HawkerBritton

Government Relations Strategy

07 September 2020

Queensland Fiscal and Economic Review

Overview

The Queensland Government handed down its COVID-19 Fiscal and Economic Review this morning.

The review, issued in place of the regular State Budget due to a delayed Federal Budget, highlighted the Government's plan to support the economy and create jobs through the COVID-19 crisis.

The Palaszczuk Government has announced significant relief for business including:

- Extension to current payroll relief; including a two month wavier for businesses with payroll up to $6 million for July and August
- Extension of land tax relief
- An extension of the 25% land-tax rebate to enable landlords to continue to provide rental relief
- Extension of the exemption of JobKeeper payments from payroll tax
- Abolishment of Transfer Duty when small businesses restructure
- Deferral of $50 million in gaming machine taxes for clubs and pubs

The Treasurer reflected on the State's comparatively resilient economic performance. While state final demand fell 5.9% in the June quarter, this was a substantially better result than the same measure for both Victoria and New South Wales. The economy is forecast to return to marginal growth of ¼% in 2020-21.

Treasurer Cameron Dick announced his intention to borrow an additional $4 billion to complement the Government's existing $7 billion package for economic stimulus. This reflects the Government's ability to borrow at low interest rates which, despite an increase in overall debt, will see the nominal cost of borrowings remain below 2014 levels.

The Gross General Government Deficit forecast has improved slightly to be $8.1 billion. Gross General Government Debt is forecast to be $60.9 billion by the end of this financial year.

The Treasurer further advised that he had no intention of increasing taxes.

An additional $4 billion in borrowings will:

Create a $500 million renewable energy fund for publicly owned energy corporations to increase public ownership of commercial renewable energy projects and support assisting infrastructure. This complements the $145 million for the three new Queensland Renewable Energy Zones announced by the Premier last month.

Establish 'Backing Queensland Business Investment Fund' to target investment in SME businesses based in Queensland to create QLD jobs. The commercial nature of these investments means that the Government expects these investments will be revenue-positive. The Government is looking for SME businesses that:

- have a proven product and defined market opportunity
- require significant capital
- are mature, profitable or approaching profitability
- are seeking capital to expand, restructure operations, or enter new markets
- have a commitment to growing business from and within Queensland

The fund is further empowered to make strategic investments in major businesses and infrastructure. Asset classes of particular focus are:

- Agriculture
- Property
- Mining services
- Formerly publicly-owned assets

Further allocations from these additional borrowings will be made in throughout the month of October.

Overview of Queensland Economic Conditions

The pandemic dramatically disrupted household spending patterns in the first two quarters of 2020. The solid recovery so far partly reflects the impact of State border closures, which has seen households substituting some overseas and interstate tourism spending for consumption within Queensland.

Dwelling investment in Queensland showed some tentative signs of recovery before COVID-19, growing by 3.0% in March quarter 2020, driven by renovation activity, before falling 7.1% in June quarter 2020 due to the pandemic. ABS data shows Queensland building approvals rose by over 17% in July.

Recent surveys point to some recovery in business confidence. The high level of fiscal support across all levels of government is likely to limit further falls in plant and equipment investment during 2020-21.

Office and hotel vacancy rates and constraining the short-term outlook for non-residential construction activity.

Low global commodity demand and prices are also expected to constrain commitment to new resources projects. Reflecting these conditions, engineering construction is also expected to remain subdued for some time.

The COVID-19 pandemic is weighing heavily on Queensland’s overseas exports, with overseas goods exports falling an estimated 4½% in 2019-20 and forecast to decline a further 4¾% in 2020-21.

Queensland’s coal export volumes fell by 4.9% in 2019-20 and are forecast to fall a further 1% in 2020-21. Over the medium-term, coal prices and export volumes are expected to recover as global industrial production returns to more normal conditions.

