



City of Newcastle

Economic Briefing

—

2 May 2023

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01

Global Economic Outlook

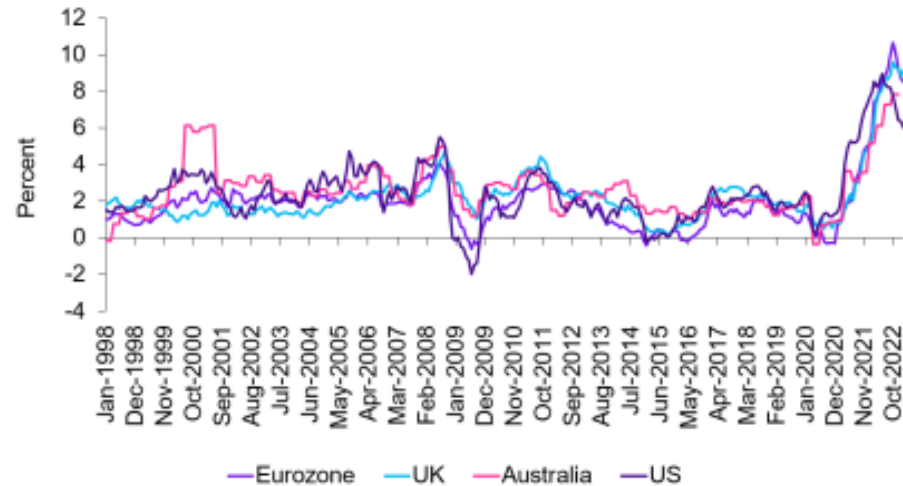
<https://assets.kpmg.com/content/dam/kpmg/au/pdf/2023/economic-outlook-australia-q1-2023.pdf>

Global economic conditions are tricky at the moment

There are positive signs emerging in 2023 that the inflation surge which has been plaguing most countries around the world is starting to ease, with commodity prices retreating and supply chains returning to pre-pandemic operations. Nonetheless, central banks have been maintaining the fight against inflation with policy rates continuing to be ratcheted upwards, although there are now signs that some countries may be near, or even at, the top of their tightening cycle.

Global growth is anticipated to be moderate over the next two years and remain below its long-term average, with lesser contribution from the Eurozone and US. Risks remain tilted towards the downside amid volatile financial markets, while the consequences of the historically large public debt and the rapidly tightening monetary policy may not have fully surfaced.

Annual inflation in advanced economies



Source: ECB, ONS, ABS, BLS, Haver, KPMG

World Trade



Source: CPB, Haver, KPMG



Weak global growth expected during next few years

GLOBAL	Annual GDP Growth ¹			Unemployment Rate ²			Average Annual Inflation ³		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
World	3.1	2.1	2.6	5.2	5.2	5.4	7.4	5.3	3.2
Euro Area	3.5	0.6	1.4	6.7	6.8	7.1	8.4	6.4	2.0
UK	4.0	-0.3	0.6	3.7	4.1	4.6	9.1	6.3	1.8
US	2.1	0.9	1.3	3.6	3.6	4.3	8.0	4.3	2.4
Brazil	3.0	0.8	2.2	9.4	9.0	8.8	9.3	6.4	4.9
China	3.0	5.7	5.2	5.6	5.3	5.2	2.0	2.4	2.2
India	7.0	6.4	6.9	7.5	6.0	5.4	6.5	5.3	4.4
Indonesia	5.3	4.6	5.0	5.5	5.3	5.2	4.2	4.0	3.1
Japan	1.0	1.1	1.2	2.6	2.4	2.4	2.5	2.9	1.0
Singapore	3.6	1.7	2.5	2.1	2.1	2.1	6.1	4.7	2.6
South Korea	2.6	1.1	2.2	3.1	3.4	3.5	5.1	3.2	1.9
Taiwan	2.5	2.0	2.6	2.9	2.0	2.0	3.7	3.8	3.8
Vietnam	8.0	5.9	6.5	3.2	3.7	3.2	3.8	3.3	3.3
Australia	3.7	1.4	1.0	3.5	4.0	4.8	7.8	3.3	3.9
New Zealand	2.7	1.1	1.0	3.3	4.1	4.8	7.2	5.6	2.9

¹ GDP growth calculated as (GDP q1-q4 t / GDP q1-q4 t-1) ² Estimated unemployment rate at end of year. ³ Estimated average inflation though the year.

KPMG expects to see positive growth momentum in 2023 following the reopening of the Chinese economy and a relatively strong growth in some emerging markets. The easing in global supply chain issues and shipping costs should ameliorate the inflationary pressures and improve supply capacity for firms.

Nonetheless, global growth is anticipated to be moderate over the next two years and remain below its long-term average, with lesser contribution from the Eurozone and US. Risks remain tilted towards the downside amid volatile financial markets, while the consequences of the historically large public debt and the rapidly tightening monetary policy may not have fully surfaced.

