

Queensland Manufacturing

The Queensland economy performed less well than other state economies in 2015-16, following significant declines in mining investment and the end of the commodities ‘super cycle’ that had benefited the state in prior years. Queensland manufacturing has been directly affected by this cycle, with a significant amount of local manufacturing dependent on the mining industry and on several large local LNG projects which are soon to be completed. A recovery in commodity prices in 2016-17 is helping to provide some recovery for these mining related manufacturers.

More positively, there are other pockets of growth in Queensland manufacturing. Strong housing construction in the state is helping manufacturing sectors such as non-metallic mineral products (mainly building materials), wood products and metals makers that supply the housing industry. As in other eastern capitals (Melbourne and Sydney), risks remain in the housing market and activity may cool in the coming year. For others, the lower Australian dollar is supporting exports and import replacements by food and beverages manufacturers and other exporters.

Manufacturing Output

In 2015-16, Queensland manufacturing contributed around \$9.7 billion to the state’s (real) output, or 6.3% of Gross State Product. In that year, real manufacturing output declined by 3.3% for the state, compared to a national decline in manufacturing output of -2.7% (chart 1). Historically, manufacturing has contributed proportionally more to output in Queensland than it does nationally. Nationally and in Queensland, the share of the economy coming from manufacturing output has been declining over the past two to three decades (see table 1). Even so, Queensland manufacturing remains significant. In 2015-16, Queensland manufacturing was the fourth largest industry in the state and it produced 19.8% of total national manufacturing output.

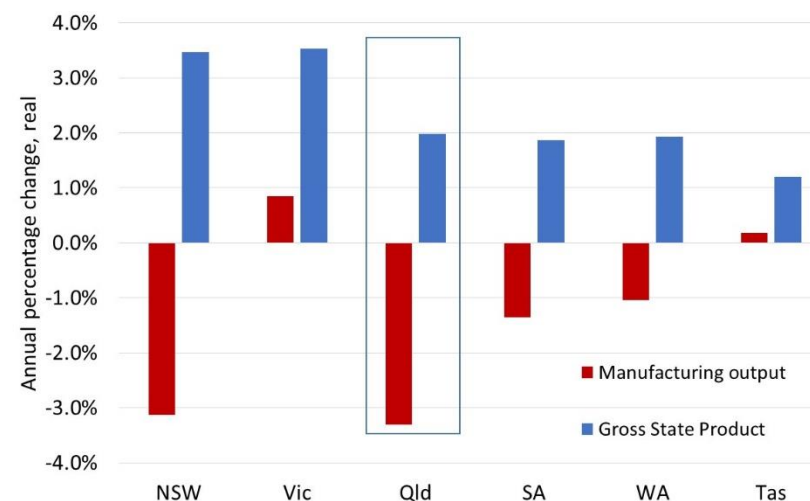
Manufacturing Employment

As of November 2016, Queensland manufacturers employed 172,900 people. Most (87%) were full-time workers, making manufacturing the third largest employer of full-time workers in Queensland, behind the construction and healthcare industries. Manufacturing employs 7.3% of total workers and 9.1% of full-time workers in the state. Queensland’s manufacturing employment declined by 6.7% over the decade to 2015, but showed an encouraging recovery in 2016, growing by 5.5% p.a. in the year to November 2016.

Table 1: Real GDP and manufacturing output – Queensland v Australia

	2015-16 Annual growth (real)	10 Year growth (real)
Australian GDP	2.7%	31.2%
Queensland GDP	2.0%	32.9%
Australian manufacturing output	-2.7%	-7.2%
Queensland manufacturing output	-3.3%	-16.1%
Manufacturing share of output	2015-16	2005-06
Australia	6.0%	8.5%
Queensland	6.3%	9.9%

Chart 1: 2015-16 Real GDP and manufacturing output growth



Manufacturing Businesses

Queensland manufacturers represented 19.6% of all manufacturing businesses nationally in 2014-15. Within the state, manufacturing businesses comprised 3.9% of all businesses and 5.5% of all employing businesses. Manufacturing businesses in Queensland are dominated by fabricated metals manufacturers (3,168 or 19%), followed by machinery and equipment manufacturers (2,045 or 12%), food manufacturers (2,031 or 12%) and transport equipment manufacturers (1,733 or 11%). These four categories comprise over half of Queensland manufacturing businesses.

