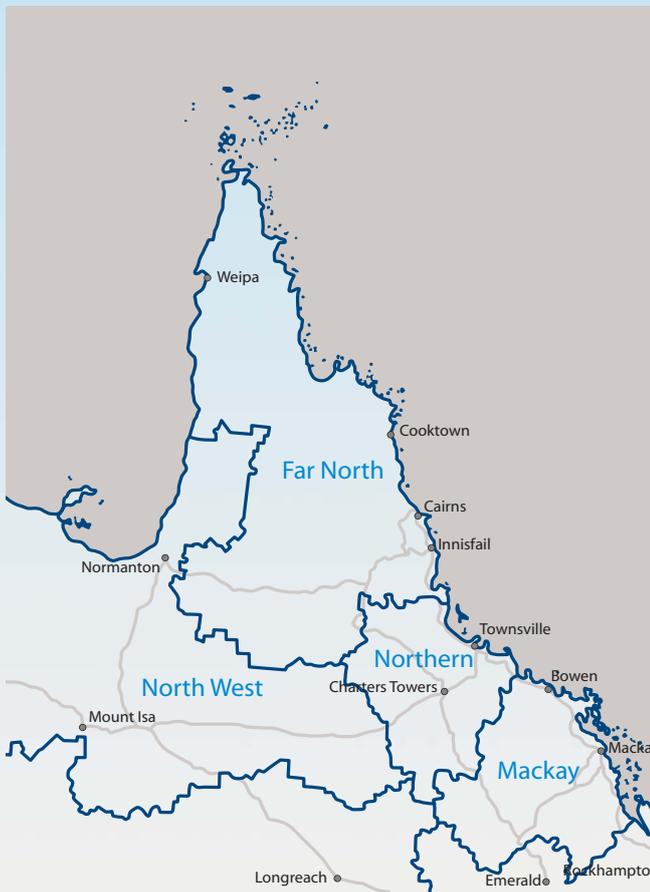


# Northern Exposure

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

## 1. North Queensland's Regional Economies



### 1.1 Mackay Region

LGA's: Mackay, Whitsundays, Sarina, Bowen, Mirani, Nebo, Broadsound and Belyando

The Mackay Statistical Division (SD) has the largest economy of the North Queensland Statistical Divisions, with coal production representing around 52% of its output in 2007-08. Other major industries include tourism (particularly around the Whitsunday Islands) and agriculture. The medium term outlook for the region is good, supported by ongoing growth in global energy demand and a number of significant mining and infrastructure projects in the planning and development stage.

### 1.2 Northern Region

LGA's: Townsville, Burdekin, Charters Towers, Palm Island and Hinchinbrook

The Northern SD comprises five Local Government Areas, each with very different economies. Townsville, North Queensland's largest city, accounts for about 80% of the economy and population of the SD with a diverse economy anchored by one of Australia's largest military presences, a number of key government offices and a value-adding sector servicing the North's minerals provinces. The Burdekin and Hinchinbrook Shires are agricultural regions with significant sugar output supported by small crops, particularly in the Burdekin. Charters Towers' economy is based on the mining and pastoral industries. Given this diversified range of activities the Northern SD is considered the most resilient economy in North Queensland.

### 1.3 North West Region

LGA's: Mornington, Doomadgee, Burke, Carpentaria, Mount Isa, Cloncurry, McKinley, Richmond and Flinders

The North West SD has the smallest population and economy of the North Queensland SDs, accounting for 10.5% of North Queensland's economic output and 4.9% of the population. The North West has world class deposits of copper, lead and other base metals with the mining sector accounting for around 70% of regional output. Due to the mining focus of the North West's economy, activity and prospects are highly dependent on the outlook for base metal demand, prices and exchange rates. The long-term outlook for the North West is positive, with emerging economy demand for base metals expected to strengthen.

