

JULY 2023

CAIRNS REPORT

A monthly snapshot of the
Far North Queensland economy



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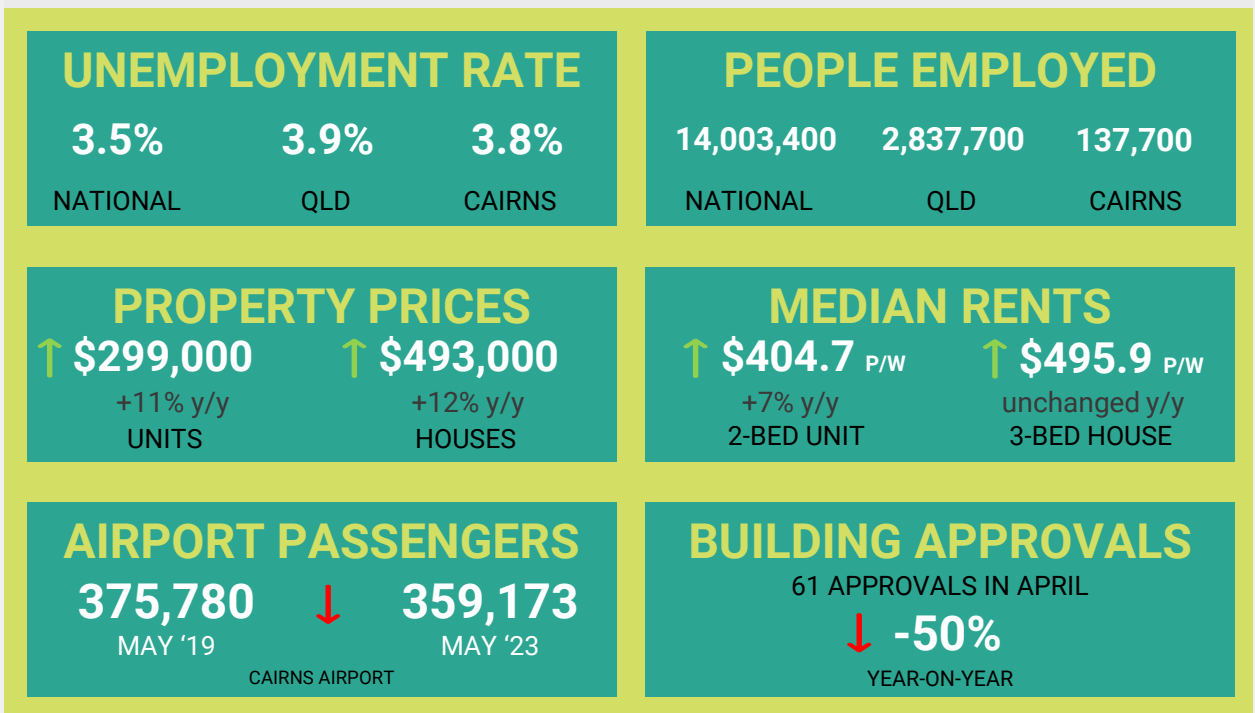


EMPLOYMENT: A variety of factors has seen the Cairns Trend unemployment rate fall back again in May, for the third consecutive month, to 3.8%. **MORE > Pages 3 - 6**

BUILDING APPROVALS: The steady decline in Trend building approvals numbers we have seen over the past two years has taken the level back to that seen prior to the pandemic. **MORE > Page 8**

TOURISM: The data from Cairns Airport for May shows that the slow and steady improvement in passenger numbers continues. **MORE > Pages 9-10**

REAL ESTATE: Although the number of sales does seem to have tailed off since the highs in mid-2012, property prices continue to track ever higher by 11% - 12% for both houses and units. **MORE > Pages 11-13**



All data relates to Cairns unless otherwise stated.
 The most current data set available before publication is used throughout The Cairns Report.
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For the second consecutive month Trend employment in Cairns lifted again in May (+500).

However, as we noted last month, full-time employment actually decreased 800 with part-time employment lifting strongly. All the shifts in the employment data this month came from the female cohort with male data unchanged over the month.

Nationally, this month sees another solid increase with Trend employment lifting another 39,800 in May to take total Trend employment above 14 million for the first time. Hours worked per capita also improved and hit levels not seen since September 2008. The labour market appears to still

