

## Economics 2022 UNPLUGGED!



Queensland Economic Teachers Association (QETA) is proud to present a full day Professional Development session for our members across Queensland.

- Face to face – unplugged version at Brisbane Girls Grammar School
- Online, for our regional and remote members
- Economics Society of Australia Queensland / QETA scholarships to cover high costs for regional and remote teachers – refer website for application details

**Members \$65**  
before 4 Nov

**Members \$80**  
before 4 Nov

**Preservice teachers \$50**

**Non-members \$90**

**Keynote speaker:**  
**Dr Matthew Peters**

Chief Economist for QIC, one of Australia's largest institutional funds managers, where he oversees global economic forecasting and research

**Guest speakers:**

**Alex Symonds**  
(Look him up on YouTube!)

**Dr Stephen Whyte**

Behavioural Economics, QUT

Teachers will have an opportunity to:

- uplift and update their knowledge of resources and teaching, learning and assessment ideas
- participate actively by asking questions
- gather with Queensland Economic Teachers' Association committees of practice.

# Welcome





Keynote  
speaker:

Dr Matthew  
Peter



# Economic Outlook

Presentation to  
QETA  
by  
Dr Matthew Peter, Chief Economist



BRISBANE

November 2022

QIC respectfully acknowledges the Traditional Owners and Custodians of Country throughout Australia and recognises their continuing connection to land, water and community. We pay our respects to Elders past, present and emerging.

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Global economy

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Australian  
economy

*3*

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Queensland  
economy:  
structure

*4*

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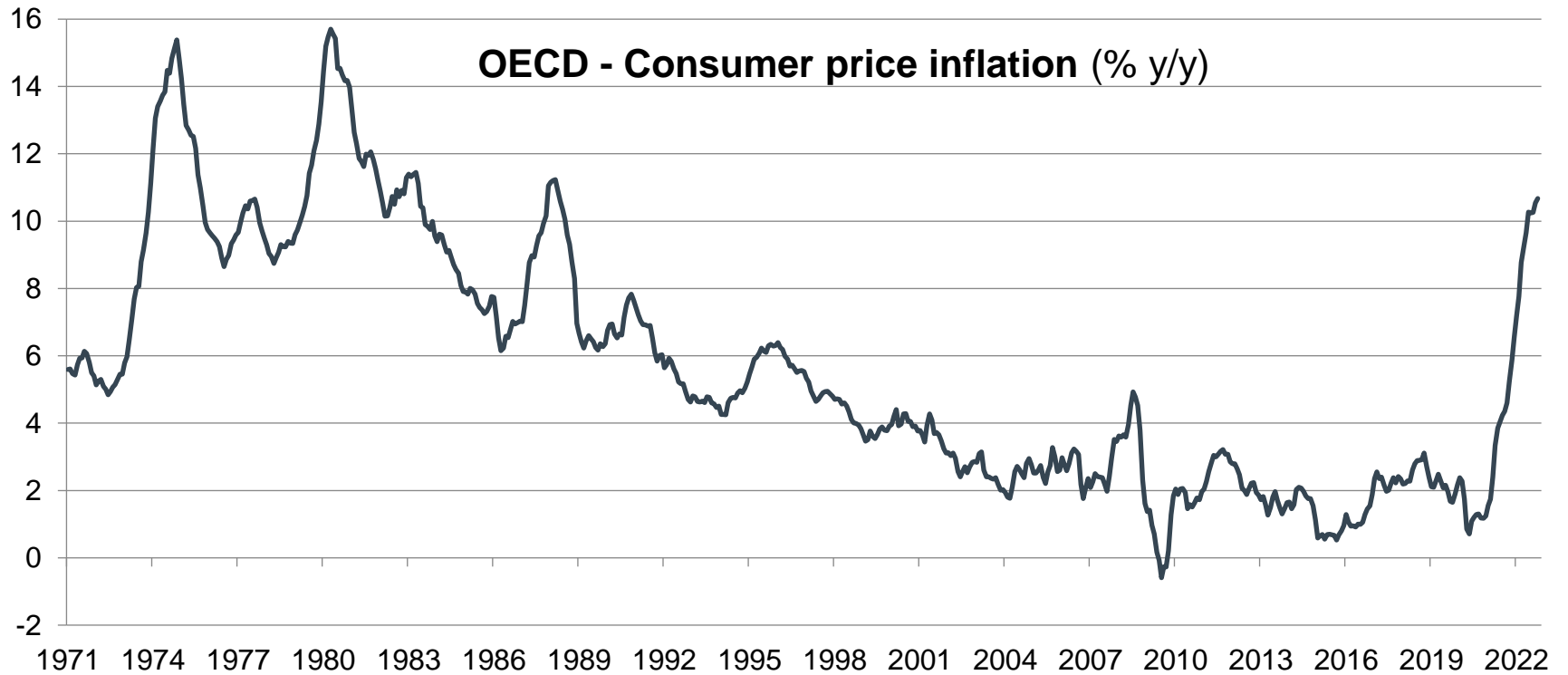
Queensland  
economy: current  
conditions and  
outlook

Q|C

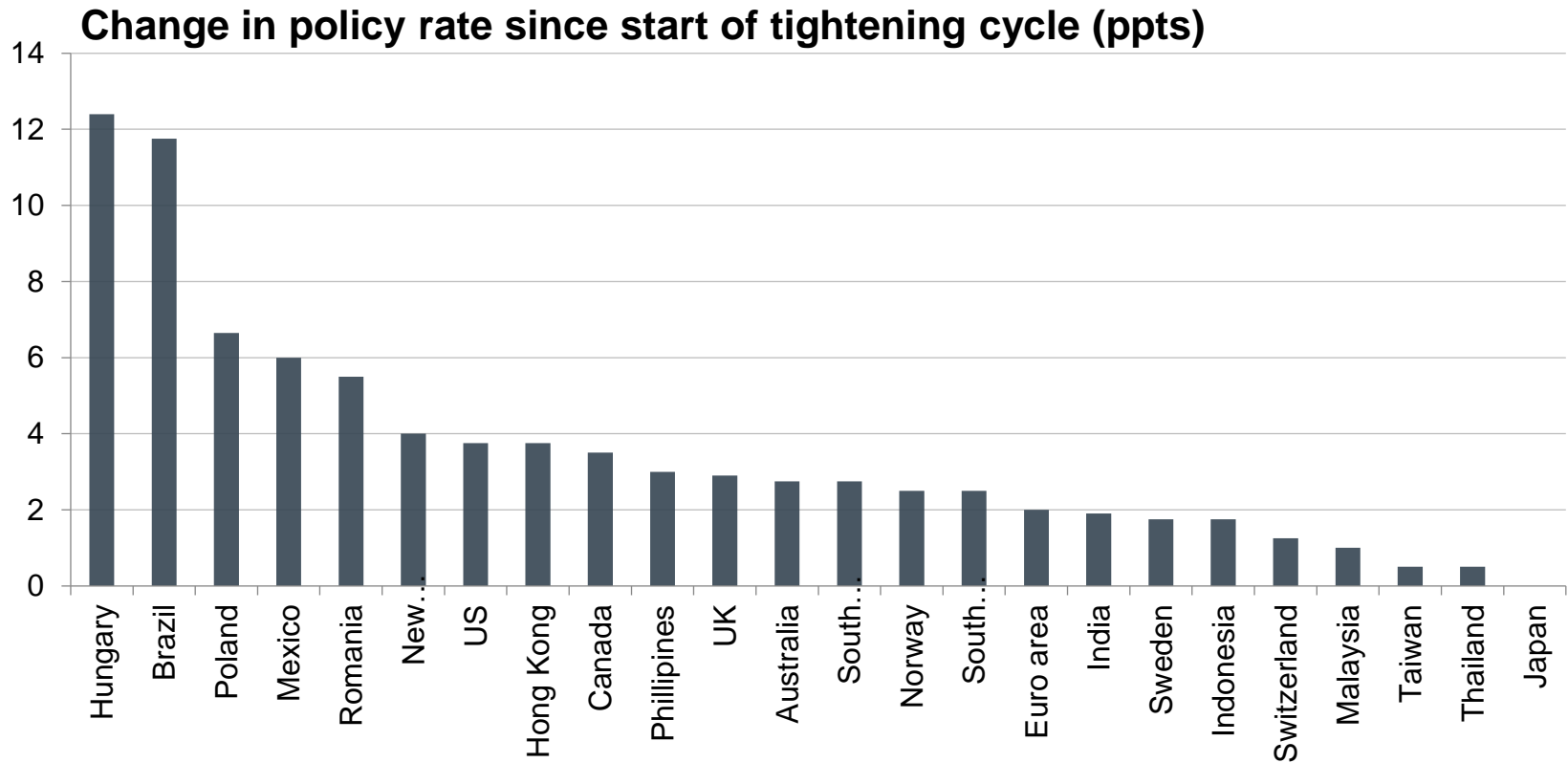
# Global economy



# 2022 has been all about inflation...

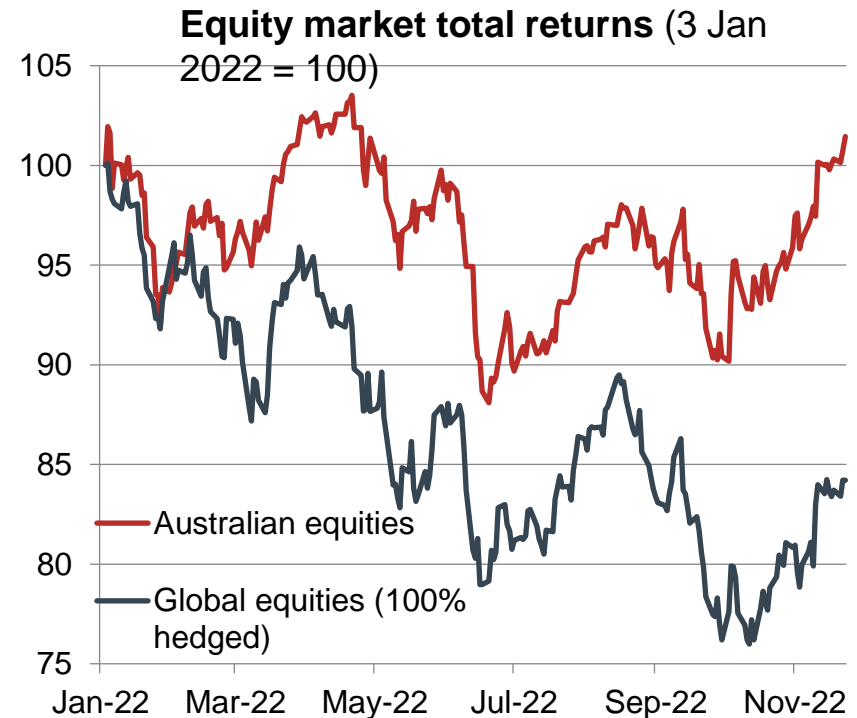
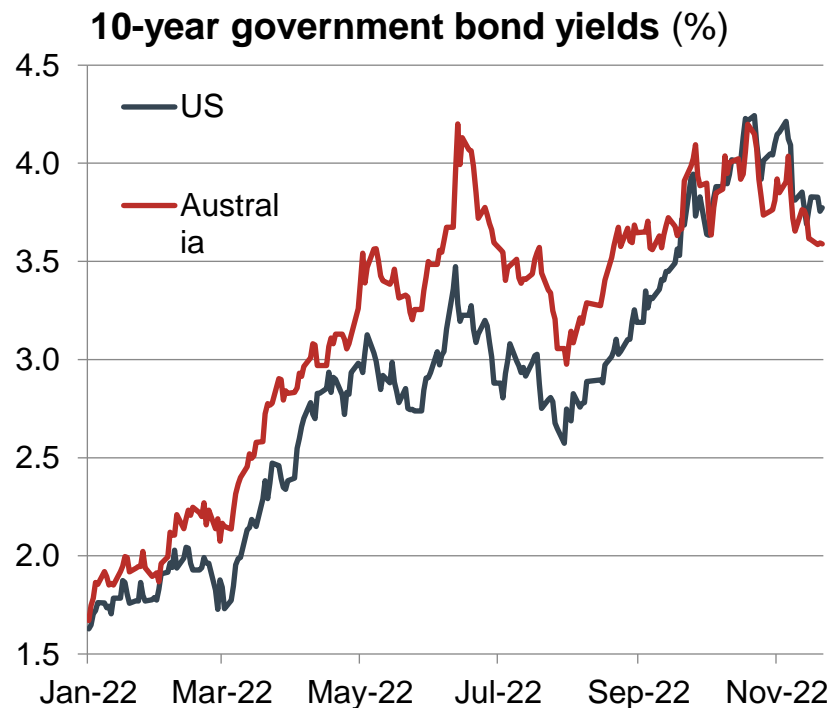


