

NORTHERN EXPOSURE



A FINGER ON THE PULSE OF NORTH
QUEENSLAND'S ECONOMY

FIRST QUARTER 2014/2015

1. REGIONAL DEVELOPMENTS AND NEWS

1.1 Mackay Region

News

Mackay's residential vacancy rates are currently among the highest in Queensland at 6.8%.

Both house prices and rental yields soared during the mining boom years. However, increased housing supply, falling resource investment and a shift towards fly-in/fly-out employment have begun to significantly impact the Mackay residential property market.

The \$16.5 billion Carmichael Coal and Rail Project has received Federal Government approval.

Approval is subject to 36 conditions focused on environmental sustainability and conserving groundwater.

The project located north west of Clermont includes six open-cut pits and five underground mines with capacity to produce up to 60 million tonnes of coal annually.

Outlook

Economic activity in the Mackay Statistical Division (SD) continued to slow over the June Quarter 2014.

Unemployment levels stabilised after rising sharply over the past few quarters. However, business confidence levels remain weak.

Despite the recent economic slowdown Mackay SD retains a number of key potential development projects. These include the Abbot Point Coal Terminal expansion and activity associated with Adani's Carmichael Coal Project (mentioned above).

Realising these major projects will be critical to underpinning employment and confidence levels as the Mackay SD economy adjusts to the post-mining boom environment.

1.2 Northern Region

News

The Queensland Government has given in-principle approval to develop both banks of the Ross Creek in Townsville's CBD as a Priority Development Area (PDA).

It is envisioned the PDA will be divided into five waterfront zones for developments including restaurants and bars, residential apartments, retail offerings, parks and amenities.

A streamlined approval process supports fast-track developments within the PDA.

Austcane Energy Limited has placed its \$240 million ethanol project on hold. A current lack of policy support for domestically produced renewable fuels is cited as the reason for the decision.

The Burdekin based plant was designed to produce 100 million litres of fuel grade ethanol and 45,000 MW hours of co-generation electricity annually.

The project was estimated to have created 600 jobs in Queensland and generate over \$100 million in economic activity each year.

Outlook

The Northern SD economy showed significant weakness over the June Quarter 2014. Unemployment levels soared as cut backs in key areas tied to the resource sector combine with a weak public sector spending outlook.

However, business confidence is rising, suggesting the worst may have passed. The potential long-term lease of the Townsville Port and associated rail assets in 2015 may have significant implications for the Northern SD and potential catalyst infrastructure projects.

1.3 North West Region

News

Plans for a natural gas industry in North West Queensland have taken a step forward. Armour Energy has entered a non-binding memorandum of understanding with MMG Century to work together to develop gas supply arrangements.

The potential for competitively priced natural gas could have significant economic development implications. Energy cost and availability is a critical barrier for new mining and other developments, with much of the North West SD excluded from the National Electricity Market.

Armour Energy plans to develop a substantial natural gas industry from its tenements across North West Queensland and the Northern Territory.

Cannington Mine has been flagged as one of the assets BHP Billiton will seek to separate as part of its demerger plans.

Other assets selected for demerger into NewCo include some New South Wales coal assets, BHP Billiton's alumina and manganese operations as well as assets in South Africa, Mozambique and Colombia.

Cannington Mine, which is located in the McKinlay Shire is the world's largest producer of silver and is a key North West Queensland employer.

Outlook

The North West economy experienced weakening activity over the June Quarter 2014.

The impacts of the resources slowdown continue to flow through and the key beef cattle industry faces ongoing drought conditions.

Despite the current economic slowdown, the North West SD possesses a range of longer-term development opportunities.

Investment in energy, transportation, and water storage infrastructure remains the key to unlocking opportunities which potentially include irrigated agriculture, natural gas, uranium, oil shale, and iron ore.

1.4 Far North Region

News

The Australian Competition and Consumer Commission (ACCC) has decided not to oppose the planned takeover of the Reef Hotel Casino by the Aquis Group.

The \$269 million takeover is seen as a key part of the strategy to develop the \$8 billion Aquis casino and resort. Concerns were raised about the same entity owning two casino licences in close proximity. However, the ACCC identified the two operations would be targeting significantly different markets, which would limit direct competition.

The \$150 million Infigen Energy Wind Farm project has been placed on hold pending a Federal Government review of the Renewable Energy Target (RET) scheme.

The Federal Government is reportedly considering substantial cuts to the RET scheme, which would significantly impact the viability of new renewable energy projects.

The 30 turbine wind farm is fully approved and would employ 100 people during the 12-18 month construction period.

Outlook

The outlook for the Far North SD continues to improve. Business confidence surged on signs that the transformational \$8 billion Aquis development is progressing.

Unemployment rose slightly over the June Quarter 2014. However, improving international visitation and increasing

investor interest suggest that the Far North economy will continue to gather momentum over the coming quarters.

1.5 Fitzroy Region

News

Rio Tinto has announced that up to 100 employees will be made redundant from its Kestrel Mine north of Emerald.

The decision was a result of continued weakness in thermal and coking coal prices, which have fallen by 36.9% and 57.4% respectively since 2011.

