



Economic Briefing | Shaping Cities of Value

City of Newcastle

2 July 2024

Agenda



Australian Economic Update



Newcastle & Hunter Valley Economic Deep Dive



Shaping Cities of Value

01

Australian Economic Update

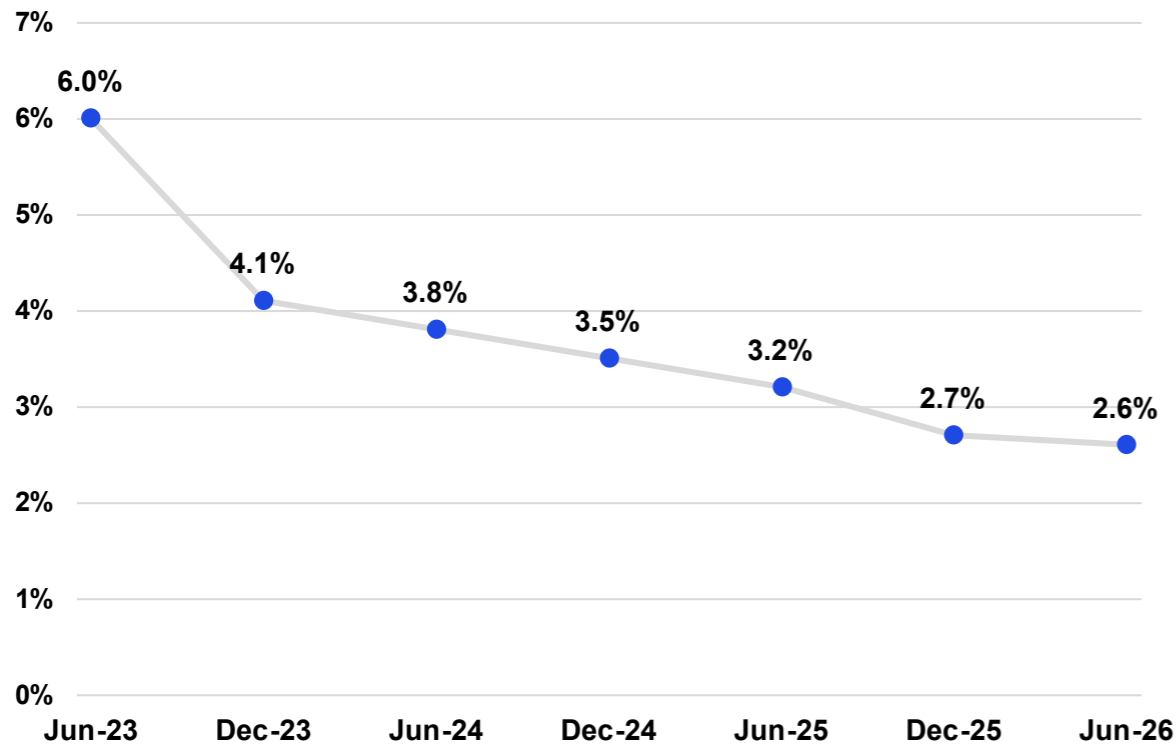


The economy is still in recovery mode

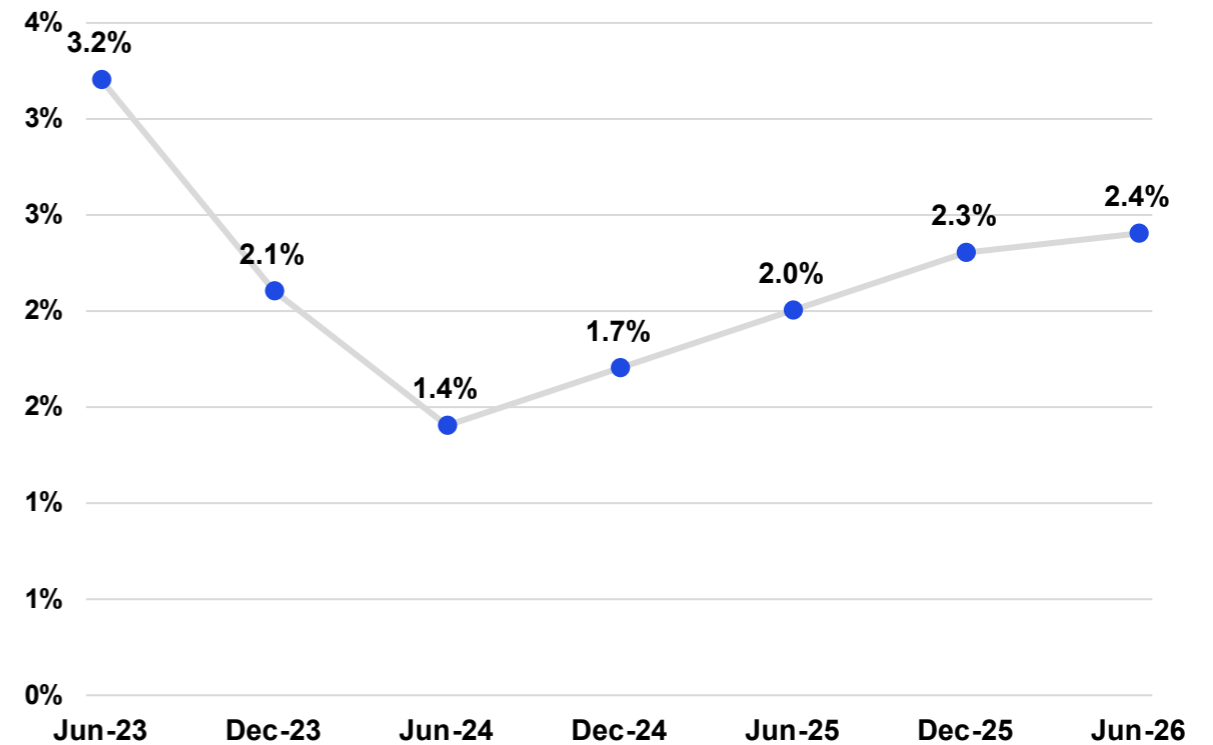
The global economy is still recovering but inflation proves to be sticky. Domestically, inflation continues to move down towards the target band, but the progress is slower than expected. Domestic outlook remains positive, but weaker growth is expected for 2024.

With extraordinary levels of population growth, real GDP on a per capita basis has fallen for three consecutive quarters and is now 1.3% lower than where it was a year ago, indicating a “per-capita” recession and explaining the high cost of living pressures despite real GDP growth of 1.1% YTD for the March quarter.

