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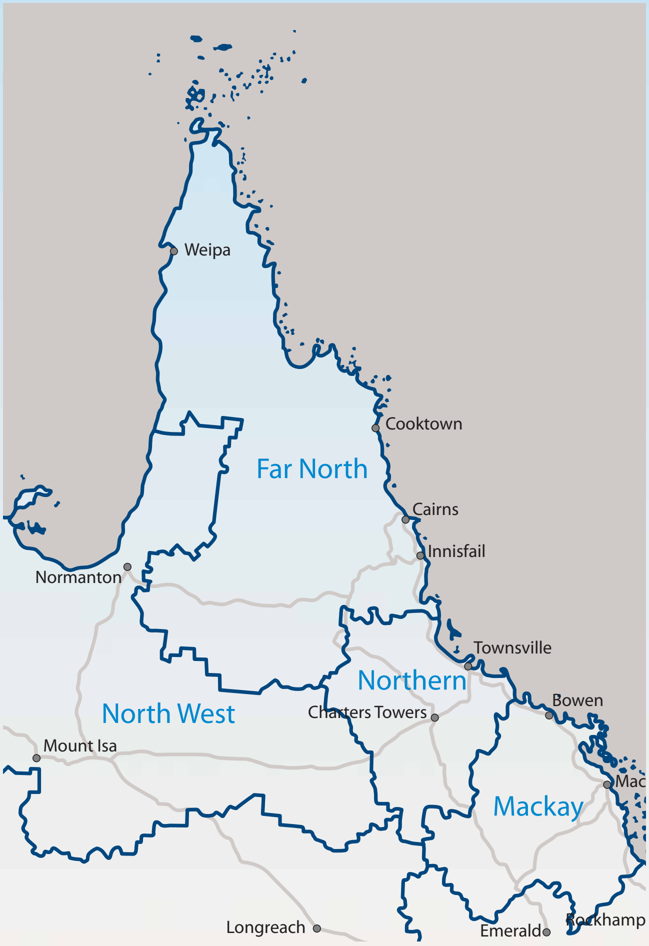
Turnaround + Solvency Solutions

Northern Exposure

A finger on the pulse of North Queensland's economy

1. Regional Developments and News



1.1 Mackay Region

News

The Port of Airlie marina development in Airlie beach is expected to be completed by 2010. The development has been ongoing over several years, and features 15 house sites with berths and 300 apartments. The development will also include two new hotels, retail, restaurants and conferencing facilities, which will cover an impressive 11 hectares. The marina is expected to help boost Airlie Beach's tourism industry.

Pointglen Developments is currently seeking approval for the 'Inspire CBD' development for Mackay, worth $160M. The company hopes to start construction in late 2010 on a development that includes residential dwellings, hotels, and commercial and retail floor space.

Australia's largest regional airline company, Regional Express, has commenced operations in North Queensland. Regional Express has begun to operate three flights a day between Mackay and Townsville. The new flight schedule will mean 60,000 extra seats per year for Townsville and Mackay air-travellers.

Outlook

The Mackay region has held up well in terms of employment, even though the region's mines have slowed significantly. The government is currently fast tracking 11 mining projects in the region, which will add over 1,000 jobs. The world economy has begun to show signs of recovery and Mackay should expect to see a rise in demand for their mineral exports. However, the high Australian dollar will be a limiting factor in the re-expansion in the region's exports.

The danger for the Mackay and to a lesser extent the Northern and North West regions, is that businesses assume that the crisis has passed with a return to 2003-07 boom conditions. In reality, growth in 2010 will be more difficult than this period as consumers remain more wary, government winds down its spending (and looks to recover its debt) and businesses rebuild their cash reserves.

1.2 Northern Region

The Northern Region's medical facilities are experiencing a boost, with $355M in committed and proposed healthcare developments in Townsville. The federal health minister, Nicola Roxon has recently committed $5 million for a 5 storey, 6,000SQM general practice super-clinic in Aitkenvale, Townsville. The super-clinic is likely to service up to 1.5 million patients a year and offer 24-hour bulk billing services. S&L Developments has proposed a $350M private hospital next to the Cluden Racecourse in Townsville. The hospital would include 50 specialist suites, 500 beds and a 200 bed aged care facility.

