MEASURES TO COMBAT THE SPREAD OF CORONAVIRUS (COVID-19)

Estimation of Potential Impacts on Employment in the Cairns Region (preliminary analysis)

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1. INTRODUCTION

The outbreak of the Coronavirus in China and its potential spread as a pandemic has led to a number of impacts on the Cairns city and regional economy as at the time of preparation of this assessment.

These impacts have stemmed from:

1) Government actions aimed at containing the spread;
2) Public reaction to the potential spread of the virus.

The following seeks to throw light on the scale of likely future impacts on the level of employment and unemployment in the city and the region.

The analysis is based on the premise that the impacts will last for six (6) months as per the most recent advice from the Commonwealth Government and takes into account assessment of potential impacts of the Government's stimulus packages up to 22nd March 2020.

2. THE SITUATION PRIOR TO THE OUTBREAK

Last reliable measure of the size of the workforce and level of unemployment in Cairns and the Cairns region is provided by the 2016 Census which gives the following profile of residential population and workforce (usual place of residence data).

Table 1: Workforce Status Population over 15 (usual place of residence)

	Cairns City LGA		Cairns SA4 Region	
	No.	**%**	**No.**	**%**
Worked full time	45,184	*58%*	65,170	*57%*
Worked part time	23,276	*30%*	34,849	*30%*
Away from work	3,950	*5%*	6,124	*6%*
Unemployed	6,056	*8%*	9,031	*8%*
Total	**78,466**	***100%***	**115,174**	***100%***

Source: Cummings Economics from ABS Census 2016 data.

(Note: The unemployment rate in Cairns City LGA of 7.7% and the Cairns Region of 7.8% was very close to the State average of 7.6%.)

The other potential measure is that provided by the Australian Bureau of Statistics (ABS) Labour Force Series. Unfortunately, this series is based on a nation-wide sample survey and can prove unreliable at regional level. The series records employment at SA4 regional level. Since 2016, it has shown the following movement in a 12-month moving average.

Table 2: Cairns Region (SA4) Employment & Unemployment

	Employed	Unemployed	
Av 12-month ending	**No. ('000)**	**No. ('000)**	***Rate %***
January 2017	109.9	9.1	*7.6%*
January 2018	116.8	7.4	*5.9%*
January 2019	118.2	7.1	*5.8%*
January 2020	131.7	7.1	*5.1%*

Source: Cummings Economics from ABS Labour Force Series data.

Definition of workforce includes all who worked more than one (1) hour per week and at 119,000 in the 12 months to January 2016 is higher than the Census recording of 115,000 with Cairns City LGA total workforce 78,000.

The ABS Labour Force Series would indicate that the regional workforce would now be about 139,000 (ie a growth of over 16% over three years or over 5% per annum). While it is likely that there has been growth in workforce since the 2016 Census with some reduction in unemployment, other economic indicators (eg. population growth and construction), indicate that this is unlikely.

As at end 2019, registered unemployed receiving benefits in the Cairns SA4 Region was as follows.

Cairns.. 4,723

Cassowary Coast........................ 1,594

Douglas... 379

Tablelands 1,380

Total..8,076

We thus believe that in Census count type figures, total workforce is probably about 130,000, unemployment in the Cairns Region about 8,000 with unemployment rate about 6%.

In the Cairns City LGA, total workforce is probably about 88,000, unemployment close to 5,000 and unemployment rate at about 5.5%.

3. IMPACTS OF CORONAVIRUS

3.1 General

Impacts of the coronavirus emergency on the region's economy will vary between industry sectors with some potentially unaffected, ranging through to those that will be badly damaged.

Any analysis also needs to take into account positive impacts, mainly from the government stimulus packages and how they will be spent, but also from consumer reactions, eg. redeployment of spending as local residents react to cut travel outside the region and spend locally.

The following provides a preliminary analysis of these negative and positive factors and translates them through to preliminary estimates of impacts on employment.

3.2 Negative Impacts

Tourism

The region will experience a major negative impact due to disruption of travel. There will be two aspects to this:

a) The virtual complete cessation of international tourism;

b) Major impacts on domestic visitation.

The following gives a tourism profile for the Cairns city LGA and the TNQ Region (that extends beyond the Cairns SA4 Region to include the Gulf and Peninsula/ Torres).

