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Dear Director

The aim for TAS focus is to provide Directors who live or work within Tasmania with some valuable insights that will assist you in your role, provide a snapshot of the market, and give you some highlights from Deloitte Tasmania.

We had some feedback requesting a shorter, sharper document. So recognising the competing demands on your time, we have endeavoured to deliver TAS focus in a format that takes 20 minutes or less to read.

We also send TAS focus to selected CEO’s who have either requested a copy or whom we believe may find its Director targeted content useful.

We hope you enjoy this edition.
Foundations for prosperity
Enhancing education outcomes in boom sectors

Tasmania has some of the poorest education outcomes in Australia and higher educational attainment is widely viewed as critical to our future prosperity. Positioning ourselves closer to the ‘fantastic five’ boom sectors will also enhance our prosperity. But are these two concepts mutually exclusive?

Deloitte’s landmark report “Positioning for prosperity – Catching the next wave” considered the intersection of global growth and Australian advantage which identified the ‘fantastic five’ sectors that collectively could contribute $250 billion to the Australian economy over the 2013 to 2033 period. Of these five boom sectors we felt that three (Agribusiness, International Education and Tourism) could have a significant impact on the future growth and prosperity prospects for Tasmania.

Enhanced education levels are intrinsically linked to better prosperity, and there are multiple opinions and sources of evidence to support this link. Of the above boom sectors two stand out as potentially not being, or having the perception of not being, compatible with the aspiration of enhancing the education outcomes. These two sectors are Tourism & Hospitality and Agribusiness.

The retention rate for Tasmanian students from year 7 to 12 is well below the national average and we have some of the poorest education outcomes in the country, whether it be year 12, Vocational Education & Training (VET) or tertiary qualifications.

The Grattan Institute noted in its “Mapping Australian higher education 2014-15” report that those who complete year 12 or equivalent will be more likely to secure full time employment and will earn higher incomes than those who did not. Nationally young people today are 1.6 times more likely to complete year 12 than their parents and for university it is 1.7 times.

The work environment is also changing. People will most likely need to work for longer than the current working population as they will live longer and have a lower ratio of the working age population contributing to the economy (down from 5:1 to 2.7:1 by 2050).

As people work longer re-skilling will become the norm. Jobs are shifting from full time to part time and many challenges faced by these sectors have striking similarities. So now more than ever education attainment is pivotal to setting young people on the right path to a future that increases their robustness and agility to enhance their chance of securing full time employment, maximising their earning capacity and embedding a mindset to be more adaptable or more open to learning / re-skilling in the future.
Agribusiness and Tourism & Hospitality are boom sectors for Tasmania, however, prima facie it is apparent that these sectors hire many part time staff and do not necessarily require higher education levels. Furthermore many of the challenges they face have a high level of commonality and can be grouped into five broad categories:

- Perception – these industries are hard work. Tourism & hospitality in particular is not seen as a career.
- Education – where are all the students, do we have the right courses and qualifications?
- Future workforce – where will the future hospitality workforce come from? Do students understand the rate of technological change in the agribusiness sector? How do we transition in people from other sectors – what support, retraining, skills and qualifications are needed?
- Competition and influence – Other growth industries (such as aged care) offer more stable employment, and do teachers understand the modern Tourism & Hospitality and Agribusiness sectors adequately enough to promote them?
- Disruption and uncertainty – The challenges raised by the backpacker tax upheaval, rising costs of energy, the state of our water and sewerage systems, rapid technological advances, and new entrants (to name a few).

There are sector specific challenges as well, including the lack of hotel rooms for tourism, and the aging owners and managers in the farming sector.

There is already a lot being done. From the Governments ‘myeducation’, The Peter Underwood for Educational Attainment, the Beacon foundation, the Smith family, Tasmanian Tourism and Hospitality Industry Workforce development plan, T21 – the visitor economy strategy, and previously the Tasmanian Farmers and Graziers Association had ‘Project Resources’ - plus no doubt other support mechanisms.

