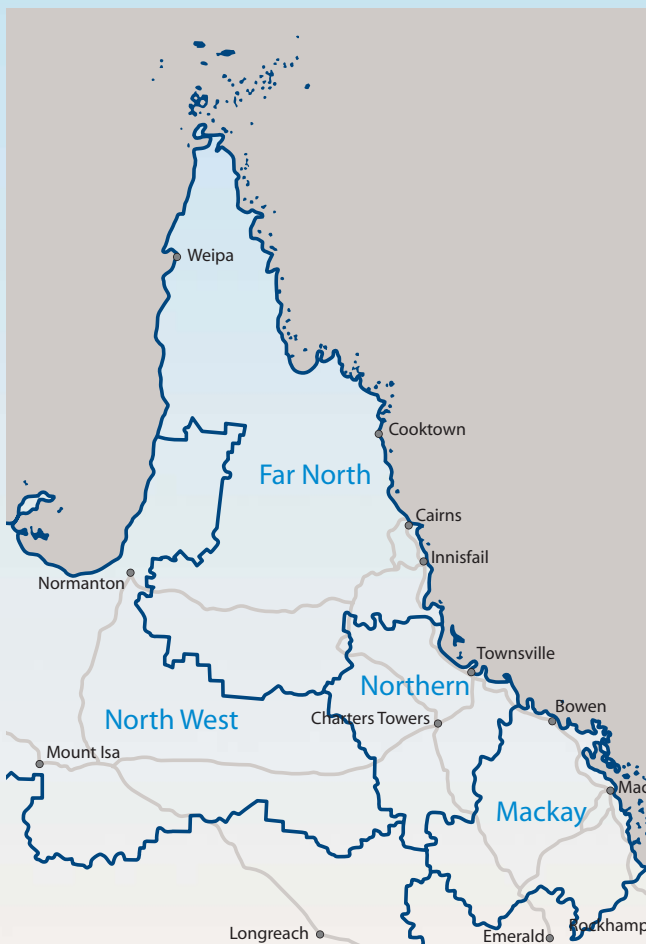


# Northern Exposure

*A finger on the pulse of North Queensland's economy*

## 1. Regional Developments and News



### 1.1 Mackay Region

#### News

The property sector in Mackay is showing signs of renewed confidence. Mackay Regional Council has received development applications for a new Bunnings Hardware and two new supermarket complexes. A \$210 million expansion (including Mackay's first Myer) of Mackay's premier shopping centre, Caneland Central, is due to start in April.

Citing strong mining, housing and infrastructure forecasts in the region, Boral has announced plans to double the output of its Mackay masonry block plant.

Clive Palmer's Resourcehouse announced in February that it has secured contracts with a Chinese power company for the Galilee Basin Coal project. Figures cited in the press mention that up to 70,000 jobs may be created by the project.

Mackay Sugar has announced that it will construct a \$120 million co-generation plant capable of supplying a third of the region's electricity needs.

Commentators are again raising the prospect of major skills shortages emerging in the Mackay region. In the North, Mackay was the worst affected region in terms of skills shortages in the boom years to the end of 2008.

#### Outlook

Across a broad range of industries Mackay is showing signs of strengthening confidence entering 2010. Whilst almost unthinkable a year ago, it is conceivable that Mackay could return to being the strongest growing regional economy in Queensland in 2010-11.

Nonetheless, with an industry structure heavily weighted to mining, the greatest danger to the region's prospects is increasing uncertainty regarding China's economic growth outlook. Concerns are mounting that China issued a huge sum of under performing loans through its 2009 stimulus, and that a major asset price correction is imminent.

Assuming Mackay returns to mining driven boom times, huge challenges remain. The supply of many elements of social and economic infrastructure continues to lag the growth of the region. Businesses are now facing reduced credit availability along with a struggle to retain skilled staff. The risk for Mackay is that an unexpected continuation of the mining boom further unbalances the region's economic structure.



