



Brisbane Mining Club
Economic and industry outlook presentation

Steve Kanowski, Partner – Transport and Infrastructure
16 June 2022

INTRODUCTION

Briefly:

- Domestic macroeconomic outlook
- International outlook
- Some points to consider in the near term

Domestic macroeconomic outlook

We seem to have passed the worst of the Pandemic but... among other things

- Australia is now juggling the energy price shock due to the war in Europe
- Lingering supply chain disruptions – which seem to slowly untangling
- Labour market issues including acute labour shortages in various sectors

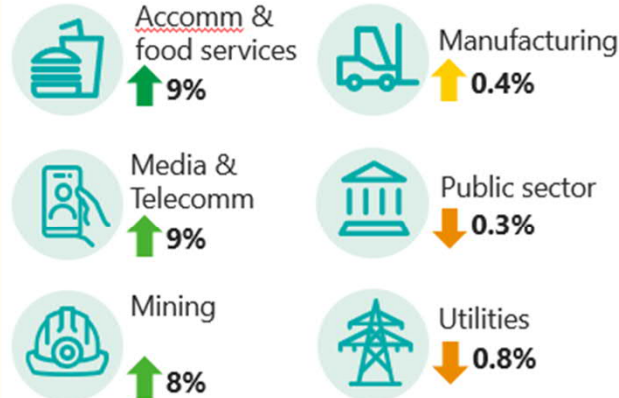
And now for the tricky bit ...

Economic outlook 2022 growth



Deloitte
Access **Economics**

2022 industry performance



Forecast 2022 annual output growth

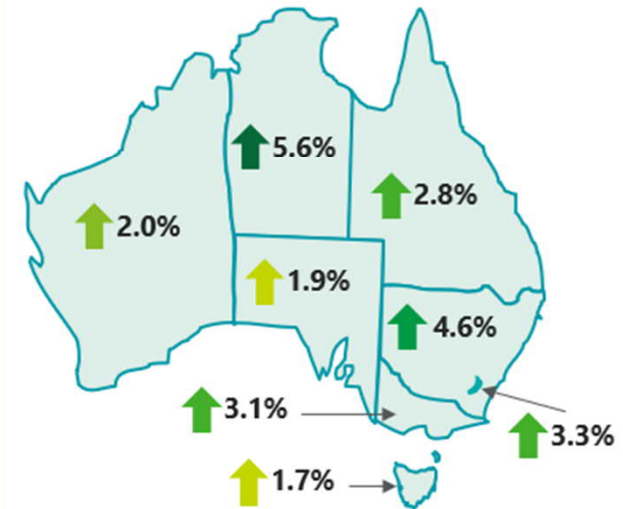
Population to be 700,000 smaller in 2022 than our pre-COVID forecasts

More than 250,000 people to join the **labour force** in 2022

More than 400,000 people to gain **jobs** in 2022

Unemployment rate to continue falling through 2022

Economic growth in 2022 to be fastest in NSW (a post-pandemic rebound) and the Top End (driven by commodity exports)



	2021 Estimate	2022 Forecast	2023 Forecast
Inflation	2.9%	4.4%	2.6%
Wage growth	1.9%	2.8%	2.9%
Interest rate*	0.0%	0.5%	1.2%
\$US per \$A	0.75	0.74	0.73

