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Queensland Business Outlook Prepare for change

December 2015

Deloitte Access Economics

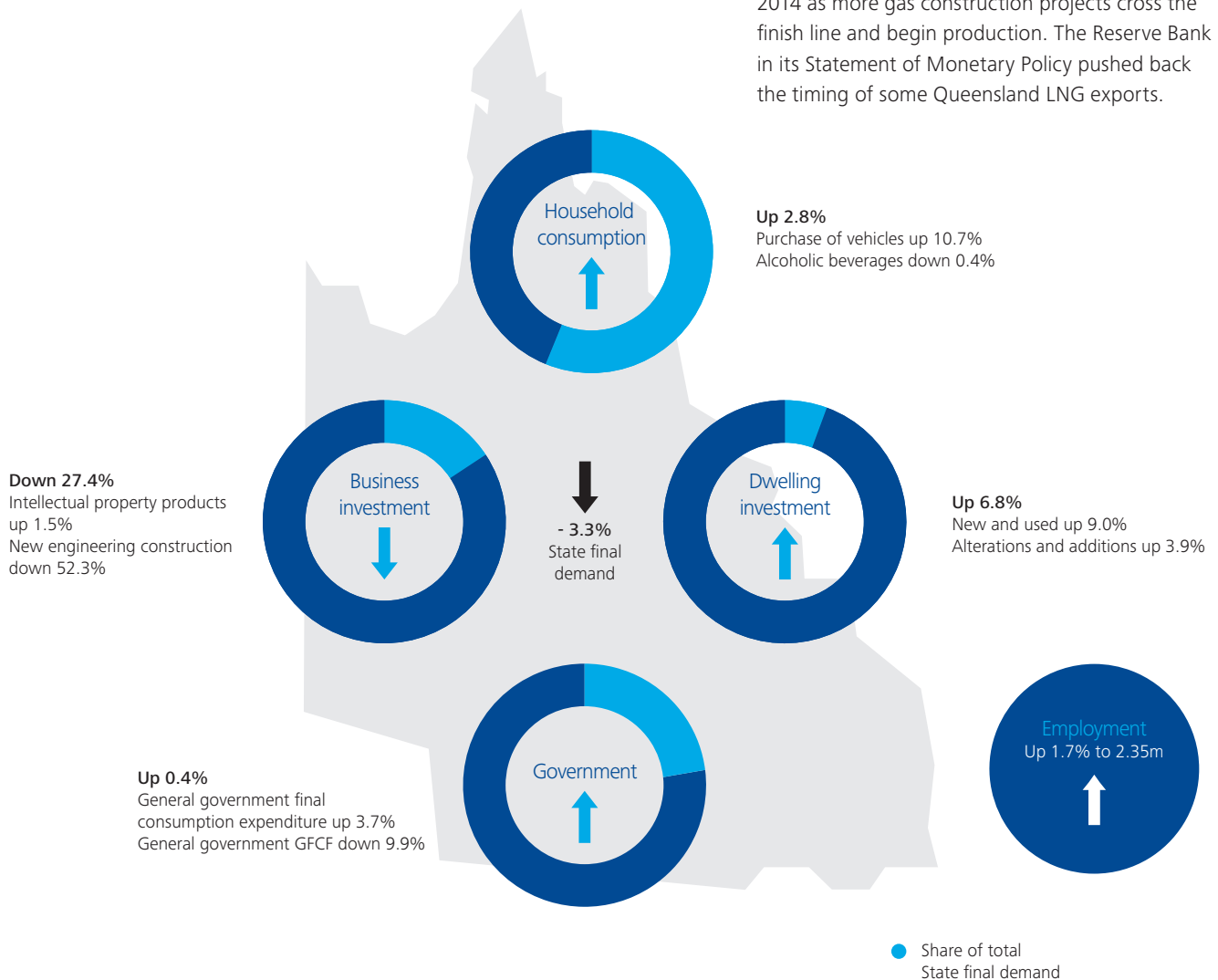


Economic snapshot

September quarter 2015

The last quarter saw some important indicators of change for Queensland – firstly the Government released a number of policies directed at supporting knowledge-intensive activities, secondly the first shipment of gas from BG’s Queensland Curtis LNG facility was delivered, and finally the \$2 billion Queens Wharf precinct in Brisbane was approved. This is consistent with a State economy moving from construction and a State Government looking for policies to help fill the resultant gap.

