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Northern Exposure

A finger on the pulse of North Queensland's economy

1. Regional Developments and News

1.1: Mackay Region

News

The State Government has approved BMA's controversial application for a 100% fly in, fly out (FIFO) workforce at its Caval Ridge mine near Moranbah. The decision announced by the Coordinator General has led to mixed responses. Supporters see the move necessary to address the chronic skills shortage and cost of living pressures facing the region. However, critics have slammed the decision, claiming the move will undermine infrastructure investment, hurt local businesses and destroy the liveability of the Moranbah area. Following the 100% FIFO approval, BMA is moving ahead with plans to build a $155 million, 2,500 room accommodation village for Caval Ridge workers.

The Proserpine Sugar Mill has been purchased by rival Sucrogen. A vote by the co-operative's creditors resulted in a 93% approval for the sale, valued at $120 million plus working capital allowances. The Proserpine mill was placed into administration in November, as high debt levels left the co-operative with insufficient funds to continue operations. The sale ends a five month battle between the Wilmar International-owned Sucrogen and COFCO subsidiary Tully Sugar for control of the mill. Tully Sugar's final unsuccessful offer was reportedly worth $128 million.

Outlook

Despite ongoing volatility on global markets, the Mackay SD continues to perform strongly. The booming resource sector has allowed Mackay SD to retain the highest business confidence and lowest unemployment levels in North Queensland. Downside risks remain should the current European sovereign debt crisis lead to a significant deterioration in key commodity prices.

1.2: Northern Region

News

Townsville hopes to have two new CBD skyscrapers built during 2012. The Department of Public Works and Ergon Energy have both been engaged in tendering processes to lease nearly 17,000 square metres of new office space. Ergon Energy has recently chosen Lancini Group's 420 on Flinders office tower as their successful tender, with construction expected to begin in 2012. These projects are expected to provide a huge boost to Townsville's City Heart.

Plans have been released for a $25 million, 16 lane recreational boating park at the Townsville Marine Precinct in South Townsville. Once completed the combined State Government and Townsville City Council project will provide two pontoons, floating walkways and a three storey boat storage facility. Stage one of construction is planned to start this year, with project completion estimated by 2016.

Outlook

There have been continued signs of weakness in the Northern SD's normally robust economy. Unemployment has continued to trend upwards, and business confidence experienced further declines over September Quarter 2011. However, a dry finish to the sugar harvest should underpin economic activity throughout Hinchinbrook and the Burdekin. Meanwhile, Townsville is set to benefit from numerous commercial, recreational, and residential developments. Major projects include the $85 million cruise ship terminal, $25 million recreational boating park, and $110 million Townsville Marine Precinct. Despite recent poor data, the medium to longer-term outlook for the Northern SD with its numerous economic drivers remains positive.

1.3: North West Region

News

Directors of the embattled CopperString project have decided to continue plans to build the 1,000km high-voltage transmission line between Townsville and Mt Isa. The $1.5 billion project came under threat as Xstrata (a major energy user in the region) signed a twenty year deal to source its electricity from the Diamantina gas-fired power station. CopperString directors have been forced to reduce the scope of the project in light of Xstrata's decision. The scaled back project still plans to connect both the North West Minerals Province and major renewable energy projects with the national grid. Construction of the revised CopperString project is expected to commence mid 2012.

Outlook

The North West economy continued to perform solidly over the September Quarter 2011. Despite the uncertainty surrounding CopperString, several major resource projects are expected to continue to drive economic growth in the North West SD. Downside risks remain should the ongoing economic uncertainty surrounding the Eurozone lead to a sustained drop in key commodity prices.

1.4: Far North Region

News

Concerns have been raised that divisions within Cairns Regional Council (CRC) may jeopardise the $155 million Cairns Cultural Precinct development. Questions have been raised within CRC about the costs and long-term viability of the proposal. CRC has scheduled a vote to stall the project for mid-December, pending the release of financial modelling data. Cairns business leaders have urged CRC to unite behind the project, with the State Government currently deciding whether to contribute $57.3 million towards the development.

