

CUMMINGS ECONOMICS

38 Grafton St (PO Box 2148) CAIRNS Q 4870 ABN 99 734 489 175

Tel : 07 4031 2888

Email : cummings@cummings.net.au

Website : www.cummings.net.au



“The Northern
Professionals”

THE CAIRNS ECONOMY AND THE NEW ECONOMIC FUNDAMENTALS

Ref: J2840 - May 2015

The collapse of commodity prices, especially minerals, has led to major changes in Australia’s economic fundamentals.

The Cairns regional economy has been one of the long term star performers in the Australian economy. Since 1976, the Cairns region has doubled its population and led growth in regional Queensland and across the North. Cairns itself has trebled in size from about 50,000 to over 150,000.

In a series of major surges, city annual population growth rates have hit as high as 5 percent with decade averages in the range of 2.5 to 3 percent per annum.

Behind this population growth has been a massive growth in the formerly underdeveloped resources of a service region 1½ times the area of Victoria – of marine resources, agricultural resources (the region accounts for 26 percent of Australia’s water run off), minerals and above all, of a world class combination and quality of tourism resources.

In 2008, the region was growing rapidly with strong construction activity occurring. The Global Financial Crisis led to a sudden halt in construction.

The subsequent commodity price boom and a very high dollar, further fueled by interest rates much higher than overseas, had a heavy impact on the region’s outside earnings and especially its large tourism sector.

A major slow down occurred, with population growth bottoming about 2011, at about 1.5 percent per annum.

Since then, the region’s economy has been recovering steadily with room nights in hotels and motels moving back up and airport passenger movements climbing (see chart).

There is every indication that a further growth surge is developing that will push the city and region to new levels.

In the first place, since the Global Financial Crisis, the city's population has increased by about 12 percent. With only low construction activity having taken place since then, rents and property prices have been on their way back up again. This is sparking a rise in construction activity causing further upward multiplier effects to start kicking in.

The more recent collapse of commodity prices and mineral export earnings has been resulting in a slowing of the Australian economy and with governments faced with large debt and a need to rein in deficits, the Reserve Bank has been stepping in and reducing interest rates.

Against a background of lower commodity prices and interest rates coming down, major reductions in the value of the Australian dollar have occurred.

This is good news for the Cairns region.

Mining income in the region is on its way back up again with the lower dollar and lower fuel prices helping. The \$1 billion plus South of Embley bauxite project is back on the agenda.

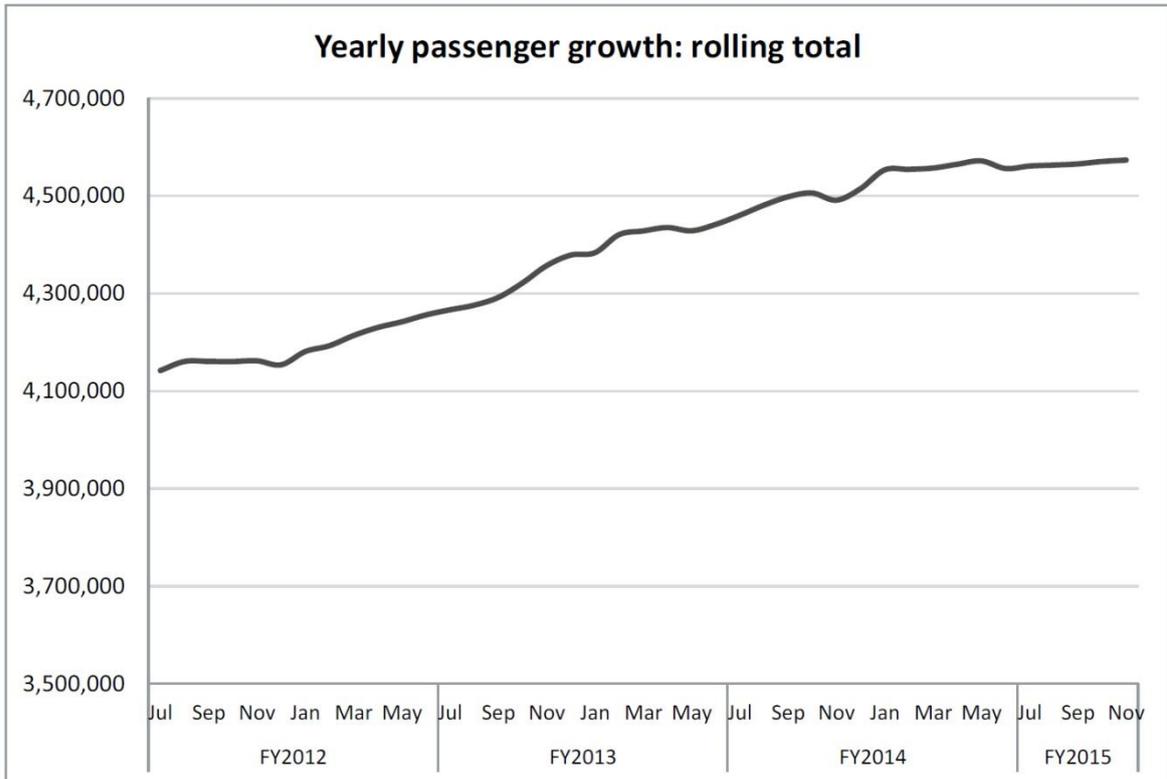
The low dollar and low fuel prices are good news for the region's large agricultural and marine sectors. Proposed new agricultural development projects include the \$1 billion plus IFED sugar and beef project on the Gulf rivers.

The combination of a low dollar and the emergence of China as a major tourism source is starting to generate a major new surge in tourism numbers. Cairns is playing a leading role in attracting Chinese holiday visitors to Australia with numbers increasing 16-fold since 2002.

As a sign of the new wave of tourism that is developing, there have been recent announcements of new air service links with Singapore, Bali, Manila and Auckland and moves seeking to extend seasonal services to year-round services from Shanghai and other mainland China cities. Singapore based developers recently announced commencement of a \$400 million residential, office and retail project in the city. At Yorkeys Knob, just north of the city, the Aquis project has received environmental impact approval from the State Government and is seeking to put remaining approvals in place to commence in 2016. The project will involve construction (over a 10-12 year period), of an \$8 billion Integrated Tourism Resort that will be one of the largest tourism developments in the world and when fully operational, involve about 5,000 extra hotel rooms and directly employ a workforce of over 15,000.

A full list of some \$16 billion of new projects proposed for the region can be accessed on:
<http://www.dsdip.qld.gov.au/news-media-events/regional-major-projects-forums.html>

Chart: Cairns International Airport Yearly Passenger Growth Rolling Total



Source: Cairns Airport.