Official statistics released in September for the June quarter showed persistent weakening in Queensland’s State Final Demand (SFD), falling for a record sixth quarter. Demand continues to be weighed down by the deterioration in business investment from the record highs during the mining boom. Growth in retail spending and housing construction is insufficient to counteract this decline. New engineering construction is now just one-third of its peak size in September 2013. This was the primary driver of the collapse in business investment, with \$4 billion lost since June 2014 as more gas construction projects cross the finish line and begin production. The Reserve Bank in its Statement of Monetary Policy pushed back the timing of some Queensland LNG exports.



Year-on-year; Seasonally adjusted; Employment to September 2015; State Final Demand to June 2015

Sources: ABS 5206.0, ABS 6202.0

Economic outlook



Our forecasts anticipate a continuing transition for the Queensland economy following the resources boom. Lower exchange rates and interest rates are expected to hedge the reduction in economic activity in the resources sector, with Queensland's services sector well placed to attract investment and labour during this transition process. Three key risks to our forecasts include: a faster than expected fall in commodity prices, a continuing lack of business investment; and the inertia produced by capital locked up in mining investments (which may take time to be reallocated to other industries).

The benefits of lower exchange rates and interest rates will take two to three years to work through the economy and, as a result, our forecast is for the domestic economy to stabilise in late 2016. To capture the benefits of such favourable conditions, redistribution of investment towards Queensland's areas of competitive advantage must occur. Investment is required to refresh tourism assets, in some locations, to support improvements in Queensland's share of the international tourist market. Effort will be required to ensure Queensland's international education sector is focussed on Queensland's strengths in a highly competitive global market. If even a fraction of the resources spent on the mining boom are redirected towards these services, this would offer substantial opportunities for Queensland.

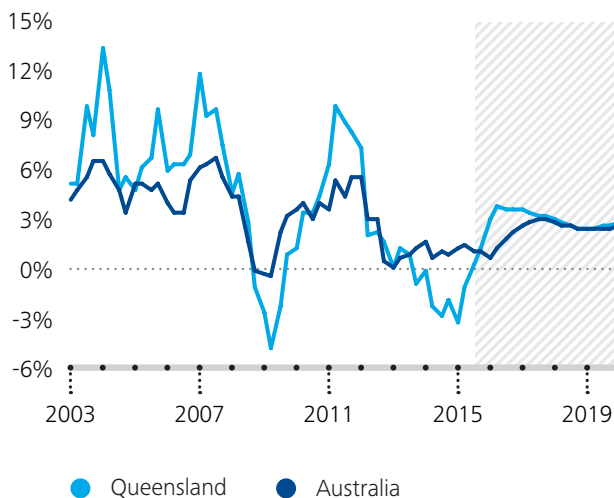
Economic growth

Gross state product
Constant price, annual % change



Sources: ABS, Deloitte Access Economics

State final demand
Constant price, annual % change



Sources: ABS, Deloitte Access Economics

Deloitte Access Economics expects the domestic and exporting components of the Queensland economy to return to pre-boom growth trends within the next year