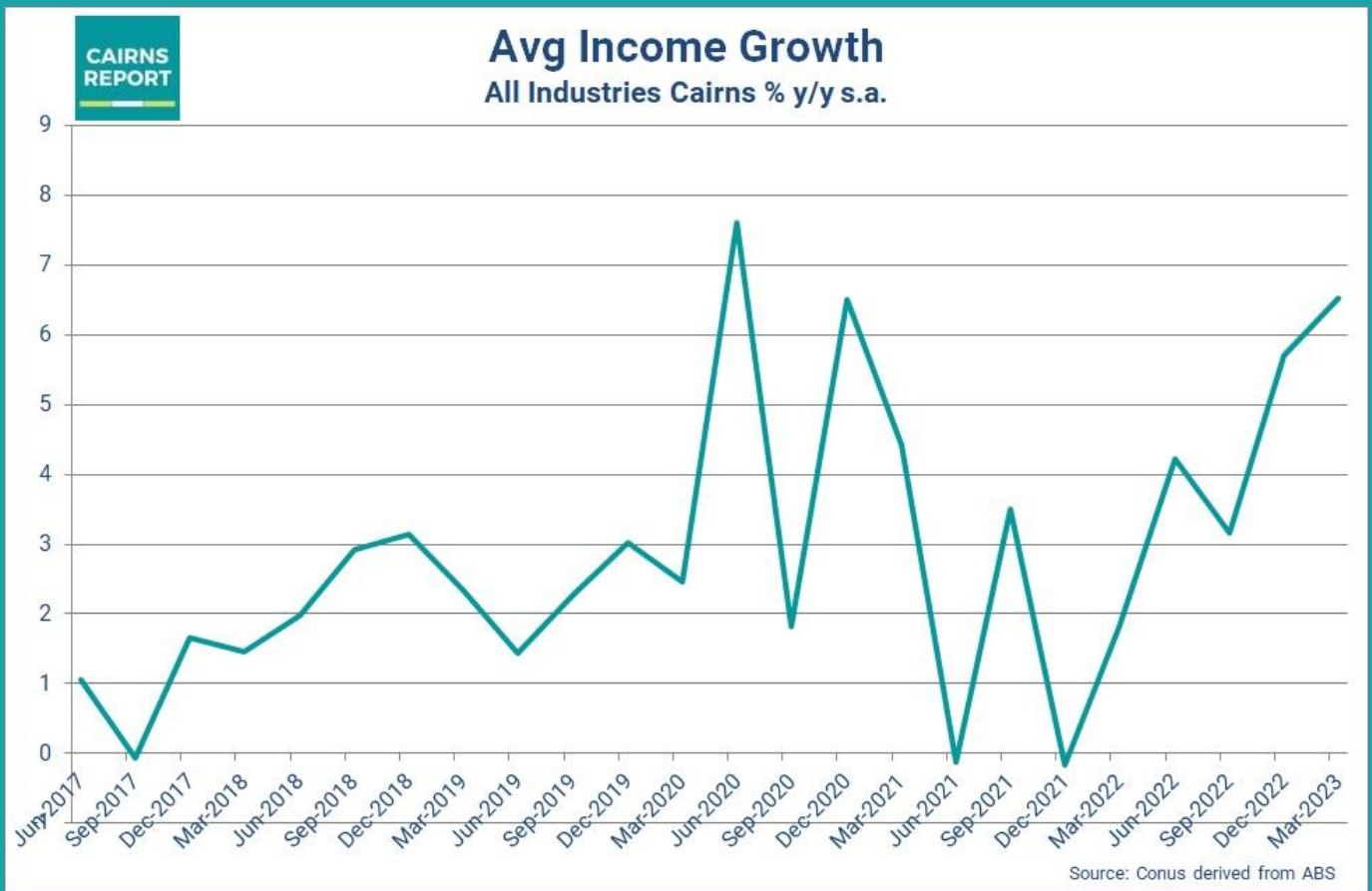
PEOPLE EMPLOYED

14,003,400	2,837,700	137,700
NATIONAL	QLD	CAIRNS
↑	↑	↑
LAST MONTH		
13,963,600	2,826,300	137,200

Queensland saw a similar story play out with strong upward revisions and a solid lift in Trend employment taking the total number employed to a new record high. Of particular note was a very robust increase in full-time employment in Queensland; full-time employment is up 2.7% over the year. Hours worked per capita also increased strongly to a near-decade-long high.



While average incomes rose by 5.4% y/y nationally, in Queensland our estimation (based on the raw ABS data and our Trend quarterly industry employment data) suggests the increase was +6.0% y/y in Queensland and an even healthier +6.5% in Cairns (the third best region, only just behind Central QLD and the Gold Coast which both registered +6.6% y/y).






In Cairns the story of the labour market in May centres solidly on the female cohort, with all of the increase in Trend employment courtesy of females moving into part-time employment.

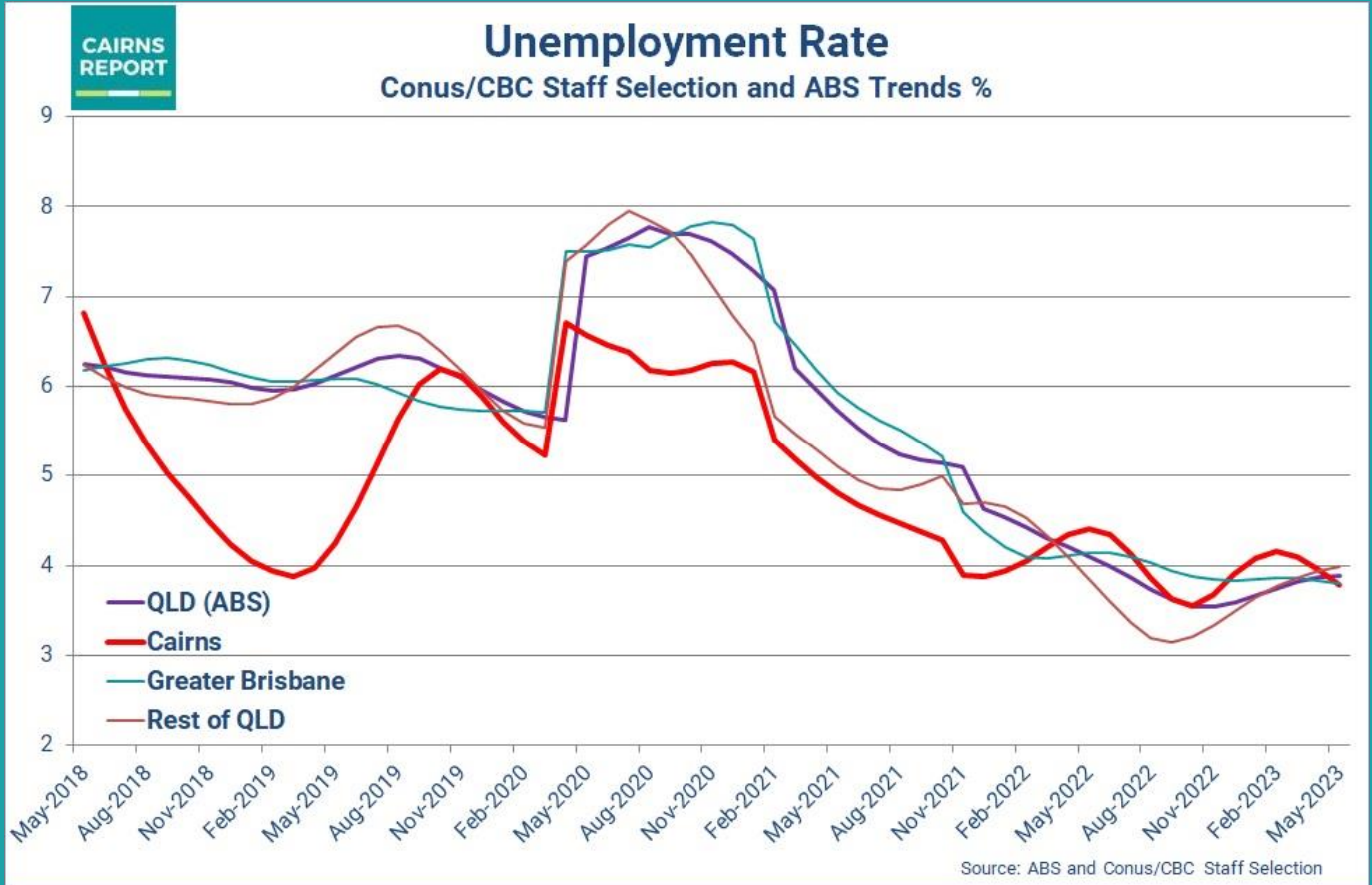
This saw the female unemployment rate drop to just 2.6% with the male rate at 4.8%. Revisions to previous month's Trend estimates, declines in participation rates, and the increase in employment noted earlier has seen the total Trend unemployment rate fall back again in May, for the third consecutive month, to 3.8%.

