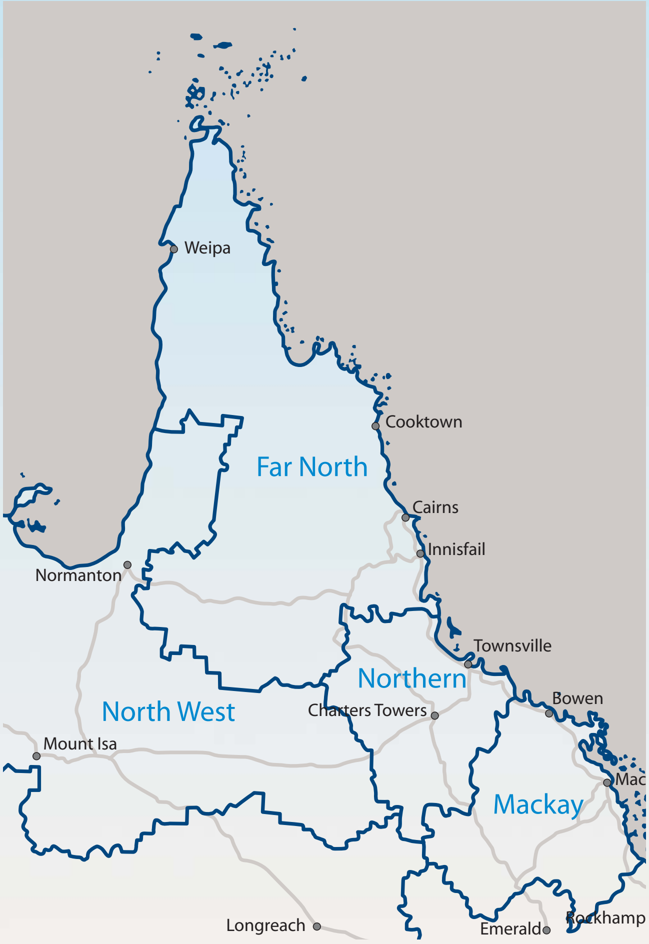
Northern Exposure

A finger on the pulse of North Queensland's economy

1. Regional Developments and News



1.1 Mackay Region

News

Mackay and Airlie Beach were hit by Cyclone Ului in March, which left around 55,000 residents without electricity for four to six days. A significant number of luxury boats were also damaged at Airlie Beach.

The $200 million stages three and four of the Northern Beaches Central retail development have been approved by the Mackay Regional Council. When completed, these stages will provide the region with an additional 900 retail related jobs.

Q-Coal is poised to develop a new coal mine 14kms south of Collinsville. The mine is expected to produce 6 million tonnes of coal per annum and create up to 400 jobs for the region.

Outlook

The mining industry continues to be the main driver of Mackay's economy. Until very recently, planned mining projects have been a significant contributor to relatively high business and consumer confidence in the region. Recent concerns regarding risks to strong Chinese demand for minerals and the implications of the Federal Government's proposed 'Resource Super Profits Tax' (RSPT) are expected to temper confidence in the short term, and while uncertainty persists.

Mackay is heavily exposed to any risks that emerge in the mining and mining-related services industries as it has a relatively one-dimensional economy. The mining industry reported many promising signs over the past quarter, with many mines increasing output for the first time since the global recession hit in 2008. Reports in April indicated there were over 100 coal ships waiting to access the ports of Mackay, Abbott Point and Hay Point.

The proposed RSPT, announced in May, could potentially constrain the growth outlook for the region's mining industry. The actual design of the tax in practice remains unclear, as does the level of impact on the industry. As it stands, the uncertainty caused by the proposal has the potential to affect current operations and employment and, importantly, future investment decisions and activity.

1.2 Northern Region

News

The North's soccer team, North Queensland Fury, was put into liquidation in March, with the club reporting a loss of approximately $5 million last season. A consortium of local supporters and the Football Federation of Australia secured $2.5 million to ensure the club's future into the next season. The Fury has lost head coach Ian Ferguson and marquee player Robbie Fowler, to the Perth Glory for the 2010-11 season.

