ECONOMIC OUTLOOK

Population growth is among the highest of the developed economies, which has helped underpin household consumption and demand for dwelling and infrastructure construction

Differences in the timing and magnitude of investment cycles by region are creating large differences in economic performance (and construction activity) by state

Further declines in bulk commodity prices are anticipated, before a longer term recovery, affecting Queensland royalty revenues

Public Sector Pipeline

$20.2 billion total (over 5 years)

Unlikely	11 projects valued at	$0.5b
Prospective	18 projects valued at	$2.0b
Credibly proposed	13 projects valued at	$2.2b
Announced	17 projects valued at	$4.7b
Under procurement	8 projects valued at	$3.4b
Under construction	24 projects valued at	$7.4b

Unfunded $4.7 billion

Funded $15.5 billion

Private Pipeline

$19.7 billion total (over 5 years)

Unlikely	21 projects valued at	$6.4b
Prospective	26 projects valued at	$3b
Credibly proposed	9 projects valued at	$1.9b
Announced	5 projects valued at	$0.7b
Under procurement	4 projects valued at	$0.7b
Under construction	34 projects valued at	$6.9b

Unfunded $11.4 billion

Funded $8.3 billion

ECONOMIC OUTLOOK

The Queensland economy has traditionally been one of the stronger state performers in Australia but has been suffering the effects of a prolonged downturn in public and private investment.

While one of Australia's key 'resources' states – and one of the largest exporters of coal (and now gas) – the State economy remains highly diversified and increasingly linked into global trade networks through tourism, agriculture and education industries. Mining investment is at a trough and rising non-mining investment and service credits will help offset expected falls in private dwelling investment.

Key points:

— Global economic growth is predicted to strengthen in 2018, before moderating in the longer run. World Gross Domestic Product (GDP) growth has risen from 3.2% in calendar 2016 to 3.7% in 2017 and is forecast to rise to 3.9% in 2018. From 2019, the world economy will begin to show gradually slower growth, linked to long-term fundamentals, with growth forecast to average 3.3% over the five years to 2027.

— Global prices for a number of commodities are expected to retreat over 2018, before slowly recovering over subsequent years as the global oversupply in a number of commodities dissipates. Bulk commodity (coking coal and iron ore) prices rebounded in 2016/17 but have come down from recent peaks – though they are still well above the trough in early 2016. Prices are set to consolidate in the near term for most other commodities but rise in the medium to longer term supporting Australian producers.

— Australia's annual GDP growth is forecast to remain around 2.5% for the next three years. GDP will be boosted by net exports, with solid growth in export volumes forecast. Underpinning this will be healthy global growth (which will drive demand for services exports), new Liquefied Natural Gas (LNG) capacity, and moderate growth in capacity in other key commodities. Rural and manufacturing exports are also expected to contribute, with both sectors taking advantage of Australia's comparative advantage in high quality, high value-added output.

— Queensland's economic growth (as measured by Gross State Product or GSP) slowed marginally in 2016/17 to 1.8% following 2.6% growth in 2015/16. This mild deceleration was driven by a slowdown in housing investment combined with the continued fall in non-dwelling mining construction. Yet these declines were offset by growth in exports as LNG production ramped up in conjunction with rising service credits (tourism).

— Queensland State Final Demand (SFD) rose in 2016/17 after two years of decline. Over the past year, growth in SFD has been underpinned by modest growth and contributions from household spending, business equipment purchases, government recurrent expenditure and dwelling investment, although growth in dwelling investment has slowed sharply over recent quarters after strong growth over the previous four years.

— Employment growth gained momentum, pushing the unemployment rate down to 5.2%. Annual employment growth is now over 4%, on-trend with the bumper jobs growth seen at the national level over the same period. The employment participation rate has also gradually improved, reaching over 65.5% for the first time since February 2016, significantly improving the health of the labour market.

— The worst of the mining investment slump has now past and Queensland's economy is forecast to slowly pick up over the next two to three years despite a downturn in residential construction. Growth in SFD, GSP and employment are all forecast to be similar to the national average over the next few years, although state economic growth will remain well below historical averages of over 4% per annum (for SFD and GSP).

Despite the rising risks, the global economy is still positive for Queensland

While there is no shortage of commentary surrounding the risks inherent in global economic growth – ranging from the sustainability of Chinese growth and resilience of its financial system to the effect and impact of new trade sanctions – the fact remains that economic conditions on the ground have improved in the US and across Queensland's major trading partners.

World GDP growth was robust in calendar 2016 (reaching 3.2%) and growth accelerated to 3.7% through calendar 2017. Growth is being supported by rising manufacturing activity and global trade flows. Developed economies are leading the way for the first time in a decade. From 2019 onwards, the world economy is expected to slow somewhat, linking once again to long-term fundamentals (falling population growth and structurally slower productive gains), but it is still expected to average 3.5% per annum over the five years to 2022.

Australia's trading partner growth (weighted by export proportions) will grow at a faster rate of 3.8% over the next five years, due to the high weights of China, East Asia and India in Australia's export mix. Although these economies will experience slower growth going forward, they are still expected to outpace the global average. In the US, business investment is forecast to accelerate, driven by improving domestic demand and export gains from a more competitive US dollar and a stronger global climate, rebounding energy sector activity and corporate tax cuts.

Figure 5

Economic Growth by Region and Country

Year Ended December	Real GDP/GNP# OECD (1)(4)	US	Japan	Euro area	China	India	Other East Asia (3)(4)	World GDP (4)
2008	0.2	-0.3	-1.1	0.4	9.6	6.2	7.7	3.0
2009	-3.5	-2.8	-5.4	-4.3	9.5	5.1	4.4	-0.5
2010	3.0	2.5	4.2	2.1	10.6	10.9	4.8	5.3
2011	2.0	1.6	-0.1	1.7	9.5	6.9	4.3	4.1
2012	1.4	2.2	1.5	-0.4	7.8	5.5	4.2	3.3
2013	1.5	1.7	2.0	0.3	7.8	6.2	3.8	3.4
2014	2.2	2.6	0.3	1.8	7.3	7.1	4.0	3.5
2015	2.5	2.9	1.4	2.2	6.9	7.5	4.5	3.2
2016	1.8	1.5	0.9	1.9	6.7	7.9	4.3	3.2
2017	2.5	2.3	1.8	2.4	6.9	6.2	4.2	3.7
Forecast								
2018	2.5	2.8	1.7	2.2	6.4	7.5	4.1	3.9
2019	2.0	2.0	0.9	1.8	6.0	7.0	4.0	3.6
2020	1.6	1.5	0.0	1.6	5.7	6.9	4.0	3.5
2021	1.6	1.5	0.9	1.5	5.4	6.6	3.9	3.4
2022	1.6	1.5	0.9	1.4	5.2	6.4	3.8	3.3
Average Growth Rates								
2003–2007	2.8	2.9	1.7	2.5	11.7	8.6	4.5	4.9
2008–2012	0.6	0.7	-0.2	-0.1	9.4	6.9	5.1	3.0
2013–2017	2.1	2.2	1.3	1.7	7.1	7.0	4.2	3.4
Forecast								
2018–2022	1.9	1.9	0.9	1.7	5.7	6.9	4.0	3.5
2023–2027	1.5	1.6	0.5	1.2	4.7	6.2	3.6	3.3

