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ECONOMIC OUTLOOK

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11 March 2020

CHDC ECONOMIC FUTURES FORUM



ECONOMIC UPDATE

- Economic update
- Regional industry drivers
- Risks ahead

GLOBAL ECONOMY

Coronavirus Disease (COVID-19)

Significant impact being observed in China



Source: Goldman Sachs



Source: NAB

Coronavirus Disease (COVID-19)

Potential impact on China & Australia of COVID-19



GDP growth pre-COVID-19... **China: 6.0%** **Australia: 1.9% (e)**



Back to normal by...

End-Feb

→ **China: 5.5%** **Australia: 1.9%**

Mid-April

→ **China: 4.8%** **Australia: 1.7%**

End-June

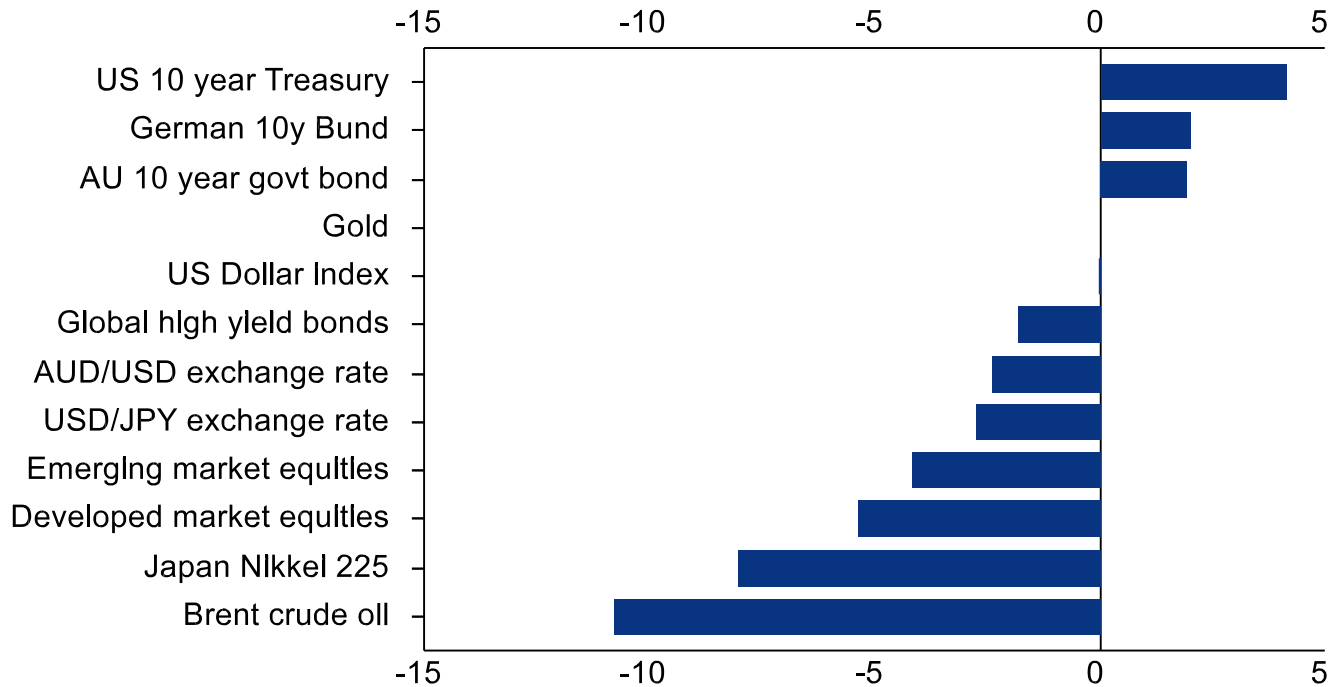
→ **China: 3.9%** **Australia: 1.3%**

Coronavirus Disease (COVID-19)

Markets are pricing in the worst

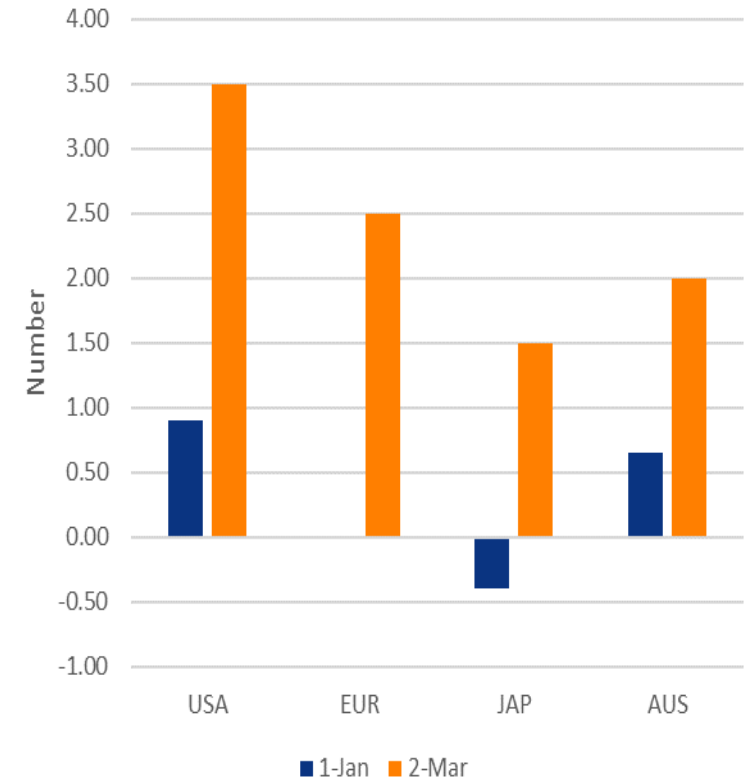
Performance of various asset classes

USD based performance since 1 February



Source: Refinitiv Datastream, QTC

Number of rate cuts expected over next 12m



Source: Bloomberg



AUSTRALIAN ECONOMY

Australian economy

Economic shocks – COVID-19

- Leisure tourism
 - Exports to China ~27% of total services exports, 4x times larger than during SARS
 - Q1 the strongest period of the year for Chinese leisure tourists
 - Offset from fewer Australians travelling OS
 - Little change in the net contribution of tourism/education-related trade to GDP in SARS
- Goods exports
 - Exports to China ~38% of total goods exports, 6x times larger than during SARS
 - Operations at steel producers & coal-fired power plants disrupted (transport too)
 - Thermal coal down 11%, coking coal down 3%, crude oil down 22.5%
- Education tourism
 - Chinese education tourists contribute 2x as much to AU GDP as tourists (0.6% vs 0.3%)
 - Exports to China ~33% of total education exports, 4x times larger than in SARS
 - Feb is strongest month of the year for Chinese student arrivals
 - 106,680 Chinese students stuck outside AUS given travel ban (> ½ of all Chinese students)
 - 65,000 of the 106,680 attend the Group of 8 unis
 - QLD less exposed to Chinese students

Australian economy

Economic shocks - Bushfires

- Economic impacts for affected areas are substantial, limited for national aggregates
- Re-profiling of economic activity rather than net loss
- Initial impacts on consumer sentiment, employment, tourism, agriculture
- Subsequent impacts on government & insurance payments, residential building, business investment

Australian economy

Economic shocks - Drought

- Farm production
 - Fell 16% between 2017 & 2019
 - Could fall 10% in 2020
 - Would be a 0.25ppt drag on GDP growth

