

PRIME MINISTER

CHECK AGAINST DELIVERY

SPEECH TO THE AUSTRALIAN INDUSTRY GROUP LUNCH SYDNEY 11 JUNE 2009

It is a great pleasure to be here today with friends in the business community to discuss the common challenges we face through the global recession.

I thank AIG for organising this event, and especially Heather.

The Government has a strong relationship with AIG which operates in the spirit of open dialogue and regular consultation – across key challenges facing the business community including skills and training, infrastructure investment, tax and industry policy.

That dialogue between business and government is essential because it's only by working through each of the challenges of this global crisis together, that we can make it through and build a stronger Australia for the future.

The purpose of today is to continue that dialogue.

I want to discuss the challenges facing the global economy and the Government's strategy of nation building for recovery to see us through the global recession.

And I will be interested later to hear your perspectives about the challenges facing your business in this difficult time.

The global economy is experiencing the worst global economic collapse in three quarters of a century.

It is important to note from the chart that the global outlook we currently face is significantly worse than in the previous two recessions in Australia:

During the early 1990s recession, world growth fell to around 1.5 per cent in 1991.

During the early 1980s recession, world growth fell to 0.9 per cent in 1982.

By contrast, the global economy is currently forecast to contract by 1.3 per cent in 2009.

This will be the first global contraction since IMF records began.

Growth rates in virtually every country have collapsed.

The average contraction in growth in the March quarter across the OECD economies was -2.1 per cent.

And falling growth has been particularly pronounced among Australia's trade partners.

8 out of our top ten trading partners are in recession.

And growth in the remaining two countries, India and China has fallen dramatically over the last year.

Across the developed world, only 3 of 33 advanced economies recorded positive growth in the March quarter.

Australia was one of those countries – growing at 0.4 per cent in the first quarter.

In the March Quarter Australia was the fastest growing economy in the OECD group of developed countries.

And we are the only major advanced economy not to have fallen into recession at this point.

But Australia is not out of the woods just because we have so far avoided a technical recession.

There will be more bad news to come, with growth continuing to be slow, and unemployment continuing to rise.

But Australia has fared better than most – because we took early and decisive action.

The Government acted early and decisively to support the economy – to step in while the private sector was in retreat.

When the global financial crisis intensified in September last year, the Government recognised the severity of the crisis and formulated an economic strategy to support the economy.

In the short term, the government moved quickly to respond to the immediate crisis in the banking sector.

Our first priority was to ensure that the flow of credit to Australian businesses and mortgagees didn't evaporate as global financial markets collapsed.

Credit is the lifeblood of the economy.

Business people know that better than most.

Without credit, businesses do not have the cash they need to support their operations and grow their business.

During the financial crisis the global financial system went into meltdown and interbank lending ground to a halt.

As the chart indicates, the financial crisis caused the price of risk to increase dramatically.

Credit spreads increased more than six-fold during the height of the crisis.

As interbank lending virtually froze, Australian banks found themselves unable to raise the offshore funds they need to lend into the Australian market.

In September Australian bank raisings had fallen to just \$1.7 billion, down from the \$13 billion a month earlier in the year.

As the chart indicates - in October there were no raisings at all.

Offshore markets were totally closed to Australian banks.

That is why the Government took a historic decision in October to guarantee term wholesale funding for APRA regulated banks, building societies, and credit unions.

The guarantee had an immediate effect.

By December – with the help of the guarantee - offshore markets had opened to Australian banks which raised more than \$15.4 billion in guaranteed funds that month.

In January, banks raised more than \$20 billion offshore.

With the guarantee, domestic banks could access much-needed funds to support lending in Australia.

In addition to help stabilise the financial system, the Government has also acted to support activity in the real economy.

Our plan was simple: to support jobs today by building the essential infrastructure Australia needs for a stronger and more prosperous future.

Our approach to stimulating the economy was to start with the components of aggregate demand and then identify policy levers that could be used to support activity in each area:

The key components of Gross Domestic Product are:

- Consumption – about 54 per cent of GDP
- Dwelling construction – about 6 per cent of GDP
- Private Business Investment – 17 per cent of GDP
- Public Final Demand – 22 per cent of GDP

In each of these key areas, we sought to identify measures to support the economy.

And we looked for measures that would support the economy right through the global recession – from immediate support, to the medium-term, right through to the long-term.

Our first measures were designed to provide immediate short term support to the Australian economy as the global economy deteriorated rapidly.

Since infrastructure investment has long lead times, the Government decided to introduce fast-acting measures to directly stimulate consumer demand.

To achieve this we invested \$21 billion to provide immediate support to the economy – through cash payments to families, pensioners, veterans, and low income earners.

As the chart shows, those payments have boosted the Australian retail sector.

While in the major advanced economies, retail sales have fallen on average by 1.1 per cent since November, in Australia retail sales have grown 4.8 per cent during this time.

In the March quarter, the consumption component of GDP contributed positive 0.3 per cent to growth.

Second, we introduced another measure to stimulate the housing sector.

The Government introduced a \$2 billion First Home Owners Boost to support the housing and construction industry.

This has been a significant boost to construction activity.

Compared to the same time last year, before the onset of the global recession, building approvals have fallen by only 16 per cent in Australia – and the recent trends has been upward.

That compares to falls of 38 per cent in Canada, 50 per cent in the US and 57 per cent in New Zealand.

In the March National Accounts, private dwelling construction contributed minus 0.3 to growth – a solid result for a cyclical industry in the context of a global recession that has seen construction grind to a halt in most advanced economies.

