

The Economic Environment affecting Regional Australia

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Sunshine Coast Business Council Conference
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more give, less take

Australian economy and financial markets continue to be impacted by a large number of large and diverse forces

Positives

- Low interest rates
- Strong recovery in residential construction (especially apartments)
- Continuing relatively rapid population growth (slowing a little)
- Infrastructure spending, especially in NSW
- A lower \$A
- Significant drop in oil prices (for consumers and business input costs)
- Stronger mining exports
- US economy strengthening; continuing tailwind from many aspects of Chinese growth (India?)

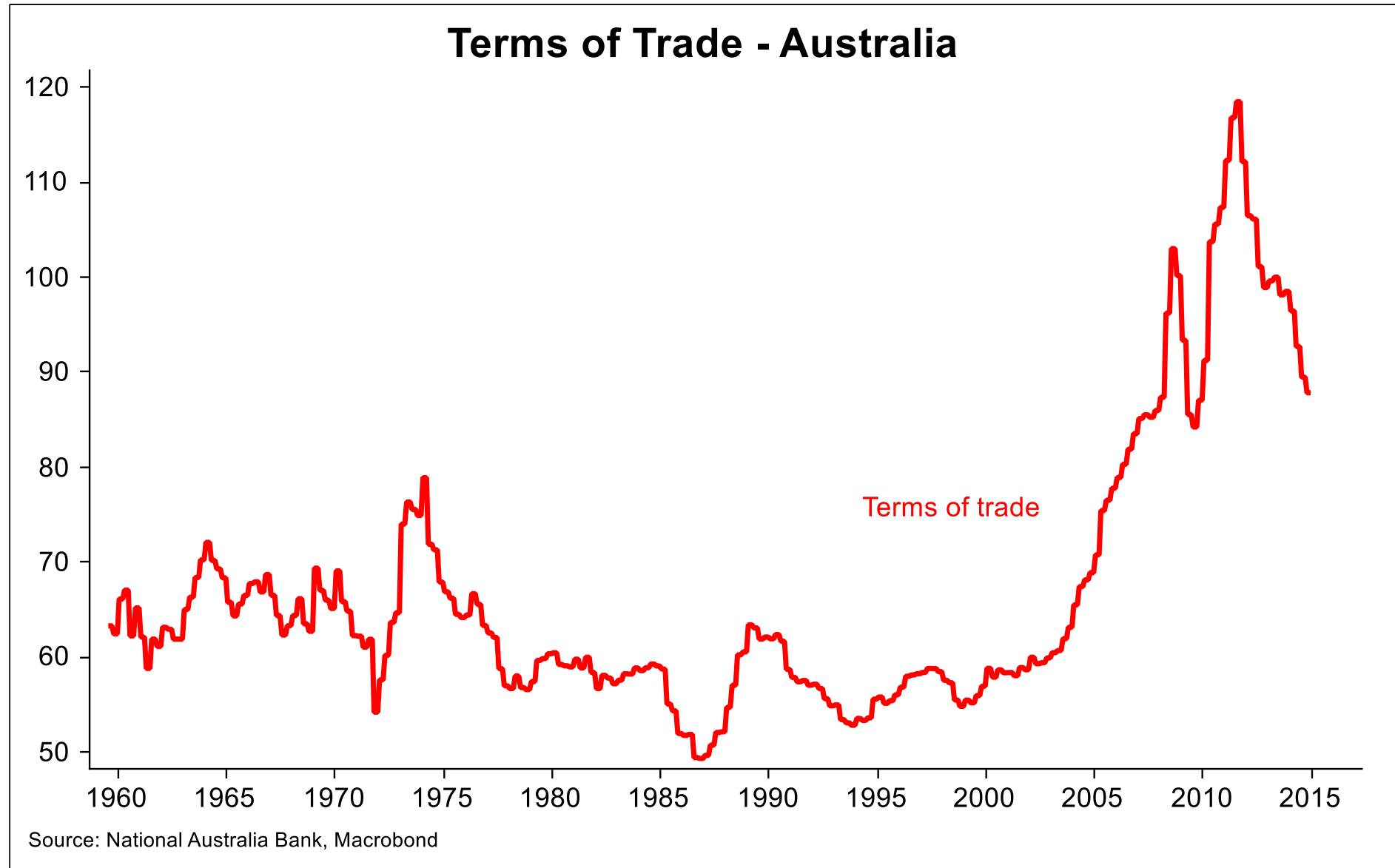
Negatives

- Falling commodity prices/terms of trade = weak incomes growth and government revenues = fiscal tightening
 - Large mining projects completing and lower oil prices to hit oil & gas sector spending (impact on WA/NT/parts of QLD)
 - Consumer and business confidence still a little fragile – budget this year has been more helpful
 - Slower growth in China affecting some sectors; still relatively slow growth in Europe and Japan
- Strengthening now occurring in the non-mining economy. Question is about pace and sustainability

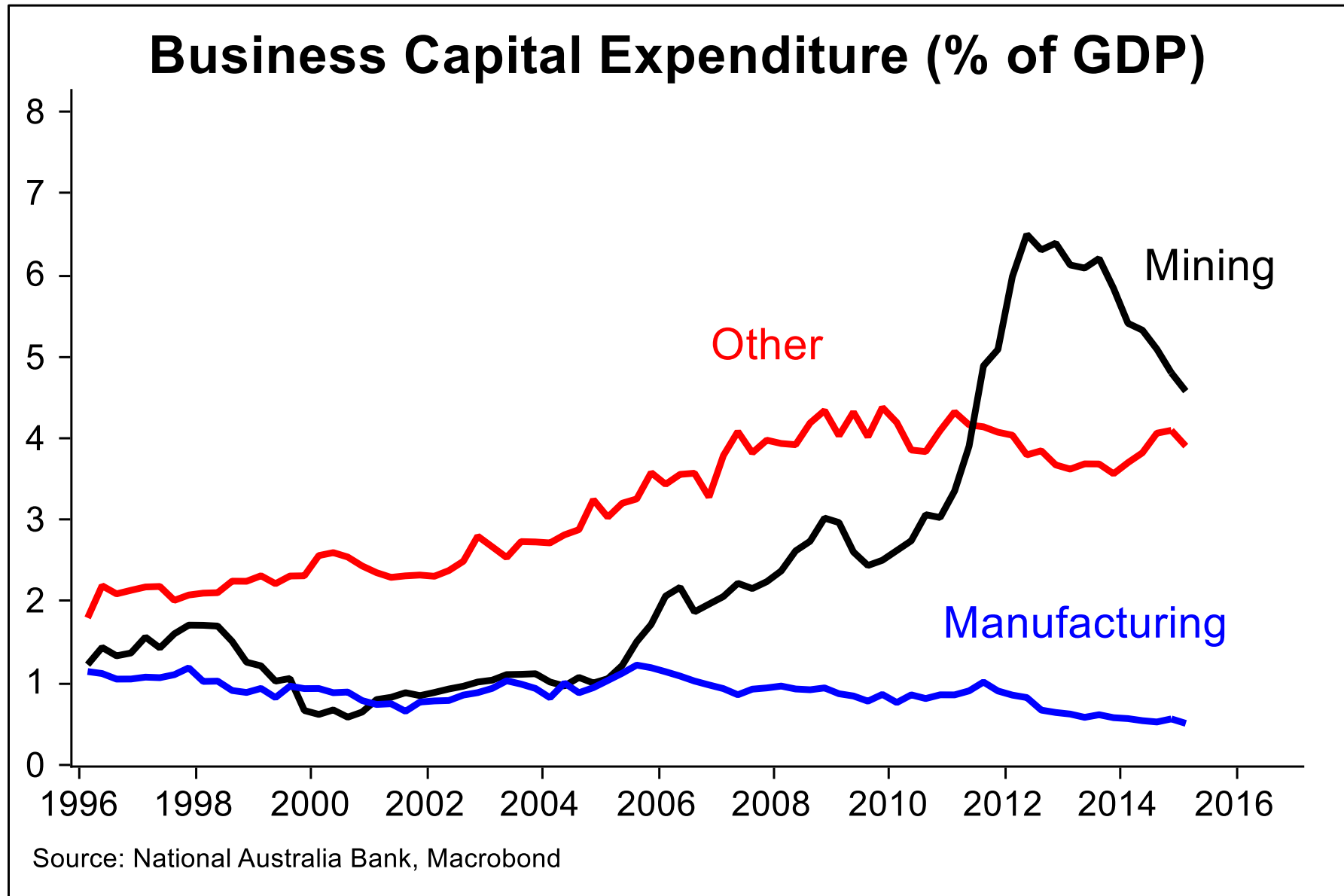
Other issues

- The ageing population
- Technology: the Internet and Digital Disruption
- Impact of QE and zero/negative interest rates in Europe and Japan – possible Greece exit from Euro?
- The first increase in US interest rates in nine years

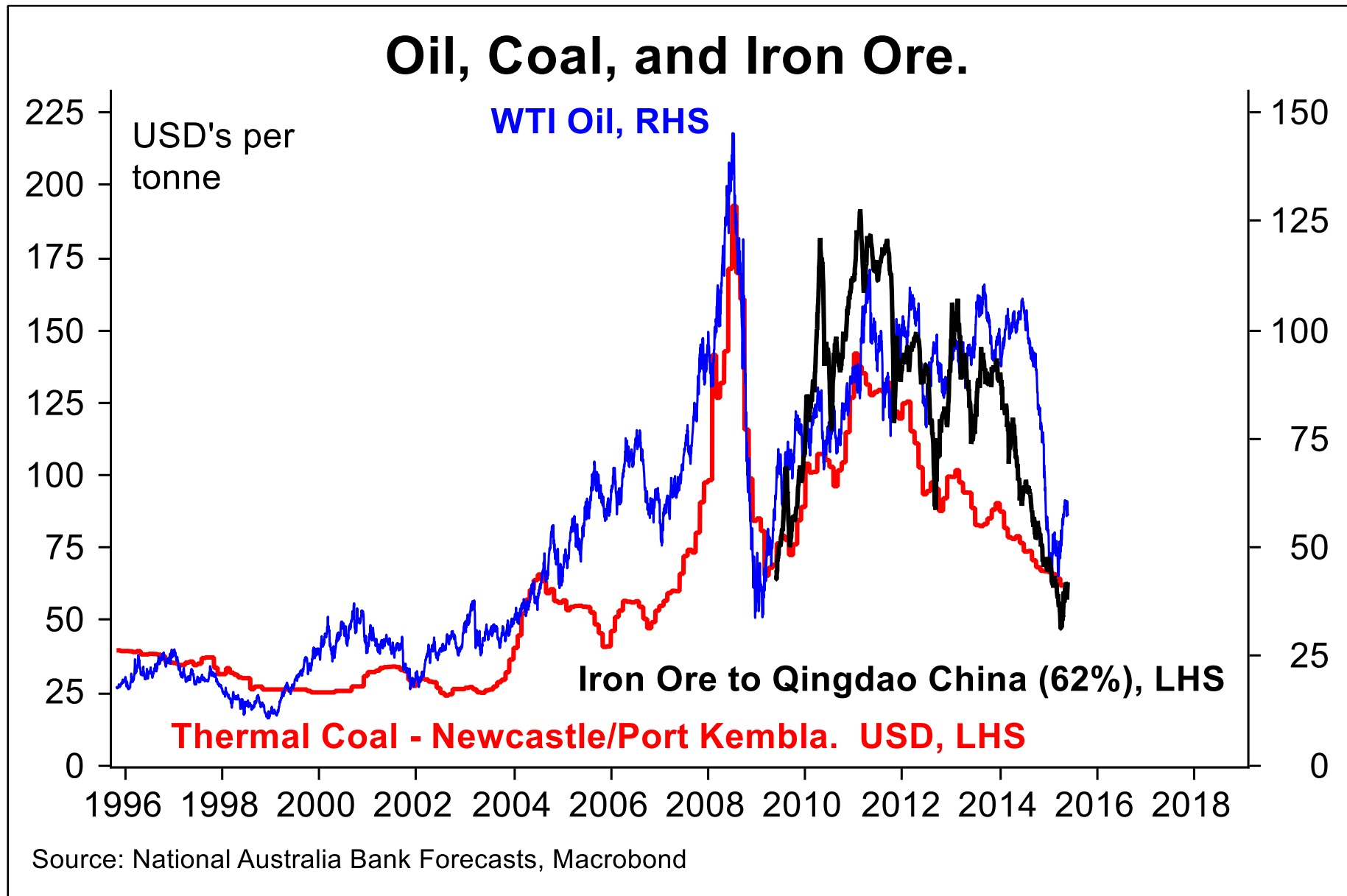
Significant decline in the terms of trade (commodity prices) a drag on the economy, incomes and budget revenues