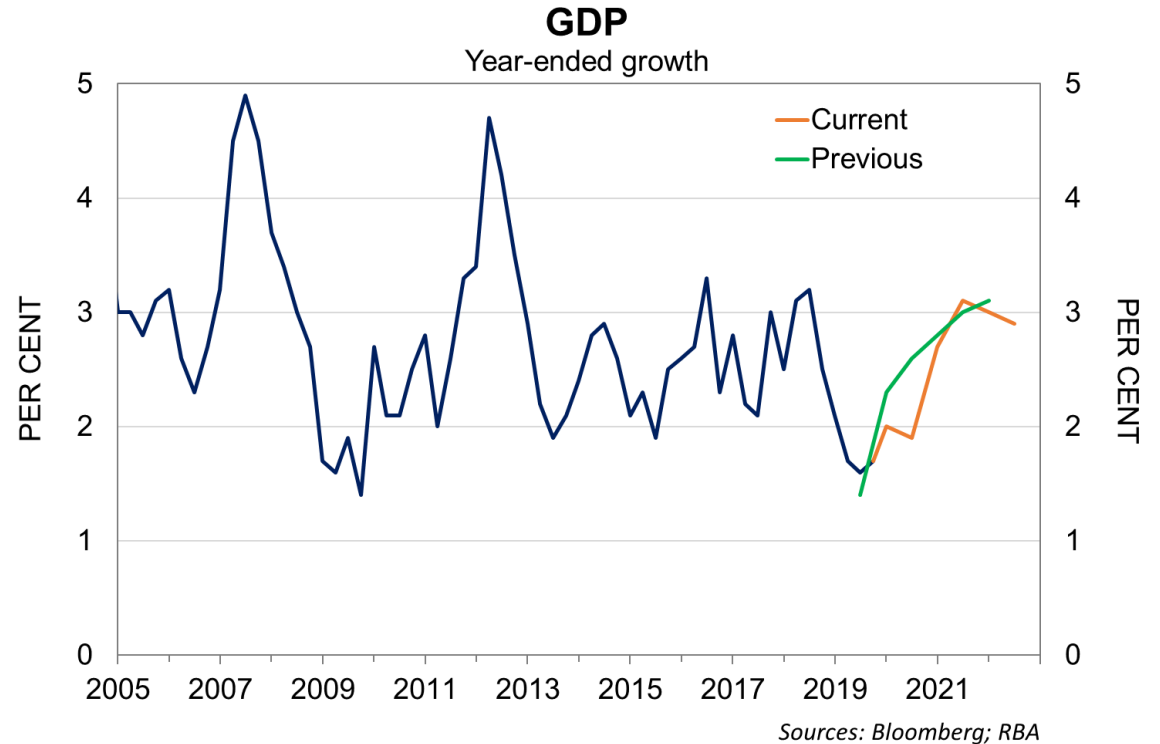
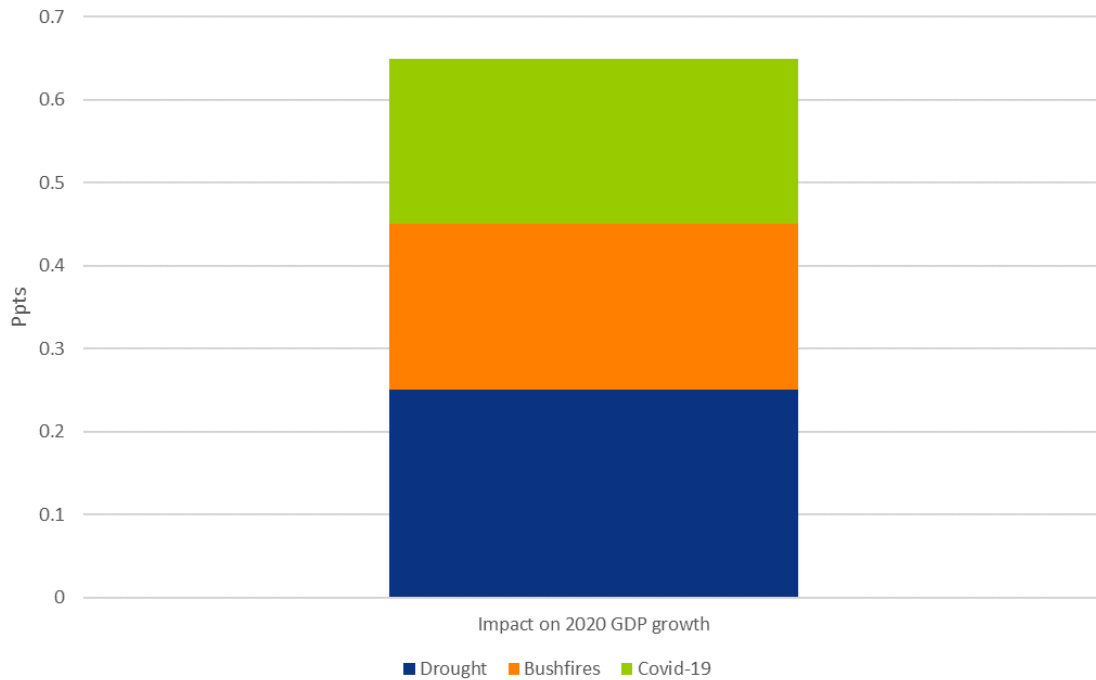
- Rural exports down 18% since early 2017
 - Expected to fall more than previously expected

- Farm profits down 30% between 2017 & 2019

Australian economy

Economic shocks - Total

Economic shocks - Impact on 2020 GDP growth



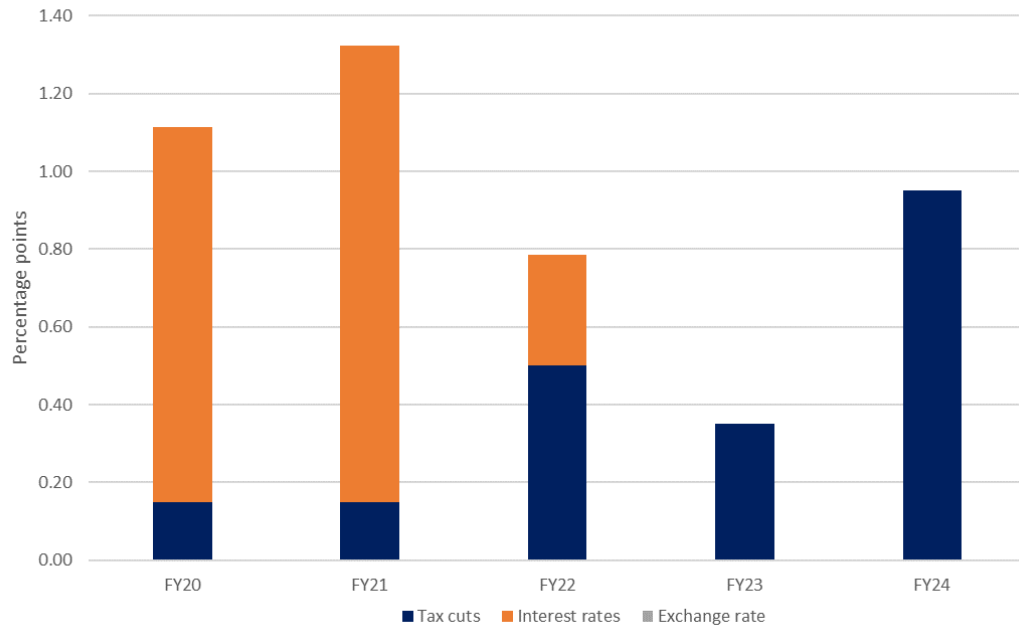
Note: 0.1ppts of the bushfire impact occurs in 2019 but was included here for presentation purposes

Source: RBA

Australian economy

But things should get better...

