Muslim Business Network

MBN Business News

Compiled/Edited by: Iqbal Lambat

Volume 1, Issue 28 Fortnightly 16 August 2009

IN THIS WEEK'S ISSUE

Australian Economy

- RBA Upbeat on economy but interest rates to increase
- Too early to pop that cork
- Huge improvement in consumer and business sentiment
- BHP cautious on global recovery
- CBA warns of a further downturn

Personal Finance

- Sharemarket ends week with solid gains

FROM THE EDITOR – the state of the economy

Since late June, Australia has been bombarded with positive economic news – both domestic and foreign. Retail sales, exports, housing prices, and employment all exceeded expectations, and the unemployment rate was below market expectations.

As reported in this week's edition, there have been huge increases in both consumer and business confidence as measured by surveys by leading banks.

Our major companies have reported good profits this week with Telstra, Leightons, CBA and BHP all beating market expectations. And to top it all, our Reserve Bank governor has declared that despite the risk of a number of quarters of negative growth, the deep recession is all but over (did it really happen?).

The Asian markets are growing and even Germany and France are recording small positive growths. The USA is showing increasing signs of stabilising.

Right now it's fair to say that the Australian economy has entered the second half of this calendar year with strong momentum and consumers and business in a strong confident mood.

Yet economists and indeed business leaders of BHP and CBA are advising caution. The 6% annualised real growth in the first 6 months of the year was boosted by government handouts, cheap fuel prices and low interest rates. It remains to be seen how much of the ebullience of the first six months survives into the second half of the year.

Treasurer Wayne Swan, in response to the indicators of growing confidence, issued a blunt warning to workers, home buyers and job seekers: many people are still likely to lose their jobs or struggle to find work and borrowers will be hit by higher interest rates.

Quote of the week:

"The downturn of the Australian economy in 2009 is proving to be less pronounced than anticipated and the outlook for 2010 appears to be more promising. An air of confidence has returned, with both consumer and business confidence now back in the positive zone. This is against the backdrop of stabilising global economic conditions and a rebound in global equity markets." Westpac chief economist, Bill Evans.

(*Australian Financial Review* – 13 August)

Back to Top

AUSTRALIAN ECONOMY

RBA Upbeat on economy but interest rates to increase

In his half yearly appearance before MPs, RBA governor Glenn Stevens effectively declared the recession almost over. He predicted a solid recovery would begin in the coming December quarter and unemployment would never get to 8.5% Treasury forecast in the May budget.

Mr Stevens told MPs the downturn dubbed "the Great Recession" could turn out to be "one of the shallowest" recessions Australia had experienced.

"The economy appears to be weathering a very large storm pretty well, and the community's confidence about its future has improved commensurately," he said. "The future will pose its own challenges, but we are well placed to meet them."

But Mr Stevens left no doubt that the future will see interest rates rise significantly from current levels, the lowest in 40 years. He said the world had lived through an "extraordinary" set of financial and economic events that had required "emergency measures".

"But when the emergency has passed, you have to think about withdrawing the emergency measures over time," he said. He refused to say when the Reserve might start increasing rates, but bank economists believe the first rise is likely to come early next year.

Tim Colebach, *The Sydney Morning Herald* – 14 August

Mr Stevens said although the downturn was shallow, it was still possible there would be one or two quarterly contractions (negative growth).

David Uren, *The Weekend Australian* – 15-16 August

(Editor: All economists and bankers are predicting increases in interest rates. What is uncertain is the timing of the increases and the extent of the hikes. The RBA governor has already warned of potential increases in rates of 2%. Some economists are predicting that the first increases will only occur in 12 months whilst a number of others are predicting increases later this year or early next year. The RBA is in a quandary. House prices are starting to run away especially in Sydney and Steven's response in the past has been to increase rates. Against this is the backdrop that jobs are still being lost and numerous organisations are still thinking twice before employing. You should also factor in the possibility that banks will increase rates independently of the RBA.).

