



TREASURER'S ECONOMIC NOTE

Welcome to my second economic note for 2010, after a week that brought the latest labour force and housing finance figures for Australia, as well as a strong message from international investor groups on the importance of acting on climate change.

Australian Jobs

Thursday's [labour force figures](#) showed that Australia's unemployment rate fell to 5.5 per cent in December, down 0.1 of a percentage point on November's revised rate of 5.6 per cent. While we don't get carried away with one month's figures, it's always encouraging to see any decrease in the unemployment rate. The number of employed Australians increased by 35,200 in December, driven for the most part by an increase in part-time employment of 27,900 persons. It's heartening to see the positive impacts of stimulus in these unemployment numbers, but we mustn't forget that there are still far too many Australians unemployed or working fewer hours than they'd like. At present there are 639,400 unemployed persons in Australia – 118,300 more than in December 2008 when our unemployment rate stood at 4.6 per cent.

Thursday's unemployment numbers are yet another example of how Australia has outperformed virtually every other advanced economy during the global recession. At 5.5 per cent, Australia's unemployment rate remains lower than every major advanced economy except Japan. The double digit unemployment rates of the US and the Euro area really put into perspective just how much of a difference economic stimulus and community effort have made here in Australia. Since the start of the US recession in December 2007, the number of unemployed in the US has swelled from 7.7 million to 15.3 million persons. [Analysis by Phillip Lovell and Brookings Institution fellow Julia B Isaacs](#) last week revealed that the number of children in the US with an unemployed parent has nearly doubled over this period, rising from an estimated 5.5 million to 10.5 million children. This means that one in seven children in the US are now living with an unemployed parent. They noted that earlier [research by the Brookings Institution](#) estimated that the current recession may see the number of children living in poverty in the US increase by 5 million over the next few years.

Pipeline of Activity

One of the key reasons behind Thursday's encouraging unemployment result is the pipeline of activity being provided by our stimulus investment in critical economic and social infrastructure. These stimulus projects are giving businesses the confidence to keep people on and invest in additional capacity in the face of continuing fragility in some areas of the private sector. These capacity-building infrastructure projects include our investments in Network 1 (Australia's busiest freight route linking Melbourne to Cairns) and key roads feeding into it, metropolitan rail projects in Melbourne, the Gold Coast, Adelaide, Perth, Sydney and Brisbane, and ports in Western Australia and the Northern Territory. This stimulus isn't just supporting Australian businesses and jobs – it's also building capacity and providing a stronger platform for sustainable growth with low inflation into the future.

Our stimulus program was specifically designed to have its maximum impact in the June quarter of last year and then gradually phase down. Some of our stimulus measures have already been fully withdrawn, with the cash stimulus payments taking place at the end of 2008 and early in 2009, and the [First Home Owners Boost](#) and [Small Business and General Business Tax Break](#) completely phasing out on New Year's Day. Our fiscal stimulus will continue to carefully wind down as private demand recovers, subtracting from growth throughout 2010. To pull the plug overnight on our pipeline of investment in major highways, rail upgrades, ports, schools and social housing would hurt consumer and business confidence, push unemployment higher and hit small business for six.

Housing Finance

Last week's [housing finance figures](#) gave us an insight into the impact of the winding down of our First Home Owners Boost. While the Boost has now completely phased down with the ringing in of the New Year, from October to December it continued to operate but at half its original value. The latest data from the Australian Bureau of Statistics showed that despite a slight softening in the value of housing finance commitments in November for a 2nd straight month, activity in the housing sector remained at relatively high levels with housing finance still 25.0 per cent higher than November 2008. It was a similar story in terms of the number of owner-occupied housing finance commitments, which fell by 5.6 per cent in November but remained 14.1 per cent higher than a year earlier. It was particularly encouraging to see that notwithstanding a slight drop-off in November, the number of commitments for the construction of new dwellings was still up 88.5 per cent on November 2008.

Together with our [Building the Education Revolution program](#) and [social housing initiative](#), the First Home Owners Boost has provided critical support to construction activity and jobs throughout the global recession. Since the announcement of the Boost in October 2008, the number of loans to first home buyers has totalled more than 205,000. [Master Builders Australia Chief Economist Peter Jones](#) said last week, "despite twin challenges of reduced credit availability and weaker economic conditions, the Government's stimulus spending and low interest rates are preventing a collapse in construction activity."

Tackling Climate Change

Last week investor groups from the US, Europe and Australia holding about \$14 trillion worth of assets sent a clear message to governments on the need to take urgent action on climate change. Their [Investor Statement on Catalyzing Investment in a Low-Carbon Economy](#) stated that "investors, businesses and governments cannot wait for a global treaty before taking action. Countries must take steps now if they are to attract the sizable amount of private investment needed to be competitive in the global race to develop and transition to low-carbon technologies."

The international investor groups called on governments "to put in place market-based policies to establish a carbon price", as "a price on carbon emissions would establish the critical long-term price signal necessary to cause businesses and investors to reassess value, redirect their investments, and accelerate the transformation to a low-carbon economy", and "well-designed carbon markets provide a cost-effective way of achieving emissions reductions."

You can read the remarks of some of the individual investor groups [here](#), but I think the chief executive of the biggest public pension fund in the US, Anne Stausboll, explained it best when she said "investors are poised and ready to scale up investments in building the low-carbon economy, but without policies that create a stable investment environment our hands are tied."

For some time now Australian businesses have been crying out for investment certainty so they can invest in the low-pollution technologies and jobs of the future. The Rudd Government is determined to provide businesses with the investment certainty they need by introducing a price for carbon through our Carbon Pollution Reduction Scheme. That's why we'll be re-introducing the legislation for our CPRS as soon as Parliament resumes in a bit over two weeks. Tackling climate change is one of the important items on a reform agenda that also includes tax and health reform.

Wayne Swan

Treasurer of Australia

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