2 Economic performance and outlook

Features

- Following strong growth of 4.4 per cent in 2021–22, the Queensland economy is forecast to grow by 2 per cent in 2022–23, with growth then strengthening to 3 per cent in 2023–24.
- After a strong rebound across 2021 and 2022, the global economy faces increased uncertainty and volatility, with risks to the outlook skewed to the downside.
- The International Monetary Fund (IMF) has downgraded its global growth outlook for 2023, reflecting the sharp interest rate rises required to curb inflation, deterioration in financial conditions, the impacts of the Russia-Ukraine conflict and rising geopolitical tensions.
- Similar to the global economy, national economic growth is expected to slow in coming years, weighed down by slowing growth in consumption, public spending and exports according to the Reserve Bank of Australia (RBA). The RBA expects national GDP growth to slow from 3.7 per cent in 2022 to 1¾ per cent in 2023 and 1½ per cent in 2024.
- In Queensland, household consumption remains elevated and will contribute solidly to GSP growth in 2022–23, but as significant increases in borrowing costs continue to filter through to household budgets, spending growth is expected to slow materially in 2023–24.
- High rates of capacity utilisation and a solid pipeline of non-dwelling construction projects are expected to see overall business investment in Queensland rise further.
- In the dwelling sector, capacity constraints continue to limit output growth in the near term, but the historically high pipeline of committed residential construction work and easing supply constraints should support a boost in dwelling investment in 2023–24.
- Largely reflecting the more subdued growth in household spending, growth in Queensland's domestic economy is expected to ease slightly from 2¾ per cent in 2022–23 to 2½ per cent in 2023–24, before strengthening to growth of 3¼ per cent in 2024–25.
- Overseas exports of goods and services are forecast to grow by 3½ per cent in 2022–23, driven by an ongoing rebound in tourism and education services exports. After detracting from GSP growth in 2022–23, an unwinding of supply constraints on goods exports and a slowing of goods imports is forecast to result in a one percentage point contribution to growth from the trade sector in 2023–24.
- With Queensland's state final demand outperforming the rest of Australia during the pandemic, demand for labour has been exceptionally strong.
- Queensland continues to record a stronger rate of jobs growth than the rest of the nation since pre-COVID-19, with trend employment up 8.8 per cent (or 226,300 persons) since March 2020, compared with 6.5 per cent growth in the rest of Australia.
- Queensland's employment growth reached 5.1 per cent in 2021–22 (equating to an extra 130,000 jobs in the year), the strongest annual growth since 2004–05. The unemployment rate fell to just 4.5 per cent in 2021–22 and measures of underemployment were also low.
- Employment growth is expected to ease to 3¼ per cent in 2022–23 but the labour market remains extremely tight, with the unemployment rate forecast to fall to 3¾ per cent.

- Consistent with the growth profile of state final demand, employment growth is expected to moderate to one per cent in 2023–24 and 1½ per cent in 2024–25. Similarly, the unemployment rate is forecast to edge slightly higher, but remain low by historical standards, to 4¼ per cent in 2023–24 and 4½ per cent in 2024–25.
- There is growing evidence that inflation in Brisbane has peaked, having slowed from 7.9 per cent in September quarter 2022 to 7.4 per cent in March quarter 2023. Inflation is forecast to moderate to 3¾ per cent in 2023–24 and 3 per cent in 2024–25.
- Queensland population growth is expected to strengthen to 2 per cent in 2022–23, due mainly to a rebound in overseas migration, before easing to 1¾ per cent in 2023–24 and 1½ per cent in 2024–25.

2.1 International conditions

The global economic outlook continues to be characterised by increased uncertainty and volatility. Developments over recent years have seen global financial markets being increasingly sensitive to both positive and negative news, which has seen sharp swings in the outlook for interest rates, amidst a period of global inflation and monetary policy tightening.

These developments have included:

- across 2021 and much of 2022, the easing of COVID-19 restrictions, strong consumer demand and restricted global supply chains helped drive a surge in inflation. This was exacerbated by the Russian invasion of Ukraine and its impacts on global energy prices and trade flows, as well as COVID-19-related lockdowns in China, which led to sharper interest rate rises and a weaker global outlook
- in late 2022, China unexpectedly unwound a range of its “Zero-COVID-19” restrictions which subsequently led to an upgrade to its growth forecasts from the IMF in January
- in early 2023, increased trade-related dialogue indicated a stabilisation in trade relations between Australia and China
- inflation in many advanced nations (including Australia) has proven more difficult to tame than previously expected. While goods inflation has eased as supply chains have recovered, second-round impacts have seen services inflation prove “sticky”
- some high profile banking failures in the United States and Switzerland has increased uncertainty around the outlook for rates, financial stability and growth.

Reflecting these factors, in its April 2023 *World Economic Outlook* (*WEO*), the IMF downgraded its forecasts for global growth in both 2023 and 2024 from forecasts made in the January 2023 *WEO Update*, noting *‘the anaemic outlook reflects the tight policy stances needed to bring down inflation, the fallout from the recent deterioration in financial conditions, the ongoing war in Ukraine, and growing geoeconomic fragmentation.’*

Beyond 2024, the IMF projects the global economy to grow by slightly above 3 per cent per annum through to 2028, *‘the lowest medium-term forecast in decades.’*

The IMF also noted *'risks to the outlook are heavily skewed to the downside, with the chances of a hard landing having risen sharply'*.

Similar to the IMF, the May 2023 issue of *Consensus Forecasts* points to a cyclical downturn among major economies in 2023 and 2024. Nevertheless, compared to the more pessimistic outlook portrayed by *Consensus Forecasts* back in late 2022, when the 2022–23 Budget Update was prepared, latest forecasts suggest that the severity of the global downturn is now less than previously expected.

Table 2.1 GDP Growth Forecasts[1]

	2022		2023		2024	2025
Publication	Dec-22	May-23	Dec-22	May-23	May-23	Apr-23[3]
United States	1.9	2.1	0.2	1.1	0.6	2.2
Euro Area	3.2	3.5	-0.1	0.7	0.9	1.5
United Kingdom	4.4	4.1	-1.0	-0.1	0.8	1.5
China	3.1	3.0	4.5	5.8	4.9	4.6
India[2]	7.0	6.9	5.7	5.8	6.3	6.4
Japan	1.5	1.0	1.3	1.0	1.1	1.0
Korea	2.6	2.6	1.3	1.1	2.1	2.3
MTP[4]	3.7	3.6	3.1	3.4	3.6	3.6

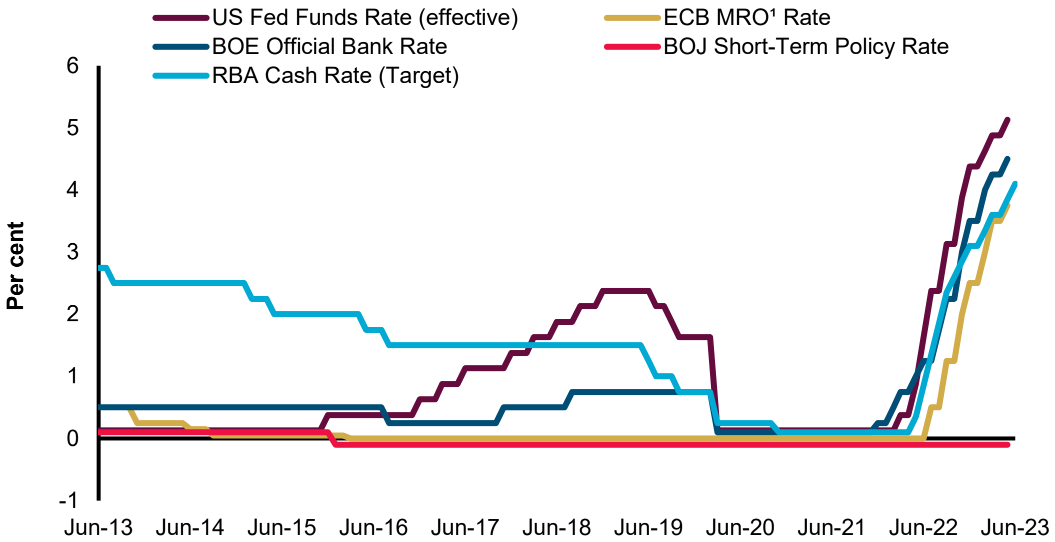
Notes:

1. Annual percentage change.
2. India Fiscal Year (April to March).
3. Latest available long-term forecasts.
4. MTP: Major Trading Partners weighted by nominal merchandise export shares.

Source: Consensus Economics.

This anticipation of a cyclical global economic downturn has been brought on by aggressive monetary tightening by many major central banks (Chart 2.1) in response to high inflation.

Chart 2.1 Key central bank interest rates



Note:

1. Main refinancing operations.

Sources: US Federal Reserve (US Fed), European Central Bank (ECB), Bank of England (BOE), Bank of Japan (BOJ) and Reserve Bank of Australia (RBA).

The success in taming inflation has so far been mixed. While headline inflation in the US has fallen from a peak of 9.1 per cent in June 2022 to 4.9 per cent in April 2023, inflation in the Euro area and the UK remains significantly higher.

Meanwhile, inflation pressure in Asia has been less severe than in the US or Europe, with inflation in both Japan and Korea moderating to around 3.5 per cent.

The causes of persistent inflation globally appear to have shifted from high energy costs and supply disruptions to broader flow on effects across the wider economy, including impacts on the cost of services.

Despite the announcement of oil production cuts by OPEC+ in early April 2023, the Brent oil price has fallen back below US$80/bbl and is well below the US$104/bbl average price recorded in 2022. The liquified natural gas price in the spot market in Asia has also dropped from the recent peak of US$38/MMBtu in mid-December 2022 to below US$10/MMBtu by early June 2023.

