IBISWorld

WHERE KNOWLEDGE IS POWER

Economic Downturn: Who will thrive in 2009?

IBISWorld Economic Briefing

February 17, 2009

Narrow escape – the Federal Government walks a fine line as economy is on the brink of recession

As bad news floods the financial pages of newspapers worldwide, the Australian economy continues to experience a slow and controlled decline. Unlike consumers in the US, Australians have not stopped spending and their net wealth has only taken a minor hit. This has made a substantial difference to the economy's bottom line and has kept growth above water.

Australia is likely to escape a recession, but only just. IBISWorld is expecting two quarters of negative growth – the third quarter of 2008-09 and the first quarter of 2009-10 – but they will not be consecutive. So although unemployment will increase and consumer sentiment will plummet, Australia is not expected to be in recession.

The Federal Government is largely responsible for this, spending its way out of trouble. The two stimulus packages will help boost consumer spending and investment in the economy – the two wheels of the economic growth engine.

The housing market, which has seen some tough times recently, will be the first to feel the recovery in the December quarter of 2009. Consumer sentiment and business investment will follow, pushing the economy back on a growth path by the end of 2010-11.

Contents

The economy will not resume its growth path before 2010-11 – led by the housing market and business investment

The Australian Economy

Overview | Consumption | Investment | Government | Global conditions

Overview
The worst is yet to come

Australia is on the brink of recession – but it seems the economy will have a narrow escape. A recession is defined as two consecutive quarters of negative growth in GDP; IBISWorld anticipates negative growth in the third quarter of 2008-09, followed by an increase in GDP in the last quarter of the year. GDP will contract again in the first quarter of 2009-10, but technically, the economy will not enter recession. It will fare much better than the US and other global economic powerhouses.

Trouble started at the end of 2007, when high interest rates began to slow the economy, before the credit crunch hit. Tighter credit markets, slow global growth, and lower sentiment have affected investment and household consumption. Prior to the latest Government stimulus package, recession was a certainty, with stagnant household consumption and declining investment expected to send GDP growth into negative territory for at least three consecutive quarters over 2009. The Federal Government's latest $42 billion stimulus package is expected to generate growth in the June and December quarters of 2009.

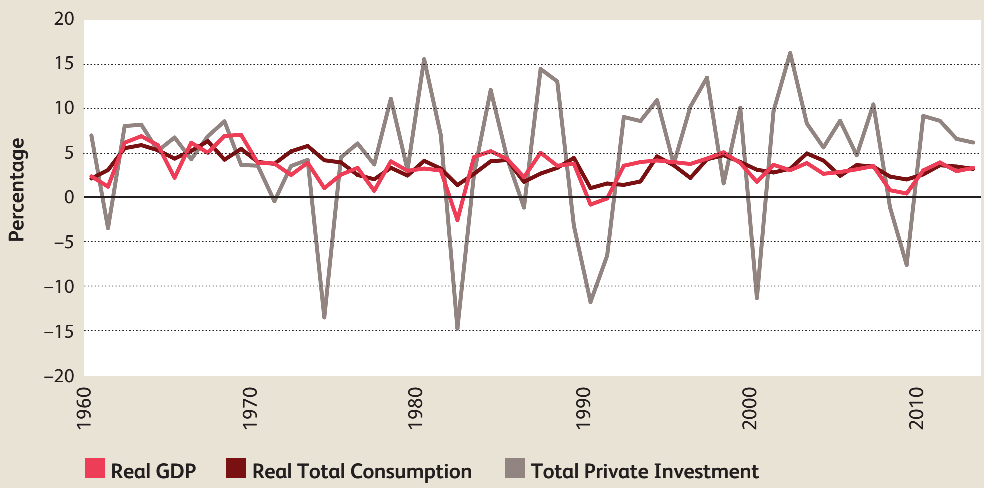
The Federal Government's plan includes over $12.5 billion of direct hand-outs to various groups, the most prominent being families and low to medium income earners. Payments are mostly scheduled in March and April of 2009 and will boost household consumption in the June quarter, thereby resulting in positive GDP growth for the last quarter of 2008-09.

> Prior to the last stimulus package from the Federal Government, recession was a certainty for 2009 – GDP was expected to fall for most of the year

A large part of the stimulus package will be Government capital expenditure, which aims to fill the hole left by falling private capital expenditure. This will only have a substantial effect on the economy from the September quarter of 2009 onwards. Although public capital expenditure is not expected to keep Australia from having a negative quarter over the three months to September 2009, it is expected to keep Australia out of recession in the December quarter.

Over the 2008-09 year, the economy

Households remain stable while business creates volatility
% change in consumption, investment and GDP