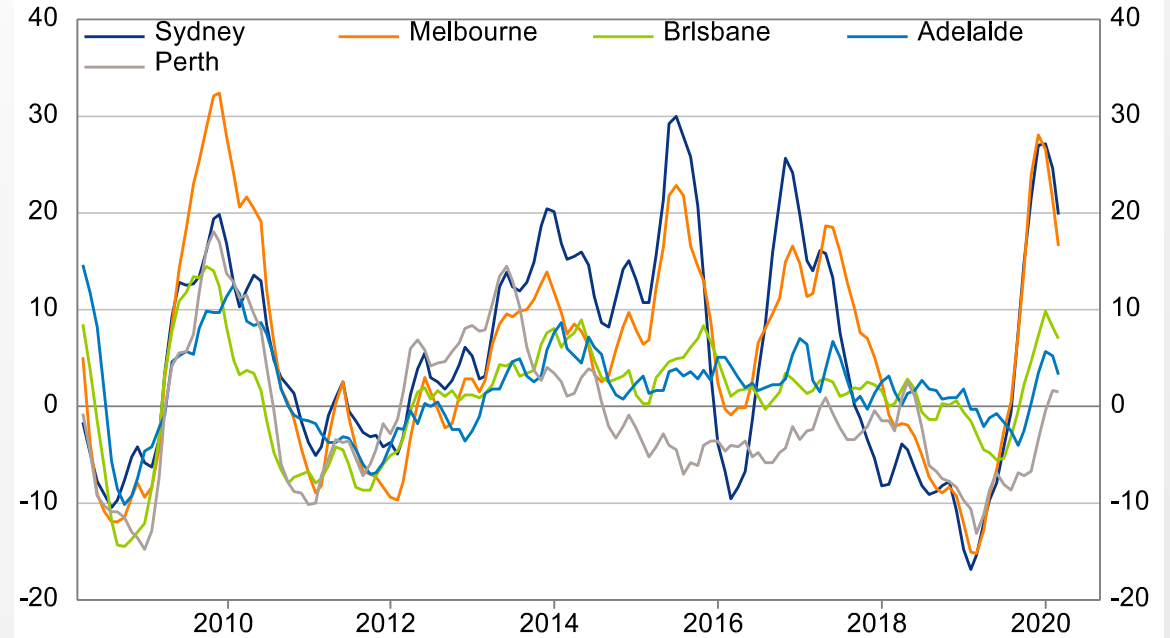
Estimated impact on GDP of fiscal policy & monetary conditions



Source: J.P. Morgan, Barclays, QTC, assumes further cash rate cuts in November 2019 & February 2020

Australian capital city property prices

Three month annualised percentage change

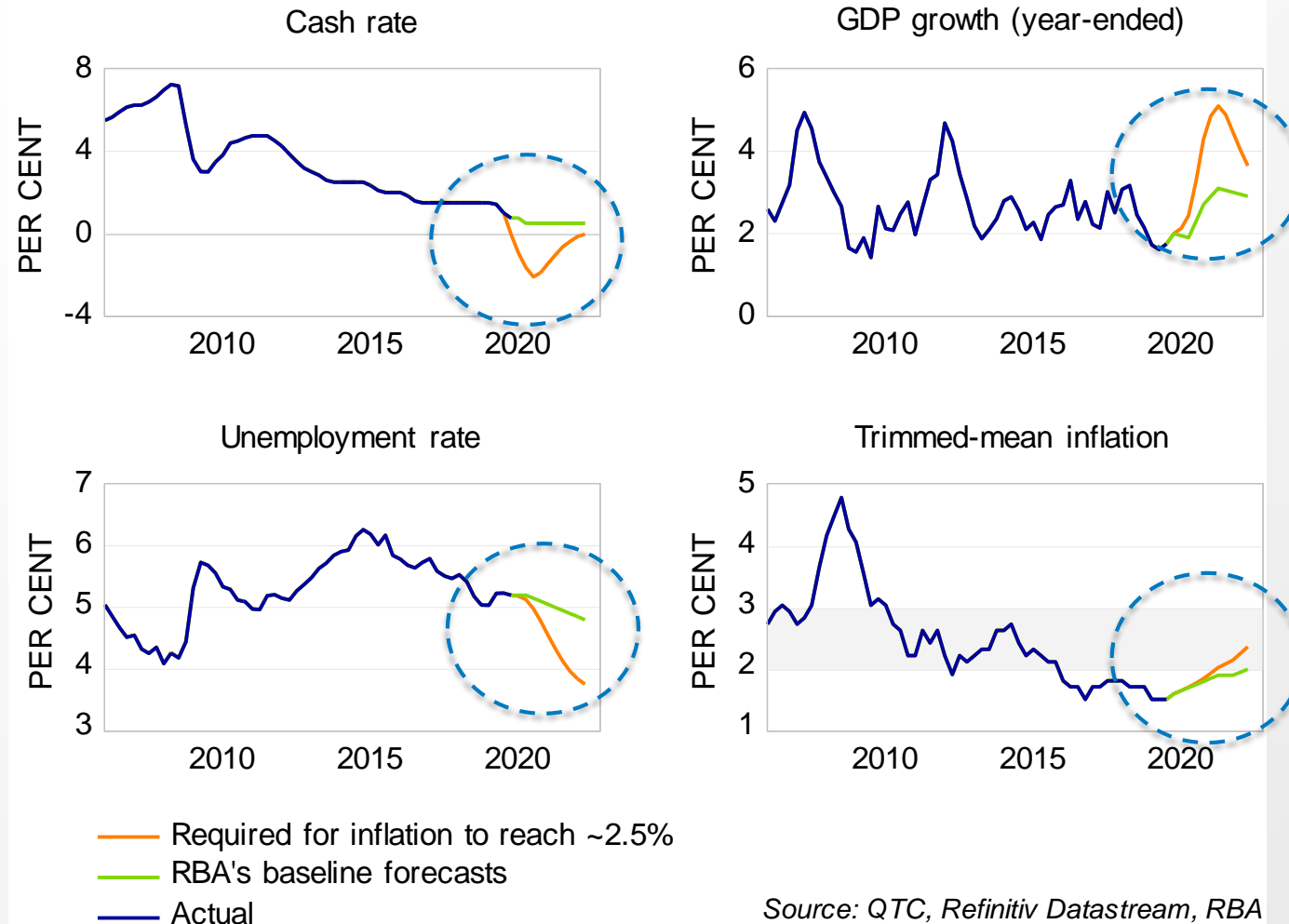


Source: Refinitiv Datastream, QTC

Australian economy

RBA could take the fast and volatile approach (the hare)