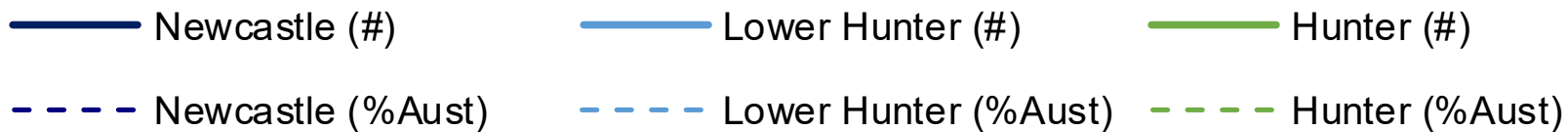
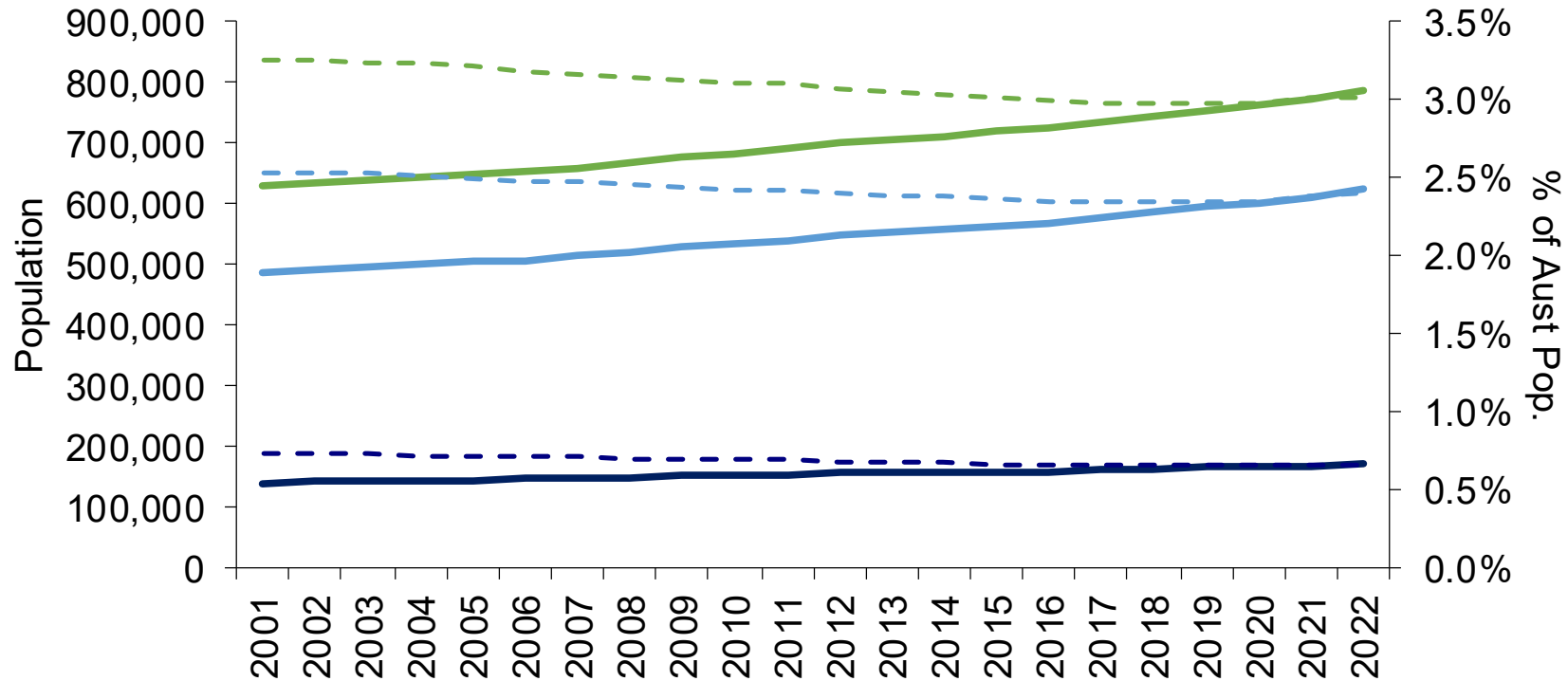


02

**Regional
Population and
Housing**

Broader region nudging 800,000 residents at 30 June 2022

Regional Population









Source: ABS



Regional population growth rate more than double NSW

The Newcastle and Hunter Regions achieved incremental population growth of about 11,700 over the year to 30 June 2022, with internal migration representing more than half of that growth, although natural increases and net overseas migration was below “fair-share” levels.

						
LGA						
Cessnock	64,082	376	1,226	96	65,780	2.6%
Dungog	9,525	41	131	10	9,707	1.9%
Lake Macquarie	213,967	350	1,532	579	216,428	1.2%
Maitland	90,553	691	2,043	210	93,497	3.3%
Mid-Coast	96,425	-545	1,031	179	97,090	0.7%
Muswellbrook	16,463	124	-127	56	16,516	0.3%
Newcastle	169,317	484	135	1,380	171,316	1.2%
Port Stephens	75,282	66	947	245	76,540	1.7%
Singleton	24,719	156	131	69	25,075	1.4%
Upper Hunter	14,254	39	-55	54	14,292	0.3%
New South Wales	8,093,815	40,378	-43,451	65,644	8,156,386	0.8%
Region						
Newcastle	169,317	484	135	1,380	171,316	1.2%
Lower Hunter	613,201	1,967	5,883	2,510	623,561	1.7%
Hunter	774,587	1,782	6,994	2,878	786,241	1.5%

