

NORTHERN EXPOSURE



A FINGER ON THE PULSE OF NORTH
QUEENSLAND'S ECONOMY

THIRD QUARTER 2015/2016

1. REGIONAL DEVELOPMENTS AND NEWS

1.1 Mackay Region

News

Recent rains have increased hopes for a strong sugarcane harvest over 2016 across the Mackay Statistical Division (SD). Dry conditions had industry concerned about the potential for a soft annual harvest in a region that utilises limited irrigation.

The region recently crushed 8.2 Mt of sugarcane over 2015 (down from 8.6 Mt over 2014) across the Proserpine, Plane Creek, Farleigh, Racecourse and Marian Mills.

Mackay Regional Council has delivered a range of initiatives aimed at stimulating regional economic development as the region continues to suffer through the current coal sector downturn.

Council has recently allocated \$3 million in grants to local groups and sporting bodies to build \$6.5 million worth of projects, aimed at attracting events and greater visitation to Mackay.

Council has also brought forward \$25 million worth of capital projects, with an amended procurement policy aimed at ensuring maximum economic benefits are captured within the local economy.

Outlook

Economic activity in the Mackay SD remained subdued over the December Quarter 2015.

Unemployment levels continue to rise, however business confidence levels recovered over the quarter.

Developing new industry drivers which take advantage of the lower Australian dollar, such as tourism and events and high value agriculture provide some of the best opportunities for regional growth moving forward.

1.2 Northern Region

News

Queensland Nickel Pty Ltd has been placed into voluntary administration. The move follows the retrenchment of 237 employees who were not paid their entitlements.

Ongoing weak nickel prices have caused a rapid financial deterioration at the Townsville-based nickel refinery.

Significant uncertainty exists about the future viability of one of Townsville's largest employers, with administrators due to report to creditors in mid-April.

The recently released Defence White Paper has laid out plans for significant expansion of Townsville's defence force presence.

The long-term plans include redevelopment of the Townsville High Range Training Area, a \$600 million upgrade of Lavarack Barracks and \$100 million to ready the RAAF Base Townsville for F-35A Joint Strike Fighter aircraft.

Outlook

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

The potential closure of Yabulu Nickel Refinery creates significant further downside risk. Longer-term defence force spending should help the regional economy return to solid growth beyond the current downturn.

1.3 North West Region

News

Plans are progressing towards an 800 head per day abattoir based at Hughenden.

Around 230 North West beef industry stakeholders attended a public meeting which included an update on the project from Chinese investment proponent DSCY (Aust) Investments Pty Ltd.

Flinders Shire Council has agreed to provide an eight metre wide road, and expanded power and water access to support the \$60 million development.

DSYC is hoping to have the facility operational by 2018 with plans for the project expected to be finalised by mid-2016.

Outlook

The North West economy continues to experience weakening economic activity.

The significant cutbacks by major resource producers Glencore and Cannington Mine operator South 32 continue to drag on employment and confidence.

Potential diversified value adding investments such as the Hughenden-based abattoir are critical to drive economic growth and opportunity within the remote North West SD.

1.4 Far North Region

News

Construction of Mount Emerald Wind Farm is expected to commence over the next 12 months after receiving final environmental approval.

Federal approval for the \$380 million project is subject to 35 conditions aiming to minimise environmental impacts.

The 180MW wind farm based at Walkamin on the Tablelands is set to be Queensland's largest, with up to 63 turbines planned.

Cairns Airport is on track to exceed five million passengers over the next 12 months.

The airport recorded 4.8 million passengers over 2015, including an all-time monthly high 436,140 over December.

Growth has been driven by increased international visitation, including new services between Manila and Auckland. International passenger numbers increased 23% over December 2015, with domestic travel rising 7%.

Outlook

The outlook for the Far North SD remained steady over the December Quarter 2015.

There are increasing signs of growth in the regional tourism sector, with increased cruise shipping and international flights key positive industry drivers.

Major construction works including the \$380 million Mount Emerald Wind Farm have the potential to add significant further stimulus to the Cairns SD economy over the coming year.

1.5 Fitzroy Region

News

The Federal Government has committed to \$190 million in defence infrastructure and intelligence projects at Shoalwater Bay Training Area in the Fitzroy SD.

