

NORTHERN EXPOSURE



A FINGER ON THE PULSE OF NORTH QUEENSLAND'S ECONOMY

THIRD QUARTER 2014/2015

1. REGIONAL DEVELOPMENTS AND NEWS

1.1 Mackay Region

News

The Federal and State Governments have each allocated **\$35 million** towards upgrading four timber bridges on the Peak Downs Highway between Mackay and Nebo.

The upgrades are part of a \$300 million initiative across Queensland aimed at improving road safety and freight transport efficiency.

Glencore has announced plans to reduce its Australian coal production by 1.5 million tonnes this year.

The announcement follows Glencore's three week shutdown of coal operations over the Christmas break in an effort to reduce oversupply.

The cut backs are estimated to result in around 120 job losses across Glencore's Australian coal operations.

Outlook

The economic outlook for the Mackay Statistical Division (SD) remained soft over the December Quarter 2014.

Unemployment levels continued to trend upwards and business confidence remains subdued.

The economic weakness is likely to continue over the short-medium term as the Mackay SD economy transitions to the post-resources boom environment.

1.2 Northern Region

News

Townsville's unemployment increased to 9.4% in January according to the Australian Bureau of Statistics' monthly labour force statistics.

The 2,800 person increase in unemployed persons was combined with almost 5,500 people leaving the workforce.

Construction of the Townsville CBD stadium and Ross Creek waterfront precinct may be staged over a number of years in order to ensure public funding is used efficiently.

The newly elected Queensland Labour Government

committed \$100 million to the stadium project during the election.

The stadium and entertainment precinct is expected to cost \$316 million, with the stadium component costing approximately \$210 million.

Outlook

The Northern SD economy showed further weakness over the December Quarter 2014. Unemployment levels continue to rise rapidly, driven by a weak public and private sector investment outlook.

Commencement of major infrastructure works including the Townsville CBD stadium and entertainment precinct are critical to underpinning employment and confidence in the Northern SD economy.

1.3 North West Region

News

Mount Isa has been identified as a potential location for a pipeline linking the Northern Territory to the east coast gas market.

Pipeline operator APA Group is one of eleven shortlisted tenderers and is exploring two potential routes.

One option is an 800km pipeline from Tennant Creek to Mount Isa, estimated to cost around \$900 million.

The other option involves a 1,000km, \$1.3 billion pipeline from Alice Springs to the Moomba gas plant in South Australia.

The project could generate hundreds of jobs during construction and has the potential to deliver lower cost energy to the region.

Outlook

The North West economy was steady over the December Quarter 2014.

The resources sector slowdown and lingering drought continue to subdue the outlook for both of the North West's key economic industries.

Leading infrastructure developments such as the Mount Isa gas pipeline are critical to improving industry viability and unlocking the long-term economic potential of the North West SD.

Offermans Partners is a specialist practice with offices in Townsville, Cairns, Mackay and Brisbane offering Turnaround and Solvency Solutions, Business Finalisations and Exits, Business Valuations, and Forensic Accounting focused primarily on regional Queensland businesses.

For more information on the services offered and our staff at Offermans Partners, visit our website at: www.offerfans.com.au

1.4 Far North Region

News

Central Queensland University is set to begin works on a new \$15 million campus in the Cairns CBD.

The campus will cover around 3,000 sqm of space in the Cairns Square building.

Facilities will include engineering laboratories, research facilities, classrooms, theatres and teaching spaces, meeting rooms, a library, student recreational and social spaces, and staff offices.

Once completed the campus is expected to service around 2,500 students, creating around 50 jobs.

Proponents behind the \$8 billion Aquis development have started investing millions of dollars in Canberra following their purchase of the Casino Canberra in late 2014.

The Aquis Group announced an \$8 million sponsorship of the ACT Brumbies Super Rugby team over six years as part of their multi-million dollar redevelopment of the casino.

The Group had planned to acquire the Cairns Reef Hotel Casino in a \$217 million deal last year. However, the offer was withdrawn after the Queensland Office of Liquor and Gaming failed to meet a November 28 deadline to complete probity investigations.

Outlook

The outlook for the Far North SD continues to improve.

Unemployment continues to trend downward as a strengthening tourism sector combines with an improving property market and solid outlook for region's significant agricultural sector.

Securing diversified investment remains the key to reducing economic volatility as the Far North transitions towards more favourable operating conditions.

1.5 Fitzroy Region

News

Insurers estimate Cyclone Marcia has left a damage bill of more than \$80 million.

The category five cyclone which hit Rockhampton and Yeppoon in late February has led to claims by around 13,000 policyholders.

