CUMMINGS ECONOMICS
38 Grafton St (PO Box 2148) CAIRNS Q 4870 ABN 99 734 489 175
Phone:07 4031 2888 / Mobile: 0418871011
Email: cummings@cummings.net.au
Website: www.cummings.net.au

"The Northern Professionals"

August 2019
CE Ref J3266

ECONOMIC UPDATE –

SOME CHALLENGES BUT CONTINUING OVERALL PROGRESS

Cains and its region continue to lead northern Australia in population growth and to consolidate as the largest in population in the North. However, the city and region's growth has still not fully recovered from the impact of the GFC and the high dollar period that did so much damage to its tourism.

Overall level of activity in the economy fell strongly through to about 2012-13, and in population growth to about 2014-15. But for Cairns, the recovery has not been strong and population growth appears to have plateaued at just above 1% per annum, well below long-term averages of over 2% per annum. In retrospect, although Cairns has experienced its worst decade of growth since the 1960s, it has still been better than most other regional cities in Australia.

Tourism

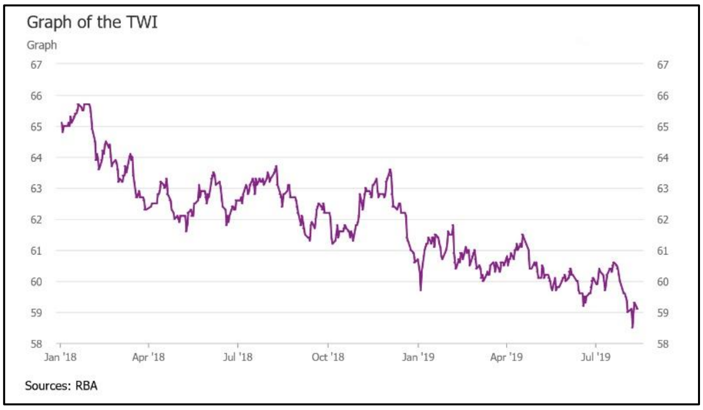
In a regional economy, the major determinant of long-term growth and much short-term activity, is earnings from the rest of Australia and overseas. The largest outside earner or "base industry", tourism, earns over $3bn a year. The recovery that has occurred since the dollar began to fall back in 2014 is not being sustained, as evident in recent airport passenger numbers and especially in reef visitation, where there seems to be some perceptions that the reef is dead.

In fact, the region has been losing market share in international holiday visitors over the past decade and domestic visitors since 2012-13. Clearly, we have been experiencing difficulties in the Chinese market with numbers stalling against a background of the stellar growth in visitor numbers out of China, subsiding back in recent years to lower levels.

The situation was made worse in the first half of 2019 by a heavy and prolonged wet season. However, those conditions have passed and looking forward, Crystalbrook are now bringing on their brand-new stock of rooms and are aggressively marketing to fill them. There is additional airline capacity from Singapore - but loss of direct flights to Hong Kong is a negative. Reports on the Chinese economy are not encouraging and the trade war with the US creating uncertainties.

However, fears that an interest rate cut in the US would hold up the Australian dollar have not materialised and the Australian dollar has continued to fall (see chart).

AUSTRALIA'S EXCHANGE RATE – TRADE WEIGHTED INDEX



Some minor improvements in the domestic market could come from better household disposable incomes due to tax cuts, lower interest rates and reversal of the falls in property market values in the major capitals.

The dredging of the port this year will help pave the way for increased cruise ship business in the coming years. However, negative perceptions about the state of the reef are not likely to go away quickly. While there seems to be prospects for some improvement in tourism income over the next 12 months, it seems unlikely to be large.

Primary industries

The primary industries have a total earning of the order of $2bn a year. The sector has been growing steadily in real terms over time.

While the sector is basically solid, some sections are down. Although they have passed the bottom, sugar prices remain low. Cattle prices dropped from high levels in 2018 and early 2019 but have stabilised back at 2018 levels. Agricultural production has been diversifying and the region is now one of Australia's largest fruit producing regions. Prospects for the remainder of the sector seem sound. It will be important to fisheries, especially air exported live coral trout, northern cray and aquarium fish, that the loss of Cathay's airfreight capacity is replaced.

Mining

In mining, the major boost from Amrun construction has wound down but replaced by some expansion of operating workforce. Auctus' Mungana zinc production, Metro Mining bauxite and a small gold mine in Etheridge Shire are now underway with Consolidated Tin continuing at Mt Garnet. There are prospects of wolfram mining reopening at Mt Carbine.