Prime Minister Kevin Rudd visited Townsville in April and committed $70 million for a PET scanner, which would be the only scanner of its type in North Queensland.

Anna Bligh has announced plans to develop Townsville as a 'second capital' of Queensland. Although details regarding the proposal are limited, to be effective any plan will require significant social and economic infrastructure planning and investment to meet additional population growth.

Government has the capacity to relocate jobs from South East Queensland to the North, but the measures to encourage stronger migration and population growth are less clear, though the government did recently announce a $4,000 top up to first home owners purchasing outside of South East Queensland. Attracting people will ultimately hinge on jobs and the level and quality of social services and lifestyle.

Townsville City Council has recently approved the $1.2 billion Leighton Properties/Devine 'Southbank Townsville' mixed use development on the CBD fringe.

Major ethanol production plants are currently being proposed in the Burdekin and Hinchinbrook shires. If the plants proceed, they will represent a positive step towards increased localised value adding to the region's sugar production, and will significantly improve each region's manufacturing capabilities.

Outlook

The Northern SD remains the most diverse economy in North Queensland, and has the most stable outlook. Although not immune to the impacts of the recent global recession, the region has enjoyed the lowest unemployment in North Queensland, a relatively stable property market and a significant amount of public and private investment over the past 12 months.

1.3 North West Region

News

Mount Isa's CBD is set to undergo core infrastructure redevelopments. Plans include new footpaths, curbing and water infrastructure in the central parts of the town.

Xstrata's quarterly report has noted strong growth in mineral and metal production in the North West region. Zinc concentrates output from Mount Isa increased by 15%, and copper increased by 3%. The company also plans to increase operations at the Black Star mine in Mount Isa for four years, with a $133 million expansion project. The expansion is expected to increase production by 14 million tons per year and support 290 additional jobs. However, Xstrata has very recently announced that its planned extension of operations at Ernest Henry mine has been scrapped due to uncertainty over the proposed Resource Super Profit Tax (RSPT).

Outlook

The North West SD, like Mackay, is very dependent on the mining industry. The wellbeing of the region's mining industry hinges on a number of external factors, including global demand and prices. Growth prospects in the region's mining industry have been positive, with Xstrata reporting strong growth this quarter; however the short-term outlook for mining at present looks less certain. The region has large reserves of uranium, base metals, magnetite iron and phosphate, but development depends on a range of national and international factors, including tax policy.

The recently announced RSPT poses a constraint to employment and future development in the region.

1.4 Far North Region

News

Cairns' tourism industry finally has reason to celebrate, with visitors from China increasing by 41% from this time last year. There are plans to increase flights from Japan, which could potentially increase Japanese visitors by 50%. Jet Star has also announced that it will begin flights to Japan from Cairns. Japan is staging what is being described as a 'tentative recovery' from its long term economic woes and this bodes well for Cairns' tourism sector.

Cairns received a huge boost in investment news, with the state government backing a $500 million development of a new 'town centre' in Smithfield. The development includes a bus transit hub, medical centre, commercial floor space, retail floor space and residential dwellings. The investment will generate considerable economic and employment benefits through construction, maintenance, retail and commercial activities.

The state government recently announced in the 2010/11 State Budget that funding for a $43 million cultural precinct in the Cairns CBD has been approved. The State Government has committed all of the funding for the development, which will include a theatre, auditorium and museum.

Outlook

With the wet season over and winter on the way, the tourism industry in the Far North is entering its traditional peak season. The introduction of new international flights to the region and Japan's relatively strong recent economic performance should improve tourist numbers and expenditure. It is expected that improvements to the tourism industry in the short-term will positively affect Cairn's weak labour market. Unemployment should begin to recede by September Quarter. However, the Far North is not out of the danger zone yet. The outlook for economic growth in China and Japan will be the key for growth in Cairns. These two markets have shown positive signs, however uncertainties remain.

