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**“The Northern
Professionals”**

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THE CAIRNS REGION – EXPECTATIONS FOR 2019

The Cairns region has a number of fundamental factors that are positive to its continuing long-term growth. The year 2019 can be expected to be one of continuing advance in population and overall economic growth moderated by some negative influences.

Investment - Removing the Bottlenecks

The region’s underlying progress is seeing it constantly develop “bottlenecks” hindering on-going growth. Late 2018 saw completion of a number of projects that will help the region achieve further progress. The new Amrun port will enable further major expansion of mining at Weipa. The completion of the Cairns Performing Arts Centre will play a role in the further development of Cairns’ vibrant cultural and creative activities sector. The first of the three Crystalbrook hotel developments started coming on stream providing additional accommodation to cater for additional visitor numbers.

The year 2019 will see a welcome boost in State Government capital spending that has been running at low levels for some time now. The \$120m dredging and deepening of the port will facilitate cruise ship expansion and reduce costs for bulk cargo vessels. The \$170m Smithfield bypass will improve efficiency of travel between the city and the expanding population to the north. The year 2019 will also see the completion of the \$240m sealing of a large section of the Peninsula Developmental Road. The \$50m expansion of the Domestic Terminal at Cairns Airport will provide increased capacity to meet the record number of domestic visitors coming through the airport. But, it looks as though the \$150m expansion of the Convention Centre won’t be getting underway until 2020.

The boost in construction activity from the Crystalbrook initiatives can be expected to wind down. Unfortunately, a great deal of other private investment in expanded dwellings and other infrastructure is being affected by tightening of bank finance associated with tightening rules by the Australian Prudential Regulator Authority, the Banking Royal Commission and concern about the Sydney and Melbourne property markets. However, there has been some recent evidence of pressures mounting to re-expand lending. The substantial retreat of Sydney and Melbourne property prices could lead to more favourable focus on the future growth potential of property markets like Cairns. But with issues around like possible removal of negative gearing, much could depend on the forthcoming federal elections.

Consumer Spending Positive

Directly affecting most businesses however, is consumption spending by local residents. The Global Financial Crisis and the subsequent high Australian dollar effect on the local economy including a retreat for a while in property prices saw local residents, in common with other parts of Australia, sharply reduce consumption spending and increase savings.

However, propensity to spend has been recovering. (Although high insurance and electricity prices have been a negative). It is my expectation that this trend will continue at a local level in 2019 (see Chart 1).

Earnings from Outside the Region

Underlying long-term and to an extent short-term economic trends however, are the region's sectors that earn income from outside the region. Standing behind the major economic growth that has taken place in the region over past decades has been a major expansion in earnings from tourism, primary industries, mining and general trade in goods and services with the near north. By and large, with a continuing reasonably competitive dollar, prospects are overall good for continuing expansion.

After recovering from the high dollar period to record levels (see Chart 2), growth in visitor numbers moderated in 2018, especially from overseas. With the Australian dollar continuing to remain reasonably competitive and additional air services from China and elsewhere, it can be expected that growth will resume in international visitors in 2019 although there is some nervousness about the impact of the slowdown in the Chinese economy on outbound travel. However, it could be expected that relatively slow wages growth and the “wealth effect” of falling house prices in the capital cities, higher airfares and capacity constraints could see some continuing moderation of domestic growth in 2019.

On the agricultural front, sugar prices are low. Although down on two years ago, cattle prices are still reasonable. But overall conditions are looking good for most of the many crops the region now produces and the primary industry's positive impact on the regional economy in recent years could be expected to continue. Recent heavy rains auger well for growing conditions during the year and irrigated water availability.

In mining, expansion of bauxite production is continuing along with increased mining in the Mungana area. Value of production could be expected to continue a general upward trend.

