A BETTER QUEENSLAND

SUMMARY REPORT

Queensland Policy Leaders Series

Economic Outlook for Queensland

Thursday 10 October
7.30am – 9.00am
Customs House, 399 Queen St, Brisbane

Moderator - Dr Doug McTaggart, Non-Executive Director

Panellists

Michael Anthonisz, Chief Economist, Queensland Treasury Corporation

Simon Lewis, Treasurer Banking & Wealth, Suncorp Group

Beverley Morris, Director, Rates & Inflation, Queensland Investment Corporation

Peter Munckton, Chief Economist, Bank of Queensland

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Breakfast Summary

The key theme from the 2019 Queensland Futures Institute *Economic Outlook for Queensland* focused on global, national and local impacts faced by the Queensland economy and the corresponding role for private sector, State and Federal Government in stimulating population, employment, productivity and economic growth under increasing levels of uncertainty. Queensland shares many challenges with both our national and global economies and must navigate and overcome significant uncertainty moving forward.

The breakfast identified that whilst high levels of caution remain, government must develop suitable macroeconomic policy to foster growth and bolster sentiment. The discussion also reinforced Queensland as well positioned in the long-term, however we remain exposed to short-term and cyclical developments which could impede growth.

Key comments from Panellists

Moderator - Dr Doug McTaggart, Non-Executive Director

- Introduced the panellists and contextualised the discussion to the economic and business perspectives of the issues considered, adding additional insight into Queensland's current economic position and future indicators.
- When economists consider the growth outlook for the state, it is important to remember that the sentiment of economists, markets and consumers may not align.
- The Queensland Government's current debt is approximately $80bn. It is important to establish whether elevated debt levels are sustainable and being directed effectively to drive growth.
- Whilst metrics such as the living standard index provide additional perspective to the outlook for Queensland, economic growth will always underpin these.
- The State Government must consider its profit and loss statement and balance sheet; a suitable structure of government-held assets must be maintained to best position the state for growth and prosperity.

Michael Anthonisz, Chief Economist, Queensland Treasury Corporation

- The outlook for Queensland - as for other Australia and the rest of the world – is a cautious one. This caution reflects that future outcomes might not be as strong in the future as they've been in the past and that there appears to be more uncertainty around these future outcomes.
- Relative to the past, Queensland's economic growth is expected to be slower (2.75% vs 4% on average since the early 1990s). However, the state is not alone with Australia's growth rate currently half of its potential growth rate. Further, around four-fifths of the world's economies are expected to grow slower in the next 5 years than in the 5 prior to the GFC.
- Structural factors (like debt, demographics, productivity) are all weighing heavily on growth as is uncertainty. For instance, trade related uncertainty is 75 times higher now than prior to the start of the Trade War.
- In response to questions:
  Queensland's public debt might sound like a lot in absolute terms but relative to the size of the State's revenue base or economy it is much less so. Further, Queensland is not alone with other states set to have similar debt levels in coming years.
- Asset sales are unlikely to be an effective means of debt reduction. This is because in recent years these have been done as part of a broader asset recycling agenda. If this were to e the case in Queensland as it has in New South Wales and Victoria, any proceeds from asset sales would be re-invested in new assets. This limits the scope for asset sales to lead to debt reduction, at least in the manner currently practiced. The degree of vertical fiscal imbalance remains high and ideally would be addressed.
- Historically, Queensland has been heavily reliant on population growth to bolster economic growth. A continued concentration on this sector is required to drive economic growth, especially for regional areas.

Simon Lewis, Treasurer Banking & Wealth, Suncorp Group

- Queensland remains well positioned for growth in the future retaining an optimistic outlook. The state's key industries - health, education and tourism, as well as the banking and financial services sector and SMEs continue to drive the economy forward.
- High levels of uncertainty are borne from central banks' and governments' shift in policy direction, notably seen in the change of the U.S. Federal Reserve stance, from tightening to easing, in recent years. Uncertainty such as this causes confusion for investors and consumers and increases caution. Cautious sentiment impacts not only investors and markets, but also communities. As such, growth should not remain the sole focus.
- The future of Queensland industry must be considered when finding opportunities for the workforce and determining the need for upskilling as new technologies enter the market.
- Economic metrics are only one perspective from which to consider the future; Environmental Social Governance (ESG) considerations are becoming increasingly important.
- High levels of household and government debt are not a significant concern considering low interest rates.
- There must also be an improvement in the conversation between Federal, State and Local Government to bolster business and consumer sentiment.

