ECONOMIC OUTLOOK: QUEENSLAND

Queensland state economy and state budget 2019-20

Queensland's Treasurer, Jackie Trad, delivered the Queensland State Budget for 2019-20 on 11th June 2019. The Government expects a surplus of $189 million surplus in 2019-20, with surpluses averaging $443 million over each of the four years to 2022-23. It expects Queensland's economy to grow by 3.0% in 2019-20 but then slow to 2.75% p.a. in each of the three years to 2022-23.

In this year's budget, the Government has announced $49.5 billion worth of capital works, with close to 60% of projects in 2019-20 to be delivered in regions outside Greater Brisbane.

Ai Group's media release for the State Budget can be found here.

Budget measures for business and industry

A number of Queensland state taxes and levies paid by business were revised in this year's budget. The key announcement for business is a reduction in payroll tax over several years. **Payroll tax changes** will include:

- The payroll threshold for businesses before they are liable for payroll tax will increase from $1.1m to $1.3m (effective from 1 July 2019). The payroll tax rate for businesses with a payroll up to and including $6.5m will remain at 4.75%.
- The payroll tax rate for larger businesses with an annual payroll above $6.5m will increase by 0.2% to 4.95% (effective from 1 July 2019).
- The payroll tax rate for medium size businesses in regional Queensland[1] (up to and including $6.5m) will reduce by 1% to 3.75% (effective 1 July 2019).
- The payroll tax rate for large businesses in regional Queensland ($6.5m and over) will reduce by 1% to 3.95% (effective 1 July 2019).
- For the 2019-20 and 2020-21 financial years, a payroll tax rebate up to a cap of $20,000 will be paid to businesses who have net growth in total full-time employment over the year.
- A *"Back to Work"* initiative providing up to $20,000 in payroll tax rebates for businesses that employ eligible jobseekers, trainees and apprentices. Full details of this program at *backtowork.initiatives.qld.gov.au*
- The current Apprentice and Trainee payroll tax rebate, which is paid at 50% of apprentice and trainee wages, will be extended for two more years. Details of the rebate are available at *business.qld.gov.au*

The Budget also introduces changes to **land taxes** that are paid by businesses and individuals that own land other than their primary residence. These will include:

- From 30 June 2019, land tax rates will increase from 2% to 2.25% for companies and trustees with landholdings valued at $5 million to $10 million.
- From 30 June 2019, land tax rates will increase from 2.5% to 2.75% for companies and trustees with landholdings valued over $10 million.
- From 2019-20, the land tax absentee surcharge rate will be harmonised with Victoria and New South Wales with a 0.5% increase, and application of the surcharge widened to include foreign corporations and trustees of foreign trusts.

The **waste disposal levy** (first announced in the 2018-19 Budget) will commence on 1 July 2019. The levy will be set at $75 per tonne for general waste in the first year and will increase by $5 per year in each of the first three years.

[1] for eligible employers with 85% of their employees outside of South East Queensland.

The **petroleum royalty rate** will increase from 10.0% to 12.5%, from 2019-20 onwards.

New Queensland Government **support measures** for business and industry will include:

- $105 million of additional funding for the **Advance Queensland Initiative**, which includes:
    - $45 million for the Advance Queensland Industry Attraction Fund;
    - $25 million for the Research Infrastructure Co-Investment Funds;
    - $19 million for the Queensland Hydrogen Industry Development Strategy;
    - $5 million for Biofutures 2.0; and
    - $4 million in additional grant funding for the Advancing Small Business Queensland Strategy 2016–2020.
- $35.7 million over three years from 2018–19 for the Production Attraction Strategy, to help grow a pipeline of film and television productions in Queensland;
- $25 million over four years for the Queensland Government Research Infrastructure Co-Investment Fund for co-investment in facilities with partnerships and joint ventures;
- $15 million over seven years for the Defence Cooperative Research Centre for Trusted Autonomous Systems; and
- $5 million over four years for Biofutures, to deliver the Biofutures 10-Year Roadmap and Action Plan.