Annual averages
*90 day bank bill rate



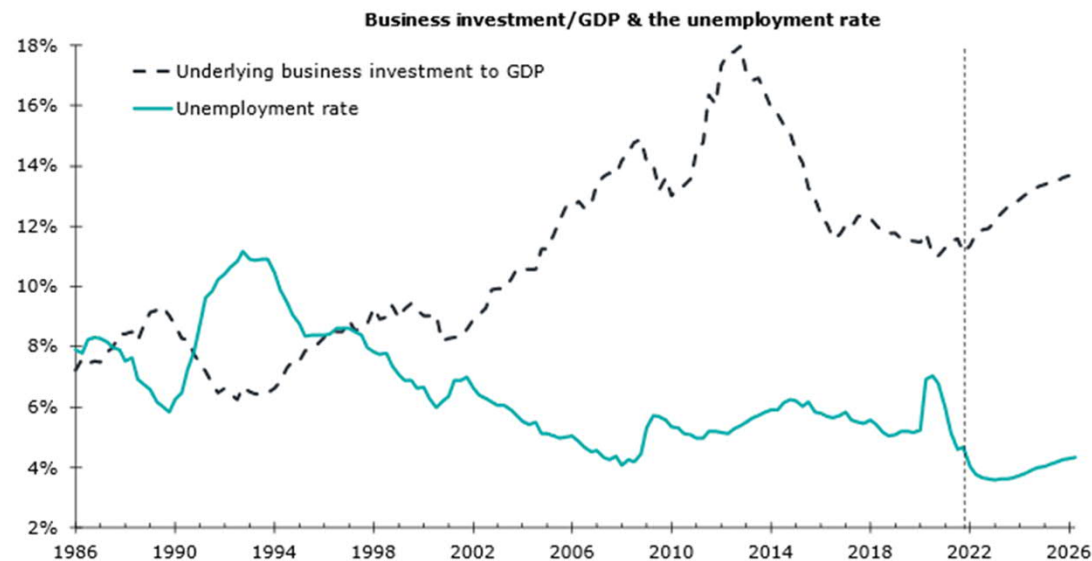
Some generally good metrics are expected

Even allowing for a less than promising set of headwinds (more on these later)

Key points

Key positives underpinning our expectations:

- Pandemic fears easing
- More of the Covid-impacted sectors opening up and need to invest (e.g. airlines)
- Private sector to benefit from high public sector infrastructure spends
- Interest rates rising but from an historic low
- High profits and good utilisation



Business investment

Investment outlook remains strong – particularly in engineering construction

Key points