Approximately \$150 million will be spent on upgrades to support a range of new land combat and amphibious warfare capabilities over the next 10 years.

A further \$40 million is planned to be invested over 2025-2036.

It is envisioned the upgrades will also support armed intelligence, surveillance and reconnaissance drones.

Outlook

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

The region continues to adjust to lower economic activity post the mining boom of the past decade.

The potential for an increased defence force presence and counter-cyclical infrastructure spending has the capacity to provide significant regional economic benefits. For this

to occur, local companies and employees will need to capture a significant share of the activity associated with the planned regional defence force expansion.

2. QUARTERLY INDICATORS

2.1 Business Confidence

Business confidence results were mixed across North Queensland SDs over the December Quarter 2015.

Confidence rose from low levels in resource centres of Mackay and Fitzroy SD.

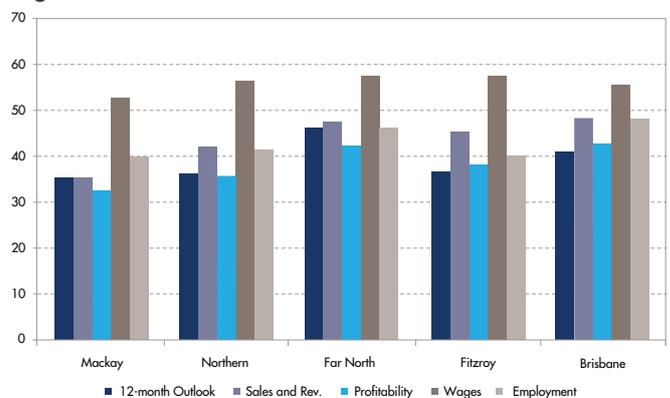
Mackay SD registered strong gains totalling +25.0 ppt across all indicators. The *12-Month Outlook* (+15.0 ppt) and *Sales and Revenue* (+8.1 ppt) recorded the strongest gains.

Fitzroy SD registered a more modest gain of +11.3 ppt across all indicators. In a positive sign, *Sales and Revenue* (+8.8 ppt) and *Profitability* (+4.6 ppt) both rose strongly.

The Northern SD recorded weaker confidence totalling -12.6 ppt across all indicators. *Sales and Revenue* (-6.2 ppt) recorded the largest fall.

Confidence levels were considerably lower in the Far North SD. The *12-Month Outlook* (-8.9 ppt) recorded the largest fall driven by increasing uncertainty regarding the multi-billion dollar AQUIS Casino Resort development.

Figure 2.1: Business Confidence, Dec Q 2015



Source: CCIQ Pulse Report December 2015

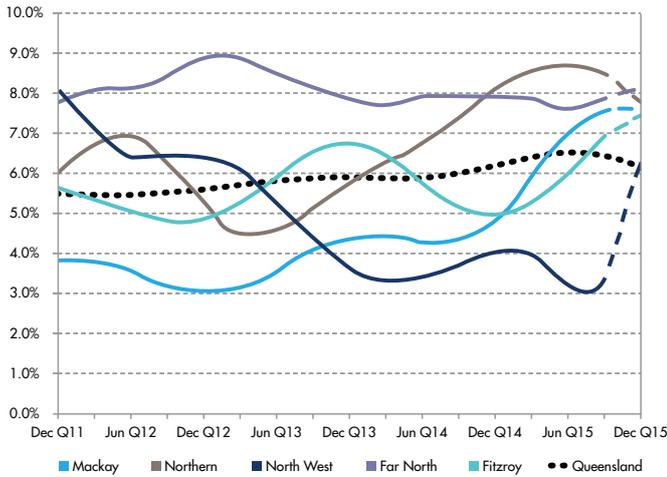
2.2 Unemployment

Unemployment was mostly higher for North Queensland's SDs over the December Quarter 2015. The unemployment rate rose sharply in the North West SD (+2.8 ppt) as the region feels the impacts of recent resource sector cut backs.

The Fitzroy (+0.6 ppt), Far North (+0.3 ppt) and Mackay SD (+0.1 ppt) recorded more modest unemployment increases.

Unemployment was lower in the Northern SD (-0.6 ppt), with the recent redundancies at Queensland Nickel yet to flow through to the region's already high unemployment rate.

