

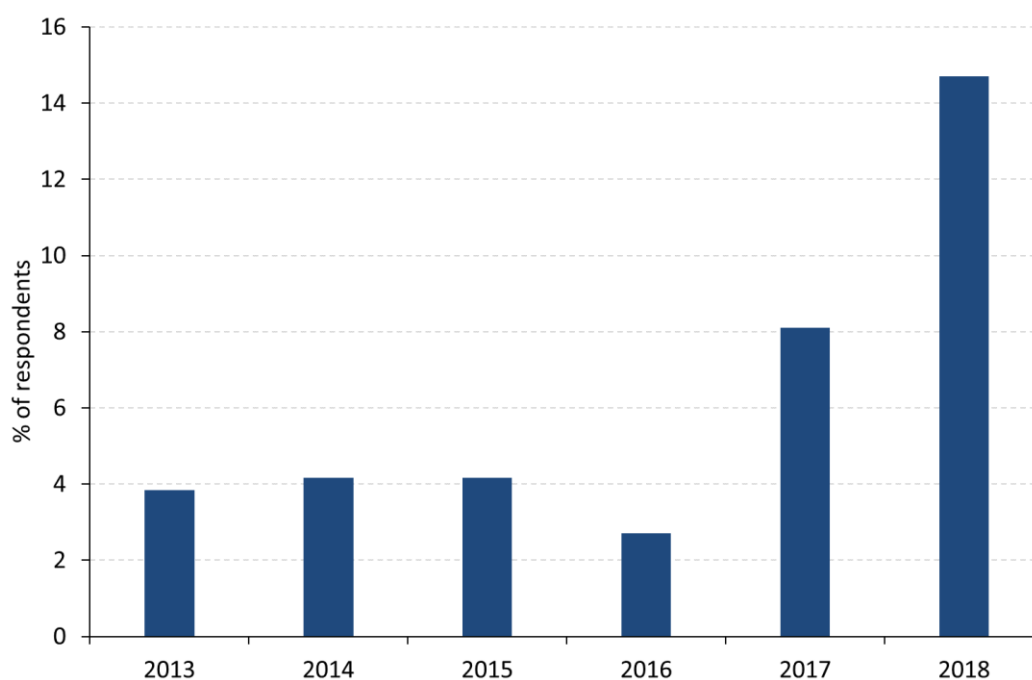


QUEENSLAND ECONOMIC OUTLOOK AND SKILL SHORTAGES MARCH 2018

Key findings

- Queensland's economy is recovering strongly in 2017-18. In the year to December 2017, state final demand grew by 2.6% p.a. and employment grew by 114,000 or 4.8% p.a. This was the strongest growth rate for jobs of any state in 2017. Queensland's growth is expected to accelerate in 2018-19, as mining output increases and activity becomes more broad-based across other industries and locations. The workforce will grow and skill shortages may emerge.
- As of late 2017, half of Queensland's CEOs expected to experience difficulty in finding and retaining skilled staff in 2018.
- As of late 2017, 15% of Queensland's CEOs expected skill shortages to be their number one impediment to growth in 2018, up significantly from any of the previous five years (chart 1).

Chart 1: Proportion of Queensland CEOs who rank 'skill shortages' as their top impediment to growth, 2013-2018