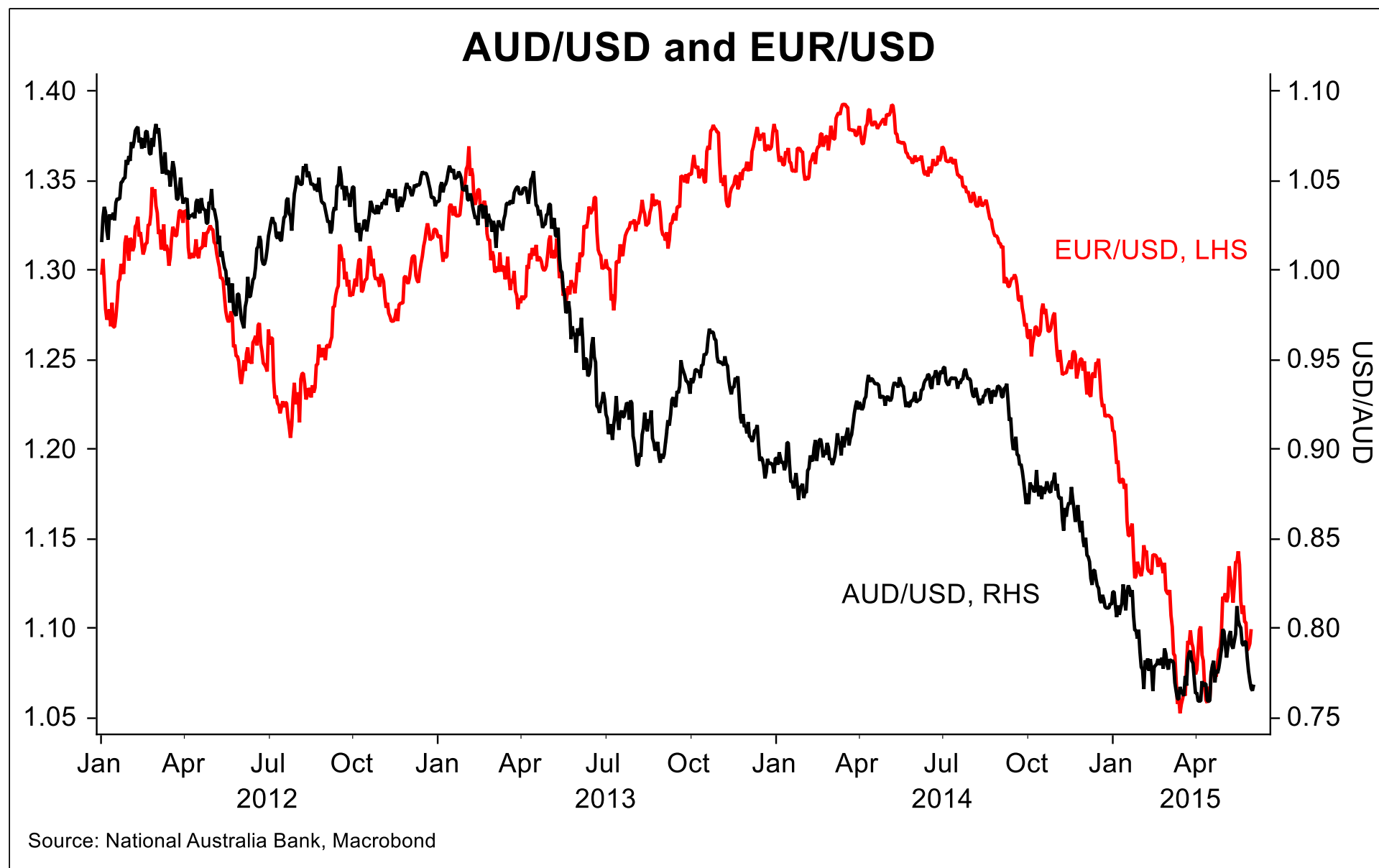
Completion of major mining projects also a headwind



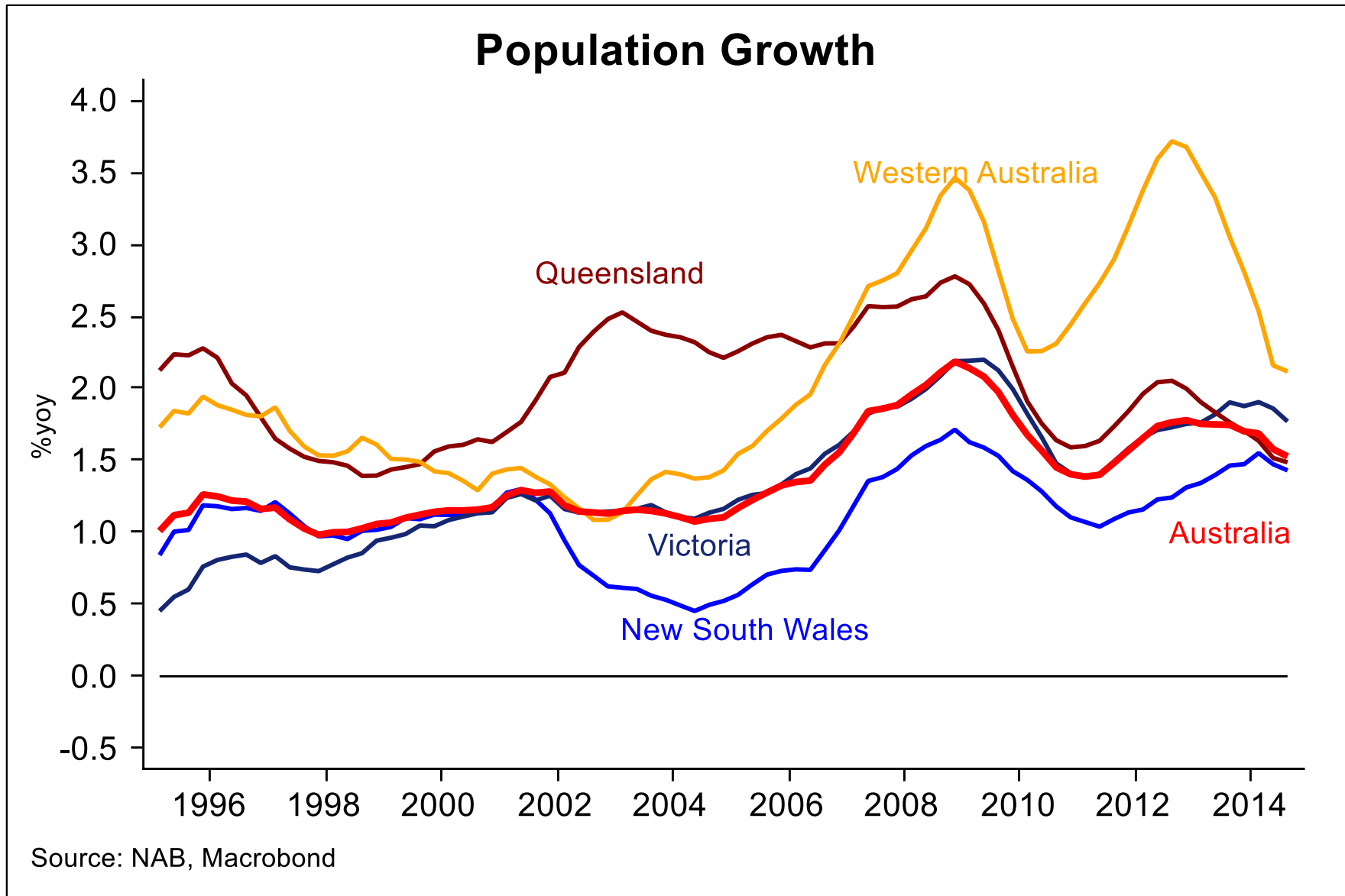
A dramatic fall in oil and iron ore prices – oil prices should boost consumer spending



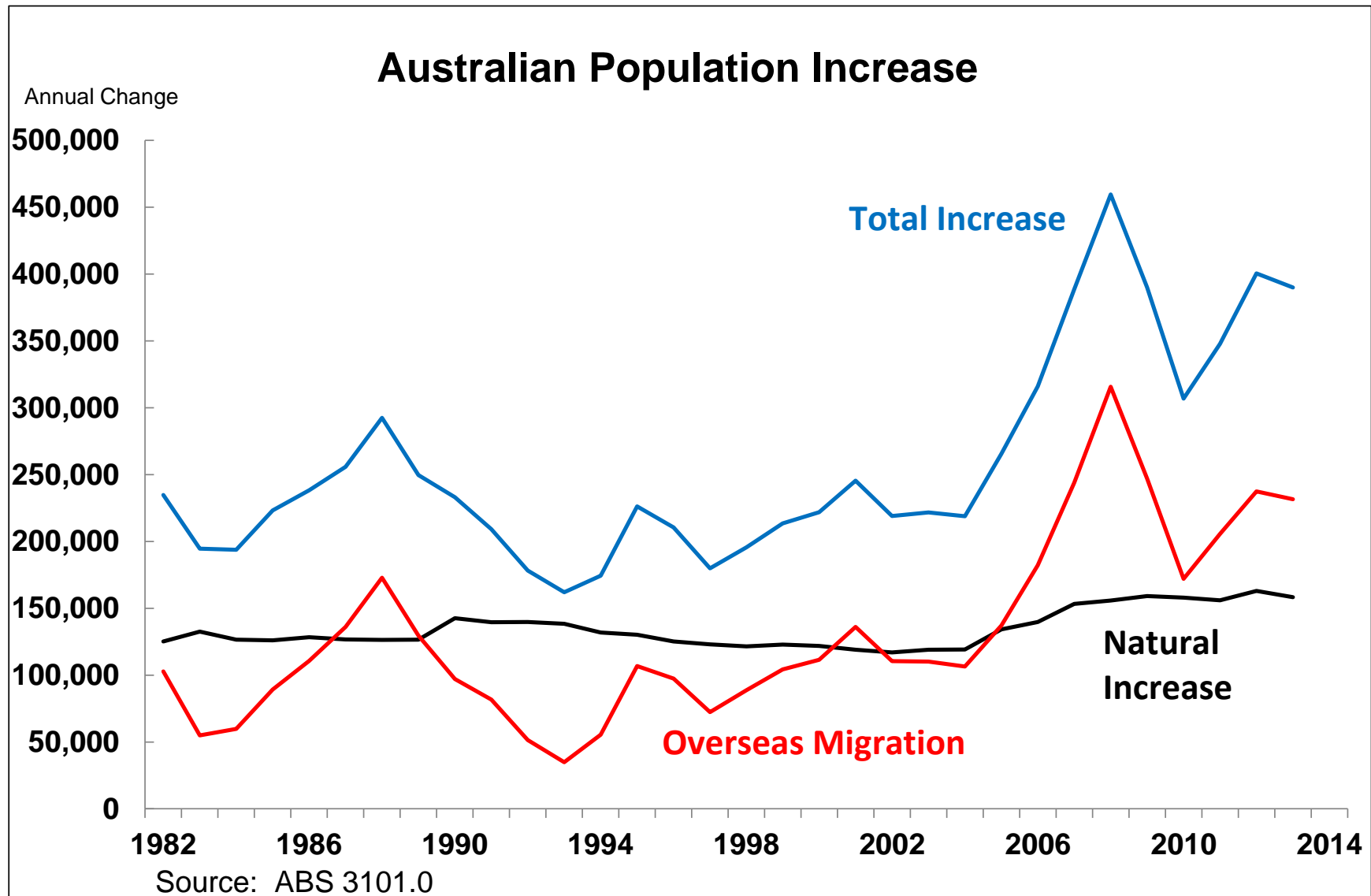
Some major currency realignments taking place also – mainly against the US\$. Positive medium term for the economy, but a challenge for retailers' pricing?



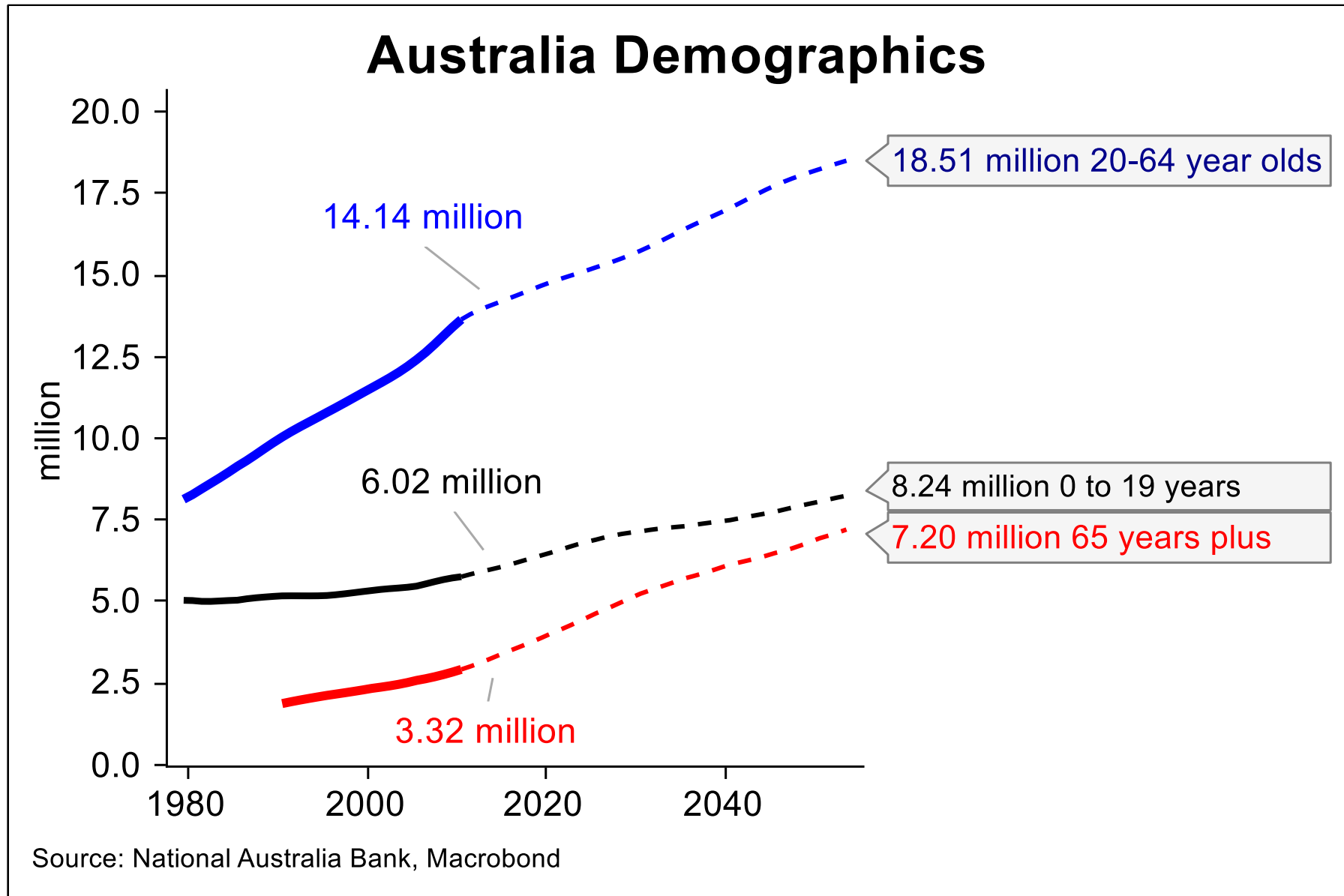
Continuing very strong population growth, though now easing