## 1.2 Northern Region

### News

Clive Palmer has featured heavily in the Northern Queensland business press in early 2010. The Yabulu Nickel Refinery, bought as a loss making enterprise from BHP in July 2009, is now turning a profit of \$40 million a month. Clive Palmer has also announced plans to boost Yabulu's production from 30,000 to 70,000 tonnes a year.

Xstrata also reported surprisingly strong results for 2009, with zinc production from the Townsville refinery up 4%, and record production from its Mt Isa mines.

After a gloomy 2009 for Townsville's property sector there have been a string of positive announcements in Townsville recently. Townsville City Council approved \$2 billion worth of developments at a single committee meeting in early 2010. The most notable of these approvals is for the Rocky Springs 'satellite city' for over 40,000 people on the southern edge of Townsville.

The \$83 million redevelopment of Willows Shopping centre was completed in time for Christmas, and attracted record crowds. The on-again, off-again expansion of Stockland Townsville shopping centre, including a new Myer department store, has been announced to begin this year at a value of \$180 million. The third major shopping centre in Townsville, Castletown, is also continuing to expand and the \$57 million CBD mall redevelopment has begun.

The Queensland Government continues to invest in Townsville with a \$118 million new marine industries precinct announced for the Townsville Port.

Skills shortages are also back on the agenda in Northern Queensland with TEL announcing businesses will have to be on the front foot to retain skilled workers looking forward.

### Outlook

Whilst Northern Queensland is credited with a diversified and relatively stable economy, the financial crisis of 2009 shook business and consumer confidence harder than many other parts of Australia. Despite this, official figures suggest that most sectors of the economy held up well and unemployment remained relatively low.

Skills shortages will likely become an issue in Northern Queensland over the next year as major public infrastructure projects continue, construction activity in the residential sector rebuilds and mining activity in the Mackay and North West region's returns to expansion mode.

## 1.3 North West Region

### News

Mount Isa has become the first site in mainland Australia to have fibre-optic lines laid as part of the government's national broadband network. The fibre will connect Darwin to Toowoomba, via Mt Isa and other regional towns, and is expected to be completed in 18 months.

Cyclone Olga resulted in good rains over much of North West Queensland although very little rain fell in the Mt Isa and Cloncurry regions. Richmond, Hughenden and the Flinders catchment are reported to have benefited from Olga. The Mt Isa region is reported to have received better rains recently.

Xstrata has reported record production from its Mt Isa mines as well as announcing a \$589 million plan to develop an underground mine at its Ernest Henry copper/gold operation near Cloncurry.

### Outlook

A sense of stability has returned to the North West's minerals sector after the turmoil of 2009. With major new projects under development, such as Xstrata's Ernest Henry underground development and Legend Holdings phosphate project, the feeling of relief is extending towards optimism.

A constraint on the growth of North West Queensland remains its transport connectivity with the coast, particularly in terms of rail capacity and cost.

The North West's other major industry, beef, begins 2010 with optimism after mostly good rains across the region. Graziers will be hoping that unlike 2009, follow-up rains continue through the year to top up moisture levels.

## 1.4 Far North Region

### News

After being buffeted by company collapses, finally some good news for the Far North construction sector with Cairns' largest construction company, CEC Group, reporting that it is on the road to recovery with a \$25 million contract south of Cairns. However the fallout from recent collapses continues, with the liquidator for CMC Cairns reporting that 25 associated companies have also gone into liquidation.

Transfield Services, which owns a wind farm near Ravenshoe, is due to submit plans for another two farms valued at \$200 million, creating more than 110 jobs and capacity to power more than 90,000 homes.

Anecdotal reports suggest tourism activity in December and January was better than expected. Continental Airlines has announced it will increase flights into Cairns from March. Tourism Queensland says there are signs of growth in key international markets, particularly Germany and China. Cairns welcomed more than 4,000 Chinese tourists from charter flights as well as an estimated additional 10,000 from across China and Australia for Chinese New Year.