Queensland Government infrastructure program

The Budget provides for $7.8 billion in infrastructure spending (purchases of non-financial assets plus finance leases by the ‘general government sector’) in 2019-20 and $32.1 billion over the four years to 2022-23. There is a strong focus on investment in transport infrastructure to lift the productive capacity of the State’s economy as well as capital works to rebuild and grow the regions.

The total capital program which includes the ‘general government sector’ plus the ‘non-financial public sector’ (public utilities and other government owned corporations) provides for spending of $12.9 billion in 2019-20 (over $1.6 billion higher than in 2018-19) and $49.5 billion over the four years to 2022-23.

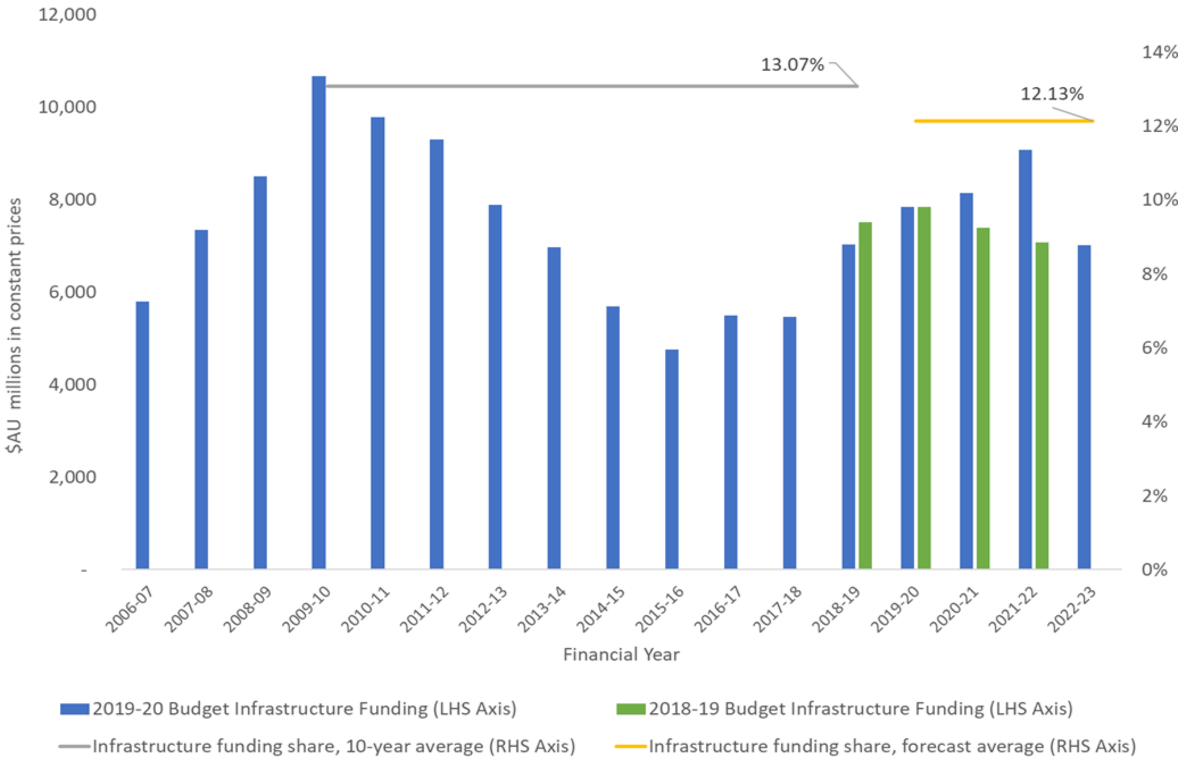
Over the four years to 2022-23, infrastructure funding will increase to an annual average of 12.13% of total expenditure, from 11.57% in last year’s Budget. However, it remains below the average of 13.07% over the past 10 years (see chart 1).

