QUEENSLAND TREASURY CORPORATION

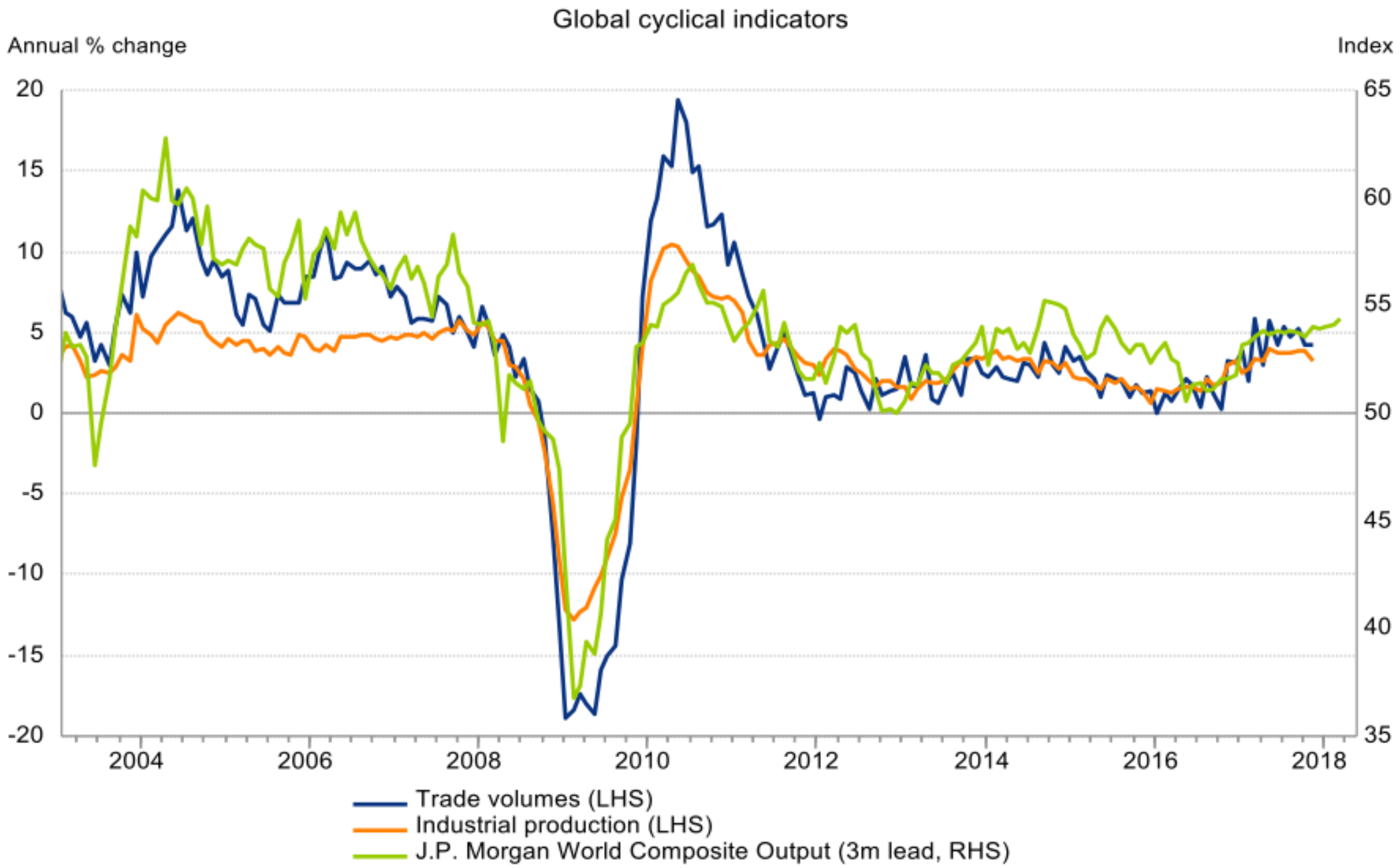
AS GOOD AS IT GETS?