(1) Organisation for Economic Co-operation and Development: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

(2) Euro area: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, Spain.

(3) Other East Asia: Indonesia, South Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand, Vietnam.

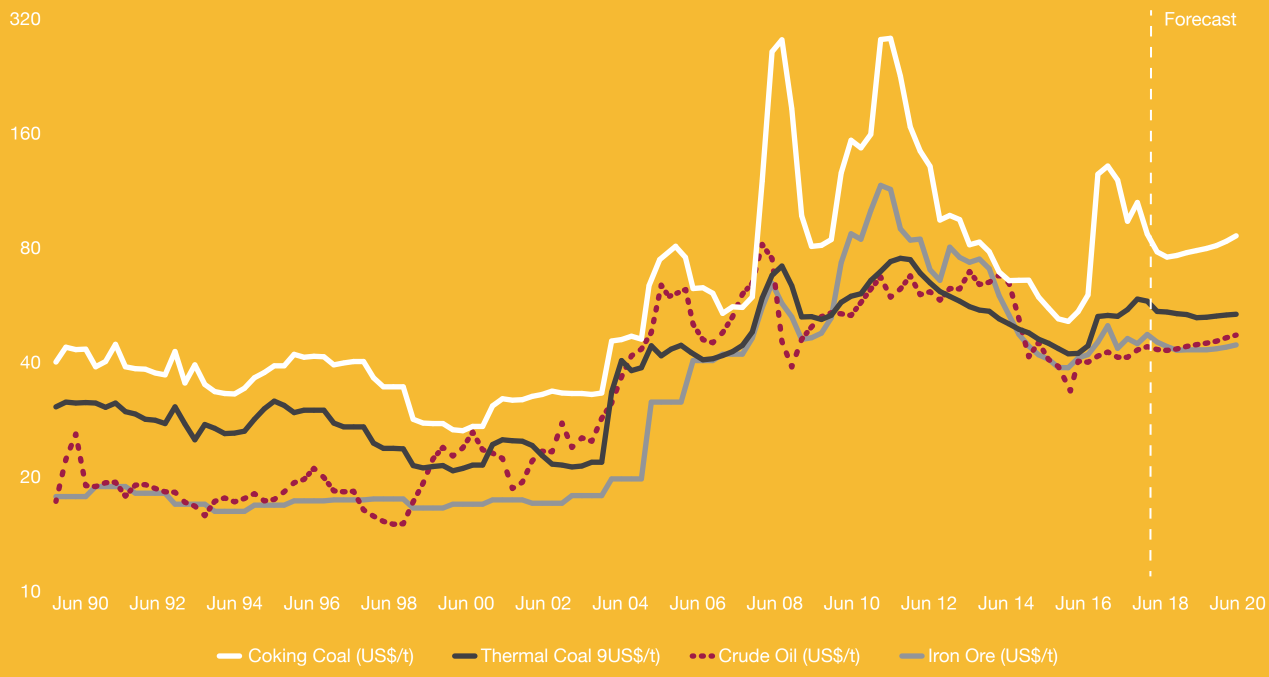
(4) 2017 is an estimate.

(5) Trading partner countries include: China, Japan, Hong Kong, United States, New Zealand, India, Europe and Other East Asia.

\# Annual Per Cent Change.

Figure 6 – Commodity Prices ($US)

Quarterly Average Prices (Log Scale)



Source: BIS Oxford Economics, BREE data

The combination of solid increases in employment and improved (although still moderate) wage growth should drive higher household incomes, consumer spending and residential investment.

Meanwhile, the Eurozone is expanding at the fastest pace in a decade. Firming domestic demand is driving the economy, with investment recovering and weaker inflation, strong consumer confidence and employment supporting household spending. The overall Eurozone unemployment rate is at a nine-year low.

Japan is expected to benefit from ongoing monetary and fiscal stimulus, including a delay in a sales tax hike in response to ongoing weakness in private demand growth. Meanwhile, China, while gradually slowing, is still the world's largest economy and will continue to make significant contributions to global growth. India and ASEAN-5 (Indonesia, Philippines, Malaysia, Thailand and Vietnam) GDP growth is expected to pick up pace over the next two years while Russia and Brazil – currently in recession – are expected to recover from 2017 adding to world growth.

> Further declines in bulk commodity prices are anticipated, before a longer term recovery, affecting Queensland royalty revenues (and impacting on the Australian dollar)

