

Townsville & North West Queensland

Economic Outlook



1. Outlook August 2021

1.1 MACROECONOMIC OUTLOOK

Entering the 2022 financial year the global economic outlook continues to be dominated by the COVID-19 pandemic. Outbreaks of the highly infectious delta strain have set the timeframes for recovery back significantly, with control of the virus in most countries now focused on broad vaccination.

Countries with high vaccination rates, including the US and the UK have continued to recover strongly. However, the risk remains that the delta variant will spread more rapidly around the world and further disrupt global supply chains that have already been heavily strained by the pandemic.

Equity markets remain at very high levels thus far, and it remains to be seen if the spread of the delta strain will lead to a significant market correction.

Rising inflation driven by recovering economies and supply chain bottlenecks also poses a threat to global activity and to stock prices.

Inflation is currently running
at approximately

5% per annum

in the US,

the highest since before the Global
Financial Crisis (GFC)

It remains to be seen if inflationary impacts are mostly temporary due to the pandemic or likely to persist into a longer-term trend.

Despite the rising inflation risk, the prolonged impacts of the pandemic should see emergency global monetary policy continue for some time.

The domestic economy has been hit by a series of COVID lockdowns,

with NSW recording in excess of 200 new cases per day at the time of publication. Our relatively low vaccination rates leave Australia vulnerable to significant disruption and economic pain now that the extensive jobkeeper and jobseeker wage subsidies have concluded.

Against the increasing COVID risk, generally higher commodity prices have continued to drive economic activity in agricultural and mining resource rich states. Over the 12 months, the RBA commodity price index has increased by 40% in Australian dollar terms, led by our largest export commodity iron ore.

With navigating the COVID pandemic increasingly looking more like a marathon than a sprint, a set of longer-term initiatives to support sustainability and growth across the country will need to be considered.

1.2 REGIONAL OUTLOOK

The Townsville and North West Queensland economy has benefitted from rising commodity prices and increasing investment interest over the past quarter.

The region continues to experience minimal direct COVID cases. However, the constant threat of border closures and restrictions on businesses continues to constrain a broader recovery and a return to longer term growth.

The cancellation of major events (including the Australian Concerto and Vocal Competition and the Julia Creek Dirt n Dust triathlon festival) and the deferral of major tourism projects such as the Townsville Marine Tourism Precinct and Townsville Airport Terminal upgrade highlights the strain being felt within some sectors of the regional economy.

Despite these impacts, the regional property market has continued its resurgence. Rental vacancy rates in some areas are as low as 1%, as regional areas continue to draw COVID migration from Australia's major cities. Additional attraction of labour and skills will be required across Townsville and North Queensland, with many industries reporting ongoing skills shortages as operations recover.

The return to population growth has been a strong positive for the region. However, whether recent regional migration patterns become a longer-term growth trend for the region, remains to be seen.

Key to supporting growth will be a resolution to the final form of the Federal Government's \$10 billion reinsurance pool. The region requires a system which:

- Supports competitive coverage costs for households and businesses.
- Improves lending conditions for the development of new dwellings. Specifically, medium and high-density (strata titled) properties which can facilitate population growth and rental affordability.