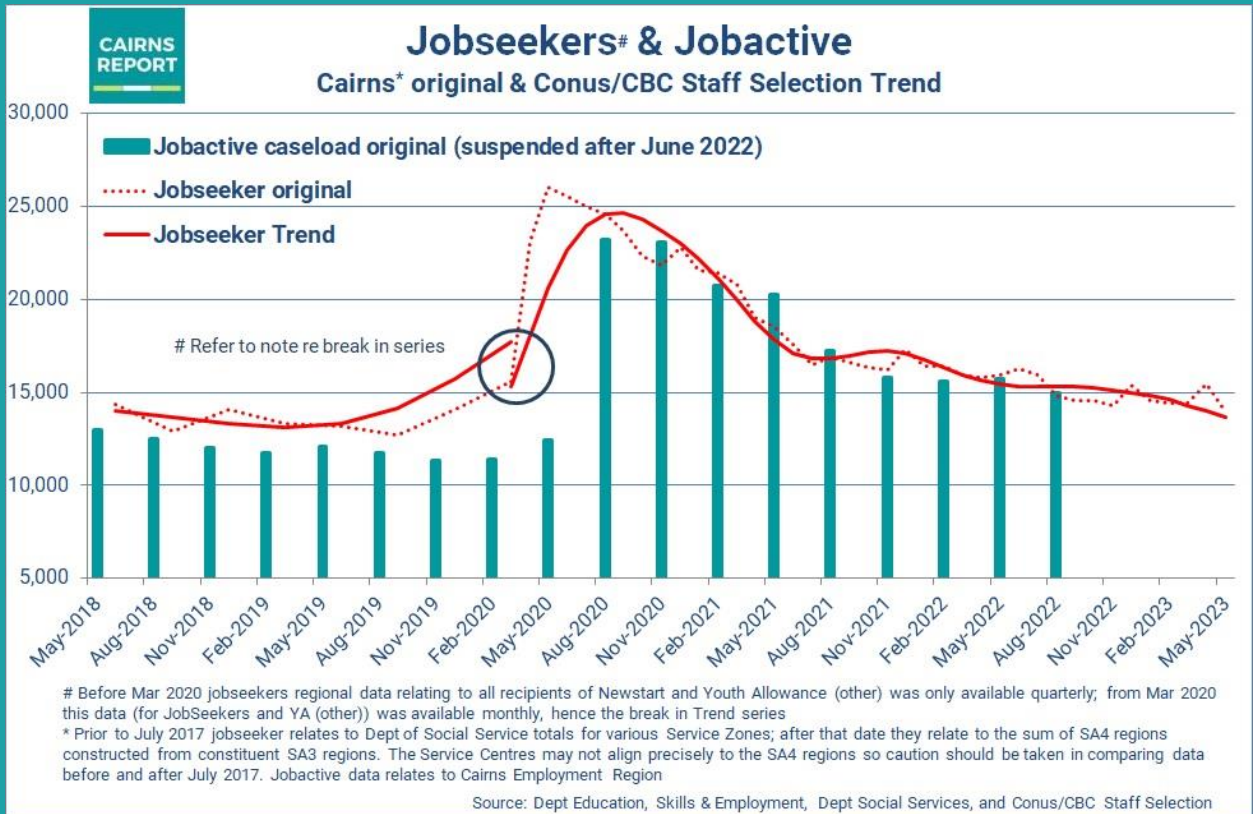
The strength in the labour market noted on the previous page showed up as a downward revision in the national Trend unemployment rate in

UNEMPLOYMENT RATE

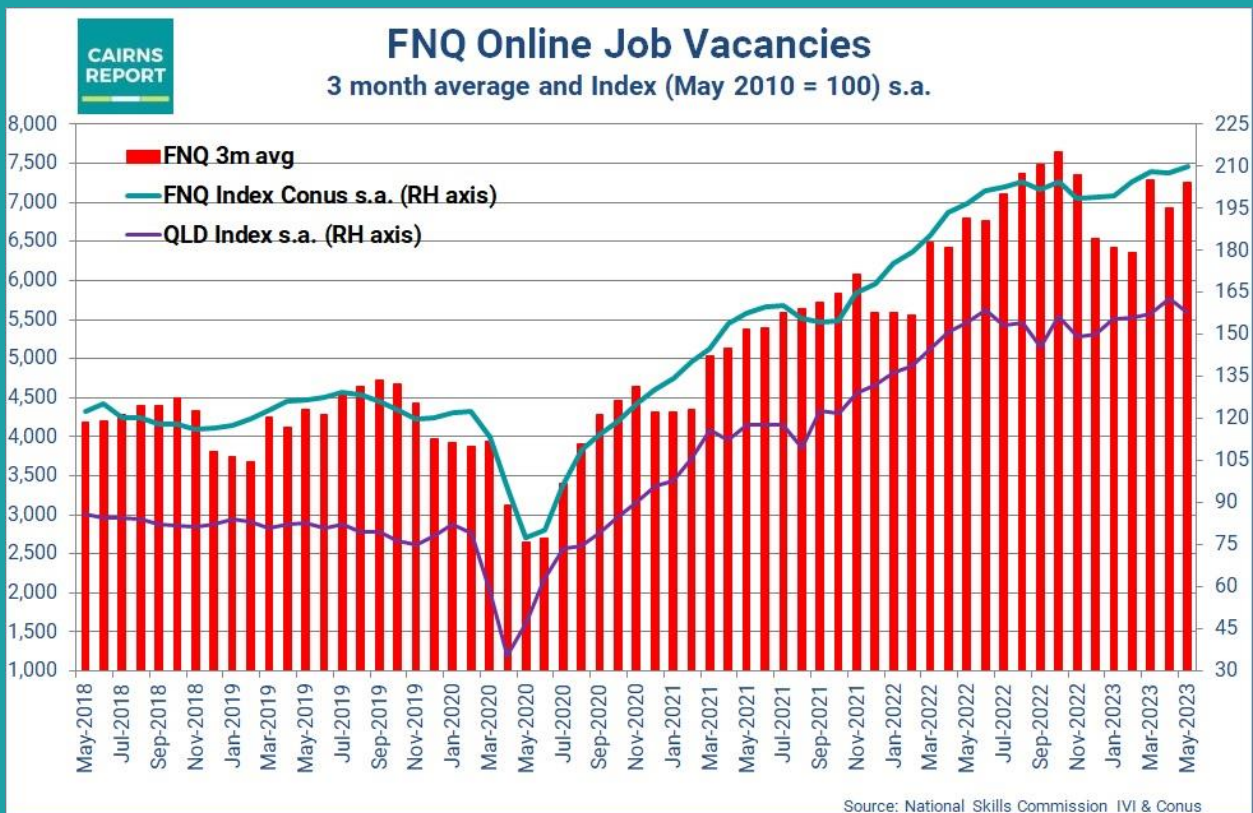
3.5%	3.9%	3.8%
NATIONAL	QLD	CAIRNS
		
	LAST MONTH	
3.5%	3.9%	3.9%

April to 3.5%, where it remained in May due to an increase in the participation rate to a new record high. At the State level we see the unemployment rate in Queensland also stable at 3.9% in May (although in Queensland the revision to the April rate was slightly upwards), also on the back of an increase in participation.