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 ELECTRICITY, GAS, WATER AND WASTE SERVICES

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

Electricity, Gas, Water and Waste Services is a significant North Queensland industry, contributing \$2.8 billion (3.8%) to Gross Regional Product (GRP) in 2013-14. The sector is also a notable regional employer, contributing over 5,000 jobs in 2011.

The industry covers a range of utility sectors which are traditionally a natural monopoly. Currently the industry incorporates a range of public and private sector operating models.

The Fitzroy SD features by far the largest *Electricity, Gas, Water and Waste Services* industry in North Queensland, driven in significant part by the burgeoning Curtis Island natural gas sector and the NRG Gladstone and Callide Power Stations (see Table 3.1).

While smaller than Fitzroy SD, the Northern, Far North and Mackay SD also possess significant *Electricity, Gas, Water and Waste Services* sectors contributing between \$270 and \$350 million to GRP over 2013-14.

The industry in these SDs is geared towards servicing the direct needs of the regional industry and growing population base.

The remote North West SD possesses a more modest *Electricity, Gas, Water and Waste Services* sector. However, the industry acts as a critical catalyst for both current operations and future development across the resources and agricultural sectors.

The Diamantina Gas Fired Power Station currently services

some of the region's major resource producers.

Table 3.1: North Queensland Electricity, Gas, Water and Waste Services Industry GRP Contribution (2013-14 \$M)

Statistical Division	Industry GRP (2013-14)	% of GRP
Fitzroy	\$1,718.7	8.8%
Far North	\$348.5	2.5%
Northern	\$298.2	2.8%
Mackay	\$269.9	1.4%
North West	\$165.8	2.3%
North Queensland Total	\$2,801.1	3.8%

Source: AEC

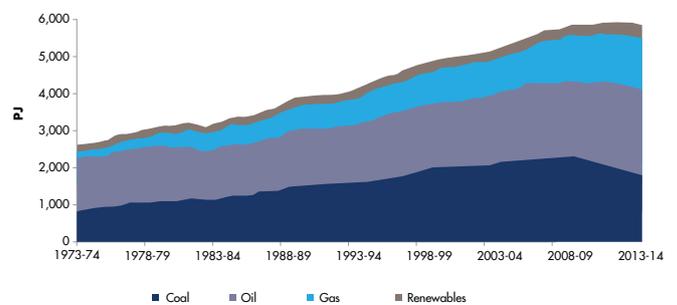
The *Electricity, Gas, Water and Waste Services* industry has faced challenging conditions over recent years.

Variable climate conditions have caused water supply shortages, with areas such as the North West potentially requiring significant infrastructure investment in order to improve the reliability of supply.

The energy sector has faced an uncertain outlook, with declining overall electricity consumption due to high prices and increasing energy efficiency.

Recent falls in commodity prices may improve the outlook for consumption growth over the short-medium term.

Figure 3.1: Australian Energy Consumption



Source: Department of Industry and Science (2015)

The electricity sector has also faced significant legislative instability. The introduction and removal of Australia's carbon tax and Federal Government review of the Renewable Energy Target (RET) Scheme have impacted industry confidence and investment across traditional fossil fuel and renewable energy developments.

The waste management services sector has experienced more stable conditions, with operations driven by regional population and industry growth.

The *Electricity, Gas, Water and Waste Services* sector will be crucial to the economic growth of North Queensland over the coming years.

Major energy projects such as the \$380 million Mount Emerald Wind Farm and the potential connection of Mount Isa to the Northern Territory gas network have the potential to create significant new industries in regional

areas of North Queensland.

Provision of affordable energy and water is critical for projects such as the Hughenden abattoir and expanded resources developments such as oil shale, iron ore, copper and zinc projects across the North West and parts of the Far North SD.

Likewise, future water storage and distribution expansions including Cave Hill Dam at Cloncurry and O’Connell Creek Off-Stream Storage near Richmond have the potential to open up the North West to higher value and more intensive forms of agriculture.

Controlling infrastructure and operational costs will be a critical factor in enabling the *Electricity, Gas, Water and Waste Services* sector to facilitate broad regional economic development throughout North Queensland over the coming years.

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