Speech notes:
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ORDER OF AUSTRALIA ASSOCIATION – ACT BRANCH
26 January 2009 – Australia Day.

7.45 am for 8.00 am – Yacht Club, Yarralumla
For 20 mins (plus questions)

Thank you and good morning

When our Secretary, Len Goodman, rang and asked me to speak this morning (and we all know one doesn't say "no" to Len!), we discussed a topic along the lines of "rallying around the flag and doing our bit as Order of Australia award recipients when good old Oz needs a confidence boost - rather than all the knockers bleating doom and gloom!!".

We decided to call it:

Australia, we are at the Heart of it.

Yes, we in Canberra <u>are</u> at the Heart of it. As the National Capital, we are the Heart of the Nation.

With our national government based in Canberra, <u>they</u> are very much at the heart of it, and they (the national government) are also trying hard to be part of the solution.

When Len Goodman mentioned that OZ needs a confidence boost – I strongly agree with him.

As a frequent media commentator, I might be accused at times of trying to talk-up the economy. However, I don't see it that way. My aim is to try and present a more balanced view and not to talk-<u>down</u> the economy - such as the doom and gloom presented by many in the media.

That's because it <u>is</u> <u>confidence</u> that drives our economy. Of the total impact on our economy, about one-third is driven by economic and fiscal issues – and about two-thirds of it is driven by <u>confidence</u>, or lack of <u>confidence</u>. So, indeed, our economic future is very much in <u>our</u> hands.

This is the fifth economic down-turn during my working life, and each of those was different.

And there were the rounds of corporate insolvencies as well

60s – Reid Murray, Stanhill. HG Palmer
70s - Poseidon share crash, which send stock-brokers to the wall, Mainline, Cambridge Credit
80s – Bell, Bond, Qintex (Christopher Skase), Spedley, Rothwells
90s – HIH, One-tel
00s –Opus Prime, ABC Learning.

Yes, there are events happening that are far beyond our control.

But this time, the economic down-turn is very different to any of the others.

Firstly, this time it's global - the Global Financial Crisis - and it is without precedence in my life time.

Previous down-turns have mainly been driven by financial collapses in an industry sector, or in a geographic market. For example, the dot-com crash wiped out $5 trillion in market value of technology companies in 2000-2002 and whilst it had flow-on effects (both as to industries and to markets), it was mainly confined to the IT industry in the USA.

But what happened this time?

It did commence in an industry sector and in a geographic market – the investment banks, mortgage banks and insurance companies in the USA, with the sub-prime crises. These events were arguably caused by US government policy – which took the view that it was discriminatory that those with no job, no income and a negative credit history were denied the right to own a home, and own a mortgage. The pressure put on mortgage lenders by the US government was the trigger to this crisis. The US sub-prime loan scandal was an accident, waiting to happen.

However, it was the finance and insurance sectors affected, and as these are global industries, the crisis quickly spread to other counties and became global. Why? Mainly because banks had lost <u>confidence</u> in lending to each other – there is that "<u>confidence</u>" word again.

If, a year ago, someone had suggested to me that within the next 12 months, the US government would have to bail-out major financial and insurance institutions (including Bear Sterns, Fannie Mae, Freddie Mac, and American International Group), the UK government would nationalise some of their banking and insurance companies (including the Royal Bank of Scotland and the largest home lender), the Swiss Government would have to bail out some Swiss Banks as would the German Government, the Belgium Government and the Dutch Government, then I would not have believed them. But that is precisely what has happened – and much more as well.

As a result of the Global Financial Crisis, many countries are now in technical recession.

However, Australia is somewhat cushioned from the global situation.

Australia has one of the strongest economies in the world, and has had a decade of strong economic growth. Australia has one of the strongest banking systems in the world and one of the best regulatory systems - of banks, insurers and listed companies. As a result, Australia is in a better position to weather the Global Financial Crisis than most other counties. Yes, Australia will be affected, but hopefully not to the same extent as others.

We have already seen unprecedented responses from our Commonwealth Government. These include the $10.4 billion stimulus package paid to certain Centrelink recipients prior to Christmas, the massive national infrastructure spending program, significant support for the motor car manufacturing industry and (in conjunction with major banks) financial support for car dealers who were adversely affected when the two major car dealer-financiers from the USA announced their withdrawal from Australia and support to provide adequate financing for the construction industry . And now there is speculation of another round of stimulus packages to be announced by the Commonwealth government.