Ultimately to attract young people into these industries we potentially need more incentives such as secure employment, more full time employment, designated qualifications that are in demand and remuneration at a higher level. Specific associate degrees, relocation of university campus’ and engagement with business in designing courses are all examples of positive momentum that will help enhance education outcomes in these two boom sectors. However, disseminating the importance of education amongst parents and the community are also paramount to a successful outcome. We can all promote the importance of our people obtaining a qualification whether it be completion of the Tasmanian Certificate of Education, a VET qualification, an associate degree or a university degree. If every business promotes the importance of this when engaging with the community, through recruitment etc, and also empowers its existing people to obtain a qualification we just might move the dial on our educational attainment in these sectors, and more broadly across the state.

Source:
(1) Deloitte “Building the Lucky Country #3”
(3) ABS 2014 “Apparent retention rates” and Council of Australian Governments (COAG) data
(4) FYA “Renewing Australia’s Promise – Report card 2016”
(5) Deloitte Access Economics Demographic modelling
Chris Richardson’s Macroeconomic Update

Headlines aren’t economies, and that means 2017 is likely to be better than you think.

Although the headlines have been hogged by all the reality TV-like drama associated with global politics since mid-2016, the world economy is starting to look better. In particular, trade flows are lifting – and trade is Asia’s growth engine. That’s a business backdrop for Australia in 2017 that many realise may be better.

Despite interest rates at historic lows, private business investment is predicted to fall in 2017. Non mining business investment is failing to offset the drop off in mining related investment as big resource construction projects – begun in a healthier commodity climate – reach their production phase.

Low wage growth is of particular concern given the magnitude of Australia’s private debt. After seven years of unprecedented house price growth, driven in particular by New South Wales and Victoria, prices may stall given a loss of affordability, tightening capital requirements for investors and an oversupply of dwellings (particular inner city apartments). When interest rates eventually start to rise, and mortgage repayments rise alongside them, the resultant pressure on disposable income will see consumer and housing expenditure fall in the short run. Australia’s private debt – one of the highest in the world – could also become a problem if rates rise and if it isn’t balanced by growth in incomes.

But there’s good news. While there are risks on the horizon Australia needs to be aware of, the economic outlook for 2017 is still one of relative strength, not least because:

• Investment in resource production capacity in recent years is paying increasing dividends
• Although both China and Australia itself are undergoing economic transitions, both have made a degree of progress
• Finally, good rainfalls point to an excellent 2017 winter crop in Australia.

So on the balance, although the net risks are to the downside, in 2017 Australia is projected to break an enviable record, currently held by the Netherlands, and enter its 26th consecutive year of economic growth.
Global Director Thought Leadership

Each month Deloitte Global issues Deloitte Digest for Directors. The aim is to provide timely, objective, and thought-provoking information for boards of directors, committee members, c-suite executives, investors, and other governance leaders. Following is a summary of some key topics from the last few issues.

Assessing risk in incentive compensation plans

Over the years and in the aftermath of the financial crisis of 2008–2009, there have been numerous examples of incentive compensation programs motivating behaviours and activities that resulted in unintended consequences that damaged company reputations, financially harmed companies and its shareholders, and culminated in employee/executive terminations.

While incentives can be powerful tools to properly align employees with the achievement of the company’s objectives, boards of directors should consider whether there is a process in place to identify and mitigate the potential risks of incentive programs. It is also important to think broadly about the types of risks an incentive compensation plan could create, including financial risk, reputational risk, employee retention risk and operational risk. For example, does the annual incentive plan encourage the maximization of short-term results at the expense of long-term growth? Will the incentive plan adversely impact the relationship with customers due to aggressive product pricing?

While boards of directors regularly provide oversight of the risks associated with the executive compensation program, it is equally important that they evaluate the risk of all employee incentive compensation plans. Ignoring incentives for lower-paid employees or screening incentives based on the magnitude of the payments may potentially overlook high-risk programs.

Framing strategic risk in the boardroom

Accelerated economic cycles. Exponential technological advances. Increased competition. Changing customer demographics and preferences. Increased shareholder activism. New industry and regulatory requirements. Geopolitical uncertainty. The world is rapidly changing at an accelerating pace and these factors, along with many more, pose challenges to effective strategic risk thinking.

Despite the high stakes, identifying and managing strategic risks has been a difficult task. It is often unclear what to look for, signals to identify such risks are often weak, sources of information are not easily known as they are within other industries and geographies, and traditional tools and methods don’t reliably detect what is “over the horizon.”

