2 Economic performance and outlook

Features

- Following growth of 2.3 per cent in 2022–23, Queensland's overall economic growth is forecast to strengthen to 3 per cent in both 2023–24 and 2024–25, supported by recent and ongoing population growth.
- The international economy has been resilient in the face of higher interest rates, elevated inflation and increased geo-political conflicts. However, it remains subject to ongoing uncertainty and potential risks.
- The International Monetary Fund (IMF) has upgraded its global growth outlook for 2024 to 3.2 per cent, driven by an upward revision to the growth outlook in the United States.
- National economic growth has slowed since the post-COVID-19 rebound in 2021, primarily reflecting weaker national household consumption growth. Australia's economic growth is expected to continue to slow in the near term, with the Reserve Bank of Australia (RBA) forecasting growth of 1.3 per cent in 2024, slowing from the 2.0 per cent recorded in 2023.
- In Queensland, household budgets continue to be constrained by recent substantial increases in mortgage rates and other cost-of-living pressures, which have resulted in slower consumption growth in 2023–24. However, growth in household consumption is expected to recover to around pre-COVID-19 averages in 2025–26.
- In the dwelling sector, higher construction costs and ongoing capacity constraints have limited overall residential construction activity, particularly renovation activity. However, the large amount of work in the pipeline is supporting new and used dwelling investment, which is continuing to add to the housing stock.
- Growth in business investment is expected to be modest over the next 2 years as interest rates, elevated construction costs and softening commodity prices impact investment intentions.
- Reflecting the subdued household spending and dwelling investment, Queensland's state final demand growth is expected to ease to 2½ per cent in 2023–24, before strengthening to 3¼ per cent in 2024–25 and then grow by a further 2¾ per cent in 2025–26 in line with the recovery in household consumption.
- Queensland's overseas trade sector is forecast to be a substantial contributor to overall GSP growth in 2023–24, after detracting from real economic growth for 4 consecutive years. This improved trade performance is due to increased export volumes of coal, LNG, metals, and beef, as well as the continued recovery of services exports.
- Queensland continues to enjoy exceptionally strong labour market conditions, building on employment of 5.1 per cent in 2021–22, the strongest in 17 years, and the further strong jobs growth of 3.7 per cent recorded in 2022–23.
- With ongoing solid demand for labour, employment growth is expected to be 2¾ per cent in 2023–24 before moderating to 1½ per cent in 2024–25 and 1 per cent in 2025–26.

- The state's unemployment rate averaged 3.7 per cent in 2022–23, its lowest year-average unemployment rate since ABS monthly data began in 1978.
- The unemployment rate is expected to increase slightly to average 4¼ per cent in 2023–24 and then gradually move towards a rate more consistent with stable inflation, reaching 4½ per cent in 2024–25 and then 4¾ per cent in 2025–26 and 2026–27.
- Inflationary pressures eased significantly during 2023, with the annual rate of inflation in Brisbane moderating from a 30-year high of 7.9 per cent in September quarter 2022 to 3.4 per cent in March quarter 2024. This has largely been due to a marked slowing in goods inflation, whereas services inflation has been more persistent.
- In year-average terms, inflation in Brisbane is forecast to ease from 7.3 per cent in 2022–23 to 4 per cent in 2023–24. Services inflation is expected to moderate going forward, while the Queensland Government's cost-of-living measures, supported by the Australian Government's additional electricity and rent support, is expected to detract around 1¼ percentage points from CPI growth next year. This results in forecast annual CPI growth falling to 2 per cent in 2024–25.
- Queensland's population growth is expected to strengthen to 2½ per cent in 2023–24, reflecting the elevated levels of net overseas migration, before easing to 1½ per cent in both 2024–25 and 2025–26.

2.1 International conditions

The international economy has proven resilient in the face of higher interest rates, elevated inflation and increased geo-political conflicts. However, it remains subject to ongoing uncertainty and potential risks.

The International Monetary Fund's (IMF) April 2024 forecasts expect global GDP growth in 2024 to be 3.2 per cent, an upward revision of 0.3 percentage point from their October 2023 forecasts.

The revision was primarily driven by a 1.2 percentage points upgrade to the growth outlook in the United States (US), reflecting the continued resilience of the US labour market and consumer spending in the face of higher interest rates.

Global growth is then expected to remain at 3.2 per cent in both 2025 and 2026. This is below the 20-year pre-COVID-19 average growth of 3.8 per cent.

The slightly more positive outlook for the global economy has also extended to the growth outlook amongst Queensland's major trading partners (MTP), with the IMF upgrading its growth forecast for Queensland's MTPs in 2024 by 0.2 percentage point to 3.5 per cent.

Table 2.1: Economic growth forecasts, April 2024 IMF World Economic Outlook Update

	IMF					Consensus[6]	
	Annual % change			%-pt revision[5]		Annual % change	
	2023	2024	2025	2024	2025	2024	2025
Queensland MTP	**3.7**	**3.5**	**3.4**	**0.2**	**0.0**	**3.5**	**3.5**
China[1]	5.2	4.6	4.1	0.4	0.0	4.9	4.4
Japan	1.9	0.9	1.0	-0.1	0.3	0.5	1.2
India[2]	7.8	6.8	6.5	0.5	0.2	6.8	6.6
South Korea	1.4	2.3	2.3	0.1	0.0	2.5	2.2
Other Asia[3]	3.2	4.0	4.2	0.0	-0.1	4.1	4.3
Europe[4]	0.5	0.7	1.4	-0.4	-0.3	0.8	1.4
United Kingdom	0.1	0.5	1.5	-0.1	-0.5	0.5	1.1
United States	2.5	2.7	1.9	1.2	0.1	2.4	1.7
Euro area	0.4	0.8	1.5	-0.4	-0.3	0.6	1.4
Global	**3.2**	**3.2**	**3.2**	**0.3**	**0.0**	**n.a**	**n.a**

Note:

1. Following a staff visit to the country, the International Monetary Fund (IMF) has subsequently upgraded its outlook for China's GDP growth. The IMF now expects China's economy to grow 5.0 per cent in 2024 and 4.5 per cent in 2025, both upwardly revised by 0.4 percentage point compared with its April World Economic Outlook forecasts.
2. Forecasts for India are based on India's fiscal year (starting April 1).
3. Weighted by Queensland's MTP weights. Includes New Zealand.
4. Weighted by Queensland's MTP weights.
5. Revision from October 2023 WEO, rounded to one decimal place.
6. May 2024 Consensus Economics release.

Sources: International Monetary Fund, Consensus Economics and Queensland Treasury.

Global inflation fell faster than expected over 2023, primarily driven by falling goods inflation as global supply chain constraints that emerged during the COVID-19 pandemic gradually unwound.

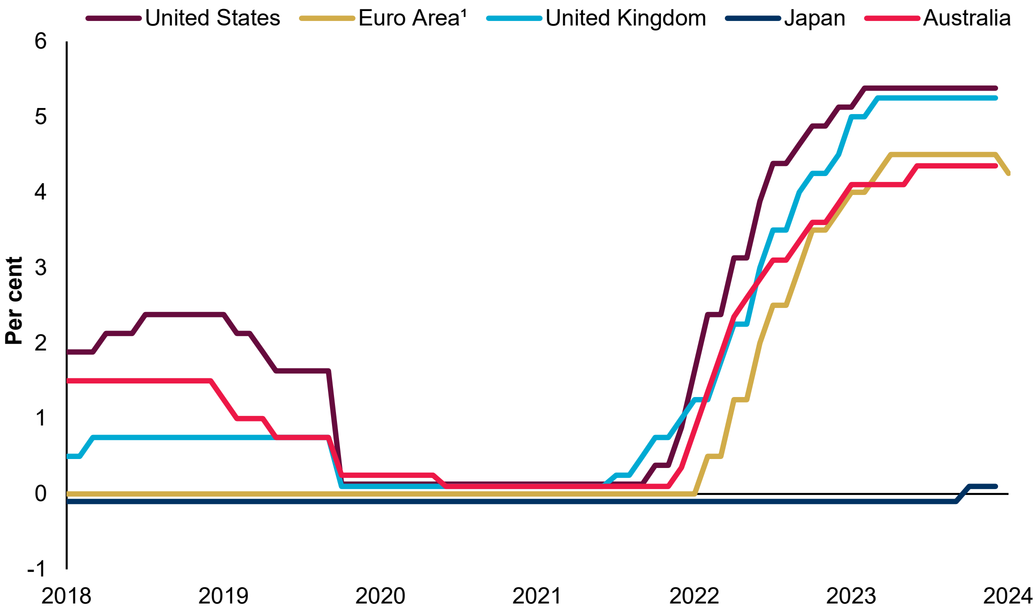
With inflation across most major economies approaching central bank targets, official interest rates appear to have generally peaked, and discussion has shifted to a focus on when (and by how much) rates will need to be eased to successfully navigate a soft economic landing.

However, upside inflation risks have emerged in recent months, which threaten to delay the timing of interest rate cuts in some economies. In particular, services inflation and various measures of core inflation have generally remained sticky, indicating there are still some challenges to overcome to return inflation to central bank targets.

The challenge faced by central banks in guiding inflation back to target is most apparent in the US, where the interest rate outlook has changed significantly in recent months. At the start of 2024, the Federal Reserve was expected to begin cutting interest rates as early as March, with financial markets pricing in as many as 6 to 7 interest rate cuts over the course of 2024.

However, a series of recent US data confirming sticky services inflation and the continued resilience of the country's labour market and consumer spending has seen these expectations pared back considerably. Financial market expectations are now for 2 interest rate cuts in the US in 2024, with the first cut expected to be pushed back to the September meeting of the Federal Reserve.

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).

Various other uncertainties and downside risks remain for the global economy. There have been growing fears of renewed supply shocks, primarily driven by the Houthi militant group's attacks on cargo ships travelling through the Red Sea — which accounts for 30 per cent of global container trade flows — and recent drought conditions at the Panama Canal causing reductions in transit through the canal from November 2023 to March 2024 of around 30-40 per cent from average daily levels in 2022. These events have caused ships to be diverted, resulting in delays and rising costs.

Similarly, the ongoing conflicts in Ukraine and Gaza also have the potential to generate new adverse supply shocks to the global recovery, including spikes in food, energy, and transportation costs.

Any resulting increases in shipping costs and commodity prices have the potential to lead to a renewed surge in goods inflation, which, in conjunction with sticky services inflation, could prolong the monetary tightening cycle.

One of the main risks to growth is the potential for China's ongoing property sector challenges — which include high developer debt levels and overbuilding creating many vacant units — to worsen, with flow-on effects on its trading partners, including Australia.

In contrast to most other major economies, China has been battling deflation throughout much of 2023 and early 2024. The Chinese Government has reacted to falling consumer prices and moderating economic growth by implementing a range of fiscal and monetary policy measures to support the property and household sectors.

The IMF currently forecasts China's economic growth to slow from 5.2 per cent in 2023 to 5.0 per cent in 2024 and 4.5 per cent in 2025. The IMF upwardly revised its 2024 and 2025 China GDP growth forecasts in May following a staff visit to the country. The IMF cited strong March quarter 2024 GDP data and recent policy measures as drivers of its upward revision but maintained that economic risks were tilted to the downside.

If concerns around the outlook for China's housing construction sector were to materialise, this could decrease global demand for inputs to construction and, consequently, negatively impact Queensland's exports, particularly given metallurgical coal — a key input to steel production — was Queensland's largest commodity export in 2023 (valued at $50.7 billion).

Further weakness in China's economy also risks impacting other key Queensland goods exports (including LNG, metals and agriculture) and services exports to China, which have been recovering following the re-opening of international borders.

In terms of services exports, China's student commencements in Queensland rose to 11,005 in 2023, up from 8,977 in 2022. This is still 35 per cent below the pre-COVID-19 level of 16,964 commencements in 2019. Meanwhile, total tourism visitor nights to Queensland from China also rebounded to one million in 2023, up from just 125,000 in 2022. However, visitor nights from China are 80 per cent lower than the pre-COVID-19 level of 4.9 million in 2019.

