

## CUMMINGS ECONOMICS

38 Grafton St (PO Box 2148) CAIRNS Q 4870

ABN 99 734 489 175

Tel 07 4031 2888 Fax 07 4031 1108

Email: [cummings@cummings.net.au](mailto:cummings@cummings.net.au)

Website: [www.cummings.net.au](http://www.cummings.net.au)

Ref: J2456



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### CAIRNS' ECONOMIC PROSPECTS

ADDRESS TO THE CAIRNS CHAMBER OF COMMERCE

By W S (Bill) Cummings

25 August 2011

**2: CAIRNS HAS BEEN ONE OF THE CONFIDENT, INDEED AT TIMES, ARROGANT ECONOMIC SUCCESS STORIES OF RECENT DECADES.**

THREE YEARS AFTER THE GLOBAL FINANCIAL CRISIS HIT THE CITY'S ECONOMY HARD, THERE IS STILL A BEWILDERED SENSE ABROAD OF WHAT WENT WRONG AND WHERE DO WE GO FROM HERE.

**3: THE PAST YEAR HAS SEEN NO REAL IMPROVEMENT IN THE UNDERLYING SITUATION.**

THE INDICATIONS ARE THAT THE UNEMPLOYMENT LEVELS HAVE NOT FALLEN.

AVERAGE EMPLOYMENT OVER THE PAST 3 MONTHS AT OVER 13,000 AND 9%, ARE SIMILAR TO THOSE AT THIS TIME LAST YEAR.

THE EMPLOYED WORKFORCE IS STAGNANT AT ABOUT 137,000 AND THE TOTAL WORKFORCE STAGNANT AT ABOUT 150,000, INDICATING THAT POPULATION GROWTH HAS PROBABLY DROPPED TO VERY LOW LEVELS.

**4: RECENT DWELLING APPROVAL LEVELS HAVE REMAINED LOW.**

**5: BUT EFFECTS OF THIS WERE MODIFIED BY THE OVERALL VALUE OF BUILDING APPROVALS HOLDING UP REASONABLY WELL, DUE ESPECIALLY TO GOVERNMENT PROJECTS.**

**6: HOWEVER, LOOKING AT CAIRNS' LONG TERM UPS AND DOWNS TELLS US WE HAVE BEEN HERE BEFORE.**

**IF YOU AVERAGE THE GROWTH RATES OVER EACH DECADE FROM THIS CHART OF POPULATION GROWTH RATES, YOU GET A PICTURE OF VERY STRONG AVERAGE GROWTH OF ABOUT 3% PER ANNUM.**

**HOWEVER, THE REGION HAS SEEN HIGH GROWTH RATES TURN INTO SHARP SLOW DOWNS:**

- 1. PEAKS IN THE LATE 80'S WERE FOLLOWED BY THE 1990/91 "RECESSION WE HAD TO HAVE" MADE WORSE BY THE PILOTS' DISPUTE.**
- 2. THERE WERE PEAKS IN THE MID-90'S. A SLOWING WAS OCCURRING WHEN THE ASIAN CRISIS HIT IN 1998. WE WERE SLOW TO COME OUT OF IT.**
- 3. THERE WERE PEAKS 2005/06 TO 2007/08 WHEN HIT BY THE GLOBAL FINANCIAL CRISIS.**

**7: THIS CHART ILLUSTRATES UNEMPLOYMENT RATES OVER THE YEARS.**

**WE HAVE HAD VERY HIGH UNEMPLOYMENT LEVELS OF 13% BEFORE FOLLOWING THE 1989 PILOTS DISPUTE & RECESSION, BUT CURIOUSLY NOT AS SHARP AS IN THE LATE-90'S.**

**THE ONSET OF THE 1990/91 DOWNTURN IN CAIRNS WAS AS SHARP AS THE MORE RECENT DOWNTURN – THE PILOTS' DISPUTE HAPPENED OVERNIGHT JUST AS THE GLOBAL FINANCIAL CRISIS HAPPENED ALMOST OVERNIGHT, CAUSING UNEMPLOYMENT TO RISE DRAMATICALLY IN BOTH CASES.**