- This covers mining, manufacturing, energy, water storage & drainage, and transport
- As we begin to 'live with Covid' activity is picking up
- Transport dominates with a number of mega-projects in the pipeline

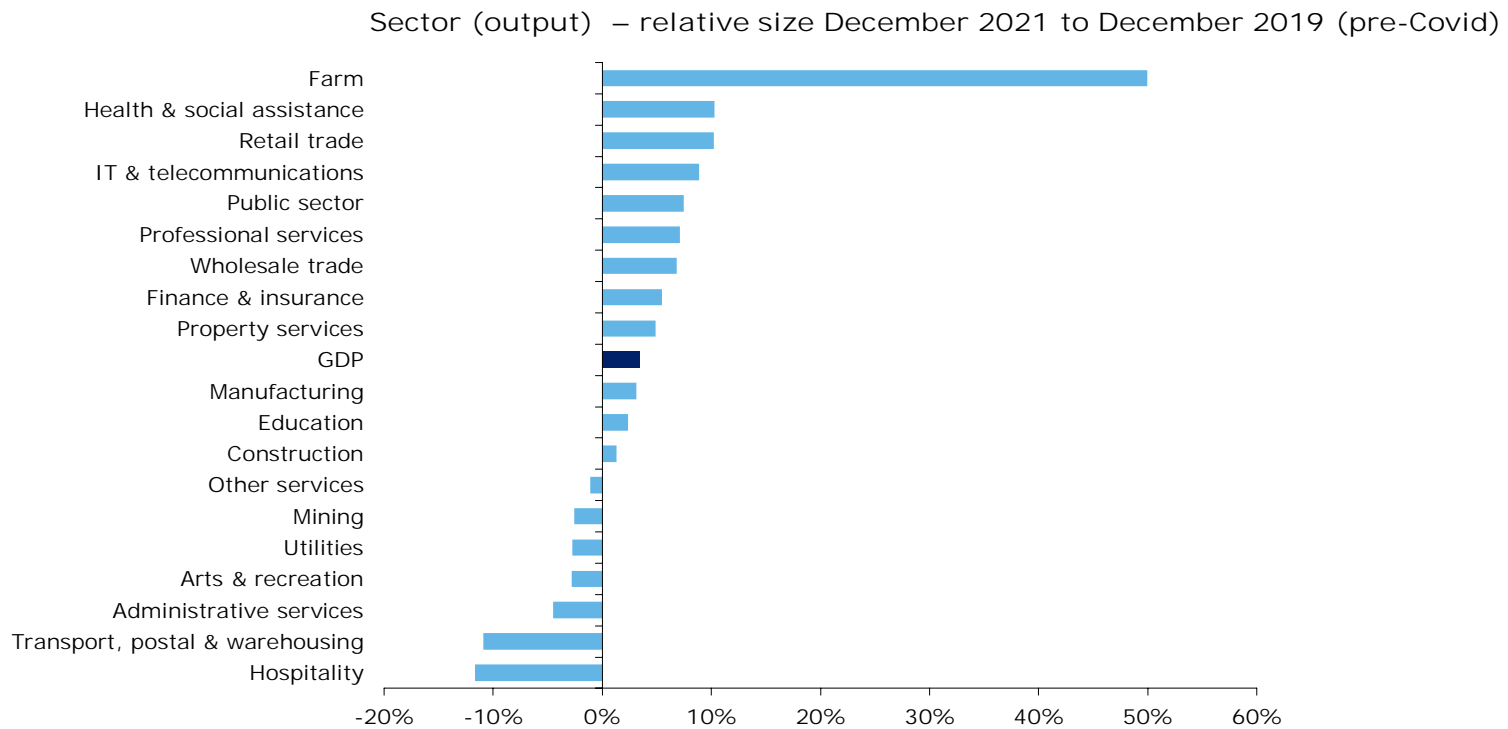
As at Dec 2021	Definite	% change on Dec 2020	In planning	% change on Dec 2020	Total \$m	% change on Dec 2020
Manufacturing	3,387	2%	29,565	66%	32,952	56%
Transport	235,029	58%	121,006	-28%	356,035	13%
Communication	6,000	-	350	-93%	6,350	31%
Mining	52,881	63%	161,438	-7%	214,319	4%
Power & water	23,896	21%	57,369	12%	81,265	14%
Rural and forestry	998	157%	215	87%	1,213	141%
Total (\$m)	322,191	57.2%	369,943	-11.0%	692,134	11.5%