Within Australia, Canberra is also somewhat cushioned from the national situation. Canberra has had a decade of strong economic growth. Some 43% of the people who work in Canberra, work for government. The public and private sectors have different experiences during economic down-turns.

There are other situations which are also different in Canberra.

The ACT economy – what's <u>been</u> happening

We experienced a recession in Canberra following the election of the Howard government 13 years ago. At that time, about 60% of working Canberrans worked for government. Then, between 12,000 and 15,000 public servants were retrenched. About one-third of these public servants left Canberra, about a third retired, and the remaining third went in to business for themselves, in Canberra.

Then Canberra's private sector began to recover – partially because of outsourcing and partially because of the former public servants who had gone into business for themselves.

Our public/private mix went from 60% government and 40% business, to where it is now, at 43% government and 57% business.

It was very small business that lead the recovery. Canberra has some 25,000 businesses, of which about 19,000 are home-based.

Later, the public sector grew once again under the Howard government.

Business in Canberra did well. The Chamber's Quarterly Business Expectations Survey reported about 9 years of good growth and a few of those years experienced very strong growth. The ACT has been one of the strongest economies in Australia over recent years.

Then, in September 2007, the Chamber's Quarterly Business Expectations Survey reported that the September quarter, <u>confidence</u> went flat. This was expected in the lead-up to a federal election, when the economy always goes flat whilst people await the outcome of the election. The economy (and <u>confidence</u>) usually bounces back immediately after a federal election – but it didn't after the 2007 election.

The market intelligence that I was receiving indicated that <u>confidence</u> was being affected by people waiting for the Federal Budget for 2008/09. There was talk of large job losses in the Commonwealth public service and this was affecting <u>confidence</u>. I made a point of using every media opportunity I could muster to comment on my view that job losses would not be anywhere near as bad as some people were predicting.

Whilst the Federal budget did include some job losses, they were not anywhere near as large as some had feared and they were even a little better than I had been expecting.

As a result, I was expecting the ACT economy to recover after the announcement of the 2008/09 Federal budget. However, the result was one of those yes-and-no situations.

There continue to be seven major issues on the horizon:-

1) Interest rates
2) Petrol prices
3) World economy – USA very volatile
4) Public sector down-sizing
5) Housing shortages

6) Climate change
7) Skills shortage

In my 40 year career, I have always found that retail is the early-warning-system for our economy. Retail is the first to show signs of a decrease in consumer confidence (leading to an economic down-turn) and retail is the first to show signs of an increase in consumer confidence (leading to an economic recovery).

In the ACT, retail performed badly in July 2008. We were the only State/Territory to show negative growth and for the ACT it was -4.3%. In August, we were joined by NSW, but our decline reduced to -0.4%). Then in September and October, retail in ACT went flat – ie no increase, but no further decline - whilst other States/Territories showed declines. Then in November the ACT recorded a small recovery of 0.4% and we were the only State/Territory to show a recovery.

December retail figures have not yet been released by the ABS and are due out at the end of the month. Anecdotal evidence that I have been hearing is that retail figures in the ACT for December were OK (although margins were reduced). If the ABS figures confirm this, then I believe the ACT may be in recovery – the first State/Territory in Australia.

My experience is that retail is the first indicator of change in confidence and, as previously mentioned, confidence accounts for two-thirds of the economy, with economic and fiscal issues accounting for only one-third.

Despite the economic situation, in the ACT, we also need to remember that we still have a very serious skills shortage. It impacts on both private and public sectors.

I have been talking about the looming skills shortage as far back as early 2000. However, no one listened much – not the media and not the ACT Government.

Over the last 3 years, everyone has been listening! It's gone from number 13 on the list of businesses concerns – to number one!

In late 2006, the Chief Minister established the Skills Commission. The Chamber of Commerce strongly supports this initiative, and I am one of the 11 commissioners.

The brief of the Skills Commission was to look at the cause of skills shortages, and to identify solutions.

In 2008, the Skills Commissioner released its report. The ACT Government announced $51m to help tackle these issues.

