



February 2013

A Tale of Two Regions

One of the key themes to emerge recently is identifying the drivers of economic growth as resources investment approaches its peak. Some regions will see the benefits for years to come (refer to page 4), but many regions are seeking diversification to drive future economic growth and employment.

Even in Newcastle, the leading resources region of New South Wales (NSW), business leaders are considering how the Lower Hunter's economy will transition to other drivers of growth. Julie Toth, Chief Economist of the Australian Industry Group has suggested that while mining investment is still rising in Western Australia (WA) and Queensland, NSW projects may already have peaked (at the February 2013 economic briefing of the Hunter Valley Research Foundation - HVRF).

Australia's Resource Economy

This discussion is even more important in the light of the Reserve Bank of Australia's (RBA's) release of a paper demonstrating that the resource economy accounted for 18% of Australia's Gross Value Added (GVA) in 2011/12.

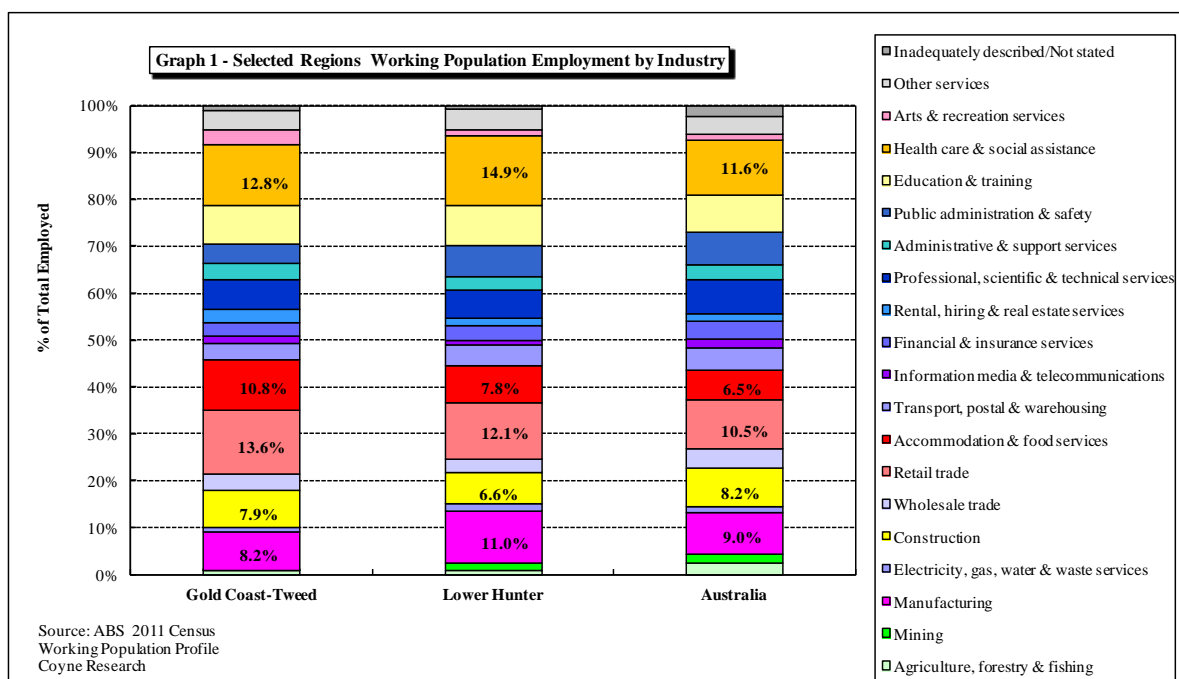
Resource extraction[#] accounted for 11.5% of GVA, with 6.5% attributed to resource-related activity.*

Significantly, in 2011/12 the resource-related activity accounted for an estimated 6.75% of total employment, compared with 3.25% for resource extraction. Employment in the overall resources economy is estimated to have doubled since the mid 2000s, mainly as a result of increased resources investment and services to mining operations.

The concern is that once the investment peak passes, employment in the more labour-intensive resource-related industries will decline (source: RBA).

Resource extraction includes resource specific manufacturing such as metal smelting and refining.
* Resource-related activity defined to include business services, construction, manufacturing, transport and wholesale trade inputs to resources extraction and investment.

[Where are the Future Job Opportunities?.....Page 3](#)
[Queensland Resources Cities.....Page 4](#)



Trends in Hunter Manufacturing

In his presentation, the HVRF Director of Research, Simon Deeming focused on the significant role of manufacturing to the Hunter region's economy, with much of the growth in employment over the five years to 2011 related to mining (ie machinery and equipment and transport equipment manufacturing).

He nominated primary metal and metal products, machinery and equipment, food production, transport equipment and fabricated metal products as among the leading contributors to manufacturing employment in the Hunter region at the 2011 Census. However employment in primary metal and metal products and fabricated metal and wood products had declined over the five years to 2011. This was partly attributed to the high \$AUD.