... and central bank efforts to contain it



... which has led to a sharp tightening in global financial conditions

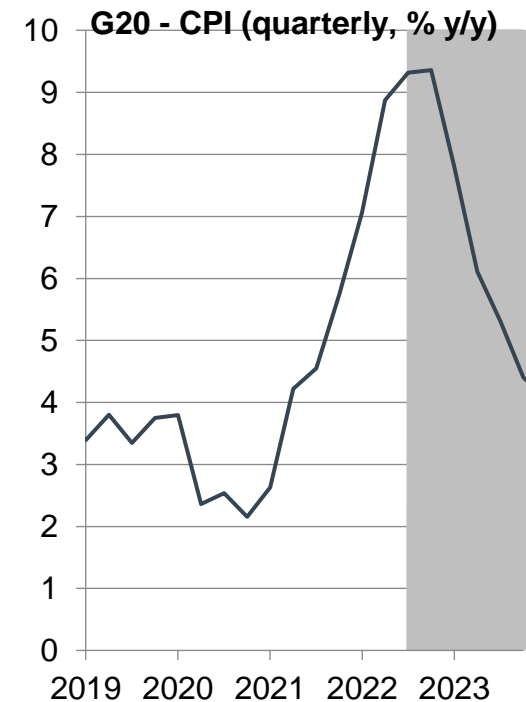
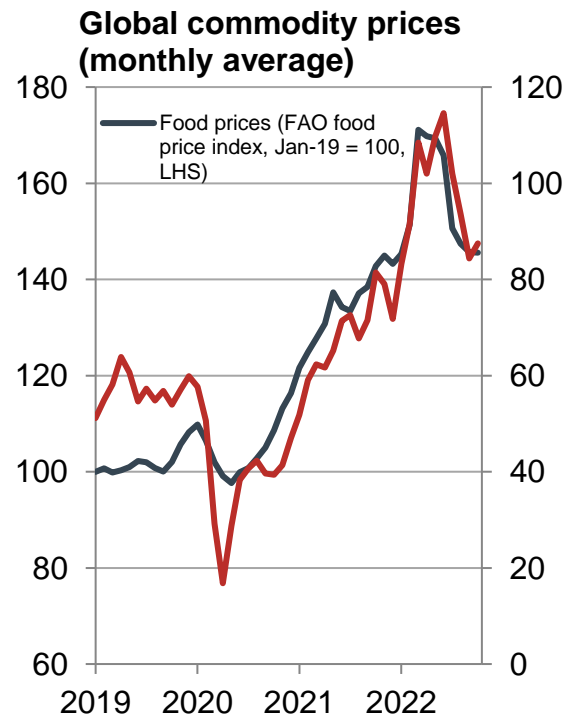
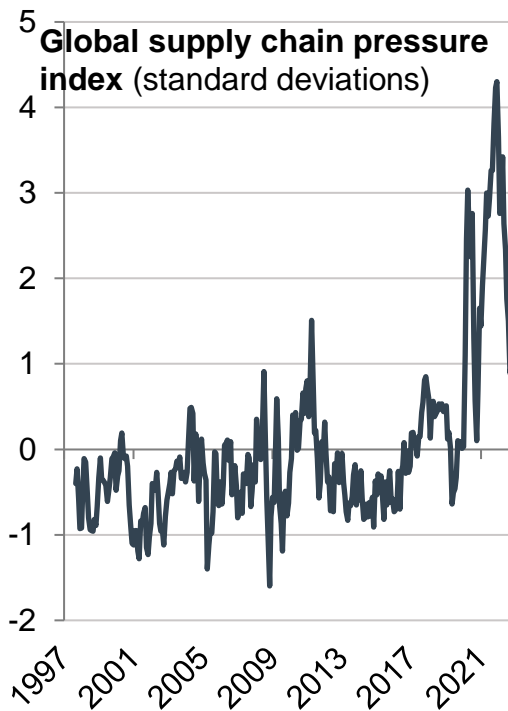
*Global bond yields rise sharply in 2022 & global equities fall into a bear market*





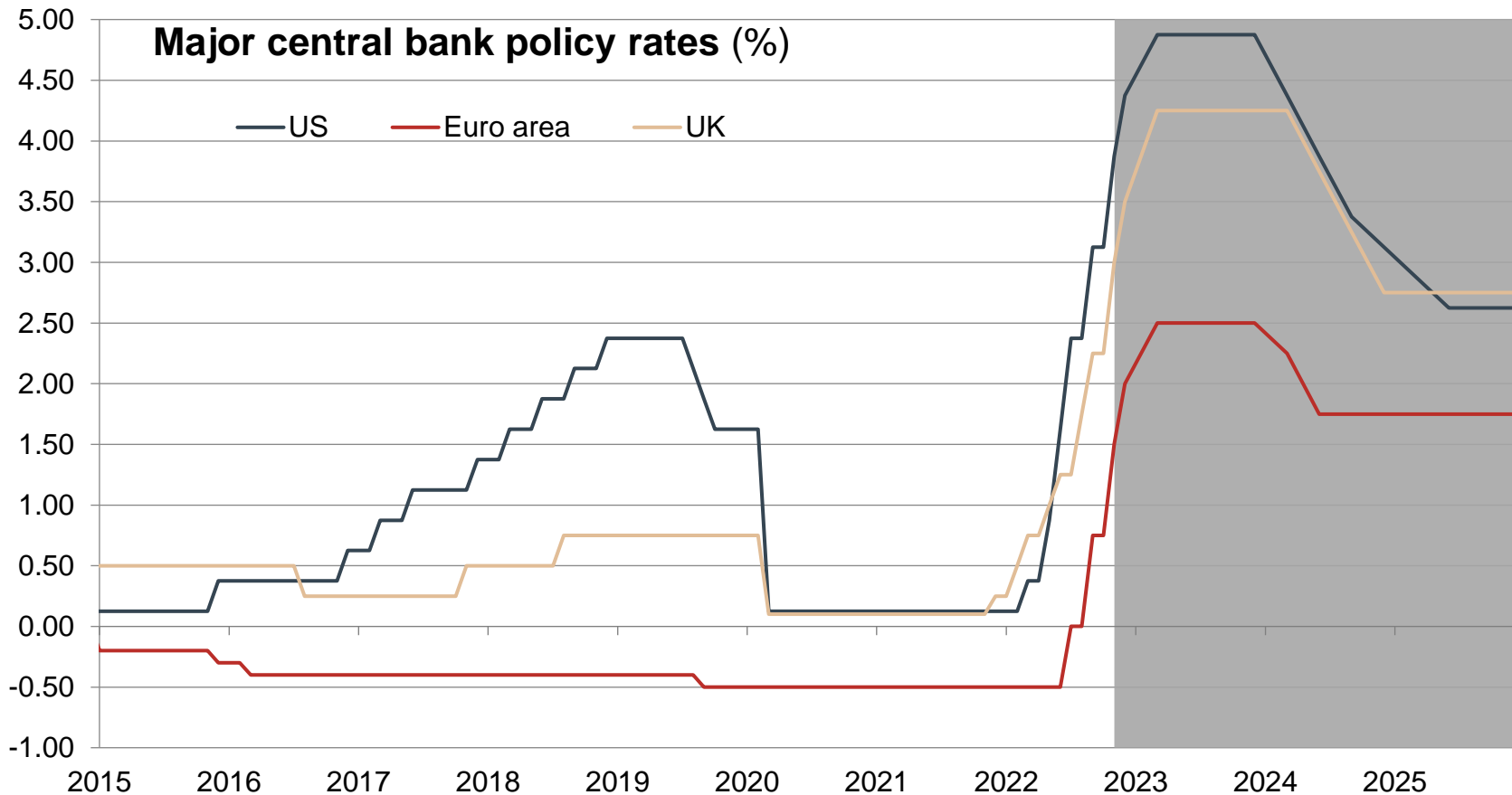
# What will 2023 bring?

Signs are emerging that we are near the peak of global inflationary pressures



Rate cuts will likely start to come onto the horizon in late 2023/24

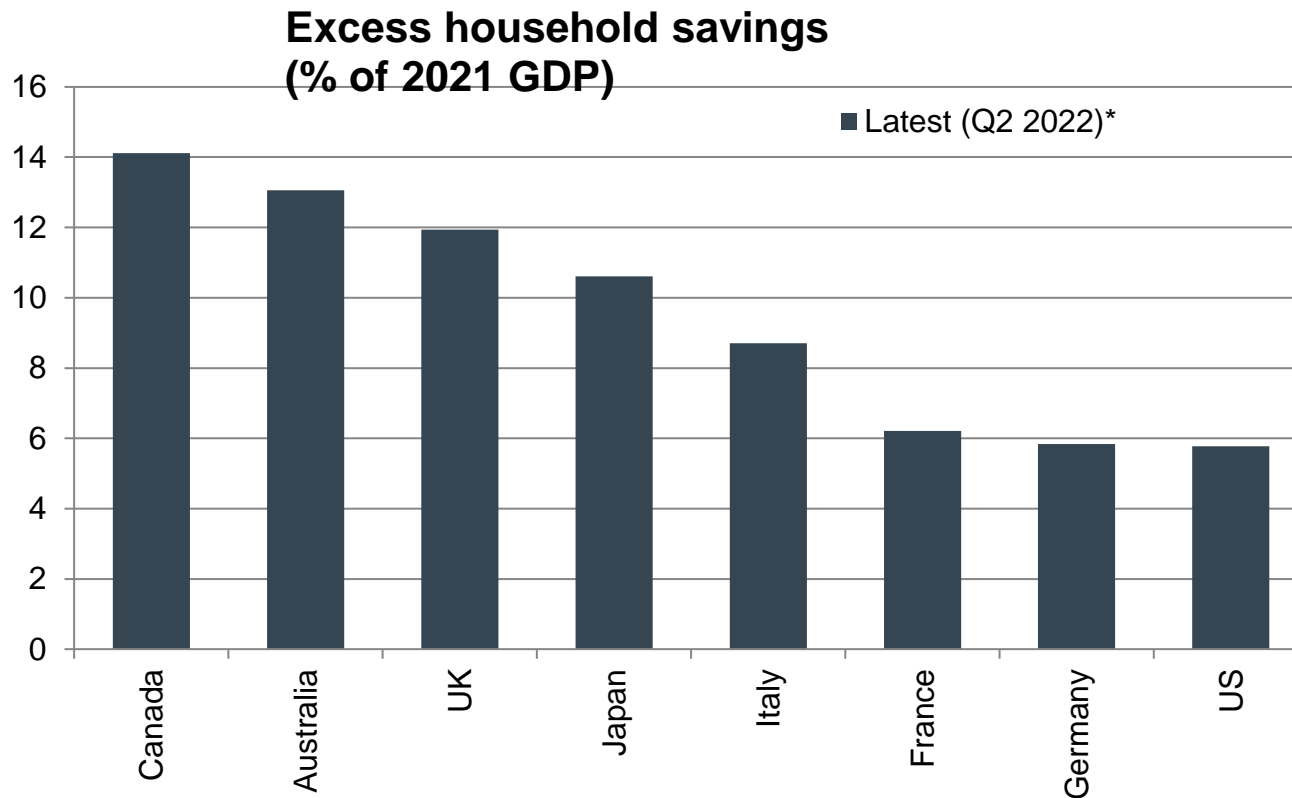
Central banks have some more work to do, but they are getting close to ending their tightening cycle



Source: Refinitiv, QIC  
Note: Grey shading represents QIC forecasts

## High savings rates will cushion the impact

Substantial accumulation of savings since the pandemic to provide a buffer

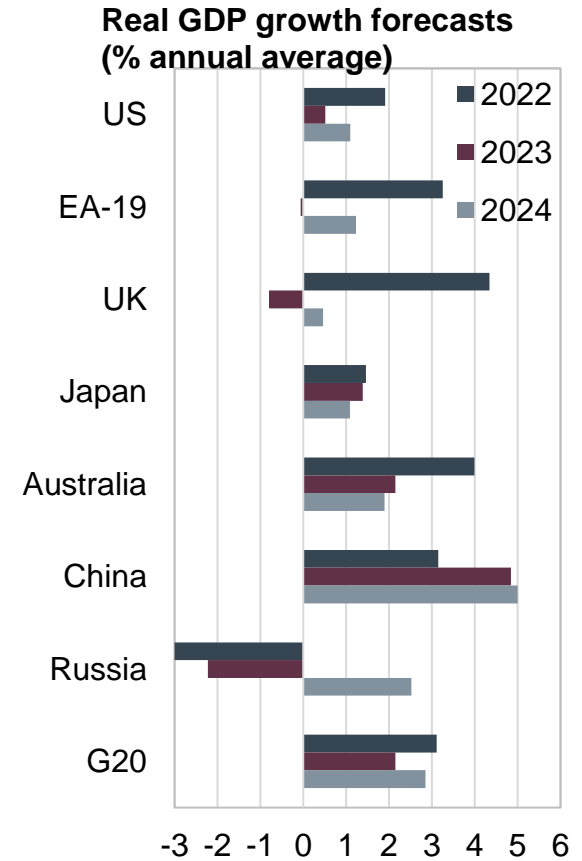
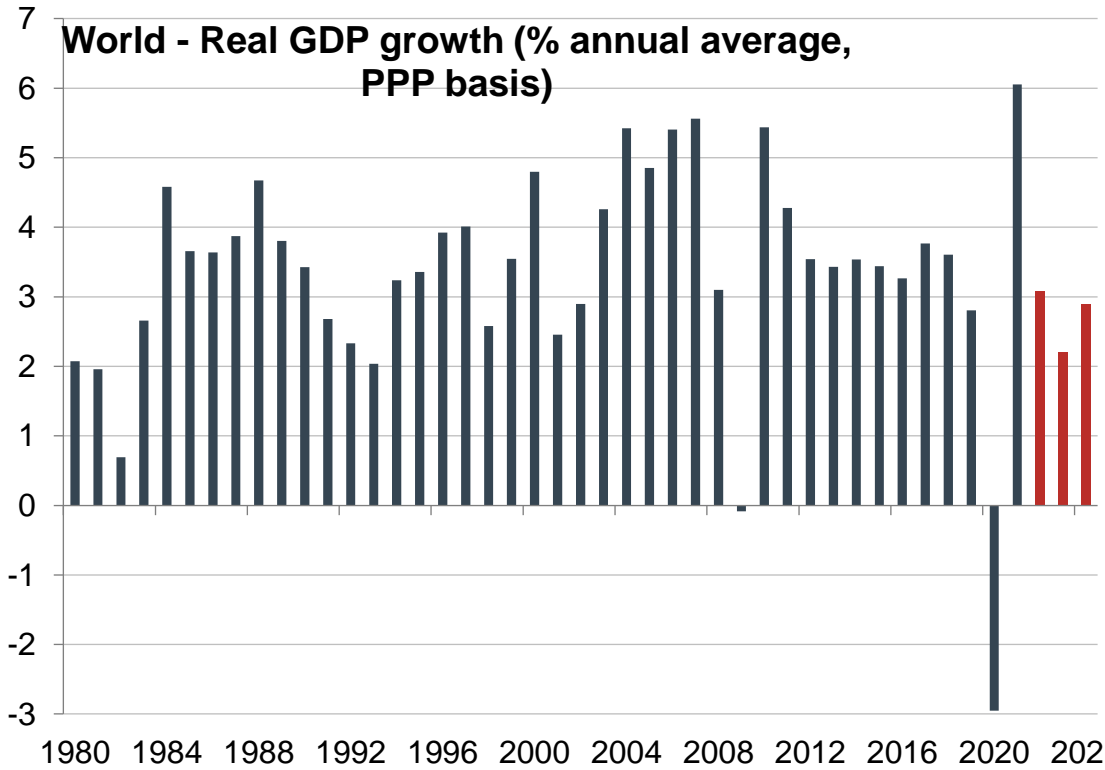


\* Q3 2022 for US

Source: Refinitiv, QIC.  
Note: Red columns represent QIC forecasts

# What will 2023 bring?

Lagged impacts of monetary tightening & energy crisis are likely to tip the global economy into a mild recession