Source: Ai Group

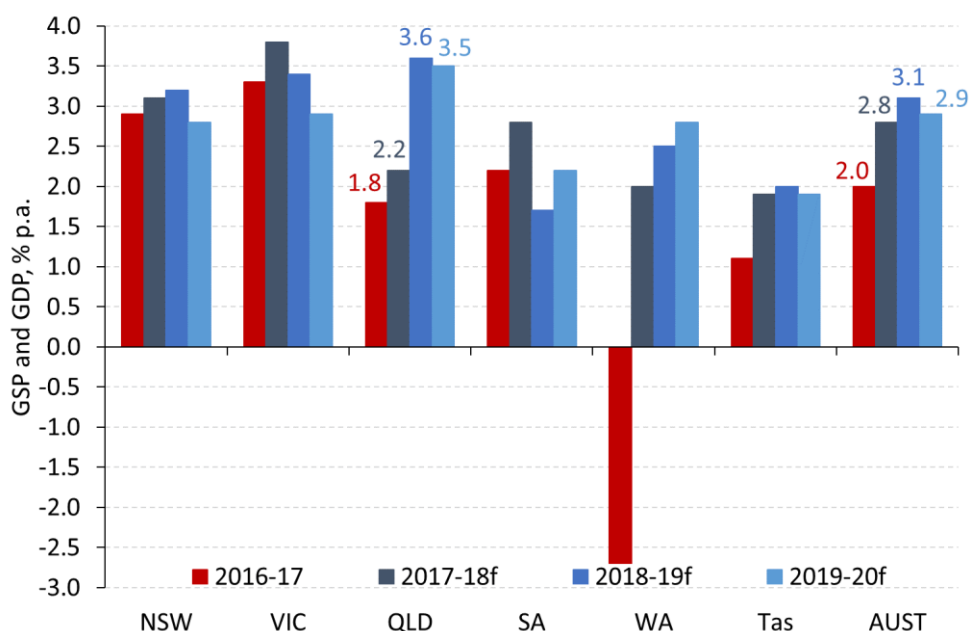
Queensland's economy is accelerating

Queensland's economic growth¹ improved modestly (in line with national output growth), accelerating to 2.6% p.a. in the year to December 2017. This is stronger than in recent years, as the lull in growth following the recent mining investment boom continues to dissipate. LNG exports are now providing a more significant contribution to growth in state output and exports. Elsewhere in the state, the recovery is becoming more broad-based across industries and regions.

NAB, Deloitte Access Economics and other private-sector Australian forecasters expect stronger growth nationally in 2018-19 – with GDP likely to accelerate above 3% for the first time in many years – followed by another slower patch from 2019-20, mainly due to an anticipated cyclical downturn in construction activity from current peaks.

Deloitte expects growth (GSP) will accelerate in 2018-19 in New South Wales, Queensland, Western Australia and Tasmania (chart 2). In Queensland, Deloitte expects output growth in 2018-19 (3.6% p.a.) to accelerate to double the rate achieved in 2016-17 (1.8% p.a.), before slowing a touch in 2019-20. This means Queensland is likely to grow at a faster rate than the national economy – and faster than most other states – in both 2018-19 and 2019-20. The recent announcement of defence industry contracts going to Queensland-based companies (announced after these forecasts and not included in them) adds to this positive growth outlook.

Chart 2: Economic growth* by state, 2016-17 to 2019-20



* annual GDP and GSP. Source: ABS *National Accounts* and Deloitte Access Economics.

¹ State final demand is the state equivalent of national 'domestic final demand' or total expenditure net of exports.

Ai Group's Performance of Manufacturing index (PMI) points to strengthening manufacturing activity in Queensland, with the Queensland PMI outperforming the **Australian PMI**[®] for most of the previous two years (see chart 3). Manufacturing employs about 165,000 people in Queensland and accounts for 6.8% of total employment. The **Australian PSI**[®] confirms a relatively softer services activity in Queensland (see chart 4), reflecting softer consumer spending and slow local retail trade growth towards the end of 2017. Inflation-adjusted retail sales in Queensland grew at only 0.3% p.a. in Q4 of 2017, the lowest level since 2010. Business-oriented sub-sectors are noting continuing demand from the construction and mining sectors, while consumer-oriented sub-sectors are reporting hesitant spending by consumers.

