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# Economic Update for LGMA (Darling Downs and South West QLD Branch)

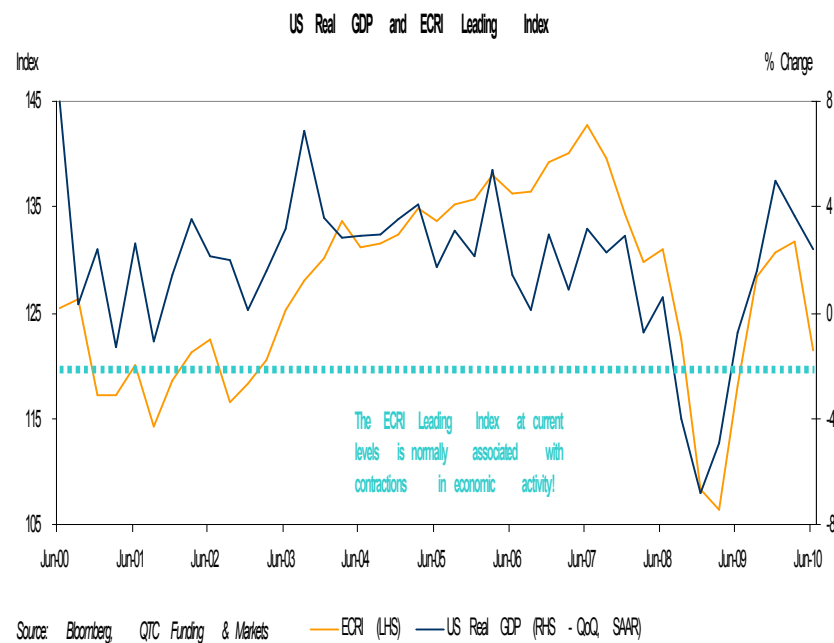
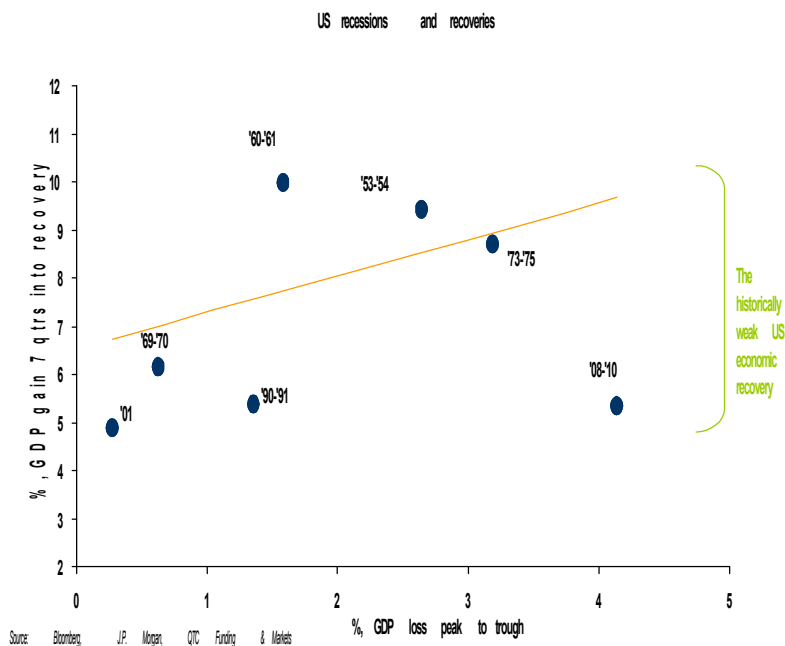
Friday 20 August 2010

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# Global Snapshot



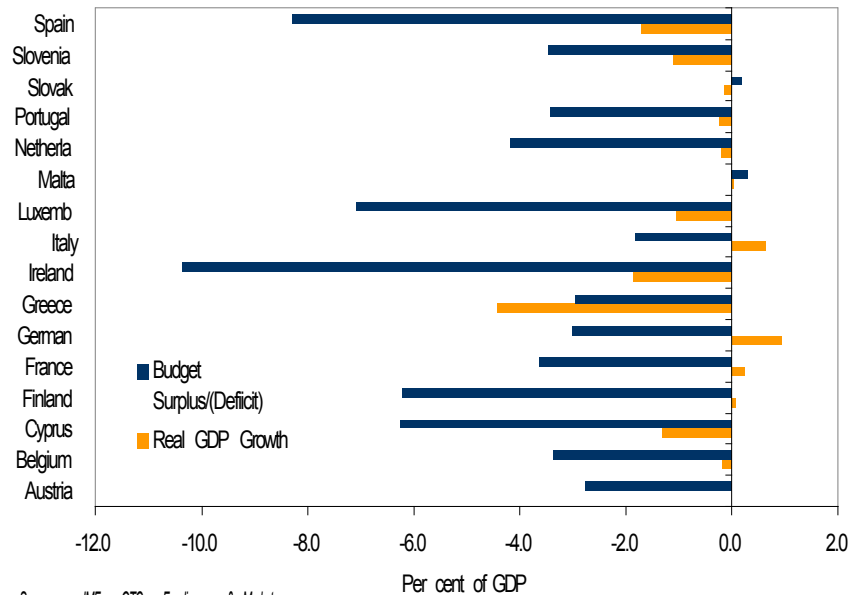
# US



- The US recovery is proceeding but at a slow pace historically.
- Leading Indexes suggest a continued slowing in economic activity (at the very least).

# Euro Area

Euro Area countries 2011 forecasts (real GDP growth, budget deficits) relative to 2000's average



Source: IMF, QTC Funding & Markets

RBC SOVEREIGN RISK HEAT MAP: 15 June 2010

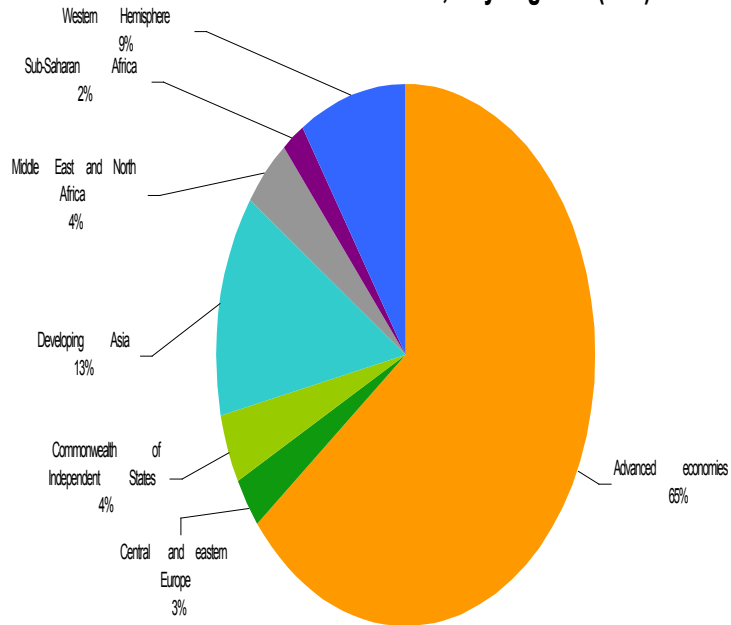
Country	Debt Stock & Flow	Debt Servicing	Economic Strength	Market Response	Overall
Australia	-0.54	0.07	-0.76	0.06	-0.29
Austria	-0.04	0.20	-0.20	-0.16	0.01
Belgium	0.02	0.55	-0.14	0.23	0.20
Canada	-0.30	-0.19	-0.79	-0.22	-0.31
Denmark	-0.46	-0.88	-0.11	-1.41	-0.67
Finland	-0.84	-0.53	-0.28	-0.33	-0.62
France	0.45	0.43	-0.23	-0.04	0.31
Germany	0.08	0.09	-0.27	-0.81	-0.05
Greece	0.55	1.60	1.59	2.45	1.22
Ireland	0.74	0.53	1.79	1.24	0.84
Italy	0.38	1.14	-0.01	0.84	0.64
Japan	1.25	-0.62	1.18	-0.69	0.40
Netherlands	0.09	-0.01	-0.10	-0.51	-0.03
New Zealand	-0.42	-0.67	-0.66	-0.27	-0.51
Norway	-1.78	-2.04	-0.11	-0.42	-1.53
Portugal	0.43	1.12	0.11	1.47	0.74
Spain	0.38	0.27	0.34	1.71	0.49
Sweden	-0.91	-0.47	-0.36	-1.18	-0.73
Switzerland	-0.80	-1.35	-0.10	-0.94	-0.92
United Kingdom	0.81	0.31	-0.20	-0.41	0.39
United States	0.93	0.46	-0.70	-0.62	0.42