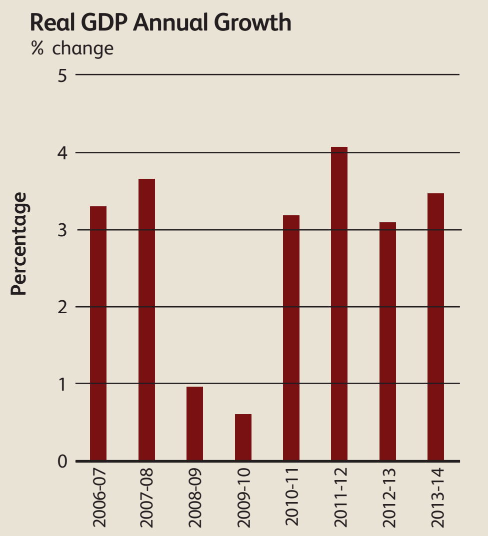
SOURCE: IBISWORLD

The Australian Economy

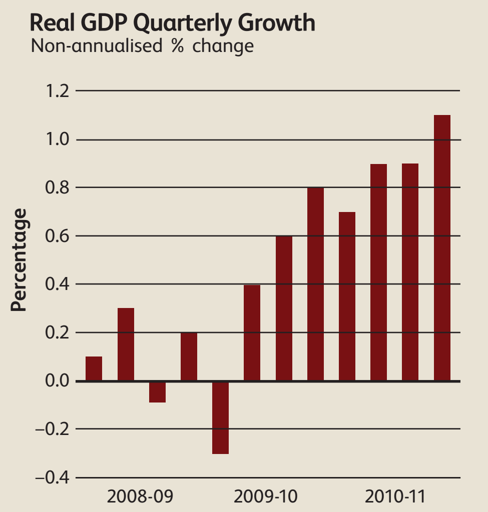
Overview continued

is forecast to grow by 1% before slowing to growth of just 0.6% in 2009-10. These would be the slowest growth rates since 1991-92 when the economy was beginning to recover from the 1990-91 recession. Both imports and exports will slow as domestic and international demand weaken.

The economy is expected to show signs of recovery in late 2009, with a stronger recovery beginning in the June quarter of 2010. Government investment and the housing market are expected to lead the economic recovery with other segments of capital expenditure and household consumption following.



Figures for 2009–2014 are estimates. SOURCE: IBISWORLD



Figures for 2009–2011 are estimates. SOURCE: IBISWORLD

The Australian Economy

Consumption
Expenditure on hold

Despite the Federal Government's handouts, growth in household consumption is expected to slow in 2008-09. Rising unemployment and low consumer sentiment will deter consumers from spending their windfall. Instead, a large amount will be saved or used to reduce debt built up since the last recession in 1990-91. Consumption expenditure is forecast to increase by 2.5% for the year – compared with 4% in the previous two years.

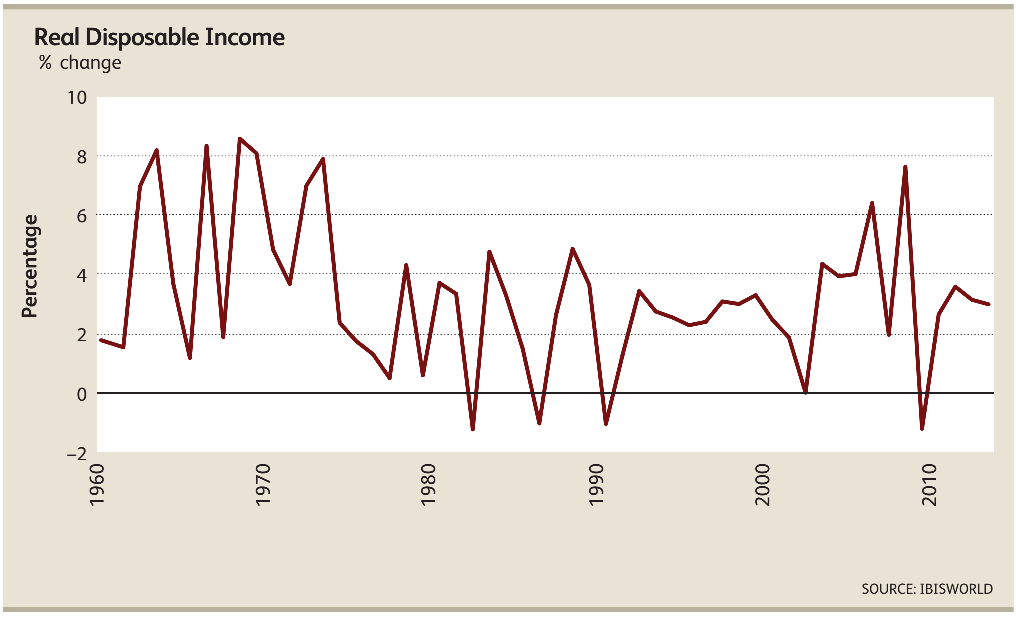
Changes in real household disposable income in 2008-09 will be mainly driven by government intervention. The 2008 December quarter figures were influenced by the Rudd Government's $10.4 billion stimulus package, while the proposed $42 billion package will influence disposable income in the March and June quarters.

Interest rate cuts have also had a large impact on disposable income. Since September, the Reserve Bank (RBA) has cut rates by 4 percentage points, with at least a further 0.75 percentage points of cuts to come. This has slashed interest repayments on household debt, thereby increasing disposable income. Disposable income is forecast to increase by 7.6% over 2008-09.

With no government payments affecting disposable income in 2009-10, consumption spending is forecast to slow to growth of 2.2%. In the first half of the year, consumption is forecast to grind to a halt, before improving later in the year. Disposable income is expected to contract during the year by 1.2% – the sharpest drop in more than 25 years. Disposable income will be further hit as unemployment rises and interest rates are increased to combat inflation.

Disposable income is expected to fall by 1.2% in 2009-10 – representing the sharpest drop in more than 25 years

The years following 2009-10 will see disposable income return to moderate growth. Growth will be supported by rising wages and job numbers as the economy recovers, but will be hampered by rising interest rates. Strong job growth and the retirement of the Baby Boomers, who begin to turn 65 in 2010, will eventually return the economy to low unemployment, and wages will rise more quickly as competition for employees intensifies.



The Australian Economy

Investment
Business doing it tough

The financial crisis is likely to have a substantial effect on investment, both from business and households. Anticipated lower returns have deterred many businesses, while others have been unable to secure capital for new projects or are trying to improve their balance sheet by cutting back on expenditure. If Australia does experience a recession, it will be due to a sharp contraction in private capital expenditure.