The \$20 billion Gladstone Liquefied Natural Gas (GLNG) project is now 85% complete and on track to begin production in 2015.

The project is a joint venture between Santos, Petronas, Total, and Kogas. The partners are also developing coal seam gas interests in the Bowen and Surat Basins to supply the GLNG plant.

GLNG is one of three major Liquefied Natural Gas (LNG) projects nearing completion on Curtis Island.

Outlook

The outlook for the Fitzroy SD continued to soften over the June Quarter 2014.

Unemployment levels have stabilised for the time being. However, further resource sector cutbacks are being announced at the same time as Gladstone's three major LNG projects transition to operations. The transition will see the projects' workforce decline from around 11,000 to 750 positions.

The longer-term outlook for Fitzroy remains brighter. The key to sustainable growth remains achieving a balance between the main economic drivers of mining, transportation, construction, agriculture, and services.

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 2014.

The Far North SD recorded the strongest gains lead by *Sales and Revenue* (+23.7 ppt) and *Profitability* (+13.6 ppt). Confidence rose 48.1 ppt across all indicators.

The Northern SD also recorded strong gains totalling 32.0 ppt across all indicators. All indicators rose, with *Profitability* (+13.3 ppt) and *Sales and Revenue* (+7.5 ppt) recording the largest gains.

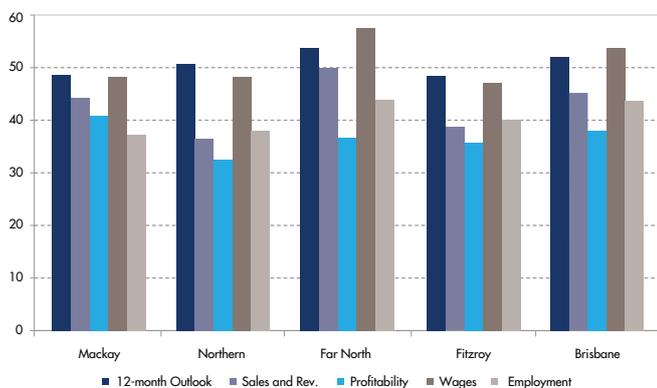
Mackay SD registered a modest rise of 1.7 ppt across all indicators. Higher *Sales and Revenue* (+9.1 ppt) and *Profitability* (+4.4 ppt) offset falls in the *12-Month Outlook* (-6.9 ppt), and *Employment* (-8.1 ppt).

The Fitzroy SD was the only region to record lower

business confidence with a 2.2 ppt fall across all indicators. *Wages* (-6.9 ppt) and *Employment* (-2.5 ppt) recorded falls, which offset higher *Profitability* (+6.2 ppt).

Figure 2.1: Business Confidence, Jun Q 2014

Source: CCIQ Pulse Report June 2014



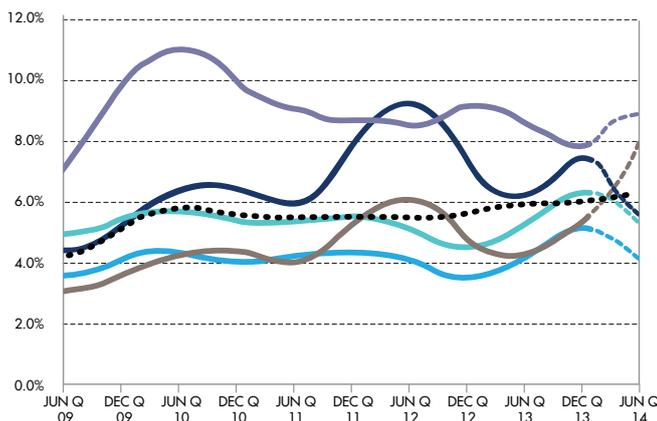
2.2 Unemployment

Unemployment results for North Queensland’s SD’s were mixed over the June Quarter 2014. The unemployment rate rose sharply in the Northern SD (+1.5 ppt). The rise was driven by a weak public spending outlook and the flow-on impacts of recent resource sector cut backs. Unemployment also rose slightly (+0.2 ppt) in the Far North SD.

Unemployment rates were lower in each of North Queensland’s major resource producing SD’s. Unemployment fell 0.9 ppt in the Fitzroy and North West SD’s, while Mackay registered a 0.7 ppt fall.

Figure 2.2: Unemployment Rate

Note: Dashed 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 \$19.7 billion (26.3%) to Gross Regional Product (GRP) in 2012-13. *Mining* is also North

Queensland’s fourth largest employment industry, contributing 8.5% of North Queensland jobs in 2011.

The Mackay and Fitzroy SD’s are two of Australia’s most productive thermal and coking coal producing regions, containing the Bowen and Galilee Coal Basins.

The Fitzroy SD is also in the process of becoming a major LNG exporter, with production set to commence in late 2014. Once fully operational Fitzroy SD is expected to export over 25 million tonnes of LNG valued at over \$US7.5 billion annually.

The North West SD boasts extensive production of copper, lead, zinc, and silver. In 2012-13 *Mining* contributed over \$6 billion to the North West economy (see Figure 3.1).