Government’s highest priority is the $5.41 billion Cross River Rail with $1.48 billion allocated in 2019-20 to commence major construction work and to continue to progress the planning, procurement and development of this project. In addition to the delivery of Cross River Rail, the 2019-20 capital works program includes:

- $2.66 billion to support the ongoing delivery of safe, secure, reliable and **cost-effective energy and water supplies**;
- $1.227 billion for the construction of **new schools and education facilities**, as well as significant enhancements to existing buildings;
- $479.3 million for capital purchases and grants to **construct new dwellings and upgrade existing properties,** including in Indigenous communities;
- $225 million to undertake the **Townsville water security project** with the aim of addressing long-term water security needs;
- $193.5 million Stage 1 of **Townsville Port Expansion Project**, to upgrade capacity of the Townsville Channel to allow access by larger vessels and boost trade at the Port of Townsville;
- $186 million to **widen the Bruce Highway** from four to six lanes, Caloundra Road to the Sunshine Motorway;
- $160.8 million over four years for the **Beerburrum to Nambour North Coast Line railway duplication**;
- $153.6 million to **upgrade dams and water supplies in South East Queensland**;

- $108 million to construct **bridges and approaches on the Bruce Highway** (Haughton River Floodplain) south of Giru between Horseshoe Lagoon and Palm Creek;
- $68.2 million for the **Cairns Southern Access Corridor** Stage 3 (Edmonton to Gordonvale) and Stage 4 (Kate Street to Aumuller Street) projects;
- $60 million to construct **Mackay Ring Road** (Stage 1);
- $29.1 million for the **Rockhampton Northern Access** (Stage 1) widening from two to four lanes; and
- $25 million to help rejuvenate the **Great Barrier Reef Island** resorts.

Chart 1: General Government infrastructure funding, 2006-07 to 2022-23



Sources: Department of Treasury and Finance, Infrastructure Partnerships.

Investing in the Regions

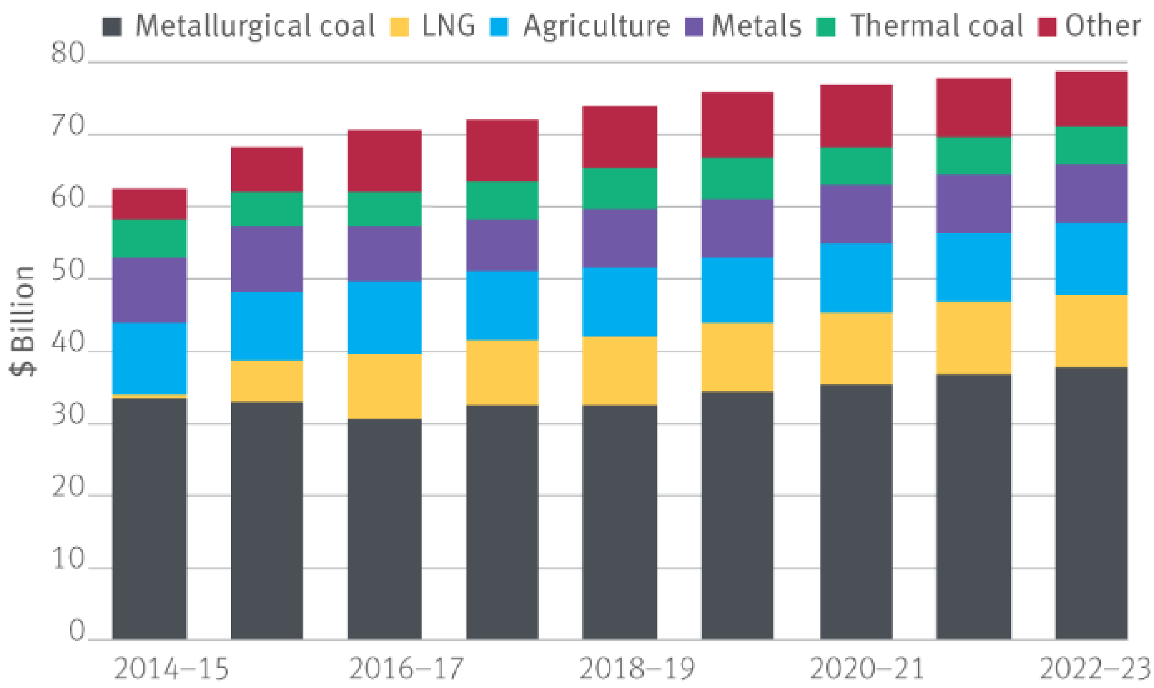
This Budget acknowledges that regional Queensland is an important contributor to the state's economy. Regions outside of South East Queensland account for approximately one-third of the State's total economic output and around 28% of the population. Around 80% of Queensland's goods exports are shipped from the state's regional ports (2017-18 data). Queensland exported a record $85.2 billion worth of goods in the 12 months to April 2019, driven by higher prices and increased volumes of LNG and hard coking coal exports.

