

NORTHERN EXPOSURE



A FINGER ON THE PULSE OF NORTH QUEENSLAND'S ECONOMY

FOURTH QUARTER 2014/2015

1. REGIONAL DEVELOPMENTS AND NEWS

1.1 Mackay Region

News

Rail operator Aurizon has announced an investment of **\$180 million** in equipment aimed at ensuring greater tonnage, safety, and reliability on the Central Queensland Coal Network.

The investment includes 40 advanced track machines and specialised wagons to maintain the rail sleepers and rock ballast across nearly 2,700km of rail track.

Adani Group has set a September 2015 start date to begin off-site work on its \$16 billion Carmichael Coal Mine project.

The ambitious thermal coal project has faced numerous hurdles, including falling coal prices and environmental challenges associated with the Abbot Point Coal Terminal expansion.

Adani Group has reportedly invested \$1.3 billion in the project to date.

Outlook

The economic outlook for the Mackay Statistical Division (SD) remained subdued over the March Quarter 2015.

Unemployment levels continue to trend upwards, however business confidence levels rose on the back of solid investment news.

Productivity enhancing investment such as being undertaken by Aurizon and new developments such as Adani's Carmichael Mine are critical for driving regional growth going forward.

1.2 Northern Region

News

The draft development scheme for the Ross Creek priority development area has been adopted by the Townsville City Council.

The 97ha priority development area aims to connect the Strand to the CBD with high end retail, food offerings and residential apartments.

The priority development area includes the proposed \$315 million CBD stadium and convention centre site.

The draft development scheme will be released for public consultation in July.

Townsville Civic Theatre was booked for 348 days over 2014, turning away over 100 performances.

Community leaders are calling for an additional or upgraded music hall in order to support growing demand.

Townsville Community Music Centre has put forward a \$33 million proposal to extend the Townsville Civic Theatre. The proposal includes a 600 seat concert hall, 200 seat theatre, and an expanded foyer area/ function venue.

An option for developing a new concert hall within the Ross Creek priority development area has also been put forward.

Outlook

The Northern SD economy showed further weakness over the March Quarter 2015. Unemployment levels continue to rise, with a lack of clear investment drivers limiting economic activity.

Commencement of major infrastructure works associated with the Ross Creek priority development area will be critical to underpinning employment and confidence in the Northern SD economy.

1.3 North West Region

News

Three out of four proponents short-listed to build a pipeline linking Northern Territory gas to the East Coast market have identified a \$900 million, 800km link from Tennant Creek to Mount Isa as a preferred solution.

An alternative development option involves a 1,000km, \$1.3 billion pipeline from Alice Springs to the Moomba Gas Plant in South Australia.

The Tennant Creek to Mount Isa link provides significant construction cost savings. However, the Alice Springs to the Moomba line provides an established gas processing centre and ready access to the Sydney gas market.

Offermans Partners is a specialist practice with offices in Townsville, Cairns, Mackay and Brisbane offering Turnaround and Solvency Solutions, Business Finalisations and Exits, Business Valuations, and Forensic Accounting focused primarily on regional Queensland businesses.

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The Northern Territory Government has commissioned a \$1 million feasibility study to investigate building a rail line from Tennant Creek to Mount Isa.

The 600km rail connection may have significant implications for the viability of existing and potential resource and agricultural operations across North West Queensland.

Outlook

The North West economy was steady over the March Quarter 2015.

The resources sector slowdown and ongoing drought continue to weigh on the regional outlook over the short term.

However, the increasing interest in key infrastructure links with the Northern Territory has the potential to unlock significant longer term development potential across the North West.

1.4 Far North Region

News

Reef Hotel Casino in Cairns has announced plans for substantial upgrades.

Owners Reef Casino Trust have seen a recovery in visitation and gaming expenditure entering the new financial year and has announced a range of upgrades and incentives across the business.

The casino was subject to a failed takeover bid by Aquis Group in 2014, reportedly costing the Reef Casino Trust nearly \$1 million in legal and management fees.

The Queensland Government has released the draft environmental impact statement for the Cairns Shipping Project for public comment.

The \$40 million project targets attracting larger cruise ships to the Far North.

Funding for the project has reportedly been withdrawn by the new State Government, due to poor economic feasibility and environmental concerns regarding the potential dumping of dredge spoil within the Great Barrier Reef Marine Park.

Outlook

The outlook for the Far North SD was mixed over the March Quarter 2015.

Unemployment rates were steady. However, business confidence was sharply lower with the ongoing drought impacting the region's key agricultural sector.

Key macroeconomic drivers, including a falling Australian dollar and increasing demand for high value agricultural produce and tourism experiences suggest a solid medium to long term outlook for the Far North SD.

