

# NORTHERN EXPOSURE



A FINGER ON THE PULSE OF NORTH  
QUEENSLAND'S ECONOMY

SECOND QUARTER 2016/2017

## 1. REGIONAL DEVELOPMENTS AND NEWS

### 1.1 Mackay Region

#### News

**Global miner Anglo American has made 82 workers redundant from its German Creek Mine.** The redundancies are expected to have a significant impact on the Middlesmoot community, with an estimated 80% of the redundancies given to local residents living in company-owned housing.

In the 2011 Census, Middlesmoot hosted a resident population of just over 1,900 people.

**The Australian Government has confirmed \$10 million towards building the CQUniversity Mackay Campus Sports Precinct,** matching Mackay Regional Council's commitment.

Stage one of the project, set to begin construction in 2017,<sup>t</sup> consists of a synthetic running track, international standard swimming pool, hydrotherapy pool and learn-to-swim facilities.

Further stages of the \$72 million precinct include a gym, community clinic, indoor sports centre, skating rink, childcare centre, sporting fields and rock climbing facility.

#### Outlook

The outlook for the Mackay Statistical Division (SD) improved over the September Quarter 2016.

While further bad news such as the redundancies at Anglo American continue to flow through, the majority of the cyclical adjustments in the region's mining sector have already occurred.

Solid recent gains in coal prices suggest that the worst of the economic downturn in Mackay SD has passed.

### 1.2 Northern Region

#### News

**The Australian Government has provided funding for a feasibility study into the Hell's Gate Dam project** west-northwest of Townsville.

The study to be led by Townsville Enterprise Limited will consider the potential for the project to secure Townsville's potable water supply and potentially stimulate a new irrigated agricultural industry.

Townsville has been announced as the regional headquarters of Adani's \$22-billion Carmichael coal mine in the Galilee Basin.

The announcement comes as following the final approvals project's rail line into the Abbot Point coal terminal and a temporary accommodation camp to house 300 construction workers.

Adani has previously estimated the project will create 10,000 direct and indirect jobs in total, including between 1,500 and 3,000 operational jobs.

#### Outlook

Economic activity remains weak in the Northern SD.

It will take some time for the Northern SD to recover from one of the worst economic downturns the region has faced.

However, key upcoming developments including the announcement of Adani's regional headquarters, the Australia-Singapore defence agreement, \$250 million Stadium North Queensland and \$75 million (funded over 10 years) Cooperative Research Centre for Developing Northern Australia provide the basis for improved confidence and a solid economic recovery entering 2017.

### 1.3 North West Region

#### News

**Key North West Queensland commodities including zinc and copper have experienced significant price recoveries** towards the end of 2016.

In a strong sign for the regional economy, zinc is currently trading at just under \$3,000 per tonne, the highest since late 2007 while copper has reached a 12 month high of over \$6,000 per tonne.

Improving demand and reductions in supply by major miners such as Glencore are seen as the key drivers behind the price gains.

#### Outlook

The outlook for the North West SD was mixed over the September Quarter 2016. High unemployment remains a

concern, however, improved resource and record beef prices will help underpin sentiment in the remote region.

Using the stronger market outlook to capture key value adding investment opportunities will be critical to driving sustainable long-term economic development in the North West.

Major opportunities include irrigation water storage in Cloncurry and across the mid-west as well as the proposed 800 head per day meatworks at Hughenden.

### 1.4 Far North Region

#### News

Drought conditions are having a significant impact on the Tablelands’ agricultural industry, with Tinaroo Falls Dam falling to 36.5% capacity.

The shortage has seen a significant increase in water costs for irrigators. One-year leases have increased three-fold to \$160 a megalitre over the past three years, and permanent allocations have increased to \$2,000 per megalitre (around a 280% increase).

The Far North superyacht industry has experienced a record year, with 59 superyachts visiting the region over 2016.

The growth of nearly 30% over last year has been attributed to increased marketing efforts and strong growth in the domestic superyacht market.

#### Outlook

The outlook for the Far North SD remained steady over the September Quarter 2016.

Unemployment levels moderated and an improved retail spending and visitation outlook should see the regional economy improve entering the key Christmas trading season.

Downside risks exist should drought conditions persist into 2017 for the Far North’s key agricultural areas.