### Outlook

Despite the better than expected recent performance in tourism, economic activity in Far North Queensland remains subdued. Tentative indications are that unemployment has peaked, although the return to economic prosperity is expected to take longer and be more variable than in the other regions of North Queensland.

The news that Cairns is attracting Chinese tourists and adding new international airline seats is positive. The upgrade of Cairns Airport, increased seat capacity and the development of new tourism products should act to further establish the recovery in the tourism industry and support business activity and employment.

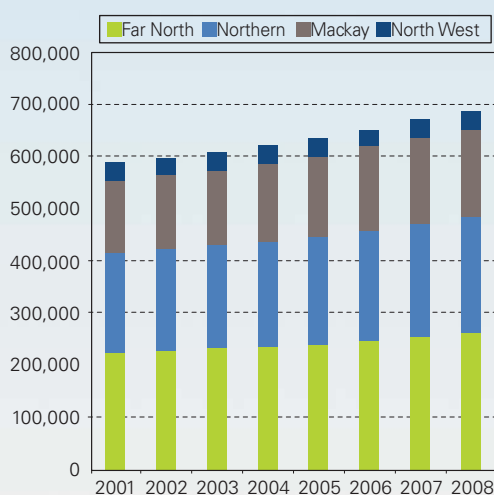
## 2. Annual Indicators

### 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 North 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

### 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. North Queensland's GRP increased by 6.3% in 2007-08, slightly weaker than growth of 7.8% reported for Queensland. In the period 2004-05 to 2006-07 North Queensland's economic growth outperformed that of Queensland. The 2007-08 slowing in growth reflected weaker demand for export focused mining and tourism outputs, 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 domestically focussed 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 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 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 focus on 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%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Source: ABS

\* Defence force personnel are not recorded in these statistics, but have significant presence in North Queensland, with Townsville home to one of Australia's largest defence bases.

### 3. Quarterly Indicators

In the December quarter 2009 Mackay again led North Queensland in terms of business conditions. In the December quarter confidence in Mackay was roughly on par with Brisbane. Counter to the general trends, some business indicators in the Northern SD fell significantly in the December quarter compared to the September quarter, particularly for profitability, to a point where they are almost as low as in the Far North. Despite relatively low unemployment in the Northern SD, business and consumer confidence has been particularly sensitive through the recent economic downturn. The recent string of good economic news and announcements in the Northern SD is expected to translate into a significant improvement in business sentiment in the first half of 2010.

Across North Queensland generally, the recent improvement in business confidence has not been as strong as in Brisbane, nor are levels of confidence as high, with the exception of some indicators in the Mackay region.

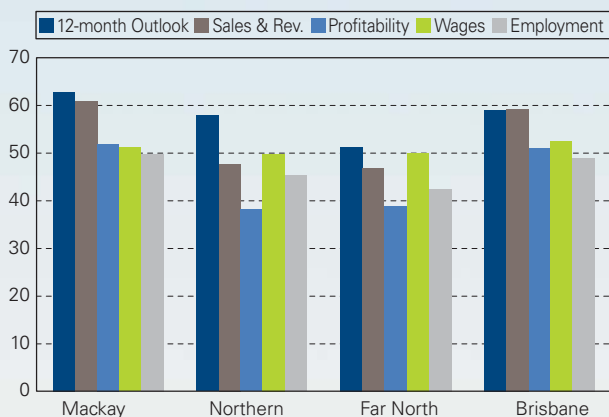


Figure 3.1: Business Confidence, December Q09

Source: CCIQ Pulse Report

The December quarter also reported a slight decline in the 12-month Outlook in the Mackay region. The reason for this may relate to increasing uncertainty over the sustainability of recent economic growth in China, and the effect that a more subdued China may have on resources demand.

Almost all business indicators are up over the past year in North Queensland.

