THE CAIRNS ECONOMY

1 Presentation to the Cairns Chamber of Commerce, August 2007.

2 The past year has more than met expectations of continuing strong growth predicted in our review last year.

3 There is no doubt that last year was the best growth year for Cairns for over a decade. Population growth was back up over 3% in 2005/06 and from the performance of the economy, will probably come in at least as high and probably higher in 2006/07.

4 In fact, census count data now available for 2006 indicates that the city's growth over the intercensal period has been higher than earlier estimates and much higher than the State Government's long-term forward projections.

5 Figures now available for aggregate taxable incomes also indicate growth during the years 2003/04 and 2004/05 was higher than believed at the time.

6 For the first time, value of all building approvals for the region shot past the $1 billion mark. As Rick will report, property prices in Cairns continued to rise.

7 Very high dwelling approval rates however, are still not back to the peaks of the 80's and 90's.

8 Clearly, the city has now well and truly left behind the slump in growth of the late 90's and is getting back to its old self of the 70's, 80's and 90's during which average annual growth of population was above 3% p.a..

9 However, there has been one major change in pattern.

While very strong growth in population and building approvals in past decades has been accompanied by strong tourism growth, as I observed in last year's address, a range of factors including airfares creeping up, a high dollar, diminishing aversion to overseas travel that developed following 9/11 , SARS, etc., have been making it difficult for the region to achieve strong tourism growth.

During the past year, the growth in airport passenger movements was lackluster.

10 Room nights in the hotels & motels part of the accommodation sector were showing no growth.

11 However, growth in other directions was strong. I drew attention last year to the fact that the impact of cyclone damage on regional primary industry and tourism income was more than offset by the stimulus of urgent rebuilding and government support.

12 The region's $1 billion primary industries by and large have been progressing well. Although the sugar industry might wish them to be higher, world sugar prices are still well above the disastrous levels of 5¢ lb US a few years ago.

13 Beef prices have remained high although the loss of the meatworks at Innisfail has been a negative.

14 Fishing and aquaculture industries remain an important part of the economy with poorer market conditions in prawning being offset by strong conditions in others like the live fish restaurant trade, tropical rock lobsters, and in domestic markets.

Mining income is up, but this is not yet showing up strongly in available statistics.

15 On top of this, the city has been experiencing increases in outside earnings by its service industries, although it is difficult to find statistics in these areas.

16 The city's participation in 'fly-in/'fly-out' trade to surrounding regions in central and north-west Queensland, Papua New Guinea and Papua Indonesia has been growing.

17 Cairns has by far the highest employment in transport services in the north. Earnings in fields like aviation services have been increasing although the maritime servicing side has been affected by fishing industry restrictions and a bit of a lull in super-yacht visits after the cyclone.

I drew attention in the Cairns 2020/2050 report, 18 months ago, to the increasing outside earnings from business services. Clearly, a new range of city entrepreneurs have emerged who are not only involved in the Cairns region, but who have operations in other parts of Australia.

The region's estimated $300 million a year group of creative industries including visual arts, performing arts, publishing and printing, film and photography, advertising and multi-media, architecture and landscape design are increasingly earning outside income not just from visitors but often from sales outside the region.

18 As the NDIA/20/20 Group Major Developments Survey indicates, confidence is at a very high level.

The city is on a roll. The big question however, is whether this roll will continue, especially in the light of the current instability in the United States financial markets.

19 I am not qualified to answer some of the wider questions:

- about whether the problems on "Wall Street" will translate through to problems on 'Main Street', ie. whether the fall in the financial markets will result in a recession in the USA..
- and if this did happen, the degree to which it would affect the strong growth currently evident in the global economy.

20 However, some impacts could be expected relevant to the local economy.

The first of these relates to funds for investment.

Certainly, there has already been an effect I believe on overseas funds coming into Australia chasing higher interest rates than those available overseas – the so called 'carry trade' which also depended on the Australian dollar remaining strong.

Almost certainly, there will be a more cautious attitude to investment than in the recent past. This factor, along with recent increases in interest rates, I would expect, will have a steadying effect on the property price increases we have been experiencing.

21 For some, this will be most welcome. At a national level, housing affordability is at an all time low due to very high property prices.