The key investment by households is in the residential construction market. The market has slumped in recent months as overvalued property prices (which had risen by approximately 140% since 1999, leading to the IMF labelling the Australian property market as one of the most overvalued in the world) began to fall in all capital cities. Attempts by the Federal Government to stimulate the market, including a tripling of subsidies offered to first home buyers, and recent cuts in interest rates have thus far proven ineffective. Private residential investment will remain weak into the first-quarter of 2009-10.

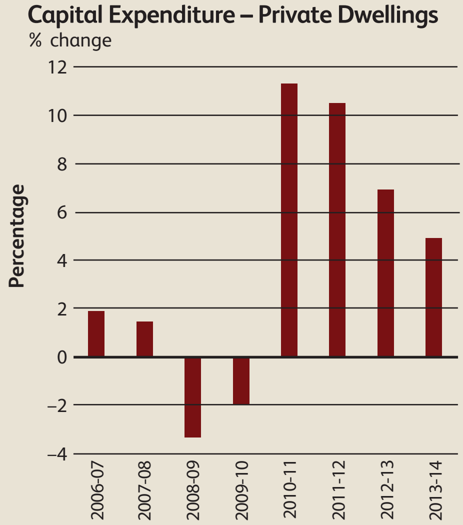
The recovery, however, is not far. The tight housing market, combined with low interest rates and rising consumer sentiment, will encourage potential home owners back into the market. Capital expenditure on dwellings is forecast to show double digit growth in 2010-11 and 2011-12 before rising interest rates slow growth.

As usual in a recession, business investment will be hit harder. The downturn in investment is expected to be driven by a large contraction in non-dwelling construction. Overall private capital expenditure is expected to decline by 1% in 2008-09 and by a further 7.4% in 2009-10, before recovering strongly over the next few years. Capital expenditure on dwellings is expected to spark the revival in the December quarter of 2009, although a sector-wide revival is not expected until the March quarter of 2010.

Non-residential expenditure declined by 4.8% over the December quarter of 2008 according to IBISWorld estimates. It will continue to decline well into the future due to low business confidence during the downturn – encouraging businesses to cut back on spending – and tight credit availability. The turning point in this investment downturn is not expected to occur until the first quarter of 2010-11.

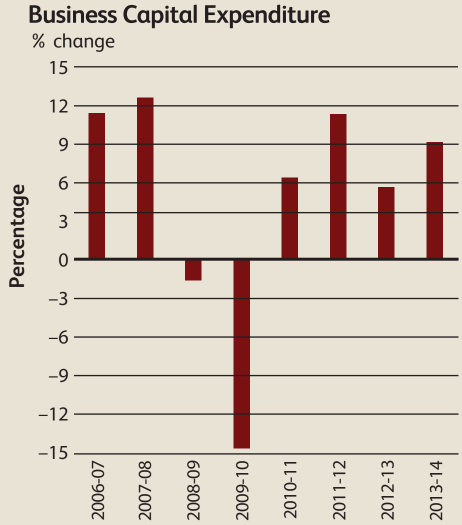
Investment in machinery and equipment is also expected to fall, after six years of considerable expansion. Commodity spot prices have plummeted and mining companies have postponed

Capital Expenditure – Private Dwellings



Figures for 2009–2014 are estimates. SOURCE: IBISWORLD

Business Capital Expenditure



Figures for 2009–2014 are estimates. SOURCE: IBISWORLD

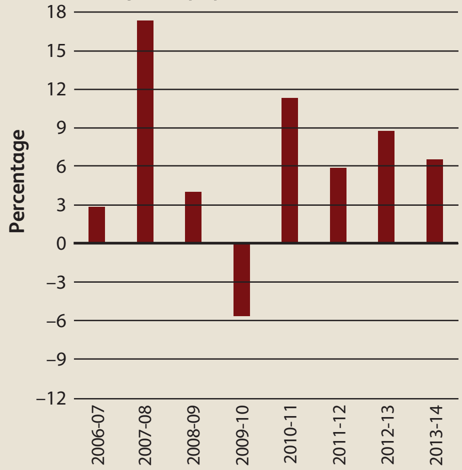
The Australian Economy

Investment
Business doing it tough continued

or cancelled capital works in anticipation of lower returns. Economy wide, the credit crunch has made capital much more difficult to acquire and firms have tightened up expenses. As a result, IBISWorld expects capital expenditure on machinery and equipment to drop by 5.6% in 2009-10.

Recovering sentiment and looser credit markets in 2010-11 will result in double digit growth in capital expenditure as firms catch up on projects which were postponed in the previous couple of years. Expenditure will then grow modestly over the next few years; capital expenditure is not expected to achieve the growth rates of the previous cycle largely due to the absence of the commodities boom to drive investment.

Capital Expenditure – Machinery & Equipment % change



Figures for 2009–2014 are estimates. SOURCE: IBISWORLD

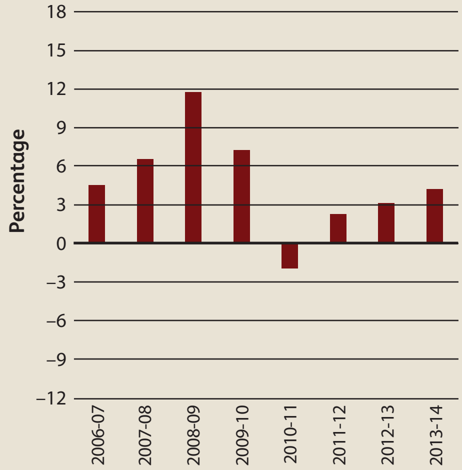
Government
Spending for Australia

Slowing economic growth and the spectre of recession has spurred the Rudd Government into action. Following the $10.4 billion stimulus package of December 2008, the Federal Government has announced a plan to spend an additional $42 billion in January 2009. While none of the $10.4 billion package was spent on public investment, over half of the $42 billion will be counted as public capital expenditure.

