2 Economic performance and outlook

Features

- The rollout of COVID-19 vaccines and substantial fiscal and monetary stimulus supported a strong rebound in global and national economic growth in 2021. However, the Queensland economy and labour market has outperformed the rest of the nation.
- Strong demand, particularly for goods, combined with severe supply chain disruptions saw global inflationary pressures surge in the latter half of that year. This has prompted central banks, including the Reserve Bank of Australia, to begin monetary policy tightening from the historically low settings in place during the pandemic, to dampen excessive demand while allowing supply chains to hopefully regularise.
- Surges in Omicron variant cases in early 2022, major flooding in South East Queensland, and the Russian invasion of Ukraine and subsequent global sanctions have all impacted the supply side of the economy and exacerbated inflationary pressures.
- The Omicron outbreaks in early 2022 impacted activity and the Queensland economy through widespread initial impacts on labour supply, feeding into some supply chain disruptions. However, Queensland's domestic economic activity still rose in the first quarter of 2022, to be 7.8 per cent higher than its pre-pandemic level, and maintained its stronger performance compared with the major southern states during the COVID-19 crisis.
- The overall economic impact of the floods in February/March 2022, estimated to be around $1 billion, or ¼ percentage point of Queensland's Gross State Product (GSP), is expected to be relatively limited compared with previous major natural disasters as key mining and agriculture regions outside of South East Queensland were mostly unaffected.
- Despite Queensland recently experiencing subdued population growth, the state has seen elevated levels of net interstate migration to Queensland during the pandemic, which has helped support overall population growth and activity.
- On balance, after rising 2.0 per cent in 2020–21, the Queensland economy is now forecast to grow by a further 3 per cent in 2021–22, slightly slower than the 3¼ per cent expected at the time of the 2021–22 Budget Update, reflecting the combined impacts of the 3 major shocks experienced in the first half of 2022.
- Queensland's GSP growth is then forecast to average 2¾ per cent per annum over the rest of the forward estimates, driven mainly by continued growth in the domestic economy.
- Consistent with the ongoing robust growth in domestic activity, in year-average terms employment is forecast to grow by 4¾ per cent in 2021–22—its strongest rate in 15 years—followed by further solid growth of 3 per cent in 2022–23.
- After falling to 4½ per cent in 2021–22, the state's unemployment rate is forecast to remain low across the rest of the forward estimates, between 4 and 4¼ per cent, as sustained employment growth and a pick-up in wages growth keep the participation rate elevated.

2.1 International conditions

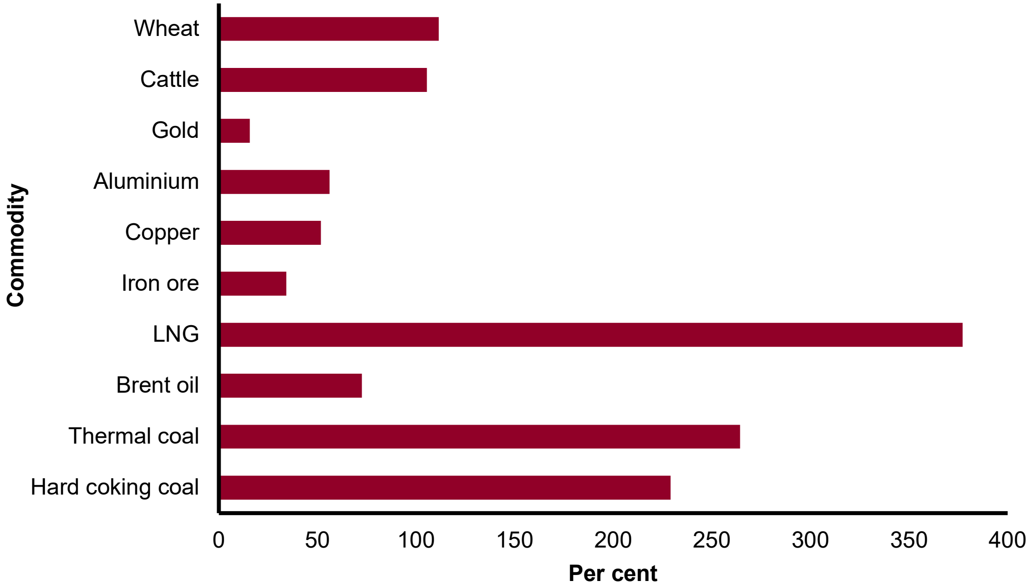
The global economy has undergone immense change since last year's Budget, including a range of key factors impacting significantly on global economic conditions since the 2021–22 Budget Update in December 2021.

At the time of the 2021–22 Budget there were clear signs that the global economic recovery from COVID-19 had begun, with the ongoing rollout of vaccines and substantial fiscal and monetary stimulus programs supporting strong rebounds in sentiment and economic activity. The International Monetary Fund's (IMF) latest estimate indicates global growth rebounded by 6.1 per cent in 2021, following the COVID-19 driven fall of 3.1 per cent in 2020.

Throughout 2021 it became evident that inflationary pressures were building in many advanced economies, with regions including the United States and Europe recording their highest annual inflation in more than 40 years. Strong demand, particularly for goods, combined with severe supply chain disruptions, contributed to elevated inflationary outcomes.

Russia's invasion of Ukraine and ongoing impacts of COVID-19 in China, with several cities in China re-entering strict COVID-19 lockdowns, have exacerbated global supply chain disruptions, adding further upward pressure to global inflation. Russia's and Ukraine's positions as significant producers and exporters of various commodities, including crude oil, natural gas, coal, iron ore and wheat, have contributed to sharp global price rises for these commodities (Chart 2.1).

Chart 2.1 Commodity price growth (January 2020 to May 2022)[1]



Note:

1. Percentage change, in A$ terms.

Sources: Refinitiv, Platts and Meat and Livestock Australia.

While these inflationary pressures were initially thought to be largely transitory in nature, it became increasingly evident that they had become more embedded in the global economy and central banks responded. As a result, there has been a global move to sharply raise interest rates, with many central banks beginning to normalise monetary policy from the historically low ‘emergency’ settings in place during the pandemic.

Reflecting the inflationary pressures and rising interest rates, along with Russia’s invasion of Ukraine and its subsequent spillover effects to broader economic activity, the IMF in April 2022 revised down its most recent forecasts for global growth to 3.6 per cent in both 2022 (down from 4.4 per cent) and 2023 (down from 3.8 per cent). Echoing similar sentiments as the IMF, more recently, the World Bank also downgraded its global growth outlook in 2022 (to 2.9 per cent, down from 4.1 per cent) and 2023 (to 3.0 per cent, down from 3.2 per cent).

In response to the strongest inflation in the country in more than 40 years, the rise in interest rates in **the United States** has been amongst the most aggressive. The United States 2 year Treasury bond yield has risen around 300 basis points since the beginning of September 2021, to be near its highest levels since 2007.

The IMF downgraded its forecast for United States Gross Domestic Product (GDP) growth by 0.3 percentage point in both 2022 and 2023, partly reflecting the expected impacts of higher interest rates. While employment and labour force participation in the United States have yet to return to pre-pandemic levels, the country’s labour market is very tight, with the unemployment rate having fallen to 3.6 per cent and job vacancies remaining at a near record high level.

In **China**, the IMF expect GDP growth to slow from 8.1 per cent in 2021 to 4.4 per cent in 2022 and 5.1 per cent in 2023, with growth in 2022 impacted by extended COVID-19 lockdowns in major cities including Shanghai and Beijing.

The IMF has also revised down the **Euro area** and **United Kingdom’s** (UK) GDP growth forecasts in 2022 by at least a full percentage point each, largely reflecting both jurisdictions’ heavy dependence on Russian energy. The war in Ukraine is expected to be a major drag on Euro area growth in 2022, while **Russia** and **Ukraine’s** economies are forecast to contract by 8.5 per cent and 35 per cent respectively in 2022.

The IMF forecast that **India’s** GDP growth will slow from 8.9 per cent in 2021 to 8.2 per cent in 2022 and 6.9 per cent in 2023. These moderations in part reflect weaker domestic demand due to higher oil prices weighing on private consumption and investment.

Aggregate GDP growth of Queensland’s **major trading partners** (4.2 per cent in 2022 and 4.3 per cent in 2023) is expected to be slightly stronger than the global average. This primarily reflects key trading partners such as China and India (which combined represented around 38 per cent of Queensland’s merchandise exports in 2020–21) both being expected to record stronger economic growth across 2022 and 2023 than the global average.

However, there are substantial risks to the global economic outlook, largely centred around the resolution of the conflict in Ukraine (and related sanctions) as well as global central banks’ ability to curtail some of the strongest inflation outcomes in decades. The impact on global demand from an aggressive and synchronised rise in global interest rates is a risk to the medium-term outlook.

Additionally, there remains ongoing risks associated with the COVID-19 pandemic. In particular, the recent lockdowns of major cities in China highlight the ongoing risks to health and economic activity, as well as flow-on impacts to global supply chains. Despite China's restrictions on the importation of Australian coal and other commodities, China remained Queensland's largest goods export market in 2020–21, representing 24 per cent of total merchandise exports.

2.2 National conditions

The Australian economy rebounded by 4.8 per cent in 2021 following the 2.2 per cent decline in GDP in 2020 as a result of the COVID-19 pandemic. Australia's economy has performed well since the onset of the pandemic compared with most other countries, supported by the relative success in containing outbreaks of the virus, significant fiscal and monetary policy support, and more recently, elevated commodity prices.

