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"The Northern Professionals"

October 2020 / CE Ref J3340

Comment
FEDERAL BUDGET & CAIRNS REGIONAL ECONOMY

LITTLE SPECIAL - BUT A LOT TO ASSIST BUSINESSES & HOUSEHOLDS

Although there was little special for the Cairns region in the Federal Budget, there is a great deal in it that will help the region on its road to recovery from the COVID-19 restrictions. It will be especially important for the region's businesses and local government to take advantage of the opportunities being presented.

THE ONE PERCENT (1%) RULE OF THUMB

Massive budget figures of billions and even trillions are hard to get into perspective at a regional level. A simple calculation can help understand their likely impact on the region. With approaching 300,000 population, the Cairns/ wider TNQ region represents just over 1% of Australia's population. The region's Gross Regional Product (GRP) represents just under 1% of Australia's Gross Domestic Product.

If you divide national figures that apply across the nation by 100, it will give an approximation of the likely extent of impact in the region's economy.

Thus, when the Federal Government says it has a $100BN expenditure program, the amount accruing to the region is likely to be of the order of $1BN.

The Cairns/ TTNQ economy has an estimated GRP of around $17-$18BN, Cairns region including Tablelands, Cassowary Coast and Douglas about $14-$15BN, and Cairns City about $9-$10BN.

HOLDING THE LINE

The Government will continue the JobSeeker support at a moderated rate. Over the year end-March 2020 to end-March 2021, this can be expected to inject something like $600M into the economy.

JobKeeper will also be continued to March 2021 at a reduced level of about 20% December Quarter and 33% March Quarter and over the year to end-March 2021 can be expected to inject into the regional economy about $1BN.

INTERNATIONAL TOURISM CONCERN

However, JobKeeper will cease after end-March 2021.

Tourism earnings in the region are about $3BN with about $1BN from within Queensland, over $1BN from interstate, and about $1BN from overseas.

The region has already benefited from tourism from within Queensland coming back. At this stage, it can be expected that interstate tourism will be back well before March Quarter 2021. But, apart from some “bubble” tourism from countries like New Zealand, international tourism is unlikely to be back at the best, until second half of 2021.

Those businesses heavily dependent on international tourism and international education will be left without JobKeeper support. This is a matter for concern that will need attention in the coming months.

COVID-19 IMPACT ON THE ECONOMY

There were two major fields of direct impact on the economy of the region.

- The impact of the local lockdown, especially on food services, entertainment and recreation sectors in the region;
- The impact of closed borders on tourism that compared with Australia overall is a much larger part of the region’s economy.

These direct impacts will have led to “flow-on” effects throughout other sectors.

The first effect of the lockdown of local activity is not readily measured.

However, the tourism sector earns over $3BN a year from outside the region. On the basis of state tourism coming back during the September Qtr 2020, and interstate tourism during December Qtr 2020, but international tourism being closed over the 12 months end March 2020 to end March 2021, loss of direct revenue is estimated at $1.8 to $2BN.

Tourism in the Cairns region represents over 20% of the economy and international tourism about 7 – 8% in normal times.

The only special provision in the budget was some $50M for northern Queensland and Tasmania to promote an increase in domestic tourism. Let’s hope that there will be a pent-up demand effect in domestic tourism over the next 12 months as Australians are not able to travel overseas.

STIMULATING RECOVERY – TAX INCENTIVES

In addition to those measures designed to "Hold the Line", there was a range of measures designed to stimulate a recovery – tax cuts and additional expenditure.

Personal income tax cuts seem likely, on the 1% rule of thumb, to result in about $180M becoming available in the regional economy over 2020-2021.

However, there were very large tax cuts for business. One commentator in the Financial Review remarked that the Government had decided not to go down the politically difficult path of company tax cuts, but had through its measures effectively delivered the same result. Businesses will need to look closely at taking advantage of the Investment Incentives and provisions to allow backdating of losses.

CONSTRUCTION

The construction incentives introduced earlier have already had an impact on construction activity and the property market. Further first home buyers' concessions would result, on the 1% rule, in about 100 new dwellings. Infrastructure spending special to the region is estimated at about $76M, especially on roads.

WORKFORCE

On the 1% rule, special assistance to employ younger workers on JobSeeker is expected to result in about an extra 4500 being employed and government contributions about $40M.

There is a range of special apprenticeship and training funds being made available that is likely to result in additional expenditure in the region.

LONGER TERM GROWTH

The following provides, on the 1% rule, an idea on the expenditure on a number of other business and industry programs that could accrue to the region from a number of other programs over a number of years.

NBN..$45M

Manufacturing $14M

Future Technology $19M

Digital Transformation $8M

Total..$86M