

### Global economy

The global slump continues and economic prospects in most of the developing countries remain gloomy. However, some 'green shoots' are visible.

- There is some evidence that the global economy is stabilising, after sharp falls in the December quarter 08 and March quarter 09. The significant monetary and fiscal policy stimulus applied in many countries is working to restrain the economic downturn.
- The global economy contracted further in the first quarter of 2009. The actual economic growth for selected countries in the March quarter of 2009 is shown in graph 1. The World Bank in its latest report (June 2009) has revised down its global growth forecast for 2009 to negative 2.9% but predicts the global economy to recover by a modest 2.0% in 2010 and by 3.2% in 2011.

Graph 1



- There have been large declines in inventories in many countries as businesses responded to reduced demand and increased economic uncertainty. To reduce inventories firms have cut production by more than demand. In some countries, particularly in Asia, inventories are under control and industrial production is on the rise to the current level of demand. The Baltic Dry Index (see Appendix) is trending up, signifying some improvement in global supply and demand conditions and prospects for economic growth.
- There are signs in a number of developed economies of increasing stability of the financial markets, and improved business and consumer confidence. However, the situation in many of these countries remains uncertain with significant downside risks to economic and financial stability.

- Some US banks have begun to pay back money borrowed through the US government's Troubled Asset Relief Program (TARP). Ten banks have collectively repaid US\$68 billion. Approximately US\$700 billion was provided to banks through this scheme.
- Due to the lagged effects unemployment may continue to rise for some time after economic growth picks up.
- The G-8 finance ministers and central bank governors meeting in mid June 2009 agreed, *inter alia*, to
  - the need to prepare appropriate 'exit strategies' for unwinding the extraordinary policy measures taken to respond to the crisis once the recovery is assured.
  - Boost IMF resources
  - Strengthen concessional lending capacity of the IMF
  - Reform the IMF to enable it to carry out its critical role in the modern global economy.

## Australian economy

The Australian economy escapes from a technical recession but is not out of the woods yet

- The gross domestic product (GDP), seasonally adjusted, grew by 0.4% in the March quarter 2009 (graph 2), against all expectations and after a fall of 0.6% in the December quarter of 2008. Although Australia has dodged the recession bullet, this is the fourth consecutive quarter of sub-trend growth. The good news is that Australia is outperforming most of the OECD countries.
- The better than expected economic growth was due to an increase in net exports and a rise in consumer spending. The stimulus packages seem to be instrumental in the improvement in consumer spending. The exports benefited from demand from some of our key trading partners, particularly China, and from having a different export mix (more commodities than manufactures) which is less vulnerable to global slump in consumption and consumer confidence.