## Key takeaways: global economy

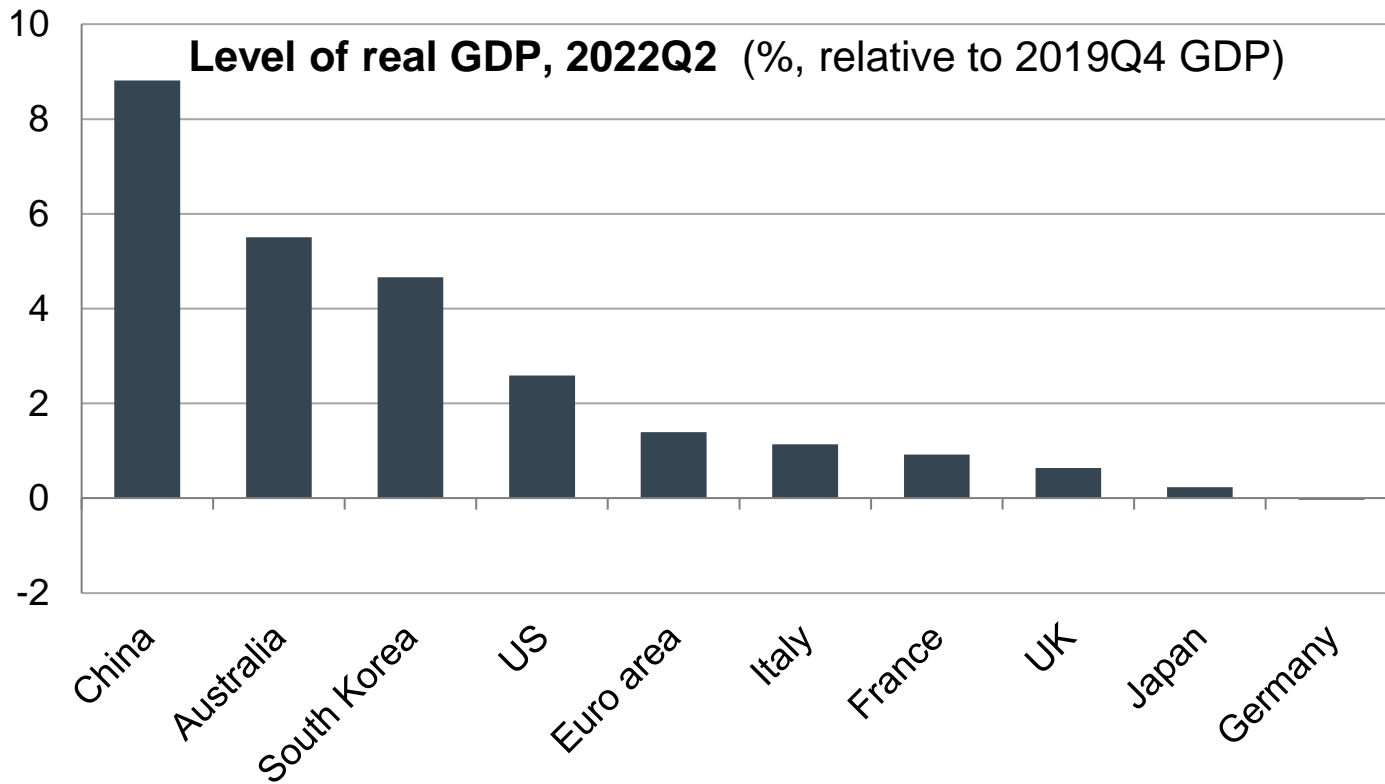
- Global economy is heading for a mild recession
- The current stagflationary environment is inherently unstable as central banks will continue to raise rates until the back of either inflation or the economy or both is broken
- The recession should be mild because the main ingredients for a deep recession and stagnation are missing. These ingredients are:
  - Weak balance sheets of both households and businesses
  - Systemic weakness in the global banking sector and unstable conditions in short term money markets
  - Sharply overvalued assets and distortions in the pricing of risk
- The first half of 2023 will see markets, investors and policy makers severely tested as growth slows, policy rates rise and inflation remains stubbornly high
- Monetary authorities should be raising rates into the first quarter of 2023 before pausing
- Governments must exercise fiscal restraint
- Price dynamics are clear that inflation will be slowing rapidly in the second half of next year and growth should be stabilising
- Our central case is for mild global recession, with a return to more normal conditions in 2024

# Australian outlook



## Australia: stellar post-Covid economic performance

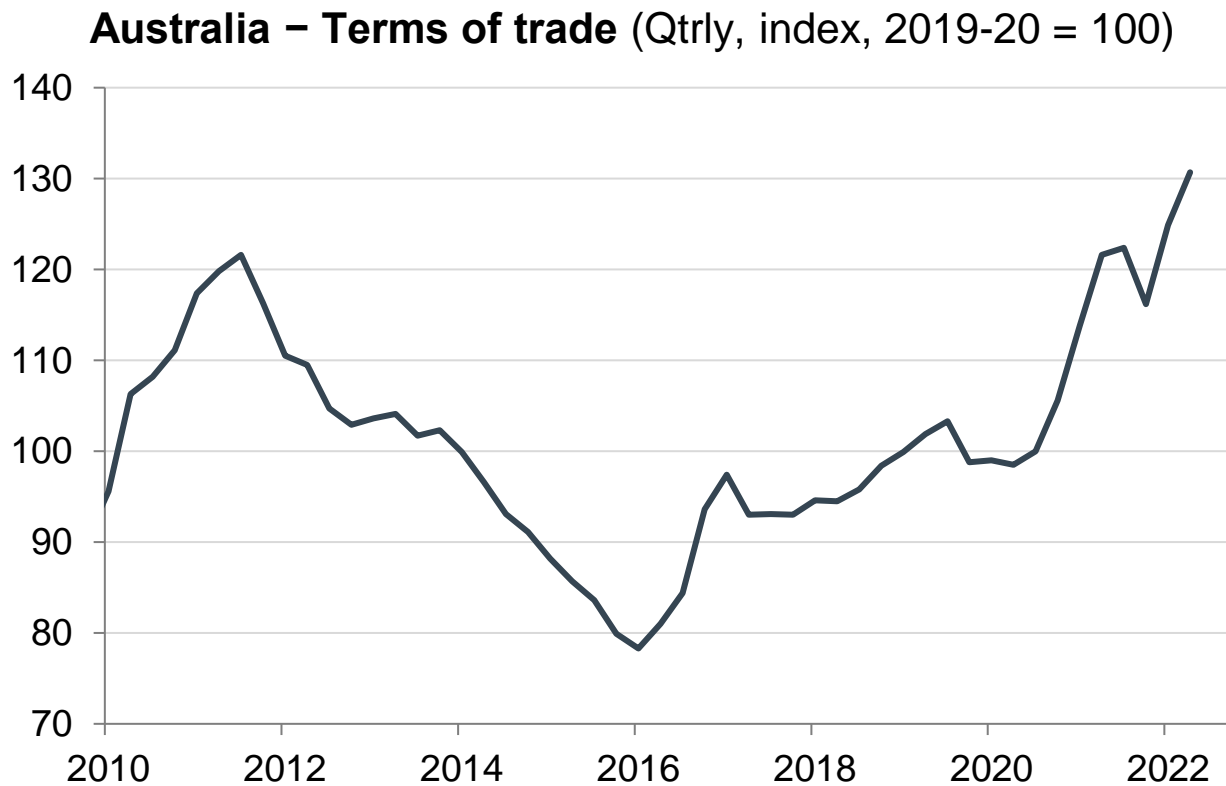
Outperforming all developed economy peers



Source: Refinitiv, ABS, QIC.

## Australia: stellar post-Covid economic performance

Assisted by foreign demand for our resources exports,...

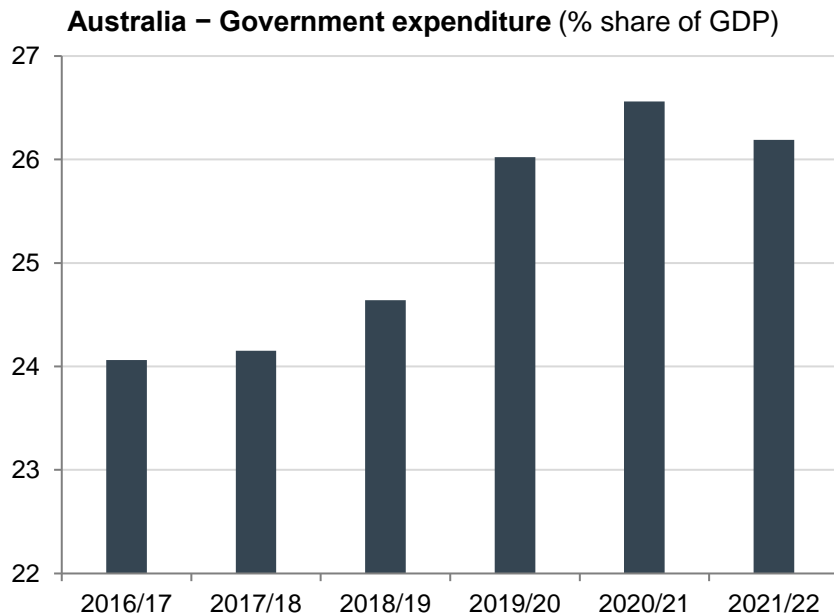


Source: ABS, QIC.

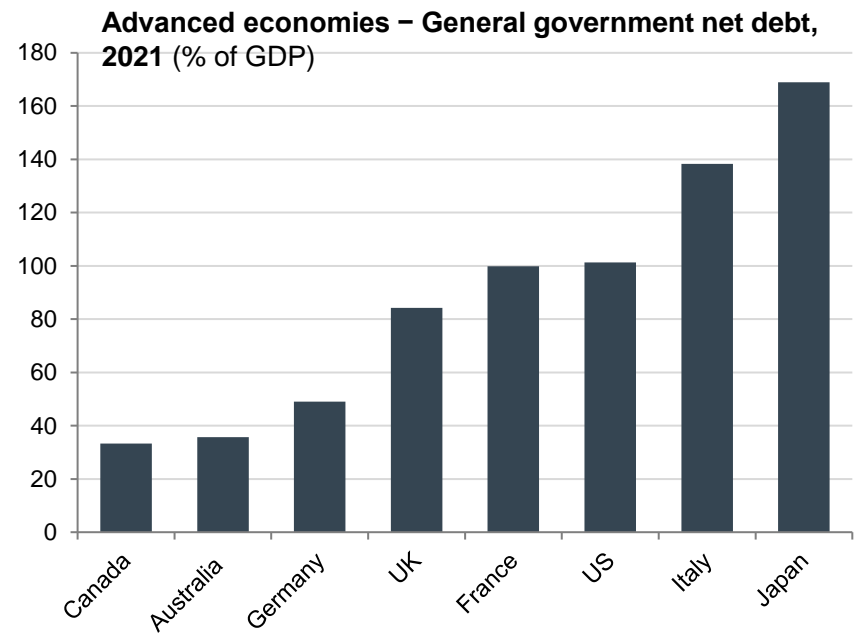


## Resources revenue helped finance COVID relief spending

Govt expenditure responded strongly to COVID...



