

Ai Group Economics

Queensland

Budget and Outlook

2014-15



13 June 2014

Queensland 2014-15 Budget heads back towards surplus

The Queensland Government handed down its 2014-15 Budget on 3 June 2014. Treasurer Tim Nicholls characterised this year's Budget as "not one full of flashy new announcements and programs". Rather, this Budget charts a **course back to surplus in 2015-16**, albeit a small surplus of \$862 million (Table 1). The deficit for 2014-15 grew by around \$1.6 billion from the previous year. This was mainly due to timing factors associated with disaster relief payments from the Federal Government and a downgrade in resources royalties because of a fall in coal prices. The annual deficit is expected to shrink next year and to disappear in 2015-16.

Table 1: Queensland fiscal and economic projections

| | 2012-13 (A) | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|-----------------------------|-------------|---------|---------|---------|---------|---------|
| Fiscal Balance (\$ million) | -7,741 | -6,083 | -2,271 | 862 | 508 | 883 |
| GSP (% p.a.) | 3.6 | 3.0 | 3.0 | 6.0 | 4.0 | 3.5 |
| Unemployment rate (%) | 5.9 | 6.0 | 6.0 | 5.75 | 5.5 | 5.25 |
| Inflation | 2.0 | 2.75 | 2.75 | 2.5 | 2.5 | 2.5 |
| Wage Price Index (% p.a.) | 3.0 | 2.75 | 3.0 | 3.25 | 3.5 | 3.5 |
| Population (% p.a.) | 2.0 | 1.75 | 2.0 | 2.0 | 2.0 | 2.0 |

Source: Queensland Treasury and Trade, 2014.

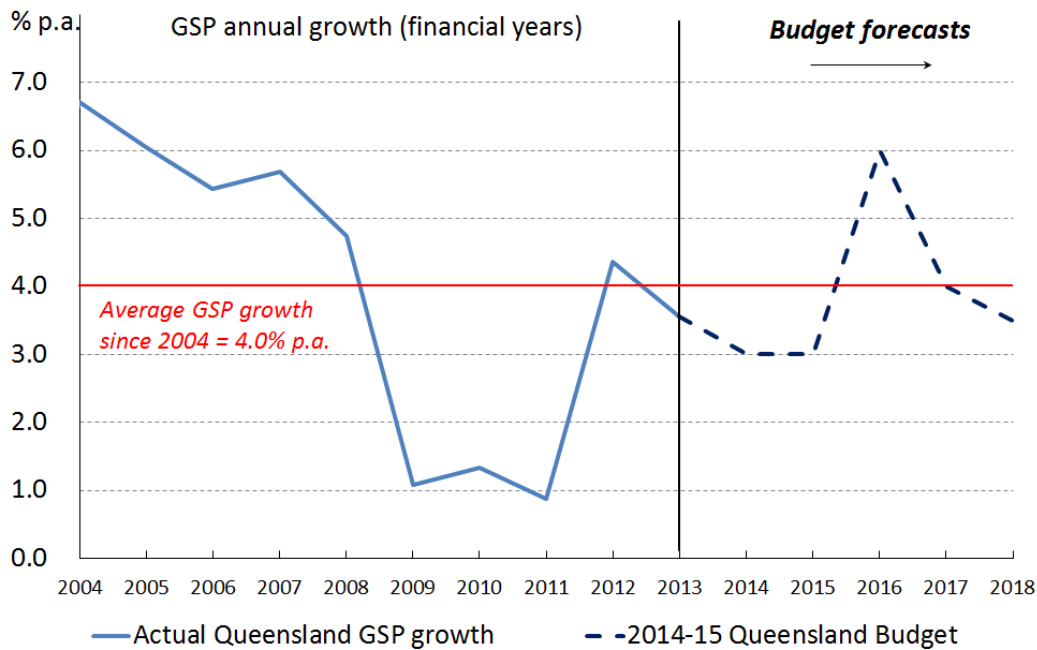
Queensland economic outlook

The Queensland Treasury continues to project above-average growth for the state from 2015-16 and onwards. In particular, **gross state product (GSP)** is expected to grow very strongly (at 6.0% p.a.) in 2015-16, when major LNG projects are scheduled to be completed and large-scale LNG exports will commence (See Table 1). However, prior to that boost, Queensland's economic growth is forecast to decelerate to 3.0% p.a. in both 2013-14 and 2014-15, below the decade-average GSP growth of around 4.0% p.a. (see Chart 1).