1.5 Fitzroy Region

News

Regional stakeholders are advocating Rockhampton as a fly-in fly-out hub for Adani's Carmichael Mine.

The company is reportedly seeking a 100% fly-in fly-out workforce at the proposed thermal coal mine.

The strategic location of the project within the Galilee Basin is generating significant interest across North Queensland, as regions seek to benefit from the estimated 10,000 jobs associated with the project.

The State Government has announced an additional \$1.5 million to redevelop Yeppoon's foreshore.

The Queensland Government will contribute a total of \$4 million towards the redevelopment which includes a beachfront water play area, roof and shading of the beach stage and amphitheatre terraces.

Outlook

The outlook for the Fitzroy SD remained soft over the March Quarter 2015.

The ongoing impacts of the resources sector slow down and drought in the agricultural sector will continue to subdue activity in the short term.

The longer term outlook for Fitzroy, with its core drivers of agriculture, resources, tourism, and services remains stronger.

Regional investments including Adani's Carmichael Mine, the CQ NRL Bid Stadium and the Great Keppel Island Casino Resort will be key to turning around confidence and employment over the coming quarters.

2. QUARTERLY INDICATORS

2.1 Business Confidence

Business confidence levels were generally lower across the SDs of North Queensland over the March Quarter 2015.

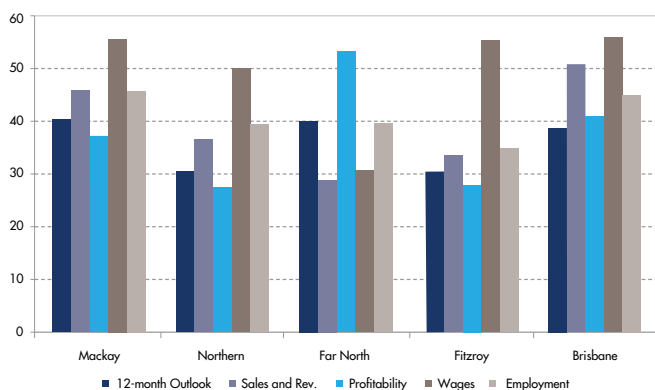
The Far North SD recorded the largest fall in confidence totalling -56.5 ppt across all indicators. *Sales and Revenue* (-23.9 ppt) recorded the largest fall, driven by uncertainty regarding the \$8 billion Aquis development.

The Northern SD registered a fall of -19.0 ppt across all indicators. *Weakness in the 12-Month Outlook* (-12.5 ppt) and *Profitability* (-5.8 ppt) were responsible for most of the falls.

The Fitzroy SD also recorded lower business confidence totalling -12.4 ppt across all indicators. A weaker *12-Month Outlook* (-21.8 ppt) was partially offset by a solid gain in *Wages* (+9.8 ppt).

Mackay SD was the only region to record higher business confidence, with gains totalling +22.3 ppt across all indicators. Both *Wages* (+12.1 ppt) and *Employment* (+7.9 ppt) rose strongly.

Figure 2.1: Business Confidence, Mar Q 2015



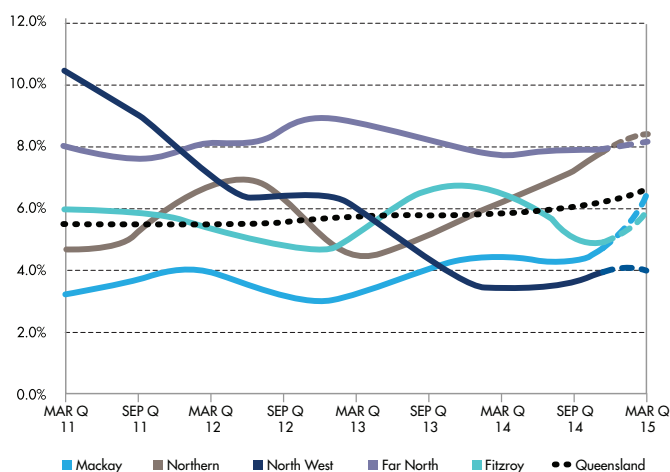
Source: CCIQ Pulse Report March 2015

2.2 Unemployment

Unemployment was higher across North Queensland's SDs over the March Quarter 2015. The unemployment rate again rose in the Northern SD (+0.3 ppt). The region continues to be impacted by a lack of new investment and now features the highest unemployment in North Queensland.

Unemployment rose sharply in the Mackay (+1.6 ppt) and Fitzroy SD (+1.0 ppt). More modest rises were experienced in the North West (+0.1 ppt) and Far North SD (+0.2 ppt).

