



1: THE NEW WAVE – KEEPING IT ROLLING
Trends and Prospects for the
Cairns Tropical North Queensland Economy

ADDRESS TO THE CAIRNS CHAMBER OF COMMERCE
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2: The new 2016 Census results provide a starting point for looking at the New Wave developing in the Cairns regional economy.

The census count of people on-the-ground in Cairns and its servicing region across to the Gulf and up to the PNG border, totalled some 317,000, making the region the first in the North to pass 300,000.

3: The census also revealed, contrary to inter-censal estimates by the ABS, the long-term pattern of population growth across the North and in regional Queensland continued with the Cairns region leading, followed by the Northern Territory in the North and by Wide Bay in regional Queensland.

4: However, as a city over this period, Cairns was pipped by Townsville – Darwin led

5: The region's strength lies in its hinterland area that outgrew other northern regions by a wide margin.

6: The lessons from the census:

- The region is attractive as a place to live and holds its population
- The new wave is coming off an economic base that is resilient and diversified.

But population growth does not necessarily accurately reflect economic growth.

7: In contrast to earlier years, all major segments in the economy are now looking positive.

8: The long-term driver of economic development is what the region earns from outside – from the rest of Australia and overseas.

The largest earner, tourism, after a difficult time, is now back to record visitor numbers. Domestic numbers returned to record levels in 2015. International in the last year.

9: Cairns airport continues to show growth in passenger numbers

10: While strong growth was recorded in 2015 – 2016, anecdotally, 2017 is coming in with overall growth but patchy:

- Domestic tourism especially drive tourism is up but in major source markets, household incomes growth has been lack lustre and under pressure from increasing rentals and electricity costs.**
- There was a hiccup with the Chinese New Year air services**
- I believe reef trips are soft with worries about adverse publicity**
- Japanese numbers are returning**
- I believe conferences, events and cruise ship trade continues to expand.**

11: This chart seeks to look forward at what the scale of tourism flows might look like over the next 8 years to 2023-24 based on:

- The Chinese market averaging 15% per annum, ie. less than the last 5 years but with direct flights to commence from Guangzhou likely to record strong growth
- Other international expanding by 2% per annum, and
- Domestic at a 10-year trend of 2.5% per annum,

indicating a need to cater for about 1 million extra visitors per annum and a need for something like an extra 2,800 hotel, resort and serviced apartment rooms.

12: Agriculture, the often unsung growth sector in the region continues to diversify and grow at a long-term average real growth rate of over 2% per annum.

13: Cattle prices are remaining high.

Sugar prices are down this year but a long heralded new era is dawning for the sugar industry to diversify mill output to energy and fuels. MSF Sugar are to present to the Chamber in September.

A poor wet season and low levels of Tinaroo Dam is likely to mean some scaling back of irrigated production – underlying the need for additional storages.

This region accounts for 26% of Australia's water runoff, has probably the best prospects for further expansion of agricultural production in Australia with water resource studies currently underway in relation to:

- Lakeland
- Nullinga Dam
- Southern Tablelands.

14: Mining continues to be a major, if variable, sector in the region.

15: Although the benefits to Cairns of the \$2.6m Amrun project at Weipa have probably not been as strong as some would have liked, benefits are flowing through and with other bauxite projects underway, Weipa is set to continue its strong growth record.

A \$100m investment in resuscitating the Mungana processing plant is now in production based on gold and zinc.

Mt Garnet continues and Cape Flattery silica and magnetite shipments.

FIFO income continues to be substantial.

16: Cairns continues to lead the way in the North in developing two major skill-based clusters – the first the marine sector based around the city’s large fleet of tourism, fishing, trading and naval vessels has an estimated direct employment of the order of 4,000. Superyacht business is returning. The government’s \$24m investment in capacity improvements will take place soon with strong prospects of increased servicing of patrol boats and naval vessels.

Positive things are happening in the important aviation servicing sector with new airport plans meaning that the general aviation sector will be able to expand where it is, aircraft maintenance and associated training is in a position to tap growing Asian markets.

The region is developing as a substantial pilot training centre with an expanding Mareeba airport becoming a major focal point.

17: Importantly, the region has been effectively importing health services by sending patients away for treatment. Cairns Hospital and Health Service is now the largest in country Queensland in terms of admissions and the case for being moved to Tier One funding is becoming stronger.

18: The same applies to university services. Census data indicates that while growing, on a per capita population basis, the region is low in student numbers, especially full time, with room to grow. The decision by James Cook University to set up on-campus accommodation is a major forward move, along with establishment of a JCU city campus and the entry of CQU with its city campus.