The various initiatives of the Rudd Government will take some time to filter through to the economy. As such, the stimulus will not have much of an effect on capital expenditure in 2008-09 (which will nevertheless be high largely due to strong growth from other projects). The fiscal package will begin to foster economic growth in 2009-10. Public capital expenditure is forecast to increase by 11.8% for the year.

Stronger economic growth from 2010-11 will encourage the Government to minimise new capital expenditure schemes in an attempt to get the budget back into surplus. The last of the stimulus package will be spent in 2011-12.

Public Sector Capital Expenditure % change



Figures for 2009–2014 are estimates. SOURCE: IBISWORLD

The Australian Economy

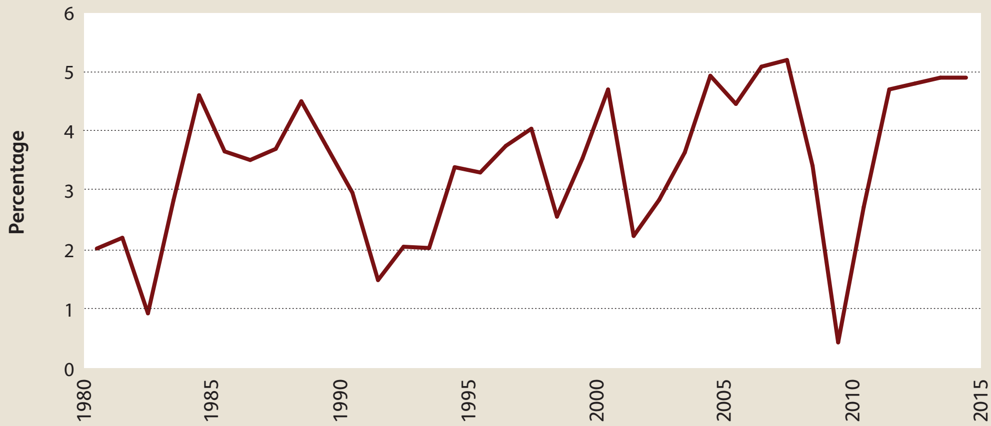
Global Conditions

The world economy is currently facing its most severe downturn since the Second World War. In September 2008, the collapse of Lehman Brothers marked the official start to a global credit crunch, causing financial institutions to fail worldwide and wreaking havoc on global equity, commodity and foreign exchange markets. Plummeting asset values led to sharp decreases in household wealth, severely curtailing consumer demand and investment, bringing global trade to a halt and sending developed economies into recession. Emerging economies were not spared, as collapsing export demand and plunging commodity prices dispelled the theory that emerging markets had 'decoupled' from the developed world.

Prospects for 2009 are bleak. IBISWorld expects global growth to continue to slow, reaching 0.2% in the second quarter, as anaemic consumer demand, continued financial instability and tight credit markets curb production and trade, crippling company earnings and pushing up unemployment. The US is expected to contract by 1.6%, while the Euro zone and Japan perform even worse, shrinking by 2.2 and 2.6% respectively. Previously the world's growth engine, China will enter a cyclical downturn in 2009, slowing to 6% growth as export demand drops and foreign investment withdraws. Commodity prices are expected to continue their freefall, restricting growth in developing markets.

Recovery will depend mostly on the success of governments and central banks. Having already slashed interest rates, central banks around the world will likely continue slashing interest rates, while a coordinated and significant spending spree from world governments – particularly in the US and China – is expected in the first quarter of 2009. The effect of these policies should be evident by the December quarter of 2009, by which point, US house prices should have stabilised and global equity and credit markets recovered. Global growth is expected to reach 2.7% over 2010, led by a recovery in the US and a return to strong growth in emerging markets.

World GDP Growth
% change in calendar years



SOURCE: IBISWORLD

What's Next for Business

Key indicators to watch

Businesses across Australia have been facing challenging conditions over the past year – share markets have crashed, oil prices have soared and crashed, and mounting uncertainty has put most expansion plans on hold. IBISWorld expects things will get worse before they start getting better in the second half of 2009-10. The following variables will be the key indicators of the recovery.

Consumer Sentiment Index

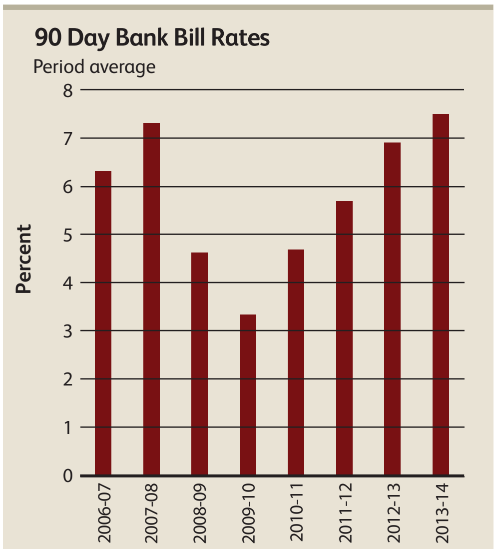
Although interest rate cuts and handouts from the Federal Government will see some short term optimism, consumer sentiment is expected to drop sharply in the face of increasing unemployment. Risk-averse consumers, fearful for their jobs, are expected to increase household savings levels and postpone nonessential purchases such as clothing, electronics and motor vehicles. Consumer sentiment is projected to reach its trough during the first quarter of 2009-10. The recovery will be slow, with confidence not returning until the first quarter of 2010-11 when unemployment reaches its peak.

In the mean time, Australian households will continue to see their net wealth disappearing. Despite the Federal Government's best efforts, IBISWorld expects that household net worth will decline by 3% over 2008-09, having already slightly declined over the previous financial year. Any improvement over 2009-10 will be miniscule.

