

NORTHERN



EXPOSURE

A FINGER ON THE PULSE OF NORTH QUEENSLAND'S ECONOMY

FIRST QUARTER 2015/2016

1. REGIONAL DEVELOPMENTS AND NEWS

1.1 Mackay Region

News

Environmental approvals for Adani's Carmichael mine have been set aside by the Federal Court.

The Mackay Conservation Group successfully challenged the mine approval, arguing the potential environmental impacts of the project on the Yakka Skink and Ornamental Snake had not been properly addressed.

Federal Environment Minister Greg Hunt has six weeks to re-approve the project, which has the potential to create up to 10,000 jobs.

Indian miner Adani has suspended two key contractors on its Carmichael coal project, bringing into question the viability of Australia's largest coal mine.

Project managers Parsons Brinckerhoff and construction company Posco received orders to halt works on the project.

Adani also recently stood down four engineering firms (Worley Parsons, Aecon, Aurecon and SMC) involved in preparatory works on the development.

Outlook

Economic activity in the Mackay Statistical Division (SD) continued to slow over the June Quarter 2015.

Unemployment levels continue to rise sharply and business confidence has yet to recover.

Retaining major mine and transport developments planned for the Galilee Basin will be critical to underpinning employment and investor confidence levels as the Mackay SD economy continues to adjust to the post-mining boom environment.

1.2 Northern Region

News

Plans for up to 30 mini biofuel plants across North Queensland have been announced.

The proposal includes a \$150 million refinery near Townsville, which would convert oil produced by smaller plants into a range of fuels.

The smaller \$15 million pyrolysis plants would be built across the region in areas potentially including the Burdekin, Hinchinbrook and Charters Towers.

The project has the potential to create 1,500 jobs and generate \$600 million annually within the North Queensland economy.

Peak regional development body Townsville Enterprise has released a report identifying \$4.2 billion worth development projects across North Queensland.

The report identifies 44 projects spread across a range of industry sectors including \$200 million in defence projects, \$111 million through James Cook University, around \$750 million in roads and infrastructure and over \$3 billion in residential and associated development.

Outlook

Economic activity in the Northern SD remained subdued over the June Quarter 2015. Unemployment levels remain the highest in North Queensland as the region continues to search for new drivers of economic growth.

However, business confidence is rising, suggesting that businesses feel the worst of the economic downturn may have passed.

The impending Queensland mandate of ethanol fuel has the potential to stimulate significant new activity, with numerous potential biofuel projects across the region.

1.3 North West Region

News

The expected mine life of Altona Mining's Little Eva project has been extended by two and a half years.

The miner recently announced the discovery of additional resources approximately 1.5km from the planned open pit mine. The resource is estimated to host an oxide and sulphide mineral resource of 17.3 million tonnes.

Altona also recently announced its Cloncurry Project will move into production after a multi-million dollar Chinese investment earlier in the year.

Outlook

The North West economy experienced weakening activity over the June Quarter 2015.

The impacts of the resources slowdown continue to flow

through and ongoing drought conditions have prevented many of the region's graziers from capitalising on the current high prices.

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

Current interest in transport and energy investment links with the Northern Territory could be a substantial catalyst for long term growth in the North West SD.

1.4 Far North Region

News

The proponents of the \$8.15 billion Aquis Casino Resort project in Yorkeys Knob have floated their Canberra Casino on the Australian Stock Exchange.

Aquis Entertainment raised \$2 million by selling 10 million shares to Aquis Canberra and will use the funds to undertake a significant redevelopment.

Aquis Group has floated the Canberra Casino with future plans to use the company as a vehicle to list the Aquis Casino Resort on the Hong Kong Stock Exchange to raise the required funds.

Philippine Airlines has announced direct flights between Auckland and Cairns from December next year.

The planned four flights a week service has the potential to significantly expand visitation from New Zealand, providing capacity for over 32,000 additional passengers per annum.

Outlook

The outlook for the Far North SD continues to improve.

Business confidence surged on the back of a weakening Australian dollar and an improved spending outlook for the critical tourism industry.

The potential for 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

A number of Fitzroy SD communities have been identified as disadvantaged in the 2015 Dropping off the Edge report.

Woorabinda ranked as the second and Mount Morgan the 12th most disadvantaged communities in Queensland based on unemployment, domestic violence and incarceration statistics.

The report by Jesuit Social Services and Catholic Social Services Australia also identified Rockhampton, Livingstone and Gladstone as communities of disadvantage.

