



Northern Exposure

A finger on the pulse of North Queensland's economy

1. Regional Developments and News

This edition we have added the Fitzroy region to the Northern Exposure, including Rockhampton, Gladstone and Emerald. This region is a major contributor to the Queensland economy.

1.1: Mackay Region

News

Honeycombes Property Group has lodged development approval for a nine-storey, \$22 million apartment complex on the edge of the Mackay CBD. The proposed development located on East Gordon Street consists of 56 one to three bedroom apartments in addition to café and restaurant facilities.

The proposal is a direct result of strong buyer interest in the company's \$25 million Carlyle Apartments complex currently under construction.

Carabella Resources has announced plans to develop a new open cut coal mine west of Moranbah. The \$500 million project would produce around 3.8 million tonnes of coking and thermal coal annually.

The approvals process is currently underway with construction planned to commence in the next 18 months. The project would require an estimated construction workforce of around 400 persons.

Outlook

There were mixed signals for the Mackay SD economy over the September Quarter 2012. Further falls in commodity prices and continued global economic uncertainty generated a significant decline in business confidence.

However, employment levels remain strong and historically high levels of investment continue to flow into the region. While a further softening in the region's resource driven economy is expected, there is increasing investment interest in the Mackay SD from outside of the resource sector. Projects include the Honeycombes Carlyle Apartments and

Pacific Sands residential developments and Lancini Group's Mackay Homemaker Precinct.

The longer term outlook for the Mackay SD with strong employment drivers and rapid population growth remains very strong.

1.2: Northern Region

News

The Seaview Hotel on Townsville's Strand has been placed under contract for a reported \$15.5 million. The iconic hotel previously owned by SSI Group has been in receivership since 2010.

Purchasers Mantle Group are reportedly considering conference centre facilities and short term accommodation development options on the 1.2 ha of land surrounding the hotel site.

Townsville's construction sector continues to recover with 559 dwelling approvals registered in the three months to September 2012. The result is a 42% increase over the same period in 2011. The increase was the third highest in Queensland, following the resource centres of Mackay and Toowoomba.

Outlook

The Northern SD performed solidly over the September Quarter 2012. Employment levels recovered after rising unemployment for four consecutive quarters on the back of a slowing regional economy and public sector spending cuts.

The Townsville economy is receiving considerable stimulus with works currently underway on the \$133 million CBD 'twin towers' and the \$85 million cruise ship terminal. An expected dry finish to the Hinchinbrook and Burdekin sugar harvests, and proposed mining expansions in Charters Towers should underpin economic activity throughout the broader SD.

Offermans Partners is a specialist practice offering turnaround and solvency solutions focused primarily on Regional Queensland businesses with offices in Townsville and Mackay.

Offermans Partners is also uniquely positioned to provide specialist advice to the Agribusiness sector. We see the experience and background of our staff as a key differentiator to other advisory firms.

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



1.3: North West Region

News

The joint owners of the under construction Diamantina Power Station have announced plans to construct an additional 60 MW open-cycle power plant on an adjacent site.

Construction of the Leichhardt Power Station is set to commence early next year. Once the two projects are completed in 2014 power supply to the Mt Isa region will be increased by over 300 MW.

Outlook

While not immune to the recent slump in commodity prices, the North West has continued to perform well over the September Quarter.

The diversity of the North West's minerals production which includes copper, gold, lead, zinc and phosphate combined with the continuation of several advanced stage developments has underpinned economic growth in the region.

However the challenge remains for the North West to entice the highly paid employees into the region as permanent residents. The North West will also need to attract further investment from both inside and outside of the resource sector beyond the current round of projects.

1.4: Far North Region

News

Rio Tinto has lodged an EIS for a \$1 billion expansion of its bauxite operations near Weipa. The project hopes to ramp up exports after 3 years construction starting in 2013.

Works are set to commence on the Central Park Market shopping precinct in early 2013. Owners Central Park Group will call for tenders for the \$85 million project in early January. The development located at Spence Street in the Cairns CBD is expected to employ around 150 workers during the 18 month construction phase.

Queensland's Coordinator-General has approved a \$1.4 billion residential and resort development at Ella Bay, north of Innisfail. The project is expected to take 15 years to complete with a peak workforce of 400. Final Federal environmental approval is still required.

The Far North's sugar harvest has completed, with the region producing just over five million tonnes of cane. While the harvest is low by historical standards, output is up by over two million tonnes compared to 2011 when the region was decimated by Cyclone Yasi.

Outlook

There were signs of bumps in the recovery of the Far North economy over the September Quarter 2012.

