

Northern Exposure

A finger on the pulse of North Queensland's economy

1. Regional Developments and News



1.1 Mackay Region

News

The Queensland Government recently announced that it expects Queensland's coal production to increase by up to 80% over the next 20 years, and is committed to providing essential supporting infrastructure. In the wake of this announcement, a \$10 billion coal development in the Mackay region is being fast tracked after being declared a project of State significance. The development consists of two open cut coal mines and supporting rail infrastructure from the Galilee Basin to either Abbot Point or Hay Point. The development is expected to create over 11,000 jobs in the region, with construction scheduled to commence in 2012.

Outlook

Coal mining drives a significant proportion of Mackay's economic activity and the recent announcements made by the State Government are expected to positively impact the regions business confidence. The direct economic benefits from the new mining developments in the Gallilee Basin will not be experienced until construction begins in 2012.

The value of the Australian dollar and commodity prices (primarily coking and thermal coal) also play a significant role in Mackay's economic outlook. Exchange rates remain high (close to parity with the \$US) and commodity prices have been strong this year and are forecast to continue to increase.

1.2 Northern Region

News

The Port of Townsville is anticipating record throughput in 2010-11, after trade recently surpassed one million tonnes per month for the fourth consecutive month. CuDECO recently announced plans to develop a major minerals storage facility at the Port of Townsville, which will ensure trade volumes continue to increase over the short to medium term. Port of Townsville

Limited has numerous expansion projects planned to cope with the additional trade volumes anticipated over the next decade.

The region experienced significantly higher than average rainfall during October and November, which has posed problems for the sugarcane industry in the Burdekin and Hinchinbrook shires. Many farmers have been unable to harvest their cane due to flooding. The two shires represent the largest sugar cane producing region in Australia. Australia's sugar exports are expected to be reduced by as much as four million tonnes compared with last year, due to the poor harvest from these regions.

Conquest Mining recently announced plans to expand production at its two gold mines near Charters Towers. The expansion is expected to create an additional 100 jobs over the next six months.

Outlook

The outlook for the Northern Region remains the strongest in North Queensland. The region is experiencing strong population growth and sustained low unemployment, indicating continued economic growth in the region. The availability of skilled workers remains the biggest constraint for the region's outlook. Increased mining in the North West and trade through the Port of Townsville remain key factors for supporting economic activity in the region.

The Second Capital City concept may also act as a major driver for the region and is likely to at minimum increase consumer and business confidence over the short to medium term.

1.3 North West Region

News

Mining production in the North West has been resilient during the global economic downturn. Xstrata Mount Isa Mines recently increased production, exporting \$2.3 billion of minerals in 2009-10, which is 22% higher than in 2008-09.

A \$10 million community precinct is soon to be developed in Cloncurry's Town Centre, with the project recently receiving a funding contribution from the State Government. The remaining funding is to be provided by the Ernest Henry Mine and the Cloncurry Shire Council. The project is set to provide the Town Centre with a major face lift, with plans including a new library, art gallery, meeting and conference rooms, and a disabled and parental room. An administration centre is also planned, but is reliant on a funding commitment from the Federal Government.

Outlook

The North West has been exposed to a significant amount of uncertainty over the past two years, as the region is heavily dominated by the mining industry, which is highly sensitive to exchange rates, and international demand and pricing. Production and exports from mines in the North West has been resilient during the Global Financial Crisis, primarily due to the rebound in commodity prices following initial falls. Commodity prices (in particular zinc and copper) are forecast to increase over the next two years. The outlook for the region's mining industry is therefore relatively good. However, if commodity prices were to fall significantly, the industry would suffer greatly.

The main economic threats for the North West continue to be negative population growth and retention, and availability of skilled workers.

1.4 Far North Region

News

Cairns' bid to establish an Australian Institute of Sport campus in the City recently experienced a boost, after high level talks in Canberra resulting in interest from the organisation. Several other key organisations in Cairns, including James Cook University and the Cairns Taipans are also supporting the bid. The bid includes developing a base for Olympic / Commonwealth Games and off season training.

The Gulf-Savannah region is preparing for a period of relatively strong economic growth after securing government funding for several key infrastructure projects, including the \$20 million redevelopment of the Hamm Highway. The region is also experiencing increased investment in residential construction, which will flow through to other sectors of the economy.

