



CANBERRA
BUSINESS COUNCIL

Confidence is the key to recovery



By Chris Faulks
Chief Executive Officer

Last month I wrote about the state of the national economy, giving reasons why we should maintain confidence in the face of grim economic news.

UPCOMING EVENTS

May 6

ACT Budget Breakfast

Time: 7.00am

Venue: The National Press Club

Cost: \$65 Members

\$75 Non Members

\$600 Table of 10

May 13

Federal Budget Breakfast

Time: 7.30am

Venue: Great Hall, Parliament House

Cost: \$70 per person

\$650 Table of 10

Principal Members

ActewAGL, ACTEW Corporation, Bank West, Clayton UTZ, Bega, HolisTech, CREBIVE, Ernst & Young, eWAY Hindmarsh, HSA Group, KPMG, Master Builders, MinterEllison, NAB, National Museum of Australia, NEC, Oracle, Staging Connections, The Village Building Co, Thyssen Krupp Marine Systems.

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At that time, the impact of the downturn on the ACT economy was less clear, but in the interim new data has been released giving us a better picture of where the ACT stands.

From the latest ABS National Accounts data comes the seemingly alarming news that the ACT may technically be in recession after two successive quarters of negative growth (-0.5% in Sept. 2008, -1.1% in Dec. 2008) in state final demand in seasonally adjusted terms. Clearly this is not good news, however it needs to be tempered by the fact that state final demand is only a partial indicator compared with the more complete – but unfortunately only annually released – gross state product measure. More importantly, the decline is due in large part to significant falls in two components: government consumption and government gross fixed capital formation. This means that the situation is well within the power of the territory and federal governments to reverse through appropriate expenditure on infrastructure and procurement.

The latest ABS Labour Force figures show that unemployment in the ACT has remained stable at 2.4% in trend terms in February 2009. This is the lowest in Australia by a significant margin – the closest being Western Australia with a 3.6% unemployment rate. While nationally, unemployment is rising fast, Canberra is not exposed to the same international pressures as other states, and the Government as a major employer has kept employment fairly constant throughout the downturn. Businesses should keep this in mind when considering whether to downsize their staff numbers; it's much wiser to consider alternatives such as part-time or other flexible arrangements to retain valuable skills during this period.

In January 2009 retail trade grew in the ACT in seasonally adjusted terms by 1.5%. While lower than previous months, the ACT's retail trade growth was second only to New South Wales. The federal government's second cash stimulus payment should help shore up retail trade, although a lot rides on household perceptions of the economic climate and hence whether they will spend some or all of the bonus, or instead use it to run down debts or increase savings.

Residential building approvals and sales of new motor vehicles both showed declines in the ACT in January 2009, dropping -6.9% and -0.9% respectively in trend terms. This is to be expected as household savings reach

new highs in the face of uncertainty. When in doubt, most consumers delay major discretionary purchases such as cars or houses, however bear in mind that they can't postpone these forever – at some point these expenditures will be made.

Business confidence as measured by Sensis has declined in the ACT. In February 2009 a net balance of only 7% of businesses are confident in their own prospects in the coming year. It should come as no surprise given that the data seems to point to a rough road ahead. But stop and think about just how much of the ACT's economic circumstances are within our control – the key is confidence. Confidence by the government to continue investing in Canberra's infrastructure; confidence

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by businesses in introducing flexibility to retain valuable staff; confidence by retailers to innovate in the ways in which they appeal to cautious consumers, and to ride out the current wave of household pessimism.

With a highly educated growing population, the lowest unemployment rate in Australia, and almost a third of the ACT's working age residents in relatively secure government jobs, the ACT is well-placed to weather the current downturn. The current recessionary fears are in large part a self-fulfilling prophecy. The data may paint a shaky picture, but the length of the downturn in Canberra relies heavily on how mired business and Government become in talking down the economy as opposed to acting with confidence to restore the ACT to its steady march towards an inevitably prosperous future.

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