Queensland Business Outlook
Confidence for tomorrow

September 2015

Deloitte Access Economics

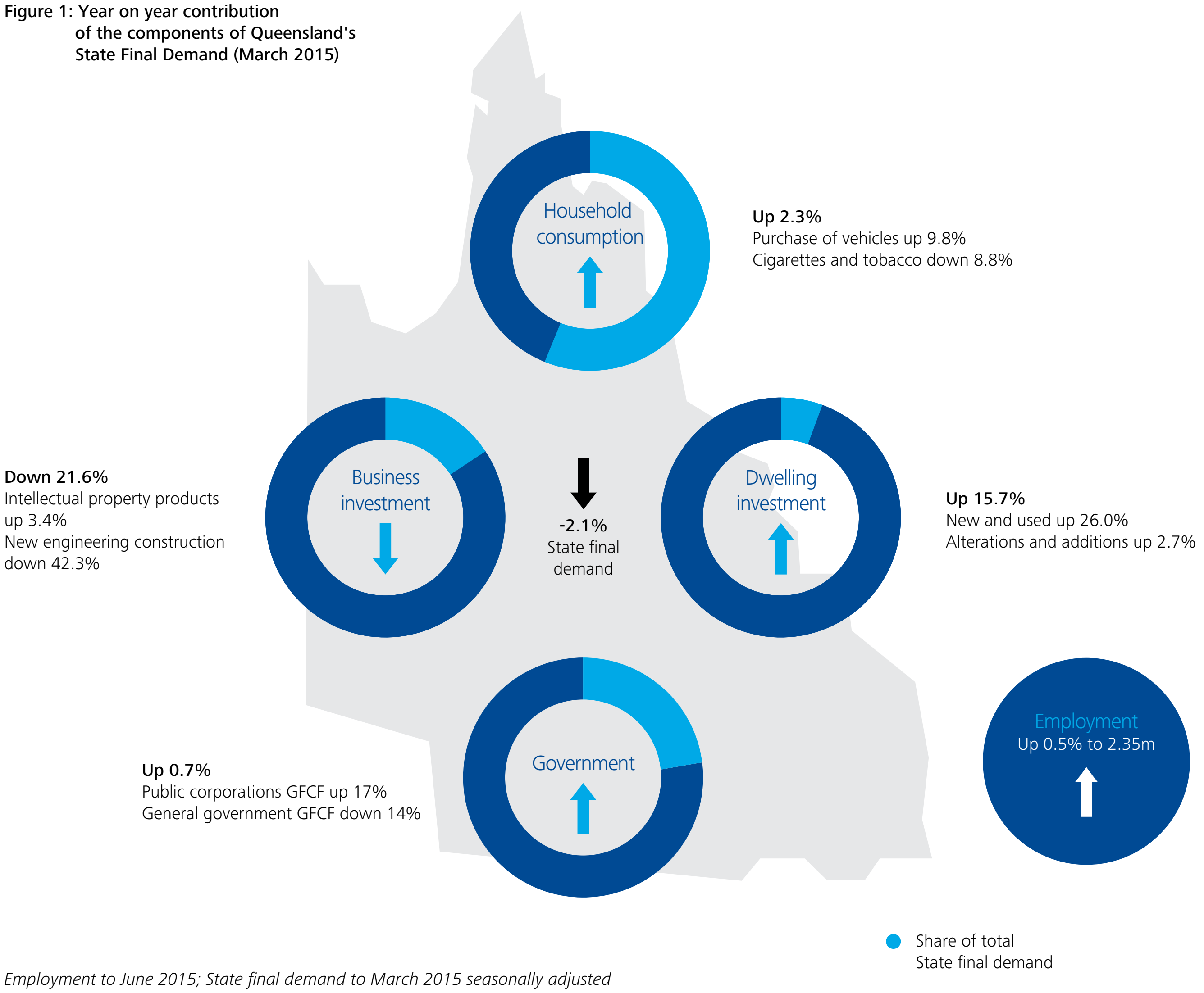
Contents

Economic snapshot
June quarter 2015

The past year has seen the Queensland economy faced with a number of headwinds including the conclusion of major engineering construction in the resources sector, falling commodity prices, weaker than expected retail expenditure growth, slower population growth, and an ongoing drought, which have constrained economic growth. Over the March quarter[1] the Queensland economy recorded a marginal growth outcome, with a 0.1% increase in State Final Demand.