Inflation



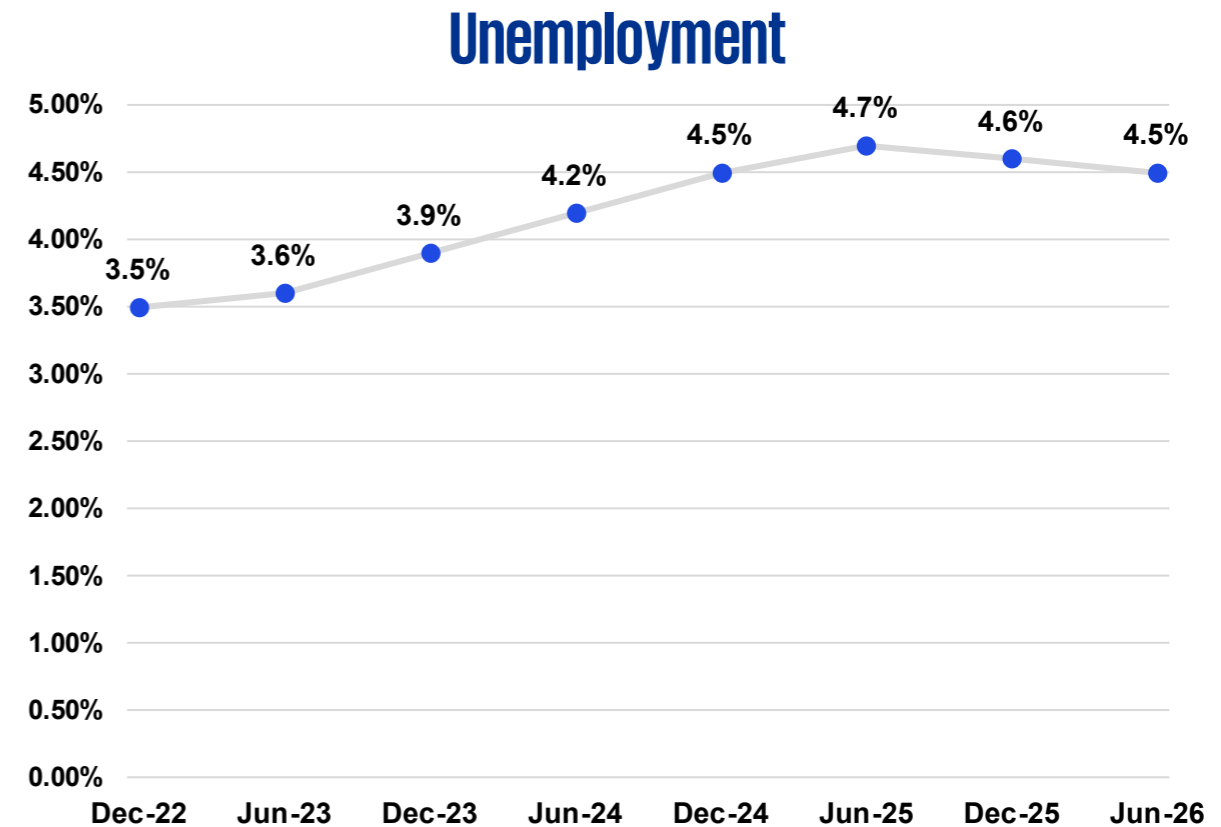
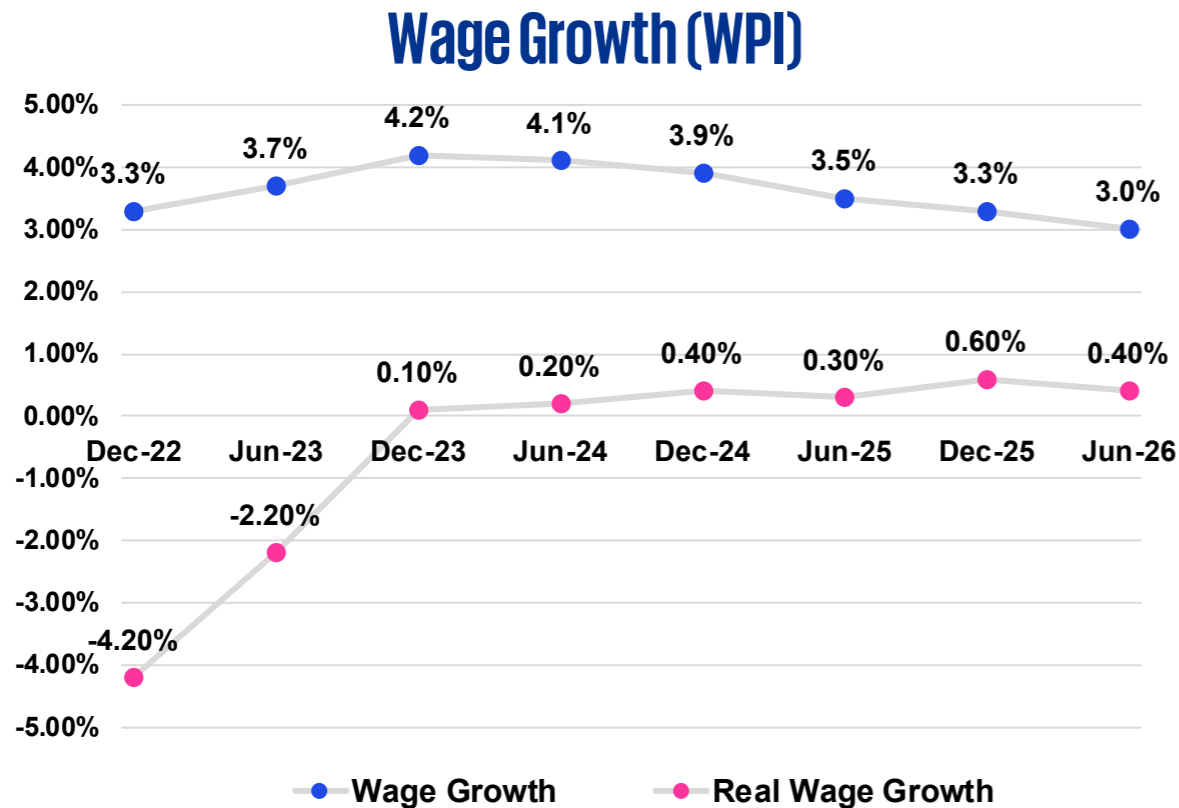
GDP (Real)



Wage growth expected to decline as unemployment trends upwards

Over the year, WPI rose by 4.2%, increasing from 4.1% in the September quarter to be the highest recorded annual growth since the March quarter 2009. This increase was driven by organisation wide annual wage and salary reviews across the public and private sectors, with public sector increases resulting from new EBAs for essential workers.