Strong rebounds in household consumption and dwelling investment were the main contributors to the rebound in Australia's economic growth in 2021. Substantial fiscal and monetary stimulus, including national and state level support enabling employers and employees to remain engaged throughout the pandemic, assisted the rebound in consumption.

In the dwelling sector, investment in alterations and additions was particularly strong, rising 17.8 per cent in 2021 to a record level. The pandemic driven increase in work-from-home arrangements, combined with the inability to travel overseas and record low interest rates, resulted in many Australians choosing to invest substantially in their own homes.

The economic recovery is continuing in 2022, with GDP up a further 0.8 per cent in March quarter 2022. This recovery has been underpinned by high vaccination rates, accumulated savings throughout the pandemic, increased wealth due to higher housing and equity prices, record amounts of construction work in the pipeline and a strong labour market.

The national labour market has proved resilient throughout the pandemic. The unemployment rate has averaged 3.9 per cent in the 3 months to May 2022, its lowest level since the inception of the monthly series in 1978, while employment has surged to beyond its pre-COVID level and the participation rate is at a record high.

However, the pace of recovery in the labour market has differed across states and territories. Stronger health outcomes and rising commodity prices have seen employment in Queensland and Western Australia in May 2022 increase 206,000 persons and 94,200 persons respectively since March 2020, combining for 59 per cent of nation-wide employment growth over the period.

In contrast, the extended lockdowns enforced in New South Wales and Victoria throughout September quarter 2021 hindered the recoveries in those states, with employment up 134,000 and 72,600 persons respectively since March 2020.

Similar to other advanced economies, Australia experienced a build-up of inflationary pressures throughout 2021. Australia's annual headline consumer inflation rose to 5.1 per cent in March quarter 2022, the highest rate since 1995, excluding the impact of the introduction of the goods and services tax (GST) in 2000–01.

The stronger than anticipated inflation outcomes have brought forward the timing and number of expected cash rate increases in the second half of 2022 and throughout 2023. The capacity of Australian households to absorb the impact of higher interest rates, given the currently elevated levels of household debt, provides near-term uncertainty for the national economic outlook.

2.3 Key assumptions

Key assumptions underpinning the economic forecasts include:

- the RBA to continue its monetary policy normalisation over the course of 2022 and 2023
- the A$ exchange rate to move toward its assumed medium-term anchor of around US$0.75
- Brent oil prices to remain elevated in 2022 but ease towards US$75 per barrel by the end of 2024
- the Brisbane residential property price cycle to peak in June quarter 2022 and ease over the following 2 years, before growing again toward the end of the forward estimates
- according to the Bureau of Meteorology, the present La Niña weather pattern, which is resulting in substantial rainfall across eastern Australia, is expected to fade by early winter. Thereafter, average seasonal rainfall is assumed for the remainder of the 2022 and 2023 seasons
- Queensland Health will continue to prioritise management of the COVID-19 pandemic as well as the transition to the endemic phase, with a focus on progressive resumption to planned care, responding to strong demand for services and a return to pre-pandemic access to services
- in line with 2022–23 Federal Budget assumptions, Australia's international borders are expected to remain open to migrants and fully vaccinated tourists. This is expected to support further recovery in population growth, boost overseas tourism and education exports, and assist in filling skills gaps, but also increase tourism imports as Queenslanders return to overseas travel.

2.4 Queensland conditions and outlook

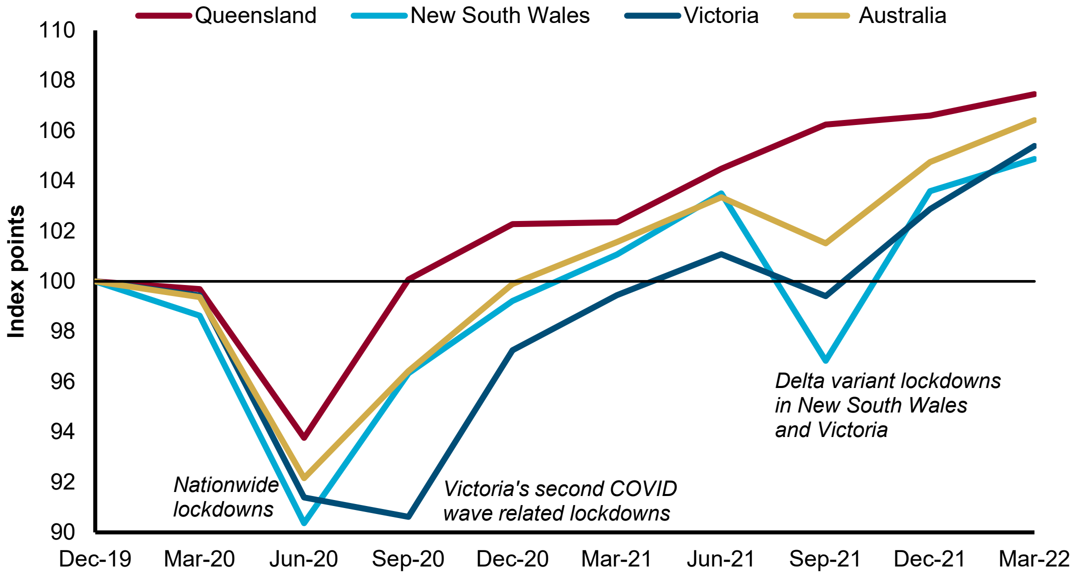
At the time of the 2021–22 Budget Update in December 2021, the state's economy and labour market were in a strong position and had outperformed the rest of the nation, underpinned by strong growth in household spending and dwelling investment.

In December quarter 2021, Queensland's domestic economy, as measured by state final demand, was 6.9 per cent higher than its pre-pandemic level in March quarter 2020, much stronger than the 5.1 per cent increase in the rest of Australia. In addition, employment in Queensland in December 2021 was more than 128,400 persons higher than pre-COVID levels and the unemployment rate had fallen to 4.6 per cent, the lowest in almost 13 years.

Since then, surges in Omicron variant cases in early 2022, major flooding in South East Queensland, and the Russian invasion of Ukraine and subsequent global sanctions have all impacted the supply side of the economy and further exacerbated the inflationary pressures that were emerging in the latter half of 2021.

The Omicron outbreaks in early 2022 impacted activity and the Queensland economy differently from previous COVID-19 outbreaks, with widespread initial impacts on labour supply feeding into some supply chain disruptions. However, Queensland's overall domestic economic activity still rose in March quarter 2022, to be 7.8 per cent higher than the pre-pandemic level, and maintained its stronger performance compared with the major southern states during the COVID-19 crisis (Chart 2.2).

Chart 2.2 Growth in state/domestic final demand[1]



Note:

1. Seasonally adjusted, chain volume measure, index points, December quarter 2019 = 100.

Source: ABS National Accounts.

The overall economic impact of the floods in February/March 2022 is expected to be relatively limited compared with some previous major natural disasters in Queensland, as key mining and agriculture regions outside of South East Queensland were largely unaffected. Queensland Treasury estimates the impact on economic output in 2021–22 to likely be around $1 billion, or ¼ percentage point of Queensland's GSP (see Box 2.1).

The impacts of the Russian invasion of Ukraine and associated sanctions are still evolving and remain highly uncertain. As a commodity exporter sharing several key markets with Russia, Queensland is expected to initially benefit from the higher commodity prices, which should support domestic income and spending. However, the broader impacts of any lower global growth induced by the conflict will likely have negative implications for the Queensland economy over the medium to longer term.

Offsetting some of the negative impacts of these major developments on the Queensland economy has been the high level of net interstate migration to Queensland, which is supporting overall population growth. In net terms, more than 40,000 people moved from interstate to Queensland over the year to September quarter 2021, a period which included the Delta variant lockdowns in New South Wales and Victoria. This momentum is expected to have carried through to the final quarter of 2021.

In addition, with the reopening of the international border, net overseas migration is expected to gradually recover in 2022 and 2023 and support activity, including by increasing labour supply in the context of the current tight labour market.

This population growth has supported jobs growth in the state. May 2022 Labour Force data showed that employment in Queensland had grown a further 77,700 persons in the first 5 months of 2022, taking the total increase in employment since pre-COVID March 2020 to 206,000 persons. The unemployment rate had fallen from a pre-COVID rate of 5.8 per cent to 4.0 per cent in May, at the same time as the state's participation rate had increased from 65.5 per cent to 67.2 per cent.

On balance, after rising 2.0 per cent in 2020–21, the Queensland economy is now forecast to grow by a further 3 per cent in 2021–22, slightly slower than the 3¼ per cent expected at the time of the 2021–22 Budget Update, reflecting the combined impacts of the 3 major shocks experienced in the first half of 2022.

Further solid growth of 2¾ per cent is forecast for 2022–23 as the dwelling construction boom regains momentum and overseas services exports rebound from the impacts of the pandemic and related travel restrictions of the past 2 years.

Queensland's GSP growth is then expected to average 2¾ per cent per annum over the remainder of the forward estimates, driven mainly by continued growth in the domestic economy.

Consistent with this ongoing robust growth in domestic activity, in year-average terms employment is forecast to grow by 4¾ per cent in 2021–22 and 3 per cent in 2022–23. Employment growth is expected to ease to around 1½ per cent per annum later in the forward estimates, as the state's dwelling construction cycle matures.

After falling to 4½ per cent in 2021–22, the state's unemployment rate is forecast to remain low across the remainder of the forward estimates, between 4 and 4¼ per cent, as sustained employment growth and a pick-up in wages growth keep the participation rate elevated at an estimated 66½ per cent in 2021–22, and 66¾ per cent in both 2022–23 and 2023–24.