With the completion of BG's Curtis LNG project, BHP's Caval Ridge mine and the Hay Point terminal upgrade, there is now capacity to significantly increase resource exports from Queensland (conditional on demand). This supply provides a welcome boost to Queensland's Gross State Product, but, with the substantial moderation in commodity prices, is unlikely to be felt by most Queenslanders. Going forward, widespread productivity improvements will be needed across all sectors to ensure sustained economic growth in Queensland.

Figure 1: Year on year contribution of the components of Queensland's State Final Demand (March 2015)



Employment to June 2015; State final demand to March 2015 seasonally adjusted

Sources: ABS 5206.0. ABS 6202.0

[1] *March quarter 2015, latest available data at time of publication*

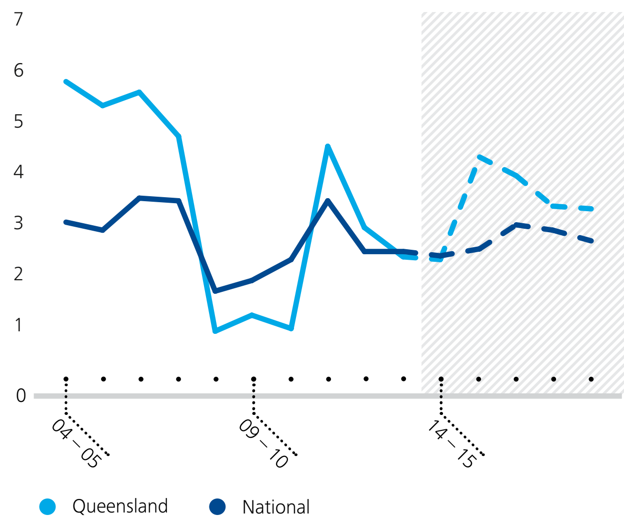
Economic outlook

Despite being on the wrong side of some challenging trends, our outlook for the Queensland economy over the next five years is positive. A number of critical transitions are yet to play out – including managing the shift from construction to production in the resources sector - with implications for the State's economic growth prospects over at least the next year. Looking beyond 2015–16, we expect the recent lows in the Australian Dollar and interest rates to boost the State's non-resource sectors. Mining, and in particular LNG, is expected to remain a key driver of the State's headline economic growth figures, but without the unprecedented commodity prices of late, this will be an export story rather than an income story.

Outside of the resources sector, some transport and health infrastructure projects are underway, though the pipeline for large public infrastructure projects is smaller than recent years. Growth in housing construction and housing finance have been strong, fuelled by interest rates at record lows. Despite having a strong impact on the housing market, the low interest rate environment has failed to stimulate significant growth in consumer spending, with growth in retail spending lower than expected. The weakening Australian Dollar has supported growth in Queensland's tourism and agriculture (export) sectors, however, agricultural production continues to be impacted by drought.

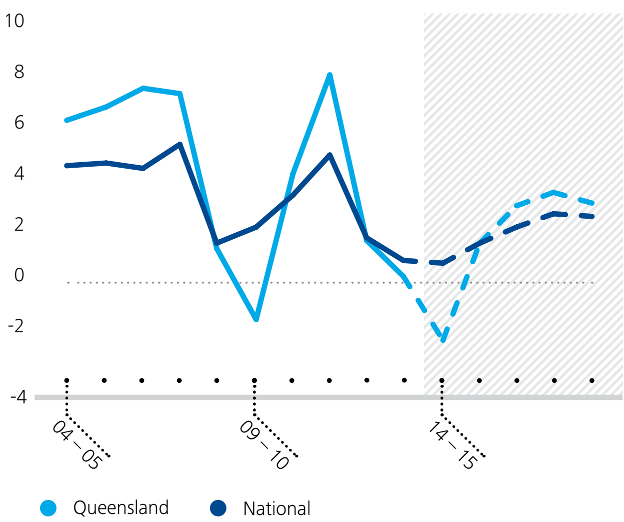
Economic growth

Gross state product
Constant price, annual % change



Sources: ABS, Deloitte Access Economics

State final demand
Constant price, annual % change



Sources: ABS, Deloitte Access Economics

Despite the slow down in engineering investment, this increased capacity will contribute to growing resource exports