The Queensland Government is undertaking significant infrastructure investments to support the regions including:

- $70 million additional funding for the **Building our Regions** program in 2019-20 (bringing total funding to $515 million) to support infrastructure projects and job creation in the regions;
- $41.4 million to develop the **Wangetti Trail ecotourism walk**;
- $26.9 million additional funding over two years to upgrade the **Queensland Fire and Emergency Services** regional radio networks and equipment;
- $25 million of additional funding for the **Jobs and Regional Growth Fund** to assist businesses and projects that will generate economic development and employment opportunities in regional Queensland;
- $19 million over four years to support the **Queensland Hydrogen Industry Strategy** including Gladstone's hydrogen development;

- $9 million over three years to host the **2020 World Science Festival** in Brisbane and regional areas;
- $8.6 million additional funding to **FibreCo Qld** over two years to provide high speed low-cost internet to regional Queensland;
- a further $110 million over four years from 2019-20 to provide further support for the **North West Minerals Province**; and
- up to $74.6 million over four years to support **drought-affected** regional communities.

Chart 2: Queensland exports of goods (nominal)



Source: Department of Treasury and Finance.

Government measures for workforce skills and training

A key priority for Queensland's businesses is ensuring the state (and crucially, its VET system) is able to meet the current and future skill needs of industry, including work-readiness skills, foundation skills and STEM skills.