At least 1,500 homes suffered structural damage and 385 properties have been deemed uninhabitable.

While rain associated with the system has broken the drought in the region, the cyclone has also caused significant loss of crops and livestock.

Rail operator Aurizon has warned it faces a loss of around \$25 million due to suspension of services and infrastructure damage caused by Cyclone Marcia.

Roads and power infrastructure have also been severely

damaged across the region, with around 60,000 homes losing power.

Outlook

The outlook for the Fitzroy SD remained soft over the December Quarter 2014.

Further weakness in the region is expected over the coming quarters as the region recovers from the impacts of Cyclone Marcia.

The longer-term outlook for Fitzroy remains brighter. The key to sustainable growth lies in achieving a balance between the major economic drivers of coal and gas, agriculture, tourism, and services.

2. QUARTERLY INDICATORS

2.1 Business Confidence

Business confidence levels were mixed across the SDs of North Queensland over the December Quarter 2014.

The impact of the recent Queensland State election on business sentiment is currently unclear. The potential for changes to Government policies and uncertainty regarding infrastructure projects may significantly impact confidence over the coming quarters.

The Far North SD recorded a rise in confidence totalling 14.8 ppt across all indicators. *Profitability* (+9.4 ppt) recorded the largest gain driven by the falling Australian dollar, lower interest rates, and an improved visitation outlook.

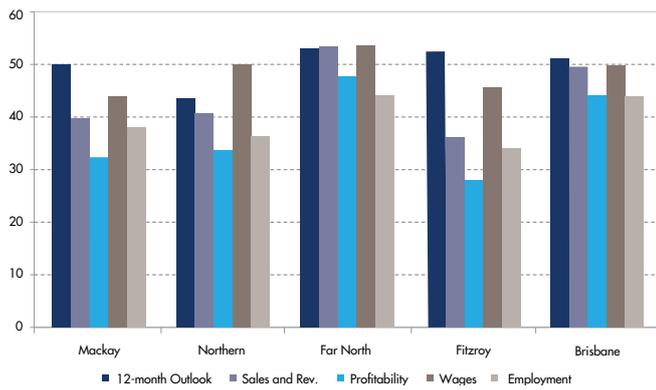
The Mackay SD recorded a slight gain totalling 5.2 ppt across all indicators. Both *Employment* (-5.9 ppt) and *Profitability* (-1.4 ppt) fell. However, the *12-Month Outlook* (+12.5 ppt) rose strongly, suggesting that businesses are starting to look past the current resources downturn.

The Northern SD registered a fall of -12.5 ppt across all indicators. *Weakness in Profitability* (-6.9 ppt) and *Wages* (-3.6 ppt) were responsible for most of the falls.

The Fitzroy SD recorded sharply lower business confidence totalling -32.2 ppt across all indicators. *Employment* (-11.4 ppt), *Profitability* (-11.3 ppt) and *Wages* (-9.1 ppt) were all sharply lower.

The *12-Month Outlook* (+6.1 ppt) was the only indicator to rise, again indicating improving conditions moving forward beyond the current downturn.

Figure 2.1: Business Confidence, Dec Q 2014



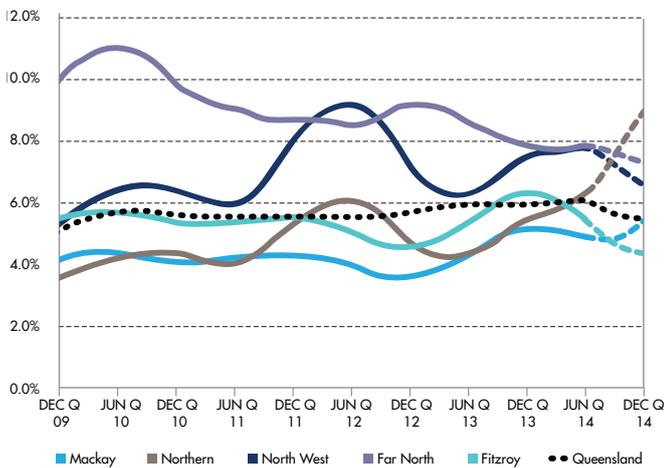
Source: CCIQ Pulse Report December 2014

2.2 Unemployment

Unemployment results for North Queensland's SDs were mixed over the December Quarter 2014. The unemployment rate again rose sharply in the Northern SD (+1.4 ppt). The region continues to be impacted by a lack of new investment and the transition away from servicing the resources sector. Unemployment also rose in the Mackay SD (+0.6 ppt).

Unemployment rates were lower in the Far North SD (-0.3 ppt), in line with the trend of steady improvement over the past two years. Unemployment was also lower in the North West (-0.7 ppt) and Fitzroy SD (-0.3 ppt).