Outlook

The Far North's tourism industry continues to recover at a slow pace. International passenger numbers are improving, particularly on flights from Japan, China and New Zealand. Visitor nights in hotels, resorts and caravan parks have also recently increased. Unemployment is beginning to ease and business confidence is increasing in response to the improving outlook.

Although tourism is beginning to improve, the recovery thus far has been slow. Improvements are likely to continue, but will be slow and lag behind economic growth in the region's major tourism source markets (China, Japan, Europe, and New Zealand). However, there is still a degree of uncertainty, with global economic conditions still frail in many tourism source countries and the high Australian dollar continuing to impact on international demand for tourism services.

2. Quarterly Indicators

2.1 Business Confidence

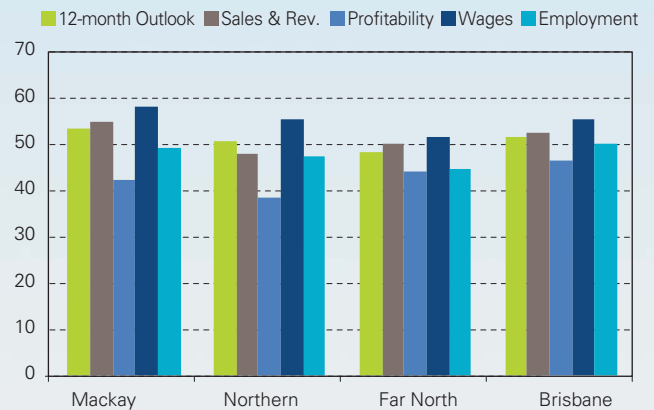
After falling significantly in June Quarter, business confidence in Brisbane and North Queensland improved considerably in September Quarter 2010. Mackay experienced the greatest fall in business confidence in June, however the region reports the strongest recovery in the September quarter, with the 12-month outlook increasing by 9.6 percentage points. The increase in confidence in Mackay has restored the region as the most confident in North Queensland. The Far North also experienced

a considerable rise in business confidence over the past quarter. Growth in business confidence was particularly high in *sales and revenue* (+11.1 percentage points) and *profitability* (+9.4 percentage points). The Northern region experienced the lowest increase in business confidence. The region now has similar levels of confidence to the Far North, having been higher in previous quarters. *Sales and revenue* (47.9) experienced a minor fall in the Northern region, down by -0.4 percentage points in September quarter.

Increased confidence has been driven to a large extent by positive announcements in North Queensland's mining industry and signs of life in the region's tourism industry.

Business confidence levels for North Queensland's major regions and Brisbane are considered in Figure 2.1.

Figure 2.1: Business Confidence, September Q 2010



Source: CCIQ Pulse Report September 2010

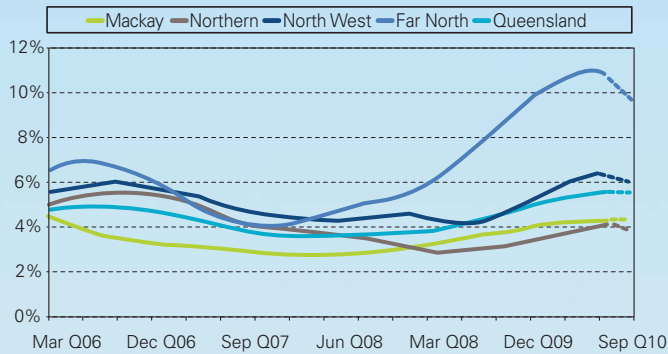
2.2 Unemployment

Unemployment in North Queensland has decreased in the Northern, Far North and North West regions, and held steady in Mackay during the September Quarter 2010.

The Far North's unemployment rate decreased by 1.3 percentage points between June Quarter and September Quarter in 2010, representing a major improvement for the region's troubled labour market. Improvements in the unemployment rate in the Far North have been slow and influenced by the region's improving tourism and construction industries. The Northern region continues to have North Queensland's lowest unemployment rate, falling to 3.9% in the September Quarter 2010, despite a rapidly growing labour force over the past year. Contrary to the Far North, the Northern region is likely to be impacted by skills shortages, particularly if the unemployment rate continues to decrease. The North West has experienced a 0.4 percentage point fall in unemployment over the last quarter. Mackay's unemployment rate rose marginally.