Chart 3: Australian and Queensland PMI, trend

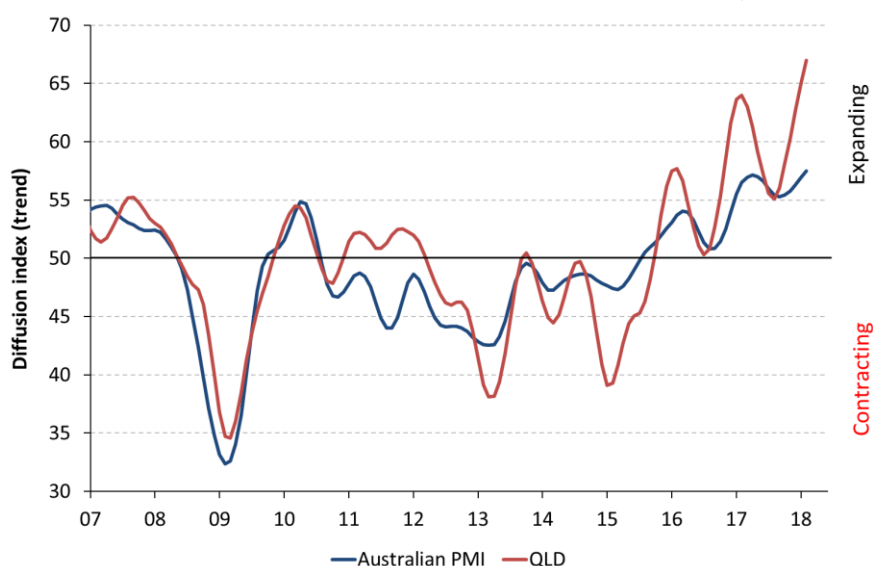
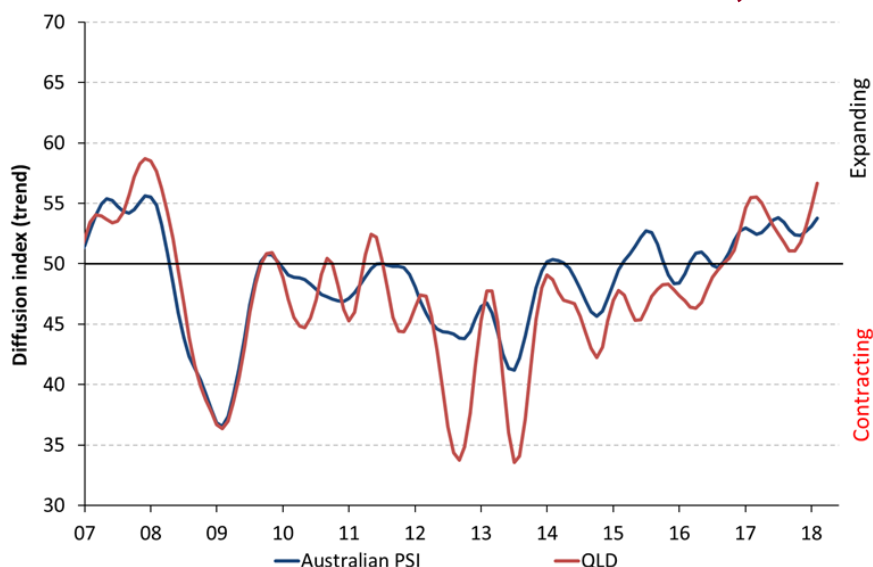