### 1.4 Far North Region

LGA's: Cairns, Douglas, Mareeba, Atherton, Croydon, Etheridge, Yarabah, Eacham, Johnstone, Herberton, Mapoon, Napranum, Lockhart River, Weipa, Aurukun, Pormpuraaw, Cook, Kowanyama, Hope Valley, Wujal, Torres Strait and Umagico

The Far North SD has the largest and most diverse landmass in Northern Queensland, extending from the Torres Straight Islands, to the Wet Tropics, to the vast savannas of the 'gulf country'. The Far North is well known for its tourism industry, and 64% of all Accommodation, Café & Restaurant workers in North Queensland are employed in the Far North. Other major industries include construction and transportation (Cairns has the only international airport in North Queensland) supporting tourism activity and fly-in fly-out for the mining industry.

Table 2.1: Regional Statistical Summary

	MACKAY	NORTHERN	NORTH WEST	FAR NORTH	QUEENSLAND
Population <sup>1</sup>	167,666	220,656	33,746	262,095	4,293,915
Preliminary Estimated GRP <sup>2</sup> (\$M)	\$15,616	\$10,398	\$4,386	\$11,529	\$214,026
Preliminary Estimated GRP Growth <sup>2</sup>	7.7%	18.1%	-20.1%	8.2%	7.8%
GRP Growth <sup>2</sup> (5 year average)	14.5%	9.1%	9.2%	9.6%	10.0%
Employment <sup>3</sup>	86,725	123,151	23,435	141,556	2,305,725
Employment Growth <sup>4</sup>	5.5%	8.2%	1.4%	5.5%	1.9%
Employment Growth <sup>4</sup> (5 year average)	4.1%	2.1%	-4.2%	2.7%	3.8%
Leading Industry by Economic Contribution <sup>2</sup> (% of SD economy)	Mining (55.6%)	Construction (14.1%)	Mining (67.7%)	Construction (11.8%)	Property and Business Services (10.8%)
Employment by Industry <sup>2</sup>	Retail Trade (15.1%), Construction (11.9%), Mining (10.3%)	Retail Trade (17.0%), Construction (11.2%), Health & Community Services (10.4%)	Mining (22.5%), Agriculture, Forestry and Fishing (22.4%), Retail Trade (10.0%)	Retail Trade (14.8%), Construction (11.9%), Property & Business Services (9.0%)	Retail Trade (15.5%), Property & Business Services (11.5%), Construction (11.0%)

<sup>1</sup> As at June 2008

<sup>2</sup> 2007-08 current price estimate

<sup>3</sup> QRSIS estimate December 08

<sup>4</sup> To 2007-08

Source: AECgroup, ABS, QRSIS

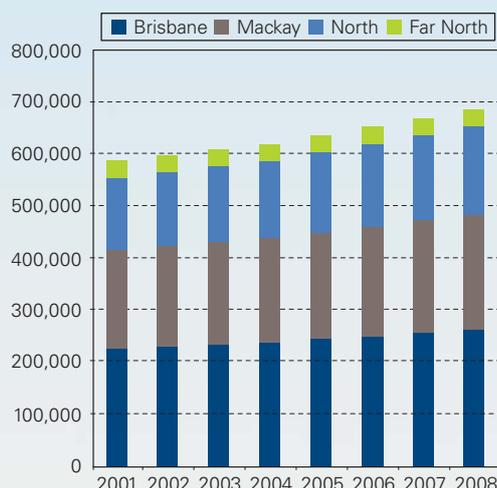
## 2. Annual Indicators

### 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, 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 3218.0

### 2.2 Gross Regional Product

North Queensland's Gross Regional Product (GRP) is estimated at \$41.9 billion in 2007-08, or approximately 19.6% of Queensland's Gross State Product (GSP). North Queensland's GRP increased by 6.3% in 2007-08, slightly weaker than growth of 7.8% reported for Queensland. In the preceding 2004-05 to 2006-07 period North Queensland's economic growth outperformed that of Queensland. The 2007-08 slowing in growth reflected a downturn in demand for mining and tourism focused industries, 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 domestic orientated industries of construction, agriculture, property & 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 from the table is the similarity of the employment by industry profile between state and region, 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 foundation 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 regional focus on the 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 6291.0.55.003