Abstracting from the effects of LNG and other exports, domestic demand is currently very soft in Queensland. The latest ABS *National Accounts* for the March quarter (Q1) 2014 showed that **state final demand in Queensland, which excludes international trade, fell by 0.8% q/q to be 0.9% p.a. lower** (See Chart 2). The decline in Queensland final demand in Q1 was mainly driven by a **sharp fall in private investment** (down -3.8% q/q and -7.6% p.a., seasonally adjusted). This subtracted 2.1 percentage points from growth in state final demand in the quarter. Public investment in

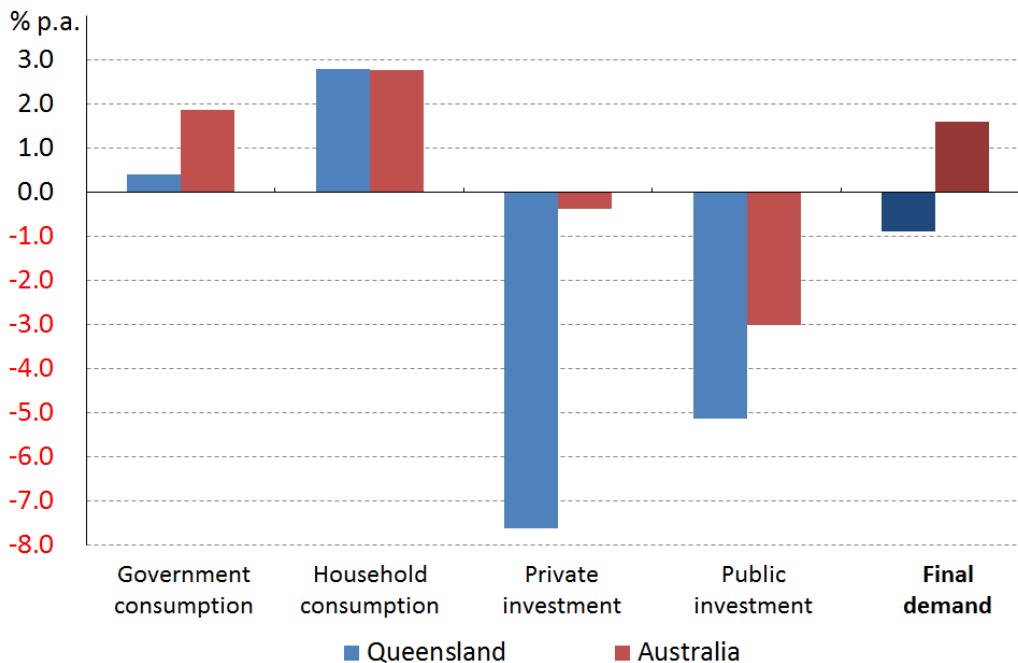
Queensland dropped by 3.1% q/q (-5.1% p.a.) in Q1, while government spending declined by 0.7% q/q (but still up 0.4% p.a.). More positively, household consumption grew moderately by 0.9% q/q and 2.8% p.a., broadly in line with the national growth rates.

Chart 1: Queensland GSP growth, actual and Budget forecast



Source: ABS *National Accounts: State Accounts*, 2012-13; Queensland Treasury and Trade 2014.