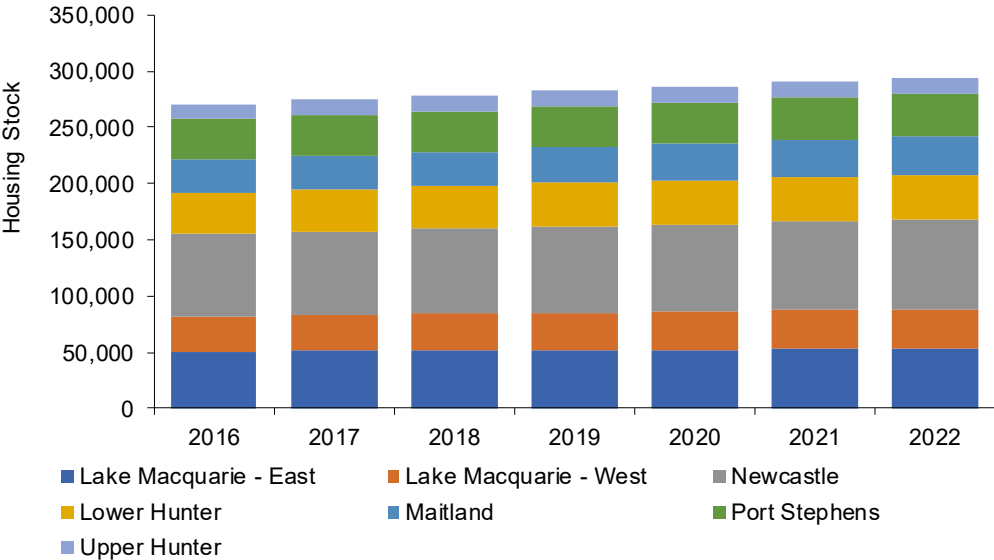
Source: ABS



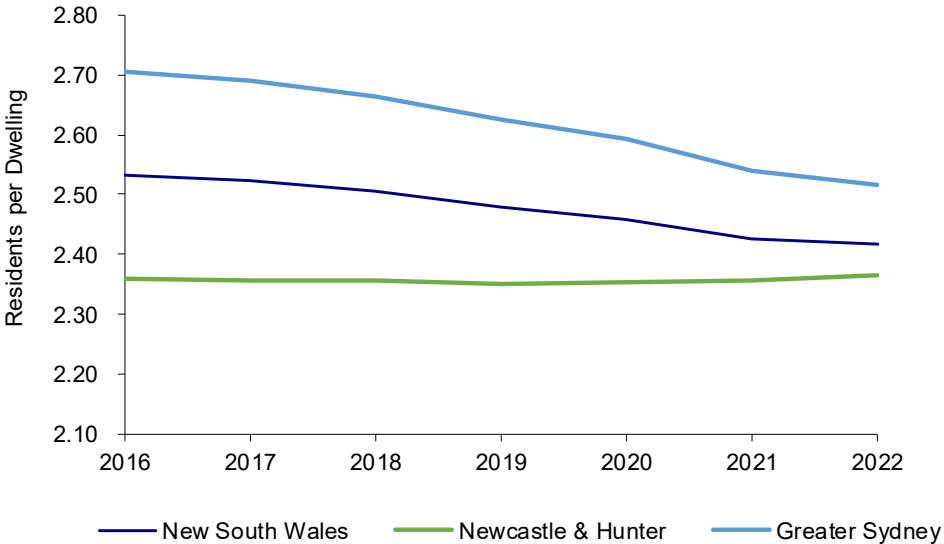
Newcastle and Hunter Region housing stock

The Newcastle and Hunter Regions saw about 23,100 new residential dwellings constructed between 2016 and 2022. The broader region has maintained a relatively low population density per dwelling ratio, most likely reflecting consistent proportion of younger (20-34 yrs) and older age (65+ yrs) resident population.