The Northern and Mackay regions are still performing better than the Queensland average of 5.5% unemployment. The recent fall in the unemployment rate in the North West has closed the gap with the region and Queensland, and the Far North remains significantly above the Queensland benchmark rate.

Figure 2.2: Unemployment Rate



Note: Dotted lines are forecasts and are based on ABS small area labour force statistics
Source: QRSIS Labour Force Trends

3. North Queensland's Construction Industry

Each Quarter the North Queensland Economic Insight provides an overview and outlook for a key sector in North Queensland. This quarter, we look at the construction industry.

Construction is one of North Queensland's most significant industries. In 2008-09, construction is estimated to have contributed \$3.48 billion (or 9.5%) to North Queensland's Gross Regional Product (GRP), making it the region's second largest industry. Construction is also the second largest industry in terms of employment, providing an estimated 39,697 jobs in North Queensland in 2008-09. Residential building approvals and prices are examined for commentary on the regions construction sector. Residential building approvals across Queensland were at their highest in 2007, averaging approximately 11,500 per quarter for the year. Approvals fell during 2008, hitting a low point of 5,260 in March 2009. The fall in approvals came on the back of a declining world economy and weaker confidence. In 2009-10, building approvals have stabilised at approximately 8,000 per quarter.

The Northern region experienced the most significant residential building activity in North Queensland over the past 12 months. Building approvals in the Northern region are primarily being driven by the ongoing urbanisation of the Northern Beaches region just north of Townsville. Historically, the Far North has had the largest number of building approvals, particularly during 2007 when approvals averaged 835 per quarter. However, the effects of the financial crisis were particularly acute for the Far North, resulting in building approvals falling to 201 in March 2009 quarter. Several Cairns based construction companies collapsed (including CMC and Hedley) during the financial crisis. North Queensland house prices have generally remained below the Queensland average over the past decade. Queensland recorded a median house price of \$398,000 in September Quarter 2010, which is \$14,000 higher than Mackay. Mackay has historically had the highest house prices in North Queensland, with the housing market supported by significant demand generated by mining industry employees. The Northern and Far North regions have experienced similar housing prices and

trends over the past four years. However, the market in the Far North has been more heavily affected by the financial crisis.

Table 3.1: Number of Residential Building Approvals

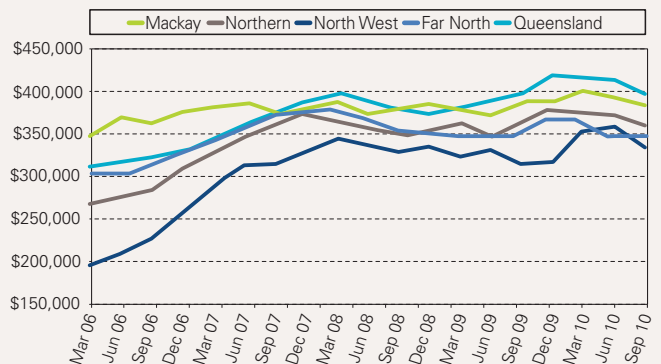
Qtr	Mackay	Northern	Far North	North West	Qld.
Mar-07	311	507	639	14	10,085
Jun-07	649	523	928	10	10,737
Sep-07	433	658	902	15	11,977
Dec-07	352	967	870	49	12,909
Mar-08	310	592	598	27	9,304
Jun-08	428	734	669	10	10,780
Sep-08	358	454	426	13	9,596
Dec-08	257	280	341	19	7,052
Mar-09	237	263	201	7	5,260
Jun-09	287	407	396	15	7,023
Sep-09	352	526	343	14	8,044
Dec-09	378	505	441	22	8,280
Mar-10	295	438	267	25	7,976
Jun-10	319	385	336	25	8,277
Total	6,618	9,314	10,186	330	166,235

Source: OESR

House prices in the North West have historically been lower than the rest of North Queensland, however from 2005 to 2008, prices increased significantly and are now relatively close to the greater North Queensland median.

Housing markets in all regions of North Queensland have been affected by the weak global economy and loss of consumer confidence in property. Housing prices have stagnated since 2007 across North Queensland and Queensland.

Figure 3.1: Median House Prices in North Queensland



Source: RP Data