

Northern Exposure

A finger on the pulse of North Queensland's economy

1. Regional Developments and News



1.1 Mackay Region

News

The Mackay SD received approximately \$150 million of election promises from the Labor Government during the recent election campaign. Labor's commitments included \$120 million for upgrades to the Peak Downs Highway, \$10 million for the development of the Mackay Ring Road and \$7 million for a General Practice 'Super Clinic'.

Mackay Regional Council has recently approved Pointglen Development's \$160 million 'Inspire CBD' development in Mackay City. The project is touted to be the most significant investment ever made in Mackay's CBD and includes retail, commercial, hotel and residential developments.

Outlook

The Mackay SD's economy is dominated by mining, meaning the outlook for the region will be strongly linked to movements in exchange rates and commodity prices (in particular thermal and coking coal). Commodity prices are forecast by ABARE to weaken over the next five years from recent record levels. The Federal Government's proposed mining tax may also hinder investment and profitability in the region's mining industry. These factors have been reflected in Mackay's business confidence, which fell considerably between March quarter 2010 and June quarter 2010, with Mackay's 12 month economic outlook falling by over 20 percentage points.

1.2 Northern Region

News

The recent Federal Government election has provided the Northern SD with a number of significant funding promises. The seat of Herbert (Townsville's primary seat) was viewed in the election as one of Australia's most marginal seats. Notable promises from the Labor Government include:

- \$48 million for a new Convention Centre;

- \$34 million towards a Cruise and Military Ship Passenger Terminal; and
- \$160 million to complete the Townsville Ring Road expansion.

The region has also experienced continued private sector interest over the past several months, with the Townsville City Council reporting approximately \$100 million of new development applications in September.

Investors are displaying stronger confidence in Townsville's retail sector future. A number of key projects are underway, including further development of Fairfield Waters shopping complex and Stockland's expansion to house a new Myer. Harbourtown has also announced plans to develop a site with up to 100 discount outlet stores in Townsville in early 2012.

Outlook

The Northern region continues to look forward to significant capital investments from the public and private sectors over the next 12 months. This investment will likely support the current low unemployment rate and the regional economy generally. The availability of skilled workers is increasingly re-emerging as a key issue for the region, in particular technical and trade related labour.

Despite this, uncertainty looms over the region, particularly in regards to the property market and world commodity prices affecting port trade and the minerals manufacturing sector.

1.3 North West Region

News

One of the North West region's key mining actors, Xstrata, has recently reported significant improvements in financial performance. Profit is reported to have doubled to \$3.2 billion (worldwide) for the six months to June 2010. Operating profit for its North Queensland copper division also increased substantially to \$167 million. Xstrata expects production volumes will increase by 50% by 2014.

A \$13.5 million upgrade of Mount Isa's airport is nearing completion. The upgrades include an expansion of the administration block, improvements to bathroom facilities and development of indoor baggage carousels.

The Federal Government announced that it would contribute \$1 billion over 10 years to connect Mt Isa to the National Energy Grid via Townsville. The project, dubbed 'Copperstring', is being touted as a key enabling investment for the development of new renewable energy sources to supply the national electricity grid. The powerline will pass through some of the best solar resource areas in Australia, and the world.

Outlook

The outlook for the North West region remains exposed to significant uncertainty. The region's economy is primarily based on copper, zinc and lead mining. Commodity prices for these minerals are forecast to fall over the next five years, with copper falling by an average of 1.8% per annum and zinc falling by an average of 4.6% per annum (ABARE economics, 2010).

Exchange rates will also play a role in determining the North West's economic outlook. The Australian dollar is currently strong and is affecting the value of the region's mining and beef exports. Lastly, the results of the recent federal election mean that the current proposed structure of the Minerals Resources Rent Tax remains uncertain. In its present proposed form, minerals produced from the North West region are mostly exempt.

Despite these restrictive factors on the region's mining industry, recent performance in the industry has been positive.

Bearing these factors in mind, the outlook for the region is likely to remain steady; however the uncertain economic conditions may constrain investment.

1.4 Far North Region

News

Cairns Airport is set to introduce two new domestic routes in the coming weeks. Tiger Airways will begin direct flights from Cairns to Melbourne and Jetstar plan to introduce direct flights to the Gold Coast. The new services will provide a considerable increase in the number of available seats in and out of Cairns Airport.