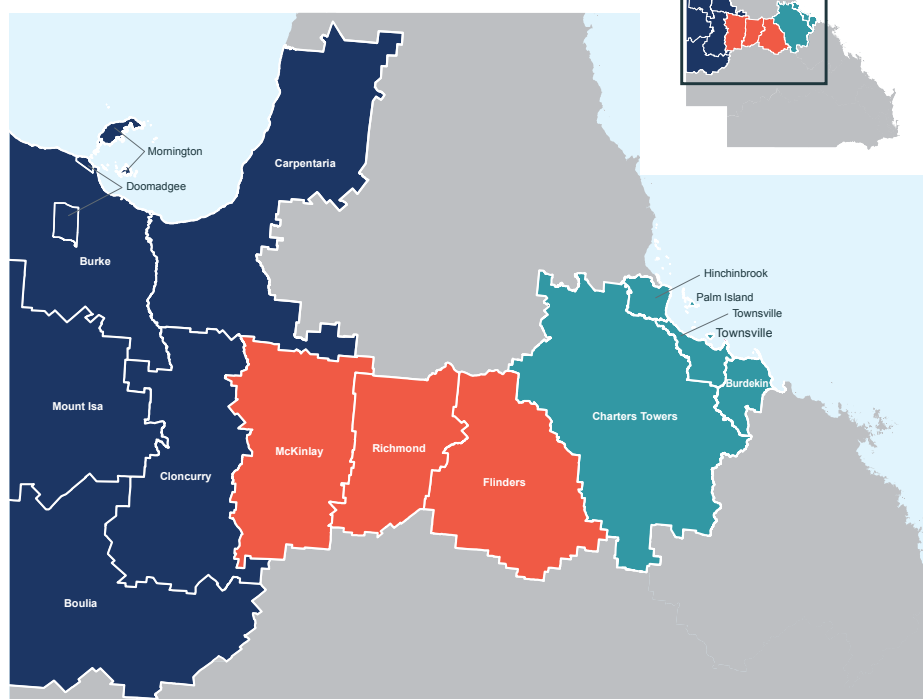
The next few months will be critical for the region as we face the potential for significant lockdowns and disruption. This time the impacts may need to be endured without the extensive subsidy programs which supported activity and confidence throughout the first phase of the pandemic.

TOWNSVILLE & NORTH WEST QUEENSLAND REGIONS

Total 2019–20 GRP for Townsville & North West Queensland

-2.1% annual decline

Total population growth +0.6%



- North Queensland
- Mid-West Queensland
- Western Queensland

2. Key Indicators and Regional Development News

2.1 NORTH QUEENSLAND




Indicator	Townsville	Hinchinbrook	Burdekin	Palm Island	Charters Towers
Gross Regional Product (GRP) (2019–20) Annual Growth Rate	\$10.6 B ↑ 1.0% annual growth	\$420 M ↓ -5.0% annual decline	\$969 M ↓ -5.1% annual decline	\$43 M ↑ 8.0% annual growth	\$ 685 M ↓ -4.6% annual decline
 Unemployment (Mar Qtr. 2021)	6.2% ↑ 0.1% quarterly increase	6.1% no change	5.5% ↑ 0.1 ppt quarterly decline	36.5% ↓ -1.7% ppt quarterly decline	6.6% ↓ -0.1 ppt quarterly decline
 Median House Price (YE March 2021)	\$347,000 ↑ 6.0% annual growth	\$215,000 ↑ 2.4% annual growth	\$187,500 ↑ 13.6% annual growth	N/A	\$200,000 ↑ 3.9% annual growth
 Population (June 2020)	196,800 ↑ 0.9% annual growth	10,645 ↓ -0.4% annual decline	16,953 ↓ -0.1% annual decline	2,684 ↑ 0.5% annual growth	11,731 ↓ -0.1% annual decline

Table 2.1: Headline Economic Statistics North Queensland

Source: NIEIR (2021), QGSO (2021)

OUTLOOK

The North Queensland economy showed some signs of slowing over the past three months. The region was significantly impacted by a snap COVID lockdown over the key school holiday trading period. Unemployment edged higher in most areas after several quarters of improvement.

However, the property market continued its strong performance. Extremely low rental vacancy rates have been recorded in some areas and construction activity continues to rebound.

The tourism and hospitality sector remains an area of significant uncertainty, with major projects such as the \$78 million Townsville Marine Tourism Precinct and \$40 million Townsville Airport Terminal redevelopment shelved. However, other recent proposed developments, including the new Ville and Hilton hotel projects in Townsville show underlying confidence in the long-term outlook.

Strong sugar prices of around \$500/tonne projected for the next 12 months should help to underpin confidence across the key agricultural centres of Burdekin and Hinchinbrook.

REGIONAL DEVELOPMENTS

The Federal Government has committed \$40 million towards the Reef HQ Aquarium development in the Townsville CBD.

The funding provided through the Townsville City Deal is in addition to the \$40.1 million already provided. The upgrades will provide a range of immersive experiences and revitalised exhibits, including educational activities, hands-on experiences, on-site diving programs, scientific demonstrations, and the use of interactive technology. The development is expected to be completed by 2023.