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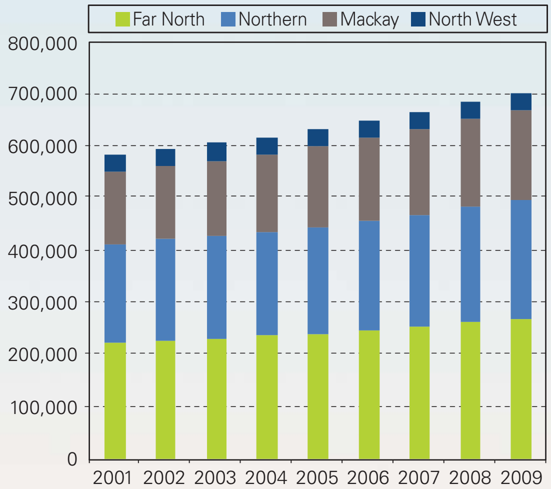
2. Annual Indicators

2.1 Regional Population

North Queensland's population was estimated at 704,000 in 2009, representing 15.9% of Queensland's population. Between 2008 and 2009 North Queensland's population increased by 2.5%, slightly lower than Queensland's population growth of 2.7%. The Northern and Mackay SD's are the fastest growing regions in North Queensland, both reporting population growth of 2.7%. The Far North was the fastest growing region in 2008, however, in 2009 growth rate declined by 0.8 percentage points to 2.6%. At 270,000 the Far North SD remains the most populated region. During 2009 the North West region's population is reported as declining population by 223 people, or 0.7%.

Looking forward, North Queensland's population is forecast to continue to grow strongly. By 2036, it is estimated that North Queensland will have a population of one million people.--

Figure 2.1: NQ Regional Population 2009



Source: ABS 3218.0

2.2 Gross Regional Product

Gross Regional Product (GRP) is estimated at $43.1 billion in 2008-09, or approximately 17.7% of Queensland's Gross State Product. North Queensland's GRP increased by 9.17% in 2008-09, on par with Queensland growth of 9.15%. Growth between 2007-08 and 2008-09 was supported by significant growth in export commodity prices, notably for coal and sugar. The value of mining to North Queensland is estimated to have increased by approximately $1 billion since 2007/08. Commodity prices have been weaker in the latter part of 2009 and the beginning of 2010, and this will be reflected in the 2009-10 GRP estimates.

2.3 Employment by Industry

As reported in Table 2.1, the largest employers in North Queensland are retail trade (11.6%), construction (10.7%), and health & community services (9.4%). A key point to note is the similarity of employment by industry between Queensland and North Queensland, 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 is also significantly higher in North Queensland reflecting the abundance of arable land, water and sunshine needed for cropping and pastoral operations.

Relative to Queensland, North Queensland is underrepresented in manufacturing, finance & insurance, education and training 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	3.8%	7.2%
Mining	1.9%	5.2%
Manufacturing	8.3%	5.4%
Electricity, Gas & Water	1.2%	1.4%
Construction	10.8%	10.7%
Wholesale Trade	3.6%	3.1%
Retail Trade	11.1%	11.6%
Accomm. & Food	7.3%	5.1%
Transport, Post & Warehouse	5.9%	6.9%
Info., Media & Telecomm.	1.4%	1.4%
Financial & Insurance	2.4%	1.8%
Rental, Hiring & Real Estate	2.3%	2.7%
Prof., Scientific & Tech.	6.8%	5.0%
Administrative & Support	3.4%	2.8%
Public Admin., & Safety	6.0%	6.5%
Education & Training	7.2%	5.3%
Health & Social Assistance	10.4%	9.4%
Arts & Rec.	1.7%	1.1%
Other Services	4.5%	4.4%
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. Figures include Fitzroy

3. Quarterly Indicators

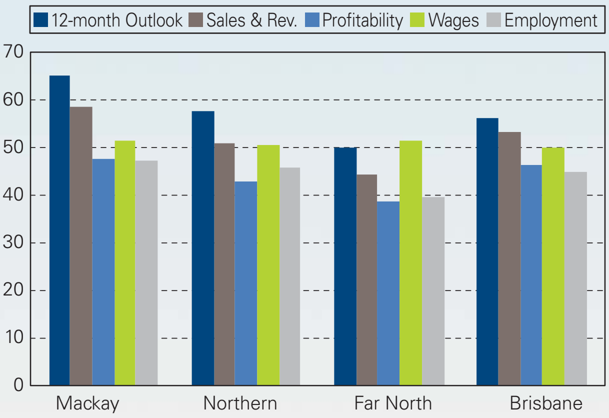
Mackay remained the most confident region in North Queensland in the March Quarter 2010. The region's mining industry outlook appeared stable through this period, providing relatively strong business conditions. The Far North remains North Queensland's weakest region.