Townsville was the recent host of two major events, attracting in excess of 220,000 people. The V8 supercar event, the Townsville 400, was held in July attracting approximately 160,000 people. The Australian Defence Force also held an air show on the Strand in Townsville. The US Thunderbirds, an acrobatic jet air display, took centre stage, attracting approximately 70,000 people. Both events were deemed major successes.

The after shocks from the financial crisis continue to be felt in the Northern Region. The most recent casualty was home builder Lamont Construction, which was placed into voluntary administration during the early stages of November, 2009.

Outlook

The outlook for the Northern region remains positive. The region currently has a number of large public and private developments underway, which will help cushion employment whilst the private sector rebuilds

1.3 North West Region

News

Mount Isa has recently received a new water-pumping station. The new station is a huge step towards improving the water infrastructure available to residents in North West Queensland. Six pumps have been installed with the capability of pumping 100 mega litres per day. This is nearly double Mount Isa's current water usage.

Cloncurry is set to become the first town in Queensland to be entirely powered by renewable energy. The proposed solar energy project spanning 15 hectares of land and producing 10 megawatts of energy a day would generate enough energy to power the entire town. Initial stages of the project have begun, with a trial solar unit currently being installed in Mary Kathleen Park. If the unit is deemed successful the project is likely to progress.

Outlook

The North West region is heavily reliant on its mining industry, which accounted for approximately 70% of its Gross Regional Product (GRP) in 2007-08. The small population is characterised by fly-in fly-out mine workers from broader North Queensland. The wellbeing of the region's economy is therefore leveraged upon the demand for mineral exports from its international trading partners, the world price of minerals and the value of the Australian dollar. The world market is beginning to strengthen, and the North West has huge reserves of unexploited minerals. One would expect growth in the region to closely follow its international trading partners. When China, Japan and the USA really begin to move, expect the North West region to benefit.

1.4 Far North Region

News

Work has begun on the Cairns Base hospital. The hospital is receiving $48M in works, including a multi-storey car park and ambulatory cancer care services. The upgrades are scheduled for completion midway through 2010.

The construction of HS Vision Group's $350M 'Central Park' development is expected to start early next year. The development will be situated in the Cairns CBD and includes 700 new residential apartments and retail floor space.

Mount Sheridan Plaza in Cairns is expected to receive a $50M upgrade. The shopping centre is placed in one of Cairn's high growth regions, and is expected to increase from 7,655sqm to 20,000sqm in size.

Remote communities in Far North Queensland are benefiting from major infrastructure works funded by both State and Federal sources. Trade workers from Cairns are operating as fly-in fly-out workers to deliver these investments.

Outlook

The Far Northern region remains in a poor position in relation to its regional counterparts. Recent ABS figures have suggested that Far North Queensland's unemployment rate has risen to 13.8%, making it the highest in Australia. The Far North is very dependent on its tourism industry, which has been hit hard by the global economic downturn. The Far North has experienced large declines in visitation numbers from its major international markets, Japan and the USA. Coupled with the current strength of the Australian dollar, it could be a long time before the region's tourism industry recovers to its previous heights. The AECgroup expects the Far North's recovery to be slower compared to the other regions in North Queensland.

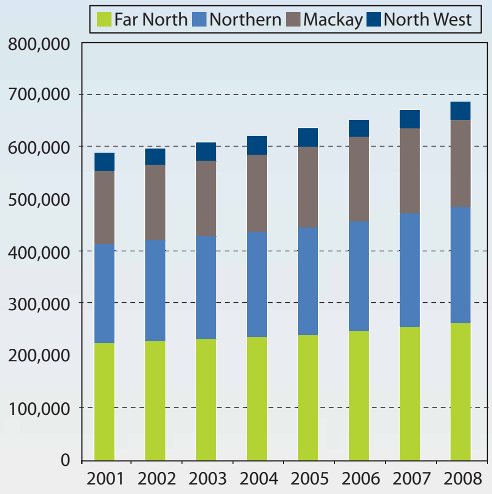
2. Annual Indicators

2.1 Regional Population

North Queensland's population was estimated at 684,000 in 2008, representing 15.9% of Queensland's population. Between 2007 and 2008 North Queensland's population increased by 2.6%, slightly higher than the 2.3% growth rate reported for Queensland. At 3.1%, the Far Northern region reported the strongest growth in 2008 to record a population of 262,100. At 0.9%, the North West region reported the weakest population growth in North Queensland, to record a population of 33,750.