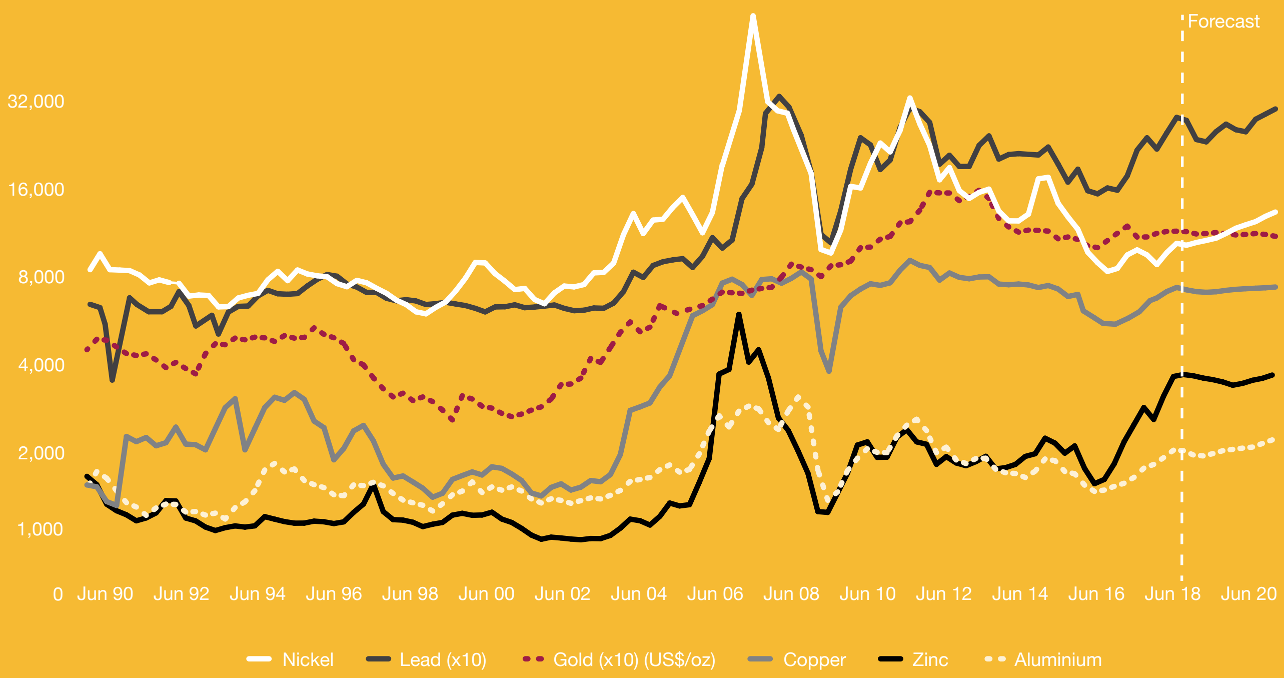
After recording strong gains from supply side concerns, coking coal prices are forecast to fall over the next two years driven by both increased coking coal production in China and a return to average (normal) production levels in Australia. A sustained recovery is forecast from early next decade as global growth builds momentum against constrained supply, and as the path of development in emerging economies becomes more steel intensive. For thermal coal, prices are still elevated, although a correction is expected over 2018 and 2019 as 'one-off' recent price drivers dissipate and markets come back to balance. A modest price recovery is forecast from next decade as demand is expected to outweigh supply.

Queensland – and Australia more broadly – continues to be well positioned to supply commodities

A combination of geographical proximity to Asian demand centres, favourable policies, supporting infrastructure, being at the lower end of the cost curve for several commodities, and high quality / low impurity content of mineral endowments will all support future exports from Australia. This will help counter the negative effects of several mines reaching their end-of-life and the possibility of discovering lower quality ore body during exploration. However, lower prices for coal, if realised, present a risk to state government royalties. To some extent however, the fall in commodity prices (combined with rising interest rates in the US) is also likely to keep the Australian dollar below recent highs, which will help offset lower US-dollar commodity prices – and also provide a boost to Queensland's trade exposed industries.

Figure 7 – Commodity Prices ($US)

Quarterly Average Prices (Log Scale)



Source: BIS Oxford Economics, BREE data

Offsetting investment cycles keep the Australian economy subdued

The Australian economy has strong fundamentals, now enjoying 27 years of uninterrupted growth since the 1990/91 recession. Population growth is among the highest of the developed economies, which has helped underpin household consumption and demand for dwelling and infrastructure construction. Government debt is comparatively low by global standards, with the Federal Government and the larger state economies of New South Wales and Victoria maintaining AAA credit ratings. Overall economic risks are low and the Australian economy is well situated in the fast growing Asia Pacific region.

Nevertheless, growth in GDP and particularly domestic demand has been lower over the past five years than the previous two decades.

The main factor dragging down growth has been a major decline in mining investment, which has coincided (and contributed to) weakness in non-mining business investment.

The shift in the Australian economy back to broad-based growth following the mining boom continues to progress slowly. Growth is still below trend–GDP growth has averaged around 2.5% annually over the last five years, with FY2017 coming in below that, at 2.1%. There are some positive signs. Net exports are contributing positively to demand, with the global upswing and a competitive Australian dollar (albeit recently flirting with US$0.80) helping to drive export volumes growth. But despite stronger profitability, non-mining business investment remains patchy, and with spare capacity still to absorb in the labour market, household income and consumer spending growth is forecast to remain below trend this year and next.

Overall, however, the Australian economy has been unable to sustain economic growth above 3% since the peaking of the resources investment cycle in 2012/13. Much of this weaker economic performance is due to very weak growth in domestic demand during the period, which has been negatively impacted by the ongoing decline in resources investment.

While partially cushioned by a boom in residential investment since 2013/14 and, more recently, by a recovery in public infrastructure investment, economic growth has also been hampered by record low growth in wage incomes, with households spending more of what they earn and reducing savings to maintain just moderate household expenditure growth. Weak wage growth has also driven weaker than budgeted tax revenues for governments, lengthening the time horizon required to return to sustainable budget surpluses, and limiting the firepower of governments to counter weak private investment with higher public investment without further increasing public debt.

Unlike many other resources-exporting economies, Australia did not experience a recession in the wake of the resources investment bust. Strong growth in mining production and exports from world class, competitive deposits, and supercharged by a much lower dollar – which also stimulated other exports of goods and services, such as tourism, education services, agriculture, manufacturing and business services – has helped offset some of the pain from weaker demand growth. Economic growth (which includes net exports) has generally been higher than growth in domestic demand.

The challenge for Australia is that mining exports, particularly, are highly capital – rather than labour – intensive. Stronger, sustainable growth in employment requires stronger growth in local expenditures; and in domestic demand. In turn, this requires the return of growth in non-mining business investment, which has remained stalled since the GFC.

The problem for non-mining industry sectors has generally been weak growth in demand, weak profits and excess capacity. In that environment, it is foolhardy for businesses to invest ahead of requirements, straining cash flows and locking in additional costs before they had the revenue to support them. Most businesses are still in cost-cutting mode, preserving cash and deferring investment until demand recovers.

Low interest rates in this environment have had relatively little impact. While there have been plenty of funds available, this just hasn't been the business environment for strong private investment.