The largest component affecting household wealth for many Australians is the value of their home, which has been declining since June 2008 and is projected to continue falling for the remainder of the 2009 calendar year. A second key component is share prices, which affect the value of superannuation and other savings. Domestic share price falls are expected to continue in the short term, but a strong recovery is expected by 2010.

Interest Rates

Having already cut the cash rate by 1% in its January 2009 meeting, bringing rates down to the lowest level since 1964, the Reserve Bank appears poised to continue its aggressive cuts. A cut of 0.5% is tipped for the next meeting in March, in an attempt to spur demand.



Figures for 2009–2014 are estimates. SOURCE: IBISWORLD

The consumer price index fell by 0.3% over the December quarter, driven by falling petrol prices, as well as lower prices for cars, banking and medicines. Though it is expected that prices will stabilise, overall inflationary pressures over the short term are relatively benign, anchored by poor demand. This gives the Reserve Bank the freedom to cut interest rates without being overly concerned about its inflation target.

However, interest rates are projected to begin rising again in the second quarter of 2009-10 after the downturn reaches its trough, to guard against rising inflation during the renewed economic expansion. The introduction of the government's Emissions Trading Scheme in 2010 will give the RBA further reason to increase interest rates. The scheme is expected to lead to an increase in prices across the board, as carbon costs will be largely passed on to the consumer.

What's Next for Business

Household consumption rarely falls in Australia – and this will prop up retail sales in coming years

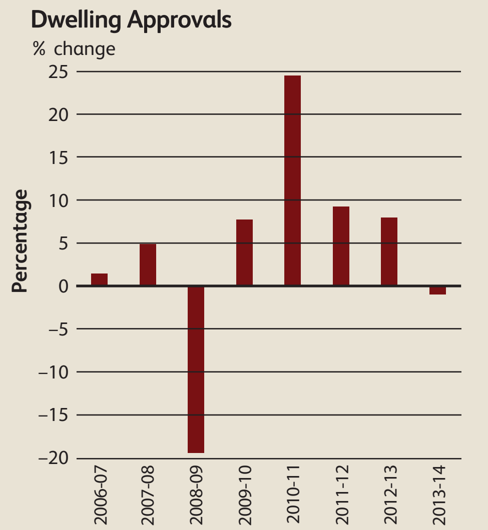
Housing

High interest rates and then the credit crunch drove dwelling approvals lower in every quarter of the 2008 calendar year. Lower interest rates and the increase in the First Home Owners Grant (due to expire at the end of 2008-09) are anticipated to result in a mild recovery in dwelling approvals beginning in the second half of 2008-09.

Continuing low interest rates and improving consumer sentiment will result in a moderate increase in approvals in 2009-10, before a recovering economy and higher sentiment result in a rapid increase in approvals in 2010-11, returning the measure to 2003-04 levels. The Australian population is forecast to grow by around 365,000 people per year, while the number of dwellings is expected to increase by around 130,000, compounding already tight conditions in the market.

Residential property values took a beating in 2008 as rising interest rates and the economic downturn weighed on prices. This trend will continue into the first two quarters of 2009, as a sharp rise in unemployment outweighs improving affordability.

The top end of the market will suffer the hardest falls; the bottom end of the market, however, should prove more resilient, underpinned by under-supply and falling mortgage costs. The impact is also likely to vary around the country, with Perth, Brisbane and mining boom towns expected to register the largest falls, and Melbourne and Sydney remaining more muted. House prices should return to positive growth from the September quarter 2009 as further interest rate cuts and the likely retention of the first home buyers grant improve affordability, and strong immigration adds to already tight supply.



Figures for 2009–2014 are estimates. SOURCE: IBISWORLD

Retail Sales

As consumer confidence remains low and consumers cut back on unnecessary spending during this time of rising unemployment, growth in retail sales on a nominal basis will slow considerably. However, as household consumption expenditure in Australia rarely falls, even during an economic downturn (during which time it is private capital expenditure that declines considerably), retail sales growth is projected to remain positive throughout the next five years.

Unemployment

The credit crunch has made operating conditions for many businesses much more challenging. Profits have suffered as credit has become more expensive and companies have been forced to cut back staff numbers to improve cash flows and reduce expenses.

From a low of 3.9% in February 2008, unemployment had risen to 4.5% by December. As the number of job losses mounts in 2009, the unemployment rate will rise as high as 5.2% over the June quarter and 6.2% over the December quarter. Job losses will cease to outpace job creation in the first half of 2010, but population growth will result in the unemployment rate continuing to climb to a maximum of 7% over the September quarter of 2010.

As economic growth accelerates in 2010-11, job creation will gather speed and the unemployment rate will contract back towards 5%. Gains in the share market will push up the value of superannuation funds and a large

What's Next for Business

The Australian dollar should recover in 2009-10, as concerns mount over the US Government's debt levels

number of Baby Boomers, who begin to turn 65 in 2010, will retire in 2011-12. Baby Boomers will continue to leave the job market until 2030, keeping downward pressure on unemployment.

Exchange Rate

The Australian dollar plummeted over the second half of 2008, falling sharply against almost all major currencies as the financial crisis and ensuing economic downturn prompted investors across the globe to sell risky assets in favour of relatively safer ones. Widely perceived as high-yield and high-risk, the Australian dollar was sold off sharply as investors retreated to the safety of treasury bonds and the Japanese Yen. The collapse in commodity prices also hurt the currency, significantly reducing the value of Australian exports.

The trade weighted index (the value of the Australian dollar compared to a basket of 16 currencies of Australia's major trading partners) is expected to weaken further over 2009 as the global economy deteriorates and risk-averse investors continue to shun the Australian dollar in favour of the US dollar and Yen. The downward trend will be exacerbated by a further slide in commodity prices (particularly plunging contract prices for iron ore and coal) and falling interest rates. The TWI should start to rise in second quarter 2009-10 as the global economy begins to recover. Strong gains are expected against the US dollar, which will come under pressure due to the rise in the US Government's debt levels.