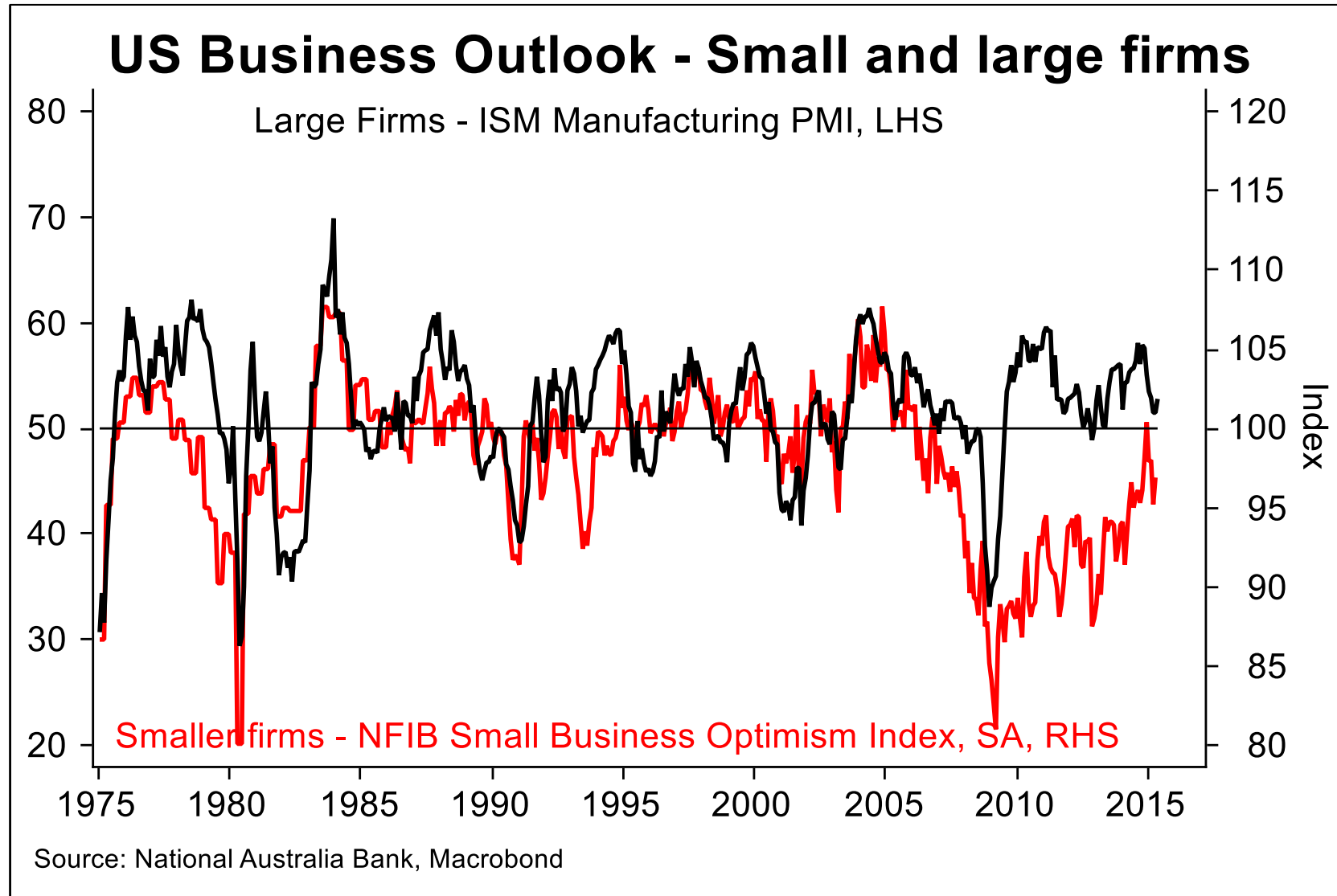
With migration a large component



With migration a large component

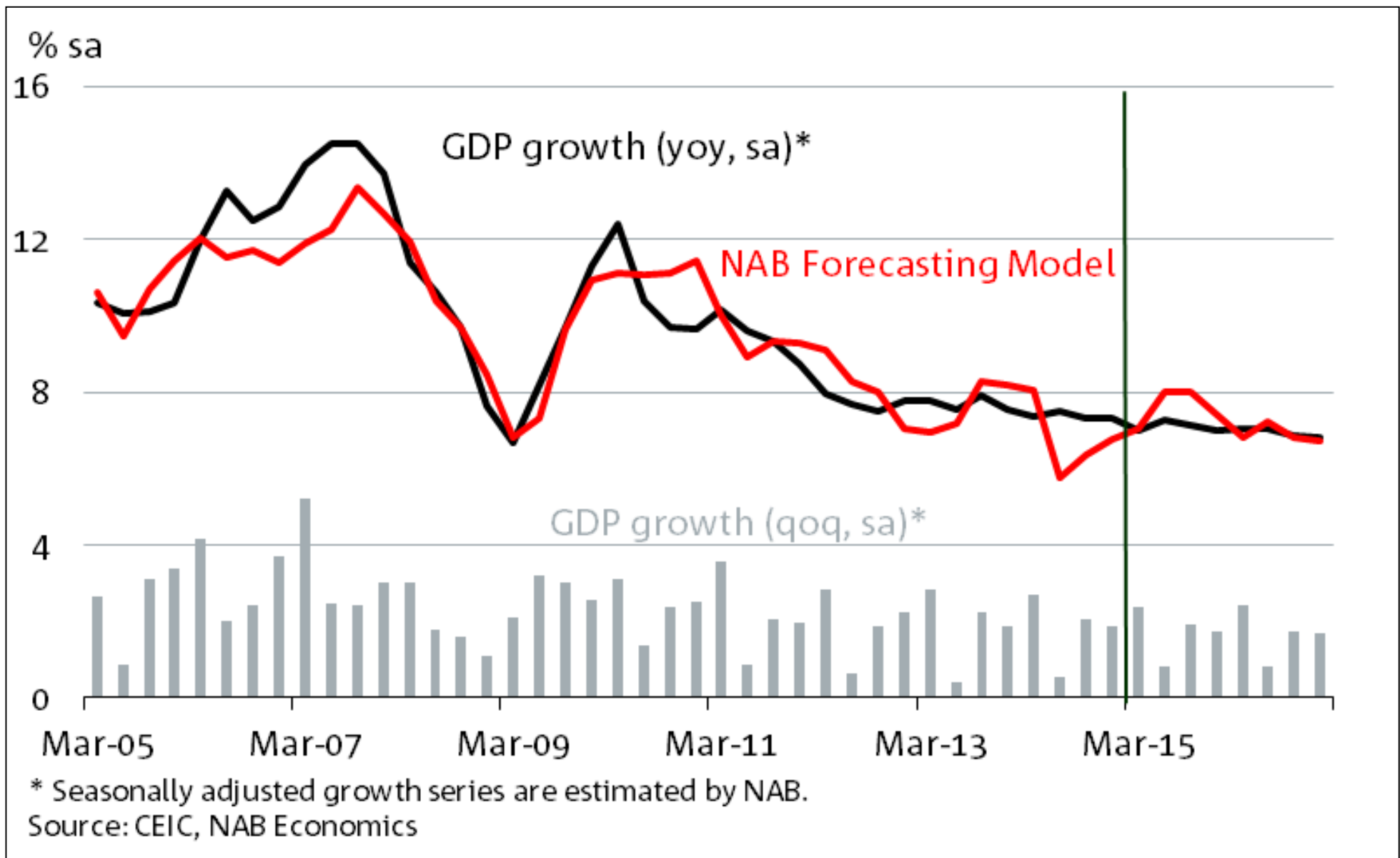


US economy improving – small businesses more positive. US data complicated by weather, port strikes and lower oil in recent months

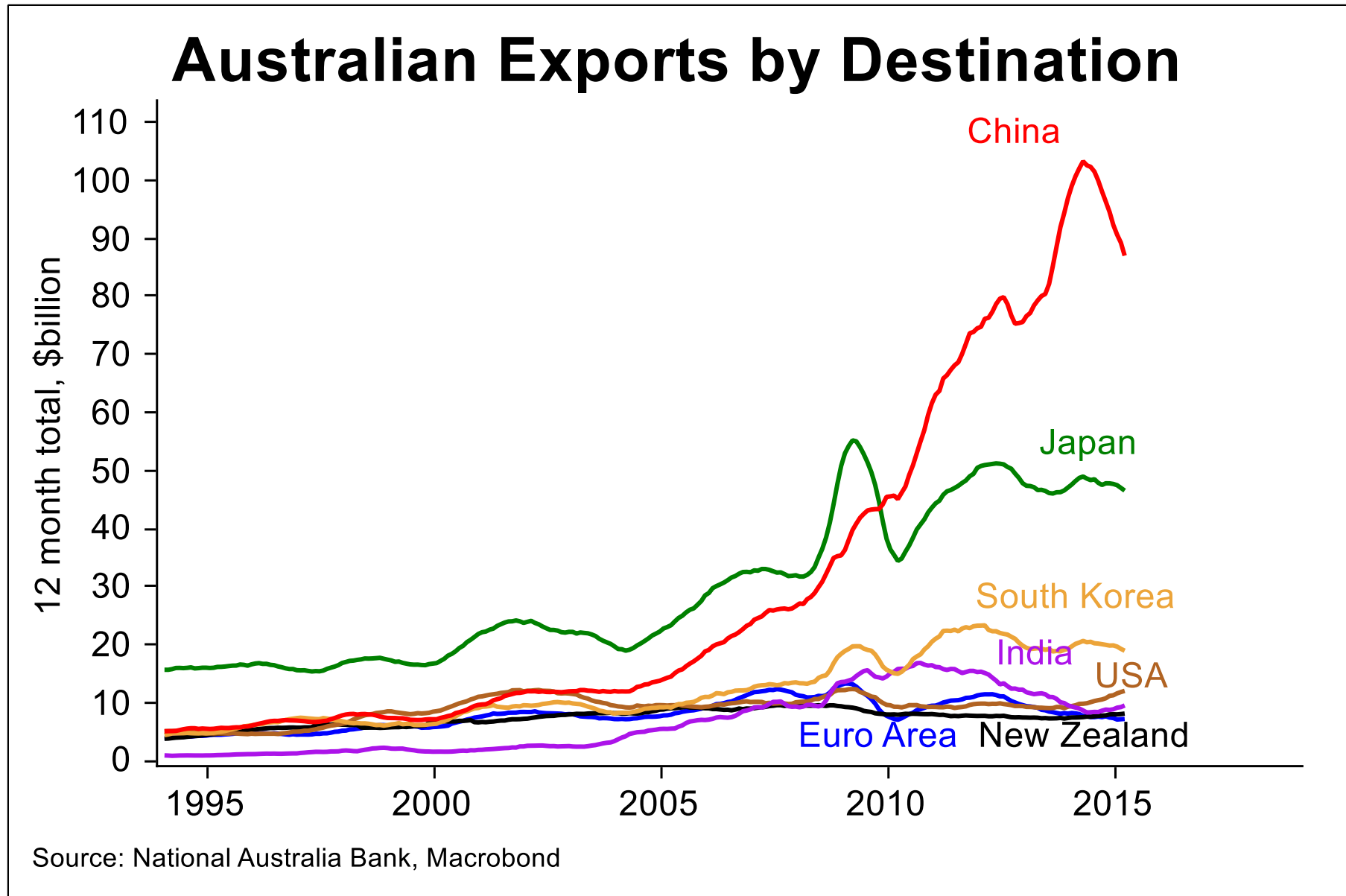


Small firms do 60-70% of the employing in the United States.

China – GDP slowing trend clearly evident, but 6-7% growth still very quick.



