



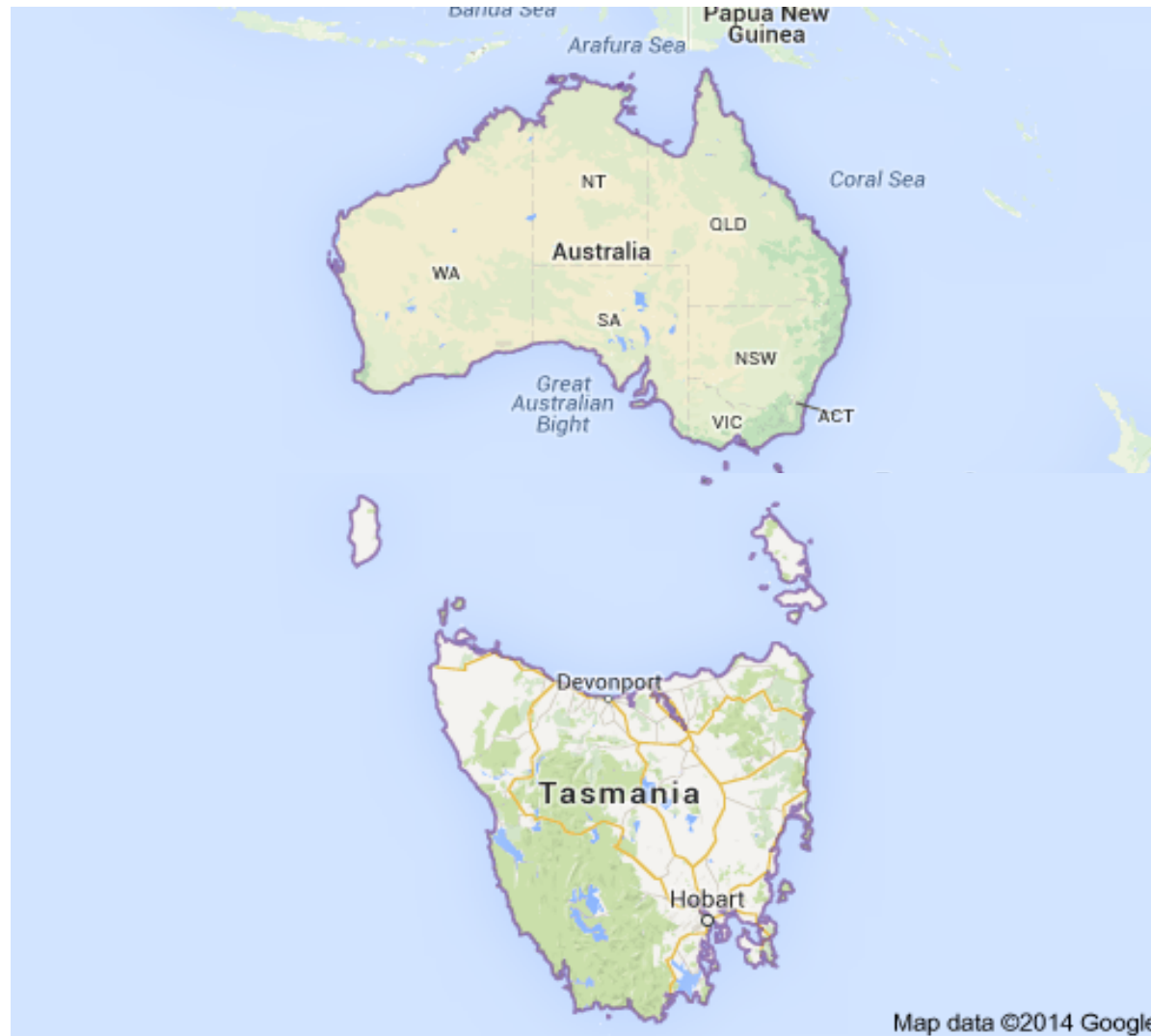
AUSTRALIAN ECONOMIC AND FINANCIAL OUTLOOK

Reimagine

Tourism Industry Council Tasmania

Launceston - 25 May 2017

I GREW UP AND WAS EDUCATED IN TASMANIA



WEATHER FORECASTING

- Two reasons for improved weather forecasts
 - Better information about the starting point
 - Significantly increased computing power
- An understanding of the big forces influencing the forecast is also very important

SO WHAT ARE THE BIG FORCES IN THE AUSTRALIAN AND TASMANIAN ECONOMIES AND THE TOURISM INDUSTRY AT PRESENT? *Lots!*

Positives

- Improvement in the global economy
- Strong population growth (especially NSW and Victoria)
- Record low interest rates – producing strong residential construction (esp. apartments) in east coast cities
- Infrastructure spending, especially in NSW
- A much lower \$A (helpful for tourism, exports and firms competing with imports)
- Significant drop in oil prices (helpful for consumers and business input costs, but not for oil & gas spending)
- Continuing strong foreign investment flows
- Stronger resource export volumes (especially gas)
- Somewhat stronger major Australian commodity prices
- Generally favourable farm conditions

Negatives

- Large mining/gas projects completing (impact on WA/NT/parts of QLD and services to mining)
- Peak in housing construction
- Concerns over consumer confidence, household debt levels and housing affordability
- Macroprudential measures to slow investor housing and independent interest rate rises by Australian banks
- Need to improve the budget deficit

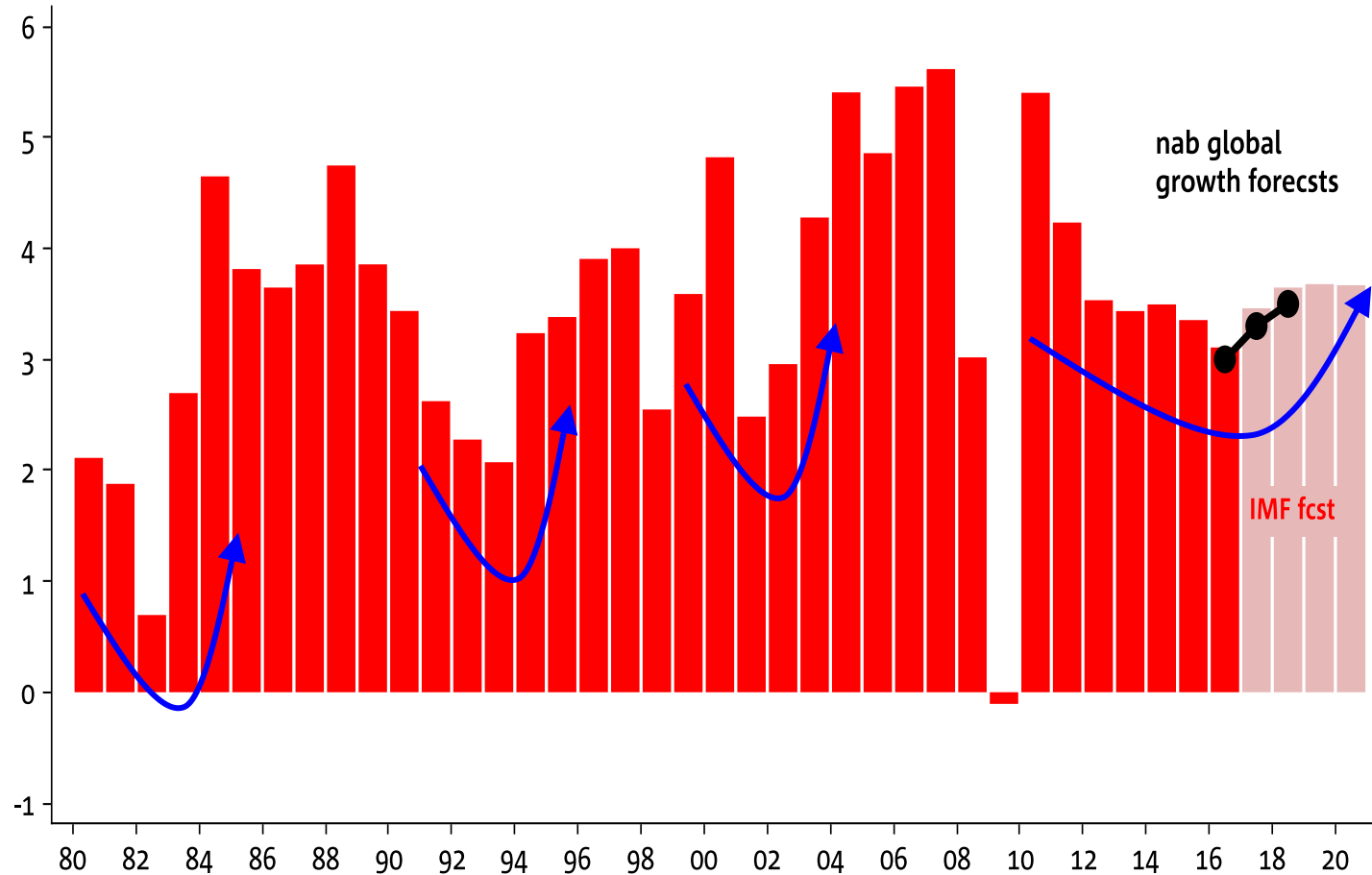
Other issues

- Chinese economy/policy uncertainty
- Geopolitics – President Trump, North Korea, Islands in the South China sea, European referenda, Brexit
- The ageing population
- Digital disruption, automation/artificial intelligence

INTERNATIONAL ECONOMY

GLOBAL GROWTH TURNING – *synchronised cyclical up turns are not common*

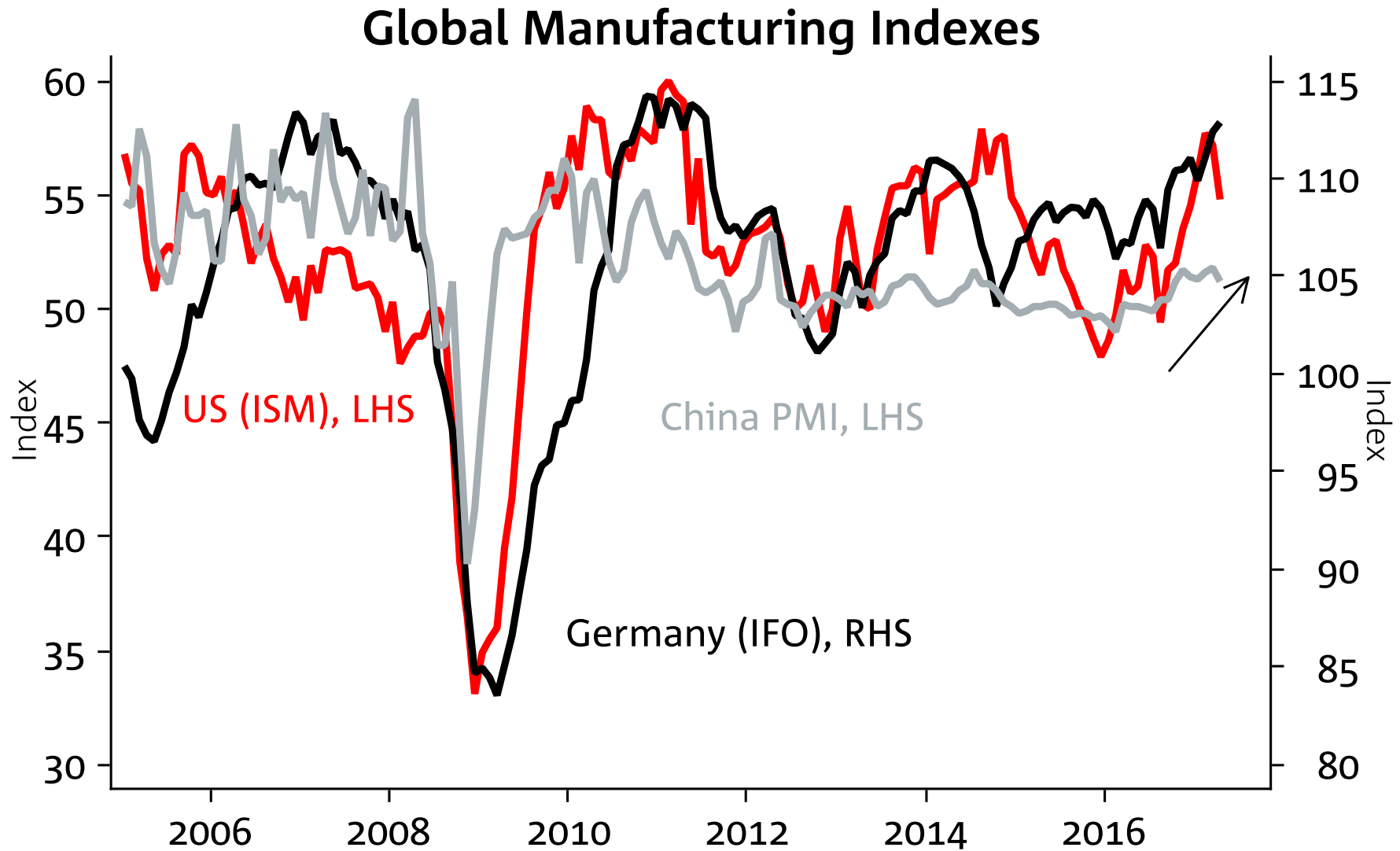
Global Growth Forecasts - NAB and IMF



Source: National Australia Bank, IMF.



GLOBAL BUSINESS CONDITIONS – *improvement in H2 2016*



Source: National Australia Bank, Macrobond

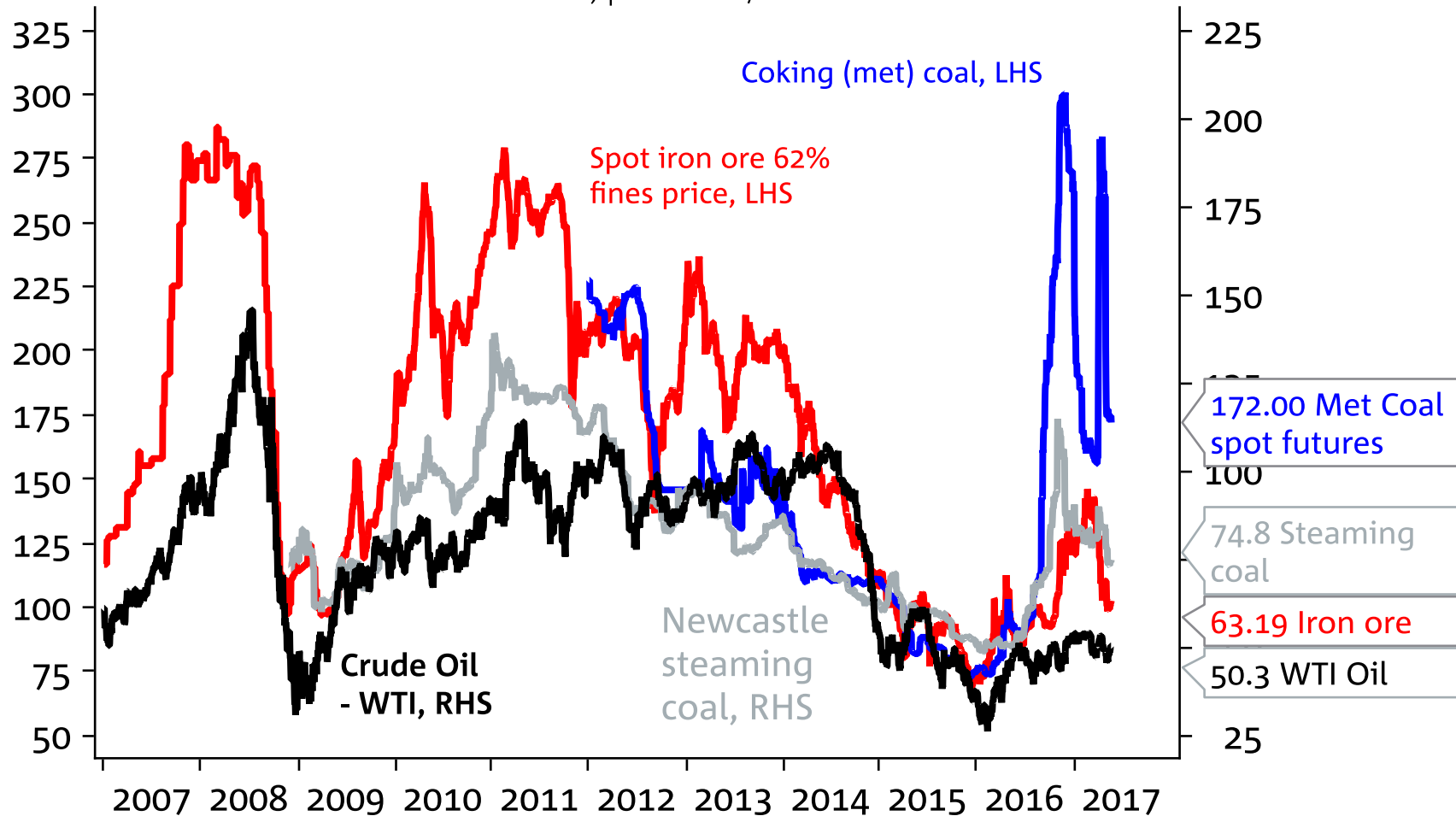
GLOBAL GROWTH FORECASTS – *improving*

Comparison of Treasury Budget Forecasts and NAB Forecasts						
	2017		2018		2019	
	Treasury	NAB	Treasury	NAB	Treasury	NAB
US	2.3	2.1	2.3	2.3	2.3	2
Euro-zone	1.3	1.9	1.3	1.8	1.3	1.5
Japan	0.8	1.2	0.5	0.9	0.5	0.7
China	6.5	6.5	6.3	6.3	6	6
India	7	7.4	7.8	7.2	7.8	7.4
Emerging Asia	4	4	4.3	4	4.3	3.9
World	3.3	3.3	3.5	3.5	3.8	3.4
Major trading partners	4	4	4	3.9	4	3.7