The next growth phase in the Australian economy will be driven by non-mining business investment. When it does recover, it will be to service growing demand, driven by a growth logic (evidenced by rising profits) and augmented by a technology catch-up. In turn, this will have a strong multiplier through business services into the rest of the economy. While non-mining business profits have increased, it is still too early to say that businesses are confident in the path of future demand and profits, and are willing to make the psychological shift from caution to a 'go for growth' investment mentality.

Part of the reason for this is that nationally, by region and industry, growth and profitability is highly fragmented. Very strong economic growth has returned to New South Wales and Victoria, after spending much of the mining boom years suppressed. But growth in demand is still very weak in many other regions. Some states such as Western Australia and Queensland saw outright declines in State Final Demand in recent years.

There remain challenges ahead for the Australian economy that are likely to keep business confidence and investment on a weak plane over the next one to two years. Wage growth, except for skilled professions and trades in some sectors and states, is likely to remain relatively weak, affecting retail trade and household expenditures. Politics is highly adversarial, with major political parties unable to forge a workable consensus on many important policy areas surrounding taxation, energy security, and the environment. But, more importantly, investment cycles across Australia are likely to remain highly unsynchronised over the next two years – keeping overall economic growth constrained to around 2.5% per annum on average over 2017/18 and 2018/19.

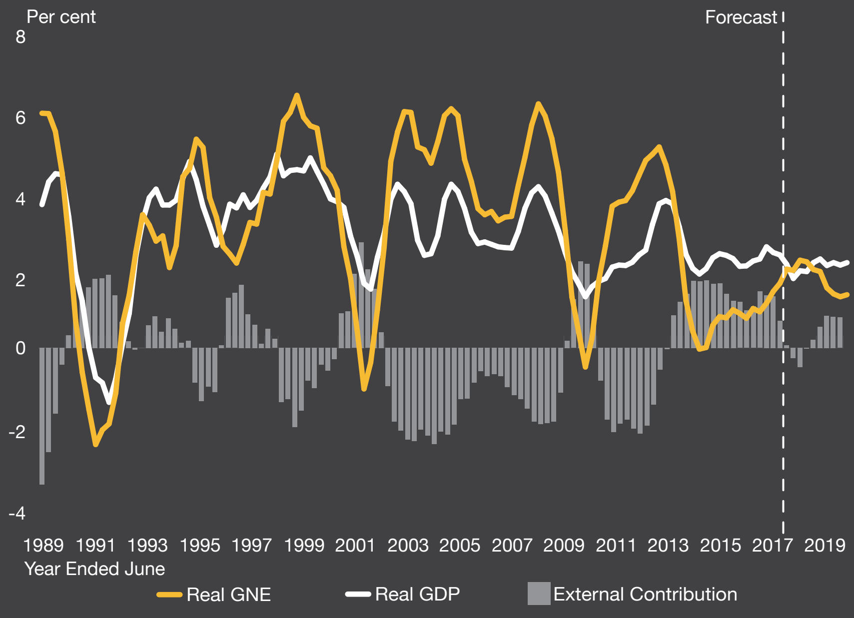
Mining construction will decline around

78%

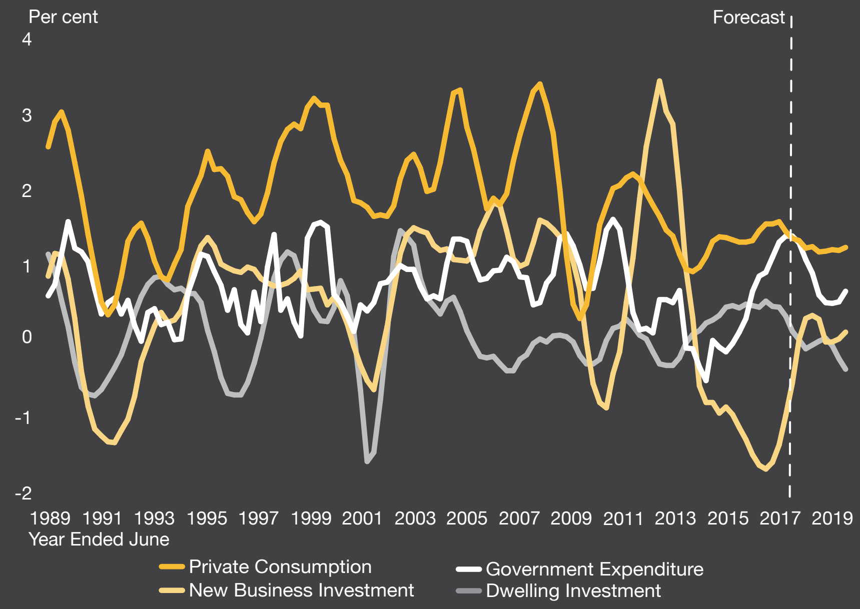
from the 2013/14 peak to the trough

Figure 8

Major Project Work Done by Segment



Contribution to Domestic Demand – Percent



These unsynchronised investment cycles include:

- **Residential investment**, a key driver of growth over the three years to 2015/16, which is expected to peak and then decline over the next three years, with particularly large declines expected in the volatile high density apartment market.
- **Mining investment nationally**, which is in the final stages of decline as the LNG investment boom finally runs its course in Western Australia and the Northern Territory (having already wound down in Queensland). Overall, mining construction will decline around 78% from the 2013/14 peak to the trough, although mining equipment purchases and exploration have started to recover across most commodities (indicating the initial stages of the next upturn).
- **Public investment**, which has finally started to recover after five years of decline, surging 16% in 2016/17 alone. Growth in public investment is being supported by new transport infrastructure but will be offset in part after 2018/19 by sharply falling investment in Australia's largest public infrastructure project – the NBN. Even considering a strong phase of growth in transport infrastructure, growth in total public investment is expected to be either flat or falling (and hence be a drag on Australia's economic growth) by the end of the decade.
- **Non-mining business investment**, which is currently showing only modest growth but is expected to strengthen from last decade as higher profitability, demand and capacity utilisation (in turn supported by a slightly weaker Australian dollar) drive a change in business confidence and investment.

Domestic demand is predicted to improve late this decade as the expected declines in mining and residential investment bottom out and start showing signs of recovery. Capacity constraints and expected improvements in business confidence are predicted to drive an acceleration in non-mining business investment. But until that time, economic growth and inflation is expected to remain relatively subdued, with the Reserve Bank unlikely to be in a strong position to raise interest rates until 2019/20.