Government & Other Services “Catch up” Continuing

Over a long period of time, the Far North Region has, with the exception of a few brief periods, been leading population growth in northern Australia and regional Queensland outside of the south-east corner. The Cairns/Tropical North Queensland region is now the largest in population in northern Australia with residential population approaching 300,000 (see Chart 3). In 2019, the region can be expected to continue its leading role in population growth in northern Australia and regional Queensland. As a result, there is continuing major room for catchup growth to take place in a number of government services. The Cairns and Hinterland Hospital and Health Service now records the largest patient admissions among Queensland regions outside the south-east (see Chart 4) with a strong case for location of additional specialist services. If top-tier services were available, the CHSS budget could be expected to increase by about 20% on its current budget of about \$950m per annum. Analysis of university figures indicate that the number employed in university education in Cairns was running lowest, and at about half of that of other Australian cities in the population range of 100,000 to 200,000, indicating major room for catch up expansion, including in international education.

The region's growing industries are also leading to the city developing as the largest marine servicing centre in the North and the immediate South-West Pacific area and by far the largest aviation servicing centre, with growth in activity now spreading out from Cairns airport to other centres like Mareeba.

This leading role in the North and generally in regional Queensland is now very evident in cultural and creative industries with growing activity evident in these fields. Expanding activity in all these sectors is helping underpin continuing growth of the economy.

Overall Positive

Thus, the picture overall is positive but with some patchiness. Private capital spending is being held back by restraints in bank finance but 2019 will see a long overdue rise in government funded projects. There are some negatives around for the tourism and primary industries that will tend to moderate growth in earnings. However, consumption expenditure by residents can be expected to be positive and growth in a number of the major service sectors including health, education, marine and aviation servicing will help ensure that the region's economy continues its forward momentum.

Chart 1 – Savings Ratio

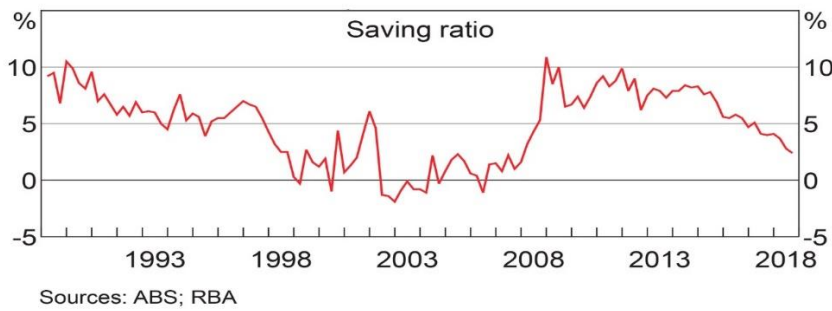
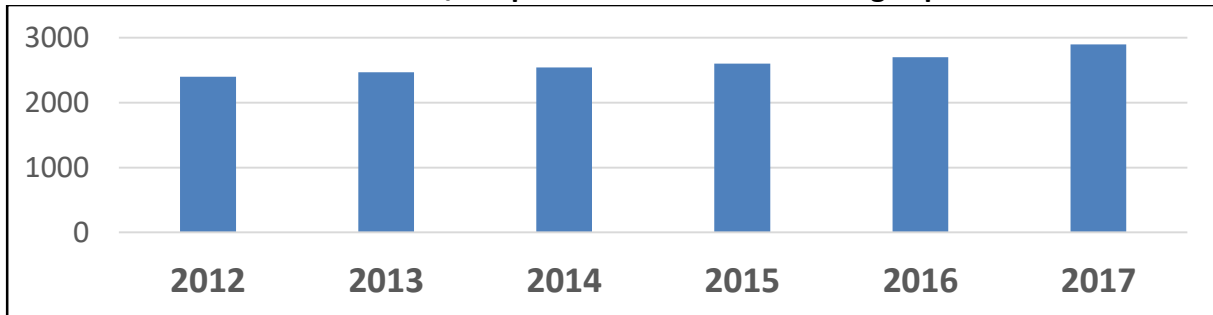
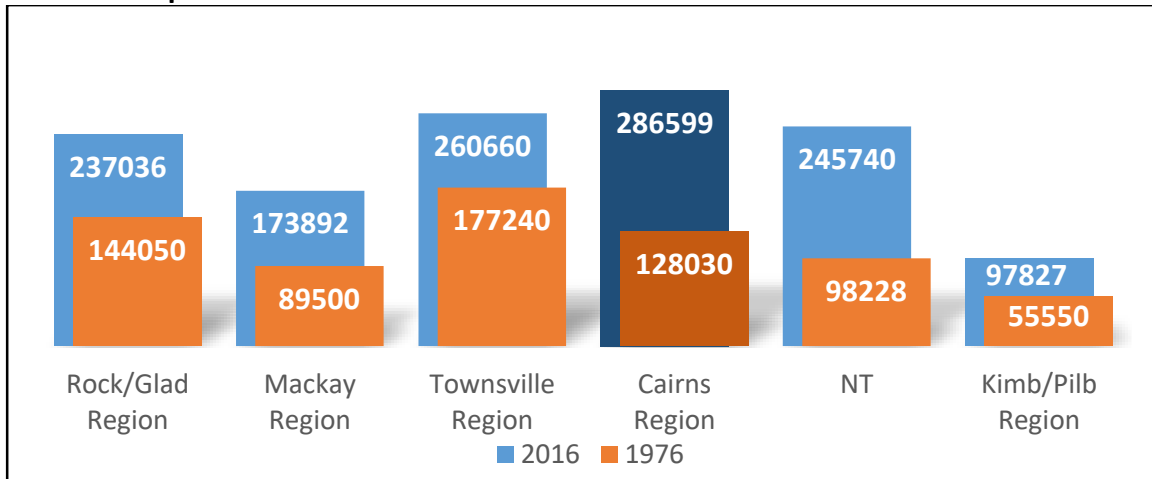