Much of the economy is now open

Overall size is up but the distribution varies dramatically across industries

Key points

- Within these groupings significant variation e.g. air transport **-82%** within Transport...



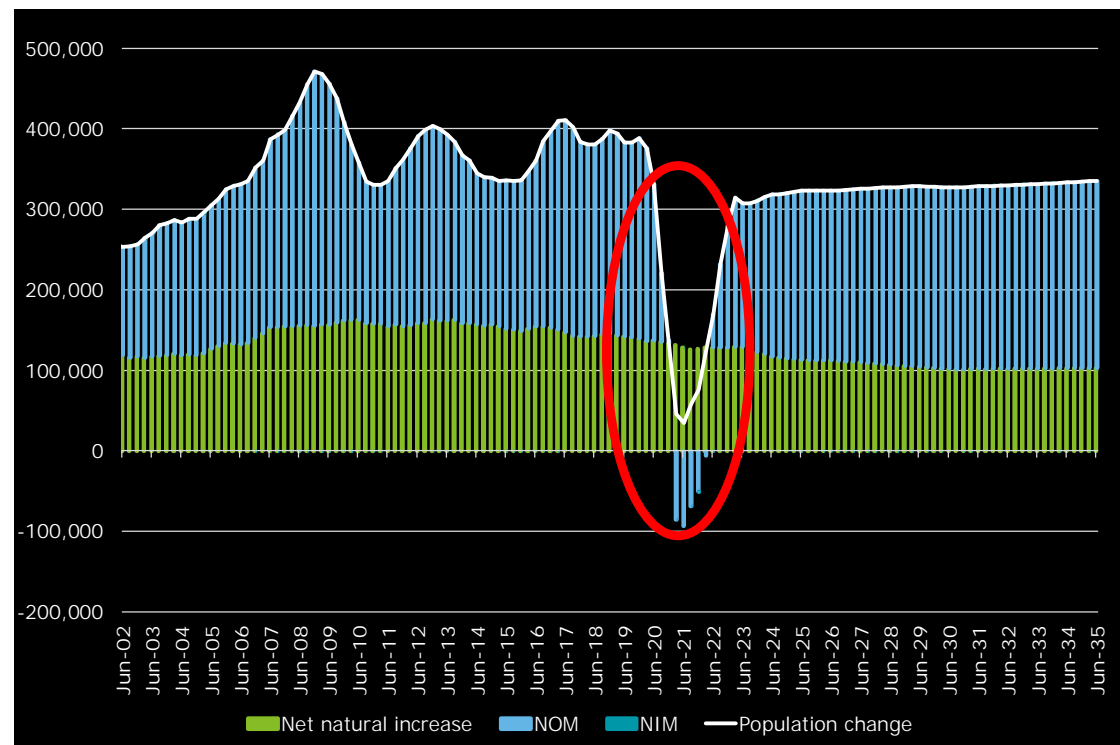
Deloitte's latest macroeconomic outlook

Stronger growth in wages is anticipated after 2021-22 and rebounding population

Key points

- Population growth fell for the first time, due to border closures, and significantly reduced net overseas migration (NOM). Population growth is expected to rebound by 2023, as vaccines are rolled out, and international borders open.

Components of population change, Australia



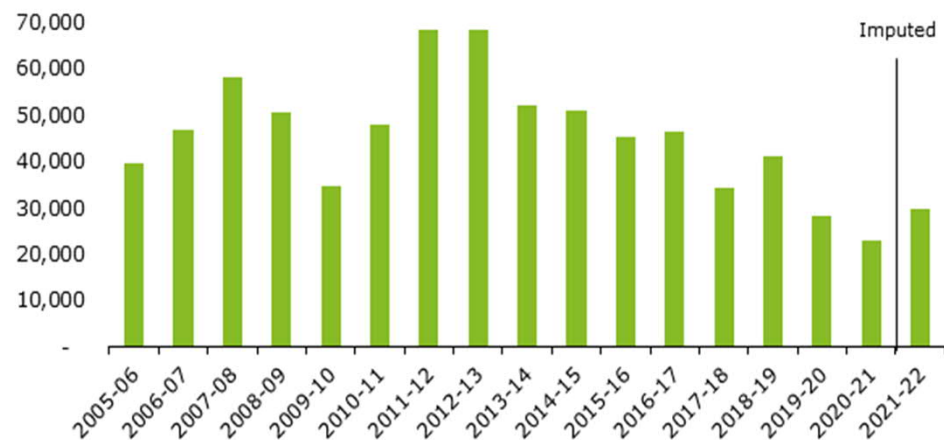
Skilled migrants

Reopening of Australia's skilled migration program in mid-December

Key points

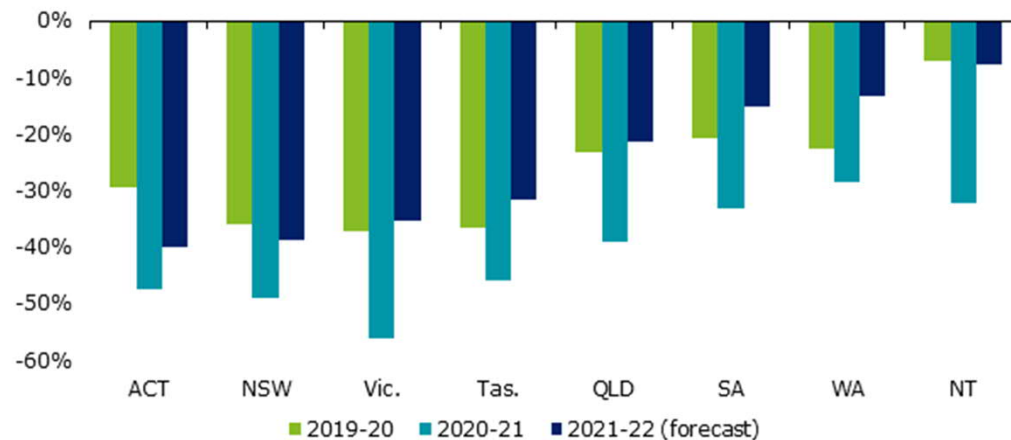
- While the reopening of this program will provide overdue relief for many States, migration levels are not expected to reach pre-pandemic levels anytime soon. Many sectors are suffering labour shortages creating serious concerns for output and productivity.