Reflecting higher housing costs, global oil prices and ongoing supply chain disruptions, consumer price inflation in Brisbane is forecast to remain elevated in the medium term, averaging 5¼ per cent in 2021–22 and 3¾ per cent in 2022–23, before returning to within the RBA's target band for national inflation of 2 to 3 per cent over the remainder of the forward estimates.

Table 2.1 Queensland economic forecasts/projections[1]

	Actuals	Forecasts			Projections	
	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26
Gross state product[2]	**2.0**	**3**	**2¾**	**2¾**	**2¾**	**2¾**
Employment[3]	2.4	4¾	3	1½	1½	1½
Unemployment rate[4]	6.8	4½	4	4¼	4¼	4¼
Inflation[5]	2.1	5¼	3¾	2½	2½	2½
Wage Price Index	1.6	2½	3½	3½	3½	3½
Population	1.0	1¼	1½	1½	1½	1½

Notes:

1. Unless otherwise stated, all figures are annual percentage changes.
2. Chain volume measure (CVM), 2019–20 reference year.
3. Comparable through the year seasonally adjusted employment growth rates to the June quarter are 9.9 per cent, 4¼ per cent, 1¼ per cent, 2 per cent, 1½ per cent and 1½ per cent, from June quarter 2021 to June quarter 2026 respectively.
4. Per cent, year-average.
5. Brisbane, per cent, year-average.

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

Box 2.1 Economic impacts of the SEQ floods

Intense weather events, particularly floods and cyclones, are, unfortunately, an integral part of the Queensland climate. In addition to the potential for tragic loss of life, these events can cause substantial damage to private property and public infrastructure, as well as considerable losses to economic output, including substantial impacts on mining and agricultural production in some cases.

The severe flooding events experienced across the South East corner of the state in late February and early March of 2022 resulted in substantial damage to assets and infrastructure such as roads, business premises and residential property.

However, since this event mainly occurred in South East Queensland, its impact on the state's mining sector has been minimal. In addition, while the Wide Bay and Lockyer Valley regions saw substantial impacts on their agriculture and horticulture sectors, the overall impact in these industries has not been as significant to the statewide economy as seen in some previous disasters.

The impacts on overall economic output (as measured by GSP) from this latest event is estimated to be substantially less than for some other major natural disasters over recent decades. The impact on economic output in 2021–22 is estimated to be approximately $1 billion, or around ¼ percentage point of Queensland's GSP.

In addition to agriculture, other key sectors impacted in the regions include construction, tourism (including accommodation and hospitality) and a wide range of other services industries, such as wholesale trade, retail trade, transport and sectors related to recreational and entertainment activities. In some cases, this lost economic activity will likely be partly recouped over time as people defer their expenditure. In other key sectors, such as agriculture and tourism, this is likely to be more of a permanent loss of economic output.

In comparison, the 2010–11 floods and Severe Tropical Cyclone Yasi resulted in flooded coal mines, extensive damage to rail transport and port operations, reduction in sugar, horticulture, and other crop harvests, as well as severely impacting tourism across the state. That event significantly reduced economic output, estimated at the time to be equal to around 2¼ percentage points of GSP.

Similarly, the impact of Severe Tropical Cyclone Debbie, which saw coal rail lines shut for an extended period and major damage to tourism infrastructure in the Whitsundays, was estimated to be around ¾ percentage point of GSP, spread across 2016–17 and 2017–18.

Financial impacts of the 2022 floods on the 2022–23 Queensland Budget, including the costs to rebuild damaged roads and local government infrastructure, as well as assisting individuals, families and businesses impacted by the disasters, are addressed in Chapter 3.

2.4.1 Household consumption

Following the nationwide lockdowns in 2020, a combination of factors, such as strong labour market conditions, substantial government stimulus and acceleration in asset prices, placed household balance sheets in a strong position and elevated savings. As shown by Chart 2.3, these improvements in household income and wealth led real household consumption in Queensland to generally strengthen over this period, and by the end of 2021 was 6.8 per cent above pre-pandemic levels.

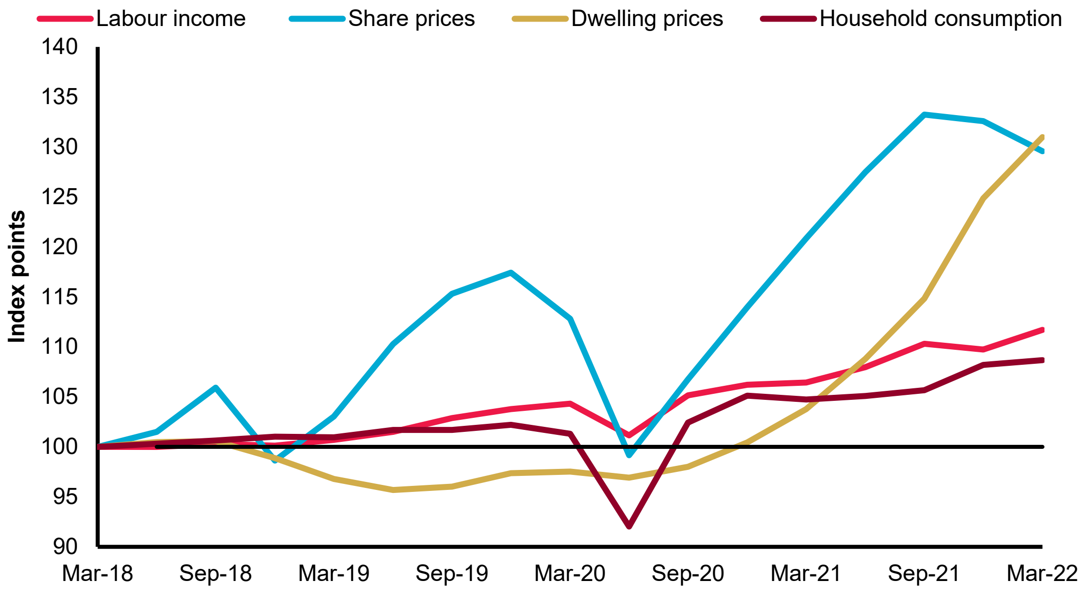
The Omicron variant outbreaks in early 2022 and related supply chain disruptions, as well as rising inflationary pressures and temporary impacts from the severe flooding events in South East Queensland, weighed on household spending intentions and constrained consumption growth in March quarter 2022. However, strong outcomes in the first half of 2021–22 are still expected to lead to year-average growth of around 3¼ per cent in that year.

Since the start of the pandemic, there has been a shift towards increased spending on some discretionary items such as recreation, clothing and footwear, and household furnishings and equipment, while border closures and virus restrictions had severely reduced Queenslander's spending on transport services. The recent reopening of the international borders, which will allow Queenslanders to again travel and spend overseas, is expected to result in a re-adjustment of the composition of expenditure seen during the COVID-19 crisis over the rest of 2022 and into 2023.

Driven by sustained growth in labour income, a lagged impact of the terms of trade boom, a pick-up in population growth and further strong growth in dwelling construction, real consumption growth in Queensland is expected to remain solid at around 2¾ per cent in 2022–23.

As monetary policy tightens and the dwelling construction cycle matures, consumption growth is expected ease to around 2¼ per cent in 2023–24.

Chart 2.3 Queensland's[1] key household income indicators (labour income[2], share prices[3], dwelling prices[4]) and household consumption[5]



Notes:

1. Index points, March quarter 2018 = 100.
2. Seasonally adjusted nominal compensation of employees deflated by the household consumption deflator.
3. ASX200 Accumulation Index deflated by the household consumption deflator.
4. ABS Residential Property Price Index, Brisbane, deflated by the household consumption deflator.
5. Chain volume measure, quarterly, seasonally adjusted.

Sources: ABS National Accounts, Residential Property Price Indexes and Refinitiv.

2.4.2 Dwelling investment

Dwelling investment rebounded strongly from the pandemic-induced low during the nationwide lockdowns in June quarter 2020, rising 30.6 per cent over the year to June quarter 2021. The boom in dwelling investment was evenly split between the construction of new dwellings and renovation activity.

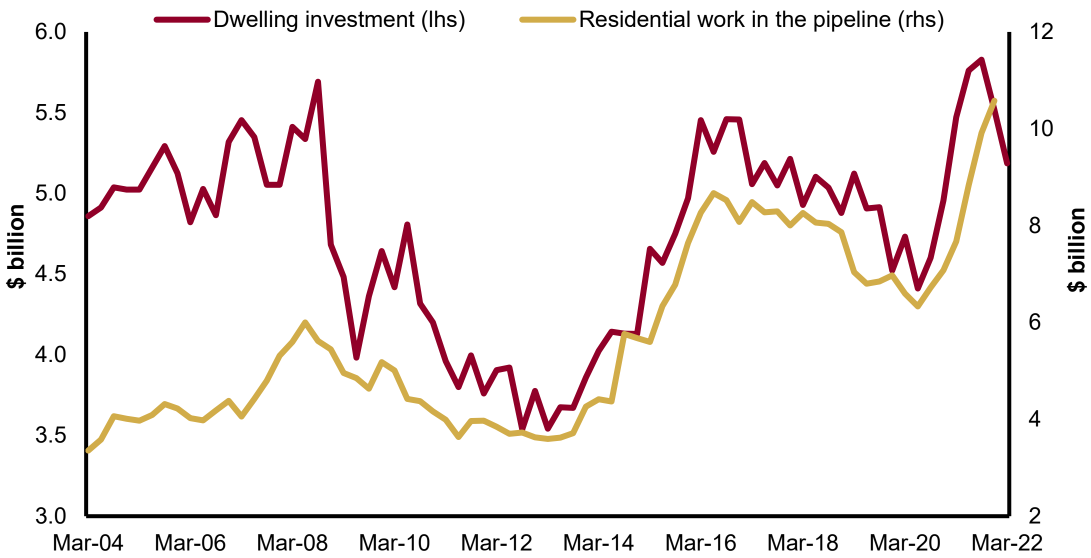
Renovation activity in Queensland has more than doubled to record levels since 2013, with households having preferred to improve existing homes rather than build new homes. In 2015 and 2016, renovation activity accounted for around one third of dwelling investment in Queensland. However, more recently in 2020 and 2021, renovation activity has risen to almost half of all dwelling investment, just below new and used construction.