Housing Stock by Sub-Region



Population Density per Dwelling



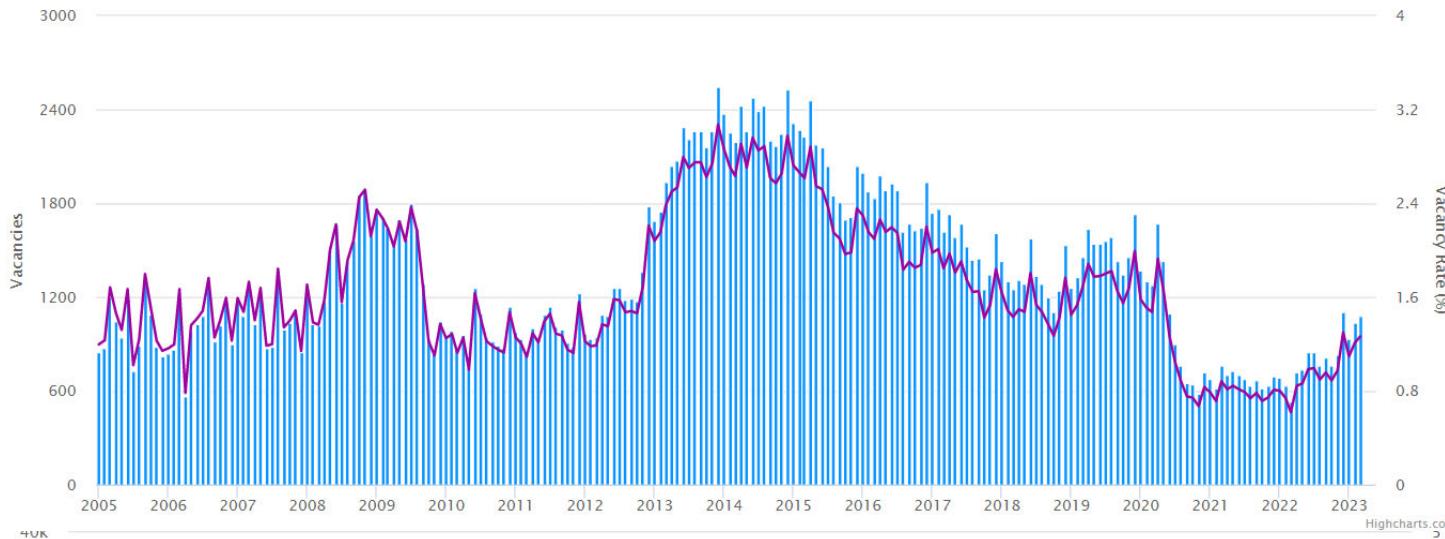
Source: ABS, KPMG

Source: ABS



'Boomerang' COVID sea changers helping rental market

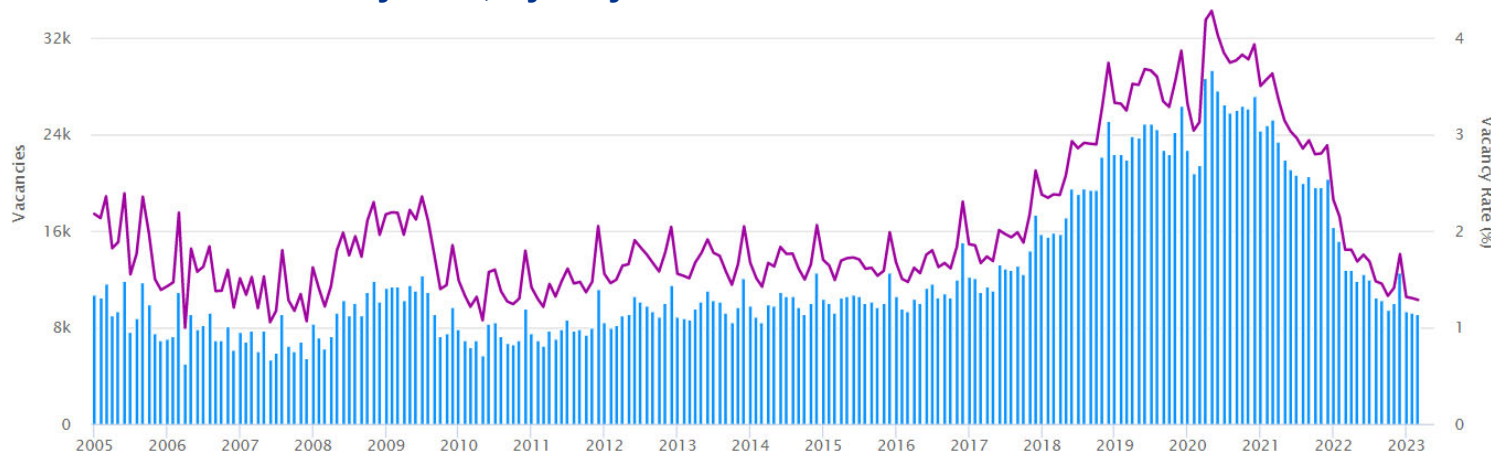
Residential Vacancy Rate, Newcastle



Newcastle has often run with a residential rental vacancy rate higher than Sydney.

COVID-induced 'sea change' relocations pushed vacancy levels below Sydney, however they are now reversing as capital city escapees are returning to back to them.

Residential Vacancy Rate, Sydney

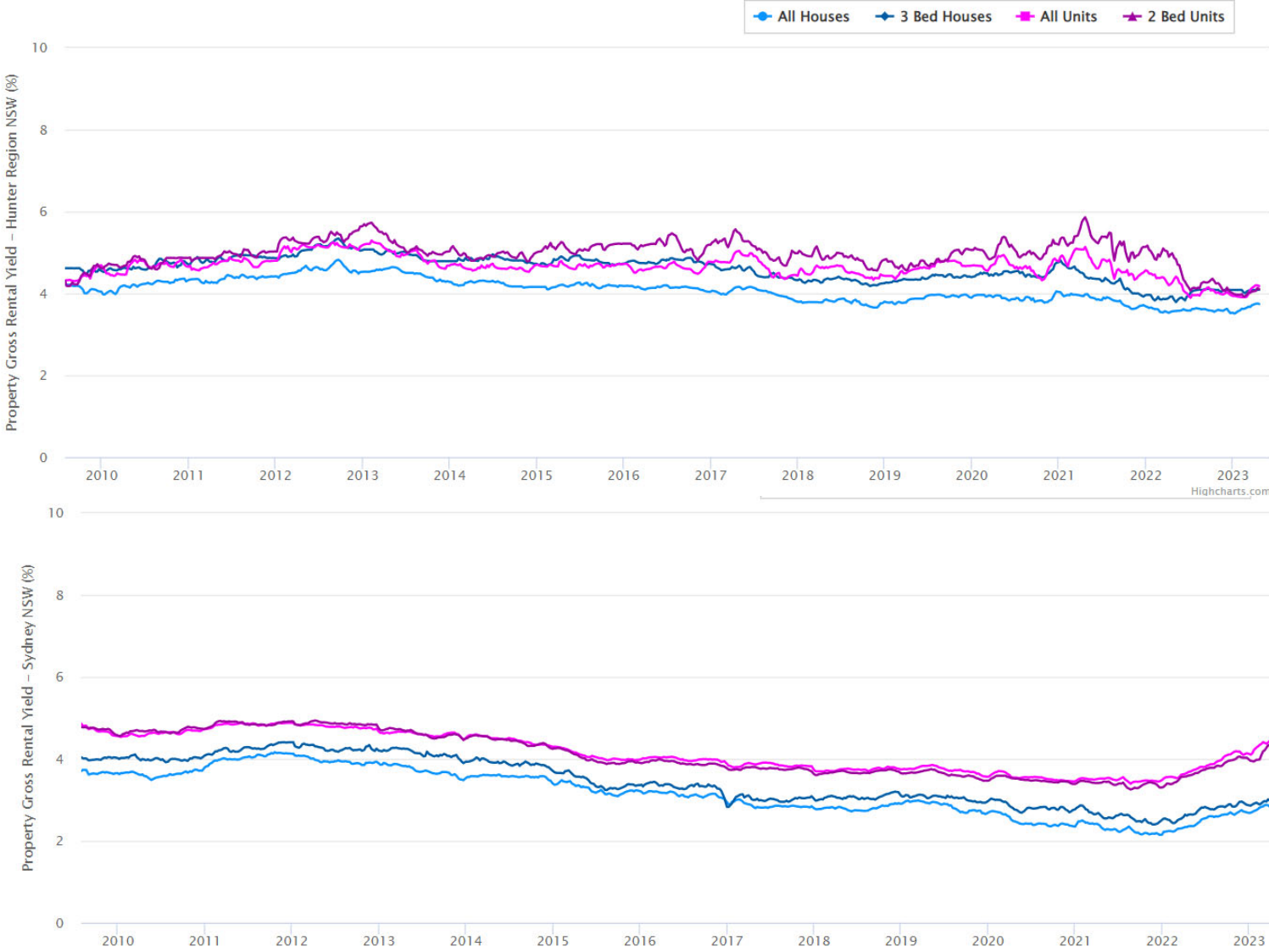


It doesn't appear the residential rental markets in Newcastle and Sydney are co-integrated suggesting any tightness in Sydney won't cause a spill-over into Newcastle.