Michael Anthonisz

Director, Economic & Market Research

JANUARY 2018

As good as it gets?

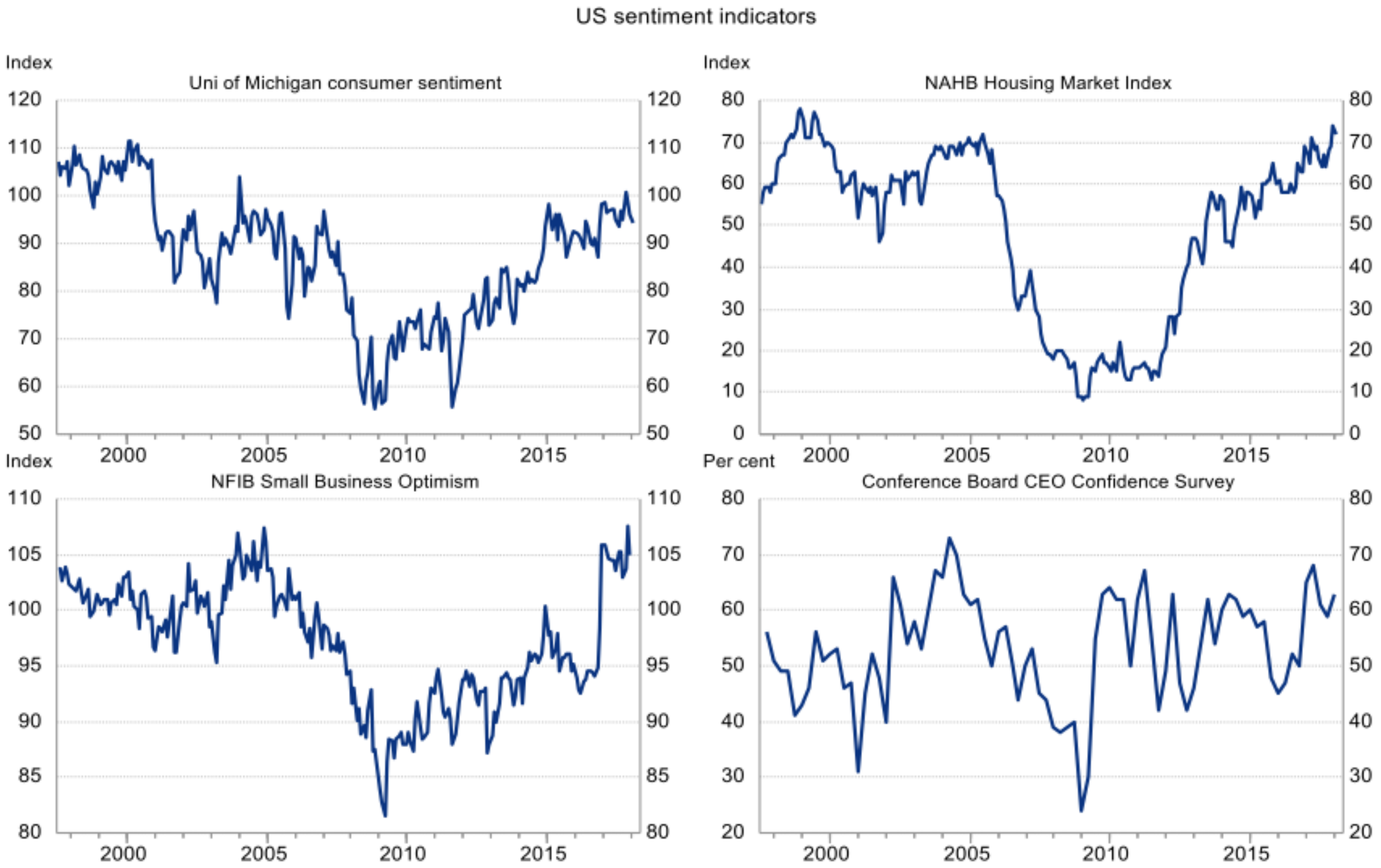


The pick-up in global economic activity since the start of 2016 is evident when you look at:

- measures of trade, industrial production or GDP
- manufacturing sectors or service sectors
- advanced economies or emerging economies

Source: QTC, CPB (Netherlands Bureau for Economic Policy Analysis), Global World International, this chart has been created in Thomson Reuters Datastream

As good as it gets?