Cairns continues to be a major base for air services and fly-in/ fly-out servicing mining in other regions including the Northern Territory and Papua New Guinea. It is a blow to have lost the Freeport Indonesia supply base and shipping services. In more recent years, air exports to PNG have been down in line with more subdued economic activity in that country. However, the next few years promises to see a major resurgence in LNG projects in PNG and the major Wafi Golpu mine development near Lae.

Other outside earnings

Other outside earning sectors are, by and large, producing or have prospects of producing growth. International education has been down due to factors similar to those affecting tourism but new international student accommodation capacity is leading to a strong marketing push. The aviation servicing sector is benefiting from an expansion of Hawker Pacific's maintenance operations. Conditions are steady in the marine sector based on the three shipyards and new travel lift capacity at BSE and upgrades at Tropical Reef are leading to efforts to tap new markets.

Construction

While the Crystalbrook Group boosted private construction approvals in recent years, outside of that, private construction has been subdued, especially over the past 12 months, due to restraints on finance as a result of the Banking Royal Commission and tightening by the Australian Prudential Regulation Authority. Dwelling approvals have been particularly low.

Tax cuts, lower interest rates and moves to loosen bank lending conditions should be positive for some to lift in investment in dwellings and commercial property. Local home loan inquiries and real estate inquiries are reported to be up strongly in the past few months.

Government

Budgeted Queensland Government capital expenditure has been extremely low in the region for at least five years now. Although the 2019-20 budget has a sizeable rise, it is just back up to regional averages on a per capita basis and the region is owed a catch up of over $1bn. Over the next few years, the construction activity generated by the dredging of the port, the Smithfield by-pass and the Convention Centre expansion will assist.

Strong investments in roads in the region announced in the Commonwealth budget are most welcome for the future but their impact on the economy will be down the track.

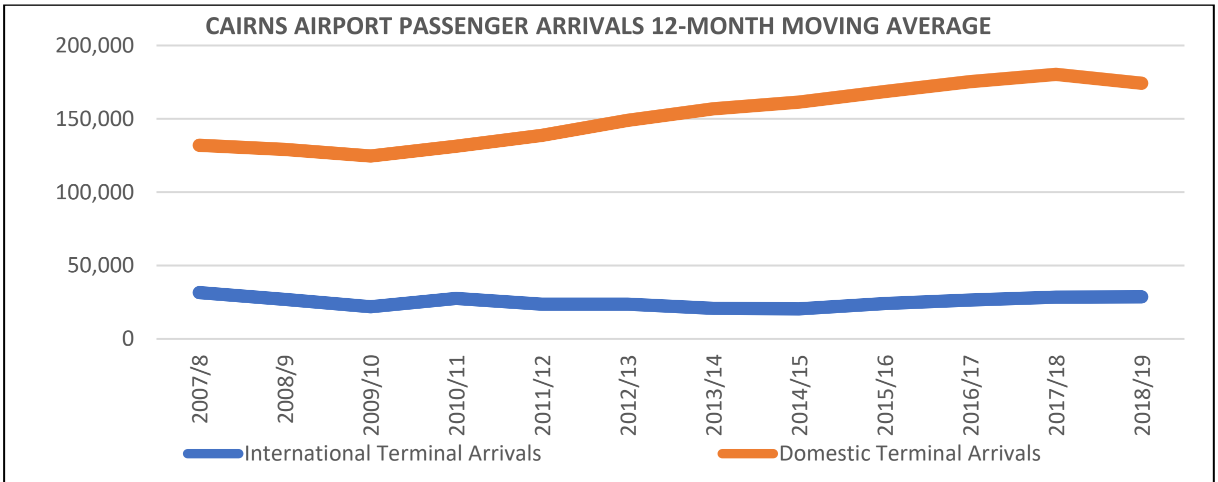
Government employment in the region continues to expand.

Consumption spending

Falls in the number on unemployment benefits indicate that overall levels of employment are probably up. However, with elections out of the way, tax cuts coming through of the order of $150 to $200m in the region and interest rate reductions, prospects are good for some lift in consumer confidence and spending in coming months.

