

NORTHERN

EXPOSURE



A FINGER ON THE PULSE OF NORTH QUEENSLAND'S ECONOMY

SECOND QUARTER 2015/2016

1. REGIONAL DEVELOPMENTS AND NEWS

1.1 Mackay Region

News

Environmental approvals for Adani's Carmichael mine have been reinstated by the Federal Government.

The Federal Court had set aside the mine's approval due to the potential environmental impacts on the yakka skink and ornamental snake.

The \$16 billion project is now subject to 36 of the strictest environmental conditions imposed in Australia. Final approval is pending Adani's submission of a groundwater strategy to the Federal Environment Department.

Whitsunday Regional Council has voted unanimously on a proposal to deliver international charter flights to the Whitsundays in 2016.

The initial proposal put forward by AVMIN involves getting the airport compliant for international flights and identifying suitable carriers.

The current plan would see New Zealand services established by mid-2016, with Asian destinations incorporated in the future.

Outlook

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

Unemployment levels continue to rise and business confidence remains the lowest in North Queensland.

Developing new drivers of economic growth including international tourism through the Whitsundays and expanded agriculture and horticulture across Bowen and Mackay will be key to ongoing recovery in Mackay SD.

1.2 Northern Region

News

The future of Townsville's Yabulu Nickel Refinery is in serious doubt.

The Supreme Court of Western Australia has rejected a bid by Clive Palmer-owned Mineralogy to force Chinese business partners to provide \$66 million in royalties owed.

It is understood the money is required in order for the Yabulu Refinery to meet payment deadlines of its own.

The Townsville-based refinery which employs around 800 people has suffered due to weak nickel demand, with prices falling by over 60% since 2011.

The State Government is set to release a summary of its business case for the Townsville's CBD stadium and entertainment centre project.

The business case will be supplied to the Federal Government in the coming weeks, with a summary of the key options released publically.

The State Government has committed \$100 million to the project, with additional federal funding being sought for the \$320 million centre.

Outlook

Economic activity in the Northern SD remains weak. Unemployment levels are the highest in North Queensland and business confidence levels remain subdued.

The potential closure of Yabulu Nickel Refinery creates significant further downside risk to the Northern SD economy over the short to medium term.

1.3 North West Region

News

Global miner Glencore has cut 535 jobs at its zinc mines across North West Queensland and the Northern Territory.

Operations at Lady Loretta mine have been suspended with 242 jobs lost. Approximately 224 positions have been cut from George Fisher mine and 69 jobs from McArthur mine in the Northern Territory.

The decision was announced as the company plans to reduce zinc production by half a million tonnes per annum in response to weak market prices.

About two-thirds of the jobs lost have been identified as fly-in, fly-out.

Outlook

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

The dual impacts of the significant cutbacks by Glencore and severe drought conditions have placed a significant strain on the major North West industries.

Over the longer term, the potential for additional water storage and a gas pipeline connection with the Northern Territory provide significant upside for the North West if substantial infrastructure can be developed.

1.4 Far North Region

News

A new report by the Queensland Resources Council identifies that mining delivers nearly \$600 million to the Far North’s economy and over 4,500 jobs.

While the Far North has a relatively small mining sector, it is responsible for significant fly-in, fly-out and supply of other goods and services to mines across Queensland, the Northern Territory, Papua New Guinea and the Freeport McMoRan mine in Papua Indonesia.

The Port of Cairns is scheduled to host a record 52 cruise ship visits over 2017.

Key carriers include P&O Cruises, which will dock 19 times and Pacific Eden, docking 11 times when based in Cairns.

The record number of visits is a result of the lower Australian dollar and growing confidence in the Port of Cairns as a cruise ship destination.

Outlook

The outlook for the Far North SD was steady over the September Quarter 2015.

There are increasing signs of the ongoing turnaround in the key tourism sector, with increased cruise shipping and international flights important catalysts for future growth.

Developing new industry opportunities outside of the agricultural and visitor sectors remains a challenge to driving sustainable longer term growth.

1.5 Fitzroy Region

News

Rockhampton recorded a large spike in the number of business-related bankruptcies in the September Quarter.

Australian Financial Security Authority data shows a 90% rise to 19 business-related bankruptcies alongside 53 non-business related bankruptcies.

The number of debtors who entered a business-related personal insolvency increased 14.6% across Queensland with Rockhampton and Gladstone suffering large increases.

Fitzroy based miner Cockatoo Coal Limited has been placed into administration.

The move is the latest in a string of closures and cutbacks due to ongoing weakness in the coal sector.