2.2 National conditions

Growth of the Australian economy has slowed since the post-COVID-19 rebound in 2021, largely because of weaker household consumption growth. The slowdown in growth has progressed as expected, with activity supported by significant accumulated household savings and a large number of fixed rate mortgages, which has likely partially mitigated the immediate impact of interest rate increases on these households' disposable incomes.

Australian economic growth slowed from 5.5 per cent in 2021 to 3.9 per cent in 2022 and then to 2.0 per cent in 2023. Quarterly real GDP has continued to rise modestly, but through the year growth fell to just 1.1 per cent in March quarter 2024, the weakest outside the pandemic since the early 1990s recession.

Headline GDP growth has also been well supported by strong population growth since the Australian border was re-opened, rising 2.6 per cent since mid-2022. However, in per-capita terms, real output nationally has declined 1.6 per cent over this period.

Household budgets have come under increasing pressure from rising borrowing costs and high consumer price inflation. Real disposable incomes have trended lower, reflecting high inflation, an increased income tax burden and higher interest costs.

However, household wealth has risen strongly since late 2022, supported by increasing house prices, strong share market gains and rising superannuation contributions. In aggregate, households overall had built up significant savings buffers during the COVID-19 pandemic and, while some of these savings are likely being drawn down, it will take some time before liquid asset buffers are depleted. Further, data and analysis from the Australian Prudential Regulation Authority and the RBA show the expiry of very low fixed rate mortgages has progressed smoothly, and loan arrears remain well contained and below pre-COVID-19 levels.

National economic growth is expected to continue to slow in the near term, with the RBA forecasting growth of 1.3 per cent in 2024. Aside from ongoing weakness in consumption, dwelling construction remains impacted by labour constraints and high construction costs.

While business investment and public demand have grown robustly amid a large pipeline of work, high construction and finance costs are impacting new private sector investment and its contribution to growth is expected to ease.

In this environment, the current very strong labour market conditions are expected to ease somewhat and provide a more normal balance between labour supply and demand, with moderating employment growth likely to see the national unemployment rate edge up from its current low rate.

This should help relieve pressure on labour prices, with the Wage Price Index (WPI) expected to have possibly peaked at 4.2 per cent over the year to December quarter 2023. Elevated growth in nominal unit labour costs remains a contributor to domestically sourced inflation, with employee compensation per hour rising solidly and labour productivity weak. Consistent with this, services inflation remains stubbornly high and continues to be the major source of price pressures, mirroring the experience of economies overseas.

Combined with higher fuel prices, the RBA expects these factors to contribute to ongoing inflationary pressures in the near term. However, headline CPI growth has swiftly moderated to 3.6 per cent in March quarter 2024 and looks set to fall back within the RBA's 2-3 per cent target range over the next year or so.

The RBA forecasts GDP growth to pick up to 2.1 per cent in 2025. Consumer spending should be better supported later in 2024 by rising real disposable incomes as income tax cuts, easing inflation and potentially lower interest rates provide relief. Further, rising demand for new dwelling investment is expected to be underpinned by recent strong population growth while the solid contribution from public demand is expected to be ongoing.

Having paused its increasing interest rate cycle in late 2023, the RBA's next move is widely expected to be an easing of the cash rate, although markets have pared back the timing and scale of expected cuts.

Despite previous concerns about the pace of monetary tightening, so far, the reduction in inflation has coincided with ongoing, albeit soft, economic growth and strong labour market outcomes.

In the RBA's assessment, risks to the domestic outlook are broadly balanced. The lagged impact of tighter monetary conditions remains a key uncertainty, particularly on consumption, while demand could also be interrupted if global risks materialise.

Meanwhile, the risk that inflation stays high for longer has risen, with the future path of inflation nationally vulnerable to weak productivity growth and additional supply-side shocks.

2.3 Key assumptions

Key assumptions underpinning the 2024–25 economic forecasts for Queensland include:

- the Australian Government's reforms to immigration will help return population growth to normal levels
- the cash rate is expected to have peaked at 4.35 per cent, with cuts likely to commence in late 2024 and continuing to gradually ease over the medium term
- the A$ exchange rate to move toward its assumed medium-term anchor of around US$0.75
- Brent oil production is expected to outpace global consumption, with prices to gradually ease towards a medium-term level of US$75/bbl
- despite high interest rates, residential property prices in Brisbane are expected to remain strong in the near term before seeing growth moderate over 2025
- according to the Bureau of Meteorology (BOM), the recent El Niño weather event, which resulted in much higher levels of summer rainfall than expected across Australia, has now ended. Forecasts have been produced on the assumption of median levels of rainfall for remainder of 2024 and 2024–25, consistent with BOM predictions.

2.4 Queensland conditions and outlook

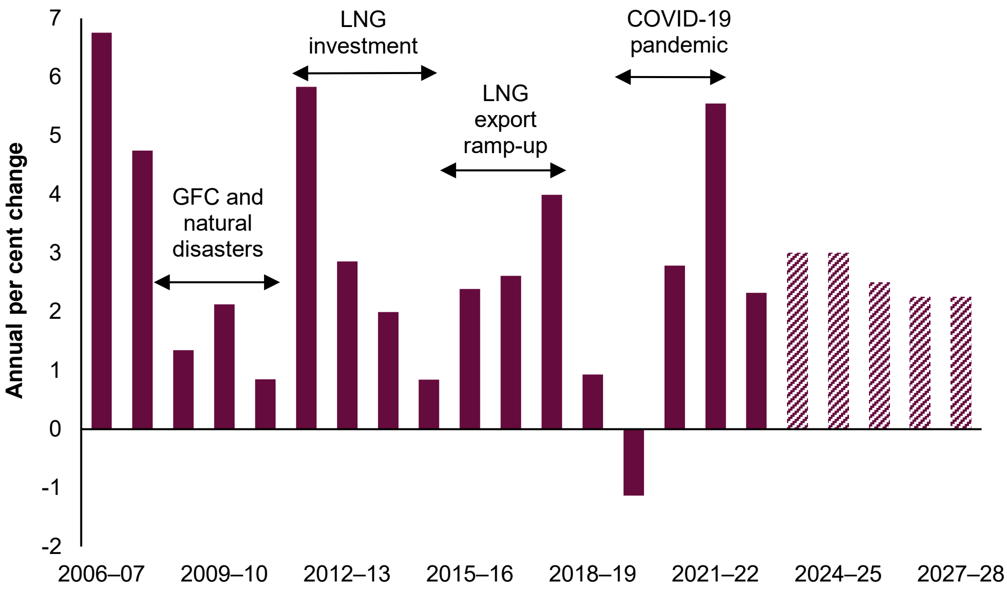
Following growth of 2.3 per cent in Gross State Product (GSP) in 2022–23, Queensland's overall economic growth is forecast to strengthen to 3 per cent in both 2023–24 and 2024–25 (Chart 2.2).

The forecast strengthening of GSP growth in 2023–24 is attributable to a substantial rebound in net exports and continued growth in public final demand.

As consumption strengthens in 2024–25, private final demand becomes a more significant driver of overall growth in the economy, along with public final demand and exports.

Growth is projected to be 2½ per cent in 2025–26, sustained by continuing growth in domestic activity but tempered by a moderation in population growth.

Chart 2.2 Economic growth, Queensland[1]



Note:

1. Gross State Product, Chain volume measure (CVM), 2021–22 reference year.

Sources: ABS Annual State Accounts and Queensland Treasury.

Household budgets continue to be constrained by the recent substantial increases in mortgage rates and other cost-of-living pressures, which have slowed consumption growth in 2023–24. However, growth in household consumption is expected to recover to around pre-COVID-19 averages in 2025–26 as a range of factors support real disposable incomes, including an easing in inflationary pressures and lending rates, along with the legislated national income tax cuts.

With higher construction and borrowing costs moderating demand, and ongoing capacity constraints limiting residential construction activity, total dwelling investment is expected to fall in 2023–24, but then return to growth at a modest rate in 2024–25 and 2025–26 as supply constraints ease and allow the large pipeline of residential work to progress steadily.

Importantly, new and used dwelling investment is expected to continue to grow throughout the forecast period, adding to the housing stock. In contrast, renovation activity is expected to continue to decline from its COVID-19-era record highs.

Business conditions and capacity utilisation rates have eased somewhat over the past year. Growth in business investment is expected to be modest over the next 2 years as elevated construction costs and softening commodity prices impact investment intentions.

Growth in public final demand has averaged 4.9 per cent per annum over the past 8 years and is expected to continue to be a key driver of overall economic growth in Queensland. This outlook is supported by the Queensland Government's ongoing substantial capital program, committing

$107.3 billion over 4 years from 2024–25 to essential economic and social infrastructure investment across the state.

After detracting from overall real economic growth for 4 consecutive years, the overseas trade sector is forecast to be a substantial contributor to overall GSP growth in 2023–24.

This is due to increased export volumes of coal, LNG, metals and beef and the continued recovery of services exports from the COVID-19-driven low. As metallurgical coal exports rebound from supply constraints, and growth in services exports continues to recover, the trade sector is forecast to make a further contribution to GSP growth in 2024–25.

Queensland continues to enjoy exceptionally strong labour market conditions, building on employment growth of 5.1 per cent in 2021–22, the strongest growth in 17 years, and further strong jobs growth of 3.7 per cent in 2022–23.

With ongoing solid demand for labour, employment growth is expected to average 2¾ per cent in 2023–24 before moderating to 1½ per cent in 2024–25 and 1 per cent in 2025–26.

As of April 2024, Queensland (up 366,900 persons) had recorded the largest employment growth of any state or territory since March 2020.

In percentage terms, Queensland's employment growth (up 14.3 per cent) over the period was stronger than in the rest of Australia (9.7 per cent).

The state's unemployment rate averaged 3.7 per cent in 2022–23, Queensland's lowest year-average unemployment rate since ABS monthly data began in 1978. As tightness in the labour market continues to unwind gradually, the unemployment rate is expected to edge slightly higher over the forward estimates period but remain low by historical standards.

Inflationary pressures eased significantly during 2023, with the annual rate of inflation in Brisbane moderating from a 30-year high of 7.9 per cent September quarter 2022 to 3.4 per cent in March quarter 2024. This has largely been due to a marked slowing in goods inflation, whereas services inflation has been more persistent.

In year-average terms, inflation in Brisbane is forecast to ease from 7.3 per cent in 2022–23 to 4 per cent in 2023–24. In 2024–25, the gradual loosening of the Queensland labour market is expected to see services inflation moderate. Combined with an estimated 1¼ percentage points detraction from CPI growth due to the Queensland Government's cost-of-living measures, when combined with the Australian Government's measures, this is forecast to see annual CPI growth fall to 2 per cent next year.

While inflation is forecast to ease materially in 2023–24, growth in the WPI is forecast to strengthen from 3.6 per cent in 2022–23 to 4¾ per cent in 2023–24, delivering a return to real wages growth.

As capacity constraints in the labour market begin to ease and inflation slows further, wages growth is forecast to moderate to 3¾ per cent in 2024–25 and 3½ per cent in 2025–26. Nevertheless, ongoing real wages growth is expected across the forward estimates period.

Queensland's population growth is expected to strengthen to 2½ per cent in 2023–24, reflecting elevated net overseas migration as the recovery in departures continues to lag the significant rebound in arrivals.

With interstate migration forecast to stabilise at around pre-COVID-19 levels and net overseas migration to normalise, Queensland's population growth is forecast to then average around 1¼ to 1½ per cent over the remainder of the forward estimates.

