THE CAIRNS ECONOMY

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1 Last year, I said that I thought this year would be a record one when tourism income would go over $2.5 bn, agricultural income over $1 bn and value of building approvals would go over previous record years of $600 million.

2 Tourism income figures are not yet available. They stood at over $2 bn in 19987/99. Latest airport figures however, indicate that in 2004/05, passenger movements reached 3.7 million, up 33% on 1998/99.

And takings from hotels and motels were up about 30% on 1998/99.

3 Agricultural income is also not yet available. It had reached $880 million in 2002/03. Banana production was up in 2004 and is probably much the same this year. Sugar prices have improved dramatically by about 30% on two years ago, making it likely that gross value of agricultural production will have reached the $1 bn mark at farm gate prices and be well over that if processing elements are included.

4 Value of building approvals are available for 2004/05 and at $850 million were well over previous records.

5 The building figures indicate a clear reestablishment of the region's lead in construction and population growth in the north and at levels equivalent to the state of Tasmania in dwelling construction and building approvals.

6 The region continued to consolidate its position as the largest in the north in residential population. Next years census will almost certainly see census count population (including visitors) well over the quarter of a million mark

7 It is appropriate at this point that I remind you that the major long-term driving force in this region has been its outside earnings, much of it dependent on the region's natural resource base of tourism resources, plant growth potential (agriculture), minerals and marine resources.

8 A great deal of the rest of the economy tends to follow from this growth in outside earnings but these "follow on" activities account for a very large part of actual job creation.

9 However, growth of the city and the region has been far from smothas illustrated by this chart of population growth rates up until 2003/04.

10 Short-term fluctuations are heavily driven by three major elements - fluctuations in outside earnings, investment cycles and consumer sentiment.

OUTSIDE EARNINGS

11 After the trials and tribulations of the late 1990's, recent years saw strong tourism growth develop based initially on a low dollar and safety factors (attractive to the domestic and Japanese markets), but from then on based one lower airfares of cost efficient carriers.

The indications are that the growth thrust is edging off. International passenger movements through the airport especially from Japan weakened during 2004/05 with the relatively high dollar and as the safety factor wore off. Strong growth however, continued through the domestic terminal supported in part by returning growth from UK/Europe as safety worries diminish.

12 The relatively high dollar and diminishing safety fears led to a sudden leap in 2004 of overseas travel by Australians pretty much back to long-term trends after a subdued period.

13 The airport figures are also reflected in hotel/motel figures.

It could also be expected that extra traffic stimulated by lower airfares would plateau.

Higher fuel prices have emerged as a further negative.

While air services continued to expand in 2004/05 with new services to Adelaide and a return of Korean links through charters, direct additional services into China have not yet eventuated.

Unless there is a major change in settings, the forward tourism prospects appear to be for more subdued growth over the next few years.

14 The good news on the agricultural front is that after a long slide, the Brazilian currency (Real means Royal in Portuguese), has been turning up against the Australian dollar and the world sugar price is now double the worst of a few years back when it dropped below 5 cents US pound. All the indications are that the next few years look favourable and some breakthroughs have been occurring at an international level to limit European subsidies.

15 While value of fruit production has been solid, it has to be expected that the banana industry will plateau. These figures show bananas sold through markets only and not the increasing volumes sold to chains

16 After sliding since the mid-90's, mining production is on the way back up again very strongly.

17 As a group, various other outside earnings are now significant and can be expected to expand steadily. Thus, overall, it seems likely outside earnings will continue expanding over the next few years, but probably not as rapidly as over the past few years.

INVESTMENT

18 Number of new dwelling approvals kept rising during 2004/05, but not to the record levels of the late 80's and early 90's.

19 However, the indications are that the ratio of numbers of dwellings being approved to population growth is not badly out of line. Actual population growth in 2003/04 was 2.4%, (lower than I had expected). The table assumes 3.0% growth for 2004/05.

Rick will talk more about the property market, but the indications are that, overall, it has not developed a major oversupply and is not likely to fall back sharply. Similarly, there is no evidence of recent growth in tourism accommodation having badly oversupplied the market.

In the normal course of events, the rise in construction and general economic activity will run through to expansion of industrial and office capacity.

CONSUMER SENTIMENT

20 Given the strong rise in house prices that has occurred in recent years, it is my expectation that local consumer sentiment will remain strong, although continued high petrol prices will be a negative.

CONCLUSION

21 Looking forward much will depend on what happens to interest rates and the Australian dollar . The threat of further rises in interest rates seems to have passed for the time being. With the differential between Australian interest rates and overseas rates (especially US rates) moderating again, this is good news for the value of the Australian dollar moderating, even though it is being held high at present by high commodity prices.

22 With world economic growth fairly narrowly based on the US and Chinese economies, there is a risk that high oil prices will cause a fairly sharp moderation of world growth. However, if this happens, it will soon impact on commodity prices and the value of the Australian dollar.

23 My overall expectation is thus for the regions growth rate over the next year to moderate a bit, but to remain at relatively high levels.