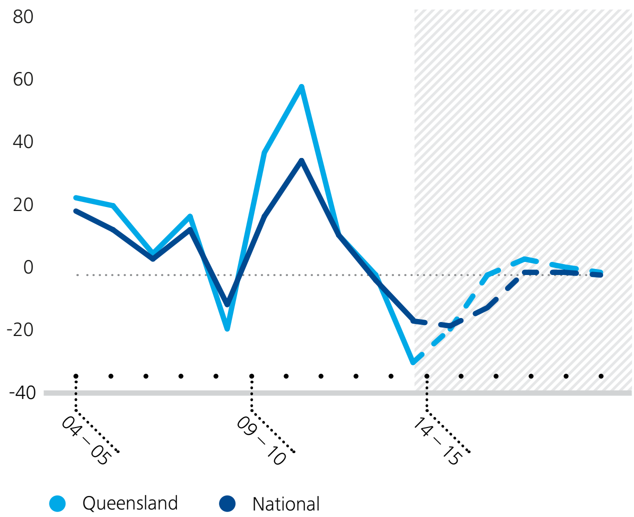
Queensland's economy over the past decade has been characterised by phases of strong growth followed by phases of mediocre growth, with the last three years firmly in the latter category. Between 2004–05 and 2013–14 the Queensland economy grew at an average annual pace of 3.6%; in contrast, the national economy grew at a more subdued pace of 2.8%.

State Final Demand – the domestic component of Queensland's economy – has weakened significantly over the last year, with negative year-on-year growth since March 2014 (quarterly figures). This has been driven by large declines in business investment and unchanged government spending/investment (see Figure 1 on page 3).

Over the next five years, our forecasts see State Final Demand return to positive growth, albeit below the 10 year average (1.9% versus 4.3%). The key driver of Gross State Product will be resource exports, which are forecast to increase by 17% in 2015–16 and 16% in 2016–17. This will be volume driven rather than price driven.

Investment – engineering and commercial

Private investment
Constant price, annual % change



Sources: ABS, Deloitte Access Economics

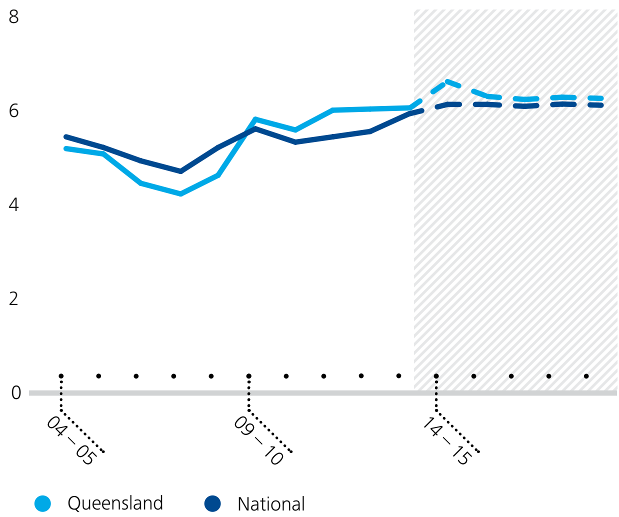
In real terms, private business investment has been on a downward trajectory since the peak in mining investment in mid 2012. Engineering and commercial building investment declined between 2013–14 and 2014–15.

During the mining boom there was little investment outside of the resources sector both nationally and in Queensland, and while there has been modest economic activity in the non-mining sectors recently, this has not translated into investment. We expect this subdued investment activity to continue over the next five years, with low interest rates unlikely to directly affect capex decisions.

