

Northern Exposure

A finger on the pulse of North Queensland's economy

1. Regional Developments and News

1.1: Mackay Region

News

Around 700-800 mine workers across Glencore Xstrata's Collinsville and Glenden operations have received termination notices in the previous quarter. The notices were sent following the decision to resume direct operation of the mines from contractor Thiess.

Glencore Xstrata is expected to renegotiate pay and conditions with employees over the coming weeks. The company has stated it will aim to hire predominately local workers to reduce reliance on costly fly in/fly out and drive in/drive out labour.

Publisher of the Mackay Telegraph, Queensland Media Holdings Pty Ltd, has been placed into liquidation with debts of over \$1.5 million.

Outlook

Economic activity in the Mackay Statistical Division (SD) continued to slow over the June Quarter 2013.

A range of factors including increased global supply, softer demand with a maturing Chinese economy, and the American shale energy revolution continue to weigh on the medium term outlook for the region's key coal industry.

Increased activity from other sectors including residential construction, professional and public services, sugar and horticulture remains the key to rebalancing the Mackay economy going forward. With the resource sector contributing over half of the economic activity and 17.8% of jobs this sector will continue to have a strong influence.

1.2: Northern Region

News

Townsville's proposed CBD super-stadium and convention centre has received a strong financial case and community backing.

The cost of building the new facility has been estimated at around \$300 million. This compares favourably with estimates to repair and refurbish the current 1300 SMILES

Stadium and upgrade Townsville's Entertainment Centre to an international standard.

Townsville City Council has agreed to fast track the development approval process with an independent community survey showing over three quarters of residents are in favour of the new CBD development.

A further 350 soldiers with an Armoured Cavalry Regiment will be posted to Townsville in 2015. Further infrastructure is to be built at Lavarack Barracks for the soldiers and their equipment over the next 12 months.

Outlook

The Northern economy showed mixed signals over the June Quarter 2013. Unemployment rose sharply with the region feeling the flow on impacts of the resources slowdown affecting support sector businesses (e.g. transport, refining, and professional services sectors).

Business confidence has surged however with the falling Australian dollar and further interest rate cuts improving the outlook for the agricultural, residential construction, and consumer sectors.

The Northern region has a diverse economy with an even broader range of growth drivers, and not all need to be firing simultaneously. The outlook for the Northern SD remains stable with the region currently enjoying the equal lowest unemployment and highest business confidence in North Queensland.

1.3: North West Region

News

The Department of Health and Ageing has approved tender packs for the construction of the Mount Isa GP Super Clinic. The successful tender is expected to be announced over the next four to six weeks after numerous setbacks since 2008.

Glencore Xstrata has announced it will suspend magnetite production at its Ernest Henry Mine. Falling prices and increased production and transport costs have reportedly made production at the site unviable.

Offermans Partners is a specialist practice with offices in Townsville, Cairns and Mackay offering turnaround and solvency solutions focused primarily on regional Queensland businesses.

For more information on the services offered and our staff at Offermans Partners, visit our website at: www.offermand.com.au



Outlook

The North West economy experienced weakening activity in the June Quarter 2013. The impacts of the resources slowdown are beginning to flow-through with further production cuts announced by Glencore Xstrata. The key beef cattle industry is also facing difficult operating conditions with much of the region drought declared.

New initiatives including the allocation of additional irrigation water and the potential Pentland power generation and agricultural development project will be important in underpinning new sources of economic activity in the North West.

1.4: Far North Region

News

The Queensland Government has approved the first stage of plans for the \$4.2 billion Aquis Great Barrier Reef Resort at Yorkeys Knob.

The proposed development includes nine hotels, a casino, an 18-hole golf course, and a 25,000-seat stadium.

Key assets of Cairns Developer HS Vision Group have been placed into receivership. Assets reportedly taken over include the Paradise Palms Golf Course, Cairns One, The Lakes, The Greens, and The Keys.

Last year HS Vision Group group built stage one of the \$250 million Central Park Cairns retail and residential development in partnership with overseas investors.

Outlook

The outlook for the Far North SD continues to improve. The high unemployment continued to trend downwards over the June Quarter as a falling Australian dollar and record low interest rates begin to flow through to the region's key consumer and tourism sectors.

Increased developer interest in the region suggests the Far North may finally be entering a recovery after four years of high unemployment and acutely difficult trading conditions.

1.5: Fitzroy Region

News

Glencore Xstrata has cut 450 jobs from its Newlands and Oaky Creek Mines.

Newlands mine will lose 300 jobs as production is reduced across underground and open cut operations. About 150 staff will be cut at Oaky Creek.

Glencore Xstrata's decision is the latest in a wave of cost cutting measures as coal producers respond to lower prices and high Australian operating costs.

Gladstone's \$4 billion Boulder Steel Plant Project has been placed into voluntary administration. The project was set to generate around 2,000 jobs during construction in 2014 and 1,800 jobs once operational at the Mount Larcom State Development Area.

Outlook

The outlook for the Fitzroy Region continued to weaken over the June Quarter 2013. Unemployment rose sharply and business confidence deteriorated from already low levels.

