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**WINNING THROUGH
Trends and Prospects for the
Cairns & Peninsula Australia Regional Economy**

ADDRESS TO THE CAIRNS CHAMBER OF COMMERCE
By W S (Bill) Cummings – Cummings Economics
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2: Last year, I remarked that in contrast to earlier years, all major segments of the economy were looking up. However, a number of factors have limited the strength of this broad upward movement over the past twelve months and are affecting prospects in some directions for the immediate future.

However, there are also strong positives out there that can be expected to see the economy continue its overall upward trend.

3: Underpinning the city and region's strong growth performance over the past forty years has been a major expansion in outside earnings from the rest of Australia and overseas.

These can be broken into two major types - those based on the region's natural resource attributes with outstanding biological resources underpinning tourism and primary industries and substantial mineral resources. Of increasing importance are those in areas where we have developed special skills and a strategic logistical position to supply goods and services outside the region.

4: Growth of the region's tourism sector with earnings now over \$3bn was strongly checked, 2008 to 2014, by the GFC and extremely high Australian dollar causing a retreat of over 20%.

But this has been followed by a strong recovery back to record levels following the drop in the dollar. However, there is evidence that the strong upward movement has tended to slow over the past 12 months.

Let me warn everyone however, not to read too much into short-term movements in the International Visitor Survey and the National Visitor Survey.

They are based on sample surveys and at regional level, statistical variance can lead to them not accurately reflecting short-term movements.

- 5:** Airport passengers that account for the bulk of visitors can be more reliable. Over the year, international terminal traffic is up; domestic terminal traffic growth has slowed.
- 6:** While the dollar has remained reasonably competitive, domestic seat numbers on major routes into Cairns have plateaued affecting both domestic visitors and the bulk of international visitors that come via domestic services.
- 7:** A tendency for airfares on Australian domestic routes to rise is recorded by the Bureau of Transport Economics.
- 8:** The strong growth in reef visitation in 2015-16 slowed in 2016-17 and recent figures are being reported to be down.
- 9:** Plateauing tendency of late is confirmed by hotel occupancy data that indicates over the year to June 2018, no growth in total rooms sold, with Cairns CBD down but Palm Cove and Port Douglas up. However, because of a reduction in rooms available (while refurbishment and rebuilding takes place), room rates and revenue have risen.
- 10:** A positive is that the dollar has moved down over the year.
- 11:** Looking forward: There seems to be global conditions and monetary policies at play that will result in it staying down and perhaps falling further.

The full effect of new direct flights to China will be felt in the coming year. Nation-wide domestic tourism traffic is growing and I expect a resumption of better growth in the future.

Some diversion of international traffic from China on to the direct services from overseas will free up seats on domestic flights.

Adverse reef publicity is a worry.

12: The region's agricultural, pastoral, fisheries and forestry sector with earnings of the order of \$2bn a year recorded strong growth over the last inter-censal period helping hold up the economy during the tourism down-turn period.

13: However, there is evidence that for the next few years, there will be more subdued conditions.

After a number of good years, beef prices have fallen, I believe, under the influence of drought forced destocking and reduced live cattle export out of Darwin.

On a positive note however, the first live cattle shipments to China have taken place ex Townsville.

14: Sugar prices are down quite strongly providing one of those strong periodic challenges due, I believe this time, to strong production in India and Thailand and build-up of stocks. MSF's new green power station on the Tablelands is near completion with blue agave trials proposed to lead to diversified distillery production in the future.

15: Much of the growth in employment in agriculture has come, in recent years, through expansion of the horticultural industries that have taken the region to being the third largest fruit producing region in Australia.

However, the banana production has probably reached a limit of the domestic market with at times, over production leading to lower prices.

By and large, the wide range of other crops, other livestock industries, fishing and aquaculture, appears to remain sound.

16: Mining remains a positive factor in the economy with value in 2016-17 at \$1.3bn compared with \$0.6bn in 2006-07. The construction phase of the \$2bn plus Amrun project will wind down over the next few years but exports will increase; the new smaller Skardon River bauxite project is underway; the Auctus Mungana base metals mining production is underway; a new silica mine is proposed at Cape Bedford; some resurgence of tungsten activity could take place and there is prospect of the Sconi cobalt project going ahead at Greenvale south of the Tablelands. There are good prospects of value of mining within the region going towards \$2 billion in the coming years.

17: As the far northern terminus of Australia's relatively efficient east coast road, rail and air network, the city continues its role as a logistics and servicing hub for activity across northern Australia, Papua Indonesia and Papua New Guinea.

The Cairns region has developed as a substantial centre for supply to mining outside the immediate region, of FIFO workforce as well as supplies. While there was some retreat in FIFO activity following the cessation of the mining construction boom and cessation of the Century Zinc project, I believe that as better prices and conditions for the sector have returned, a resurgence is taking place in FIFO refit and maintenance type engineering business.

The city continues its role as the Australian supply base for Freeport Indonesia's giant copper mine in Papua Indonesia and services mining and other aspects of the PNG economy through air services. Most coastal shipping operations across the North are now operated by Cairns based Sea Swift.