The Mackay and Far North SDs experienced significant decreases compared to the December Quarter 2009. Mackay's decrease was particularly strong across all four surveyed categories, suggesting a significant loss of confidence over the past three months.

In the Far North, declines were reported in employment conditions (-3.4percentage points). This is unwelcome news for the Far North's already weak labour market.

Unlike the other regions, the Northern SD reported increased confidence compared to the December quarter 2009. The region experienced improving conditions across all of the categories, most notably business profitability, which increased by 4.8 percentage points.

Figure 3.1: Business Confidence, March Q10



Source: CCIQ Pulse Report

Despite the declines reported in the March quarter Mackay's business conditions and confidence are better than those reported for Brisbane. The Northern SD and Brisbane report relatively similar business conditions, though the 12-month outlook for the Northern SD is stronger. The Far North continues to lag North Queensland and Brisbane, particularly in the 12-month outlook, profitability and employment.

Profitability appears to be North Queensland's and Brisbane's key constraint, with both regions reporting weak profit conditions. Mackay, Far North and Brisbane all recorded declines in profitability in the March Quarter 2010

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, December Q09 to March Q10

	Mackay	Northern	Far North	Brisbane
Sales & Rev.	- 2.7	3.1	- 2.9	- 6.4
Profitability	- 4.5	4.8	- 0.4	- 5.0
Wages	- 0.2	0.4	0.8	- 2.8
Employment	- 3.0	0.2	- 3.4	- 4.5

Source: CCIQ Pulse Report

Table 3.3: CCIQ Pulse Index – Percentage Point Change, March Q09 to March Q10

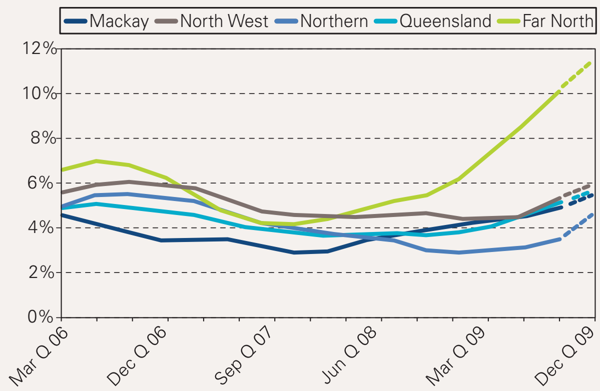
	Mackay	Northern	Far North	Brisbane
Sales & Rev.	22.3	14.1	11.4	10.5
Profitability	9.8	7.8	10.3	7.8
Wages	1.6	0.8	6.9	2.0
Employment	6.3	3.2	5.4	4.1

Source: CCIQ Pulse Report

The Mackay and Northern SDs reported the strongest labour markets in North Queensland, and both currently report unemployment rates lower than that of Queensland. The Northern SD continues to have the lowest unemployment rate in North Queensland, as it has done for the past 18 months. AECgroup estimates the region's unemployment rate at 4.6%, up by 1.1 percentage points in March Quarter 2010. The Far North region again has North Queensland's highest unemployment rate, estimated at 11.3%. The Far North also recorded the largest increase in unemployment, up by 1.3 percentage points in the quarter.

The strengthening employment outlook is expected to see unemployment ease in coming quarters, although uncertainty over the effects of the proposed RSPT is likely to have an impact on employment, notably in the Mackay and North West SDs.

Figure 3.2: Quarterly Unemployment



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 AECgroup. 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.