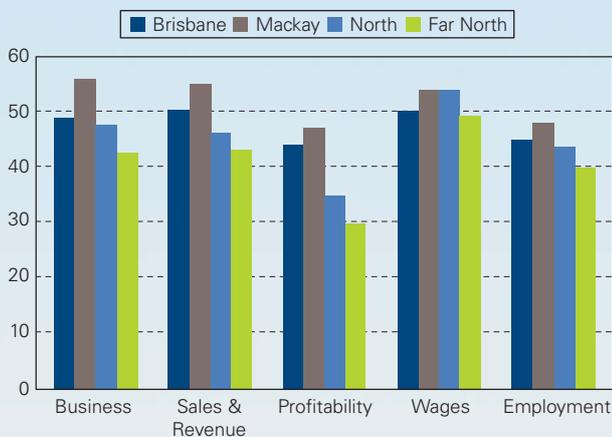
\* Note Defence force personal are not recorded in these statistics however are significant in North Queensland, with Townsville home to one of Australia's largest defence presences.

## 3. Quarterly Indicators

### 3.1 Business Confidence

The impact of the global financial crisis has had a pervasive effect across Australia and is clearly reflected in indicators of business confidence, which have fallen significantly over the past 12 months. A similar story has played out in the regions of North Queensland, and Figure 3.1 reports the latest data, for the June quarter 2009.

Figure 3.1: Business Confidence, June Q 2009



Source: CCIQ Pulse Report June 2009

Based on the descriptors in Table 3.1 it can be seen that for the majority of categories and regions business confidence is in the 'poor' range. Nonetheless, confidence has increased markedly since the historic lows reported in the March quarter 2009 (see Table 3.2). Although some of the rebound is associated with seasonal factors, general business conditions are now on about par with the June quarter 2008, before the full impact of damage to financial markets was felt through the real economy. As reported in Table 3.3, the recovery in the more detailed business indicators is somewhat slower than aggregate confidence, and the impact of the downturn is having a more lasting impact on North Queensland's confidence compared to that of South East Queensland. The Mackay region is holding up the best, while confidence in the Far North remains the weakest.

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, March Q 09 to June Q 09

	Mackay	Northern	Far North	Brisbane
Business Conditions	16.6	6.6	7.2	5.7
Sales & Rev.	19.0	9.2	10.2	7.7
Profitability	9.1	-0.3	1.4	5.5
Wages	4.2	4.2	4.9	2.1
Employment	7.4	1.1	5.6	4.1

Source: CCIQ Pulse Report

Table 3.3: CCIQ Pulse Index – Percentage Point Change, June Q 08 to June Q 09

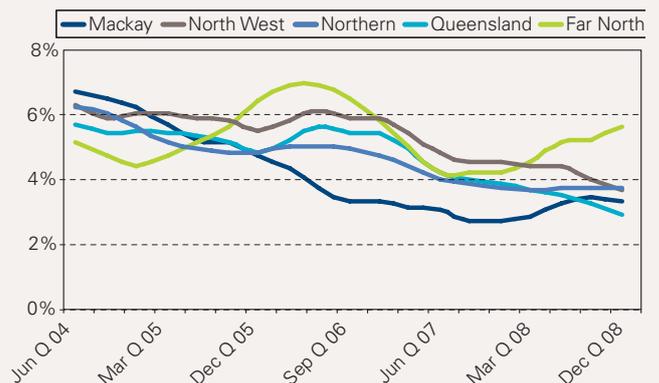
	Mackay	Northern	Far North	Brisbane
Business Conditions	-0.1	0.1	-1.8	5.3
Sales & Rev.	-1.8	-7.2	-4.6	4.8
Profitability	-1.0	-8.9	-13.4	4.1
Wages	-11.1	-9.7	-10.6	-9.9
Employment	-6.6	-2.3	-7.2	-3.5

Source: CCIQ Pulse Report

This weakness is reflected in the sharp increase in unemployment in the Far North since the middle of 2007, during which time it has increased to 5.6% in the December quarter 2008. Preliminary estimates suggest that unemployment could jump to as high as 10% in the March quarter – more than double that of other North Queensland regions. Increased unemployment will impact household cashflow, and subsequently business performance, as the psyche of the downturn moves to the phase where there is considerable uncertainty regarding the duration of any period of unemployment.