Source: RBC

- Europe is not in great shape.
  - Proposed reforms will help but expectations around economic growth rates and budget positions of Euro Area countries paint a poor picture relative to recent history.
  
- Recovery will be a bumpy ride.
  - Further credit ratings downgrades are possible.
  - Periodic bouts of financial market volatility are likely.

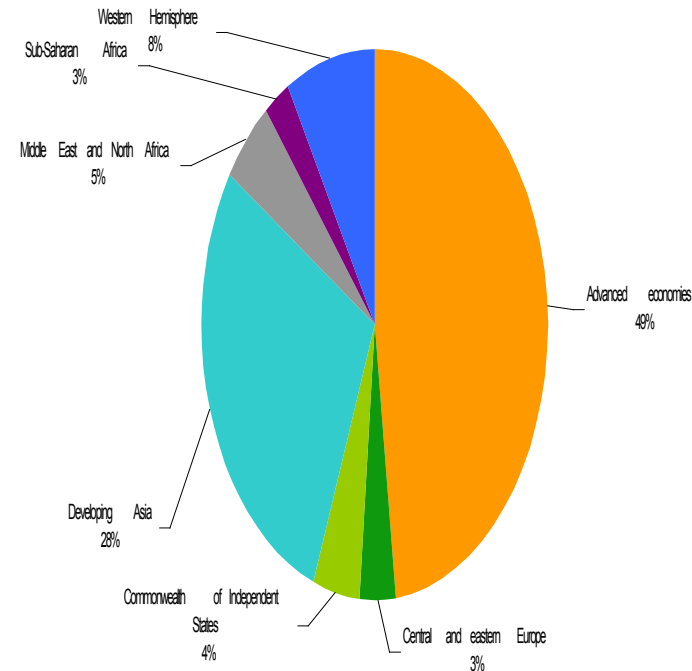
# Asia

Share of Global GDP, by region (1995)



Source: IMF, QTC Funding & Markets

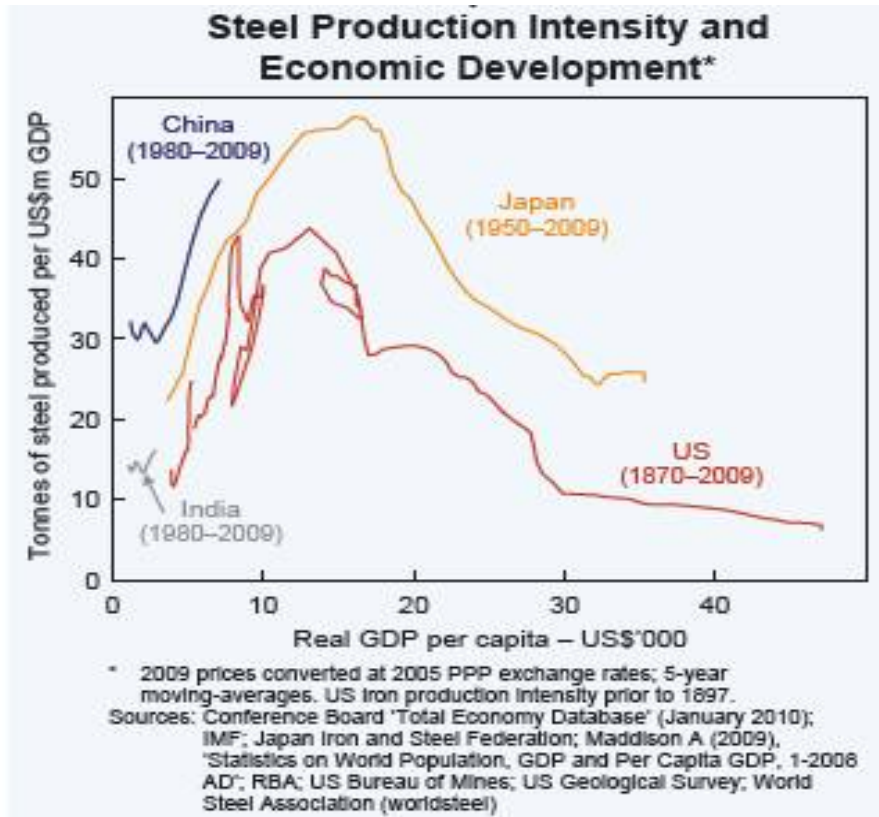
Share of Global GDP, by region (2015 est.)



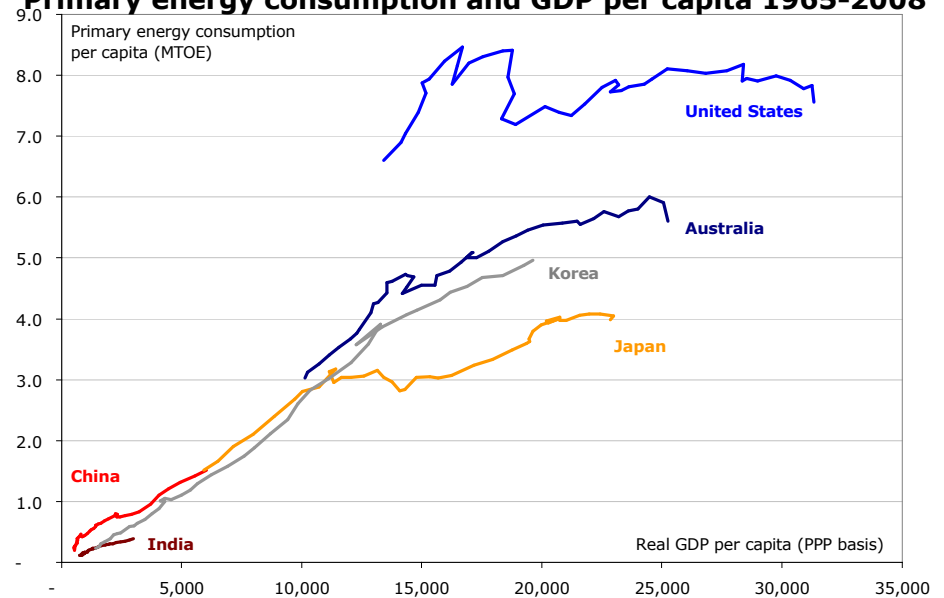
Source: IMF, QTC Funding & Markets

- There's been a profound shift in which regions drive world growth.
- Rapid industrialisation and urbanisation processes underway.
  - Between 2000 and 2030 urban migration of 2.1 billion people globally (700 million of that in China and India, 1.3 billion of that in Asia overall)