Meanwhile, the New York Federal Reserve's *Global Supply Chain Pressure Index* has fallen below average since February 2023, indicating that global supply chain conditions have largely normalised.

However, the president of the ECB has pointed out in a recent speech that Europe may be entering a period of '*lasting instability resulting in lower growth, higher costs and more uncertain trade partnerships*'.

Consistent with the expectations of a cyclical downturn, both coking coal and iron ore prices have fallen from their respective peaks in recent months (Chart 2.2).

The premium hard coking coal price fell from its recent peak of around US$400/t in February 2023 to around US$230/t by early June 2023, while iron ore prices have also declined, from around US$135/t to less than US$110/t.

Chart 2.2 Iron ore, Coking Coal and Steel Prices

Notes:

1. 62% Iron, Australia CIF China.
2. Premium Low Vol Hard Coking Coal, FOB Australia.
3. FOB China.

Sources: S&P Global Commodity Insights and Refinitiv.

2.2 National conditions

The Australian economy grew by 3.7 per cent in 2022, following a 5.2 per cent rebound in 2021 as the nation recovered from the COVID-19 induced economic downturn.

However, similar to the global economy, national economic growth is expected to slow in coming years, with the RBA forecasting growth of 1¾ per cent in 2023 and 1½ per cent in 2024, weighed down by slowing growth in consumption, public spending and exports.

The latest forecasts from Commonwealth Treasury in the 2023–24 Federal Budget show a broadly similar profile for economic activity, with growth slowing in 2023–24 before strengthening from 2024–25. However, Commonwealth Treasury indicated there are substantial downside risks to the national outlook, including further tightening in global monetary policy and financial conditions, ongoing impacts of the war in Ukraine and inflation being more entrenched than currently expected.

Nominal household spending remains well above the pre-COVID-19 trend, although growth slowed in recent quarters as household budgets, in particular discretionary spending, have come under increasing pressure.

The national household saving ratio has fallen from 17.6 per cent in the second half of 2020 to 3.7 per cent by March quarter 2023, with many households likely drawing on savings to maintain spending. Further, net household wealth has fallen in each quarter since the monetary policy tightening cycle began in May 2022 as the value of housing assets declined.

As substantial increases in borrowing costs continue to filter through to households, disposable incomes will tighten further with higher interest payments likely to constrain household spending during the remainder of 2023 and into 2024.

Strong labour demand has so far supported consumption and incomes, with compensation of employees rising 8.3 per cent in 2022 and annual growth accelerating further to 10.8 per cent in March quarter 2023. However, the pool of available potential workers has reduced, with the national unemployment rate having fallen to around 3.5 per cent, well below the rates that prevailed in the years preceding the pandemic and close to the lowest on record.

As a result, annual wages growth has finally accelerated, to 3.7 per cent in March quarter 2023, having averaged just 2 per cent per annum between 2015 and 2021. The RBA expect the unemployment rate to rise, but to a still-low 4½ per cent by mid-2025, and wages growth to accelerate to a peak of 4 per cent by December quarter 2023.

Business surveys continue to show elevated business conditions and ongoing signs of capacity constraints. Machinery and equipment investment has risen strongly to meet demand but non-dwelling and engineering construction spending, which tend to be larger projects with longer timeframes, has been more modest.

Labour shortages have continued to impact new dwelling investment nationally, causing project delays and extended completion times, while renovation activity continues to trend lower from record levels in 2021 as HomeBuilder projects reached completion. However, a large pipeline of work will support dwelling investment in the near-term, beyond which leading indicators of housing demand suggest a softer outlook.

Inflation is widely forecast to have peaked in 2022, with consumer price growth easing from a 3-decade high of 7.8 per cent in December quarter 2022 to 7.0 per cent in March quarter 2023. Further, the monthly CPI Indicator has moderated at a faster than expected pace, from 8.4 per cent in December 2022 to 6.8 per cent in April 2023.

However, services price inflation has picked up in recent quarters and is expected to limit the disinflationary impact of goods prices in coming quarters. The RBA still forecasts inflation to gradually move lower and fall within the RBA's 2 to 3 per cent target by 2025.

After raising the cash rate by 4 percentage points between May 2022 and June 2023, most market economists, as well as financial market pricing, suggest the official cash rate is close to the peak for this cycle.

The ultimate impact of higher interest rates and inflation on consumer spending remains a key uncertainty to the national economic outlook.

2.3 Key assumptions

Key assumptions underpinning the economic forecasts for Queensland include:

- broadly in line with market expectations, the RBA cash rate to peak in mid-2023, with a gradual easing of monetary policy expected over 2024
- the A$ exchange rate to move toward its assumed medium-term anchor of around US$0.75
- Brent oil prices to gradually ease towards a medium-term level of US$75/bbl
- residential property prices in Brisbane appear to have stabilised in early-2023 after a period of decline. Modest price growth is expected to resume thereafter
- according to the Bureau of Meteorology (BOM), the La Niña weather pattern, which resulted in substantial rainfall across eastern Australia, has ended. Forecasts have been produced on the assumption of a return to average seasonal rainfall for the remainder of the 2023 and 2024 seasons. However, there is a risk of drier conditions evolving, with the latest modelling from the BOM, released on 6 June 2023, indicating an “El Niño Alert” had been activated, *‘indicating a 70% chance of El Niño forming this year. This equates to roughly three times the normal chance of an El Niño forming’.*

2.4 Queensland conditions and outlook

Following strong growth of 4.4 per cent in 2021–22, the Queensland economy is forecast to grow by a further 2 per cent in 2022–23, with growth then strengthening to 3 per cent in 2023–24 (Chart 2.3). This growth profile largely reflects the impacts of domestic and international supply constraints and their subsequent unwinding across 2023 and 2024.

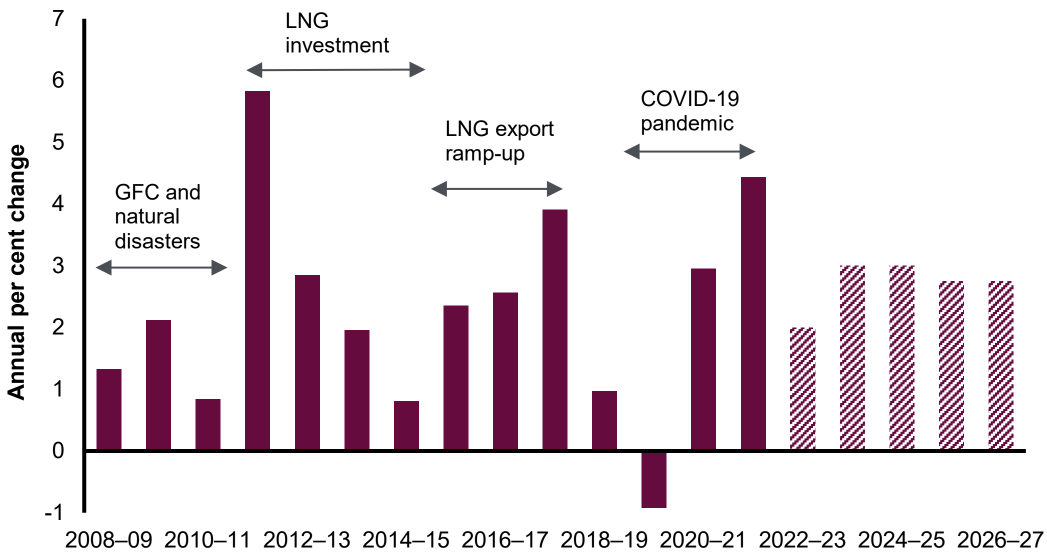
Household spending growth in Queensland has softened from the highs recorded in mid-2022 as consumers began to reassess their discretionary spending in the context of higher interest rates and other cost-of-living pressures. Even so, consumption remains considerably higher than the pre-COVID-19 trend, supported by population and employment growth recorded following the initial COVID-19 crisis, as well as the substantial savings accumulated during the pandemic.

As significant increases in borrowing costs continue to flow through to households, disposable incomes will tighten further and substantially slow spending growth to 3 per cent in 2022–23 and 1¼ per cent in 2023–24. Expected future cuts to interest rates and introduction of the Stage 3 income tax cuts by the Australian Government should provide some support to consumption from 2024–25 onwards.

Strong business conditions have been supported by elevated household spending and strong economic activity more broadly. While businesses are concerned about a potential economic slowdown, the high rates of capacity utilisation and a solid pipeline of non-dwelling construction projects should see overall business investment rise further.

In the dwellings sector, capacity constraints continue to limit output growth and industry completion times have drawn out. Renovation activity has fallen from the HomeBuilder peak in 2021, while declining house prices and rising construction costs have further contributed to a fall in dwelling approvals.

Chart 2.3 Economic growth, Queensland[1]



Note:

1. Gross State Product, Chain volume measure (CVM), 2020–21 reference year.

Sources: ABS Annual State Accounts and Queensland Treasury.

Following 2 years of strong growth, dwelling investment in Queensland is expected to fall 5 per cent in 2022–23, primarily because of supply side constraints, with a substantial pipeline of work yet to be done.

The solid pipeline of committed residential construction work and easing supply constraints should support a boost in dwelling investment in 2023–24, forecast to rise by 5½ per cent. However, the growth of new dwelling investment coming into the pipeline is subdued amid the impacts of higher interest rates and elevated construction costs. This suggests a potential softening beyond completion of the current committed pipeline of residential construction work.

Commodity prices and nominal export values have moderated from their peaks and are expected to normalise from still-high levels as domestic and international supply issues abate.

Both exports and imports of services are forecast to increase towards pre-COVID-19 trends over the forecast horizon as global travel and related activity continues to normalise.

