



Northern Exposure

A finger on the pulse of North Queensland's economy

1. Regional Developments and News

1.1: Mackay Region



News

There has been continued controversy over BMA's application for a 100% fly in, fly out workforce at its Caval Ridge mine. Currently, the mine is serviced by 70% fly in, fly out, with a 30% local workforce requirement. Critics claim the move undermines much needed investment in local mining towns and disregards worker preferences. Supporters of the application believe the measure will ease cost of living pressures and reduce skills shortages in the area. The State Government is set to rule on BMA's application over the coming months.

The \$200 million Port of Airlie is the latest large scale development to fall into receivership. A poor tourist season combined with cyclones and the continued high Australian Dollar have been blamed for the collapse of the project. Operations for the Port's existing businesses are not expected to be impacted by the receivership.

Outlook

Mackay SD is set to benefit from \$13.5 billion of mining projects in the pipeline, creating a positive outlook for 2011-12. Downside risks exist from the implementation of the Federal Government's Carbon Tax in 2012, and the continued high Australian Dollar. However, the significant capital investment taking place in the Bowen Basin area is expected to continue to drive the economy forward. The region currently enjoys the highest business confidence and lowest unemployment levels in North Queensland. Ongoing issues of skills shortages and labour costs are likely to continue to constrain development outside of the mining industry.

1.2: Northern Region

News

Two major sporting facility developments are under consideration for Townsville City. A \$145 million entertainment and convention centre proposed for Dean Street awaits State Government funding approval. The North Queensland Cowboys have unveiled plans for an \$185 million, 30,000 seat inner-city stadium. The plans come as Townsville's current Entertainment Centre and Dairy Farmer's Sports Stadium have become run-down and expensive to maintain. In addition, the new location of the facilities (near Dean St car park) is considered to be superior to the existing sites. The planned facilities are expected to provide a further boost to Townsville's city heart, following the \$60 million refurbishment of Flinders Street.

North Queensland will resume exporting live cattle to Indonesia this month, as the industry begins to recover from the temporary live export ban. The first shipment of 7,000 cattle from the North is due to leave in early September, bound for Indonesian operators which have passed the new animal welfare export standards.



Outlook

With unemployment now trending upwards and volatility on global markets, there are growing risks to the Northern economy over the short-term. However, the continuation of record high sugar prices in 2011 should underpin activity throughout Hinchinbrook and the Burdekin. Meanwhile, approximately 750 troops from the 3rd Battalion Royal Australian Regiment are due to relocate to Townsville in early 2012, providing a substantial boost to the local economy. With a diverse range of economic drivers, the medium to longer-term outlook for the Northern SD remains positive.

1.3: North West Region



News

Xstrata has taken further steps towards its long-term sustainability plan for North West Queensland. The company has announced approval for a \$47 million pre-feasibility study that considers the expansion of operations next to the company's existing Black Star Mine. The proposed open cut mine has the potential to yield over 340 million tonnes of zinc-lead ore and 130 million tonnes of copper.

Outlook

While sustained high commodity prices have underpinned the North West's economy so far in 2011, the outlook for the region remains exposed to significant uncertainty. Planned capital investment in copper, zinc and lead mining are expected to continue to drive the economy forward. However, sectors outside the resource industry, including a beef cattle industry hit hard by the temporary live export ban, will likely prove to be a drag on growth.

1.4: Far North Region

News

The Australian Government has announced the establishment of a two year pilot coordinator program for fly-in, fly-out employment opportunities for Cairns. The program is to be run jointly by Advance Cairns and SkillsDMC and aims to turn Cairns into a fly-in, fly-out mining hub. The coordinator will aim to link the local workforce with both training programs and potential mining and construction projects. The program will also establish links with local airline services in order to facilitate fly in, fly out activity. The program is considered a positive step towards helping the Far North obtain a larger share of the mining boom.

There has been a strong year on year rise in the number of passengers at Cairns Airport. International passenger numbers for the FYE June 2011 rose 18.9% from 2010 levels, and domestic passengers rose 6.1%. While this is a positive sign for the region's tourism operators, international passenger numbers still remain 37.3% below their 2005 peak.