Unemployment rose after experiencing a steady downtrend over the past 18 months and business confidence sank back from the high levels recorded in the June Quarter. However, an improved tourist season and continued strong sugar, fruit and vegetable prices suggest that the overall outlook will continue to improve for the Far North over the coming quarters.

1.5: Fitzroy Region

News

The Ensham Coal Mine north-east of Emerald has reduced its workforce by a further 250 contractors and permanent staff.

As a result of the 30% fall in prices over the past four months the mine has decided to confine thermal coal production to the lowest cost areas. The total Ensham Mine workforce now stands at 500, down from 900 earlier this year.

The State Government has announced a salinity trading scheme for the Fitzroy River. The announcement comes as Central Queensland mines struggle to find a solution to excess water remaining from the 2010 Queensland floods.

The scheme would see individual operations set a release allocation which could then be traded between mines. A pilot program will be undertaken during the current wet season involving water released from four mines in the Upper Isaac River.

Outlook

The outlook for the Fitzroy region continues to be driven by world coal prices and the Australian Dollar. With the current weakness in commodity prices set to continue over the immediate term, a further cooling of the Fitzroy economy is expected.

Although with commodity prices likely to remain significantly above pre-boom levels, and around \$13 billion in coal projects still under construction across Central Queensland the medium to longer term outlook for Fitzroy remains robust.

2. Quarterly Indicators

2.1: Business Confidence

North Queensland business confidence slumped across all regions throughout September Quarter 2012. Weaker commodity prices and the flow-on impact of public sector cut backs have been the major drivers behind the fall in business sentiment.

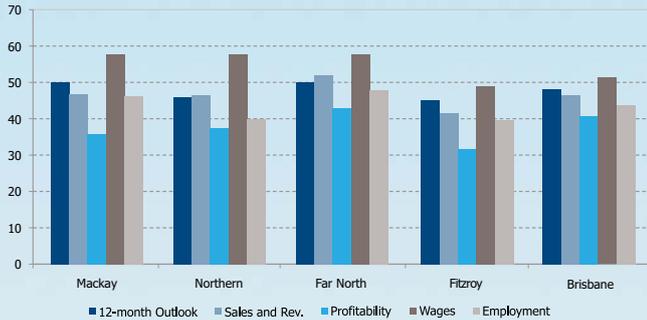
The Fitzroy SD saw confidence fall by 34.3 ppt across all indicators. The weak confidence reading follows announcements of job cuts and reduced capital expenditures by several major miners including Xstrata, BHP, and Anglo American. *Profitability* (-12.9 ppt) and *Sales and Revenue* (-9.6 ppt) suffered the largest falls.

A similar loss of confidence was experienced in the Mackay SD, where confidence fell 22.5 ppt across all indicators. *The 12-Month Outlook* (-12.5 ppt) accounted for most of the fall. *Profitability* (+3.8 ppt) was the only indicator to rise, suggesting a possible easing in the region's business and cost of living pressures.

Business confidence was also sharply lower in the Northern and Far North Statistical Divisions. The Far North experienced considerable falls in *Wages* (-8.3 ppt) and *Sales and Revenues* (-4.4 ppt) leading to an overall decline of 18.7 ppt across all

indicators. *Sales and Revenue* (-9.4 ppt) and *Wages* (-7.2 ppt) were also the main drivers of lower business confidence in the Northern SD. However, the Northern SD falls were partially offset by a rise in *Employment* (+3.8 ppt), leading to an overall sentiment decline of 15.1 ppt across all indicators.

Figure 2.2: Business Confidence, Sep Q 2012



Source: CCIQ Pulse Report September 2012

2.2: Unemployment

Unemployment was generally lower throughout North Queensland over September Quarter 2012.

The Northern SD (-0.9 ppt) experienced the largest fall, after suffering four consecutive quarters of rising unemployment. The North West (-0.7 ppt), Mackay (-0.4 ppt), and Fitzroy (-0.4 ppt) regions also experienced lower unemployment. The Far North was the only Statistical Division to experience increased unemployment with a rise of 0.3 ppt.

Currently the Mackay, Fitzroy, and Northern regions are all experiencing unemployment levels below the State benchmark 5.5%.

Figure 2.1: Unemployment Rate



Note: Dotted lines are forecasts based on ABS small area labour force statistics

Source: QRSIS Labour Force Trends

3. North Queensland's Accommodation and Food 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 Accommodation and Food Services industry.

Accommodation and Food Services is a major industry in North Queensland, contributing \$1.6 billion (2.5%) to Gross Regional Product (GRP) in 2010-2011. In addition *Accommodation and Food Services* is a significant employment industry, providing 33,807 jobs (7.0% of total employment) in 2009-10. The Industry incorporates a broad range of hospitality activities which are often closely linked to tourism. In recent years the industry has also adapted to provide key support services to the resource industries of the Mackay, North West, and Fitzroy Statistical Divisions.

