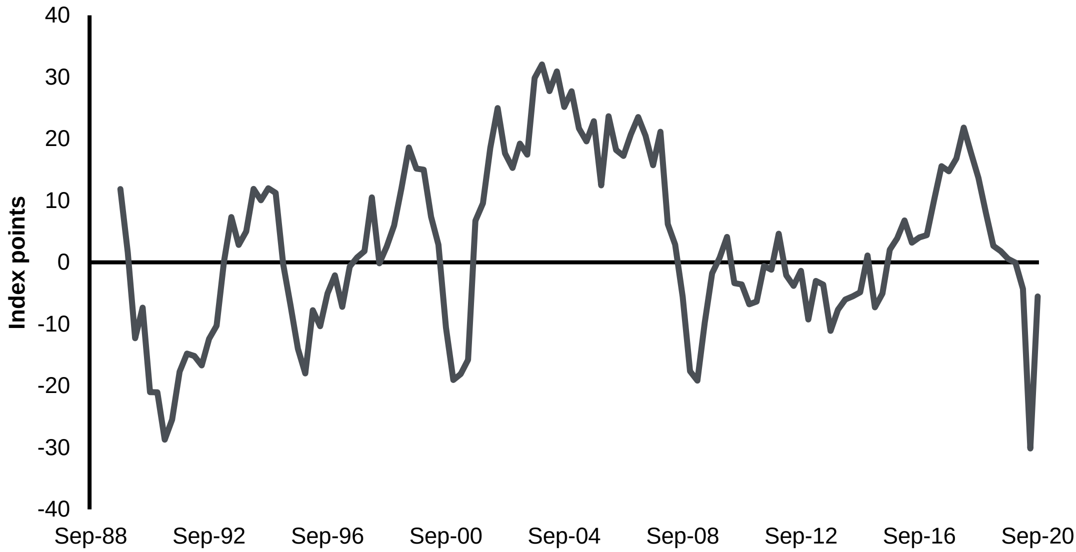
Source: ABS Lending Indicators.

Business investment

The onset of the COVID-19 pandemic in the first half of 2020 saw a marked deterioration in business confidence and conditions. This was especially the case during the March and April lockdown period and business conditions in the June quarter fell to levels last seen during the Global Financial Crisis and the early 1990s recession.

Since that time, success in controlling the virus in Queensland, and the resulting easing of many social distancing restrictions, has led to an improvement in business confidence and overall economic activity, although both remain below their long-term averages (Chart 2.6).

Chart 2.6 Business Conditions, Queensland



Source: NAB Quarterly Business Survey, September quarter 2020, seasonally adjusted by Queensland Treasury.

Importantly, there is generally a lag between changes in business confidence and investment decisions and actual investment spending, particularly for larger long-term building and construction projects. Therefore, notwithstanding the recent recovery in business confidence, business investment is still expected to continue to fall in the near term before recovering.

The value of private non-residential building approvals, a leading indicator of **non-residential building** activity, fell 21.3% in the September quarter compared with the previous quarter. This decline in the approvals pipeline is expected to be reflected in lower building activity in late 2020 and early 2021.

The near-term outlook for **engineering construction** is also clouded by uncertainty, including the ongoing risks to the global outlook. Latest data for private sector engineering commencements recorded a seasonally adjusted decline of 5% in the June quarter. Similarly, continuing uncertainty and a below average level of capacity utilisation (reflecting the reduced demand as a result of the crisis) is expected to see **machinery and equipment** investment decline.

Business investment in Queensland is expected to pick-up from 2021-22. A recovery in demand from the domestic and global economies, combined with an expected reopening of international borders in late 2021 and ongoing low interest rates, will boost business confidence to invest.

Public final demand

Public final demand has grown strongly in recent years, supported by a range of initiatives, including the National Disability Insurance Scheme, substantial investment in roads and the Cross River Rail project. Ongoing expenditure in these areas, along with the Queensland Government's broader $56.031 billion capital works program over the four years to 2023-24, will support further growth in public final demand.

Public final demand is likely to have also been supported by increased health spending due to the COVID-19 pandemic, while at both the state and national level, an unprecedented level of fiscal stimulus has been provided. The Queensland public sector's contribution to growth is especially strong in 2019-20 and 2020-21, with strong spending growth supporting the economy, while private final demand is impacted by pandemic-led declines in business conditions.