Table 2.2 Queensland economic forecasts/projections[1]

	Actuals	Forecasts			Projections	
	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28
Gross state product[2]	**2.3**	**3**	**3**	**2½**	**2¼**	**2¼**
Employment	3.7	2¾	1½	1	1¼	1½
Unemployment rate[3]	3.7	4¼	4½	4¾	4¾	4¾
Inflation[4]	7.3	4	2	3¼	2½	2½
Wage Price Index	3.6	4¾	3¾	3½	3¼	3
Population	2.4	2½	1½	1½	1¼	1¼

Notes:

1. Unless otherwise stated, all figures are annual percentage changes.
2. CVM, 2021–22 reference year. The comparable nominal GSP growth rates are 10.9 per cent in 2022–23, 3¼ per cent in 2023–24, 4¼ per cent in 2024–25 and 3¾ per cent in 2025–26.
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.

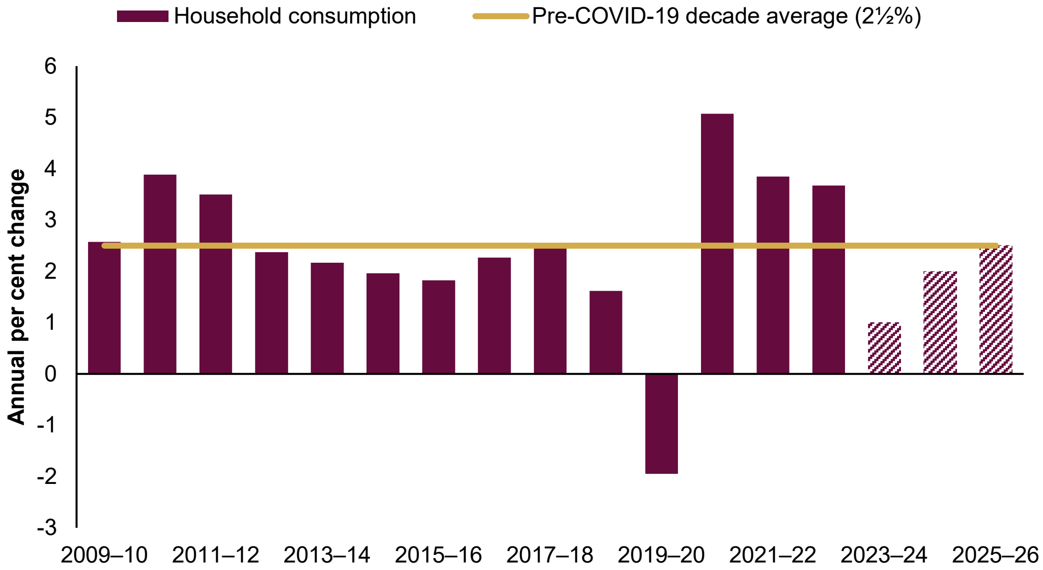
2.4.1 Household consumption

Growth in real household spending in Queensland averaged 4.2 per cent per annum between 2019–20 and 2022–23, well above the 2½ per cent per annum average growth in the decade prior to COVID-19.

Tight labour market conditions and a pick-up in wages growth has underpinned ongoing strong growth in nominal labour income. Household savings accumulated during the COVID-19 pandemic have also been substantial. However, as consumers have curtailed discretionary spending in response to higher borrowing costs and elevated inflation, growth in real household consumption has slowed to 1.0 per cent in the first three quarters of 2023–24.

Subsiding inflationary pressures, lower lending rates and the impact of national income tax cuts are all expected to support a return to growth in real household disposable incomes beyond 2023–24. Consequently, as households' financial position improves, consumption growth is expected to strengthen to 2 per cent in 2024–25 and 2½ per cent in 2025–26 (Chart 2.3).

Chart 2.3 Real household consumption growth, Queensland[1]



Note:

1. Chain volume measure, year-average.

Sources: ABS National Accounts and Queensland Treasury.

Box 2.1 Consumer spending trends in Queensland

The economic recovery from COVID-19 in 2020–21 and 2021–22 saw strong gains in the volume of discretionary spending by Queensland households, due to household disposable incomes during that period being boosted by COVID-19 support payments, historically low interest rates, and strong increases in labour income and asset prices.

Over the two years to 2021–22, several discretionary components reported in the ABS *National Accounts* recorded double digit growth, with *clothing and footwear*, *furnishings and household equipment*, *hotels, cafes and restaurants* and *recreation* increasing by a combined 18.3 per cent in real terms.

However, more recently, as households continue to adapt to tighter financial conditions, there has been a noticeable slowing across these components.

Real spending on *furnishings and household equipment* (down 2.3 per cent), *recreation* (down 1.4 per cent) and *clothing and footwear* (down 0.1 per cent) have fallen in the first three quarters of 2023–24 compared with the same period in 2022–23, while at 3.7 per cent growth, spending at *hotels, cafes and restaurants* has slowed from previous highs (Chart 2.4).

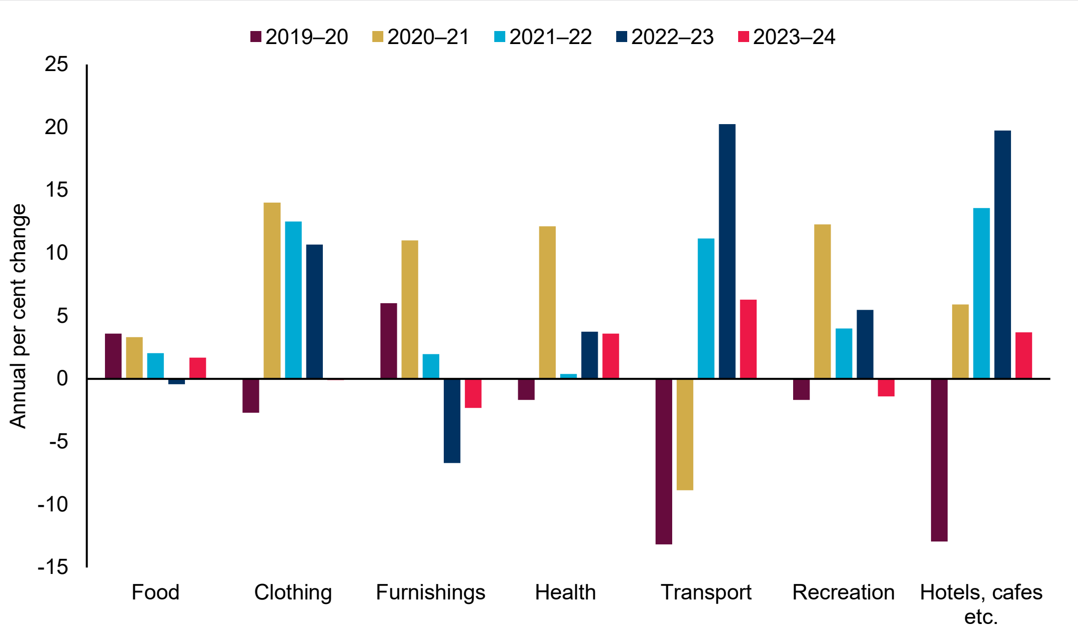
Spending on *furnishings and household equipment* has been the only major component to fall consecutively over the past 2 years in Queensland. Due to its discretionary nature and the generally higher priced nature of the items sold within this component, it has been one of the first components of expenditure to be reduced in volume terms as mortgage costs and wider price pressures increased.

Amidst elevated prices of consumer goods, households appear to have also cut back on some essential spending, with *food* consumption falling by 0.4 per cent in 2022–23 before edging higher in 2023–24.

Meanwhile, in real terms, growth in household spending on *health* has generally slowed from the higher rate seen in 2020–21. Spending on *transport* strengthened substantially across 2021–22 and 2022–23 (Chart 2.4). This was partly supported by higher spending on *purchases of vehicles* as supply bottlenecks have continued to ease.

A catch up in air travel from a very low base, after the COVID-19 related overseas border restrictions were unwound in early-2022, also contributed to the overall strengthening in the *transport* component during this period.

Chart 2.4 Real household spending by selected major components, Queensland[1,2]



Notes:

1. Chain volume measure, year-average.
2. The 2023–24 year-average growth rate refers to the first 3 quarters of 2023–24 compared with the same period a year earlier in seasonally adjusted terms.

Source: ABS National Accounts.

2.4.2 Dwelling investment

Record low interest rates, substantial government stimulus and a decrease in the average household size during the COVID-19 pandemic, followed by a strong rebound in population growth drove a surge in demand for housing in Queensland in recent years.

However, construction activity has struggled to keep up with demand, significantly constrained by COVID-19-related material and labour shortages, poor weather and flooding, and construction company insolvencies. As a result, construction costs surged and residential work in the pipeline peaked at a nominal value of $13.8 billion in March quarter 2023 (Chart 2.5).

Growth in construction output costs for houses peaked at 28.4 per cent in the year to June quarter 2022. Growth in construction costs has slowed considerably to 2.3 per cent in the year to March quarter 2024. However, remaining supply constraints and strong competition for labour and materials from the non-residential and engineering construction sectors are likely to see construction costs continue to grow. These higher construction costs, in combination with the sharp increase in interest rates since May 2022, have impacted dwelling investment decisions and seen the number of dwelling commencements trend downwards in recent quarters.

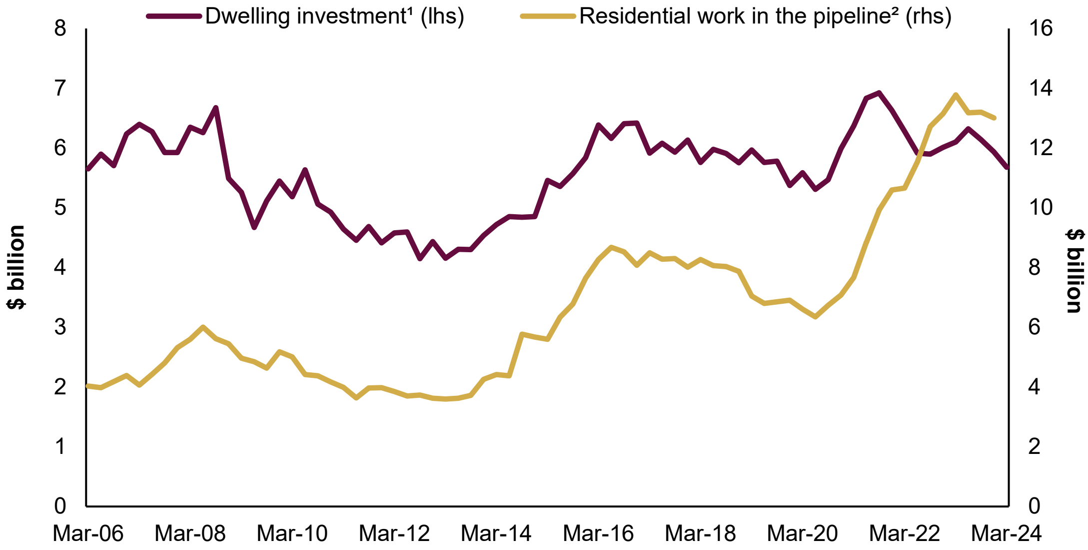
However, dwelling investment in the near term is being supported by the sizeable pipeline of existing projects. The number of dwellings completed totalled 9,913 in December quarter 2023, a rise of 13 per cent over the year and the highest quarterly total since 2019. While completions have started to increase following the surge of commencements in 2021, they are still below the level needed to fully accommodate the surge in demand for housing in Queensland.

Following a decline of 5.5 per cent in 2022–23, dwelling investment is forecast to fall by 2½ per cent in 2023–24. This decline primarily reflects a decline in alterations and additions and detached dwelling investment. Strong growth in attached dwellings (i.e. units and apartments etc.) will continue to add to overall dwelling supply.

Dwelling investment is then forecast to rebound to 2¼ per cent growth in 2024–25 and grow by a further ¼ per cent in 2025–26, supported by lower interest rates and the easing of supply constraints.

Importantly, new and used investment is expected to continue to grow throughout the forecast period with the growth rate reaching 7¼ per cent in 2024–25. This will continue to add to the housing stock, in contrast to renovation activity which is expected to continue to decline from its COVID-19-era record highs.

Chart 2.5 Queensland dwelling investment and work in the pipeline



Notes:

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

Sources: ABS National Accounts and Building Activity.

