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Colin Coverdale
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The year of change or more of the same? Australia's political dilemma

We will await the September election results with bated breath; the ratings will be volatile and the polls will reflect this but one thing is certain - promises will be made and the magic of political accounting will show how they can be funded (perhaps)!

An earlier election would be welcomed and especially by small business as this would avoid the eight months of anticipation. For many organisations there will be serious concerns about survival in the aftermath of the fires and floods in Victoria and Queensland respectively let alone the GFC circumstances, the situation is dire for some.

Australia's propensity to damage

Queensland will have to patch back parts of the economy after just a couple of years of trying to recover from the last lot. The Premier has announced another flood appeal as have several charities, the funding from which will sorely be needed. Hopefully we have sorted the Insurance companies out this time round and fair play will now reign. The past shoddy performance by some in dodging their responsibilities did the industry reputation a great deal of harm. They must now come under the performance spotlight more closely than before.

For many businesses 2013 will be known as 'the year of waiting' for the political scene to crystallise.

Let's hope the benefits of the funds raised are quickly distributed to where they provide the best support for employment. Having worked with over 300 businesses in the aftermath of the 2011 floods I fear those small businesses which have taken two shocks will inevitably close. Effective systems for the distribution of financial assistance are urgently needed. One way would be to go back to those organisations that proved to be effective last time round. At least that way precious weeks and months may not be wasted deciding upon who will provide the help.

The Federal Reserve

Some Directors of the Reserve Bank have called for further cuts in interest rates and more government infrastructure spending. I doubt the overall validity of the call but I support a rate cut which may help lower the Aussie dollar. Trouble is we should be on 2% now to try to:

a) assist domestic spending and....
b) to help lower the Aussi dollar

The underlying issue is that other countries do not want cuts to rates which lower currency values because they wish to maintain competitive export prices themselves. This has been the basis of the continuing argument between USA and China on currency comparisons.

I *am* all in favour of rate cuts if for no better reason than they lower debt servicing and aid savings which in turn can mean the elimination of debt more quickly. However too many Australians are unable to save much as they battle rising prices – approx. 50% of households are currently unable to accumulate retirement capital. Especially when unemployment is rising and corporations continue to lay off workers as they struggle with profitability. The hard performance of our currency in my opinion is partly because our interest rate cuts have been too little too late.

We know the high dollar makes it increasingly difficult for exporters and manufacturers and has basically underpinned recent failures - so why adopt a wait and see attitude which is unlikely to help those key sectors.

Foreign purchasing of the Australian dollar remains active and will remain so until the US dollar picks up. So it's a merry-go-round that presently has little incentive to slow down.
The two good things to come out of the high dollar are Australia's foreign debt repayments are reduced and imports are reducing the cost of many goods as a consequence.

The latter part of the suggestion to increase infrastructure spending is also doubtful to my mind. I am always in favour of doing much needed work like the Pacific Highway for example, which has consistently produced deadly black spots for the past 20 years.

Just how many unemployed persons they consider infrastructure spending would employ/re-employ is an unknown. This Government has shot its bolt on funds availability so it probably would have to be discriminatory in choosing what to fund. This sort of Keynesian thinking is unproven as he did not have to tally in the shonky debt this generation and the next will have to face up to. Given the *under-employment* rate in Australia (estimates at 11% or about 1m jobs) would swallow up many thousands of jobs before even making enough of a dent to arrive at the presently claimed 5.3% unemployment rate. Even given that a 3-4% is about where the real unemployable level is considered to be in economic planning, we would still have a ways to go.

The local scene

The Governments both Federal and State will be forced into additional emergency spending that is not presently in anyone's plans. Direct spending now needs to flow through to street level and this is urgently required in the present circumstances. This should cause all agencies to review their demands on cash grabs. I am thinking particularly of the Tax Man, Federal & State departments, Utility suppliers, Councils, Banks, Insurance companies and the like which have direct impacts on taking cash out of the domestic economy.

We need cash to flow now if a real recovery is to be generated; otherwise we will experience drawn out circumstances that make it more painful. I am very much a supporter of free enterprise but when needs strikes we should be sensible enough to take emergency actions that speed up recovery. Such as:

1. Banks must pass full rate cuts on automatically. We don't need banks that make record profits in a downturn but telling us they can't afford to pass on rats cuts in full whilst the nation bleeds
2. The ATO should not heavy-handedly pursue tax recoveries which could put companies out of business – they need time to recover to be able to pay their taxes
3. Loans should be available to the many *good* small businesses which now need help to survive. I know there are moves afoot to help low level lending but a wider view has become necessary
4. We need the Grant systems to effectively inject funding into worthwhile ventures that also create jobs before deterioration in the economic state of play destroys the opportunity

The political humbug has started early with Labor giving the LNP a head start in figuring out the game play. Not the start Julia desired I dare say with several beat-ups occurring at once. The Thompson affair, the Obeid affair, the Northern territory affair, the Slipper affair, the two ministerial resignations and the jokes about the planned mining tax failure ($136m received when $1bn was planned). The results in the latest polls might now cause some heavy breathing!