To add to the challenge, many companies have traditionally separated their risk and strategy functions and think of risk as more of a compliance responsibility rather than a dynamic tool for value creation, business performance management, and growth. And, while the strategy setting process has begun to factor in the many changes occurring in the world, risk management is still often considered to be a narrowly defined core activity.

For many companies, risk management remains process-oriented and siloed. Enterprise risk assessments are conducted but risk management activities, including monitoring, measuring, and reporting, may not be coordinated across the company. In this state, there is limited alignment of risks to strategies. Managed risk tends to have a more operational than strategic focus and risks tend to be addressed only after they occur. By focusing solely on mitigating risks and preventing the recurrence of a risk, companies face a slowdown in the decision-making process. We believe that companies that align strategy and risk are better served to allow for “Strategic Resiliency.” Strategic resiliency is anticipating, knowing and acting on risks when introducing or executing new strategies in order to increase the chances of success in spite of uncertainty.

For full articles or further information please use the following link www.corpgov.deloitte.com.
Voice of Asia

Whether it be international students, overseas visitors, Singapore and Chinese property investment and development, direct export links, increased demand for our agribusiness produce and free flowing trade via the free trade agreements, it is now more clearer than ever that Tasmanian businesses and the economy is being heavily influenced by Asia.

To that purpose we are sharing some insights from the Deloitte produced “Voice of Asia”.

The Asian century is shaping, cultivating, and driving a dynamic future for business and society. Powered by almost 60 percent of the world’s population, the region has become a hub of diversity and innovation. The Voice of Asia series brings to life the challenges and opportunities facing the region today and tomorrow. The potential has never been greater to create a cohesive narrative that reflects the interdependence of the region and provides a glimpse of what’s possible across Asia, shaping a more positive outlook overall. The key themes from the first edition cover growth to trade, culture to commerce—that underpin Asia’s current and future prosperity.

Four things you need to know about Asia in 2017

It’s easy to be gloomy. Global growth has disappointed for some time, and in recent years Asia has started to be part of that problem. The last decade has served up a seemingly never-ending succession of shocks, both political and economic.

So we’ve got some positive news for you: Much of the news in 2017 is more likely to be good than bad, with Asia set to be central to better-than-expected global growth this year. But not all the news is good, so here are our four “need to know” insights for Asia this year.

First, global growth will surprise on the upside, with Asia—led by India—to be a substantial winner from that. Leading indicators of global growth are on the rise as the big shocks of recent years settle into the rear-view mirror, with that good news already bubbling up into a lift in export orders in Asia.

Second, while growth may be a pleasant surprise, financial stresses are a major risk factor. Global interest rates are finally beginning their long climb back to normal, with the US Fed leading the way. That will generate a lot of volatility in markets, but our analysis suggests Asia is better placed than most to handle that stress.

Third, the best news within overall global growth will shift back in favour of emerging economies. Even better, this won’t be “lazy” commodity-driven growth. Reforms have boosted the underlying competitiveness of many emerging economies, setting the stage for more broad-based and sustainable, higher-quality growth.

Finally, the real shock for markets may well be a larger drop in the Chinese yuan. China is juggling some key headwinds, leaving the authorities—in search of a growth booster—with little choice but to go for a much larger devaluation of the yuan.
Trade to trump protectionists and boost global growth

Trade has been part of the engine driving the emergence of Asia on the world stage. But it has been labouring for the better part of a decade. And although trade’s troubles are global, they’ve been biting deepest in Asia, where trade flows stalled a few years back.

To date, most of those challenges have been economic. But the political challenges to trade are also mounting fast, with Trump’s anti-free trade agenda joining the Brexit revolution and question marks mounting in Europe, where the European Union faces a gauntlet of elections.

So will trade flows continue to lose steam, and drag down Asia’s 2017 prospects with it? The answer is no. In fact, Deloitte sees trade about to regain momentum for several reasons:

• Trade’s troubles were mostly temporary anyway, damaged by successive crises and shocks, the effects of which are finally wearing off.
• More importantly, a bunch of those troubles aren’t really trade-related anyway. The big fall in commodity prices in recent years—cheaper oil, gas, iron ore, and coal—undercut measures of the monetary value of trade. But commodity prices have since surged, and that artificial negative is disappearing fast.
• India’s services export story is still intact despite a marginal slowdown and political posturing from the United States.
• China’s economy is lifting—indeed, that’s why commodity prices have surged. And China’s recovery suggests that trade’s recovery will follow suit in 2017.