It’s not just measures of activity that have firmed, it’s confidence too. This slide looks at various sentiment indicators in the US.

- These are all at or close to 20 year highs
- This suggests that consumers, home builders, small businesses and CEOs in the US are very upbeat about their prospects right now
- This is a trend apparent across much of the world at present

Source: QTC, these charts have been created in Thomson Reuters Datastream

As good as it gets?

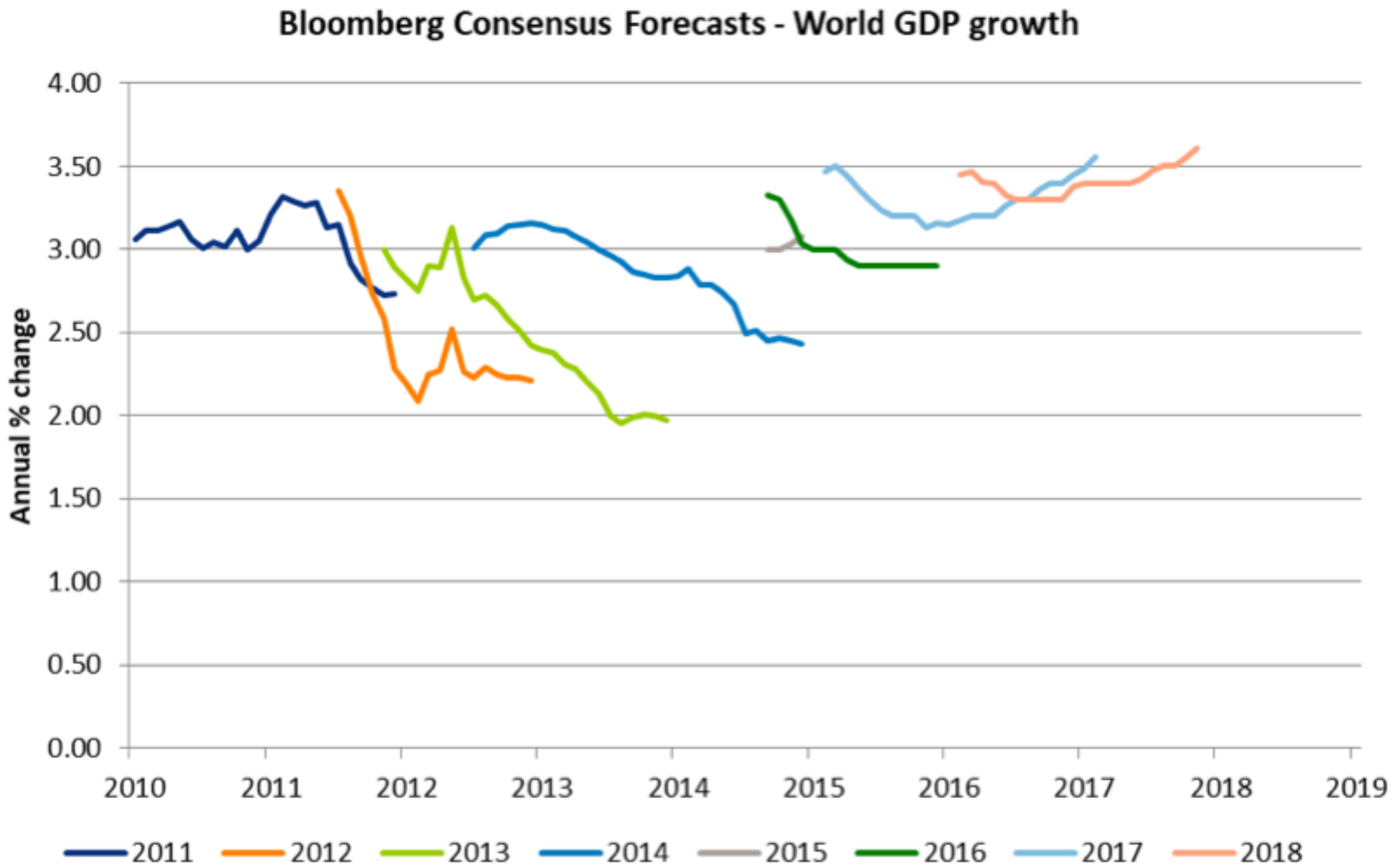
What it took to get here… + what is missing