RBA Cash Rate Scenarios

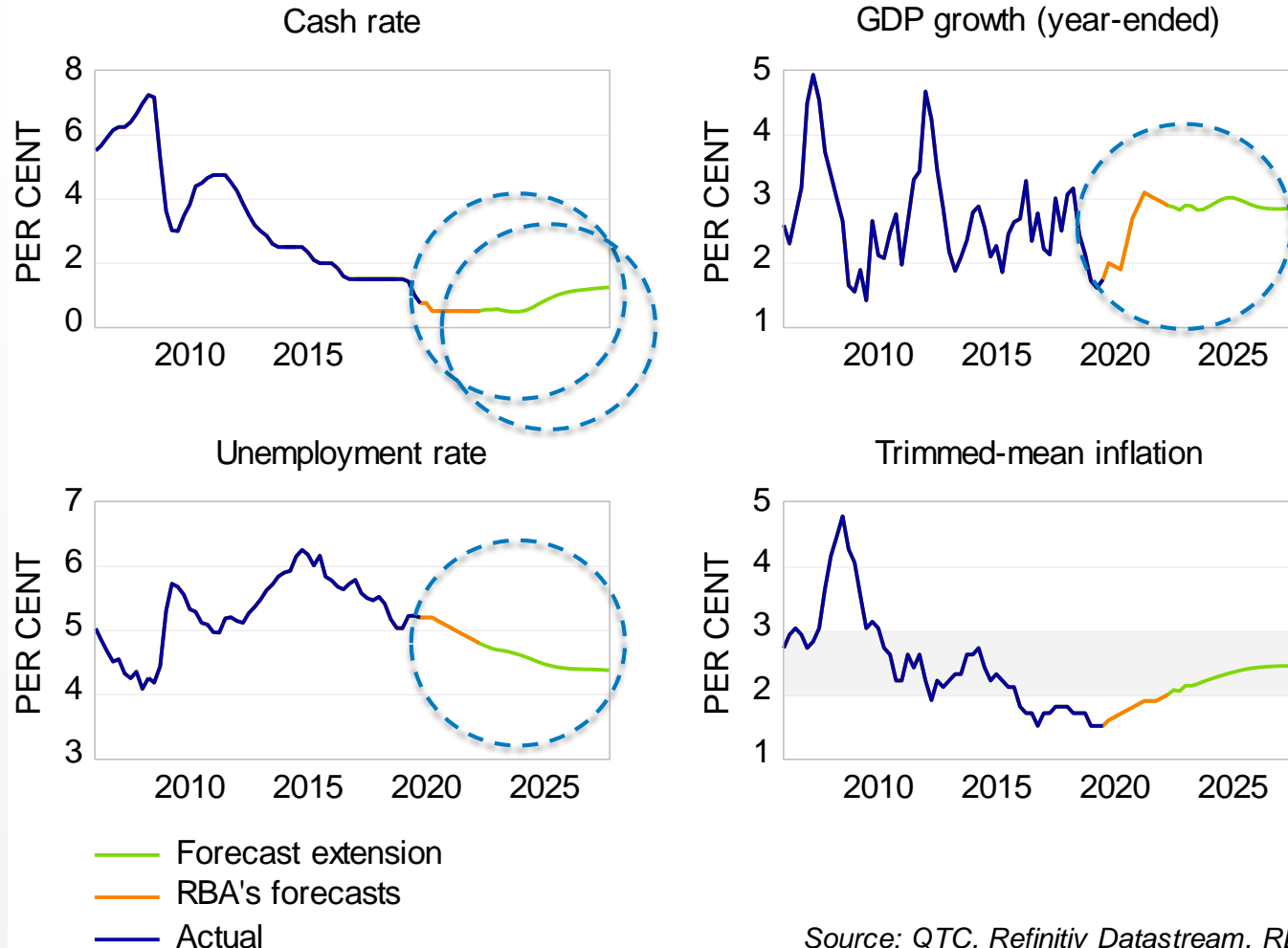


Source: QTC, Refinitiv Datastream, RBA

Australian economy

...or, it could take the slow and steady approach (the tortoise)