Nearly half (48%) of Queensland manufacturers are ‘small’, with less than 20 employees. Medium sized manufacturers (20-199 employees) make up just 6% of the total, while only 0.5% of manufacturing businesses are large (200+ employees). As in many other industries, non-employing businesses make up around 45% of all Queensland manufacturing businesses.

Manufacturing Activity

Total sales and services income for Queensland manufacturers in 2014-15 was around \$73 billion, with a significant share of the market taken by food manufacturing (\$20bn, 27%). Primary and fabricated metals manufacturing were also significant, as was petroleum and coal products. Total manufacturing wages and salaries for Queensland in 2014-15 was around \$10 billion. This was dominated by food, metals and petroleum and machinery equipment manufacturing.

Manufacturing sectors that expanded in 2014-15 (in terms of income) included the small wood products sector (+20.5% p.a.), basic chemicals (+8.0% p.a.), food (+7.9% p.a.), textiles (+5.8%) and beverages (+4.1% p.a.). The sharp decline in mining investment and plummeting metals prices created tougher conditions in 2014-15 for primary metals (-15.3% p.a.), fabricated metals (-12.3% p.a.) and machinery and equipment (-10.6% p.a.). Over the longer term, the manufacturing sectors with the best growth performance between 2010-11 to 2014-15 (Compound Annual Growth Rate) were food (+6.5% p.a.) and beverages (+4.6% p.a.).

In aggregate, Queensland manufacturers look to have staged a recovery in 2016, despite a rough patch in mid-2016. Over the past 12 months, Ai Group’s Performance of Manufacturing Index (Australian PMI) for Queensland has been outperforming the national Australian PMI, with an average of 54.4 points (indicating stronger expansion) versus a national average of 52.7 points (indicating weaker expansion). Queensland manufacturers finished the year strongly, with an average Australian PMI score of 58.2 points in the three months to December 2016 (indicating an even stronger rate of expansion). Queensland manufacturers recently cited a lower Australian dollar, increased exports and some investment recovery (due to improving commodity prices) as factors contributing to their stronger performance in the Australian PMI.

Chart 2: Queensland manufacturing businesses 2014-15

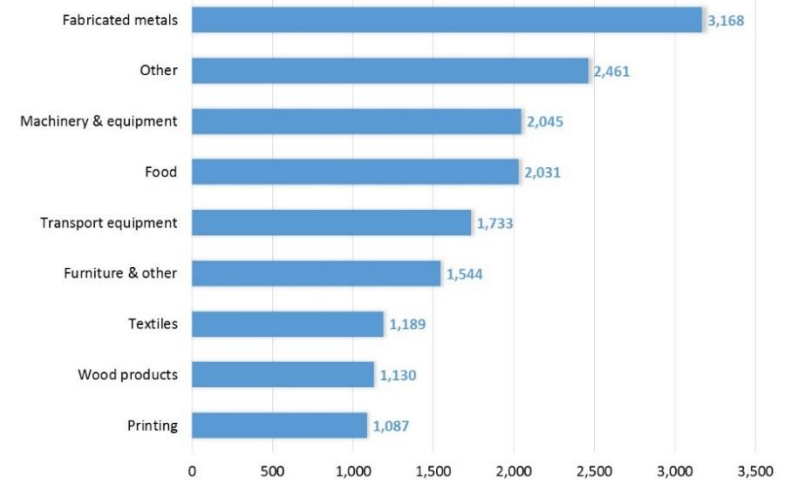
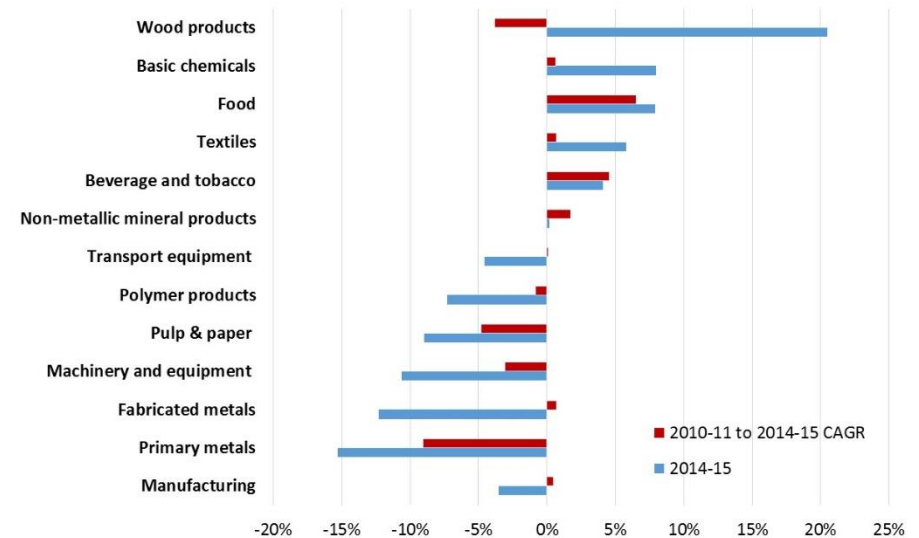