Mackay has fared the best of the regions, having entered the downturn with the greatest shortage of labour and infrastructure. The region's mines were some of the first to scale back due to the financial crisis, although the impacts have been mostly restricted to postponed expansion rather than cuts in production, meaning unemployment has been slow to rise (see Figure 3.2).

Figure 3.2: Unemployment



Source: QRSIS Labour Force Trends



## 4. 2009 Quarter 3 - 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 Wholesale Trade, Retail Trade, Accommodation, Cafes & Restaurants, Mining, Cultural & Recreational Services and Personal & Other Services.

### 4.1 Mining

Peaking in 2006-07 when it represented nearly a third of North Queensland's economic activity, mining has been the major contributor to significant growth in the North Queensland economy in recent years. As a proportion of GRP mining has increased from 20% in 2000-01 to 28% in 2007-08, and was responsible for more than one-third of the growth in output over that period.

Since commodity prices plummeted in mid 2008 the industry has entered a phase of cost control and a number of miners in the Mackay and North West regions have shelved expansion plans and/or significantly cut production and exploration. However, there is still \$30 billion worth of mining and related projects underway or under consideration in North Queensland.

As an example of the current uncertain economic conditions, the proposed \$3 billion Chinese owned CHINALCO aluminium refinery to be built near Bowen (in the Mackay region) is currently on hold. Whilst this investment is technically manufacturing, the refinery is a Queensland Government requirement for CHINALCO to be permitted to exploit its bauxite resource on Cape York (in the Far North region). Both the mine and refinery have the potential to generate significant regional flow-on economic impacts.

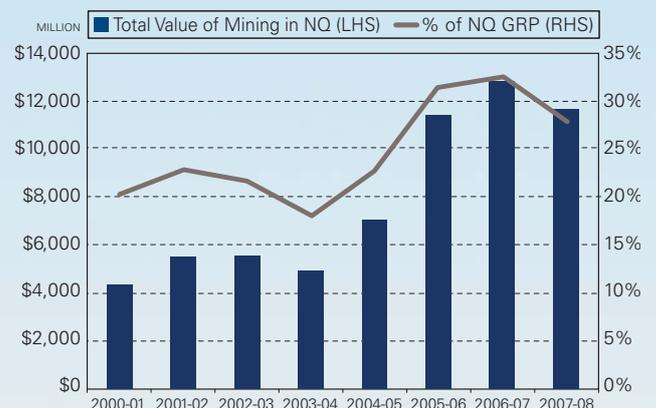
Cost cutting and uncertain operating conditions is impacting on production levels, although production was resilient for some commodities in the second half of 2008. Copper and lead production has fallen markedly in 2009, down by 25% and 30% respectively when comparing March quarter 2009 production with the March quarter 2008. This will flow through to weaker economic growth in 2008-09. Exceptions to this trend include bauxite production, which has been stable, and coal production which has actually increased over the past year with increased handling capacity at the major export ports.

The value outlook for North Queensland's mining outputs is mixed in the short term. Base metals such as copper and zinc have suffered dramatic falls in prices although a partial recovery in prices appears to be underway. Coal has defied expectations with current annual benchmark prices the second highest on record. Gold (Northern and North West regions) is currently at near record high prices. Production of magnetite iron will also begin production in the near future from Northern and North West Queensland adding a new mineral to North Queensland's output.

In the long-term the outlook for North Queensland's mining industry is still positive provided that developing countries continue to display strong growth and develop their consumption.

Several large mining developments are currently underway including Gutnick Phosphate in North West Queensland and Waratah Coal in the Mackay region (see Regional Developments and News). The scale of these investments has the potential to rapidly strain the region's workforce and business capacity, particularly if they coincide with the start of work on major government projects in the region and a general strengthening in the economic outlook.

Figure 4.1: Mining's Contribution to North Queensland Gross Regional Product



Source: AECgroup

### 4.2 Wholesale and Retail Trade

Wholesale and retail trade represented 9.7% of North Queensland's economic activity in 2007-08 and 16.7% of employment. In the five years to 2007-08 North Queensland's wholesale and retail trade reported average growth of 4.6% per annum, well below Queensland's average growth rate of 7.7%.