Looking forward, population forecasts are for North Queensland's population to continue to grow strongly. By 2036, it is estimated that North Queensland will have a population of 1 million people.

Figure 2.1: NQ Regional Population 2008



Source: ABS 3218.0

2.2 Gross Regional Product

GRP is estimated at $41.9 billion in 2007-08, or approximately 19.6% of Queensland's Gross State Product (GSP). North Queensland's GRP increased by 6.3% in 2007-08, slightly weaker than growth of 7.8% reported for Queensland. In the preceding 2004-05 to 2006-07 period North Queensland's economic growth outperformed that of Queensland. The 2007-08 slowing in growth reflected a downturn in demand for focused mining and tourism industries, which represent a significant proportion of the North's economic activity. These industries have been further impacted by weaker global economic growth and uncertainty associated with the global financial crisis. Activity across the North in 2007-08 was supported by the domestic orientated industries of construction, agriculture, property and business services, manufacturing and transport. Nonetheless, in terms of output, mining is clearly North Queensland's dominant industry, with activity concentrated in the Mackay and North West regions.

2.3 Employment by Industry

As reported in Table 2.1, the largest employers in North Queensland are retail trade (15.4%), construction (11.3%), and health & community services (8.3%). A key point to note from the table is the similarity of the employment by industry profile between state and region, suggesting that North Queensland has a mature economy able to provide a broad range of services and tertiary economic activities, even though it has a basis in the primary industries of mining and agriculture.

Mining represents a significant proportion of employment in North Queensland compared to Queensland, although its capital intensive nature means that employment is low relative to the industry's contribution to GRP. Employment in agriculture and transport services is also significantly higher in North Queensland reflecting the abundance of arable land, water and sunshine needed for cropping and pastoral operations and the regional focus on the provision of transport into regional centres and remote areas.

Relative to Queensland, North Queensland is underrepresented in manufacturing, finance & insurance, property & business services and health & community services. It should be noted that many of these tertiary service-based industries tend to be concentrated in capital cities.

Table 2.1: North Queensland Employment by Industry 2008

Index Level	NQ	QLD
Agri., Forestry & Fishing	7.2%	3.8%
Mining	4.7%	1.8%
Manufacturing	7.1%	9.2%
Electricity, Gas & Water	1.1%	0.9%
Construction	11.3%	11.0%
Wholesale Trade	3.8%	3.6%
Retail Trade	15.4%	15.5%
Accomm., Cafes & Rest.	6.1%	5.1%
Transport & Storage	6.4%	5.6%
Communication Services	1.5%	1.5%
Finance & Insurance	1.4%	2.7%
Property & Business Services	8.6%	11.5%
Govt. Admin. & Defence*	5.0%	4.5%
Education	6.9%	7.3%
Health & Community Services	8.3%	9.7%
Cultural & Rec. Services	2.1%	2.5%
Personal & Other Services	3.0%	3.7%
Total	100.0%	100.0%

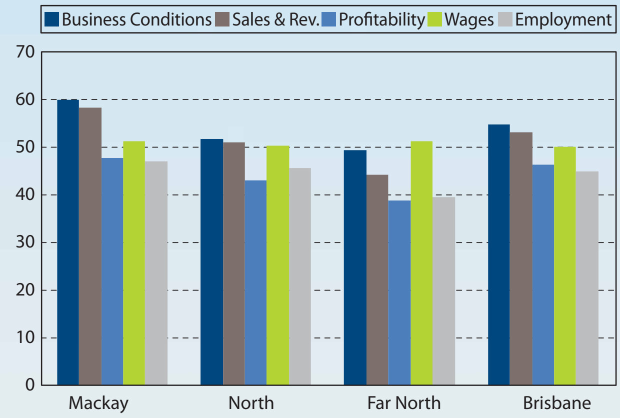
Source: ABS 6291.0.55.003

* Note Defence force personal are not recorded in these statistics however are significant in North Queensland, with Townsville home to one of Australia's largest defence presences.

3. Quarterly Indicators

Mackay continues to lead North Queensland for business conditions, recording higher than average business confidence levels for the September Quarter 2009. Far North Queensland maintains its position as North Queensland's least confident region. Although not all is gloomy for the Far North, with September Quarter 2009 figures (Table 3.2) indicating that the region has shown the largest improvement in confidence over the previous quarter, particularly in General Business Conditions and Wages.