Primary skilled visas granted



Source: Department of Home Affairs

Primary skilled visas relative to 2018-19 by State



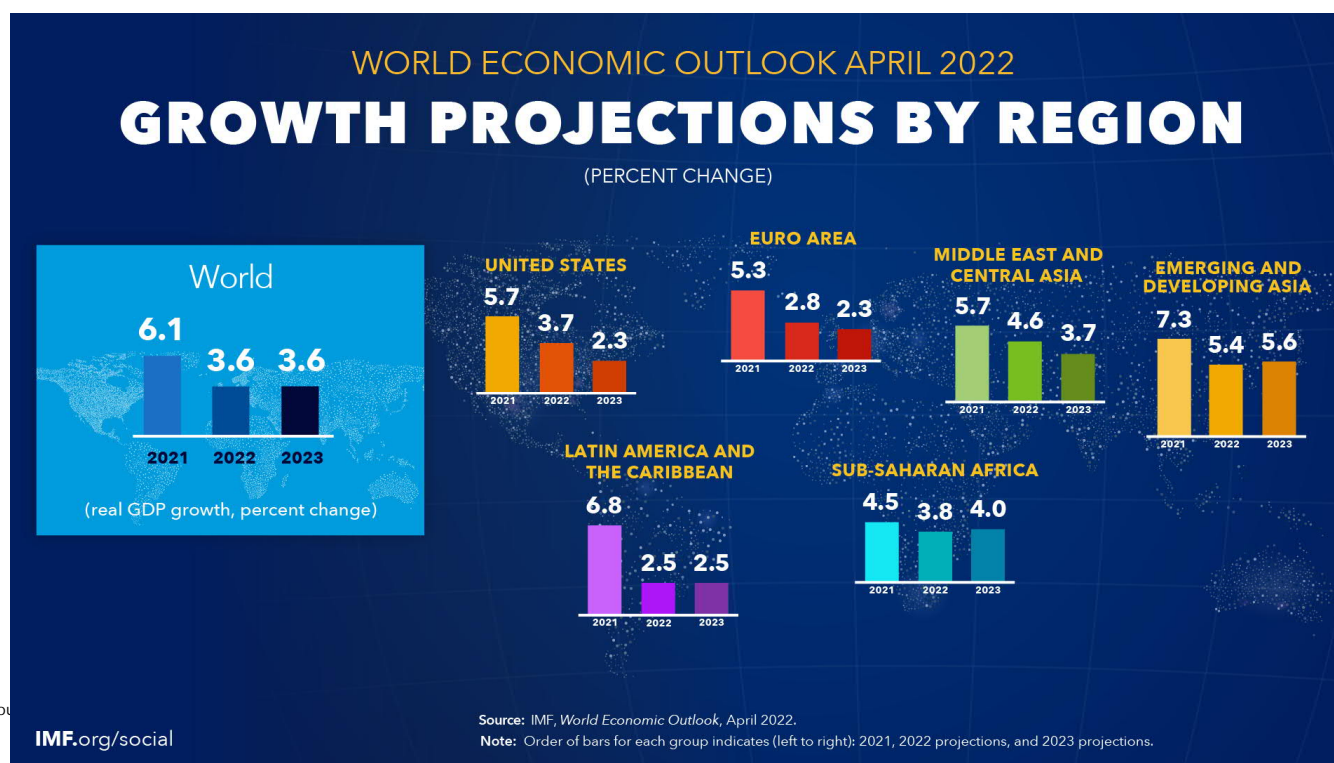
Source: Department of Home Affairs

International outlook

Post Covid-recovery still the key 'driver' for global growth But Russia's invasion of Ukraine is a very impactful negative overlay

- The impacts are not uniform across the globe – clearly most hardest hit is Europe with a very heavy dependency on Russian gas. But – others such as major oil-importers - Japan and India - are also feeling negative impacts
- Inflation clearly emerging as an issue globally as are rising concerns around food shortages in parts of the developing world

A weaker world economy has implications for all



Rising geopolitical tensions

Pressure on stock and commodity markets

On-going Russian invasion of Ukraine

- As a result of increased global uncertainty, investors have pivoted to safer assets - global bond yields have sunk, while the price of gold is up, for example. Global stock markets tumbled this week
- Fears of supply chain disruptions have also pushed up the price of key commodities:
 - Brent crude is trading (13th June) above \$US120 a barrel
 - The spot price of natural gas is up dramatically in Europe, partly reflecting the continent's reliance on gas from Russia and partly reflecting the announced halting of Nord Stream 2
 - The global price of wheat also increased sharply - (Qld delivered price to Brisbane \$540/tonne Jun/Aug as at 13th June)

Rising geopolitical tensions

Trade sanctions having an impact and an old 'economic beast' may be emerging

On-going Russian invasion of Ukraine cont^d.