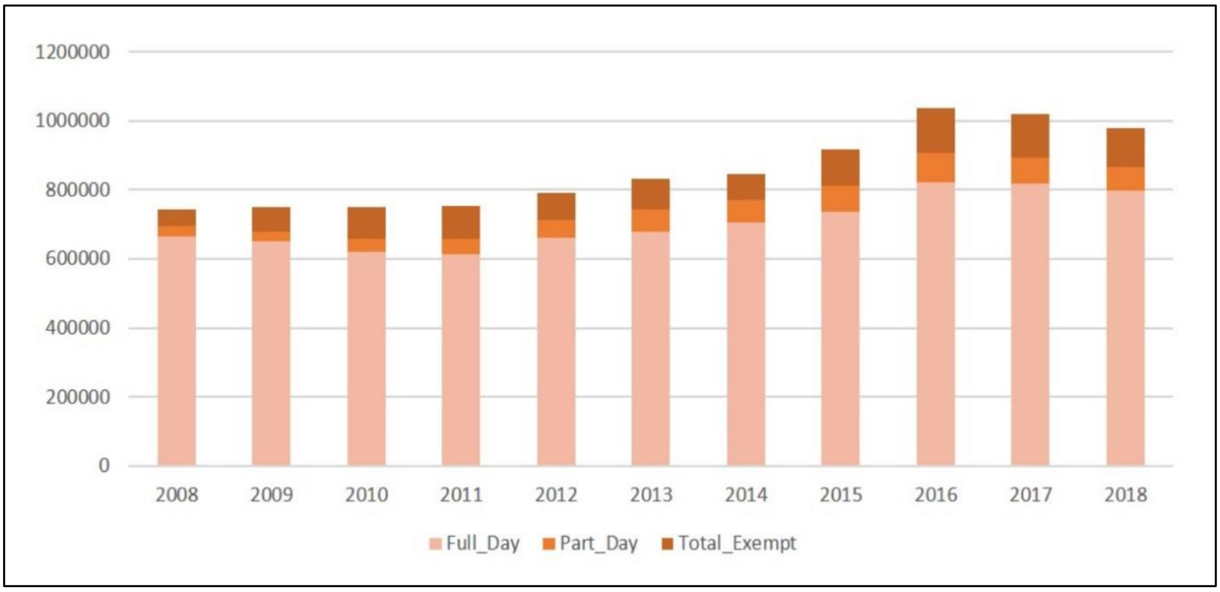
Overall

Thus overall, I believe that the past financial year has not been as good as expected, but, over the next six months, there should be some pick up and that the year ahead will see growth continue but, for Cairns, at a relatively subdued level below long-term averages.

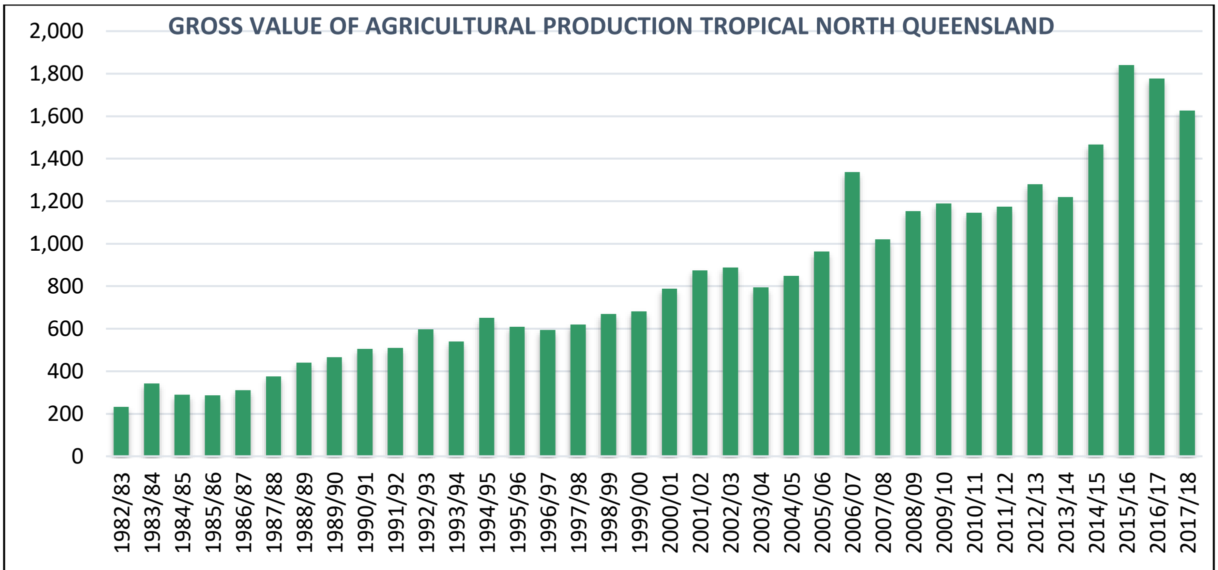


Source: Cairns Airport Pty Ltd.

