

# CUMMINGS ECONOMICS

38 Grafton St (PO Box 2148) CAIRNS Q 4870

ABN 99 734 489 175

Tel 07 4031 2888 Fax 07 4031 1108

Email: [cummings@cummings.net.au](mailto:cummings@cummings.net.au)

Website: [www.cummings.net.au](http://www.cummings.net.au)



## 1: Trends and Prospects for the Cairns & Regional Economy

ADDRESS TO THE CAIRNS CHAMBER OF COMMERCE  
By W S (Bill) Cummings – Cummings Economics

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2: When I first started presenting these annual reviews of the economy to the Chamber, 14 years ago in 2005, the Cairns economy was flying high. In the following years, city population growth rate would reach close to 4%, building approvals exceed \$1bn, and number of dwelling approvals exceed 3,000.

3: But trouble was brewing. Under the influence of high commodity prices and high comparative interest rates, the Australian dollar was rising and starting to affect tourism numbers. In mid-2008, Qantas cut back seat capacity from Japan. Numbers tumbled from over 200,000 to less than 100,000. The Global Financial Crisis followed a few months later and new private investment crashed.

4: As might have been expected, overall level of activity in the economy fell strongly through to about 2012-13, and in population growth to about 2014-15. But for Cairns, the recovery has not been strong and population growth appears to have plateaued at just above 1% per annum, well below long-term averages of over 2% per annum.

In retrospect, Cairns has experienced its worst decade of growth since the 1960s.

5: **OUTSIDE EARNINGS** – In a regional economy, the major determinant of long-term growth and much short-term activity, is earnings from the outside world from the rest of Australia and overseas. The largest outside earner or “base industry”, tourism, earns over \$3bn a year.

- 6:** The recovery that has occurred since the dollar began to fall back in 2014 is not being sustained, as evident in recent airport passenger numbers.
- 7:** And especially in reef visitation, where there seems to be some perceptions that the reef is dead.
- 8:** In fact, the region has been losing market share in international holiday visitors over the past decade and domestic visitors since 2012-13.
- 9:** Clearly, we have been experiencing difficulties in the Chinese market with numbers stalling against a background of the stellar growth in visitor numbers out of China, subsiding back in recent years to lower levels.
- 10:** The situation was made worse in the first half of 2019 by a heavy and prolonged wet season. However, those conditions have passed and looking forward, Crystalbrook are now bringing on their brand new stock of rooms and are aggressively marketing to fill them.

There is additional airline capacity from Singapore - but loss of direct flights to Hong Kong is a worry. Reports on the Chinese economy are not encouraging.

Lower interest rates should help keep the Australian dollar in check but with the United States, Federal Reserve looking at lowering US interest rates, and commodity prices remaining relatively high, there seems little prospect, at this stage, of the Australian dollar going substantially lower.

Some minor improvements in the domestic market could come from better household disposable incomes due to tax cuts, lower interest rates and reversal of the falls in property market values in the major capitals.

The dredging of the port this year will help pave the way for increased cruise ship business in the coming years. However, negative perceptions about the state of the reef are not likely to go away quickly.

While there seems prospects for some improvement in tourism income over the next 12 months, it seems unlikely to be large.

**11:** The primary industries have a total earnings of the order of \$2bn a year. The sector has been growing steadily in real terms over time.

While the sector is basically solid, some sections are down.

**12:** Although they have passed the bottom, sugar prices remain low.

**13:** Cattle prices dropped from high levels in 2018 and early 2019 but have stabilised back at 2018 levels.

**14:** Agricultural production has been diversifying and the region is now one of Australia's largest fruit producing regions. Prospects for the remainder of the sector seem sound.

**15:** It will be important to fisheries, especially air exported live coral trout, northern cray and aquarium fish, that the loss of Cathay's airfreight capacity is replaced.

**16:** In mining, again there seems little prospect of a major boost as Amrun construction winds down but is replaced by some expansion of operating workforce.