Gladstone has been named as one of three possible sites for a potential biofuel production plant to supply US ships with ethanol.

The proposal is one of a number of new bio fuel projects following a motion calling for an ethanol mandate, which won bi-partisan support in the Queensland Parliament in May.

Outlook

The outlook for the Fitzroy SD remained soft over the June Quarter 2015.

Unemployment levels continue to rise as the region transitions away from the resources boom, which drove the majority of regional growth over the past decade.

Over the longer term Fitzroy remains in a strong position, with a positive outlook for major economic drivers including agriculture, tourism and services.

2. QUARTERLY INDICATORS

2.1 Business Confidence

Business confidence levels were generally higher across the SDs of North Queensland over the June Quarter 2015.

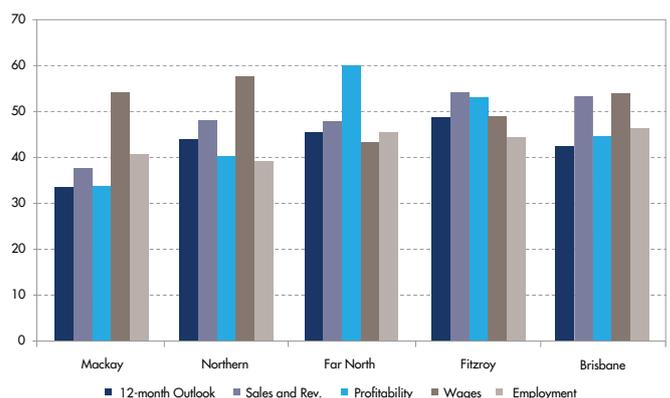
Fitzroy SD registered a significant rise of 66.2 ppt across all indicators, following very weak confidence in the previous quarter. Higher Profitability (+24.6 ppt), Sales and Revenue (+20.3 ppt) and a rise in the 12-Month Outlook (+18.4 ppt) were responsible for most of the gains.

The Far North SD also recorded strong gains led by Profitability (+28.5 ppt) and Sales and Revenue (+18.6 ppt). Confidence rose 47.2 ppt across all indicators with Wages (-10.2 ppt) the only indicator to fall.

The Northern SD recorded significant gains totalling 37.7 ppt across all indicators. Profitability (+12.5 ppt) and Sales and Revenue (+11.2 ppt) recorded the largest gains while Employment (-6.8 ppt) was the only indicator to fall.

The Mackay SD was the only region to record lower business confidence with a 26.7 ppt fall across all indicators. All indicators were lower with Sales and Revenue (-8.6 ppt) and the 12-Month Outlook (-7.1 ppt) recording the largest falls.

Figure 2.1: Business Confidence, Jun Q 2015



Source: CCIQ Pulse Report June 2015

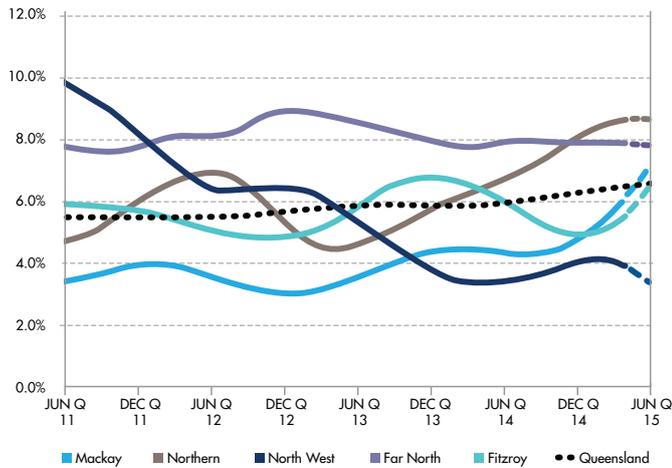
2.2 Unemployment

Unemployment results for North Queensland’s SDs were mixed over the June Quarter 2015. The unemployment rate rose sharply in the Fitzroy (+1.1 ppt) and Mackay’s SD (+1.6 ppt) driven by the ongoing impacts of the resources sector slowdown.

The Northern SD also recorded a slight rise of 0.1 ppt. The region continues to experience the highest unemployment in North Queensland.

Unemployment rates were lower in the North West (-0.8 ppt) and Far North SD (-0.1 ppt).

Figure 2.2: Unemployment Rate



Note: Dashed lines are projections based on ABS small area labour force statistics. Unemployment statistics have been rebased due to changes in the Department of Employment and QRSIS series. 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 \$17.8 billion (24.7%) to Gross Regional Product (GRP) in 2013-14. 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 of becoming a major Liquefied Natural Gas (LNG) exporter.