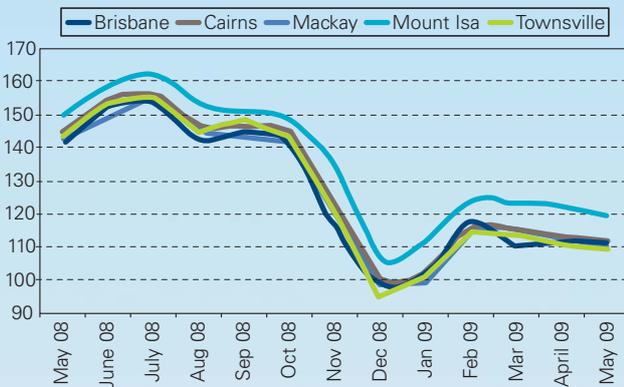
The Commonwealth Government's stimulus package, combined with record low interest rates, has acted to support retail activity. Latest expenditure data report the recovery in retail activity is well underway, and forward indicators suggest growth will return to longer term trend rates in the next 6 to 9 months. Although, there are some risks to the recovery associated with the end of the fiscal stimulus and the impact of rising interest rates.

Previous modelling by AECgroup indicates that in North Queensland retail trade is one of the most sensitive industries to economic downturns. This suggests that deteriorating operating conditions will have a relatively greater impact on employment and economic growth outcomes relative to other industries. As a major employing industry this has had a significant flow on impact to consumer confidence and spending.

While some local retailers are claiming resilience through the downturn, job and contract losses are especially being felt by discretionary goods retailers. In fact, several significant planned retail developments have been indefinitely deferred in recent months due to the global financial crisis.

Fuel purchases represent around 4% of weekly household expenditure and, as a non-discretionary item, fuel expenditure has an impact on income available for non-discretionary purchases. Figure 4.2 reports that except for Mount Isa, North Queensland petrol prices have closely tracked Brisbane prices over the past year.

Figure 4.2 Petrol Prices



Source: OESR

Strong downturns in private construction and business investment have been evident across North Queensland in early 2009, although it's likely that wholesalers have already traded through the most difficult period. Whilst residential construction and mining investment is showing signs of improvement it is likely to be years, not months, before these sectors approach levels of activity seen in 2007. Although the recovery is likely to be patchy across industries, wholesalers supplying the agriculture sector and those able to win contracts associated with major government investments will perform best in the short to medium term.

### 4.3 Accommodation, Cafés & Restaurants Sector

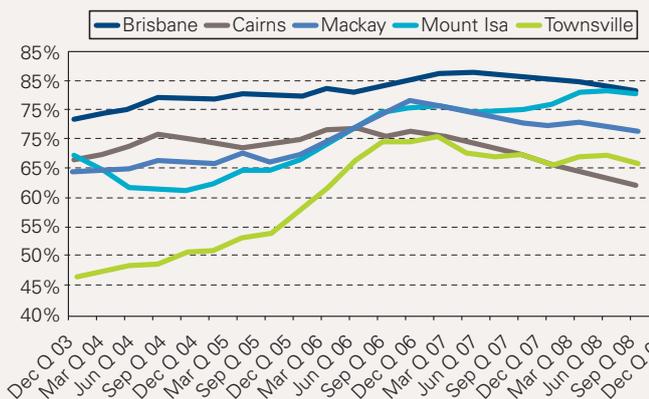
Tourism activity is not readily defined in economic accounts but is typically proxied by the accommodation, cafes and restaurants industry.

As with other service sectors, accommodation, cafes and restaurants has suffered from the fallout of the global financial crisis, most notably in the Far North where it directly represents almost 7% of economic activity, compared to only around 0.5%-1.5% for the other North Queensland regions.

In the year to the March 2009 international visitors to the Far North declined by 13% to around 722,000 and overseas arrivals into Cairns Airport declined by 21% with a sharp fall in Japanese tourist numbers. Domestic visitors to the Far North fell by 6% to 1,440,000 over the same period.

With international visitors typically staying in the Far North for nine days and spending around \$160 per day, the impact on the local economy and employment is apparent.

Figure 4.3: Room Occupancy Rates



Source: QRSIS Tourism Indicators

Figure 4.3 reports room occupancy rates and the general decline across all regions, (with the exception of Mackay) since 2006-07. In December 2008 Cairns reported the lowest occupancy rates in North Queensland.

