Key themes from Treasury's Business Liaison Program

As part of Treasury's Business Liaison Program, staff met with 21 businesses and industry associations in three cities during August 2010.

The domestic outlook is increasingly robust with improvements evident in most sectors. Strong external demand continues to drive prices and investment in the mining sector. There are also positive signs in the automotive sector as private buyer sales moderate the impact of slower business demand.

While the outlook has steadied in the residential property sector, the broader construction industry is feeling the effects of the transition from stimulus to private sector demand. The retail recovery continues to lag other sectors, despite buoyant consumer confidence and solid sales volumes.

Treasury greatly appreciates the commitment of time and effort by the organisations that participate in the program.

Trading conditions

The resources sector continues to be the strongest part of the economy, with contacts bullish on demand from China, and expecting to see demand from India ramp up. However, there is some caution about the near term global outlook given the withdrawal of stimulus in China, and uncertainty due to sovereign debt concerns in Europe. That said, this has not had a significant impact on planned investment.

The automotive industry has weathered a shallower downturn than expected and private buyers are returning to the market, replacing waning business demand from the wind-down of the business tax incentives.

The residential property outlook is steady as construction commences on projects already in the pipeline. Residential property investment also remains resilient to increased interest rates, particularly smaller homes and units. While the pipeline is expected to continue to support construction activity through 2011, land availability will affect future growth.

Industrial construction has performed consistently and better than anticipated during the downturn, although land availability is a constraint on development. The transition to private activity as stimulus winds down is a more immediate concern across the non-residential construction sector.

While there are pockets of optimism in the retail sector, discounting continues. Despite buoyant consumer confidence, a strong labour market and lower fuel prices the outlook remains uncertain as interest rates return to more normal levels. The wind-down of the business tax break has meant falling computer sales, although there are signs that sales of durables are holding up.

Business credit and investment

Many contacts have no trouble accessing credit and, for most, funding costs are back to around pre-crisis levels. However, others are concerned that non-price rationing of bank loans is occurring, deterring some investment.

A shortage of funds is still affecting construction projects, although conditions have improved. The impact is uneven, with large developers able to draw on internal funding sources, while smaller developers are still having trouble accessing finance with financiers requiring larger up-front deposits.

On the retail front, credit is still tight, although larger retailers are developing major projects and funding is not an issue.

Mining projects already underway are on track; for others activity is starting to ramp up after some delay to projects around the globe due to the GFC.

Capacity issues

While some mining businesses are operating at capacity due to strong demand, expansion will see increased capacity coming on line from 2011. Current projects are on schedule, although projects in the pipeline could be affected by infrastructure and labour constraints. Improving the coordination of infrastructure development may help to address over- and under-capacity in key elements of the supply chain.

Employment and skills

Skills shortages in some mining professions appear to be returning to levels prior to the GFC, with a growing requirement for recruiting staff from overseas. The availability of skilled labour and cost pressures are also leading to the overseas fabrication of large plant components that can be imported and installed.

Some businesses in the retail sector took measures such as wage freezes and a reduction in hours to retain their staff during the GFC.

Commodities

Some mining companies indicated that there is the possibility of a fall in commodity prices as global supply ramps up. There is evidence of some oversupply globally in LNG — although demand is expected to be strong over the longer term — and increased competition in the supply of thermal coal.

Prices and wages

While the GFC took some heat out of wages growth, wages growth looks to be strengthening in some sectors — particularly the mining sector — but remains muted in other sectors, such as the retail sector.

Some retailers have lowered their margins, although others are more reluctant to join the 'discount war'. Overall, retail prices are expected to remain affected by discounting in the near term.

Other issues

Some businesses and organisations are concerned about competition regulation, but also differences in state government regulation and delays in planning processes.