Table 3: Visitor Numbers & Visitor Spend, Cairns City LGA & TNQ Region

	Cairns City LGA	Cairns Region
Visitors		
International	790	781
Domestic O'night	1,083	2,137
Day	993	2,383
Total	**2,866**	**5,301**
Spend		
International	$873m	$1,022m
Domestic O'night	$1,240m	$2,300m
Day	$184m	$310m
Total	**$2,304m**	**$3,632m**
Total excluding day visitors	**$2,120m**	**$3,310m**

Source: Cummings Economics from Tourism Research Australia.

Table 4: Domestic Overnight Visitor Composition, Cairns City LGA & Cairns Region

	Overnight ('000)
Cairns City LGA	
Holiday	520
VFR	248
Business	248
Other	22
Total	**1,038**
Cairns Region	
Holiday	1084
VFR	461
Business	480
Other	np
Total	**2,025**

Source: Cummings Economics from Tourism Research Australia.

Tourism is estimated to have a total turnover of about $3.5bn in the Cairns SA4 region of which about $1bn or about a third is international visitors. This leaves about $2.2bn in domestic overnight tourism income and $0.3bn in day trips. However, part of domestic travel is of a type that may not be affected substantially including business, visiting friends and relatives, and travel from within the region for medical reasons. Even in the leisure travel component, there is visitation from within the north that may not be affected greatly. It is also possible that conditions will lead to some increase as a substitute to Australians travelling overseas and elsewhere in Australia (see Section 3.3 Positive Impacts).

The following analysis is based on the assumption that subject to further research, all international tourism is lost, a third of the domestic overnight market will continue and along with day trip income. On balance, this would result in a loss of about $2.8bn, ie. about 80%, ie. resulting in tourism income in the region falling to 20% of past levels over the 6-month period.

Tourism Research Australia modelling of tourism employment in the region indicates that tourism accounted for employment in the region, with "flow-on" effects, about 28,000. ie. about 22% of total employment. On this basis, loss of direct and indirect "flow-on" employment in the region could be expected to be 22,400 jobs. (Note: This equates to a loss of about 8 jobs per $1m expenditure lost.)

It is likely that the great bulk of these jobs would be in Cairns and subject to further research, of the order of 13,000, with a large part of the remaining 5,000 in Port Douglas, Kuranda and Mission Beach.

International Education

This sector will virtually cease to operate. Good figures are not yet available but could be expected to be included in the above tourism visitor figures.

Other Sectors

Appendix 1 gives profile of employment in the Cairns City LGA and the Cairns Region by industry. It could be expected that agriculture, forestry and fisheries would remain largely unaffected.

Sugar – The industry has been experiencing difficulties due to low world prices due to subsidised over production in India. The sharp fall in the Australian dollar exchange rate could help.

Cattle – No indications of any change in market.

Horticulture – The great bulk is for the domestic market and no threat is evident. It would appear that a Qantas freighter service to Hong Kong is working.

Seafood – Qantas airfreighter to Hong Kong is believed to be working well but cessation of passenger flights to Japan and elsewhere could cause some loss of business.

Mining – There is a threat that reduced global activity could reduce markets causing some threats. However, if the Chinese economy rebounds as appears to be likely to happen, much of this threat will subside. Where we could be affected is the Auctus operation at Mungana (zinc), Tablelands Tin, Cape Flattery Silica and Weipa area bauxite.

Quite apart from mining, within the region, there is Cairns based FIFO employment to mines outside the region.

Manufacturing – This is a very mixed bag of primary product processing (likely to be mainly unaffected), production for local markets (likely to be affected marginally through the tourism "flow-on" effects) including the marine and aviation servicing sectors.

Both the marine and aviation servicing sectors are likely to be affected by the tourism "flow-on" effects from the Reef Fleet and tourism related aviation sector.

Construction – There is a threat here especially later in the six-month period if uncertainty leads to delay in projects proceeding. The sector accounts for about 9% of employment, ie. in the region about 11,000.

There will be some loss of work flowing through from the tourism losses. Apart from this and subject to further research, a 20% reduction could result in a loss of about 2,000 jobs including "flow-on" effects.

If there is an effect of mining due to effects on the Chinese and world economy, part of the construction sector could be affected.

Wholesale Trade & Retail Trade – Losses in these sectors seem mainly to be from tourism and construction direct and "flow-on" effect losses.

Accommodation & Food Services – This sector will bear the major impact from the direct tourism losses with some of the tourism and construction induced "flow-on" effects. There are likely to be losses of employment in this sector outside the tourism effect as local expenditure is reduced and a number, including "flow-on" effects, of 1400 Cairns City LGA and 2000 Cains Region, is included.