Chart 4: Australian and Queensland PSI, trend

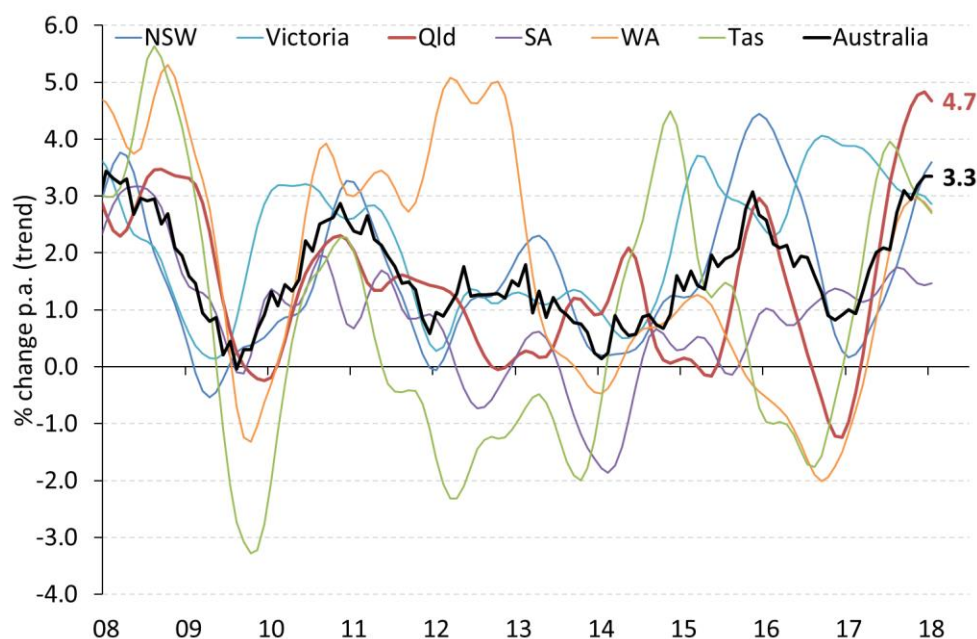


Source: Ai Group

Queensland's labour market is accelerating and tightening

In the year to December 2017, total employment in Queensland increased by 114,000 jobs or 4.8% p.a. (trend). This was the highest growth rate for jobs of any state in 2017. Jobs growth slowed a touch to 4.7% p.a. in January 2018 (trend) but remains well above the national jobs growth rate of 3.3% p.a. (trend) (chart 5).

Chart 5: Employment growth rates by state, to Jan 2018

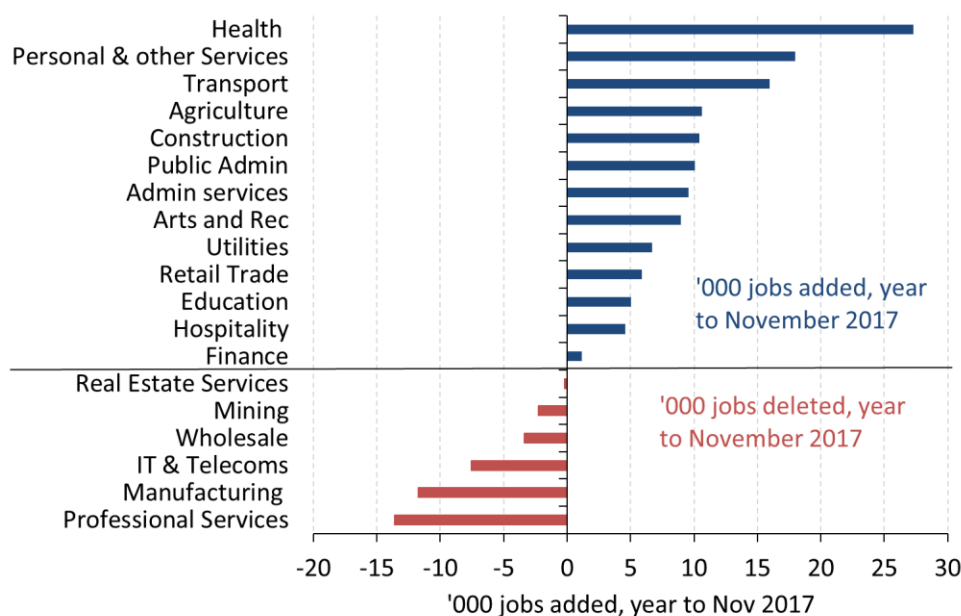


Source: ABS *Labour force Australia*.

The more detailed employment data indicate that of the 96,000 jobs added to Queensland's economy in the year to November 2017 (latest available at this level of detail), 27,300 (28% of all new jobs) were in the healthcare sector, which now employs 13.9% of all workers in the state. Other major industries that added 10,000 or more jobs in Queensland in the year to Nov 2017 included personal services, transport, agriculture, construction and public administration (chart 6).

Jobs were shed over the year to Nov 2017 in a limited range of industrial and business-oriented services segments including manufacturing, mining, professional services, telecommunications and retail trade. This closely mirrors national jobs growth patterns in 2017 and over recent years.

Chart 6: Employment growth in Queensland, year to Nov 2017



Source: ABS *Labour force Australia*, detailed quarterly.