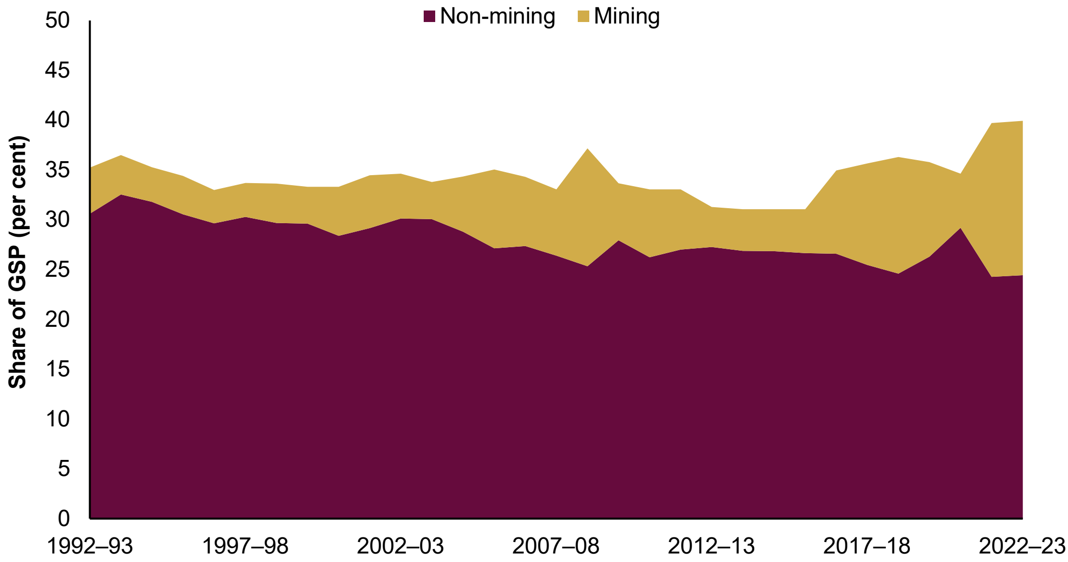
2.4.3 Business investment

Business investment rebounded in the years following the initial downturn during the COVID-19 pandemic, supported by strong profitability and low interest rates, with total business investment growing by 8.5 per cent and 4.7 per cent in the years to December quarter 2021 and December quarter 2022 respectively.

However, following growth of 6.7 per cent in 2022–23, business investment growth has been subdued due to a combination of rising interest rates and construction costs, with building construction costs, as published in the ABS *Producer Price Index*, having risen by 31.2 per cent in the 3-year period ended March quarter 2024.

While the current level of overall business profitability in Queensland remains strong, this has disproportionately reflected the impact of high commodity prices on mining sector profits (Chart 2.6). These elevated levels of business profits are likely to moderate as commodity prices, particularly coal, normalise and indicators of business confidence and business conditions ease from exceptionally high levels.

Chart 2.6 Queensland Gross Operating Surplus and Mixed Income share of GSP[1]



Note:

1. Non-mining Gross Operating Surplus and Mixed Income excludes ownership of dwellings industry.

Source: ABS State Accounts.

The combination of higher interest rates and softer business conditions points to moderating growth in business plant and equipment investment growth over the forecast horizon.

The outlook for non-residential construction is more volatile. Recent materials and labour shortages, together with some weather-related disruptions have seen a growing backlog of work in the pipeline. This should support activity in the very near term. However leading indicators such as building approvals and commencements have recently eased, suggesting that higher construction costs will ultimately impact on activity in this component of business investment.

As a result, overall business investment is expected to grow by 3 per cent in 2023–24 and then continue to grow only moderately across the forecast years.

2.4.4 Public final demand

Public final demand has continued to record strong growth in recent years, rising 4.8 per cent in 2022–23. The outlook is expected to remain strong, with public final demand growing 5½ per cent in 2023–24 and 2024–25, supported by a range of initiatives including cost-of-living relief, spending in response to natural disasters and substantial ongoing investment in public infrastructure.

Over the medium term, growth in public final demand is expected to be underpinned by the Queensland Government's ongoing Big Build program, which commits $107.3 billion over 4 years from 2024–25 in infrastructure investment across key sectors of the economy, including health, education, transportation, and energy. Additionally, the upcoming Brisbane 2032 Olympic and Paralympic Games will support public investment across communities and local businesses, as well as the tourism, sports, and recreational sectors.

2.4.5 Overseas exports and imports

The nominal value of Queensland's exports is expected to fall from the record high of $145 billion in 2022–23 to $134 billion in 2023–24, due to a moderation in prices for Queensland's key commodity prices.

However, in real terms, overseas exports are estimated to grow by 10½ per cent in 2023–24, driven by increased export volumes of thermal coal, LNG, metals, and beef, in addition to the continued recovery of services exports from the impacts of the COVID-19 pandemic international border closures.

Overseas exports are expected to grow a further 2¾ per cent in 2024–25, driven by a rebound in metallurgical coal exports — as supply constraints ease — and ongoing recovery in services exports.

Further growth in overseas exports beyond 2024–25 is supported by solid growth in services exports and metallurgical coal exports, largely offset by lower metals and agriculture exports.

Growth in Queensland's imports is expected to moderate from 15.8 per cent in 2022–23 to 7½ per cent in 2023–24, reflecting subdued growth in household consumption but continued growth in services imports, before moderating further to 1¾ per cent in 2024–25.

Coal

Queensland's coal exports are expected to grow by 2½ per cent in 2023–24, reflecting increased production, partially offset by wet weather impacts restricting production.

Coal exports are then forecast to grow by 8¼ per cent in 2024–25, reflecting growth in hard coking coal exports due to the unwinding of supply constraints which have impacted production in recent years, and then grow by a further 4¼ per cent in 2025–26 as supply conditions normalise. Coal export growth is then expected to slow across 2026–27 and 2027–28.

Demand for Queensland's hard coking coal is expected to be supported by growing steel production in India, and emerging markets such as Vietnam. However, ongoing concerns about China's real estate industry and economy more broadly present downside risks for global steel demand.

In the short term, Queensland's thermal coal exports have been supported by the easing of trade restrictions with China and continued coal-fired power generation in the fast-growing Asian region.

China removed its unofficial ban on Australian coal imports in January 2023, resulting in Queensland exporting 25.3 million tonnes (Mt) of coal to China in the year ended April 2024, primarily thermal coal (20.4Mt). This compares with no coal exports to China in 2022 but remains well below the 56.6Mt of exports in 2019, the last full year of trade prior to the implementation of the ban in October 2020.

In the longer term, demand for thermal coal is expected to be impacted by ongoing global decarbonisation efforts leading to less coal-fired electricity generation, although most of this impact is expected outside of the forward estimates period.

In recent years, Queensland's coal exporters have benefitted from extraordinarily high prices. Across 2021–22 and 2022–23, export prices averaged A$367 per tonne, compared with an average of A$171 per tonne over the previous 5 years. So far in 2023–24, coal prices while moderating, remain elevated.

The premium hard coking coal spot price fell sharply in March 2024, from US$313.50 per tonne at the end of February to US$243 per tonne at the end of April. This reflected a decline in steel demand in China and India and improving supply conditions. Looking forward, as supply conditions continue to normalise, the hard coking coal spot price is expected to continue to moderate towards medium-term fundamentals.

LNG

The volume of Queensland's LNG exports is estimated to grow by 6¾ per cent in 2023–24 due to strong global demand for natural gas, rebounding from the lower volumes seen in 2022–23 due to maintenance issues at one of the LNG plants on Curtis Island amid tight domestic supply.

From 2024–25 onwards, it is assumed that production by the LNG projects will average around their contracted amounts. China represents a significant market for Queensland's LNG exports, accounting for just under 60 per cent of Queensland's total LNG exports over the last 3 years.

However, ongoing concerns about weakness in China's economy and subsequent demand for LNG are unlikely to significantly impact Queensland's LNG exports, with the majority of LNG production under contract and a number of Chinese firms being part-owners in the LNG projects themselves.

This was evidenced when China unofficially banned imports of numerous Australian commodities (including beef and coal) in 2020, but Queensland LNG was largely unaffected. While LNG exports to China did fall slightly in 2021–22, they were more than offset by increased exports to other markets in Asia, resulting in record total LNG export volumes for Queensland in 2021–22.

Most of Queensland's LNG exports are sold under long-term contracts linked to global oil prices, with several months' lag. Oil prices have declined from elevated levels in recent years, which will see the nominal value of LNG exports fall to $22 billion in 2023–24, down from their record high $24 billion in 2022–23.

However, OPEC+ production cuts and geopolitical tensions in Russia and the Middle East continue to support global oil prices in 2024, in turn resulting in somewhat elevated prices for Queensland's LNG exports.

Looking further ahead, global production of oil, particularly from the US, is expected to grow by more than global demand, which will put further downward pressure on oil prices, and therefore LNG prices, over the forecast period.

Metals

Queensland metals exports have been subdued in recent years. Metals production was hampered in 2021–22 by COVID-19 pandemic related workforce disruptions, weather interruptions and outages at major refineries and smelters, resulting in a 12 per cent fall in export volumes.

While production rebounded in late 2022, flooding and widespread shutdowns in early 2023 resulted in metals exports growing by only 0.9 per cent in 2022–23.

Most operations returned to normal by the second half of 2023 but export volumes were once again constrained by poor weather in early 2024, the cyclone-related rail closure through February and a shutdown at Capricorn Copper, as well as gas shortages curtailing production at Queensland alumina refineries.

Despite these temporary supply constraints, metals exports are estimated to rebound a further 5½ per cent in 2023–24, with aluminium boosted by strong bauxite production and increased unwrought aluminium exports, with a few other processors also increasing output.

The planned ramp-up of the Sun Metals zinc refinery expansion, along with ongoing growth in aluminium production, is expected to support metals output in coming years.

However, exports have trended lower over the past decade, and this is largely expected to continue as several significant base metal mines are scheduled to close. These include Glencore’s Lady Loretta zinc and Mount Isa copper mining operations, while the New Century tailings operation will also reach its end-of-life.

Queensland’s base metal exploration expenditure has been elevated in recent years, particularly for copper, and several new or expanded operations which are yet to reach a final investment decision are likely to offset some of the anticipated decline. These may include potentially significant additions, such as a restart to Glencore’s Black Star zinc mine, extensions of Eloise and Ernest Henry operations and the Eva copper mine among others.

Meanwhile, exploration and plans for critical minerals in Queensland continue to progress and may provide new opportunities beyond Queensland’s traditional industrial metals base. However, the extent to which some of these projects proceed, and whether the output is exported rather than used in domestic manufacturing, remains uncertain. As final investment decisions are made for projects, these will be incorporated into estimates.

Agriculture

The volume of agricultural exports rose by 12.8 per cent in 2022–23, driven by large increases in cotton, beef and crop exports. Cotton exports increased sharply in 2022–23 due to strong production in 2021–22 and 2022–23 aided by favourable weather conditions.

Agriculture exports are expected to strengthen by a further 7¾ per cent in 2023–24 to an all-time high, driven by surging beef, cotton, and sugar exports. In mid to late 2023, BOM predicted warmer and drier conditions for much of Australia and declared an El Niño was underway, prompting farmers to increase cattle processing rates heading into summer.

However, much of Australia and Queensland has experienced wet weather conditions instead, allowing farmers to continue increasing herd size despite the higher processing rates for cattle. Beef exports are expected continue to strengthen in 2024–25, before moderating in following years, as farmers look to re-build their herds.

International sugar prices have risen significantly since early 2023 following dry weather and supply issues in key sugar producing countries such as India and Thailand and port congestion in Brazil. As a result, nominal sugar exports are projected to significantly increase in 2023–24 on the back of these high prices. As global supply recovers, sugar prices are expected to moderate over the coming years.

From 2024–25, Queensland total agriculture exports are projected to moderate from record levels. This is in line with the Australian Bureau of Agricultural and Resource Economics and Sciences' (ABARES) expectation that a return to more "neutral" weather conditions, as forecast by the BOM, will impact cotton production, while beef processing rates are expected to slow from 2025–26 onwards.