COMMODITY PRICES UP – mixture supply cuts and demand increases

Iron ore, coal and oil prices

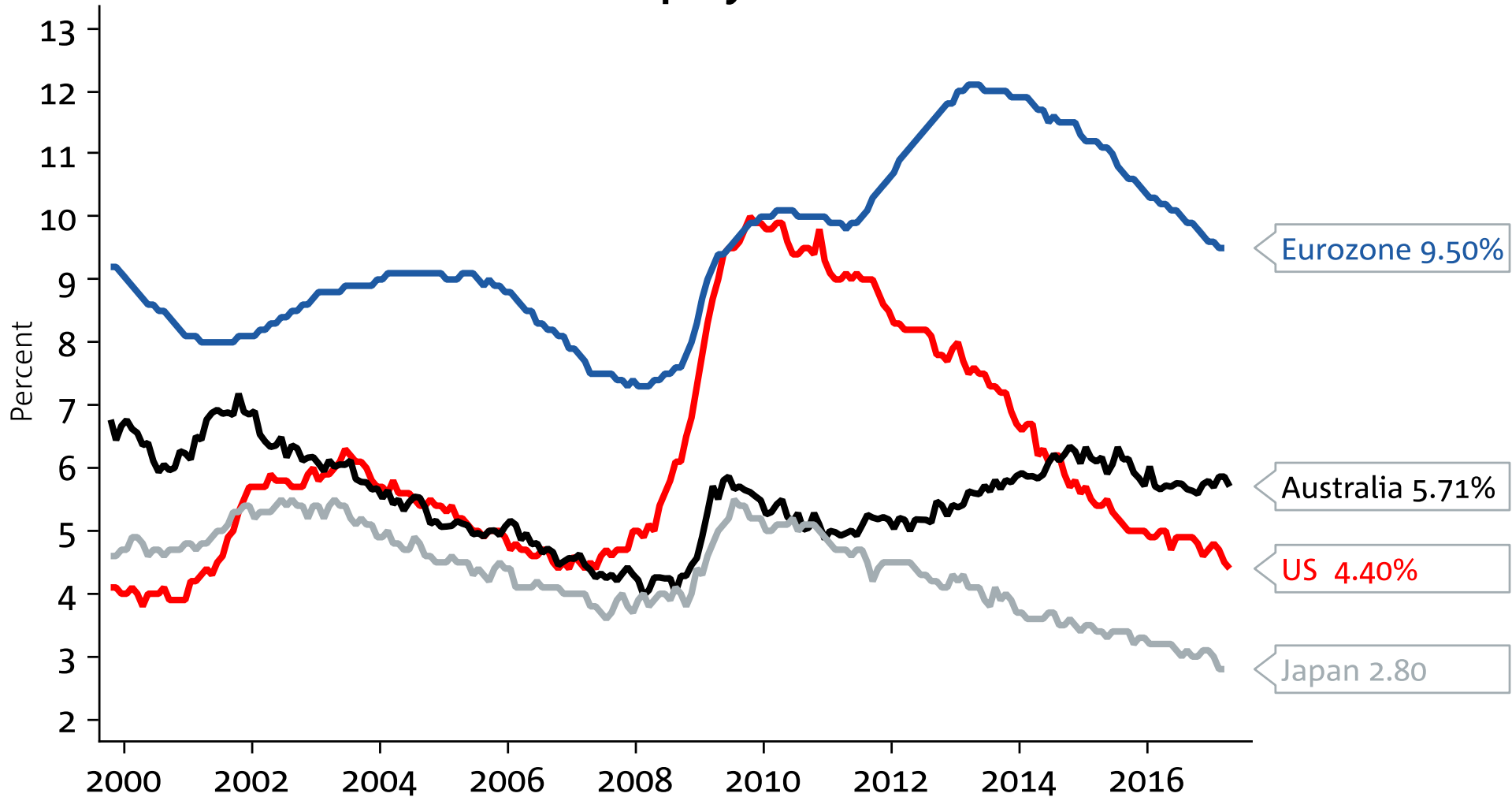
Prices in USD, per tonne/barrel



Source: National Australia Bank, Macrobond

UNEMPLOYMENT - falling in most countries although may have stalled in Australia (data uncertainties remain)

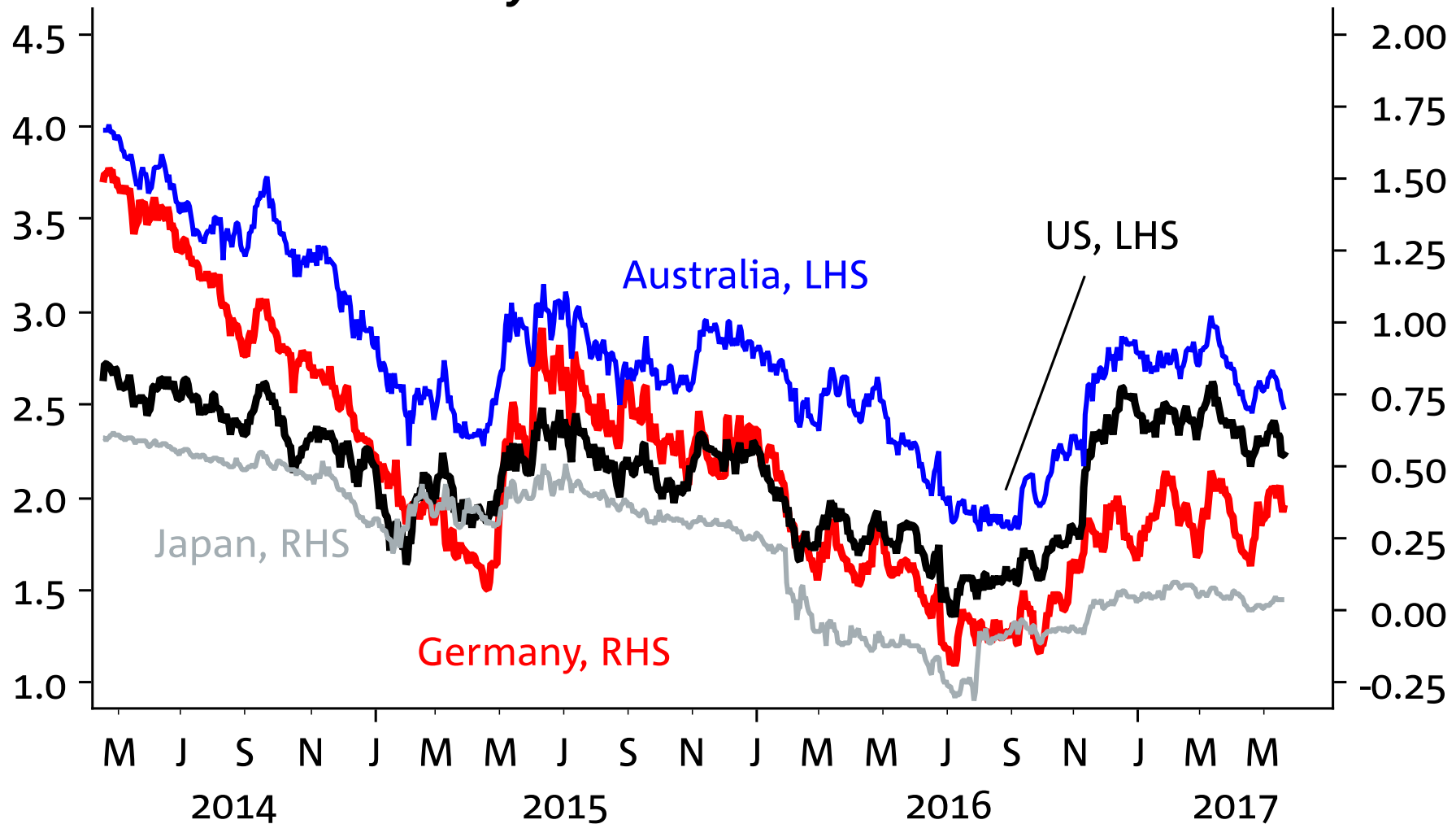
Unemployment Rates



Source: National Australia Bank, Macrobond

LONGER TERM BORROWING RATE TREND NOW UP - due oil, US growth and interest rates and global "move" against negative interest rate policy

10-year Govt. Bond Yields



Source: National Australia Bank, Macrobond

PRESIDENT TRUMP'S KEY ECONOMIC POLICIES

Positive for US (and global) growth

- Company tax – rate to be reduced from 35% to 15%; 10% tax on repatriation of profits currently held offshore
- Income tax cuts – tax cuts and move from 7 to 3 tax brackets
- Infrastructure spending – talk of US\$0.5-1.0 trillion jointly funded by private sector
- Reduced regulation

Negative/ambiguous for US/global growth

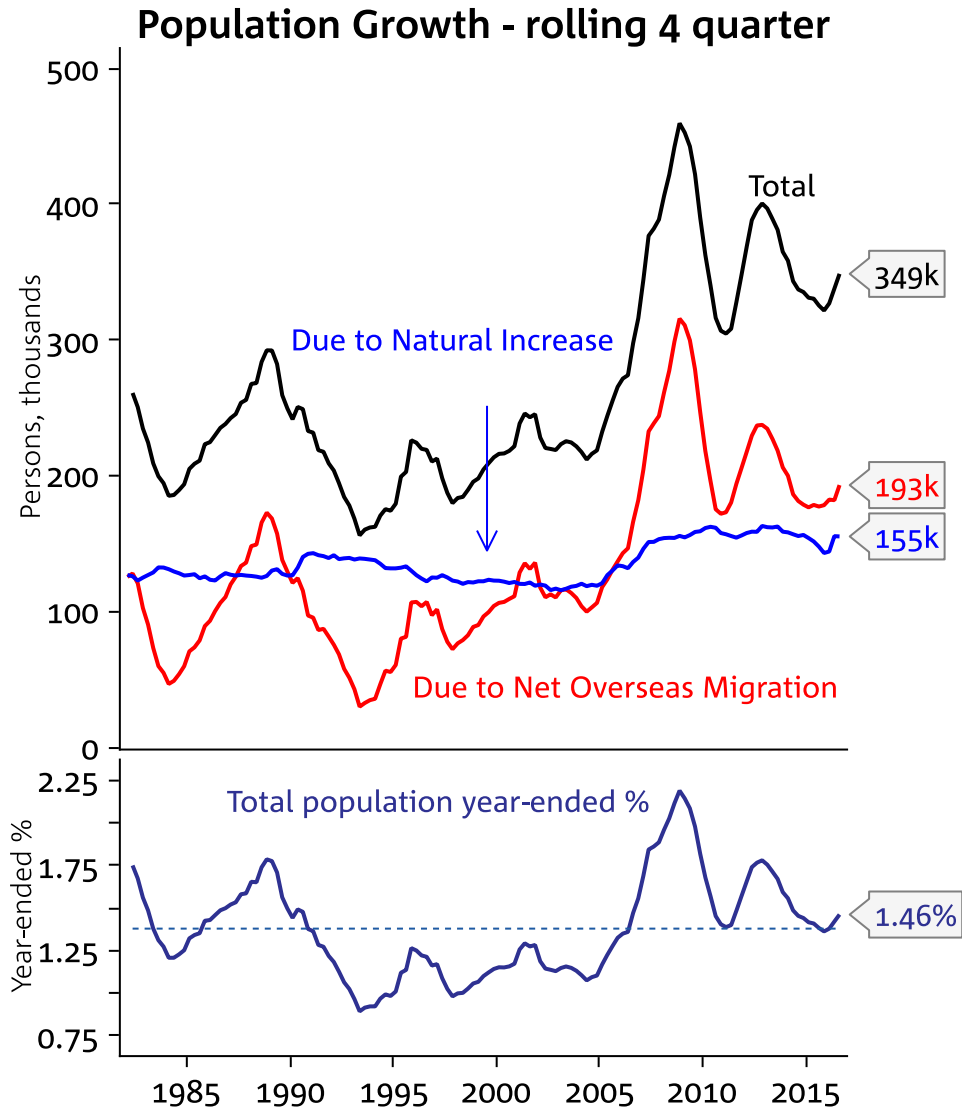
- Trade policies
 - Tariff/duty introduced broadly on imported goods (to fund other tax cuts)
 - Specific very high tariffs on certain countries deemed unfair traders (eg China (45%?) , Mexico)
 - Renegotiation of FTAs (NAFTA)

