



## TREASURER'S ECONOMIC NOTE

I want to kick off my first economic note for 2010 by wishing all my readers a very Happy New Year. I was fortunate enough to get away to Queensland's Sunshine Coast during the Christmas holidays – spending time with the family, talking to locals and catching up on a bit of surfing in-between reading a stack of briefs. While there, I also had the chance to unveil some fantastic new facilities at Cotton Tree Park – one of my old stomping grounds as a kid – that were partly funded through the Rudd Government's [Regional and Local Community Infrastructure Program](#). Projects like this are a great example of stimulus at work in the community – supporting local jobs while building better facilities for the community. Over 70 per cent of our fiscal stimulus is investment in critical economic and social infrastructure – investments in road, rail, port, social housing, school and community infrastructure. These projects have provided an essential pipeline of activity that has bolstered consumer and business confidence while expanding Australia's economic capacity for the future.

### Climate Change

Last week's [Annual Australian Climate Statement](#) from the Bureau of Meteorology reminded us once again why it is so critical that we act to address dangerous climate change. It reported that "Australia's annual mean temperature for 2009 was 0.90 degrees Celsius above the 1961-1990 average, making it the nation's second warmest year since high-quality records began in 1910. High temperatures were especially notable in the southeast during the second half of the year, with Australia, Victoria, South Australia and NSW all recording their warmest July-December periods on record." It went on to report that 2000-2009 was Australia's hottest decade on record, with each decade since the 1940s being warmer than the preceding decade.

In terms of global temperatures, the Bureau of Meteorology noted that last month's [Annual Climate Statement](#) from the World Meteorological Organization expected 2009 to be the globe's 5<sup>th</sup> warmest year on record, 2000-2009 was the globe's hottest decade on record, and a cooler-than-average global mean temperature had not been recorded since 1985 – as can be seen in this [graph](#). The Bureau of Meteorology said that "increasing global mean temperatures derived from instrumental measurements are consistent with other independent indicators of climate change, such as reductions in sea-ice and snow cover, and record high global sea levels."

Australia is one of the hottest and driest inhabited places on earth, which means that our environment and economy will be one of the hardest and fastest hit by climate change. The Rudd Government is determined to tackle dangerous climate change through a Carbon Pollution Reduction Scheme, as it is the cheapest and most effective way to reduce carbon pollution, puts a hard limit on emissions, and funds payments to assist families and businesses better manage the transition to a low-pollution economy. That's why over 30 countries – including all of Europe, Japan, the United States and New Zealand – have either already introduced or are in the process of introducing an emissions trading scheme.

### Australian Data

This week's **Fact of the Week** comes from [VFACTS figures](#) released by the Federal Chamber of Automotive Industries (FCAI), which showed that 88,708 new vehicles were sold in December. This was a record sales result for the month of December that was up 15.9 per cent on December 2008. In total, 937,328 new vehicles were sold in 2009 – 57,000 more than industry originally expected. [FCAI Chief Executive Andrew McKellar](#) said "given all the challenges and uncertainties thrown at the industry by the global economy this is an exceptional result". He said that the Government's [Small Business and General Business Tax Break](#) was "the 'game changing' measure that restored confidence in the marketplace and stimulated additional demand".

The Government's 50 per cent tax break for small businesses and more moderate tax break for medium and large businesses has been absolutely vital in supporting businesses and jobs during the global recession. Mr

McKellar said in a speech on Wednesday that our tax break was “an example of classic economic stimulus: encouraging new investment, building productive capacity in the economy, stimulating additional demand and underpinning vital cash flow to small business”, and “has helped to save many thousands of jobs, not just in the automotive industry but across a range of sectors, with particular benefits for small business.” Critically, our Small Business and General Business Tax Break did its job when it was needed most - encouraging investment across a range of business equipment during the height of the crisis – and has now phased out completely with the ticking over of the New Year.

Last week’s data from the Australian Bureau of Statistics also demonstrated just how vital our economic stimulus measures have been in protecting Australia from the worst impacts of the global recession. Building approval figures showed that total residential building approvals rose by 5.9 per cent in November, and are now 33.3 per cent higher than their level of November 2008. November’s result was driven by a 27.5 per cent increase in approvals for private medium-density dwellings. Approvals for private houses experienced a slight fall of 1.9 per cent in November, but still remain a remarkable 32.8 per cent higher than November 2008. These figures underscore the importance of our First Home Owners Boost in supporting construction activity and jobs during the global recession. Like our tax break, this stimulus measure did its job right when it was needed most and was completely phased out on New Year’s Day.

Retail trade figures showing that the value of retail sales rose by 1.4 per cent in November, provided yet another example of how our stimulus measures, together with the resilience and confidence of the Australian people, have combined to make the Australian economy a standout performer during the global recession. Since November 2008 – the month before the first of our cash stimulus payments flowed to households – retail trade has risen by 7.3 per cent in Australia. That compares to increases over the same period of just 1.9 per cent in the US and 2.6 per cent in the UK, and falls of 0.7 per cent in Japan and 4.0 per cent in the Euro area.

## **Coming Up**

On Thursday we will receive Australia’s all-important labour force figures for December. We received news on Friday night that two of the world’s biggest economies have now hit double digit unemployment, with the Euro area’s unemployment rate increasing to 10.0 per cent in November and the US unemployment rate remaining unchanged at 10.0 per cent in December. US President Barack Obama said that the latest jobs numbers were a reminder “that we have to continue to work every single day to get our economy moving again. For most Americans, and for me, that means jobs. It means whether we are putting people back to work.”

Here at home, a combination of economic stimulus and community resilience has seen Australia avoid recession and the large-scale destruction to jobs, businesses, skills, confidence and families that go with it. But now is not the time for victory laps – now is the time to roll up our sleeves and get on with the job of building the modern economy we need for the future. As we look forward to a new year, we’re refreshed and raring to go to turn the successes of 2009 into enduring prosperity for 2010 and beyond. And that means tackling some big challenges – like acting on dangerous climate change, boosting our productivity for the future, and responding to the ageing of the population. Without a doubt, one of the most difficult challenges we will face is reforming our tax system to make it simpler, fairer and more competitive in the wake of the Henry tax review. That’s a key part of our determination to do the hard yards needed to reform our economy and build a new generation of sustainable growth for all Australians to enjoy.

## **Wayne Swan**

Treasurer of Australia

Sunday 10 January 2010

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