Development of the Australia-Singapore Military Training Initiative (ASMTI) at Greenvale is set to commence in mid-2022. A lease agreement has been made through the Queensland Government to secure land for training of Australian and Singaporean military personnel at Greenvale near Charters Towers alongside facilities at Shoalwater Bay in Central Queensland.

The 302,000-hectare Greenvale site will be developed into an advanced Military Training Area. Overall, the project is estimated to deliver approximately 590 new jobs during development and up to 150 permanent jobs across Queensland when the facilities are operational.

The ASMTI proposes to bring up to 14,000 Singapore Armed Forces personnel to North and Central Queensland every year for 25 years, training for 18 weeks each rotation.

2.2 MID-WEST QUEENSLAND



OUTLOOK

Economic indicators in Mid-West Queensland continued to show mixed results.

Each of the Local Government Areas continued to see steadily rising unemployment. However, local unemployment remains well below the Queensland average at approximately 4% across Flinders, Richmond, and McKinlay.

Economic activity and housing market indicators remain highly volatile, which is typical of rural-remote areas. Recent COVID lockdowns in Sydney, Melbourne, and South East Queensland have impacted visitation during the key winter tourism season.

However, a return to positive population growth, a revitalised mining sector, and strong beef cattle prices should underpin a solid economic outlook for the Mid-West over the medium term.




Indicator	Flinders	Richmond	McKinlay
GRP (2019–20) Annual Growth Rate	\$128 M ↓ -31.4% annual decline	\$100 M ↓ -10.3% annual decline	\$523 M ↓ -2.1% annual decline
 Unemployment (Mar Qtr. 2021)	3.9% ↑ 0.3 ppt quarterly increase	4% ↑ 0.3 ppt quarterly increase	4% ↑ 0.3 ppt quarterly increase
 Median House Price (YE March 2021)	\$140,000 ↑ 118.8% annual growth	\$110,000 ↓ -12.8% annual decline	N/A
 Population (June 2020)	1,512 ↑ 0.6% annual growth	813 ↑ 0.4% annual growth	823 ↑ 0.6% annual growth

Table 2.2: Headline Economic Statistics Mid-West Queensland

Source: NIEIR (2021), QGSO (2021)

REGIONAL DEVELOPMENTS

The development of a significant vanadium mining industry in the Mid-West has continued to gather momentum. Major recent milestones include:

- QEM had advanced feasibility works for its proposed vanadium and oil shale project near Julia Creek.
- Horizon Minerals' pre-feasibility study for its Julia Creek vanadium Joint Venture (JV) project with Richmond Vanadium Technology has confirmed a supply of over 100 years at a production rate of 790,000 tpa of vanadium concentrate. To progress the project to production, the JV partners plan to construct a concentrator, power station, railway siding, bores, administration and accommodation facilities, and an offshore refining plant.

- The Federal Government has approved Multicom's St Elmo vanadium project, which has the potential to employ 200 people directly during peak construction and more than 150 people once operational.
- Vecco Group's Debella project is expected to begin production at the end of this year, with an expected 50 year mine life.

Vanadium is a key resource in renewable battery storage which has seen exponential growth in recent years.

The iconic Julia Creek Dirt n Dust festival has been cancelled for the second straight year due to uncertainty and disruption created by the coronavirus pandemic.

The three-day event, which usually includes a triathlon, bull riding and a range of events has been a major drawcard in the outback events calendar for 26 years. The festival now faces an uncertain future.