Possible flow on impacts

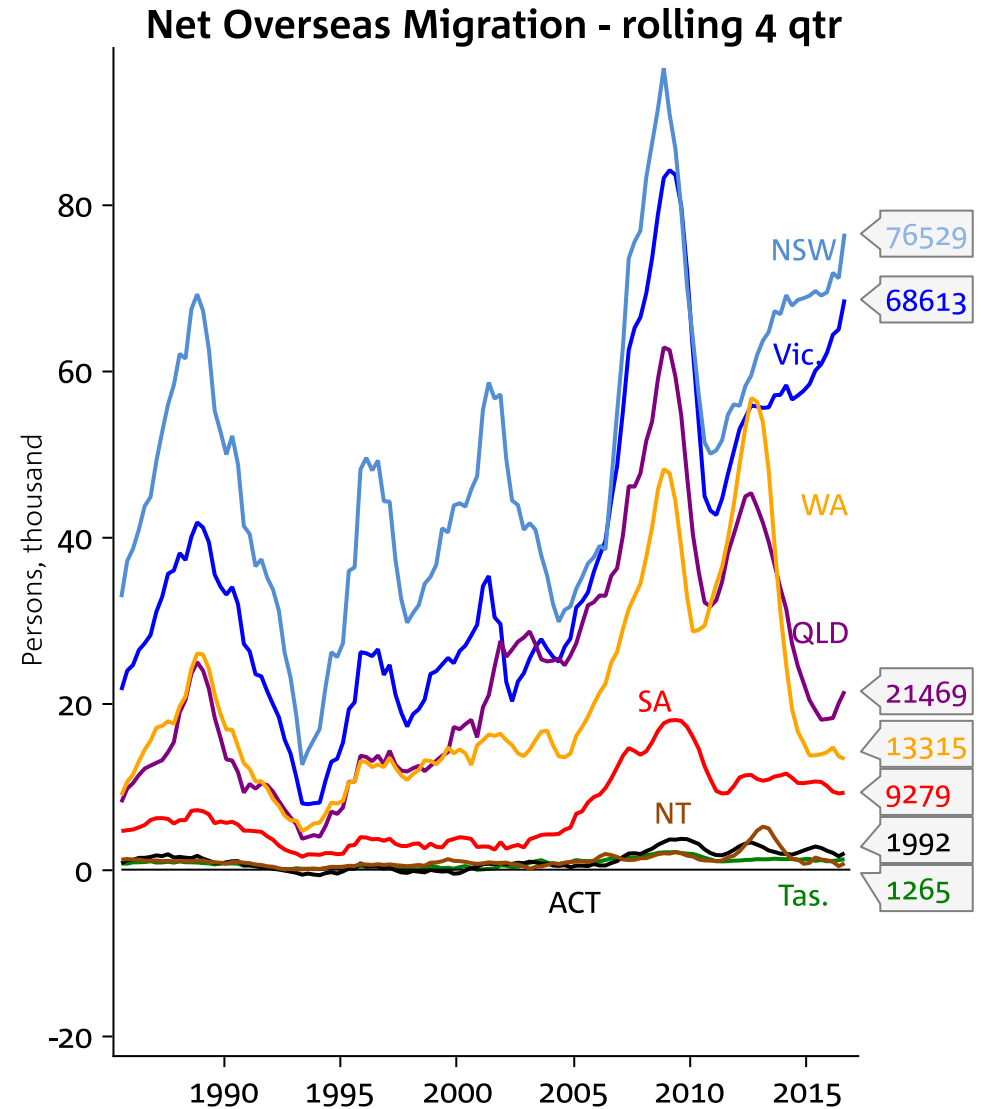
- Trade war – retaliatory protectionist tariffs enacted by China, Mexico? (-)
- Global competition to reduce corporate tax rates? (+)

AUSTRALIAN ECONOMY

GROWTH DRIVER – Australia's population still growing nearly 1½% per year, underpinned by strong net overseas migration



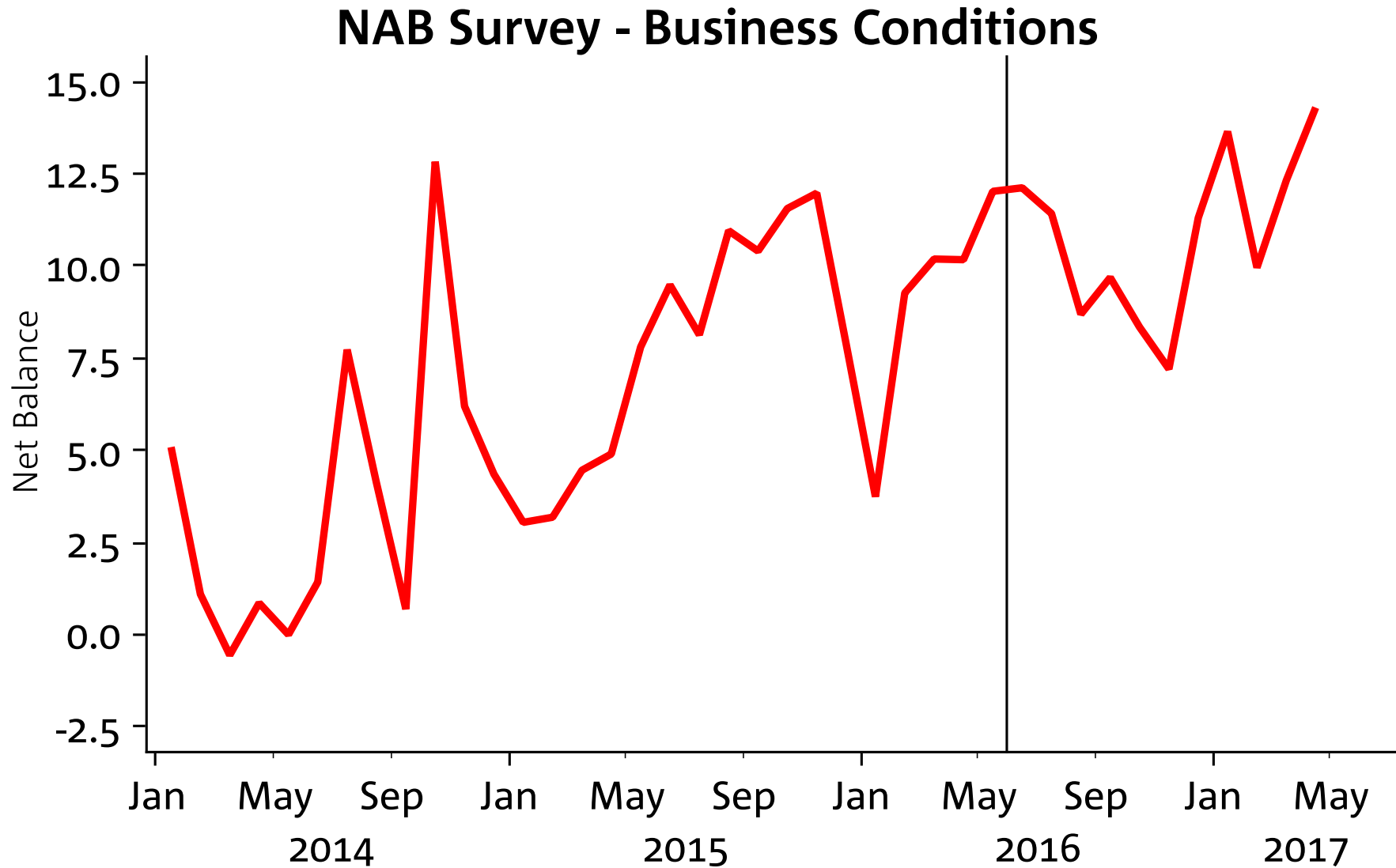
Source: National Australia Bank, Macrobond



Source: National Australia Bank, ABS

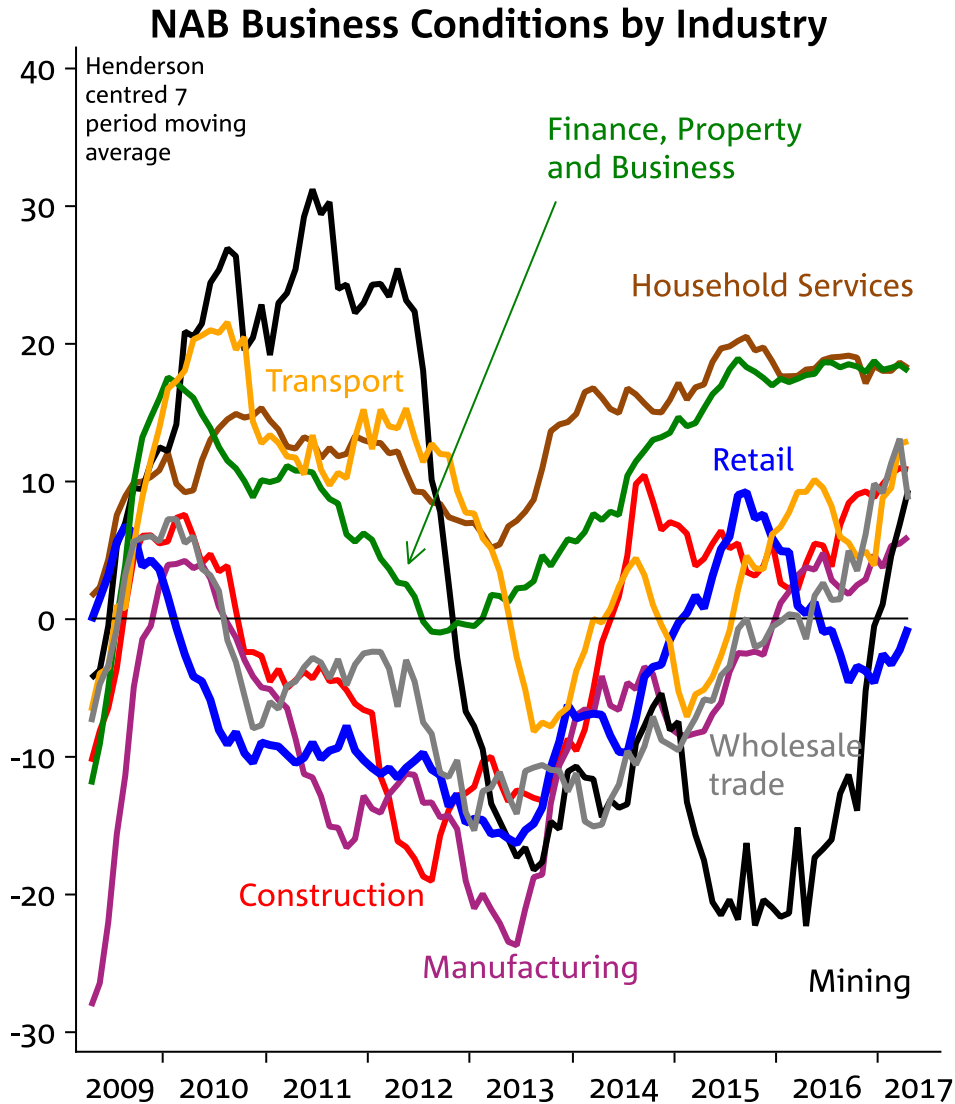


NAB BUSINESS CONDITIONS – overall, business conditions are improving.

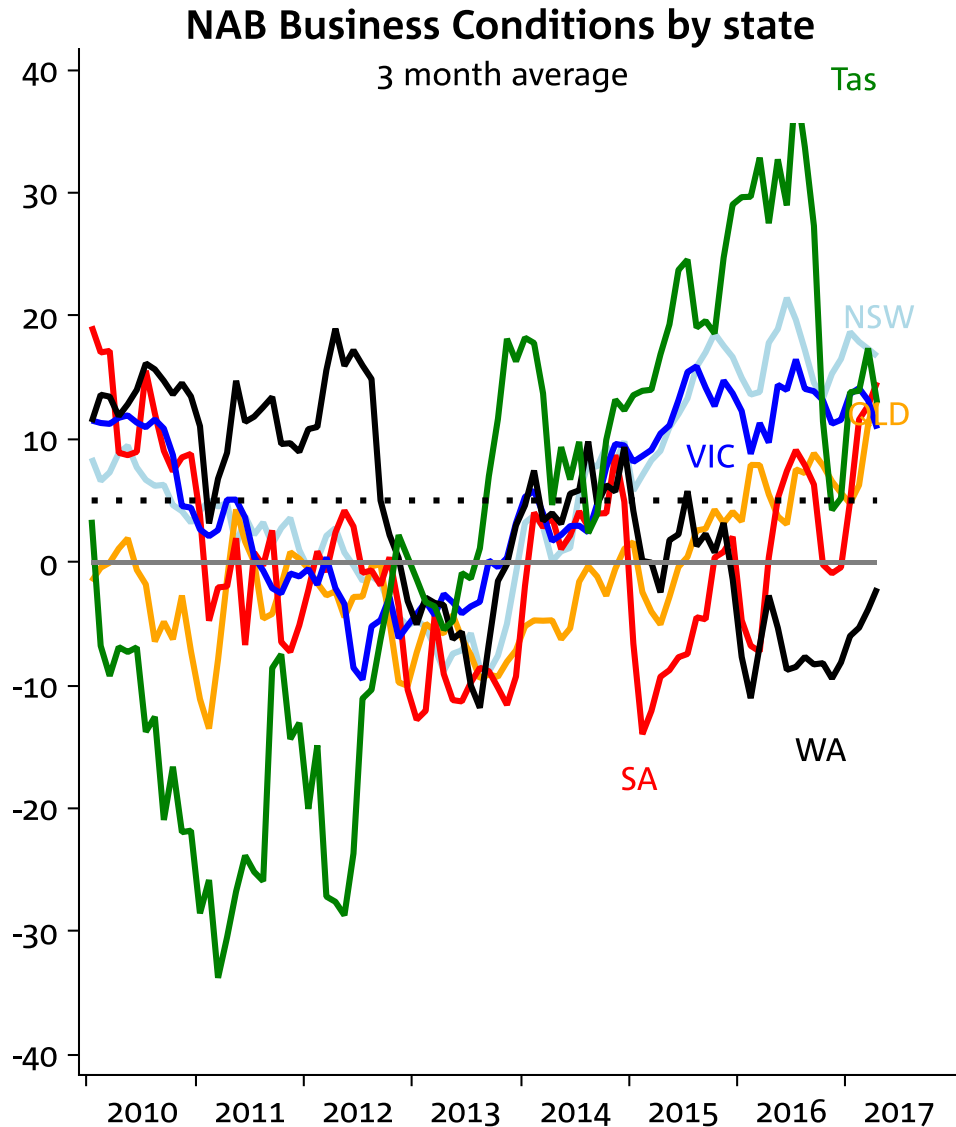


Source: National Australia Bank, Macrobond

BUSINESS CONDITIONS – recent (temporary) slowing was centred in non-mining states/sectors. Mining, WA and QLD now improving. Retail still weak.