With the economic outlook in key source markets for international visitors expected to remain weak and confidence low, the outlook is for the accommodation, cafes and restaurants industry to remain weak in the short term, with the Far North the most severely affected. Household and consumer confidence will lag the pickup in production that is underway in many economies, so weak conditions can be expected to persist for a further 12 to 24 months before the recovery takes hold in 2011.

### 4.4 Cultural & Recreational Services and Personal & Other Services

The Northern and Far North regions report similar sized cultural & recreational services industries, although in Cairns these services are more weighted to fixed attractions such as the reef, theme and cultural parks and the convention centre, while Townsville's is dominated by recreation, sports and events.

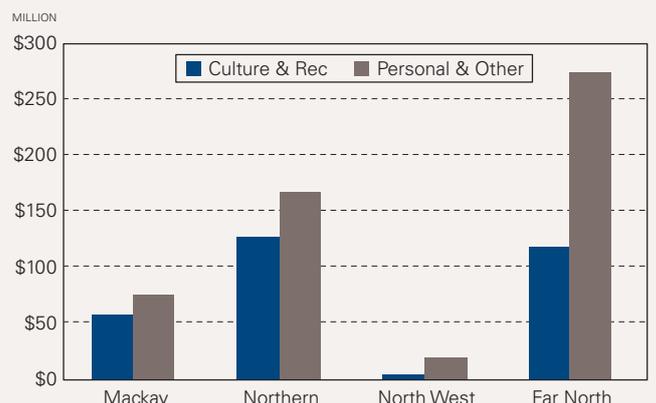
Given Cairns' strength in delivering tourism related services that dominate the cultural & recreational services industry, Townsville has developed a niche in delivering a broad range of regional, national and international sporting events ranging from rugby league to soccer to basketball and, most recently, the V8 Supercar series.

Townsville's standing as an events destination is supported by its relatively central location to the North's major population centres (even though it is on the coast) meaning travel times from many areas are similar. This is important as it means the catchment area and population for events held in Townsville is large, and this is reflected in high attendances. For example, the recent V8 Supercar event attracted 168,000 attendees over the three days of the event.

More broadly, events across North Queensland have mostly reported strong attendances in 2009 suggesting that shows, races and sporting events are considered affordable family entertainment in the current economic climate.

In the Mackay and North West regions these service industries represent less than 1% of total economic activity, and 3.0-3.5% in the North and Far North regions. To the extent that in the Northern region these industries are focused on domestic demand and between events the outlook is considerably better than for the Far North, which again is highly exposed to the international sector. As such, the Far North can expect weak demand conditions in the short term before the strengthening recovery in 2011 has a sustainable impact on activity.

Personal & Other Services, Gross Value Added, 2007-08



Source: AECgroup



## 5. Regional Developments and News



### 5.1 Mackay Region

#### Infrastructure

The pipeline supplying water from the Burdekin Dam to the Bowen Basin was finalised earlier this year, at a cost of \$300 million, increasing the supply of water to mining companies operating in the region by 1.7 megalitres per day.

#### Government

A wastewater treatment plant is currently being constructed to replace the Mount Basset water treatment facility. The \$154 million plant will be able to recycle 90% of Mackay's waste water, and is equally funded by Mackay Regional Council and the State and Commonwealth governments. Recycled water will be available to regional sugarcane farms for irrigation.

The further \$680 million expansion of Abbot Point port facilities (near Bowen) is currently underway. Completion of this development is expected in late 2011 and will double the capacity of the port, from 25 million tonnes of coal per annum (Mtpa) to 50 Mtpa. The project will create 950 construction jobs and a further 50 permanent jobs at the facility once completed.

#### Private Sector

Waratah Coal has announced plans to develop Australia's largest thermal coal mine in the Galilee Basin, approximately 350kms southwest of Bowen, at a cost of \$6.3 billion. Developing the 1.4 billion tonne resource will create 2,200 direct jobs during the construction phase and 760 direct operational jobs. The development includes construction of approximately 500kms of railway line from the Galilee Basin to Abbot Point. Construction is expected to commence in 2010-11.