Forecast Extension



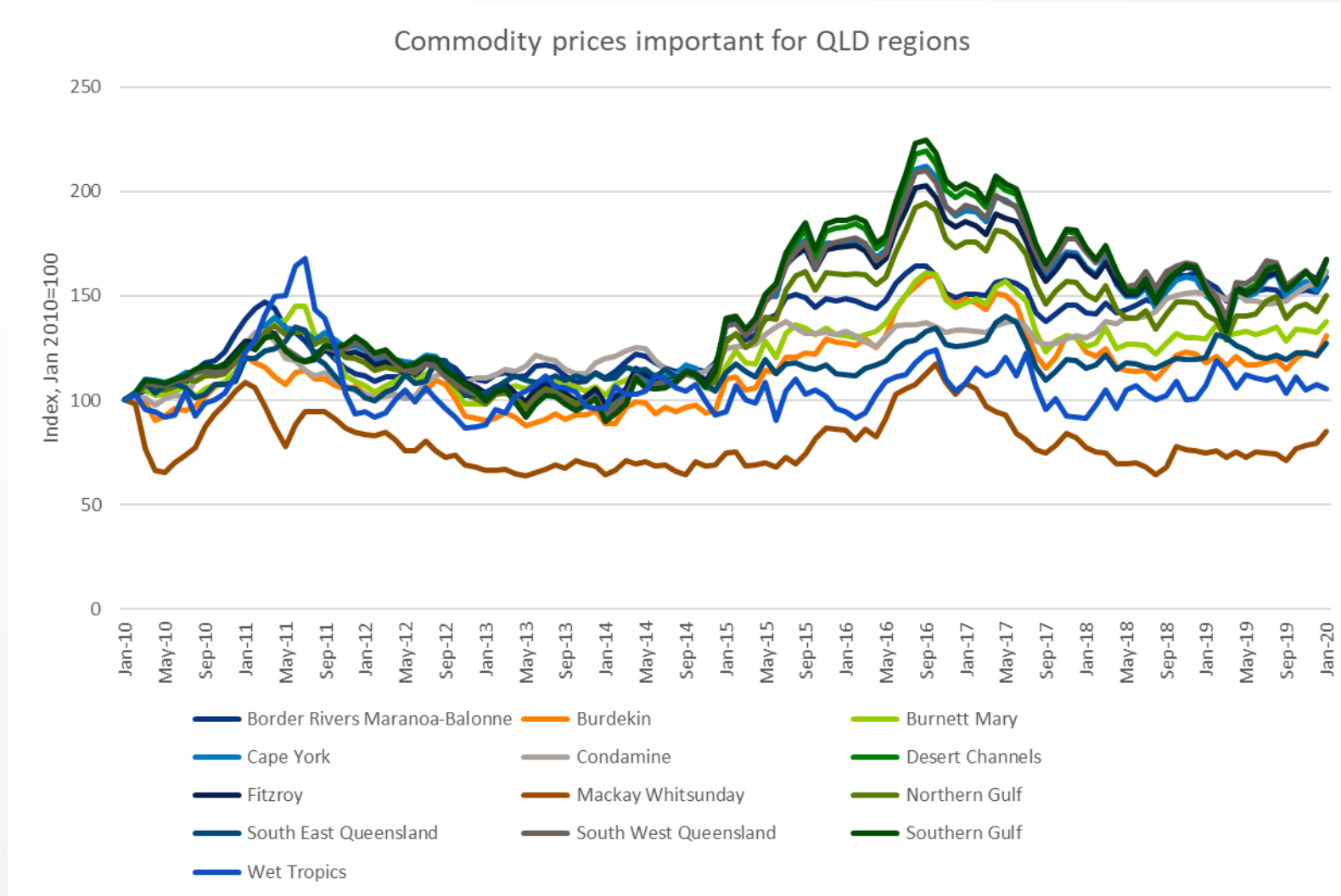
Source: QTC, Refinitiv Datastream, RBA



**REGIONAL
ECONOMY**

Regional economy

Prices up mid to high single digits over past year



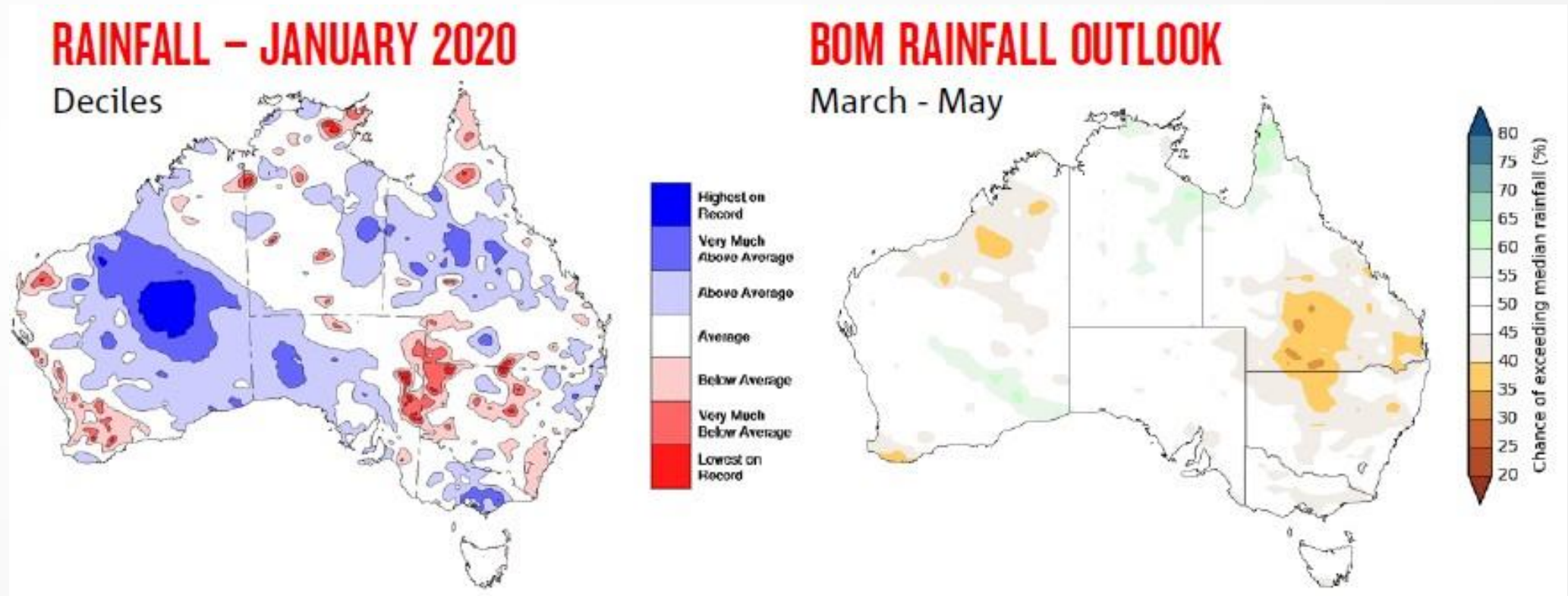
Regional economy

Beef

- Beef production has increased
- Exports up 40% over past two years
- Gained market share in China (African Swine Flu)
 - Beef prices were double pork prices in mid-19, now only 25% more expensive
- Exports to China up 70% over past year
- Now 2nd largest agricultural export to China (after wool)
- Prices spiked following good rain (ECYI up 50% since start of 2020)

Regional economy

CQ has seen the rain but mixed outlook

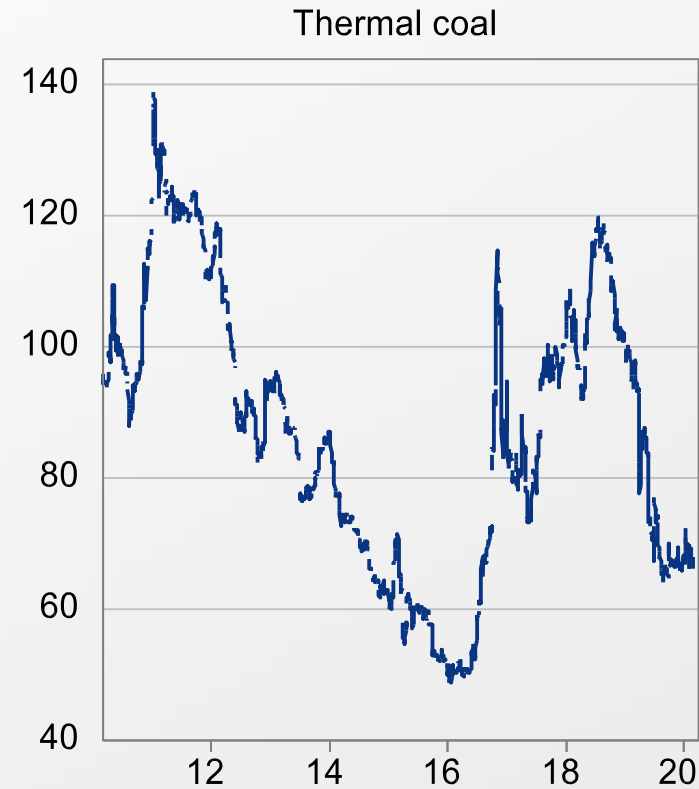
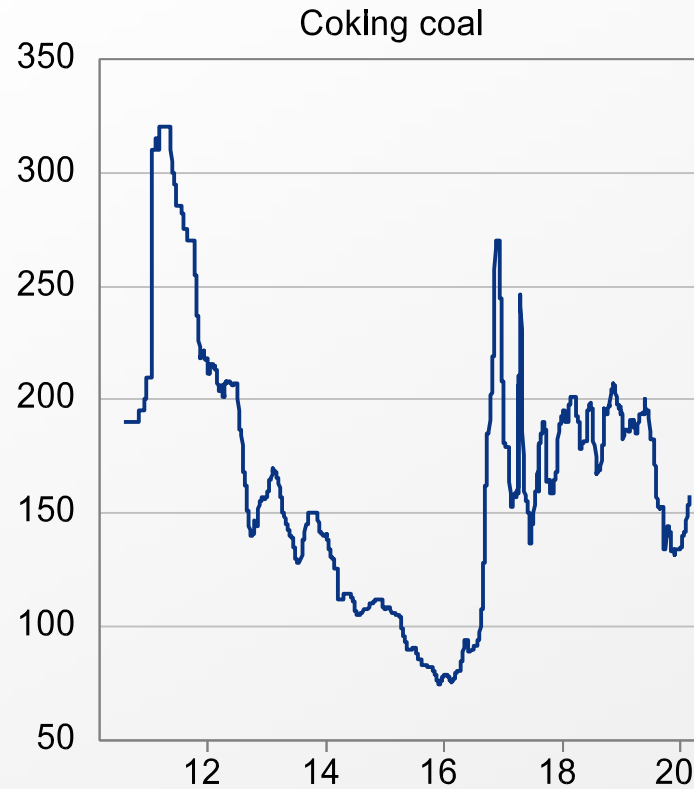