Differences in the timing and magnitude of investment cycles by region are creating large differences in economic performance (and construction activity) by state. Strong pipelines of infrastructure projects, relative undersupply in housing, higher population growth and private sector confidence to invest is driving a construction upswing in New South Wales and Victoria, which in turn is spilling over into broader industry growth.

By contrast, total investment and construction activity remains relatively flat (or falling) in the former resources boom states of Queensland and Western Australia. These states are now generating strong growth in mining production and exports as a direct consequence of the previous resources investment boom, boosting Gross State Product (GSP). However, growth in State Final Demand (SFD), the sum of household consumption, government consumption and investment – (both public and private) has been very weak or negative in recent years. This is important, as growth in SFD tends to be a greater driver of growth in employment and incomes than growth in (capital-intensive) mining exports.

There are vast differences in economic performance by state

Queensland's economic challenge

The end of the mining boom was always going to be a trying time for the Queensland economy. Economic growth weakened markedly from 2011/12 driven by falling mining and public investment. Growth in GSP averaged 4.4% per annum over the 10 years to 2009/10 then fell to average 2.5% per annum over the five years to 2014/15.

Meanwhile, growth in SFD – a measure of domestic demand or spending in the local economy which is highly correlated with employment – slowed to just 0.9% in 2013/14 (compared to growth rates of between 5% to 9% during the boom years), and then fell 3.6% in 2014/15 and a further 1.2% in 2015/16. Employment growth weakened in unison, with the unemployment rate averaging 5.9% over the five years to 2014/15 (compared to 4.5% over the five years to 2009/10). This weakness continued into 2015/16, and the first half of 2016/17, with monthly employment falling consecutively on more than three occasions over the period. More recently, however, the labour market has shown some strength with the annual employment growth rate rising above 4%.

Private engineering construction, which is dominated by resources-related construction, peaked at $39 billion in 2013/14 and then plunged 68% over the next two years. There were also large declines in equipment purchases and exploration by the Queensland mining industry over the 2013/14 to 2015/16 period. Although mining and heavy industry construction decreased a further 10% in 2016/17, the smaller decline off a much smaller base of investment has delivered a smaller negative contribution to SFD. Meanwhile, the jump in coal prices and higher base metals prices over 2016/17 has seen coal mines in Queensland re-opened and increases in mining equipment purchases.

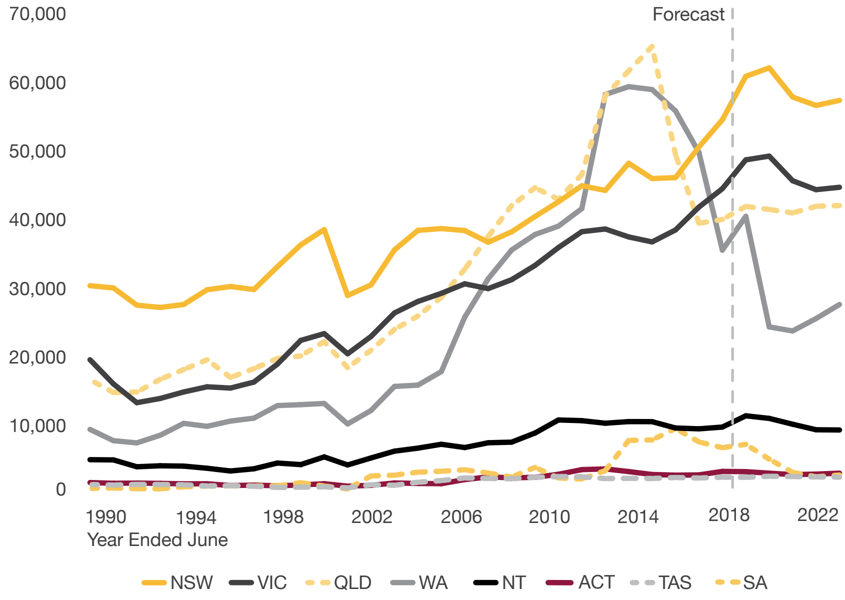
Yet in one important sense, the Queensland economy has been partially sheltered from the severity of the downturn in mining investment. Significant components of mining and mining-related investment and equipment were sourced from overseas, and were therefore classed as imports, detracting from GSP. As mining investment retreated, so did these imports. So, although the local economy did not receive all the benefits of the resources construction boom during the upswing, it conversely did not suffer the whole negative magnitude of the downturn.

Mining now accounts for a falling share of total engineering construction. At the 2013/14 peak, mining and heavy industry construction, pipelines construction and railways construction accounted for around 90% (or $35.9 billion of the total $39.2 billion) of privately funded engineering construction. Since then, resources-related engineering construction has simply plummeted. The void left by retreating mining-related engineering construction is being partially offset by a recovery in public investment. After little growth in the previous three years, Government Consumption Expenditure (GCE) jumped over 5% in 2015/16 and 2016/17. Strong rises in education and health-related employment is contributing to the rise in GCE and the healthier total employment figures.

Higher levels of private dwelling investment helped offset declines in private engineering construction. The recent upswing in residential building followed a six-year decline (2007/08 to 2012/13), which occured at the same time that the mining boom was stimulating robust population growth from both interstate and overseas, resulting in an undersupply of housing. This undersupply has now been eliminated, with private dwelling investment growing at an average of 12% per annum over the three years to 2015/16 and peaking in 2016/17.