Outlook

The outlook for Far North Queensland has brightened over June Quarter 2011. After peaking in June Quarter 2010 at

11%, unemployment has been on a steady downward trend for the past four quarters. Business confidence has also seen a marked improvement, as the Far North recovers from the devastation of Cyclone Yasi.

However, significant downside risks continue to threaten a full recovery in the Far North. Uncertainty surrounding interest rates and global markets are likely to continue to subdue domestic demand. In addition, the continued strength of the Australian Dollar and the recent devastation in Japan (one of the Far North's major international tourism markets) reduces the likelihood of a smooth recovery in the region's dominant tourism sector.

2. Quarterly Indicators

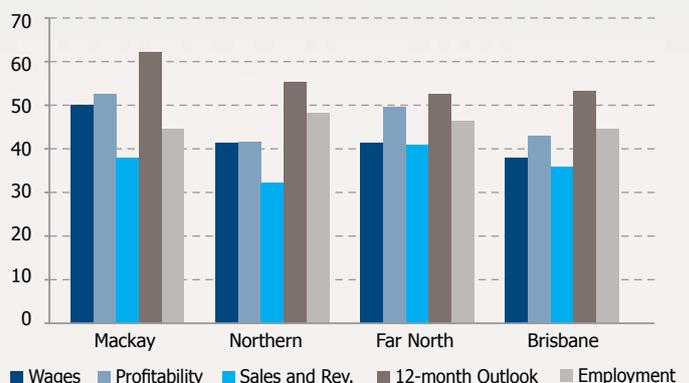
2.1: Business Confidence

North Queensland business confidence improved across all regions throughout June Quarter 2011 as recovery from the cyclones and floods continued to take effect. The Mackay SD recorded a 5.5 ppt increase across all indicators. Increases in *Sales & Revenue* (+6.4 ppt) and *Wages* (+5.6 ppt) were partially offset by falls in the *12-Month Outlook* (-2.1 ppt), *Profitability* (-2.9 ppt), and *Employment* (-1.5 ppt). Mackay SD retains North Queensland's highest overall business confidence levels for the second consecutive quarter.

Confidence in the Far North bounced back strongly from record low levels in the March Quarter 2011. In a positive sign *Sales and Revenue* (+21.9 ppt) and *Profitability* (+14.9 ppt) experienced the largest gains. Business Confidence in the Far North rose 51 ppt across all indicators.

Despite rising unemployment, the Northern SD experienced a 13.5 ppt increase in business confidence across all indicators. *Profitability* (+9.8 ppt) accounted for most of the increase, while *12-Month Outlook* (-2.5 ppt) was the only indicator to fall.

Figure 2.1: Business Confidence, June Q 2011



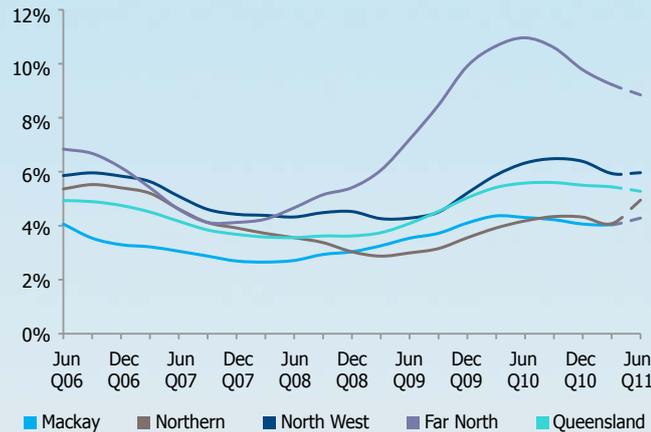
Source: CCIQ Pulse Report June 2011

2.2: Unemployment

There was mixed results for unemployment throughout North Queensland over June Quarter 2011. The Mackay SD (+0.2 ppt) and Northern SD (+0.9 ppt) experienced rises in unemployment. However, these regions clearly retain

the two lowest unemployment rates in North Queensland at 4.3% and 4.9%. The Far North enjoyed a fourth straight quarter of falling unemployment. The unemployment rate dropped 0.4 ppt to edge below 9% for the first time since 2009. Unemployment remained flat in the North West SD over the June Quarter 2011 at 6%.