Regional economy

Coal - prices

Generic coking and thermal coal prices

USD per tonne



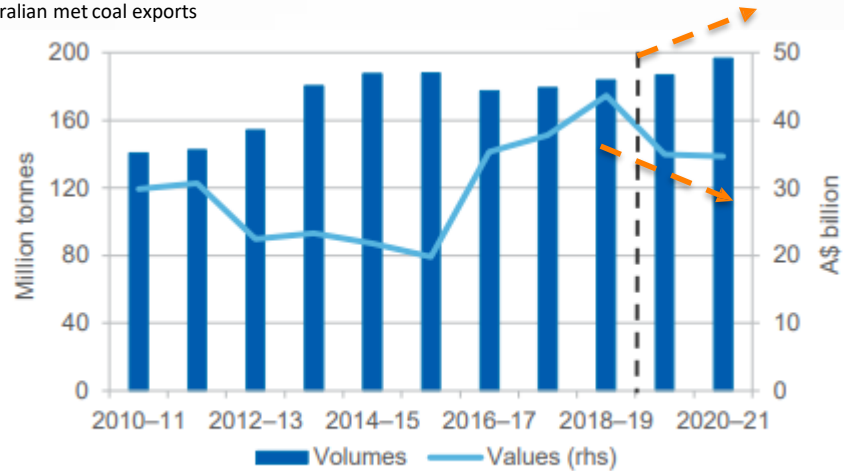
Source: Refinitiv Datastream, QTC

Regional economy

Met coal

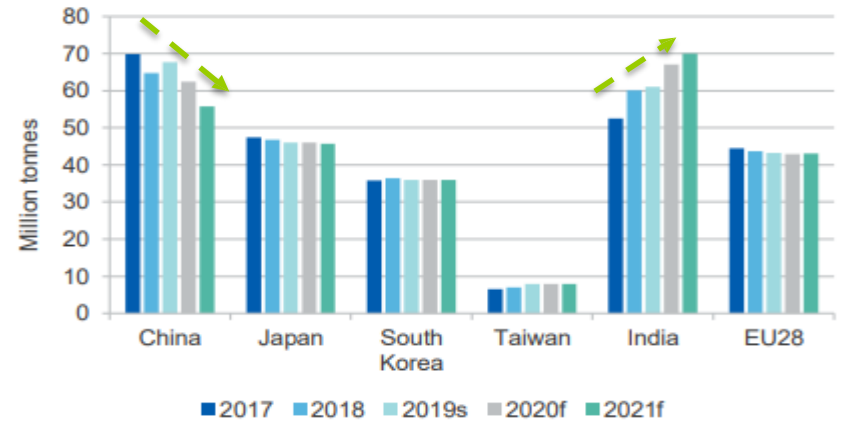
Source: Department of Industry Resources & Energy Quarterly, December 2019

Australian met coal exports



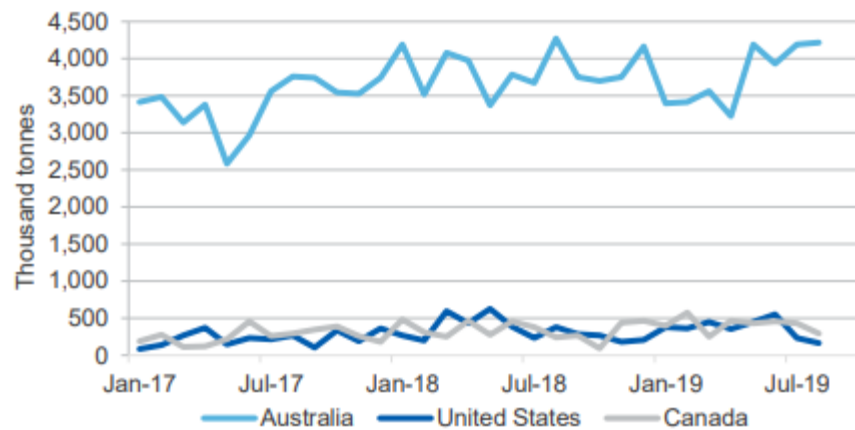
Source: ABS (2019) International Trade, Australia 5368.0; Department of Industry, Innovation and Science (2019)

Met coal import volumes



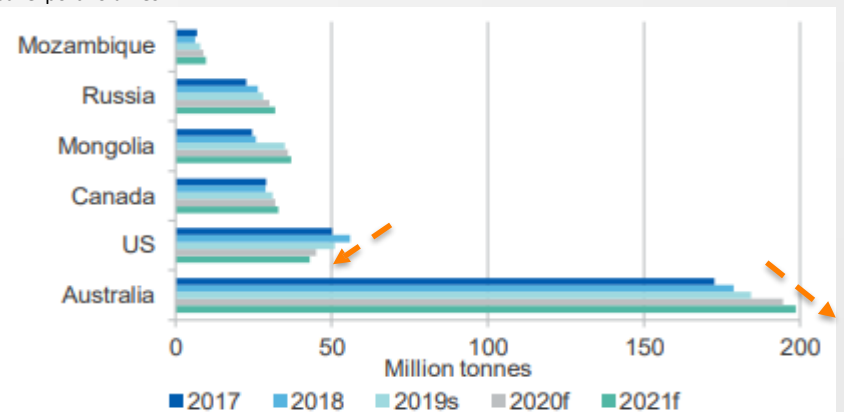
Notes: s Estimate, f Forecast
Source: IHS (2019); Department of Industry, Innovation and Science (2019)

India met coal imports



Source: IHS Markit (2019)

Met coal export volumes



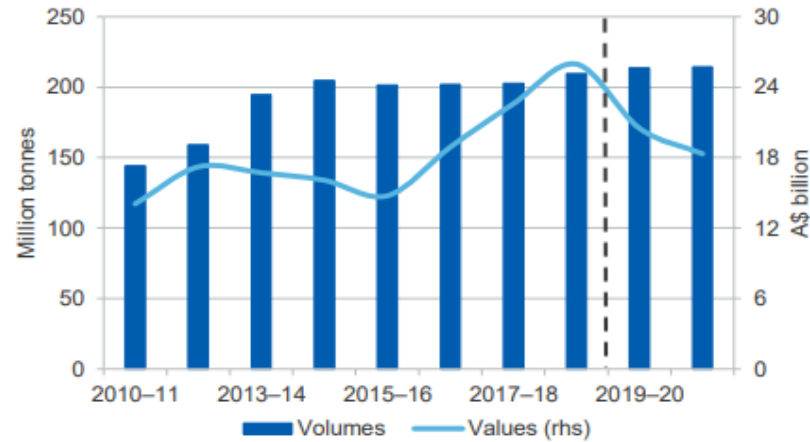
Notes: s Estimate, f Forecast
Source: IHS (2019); Department of Industry, Innovation and Science (2019)

Regional economy

Thermal coal

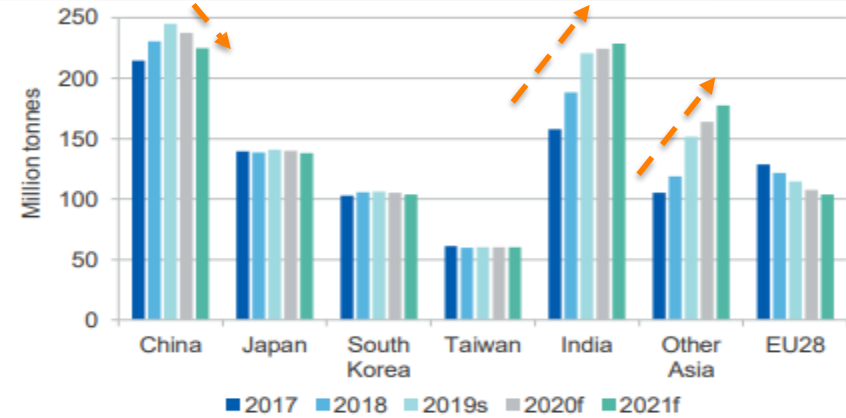
Source: Department of Industry Resources & Energy Quarterly, December 2019

Australian thermal coal exports



Source: ABS (2019) International Trade, Australia 5368.0; Department of Industry, Innovation and Science (2019)

Thermal coal import volumes



Notes: s Estimate f Forecast

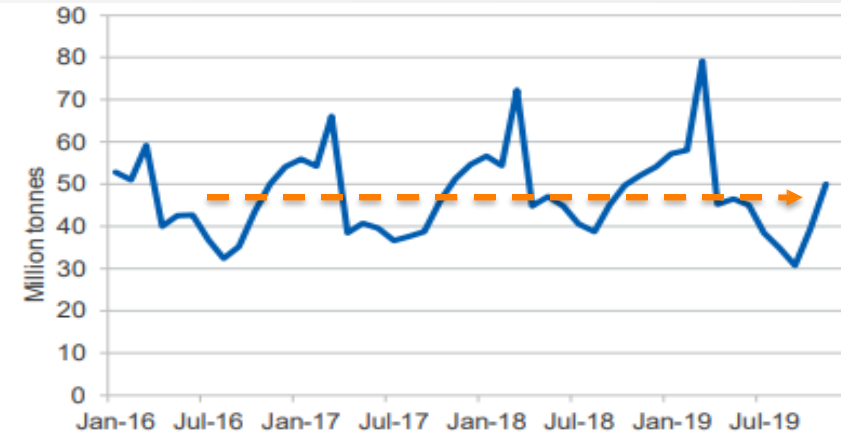
Source: IHS (2019); IEA (2018) Coal Market Report; Department of Industry, Innovation and Science (2019)

