

NORTHERN EXPOSURE



A FINGER ON THE PULSE OF NORTH
QUEENSLAND'S ECONOMY

FIRST QUARTER 2016/2017

1. REGIONAL DEVELOPMENTS AND NEWS

1.1 Mackay Region

News

The Queensland Government has announced \$1.2 billion in road upgrades to be delivered over the next four years across Mackay and the Whitsundays. The funding includes \$560 million for the construction of the Mackay Ring Road.

The upgrades are estimated to provide 986 direct regional jobs.

Global miner Glencore has announced the closure of its coking coal works in Bowen. The closure of the plant will see the loss of 18 jobs and follows the Collinsville Mine closure, which saw 180 jobs lost in early 2016.

In total, there has been an estimated 8,000 jobs lost across the regional coal industry over the last 18 months.

Outlook

Economic activity in the Mackay Statistical Division (SD) was steady over the June Quarter 2016.

Unemployment levels improved over the quarter, despite the continued effect of the mining downturn.

Significant infrastructure investment such as the Queensland Government road upgrades will be key to underpinning employment and confidence in the region over the short to medium term.

1.2 Northern Region

News

Central Queensland University has revealed a plan to expand their presence in Townsville, by building a new campus in Flinders Street.

The new campus will be located within Honeycombes Property Group's Central Development and aims to attract up to 5,000 international students, mainly from Asia.

Construction is expected to begin in early 2017.

Townsville has secured funding for construction of the \$250 million CBD stadium.

The coalition government has pledged the remaining \$100 million on top of funding previously committed by the Queensland Government and the National Rugby League.

Federal funding was secured as part of a City deal, requiring a commitment to reform and investment across all three levels of government.

Outlook

Economic activity remains weak in the Northern SD, as the region continues to suffer the flow on impacts of the closure of the Yabulu Nickel Refinery.

Construction of the \$250 million CBD stadium will be crucial to underpin employment and confidence of the next 12-18 months.

The longer term outlook for the region remains stronger, driven by a diverse economic base including defence, services, agriculture and resources.

1.3 North West Region

News

A \$120 million hybrid renewable energy farm based in Hughenden has received stage one approval from Flinders Shire Council. The project is expected to create 50 new construction jobs, and could potentially lead to a further \$2 billion expansion by the end of the decade.

Outlook

The short term outlook for the North West SD remained weak over the June Quarter of 2016, with unemployment continuing to rise.

However, a number of key economic drivers including a lower Australian dollar and record cattle prices should help to drive regional investment and development over the medium-longer term.

1.4 Far North Region

News

Cairns is set to receive a \$24 million upgrade to its marine precinct aimed at increasing maintenance capabilities. The funding comes as Cairns looks to increase its strategic presence as a ship and naval base for Queensland and Australia.

AQUIS Group has announced that they will no longer be funding their proposed \$8 billion Casino project.

The group has released revised plans for a \$2 billion luxury hotel, apartment and villa complex at the Yorkeys Knob site.

Outlook

The outlook for the Far North SD remained weak over the June Quarter 2016, with unemployment remaining above 8%.

Despite the loss of the AQUIS Casino development, the smaller revised complex will face fewer development hurdles and retains the potential to be a significant economic catalyst.

1.5 Fitzroy Region

News

The Fitzroy SD's Liquefied Natural Gas (LNG) industry continues to face challenging conditions, with prices now 75% below their highs.

The continued low prices have the potential to force some of the coal seam gas projects located around Gladstone to reduce capacity or potentially shut down.

The Rockwood Weir located near Rockhampton has been pledged up to \$130 million by the Federal Government.

The completion of the dam would create an estimated 2,100 full time jobs in agriculture, with potential to double the region's agricultural output in under five years.

Outlook

The outlook for the Fitzroy SD remained soft over the June Quarter 2016.

The region continues to transition away from the resources boom of the past decade, and low LNG prices create significant further downside risk.

Key longer term developments such as expanded irrigation through the lower Fitzroy River provide a solid longer-term outlook for the Fitzroy SD.

2. QUARTERLY INDICATORS

2.1 Business Confidence

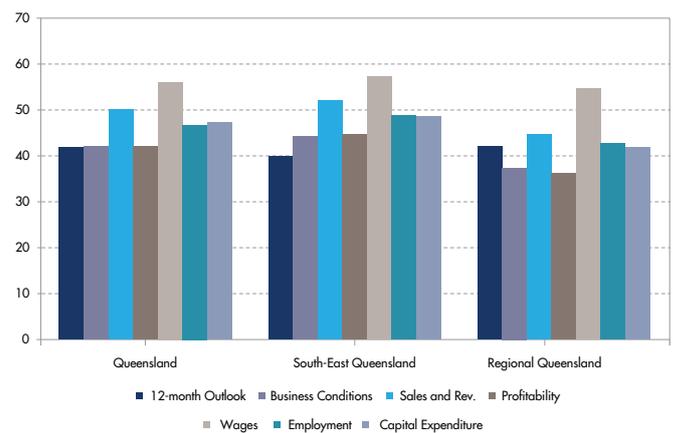
Due to changes in the 'CCIQ pulse survey of business conditions' the regional business confidence breakdown has been consolidated into three regions; Queensland, South-East Queensland, and Regional Queensland

Business confidence levels across Regional Queensland were significantly below the South East over the June Quarter 2016.

Key indicators including General Business Conditions (37.6 points), Profitability (36.4 points), Sales and Revenue (45.0 points), Employment (45.8 points) and Capital Expenditure (43.1 points) were all significantly below South East Queensland and the 50 point benchmark indicating satisfactory confidence levels.