It's most unfortunate these things have all happened at this time and it could seem to an outsider that the internal culture of the party is shall we say - out of step with what could be considered necessary competency. Anyway the PM is looking more intelligent with the new body language and the 60 minute makeover!?

The international scene

China is slowing but offtake will continue for time being; the US struggles to rise and the EU is groaning under the strain of holding itself together even with the UK pot-shotting from the sidelines. The ripple effect on Australian business is gradually leading to the reviewing of large projects and requests from the auto industry for more funding – so let's hope Holden's new car is a wiz!
However there are two issues behind the scenes which always concern me:

1. Are China's published economic figures genuine - I doubt it? I think we can expect a much more 'steady state' pricing attitude from China which will eventually moderate ore prices. Miners will now have to look at their best performing mines and make decisions about the others. We have probably now passed the peak aspects of the mining boom but it will wind down a notch rather than end
2. That the USA must recover first if we are to have a chance at a reasonable time period for recovery. At present it's a seemingly long timeframe stretching into

2014/2015 even if we get some good signals this year

Some argue that as our major export markets which are China (29%), Japan (19%), South Korea (8%) and India (5%), we are not that affected by what happens in the northern parts of the world. Notwithstanding we do export 7% to USA and our total exports are around $280bn (2011) compared to total GDP at $1.4trn (2013).

Australia is now predominantly a service nation (65%+) with imports from the USA of over $240bn or 13% being second only to China at 29%. It's what we import from the US that is important to a service economy like ours being machinery, transport equipment, computers, office machines, telecommunications plus parts, oil and other petroleum products. All fairly important when you take a good look.

However, I have faith in a US recovery because they actually started their recovery activity before anyone else and they're dedicated to it. The ballyhoo over the Fiscal Cliff was always going to be solved because Obama as President had the power to make the change. Looked to me like he wanted to get a compromise approval up asap to ensure he didn't have to make further concessions later under pressure.

The USA is able to make some exporting hay from their lowered dollar and there are some early signs of job recovery. Whilst they still have a lot to fix including the domestic property markets they are in my opinion the most likely to figure out a recovery – even with their experimentation on QE factors the outcome of which is not entirely predictable, have no contemporary parallel.

So where are we heading domestically?

Retail will continue to suffer although the first quarter of 2013 will show better results than the last quarter of 2012. This will be because of the early sales in 4Q and the consequent hold off in the peak Xmas period. It's the longer term look that's shaky even though sections within retail will rise and it's predictable that some luxury goods will fare a better than they have recently as spending becomes more discriminatory.

The rate of closures occurring in retail must inevitably redirect purchasing into the remainder but all marginal businesses have by now either fallen over or will do so. It's a good time to consider amalgamations and affiliations which will rise in 2013 and direct takeovers will increase as the various opportunities to pick up bargains creates expansion in the services arises.

Smart businesses will revamp their brands, products and services and the use of technology to sell stuff will expand rapidly. Internet activity will continue to rise and competition in that sector is very visibly increasing. The online marketers are spending more on conventional advertising (e.g.TV) in support of their activities as can be seen in the Insurance, Fitness, Entertainment, Gaming and mega store sectors, to name a few.

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However the over-riding circumstances are that little new money is being generated and unemployment is leaching some of the present growth. The subsequent rise in competition will continue to suppress prices and the high Aussi dollar will be used to hold retail prices down as is illustrated by the present example of the price war amongst the automotive brands.

I don't expect any general easing in markets until the second half of this year even if the ASX continues to rise. It would be prudent for businesses to retain capital, use JIT supply lines and hold cost of sales at this time as sustainability is more important. Best to wait and see what transpires at the next election as at least some of the promises made before the results are known are likely to be unsustainable by the elected party.

The parting shot

We have had mining booms before and some greater than the present situation. However, employment rates for mining are higher and relative prices have been greater this time round. The stuff that is being mined has changed over the decades to match technologies and will continue to change as gas takes a more important place. It's important therefore for Governments to understand cracking methodologies as history provided by the USA experience where cracking is well known, shows unwanted pollution as being the result. The problem ...it's not an easy fix by any means and not enough care was taken in regulating the practice at the outset. Improper regulation was also the reason for the gigantic BP rig blow-out where safety legislation was not made fully compliant in all States in the US.
Short-cutting was a major cause in that tragedy.

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