Muslim Business Network

MBN Business News

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FROM THE EDITOR – the state of the economy

On a return flight from Perth last week marking the end of a series of business trips to Australian cities, I recalled a popular jingle of a major South African removal company: 'buzz buzz we've on our way'. That's the mentality of a number of Australian business leaders and economists: the worst is behind us and we are now at the edge of a major boom that will fuel the Australian economy for the next generation. House prices are increasing; business confidence is at its highest point in 7 years; and the driver of our largesse, China, is growing. The economic news from the USA is also good; it posted a growth in GDP this last quarter, although there is concern that this growth is a result of stimulus packages.

But whilst business confidence is high, business leaders are still being cautious and are hedging their bets before committing to increased investments. They are optimistic about the medium term future and are lining up to take advantage of the growth in the economy, but there appears to be reluctance to take the first step.

This is largely due to the uncertainty that exists in the global economy and its potential impacts on Australia. Leading bankers and certain economists are advising us to remain alert and slightly alarmed about our immediate economic prospects. The biggest threats are inflation and interest rates – the latter tend to rise in response to rising inflation. The sharemarket is still volatile – this week was characterised by falling share prices with some correction on Friday following the release of the US GDP data. The Australian dollar is highly priced and whilst this is a boon for importers, our exporters are being impacted by reduced prices.

An immediate major challenge for retailers will be translating consumer confidence into dollars spent at the tills without deep discounting over Christmas. Consumer spending is the largest slice of the

Australian economy and a successful Christmas will go a long way to boosting investment confidence.

Generally it is looking better and you need to position yourself to take advantage of a number of wealth generating opportunities that arise with favourable economic conditions. Will we see a boom shortly? Its too early to call and many economists are predicting boom conditions from 2011 onwards. Potentially we may still have bad weather for the next 6 – 9 months.

FIRST ANNIVERSARY

MBN Business News commenced publication in November 2008 and this edition marks its first anniversary. In the initial days of the global financial crisis, MBN Business News was published weekly to provide news and analysis to readers. With the ebbing of the GFC, publication was reduced to fortnightly and since the last edition, MBN Business News is now produced monthly. As Editor, I wish to take this opportunity to thank the readership base for your support.

Iqbal Lambat

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AUSTRALIAN ECONOMY

Business confidence best in 7 years

Business confidence has reached a 7 year high, up significantly in the 3 months to September, a new survey, conducted by the NAB, has revealed. Yet despite the increased confidence, businesses are indicating that they will not be investing to grow their businesses.

Claire Heaney, *The Courier Mail* – 28 October

(Editor: As reported in last month's edition and from my own experiences with interaction with business leaders, the existing mentality appears to be 'phew – we missed that bullet' rather than confidence in growing investment levels. Needless to say the lack of investment will hold back recovery. The current high levels of confidence need to translate into investments.).

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Emerging economies will fuel growth

Australia's greater reliance on trade with developing Asian nations that had sailed through the global financial crisis would underpin the economy's strength for years to come, Reserve Bank of Australia economist Phil Lowe has said. He said Australia's resilience was partly due to the significant shift in exports away from advanced economies, which were struggling to navigate the global financial crisis, to those in the emerging world.

Mr Lowe said he expected a higher average exchange rate than previous decades, and that the higher exchange rate would help the resource transfer within the economy.

Olga Galacho, *The Courier Mail* – 20 October

(The International Monetary Fund is warning that Asia's rapid recovery will not be sustained – effectively blowing cold winds on a heated perspective that boom times are back. This links in with business reluctance to invest and the ANZ Bank's perspective that interest rates in Australia are being lifted too early.).

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Golden age will stretch to 2050

Treasury Chief Ken Henry has outlined a golden age for the Australian economy lasting to 2050 and beyond, as rapid population growth and Asian demand for resources bring a sustained surge of global investment. Dr Henry's comments came as Chinese growth rose to 8.9% in the third quarter of the year after hitting a record low in March.

Uren & Sainsbury, *The Australian* – 23 October.

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Cup Day interest rate hike tipped at 25 basis points

The chances of a big interest rate hike on Cup Day eased slightly yesterday after the costs of inputs to business in the September quarter rose by less than expected. Economists this week have pulled back from their earlier tip of a 50 basis point rate rise next Tuesday, saying 25 points was more likely.

Fleur Leyden, *The Courier Mail* – 27 October

(Editor: Interest rates are expected to increase further, and more sharply, next year if economic activity gets back to normal and prices start rising. The current level of interest rate is seen as an emergency measure to overt a recession. Since Australia appears to have escaped the recession, interest rates will rise to 'normal' levels. What is normal will be driven by economic growth (and inflation). It is interesting to note the ANZ Bank Chief criticise the RBA for increasing interest rates too soon. The ANZ is of the opinion that interest rates should only be increased after Christmas to enable consumer spending to boost the economy.).

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Australian dollar – double edged sword

As predictions for steeper than originally anticipated interest rate hikes firm, the Australian dollar is gaining in value. The prospect of higher interest rates has many experts tipping the $A is headed for parity with the greenback ($US) in coming months. Jonathan Cavenagh, currency strategist at Westpac, said that, whilst the risk the $A would head to parity was obviously present; investors should not expect a smooth or even a swift rise. It will doggedly make its way to parity as investors and the Reserve Bank act. (Stephen Shore, *The Australian Financial Review* – 20 October).

The reality is that, if our economy is stronger than others, our interest rates could be expected to be higher, rewarding those that hold our currency. The doubling in value of the currency since 2001 is quite simple: China. Looking forward, not only is the China effect not going to go away, but it will get stronger. (Tim Hughes, *The Courier Mail* – 26 October).