**IN THE LATE-90'S DOWNTURN, THE CITY'S GROWTH WAS ALREADY SLOWING BEFORE THE ASIAN CRISIS HIT. WHILE THE DOWNTURN WAS REALLY DEEPER AND LONGER, THE UNEMPLOYMENT RATE ROSE, BUT NOT AS MARKEDLY.**

**FURTHER ANALYSIS OF THIS CHART BRINGS OUT A FURTHER IMPORTANT POINT – AVERAGE UNEMPLOYMENT RATE OVER THIS PERIOD HAS BEEN ABOUT 7% PER ANNUM, WAY ABOVE THE NATIONAL AVERAGE.**

**THIS TELLS US THE REGION HAS RUN A RELATIVELY HIGH UNEMPLOYMENT RATE ALONG WITH A HIGH JOB CREATION RATE – PEOPLE WANT TO LIVE IN THE REGION AND IF THEY BECOME UNEMPLOYED, THEY ARE SLOW TO LEAVE.**

**8: IF YOU COMPARE THE POPULATION GROWTH RATE WITH CHANGES IN EMPLOYED WORKFORCE, A FURTHER VERY IMPORTANT POINT COMES OUT – THAT WHEN A SHOCK OCCURS TO WORKFORCE GROWTH, IT TAKES ABOUT A TWO-YEAR LAG FOR THIS TO BE REFLECTED IN THE POPULATION GROWTH RATES.**

**9: IF YOU COMPARE THE POPULATION GROWTH RATE WITH CHANGES IN THE EVENTS OF THE PAST 3 YEARS ARE RIGHT ON CUE. POPULATION GROWTH IN 2007/08 WAS 4.4% GOING INTO THE GLOBAL FINANCIAL CRISIS.**

**IN 2008/09, POPULATION GROWTH, ACCORDING TO THE ABS, SLOWED ONLY MARGINALLY TO 3.2% WHILE UNEMPLOYMENT ROCKETED UPWARDS OVER 10%.**

**IN 2009/10, POPULATION GROWTH WAS RECORDED AT 2.6% - A RATE MOST REGIONAL CITIES IN AUSTRALIA WOULD THINK WAS FABULOUS, WHILE UNEMPLOYMENT WAS PEAKING AT 13%.**

**NO FIGURES ARE YET AVAILABLE FOR THE POPULATION GROWTH RATE IN 2010/11, BUT AS MENTIONED, TOTAL WORKFORCE DATA IS INDICATING IT HAS SLOWED TO A LOW LEVEL.**

**THUS, THE INDICATIONS FROM THE ABS DATA, ARE THAT SINCE THE GLOBAL FINANCIAL CRISIS BEGAN, THE CITY HAS INCREASED ITS POPULATION BY ABOUT 10,000, CONTRIBUTING STRONGLY TO THE PEAK IN UNEMPLOYMENT.**

**10: THIS CHART SHOWS DWELLING APPROVALS – MUCH THE SAME PATTERN AS THE POPULATION GROWTH FIGURES.**

**BEFORE GOING ON TO THE NEXT CHART, I WANT TO DRAW ATTENTION TO THE SHARP SLOW DOWN OF 2000/01 CENSUS YEAR FIGURES FROM 1995/96 CENSUS YEAR FIGURES, AND THE PICK UP TO 2005/06.**

**11: THIS CHART SHOWS THE CHANGES IN THE CAIRNS' WORKFORCE OVER THE INTER-CENSAL PERIODS 1996 TO 2001 AND 2001 TO 2006. SEE THE VOLATILITY IN CONSTRUCTION, BUT ALSO THE RELATED SECTORS – DOWN STRONGLY DURING 1996 TO 2001, BUT UP STRONGLY 2001 TO 2006.**

**IT ILLUSTRATES VERY CLEARLY CLASSICAL ECONOMIC CYCLICAL MOVEMENT OF UPWARD MULTIPLIER EFFECTS IN UPSWINGS.**

**AS THE ECONOMY, JOBS AND POPULATION GROWTH ACCELERATE, MORE HOUSES, MORE SHOPS AND SHOPPING CENTRES, SCHOOLS AND OTHER FACILITIES ARE NEEDED TO BE BUILT, IN TURN CREATING MORE JOBS IN CONSTRUCTION AND ALLIED SECTORS, CREATING MORE ECONOMIC AND POPULATION GROWTH.**