# China / India



**Primary energy consumption and GDP per capita 1965-2008**



Source: ANZ

- Coal and iron ore contract prices expected to remain around current (high) levels given rapid industrialisation.
  - Coal (power generation) and iron ore (steel production) are essential inputs into this process.
- Natural gas important as energy demands grow, whether liquefied (as an alternative to oil) or not (for use in heating, cooking, power generation).

# Global Snapshot - Summary

- As a small “open” economy we are exposed to changes in global economic conditions.
  - Affects trade (e.g. demand for commodities)
  - Affects prices of goods and services (e.g. oil)
  - Affects availability and cost of capital
  - Affects financial market prices (e.g. shares, FX)
- **IF** the world (mainly our trading partners) are strong then we will likely also be strong.

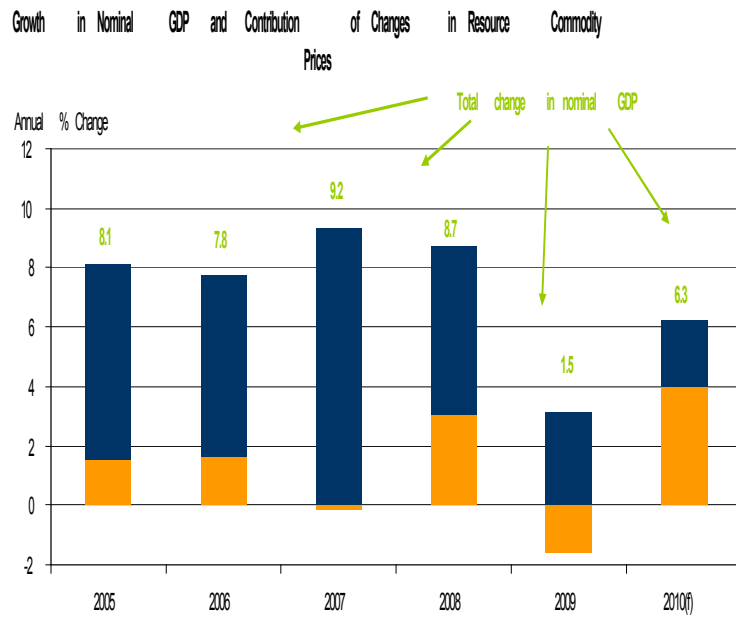


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# Domestic Snapshot

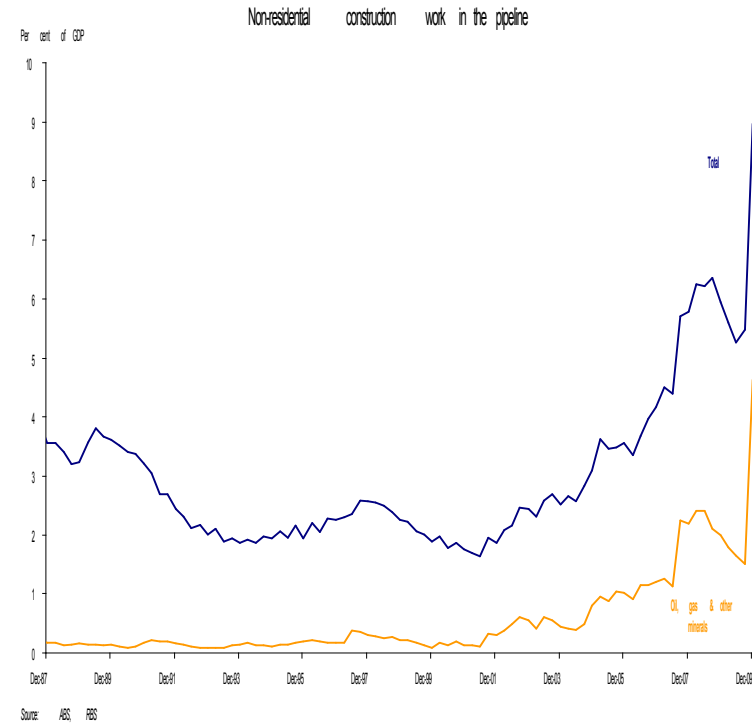


# Resources sector



Source: ABS, Commonwealth Treasury, RBA, QTC Funding & Markets

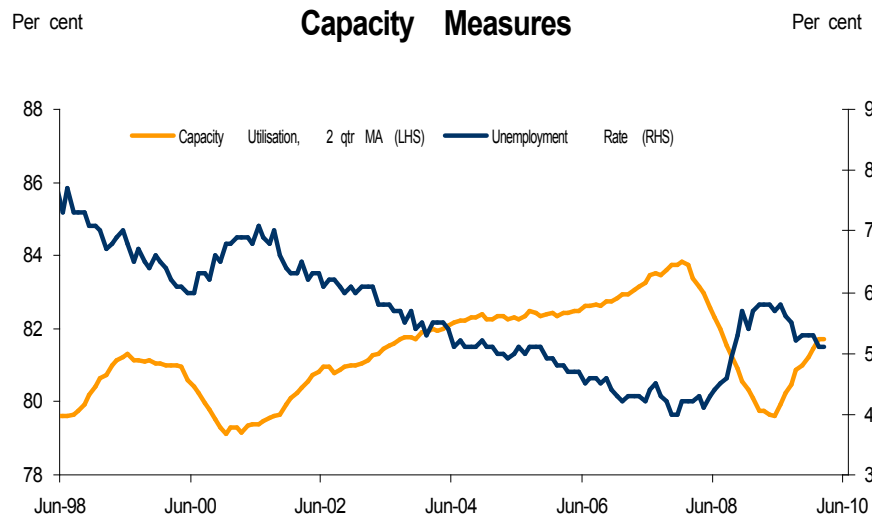
■ Change in nominal GDP, excluding changes in resource prices  
 ■ Contribution of changes in resource prices



Source: ABS, ABS

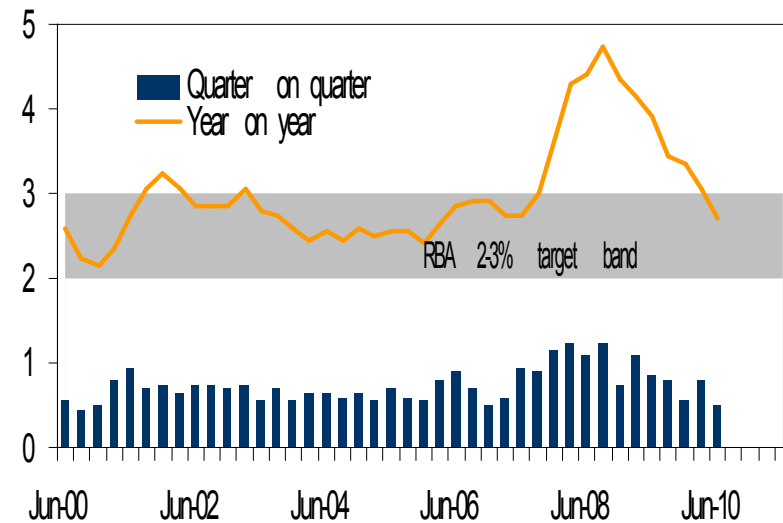
- Elevated commodity prices have supported a sharp increase in construction in the resources sector.