Source: SQM Research



Rental yields softening slightly in Newcastle



Consistent with the vacancy rate data in Slide 7, yields on residential property – especially 2-bedroom units – tightened during COVID due to increased demand.

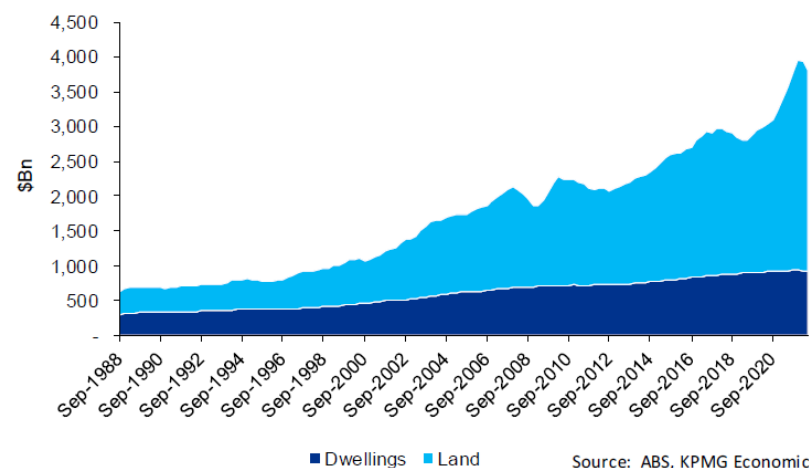
Conversely, with the current uptick in vacancy yields have returned back to (or even a little lower than) long term trend values.

Sydney is experiencing a strong uptick in rents given both the yield uplift and spike in property values since 2021.

Future development should consider infill on smaller land parcels

As the City of Newcastle grows it will need to consider how best to manage ‘urban sprawl’. Newcastle, compared to major metropolitan cities of Sydney and Melbourne, has a relatively lower proportion of small lot residential parcels (<400 sq.m.). Smaller land parcels allow housing affordability to improve by more equally rebalancing land and dwelling costs.

Value of Residential Land and Dwelling Stock, \$Real



Residential zoned land parcel counts by area range, SUA/SA2 Excel datacube April 2022

	< 200 sqm	200 - 400 sqm	400 - 600 sqm	600 - 800 sqm	800 - 1000 sqm	1000 - 10000 sqm	> 10000 sqm
Newcastle - Maitland	2,719	17,708	50,550	59,362	21,052	19,351	1,323
	1.6%	10.3%	29.4%	34.5%	12.2%	11.2%	0.8%
Sydney	47,376	179,393	351,113	301,089	97,565	79,083	4,863
	4.5%	16.9%	33.1%	28.4%	9.2%	7.5%	0.5%
Melbourne	58,101	165,019	339,606	421,506	118,275	107,147	4,826
	4.8%	13.6%	28.0%	34.7%	9.7%	8.8%	0.4%
Brisbane	5,012	43,734	190,864	274,183	73,096	89,217	15,879
	0.7%	6.3%	27.6%	39.6%	10.6%	12.9%	2.3%
Wollongong	585	6,079	34,339	35,381	7,231	6,630	464
	0.6%	6.7%	37.9%	39.0%	8.0%	7.3%	0.5%