2.3 WESTERN QUEENSLAND




Indicator	Cloncurry	Mount Isa	Boulia	Burke	Doomadgee	Mornington	Carpentaria
GRP (2019–20) Annual Growth Rate	\$938 M ↓ -8.9% annual decline	\$2.1 B ↓ -8.8% annual decline	\$34 M ↓ -6.1% annual decline	\$31 M ↓ -12.6% annual decline	\$34 M ↓ -26.8% annual decline	\$33 M ↓ -22.1% annual decline	\$132 M ↓ -12.7% annual decline
 Unemployment (Mar Qtr. 2021)	6.9% ↑ 0.7 ppt quarterly increase	8.3% ↑ 0.5 ppt quarterly increase	3.4% ↑ 0.4 ppt quarterly increase	27.9% ↑ 2.0% ppt quarterly increase	27.8% ↑ 1.9 ppt quarterly increase	28.8% ↑ 2.1 ppt quarterly increase	27.8% ↑ 2.1 ppt quarterly increase
 Median House Price (YE March 2021)	\$165,000 ↓ -23.8% annual decline	\$270,000 ↑ 8.2% annual growth	N/A	N/A	N/A	N/A	\$250,000 ↑ 38.9% annual growth
 Population (June 2020)	3,004 ↓ -1.4% annual decline	18,578 ↓ -1.0% annual decline	416 ↓ -1.7% annual decline	354 0.0% annual growth	1,534 ↑ 0.5% annual growth	1,231 ↑ 0.1% annual growth	1,970 ↓ -0.3% annual decline

Table 2.3: Headline Economic Statistics Western Queensland

Source: NIEIR (2021), QGSO (2021)

OUTLOOK

The outlook for Western Queensland has continued recent trends, with unemployment rising across the region. The unemployment rate rose as much as 2.1 ppt across the remote communities of Mornington and Carpentaria, with Burke and Doomadgee also recording notable increases.

However, a turnaround in base metal prices and renewed investment interest in the region should see economic indicators improve over the coming months. Copper prices have seen a strong recent price growth driven by growing global demand for electric cars.

The impending development of the CopperString 2.0 project has the potential to underpin confidence and drive a new wave of investment in the region.

REGIONAL DEVELOPMENTS

The recently released Repowering the Townsville & North West Minerals Province Industrial Economy report highlighted the long-term economic potential of the North West Minerals Province (NWMP).

The report highlights how prospective the NWMP remains, with an estimated \$680 billion known in-ground resources and the potential to provide a \$154 billion cumulative increase in the gross value of mine production over the next 25 years.

The \$1.5 billion CopperString 2.0 project which aims to connect the NWMP to the National Electricity Grid will be ready to commence construction by October this year.

The remaining steps to realising the project include:

- Finalising the remaining items under the Implementation Agreement with the Queensland Government.
- Finalising environmental approvals and engagement with traditional owners and landholders.
- Finalising negotiations with the Northern Australia Infrastructure Facility on its financing offer.
- Completing the Federal Government-funded study into the potential of CopperString 2.0 to support the development of a 'clean industrial ecosystem' across the Townsville to Mount Isa corridor and the NWMP.

CopperString 2.0 is scheduled for completion in 2024 with the potential to support 750 construction jobs and 3,560 long-term indirect jobs, primarily by enabling new resource development.

3. Business Confidence

Business confidence in Queensland's 12-month outlook continued to significantly improve in the March quarter (+12.2 ppt) to a current index of 54.7. These results were recorded prior to the impact of recent delta stain COVID lockdowns.

Businesses are now generally positive across most indicators (index >50), while profitability levels continue to lag at 45.2.

Generally, the last 12 months have represented a period where the significant negative business expectations were not realised, with many sectors performing better than expected.

QUEENSLAND BUSINESSES
REPORTED IMPROVEMENTS
ACROSS ALL INDICATORS,
WITH THE LARGEST GAINS
IN THE 12-MONTH OUTLOOK.

- **General business conditions (+10.3 ppt) and sales and revenues (+7.8 ppt) also recorded strong increases.**
- **Labour costs (+7.2 ppt) also recorded a notable increase, with restrictions on international labour and intermittent domestic lockdowns combining to create significant labour shortages.**

The recovery in business confidence levels has been very positive. However, the impact of renewed COVID restrictions and the recent withdrawal of the jobkeeper and jobseeker wage subsidies are likely to test confidence levels over the coming months.

Indicator	Index Dec 2020	Quarterly Change
12 Month Outlook Queensland	54.7	+12.2
General Business Conditions	58.3	+10.3
Sales and Revenue	57.4	+7.8
Labour Costs	65.8	+7.2
Profitability	45.2	+4.5
Employment	51.3	+5.0
Capital Expenditure	51.9	+6.0

Table 3.1: Queensland Business Confidence March 2021

Source: CCIQ (2021)



4. Industry Profile: Manufacturing



Each quarter the Townsville and North West Queensland Economic Outlook profiles a key regional industry sector. This quarter reviews the Manufacturing industry.

