

THE ECONOMY AND THE BEEF INDUSTRY

PRESENTATION TO KING ISLAND 'BEEF DAY' 2020

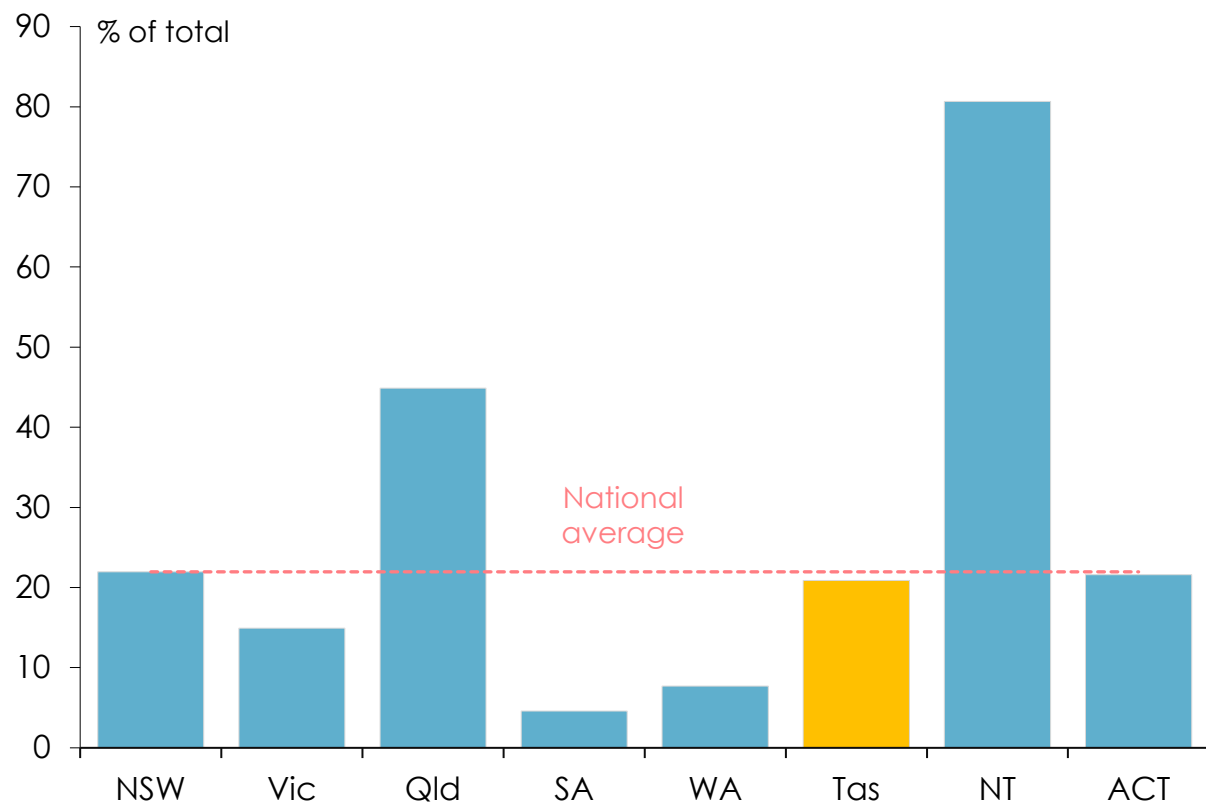
KING ISLAND CLUB, CURRIE
23RD OCTOBER 2020

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

The beef industry

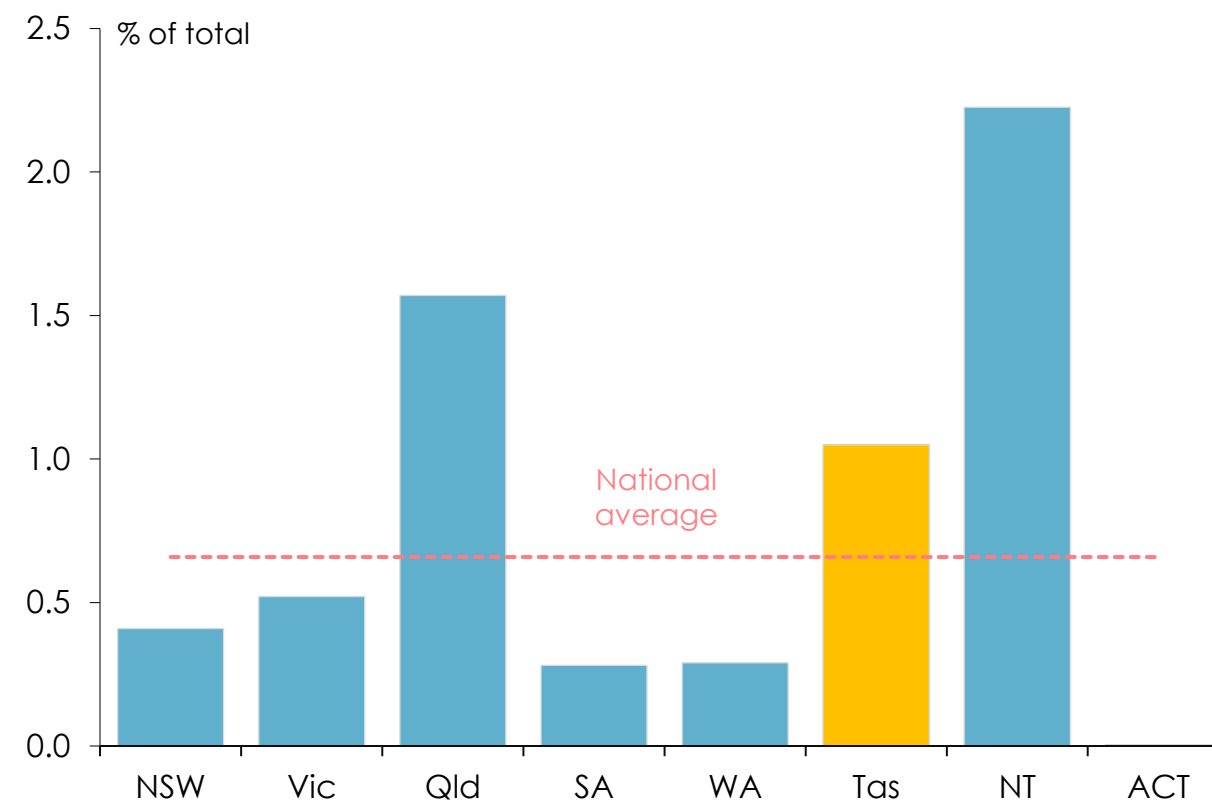
Tasmania is a small part (~2½%) of the Australian beef industry, but the beef industry is an important part of Tasmania's economy

Beef production as a pc of total value of agricultural production, by state, 2018-19



- Beef and veal production represents 20.9% of the total value of agricultural production in Tasmania, just below the national average of 21.2%

Beef production as a pc of gross state product (value of economic activity), by state, 2018-19

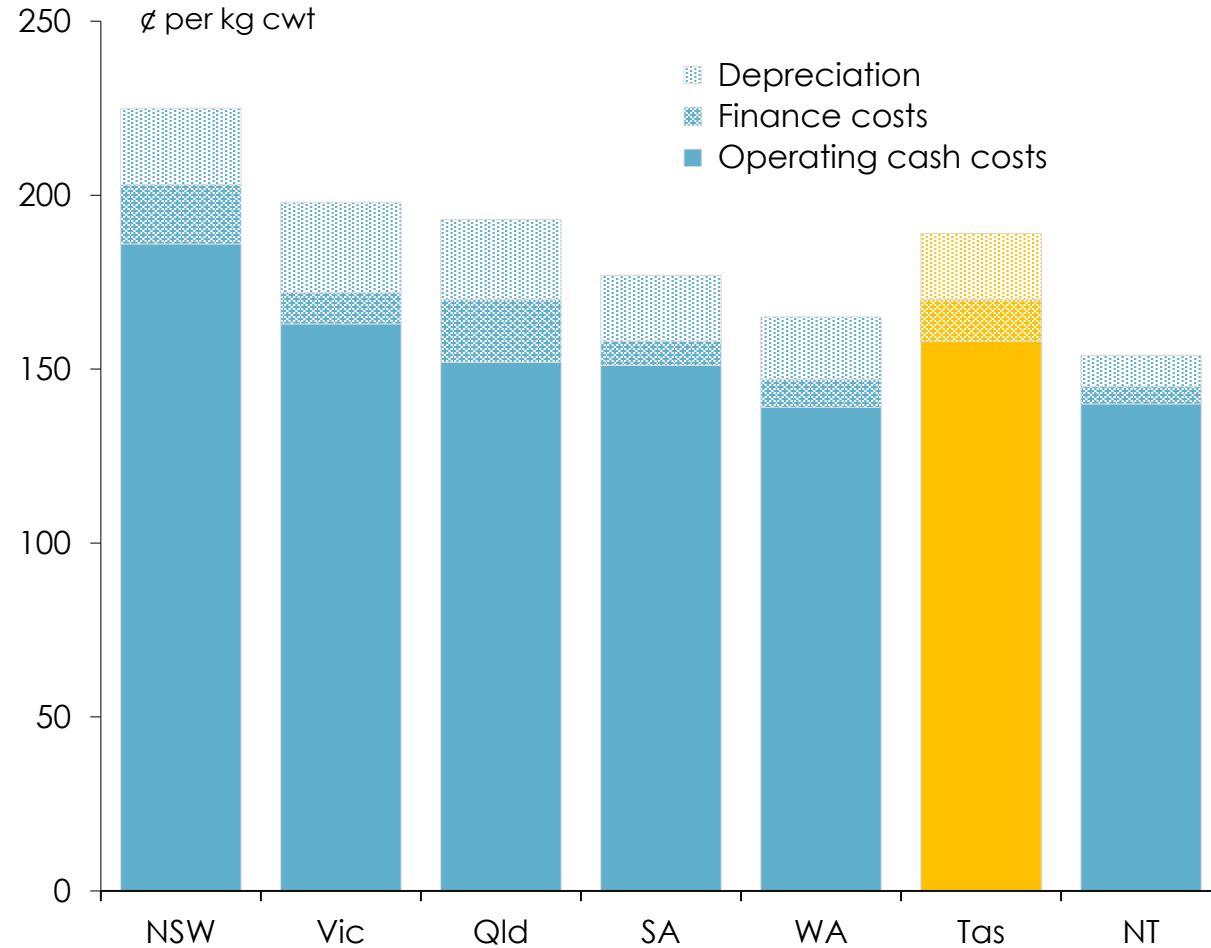


- Beef and veal production represents 1.0% of Tasmania's gross state product, well above the national average of 0.7%

Note: Value of beef and veal production is the gross value of cattle and calves slaughtered (and hence excludes live cattle exports); it also excludes the value of subsequent processing (which for some Tasmanian beef is undertaken in Victoria). Source: ABS; Corinna.

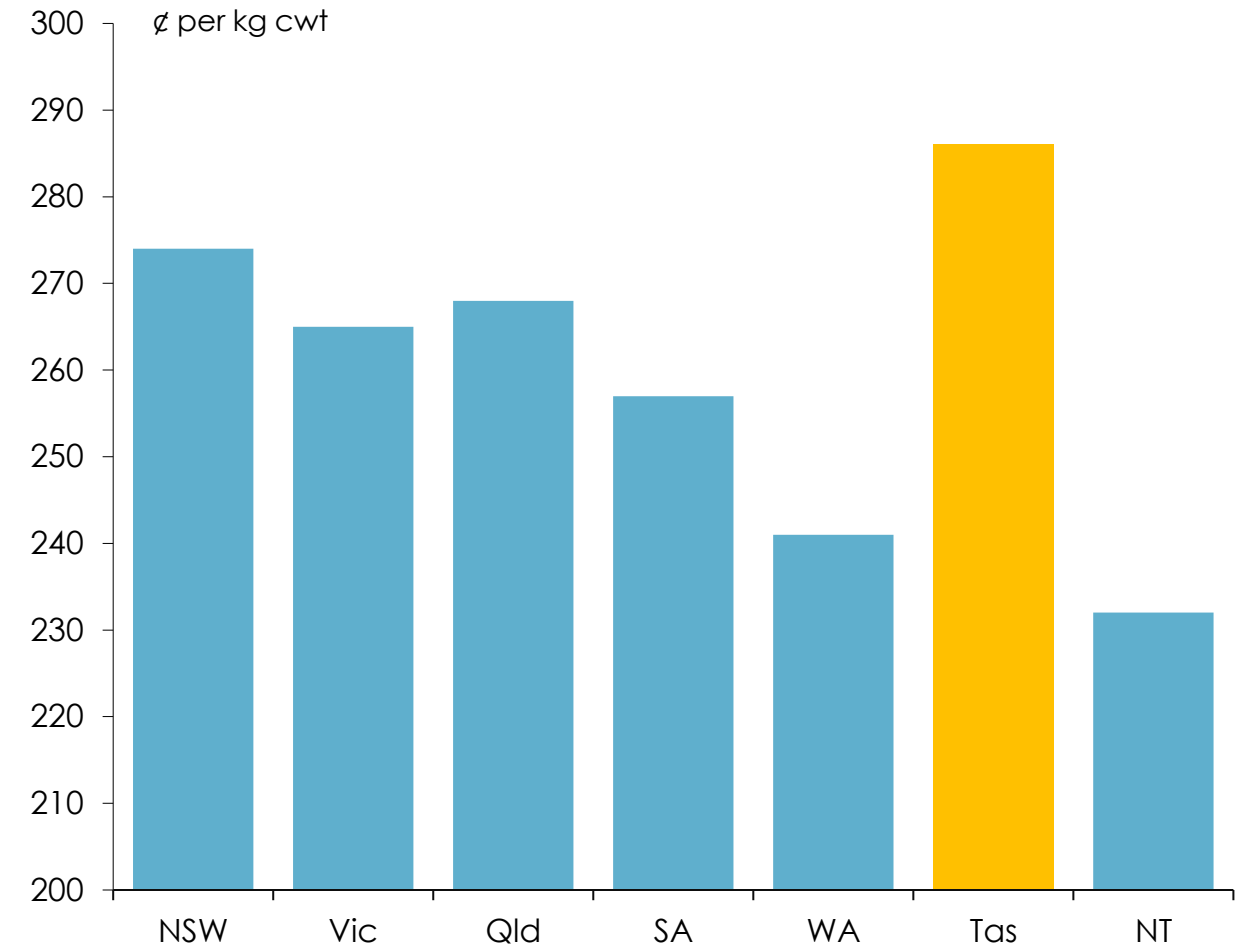
Tasmanian beef producers have relatively high costs – but because they produce a premium product they command higher prices ...

Beef farm costs, average 2016-7 through 2018-19



□ Tasmanian beef farmers' operating cash costs per kilo were 9½% higher (and total costs 12¼% higher) than the national average from 2016-17 through 2018-19

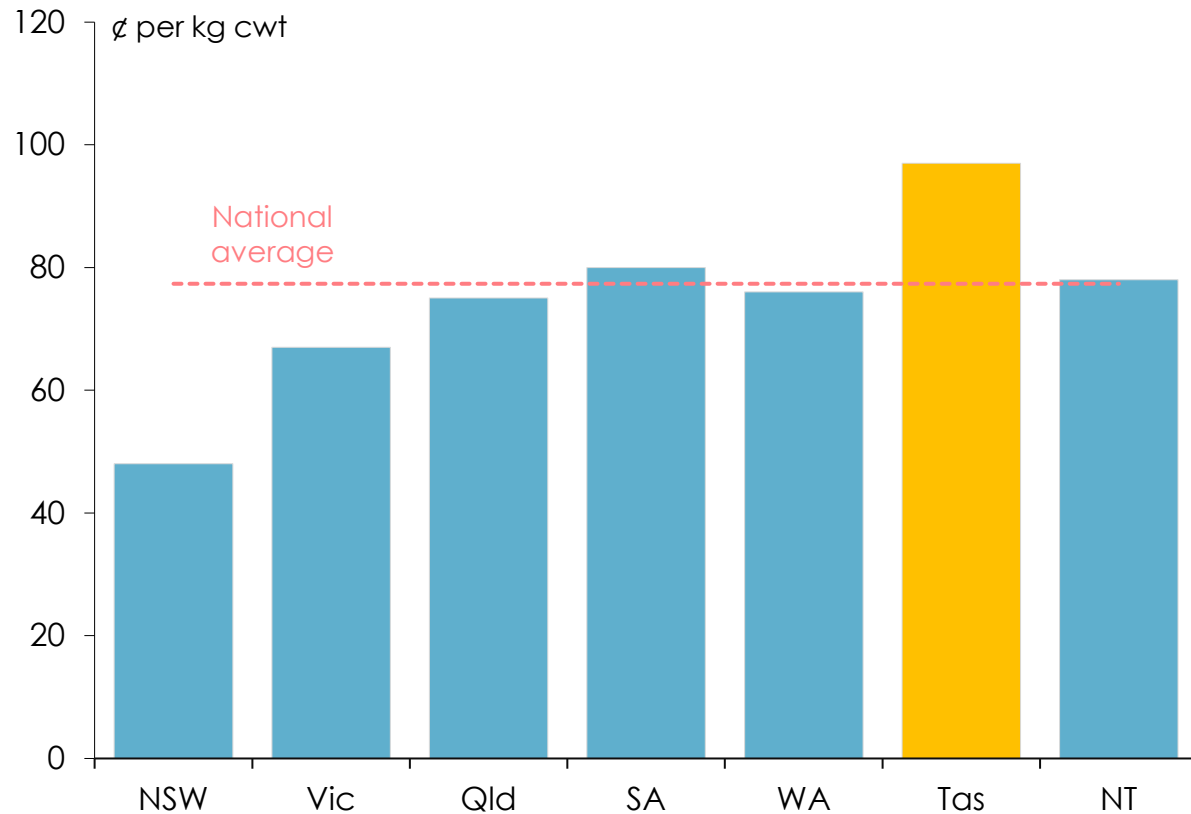
Average price per kilo, 2016-17 through 2018-19



□ But the prices received by Tasmanian producers were 18½% higher than the national average over this period

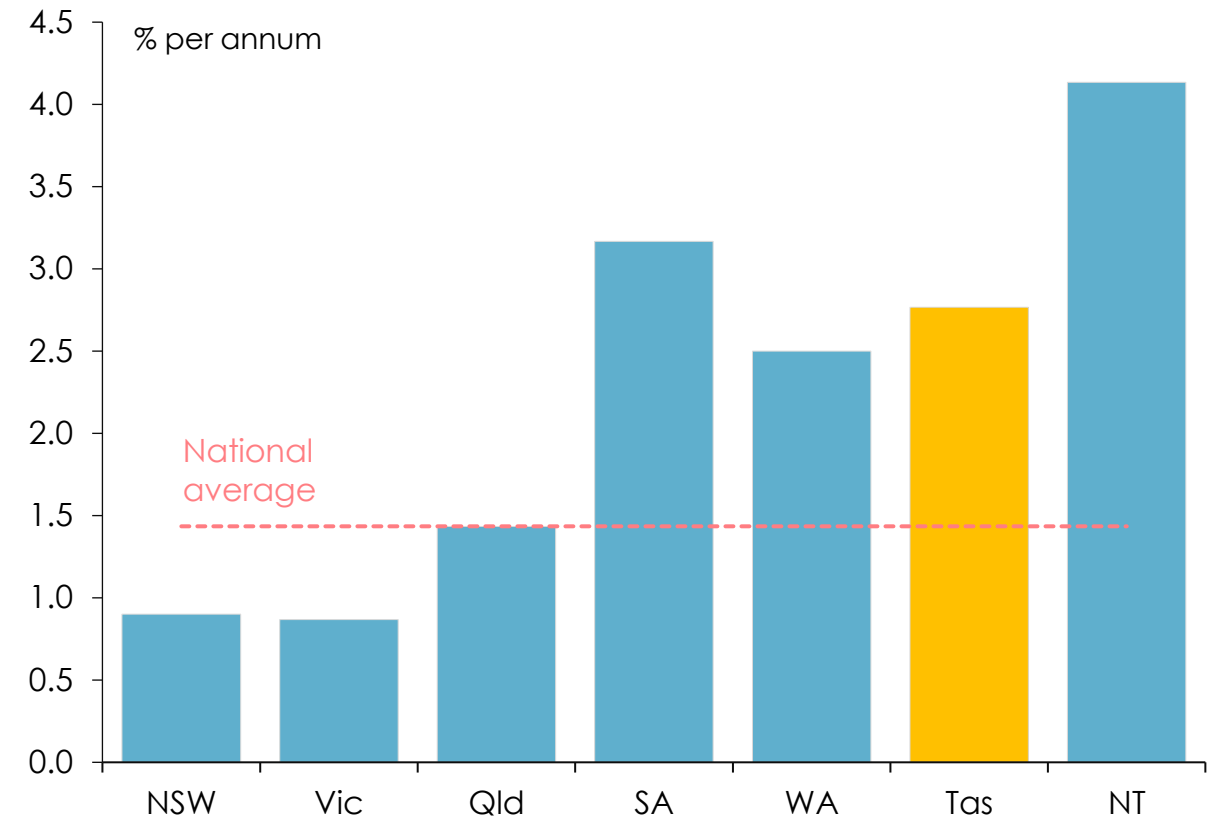
... and hence generate higher returns, both in absolute terms and as a rate of return on capital invested

Beef farmers' average profit margins, 2016-17 through 2018-19



- **Tasmanian beef producers' margins were 25¢ per kilo (15¼%) above the national average over the three years to 2018-19**

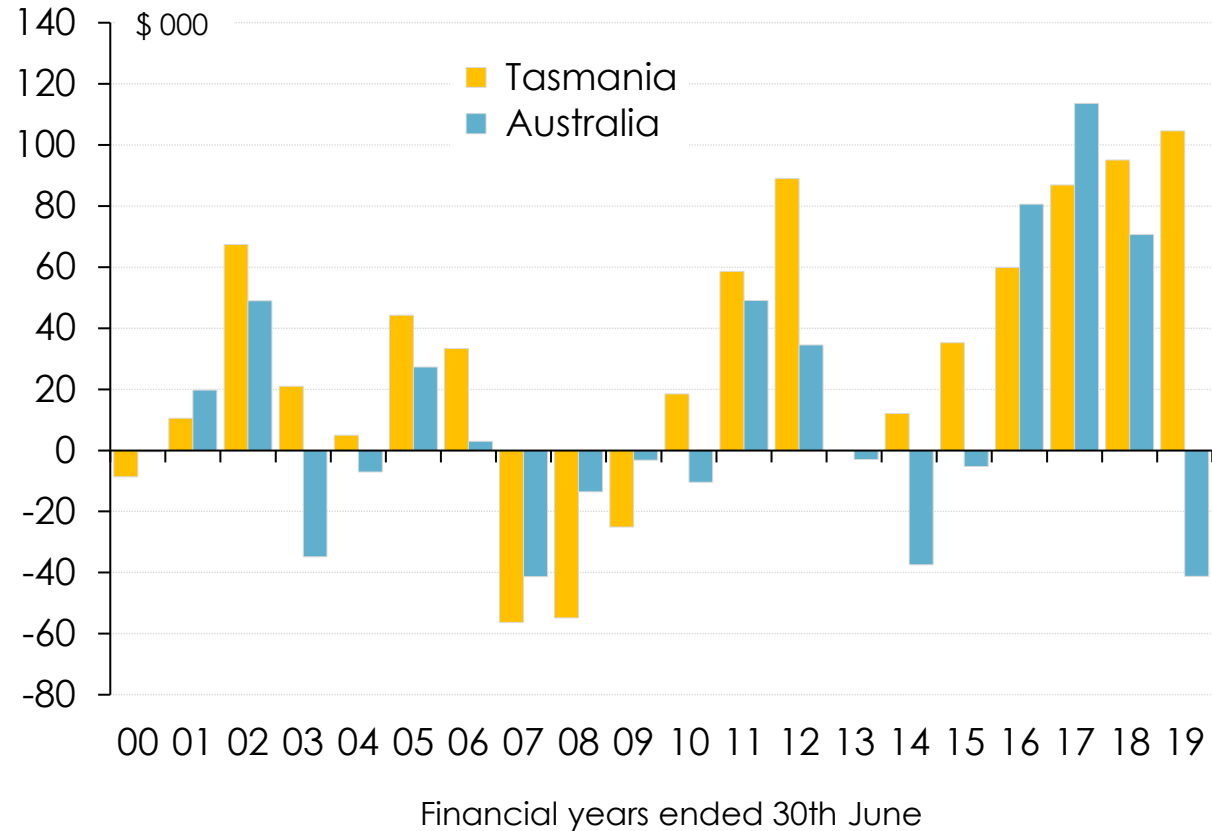
Average rate of return (excluding capital appreciation), 2016-17 through 2018-19



- **Tasmanian beef producers' returns averaged 2.8% pa over the three years to 2018-19, double the national average (less than the NT because of higher land values)**

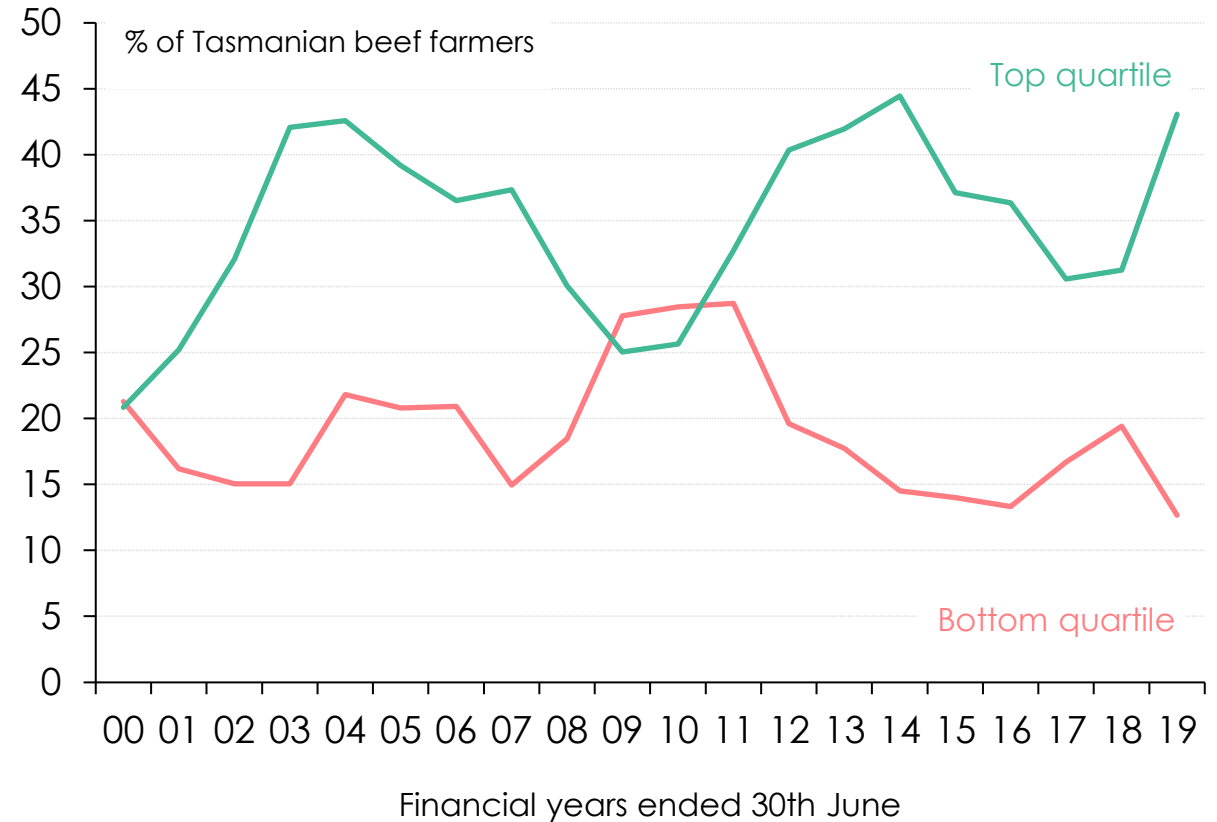
Tasmanian beef producers have been consistently more profitable than the national average over the last 20, and especially the last 5, years

Average beef farm profit, Tasmania and Australia, 1999-2000 through 2018-19



Over the past twenty years, Tasmanian beef farmers' profits have averaged more than twice as much as beef farmers across Australia as a whole

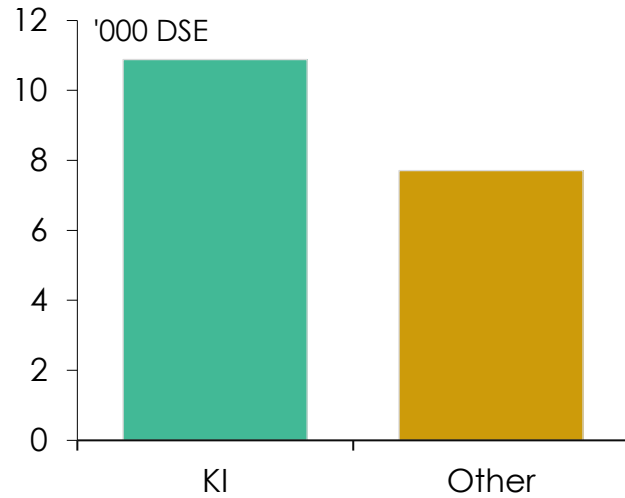
Percentage of Tasmanian beef farmers in national top and bottom rate of return quartiles (25%)



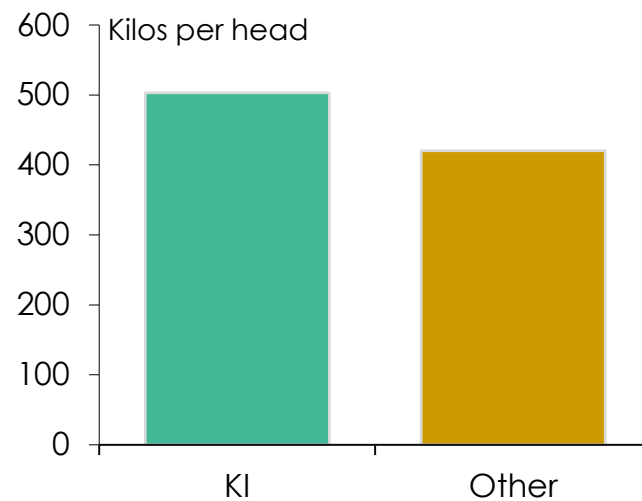
On average over the past twenty years, 35% of Tasmanian beef farmers have been in the top quartile of national rates of return, and only 19% in the bottom quartile

