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Reading the Economic Tea Leaves for Small Business for 2015

By John Burke

Trying to understand economic analysis of trends and predictions can be confusing but as the mist of confusion clears these can be useful tools in your business planning for 2015 and beyond. The challenge is to determine what impacts upon your business.

We talk about small businesses here, (less than 20 employees) because there has been a steady decrease in the number of medium sized businesses (20 – 200 employees) over recent years according to the Australian Bureau of Statistics Count of Australian Businesses.

A declining value in the Australian dollar to the US dollar will favour exporters in contrast to importers and retailers who sell imported goods. A lower Australian dollar favours the education and tourism sectors.

An increase in demand for goods from Australia's major trading partners such as China will increase demand for our major exports such as iron ore puts upward pressure on the Australian dollar.

A useful research tool is the Reserve Bank's quarterly Statement on Economic Policy published February, May, August & November each year. This includes a section on Economic Outlook. It is freely available on the RBA's website.

The Australian terms of trade are expected to trend down by approximately 4% during 2015 with a flattening out in mid to late 2015. The terms of trade can be described as the amount of imported goods an economy can purchase per unit of exported goods. This downward trend in terms of trade is in large part owing to weaker-than-expected commodity prices, particularly for iron ore. This should be marginally offset by the effect of falling oil prices on import prices.

In China, the GDP growth in 2015 and 2016 is expected to trend gradually lower reflecting factors such as the declining working-age population. The US economy is likely to show continued steady growth.

Domestically, the available indicators suggest that GDP growth will remained moderate. Growth of resource exports and non-mining activity is likely to have been offset by a further decline in mining investment. There is likely to be a moderate growth of consumption and measures of business conditions and confidence are likely to be close to their long-run averages. Conditions in the housing market are consistent with strong growth in dwelling investment. The non-residential building sector should support investment in the near term; however forward-looking indicators, such as non-residential building approvals, have weakened over the course of 2014, implying that there is likely to be less growth in the non-residential building sector.

There will be a decline in mining investment. This will have an adverse impact on those businesses involved with the supply of goods and services for building mining infrastructure.

For Western Sydney Business ACCESS paper, January 2015 issue.

GDP growth is expected to slow over 2014/15, before picking up to previous levels of growth over 2015/16.

The depreciating exchange rate for the Australian dollar has, to a large extent, offset the declining terms of trade. The latter tends to be contractionary for the economy because the lower prices received for exports adversely impact national income and expenditure. An exchange rate decline is expansionary because it increases export incomes in Australian dollar terms and increases import prices, which causes households and businesses to substitute towards domestically produced goods and services, where those goods and services can be produced domestically.

Household consumption is expected to pick up gradually. The forecasts envisage that consumption will grow by more than income, implying a further gradual decline in the savings. This is consistent with constraints on wages growth and an aging population that will increasingly rely on retirement savings to supplement income.

So if you are retail, don't automatically expect growth, especially in the long term. You will have to continue to deal with cost pressures if you are relying on imported goods.

Dwelling investment is expected to increase at an above-average pace. Dwelling investment is being supported by low interest rates, strong population growth and relatively low rates of construction over the past decade.

Those involved with construction in the housing sector should take advantage of the opportunities, while those involved in the non-residential construction sector should prepare for a slowing in activity.

The unemployment rate is expected to be the same for some time. Wage growth is expected to remain low especially with pressure on public and private sector employers to contain costs. Labour productivity is expected to grow. Combined, these forces should mean that unit labour costs will remain well contained.

Those businesses with labour being a large proportion of their costs, such as in the service sector, should take this opportunity of low wage growth to improve the training and quality of their existing staff teams who are likely to be stable in the medium term.

Inflation will remain the same. This is due to lower wages pressure, reduced government expenditure, (demand), and lower crude oil prices. On the other hand, pressure will come from the higher costs of imported goods, including many retail items, due to the lower exchange rate. Pressure will also come from the housing market.

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