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1. ADDRESS TO CIVIL CONTRACTORS FEDERATION CAIRNS, NOVEMBER 2008

It was with some trepidation that I accepted at short notice the invitation to speak this morning.

There are a whole host of very profound questions around that I find difficult to give clear answers upon. However, all I can do, as someone with training and experience in economics, is provide you with some observations.

I am due to give our state of the local economy presentation in two weeks time, along with Rick Carr, and I thought I had another two weeks to prepare.

However, I will give my perceptions of what is going on at an international level and national level and then talk about their ramifications for the local regional economy.

2. First of all, the international economy.

I think there are three strands of action here that need to be identified.

First, there is the collapse in global financial confidence that started with the sub prime market effects over 18 months ago.

Second, there are the stock exchange movements. Here, it is important to recognise that share prices basically react to expectations of profits and dividends. A major fall in share prices can occur and a firm be perfectly healthy but not as profitable as it was. A major drop in the stock market signals an expectation of a reduction in profitability, but not necessarily a recession.

Finally, there is the real economy.

3. Much of the flurry of activity this year has related to restoring financial confidence, with governments acting out the role seen for them in this situation, since the 1930's depression, as being lender of last resort (and in some cases shareholder of last resort) to the financial sector.

You can call me an optimist if you like, but I believe that after massive government intervention, the situation bottomed out in October and confidence slowly started returning in the last week of October.

4. Clearly, stock exchanges started factoring in reductions in company profitability, especially for highly financially exposed companies some time ago. Financial institutions and exposed companies saw strong falls earlier in the year.

All this was happening while the real economy was buoyant. More recently, in expectation of a slowing of growth in the real economy, these falls have extended to a sharp drop in commodity prices and a fall in resources stocks.

Which takes us to the real economy.

5. In my address to the Chamber over 12 months ago, I commented on the financial turbulence that had started in the United States and said that I wasn't sufficiently qualified to say whether the problems on Wall Street would spread to Main Street and if they did, whether the problems would extend to places like China.

We are now over 12 months down the track since then, and although the US GDP dipped in December quarter 2007, it was positive in the first two quarters of this year, but dipped in the September quarter.

Up to the June quarter, although housing investment was down strongly, business investment had held up relatively well With the US dollar lower, exports were up, imports (mainly of fuel) down, government expenditure up and importantly, consumer spending was holding.

In the September quarter, a similar pattern was there with one important exception, consumer spending was down, but only to the extent that saw the US economy go down by 0.3% only.

I would expect that the December quarter figures will also be negative and that the US economy will technically be in recession. The question is how deep will it go and for how long, and what will be the 'knock-on' effects for the rest of the world.

6. Clearly, government action has been moving past that of achieving financial confidence to acting in a classical Keynesian pump priming role that will see most governments running deficits over the next few years as spending is stepped up in the face of declining revenues. The trouble is that some countries (like the USA), don't have a lot of leeway. They were already running deficits.

7. The good thing to see in the current situation, is that concerted global action is being taken at government level with China even coming into the picture in recent days.

The bad thing is that consumer confidence seems to have been shaken in the USA and other western countries.

Restoring it won't be easy.

Perhaps now that the uncertainties of the US presidential election are out of the way, things in the USA will settle down.

8. Expectations of a slowing in the world economy has seen a major fall in commodity prices.

Interestingly, the sharp fall however, also tended to stabilise in the last week in October in concert with signs of returning financial confidence.

And this brings us to the national scene and the local situation.

9. Australia goes into this situation with its financial institutions probably not as badly placed as some in the USA and Europe.

At government level, it has plenty of room to pump prime the economy if needs be. Its stock exchange took a bigger than expected beating as overseas investment fled the country when the troubles began.

Its major vulnerability (as I see it), is a relatively high level of household debt built up in recent years when a great deal of overseas money was attracted by comparatively high interest rates and a rising dollar.

10. The government has acted as a lender of last resort to help maintain financial confidence. It has moved to stimulate the economy with $10 billion of pump priming expenditure. The Reserve Bank has moved to bring down Australia's very high interest rates, although they still remain high in international terms. As in the USA, a strong contraction in consumer spending has been taking place, especially on larger ticket items like cars.

With interest rates moving down, and overseas investment in Australia less attractive, and with commodity prices down, in recent months, the Australian dollar has experienced one of its sharpest falls ever.

11. And this brings us to the local economy.

Like most regional economies in Australia, the Cairns region's economy is heavily based on outside earnings by industries that depend on a natural resource advantage - agricultural and pastoral industries, fishing, mining and tourism (an industry based on outstanding natural tourism resources of the reef and the rainforest).

Adding in more recent decades to these outside earnings, have been increased defence and surveillance expenditure, trade with surrounding regions, and earnings from maritime and aviation servicing and education sectors.

Built on these outside earnings, is a service industry structure that has come to employ more than the base industries. But if you took those industries away, much of the service sector would collapse.

12. The good thing in the current situation, is that the drop in the Australian dollar has increased the competitiveness of our important base industries earning outside income. The pressures of a high dollar and high fuel prices were putting on outside earnings from tourism have fallen away. The question is whether reductions of holiday travel in source areas both within Australia and overseas will offset the region's restored international competitiveness.

The prawning industry that seemed to be approaching a state of collapse has probably been given a reprieve. The primary industries' commodity prices seem to be holding up and the drop in the dollar is a major bonus for a sector that has risen strongly in value in recent years.

Falls in metal prices have been impacting on the mining industry, although for many, the fall in the dollar has been largely offsetting these falls. There have already been some reductions in employment in the sector and some planned new ones are having problems raising finance.

But there are still plenty of big mining projects out there that I don't think will be stopped by the current situation, like the expansion of Weipa and the massive LNG projects in Papua New Guinea.

The outside earnings of the marine and aviation service industries and education was being affected by the high dollar and the fall restores their competitiveness.

13. As with elsewhere in Australia, consumers have reacted by drawing back on consumer durable expenditure. This will flow through in time to jobs. Hopefully, this could just prove to be temporary as households, previously frightened by the speed of change, reassess the situation as things settle down.

Financial borrowing conditions seem likely to remain stringent. A reduction in demand for consumer credit could however, help release funds for business.

Over the coming months, government assistance to first home buyers and lower interest rates will help alleviate what otherwise could have been a tough situation in the housing market.

The government's $8 billion payout to pensioners and families will kick-in, in a few weeks from now, to the benefit of the retail sector.

14. Prospects of increased government infrastructure spending will come on top of an amount of catch-up government spending already slated for the region over the next few years - on the hospital $450m and the university dental school $48m.

This factor has already been felt in the region's official building approval figures that leapt to a startling $500 million in value in the first month of 2008/09, with the $445 upgrade over the next 3 years of Lotus Glen appearing in Tableland July figures.

15. In conclusion, let me remind you that there are some optimistic signs that the slide in financial confidence seems to have stabilised since the last week in October. The slide in commodity prices also appears to have stabilised along with the Australian dollar.

At a local level it is not all bad. Most of our industries are a lot more competitive than they were a few months ago.

As always, businesses will need to continue being 'light on their feet' and adapt to a very different situation.

16. THANK YOU