Figure 3.1: Business Confidence, June Q 2009



Source: CCIQ Pulse Report June 2009

The Northern region has also shown strong improvement in business confidence, with a 16 percentage point increase across all the indicators between June and September Quarters 2009.

Business Conditions, Sales and Revenue, and Profitability have improved across the board, with Table 3.2 indicating all regions experiencing a boost in confidence for these categories. Wages and Employment continue to be a thorn in the side of North Queensland's economy, with the effects of the global recession still flowing through into these areas of the economy. Wages have been hit particularly hard, down by an average of 8.5 percentage points for North Queensland since September Quarter 2008.

Confidence remains comparable to South East Queensland. On average confidence levels between these two regions of Queensland are very similar.

Table 3.1: CCIQ Pulse Index Guide

Index Level	Descriptor
0-29	Very Poor
30-49	Poor
50-64	Satisfactory
65-74	Good
75-84	Very Good
85-100	Excellent

Source: CCIQ Pulse Report

Table 3.2: CCIQ Pulse Index – Percentage Point Change, June Q 09 to September Q 09

	Mackay	Northern	Far North	Brisbane
Business Conditions	4.1	4.3	6.7	5.9
Sales & Rev.	3.3	4.9	1.2	2.8
Profitability	0.7	8.1	8.9	2.3
Wages	-2.6	-3.4	2.0	-0.1
Employment	-1.1	2.1	-0.2	0.0

Source: CCIQ Pulse Report

Table 3.3: CCIQ Pulse Index – Percentage Point Change, September Q 08 to September Q 09

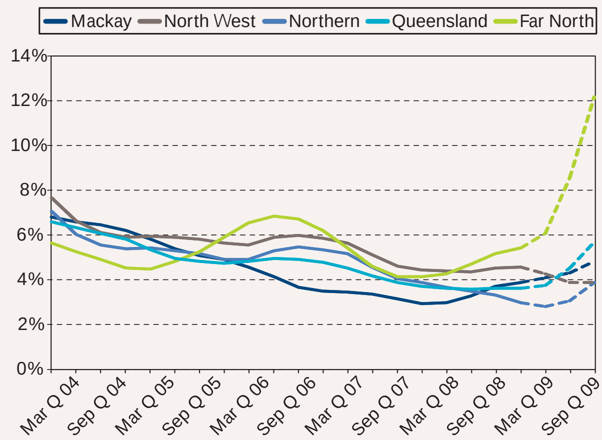
	Mackay	Northern	Far North	Brisbane
Business Conditions	9.1	4.9	10.1	12.4
Sales & Rev.	6.7	1.1	5.3	7.6
Profitability	-0.7	3.5	3.4	6.2
Wages	-14.9	-9.2	-1.5	-8.5
Employment	-4.6	-3.8	-2.5	0.7

Source: CCIQ Pulse Report

The Far North Region has experienced a dramatic increase in unemployment since December Quarter 2008, with the unemployment rate more than doubling from 5.5% to 12.2% in the September Quarter 2009. A combination of a fall in international and domestic visitation and the high Australian dollar has negatively affected the region's tourism industry, which provides a large proportion of the regions economy.

The remainder of North Queensland still supports unemployment rates less than 5.0%, which is lower than the greater Queensland rate (5.7%). The Northern and North West regions recorded estimated unemployment of 4.0% in September 2009, with the Northern region supported by its diverse base and government activity and the North West region supported by a surprisingly resilient mining industry.

Figure 3.2: Quarterly Unemployment Mar Q 04 to Sep Q 09



Source: QRSIS Labour Force Trends, ABS Regional Unemployment, AEC*group*
Note: The solid line series represents QRSIS labour force figures and dashed line series represents ABS small area labour force figures which have been statistically smoothed by AEC*group*. The ABS figures should be considered less accurate than the QRSIS. The Mackay-Fitzroy figures from QRSIS have been combined and weighted to align with ABS unemployment estimates.