- Accommodative monetary policy ✓
- Improved transmission of policy settings ✓
- No more fiscal tightening ✓
- Commodity price rebound ✓
- China capital outflows contained ✓
- Deflationary fears eased ✓
- Fears of policy mistake subsided ✓
- Sentiment strong ✓
- Consumption holding up ✓
- Investment accelerating ✓
- Productivity improving ✓
- Wages ✗

- A lot of things had to fall in place over the last few years, many of which since the start of 2016, for the current acceleration in global activity to occur.
- The one missing link for a truly self-sustaining expansion? Higher wages growth.
- If we saw that then there would be a boost to household spending which – in order to be met – would require further capital spending by firms. This would then require additional labour to be operated. Greater demand for labour should put upwards pressure on wages and the whole process starts over again.

Source: QTC

As good as it gets?



All of this has even led forecasters to do something unheard of following the GFC…revise their forecasts up!

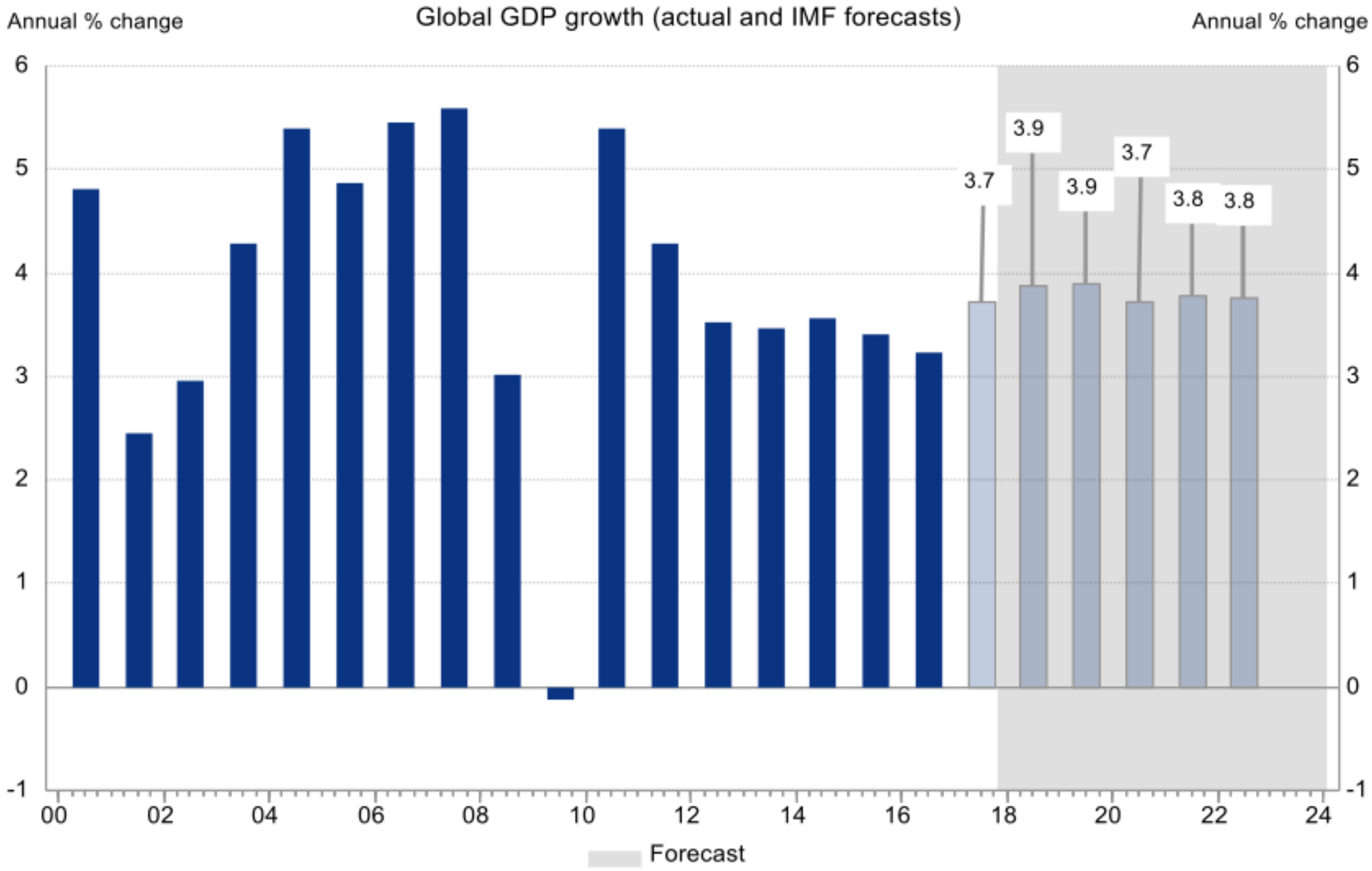
Source: QTC, Bloomberg Consensus Forecasts – World GDP growth