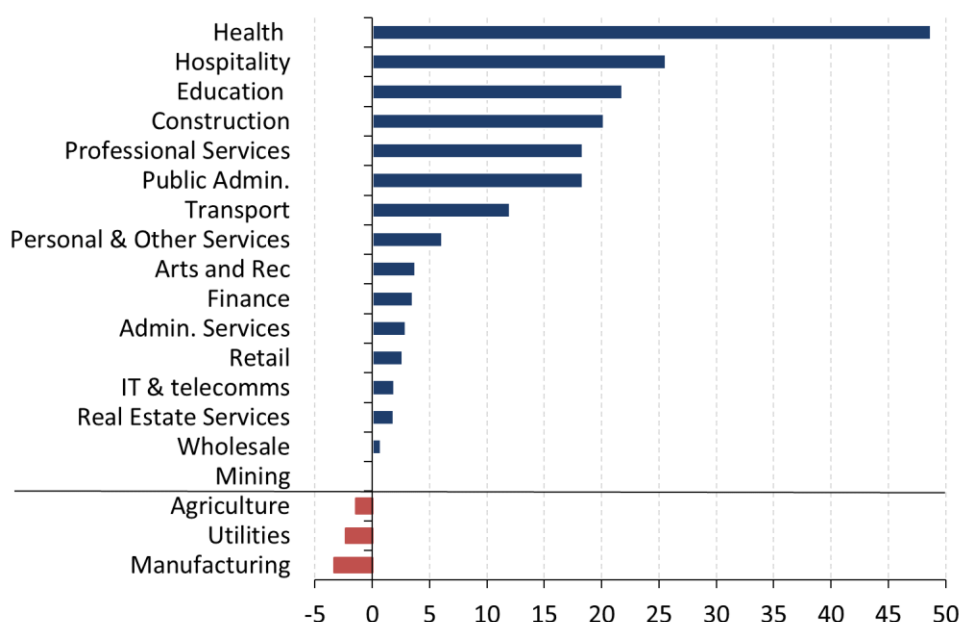
Looking ahead, the Australian Department of Jobs and Small Business expects Queensland to add a total of 181,300 jobs over the five years to 2022, compared with 2017 employment levels (up 7.6% over the five years from 2017 to 2022).² The Department expects Queensland will need to add significant employment numbers in:

- 48,700 jobs in healthcare;
- 25,600 jobs in hospitality;
- 21,800 jobs in education;
- 20,200 jobs in construction; and
- 18,300 jobs in each of professional services and public administration (see chart 7).

The Department of Jobs and Small Business had expected Queensland to lose a further 3,300 jobs in manufacturing over the next five years, as of November 2017. But recent positive developments in food and other segments of manufacturing plus the announcement of new defence industry contracts all suggest that manufacturing is more likely to add (or at least recover) jobs than to shed jobs over the next five years in Queensland.

² Department of Jobs and Small Business, *Employment projections for the five years to May 2022* Nov 2017.

Chart 7: Expected employment growth in Queensland, five years to 2022



Source: Department of Jobs and Small Business, *Employment projections for the five years to Nov 2017*.

Queensland's unemployment rate (6.0% in Jan 2018, trend) has fallen from recent highs of one year ago (6.3% in Jan 2017, trend) and three years ago (6.7% in Jan 2015, trend), but it remains above the national average (5.5% in Jan 2018, trend). Queensland's underemployment rate (the proportion of the labour force who are working part-time but would like to work more hours) is also above the national rate, at 9.5% in Jan 2018 compared to 9.1% nationally. This suggests Queensland still has a reasonable degree of spare capacity in its labour market (that is, people available to work more hours) but that this reserve of local spare capacity is steadily diminishing.