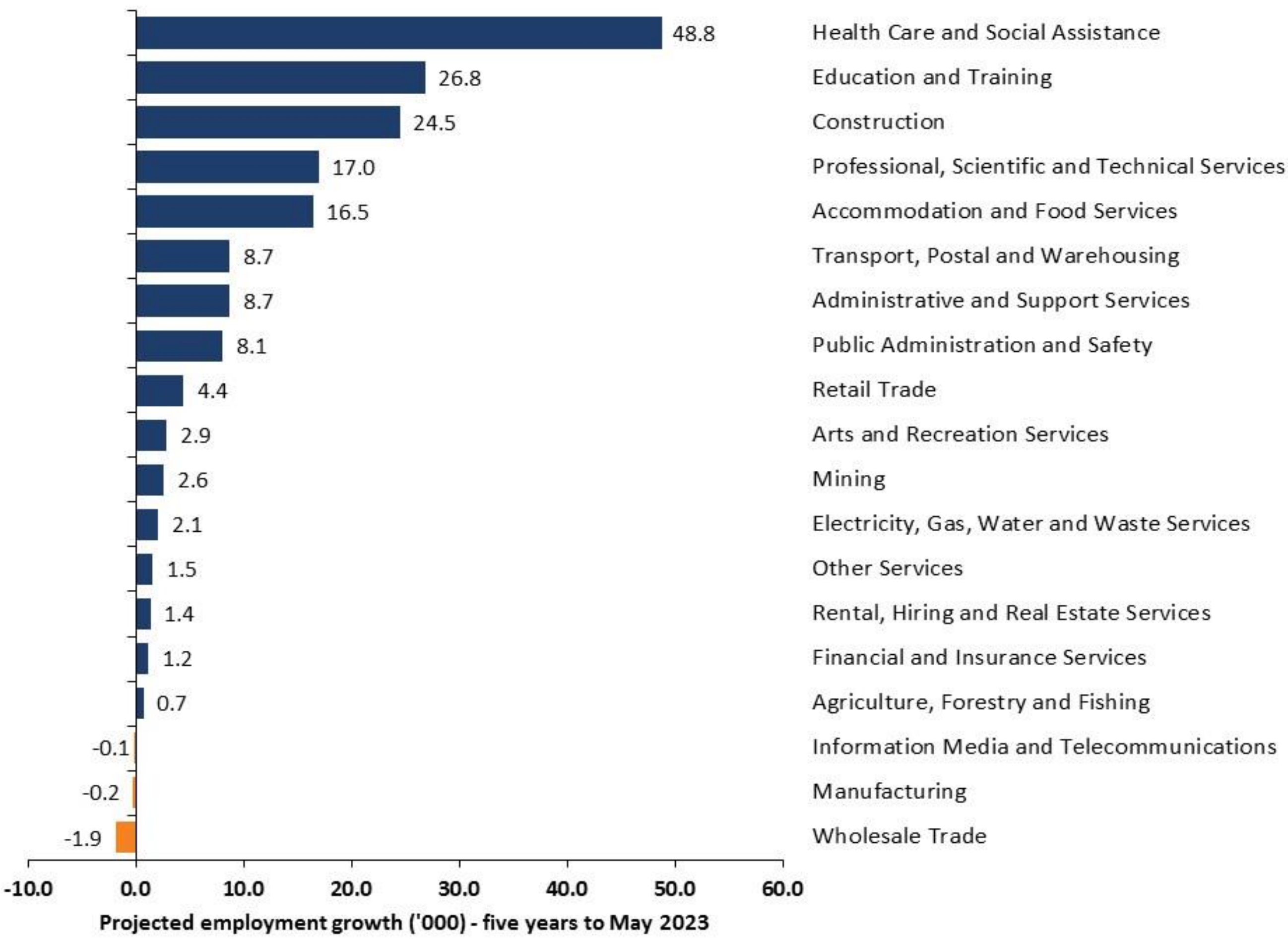
The Australian Department of Jobs and Small Business forecasts that the Health Care and Social Assistance industry will account for the largest share of Queensland's employment growth over the next five years (up by 48,800) with the ongoing roll-out of the National Disability Insurance Scheme (NDIS) adding to public sector and healthcare employment. The second largest industry of growth is projected to be the education and training sector, which is projected to increase employment by 26,800 over the next five years (see chart 3).

The Queensland Budget allocates $13.8 billion towards education and training in 2019-20, up by 5.3% from estimated education expenditure in 2018-19. Key education funding initiatives in 2019-20 include:

- $199 million for the **User Choice – Apprentice and Trainee Training Subsidy** which provides between $1,150 and $50,720 towards the cost of training and assessment for eligible Queensland apprentices and trainees;
- $193.7 million for the **Certificate III Guarantee Tuition Fee Subsidy** which helps eligible Queenslanders obtain their first post-school Certificate III qualification;
- $105.8 million for **upgrades and improvements in Queensland's training infrastructure**. Key projects include upgrading TAFE campuses at Mount Gravatt, Gold Coast, Pimlico (Townsville), Alexandra Hills and Toowoomba;
- $80 million (as part of a $420 million, six-year commitment) to the **Skilling Queenslanders for Work program** to help eligible Queenslanders gain skills and qualifications, with direct assistance to enter and stay in the workforce;

- $75 million for the **Higher-Level Skills Tuition Fee Subsidy** which subsidises the cost of tuition fees paid by eligible students and employers undertaking Certificate IV, diploma, advanced diploma or industry endorsed skillset in nominated 'priority' occupations and fields of study; and
- additional funding of $5.5 million over three years for a **Micro-Credentialing Pilot** to support industry-led skills development to address emerging workforce skills requirements. The pilot will provide focused training for employees to develop the skills or knowledge required by industry, professional associations, or the community.

