



QUEENSLAND FUTURES INSTITUTE



QLD POLICY LEADERS' FORUM

QUEENSLAND'S ECONOMIC OUTLOOK

12 SEPTEMBER 2024

QUEENSLAND'S ECONOMIC OUTLOOK

PANELISTS:



GARNETT HOLLIER
Chief Financial Officer
Brighter Super



DR MERRIDEN VARRALL
Partner, Geopolitics Lead
KPMG Australia



RICHARD YETSENGA
Chief Economist
ANZ



**MODERATOR
GENE TUNNY**
Director
Adept Economics

■ QFI THANKS ITS SPONSOR



Snapshot

The 2024 Queensland Futures Institute's Queensland's Economic Outlook covered a range of critical topics impacting the state's economy. The discussions focused on the opportunities presented by the 2032 Brisbane Olympics, infrastructure development, population growth and the natural resources sector. These are all seen as key drivers of future investment and economic growth. The panel also highlighted the need for increased productivity as a potential solution to many of Australia's economic challenges.

Concerns around housing shortages and affordability were highlighted as significant challenges, which are exacerbated by high construction costs and an aging workforce. Another key challenge for the state is that of geopolitical risk which brings uncertainty around global trade, investment and supply chains associated with disruption of the global economy.

Summary of Panel Comments

- Queensland's key opportunities span infrastructure development, which is being driven by population growth, tourism and the 2032 Brisbane Olympics. This is resulting in projects like Cross River Rail as net interstate migration is creating demand for services and infrastructure.
- While migration is slowing, there is still a need to deliver housing and infrastructure across the state. This is particularly true for affordable housing.
- While these opportunities are driving the economy, there are also several challenges and risks which industry and businesses must address.
- There is a critical need to address high construction costs, which pose constraints on delivering the development – particularly in housing – required in the coming years.
- The economy also faces risks associated with global geopolitical shifts and uncertainty, resulting in increased protectionism that is impacting trade and investment flows. However, this geopolitical volatility can also provide new investment opportunities for those who are well-prepared.
- We are also likely to see the impact of demographic shifts and an aging population, particularly in the construction sector, which will create labour and resource challenges in delivering infrastructure projects.
- Continued government spending on infrastructure, defence and housing may also contribute to long-term inflation risks.

Panel Comments



Garnett Hollier

- Brighter Super as a brand is two years old – but the fund itself is 60 years old, following a recent three-way merger. We are proud of our Queensland heritage, with 75% of our members living and working in the state.
- We are a long-term investor, with \$32 billion in funds under management – making Brighter Super the 16th largest pension fund in the country and the 271st globally.
- Last year’s economic outlook saw several headwinds – but this year we are seeing strong tailwinds and opportunities. These include:
 - The 2032 Olympics, which provides a major opportunity to leverage the Brisbane brand, boost tourism and economic activity.
 - Strong infrastructure demand – with \$94 billion expected to be spent over the next four years, driven by projects like the Cross River Rail and pedestrian bridges.
 - Population growth – which will be boosted by interstate migration and increase demand for essential services and infrastructure.
- However, we must address the key challenge of housing, which is essential for handling population growth.
- Finally, natural resources – including projects tied to the Queensland Energy and Jobs Plan – is another significant opportunity. This sector will be critical for meeting Queensland’s renewable energy targets of 50% by 2030 and 70% by 2032.
- However, the confluence of these opportunities and developments creates a risk – especially around labour, materials and construction which will lead to cost pressures if not managed.
- As such, balancing policy levers will be key to seizing the opportunities ahead.



Dr Merriden Varrall

- Queensland’s economy cannot be considered separately from the broader geopolitical context and risks we are currently seeing play out.
- Australia is a trading nation – and Queensland is a trading state with a diversified but relatively exposed economy – so it is critical for Queensland’s economic future to have a stable and predictable trading environment.
- This includes respected rules, stable markets and a growing middle class to buy Australian products – as well as stable and secure supply chains.
- This is being challenged by geopolitical volatility as trade and investment are becoming tools of power and security.
- This can be thought about as strategic and systemic competition:
 - Strategic competition considers who has the most power and influence; and
 - Systemic competition considers the shape and nature of the very system.
- For example, geopolitical volatility isn’t just about one country trying to be more powerful than another, but also about shaping the international system itself.
- Some developing or emerging countries are challenging the current order. Although these countries don’t share a unified vision, they are challenging the predominant liberalised, U.S.-led world order – which is what Queensland relies on in order to thrive.