Figure 9

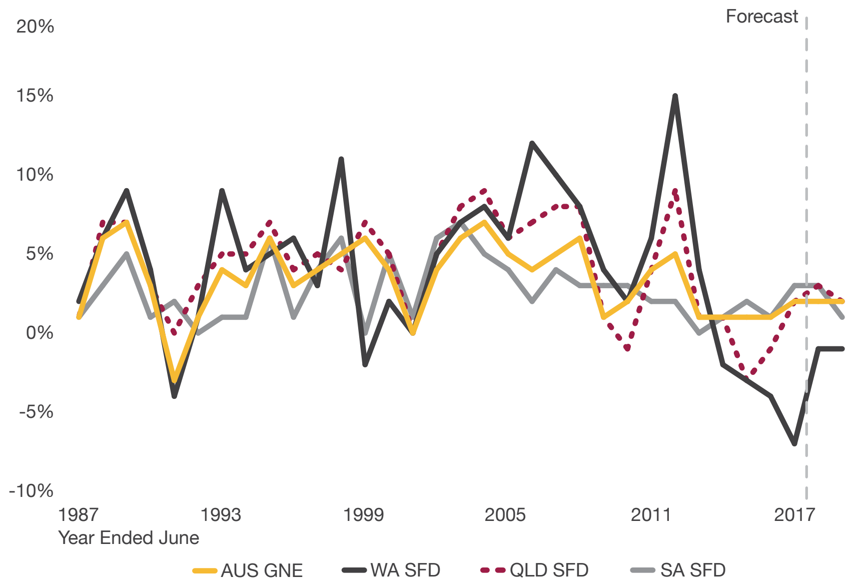
Total Construction Work Done by State (2015/16 Constant prices)

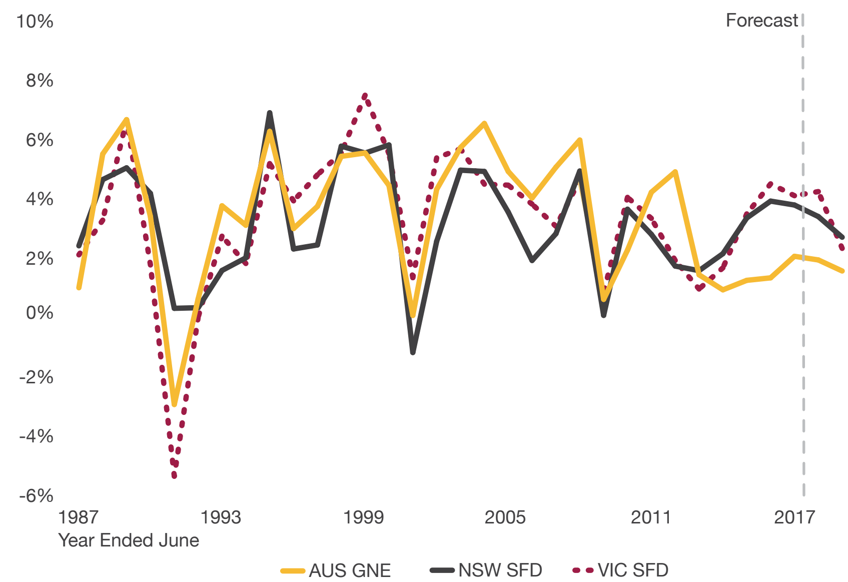


Source: BIS Oxford Economics, BREE data

Figure 10

Comparisons of State (SFD) and National (GNE) Growth in Final Demand





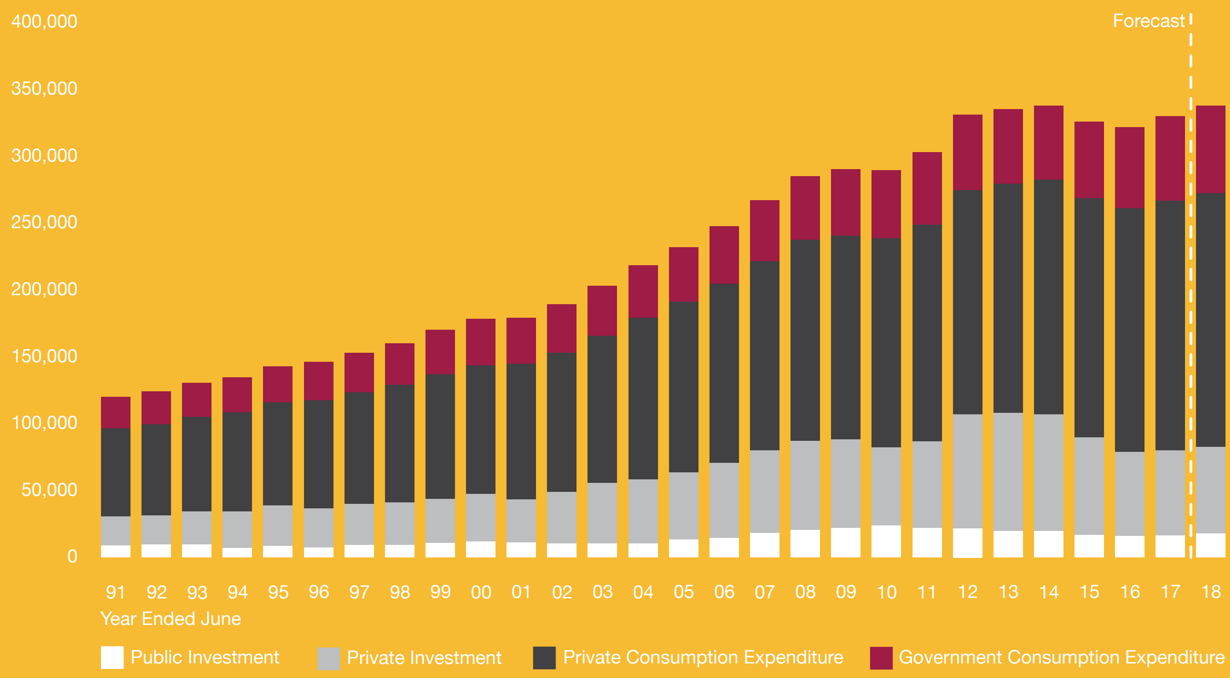
Queensland economy to pick from here, but growth likely to be constrained

The Queensland economy is showing signs of recovery. The lower, post-boom Australian dollar has helped boost tradeables such as tourism and educational exports, with manufacturing also likely to benefit over the forecast horizon. Meanwhile, public investment has returned after a number of years of weakness.

Public investment had been a drag on the Queensland economy for several years, having fallen by over a third over the six years to 2015/16 from the 2009/10 peak. Public non-dwelling building had fallen to its lowest level since 1993/94 (in real terms). However, it is now bouncing back, led by education-related and other social and institutional buildings. Public engineering construction also picked up strongly over 2016/17 and further strong growth is predicted for 2017/18 and 2018/19, driven by roads, harbours, defence, water and telecommunications-related infrastructure. Further modest rises are expected thereafter, with falling telecommunication construction – as the NBN roll-out winds down – moderating the overall increases.