China thermal coal production



Source: Bloomberg (2019) National Bureau of Statistics of China

India thermal coal imports



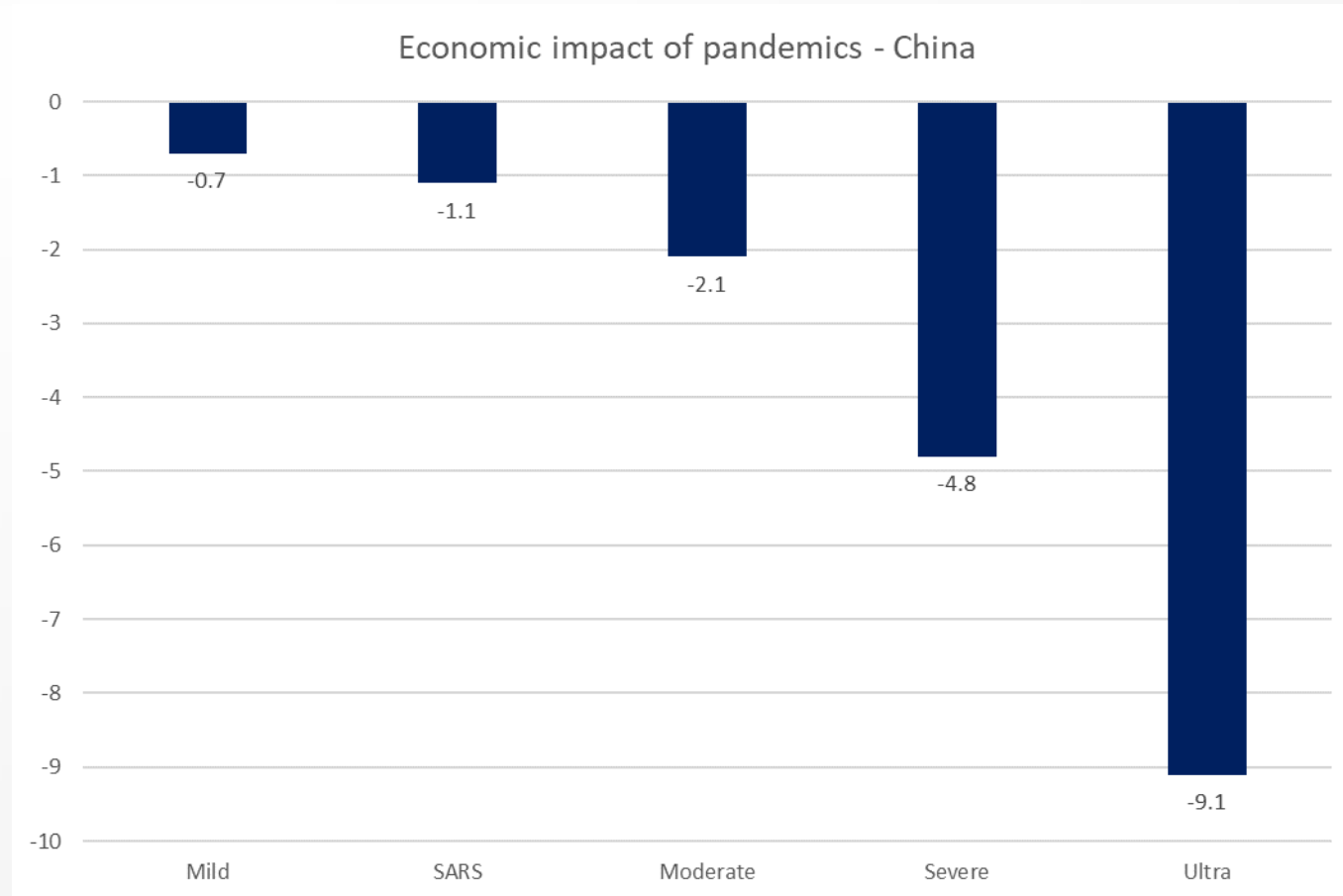
Source: IHS Markit (2019)



RISKS AHEAD

Coronavirus Disease (COVID-19)

Potential impact on China if COVID-19 became a pandemic



Scale = Percentage point deviation to level of GDP from baseline

Sources:

[Global Macroeconomic Consequences Of Pandemic Influenza](#) (McKibbin & Sidorenko, 2006)

[Globalization and Disease: The Case of SARS](#) (McKibbin & Lee, 2004)

Is the trade truce sustainable?