**WHEN GROWTH IS CHECKED, DOWNWARD MULTIPLIERS KICK IN WITH A REVERSE EFFECT OCCURRING, CAUSING SHARP RISES IN UNEMPLOYMENT AND SLOWING OF POPULATION GROWTH.**

**12: HOWEVER, THAT IS NOT THE FULL STORY, WE HAVE TO DIG DEEPER AGAIN TO UNDERSTAND THE STRENGTH AND DURATION OF THE UPSWINGS AND ALSO THE DOWNSWINGS.**

**THE KEY SECTORS FOR THIS DEEPER UNDERSTANDING LIES WITH WHAT I TERM THE REGION'S 'BASE' INDUSTRIES – THOSE INDUSTRIES EARNING INCOME FROM OUTSIDE THE REGION.**

**FULL ACCURATE FIGURES ARE NOT AVAILABLE. HOWEVER THIS TABLE GIVES SOME APPROXIMATION OF RELATIVE SIZE AND IMPORTANCE IN THE REGIONAL ECONOMY.**

**MOST REGIONAL ECONOMIES IN AUSTRALIA ARE BASED ON INDUSTRIES THAT EARN INCOME FROM OUTSIDE THE REGION. HOWEVER, THEY WILL COME TO SUPPORT SERVICE INDUSTRY STRUCTURES THAT CAN ACCOUNT FOR MORE EMPLOYMENT THAN THE ORIGINAL BASE INDUSTRIES.**

**MOST OF THE BASE INDUSTRIES ARE LOCATED IN AN AREA TO EXPLOIT RESOURCES/NATURAL ATTRIBUTES, TYPICALLY PRIMARY INDUSTRIES, MINING, FISHERIES AND TOURISM.**

**BUT, TAKE AWAY THE BASE INDUSTRIES AND THE SERVICE SECTOR COLLAPSES.**

**WHERE WOULD TULLY BE WITHOUT THE SUGAR AND BANANA INDUSTRIES;  
WHERE WOULD WEIPA BE WITHOUT MINING.**

**13: THE 1990/91 RECESSION WAS PRECEDED BY TOURISM OVERBUILDING AND THE PILOTS' DISPUTE.**

**THE MINERAL AND PRIMARY INDUSTRY SECTORS WERE NOT HEAVILY AFFECTED. THE BREWERY WAS A CASUALTY. THERE WAS A QUICK RECOVERY.**

**THE EARLY 90'S BOOM WAS HEAVILY IN JAPANESE TOURISM AND BASED ON AN OVERSUPPLY OF ROOMS, CHEAP PRICES AND JAPANESE INVESTMENT (DAIKYO).**

**A SLOWING IN JAPANESE VISITORS WAS TAKING PLACE BY 1996/97 BEFORE THE ASIAN CRISIS HIT IN LATE 1998.**

**THE DOLLAR DROPPED AND RECOVERY STARTED TO TAKE PLACE IN TOURISM. HOWEVER, WITH MINING DOWN AND AGRICULTURE WITH VERY LOW SUGAR PRICES, THE SLOW PERIOD WAS MORE PROLONGED.**

**THE EARLY 2000'S UPSWING STARTED WITH AUSTRALIAN AIRLINES' HUBBING DECISION, BUT TOURISM PLATEAUED ABOUT 2005 UNDER THE INFLUENCE OF A HIGH DOLLAR.**

**14: TOURISM EARNINGS HAVE BEEN STAGNANT SINCE 2005/06.**

**15: GROWING AGRICULTURAL INCOME HELPED EXTEND THE 2000'S UPSWING BEYOND THE TOURISM SLOW DOWN FROM 2005/06 ONWARDS.**

**16: ALONG WITH RISING MINING INCOME.**

**17: BEFORE GOING INTO THE CURRENT SITUATION, I'D LIKE TO REVERT TO THE EMPLOYMENT CHANGE CHART AND OBSERVE SOME OTHER TRENDS:**