Future investment should focus on Queensland's competitive advantages and global opportunities

Labour market

Unemployment rate
% Labour force

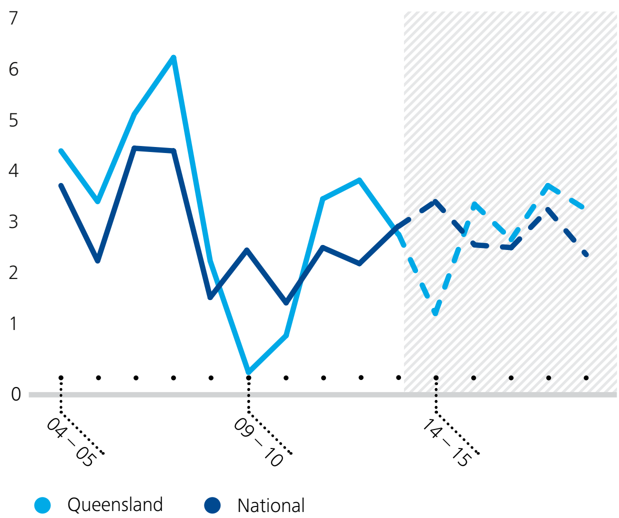


Sources: ABS, Deloitte Access Economics

Queensland's labour market conditions remain weak. With the end of the labour intensive construction phase of the mining boom now over, it will be up to the other sectors of the economy to boost employment levels. Consistent with moderate economic activity, we expect the unemployment rate to remain around 6.2% over the next five years.

Interestingly, despite the non-mining economy being based on consumption sectors (education, health, retail, tourism), Queensland has a higher proportion of people employed in full-time work than the national average (and 4 percentage points higher than Victoria).

Retail turnover
Constant price, annual % change



Sources: ABS, Deloitte Access Economics

Retail spending

The rate of wage and income growth has significant implications for the retail sector. In recent years Queenslanders' household disposable income per capita has kept pace with the national average, driven by low interest rates, higher mining wages and, until a short time ago, the stronger Australian Dollar. This has kept retail spending on the up, despite weaker conditions in the labour market.

Over the five year forecast period we expect retail turnover in Queensland to grow at approximately 2.8% per year. Retailers may feel the pinch as this remains below the decade average of 3.3%, but it is a reasonable result given sluggish economic activity more generally.

Opinion
Positioning for prosperity

Queensland has enjoyed a significant economic benefit from the resources boom. Now that the boom is beginning to recede, Queensland's challenge is to diversify its economy, transitioning towards industries where there is future growth potential. To create a more diverse economy, Queensland should invest in assets and capabilities in industries where it has a competitive advantage. A more diverse economy is the natural hedge to the volatility of commodity markets.

The Queensland economy is more diverse than many think – 80% of the economy is services driven. Research undertaken by Deloitte Access Economics www2.deloitte.com/au/en/pages/building-lucky-country/articles/positioning-for-prosperity.html suggests that Australia and Queensland has a natural competitive advantage in a number of industries which will provide a future platform for economic growth. These industries include:

- Agribusiness
- International education
- Wealth management
- Tourism
- Gas

Queensland has a competitive advantage in many of these sectors. In order to exploit these advantages, government and business will need to 'step up to the plate'.

For government this will mean:

- Development of market aware economic policies
- Prioritisation of investment into high growth sectors
- Reducing support to low growth sectors
- Increasing the efficiency of the provision of government services
- Ensuring that business and government work together on a common growth agenda.

For business this will mean:

- Creating new products and capabilities through investment in transformational innovation
- Deploying top talent into high growth area
- Focusing investment dollars into areas with higher growth exposure
- Active divestment in slower-growth sectors
- Seek competitive advantage through better recruitment, productivity improvement and development of non-replicable assets.

Industry spotlight
Tourism

The national outlook

The outlook for tourism in Australia is as positive as at any time since the GFC, as the relevant economic indicators are pointing firmly in its favour. The declining dollar is making travel in Australia more attractive, both to foreign visitors contemplating venturing to our shores and to Australians deciding whether to head overseas or holiday at a local destination.