The combination of record low interest rates, indications by the RBA that rates would remain low for an extended period and generous government incentives underpinned the boom in dwelling investment. 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 (which ended in March 2021), underpinned strong growth in residential construction and continue to support activity.

Reflecting this strong demand, there was a record $10.6 billion of residential work in the pipeline in December quarter 2021, easily eclipsing the previous record in 2016 during the inner-city apartment boom in Brisbane (Chart 2.4). However, despite the record amount of work in the pipeline, dwelling investment fell in December quarter 2021 and March quarter 2022 (although remains elevated). This suggests that prevailing labour and material shortages, along with the recent severe flooding in South East Queensland, have partially constrained construction output in the near term.

Dwelling investment in Queensland is expected to grow strongly, by 10 per cent in 2021–22, with pandemic-related supply chain issues pushing a substantial portion of work in the pipeline into 2022–23, where dwelling investment is expected to grow a further 10 per cent. As the current backlog of work is completed, the anticipated further interest rate increases are expected to begin tempering dwelling construction activity from 2023–24 onwards.

Chart 2.4 Queensland's dwelling investment[1] and residential work in the pipeline[2]



Notes:

1. Quarterly, chain volume measures, seasonally adjusted.
2. Quarterly, nominal, original. December quarter 2021 data the latest available.

Sources: ABS National Accounts and Building Activity.

Box 2.2 Housing and rental market dynamics

Population dynamics impacting the housing and rental markets

Despite the easing of overall population growth, strong net interstate migration and higher population growth in some key regions has contributed to the strength of activity in the housing and residential construction sector.

Exacerbating the housing market challenges, rental vacancy rates are at historic lows across many Queensland regions, with a similar phenomenon apparent nationally. The sharp decrease in the rental vacancy rate, along with strong house price growth, has seen rents also rise sharply across Australia and Queensland.

According to SQM Research, the residential rental vacancy rate in Brisbane dropped to 0.7 per cent in May 2022, the lowest in decades. The vacancy rate in Brisbane has been on a downward trend since the end of 2016. However, this trend accelerated during the COVID-19 pandemic.

These trends have also been consistent across most of Queensland's key regions. As of May 2022, Cairns (0.5 per cent), Central Queensland (0.4 per cent), North Queensland (0.8 per cent), Southern Queensland (0.4 per cent), Sunshine Coast (0.6 per cent), Toowoomba (0.3 per cent) and the Gold Coast (various sub-regions between 0.6 per cent and 0.3 per cent) all had vacancy rates fall below one per cent.

During the pandemic, growth in the rental stock in Brisbane slowed significantly before declining, which along with continued population growth, caused rental vacancies to fall sharply. A recent speech by Luci Ellis, an Assistant Governor of the Reserve Bank, highlighted survey data which showed that the average household size has fallen since the pandemic began. This is likely to be a key factor driving the very low rental vacancy rates across Queensland.

There are several hypotheses which may explain how the pandemic has lowered the average household size and consequently increased demand for rentals and decreased the supply of rental stock. These potential factors include (but are not limited to);

- The surge in first home buyers during the pandemic (partially driven by a switching of expenditure to housing due to reduced travel, etc.) would have seen a larger than normal number of young people formerly living with their parents moving into their own homes, potentially turning rental stock into an owner-occupier dwelling without an offsetting reduction in rental demand.
- Lockdowns, restrictions and increased working from home arrangements greatly increased the amount of time people spent at home and, therefore, the desire for more space at home. For example, people may have turned a spare bedroom or granny flat into an office instead of renting it out, reducing rental stock without reducing rental demand.

- People living or renting with others (share houses) may wish to be less crowded due a range of reasons including COVID-19 health concerns or the need to establish effective working from home arrangements in their dwellings. This is likely to have incentivised renters to reduce the number of people in their share house, or people to move into larger or separate dwellings. Recent survey data from the RBA shows a sharp decline during the pandemic in the proportion of Australian households which are share houses.
- Additionally, the substantial take-up of *HomeBuilder* resulted in large scale renovations on family homes, some of which may have required people to move out of their homes into rentals while renovations progress, increasing demand for rentals without an offsetting increase in supply of rental stock.

Data from the 2021 Census of Population and Housing, due to be released by the ABS from late June 2022 onwards, will provide useful insights on the specific changes in housing formation and the factors influencing these trends.

2.4.3 Business investment

The onset of the COVID-19 pandemic saw an initial sharp decline in business investment in Queensland, falling by 10.3 per cent during the year to March quarter 2021. Since then, the general trend in business investment has been upward, with an increase of 10.7 per cent in the year to March quarter 2022. This recovery was supported by strong levels of business confidence and low interest rates.

While business confidence has fallen from the exceptionally high levels of a year ago, it remains well above its long-run average level, while profitability and capacity utilisation remain strong.

Engineering construction, which primarily involves longer-term projects, held up well during the past 2 years and a considerable pipeline of committed work is yet to be done. Survey measures of business investment intentions have been revised higher while other leading indicators such as non-residential building approvals also remain strong. Finally, the prevailing tight labour market may also encourage firms to substitute capital for labour.

Underpinned by these factors and in line with the ongoing global and national recovery from the COVID-19 crisis, business investment is expected to continue to grow over the forecast horizon, despite the expected increases in interest rates.

2.4.4 Public final demand

Public final demand has grown strongly in recent years, averaging 4.8 per cent growth over the 6 years to 2020–21. In addition to the Queensland Government's substantial response to the COVID-19 pandemic, public final demand growth has been 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 by 7.7 per cent over the 2 years to March quarter 2022.

Growth in public final demand is expected to remain solid in 2021–22, driven by the construction of the Cross River Rail project and the ongoing rollout of spending measures implemented in response to COVID-19 to help support and stimulate the Queensland economy.

The 2022–23 Budget continues the commitment, consistent with the government's economic strategy, to provide the support, investment and reform needed to drive the transition from recovery to sustainable strong economic growth across the state.

The government's statewide response to COVID-19 provided $15.2 billion in support to businesses, workers and communities, while the $59.126 billion 4-year capital program outlined in this Budget will continue the essential productivity-enhancing economic and social infrastructure required to support ongoing growth and job creation.

2.4.5 Overseas exports and imports

Queensland's exports of goods and services are estimated to have grown by ¾ per cent in real terms in 2021–22, driven by a strong rebound in agricultural exports. Exports of goods and services are forecast to grow by 4 per cent in both 2022–23 and 2023–24, as international tourism and education exports recover from the COVID-19 induced lows.

Queensland's imports of goods and services are estimated to grow by 6 per cent in 2021–22, as the strong domestic economy encouraged goods imports. Overseas imports are forecast to grow strongly in both 2022–23 and 2023–24, as Queenslanders return towards pre-COVID levels of international travel.

Although real exports are estimated to rise modestly in 2021–22, nominal exports are expected to almost double to over $125 billion, supported by record high coal prices, elevated prices for oil (with LNG contract prices linked to oil prices), and strong growth in nominal metals and beef exports. The strong growth in nominal exports is expected to flow through to strong income growth in 2021–22, supporting domestic activity. As prices moderate, nominal exports are expected to moderate over the forward estimates but remain above 2019–20 levels.

Coal

Queensland's coal export volumes have held up well despite restrictions on Chinese coal imports from October 2020. By November 2021, almost 90 per cent of the reduction in Queensland export tonnages to China had been offset by increased exports to other countries, including India (up 17.2 million tonnes (Mt) to 58.1 Mt), Japan (up 11.5 Mt to 47.8 Mt) and South Korea (up 8.9 Mt to 32.7 Mt).

Sustained exceptionally high prices for both metallurgical and thermal coal in late 2021, and so far in 2022, have tempered demand for coal, causing export tonnages to fall between December 2021 and April 2022 by 7.9 Mt (or 9.4 per cent) compared with the same period a year earlier.

Despite this easing in export tonnages, the value of Queensland overseas coal exports has more than doubled over the past year, to $52.3 billion in the 12 months to April 2022. This has been driven by substantial increases in the prices for all 3 major types of coal, which are all near historic highs. Global supply issues due to COVID-19, and more recently Russia's invasion of Ukraine, combined with recovering global demand have resulted in the record price spike.