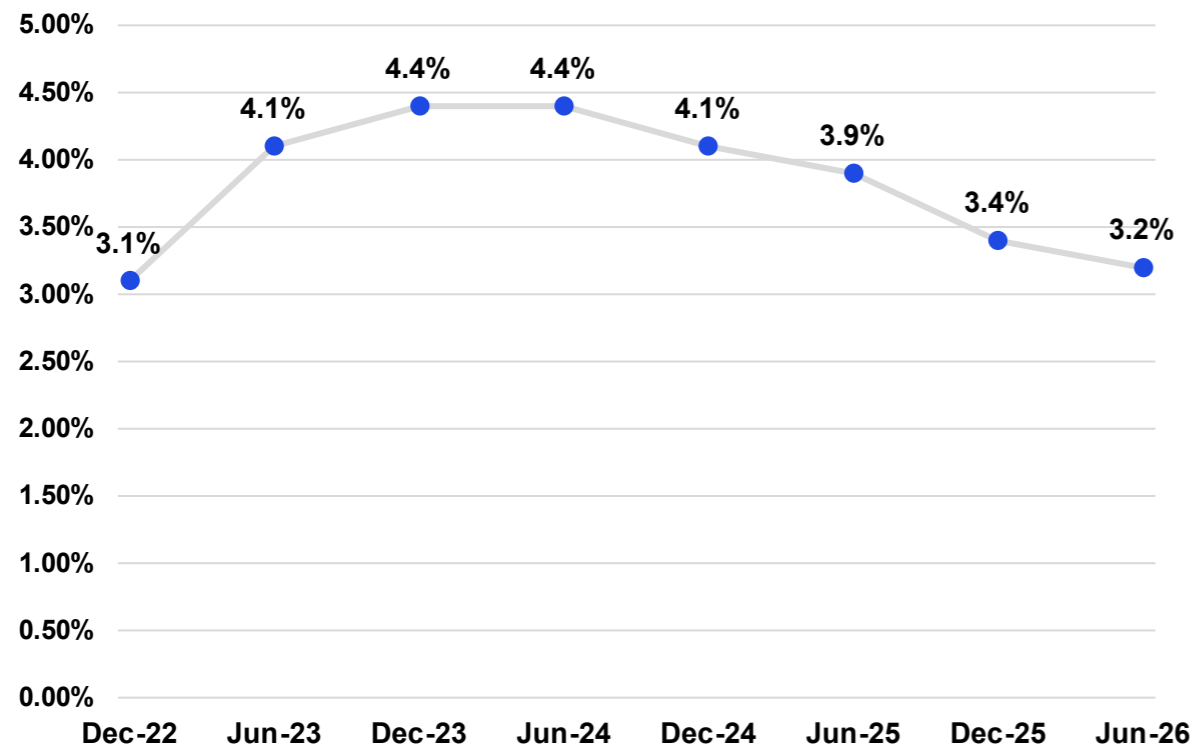
The strength of the labour market is expected to gradually weaken until the end of the year given there is a lag between economic slowdown and labour market conditions. Leading labour market indicators, such as SEEK's jobs ad index, indicate a softening in labour demand.



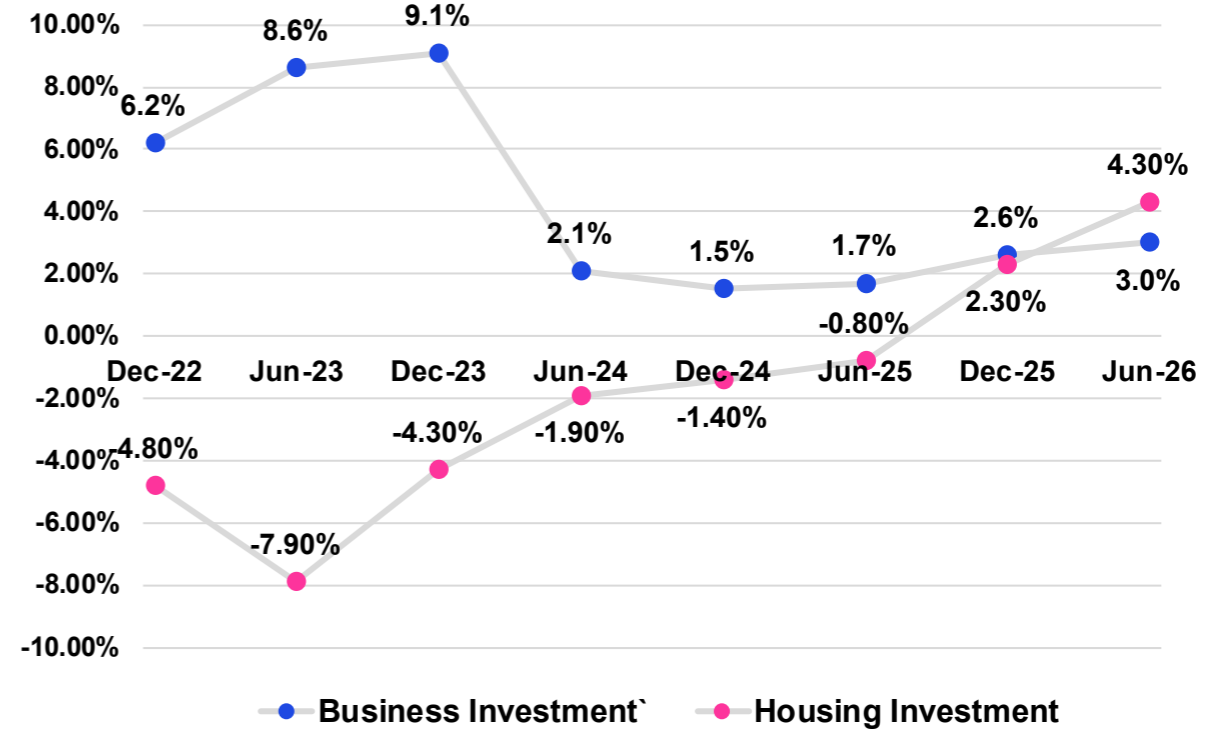
The cash rate is expected to fall, leading to increased investment

Housing and business investment is expected to remain subdued in 2024 as signalled through the lacklustre number of dwelling approvals, which has been on a downward trend since mid 2022, reflecting the effects of higher building costs. Into 2025, anticipated lower interest rates, government initiatives to boost supply, and improved conditions for builders, are expected to drive a rebound in dwelling investment.