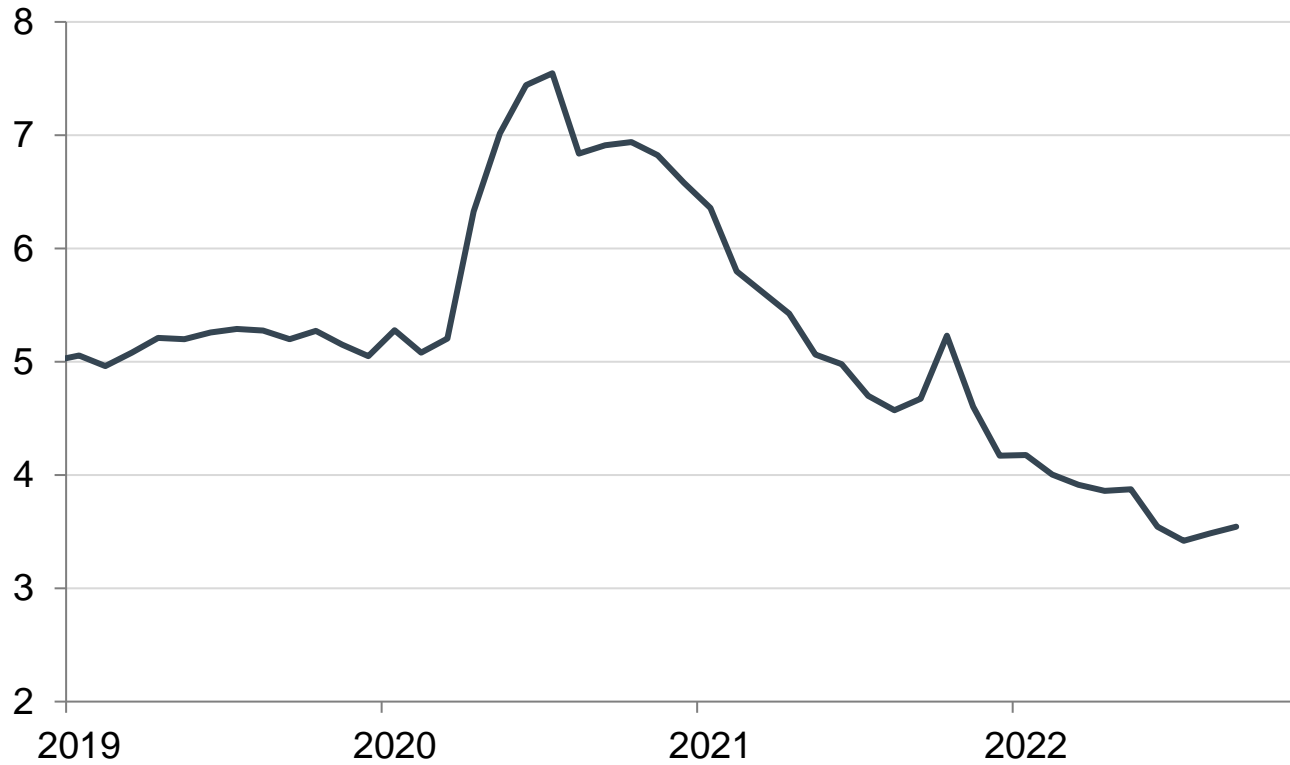
...without undermining public finances



## Jobs recovery has been remarkable

Unemployment rate lowest since the 1970s

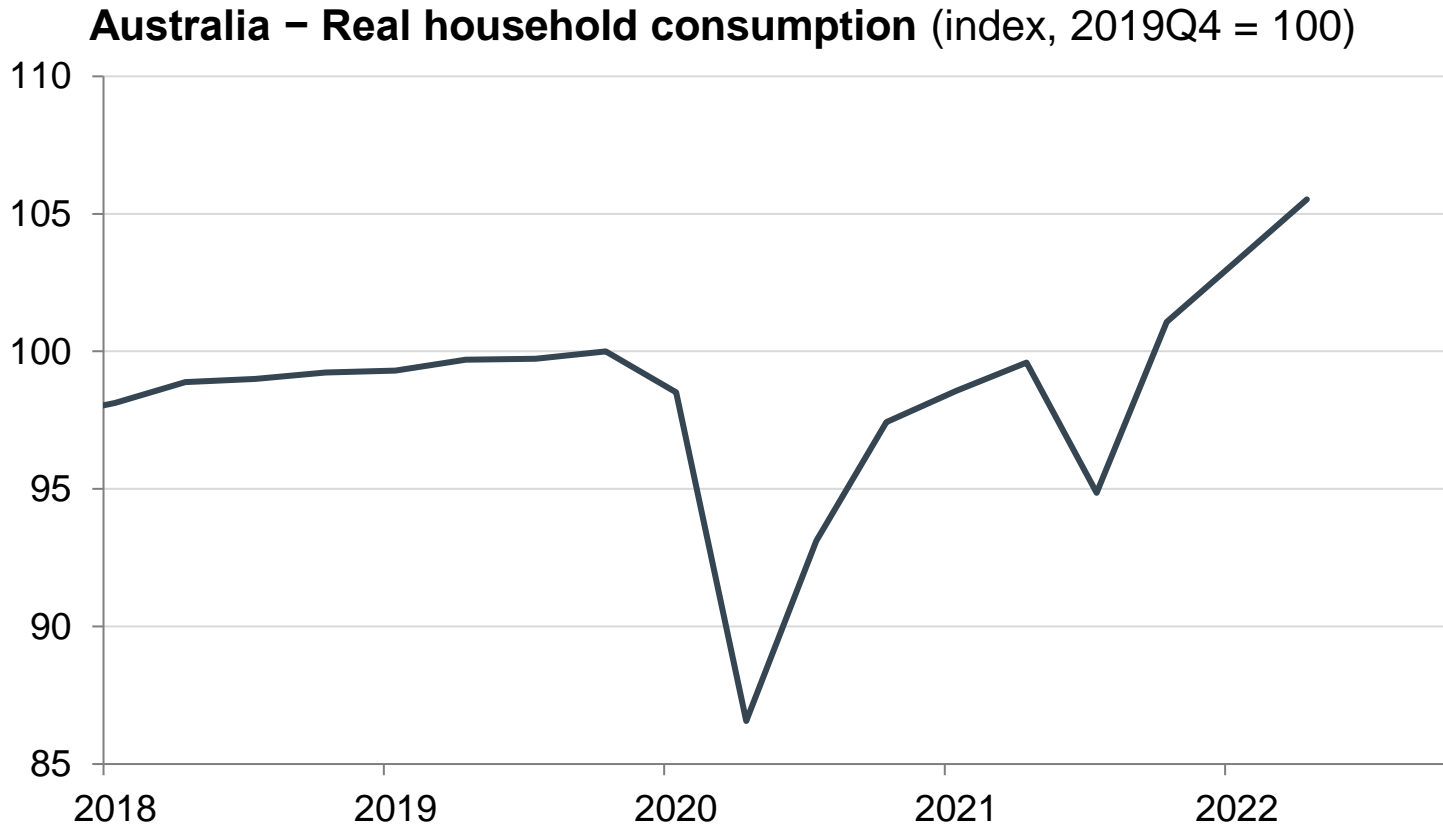
### Australia – Unemployment rate (%)



Source: ABS, QIC.

## Household spending has boosted the recovery

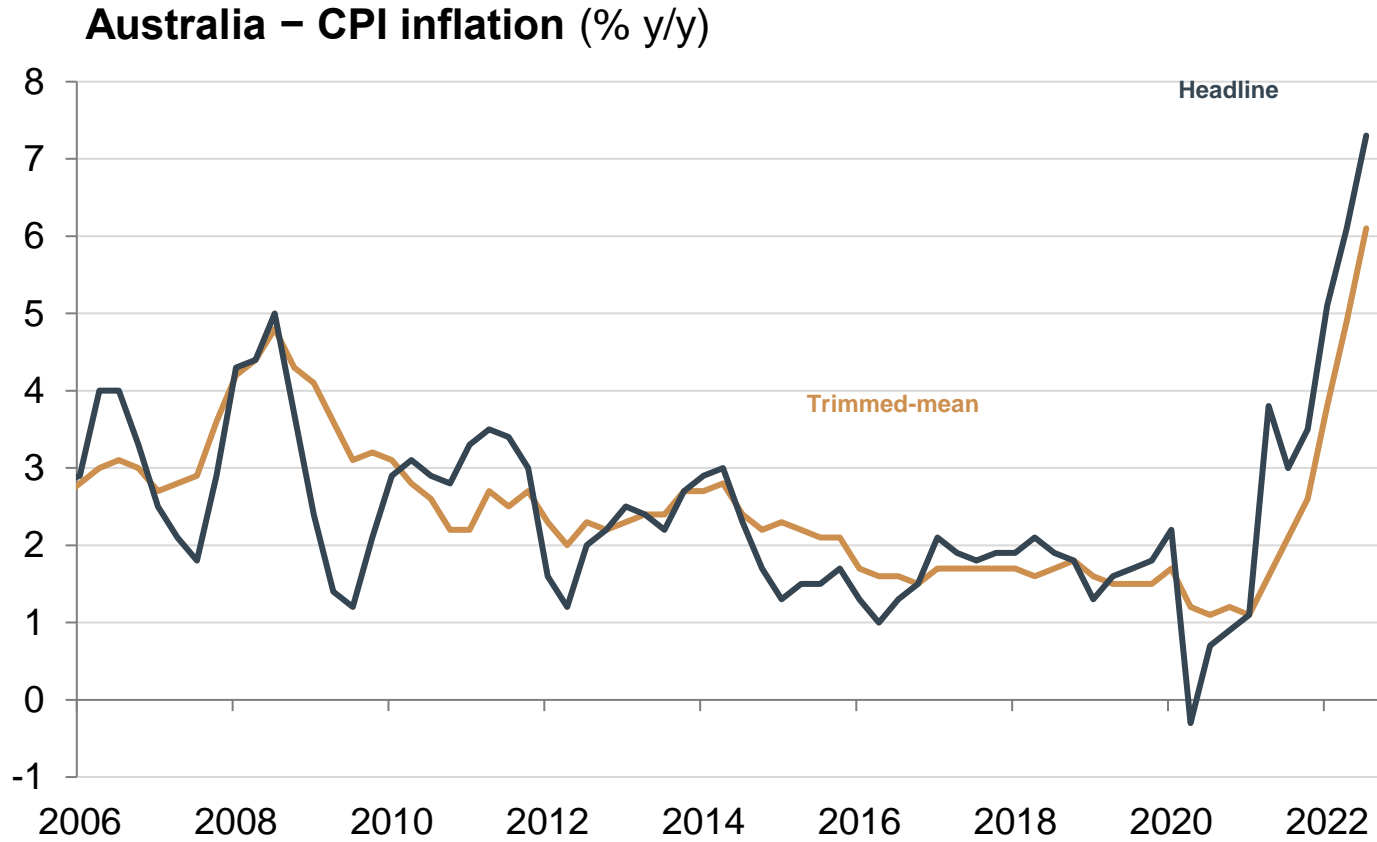
Consumer spending recovered swiftly and low interest rates created a housing boom



Source: ABS, QIC.

# But storm clouds are brewing

Inflation is rising...

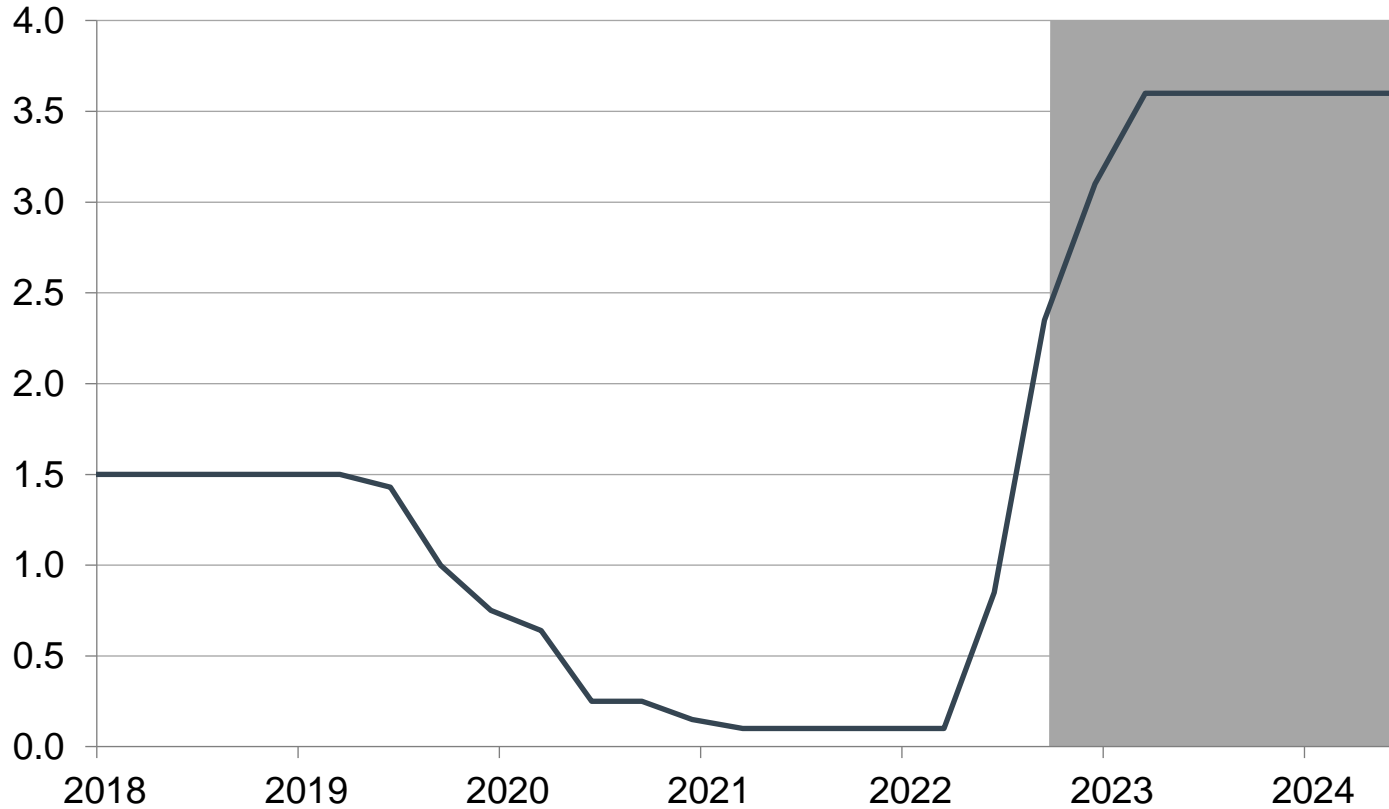


Source: Refinitiv, ABS, RBA, QIC

## But storm clouds are brewing

... forcing the RBA into action

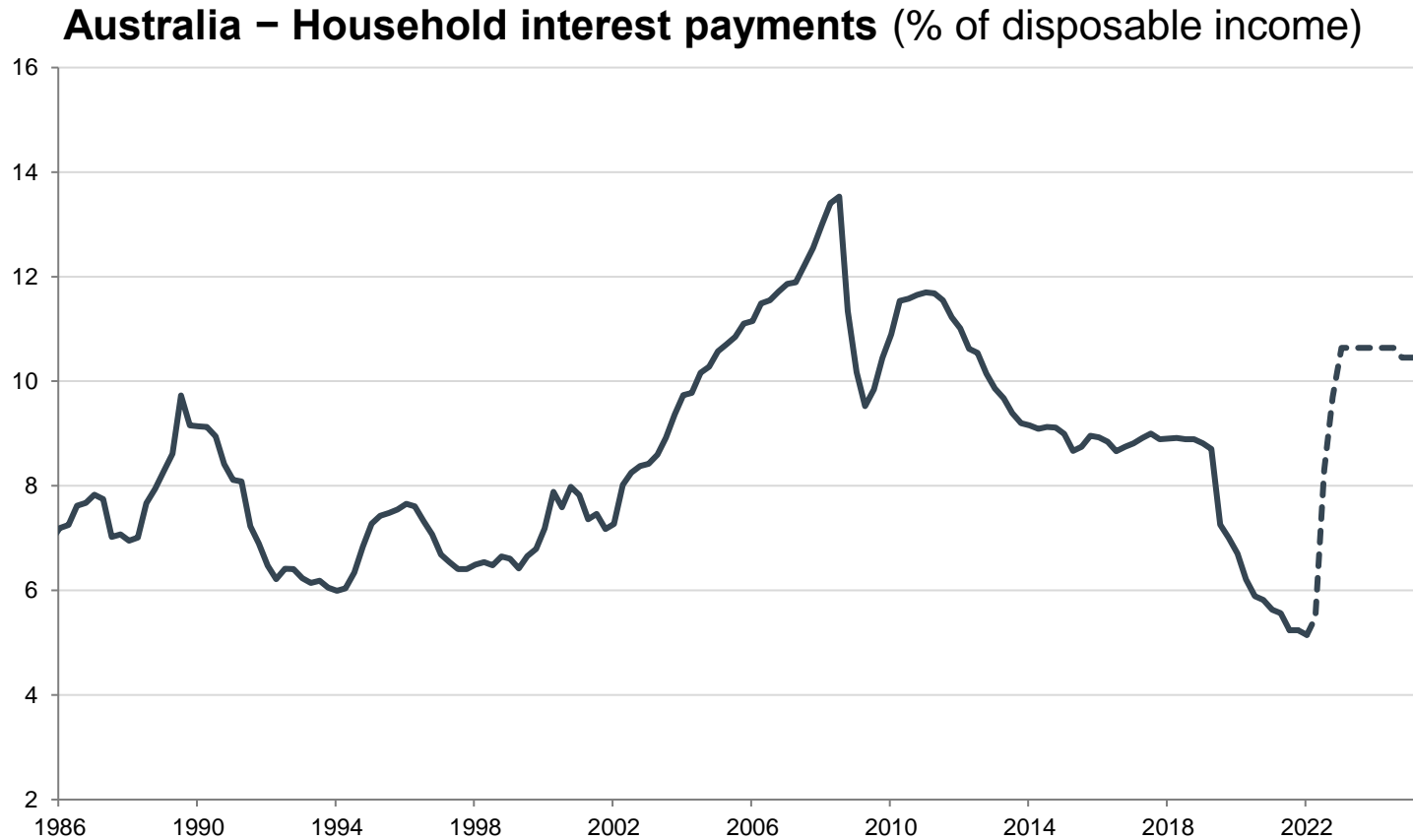
### Australia – Cash rate (% , quarterly)



Source: Refinitiv, ABS, RBA, QIC  
Note: Grey shading in bottom chart denotes QIC forecasts.