Overseas exports and imports

Queensland's overseas exports of goods and services are forecast to fall by 11% in 2020-21 before rebounding by 9¾% in 2021-22.

The global recession caused by COVID-19 has lowered demand for Queensland's key exports, particularly coal and LNG, while travel restrictions have severely impacted Queensland's international tourism exports and are expected to limit international student arrivals in 2021.

Increased rainfall in the summer of 2020-21 is expected to support production and exports of crops. However, this is expected to be more than offset by a decline in beef exports as farmers seek to rebuild their depleted herds in light of the more favourable weather conditions.

However, as the global economy gradually recovers, Queensland's overseas exports are expected to continue to grow across the remainder of the forward estimates period.

Coal

The volume of Queensland's coal exports fell 3.1% in 2019-20, primarily driven by a COVID-19-induced decline in demand in June quarter 2020, with exports 9.8% lower over the year to the June quarter.

This weakness in demand caused benchmark spot prices for hard coking coal and thermal coal to fall 24.5% and 33.4%, respectively, from the beginning of the year to their respective lows in August and September. Coal prices subsequently showed signs of recovery, however media and market reports of restrictions on Australian coal imports by Chinese authorities from the start of October has seen coal prices more recently fall back to around their respective lows for the year.

In the first quarter of 2020-21, the volume of Queensland's coal exports was 8.3 million tonnes lower than in the corresponding quarter in 2019-20. This decline was primarily concentrated in thermal coal exports, which fell by 7.3 million tonnes.

Reflecting the reduced demand in the first quarter, the continued impacts of COVID-19 and the uncertainty surrounding Australian access to the Chinese market, Queensland's coal exports are forecast to fall 8% in 2020-21. However, coal exports are expected to recover by 9¾% in 2021-22 as the global economy begins to recover and demand for coal rebounds.

LNG

The volume of Queensland's LNG exports grew by 2.5% in 2019-20, as new developments boosted gas supply into the east coast domestic market, thereby making more gas available for export. However, the nominal value of Queensland's LNG exports fell 1.1% due to lower prices.

LNG export prices are expected to fall significantly in the second half of 2020, due to the sharp fall in global oil prices in March 2020 (with LNG contract prices linked to oil prices, but with a lag of several months). This is expected to substantially reduce LNG export values.

The reduced global demand for energy substantially reduced oil prices following the falls in 2019 due to the US-China trade tensions. Global oil production cuts have seen the Brent crude oil price rise from a low of US$5.6/bbl on 21 April 2020 to around US$40/bbl from June 2020 onwards, but prices remain well below the level of recent years.

Queensland's LNG volumes have been only modestly affected by the pandemic to date, with export volumes down 4.1% over the year to September quarter 2020, due to significant maintenance being undertaken at all three plants. The volume of LNG exports rebounded in October 2020, with export volumes in the month being the highest on record for Queensland.

Metals

Queensland's metals exports have not been materially impacted by COVID-19. New or expanded production capacity was largely complete by late 2019 and the modest expansion in coming years should be largely offset by continued ore grade decline at several large operations. As a result, exports are forecast to remain around their current level over the forecast period.

Agriculture

The volume of agriculture exports fell 8.0% in 2019-20 as dry conditions persisted across most of the state, reducing the area of crops planted. Notwithstanding improved growing conditions, agriculture exports are forecast to fall a further 6% in 2020-21, driven by a steep decline in beef exports more than offsetting increased crop exports.

Agriculture exports are expected to return to growth in 2021-22, primarily supported by cotton and crop production. Beef production and exports are expected to return to normal levels from 2022-23, providing further growth to agriculture exports over the medium term.

Despite improved rainfall and cattle production conditions, slaughter rates remained relatively high by mid-2020, as a result of elevated cattle prices incentivising farmers to further destock. However, slaughter rates in Queensland have declined so far in 2020-21, with above average winter and spring rainfall seeing farmers starting to rebuild their depleted herds.

The improved rainfall outlook will see herd rebuilding further intensify, constraining beef production and exports until 2021-22, before a return to normal seasonal conditions is expected to see beef exports gradually return to growth.