- Trade sanctions:
 - The US and EU have led sanctions targeting the sale of Russian bonds on the secondary market and freezing the assets of key financial institutions and personnel
 - Russia has also been banned from SWIFT (the global banking communication system), which massively disrupts Russia's ability to do business with the rest of the world
- All this has made the jobs of Central banks around the world substantially harder.
- Bankers must now straddle the tightrope of increasing interest rates to offset inflation without knocking the economy backwards - with the conflict already adding to uncertainty, price pressures and disrupting business.

A period of **stagflation** is not off the cards

Russia's invasion of Ukraine

Increase in transport and other costs for businesses and households



Crude oil

Russia supplies about 10% of the world's crude oil. Oil surged above \$US100 a barrel in 2022 for the first time since 2014. (north of c. \$120 now)

Recent former Commonwealth government policy to halve the fuel excise for 6 months has driven a decrease in retail petrol and diesel prices since the start of April, but... And global supply-demand imbalances continue.



Natural Gas

Russia supplied 32% of European and UK gas consumption in 2021. Supply blockages have flow-on effects to Australia, despite domestic gas price surges thus far being below those seen globally but rapidly changing to now be a major concern for governments, industry and households.



Global wheat supply

Russia and Ukraine together account for about 29% of global wheat exports and 19% of corn exports. Risk of serious food shortages as prices move well above affordability in many 'developing economies'



Swift

Several Russian banks have been banned from the SWIFT international payments network.

Source: Bloomberg

Average Weekly Prices for 5 Capital City Average

Weeks to Sunday, 12 Jun 2022



Source: Australian Institute of Petroleum

China in the Year of the Tiger

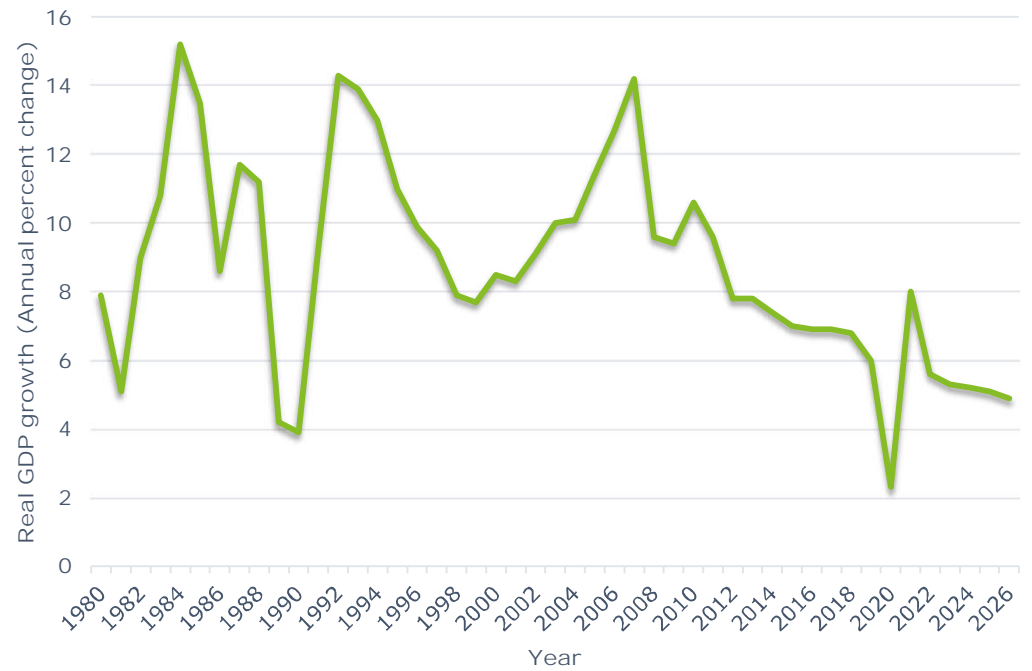
China's economy performed above expectations in January and February but growth expectations remain subdued - below the government's 5.5% target for 2022 and the *Zero-Covid* policy is hurting the economy