Figure 2.2: Unemployment Rate



Note: Dashed lines are forecasts based on ABS small area labour force statistics. Unemployment statistics have been rebased due to changes in the Department of Employment and QRSIS series.
Source: QRSIS Labour Force Trends

3. NORTH QUEENSLAND'S HEALTH CARE AND SOCIAL ASSISTANCE INDUSTRY

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

Health Care and Social Assistance is one of North Queensland's most significant industry sectors. Over 2012-13, the industry contributed \$4.0 billion (or 5.4%) to North Queensland's Gross Regional Product (GRP). *Health Care and Social Assistance* is also a significant employer in North Queensland, providing nearly 45,000 jobs in 2011.

Health Care and Social Assistance as a sector includes medical and mental health care, aged and disabled care, child care, social work and residential care functions.

The Far North SD has the largest *Health Care and Social Assistance* industry in North Queensland, contributing around \$1.3 billion to Far North GRP and 12.5% of regional employment (see Figure 3.1).

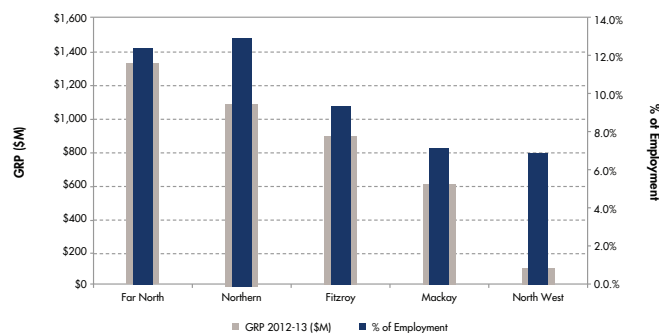
The Northern SD is also a significant *Health Care and Social Assistance* hub, servicing the broader North Queensland region. The industry contributes around \$1.1 billion to Northern SD GRP and 13.0% of regional employment.

The Fitzroy and Mackay SDs possess more modest *Health Care and Social Assistance* industries, contributing \$900 million and \$600 million to GRP respectively.

The North West SD possesses the smallest *Health Care and Social Assistance* industry in North Queensland, contributing \$100 million to GRP.

However the industry remains a vital service sector in the remote region, and contributes approximately 7% of regional employment.

Figure 3.1: North Queensland Health Care and Social Assistance Overview



Source: ABS (2012), AEC

The *Health Care and Social Assistance* industry is set to be one of North Queensland's key growth sectors over the coming years.

At a national level, real Commonwealth Government health expenditure is projected to increase from an estimated \$2,800 per capita (4.2% of Gross Domestic Product (GDP)) in 2014-15 to \$6,600 per capita (5.7% of GDP) in 2054-55 (Commonwealth Treasury, 2015).

The major driver of industry expansion is Australia’s and North Queensland’s ageing population. The rise in the number and proportion of older Australians will have significant implications in the areas of health and aged care.

North Queensland’s average age has risen 0.7 years since 2008 (see Table 3.1).

The resource centres of Fitzroy and Mackay are ageing more slowly, due to the strong regional immigration of the young, working age population over recent years.

The Far North and North West SDs are ageing more rapidly, albeit from a relatively young demographic base in the North West.

Other key industry drivers include the trend towards dual working households, generating rising demand for childcare services.

Table 3.1: North Queensland Average Age

| Statistical Division | 2008 | 2013 | 5 Year Change (Years) |
|-----------------------------|-------------|-------------|------------------------------|
| Northern | 35.0 | 35.7 | +0.6 |
| Far North | 35.7 | 36.7 | +1.0 |
| North West | 31.7 | 32.8 | +1.1 |
| Fitzroy | 35.3 | 35.8 | +0.5 |
| Mackay | 35.3 | 35.6 | +0.3 |
| North Queensland | 35.2 | 35.9 | +0.7 |

Source: ABS (2014)

Going forward, the outlook for the *Health Care and Social Assistance* sector is strong.

Key industry challenges include facilitating the substantial labour and skill requirements demanded by the sector, and acquiring sufficient funding to maintain and increase services as the North Queensland population both grows and ages.



Townsville

Level 9, Suncorp Plaza
61 – 73 Sturt Street
Townsville

Ph: (07) 4724 0000
Fax: (07) 4724 0060

Mackay

City Business Centre
134 Victoria Street
Mackay

Ph: (07) 4957 3544
Fax: (07) 4957 5433

Cairns

14 Spence St
Cairns

Ph: (07) 4041 5001
Fax: (07) 4724 0060

Brisbane

Level 7
320 Adelaide Street
Brisbane

Ph: (07) 3010 9236
Fax: (07) 3010 9602