## But storm clouds are brewing

Interest payments greater than 10% of disposable income



## But storm clouds are brewing

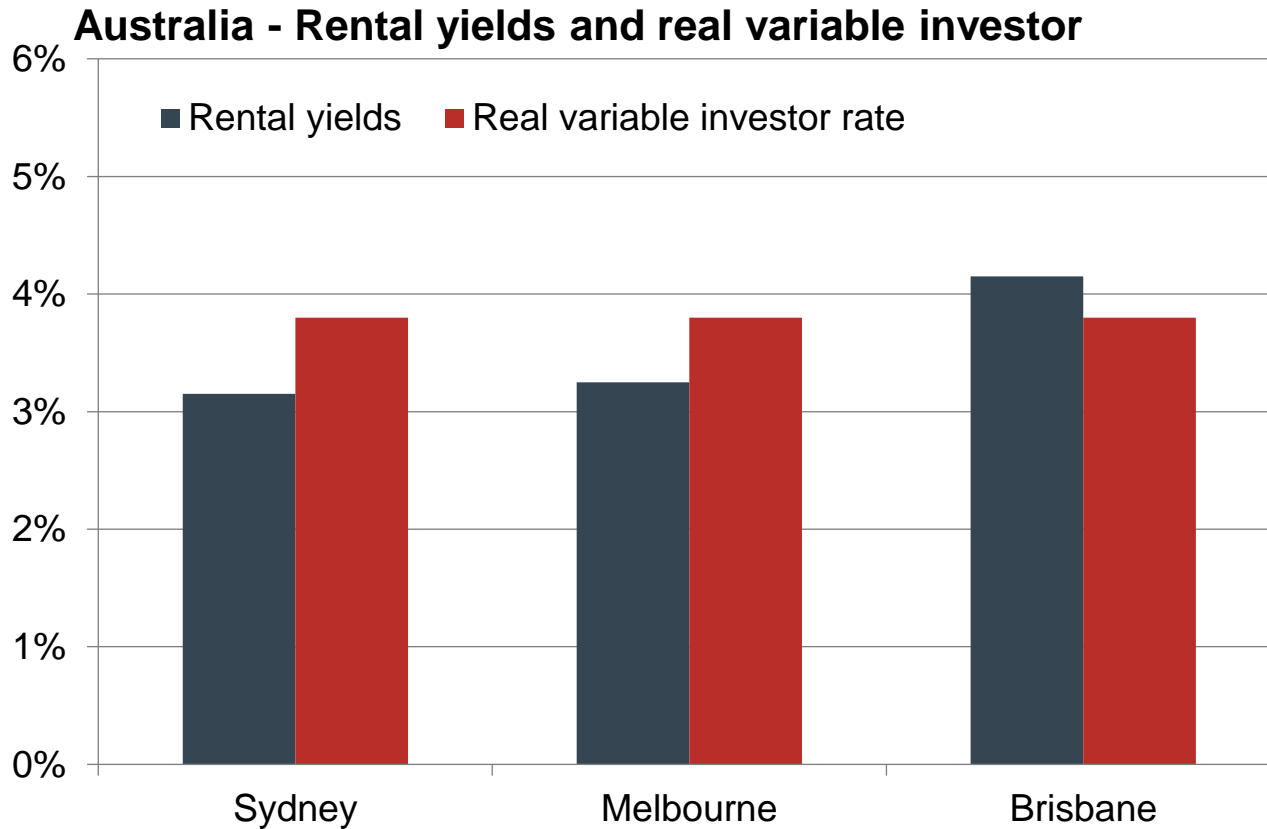
House prices and approvals have both fallen



Source: Refinitiv, ABS, QIC

## But storm clouds are brewing

With rate increases to come, house prices remain vulnerable

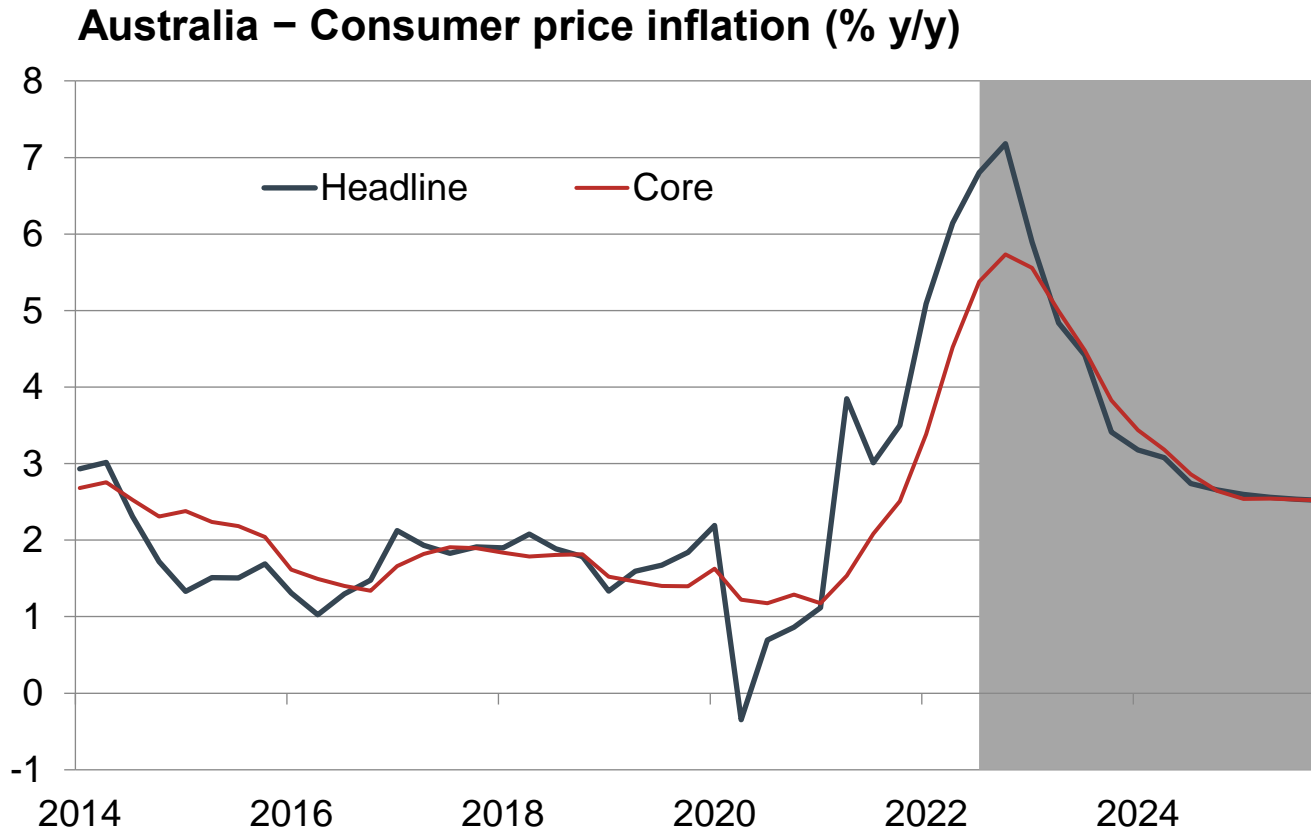


Source: Refinitiv, ABS, QIC



## Can the economy withstand the headwinds

Inflation to moderate gradually over H2 2023 and into 2024

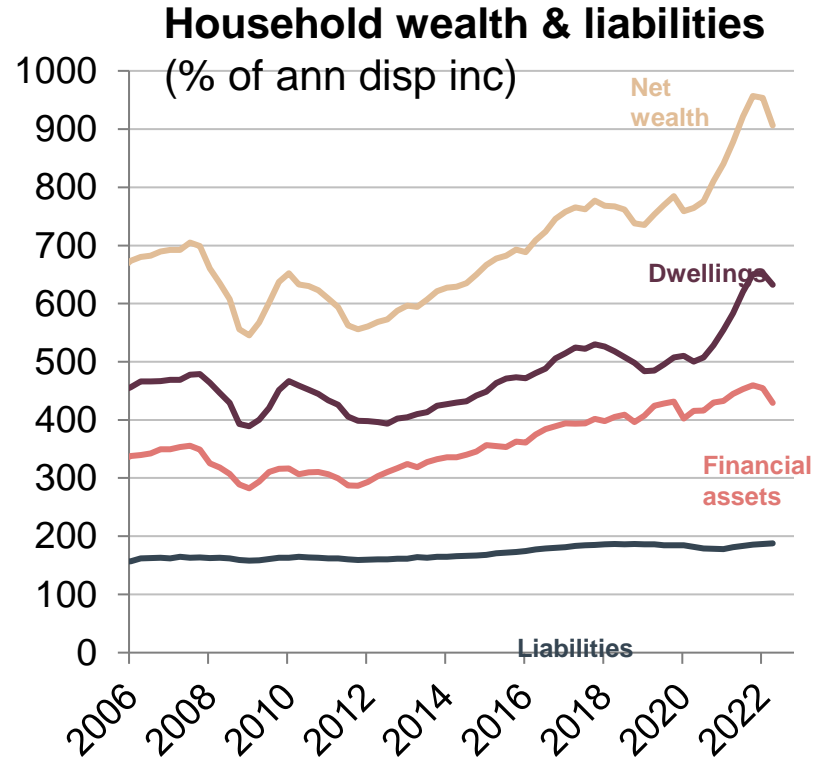
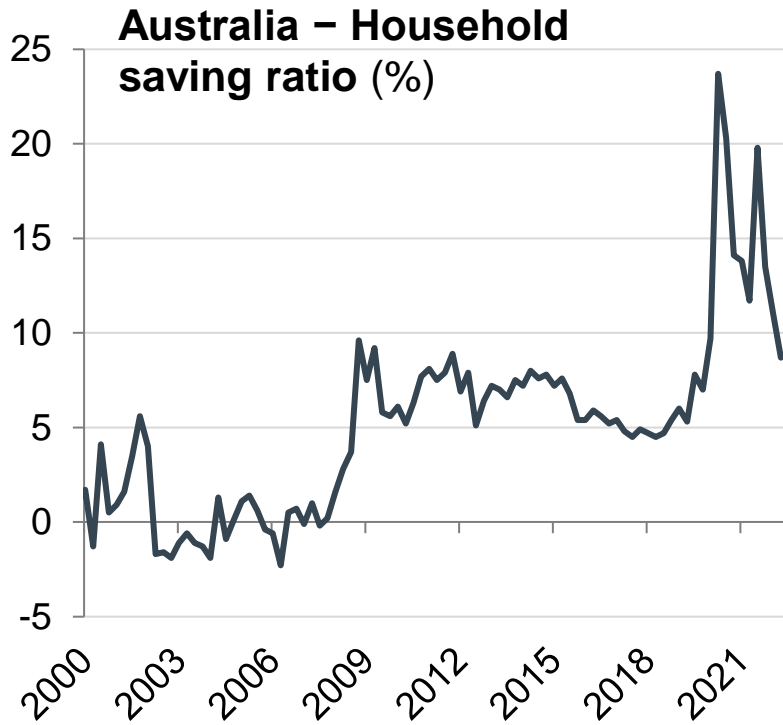


Source: Refinitiv, ABS, QIC

Note: Red columns in top chart refers to QIC forecasts. Grey shading in bottom chart denotes QIC forecasts

# The next six months is critical

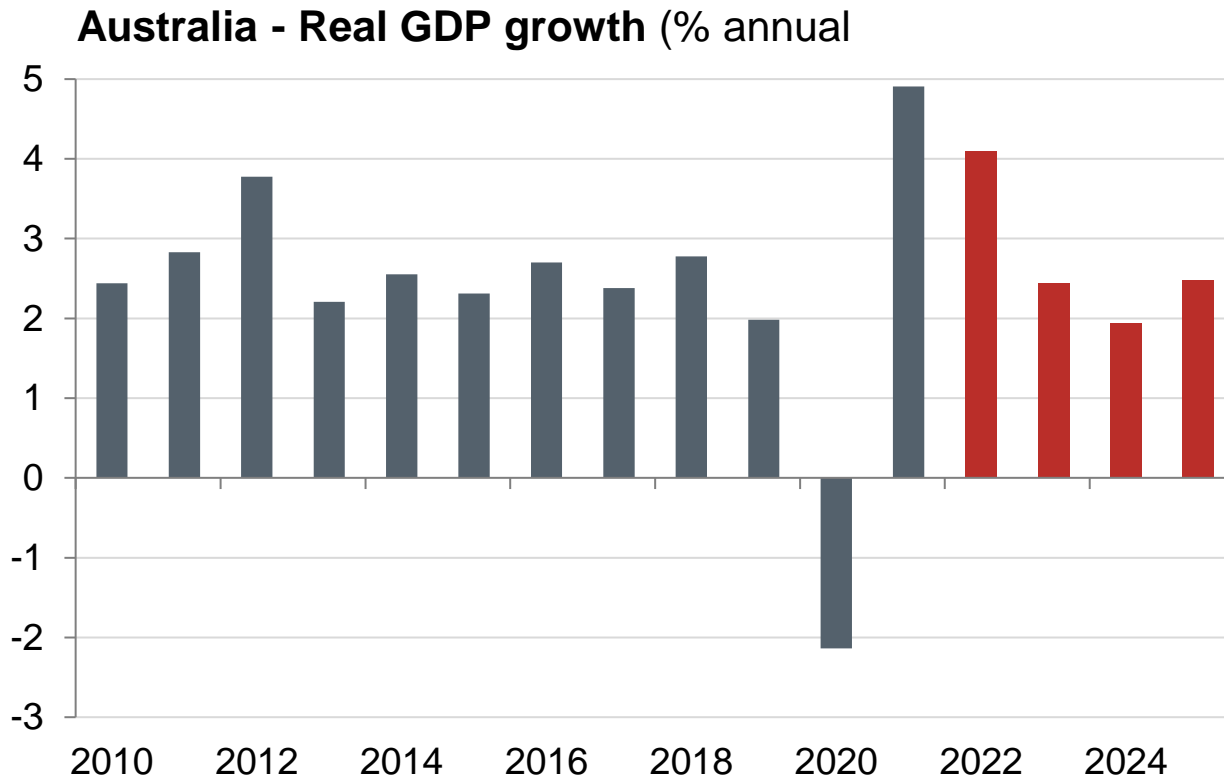
Strong savings to cushion rates impact



Source: ABS, RBA, QIC

# Australian economy to slow to below trend growth

But avoid recession



Source: Refinitiv, QIC.  
Note: Blue columns represent QIC forecasts

## Key takeaways: Australian economy

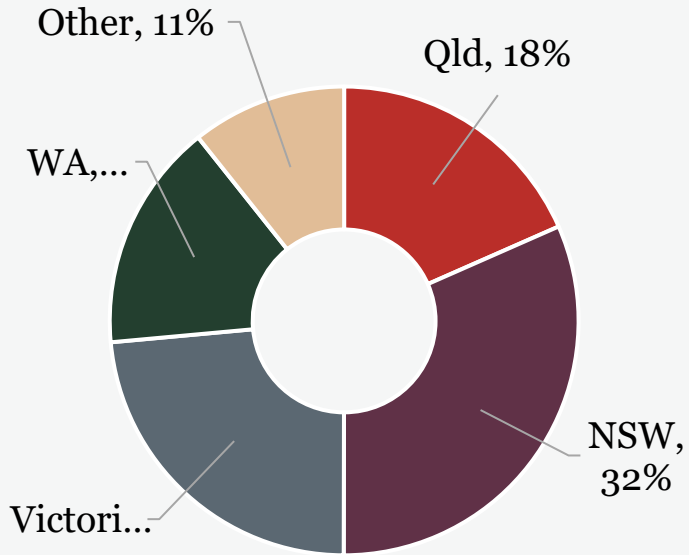
- Australia is a fast growing developed economy
- Strong migration program and youthful demographics are supporting economic growth
- Australia is a well diversified economy benefitting from a deep integration into the fast growing Asian region
- Australia has outperformed other developed economies over the COVID period
- However, the economy faces twin headwinds of high inflation and rising interest rates over the next twelve months
- The strong recent performance of the Australian economy has resulted in very robust private sector balance sheets, which will support private sector spending over the coming twelve months
- International exports will also continue to support the economy
- Nonetheless, the Australian economy will slow to below trend growth over 2023 and 2024
- The cash rate will peak at 3.6%
- Inflation is expected to normalise over 2023 and 2024
- Strong underlying drivers of the Australian economy to then underpin growth over the medium- to long-term

