Muslim Business Network

MBN Business News

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MBN brings you the latest business news on a monthly basis.

IN THIS WEEK'S ISSUE

FROM THE EDITOR – the state of the economy

The economy continues to bounce back and all indications are that the recent Christmas trading was much better than initially predicted with consumers opening up their wallets/purses in response to discounting pre and post Christmas. Consumer sentiment is also showing strong trends with a very strong result being recorded in January. Consumer sentiment in January was above levels experienced before the Reserve Bank commenced its three consecutive interest rate hikes from October – December indicating that consumers are coping well with the rate hikes. Business confidence is also high but investment levels are yet to match the business confidence.

Employment numbers are growing and housing experienced good growth at 12% last year.

Threats to the Australian economy are:

- Subdued consumer demand. Whilst consumer sentiment is high, demand is expected to be subdued with the stimulus gone and as higher interest rates and fuel prices emerge. The Woolworths result for the last quarter was weak and underlined the fact that last year's retail sales were buoyed by the stimulus. Woolworths, Australia's largest retailer has warned of widespread discounting and margin pressures as retailers' battle to grow sales in the absence of government stimulus packages aimed at boosting consumer spending.

- Inflation and its impacts on interest rates. Inflation is not falling as fast as the Reserve Bank expected. The RBA was not too concerned about inflation whilst the economy was weak. But Australia is now at the start of a recovery which will increase inflation pressures. This will result in higher interest rates. Some economists are predicting mortgage interest rates of 8% by year end – this will have a significant impact on housing and consumer demand in general.

- Skills shortage – its amazing but we are back to talking about skills shortages especially in Western Australia where increasing trades persons are required for major resources projects.

We are at the start of a recovery and the threats/pressures to the Australian economy are to be expected as Australia builds its economy in the next year. Exercise caution if you are investing on the stock exchange as the fantastic performance to date may not be sustainable.

The global economy seems to be picking up steam but with great uncertainty and risk. Japan (the second lasgest economy and a large consumer of Australian commodities) appears to be heading for the doldrums and whilst China is still growing (despite risks). The news out of the USA whilst generally good tends to fluctuate.

Back to Top

AUSTRALIAN ECONOMY

Interest rate hike no done deal

Many economists are predicting a 25 basis points (0.25%) increase in interest rates next week. This will be the fourth consecutive increase in interest rates should it occur (the Reserve Bank Board did not meet in January). An interest rate hike is being predicted on the back of rising inflation, a good commodity price outlook and increasingly favourable consumer and business sentiment. The recent wobbles on the stock exchange may result in the RBA deferring its decision – but should this occur the deferral will be for one month only unless economic indices deteriorate further.

Economists predict that interest rates will rise to 4.5% by June.

Back to Top

Consumer Sentiment continues to strengthen

Consumer sentiment has regained all the ground it lost since the Reserve Bank began its record run of three consecutive interest rate hikes from October to December last year. Economics interpret this as a signal that households are coping comfortably with higher rates.

The Westpac-Melbourne Institute of Consumer Sentiment increased by 5.5% in January. This is a very strong result. The index is seasonally adjusted and therefore takes account of traditional January optimism.

The confidence of respondents that currently hold mortgage bonds ahs reached its highest point since 1994.

A key driver of confidence is the improving employment market.

Westpac – 22 January.

(Editor: It appears that customers responded in droves and opened up their wallets/purses in response to discounting immediately prior to Christmas and then at the Boxing Day sales.).

Back to Top

But Woolies wobbles…

Retail giant Woolworths has reported a further slowdown in sales in its key supermarkets division over the last three months of last year, whilst the lack of fiscal stimulus payments hurt performance at its Big W discount department stores.

Blair Speedy, *The Australian* – 28 January.

Reality dawned on the Australian bourse this week with the strong possibility of another Reserve Bank interest rate rise putting another nail in the coffin of Australian retail stocks.

The Woolworths sales numbers were weak, but worse, they underlined that fact that last year's retail sales were buoyed by Kevin Rudd's $20 billion-plus handouts, much more than retailers admitted at the time.

John Durie, *The Australian* – 28 January.