Business confidence in Queensland remains below the Australian average, a noteworthy reversal of the traditional situation.

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, September Q09 to December Q09

	Mackay	Northern	Far North	Brisbane
12-month Outlook	-1.7	0.9	1.6	3.3
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, December Q08 to December Q09

	Mackay	Northern	Far North	Brisbane
Sales & Rev.	11.0	12.0	10.4	12.3
Profitability	10.5	5.0	4.8	7.1
Wages	-5.4	0.0	2.7	-0.1
Employment	5.7	7.6	6.5	5.2

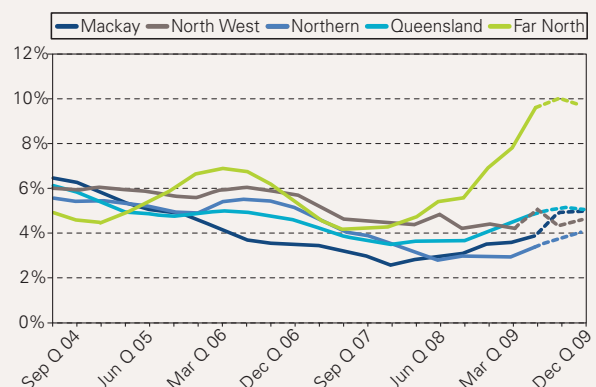
Source: CCIQ Pulse Report

Unemployment remains relatively low in North Queensland, with levels at, or below, Queensland averages. The exception remains the Far North, however this region will be encouraged by recent data which suggests unemployment may have peaked. The next 3-6 months of data should confirm whether the recent falls represent a trend.

Despite remaining at very low levels, unemployment rates in the Northern and Mackay SDs appear to have recorded increases in the December quarter 2009. A return to job-seeking by North Queenslanders could be generating the short term spike in measured unemployment as there is a lag between entering the labour market and finding employment.

Looking forward, there are anecdotal reports of a rush to secure workers before changes to federal workplace laws came into effect on 1 January 2010. If true, North Queensland's employment growth may disappoint in the first half of 2010.

Figure 3.2: Quarterly Unemployment Rate



Note: The solid line series represents QRSIS labour force figures and dashed line series represents ABS small area labour force figures which have been 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, AECgroup



## 4. Quarter 2 2009/10 Sectors in Detail

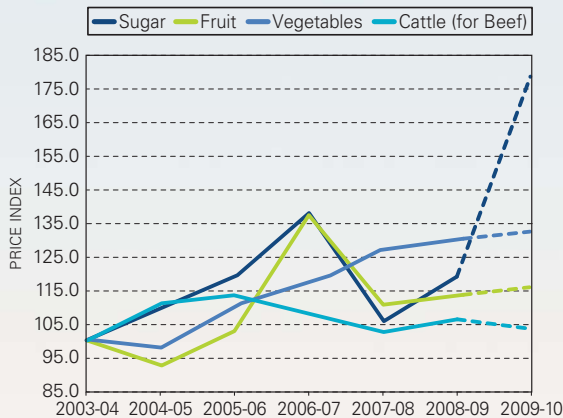
Each Quarter the North Queensland Economic Insight provides an overview and outlook for several sectors of the North Queensland economy. This quarter, we look at Agriculture, Construction and Electricity, Gas & Water.

### 4.1 Agriculture

Sugarcane is the most significant crop in North Queensland and is primarily grown in the coastal areas of the Mackay, Northern and Far North SD's. The largest sugarcane producing area is the Burdekin Shire (Northern SD), which produced approximately \$230 million of cane in 2005–06. The price of sugar has been quite volatile over the past five years and this has caused large variations in the annual farm profits. Sharp movements in prices has made the industry vulnerable to cyclical failures.