Trade

The prices boom in commodity markets, spurred on by demand from China, pushed exports drastically higher in 2008. The December quarter of 2008 marked the peak in export earnings. Contract prices were still high and the drop in demand was offset by the depreciation of the Australian dollar in September. IBISWorld expects the March quarter of 2009 to bring a drop in export revenue due to lower demand. This will continue in the June quarter as many commodity price contracts will be settled substantially lower for the 2009-10 Japanese financial year (April to March).

The value of exports is forecast to stabilise at a lower level over 2009-10, before picking up in 2010-11. Stronger world economic growth in 2010-11 will increase demand for Australian exports and the value of the Australian dollar. These factors will result in moderate growth in 2010-11. The value of exports is not expected to surpass the level of 2008-09 until 2012-13.

Lower exchange rates and a subdued economy are expected to result in sluggish demand for imports over the next couple of years. Despite a substantial drop in the March quarter, the high level of imports in the first half of 2008-09 is anticipated to result in an 18.3% increase in imports for the year. Government handouts will help to stimulate consumption expenditure, and while much of the extra consumption will benefit Australian goods, some will be spent on internationally sourced products, thereby increasing imports.

Improving exchange rates in 2009-10 will encourage demand, although growth in value will be subdued. Growth will accelerate over the next few years as exchange rates continue to increase, and demand conditions improve.

Crude Oil

The price of crude oil soared to record highs in 2008, before plummeting as the credit crunch forced cash-strapped hedge funds to sell their riskiest assets. The price continued to decline as world economic activity slowed, but has since risen from its near-term bottom and IBISWorld expects it to continue to appreciate.

In the short-term, a key factor in higher prices is OPEC's willingness to cut supply. OPEC has already cut supply and will do so further to try to support prices. Many oil fields are unsustainable at $40 a barrel and others need prices of $60 a barrel or higher to break even. In the past OPEC has struggled to enforce supply restrictions in member countries, but

What's Next for Business

with prices close to break even in some OPEC oil fields, the cartel's members are expected to adhere to production cuts.

As the world economy begins to recover, around the end of 2009, and the energy appetites of China and India return, so will demand for oil. In a limited supply environment, this will push prices back up towards $100 a barrel over the next few years.

Concerns about supply (particularly from the Middle East) will continue to be an issue. The recent conflict in Gaza caused the price to rise from around $30 a barrel to nearly $50 a barrel. The fear of supply disruptions will ensure a risk premium will be factored into the price for the foreseeable future.

Commodities

After rising sharply over the past few years as soaring demand from China and strong domestic construction activity pushed input prices to record highs, iron and steel prices are expected to fall in the March quarter of 2009, as global demand crawls to a halt and steel stockpiles build up. This trend will continue over 2009 as the global economy sinks further, with construction markets expected to remain stagnant around the world, constraining demand for industry products.

Recent price increases were largely the result of soaring iron ore and metallurgical coal prices, and IBISWorld estimates new contract prices, due to be negotiated in April 2009, could fall as much as 40% and 60% respectively, placing significant downward pressure on domestic prices. The weak Australian dollar should alleviate some of the impact by making imports more expensive, but prices are not forecast to trend upwards again until the June quarter 2010, by which stage global demand conditions are expected to recover and government investment to stimulate domestic construction.

Tourism

The domestic tourism industry has been feeling the brunt of the economic downturn after being hurt by soaring petrol prices and high interest rates in the first half of 2008. The number of domestic visitor nights is expected to contract by 3.2% over 2008-09 as consumers cut back on discretionary travel and companies reduce business travel.

> Backpackers could be the saviours of the tourism sector, as cheap airfares and a weak dollar attract them back to Australia

Government stimulus and low interest rates should foster a rise in visitor numbers by the December quarter of 2009, with a weak dollar encouraging many to put off overseas travel and explore their own country instead. Aggressive discounting by airlines and relatively low oil prices should also result in cheap domestic airfares, helping visitor numbers grow by 0.9% over 2009-10.

The inbound tourism market has also been hit hard by the global economic downturn. With incomes falling and unemployment set to rise sharply across key inbound markets in 2009, global passenger traffic will continue to decline over the year as consumers cut back on holidays. The impact will be particularly pronounced for Australia as it is a long haul destination for most markets. Business travel will also suffer as global trade remains subdued and credit constrained companies try to maintain earnings growth by reducing costs. Cheap airfares and the weak Australian dollar should provide some stimulus later in the year, particularly from the young backpacker segment, but arrival numbers are not expected to trend upwards until the March quarter 2010. The industry should improve steadily thereafter, with strong demand from Asian markets and a more competitive aviation market fuelling growth in arrival numbers.

Industry Winners and Losers

Sector Overviews

Some industries will thrive in the current economic climate – but they are a small minority. Only 4% of the 479 Australian industries IBISWorld analyses will benefit from these conditions, while the downturn spells disaster for 5% of industries. The impact will be minimal in 33% of industries, while the majority, at 58%, are negatively affected. Key sectors are described below.

Finance – Avoid

The Australian finance and insurance sector will need to remain flexible in the face of falling profitability. Industry exits and consolidation are expected to continue as foreign firms pull out or downsize activities and the larger domestic players look for merger and acquisition opportunities.

The share market will remain depressed as corporate profits shrink. Interest income and bond yields will continue to decline, with the RBA projected to cut rates further. The softening property market means there are few (if any) places to earn investment returns in the near-term. The weak investment environment will deal more blows to superannuation funds while insurers will also face declining premium income as well as poor investment returns.