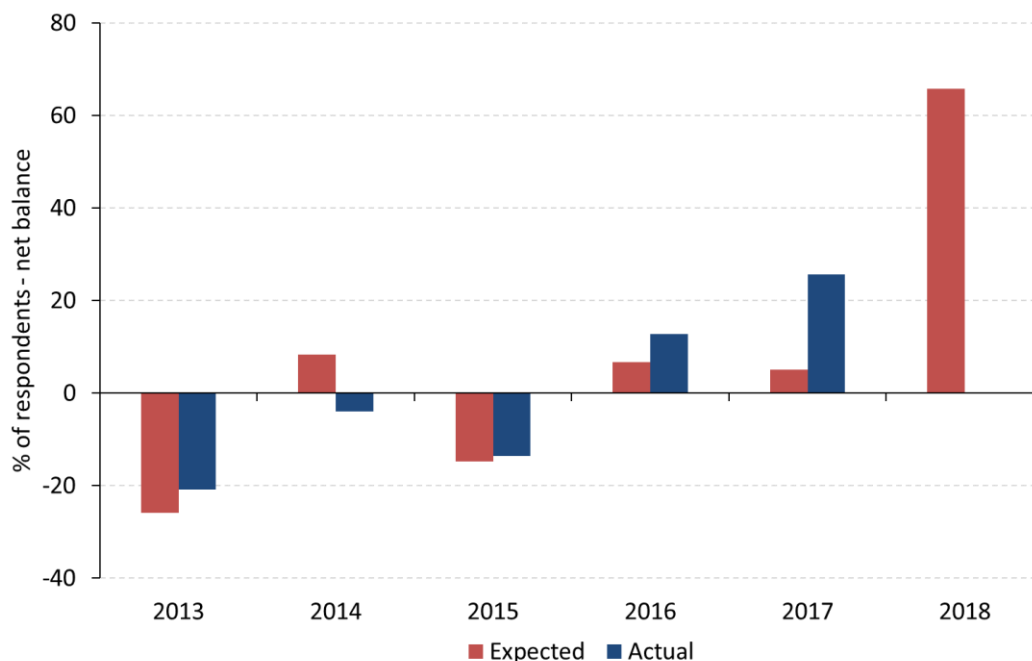
Queensland CEOs want to employ skilled, local staff

Strong demand for labour is already leading to the emergence of skills shortages in Queensland, a situation that has not been seen since the height of the mining investment boom over five years ago. Feedback from a wide range of businesses in sectors including manufacturing, construction and defence suggests that skill shortages are re-emerging as a leading concern for businesses.

Ai Group's survey of CEO expectations for 2018 suggests Queensland CEOs are more optimistic in 2018 than at any time in the past five years. And, for the first time since 2012, most of them expect to increase their employment this year. In Queensland in 2018, 71% of CEOs expect to increase employment in their business while 23% expect no change and just 6% expect to decrease employment (resulting in a net balance³ of +66%, see chart 8).

³ 'Net balance' is the proportion of all survey respondents that increased employment minus the proportion that decreased employment.

Chart 8: Percentage of Queensland respondents increasing/decreasing employment, expected vs actual, 2013-2018



Source: Ai Group

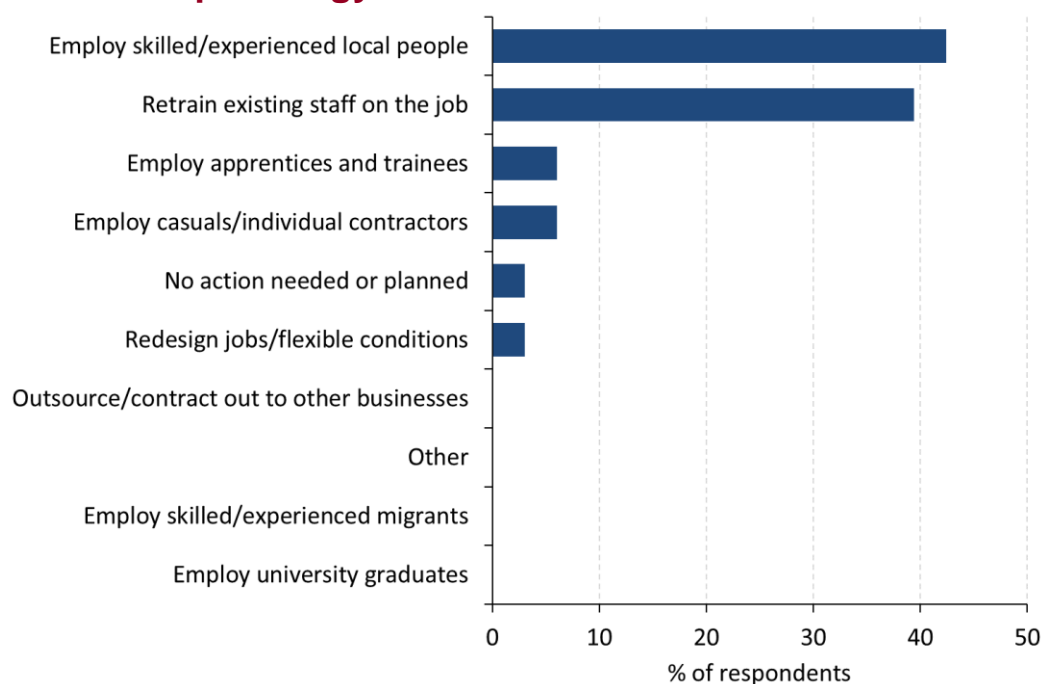
Note: 'Net balance' is the proportion of all survey respondents that increased employment minus the proportion that decreased employment.