China and Japan are Australia's biggest export markets...by a large margin



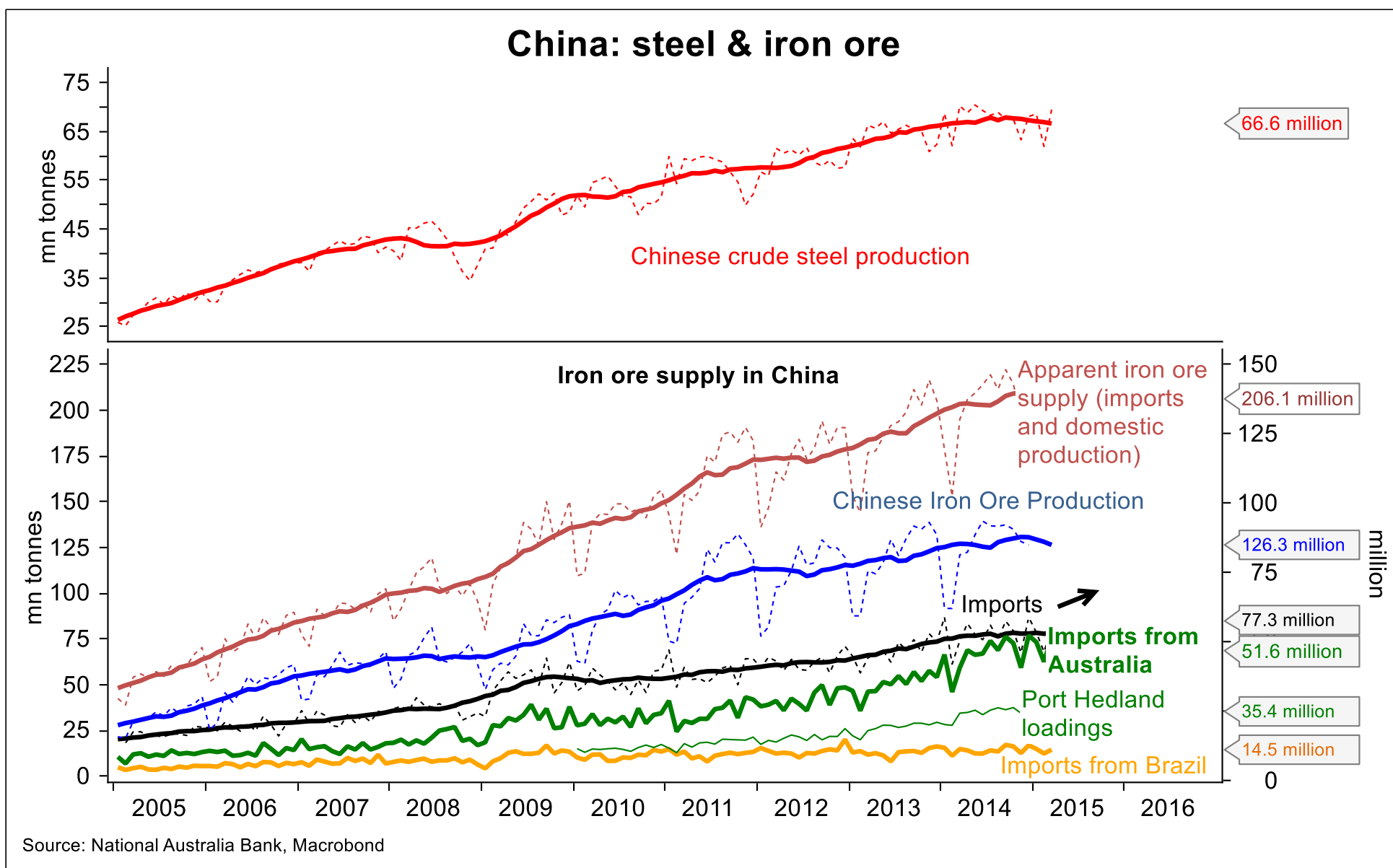
Major markets for Australia's major exports (2013-14)

| Export Destinations by Commodity | | | | | |
|----------------------------------|--------|------|---|-------|------|
| 1 Iron ores & concentrates | | | 6 Gold | | |
| | \$m | % | | \$m | % |
| 1 China | 57,043 | 76.4 | 1 China | 8,110 | 61 |
| 2 Japan | 9,664 | 12.9 | 2 Singapore | 2,273 | 17 |
| 3 Republic of Korea | 6,096 | 8.2 | 3 United Kingdom | 640 | 5 |
| 4 Taiwan | 1,710 | 2.3 | 4 Turkey | 537 | 4 |
| 5 Indonesia | 110 | 0.1 | 5 Thailand | 445 | 3 |
| 2 Coal | | | 7 Crude Petroleum | | |
| | \$m | % | | \$m | % |
| 1 Japan | 13,170 | 33.0 | 1 No Country Details (mainly China & Japan) | 5,254 | 50.4 |
| 2 China | 9,311 | 23.3 | 2 Thailand | 1,632 | 15.7 |
| 3 Republic of Korea | 5,216 | 13.1 | 3 Singapore | 1,609 | 15.4 |
| 4 India | 4,955 | 12.4 | 4 Republic of Korea | 627 | 6.0 |
| 5 Taiwan | 2,816 | 7.0 | 5 Papua New Guinea | 544 | 5.2 |
| 3 Natural Gas* | | | 8 Beef | | |
| | \$m | % | | \$m | % |
| 1 Japan | 13,174 | 80.8 | 1 Japan | 1,439 | 22.4 |
| 2 China | 2,592 | 15.9 | 2 United States | 1,360 | 21.2 |
| 3 Republic of Korea | 424 | 2.6 | 3 Republic of Korea | 892 | 13.9 |
| 4 Taiwan | 49 | 0.3 | 4 China | 787 | 12.3 |
| 5 Middle East | 49 | 0.3 | 5 Indonesia | 258 | 4.0 |
| 4 Education Services | | | 9 Wheat | | |
| | \$m | % | | \$m | % |
| 1 China | 4,142 | 26.3 | 1 Indonesia | 1,194 | 19.6 |
| 2 India | 1,464 | 9.3 | 2 Vietnam | 496 | 8.1 |
| 3 Vietnam | 939 | 6.0 | 3 China | 484 | 8.0 |
| 4 Republic of Korea | 743 | 4.7 | 4 Yemen | 349 | 5.7 |
| 5 Malaysia | 698 | 4.4 | 5 Japan | 319 | 5.2 |
| 5 Personal Travel Services | | | 10 Aluminium ores & concentrates | | |
| | \$m | % | | \$m | % |
| 1 China | 1,909 | 13.8 | 1 No Country Details (mainly Japan) | 5,532 | 91.0 |
| 2 United Kingdom | 1,867 | 13.5 | 2 China | 528 | 8.7 |
| 3 New Zealand | 1,334 | 9.6 | 3 Republic of Korea | 12 | 0.2 |
| 4 United States | 1,018 | 7.3 | 4 United States | 6 | 0.1 |
| 5 Japan | 744 | 5.4 | 5 Philippines | 0 | 0.0 |

Source: DFAT, ABS.

* Country shares of LNG from 2014 BP Statistical Review of World Energy

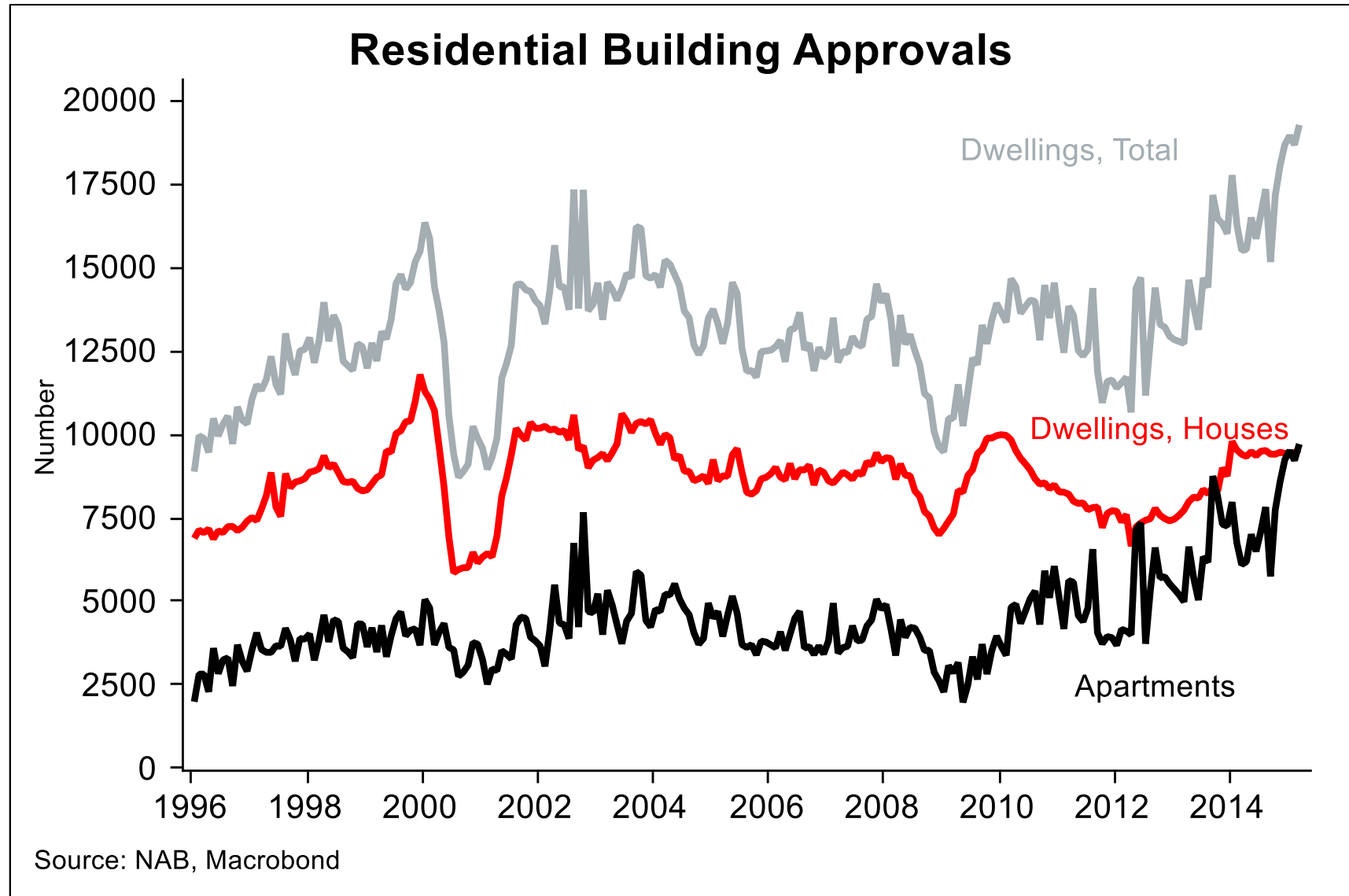
Softer Chinese steel production and weaker iron ore demand coinciding with increased Australian supply. Not good for iron ore prices



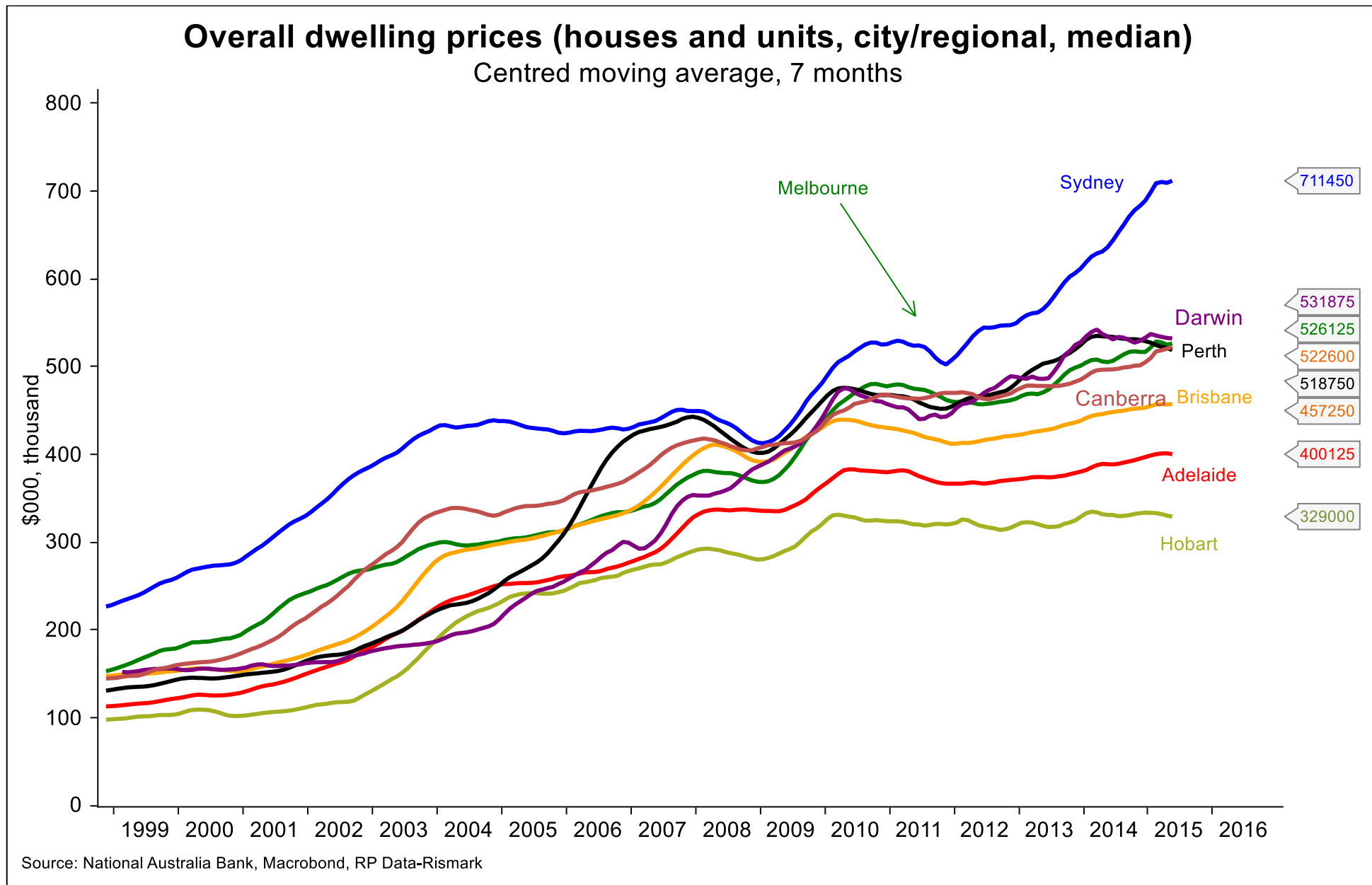
Other Chinese influences still very positive: e.g. Chinese tourist arrivals to Australia, (housing, education, dairy, wine).