# Queensland: structure of the economy

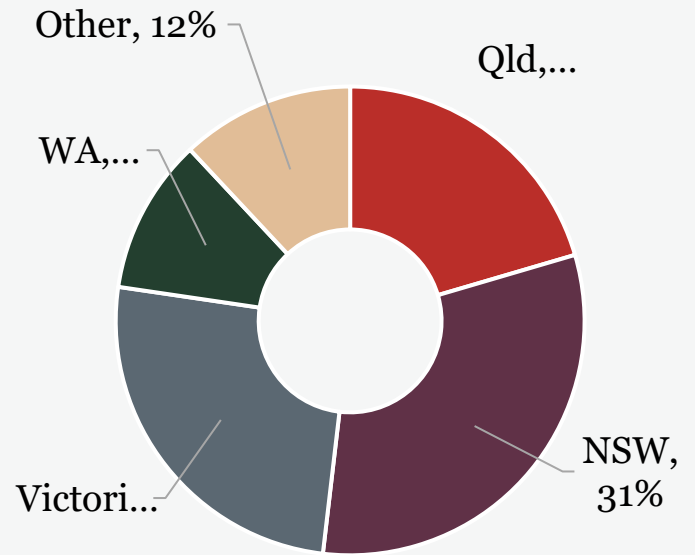


# Queensland is around 20% of both the Australian economy and population

*State GSP (5-yr avg to FY21)*



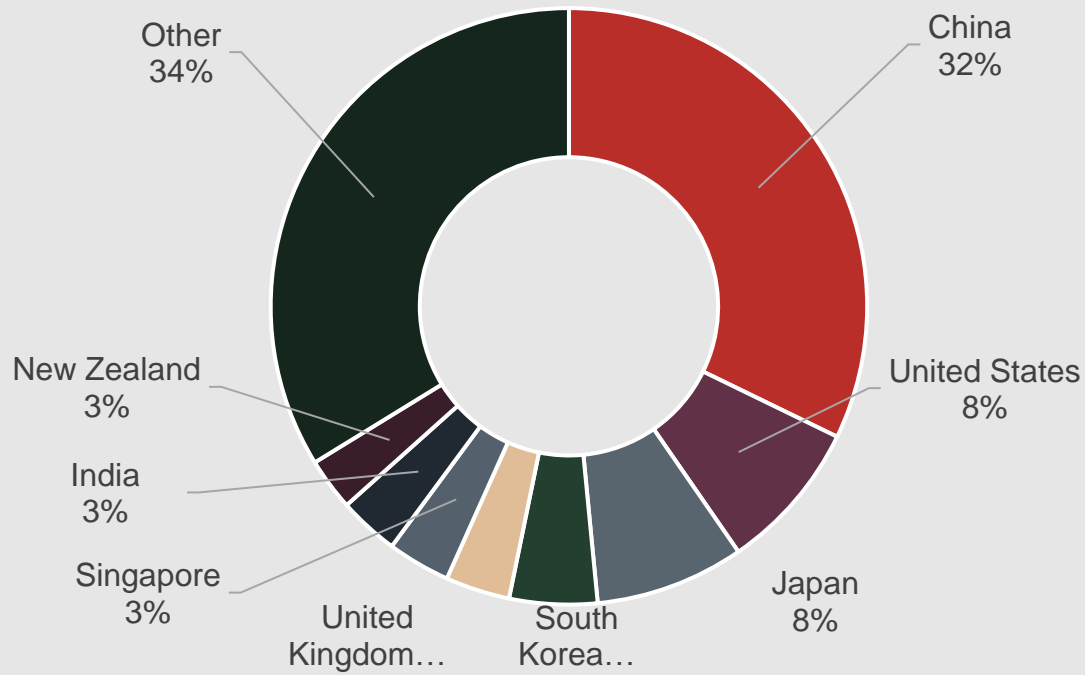
*State Population*



# Queensland is deeply integrated into the Asian region

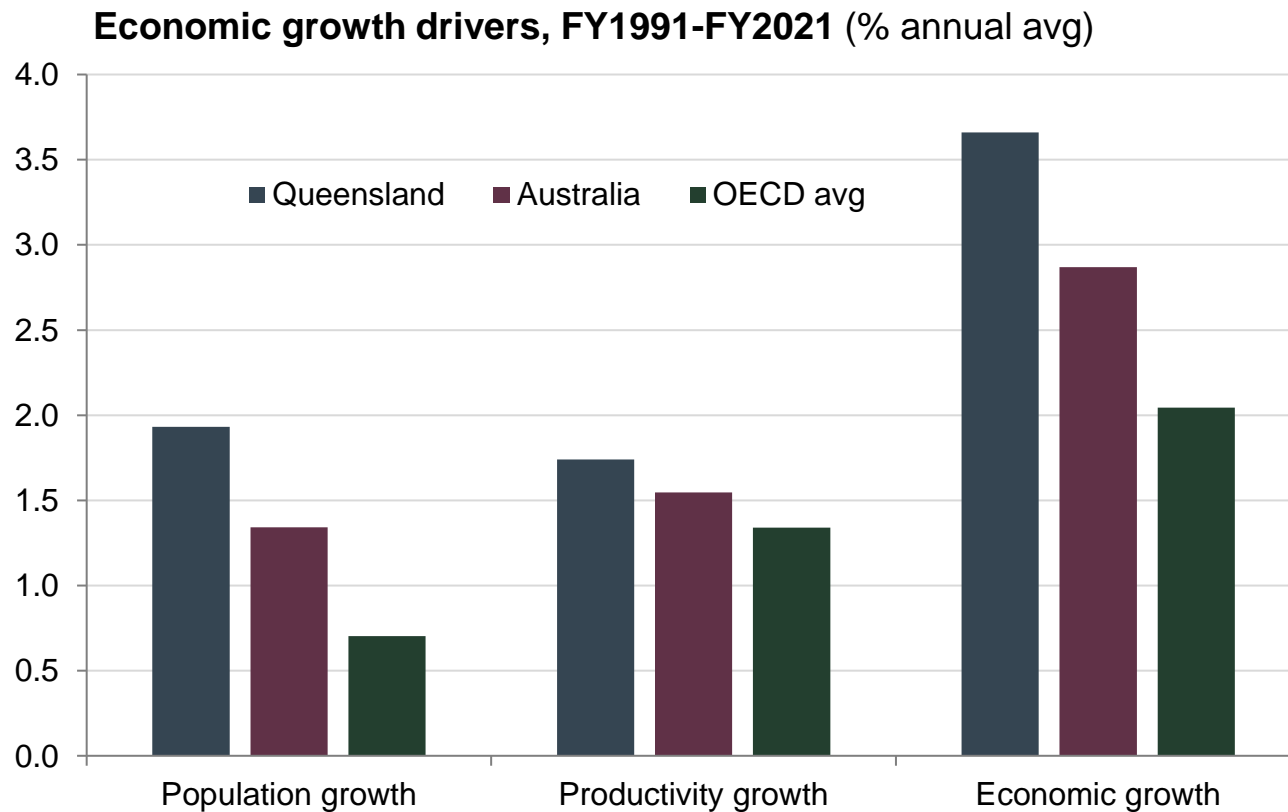
Around two-thirds of Qld's trade is within the region

## Major two-way trading partners



## Queensland is a high growth state

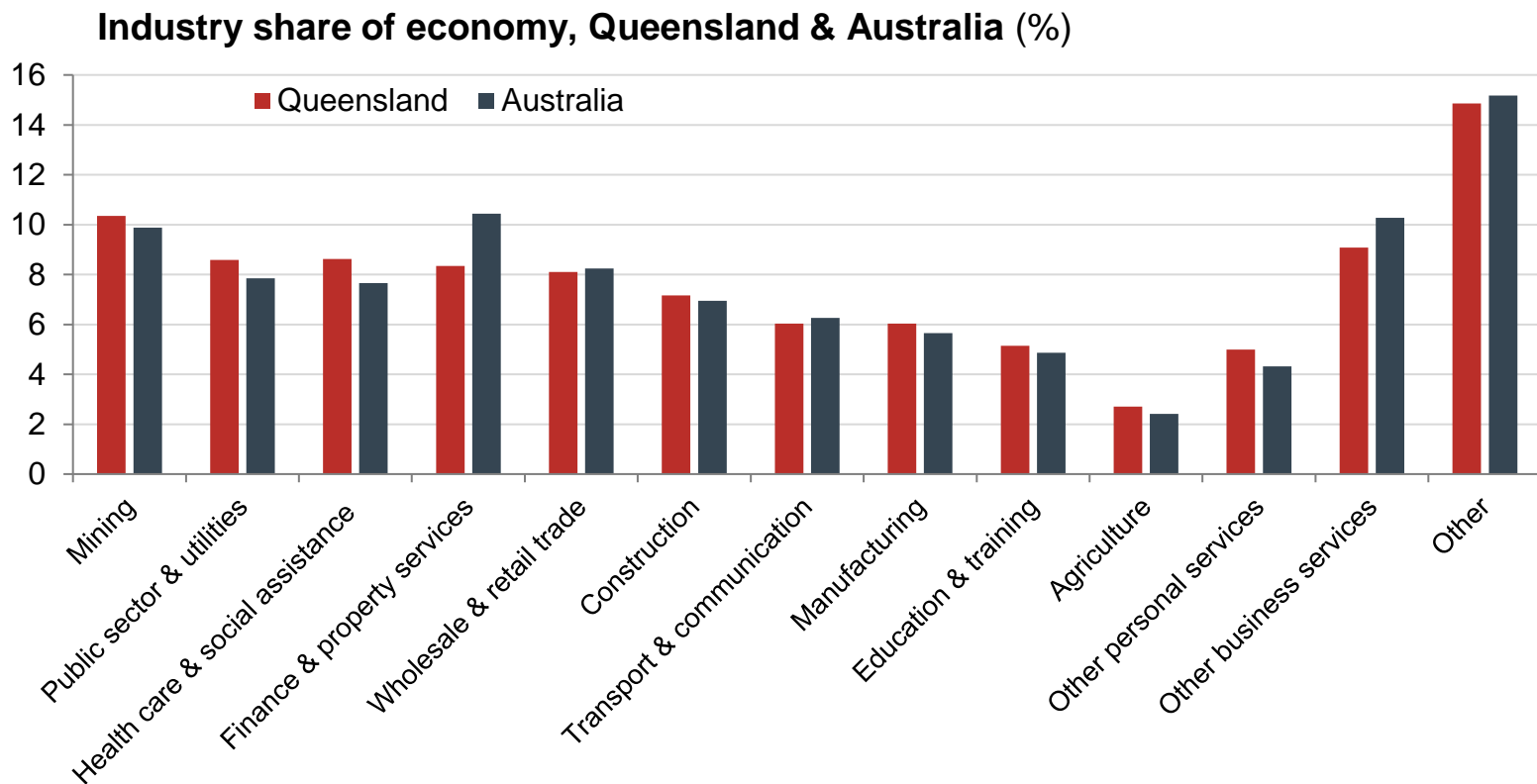
Qld has outperformed Australia, which has outperformed the OECD





## Queensland has a well diversified industrial structure

Qld economy has a structure similar to most developed economies, with over 60% in the services sector



