

CUMMINGS ECONOMICS

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ppt 1: THE CAIRNS ECONOMY – RECENT TRENDS & PROSPECTS

**ppt 2: ADDRESS TO THE
CAIRNS CHAMBER OF COMMERCE**

By W S (Bill) Cummings

26th June 2012

ppt 3:

Since last year's presentation, there has been no real major improvement in the region's employment and workforce statistics.

The indications are that employed workforce is probably down on the same time last year, the number of unemployed is down only marginally, and total workforce recorded is down.

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The unemployment rate while down on the post-global financial crisis high of 13%, still remains stubbornly high at around 9%.

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Latest population growth figures for 2010/11 had drifted down to 1.6% and could be expected to come in around the 1% per annum level in 2011/12.

The indications are that population growth of the region outside Cairns has also been trailing off, but with 2011 figures affected by Cyclone Yasi.

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To understand what has been happening, it is useful to look at the major elements in the structure of the economy.

Earnings from outside the region

Investment activity

Consumption/savings activity

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For most regional economies, the most important factor determining their size and long-term growth is usually outside earnings, mainly coming from a number of 'base' industries dependent on exploitation of the region's natural resources :- Plant growth potential upon which agricultural, pastoral, and forest industries are based; Marine resources - fisheries; Minerals - mining; and Natural Tourism resources.

A service industry structure then develops that comes to employ more than the base industries – but if the base industries falter, the service sector contracts. These services are mainly supplied through a series of service centres in the region :- Local - like Babinda; Sub Regional – like Innisfail, Atherton, Mareeba; and a Regional Capital servicing city – Cairns, whose primary role is that of being a transport, distribution, manufacturing, administrative, government, and private services centre for the region it services.

However, this service industry structure can develop sections that also earn income from outside the region. In this region's case, additional outside income is earned by the region's maritime services sector, aviation services sector, and to some extent, international education. There are also important 'trade' earnings from supply of goods and services to the near north.

Government defence, surveillance and security spending, can also bring in outside income, along with special spending on government programs like support for indigenous communities.

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In this region, there are three major base industry sectors – the Primary Industries, Mining, and Tourism.

They compete to sell their products on national and international markets. Their prospects are being heavily influenced by the changes in the world economy brought about by the massive industrialisation taking place in Asia, especially China and India, causing at this stage, a massive demand for Australian minerals and basic agricultural commodities

This has been underpinning a high Australian dollar, made worse by reliance on the Reserve Bank and on interest rates higher than overseas to control the economy

ppt 9:

This table shows how the region's large \$2.2bn tourism industry earnings are down since a peak about 2006 by over 10% and if you take inflation into account, down by over 20%, that is by over \$500 million in real terms.

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In international holiday visitors, Queensland as a whole has not been performing well, with this region performing the worst, being down by about one-third.

If the Cairns' economy was completely dependent on tourism, it would be in a real mess. Fortunately, tourism is not "the only game in town".

ppt 11:

This chart of agricultural earnings at farm-gate prices indicates that earnings over the period 2005/06 to 2009/10 were up from \$850 million to \$1200 million, that is by \$350 million, and about \$300 million if processing and transport elements are included and inflation taken into account.

ppt 12:

This chart shows that gross value of mining production had increased from about \$400 million to just short of \$1 billion in 2010/11, an increase in real terms of about \$450 million.

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On the surface, total regional outside earnings from these three major sectors has increased overall, despite the downturn in tourism.

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In addition to direct employment in mining in the region, there is about \$200 million earned by fly-in workforce to mining outside the region. There are a number of mining companies with corporate offices in Cairns.

Cairns' seaport is the North's major shipping port to mines to the near North, in Papua Indonesia, and Cape York, with cargoes worth of the order of \$600 million a year.

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Which brings us to the Maritime services sector, estimated to have operations valued at about \$800 million a year. Personnel at the Navy base have increased over that period.

In recent years, the slipways went through substantial difficulties with the loss of fishing industry capacity, impacts of the global financial crisis on superyacht business, the tragedy of missing out on the air warfare destroyers, a high dollar affecting competitiveness, and the collapse of Viking industries.

I believe that the sector has now recovered. Superyachts are coming back. A Pacific patrol boats maintenance contract has come to the city. Reef fleet operations however, would be down.

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The parallel aviation sector at the airport has experienced major expansion including by Hawker Pacific in mine and peninsula charter operations, and through the aviation training centre.

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So overall, the indications are that the growth in the region's outside earnings has not been as disastrous as many have been led to believe. They have just not been as strong in recent years as Cairns has been accustomed to.

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Which brings us to investment, the biggest element in which is construction. This chart shows Far North Queensland dwelling approvals are down to about 900 during the last two years

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This chart shows that the value of building approvals in 2011/12 were down by about \$200 million on 2004/05, and about \$600 million on the peak in 2007/08 – ie. over \$700 million in real terms

ppt 20:

This chart illustrates levels of government and non-government approvals in recent years.

Fortunately, large government approvals came through about the time of the global financial crisis that helped hold overall construction up.