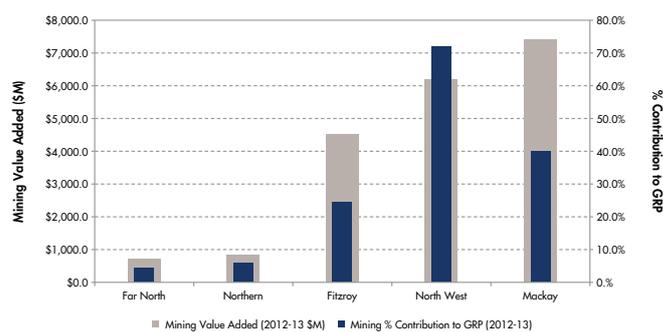
The North West SD also possesses significant reserves of resources which are not currently being extracted. These resources including uranium, oil shale, natural gas, and iron ore could become significant future industries given favourable economic conditions and improvements in extraction technology.

The Far North SD is a relatively small mining region in North Queensland (see Figure 3.1). However, the region is a significant producer of bauxite (aluminium) associated with Rio Tinto’s operations at 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 Mt Moss Mine.

The Northern SD economy is also closely linked to the *Mining* industries of the North West and Mackay SD’s through processing and exporting activities as well as fly-in/fly-out and drive-in/drive-out labour.

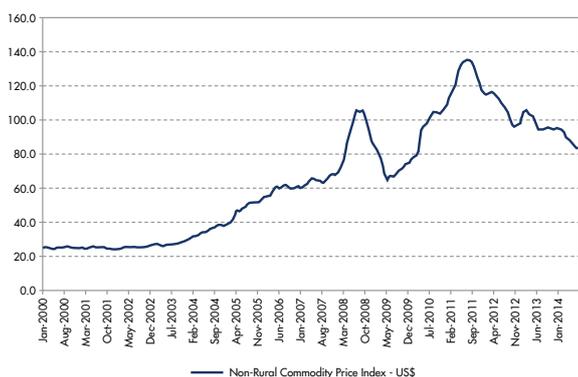
Figure 3.1: North Queensland Mining Industry Overview (2012-13)



Source: AEC

Mining has been Australia’s boom industry from the early 2000’s and peaking in 2011. Growing demand from rapidly developing Asian economies led to significant price increases for key commodities including coking and thermal coal, LNG, and iron ore (see Figure 3.2).

Figure 3.2: RBA Commodity Price Index (Non-Rural Component - \$US)



Source: RBA (2014)

However after nearly a decade, the long running commodity bull market appears to have ended in 2011. While prices remain at historically high levels, a number of key factors have combined to return the outlook for *Mining* to more traditional (historical) growth levels.

A maturing Chinese economy has shifted its focus from rapid infrastructure-led growth towards greater domestic consumption, pollution control, and economic sustainability. At the same time years of high prices have generated greatly increased global supply from sources, which were previously not economically viable.

The potential for high returns drove mining and exploration companies into increasingly riskier investment locations. Resource deposits in continents such as Africa and South America were developed as these destinations became more investment friendly.

The resulting market shift has generated substantial falls in prices for the majority of North Queensland and Australia's key commodities (see Table 3.1).

Table 3.1: Commodity Prices (US\$/t)

Commodity	2011	2014	2019	% Change 2011-2014	% Change 2014-2019
Thermal Coal	\$130	\$82	\$98	-36.9%	19.5%
Coking Coal	\$289	\$123	\$158	-57.4%	28.5%
Iron Ore	\$153	\$105	\$96	-31.4%	-8.6%
Gold (US\$/oz)	\$1,569	\$1,261	\$1,440	-19.6%	14.2%
Aluminum	\$2,437	\$1,785	\$2,287	-26.8%	28.1%
Nickel	\$22,854	\$17,644	\$18,555	-22.8%	5.2%
Copper	\$8,852	\$6,822	\$7,625	-22.9%	11.8%
Zinc	\$2,195	\$2,084	\$2,587	-0.2%	24.1%

Note: 2014 and 2019 prices based on forecast average.

Source: BREE (2014)

The falls in prices have shifted the focus of North Queensland's resources sector away from aggressive expansion towards productivity and cost control.

Glencore's reduction of 100 staff at its Newlands Mine, Rio Tinto's reduced workforce at Kestrel Mine, and BHP Billiton's decision to demerge non-core assets are the latest moves towards streamlining operations.

Whilst *Mining* is unlikely to be the boom industry it has been in the past, it will remain a key and growing component of the North Queensland economy.

Prices have fallen considerably, however, they remain at historically high levels. The Bureau of Resource and Energy Economics (BREE) projects a steady recovery in most commodity prices over the next five years as markets stabilise (see Table 3.1).

Major developments including Adani's \$16.5 billion Carmichael Coal Project and the Abbot Point Coal Terminal expansion remain a possibility for North Queensland. Should they proceed, these projects will be significant drivers of economic activity.

The expansion projects already undertaken during the long boom will ensure significantly increased production, exports, and royalty incomes going forward.

This increased production will assist the North Queensland economy as it continues to transition away from the *Mining* boom.



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