RBA Cash Rate



Business & Housing Investment



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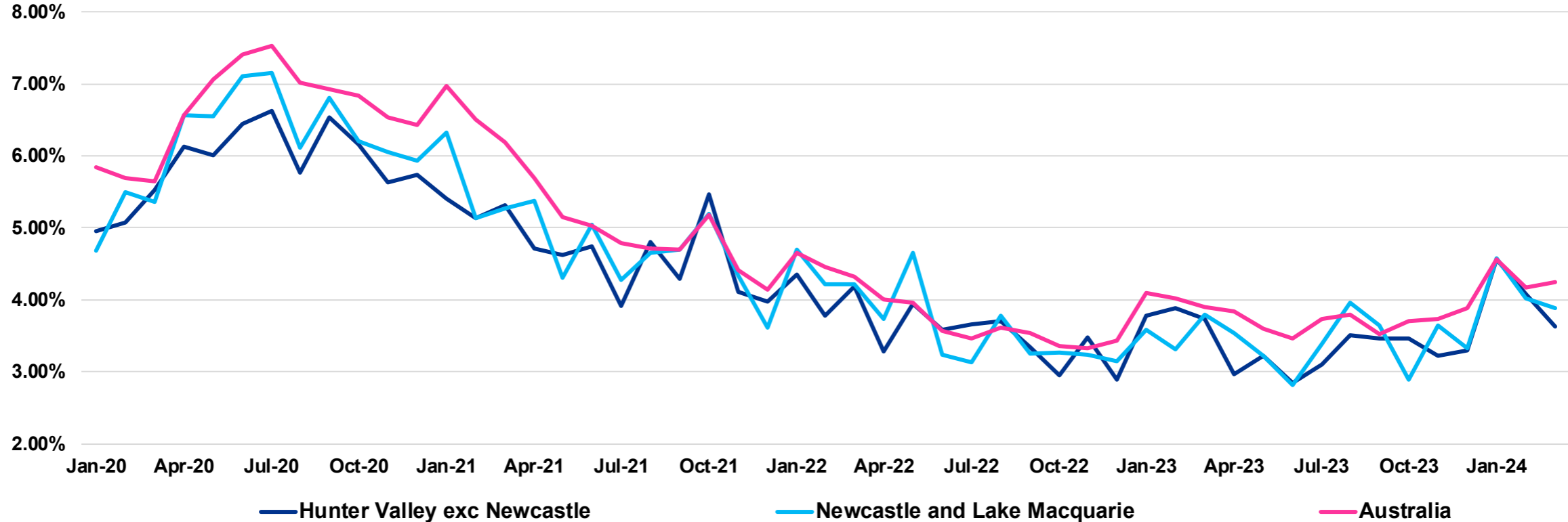
Newcastle & Hunter Valley Economic Deep Dive



Unemployment in Newcastle and the Hunter Valley

Unemployment has trended down in the region since a COVID-19 related peak in 2020. The regional unemployment rate has followed the same trend as broader Australia, however, has consistently remained below the national average save a few months since the beginning of 2020. With the expectations that unemployment will rise to a peak of 4.7% in mid-2025 nationally, it is likely the Hunter region will see a similar increase in the unemployment rate over the same period.