The King Island beef model is a little different – or at least it was in 2009-10 when this data was collected

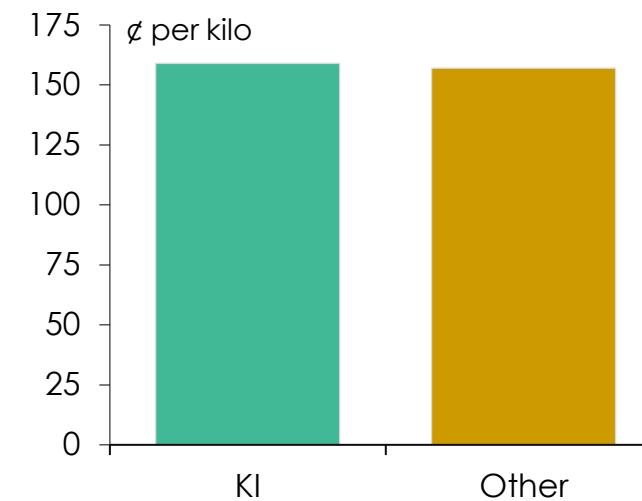
Average herd size



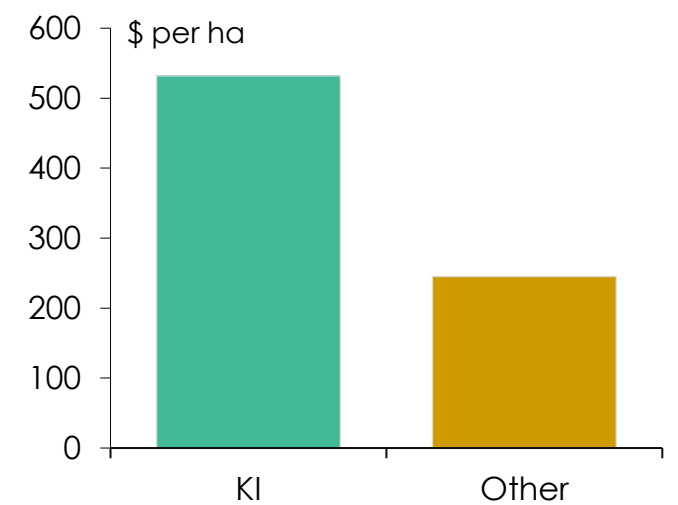
Quantity of beef per head



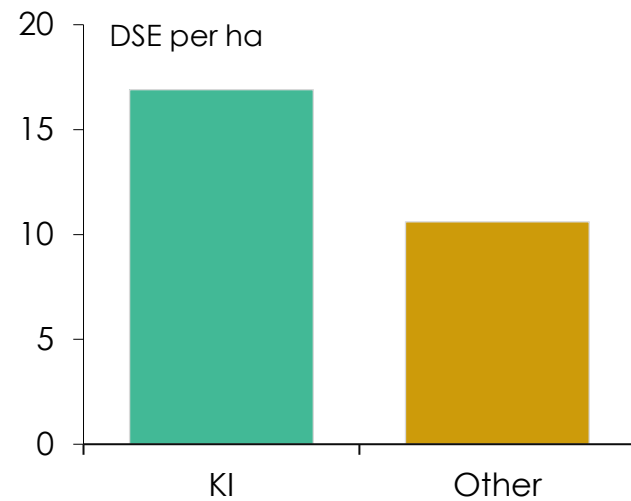
Sale price per kilo



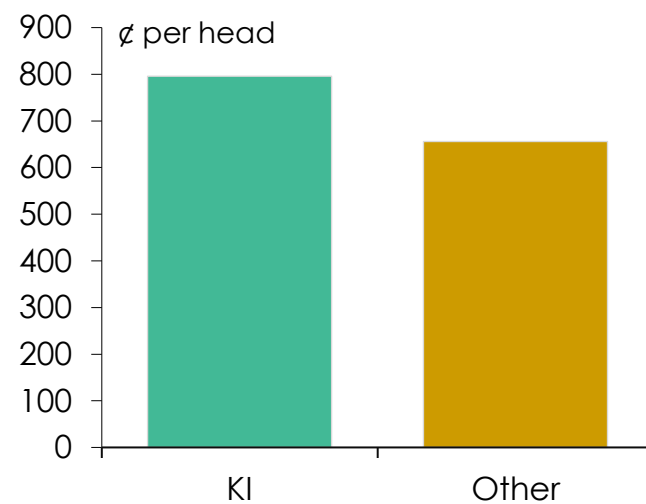
Gross margin



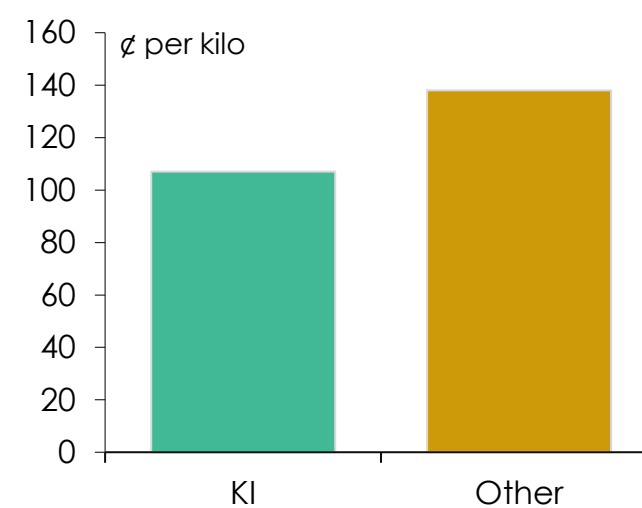
Stocking rate



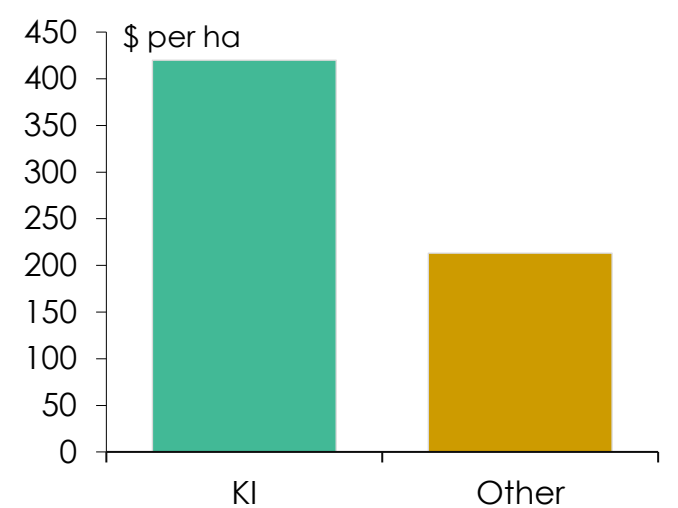
Sale price per head



Production cost per kilo



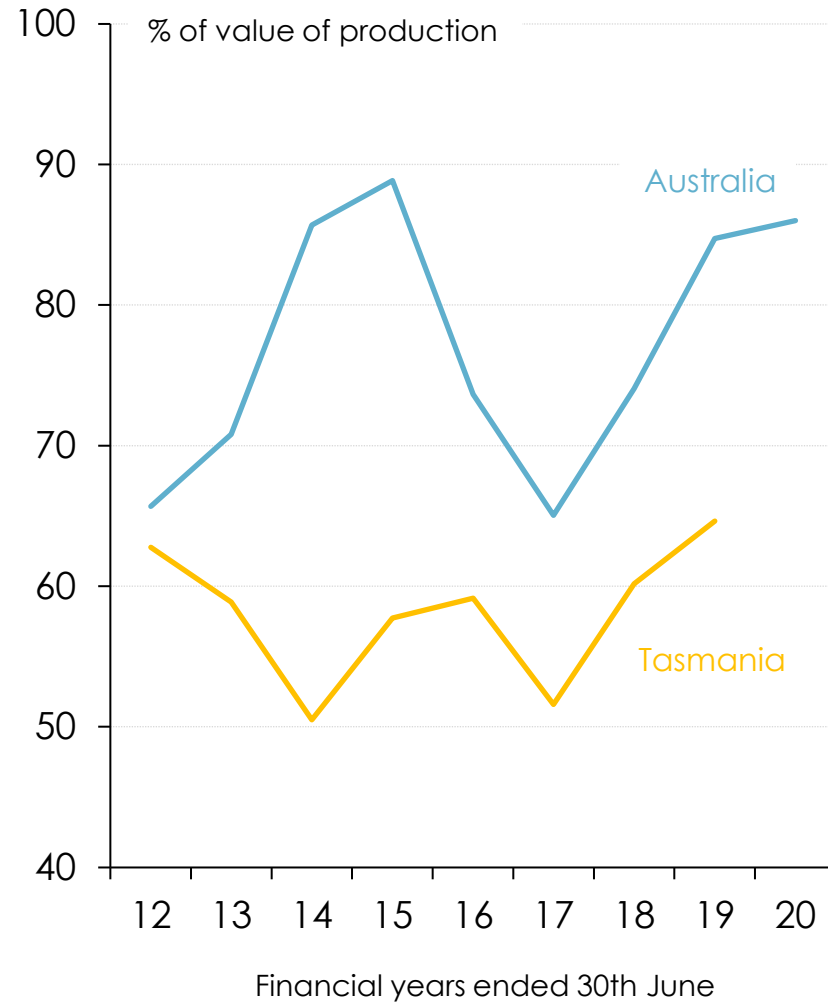
Net margin



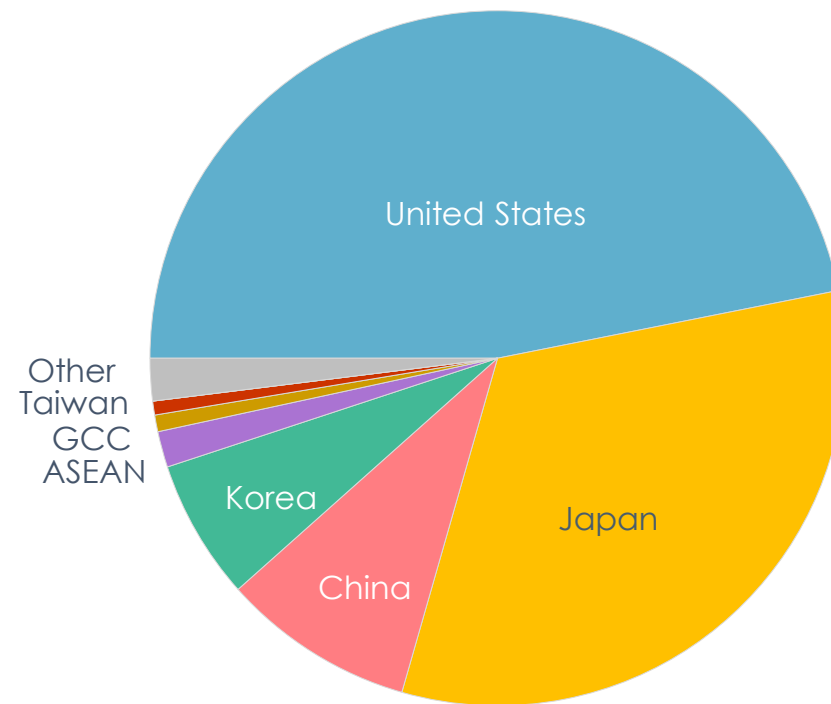
Note: Data shown in these charts is for the 2009-10 financial year. 'DSE' = dry sheep equivalent (the amount of feed required for a 2-year old, 50 kilo merino sheep to maintain its weight; one yearling steer is equivalent to about 8 DSE. 'Other' is average for Southern Australian MLA region (including mainland Tasmania, Victoria, NSW, SA and southern Queensland. Source: Holmes Sackett (via Roger Clemons).

Tasmania's beef industry is less dependent on exports – and its exports are much less dependent on China than mainland beef exporters

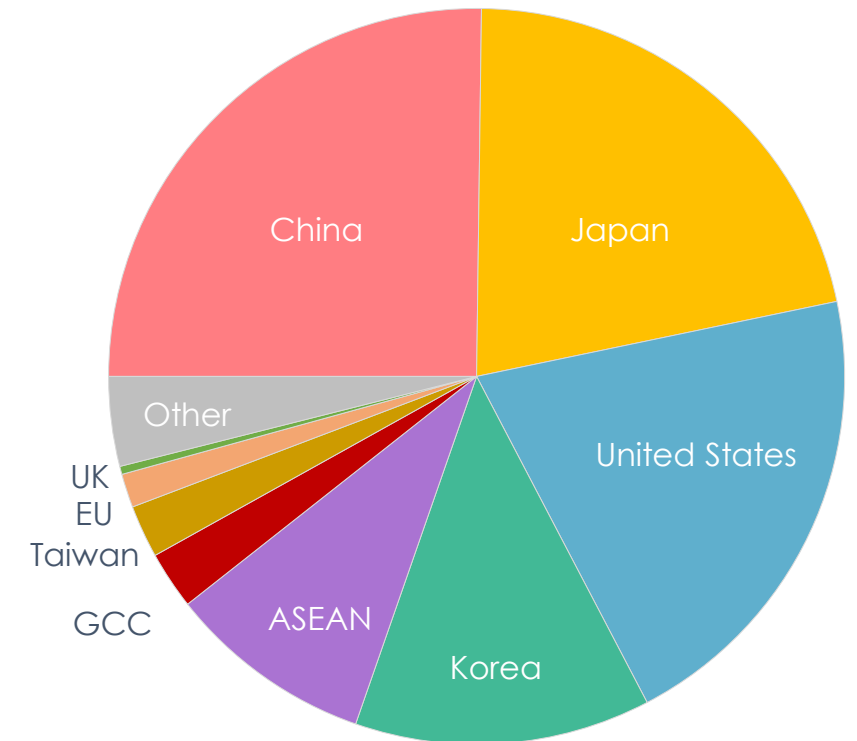
Exports as a pc of total beef production



Markets for Tasmanian beef exports, 2019-20



Markets for Australian beef exports, 2019-20

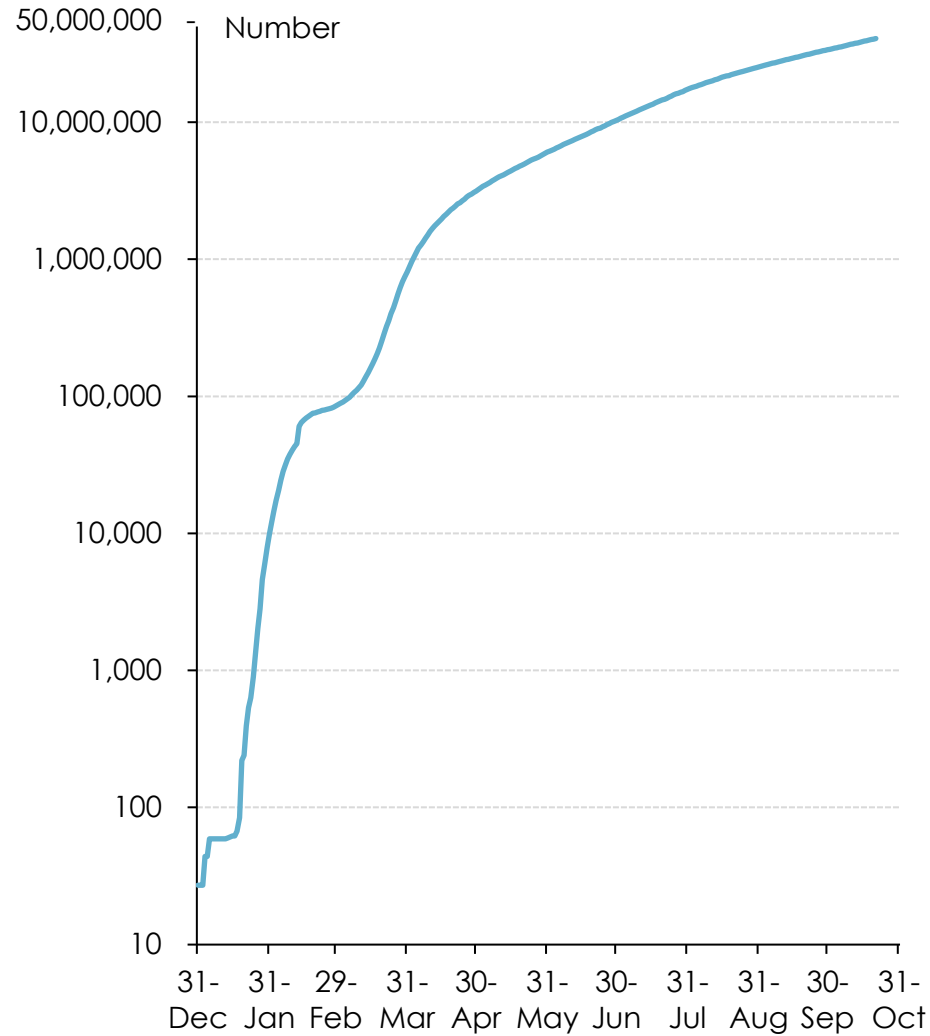


Note: 'ASEAN' is Association of South-East Asian Nations (Indonesia, Thailand, Philippines, Vietnam, Malaysia, Singapore, Myanmar, Cambodia, Laos and Brunei); 'GCC' is Gulf Co-ordination Council (Saudi Arabia, United Arab Emirates, Oman, Kuwait, Qatar and Bahrain). Sources: ABS; Department of Foreign Affairs & Trade; Corinna.

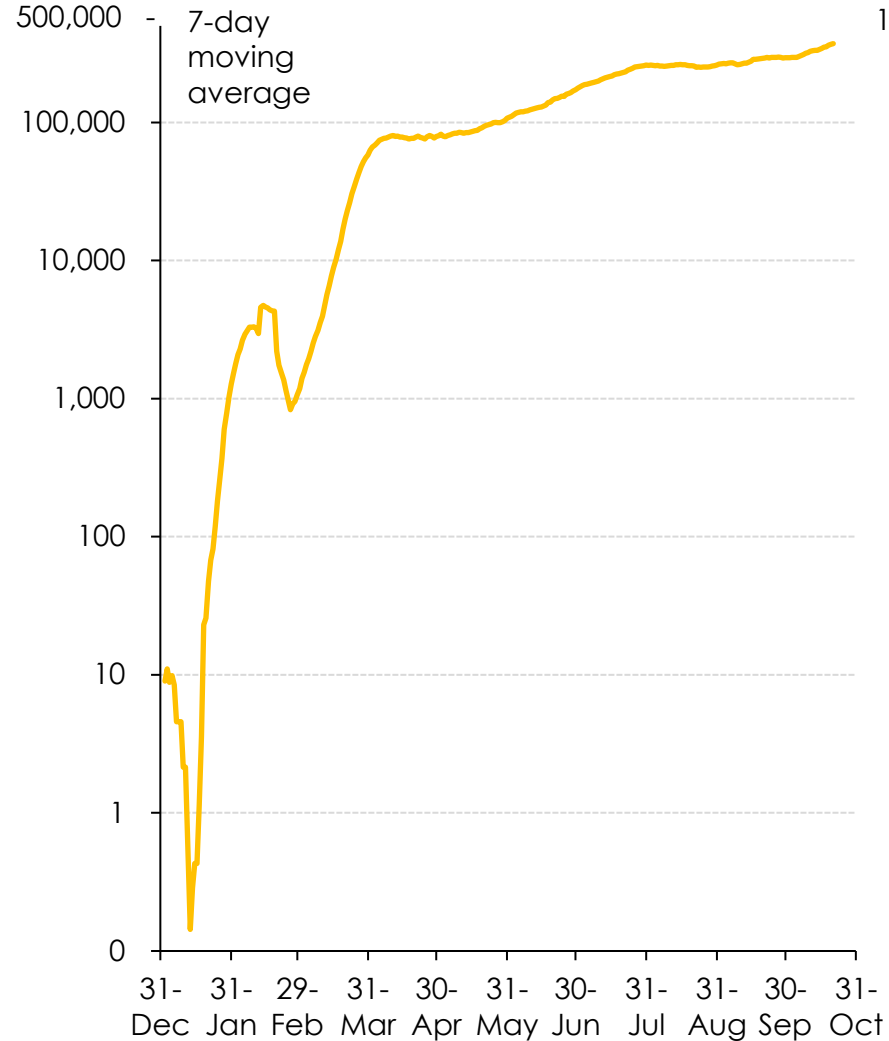
The virus

Over the past week there've been more than 2½mn new cases, taking the total to over 40mn – although the fatality rate is declining

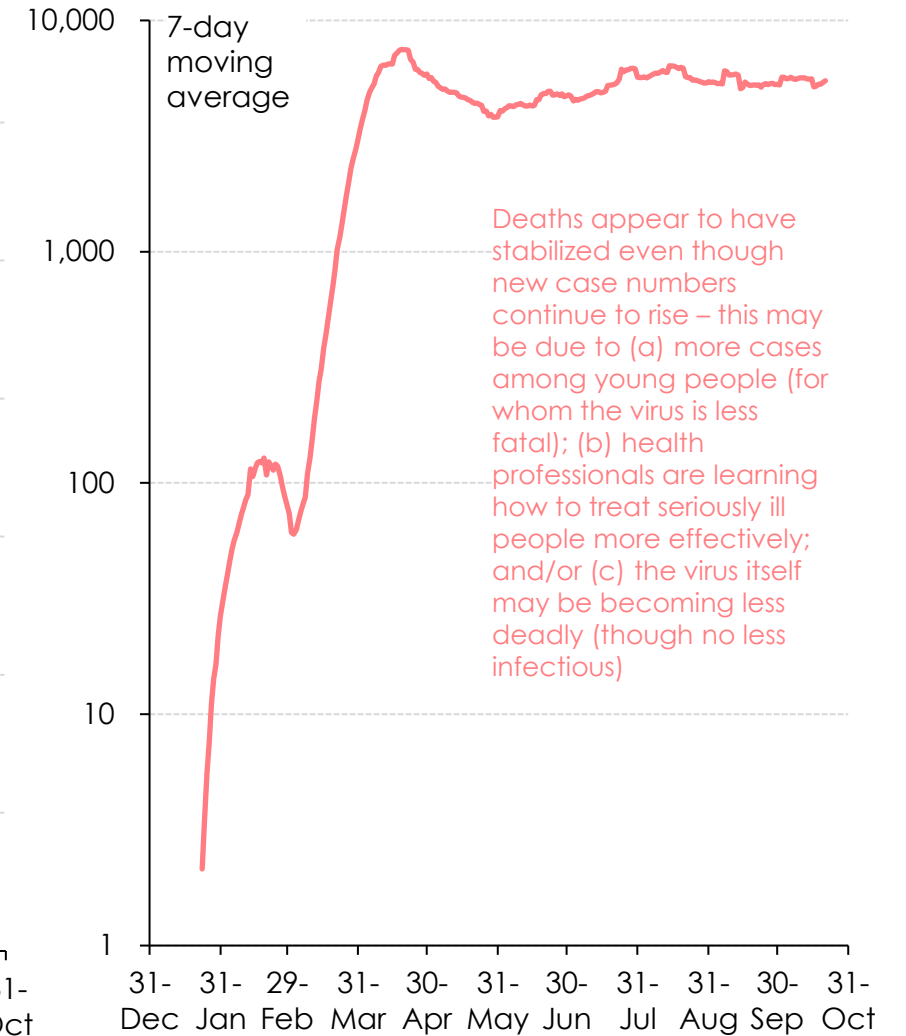
Cumulative confirmed cases – global total



New confirmed cases – global total



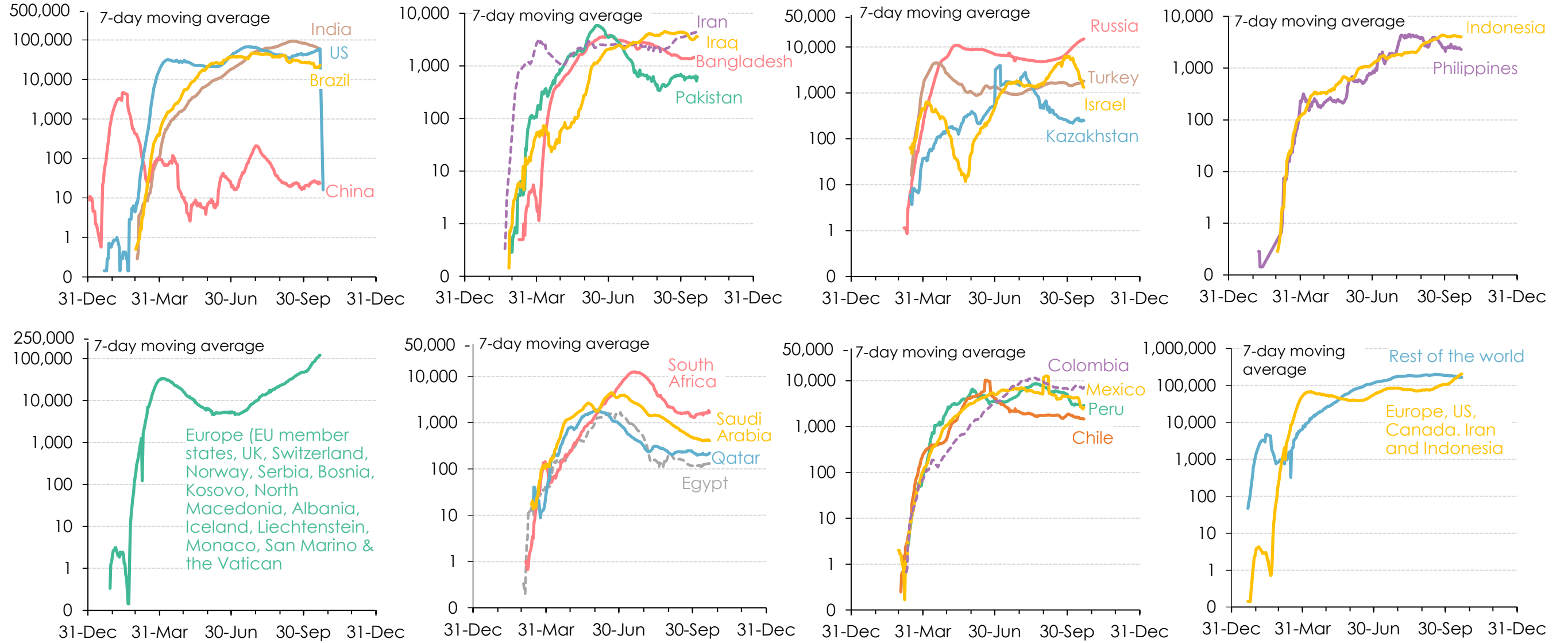
New deaths – global total



Note: All charts are on logarithmic scales. Data up to 21ST October. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

32% of new cases are now in Europe, 16% in the US and 6% in Russia, Iran & Indonesia: another 16% are in India & 6% in Brazil, but they're now falling

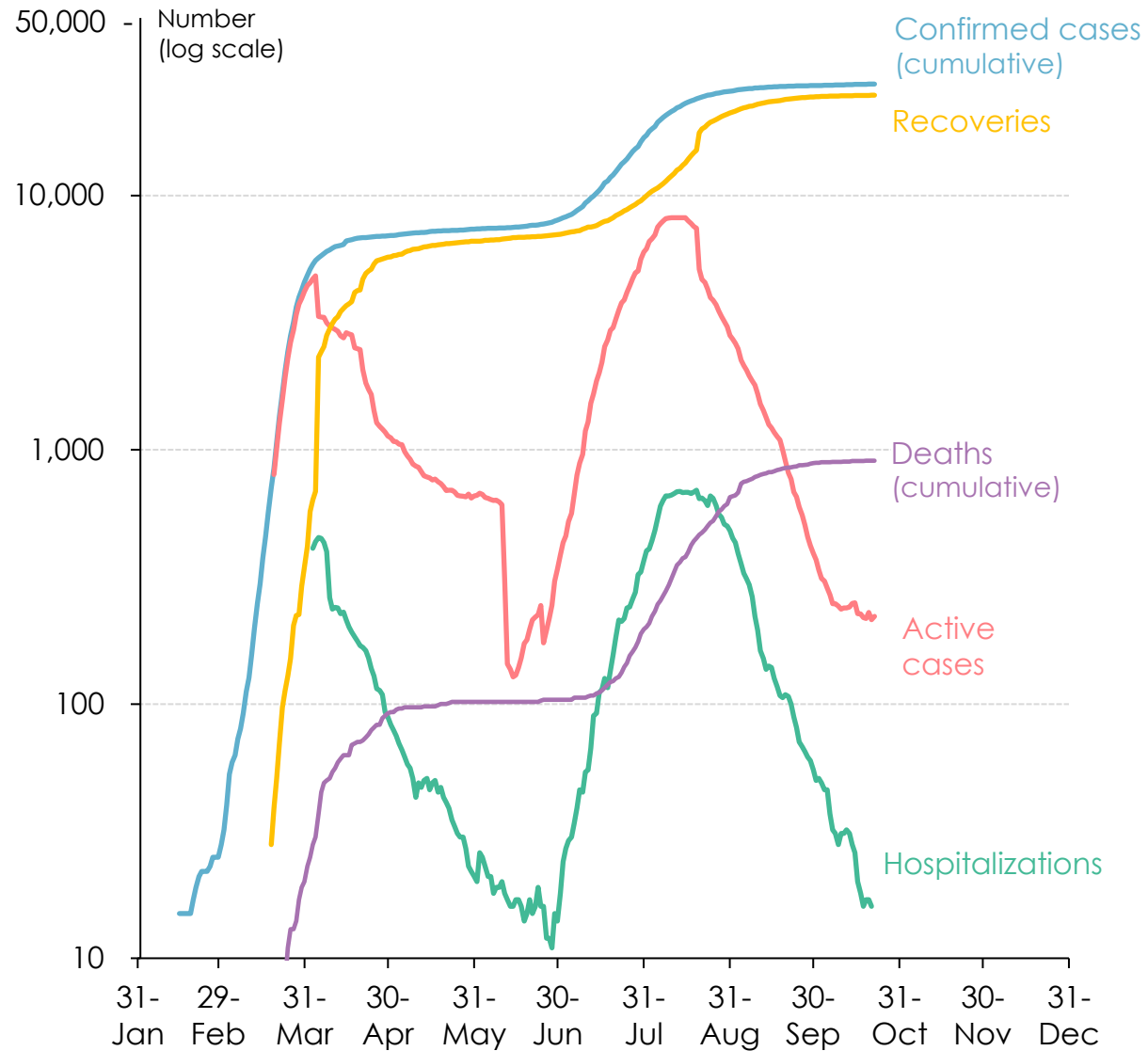
Daily new cases – selected countries with large populations and/or rapid growth in cases



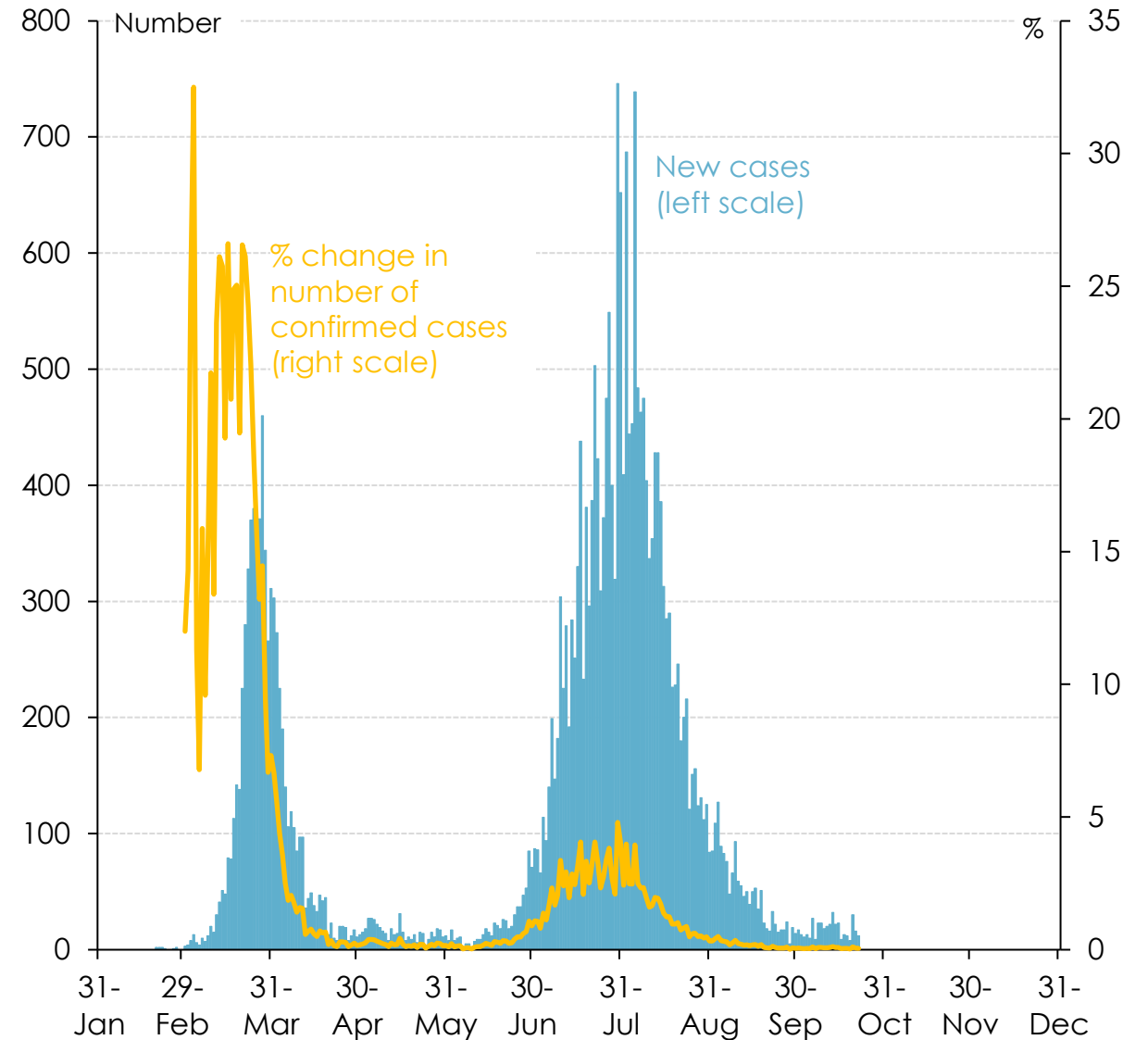
Note: All charts are on logarithmic scales. Data up to 21ST October.
Source: University of Oxford, [Our World in Data](#); Corinna.