Graph 2



Source ABS Cat No 5206.0

- A closer look at the GDP components shows a weak underlying economy. Consumption expenditure grew 0.5% over the previous quarter. Private business investment declined by 6.1%, largely due to fall in machinery and equipment purchases, and non-dwelling construction. Dwelling investment also declined (-5.6%). The total investment declined by 4.8% compared to the previous quarter. Overall, domestic spending contracted (-1.0%) in the March quarter 2009. Exports of goods and services increased by 2.7 % and imports contracted (-7 %).
- On the production side of the economy, industry sectors whose output declined included: agriculture, forestry and fisheries; mining; manufacturing; construction; wholesale trade, accommodation, cafes and restaurants; transport and storage; finance and insurance; property and business services, and cultural and recreational services
- The state final demand (SFD) ie domestic spending, in seasonally adjusted terms contracted in all Australian jurisdictions except for South Australia. The biggest fall was in the NT (-9.2%) followed by Queensland (-3.1%).
- There is a view that Australia is in an income recession. The GDP in current prices, a broad measure of national income, contracted 0.6% in March quarter 2009 and contracted 0.2% in the December quarter 2008. The decline in income growth is explained largely by the fall in Australia's terms of trade. The real gross domestic income which accounts for the changes in terms of trade decreased by 1.4% in the March quarter 2009, while real GDP increased by 0.4%. Terms of trade contracted 7.8%, seasonally adjusted, in the March quarter 2009 compared to the December quarter 2008.
- Although the Westpac-Melbourne Institute Leading Index points to economic contraction, there was a significant improvement in the April, compared to the March index. The index was -3.5% (annualised growth rate) in April 2009, well below its long term trend of 2.8%. The index was -5.1% in March 09 and -6.1% in February 09. It seems that the index has turned around and February appears to be the low point in the growth cycle of the leading index.
- Consumer sentiment (the Westpac Melbourne Institute Index of Consumer Sentiment) rose by 12.7% in June 2009 from 88.8 in May 2009 to 100.1 in June (consumers are optimistic if the index is >100 and pessimistic if the index is <100). The key reason is the better than expected March quarter 2009 Australian national accounts data, which showed a positive economic growth following a contraction in the December quarter 2009. However, the Australian economy is still very weak and this positive consumer reaction may turn out to be premature.
- The ACCI Index of Small Business Conditions deteriorated over the March quarter 09 with the index falling to 33.1 (a level <50 means the variable is falling and > 50 indicates the variable is increasing). The June quarter estimate of the index is 33.1.
- The RBA at its Board meeting in the first week of June 09 decided to leave the cash rates unchanged at 3.0%. While the cash rates remain unchanged, The Commonwealth Bank of Australia has increased its variable and fixed interest rates on its home and business loans.
- Business confidence among SMEs has rebound strongly in the May quarter 2009 according to data released by Sensis®. Business confidence was up 18 percentage points to 30%.
- The unemployment rate increased to 5.7% in May 2009 after an unexpected fall in April 2009. The unemployment rate increased by 0.2 percentage points from the March 09 figure of 5.5%. According to RBA forward indicators and information from business liaison further deterioration in the labour market is expected to continue over the short term.
- ANZ job advertisements declined by 0.2% in May 2009, taking the annual fall to 49.1%. Newspaper job advertisements fell by 1% and the internet job ads dropped by 0.2%. Overall, the job advertisements seem to have stabilised over the past few months but remain at recessionary levels.

- Australia's construction sector remained subdued during May 2009. The AIG-HIA Performance of Construction Index rose by 10.4 percentage points to 46.9 compared to April 2009, but remained below the key 50-point level that separates expansion from contraction.
- The Overseas Arrivals and Departures (OAD) data from the Australian Bureau of Statistics (ABS) for Australia indicates an increase of 0.9% in total arrivals (seasonally adjusted) in April 2009 compared to March 2009. On an annual basis, overseas arrivals increased by 7%. The North-West Europe markets were stronger while Japan and USA markets were down and subdued.
- The Australian share markets are improving gradually but remain volatile (see graph in the Appendix).

## Northern Territory economy

### Economic growth is forecast to moderate in 2009-10

- The Territory's domestic spending (state final demand) contracted by 9.2% (seasonally adjusted) in the March quarter 2009 after registering a moderate growth in the December quarter 2008. According to ABS national accounts data, the fall in the Territory's domestic spending was largely due to a decrease in investment expenditure, particularly private investment expenditure, driven by declining levels of engineering construction and expenditure on machinery and equipment. However, on an annual basis NT state final demand increased by 0.4%.
- The decline in investment expenditure was to some extent offset by a moderate increase in consumption expenditure. The household and government consumption increased by 1.1% and 0.1% respectively compared to the previous quarter.
- Exports (merchandise) from the NT declined in April 09 (-32%) compared to March 2009. However, in year on year terms, the export of merchandise goods increased by 57% (original data) in March 09. Although merchandise imports declined in April 2009, they increased by 74% in year on year terms. In year on year terms the Territory's merchandise trade surplus increased by 31.2%.
- In April 2009 NT retail sales fell more than in other jurisdictions. Retail sales, seasonally adjusted, decreased by 4.6 % in April 2009 compared to March 2009 and on an annual basis terms retail sales increased by 12.5%, and increased by 13.1% (original terms) on year on year terms.
- Business confidence in the NT is improving. Sensis® data reported a rise of 5 percentage points during the May quarter 2009 to 48%, the highest level of confidence among SMEs of any state or territory. The three key reasons for increased confidence were: global financial crisis hasn't hit our area (13 per cent); positive conditions in local area (9 per cent); plenty of work coming up (9 per cent). The overall SME business confidence was higher in Darwin (60 per cent) than other areas of the Territory (33 per cent). Prime areas of concern for small business were cash flow, a lack of work/sales and finding/keeping staff, and economic climate. Nationally, the business confidence rose 18 percentage points to 30%.
- Construction work done in the March quarter 2009 increased by 8.3% (seasonally adjusted) compared to December quarter 2008. However, on an annual basis the total construction work declined by 25.6% to \$411 million and declined by 26.6% in trend terms. In the year to March 2009, total construction work done decreased by 29.1% to \$1.7 billion. In the March quarter 2009, residential and non-residential construction declined (seasonally adjusted) while engineering construction increased but both declined on an annual basis. The roll-out of the second stimulus package has commenced and will support construction activities.