Banks and other loan providers are bracing for a tough year as domestic headwinds add to wider global problems. The weak property market and mass erosion of household wealth are depressing demand for new mortgages. Although the finance sector is benefiting from an upswing in mortgage refinancing, this tailwind will run out of puff in the near-term. Lenders will need to carefully manage their loan books, with wealth erosion and expanding unemployment representing significant downside risks to profitability.

Resources – Disaster

The coming year will see much tighter conditions for the Australian mining sector, with revenue expected to fall sharply from the record highs achieved in 2008. The prices of Australia's major mineral exports, coal and iron ore, are expected to tumble by up to 60% in the coming contract year (April 1 to March 30). In early 2008 miners were in a very strong bargaining position and cut deals accordingly; high grade coking coal prices tripled and iron ore prices rose by about 85%. Although the much weaker Australian dollar provides a buffer against falling prices in 2009, revenue will shrink. Volumes will also come under pressure. Miners are either slashing output or selling surplus-to-contract production at much lower prices on the spot market.

> Forecast earnings from commodity exports have been slashed by 10% for the 2008-09 year alone

A December 2008 forecast by ABARE, the Federal Government's commodities forecaster, downgraded forecast earnings from Australia's commodity exports by around 10% in 2008-09. Major player BHP Billiton has shelved proposed aluminium, coal and nickel projects, and recently announced a halving of net profit and the closure of a $2 billion nickel mine in Western Australia. Rio Tinto is slashing output and spending worldwide, selling a stake in key Australian mineral assets to its Chinese customers and looking to off-load assets as it tackles the debts from its 2007 acquisition of Alcan.

Global steel production had fallen by 35% in the past six months and, more notably, order books of major steel producers have decreased by 50%. The slowing growth in the previously unstoppable Chinese economy is causing deep concern to Australian miners. Low commodity prices will play a central role in dragging Australia's terms of trade down in 2009.

Industry Winners and Losers

Most of the manufacturing sector will be in trouble – the only exception being those producing staple products such as food and beverages

Transport – Weaker

The Australian transport sector is battling another year of difficult conditions as freight volumes contract across the board. Demand for transport services from the manufacturing and retail sectors is declining as manufacturing output falls and Australians tighten discretionary spending. Conditions will begin to improve in the second quarter of 2009-10 as consumers begin to loosen the purse strings. However, a forecast decline in the volume of resource exports will lead to a decline in freight rail revenue through 2009-10.

On a positive note, the global economic turmoil has seen the price of oil tumble from record highs in July 2008. Falling fuel prices will help protect industry profits. The average trucking company's expenditure on fuel has dropped from around 45% of revenue in mid 2008 to approximately 28% of revenue in early 2009.

Public transport will benefit from weaker consumer sentiment as commuters seek cheaper transport. Poor tourist numbers and fewer business travellers will stifle growth in the number of airline, taxi, and long distance bus passengers.

IT & Telecommunications – Threats and Opportunities

The tight funding environment and weakening economy are weighing on capital expenditure. Many businesses will defer investment in IT as a means to cut costs and improve short-term profitability. This will hurt IT related industries, with manufacturers and retailers being most exposed.

Telecommunications and internet related services have become an essential part of daily life for both consumers and businesses. Therefore, demand for these services will remain relatively robust despite the downturn. However, providers will find it challenging to up-sell clients to higher usage and better serviced plans. This will intensify competition and place pressure on pricing.

The major winners in this environment will be the mobile network operators. These companies will benefit from the migration of wired to wireless services as consumers look to rationalise their services. The rapid improvement in wireless network speeds will see mobile telcos claim a larger share of internet service provision.

Resellers will struggle as price erosion will put margins under additional pressure, which may see these operators become acquisition targets should their capital position deteriorate.

Manufacturing – Avoid

The manufacturing sector has not been a shining light in the economy for quite a long time and the downturn will only serve to exacerbate its troubles. Industries that rely heavily on business investment will suffer the most. Tightening credit lines and poor operating conditions will severely limit investment from the private sector. Machinery manufacturers will be among the worst off as businesses will not be replacing equipment during the downturn unless it is absolutely necessary.

Highly discretionary industries will also suffer. The already struggling car industry will face tough times ahead, as consumers will postpone vehicle purchases; sales are expected to fall 14% in 2009 to 870,000. Industries that manufacture high-end consumer products (for example, electronics) will also feel the brunt of reticent consumer spending.

The silver lining for manufacturers will come in the form of an expected depreciation of the Australian dollar. Domestically manufactured products will be more price-competitive on the global market, which could spur growth in Australia and abroad. However, export potential will be severely limited by the worsening economies of Australia's major trading partners. The only manufacturing industries to escape fairly unscathed will be those that are not highly sensitive to income levels (such as food and beverages).

Industry Winners and Losers

Retail – Weaker

Australian retail sales held up well around Christmas thanks largely to the Federal Government's $10.4 billion handout. But make no mistake, a deteriorating labour market and high levels of consumer debt will ensure that a large part of any further handouts will be saved instead of spent. This means that retail sales are headed down.

Even after taking into account the Government's second stimulus package, IBISWorld estimates that the effect on consumption will only just be enough to stave off recession rather than provide any meaningful and sustainable boost to retail sales. The areas that will be hardest hit will be those tied to discretionary spending, such as car retailing, jewellery retailing, furniture retailing and department stores. In contrast, supermarket retailing, used goods retailing and household equipment repair services will hold up well, outperforming relative to the sector. The retail sector will begin to recover during 2009-10, with real growth of 4% expected.

Business Services – Mixed Bag

Business service providers – consultants, marketers, accountants and legal advisers – are, in many cases, protected against severe downturn. When times are tough, firms may be inclined to employ advisers to help implement cost-saving processes in order to protect profits, or bring in marketers to boost sales. However, this protection only goes so far, and while the sector will still display growth, it will be muted in comparison to the strong performance of recent years.