Australia's 'second wave' of infections is now over

Cases, recoveries, hospitalizations and deaths



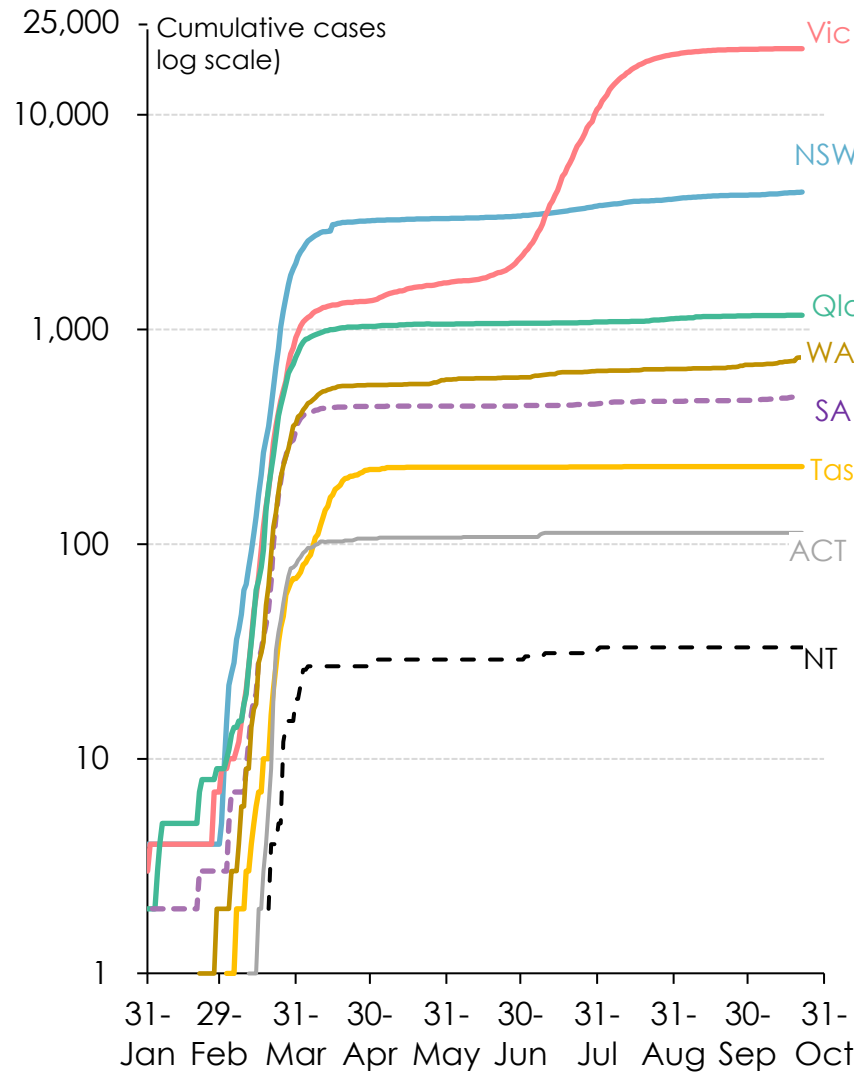
New cases



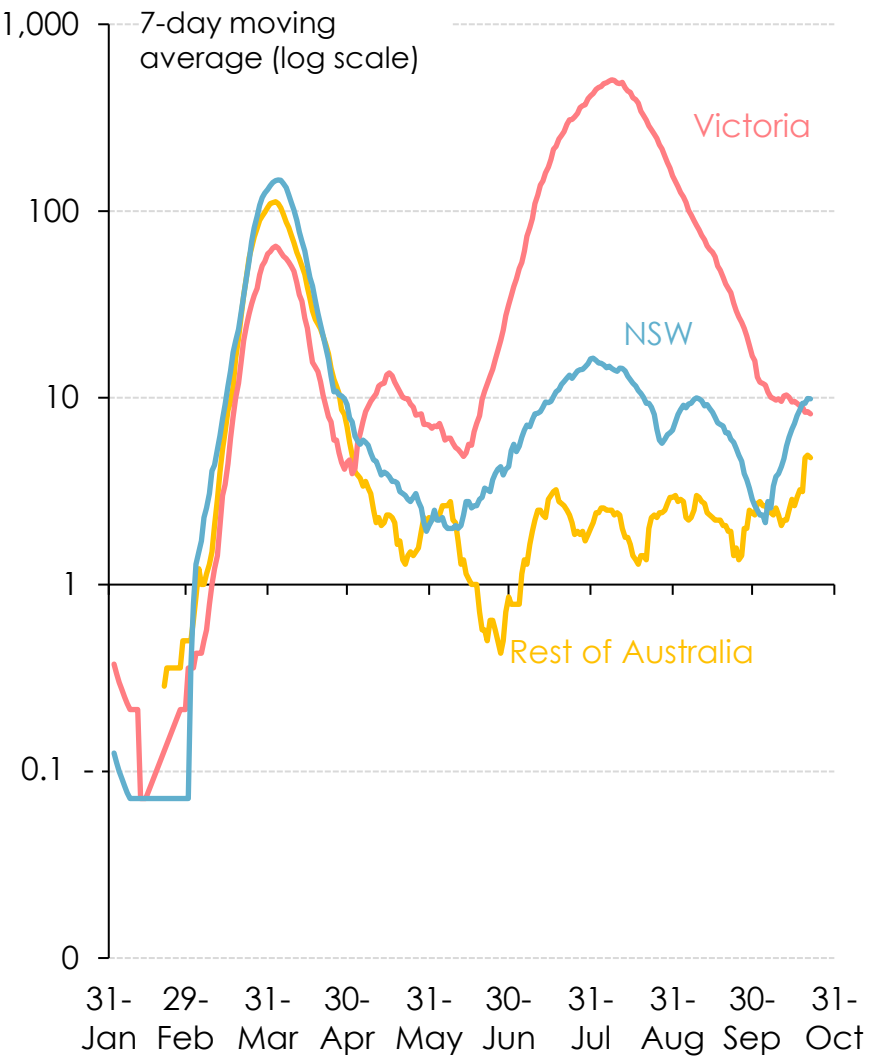
Note: Data up to 21st October. Source: covid19data.com.au.

Victoria's new cases have declined to an average of just below 10 a day, while NSW's have risen to just above that, and WA's have also crept higher

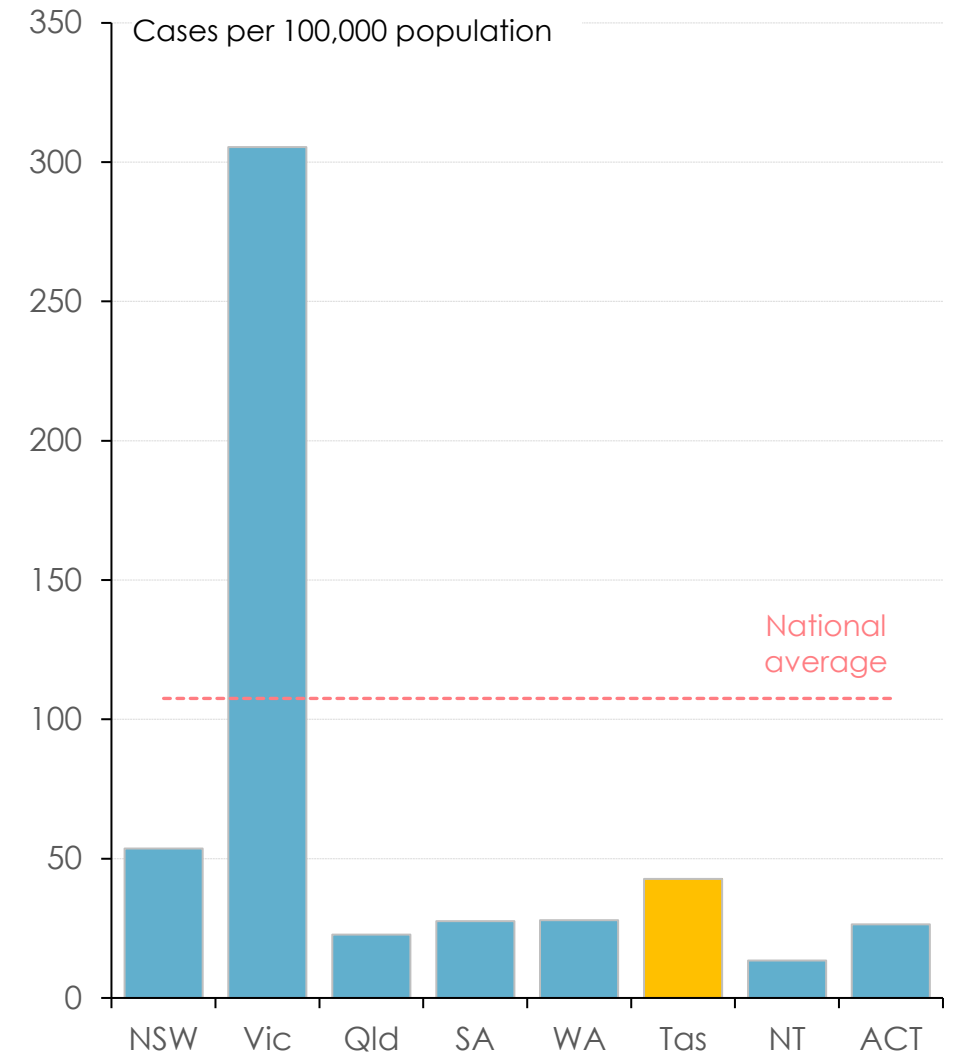
Cumulative cases, by State



New cases



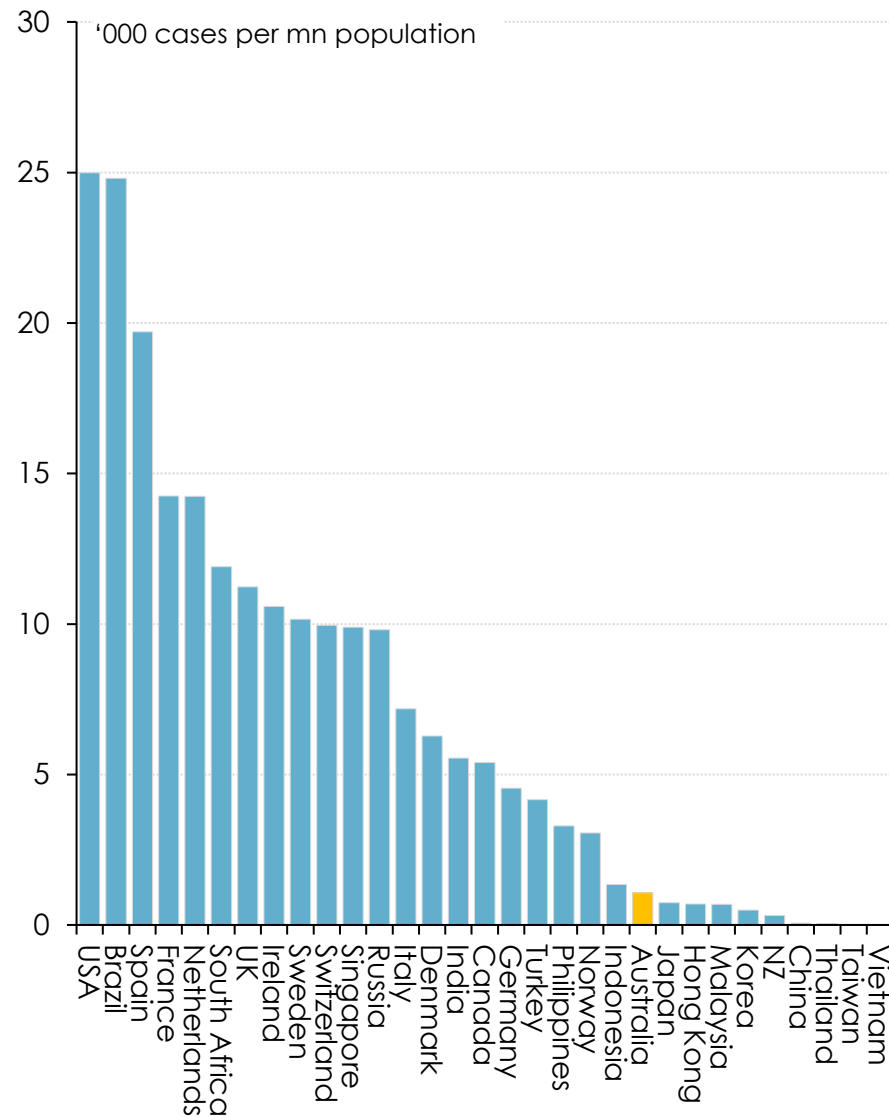
Cases per 100,000 population



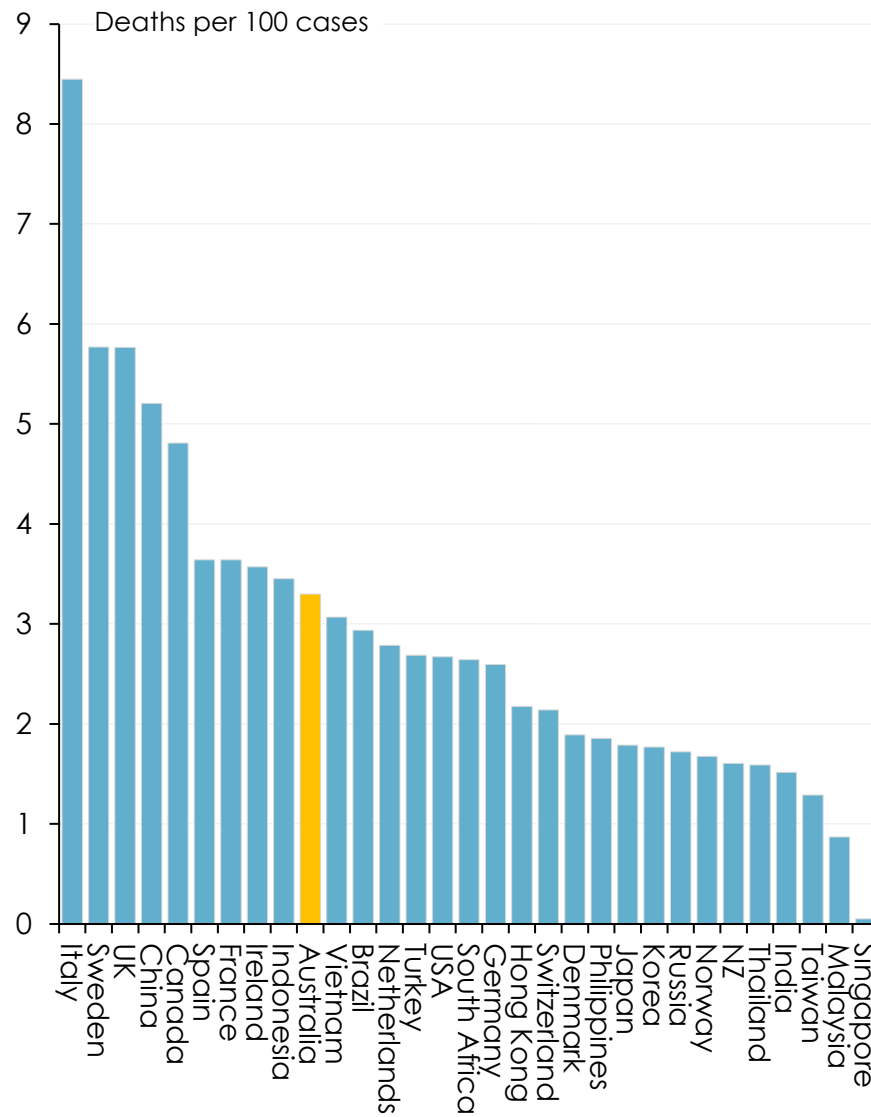
Note: Data up to 21st October. Source : covid19data.com.au.

Australia's infection and death rates remain, along with NZ's and most East Asian countries', low by international standards

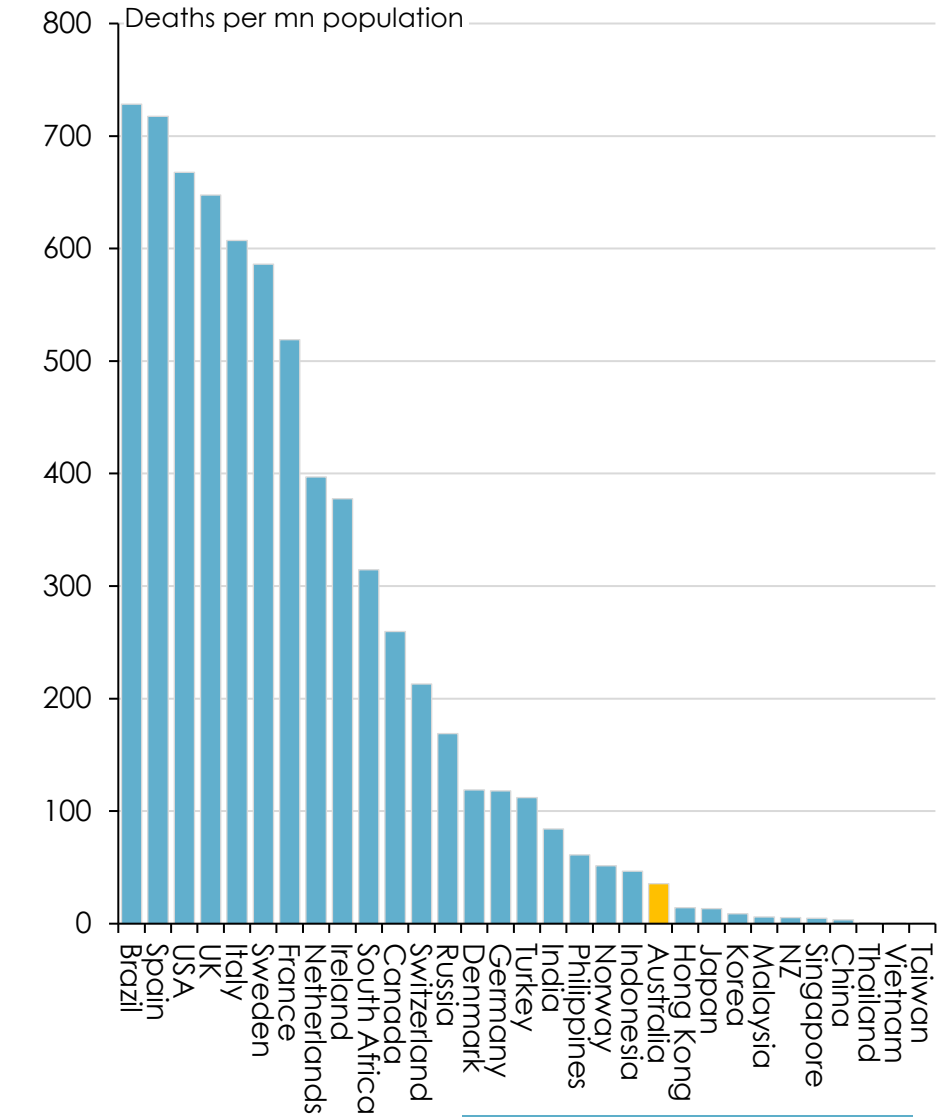
Apparent infection rate



Apparent fatality rate



Death rate

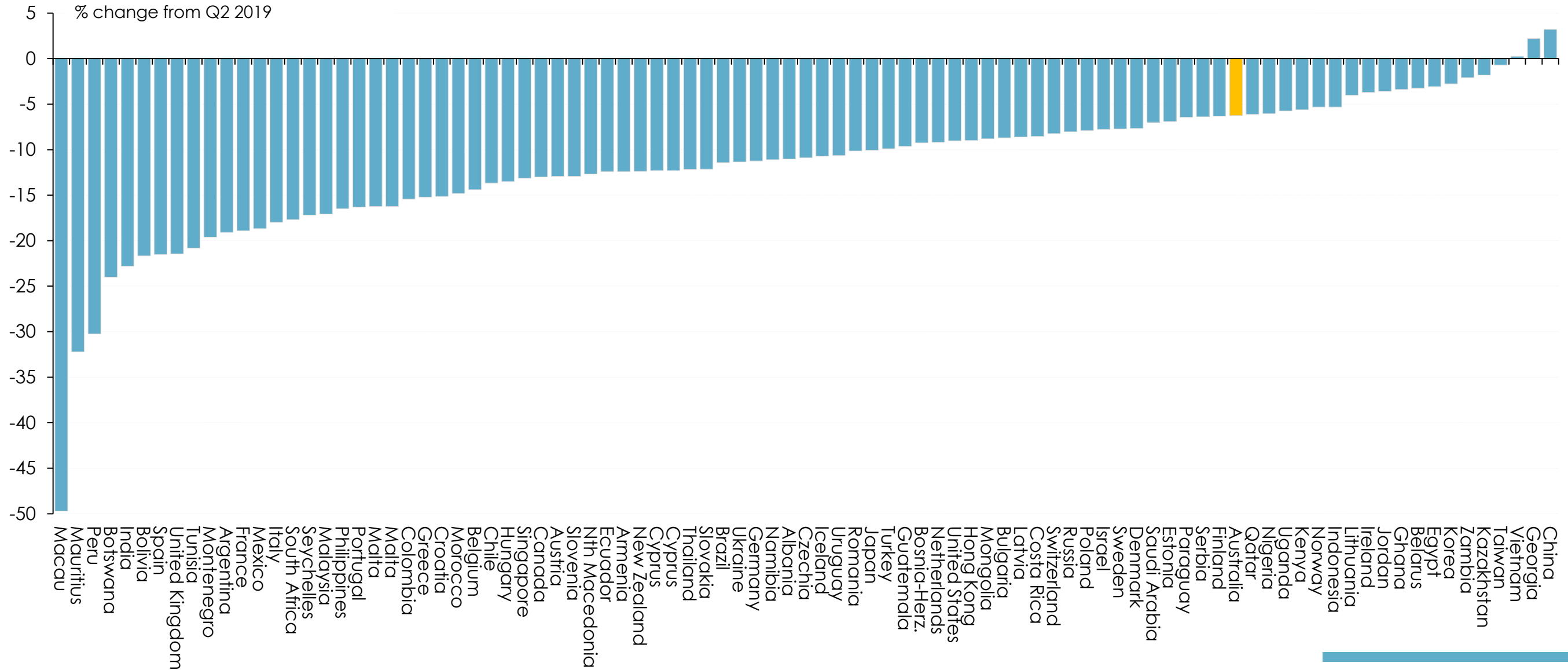


Note: Data up to 21st October. Source: University of Oxford, [Our World in Data](#); Corinna.

The world

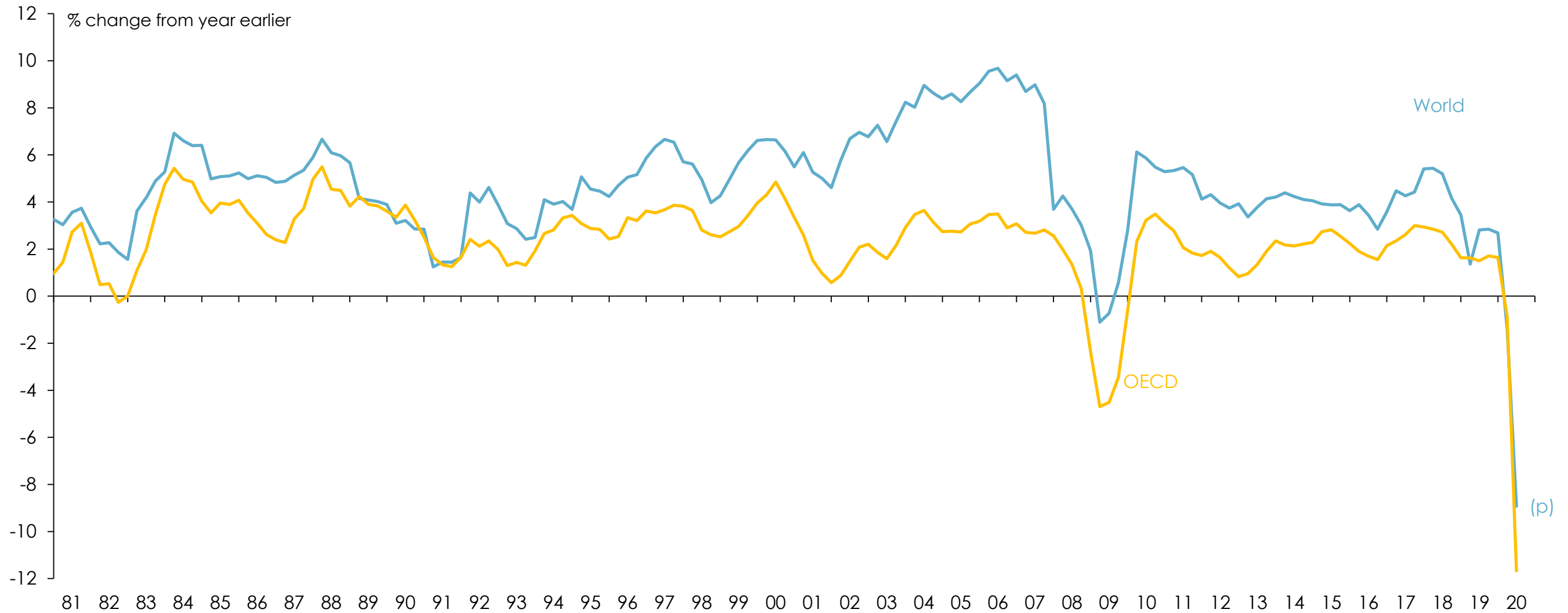
Of the 91 economies which have reported Q2 GDP data so far, 9 have reported contractions of more than 20% and only 3 have reported growth

Real GDP growth over the year to Q2 2020



The world economy experienced has contracted by about 9%, and the OECD area economy by 11³/₄%, over the year to Q2

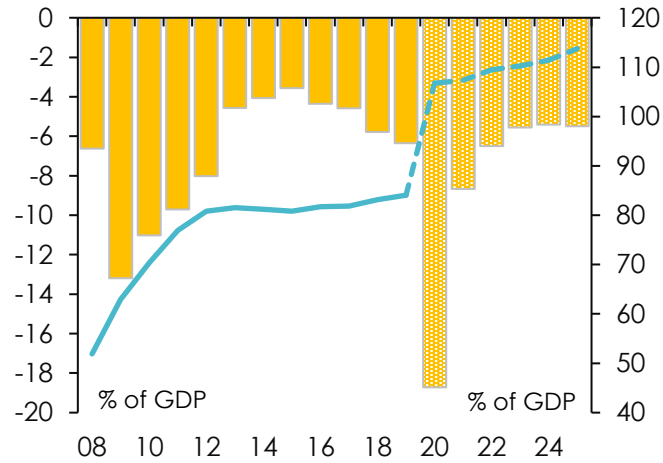
World and OECD area real GDP growth



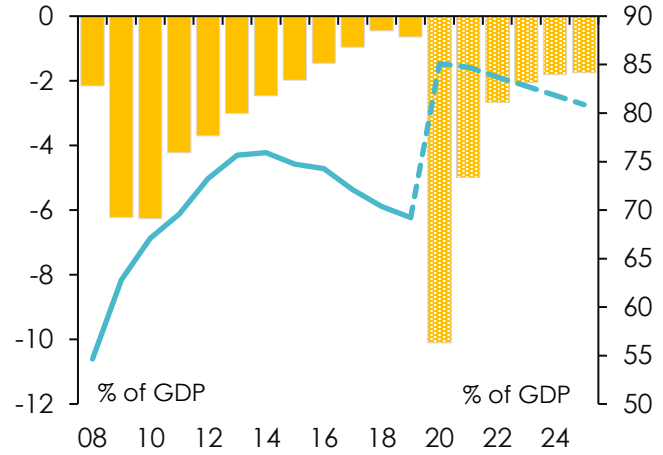
Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019. ; excludes constituents of the former USSR before 1993, the former Czechoslovakia before 1995, and the former Yugoslavia before 1998. (p) Estimate for Q2 is a preliminary estimate based on published results for the 91 countries shown in the [previous slide](#). Sources: national statistical agencies and central banks; Eurostat; [OECD](#); IMF; Corinna. [Return to "What's New"](#).