Residential building approvals at record highs



House prices recently have been rising strongly in Sydney



ABC News: Port Hedland house passed in at auction in million-dollar dive, sign mining boom over



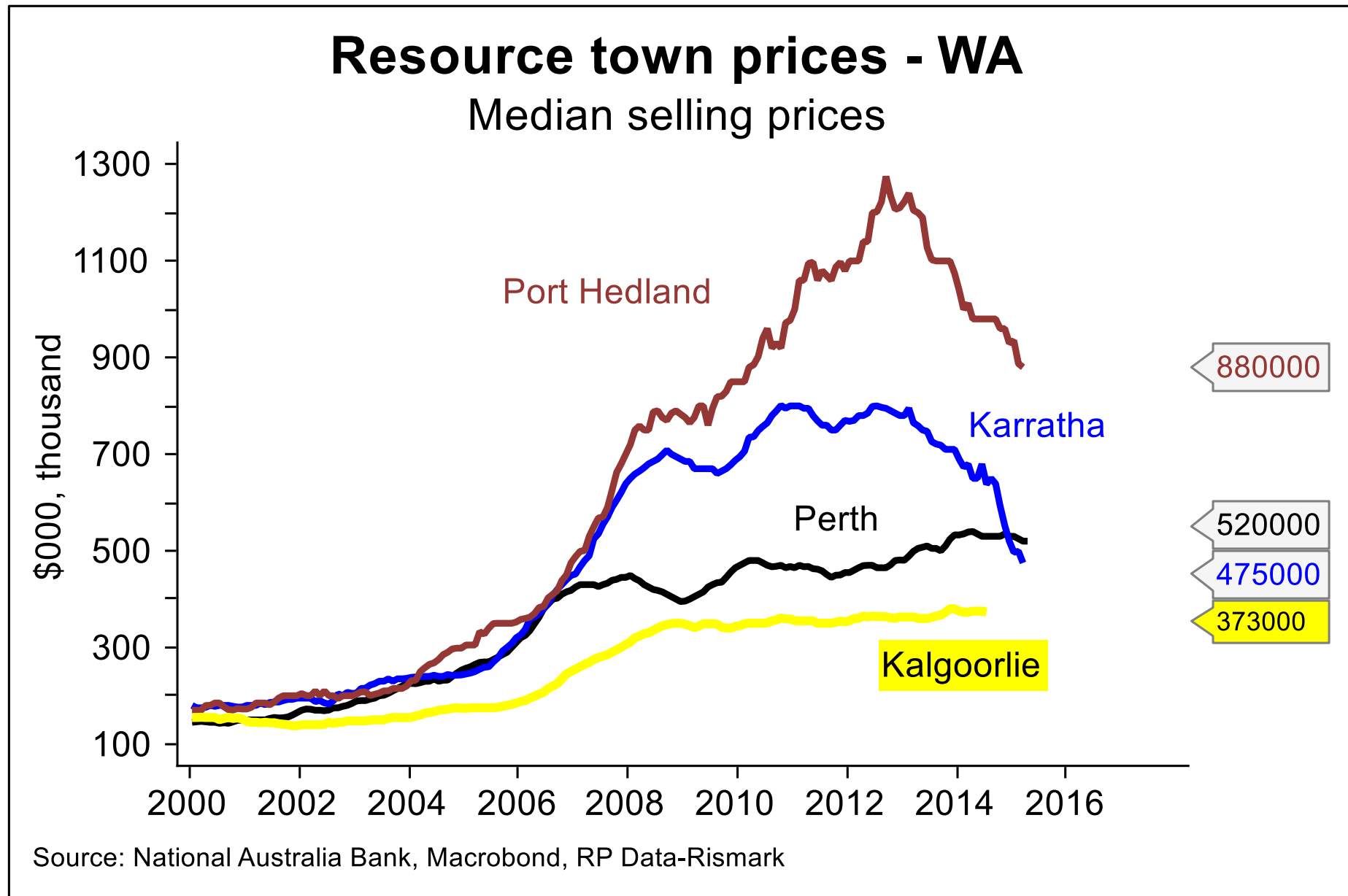
PHOTO: [The Port Hedland house was bought for \\$1.3 million in 2011.](#) (Jan Ford Real Estate)

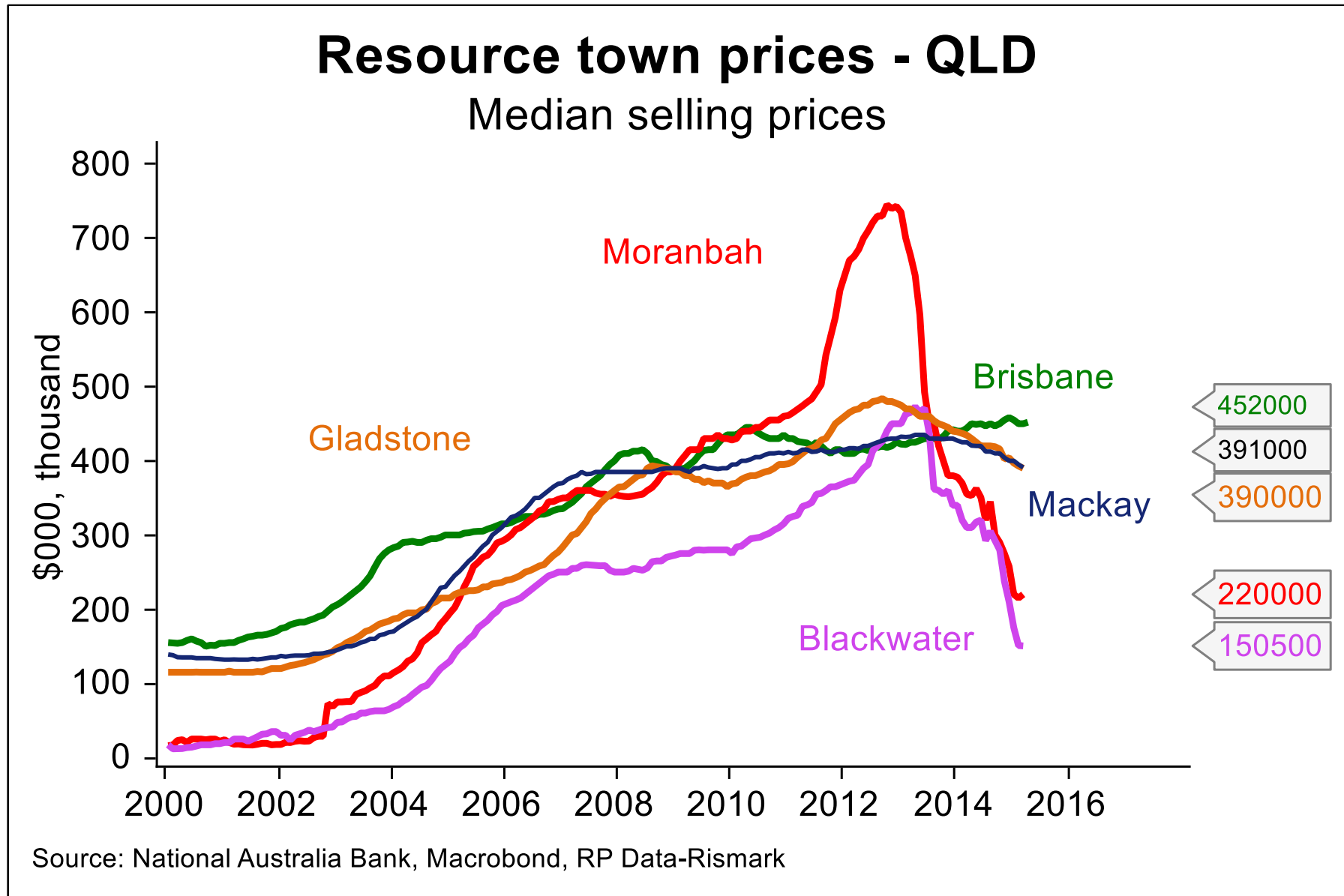
A house in the mining town of Port Hedland has been passed in at auction for \$360,000 after it was bought four years ago for \$1.3 million.

MAP: [Port Hedland 6721](#)