18: Cairns is now the leading port in Queensland for number of registered commercial vessels. This leads to the city's role as the major maritime servicing hub in the North based around the three shipyards drawing business from across the North and into the Asia Pacific area. Its role is increasing with the return of growth to super yacht business and increasing needs to service the navy base and other shipping.

Not surprisingly, the Cairns region continues to lead the North in employment in the marine sector.

19: Similar dynamics, including the North's largest fleet of smaller aircraft, leads to Cairns region's aviation servicing sector leading the North with growth expanding to surrounding airports like Mareeba, especially for pilot training.

20: **Government** - It is now ten years since the last major positive boost in government spending took place in the Cairns region – the \$400 million expansion of the hospital financed by sale of the airport, and \$400 million expansion of Lotus Glen Correctional Centre along with “pump priming” expenditure following the GFC.

Since then, the region has experienced a strong fall-off in government capital expenditure. Although the capital expenditure budget for 2017-18 contained a rise, it was relatively small and incredibly, the 2018-19 budget has seen a fall-back announced. However, we should win through by 2019-20 with the \$120 million port dredging, the \$150 million Smithfield bypass and the \$175 million Convention Centre expansion fully underway.

21: Public service employment in the region, as in the rest of the State, continues to expand steadily.

22: The Cairns Hospital & Health Services region is now the largest in regional Queensland but after strong growth in recent years, budgeted growth for this coming financial year is modest.

23: Latest Census data indicates growth in employment in the higher education sector but compared with other cities of our size around Australia, we have about half the level of employment of population in higher education that we should have. The entry of CQU in competition with JCU is helping. The situation is clearly unsatisfactory and special catch-up funding needs to be pursued.

The mainly non-university international education sector is reported to be continuing to recover and expand with earnings estimated to be up to around the \$100 to \$150 million mark.

24: At Commonwealth level, substantial defence spending is projected for the navy base, but it is down the track.

The special \$200 million funding into the sealing of the Peninsula Road is coming to an end. Some 200km will remain unsealed and extra funding will need to be sourced along with funds for the direct interior link from the Tablelands to Melbourne.

25: And this brings us to private investment spending.

The cranes are on the skyline, especially with the GA projects involving an investment of about \$350 million. A surge has occurred in building approvals late in 2016-17 and through 2017-18 that is taking us towards levels of activity pre Global Financial Crisis. But there has been some frustration that this impetus has not translated through more widely to other construction activity.

26: Unfortunately, the equivalent of an old-fashioned credit squeeze is going on as the Australian Prudential Regulation Authority, spurred on by the risky rise in property prices in the major cities, moves to tighten lending.

The tightening is reflected in the low credit growth and strongly reduced growth of broad money supply.

While it is good for this region that the Reserve Bank is not putting up interest rates with consequential effects on the level of the Australian dollar, unfortunately it would appear that instead of this region being treated as a low risk region in a growth phase, it appears that banks are still pursuing blanket policies favouring the major cities and tending to treat all regional areas negatively.

27: However, despite this, there is evidence that we are winning through. This slide, courtesy of Cairns Regional Council, shows some \$1.8 to \$2.5bn of projects in the Cairns area underway or likely to come on stream in the foreseeable future.

28: While not back to levels before the GFC development, applications have risen in recent years with those of 2017-18 likely to be close to 2016-17 when full year data is available.

29: Again, courtesy of information from Cairns Regional Council, continuing growth of the city is leading to expanding development of residential properties around the city.

30: Consumption – No local figures are available. From anecdotal information, there is evidence and reason to believe that local propensity to consume would be rising.

31: And this brings me to how things have been working out in relation to employment and population growth.

Unfortunately, there is another series based on sample surveys that causes confusion – the ABS Labour Force series is published each month. Just how bad the series is, is illustrated by comparison with Census data when it came through.

The ABS series said the employed labour force in the immediate Cairns region fell strongly 2011 to 2016 by 9,000; the Census said it grew by about 3,000. The Townsville, Mackay and Central Queensland regions showed similar major inaccuracies.

32: Clearly, the region's employment has been rising along with its recovery but rises of about 8% in one year to October last year and then a fall are unlikely.

What is evident is that registered unemployed on benefits in Cairns rose, up until about the September quarter last year, but has fallen quite strongly over the past twelve months.

33: Although there have been some negatives out there that have been subduing the upsurge, it is useful to look at the region's long-term track record in population growth where the region has led the North and regional Queensland over a long period of time.

The latest 2016-17 figures simply confirm this long-term pattern.

34: if you project the rates of growth forward at the average of the past 10 years, 25 years and 40 years, you get a projected residential population in the region by 2050 ranging from 500,000 to 570,000 and in Cairns from 330,000 to 410,000.

35: Papers with these figures prepared for Council are on our website, with an explanation of why, a remote tropical frontier town of 16,000 in 1947 has turned into a growing successful city of ten times that number today, servicing the most populous and fastest growing region in northern Australia and regional Queensland.

36: Thank you.