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ACHIEVING “LIFT OFF”

Trends and Prospects for the Cairns Tropical North Queensland Economy

ADDRESS TO THE CAIRNS CHAMBER OF COMMERCE
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As everyone knows, the strong downward movement in the Australian dollar has sparked off a resurgence of domestic and international tourism to the region. The latest figures for overnight visitor expenditure indicate that compared with a few years ago, tourism has been pumping something over \$700m a year into the local economy, an increase of the order of 28%.

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However contrary to many expectations in the community, this has not been translating through to commensurate increases in employment and other indicators like construction activity.

To understand why this is so, it is important to put the situation into a wider and longer term context.

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The first point is that in this Tropical North Queensland region, tourism directly accounts for about 16% of employment and with short term ‘flow-on’, affects about 23%.

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The second point to realise is that if you look back over the past 10 years and take inflation out, tourism earnings have just got back to where they were 10 years ago. From 2008-09 to 2011-12, the sector suffered a 25% real drop in revenue.

- 6:** Against this background, it is not surprising that tourism businesses running under capacity for years have been slow to take on additional staff, giving preference to expanding hours of casuals. While refurbishment has been taking place, there has been little justification for developing additional capacity.
- 7:** A major factor offsetting the rise in tourism income has been declines in government expenditure in recent years. The Queensland capital expenditure budget in this region has been consistently low on a per capita basis. Of all Queensland regions, it has suffered the biggest decline over the past four years and in 2015-16 was down about \$400m on 2011-12.
- 8:** Not surprisingly, building approvals after recovering from the very low levels in 2011-12, plateaued during 2015 and are at levels still well down on 10 years ago.
- 9:** In fact, it is instructive to look right back over the past decade.

Despite the collapse of tourism income and no real tourism growth over the decade, along with the collapse in construction post GFC, the region continued to lead in population growth in regional Queensland and across the North (albeit at a slower pace than long term trend), something that illustrates the depth and resilience of the region's economy.

- 10:** Over the decade, the region's large agricultural sector continued its long term real underlying growth rate of about 2% per annum with a total real growth, including post farm gate activity, of over \$300m or 22%.

11: While much more erratic, mining in the region has shown a real growth in value of production of over 5% per annum, totalling over the 10 years about \$270m or 69%, especially under the influence of expanding production at Weipa.

Thanks to efforts of people like Sharon Dawson and Jeremy Blockey through the Chamber of Commerce, the city aggressively sought to develop FIFO opportunities during this period that at peak were estimated to be contributing up to about \$200m a year to the economy.

12: Also rapid growth of the city and region during the 80s and 90s had not been matched by growth in some government services. In a 'catch up' situation, health employment grew by 36% between 2006 and 2011. Cairns and Hinterland Hospital Services' turnover indicates growth has continued in more recent years - 26% up in the past three years.

13: A "catch up" has been taking place in higher education also.

14: Against this background of resilience and continuing growth, we can look forward with some confidence.

Unlike the past period, there are prospects of all major elements in the economy increasing. Outside earnings (ie. regional exports), investment (construction), household consumption and government expenditure (with a question mark).

15: For regional exports, prospects across the major sectors are broadly positive. Tourism, after a difficult period, has come back as the front runner.

Prospects are excellent provided exchange rates remain lower, new air services come into place and investment starts rolling in appropriate facilities.

The situation is not dissimilar to the late 80s when a lower dollar combined with a major new market developing to underpin rapid growth (Japan then, now China).

The lower dollar is also seeing a resurgence of visitation from Japan and US.

- 16: Important in the returning international market has been new air services to Bali, Singapore, Manila, Hong Kong, Auckland and now Seoul. I believe TTNQ is confident that with State Government support, direct all-year round air services will be achieved to mainland China by the middle of next year.**
- 17: However the most real growth has been in domestic tourism where best discount fares continue to be low.**
- 18: The region is continuing to tap into non-core tourism markets. The prospects are excellent for increasing the city's role in the rapidly growing cruise ship market, super and cruising yachts, conferences, cultural events and sports tourism.**
- 19: However as in the past, it is not just about tourism. There are few regions around Australia that offer better prospects for agricultural expansion. The region accounts for 26% of Australia's water run off.**