However, whilst the rising dollar is welcome in some sectors, many trades face lower profits on overseas earnings. The dollar has risen from 75c on June 30 to approximately 91c. Whilst import prices are falling to many companies the rising dollar is a significant threat. "You have to be careful because companies are still having a very soft operating environment and just emerging from a recession. The currency is just another level of complexity within that equation," said Goldman Sachs JBWere.

David Ciampa, *The Australian Financial Review* – 20 October.

The rising $A is one factor preventing further steps to recovery in the mining sector. Whilst commodity prices have increased the rise of the dollar has crimped the revenues of mining companies.

Luke Forrestal, *The Australian Financial Review* – 23 October.

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SMALL BUSINESS

Difficulty in accessing loans

Small businesses are finding it difficult to access finance, and its expensive when they get it. They are paying margins of 4.2 percentage points above the cash rate, on average, compared with 2.4% for large businesses and 2.15% for mortgage borrowers. Loan-to-valuation ratios have been tightened and interest cover requirements have also increased.

Low documentation loans – often used by small businesses who do not have a PAYG salary – are also harder to get and more expensive. Banks are more conservative in lending to this sector, because the risk of default is higher.

The Australian Financial Review – 20 October.

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You're being tracked – small businesses told

The Australian Taxation Office has warned small businesses that it will be tracking their performance against benchmarks for 100 industries and those whose sales or expenses are outside industry standards will be scrutinised. The benchmarks are designed to uncover taxpayers who fail to declare income and provide a snapshot of the labour, rent and sales costs across dozens of industries, from coffee shops to fruit and vegetable retailers.

Marsha Jacobs, *The Australian Financial Review* – 20 October.

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EMPLOYMENT

Sickening facts of worker health

Almost two in three workers involved in Australia's largest program of employee health checks are at serious risk of illness. The Victorian government conducted health checks on more than 13,000 employees. The results are:

- 50% of those who considered themselves to be in excellent health were actually at high risk;
- 58% had one or more risk factor and of these:
  - 75% were identified as being at a high level of risk;
  - 23% were overweight; and
  - 2% had an extreme level of risk and required urgent clinical attention
- Men are more likely to have blood pressure, report risky drinking and be at risk of heart disease; and
- Women are more likely to be overweight and have elevated levels of cholesterol.

Mathew Dunckley, *The Australian Financial Review* – 30 October.

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PROPERTY

Property prices increasing

Home prices rose across Australia in the 3 months to September, as investors upgraded to more expensive properties. The adjusted median price on houses in capital cities rose 3.7% according to Australian Property Monitors. "The extraordinary recovery at the upper end of the market experienced in June in most major capitals has now spread to the rest of the country," said APM economist Matthew Bell.

Owners who sold their properties when the first home owners grant was high have used their earnings to buy more expensive properties.

So far in 2009, home prices across Australia have increased 7.1%, boosted by a shortage of supply, low interest rates and the expansion of the first home owners grant.

Mr Bell said rising interest rates was the main risk to home prices. Affordability was also an issue which would deteriorate further as prices increased.

Chris Zappone, *Sydney Morning Herald* – 29 October.

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Offshore property half the price

From the white sands of Bali to the snowfields of Japan, a growing number of Australians are buying overseas pads as investments. And it's not just to have a holiday getaway. Property prices have crashed in most countries and interest rates are only half ours. "You can buy a house here or a whole street in America," said one property investor, who is looking at Florida, where he said a 3 bedroom home near the coast costs just $US100,000.

Either our property is ridiculously expensive or theirs is ridiculously cheap. But then never forget that property is all about location.

David Potts, *The Age* – 27 September.

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Brisbane to double

Treasury Chief Ken Henry is predicting that as Australia's population grows to 35 million people by 2050, Sydney and Melbourne will grow to cities of seven million, while Brisbane would more than double in size to four million.

Uren & Sainsbury, *The Australian* –23 October.

(Editor: Do your maths – if land is in short supply and the population is expected to double – the impact on housing prices will be?).

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Australia leads way on commercial property recovery

The worst of the global commercial property meltdown is over and Australia is outperforming most other countries, according to Jones Lang LaSalle's October market report. "Domestic and offshore owners and investors in Australian markets will have to look ahead, not over their shoulders, if they are to take advantage of the opportunities that are emerging as 2010 approaches."

Lisa Carapiet, *The Australian Financial Review* – 27 October.

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SHAREMARKET

Equities soar around the globe following a losing streak

The official end of the US recession set global equity markets alight yesterday, pushing the Australian dollar back above 91c as investors poured back into stocks, commodities and other high-risk assets. The bulls drove the Dow Jones Industrial Average up 2% - its biggest gain in 3 months – after data showed that US gross domestic product had risen for the first time since the second quarter of last year.

Across the globe, investors took that as a sign that the global economic recovery was under way and their appetite for risk improved.

In Australia prices rose 1.5%, snapping a 4 day losing streak marked by heavy selling of banking and resources stocks.

Sara Rich, *The Weekend Australian* – October 31 – November 1

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Book value points to opportunity

Investors who fear they have missed the boat taking advantage of the rally can take solace in the news there are still bargains to be had in today's market. The pace of the sharemarket run over the past seven months may have left some equities looking expensive, with price-earnings multiples above long term averages, but some analysts say there is still plenty of value on offer.

The market has risen 54.5% since March 6.

The top 300 companies are still trading at below two times book value, according to analysts' estimates, which is still 50% off boom-time highs, when the market was fetching three times book value.

David Ciampa, *The Australian Financial Review* – 26 October.

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