Beverley Morris, Director, Rates & Inflation, Queensland Investment Corporation

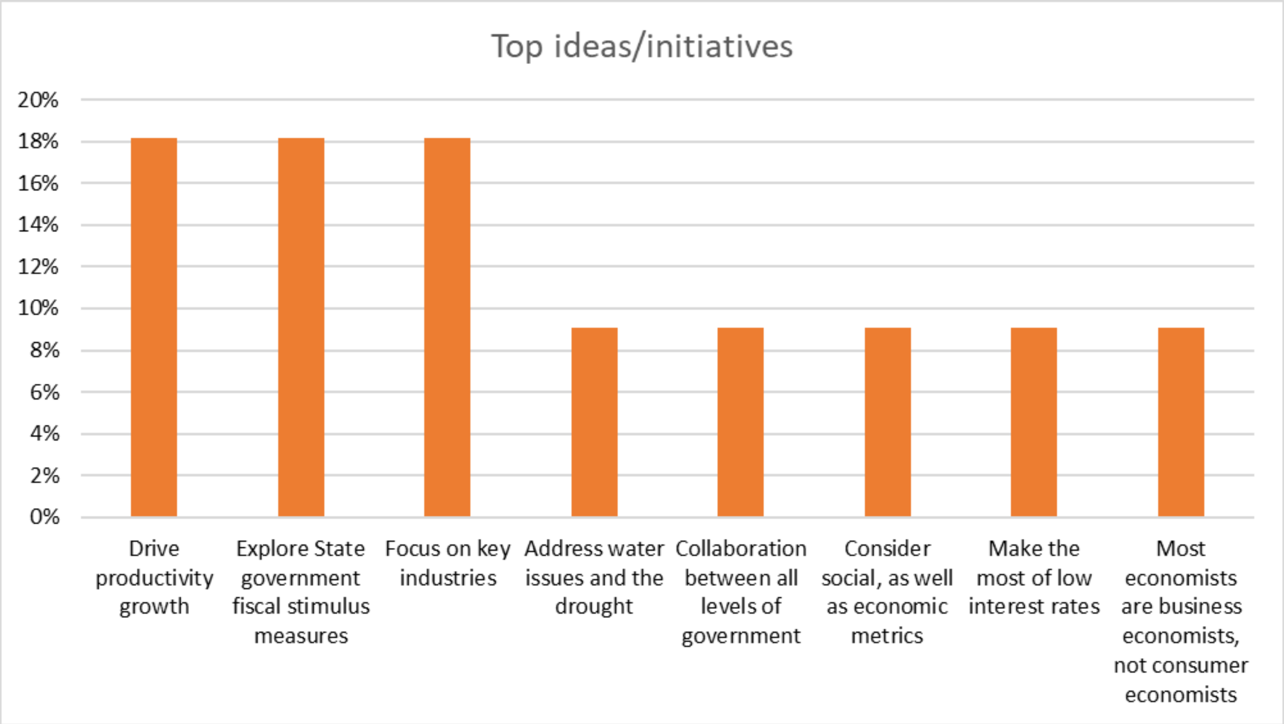
- Queensland is well positioned in the long term to tap into the Chinese economy and continue supporting local economic growth and further trade opportunities. However, in the short term, the economy faces cyclical influences. This has been observed following the mining boom and as global manufacturing, construction and service sectors slow. This slowing growth is driven by weak private sector demand, slowing consumer spending and high levels of household debt, meaning there is limited ability for households and consumers to generate growth. As such, public spending and an expansionary central bank stance must be used as the key drivers of growth.
- The end of the business cycle has been anticipated throughout this decade and the reaction to a slowdown in global economic growth has also been pre-empted.
- Initial modelling of impacts of global trade tariffs was unable to quantify many factors due to high levels of uncertainty; the initial worst case scenario has been surpassed following ongoing trade war developments. Despite this, employment decisions have been relatively unaffected thus far. The observed impacts have largely fallen on the supply chain and are yet to be fully felt by the end consumer.
- The Reserve Bank of Australia is likely to continue viewing interest rates as the sole lever, with Quantitative Easing (QE) measures unlikely to achieve long-term prosperity. Central banks are only now realising the impacts of global supply shocks and are reliant on government policy to drive productivity growth and subsequently achieve wage and living standard growth.
- Attitudes of participants in financial markets regarding government debt as a traditional response to slowing economic growth have changed; the global low interest rate environment is lessening reaction to debt outlook.

Peter Munckton, Chief Economist, Bank of Queensland

- Queensland's economic growth has underperformed compared to other states in the last decade. Population growth in the state was in line with the national average until the 1970s, higher than the national average until about 2010, and now about 1.5%. Productivity growth is currently lower than it was in the 2000s. This is largely due to the difficulty coming out of the mining boom, as well as the challenges in measuring the productivity of Queensland's key industries - health and education. Further productivity growth is likely to come from infrastructure projects and spending to improve the economy.
- Trade tariffs have impeded momentum in growth. Along with low interest rates, this may have flow-on effects for income growth and price levels. In the short term, tariffs have limited impact on our economy but are likely to have a larger impact in the long term due to our reliance on China.
- Quantitative Easing is unlikely to have significant positive benefits for our economy; the benefits it may have are likely to come from associated positive exchange rate impacts, which are diminished if other central banks also engage in QE. Low interest rates may also have little impact on encouraging investment due to already high levels of debt. Government must therefore step in and target productivity growth to overcome this.
- Economic metrics are not the only consideration looking forward; OECD living standard, pollution and other indices provide a different perspective from which to compare economies.

- The government has multiple methods of raising revenue which should be considered along with asset sales. These are not particularly needed currently as Queensland and Australian Government debt levels are relatively low compared to the global average.

Summary of Breakfast Comments



Summary of Ideas

- Focus on driving productivity growth, particularly in Queensland's key industries: tourism, health and education.
- The State Government should consider stimulus measures whilst managing sustainable levels of debt and utilising this to manage their balance sheet of State-owned assets.
- The drought and water issues must be addressed to support the regions.
- Collaboration and consistent policy direction between Federal, State and Local Government to support economic growth is required, while also retaining a focus on social outcomes.
- Sustainable debt which drives economic growth is possible not only for government, but also businesses and households.

The Queensland Futures Institute acknowledges the support of UQ Business School Commerce Honours student, Jordan Ferrari, for his summary of the Breakfast

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