

# Business Highlights

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## FROM THE EDITOR – the state of the economy

Retailers and the Reserve Bank are of the opinion that Australians have become more frugal – that is, Australians are more careful about spending money. It appears that Australians are seeking value in lower priced brands or are only buying when products are on sale. This has had a major impact on retail sales. Consumer sentiment has fallen for the second month in a row, led in part by rising interest rates; uncertainty with the European economy and its impacts on the Australian stock exchange; the upcoming Federal election; and the handling of the mining tax. Car sales and electronic gadgets are the only good news stories at present.

The major retailers are expecting conditions to improve over Christmas and are predicting a better year in 2011. Resources and our exposure to China and India will be a key driver to our growth with employment levels rising further as the mining industry gears up.

The mood in the mining industry is still dark with the mining tax creating tension between the industry and Government. Is the tax a good thing? Well, that depends on whether you believe that the government will use the funds better than the mining industry and its shareholders. Regardless, the manner in which the tax has been handled could result in Rudd losing his job either before or after the election (assuming Labour win).

The stock market remains jumpy and whilst prices of stock are relatively cheap right now, you cannot buy a stock today and bank on it having a better price in December due to the short term volatility. However, economists predict long term price growth.

Property in the mortgage belt areas has fallen off the cliff. The Queensland property market has been lagging the other states, but recovery is predicted with forecast increases in both the state economy and population.

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## AUSTRALIAN ECONOMY

### Shoppers' jitters quieten tills

Concerns about global economic uncertainty and the coming federal election have led consumers to rein in discretionary spending, Woolworths CEO Michael Luscombe says. Shoppers have become more

value-conscious, he told a retail forum organised by the Australian National Retailers Association in Sydney this week. “On the more discretionary side, there is no doubt that consumers have put a self-imposed slowdown on their spending,” he said.

His rival at Coles, Ian McLeod, told the forum that rising interest rates and petrol prices had dampened household spending. Mr McLeod said he had noticed a change in customer habits, with shoppers looking for value items. Once shoppers became more value-conscious, it was difficult to wean them off value items and get them to pay 20 to 30% more for premium brands, he said.

Teresa Ooi, *The Australian* – 11 June.

If demand for chicken coops, gardening tools, private label groceries and home cooked meals is anything to go by, Australians have become more frugal. They’ve cooking more food at home, DIYing instead of hiring tradesmen and growing vegies and eggs, according to retailers.

Sue Mitchell, *The Australian Financial Review* – 11 June.

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## But retailers expect spending to rebound...

Retailers are overwhelmingly confident that the Australian economy remains in good shape and that retail trading will rebound. “Once Christmas comes, we’re going to see the cycling of the big flush of cash last year and the numbers are going to look a lot better. We need to get through the election before Christmas and then we can settle down to have a normal Christmas. Most of the signs are there for a pretty normal year next year,” said Woolworths CEO, Michael Luscombe.

Mitchell and Tattersal, *The Australian Financial Review* – 11 June.

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## Hold on tight for the big \$A swing

When it comes to predicting the direction of the Australian dollar over the next six months, one of the world’s largest banks has told investors to brace themselves for a wild ride. HSBC has warned that the dollar could fluctuate 30c between parity and 70c to the \$US. This is due to Australia’s reliance on Asia and the risk that China’s property bubble might burst.

Phillip Baker, *The Australian Financial Review* – 10 June.

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## EMPLOYMENT

### Unemployment down

Unemployment has dropped to 5.2% in May – an improvement of 2.6% or 280,000 jobs in the last 12 months. After Tasmania, Queensland has the second highest unemployment rate at 5.5%.

(Source: *The Australian* – 11 June)

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## SHAREMARKET

### Rough road to recovery

Most analysts are of the opinion that Australian shares are currently cheap. According to Citi equity research, the present valuation of the Australian sharemarket is almost 20% lower than its long-term average. But the bad news is that the gains are not short term. Buying stock today may not necessarily result in that stock being higher priced in December – in fact with the rocky road that the market has been travelling, it could be that shares may decline further in the next few months. But in the long-term most analysts are of the opinion that prices will rise

Adapted from, *Wealth*, *The Australian* – 9 June.

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