Interestingly however (and this might help resolve some arguments), the current index of housing affordability in Cairns is not as bad as in the late 1980's when, under the influence of a rapid rise in house prices and very high interest rates, the index of unaffordability of housing was historically at its highest.

22 On the other hand, the collapse of the 'carry trade' had a welcome immediate effect in lowering the exchange rate dramatically from the very high levels of a month or so ago, levels that were starting to hurt a whole range of the region's industries – tourism, fisheries, sugar, beef, and so on.

Although I see them creeping back up again following suggestions the USA will cut interest rates.

23 The financial instability also affected some mineral prices like copper and zinc of importance to the region. However, the effect was only marginal and commodity prices remain historically high.

24 Against this background, let's look at the different industry sectors and their outlook.

Tourism – Recent trends have been for lackluster overall growth – composed of quite good growth in the domestic market and the long distance markets, but held back by falls in some overseas markets, especially the Japanese market, under the influence of a high dollar, but also due to a loss of some overseas air services.

A tendency for airfares to rise under the influence of higher fuel prices has also contributed.

25 However, the airline situation I believe is swinging around.

More recent data indicates that the rise taking place in domestic airfares has stopped and started trending down again. With Tiger Airways in the wings, a round of very competitive fares is on the way.

Hopefully, Jetstar International's lower airfares will succeed in the Japanese market.

It is a relief to see the dollar drop against the yen.

26 Of more fundamental importance however, next year will start seeing the appearance of a new generation of aircraft technology, especially in the form of the new generation Boeing Dreamliners and Airbus A380's which will almost certainly impact favourably on airfares and world tourism growth.

I expect to see these various factors leading to another growth surge in tourism by late 2008.

27 Another change that is starting to impact on the region relates to the impacts of climate change on economic policies.

What will happen in relation to taxing, or putting a price on carbon emissions is not yet clear. Almost certainly however, any new regime will place a premium on the region's potential for cropping, especially for production of biofuels and its potential for carbon sequestration.

Although the breaking of drought in southern Australia is taking national attention off the issue, strong investment interest in the region's agricultural possibilities has been taking place quietly in the background including in fields such as cattle properties, possible oil palm production, and tree plantations.

This region is already strong in use of non-carbon fuels such as hydro-electricity generation, wind turbines, and solar energy. It may come to nothing, but one of the most potentially exciting geological explorations being put underway currently relates to geothermal potential in the Georgetown and Weipa areas.

28 Clearly, mining in the region is in the midst of a strong upswing under the influence of strong world mineral prices.

Current operations employ about 1,000 - over 700 at Weipa.

Mining developments underway or firmly planned will see this boosted by of the order of 500 operational jobs, and almost certainly double that number during construction phases over the next few years.

29 However, there are two other fundamental factors that I should point to that have been influencing the growth of this region and its continuing strong prospects.

The first of these is that, although we emphasise the region's penetration of international markets, in fact of all the regions of northern Australia, it is **this** region that sells **most** to the rest of Australia by a long chalk, in tourism, in items like fruit, vegetables and other agricultural products, in marine products and in fields like aviation and marine services, business services and the creative arts.

While it is obvious that our economy is being affected by the high exchange rate impacting on our competitiveness overseas, strong sales to the rest of Australia have been tending to offset the overseas losses.

30 The second fundamental point is that the census data confirms the Cairns region is now in a leading position in Northern Australia – in total residential population by a small margin over the Townsville region – in total 'on-the-ground' population, including visitors, by a large margin.

It is also leading the major regions in on-going growth. So when companies look at locating services in the north and they do their homework on populations and markets, the Cairns region stands out as providing the largest regional market.

The sponsors of this luncheon, the Cairns Post, are a case in point. Their circulation as a regional daily is the largest in the north. Cairns Show is not just the largest in the north, it has become, by all accounts, the largest regional show in Australia.

Importantly, the continuing growth of the region as the largest in the north means that Governments **cannot continue to ignore the needs of the region like health and education**.

31 Thus, although there are some negatives and uncertainties around, I am confident that the next twelve months will see the city and region continuing to grow solidly.

One of the key determinants of economic activity in the short run however, is the construction industry and I will hand over to Rick to tell us whether there are any signs of oversupply/undersupply in the property market that might affect construction activity.