Staff at the company’s Baralaba-based mine are expected to continue in their current roles while operations are reviewed.

Outlook

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

The transition away from the resources boom of the past decade has significantly further to run.

However, the combination of a lower Australian dollar and the presence of substantial agricultural, tourism, and services sectors will help stabilise the outlook for the Fitzroy SD over the coming quarters.

2. QUARTERLY INDICATORS

2.1 Business Confidence

Business confidence levels were weaker across the SDs of North Queensland over the September Quarter 2015.

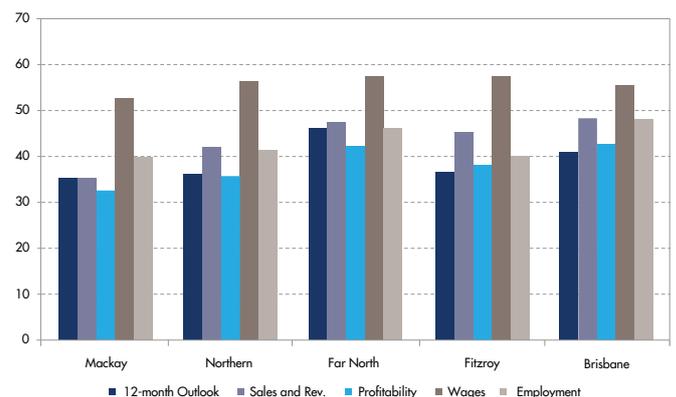
Fitzroy SD registered the largest falls of -33.6 ppt across all indicators. Lower *Profitability* (-15.4 ppt) and a weaker *12-Month Outlook* (-12.5 ppt) were responsible for most of the falls while *Wages* (+8.2 ppt) was the only indicator to rise.

The Northern SD also recorded weaker confidence totalling -19.1 ppt across all indicators. The *12-Month Outlook* -8.1 ppt and *Sales and Revenue* (-6.3 ppt) were responsible for most of the falls.

The Mackay SD recorded a modest fall in confidence. Every indicator was lower with falls totalling -4.8 ppt.

Confidence levels were largely steady in the Far North SD. A rise in *Wages* (+13.9 ppt) was offset by a fall in *Profitability* (-17.5 ppt). Across all indicators confidence fell -3.6 ppt.

Figure 2.1: Business Confidence, Sep Q 2015



Source: CCIQ Pulse Report September 2015

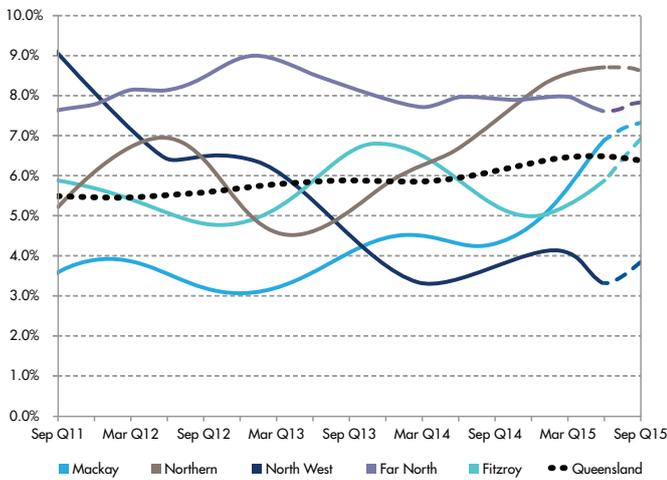
2.2 Unemployment

Unemployment was mostly higher for North Queensland’s SDs over the September Quarter 2015.

The unemployment rate rose sharply in the Fitzroy SD (+1.1 ppt) driven by the ongoing impacts of the resources sector slowdown. The Mackay (+0.5 ppt), North West (+0.5 ppt) and Far North SDs (+0.3 ppt) recorded more modest unemployment increases.

Unemployment was marginally lower in the Northern SD (-0.1 ppt) though the region retains the highest unemployment in North Queensland over 8.5%.

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 CONSTRUCTION INDUSTRY

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

Construction is North Queensland's second largest industry, contributing \$7.8 billion (10.7%) to Gross Regional Product (GRP) in 2013-14. Construction is also a significant employment industry, contributing nearly 35,000 jobs in 2011.

The Fitzroy and Mackay SDs feature the largest Construction industries in North Queensland (see Table 3.1).

Until recently, extensive resources based Construction associated with the Bowen Basin coal industry and Curtis Island Liquefied Natural Gas (LNG) projects had driven construction activity. The new mine and infrastructure development also supported strong residential construction demand.