Overseas exports of goods and services are forecast to grow 3½ per cent in 2022–23, driven by an ongoing rebound in tourism and education services exports. An unwinding of supply constraints on goods exports and slowing goods imports is forecast to result in a one percentage point contribution from the trade sector in 2023–24, before the trade sector largely returns to balance, with a neutral contribution to growth, in 2024–25 as services export growth moderates.

With Queensland's state final demand outperforming the rest of Australia during the pandemic, demand for labour has been exceptionally strong. Queensland's employment growth reached 5.1 per cent in 2021–22 (equating to an additional 130,000 jobs across the state), the strongest annual gain since 2004–05. The year-average unemployment rate fell to just 4.5 per cent and measures of underemployment are also low.

The job vacancy rate is near its record high and, combined with a smaller pool of potential workers since before the pandemic, wages growth picked up from a low of 1.4 per cent in early 2021 to 3.7 per cent by March quarter 2023, which is the highest annual growth since mid-2012.

Employment growth is expected to ease modestly to 3¼ per cent in 2022–23 but the labour market remains exceptionally tight, with the unemployment rate forecast to fall to 3¾ per cent, its lowest level since 2007–08. Consistent with the growth profile of state final demand, employment growth is expected to moderate to one per cent in 2023–24 and 1½ per cent in 2024–25.

The unemployment rate is expected to edge slightly higher as the domestic economy slows, but remain low by historical standards, at 4¼ per cent in 2023–24 and 4½ per cent in 2024–25.

While incomes remain under pressure in real terms, wages are forecast to strengthen to 3¾ per cent in 2022–23, up from 2.5 per cent in 2021–22. Consistent with the lagged impact of a very tight labour market, wages growth is forecast to strengthen further to 4 per cent in 2023–24.

Inflationary pressures have continued to build in 2022–23, with year-average growth in Brisbane's consumer price index forecast to rise from 5.4 per cent in 2021–22 to an estimated 7¼ per cent for 2022–23. While goods prices (especially prices related to new dwelling purchase by owner-occupiers and automotive fuel components) have evolved largely as expected, the inflation outlook is higher than previously anticipated due to inflationary pressures in the services sector.

However, there is growing evidence that headline inflation has peaked, having slowed from 7.9 per cent in September quarter 2022 to 7.4 per cent in March quarter 2023. In year-average terms, inflation is forecast to moderate to 3¾ per cent in 2023–24 and then 3 per cent in 2024–25.

Queensland's population growth is expected to strengthen to 2 per cent in 2022–23, reflecting a pickup in overseas migration as departures have temporarily lagged arrivals. With interstate migration forecast to stabilise at around pre-COVID-19 levels and net overseas migration to be maintained at elevated levels, Queensland's population growth is forecast to ease back to 1½ per cent by 2024–25.

Table 2.2 Queensland economic forecasts/projections[1]

	Actuals	Forecasts			Projections	
	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27
Gross state product[2]	**4.4**	**2**	**3**	**3**	**2¾**	**2¾**
Employment	5.1	3¼	1	1½	1¾	1¾
Unemployment rate[3]	4.5	3¾	4¼	4½	4½	4¾
Inflation[4]	5.4	7¼	3¾	3	2½	2½
Wage Price Index	2.5	3¾	4	3½	3½	3½
Population	1.6	2	1¾	1½	1½	1½

Notes:

1. Unless otherwise stated, all figures are annual percentage changes.
2. Chain volume measure (CVM), 2020–21 reference year.
3. Per cent, year-average.
4. 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.

2.4.1 Household consumption

Following the impacts on spending during the initial stages of the pandemic, real household consumption in Queensland rebounded considerably across 2020–21 and 2021–22, rising 9.0 per cent between March quarter 2020 and June quarter 2022.

Since then, aggregate household spending in Queensland has generally been sustained at elevated levels with tight labour market conditions, a pick-up in population growth and substantial savings accumulated during the pandemic offsetting the impacts of higher cost-of-living pressures.

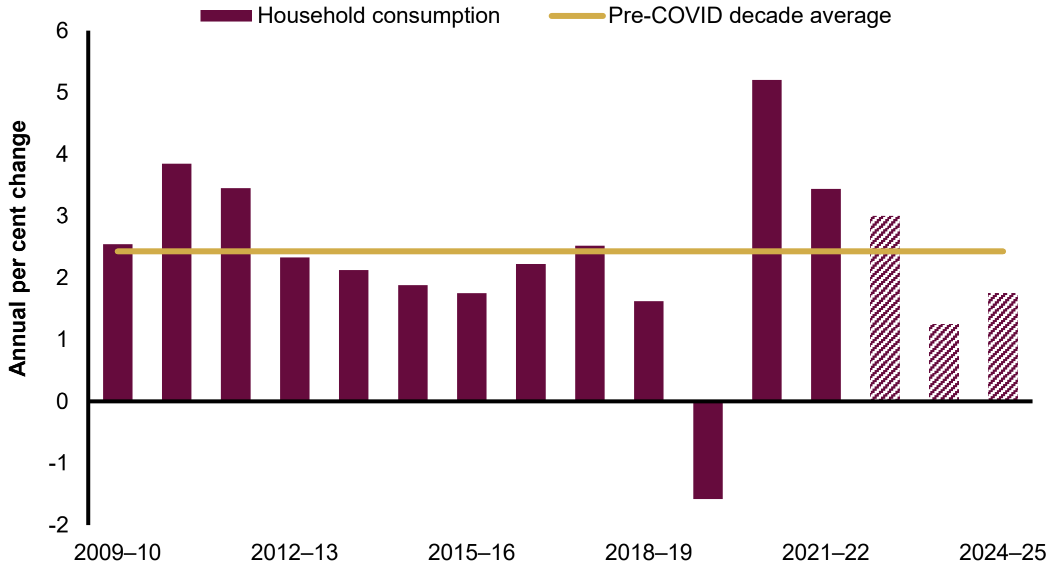
At a component level, consumption patterns that had altered during COVID-19 have continued to normalise and rebalance towards services. This has particularly been the case as consumers increased spending on travel services after the international border re-opened in early-2022.

However, there are signs that households are now adjusting spending in response to the substantial increase in borrowing costs. After being broadly unchanged in December quarter 2022, household consumption in Queensland fell marginally in March quarter 2023.

Household spending is expected to be constrained further as the lagged impact of higher interest payments weigh on household budgets, particularly with many mortgages rolling-off from fixed rates and onto higher variable rates during 2023. This, along with recent declines in asset prices lowering household wealth, is expected to see growth in real household consumption slow significantly from 3 per cent in 2022–23 to 1¼ per cent in 2023–24 (Chart 2.4).

Over the remainder of the forward estimates, consumption growth is forecast to recover gradually, with scheduled income tax cuts and easing of interest rates supporting disposable incomes. However, persistent consumer caution and a maturing dwelling construction cycle will likely keep spending growth over the later years of the forecast period below the average recorded in the pre-COVID-19 decade.

Chart 2.4 Real household consumption outlook, Queensland[1]



Note:

1. Chain volume measure, year-average.

Sources: ABS National Accounts and Queensland Treasury.

2.4.2 Dwelling investment

Dwelling investment in Queensland fell 14.0 per cent over the year to June quarter 2022, with both new and used construction and renovation activity lower over the year. Residential construction activity was greatly constrained by material and labour supply shortages, poor weather and flooding, and several construction company insolvencies.

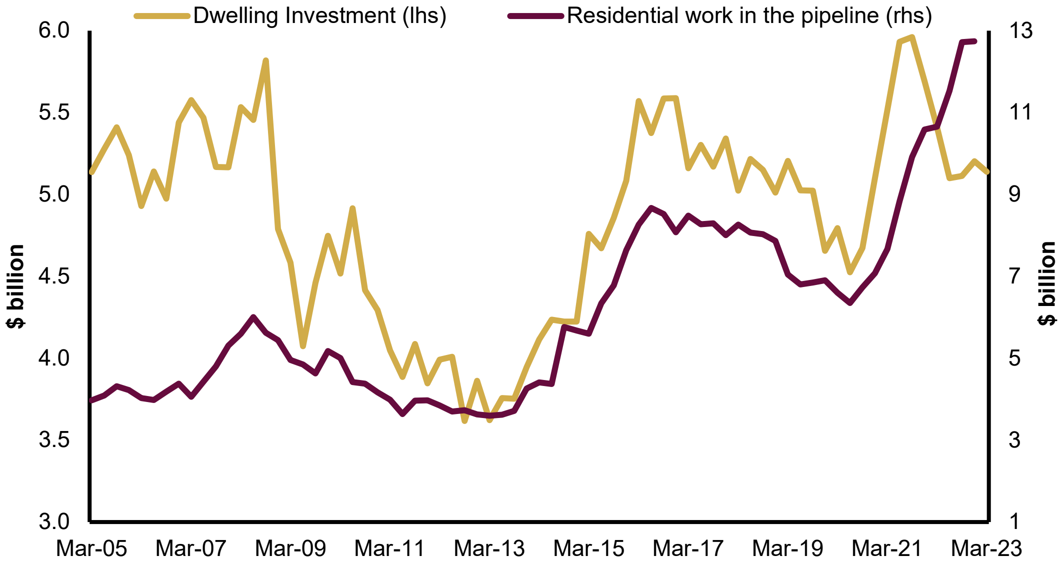
However, there are signs that supply constraints are beginning to ease, particularly for materials, with new and used construction in March quarter 2023 rising 10.4 per cent from its trough in June quarter 2022, though this has largely been offset by lower renovation activity.

As a result of supply constraints, there remains a considerable amount of work in the pipeline, given that previous record low interest rates and indications by the RBA that rates would remain low for an extended period, as well as generous government incentives in response to COVID-19, underpinned a boom in dwelling investment in recent years.

Reflecting this strong demand, there was a record $12.7 billion of residential work in the pipeline in December quarter 2022, easily eclipsing the previous record in 2016 during the inner-city apartment boom in Brisbane (Chart 2.5).