Business sentiment is falling rapidly in 2009, and any excess spending is being cut from tightening budgets. Business investment is expected to stay negative until the second half of 2010, and any service not viewed as mandatory is at risk of removal.

A serious threat to the sector is the cancellation of major contracts by large clients during the end of 2008-09 and well into 2009-10. Even the deferral of these contracts can punch large holes in revenue and cause substantial cutbacks. The uncertainty facing the global financial sector is also of great concern, as the financial sector is home to a large number of major clients.

However, as consumer sentiment and private consumption grow towards the end of 2009-10, a strong recovery is expected, as companies look to reposition themselves to take advantage of a surging domestic and global economy.

> While real estate agents will suffer from the weak housing market, landlords should benefit from higher rents and lower vacancies

Construction and Property – Mixed Bag

The outlook for construction and property in 2009 is mixed. With private and commercial capital expenditure expected to drop substantially, both residential and commercial property and construction will be severely strained.

The first home owners' grant will offset some of the decline and lower interest rates will help make mortgages more affordable but rising unemployment will be the key factor putting downward pressure on house prices. Many Australians will postpone house purchases in 2009, due to increased economic uncertainty and a housing market yet to reach its nadir. Others will simply be unable to afford houses. This will see the value and number of residential transactions fall and it will keep operating conditions for real estate agents tough. However, landlords will benefit from low rental vacancy rates and rising residential rental prices.

The second half of 2009 may see a minor recovery in the housing market as the Government handouts take effect, although this is still likely to be limited by strong debt levels, credit availability and poor housing affordability.

Winners will include industries

Industry Winners and Losers

The downturn will not affect hospitals – but households may postpone health services that are viewed as luxuries, such as optometry

aligned with, and exposed to, infrastructure, with the Federal Government's stimulus package expected to create some opportunities. However, despite the Government's stimulus package, investment in commercial property is projected to slump as business profits fall. As businesses either fail or become smaller and access to credit remains tight, more office and industrial space will become available, leading to higher vacancy rates. This will hurt property operators and managers. On the retail front, the deteriorating labour market will give rise to more businesses vacating premises, while new construction will be limited as the pipeline starts to clear.

In the long term, rising consumer and business confidence, more capital spending and easier access to credit should see a return to solid growth in real estate and construction from 2010-11 onwards.

Agriculture – Resilient Demand

Domestic demand for agricultural products is expected to be relatively resilient to the effects of the economic downturn, since they are considered to be everyday staples. The agricultural sector is affected by other highly volatile factors, such as commodity prices and exchange rates, and these will dictate farmers' fortunes over the coming years.

After reaching record highs during 2008, grains prices have begun to retreat. This is partly due to the decline in oil prices – many grain and oilseed prices were pushed higher as they were sources of alternative energy. Although the declines in world prices for grains are expected to be partly offset by the depreciation of the Australian dollar, sales are expected to decline overall.

Meat production industries are expected to continue to benefit from demand for high protein foods. The depreciation of the Australian dollar is expected to offset any weakness in global demand. Exports to major markets such as Indonesia and the Middle East are expected to be only moderately affected by the global downturn.

Unlike the meat producing industries, the dairy segment will be adversely affected by the economic downturn. The global downturn has resulted in a significant correction in global dairy prices, which had been increasing strongly until mid 2008. However, Australian dollar prices are expected to remain higher than historical levels. Demand for natural fibres such as cotton and wool is expected to decline, due to a strong decline in textile and apparel output in the key fibre export market, China.

Health – Star Performer

Healthcare is perhaps the only recession proof sector. Irrespective of economic conditions, Australians will continue to get sick – in fact, it is possible that they will get sicker, as falling disposable income will lead to less money being spent on healthy living. The country's ageing population means that incidences of poor health are more likely than in the past, which will prop up demand. Also, a drop in income may lead to instances of substance abuse and family breakdown, which is likely to stimulate the demand for counselling and rehabilitation services. While falling consumer sentiment and income may lead to a drop in health insurance members, Australia's hospitals will remain in demand. Consumers who cannot afford private insurance will attend public hospitals, and this increase in demand will result in greater public funding.

The poor economic climate will have one clear effect – a slowdown in the growth of more 'discretionary' forms of medicine. Optometrists, for example, will struggle to grow as consumers put off eye tests until better times. Most elective surgeries will face challenges, as they are delayed until late-2010, but urgent surgery remains essential irrespective of poor economic growth.

Growth in alternative medicines, such as acupuncture, will remain strong, but is expected to be slower compared with a stronger 2007-08. Discretionary spending will drive many people back to conventional forms of medicine that are

Industry Winners and Losers

covered by programs such as Medicare, although the social shift towards more diversified forms of treatment will ensure that underlying demand remains strong.

Education – Growth

The education sector will be relatively unaffected by the economic downturn, as it receives a high level of government support. A weaker economy can boost demand for education and training, as workers seek to retrain or build up their skills. Rising unemployment in 2009 will encourage many people to enhance their future employment opportunities by improving their education.

There are fears that a global slowdown will halt the flow of international students to Australia. However, demand from the Asian region remains strong, and a weaker Australian dollar should help to support enrolment numbers, as the cost living is a key influence on the final decision made by international students and their families. For many of these students, the decision to study abroad was made long ago and they will not be dissuaded by the current economic climate.

Public and private schools will benefit from planned investment of $14.7 billion by the Federal Government

Schools will benefit from the Federal Government's decision to allocate $14.7 billion to building and renewing school facilities across Australia. This is a welcome boost for public schools, which would receive 69.6% of the funds.