Every government is doing more by way of fiscal stimulus than during the financial crisis – and the US, Canada and the UK are doing more than most

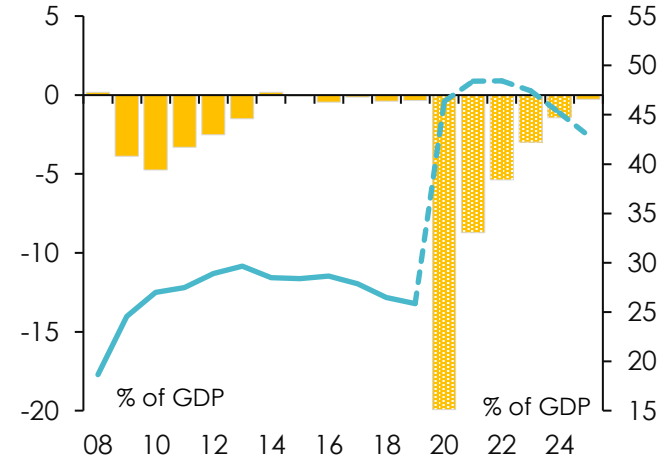
United States



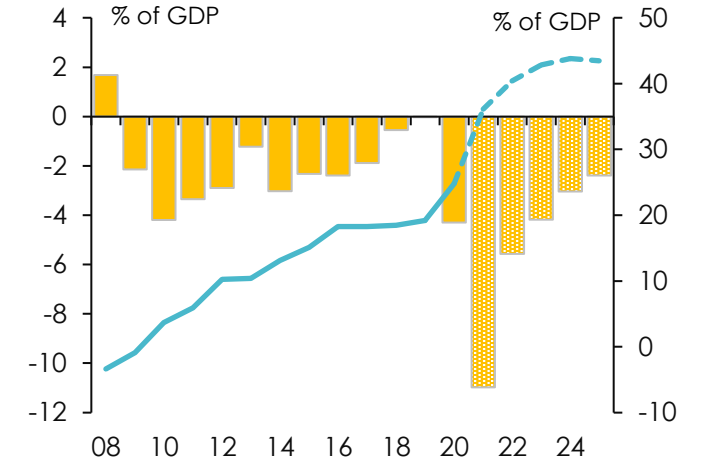
Euro area



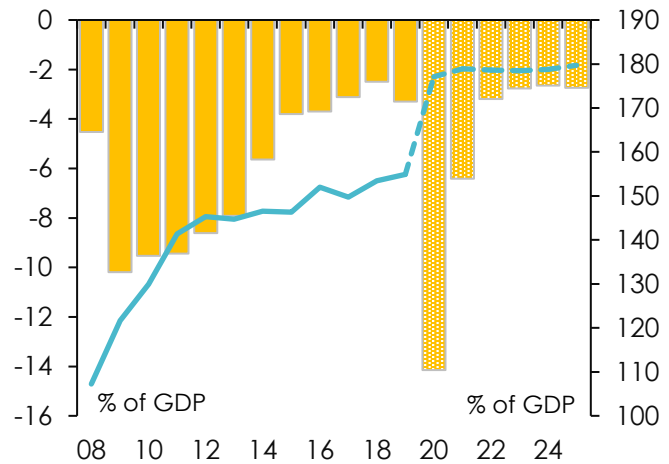
Canada



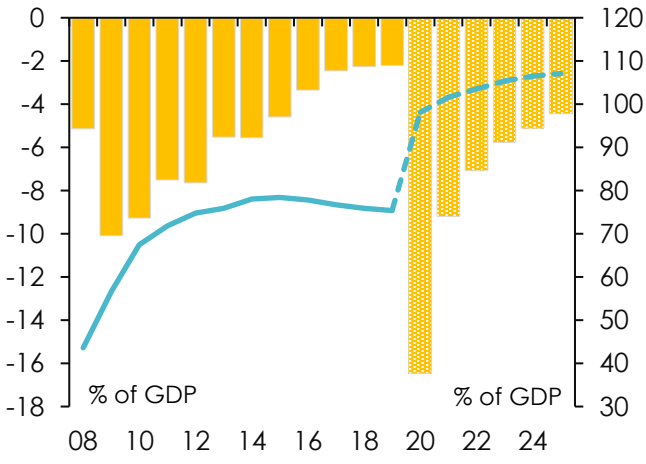
Australia



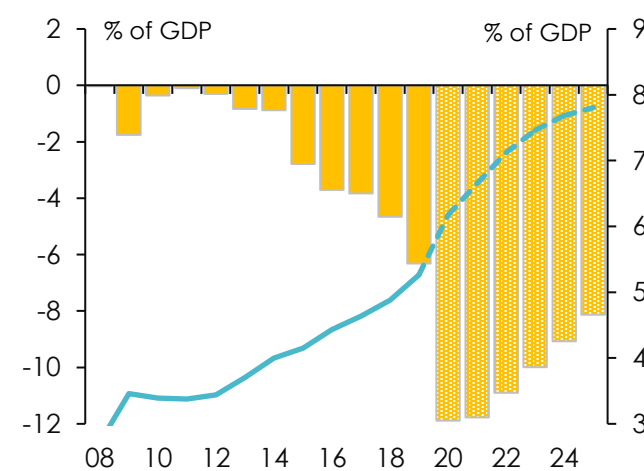
Japan



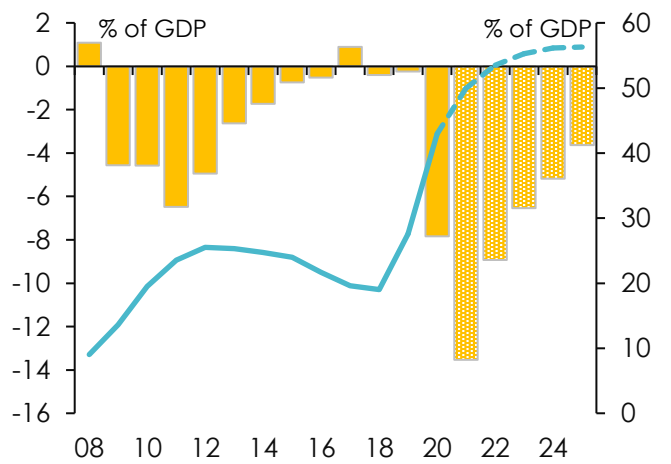
United Kingdom



China



New Zealand



General government overall fiscal balance (left scale)

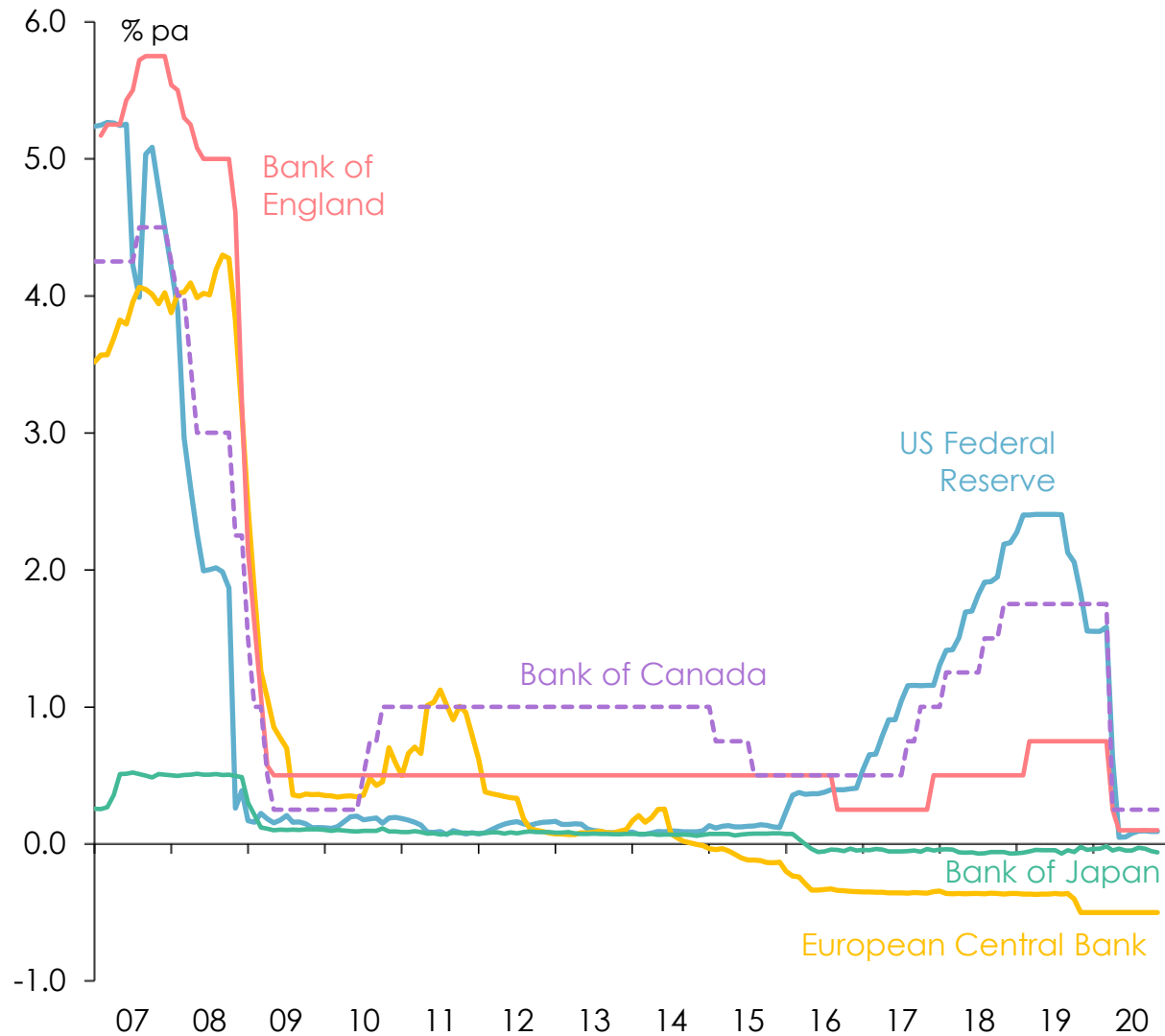


General government net debt (right scale)

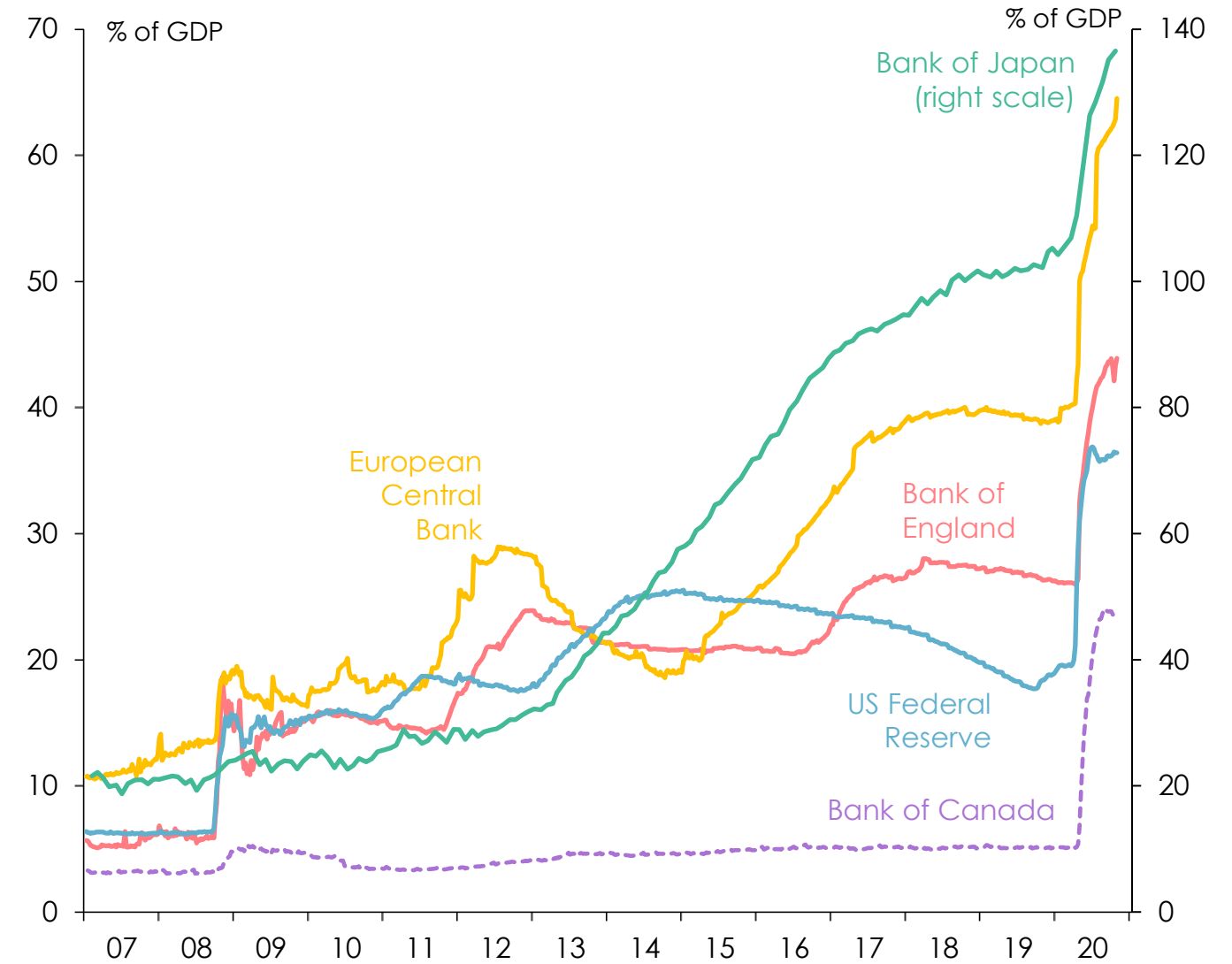
Note: China debt is gross debt, not net; Australian data are for the federal government only and are for fiscal years ended 30th June; NZ data are for fiscal years ended 31st March. Sources: International Monetary Fund, *Fiscal Monitor*, and *World Economic Outlook*, October 2020; Australian Government, 2020-21 *Budget Paper No. 1*, October 2020; New Zealand Treasury, *Pre-Election Economic and Fiscal Update*, September 2020. [Return to "What's New"](#)

Major central banks have cut interest rates to record lows, and done more 'quantitative easing' than during the global financial crisis

Major central bank policy interest rates



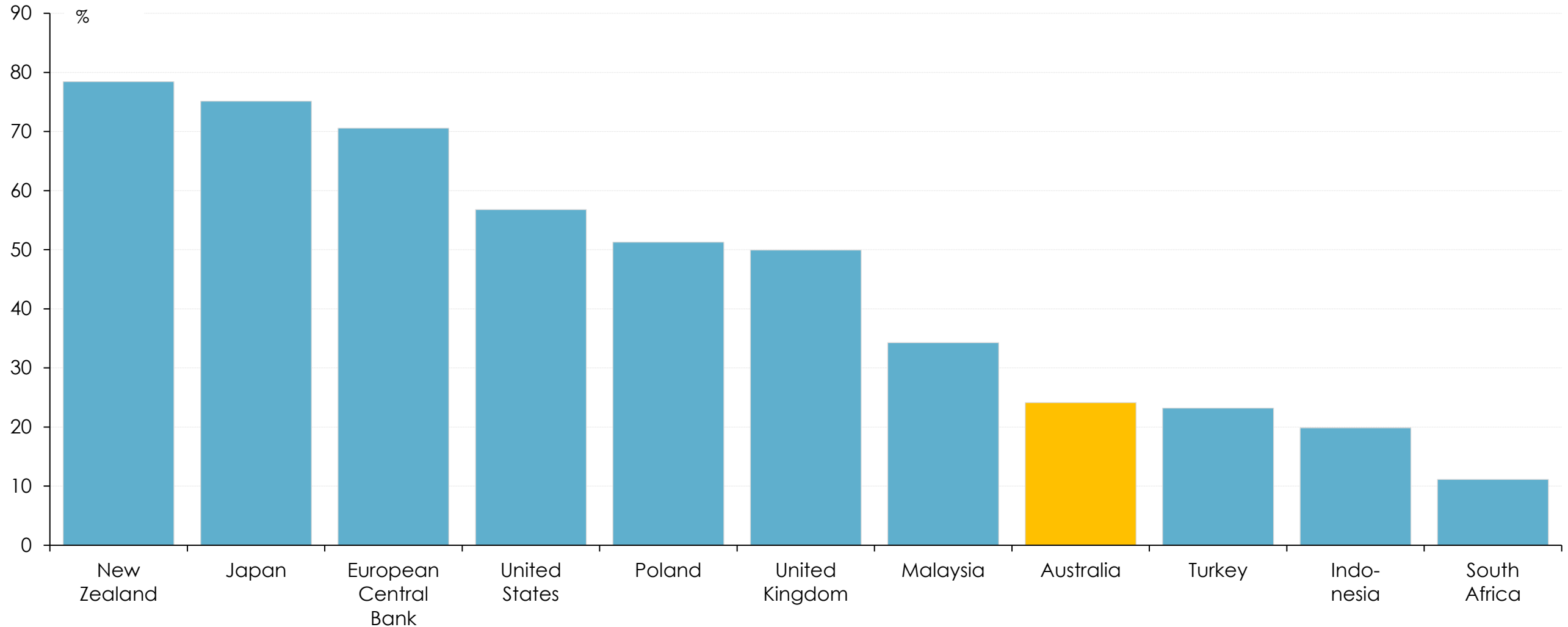
Major central bank balance sheets



Note: estimates of central bank assets as a pc of GDP for weeks or months since the beginning of April have been inflated by the sharp falls in nominal GDP recorded in Q2 (especially for the UK, on which see [slide 57](#)): Q2 nominal GDP will be used as the denominator for these estimates until Q3 data are available, beginning in November. Sources: [US Federal Reserve](#); [European Central Bank](#); [Bank of Japan](#); [Bank of England](#); [Bank of Canada](#); national statistical agencies; Corinna.

Australia's Reserve Bank has done less government bond-buying than most of its sister central banks

Central bank purchases of national government marketable securities or debt, as a percentage of total gross issuance, since end-February 2020

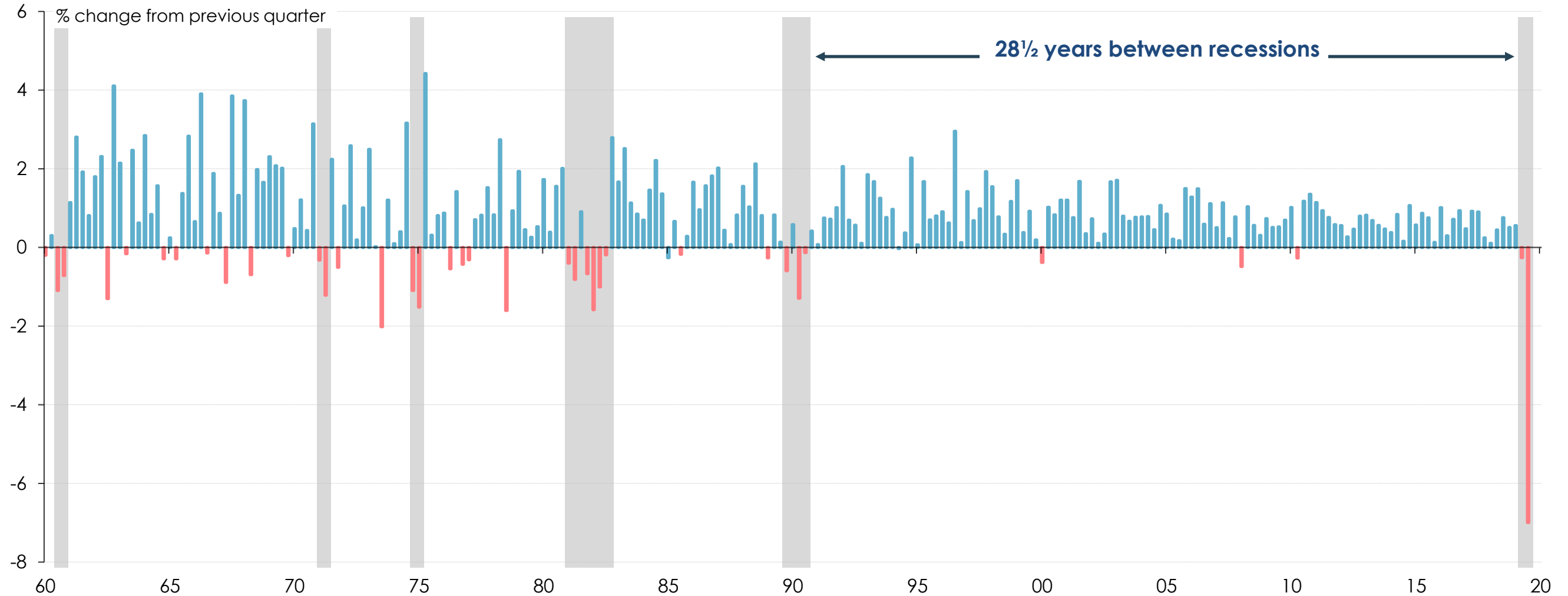


Sources: IMF, [Fiscal Monitor](#), October 2020; and for Australia and New Zealand, calculations by Corinna using data sourced from [Australian Office of Financial Management \(AOFM\)](#), [Reserve Bank of Australia](#), [New Zealand Treasury](#) and [Reserve Bank of New Zealand](#) (excludes purchases and issuance of Treasury notes).

Australia

Australia's record-breaking run of almost 30 years without a recession has come to an end

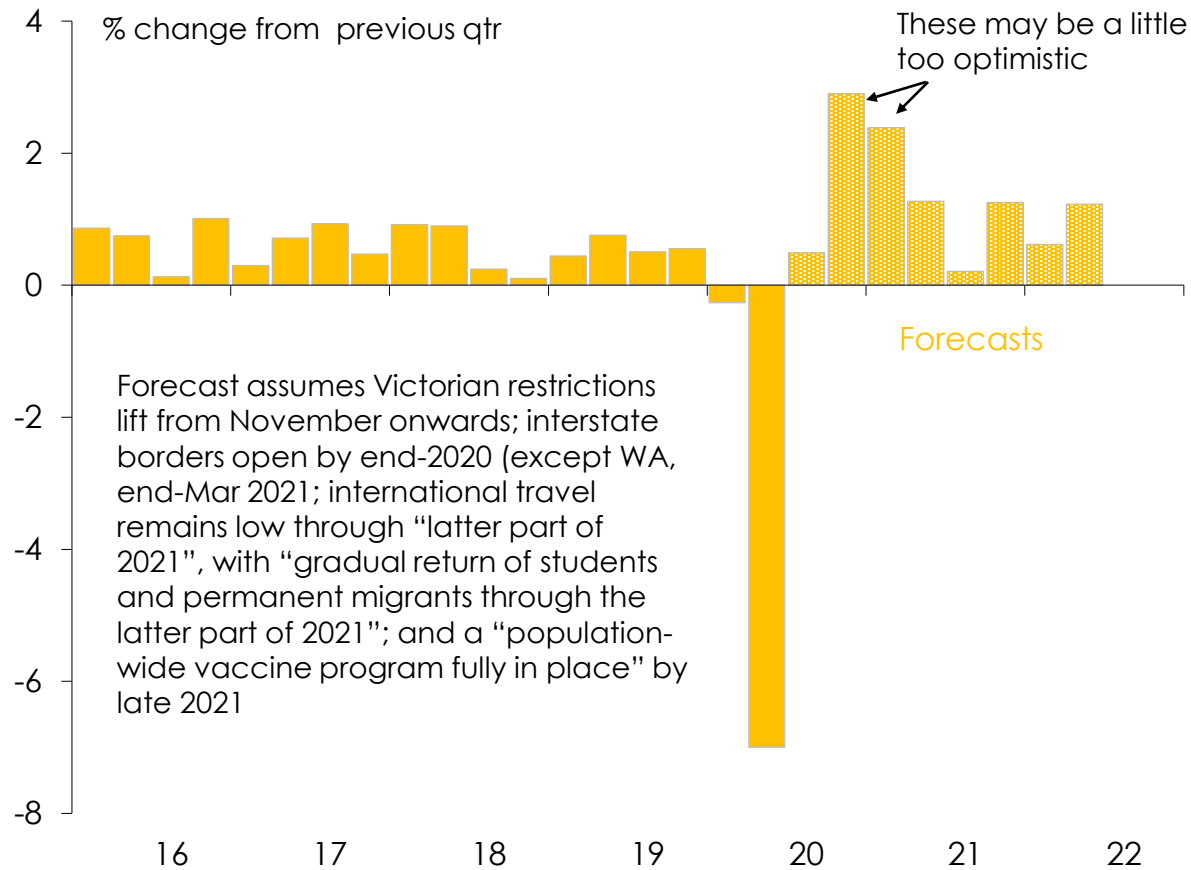
Quarterly growth in Australian real GDP, 1960-2020



Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2020. September quarter (Q3) national accounts will be released on 2nd December. [Return to "What's New"](#).

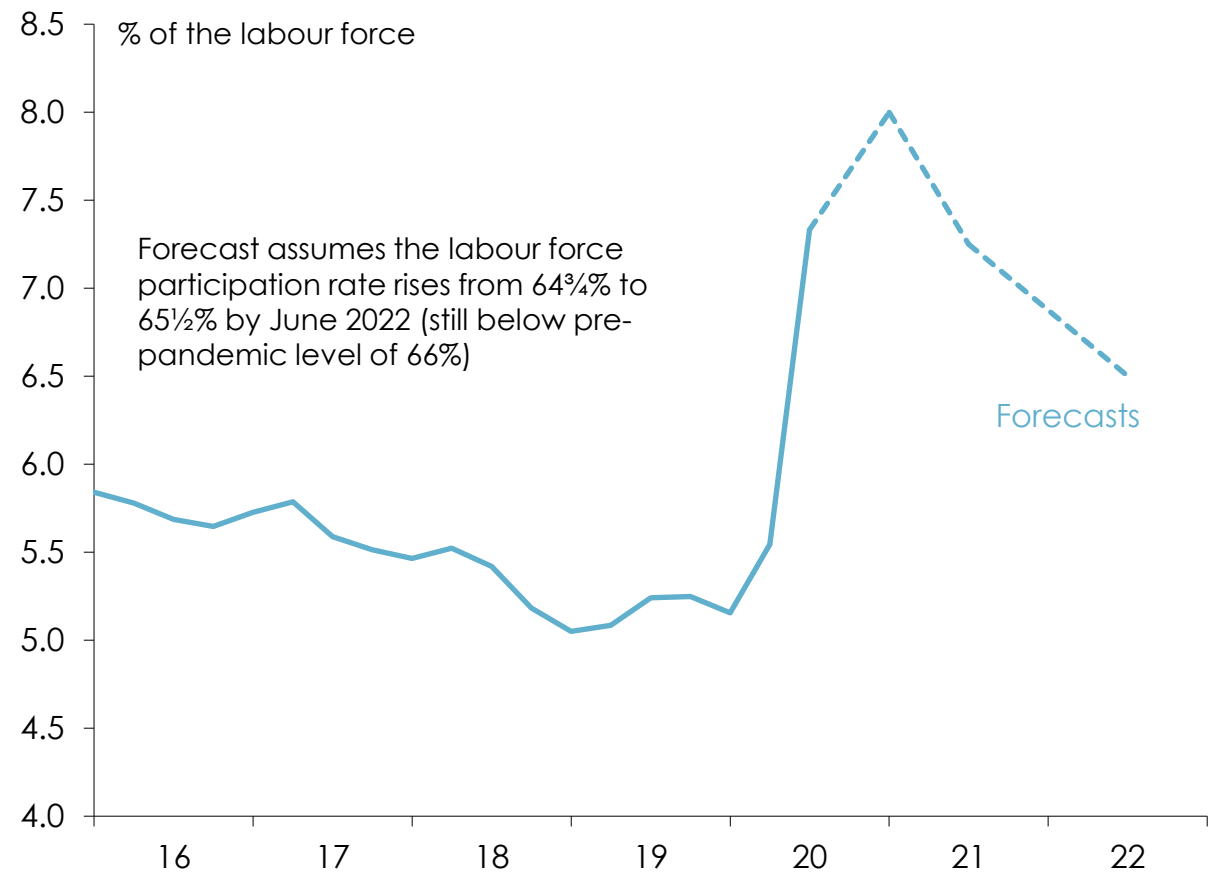
The Government expects a 'growth surge' over summer followed by more modest growth in 2021-22

Real GDP growth



- ❑ Treasury expects that economic growth resumed in the September quarter, will reach almost 3% in the December quarter, 2½% in the March quarter 2021 and then average ¾% per quarter for the next 5 quarters

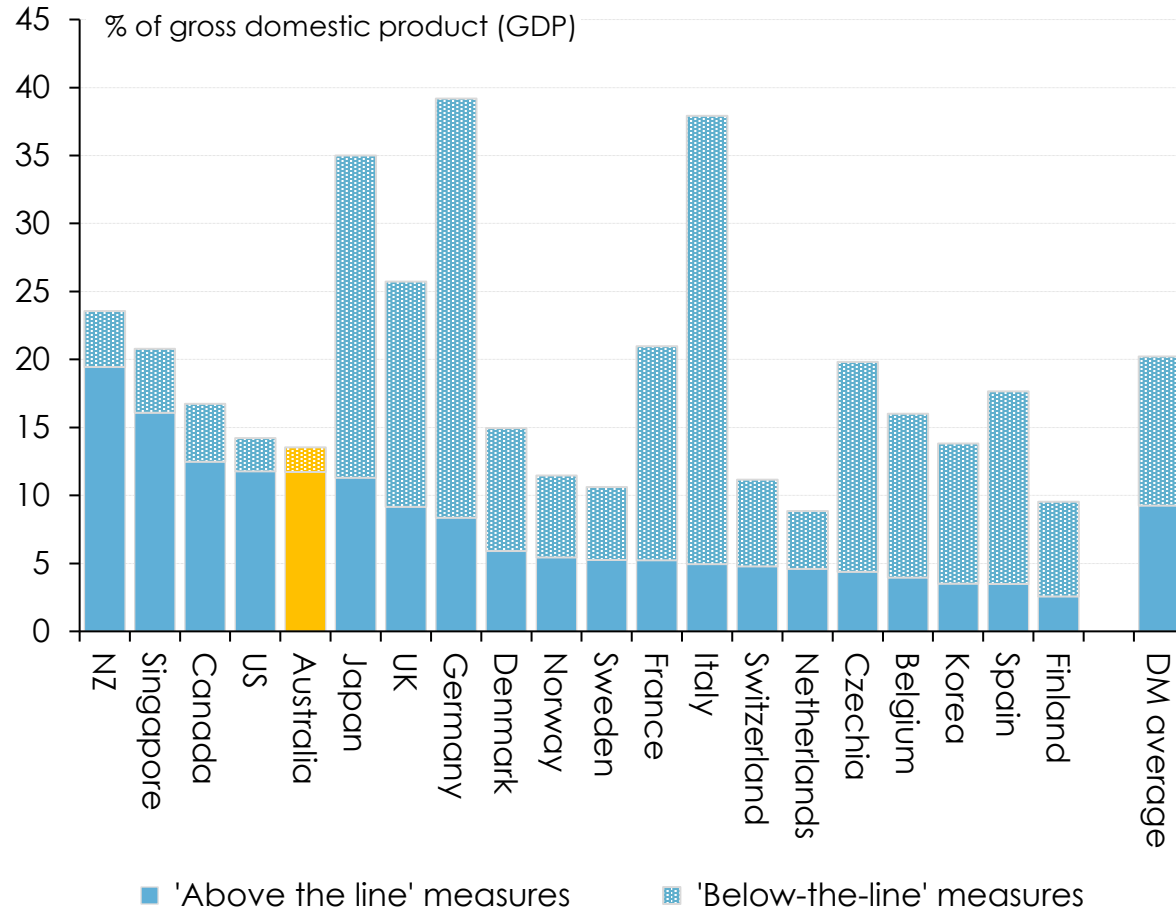
Unemployment



- ❑ Treasury expects the unemployment rate to peak at 8% in the December quarter, and then fall to 6½% by the June quarter 2022

The Australian Government's policy measures have been large by historical and international standards

Fiscal policy responses to Covid-19 – selected 'advanced' & Asia-Pacific economies



Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 20th September 2020.