INDUSTRY OVERVIEW

Townsville and North West Queensland is a significant manufacturer, with the sector contributing \$1.1 billion (6.6%) to GRP in 2019-20 and employing approximately 6,000 people (ABS, 2017).

The manufacturing sector specialises in value adding to the region's abundant agricultural and mineral resources production. Major manufacturers located within Townsville and North West Queensland include:

- Mineral resources processing: The Sun Metals Zinc and Glencore Copper refineries, Incitec Pivot Fertiliser production.
- Agricultural Value Adding: Six sugar mills (Invicta, Pioneer, Kalamia, and Inkerman Mills in the Burdekin and Victoria and Macknade Mills in the Hinchinbrook), processing of 900 head cattle per day at JB Swift Meatworks in Townsville.

Over 85% of regional manufacturing activity occurs in the Northern region. The Northern region suffered a major loss in 2016 with the closure of the region's largest manufacturer, the Queensland Nickel Incorporated (QNI) Yabulu Refinery, with the loss of over 800 direct jobs.



However, the sector has since returned to modest growth averaging 1.4% per annum to 2019-20. A recent \$455 million expansion of the Sun Metals Zinc Refinery in Townsville has been a major driver of renewed confidence in the sector.

The manufacturing sectors across the Mid-West (-2.2% annual decline) and Western regions (-4.1% annual decline) have continued to experience difficult trading conditions. The decline highlights the challenges associated with the often labour and energy intensive operations in geographically remote areas.

Region	IVA (2019-20, \$M)	Average Annual Growth
Northern	\$958.0	1.4%
Mid-West	\$9.2	-2.2%
Western	\$136.4	-4.1%
Total Region	\$1,103.6	0.6%

Table 4.1: Townsville North West Queensland Manufacturing Industry Value Added (IVA)

Source: NIEIR (2021)

The broad manufacturing sector across Australia has also experienced highly challenging conditions over the past decade, including the closure of the national car manufacturing industry in 2017.

Increased automation alongside the globalisation and consolidation of manufacturing supply chains seeking economics of scale – particularly into low wage cost countries – has had a profound impact on local production.

Since peaking in the 1970s, Australia has lost approximately half a million manufacturing jobs. However, the sector's output has continued to grow, as local manufacturing technologies and businesses have become progressively more advanced and capital-intensive (Ai Group, 2020).

4. Industry Profile: Manufacturing continued



Despite the challenging history, the past few years have seen a renewed strategic interest in local production. Global supply chains have been heavily disrupted by the COVID-19 pandemic, highlighting a greater need for production self-sufficiency to ensure the security of supply.

New technologies such as the Internet of Things (IoT), 3D printing, and increased use of Artificial Intelligence (AI) in production have also shifted the needs of industry from minimising wage costs towards higher skill levels, political and sovereign stability, and access to raw inputs and end markets.

Each of these key drivers supports production within Australia and the Townsville and North West Queensland region specifically.

In spite of these significant positive trends, the Australian manufacturing sector is still projected to shed another 6,000 jobs over the next five years (see Figure 4.1).