There are a number of reasons for Canberra's skills shortage:

1) We have a population in the ACT that is ageing faster than the rest of Australia. This is probably as a result of the Whitlam government re-locating more national government and national institutions to Canberra in the 1970s. 30 years later, those people who moved to Canberra in their 20s and 30s are now in their 50s and 60s.
2) The ACT has the lowest unemployment rate in Australia – currently at 2.6% compared to 4.3% nationally. This means that many businesses in the ACT have been reporting finding it very difficult to recruit appropriately skilled staff – across all of the professions (except community pharmacy) and across all of the trades. This is limiting these businesses ability to grow. Skills shortages are now businesses <u>number one</u> issue of concern in the ACT.

3) We have the highest participation rate in Australia at 72.8%.
4) with 43% of our workforce working for government, they retire a decade younger than the rest of us (the 54/11 situation)
5) Little growth in population
6) A strong economy for nearly 10 years

And, the shortages are across everything – all of the professions (except community pharmacists) – all of the trades – and the semi skilled and unskilled areas as well. Indeed, the ACT has a population shortage.

Prior to the Global Financial Crises, the ACT Skills shortage was expected to double over the next 3 years. The Global Financial Crisis will have an impact on this, but it will not halve the demand. Skills shortages in the ACT will continue to get worse in most professions and trades.

These skill shortages, particularly in the traditional trade areas are an ongoing concern for ACT business and government. We should all be concerned about how we are going to get our cars serviced and repaired, our plumbing fixed, our airconditioning and heating repaired or replaced, let alone the challenges in finding a doctor or a dentist in the future.

There are only 2 short term solutions. (We can't do much about population growth in the short term – it takes a generation!)

The 2 short term solutions are:-

Encouraging <u>mature age</u> people to remain in the work force beyond the traditional retirement age. The Chamber of Commerce's Silver Lining project, in conjunction with ACT Government, and the Ministerial Advisory Council on Ageing, is of some help. The Commonwealth Government has undertaken some freeing-up of the superannuation requirement. The new superannuation rules have removed some (but not all) of the disincentives to work beyond the "normal" retirement age.

The second short-term solution is attracting skilled people from interstate and overseas. Hence the ACT Government's Live in Canberra Campaign which is aimed at attracting skilled migration (both temporary and permanent).

In the ACT, we still have a significant housing shortage. Most of it is not from population growth, as our population growth has only been modest. It is mainly caused by our age demographics. The ageing of our populations means that we are moving away from a family home containing mum, dad, 2.5 kids and the dog. The kids have left home and wanting a home of their own, or a place to share, and in many cases, mum and dad are splitting up and looking for separate homes. Hence the significant increase in demand for apartments in Canberra.

We certainly have our share of challenges in the ACT.

They include the impact the Global Financial Crisis will have on Canberra. But they also include our ageing population and the resultant skills shortages and the housing shortage. Many of those who have retired or are close to retirement will have been adversely affected by the decline in value of their shares. However, history demonstrates that every major share market fall is followed by a share market recovery – it's just a question of when, and how the timing will affect you.

But we also have plenty of opportunities in Canberra. They include how we continue to position Canberra so that we are affected less by the Global Financial Crisis. How we meet the demands of our skills shortages by continuing to encourage appropriately skilled people to come to Canberra. How we meet our housing shortages, by providing more housing for our growing population.

As you have heard, I believe that every cloud has a silver lining.

Yes, we have some challenges ahead. But every challenge will present us with opportunities as well. Our success – the success of Canberra – will depend on how we rise to the challenges and how we create our own opportunities.

As Order of Australia award recipients, we all received our awards for service – service to the community – service to government – service to business – service to others. In many cases, we have received our award for service to several groups.

In my case, like many in this room, my AM was for service to business and the community and my Order of Isobel (the Spanish equivalent, awarded by the King of Spain) was for service to Spain.

All of us, are now being called upon to continue to demonstrate our service to our community.

We need to put <u>confidence</u> back into Australia, and particularly into Canberra. It's not all bad, and indeed some things are quite good.

No, I am not asking you to rush into the shops after breakfast and <u>shop</u> – although that would be of great help to our economy and of great help to <u>confidence</u> in Canberra.

What I am asking you to do, is to look at the bigger picture, and explain to your friends, your children and your grandchildren, that there is a more balanced view on what is happening around us. Yes, we are facing some challenges, but keep a close eye out for opportunities as well, because

Australia, we <u>are</u> at the Heart of it.

and <u>confidence</u> is crucial to our future.

Thank you.