Key themes from Treasury's Business Liaison Program

As part of Treasury's Business Liaison Program, staff met with 29 organisations in five cities during February 2010. Treasury greatly appreciates the commitment of time and effort by the organisations that participate in the program.

Overall, there was a more optimistic outlook. Government stimulus and state spending initiatives had supported activity during the downturn. Organisations in sectors supported by stimulus reported only a relatively mild impact from the global financial crisis, while others experienced a contraction in activity, but were buoyed by recent improvements in trading conditions. The mining sector is more confident about a sustained recovery, although there are emerging signs of skills pressures in the sector. The outlook for the property and the retail sectors was more subdued.

Trading conditions

On the whole, trading conditions and business confidence have improved in recent months, with a sense of optimism about the outlook for the domestic economy. However, particularly in the retail sector, the mood was more cautious with concerns about the near-term outlook flowing from the unwind of stimulus.

The mining sector is benefiting from higher commodity prices. While this has been tempered by the Australian dollar, some organisations were sanguine about growth prospects for the global economy, and bullish about the demand from China. The medium-term prospects for the sector had strengthened considerably, with signs that significant new investment is set to ramp up from later this year.

Construction sector contacts indicated that the economic stimulus and significant state public works programs were helping to support activity. However, some in the property sector had been hit hard by the global financial crisis, with a sharp decline in property sales. That said, public infrastructure and education spending has been core to maintaining activity in the construction sector. For others, the First Home Owners Boost (FHOB) supported activity, but developers are now seeing demand moderate with the wind-back of the FHOB.

Outside of the public sector, and a small number of major projects in the mining sector, there was little new building construction work entering the pipeline. While some organisations anticipate a recovery in non-residential construction next year, deferrals remain high. Many organisations had relied on the Building the Education Revolution (BER) program to support activity during that period of weakness. There are signs of improvement in the residential property sector, with interest rates yet to impact significantly on sales. Some developers reported improving conditions, but are waiting for investors to return to the market to replace the momentum provided by the FHOB.

There was a similar theme in the retail sector, with some businesses having done well despite the downturn, but others were more subdued about the prospect for a recovery in profits. More than one organisation noted that price reductions during the downturn had trained shoppers to expect discounts, and that there are signs that this attitudinal shift is continuing.

A return to better seasonal conditions, particularly in eastern Australia, had boosted confidence in the agricultural sector, with firming expectations of a successful winter crop. However, grain inventories remain elevated, which is leading to a weaker outlook for prices.

Business credit and investment

Business confidence and investment intentions had improved significantly, pointing to a prospective recovery in private sector activity commencing in the second half of 2010. Part of this could be driven by a resumption of basic maintenance investment that had been deferred during the downturn.

While access to credit is stabilising, organisations reported that they were still experiencing constraints.

The residential property sector is still finding it harder to obtain credit for medium and high density developments, with lenders still requiring high pre-sales targets. Developments have slowed or stopped due to the difficulty in accessing credit. For some organisations, access to finance has improved, but terms remain onerous, compared to the pre-crisis period.

Some organisations had focused on reducing debt during the downturn.

On the investment front, while some capital expenditure had been delayed in response to the global financial crisis, this was seen as temporary and more typical capital expenditure profiles were expected by 2010-11. Overall, while business activity was not yet back to pre-crisis levels, major resources firms had maintained their capital expenditure despite the global downturn, and are well placed to capitalise on the recovery in commodity prices and global growth. Others have large projects in the pipeline, with spending figures yet to translate into economic activity.

Capacity issues

Capacity constraints are not presently an issue for liaison contacts. Some organisations reported that they have been operating with considerable spare capacity.

That said, the mining sector reported emerging signs of skilled labour shortages in some specialised occupations.

Employment and skills

In line with the positive trading conditions, the outlook is for increased employment in the resources sector. Some in the sector are returning to high levels of activity after experiencing relatively mild effects from the downturn. For others, large contracts are driving recruitment.

In the property sector, there had been some retrenchments and even surplus labour during the downturn. The BER has supported employment in the construction sector, and has been effective at supporting places for apprentices.

Prices and wages

Liaison contacts noted that higher borrowing costs remain an issue for business. There was no evidence of other significant cost increases, which was consistent with the extent of spare capacity although higher commodity prices were expected to flow through in the future, particularly in the construction sector. The strength of the Australian dollar had put downward pressure on prices in recent months.