Key themes from Treasury's Business Liaison Program

As part of Treasury's Business Liaison Program, staff held discussions with 11 organisations by telephone during May 2010. Treasury greatly appreciates the commitment of time and effort by the organisations that participate in the program.

Demand was supporting the mining sector, and the outlook for the property sector had improved. However, business conditions in the retail sector remained subdued.

Trading conditions

Strong demand was again evident in the resources sector.

There was a robust outlook for coal exports, driven by future demand. Demand from China remained strong and is rebounding across other key markets. Overall, coal demand was exceeding contracted quantities.

Exports of motor vehicles remained solid, and the recovery is proceeding steadily despite the unwinding of tax incentives. The outlook for the property sector had improved with good prospects for residential and industrial property investment, while non-residential private construction had not fallen as much as expected.

Retailers were experiencing a range of factors that were affecting the timing of recovery in the sector. Chief among these were the withdrawal of stimulus, warmer than expected weather and fuel prices. Further, high levels of consumer confidence had not translated into sales, with consumers continuing to display some frugality. Customers had shifted from credit to debit cards, preferring to draw on their savings.

Slow clearance rates for winter stock meant retailers did not expect to extract the full margin on the sale of goods in the near term.

Business credit and investment

Contacts reported investment activity which tended to reflect current conditions and the business outlook.

Retailers reported that capital expenditure had been wound back or delayed in line with the decline in spending, although some re-developments were proceeding where completion was anticipated in time for a retail recovery.

The situation was similar on the funding side, where many liaison contacts were drawing from existing cash reserves and debt facilities, and future cash flows, to fund capital expenditure. For others, it was noted that the availability of credit had improved. By contrast, many retailers were still experiencing financing constraints.

Capacity issues

Liaison contacts had not experienced significant skills shortages since the last round. On the export front, there were signs that some bottlenecks could affect capacity.

Employment and skills

Trading conditions had impacted the utilisation of labour. Slower sales in the retail sector had seen a reduction in the use of casual staff, although there had been no real shift in permanent employment. Contacts in other sectors had managed their staff so as to maintain their workforce during the GFC. This included substituting training for production days, where production had been temporarily reduced.

Prices and wages

The outlook for mineral resources prices continued to be positive, in line with demand-side expectations. Metallurgical coal prices were expected to increase in the short run, and hold up at high levels due to supply constraints, while gold prices were increasing. In line with the subdued sales conditions, there were signs that retailers were reviewing leasing costs.