Key themes from Treasury's Business Liaison program

Overview

As part of its quarterly Business Liaison Program, Treasury met and held teleconferences with businesses and organisations during August 2012. Meetings took place across five capital cities, including outer-suburban areas, as well as in regional areas via teleconference. Treasury greatly appreciates the commitment of time and effort by the organisations that participate in this program.

Key messages from business liaison largely followed the pattern of previous rounds, with businesses again identifying the uncertainty around the global outlook as a significant drag on the domestic economy.

There were signs that, with recent global commodity price falls, mining companies were looking to reduce costs in their operations. Outside of the mining sector, the economy was viewed as uneven, with uncertainty around global conditions weighing on business sentiment and investment intentions.

In general, labour market conditions were expected to remain soft in the near-term. As a result, consumer sentiment was also expected to remain restrained with businesses identifying uncertainty around employment as a key factor inhibiting household activity.

Activity and Prices

Contacts reported that activity on resources-related investment projects remains robust, with businesses reporting solid progress on projects under construction.

Coal and iron ore miners noted that recent price movements had highlighted the unpredictable nature of prices in the short-term. It was generally noted that resources investment decisions are taken over a longer term horizon where the outlook for resources and energy demand remains very positive. However, producers observed that prices as low as those seen in August would induce a reduction in global supply from high cost producers if sustained for more than a few months.

Several contacts in the retail sector reported a pick-up in activity in June and July, possibly linked to the household assistance payments that formed part of the *Clean Energy Future* package. Aside from these temporary spikes, reports were mixed. Some suggested that, although sales had been solid in volume terms, with consumer confidence remaining weak, significant discounting would continue with margins remaining tight. By contrast, a few contacts in niche areas reported record rates of growth and were projecting that this would continue in the near-term.

Consistent with reports of margin compression in parts of the retail sector, businesses in related industries, such as transport and wholesale trade, reported pressure being placed on prices from firms further up the supply chain.

Outside of mining-related work, activity in the construction sector remained weak. Contacts noted that activity remained subdued in the non-residential construction sector, outside of a few major developments and public-supported health-related projects.

In residential construction, reports suggested that the conversion time from enquiry to sale for new residential developments had noticeably increased over the first half of 2012. It was also noted that there was a trend towards both smaller dwelling footprints and increased household size, a view supported by businesses in related manufacturing and services sectors.

Looking forward, the outlook for the residential construction sector was cautiously optimistic, although this varied between states. There was generally a favourable view of conditions in Western Australia (WA) and New South Wales (NSW) as a result of both market fundamentals as well as, in the case of NSW, recent changes to planning policy. Reports were more varied with regard to Victoria and Queensland, while it was expected that South Australia would be relatively flat in the near-term.

In the manufacturing sector, reports suggested that the elevated exchange rate remained a concern and continued to place competitive pressure on firms. In response to this pressure, some contacts reported a shift in their business model, away from domestic manufacturing to leveraging their strong brand and refocussing their activities towards design, distribution and retail.

Employment and wages

Contacts largely expected employment conditions in the mining sector to remain solid, although some reports suggested that strong recruitment in WA over the first half of 2012 had seen skill shortages become less pronounced in that State when compared with Queensland. Despite this, recruitment of workers in specialised fields such as project management and engineering was expected to be challenging and result in strong wage outcomes for these occupations.

Staff retention was reported as a concern by some businesses in sectors that are in competition for labour with the mining sector, such as manufacturing, professional, scientific and technical services and transport. Contacts noted that, once recruited and trained, skilled employees were often able to move to jobs in the mining sector where they were able to command a significantly higher wage.

Outside of the mining sector and specialised skill areas such as information technology, businesses generally suggested that hiring intentions were modest. While wage pressures were not pronounced, some contacts noted that, along with other cost pressures in their businesses, wage increases were contributing to margin compression.

Financing and Credit

Firms in the financial sector noted that, while demand for credit had been weak, there were signs of a modest recovery over recent months.

Consistent with these reports, in general, businesses reported little difficulty in accessing credit. However, in some cases, it was noted that lending practices were more focussed on underlying credit quality than prior to the global financial crisis.

Contacts in the mining sector reported little difficulty in accessing credit. However, some contacts noted that, for investment funded internally, recent falls in commodity prices would have an impact on the availability of funds through lower revenues.