

Global economy

The global economic outlook continues to deteriorate

- The December quarter economic data shows a sharp and synchronised slow down in the global economy.

	GDP growth/ contraction December quarter
Japan	-3.3%
China	6.8%
Korea	-5.6%
Europe	-1.5%
US	-1.6%
India	5.3%

- World economic growth is forecast to decline markedly in 2009. In its latest assessment prepared for the G20 Finance Ministers meeting in March 2009, the World Bank and its sister organisation the International Monetary Fund, warned that the global economy will shrink this year (by 0.5% to 1.0%) on an annual average basis (for the first time since World War II), before gradual recovery 'in the course of 2010'.
- The World Bank estimates that by mid-2009 global industrial output could be about 15% lower than last year, while global trade may record the largest fall since the 1930s. The sharpest fall will be in East Asia.
- The developing economies of the world are now experiencing huge financing shortfalls and rapidly declining economic growth (94 of the 116 developing countries are in economic decline).
- There is a deep recession in advanced economies. In the US, the world's largest economy, recession is deepening with unemployment rising to 8.1% in February 2009 (650 000 job losses in February 2009). Economic growth is slowing sharply in the major emerging economies of China, India and Brazil.
- The IMF has said that 'turning around global growth will depend critically on more concerted policy actions to stabilise financial conditions as well as sustained strong policy support to bolster demand'.
- It is feared that with the deepening crisis, protectionist trade policies will rise. A protracted crisis and any mishandling of economic management have the potential to backlash against free trade and globalisation and result in social unrest in some countries.




















- Governments and central banks around the world continue to take fiscal and monetary measures to support economic growth and assist their financial sectors. The Obama Administration will purchase US\$1.2 trillion worth of debt to help boost lending and promote economic recovery, and the UK Government will pump £75 billion into the economy through a ‘quantitative easing’ process.
- IMF warns governments to find savings as the crisis propels their budgets deeper into deficits. There are real downside risks that financial markets may lose confidence in governments’ ability to repay debts. The IMF says confidence in governments’ solvency has been a source of stability and has, so far, helped to avoid a complete meltdown of financial markets.
- The US Federal Reserve Chairman has stated that stabilising the financial system is the key to a global economic comeback. He outlined four areas that need addressing:
 - Financial rules and conventions on trading, payments and clearing that underpin the financial system
 - Regulations and accounting policies
 - Creation of an authority to monitor and address systemic risks
 - Problems tied to financial institutions deemed ‘too big to fail’.
- There are significant downside risks to the current global economic outlook and these emanate from: volatility in financial market conditions (the impact of high borrowing costs and high lending risks on the banking sector’s capacity and willingness to lend); insolvency of many financial institutions; and spill over effects of the economic contraction in advanced economies on emerging economies.
- The global financial crisis has so far raised costs, reduced access to credit, increased uncertainty, reduced global output and growth (global recession), increased unemployment and destroyed wealth worldwide. According to the World Bank, the speed, strength and timing of recovery will depend on confidence and coordination.
- How deep and how long will the recession be? Will it be a **V** or **U** or **L** shaped recession? My bet is on a **U** shaped recovery.

Australian economy

The Australian economy is slowing down sharply

- The Australian economy contracted by 0.5% (seasonally adjusted) in the December quarter 2008 and the annual GDP currently stands at 0.3%. It is believed that the economic situation would have been worse in the absence of the first stimulus package and other measures that the government took late last year.
- A closer look at the GDP components shows softness across the board. Consumption expenditure grew marginally (0.1%) compared with the previous quarter. Private business investment grew by 1.1% driven by 2.2% growth in engineering construction but dwelling investment declined (-1.2%). Overall, private investment remained unchanged. Public investment on the other hand, declined by 1.5%. Both exports and imports declined by 0.8% and 6.8% respectively.
- On the production side of the economy, industry sectors that declined included manufacturing, construction, wholesale trade, finance and insurance, property and business, cultural and recreational, and personal and other services.
- The Westpac-Melbourne Institute Leading Index points to continued economic contraction. The index fell to -3.1% in January 2009, far below its long term trend of 3.2% and the weakest read since August 1990.

- ANZ industry sector forecasts for the next 12 months shown below reveal output declines in most industry sectors.