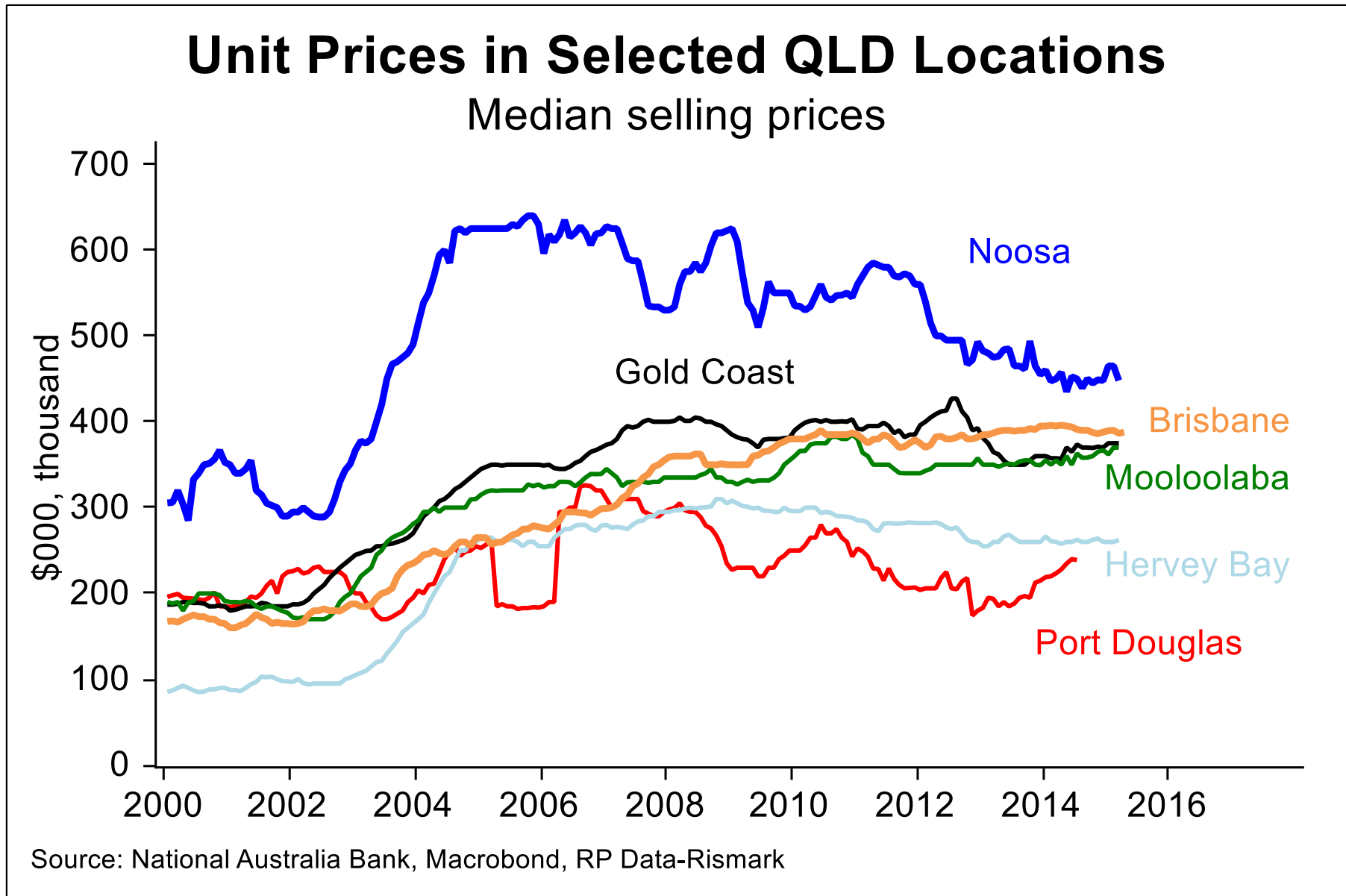


Definitely some overvaluation in mining towns, now unwinding

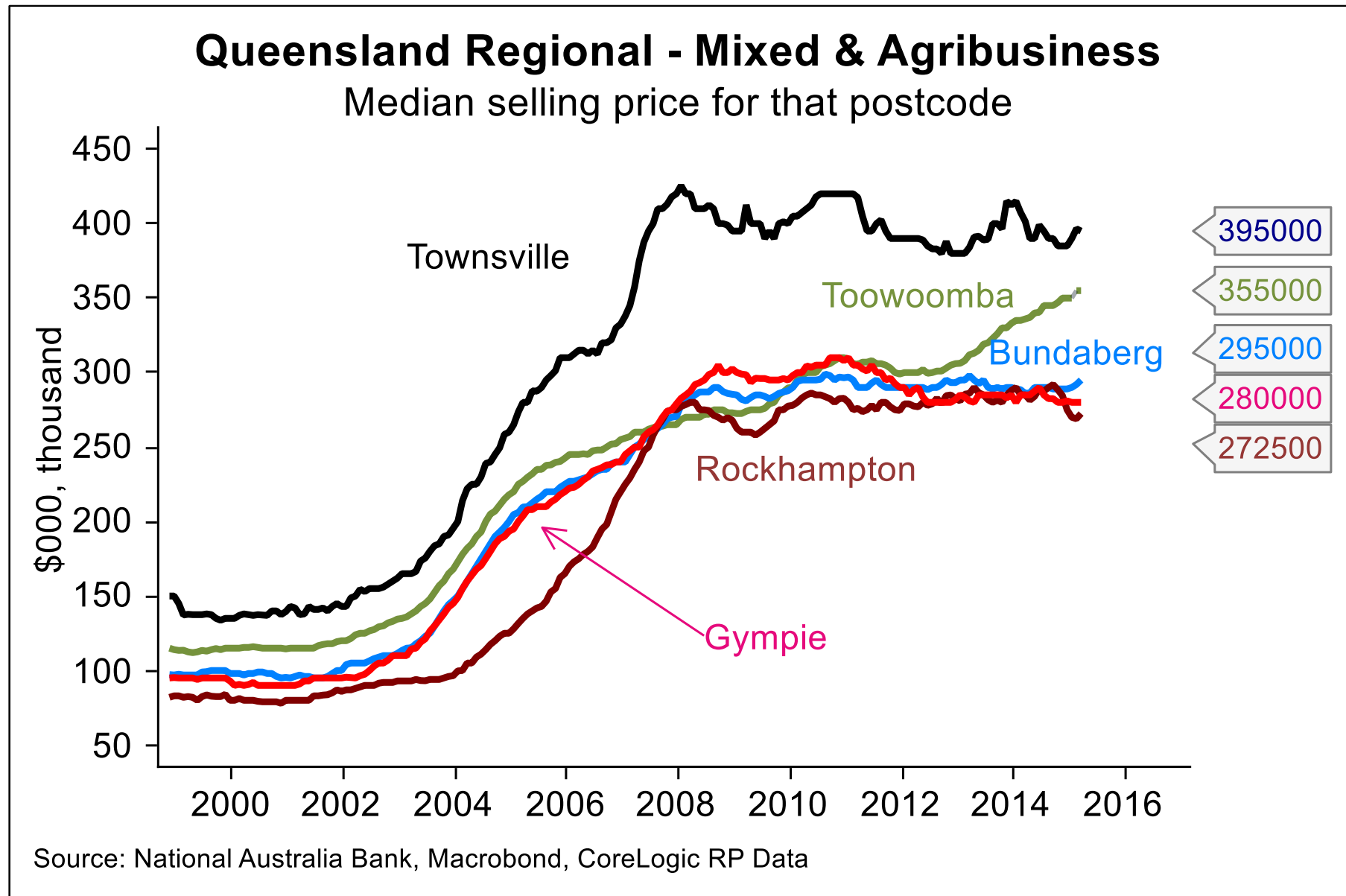




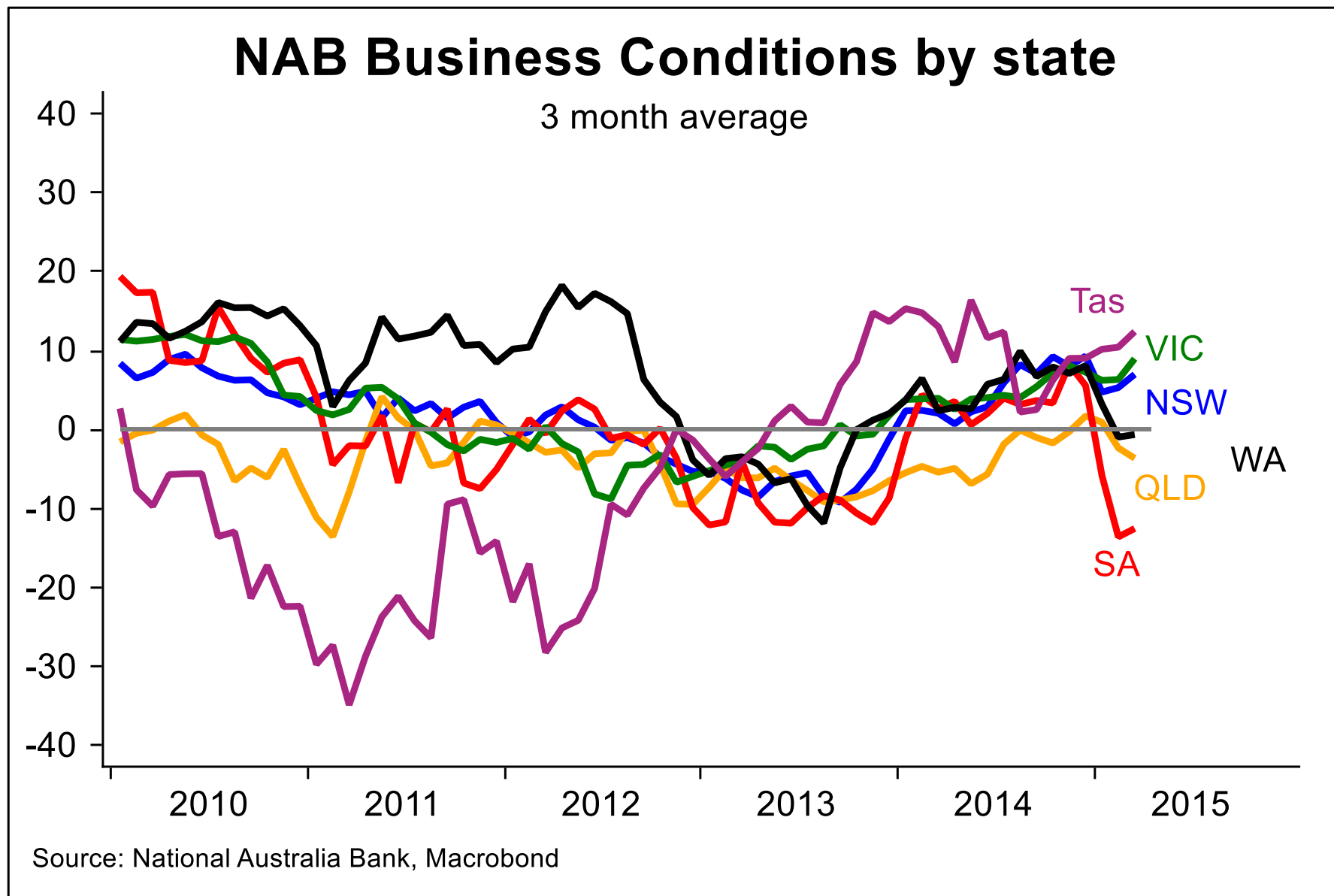
Tourism/lifestyle locations less impacted



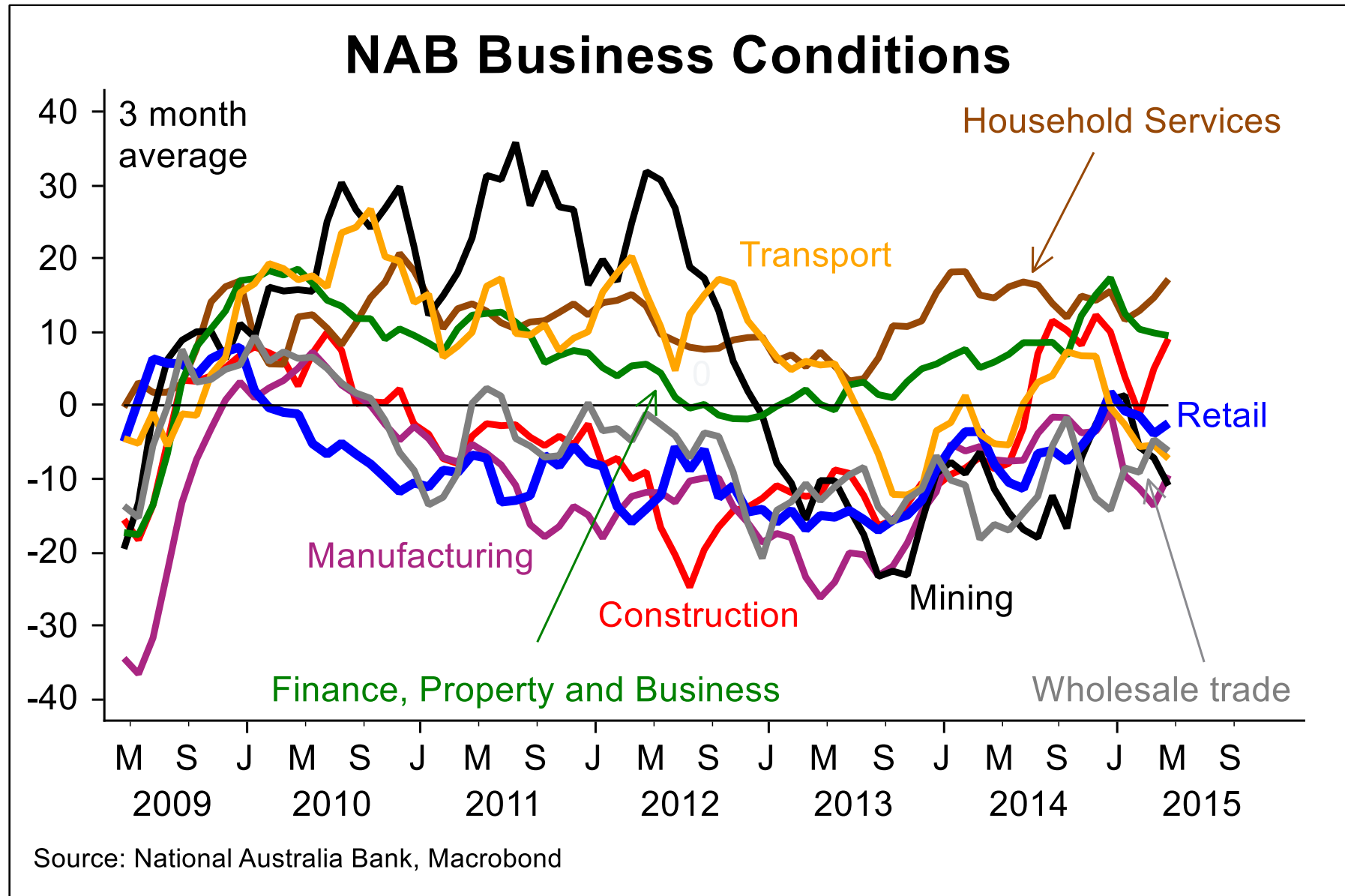
Other QLD regions relatively flat



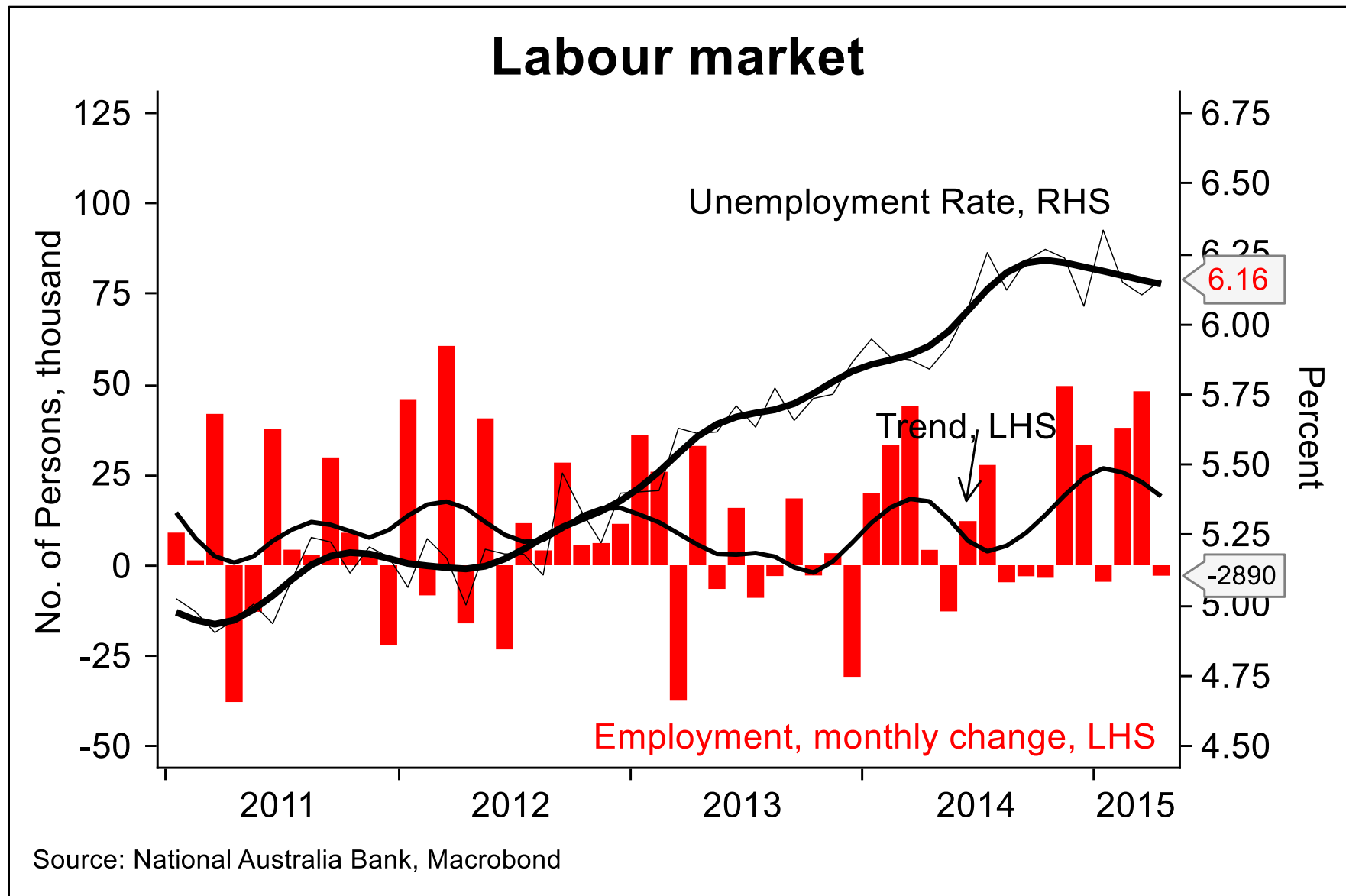
Non-mining states recovering – mining underperforming. QLD has improved in recent months. WA and SA weak (SA not quite as weak as suggested by below)