# Inflation



Source: ABS, NAB, QTC Funding & Markets

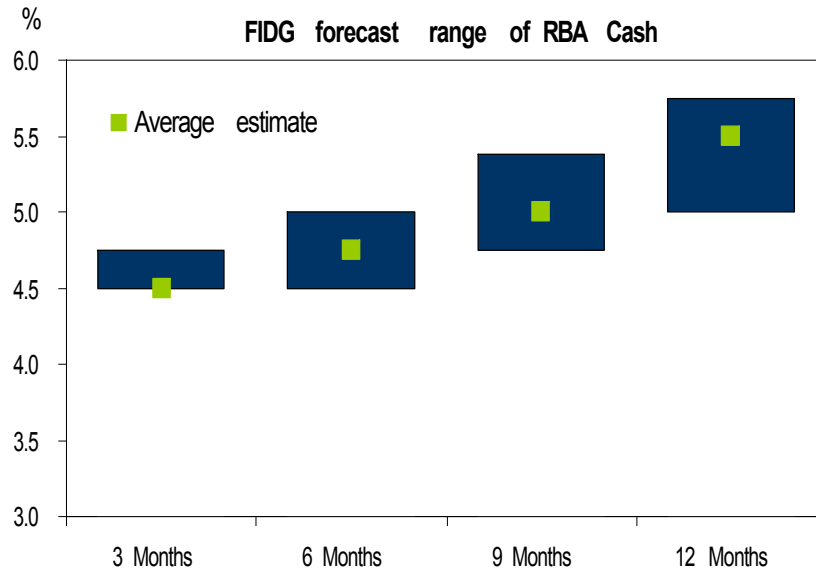
### Underlying CPI growth



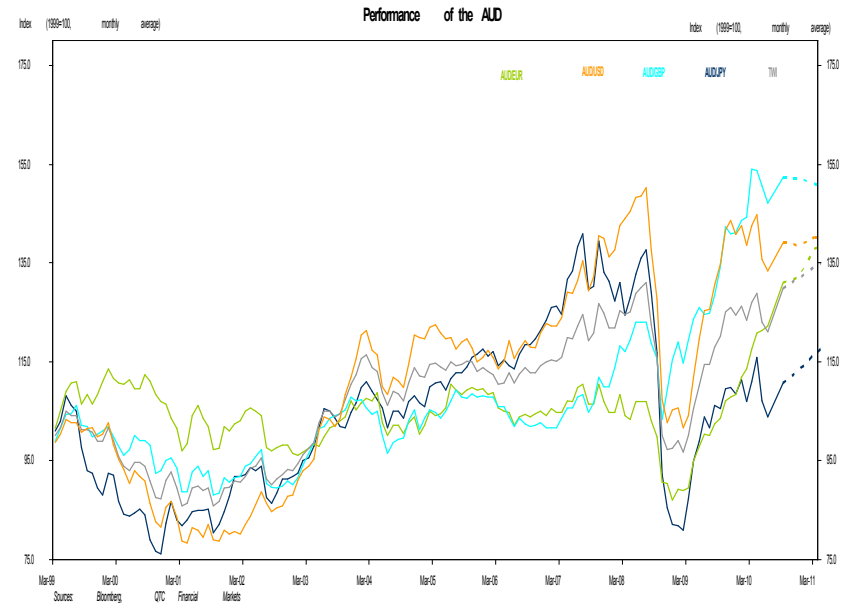
- The economy is gradually reaching its maximum capacity which will put upwards pressure on inflation over the next year or two.



# Interest Rates



- By the end of the year the RBA will raise the cash rate once more according to QTC's Fixed Income Distribution Group ("FIDG") economists.
- Market is pricing in 12% chance of an increase.



- The AUD has fallen from its most recent highs but is forecast to stabilise from here.
- Further bouts of risk aversion are a downside risk.



# Domestic Snapshot - Summary

- Economy boosted by high commodity prices.
- This means:
  - Higher investment
  - Higher company profits
  - Higher household income
  - Higher government revenue
  - Higher employment in mining and related sectors (also takes jobs away from other sectors)
- Will put upwards pressure on interest rates and the AUD.
- **IF** the economy continues to be supported by the resources sector.

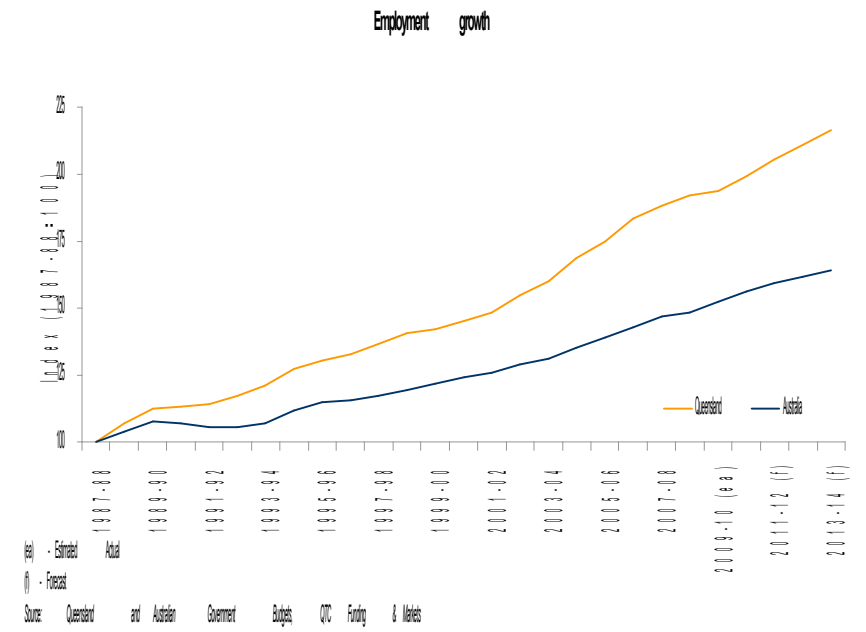
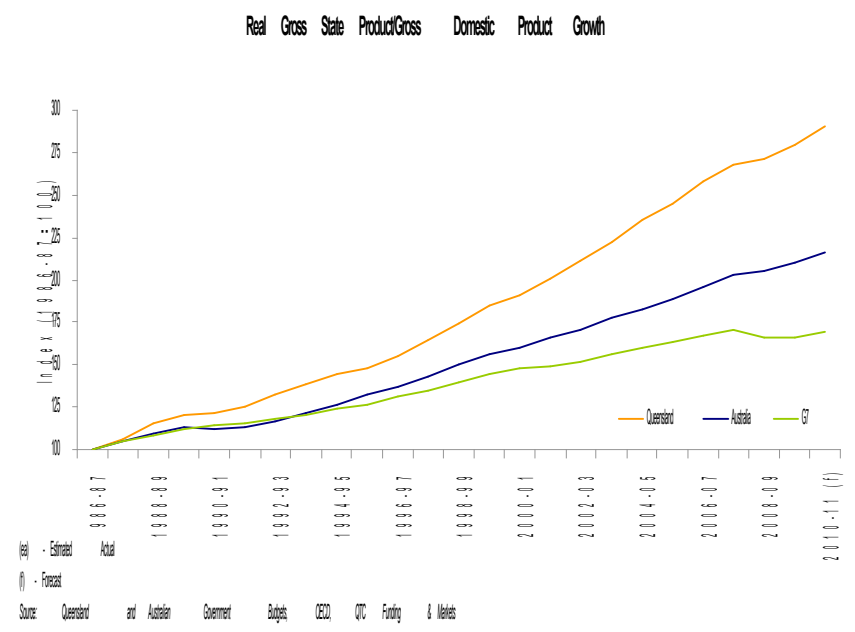