Chart 3: Queensland manufacturing income, annual growth in 2014-15 and 4-year CAGR growth to 2014-15



Manufacturing Exports

In 2015-16, Queensland's manufacturing export earnings totalled around \$16 billion. Queensland manufacturing exports accounted for 15.8% of Australia's manufacturing export earnings in that year and 32.8% of Queensland's total export earnings.

Queensland manufacturing export earnings shrank by 0.9% in 2015-16, but this came after a significant 12.3% expansion in 2014-15. By sector, food and beverages was the largest export sector (47.4%) in 2015-16 and grew by 3.7% over the year. Metal products were also significant (31.8%) but shrank by 4.8% during 2015-16 (the primary source of shrinkage in Queensland manufacturing export earnings in that year). Machinery and equipment (comprising 11.4%) exports fell by 3.0% over the year. And the relatively small exports of petroleum, coal and chemical products (6.1%) and textiles and other products (3.3%) changed by -9.4% and +0.8% respectively in 2015-16. The decline in export earnings in 2015-16 was likely due to slowing Chinese demand for metals, lower metals prices and lower oil and gas prices during this period.

In 2015-16, the single largest sub-category of manufacturing exports in Queensland was meat products (\$5.8bn or 37.2%), followed by basic non-ferrous metals (mainly copper, aluminium, lead and zinc; \$4.6bn or 28.6%), fruit and vegetables (\$1.0bn or 6.3%) and industrial machinery and equipment (\$0.8bn or 5.2%). These categories together accounted for over three-quarters of Queensland's manufacturing export earnings.

China is the primary destination for Queensland manufacturing exports, with over \$19 billion (19.5% of total) heading to China in 2015-16. This is followed by the United States (\$11bn or 11.4%), New Zealand (\$7bn or 7.3%), the UK (\$6bn or 6.4%) and Japan (\$5bn or 5.5%). Exports to these countries make up over half of all Queensland's manufacturing exports.

Data sources

- ABS National Accounts: State Accounts, 2015-16
- ABS National Accounts: National Income, Expenditure and Product, Sep 2016
- ABS Australian Industry, 2014-15
- ABS Labour Force Australia: Detailed, Quarterly, Nov 2016
- ABS Counts of Australian Businesses, Jun 2015
- Queensland Government trade reports, 2015-16p

Ai Group Economics and Research Team
economics@aigroup.com.au
 T: 03 9867 0111

Chart 4: Australian PMI, Queensland PMI and PMI exports sub-index

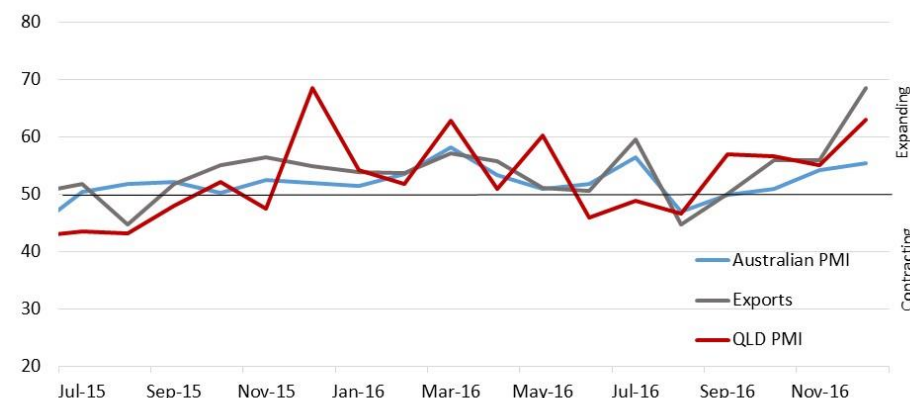


Chart 5: Queensland export earnings