And there are some trends that will favour trade into the future:

• Policies have swung toward openness in the mega-economies of the future. Looking longer-term, Asia’s potential will increasingly swing toward economies such as Indonesia, Vietnam, and the Philippines. Although these economies have low trade multipliers, the sheer pace of growth in the years to come will see their rise as part of the global trade story.
• Just as the establishment of the European Union led to a large increase in trade within Europe, closer integration and connectivity within Asian economies will be a dominant influence on trade volumes over the coming decade.
• Finally, services are the new black. The global momentum in trade is swinging away from goods—where the populism of protectionists can do the most damage—toward services. Faster recovery in the United States and Europe can lead to greater services trade benefitting the Asian economy.

There are no guarantees, of course. However, President Trump’s influence on global trade volumes over the next few years may be smaller than many imagine, while the powerful forces within Asia and elsewhere point to trade strengthening over time.
Asia’s weapons of mass consumption

Asia’s major export markets, led by the United States, will boost this region’s growth in 2017. But Asia’s mega economies, China and India, have another line of defence: their cashed-up consumers. That’s because, increasingly, consumer booms are powering Asia’s growth. A new, optimistic generation is taking its place in driving the direction of their economies: one that is technologically savvy, comfortable with the borderless consumerism of the global middle class, and yet imbued with the consumption-smoothing instincts of its parents and grandparents.

These new consumers are exactly what Asia and the world need. They’re inherently optimistic and incredibly open to innovation. They’ll make enthusiastic importers as well as formidably competitive exporters. And yet, like consumers everywhere, they will be a stabilizing force in their giant economies. That means they’re likely to play an anchor role for Asia’s prospects in 2017 almost regardless of other developments. What more could Asia or the global economy ask for?

Asia’s consumer is already a kingmaker. Two factors are sustaining China’s growth:

• Investment spending, primarily by state-owned enterprises
• Strong consumer spending, supported by the strength of the property market.

Yet whereas the first growth driver may not prove sustainable, the second will - strong consumers are here to stay. Indeed, that is a central aim of China’s policymakers, who are aware that their economy is underweight consumers, and who want consumer spending to take over from construction as the key growth driver of the future.

At the same time, India has emerged as the world’s fastest-growing mega-economy and has made strides in the face of headwinds of weak global growth and financial market volatility. The Indian economy, traditionally powered by consumers, is set for another structural boost. Indeed, consumption is expected to continue its driving role in 2017 because of three fundamental factors:

• Rising wages (including for the public sector)
• A boost to rural incomes and, more importantly,
• A structural push from taxation reform.

Recent wage reforms have boosted the incomes of an aspirational population. However, it is the third factor that is expected to have the greatest impact. A major push to taxation reforms such as the rollout of a goods and services tax (GST) will improve consumer demand in the long run.

To read the “Voice of Asia” in its entirety click here.
Financial Reporting
Listed company reporting

December year ends

Year end reporting for December year ends by *Grange Resources Limited* showing a profit of $92.9m (prior year loss after impairment of $277.8m). *Tasmania Mines Limited* revealed a loss after impairment of $12.1m (prior year profit of $6.2m) and *TasFoods Limited* reported a loss of $2.6m (prior year loss of $4.2m).

December half year results

The half year reporting by June year ends have been released and a summary is below:

- **Bellamy’s Australia Limited** saw half year profit reduce to $7.2m (down from $13.7m)
- **Huon Aquaculture Group Limited** reported a profit of $31.5m (up from a loss of $1.3m)
- **Mystate Limited**’s profit grew slightly to $15.2m (up from $15.1m)
- **Tassal Group Limited** reported an increased profit up to $27.7m (up from $25.3m)
The Deloitte Tasmania Index (DTI) and the percentage contribution to the DTI are shown below to 28 February 2017.

The reduction in the share price of Bellamy’s Australia Limited has altered the trend line of the Deloitte Tasmania index (it was responsible for a large part of the upward trend since its initial listing though), and reduced its market capitalisation down from 41% at 30 June 2016 to 19% at 28 February 2017.