**ALTHOUGH AGRICULTURE, MINING AND TOURISM GREW OVER THE PERIOD 2001 TO 2006, ALL DROPPED WORKFORCE AS THEY BECAME MORE EFFICIENT AND OUTSOURCED EMPLOYMENT.**

**GOVERNMENT JOBS HAVE BEEN GROWING STEADILY AS A CATCH UP OCCURS WITH REGIONS STRONG GROWTH.**

**18: TO COMPLETE THE PICTURE, ALSO IMPORTANT IS MONETARY POLICY AND INTEREST RATES, AND THE AUSTRALIAN DOLLAR VALUE.**

**THE DROP IN THE AUSTRALIAN DOLLAR IN 1986 LED TO A MAJOR BOOST TO TOURISM – ITS HIGH LEVEL IN RECENT YEARS HAS HEAVILY AFFECTED TOURISM GROWTH.**

**19: WORLD COMMODITY PRICES ARE ALSO IMPORTANT.**

**THE VERY LOW PRICES IN THE EARLY 2000'S NEARLY PUT THE LOCAL SUGAR INDUSTRY OUT OF BUSINESS. THE EFFECTS OF RECENT HIGH MINERAL PRICES ARE EVIDENT IN THE RECENT MINERAL EARNINGS.**

**20: FOR MANY BUSINESSES ALSO, THERE HAS BEEN RECENT PROBLEMS OF CONSUMER SENTIMENT.**

**SINCE THE GFC, AUSTRALIANS HAVE BECOME SAVERS.**

**I HAVEN'T ANY LOCAL FIGURES, BUT THERE ARE GOOD REASONS TO SUGGEST THAT CAIRNS' RESIDENTS WOULD NOW BE SUPER SAVERS.**

**NON ESSENTIAL SPENDING IS LIKELY TO BE AFFECTED FOR SOME TIME.**

**21: TODAY, WE HAVE AN ECONOMY THAT IS EXHIBITING:**

- 1. CONSISTENTLY HIGH UNEMPLOYMENT RATES.**
- 2. LOW POPULATION GROWTH.**
- 3. LOW PRIVATE CONSTRUCTION ACTIVITY.**
- 4. LOW CONSUMER SPENDING AFFECTED BY PROPERTY PRICES DOWN, SHARE PRICES DOWN AND A GREAT DEAL OF UNCERTAINTY.**

**AS DESCRIBED EARLIER, IN THE PAST, THERE HAVE BEEN POSITIVE DEVELOPMENTS THAT HAVE JOLTED THE REGION OUT OF THIS PATTERN.**

HOWEVER, IT IS IMPORTANT TO GET INTO PERSPECTIVE THE SCALE OF THE REGION'S ECONOMY AND THE LEVELS OF ADDITIONAL INCOME NEEDED TO MAKE A DIFFERENCE.

THE REGION'S GROSS REGIONAL PRODUCT STANDS AT ABOUT \$12 BILLION. THE COMBINED VALUE OF THE BASE INDUSTRIES EARNING OUTSIDE INCOME IS OF THE ORDER OF 6 BILLION DOLLARS.

TO ACHIEVE A 1% INCREASE IN GRP FIGURES, AN INCREASE OF \$120 MILLION IS NEEDED.

**22:** AND THIS IS WHERE THE CITY AND REGION NEEDS TO FACE REALITY THAT THE WORLD ECONOMY HAS CHANGED.

WHILE WE NEED TO TAKE EVERY OPPORTUNITY TO INCREASE TOURISM, AND BUILD NON LEISURE TOURISM OPPORTUNITIES, HIGH COMMODITY PRICES AND A HIGH DOLLAR ARE WORKING AGAINST THE SECTOR.

THE WORLD ECONOMY AT PRESENT, IS DRIVEN BY A MASSIVE DEMAND FROM CHINA AND INDIA FOR MINERALS AND BASIC AGRICULTURAL COMMODITIES.