The Far North SD possesses the largest *Accommodation and Food Services* industry in North Queensland. The region's several major tourist destinations and 2 million plus annual visitors help to support over 1,000 *Accommodation and Food Services* businesses (see Table 3.1). The North West SD has the lowest number of *Accommodation and Food Services* businesses. However, the sector represents a significant proportion of total businesses (5.0%) and is an important industry in the region.

The Mackay, Fitzroy, and Northern Statistical Divisions possess more modest *Accommodation and Food Services* industries, representing 3.3%, 3.7% and 3.4% of total business respectively. However each of the regions has seen a strong increase in *Accommodation and Food Services* businesses over the 2008-2011, while the North West and Far North have seen a marked decline.



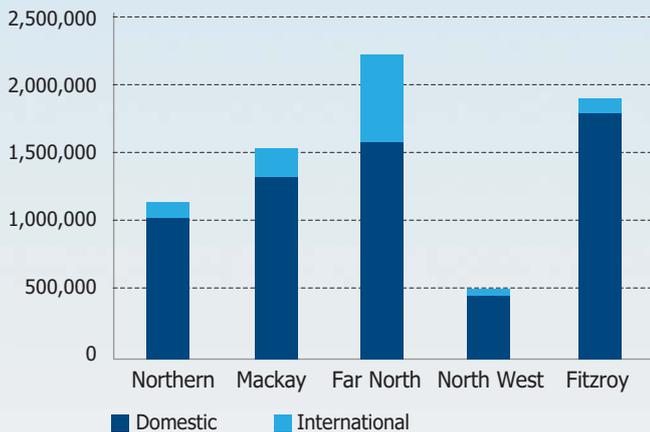
Table 3.1: Accommodation and Food Services Businesses in North Queensland (2008-09)

	Number (2008-09)	Number (2010-11)	% Change
Far North	1,252	1,130	-9.7%
Northern	558	593	6.3%
Mackay	503	586	16.5%
North West	123	113	-8.1%
Fitzroy	612	660	7.8%
Total	3,048	3,082	1.1%

Source: ABS Business Counts

Note: Changes in geographical classifications between counts may impact results

Figure 3.2: North Queensland Visitor Arrivals Year to June 2012



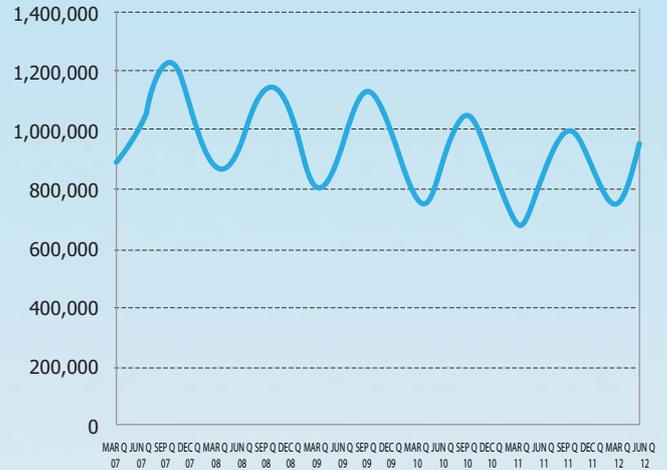
Source: Tourism Queensland

Note: Tourism statistics are based on Tourism Regions which do not align completely with Statistical Divisions

Accommodation and Food Services in North Queensland is a highly seasonal industry. Business is typically strongest over the dry season from approximately May to October, with a significant drop in activity over the November to March monsoon (see Figure 3.1).

In addition to the clear seasonal pattern, activity in many parts of the sector has been falling since the onset of the Global Financial Crisis (GFC) in 2007. The persistently high Australian Dollar has made the region less competitive for international travellers and also encouraged Australian residents to holiday overseas. Other issues such as natural disasters including the devastation of Cyclone Yasi, and economic weakness in traditional international tourist sources Japan and Europe have also been major factors contributing to the decline in the industry.

Figure 3.1: Quarterly North Queensland Motel, Hotel, and Serviced Apartment Guest Arrivals (2007-2011)



Source: ABS Cat No. 8635.3.55.001

Note: Arrivals based on Tourism Regions which do not align completely with Statistical Divisions

The worst of the decline in the sector has most likely past, with the Far North in particular experiencing a much improved tourist season in 2012. However, the key issues facing North Queensland's *Accommodation and Food Services* industry are likely to persist for some time. Therefore the outlook for the sector remains weak. Minimal industry growth is expected until such time as the prevailing conditions in the international economy and currency markets become more favourable.

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