Back to Top

Too early to pop that cork

Survey of economists

Hold the party. Leading private sector economists have warned the path to recovery will be painful as unemployment increases, household incomes contract, fiscal policy shifts to paying down the debt amid below trend growth and the Reserve Bank slowly moves into tightening mode (by increasing interest rates). The median forecast for economic growth by 19 experts polled by *The Australian Financial Review's* quarterly survey was 0.2% for 2009 and 1.7% next year.

Survey respondents took a more pessimistic view than the Reserve Bank which on Friday forecast that gross domestic product would grow by 0.5% this year and 2.25% in 2010.

Scott Haslem of UBS said: "We've stepped back from the abyss, and no longer wondering whether capitalism as we know it will still exist in year or so. That said, the quality of the global economic recovery is now at question, and here we expect a relatively stop-start, sub-par expansion, which does not see trend growth reached before late 2010."

Emma Connors, *The Australian Financial Review* – 13 August

Back to Top

Huge improvement in consumer and business sentiment

The Westpac-Melbourne Institute consumer sentiment index rose 3.7% this month – an increase of 28% since May. The result is the biggest 3 month gain in the survey's 34 year history and sentiment is currently only 1.6% below the hey days of 2007.

Consumers are shrugging off the economic downturn and spending.

Despite the strong sentiment, the chief executive of the Australian National Retailers Association, Margy Osmond, said her members remained cautious about the outlook and did not expect to see significant sales growth in the next 12-18 months. But Westpac senior economist Matthew Hassan is of the opinion that with property prices likely to continue to increase and jobs appearing to be safer than had initially been feared, there was good ground to be optimistic.

Adrian Rollins, *The Australian Financial Review* – 13 August

Business sentiment has also improved significantly with a National Australia Bank survey showing that business confidence has reached its highest point since August 2007 and approaching its long term average. In a separate report by the Australian Industry Group and American Express, 40% of all companies were of the opinion that business conditions will improve.

Adrian Rollins, *The Australian Financial Review* – 12 August

(Editor: MBN Business News has previously reported that confidence is the key to dragging Australia back from potential recession. Currently it's all great news – but there are risks on the horizon.).

Back to Top

BHP cautious on global recovery

BHP Chief Executive Marius Kloppers is cautious about signs of recovery in the global economy, suggesting that firm evidence of improved underlying demand for commodities will not emerge until next year. Mr Kloppers reiterated his confidence in the strength of long-term commodity demand from emerging economies led by China.

Michael Vaughan & Ayesha de Krester, *The Australian Financial Review* – 13 August & Matt Chambers, *The Australian* – 13 August.

(Editor: The commodity cycle has a major impact on the Australian economy and the results from BHP are indicative of the decline experienced by the Australian economy.).

Back to Top

CBA warns of a further downturn

CBA chief Ralph Norris has warned that a second wave of the financial crisis cannot be ruled out. While there were signs of economic recovery, Mr Norris said it was dangerous to assume the debilitating financial crisis was now over.

Richard Gluyas, *The Australian* – 13 August.

Back to Top

PERSONAL FINANCE

Sharemarket ends week with solid gains

The Australian share market's impressive rally is showing no signs of abating, with shares posting a 0.6 per cent gain for on Friday to end at their highest level since October 8.

The five-month rally has added $370 billion in value to the wider S&P/ASX300 index, taking its market capitalisation to $1.22 trillion.

On a sector-by-sector basis, industrials gained 1.5 per cent on Friday, while financial stocks rose 0.8 per cent and materials climbed 0.4 per cent.

"Obviously we've had a pretty outstanding week, the banks in particular following with some outstanding results by CommSec and some pretty good results by Telstra," MS Global head of CFDs Anthony Anderson said. "I just think there's a bit of profit taking going into the weekend."

"It really is a case of investors starting to look at the fundamentals a bit more and the fact that even though the newspapers have been crying out doom and gloom we really haven't been doing too badly," said Juliette Saly, market analyst at Commonwealth Securities.

Michael Pascoe, *The Sydney morning Herald* – 14 August

Back to Top