Source: National Australia Bank, Macrobond

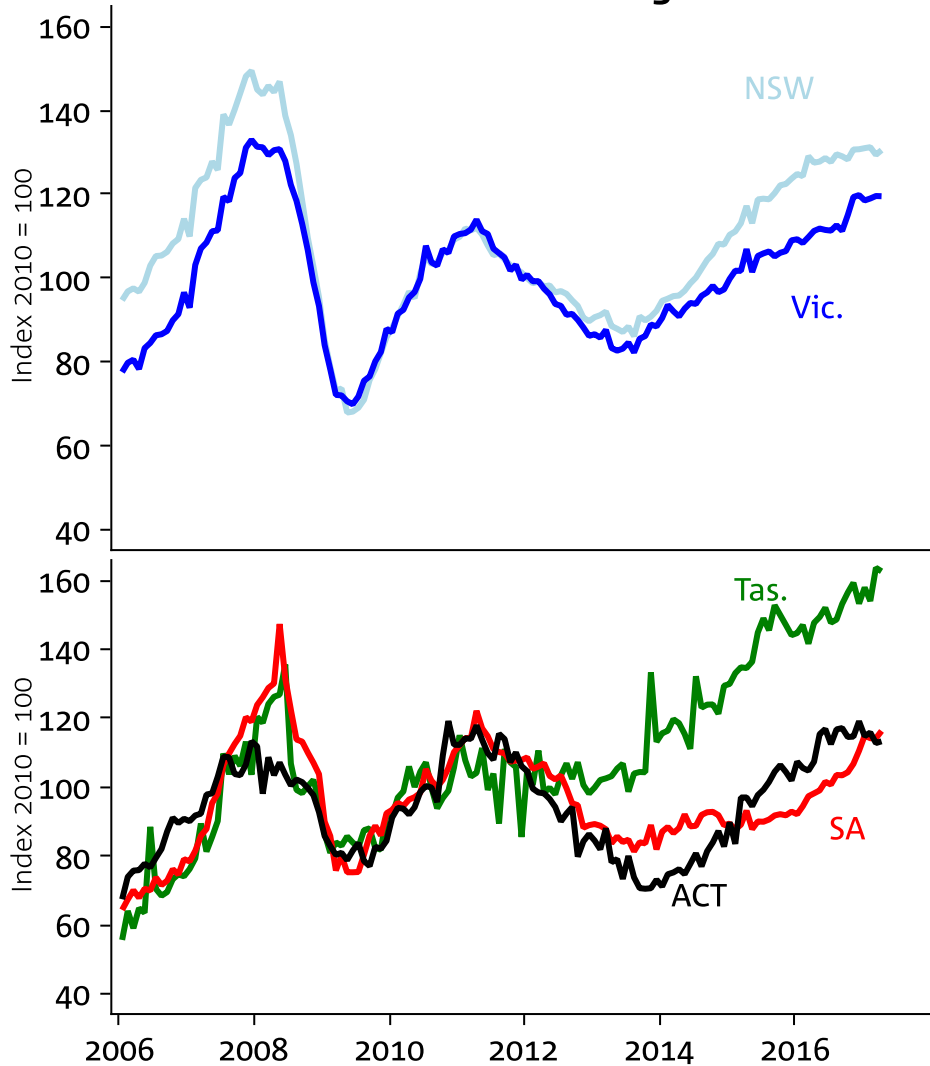


Source: National Australia Bank, Macrobond



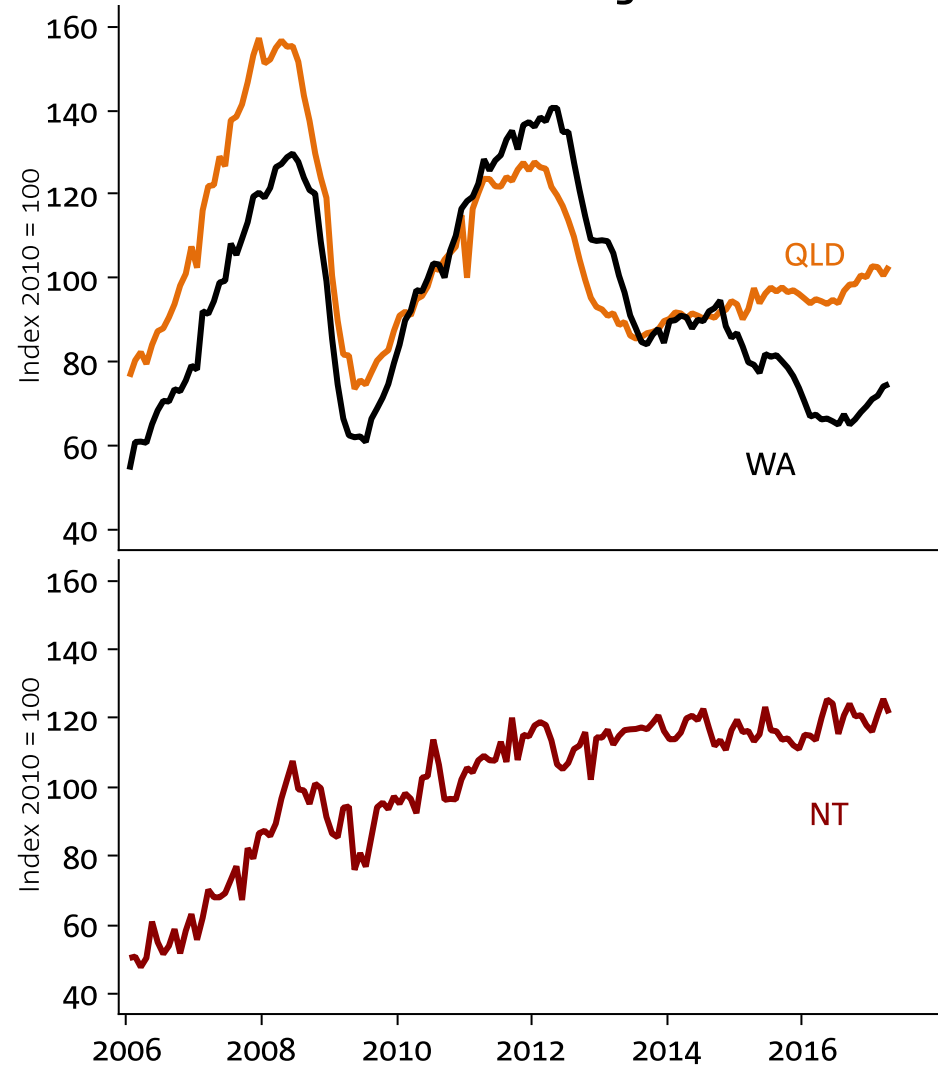
JOB ADVERTISING – mining regions recovering. Vic, Tas and SA strong also

SEEK Job Ads - Non-mining states



Source: SEEK, National Australia Bank

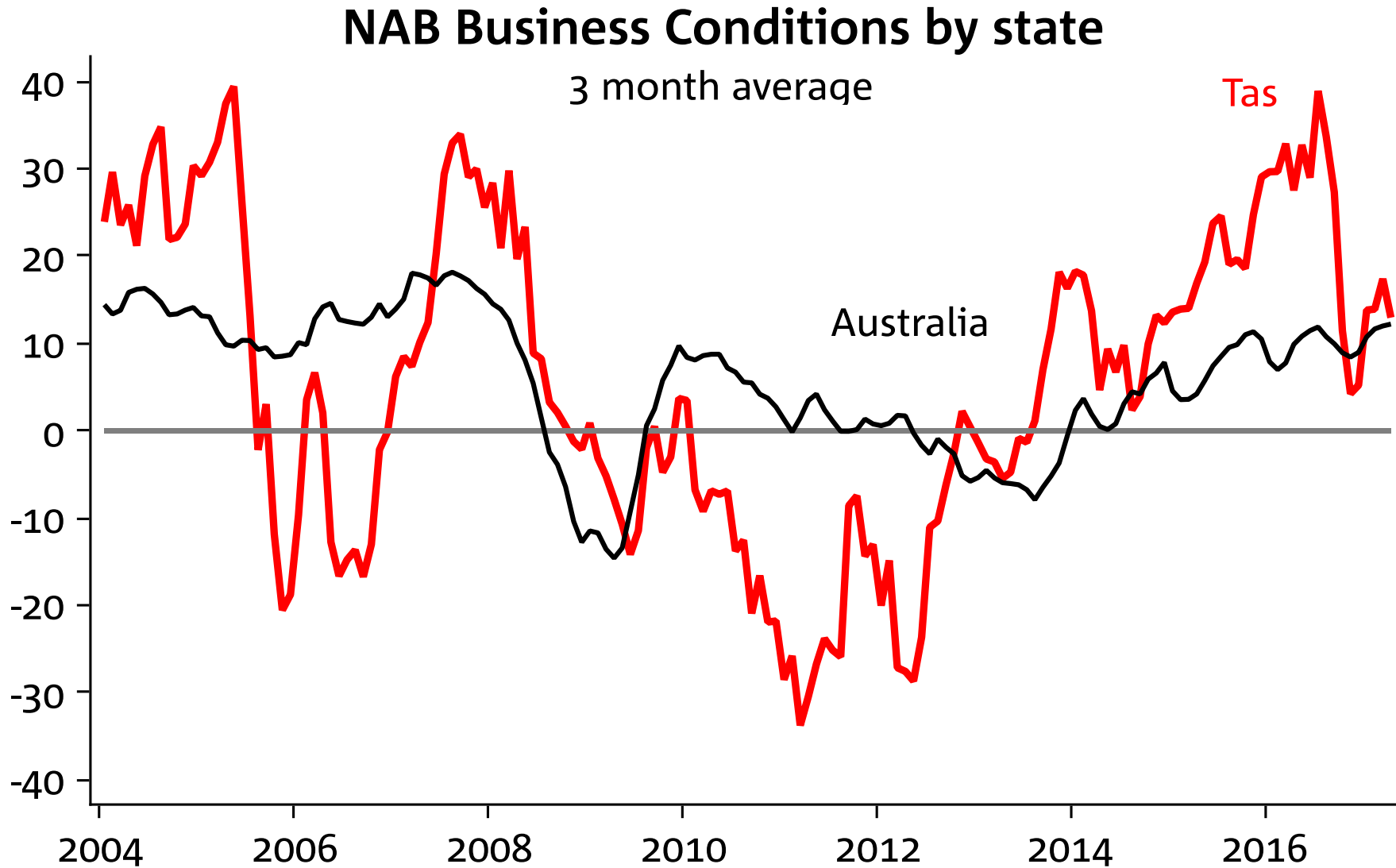
SEEK Job Ads - Mining states



Source: SEEK, National Australia Bank

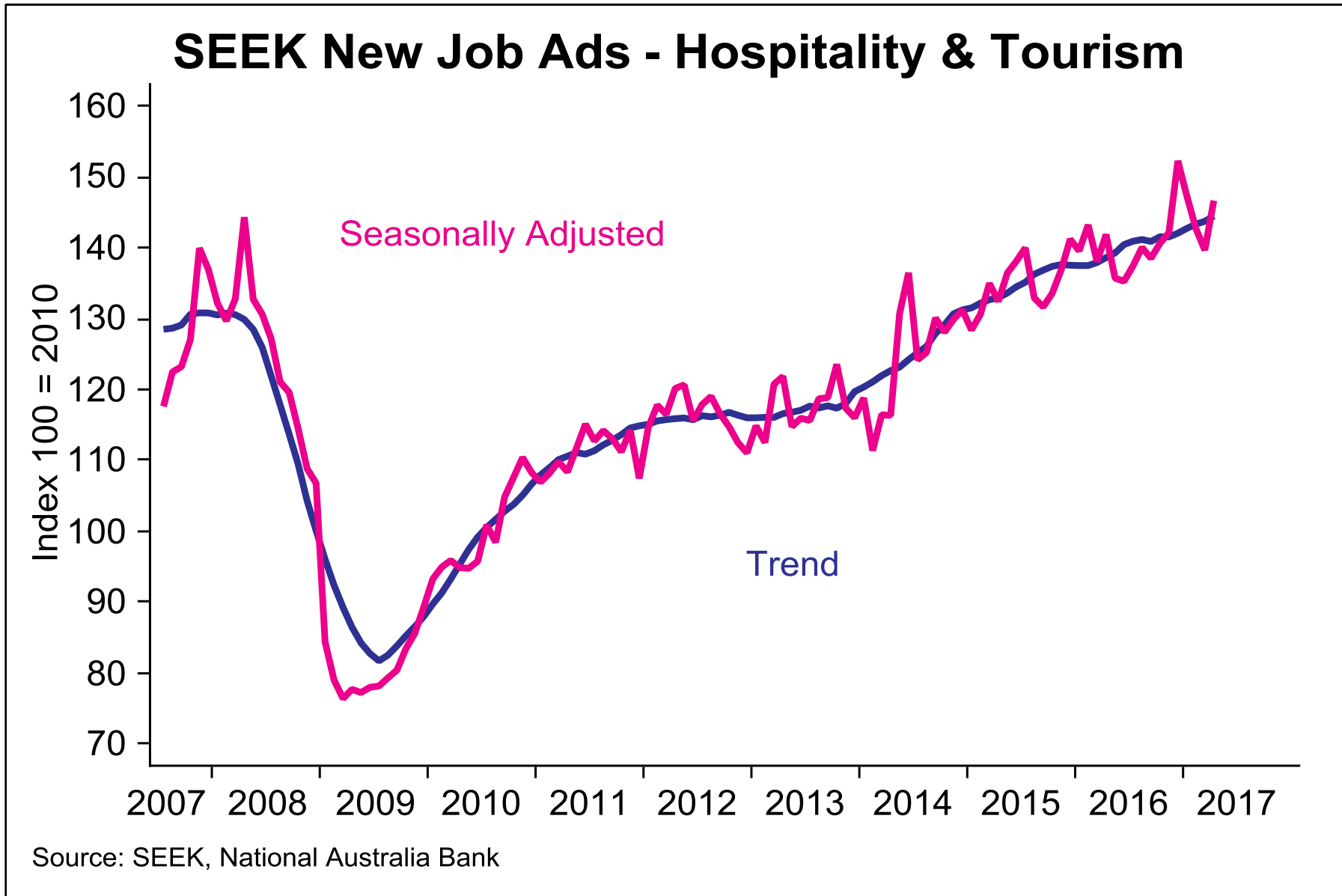


AND THE GOOD NEWS IS - *Tassie is/has been outperforming*



Source: National Australia Bank, Macrobond

TOURISM JOB ADS – strengthening trend nationwide

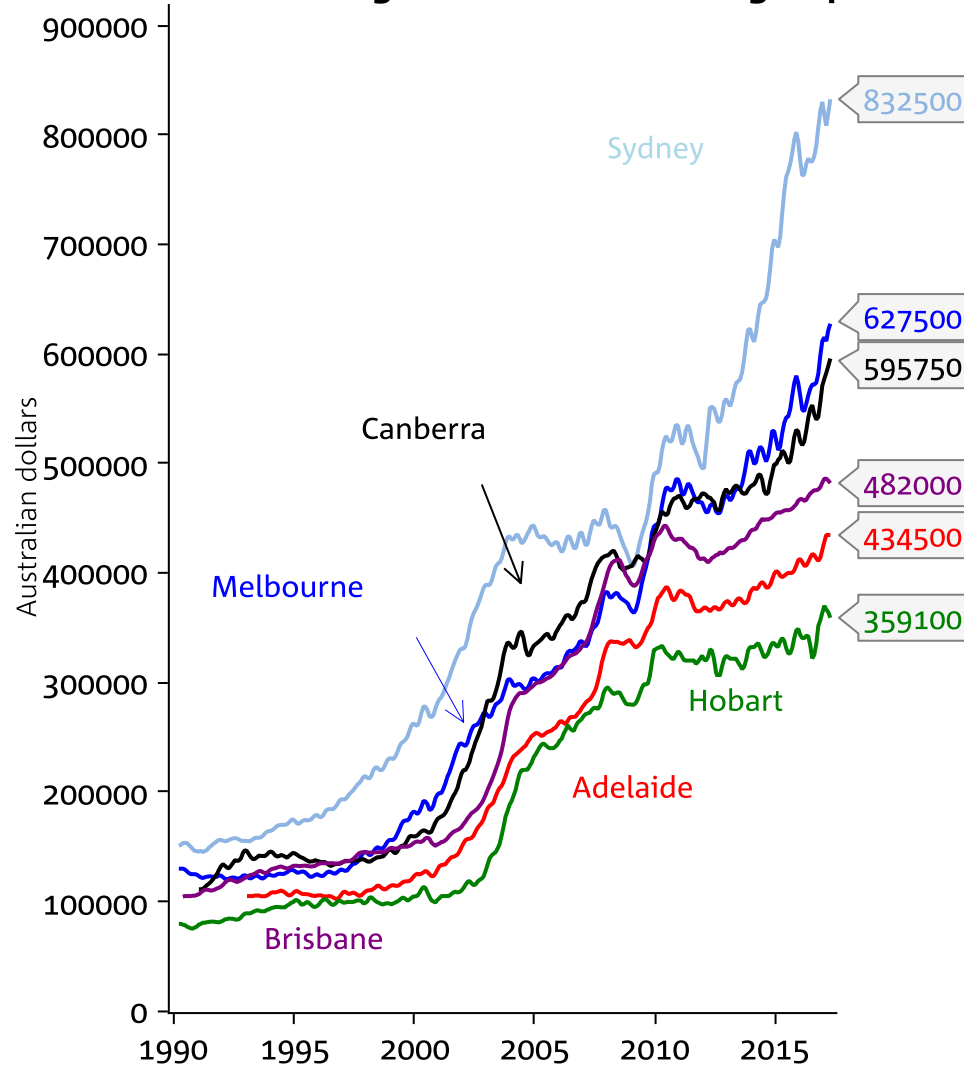


HOUSING ISSUES

- Very strong price rises in some cities (SYD, MEL in particular) – but falling prices in mining-related regions
- Housing affordability has become a “hot” political issue
- Population growth extremely strong, due elevated overseas migration levels, of which a significant portion is foreign students, especially from China.
- Infrastructure and land release not keeping pace with demand growth
- Elevated levels of foreign investment in Australian real estate, especially from China
- Is the combination of negative gearing, the capital gains tax discount and low interest rates driving excessive investor interest in housing (impact of ageing population/SMSFs)?
- Impact of structurally lower interest rates (global hunt for yield) on valuations
- APRA/RBA considers there to be a heightened risk environment
 - House prices remain high
 - Household income growth subdued
 - Already high ratio of household debt to income has risen further
 - Already low official cash rate has fallen further
 - Competitive pressures have not diminished
 - High share of interest-only and investor lending for housing
- Is there a housing bubble/will a downturn in housing deepen the next economic downturn?
- **General conclusion/policy direction is that more needs to be done to increase housing supply given sustained strong growth in demand.**