Thai based Mitr Phol Sugar Corporation has made a $313 million takeover offer for Far North sugar mill operator MSF Sugar. The offer follows the $1.7 billion takeover of Sucrogen by Singapore based Wilmar International and the $136 million Tully Sugar takeover by Chinese State-owned firm COFCO. Major Asian agribusiness companies continue to seek to increase their holdings of Australian sugar assets in order to capitalise on rapidly growing demand in the region. Should Mitr Phol's bid prove successful, it will take control of the Mulgrave, South Johnston, and Tableland mills in the Far North, in addition to MSF's Maryborough based operations.

Outlook

The outlook for the Far North SD continues to steadily improve. Unemployment has continued its downward trend to dip below 8% in September Quarter 2011. The Reserve Bank of Australia's decision to reduce interest rates by 25 base points at consecutive monthly meetings will further aid Far North businesses leading into the critical December trading period. However, significant downside risks continue to threaten a full recovery in the Far North. The current uncertainty surrounding Europe, combined with the high Australian Dollar will likely continue to subdue international arrival numbers and domestic discretionary spending.

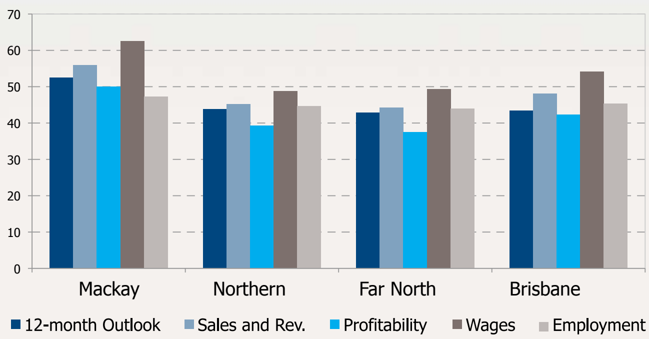
2. Quarterly Indicators

2.1: Business Confidence

There were mixed results for North Queensland's business confidence over September Quarter 2011. Confidence in the Mackay SD continued to climb, with a 12.1 ppt increase in Profitability highlighting the current strength of the region's resource-based economy. Confidence rose across all indicators by a total of 21 ppt.

In stark contrast confidence fell in both the Northern and Far North SDs. In the Far North, Sales and Revenue (-5.2 ppt) and Profitability (-3.4 ppt) suffered the largest falls. In the Northern SD weakness in Wages (-7.9 ppt) and Employment (-6.0 ppt) proved the largest drag on confidence. Across all indicators Northern and Far North business confidence fell 12.7 ppt and 12.9 ppt respectively. However, in a positive sign moving forward, the 12-Month Outlook in both the Northern and Far North SDs rose by 2.5 and 1.5 ppt.

Figure 2.1: Business Confidence, September Q 2011



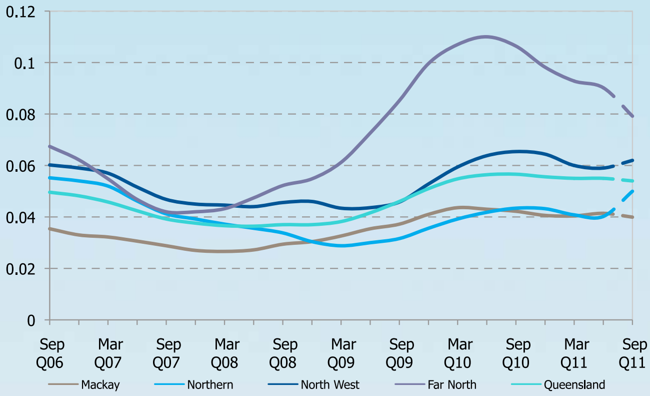
Source: CCIQ Pulse Report September 2011

2.2: Unemployment

Unemployment data varied throughout North Queensland's SDs over September Quarter 2011. The Mackay SD (-0.1 ppt) and Far North SD (-1.1 ppt) experienced falls in unemployment. However, these reductions were offset by increases in the North West (+0.3 ppt) and a sharp (+1.0 ppt) rise in the Northern SD. Unemployment in the Northern SD has reached the 5% level for the first time since March

Quarter 2007. However, despite the recent poor performance, Northern SD unemployment remains the second lowest in North Queensland and 0.4 ppt below the Queensland benchmark rate.

