

Northern Exposure

A finger on the pulse of North Queensland's economy

1. Regional Developments and News



1.1 Mackay Region

News

Production in the Mackay SD's mining industry has recovered strongly in June Quarter 2010-11 after setbacks in the March Quarter from flooding and cyclones. The impact from these events is estimated to have reduced coal production by 30 million tonnes throughout the region. The sugar industry was also heavily impacted, with farmers unable to harvest 1.4 million tonnes of cane. As a result, Mackay Sugar Ltd has recently been forced to import 40,000 tonnes of raw sugar from Thailand to meet demand from the Mackay refinery.

BHP Billiton has recently announced \$5 billion of investments for the Bowen Basin coal region to be completed by 2014. The investments consist of a \$2.5 billion upgrade to the Hay Point Coal Terminal, a new \$1.6 billion mine at Daunia and a \$900 million extension of the Broadmeadow mine.

Outlook

Mackay's mining industry has recovered well after the recent natural disasters in summer, providing a strong outlook for the region. There is currently a \$13.5 billion pipeline of mining projects within the region, which will provide positive impacts for employment (during construction and operation), and business confidence. However, the proposed carbon tax and the soaring Australian dollar provide a degree of uncertainty for the region's mining industry.

1.2 Northern Region

News

The Townsville City Council has recently adopted a target of 30,000 residents living in the CBD by 2030 and has introduced a number of development incentives to help achieve this target. The incentives aim to make Townsville more attractive for development relative to other regional areas. The incentives include headworks remissions, waivers for infrastructure connection fees and development application charges,

concessions for car parking requirements, and concessions on rates and utility charges during development. At present Townsville's CBD is home to approximately 2,400 residents, meaning an average increase of 1,400 residents per year will be required to reach the target.

Xstrata Copper has recently announced that it will close its Townsville-based copper refinery by the end of 2016. The closure will cost the region's economy up to 260 jobs and has been blamed on 'market conditions'.

Outlook

Despite a marginal decline in business confidence and an increase in the unemployment rate in the March Quarter 2010-11, the outlook for the Northern SD remains strong. The region is set to benefit from huge capital expenditure through government roadwork projects, with \$812 million of current and committed funding over the next several years. The projects are likely to have a significant impact on business confidence and create further strain on the region's under-supplied labour force. The availability of skilled workers, in particular trade workers, will continue to constrain the Northern SD, particularly as the mining sector appears set to further strengthen and act as a 'trade drain' from the region.

1.3 North West Region

News

The Queensland Government is offering a \$5.7 million incentive for the development of a solar energy farm in the North West SD. The offer comes after a \$30 million pilot solar energy development using mirrors was suspended last August. Sydney-based Lloyd Energy Systems pulled out of the development after being unable to resolve reflective glare issues.

The prolonged wet season in the North West and Cyclone Yasi have lead to a decrease in zinc production from the MMG Century mine. Zinc produced fell by 16% to 112,873 tonnes in the March Quarter 2011 from the previous year's March Quarter of 135,356 tonnes. MMG Century have stated that the fall in production was due to double the average annual rainfall and the choice to send fly in, fly out workers home to prepare for Cyclone Yasi.

Xstrata has announced it will close its Mount Isa copper smelter by early 2016. The company has nominated 'market conditions' as being behind the closure. Xstrata says that job losses will be offset by expansion in its mining operations in the region.

Outlook

Solid commodity prices throughout the March Quarter 2010-11 underpin a continued strong outlook for the North West's mining sector. The latest labour force statistics suggest the North West's unemployment rate has fallen and is now in line with the Northern SD. The challenge for the North West continues to be the attraction and retention of skilled workers as permanent residents in order to fully capture the economic benefits of high wages in the region. Recent pressures on cost of living tend to be felt more acutely in remote areas adding to the difficulty of retaining and attracting skilled workers.

1.4 Far North Region

News

Cairns based CEC Constructions Ltd was placed into voluntary administration in May, as CEC Group struggles with debts of \$90 million. Approximately half of the company's staff in Cairns, Townsville, Mount Isa, and Cooktown have been stood down since the company was put into administration. Employees of CEC Constructions are currently working with the receivers on a proposal to buy back the company.