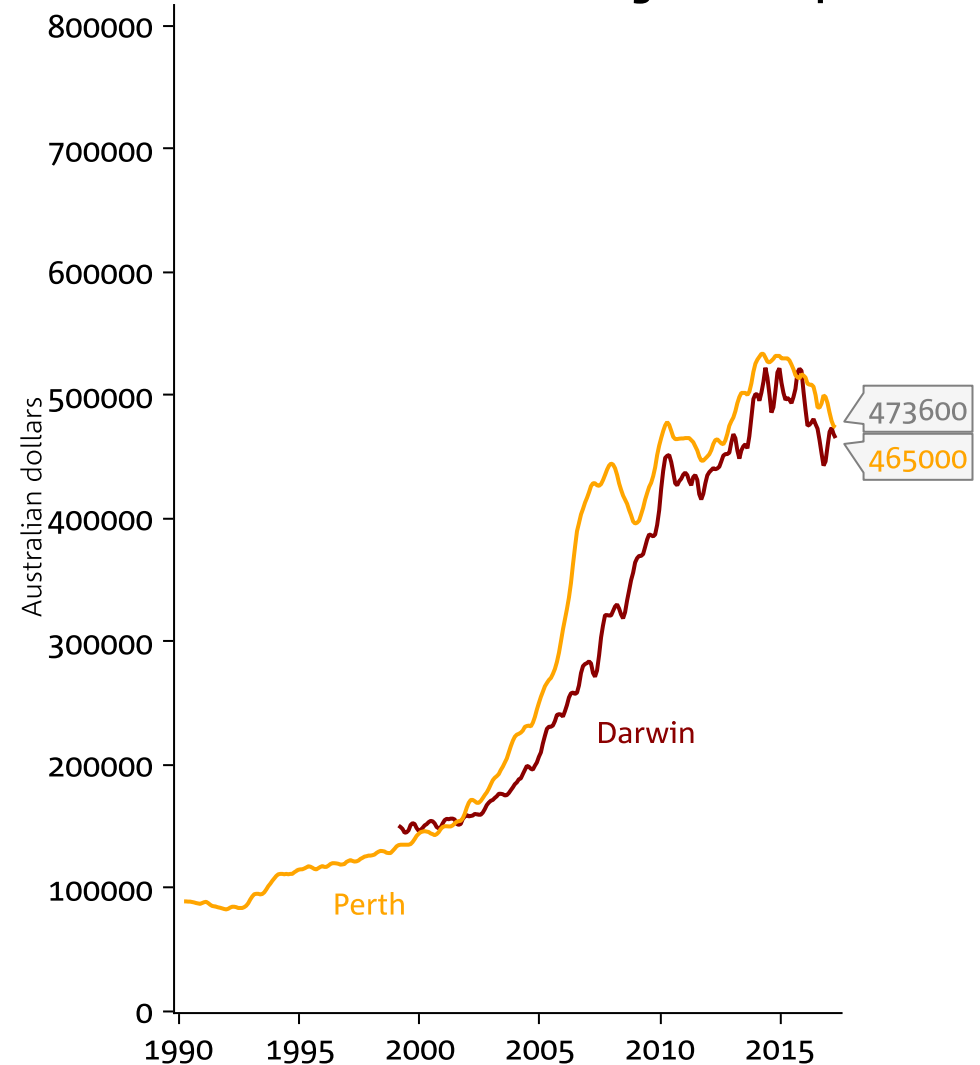
MORE THAN ONE HOUSING MARKET – SYD, MEL, CBR strong, but prices have been falling in Perth & Darwin. Hobart improving

