

THE CAIRNS ECONOMY

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- 1 **Presentation to the Cairns Chamber of Commerce, August 2009.**
- 2 Evidence now available indicates the degree to which the Cairns region entered the past year on a very high, high. In 2007/08, Cairns as a city, recorded its highest level of population growth ever, at 5,600, and its highest in percentage terms since the first half of the 1990's.
- 3 The overall region, with a growth of almost 8,000, led northern Australia. In percentage terms, it surged ahead of the Gold Coast and Sunshine Coast to be the highest in Queensland and second highest nationally after the Margaret River region of Western Australia.
- 4 However, news in mid-2008 of the major loss of flight capacity to Japan and the gathering global financial storm saw major cutbacks starting to take place in the volatile investment sector which continued progressively during the 2008/09 financial year. Rick will no doubt give further detail.

While nominal total value of building approvals held at over \$1bn, some \$400m of this was for the Lotus Glen prison works, most of which will not take place until this financial year and next.

Even allowing for this, total value of building approvals remained at a robust \$600m

- 5 Again, as Rick will illustrate in further detail, dwelling approvals tumbled during the year:
- 6 especially of non-house dwellings.
- 7 Employment in construction accounts for about 14% of the region's total workforce with important ramifications for the region's manufacturing, transport distribution and business services sectors, probably taking the construction sector's impact up to about 20%.

Initially, the region was shielded from the full effects of the slow down in approvals because of the large hangover of uncompleted work from the highs of 2007/08. While the government's first home-owners' scheme has helped mitigate impacts, and the school's program is infusing about \$190m into the sector, a large fall in this important sector has had negative impacts on the overall economy progressively during 2008/9.

8 It should be noted that the fall in building approvals in Cairns has been much more than the rest of the region.

9 Private consumption spending usually accounts for over 50% of expenditure in the economy.

Households in the region have been more cautious, but like elsewhere, have been benefiting from lower interest rates, lower fuel prices, reduced inflation, government incentive payments into the region of about \$250m, and more recently tax cuts.

All the indications are that the largest segment in this, retailing (especially for basics), has continued to grow, although there have been some changes in patterns of spending.

As elsewhere, the consumer durables sector has been down, especially motor vehicles, but the evidence is that the Government's business investment allowance has been assisting stabilise demand for motor vehicles.

10 Quite apart from the Government's special stimulatory spending, it can be expected that normal Government employment in administration, defence, security, health, education and other services at Federal, State and Local Government level (that accounts for about 18% of regional employment), will have been up in the past year.

11 This region has been particularly benefiting from a catch up taking place in fields like health and higher education. The table illustrates that health services and education accounted for almost 25% of employment growth, 2001 to 2006.

12 However, in regional areas of Australia, outside earnings from what I have termed 'base' industries play a vital role in the economy. Typically, these 'base' industries depend on the region's natural attributes and resources. They locate activity in the region. A large service structure then follows that often comes to account for more employment than that in the 'base' industries. Long-term regional growth mainly depends on the expansion of these 'base' industries. The rest follows. Their fortunes also heavily affect the region's short-term economic performance.

13 It is well known that the largest of these, tourism, which now accounts for between about 35 – 40% of outside earnings has been recording little growth now for about 4 years.

- 14 In 2008/09, tourism deteriorated further as is illustrated by airport passenger movements.
- 15 However, the biggest factor in this has been the Qantas/Jetstar decision to cut capacity on the Japanese routes to almost half the numbers Cairns was receiving.

The global financial crisis has affected inbound travel to Australia. Swine flu's affect has been contained mainly to the Japanese and Chinese market and proved relatively small and transitory. The initial advantage of the dollar falling to about 62 cents US has been lost as it climbed back up again to over 80 cents US. Although the new generation A380 aircraft have arrived, the Boeing Dreamliners' arrival has been delayed again. Lack of local jobs appears to have resulted in a sharp drop in backpacker numbers of the order of 15 – 20%.

But all is not negative for tourism. The domestic market is up, especially the self-drive and fly-drive market.

- 16 Under the influence of demand from developing economies like China and India, growth in income from mining in the region has been very strong in recent years. Added to this has been the growth in fly-in traffic to mining activity outside the region.
- 17 Mining activity took an immediate 'hit' during 2008/09 from the fall in mineral prices with some loss of employment and cancellation of a number of proposed new projects. However, as the charts show, prices have risen again to levels of about 4 years ago and the sector is far from dead.
- 18 But, it is the primary industries that have proved to be the 'stayers' in the region's economy. The region's highly diversified sector has been producing 'real' long-term growth.
- 19 Sugar prices are at record level, cattle prices have remained sound, and the threat of banana imports seems to be passing,
- 20 More recent figures have now become available for manufacturing, again indicating the region's leading position in the north in number of locations.
- 21 They also indicate that strong growth had taken place - 2006/07 on 2001/02.

- 22** Recent research puts turnover of the important maritime services sector at over \$700m. After a period of contraction due to loss of naval shipbuilding, reductions in the fishing fleet, and a high dollar affecting competitiveness, the important repairs and maintenance sector made good ground in 2008/9 due, in part, to the fall in the dollar and new investment in travel lift capacity. Unfortunately, the bid for Air Warfare Destroyer contracts was not successful.
- 23** The region's important aviation cluster valued at about \$400m per annum has suffered some impacts due to tourism and mining fly-in losses but, by and large, this sector continues to grow, including bringing in business from the wider Asia Pacific area.