BUT THERE SEEMS TO BE AN ATTITUDE AROUND THAT WE DON'T HAVE ANY POTENTIAL IN THESE FIELDS.

**23:** THIS MAP OF MINERAL OPERATIONS AND RESOURCES IN QUEENSLAND INDICATES THAT WHILE MINERAL POTENTIAL IS NOT AS GREAT AS THE BASE METAL PROVINCES OF NORTH WEST QUEENSLAND AND THE COAL OF MACKAY AND CENTRAL QUEENSLAND REGIONS, THE FAR NORTH REGION STANDS THIRD IN POTENTIAL IN QUEENSLAND IN THE BASE METALS WEST OF THE TABLELANDS, COAL IN THE LAURA BASIN AND THE GREAT SEDIMENTARY DEPOSITS OF BAUXITE, SILICA SAND AND KAOLIN IN THE PENINSULA.

**24:** THE POTENTIAL IS ALREADY SHOWING UP.

**IN 2009/10, VALUE OF MINERAL SALES IN THE REGION HAD RISEN TO \$900M.**

**ADD TO THIS \$150 MILLION PLUS DOLLARS OF VALUE OF FLY-IN TO MINING OUTSIDE THE REGION THAT THE CHAMBER, SHARON DAWSON AND HER COMMITTEE, HAVE SO EFFECTIVELY BEEN PURSUING NOW FOR 5 YEARS AND THE \$600 MILLION SHIPPING TRADE TO FREEPORT INDONESIA, WEIPA AND NOW PNG.**

**25: AGRICULTURE IN THIS REGION IS A GROWTH INDUSTRY.**

**REAL GROWTH HAS BEEN BETWEEN 2 & 3% PER ANNUM OVER RECENT DECADES.**

**THE \$1.7 BILLION AGRICULTURAL SECTOR ALREADY GIVES CAIRNS A MAJOR ADVANTAGE AS A REGIONAL SERVICING CENTRE OF HAVING A GROWING HINTERLAND POPULATION TO SERVICE, THAT IS THE LARGEST OF ANY OF THE NORTH'S REGIONAL CENTRES, MAKING THE CAIRNS/FAR NORTH REGION THE LARGEST IN POPULATION IN THE NORTH.**

**26: SATELLITE TECHNOLOGY IS NOW ALLOWING US TO PLOT COMPARATIVE UNDERLYING PLANT GROWTH POTENTIAL OF REGIONS AROUND THE WORLD.**

**THESE MAPS ILLUSTRATE HOW THE CAIRNS REGION LEADS NORTHERN AUSTRALIA.**

**27: HOW ITS POTENTIAL IN THIS FIELD IS AT LEAST EQUAL TO SOUTH EAST/ SOUTH WEST QUEENSLAND.**

**28: THIS MAP SHOWS COMPARISONS WITH VICTORIA AND PENINSULA INDIA, AGAIN ROUGHLY EQUIVALENT.**

**COMPARATIVE VALUES OF PRODUCTION INDICATE THE DEGREE TO WHICH THE REGION'S AGRICULTURAL INDUSTRIES REMAIN UNDER DEVELOPED.**



**THE PURCHASE OF TULLY SUGAR MILL BY CHINESE INTERESTS SIGNALS THE GLOBAL INTEREST IN THE REGION. THERE ARE OTHER PROPOSALS BEING LOOKED AT THAT COULD SEE HUNDREDS OF MILLIONS INVESTED IN OTHER CROPS.**

**29: BUT REALISING THE OPPORTUNITIES PRESENTED BY AGRICULTURE AND HINTERLAND MINING REQUIRES SOME MAJOR CHANGE IN THE CITY'S AND THE REGION'S IMAGE OF ITSELF AND WHAT IS NEEDED TO ACHIEVE PROSPERITY.**

**JUST AS UPGRADING OF THE AIRPORT TO TAKE INTERNATIONAL WIDE BODIED JETS WAS NEEDED TO REALISE THE TOURISM OPPORTUNITIES; TRANSPORT INFRASTRUCTURE IS ABSOLUTELY CRITICAL TO REALISING THE NEW OPPORTUNITIES IN MINING AND AGRICULTURE.**