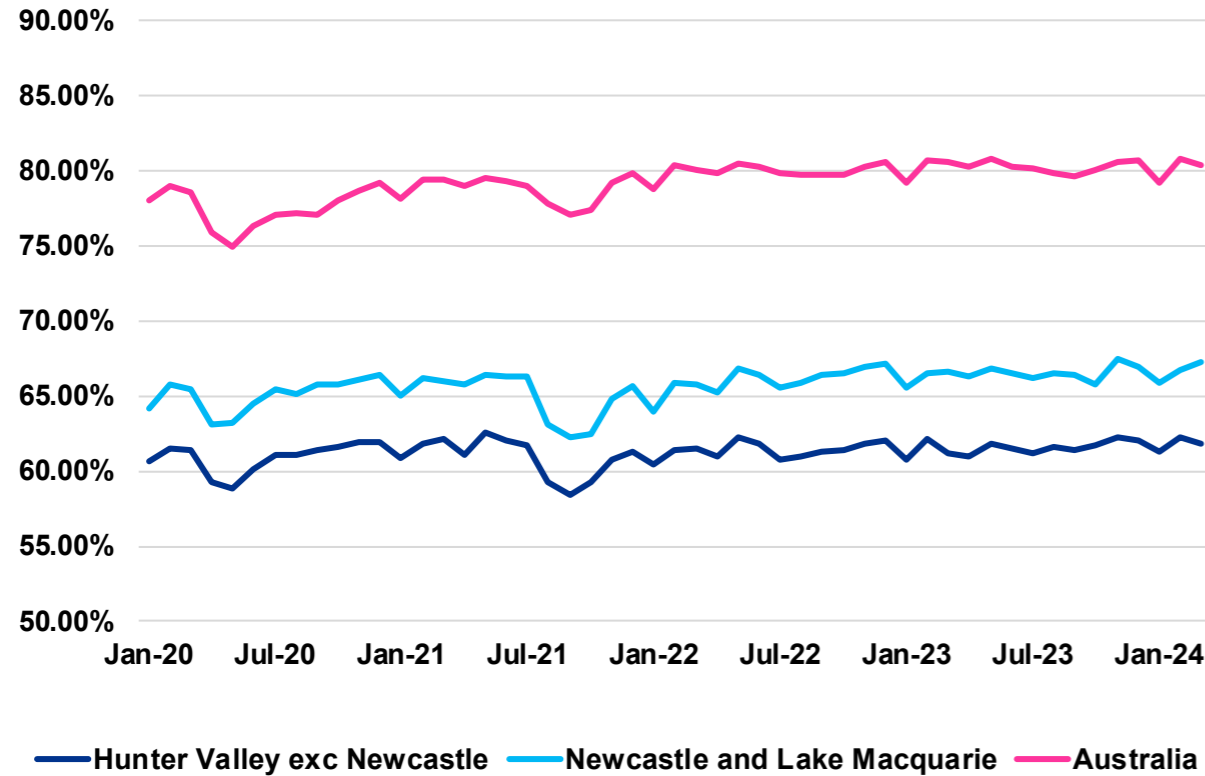
Unemployment Rate



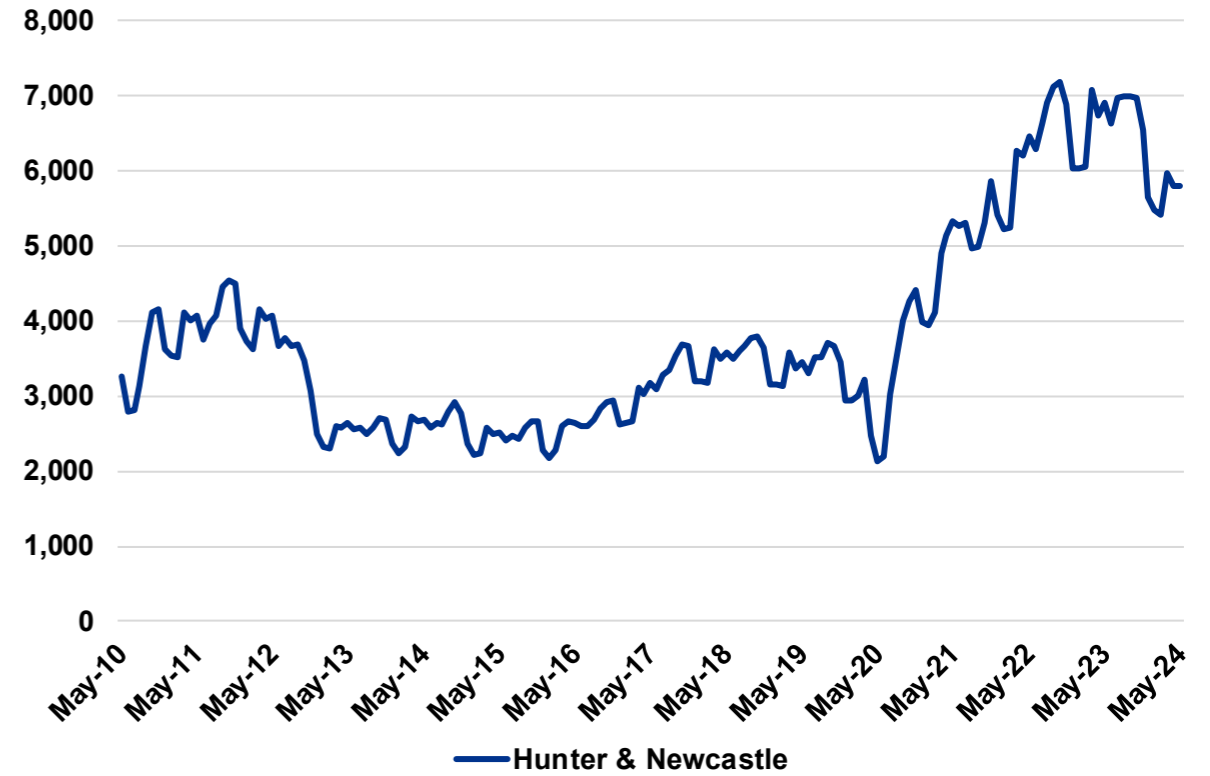
Participation & Vacancies

The participation rate has remained largely unchanged but significantly below that of the Australian average. The total job vacancies in the region have seen the beginnings of an expected decline, in line with the forecasted increase in unemployment over the next two years. The total vacancies are likely to decline further, however, they remain significantly above pre-COVID levels.