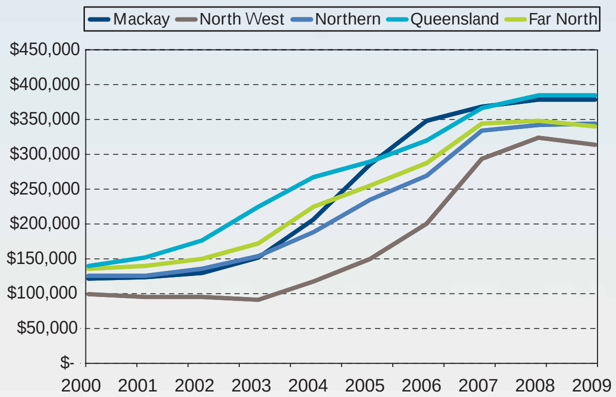
4. Quarter 2 2009/10 Sectors in Detail

Each Quarter the Northern Exposure provides an overview and outlook for several sectors of the North Queensland economy. This quarter, we look at Property and Business Services, Health and Community Services and Government Administration and Defence.

4.1 Property and Business Services

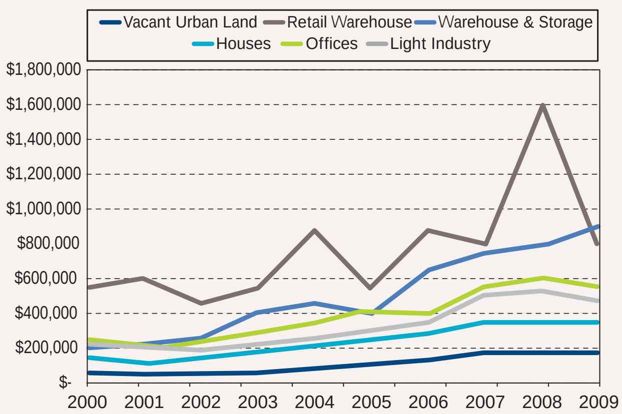
Similar to most of Australia, North Queensland has experienced strong growth in median house prices since 2000. Many factors, including surging population growth, the mining boom, a shortage of accommodation and the nation–wide construction boom have contributed to the sharp rise in North Queensland's median house prices. Figure 4.1 indicates that the Northern, Mackay and North West regions have grown by 176%, 217% and 219% respectively from 2000 to 2009, all outperforming Queensland as a whole, which grew by 176%. Mackay region recorded the highest median house price for North Queensland of $380,000 in 2009.

Figure 4.1: Median House Price by Region



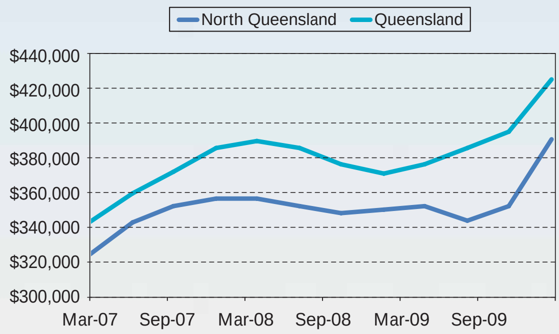
Source: RPdata

North Queensland has experienced growth in all of its major property sectors. Warehouse and Storage, and Vacant Urban Land sales lead the way, showing growth of 323% and 189% since 2000. Retail Warehouse prices have been volatile over this period, due to a small number of sales per year and not because of unstable market conditions.



Median house prices in North Queensland peaked in March 2008 at $360,000. June Quarter 2008 to June Quarter 2009 saw the housing market fall, due to global economic conditions. In June 2009 the market bottomed out, having declined by a median of $13,000 or 3.6%.

Preliminary figures for December Quarter 2009 suggest that North Queensland's housing market has improved significantly, with the median price of housing increasing by $41,000. The AECgroup believes the overall outlook for North Queensland's property market is positive, with strong demand side factors remaining in place yet new supply being dramatically reduced through the recent downturn. In the short term the market may experience a correction or a slowing in growth, due possibly to over enthusiastic increases in prices in December Quarter 2009.



