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ppt 1: THE CAIRNS ECONOMY – RECENT TRENDS & PROSPECTS

ADDRESS TO THE CAIRNS CHAMBER OF COMMERCE

By W S (Bill) Cummings

23rd July 2013

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Since my address about this time last year, information has become available from the 2011 Census that helps clarify some past trends.

In the first place, census data has indicated the Australian Bureau of Statistics had grossly over-estimated 2006 and 2011 inter-censal population growth throughout Queensland by about 100%, resulting in a substantial write down of estimated growth in residential population for this and other regions. However latest post-censal growth estimate for 2011/12 for Cairns (Gordonvale to Ellis Beach) was 2%.

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Analysis of changes in the workforce between the 2006 and 2011 Census by 'place of residence' and by 'place of work' indicates that something like a half of the growth in jobs of Cairns' residents took place outside the city.

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The figures indicate that at 2011, something like 5,000 Cairns region residents stated their 'place of work' as outside of Cairns with an estimated 3,300 in regions down to Central Queensland, across the North and into Papua New Guinea, much of it associated with mining.

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And if you look at growth by industry sector for Cairns itself, 2006 to 2011, some interesting things come out. Growth rate in employment in mining led with more than a 100% increase.

In a Cairns being battered by a high dollar and the global financial crisis, manufacturing showed no growth, construction employment dropped, and growth in most business sectors was lacklustre or down.

Why Cairns' growth in employment came in at a healthy 12% over the inter-censal period, was mainly due to a staggering increase in employment in health of 47%, in education of 28%, and public administration and defence of 24%.

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In terms of the major sectors in the economy, the picture in the period 2009, 2010 and 2011 was one of outside earnings being down, especially of tourism (but moderated by advances in other sectors such as mining services), construction being down, consumer spending being down in favour of savings, but offset by major increases in government expenditure.

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Turning now to the short term trends and prospects, at the end of my address last year, I said, "Things have been tough for many businesses since 2009. However, I am rather hopeful that we will be able to record that 2011/12 was the bottom and that 2012/13 will see the growth rate starting to turn upwards again."

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Use of the Australian Bureau of Statistics Labour Force series is fraught with difficulties. It is based on national sample surveys and no reliance can be put on the accuracy of regional month by month movements.

However if analysed on a more reliable quarterly basis, it indicates that employed workforce has been moving up in 2012/13 compared with the previous year.

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However any turnaround has been slow, weak and patchy.

While outside earnings from tourism and some other sectors have been up, building approvals, already down, continued to fall. There has been little sign of any strong rise in household spending and government spending was down.

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Looking to the future, any upsurge over the next few years is likely to be against a background of continuing tight government expenditure.

The fact that the region is now the largest in population in the north and a range of government services have not caught up with this situation, should help achieve funding.

The State Government will need to honour its commitment to bring Cairns Base Hospital up to top level hospital funding criteria.

Analysis of census and other data indicates that although student numbers at the Cairns University Campus have improved, they are still well below national regional averages per head of population.

Major government capital works on Lotus Glen and the hospital have been winding down. However the region has been benefiting from a major road upgrading expenditure under National Disaster Relief funding. A continuation of this funding is highly justified. A recent analysis by the Regional Australia Institute recorded that this region had the worst road situation of all of Australia's regions. The \$230 million announced for roads in upper Cape York is only a fraction of what is needed.

Major funding is needed to upgrade the city's sporting and social infrastructure.

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Much of the damage caused to businesses in the post GFC period related to the sharp reaction of households in reducing spending and increasing savings. At national level, the savings rate has stabilised but is not showing any strong downward trend.

Households have been facing increased costs of electricity and locally, major increases in insurance costs. Fuel prices are rising; and household wealth has come down with property prices. On the other hand, we have lower interest rates and Commonwealth measures to offset the carbon tax.

Realistically, apart from population growth, the best we can probably hope for, is for some mild increases in the local household expenditure rate as local confidence builds up.

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Fundamental to any continuing upsurge however will be an increase in the region's outside earnings.

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The year 2012/13 saw a broad based upsurge taking place in tourism, the first for a number of years. Despite the high dollar, domestic and New Zealand tourism rose, and, encouraged by government,, direct flights from China commenced.

While there has been some softness in more recent figures, this is believed to be partly due to government travel being down.