The adjustment from the resources construction boom and difficult trading conditions in the beef cattle industry will continue to weigh on sentiment over the short to medium term.

Longer term demand for agricultural and resource commodities will see the Fitzroy return to a more stable growth trajectory once the current transition period out of the mining investment boom is complete.

2. Quarterly Indicators

2.1: Business Confidence

Business confidence levels were generally higher across the Statistical Divisions (SD's) of North Queensland over the June Quarter 2013.

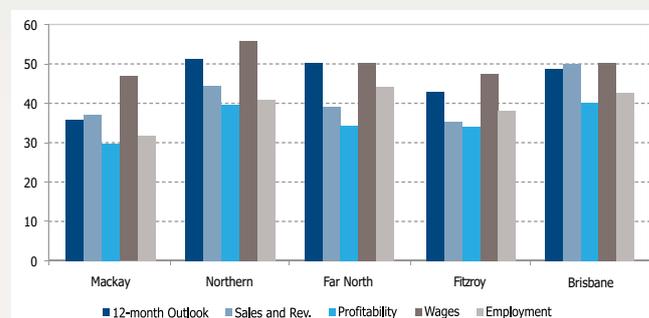
The Northern SD recorded the strongest gains lead by *Profitability* (+7.7 ppt) and *Sales and Revenue* (+4.7 ppt). Confidence rose 14.1 ppt across all indicators. *Employment* (-3.2 ppt) was the only indicator to fall in the June Quarter.

The Far North SD recorded a modest gain of 1.7 ppt across all indicators. Falls in the *12-Month Outlook* (-4.2 ppt) and *Wages* (-1.3 ppt) were offset by gains in *Employment* (+3.2 ppt) and *Profitability* (+2.8 ppt).

Mackay SD business confidence recovered 3.5 ppt across all indicators after record falls in the March Quarter. A 16.1 ppt increase in Sales and Revenue offset further falls in the *12-Month Outlook* (-12.8 ppt), and *Employment* (-2.8 ppt).

The Fitzroy SD was the only region to record lower business confidence with a 2.9 ppt fall across all indicators. *12-Month Outlook* (-4.1 ppt) and *Wages* (-1.6 ppt) recorded the largest falls. Confidence in the resource dependent Statistical Divisions remains well below broader benchmarks for the second straight quarter.

Figure 2.1: Business Confidence, Jun Q 2013



Source: CCIQ Pulse Report June 2013

2.2: Unemployment

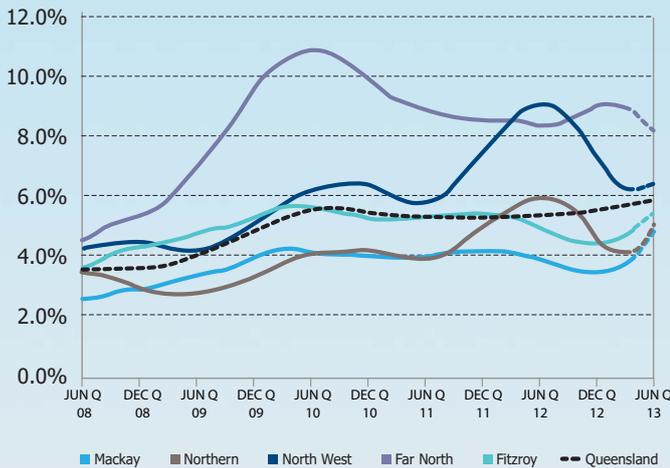
Unemployment was mostly higher throughout North Queensland over the June Quarter 2013. The unemployment rate rose in the Northern (+0.7 ppt), North West (+0.1 ppt), Mackay (+1.1 ppt), and Fitzroy (+0.7 ppt) Statistical Divisions.

The Far North SD (-0.8 ppt) was the only region to experience lower unemployment, with a falling Australian dollar positively

influencing the start of the winter tourist season.

The Mackay, Fitzroy, and Northern Statistical Divisions retain below average unemployment levels. However, the recent wave of resource sector job cuts has unemployment levels rapidly trending up towards the Queensland benchmark 5.9%.

Figure 2.2: Unemployment Rate



Note: Dotted lines are forecasts based on ABS small area labour force statistics
Source: QRSIS Labour Force Trends

3. North Queensland's Mining Industry

Each Quarter the Northern Exposure provides an overview and outlook for a key sector in North Queensland. This quarter, we look at the Mining industry.

Mining is one of North Queensland's key industries, contributing \$23.4 billion (31.2%) to Gross Regional Product (GRP) in 2011-12. Mining is also a major employer, contributing nearly 39,000 jobs in 2011.

The Mackay and Fitzroy SD's are two of Australia's most productive thermal and coking coal producing regions, situated along the Bowen Coal Basin. The Fitzroy SD is also in the process of becoming a major Liquefied Natural Gas (LNG) exporter through several major projects.