The movement in the Index by entity is shown in the above graph with 30 June 2013 as the starting point data.

Note: Webster Ltd and Ruralco Holdings Ltd were removed from the Deloitte Tasmania Index when they changed their geographic locations away from Tasmania.
From a market capitalisation perspective, Tassal Group Limited returns to the top of the table as the states’ largest listed company making up 32% of the index, followed by Bellamy’s Australia Limited at 19%, Huon Aquaculture Group Limited at 18%, MyState Limited at 17% and Grange Resources rounding out the top five, at 11%.
Reflecting this backdrop, Tasmania's major economic indicators are shaping up relatively well compared to the Australian average (which has moderated given big reductions in mining investment in the North and West of the country). These indicators are summarised as follows:

- Tasmania’s real GSP rose by 2.8% over 2016. This compares with average Australian output growth of just 2.4%.
- Wage growth is also exceeding the national average (2.2% vs 1.7%).
- Retail turnover growth and consumer spending growth were in line with their respective national averages, which has been the case for the last three years or so.
- Tourism visitation to Tasmania reached almost 1.2 million visitors over 2015-16, with spending by tourists exceeding $2 billion. This represents tourist expenditure growth of around 9% over 2015-16. Strong growth in tourism across Tasmania and Australia is aided by cheap fuel prices and the low $A.
- In line with this, room occupancy rates in Tasmania have improved significantly, and are now around the national average.
- Housing finance commitments in Tasmania are up relatively strongly over the past year, as are Hobart house prices. Rent prices are also on the rise, with around a 3% lift over the past year. Hobart is currently in the position of seeing the strongest growth in dwelling rents of any capital city in Australia.

While Tasmania has a different industry focus to the rest of Australia, it is not insulated from all national trends. In both Tasmania and Australia, employment growth is swinging hard towards part-time jobs. Growth in part-time jobs in Tasmania was 3.9% over the year to December 2016. This is in stark contrast to full-time jobs growth, which was negative in Tasmania (and Australia) over the year.

Rapid growth in part-time jobs is a reflection of the changing industry composition of the Australian economy. Rapid growth is being observed in service-based sectors such as health care, retail and accommodation and food services, while capital-intensive sectors (agriculture, mining, manufacturing) are seeing falling employment.

The rise in demand for health care (and subsequent rise in part-time health care jobs) is being driven by Australia’s ageing population, and increasing preference to spend on health care. This trend is observed more in Tasmania than in other States, because Tasmania’s population is not only older on average, but also ageing more quickly than other parts of Australia.

Explosive growth in tourism is a key reason for increased availability of retail and accommodation and food services jobs, which are also commonly part-time roles. The lower $A supports international tourism by increasing the buying power of overseas visitors, while also incentivising Australians to travel domestically, rather than overseas. The 9% growth in Tasmania’s tourism expenditure in just one year is a key factor for growth in retail, accommodation and food services employment.

Business surveys continue to point to significant uncertainty about the economic outlook, given concerns about protectionism and high debt levels. But beneath the veneer of that uncertainty, there is actually a surprising development – the global economy is picking up pace in early 2017. Asia is the engine room of this recent improvement, and increasing trade is a feature – good news for export focused economies with an eye to the Asian region.
Impact day is a day each November where Deloitte staff from around the country down tools and contribute a day to a charitable organisation. November 2016 saw 60 of our Tasmanian staff involved. People from both our Launceston and Hobart offices were helping out with the valuable community work of organisations including Hobart City Mission, Red Cross, Brightside and St Vincent de Paul Society.

Nationally over 3,000 people took part in Impact day.

The Deloitte 2016 sustainability report has been released highlighting our national community contribution with $18.32m worth of services provided - including $7.25m in pro bono services, $8.63m in volunteering and $2.44m in donations and support.
We hope that you have enjoyed this edition of TAS focus. We thank you for your time and continued support.

Regards, the Tasmanian Partners

Travis, Shelley, Anita, Stuart, James, Carl, Lizzie, Tim, Angela, and Simon.

For copies of any reports referred to in this document, feedback or if you require any further information please contact our Tasmanian Managing Partner at carharris@deloitte.com.au
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