Chart 2: Growth in State Final Demand in Queensland, Q1 2014

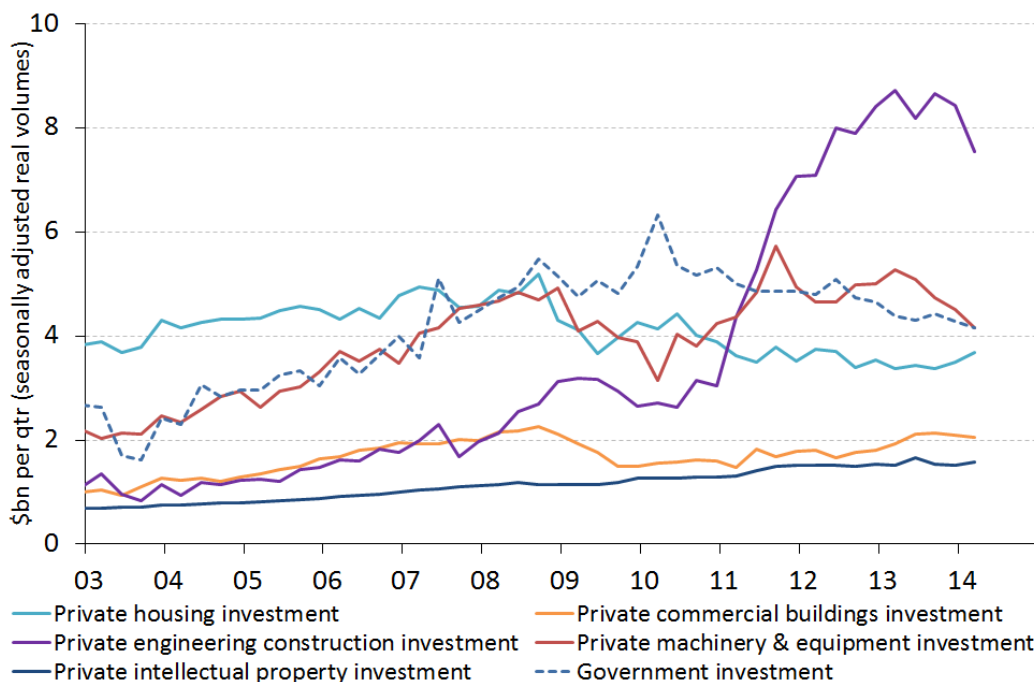


Source: ABS *National Accounts*, Mar 2014

The sharp decline in mining construction activity is weighing heavily on Queensland's economic growth rates at present. Private investment in non-dwelling construction in Queensland fell for a second quarter, decreasing by 9.1% q/q (and -10.3% p.a.) in Q1. In particular, **private new engineering construction** dropped by 10.4% q/q (and -13.4% p.a.),

reflecting a sharp decline in resource related investment in Queensland (see Chart 3). Furthermore, private investment in **new machinery and equipment** dropped by 8.1% q/q to be 21.3% p.a. lower. Although dwelling investment in Queensland picked up by 5.4% q/q (+9.1% p.a.) in Q1 (due to low interest rates and a cyclical upturn), it was insufficient to offset the contractionary effects from the large fall in mining investment.

Chart 3: Key components of fixed capital investment in Queensland



Source: ABS *National Accounts*, Mar 2014

Proposal to privatise state assets

While the 2014-15 Budget did not contain major surprises, the Queensland State Government released more details on its *Strong Choices* proposal to privatise state assets. It will take this package to the election to be held in March 2015. The Government’s plans involve several methods to gain private financing, including sales, long-term leases of existing assets and debt arrangements. **The proposed assets to be sold are valued at \$33.6 billion**, and include the Port of Gladstone and the Port of Townsville, which would be sold at long-term leases just like the plan for the Port of Melbourne in Victoria.

Of the \$33.6 billion in assets that the Queensland Government proposes to sell, **around \$25 billion would be used to pay down debt**. The rest (\$8.6 billion) would be earmarked for infrastructure projects like the *Brisbane Bus and Train Project*, as well as the establishment of an “*Entrepreneurial and Innovation Fund*”.

The 2014-15 Budget also contained a small amount of additional funding for the *Toowoomba Second Range Crossing*, which is expected to begin construction next year and to be co-funded by the Federal Government. The project will ease congestion for industry in the resource and agriculture region of the Darling Downs in getting their products to ports.

Queensland businesses have an open mind when considering any proposals to sell publically-owned assets. For assets that can be operated more efficiently by the private sector, this evaluation will depend upon: whether the taxpayer gets a good price in the sale process; whether appropriate safeguards for consumers and businesses in the regulatory arrangements will apply to the sold assets; and, of course, whether the funds will be used wisely by the Queensland Government – either in repaying debt or investing in new infrastructure.