Australian Dwelling Prices - Non-mining Capitals*



Source: National Australia Bank, Macrobond

Australian House Prices - Mining State Capitals*

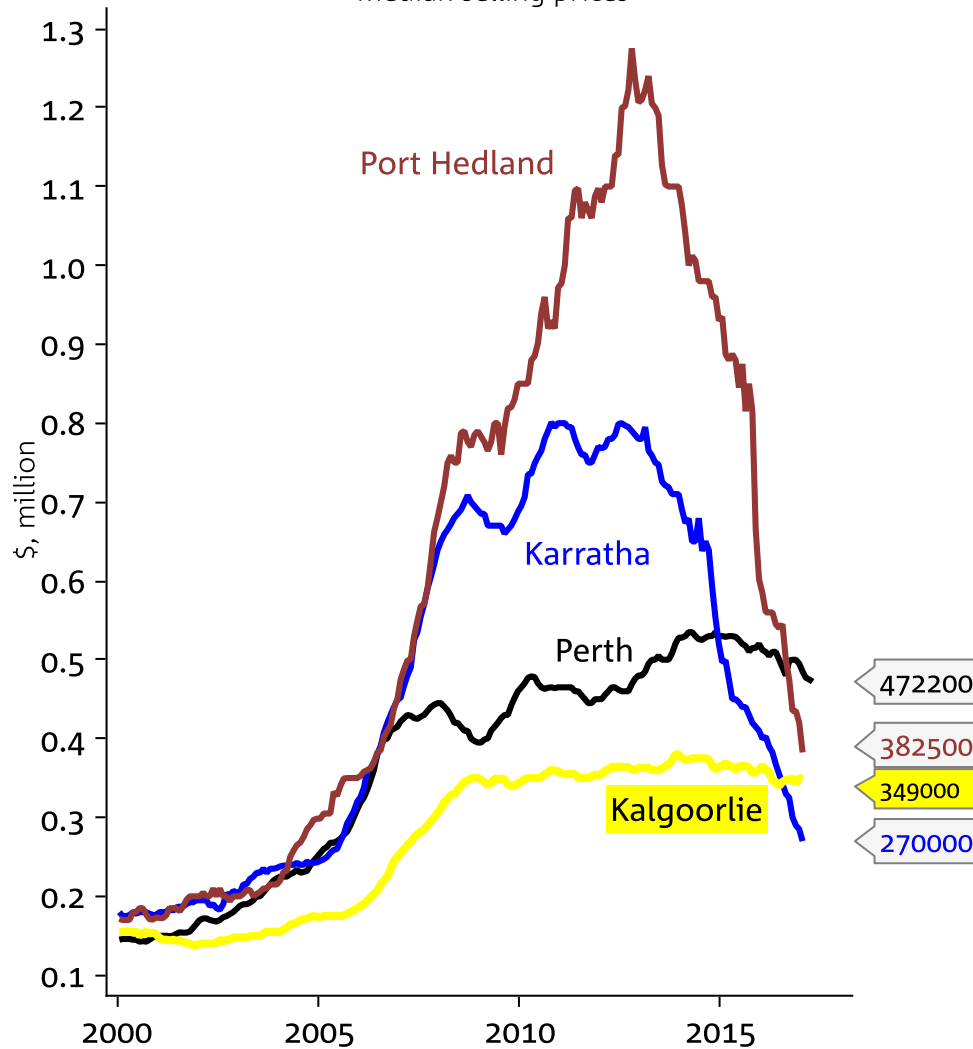


Source: National Australia Bank, Macrobond

MORE THAN ONE HOUSING MARKET – most mining towns/regions very hard hit

Resource town prices - WA

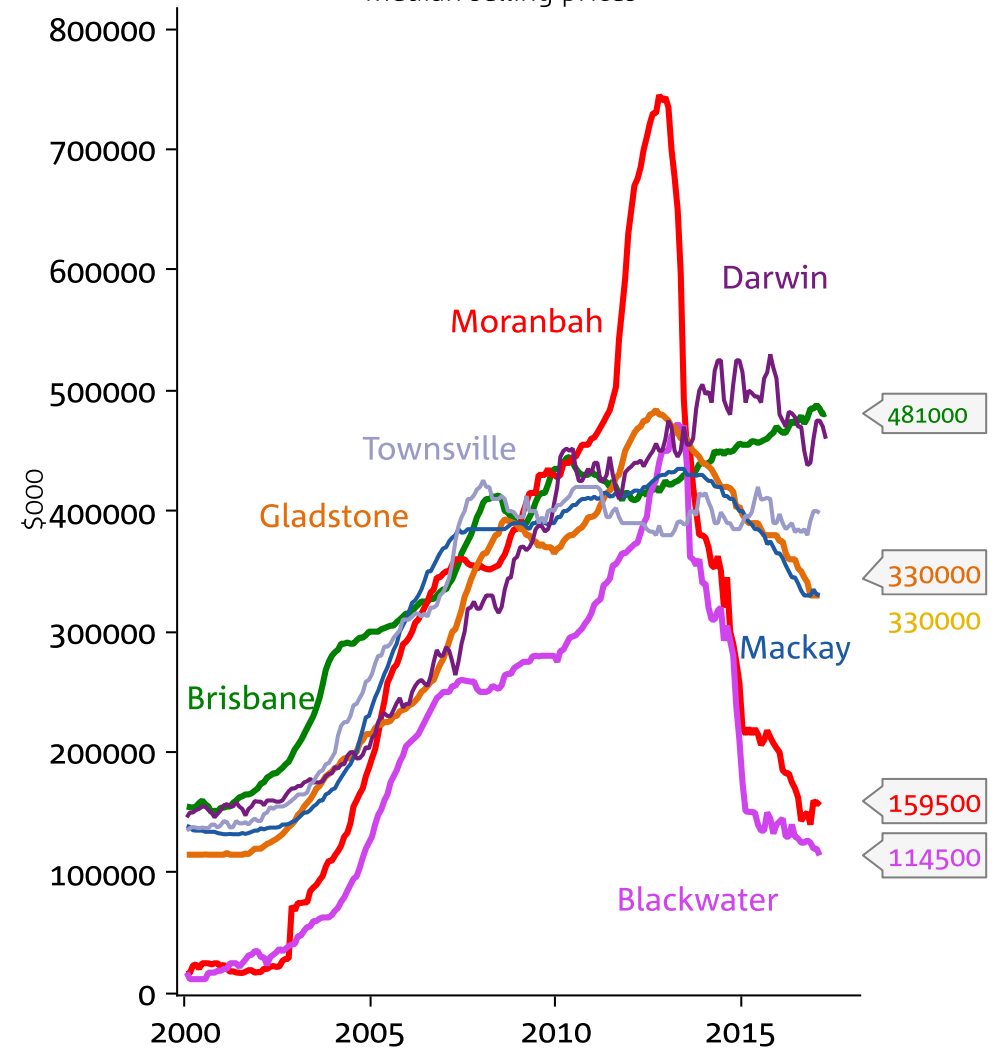
Median selling prices



Source: National Australia Bank, Macrobond

Resource town prices - QLD/NT

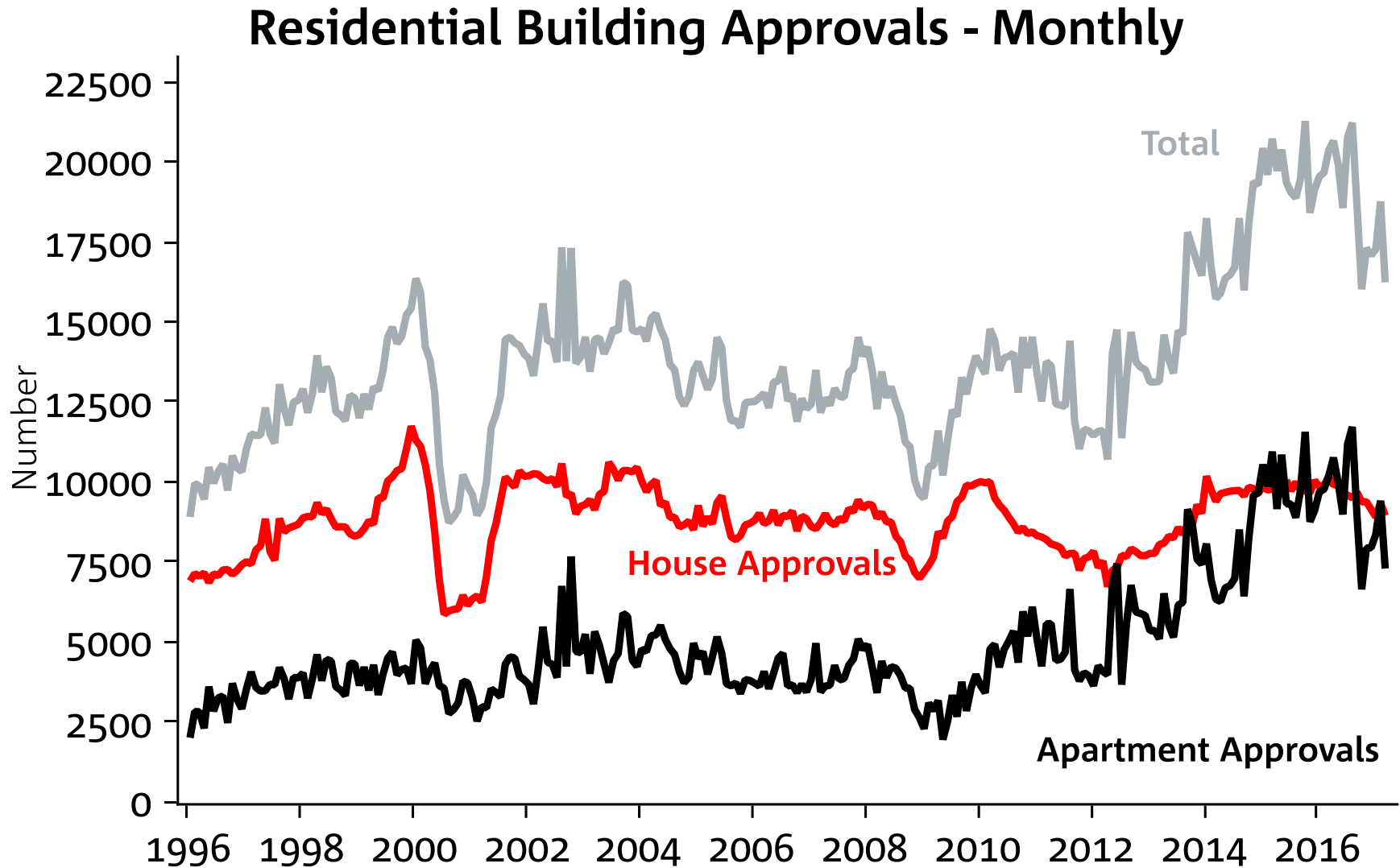
Median selling prices



Source: National Australia Bank, Macrobond



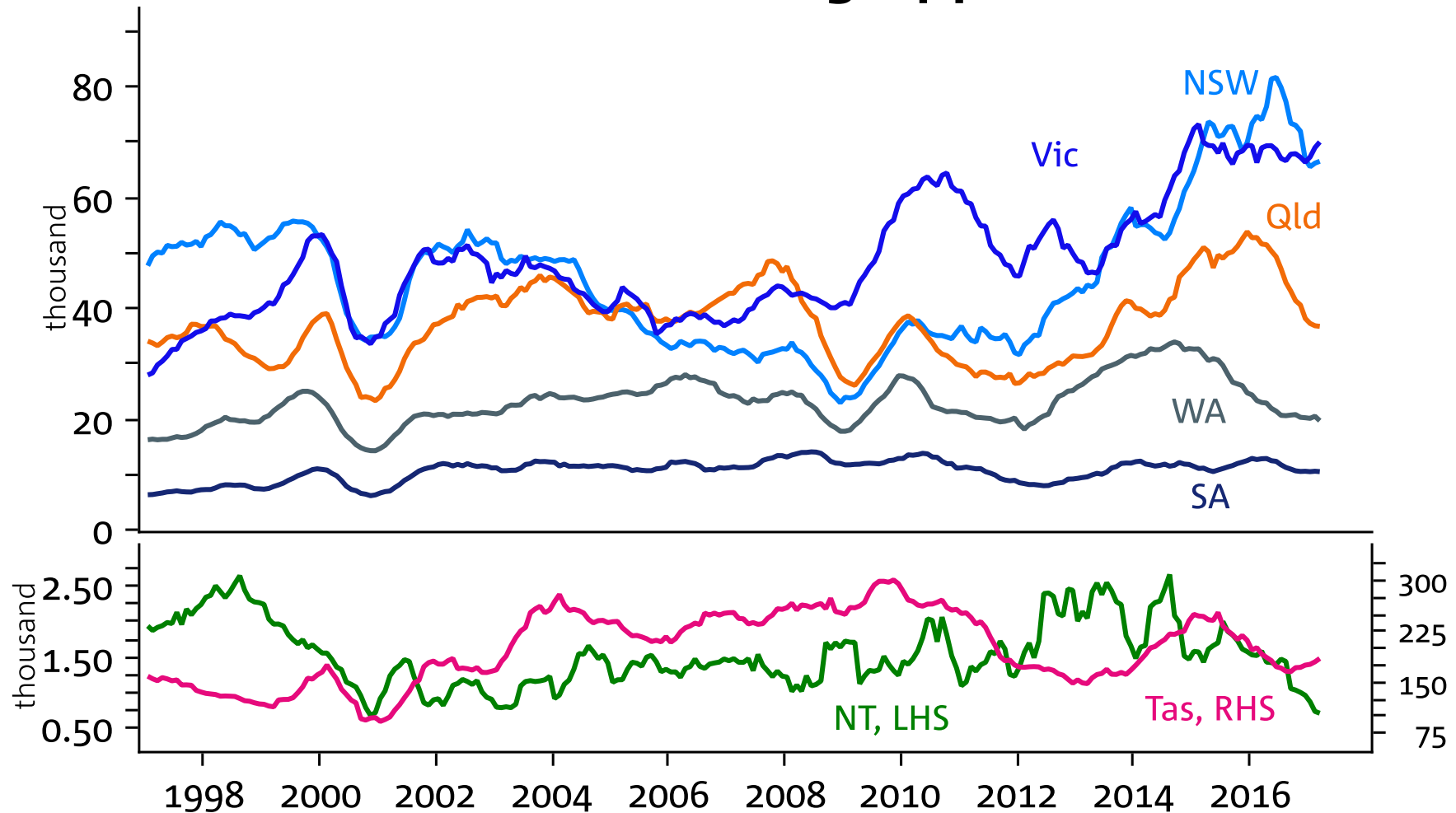
GROWTH HEADWIND - Residential construction to slow/weaken in 2018. This is a major difference between NAB and RBA forecasts



Source: National Australia Bank, Macrobond

HOUSING SUPPLY – varying trends in approvals by state: WA/SA bottoming? NSW and Vic holding up; QLD in decline; Tassie picking up

Residential Building Approvals

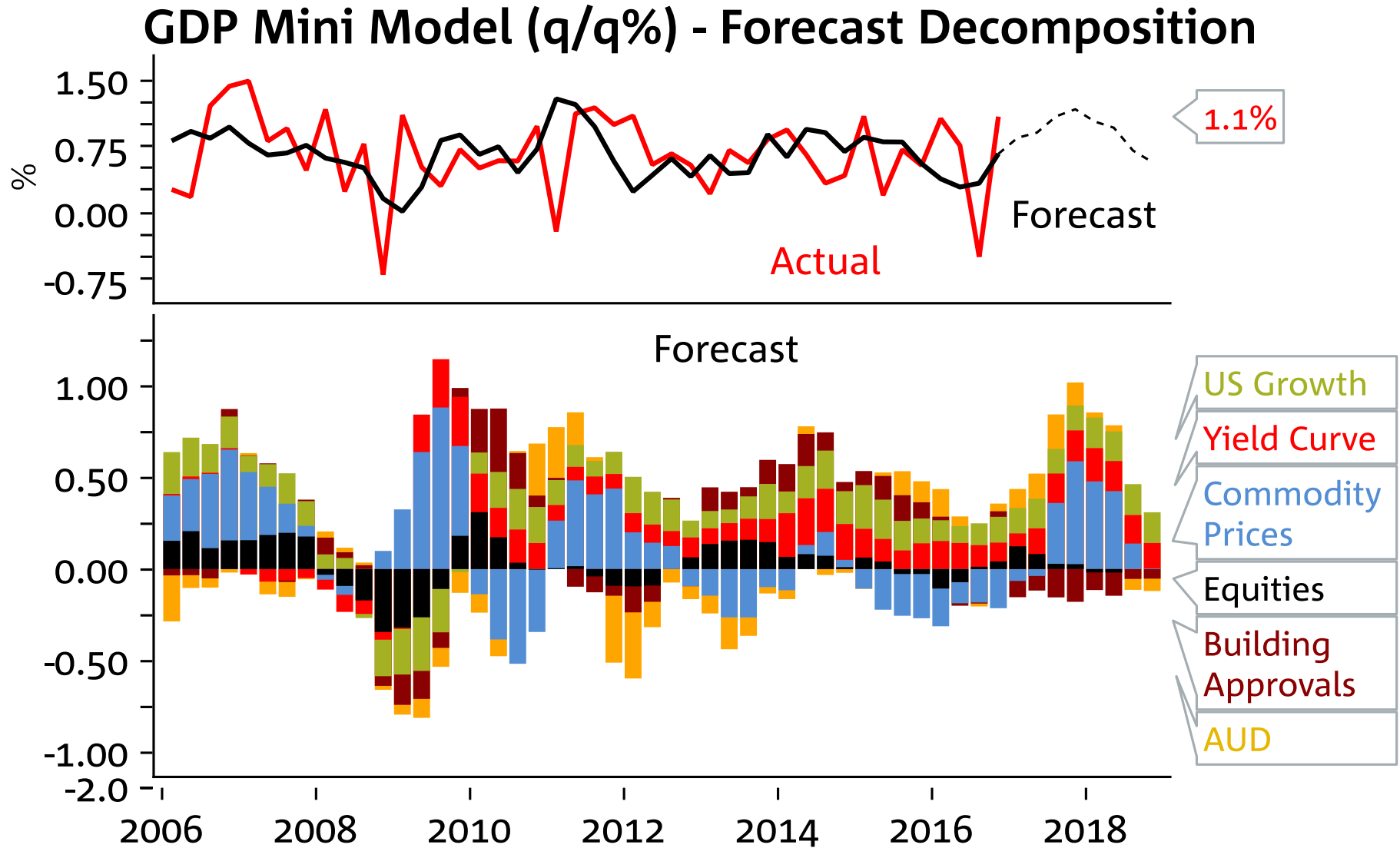


Source: National Australia Bank, Macrobond. Smoothed. Annualised rates.

HOUSING STRESS

- **What conditions would cause greatest stress in Australian housing markets?**
 - Recession in Australia, which leads to higher unemployment and reduced migration
 - only apparent in mining-related areas
 - Sharp increases in interest rates, given relatively high indebtedness
 - Slight increases in interest rates by banks, predominantly on investor loans
 - Significant oversupply of dwellings
 - Possible for apartments in certain areas – watch rents and vacancy rates. Need approval rates to slow going forward.
 - Credit restrictions/credit tightening
 - Credit has been tightened for property developers given fears of oversupply
 - APRA tightening for investors/interest-only
 - Collapse in Chinese economy/Chinese housing market
 - Changes in taxation arrangements (Opposition policy)

AUSTRALIAN MINI-MODEL OF GDP – growth to accelerate in 2017 (global growth, commodities), but slow again in 2018 (house building, commodities drag)

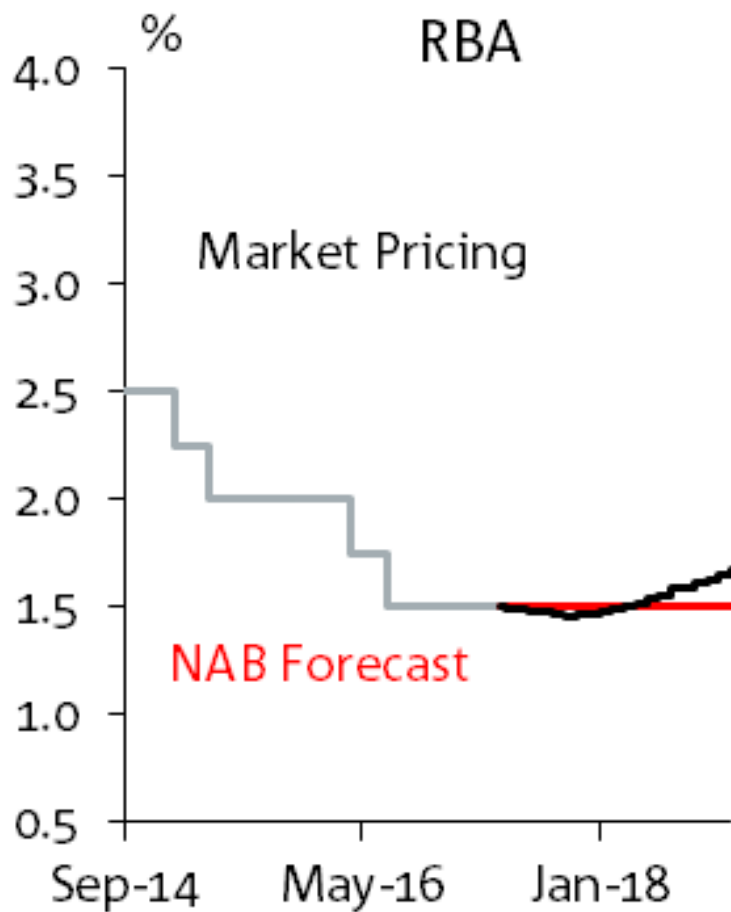


Source: National Australia Bank, Macrobond

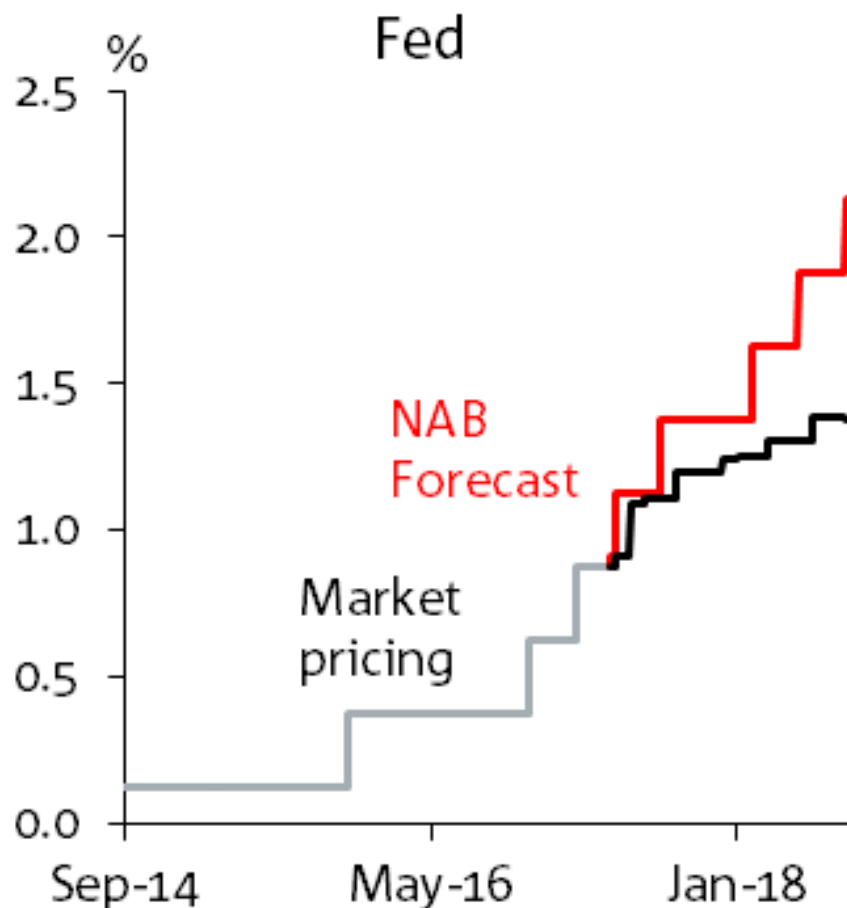
INTEREST RATES *and* FOREIGN EXCHANGE

POLICY RATES – Australia on hold 2017, much of 2018. Market likely underpricing extent of US interest rate rises

