

## **Key themes from Treasury's Business Liaison program**

## Overview

As part of its quarterly Business Liaison Program, Treasury met and held teleconferences with businesses and organisations during February and March 2012. Treasury greatly appreciates the commitment of time and effort by the organisations that participate in this program.

Liaison discussions suggested uncertainty around the global outlook continues to weigh on business sentiment. Firms in the mining and mining related sectors report a strong pipeline of investment and activity, while contacts in retail and manufacturing generally had a more downbeat outlook.

While labour market pressures had eased over the course of 2011, there are some niche areas where skills shortages and wage pressures are likely to remain.

## Activity

Strong demand was again evident in the resources sector. Activity and investment continue to be supported by strong demand from emerging Asia, in particular China. On the east coast, firms reported that coal production had yet to fully recover from the adverse weather events in early 2011.

Activity continues to remain uneven across the rest of the economy. Contacts in the retail sector reported that the trading environment was challenging with some retail lines (such as women's fashion) deeply discounted over the Christmas period. Contacts cited the elevated Australian dollar as a key source of pressure with customers increasingly shopping online and greater numbers of Australians holidaying overseas instead of domestically.

Contacts in the manufacturing sector noted that trading conditions continued to be difficult and highlighted the sustained high Australian dollar as a key source of pressure. However, firms noted a lowered cost of imported capital equipment as a positive effect of the high exchange rate. Contacts in the consumer goods areas of manufacturing also highlighted weaker domestic demand as a concern and expected this to continue in the near term.

## Employment and wages

Overall, contacts reported an easing in hiring conditions, though the story was mixed across sectors. Recruitment in the mining and energy sectors remains at record levels, with the recent global downturn having no material impact on hiring. An excess of demand for skilled employees has also seen firms in the mining and related construction sectors being less selective in recruitment, but spending more on training.

Contacts in the mining sector continued to report strong use of fly-in-fly-out workforces with some contacts in Western Australia noting that they are increasingly flying in workers from the eastern seaboard, as well as from Perth.

In the non-mining sector, firms reported a noticeable slowdown in recruitment through the second half of 2011. Some businesses reported that, as a response to global uncertainty, they had increased the utilisation of their existing workforce rather than taking on new employees.

Strong wages growth is expected in the mining and mining related sectors of the economy, particularly in professions where skills shortages are being felt most acutely. Overall, contacts in non-resources related sectors reported a softening of wage pressures since the middle of 2011.

## Financing and investment

Overall, contacts reported that credit conditions remained largely steady this round. Large firms generally noted that credit was available at reasonable rates, despite challenging capital market conditions in 2011.

There were some concerns regarding the availability of credit in the construction sector, with contacts in the non-residential sector reporting that, particularly for office space, lenders have required higher levels of pre-commitment before providing finance.

In the manufacturing sector, several firms noted the importance of productivity improvement and innovation programs to their business. One firm noted they were continuing to invest heavily in new product innovation, despite tougher trading conditions.