The outcome for the 2020 harvest season suggests sugar content levels and yields are below levels recorded in the previous years. This is expected to constrain sugar production and exports in 2020-21. Sugar exports are expected to return to growth in 2021-22 due to the more favourable conditions across most cane-growing regions. Despite this, production is anticipated to increase only marginally in the medium term, reflecting limited capacity to increase the area of plantation.

Cotton exports are forecast to decline in 2020-21, due to the season's crop having already been planted before growing conditions improved. However, from 2021-22 cotton exports are forecast to increase substantially as improved rainfall and water storage support production. Reflecting the improved weather conditions, exports of other crops are expected to significantly increase in 2020-21, driven by increased production of wheat, chickpeas and grain sorghum.

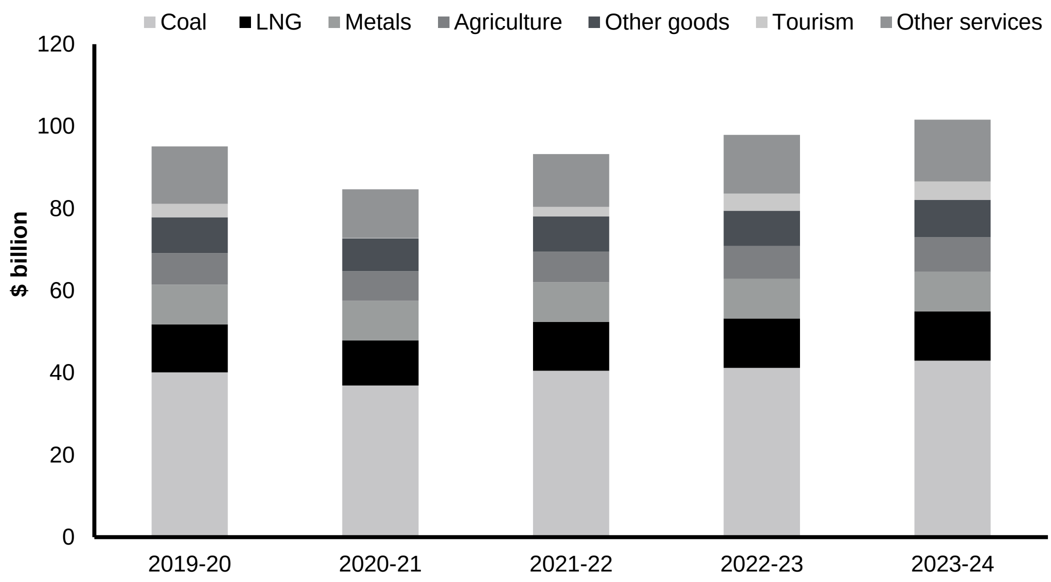
Services exports

International tourist arrivals have fallen to negligible levels due to international border closures. This is expected to remain unchanged until late 2021 when the reopening of international borders should produce a gradual resumption of international travel and tourism.

In contrast to tourism, the initial impact of border closures on education exports was relatively modest, with many international students for 2020 having already arrived in Australia ahead of the border closures in late March 2020. The exception was for Chinese students, reflecting the earlier closure of international borders to travellers from China in January 2020.

With international borders expected to remain closed in early 2021, international students graduating at the end of 2020 will not be replaced to the same extent by new enrolments in early 2021, leading to a substantial fall in student numbers and therefore education exports. Therefore, overall services exports are expected to fall further over the coming quarters before starting to recover as international borders start to reopen.

Chart 2.7 Queensland's overseas exports[1]



Note:

1. CVM, 2017-18 reference year, 2020-21 onwards are forecasts.

Source: Queensland Treasury.

Imports

The significant decline in economic activity as a result of the virus is expected to flow through to lower goods imports in the first half of 2020-21. Goods imports (overseas and interstate) are forecast to fall by 5% in 2020-21 before recovering by 4% in 2021-22 as the domestic economy recovers and demand for imports increases.

Labour market

Reflecting the impacts of COVID-19, between March and May 2020, seasonally adjusted employment in Queensland fell by 205,400 persons (or 8.0%), the largest decline on record.

The decline would likely have been even larger if not for the JobKeeper program keeping people notionally employed. Overall, the number of hours worked in Queensland fell by 9.6% between March and May.