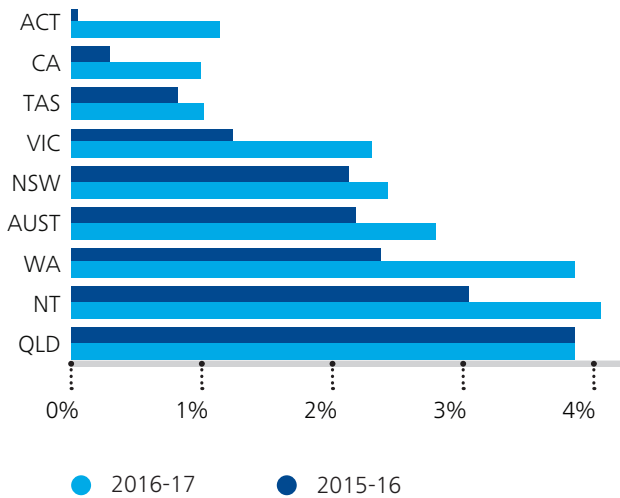
Gross State Product (GSP) forecasts have been revised to 3.7% over the next five years, down from 3.9% in our September issue (June quarter National Accounts). The downward revision in Queensland's forecasts coincides with a national downgrade and, consequently, we now expect Queensland to have a marginally larger share of the national economy by 2019-20 (20.0%).

State Final Demand (SFD) is forecast to peak by the end of 2015 before stabilising over the forecast period. SFD forecasts are driven by solid growth in dwelling construction (average annual growth of 4.5%) and household consumption (average annual growth of 3.2%). SFD is expected to benefit from stabilisation in non-resources business investment, which has been the cause of declining SFD in recent quarters; in particular, engineering and commercial investment is expected to return to growth (albeit marginally) by 2016-17.

In the resources sector, there are five engineering construction projects worth \$45b that are due for completion by the end of 2015, which will weigh on business investment over the forecast period.

State comparison

Annual GSP growth
Constant price, annual % change

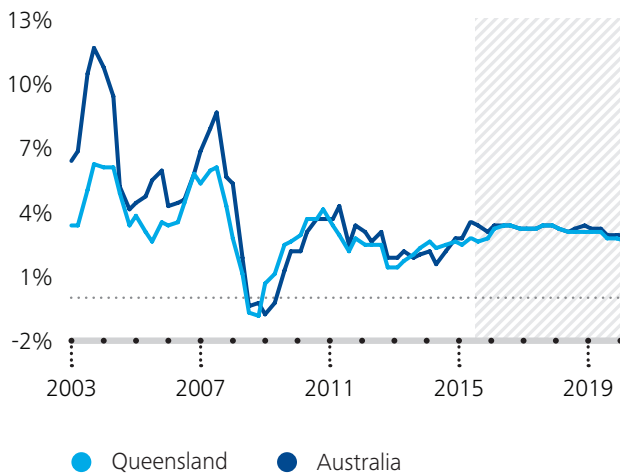


Sources: ABS, Deloitte Access Economics

Underpinned by resource exports, Queensland's GSP growth is forecast to outperform the other states over 2015-16. A number of significant projects in Queensland's gas industry are now only months away from fully transitioning into the production phase, while tourism, construction and retail are being buoyed by low interest rates and a lower \$AUD.

By 2016-17 the Northern Territory and Western Australia are forecast to catch up to Queensland's growth rate, driven by increases in resource exports.

Private consumption
Constant price, annual % change



Sources: ABS, Deloitte Access Economics

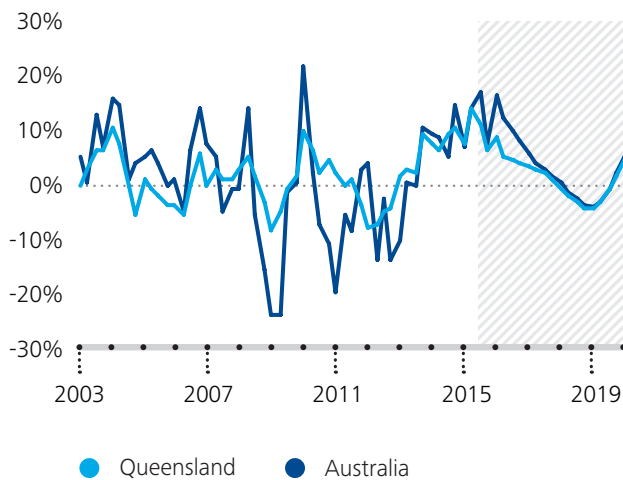
Private consumption

Private consumption represents more than half of Queensland's domestic economy and is expected to support growth in the state's economy. Over the forecast period, consumption in Queensland is expected to grow at an average annual rate of 3.2%, above the rate of growth expected nationally at 2.6%.