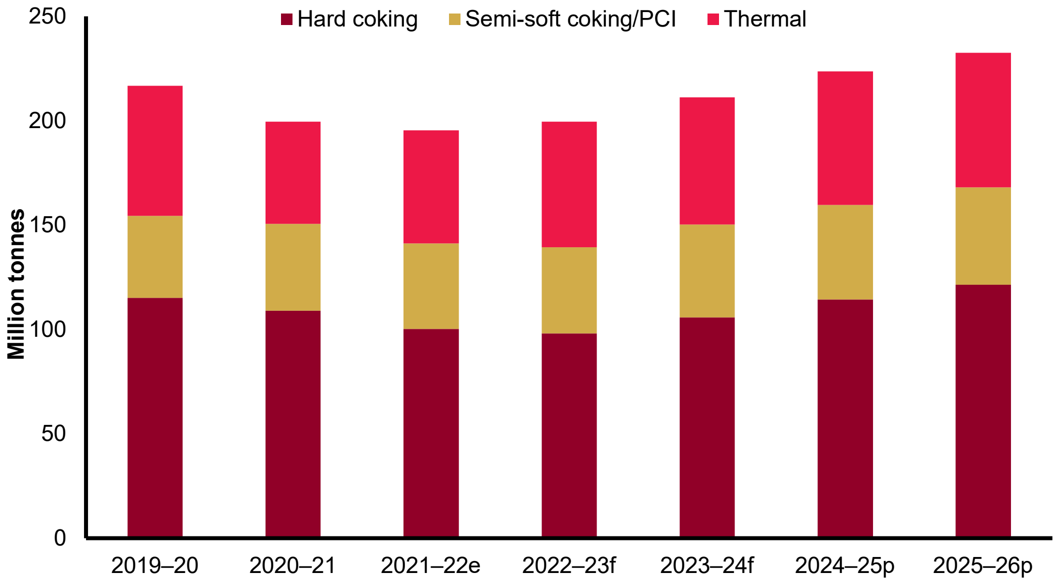
Since September 2021, the spot price for benchmark premium hard coking coal has averaged around US$432 per tonne, well above the historical average of around US$150 per tonne across the 7 years prior to the onset of COVID-19. Similarly, the spot price for benchmark thermal coal since September 2021 has averaged around US$159 per tonne, compared with the pre-COVID historical average of around US$60 per tonne.

As a result of the sustained higher prices in recent months, combined with some supply disruptions due to Omicron in early 2022, Queensland's coal export volumes are estimated to have fallen by 3¾ per cent in 2021–22 (Chart 2.5). As coal prices return to more sustainable levels, Queensland's coal exports are forecast to recover modestly in 2022–23 (up by ¾ per cent) and then grow more strongly in 2023–24 (up by 6½ per cent).

Restrictions on Chinese coal imports are assumed to remain in place over the forecast period. However, as noted above, Queensland's coal exporters have been successful in finding alternative markets and have benefitted substantially from surging prices.

Looking further ahead, the volume of Queensland's coal exports is projected to continue to grow solidly in 2024–25 and 2025–26, especially hard coking coal, supported by continued industrial production growth in emerging markets.

Chart 2.5 Queensland coal exports[1]



1. 2019–20 and 2020–21 are actuals; 2021–22 is estimated actual.

Sources: Unpublished ABS trade data and Queensland Treasury.

LNG

The volume of Queensland's LNG exports is estimated to grow by a further 3¼ per cent to 23.7 million tonnes in 2021–22, as another colder than expected winter in the northern hemisphere boosted demand for gas.

The majority of Queensland's LNG exports are sold under long-term contracts linked to global oil prices, with several months lag. Global oil prices rebounded throughout 2021 as the unwinding of global production cuts was outpaced by a faster than anticipated recovery in global oil consumption. As a result, the prices for Queensland's LNG exports have rebounded sharply, which is expected to nearly double the value of LNG exports in 2021–22.

The Russian invasion of Ukraine sparked concerns about an oil supply shortfall in the market, which saw the Brent crude oil price rise above US$100 per barrel in February and peak at nearly US$140 per barrel in early March 2022. While numerous moves by the United States to boost global oil supply appear to have helped reduce market concerns to a degree, oil prices remain elevated above US$100 per barrel throughout April to June, which will push the value of LNG exports even higher in 2022–23.

Queensland's record LNG export volumes are expected to moderate only slightly in 2022–23, as sanctions on Russian gas exports cause the US to divert cargos from Asia to supply the tight European gas market, which in turn will tighten supply in Asia and maintain strong demand for Queensland's LNG.

Metals

The impact of COVID-19 on Queensland industrial metals production was minimal, although miners benefited from higher prices, and export volumes are forecast to be relatively stable across the forecast period. After modest growth in 2020–21, Queensland's metals exports are estimated to have fallen by 1¼ per cent in 2021–22, driven by a decline in exports of lead (down by 11¼ per cent) and zinc (down by 6 per cent), more than offsetting an increase in copper exports (up by 5 per cent).

A rebound in zinc exports (up by 7¼ per cent) and a modest recovery in aluminium (including bauxite and alumina) exports (up by 2½ per cent) are forecast to drive growth in metals exports by 2¼ per cent in 2022–23.

Metals exports are then forecast to be relatively flat over 2023–24 and 2024–25.

Agriculture

The volume of agriculture exports fell by around 7 per cent in 2020–21, driven by a sharp decline in beef exports, as improved rainfall encouraged producers to retain stock for breeding purposes. This follows dry conditions in previous years that had incentivised high production and depleted herd numbers. Reflecting the improved growing conditions, agriculture exports in Queensland are expected to return to growth in 2021–22, driven by cotton and other crop exports.

Beef exports are expected to grow modestly in 2021–22, as re-stocking and feeder demand at the saleyards contribute to record high domestic cattle prices, thereby making export prices relatively less competitive. Queensland beef production is likely to rebound in 2022, as new stock from spring 2020 and autumn 2021 reach processor weights, while processing rates are expected to remain steady due to some improvement in rainfall across key supply regions.

There is continued strong interest in Australian beef internationally, and with improving supply of processor-ready cattle, exports of beef are expected to grow modestly over the medium term. Australian beef will also enjoy greater access to the high value export market in the UK, following signing of the Australia-United Kingdom Free Trade Agreement in 2021.

Queensland cotton exports are expected to increase significantly in 2021–22, driven by high global prices and with favourable growing conditions resulting in a substantial increase in the area of cotton planted. Cotton exports are forecast to remain elevated in 2022–23, as the La Niña weather system, which delivered above average rainfall in cropping regions, sustains strong production.

Supply constraints in key sugar producing countries such as Brazil have led to elevated international prices and a reduction in global sugar stocks. Queensland's sugar exports are forecast to grow by 5¼ per cent in 2022–23, in response to these elevated global prices. Exports are expected to decline slightly in the following years as global prices moderate.

Services exports

The closure of international borders in early 2020 resulted in a collapse in international tourist and student arrivals, with overall services exports falling by $6.4 billion (43.7 per cent or equating to 1.8 per cent of GSP) during 2020.

The impact on overseas tourism spending was immediate, with a decline of $4 billion (79 per cent) during 2020. The impact on spending by international students was more gradual (down by $1.2 billion or 21.2 per cent) as many students were already in Australia and able to continue their studies.

The reopening of international borders should lead to a reversal of these trends over time. However, the recovery is expected to be gradual over the forecast horizon, as it will take some time for confidence to return to the international tourism market and for international transport capacity to recover.

Short-term international arrivals have increased substantially since late 2021 as the international border has reopened. In the 4 months to April 2022 however, international arrivals to Queensland had only recovered to 15.5 per cent of their pre-COVID levels during the same period in 2019. While it is expected the inflow of new international students will recover relatively rapidly, after several years of no inflows, it will take some time for total overall enrolments to return to pre-COVID trend levels.

Imports

Overseas goods imports rebounded strongly in 2020–21, driven by the significant rebound in economic activity following the easing of COVID-19 restrictions. This growth is expected to continue in the coming years, in line with solid domestic activity.

However, overseas services imports remained significantly constrained by the pandemic, with international travel bans in place for most of 2020 and 2021 preventing most Australians from travelling abroad. Ahead of the pandemic, spending by Queenslanders abroad on personal (non-education) travel totalled $8.5 billion in 2019. This fell to only $1.7 billion in 2020, a decline of $6.8 billion or 80.1 per cent.

In year-average terms, Queensland's overseas imports (goods and services) are forecast to rise by 6 per cent in 2021–22 and 12 per cent in 2022–23 as overseas travel begins ramping back up to pre-pandemic levels.

2.4.6 Labour market

Queensland's labour market has continued to perform exceptionally in the recovery from the COVID-19 crisis but this has also resulted in a very tight labour market throughout 2021–22. The job vacancy rate (the number of job vacancies as a proportion of the labour force) rose to a record high of 2.7 per cent in March quarter 2022, while the employment to population ratio reached 64.5 per cent in May 2022, its highest level since early 2009.

The unemployment rate has fallen to 4.0 per cent in May 2022, as it had in March 2022, to be at its lowest level since December 2008.

Driven by the state's strong recovery from the COVID-19 induced downturn in mid-2020, employment in May 2022 was 206,000 persons (8.0 per cent) above its pre-COVID level of March 2020, the largest rise of any state or territory.

This strong jobs recovery has also benefitted the youth (15-24 years) labour market, driving the year-average youth unemployment rate down from 14.5 per cent in March 2020 to 10.1 per cent in May 2022, its lowest since September 2009.

In addition, the spread of the Omicron variant in early 2022 resulted in the proportion of people working fewer hours than usual due to '*illness or injury or sick leave*' rising to 6.1 per cent in January 2022 and remaining materially higher than the 5-year pre-COVID average (of around 3.0 per cent) in February to May 2022. This exacerbated the labour supply issues already being felt across the state.