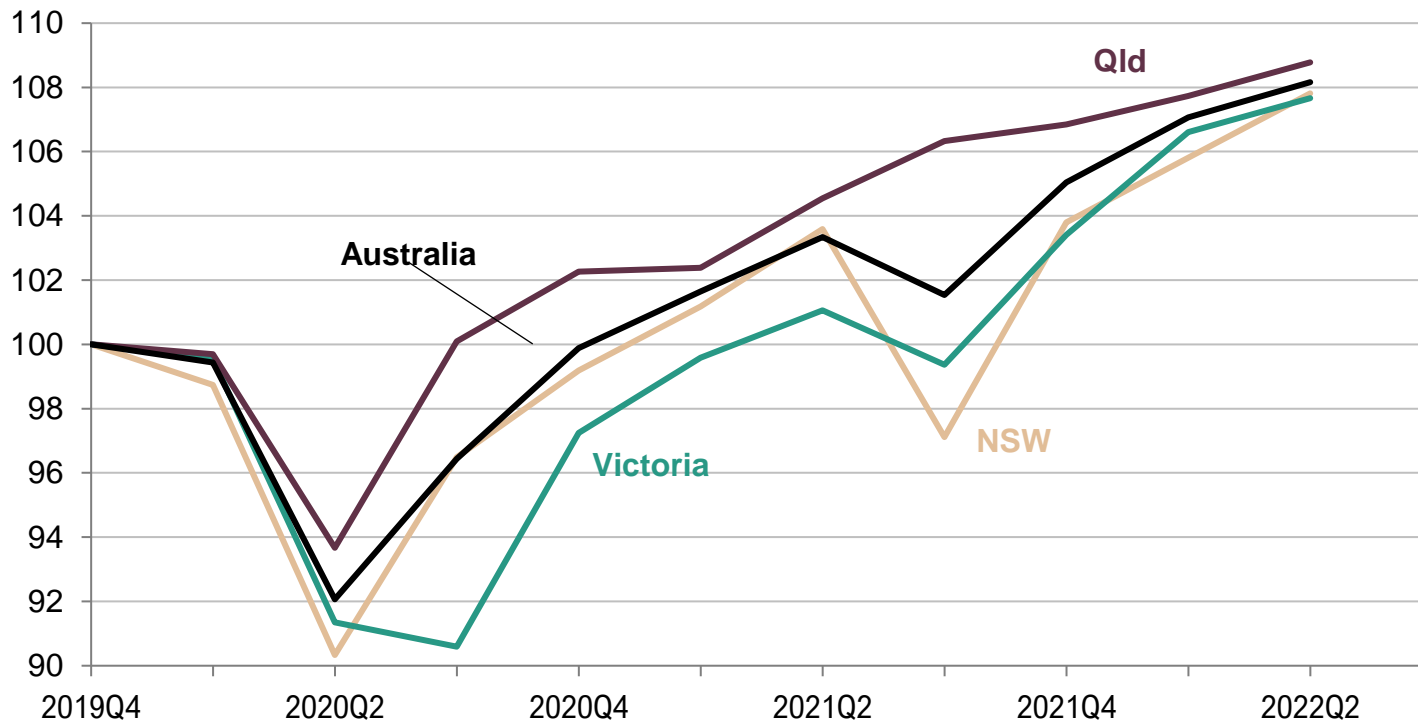
# Queensland: current conditions and outlook



## Economic growth has been robust

Qld's recovery has been particularly strong

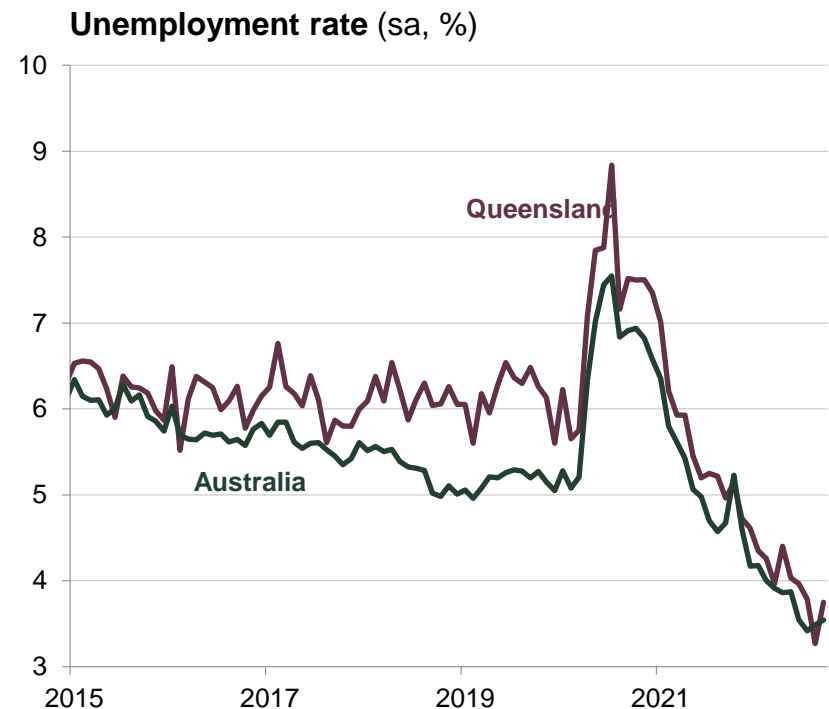
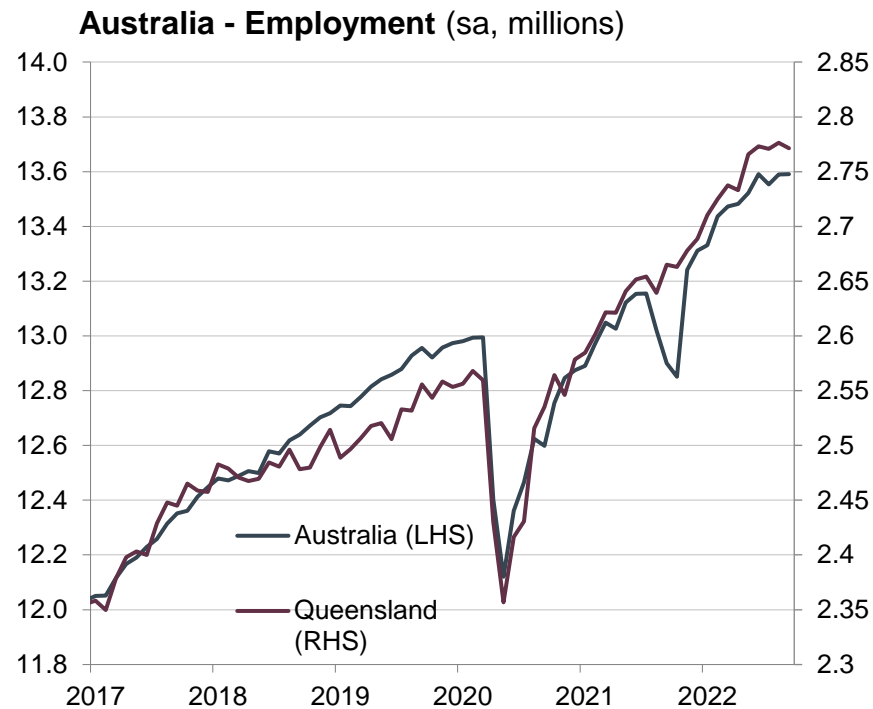
State/domestic final demand, index (2019Q4 = 100)



# Qld's labour market has outperformed in recent years

Qld employment 8% higher than pre-COVID

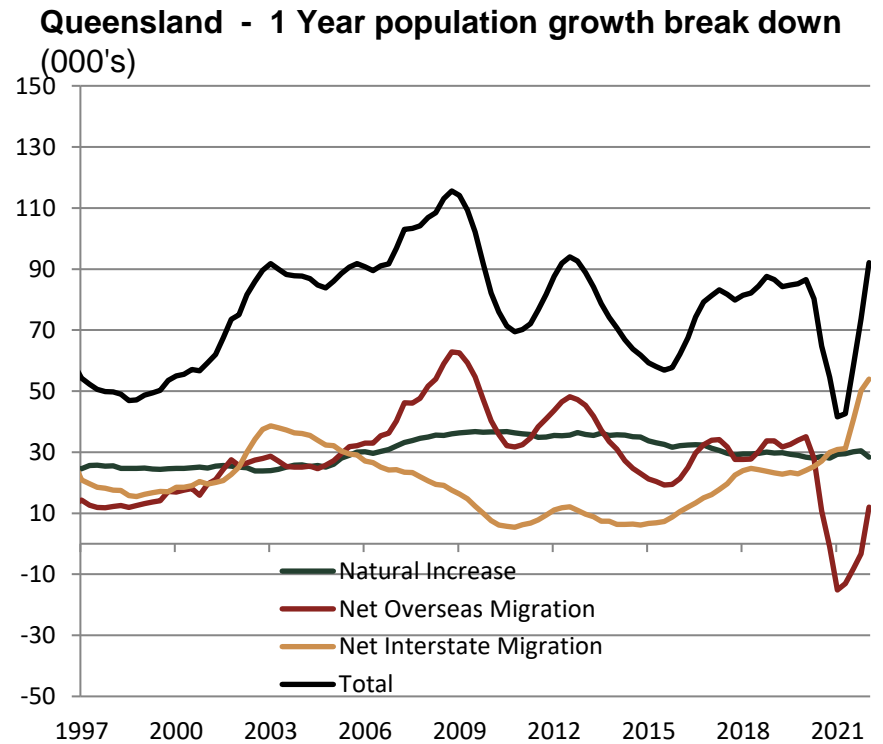
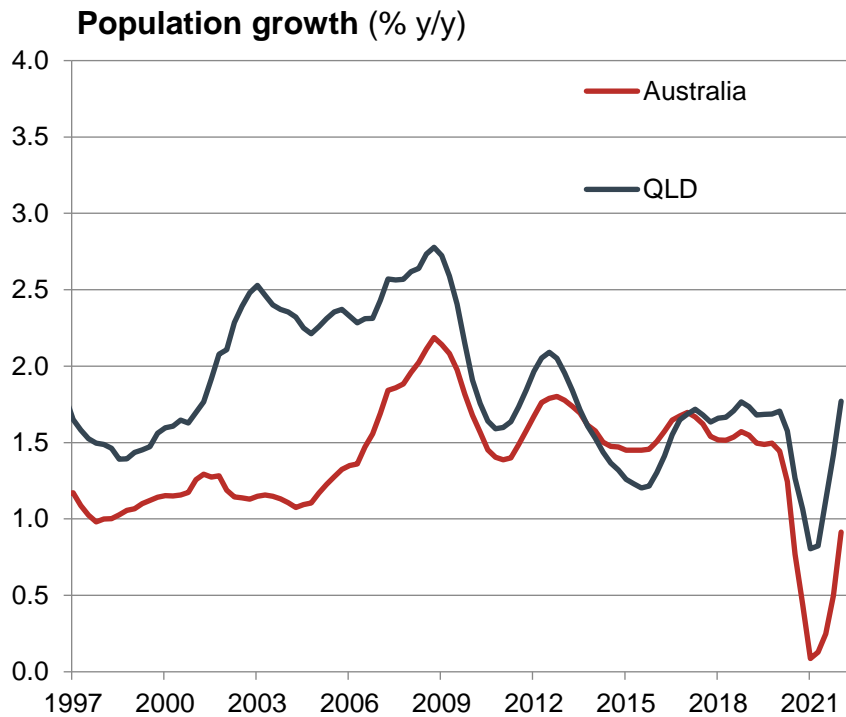
Labour market is historically tight



# Population growth is recovering from COVID hit

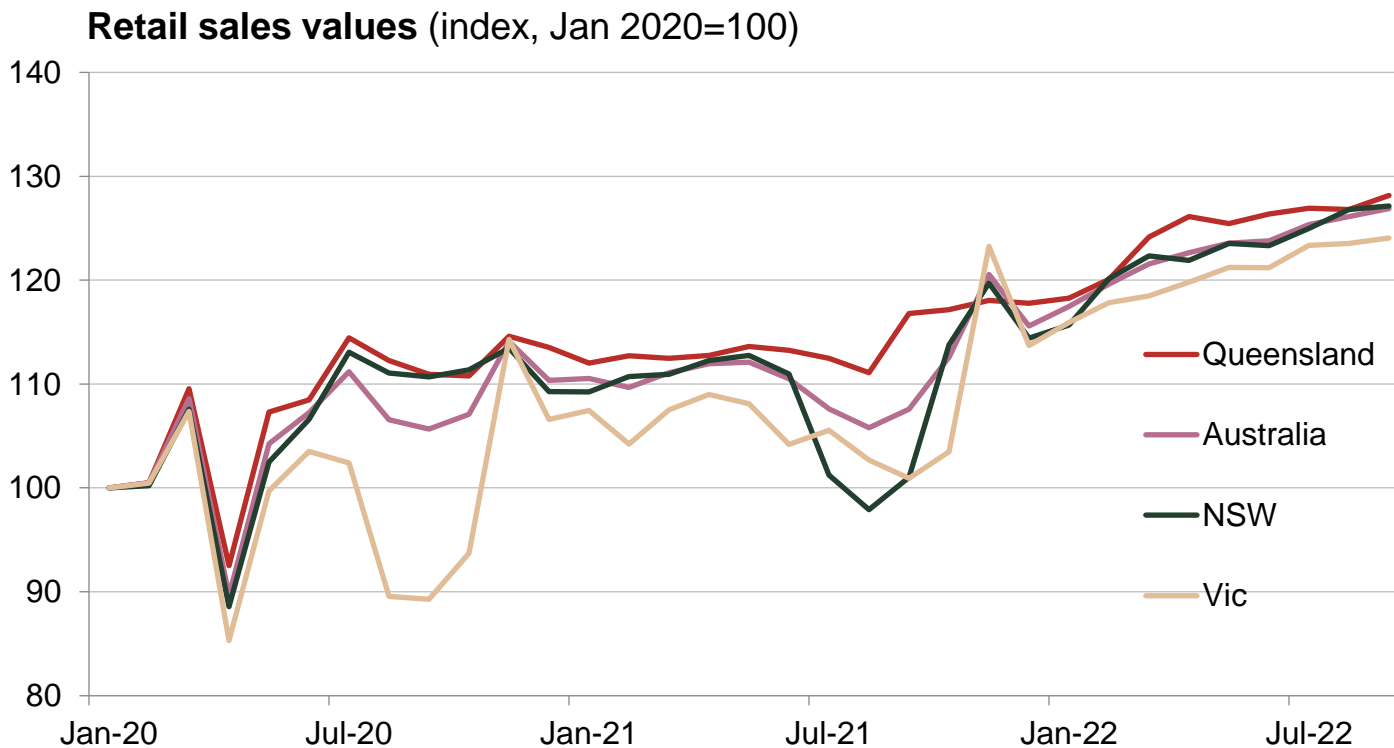
Qld's population growth has been the highest in Aust