- Labour market remains steady:
  - The unemployment rate in May 2009 was 3.9% - unchanged from last month's revised figure. The Territory's unemployment is second lowest among all Australian jurisdictions, behind the ACT (3.3%). The labour force participation rate in the NT is 75.8%, a small increase from last month's revised figure of 75.3% and the highest on record for the Territory.
  - Employment grew by 0.9% in May 2009 compared to the previous month. The number of employed people in the NT in May 2009 was 120,600, an increase of 1100 from the revised April figure of 119,500. Full time employment increased by 1000 jobs while part time employment increased by 100.
- The Territory's population grew by 0.3% in the December quarter 2008, and by 2.0% on an annual basis, third highest among all Australian jurisdictions.
- Weaker housing sector but improving:
  - residential building approvals increased by 8.1% (trend) in April 2009 and on an annual basis increased by 28.9%. Year on year approvals declined by 26.5% (original terms). The low levels of affordability, land availability and tighter credit conditions are constraining demand. Nationally residential building approvals increased by 2.2%.
  - dwelling commencements decreased by 46.2% (seasonally adjusted) in the March quarter 2009 and decreased by 14.0% on an annual basis. In trend terms, dwelling commencements increased by 0.6%. The large fall in dwelling commencements was largely due to a considerable fall in the number of 'other residential' category which includes units, apartments and townhouses. Residential construction is expected to be supported by Government's home ownership schemes, increased expenditure on SIHIP and an accelerated land release program.
  - housing finance commitments (seasonally adjusted) increased by 3.6% in April 2009 compared to March 2009 and on an annual basis increased by 15.0% and declined by 12.6% in year on year terms (original). However, housing finance commitments has trended upward since mid 2008.
  - housing affordability is still low but improving. The Home Loan Affordability Indicator increased by 13.0% to 46 in the March quarter 2009 compared to the December quarter. Affordability increased by 5.7% on an annual basis and declined by 8.1% in year on year terms.
  - Darwin house prices increased by 2.2% in the March quarter 2009 and by 10.8% on an annual basis. Darwin had the highest annual growth among all eight capital cities in Australia.
- Leading indicators signify a softening of the NT labour market:
  - Newspaper job ads remain volatile. They decreased by 4.5% (seasonally adjusted) in May 2009 compared to an increase of 9.3% in April 2009. Job ads also fell 32.2% over the year (ANZ January 2009 Job Ad Survey).
  - New motor vehicle sales continued to increase in May 2009, up 4.5% (seasonally adjusted) to 751 compared to sales in April. Nationally car sales increased by 5.4%.
  - The outlook for the local tourism industry over the next two years remains very challenging, particularly in international markets. The International Visitor Survey and the National Visitor Survey (Tourism Australia) for the year ending March 2009, shows an overall decrease in the total number of visitors to the NT, down by 1.5% to 1.4 million visitors. International visitors have decreased by 4.6% to 323,000, however, their average stay was longer at 10 nights per visitor and they spent more money in the NT. The number of interstate travellers also declined by 5% to 643,000 visitors.