Panel Comments

- Trade and investment are increasingly being used as tools of competition, or 'weaponised'. While we have seen an 'offensive' component through the use of trade and investment barriers, a growing number of governments are also using 'defensive' components to protect their national interests through increasing onshoring, friendshoring and friendsourcing, particularly in critical sectors – and the definition of critical is expanding.
- Protectionism is rising – including in the US, which is now pursuing “Made in America” instead of trade liberalisation. This is a clear reversal of logic from global openness in decades past.
- While businesses have largely followed economic logic and will likely continue doing so – rather than incorporate this geopolitical risk aversion – governments are intervening more in strategic areas like critical minerals which will have an impact on private investment.
- The key considerations for Queensland in the near-term are the upcoming U.S. election – and the potential for internal disruption in the U.S. to drive further protectionism and more trade restrictions. This is because the U.S. is the leading foreign investor in Australia.
- However, industries will be affected differently. Change may bring opportunities if businesses and industry are prepared to take advantage of this. Businesses should be undertaking scenario modelling, dynamic risk assessments and tracking geopolitical trends to find these opportunities.



Richard Yetsenga

- ANZ operates in 29 markets and recently acquired over a million customers through the Suncorp deal.
- Risks and opportunities can often become conflated – especially in the geopolitical space – as change can be both a risk and an opportunity.
- For Queensland, the economic risk from outside Australia centres around China. While some may argue the economic issues in China are cyclical or that policies can change the trajectory, the country is actually facing structural issues from its demographics, debt levels, and its role as the world's largest trading nation in a world trading less. These are significant constraints which cannot be easily resolved. This means that as they bind, the economy will slow.
- China's slowing economy is freeing up capital, benefiting countries like Singapore, Vietnam and India.
- There is a clear shift in Asia's focus, and Australia's engagement with ASEAN reflects this.
- For Queensland, it's no longer just about one customer (China); but there are now multiple opportunities across Asia.
- Another risk for Queensland is not taking full advantage of our opportunities, like the Olympics and the pipeline of infrastructure projects. However, this isn't just a Queensland problem as other parts of Australia face it too.
- The final challenge is housing and migration: Brisbane's median dwelling price is now higher than Melbourne's, which is affecting migration flows into Queensland. Migration is slowing, and that will have an impact on both demand for sectors and the labour supply.
- Housing remains the biggest intergenerational challenge. There is no single solution to it, and Australia's 11 million dwellings for 27 million people suggest it's more of an allocation problem than a shortage.

Panel Questions

Can Super play a role in housing investment, and is Brighter Super investing in housing?



Garnett Hollier

- Greater levels and access to capital through superannuation may not solve the housing issue, but superannuation funds potentially have a role in addressing housing.
- In Australia, Brighter Super have several projects, including delivering accommodation for the Department of Defence, and an essential worker project in Parramatta.
- Our largest investments in housing are in the U.S., where the market is very different – with 40% of rentals institutionally owned. Brighter Super are developing a 400-unit complex near Fenway Park in Boston. The economics there are favourable, with rental rates similar to Manhattan.
- We're looking at live opportunities in Brisbane in built-to-rent and affordable housing, but we haven't placed any investments yet.
- One challenge is figuring out when in the cycle to invest. Turnkey developments are ideal as they carry the least risk, but there aren't many of those opportunities in the market.
- Taking on development risk can offer higher returns but comes with risks like high construction costs, which are especially high in Brisbane – second only to Sydney.
- However, the fundamentals in the Australian housing market are compelling: rental growth is high, and vacancies are low, so we are talking to fund managers about opportunities.
- For comparison, institutional investment in housing is higher in other markets, such as 16% in Germany and 2% in the UK, whereas Australia is still almost zero. As such, there is potentially an early mover advantage in the market.