China's GDP growth



Source: National Bureau of Statistics of China, Deloitte Access Economics

IMF forecast for next 5 years



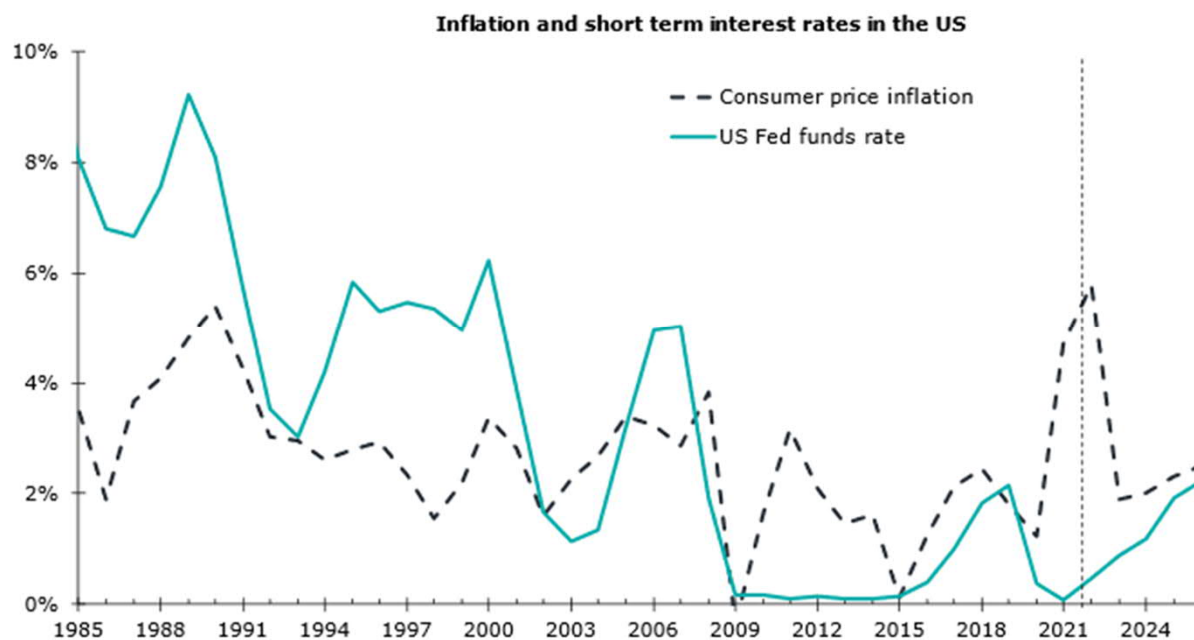
Source: [IMF](#)

Economic relations with the US

High and likely rising inflation, but a long term concern???

Key Points

- At 8.6%, US inflation has reached 40 year highs due to strong economic recovery and growing fiscal stimulus.
- Despite rising inflation, investor **expectations of future inflation** have been **falling** where expected average inflation is 2.2% 5 – 10 years from now as investors believe that **The Fed will not allow inflation to become sustained**, oil price surge will be **temporary** and a **slower Chinese economy** will likely drive down some commodity prices.