The Bauxite Hills exploration and drilling program is likely to begin north of Weipa later this year, after Cape Alumina Limited finalised access agreements with the region's traditional land owners. If the project proceeds, it will likely create over 1,000 fly-in, fly-out jobs based in Cairns, providing a boost for the region's struggling economy. The proposed mine is expected to have a shelf life of 15 years, yielding 50 to 100 million tonnes of bauxite, and could begin operation by early 2014.

Outlook

There have been promising signs for the Far North's laggard economy over the past three quarters, with unemployment falling and impacts from reconstruction efforts post Cyclone Yasi set to flow through to the regional economy. However, there are several factors that provide significant uncertainty for the region. The region's tourism industry continues to feel the impact of the high Australian dollar, making the Far North less competitive with other international holiday destinations. In addition, the recent natural disasters in Japan are a huge blow to one of the region's major international tourism source markets, and will likely significantly impact the number of Japanese tourists travelling overseas. These factors provide a relatively poor outlook for tourism in the region, which makes further declines in the unemployment rate in the short to medium term less likely.

2. Quarterly Indicators

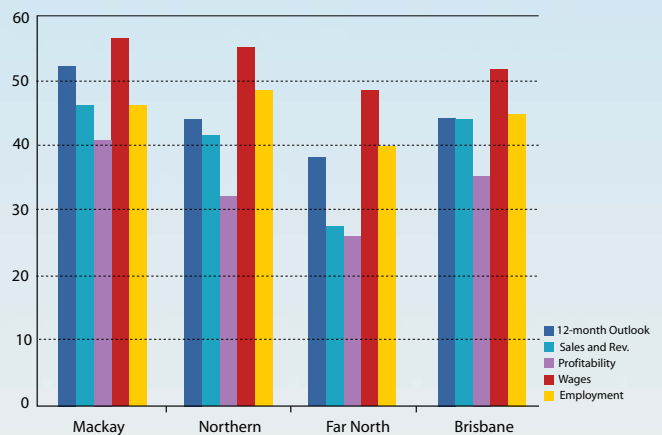
2.1 Business Confidence

Business confidence in Northern and Far North Queensland continued to fall in March Quarter of 2010-11. Confidence in the Northern SD fell a total of 13.7 percentage points across all categories, including decreases in *Sales and Revenue* (-4.8 ppt), *Profitability* (-6.7 ppt) and *Employment* (-5.5 ppt). Many businesses, particularly those dependant on discretionary expenditure, are continuing to experience flat trading with consumers remaining cautious after the GFC. Confidence in the Far North fell a total 8.1 percentage points, with *Sales & Revenue* (-8.5 ppt) and *Profitability* (-4.9 ppt) performing poorly.

The Far North retains the lowest business confidence in North Queensland by a significant margin.

In contrast the Mackay SD recorded an improvement in business confidence in March Quarter 2010-11, totalling 5.2 percentage points across all categories. Increases were recorded in *Sales and Revenue* (+6.4 ppt), *Wages* (+7.6 ppt) and *Employment* (+6.4 ppt). Mackay currently enjoys the highest levels of business confidence in North Queensland, supported by its strong linkages to the booming coal industry.

Figure 2.1: Business Confidence, March Quarter 2011

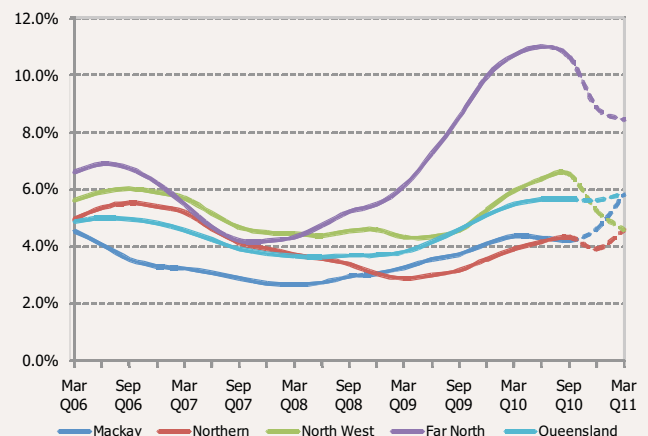


Source: CCIQ Pulse Report March 2011

2.2 Unemployment

The unemployment rate rose in Mackay SD (+1.2 ppt) and Northern SD (+0.7 ppt) over the March Quarter 2010-11, however, both regions remain below the Queensland average of 5.9%. The unemployment rate fell marginally in the North West SD (-0.7 ppt) and the Far North SD enjoyed its third straight month of a falling unemployment rate (-0.4 ppt), however, the region still suffers from a well above average unemployment rate of 8.4%.