Following 2 years of strong growth, dwelling investment in Queensland is expected to fall 5 per cent in 2022–23. Dwelling investment is then forecast to rebound 5½ per cent in 2023–24 and be maintained at around this level in 2024–25, supported by the continued easing of supply constraints.

Chart 2.5 Queensland dwelling investment[1] and work in the pipeline[2]



Notes:

1. Quarterly, chain volume measure, seasonally adjusted.
2. Quarterly, nominal, original.

Sources: ABS National Accounts and Building Activity.

Box 2.1 Housing and rental market dynamics

Previously low interest rates and substantial government support at a national and state level in response to the COVID-19 pandemic underpinned a boom in Queensland's housing market, creating a strong pipeline of work.

However, material and labour supply shortages, weather disruptions, and several construction company insolvencies have constrained Queensland's residential construction activity, slowing the supply of new dwelling stock (see Chart 2.5 above).

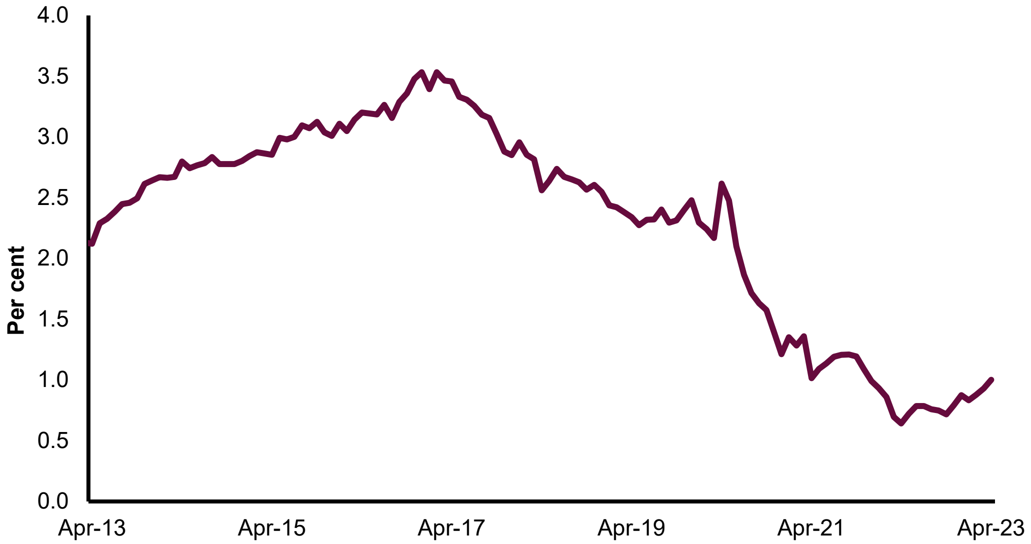
In contrast to supply, high rates of household formation have driven strong growth in housing demand. Historically high levels of net interstate migration over 2021–22, followed by a recovery in net overseas migration over 2022–23, both contributed to strong population growth in Queensland.

Average housing size has also been declining over time due to both short and long-term factors. Small changes in household size have large impacts — for each 0.01 fall in persons per household, around 8,500 additional dwellings are required.

Broader housing market conditions have tended to have the most significant impacts on the rental market. During the pandemic, the rental stock in Queensland declined significantly, partly due to the sale of properties to owner-occupiers. This drove rental vacancy rates to record lows and sharp rent increases across many Queensland regions, with a similar phenomenon apparent nationally.

The vacancy rate in Queensland had been on a downward trend since the end of 2016, which accelerated during the COVID-19 pandemic, reaching a record low of 0.6 per cent by April 2022. However, according to SQM Research, the residential rental vacancy rate in Queensland has improved marginally over the year, having risen to 1.0 per cent by April 2023 (Chart 2.6).

Chart 2.6 Queensland residential rental vacancy rate[1]



Note:

1. Monthly, seasonally adjusted.

Sources: SQM Research and Queensland Treasury.

While vacancy rates remain low across Queensland, improvements over the year can be seen across several regions, including Cairns, Townsville, Toowoomba, Sunshine Coast, Gold Coast and Greater Brisbane.

The Queensland Government has taken a range of actions to address housing affordability and increase housing availability, as outlined in Chapter 1.

2.4.3 Business investment

Total private business investment was easing ahead of the pandemic and fell further during 2020 and early 2021 during the early stages of the pandemic. It has subsequently strengthened in line with the recovery in general economic activity, growing strongly by 8.8 per cent in the year to March quarter 2022 and a further 7.2 per cent in the year to March quarter 2023.

High levels of capacity utilisation, strong business conditions and a tight labour market (which will encourage some firms to substitute capital for labour) are all expected to support growth in machinery and equipment investment.

Leading indicators of non-residential building have eased recently but remain at elevated levels while a strong pipeline of major investment projects, including in renewable energy, is expected to support engineering construction.

Supply chain disruptions have pushed up building and construction costs in recent years. The producer price index for Queensland non-residential building and construction rose by over 12 per cent in the year to June quarter 2022. However, ongoing resolution of supply disruptions has seen some easing in cost pressures with the index growing by a more moderate 8.4 per cent in the year to March quarter 2023.

Building cost inflation is expected to ease further over the forecast horizon and overall real business investment is expected to continue to grow at a moderate pace.

2.4.4 Public final demand

Public final demand is forecast to grow 4¼ per cent in 2022–23 and then 4¾ per cent in 2023–24 and 5¼ per cent in 2024–25.

The 2023–24 Queensland Budget is continuing to support delivery of the government's overarching community objectives of good jobs, better services, and great lifestyle through an unprecedented capital works program which will facilitate and deliver productivity enhancing economic and social infrastructure across the state, including a range of major projects across regional Queensland.

The record capital program of $88.729 billion over the 4 years to 2026–27 will enhance the productivity and competitiveness of Queensland businesses and industries over the medium to longer term, including supporting the transition of the economy in the context of global decarbonisation, and will also help support ongoing solid growth in public final demand across the forecast period.

2.4.5 Overseas exports and imports

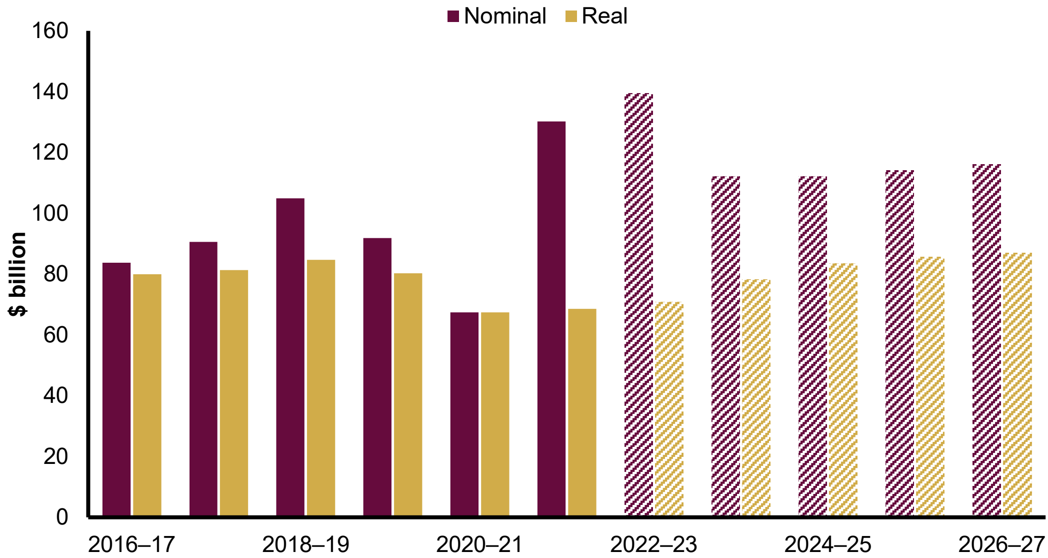
High prices for Queensland's key commodity exports have boosted the nominal value of Queensland's goods and services exports to a record high of $130.2 billion in 2021–22, with the value of exports expected to grow even higher to nearly $140 billion in 2022–23.

Growth in real terms is expected to be more muted, given the strong increase in global prices for many key exports (Chart 2.7).

Overseas exports of goods and services are forecast to grow by 3½ per cent in 2022–23. This reflects strong growth in services exports, as they recover from the impacts of the pandemic, more than offsetting a decline in goods exports caused by unscheduled LNG maintenance and weather-related supply constraints impacting coal export volumes.

Goods and services exports are forecast to grow strongly, by 10½ per cent, in 2023–24 as supply constraints affecting goods exports unwind and services exports continue to recover towards pre-COVID-19 levels. In 2024–25, overseas exports are expected to continue to grow strongly but at a slightly lower rate of 6¾ per cent, as the growth of services exports moderates considerably.

Chart 2.7 Queensland's goods and services exports[1]



Note:

1. Real values are chain volume measure 2020–21.

Sources: ABS Balance of Payments and Queensland Treasury.

Coal

Queensland's coal export volumes are estimated to fall by ½ per cent in 2022–23, as poor weather conditions constrained supply and global pig iron production, a key driver of demand for metallurgical coal, declined.

Spot prices for premium hard coking coal have moderated from the unprecedented highs in 2021–22 following Russia's invasion of Ukraine but remain elevated by historical standards. The premium hard coking coal spot price fell from an average of US$594 per tonne (/t) in March 2022 to US$265/t by December 2022.

Supply disruptions in early 2023, including extreme rainfall in January, a train derailment and subsequent track closure, and a cyclone off the coast of North Queensland disrupting shipping in February, all contributed to the premium hard coking coal price rebounding to US$369/t in February 2023.

Since then, supply constraints have eased and the spot price has fallen to average US$231/t in May 2023. Hard coking coal prices are expected to continue to normalise across 2023–24, returning towards prices in line with medium-term fundamentals.