Services exports

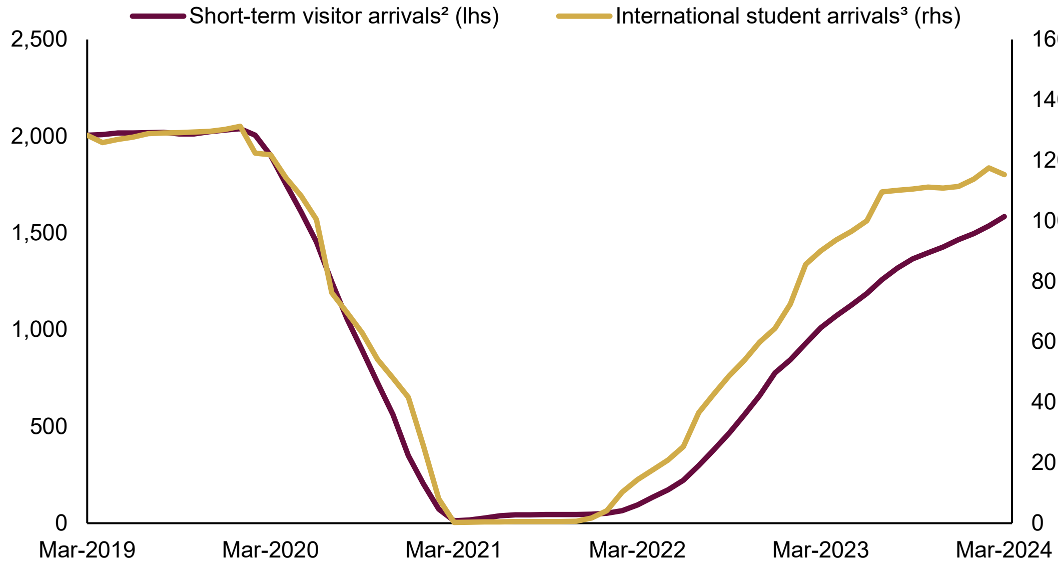
International visitors and student arrivals have recovered strongly following the reopening of Australia's borders at the start of 2022 (Chart 2.7).

Student arrivals are now at around 90 per cent of their pre-COVID-19 levels (March 2019) while the recovery in short-term visitors has been somewhat slower, now at around 79 per cent of pre-COVID-19 levels.

The recovery in short-term visitor arrivals have been hampered by international airline capacity limitations and high travel costs.

However, on average, visitors are staying longer so that the recovery in visitor nights spent in Queensland has been stronger than the recovery in visitor numbers.

Chart 2.7 Number of overseas arrivals, Queensland[1]



Note:

1. 12-month rolling sum, '000s.
2. Overseas visitors who intend to stay in Australia for less than 12 months.
3. Overseas arrivals on temporary student visas who undertake full-time study in a recognised educational institution.

Source: ABS Overseas Arrivals and Departures, Australia.

More recently, the pace of the recovery in student arrivals appears to have eased somewhat. While this may reflect a range of factors, it is noted that in late 2023, the Australian Government announced a series of measures that could impact on international student arrivals, including tighter English language scores, more scrutiny of student visa applications from high-risk providers, restrictions on onshore visa-hopping and an increase in the level of savings that international students need to be eligible for a visa.

With the number of international student and visitor arrivals approaching pre-COVID-19 levels, and given the recent changes made as part of the Australian Government's migration strategy, it is likely that the pace of growth in services exports will slow from the exceptionally high rates over the past few years and move towards a more sustainable rate.

Imports

Imports have grown strongly in recent years, supported by solid domestic activity, improvement in global supply chains and the substantial recovery in services imports as international borders were reopened following the COVID-19 pandemic.

However, growth in Queensland's imports is expected to moderate to 7½ per cent in 2023–24. While services imports, primarily overseas tourism undertaken by Queenslanders, are forecast to continue to grow strongly, goods imports growth is expected to slow, reflecting the weak household consumption growth constrained by high inflation and interest rates.

In 2024–25, imports are expected to grow by 1¾ per cent, driven by services imports, while goods imports are expected to fall. Beyond 2024–25, imports are forecast to grow strongly, reflecting a return to more solid household consumption growth and continued strength in services imports.

Box 2.2 Economic impacts of Tropical Cyclone Jasper and South East Queensland storms

Over the 2023–24 summer, parts of the state were impacted by severe weather events, which inflicted major flooding and storm damage to homes, businesses and infrastructure.

In addition to the financial costs to households, businesses, government and insurers of rebuilding and repairing the physical damage caused by these events, the severe weather events also resulted in losses in economic output as measured by Gross State Product (GSP).

Given the nature and location of these events, the economic impacts primarily fell into 3 categories:

- impacts on agricultural production through crop and stock losses
- impacts on tourism activity
- general business disruption due to physical damage to property and loss of business due to closures, and transportation and power disruptions.

Tropical Cyclone Jasper

Cyclone Jasper had significant, albeit largely temporary, impact on businesses in key areas of North Queensland.

Key crops in the impacted region include over 90 per cent of Queensland's production of bananas, as well as a range of tropical fruits and sugarcane, while the region's agricultural activities also include cattle and fisheries.

Advice from the Department of Agriculture and Fisheries indicated that losses to agricultural production in the region are likely to be in the order of up to $60 million.

Tourism Research Australia data indicate the number of visitor nights in Cairns in December quarter 2023 was 331,000 (9.4 per cent) lower than in the previous December quarter, while Cyclone Jasper may also have had some additional impact on activity in the subsequent March quarter 2024. However, a range of other factors may also influence changes in visitor arrivals and nights across years, so the decline is not necessarily all directly attributable to Cyclone Jasper.

It is also noted that from a whole-of-state economy perspective, these losses in the affected regions may have been partly offset by travellers altering their plans to travel at a later date or travel to an alternative destination within Queensland.

General business impacts of Cyclone Jasper include reduced output due to power outages, transport disruptions and damage to plant, equipment, and property. According to the Insurance Council of Australia, there were 892 commercial insurance claims lodged following Cyclone Jasper, noting not all losses would be covered by insurance.

While devastating for impacted local residents and business owners, the impact on the overall Queensland economy is mitigated by the relatively small size of the impacted area, which accounts for around 5 per cent of total Queensland employment and population. Therefore, the economic losses are not expected to be material in the context of overall growth in the Queensland economy, with GSP in excess of $500 billion per annum.

SEQ Christmas and New Year floods and storms

The Christmas/New Year floods and storms severely impacted areas of South East Queensland, with the key economic impacts of this event being on tourism activity and due to general business disruption.

Tourism Research Australia data indicates that the total number of visitor nights at the Gold Coast in December quarter 2023 was down 1,168,000 (18.9 per cent) compared with the previous December quarter. There may also have been some impact on tourism in the subsequent March quarter, given the event occurred relatively late in the December quarter.

As is the case with Cyclone Jasper, while there was significant damage and losses incurred by households and businesses in the impacted region, most of the disruption to economic activity was temporary.

In combination, the impact of natural disasters in Queensland in 2023–24 is not anticipated to have a material impact on overall GSP (i.e. less than ¼ of a percentage point of GSP).

2.4.6 Labour market

Queensland's labour market remains exceptionally strong by historical standards.

The trend unemployment rate remains low, at 4.1 per cent in April 2024, and employment growth is strong, up 4.0 per cent over the year to April 2024.

The number of people employed in Queensland in April 2024 had grown by 366,900 (14.3 per cent) since March 2020, the strongest growth in both absolute and percentage terms of any state or territory.

However, as higher interest rates impact the domestic economy, the tightness in the labour market has shown some signs of easing, with the unemployment rate having edged slightly higher from a very low 3.4 per cent in December quarter 2022.

Annual employment growth has moderated from a high of 5 per cent over the year to September quarter 2022. The job vacancy rate, which measures the number of job vacancies as a proportion of the labour force, has eased from an historic high of 3 per cent in September quarter 2022 to a still elevated 2.3 per cent in March quarter 2024.

Strong jobs growth so far in 2023–24 is expected to see employment grow by 2¾ per cent in the year. Employment growth is then expected to slow to 1½ per cent in 2024–25 and 1 per cent in

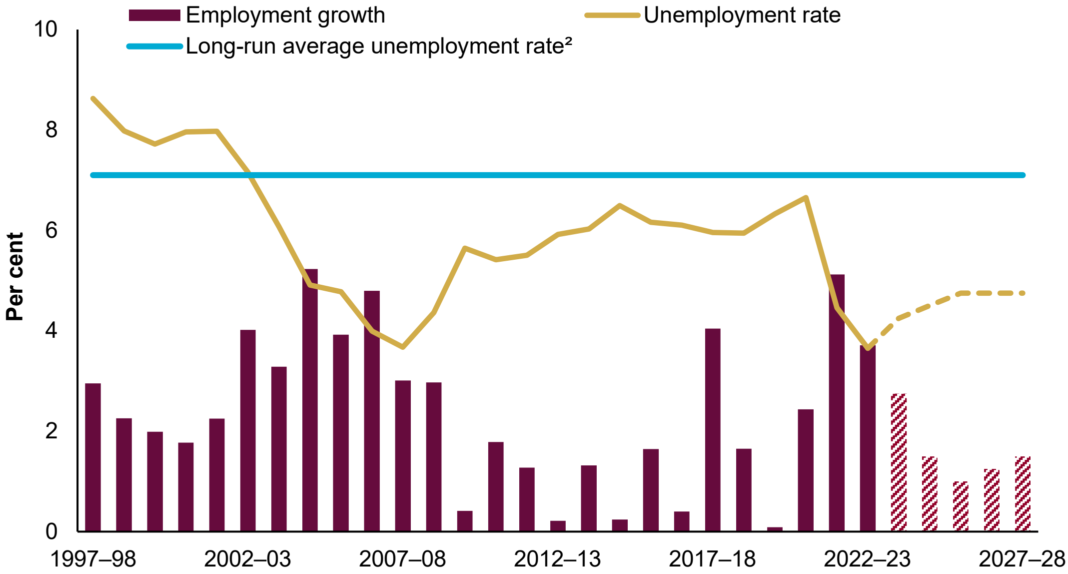
2025–26, as the labour market continues to normalise. Employment growth is then expected to grow broadly in line with underlying population growth.

As employment growth slows, the state's participation rate is expected to ease gradually from 66½ per cent in 2023–24 to 66 per cent across the forward estimates.

The unemployment rate is expected to gradually increase from the 3.7 per cent recorded in 2022–23, Queensland's lowest year-average unemployment rate since monthly records began in 1978.

The unemployment rate is expected to average 4¼ per cent in 2023–24 and then, going forward, continue to increase towards a rate more consistent with stable inflation, reaching 4½ per cent in 2024–25, and 4¾ per cent in 2025–26, 2026–27 and 2027–28.

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



Note:

1. Original, year-average. 2023–24 and beyond are forecasts/projections.
2. Long-run average unemployment rate since the inception of the ABS monthly series in 1978.

Sources: ABS Labour Force and Queensland Treasury.

Regional labour markets

Employment outcomes and labour markets more broadly across the state have remained remarkably resilient despite the global macroeconomic headwinds.

Many regional areas of Queensland have recorded ongoing strong labour market outcomes, with key regional industries supported by elevated commodity prices, solid domestic tourism, improved rainfall and strong dwelling demand.

Employment in regional Queensland grew 0.9 per cent in the year ended April 2024 with Wide Bay (up 9,200 or 7.1 per cent) recording the strongest employment growth, followed by Darling Downs – Maranoa (up 1,400 or 2.2 per cent) and Queensland – Outback (up 500 or 1.2 per cent).

The average unemployment rate across regional Queensland rose slightly, by 0.4 percentage point, but remained very low at 4.0 per cent in the year to April 2024.