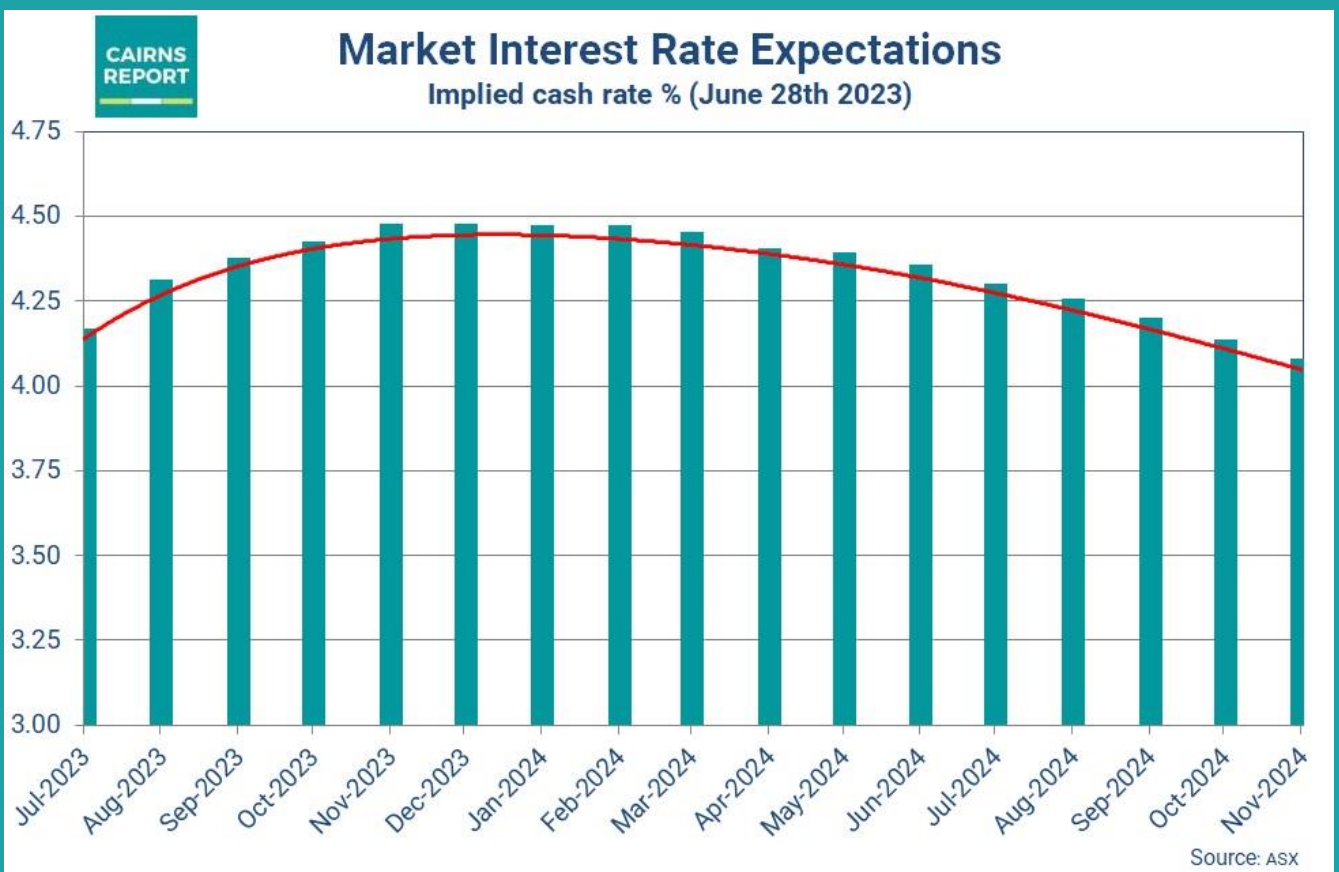


JobSeeker numbers in the region fell in May (after a small up-tick in April), with the Trend series now demonstrating a clear move lower over the past 6 months. The Trend for Online Job Vacancies also hit a new record high with original numbers lifting in May. The data is certainly showing, and anecdotal evidence supports the sense, that the labour market in Cairns remains tight.



Monthly inflation data for May showed a greater-than-expected slowing in inflation (5.6%) which gave the Reserve Bank reason to pause the interest rate when they met on the first Tuesday of July.

While the markets may be pricing some possibility of another 35bps of rate hikes before the end of the year they are also projecting that rate cuts could start as early as the first half of 2024 with rates back below current levels by the end of next year.



Our estimate of trend regional building approvals continues to drift lower (61 in April) and is now down almost 50% for the year.

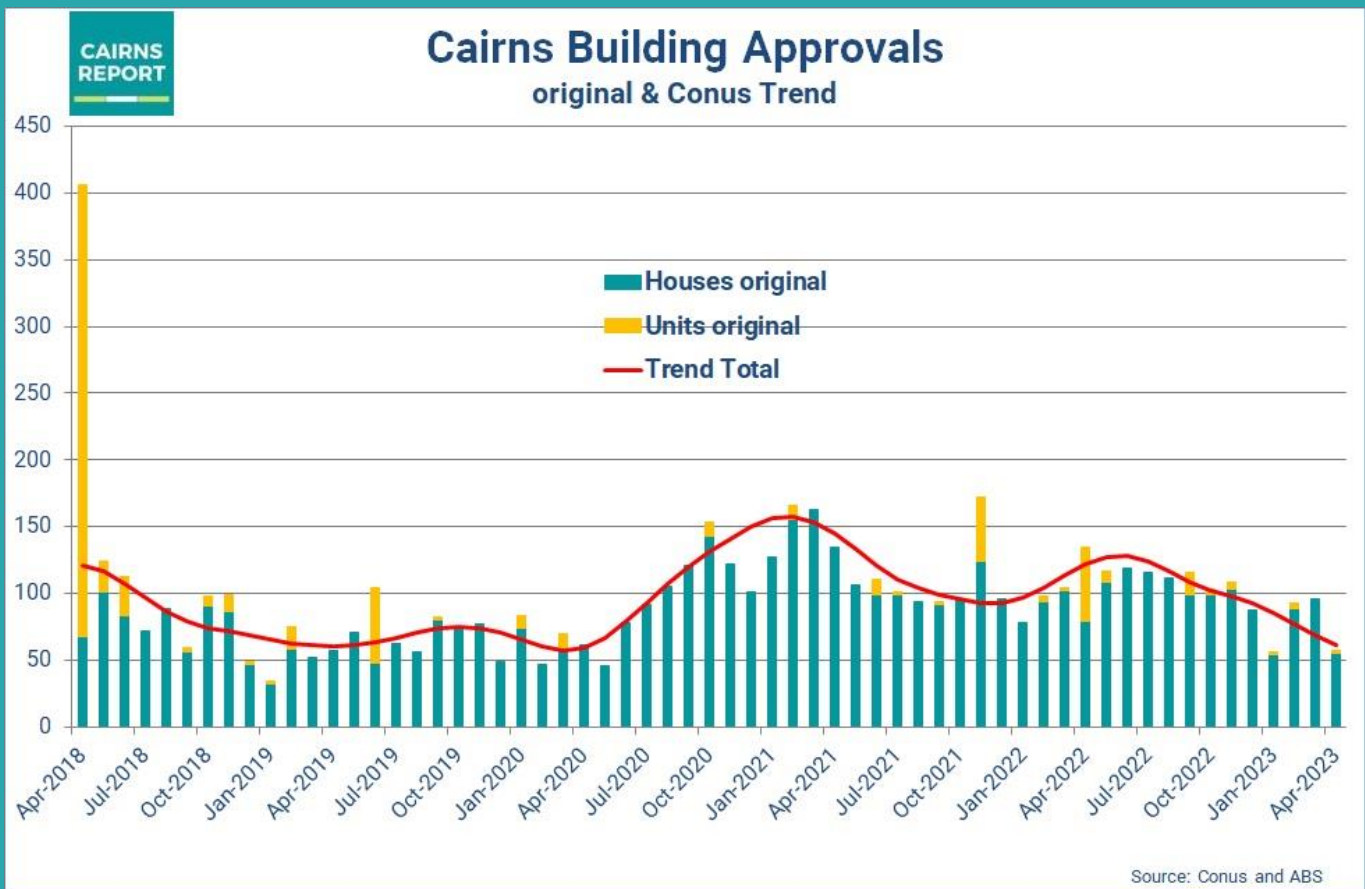
The steady decline in Trend building approvals numbers we have seen over the past two years has taken the level back to that seen prior to the pandemic. The COVID-induced ramp up in building approvals appears to have run its course.

