



Northern Exposure

A finger on the pulse of North Queensland's economy

1. Regional Developments and News

1.1: Mackay Region

News

Approximately 3,500 BHP Mitsubishi Alliance workers from the Company's seven Bowen Basin mines took a one week strike action on February 15th. The major issues leading to the industrial action included disagreements over accommodation, site schedules and a proposal to move mine safety responsibility away from workers at the coal-face and over to office-based management.

Developers of the \$350 million East Point project have applied to the State Government for a contract extension. The original lease agreement required that a hotel be built within five years of acquiring the site. Works on the project, including a three-storey hotel, units and a retail precinct have stalled since the global financial crisis. Weak tourism demand and perceived difficulties attracting business travellers away from the Mackay CBD are cited as the major stumbling blocks for the development.

Outlook

The Mackay SD economy continues to perform solidly, driven by the numerous major resource projects in the Bowen Basin. Unemployment remains at record low levels while business confidence continues to climb. Controlling cost of living pressures and retaining a diversified economy remains key to safeguarding the region against any future downturn in mining activity.



Image from <http://www.cqnews.com.au/>

1.2: Northern Region

News

Plans for a 296 block residential development at Gumlow have been rejected by Townsville City Council. The Council's Planning and Economic Development Committee ruled the proposed Willowbend development was outside the city's defined urban growth boundary. It was decided that the proposal in its current form would carry high infrastructure and maintenance costs for ratepayers and add significantly to Townsville's urban sprawl.

The \$425 million North Queensland Bio-Energy sugar, ethanol and cogeneration plant in Hinchinbrook Shire has received development approval from the State Government. Once completed, the cutting edge facility will produce 330,000 tonnes of sugar, 200,000 litres of ethanol, and approximately 85 megawatts of renewable power. However, delays in the approval process and significant lead times to acquire key infrastructure have forced the project start date back twelve months. Production at the Ingham based plant is now expected to commence in June 2015.



Outlook

There have been continued signs of weakness in the Northern SD economy. Unemployment has continued to trend upwards, rising above the State benchmark for the first time since March 2008. However, a sharp rise in business confidence levels combined with considerable stimulus from planned commercial, recreational and residential developments should see economic activity regain momentum over the coming year.

1.3: North West Region

News

Mount Isa City Council has lodged a report with the Federal Government asking for a reduction in the practice of fly-in fly-out (FIFO) employment arrangement. The report argues that the rapid increase in FIFO arrangements has adversely impacted the North West's development, undermining much needed investment in local communities and contributing to the areas skills loss. The submission to the House of Representatives' Standing Committee requests that all new mine workers in the region be required to take up permanent residency.

Stage one of the \$65 million Mount Isa hospital redevelopment, including mental health, oral health and outpatient facilities has been officially opened. Efficient completion of stage one construction has led to a budget surplus of \$8.5 million allocated for additional works. The extra works to be completed by next year include upgrades of the operating theatre complex and central sterilising department, and refurbishment of the intensive care unit and children's ward.

Outlook

The North West's resource based economy continued to perform solidly over the December Quarter 2011. Major lead, copper, zinc, and phosphate projects are expected to continue to drive strong economic growth. However, the region continues to experience difficulties in attracting highly paid workers as full time residents. Expanding the region's economy beyond the dominant resource sector remains a key stumbling block to development in the remote North West.

1.4: Far North Region

News

The planned \$15 million expansion of the Redlynch Shopping Centre has been delayed by up to two years. The owners of the Cairns Central and Smithfield shopping centres have lodged appeals with the Planning and Environmental Court on grounds of inadequate car parking, traffic impacts and perceived inconsistencies with Cairns and Far North regional planning guidelines. The planned expansion includes 4,500 square metres of prime retail space suitable for a new marquee tenant. Other works include an expansion of Woolworths, commercial lease space, additional car parks, and a childcare centre. The delays have put on hold an expected 200 construction jobs and 150 full and part time retail related positions once the expanded centre is operational.