At the same time, the participation rate dropped from 65.5% in March to 61.6% in May, equating to 158,200 persons leaving the labour force over this period. As a result, the increase in the unemployment rate was likely more subdued than it otherwise would have been, rising from 5.6% in March to 7.8% in May 2020.

Since May, there has been a rapid and strong recovery in the Queensland labour market. Employment increased by 205,900 persons between May and October 2020, to be 500 persons above the pre-COVID-19 level in March. Similarly, the monthly number of hours worked in Queensland rebounded between May and October, to be 0.4% above pre-COVID-19 levels.

Queensland is the only state where employment and hours worked have rebounded to above their pre-COVID-19 levels, highlighting the extent of the recovery in the state's labour market following the easing of restrictions due to success in containing the virus.

The participation rate has recovered strongly to 66.6% in October, 1.0 percentage point above its pre-COVID-19 rate in March 2020. This strong rebound in participation has limited the decline in the unemployment rate, which has fallen from a high of 8.8% in July to 7.7% in October.

Looking forward, Queensland's labour market is forecast to continue to recover, in line with the ongoing strengthening of domestic economic activity.

The latest ABS *Labour Force* survey provided another very strong employment result for Queensland in October 2020 (up 25,300 persons) as well revising up the level of employment in September by 20,200 and August by 16,300 (on top of the previous month's upward revision of 37,900 for August 2020).

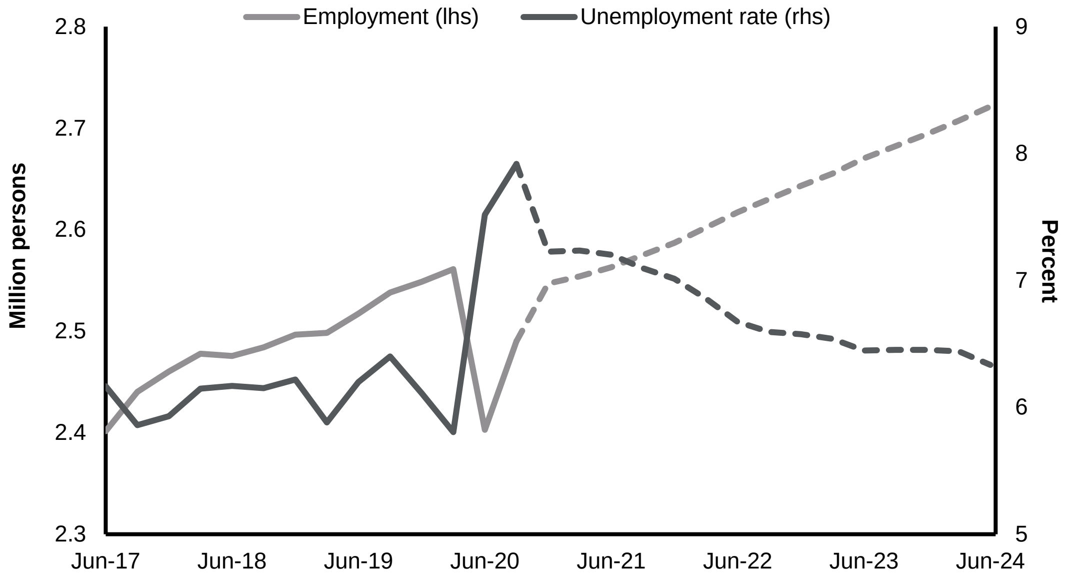
Consequently, the current employment profile (as of October data) is very different from what the state was facing at the time of C19-FER (when July data showed employment still 138,200 below the pre-COVID-19 level in March). In addition to the stronger than expected recovery in domestic activity in the September quarter, these results help explain the dramatic difference in employment forecasts since C19-FER was published in early September.

In year-average terms employment is now forecast to rise 1% in 2020-21 (compared with a 3% decline at C19-FER), while in quarterly, seasonally adjusted terms, employment is forecast to rise by 6¾% (around 160,000 persons) through the year to June quarter 2021.

From 2021-22 to 2023-24, employment is expected to continue to grow by a solid 2% to 2¼% per annum, as the economy continues to recover.

The unemployment rate is expected to have peaked (in quarterly terms) at 7.9% in September quarter 2020 (Chart 2.8), down from the previous C19-FER forecast of 9% in December quarter 2020, before improving steadily over the forecast period to be 6½% by 2023-24.