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# Queensland

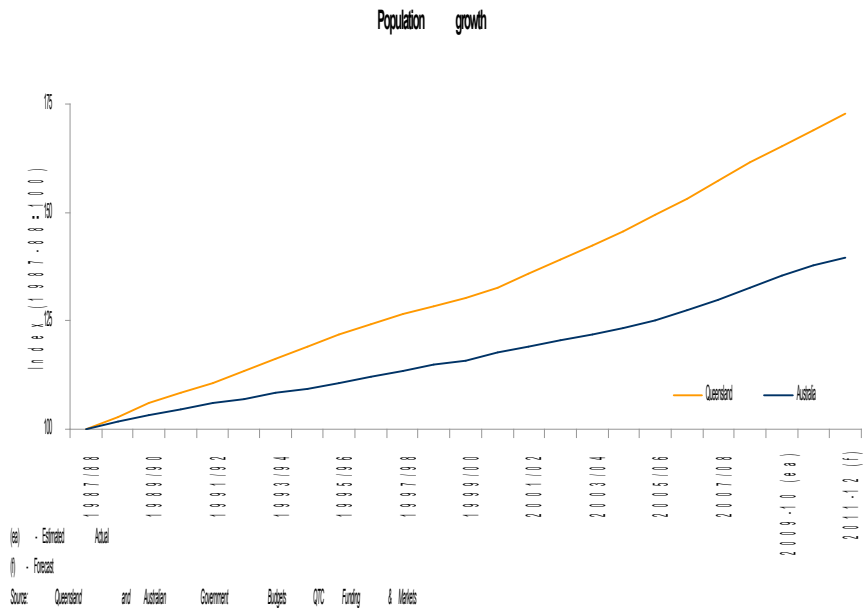


# Economic Growth & Employment



- QLD has consistently experienced faster economic and job growth than the rest of Australia.
- This looks set to continue over the next few years.

# Population Growth & Infrastructure Spending



- Queensland's economic performance has been underpinned by solid population growth, mostly from overseas migration in recent years.
- A larger population has resulted in a need for much higher infrastructure spending.



# Queensland - Summary

- Beautiful one day, perfect the next (on a long-term view)
- Did struggle during the GFC
- Still have a lot going for us
- Future looks good
- **IF** the world (mainly our trading partners) are strong then we will likely also be strong.



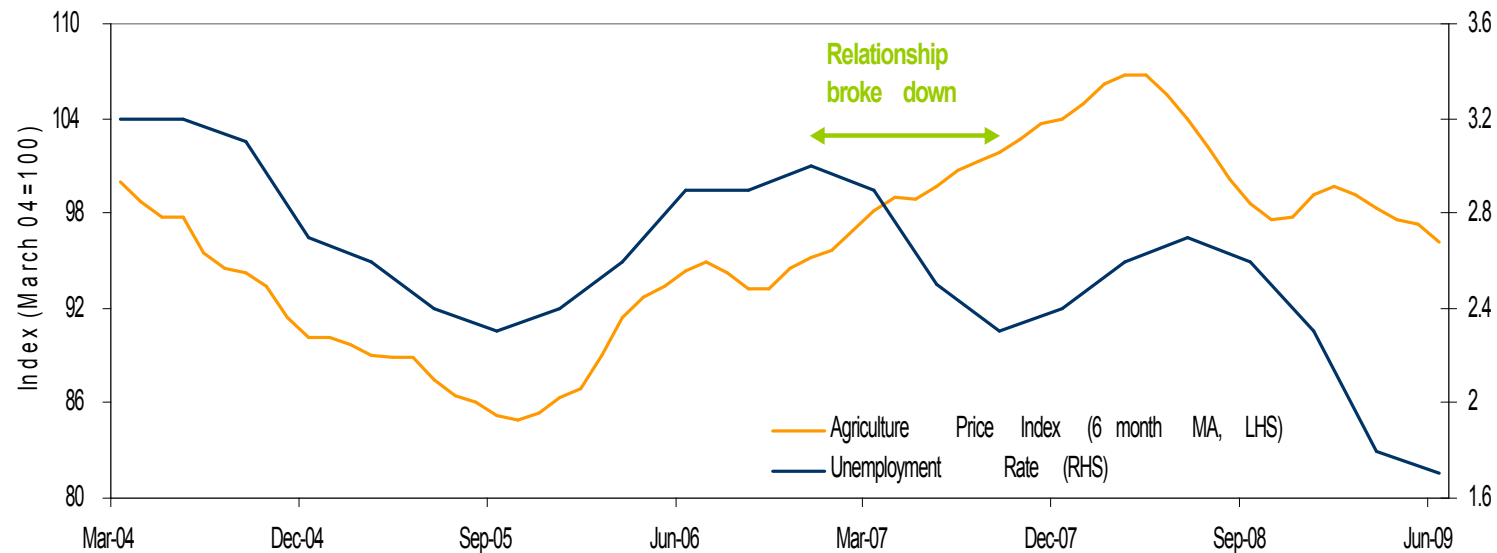
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# South West Queensland



# Importance of Agriculture

Unemployment rate and agriculture prices



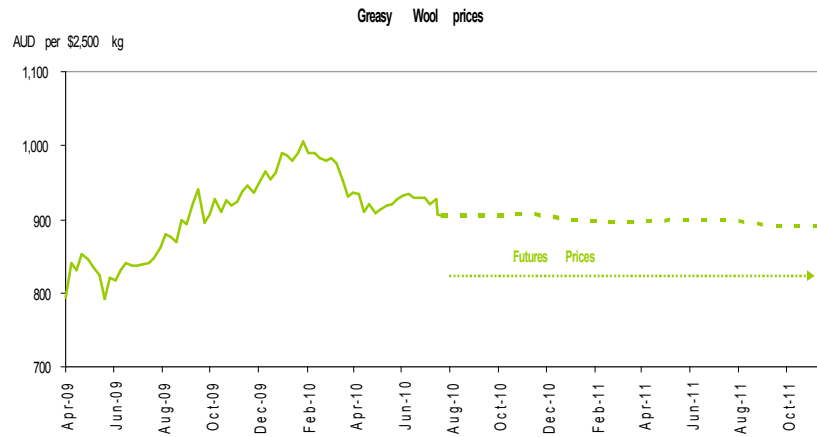
Note: The agriculture price index used is a composite index representing beef, wool and cotton prices obtained from QRSIS.