4.2 Government Administration & Defence

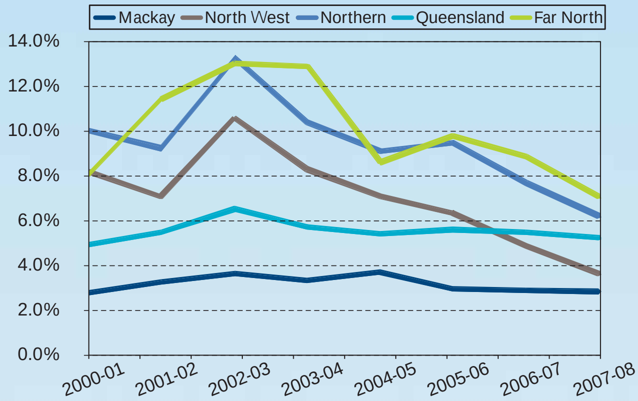
The Australian Defence Force (ADF) has seven facilities / bases in North Queensland. Five of these facilities are based in the Northern region in Townsville, including Lavarack barracks, which is one of the largest infantry garrisons in Australia. North Queensland is a key region for defence and currently has over $300M in development projects funded by the ADF. Table 4.1 lists the projects currently underway in North Queensland. Four of the five projects are in the Northern region, with more than $220M of development currently taking place.

Table 4.1: Major ADF projects in North Queensland in 2007–08 (expenditure ongoing)

Project	Region	Value
HMAS Cairns Redevelopment	Far North	$76.3M
RAAF Townsville Troop Lift Helicopter Facilities	Northern	$20M
Lavarack Barracks Redevelopment	Northern	$207.2M
11th Brigade Relocation	Northern	$0.74M
38 Squadron Relocation	-	$0.36M
Total	**-**	**$304.6M**

Source: ADF annual report (07/08)

Figure 4.2: Proportion of Workforce in Public Admin by Region (2007/08)



Source: Queensland Health Quarterly performance report

North Queensland has historically been characterised by a high proportion of government administration personnel. The region is a long distance from a large metropolitan area (Approximately 1,000kms from Mackay to Brisbane) and needs to hold a degree of self-sufficiency in terms of government departments and facilities. In 2003, Northern Queensland and Far North Queensland had approximately 13% of its workforce employed in government administration. This has since declined to 6% for Northern Queensland and 7% for Far North Queensland. The decline is most likely due to the strong growth and development of other key industries in North Queensland, including construction, transport and storage, and mining. The decline in the proportion of government administration workers has reduced North Queensland's reliable income 'buffer' and made the economy less certain during difficult economic times.

4.3 Health & Community Services

Health and Community services were worth $1.7B in North Queensland in 2007-08, providing 4.5% of the regions economy. North Queensland has four major public hospitals. The Townsville General hospital is the largest, leading figures in four out of five categories in Table 4.2. Cairns Base Hospital has experienced the highest growth in emergency patients, growing by 7.3% in June Quarter 2009.

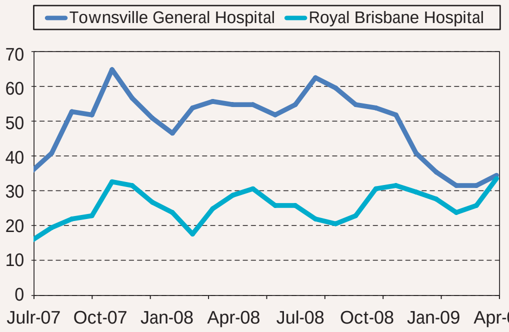
It is widely recognised that there is a shortage of medical facilities in North Queensland. Townsville Hospital is the region's largest and in this case is used as a proxy for North Queensland. Figure 4.3 indicates that the number of working days delay for high priority health care in Townsville has been on average, 24 days longer than the Royal Brisbane Hospital (June-2007 to June-2009). However, the number of waiting days for the Townsville General and the Royal Brisbane Hospitals has converged over the past year. Both hospitals had a waiting period of approximately 34 days in June Quarter 2009.

Table 4.2: North Queensland Hospital Snapshot (2008/09)

Hospital	Emergency Department	Annual Change	Admitted to Hospital	Outpatient Services	Elective Surgery	Babies Born
	# Treated	%	# Patients	# Patients	# Patients	#
Cairns	11,140	7.3%	11,147	33,942	1,263	692
Townsville	14,832	-1.4%	12,668	15,729	1,853	549
Mackay	9,217	-0.9%	6,438	17,352	490	343
Mount Isa	8,831	5.4%	1,386	6,004	152	143
Royal Brisbane	17,115	-2.9%	19,333	100,414	3,466	1,172
Total Qld	**378,179**	**1.5%**	**222,279**	**851,327**	**33,094**	**10,996**

Source: Queensland Health Quarterly performance report

Figure 4.3: Number of waiting working days for Medical care for high Priority PatientsRegion (2007/08)



Source: Queensland Health Quarterly performance report

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