Concluding points

Some concluding remarks

Real headwinds – mostly global but some domestic

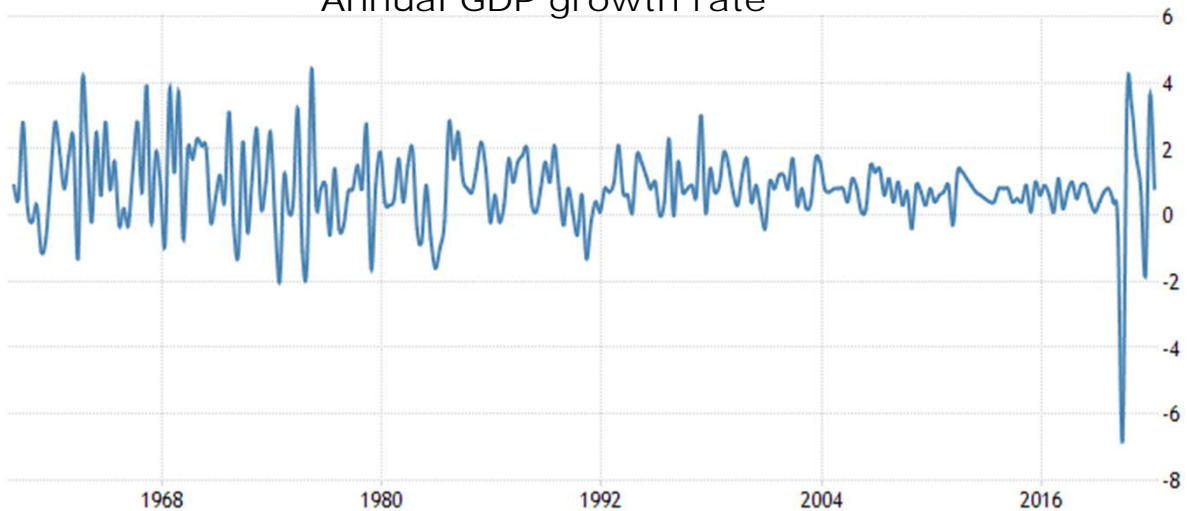
- The Covid recovery keeps being faster and better than expected but.....emerging energy crisis may be a serious concern
- New Labor government has a majority but has walked into a pretty 'interesting' environment but has clearly been on the 'front foot' with respect to foreign affairs – now for domestic issues...
- Ratings agencies have fired a warning shot re AAA credit rating
 - may have implications for spending
- New Treasurer sounding a bit like Private Frazer from Dad's Army –

On the Global / international front:

- US potentially in recession in 2023 – a view gathering momentum
- China slow-to-stuttering rebound from Covid shutdowns etc
- Russia's war with Ukraine continues and / or escalates



Annual GDP growth rate



TRADINGECONOMICS.COM | AUSTRALIAN BUREAU OF STATISTICS

But perspective is a good thing

Unemployment rate



TRADINGECONOMICS.COM | AUSTRALIAN BUREAU OF STATISTICS

Core inflation rate



TRADINGECONOM

Interest rate



TRADINGECONOMICS.COM | RESERVE BANK OF AUSTRALIA

The challenges for Central banks, Treasurers and company heads are complex

Borrowing from Paul Klugman:

Non-one knows, with any confidence, how serious the inflationary threat is and therefore how much is needed to cool down the respective economies.

Nor does anyone really have reliable estimates of how much is needed to raise interest rates, the main policy tool, to achieve a given amount of cooling.

That said.....



Thank you



Deloitte Access Economics is Australia's pre-eminent economics advisory practice and a member of Deloitte's global economics group. For more information, please visit our website: www.deloitte.com/au/deloitte-access-economics

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organisation"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the "Deloitte organisation" serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 312,000 people make an impact that matters at www.deloitte.com.

Deloitte Asia Pacific

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which are separate and independent legal entities, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

Deloitte Australia

The Australian partnership of Deloitte Touche Tohmatsu is a member of Deloitte Asia Pacific Limited and the Deloitte organisation. As one of Australia's leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, risk advisory, and financial advisory services through approximately 8000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit our web site at <https://www2.deloitte.com/au/en.html>.

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

©2022 Deloitte Access Economics. Deloitte Touche Tohmatsu

CONFIDENTIAL



Deloitte Access Economics is Australia's pre-eminent economics advisory practice and a member of Deloitte's global economics group. For more information, please visit our website: www.deloitte.com/au/deloitte-access-economics

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organisation"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the "Deloitte organisation" serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 312,000 people make an impact that matters at www.deloitte.com.

Deloitte Asia Pacific

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which are separate and independent legal entities, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

Deloitte Australia

The Australian partnership of Deloitte Touche Tohmatsu is a member of Deloitte Asia Pacific Limited and the Deloitte organisation. As one of Australia's leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, risk advisory, and financial advisory services through approximately 8000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit our web site at <https://www2.deloitte.com/au/en.html>.

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

©2022 Deloitte Access Economics. Deloitte Touche Tohmatsu