However perceptions that the Cairns economy depends fully on tourism, have not helped instil confidence in investing in the city's future.

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The other major factor affecting many local businesses has been a tendency for households to save rather than spend. The national household propensity to save ratio has moved from about 4% to about 10%. If this is applied to the Far North Queensland regional economy, the reduction in spending would be of the order of \$400 million.

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In fact, although Cairns' growth has reduced strongly, its economic fundamentals are potentially quite strong. Taking into account that the high indigenous population adds to the unemployment rate, a number of other regions around Australia are at a similar level.

Work we have carried out indicates that Cairns has traditionally run a relatively high unemployment rate with a high job creation rate. Cairns went into the global financial crisis with an unemployment rate higher than national averages. It produced a 13% unemployment rate, in large part, because population continued to flow in strongly for two years following the onset of the global financial crisis – a total of about 12,000. The region has had an average unemployment rate of 7% over the past 25 years.

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The city's now greatly reduced growth rate at 1.6% still means that it has been growing faster than the majority of Australian regional cities. Its average growth rate over the past five years to 2010/11 has been the third fastest.

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Over the intercensal period 2006 to 2011, despite its problems, Cairns' population growth kept pace with that of Townsville and is now almost 90% the size of Townsville. In fact, in total census count population including visitors, Cairns' local authority area at 180,000 exceeded that of Townsville at 178,000. Cairns' hinterland population grew faster and now exceeds that of Townsville by a wide margin, giving Cairns' commercial servicing area a population about 20,000 above that of Townsville.

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However, there is often a lack of appreciation in Brisbane that the pattern of the State has changed. Cairns is now about twice the size of Mackay and Rockhampton and Bundaberg. The reality is Cairns and Townsville are twin capitals of the State's north, with Cairns and its region's population now the largest.

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Now let's look forward. The local economy seems likely to operate against the background of some slowing in the world's economy over the next 12 months – of China slowing but still with strong growth, no growth in Europe, and some slowing in growth of the US economy. This has moderated commodity prices and fuel prices with an effect on exchange rates.

Unless there is a very strong deterioration in the world economic situation, the Reserve Bank's interest rate cutting cycle looks to have stalled. The region has to face the fact that a high dollar regime is likely to be with us for some time.

At both State and Federal level, we have gone into a period of government austerity, although the Federal budget provides for collection of about 12% more in tax.

In relation to the propensity to save, the March Quarter national account figure indicated a rise in consumption spending at national level and I hear anecdotal stories that would indicate that putting off expenditure in favour of saving is reaching its limits.

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Surveys for TTNQ indicate that recent tourism results are better than the previous year. In strong contrast to this time last year, there is optimism that the September Quarter will see growth on last year.

There has been an expansion of air services domestically and more are hoped to be achieved especially from China and Singapore.

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The cruise shipping industry has discovered Australia and Australians have discovered cruising. Strong growth is expected over the next decade but the size of ships is increasing with about 25% of ships already needing to stand off Yorkeys Knob and transfer passengers ashore by small boats.

This percentage is likely to increase sharply over the next decade. Cairns is highly desired as a stop-over and the economic case for dredging is very strong both on economic efficiency grounds and in terms of additional expenditure generated.

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There are strong prospects for continuing expansion of agriculture. Increasing demand from developing countries has been leading to strong rises in global food prices.

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The rising demand for some agricultural products in Asia is evident in the large investment flowing into the area's sugar industry.

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New types of multi-product mills are being developed. The Tableland mill is being expanded and taken through to the production of crystal sugar.

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There is talk about the North becoming a food bowl for Asia, not just from the Government but also the Opposition.

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In the short run however, after a long positive run, mining production in the region will be affected strongly by the problems that have been experienced by Kagara. However a whole range of new mining ventures are being ramped up with some having major potential consequences for increased container movement through the region's seaports.

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On the construction side, a run down in Government funded work is taking place but the continuing growth of the city has been seeing a revival in commercial development. Private dwelling approvals in the first 4 months of 2012 compared with the same period last year are up by 61% and value of all approvals by 35%.

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Things have been tough for many businesses since 2009.

However, I am rather hopeful that, with good prospect that the upward march of the Australian dollar has moderated, some prospects of a return to growth in tourism, continuing strength in the agricultural sector, the negative of Kagara being offset by mining growth elsewhere, some turnaround in consumer sentiment, a lift in investor confidence and faith in the city's future, and some lift taking place in commercial and dwelling construction, we will be able to record that 2011/12 was the bottom and that 2012/13 will see the growth rate starting to turn upwards again.

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Before finishing however, against a background of a new Council and a new State Government, I just want to record a number of things I believe are important to restore this region's multidimensional, diversified economy to a strong long-term growth path in a changed world economy.

- Cairns seaport upgrade – dredging, freight handling, Navy Base..
- Land freight infrastructure – the upgrade of Kuranda Range Road back on the agenda.
- Additional air links with Asia and shipping services to PNG.
- Aviation sector constraints removed.
- Agricultural and mining development constraints removed.
- Community services commensurate with population – especially the University Campus and Hospital, but also sport and cultural..

.ppt 37: End.