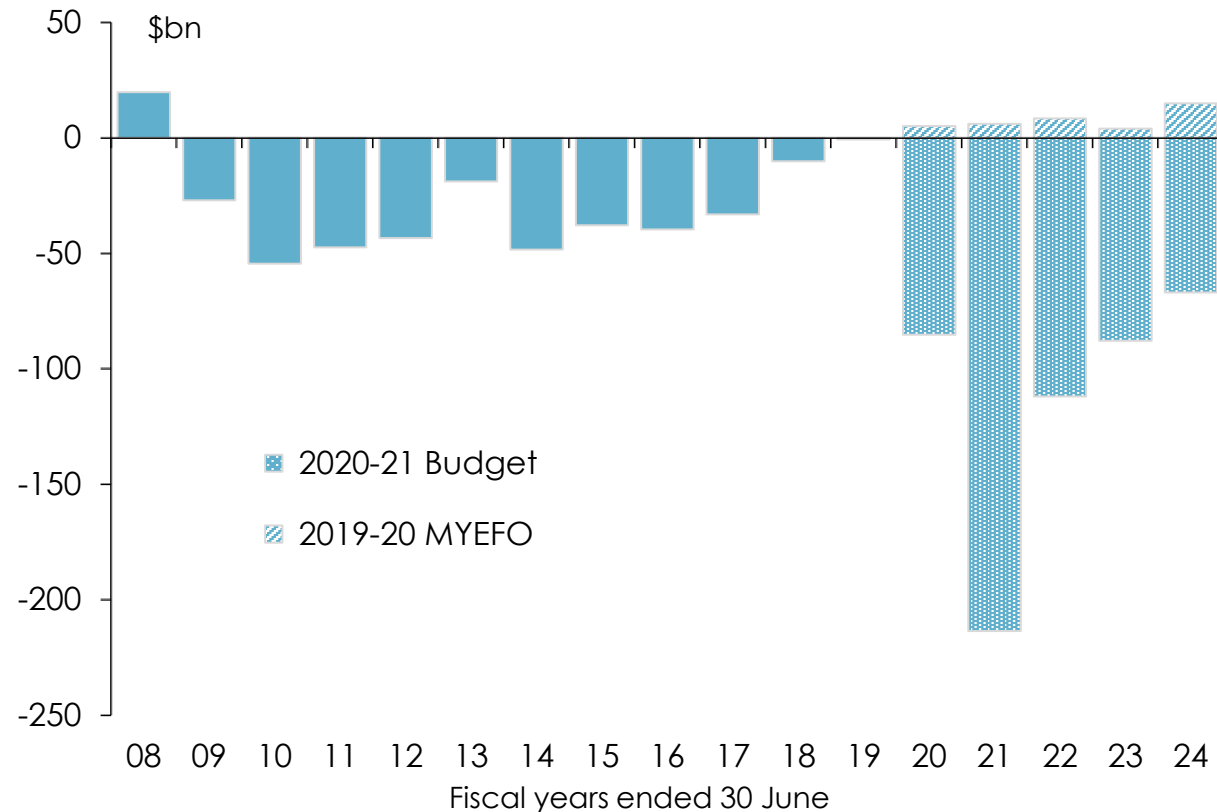
Source: IMF, [Fiscal Monitor](#), October 2020.

- ❑ Policy measures announced prior to this month's federal Budget totalled A\$232bn over FYs 2019-20 and 2020-21 or about 11³/₄% of one year's GDP – which is large by international standards (and double what was done during the GFC)
- ❑ Principal objectives of policy measures have been to –
 - maximize the 'survival prospects' of businesses affected by shutdowns, across Australia during the first (national) shutdown and more recently in Victoria
 - minimize the impact of the shutdown on employment
 - provide additional income support to those who lose their jobs
 - strengthen the capacity of the health care system to cope with increased demand
- ❑ Policy measures have been designed to be 'simple' to administer, and to make greatest use of existing systems rather than having to create new mechanisms
 - which (inevitably) resulted in some anomalies that took time to correct
- ❑ Policy measures also designed to be readily 'switched off' once the need for them has passed

The FY 2020-21 Budget, unveiled this month, confirms a dramatic deterioration in the Government's fiscal position

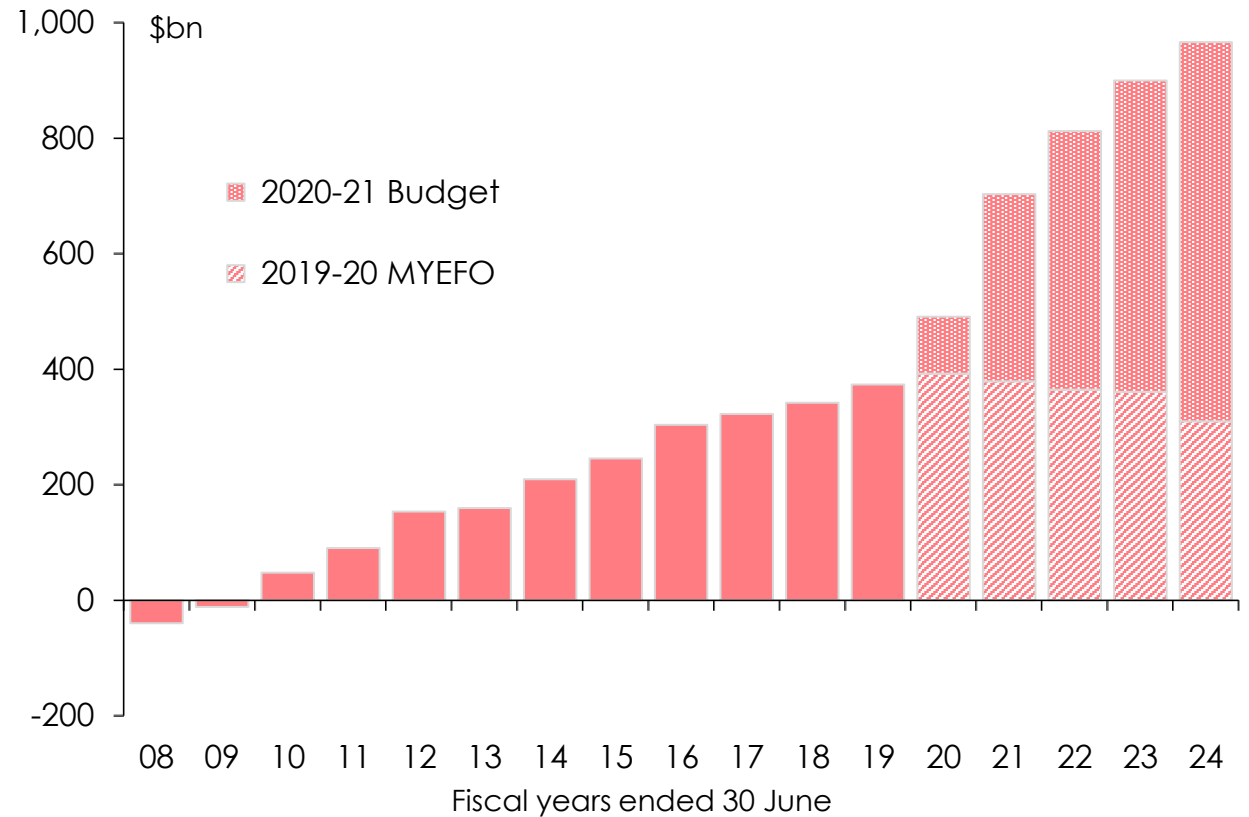
2019-20 Mid-Year Economic & Fiscal Outlook (MYEFO) and 2020-21 Budget forward estimates compared

'Underlying' cash balance



❑ Last December, the Government was confidently predicting a return to budget surpluses – now, it is forecasting deficits totalling \$566bn over the five years to 2023-24

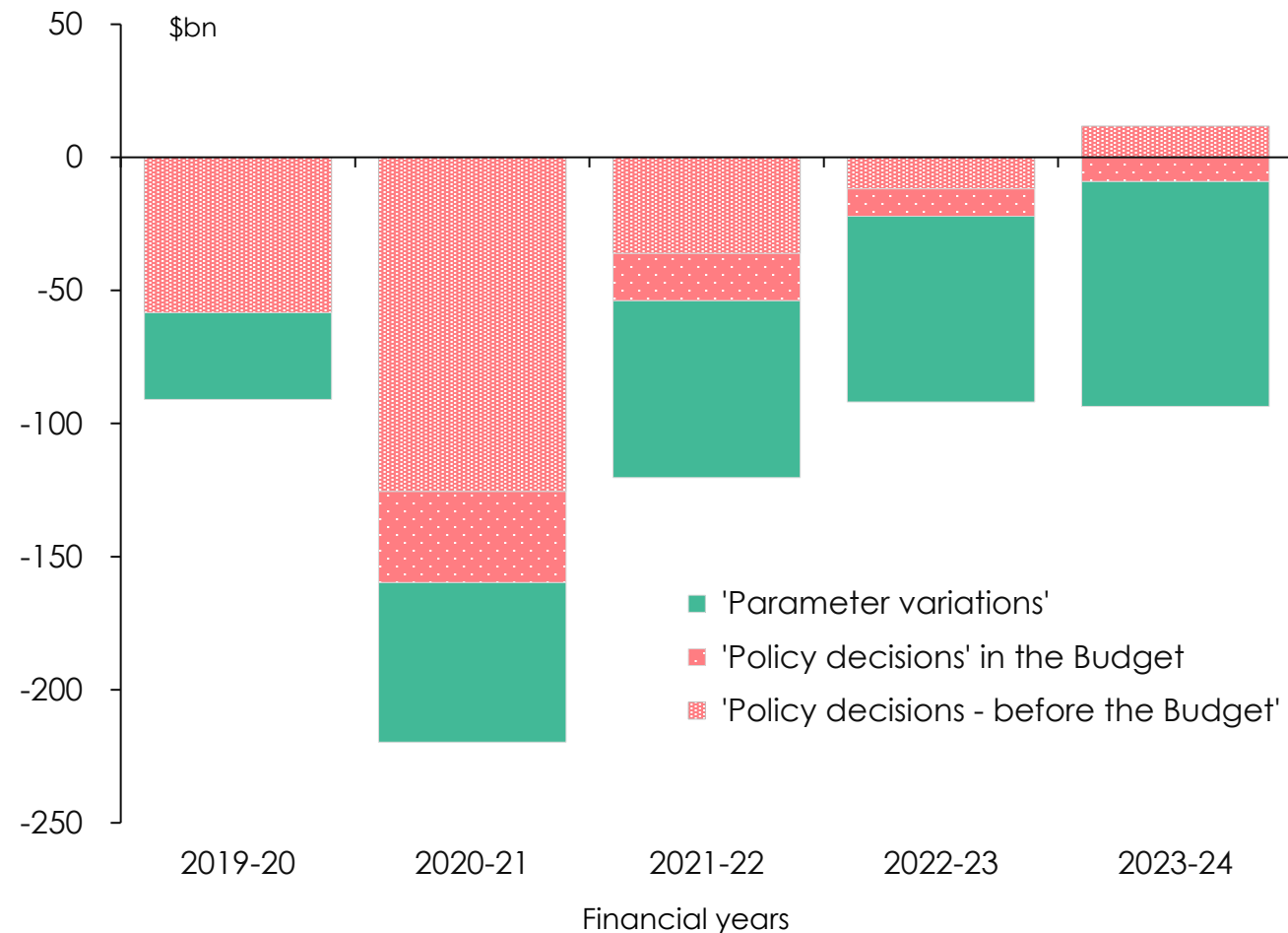
Net debt



❑ Last December, net debt was expected to have peaked at \$392bn in June 2020, and fall to \$310bn by June 2024 – instead it rose to \$490bn at June 2020, and is now expected to reach \$966bn by June 2024

The deterioration in the budget 'bottom line' is roughly equally attributable to 'policy decisions' and changes in the economic outlook

Sources of the changes in forward estimates of the budget's 'underlying cash balance' between the 2019-20 MYEFO and the 2020-21 Budget

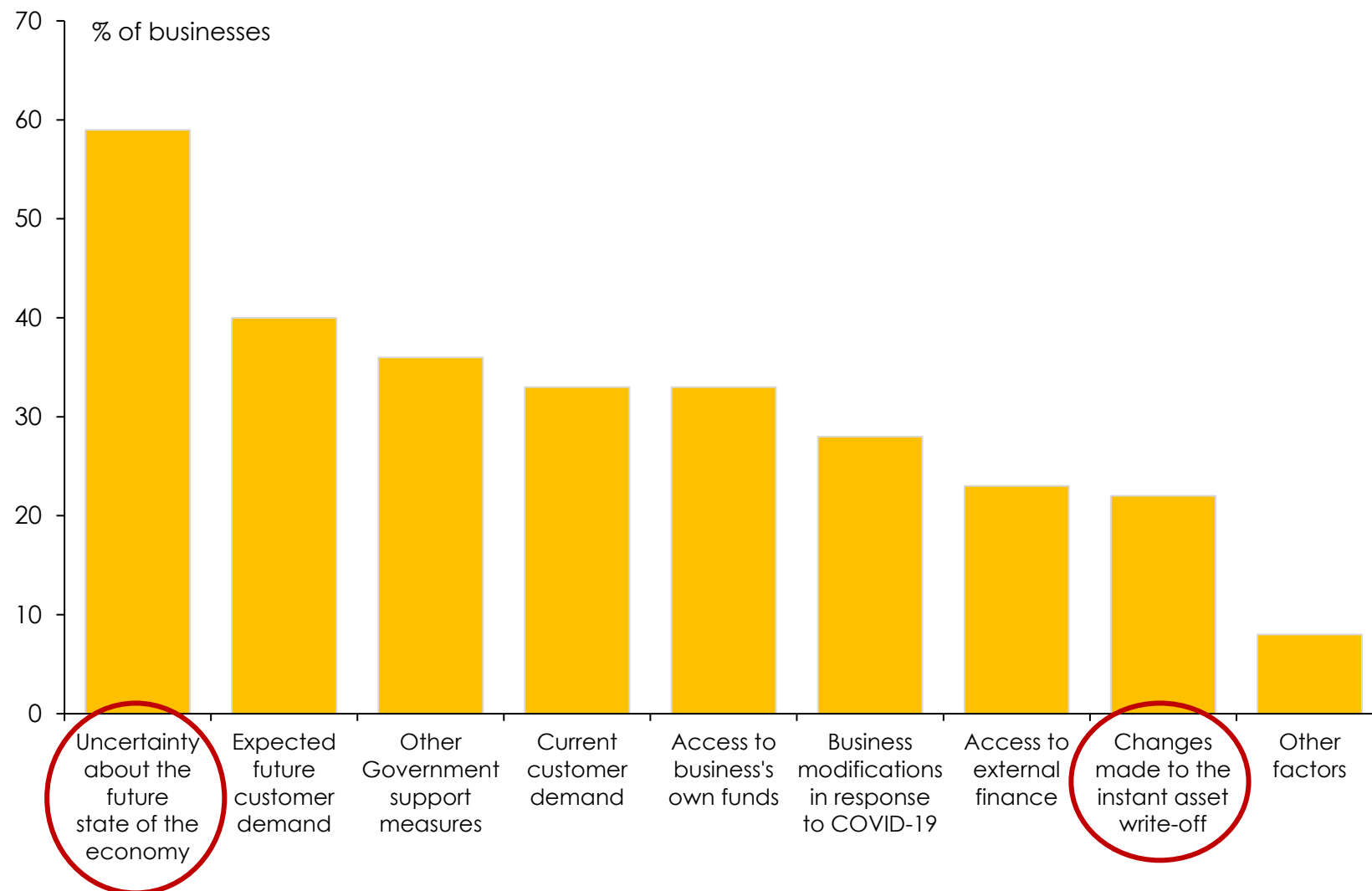


- ❑ In December last year the Government was anticipating budget surpluses totalling \$38.4bn over the five years to 2023-24: now it is forecasting deficits totalling \$566bn – a 'turnaround' of \$605bn
- ❑ Of that \$605bn 'turnaround',
 - \$292bn (just under half) is attributable to 'policy decisions', that is, conscious decisions to spend money or reduce taxes
 - and \$313bn (just under half) is attributable to what the Budget Papers call 'parameter variations', that is, changes in economic forecasts or other assumptions on which forward estimates of receipts and payments depend
- ❑ \$232bn (or 80%) of the 'policy decisions' were taken before the 2020-21 Budget (most of them in the first three months of the pandemic)
- ❑ 'Policy decisions' in the 2020-21 Budget amount to 'only' \$62bn
- ❑ \$160bn (55%) of the total 'policy decisions' affect the 2020-21 financial year

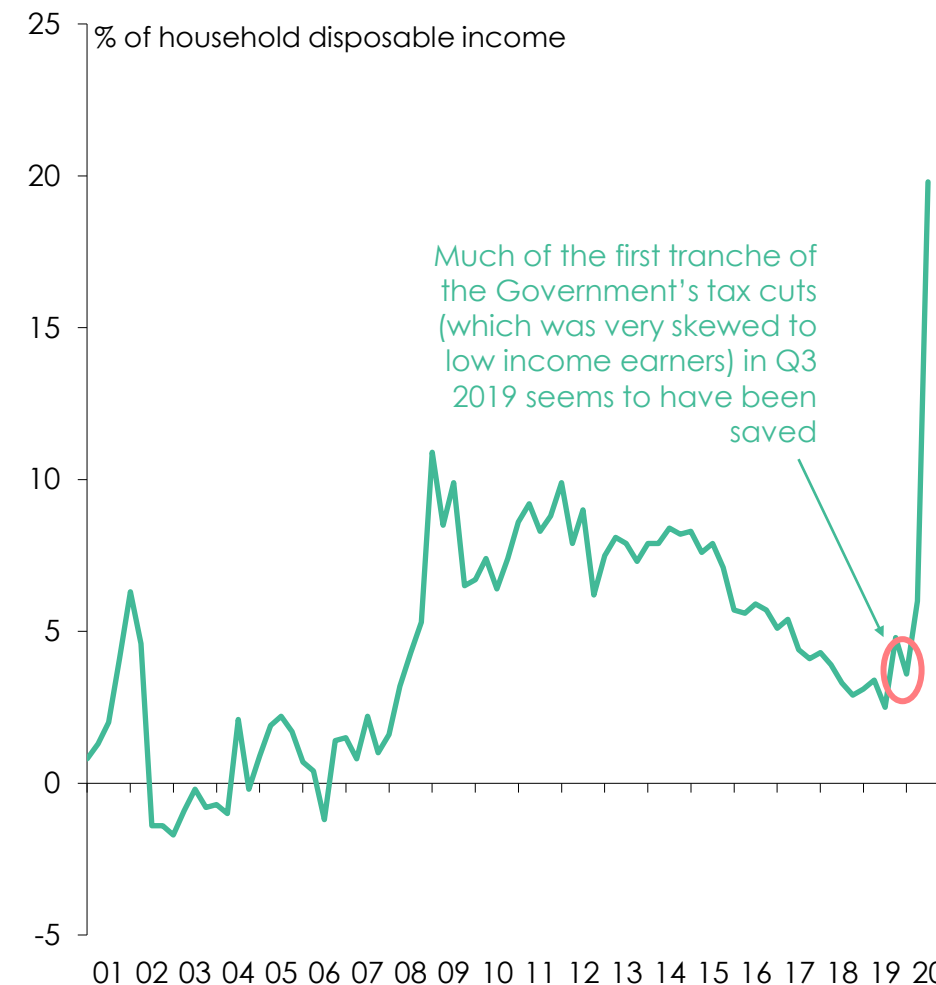
Source: Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 3](#) and [Budget Paper No. 2, Budget Measures](#); Corinna.

It's by no means certain that businesses and households will respond to the budget incentives in the way that the budget assumes

Factors affecting business investment decisions, August 2020



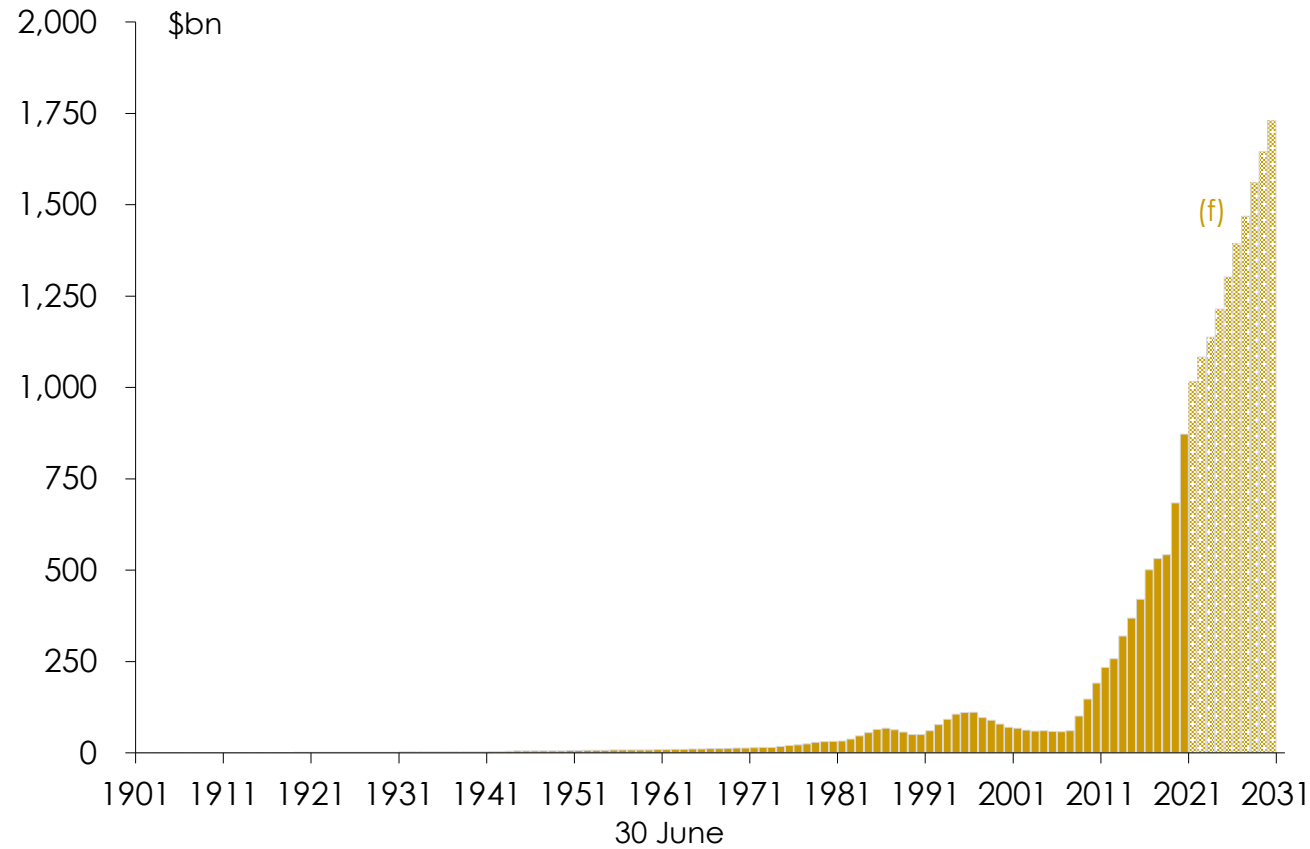
Household saving rate



Sources: ABS, [Business Impacts of Covid-19](#), August 2020 (based on survey conducted between 12th and 19th August); [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2020.

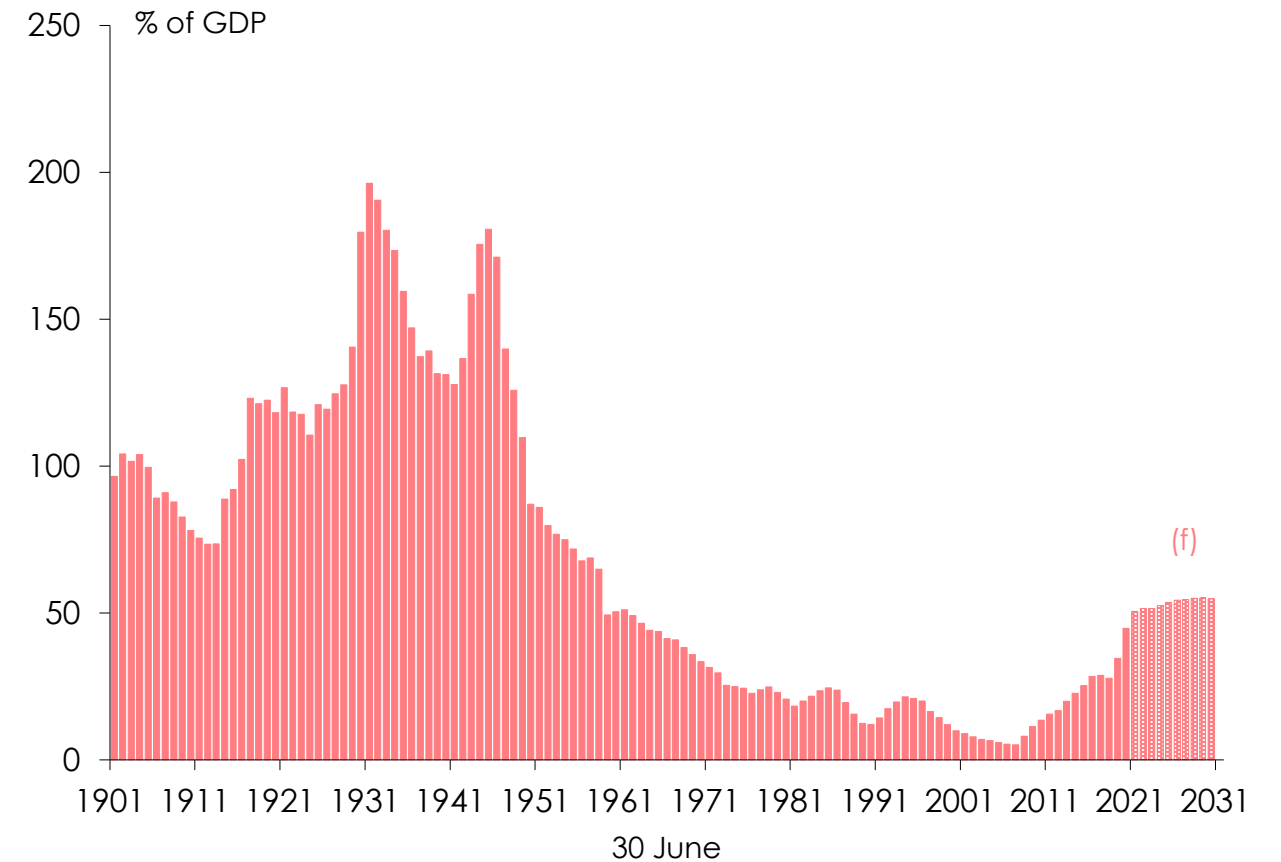
There's no need for undue alarm at the level of debt which will be incurred by the Australian Government

Australian Government gross public debt in \$



- ❑ The Government's gross debt will top \$1 trillion during the 2021-22 financial year, and reach almost \$1¾ trillion by the end of the decade

Australian Government gross debt as a pc of GDP

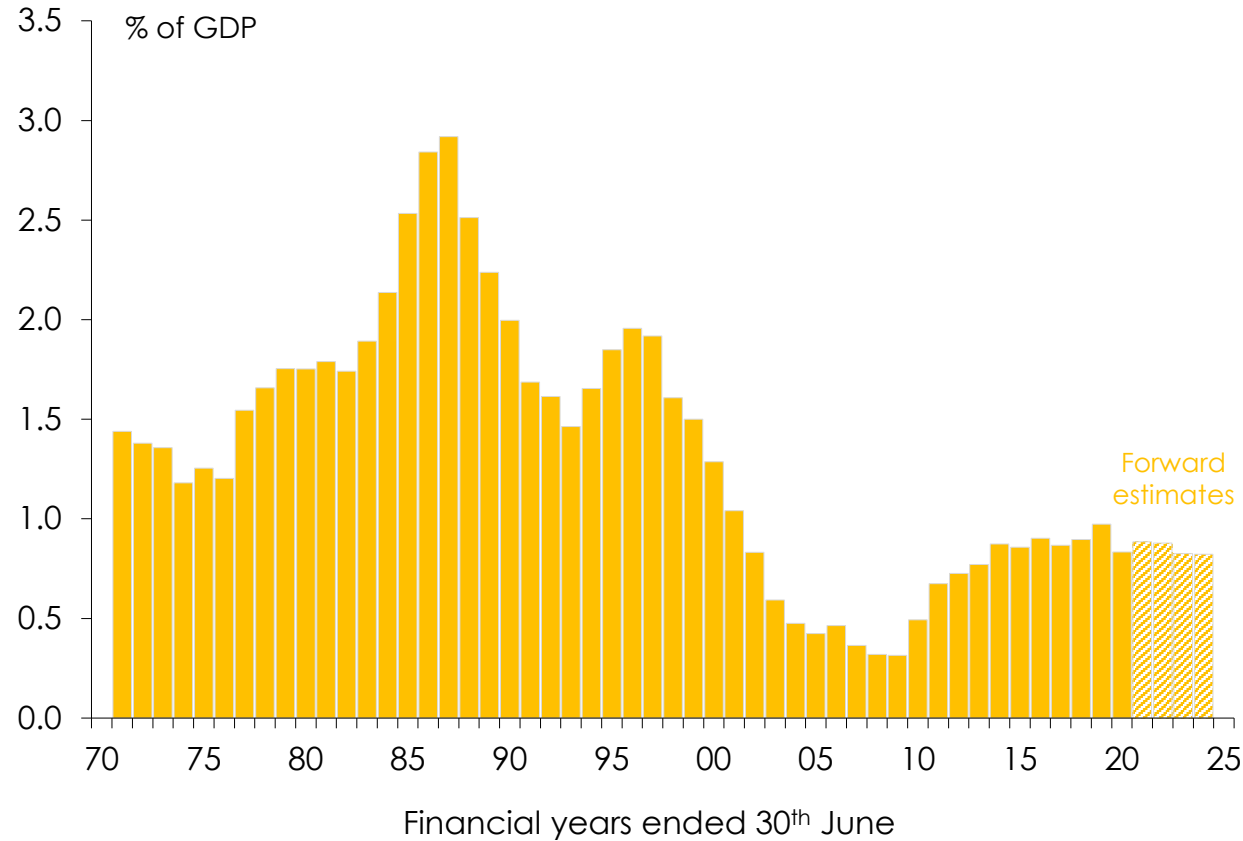


- ❑ However as a percentage of GDP, the Government's gross debt will still be less than it was in any of the first sixty years of Australia's existence as an independent nation

Note: (f) denotes forecasts and projections. Sources: Global Financial Data; Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 3](#).