Queensland state economy, data summary

| | NSW | Vic | Qld | SA | WA | Tas | Australia |
|---|-------|-------|--------------|------|-------|------|-----------------|
| Economy size (2012-13) | | | | | | | GDP |
| GSP, real \$bn | 471.4 | 333.4 | 294.5 | 94.2 | 253.0 | 24.2 | 1,525.0 |
| % of national GDP | 30.9 | 21.9 | 19.3 | 6.2 | 16.6 | 1.6 | 100.0 |
| Economy structure (2012-13) | | | | | | | % of GDP |
| Agriculture, % of GSP | 1.4 | 2.4 | 2.7 | 4.8 | 1.0 | 7.4 | 2.1 |
| Mining, % of GSP | 3.1 | 2.0 | 10.3 | 4.1 | 34.3 | 1.6 | 9.6 |
| Manufacturing, % of GSP | 7.3 | 7.9 | 6.8 | 8.2 | 4.7 | 7.1 | 6.8 |
| Construction, % of GSP | 5.2 | 5.9 | 8.8 | 7.4 | 12.0 | 6.3 | 7.6 |
| Retail, % of GSP | 4.2 | 5.2 | 5.2 | 5.0 | 3.2 | 5.5 | 4.5 |
| Transport, % of GSP | 4.8 | 4.7 | 5.5 | 4.6 | 4.4 | 5.8 | 4.8 |
| Financial services, % of GSP | 11.5 | 10.4 | 5.1 | 7.3 | 2.9 | 6.4 | 8.0 |
| Professional services, % of GSP | 7.5 | 8.1 | 5.1 | 5.2 | 5.0 | 3.2 | 6.6 |
| Public administration, % of GSP | 4.9 | 4.1 | 5.5 | 5.8 | 2.8 | 6.8 | 5.2 |
| Health, % of GSP | 6.4 | 7.0 | 6.8 | 7.8 | 4.0 | 9.4 | 6.3 |
| Education, % of GSP | 4.6 | 5.4 | 4.3 | 5.1 | 2.7 | 6.7 | 4.5 |
| Population size (2013) | | | | | | | |
| Population, mn | 7.4 | 5.7 | 4.7 | 1.7 | 2.5 | 0.5 | 23.131 |
| % of national total | 32.0 | 24.8 | 20.1 | 7.2 | 10.9 | 2.2 | 100.0 |
| Population structure (2013) | | | | | | | |
| % female | 50.3 | 50.5 | 50.1 | 50.4 | 49.5 | 50.1 | 50.2 |
| % born outside Australia (2011) | 28.3 | 28.7 | 22.5 | 23.7 | 33.4 | 12.5 | 26.9 |
| Median age, years | 37.8 | 37.3 | 36.6 | 39.8 | 35.8 | 41.2 | 37.3 |
| % aged 65 years and over | 15.2 | 14.6 | 13.6 | 16.7 | 12.5 | 17.3 | 14.4 |
| Labour market (April 2014) | | | | | | | |
| Employment growth, % p.a. | 0.3 | -0.1 | 2.6 | -1.2 | 2.2 | 3.4 | 0.9 |
| Unemployment rate, % | 5.4 | 6.5 | 6.3 | 6.6 | 5.2 | 7.5 | 5.9 |
| Participation rate, % | 63.1 | 64.2 | 66.3 | 62.0 | 68.2 | 60.9 | 64.8 |
| Wages and prices (March Quarter 2014) | | | | | | | |
| Wage price index (WPI, private sector) % p.a. | 2.5 | 2.6 | 2.7 | 3.4 | 2.3 | 2.3 | 2.6 (WPI) |
| Capital city headline CPI, % p.a. | 2.8 | 2.8 | 3.1 | 2.9 | 3.1 | 2.8 | 2.9 (CPI) |

Sources: ABS various publications.

Ai Group Economics and Research Team

Julie Toth

David Richardson

Pip Freebairn

Yi Ming Hu

Gareth Shaw (part time)

Elle Spyropoulos (part time)

Chief Economist

Manager, Economics and Business Services

Senior Adviser, Economic Policy

Economist

Research Coordinator

Research Assistant

(03) 9867 0124

(02) 9466 5456

(03) 9867 0261

(03) 9867 0231

(03) 9867 0280

(03) 9867 0108