The hard coking coal price is now expected to return to US$175/t in the medium term, up from US$160/t assumed in the 2022–23 Budget Update, reflecting persistently higher than expected inflation and the impacts of decarbonisation efforts, which are expected to increase mining costs in the medium term.

Premium thermal coal spot prices remained extremely high across the first half of 2022–23, averaging nearly US$400/t, more than 5 times higher than the pre-COVID-19 average in 2019 of US$75/t. However, as supply constraints eased in the first half of 2023, the spot price fell rapidly, from US$400/t in December 2022 to US$180/t in March 2023, and US$170 in May 2023.

Premium thermal coal prices are expected to continue to ease across 2023–24. However, the thermal coal market is expected to remain tight over the forecast period, as concerns about climate change reduce the viability of new investments in thermal coal supply globally. As a result, thermal coal prices are expected to remain above their historical long-run average price across the forecast period.

In January 2023, China lifted its unofficial ban on Australian coal imports, by allowing some companies to resume importing. China has subsequently allowed all companies to resume importing coal from Australia. Ports data show that Queensland exported 5.0 million tonnes of coal to China across January to April.

Looking forward, China’s resumption of coal imports from Queensland and Australia may help support demand for Queensland’s coal exports across the forward estimates. However, this impact is expected to be modest.

Following China’s initial ban in October 2020, Queensland’s coal exporters were largely successful in finding alternative customers for their coal, offsetting the vast majority of exports to China through increased exports to other countries, primarily Japan, India and Korea.

Queensland’s coal exports are forecast to grow by 6¼ per cent in 2023–24, as supply conditions normalise. Coal exports are then forecast to grow further in 2024–25, returning towards pre-COVID-19 levels, as global growth strengthens.

In 2025–26 and 2026–27, coal exports are projected to grow modestly, as global economic conditions and growth normalise.

LNG

The volume of Queensland’s LNG exports is estimated to fall 5¾ per cent to 22.2 million tonnes in 2022–23, largely due to maintenance issues at one of the LNG plants on Curtis Island.

The majority of Queensland’s LNG exports are sold under long-term contracts linked to global oil prices, with several months lag. The Russian invasion of Ukraine sparked concerns about an oil supply shortfall in the market, which saw the Brent crude oil price average above US$100/bbl in 2022, peaking at nearly US$140/bbl in early March 2022.

These higher oil prices have flowed through to Queensland’s LNG export prices, boosting the value of Queensland’s LNG exports, which more than doubled in value in 2021–22 and are expected to rise a further 17½ per cent in 2022–23.

However, concerns surrounding a global shortfall of oil have not materialised, and global supply of oil overtook global consumption in 2022, putting downward pressure on oil prices.

As a result, global oil prices have fallen back to levels in late 2022 and early 2023 similar to those seen before the war in Ukraine, reaching as low as US$73/bbl in late May 2023. The value of Queensland’s LNG exports will decline from their record high as oil prices moderate.

With maintenance issues expected to be resolved, Queensland's LNG export volumes are expected to rebound 3 per cent in 2023–24, with all 3 LNG plants assumed to resume production at contracted capacity.

Metals

Queensland's industrial metals exports fell 12.5 per cent in 2021–22 as production was hampered by COVID-19 related workforce disruptions, weather interruptions and outages at major refineries and smelters.

Production and exports generally rebounded strongly in late 2022. However, a workplace incident at the Dugald River mine and the significant flooding in early 2023, which saw production reduced across several sites for an extended period, resulted in overall output being reduced in the March and June quarters.

After a range of delays, commissioning of the Sun Metals zinc refinery expansion is expected to support a lift in metals exports in 2023–24 and 2024–25.

From 2025, several significant zinc and copper mines are scheduled to close as economically viable ore is depleted and this will impact Queensland's industrial metals exports by mid-decade. However, Queensland base metal exploration has grown rapidly in recent years, particularly for copper, and there are several potential expansions currently under review which will have some offsetting effect if they proceed.

Agriculture

The volume of agricultural exports rose by 4.3 per cent in 2021–22, driven by sharp increases in cotton, grain sorghum and wheat exports, as favourable weather conditions and elevated prices incentivised growers to expand production. Beef exports moderated slightly as producers retained stock following another wet 2021–22 summer.

Agriculture exports are expected to further strengthen in 2022–23, as increased winter rainfall in 2022, combined with elevated commodity prices, lead to increased cotton and crop production and exports.

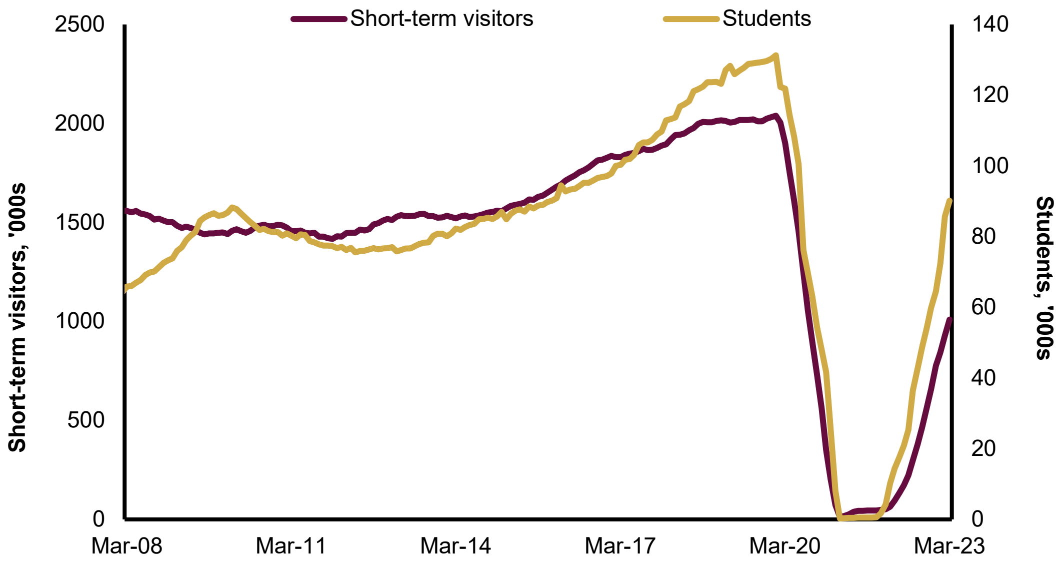
Beef exports are expected to return to growth in 2022–23 and 2023–24, as drier conditions lead to increased cattle processing.

Similarly, cotton exports are projected to rise sharply in 2022–23, due to a large harvest in 2021–22 and a sizeable crop in 2022–23 driven by high rainfall in key cotton producing areas. Cotton exports are expected to moderate from 2023–24 as drier conditions set in, resulting in a drawdown in water storages.

Services exports

The reopening of Australian borders has seen a large increase in overseas visitor inflows, albeit from exceptionally low levels (Chart 2.8).

Chart 2.8 Short-term visitor and student arrivals, Queensland[1]



Note:

1. 12-month rolling sum, '000s.

Source: ABS Overseas Arrivals and Departures.

Following a prolonged period of negligible arrivals, the number of international short-term visitors has risen strongly and, on a rolling 12-month basis, in the year to March 2023 is now close to 50 per cent of the pre-COVID-19 peak.

Overseas student arrivals have increased even more strongly. On a 12-month rolling basis, student arrivals in the year to March 2023 are back to almost 70 per cent of their previous peak.

A combination of international airline capacity constraints, ongoing uncertainty, and travel restrictions in China (previously a major source of visitors and students) has prevented a complete recovery to date. However, the recent relaxation of Chinese travel restrictions, together with the assumed improvements in travel capacity and confidence, are expected to produce a further recovery in visitor arrivals over the forecast horizon.

This is expected to translate into continued strong growth in services exports.

Imports

Overseas imports are expected to grow by 11½ per cent in 2022–23, driven by strong growth in goods imports in the first half of the year, as global supply chains recovered and reflecting the first full financial year without international travel restrictions.

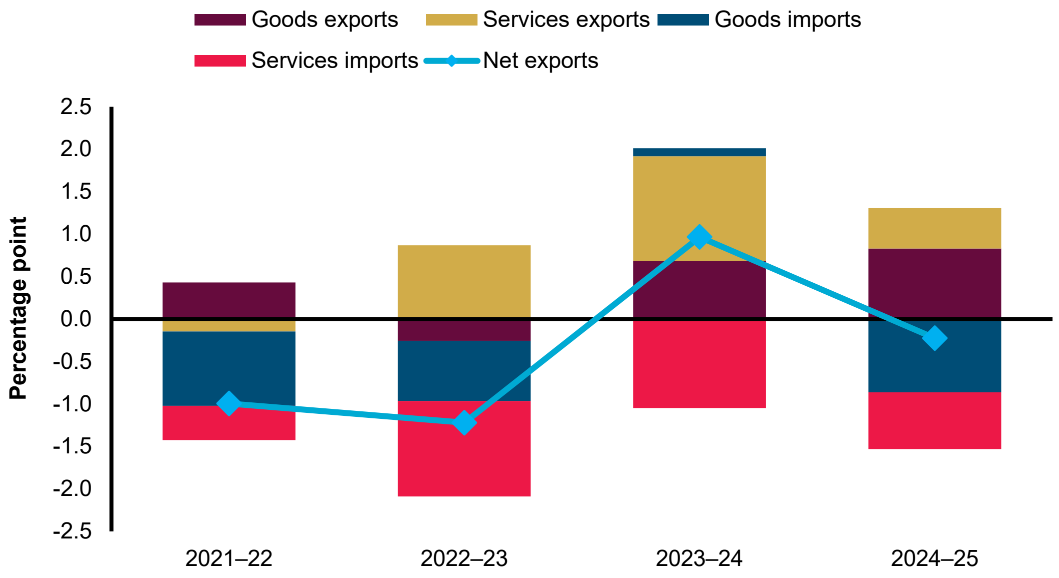
Imports are then expected to grow by 5½ per cent in 2023–24, as overseas travel continues to recover but goods imports contract, as household consumption is constrained by the impacts of interest rate rises.