The severe flooding in South East Queensland and the Darling Downs in late February/early March further reduced available labour supply in the first 2 weeks of March. In March, there were 280,700 persons in Queensland who worked fewer hours than usual due to '*bad weather or plant breakdown*', equating to 10.3 per cent of total employment in the month.

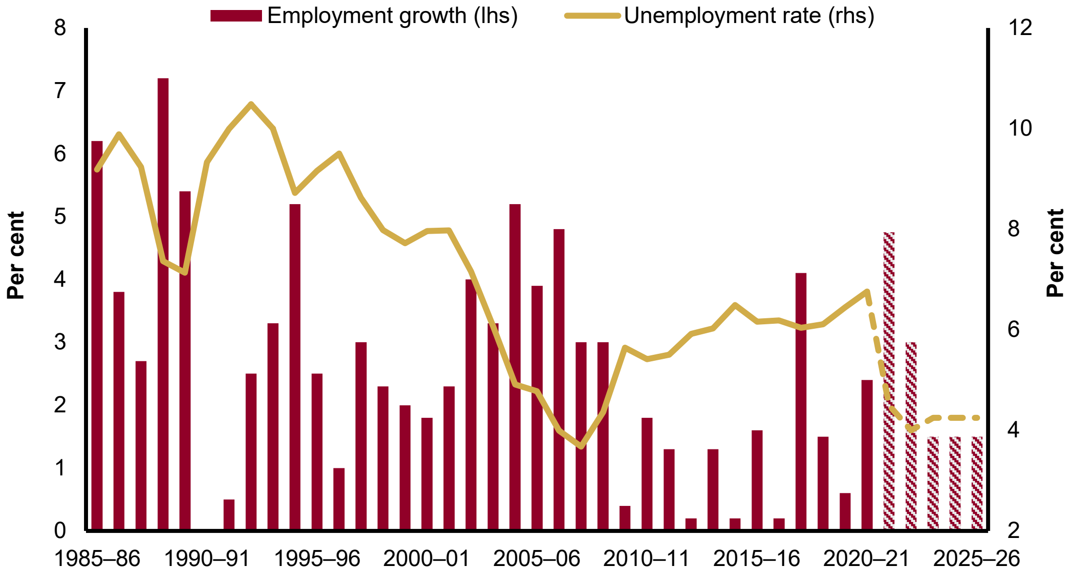
In comparison, during the previous significant flooding event in January 2011, 9.3 per cent of employed persons in Queensland worked fewer hours than usual due to '*bad weather or plant breakdown*'. Hours worked recovered strongly in April and May, rising by 3.3 and 2.3 per cent, to be 3.9 per cent above the pre-flood level in February 2022.

Strong jobs growth so far in 2021–22 is expected to result in year-average employment growth of 4¾ per cent (Queensland's strongest employment growth since 2006–07), before growth moderates somewhat to 3 per cent in 2022–23. Beyond 2022–23, as the economy returns to more sustainable growth rates, employment growth is expected to move broadly in line with population growth, at 1½ per cent per annum through to 2025–26 (Chart 2.6).

This strong employment growth is expected to see Queensland's participation rate rise from an estimated 66½ per cent in 2021–22 to 66¾ per cent in both 2022–23 and 2023–24. The participation rate is then expected to moderate slightly to 66½ per cent in 2024–25 and 2025–26.

Queensland's exceptional employment growth and tight labour market has pushed the unemployment rate down to an estimated 4½ per cent in 2021–22. The unemployment rate is forecast to fall further in 2022–23, averaging 4 per cent across the year, which would be Queensland's lowest year-average unemployment rate since 2007–08. In 2023–24, as employment grows broadly in line with population, the unemployment rate is forecast to increase slightly to 4¼ per cent and remain at that level in 2024–25 and 2025–26.

Chart 2.6 Employment growth and unemployment rate, Queensland[1]



Note:

1. Original, year-average. 2021–22 is estimated actual; 2022–23 and 2023–24 are forecasts; and 2024–25 and 2025–26 are projections.

Sources: ABS Labour Force and Queensland Treasury.

Regional labour markets

Employment in many regions of the state has rebounded strongly since the COVID-19 pandemic.

Employment in South East Queensland has risen 7.0 per cent in the year ended April 2022, led by the Gold Coast (up 35,600 persons, or 10.6 per cent), supported by elevated internal migration and construction activity.

Moreton Bay – North (up 11.3 per cent), Logan–Beaudesert (up 10.5 per cent), Moreton Bay – South (up 6.0 per cent), Ipswich (up 5.7 per cent) and the Sunshine Coast (up 4.7 per cent) also recorded strong employment growth during the period.

Meanwhile, Queensland's regions have also generally recovered well from the COVID-19 pandemic, with key sectors supported by high commodity prices, solid domestic tourism, improved rainfall and the strong dwelling sector.

Employment in regional Queensland grew 1.9 per cent in the year ended April 2022, with Townsville (up 8.8 per cent) and Cairns (up 5.6 per cent) recording the strongest employment growth.

The average unemployment rate across regional Queensland fell 2.1 percentage points to 5.1 per cent in the year to April 2022.

The average regional unemployment rate in the year ended March 2022 of 5.0 per cent was regional Queensland's lowest unemployment rate since mid-2009, with Cairns (4.4 per cent), Townsville (3.2 per cent) and Wide Bay (6.7 per cent) all recording their lowest unemployment rates in more than a decade in March or April 2022.

Further, the resources-rich Mackay–Isaac–Whitsunday region recorded the lowest unemployment rate in the state, at only 2.4 per cent in April 2022.

Box 2.3 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.

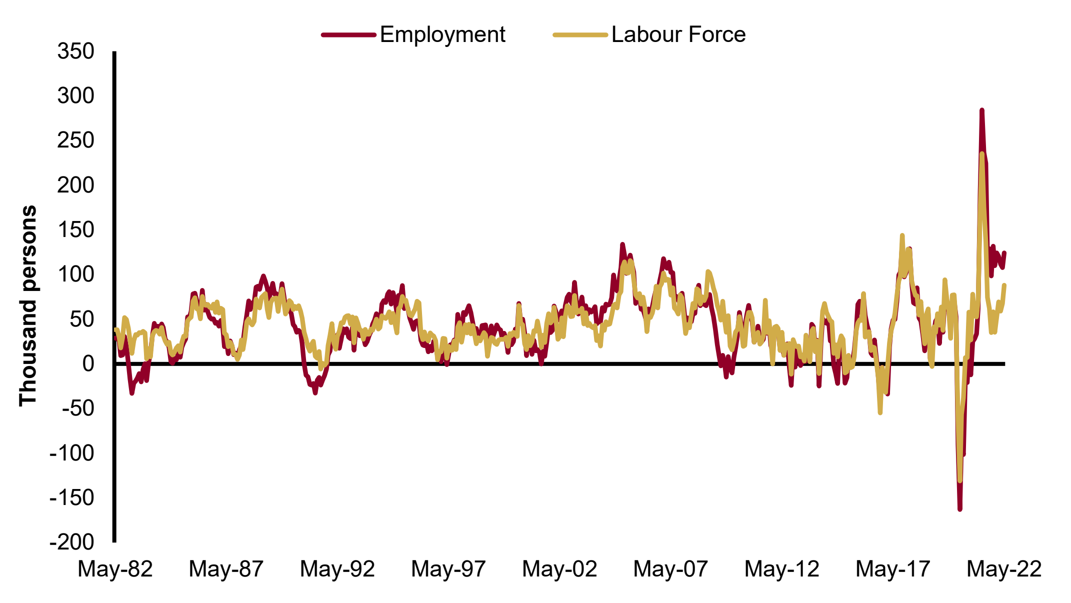
The strong recovery in Queensland's labour market from the initial COVID-19 shutdowns in early to mid-2020 has highlighted aspects of the encouraged worker effect. Over the 2 years between May 2020 and May 2022, employment in Queensland increased by 408,500 persons. At the same time, the participation rate increased by 5.6 percentage points, reflecting exceptionally strong growth in the labour force by 323,500 persons.

As a result, because the participation rate is now 1.7 percentage points higher than its pre-crisis level, the unemployment rate of 4.0 per cent in May 2022, while only marginally higher than the national average, is still slightly higher than some other states where employment growth and the increase in the participation rate has not been as strong.

Chart 2.7 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 at times, despite strong jobs growth.

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.

Chart 2.7 Growth in Employment and the Labour Force, Queensland[1]



Note:

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

Source: ABS Labour Force Survey

2.4.7 Prices and wages

Annual growth in Brisbane's consumer price index (CPI) has been stronger than anticipated at the time of the 2021–22 Budget Update.

Brisbane's CPI strengthened to 2.1 per cent in 2020–21, up from 1.2 per cent during the height of the COVID-19 pandemic in 2019–20, to record the strongest increase since 2013–14. However, inflationary pressures have continued to build in 2021–22, with CPI rising by 6.0 per cent over the year to March quarter 2022, the strongest annual increase since 2001, following the introduction of the GST.

While price increases have been broad-based, the acceleration in Brisbane's annual CPI growth has been primarily driven by sharp rises in housing and automotive fuel prices. Strong demand for housing construction in addition to labour and material shortages have resulted in new dwelling purchase costs for owner-occupiers rising by 22.8 per cent over the year to March quarter 2022, while record low vacancy rates have also seen Brisbane rents rise faster than most other capital cities. Together, these housing components contributed 2.0 percentage points to Brisbane's 6.0 per cent annual rise in the CPI in March quarter 2022.