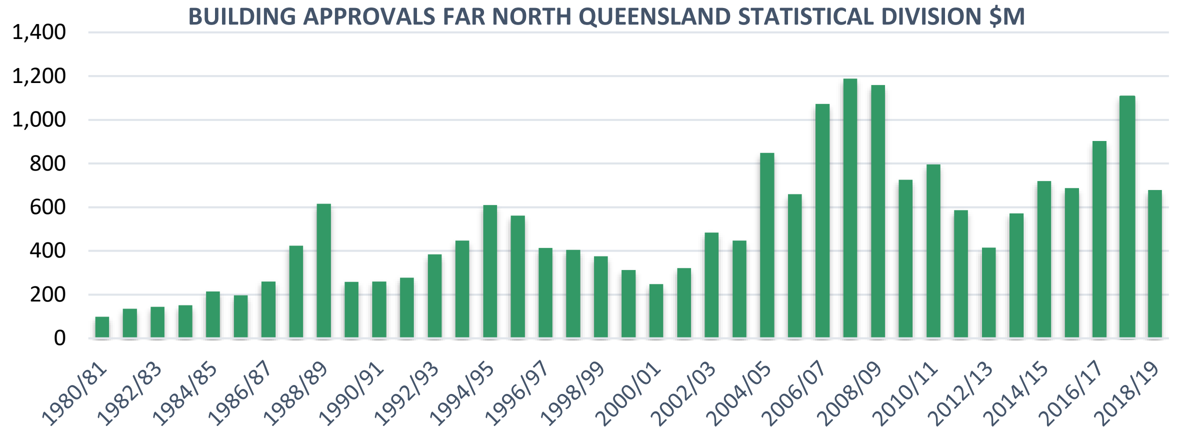
REEF VISITOR NUMBERS – CAIRNS AREA



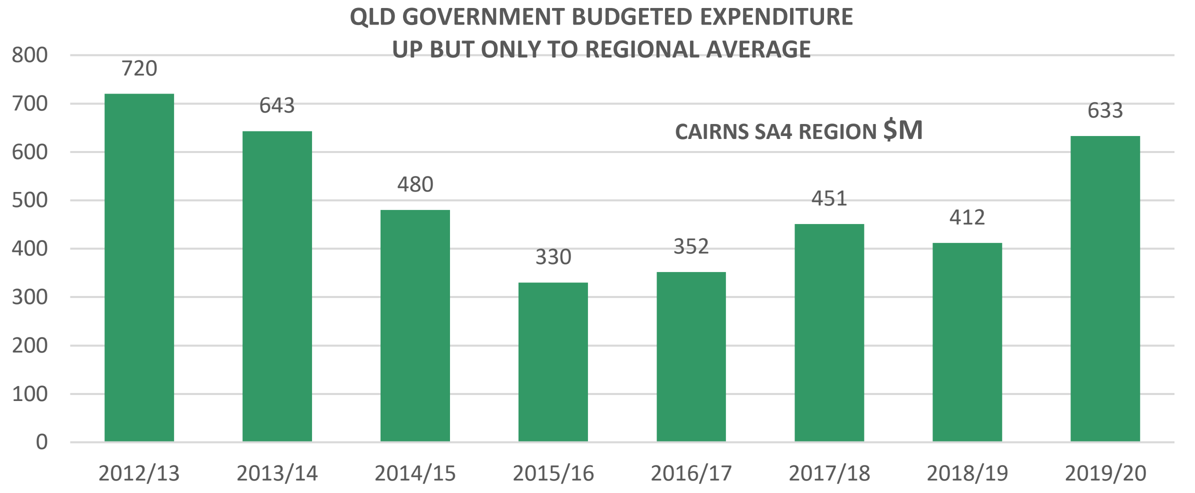
Source: GBRMPA.



Source: Cummings Economics from ABS Data Cat. 7503.0.



Note: 2017-18 based on 11 months end May 2019. Source: Cummings Economics from ABS Cat 8731.0.



Source: QLD Budget Papers.

AIR SERVICES : FIFO CONTINUING