



TREASURER'S ECONOMIC NOTE

Welcome to the latest edition of my economic note. It was a really busy week last week, kicking off on Monday with the launch of the 2010 Intergenerational Report, *Australia to 2050: Future Challenges*. The report provides a comprehensive study of the challenges that Australia will face over the next 40 years – including an ageing population and escalating pressures on the health system – and demonstrates just how critical it is to plan for the future, invest in productivity and participation, maintain fiscal discipline and deal with dangerous climate change. The Minister for Employment Participation, Mark Arbib, and I also announced a new \$43.3 million Productive Ageing Package to provide vital training and support for older Australians who want to stay in the workforce. This package will help us tackle the economic challenges of an ageing population by helping to retain the energy and expertise of older Australians in the workforce. Tuesday, Wednesday and Thursday saw our first Parliamentary sittings of the year. Then on Friday I headed out to Parramatta, where local MP Julie Owens and I spent the day talking with local employers about keeping the west working during the global recession and into the recovery. Julie and I also dropped into Our Lady of Lebanon College for an economic forum with students. I was really impressed by these bright young students and their understanding of the global financial crisis and its impacts on countries around the world.

Bank Guarantee

Today I announced another significant milestone for Australia in pushing past the worst of the global financial crisis. The Government, on the advice of the Council of Financial Regulators, will withdraw its Guarantee of Large Deposits and Wholesale Funding on 31 March 2010. However, I want to make it very clear that Australian depositors will continue to be protected by the Government's Financial Claims Scheme, which is a separate policy that provides free coverage for all deposits up to \$1 million. That \$1 million cap will continue until at least October 2011, when it will be reviewed.

The wholesale guarantee has been vital to ensuring Australia's financial stability and supporting the flow of credit through the Australian economy. Without it, Australian banks and other financial institutions would have lent less to Australian households and businesses and charged higher interest rates, leading to lower growth and higher unemployment.

The wholesale guarantee has also been vital in helping to support competition in the banking sector throughout the global financial crisis which hit smaller lenders particularly hard. It has offered wholesale funding certainty to more than 150 Australian Authorised Deposit-taking Institutions, including regional banks, building societies and credit unions. It has allowed non-major Australian banks to raise over \$32 billion in funding from international credit markets.

The Council of Financial Regulators has advised the Government that bank funding conditions have improved such that the wholesale guarantee is no longer needed, and that no Australian bank, building society or credit union will need the wholesale guarantee to fund itself. And critically, our regulators have explicitly advised that removing the wholesale guarantee will not materially affect banking sector funding costs. Closure of the wholesale guarantee at the end of March sends a strong signal to the world that the Australian banking sector is resilient, well-regulated and capable of standing on its own feet.

I also announced today that the Guarantee of State and Territory Borrowing will be withdrawn on 31 December 2010. The State guarantee has been critical to maintaining the capacity of state and territory governments to deliver on nation building investments during the financial crisis. All States and Territories will continue to have access to the guarantee until the end of this year.

Reserve Bank

At its meeting on Tuesday, the Reserve Bank Board took the decision to leave the official interest rate unchanged at 3.75 per cent – its lowest level since 1967. I know the RBA's decision was a welcome relief for

many families and businesses around the country. It means that a family with a \$300,000 mortgage is still paying around \$600 a month less in repayments than they were 18 months ago. That doesn't mean recent rises haven't had an impact – they have. We understand that higher interest rates hit the family budget hard. That's why we're so focused on building the sustainable growth we need for the future, through our investments in infrastructure and skills which build future economic capacity. This is absolutely critical to achieving strong growth with low inflation well into the future.

In its [Statement on Monetary Policy](#), released on Friday, the Reserve Bank revised up its growth forecasts for the Australian economy to 2 per cent in 2009-10 and 3½ per cent in both 2010-11 and 2011-12. I welcome these new forecasts because they show we can be confident about our economic prospects, but there is no room for complacency. The RBA noted the outlook for the world economy has improved, but cautioned that its global growth forecasts for 2010 and 2011 of around 4 per cent “would represent only a relatively mild recovery from what has been a severe global downturn”. It also emphasised that “the recovery in the advanced economies is likely to remain subdued for some time” and that “significant uncertainties remain.” The RBA specifically pointed to the role our infrastructure stimulus – and in particular our [Building the Education Revolution](#) program – has played as “an important offset” to the weakness in private non-residential building activity.

Economic Stimulus

Wednesday marked the one-year anniversary of the announcement of our [Nation Building Economic Stimulus Plan](#). So it was a fitting occasion for Prime Minister Kevin Rudd, Deputy Prime Minister Julia Gillard, the Minister Assisting the Prime Minister for Government Service Delivery, Mark Arbib, and I to launch the [Commonwealth Coordinator-General's Progress Report](#) on the stimulus package. It showed that almost three-quarters of the infrastructure projects in the Nation Building Economic Stimulus Plan are completed or underway, and over half of the \$42 billion stimulus has been injected into the economy. Of the major building and construction projects being rolled out, 49,179 projects have been approved, 34,853 projects have commenced, and 8,339 have been completed.