Figure 2.2: Unemployment Rate



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

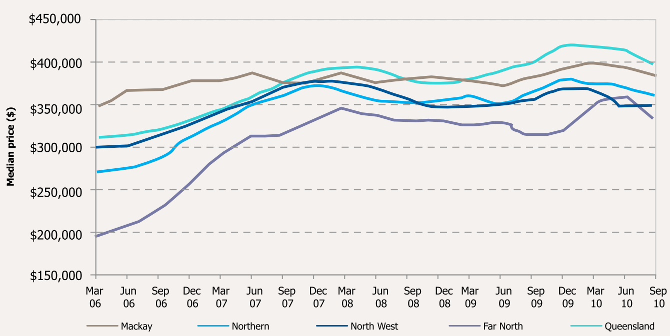
3. North Queensland's Construction Industry

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

Construction is one of North Queensland's largest and most important industries. In 2009-10, construction contributed $3.69 billion (or 8.4%) to North Queensland's Gross Regional Product. In addition the industry supplied approximately 39,888 jobs, making construction North Queensland's second largest employer behind retail trade.

Activity in North Queensland's construction industry peaked in 2007. Years of continually rising property prices, combined with a booming national economy helped to fuel confidence in both residential and commercial construction (see Figure 3.1).

Figure 3.1: Median House Prices



Source: RP Data

Since the onset of the Global Financial Crisis (GFC) in 2008, flat to negative growth in property values and a more conservative approach towards debt levels have led to a marked slowdown in construction activity. The weak demand conditions for construction have been compounded by high raw material costs and fierce competition for skilled labour from the mining sector. This challenging business environment has led to several high profile company failures, including Lamont Constructions, Coastline Constructions, CMC, CEC, and Hedley Group.

Construction in the Far North SD led the way during the boom years, with approximately 3,339 residential building approvals in 2007 (see Table 3.1). However annual approvals have since fallen by 64.5% (2010). The Far North economy has suffered through high unemployment, compounded by the devastation of Cyclone Yasi. The construction industry has fared much better in the Mackay SD. Activity levels have been maintained via strong demand from mining companies and employees. Despite this, Mackay SDs residential approvals in 2010 were 19% below 2007 levels. The Northern SD has also seen a marked decline in activity, with 2010 residential approvals 40% below 2007. The Northern SD has been fortunate to retain major commercial developments including Myer Aitkenvale and Stockland North Shore, which have helped to support construction activity. Residential construction in the North West SD recovered to set a new record of 97 approvals in 2010.

Table 3.1: Number of Residential Building Approvals

Year	Mackay	Northern	Far North	North West	Qld.
2003	1,074	1,657	1,892	18	43,453
2004	1,464	2,096	2,496	38	41,504
2005	1,535	2,230	2,349	34	38,855
2006	1,652	2,075	2,829	65	38,935
2007	1,745	2,655	3,339	88	45,708
2008	1,353	2,060	2,034	69	36,734
2009	1,254	1,719	1,400	58	28,708
2010	1,414	1,592	1,185	97	32,110
2011	761	995	543	46	19,875

Source: OESR
Note: 2011 year incomplete

With both residential and commercial construction slowing in recent years, infrastructure projects have been critical in supporting North Queensland's construction industry. Major public infrastructure projects include the $437 million Townsville, $446 million Cairns Base, and $325 million Mackay Base Hospital redevelopments. Going forward, $1 billion is planned to be spent maintaining and upgrading North Queensland road infrastructure. Projects include the $190 million Townsville Port Access Road, $115 million Cardwell Range realignment, and $150 million Bruce Highway upgrade between Edmonton and Cairns City.

Continued infrastructure spending will remain vital to support North Queensland's construction industry. However, there have been tentative signs that private demand is beginning to recover. In a show of confidence in the North Queensland economy, Townsville's Kensington Tower development recently sold 43 out of 44 city apartments prior to the commencement of construction.