Woolworths chief executive Michael Luscombe said retailers, particularly those selling discretionary products such as consumer electronics, would have choose between cutting prices to drive sales growth or protecting profit margins as they passed the first anniversary of the Rudd government's cash handouts. "All retailers are facing the same issue. I imagine competition is going to be pretty keen – particularly around the fourth quarter this year," Mr Luscombe said.

Sue Mitchell, *The Australian Financial Review* – 28 January.

Back to Top

EMPLOYMENT

Permanent job numbers grow

Businesses nationwide are shifting temporary staff to permanent positions and hiring more permanent employees as the economy strengthens, skill shortages re-emerge and profits create bigger staff budgets.

Hays director Grahame Doyle says the level of recruitment for permanent jobs locally is hitting 12-month highs.

Queensland's unemployment rate is the highest in the country, but fell from 6.1% to 5.9% last month.

Sam McKeith, *The Australian Financial Review* – 22-26 January.

Back to Top

PROPERTY

House prices soar 12% amid recovery

Australia experienced its strongest annual house price growth since 2003 last year, but median house price growth is likely to be more moderate across all sectors of the market in the next six months. The country's property market posted a 12.1% rise overall for the year, according to Australian Property Monitors (APM).

The property research firm said first-home buyer demand had sustained the market in the early part of the year, but upgrades and investors drove the overall result.

Property prices, however, fell in December.

Brisbane price increases were lower than the rest of the country increasing by 7.7%. The Brisbane unit market performed poorly with a drop in the median price of 1.4% in the December quarter. One reason for Brisbane's price lag is that Brisbane prices were not negatively impacted by the Global Financial Crisis.

APM's economist Matthew Bell predicts that house prices would gain more in Brisbane and Perth during the next 12 months. "They are still lagging the big capitals in terms of property prices, he said.

Bridget Carter, *The Australian* – 28 January & Michelle Hele, *The Courier Mail* – 28 Januray .

Back to Top

Vacancy rates rise

Improved economic conditions and last year's influx of first-home buyers have led to an increase in national vacancy rates that could moderate rental growth this year. Property analyst SQM Research says its December National Vacancy Rate Index shows the number of vacant residential properties in Melbourne, Sydney and Brisbane has risen close to long-term averages.

Brisbane's vacancy is 3.4%, up from 2.9%.

SQM are of the opinion that there is no evidence to suggest that rentals will increase significantly. Increases between 3-5% in most areas are more likely.

SQM's outlook is at odds with the ANZ Bank who predict that rentals will increase due to the shortage of housing units.

Michelle Singer, *The Australian Financial Review* – 22-26 January.

Back to Top

What to expect in 2010

With interest rates projected to increase what will the impact be on house prices and rentals in 2010?

Some economists are of the opinion that rising interest rates will not quash expectations for home price growth in 2010, despite the fall in house prices in December. RP Data-Rismark predict that house prices will increase by 7-8% this year consistent with expected changes in incomes of prospective buyers. APM predict that house prices will rise by 8-11%.

Mortgage and Finance Association of Australia chief Phil Naylor is of the opinion that confidence in the housing market is back to where it was during the height of the housing boom.

Chris Zappone, *The Age* – 29 January

Some analysts are predicting a slower growth with the impending interest rate hikes. “Given the rate tightening from the RBA we’re going to see less loan growth and that’s going to take the heat out of the housing market,” said Fat Prophets equity analyst Colin Whitehead.

AAP – 29 January

Back to Top

SHAREMARKET

Bears are back as Morgan Stanley tips share slump

The bears are out again at Morgan Stanley, predicting a 25% fall in developed world stock markets this year. They’ve just not sure whether the fall has already started or if there’s any more leg up before the dive.

In his latest research note to clients, Morgan Stanley’s Gerard Minack’s own hunch is that the present wobbles will pass, allowing markets to regain their poise before the substantial mid-year fall – a bear market. The forecast is based on two key beliefs: that markets have run well beyond fundamental justification and will become disappointed with tepid developed world economic growth; and more or less, that “this is what always happens” after a big relief rally

“Our view is that a return to lows is not likely – not out of the question, but a tail risk only – but nor will a new bull market start. We expect an extended period of range-bound markets.”

Michael Pascoe, *The Sydney Morning Herald* – 29 January.

Back to Top