As good as it gets?

The good times should continue as the expansion has increasingly solid cyclical foundations by virtue of:

- being broad-based across industry, region and source of growth
- not being driven by the accumulation of debt
- being less reliant on fiscal or monetary stimulus, and
- economic agents having seemingly become immune to risk.

As good as it gets?



However, could this be as good as things get?

- Quite possibly, the IMF for one holds such a view.
- The IMF expects that global growth will remain at these elevated rates over the next few years.
- So while global economic momentum will remain firm, it won't necessarily improve further from here.

Source: QTC, IMF World Economic Outlook, October 2017, this chart has been created in Thomson Reuters Datastream

As good as it gets?

This seems like a pretty reasonable view given:

- China could slow as public infrastructure spending comes off, the property sector cools, financial risks are reigned in and reforms to improve the sustainability of growth are implemented.
- It is unclear to what extent key developed economies (for example the U.S., euro area and Japan) which are already growing well in-excess of their ‘potential’ rates can accelerate further.
- It’s also the case that the peak impact of fiscal easing globally has passed and that here might be some impact from monetary policy tightening in key economies.

DISCLAIMER

This chart pack including the streaming of the video broadcast (the Material) is distributed by Queensland Treasury Corporation (QTC) as a general information source only and should not be reproduced or distributed outside your organisation without QTC's express written consent.

The Material should not be relied on for trading or other business purposes. The Material does not constitute investment advice and shall not constitute an offer to sell or the solicitation of an offer to buy securities or any other financial instrument. Further, it does not take into account individual circumstances, objectives, or needs.

Any opinions or forecasts expressed by, or attributable to QTC, constitute QTC's view as of the date of the Material and are subject to change without notice. Past performance is not indicative of future results and QTC does not warrant or guarantee any outcome or forecast in the Material.

The Material may contain links to other websites operated by third parties. QTC does not endorse third party websites or the information, graphics and material on those third party websites. QTC makes no warranties or representation as to the accuracy, reliability or completeness of third party material and has not verified the information.

To the extent permitted by law, neither QTC nor any of its employees, servants or agents accept any responsibility and liability whatsoever (including in negligence) for any expense, damage, claim, cause of action, loss or costs, incurred by any person in connection with that person or any other person placing any reliance on, or acting or refraining to act on the basis of, the Material.