The North West SD boasts extensive production of copper, lead, zinc, and silver. The North West SD also possesses significant reserves of uranium, which could further diversify production with the State moving to lift the current ban on uranium mining.

The Far North SD is a relatively small mining region in North Queensland (see Table 3.1). However, the region is a significant producer of bauxite (aluminium), with further plans by Rio Tinto to expand production near Weipa.

The Northern SD is a noted gold producer, through mines at Charters Towers and Ravenswood. The region also exports

modest amounts of iron ore through the Port of Townsville from production at the Mt Moss Mine. The Northern SD also serves as a significant service hub, providing port, refining, and skilled labour particularly to the Mackay and North West SD resource industries.

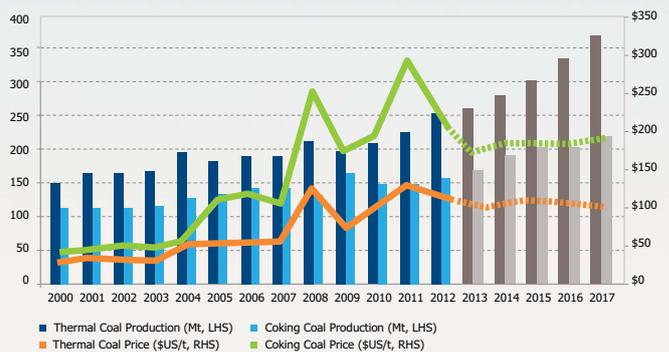
Table 3.1: North Queensland Mining Industry Overview

Statistical Division	Mining IVA (2011-12 \$M)	Mining % of GRP (2011-12)	Mining % of Total Employment (2011)
Northern	\$322.8	2.6%	0.8%
Far North	\$342.9	2.6%	1.4%
North West	\$1,925.7	47.7%	22.0%
Fitzroy	\$7,878.7	53.7%	9.9%
Mackay	\$12,918.4	39.3%	17.8%

Note: Employment based on place of work
Source: ABS (2012), AECgroup

Mining has been Australia's boom industry since the early 2000's. Demand from rapidly developing Asian economies increased prices for key commodities, such as thermal and coking coal, in excess of 330% from 2003-2011. Production volumes over the same period increased only 35-51% (see Figure 3.1).

Figure 3.1: Coking and Thermal Coal Prices and Australian Production



Source: BREE (2013)

After lagging for several years, resource production levels are now beginning to respond. A record number of new mine and expansion projects were undertaken in Australia and in other resource endowed countries over 2007-2011. The Bureau of Resource and Energy Economics (BREE) forecast Australia's coal production to increase by around 45% between 2012 and 2017, as the recent wave of expansion projects transition to operations.

The long running commodity bull market appears to have ended. After peaking in 2011, a range of factors including increased global supply, a maturing Chinese economy, and the American shale energy revolution have combined to drive down commodity prices (see Table 3.2).

Table 3.2: Commodity Prices (\$US/t)

Commodity	2011	2013	% Change 2011-2013
Thermal Coal	\$129.9	\$95.0	-26.8%
Coking Coal	\$288.8	\$161.8	-44.0%
Iron Ore	\$152.9	\$117.3	-23.3%
Gold (US\$/lb)	\$1,569.2	\$1,443.6	-8.0%
Aluminum	\$2,437.4	\$1,912.4	-21.5%
Nickel	\$22,854.2	\$15,356.6	-32.8%
Copper	\$8,852.2	\$7,294.4	-17.6%
Zinc	\$2,194.7	\$1,926.9	-12.2%

Note: 2013 prices based on forecast average

Source: BREE (2013)

The fall in prices have shifted the focus of North Queensland's resources sector away from aggressive expansion towards productivity maximisation and cost control. High operating costs and the persistently high Australian Dollar has led to global miners predominantly shelving Australian expansions in favour of lower cost opportunities in the US, Africa, and South America.

The Mackay and Fitzroy SD's have been particularly hard hit, with thousands of job cuts recently announced across key resource sector organisations, such as BMA, Peabody Energy, Rio Tinto, Anglo American, and Glencore Xstrata.

The North West SD has experienced a comparatively smaller decline in resource activity. However, the impacts of the slowdown are being observed with Glencore Xstrata suspending the Mount Isa Open Pit Project and halting magnetite production at the Ernest Henry Mine.

While the peak in the commodity boom has passed, there are a number of reasons to remain optimistic around the current resources downturn in North Queensland. Prices have fallen considerably, however they remain at historically high levels. The restructuring taking place will remove the least viable projects and help to improve productivity levels, while simultaneously placing downward pressure on interest rates and the Australian Dollar.

The reduction in mining projects will also free up labour and reduce price pressures for other key sectors of the economy including (residential and infrastructure) construction, agriculture, and manufacturing.

While the outlook for *Mining* has weakened significantly, it is and will remain an important driver of North Queensland's economy. Despite the recent scaling back of operations, the weight of expansion projects undertaken during the long boom ensures significantly increased production and exports over the coming years. These higher volumes will provide a substantial cushion for the local economy as the *Mining* industry adjusts to the lower price environment.

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