Chart 2.8 Employment[1] and unemployment rate[2], Queensland



Notes:
1. Seasonally adjusted, quarterly, million persons.
2. Seasonally adjusted, quarterly, percent.

Sources: ABS Labour Force and Queensland Treasury.

Box 2.1 Participation and unemployment rate trends

People's perceptions of their employment prospects (i.e. their perceived chances of getting a job) strongly influence whether they participate in the labour force and actively look for work.

For this reason, strong labour force growth and a high participation rate is generally considered a strong signal of a healthy economy and labour market, as it reflects the confidence of individuals in seeking employment opportunities, often referred to as the 'encouraged worker' effect.

This can include people entering the labour force for the first time and people re-entering the labour force after a period of non-participation. A key driver of high labour force growth can be population growth, including through strong positive net overseas and interstate migration, which often coincides with periods of strong economic growth in Queensland, which can attract people to relocate to Queensland in pursuit of the better employment opportunities.

As such, periods of strong jobs growth in Queensland have at times encouraged many jobseekers into the labour force, with most of the increase in employment having flowed through to a higher participation rate (i.e. the proportion of the civilian working age population who are working or actively looking for work), thereby limiting any reduction in the unemployment rate.

A clear example of this impact was the surge in jobs growth in the 12 months to October 2017, with Queensland recording a 135,100 gain in seasonally adjusted employment over the year. However, this increase was more than accounted for by a 144,900 person increase in the labour force, resulting in the number of unemployed persons rising slightly (up 9,700) over the year.

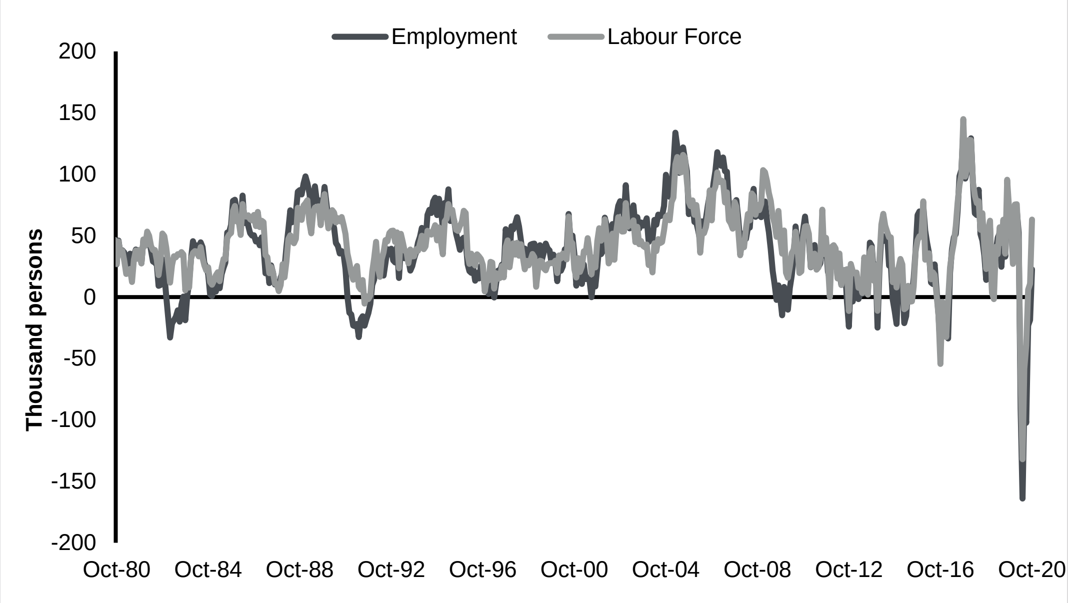
As a result, despite employment rising by an extraordinary 5.8% in the 12-month period, the unemployment rate still rose marginally, reflecting the sharp rise in the participation rate (from 63.5% to 66.1%) over the same period as relatively more people were encouraged to enter the labour force.

More recently, the strong recovery in Queensland's labour market from the COVID-19 shutdowns in April has seen a similar phenomenon.