Are you seeing any possible developments in Ukraine or the Middle East that could have economic implications for Australia and Queensland?



Dr Merriden Varrall

- Given the level of volatility and activity, it is critical to think about everything happening overseas. The world has adapted to a certain level of instability, especially in the Middle East and with Russia and Ukraine.
- In Ukraine, we are likely to see the war stabilise, but Russia will continue trying to take more territory, and Ukraine will keep using drone strikes and asymmetric warfare.
- The risk of NATO getting involved more broadly has decreased, but the fundamental issue with Russia remains; Putin's broader goal is to challenge the liberal U.S.-led world order.
- Putin isn't just invading Ukraine for fun; it's part of a larger vision for Russian expansionism, and as he gets older, he might be more desperate to achieve it.
- The instability in the Middle East poses a different challenge but is not necessarily a threat to global order. Major powers are generally acting cautiously to avoid escalating conflicts.
- A ceasefire seems unlikely, and Palestinians are becoming more radicalised, which is increasing the potential for terrorism within and beyond the region.
- For Australia, even though these events feel far away, there are implications like rising costs, energy supply concerns and supply chain disruptions.
- The overall impact of these conflicts is a more fractured international system, where rules and norms are being challenged, and trade flows are being unpredictably reshaped.

Panel Questions

How much are state and federal governments contributing to higher-for-longer inflation and interest rates?



Richard Yetsenga

- There has been spillover from the Russia-Ukraine conflict – being the effects on global multinationals with businesses in Russia.
- This has raised questions about whether a similar situation could occur around China. This is likely contributing to the shift of capital to other regions.
- It's hard to pin responsibility for inflation on specific areas of fiscal policy in Australia. While household stimulus in Queensland and federal tax cuts are meaningful, they aren't the main reason inflation is staying high.
- Looking back over the last decade, government consumption and investment (for both federal and state) have grown at twice the rate of GDP and three times the rate of private demand. This shows how government involvement has increased across all areas of the economy – in housing, climate change, and defence.
- Recent federal budgets added \$50 billion to the defence pipeline, alongside major infrastructure projects. These are all resource-intensive and necessarily government-driven.
- The RBA's rate hikes, therefore, are impacting the private sector discretely, particularly private consumption, though business investment and government activity are still strong. Additionally, Australia is very export-dependent, so those sectors remain robust.
- The weakest player in the economy is household consumption.

Given current thematics such as critical minerals and energy transition, what opportunities does Brighter Super see across Queensland and what are you investing in?



Garnett Hollier

- Brighter Super is exploring how to best be part of the energy transition, which is a competitive space.
- We already have investments in wind farms – one in Queensland and one in South Australia.
- Another investment thematic is tourism – we invest in airports, theme parks and light rail on the Gold Coast, which all support the influx of tourists, especially around the Olympics.
- Brighter Super also invests in healthcare, which is being driven by demographic shifts. We have a property portfolio of medical centres, including the Icon Integrated Cancer Centre in Townsville.
- We're also exploring venture capital opportunities for Queensland companies.
- In regional Queensland, we support communities through investments like a marine logistics business in far north Queensland, and the Central Queensland Livestock Exchange in Gracemere.
- This highlights how investments can extend beyond Southeast Queensland to regional areas, where there are unique opportunities.
- As a mid-size fund, we can focus on smaller, impactful investments in regional Queensland. This contrasts to larger funds which go offshore for large deals.
- We've committed \$500 million to investments in Queensland – a 50% increase, showing our optimism and dedication to real opportunities in the state.

Panel Questions

Is there any risk of a Chinese invasion of Taiwan, and what would the implications be for us?