Despite this, Regional Queensland businesses have indicated a stronger 12 Month Outlook of 42.4 points compared to the South East's 40.2 points.

Figure 2.1: Business Confidence, June Q 2016



Source: CCIQ Pulse Report June 2016

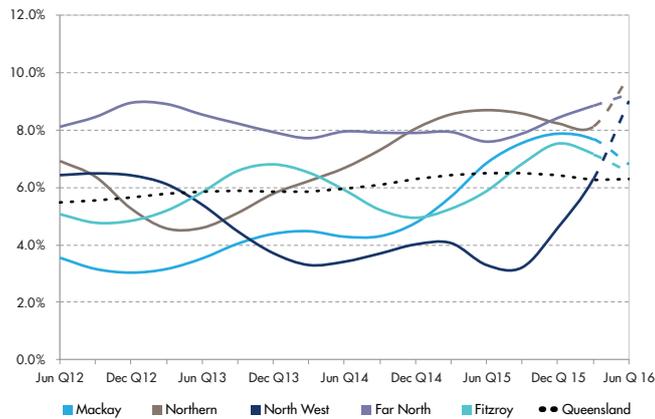
2.2 Unemployment

Unemployment results were mixed over the June Quarter 2016.

The Mackay (-0.9 ppt) and Fitzroy (-0.4 ppt), regions recorded reduced unemployment over the quarter. However, the unemployment rate rose in the North West (+1.7 ppt) and Far North SD (+0.4 ppt).

The unemployment rate remained largely flat in the Northern SD (-0.1 ppt). Unemployment rates across the majority of North Queensland remain significantly higher than the Queensland average of 6.3%.

Figure 2.2: Unemployment Rate



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

3. NORTH QUEENSLAND'S AGRICULTURE, FORESTRY AND FISHING INDUSTRY

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

Agriculture, Forestry and Fishing is a significant economic sector in North Queensland, contributing to over \$4 billion (5.2%) to Gross Regional Product (GRP), and over 20,000 jobs.

The Mackay and Fitzroy SDs possess the largest Agriculture, Forestry and Fishing industries in North Queensland, each contributing over \$1 billion to GRP.

Fitzroy is a major beef cattle producer and the Mackay SD has significant sugar cane plantations around Mackay, Sarina and Proserpine. Mackay SD also features one of Australia's most productive horticultural areas around Bowen, predominately producing tomatoes and capsicums.

The Far North's Agriculture, Forestry and Fishing industry produces nearly \$750 million in GRP and is predominantly known for its coastal sugar cane and banana plantations, with major beef and dairy cattle industries also located on the Atherton Tablelands.

The Northern SD features major sugarcane plantations at the Burdekin and Hinchinbrook, while inland areas around Charters Towers are primarily beef cattle producing regions.

The North West SD is also a significant producer of beef cattle through extensive pastoral operations in the Shires of Flinders, Richmond and McKinlay.

Table 3.1: Regional Industry Breakdown

Statistical Division	Industry Value Added (\$M 2014-15)	% of Employment (2011)
Mackay	\$1,289	4.7%
Fitzroy	\$1,188	4.6%
Far North	\$746	5.7%
Northern	\$432	3.5%
North West	\$403	7.6%
North Queensland	\$4,060	4.8%

Source: ABS (2012), AEC

Agriculture, Forestry and Fishing has the potential to be one of Australia's key growth sectors over the coming years.

Australia has a strong reputation for safe and high quality produce and is hoping to leverage its international market position through new trade agreements.

Australia signed a Free Trade Agreement (FTA) with China in late 2014 which is expected to have significant implications for the agricultural industry. In particular the beef cattle industry is expected to benefit, with the gradual elimination of tariffs over nine years.

Australia is also involved in the potential 12 nation Trans-Pacific Partnership (TPP) agreement which has the potential to further open key agricultural export markets including Japan, China, the United States and Vietnam. The agreement aims to eliminate more than 98% of all tariffs between TPP countries.

Alongside improved market access, rapidly rising Asian demand, global food security concerns and constrained supply are expected to present further positive industry drivers.

Projections of national industry value added for key North Queensland agricultural commodities (presented in Table 3.2) further reflect the solid industry outlook.

Beef cattle is expected to experience flat industry growth over the next five years, which is reflective of the current record high prices. Modest price declines are expected to be offset by increased production as the industry recovers from the drought conditions of recent years.

Cane sugar and fruits such as bananas which are produced extensively in the Far North SD are expected to experience real industry growth over the next five years averaging 1.2% and 1.6% per annum respectively.

Outdoor vegetables such as produced in the Mackay SD are projected to experience the highest growth averaging 2.7% per annum.

Table 3.2: Key Commodity Outlooks

Commodity	Industry Value Added 2015-16 (\$M)	Industry Value Added 2020-21 (\$M)	Average Annual Growth %
Cattle	\$6,964	\$6,947	-0.03%
Outdoor Vegetable's	\$3,585	\$4,206	2.7%
Citrus, Banana and Other Fruit	\$617	\$665	1.2%
Cane Sugar	\$437	\$483	1.6%

Source: IBISWorld (2016)

In order to fully capture the future potential of the *Agricultural, Forestry and Fishing* industry significant investment in production capacity will be required.

Increased irrigation water storage represents a key barrier to expanded production. Major regional irrigation water storage projects currently under consideration and investigation include the \$130 million Rockford Wier in the Fitzroy SD, Hells Gate Dam in the Northern SD, \$250 million Cave Hill Dam and \$130 million O'Connell Creek Off-Stream Storage projects in the North West SD.



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