HOUSES

▼ -50%

Building approvals change year-on-year
Latest trend approvals = 61

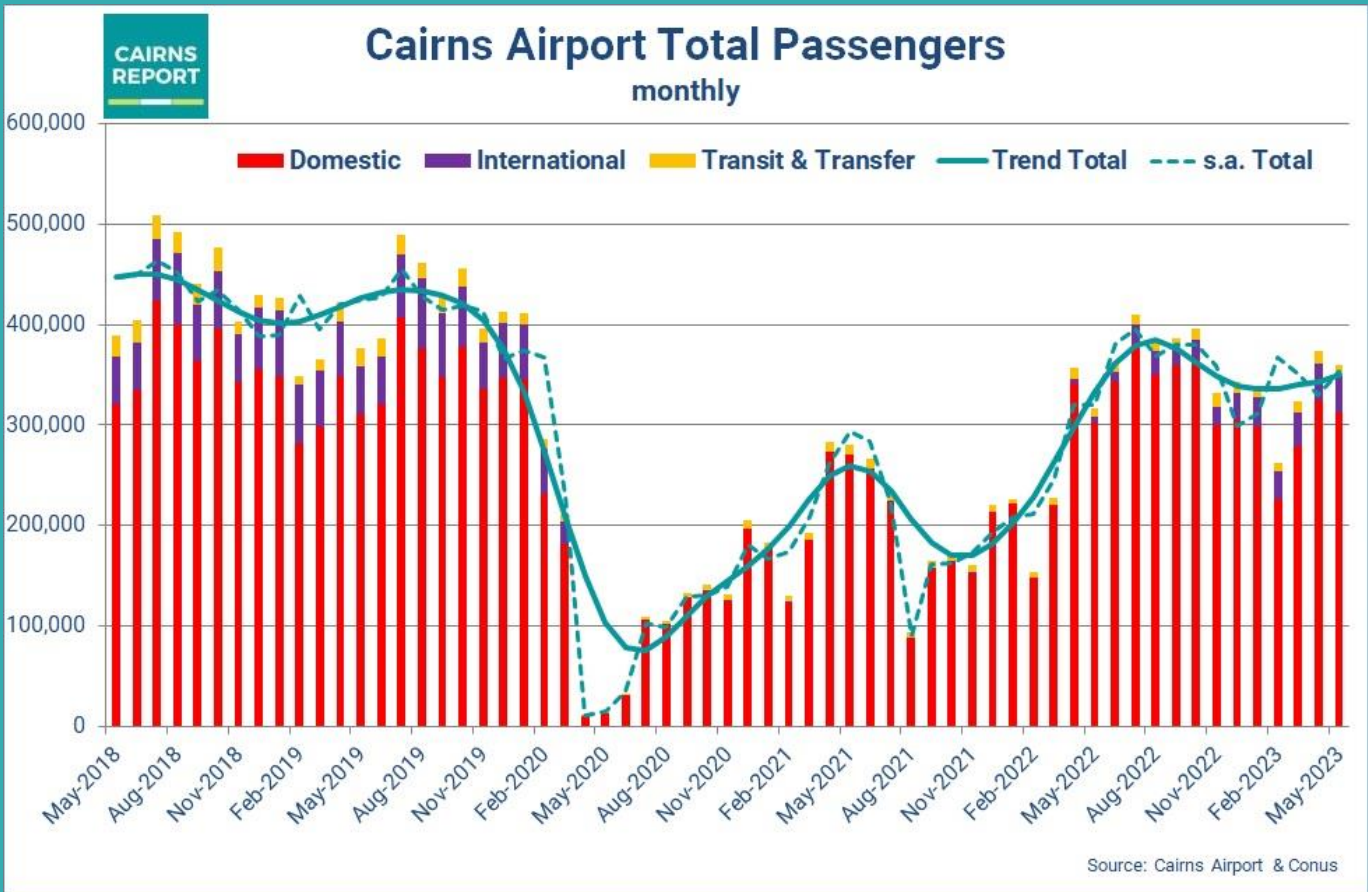
Nevertheless, the pipeline of approvals built up during the period to the middle of last year should keep the construction sector busy until the end of this year.



PASSENGERS
375,780 ▼ **359,173**
 MAY '19 MAY '23

The data from Cairns Airport for May shows that the slow and steady improvement in passenger numbers continues. Our Trend estimate suggests that total monthly numbers are now close to 350,000, although this is still well down from pre-COVID levels. Clearly most of this short-fall is from the international sector where passenger numbers, despite