The Northern and Far North SDs also possess significant Construction industries, contributing approximately \$1.4 billion to GRP in each region respectively.

Strong population growth underpins the sector in both regions residential construction.

Major industry drivers including the Ports of Townsville and Cairns, the Townsville Army and Royal Australian Air Force, and the Far North's tourism industry provide substantial additional construction activity.

The North West SD possesses a more modest Construction industry contributing \$284 million (3.9%) to GRP.

However, Construction will be a key driver of future economic development in the North West with substantial longer term rail, water storage, energy and resources projects under consideration.

Table 3.1: North Queensland Construction Industry GRP Contribution (2013-14)

Statistical Division	Industry GRP (2013-14)	% of GRP
Fitzroy	\$2,951.1	15.1%
Mackay	\$1,879.4	9.7%
Far North	\$1,373.7	9.8%
Northern	\$1,348.5	10.3%
North West	\$284.6	3.9%
North Queensland Total	\$7,837.3	10.7%

Source: AEC

The Construction industry is broadly classified into residential and non-residential activity.

Residential construction approvals since 2008-09 are provided in Figure 3.1.

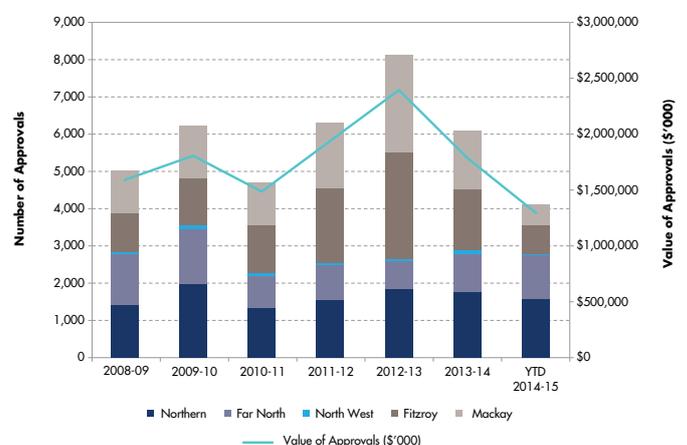
North Queensland residential construction activity peaked in 2012-13. Construction was driven by housing demand associated with the booming coal and natural gas industries of Mackay and Fitzroy SD.

However, rapidly falling commodity prices and the transition to operations of Gladstone's major LNG projects has seen residential accommodation demand and associated construction activity decline over the past 18 months (see Figure 3.1).

The Far North has experienced solid growth over the past two years as the key tourism and agricultural sectors benefit from a falling Australian dollar.

Residential construction levels have remained largely flat in the Northern SD.

Figure 3.1: Residential Building Approvals

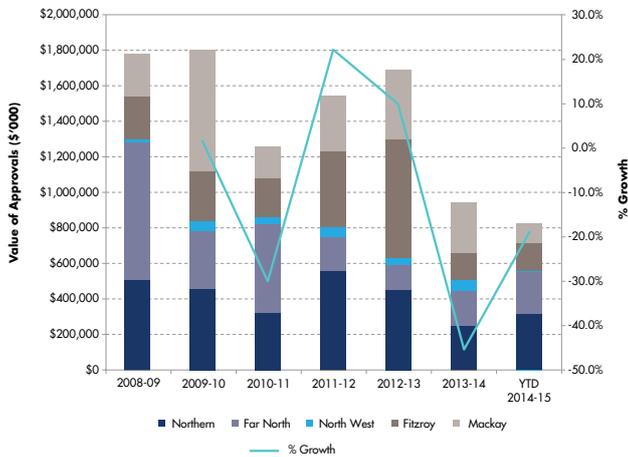


Source: ABS

Non-residential construction activity has been driven by a mix of resource development, commercial building and public infrastructure spending.

As shown in Figure 3.2, the resources downturn over the past 18 months has had a significant impact on non-residential construction. Approvals fell nearly 45% over 2013-14 and appear to have remained subdued over 2014-15.

Figure 3.2: Non-Residential Building Approvals



Source: ABS

Solid longer term population growth across the majority of North Queensland will likely underpin residential construction activity.

However, non-residential activity is likely to remain subdued for some time due to a weak commodities outlook and soft commercial property markets.

Securing new commercial and infrastructure developments will be key to underpinning activity in the North Queensland *Construction* industry.

Major potential projects include the \$320 million Townsville CBD Stadium and Convention Centre, North West water storage and natural gas pipeline developments, the \$8.2 billion Aquis Casino Resort and the \$16 billion Adani Carmichael Mine and associated rail and port development.

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