Industry	Key growth influences to watch over the next 12 months	Likely output growth path		
		Flat 	Up 	Down 
Agriculture, forestry, fishing	Lower A\$, commodity prices, global GDP, trade, weather & water policy			
Mining	Lower A\$, commodity prices, global industrial Production & price boom is over			
Manufacturing	Lower A\$, commodity prices, business investment, auto sales & dwelling starts			
Electricity, gas & water	Lower Australian GDP, commodity prices, weather & government climate change policy			
Construction	Lower dwelling starts, business investment, credit availability, higher public works			
Wholesale trade	Lower retail sales, import & export volumes, A\$ & trade credit availability			
Retail trade	Slower household income, spending, credit, higher savings & unemployment			
Accommodation, cafes, restaurants	Slower household income, spending, credit, tourist arrivals & rising unemployment			
Transport & storage	Lower retail sales, import & export volumes, A\$, construction & tourism			
Communication services	Lower Aust. GDP, & business investment, ongoing new technology, & new government policy			
Finance & insurance	Lower Aust. GDP, & business investment, slower household income & credit demand			
Property & business services	Lower Aust. GDP, & business investment, slower household income & credit demand			
Government admin & defence	Lower Aust. GDP, lower tax revenues, higher government spending & new policy			
Education services	Stable local student population growth, slower international student arrivals & higher government spending			
Health & community services	Population growth, mini baby-boom, ageing, technological changes, higher government spending & new policy			
Cultural & recreational services	Slower household income, spending, credit, tourist arrivals, & rising unemployment			
Personal & other services	Slower household income, spending, credit, higher savings & unemployment			
All industries (GDP)	Global GDP, Asian industrial production, household spending			

- In response to the possibility of such a severe economic downturn the Australian Government has announced a second economic stimulus package worth \$42 billion. The stimulus is designed to support key sectors of the Australian economy that are expected to face tough times ahead, and support economic growth and jobs across all Australian jurisdictions. The package is expected to support 90 000 jobs.
- To further support domestic demand the Reserve Bank reduced the official interest rate by 100 basis points to 3.25% in February 2009 (45 year low). Another cut in the cash rate of around 25 basis points is expected when the Reserve Bank meets in April 2009.
- These monetary and fiscal policy initiatives are expected to support economic growth to 1.0% in 2008-09 and 0.75% in 2009-10.
- Australia has 'fiscal and monetary space' to further stimulate the economy if necessary. Economic growth will be supported by the current lower interest rates, lower exchange rates, and expansionary fiscal and monetary policies.

Stress points in the Australian economy

- The unwinding of the mining boom and a sharp slowing of the Chinese economy is projected to impact significantly on the Federal Budget. The budget deficit is expected to be around \$115 billion over the next few years. New South Wales, Queensland, South Australia, Northern Territory and Tasmania will incur a budget deficit at least for 2009.
- Supply of credit remains a big issue, particularly if foreign banks restrict credit flows to Australia. The demand for credit is also expected to slow down with the economic downturn. The Federal Government and Australia's four major banks have set up a facility, the Australian Business Investment Partnership, to prop up the commercial property sector for projects including shopping centres, office towers and factories. This will reduce the risk of Australian banks having to 'fill the gap' if foreign banks tighten up credit to the Australian market.
- Lower business confidence (12% for small and medium sized business in February 2009) and consumer sentiment also fell by 0.2% in March 2009 to 85.6 compared to February 2009 (consumers are optimistic if the index is >100 and pessimistic if the index is <100).
- Unemployment is increasing and predicted to rise to around 7% by 2010 – ANZ job advertisement data is not encouraging (10.4% decline in February taking the annual fall to 39.8%). The unemployment rate rose (seasonally adjusted) to 4.9% in February 2009.
- Prices are falling for many commodities (depreciation of A\$ will provide some support for commodity export prices in A\$ terms). Earnings from commodity exports are forecast to be around \$162 billion in 2009-10, a fall of 17% from an estimated \$196 billion in 2008-09. Contract prices for bulk commodities are in place until the end of March 2009. However, the new set of contract prices is expected to be much lower. Xstrata, the biggest Australian exporter of thermal coal, is understood to have agreed with Japan's Chubu Electric to a 40% cut in the price per tonne for the coming year.
- Slow down in the number of overseas visitors (forecast to decline by 4.1% and domestic visitor nights to by 0.9% in 2009). However, lower A\$, and lower fuel prices will support tourism spending in Australia. Consequently total spending on tourism in Australia is expected to increase by 0.3% in 2009 with an increase in spending by the larger domestic visitor segment offsetting the decrease in international visitor consumption.
- The share market fall will have an impact on superannuation and other wealth assets.
- Decline in demand and economic growth in Australia's key trading partners such as Japan, China and USA is bearing down on the Australian economy.

Northern Territory economy

Unlike other Australian jurisdictions, the impact of the current crisis on the Northern Territory economy has been less severe. However, the NT economy is predicted to slow down sharply from 2009-10 and to start to pick up again in 2012-13.