Central bank forecasts - Mkt vs NAB

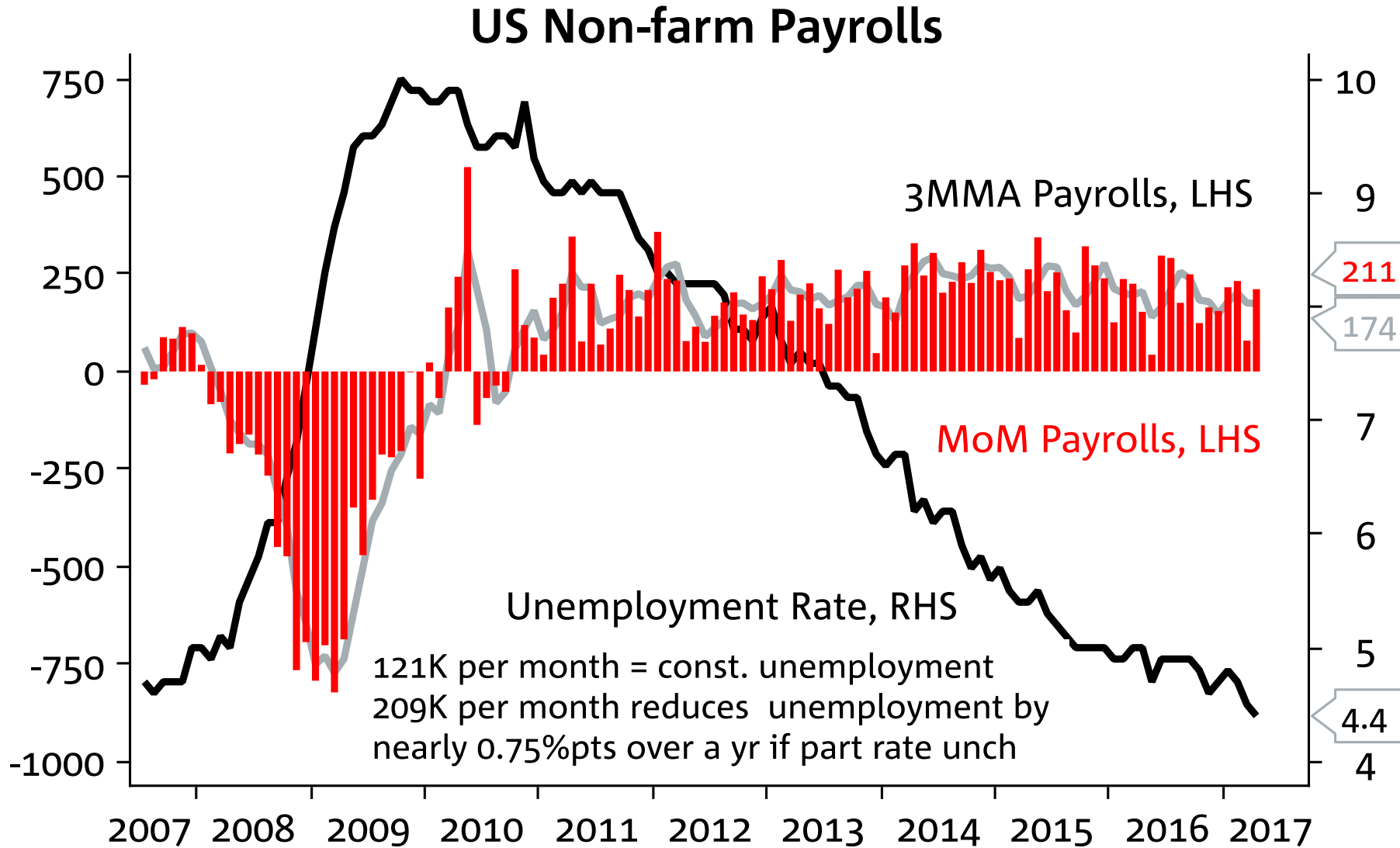


source: NAB, Bloomberg



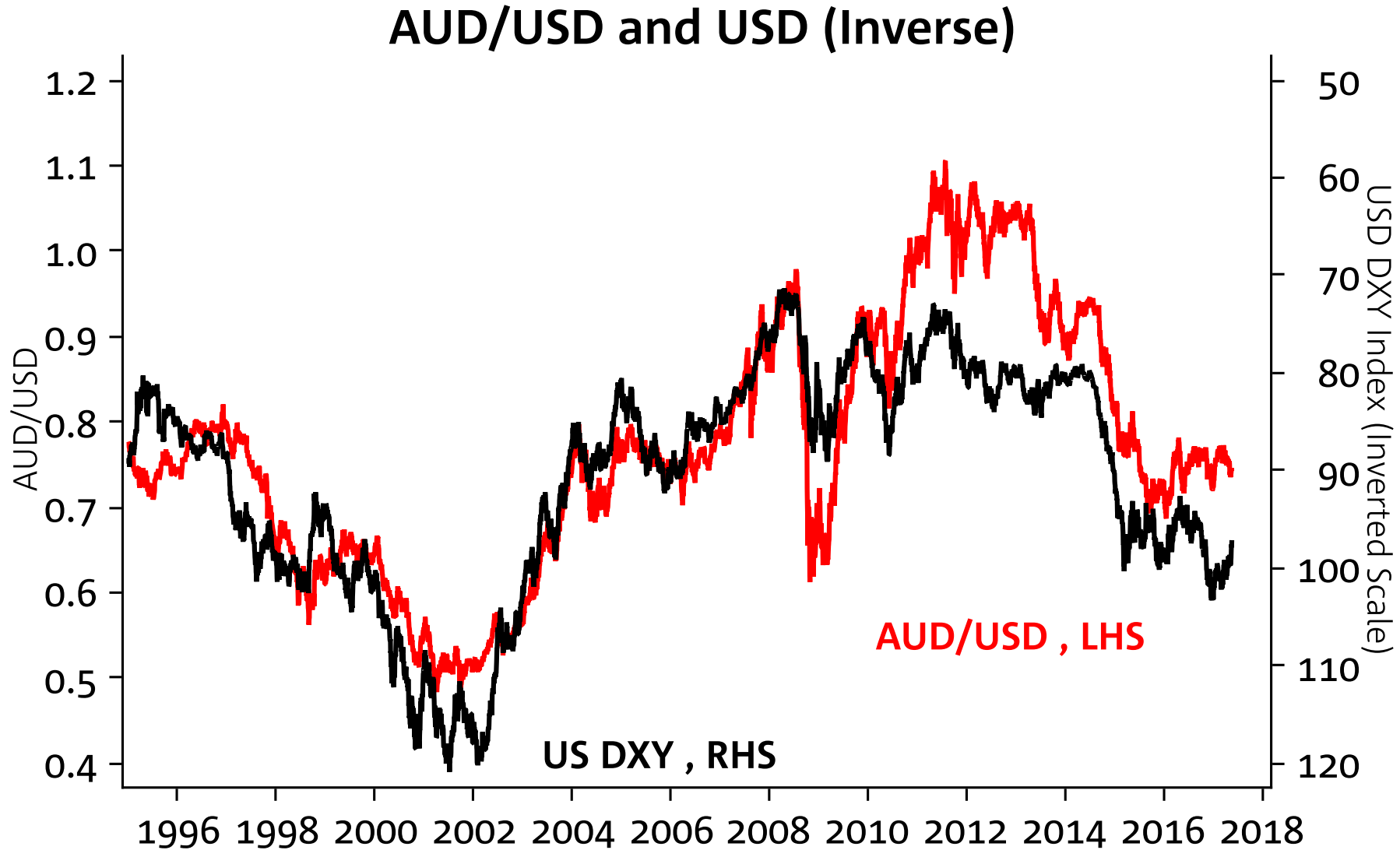
source: NAB, Bloomberg

US LABOUR MARKET – adding jobs at a rate sufficient to lower unemployment half to three quarters of a percent over 12 months if participation unchanged



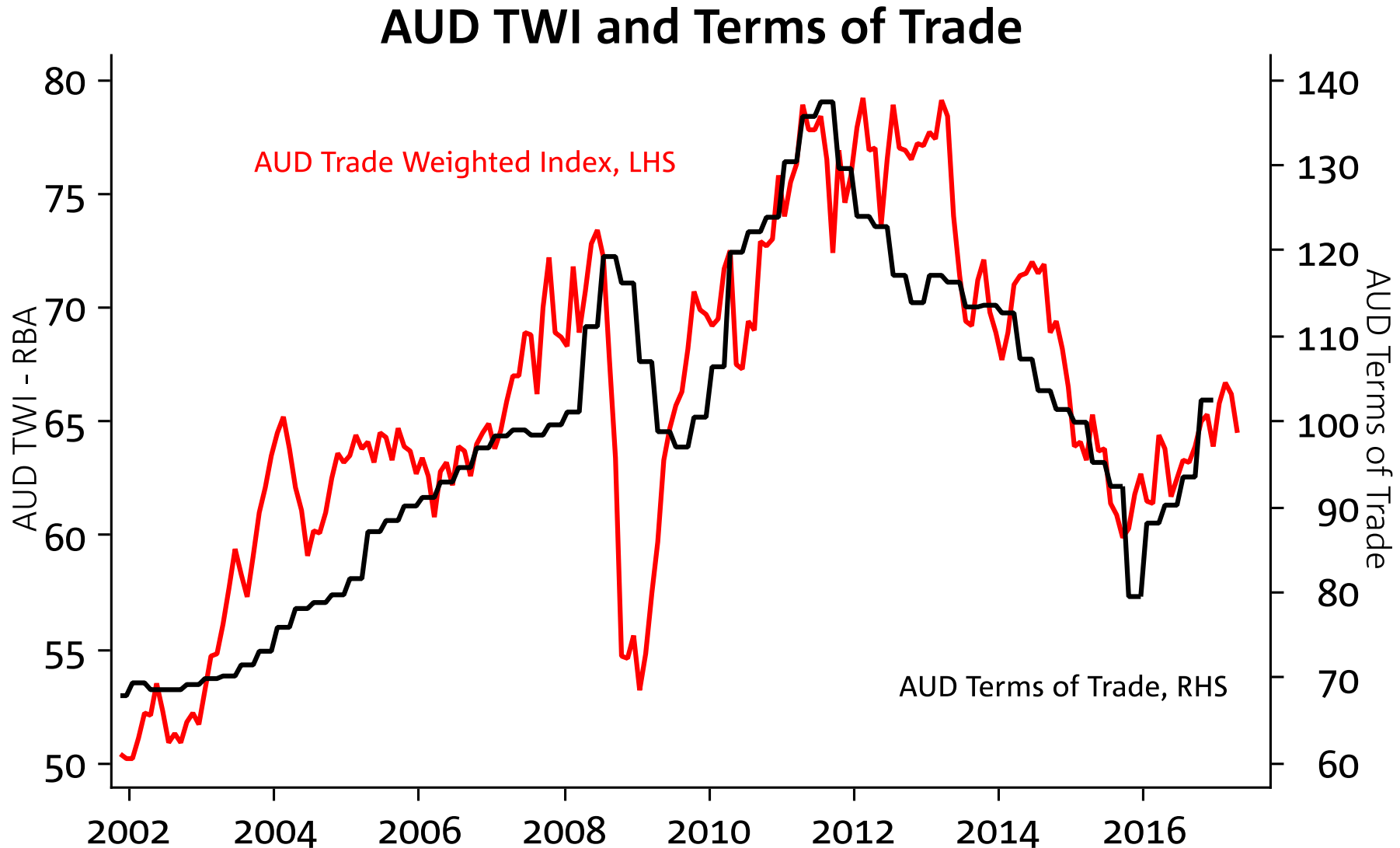
Source: National Australia Bank, Macrobond, Atlanta Fed Jobs Calculator

WHAT HAPPENS TO THE AUD/USD IS VERY MUCH DETERMINED BY THE BROAD USD TREND – which until recently had been broadly strengthening



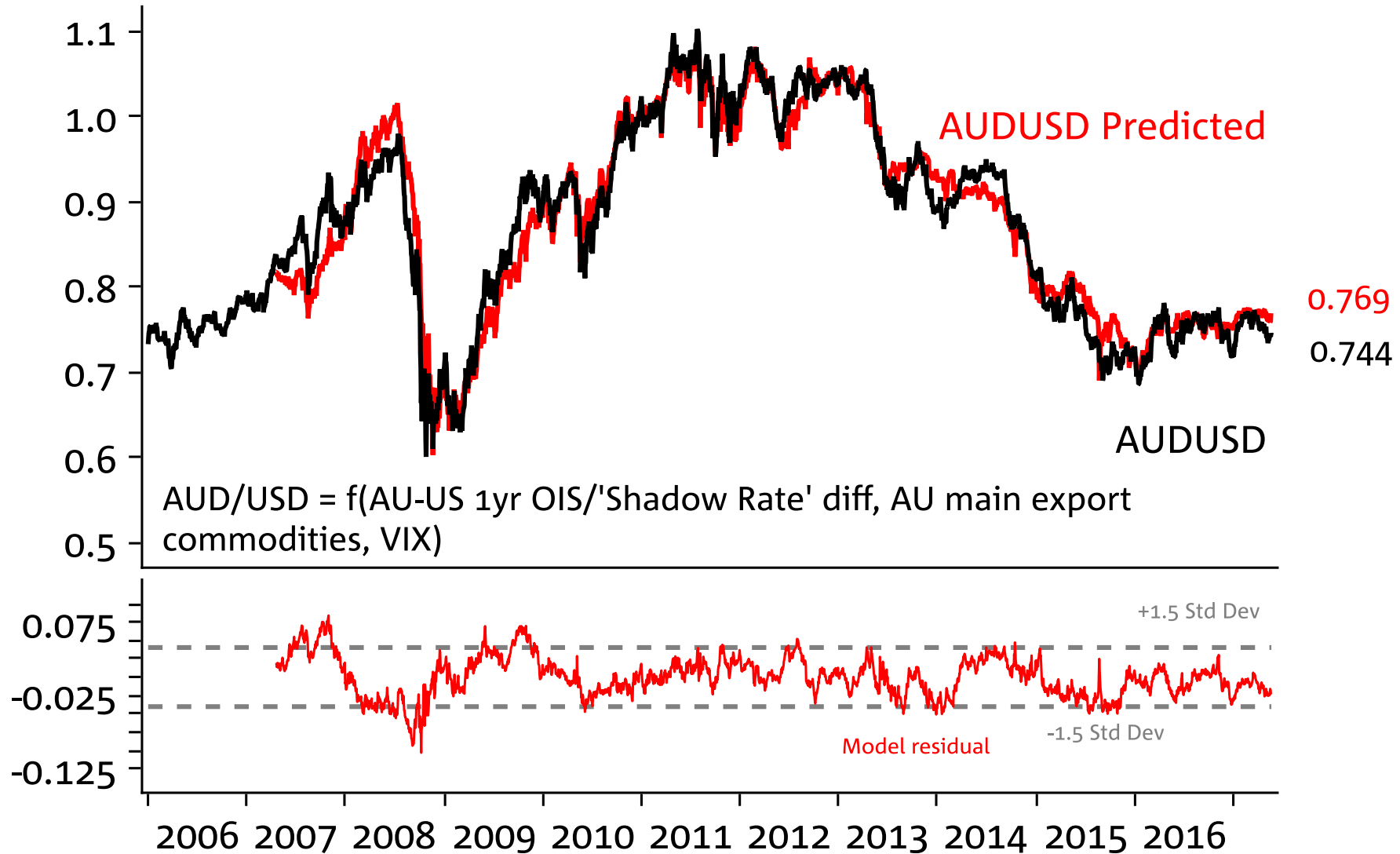
Source: National Australia Bank, Macrobond

AND BY WHAT IS HAPPENING TO COMMODITY PRICES (THE TERMS OF TRADE) – *which until 12 months ago had been broadly weakening*



Source: National Australia Bank, Macrobond

NAB'S SHORT-TERM MODEL SUGGESTS \$A/US\$ FAIR VALUE **-0.77** – we forecast an exchange rate of *US\$0.70* at the end of the year.

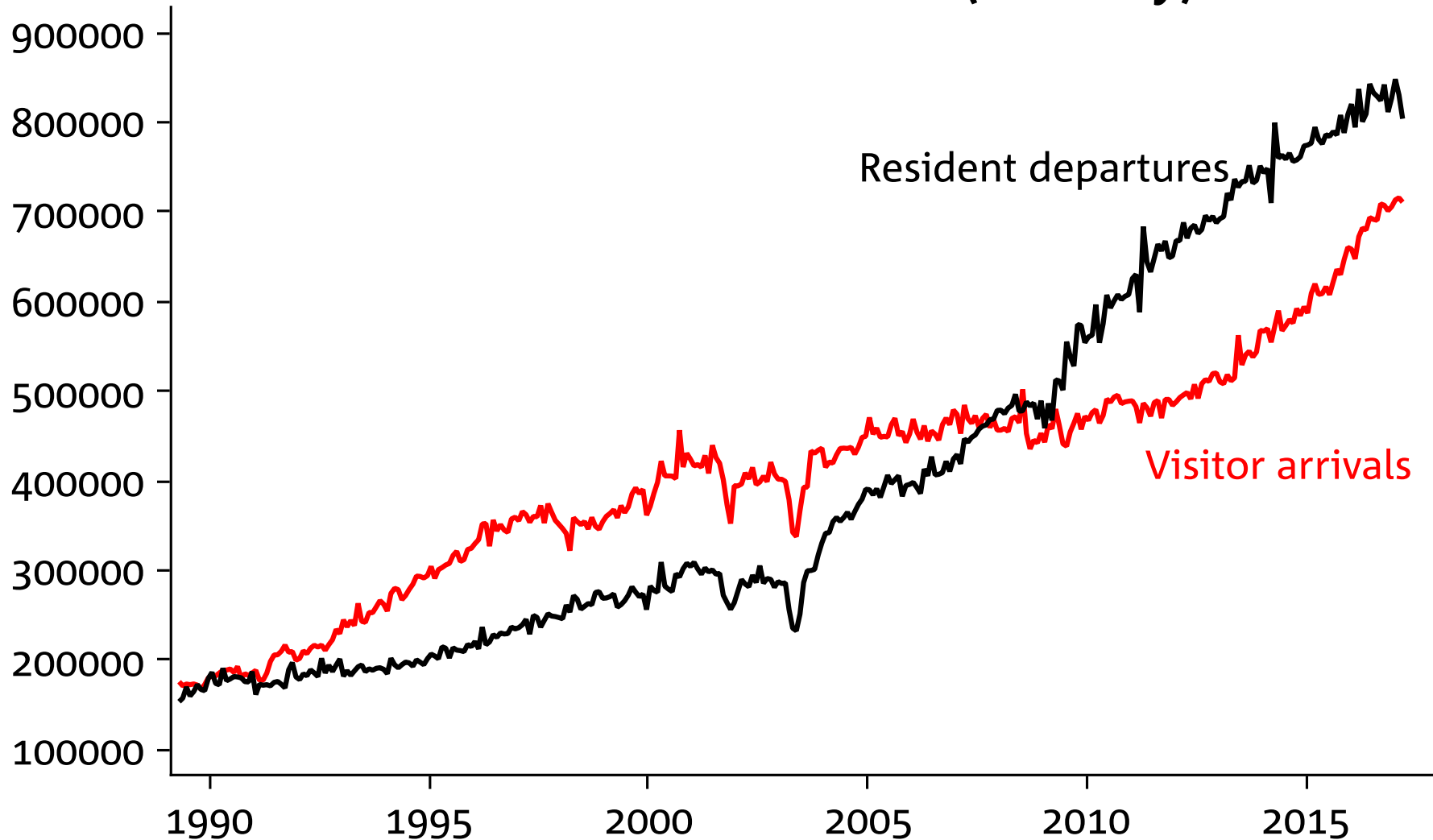


Source: National Australia Bank, Macrobond

A FEW TOURISM TRENDS

INTERNATIONAL TOURISM - *inbound and outbound growth strong - arrivals growing more strongly recently as major source market economies recover*

