



TREASURER'S ECONOMIC NOTE

Welcome to the latest edition of my economic note. This past week we've seen numerous pieces of data from the ABS providing more evidence of the role economic stimulus has played in supporting jobs and businesses through the global recession. On Friday I saw the boost these infrastructure projects are providing to local economies, tradies and suppliers first hand when I visited work sites and inspected plans for [Building the Education Revolution](#) projects at schools in and around my own electorate of Lilley on Brisbane's Northside. In the morning I visited Earnshaw State College in Banyo, where the construction of a \$2.5 million library is now well underway. I travelled on to Aspley State School to view the plans for their new \$3 million hall and library refurbishment. This is all part of the largest school modernisation program in Australia's history – providing a much-needed boost to small businesses in my local community, just as it is in every corner of the country.

Investment

This is the same message we get from Wednesday's [construction work done figures](#), which showed that the Government's infrastructure stimulus has helped to offset weakness in private activity, with the total amount of construction work done increasing by 2.6 per cent in the December quarter of 2009. The amount of construction work done by the private sector fell by 2.1 per cent in the December quarter, to be 7.5 per cent lower through the year. Private non-residential building work done is now 23.6 per cent lower than what it was a year ago, and would have been even worse without the impact of our Building the Education Revolution program in non-government schools. The weakness in private construction activity was offset by a 14.4 per cent increase in the amount of public construction work done in the quarter – driven by a 53.5 per cent surge in public building work done. You can read more about these construction work figures in this [article](#), including NAB Senior Economist Spiros Papadopoulos' comments that "strong public sector spending is the result of the Government's fiscal stimulus spending on schools and the start up of larger infrastructure projects."

Deutsche Bank Chief Economist Tony Meer said that the construction work done figures underscore "just how heavily reliant the Australian economy has been (and continues to be) on policy intervention." Commonwealth Bank Economist James McIntyre said that "the public sector construction component of the stimulus package was designed to kick in with a lag as private sector construction activity fell away in response to the confidence shock of the global financial crisis. The timing and effectiveness of that design is evident in the [December quarter] 2009 construction work done figures." He said that weak private activity figures were expected in Wednesday's release, and that "effective public sector stimulus has kept overall activity from declining significantly." CommSec Chief Economist Craig James said that "had it not been for the public sector, construction activity would now be more than 10 per cent down on a year ago, stalling the momentum for the broader economy."

Stimulus has played an important role in supporting small businesses in suburbs, towns and regions all over Australia – something we saw in Thursday's [capital expenditure figures](#). Private capital expenditure rose by 5.5 per cent in the December quarter, but still remains 2.3 per cent lower than a year ago. Expenditure on equipment, plant and machinery rose by 12.4 per cent in the December quarter – the strongest quarterly outcome since the December quarter of 2002. The [Australian Bureau of Statistics](#) noted that a large number of respondents had taken advantage of the Government's [Small Business and General Business Tax Break](#), especially by purchasing motor vehicles.

Our Small Business and General Business Tax Break was phased down for large businesses on 30 June 2009, and was completely removed at the end of December 2009. It provided businesses with much needed support to continue to invest throughout the global recession, and it was always to be expected that its withdrawal would see some decline in sales of new motor vehicles. This was confirmed with Monday's [new motor vehicle sales figures](#), which showed a 3.4 per cent decrease in sales in the month of January. However sales of new motor vehicles still remain 15.6 per cent higher than their level of a year ago – recording their fourth straight through-the-year increase after 15 straight months of through-the-year declines.

Two-Speed Global Recovery

I wrote in last week's economic note that both [RBA Governor Glenn Stevens](#) and [RBA Assistant Governor Philip Lowe](#) had referred to the two-speed nature of the global recovery during their public appearances throughout the week. We've previously seen evidence of the weakness of the recovery in many advanced economies, such as the announcement a couple of weeks ago that the Euro area recorded growth of just 0.1 per cent in the December quarter of 2009. We received further evidence of this tentative recovery with news on Friday night that UK GDP rose by 0.3 per cent in the December quarter.

We also saw evidence of the strength of the recovery in some of the Asian economies last week, with the latest data outcomes showing that in the December quarter of 2009, Hong Kong GDP grew by 2.3 per cent, Malaysian GDP grew by 3.5 per cent, Thai GDP grew by 3.6 per cent, and Taiwanese GDP grew by 4.2 per cent. While it's encouraging that these Asian economies are recovering so strongly, we should also keep in mind that in terms of their GDP in 2009 compared to that in 2008, the Malaysian economy contracted by 1.7 per cent, the Taiwanese economy contracted by 1.9 per cent, the Thai economy contracted by 2.3 per cent, and the Hong Kong economy contracted by 2.7 per cent.

While the US economy is recovering, growing by 1.4 per cent in the December quarter of 2009, it still faces significant challenges on the jobs front. [US Federal Reserve Chairman Ben Bernanke](#) told Congress last week that "the job market has been hit especially hard by the recession, as employers reacted to sharp sales declines and concerns about credit availability by deeply cutting their workforces in late 2008 and in 2009. Some recent indicators suggest the deterioration in the labour market is abating ... Notwithstanding these positive signs, the job market remains quite weak, with the unemployment rate near 10 per cent and job openings scarce. Of particular concern, because of its long-term implications for workers' skills and wages, is the increasing incidence of long-term unemployment; indeed, more than 40 per cent of the unemployed have been out of work six months or more – nearly double the share of a year ago." Chairman Bernanke said that US authorities "expect the unemployment rate to decline only slowly, to a range of roughly 6½ to 7½ per cent by the end of 2012 – still well above their estimate of the long-run sustainable rate of about 5 per cent."

Coming Up

On Tuesday the Reserve Bank Board will meet for its monthly monetary policy meeting. I don't speculate on future movements in interest rates – they are a matter for the independent Reserve Bank. Previous statements by RBA Governor Glenn Stevens have indicated that recent rate increases are part of the process of moving rates from emergency lows to more normal levels as economic activity normalises. Any interest rate rise is of course very tough on family budgets, but it's also worth remembering that official interest rates are currently 350 basis points below their peak a year and a half ago. This means that a family with a \$300,000 mortgage is paying around \$600 a month less – or \$7100 annually – in mortgage repayments.

On Wednesday we'll get the quarterly report card on the economy with the release of the December National Accounts. This will be the final instalment for 2009, the most devastating year for the global economy in living memory, and the first time it has contracted. For us to grow at all in those circumstances is a tribute to the Australian community, especially the employers and employees who got behind stimulus and backed each other, delivering some remarkable outcomes. Whatever the numbers are on Wednesday, we're confident we can recover strongly, but we're far from complacent given some sectors of our economy are still vulnerable and we're seeing patchy outcomes in other advanced economies around the world. More about all this, next week.

Wayne Swan

Treasurer of Australia

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