### 1.5 Fitzroy Region

#### News

Indian mining company Adani has announced a significant reduction in the initial scale of its Carmichael coal project.

Initially planned as a \$16 billion project, the revised stage one development would see a \$4 billion development resulting in 25 million tonnes of annual capacity.

Lengthy legal battles, project delays and soft coal prices were identified as the main reasons behind the reduced initial scale.

Adani plans to begin construction works in late 2017 with production commencing from 2019.

#### Outlook

The outlook for the Fitzroy SD improved over the September Quarter 2016.

The region continues to adjust from the previous Liquefied Natural Gas (LNG) construction boom.

However, the potential for even a scaled back Carmichael coal mine project to commence construction in 2017 would have significant positive implications for regional investment and confidence.

## 2. QUARTERLY INDICATORS

### 2.1 Business Confidence

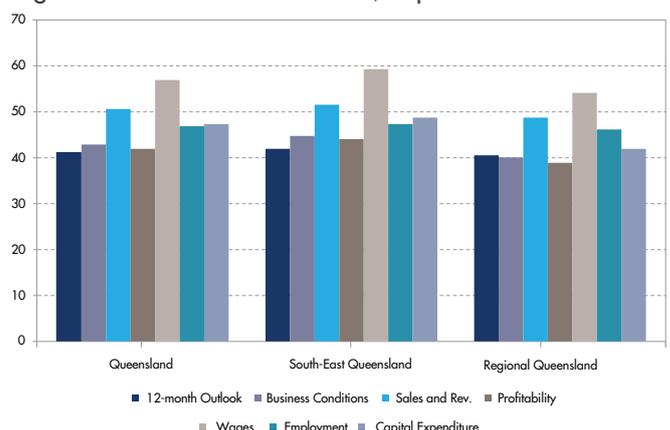
Due to changes in the ‘CCIQ pulse survey of business conditions’ the regional business confidence breakdown has been consolidated into three regions; Queensland, South-East Queensland, and Regional Queensland.

Business confidence levels improved in Regional Queensland over the September Quarter 2016. However, regional business confidence still lags significantly behind the South East, trailing by 20 points across all indicators.

Key indicators including Sales and Revenue (+3.8 points), Employment (+3.3 points), and General Business Conditions (+2.6 points), were higher. The 12- Month Outlook (-1.6 points) and Wages (-0.6 points) registered modest falls.

Regional Queensland gained a net 10.2 points across all indicators compared to a 1.1 point gain for the South East.

Figure 2.1: Business Confidence, Sep Q 2016



Source: CCIQ Pulse Report Sep 2016

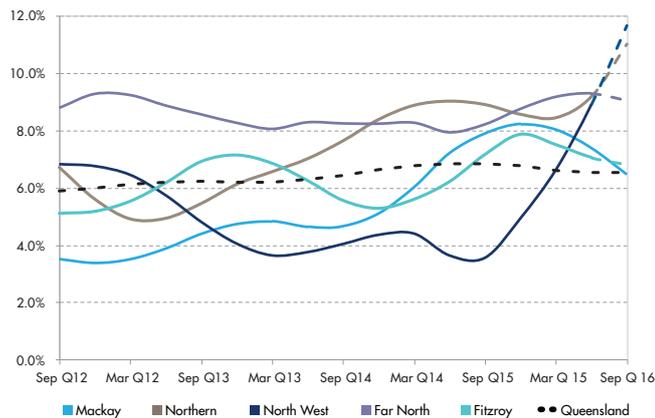
## 2.2 Unemployment

Unemployment results were mixed over the September Quarter 2016.

The Mackay (-0.9 ppt), Fitzroy (-0.2 ppt), and Far North (-0.2 ppt) regions recorded reduced unemployment over the quarter. However, the unemployment rate rose sharply in the North West (+2.8 ppt), Northern SD (+1.8 ppt).

The unemployment rates in the Northern and North West SD's are among the highest in Queensland at over 10% compared to 6.2% for Queensland as a whole.

Figure 2.2: Unemployment Rate



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

## 3. MANUFACTURING INDUSTRY

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

*Manufacturing* is a major sector in North Queensland, contributing \$3.6 billion (or 5.3%) to Gross Regional Product (GRP) in 2014-15.

The *Manufacturing* industry in North Queensland has declined since 2009-10 by an average 2.7% per annum, in line with difficult conditions across Australia (see Table 3.1).