## What they said.....

- *“Although growth is expected to revive during the course of 2010, the pace of the recovery is uncertain and the poor in many countries will continue to be buffeted by the aftershocks.”*  
Robert B. Zoellick, President, World Bank Group
- *“Growth will continue to be slow for sometime, unemployment will continue to rise and we can’t rule out the possibility of further negative economic growth for Australia in the future.”*  
Kevin Rudd, Prime Minister of Australia
- *“The breadth and intensity of the prolonged downturn have revealed the importance of strengthening our commitment to standards of propriety, integrity and transparency.”*  
Statement of G8 Finance Ministers, Lecce, Italy 13 June 09
- *“I think we’re seeing a slow but consistent move in consumer confidence upwards..... we’ve been bouncing along the bottom for the last few months....my view is that it will take 18 months, but we’ve gone through the worst of it now and its upward on a month-by-month basis over the next 18.”*  
Bernie Brookes, chief of retail giant, Myer, on the prospects of the Australian retail sector

## Release dates for key economic data for Australia and the Northern Territory

- Access Economics Business Outlook June quarter 2009 – Mid July 2009
- ABS Australian National Accounts June quarter 2009 – 2 September 2009
- ABS State Accounts 2008-09 – 14 November 2009
- ABS Construction Work Done ( Preliminary) June quarter 2009 – 27 August 2009
- ABS Dwelling Commencements, June quarter 2009 – 15 September 2009
- ABS Labour force, Australia (monthly) June 2009 – 9 July 2009
- ABS Retail Trade Trends, Australia (monthly) May 2009 – 1 July 2009

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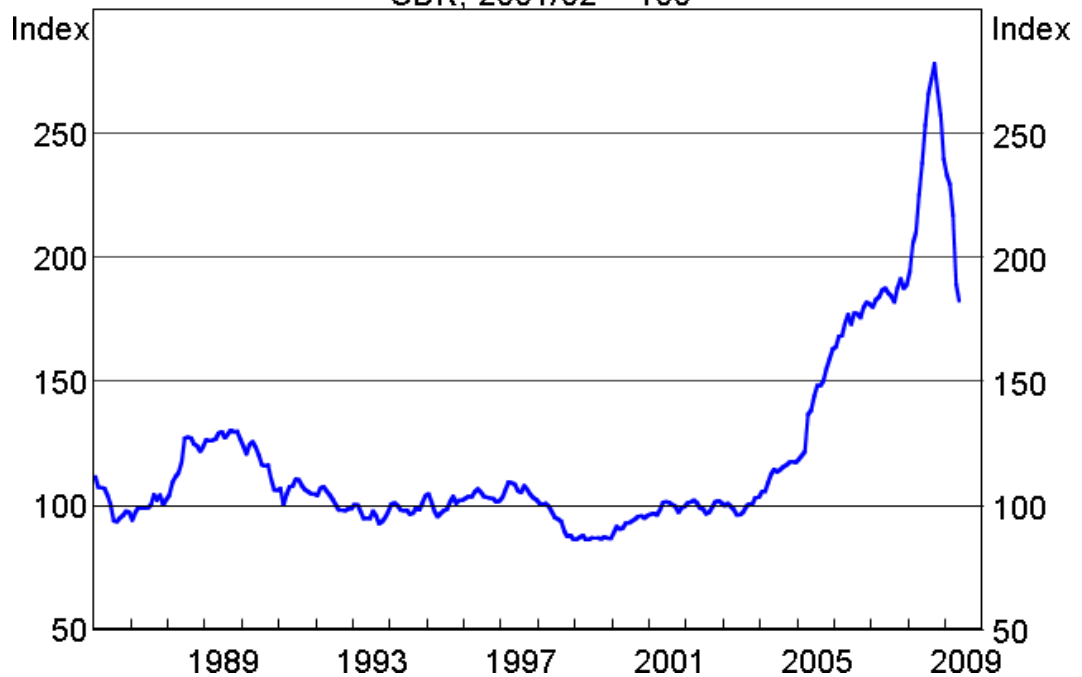
## Appendix A

### Baltic Dry Index (BALDRY)



### RBA Index of Commodity Prices

SDR, 2001/02 = 100



### All Ordinaries Index (XAO)