In aggregate, the national accounts figures last week proved that these short term measures have worked to support the economy until our infrastructure investment comes online.

As the chart indicates, without the short term economic cash stimulus payments, Australian growth would have been minus 0.2 per cent in the March quarter – pushing Australia into a technical recession.

Many businesses would not be keeping their heads above water through this global economic storm.

Beyond the immediate term the government also acted early to support the economy in the medium term.

To support business investment we have taken decisive action to strengthen incentives for businesses to make capital investments, by introducing the 30 per cent Business Tax break for capital investment and a 50 per cent break for Small Business.

This is a major new incentive for businesses, and will encourage businesses to invest for the future and for economic recovery.

As the chart indicates, Australian business investment through the year to March was positive at 1.1 per cent – and much stronger than business investment in our peer countries.

In addition the Government has sought to boost public investment.

The Government has stepped in to boost the construction and associated industries by investing in the medium term in shovel-ready infrastructure projects, including, the largest school modernisation in Australia's history, generating local jobs for businesses on thousands of sites around the nation, the construction of more than 20,000 new social and defence homes, and providing free ceiling insulation for around 2.7 million Australian homes. Over the longer term, the Government's strategy is nation-building for recovery.

We are supporting jobs today by investing in the nation-building infrastructure Australia needs for tomorrow.

We are investing in major rail, road and port projects.

We'll be investing in major clean energy projects, including the largest solar energy project anywhere in the world.

We will also be investing up to \$43 billion in a partnership to build a high-speed National Broadband Network to finally bring Australia into the global digital economy of the 21st century.

In total \$49 billion – or around 70 per cent – of our stimulus is directed to nation building infrastructure over the medium to longer term.

By the end of the year we'll have more than 35,000 construction projects underway around the country.

As the chart indicates, public investment in Australia is growing strongly.

And the federal government is making up a large part of the increase, stepping in to use our strong balance sheet to support investment.

This strategy of short, medium, and long term support for the economy during the global recession has helped to cushion Australia from the worst impacts of the global recession.

In aggregate, Treasury has estimated that without our nation building plan over 200,000 more Australians would be out of work.

Without government action, unemployment would peak at over 10 per cent.

Today we have seen an increase in unemployment to 5.7 per cent – returning to where it was in March this year, although employment remained fairly steady, falling by 1,700.

This data confirms the global recession is continuing to have a direct impact on the Australian economy and on Australian jobs.

No-one likes to see unemployment rise. But we must not forget that even after today's data Australia's unemployment rate is lower than all the major advanced economies except Japan.

While there is a tough road ahead, Australia is weathering the storm better than most economies in the rest of the advanced world.

Australians have every reason to remain confident that we will continue to weather the storm of the global recession better than most other advanced economies.

Among the major advanced economies, right now Australia has the fastest growth, the lowest deficit and the lowest debt.

Overall the government's stimulus will have a significant impact on growth. In 2009-10, Treasury estimates that growth will be increased by 2.75 per cent as a result of the stimulus.

And in 2010-11 growth will be increased by 1.5 per cent.

In the last few days we have received some positive indications that businesses and consumers are reacting positively to our stimulus package.

I welcome the news on Tuesday that business confidence is on the rise.

The increase in business confidence for May was the sharpest rise in business confidence since 1989.

Business confidence is now at its highest level since February 2008.

Data out on Wednesday showed consumer sentiment was up 12 per cent in June.

This is the largest increase in 22 years.

Consumer sentiment is now up 20 per cent since the announcement of the Government's first economic stimulus package in October.

The consumer sentiment index is now at its highest level since January 2008.

There is a long way to go, but this data suggests that Australian businesses and consumers can see some light at the end of the tunnel.

We are by no means out of the woods.

But if the Government had not acted early and decisively, Australia would already be in severe recession that would have negatively affected confidence.

The global recession has of course had a significant impact on the budget's bottom line in Australia, as it has around the world.

The Australian budget has been hit with a \$210 billion collapse in Australian tax revenues caused by the global recession.

This is the greatest collapse in tax revenues in our nation's history and has made a budget deficit necessary in Australia until the economy recovers.

But despite the revenue collapse and our stimulus measures, Australia's AAA credit rating has been reaffirmed since the budget.

And Australia's net debt is lower than any of any major advanced economies.

Government net debt as a share of GDP is expected to rise to 75 per cent in the Euro area, 83 per cent in the UK, 83 per cent in the US, and 136 per cent in Japan.

By contrast, Australia's net debt is projected to peak at 13.8 per cent of GDP in 2013-14, before it starts to fall again as our economy moves into a strong period of growth.

And Australia's deficit of 4.9 per cent of GDP is among the lowest in the advanced economies.

The Budget deficit in the US is 13.6 per cent of GDP, in Japan the deficit is 9.9 per cent of GDP, and in the UK the deficit is 9.8 per cent of GDP in 2009.

The Government is acting decisively and comprehensively to support economic growth.

This represents a new partnership between government and the business sector.

And it demonstrates that Labor is committed to deliver support and opportunities for businesses.

The Government cannot turn around ill fortunes for every business, just as we cannot stop the rise in unemployment.

But as a Government, we can make a difference, and we can help cushion the impact of this global economic crisis on businesses and on jobs.

So I encourage all businesses to make the most of the measures in place, and for advisors to pass that message on.

And the Australian Government is determined to do what we can to support you through very challenging economic times.

Because all of us are in this together - whether a business owner, an employee, a customer or supplier, or someone in government or other organisations.

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