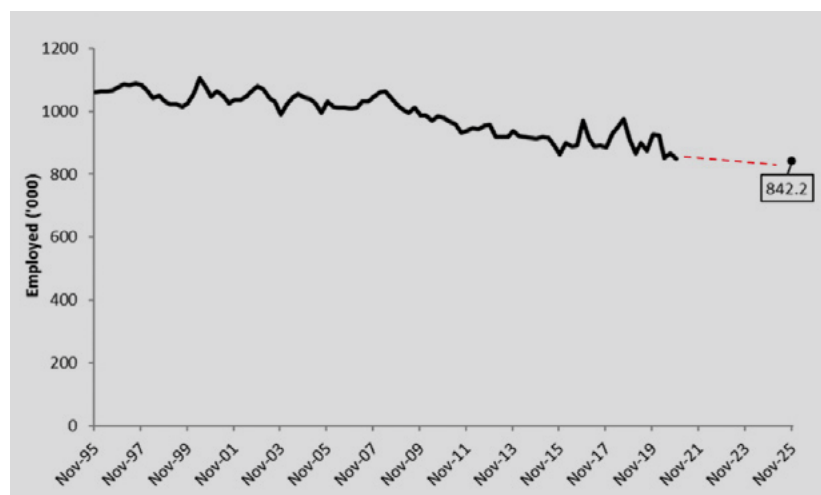


Figure 4.1: Australian Manufacturing Sector Employment

Source: RBA (2021)

OUTLOOK

The regional manufacturing sector is currently at a crossroads. The recent renewed interest in local manufacturing driven by global trends and strong underlying demand for regional commodities has brought on several proposed major projects.

Opportunities are across agricultural and minerals value adding alongside Imperium 3's proposed \$3 billion lithium ion battery plant in Townville.

Increasing interest and advocacy has also been generated in developing the region's defence manufacturing capabilities. The supply chain opportunities aim to leverage Townsville and North West Queensland's extensive Army and Royal Australian Air Force (RAAF) presence, and the \$2.25 billion under development Australia Singapore Military Training Initiative.

The recent announcement of a Northern Australia Infrastructure Facility (NAIF) funding commitment for the Agripower Australia fertiliser plant near Charters Towers has also shown the potential for the development of significant manufacturing operations in the more rural and remote parts of the region.

These proposed initiatives present significant economic development opportunities. However, the timing and ultimate commitment for a number of the region's major manufacturing projects remains subject to significant uncertainty.

Previously proposed large scale manufacturing projects focused around agricultural value adding and bio-fuel

Outlook continues over page...

production – including the Australian Manufacturing Employment and referenced to the ABS (2021) – ultimately were unable to clear the significant economic and technical hurdles required to reach development after several years.

The flexibility investors have in locating new manufacturing plants means that Townsville and North West Queensland continues to face fierce competition for new investment.

Competition comes from within Australia and internationally from Asia, North and South America, and Europe among other established and emerging manufacturing centres.

Despite the challenges, manufacturing presents

significant long-term economic development opportunities for Townsville and North West Queensland. Maximising the value adding of the region's rich resource and agricultural production – where the region has a natural competitive and locational advantage – is a key pillar to driving economic growth and supporting efficient and competitive regional supply chains.

Further leveraging the region's significant educational and research presence will also be required if Townsville and North West Queensland is to move against the long-term national trend of declining manufacturing employment and drive significant regional growth.

Project	Location (LGA)	Status	Capex (\$M)
Imperium 3 Lithium Ion Battery Plant	Townsville	Feasibility Works Completed	\$3.0 billion
CNVM Investment Hughenden Meatworks	Hughenden	Development Deed Signed	\$100
Agripower Australia Fertiliser Plant	Charters Towers	Northern Australia Infrastructure Facility Funding Committed	\$663
Pure Minerals (nickel, cobalt and alumina) Refinery	Townsville	Under Consideration	\$441
Sun Metals Zinc Refinery Expansion	Townsville	Completed During 2021	\$445

Table 4.2: Major Proposed Manufacturing Developments

Source: REA

Note: Capital estimates based on publicly available information at the time of writing and may not reflect the most recent project estimates.

For Further Information



Cr Frank Beveridge
Chairman

The Regional Development Australia Townsville and North West Queensland (RDA) Committee is pleased to partner with Regional Economic Advisory on this initiative to provide a quarterly update on the region's Economic Outlook.

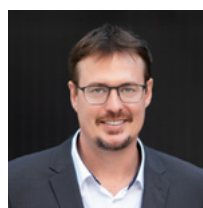
For more information on investment and growth opportunities within our region, please don't hesitate to contact RDA CEO Mr Wayde Chiesa.



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Regional Economic Advisory (REA) provides specialised economic consultancy services to the communities of Central, Northern, North West, and Far North Queensland.

REA is passionate about unearthing new, evidence-based opportunities that help regional centres prosper long into the future.



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