- NT domestic demand (state final demand or SFD) contracted by 0.7% (seasonally adjusted) in the December 2008 quarter from the September 2008 quarter (4.7% growth), largely due to a reduction in government consumption, investment and slower growth in private investment. However, in year on year terms the Territory's SFD increased by 8.5% (original terms).
- Access Economics growth forecast (December 2008) is 4.7% for 2008-09 and the NT Treasury has revised down its forecast from 6.6% to 4.5% - a good outcome if achievable.
- The Territory share of the Federal Government stimulus is estimated to be around \$505 million and will spread from 2008-09 to 2011-12, with the majority of the funds spent in the first two years. The investment expenditure is estimated to be \$410 million and payments to individuals to be around \$95 million. The first flow of funds for upgrading public housing properties commenced this week. Bonus payments to individuals were also rolled out and are expected to boost retail sales.

Positives

- Investment remains high but easing.
- Retail sales are holding up (retail sales, seasonally adjusted, contracted by 0.2% in January 2009 compared to December 2008 and in year on year terms retail sales (original and not seasonally adjusted) increased by 12.5%.
- Construction work remains strong (13.2% increase in December 2008 quarter - original terms - over September -2008 quarter) but there is anecdotal evidence of projects being put on hold due to more stringent credit conditions or growing risk aversion. The roll out of the second stimulus package will boost construction activities.
- Labour market remains steady:
 - Unemployment rate (3.9% February 2009) is unchanged from last month.
- Business confidence in the NT is improving – 43% in February 2009 (24% in November 2008) compared to 12% nationally.
- Increasing population – the Territory's population grew by 0.6% in the December quarter 2008 and by 2.2% on an annual basis (third highest among all Australian jurisdictions).

Stress points for the NT economy

- Weaker housing sector but improving:
 - Residential building approvals increased by 1.3% (trend) in the month of January 2009, but for the year to January 2009 it declined by 3.6%. The low levels of affordability and tighter credit conditions are constraining demand. Nationally there is a steep downward trend in approvals
 - Dwelling commencements increased by 92.5% in the December quarter 2008 but decreased by 26.4% for the year 2008. The turn-around in the December quarter was expected and was due to lower interest rates and government home ownership incentives
 - Housing finance commitments (seasonally adjusted) increased by 3.9% in December 2008 and on an annual basis declined by 12.9

- Housing affordability is still low but improving: 40.7 in the December quarter 2008 – up from the September quarter (due to lower interest rates). Affordability declined by 5.1% on an annual basis and declined by 9.7% in year on year terms.
- Leading indicators indicate a softening of the labour market:
 - Decrease in newspaper job ads in February of 33.8% and a fall of 50.8% over the year (ANZ January 2009 Job Ad Survey). Except for December 2008 job ads have declined since October 2008
 - Access Economics forecast unemployment to rise in 2009-10.
- Shortage of credit and tightening credit conditions, and slowing demand for credit.
- Falling commodity prices is reducing returns to resource sector projects and activities but with some commodities, such as live cattle, export trade is expected to do well (48,258 more NT cattle were exported in 2008 compared to 2007)
- Slow down in the economies of NT's trading partners (China, Japan, other Australian States, etc).
- The NT is already feeling the impact of slowing demand for travel services. The latest tourism statistics for the NT (YE September 2008) recorded a decline of 73 000 holiday visitors compared to the previous year. Unless preventative action is taken, Tourism NT estimates further declines in 2009 (est. 90, 000 visitors) and 2010 (est. 82, 000), with Central Australia being the most adversely affected given that region's reliance on the UK and Japanese markets. The majority of declines are expected in international visitation. Based on this conservative scenario, the decline in holiday visitation would equate to a loss of around \$280m in visitor expenditure in the NT compared to 2007.

Key NT industries – outlook summary

- The current global financial and economic crisis is anticipated to have an uneven impact on the NT industry sectors (see table below). Industry sectors such as mining, retail trade, and accommodation, cafes and restaurants, and tourism for example are more affected than sectors such as public administration, defence, education and health.