This jobs growth will come on top of the 22% of Queensland CEOs (net balance) who reported that they actually increased employment in their business in 2017, which was well above the proportion who had been planning to do so when asked about their annual plans one year earlier.

Reflecting this rapid acceleration in demand for labour – and strengthening signs of a broader recovery in Queensland – 15% of CEOs are concerned that skills shortages will be their number one impediment to growth in 2018, up significantly from any the previous five years (chart 1).

In response to this concern about meeting labour and skill needs in their business in 2018, 42% of Queensland CEOs plan to focus firstly on hiring new, experienced local people. A further 40% will look first at retraining their existing staff, 6% will hire more apprentices and 6% will hire more casuals or contractors (see chart 9).

Chart 9: Top strategy to meet labour and skill needs in 2018



Source: Ai Group

Skill shortages could limit Queensland's economic potential

Although 42% of CEOs hope to hire skilled local people as their first response to rising demand for labour in their own business, approximately half of Queensland businesses are expecting difficulty with finding and retaining skilled staff in 2018. In particular, CEOs are finding it increasingly difficult to recruit people with suitable Science Technology Engineering and Maths (STEM) skills.

Queensland CEOs reported they expect difficulties in 2018 across all trade, technician and paraprofessional occupations, including finding boiler makers, welders, estimators, specialty services, mechanical engineers, sheet metal worker, estimators, draftsmen, trade qualified machinists and factory supervisors.

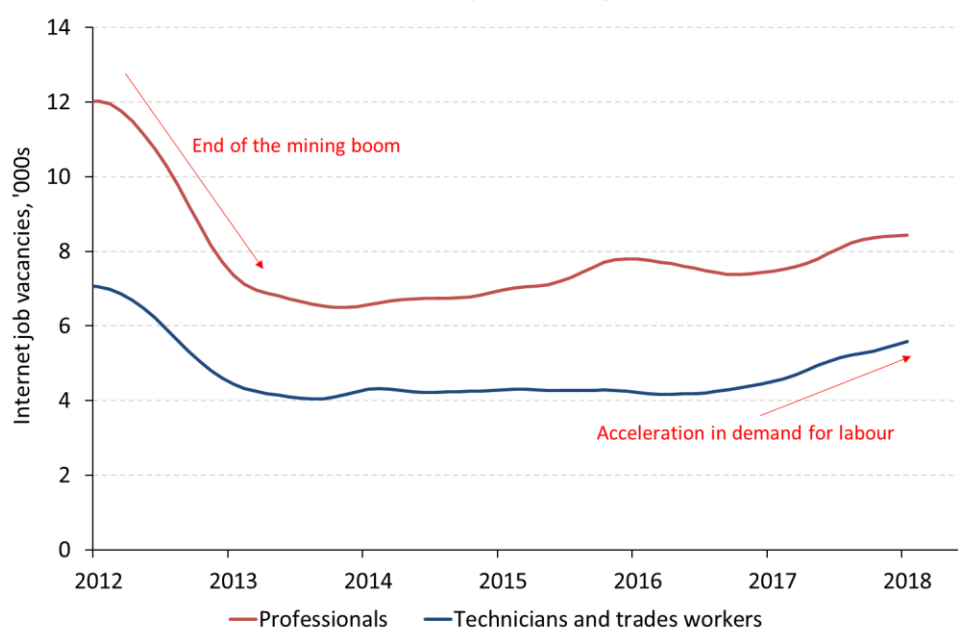
Recent job ads data suggest this is in line with strong national demand for STEM skills. Nationally, SEEK job ads data in the quarter to January 2018 demonstrate that jobs ads growth was fastest (on a yearly basis) for 'mining, resources & energy', followed by 'trade & services', 'engineering' and 'science and technology' jobs. Similarly, the Department of Jobs and Small Business Internet Vacancy Index (the only publicly available source of detailed data of online vacancies, including for around 350 occupations at all skill levels) confirms a long-term rise in demand for technician, trade worker and professional occupations nationally and in Queensland.