The recent federal election has provided the greater Cairns region with a number of funding commitments from the Australian Government. \$9.4 million has been promised for a Daintree Rainforest Research Centre, with an additional \$4.5 million to be funded by James Cook University. \$14.4 million has also been committed to upgrading the Cairns Base Hospital. The funding is expected to provide an additional 16 rehabilitation beds.

Outlook

The outlook for Far North Queensland appears to have stabilised. There has been a notable rise in the number of passengers at Cairns Airport, with domestic passengers increasing by 6.8% and international passengers increasing by 14% since November last year. The increase in travellers to the region is critical for the region's dominant tourism industry.

The State Government is planning to boost the Far North through a significant capital works program. The program will see a number of State Government construction projects commence in the Far North over the coming months. Projects include the James Cook University Dental School (\$25 million), Cairns Base Hospital upgrades (\$80 million) and upgrades to regional ports (\$20 million). Combined with a better tourism outlook the program should help lower unemployment and stimulate investment from the private sector.

However, the threat of further economic volatility in key global tourism markets still lingers and means uncertainty for the region. The success by which the region can rebuild current tourism markets and develop new ones will have a major impact on the outlook for the economy.

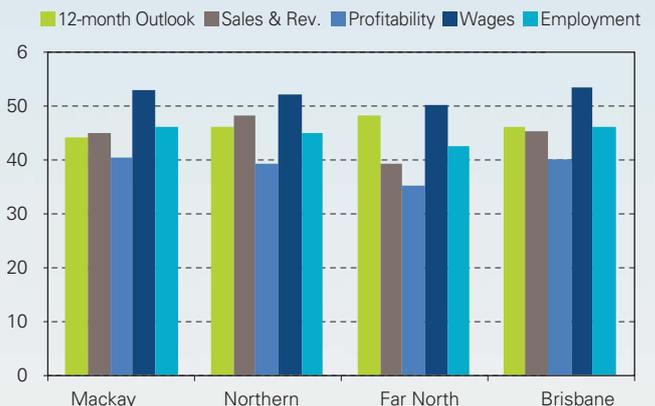
2. Quarterly Indicators

2.1 Business Confidence

Economic uncertainties in Europe and fear of a 'double dip' recession in the United States have been reflected in CCIQ's June Quarter Business Confidence Index throughout all regions in North Queensland. The Mackay SD experienced the largest drop in confidence, losing over 40 percentage points across all indicators. The generally weakest region in terms of business confidence in recent times, the Far North SD, performed the best of the regions in North Queensland, only losing 10.8 percentage points since March quarter 2010.

The quarterly changes have converged business confidence to similar levels across North Queensland and Brisbane. Business confidence in North Queensland for June Quarter 2010 is represented in Figure 2.1.

Figure 2.1: Business Confidence, June Q 2010



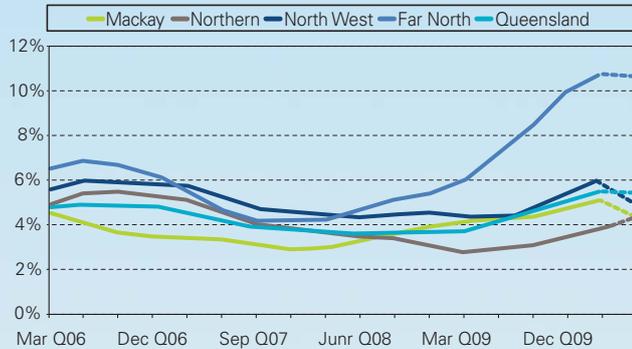
Source: CCIQ Pulse Report June 2010

Most of the indicators represented in Figure 2.1 are under a score of 50, which represents a poor level of business confidence. Profitability is considered particularly uncertain amongst businesses across North Queensland and Brisbane. Wages are the strongest of the indicators across all regions, particularly in Mackay SD and Brisbane SD. Business is generally indicating that costs are high whilst confidence in revenues is low.

2.2 Unemployment

Contrary to the general fall in business confidence in North Queensland, the North West SD and Mackay SD have experienced significant decreases in unemployment. The decrease in unemployment suggests the North's mining industry is continuing to strengthen, as both of these regions are heavily dominated by mining activity. The Northern SD experienced a rise in unemployment in the June Quarter, however still manages to narrowly hold on to the lowest unemployment rate in North Queensland (4.3%). Unemployment in the Far North SD was unchanged in the June Quarter – a positive development given the steady increase since late 2007. Future movements in the unemployment rate for the Far North will likely depend on international conditions in advanced economies (Europe, USA, Japan) as opposed to the North West SD and Mackay SD where movements will likely depend on international conditions in developing economies (China, India, etc) through commodities demand.