19: Another quiet achiever in the region has been the international education sector that took a knock with the high dollar but is now back on the growth path with Charles Darwin University investing recently in the sector.

20: In summary, prospects for expanded earnings from outside the region are generally looking good in the future along with developing institutions like health and education that replace imports. However, of the major sectors that make up the economy, the most important for many businesses is what is happening with local residents' consumption expenditure.

At a national level, the sharp rise in the household savings rate that occurred after the shock of the Global Financial Crisis is gradually easing but household income growth is low.

21: At a local level, census data indicates that incomes in the region are only marginally lower than the State and National averages and roughly keeping pace in inter-censal growth.

However, I believe that household propensity to spend in the region while improving is still not bouncing up:

- Rents are increasing
- The wealth factor from rising property prices has not kicked in strongly
- Electricity and insurance costs are continuing to squeeze households
- A great deal of employment remains part time
- Local confidence is improving but still subdued.

22: Government - If the number of government employees in the region is an indication, government recurrent as opposed to capital spending is increasing.

23: Now for the volatile sector – investment.

In value of building approvals, the Cairns region returned to a leadership position in the North in 2016-17, but it was more due to a drop in the other regions, and in fact, the year has seen a slight decline on the previous year with strong approvals outside of Cairns offsetting falls in Cairns.

24: Affecting the economy in recent years has been a terrible drought in government capital spending that has been reflected in the building approval figures.

25: Behind this has been a drought in state government budgeted capital expenditure where the Cairns region has been very badly treated on a per capita basis.

Recent announcements in relation to the Port, Convention Centre and Smithfield by-pass, indicate that some of the leeway is now being made up.

26: Importantly, a new wave of investment in transport infrastructure is underway:

- At last progress on Port upgrading, but not to take place until 2019
- The \$200m Peninsula Road upgrading continues in full swing
- Hann Highway link sealing - \$45m
- The Smithfield by-pass - \$152m
- Mareeba Airport upgrade of about \$20m

27: Substantial investment is taking place in energy projects with a combined value of the order of \$600m.

28: Most encouraging, record numbers being achieved in tourism and prospects for further growth are leading to a resurgence in investment in accommodation development with the GA Group leading the way.

Between GA's \$370m investment and the recently announced government projects, a total of \$880 in capital expenditure is set to take place bringing with it over the next three years, over 1,000 direct job years and of the order of 4,000 including "flow-on" effects.

This is on top of current projects coming to completion or under way including the Aquarium \$50m, Council's \$75m Performing Arts Centre, James Cook's on-campus student accommodation \$40m, Mt Peter residential \$90m by the end of the year, the government's social housing program, age care/retirement centres and other developments.

Waiting in the wings is the \$350m Nova 8 project now on the market and the \$640m Tablelands' iconic eco-resort KUR-World project in Environment Impact Study stage.

29: Against this background, it could be expected that the employment situation was improving.

However, the ABS sample series is highly unreliable showing a very large increase in employment at this stage, almost certainly overstating the situation. Actual registered unemployed on benefits in Cairns, while showing a slight improvement late last year, has gone back to being higher than the previous year.

30: Obviously, the Cairns regional economy seems set for good growth over the next few years. What is important, is to make sure it keeps rolling.

This is a highly trade exposed region, especially its tourist industry. There would be no surer showstopper than a major hike in the Australian dollar as occurred in the period 2009 to 2013. During that period, rising commodity prices were a major factor in pushing the dollar up.

31: But the over use of interest rates out of sync with the rest of the world during that period made Australia highly attractive for capital inflows that pushed the dollar up to very damaging levels.

32: Our interest rates are now down towards those of other major countries. It is absolutely essential that they remain that way. Fortunately, the Reserve Bank and the government are realising other ways of controlling the economy need to be used.

33: And that brings us to another point. It is obvious that this region is going to need finance for normal investment. Last year, at this meeting, the “one size” fits all problems of tightening lending conditions in the face of a house price bubble developing in the major metropolitan centres was raised.

One of the things that came out of the Commonwealth budget was the power granted to APRA to vary its macro prudential rule by region. From all I see and hear, the Cairns situation and its justifiable need for investment finance is not being recognised.

Obviously, if we are to keep the new wave rolling, especially in agriculture and rural area development, extreme environmental blockages need to be overcome.

While we are currently seeing the drought in government funding showing signs of passing, it is vital that it all doesn't just go back to the past after the elections.

34: Thank you.