Figure 11

Queensland Economy – Components of State Final Demand



Source: BIS Oxford Economics, BREE data

A sizeable chunk of the funding for this pick-up in activity is coming from Commonwealth infrastructure allocations. Without increased income, State Government finances are unable to support major increases in infrastructure spending. Public sector debt has continued to escalate and the Queensland Government has lost its AAA credit rating. The fall in coal and minerals prices over the three years to 2015/16 also weakened royalty revenues. On the other hand, State Government revenues have benefitted from the residential property recovery and corresponding increases in stamp duties. Generally higher coal prices (since the trough in early 2016) and rising LNG production should help boost government revenues and underwrite healthier increases in public investment as well as modest rises in GCE.

Falling residential building activity will dampen overall growth...

A key challenge facing the Queensland economy is the expected decline in residential building, following strong growth over the past four years. With the level of dwelling building now well above demand, an oversupply is manifesting, particularly in the apartment heavy inner Brisbane market. Private dwelling investment slowed to 2.8% in 2016/17 and is expected to contract over the three years to 2019/20 inclusive.

... with non-residential building investment a mixed bag

Private non-residential building declined over 2016/17, after six years of solid growth, but further growth is expected over the next three years. Over the next year, higher activity in the hotels segment (boosted by the lower dollar), warehouses and private schools building should more than offset declines in other sectors, particularly in the health sector as work winds down on the (mainly privately funded) $1.2 billion first stage of the Sunshine Coast University Hospital.

Office building work has declined sharply in recent years, with only weak growth in prospect, largely due to oversupply related to the decline in mining investment-related business services which were a key component of office demand. Retail building is also expected to be relatively flat over the next few years in line with consumer spending, but strong growth is anticipated in hotel and accommodation construction.

A competitive Australian dollar will continue to support service exports

The ‘X factor’ for the Queensland economy remains the value of the Australian dollar and the improved attractiveness of Queensland’s key service exports.

Townsville Ring Road

The Queensland tourism industry has been buffeted for almost a decade – first by the GFC and then by the high Australian dollar which made holidaying in Australia more expensive relative to other destinations in the region (for both domestic and international visitors). However, after a decade of constraint, non-mining trade-exposed industries are beginning to recover. At the national level, tourism related service exports grew 15% over 2016/17. The low dollar has also supported growth and employment in Queensland's education sector. These sectors will need to refurbish and then expand to meet demand. Other dollar-exposed industries are benefiting from the improved competitiveness of a lower dollar, showing initial signs of recovery. That will broaden to growth and, eventually, investment in the non-mining sectors. But it is expected to be a long process.

While rising interest rates in the United States and a near term correction in some key commodity prices (e.g. coal and iron ore) would suggest that the Australian dollar may depreciate further against the US dollar in coming years, there is the risk that the Australian dollar will remain stubbornly around the US$0.75 mark for some time, and may even appreciate, particularly as the Australian economy improves later this decade. Consequently, it will be important for Queensland businesses to take advantage of the competitive gains already rendered by the fall in the dollar now – and not wait or rely on further falls in the currency as part of a longer-term growth strategy.

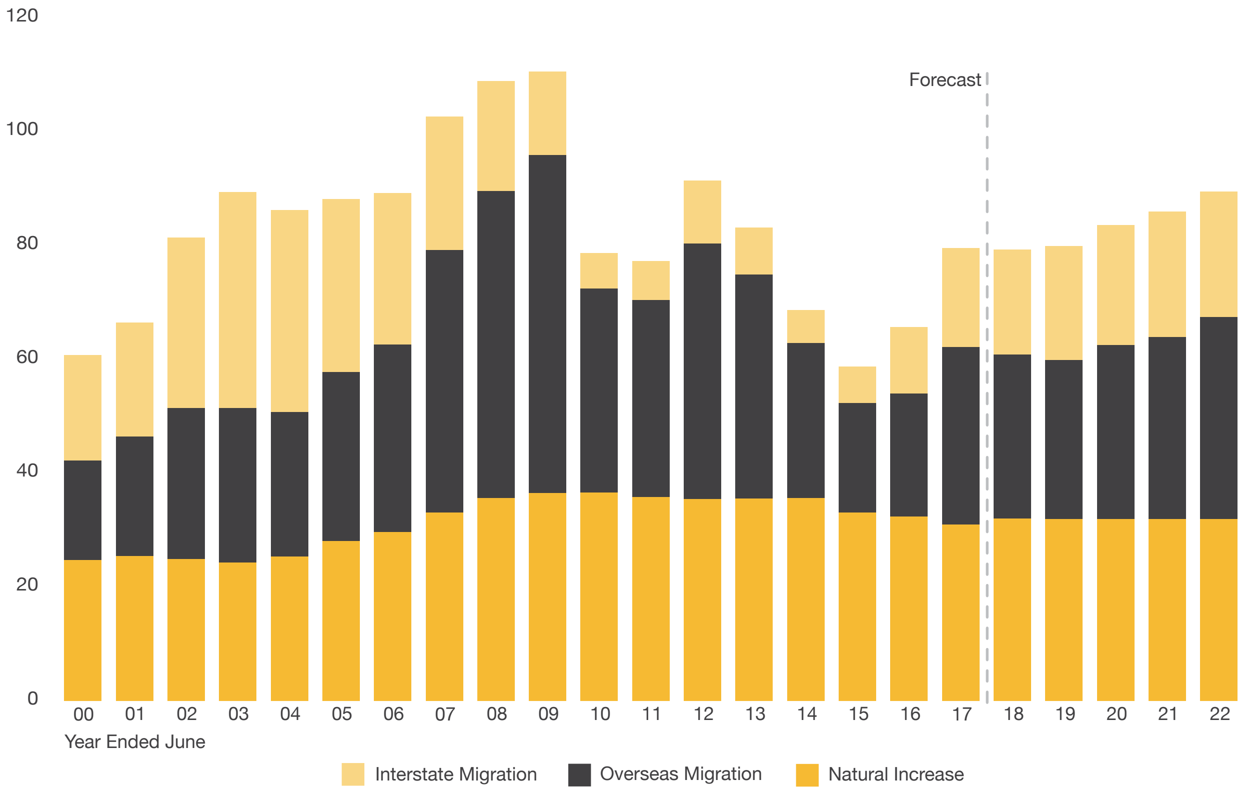
Employment improving, yet recent growth to moderate

After negligible growth through 2016/17, employment growth has ramped up significantly through 2017/18 to date, with annual growth over the year to February 2018 just shy of 4%. Strengthening public and business investment and renewed tourism growth have been key drivers. However, overall employment growth will likely weaken over the next two years, keeping household spending growth muted, similar to the last four years. Previous employment growth was spurred by much higher rates of population growth. Queensland's population growth has come back to the pack and, at 1.6% annual growth, is around the national average – after decades of population growth well above the national average.