Port Douglas's iconic Port Village Shopping Centre has been listed for sale. The 6,358 square metre retail centre boasts a Coles supermarket and a Target Country in addition to 18 specialty stores and commercial lease space. The centre is expected to attract strong buyer interest following an award winning \$10 million expansion in 2010 and an annual rental income of over \$2 million.

Outlook

The outlook for the Far North SD has brightened further over the December Quarter 2011. Unemployment has continued to trend downwards and business confidence has risen

following dual official interest rate cuts in November and December. However, the region's large tourism and retail sectors will continue to remain sensitive to the high Australian Dollar and volatility in key international visitor markets such as Japan and Europe.

2. Quarterly Indicators

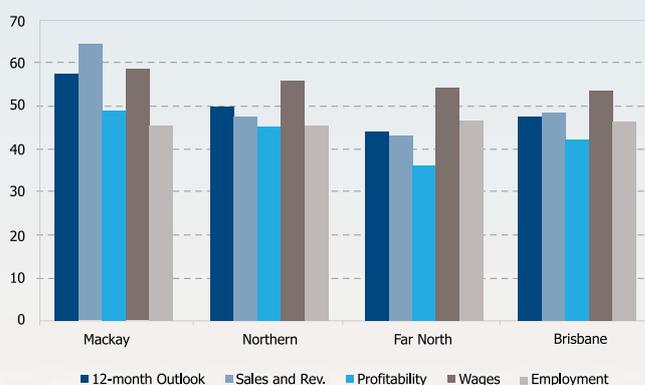
2.1: Business Confidence

North Queensland business confidence recovered strongly over the December Quarter 2011. The Northern SD led the way with large gains in Wages (+7 ppt), 12-Month Outlook (+6.2 ppt) and Profitability (+6 ppt). Northern SD confidence rose across every indicator by a total of 22.4 ppt.

Confidence in the Mackay SD registered further gains. Strong gains in Sales and Revenue (+8.9 ppt) and 12-Month Outlook (+5.1 ppt) offset falls in Wages (-3.8 ppt), Profitability (-1.1 ppt), and Employment (-1.7 ppt). Mackay SD has retained North Queensland's highest business confidence levels for the fourth consecutive quarter, highlighting the strength of the region's resource based economy.

Far North SD business confidence also rose by a net 7.4 ppt across all indicators. In a positive sign for the region's jobseekers, both Employment (+5.2 ppt) and Wages (+2.8) rose, while Sales and Revenue (-1.0 ppt) and Profitability (-1.0 ppt) registered minor falls.

Figure 2.1: Business Confidence, December Q 2011



Source: CCIQ Pulse Report December 2011

2.2: Unemployment

The trend of unemployment levels was relatively flat throughout North Queensland's SDs over December Quarter 2011. Mackay SD unemployment rose 0.1 ppt, while the North West registered a marginal 0.1 ppt fall. Unemployment in the Far North continued to steadily decline, falling 0.4 ppt to 8.1% in the December quarter. The Northern SD was the only region to experience a continued rise in unemployment, with a sharp 1.2 ppt increase. Following two consecutive quarters of rising unemployment, Northern SD levels have now risen above the State benchmark. However, the significant rise in Northern business confidence suggests that unemployment in the region is set to stabilise.

Figure 2.2: Unemployment Rate



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

3. North Queensland's Agriculture 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 agriculture industry.

Agriculture is one of North Queensland's oldest and most significant industries. In 2009-10, agriculture (including forestry and fishing) contributed \$2.53 billion (or 5.7%) to North Queensland's Gross Regional Product (GRP). Agriculture (including forestry and fishing) is also a major employer in North Queensland, supplying approximately 32,768 jobs in 2009-10.