Source: QRSIS Labour Force Trends, ABS Regional Unemployment, AEC*group*

4. Quarter 3 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 Manufacturing, Transport and Storage, Communication Services, Finance and Insurance and Education.

4.1 Manufacturing

North Queensland's manufacturing industry is dominated by metal refining, sugar milling and equipment engineering for mining and agriculture. Metal refining primarily occurs in the Northern SD region, with three major refineries in Townsville: Queensland Nickel's nickel refinery, Sun Metal's zinc refinery and Xstrata's copper refinery. These refineries were severely affected by the global recession during 2009, in particular the nickel refinery. Queensland Nickel bought the struggling operation, which was losing approximately $40 million a month, from BHP Billiton in early 2009. Latest announcements suggest the nickel refinery is now turning a healthy profit.

Sugar milling is present throughout the Far North, Northern and Mackay regions. Two independent ethanol plant projects have been proposed for the Burdekin and Hinchinbrook shires in the Northern region. Sarina (south of Mackay) is already a significant producer of ethanol. Ethanol is primarily for use as automotive fuel.

Table 4.1 reports the value of manufactured goods exported through North Queensland's major ports. The table shows the concentration of manufactured exports through the Port of Townsville. Total exports of manufactured goods through Townsville are comparable to those of Brisbane. The majority of North Queensland's manufactured goods are refined metals and sugar. Mackay and other North Queensland Ports are mainly used for shipping raw minerals and materials.

Table 4.1: Port Exports 2008-09 ($000)

	Brisbane	Cairns	Mackay	Townsville	Other NQ
Manufactured goods by materials	$1,062,960	$24,134	$0	$1,979,994	$0
Machinery & transport equip.	$1,183,574	$170,990	$1,198	$171,112	$0
Manufactured goods - Misc.	$141,838	$ 6,671	$10	$10,950	$11
Total	**$2,388,372**	**$201,795**	**$1,208**	**$2,162,056**	**$11**

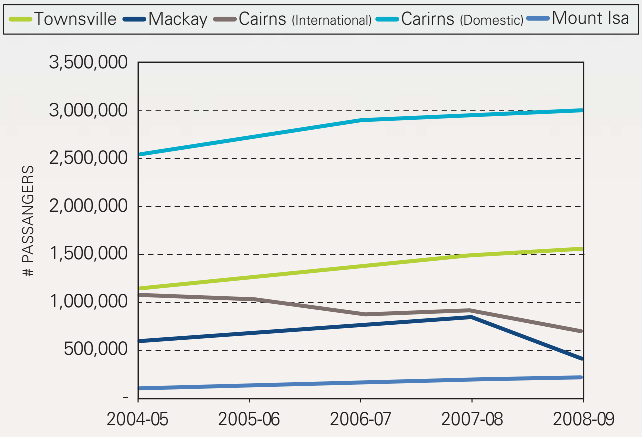
Source: OESR trade statistics

4.2 Transport and Storage

The transport industry in North Queensland can be considered within two main sections; aviation / passenger transport and industry / freight transport. Cairns has a major international airport, with Townsville and Mackay also having large domestic airports. Townsville is officially an international airport, although it lacks facilities to disembark international passengers. Whitsunday Coast is also being touted as a potential future international airport. The Mackay and North West regions' transport industry is dominated by commercial road and ship freight, which support the large mining industries in these regions.

In 2009, approximately 6 million air passengers travelled through Cairns, Townsville, Mackay and Mount Isa airports. Cairns dominates these figures, accounting for approximately 63% of air passengers in the region. Both Cairns and Townsville have experienced high growth in domestic air passengers in recent years. Townsville has experienced average growth of 10% per annum in passengers over the past seven years. Passenger numbers in Mackay fell significantly in 2008-09 due to a large decline in fly-in fly-out air services associated with a significant number of redundancies in the region's mines. Mount Isa's airport passengers have remained steady, although numbers have recently fallen by 7% during 2008-09.