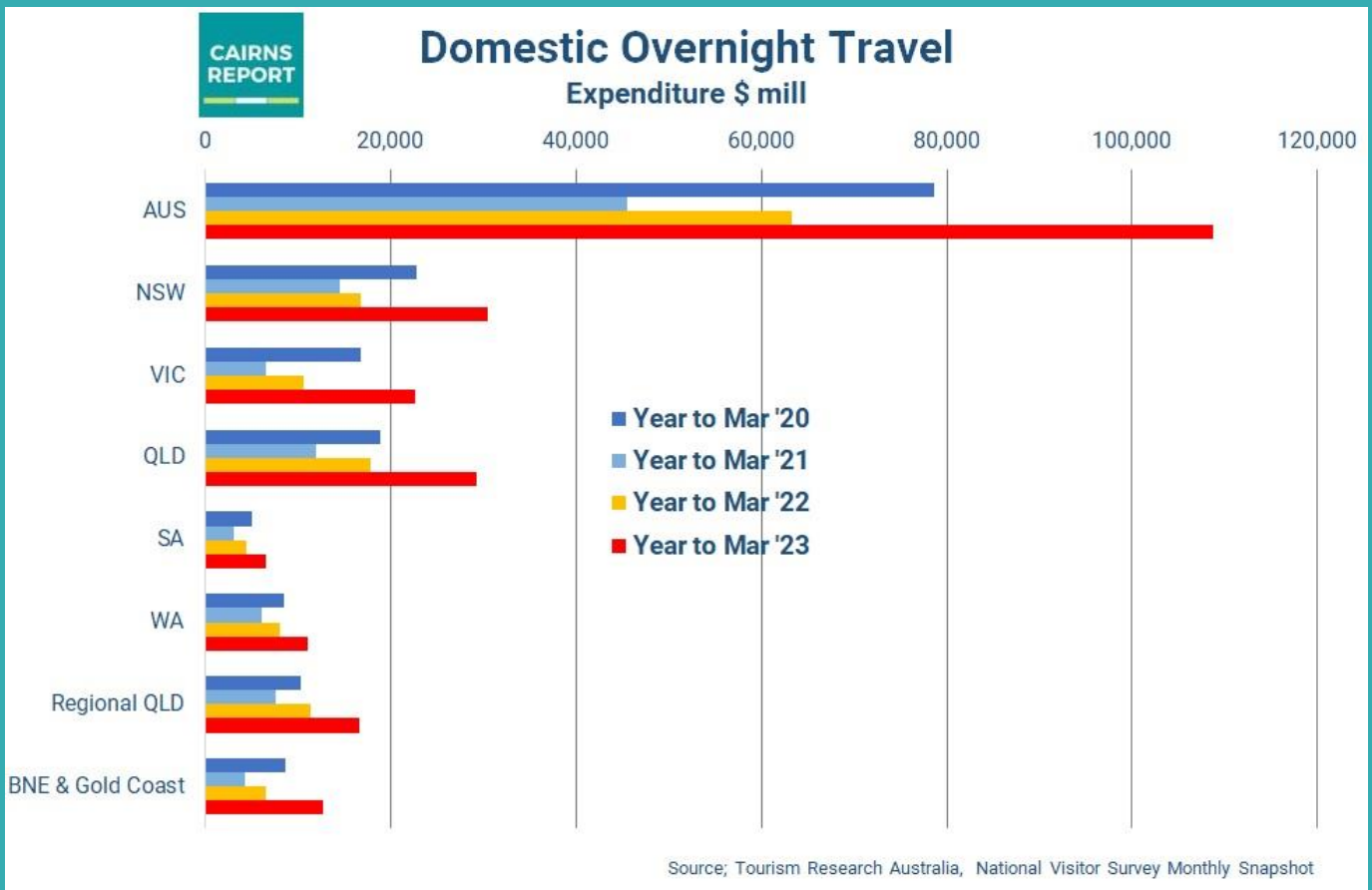
continuing to recover, remain about 26% below their pre-COVID levels. This short-fall was 35% when we wrote last month, so clearly things are improving.



The monthly overnight domestic tourism data to March 2023 shows domestic tourism expenditures across Australia remain strong.

The national annual figure for the previous 12 months is 38% above that seen in the final 12-month period prior to the COVID pandemic (year to March 2020). Over the same period Queensland has been a particularly strong performer and domestic tourism expenditure for the past 12 months now sits 55% higher than it was for

the last pre-COVID year. Regional Queensland has performed even better and in the 12 months to March total domestic expenditure was 62% above the level for that final pre-COVID year. The detailed quarterly data for the year to March 2023 quarter showed that domestic overnight tourism expenditure had remained similar to the year to the previous quarter, at \$4.3 bn.

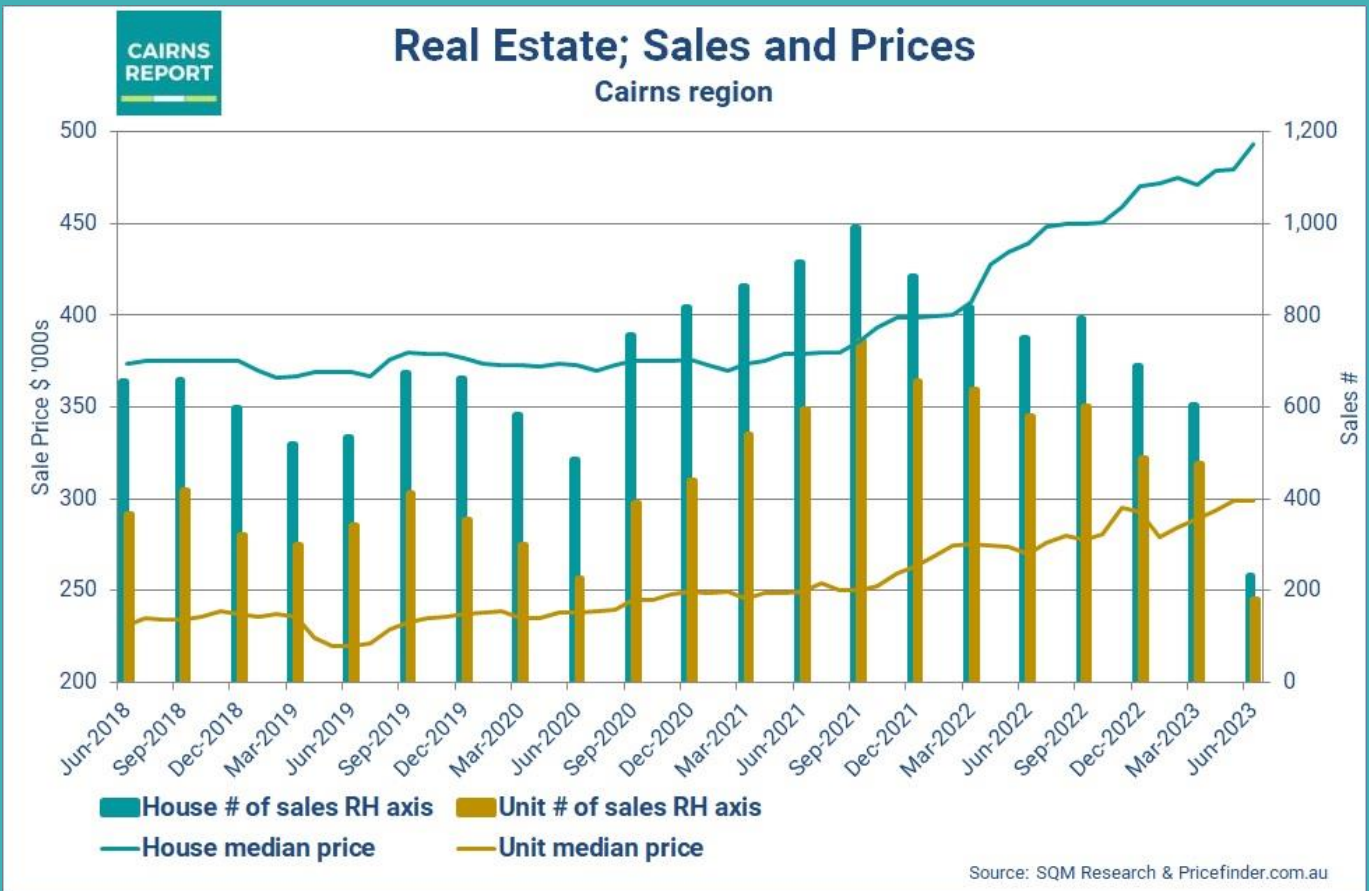


Despite the run of interest rate hikes, we are still not really seeing evidence of a clear impact on real estate prices in Cairns. Although the number of sales does seem to have tailed off since the highs in mid-2012 prices of both houses and units continue to track ever higher with both 11-12% higher over the past year.