Figure 2.2: Unemployment



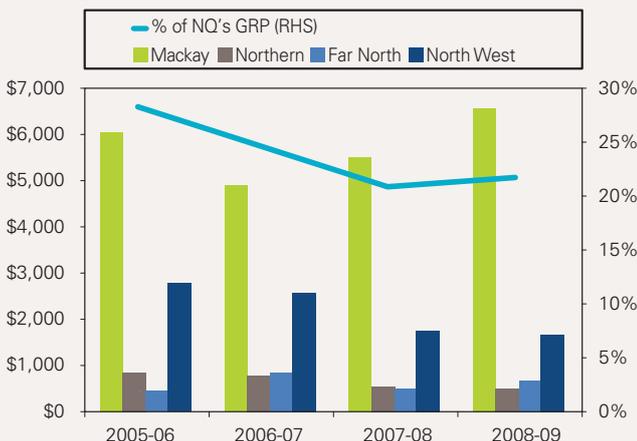
Source: QRSIS Labour Force Trends

3. North Queensland's Mining 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 mining industry.

Mining is North Queensland's most significant industry in terms of value. In 2008/09 mining was estimated to contribute \$9.4 billion to North Queensland's economy, or 22% of total GRP. The North West SD and Mackay SD are two of Australia's largest mineral producers. The North West SD holds a major proportion of Australia's zinc, lead, copper and silver reserves. The Mackay SD is amongst Australia's largest coal producing regions. The Far North SD is a major bauxite (aluminium) producer, with significant mining and port operations in Weipa. The Northern SD is the smallest producer of minerals, however still produces a noteworthy amount of gold from Charters Towers and recently began exporting iron ore from Mount Moss, near Townsville. The Northern SD economy is also closely linked to the minerals wealth of the North West SD, through processing and exporting activities.

Figure 3.1: Value of Mining in North Queensland (2008-09)



Source: AECgroup

In terms of absolute value, the Mackay SD has the largest mining industry, based on its significant coal operations. Production of coal in the Mackay SD is forecast to increase over the next several years, although the total value of the industry may not increase over this period if coal prices fall from recent highs. The North West SD has the second largest mining industry, worth approximately \$1.7 billion in 2008/09. The value of mining in the North West has decreased considerably over the past three years, primarily due to declines in copper, lead and zinc prices and the stronger Australian dollar.

In 2005/06, mining accounted for approximately 28% of North Queensland's GRP. Mining's proportion of GRP has since declined to approximately 22%, which is due to the fall in commodity prices and further development and diversification of other industries in North Queensland.

The outlook for North Queensland's mining industry is primarily dependent on global demand side factors, at present driven by the development of Asia and exchange rates. Commodity prices of major minerals in North Queensland (represented in Table 3.1) are generally forecast to decline over the next five years. The price of thermal coal is forecast to increase to \$84.2/t in 2011 and then decline to \$75.9/t by 2015. Alumina, copper and zinc prices are all forecast to decline over the following five years.

Figure 3.1: Value of Mining in North Queensland (2008-09)

	Thermal Coal	Gold	Alumina	Copper	Zinc
	A\$/t	A\$/oz	A\$/t	A\$/t	A\$/t
2008	76.7	854.1	389.5	3,569.8	1,293.3
2009	134.2	1,072.1	375.5	2,780.4	745.3
2010	79.2	1,102.8	281.3	2,839.5	979.9
2011	84.2	1,027.9	316.1	3,064.8	1,118.9
2012	79.5	923.7	367.5	3,341.8	1,148.9
2013	78.2	871.6	358.5	3,421.1	1,112.7
2014	77.0	916.4	351.5	3,252.9	976.2
2015	75.9	965.2	345.9	3,150.2	928.7
Avg. Ann. Growth.	-0.2%	1.8%	-1.7%	-1.8%	-4.6%

Note: Prices are in 2010 'real' Australian dollars. Prices represent the value of Australia's exports. Alumina and Copper prices are the combined value of ore and concentrates.

Source: ABARE Commodities Report March 2010

On the supply side, there are a significant number of advanced new projects for base metals in the North West SD and coal in the Mackay SD. Whilst not all projects may eventuate, the pipeline of works looks favourable to North Queensland's production of metals and coal in the medium term. The Federal Government's proposed Minerals Resources Rent Tax may play a role in discouraging the development of these advanced projects, with the results of the recent federal election again throwing into doubt the final construction of this tax.