The industry is characterised by its links with North Queensland's other major industries including mining, agriculture, construction, transport, and wholesale trade. These links provide a strong advantage for local production, helping to offset the relatively high labour and operating costs of regional Australian operations.

The Fitzroy SD is the largest manufacturer in North Queensland. The industry contributed over \$1 billion to GRP in 2014-15.

Major operations include the Queensland Alumina and Rio Tinto Yarwun alumina refineries, the Boyne Smelters aluminium smelter and Australia's largest cement plant (Cement Australia Gladstone).

The Northern SD also has a large concentration of industrial manufacturers, contributing \$900 million to GRP.

The Northern SD's large manufacturers consist mainly of minerals and fertiliser processing in Townsville, the JB Swift Townsville Meatworks and sugar milling operations throughout Hinchinbrook and the Burdekin.

The recent closure of the Yabulu nickel refinery with the loss of over 800 direct jobs represents a significant long-term blow to the Northern SD manufacturing sector. Apart from the direct economic impacts, the supply chain implications are significant. Yabulu was previously responsible for over half of the imports through the Port of Townsville.

The Glencore copper refinery in Townsville is also scheduled to cease operation in 2022.

Mackay SD's *Manufacturing* sector is centred around heavy engineering and support equipment for the region's mining and agricultural sectors.

The Marian, Racecourse, Farleigh, Plane Creek and Proserpine Sugar Mills are among the largest manufacturing firms in Mackay SD.

The Far North SD has a substantial *Manufacturing* sector contributing over \$750 million to GRP. Production is focused on sugar milling and food processing as well as a range of smaller specialised operations.

Remoteness and difficulties sourcing labour in the North West SD make establishing viable *Manufacturing* operations challenging.

Existing operations focus on the preliminary processing of resource outputs. However, significant agricultural manufacturing opportunities including beef processing and cotton ginning also exist in the region. Many of these opportunities are contingent on the development of large-scale water storage infrastructure.

Table 3.1: Manufacturing Industry GRP

Statistical Division	GRP Contribution (2014-15)	5 Year Avg. Ann. Growth
Fitzroy	\$1,011	-5.7%
Northern	\$902	-4.9%
Mackay	\$794	3.0%
Far North	\$754	-0.9%
North West	\$170	-1.2%
<b>North Queensland</b>	<b>\$3,630</b>	<b>-2.7%</b>

Source: AEC

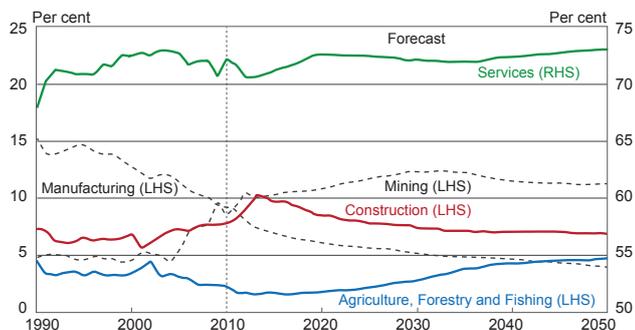
Australia-wide the *Manufacturing* industry has suffered over recent years. Years of a consistently strong Australian dollar combined with high raw material, utility, and labour costs have eroded Australia's position in a fiercely competitive international industry.

A lower Australian dollar over 2016 has improved the outlook for the sector. However, damage to key supply

chains, such as the car industry, (which is scheduled to close by 2017) will compound Australia's disadvantage as a relatively small, isolated, and high-cost manufacturing centre.

Long-term projections developed by the Commonwealth Treasury (2012) highlight the continued projected decline in Australia's *Manufacturing* sector (see Figure 3.1). *Manufacturing* is projected to fall to less than 5% of Gross Domestic Product (GDP) by 2050. The industry will continue to decline in favour of sectors such as services and agriculture where Australia possesses a stronger competitive advantage.

Figure 3.1: Projected GDP Share by Sector



Source: Commonwealth Treasury (2012)

With this outlook, North Queensland's *Manufacturing* sector will need to focus on productivity, innovation and cost control to remain viable against an ongoing backdrop of broader industry decline.

New opportunities will likely continue to be closely linked to key regional primary sectors to provide a strong cost advantage for local manufacturing.

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