Source: ABS



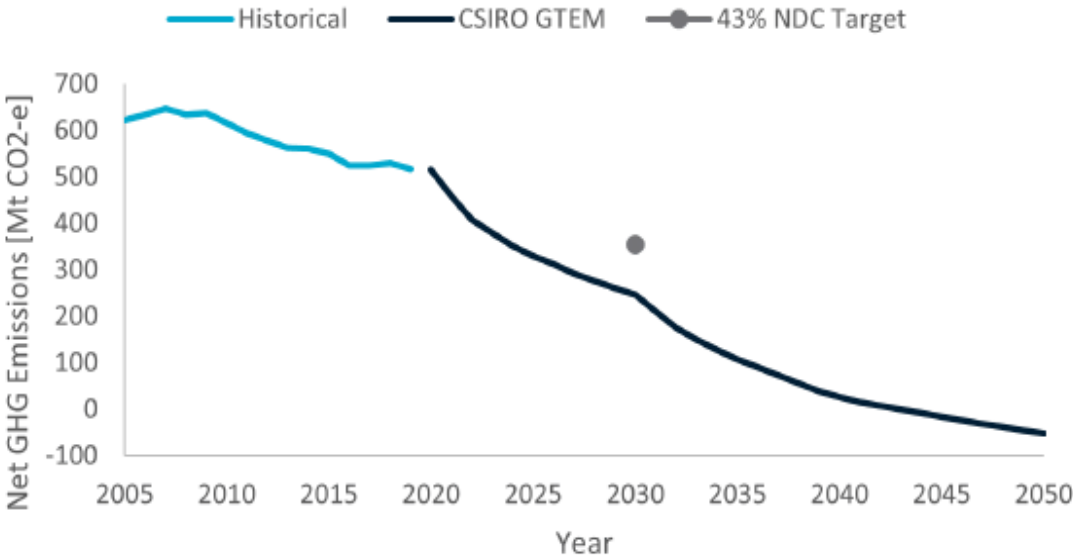
03

**Net Zero Emission
and transition risk
to local industry**

Transition to a Carbon Neutral economy is achievable

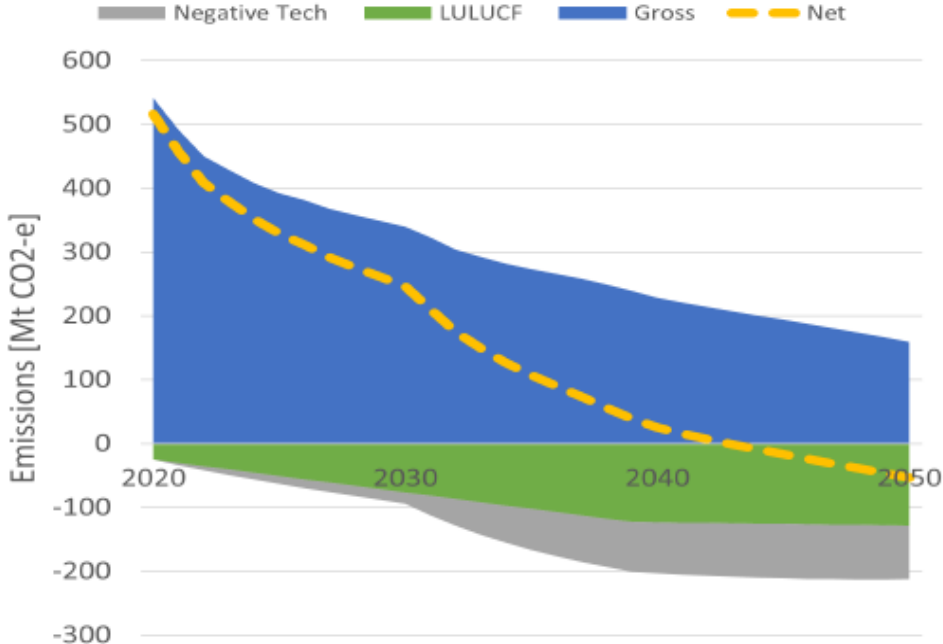
Australia can reach the modelled 52 % by 2030 emissions reduction (over 2005 levels) using existing technologies. We need to decarbonise by 4.5% per annum on average to 2030 and 3.5% per annum from 2030 to 2050 to stay within our fair share of the global carbon budget and achieve net zero emissions before 2050. This will require around \$11.3US trillion in investment in energy generation, storage and transmission infrastructure (2022-2050).

Australian GHG emissions against NDC target



Source: Unpublished CSIRO analysis

Australia's Net Emissions by Component



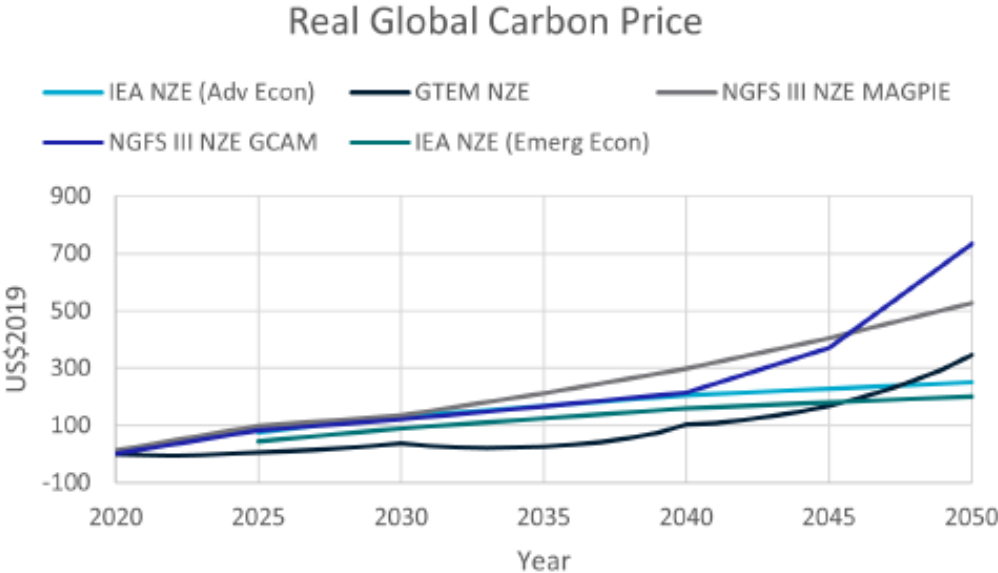
Source: Unpublished CSIRO analysis



NZE by 2050 relies heavily on Power Industry reforming

Economic shifts of this scale will require a price on carbon which can be delivered through a combination of a broad-based carbon price along with other stronger policy measures. CSIRO modelling shows the ‘shadow’ carbon price increasing from \$38/tCO₂e in 2030 to a high of \$345/tCO₂e in 2050.

The electricity sector is critical to Australia’s decarbonisation trajectory. The NZE scenario reflects the expectation that 85 % of Australia’s coal fired generation capacity will need to close by 2030 (generating just 6.7 % of total electricity) and the remainder will be closed by 2035. Renewable energy is projected to make up more than 90 % of the power mix by 2030.



Source: Unpublished CSIRO analysis

Table 3 Emissions (Scope 1) by sector (Australia) Mt CO₂e (Source Fig-POZ / GTEM)

Sector	2020	2030	2040	2050
Agriculture	72	75	75	62
Mining	85	37	11	5
Power	174	29	-3	-1
Transport	94	78	59	29
Manufacturing	55	48	35	29
Other	27	30	28	25
Households	32	42	23	10
LULUCF	-25	-76	-123	-129
Neg Emis Tech	0	-17	-80	-84
Net	516	246	25	-53