Transport & Communications – This sector will bear major impacts especially from the direct tourism effects plus some "flow-on", especially in the aviation sector. However, there are substantial parts of this sector including in road and rail transport, warehousing and postal employment, that seems unlikely to be affected.

Financial & Insurance Services – Apart from some "flow-on" effects from tourism and construction, it seems unlikely that employment in this sector will be substantially affected.

Rental, Hiring & Real Estate – There will be some direct effects from tourism and construction "flow-on" effects in this sector. Otherwise it seems unlikely to be seriously affected.

Professional & Scientific Services – Apart from minor "flow-on" effects, this sector seems likely to be largely unaffected.

Administrative & Support Services - Apart from minor "flow-on" effects, this sector seems likely to be largely unaffected.

Public Administration & Safety – Government – Likely to be no change apart from some "flow-on" security employment related to tourism.

Education & Training – International education will be affected heavily but the rest is unlikely to be affected.

Health & Social Assistance – Unlikely to be negatively affected and there could be positive implications (see following).

Arts & Recreation – This sector that includes tourism attractions, sporting activity, theatres, is likely to be heavily affected. Much of this is covered by the negative tourism effect, but there will also be strong effects from the restrictions on larger gatherings. Employment in the sector at regional level in 2016 was 1,900 and in Cairns LGA 1,400.

On top of the tourism effects, there could be direct loss of employment effects (subject to further research), of the order of say 600 at city and 700 at regional level and includes "flow-on" effects of the order of 1200 Cairns Region, 1000 Cairns City LGA.

Other Services – Losses in this sector would appear to be mainly from the tourism construction and arts and recreation services "flow-on" effects.

Summary of Estimated Negative Effects

The following summarises estimated direct and "flow-on" effects on employment.

Table 5: Summary of Estimated Negative Effects

Tourism	Cairns City LGA	Cairns Region
Direct and "flow-on"	16,000	22,400
Construction direct & "flow-on"	1,800	2,000
Food services	1,400	2,000
Arts & Recreation	1,000	1,200
Total	**20,200**	**27,600**

Source: Cummings Economics.

3.3 Positive Impacts

General

There are three major elements in this.

1) Government stimulus packages;
2) Increase in health sector employment;
3) Switch of local spending from outside the region to within the region.

Government Stimulus Package

Commonwealth Government - The Government stimulus package announced on 12th March has the following elements.

On the bases that this region accounts for about a little over 1% of the Australian population and economy, impacts on the economy in this region could be expected to impact on the region.

Business – Capital Expenditure	
Instant Assistance Write off	$7m
Investment Incentive	$32m
Business	
Cash Flow (BAS Refund)	$67m
Apprentices Support	$13m
Household Support	
$750 to pensioners and other income support recipients	$48m
Assistance to severely affected regions	$10m
Total	**$177m**

The region is well placed to receive a larger share of the assistance to severely affected regions.

The more recently announced package on 22nd March increased the amount to $66m with approximately $25bn to be spent in the June Qtr and a roughly similar amount probably accruing in September Qtr. The Cairns regional economy accounts for a little over 1% of national population and about 1% of the economy.

The following works on an estimated total of about $250m in the June Qtr and $250m in the September Qtr, ie. about $500m over the half year. Based on its impact being over 6 months, this would be the equivalent of a boost of $1000m over a year. Just how this would flow through to jobs is quite complex to calculate. However, as a rough estimate, based on regional input/output models, it is likely to result in about 7 jobs including "flow-on" effects per $m over 12 months, ie. of the order of 7,000 jobs Cairns Region, 5,000 jobs Cairns City LGA over the six months. However, part of the Commonwealth Government's package relates to special payments for those unemployed.

While the above calculation takes into account impacts if the level of unemployment generated are similar to the nation as a whole, it is clear that in the case of the Cairns Region, the unemployment generated will be much higher due to the size of the tourism sector in the economy. Thus, it is necessary to allow for a greater level of unemployment benefit payments in the case of this region.

The payments to the unemployed will be at a rate of $27,000 a year. At an employment creation rate of 7 (including "flow-on"), per $m this will mean that for every additional 100 receiving unemployment payments, 19 jobs will be created. That means that the net additional loss of jobs will be 0.81 of the total indicated.

