

The World Today - Business looks on the bright side
The World Today - Wednesday, 1 April , 2009 12:14:00

Reporter: Alexandra Kirk

ELEANOR HALL: Australia's manufacturing industry is certainly showing no sign of recovery.

The latest performance snapshot does though show that the rate of decline has slowed.

The Australian Industry Group's chief executive, Heather Ridout, says business is hoping that conditions will improve in the second half of this year.

As the Government searches for budget savings, Ms Ridout says now may not be the time to pare back on middle class welfare, but she concedes it will need to be done.

Heather Ridout spoke to Alexandra Kirk.

HEATHER RIDOUT: Look, manufacturing remains in reverse. The pace of decline is stabilised which is encouraging but still all sectors in all states remain in retreat mode and the new orders index which is a key part of this index is still retreating badly. So that doesn't auger for any early improvement.

ALEXANDRA KIRK: You don't think it has bottomed out yet?

HEATHER RIDOUT: Look, I think the rate of decline has stabilised but it is far too early to call whether it has bottomed out yet. In fact I think the worst is yet to come and the Reserve Bank and the OECD overnight have reminded us of that.

ALEXANDRA KIRK: Do you agree then with Ric Battelino from the Reserve Bank that Australia is already likely to be in recession?

HEATHER RIDOUT: I think there is no doubt Australia is in recession. I think we are facing a huge contraction in activity, in demand, in jobs across the board and if it feels like a duck and quacks a duck, it is certainly a duck and that duck is a deep downturn in activity.

ALEXANDRA KIRK: Where do you think it might end up?

HEATHER RIDOUT: Anyone who thinks they know when this is bottoming out, are just guessing. This is the most unfathomable, unpredictable series of economic events we have seen in my lifetime. I think it is very difficult and our members are just hunkering down hoping that they come out of it at the end of the year and we will see some daylight.

But at the moment people are really plagued by uncertainty and what the trajectory of the downturn is going to be.

ALEXANDRA KIRK: You argue that the Government should, in addition to issuing free permits and compensation, help business more to adapt to an emissions trading

scheme by speeding up depreciation for all that business spends on shifting to a lower emissions. What is the price tag for that?

HEATHER RIDOUT: Look we are very worried that business has to make very big capital investments to be able to actually reduce emissions and meet the Government's ambitions. At the moment the price of capital is rising. The priority being given to that by businesses had to change because cash is now very scarce and debt is very expensive.

And so the Government really need, not only for the purposes of actually meeting this very truncated timetable of introducing an ETS, but they need to actually meet the pressures that are on business, they need to have a look at the depreciation schedules for business and really accelerate them quite markedly and that is what we are calling for.

It is not a price tag for the Government over time at all because when you change depreciation schedules, you are only bringing forward a deduction which you would have had to make over time anyway.

ALEXANDRA KIRK: The Government is already committed to increasing the aged pension in the May budget but after that, all bets are off and the Government is considering a raft of measures to rein in spending including much tighter targeting of welfare payments.

Would you as head of the Australian Industry Group, join the Business Council of Australia in urging the Commonwealth to take the axe to middle-class welfare?

HEATHER RIDOUT: Look, I think the Government is clearly facing a big budget deficit this year and that is partly, in great part caused by the state of the economy and the fact that welfare is increasing and tax revenues are decreasing.

It is very hard for the Government to give with one hand through the fiscal stimulus package and take away with another particularly when jobs are shrinking and a lot of businesses are under pressure which will be feeding into further unemployment. So it is a really tough ask to do this.

But at the same time there has been a huge loosening of middle-class welfare over recent years and at some point we have to face that and address it.

ALEXANDRA KIRK: Is the time right now to address it?

HEATHER RIDOUT: Well, I think we need to make a start and at the same time I think the Government is going to have to do a pretty big sell job in the lead-up to this budget. That we are going to have to live, we need to live with a high budget deficit this year but it will be temporary and part of making that temporary is starting to signal we are going to do something about some loose payments in welfare that have been introduced into our system over the last five to ten years.

ELEANOR HALL: That is Heather Ridout, the chief executive of the Australian Industry Group speaking to Alexandra Kirk.