In 2024–25, overseas imports are forecast to grow 8½ per cent, with goods imports returning to growth. Meanwhile, growth rates for services imports are expected to moderate, but the level of overseas travel is expected to have returned by then to above pre-COVID-19 levels.

Reflecting the trends in exports and imports detailed above, in net terms the overseas trade sector is expected to detract 1¼ percentage points from growth in 2022–23, as strong growth in both goods and services imports and a decline in goods exports more than offset the recovery in services exports.

In 2023–24, net overseas exports are forecast to make a one percentage point contribution to growth, as goods exports recover and goods imports are impacted by slowing household consumption growth (Chart 2.9). The trade sector is then forecast to return to balance in 2024–25, with a neutral contribution to GSP growth in that year.

Chart 2.9 Overseas exports and imports[1]



Note:

1. Percentage point contribution to GSP growth. 2022–23 onwards are forecasts.

Sources: ABS Balance of Payments and Queensland Treasury.

2.4.6 Labour market

Queensland's labour market remains remarkably strong and tight, with the unemployment rate at around decade lows, the job vacancy rate near its historic high and the employment-to-population ratio around its highest level in more than a decade.

As of April 2023, Queensland has recorded among the strongest employment gains of any state or territory, and stronger jobs growth in percentage terms than the rest of the nation, since the beginning of the COVID-19 pandemic in March 2020. Trend employment in Queensland has grown by 226,300 persons (or 8.8 per cent) over this period.

Despite this strong performance, there have been signs that interest rate rises have impacted the labour market in the second half of 2022 and into 2023.

Annual employment growth has slowed, from a peak of 4.8 per cent in July 2022 to 1.5 per cent in April 2023, while the unemployment rate has edged up slightly from a low of 3.5 per cent in October 2022 to 3.8 per cent in April 2023.

The full impact of rapid monetary policy tightening is expected to continue to flow through to domestic economic activity and the labour market over coming quarters.

After growing by 5.1 per cent in 2021–22, year-average employment growth is expected to moderate but remain strong at 3¼ per cent in 2022–23. As the effects of sharp interest rate rises flow through to consumption and the domestic economy, employment growth is forecast to slow to one per cent in 2023–24. As domestic economic activity recovers, employment growth is forecast to pick-up to 1½ per cent in 2024–25 (Chart 2.10).

Through this period of softening private sector demand, ongoing growth in public final demand, including the government's substantial infrastructure program, will provide support to the labour market.

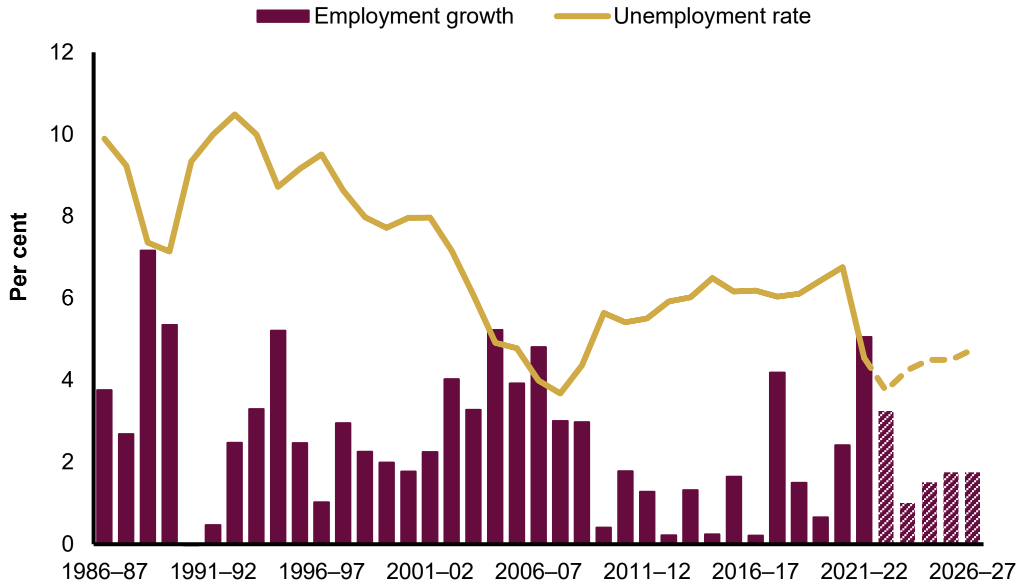
Beyond 2024–25, employment is projected to grow by 1¾ per cent per annum in both 2025–26 and 2026–27, in line with projected working age population growth.

Queensland's unemployment rate is forecast to fall from an average of 4.5 per cent in 2021–22 to an exceptionally low 3¾ per cent in 2022–23. This would be Queensland's lowest year-average unemployment rate since 2007–08.

As domestic activity is expected to be more constrained in 2023–24, the unemployment rate is forecast to rise moderately to 4¼ per cent but remain very low by historical standards.

Queensland's unemployment rate is then expected to continue to normalise over the forward estimates, averaging 4½ per cent in both 2024–25 and 2025–26, reaching 4¾ per cent in 2026–27.

Chart 2.10 Employment growth and unemployment rate[1]



Note:

1. Original.

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 rose 3.1 per cent in the 12 months to April 2023, led by Sunshine Coast (up 13,500 persons, or 7.0 per cent), Moreton Bay – South (up 11,000 persons, or 9.5 per cent) and Moreton Bay – North (up 8,900 persons, or 7.7 per cent). Brisbane – South (up 7,900 persons) and Brisbane – West (up 7,800 persons) also recorded strong employment gains during the period.

Many regional Queensland labour markets have recovered strongly from the COVID-19 pandemic, with key regional industries supported by high commodity prices, solid domestic tourism, improved rainfall and the strong dwelling sector. Employment in regional Queensland grew 5.4 per cent in the year ended April 2023 with Central Queensland (up 12,200 persons, or 10.4 per cent) and Wide Bay (up 10,600 persons, or 8.9 per cent) recording the strongest employment growth.

The average unemployment rate across regional Queensland fell 1.2 percentage points to 3.9 per cent in the year to April 2023, to be the lowest unemployment rate recorded in regional Queensland since May 2008.

Cairns (3.8 per cent), Townsville (2.3 per cent) and Wide Bay (5.6 per cent) all recorded among the lowest unemployment rates in more than a decade in April 2023.

2.4.7 Prices and wages

In year-average terms, growth in Brisbane's consumer price index (CPI) strengthened to 5.4 per cent in 2021–22, up from 1.2 per cent during the height of the COVID-19 pandemic in 2019–20 and 2.1 per cent in 2020–21.

Inflationary pressures have continued to build in the first half of 2022–23, with CPI growth rising to a peak of 7.9 per cent over the year to September quarter 2022, the strongest annual increase since 1987.

There is strong evidence, however, that annual inflation has peaked, having slowed to 7.7 per cent in December quarter 2022 and 7.4 per cent in March quarter 2023.

While the initial surge in inflation was predominantly driven by accelerating goods inflation, more recently inflationary pressures have also broadened across services components. In fact, in March quarter 2023, 70 of the 87 expenditure components that comprise the Brisbane CPI basket recorded annual price increases of above 3 per cent, up from just 14 components in March quarter 2021.

While new dwelling purchase for owner-occupier inflation has eased from the historical high increase of 30.2 per cent in June quarter 2022, the component remains the strongest contributor to headline inflation, having risen 12.7 per cent over the year to March quarter 2023.

Meanwhile, several services components continue to strengthen, with rents, buoyed by historically low vacancy rates, rising 7.0 per cent over the year to March quarter 2023. Further, strong demand for travel throughout 2022 and into early 2023 at a time when the number of operating flights had not yet returned to pre-COVID-19 levels, resulted in holiday travel and accommodation annual inflation surging to a record high 24.9 per cent in the March quarter.

Brisbane's CPI growth is expected to average 7¼ per cent in 2022–23. If realised, this would be the strongest year-average increase in Brisbane's CPI since 1989–90.

Beyond 2022–23, services inflation is expected to become the primary driver of inflationary pressures in Brisbane. Goods price inflation is expected to continue to ease in the near-term, driven by a range of factors including consumers continuing to switch spending from goods to services, falling global shipping costs, lower oil prices flowing through to automotive fuel, material and labour shortages continuing to ease and a normalisation in food price inflation as agricultural production recovers from the impacts of flooding events in 2022.

However, these falls are expected to be partially offset by services inflation remaining elevated for some time, primarily driven by further strengthening in rents, as population growth tempers the improvement in vacancy rates, and ongoing strong demand for holiday travel and accommodation.

The net impact of these divergent trends is expected to result in CPI growth moderating to 3¾ per cent in 2023–24, 3 per cent in 2024–25 and 2½ per cent over the remainder of the forecast period.

Consistent with the very tight labour market, Queensland's wage price index (WPI) annual growth has accelerated over recent years, rising from a trough of 1.4 per cent in March quarter 2021 to 3.7 per cent in March quarter 2023, which is the highest annual growth since June quarter 2012.

Queensland's WPI growth is expected to strengthen to 3¾ per cent in 2022–23, up from 2.5 per cent in 2021–22, and strengthen further to 4 per cent in 2023–24.

