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**1:** Learning the Lessons of the Past 10 Years

**ADDRESS TO THE CAIRNS FORUM 4 BUSINESS GROWTH**
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**2:** **In reviewing the developments in the Cairns regional economy over the past ten years, I am particularly going to identify how decisions at a national and state level have affected the region's economy.**

**3:** **Over the past 40 years, the Cairns region has been one of the star regional performers in Australia.**

**It has led population growth in tropical Australia and outside of metropolitan and near metropolitan regions, to become the largest in population in northern Australia.**

**4:** **The city of Cairns has passed in size seven other regional cities.**

**5:** **It is now up there on the list of Australia's major regional cities.**

**6:** **Underpinning this growth has been a massive increase in the region's "outside" earnings from the rest of Australia and overseas – in mining, in fisheries, in agriculture, in tourism, and in trade and services to our near north.**

**In this, tourism was a star performer, rising to account for about 40% of the region's outside earnings.**

**7:** **But the region's performance over the past decade has been lacklustre and well below long-term growth averages.**

**8:** **Of course, the two big economic events of the past decade have been the Global Financial Crisis commencing in the second half of 2008 and the mining investment boom led by demand from China. Commodity prices peaked in late 2011.**

**9:** **Cairns was more vulnerable to the GFC than most other areas. The city's growth was flying high with a very strong private construction rate, finance for which stopped overnight.**

**10:** **Fortunately, two government decisions, quite separate from GFC considerations, helped hold up the region's construction levels through to about 2011 - the $400m expansion of Lotus Glen and the $400m extension to Cairns Hospital.**

**11:** **But since then, it has all been down hill. This chart shows government building approvals in the Cairns region since 2011-12 compared to other northern regions.**

**12:** **Standing behind much of this has been the Cairns region's treatment in State capital spending where it was low on a per capita basis in the 2011-12 budget and has been cut back the most of any region in Queensland since then.**

**13:** **Of course, the region wasn't in a position to participate as much in the mining boom as coal, iron ore and gas regions, but, in part, thanks to a vigorous local effort on FIFO, we did participate to some extent.**

**14:** **Continuing steady expansion of value of agricultural production also helped hold up the region's economy.**

**15:** **But, apart from construction, the big hit to the regional economy occurred in its largest earner of outside income, tourism, and the trouble started even before the GFC.**

**The tourist industry has proven to be very sensitive to the level of the Australian dollar, illustrated by the big boost that occurred following the sharp reduction following floating in the mid-1980s, a slow down as the dollar crept up in the mid-90s, a recovery in the early 2000s after the Asian crisis led a sharp devaluation.**

**16:** **But as this chart shows, by the mid-2000s, the dollar was rising to alarming levels. In early 2007, I wrote a piece for the Cairns Post expressing alarm about its impact, especially on our large Japanese trade, and concerns that the Reserve Bank's raising interest rates to try to dampen the economy, were bringing in large capital inflows that were pushing the dollar higher.**

**17:** **In June 2008, before the GFC crisis, the sledge hammer hit Cairns. Qantas more than halved seat capacity out of Japan. Japanese visitor numbers plummeted from over 200,000 to below 100,000 a year, creating a $100m plus hole in the economy.**

**The GFC hit a few months later.**

**But it had a good side for tourism with falls in commodity prices; the value of the Australian dollar fell strongly and the Reserve Bank cut interest rates. It had the appearance that tourism would follow a recovery path similar to the post Asian crisis recovery.**

**<u>18:</u> The Australian dollar has traditionally been heavily influenced by commodity prices. As the chart shows, after the initial GFC crisis, commodity prices jumped back up again quickly under the influence of a booming Chinese economy and continued rising to extremely high levels to about September 2011. These rises put upward pressure on the Australian dollar again. And this was where it all started to unravel for the Cairns' tourism sector.**

**<u>19:</u> Quite correctly, following the GFC, the Australian government delivered an immediate stimulus package and ran a big deficit. However, with the mining boom developing rapidly and stimulating the economy, instead of sharply pulling back, the government kept on running major stimulatory deficits.**

**In accordance with its thinking at the time, the Reserve Bank to counter the double whammy of the mining boom and the government's deficits stimulating the economy, put up interest rates sharply while the rest of the world was running record low rates. By end 2011, the differential was massive. The Australian dollar already being pushed up by commodity prices soared to record levels, peaking at about $1.08US.**

**<u>20:</u> The Cairns tourism economy took a terrible hit. At its worst, tourism earnings in real terms were down about a quarter on the levels of the mid-2000s. If other sources of outside earnings and sectors of the economy had not held up, the Cairns' economy would have been in a real mess.**

**<u>21:</u> From September 2011, commodity prices started coming down strongly but the Australian dollar didn't come down strongly. In fact, 18 months later, it was still over parity with the US dollar. It was not until the Reserve Bank started reducing interest rates very strongly that the dollar fell back strongly.**

**22:** Of course, as the dollar fell, tourism started to come back. But it took until 2015 to come back in real terms to the levels of the mid-2000s. Actually the initial recovery was mainly due to rises in domestic tourism. International tourism recovery lagged and it wasn't until 2016 that it came back to exceed in real terms the peaks of the mid-2000s.

**23:** The lessons:

1) While it is essential that we exploit every opportunity to increase tourism, we also need to exploit opportunities to advance other sectors – in diversity there is strength.

2) We need to bring it home at Federal level, that the combination of running major government deficits when the economy is receiving a major stimulus from other directions, should not happen again.

3) The limitations of using interest rates to control the economy independent of what is happening in the rest of the world and their resultant impact on the level of the Australian dollar must be recognised. Other instruments must be developed, especially at this time, a stronger role for the Prudential Regulation Authority to control reckless lending for housing in Sydney and Melbourne.

4) The collapse of government spending in this region has delayed a general recovery and indicates that the region is not presenting its case for investment convincingly enough.

**24:** End.