Auctus' Mungana zinc production, Metro Mining bauxite and a small gold mine in Etheridge Shire are now underway with Consolidated Tin continuing at Mt Garnet. There are prospects of wolfram mining reopening at Mt Carbine.

**17: Cairns continues to be a major base for air services and fly-in/fly-out servicing mining in other regions including the Northern Territory and Papua New Guinea.**

It is a blow to have lost the Freeport Indonesia supply base and shipping services. In more recent years, air exports to PNG have been down in line with more subdued economic activity in that country.

However, the next few years promises to see a major resurgence in LNG projects in PNG and the major Wafi Golpu mine development near Lae.

**18: Other outside earning sectors are, by and large, producing or have prospects of producing growth.**

International education has been down due to factors similar to those affecting tourism but new international student accommodation capacity is leading to a strong marketing push.

The aviation servicing sector is benefiting from an expansion of Hawker Pacific's maintenance operations.

Conditions are steady in the marine sector based on the three shipyards and new travel lift capacity at BSE and upgrades at Tropical Reef are leading to efforts to tap new markets.

**19: INVESTMENT – Construction activity is always a volatile element in the economy.**

While the Crystalbrook Group boosted private construction approvals in recent years, outside of that, private construction has been subdued, especially over the past 12 months, due to restraints on finance as a result of the Banking Royal Commission and tightening by the Australian Prudential Regulation Authority.

**20:** Dwelling approvals have been particularly low.

**21:** Tax cuts, lower interest rates and moves to loosen bank lending conditions should be positive for some to lift in investment in dwellings and commercial property. Local home loan inquiries and real estate inquiries are reported to be up strongly in the past month.

Rick Carr reports rental vacancies low and some increases in rentals. Vacancies in commercial space around the city are mainly in lower grade property, but good new space is being taken up and upgrading of a number of properties is taking place, especially by local investors.

**22:** Budgeted Queensland Government capital expenditure has been extremely low in the region for at least five years now.

Although the 2019-20 budget has a sizeable rise, it is just back up to regional averages on a per capita basis and the region is owed a catch up of over \$1bn.

Over the next few years, the construction activity generated by the dredging of the port, the Smithfield by-pass and the Convention Centre expansion will assist.

**23:** Strong investments in roads in the region announced in the Commonwealth budget are most welcome for the future but their impact on the economy will be down the track.

Our fair share of the Commonwealth Government's \$100bn infrastructure program on a population basis is about \$1.2bn. So far, I've only seen about \$700m announced for the region.

**24:** GOVERNMENT – Government employment in the region continues to expand. At Commonwealth level, while there are plans to expand the Navy Base, they are down the track.

**25: CONSUMPTION** – Household propensity to spend or save affects many businesses. There are no local statistics. At national level, the savings ratio has been down. Locally, high insurance costs and high electricity costs have been a dampener.

However, with elections out of the way, tax cuts coming through of the order of \$150 to \$200m in the region and interest rate reductions, prospects are good for some lift in consumer confidence and spending in coming months.

**26: EMPLOYMENT** – Unfortunately, the ABS Labour Force series at regional level is not reliable and often shows up nonsense figures. It is recently suggesting employment up and unemployment levels down. That unemployment levels are down is confirmed by statistics of registered unemployed on benefits.

**27:** Thus overall, I believe that the past financial year has not been as good as expected but over the next six months, there should be some pick up and that the year ahead will see growth continue but at a relatively subdued level.

**28:** However, the region is continuing to lead northern Australia in population growth with all the other regions at very low levels.

**29:** The region is continuing to consolidate its position as the largest in population in northern Australia to pass the 300,000 residential population mark by the 2021 Census.

**30:** It is clear that the region's economy has been underperforming compared with its long-term strong growth trajectory.

It is clear that some serious thinking is needed about approaches to achieving the strong progress the region is capable of.

**31:** Thank you.