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 Manufacturing Industry

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

The *Manufacturing* industry is a major sector in North Queensland and has strong links with the *Mining, Agriculture, Forestry and Fishing, Construction, Wholesale Trade and Transport and Storage* sectors. The Northern SD has the largest concentration of major industrial manufacturers, with significant capability in minerals processing (copper, zinc, nickel, cobalt), sugar mills, heavy engineering and metal fabrication. Mackay SD's *Manufacturing* industry is centered around heavy engineering and support equipment for the region's *Mining and Agriculture* industries. The Far North has a relatively small concentration of heavy industrial manufacturing, with a focus instead on smaller operations manufacturing craft related items (souvenirs, arts and handicrafts) and food processing. The North West SD has relatively limited manufacturing capacity, with the region's *Mining* industry generally sourcing manufactured goods / production inputs from outside of the region.

There were an estimated 2,103 manufacturing businesses operating in North Queensland in 2009 (Table 3.1). The sector is dominated by small businesses, with 67% employing five or less workers. Despite being known as one of the weaker manufacturing regions, the Far North had the highest number of manufacturing businesses, recording 886. The region's *Manufacturing* sector has a large number of smaller businesses (601 employing five or less), which reflects a significant number of niche manufacturing businesses. The Northern (597) and Mackay (569) SDs recorded the next largest number of manufacturing businesses in North Queensland, with the Northern SD recording the highest number of larger companies (27 employing 50 or more). The North West recorded the least number of manufacturing businesses in North Queensland, with 63.

Table 3.1: Manufacturing Business Counts by Employment Size (2009)

Region	0-4	5-49	50-99	100+	Total
Northern	384	186	15	12	597
North West	30	30	0	3	63
Mackay	410	147	9	3	569
Far North	601	267	12	6	886
Total	1,425	630	36	24	2,115

Source: ABS business count

Port export values by category (Table 3.2), also provides insight into North Queensland's *Manufacturing* industry. The Port of Townsville exported \$2.6 billion of manufactured goods in 2009-10, primarily processed minerals under the *General Manufacturing* category. The Port of Cairns exported an estimated \$225.5 million of manufactured goods in 2009-10, with *Machinery & Transport*. (\$164.4 million) providing the largest contribution. The Port of Mackay recorded relatively low manufacturing export value (\$79.2 million), with *Sugar* accounting for the vast majority (\$76 million). Much of Mackay's manufactured goods are locally consumed. The Mackay SD is also serviced by Hay Point Port, which accounts for a significant proportion of manufacturing related exports from the region.

Table 3.2: Value of Manufacturing Exports by Port, 2009-10 (\$000)

Export Categories	Cairns	Townsville	Mackay
Sugar	\$4.7	\$24.3	\$76.0
Chemicals & Related	\$28.4	\$202.9	\$0.0
General Manufacturing	\$23.7	\$2,207.9	\$0.0
Machinery & Transp.	\$164.2	\$194.7	\$3.1
Other Manufactured	\$4.4	\$11.3	\$0.0
Total	\$225.5	\$2,641.1	\$79.2

Source: OESR trade statistics

The Australian *Manufacturing* industry has suffered over recent years, with several issues plaguing the sector, including the high Australian dollar and high labour costs. In addition the introduction of the Federal Government's proposed carbon tax will directly affect some manufacturing firms through levying a tax on emissions and driving up utility prices. The availability of labour and lack of base load power generation (resulting in high energy costs) is making the region less competitive for manufacturing. The recent announcement by Xstrata Copper to close its Townsville-based copper refinery is an example that demonstrates the region's fading competitive advantages in manufacturing. The manufacturing sector in North Queensland is likely to experience minimal growth over the short to medium term, with most opportunities likely in producing specialised and one-off bulky manufactured items to supply the *Mining* industry.