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It will be critical to the region's future tourism progress that the recent fall in the Australian dollar is sustained. Recent moves by the Reserve Bank to bring interest rates down to being more in line with overseas will help. We all know the potential of the Chinese market over time is massive.

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New aircraft technology has been a factor in underpinning advances in tourism. This slide from my presentation in 2007 illustrates that the long awaited new 'Dreamliners' are appearing at Cairns Airport.

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Dredging of the channel is predicted to result in cruise ship visitation rising strongly with substantial economic benefits in the future.

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While major increases have occurred in the region's diversified \$1.8bn primary industry sector in recent decades, figures for 2010/11 were affected by cyclone Yasi and those for 2011/12 are not yet available.

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Changes in government land and water policies and rising world demand have led to increasing interest in the region for major expansion of export crops. While major impacts on the local economy are not likely in the short run, impacts over a 10-year time frame could be substantial.

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Despite the downturn in some mining related commodity prices, the Cairns region's diversified role in servicing mining across the north and into PNG and Papua Indonesia is set to provide a continuing impetus.

BMA commence direct flights to Moranbah on 2nd August that are expected to increase to 4 per week providing employment for 250 in the region. The city's engagement with PNG is increasing. Rio Tinto's major \$1.3bn expansion of bauxite production is expected to get underway in Weipa over the next few years with a 2,000 bed camp for a FIFO construction workforce.

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A number of other sectors including the marine and aviation sectors, trade education, shipping to the near north, marine industries, FIFO activity have all been having a positive impact with the drop in the dollar improving future prospects.

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And this brings us to investment and the construction sector. This is the volatile sector in the economy as inter-censal workforce changes illustrate – down strongly 1996 to 2001, up strongly 2001 to 2006 and down again in 2006 to 2011.

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While there have been periods where Cairns Regional Council figures were indicating an increase in dwelling approvals, Australian Bureau of Statistics regional figures were down and total regional value of building approvals were down to about a third of pre GFC levels.

However with government work not likely to increase strongly, it will not be until commercial construction starts rising that multiplier effects will kick in, and a full upswing gets underway.

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Stimulus is likely to come from three major directions:

- 1) Even if population does not increase, there is a need for renewal and reconfiguring of the commercial and industrial structure;
- 2) Since the last major construction phase, indications are that the city has added about 13,000 more population, ie. about 9%;
- 3) Although occupancy rates are not yet up to a point to spark a general boost to tourist accommodation, the particular needs and opportunities of a growing Chinese market seems likely to create a need for additional targeted tourism accommodation and facilities.

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A review of what is in the pipeline indicates that widespread Council approvals are in place for many developments and there are strong prospects that when it gets underway, the upswing will be substantial.

At Babinda, the Sugar Mill has now been demolished and the way open to release a substantial parcel of commercial and industrial land in the vicinity of the highway.

Around Gordonvale, a decision is pending on the proposed Woolworths Shopping Centre development.

Around Edmonton, the way is clear for development to proceed on the Town Centre on Mann's farm. The new hospital facility is believed to be in a design phase. Approvals are now in place for commercial and industrial development of the Pregno land east of the highway including a proposed private hospital.

The former drive-in theatre site is ready for multi-unit development.

In the main city area, Bunnings are proposing to build on the current block works site; Gerry Harvey has bought the old brewery retail centre and the adjacent former gasworks site is prospective for development. Central Park are proposing retail development adjacent to Cairns Central.

Aquarium work is starting.

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Very importantly, agreement has now been reached that will allow expansion of the general aviation area to the eastern side of the airport.

Redlynch shopping centre is proposing an expansion and residential development approved. At Smithfield, there are plans for shopping centre expansion including a proposal for a new commercial development on the Palm farm site adjacent to the University. I believe there are a number of retirement centre proposals for the northern beaches area.

Aimed at the tourism market are concepts being canvassed for Double Island Palm Cove resort and marina development and finally at Yorkeys Knob the very major proposed \$4bn development on Pappalardo's land of a world class integrated resort development aimed particularly at the Chinese market.

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Overall, with the dollar down and with prospects of it staying down, with demand from China spreading into fields like tourism and agricultural products, strong growth taking place in a stabilised PNG, continued growth of Cairns as a mining services centre and increasing recognition of Cairns region's position as the largest in population in the north, the underlying prospects for Cairns region's economy over the next few years are looking better than they have since the global financial crisis hit five years ago in 2008.

ppt 27: End.