Sugar prices are forecast to increase by a massive 50% in 2009–10 (see Figure 4.1). As such, sugar growers across North Queensland are looking to their strongest year in recent memory. Replenished sugar farm business and household budgets should provide a significant boost to the coastal North Queensland economies through 2010–11.

Figure 4.1: Price of Major Agricultural Products in NQ



Source: ABARE Commodities Report

Beef is the major livestock industry in North Queensland, with Mackay and the North West SD's being the largest producers. Compared to other agricultural commodities beef prices have been stable over the past five years. After peaking in 2005–06, beef prices have drifted down, and in 2009–10 are estimated to be only marginally above 2003–04 prices.

Relatively good rains have been experienced across most of North Queensland at the start of 2010, and provided that follow up rains are reasonable, North Queensland beef producers can look forward to good production levels to offset weaker prices.

North Queensland is also a large producer of fruit and vegetables. Fruit is primarily grown in the Far North, specifically in Innisfail and the Tablelands, and to a lesser degree the Burdekin Shire. The price of fruit has been volatile, especially in 2006–07, when prices increased dramatically

due to Cyclone Larry destroying Innisfail's banana crops – which account for approximately 90% of Australia's banana production. The disaster signified a major fall in supply and consequently a large increase in price. Although the increase in price was beneficial for the fruit industries in other areas of Queensland, North Queensland's banana farmers were unable to capture these benefits and were left with a decimated crop.

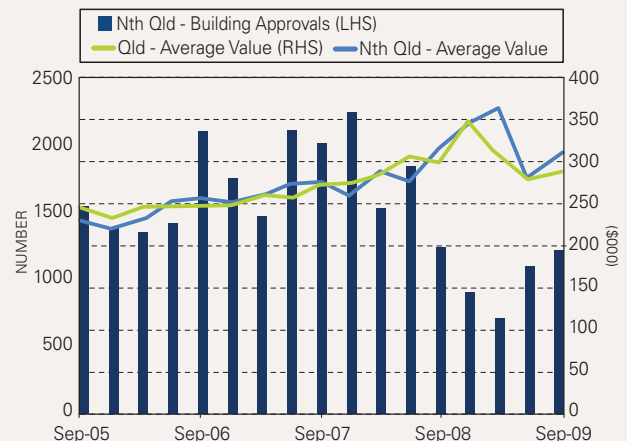
Vegetables are primarily grown in the Mackay SD, principally around Bowen, and to a lesser degree in the Burdekin and the Tablelands. Vegetables, on the whole, have reported consistent price growth over the past five years, although this masks considerable volatility with some individual crops.

### 4.2 Construction

Residential building approvals peaked in 2007–08 in unison with broader economic activity. In the December quarter 2007 there were 2,238 residential buildings approved in North Queensland.

Approvals crashed with the onset of the Global Financial Crisis (GFC) and North Queensland's construction industry suffered accordingly. CMC, Hedley Group and Lamont Constructions, all prominent construction companies in North Queensland, fell into receivership or voluntary administration through 2009. Building approvals bottomed out in the March quarter 2009 at 708, a level just 32% of peak quarterly approvals. Approvals have subsequently shown steady improvement, with 1,215 approvals in the September quarter 2009.

Figure 4.2: Residential Building Approvals (Number and Value)

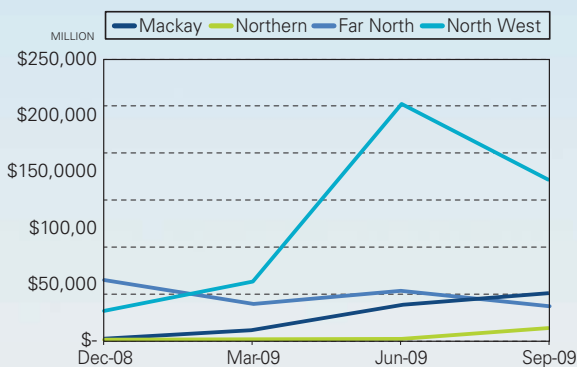


Source: AECgroup, QRSIS, ABS

The average value of approvals did not begin to fall until well after the number of building approvals fell. As such, whilst the market built fewer dwellings from the beginning of 2008, it continued to build higher quality dwellings until the beginning of 2009.