In Queensland there were 5,600 internet job vacancies advertised for Technicians and Trades workers as of January 2018, up 23.6% p.a., and over 8,000 vacancies for professional workers

(chart 10). Most (if not all) of the occupations within these two major occupational categories will require specific and high-level STEM skills.

Robust STEM skills are increasingly central to the future workplace. As well as shortages in traditional occupations, Queensland's businesses increasingly need people who can adapt traditional skills to the needs of the digital economy and the disruption currently happening in workplace structures.

Chart 10: Queensland internet job advertisements, three-month moving-average



Source: Department of Jobs and Small Business, *Internet Vacancy Index*

Appendix A: CEO Business Prospects 2018 survey participants

Responses were received from the CEOs of 269 private-sector businesses across Australia in October and November 2017. Together, these businesses employed around 43,000 people (170 people each on average) and had an aggregate annual turnover of around \$20 billion in 2017. Responses were received from 40 private-sector businesses in Queensland which employed around 6,000 people and had an aggregate annual turnover of around \$1.2 billion in 2017.

All Australian states, and all major non-farm private-sector industries are represented in this year's CEO survey. The manufacturing sector contributed the highest proportion of respondents (69%). Manufacturing's share of this sample is higher than its share of national production (5.8%). Victoria was somewhat over-represented in the sample, relative to other states.

CEO Survey: Business Prospects 2018			ABS data (2016-17)
Industry	Number of respondents	% of respondents	Value added output, % of GDP
Manufacturing	186	69.1	5.8
Services	51	19.0	54.7
Construction and mining services	32	11.9	7.4*
Total	269	100.0	67.9**

CEO Survey: Business Prospects 2018			ABS data (2016-17)
State	Number of respondents	% of respondents	Gross state product, % of GDP
NSW	75	27.9	33.0
Vic	128	47.6	22.6
Qld	40	14.9	18.2
WA	3	1.1	13.8
SA	22	8.2	6.0
Tas	1	0.4	1.7
Total	269	100	96.3%

*only includes construction value added output.

** These industries do not sum to GDP due to the exclusion of utilities (2.4% of GDP), public administration and safety services (5.5%), agriculture (2.4%), mining other than mining services (5.8% of GDP), ownership of dwellings (8.7% of GDP) and other additional statistical items that are included in GDP.

The services sectors represented in this sample include: IT, communications and media services; transport, post and storage services; wholesale trade; retail trade; finance and insurance; real estate and property services; professional services; administrative services; health and welfare services; education; hospitality (food and accommodation services); arts and recreation services; and personal services.

Ai Group Economics and Research Team

Julie Toth	Chief Economist	(03) 9867 0124
David Richardson	Senior Economist	(02) 9466 5456
Colleen Dowling	Senior Research Analyst	(03) 9867 0251
Andrew Bridger	Economist	(03) 9867 0231
Molly Knox	Research Assistant	(03) 9867 0108