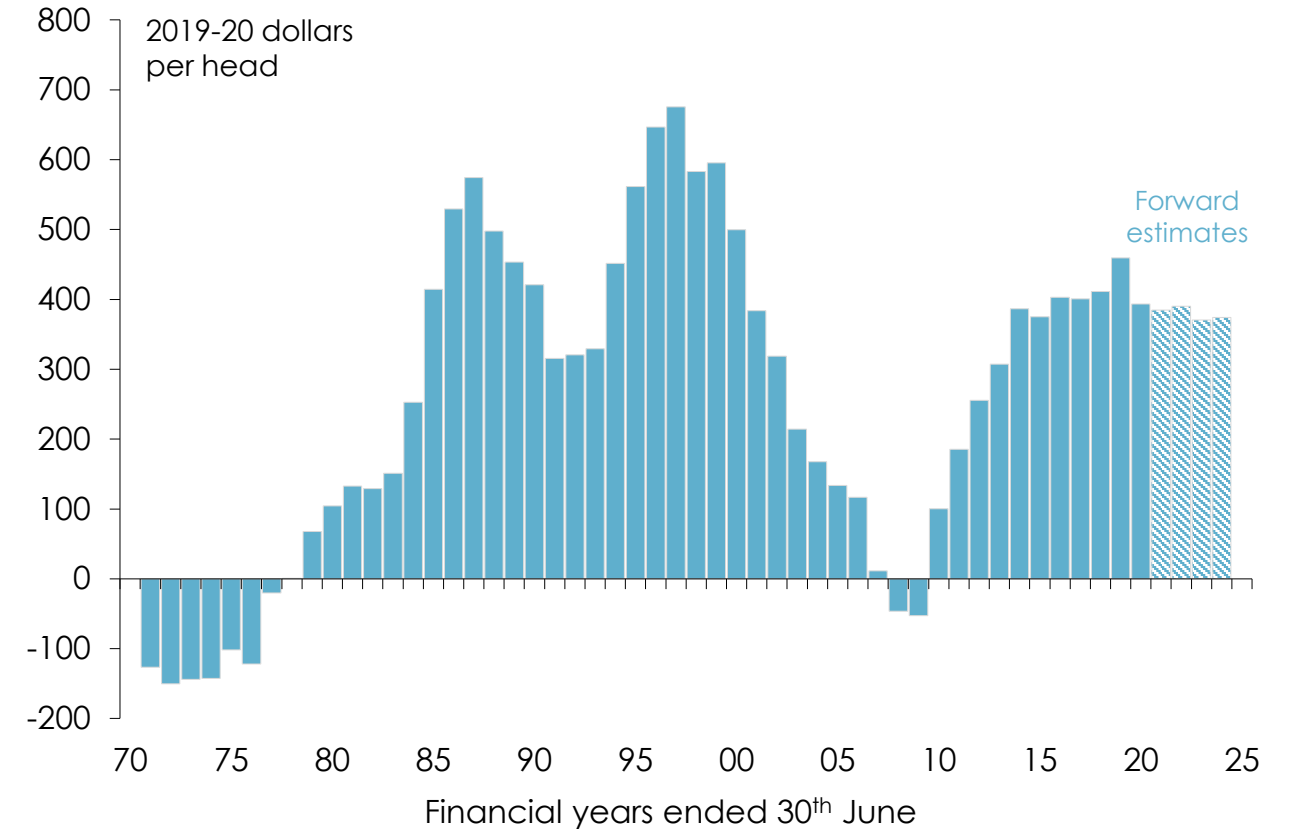
Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

Australian Government interest payments as a percentage of GDP



❑ As a percentage of GDP, the Government's gross interest payments will be less than they were in the 1970s, 1980s and 1990s, and less than they were in 2017-18 or 2018-19

Australian Government net interest payments per head of population in 2019-20 dollars



❑ Net interest payments per head of population will be less than they were in the second half of the 1980s, between 1993-94 and 1999-2000, or between 2015-16 and 2019-20

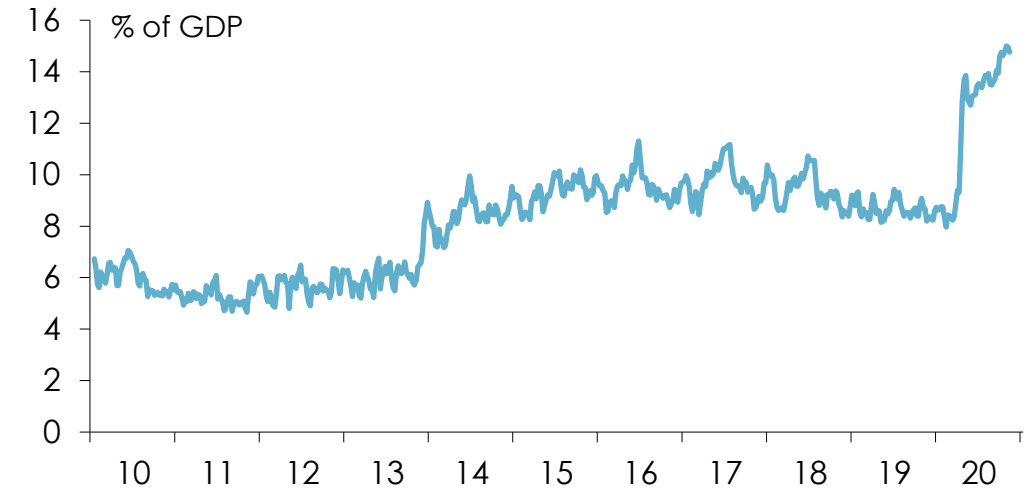
Note: (f) denotes forecasts. Sources: Global Financial Data; Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 11](#); Corinna.

The Reserve Bank has cut interest rates to a record low (and will probably cut them again next month): and it's doing other things too

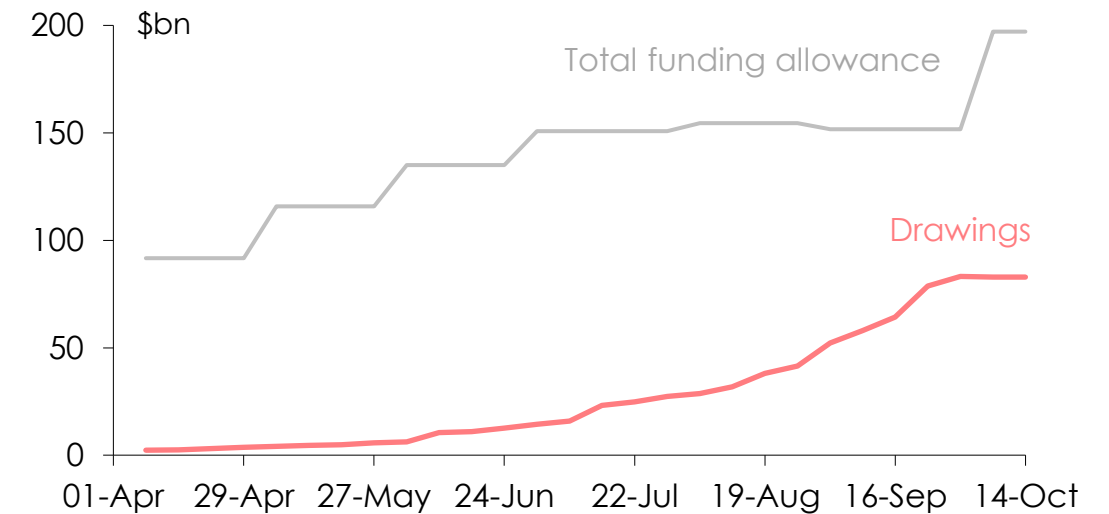
Interest rates



Reserve Bank assets as a pc of GDP



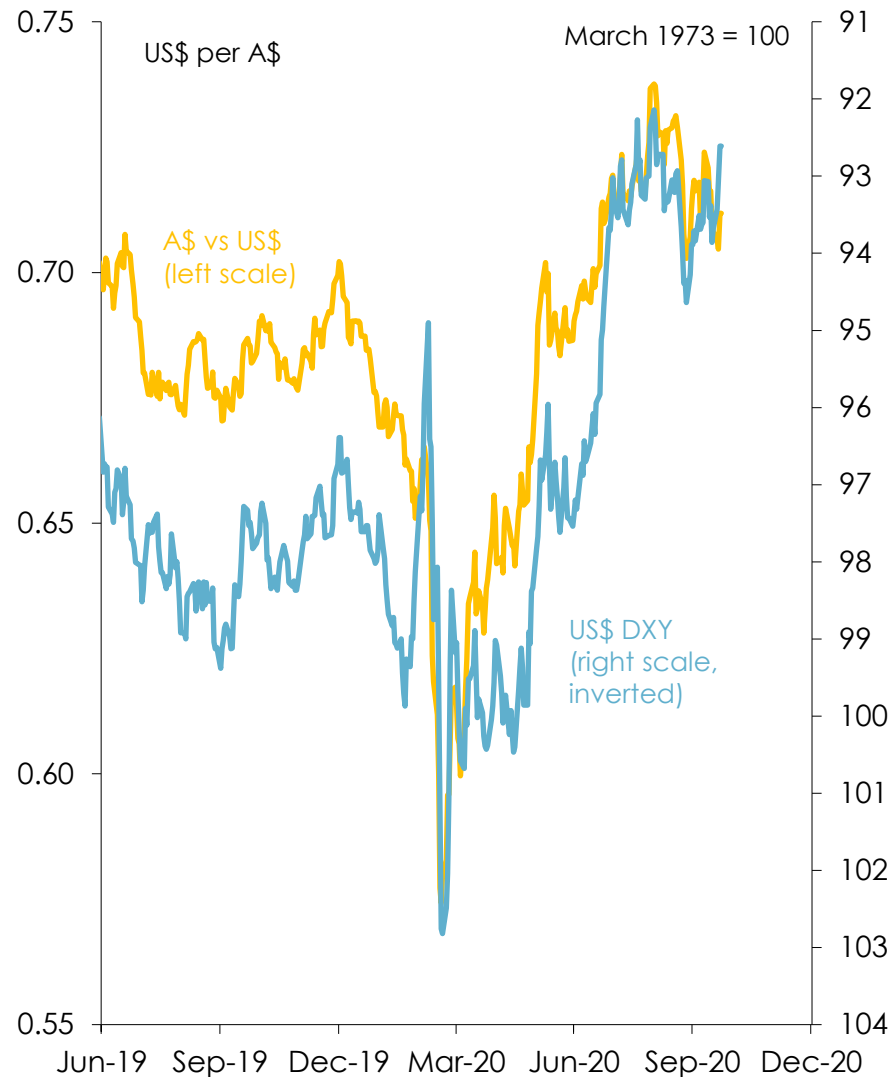
RBA Term Funding Facility



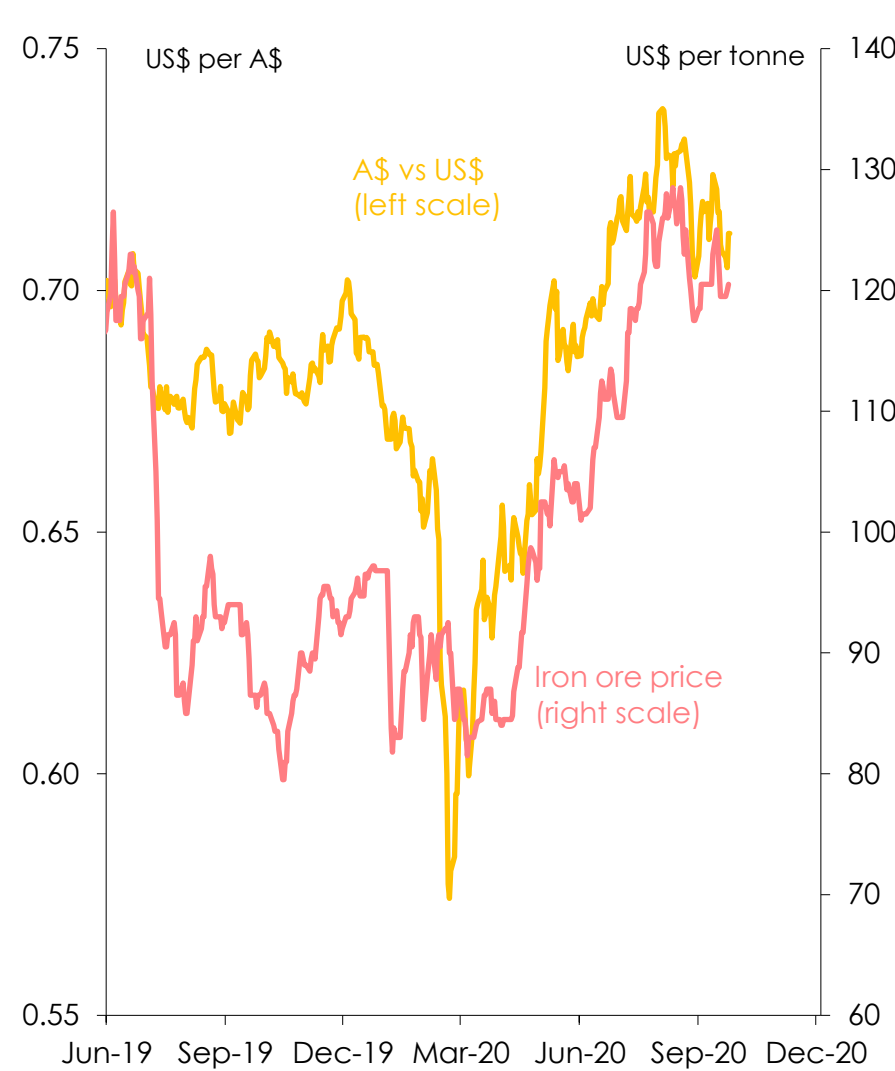
Source: Reserve Bank of Australia, [Statistical Tables](#) A1 and A3. Data up to 22nd October.

The A\$ has largely mirrored movements in the US\$ against other currencies, but the iron ore price and investor 'risk appetite' have also played a role

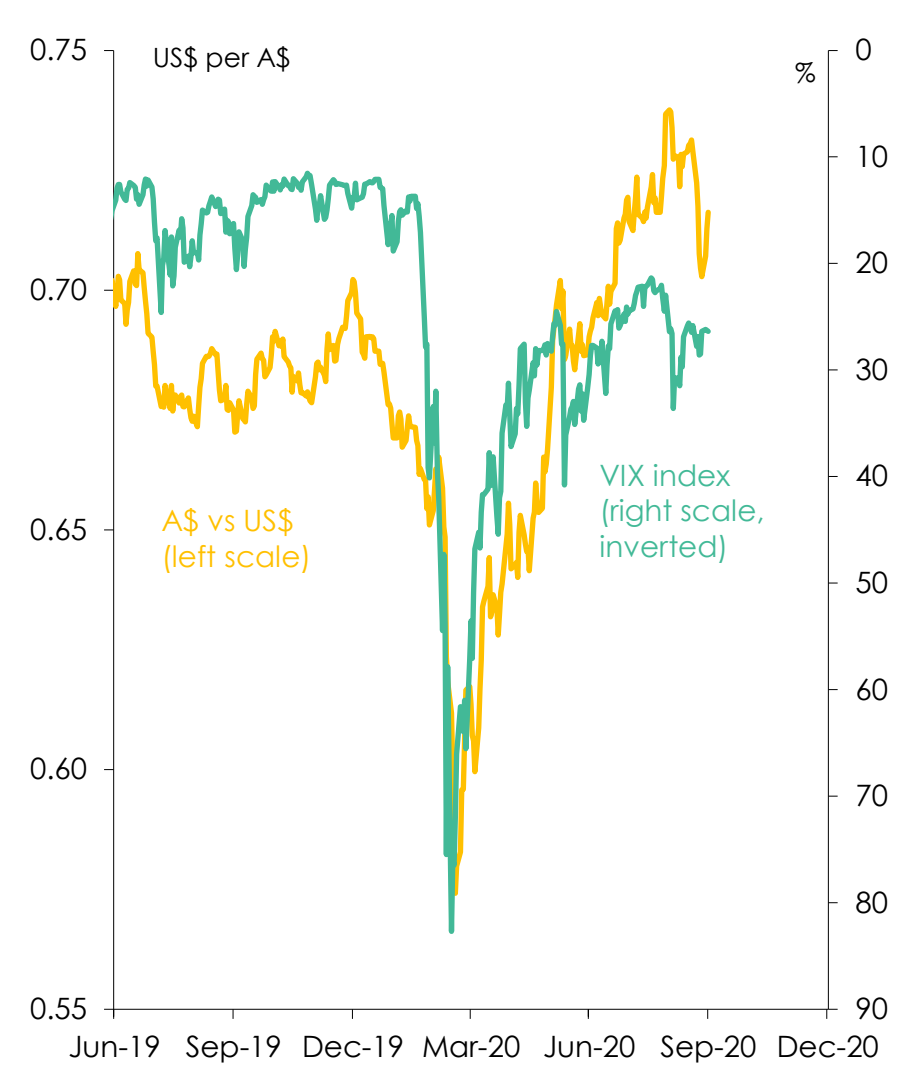
A\$-US\$ and US\$ trade-weighted index



A\$-US\$ and spot iron ore prices



A\$-US\$ and US equity market volatility



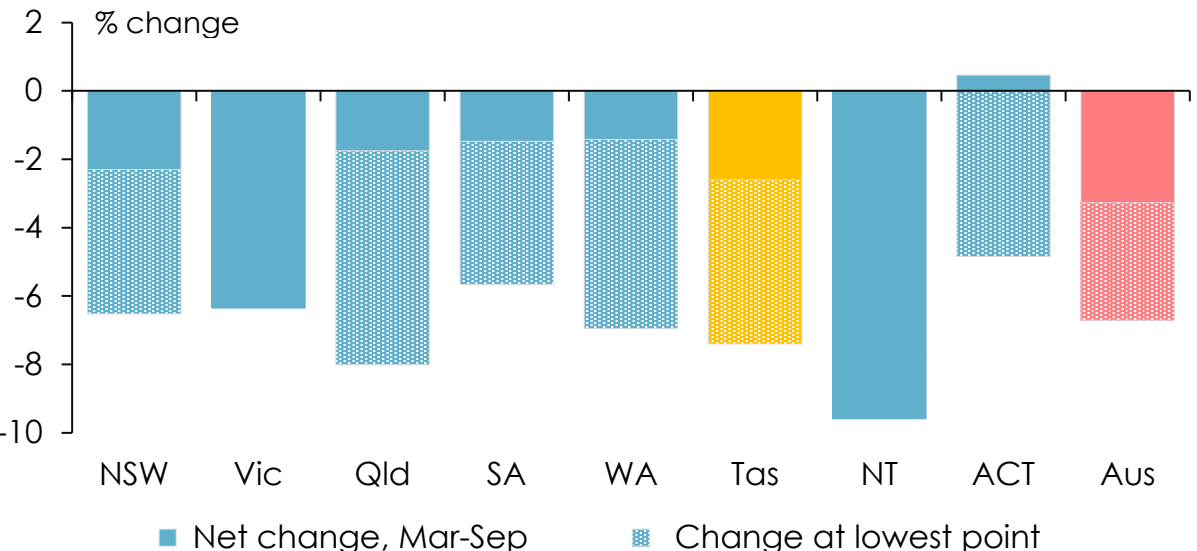
Note: The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion.

Source: Refinitiv Datastream. Data up to 22nd October.

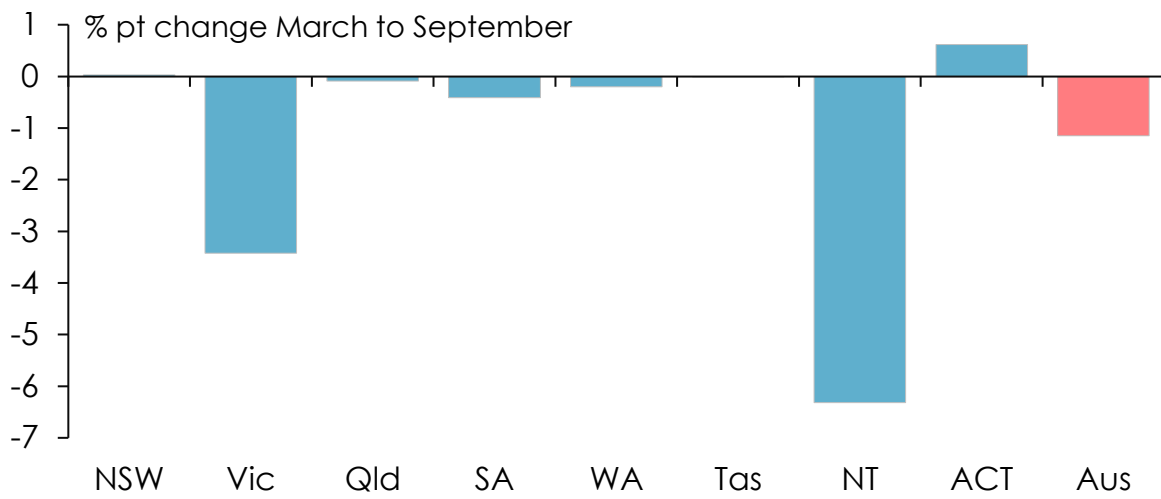
Tasmania

The monthly ABS labour force survey suggests that employment in Tasmania has recovered strongly from the initial sharp falls

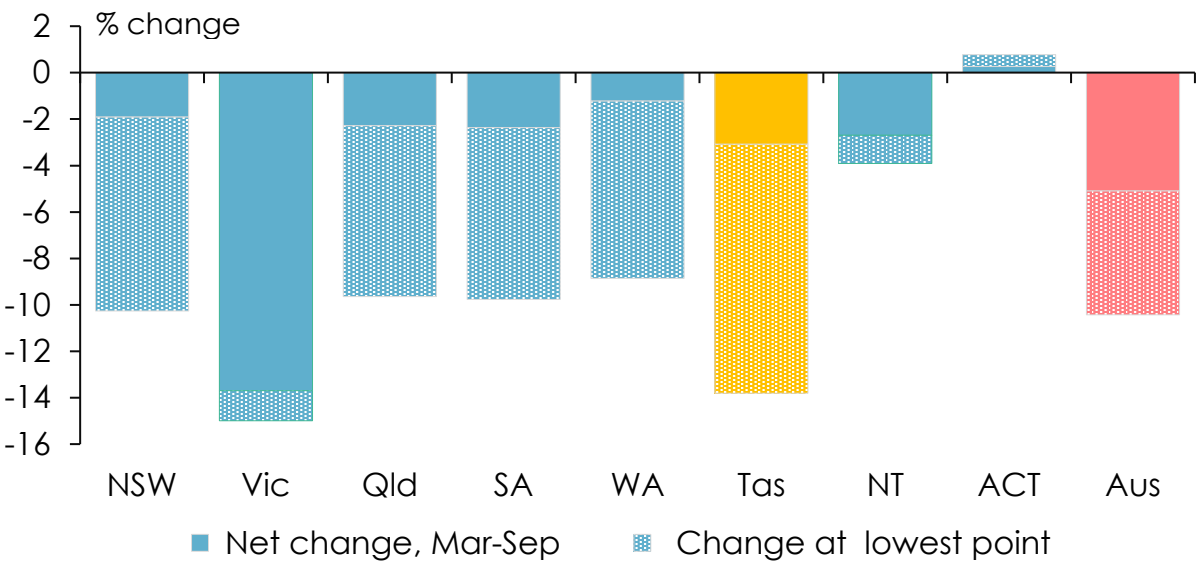
Employment



Labour force participation rate



Total hours worked



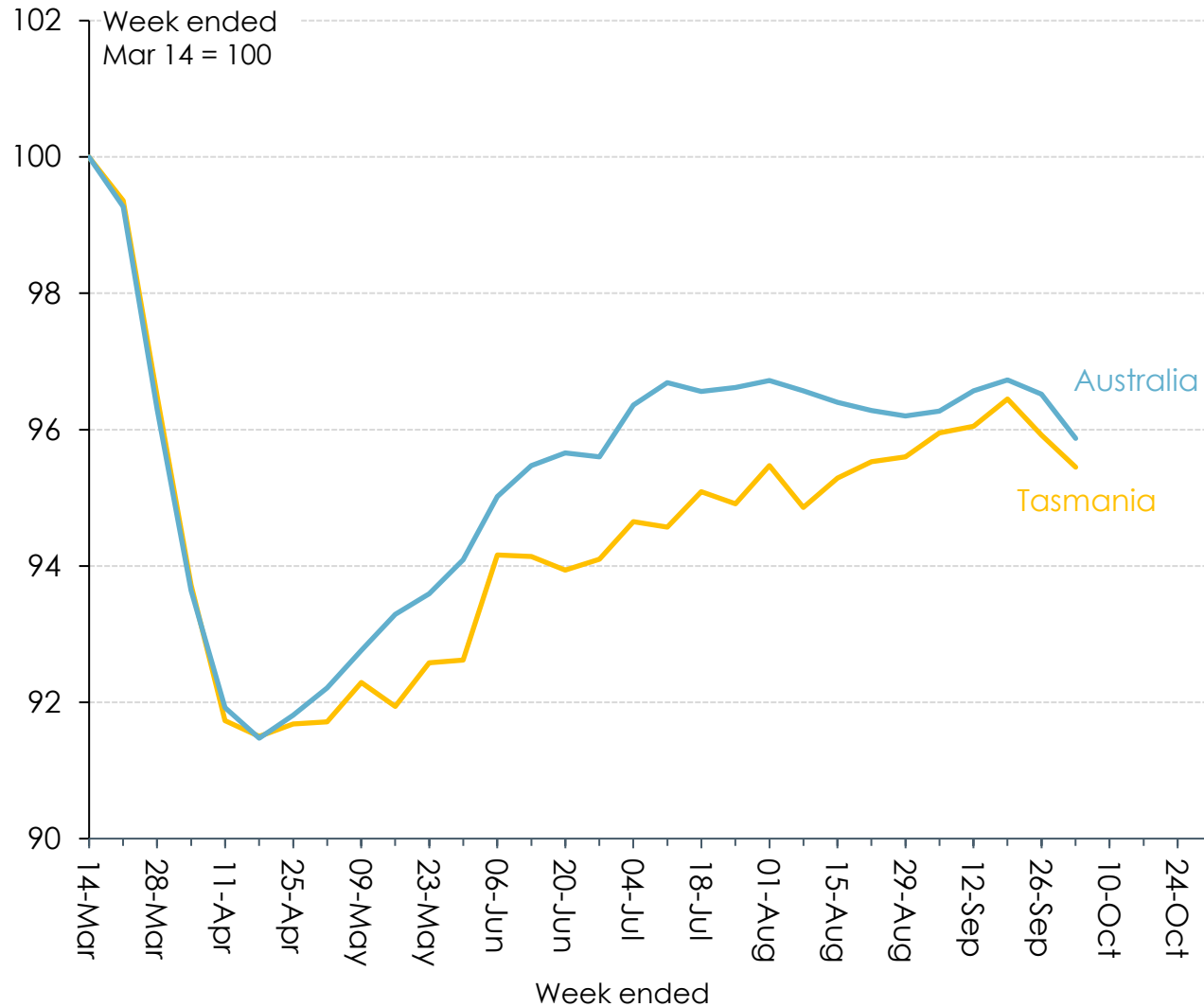
Unemployment rate



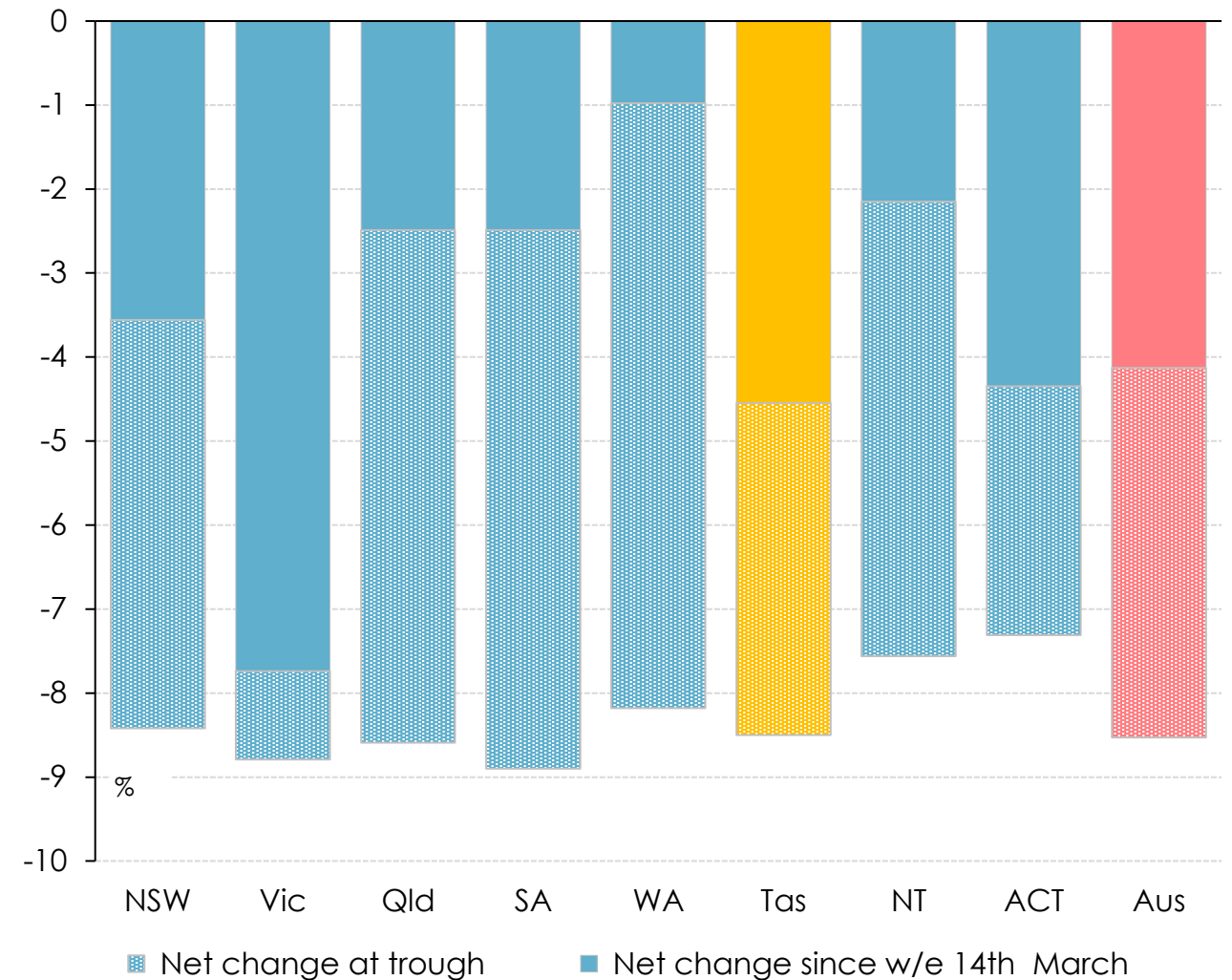
Source: ABS, [Labour Force, Australia](#).