Participation Rate

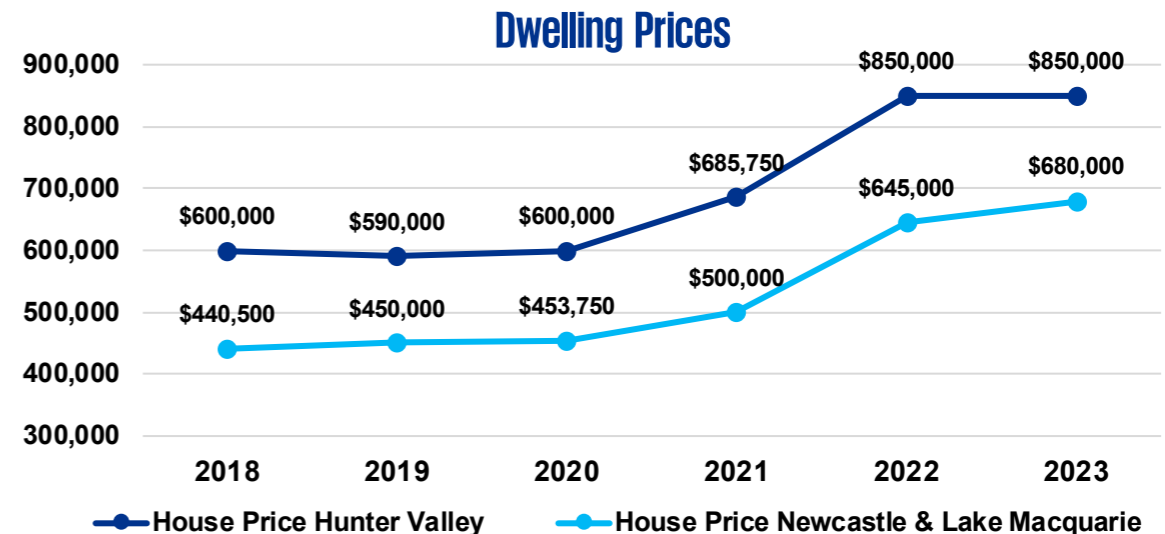
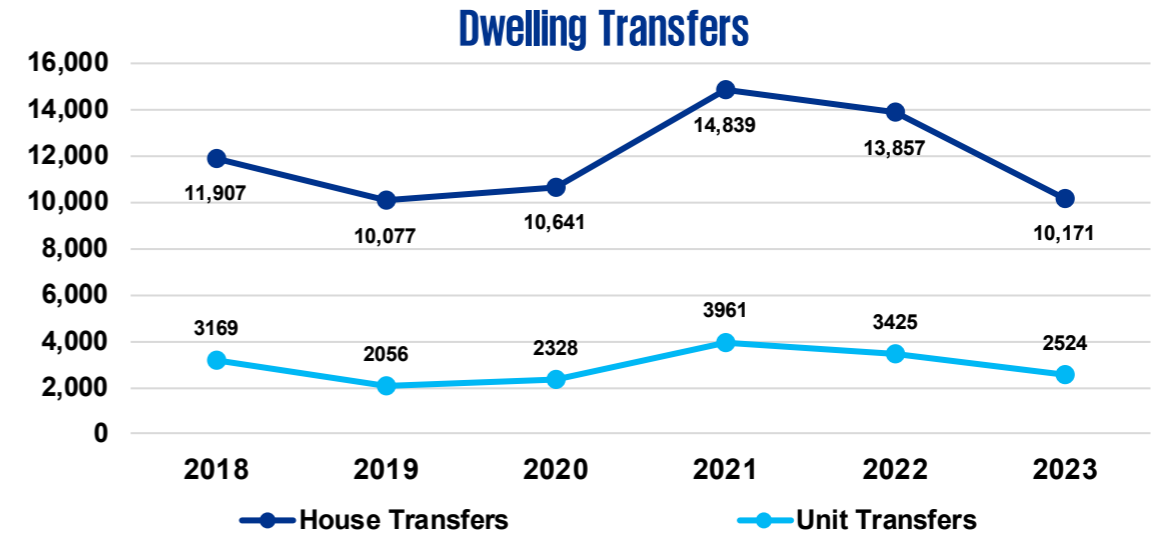
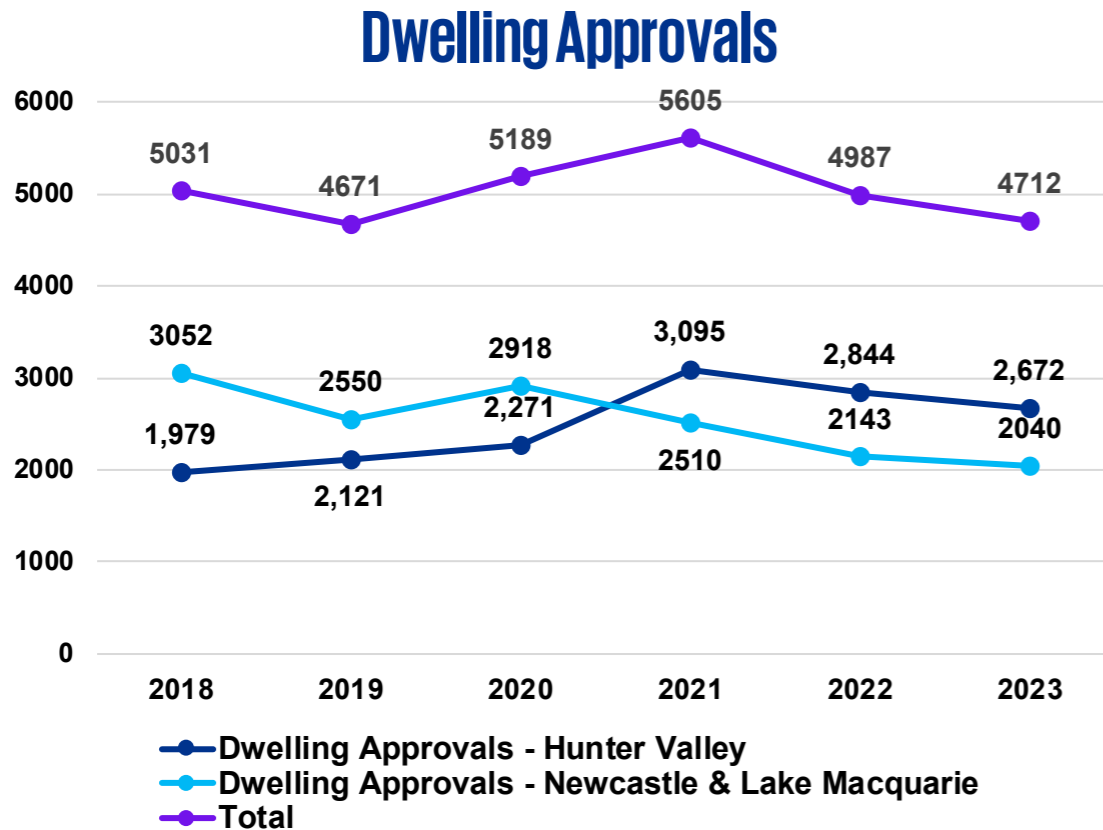


Total Job Vacancies



Dwelling approvals continue to decline, spurring increased house prices

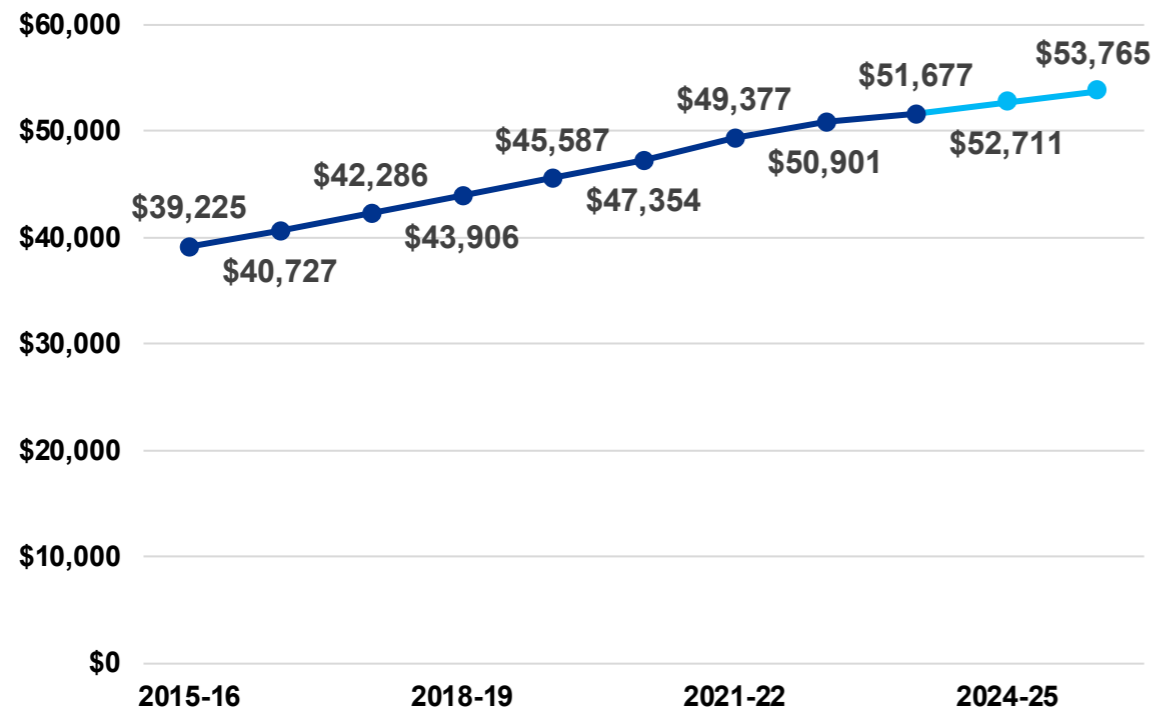
Dwelling approvals and transfers have declined since a peak in 2021, in line with increased interest rates and headwinds in the construction industry leading to a higher cost to build. The median cost to purchase a house in the Hunter Valley and Newcastle has increased significantly as a result, with median house prices 54% and 42% higher in 2023 than 2018, respectively.