Meanwhile, global oil prices rose sharply in early 2022, caused by Russia's invasion of Ukraine impacting global supply at a time when the ongoing easing of COVID-19 restrictions was strengthening global oil demand. Prices are likely to remain elevated in the near term as the global economy continues to recover and uncertainty remains about Russia's invasion of Ukraine.

While housing and automotive fuel have been the key drivers of headline consumer inflation, more recently food prices have also begun to surge. While COVID-19-related supply chain disruptions and high transport and fertiliser costs have contributed to various food price increases, the impact on production from severe flooding in Queensland and New South Wales in March quarter 2022 has also been a significant factor.

Brisbane's CPI growth is expected to average 5¼ per cent in 2021–22. If realised, this would be the strongest year-average increase in Brisbane's CPI since 2000–01. Beyond 2021–22, the gradual resolution of global supply chain issues is expected to ease price pressures for building materials, slowing growth in new dwelling purchase costs for owner-occupiers. This, in combination with slowing growth in automotive fuel and food prices as global oil prices normalise and agricultural production recovers from the impacts of the early 2022 floods, is expected to result in CPI growth moderating to 3¾ per cent in 2022–23 and 2½ per cent in 2023–24. A slower than expected resolution to material and labour supply issues within the construction industry, as well as the global oil price remaining elevated for longer, are risks to the outlook for CPI growth.

Queensland's wage price index (WPI) accelerated to 2.5 per cent over the year to March quarter 2022, up from an average of 1.6 per cent in 2020–21. Queensland's WPI is expected to strengthen to 2½ per cent in 2021–22. and strengthen further to 3½ per cent over the remainder of the forecast period.

Box 2.4 Impacts of surging inflation

Global trends

Consumer price inflation began to accelerate in many economies in 2021. This acceleration was driven by both demand and supply side factors, with significant fiscal and monetary stimulus in response to the COVID-19 pandemic driving an increased demand for goods (as lockdowns reduced consumers' ability to spend on services) at the same time that global supply chains were severely strained as a result of the pandemic.

More recently, Russia's invasion of Ukraine and developments in China, with several major cities re-entering strict COVID-19 lockdowns, have exacerbated global supply chain disruptions, adding further upward pressure on global inflation.

At 5.1 per cent over the year to March quarter 2022, annual CPI growth in Australia is at its highest in more than 2 decades. However, it is still considerably lower than many other advanced economies (Chart 2.8).

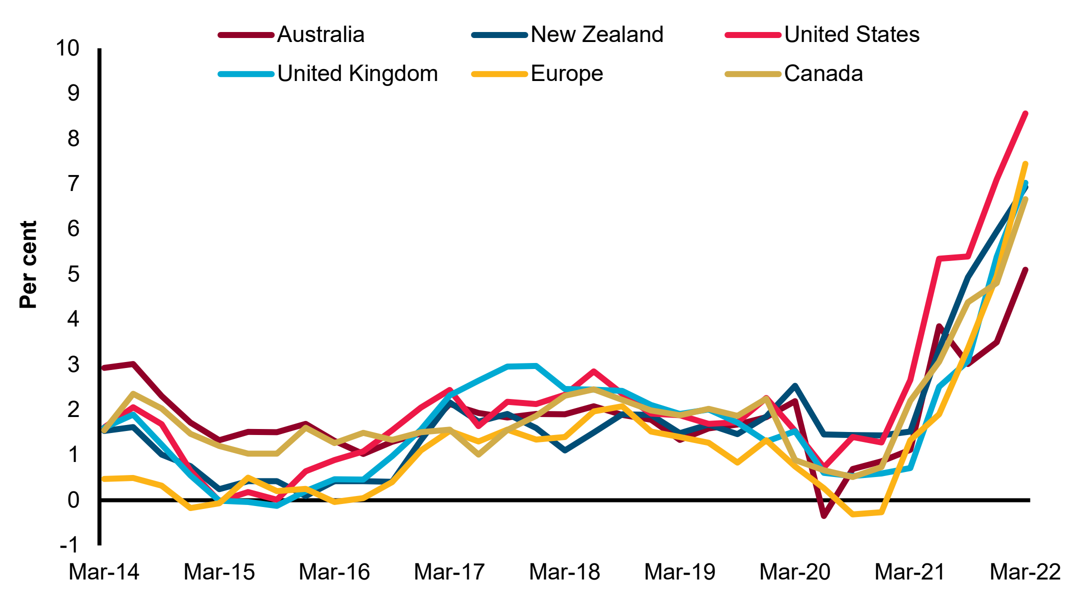
Annual inflation is at or near multi-decade highs across a range of advanced economies, including:

- United States – 8.6 per cent in May
- Canada – 6.8 per cent in April
- Euro area – 8.1 per cent in May
- United Kingdom – 9.0 per cent in April
- New Zealand – 6.9 per cent in March quarter 2022

While inflation outcomes in some Asian countries have been more subdued than in western economies, they have also accelerated in early 2022.

Reflecting higher inflation expectations and the near-term likelihood of a period of central bank monetary tightening across many countries, global interest rates have also risen sharply in recent months.

Chart 2.8 Annual consumer price inflation by jurisdiction[1]



Note:

1. Australia and New Zealand data is a quarterly average, all other data is to the last month of each quarter.

Source: Refinitiv.

Global drivers

While global government stimulus and supply chain disruptions have been key factors contributing to these elevated rates of inflation, the surge in oil prices flowing through to higher automotive fuel prices has also been a significant contributor globally.

The price of Brent crude oil hit a low of US$5.62 per barrel during the height of the pandemic in April 2020. The gradual reopening of the global economy saw the price return to pre-COVID levels over the following year. More recently, the implementation of sanctions following Russia's invasion of Ukraine has added further upward pressure on oil prices, given Russia being one of the world's largest oil producing and exporting countries. The price of crude oil recently hit a high of US$140 per barrel in early March 2022, the highest since July 2008.

Rising global oil prices have flowed through to automotive fuel prices in Brisbane, with the ABS' measure of automotive fuel prices rising 36.7 per cent over the year to March quarter 2022, the strongest annual increase in more than 40 years. Despite only accounting for around 4 per cent of the Brisbane CPI basket, the annual price increase saw the component contribute 1.2 percentage points to annual growth in Brisbane's headline CPI.

The Australian Government's 6-month cut to the fuel excise will reduce the price of automotive fuel somewhat in the June and September quarters of 2022 with fuel prices expected to remain elevated while consumer demand remains high and the war is ongoing in Ukraine. While the main impacts on current measured inflation stems from rising oil prices, sustained higher input costs for business may also be passed on to consumers through other goods and services.

The prices of many other commodities have also surged in recent weeks and months, with many of these impacts exacerbated by the Russia-Ukraine conflict. Spot prices for hard coking and thermal coal have risen sharply to record highs, with the already tight global market impacted by the reluctance of buyers to purchase Russia's coal.

Going forward, these commodity/input price rises may flow through to higher production costs and therefore consumer prices. Recently tightened COVID-19 restrictions in multiple regions of China (consistent with the country's COVID-19 suppression strategy), including the major centres of Shanghai and Beijing, have raised concerns that global supply chains will be placed under further pressure in the near term, adding additional upward pressure to consumer prices.

Domestic trends

The cost of constructing a new dwelling or renovating in Queensland has surged since the onset of the COVID-19 pandemic and has been a key contributor to the recent acceleration in Brisbane's annual CPI growth.

Dwelling construction costs have risen due to increased demand for housing (in part driven by the increased use of work-from-home arrangements) while labour and materials supply shortages within the housing construction industry and associated supply chains have also placed upward pressure on prices.

The latest CPI data showed Brisbane *new dwelling purchase by owner-occupier* costs (a measure of construction costs for new dwellings) rose 22.8 per cent over the year to March quarter 2022, the strongest annual price increase since the inception of the series in 1998.

Given current economic conditions, sharp construction price rises are expected to continue for several quarters. This is reflected in the value of Queensland residential building work in the pipeline currently being at a record high level, labour market conditions being expected to remain strong, and labour and materials supply shortages being expected to linger while the global pandemic and Russia-Ukraine conflict continue.

While labour supply issues may ease in the medium term, global supply chain issues are expected to persist for some time. Further, demand for housing is expected to remain robust, supported by a resumption of overseas migration, low rental vacancy rates and continued use of work-from-home arrangements.

The existing inflationary pressures in the residential construction sector will be exacerbated by the recent South East Queensland flooding event, driving demand for already scarce materials and labour. It is estimated that 4,355 buildings suffered moderate or severe damage (at least 250 mm of water over the floorboards).

Supply disruptions due to COVID-19 and flooding in production areas of New South Wales and Queensland in early March have also resulted in sharp price increases for various foods more recently. In particular, fruit (up 5.2 per cent), vegetables (up 6.9 per cent) and meat and seafoods (up 5.3 per cent) recorded sharp price increases in March quarter 2022.

However, these specific price pressures are expected to be temporary as the impacts of supply disruptions ease.

2.4.8 Population

While Queensland’s overall population growth slowed in 2020–21, net interstate migration and natural increase both grew in that year. However, international border restrictions curtailed net overseas migration.

The reopening of the international border in early 2022 is expected to drive a gradual recovery in overseas migration in 2022 and 2023, which is expected to reach pre-COVID levels later in the forward estimates as virus-related uncertainties dissipate, and travel logistics normalise over time.

