



1: THE CAIRNS ECONOMY AND THE NEW ECONOMIC FUNDAMENTALS

Getting Beyond the Uncertainties

ADDRESS TO THE CAIRNS CHAMBER OF COMMERCE

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2: This time last year, Cairns was facing the prospects of a major surge in development and I spent a major part of my address explaining how we had been able to cope with similar scale rapid development periods in the past.

At the time, I had also been working on the very positive economic impacts of the Aquis project and a generational upgrading of the shipping channel into the port to accommodate bigger ships now being used by the expanding cruise industry, for sugar, fertilisers, fuel and future naval base needs.

In October, I went on a 5-week break. While I was away, things started unravelling – Aquis and the port study. The process of change continued. By end January, there was a new State Government.

All this has left the Cairns' business community and householders in a state of uncertainty tinged with a degree of exasperation with the ability of the government system to work in the region's interests

3: This uncertainty has had an effect on two of the major elements of the economy, of investment and household spending.

4: Regional building approvals recorded for 2014-15 have failed to rise again and remain stuck at levels well below trend.

Although Cairns Council looks to have fared better with a 12% rise in number of single dwelling approvals and a 34% rise in multistorey approvals from a low base, the official ABS figures for value remain static.

- 5:** No regional figures are available for household spending. Lower interest rates will be helping, but given the uncertainty, households, already plagued by sharp rises in electricity costs and high insurance costs, are unlikely to be spending freely.
- 6:** Lower world fuel prices have tended to be offset by a lower dollar.
- 7:** The latest available population growth figures have been stuck at levels below trend, although on past evidence, there is normally up to a two-year lag before rises in inactivity, or falls, fully translate through to population growth.
- 8:** ABS employed workforce figures, though unreliable, provide little joy.
- 9:** But my message today is two-fold.

First, in the background, a number of underlying factors have been highly favourable.

Secondly, we should take inspiration from the past and find ways to realise some of the major opportunities that are presenting themselves.

- 10:** The first underlying factor that has become much more favourable for us is major falls in the Australian dollar.

This has been due to two factors – the collapse in mineral prices, and overdue recognition by the Reserve Bank and others, that running high interest rates relative to the rest of the world leads to capital flows that result in the dollar being artificially high and very damaging to economies like ours.

Both are now working together to keep the dollar down and this looks like continuing over the next few years.

- 11:** Although we need to remember that the pattern is not even, and the Euro and Japanese Yen have been tending to follow the Australian dollar down.
- 12:** Latest tourism earnings being recorded by Tourism Research Australia, after being stuck around the \$2.5bn level, are now being recorded at around \$3bn.
- 13:** International visitor numbers have been climbing back to mid-2000 levels.
- 14:** The slide in hotel/motel rooms bottomed in 2012. Continuing rising occupancy rates are manifesting themselves in refurbishments and good sale prices for existing properties. It is clear that the point is approaching where after a 10-year hiatus; building new stock can start occurring.
- 15:** Airport figures after showing very slow growth in 2014, have jumped up in recent months. Previous falling figures through the international terminal have shown a welcome strong rebound as new air services to Bali and Singapore come into play with more to come.

16: We have been doing well in tapping into the Chinese market. But gaining year-round flights to the massive Chinese market, apart from Cathay to Hong Kong, is proving difficult to achieve.

We badly need Aquis to cement us in, with major benefits to Queensland and Australia's penetration of this growing major market.

17: Mining was never as important to our economy as to some other regions in the North and we are not as exposed to heavy damage from the downturn.

In fact, it will surprise some to learn that in this region, we bottomed in 2012-13, and our latest figures are back up and rising again as Consolidated Tin ramped up production again at Mt Garnet and Weipa's production continues to expand from historic levels about a decade ago of 11 million tonnes to reach 26 million tonnes this year. South of Embley project looks like starting soon with an estimated 950 construction jobs.

18: Cairns remains a major source of fly-in/fly-out and corporate services to mining outside the immediate region, although closure of Century Mine in the Gulf region will lead to some loss, hopefully replaced by South of Embley.

19: The second major fundamental shift I want to comment on is the changed landscape that has been developing as part of the White Paper on northern development and accompanying work that has been taking place on free trade agreements.

20: This region may not be as rich in minerals as some of the North's other major regions, but with 26% of Australia's water runoff and 60% of Queensland's, this region dominates the North's biological resources – a dominance that stands behind the region's strong leadership in tourism, its strong leadership in cropping, but also its strong lifestyle advantages.

21: A new wave of agricultural development is underway across the region.

Cattle numbers per ha in northern Australia now exceed those in southern Australia and major markets for protein are opening up in Asia.

The Cairns region is now the third largest fruit producing region in Australia. Sealing of the Hann Highway will facilitate transport to Adelaide, Melbourne, and Sydney markets

22: While sugar is currently facing some periodic testing times with lower prices, a future Nullinga Dam, apart from helping Cairns' long-term water security, would provide further water for irrigation in the Mitchell River Basin which has a runoff equal to that of the entire Murray Darling system.

23: The sorghum frontier is moving north out of central Queensland. Strathmore Station has commenced a program to plant up to 60,000 ha in the Gilbert River catchment which has a water runoff equivalent to the Ord and 80% of the Fitzroy catchment.

24: Also proposed for this catchment, is the giant IFED \$2bn sugar and cattle project, currently subject of EIS investigations.

25: The Cooktown district is now up to producing \$40 million a year in crops and the \$200 million investment in the Peninsula Road will help open up, in the future, the estimated two million ha of agricultural soils near the deep water port of Weipa.

I should mention and compliment the work of Trent Twomey, Ken Chapman and Noelene Ikin on the Northern Development Advisory Committee and their input into the White Paper process.

26: Finally, lessons from the past and opportunities. The Northern Development White Paper has made a number of us think back and look forward. It was my privilege to be able to assist the Cairns Regional Council with background work for submissions to the northern White Paper process.

Following out of this, has been some work identifying the leading role the Cairns region has played in the long-term growth of population in the North and in regional Queensland from Census 1976 to Census 2011, why it has occurred, and where a continuation of that long-term growth trajectory would take us.

Copies of a short version of this paper have been distributed - one giving comparisons of the Cairns region with other Queensland regions and one giving comparisons across northern Australia. Anyone interested in the full version of the papers, can find them on Council's website and our website.

27: And what I want to draw out of this is that success breeds success. Tourism growth is enabling us to currently support new projects like the Aquarium and Adventure Waters. Tourism and population growth are behind Nova 8 and C3 Towers projects.

Population growth has provided the basis for expanding university campuses, including the second Central Queensland University Campus, the upgrading of Cairns hospital and better entertainment and sporting facilities.

An expanding fleet of small vessels over the years has allowed us to develop the slipways, maritime facilities and expertise to enable us to pursue the \$2 bn Pacific Patrol Boat project.

28: Finally, this picture shows the many projects that are either approved, being processed or proposed around the city, indicating that a great deal of private enterprise money is poised to invest in the city's future. The Council is playing its role with an expanded capital budget.

However I would be much more comfortable if more of it was actually passing through to construction.

29: The fundamentals are right for a reacceleration of the economy. This region is blessed with a range of opportunities including in an expanding Chinese tourism market, in an expanding cruise shipping market, in agriculture and a range of other sectors. But these opportunities need to be turned from doubt into reality if that reacceleration of growth and community well-being is to take place.

30: End.