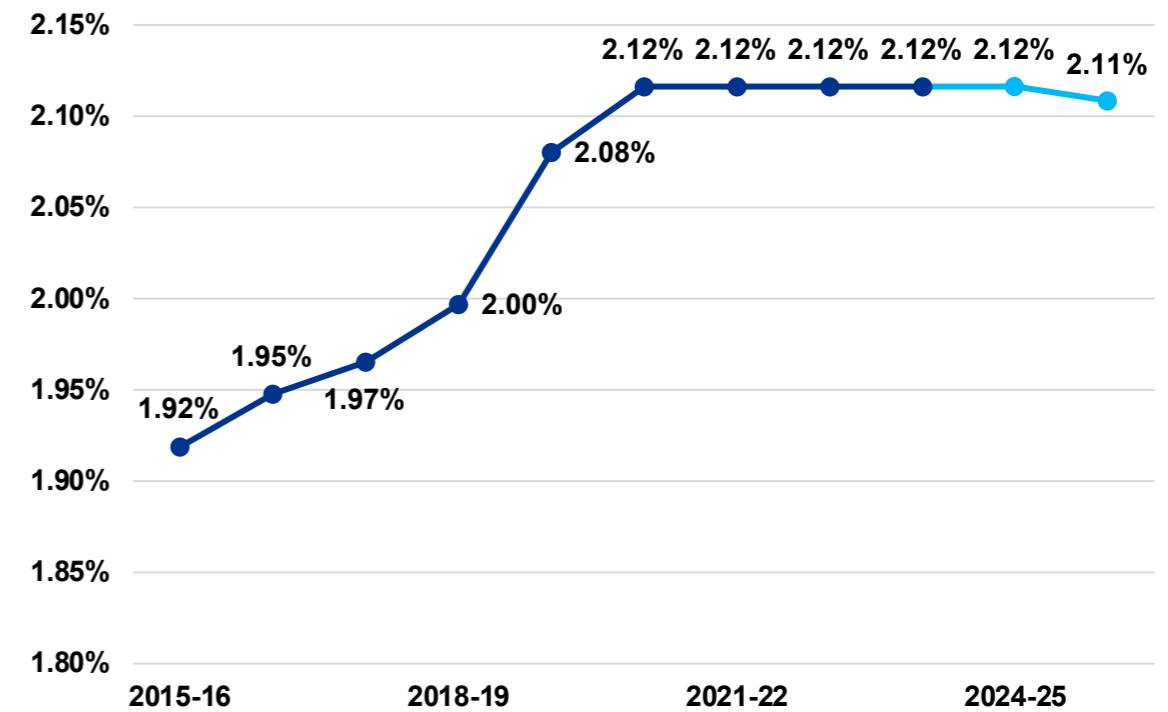
The gross regional product has increased as a % of Australia

The gross regional product grew at an annual rate of 3.8% across the Hunter Valley and Newcastle between 2015-16 and 2020-21. During the same period, the region grew in its percentage share of the total Australian GDP, from 1.92% to 2.12%. The light blue represents the forecast growth in GRP based on KPMG's economic outlook from Q1 2024.

Gross Regional Product (\$m)



GRP as a % of Australia



03

Shaping Cities of Value



The KPMG Cities of Value Framework

Cities are capable of generating multiple layers of value – social, economic, environmental, lifestyle, cultural and more – for their residents, workers, businesses and visitors. These layers can prove challenging when trying to define and measure a city’s value. KPMG has developed a framework based on experience working with cities and local governments globally, designed to unlock these layers of value. It includes three pillars and three enablers.

Three Pillars of Value

Digital

Harnessing digital technology and data to deliver value to citizens through improved experiences, insight-led allocation of resources and greater connectivity, while building trust and ensuring security and data privacy.



City services should be technology enabled, data driven and digitally delivered.



Reuse of digital assets maximises value; co-design with stakeholders is vital.



Governance and trust are foundational for public acceptance of AI and other technologies.

Physical

Developing vibrant places, integrated transport network, public infrastructure, inclusive housing and innovative real estate developments that stimulate economic activity, connect communities and promote safety, security and social wellbeing.



Urban planning should focus on developing vibrant, integrated and safe environments.



Inclusive housing and polycentric cities can enhance community engagement and economic activity.



New models of housing can mitigate economic and social disparities.

Sustainable

Embedding resilience and adaptability into the environmental, social and economic fabric of cities to protect value for citizens of the future.



Sustainability initiatives should be tailored to local priorities and citizen needs.



Embed social equity in urban design to foster inclusive growth and mitigate inequality.



Design cities for longevity with adaptive infrastructure and circular economy practices.

The KPMG Cities of Value Framework (cont.)

Three Enablers of Value

Citizen Centricity

Understanding citizen needs and investing in the capabilities required to stay in tune as needs evolve; making these a central tenet of the decision-making framework when developing policies, designing solutions and delivering services.

Collaboration and Partnerships

Forging partnerships among the city and other levels of government, education institutions, private industry, community groups and not-for-profits on programs, projects, services and solutions.

Funding and Financing

Accessing sustainable funding and financing solutions – from private and public sources – that can enable cities to deliver exciting new digital, physical and sustainable solutions.



The City of the Future | AI Technology

171 city leaders were asked to use the framework to develop initiatives that could create, deliver or protect value for citizens of the future, these were the top three:

AI Technology

Enabling a smart, digital way for all of the City’s community members to engage meaningfully and equitably with the democratic process of decision making.