Since the pandemic began, state border restrictions have had little impact on net interstate migration, with exemptions available for those wanting to move interstate. Queensland’s net interstate migration throughout 2020–21 was the highest of any jurisdiction in Australia, consistent with the long-term trend of Queensland being a substantial net recipient of interstate migrants.

Queensland’s relative success in controlling the spread of COVID-19 would have reduced concerns related to health outcomes or the risk of extensive lockdowns for those people wanting to move to Queensland. In addition, fundamentals that historically drive interstate migration, such as employment opportunities and housing affordability, had remained favourable in Queensland, particularly in comparison with New South Wales and Victoria, traditionally the dominant sources of interstate migrants to Queensland.

As a result, during the lengthy Delta variant lockdowns in New South Wales and Victoria, net interstate migration in Queensland rose to more than 16,600 persons in September quarter 2021, the highest quarterly increase on record across any state or territory in Australia.

Interstate migration is expected to have persisted at elevated levels in December quarter 2021 and, following some temporary impacts from Omicron and the South East Queensland floods in the first quarter of 2022, return to pre-COVID levels over time. According to Australian Government forecasts, in net terms, more than 88,000 people are expected to move from interstate to Queensland over the 4 years to 2025–26.

A slight elevation in the birth rate in the first 3 quarters of 2021 provided an upside to the population rise attributed to natural increase in Queensland, and this momentum is expected to be maintained in the near term. Following this, birth and death rates are expected to return to pre-pandemic levels over the remainder of the forward estimates.

Reflecting this combination of factors, after slowing to 1.0 per cent in 2020–21, Queensland's overall population growth is forecast to pick up to 1¼ per cent in 2021–22, strengthen to 1½ per cent in 2022–23 and stay at that rate over the rest of the forward estimates, in line with the expected return of international travel.

Box 2.5 Population growth

The impacts of the COVID-19 pandemic, particularly related to the international border closures, have led to slower national and Queensland population growth rates compared with historical standards (Chart 2.9).

Reflecting these factors, Queensland's overall population growth slowed to only 1.0 per cent in 2020–21, compared with average growth of around 1.7 per cent over the previous 4 years.

Despite this, Queensland remained the most attractive jurisdiction to live, with the strongest population growth of any state or territory during the recovery from the COVID-19 crisis. This was predominantly driven by strong growth in net interstate migration and highlights the importance of Queensland's strong health response and therefore the relative success it had in containing the spread of the virus until the majority of the population was vaccinated.

The latest Australia Bureau of Statistics (ABS) data show that Queensland's population grew to around 5.24 million persons as at 30 September 2021, to be 1.1 per cent higher over the year; much stronger than national growth of only 0.3 per cent over the same period.

Queensland was responsible for 83.8 per cent of total national population growth over the year and increased its share of the national population to 20.4 per cent, up from 20.2 per cent.

Recent population growth has been driven by strong interstate migration

Net interstate migration to Queensland over the year to September quarter 2021 totalled 40,620 persons, the highest annual net interstate migration since 1994. New South Wales and Victoria accounted for 90 per cent of net interstate migration over the year.

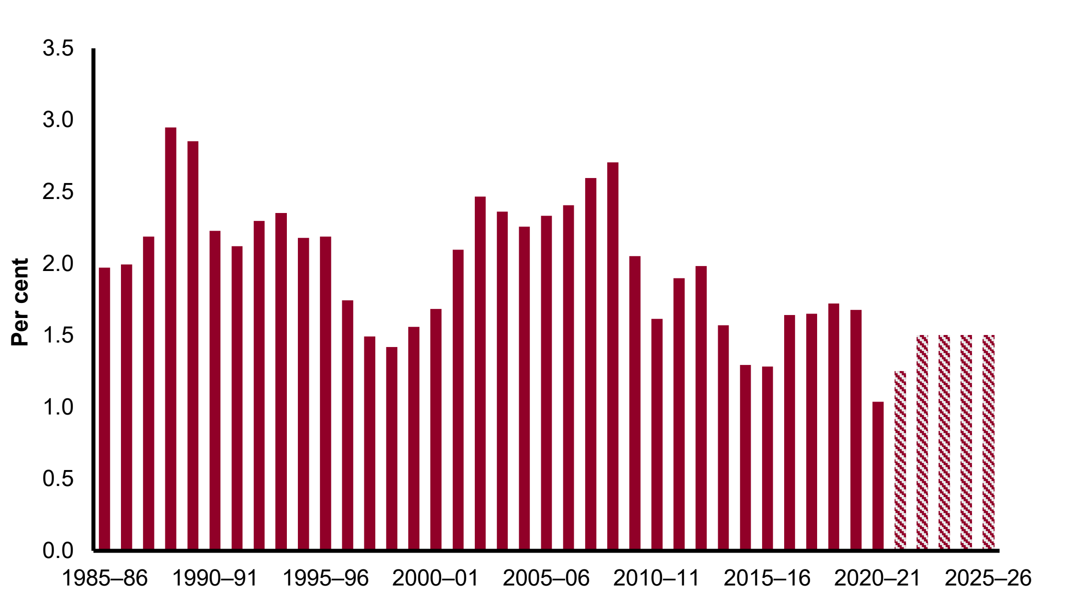
While COVID-19 impacts, including international travel restrictions, have resulted in a temporary loss of net overseas migration, and impacted overall population growth in the short term, Queensland's overall population is expected to continue to grow strongly over the medium term, as net overseas migration returns to more normal pre-COVID levels.

Reflecting these trends, Queensland's population growth is forecast to rebound to 1¼ per cent in 2021–22, before strengthening further to 1½ per cent in 2022–23 and stay at that rate of growth over the rest of the forward estimates (see population forecasts above).

As at 30 June 2021, approximately 1.4 million people lived in local government areas (LGAs) outside of South East Queensland, accounting for 26.6 per cent of the state's population.

Population growth varied across Queensland regions, with some regional LGAs growing faster than the state average, including Fraser Coast, Gympie and Livingstone.

Chart 2.9 Population growth, Queensland[1]



Note:

1. Annual percentage change. 2021–22 to 2023–24 are forecasts; 2024–25 and 2025–26 are projections.

Sources: ABS National, State and Territory Population and Queensland Treasury.

2.5 Risks to the outlook

The key risks to the outlook are centred around global geopolitics, potential ongoing impacts of the pandemic, as well as the global and national inflationary and interest rate environment.

In addition to ongoing geopolitical risks associated with Australia's trade relationship and tensions with China, the Russian invasion of Ukraine and resulting sanctions has raised global unrest, pushed up global commodity prices at a time when inflation rates remain elevated, and disrupted international trade and financial linkages.

Queensland has limited direct trade and financial links with either Ukraine or Russia and could be expected to benefit from the higher commodity prices in the short term.

However, there is a risk that any extended conflict could result in a decline in global growth and have negative implications for Queensland over the medium term. The IMF has already downgraded its global growth forecast in its April *World Economic Outlook*, partly as a result of this conflict.

Risks associated with the COVID-19 pandemic also remain. The world, including Queensland, remains vulnerable to any new variants of COVID-19 that may be more virulent.

Recent lockdowns of major cities in China due to COVID-19 outbreaks poses a risk to Chinese, and global, economic growth and this could exacerbate already significant supply chain bottlenecks during a period when commodity and consumer prices are rising strongly.

During the pandemic, considerable fiscal and monetary support was provided to cushion the economy from the economic fallout. This support is being unwound as economies recover. So far, this process has proceeded relatively smoothly.

It is expected that both global and Australian interest rates will rise significantly over the forecast horizon. While a gradual increase in interest rates is not expected to derail economic recovery, a sudden rise in inflation expectations or other inflationary shock may generate more rapid monetary tightening by central banks with adverse impacts on growth.

Table 2.2 Queensland economic forecasts[1], by component

	Actuals		Forecasts	
	2020–21	2021–22	2022–23	2023–24
Economic output[2]				
Household consumption	4.9	3¼	2¾	2¼
Dwelling investment	10.1	10	10	-3¾
New and used	5.3	13¾	13¾	-10¾
Alterations and additions	19.7	6	5¾	4½
Business investment	-4.2	7¼	3¾	3¼
Non–dwelling construction	-8.6	11	4½	5¼
Machinery and equipment	-2.7	3	1¾	2¼
Private final demand	4.3	4½	3½	1¾
Public final demand	2.9	5½	3½	4
State Final Demand	3.9	4¾	3½	2½
Overseas goods and services exports	-15.9	¾	4	4
Overseas goods and services imports	-2.6	6	12	10½
Gross state product	**2.0**	**3**	**2¾**	**2¾**
Employment[3]	2.4	4¾	3	1½
Unemployment rate[4]	6.8	4½	4	4¼
Inflation[5]	2.1	5¼	3¾	2½
Wage Price Index	1.6	2½	3½	3½
Population	1.0	1¼	1½	1½

Notes:

1. Unless otherwise stated, all figures are annual percentage changes.
2. CVM, 2019–20 reference year. The comparable nominal GSP growth rates are 1.3 per cent in 2020–21, 22 per cent in 2021–22, 2 per cent in 2022–23 and -1¾ per cent in 2023–24. The exceptionally strong growth in 2021–22 largely reflects the impact of surging commodity prices on nominal exports.
3. The comparable through the year employment growth rates to the June quarter (seasonally adjusted) are 9.9 per cent, 4¼ per cent, 1¼ per cent and 2 per cent from June quarter 2021 to June quarter 2024, respectively.
4. Per cent, year-average.
5. Brisbane, per cent, year-average.

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