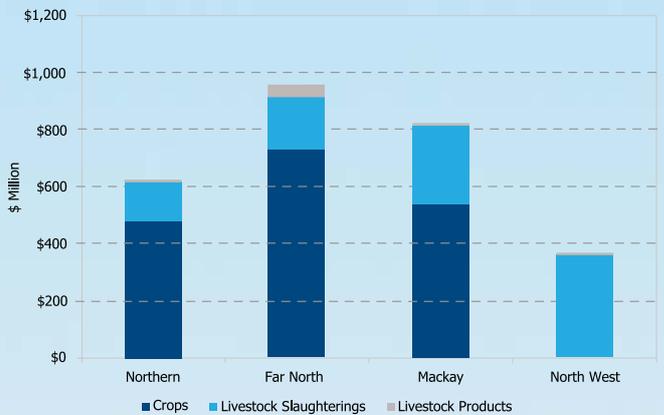
Agriculture in the Far North SD is dominated by sugar cane and banana plantations. The Far North is also a noteworthy producer of vegetables, dairy and beef cattle in the Atherton Tablelands area (see Figure 3.1).

The Northern and Mackay SD are major sugar and beef cattle producers. Significant sugar operations exist throughout the Northern SD at Hinchinbrook and the Burdekin, while Charters Towers is a large beef cattle producer. In addition to major beef cattle operations across the region, the Mackay SD has established sugar industries at Proserpine, Mackay, and Sarina, and noteworthy horticulture operations at Bowen.

Agriculture in the North West SD consists almost exclusively of beef cattle, through large operations across the Flinders, Richmond, McKinlay and Carpentaria Shires.

Prices for most of North Queensland's key agricultural products have increased significantly over the past five years (see Figure 3.2). Sugar has been the most volatile commodity. World prices fell to 11.2 US cents per pound in 2005-06, due to large scale production increases in Brazil, India, and Thailand. However, prices have since risen by over 140%. The record high prices have been attributed to supply disruptions in India, Brazil, and Australia coinciding with rising demand from emerging Asian economies. ABARES forecasts global sugar prices to rise a further 6.1% in 2011-12.

Figure 3.1: Value of North Queensland Agricultural Production (2005-06)



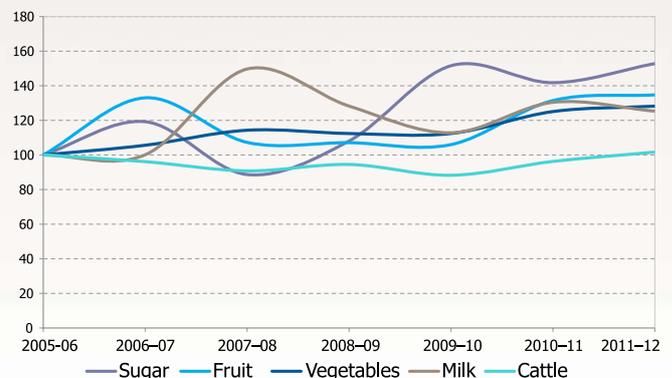
Source: ABS Census

Fruit prices have experienced two sharp spikes following Cyclones Larry in 2006, and Yasi in 2011. However, the devastation caused by the cyclones meant the majority of Far North growers were unable to capitalise on the record prices. Fruit prices are currently forecast to increase 2.5% over 2011-12. Meanwhile vegetable prices have experienced steady rises since 2005-06, with a further 2.5% increase predicted over 2011-12.

Australian milk prices rose to record highs in 2007-08, caused in large part by a severe drought in Victoria. However, prices have since been flat to negative, with a further 3.9% fall forecast over 2011-12.

Beef cattle prices have performed poorly since 2005-06. However, it should be noted that the flat prices experienced in recent years followed an 81% increase over the previous seven years. Prices for Australian beef rose sharply in 2003 as a result of mad-cow disease in the US leading to greatly reduced export competition. The relaxing of US import restrictions in Japan, Hong Kong and Singapore from 2006 has been a major factor contributing to flat export prices. In a positive sign for North Queensland graziers, beef prices are forecast to rise 5.6% over 2011-12.

Figure 3.2: Agricultural Commodity Price Index



Note: Prices based on 2005-06. Dotted lines represent ABARES forecasts.
Source: ABARES, Australian Commodities Report December 2011