Problem to Solve

- Inequitable access and contribution to decision making.
- Bias in decision making
- Lack of accountability and transparency for decisions.
- Inconsistent governance and processes.

Solution

- **Re-purpose assets for new commercial or residential uses.**
- **Offer AI driven insights into governance with consistent support and public access.**
- **Enhance efficiencies in expenditure within Local Government.**

Relevance for Newcastle

- **AI optimises Newcastle's asset repurposing decisions efficiently.**
- **AI insights ensure transparent, accessible governance support.**
- **AI drives financially efficient Newcastle government expenditures.**

Daejeon City & AI

Daejeon in South Korea is the country’s 5th most populous City (1.5 million in 2019). The City’s economy is centred around a high volume of government and private sector research.

They announced in 2022 a Smart City vision, with three pillars D – Data, N – Networks and A – Artificial Intelligence. KPMG in South Korea supported several initiatives in the City, including an AI fintech solution for financing regional investment.



Commercial financing for local innovation and entrepreneurs has typically only been available to mature organisations.



KPMG supported the City to establish a peer-to-peer financing application utilising AI to assess credit ratings.



This democratised access to capital and boosted the regional economy ecosystem.



Newcastle & Hunter Valley could consider a similar approach to encourage business investment in the region and continue the growth in GRP.

The City of the Future | Modular City & Share Tank

171 city leaders were asked to use the framework to develop initiatives that could create, deliver or protect value for citizens of the future, these were the top three:

Modular City

Creating breathable, sustainable, resilient and liveable cities for generations to come.

Problem to Solve

- Accelerated commercial and social infrastructure development.
- Enhanced affordability of construction materials.
- Eco-friendly materials improving sustainability.

Solution

- **Develop “Lego-like” eco-friendly, durable materials for versatile building blocks for various infrastructure.**
- **Employ circular, green-certified methods for carbon-absorbing, reusable or recyclable building blocks.**
- **Utilising eco-friendly, recyclable modules could enhance Newcastle's sustainability and resilience, reaping environmental and lifestyle benefits.**

Relevance for Newcastle

- **Aligns with Newcastle and HJO's focus on circular economy and the strong private sector recycling market i.e. Benedict.**
- **Modular construction methods may economically boost Newcastle, offering cost efficiencies and accelerating commercial/social infrastructure advancement.**

Share Tank

Where city solutions are freely shared across an open network of cities.

- Cities are always solving complex local problems. These solutions are often kept within the City's council or shared via relationship. A “Share Tank” would be a free digital library where cities' solutions can be shared, rather than reinventing the wheel.
- **Sharing design and delivery lessons for enhanced infrastructure.**
- **AI library platform to exchange city solutions with clients and partners.**
- **Create efficiencies with local government resources and spending.**
- **Newcastle could utilise the Share Tank to find innovative and novel solutions to regional problems.**
- **Newcastle could also contribute to the Share Tank, supporting other local governments with issues Newcastle has faced and solved. HJO could be the first port of call for this idea.**

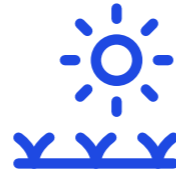
Areas of focus for cities in the future



Deliberative Democracy

Listening to and understanding citizens and their needs, by developing active connections between citizens and their governments to instil a greater level of democratisation in the city models of governance.

"Have 'connection' - within and between communities as the core objective of decisions around cities"



Environmental and Social Sustainability

Prioritising environmental and social sustainability above near-term economic outcomes, placing community at the heart of owning and driving change.

"Redefine the meaning of growth to value sustainable right-sized' housing, business and genuinely connected communities"



Leverage Technology for Innovation

Invest in technology in ways that are scalable and community centric, to democratise customer service and address regulation so that it is an enabler not a barrier.

"Accelerate democratization of data and digital customer services"



Intentional Collaboration

Collaboration within city ecosystems and across networks of other cities.

"Stop competing and start thinking and learning as a collective"

Actions for cities to deliver a brighter future

Digital

1. Develop a Digital Strategy in line with City Goals:

Newcastle should integrate its digital strategy closely with the city's overall objectives to ensure that technology investments support broader urban agendas and community needs.

2. Invest Based on Citizen Value:

Focus investment decisions on digital infrastructure and capabilities that provide measurable value to citizens, emphasising the long-term benefits and cost-effectiveness of such investments for the community.

3. Build and Utilise Digital Assets Wisely:

Work towards creating "digital assets" rather than standalone digital services. Plan these assets with the wider city ecosystem in mind, ensuring data is shared and used responsibly to enhance city life and services.

4. Protect Data through Governance and Democratisation:

Implement robust data governance, privacy, and security measures while making data more accessible where it is appropriate and with necessary consents, positioning Newcastle as a smart, data-informed city.

Physical

1. Adopt Citizen-Centric Urban Ecosystems:

Transition from isolated projects to creating interconnected urban ecosystems prioritising citizen-centric planning and a deep understanding of supply factors like finance, land, and existing infrastructure.

2. Leverage Data for Community Planning:

Use data to identify service deficits and socio-economic benefits, requiring city leaders to employ technology for secure data capture and advanced analytics to inform infrastructure planning based on community needs.

3. Explore Neuroscience in Urban Design:

Investigate partnerships with neuroscience experts, urban designers, and socio-economic value practitioners to incorporate human sensory engagement data into urban planning, leading to environments that better serve and stimulate citizens.

4. Repurpose Underutilised Spaces:

Identify and repurpose underutilised assets such as office buildings, industrial spaces, and heritage structures for alternative uses like housing, innovation hubs, community spaces, and connected infrastructure that contributes to sustainable and liveable urban environments.

Sustainable

1. Whole-of-Life Emissions Focus:

Craft and enforce regulatory frameworks that encourage investments in technologies and practises reducing whole-of-life emissions from infrastructure projects, ensuring environmental sustainability is at the core of urban development.

2. Incentives for Eco-Friendly Development:

Offer planning incentives and support systems for projects that prioritise environmental sustainability, such as low-emission buildings and infrastructure, to reinforce the city's commitment to reducing its carbon footprint.

3. Financial Stewardship and Innovation:

Utilise innovative financing sources and models that balance progress and preservation of the city's fiscal health, ensuring infrastructure investments are both economically sustainable and conducive to long-term growth.

4. Inclusive Digital Service Expansion:

Promote inclusive growth by transitioning to accessible digital services for all community members, especially targeting those in underserved areas, and provide essential services in multiple languages to serve the city's diverse population.



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