Economic growth among our major tourism source markets is encouraging, with the economies of both the US and UK turning a corner, and Australia's exposure to the economic uncertainties of continental Europe limited by the modest reliance of Australian tourism on these markets. The Chinese economy is set for continued growth, albeit not at the pace witnessed a few years ago. Australia will host a million Chinese visitors in 2017, three times more than 2007.

On top of this, the dramatic fall in oil prices will work through to lower airfares, since fuel is around 20%–30% of airline costs. Lower airfares is good news for a long-haul destination like Australia, combined with the increase in low cost carrier seat capacity observed over recent years. Reflecting these factors, Deloitte Access Economics forecasts international visitation growing at a rate of 5.2% p.a. over the next three years, with domestic overnight trips growing at 2.7% p.a. – relatively strong, given domestic travel is a mature market and given the trend of the last decade.

Tourism in Queensland

Tourism contributes significantly to the Queensland economy – to the tune of $23bn in 2013/14, or 7.6% of GSP overall. With 130,000 people directly employed in the tourism sector, and another 100,000 employed by industries feeding into tourism services, tourism is linked, either directly or indirectly, to one in ten jobs in Queensland.

As part of the national tourism strategy, the Queensland Government has set the goal of doubling overnight expenditure over the ten years to 2020, to $30bn. While the fundamentals are strong, the Queensland tourism industry is not without challenges. Along with W.A., the winding back of the resources investment boom has eased corporate travel demand, particularly in Brisbane. Leisure visitors, both domestic and international, have a wide range of destination choices, so Queensland holiday spots face stiff competition from Melbourne, Sydney, and increasingly Tasmania, which has significantly built its destination profile in recent years.

On the supply side, a wave of high-grade hotel openings in Brisbane is set to rejuvenate the existing hotel stock. Longer term, the extra runway at Brisbane airport will help guarantee sufficient aviation capacity for the State. Finally, a number of large-scale integrated resorts are in various stages of the development pipeline, such as the Aquis resort north of Cairns, the Broadwater Marine resort in the Gold Coast, and the Queen's Wharf development in central Brisbane. Each of these are sufficiently large scale to become significant tourism attractions in their own right. Given the long lead times of these projects, they will not materially impact tourism activity over the next three years. International visitation is forecast to grow by 4.9% p.a. over that period, as Queensland continues to capitalise on the huge growth opportunity which is emerging Asia. While domestic corporate travel to Queensland is moderating, improved conditions for domestic leisure travel are projected to see overnight trips growing at 2.7% p.a., in line with the national outlook.

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Budget Monitor

Budget Monitor is the leading source of accurate and independent private sector projections of Federal budget trends in Australia. Budgets are analysed and projections made, including detailed estimates of future spending and revenue levels. *Budget Monitor* is prepared twice a year, prior to the Mid-Year Review and the Budget itself.

Business Outlook

Business Outlook, released quarterly, is specifically designed for business analysts and strategic managers. Subscribers to the standard hard copy or electronic subscription are also eligible to purchase the *Business Outlook* on CD. The CD subscription contains forecasts out ten years, in quarterly, calendar and financial year formats as well as detailed history and charts, all in excel.

Employment Forecasts

Employment Forecasts, released quarterly, provides forecasts and commentary for each industry, plus white collar, blue collar and office demand index (where the latter draws on the 'office intensity' of each industry). There are three levels of data available: State, City and CBD. *Employment Forecasts* is particularly useful in the analysis of property market demand.

Investment Monitor

The quarterly *Investment Monitor* lists around 900 Australian investment projects, each valued from $20 million. Projects are divided by State, sector and status (i.e. possible, under consideration, committed, under construction). The publication also contains commentary on industry trends, and company contact details for those companies involved in the projects.

Retail Forecasts

Retail Forecasts, produced quarterly, provides detailed analysis of current retail sales and consumer spending. Included are National retail forecasts, retail sector forecasts, State retail forecasts, disposable income, non-income influences on retail spending and broader macro-economic influences. An annual subscription includes four quarterly reports plus Excel spreadsheets including ten year forecasts and charts.

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