THE CAIRNS ECONOMY
Ref: J2185

1 **Presentation to the Cairns Chamber of Commerce, November 2008.**

2 Fifteen months ago, when I last addressed the Chamber in August 2007, I said that the city was on a roll. The question was whether this would continue, especially in the light of instability becoming evident in US financial markets.

I said in conclusion that while there were some negatives and uncertainties around, the next twelve months would see the city and region grow solidly. And so it did.

3 A high dollar and airline constraints continued to cramp the prospects for tourism. Slow growth in airport passenger movements are an indicator.

4 Room nights recorded in hotels and motels in the region continued to fall.

5 Tourism earnings have been stuck at about $2.5bn now for a number of years

6 However, as I have been recording in recent years, agricultural prices have been good and agriculture expanding. Latest figures available show value at farm-gate over $1.3 bn. Transport storage and processing would push this much higher.

7 At $1.3 bn, the region is larger than Tasmania, and the largest in the north, especially in crops.

8 Figures now coming available indicate that mining income from within the region has roared upwards in recent years. The 2007/08 figure could be expected to come in even more strongly as Weipa continued to expand production and hinterland mining expanded.

9 As identified in our study released earlier this year for the Department and the Chamber's Resources and Industry Task Force, this has been paralleled by a major expansion of 'fly-in' to mines outside the region adding something like 1,900 mining jobs to the estimated 1,600 jobs within the region, taking the total to about 3,500 jobs.

10 There are 17 different mines or mining centres linked by direct flights out of Cairns with capacity of about 4,000 seats a week spread throughout PNG, Papua Indonesia, Northern Territory, North West Queensland and within the region.

11 A further factor that has been helping keep the economy expanding in the face of subdued tourism growth is evident in some figures that have become available during the year about the degree to which this region now leads the north in business development. This is how the relevant regions across the north now look in population.

12 But this is how they look in terms of business counts with the Far North head and shoulders above the rest.

13 And this is how they look in terms of counts in property, finance, insurance and other business services. Growth of this sector is replacing imports and a number are achieving income from wider markets across the north, the island areas, and overseas.

14 While the region does not have an image of being a manufacturing centre and does not lead the north in employment in manufacturing, the vitality of its manufacturing sector is indicated by its leadership in numbers of manufacturing businesses, again with quite a few now achieving outside income as well as replacing imports.

15 We all know the region is the leading aviation servicing centre in the north with business being attracted from the wider Asia/Pacific area. The chart indicates the degree to which it is also far and away the leading marine industries centre – again with the sector drawing income from outside the region.

16 It also leads in creative industries, our studies again indicating a growth taking place in outside earnings in recent years.

17 Against this background, the region's economy continued to expand in 2007/08 with value of building approvals reaching a record level of $1.2 bn.

18 It is my expectation that population figures for 2007/08 when they come in will show strong growth on the previous year consolidating further the region's position as the largest in population in Northern Australia.

LOOKING AHEAD

19 It is now clear the problems of Wall Street (evident in August last year), have spread to Main Street USA and the rest of the world, with European economies proving surprisingly vulnerable.

The Cairns regional economy has already felt some of the impacts. But not all of them are bad, and we need to keep things in perspective.

It is necessary to recognize a number of features of the world economic situation.

20 The first of them has been the collapse of financial confidence. We have seen governments reacting through their Reserve Banks to play out the role envisaged for them after the disasters of the great depression of the 1930's as "lenders of last resort". While some financial institutions have taken damage and there could be more, I believe that the concerted actions taken around the world has basically stabilized the situation as of late October. However, it is clear that it is not going to be as easy to borrow money over the next twelve months as it was in the past.

21 The next is the collapse of wealth – personal and business, as markets like the stock exchange and the property markets discount prospects of levels of future earnings.

This has particular ramifications for the way people are spending their incomes and the level of spending. There is evidence, I believe, that again the situation may be stabilizing (at least not deteriorating as rapidly).

However, the good thing is that the Reserve Bank is pulling down interest rates, making property more affordable at a given price.

22 The third is the impact of falling demand for a whole range of goods and services including:

1) Commodities (falling prices).
2) The Australian dollar (a 37% devaluation since the July peak).
3) Labour (a rise in unemployment).

Much of the action being taken by government has more recently passed from dealing with the collapse of financial confidence to pump priming the economy to stimulate demand.

23 The recent patterns of the US economy are instructive in appreciating what is happening and likely to happen in Australia.

The US economy continued to show growth in the June Quarter. Investment in housing was down very strongly and consumer durable expenditure had fallen off, but general consumption expenditure held and rising export income with a lower dollar and high government spending resulted in overall growth.

In the September Quarter, the picture was much the same with one major exception, general consumption expenditure fell dragging the economy into a mild negative. With consumption expenditure down, business investment has started to follow.

24 Now let's look at impacts on the local Far North Queensland economy. I will work through the elements involved, in terms of outside earnings, consumption behavior and investment.

25 Tourism - The large drop in the Australian dollar, the fall in fuel prices, and the expansion of airline capacity with the arrival of the A380's and Boeing Dreamliners is dramatically restoring the region's competitive position in both domestic and international markets.

The major question is – will this be negated by a general downturn in travel from source markets under the influence of the wealth reductions and fears of growing unemployment and lower incomes.