Source: QRSIS, QTC Funding & Markets

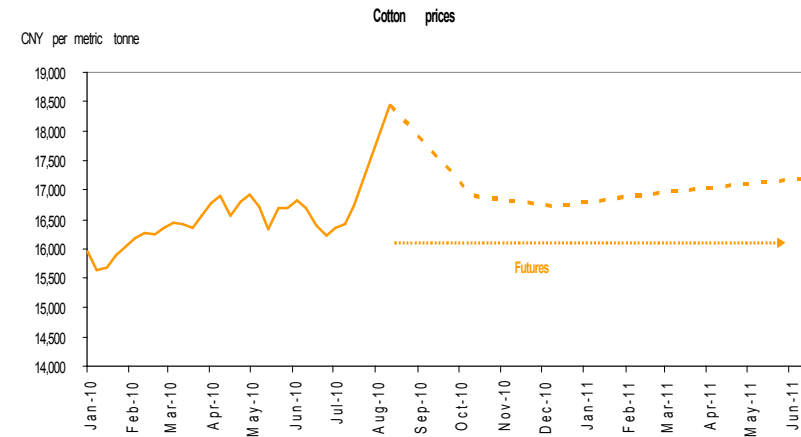
- Apart from a period in 2007 when the relationship broke down, the UER in South West QLD generally moves in the same direction as key agriculture prices.



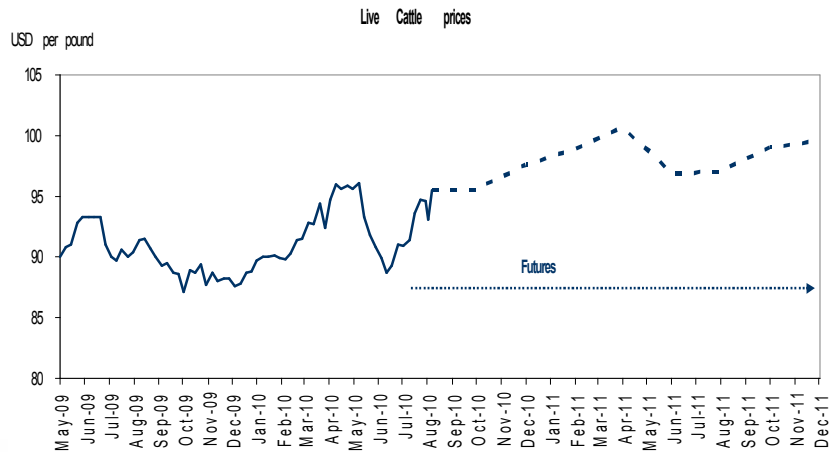
# Agriculture Prices



Source: Bloomberg, QTC Funding & Markets



Source: Bloomberg, QTC Funding & Markets

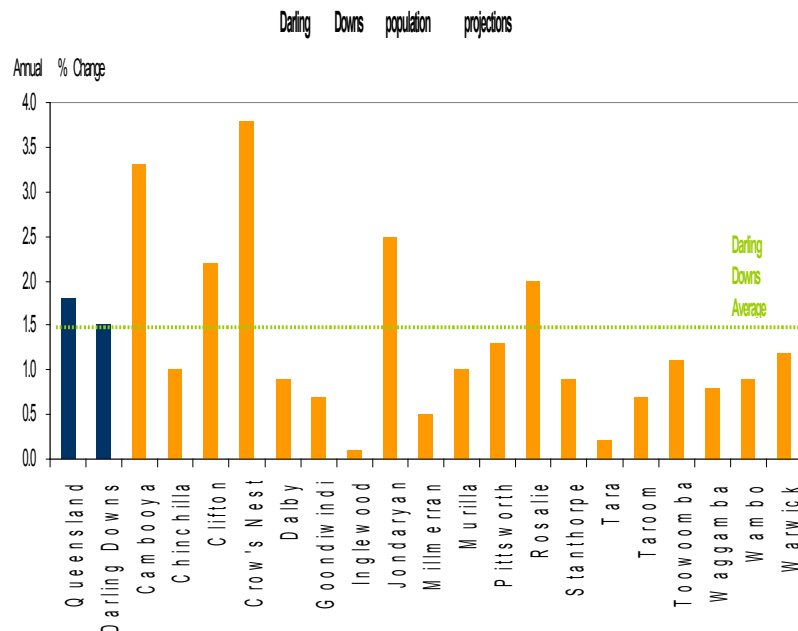


Source: Bloomberg, QTC Funding & Markets

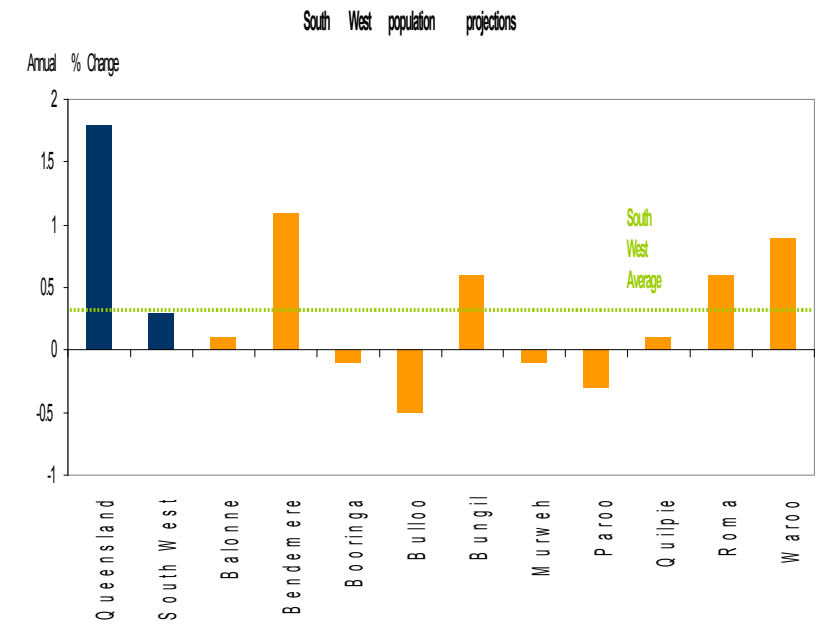
- Look to be trending up
- Good for the region



# Population



Source: CESR, QTC Funding & Markets



Source: CESR, QTC Funding & Markets

- Sustainable population growth improves economic prospects.
- Some towns in the region will experience faster population growth with others. This will pose challenges for councils.



