

# Business Highlights

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## FROM THE EDITOR – the state of the economy

The uncertainty in the economy resulted in a boost for the Labour Government's re-election following the Reserve Bank's decision to leave interest rates on hold. While the Prime Minister seized on the RBA decision as evidence of Labour's superior economic management skills, bank Governor Glenn Stevens expressed concern about consumer caution and continuing uncertainty in the global economy.

Retail sales continue to be soggy and prices in certain categories, especially clothing and shoes have fallen in the quarter ended June. Retail sales are the largest component of the Australian economy and the fact that both retail sales and property are in the doldrums resulted in the Reserve Bank exercising caution. Economists now predict that interest rates will not increase before Melbourne Cup day with some actually predicting a decline to boost sales. The overall perspective though is that interest rates will continue to rise in 2011.

A number of community members have expressed concern about the state of the economy and the impact that it is having on retail businesses. We are going through a tough period from a retail and property perspective – but this is short term pain. Overall the economy is still expected to grow 3% this year. The mining industry is entering boom number two with commodity prices recovering and Australia recording a large trade surplus. Employment growth continues to exceed expectations and some companies have begun recruiting offshore for talent. The economy will rebound – and strongly. It's a matter of time.

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## AUSTRALIAN ECONOMY

### Retail fears points to rates respite

In leaving the official cash rate at 4.5% this week, the Reserve Bank board bowed to weakness rather than strength in the Australian economy. Retail figures released as the board met in Sydney showed inflation close to non-existent in malls and supermarkets with the quarterly increase a mere 0.1% and the increase in the year to June just 0.4%

Prices fell in 7 of the 15 categories monitored by the Bureau of Statistics. The biggest fall was in clothes and shoe prices, down 1.6% for the quarter.

Monitored item	Price Pressure	
	Price movement	Price movement % for quarter
Household goods		-1.0%
Clothes and shoes		-1.6%

Department stores		-0.8
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“Shoppers are roaming malls sleepwalking,” Commonwealth Bank economist John Peters said.  
 “Employment is growing but spending is soft.”

Peter Martin, *The Sydney Morning Herald* – 4 August.

The RBA held back on a rates increase as the economy is neither too-hot or too-cold. Everything’s about in the middle. Interest rates are about average, growth is likely to be close to trend and inflation is close to target. However, our relative broad stability is backdropped by extraordinary instability and uncertainty – largely in Europe and China. The Reserve Bank will take time to resolve where everything is going before making its next interest rate move. There is no chance of a rate rise before Melbourne Cup day at the earliest.

Terry McCrann, *Daily Telegraph* – 4 August.

(Editor: Retail sales comprise a large slice of the Australian economy – hence the current softness in this market is cause for concern.).

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### **Shoppers regain credit confidence**

Consumers may have been staying at home over the past few months, but there are promising signs they may soon start to spend again.

After being spooked by the global financial crisis and the RBA’s 6 rate increases between October last year and May, households are beginning to access credit and are looking forward to the prospect of more jobs and higher wages.

UBS economist Scott Haslem expects the increased appetite for credit to be a bellwether of a better consumer environment.

Michael Dwyer, *The Australian Financial Review* – 5 August.

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### **Delayed spending drives car sales**

New car sales are taking off as consumers seize on a strong exchange rate and steady prices to update their vehicles. Data published this week showed car sales were up 82,376, up 14% on the same period last year. SUV’s and small car sales were a significant part of the sales figure.

Michael Whitburn, *The Australian Financial Review* – 5 August.

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## **EMPLOYMENT**

### **Employment growing**

Companies expect to hire more people in the next 3 months, reported a survey on business sentiment which was released this week by the Australian Chamber of Commerce and Industry.

The survey showed employment expectations for the September quarter were at their highest since 2007, when compared with the trend for actual employment outcomes. Wages growth is also expected to increase.

Michael Dwyer, *The Australian Financial Review* – 5 August.

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