Comparative Economies

Graph 1 on page 1 illustrates the very different composition of the Lower Hunter's employment at the 2011 Census, compared with the Gold Coast-Tweed region, where growth has historically been driven by lifestyle appeal. Based on the working population profile, the graph shows the Lower Hunter's comparative strength in manufacturing.

At the same time, it highlights the high proportion who worked in accommodation and food services in the Gold Coast-Tweed region. Combined with arts and recreation services, this tourism-related sector rose to 14.0% of Gold Coast-Tweed jobs, compared with 8.0% nationally. Retailing, boosted by visitors, was also higher in this region.

Lower Hunter includes the Local Government Areas of Newcastle, Lake Macquarie, Maitland, Port Stephens and Cessnock.

Graph 1 shows that the Lower Hunter had a higher proportion of health and social assistance jobs. This may partly reflect health provision being more independent of Sydney, whereas some Gold Coast patients travel to Brisbane.

The Lower Hunter population at the 2011 Census was also slightly older (16.5% aged 65 years plus, compared with 15.7% in Gold Coast-Tweed and 14.0% nationally). The concentrations of older people were in Tweed Shire (22.9%), Port Stephens Shire (19.3%) and Lake Macquarie City (18.4%).

White Collar Jobs

The aggregated total of various white collar workers* was below the national average (22.8%) in both the Lower Hunter (20.6%) and Gold Coast-Tweed (19.4%). The Lower Hunter's higher proportion of these workers reflects dispersed administrative and professional/technical jobs (for example in Maitland City), as well as the presence of the Department of Defence at Williamstown Airport.

With its proximity to Brisbane, the Gold Coast-Tweed is under-represented in terms of public sector jobs and lacks the presence of significant business parks. This impacts on the region's capacity to achieve higher levels of job containment. The pressure on the development industry in lifestyle regions over recent years has seen a reduced share of both jobs and resident employees in the construction and real estate services sectors in the Gold Coast-Tweed region since 2006.

*white collar jobs defined to include: financial & insurance services, rental, hiring & real estate services, professional, scientific & technical services, administrative & support services and public administration & safety.

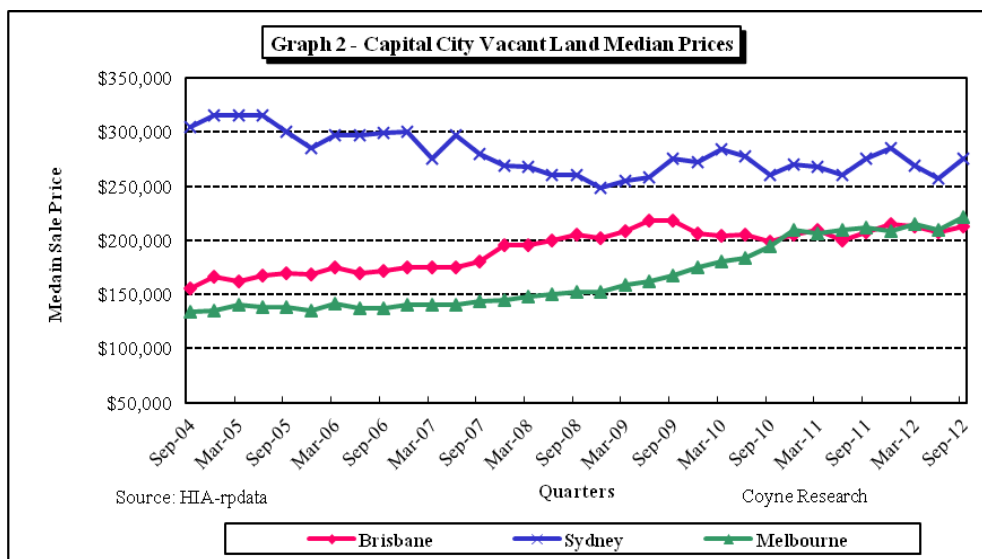
Job Containment Ratios

The Lower Hunter region had a slightly lower resident population at the 2011 Census (520,666 persons) than the combined population of Gold Coast City and Tweed Shire (579,606 persons). The number of jobs was similar, 200,209 jobs for the Lower Hunter and 207,758 jobs for the Gold Coast-Tweed.

However the Lower Hunter had a slightly higher self containment ratio of 0.86, compared with 0.78 for the Gold Coast-Tweed. Newcastle City had an above average job containment ratio of 1.25, while Tweed Shire's ratio was 0.71, reflecting the 29% of residents travelling to workplaces outside of the area.

Where Are the Future Job Opportunities?