Bank Action - Impact of measures taken by the Reserve Bank to drop interest rates and insert liquidity into the financial system are also difficult to estimate, but are likely to assist the construction sector and enable some businesses to ride through the expected six months period and slow the degree to which they shed staff.

Health Sector – The health sector is a large employer in the overall region and employs 10,000 in the Cairns City LGA and 14,000 in the Cairns Region.

Employment is likely to rise in the sector in preparation and as cases occur in the region. Subject to further research, the following allows for a 5% rise in employment in the sector in the region.

Local Expenditure – There is a good case for expecting that local residents will divert spending they would have otherwise made on overseas and domestic travel to spending on local goods and services.

It is difficult to estimate this. However, the 2016 Census indicated that 5.5% of the regional population and 5.7% of the city population was away from the region. This would calculate over six months to Cairns Region approximately 2.4 million days and Cains City LGA approximately 1.6 million days.

Daily spending rate will vary dramatically from levels of over $300 a head to quite low figures of $50 a head. Assuming an average of $100 (ie. lower than average daily spend of visitors to the Cairns Region of about $200), would give a total spending of $240m Cairns Region, and $200m Cairns City LGA.

Some domestic visitation out of the region will continue. However, the indications are that saving that might be diverted would probably be in the order of $120m Cairns Region and $100m Cairns City LGA. If all of this was diverted, job creation including "flow-on" effects could be expected to be of the order of Cairns Region 750 – 800 and Cairns City LGA 700.

Table 6: Summary of Estimated Positive Effects on Employment (1)

	Cairns City LGA Employment	Cairns Region Employment
Government stimulus	5,000	7,000
Health sector	500	700
Local spending diversion	700	800
Total	**6,200**	**8,500**

Source: Cummings Economics.

(1)Note: Not including additional payments to unemployed above national averages.

4. OVERALL CONCLUSIONS

As a preliminary rough estimate, on the foregoing assumptions, it could be expected that the following would occur.

	Cairns City LGA	Cairns Region
Negative	20,200	27,600
Positive	-6,200	-8,500
Balance	**14,000**	**19,000**
Net of additional unemployed benefits effect	**11,300**	**15,400**

This would imply that unemployment in the region could be expected to rise over the next six months:

Cairns City LGA approximately .....5,000 to 16,300
Cairns Region approximately ...... 8,000 to 23,400

This would result in the unemployment rate rising to about:

Cairns City LGA ....around 19%
Cairns Region.....................................around 18%

Thus, the indications are, despite the Government stimulus measures, the unemployment rate is estimated to potentially rise to approaching 20% in the city and region.

The pattern of impacts is quite different to those of the Global Financial Crisis. However, for comparison, at the height of the GFC impacts, the ABS Labour Force Series indicated that unemployment in the region had risen to about 14% (although this series cannot be relied upon at regional level to be accurate).

It is stressed that these calculations are based on a range of assumptions, are preliminary and cannot be taken to be anything other than giving “order of magnitude” estimates only.

However, the indications are that the impact of COVID-19 is looking like being worse for the region than the GFC, and that the Government stimulus package announced to date, not be enough to offset a large rise in unemployment in the region and the city.

Appendix 1 – Industry of Employment by Occupation, Cairns City LGA & Cairns Region

Table – Industry of Employment by Occupation, Cairns City LGA & Cairns Region - Count of employed persons aged 15 years and over

Industry	Cairns City LGA	Cairns Region
Agriculture, Forestry and Fishing	1,175	6,041
Mining	1,051	1,716
Manufacturing	2,700	4,583
Electricity, Gas, Water and Waste Services	663	997
Construction	5,901	8,304
Wholesale Trade	1,705	2,228
Retail Trade	7,690	10,935
Accommodation and Food Services	7,273	10,390
Transport, Postal and Warehousing	4,590	6,109
Information Media and Telecommunications	591	776
Financial and Insurance Services	1,085	1,439
Rental, Hiring and Real Estate Services	1,456	1,910
Professional, Scientific and Technical Services	3,392	4,479
Administrative and Support Services	3,099	4,349
Public Administration and Safety	5,796	7,823
Education and Training	6,503	9,330
Health Care and Social Assistance	10,445	14,080
Arts and Recreation Services	1,440	1,921
Other Services	3,050	4,330
Inadequately described/Not stated	2,830	4,395
Total	**72,405**	**106,148**

Source: ABS 2016 Census of Population and Housing.