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**FROM THE EDITOR**

Increasingly there is talk of 'green shoots' of recovery with confidence levels in the economy improving following a rout over the last 12 months. Retail sales have been 'great'; the services sector is showing some life; coal and iron volumes are increasing; and Brisbane house prices continue to grow. However, a number of economists are of the view that whilst the worst is behind us, its going to be a long slow road ahead.

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**AUSTRALIAN ECONOMY**

**Mining to lead economy rebound**

**Highlights:**

- Mining to lead economic growth
- Growth evident in economy – car sales increasing, services sector (bulk of our economy) showing its returning to growth
- Government stimulus (handouts) and Reserve Bank stimulus (interest rate reductions) appear to be working
- Unemployment to continue to rise
- Senior bankers say short term is bleak

The economy may be poised for a rebound, with mining companies telling the Treasury strong demand from developing countries will soon return, while the services industry has begun to grow and the motor industry (which was the hardest hit by the slowdown) has chalked up its best sales in a year.

Although unemployment will still rise, the growth evident in industries ranging from banking to communications and resources suggests the Treasury's budget forecasts for next year will prove too pessimistic.

Although the Rudd Government is sticking to its line that the economy is 'not out of the woods yet', there is growing conviction its stimulus packages are working, boosting consumer spending and business investment.

David Uren, *The Weekend Australian* – 4-5 July

Senior bankers are more pessimistic saying the short term outlook for the economy is bleak and predicting that more businesses and consumers will come under pressure as credit growth continues to slow and unemployment rises.

Richard Gluyas, *The Australian* – 3 July

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## Shoppers answer the stimulus call

### Highlights:

- Key retailers recording increases in sales – Fantastic Furniture, 31%; Harvey Norman, 8%; David Jones, 58%; and JB Hi-Fi 44%.
- Stimulus driving sales growth
- Sustainable or short term?

Retail sales are growing at their strongest rate in almost two years as consumers, buoyed by low interest rates and generous government handouts, increase their spending. Australian consumers are continuing to spend during one of the worst economic downturn in decades.

Retail sales increased by 1% in May – twice that of the consensus among economists.

Queenslanders were among the stampede with sales up 1.5% in the state compared to April.

Harvey Norman chairman Gerry Harvey described the turnaround as ‘mind boggling’ after the ‘Armageddon’ six months earlier. But while most retailers do not dispute that the stimulus packages have helped sales, there are concerns about what will happen to consumer confidence once the government’s cash injections dry up.

Economists are warning that consumer spending is likely to weaken as the boost to household income from the grants fades. “Weaker income growth post the cash handouts, wealth destruction and the drift up in unemployment are likely to see consumer spending growth fade through the second half of 2009 and into early 2010,” said UBS chief economist, Scott Haslem.

Westpac expects retail sales growth to drop sharply, hitting a low -0.7% in the next six months, before recovering in the first six months of next year.

“The key in the months ahead will be jobs. The data indicates that employers are ‘hoarding’ labour by eschewing mass layoffs and shifting staff to fewer hours, killing off overtime and reigning in other costs. That can’t last forever, unless these broader macro-economic numbers hold up.” Paul Syvret.

Sarah Rich, *The Weekend Australian* – 4-5 July

Adrain Rollins, *The Australian Financial Review* – 2 July

Paul Syvret, *The Courier Mail* – 2 July

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## Record coal export figures

### Highlights:

- Record sales to non traditional markets
- Good sign that key engine for Queensland is recovering
- Volume up, but prices still low.

Gladstone is enjoying a spike in coal demand from India and China that is more than making up for a drop in demand from traditional customers.

The port handled a record 1.464 million tonnes of metallurgical coal in one week last month, but very little went to its traditional markets of Japan, Korea and Taiwan.

John McCarthy, *The Courier Mail* – 3 July

(Editor: There are increasing reports of more ships being sighted off Australian export ports.)

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## Other news

- **Trade deficit** – Australia’s trade deficit doubled in May as government stimulus spending kept imports rolling in, while our biggest export markets, with the exception of China, collapsed. (David Uren, *The Australian* – 3 July).
- **Building approvals down** - A surprise slump in building approvals has raised concerns about prospects for an economic recovery later this year. Prospective work on apartments and units plunged 44% in May. Approvals for homes down 2%. (Adrain Rollins, *The Australian Financial Review* – 2 July).

- **Companies face 20% profit cut** – Corporate earnings for the 2008-09 year are tipped to dive by more than 20% as Australian companies struggle with their worst profit year since 1991. (Nick Tabakoff, *The Australian* – 29 June).
- **Construction job losses mount as funds dry up** (Turi Condon, *The Australian* – 3 July).
- **Interest rates** – The market is not expecting any change to interest rates when the Reserve Bank Board meets next week.

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## PERSONAL FINANCE

### Brisbane home prices increase

Brisbane home values continue to rise. The latest figures show a 2.6% increase since the start of the year. The median house price in Brisbane according to RP Data-Rismark is \$432,101.

Rismark International managing director Christopher Joyce said Brisbane home values remained slightly lower on an annual basis, down 0.5% on the same time last year, but in the new year had begun to show positive growth.

Tim Lawless of RP Data said the growth in values was not as strong in Brisbane as in Sydney and Melbourne, partly because Brisbane had experienced strong growth in 2007. He said the positive sign was that Brisbane had experienced steady growth since January.

Michelle Helly, *The Courier Mail* – 1 July

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### Share market update

#### Highlights:

- Volatility still the safest bet
- Market will only recover when credit markets operate normally. ‘Conditions in the domestic credit market continue to be very, very difficult.’
- Worst may be over but a hard road lies ahead – view of a number of brokers
- Backwash from unemployment may rock recovery

Fund managers expect the sharemarket to build on recent gains after the worst financial-year performance in 27 years, but they warn more volatility is likely until evidence emerges of a sustainable recovery in economic growth and corporate earnings.

Peter Wells, *The Australian Financial Review* – 1 July

“Here’s a warning to anyone who thinks markets have recovered: it ain’t over till the fat lady sings. The fat lady, as far as investors are concerned, are credit markets, which froze as banks refused to lend to rival institutions. The good news is that credit indicators that soared to record highs over the past year have improved dramatically in recent months. The bad is that credit markets are still far from operating normally, and experts warn that investors should not expect a full recovery any time soon.”

Brendan Lau, *The Australian Financial Review* – 1 July

A survey of a number of leading funds managers/analysts reveals that most believe that the worst is over – but a hard road lies ahead. One funds manager indicated that in his opinion the rebound in the market index has been very strong by historical standards with the result that the market could swing in a fairly narrow range for an extended period of time.

Peter Wells, *The Australian Financial Review* – 1 July

“So against such a sobering backdrop, what can we expect from the new financial year? I believe markets are past their worst and the economy is on the cusp of an impressive recovery. But it would be crazy to ignore the elevated level of uncertainty that attaches to this – or any – analysis of current trends.”

Glenn Mumford, *The Australian Financial Review* – 1 July

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