MEDIAN PRICES

▲ **\$299,000** ▲ **\$493,000**
 UNITS HOUSES
+11% y/y *+12% y/y*

Source: SQM Research



RENTAL VACANCY RATE

The rental vacancy rate has been rising slowly over recent months and in May sat at 1.0%, as high as it has been in the past 2 years, but still historically very tight. Rental vacancy rates in Cairns haven't been more than 1% since March 2021.

1.0%

MAY '23

0.6%

MAY '22

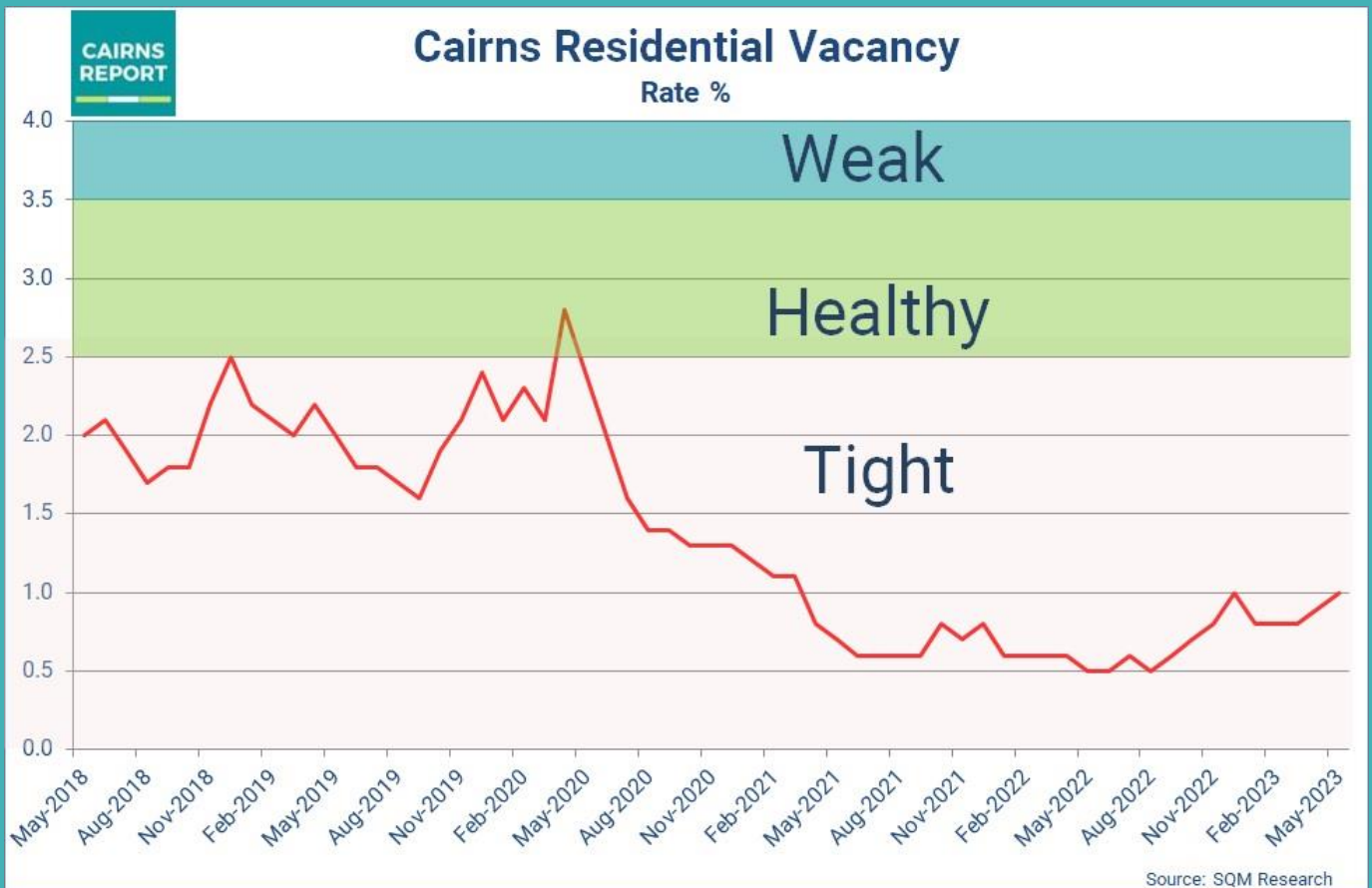
2.4%

MAY '20

2.1%

MAY '18

Source: SQM Research



Although rents for 3-bedroom houses lifted a little this month they now sit virtually unchanged from a year ago having been up 18% y/y back in June 2022.

It is clear that the rapid upward trend in house rents has stabilised over the past 9 months with weekly rents for a 3-bedroom property fluctuating a little above and below \$500 pw during that time. Unit rents, on the other hand, appear to be