Figure 2.2: Unemployment Rate



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

3. North Queensland's Mining Industry

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

Mining is one of North Queensland's fastest growing major industries, with the North West and Mackay SD's among Australia's largest mineral producing regions. The Mackay SD is one of Australia's most productive coal regions, while the North West SD boasts extensive production and reserves of copper, lead, zinc, and silver. The Far North is a relatively small mining region in North Queensland, however, is a significant producer of bauxite (aluminium). The region boasts the world's largest bauxite mine, in addition to significant port operations at Weipa. The Northern SD is a noted gold producer, through mines at Charters Towers and Ravenswood. The region also exports iron ore from the Mt Moss Mine, where production is expected to reach 500,000 tonnes in 2011. In addition the Northern SD provides extensive refining, port, labour, and support services to the mining industries in Mackay and the North West.

The longer term outlook for North Queensland's mining industry is primarily driven by demand factors from rapidly developing Asian economies. Forecast prices for North Queensland's key mining commodities are outlined in (Table 3.1). Prices are generally predicted to fall over the next five years. Thermal coal and gold are expected to peak in 2011 before falling 29.4% and 19.4% respectively through to 2016. Copper, alumina and zinc are expected to enjoy one more

year of rising prices before also falling in value. Zinc is the only major commodity expected to recover 2011 prices by 2016.

Table 3.1: Commodity Prices and Forecasts

Year	Copper	Gold	Alumina	Thermal Coal	Zinc
	US\$/t	US\$/oz	US\$/t	US\$/t	US\$/t
2009	\$5,217.4	\$1,001.8	\$256.5	\$71.3	\$1,705.8
2010	\$7,626.5	\$1,241.4	\$349.4	\$98.0	\$2,179.7
2011	\$9,850.0	\$1,320.0	\$385.6	\$123.1	\$2,425.0
2012	\$11,029.4	\$1,076.0	\$392.2	\$111.0	\$2,254.9
2013	\$9,900.0	\$973.2	\$365.2	\$104.1	\$2,393.3
2014	\$8,952.1	\$1,008.3	\$329.8	\$97.4	\$2,417.1
2015	\$7,760.3	\$1,027.8	\$300.2	\$88.2	\$2,439.0
2016	\$6,951.5	\$1,064.2	\$289.8	\$80.3	\$2,445.5
An. Growth.	-29.4%	-19.4%	-24.8%	-34.8%	0.8%

Note: Prices are in 2011 'real' US dollars.
Source: ABARE Commodities Report March 2011

The driving force behind the forecast decline in commodity prices are expected increases in supply, driven by development in Australia and other resource rich nations particularly in Africa and South America. While robust demand for commodities is expected to continue, supply from these new mines is expected to factor into world prices over coming years. Table 3.2: Planned North Queensland Mining Capital Expenditure highlights the mine development expenditure aimed at increasing North Queensland production capacity (either in construction or under consideration) as of 2011.

Table 3.2: Planned North Queensland Mining Capital Expenditure

Region	Expected Cap. Ex. (\$AU million)	Resources
Mackay SD	\$32,205	Thermal/coking coal, gold,
North West	\$2,386	Copper, lead, zinc, silver, phosphate
Far North	\$400	Bauxite, tin, gold, tungsten
Northern	\$200	Gold, nickel

Source: TEL, REDC, ABARES, AECgroup

As Table 3.2: Planned North Queensland Mining Capital Expenditure illustrates, most of the new investment will take place in the Mackay SD. The majority of spending is aimed at increasing coking coal production, and is in addition to significant port and rail infrastructure expenditure.

While only a fraction of the proposed projects may ever be completed, the resulting construction investment will continue to be a major employment and business confidence driver for North Queensland. Even as increased global supply begins to factor into commodity prices, the infrastructure and capacity gains created by the investment boom will underpin export volumes, productivity, and economic activity in North Queensland.