



## TREASURER'S ECONOMIC NOTE

Welcome to my economic note after what was another busy parliamentary week which also included a trip to Perth to meet WA Premier Colin Barnett and his colleagues on Wednesday to discuss our new National Health and Hospitals Network. This is the most significant reform of the health system since the introduction of Medicare, and a vital economic reform in its own right. That's why the PM, Nicola Roxon and I are all putting so much time and effort into negotiating these important reforms with the States in the interests of the millions of Australians who rely on the health system.

Back in Canberra later that night I led a very useful discussion with a group of CEOs about what it means to be the best-performing advanced economy in the best part of the world. We're now poised to take advantage of the demographic and geopolitical changes happening around the globe, including the growth in developing countries in our own region. You can read a brief summary of that discussion in this [article by Michael Stutchbury](#).

On Friday I was back in my electorate in Brisbane's northern suburbs visiting the Golden Circle cannery. I had a great tour of the plant including a look at the huge new warehouse facility that the company opened in December last year. The company employs over 1000 people at the site during peak periods and it was great to see first hand how investment is flowing in our economy because at the end of the day, that means more economic growth and more secure jobs for Australians.

### Australian Jobs

Thursday's [labour force figures](#) showed unemployment increased by 0.1 of a percentage point in February, rising to 5.3 per cent from January's revised rate of 5.2 per cent. The fact that Australia's unemployment rate has a 'five' in front of it after what the world economy has come through in the past 18 months is a testament to the resilience of Australian employers and employees and the way they have got behind economic stimulus.

A few days before the release of our latest unemployment figures, the OECD released [harmonised unemployment rates](#) for the month of January. (The OECD 'harmonises' unemployment rates to make sure they include all individuals who fall under the standard definition of 'unemployed', as some countries only include people registered at government labour offices in their unemployment figures.) The OECD reported that unemployment in the OECD area fell slightly to 8.7 per cent in January, however "in all OECD countries rates remained at higher levels than a year ago, varying from 0.3 percentage point higher in Australia to 4.4 percentage points in Ireland, with the OECD rate 1.4 percentage points higher."

At 5.3 per cent, Australia's unemployment rate remains lower than that of every major advanced economy except Japan. Most of the major advanced economies have big jobs challenges in front of them, with unemployment rates like 7.8 per cent in the UK, 8.3 per cent in Canada, 9.7 per cent in the US, and 9.9 per cent in the Euro area.

Since the start of the global recession, 270,000 jobs have been lost in Canada, half a million jobs have been lost in the UK, 3 million jobs have been lost across the Euro economies, and 6.8 million jobs have been lost in the US. The International Labour Organization's recent [Global Employment Trends](#) report found that a total of 27 million people lost their jobs in 2009, pushing the number of jobless to over 200 million people and the global unemployment rate to its highest level ever. In contrast, we added something like 180,000 jobs in the last year alone.

### Consumer and Business Confidence

The [Westpac-Melbourne Institute Survey of Consumer Sentiment](#) picked up a slight increase in sentiment in March, with optimists outnumbering pessimists for the tenth straight month. Consumer confidence is now 37.1 per cent higher than its level of a year ago, which is a fantastic result and a great endorsement

of our stimulus program. Westpac Chief Economist Bill Evans believes “the labour market has been having a positive impact on confidence”, noting that between last month and this month’s surveys, “Australia’s unemployment rate had surprisingly fallen from 5.5 per cent to 5.3 per cent with nearly 53,000 new jobs being reported.”

The NAB Monthly Business Survey found business confidence strengthened again in February after a solid rise in January. Business confidence has now made up all the ground it lost in December and is back at the strong levels recorded in November 2009 that hadn’t previously been seen since May 2002. NAB Chief Economist Alan Oster wrote “the business confidence index has now been in positive double digit territory in six of the past seven months”, with “increased confidence ... particularly noticeable in mining, retailing, wholesaling and transport.” Business conditions recovered strongly in February after taking a hit in January, with solid improvements in both profitability and trading conditions. Mr Oster again pointed to the fact that “despite the improvement in conditions, there still persists a sharp disconnect between actual outcomes and expectations. Put another way, businesses are experiencing reasonable conditions, but they are very optimistic about the near term outlook.”

### **Economic Stimulus**

The success of stimulus in boosting the confidence of Australian consumers and businesses during the worst global recession in 75 years has helped set Australia apart from other advanced economies, a point reinforced by the Commonwealth Bank’s inaugural Economic Vitality Report, Viewpoint. CBA Chief Economist Michael Blythe explains “one of the lessons from the GFC is just how important confidence is to the operation of financial systems and economies.” He notes “a lack of confidence in the operation of the financial system and a lack of business and consumer confidence in the real economy deepened the downturn in many countries.”

Turning to our experience here at home, Mr Blythe says “Australia was heading in the same direction. Last year, consumer perceptions of economic trends in Australia were collapsing, much as they were everywhere else.” He cites the findings of the Commonwealth Bank’s survey of consumer perceptions of the economy, which “revealed fears that some sort of ‘death spiral’ was developing. More than half of our respondents thought the economy was ‘going downhill’, and things would ‘get worse before they got better’.” However “this extreme pessimism thankfully proved relatively short-lived. By early 2010 the majority of households thought the economy was already ‘strong’ or would ‘quickly get better’.”

Mr Blythe argues “a large part of the divergence between expectations and reality reflects the fact that aggressive policy action – fiscal and monetary – worked. And it worked quickly.” He believes “targeting parts of our economy where there was some genuine demand and an immediate ability to spend was very smart”, and that “the limited rise in unemployment relative to expectations proved to be a positive ‘shock’, driving a rapid recovery in consumer confidence and the economy more broadly.”

### **Coming Up**

In addition to another week of Parliament, I’ll also be meeting with members of the Australian Chamber of Commerce and Industry (ACCI) for an economics roundtable this Wednesday. ACCI has made a really positive contribution during the global recession, supporting the efforts of businesses and communities throughout the country and being a key player in the economic debate. I’m looking forward to discussing with them how our gradually-withdrawing fiscal stimulus is providing a solid platform for a broadening recovery in the private sector that will keep Australia ahead of the pack.

### **Wayne Swan**

Treasurer of Australia  
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