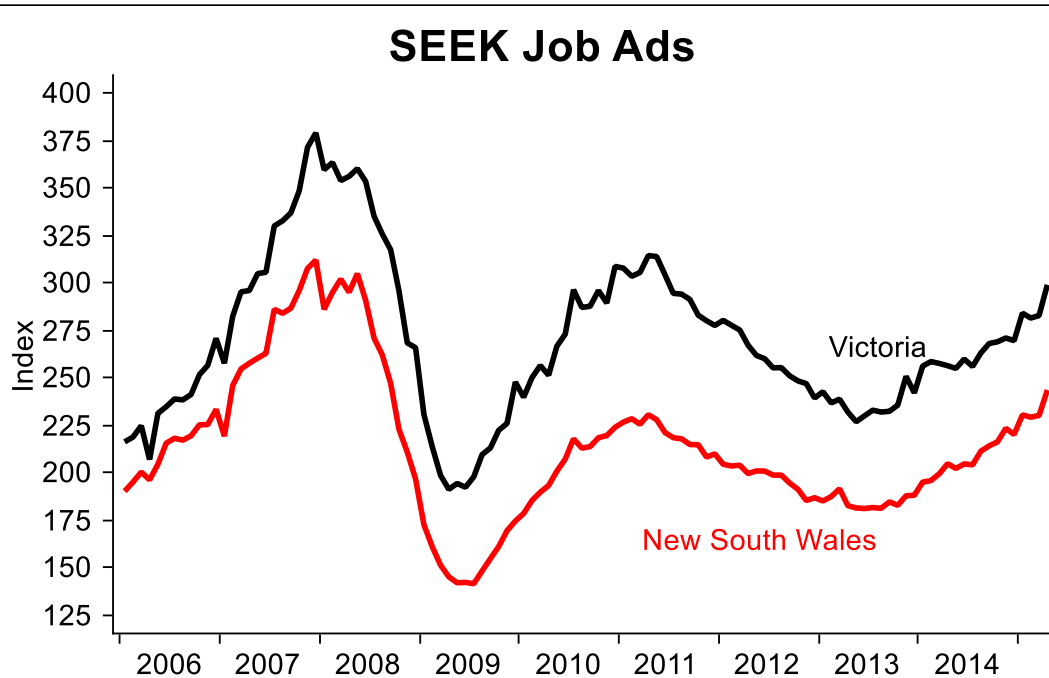
Construction (apartments) better, services strong; retail has improved a little



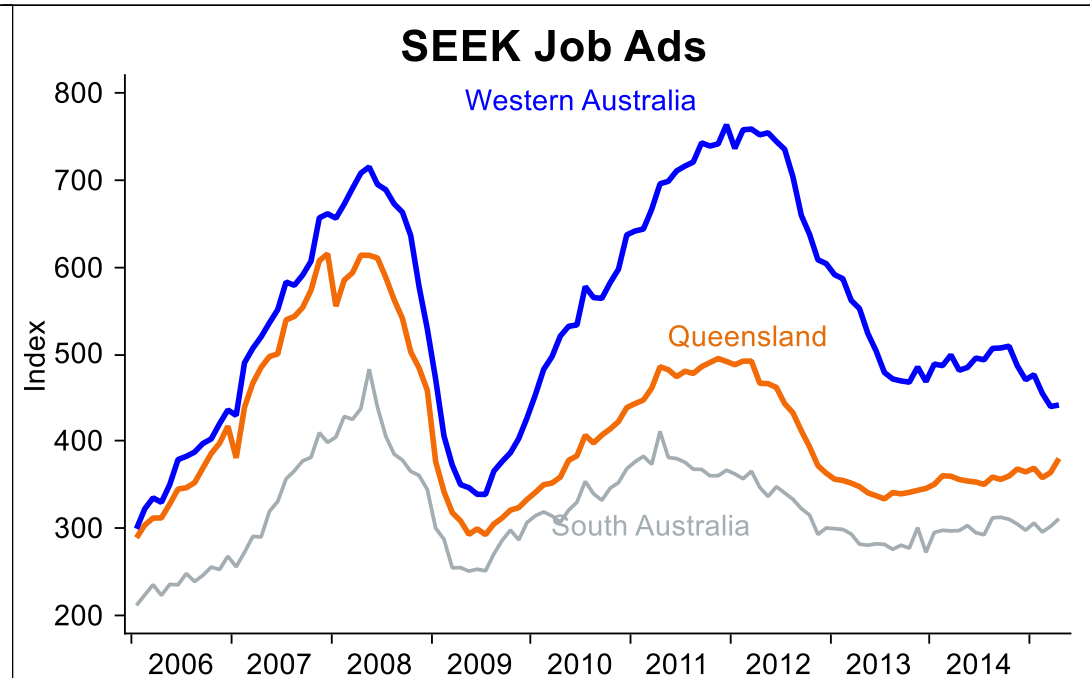
Employment +19K trend; unemployment -0.6K trend. Encouraging. NAB forecasting a 6.4% unemployment peak.



SEEK jobs ads by state – NSW/Vic solid improvement; QLD very modest; WA weak

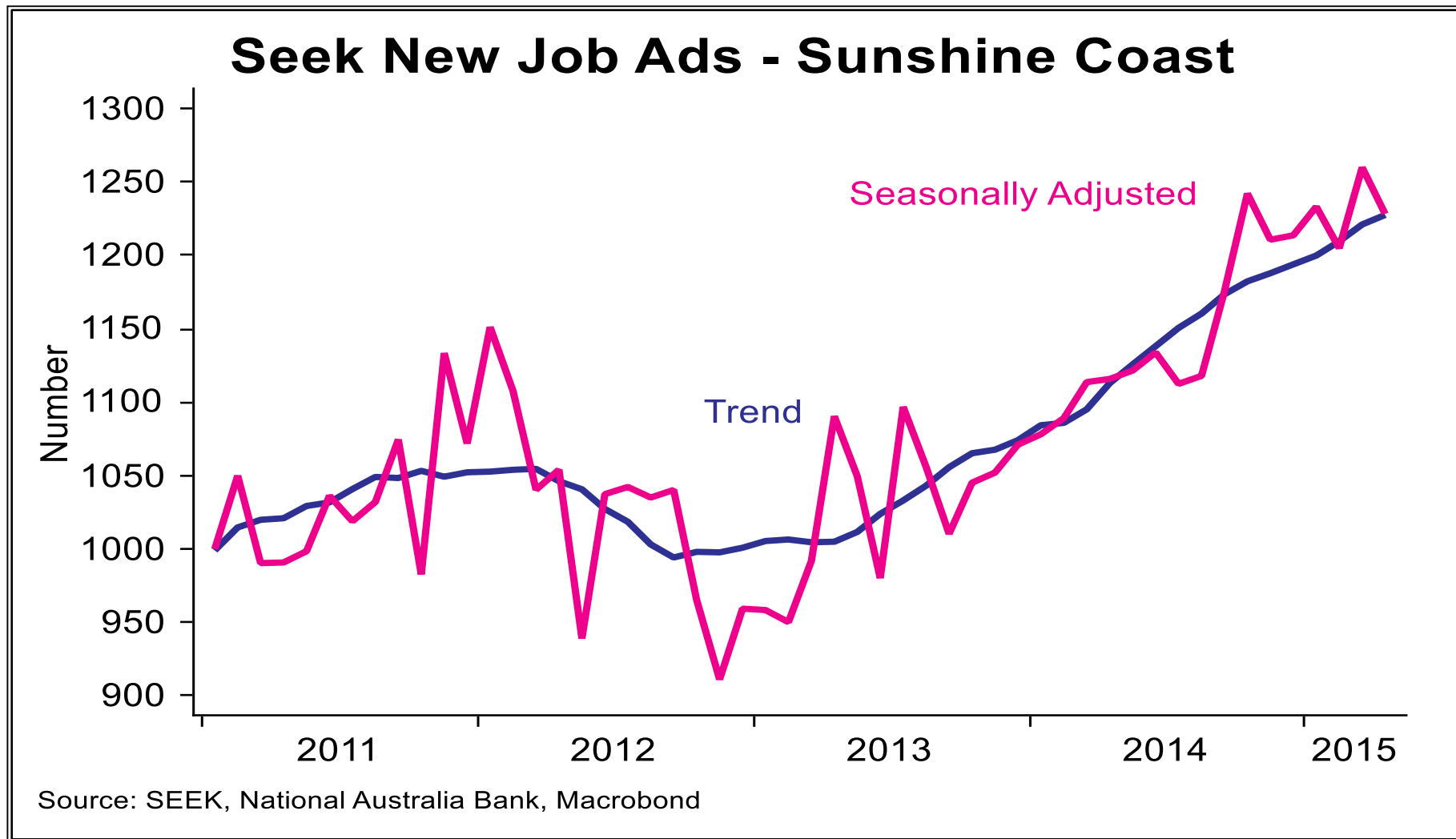


Source: National Australia Bank, Macrobond



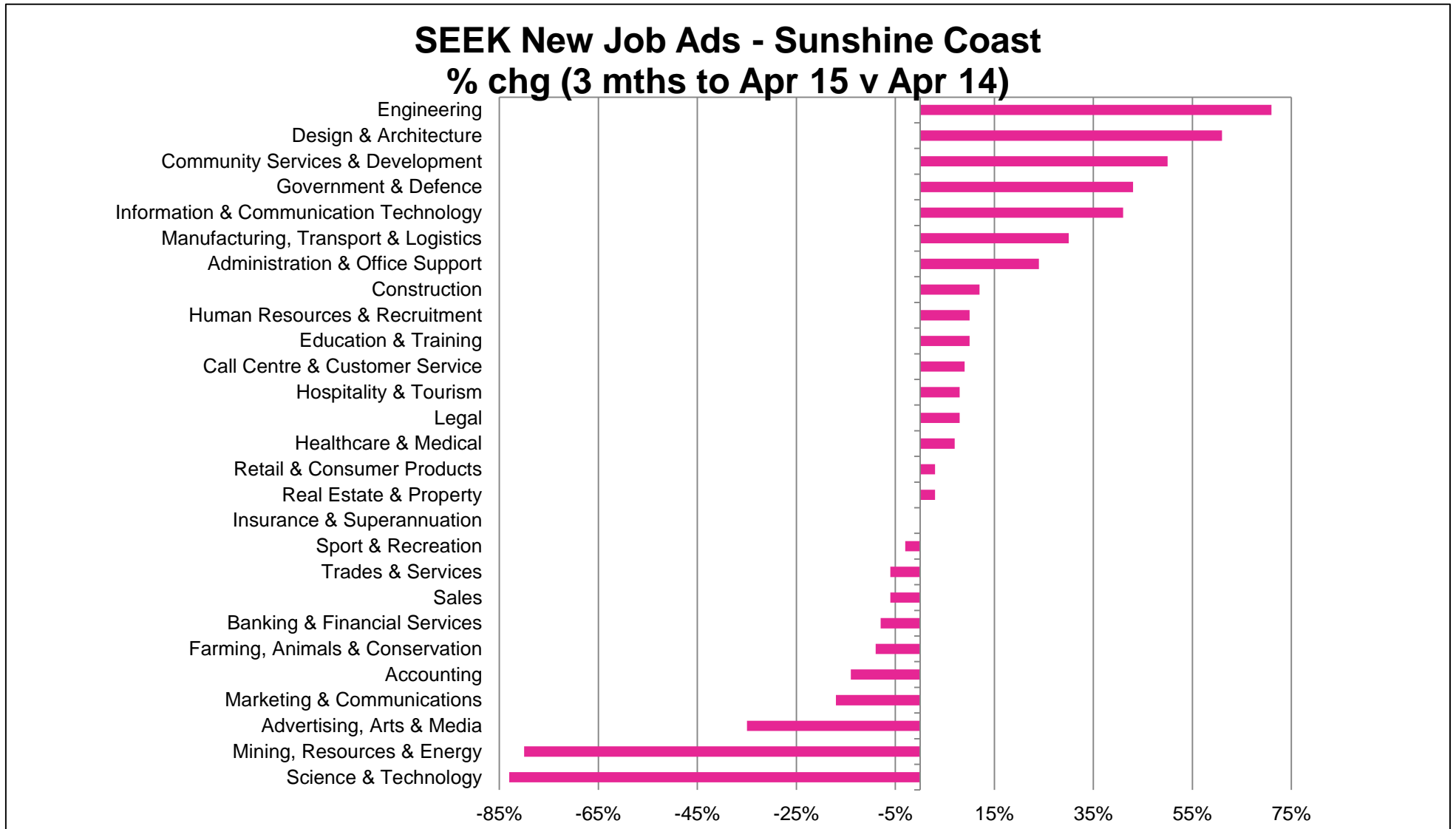
Source: National Australia Bank, Macrobond