Chart 3: Queensland projected employment growth by industry, five years to May 2023



Source: Department of Jobs and Small Business, 2018 Employment Projections for the five years to May 2023.

Queensland Budget revenue, expenditure, balance and debt

Revenue to the Queensland Government is expected to grow by an average of 2.2% p.a. over the four years to 2022-23 (nominal average annual growth). Revenue growth over the next four years is expected to be supported by moderate growth in taxation (5.8% p.a.) and current grants (2.1% p.a.). Revenue is expected to fall however, from interest income, coal royalties and land transfer duty revenues. Compared with the previous year's budget, land transfer revenue (stamp duty) has been revised down by $1.0 billion over four years (due to lower residential property prices and transaction numbers) and GST revenue was revised down by $1.5 billion over four years. Revenue growth is expected to exceed expenses growth from 2020-21.

Expenses are growing due to ongoing demand for health and education services, the delivery of social and economic infrastructure projects, job creation programs, and natural disaster expenditure. Government expenses in 2019-20 will include advance payments to local councils to compensate for the commencement of the Queensland waste levy from 1 July 2019. Direct Government staffing costs will grow by 3.6% per annum over the five years to 2022-23.

The Government expects an **operating surplus** of $841 million in 2018-19. This is $317 million higher than was estimated in the 2018-19 Mid-Year Fiscal and Economic Review (MYFER), mainly due to higher than expected coal prices and royalty revenue. In 2019-20, the net operating balance is forecast to fall to $189 million and to average $528 million per year in each of the three years to 2022-23. The estimated improvement from 2019-20 reflects a widening gap between revenue and expenses growth in these years.

With regard to Government **debt**, General Government borrowings are expected to increase by close to 30% by 2022-23, growing from $32.8 billion in 2019-20 to $42.6 billion in 2022-23 due to heavy investment in infrastructure. For the non-financial Public Sector (which combines the general government with state-owned corporations such as utilities) debt is expected to increase from $72.0 billion in 2019-20 to $83.0 billion in 2022-23.

Table 1: General government fiscal position

	Unit of measure	2017-18 actual	2018-19 Est. Act.	2019-20 budget	2020-21 estimate	2021-22 estimate	2022-23 estimate
Revenue	$ billion	58.1	60.1	60.4	61.7	63.5	65.4
Revenue growth	per cent	3.4	3.4	0.5	2.2	3.0	3.1
Expenses	$ billion	56.3	59.2	60.2	61.4	63.1	64.8
Expenses growth	per cent	5.5	5.1	1.6	2.0	2.7	2.6
Net operating balance	**$ million**	**1,753**	**841**	**189**	**313**	**483**	**787**
General borrowings	$ billion	29.3	29.9	32.8	35.2	40.2	42.6
Borrowings/GSP	per cent	9.1	8.9	10.2	10.7	11.4	11.5
Net debt	$ million	(497)	1,661	8,001	12,306	16,961	19,562

Source: Department of Treasury and Finance.

Queensland economic outlook

Queensland's economy is transitioning from strong resources investment towards higher export volumes of gas and other resources. Improvement is also evident across the non-mining sectors, supported by an expanding population and a relatively low Australian dollar. These benefits are particularly evident in tourism and international education.

The Queensland Government expects growth in real state output (GSP) will strengthen to 3.0% p.a. in 2019-20 from an estimated 2.75% p.a. in 2018-19 (table 2 and chart 4) supported by recovery in regions affected by floods and better growth in business investment. Stronger engineering construction will include renewable energy projects such as the Clarke Creek Wind and Solar Farm and the Bulli Creek Solar Farm. Public demand (government consumption and investment) is expected to be a key contributor to growth in 2019-20, in line with state government programs (including healthcare and education) and increases in infrastructure funding. The recent floods dented exports in 2018-19, but new metal mines and growing international education are expected to underpin firm growth in exports.