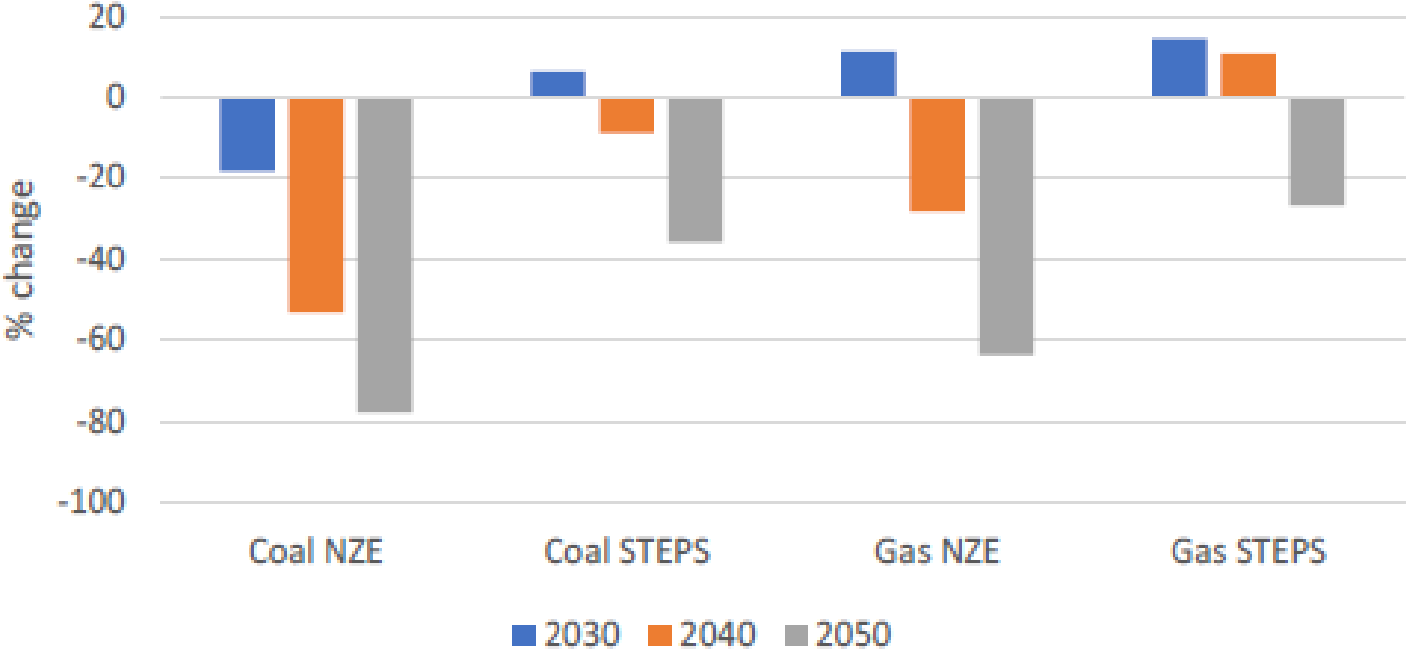
Source: Unpublished CSIRO analysis



Domestic and Global flow-on impacts to fossil fuels

Australia’s total coal production is projected to fall by 20% by 2030, halve by 2040 and by over three quarters by 2050. Domestic demand drops with the closure of coal fired power stations at, or ahead of, their end of useful life. Export demand falls as countries reduce their consumption and choose to use their own reserves. Remaining production in 2050 will be metallurgical coal, a key input for steel production which is more difficult to displace.

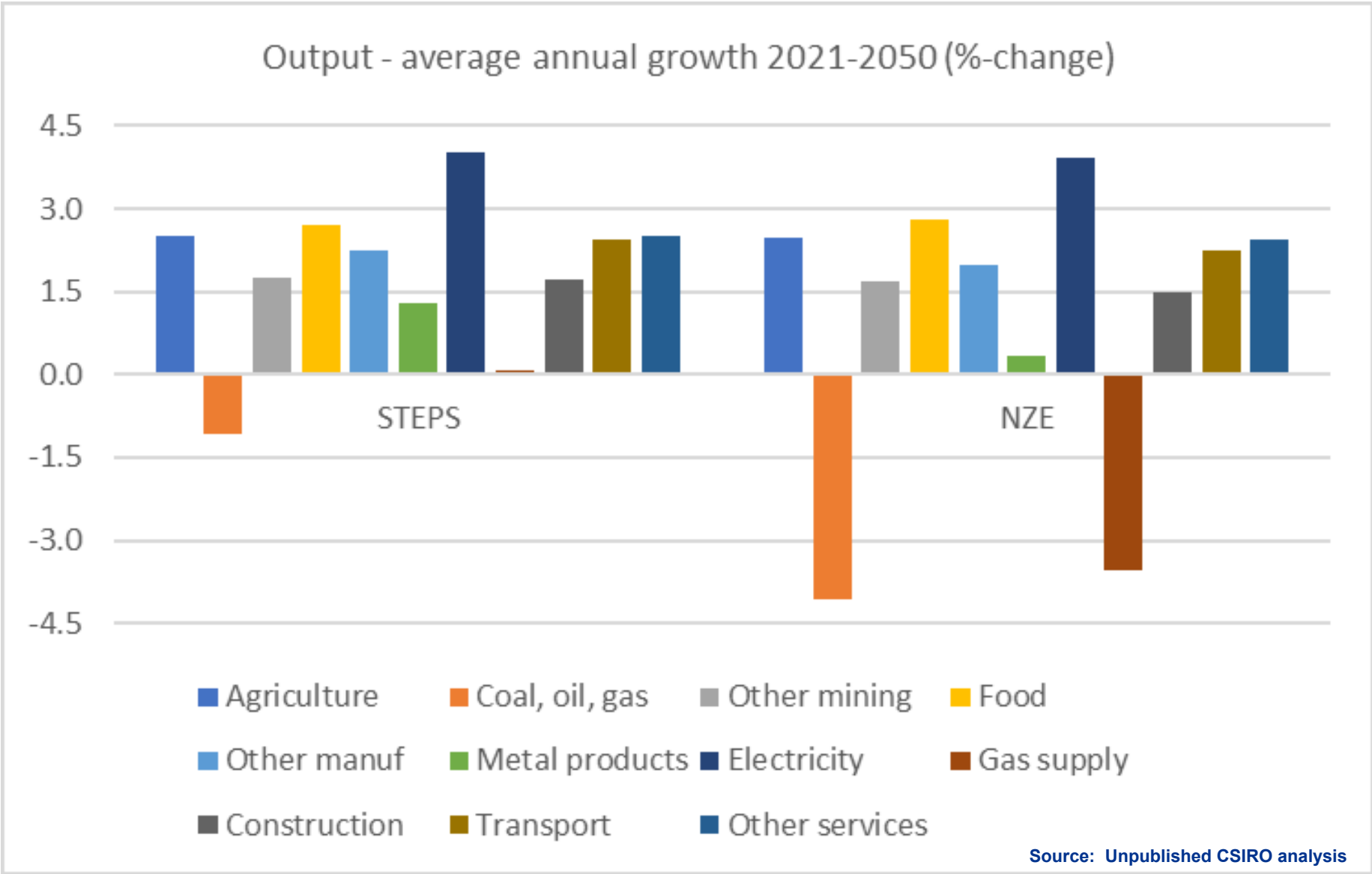
Percentage change in fossil fuel exports by volume compared to 2020