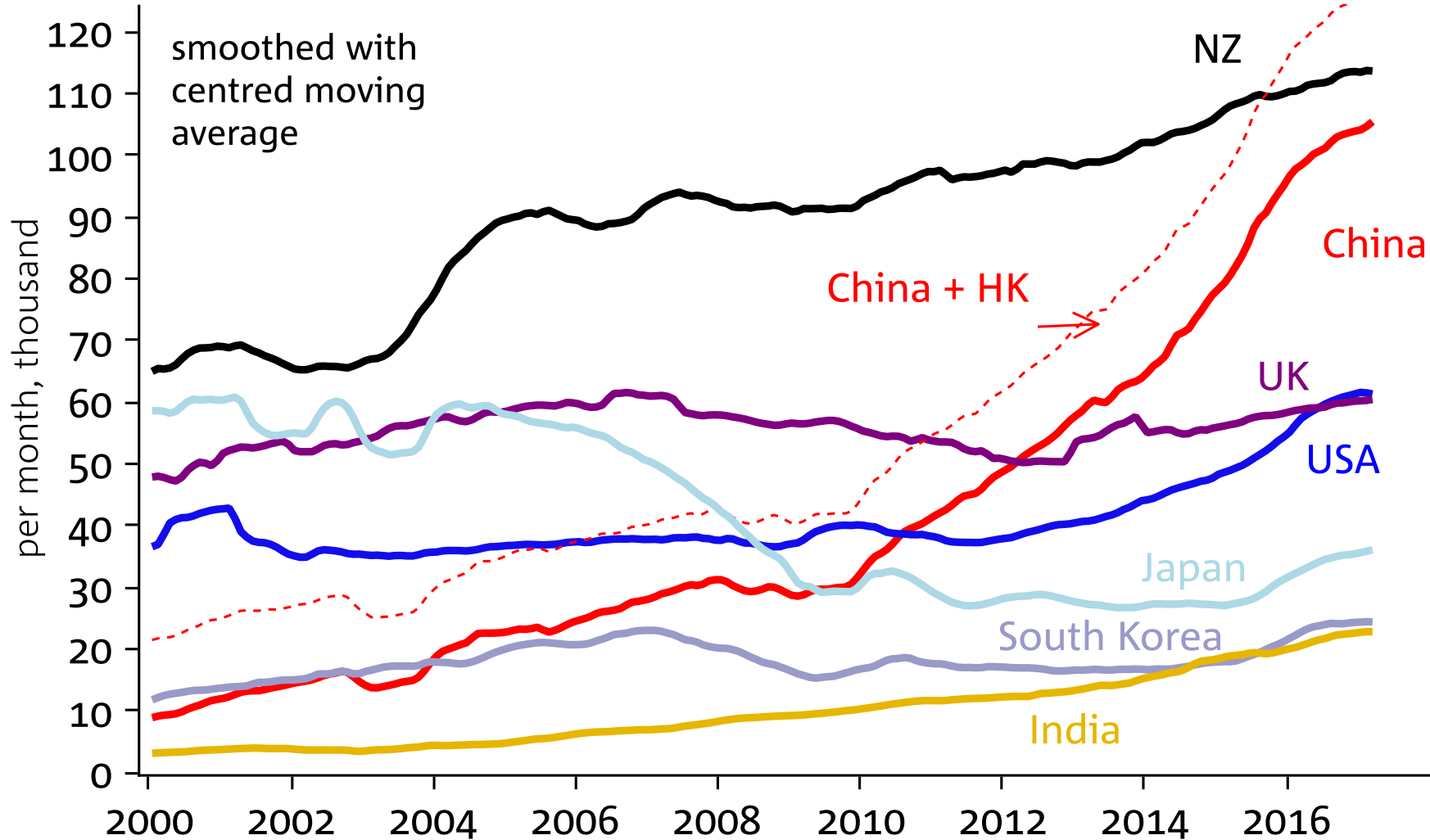
Australia Tourism Indicators (Monthly)



Source: National Australia Bank, ABS

INBOUND - growth driven especially by China (largely tourism); other countries such as USA and India also increasing strongly.

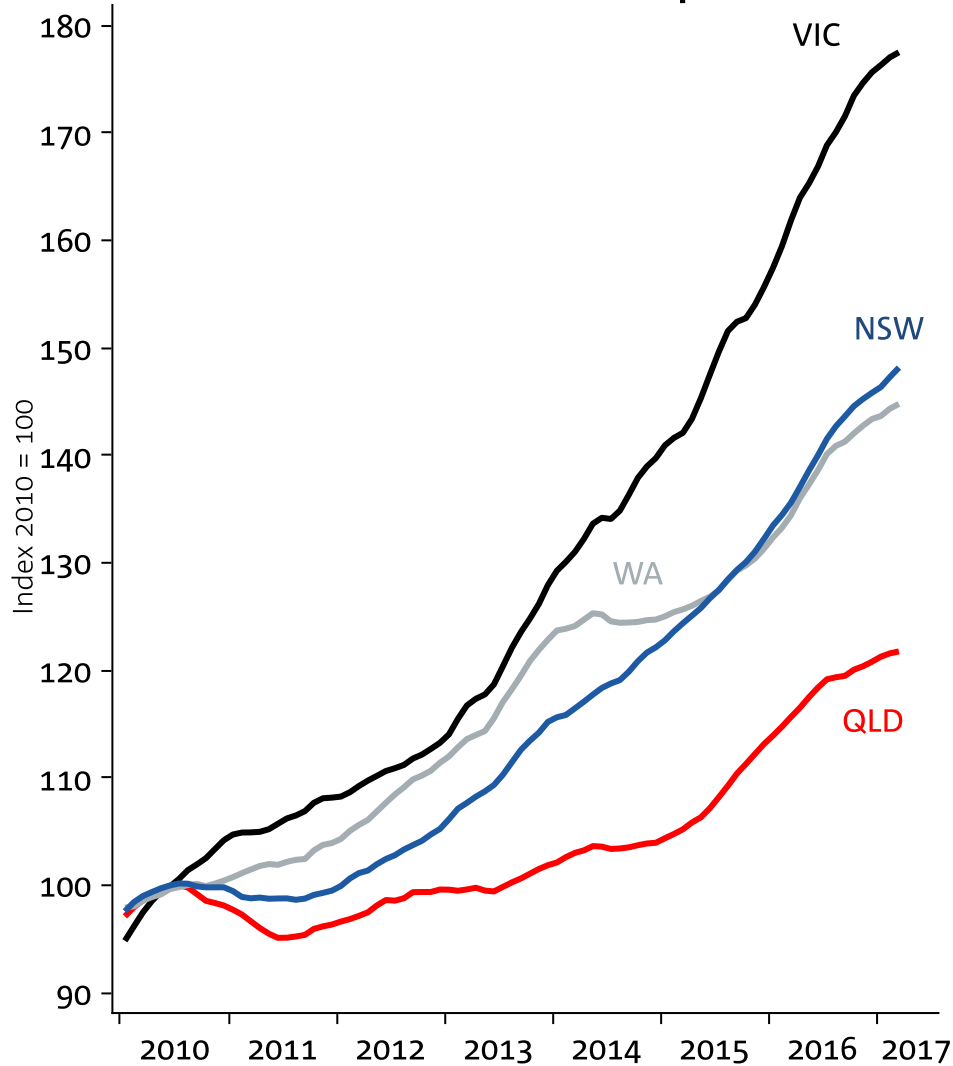
Short Term Visitor Arrivals - Per Month



Source: National Australia Bank, ABS

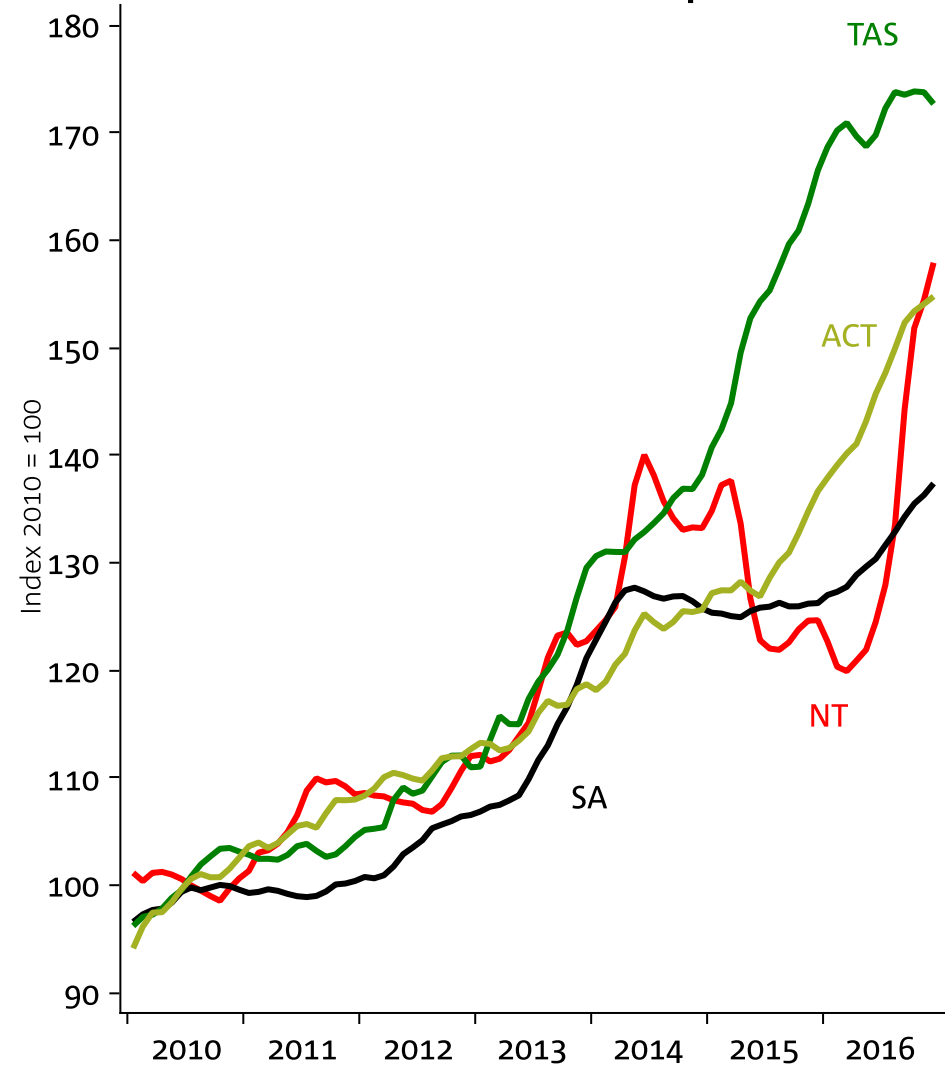
INTERNATIONAL TOURISM - Victoria and Tasmania have become increasingly popular destinations. SA and QLD underperforming recently.

State Where Most Time Spent



Source: National Australia Bank, ABS

State Where Most Time Spent

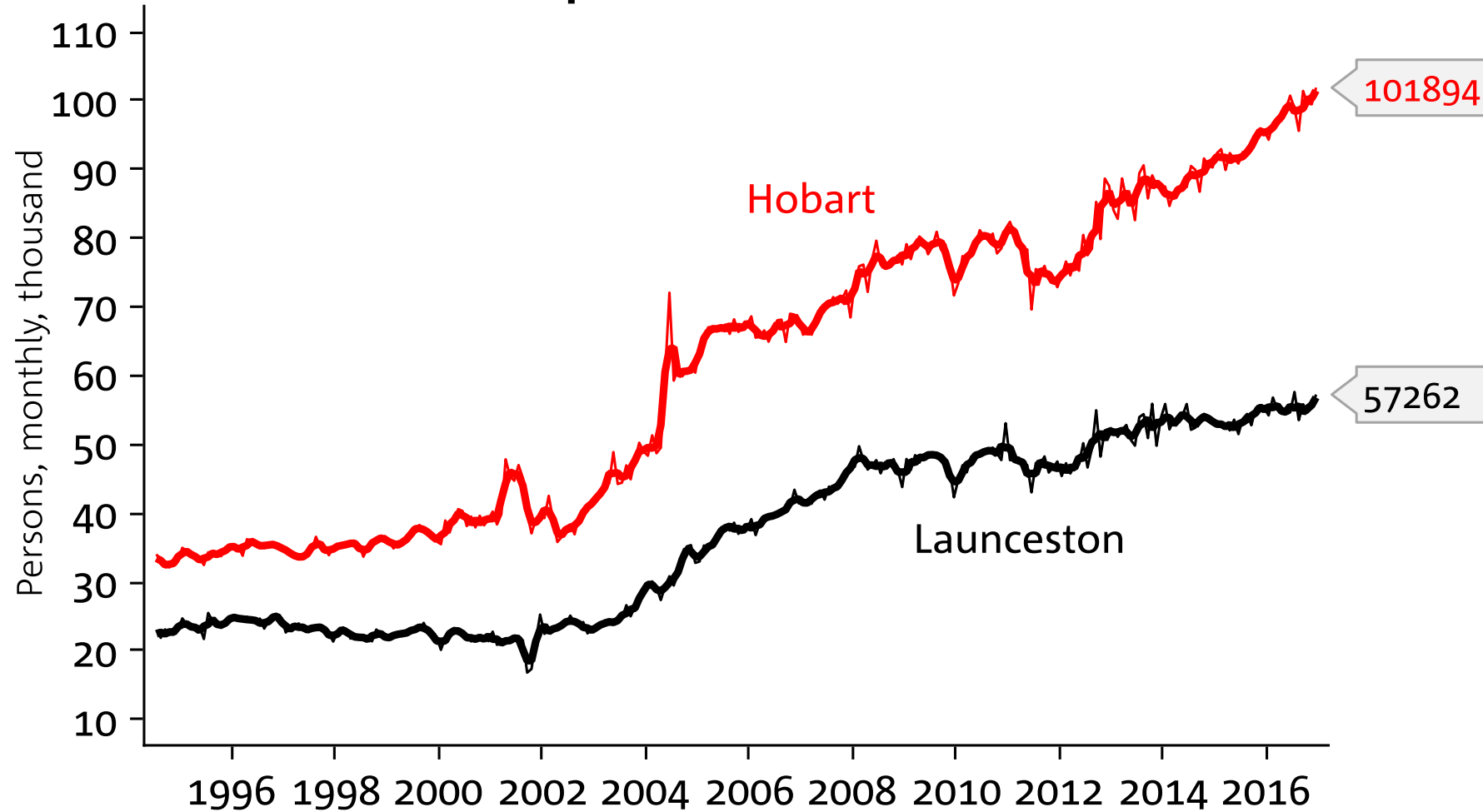


Source: National Australia Bank, ABS



TOURISM – Hobart visitation performing particularly strongly

Domestic Airport Arrivals into Tasmania*



* Seasonally adjusted by NAB

Source: National Australia Bank, BITRE

CONCLUSIONS

- Global growth improving – should be positive for inbound from major source markets
- \$A to continue to decline – again should be positive for inbound and supportive for some switch to domestic tourism
- \$A not set to return to \$1 plus levels – should support increased investment
- Watch developments in Trump's trade policies with China
- Concerns about housing and household indebtedness may make locals more cautious – could mean switch to domestic/cheaper travel options
- Australian cash rates to remain unchanged for foreseeable future but upward pressure from overseas interest rate increases
- India seems a very prospective market

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