Box 2.2 Recent inflation trends

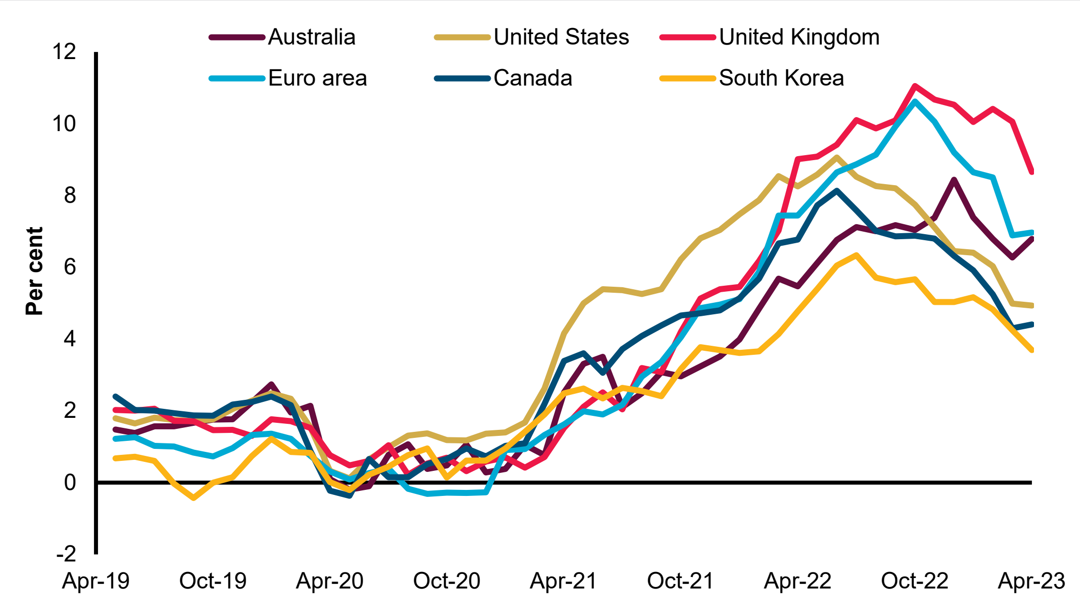
Global trends

Annual consumer price inflation rates surged globally throughout 2021 and the first half of 2022. This was driven by significant fiscal and monetary stimulus in response to the COVID-19 pandemic and supply chain disruptions, initially due to factors associated with the pandemic but then exacerbated by Russia's invasion of Ukraine.

However, more recently there have been some signs of global disinflation (Chart 2.11) as the impact of aggressive interest rate rises begin to impact consumer demand and global supply chain disruptions have eased.

In the United States, headline consumer price inflation has eased to 4.9 per cent in April 2023, down from a peak of 9.1 per cent in June 2022. Inflation is also easing in the Euro area (7.0 per cent in April 2023, down from a peak of 10.6 per cent in October 2022), Canada (4.4 per cent in April 2023, down from 8.1 per cent in June 2022) and South Korea (3.7 per cent in April 2023, down from 6.3 per cent in July 2022).

Chart 2.11 Annual consumer price inflation by jurisdiction



Source: Refinitiv.

However, global oil prices having almost halved since Brent crude oil peaked at US$140/bbl in March 2022 has been the predominant driver of these falling headline inflation rates. As such, various measures of core inflation, which typically remove volatile CPI components including fuel prices, have fallen at a slower rate.

Core inflation measures continue to be supported by elevated rates of services inflation. This is particularly evident in the United States where annual core inflation has remained stable at around 5½ per cent in early-2023 (while headline inflation has fallen considerably during the same period), supported by annual services inflation of 6.8 per cent in April 2023.

Domestic trends

Inflationary trends in Brisbane and nationally have broadly followed global trends in recent years, with the initial surge in headline inflation primarily driven by goods components, in particular new dwelling purchases by owner-occupiers and automotive fuel, while services inflation was more delayed.

In Brisbane, annual services inflation has accelerated from 2.9 per cent in December quarter 2021 to 7.6 per cent in March quarter 2023. The March quarter 2023 result is the highest rate of annual services inflation since 1995.

Key components supporting services inflation include *rents* and *holiday travel and accommodation* costs.

Rental vacancy rates in Brisbane have trended lower since the onset of the COVID-19 pandemic, partly driven by a falling average household size as many renters opted for more living space. Partially reflecting the fall in Queensland's rental stock, Brisbane's rental vacancy rate has been at, or below, one per cent since early 2022, supporting strong growth in rents.

Meanwhile, strengthening demand, rising fuel costs and airline capacity remaining significantly below pre-COVID-19 levels resulted in holiday travel and accommodation costs rising significantly throughout 2022 and early-2023.

Consumer inflation trends in Australia have also been impacted by flooding events throughout 2022, impacting agricultural supply. The flooding exacerbated food price inflation that had already been impacted by Russia's invasion of Ukraine and other constraints, including COVID-19-related supply chain disruptions and high transport and fertiliser costs.

To help address these national cost-of-living pressures, the government is providing a record $8.224 billion worth of concessions in 2023–24, an increase of 21.2 per cent from 2022–23.

The government is providing $1.617 billion in the 2023–24 Queensland Budget towards new and expanded cost-of-living measures that will help address the challenges Queenslanders are facing.

This includes an unprecedented $1.483 billion in 2023–24 for additional electricity bill support to households and small businesses facing cost-of-living pressures.

As part of this package, all Queensland households will automatically receive a $550 Cost of Living Rebate on their electricity bill in 2023–24, while around 600,000 vulnerable households will benefit from a higher $700 Cost of Living Rebate.

In addition, vulnerable households will continue to receive the existing $372 rebate under the Queensland Electricity Rebate Scheme, bringing total support for this group to $1,072.

Eligible small businesses in Queensland will also receive an automatic rebate of $650 on their electricity bill in 2023–24. This includes around 205,000 Queensland small businesses that consume less than 100,000 kilowatt hours per annum.

The Queensland Government's cost-of-living relief package significantly increases and broadens support under the National Energy Bill Relief Plan, jointly funded by the Queensland and Australian Governments.

As part of this package, the Queensland Government has also allocated a total of $60 million for a Household Energy Initiatives program, and $10 million to support community non-government organisations to deliver energy literacy and education programs.

2.4.8 Population

Queensland's overall population growth recovered to 1.6 per cent in 2021–22, after the pandemic related international border restrictions slowed growth to 1.0 per cent in 2020–21.

Queensland's relatively better COVID-19 health outcomes, along with stronger labour market outcomes and relative housing affordability, drove a surge in net interstate migration during the pandemic. At around 101,000 persons since June quarter 2020, Queensland's net interstate migration during the COVID-19 pandemic has been the highest in Australia.

This is consistent with the long-term trend of Queensland being a substantial net recipient of interstate migrants, particularly from New South Wales and Victoria.

However, after a substantial upswing in the first 3 quarters of 2021–22 (up 46,930 persons), net interstate migration to Queensland has continued to normalise during the subsequent 2 quarters, averaging only around 8,200 persons per quarter. Over the remainder of the forward estimates, net interstate arrivals are expected to broadly stabilise at around pre-COVID-19 levels.

Latest data show overseas migrant arrivals have returned to pre-pandemic levels, but departures are still lagging as there are fewer recently arrived temporary migrants who are due to leave. As a result, having generally been a net outflow throughout the pandemic, net overseas migration to Queensland has risen over 41,600 persons in the first 3 quarters of 2022. This contrasted with a detraction of almost 2,400 persons over the same period in 2021.

Tight labour market conditions are also expected to support elevated levels of net overseas migration over the medium term as local firms seek overseas workers where they can't meet workforce demands locally.

Queensland's birth rate picked up during much of the pandemic period. However, with the overseas borders opened again and tightening financial conditions expected to impact household incomes, the increase in births seen during the COVID-19-period is likely to have only been temporary and is expected to unwind, with fertility rates expected to broadly return to the downward trend seen prior to the pandemic.

The population increase attributed to natural increase is forecast to broadly return to pre-COVID-19 trends.

Reflecting this combination of factors, Queensland overall population growth is expected to strengthen to 2 per cent in 2022–23, before easing to 1¾ per cent in 2023–24 and then easing further to average around 1½ per cent over the remainder of the forward estimates.

Box 2.3 Population growth in Queensland

International border closures during the COVID-19 pandemic led to slower population growth in Queensland and in Australia by historical standards. In year-average terms, Queensland's population growth slowed to 1.0 per cent in 2020–21, compared with average growth of around 1.6 per cent in the preceding 5 years.

However, Queensland's population growth recovered to 1.6 per cent in 2021–22, underpinned by a surge in net interstate migration. Queensland's relatively better health outcomes, labour market conditions and housing affordability drove this increase in interstate migration.

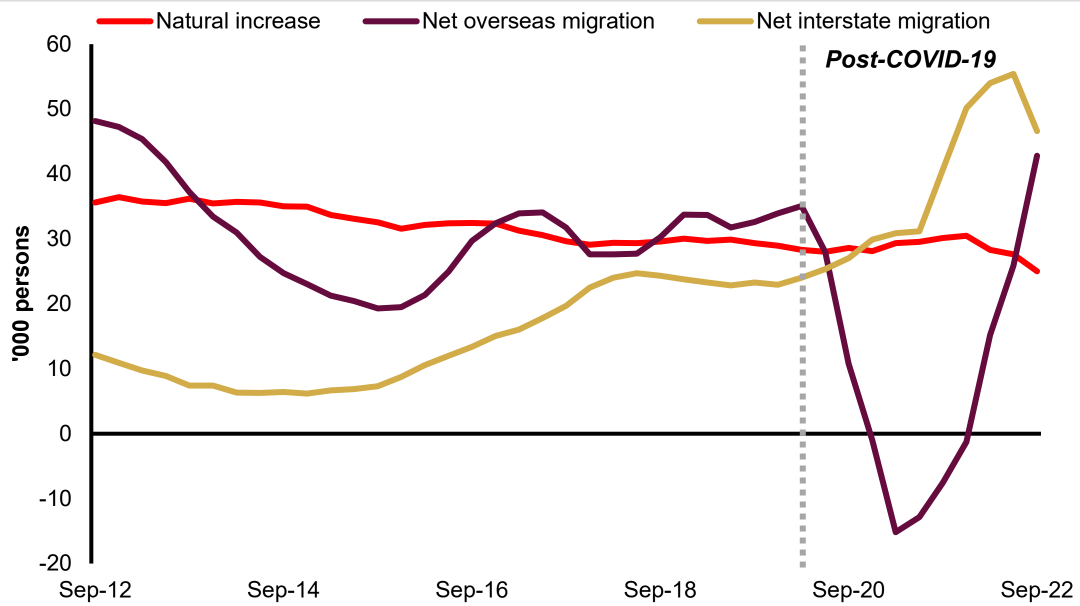
Net interstate migration is now expected to stabilise at around pre-COVID-19 levels.