The ABS' weekly payroll jobs series suggests that employment hasn't recovered as rapidly in Tasmania as in other states (except Victoria)

Indexes of number of payroll jobs



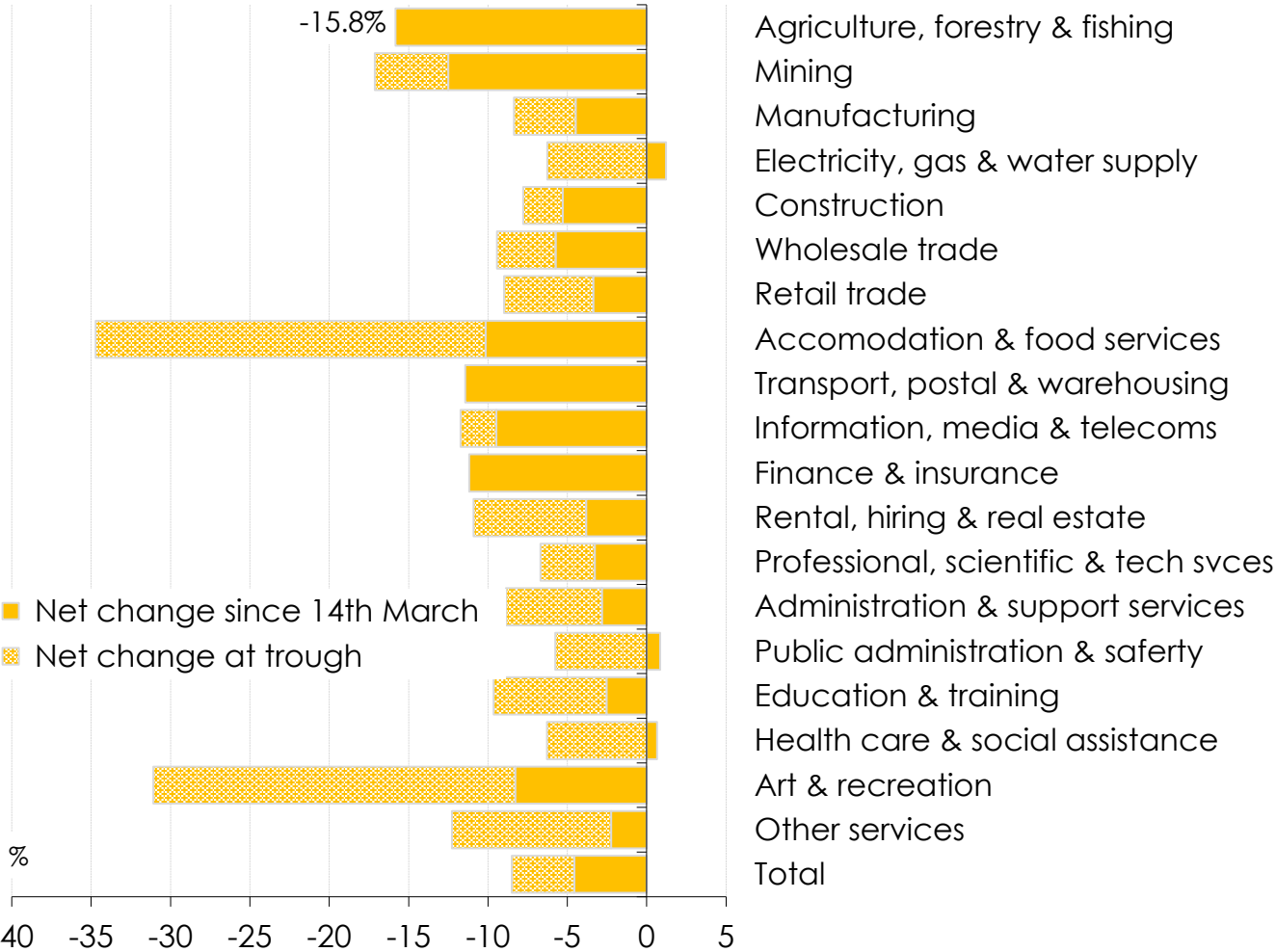
Change in payroll employment since 14th March



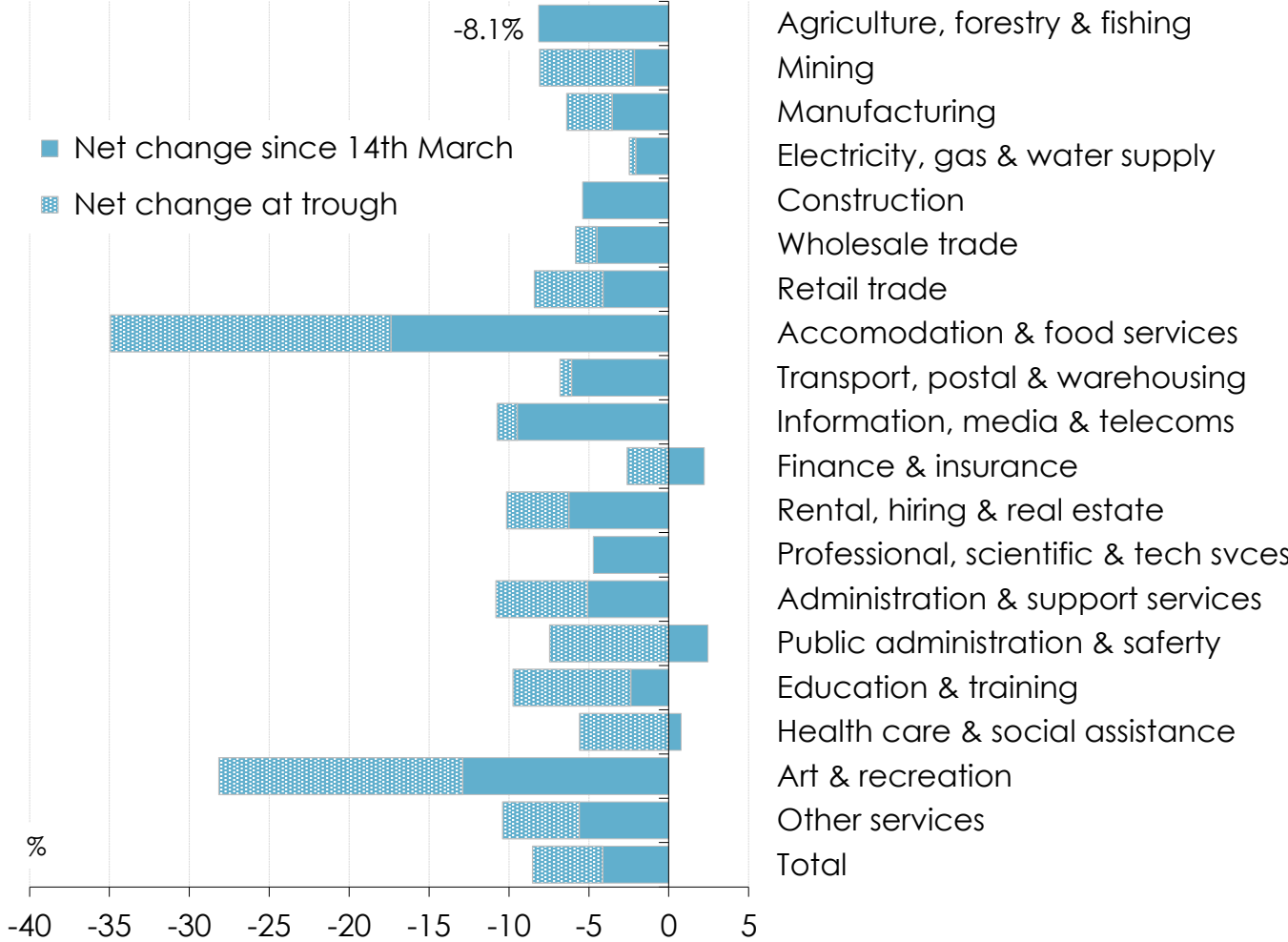
Note: data up to week ended 3rd October. 14th March was the date on which Australia recorded its 100th confirmed case of Covid-19. 'Trough' refers to the week in which employment reached its lowest level, which for Tasmania was the week ended 18th April. Source: ABS.

Employment in agriculture appears to have fallen much more in Tasmania since mid-March than across Australia as a whole

Net change in payroll jobs since 14th March - Tasmania



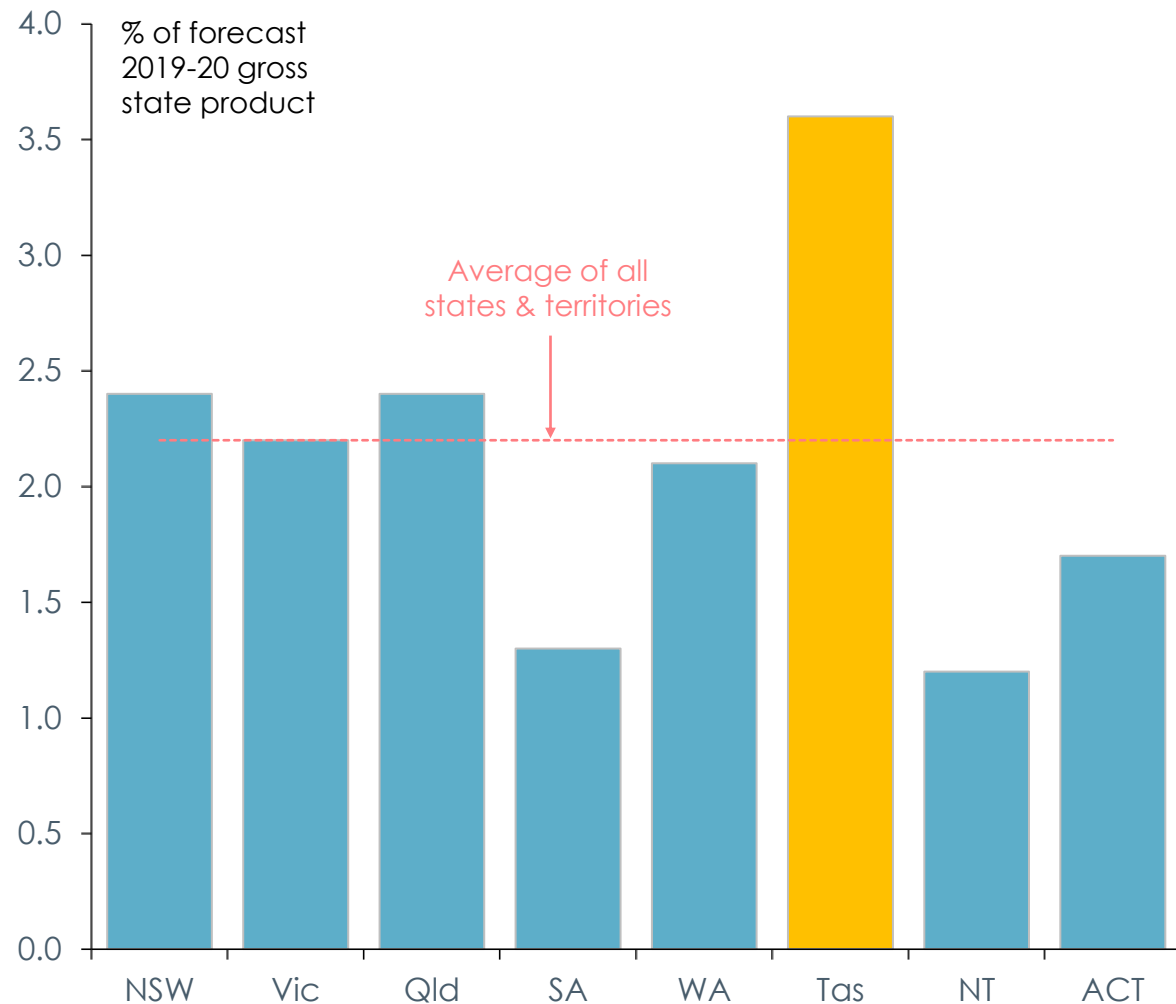
Net change in payroll jobs since 14th March - Australia



Source: ABS. Data up to 3rd October.

The Tasmanian Government has been relatively more generous than other states and territories in supporting households and businesses

State & territory Covid-19 support and response measures as a pc of gross state product



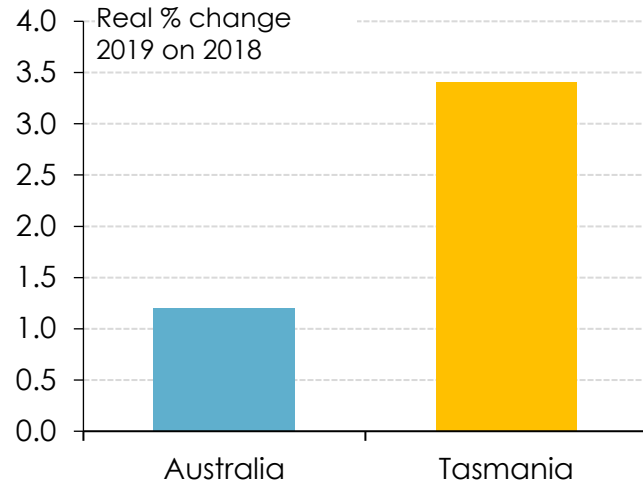
Selected Tasmanian Government economic and social support measures

- ❑ Rent relief for 11,500 social housing tenants (cost ~ \$7mn)
- ❑ Ban on private rent increases until 30th June and 90-day moratorium on evictions
- ❑ \$513K for additional services to youth at risk of homelessness
- ❑ Payments totalling \$221K to 652 temporary visa holders
- ❑ School levy relief to 11,300 eligible parents (cost \$9mn)
- ❑ An additional \$2.2mn for programs supporting victims of family and domestic violence
- ❑ Waiver of 3 months' electricity water bills for around 34,000 small businesses (cost ~ \$50mn)
- ❑ Payroll tax relief for small businesses and employers in the hospitality, tourism and seafood industries (cost \$11½mn to date)
- ❑ Land tax waiver or deferral for commercial property owners impacted by restrictions or experiencing financial hardship
- ❑ Grants and interest free loans to small businesses
- ❑ Loans to Councils for infrastructure projects and rate relief (over \$110mn in loans applied for)
- ❑ Taxi licence fees waived for 2020-21 (cost \$240K)
- ❑ Subsidized training for 150 Tasmanians who have lost jobs

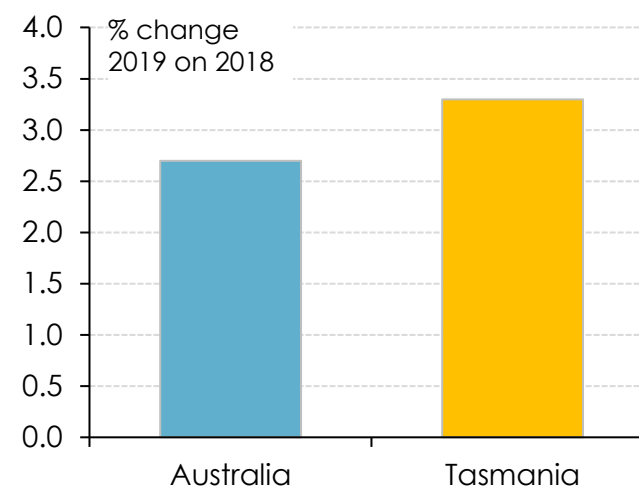
Sources: Commonwealth Treasury, 6th August 2020; Australian Financial Review, 14th August 2020 ; ABS; Tasmanian Government, Social and Economic Support Measures Update, 11th May 2020.

Tasmania's economy was doing well, by most measures, heading into this downturn – but that doesn't guarantee a more rapid recovery

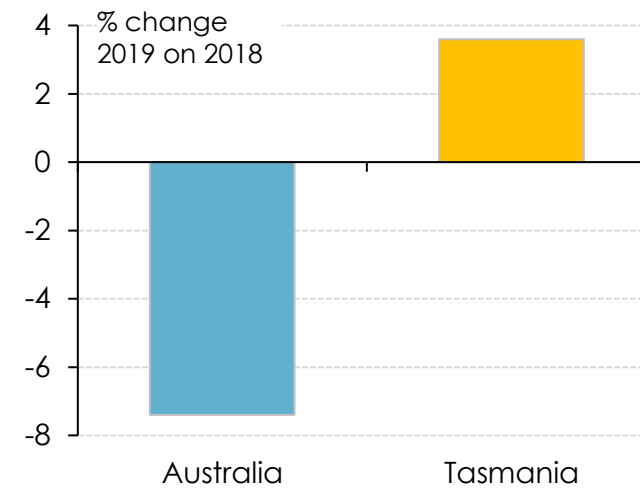
State final demand



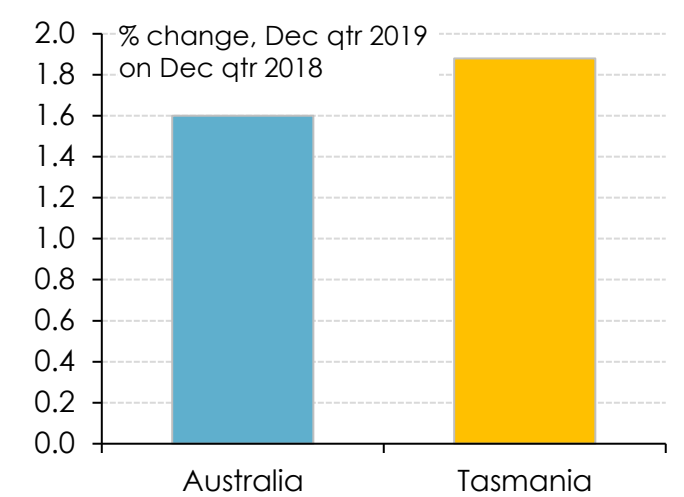
Retail sales



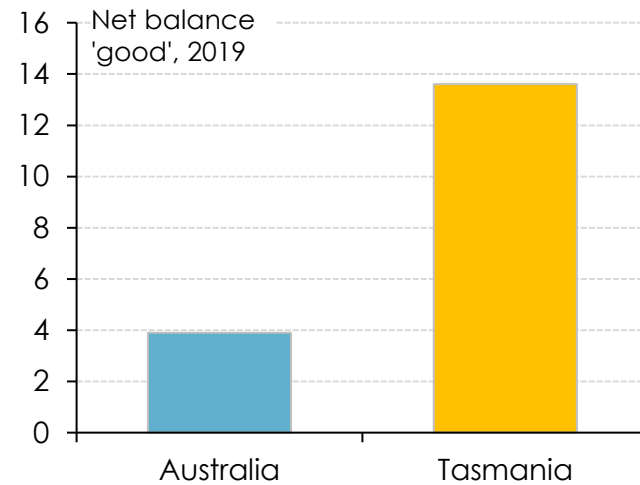
Dwelling approvals



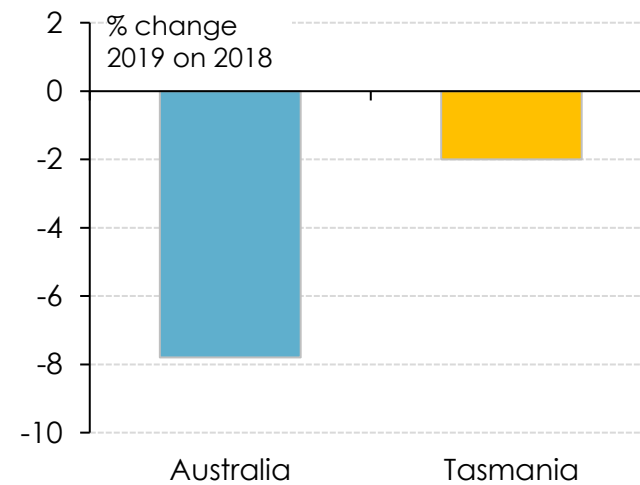
Employment



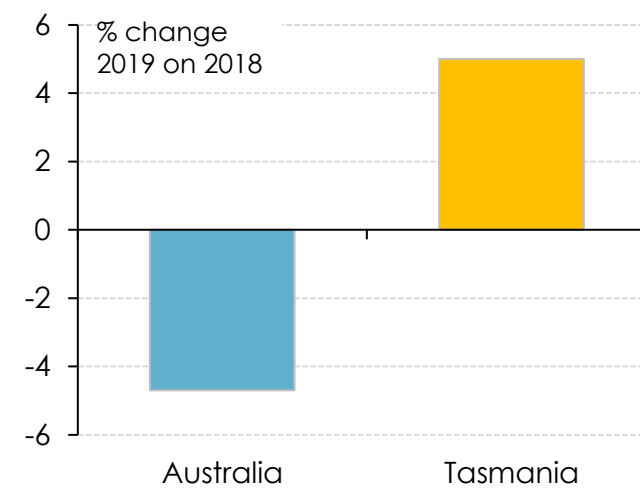
Business conditions



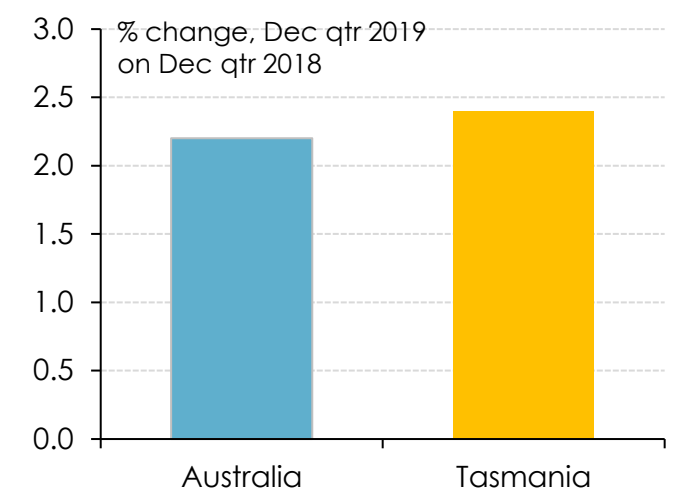
Car sales



House prices



Wages

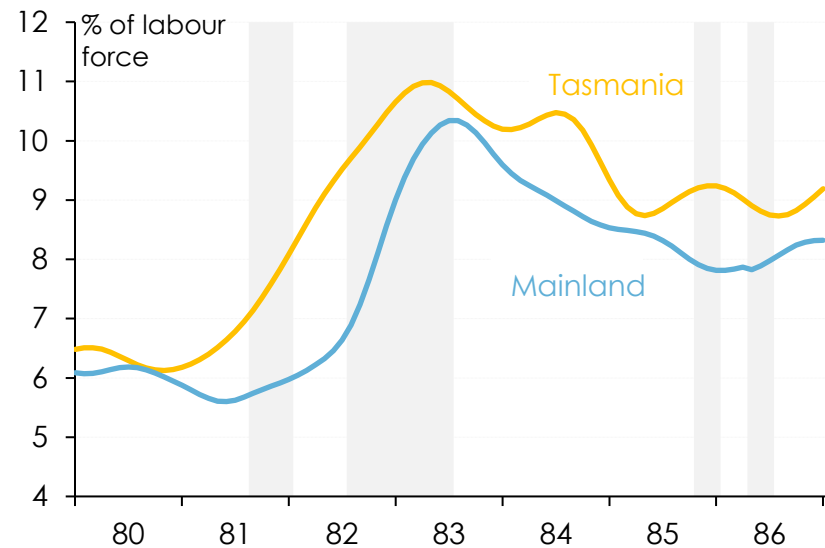
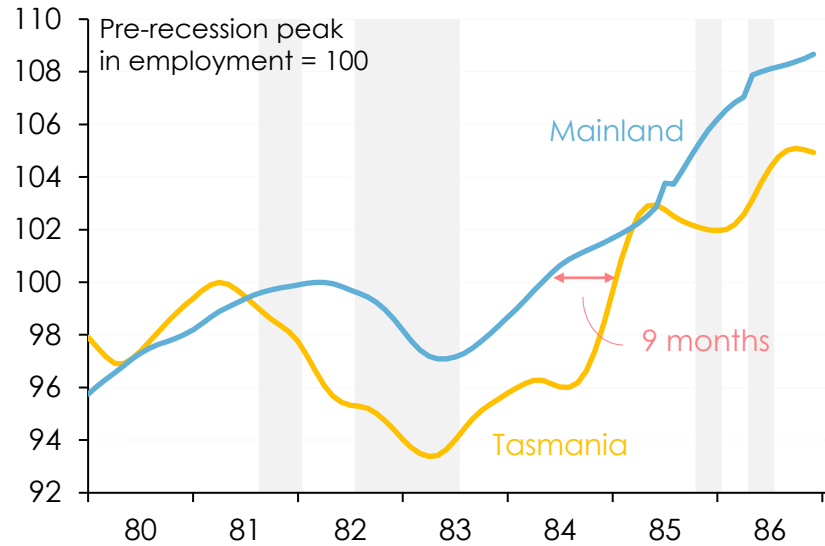


Note: 'State final demand' is the sum of spending by households, businesses and governments Sources: ABS; NAB; FCAI; CoreLogic.