Key NT industries outlook (12 months) → flat ↑ increase ↓ slow down			
Industry	Indicators and influences	Comments	Likely output path
Agriculture, forestry, fishing	Commodity prices, exchange rates, economic growth in Indonesia (for live cattle exports), weather, demand conditions for cattle, fish and horticultural products in interstate markets, trade	Cattle, fruits (mango, grapes etc), vegetables and fish are food products with lower income elasticity compared to forestry products and pearls, and therefore resistant to large changes in demand due to changing income levels. Global financial crisis has affected the pearl industry with a falling global demand for pearls.	↑
Mining	Global industrial production (particularly China), economic growth, commodity prices, exchange rates, credit availability	Commodity price boom is over. Lower exploration activities due to a decline in exploration budgets of mining companies due to the credit crunch. Reduced production due to lower global demand (e.g., Gemco, Xstrata and Om manganese). Some mining projects deferred due to lower prices and demand. Some mining contracts are not being renewed, e.g., DeltaReef's Rio Tinto contract at Nhulunbuy. Job losses have occurred, e.g., GBS Gold, Compass resources and Redbank mines. Impact on regional areas.	↓
Manufacturing	Business investment, building and construction activities, commodity prices and demand conditions in export markets	LNG and alumina production remain relatively stable. Improvement in dwelling construction will provide support.	→
Construction	Business investment, dwelling commencement, public works program, credit availability, major projects, interest rates	Construction work is buoyant - engineering construction is still high and there is a rise in dwelling commencements. Anecdotal evidence shows that some projects have been put on hold. Stimulus package will boost construction activity. SIHIP project and INPEX are in the pipeline.	↑
Retail trade	Consumer confidence and spending, unemployment level, credit availability, economic growth, household income	Retail trade is holding up for now supported by the government's cash bonus. Some evidence that the sector is being affected: increase in number of discount sales, rundown on inventory, slow down in tourist numbers, and a reduction in discretionary spending.	↓

Key NT industries outlook (12 months) → flat ↑ increase ↓ slow down			
Industry	Indicators and influences	Comments	Likely output path
Accommodation, cafes and restaurants	Consumer confidence and spending, unemployment level, credit availability, economic growth, household income, tourist numbers and spending	Lower tourism numbers will impact the sector. Some regional areas are dependent on tourism and will feel the impact more than others. A large portion of spending in this sector can be deemed discretionary (elective).	↓
Transport	Retail and wholesale sales, tourism, domestic, interstate and overseas demand (exports and imports), construction activity	Transport services needed for agricultural activities remains buoyant (live cattle movements) and a slow down in tourism (inbound and outbound) will have an adverse impact.	→
Professional, scientific and technical services	Business investment, economic growth, interest rates, credit availability and credit worthiness of projects, business confidence	Stimulus package to boost architectural, engineering and technical services. General downturn in business activity will adversely affect advertising services. Accounting and legal services to remain stable but will be affected by a slow down in project-based activities.	↑
Finance and insurance services	Business investment, economic growth, interest rates, credit demand and credit worthiness of projects, business confidence, household income	Demand for credit slowing in some sectors while lower interest rates are supporting housing finance. Major banks in relatively strong position. Some financial institutions consolidating their activities due to losses in the equity markets, e.g., Territory Insurance Office.	→
Public Administration and safety	Economic growth, government revenue, fiscal expenditure, new policies	Decline in government revenue, tightening sources of funds and an increase in government expenditure largely through the stimulus package.	↑

Adapted from ANZ Industry Data Summary (March 2009)

Key NT industries outlook (12 months) → flat ↑ increase ↓ slow down			
Industry	Indicators and influences	Comments	Likely output path
Education and Training	Population growth, number of overseas students, government spending, training schemes, e.g., apprenticeship training opportunities	Uncertainty in the labour market may force some prospective employees to delay entering the labour market and pursue further studies. Some employees who lost their jobs may take this opportunity to upgrade their skills. Slow-down in business activities will adversely affect apprentice uptake.	↑
Tourism (comprises approx. 60% of accommodation, cafes and rest., 45% of transport, 18% of retail trade, 11% of art and cultural services, rest - other sectors)	Economic growth domestic and global, employment levels, demand for travel services, household income, exchange rates	Tourism is an elective (discretionary expenditure) with higher income elasticity of demand. Slowing global demand for travel services is already affecting NT. Little or no growth in interstate and international holiday visitation in 2009.	↓

Adapted from ANZ Industry Data Summary (March 2009)

Release dates for key economic data for Australia and NT

- Access Economics Business Outlook March quarter 2009: mid-April 2009
- ABS Australian National Accounts March quarter 2009: 3 June 2009
- ABS State Accounts 2008-09:14 November 2009
- ABS Construction Work Done (Preliminary) March quarter 2009: 27 May 2009
- ABS Dwelling Commencements, March quarter 2009:17 June 2009
- ABS Labour force, Australia (monthly) March 2009: 9 April 2009
- ABS Retail Trade Trends, Australia (monthly) February 2009: 1 April 2009

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