Darling Downs – Maranoa (2.1 per cent), Cairns (3.4 per cent) and Townsville (3.8 per cent) recorded the lowest unemployment rates in regional Queensland as of April 2024, while Wide Bay recorded its lowest ever unemployment rate at 4.8 per cent.

Employment in South East Queensland rose 3.6 per cent in the 12 months to April 2024, led by Sunshine Coast (up 19,500 or 9.5 per cent), Logan – Beaudesert (up 14,700 or 7.9 per cent) and Ipswich (up 13,100 or 7.1 per cent).

Box 2.3 Queensland's ongoing strong labour market performance

Queensland's labour market has been exceptionally strong in the post-COVID-19 period.

As of April 2024, employment in Queensland was 366,900 persons (or 14.3 per cent) above the pre-COVID-19 level of March 2020, the strongest growth in absolute and percentage terms of all states and territories.

Queensland's unemployment rate has been below 4½ per cent for 29 consecutive months, the longest period in history apart from the 2006–2008 mining boom. In comparison, the unemployment rate has averaged 7 per cent since monthly estimates began in 1978.

Similarly, the youth (15-24 years) unemployment rate (year-average) has been below 10 per cent for 25 consecutive months, again the longest stretch in history apart from the mining boom.

The proportion of Queenslanders in employment is also near historic highs, at 64.3 per cent in April 2024, well above the pre-COVID-19 rate of 61.8 per cent and a rate only eclipsed during the mining boom. In comparison, the employment to population ratio has averaged 59.8 per cent since monthly estimates began in 1978.

Chart 2.9 Unemployment rate and employment to population ratio, Queensland[1]

Note:

1. Trend, monthly. Employment to population ratio is total employment as a proportion of the civilian population aged 15 years and older.

Source: ABS Labour Force.

Labour demand in Queensland remains strong. The job vacancy rate (the number of job vacancies as a proportion of the labour force) was 2.3 per cent in March quarter 2024, well above the pre-COVID-19 rate of 1.4 per cent and above the pre-COVID-19 historic high of 1.9 per cent.

Wages growth has picked up to 4.6 per cent over the year to March quarter 2024, down slightly from 4.8 per cent over the year to December quarter 2023, the highest annual wages growth on record since the inception of the ABS data series.

The strength in Queensland's labour market is reflected across all of Queensland's regions.

All regions outside of South East Queensland had unemployment rates below 5 per cent in April 2024, which has only occurred on two other occasions (February 2023 and March 2024).

Darling Downs – Maranoa (2.1 per cent), Cairns (3.4 per cent), and Townsville (3.8 per cent) all had unemployment rates below 4 per cent, while Wide Bay recorded its lowest ever unemployment rate at 4.8 per cent.

Note: The ABS have released new modelled estimates of regional labour market data which are intended to replace the survey-based estimates over time. However, given the limited time series and demographic information (no age or sex estimates) currently available for the new modelled estimates, Queensland Treasury will continue to refer to the survey-based measures for regional labour market outcomes until the full suite of modelled estimates are available.

2.4.7 Prices and wages

In year-average terms, growth in Brisbane's consumer price index (CPI) was 7.3 per cent in 2022–23, the highest year-average increase since 1989–90.

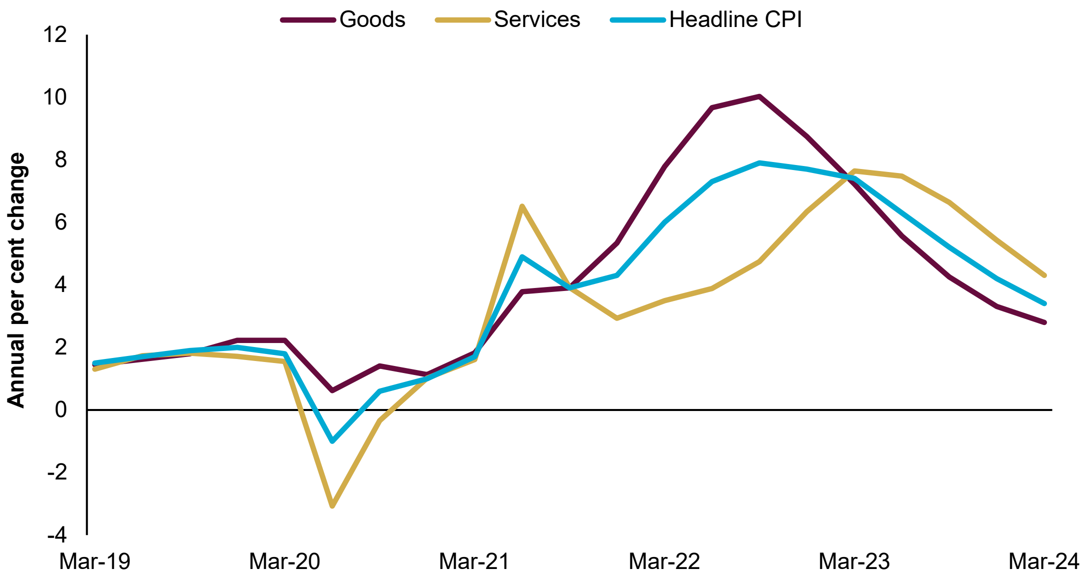
However, recent data show inflationary pressures subsiding over 2023, with annual growth in Brisbane's CPI falling from the recent peak of 7.9 per cent in September quarter 2022 to 3.4 per cent in March quarter 2024.

The slowing in inflation evident in Brisbane over 2023 was primarily driven by goods prices, which saw annual growth fall from 10 per cent in September quarter 2022 to 2.8 per cent in March quarter 2024 (Chart 2.10).

While the easing of goods inflation has predominantly been driven by slower growth in the cost of new dwelling purchases by owner-occupiers and automotive fuel, the unwinding of global supply chain constraints has also seen price declines across some components, including furniture, household textiles and appliances, and computing equipment.

In contrast, while slowing in recent quarters, services inflation remains elevated and showing signs of persistence, consistent with inflation trends internationally. Annual growth in Brisbane services prices was 4.3 per cent in March quarter 2024, down from a peak of 7.6 per cent in March quarter 2023.

Chart 2.10 Brisbane's consumer price index, by component[1]



Note:

1. Quarterly.

Source: ABS Consumer Price Index.

Brisbane's overall CPI growth is expected to fall substantially to 4 per cent in 2023–24. In 2024–25, the gradual loosening of the Queensland labour market is expected to see services inflation moderate.

When combined with an estimated 1¼ percentage points detraction from CPI growth due to the Queensland Government's cost-of-living measures and the additional electricity and rent support from the Australian Government, this is forecast to see annual CPI growth fall to 2 per cent next year.

As previously stated, Queensland's strong and tight labour market is providing upward pressure on wages growth. Annual growth in Queensland's WPI was 4.6 per cent in March quarter 2024, down slightly from 4.8 per cent in December quarter 2023 which was the strongest growth since the inception of the ABS series.

In year-average terms, annual growth accelerated to 3.6 per cent in 2022–23, up from 2.5 per cent in 2021–22. Consistent with the expected easing in the labour market, Queensland's WPI growth is expected to moderate from 4¾ per cent in 2023–24 to 3¾ per cent in 2024–25 and 3½ per cent in 2025–26.

As such, the recent strengthening in wage growth at a time of falling inflation is expected to see the second consecutive year of real wages growth in Queensland in 2024–25. Ongoing real wage growth is expected across the remaining years of the forecast period.

Box 2.4 Impacts of the Queensland Government's cost-of-living relief

Understanding the Consumer Price Index

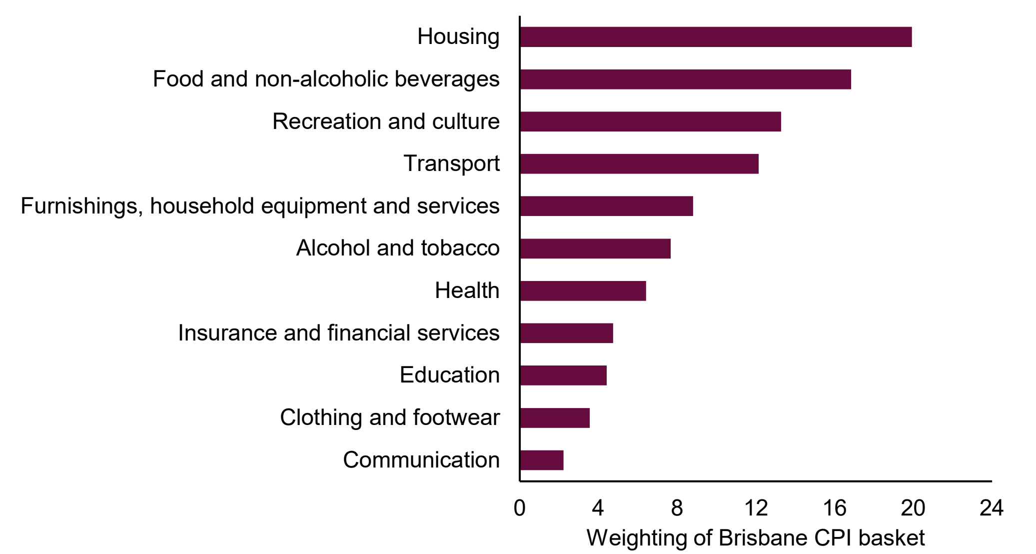
Inflation is an increase in the level of prices of the goods and services that households typically buy, with the most well-known indicator of inflation being the Consumer Price Index (CPI).

The CPI has been produced by the Australian Bureau of Statistics (ABS) since 1960 and is used by the RBA, government, and economists as the key indicator and tool in monitoring and evaluating inflation in the Australian economy.

The CPI provides a general measure of changes in prices of consumer goods and services purchased by Australian households. It measures prices in the eight state and territory capital cities, with the national index represented by a weighted average of these eight cities.

The CPI consists of 11 major expenditure groups. These main groups, and their relative weights within the Brisbane CPI basket, are shown in Chart 2.11.

Chart 2.11 Brisbane CPI basket weights by group[1]



Note:

1. Percentage contribution to the All groups CPI. Components may not add to 100 due to rounding.

Source: ABS Consumer Price Index.

Impact of cost-of-living relief measures on the CPI

Importantly, given the Housing (which includes energy costs) and Transport groups both account for significant portions of Brisbane household budgets (combined, around 32 per cent of the Brisbane CPI basket of goods and services), the Queensland government's cost-of-living relief measures will impact significantly on these two key components of the CPI.

The Queensland Government is delivering significant new and expanded measures in 2024–25 to support Queenslanders in tackling cost-of-living challenges. Some of the key elements of this initiative that directly impact measured inflation include:

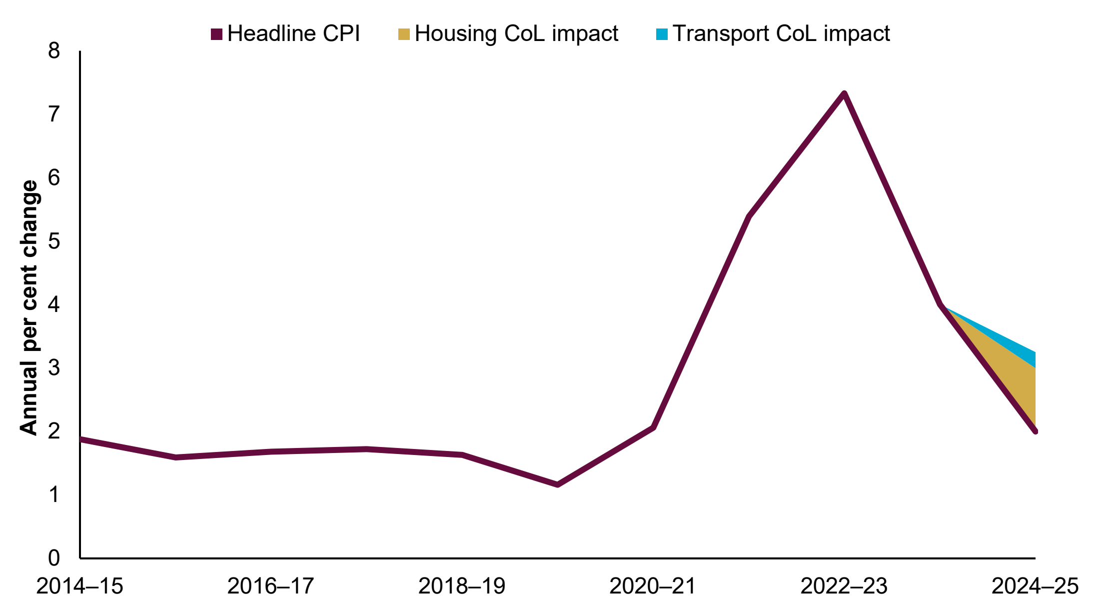
- $1,300 electricity bill rebates for all Queensland households in 2024–25, consisting of an upfront $1,000 Cost of Living Rebate from the Queensland Government and a $300 rebate paid in quarterly instalments from the Australian Government
- a 20 per cent reduction in registration fees for all light vehicles for a 12-month period, which is scheduled to start appearing on renewal notices sent to customers from 5 August 2024
- all public transport fares reduced to 50 cents from 5 August 2024 for six months as well as half-price tickets on Airtrain services.