When we announced our Nation Building Economic Stimulus Plan in February of last year, our economy had contracted in the December quarter of 2008 and was on the brink of recession, and we were facing the bleak prospect of a million Australians out of work. As a government, we were determined to do whatever we responsibly could to protect our economy, to protect jobs, and to protect small businesses. One year on, a combination of economic stimulus and the resilience and hard work of Australian families and businesses has meant we have avoided recession and saved the jobs of tens of thousands of breadwinners. I think all Australians can be proud of the way in which we have come together as a nation during this global turmoil. Together, we have achieved stronger growth than any other advanced economy, created 112,000 jobs over the past year, and have so far kept unemployment to under 6 per cent.

Australia's strong economic performance was highlighted by global ratings agency Standard & Poor's last week in its Asia-Pacific Sovereign Report Card which noted that “Australia has been the best performing developed economy in the world in recent years”.

Australian Data

Last week's data provides further encouraging signs of Australia's continuing recovery and more evidence of how well our economy has performed in the face of strong headwinds from the global economy. Thursday's [retail trade figures](#) showed that the value of retail trade rose by 2.1 per cent through 2009, notwithstanding a 0.7 per cent fall in the month of December. The volume of retail trade rose by a strong 1.1 per cent in the December quarter, to be 3.4 per cent higher through 2009. This demonstrates the important role stimulus has played in giving consumers the confidence to keep spending. We also received encouraging news about activity in the home building sector on Thursday. [Building approval figures](#) showed that total residential building approvals were up 2.2 per cent in December, increasing by 53.3 per cent over 2009. This is the strongest annual growth in almost eight years.

These figures came on top of last week's Access Economics Investment Monitor, which showed that our infrastructure stimulus has helped underpin investment in our economy. Compared with a year ago, there has been a very big increase in the value of definite projects now going ahead. Our nation building investments – in schools, roads, rail and ports – are a big part of the reason for that improvement. Access Economics said that "significant government investment also played a very strong helping hand, most notably the Federal Government's schools upgrade program", and "economic infrastructure projects are a substantial part of the investment agenda, led by Federal and State Government spending."

Last week's NAB Monthly Business Survey found that, while business confidence fell in December, it remains at its highest level since October 2007. NAB Chief Economist Alan Oster said the survey's key finding was that "the domestic economy continues to show significant momentum but that confidence has started to move back to more realistic levels given the underlying activity levels being reported." Business confidence in Australia remains above its long-run average levels. This is in contrast to business confidence for the OECD as a whole, as well as the G7 grouping, where it remains below its long-term average.

The Commonwealth Bank - ACCI Business Expectations Survey found that business conditions and the outlook improved in the December quarter. CBA Executive General Manager Robert De Luca said "according to the survey, confidence in the economy continues to grow and is now at its highest level since the survey began over 15 years ago. This is a major turnaround from where things stood only 12 months ago". Greg Evans, ACCI's Director of Economics and Industry Policy, said "some caution is still warranted given uncertainty about the underlying strength of the economy as public stimulus recedes and the continued difficulties many businesses face with soft trading conditions and problems associated in accessing credit."

Unemployment Abroad

New Zealand's latest jobless numbers showed the unemployment rate rose to 7.3 per cent in the December quarter, up 0.8 percentage points on the September quarter and 2.6 percentage points higher through 2009. NZ's unemployment rate has now risen for eight straight quarters – more than doubling since starting at 3.5 per cent in the December quarter of 2007. At 7.3 per cent, their unemployment rate is now at its highest level since the June quarter of 1999.

Unemployment figures out of the US on Friday night showed an unexpected decline in the unemployment rate in January to 9.7 per cent, down from 10 per cent in December. However, the US economy continued to shed jobs in January, and revisions to previous unemployment results revealed that US job losses in 2009 were deeper than previously thought. These revised figures showed that 8.4 million jobs have been lost since the start of the US recession in December 2007, with 14.8 million Americans now unemployed. Canada's unemployment rate also fell in January, down 0.1 of a percentage point to 8.3 per cent.

Coming Up

Our own labour force figures will come out this Thursday. Here in Australia, our infrastructure stimulus – and the pipeline of activity it has created – has supported businesses right around the country, giving them the confidence to keep trading and keep staff on. There are now almost 35,000 nation building projects underway across the nation, supporting tens of thousands of jobs. We are encouraged by signs our stimulus has worked to support the recovery, but we know this doesn't mean there are easy days ahead – it means a new set of challenges. Australians can be optimistic about the future of our economy, so long as we apply ourselves as diligently to the challenges of recovery as we did to the challenges of the global recession.

Wayne Swan

Treasurer of Australia
Sunday 7 February 2010

www.treasurer.gov.au

www.economicstimulusplan.gov.au