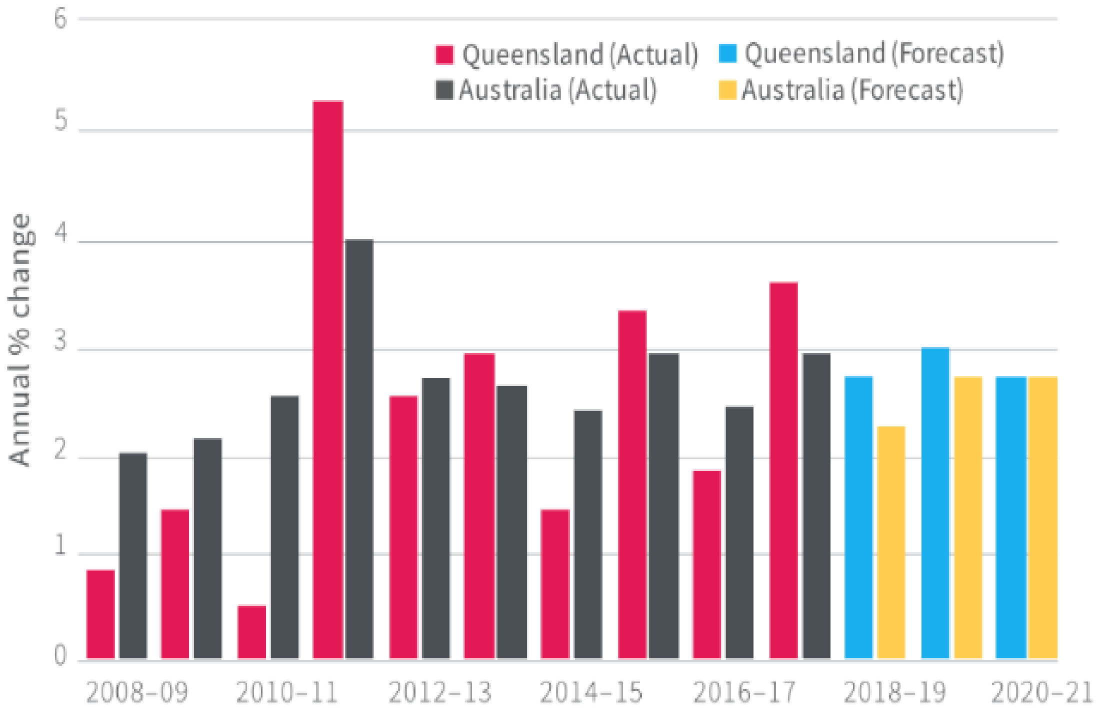
Less positively, domestic demand is likely to be constrained by declining dwelling investment. Approvals for new houses and attached dwellings fell by 18.8% and 28.1% respectively in the first 10 months of 2018-19. Household consumption is also expected to remain relatively weak in 2019-20 due to soft consumer sentiment, incomes growth and wealth growth (the so-called 'wealth effect' as house prices fall) and relatively high household indebtedness. From 2020-21 to 2022-23, Queensland GSP is expected to slow to 2.75% p.a. due to more moderate exports growth and an easing in public demand.

Queensland employment grew by 1.5% p.a. in 2018-19, slowing from 4.1% p.a. in the previous year due to weaker employment conditions in manufacturing, transport and real estate. Jobs growth is expected to remain at around 1.5% p.a. in 2020-21 and then accelerate a touch to 1.75% p.a. in 2021-22 and 2022-23. Strong population growth and a relatively high labour force participation rate has seen Queensland's unemployment rate remain steady at 6% in 2018-19. The population is expected to grow by around 1.75% in each of the four years to 2022-23. The unemployment rate is forecast to stay at 6% until 2021-22 and then ease to 5.75% in 2022-23.