Low interest rates and a lower exchange rate will support Queensland's economy through transition by encouraging economic activity in non-resource sectors, including international tourism.

Housing investment

Dwelling investment
Constant price, annual % change



Sources: ABS, Deloitte Access Economics

While business investment has been on the decline, dwelling investment continues to grow strongly – with particular growth in apartment development in Brisbane.

Residential housing approvals in Queensland have responded to cuts in interest rates since 2011, with total dwelling commencements to be around 40,000 in 2015 and 2016 across the state¹. Queensland's relatively responsive dwelling supply has perhaps tempered house price rises in Brisbane over the past few years, and may put downward pressure on rental prices going forward.

¹Commonwealth Bank, State & Territory Perspective, September 2015.

The purpose of Place reconsidered

Queensland is endowed with incredible natural assets and has developed thriving city precincts in Brisbane and on the Gold Coast, as well as a number of successful regional hubs such as Toowoomba and the Sunshine Coast.

Just like anywhere else, our 'places' also have their pros and cons, some inevitably flourish, just as others languish. In Queensland, some of our regional areas are languishing, with the drought and the downturn in the mining boom. With a coordinated approach from government at all levels, as well as from the community and business, there is a significant opportunity to unlock the prosperity of regional Queensland.

Technology has trumped the tyranny of distance, and place no longer matters; at least, that's what most people seem to think.

In fact, the opposite is occurring: place is becoming more important as the world's economies are transformed by knowledge-intensive activities. Place matters for prosperity. For Australia – one of the world's most urbanised nations – that means we need to reconsider the purpose of place.

Place matters

Place has always mattered for human prosperity. The direct influence of place on our material wellbeing is obvious, with physical attributes like climate, geology, topography and accessibility clearly affecting the material living standards of people who live there.

Our prosperity is intimately connected to place and how we interact with it. The rise of average living standards through time reflects the evolution of place and the purpose we assign to it.

Place in Australian context

The Australian landscape is unique in its diversity, often being described as extreme. Australia is one of the most coastal-dwelling countries in the world, with more than 80% of Australians living within 100 kilometres of the coastline. Along this line, Australia is often separated into two categories: the city and the bush.

The city and bush characterisation is perhaps too simplistic however. An alternative five way classification of place shows that regional and inner city resident population have been steady over the last 10 years, while a decrease in the rural and remote and suburban proportions indicate a shift to the outer urban areas.

The Prosperity Production Function



Source: Deloitte Access Economics 2015

Prosperity and place

Inner cities rank highly on human resources, local amenities, physical capital, material standards, and innovation and entrepreneurship, while ranking poorly on natural amenities. The opposite is true for the outer urban region. Suburban areas rank in the middle and are generally occupied by families or older Australians who are no longer in the workforce. Regional cities rank highly on measures of health and safety, with the downsides being a lack of connectivity with metropolitan areas and often limited supply of jobs – in particular for the younger workforce. The rural and remote areas are rich in natural resources and a strong community feel.

The potential of place

There are four dynamic forces that interact to catalyse flourishing in place: People, Community, Technology, and Governance. When acting in concert, these dynamic forces can unlock the potential of place and spark a virtuous circle of prosperity.

Flourish or languish

Places can either flourish or languish as the dynamic forces identified above change and people move. Getting places to flourish rather than languish is a collaborative effort. It needs people, communities, businesses and governments to work together – like an ecosystem.