Figure 4.1: Air Passenger Numbers



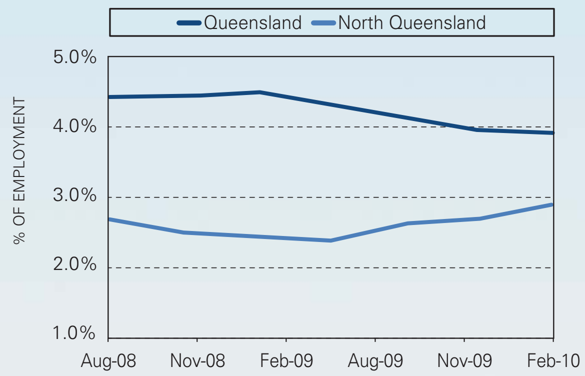
Source: Queensland Airports Limited, Department of Transport and Main Roads, Cairns Airport.

International passengers in North Queensland are serviced by Cairns International Airport. Passenger numbers at Cairns International have been falling consistently since 2004-5. In 2008-09, passenger numbers fell by 24%, which has resulted in the major downturn in the region's tourism dependent economy. The sharp fall in international travellers is a reflection of the weak global economic conditions during this period, particularly in Japan and the United States – two of Cairns' biggest tourist source markets.

4.3 Finance, Insurance & Communications

North Queensland's financial sector is relatively small in comparison to Queensland's. The finance, insurance and communications industries have, on average, accounted for 2.6% of North Queensland's employment over the past two years, which is considerably less than Queensland's average of 4.2%. It is natural for these industries to cluster in major cities, so Queensland's average is a reflection of the large presence of the finance, insurance and communications industries in Brisbane.

Figure 4.2: Proportion of Employment in Finance, Insurance & Communications



Note: Figures are 4-period averages due to volatile, small area data sets

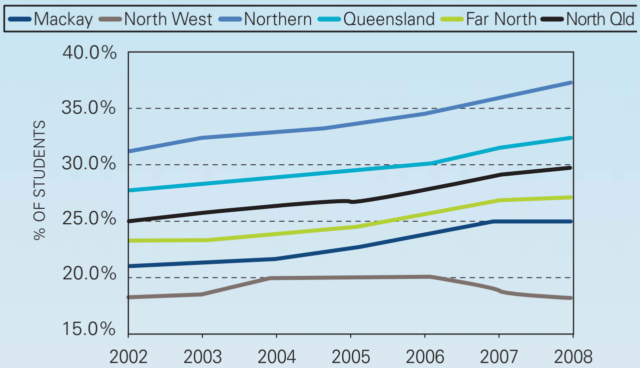
Source: ABS 6291.0.55.003.

Both Queensland and North Queensland employment in the finance, insurance and communications industries was affected by the global recession in 2008-09. North Queensland's employment in these industries fell to 2.4% in February 2009 and has been slowly recovering since then. Queensland's proportion of employment in the finance, insurance and communications industries is still falling. In February 2010, employment in these industries accounted for 3.9% of total employment. The recovery in these industries is likely to be relatively slower than North Queensland, as South East Queensland's financial industry is more closely connected with international markets.

4.4 Education

North Queensland had approximately 117,000 primary and secondary school students in 2008. The Far North Region had the largest number of school students, with 44,500 enrolments. North Queensland's primary and secondary school education system accounts for approximately 16% of all school enrolments in Queensland, which is consistent with its proportion of Queensland's population. Growth in enrolments has on average been 1.5% lower than population growth over the past five years, indicating that most people moving to the region are not families with school aged children.

Figure 4.3: Percentage of Students in Private Education



Source: QRSIS database

The proportion of students in private education is lower in North Queensland than in Queensland (see Figure 4.3). The Far North, Mackay and North West regions have low private school enrolments in comparison to Queensland. Interestingly, the Northern region has significantly higher than average private education enrolment. In 2009, the Northern region had 37% of its school students enrolled in private schools, which was 4.9 percentage points higher than Queensland. The Northern region is considered a hub for private education in North Queensland and it is expected that a significant proportion of its enrolments are students travelling from neighbouring regions. This could account for the lower figures in neighbouring regions. Apart from the North West which has reported a 1.8% decline in private school enrolments since 2006, all regions have experienced a growing proportion of students in private education.

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