Despite employment recovering by an exceptional 205,900 persons since May 2020 as the economy recovers, the state's unemployment rate remains elevated compared with the 5.6% before COVID-19, partly reflecting the participation rate increasing by one percentage point to 66.6% in October.

Chart 2.9 highlights the extent to which, in recent times, labour force growth in Queensland has moved in line with employment growth, thereby often limiting changes in the unemployment rate.

Chart 2.9 Growth in Employment and the Labour Force, Queensland[1]



Note:
1. Monthly, annual difference, seasonally adjusted

Source: ABS Labour Force Survey

These trends highlight that, while the unemployment rate is one measure of labour market conditions, the strength of an economy is generally reflected in the strength of jobs growth.

Historically, there have been significant variances between jurisdictions in terms of various labour market outcomes, reflecting a range of structural and demographic factors. In particular, Queensland has generally tended to have a higher unemployment rate than the national average over many decades.

Since the start of the ABS monthly Labour Force series in 1978, Queensland's seasonally adjusted monthly unemployment rate has been above the national rate for 75% of the months. On average, across those 42 years, Queensland's unemployment rate has been around 0.5 percentage points higher than the national rate.

Significantly, over this 42-year period, Queensland has recorded a higher monthly participation rate in 72% of the months, with the state's participation rate, on average, being 0.7 percentage points higher than the national rate.

While each jurisdiction's labour market contains its own unique characteristics, 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 were the hardest hit by the impacts of COVID-19. Between the weeks ending 14 March and 18 April, the number of employee jobs fell by more than 10% in all three regions, the most of any regions in Queensland.

Similarly, between March and May 2020, the proportion of the civilian population receiving JobSeeker/Youth Allowance increased by 5.6 percentage points in the Gold Coast, 5.1 percentage points in Cairns and 4.9 percentage points in the Sunshine Coast, also the most of any regions in Queensland.

However, over the period from the weeks ending 18 April to 31 October, conditions in these regions have improved, with the number of employee jobs up 7.3% in Cairns, 6.9% in the Gold Coast and 6.6% in the Sunshine Coast. Similarly, the proportion of the civilian population receiving JobSeeker/Youth Allowance fell by 1.9 percentage points in Cairns, 1.8 percentage points in the Sunshine Coast, and 1.6 percentage points in the Gold Coast between May and October 2020.

Despite these substantial improvements in labour market conditions in these regions in recent months, all three regions remain among the most affected in Queensland by the COVID-19 crisis.

The state’s other regional economies have been relatively less affected by COVID-19 than those regions more exposed to tourism, with smaller declines in the number of employee jobs and smaller increases in the proportion of the population receiving JobSeeker/Youth Allowance. However, all the state’s regional labour markets were still significantly affected by the initial emergency health restrictions and other impacts of COVID-19 but have been recovering strongly as the state’s domestic economy recovers, with employment in some regions also being buoyed by increased intra-state tourism activity as domestic restrictions have eased.

Price and wages

Brisbane’s consumer price index (CPI) rose 1.2% in 2019-20, the slowest rate of growth in more than 20 years. The pandemic-driven falls in the prices of child care services, pre-school, automotive fuel and electricity all contributed significantly to the Brisbane CPI falling a record 2.2% in June quarter 2020. This resulted in an annual CPI decline of 1.0%, the first annual fall in Brisbane’s CPI since the inception of the series in the 1940s.

In addition to the COVID-19-related price declines, longer term trends in some components continued to impact CPI growth in the June quarter. In particular, falling prices for new dwelling costs and rents have weighed on CPI growth in recent quarters.

Nominal wage growth slowed to 1.9% in 2019-20, down from 2.3% in 2018-19. With excess spare capacity in the Queensland labour market expected to remain for some time, there is likely to be little upward pressure on wages, and subsequently CPI, over the medium-term.

These trends are expected to result in only modest CPI growth of 1¼% in 2020-21, with inflation to then gradually increase over subsequent years as the economy continues to recover.

Population

Queensland's population growth in 2019-20 and 2020-21 is expected to be significantly impacted by the international travel restrictions implemented to combat the spread of COVID-19.

The largest impacts to net overseas migration are expected during 2020-21, particularly in March quarter 2021 due to the expected large drop in international student arrivals. International travel restrictions are expected to remain in place long after domestic social distancing restrictions have been eased.