26 Certainly, there has been no indication so far that airline travel in Australia has stopped growing.

27 There may be some reductions in propensity to travel in the USA and Europe, but I don't think it is going to strongly affect the Japanese (the yen is sky high and the contraction in the Japanese economy is relatively minor), or in emerging Asian markets like China and India.

28 Although the loss of Japanese flights is serious, it is important not to overplay the impact. It represents only about 5 to 6% of tourism income and about 1 to 1½% of Gross Regional Product.

29 Our next biggest sector, the agriculture sector, is comprised of some elements that compete on world markets – especially sugar and beef. Their prices have held up and the low dollar and lower fuel prices are a bonus. If the world situation brings about a successful completion of the Doha round and a freeing of world markets, it will be brilliant for Australia's agricultural sector.

30 Most of our fruit production is sold on a sheltered domestic market. But it is here that the biggest single threat to the local economy lies.

Loss of the banana industry income through changes in Bio-security arrangements would involve a loss of regional income three times that of the loss of Japanese flights. It just won't affect the banana growing districts, it would affect the whole regional economy with a GRP loss of the order of 3 to 4%.

31 There are elements of the fishing industry that would probably be out of business completely this year if they had not been saved by the drop in the Australian dollar and fuel prices.

32 Mining is a difficult one. Rapid expansion has been brought to a halt by the strong falls in mineral prices and the financial uncertainty. However, this table shows how this has been cushioned by the drop in the value of the Australian dollar.

33 If the drop in prices had not occurred, a whole range of new capital investments were due to take place in Cairns' sphere of influence including:

1) The two major LNG plants at Port Moresby involving something like $13 bn in construction activity over the next 5 years.
2) A number of new mines in PNG.
3) Major expansion of bauxite mining in the Weipa area including Rio Tinto's new seaport to handle up to over 50 million tonnes (recent expansion was from 10m to 19m tonnes a year), and new operations involving possible new ports at Wenlock River and Aurukun.
4) A range of smaller projects in the Cairns hinterland area and other projects in the North West and Mackay region.

There has already been some reductions in operations and reduction and cancellation of projects not just because of commodity prices but difficulties in raising capital.

I don't have sufficient information at this stage to identify which are likely to proceed. However, my feeling is that most of the existing bigger mines will remain and the bigger projects continue. Much will depend on what happens with the Chinese economy.

34 For the region's important maritime and aviation servicing sectors, the drop in the dollar has restored our competitive position as a quality service provider in the North Australia/ Papua New Guinea/ Asia Pacific areas. The drop in the dollar will also be important for the international education sector.

Thus, overall, I don't see really big worries in the region's outside earnings unless the Federal Government makes a decision to abandon the region's banana industry.

35 In the current situation, it can be expected that consumers and businesses will be more wary about spending especially if it involves taking on more debt, and I believe the largest consumer durable, car sales, have already experienced a major fall.

The Government's $8 billion payment to pensioners and families due to be paid in a few weeks' time should result in $100 million flowing into the region. (The region has about 1.2% of the nation's population.)

36 And this brings us to the investment side of the economy that is dominated by construction activity. Rick will talk more about this. Clearly, the current situation has led to lower dwelling approvals in recent months. However, there was a startling figure in recent building approval figures of great significance.

Value of approvals for the first quarter of 2008/09 at over $500 million are already almost half way to last year's record of $1.2 billion. The statistics recorded in July a figure of $445 million on the Tablelands being the approvals for upgrade of Lotus Glen. Actually, it will not all be spent this year, but will take place over the next three years. But with the $450 million upgrading of Cairns Base Hospital, the new State Government offices and the Dental School at the University, we are looking at something like $1 billion in Government building activity over the next few years. It couldn't have come at a better time.

Importantly, in each case, it can be expected to lead to an increase in employment as the region's new situation as the largest in population in the north demands an upgrade of Government services particularly in health and higher education.

37 The Commonwealth Government's first home owner scheme should result in something like $20 million coming into the region, helping (along with the lower interest rates), to hold up the property and dwelling construction market.

38 And finally, I want to say a few words about keeping things in perspective.

This regional economy consists of about 250,000 residents. The workforce is about 130,000. The Gross Regional Product stands at about $10bn.

In recent years, it has been growing at about 6,000 residents a year, about 3,000 a year in workforce, and about $700 million a year in GRP (excluding inflation, about $250 million a year).

Loss of 600 jobs is less than 0.5% of the workforce.

We have to experience a loss of about 3,000 jobs on what has been happening recently before an overall contraction in workforce takes place. I believe that in the next twelve months, we will still have a net increase in workforce.

39 My overall prediction for the next twelve months – a slowing in the pace of growth but still positive.

40 THANK YOU.

Before I leave the podium, I will put on my other hat – that of the market and social research side of our business – Compass Research.

With the support of the Cairns Post, The Compass Research team has carried out for two years now, a 500 household survey in Cairns of media usage, including attitudes to usefullness of advertising.

I am pleased to advise that copies of the research report are being made available at this meeting.

A very distinctive feature is evidence of the rise of the internet.

For the second year in a row, Channel 7 had the highest TV viewing recorded and highest commercial radio audiences were shared between Hot FM, 4CA FM and Sea FM.

And of course, the Cairns Post continues its leading position in the market place as a major force, ranking especially high in rating of usefullness as an advertising medium.