Getting started

Australia needs to start a conversation about the changing purpose of place.

We need to boost productivity growth to sustain rising levels of material welfare in our country. Like other developed nations, Australia looks to knowledge-intensity and creativity to drive innovation and productivity growth. Understanding the evolving purpose of place is the key to making places flourish in the knowledge economy.

Our places can deliver greater prosperity for current and future generations of Australians if we catalyse the process of flourishing and arrest that of languishing in place. This involves harnessing economies of agglomeration and taming diseconomies of congestion and disamenity.

For more information refer to <http://deloi.tt/1OvoTwX>.



Digital: An industry, enabler, or both?

As Queensland looks to new sources of economic growth, with the passing of the mining boom, digital technologies like broadband, web tools, social media and data analytics stand out as a significant opportunity.

The digital economy is more than just the headquarters of major telecommunications and technology companies – it's also the cloud tools and mobile apps that are transforming all sorts of businesses and every aspect of our lives. Queensland already has the foundations for a strong digital economy:

- Around 96,000 employees across the state have an information and communications technology (ICT) occupation
- 84 per cent of Queensland households have broadband access – just above the national average
- At least 60% of small to medium sized enterprises have some level of digital engagement
- It's being built on by the efforts of government and business.

The National Broadband Network Company (NBNCo) has recently commenced construction in QLD regions such as parts of Atheron, Bundaberg, Biloela, and Lammermoor² and is expected to become available in another 1.5 million Queensland homes over the next three years³.

The Federal Government's Mobile Black Spot Programme is set to improve Queensland's mobile coverage, with 68 new or upgraded mobile towers over the next three years⁴, however in the interim Queensland's coastal cities appear better positioned to take advantage of the opportunities presented by digital.

The Queensland Government has also been embracing service transformation, innovation and the use of digital technologies by government agencies, businesses and individuals.

In a recent report commissioned by the Australian Computers Society, Australia's Digital Pulse, Deloitte Access Economics estimates that Queensland will add almost 10,000 new ICT jobs by 2020. It also finds, however, that on current trends, universities are unlikely to graduate enough ICT students to meet these future needs.

The 2014 Queensland Digital Industry Survey by the Department of Science, Information Technology and Innovation found that out of the businesses surveyed that had difficulty filling positions, 51.6% were seeking candidates with soft and applications programming skillsets.

Many Australian businesses have relied on overseas workers to fill this gap – which is okay in the short term, but in the longer term, we need to develop the workforce of the future to take these opportunities. There have been some success stories for the industry in Queensland of late. The development of Fruit Ninja, by a Brisbane-based digital game developer, Halfbrick Studios, has accumulated over 6.5 million fans on Facebook⁵. This is just one example of the state's success in commercialising its ideas in the global market.

Improving the pipeline of university-trained digital workers starts with the foundations and inspiration that comes in the school classroom. That's why the Queensland Government's recent #codingcounts announcement is so important. Queensland will offer the new *Digital Technologies* Australian Curriculum from 2016 in state schools from Prep to Year 10, with teachers supported through professional development, teaching resources and scholarships.

It is an important step to building Queensland's digital economy of the future.

²NBNCo three-year construction plan, Available at: <http://www.nbnco.com.au/learn-about-the-nbn/three-year-construction-plan.html?cid=vanity:3yearplan>

³Remeikis, A. (2015), NBN coming to 1.5 million more Queensland homes in next three years, Available at:

<http://www.brisbanetimes.com.au/queensland/nbn-coming-to-15-million-more-queensland-homes-in-next-three-years-20151016-gkb4jt.html>

⁴Queensland Government (2014), GoDigitalQld: Queensland Digital Economy Strategy and Action Plan, Available at:

<http://godigitalqld.dsiti.qld.gov.au/welcome-to-godigitalqld/documents/14081/download>

⁵Fruit Ninja, 2015. Available <http://fruitninja.com/>

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