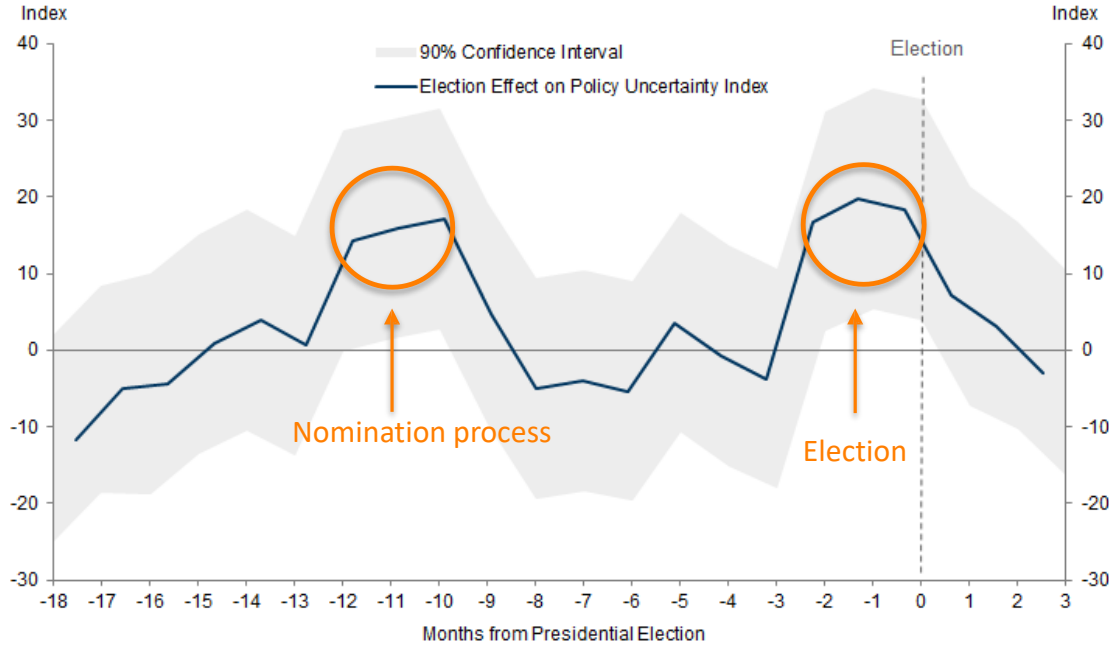
Thoughts on Phase 1 Trade Deal

- **Challenging for China to meet purchase targets** for US goods & services
 - The minimum purchase requirements for 2020 and 2021 are 41% and 66% higher respectively than the 2017 baseline (where this was the high-water mark before trade between the two countries started to deteriorate)
 - That is, it will be a high hurdle to clear and the trajectory established will form the basis of ongoing demand between 2022 and 2025
 - Also, assuming the lack of an organic lift in demand, this will require China to divert purchases away from other countries and towards the US
 - Here, Australia could be affected in terms of coal (incl. met coal), LNG and beef exports
- It is **very easy for either country to suspend its obligations** or to take 'proportionate actions' in response to a dispute in regards to the agreement
 - All it takes is several rounds of consultations and unlikely to be a material barrier if one party just wants to cause grief for the other
- It is **very easy for a party to pull out** of the agreement
 - They just need to send a letter saying that remedial action by the other party to address a dispute was undertaken in bad faith
- No information was provided on what tariff relief might be forthcoming if China meets its commitments
- All bets are off after the **review begins (following November election)**
 - You'd think the President will find fault with something at this point, most likely in the vaguer and less detailed provisions of the agreement where targets are less able to be irrefutably quantified
- Some elements of the agreement are consistent with China's previously announced intentions in certain areas (e.g. currency management, financial sector liberalisation) such that **the extent of new concessions is limited**
 - This is likely to provide ample fodder for the US to push harder in these areas post-November
- The more controversial and **harder to resolve elements were barely touched on**
 - For instance, there are more pages covering food and agriculture trade than on IP and tech transfer combined
- The likely exchange rate reaction flowing from the agreement (USD stronger/CNY weaker) could create tensions with the currency management elements of the agreement
- Political, economic and cultural differences between the two countries remain such that the **economic, technological and strategic rivalry is yet to be resolved**

US Presidential Election

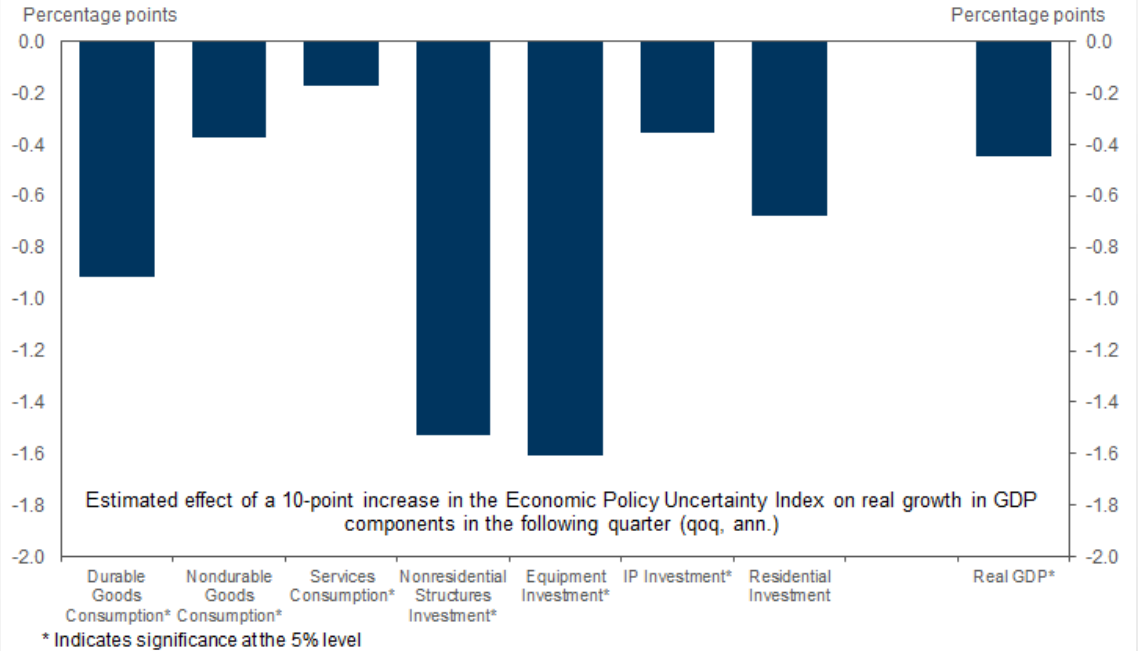
Uncertainty could increase this year

Elevated Uncertainty Early in Election Years and Just Before Election



Source: PolicyUncertainty.com, Goldman Sachs Global Investment Research

A Negative Relationship Between Policy Uncertainty and GDP Components

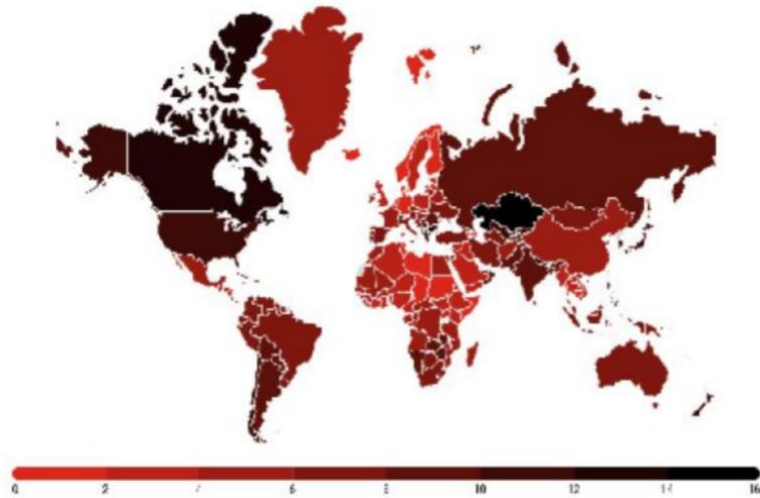


Source: PolicyUncertainty.com, Goldman Sachs Global Investment Research

Climate change

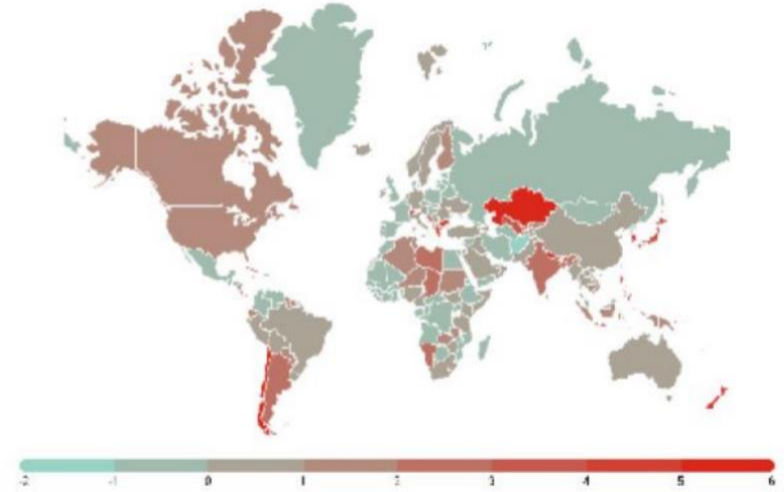
Potentially significant economic impacts

Figure 7: Percent Loss in GDP per capita by 2100 in the Absence of Climate Change Policies (RCP 8.5 Scenario)



Notes: The heat map shows $\Delta_{ih}(d_i)$, see equation (31), in year 2100 with $m = 30$, based on the RCP 8.5 scenario.

Figure 8: Percent Loss in GDP per capita by 2100 Abiding by the Paris Agreement (RCP 2.6 Scenario)



Notes: The heat map shows $\Delta_{ih}(d_i)$, see equation (31), in year 2100 with $m = 30$, based on the RCP 2.6 scenario.

Summary

- Global momentum hit badly in H1, should stabilise later in 2020
- For Australia...coronavirus, bushfires and drought to impact in H1
- Things should get better, albeit slowly in H2
- Regionally, beef doing well but volumes and prices could moderate in near-term
- Risks evident in short (COVID-19, US election), medium (trade) and long (climate) terms

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