- With the ageing of the population and the opening of the Gold Coast University Hospital later this year, an increase in health jobs is expected over the short and medium terms (even with cuts in Queensland public service jobs);
- Education (including international students) is expected to continue to generate jobs in both regions (despite some job losses over the past two years);
- Tourism has the potential to generate increased jobs, particularly as new accommodation, attractions and events are introduced;
- Innovation may deliver more advanced manufacturing jobs over the medium term (for example, 3D printing mentioned by Colliers International Director, Peter Macadam at the Property Council's Hunter Outlook seminar in Newcastle);
- Internet shopping has benefited the distribution and logistics sector: there may be potential for such facilities to locate in both regions;
- Both regions have the potential to generate construction jobs associated with urban renewal projects. The Commonwealth Games is stimulating jobs on the Gold Coast;
- Decentralisation of a Government department could potentially drive white collar employment as part of initiatives associated with urban renewal in Newcastle and the Gold Coast. However this can be a challenging process (refer to our *Facilitating Decentralisation* newsletter of December 2010). There is no immediate sign that State Governments in Brisbane or Sydney are contemplating such a move at this time;
- Many commentators are looking to residential markets to drive an improvement in construction nationally. Signs of a rebound in consumer confidence have emerged in early 2013, reflecting the impact of cuts in official interest rates in the December Quarter 2012 and the recovery in the equities market. On the Gold Coast, there is evidence of a pick-up in established house sales volumes. This is a necessary precursor of price rises. In Queensland, the new house and land market continues to face affordability pressures;
- Graph 2 shows trends in vacant land prices across the Eastern Seaboard capital cities. While price growth has generally been restrained since 2010, the burden of Government taxes and charges makes it difficult to bring prices back to restore the pre-2007 price differential with Southern States. On the Gold Coast, the September Quarter 2012 median vacant land price was \$225,000, while the Hunter was more affordable at \$179,000 (compared with \$212,650 for Brisbane and \$275,000 for Sydney);
- The recovery in new housing construction over the next two years is likely to be moderate in regions like the Hunter and Gold Coast, being linked into employment prospects in both areas. Apartments in metropolitan areas are likely to dominate new construction activity;
- The Hunter is expected to gain some of the ongoing benefits of the resources sector discussed in relation to Queensland on page 4, but there are more uncertainties about this due to the opposition to the expansion and development of new coal mines and coal seam gas wells.



Queensland Resources Towns and Cities Underwritten by Asian Energy Demand

Following the fall in commodity prices in mid 2012, Queensland's resources towns and cities experienced a correction in the upwards spiraling of property prices and rents. Residential vacancy rates in Gladstone and Mackay have risen over recent months from around 1% to between 2% to 4%. This was driven by completion of workers camps, job cuts and increased supply of housing from developers and investors.

Completion of new houses in 2013 will see greater volatility in these rental markets. Rents have already fallen to more sustainable levels, although they remain relatively high in historical terms. Despite this market correction, over the medium term, demand for new dwellings as a result of resources sector activity is supported by enormous investment underway and planned.

In Gladstone, the three Coal Seam Gas-Liquefied Natural Gas (CSG-LNG) plants underway for completion from 2014 to 2016 represent \$US60 billion in investment. The impact of this new export industry leads back to inland towns like Chinchilla, Miles, Roma and Moranbah in the Surat and Bowen Basins, putting pressure on local accommodation markets.

Despite much publicity associated with the closure of three coal mines in the Bowen Basin in 2012 (Norwich Park, Gregory, Blair Athol), new, more cost-efficient mines are underway (Caval Ridge, Daunia) and others are expanding (Lake Vermont, Kestrel).

Employment on CSG wells and pipelines will expand over coming years. New coal mining ventures are proposed, with significant related rail and port infrastructure at Gladstone, Hay Point and Abbott Point.

Leading companies, such as Rio Tinto and BHP Billiton are addressing Australia's higher cost structures. The Indian conglomerate, GVK is focused on creation of cost-efficient mines in the Galilee Basin, with quality coal to satisfy Asian demand for energy security.

The prospect of American coal and shale-to-LNG exports to Asia complicates the outlook for Australian LNG projects not yet committed, but does not appear to alter the fundamental scenario of continued need for Queensland coal and CSG-LNG.

It is considered that many of the proposed resources projects will proceed, although there may be a slippage in timeframes.

There is evidence of a turnaround in commodity prices, lead by iron ore prices, with coal prices tipped to follow over the next one to two years. The resources economy in Australia will remain a highly volatile sector, subject to variations in global supply and demand.

There may be ups and downs in prices, but the major companies are focused on Asian, particularly Chinese and Indian demand, over the medium term. The centrally controlled Chinese economy is expected to see economic growth of 7% to 8% for some years (ANZ Chief Economist, Warren Hogan).

Savills Research has recently released a study that makes a valuable contribution to our understanding of the ongoing transformation of China.

Much of Queensland's prosperity flows from the resources sector. Residential markets in resources towns and cities are expected to stabilise over the next year or so, below the peak prices reached in 2011/12. However demand from Asia for our commodities is expected to underwrite activity for years to come.

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