In addition, the Australian Government announced an increase in the maximum rate of Commonwealth Rent Assistance by 10 per cent.

Based on Queensland Treasury analysis, it is estimated the Queensland Government's cost-of-living relief measures, when combined with the Australian Government measures, will reduce Brisbane's headline CPI growth in 2024–25 by around 1¼ percentage-points, reducing CPI growth to 2 per cent in that year (Chart 2.12).

This comprises an estimated one percentage point reduction in annual CPI growth due to the electricity bill rebates substantially reducing housing-related costs and a further ¼ percentage point reduction due to the combined impact of the Queensland Government's transport-related cost-of-living relief measures.

Chart 2.12 Brisbane Headline Consumer Price Index Growth[1]



Note:

1. Year-average.

Sources: ABS Consumer Price Index and Queensland Treasury.

Comparison of Brisbane and national CPI outcomes

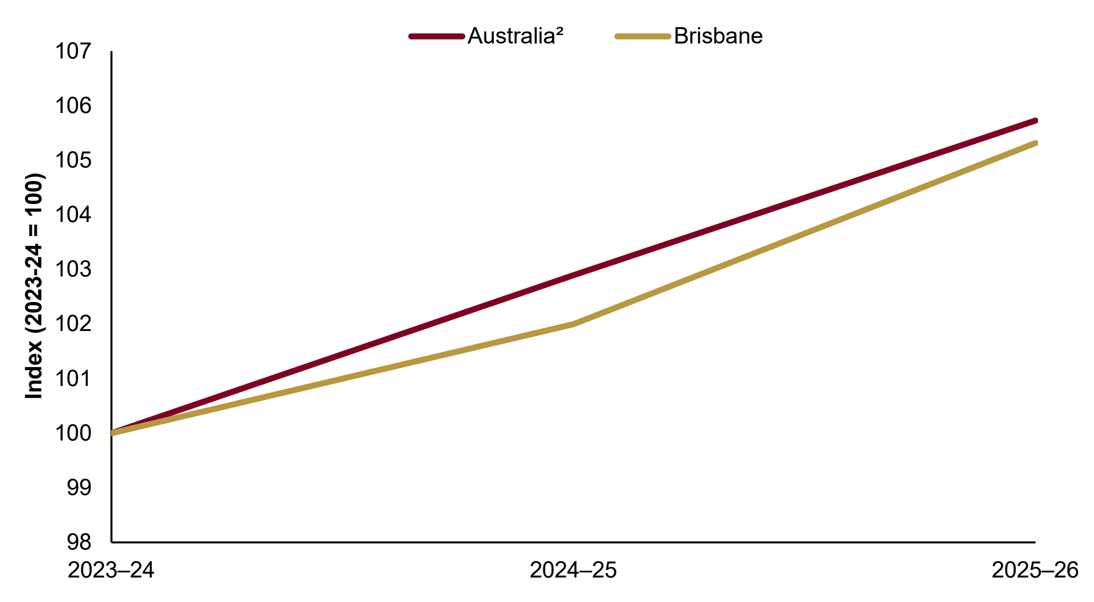
The Queensland Government's substantial cost-of-living relief measures are expected to have a significant impact on CPI growth across 2024–25 and 2025–26.

Queensland Treasury forecast year-average CPI growth in Brisbane of 2 per cent in 2024–25 and 3¼ per cent in 2025–26.

In comparison, the 2024–25 Federal Budget forecasts national CPI growth of 2¾ per cent both through-the-year to June quarter 2025 and through-the-year to June quarter 2026.

However, across the 2-year period, these forecasts imply that CPI growth in Brisbane is expected to be cumulatively lower than national CPI growth, highlighting the benefits of the Queensland Government's additional cost-of-living relief (Chart 2.13).

Chart 2.13 National and Brisbane CPI growth comparison, 2024–25 and 2025–26[1]



Note:

1. Year-average. Index, 2023–24 = 100.
2. Australia year-average CPI growth has been interpolated using the Australian Government's through-the-year to June quarter growth rates published in the 2024–25 Federal Budget.

Sources: Queensland Treasury and Australian Government.

2.4.8 Population

A significant rebound in net overseas migration (Chart 2.14) led to Queensland's overall year-average population growth accelerating to 2.4 per cent in 2022–23, the strongest rate of growth since 2008–09. In absolute terms, this represented 127,900 additional Queenslanders in 2022–23, the largest year-average increase in the number of people on record.

This followed a period in which COVID-19-related international border restrictions slowed population growth to only 1.0 per cent in 2020–21 before a surge in net interstate migration supported growth of 1.6 per cent in 2021–22.

Latest data show overseas arrivals have surged to be well-above pre-COVID-19 levels after the border restrictions were unwound in early 2022, but the level of departures is still lagging as there are fewer recently arrived temporary migrants who are due to leave.

Consequently, in contrast to the net outflow generally experienced during the pandemic, net overseas migration to Queensland has risen to 88,000 persons in the year to September quarter 2023, the largest annual increase on record.

The combination of rebounding arrivals and lagging departures is expected to provide near-term support for net overseas migration. In addition, the prevailing tight labour market conditions are encouraging local firms to seek skilled overseas workers to meet labour demand that cannot be met locally.

However, beyond the short term, flows of net overseas migration to Queensland are forecast to normalise, reflecting the likely impacts of the recent changes as part of the Australian Government's migration strategy.

At 134,700 persons, Queensland's net interstate migration since the onset of COVID-19 (i.e. June quarter 2020) has been the highest in Australia.

While this reflected Queensland's relatively better COVID-19 health outcomes, along with strong labour market conditions and relative housing affordability, this is also consistent with the long-term trend of Queensland being a substantial net recipient of interstate migrants, particularly from New South Wales and Victoria.

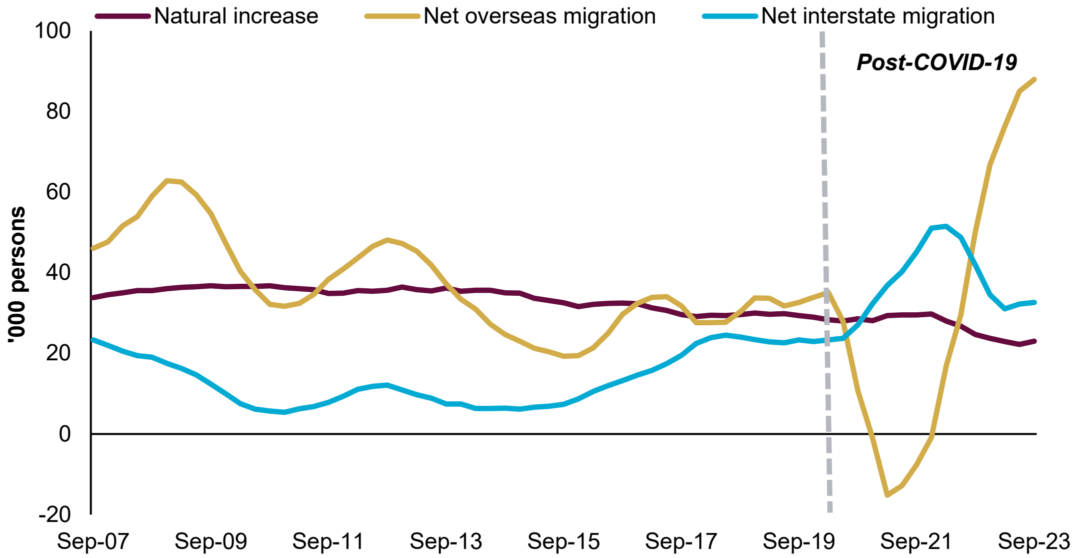
Net interstate migration to Queensland has continued to normalise during the past few quarters and is expected to stabilise around pre-COVID-19 levels going forward.

Queensland's birth rate picked up particularly during the second year of the pandemic. However, with tighter financial conditions having impacted household budgets, the increase in births seen during the COVID-19-period is generally expected to return to the longer-term downward trend seen prior to the pandemic.

Overall, the population increase attributed to natural increase is forecast to broadly return to pre-COVID-19 trends.

Reflecting the combination of these trends, Queensland's resident population is forecast to grow by 2½ per cent in 2023–24, supported by elevated net overseas migration, before moderating to average around 1½ per cent growth per annum in the following 2 years.

Chart 2.14 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.

Box 2.5 Population growth trends

The Queensland Government Statisticians Office (QGSO) provides long-term population projections for the Queensland Government, based on underlying long-term demographic trends, with a major update typically occurring following a Census. These longer-term projections complement and are informed by annual Budget population forecasts which are more frequently refined with available data and incorporate short-term cyclical fluctuations and shocks. These forecasts published in the State Budget are the key considerations in determining Government investment in services within the budget cycle.

However, the COVID-19 pandemic drove divergent trends in key components of population growth, both nationally and in Queensland, across the period during and following the pandemic, which has significantly impacted the accuracy of budget population forecasts.

In particular, the recent stronger than expected increase in national net overseas migration, has resulted in volatility in the key components of population growth and stronger than expected overall population growth in 2022–23 and 2023–24.

To understand the factors driving recent trends and the outlook for population growth in Queensland, it is necessary to examine each of the 3 components of population growth (net interstate migration, net overseas migration, and natural increase), including in the context of the Australian Government's population forecasts and migration policy settings.

Net interstate migration

Around the same period that COVID-19 pandemic related international border closures significantly reduced the flow of overseas migrants, Queensland experienced one of the strongest surges in net interstate migration on record.

Between June quarter 2020 and the latest data up to September quarter 2023, net interstate migration to Queensland totalled 134,700 persons, which is more than 3 times higher than the next highest recorded over that period, by Western Australia at 38,500.

This was also the largest absolute increase in net interstate migration over a similar (14 quarter) period since 1996.

In comparison, over the same period, New South Wales and Victoria recorded net outflows of migrants to other states of 118,700 and 55,900 respectively.

A range of factors supported a strong increase in the flow of migrants from interstate during the initial stages of the pandemic. Queensland's COVID-19-health outcomes were favourable compared with the major southern states, while the state also enjoyed relatively more affordable housing and stronger jobs growth.

More recently, net interstate migration to Queensland has largely returned to pre-COVID-19 trends. Going forward, the flow of migrants from interstate is expected to stabilise at around pre-COVID-19 levels but, consistent with longer-term trends, Queensland is still forecast to be a major net recipient of people moving from other states.

According to Australian Government forecasts published in the 2024–25 Federal Budget, in net terms, 110,900 people are expected to move from interstate to Queensland over the 5 years to 2027–28.

Net overseas migration

The unwinding of overseas border restrictions in early-2022 has led to net overseas migration again becoming the main driver of overall population growth in Queensland.

