

Confidence hits a seven-year low

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April 29, 2008

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BUSINESS confidence has nosedived to its lowest level in seven years, adding pressure on the Reserve Bank not to add to its four interest rate rises of the past year when it meets next week.

The weak outlook has also hit the construction sector, with the industry now expecting new housing starts to be subdued until at least the middle of next year, worsening rental shortages and pushing up property prices.

With confidence a leading indicator of economic performance, a dip in sentiment shown in the National Australia Bank's business survey was likely to have a flow-on effect on investment decisions and employment levels, the bank's head of Australian economics, Jeff Oughton, said.

"You've seen the hit to confidence, now the hit to spending will come over the course of this year and, with time, you'll see fewer hours worked and probably some deterioration in the labour market," he said.

Despite last week's inflation figure of 4.2 per cent being higher than expected, most economists say interest rates are unlikely to move up because the February and March rises are still working their way through the economy.

Global financial problems and interest rate rises are being blamed for the drop in the confidence index, which fell 10 points for the quarter to negative four points, indicating an expectation that business conditions will deteriorate. The latest figure is a drop of 14 points compared with the middle of last year, and takes confidence to the level it was at after the dotcom collapse of 2001.

Despite this, confidence in the mining industry has proved far more resilient, buoyed by rises in global commodity prices. Confidence in the sector surged 24 points, with transport, storage and business services the only other sectors demonstrating robust sentiment.

The finance and insurance sector has been hit hard by a string of brokerage houses in difficulty and big banks are expected to follow ANZ's decision to increase its bad debt provision by almost \$1 billion.

Bigger businesses in the sector reported a 15-point dip in confidence although smaller companies appeared somewhat sheltered, with confidence dipping only six points.

The fall in business confidence comes just a few weeks after the Westpac-Melbourne Institute consumer sentiment index fell to its lowest level in almost 15 years.

The housing sector is also suffering the effects of a tougher economic climate, with the Housing Industry Association predicting that the slowdown in new house starts is unlikely to be reversed until 2010.

The association said the pessimistic outlook was caused by a sharp increase in the cost of borrowing, the continuing labour shortage and the high cost of building materials.

Yesterday Westpac became the third big bank in four days to increase its mortgage rate.

Homeowners are instead opting for renovations, with annual investment in home improvements passing \$30 billion.

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