Chart 2 – Visitor Numbers Cairns / Tropical North QLD Year Ending September



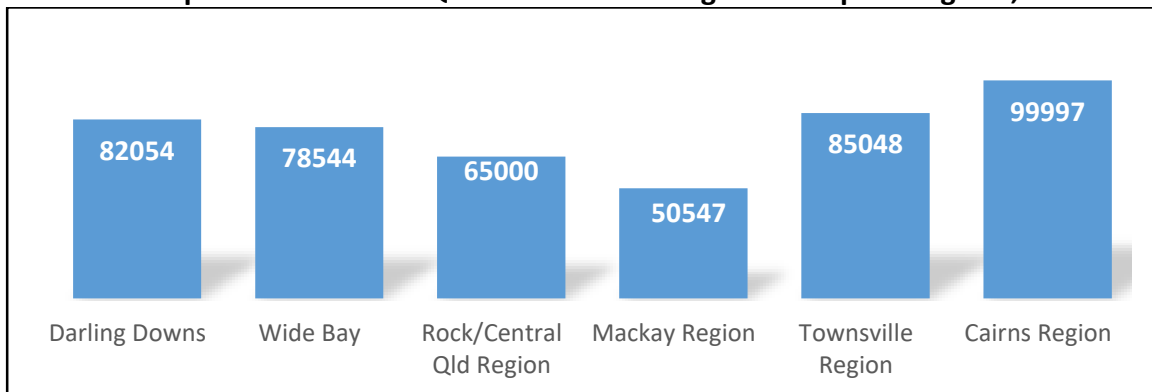
Source: Cummings Economics from Tourism Research Australia Data.

Chart 3 – Population Growth



Source: Cummings Economics from ABS Cat No. 3218.0 et al.

Chart 4 – Hospital Admissions : Queensland Main Regional Hospital Regions, 2016-17



Source: Hospital & Health Services Annual Report.