# South-West Queensland - Summary

- Outlook for agriculture prices looks positive
- Should support local incomes and jobs
- Should underpin rates collections
- Challenges also be posed by divergence in population growth across region

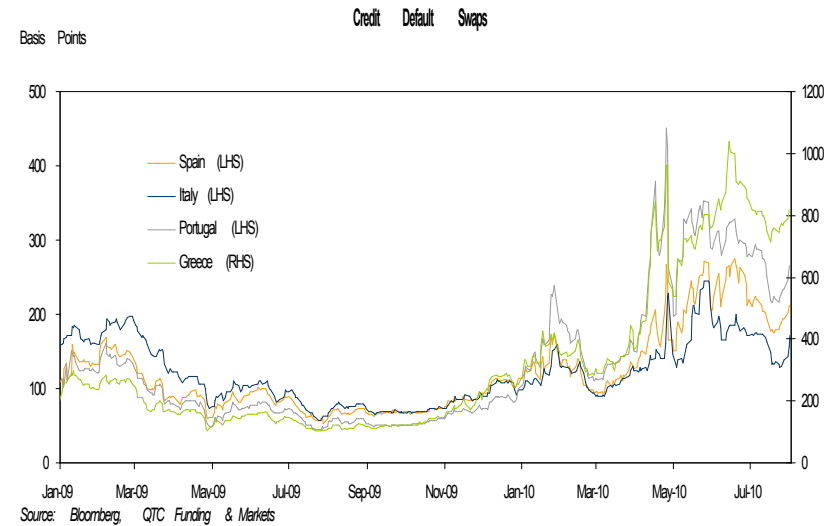
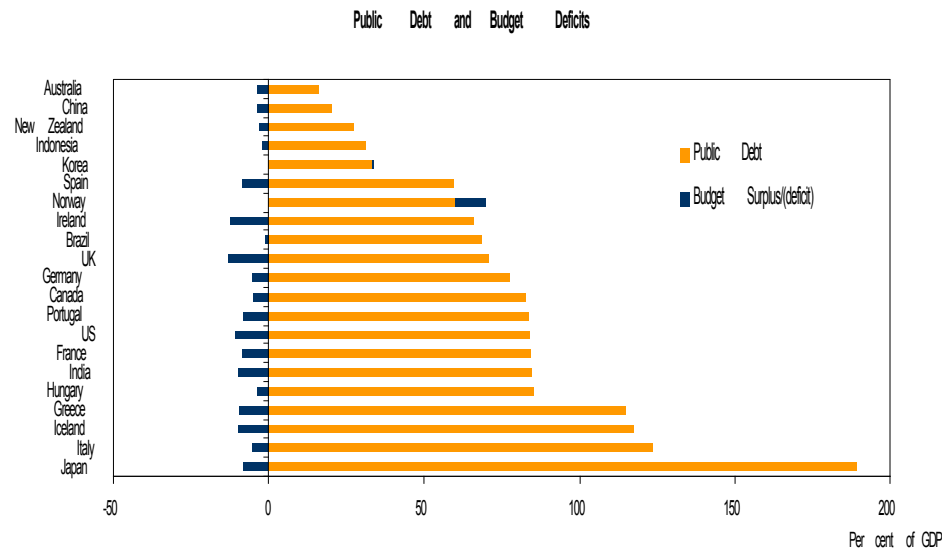


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# Appendix: Risks



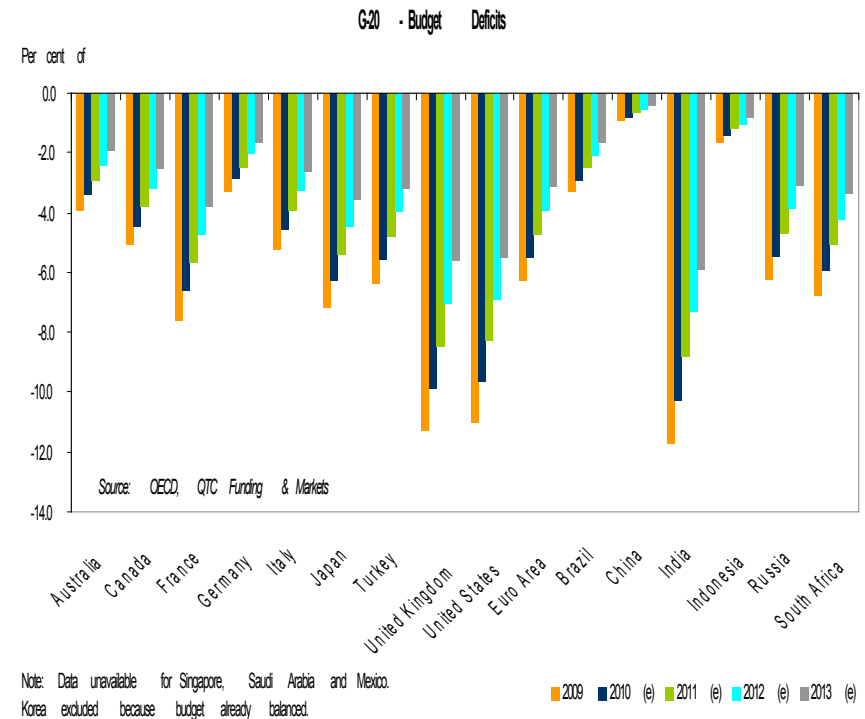
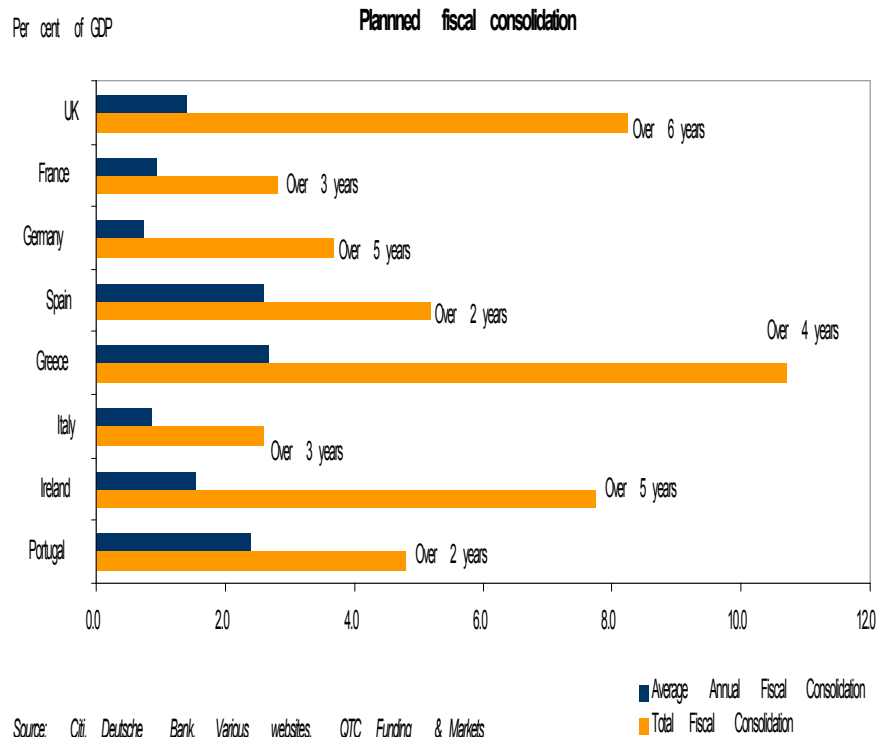
# Sovereign Debt Concerns



- High levels of public debt and the need to support growth through budget deficits are likely to hamper medium-term growth in many countries.
- 5 year CDS prices indicate lingering concerns over the quality of sovereign debt.