#### Outlook

The impact of weaker global demand on the Mackay region economy has been very real in terms of mine slowdowns. The flow-on impacts of these closures and the downturn may be most apparent in the next two quarters. On a positive note increased infrastructure investment will continue to support activity over the next 6-12 months while international conditions improve and exports return to being a major driver of economic growth in the region.

### 5.2 Northern Region

#### Infrastructure

Construction of Stage 1 of the \$190 million Townsville Port Access Road commenced in early 2009. The project will provide port access that bypasses Townsville City, improving road freight access and the economics of using the port.

Work has also commenced on a \$300 million upgrade of Townsville's waste water treatment plants. The project will upgrade five treatment plants and construct a new plant to serve the high growth Northern Beaches region.

#### Government

Construction for the \$56 million Townsville Flinders Street redevelopment is scheduled to begin in late 2009 and be completed in 2010. The project is funded by the three tiers of government and will generate 710 direct construction jobs and 200 retail and other jobs when completed. The \$40 million redevelopment of Jezzine Barracks at the end of The Strand is also underway.

The \$210 million Lavarack Barracks Stage 4 redevelopment project is expected to be completed in late 2010 and is part of the program preparing for the relocation of 1,000 troops from Holsworthy in New South Wales to Townsville commencing in 2012.

#### Private Sector

The collapse of Storm Financial was at a time when the resource sector was at its weakest, and combined these events had a significant impact on the Northern region economy and confidence. Many households were directly affected by the collapse and the subsequent impacts on wealth, cashflow and confidence. It is estimated that investors lost up to \$500 million with the collapse of Storm.

Following a period of reduced production when it laid off around 350 staff, BHP Billiton has sold its Yabulu nickel refinery to mining magnate Clive Palmer's Queensland Nickel. Palmer plans to refine nickel using feedstock sourced from the Pacific region.

#### Outlook

The diverse economic base and relatively stable nature of government and defence expenditure in the Northern region will assist the region through the current period of economic weakness. AECgroup believes that the Northern SD economy has already likely bottomed for this downturn.

## 5. Regional Developments and News

### 5.3 North West Region

#### Private Sector

Joe Gutnick has secured \$US100 million to develop phosphate resources near Mt Isa to supply IFFCO, an Indian fertiliser company. Gutnick plans to develop a pipeline link from Lady Annie mine near Mount Isa to Karumba port in the Gulf country.

Phosphate prices increased from around \$US40 per tonne in 2007 to \$US300 per tonne in 2008 due to high demand from India and China. The project will create 1,000 direct construction jobs, with shipping expected to commence in late 2009.

#### Outlook

The short term outlook for the North West region is heavily dependent on what transpires in commodity markets, particularly for zinc, copper and lead. As global demand conditions stabilise it appears the period of mine layoffs and closures is over, and will be followed by a period of consolidation as miners continue to keep a close eye on operating costs before they start contemplating growth plans and subsequent investment and employment.

In the longer term the North West has a number of large resource projects in the pipeline. Nonetheless, a major constraint on the region reaching its growth potential is the transport constraints that result in inadequate linkages from the remote North West to manufacturing and port infrastructure in the east, most notably in Townsville.

### 5.4 Far North Region

#### Government

There are \$446 million of approved upgrades scheduled for hospital facilities in the Far North which will help to support construction activity which is suffering from the downturn in the residential sector. This investment is expected to support around 2,000 jobs and will create an additional 68 beds as well as new health care facilities.

#### Private Sector

Of North Queensland's regions, it is the private sector in the Far North that has been most severely affected by the global financial crisis and subsequent economic downturn. With its exposure to international markets through the labour intensive tourism and tourism-related travel markets, markedly weaker employment outcomes have had a ripple effect through the regional economy.

In addition, the recent financial collapse of Cairns businessman Thomas Hedley with debts in excess of \$250 million has been a major blow for the region, particularly the construction industry. CMC Constructions, another Cairns based company, also collapsed in mid-2009, with debts of \$13 million.

#### Outlook

Of the regions, the Far North will have the patchiest of recoveries, with those sectors with the least direct exposure to international conditions likely to lead the rest of the economy out of the current setback over the next two years.

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