Public sector infrastructure projects represent an important source of activity to sustain construction and broader economic performance, employment and skills retention during recessionary periods. The Northern SD has performed particularly well in this area, securing over \$430 million of government funding since the December quarter 2008.

Figure 4.3: Value of Public Construction during the GFC



Source: AECgroup, QRSIS, ABS

The Far North and Mackay SDs have achieved considerably less, collectively securing \$260 million. The Far North's economy has been hit very hard by the GFC. The inability for the region to secure public funding for major public works would offer further explanation for the current weak economic conditions in the region. Nonetheless the Mackay SD has had the benefit of a resilient mining industry, which has provided a buffer for the region during the GFC period.

## 4.2 Electricity, Gas & Water

Ergon Energy is North Queensland's primary electricity supplier. Ergon invested significantly in North Queensland during 2008-09, and currently has over \$240 million of infrastructure projects underway, including:

- Belgian Gardens Substation (Northern SD);
- Merinda Substation (Mackay SD);
- Oonoonba Substation (Northern SD);
- El Arish Substation (Far North SD);
- Chillagoe substation and line upgrade (Far North SD); and
- Supply improvements to the Cairns' Northern Beaches (Far North SD).

North Queensland has one gas fired power plant located at the Yabulu Nickel Refinery to the north of Townsville (Northern SD). The power plant is serviced by a gas pipeline from Moranbah and generates approximately 243MW of electricity per annum, which is approximately 20% of gas generated electricity in Queensland.

Alternative energy is also coming into focus across North Queensland. Notable is the existing and proposed wind farms near Cairns, various cogeneration plants operating or proposed for sugar mills, Townsville's solar city status, and proposals to develop solar and geothermal power in North West Queensland.

Water is a key issue for North Queensland. Rainfall is highly seasonal, with nearly all of North Queensland's annual rainfall occurring in January, February and March. Dams therefore need to have large capacities to sustain the regions through the dry season. Entering the 2010 wet season North Queensland had approximately 2.5 million megalitres (ML) of water, with the majority coming from the Northern SD's Burdekin Dam (approximately 57%). Whilst the Northern SD has relatively low average rainfall, it has the best water security in North Queensland by virtue of access to the huge and reliable Burdekin Dam. The Far North has the smallest water storage capacity relative to its population but has the most consistent rainfall.

At the time of writing (February 2010), most of North Queensland's dams were again at or over capacity following wet season rains, in contrast to their levels in December 2009 (Table 4.1).

Table 4.1: Major Dams in North Queensland at December 2009

Name	Current Storage (ML)	Capacity (ML)	Storage Capacity (%)
<b>Far North</b>			
Tinaroo Falls Dam	269,300	438,900	61%
Copperlode Falls Dam	37,100	45,802	81%
<i>Sub Total</i>	306,400	484,702	63%
<b>Northern</b>			
Burdekin Dam	1,427,000	1,860,000	77%
Ross Dam	136,677	234,921	58%
<i>Sub Total</i>	1,563,677	2,094,921	75%
<b>Mackay</b>			
Eungella Dam	96,900	112,400	86%
Teemburra Dam	128,500	147,500	87%
Peter Fraust Dam	343,700	491,400	70%
<i>Sub Total</i>	472,200	638,900	74%
<b>North West</b>			
Julius Dam	88,400	107,500	82%
Lake Moondarro	60,990	107,000	57%
<i>Sub Total</i>	149,390	214,500	70%
<b>Total</b>	<b>2,491,667</b>	<b>3,433,023</b>	<b>73%</b>

Source: AECgroup, Sunwater, TCC, MRC, CRC, MTIRC

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