The state has been attracting interstate migrants



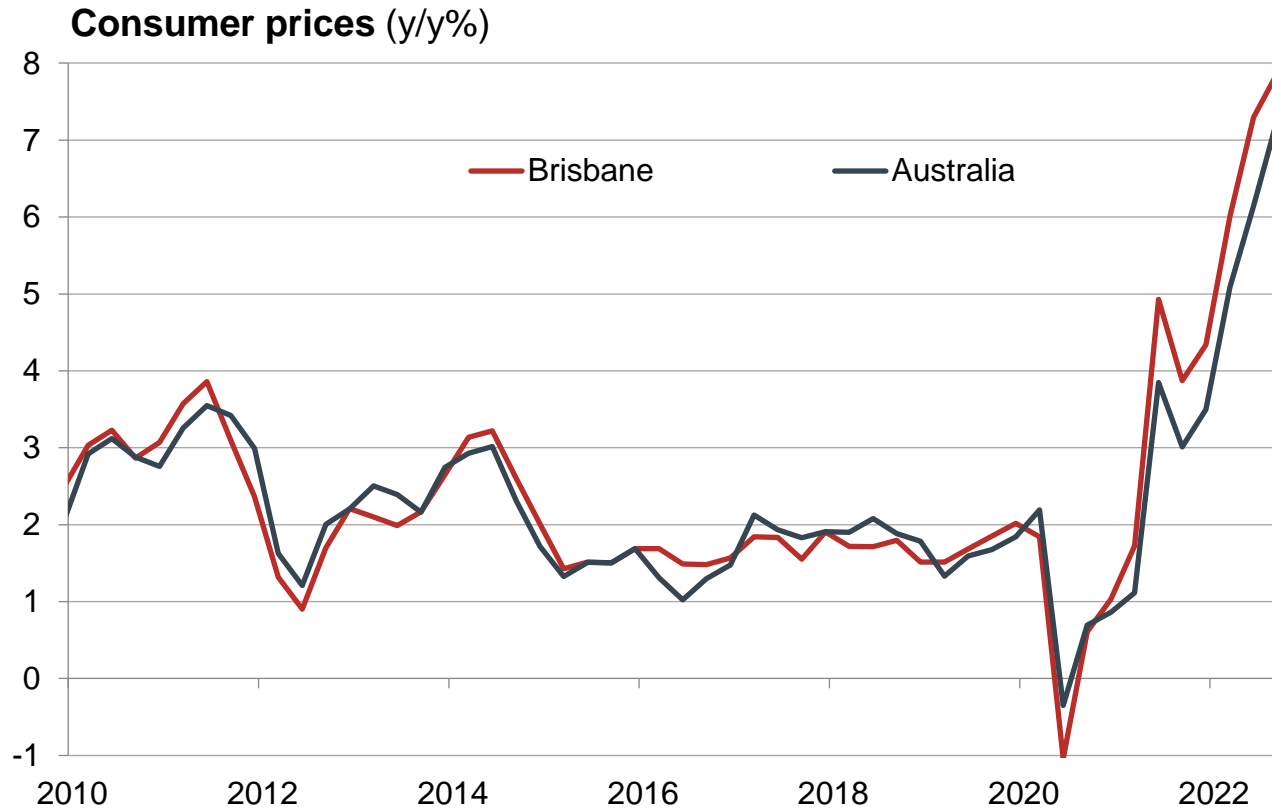
## As in the rest of Australia, job growth and low interest rates have led to a boom in consumer spending

Qld retail sales have been less volatile as the state remained open throughout COVID



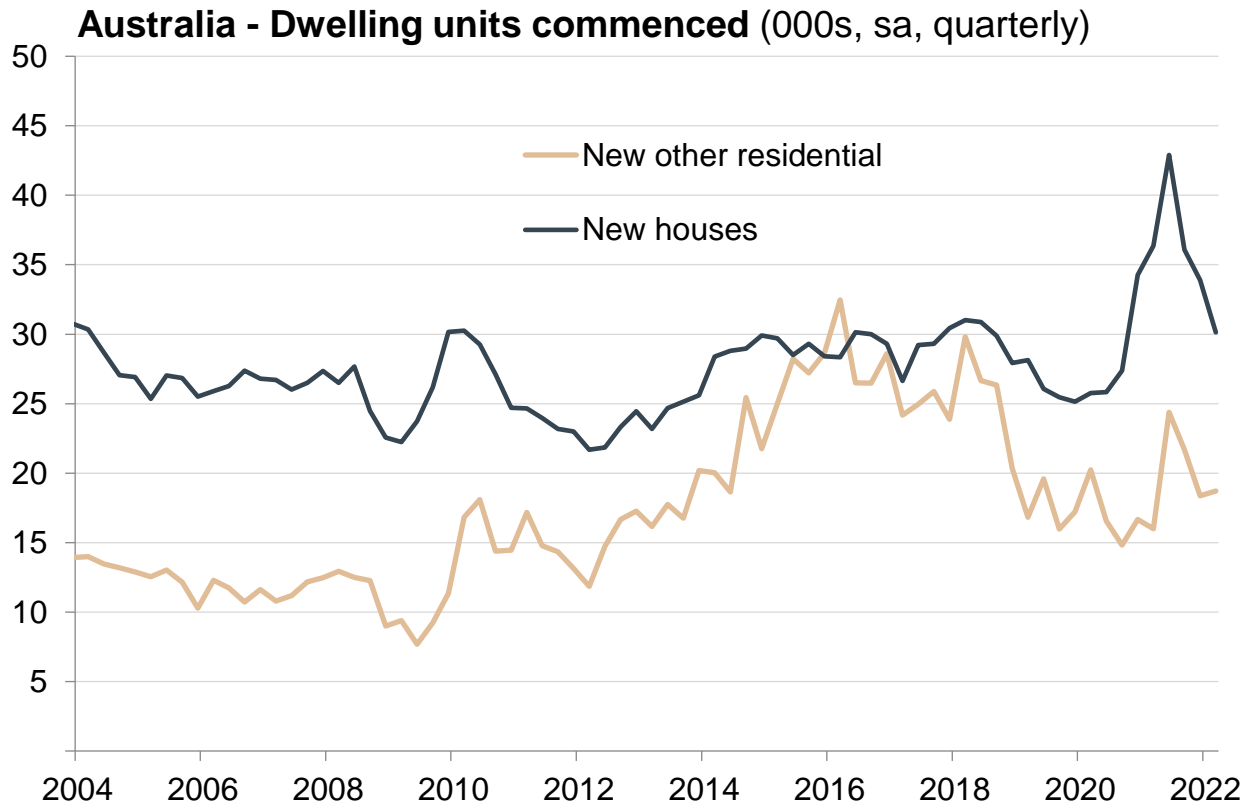
# But storm clouds are also brewing in the Sunshine State

Inflation is rising



## Building approvals have eased...

Notwithstanding the pick up in population growth

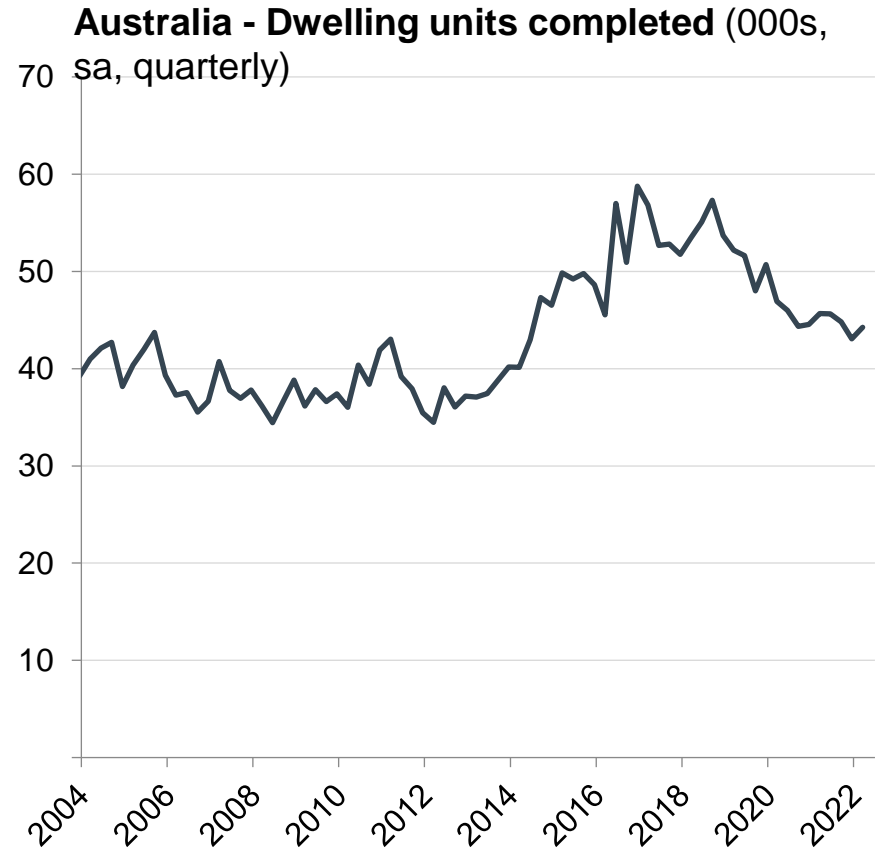
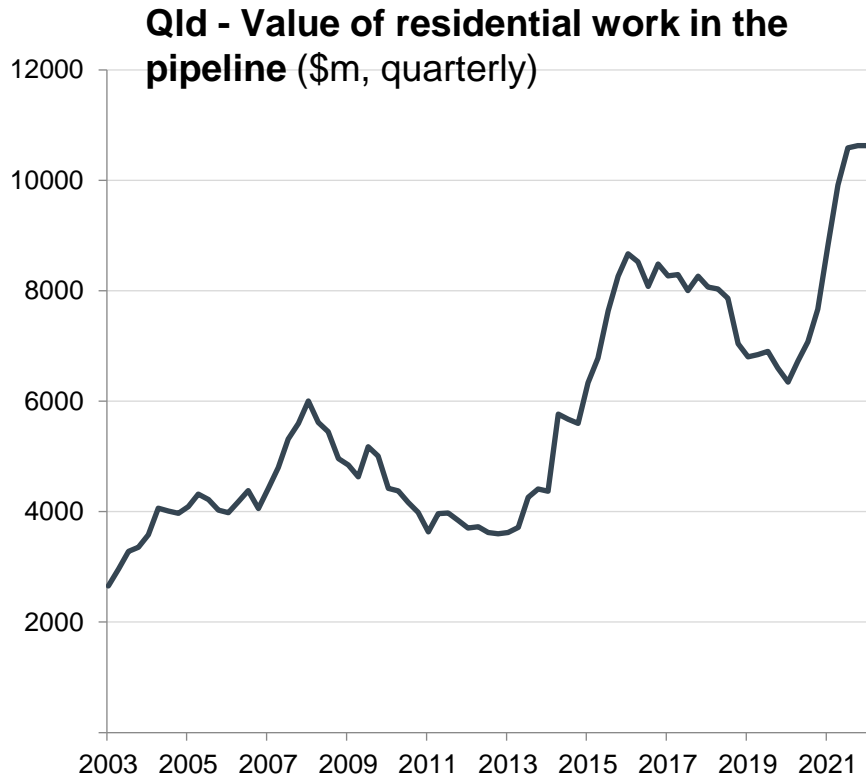


Source: ABS, QIC



## Building approvals have eased, but there still is a backlog of work

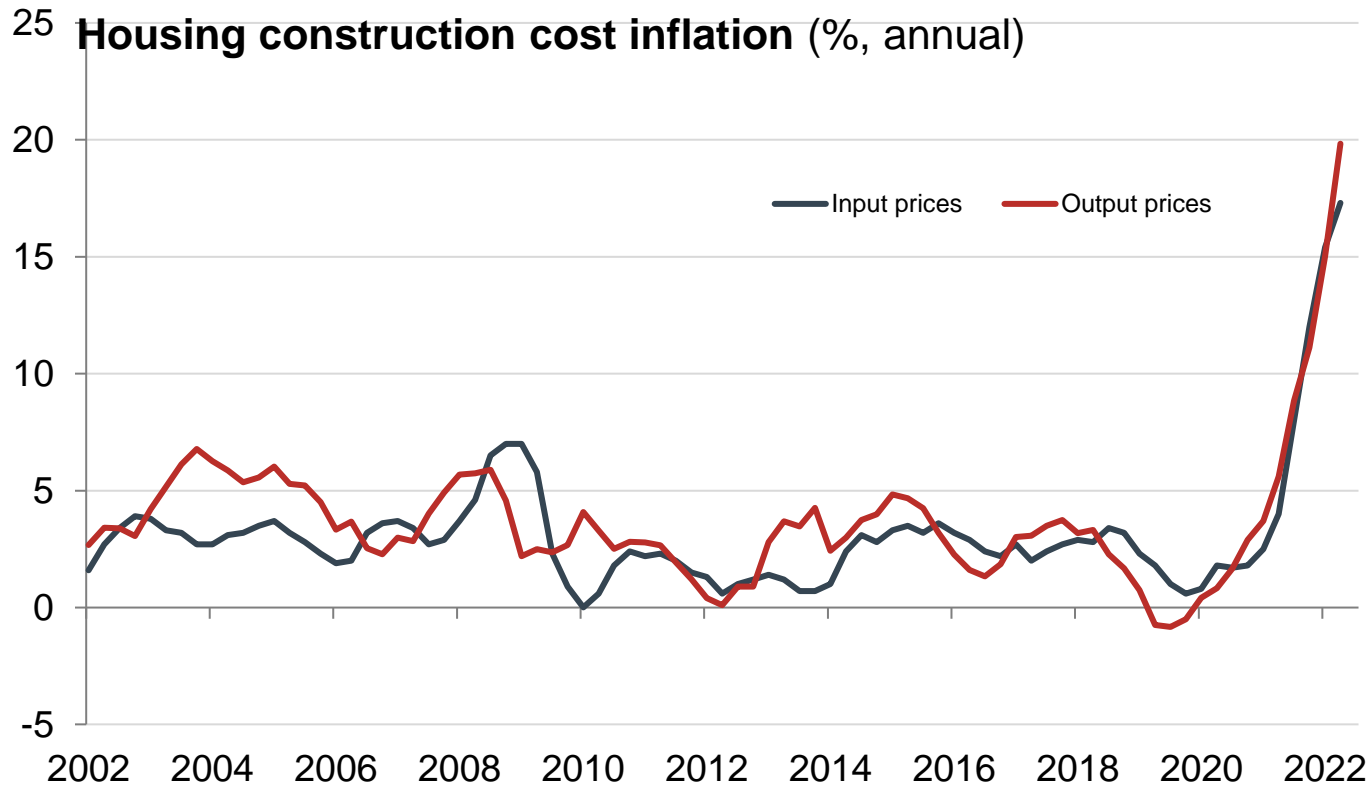
Despite boom in commencements, completions are yet to rise



Source: ABS, QIC

...elevated construction costs pose a severe headwind to the sector

Although Qld house prices offer better value than the southern states...



Source: Refinitiv, ABS, QIC.

## Key takeaways: Queensland economy

- Queensland is a fast growing region in a growing country
- Strong migration program and youthful demographics are resulting in rapid population growth
- Queensland is a well diversified economy benefitting from a deep integration into the fast growing Asian region
- However, as with Australia, Qld faces twin headwinds of high inflation and rising interest rates over the next six months
- Qld will continue to benefit from its mining exports for at least another 5 years
- But while our current industrial structure has been of benefit, we must now transition
- Qld also has the potential to add new growth industries
  - Renewables
  - New energy sources
  - Health services
  - High tech manufacturing: bio-manufacturing, defence

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