Queensland’s LNG export prices are expected to fall significantly in the second half of 2020, due to the sharp fall in global oil prices (to which LNG contracts are linked, with a lag) in March 2020. In response to low prices, production cuts by global oil producers have seen the Brent crude oil price rise from a low of US$5.6/bbl on 21 April 2020 to above US$40/bbl from June 2020 onwards. However, oil prices remain well below the level of recent years.

The volume of metals exports grew 1.5% in 2019-20, driven by continued strong growth in the volume of zinc exports, more than offsetting a fall in the volume of copper exports. The volume of metals exports is expected to fall marginally in 2020-21 (down ¾%), with limited impact from the COVID-19 pandemic.

The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) is expecting Queensland winter crop production in 2020-21 to more than double, with wheat and chickpea production to increase by 233% and 76% respectively. However, the increase in crop exports will not be enough to offset a sharp fall in beef export volumes in 2020-21.

Labour Market

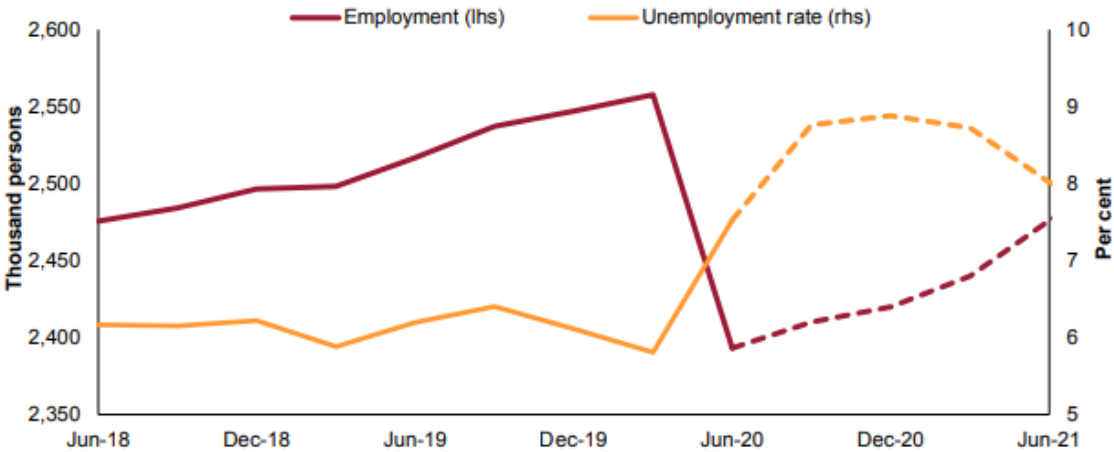
Prior to the impact of COVID-19, in March 2020, trend employment had risen by more than a quarter of a million since January 2015, and the trend unemployment rate had fallen to 5.7%, the lowest since May 2012.

Queensland's labour market has been significantly affected by COVID-19. Employment initially fell by a record 139,800 persons in s.a. terms in April 2020 and a further 65,300 in May. The unemployment rate rose to 7.8% in May, while participation fell over the same period.

Consistent with the easing of restrictions and Queensland's relative success in stopping the spread of COVID-19, employment rose 66,900 persons across June and July. However, the monthly unemployment rate remained elevated at 8.8% in July, largely reflecting a substantial increase in the participation rate, from 61.6% in May to 63.9% in July.

Employment is forecast to continue to recover at a modest rate. The quarterly unemployment rate is forecast to peak at 9% in December quarter 2020 and gradually improve to 8% by June quarter 2021, with jobs growth partially offset by people returning to the labour force as conditions improve.

Chart 3: Labour market, Queensland[1]



Note:
1. Quarterly. From September quarter 2020 onward are forecasts.
Sources: ABS 6202.0 and Queensland Treasury.

Further Information

For more information, please contact your Hawker Britton consultant, Queensland Director, [Elliot Stein](mailto:estein@hawkerbritton.com) on +61 431 744 115 and estein@hawkerbritton.com or the Queensland Policy and Business Analyst Corbin Duncan on cduncan@hawkerbritton.com