# Fiscal Consolidation

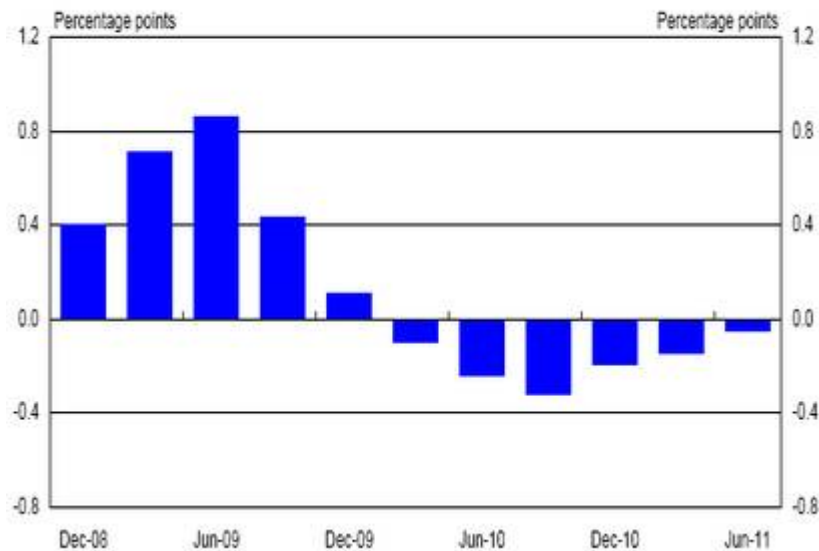


- Tough austerity packages announced in Europe.
- G-20 leaders committed to halve budget deficits by 2013.

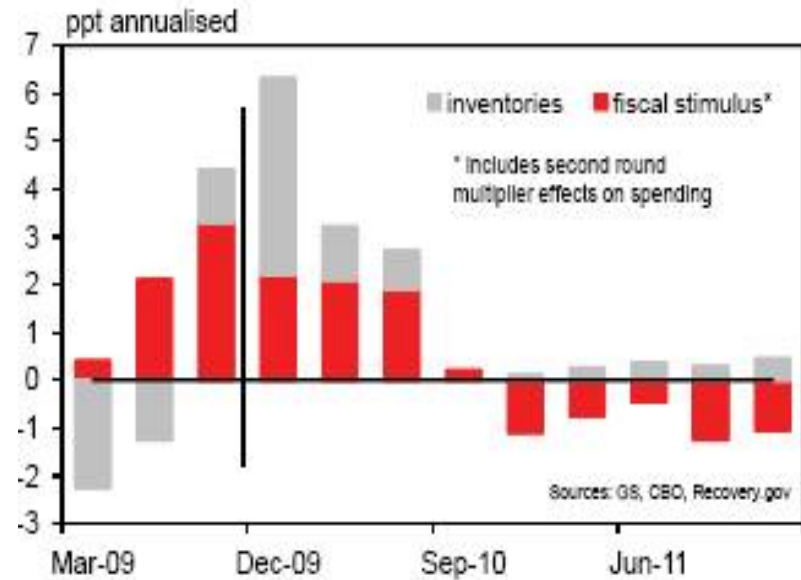


# Recovery

Chart 10 – Contribution of fiscal stimulus to quarterly growth



Source: Australian Treasury



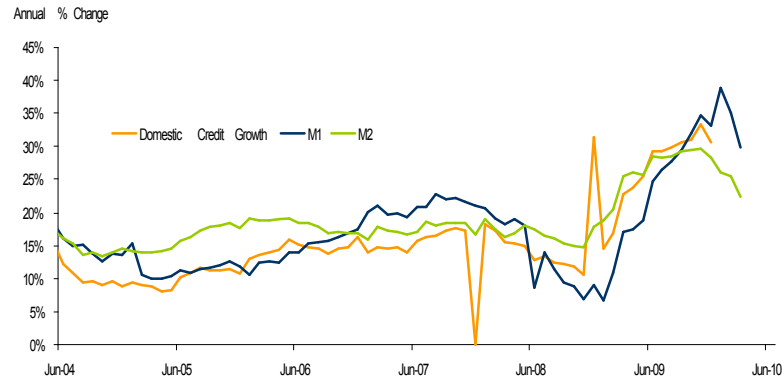
Source: Westpac

- Temporary factors boosting economies to fade.
- Fiscal stimulus already detracting from growth in Australia. Soon to be the case in the US.
- How strong will economic growth be abstracting from these factors?



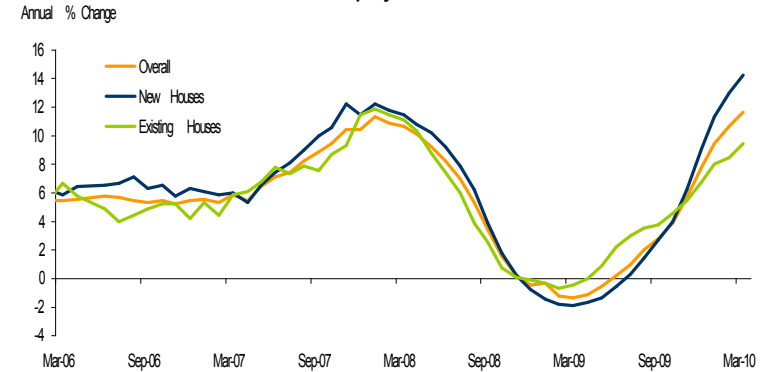
# China Slowdown

Domestic Credit & the Money Supply



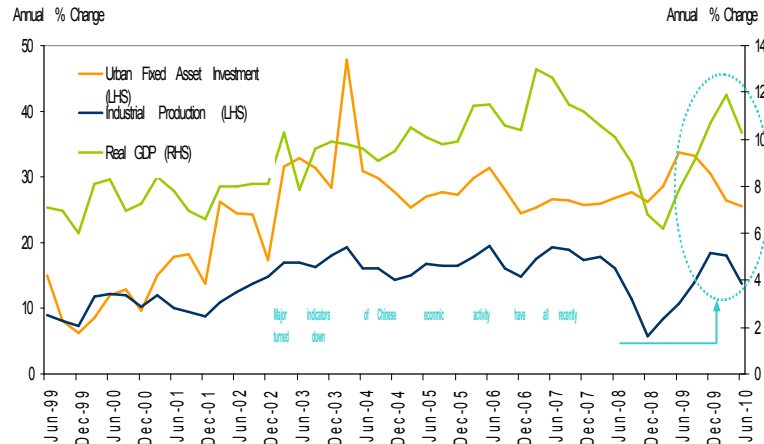
Source: Bloomberg, QTC Funding & Markets

Chinese Property Prices



Source: Bloomberg, QTC Funding & Markets

China urban fixed asset investment and industrial production



Source: Bloomberg, QTC Funding & Markets

- Credit growth soared as authorities aimed to support the economy via liquidity.
- This has led to large increase in speculative activity in the property market. The Government has since taken steps to cool this market.
- Authorities are hoping that these measures don't de-rail broader economic activity.
- To date, the plan is working.



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## Summary - Risks

- There are a multitude of risks out there
- National, state and regional prospects are not guaranteed
- Awareness of risks are important