**BUT THIS TIME, IT IS THE REGION'S BADLY NEGLECTED REGIONAL ROAD AND RAIL INFRASTRUCTURE AND SEAPORTS THAT NEED INVESTMENT ALONG WITH THE POWER GRID, WATER STORAGE AND IRRIGATION SCHEMES.**

**IF THE CAIRNS/FAR NORTH REGION IS TO REACH ITS POTENTIAL AND ACHIEVE SUSTAINED GROWTH, A MAJOR LONG TERM INVESTMENT PROGRAM IS NEEDED – AN INVESTMENT PROGRAM THAT ALSO INCLUDES UPGRADING THE UNIVERSITY CAMPUS TO FULL POTENTIAL AND BRINGING HOSPITAL SERVICES THROUGH TO TERTIARY LEVEL.**

**30: I THINK WE ARE PRETTY MUCH AT THE BOTTOM NOW BUT I DON'T SEE ANY SILVER BULLET AROUND THAT IS GOING TO JOLT THE ECONOMY INTO A STRONG UPWARD PATH OVER THE NEXT TWELVE MONTHS.**

**I THINK IT IS GOING TO BE A LONGER HAUL BEFORE THE SHAKEN CONFIDENCE OF INVESTORS IS RESTORED.**

**HOPEFULLY THINGS WILL BREAK OUR WAY WITH A LOWER DOLLAR AND INTEREST RATES.**

**IF CYCLONE LARRY IS ANY GUIDE, WE WILL RECEIVE A BOOST FROM COMBINED RELIEF PAYMENTS AND RECONSTRUCTION ACTIVITY EXCEEDING INCOME LOSSES BY THE AGRICULTURAL AND TOURISM INDUSTRIES.**

**OUR COMPASS RESEARCH MONTHLY MONITOR OF TOURISM FOR TTNQ INDICATES SOME ENCOURAGING PROSPECTS FOR THE TRADITIONAL WINTER TRADE FROM SOUTHERN AUSTRALIA.**

**I HOPE WE CAN MAKE A BREAKTHROUGH WITH DIRECT FLIGHTS TO CHINA, SINGAPORE AND ADDITIONAL JAPANESE CITIES.**

**THE HARD YARDS PUT IN BY THE CHAMBER AND OTHERS INTO REALISING BUSINESS AND FLY-IN OPPORTUNITIES IN PNG AND ELSEWHERE SHOULD BE A POSITIVE.**

**THE NEW SHIPPING SERVICE HAS THE POTENTIAL TO GENERATE \$60 TO \$100 MILLION IN ADDITIONAL EXPORTS.**

**APART FROM SERVICES TO PORT MORESBY, OTHER SHIPPING SERVICES ARE IN THE OFFERING.**

**HINTERLAND MINING EXPANSIONS AND START UPS WILL BE A POSITIVE. WEIPA EXPANSION NOW SEEMS TO BE ON ITS WAY.**

**THERE IS STILL A LOT OF ROOM FOR THE UNIVERSITY CAMPUS TO CATCH UP TO NATIONAL STUDENT AVERAGES PER HEAD OF POPULATION AND FOR EXPANSION OF HEALTH SERVICES TO TERTIARY LEVEL.**

**OBVIOUSLY, THE CITY NEEDS TO PURSUE NAVY BASE EXPANSION AND POSSIBLY OTHER OPPORTUNITIES OUT OF THE AUSTRALIAN AND US DEFENCE REVIEWS.**

**I BELIEVE THE REGION CAN EXPECT THAT ITS LARGE AGRICULTURAL SECTOR WILL CONTINUE TO EXPAND.**

**31: CAIRNS, AS THE CAPITAL OF THE NORTH'S MOST WELL ENDOWED AND NOW MOST POPULOUS REGION, CAN RETURN TO STRONG GROWTH AND PROSPERITY BUT NOT WITHOUT SOME CHANGES IN ATTITUDES AND A RECOGNITION THAT THE WORLD ECONOMY HAS CHANGED.**

**.ppt 32: End.**