However, compared with historical outcomes and previous expectations, the extent to which overseas migration has impacted overall population growth has been exacerbated by the strong growth in national overseas migration.

While overseas arrivals to Queensland have rebounded to be well-above pre-COVID-19 levels, the level of departures (i.e. people leaving Queensland to move overseas) is still lagging (Chart 2.15). This reflects in part there being fewer recently arrived temporary overseas migrants, such as students, who are due to leave.

Between March quarter 2022, when the international border re-opened, and September quarter 2023 (latest data available), overseas arrivals to Queensland totalled 207,800, while overseas departures remained low at only 71,300 persons.

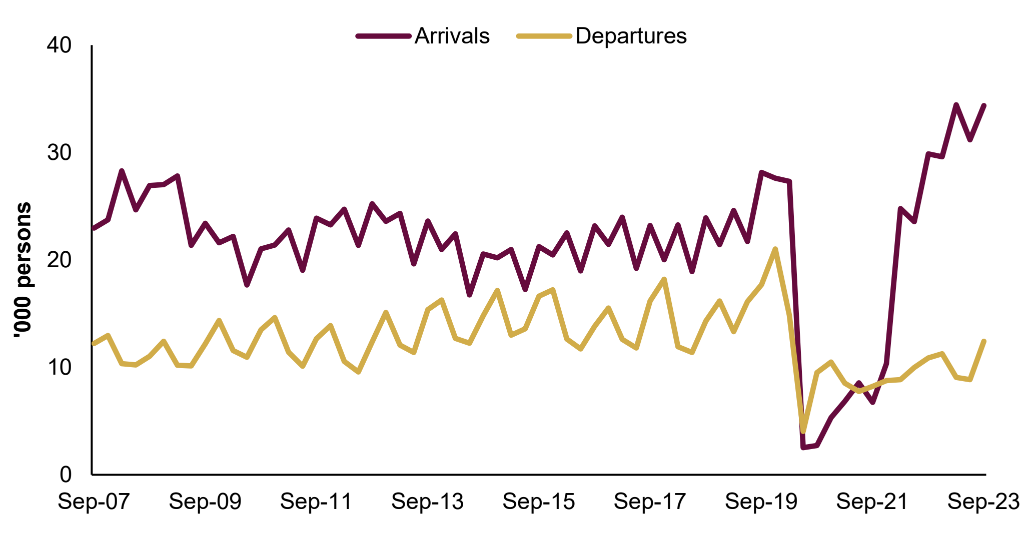
Consequently, in contrast to the net outflow of overseas migrants recorded during the pandemic, net overseas migration has contributed 136,500 persons to the state's population over the 7 quarters to September quarter 2023.

This was the largest absolute increase in net overseas migration over a similar (7 quarter) period since the current data series commenced in June quarter 1981.

This imbalance between arrivals and departures is expected to persist in the near term and continue to support overall population growth. However, beyond the short term, flows of net overseas migration to Queensland are forecast to normalise, partially reflecting the likely impacts of recent changes made as part of the Australian Government's migration strategy as outlined in the 2024–25 Federal Budget.

According to Australian Government forecasts published in the 2024–25 Federal Budget, net overseas migration to Queensland is forecast to moderate throughout the forward estimates period, from an elevated 61,500 persons in 2023–24 to 31,800 in 2025–26 and 28,600 in 2027–28.

Chart 2.15 Net overseas migration components, Queensland[1]



Note:

1. Original, quarterly.

Source: ABS National, State and Territory population.

Natural increase

The second year of the COVID-19 pandemic (i.e. 2021) saw a spike in Queensland's birth rate, broadly consistent with trends observed across other major states. However, these trends have been normalising recently, and the number of births in Queensland is generally expected to return to the longer-term downward trend seen prior to the pandemic.

Overall, the population increase attributed to natural increase is forecast to broadly return to pre-COVID-19 trends.

National drivers of recent population growth and comparison to previous forecasts

With the recovery in overseas departures continuing to lag the significant increase in overseas arrivals, the stronger than expected growth in net overseas migration has resulted in Queensland's overall population growth in 2022–23 and 2023–24 being revised upward materially since release of the 2023–24 Queensland Budget in June 2023.

In year-average terms, Queensland's total resident population is now expected to grow by 2½ per cent in 2023–24, upwardly revised from the 2 per cent growth forecast in the 2023–24 Budget Update, which already reflected an upward revision to the 1¾ per cent growth forecast in the 2023–24 Queensland Budget.

This strength in net overseas migration and overall population growth reflects national trends, with the 2024–25 Federal Budget indicating that recent levels of national net overseas immigration to Australia had been stronger than expected.

National net overseas migration was revised up by 207,800 across the two years ending June 2024, compared with the Australian Government forecasts 12 months earlier in the 2023–24 Federal Budget.

This higher than expected increase in national net overseas migration has contributed significantly to the post-COVID-19 phenomenon of stronger than forecast overall population growth.

Following the COVID-19 pandemic, there has been a clear surge in population across 2021–22 and 2022–23, with this trend expected to continue in 2023–24, with much of the more recent strength reflecting the unprecedented increase in national net overseas migration over the last 2 years, largely due to departures significantly lagging overseas arrivals.

The recent nature of this population growth is highlighted in Chart 2.16 below, which compares population growth outcomes over the past decade with the relevant Queensland Budget forecast published in each previous year.

Based on these comparisons, this indicates that cumulatively, across the three years to 2023–24, Queensland's population growth is estimated to have exceeded forecasts by a total of 135,500 persons.

The Australian Government also made significant upward revisions in the 2024–25 Federal Budget to forecasts for Queensland's annual population growth over the year to 30 June 2024.

However, importantly, partially reflecting changes to migration policy settings, the latest Federal Budget forecasts imply a reduction to national net overseas migration over 160,000 persons across the 5 years to 2027–28.

Beyond 2023–24, population growth in Queensland is forecast to ease to around 1¼ to 1½ per cent per annum across the remainder of the forward estimates period. In comparison, Queensland's population grew by an average of 1.7 per cent per annum in the decade prior to the COVID-19 pandemic.

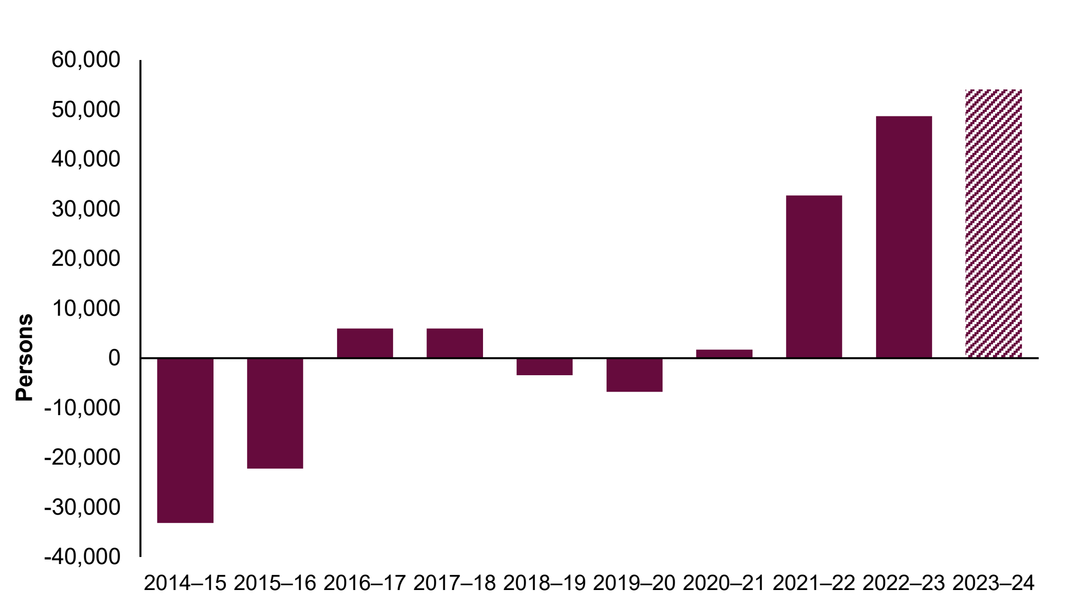
Year-average growth is then expected to fall to 1¼ per cent in both 2026–27 and 2027–28. The lower growth expected in later years of the forecast period largely reflects the likely impacts on net overseas migration from the recent changes to the Australian Government's migration strategy.

The easing profile in overall population growth across the forward estimates also reflect a stabilisation in net interstate migration around pre-COVID-19 levels and the return of the natural increase component towards the trend seen prior to the pandemic.

This outlook is consistent with the forecast growth profile for national population growth, which is forecast to fall from a peak of 2.4 per cent over the year to June quarter 2023 to 1.3 per cent by June quarter 2028.

This softening in Queensland's population growth beyond 2023–24 is also in line with the outlook for Queensland published in the 2024–25 Federal Budget, where population growth was expected to moderate from 2¼ over the year to June 2024 to 1½ per cent by June 2026 and then ease further to 1¼ per cent by June 2028.

Chart 2.16 Queensland population, Actual less Budget forecasts by iteration[1,2]



Note:

1. Year-average. Persons.
2. There is only one quarter (September quarter 2023) of actual data currently published by the ABS for 2023–24. Therefore, 2023–24 in this chart represents Treasury's current updated forecast less the level implied from the growth published in the 2023–24 Budget.

Sources: ABS *National, State and Territory population* and various Queensland Budgets.

2.5 Risks to the outlook

Global geopolitical tensions remain a key risk to the economic outlook. This includes the ongoing war in Ukraine as well as the ongoing risk of an escalation in the conflict in the Middle East, which could impact on oil prices as well as threaten global trade routes.

With expectations that most central banks are close to the peak in the interest rate cycle, and that an easing of monetary policy may occur over the next year, concerns over a hard landing for the international economy have eased. The key exception is in China where concerns remain about the potential for property market disruptions to impact China's economy more widely.

Domestically, the risks of a hard landing have also lessened as interest rates are expected to have peaked.

However, both domestically and locally, there is a risk that inflation may be more persistent than expected, which would delay any monetary policy easing, potentially reducing economic growth.

Global supply chain disruptions have generally eased, but skilled labour supply shortages remain a problem, especially in the construction industry.

While the Australian Government's immigration reforms are expected to help return population growth to historic norms, higher than expected population growth, outside of that required to address skill shortages, could increase demand for housing, government services and infrastructure.

Combined with the ongoing shortages of skilled labour, this poses risks in terms of the capacity of the construction industry to meet the expected demand for housing, business, and public sector investment.

Table 2.3 Queensland economic forecasts[1]

	Actuals	Forecasts		
	2022–23	2023–24	2024–25	2025–26
Economic output[2]				
Household consumption	3.7	1	2	2½
Dwelling investment	-5.5	-2½	2¼	¼
New and used	1.1	2¾	7¼	¾
Alterations and additions	-12.3	-9	-4	- ½
Business investment	6.7	3	1¾	2½
Non-dwelling construction	5.6	3¼	-1½	1½
Machinery and equipment	5.9	2	3½	1¾
Private final demand	2.7	1	2	2¼
Public final demand	4.8	5½	5½	4
State Final Demand	3.3	2½	3¼	2¾
Overseas exports[3]	-1.0	10½	2¾	1½
Overseas imports[3]	15.8	7½	1¾	5½
Gross state product	**2.3**	**3**	**3**	**2½**
Employment	3.7	2¾	1½	1
Unemployment rate[4]	3.7	4¼	4½	4¾
Inflation[5]	7.3	4	2	3¼
Wage Price Index	3.6	4¾	3¾	3½
Population	2.4	2½	1½	1½

Notes:
1. Unless otherwise stated, all figures are annual percentage changes.
2. CVM, 2021–22 reference year. The comparable nominal GSP growth rates are 10.9 per cent in 2022–23, 3¼ per cent in 2023–24, 4¼ per cent in 2024–25 and 3¾ per cent in 2025–26.
3. Includes goods and services.
4. Per cent, year-average.
5. Brisbane, per cent, year-average.

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