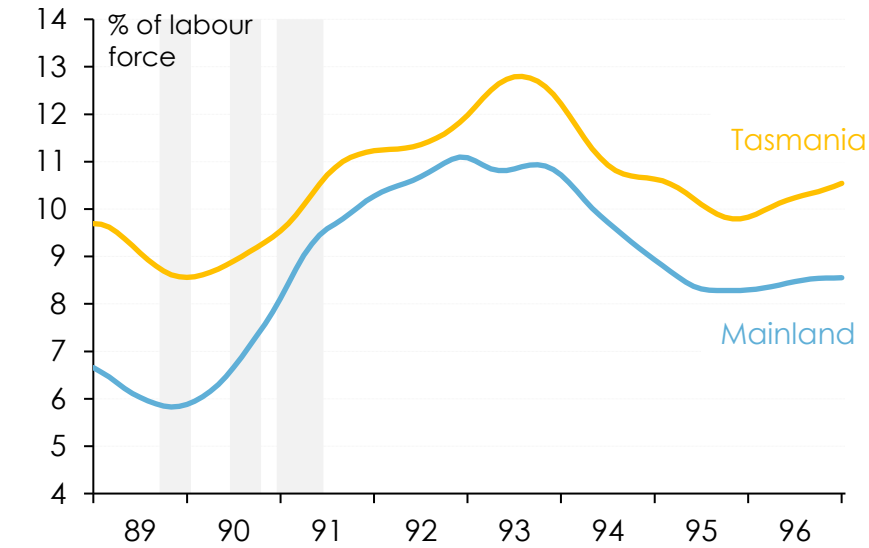
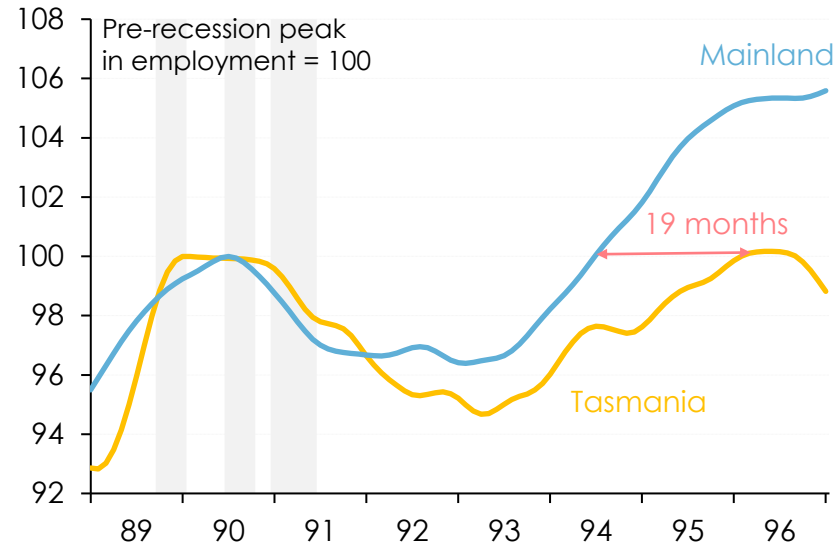
Tasmania has historically always fared worse than the mainland during recessions, regardless of how we were doing beforehand

Employment and unemployment in Tasmania vs the mainland during recessions

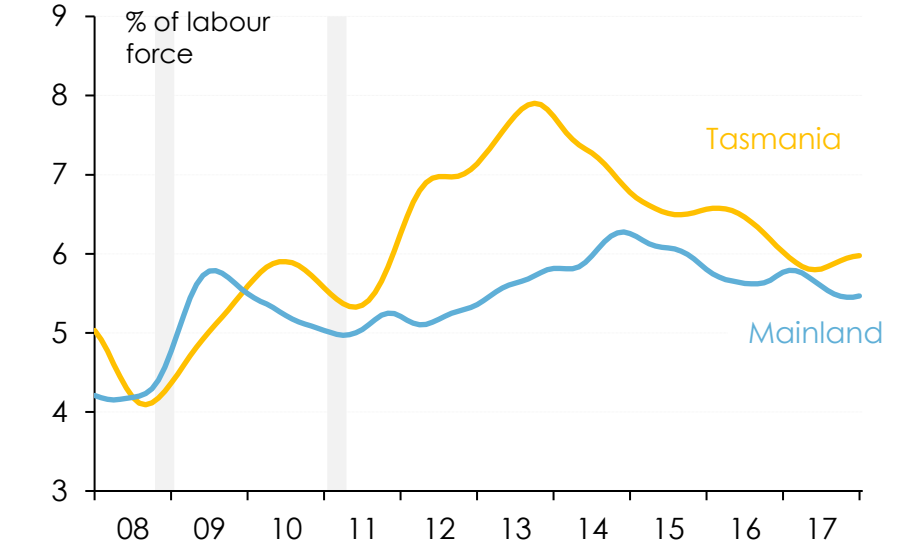
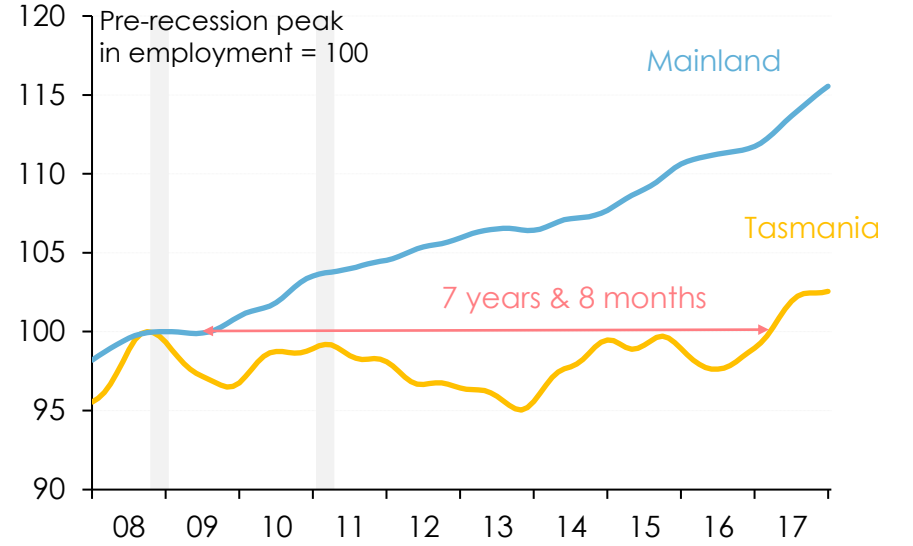
Early 1980s recession



Early 1990s recession



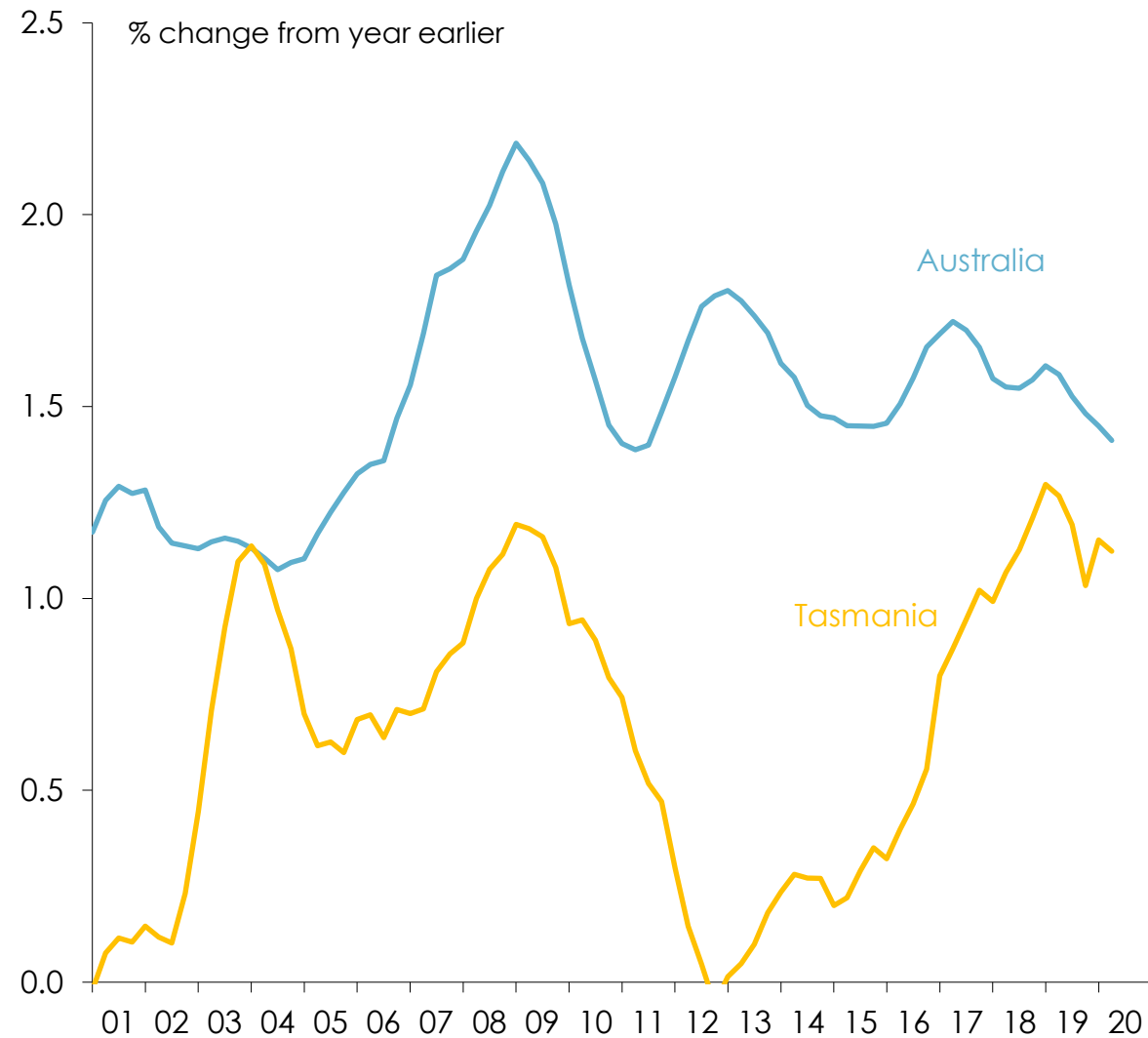
Global financial crisis



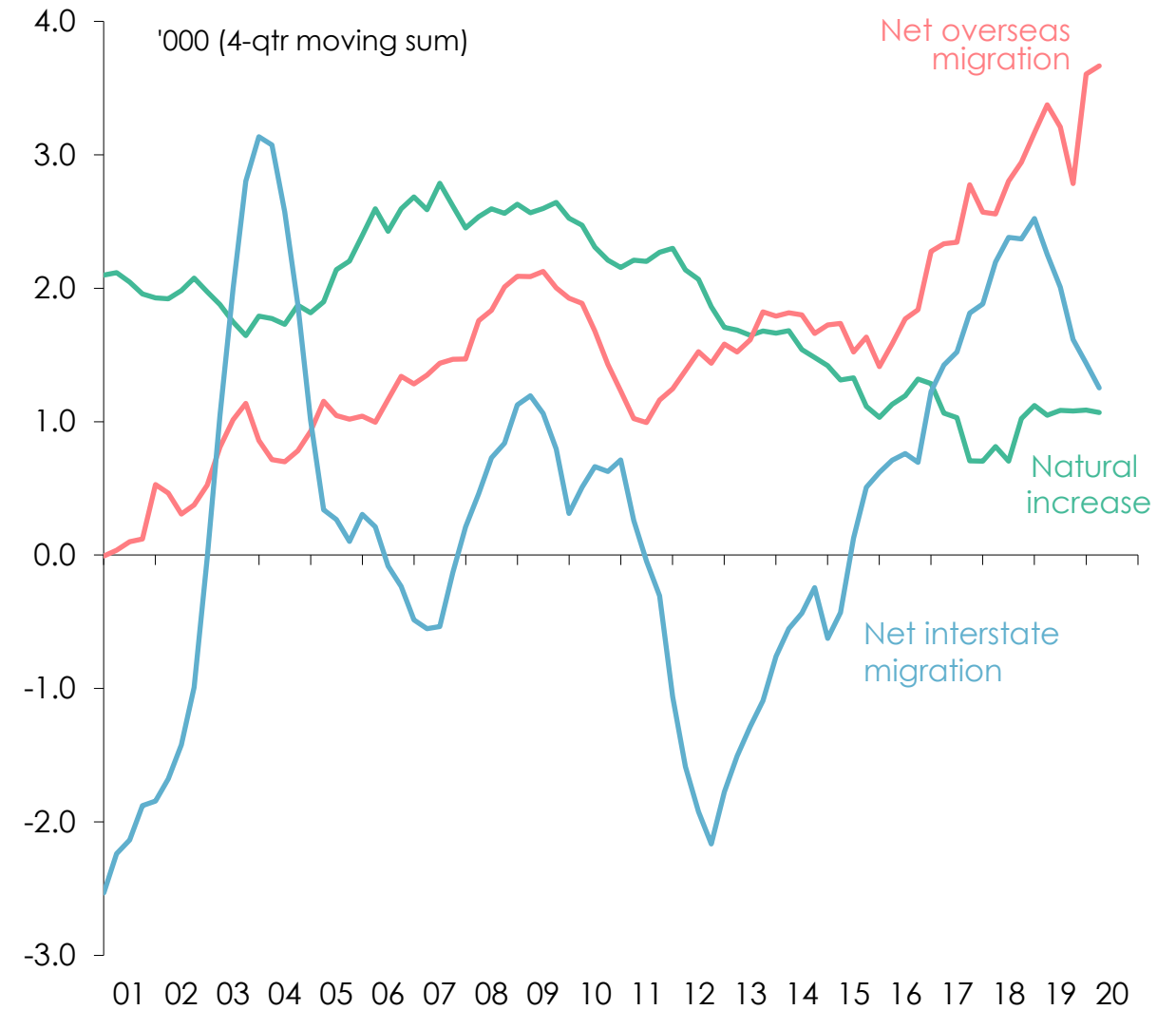
Note: Shaded areas denote quarters of negative growth in real GDP. The number of years or months (in pink) are the time differences between when mainland employment regained its pre-recession peak level, and the same milestone being achieved in Tasmania. Data are expressed in trend terms.
Source: ABS; Corinna.

The improvement in Tasmania's economic performance in recent years owed a lot to the pick-up in migration – will that resume, and when?

Population growth, Tasmania and Australia



Sources of Tasmania's population growth



Note: Data are up to March 2020. The 'causality' between net migration to Tasmania (from overseas or interstate) and economic performance runs in both directions. Source: ABS.

Federal Treasury thinks interstate migration to Tasmania will bounce back reasonably quickly, but only for two years

Federal Treasury Budget forecasts for net overseas and interstate migration

Table A.5: Net overseas migration, for years ending 30 June

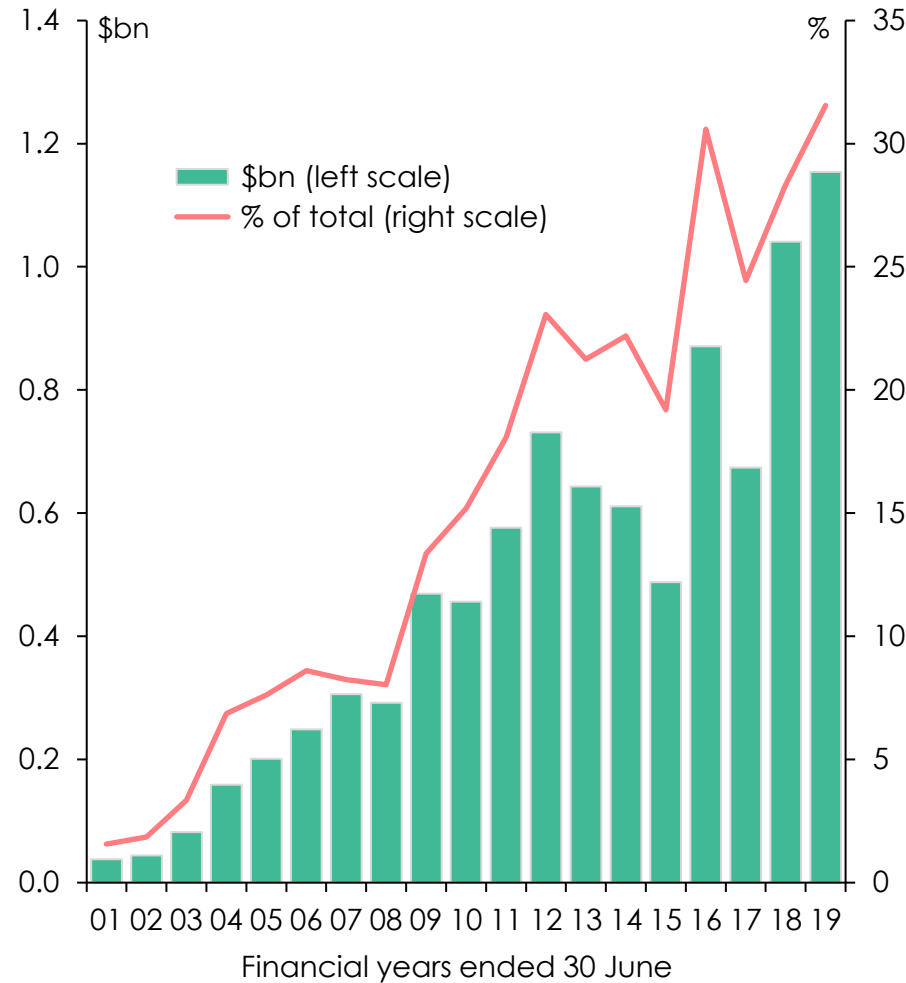
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Net overseas migration, Australia	239,700	154,100	-71,600	-21,600	95,900	201,100

Table A.6: Net interstate migration by state, for years ending 30 June

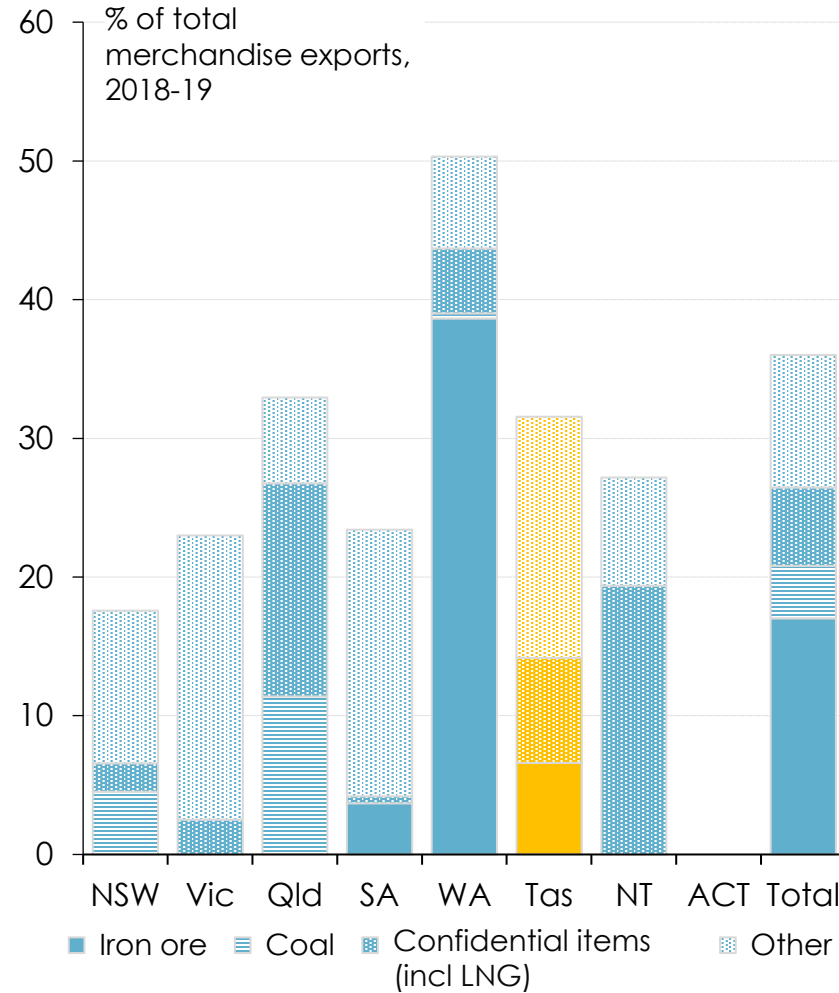
	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2018-19	-22,100	12,200	22,800	-6,500	-4,000	2,000	-200	-4,400
2019-20	-21,000	11,600	21,700	-6,100	-3,800	1,900	-200	-4,200
2020-21	-14,300	-1,200	22,000	-3,700	-2,200	2,200	300	-3,100
2021-22	-15,500	-1,300	23,800	-4,000	-2,300	2,300	400	-3,300
2022-23	-17,000	1,800	21,300	-2,300	-3,000	1,200	300	-2,400
2023-24	-18,600	5,000	18,900	-500	-3,600	0	200	-1,400

China takes almost 30% of Tasmania's exports, although that still represents less than 5% of Tasmania's gross product

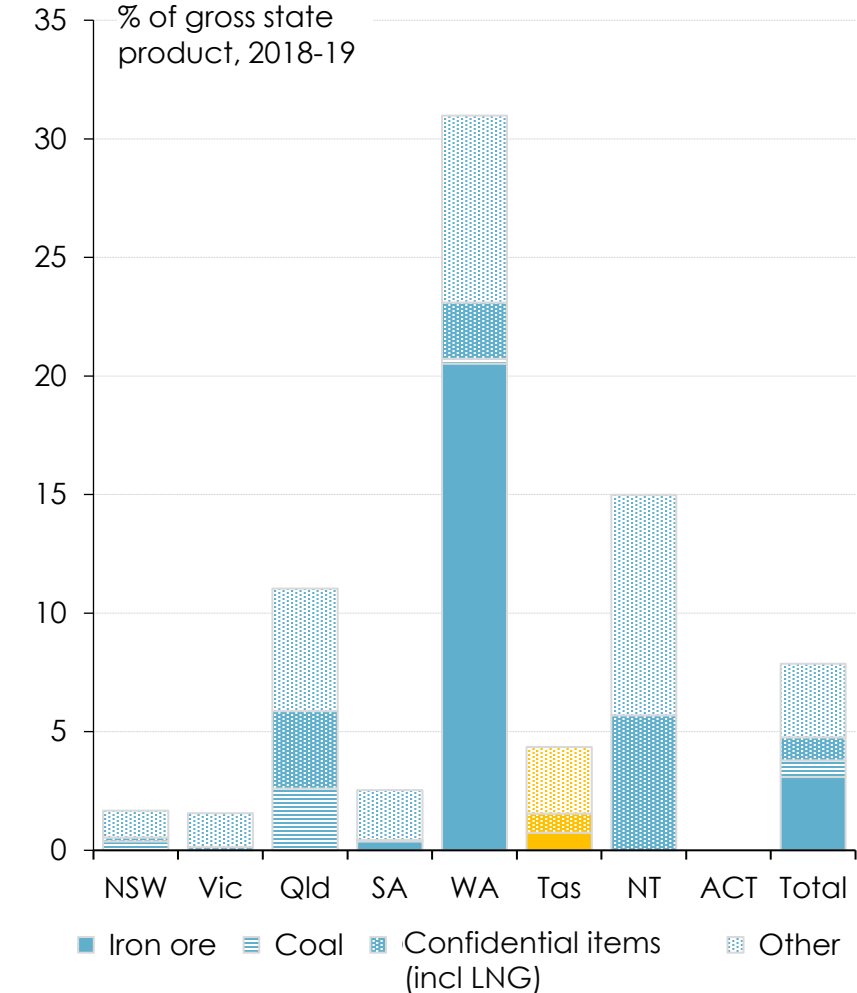
Tasmania's goods exports to China



Goods exports to China as a pc of exports of goods



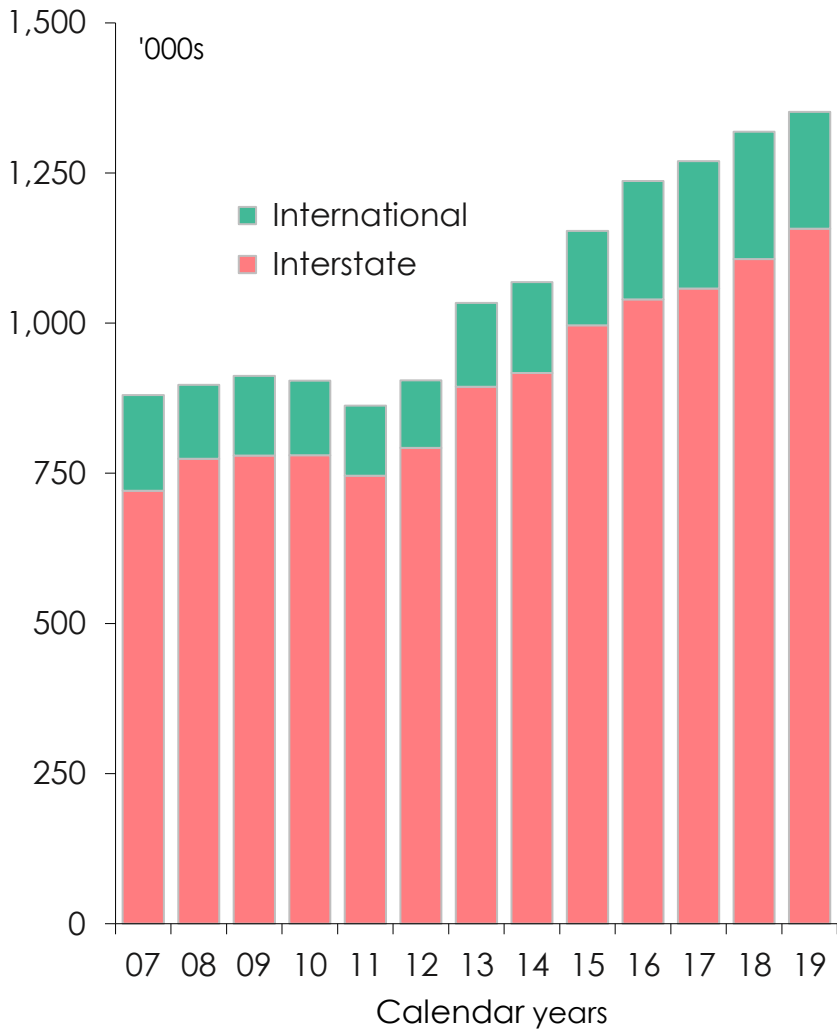
Goods exports to China as a pc of gross state product



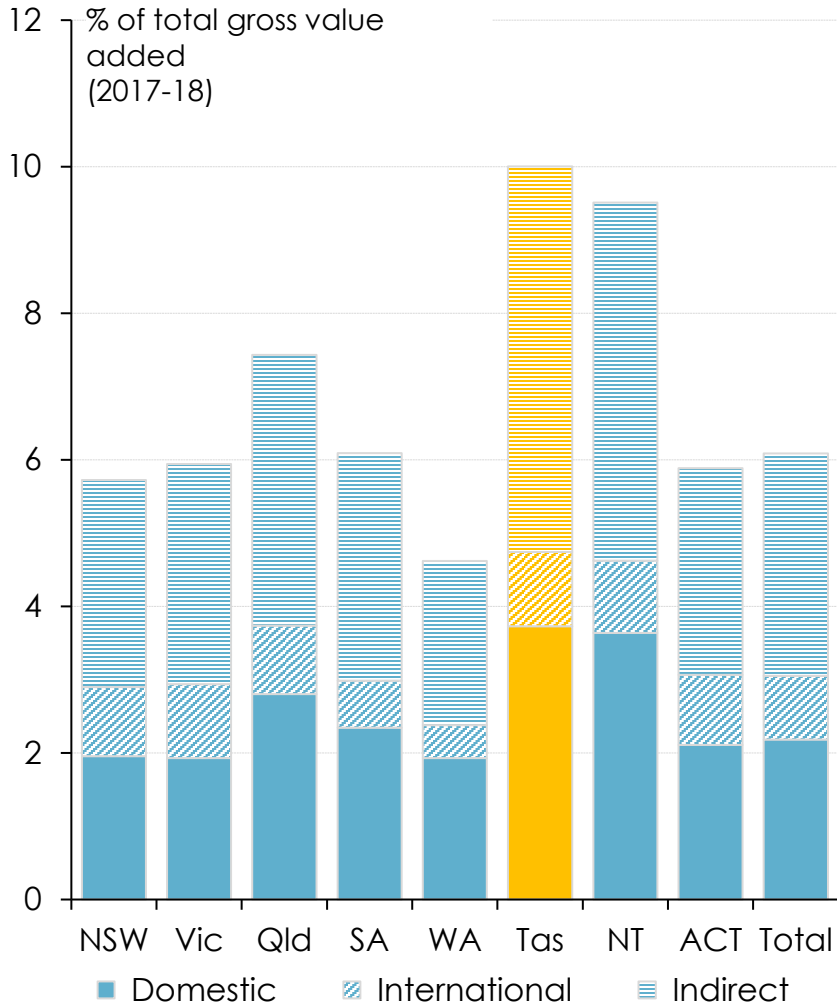
Sources: ABS; Department of Foreign Affairs & Trade.

Tourism is a big part of Tasmania's economy, and had slowed over the past two years – have we become 'too dependent' on tourism?

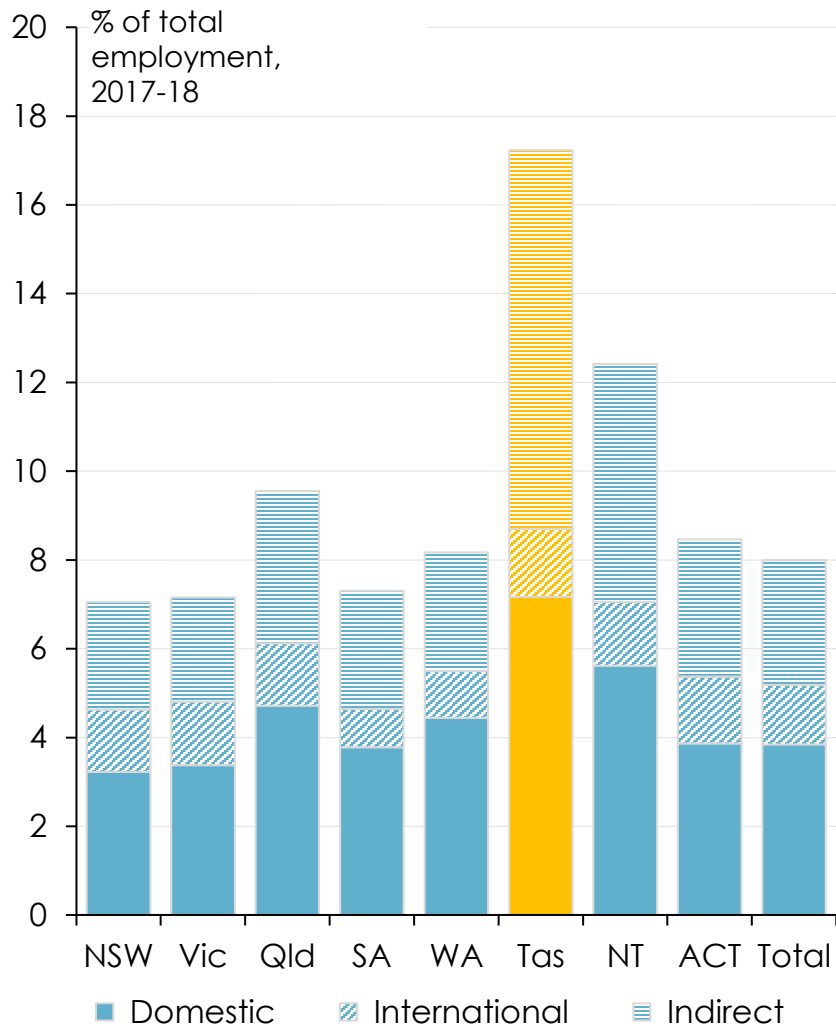
Visitors to Tasmania



Tourism gross value added



Tourism employment



Sources: Tourism Tasmania; Tourism Research Australia.

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