GSP boosted by stronger SFD growth over the medium term

Figure 12

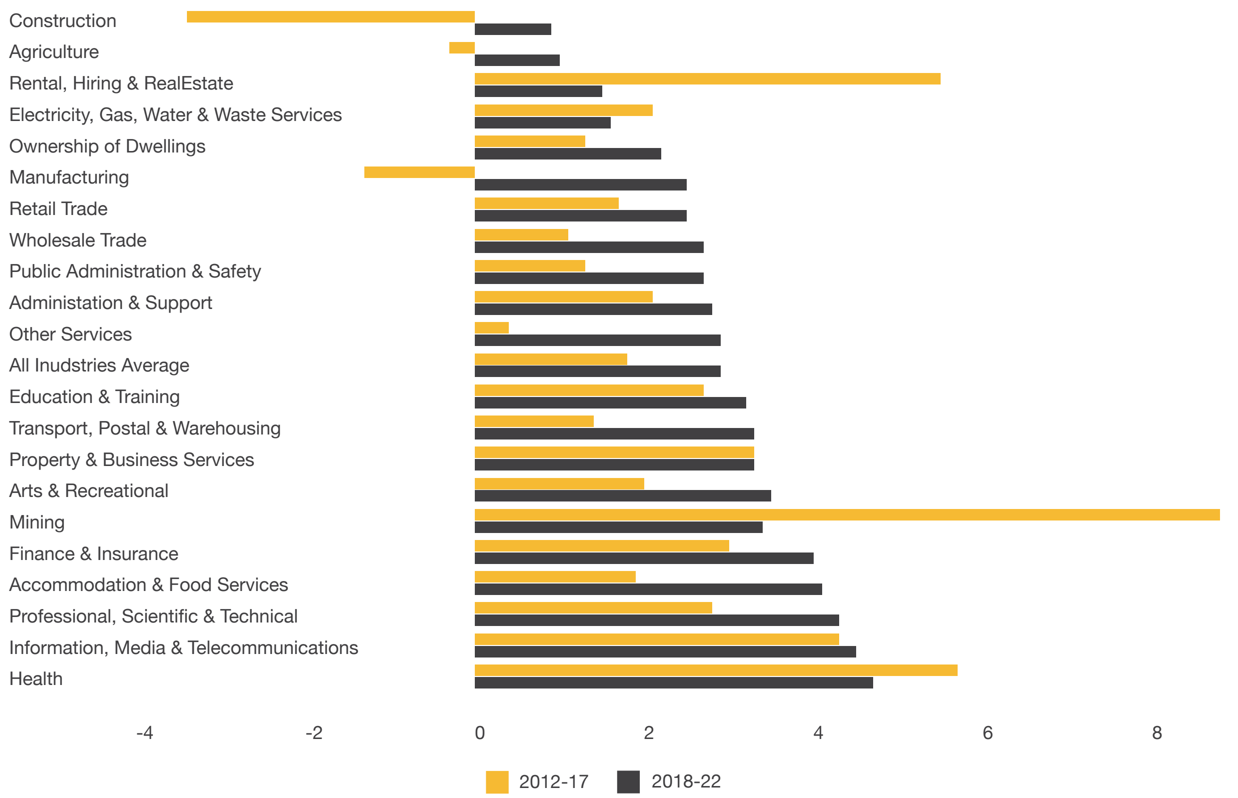
Queensland Annual Population Increase by Source



Source: BIS Oxford Economics, BREE data

Figure 13

5 Year Compound Annual Growth by Industry Sector, Queensland



Source: BIS Oxford Economics, BREE data

Export growth remained strong in 2016/17 (around 7%) as capacity and production ramped up further at the Gladstone LNG plants. But as these plants hit capacity, export growth over 2017/18 and particularly 2018/19 will decelerate. GSP growth is forecast to remain subdued at around 2.5% over this year and next, before gradually accelerating towards the end of the decade and into the early 2020s.

Longer term, Queensland economic growth is expected to be sustained in the 3-4% per annum range as growth becomes more broadly based, and its benefits more evenly distributed. Queensland has a diversified economy, and the competitive realignment of its key trade-exposed industries – including agriculture, manufacturing, tourism, education and mining- is expected to be the main spur to economic growth.

Technical change, lower dollar, and investment cycles to drive differences in outlook industry

Over the next five years, the lower Australian dollar should continue to encourage growth in trade-exposed industry sectors in the Queensland economy – but technological change, changing demographics and differences in the stage of long run investment cycles will also play a significant role, as shown in Figure 13.

Over the past five years, mining, rental and hiring, health and information, media and telecommunications (ICT) were standout growth industries in Queensland, with all industries growth averaging a relatively weak 1.8% per annum growth between 2011/12 and 2016/17. By contrast, construction, agriculture, manufacturing, trade (wholesale and retail) and accommodation performed relatively poorly. However, over the next five years, the performance of all of these 'low growth' sectors will be stronger as investment recovers and the lower dollar stimulates trade-exposed industries. Technological development and demographic change should keep growth in health strong through the next five years, while other 'high growth' sectors in activity terms will be finance and insurance, mining, accommodation, professional scientific and technical services and ICT.

However, developments in automation will affect employment growth differently for each sector. BIS Oxford Economics expects the strongest growth sectors in terms of employment over the next five years will be accommodation and food services, arts and recreational services, transport, administration and support and education. By contrast, the weakest sectors in terms of employment growth will likely be ICT (despite growing strongly in terms of Gross Value Added, and hence producing large productivity gains), manufacturing, finance and insurance and construction – with the latter affected, particularly by a downturn in residential building which comprises the bulk of construction trades. A more detailed discussion of the outlook for the construction workforce is provided later in this Report.

Private engineering construction, which is dominated by resources related construction, peaked at **$39 billion** in 2013/14 and then plunged

68%

over the next two years