Recovery in net overseas migration

Net overseas migration is now recovering following the pandemic (Chart 2.12). Overseas arrivals have returned to pre-pandemic levels, while departures are still lagging, with overseas migration is expected to be the main driver of population growth over the forward estimates.

Net overseas migration to Queensland rose by over 41,600 persons in the first 3 quarters of 2022, compared with a detraction of just under 2,400 persons over the same period in 2021.

Chart 2.12 Queensland's population growth, by component[1]



Note:

1. Four-quarter rolling sum. The dotted vertical line represents March quarter 2020.

Source: ABS National, State and Territory Population.

Reflecting these trends, Queensland's overall population growth is expected to have strengthened to 2 per cent in 2022–23 but is then expected to ease to 1¾ per cent in 2023–24 before easing further to average around 1½ per cent over the rest of the forward estimates.

Population growth across Queensland's regions

As at 30 June 2022, approximately 1.4 million people lived in local government areas (LGAs) outside of South East Queensland, accounting for 27 per cent of the state's population.

Population growth has varied across Queensland regions since the COVID-19 pandemic, with some regional LGAs growing faster than the state average, including Fraser Coast (2.8 per cent), Livingstone (2.7 per cent), Gympie (2.4 per cent) and Whitsunday (2.4 per cent).

A range of other regional LGAs have experienced more moderate, but still solid population growth, including Bundaberg (2.1 per cent), Gladstone (1.8 per cent), Cairns (1.7 per cent), Mackay (1.6 per cent) and Townsville (1.6 per cent).

Long-term population outlook

Despite the recent strength of interstate migration and the return of overseas migration, the impact of COVID-19 international border restrictions and lower fertility rates have resulted in the growth in Queensland's population over the medium to longer term now being lower than expected prior to the pandemic.

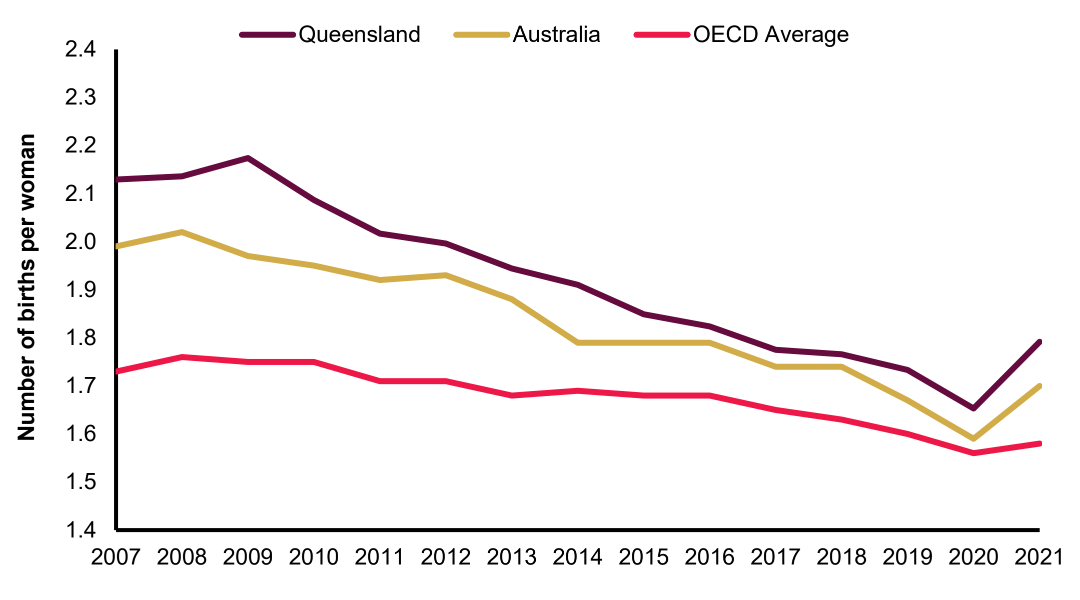
- The closure of international borders caused Queensland to record negative net overseas migration over the period from June 2020 to December 2021. This resulted in the lowest rate of population growth since World War II in 2020–21, with annual growth averaging just 0.8 per cent in both March and June quarters of 2021.
- Since peaking in the late 2000s, declining fertility has been a common trend across the world. In Australia, the total fertility rate (number of births per woman) fell from a peak of 2.02 in 2008 to 1.59 in 2020, while the OECD average fell from 1.76 to 1.56 over the same period.
- Queensland's fertility rate fell from a peak of 2.17 in 2009 to 1.65 in 2020, and fertility is expected to remain low despite a temporary increase to 1.79 observed in 2021 (Chart 2.13).

The 2018 edition of the *Queensland Government Population Projections* (the Projections) showed Queensland's population by 2036 was expected to grow by over 1.4 million people, to reach 6.7 million.

The 2023 edition of the Projections, updated by Queensland Treasury with the latest Census data and assumptions reflecting developments over the last 5 years, projects the state's population to now grow more slowly, by over 1.2 million people to 6.5 million, over the same period.

This almost 200,000 lower projected population in Queensland in the 2023 edition equates to a population approximately the size of Cairns local government area.

Chart 2.13 Total fertility rate by region



Sources: ABS and OECD.

Despite the relatively lower growth outlook, ageing of the state's population is expected to continue with the number of Queenslanders aged 65 years and over projected to grow by almost 0.5 million, to reach 1.3 million, by 2036.

Over the longer term, the population of 65+ year olds in Queensland is projected to more than double, to reach 2.3 million, over the 50 years to 2071 under the medium population series.

Budget priorities to meet the needs of state's growing population

As outlined in Chapter 1, the government's budget priorities and longer-term economic strategy are at the forefront of addressing challenges associated with the state's growing and ageing population, both now and into the future.

The government's ongoing substantial investment in education and training will ensure continued growth of a highly skilled, productive and flexible workforce across the state to meet the needs of the growing population and in the context of the ongoing transformation of the economy.

The government's record capital program of $89 billion over 4 years to 2026–27 will directly facilitate the provision of the social and economic infrastructure across the state, thereby supporting the creation of more jobs in more industries, enhancing future prosperity, and improving the standard of living for Queenslanders and communities.

In the more immediate term, the government is also providing substantial support, including through actions to improve housing affordability, to address key cost-of-living pressures facing Queensland households and small businesses.

2.5 Risks to the outlook

As outlined in the 2022–23 Budget Update, global inflation and monetary policy responses among major central banks remain the biggest risks to the global outlook.

This is particularly the case in Europe where inflation remains elevated, which is likely to attract more aggressive monetary tightening from the European Central Bank and Bank of England. This in turn may lead to a 'hard landing' in the region, which may have global repercussions, including a potential destabilisation of the financial system in some economies.

Another risk is the rising tensions between the US and China, which have already led to significant commercial sanctions according to global financial media coverage. Any resulting disruptions to supply chains in critical sectors could prolong global inflation, weaken global growth potential and may impact negatively on Australia's mineral and energy exports.

The potential escalation of Russia's military actions against Ukraine is also an ongoing risk to the outlook.

In Australia, the persistence of inflation and strength of the labour market may lead the RBA to continue monetary tightening further than currently expected, further impacting a sizeable portion of recent homeowners. If this was to eventuate, combined with the rising uncertainty of the international outlook, this could lead to weaker overall growth.

Table 2.3 Queensland economic forecasts[1], by component

	Actuals	Forecasts		
	2021–22	2022–23	2023–24	2024–25
Economic output[2]				
Household consumption	3.4	3	1¼	1¾
Dwelling investment	4.4	-5	5½	¾
New and used	5.4	2¼	5	1¾
Alterations and additions	3.4	-12½	6½	- ¾
Business investment	8.8	4¾	2	4¾
Non-dwelling construction	10.9	4¼	9¼	13½
Machinery and equipment	10.1	6¼	-4¼	-3¾
Private final demand	4.7	2	1½	2¼
Public final demand	5.6	4¼	4¾	5¼
State Final Demand	5.0	2¾	2½	3¼
Overseas goods and services exports	1.7	3½	10½	6¾
Overseas goods and services imports	8.2	11½	5½	8½
Gross state product	**4.4**	**2**	**3**	**3**
Employment	5.1	3¼	1	1½
Unemployment rate[3]	4.5	3¾	4¼	4½
Inflation[4]	5.4	7¼	3¾	3
Wage Price Index	2.5	3¾	4	3½
Population	1.6	2	1¾	1½

Notes:

1. Unless otherwise stated, all figures are annual percentage changes.
2. CVM, 2020–21 reference year. The comparable nominal GSP growth rates are 22.5 per cent in 2021–22, 8 per cent in 2022–23, -½ per cent in 2023–24 and 5 per cent in 2024–25. The exceptionally strong growth in 2021–22 largely reflects the impact of substantial increases in commodity prices on nominal exports.
3. Per cent, year-average.
4. Brisbane, per cent, year-average.

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