- 20:** Value of banana production will probably plateau. Abnormally good growing conditions have led to a glut and lower prices this year will cost the economy an estimated \$150m and possibly lead to a capping in acreage.
- 21:** However, sugar prices have bounced back up due to a shortfall in global production. Acreages have expanded, especially in the Tableland's area.
- 22:** Cattle prices are riding high and expected to go higher with a potentially massive new live export market opening up in China.
- 23:** Tableland's agricultural production data indicates the degree to which production has been continuing to grow and diversify.
- 24:** Under current government programs and private enterprise proposals, there are seven major studies taking place that if implemented, would underpin a very large increase in agricultural production in the region over the next twenty years.
- However almost all projects are dependent on the current Queensland government's tree clearing law proposals **NOT** being implemented, on water allocation policies and development of suitable infrastructure including roads, ports and airport export handling facilities.
- 25:** The picture in mining is mixed. Some existing mines have been scaled back or closed operation due to low prices. There has been FIFO losses to mines in the North West Queensland region. However, we are still holding on to FIFO to Moranbah, Groote and others.

There has been a tailing off of growth in PNG but we still have shipping services to the Freeport McMoRan mine in Indonesia.

A \$36m contract (construction workforce 350) has just been let at Mungana to complete the processing plant and recommence production. Estimated ongoing workforce is 230. Magnetite is now being exported out of Mourilyan. Major contracts for the \$2bn development of the Amrun project at Weipa have been let.

- 26:** Failure to secure the Pacific Patrol Boats' contract was a blow to the resurgence of shipbuilding in the region. The \$24m upgrade of facilities' assistance from the Commonwealth government will help the sector's competitive position and hopefully the sector, including the Maritime College, will achieve much of the ongoing servicing work.

With improved global financial conditions and a lower dollar, super yacht business is coming back and increased reef fleet activity will assist. Amalgamation of Toll Marine fleet with Cairns based Sea Swift operations will further consolidate Cairns' important role as a base for coastal shipping that supports development across the Far North.

The aviation servicing cluster is continuing to operate soundly and new market opportunities, including for training, appear to be opening up in Asia.

- 27:** Consumption - While no local statistics are available, there is plenty of anecdotal evidence around that household spending in the region is remaining subdued. Lower interest rates, fuel costs and inflation in general are helping family budgets but sky-rocketing electricity and insurance costs have not been helping.

High levels of casual and part time employment are reported to have been affecting expenditure, especially in willingness and ability to move from renting to investment in houses and flats. Improved general economic conditions and confidence about properties holding, and increasing in value, seems likely to result in improved levels of household expenditure.

28: Government - State capital spending in the region has been so low that there is only one way for it to go. Statistical data indicates State government employment in the region slowed during the LNP government but did not fall, and has accelerated again.

At federal level, a need to deal with budget deficits could mean some cuts but the North Australia Infrastructure Fund should start coming into play over the next few years. At local government level, capital expenditure in Cairns has been running at historically high levels.

29: And this brings us to construction – the traditionally volatile element in the economy and essential to any lift-off back to long term growth averages.

In the first place, it should be recorded that there are many projects out there that are through the development approvals stage.

Although building approvals are lack lustre in the Cairns region, a major uplift is taking place in the Peninsula/Torres sub region. However around Cairns, Master Builders record that commencements as opposed to approvals moved up strongly in the past quarter signalling an increase in on-the-ground activity.

30: There are three levels of an upsurge in construction that can be expected to take place.

The first will be in response to ongoing growth in the region's base industries. In tourism, continuing growth, rising room rates and returns will justify new stock of accommodation coming on stream. I expect this point to be reached over the next 18 months.

The second would be in anticipation of a major opportunity for tourism growth from China, to provide new facilities especially oriented to that market.

So far the giant Aquis project aimed at a future Chinese market has proved elusive. I believe it is planned to start a first phase mid-next year.

The \$640m KUR-World project is still in early phases and the coming year will see it go through an Environmental Impact stage.

The third type of construction is 'follow-on' development as general growth of activity takes place. I expect this to follow fairly quickly on the heels of increasing employment and population growth starting to kick in as tourism and other outside earnings increase and as the other types of construction grow.

31: My overall expectation is for the coming year to see the pace of growth pick up and the upsurge continue in the following years as multiplier effects come into play.

32: End.