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 FINANCIAL AND INSURANCE SERVICES INDUSTRY

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

Financial and Insurance Services is a key North Queensland industry. Over 2012-13, the industry contributed \$1.3 billion (or 1.8%) to North Queensland's Gross Regional Product (GRP). *Financial and Insurance*

Services is also a significant employer in North Queensland, providing over 5,500 jobs in 2011.

Financial and Insurance Services as a sector includes retail, business, and investment banking, investment advice and management, superannuation, and insurance services.

The Far North SD has the largest *Financial and Insurance Services* industry in North Queensland, contributing around \$400 million (2.7% of Far North GRP) in 2012-13 (see Figure 3.1).

The industry is a key support sector, servicing the region's numerous small to medium sized enterprises across tourism, services, agriculture and manufacturing.

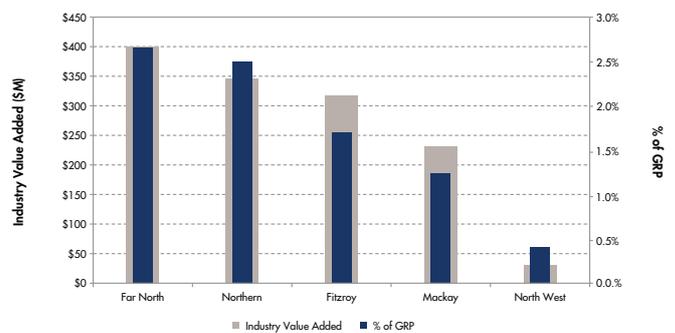
The Northern SD is also a significant *Financial and Insurance Services* hub, servicing the broader North Queensland region. The industry contributes around \$350 million (2.5%) to the Northern SD's GRP.

The Mackay and Fitzroy SDs possess more modest *Financial and Insurance Services* industries, contributing \$319 million (1.7%) and \$231 million (1.2%) to GRP respectively.

The remote North West SD possesses the smallest *Financial and Insurance Services* industry in North Queensland, contributing \$30 million (0.4%) to GRP.

Local North West businesses and residents are increasingly being serviced remotely or on a part-time basis, either from the Northern SD or South East Queensland.

Figure 3.1: North Queensland Financial and Insurance Services Overview (2012-13)



Source: AEC

The *Financial and Insurance Services* industry was one of North Queensland's boom sectors prior to the Global Financial Crisis (GFC) beginning in late 2007.

Strong business expansion, real estate and equity markets generated significant industry growth across a range of services provided by the sector.

However, since that time the industry has struggled to fully recover. The North Queensland industry as a whole has declined at a rate of 1.5% per annum over the past five years (see Table 3.1).

Table 3.1: North Queensland Financial and Insurance Services Overview (2012-13)

Region	Industry Value Added (\$M)	% of GRP	Five Year AAG %
Far North	\$399	2.7%	-3.4%
Northern	\$346	2.5%	-0.2%
Fitzroy	\$319	1.7%	-0.9%
Mackay	\$231	1.2%	-1.4%
North West	\$30	0.4%	-4.1%
North Queensland	\$1,325	1.8%	-1.5%

Note: AAG (Average Annual Growth Rate)

Source: AEC

A range of national and regional factors have contributed to the difficult industry conditions.

Nationally, stricter lending standards, enhanced regulations, and a series of conflict of interest and fraud cases have reduced confidence in the sector.

Regional issues including rising unemployment, a stagnant property market, and weak business and consumer confidence over the past 18 months have further hindered industry recovery.

The collapse of Townsville-based Storm Financial in 2009 with around \$3 billion in client investment losses has also created significant regional implications for the industry.

Several key natural disasters including cyclones Yasi and Marcia, and severe drought across the North West and Fitzroy SDs have directly impacted both the insurance and broader financial services sectors.

Going forward the outlook for the *Financial and Insurance Services* sector will be closely tied to the broader economy. A turnaround in investment and consumer confidence is required for the sector to enter a new growth phase, supporting and facilitating industry expansion and household investment.



Townsville

Level 9, Suncorp Plaza
61 – 73 Sturt Street
Townsville

Ph: (07) 4724 0000
Fax: (07) 4724 0060

Mackay

City Business Centre
134 Victoria Street
Mackay

Ph: (07) 4957 3544
Fax: (07) 4957 5433

Cairns

14 Spence St
Cairns

Ph: (07) 4041 5001
Fax: (07) 4724 0060

Brisbane

Level 7
320 Adelaide Street
Brisbane

Ph: (07) 3010 9236
Fax: (07) 3010 9602