THE CAIRNS ECONOMY

1 Presentation to the Cairns Chamber of Commerce, October 2006.

2 When I spoke to the Chamber at this time last year, I indicated that I thought the year that has just passed would see growth in the region's economy moderate from the previous record year, but remain at a high level.

3 Certainly this is what has happened with value of building approvals, which moderated from the record $800 million of the previous year, but remained high in historical terms at $660 million.

4 As the year progressed, tourism growth as measured by airport passenger movements moderated.

5 A slowing in tourism growth was also evident in room nights in hotels and motels in the region.

6 However, although no official figures are available yet, there is evidence around that overall growth in the economy and of population has not moderated in the past year, but in fact, has possibly accelerated.

Hospital admissions have been growing strongly, rental vacancies are very low, job advertisements have been at record levels, and there are widespread reports of workforce shortages.

7 The reasons for this, I believe, have been:

a. Growth in non-tourism sectors of the economy has been "kicking in" to offset the leveling off of tourism growth, in large part, stimulated by high world commodity prices.

b. The overall economic impacts of "Cyclone Larry" are proving to be stimulatory.

8 First, let us look at the impacts of Cyclone Larry. No one seems to have carried out an exhaustive analysis of its impacts on the economy. The impacts can be looked at in two ways. Firstly, loss of "*stock of wealth*" in the form of property and crop damage. Secondly, impacts on the "*flow of incomes and expenditure*". I am only going to talk about the second.

9 DPI has assessed the major negative expenditure flow related to loss of primary industry income at about $470 million. Added to this would be smaller losses in day by day incomes in tourism and some other fields.

10 Insurance claims recorded were about $420 million. Presumably, the great bulk of this will be spent on rebuilding, repairs and purchase of replacement goods.

11 As well as this, the indications are that relief grants through various programs identified so far have totaled about $270 million and through the National Disaster Relief Program, will go over $300 million, and could well be up over $350 million. Presumably recipients will spend these.

This brings the total stimulatory expenditure to about $800 to $900 million compared with the negative of loss of income of about $400 to $500 million.

12 Clearly, the net overall impact will be stimulatory. However, while the major negative impacts were immediate, estimates of the amount of rebuilding expenditure that will be completed by December vary from two-thirds down to a half, and the net stimulatory impact over the past months has not been as strong as would appear on the surface.

13 I believe a major reason for growth remaining strong has been what has been happening in the non-tourism industries whose overall outside earnings exceed those of the tourism sector. By and large, conditions have been favorable to these industries.

Cyclone Larry apart, the region's primary industries have been experiencing good market conditions. The underlying demand throughout Australia for the region's tropical fruits is good, sugar prices are historically high, cattle prices have been high (although they are currently being threatened by drought de-stocking in south east Australia), mining production is on the way up, and a range of service sector exports have been expanding.

14 In looking forward, it is clear that the major tourism growth phase stimulated by:

1) The decision to base Australian Airlines in Cairns in 2001,

2) The lower domestic airfares brought by Virgin and Jetstar,

3) Australians staying home and Japanese regarding Australia as safe after 9/11 and Bali,

is over, and growth has slowed.

The indications are that it boosted the region's tourism flows by about a third, over the 4-year period of growth.

15 Although the world economy remains strong, continuing relatively high Australian exchange rates, and the impacts of increased fuel prices on airfares, are taking their toll.

Compared with the rest of Australia, the region is holding up well in international markets. But, it is clear that it is going to be harder to achieve strong tourism growth over the next few years, than it has been over the past five years, unless there is a change in fundamental settings such as a drop in the Australian dollar or break-throughs in new international services to Cairns.

16 The prospects in other directions however, are quite rosy.

A sustained rise in world mineral prices has been underpinning very strong growth in adjacent regions of north-west Queensland and the Mackay region.

The Cairns/Far North Queensland region has not shared in mining growth over the past decade. However, things are changing. The chart shows some 26 mining operations that already exist or are being planned in the region. A feature compared with other regions is the wide diversity of minerals involved.

I have not had the opportunity to research it all thoroughly, but if they all proceed, we are looking at thousands of extra jobs in the region within a 5-year period.

17 In the "*Cairns 2020/2050 Business Research Manual"*, I pointed to the combination of two other factors that held out good prospects for the long-term development of the region.

1) The region accounts for no less than 27% of Australia's water run off and in Australia-wide terms, its biological resource potential is relatively poorly developed, accounting for only 2.7% of the gross value of Australia's agricultural production.

2) The world is going through a period of rapid advances in biotechnology.

18 Against this background:

- Diversification is taking place in the region's primary production. Significant forestry activity is coming back to the region. The table shows the wide range of crops/livestock in the Mareeba/Dimbulah irrigation area alone.

19 ▪ Further processing opportunities are occuring in the region's bio-based industries – dietary fibre, Low G sugar, sugar juice production, chocolates, bio fuels, coffee production and processing, tropical wineries, dried fruits, banana fibre paper production, methane gas, sauces and condiments.

20 A further major influence on the region's growth relates to the scale and sophistication of its economy in the context of the wider north Australia/tropical South West Pacific region.

After decades of consistent growth, population of the region is now the largest in northern Australia in both resident and total census count population.

21 While Cairns City is marginally behind Townsville in population, it is surrounded by growing sub regional centres into which important regional facilities have been decentralised, including the regional prison, research establishments, foundry, meatworks.

22 What is often not realized is that the region's leadership in overall population and its private enterprise orientation, results in a leadership in the north in a whole range of business and industry services that, apart from servicing the region, are finding markets outside the region in other parts of Australia, the Pacific Islands and further afield. By and large, statistics are not readily available in this field. However, one table that has become available recently, and illustrates this point, relates to manufacturing.

While the region does not lead regional Queensland in manufacturing employment and turnover, it leads Queensland regions outside of the Brisbane/Moreton area in number of establishments with 35% more than the Townsville/Northern region, indicating a strong leadership in the north in small and skills based manufacturing activity.

23 This growing size and sophistication of local service industries, finding markets outside the region, includes:

1) Expanding services and fly-in/fly-out to mining operations in the rest of Queensland, the Northern Territory, Papua (Indonesia), and Papua New Guinea.

2) Growing services to the marine tourism sector, fishing, trading and other maritime activities, (although I believe that the cyclone resulted in lower super yacht visitations this year).

3) Expanding services to the aviation sector.

4) International education.

5) Printing and publishing, music recording, performing arts, visual arts, and design.

6) Architecture, engineering design and landscaping.

7) Advertising, marketing and business services.

Of course, there are continuing prospects for expanding operations occurring in non-leisure tourism, especially conferences and conventions. The region's defence and surveillance services sector has also been growing.

24 Building approvals for the first two months of 2006/07 have come in strongly. The Northern Development Industry Association's major development report indicates strong forward investment, with the area south of Cairns emerging as an area of substantial new interest. A particular feature of growth over the next 5 years is likely to be a major investment in upgrading transport infrastructure, with a further major upgrading taking place at Cairns airport, with $220 million earmarked for the Bruce Highway, with $17 million currently going into a much needed upgrading of the Kennedy Highway west of Mt Garnet, and if a crisis is to be avoided, the $500 million plus upgrading of the Kuranda Range Road will need to commence shortly.

25 My overall prognosis for the next 12 months is that, despite the slowing of tourism growth, strong economic and population growth will continue:

- As cyclone impacts on primary industries recede, and reconstruction continues for another 12 to 18 months, and.
- As the region's non-tourism industries, activities and services, continue to expand.