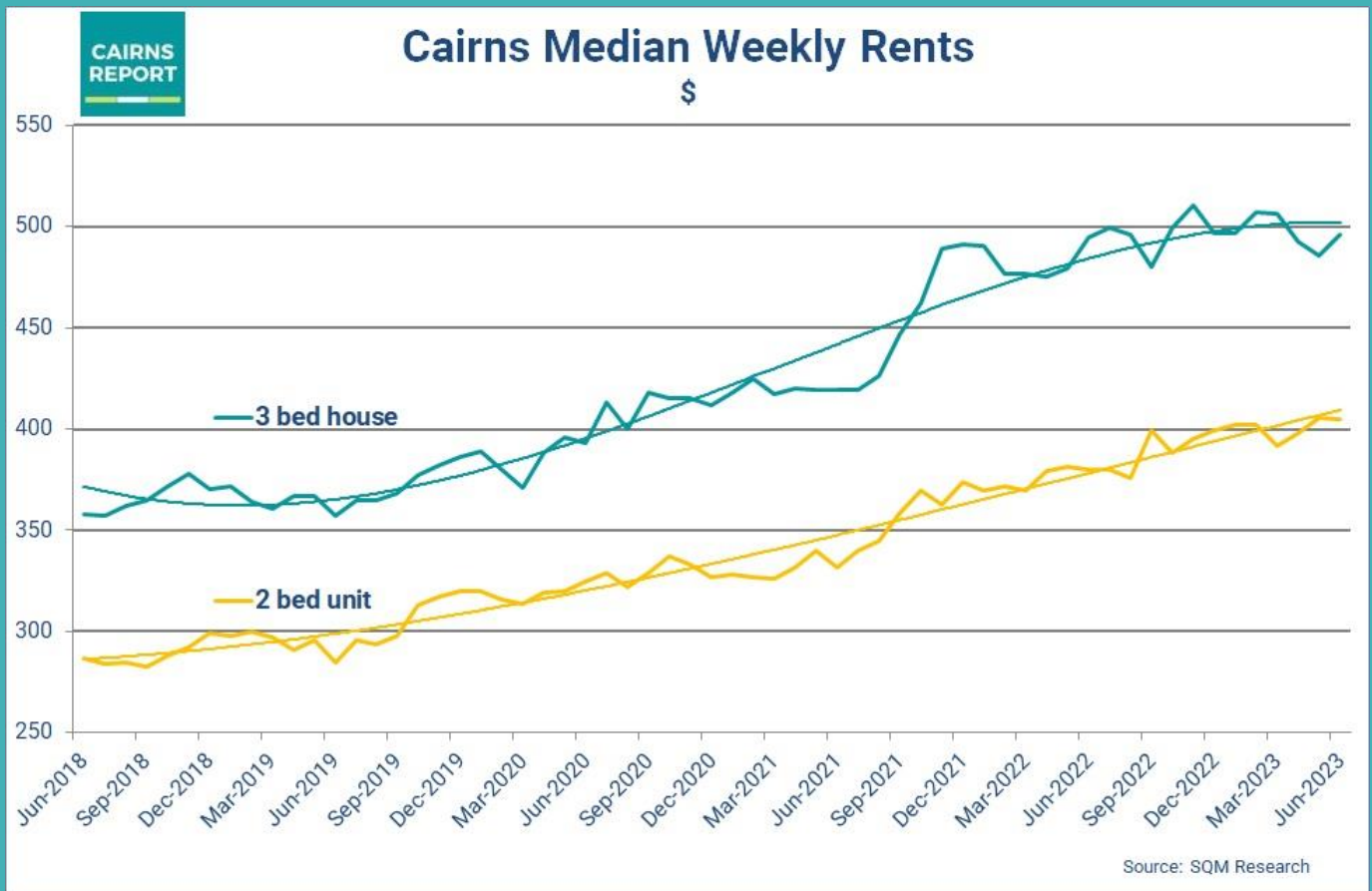
somewhat more robust and remain almost 7% higher over the year, although the previous rate of increases seen in unit rents never quite matched that of houses. The tight rental market in Cairns is very much in play still.

MEDIAN RENTALS

\$404.7
UNITS p/w
+7% y/y

\$495.9
HOUSES p/w
unchanged y/y

Source: SQM Research





The *Financial Review* published a story on June 23 titled “Like somebody turned the tap off: Demand for holiday rentals slumps”. The story was essentially saying that demand for holiday rentals has softened “as households slash discretionary spending”. There is no doubt that ‘21 and ‘22 were extraordinary years with regards to the income produced by properties rented for short term stays... but demand is definitely still very strong for our holiday market. In 2019 we were already feeling an upturn in visitor numbers which was turbocharged by mass domestic travel during Covid. The underlying appeal of our region (ease of travel, good airport, many accommodation options, natural beauty, great restaurants etc etc) coupled with the low AUD should keep holiday rental incomes stable for the foreseeable future.

We manage over 60 holiday houses and apartments and our agents have long specialised in selling property used for short term stays (the majority of which are located on the Northern Beaches and in Cairns City). I have always recommended anyone buying into that market to make the income secondary to the lifestyle benefits the property can bring. That is, the joy you get from the property will ultimately come from using it and the income can take the edge if ownership costs.



Nicholas Slatyer
*Belle Property
Cairns*



Ranjit Singh
Holding Redlich

The housing crisis in Cairns (and across Queensland) continues to deepen and is increasingly becoming an impediment to attracting people to the region. Affordable housing in particular needs to be given priority by all levels of government. For the most part, Governments have been making the right noises and committing significant funding to address the housing crisis but it’s not translating to action on the ground. Building small affordable housing developments of 4, 6 or 8 units at a time won’t make a dent in the overwhelming demand – we need swifter, bolder responses to the current crisis.



Kelly Graham
Senior Manager
Audit & Risk
Grant Thornton

The headline for July is the RBA's decision not to increase interest rates this month. For Cairns I think this will help cement the likelihood that our residential housing market has dodged a slowdown and, with any luck for homeowners, not yet reached its peak. Data is indicating that there is a declining volume of house sales in the region but overall, the residential market should continue to perform well with the supply of new houses not keeping pace with demand and this being unlikely to change in the near future.

While this is good for prices, it isn't all positive. Supply of housing in Cairns is a red-hot topic. Supply is constrained by the Cairns geography which curtails capacity for new builds. Unsurprisingly we have also continued to see rising building costs.

While the RBA left the official cash rate at 4.1%, it is still the highest level in 11 years. You'd think higher interest rates would have put greater downward pressure on demand. Inflation to May '23 fell to its lowest level since April 22. However, inflation is still well outside the RBA's target range for inflation of 2% - 3% so we can't breathe a sigh of relief just yet. I'm nervous about the lag effects of the four percentage points of rate hikes but I'm glad the RBA is finally taking the time to assess the impact before it acts again.

Low rental vacancy rates in Cairns also point to an obvious shortage in housing.

Unfortunately, I can't see how the above doesn't lead to the need for higher rents. Interstate migration data showed a flood of interstate migrants into Queensland post-COVID which contributed to the rental shortage (including Cairns). But, has the flood of interstate migrants into Queensland now slowed or stopped? New data won't be

available until next year. However, Queensland Government population projections estimate that over the next 25 years Cairns will see net interstate migrants of 28,000. When compared to the rest of Queensland (outside Greater Brisbane), Cairns is fourth and only surpassed by Gold Coast, Sunshine Coast and Wide Bay. Projected population change is an additional 76,493 persons by 2046, in terms of average annual growth per annum this is only surpassed by Gold Coast and Sunshine Coast again when compared to the rest of Queensland (outside Greater Brisbane). In terms of the outlook for Cairns, population growth is a bit of a mixed bag when considering housing and rental affordability and balancing this with local economic expansion.

More positively, June to October is considered to be 'busy season' in Cairns for travel and tourism. July is typically a peak month with all states having winter school holidays so we can expect good tourist numbers. In September/October, the spring school holidays, look out for another bump.

Domestic tourism has been good and we can expect to see more international tourists return specifically July and August when Cairns is at its most pleasant. This should have positive flow on effects for many areas of the Cairns economy. An increase in international tourists should also lead to more demand for all that vacant retail space in the CBD.

The unemployment rate for Cairns has continued to decline, at a low of 3.8% in May '23. The participation rate is steady at 68.1%. The health of the job market is a major recession indicator, so these are both positive signs. Employment growth was down 0.2% but expect to see a bounce as casual and seasonal workers are always in high demand in the Cairns region. I'm forgetting perhaps the best news - the welcomed availability of a much-loved ring-shaped doughy treat that surely broke some local record on opening day.

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