The Budget highlights an increasing set of risks to Queensland's economy arising from the global economic outlook. Specific risks noted in the Budget include:

- global trade instability (and a rising potential for trade conflict) may reduce demand for key industrial commodities and further temper the outlook for Queensland export growth;
- dwelling investment and property prices might fall more rapidly and/or more substantially than expected;
- household incomes growth may stay subdued or soften further than expected; and
- household wealth may stay subdued or soften further than expected, with flow-on effects to consumption.

Chart 4: Forecasts of Queensland and Australia real GSP



Source: Department of Treasury and Finance

Table 2: Queensland State Budget economic forecasts (a)

%	2017-18 actual	2018-19 forecast	2019-20 forecast	2020-21 forecast	2021-22 projection	2022-23 projection
Real gross state product	3.5	2.75	3.00	2.75	2.75	2.75
Employment(b)	4.1	1.50	1.25	1.5	1.75	1.75
Unemployment rate (c)	6.0	6.0	6.00	6.00	6.00	5.75
Consumer price index (b)	1.7	1.75	2.00	2.25	2.50	2.50
Wage price index (b)	2.2	2.25	2.25	2.50	2.50	2.75
Population (b)	1.7	1.75	1.75	1.75	1.75	1.75

Sources: Australian Bureau of Statistics; Department of Treasury and Finance. Notes: (a) Unless otherwise stated, all figures are annual percentage changes. (b) Annual percentage change, year-average. (c) Per cent, year average.

Table 3: Australian full-year growth rates and government forecasts

RBA, SoMP (May 2019)	Dec 18 e	Jun 19 f	Jun 20 f	Jun 21 f		
GDP, % change p.a., year end	2.3	1.7	2.7	2.8		
Unemployment rate, %, year end	5.0	5.0	5.0	4.8		
Inflation (CPI), % change p.a., year end	1.8	1.7	2.0	2.1		
Wages (WPI), % change p.a., year end	2.4	2.4	2.5	2.6		
Treasury, Federal Budget 2019-20 (Apr 2019)	**2017-18 e**	**18-19 f**	**19-20 f**	**20-21 f**	**21-22 p**	**22-23 p**
GDP, % change p.a., year average	2.8	2.25	2.75	2.75	3.0	3.0
Employment growth, % p.a., year end	2.7	2.0	1.75	1.75	1.5	1.5
Unemployment rate, %, year end	5.4	5.0	5.0	5.0	5.0	5.0
Inflation (CPI), % change p.a., year end	2.1	1.5	2.25	2.5	2.5	2.5
Wages (WPI), % change p.a., year end	2.1	2.5	2.75	3.25	3.5	3.5
Terms of trade, % change p.a., year end	1.9	4.0	-5.25	-4.75	-	-

e = estimate. f = forecast. p = projection. Sources: ABS various data; RBA *Statement on Monetary Policy* (SoMP), latest quarter; Australian Treasury, *Federal Budget 2019-20* (April 2019).

Table 4: Industry share of output, Queensland and Australia, 2017-18

Industry shares of output 2017-18	Queensland	Australia
Agriculture	3.1	2.5
Mining	9.5	7.6
Manufacturing	6.0	5.8
Utilities	3.3	2.5
Construction	8.6	7.8
Wholesale Trade	3.6	3.9
Retail Trade	4.4	4.3
Hospitality	2.7	2.4
Transport	5.0	4.6
Information media	1.5	2.5
Finance & Insurance	6.2	8.7
Rental & Real Estate services	2.9	3.0
Professional services	5.8	6.8
Administrative services	3.1	3.2
Public Administration	5.2	5.1
Education	4.9	4.7
Healthcare	7.2	7.0
Arts & Recreation	0.7	0.8
Personal & Other Services	2.0	1.8
Ownership of dwellings	8.0	8.4
Gross Value Added	93.7	93.2
Taxes & subsidies	6.1	6.8
Statistical discrepancy	*0.2*	*0.0*
Gross State Product / Gross Domestic Product	100.0	100.0

Source: Australian Bureau of Statistics