Job ads on the Sunshine Coast have been improving in recent years



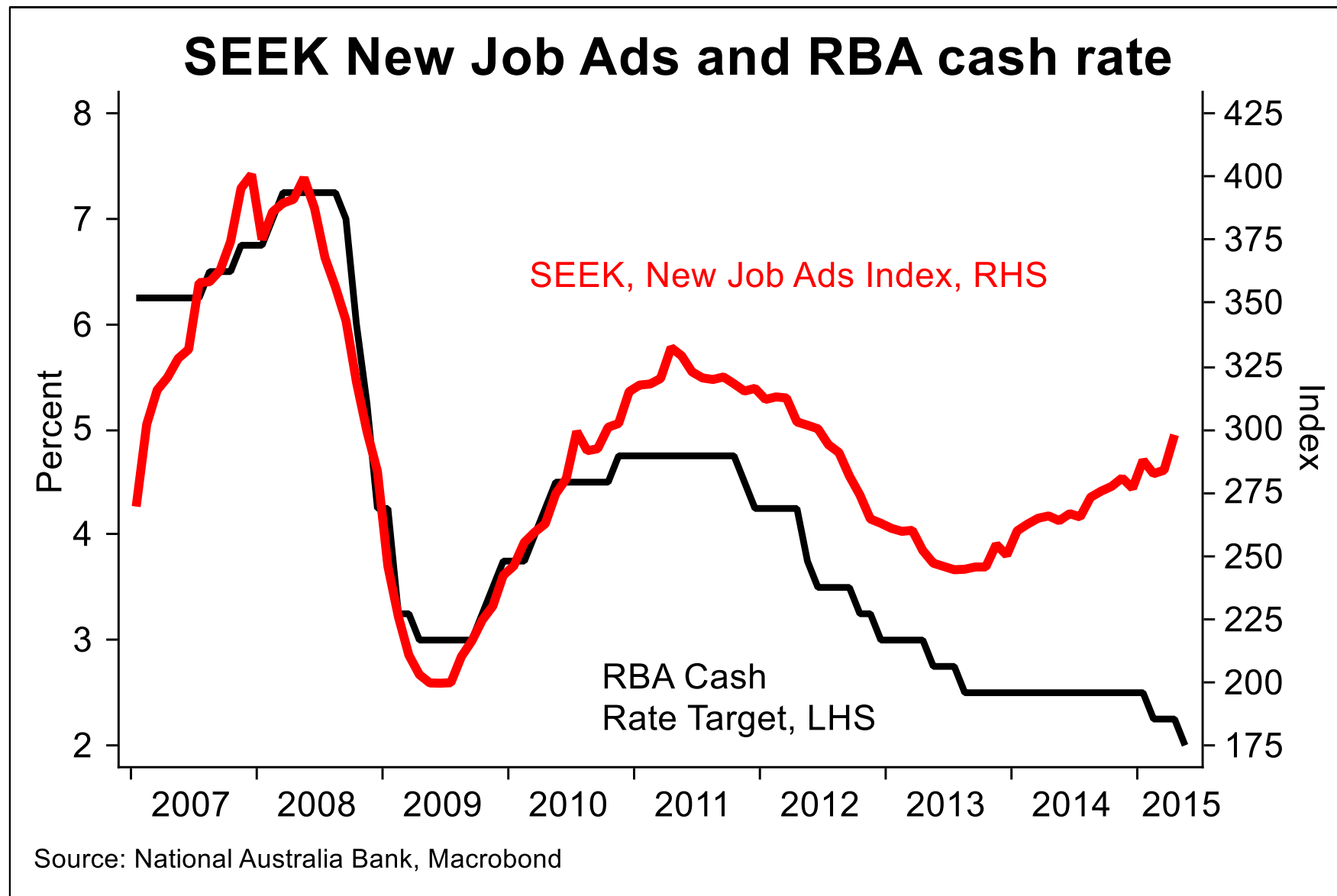
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Job ads on the Sunshine Coast have been improving in recent years

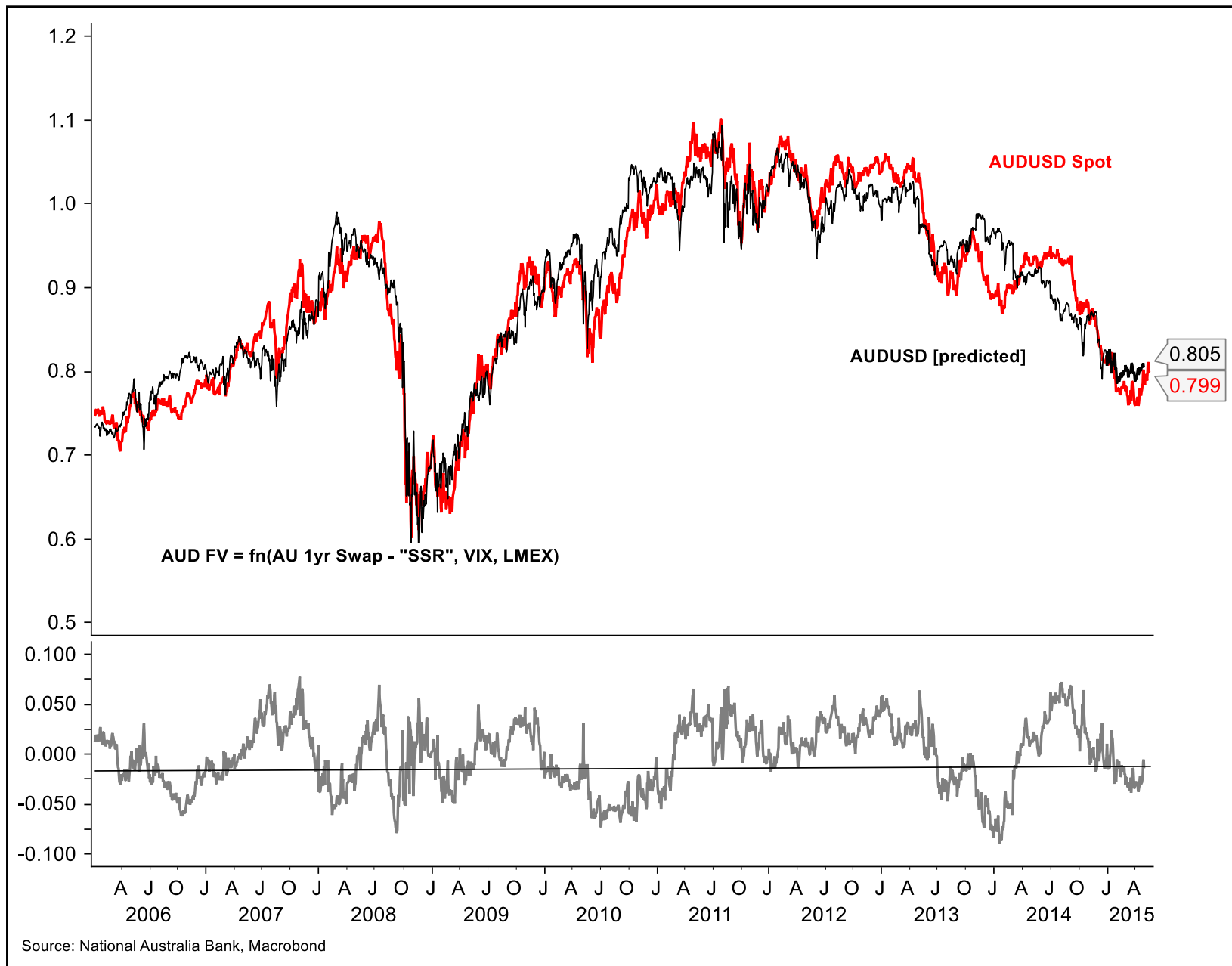


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Seek jobs ads trending higher – again pace is relatively slow, but trend is usually more consistent with rate rises



NAB's "Shadow Short Rate" model value currently very close to spot rate – and will predict a still lower \$A as Fed tightens (US\$0.72 if Fed funds @ 1%)



Some thoughts on regional development and investment

- **The Sunshine Coast is now competing globally for investment, not just with other parts of Qld and Australia. By the same token, there is now a global pool of investment looking for attractive opportunities**
- **Know your natural/comparative advantages:**
 - Lifestyle & Location (beaches & close to Brisbane)
 - Cost and space
 - Educated workforce
- **Have a population growth strategy – growth creates growth**
- **Infrastructure and services are important**
 - Roads & Rail to Brisbane; hospitals, education, aged care
- **Study emerging major trends and consider how they affect your region, the opportunities and threats:**
 - China/India
 - The ageing population
 - Science, Technology, Engineering and Maths
- **Above all, make it easy to do business. The biggest complaint I constantly hear, is about councils making it hard to do business**

Key views

- Many diverse forces continuing to impact on Australian economy and businesses.
- Non-mining growth to strengthen in H2 2015 and 2016 due to lower rates, lower \$A, lower oil prices, and stronger US economy (despite much weaker mining investment and lower terms of trade).
- \$A to continue to fall: US\$0.74 end 2015 (risk lower if US\$ continues to strengthen).
- RBA to now remain on hold for an extended period
- 3-year swap rate to rise to 2.5% at end-2015 as US Fed begins to tighten
- Increased volatility a risk in markets (especially currencies) as Fed tightens

Global Growth Forecasts

| Global GDP | | | | | |
|-------------|------|------|------|------|---------------|
| Dec year | 2013 | 2014 | 2015 | 2016 | 20 Yr Avge |
| Australia | 2.1 | 2.7 | 2.4 | 3.2 | 3.4 |
| US | 2.2 | 2.4 | 2.7 | 2.7 | 2.6 |
| Eurozone | -0.4 | 0.9 | 1.4 | 1.8 | 1.5 |
| UK | 1.7 | 2.8 | 2.6 | 2.3 | 2.4 |
| Japan | 1.6 | -0.1 | 0.8 | 1.3 | 0.8 |
| China | 7.7 | 7.4 | 7.1 | 6.9 | 9.2 |
| India | 6.3 | 7.2 | 7.7 | 7.9 | 6.6 |
| New Zealand | 2.3 | 3.3 | 2.9 | 1.8 | 3.0 |
| World | 3.3 | 3.3 | 3.4 | 3.5 | 3.5 |

Currency forecasts

| | 28/04/2015 | Jun-15 | Sep-15 | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 |
|--------------------|------------|--------|--------|--------|--------|--------|--------|--------|
| Majors | | | | | | | | |
| AUD/USD | 0.7854 | 0.78 | 0.76 | 0.74 | 0.73 | 0.73 | 0.75 | 0.75 |
| NZD/USD | 0.7639 | 0.72 | 0.71 | 0.70 | 0.69 | 0.68 | 0.67 | 0.66 |
| USD/JPY | 119.10 | 123 | 124 | 125 | 126 | 126 | 127 | 127 |
| EUR/USD | 1.09 | 1.03 | 1.02 | 1.00 | 1.00 | 1.01 | 1.02 | 1.03 |
| GBP/USD | 1.5226 | 1.41 | 1.38 | 1.33 | 1.33 | 1.35 | 1.36 | 1.37 |
| USD/CHF | 0.9555 | 1.01 | 1.02 | 1.05 | 1.06 | 1.05 | 1.05 | 1.04 |
| USD/CAD | 1.2095 | 1.25 | 1.24 | 1.22 | 1.21 | 1.20 | 1.19 | 1.18 |
| USD/CNY | 6.2200 | 6.28 | 6.25 | 6.20 | 6.20 | 6.18 | 6.15 | 6.15 |
| AUD Crosses | | | | | | | | |
| AUD/NZD | 1.0281 | 1.08 | 1.07 | 1.06 | 1.06 | 1.07 | 1.12 | 1.14 |
| AUD/JPY | 93.54 | 96 | 94 | 93 | 92 | 92 | 95 | 95 |
| AUD/EUR | 0.7221 | 0.76 | 0.75 | 0.74 | 0.73 | 0.72 | 0.74 | 0.73 |
| AUD/GBP | 0.5158 | 0.55 | 0.55 | 0.56 | 0.55 | 0.54 | 0.55 | 0.55 |
| AUD/CHF | 0.7504 | 0.79 | 0.78 | 0.78 | 0.77 | 0.77 | 0.79 | 0.78 |
| AUD/CAD | 0.9499 | 0.98 | 0.94 | 0.90 | 0.88 | 0.88 | 0.89 | 0.89 |
| AUD/SGD | 1.0431 | 1.08 | 1.05 | 1.01 | 0.99 | 0.99 | 1.01 | 1.01 |
| AUD/KRW | 842.74 | 905 | 897 | 888 | 876 | 869 | 885 | 885 |
| AUD/CNY | 4.8852 | 4.90 | 4.75 | 4.59 | 4.53 | 4.51 | 4.61 | 4.61 |

Key Forecasts

| Forecasts | | | | | | | | | | | |
|--|------|------|------|------|------------------|--------|--------|--------|--------|--------|--------|
| Economics - yoy% | 2013 | 2014 | 2015 | 2016 | Markets /Rates | 28 Apr | Jun 15 | Sep 15 | Dec 15 | Mar 16 | Jun 16 |
| Household Consumption | 1.7 | 2.5 | 2.7 | 2.9 | RBA Cash | 2.25 | 2.3 | 2.0 | 2.0 | 2.0 | 2.0 |
| Business Investment | -4.5 | -6.1 | -8.5 | -9.9 | 3 Year Swap | 2.2 | 2.2 | 2.4 | 2.4 | 2.6 | 2.7 |
| Domestic demand | 0.4 | 1.2 | 0.9 | 1.2 | 10 Year Swap | 2.9 | 3.0 | 3.2 | 3.1 | 3.4 | 3.4 |
| Net Exports (a) | 1.6 | 1.7 | 2.0 | 1.9 | 10 year ACGB | 2.5 | 2.6 | 2.8 | 2.8 | 3.0 | 3.0 |
| Real GDP | 2.1 | 2.7 | 2.4 | 3.2 | Aus-US 10yr bond | 58 | 35 | 30 | 25 | 20 | 20 |
| | | | | | Fed Funds Rate | 0.3 | 0.25 | 0.50 | 0.75 | 0.75 | 1.25 |
| CPI | 2.4 | 2.5 | 1.8 | 3.1 | US 10 Year Bond | 1.9 | 2.25 | 2.50 | 2.50 | 2.75 | 2.75 |
| Underlying CPI | 2.4 | 2.6 | 2.4 | 2.7 | | | | | | | |
| Wages | 2.9 | 2.5 | 2.4 | 2.4 | AUD | 0.785 | 0.78 | 0.76 | 0.74 | 0.73 | 0.73 |
| | | | | | AUD/NZD | 1.03 | 1.08 | 1.07 | 1.06 | 1.06 | 1.07 |
| Terms of Trade | -3.9 | -7.5 | -8.4 | -1.2 | AUD/JPY | 93.5 | 96 | 94 | 93 | 92 | 92 |
| Unemployment rate (%) | 5.7 | 6.0 | 6.3 | 6.3 | AUD/EUR | 0.72 | 0.76 | 0.75 | 0.74 | 0.73 | 0.72 |
| Current Account - % GDP | -3.3 | -2.8 | -2.9 | -1.3 | AUD/GBP | 0.52 | 0.55 | 0.55 | 0.56 | 0.55 | 0.54 |
| Fiscal Balance* - % GDP | -1.3 | -3.2 | -1.8 | -0.8 | AUD/CNY | 4.9 | 4.9 | 4.8 | 4.6 | 4.5 | 4.5 |
| Source: Bloomberg; NAB. * June fiscal year | | | | | | | | | | | |
| a. contribution to annual GDP. Inventories and statistical discrepancy not shown | | | | | | | | | | | |

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