The North West SD boasts extensive production of copper, lead, zinc, and silver.

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 Table 3.1). However, the Far North is a significant producer of bauxite (aluminium) associated with Rio Tinto’s operations at Weipa.

Glencore also plans to develop a \$20 billion bauxite deposit in the Far North near the indigenous community of Aurukun.

The Northern SD is a noted gold producer, through mines at Charters Towers and Ravenswood. Until recently the region also produced modest amounts of iron ore from Mount Moss Mine until falling prices made production uneconomical.

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, engineering and support services as well as fly-in/fly-out and drive-in/drive-out labour.

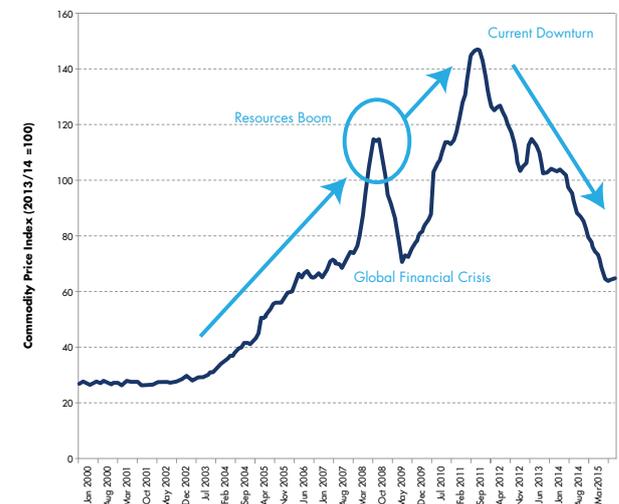
Table 3.1: North Queensland Mining Industry Overview (2013-14)

Statistical Division	Mining GRP (\$B) 2013-14	5 year Avg. Ann. Growth	Major Commodities
Mackay	\$8.0	8.6%	Coal
North West	\$4.7	3.5%	Copper, Lead, Zinc, Silver
Fitzroy	\$3.8	-8.5%	Coal, LNG
Far North	\$0.7	3.1%	Bauxite
Northern	\$0.5	-5.3%	Gold

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 3.1).

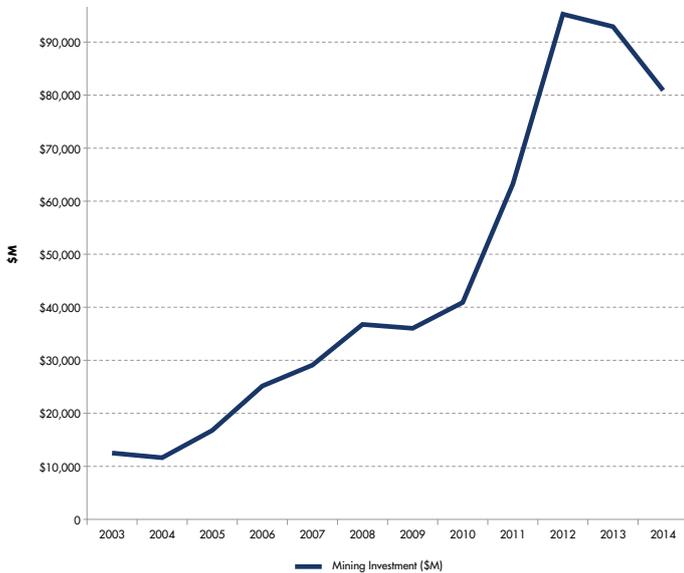
Figure 3.1: RBA Commodity Price Index (Non-Rural Component - \$US)



Source: RBA

The sustained price increases generated record investment in new mine capacity, as previously uneconomic resources became viable (see Figure 3.2).

Figure 3.2: Australian Mining Capital Expenditure (Chain Volume Measure)



Source: ABS

However, after nearly a decade, the long running commodity bull market ended in 2011.

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 the record investment in new capacity across resource rich countries has generated greatly increased global supply, placing significant further downward pressure on prices.

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

Whilst *Mining* is unlikely to be the boom industry it has been in the past, production remains robust and if the historic cycle holds the industry will experience another round of growth in 5-8 years.

The current resources downturn also presents significant border business and investment opportunities to create a more robust and diversified North Queensland economy, as the skills shortages and wage pressures associated with the previous *Mining* investment boom subside.

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