Early interstate migration data show minimal impact of the crisis and related border closures on Queensland's net interstate migration, with departures falling by more than arrivals. However, the resulting relaxation of interstate border closures should help support interstate migration returning to more normal levels over time.

Reflecting the impacts of the crisis, overall population growth is now expected to slow to 1½% in 2019-20 and slow further to 1% in both 2020-21 and 2021-22, before strengthening to 1¼% in 2022-23 and 1½% in 2023-24.

2.5 Risks to the outlook

The key risk to Queensland's economic outlook is the global evolution of the COVID-19 pandemic. While Australia has been relatively successful in supressing the pandemic, the risk of further waves remains until a successful vaccine is produced and distributed.

While economic activity has already started to recover in many areas of the economy, those firms focused upon international tourism and international education exports continue to be impacted substantially by international border closures. Any delay in a successful vaccine development, manufacturing and distribution risks further impeding the re-opening of international borders and could cause additional damage to the economic prospects in those key sectors.

Internationally, several major economies including the USA, UK and Europe are experiencing an upsurge in COVID-19 incidence. A number of these countries have started to re-introduce full or partial lock downs. This risks a further downturn in the already severe global economic recession, further depressing demand for Queensland's exports and commodity prices, and ultimately flowing through to reduced economic activity and with flow on impacts to state revenues.

In addition to the pandemic, ongoing international trade tensions, including reported trade tensions between China and Australia, remain a substantial risk. Any further escalation of these tensions poses a risk to key exports.

Both domestically and internationally, governments have greatly expanded fiscal and monetary support measures. As the economy recovers, it is appropriate and necessary for all levels of government to wind-back these measures and return to more sustainable fiscal settings and productivity-enhancing reforms to support ongoing economic recovery.

The pace and nature of this ongoing policy adjustment at all levels of government, particularly in terms of major income support and stimulus measures implemented by the Australian Government, pose ongoing risks to the economic outlook.

Asset prices (with flow on impacts on wealth and confidence) have also been supported by historically low interest rates and substantial fiscal policy measures, giving rise to a degree of fragility in financial markets.

Therefore, any increased volatility in financial markets could impact the extent and pace of economic recovery, while the return to normal monetary policy settings over time will need to be carefully managed.

Table 2.2 Queensland economic forecasts[1], by component

	Actuals		Forecasts	
	2018-19	**2019-20**	**2020-21**	**2021-22**
Economic output[2]				
Household consumption	1.9	-0.8	2¼	2½
Dwelling investment	-1.8	-7.7	-5	4¾
New and used	-10.6	-14.9	-6	6
Alterations and additions	13.7	2.5	-4	3¼
Business investment	-7.6	-6.7	-9¾	4¾
Non-dwelling construction	-15.5	-8.1	-8	6¼
Machinery and equipment	5.1	-4.8	-12¼	3
Private final demand	-0.1	-2.0	-½	3
Public final demand	5.2	6.4	6	1
Gross state expenditure	1.0	-0.2	1½	2¾
Overseas goods and services exports	4.5	-3.9	-11	9¾
Overseas and interstate goods imports	3.7	0.4	-5	4
Gross state product	**1.6**	**-0.4**	**¼**	**3½**
Nominal gross state product	5.0	-1.2	-3	6¼
Employment[3]	1.4	0.5	1	2¼
Unemployment rate[4]	6.1	6.4	7½	7
Inflation[5]	1.6	1.2	1¼	1½
Wage Price Index[5]	2.3	1.9	1¼	1½
Population[5]	1.7	1½	1	1

Notes:

1. Unless otherwise stated, all figures are annual percentage changes.
2. CVM, 2017-18 reference year, except nominal GSP. Components not separately reported are other investment (cultivated biological resources, intellectual property products and ownership transfer costs), the balancing item (including interstate goods and services exports, overseas and interstate services imports and inventories) and the statistical discrepancy. 2019-20 GSP outcome is a preliminary estimate, and may be revised in the September quarter 2020 *Queensland State Accounts*.
3. Annual percentage change, year-average. The comparable through-the-year growth rates to the June quarter (seasonally adjusted) are 1.7%, -4.5%, 6¾% and 2% from June 2019 through to June 2022.
4. Per cent, year-average.
5. Annual percentage change, year-average.

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