Dr Merriden Varrall

- There's a wide range of views about the potential conflict over Taiwan.
- Some estimate that the risk of conflict has risen from 10% to 20%, citing the CIA's assessment that President Xi might be ready to invade Taiwan by 2027, even pinpointing a date considering tides and typhoons. This is a hawkish stance, but other views exist across the spectrum.
- While the likelihood seems low – at around 10% to 20% – the impact would be dramatic.
- It's critical to not only consider geopolitical risk in terms of just probability and impact, but also consider velocity and risk of contagion.
- Even if the risk of China reintegrating Taiwan with the mainland seems low, events like a U.S. president declaring Taiwan an independent state, or internal problems in China could magnify this risk.
- As such, the impact on Australia depends on how the U.S. reacts and what we decide to do.
- If the U.S. responds with force, it could be catastrophic, and it's widely believed the U.S. would not win, regardless of Australia's involvement.
- This conflict would paralyse Australia's economy – as well as the global economy, halting trade with China and other key Asian partners.
- Taiwan produces 70% of the world's semiconductors and 90% of the most advanced chips, so production of technology-related goods would halt globally in the short-term.
- Another response to conflict would be the U.S. imposing financial or economic sanctions, which would see a similar response from China, causing heavy economic damage globally and to China itself.
- Given these risks, China is preparing to make its economy more resilient to Western sanctions through self-sufficiency, while the U.S. and its allies are working to deter China from making significant moves.
- Taiwan will remain as the core, non-negotiable interest for China, but China understands that force isn't necessarily the only way to achieve integration, as exemplified by Hong Kong.

Adam Smith said 250 years ago that to lift a society to the highest level of opulence, you need peace, easy taxes, and a tolerable administration of justice. Do you agree with the idea of getting the basics right?



Richard Yetsenga

- We have big issues with tax in this country that need to be addressed.
- However, taxes are unlikely to go down any time soon; there's no major political force suggesting cuts to defence, housing, climate transition, or infrastructure. If the government doesn't have the fiscal resources, the tax system must change, but the idea of reducing taxes does seem to be on the table right now.

Audience Questions

How can we leverage the upcoming wealth transfer with incentives and policy changes to encourage small-scale private housing investment to help improve housing allocation, while also allowing individuals to build wealth?



Richard Yetsenga

- I'm generally distrustful of focusing too much on the supply of new dwellings as we can't address housing the same way as other sectors.
- This is because housing isn't like manufacturing; when you ramp up housing construction, the cost per unit increases, unlike in manufacturing where costs go down with increased output.
- Demographics are also a headwind, given Australia's ageing population. This means we will need to discuss more carefully the issue of who owns the existing stock of dwellings, and what constraints those choices impose on others.
- The politics around this issue are difficult and will take time to coalesce around agreement. This is why focusing on new supply alone won't solve the problem.

What can we do to encourage entrepreneurialism of the young cohort today and the bubbling up of employment, new careers and new businesses that we really need in our State?



Garnett Hollier

- This opportunity could naturally fit into early ideation strategies, which align with venture capital investments.
- However, as a superannuation fund investor, Brighter Super has a very long-term investment horizon. We must consider the needs of our current members, their age, and their investment timeframes when making decisions.
- While there is a role for capital in supporting early-stage ideas, this will likely remain a relatively small part of our overall portfolio.



Richard Yetsenga

- The younger generation is entrepreneurial in their own ways. There's no doubt that areas such as AI and new technologies are being driven by young people.
- The traditional path of learning a skill, getting a job, starting a family, and buying a house is shifting. With housing and starting a family being delayed, choices are naturally changing for the younger generation.
- Queensland doesn't have an issue with demand for these entrepreneurial developments, but rather, the challenge is execution and access to resources.
- The only policy agenda that truly matters to stimulate entrepreneurialism and growth is productivity. Economists agree that productivity is the only sustainable way to increase living standards.
- When we discuss delaying infrastructure projects, like in Victoria, or parts of the climate transition due to a lack of skills or resources, insufficient productivity is resulting in lower profits and wages than what should be being earned, and projects not being completed.
- We need to shift the debate away from the "to-do list" and focus on the "how-to-do-it" list, because that's what truly matters.

CORPORATE PARTNERS

BDO gadens

MEMBERS





QUEENSLAND FUTURES INSTITUTE

FOR FURTHER INFORMATION

Steve Greenwood | Chief Executive Officer
steve.greenwood@futuresinstitute.com.au

www.futuresinstitute.com.au

Level 11, 111 Eagle Street Brisbane QLD 4000