Source: Unpublished CSIRO analysis



NZE requires a step down from STEPS in coal and gas



Previous analysis reveals industry risks and opportunities



KPMG & CSIRO completed an earlier NZE carbon reduction analysis which looked at Government policies at that time and the impacts of those - and achieving NZE by adopting more aggressive policy settings from 2030 onwards – on the Australian economy.

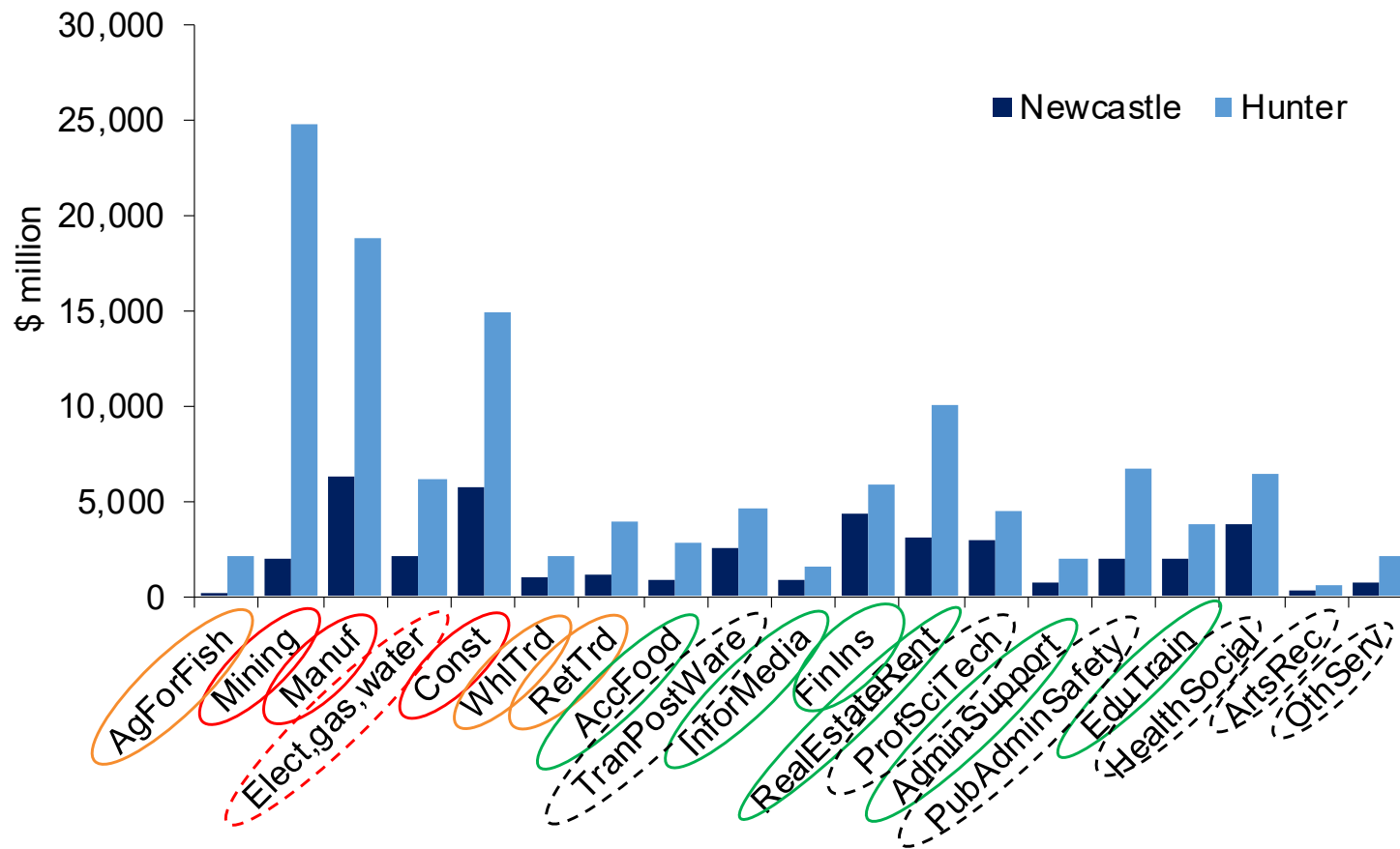
There were clear industry winners and losers, which enable policy makers to understand, what if any, changes to economic development plans should occur in order to manage this potential risk.

Source: CSIRO



Newcastle and Hunter economies skewed to 'red' sectors

Industry Output, FY22



Source: RemPlan, KPMG

Even ignoring Mining, the current industry structure of the Newcastle and Hunter regions is skewed towards those high emission sectors that are likely to experience significant cost pressures with the adoption of a direct or indirect carbon price.

Focusing on supporting “Green” and “Dotted” industries with the highest IGVA per worker should be the priority for Newcastle.



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