International education sector has taken a knock on study tours, especially out of Japan, but I believe that the core English language, TAFE and JCU student numbers are holding up.

When I addressed the Chamber late last year, I said that I expected a sharp contraction of the region's growth this year but that I thought we would still record some growth, however small.

- 24** Certainly unemployment has risen strongly, especially in Cairns. Importantly however, a check with furniture removalists indicates no mass exodus of population.
- 25** When they become available, I expect the 2008/09 population growth figures to still come in quite strongly. In dollar terms, I don't know the final overall outcome, and we probably will never know for sure, the figures are just not available.
- 26** Looking forward over the next year, much depends on what happens with the exchange rate, interest rates and the world economy. I am expecting the agricultural sector to have a good year and for mining activity (both in the region and fly-in), to come back relatively quickly.

For tourism, charter flights from Japan and the return of direct services to western Japan at the end of the year, will be positive. Travel from other distant markets in Europe and North America seems likely to be subdued and it will continue to be a bad time for backpackers. I expect domestic markets will continue to be up.

- 27** I expect the continuing growth of Government employment, especially the health and education sectors and for the maritime and aviation services sector to remain sound overall.

I expect consumption spending to hold even though there will be no further strong stimulus payments.

On the construction side, I will be interested in what Rick has to say. Certainly, Government spending on schools and other projects (including the \$190m to be spent on Lotus Glen), will help, but it is difficult to see any sustained upswing in private building approvals this financial year.

- 28** Overall, it is difficult to see anything other than a year of subdued economic performance with unemployment likely to rise further before it improves.

- 29** The last major shock to the region's economy occurred in the late 90's and resulted in a period of subdued growth for the city and region for about 4 years with GST effects, 9/11, Ansett collapse, and Sars - all coming in to hold growth back.

- 30** However, looking forward to the medium term, I don't expect that to happen this time. The region's growth had been falling off before the Asian crisis began. The Asian crisis not only affected tourism, it affected demand for minerals, and its aftermath impacts on the Brazilian currency nearly put the sugar industry out of business.

While tourism is being affected, the biggest single affect is not the Global Financial Crisis, it is the loss of flight capacity to Japan.

- 31** However, the likely medium term development of the world and Australian economy poses some challenges to the region that it is important to recognize and face in the medium term.

Recent statements by both the head of the Treasury and the Reserve Bank highlight the challenges.

- 32** It is clear that the region cannot expect tourism to underpin its growth in the way it has in the past. Tourism is no longer the 'sunrise' industry it was in the past in the developed economies, and their recovery from the current crisis seems likely to be slow.

The region has already achieved a relatively high penetration of many of these markets. The dollar is likely to remain consistently strong under the influence of growth in demand for raw material from countries like China and India. However, incomes in those countries are still relatively low and, I believe, it will be some time before they are producing large scale overseas visitation.

33 But all is not lost. At a fundamental level, the Cairns hinterland comes third in the State after the Bowen basin and the Mt Isa region in mineral prospects. The great sedimentary deposits of the Cape including bauxite, kaolin and silica and also coal in the Laura basin add to the picture. Cairns is in the best position among Australian cities to benefit from mining projects in Papua New Guinea.

34 Capital, especially from China and India, is now flowing again with a number of new projects being actively canvassed in the immediate hinterland that will require significant response in improving the region's road, rail and seaport infrastructure. The Cape bauxite and massive LNG projects in PNG will offer further opportunities over the next few years.

35 Underlying factors of growing global demand, climate change responses, demand for bio fuels and industrial products, and water shortages in southern Australia, are all positives for the region's under-utilised land and water resources.

36 The playing field is tipping towards strong moves towards co-generation in the sugar industry, but also for solar, wind, geothermal and possibly tidal power in the Torres Strait.

It is also turning towards ethanol production from sugar syrup and then from bagasse, with the Tableland mill being in a prime position to respond.

37 Strong moves are being proposed at State level to promote Queensland as a site for bio refineries that will produce bio plastics and other bio based industrial products for the Asian market.

38 A new range of crops and product niches are appearing. In bio diesel crops, a native tree Pongamia or Millettia is on its way. See website www.burmanbiofuels.com.

Upland rice and tropical wheats are being trialed. One company has been canvassing export of up to a million cartons of organic bananas to Japan.

We now have about 24,000 ha of government and private forest plantings in the region and forest products seem likely to be moving out of Mourilyan Harbour in the not too distant future.

- 39** The other major challenge that needs to be recognised and addressed is that of Cairns as a regional servicing centre, not just for Far North Queensland, but in the wider Australasia Pacific area. Cairns is not just a 'tourist town'. Given the size of the city and the region, it is still well behind what could be expected in higher education and health services. There are opportunities emerging to sell other services outside the region.
- 40** The city's growth over the past 5 years at 3.7% per annum is in sharp contrast to the State Government projections and basis for planning of 1.6% per annum.
- 41** To summarise:
- Although there is evidence of a turnaround in the world economy and a great deal of relief that a major depression has been avoided, there are still some threats around.
 - We can expect overall, a relatively poor year with unemployment rising further but with conditions probably improving by the middle of next year.
 - However, the city and region have some excellent medium term opportunities, but there needs to be some new thinking and priorities if they are to be realized.