

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

Website: www.cummings.net.au

Ref: J2614



RECENT TRENDS & PROSPECTS IN A DIVERSIFIED FAR NORTH QUEENSLAND ECONOMY

ppt 1:

**ADDRESS TO THE
FAR NORTH QLD MAJOR PROJECTS CONFERENCE**

By W S (Bill) Cummings

26th October 2012

ppt 2:

There were three major factors that affected the region's economy from the time of the global financial crisis.

The first and most immediately evident was the effect on finance for investment. This was Australia wide but heavily affecting a strongly growing Cairns' economy with high levels of employment in construction.

The second and not so immediately obvious but subsequently became evident throughout Australia was the massive shock to household confidence, a curtailment of expenditure especially on non essentials in favour of saving and reducing debt exposure.

The third factor was a strong check to the growth of the region's outside earnings, especially from tourism, due to factors, not associated with the global financial crisis, but more to do with the high Australian dollar and the region's high exposure to tourism and lower exposure to mining.

ppt 3:

Outside Earnings - The most fundamental to growth prospects over time in a regional economy like this is outside earnings.

2012 has seen a rebound in the region's \$2.3 billion tourism sector with solid increases in visitor numbers this year of the order of 5 - 15% in hotels, motels, resorts and higher in units, especially from southern Australia and New Zealand.

The Chinese flights, if sustained over a full year at six per week, could be expected to increase tourism takings by the order of \$150 million per annum.

The Japanese market declined sharply after the withdrawal of flights in 2009, but now seems to be holding.

ppt 4:

The region's \$1.8 billion primary industries sector is very diversified and has been a long term steady growth factor over the past three decades in the region's economy.

ppt 5:

Rising demand, especially out of Asia, is set to underpin a continuation of this trend into the future.

ppt 6:

At this time, demand for bananas from southern Australia has probably plateaued and post cyclone disruption of production cycles has led to a current oversupply with low prices.

ppt 7:

The cattle industry was hit by the live cattle export bans which still result in reduced exports pushing northern production onto non live cattle markets reducing prices.

ppt 8:

The sugar industry is in an expansion phase. Major Asian capital investment has taken place totalling about \$449 million in this region.

ppt 9:

Major further investment is planned including \$42 million in expanding the Tablelands Mill to process larger volumes to crystal sugar.

ppt 10:

Maryborough Sugar are expanding their Tablelands Mill from 650,000 tonnes to 900,000 tonnes and expansion in Maryborough Sugar's coastal mill areas at the expense of former forestry schemes, cattle and bananas, could see a further 5,000ha under production. Area for Tully and Mossman Mills is also expanding and total increase in value of crop at current prices could be expected to be up in the range of \$50 - \$80 million per annum.

ppt 11:

There is not time to go into all the other diversified primary industry sectors. However the region, with 26% of Australia's water runoff, but currently accounting for only 3% of production, has a capacity to massively expand agricultural production.

ppt 12:

Mining has been a growth sector in the regional economy in recent years but figures will be back down in 2011/12 and 2012/13 due to the collapse of Kagara.

However a number of smaller new mining operations have commenced in the immediate hinterland, Resurrection of Kagara's operations is looking hopeful and two major new mines are being shaped up in the immediate hinterland - Mungana Gold at Chillagoe and the Sconi Scandum project at Greenvale, each of which on current prices will have a production value of about \$300 million per annum.

Major expansion in the Peninsula of bauxite and coal at Bathurst Head is planned. It is significant that the recent retreat in commodity prices has been in coal and iron ore and not so much in other minerals such as copper, lead and zinc. Uranium at Georgetown's Maureen deposit is a future possibility.

ppt 13:

Major expansion of mining outside of the region across the north and Papua New Guinea has of course been resulting in increased opportunities to supply FIFO workforce and other services, especially by air.

ppt 14:

On the export of services side, the aviation sector has been continuing to expand, the slipways after a difficult time seem to be coming back. The international education sector seems to be back into expansion again.

ppt 15:

Defence and surveillance spending in the area (somewhere up about the \$150 million mark) seems to have stabilised in the last few years. There is of course, a major opportunity presenting itself out of the current defence review.

Overall, after the shock of tourism losses for a number of years, prospects for a diversified expansion of outside earnings looks excellent in the coming years.

ppt 16:

The reverse of outside earnings is import replacement and there are two major areas of opportunity and expansion taking place – the first is university level education where past failures to develop the campus commensurate with population are being overcome with strong growth in university students registered in the last inter-censal period.

However the city and region are still well behind national averages for regional areas and there is a major opportunity to double the numbers of students to bring them up to national averages for non-metropolitan areas.

ppt 17:

Similarly, population growth has led to a catch-up taking place in level of health services. The current public service downsizing program will see some short term losses this year but continuing expansion into the future can be expected.

Total direct public service job losses look like being well below the state average per head of population at about 200 representing about 0.15% of the region's total workforce of about 150,000.

ppt 18:

Household Spending - As the chart shows, at a national level the propensity to save after rocketing upwards has come back a bit and stabilised.

Earlier in the year, there were indications that household spending was moving back up again. The upswings of domestic tourism this year, despite the high dollar, is a good sign.

However, while some increase in household spending might occur at a national level as the interest rates are reduced, a check with a number of relevant businesses around Cairns indicates that if there has been any upward movement, it has only been small. It seems that a relatively high savings rate will be around for some time.

ppt 19:

Investment - Strong investment normally takes place when markets and opportunities are growing and provides an upward multiplier during upswings and downward multiplier during downswings.

This table illustrates that the population growth has been falling off – with post-censal revised figures showing a major downward revision on earlier estimates, (note – this has applied to all of the northern regions. This has resulted in a reduced demand for extra housing and other facilities.

ppt 20:

However, Rick Carr's Herron Todd White charts indicate that rental properties are moving into undersupply - something that should trigger additional construction. Council incentives will no doubt help.

ppt 21:

Examination of dwelling approval data indicates that Government building approvals in the region are now down strongly.

ppt 22:

Private dwelling approvals bottomed in the first half of 2011. The second half of 2011 started to see them rise again and this continued into the first half of 2012. However private non-dwelling approvals remain subdued.

ppt 23:

Labour Market - While the ABS labour market information is not very reliable and month by month movements cannot be trusted to be accurate, over a period of time, they can tell a story.

The chart shows four phases. From commencement of the global financial crisis through to early 2010, the total workforce kept growing, numbers employed dropped and unemployment numbers rose.

Over the following eight months, total workforce stabilised, employment numbers grew and unemployed dropped.

From December 2010 to May this year, total workforce fell, employed fell and unemployed stabilised.

Since then, the number employed has trended up strongly. Unemployed also trended up resulting in total workforce trending up very strongly. . These figures tend to indicate that with economic prospects looking more positive, people are re-entering the workforce.

ppt 24:

Overall - Thus, overall the indications are that the regional economy has probably turned a corner with its outside earnings situation, with good prospects of solid expansion across a broad front in coming years.

Private dwelling approvals have moved back up. Optimism has risen, but this has not yet translated into a strong rise in private non-dwelling construction activity or any strong rise in household confidence and spending.

ppt 25: End.